BPS&M

Bryan, Pendleton, Swats & McAllister, LLC
A Wells Fargo Company

KENTUCKY LEGISLATORS RETIREMENT PLAN

GASB DISCLOSURE REPORT

AS OF
JULY 1, 2016

CONTENTS

INTRODUCTION

An actuarial valuation of the Kentucky Legislators Retirement Plan ("KLRP") was last performed as of July 1, 2015. The results shown in this report as of July 1, 2016 were developed using a "roll-forward" method that employs generally accepted actuarial techniques. The results in this report have been developed with full reliance on the July 1, 2015 Actuarial Valuation Report. **This report covers only the traditional defined benefit/OPEB tier of KLRP.**

Actuarial valuations are based on the integrity of employee data, plan asset data, plan provisions and an extensive set of assumptions regarding future events. There is necessary uncertainty with any actuarial calculation based on the accuracy of the data provided, the correct interpretation of plan provisions and the realization of the assumptions made. These results were based on participant data and asset information provided by The Kentucky Judicial Form Retirement System. This information was not audited but was reviewed for reasonableness.

Detailed explanations of the actuarial assumptions and methods used in the report are contained in later sections of this report. Also included in this report is a summary of provisions of the plan as we understand them.

Governmental Accounting Standards Board Statement 67 ("GASB 67") and Statement 43 ("GASB 43") establish financial reporting standards for defined benefit pension plans and other postemployment benefit (OPEB) plans sponsored by employers that are subject to governmental accounting standards. Governmental Accounting Standards Board Statement 68 ("GASB 68") and Statement 45 ("GASB 45") provide standards for reporting pension and OPEB expenditures and expense, and related liabilities and assets for such plans. The purpose of this report is to provide pertinent financial statement disclosure information for the fiscal year ending in 2016. Actuarial computations under Statements 67, 68, 43, and 45 are for purposes of fulfilling plan and employer governmental accounting requirements and may not be appropriate for other purposes. This report has been prepared on a basis consistent with our understanding of the statements and does not constitute legal, accounting, tax or investment advice.

Statement 68 sets forth a methodology for the calculation of the annual Pension Expense for the upcoming fiscal year. GASB 68 provides a method for reflecting prior gains and losses from asset and plan experience, as well as other areas including plan amendments. Amounts not reflected previously or in the upcoming year are reflected in the Deferred Outflows and Inflows of Resources shown.

Statement 45 sets forth a methodology to determine annual adjustments to the Annual Required Contribution (ARC), which is the contribution recommended pursuant to the appropriate actuarial valuation, to account for differences between amounts expensed and contributions actually made. Under GASB 45, the resulting adjusted amount is referred to as the Annual OPEB Cost (AOC) and the accumulated difference between the AOC and the actual contribution is referred to as the Net OPEB Obligation (NOO).

BPS&M does not have access to and is not providing information concerning liabilities other than benefits, such as for legal or accounting fees.

BPS&M is not aware of any significant events subsequent to the current year's measurement date that could materially affect the information contained in this report.

We are not aware of any relationship between the plan or plan sponsor and BPS&M, LLC or our parent corporation, Wells Fargo Company (until September 30, 2016), which would impair or appear to impair our objectivity.

To the best of our knowledge, all information provided in this report is complete and accurate and disclosures for GASB purposes have been determined in accordance with generally accepted accounting principles.

Legislative Background

State statues were amended in 2013 such that all participants entering KLRP on or after January 1, 2014 will be covered under a hybrid cash balance/OPEB tier; those entering before that date will continue to be covered under the traditional defined benefit/OPEB tier. The legislation making this change also restricted the availability of future cost-of-living adjustments (COLA's) to plan benefits.

Actuarial Soundness

A plan that has adopted a reasonable funding method, that adopts reasonable assumptions and which contributes at a rate at or above the recommended contribution rate (based on these reasonable methods and assumptions), could be considered to be actuarially sound.

In order to ensure KLRP is funded in an "actuarially sound manner", we would recommend the following:

1. Reflect a 1.5% future COLA assumption when calculating the funding requirement for KLRP (only a minimal COLA, as described later in this report, is currently assumed), to the extent future cost-of-living increases are expected to occur, or intended to be provided.
2. Revise the actuarial funding method to amortize all past unfunded as well as new liabilities over a period not more than 30 years (we suggest shorter periods for various sources of new liability) and amortize future gains and losses over a period not more than 15 years. (Note that GASB 68 may require the expensing of liabilities at a faster pace than these amortization periods.)
3. Contribute at least the recommended contribution each year.

Deviations from these recommendations may result in an "actuarially unsound" approach to funding KLRP and may eventually result in KLRP becoming insolvent – that is, exhausting assets at which time all future benefits would be made on a pay as you go basis.

Although the Actuarial Standards of Practice 4 "Measuring Pension Obligations" allows for plan liabilities to be calculated under a legally prescribed method, the statement goes on to say,

> "If, in the actuary's professional judgment, such an actuarial cost method or amortization method is significantly inconsistent with the plan accumulating adequate assets to make benefit payments when due, assuming that all actuarial assumptions will be realized and that the plan sponsor or other contributing entity will make contributions when due, the actuary should disclose this."

It is our professional actuarial opinion that the current legally prescribed method which requires contributions of normal cost plus interest on the unfunded liability plus 1% of the unfunded liability (per KRS 21.525) and which (per KRS 21.405) does not recognize cost of living increases effective after the most recent valuation (assuming future increases are expected), is inconsistent with the plan accumulating adequate assets to make benefit payments when due, assuming all actuarial assumptions are realized. The current method of amortizing unfunded liabilities will not result in the full amortization of those liabilities.

SUMMARY OF BENEFITS

This summary is not a Summary Plan Description or a plan document. You should not rely solely on this summary in making a determination of eligibility of benefit. Liabilities and plan provisions are based on the plan data and provisions as of July 1, 2015. This report covers only the traditional defined benefit/OPEB tier of KLRP.

Source

Sections 6.500-6.577 of the Kentucky Revised Statutes.

Eligibility for Membership

Members of the General Assembly may elect to make monthly contributions within 30 days after taking office, and thereby become eligible for membership in the plan. Individuals commencing participation on or after January 1, 2014 will participate in the hybrid plan.

Employee Contributions

Members entering the plan on or after September 1, 2008 must contribute 6% of their “creditable compensation”. Members entering the plan prior to September 1, 2008 must contribute 5% of their “creditable compensation”. Once a member has earned sufficient service credit to have accrued a benefit of 100% of final average compensation, then employee contributions shall cease.

Creditable Compensation

Creditable compensation is based on actual compensation received during each year.

Normal Retirement

Condition

Members who have attained age 65 and completed at least 5 years of legislative service, or have additional service credit under other authorized state systems so that when added to legislative service credit equals at least 8 years of credit. However, the age 65 requirement shall be reduced by one year for each five years of service, and one year for each year served beyond the years of service needed to accrue a benefit of 100% of final average compensation, but with total reduction not to reduce the age requirement below 60. The full accrued benefit will also be payable upon completion of 27 years of service credit.

Benefit

A member will receive a retirement income at normal retirement date payable monthly for life equal to a percentage of final average compensation multiplied by years of service. In no event shall retirement income exceed 100% of final average compensation. (Final average compensation means the average monthly compensation of the member for his or her highest 36 months of State salary).

The benefit rates vary according to date of legislative service begins, as follows:

1. If a legislator was a member of the plan on July 1, 1982, and entered legislative service prior to July 1, 1978, the benefit rate is 5.00% for all legislative service prior to July 1, 1978, and for all service that continues without interruption after that date.
2. If a legislator was a member of the plan on July 1, 1982 and entered legislative service between July 1, 1978 and June 30, 1980, the benefit rate is 4.15% for all legislative service that continues without interruption thereafter.
3. If a legislator was a member of the plan on July 1, 1982 and entered legislative service between July 1, 1980 and June 30, 1982, the benefit rate is 3.50% for all legislative service that continues without interruption thereafter.
4. For all other service, the benefit rate is 2.75%.

Early Retirement

A member who retires prior to normal retirement date and has met the service requirement for normal retirement has two alternatives with regard to receiving retirement income as follows:

1. Upon reaching normal retirement age, the member may be vested with the right to receive a monthly service retirement allowance computed and payable on the basis of years of service and applicable average salary, or
2. A member may elect to be paid, commencing as of the date of the election, a monthly service retirement allowance equivalent to the amount of monthly allowance that would have been paid had the member waited until reaching normal retirement age, but reduced in accordance with age at the time of election for each year under normal retirement age at the rate of 5% per year.

If the member has 27 or more years of service credit, there shall be no reduction for benefit commencement prior to normal retirement age. If the difference between the number of years of total governmental service and 27 is less than the difference between actual age and normal retirement age, the reduction shall be 5% for each year of service under 27.

Late Retirement

A legislator may continue service past normal retirement age and will continue to accrue service credits, but cannot receive a benefit in excess of 100% of final average compensation.

Disability Benefit

Condition
No service requirement.

Benefit
Upon determination of disability, a member will be eligible to receive ½ of the monthly retirement income that would have been payable commencing at normal retirement date if this member had continued service until that date and then retired. In calculating the retirement income, average salary for the 3 years preceding disability will be used. When a disabled member reaches normal retirement date, the member may apply and start receiving the full amount of retirement income that would have been payable based upon the actual number of years of service and compensation, in lieu of the disability benefit.

Death Benefit

Upon the death of a member who at the time of death was receiving a retirement income (other than an actuarially reduced income), or was receiving a disability income, the surviving spouse (if married to the member at the time of retirement) is entitled to receive a monthly allowance equal to ½ of what the member was receiving for his/her lifetime.

If a member dies after retirement, and was at the time receiving an actuarially reduced allowance, or was not receiving an allowance, but had acquired a vested right to have received an allowance upon reaching normal retirement date, the surviving spouse (if married to the member at the time of retirement) is entitled to receive ½ of the monthly allowance the member would have received at normal retirement date for his/her lifetime.

If an active member dies before retirement and before reaching normal retirement age, without regard to length of service, the surviving spouse is entitled to receive a monthly allowance payable for his/her lifetime equal to ½ of the monthly retirement income the member would have received commencing at the member's normal retirement date as if the member had continued in service until that date and then retired, computed on the basis of final compensation at the time of death.

If a member dies before retirement and after reaching normal retirement date, the surviving spouse is entitled to receive a monthly allowance payable for his/her lifetime equal to ½ of the monthly allowance the member would have been entitled to on the basis of years of service, had the member retired on his date of death, computed on the basis of final compensation at the time of death.

If a member is not married at the time of death, any death benefits described above to which a surviving spouse would have been entitled will be payable to the children of the deceased member until such time as the youngest child attains age 21, or for the life of a disabled child. Also, a member may designate that survivor benefits shall go in part or in total to minor children instead of the spouse.

If cumulative payments to the member and/or beneficiary do not exceed the member's total contributions to this plan, then the excess of such contributions over cumulative plan benefits paid shall be paid as an additional death benefit.

Termination Benefit

If a legislator ceases to be a member of the plan other than by death or disability prior to meeting the eligibility requirements for normal retirement, the amount of the member's accumulated contributions shall be returned to the member. If, thereafter, this individual again becomes a holder of an office qualifying for membership in this plan, this person shall not be entitled to credit for the prior period of service unless, at the time he again participates in the plan, the amount previously refunded is repaid, with interest.

Cost-of-Living Adjustment

Ad hoc cost-of-living adjustments (COLA's) have been granted as noted below:

Effective Date of Increase	Percentage Increase	Increase Applies To Benefits Based on Service Prior To
7/1/1990	5%	6/30/1990
7/1/1991	5%	6/30/1991
7/1/1992	1%	6/30/1992
7/1/1993	1%	6/30/1993
7/1/1994	5%	6/30/1994
7/1/1995	5%	6/30/1995
7/1/1996	None	N/A
7/1/1997	None	N/A
8/1/1998	2.3%	N/A
7/1/1999	1.6%	N/A
7/1/2000	2.2%	N/A
7/1/2001	3.4%	N/A
7/1/2002	2.85%	N/A
7/1/2003	1.6%	N/A
7/1/2004	2.3%	N/A
7/1/2005	2.7%	N/A
7/1/2006	3.4%	N/A
7/1/2007	3.2%	N/A
7/1/2008	2.8%	N/A
7/1/2009 and later*	1.5%	N/A

*COLA's were suspended for fiscal years beginning in 2012 and 2013; COLA's after 7/1/2013 are not reflected in this valuation. No further COLA's will be granted until the plan is 100% funded, unless a one-time COLA is 100% prefunded.

In addition, a provision for an on-going cost-of-living adjustment is made by statute. Effective August 1, 1998 and each July 1 thereafter, a recipient of a monthly pension shall receive a cost-of-living adjustment keyed to the Consumer Price Index. This COLA is excluded from the inviolable contract and can be repealed by the General Assembly at any time. Beginning July 1, 2009, this cost-of-living adjustment will be 1.50% for all retirees who have been retired in excess of one year and prorated for those retired less than one year. No further COLA's will be granted until the plan is 100% funded, unless a one-time COLA is 100% prefunded.

The prior language relating to COLA adjustments remains in the statute. Under that provision, as of each July 1, (beginning July 1, 1983) the pension of each beneficiary shall be redetermined as the greater of the present pension, or a pension recomputed at a 1.925% benefit rate and using the current 60 month average earnings of the office held by the retiree at the time of retirement (such computed pension subject to a maximum of 55% of that average earnings), subject to a 4.0% COLA annually.

Pursuant to statutory requirements, COLA increases are not reflected in plan liabilities until actually granted, except for any anticipated COLA adjustments under the provision as in effect prior to August 1, 1998.

Prior Service Credit

Credit in KERS or TRS, for legislative service prior to the creation of this plan on July 1, 1980, can be (and in many instances was) transferred to and become credit in this plan, upon transfer to this plan of the accumulated contributions plus interest (member's and state's) that were made to acquire the credit.

Medical Insurance Premium Supplement

Retired members, in addition to actual retirement benefits, will have a percentage of their (and their dependent's) medical insurance premium paid by the plan. The percentage will vary based on the numbers of years of service credit as follows:

Years of Service Credit at Retirement	Percentage of Medical Insurance Premium Paid by the Plan
20 or more	100%
19, but less than 20	95%
18, but less than 19	90%
17, but less than 18	85%
16, but less than 17	80%
15, but less than 16	75%
14, but less than 15	70%
13, but less than 14	65%
12, but less than 13	60%
11, but less than 12	55%
10, but less than 11	50%
4, but less than 10	25%
Less than 4	0%

The premium rates as of July 1, 2015:

	Monthly Premium
Under age 65	
Family coverage	$1,701.04
Single coverage	699.28
Parent Plus coverage	995.34
Member and Spouse	1,528.34
Age 65 or older	
Medicare Advantage PPO	391.00

Premium rates are approved by the Board.

Funding Method

Accrued liability and normal cost calculated based on Entry Age Normal funding method. The required contribution is calculated based on KRS 21.525, which requires contributions of normal cost plus interest on the unfunded liability plus 1% of the unfunded liability.

Interest

7% per annum – this rate was selected by the Board of Trustees and BPS&M and the Fund Investment Manager believe this to be a reasonable long-term rate of return assumption.

The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at the current statutory contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through June 30, 2062. The long-term expected rate of return on pension plan investments was applied to periods of projected benefit payments through this date, and the municipal bond rate was used for the period thereafter to determine the total pension liability. The discount used to measure the total pension liability on the second bases was 7.00% for 47 years and 3.80% thereafter. This is equivalent to an average assumed rate of return of approximately 6.85%.

Mortality

Beginning July 1, 2015: RP-2000 Mortality Tables with white collar adjustment with Pre and Post Commencement Rates with projected mortality improvements after year 2000 under Projection Scale AA (male and female scales); i.e., full generational mortality.

Prior to July 1, 2015: IRS Mortality Tables without collar adjustment with Pre and Post Commencement Rates with projected mortality improvements after year 2000 under Projection Scale AA (male and female scales); i.e., full generational mortality.

Terminations

Table T-4 from the Actuary's Pension Handbook. Specimen rates are as follows:

Age	Rate of Termination
20	.054
25	.053
30	.051
35	.047
40	.042
45	.035
50	.025
55	.009
60	.001
65+	.000

Salary Increases

1% for the next five years, and 3.5% thereafter

Liabilities have been adjusted to reflect the potential impact of non-legislative salaries on future pension benefits. The liabilities for members (including terminated members) who could be impacted by non-legislative salaries have been increased by 40% to recognize the potential increase in plan liability.

Disability

None

Retirement Age

Retirements were assumed to occur as follow:

Retirement Age	Percentage of Active Members Retiring
NRA-5	16.67%
NRA-4	20.00%
NRA-3	25.00%
NRA-2	33.33%
NRA-1	50.00%
NRA	100.00%

NRA = Normal Retirement Age

In addition to these rates, an extra 20% rate is assumed at the age a member reaches 27 years of service credit.

Post-Retirement Death Benefit

Assumption is that 80% of the legislators would be married at retirement and the husband would be 3 years older than the wife on average.

Pre-Retirement Death Benefit

Assumption is that 80% of the legislators would be survived by a spouse upon death prior to retirement and that the husband would be 3 years older than the wife on average.

Cost-of-Living Adjustment

Pursuant to statutory requirements, COLA increases are not reflected in plan liabilities until actually granted, except for any anticipated COLA adjustments under the provision as in effect prior to August 1, 1998. For the purposes of the calculation of the Recommended Contribution, a full 1.5% annual COLA has been reflected.

Medical Insurance Premium Supplement

Medical premiums will increase for each year beyond the valuation date at the following rates:

Year 1	11%
Year 2	10%
Year 3	9%
Year 4	8%
Year 5	7%
Year 6	6%
Years 7+	5%

It is further assumed that coverage would be split among retirees as follows:

	% of Retirees	**% With Spouse Coverage**
Pre-Medicare Coverage		
Family	32%	N/A
Single	21%	N/A
Parent Plus	32%	N/A
Member and Spouse	16%	N/A
Medicare Coverage		
Medicare Advantage PPO	100%	75%

The assumed annual claims costs per subscriber as of July 1, 2015:

Pre-65 Cost	Post-65 Cost
$ 17,101	$ 8,211

Claims were adjusted downward 3% each year for aging for attained ages 55 to 65.

Retirees are assumed to contribute the difference between the premium rate and the portion of the premium paid by the Plan. Premium rates and Plan contributions are described in the Summary of Benefits.

Non-members

Legislators electing not to participate are assumed to continue as non-members in the future.

Asset Valuation Method

The determination of the actuarial value of assets is as follows:

1. Investment gains/losses are determined for each year by comparing the expected value of assets based on the assumed interest assumption to the actual market value. Expected value of assets in each year shall be determined by projecting the market value of assets from the prior year using the assumed interest rate, plus contributions less benefit payments and plan expenses (adjusted with interest at the assumed rate). If the expected value of plan assets is different than the actual market value of plan assets then the difference is treated as a gain or loss for that year.
2. The amount of any gain or loss as determined above shall be recognized evenly over the subsequent five years.
3. The actuarial value of assets on any valuation date shall be equal to the market value of assets on that date adjusted as follows:
   - Reduced by 80% of a gain or increased by 80% of a loss from the preceding year
   - Reduced by 60% of a gain or increased by 60% of a loss from the 2nd preceding year
   - Reduced by 40% of a gain or increased by 40% of a loss from the 3rd preceding year
   - Reduced by 20% of a gain or increased by 20% of a loss from the 4th preceding year

This asset valuation method is used in both the determination of funding levels as well as for disclosure purposes under GASB Statement Nos. 43 and 45. The fair market value of assets is used for disclosure purposes under GASB Statement Nos. 67 and 68.

For purposes of GASB Statement Nos. 43, 45, 67, and 68, the market value of assets has been allocated between retirement related and medical premium supplement liabilities. This market value allocation is carried forward each year based on the following:

1. State and member contributions, as well as transfers for purchase of additional service, are allocated pro-rata reflecting the Annual Required Contribution for that year.
2. Benefits paid reflect actual benefits paid relative to retirement related benefits separately from medical premium supplements.
3. Preliminary assets are determined by adjusting beginning value for allocated State and member contributions and actual benefits paid.
4. Net investment return is allocated pro-rata based on the preliminary assets developed in the previous step.
5. Allocated assets as of the valuation date equal the preliminary balance plus the allocated share of investment income.

Actuarial value of assets is developed initially in total and then allocated between retirement related benefits and medical premium supplement benefits on a pro-rata basis reflecting allocated share of market value as of the valuation date.

ACTUARIAL CERTIFICATION

The information contained in this document (including any attachments) is not intended by BPS&M to be used, and it cannot be used, for the purpose of avoiding penalties under the Internal Revenue Code that may be imposed on the taxpayer. The information and valuation results shown in this report are, to the best of our knowledge, complete and accurate and are based upon the following:

1. The liabilities used in this report are based on a roll forward of liabilities from the July 1, 2015 Actuarial Valuation Report.
2. Financial data as of June 30, 2016, submitted by The Kentucky Judicial Form Retirement System. This data was not audited by us but appears to be sufficient and reliable for purposes of the report.
3. Actuarial assumptions and methods as established either by statute or the Board. The actuarial assumptions currently adopted by the Board appear to be reasonable, both individually and in aggregate. However, exclusion of retiree cost-of-living adjustments that can be reasonably anticipated to occur in future years (or for which there is an intent to provide in future years) does not reflect our best estimate of expected experience under the plan. As such, the valuation results presented in this report do not fully reflect the potential liability for future retiree cost-of-living adjustments. For purposes of the calculation of the Recommended Contribution, full future retiree cost-of-living adjustments have been reflected.
4. For purposes of GASB 43, 45, 67, and 68 disclosures, assets were split between pension and retiree medical liabilities on the basis of accrued liability as of July 1, 2008 and have been brought forward each year from that date based on actual cash flows and a prorata allocation of investment return. This methodology, initiated by the prior actuary, was based on guidance from the plan's auditor.

We believe the information is sufficiently complete and reliable. This report provides actuarial advice and does not constitute legal, accounting, tax or investment advice.

The actuarial valuation summarized in this report has been performed utilizing generally accepted actuarial principles. The actuarial valuation is based on actuarial assumptions used in the July 1, 2015 report. It is our opinion that the results fully and fairly disclose the actuarial position of the plan on the valuation date. We are consulting actuaries for BPS&M, LLC, members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Certified by:

Alan C. Pennington, F.S.A.

Alan C. Pennington, F.S.A., E.A., M.A.A.A.
Consulting Actuary/Principal

September 20, 2016
Date

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Statement of Changes in Fiduciary Net Position Under GASB Statement No. 67

	June 30, 2016
Additions	
Contributions:	
Employer	$3,366,500
Employee	310,107
Total Contributions	3,676,607
Investment Income	2,066,546
Other	0
Total Additions	5,743,153
Deductions	
Benefit Payments / Refunds	3,998,826
Administrative Expenses	0
Other	0
Total Deductions	3,998,826
Net Increase in Net Position	1,744,327
Net Position Restricted for Pensions	
Beginning of Year	60,088,193
End of Year	$61,832,520

Net Pension Liability Under GASB Statement No. 67

Determination of Net Pension Liability

	June 30, 2016
Total Pension Liability (6.85%)	78,302,828
Plan Fiduciary Net Position	(61,832,520)
Net Pension Liability	$16,470,308
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	78.97%

Sensitivity of Net Pension Liability to Changes in the Discount Rate

	1% Decrease (5.85%)	Current Rate (6.85%)	1% Increase (7.85%)
Net Pension Liability	$24,678,230	$16,470,308	$9,598,394

Schedule of Changes in the Net Pension Liability and Related Ratios (Dollar amounts in millions)

	fiscal year ending June 30									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Pension Liability										
Service cost	$1.0	$1.0	$0.9							
Interest	4.9	5.1	5.2							
Changes of benefit terms	0.0	0.0	0.0							
Differences between expected and actual experience	0.0	(3.4)	0.0							
Changes of assumptions	3.7	(1.5)	0.0							
Benefit Payments / Refunds	(3.5)	(3.7)	(4.0)							
Net Change in Total Pension Liability	$6.1	($2.5)	$2.1							
Total Pension Liability - beginning	72.6	78.7	76.2							
Total Pension Liability - ending (a)	$78.7	$76.2	$78.3							
Plan Fiduciary Net Position										
Contributions - employer	$1.8	$3.4	$3.4							
Contributions - employee	0.2	0.2	0.3							
Net investment income	7.9	5.6	2.0							
Benefit Payments / Refunds	(3.5)	(3.7)	(4.0)							
Administrative expenses	0.0	0.0	0.0							
Other	0.0	0.0	0.0							
Net Change in Plan Fiduciary Net Position	$6.4	$5.5	$1.7							
Plan Fiduciary Net Position - beginning	48.2	54.6	60.1							
Plan Fiduciary Net Position - ending (b)	$54.6	$60.1	$61.8							
Net Pension Liability - ending (a) - (b)	$24.1	$16.1	$16.5							
Plan Fiduciary Net Position as a % of the Total Pension Liability	69.4%	78.9%	78.9%							
Covered-employee payroll	$5.0	$4.5	$4.5							
Net Pension Liability as a % of covered-employee payroll	483.2%	357.8%	366.7%							
Discount Rate	6.50%	6.85%	6.85%							

Schedule of Contributions Under GASB Statement No. 67

	fiscal year ending June 30									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Actuarially determined contribution	$3.2	$3.4	$3.4							
Contributions in relation to the actuarially determined contribution	1.8	3.4	3.4							
Contribution deficiency (excess)	$1.4	$0.0	$0.0							
Covered-employee payroll	$5.0	$4.5	$4.5							
Contributions as a percentage of covered-employee payroll	36.1%	75.6%	75.6%							

Additional Requirements Under GASB Statement No. 67

GASB Statement No. 67 also requires a Statement of Fiduciary Net Position (which includes a breakdown of current assets by type) and additional investment information, including the annual money-weighted rate of return. In order to satisfy GASB Statement No. 67, these required pieces will need to be provided by The Kentucky Judicial Form Retirement System. BPS&M is prepared to assist the system as needed.

Schedule of Changes in NPL, Deferrals, & Pension Expense

	Increase (Decrease) Total Pension Liability (a)	Plan Net Position (b)	Net Pension Liability (a) - (b)	Deferred Pension Outflows of Resources	Deferred Pension Inflows of Resources	Pension Expense
Balances--at 06/30/15	$ 76,211,711	$ 60,088,193	$ 16,123,518	$ 4,596,361	$ 6,567,781	
Changes for the Year:						
Service cost	931,200		931,200			931,200
Interest expense	5,158,743		5,158,743			5,158,743
Benefit changes						
Experience losses (gains)	-		-	-	-	(1,624,639)
Changes of assumptions	-		-	-	-	495,499
Contributions--State		3,366,500	(3,366,500)			
Contributions--Members		310,107	(310,107)			(310,107)
Net investment income		2,066,546	(2,066,546)			
Expected return on plan investments						(4,196,549)
Current expense of asset gain/loss						(862,037)
Non expensed asset gain/loss				1,704,003	-	
Refunds of contributions	-	-	-			
Benefits paid	(3,998,826)	(3,998,826)	-			
Plan administrative expenses		-	-			
Recognition of Prior Post-measurement Contribution				(3,366,508)		
Post-measurement Contribution				2,384,575		
Other changes						
Amortization of or change in beginning balances				(1,229,853)	(3,647,030)	
Net Changes	2,091,117	1,744,327	346,790	(507,783)	(3,647,030)	(407,890)
Balances--at 06/30/16	$ 78,302,828	$ 61,832,520	$ 16,470,308	$ 4,088,578	$ 2,920,752	$ (407,890)

Pension Expense & Deferred Outflows/Inflows of Resources

For the year ended June 30, 2017, the recognized pension expense/(income) will be ($407,890). At June 30, 2017, The Kentucky Judicial Form Retirement System reported deferred outflows of resources and deferred inflows of resources in relation to pensions from the following sources:

	As of June 30, 2016			As of June 30, 2017		
	Deferred Outflows of Resources	Deferred Inflows of Resources	Recognized in Pension Expense	Deferred Outflows of Resources	Deferred Inflows of Resources	Remaining Amort. Period
Experience losses (gains)						
- 6/30/2015	-	1,624,639	(1,624,639)	-	-	0.000 years
subtotal	-	1,624,639	(1,624,639)	-	-	
Change of assumptions						
- 6/30/2014	1,229,853	-	1,229,853	-	-	0.000 years
- 6/30/2015	-	734,353	(734,353)	-	-	0.000 years
subtotal	1,229,853	734,353	495,499	-	-	
Net difference between projected and actual earnings on investments						
- 6/30/2014	-	2,830,083	(943,361)	-	1,886,722	2.000 years
- 6/30/2015	-	1,378,706	(344,677)	-	1,034,030	3.000 years
- 6/30/2016	2,130,003	-	426,001	1,704,003	-	4.000 years
subtotal	2,130,003	4,208,789	(862,037)	1,704,003	2,920,752	
Total	$ 3,359,856	$ 6,567,781	$ (1,991,177)	$ 1,704,003	$ 2,920,752	

Actual investment earnings above (or below) projected earnings are amortized over 5 years. Plan experience and changes of assumptions are amortized over the average remaining service period of actives and inactives (0 years of future service is assumed for inactives for this calculation).

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2018	(862,037)
2019	(862,037)
2020	81,324
2021	426,001
2022	-
Thereafter	-

In addition, Governmental Accounting Standards Board Statement 71 (“GASB 71”) requires contributions between the measurement date (July 1, 2016) and the disclosure date (June 30, 2017) for GASB 68 be reported as a deferred outflow of resources.

Schedule of Funding Progress Under GASB Statement No. 43

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a) / c)
7/1/2007	$ 24,289,368	$ 22,489,737	$ (1,799,631)	108.0%	$ 4,763,785	-37.8%
7/1/2008	$ 25,117,103	$ 23,668,943	$ (1,448,160)	106.1%	$ 4,755,214	-30.5%
7/1/2009	$ 24,413,467	$ 18,481,365	$ (5,932,102)	132.1%	$ 4,916,770	-120.7%
7/1/2010	$ 23,908,481	$ 19,434,535	$ (4,473,946)	123.0%	$ 4,916,770	-91.0%
7/1/2011	$ 23,337,392	$ 20,533,088	$ (2,804,304)	113.7%	$ 5,192,619	-54.0%
7/1/2012	$ 24,238,386	$ 21,582,890	$ (2,655,496)	112.3%	$ 5,192,619	-51.1%
7/1/2013	$ 25,907,629	$ 23,363,734	$ (2,543,895)	110.9%	$ 4,987,823	-51.0%
7/1/2014	$ 29,405,073	$ 24,525,907	$ (4,879,166)	119.9%	$ 4,987,823	-97.8%
7/1/2015	$ 33,194,900	$ 26,955,434	$ (6,239,466)	123.1%	$ 4,467,419	-139.7%
7/1/2016	$ 36,413,147	$ 28,608,061	$ (7,805,086)	127.3%	$ 4,467,419	-174.7%

*7/1/2016 payroll estimated to remain level.

Schedule of Employer Contributions Under GASB Statement No. 45

Year Ended June 30	Annual Pension Cost	Percentage Contributed	OPEB Benefit Obligation
2009	$ 59,759	100%	$ (3)
2010	$ 59,759	100%	$ (6)
2011	$ -	100%	$ (6)
2012	$ -	100%	$ (6)
2013	$ -	100%	$ (6)
2014	$ -	100%	$ (6)
2015	$ -	100%	$ (6)
2016	$ -	100%	$ (6)

Determination of Annual OPEB Cost Under GASB Statement No. 45

Fiscal Yr Ending	Applicable Valuation Report Used	ARC	Interest on OPEB Obligation	ARC Adjustment	Amort. Factor	OPEB Cost	Contribution	Change in OPEB Obligation	OPEB Obligation Balance
6/30/2008	7/1/2005	$ 285,476	$ -	$ -	12.594409	$ 285,476	$ 285,476	$ -	$ -
6/30/2009	7/1/2007	$ 59,759	$ -	$ -	12.594409	$ 59,759	$ 59,762	$ (3)	$ (3)
6/30/2010	7/1/2007	$ 59,759	$ -	$ -	12.409041	$ 59,759	59,762	$ (3)	$ (6)
6/30/2011	7/1/2009	$ -	$ -	$ -	12.409041	$ -	-	$ -	$ (6)
6/30/2012	7/1/2009	$ -	$ -	$ -	12.409041	$ -	-	$ -	$ (6)
6/30/2013	7/1/2011	$ -	$ -	$ -	12.409041	$ -	-	$ -	$ (6)
6/30/2014	7/1/2011	$ -	$ -	$ -	12.409041	$ -	-	$ -	$ (6)
6/30/2015	7/1/2013	$ -	$ -	$ -	12.409041	$ -	-	$ -	$ (6)
6/30/2016	7/1/2013	$ -	$ -	$ -	12.409041	$ -	-	$ -	$ (6)

Determination of Actuarial Asset Value

	2015-16 Plan Year	2014-15 Plan Year	2013-14 Plan Year	2012-13 Plan Year
Interest Return Assumption	7.00%	7.00%	7.00%	7.00%
Market Value at Beginning of Year				
Amount	$ 97,264,968	$ 89,077,557	$ 78,320,971	$ 67,534,503
Interest to End of Year	6,808,548	6,235,429	5,482,468	4,727,415
Employer Contributions				
Amount	3,366,500	3,366,500	1,824,956	1,696,000
Interest to End of Year	117,828	117,828	63,873	59,360
Member Contributions				
Amount	310,107	216,777	273,046	263,307
Interest to End of Year	10,854	7,587	9,557	9,216
Transfers from KERS				
Amount	-	-	-	-
Interest to End of Year	-	-	-	-
Benefits Paid				
Amount	4,660,118	4,380,271	4,274,685	4,086,488
Interest to End of Year	176,696	166,085	162,082	154,946
Expected End of Year Assets	103,041,991	94,475,322	81,538,104	70,048,367
Market Value at End of Year	99,610,610	97,264,968	89,077,557	78,320,971
Investment Gain (Loss)	(3,431,381)	2,789,646	7,539,453	8,272,604
Adjustment Percentage	80%	60%	40%	20%
Actuarial Asset Value Adjustment	2,745,105	(1,673,788)	(3,015,781)	(1,654,521)
Actuarial Asset Value (Market Value plus Adjustment)	**$ 96,011,625**			

	Retirement	Medical Supplement
Market Value at Beginning of Year	$60,088,193	$37,176,775
State Contributions	3,366,500	-
Member Contributions	310,107	-
Transfers In Payments	-	-
Distributions	3,998,826	661,292
Allocated Investment Return	2,066,546	1,262,607
Market Value at End of Year	$61,832,520	$37,778,090
Allocation of Actuarial Asset Value	$59,598,478	$36,413,147

Notes to GASB 43, 45, 67, and 68 Disclosures

1. Actuarial accrued liability is based on the projected unit credit funding method for actuarial valuations prior to July 1, 2013 and the entry age normal funding method thereafter.

2. Effective July 1, 2007, OPEB liabilities and allocated assets have been excluded from GASB 67 and 68 disclosures and established in GASB 43 and 45 disclosures.

3. Market value of assets as of July 1, 2007 was allocated between pension and OPEB obligations based on proportionate share of accrued liability on that date. Allocations in subsequent years are based on prior year allocated value adjusted for contributions and benefits paid during the year, with investment return (net of expenses) allocated proportionately between retirement and OPEB obligations. Actuarial value of assets is then allocated based on the market value share of retirement and OPEB obligations.

4. Actuarial value of assets is equal to cost value prior to 1990. 1990 through 2002 utilize market related value based on the average of the ratio of market to cost value over the prior five years applied to current cost value. 2003 and later use a 5-year asset smoothing method that is phased in from July 1, 2003 market value.

5. Information used in preparing these exhibits has been extracted from past valuation reports.

6. Interest on OPEB Obligation is based on assumed valuation interest assumption for the prior year. The interest rates for prior years are as follows: 7% through 1999 valuation; 8% for 2001 and 2003 valuations; 7.5% beginning with 2005 valuation; 7% beginning with 2009 valuation.

Note: Above statements are based on information furnished by the prior actuary.

7. The tables in this report account for liabilities and assets only for the traditional defined benefit/OPEB tier under the plan; liabilities and assets pertaining to the hybrid cash balance/OPEB tier are presented in a separate report.

8. Covered payroll reflects payroll for plan members as of the last actuarial valuation.

9. Fiscal years beginning prior to December 15, 1986 have not been included pursuant to paragraph 32 of GASB Statement No. 27.

10. ARC based on full actuarial report (odd numbered years) immediately prior to each biennium. ARC amount shown is for basic valuation without any future COLA reflected.

11. GASB 67 replaces GASB 25 effective for the fiscal year ending June 30, 2014. The valuation date, disclosure date, and measurement date all fall on the same date for purposes of GASB 67.

12. GASB 68 replaces GASB 27 effective for the fiscal year ending June 30, 2015. It is assumed the measurement date for GASB 68 will be 12 months before the disclosure date. For the year ending June 30, 2017, the measurement date is July 1, 2016 (the valuation date).

Bryan, Pendleton, Swats & McAllister, LLC
A Wells Fargo Company

KENTUCKY LEGISLATORS RETIREMENT PLAN – HYBRID PLAN

GASB DISCLOSURE REPORT

AS OF
JULY 1, 2016

CONTENTS

INTRODUCTION

An actuarial valuation of the Kentucky Legislators Retirement Plan - Hybrid Tier ("KLRP-HT") was last performed as of July 1, 2015. The results shown in this report as of July 1, 2016 were developed using a "roll-forward" method that employs generally accepted actuarial techniques. The results in this report have been developed with full reliance on the July 1, 2015 Actuarial Valuation Report. **This report covers only the hybrid cash balance/OPEB tier of Kentucky Legislators Retirement Plan ("KLRP").**

Actuarial valuations are based on the integrity of employee data, plan asset data, plan provisions and an extensive set of assumptions regarding future events. There is necessary uncertainty with any actuarial calculation based on the accuracy of the data provided, the correct interpretation of plan provisions and the realization of the assumptions made. These results were based on participant data and asset information provided by The Kentucky Judicial Form Retirement System. This information was not audited but was reviewed for reasonableness.

Detailed explanations of the actuarial assumptions and methods used in the report are contained in later sections of this report. Also included in this report is a summary of provisions of the plan as we understand them.

Governmental Accounting Standards Board Statement 67 ("GASB 67") and Statement 43 ("GASB 43") establish financial reporting standards for defined benefit pension plans and other postemployment benefit (OPEB) plans sponsored by employers that are subject to governmental accounting standards. Governmental Accounting Standards Board Statement 68 ("GASB 68") and Statement 45 ("GASB 45") provide standards for reporting pension and OPEB expenditures and expense, and related liabilities and assets for such plans. The purpose of this report is to provide pertinent financial statement disclosure information for the fiscal year ending in 2016. Actuarial computations under Statements 67, 68, 43, and 45 are for purposes of fulfilling plan and employer governmental accounting requirements and may not be appropriate for other purposes. This report has been prepared on a basis consistent with our understanding of the statements and does not constitute legal, accounting, tax or investment advice.

Statement 68 sets forth a methodology for the calculation of the annual Pension Expense for the upcoming fiscal year. GASB 68 provides a method for reflecting prior gains and losses from asset and plan experience, as well as other areas including plan amendments. Amounts not reflected previously or in the upcoming year are reflected in the Deferred Outflows and Inflows of Resources shown.

Statement 45 sets forth a methodology to determine annual adjustments to the Annual Required Contribution (ARC), which is the contribution recommended pursuant to the appropriate actuarial valuation, to account for differences between amounts expensed and contributions actually made. Under GASB 45, the resulting adjusted amount is referred to as the Annual OPEB Cost (AOC) and the accumulated difference between the AOC and the actual contribution is referred to as the Net OPEB Obligation (NOO).

BPS&M does not have access to and is not providing information concerning liabilities other than benefits, such as for legal or accounting fees.

BPS&M is not aware of any significant events subsequent to the current year's measurement date that could materially affect the information contained in this report.

We are not aware of any relationship between the plan or plan sponsor and BPS&M, LLC or our parent corporation, Wells Fargo Company (until September 30, 2016), which would impair or appear to impair our objectivity.

To the best of our knowledge, all information provided in this report is complete and accurate and disclosures for GASB purposes have been determined in accordance with generally accepted accounting principles.

Legislative Background

State statues were amended in 2013 such that all participants entering KLRP on or after January 1, 2014 will be covered under a hybrid cash balance/OPEB tier; those entering before that date will continue to be covered under the traditional defined benefit/OPEB tier. The legislation making this change also restricted the availability of future cost-of-living adjustments (COLA's) to plan benefits.

Actuarial Soundness

A plan that has adopted a reasonable funding method, that adopts reasonable assumptions and which contributes at a rate at or above the recommended contribution rate (based on these reasonable methods and assumptions), could be considered to be actuarially sound.

In order to ensure KLRP-HT is funded in an "actuarially sound manner", we would recommend the following:

1. Revise the actuarial funding method to amortize all past unfunded as well as new liabilities over a period not more than 15 years and amortize future gains and losses over a period not more than 15 years. (Note that GASB 68 may require the expensing of liabilities at a faster pace than these amortization periods.)
2. Contribute at least the recommended contribution each year.

Deviations from these recommendations may result in an "actuarially unsound" approach to funding KLRP-HT and may eventually result in KLRP-HT becoming insolvent – that is, exhausting assets at which time all future benefits would be made on a pay as you go basis.

Although the Actuarial Standards of Practice 4 "Measuring Pension Obligations" allows for plan liabilities to be calculated under a legally prescribed method, the statement goes on to say,

> "If, in the actuary's professional judgment, such an actuarial cost method or amortization method is significantly inconsistent with the plan accumulating adequate assets to make benefit payments when due, assuming that all actuarial assumptions will be realized and that the plan sponsor or other contributing entity will make contributions when due, the actuary should disclose this."

It is our professional actuarial option that the current legally prescribed method, which requires contributions of normal cost plus interest on the unfunded liability plus 1% of the unfunded liability (per KRS 21.525), is inconsistent with the plan accumulating adequate assets to make benefit payments when due, assuming all actuarial assumptions are realized.

This summary is not a Summary Plan Description or a plan document. You should not rely solely on this summary in making a determination of eligibility of benefit. Liabilities and plan provisions are based on the plan data and provisions as of July 1, 2015. This report covers only the hybrid cash balance/OPEB tier of KLRP.

Source

Sections 6.500-6.577 of the Kentucky Revised Statues and 2013 Senate Bill 2

Eligibility for Membership

Members of the General Assembly may elect to make monthly contributions within 30 days after taking office, and thereby become eligible for membership in the plan. Individuals commencing participation before January 1, 2014 became participants in the KLRP.

Hypothetical Member Account

The Hypothetical Member Account for each member is credited monthly with 9% of “creditable compensation” (including a 5% employee credit and a 4% state credit), as well as interest as described below. The Hypothetical Member Account balance on June 30 each year is equal to the sum of all prior contribution credits and all prior interest credits.

Employee Contributions

All members contribute 5% of their “creditable compensation” to help fund their pension benefit. Additionally, all members contribute 1% of their “creditable compensation” towards the retiree medical benefit.

State Contributions

The state contributes actuarially determined amounts to finance benefits.

Creditable Compensation

Creditable compensation is based on actual compensation received during each year.

Interest on Hypothetical Member Account

The Hypothetical Member Account will be credited with 4% annually. The credit will be applied on each June 30 based upon the Hypothetical Member Account balance from the preceding June 30. No interest credit is provided for contribution credits made in the current year.

Additionally, if the geometric average net investment return for the prior five years (or years since the effective date of the hybrid plan, if less) exceed 4%, members who were active and participating in the prior year will have their hypothetical accounts credited with 75% of the amount of the return over 4%. This additional interest credit is applied in the same method as the interest credit in the prior paragraph.

Normal Retirement

Condition

Members who have attained age 65 and completed at least 5 years of legislative service. However, for members who are at least age 57, members may retire if age plus service equals 87 years.

Benefit

A member will receive their accumulated Hypothetical Account as either a lump sum or as one of a variety of annuity options, calculated by dividing their accumulated Hypothetical Account by an actuarial factor.

Early Retirement

A member who retires prior to normal retirement date with at least 5 years of service is eligible for a full refund of their accumulated Hypothetical Account as a lump sum.

Termination Benefit

If a legislator ceases to be a member of the plan prior to having 5 years of service, the amount of the member's accumulated contributions shall be returned to the member, including the member contributions and the interest applicable to this portion of the account. A member terminating with less than 5 years of service does not receive a refund of state contributions nor the interest applicable to this portion of the account.

Death Benefit

Upon the death of a member who at the time of death was receiving a retirement income, the named beneficiary shall receive survivor benefits based upon the form of retirement benefits being received.

If a member with at least 5 years of service dies before retirement, the named beneficiary is entitled to receive a full refund of the accumulated Hypothetical Member Account. If a member with less than 5 years of service dies before retirement, the named beneficiary is entitled to receive a refund of the member's accumulated contributions, including the member contributions and the interest applicable to this portion of the account.

Medical Insurance Premium Supplement

Retired members with at least 15 years of service, in addition to actual retirement benefits, will receive a monthly medical insurance benefit of ten dollars per year of service.

The current premium rates in effect are:

	Monthly Premium
Under age 65	
Family coverage	$1,701.04
Single coverage	699.28
Parent Plus coverage	995.34
Member and Spouse	1,528.34
Age 65 or older	
Medicare Advantage PPO	391.00

Premium rates are approved by the Board.

Funding Method

Accrued liability and normal cost calculated based on Entry Age Normal funding method. The required contribution is calculated based on KRS 21.525, which requires contributions of normal cost plus interest on the unfunded liability plus 1% of the unfunded liability.

Discount Rate

4% per annum – this rate was selected by the Board of Trustees and BPS&M and the Fund Investment Manager believe this to be a reasonable long-term rate of return assumption.

Interest Crediting Rate

4% per annum

Mortality

RP-2000 Mortality Tables with white collar adjustment with Pre and Post Commencement Rates with projected mortality improvements after year 2000 under Projection Scale AA (male and female scales); i.e., full generational mortality.

Terminations

Table T-4 from the Actuary's Pension Handbook. Specimen rates are as follows:

Age	Rate of Termination
20	.054
25	.053
30	.051
35	.047
40	.042
45	.035
50	.025
55	.009
60	.001
65+	.000

Salary Increases

1% for the next five years, and 3.5% thereafter.

Disability

None

Retirement Age

Retirements were assumed to occur as follow:

Retirement Age	Percentage of Active Members Retiring
NRA-5	16.67%
NRA-4	20.00%
NRA-3	25.00%
NRA-2	33.33%
NRA-1	50.00%
NRA	100.00%

NRA = Normal Retirement Age

In addition to these rates, an extra 20% rate is assumed at the age a member reaches 27 years of service credit.

Post-Retirement Death Benefit

Assumption is that 80% of the legislators would be married at retirement and the husband would be 3 years older than the wife on average.

Pre-Retirement Death Benefit

Assumption is that 80% of the legislators would be survived by a spouse upon death prior to retirement and that the husband would be 3 years older than the wife on average.

Form of Benefit

All participants are assumed to receive a lump sum.

Medical Insurance Premium Supplement

Medical premiums and claim costs will increase for each year beyond the valuation date at the following rates:

Year 1	11%
Year 2	10%
Year 3	9%
Year 4	8%
Year 5	7%
Year 6	6%
Years 7+	5%

An annual COLA of 1.5% is applied to the monthly insurance benefit, beginning at retirement.

100% of eligible retirees are assumed to elect the benefit. It was further assumed that coverage would be split among retirees as follows:

	% of Retirees	% With Spouse Coverage
Pre-Medicare Coverage		
Family	32%	N/A
Single	21%	N/A
Parent Plus	32%	N/A
Member and Spouse	16%	N/A
Medicare Coverage		
Medicare Advantage PPO	100%	75%

The assumed annual claims costs per subscriber as of July 1, 2015:

Pre-65 Cost	Post-65 Cost
$ 17,101	$ 8,211

Claims were adjusted downward 3% each year for aging for attained ages 55 to 65.

Retirees are assumed to contribute the difference between the premium rate and the portion of the premium paid by the Plan. Premium rates and Plan contributions are described in the Summary of Benefits.

Non-members

Legislators electing not to participate are assumed to continue as non-members in the future.

Asset Valuation Method

The determination of the actuarial value of assets is as follows:

1. Investment gains/losses are determined for each year by comparing the expected value of assets based on the assumed interest assumption to the actual market value. Expected value of assets in each year shall be determined by projecting the market value of assets from the prior year using the assumed interest rate, plus contributions less benefit payments and plan expenses (adjusted with interest at the assumed rate). If the expected value of plan assets is different than the actual market value of plan assets then the difference is treated as a gain or loss for that year.
2. The amount of any gain or loss as determined above shall be recognized evenly over the subsequent five years.
3. The actuarial value of assets on any valuation date shall be equal to the market value of assets on that date adjusted as follows:
    - Reduced by 80% of a gain or increased by 80% of a loss from the preceding year
    - Reduced by 60% of a gain or increased by 60% of a loss from the 2nd preceding year
    - Reduced by 40% of a gain or increased by 40% of a loss from the 3rd preceding year
    - Reduced by 20% of a gain or increased by 20% of a loss from the 4th preceding year

This asset valuation method is used in both the determination of funding levels as well as for disclosure purposes under GASB Statement Nos. 43 and 45. The fair market value of assets is used for disclosure purposes under GASB Statement Nos. 67 and 68.

For purposes of GASB Statement Nos. 43, 45, 67, and 68, the market value of assets has been allocated between retirement related and medical premium supplement liabilities. This market value allocation is carried forward each year based on the following:

1. State and member contributions, are allocated pro-rata reflecting the ARC for that year.
2. Benefits paid reflect actual benefits paid relative to retirement related benefits separately from medical premium supplements.
3. Preliminary assets are determined by adjusting beginning value for allocated State and member contributions and actual benefits paid.
4. Net investment return is allocated pro-rata based on the preliminary assets developed in the previous step.
5. Allocated assets as of the valuation date equal the preliminary balance plus the allocated share of investment income.

Actuarial value of assets is developed initially in total and then allocated between retirement related benefits and medical premium supplement benefits on a pro-rata basis reflecting allocated share of market value as of the valuation date.

ACTUARIAL CERTIFICATION

The information contained in this document (including any attachments) is not intended by BPS&M to be used, and it cannot be used, for the purpose of avoiding penalties under the Internal Revenue Code that may be imposed on the taxpayer. The information and valuation results shown in this report are, to the best of our knowledge, complete and accurate and are based upon the following:

1. The liabilities used in this report are based on a roll forward of liabilities from the July 1, 2015 Actuarial Valuation Report.
2. Financial data as of June 30, 2016, submitted by The Kentucky Judicial Form Retirement System. This data was not audited by us but appears to be sufficient and reliable for purposes of the report.
3. Actuarial assumptions and methods as established either by statute or the Board. The actuarial assumptions currently adopted by the Board appear to be reasonable, both individually and in aggregate.
4. For purposes of GASB 43, 45, 67, and 68 disclosures, assets were split between pension and retiree medical liabilities on the basis of the employee and employer contributions allocated to each part and a prorata allocation of investment return. This methodology was based on the process used to split assets in the traditional defined benefit plan between the pension and retiree medical components.

We believe the information is sufficiently complete and reliable. This report provides actuarial advice and does not constitute legal, accounting, tax or investment advice.

The actuarial valuation summarized in this report has been performed utilizing generally accepted actuarial principles. The actuarial valuation is based on actuarial assumptions used in the July 1, 2015 report. It is our opinion that the results fully and fairly disclose the actuarial position of the plan on the valuation date. We are consulting actuaries for BPS&M, LLC, members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Certified by:

Alan C. Pennington, F.S.A.

September 20, 2016

Alan C. Pennington, F.S.A., E.A., M.A.A.A.
Consulting Actuary/Principal

Date

Bryan, Pendleton, Swats & McAllister, LLC
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Statement of Changes in Fiduciary Net Position Under GASB Statement No. 67

	June 30, 2016
Additions	
Contributions:	
Employer	$14,475
Employee	24,603
Total Contributions	39,078
Transfer In Payments	0
Investment Income	728
Other	0
Total Additions	39,806
Deductions	
Benefit Payments / Refunds	0
Administrative Expenses	0
Other	0
Total Deductions	0
Net Increase in Net Position	39,806
Net Position Restricted for Pensions	
Beginning of Year	19,859
End of Year	$59,665

Net Pension Liability Under GASB Statement No. 67

Determination of Net Pension Liability

	June 30, 2016
Total Pension Liability (4.00%)	60,250
Plan Fiduciary Net Position	(59,665)
Net Pension Liability	$585
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	99.03%

Sensitivity of Net Pension Liability to Changes in the Discount Rate

	1% Decrease (3.00%)	Current Rate (4.00%)	1% Increase (5.00%)
Net Pension Liability	$4,647	$585	($3,207)

Schedule of Changes in the Net Pension Liability and Related Ratios (Dollar amounts in thousands)

	fiscal year ending June 30									
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Pension Liability										
Service cost	$0.0	$36.2								
Interest	0.0	2.4								
Changes of benefit terms	21.7	0.0								
Differences between expected and actual experience	0.0	0.0								
Changes of assumptions	0.0	0.0								
Benefit Payments / Refunds	0.0	0.0								
Net Change in Total Pension Liability	$21.7	$38.6								
Total Pension Liability - beginning	0.0	21.7								
Total Pension Liability - ending (a)	$21.7	$60.3								
Plan Fiduciary Net Position										
Contributions - employer	$8.8	$14.5								
Contributions - employee	11.0	24.6								
Transfer In Payments	0.0	0.0								
Net investment income	0.1	0.7								
Benefit Payments / Refunds	0.0	0.0								
Administrative expenses	0.0	0.0								
Other	0.0	0.0								
Net Change in Plan Fiduciary Net Position	$19.9	$39.8								
Plan Fiduciary Net Position - beginning	0.0	19.9								
Plan Fiduciary Net Position - ending (b)	$19.9	$59.7								
Net Pension Liability - ending (a) - (b)	$1.8	$0.6								
Plan Fiduciary Net Position as a % of the Total Pension Liability	91.7%	99.0%								
Covered-employee payroll	$419	$419								
Net Pension Liability as a % of covered-employee payroll	0.4%	0.1%								
Discount Rate	4.00%	4.00%								

Schedule of Contributions Under GASB Statement No. 67

	fiscal year ending June 30									
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Actuarially determined contribution	$8.8	$14.5								
Contributions in relation to the actuarially determined contribution	8.8	14.5								
Contribution deficiency (excess)	$0.0	$0.0								
Covered-employee payroll	$419	$419								
Contributions as a percentage of covered-employee payroll	2.1%	3.5%								

Additional Requirements Under GASB Statement No. 67

GASB Statement No. 67 also requires a Statement of Fiduciary Net Position (which includes a breakdown of current assets by type) and additional investment information, including the annual money-weighted rate of return. In order to satisfy GASB Statement No. 67, these required pieces will need to be provided by The Kentucky Judicial Form Retirement System. BPS&M is prepared to assist the system as needed.

Schedule of Changes in NPL, Deferrals, & Pension Expense

	Increase (Decrease)					
	Total Pension Liability (a)	Plan Net Position (b)	Net Pension Liability (a) - (b)	Deferred Pension Outflows of Resources	Deferred Pension Inflows of Resources	Pension Expense
Balances--at 06/30/15	$ 21,726	$ 19,859	$ 1,867	$ 15,647	$ -	
Changes for the Year:						
Service cost	36,207		36,207			36,207
Interest expense	2,317		2,317			2,317
Benefit changes	-		-			-
Experience losses (gains)	-		-	-	-	-
Changes of assumptions	-		-	-	-	-
Contributions--State		14,475	(14,475)			
Contributions--Members		24,603	(24,603)			(24,603)
Transfer In Payments		-	-			
Net investment income		728	(728)			
Expected return on plan investments						(1,571)
Current expense of asset gain/loss						234
Non expensed asset gain/loss				674	-	
Refunds of contributions	-	-	-			
Benefits paid	-	-	-			
Plan administrative expenses						
Recognition of Prior Post-measurement Contribution				(15,384)		
Post-measurement Contribution				15,384		
Other changes						
Amortization of or change in beginning balances				(66)		
Net Changes	38,524	39,806	(1,282)	608	-	12,585
Balances--at 06/30/16	$ 60,250	$ 59,665	$ 585	$ 16,256	$ -	$ 12,585

Pension Expense & Deferred Outflows/Inflows of Resources

For the year ended June 30, 2017, the recognized pension expense will be $12,585. At June 30, 2017, The Kentucky Judicial Form Retirement System reported deferred outflows of resources and deferred inflows of resources in relation to pensions from the following sources:

	As of June 30, 2016			As of June 30, 2017		
	Deferred Outflows of Resources	Deferred Inflows of Resources	Recognized in Pension Expense	Deferred Outflows of Resources	Deferred Inflows of Resources	Remaining Amort. Period
Net difference between projected and actual earnings on investments						
- 6/30/2015	263	-	66	197	-	3.000 years
- 6/30/2016	843	-	169	674	-	4.000 years
Total	$ 1,106	$ -	$ 234	$ 872	$ -	

Actual investment earnings above (or below) projected earnings are amortized over 5 years. Plan experience and changes of assumptions are amortized over the average remaining service period of actives and inactives (0 years of future service is assumed for inactives for this calculation).

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2018	234
2019	234
2020	234
2021	169
2022	-
Thereafter	-

In addition, Governmental Accounting Standards Board Statement 71 (“GASB 71”) requires contributions between the measurement date (July 1, 2016) and the disclosure date (June 30, 2017) for GASB 68 be reported as a deferred outflow of resources.

Schedule of Funding Progress Under GASB Statement No. 43

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a) / c)
7/1/2015	$ 4,666	$ 8,027	$ 3,361	58.1%	$ 419,012	0.8%
7/1/2016	$ 15,128	$ 18,181	$ 3,053	83.2%	$ 419,012	0.7%

*7/1/2016 payroll estimated to remain level.

Schedule of Employer Contributions Under GASB Statement No. 45

Year Ended June 30	Annual Pension Cost	Percentage Contributed	OPEB Benefit Obligation
2015	$ -	100%	$ 0
2016	$ 5,207	100%	$ 0

Determination of Annual OPEB Cost Under GASB Statement No. 45

Fiscal Yr Ending	Applicable Valuation Report Used	ARC	Interest on OPEB Obligation	ARC Adjustment	Amort. Factor	OPEB Cost	Contribution	Change in OPEB Obligation	OPEB Obligation Balance
6/30/2015		$ -	$ -	$ -	17.292033	$ -	$ -	$ -	$ -
6/30/2016		$ 5,207	$ -	$ -	17.292033	$ 5,207	$ 5,207	$ -	$ -

Determination of Actuarial Asset Value

	2015-16 Plan Year	2014-15 Plan Year	2013-14 Plan Year	2012-13 Plan Year
Interest Return Assumption	4.00%	4.00%	4.00%	4.00%
Market Value at Beginning of Year				
Amount	$ 24,463	$ -	$ -	$ -
Interest to End of Year	979	-	-	-
Employer Contributions				
Amount	19,682	8,796	-	-
Interest to End of Year	394	176	-	-
Member Contributions				
Amount	29,524	15,585	-	-
Interest to End of Year	590	312	-	-
Transfers from KERS				
Amount	-	-	-	-
Interest to End of Year	-	-	-	-
Benefits Paid				
Amount	-	-	-	-
Interest to End of Year	-	-	-	-
Expected End of Year Assets	75,632	24,869	-	-
Market Value at End of Year	74,575	24,463	-	-
Investment Gain (Loss)	(1,057)	(406)	-	-
Adjustment Percentage	80%	60%	40%	20%
Actuarial Asset Value Adjustment	846	244	-	-
Actuarial Asset Value (Market Value plus Adjustment)	**$ 75,665**			

	Retirement	Medical Supplement
Market Value at Beginning of Year	19,859	4,604
State Contributions	14,475	5,207
Member Contributions	24,603	4,921
Transfers In Payments	-	-
Distributions	-	-
Allocated Investment Return	728	178
Market Value at End of Year	59,665	14,910
Allocation of Actuarial Asset Value	60,537	15,128

Notes to GASB 43, 45, 67, and 68 Disclosures

1. The tables in this report account for liabilities and assets only for the hybrid defined benefit/OPEB tier under the plan; liabilities and assets pertaining to the traditional defined benefit/OPEB tier are presented in a separate report.

2. Actuarial accrued liability is based on the entry age normal funding method.

3. OPEB liabilities and allocated assets have been excluded from GASB 67 and 68 disclosures and established in GASB 43 and 45 disclosures.

4. Market value of assets were split between pension and OPEB obligations based on the basis of the employee and employer contributions allocated to each part and a prorata allocation of investment return. Actuarial value of assets is then allocated based on the market value of retirement and OPEB assets.

5. Actuarial value of assets uses a 5-year asset smoothing method.

6. Information used in preparing these exhibits has been extracted from past valuation reports.

7. Covered payroll reflects payroll for plan members as of the last actuarial valuation.

8. ARC based on full actuarial report (odd numbered years) immediately prior to each biennium.

9. Interest on OPEB Obligation is based on assumed valuation interest assumption for the prior year, 4% beginning with 2015 valuation.

10. GASB 67 replaces GASB 25 effective for the fiscal year ending June 30, 2014. The valuation date, disclosure date, and measurement date all fall on the same date for purposes of GASB 67.

11. GASB 68 replaces GASB 27 effective for the fiscal year ending June 30, 2015. It is assumed the measurement date for GASB 68 will be 12 months before the disclosure date. For the year ending June 30, 2017, the measurement date is July 1, 2016 (the valuation date).