

**REPORT OF THE AUDIT OF THE
KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM**

**For The Fiscal Year Ended
June 30, 2021**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

Board of Trustees
Kentucky Judicial Form Retirement System

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the Kentucky Judicial Form Retirement System (JFRS), a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise JFRS's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

JFRS's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of JFRS's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



Board of Trustees
Kentucky Judicial Form Retirement System

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of JFRS, as of June 30, 2021, and the respective changes in its fiduciary net position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

Reporting Entity

As discussed in Note A, the financial statements present only JFRS, and are not intended to present fairly the financial position of the Commonwealth of Kentucky, or the results of its operations in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Comparative Financial Statements

The financial statements of JFRS for the year ended June 30, 2020, were audited by other auditors whose report dated October 14, 2020, stated that the fiduciary net position as of June 30, 2020 and changes in fiduciary net position for the year then ended were in conformity with accounting principles generally accepted in the United States of America. The financial statements for the year then ended, were audited by other auditors whose report, dated October 14, 2020, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 8-11 and the Schedules of Changes in Net Pension Liability and Related Ratios (pages 49-50), Schedules of Changes in Net OPEB Liability and Related Ratios (pages 51-52), Schedules of Pension Contributions (pages 53-54), Schedule of OPEB Contributions (pages 55-56), and Schedule of Investment Returns (page 57) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Board of Trustees
Kentucky Judicial Form Retirement System

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 12, 2021 on our consideration of JFRS's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on JFRS's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering JFRS's internal control over financial reporting and compliance.

Sincerely,

A handwritten signature in cursive script that reads "Farrah Petter". The signature is written in dark ink and is positioned above the printed name and title.

Farah Petter, CPA
Assistant Auditor of Public Accounts

November 12, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

**KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2021**

As management of the Kentucky Judicial Form Retirement System (the "System"), a component unit of the Commonwealth of Kentucky, we offer readers of the System's financial statements this narrative overview and analysis of the financial activities of the System for the fiscal years ending June 30, 2021 and 2020. The two retirement plans within the System are the Kentucky Judicial Retirement Plan and the Kentucky Legislators Retirement Plan (collectively, the "Plans"). We encourage readers to read it in conjunction with the System's financial statements and accompanying notes.

Using this Financial Report

Because of the long-term nature of a defined benefit pension plan, financial statements alone cannot provide sufficient information to properly reflect a plan's ongoing plan perspective. The Statements of Fiduciary Net Position and Statements of Changes in Fiduciary Net Position (on pages 14 through 17) provide information about the activities of the Plans as a whole. The Kentucky Judicial Retirement Plan is the fiduciary of funds held in trust for its members, and the Kentucky Legislators Retirement Plan is the fiduciary of funds held in trust for its members.

The Schedules of Changes in Net Pension Liability and Related Ratios (on pages 49 through 50) and the Schedules of Changes in Net OPEB Liability and Related Ratios (on pages 51 through 52) include information about the actuarially funded status of each defined benefit pension and OPEB plans, including the sources of changes in the net pension and OPEB liability and the components of the net pension and OPEB liability. The Schedule of Pension Contributions (on pages 53 through 54) and the Schedule of OPEB Contributions (on pages 55 through 56) include information about the actuarially determined contributions, contributions to each defined benefit and hybrid plan. The Schedule of Investment Returns (on page 57) include information on the rate of return on plan investments.

Medical Insurance

For purposes of disclosures required by Governmental Accounting Standards Board Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* ("OPEB"), assets have been allocated between pension and retiree medical liabilities on the basis of accrued liability as of July 1, 2007. This amount has been brought forward from that date based on actual cash flows and prorated allocation of investment return.

Financial Highlights

Judicial Retirement Plan

In the fiscal years ended June 30, 2021 and 2020, the Judicial Retirement Plan experienced:

- An increase in fiduciary net position of \$142.0 million, from \$440.5 million to \$582.5 million in fiscal year 2021 and an increase of \$9.3 million, from \$431.2 million to \$440.5 million in fiscal year 2020. The increase in both years is primarily due to investment earnings.
- There was a decline in employer contributions from fiscal year 2020 to 2021. There was no change in employer contributions from fiscal year 2019 to 2020.

**KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2021

(Continued)

Financial Highlights (Continued)

Judicial Retirement Plan (Continued)

- A \$134.7 million increase in net investment income from \$24.6 million in fiscal year 2020 to \$159.3 million in fiscal year in 2021. A \$24.9 million decrease in net investment income from \$49.5 million in fiscal year 2019, to \$24.6 million in fiscal year 2020. The change each year is due primarily to the amount of (depreciation) appreciation of investments held.
- A decrease of \$37,000 and an increase of \$493,000 in benefit payments during fiscal years 2021 and 2020 respectively, with aggregate benefit payments of \$24.4 million in fiscal years 2021 and 2020.

Summary of Fiduciary Net Position	June 30,				
	2021	% Increase (Decrease)	2020	% Increase (Decrease)	2019
Cash and investments	\$ 580,597,461	32.24%	\$ 439,046,758	2.19%	\$ 429,627,364
Receivables	<u>1,796,353</u>	25.51%	<u>1,431,204</u>	-6.58%	<u>1,531,957</u>
Fiduciary net position	<u>\$ 582,393,814</u>	32.22%	<u>\$ 440,477,962</u>	2.16%	<u>\$ 431,159,321</u>
Summary of Changes in Fiduciary Net Position	2021	% Increase (Decrease)	2020	% Increase (Decrease)	2019
Additions					
Employer contributions	\$ 6,567,812	-24.79%	\$ 8,732,300	0.00%	\$ 8,732,300
Member contributions	2,129,688	10.26%	1,931,453	21.29%	1,592,479
Net investment income	159,210,160	547.26%	24,597,500	-50.28%	49,474,169
Appropriations for administrative expense	579,688	-30.87%	838,500	0.53%	834,100
Litigation proceeds	<u>1,502</u>	3959.46%	<u>37</u>	-99.44%	<u>6,594</u>
Total additions	168,488,850	366.73%	36,099,790	-40.47%	60,639,642
Deductions					
Benefit payments	24,365,151	-0.15%	24,401,791	2.06%	23,908,942
Insurance premiums	1,844,591	-7.19%	1,987,397	1.05%	1,966,712
Administrative expenses	357,904	-8.69%	391,961	-53.01%	834,100
Refund of member contributions	<u>5,352</u>	100.00%	<u>-</u>	-100.00%	<u>330,838</u>
Total deductions	<u>26,572,998</u>	-0.78%	<u>26,781,149</u>	-0.96%	<u>27,040,592</u>
Change in fiduciary net position	<u>\$ 141,915,852</u>	1422.92%	<u>\$ 9,318,641</u>	-72.27%	<u>\$ 33,599,050</u>

**KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2021

(Continued)

Financial Highlights (Continued)

Legislators Retirement Plan

In the fiscal years ended June 30, 2021 and 2020, the Legislators Retirement Plan experienced:

- An increase in fiduciary net position of \$40.1 million, from \$128.9 million to \$169.0 million in fiscal year 2021 and an increase of \$1.7 million, from \$127.2 million to \$128.9 million in fiscal year 2020. The increase in both years is primarily due to investment earnings.
- An increase in net investment income of \$38.8 million, from \$7.2 million in fiscal year 2020 to \$46.0 million in fiscal year in 2021, and an decrease in net investment income of \$7.1 million, from \$14.3 million in fiscal year 2019 to \$7.2 million in fiscal year 2020. The change each year is due primarily to the amount of (depreciation) appreciation of investments held.
- An increase of \$156,000 and \$232,000 in benefit payments during fiscal years 2021 and 2020 respectively, with aggregate benefit payments \$5.0 million in fiscal years 2021 and 2020.

Summary of Fiduciary Net Position	June 30,				
	2021	% Increase (Decrease)	2020	% Increase (Decrease)	2019
Cash and investments	\$ 168,499,097	31.12%	\$ 128,508,392	1.32%	\$ 126,838,870
Receivables	492,870	24.64%	395,440	-2.66%	406,263
Fiduciary net position	\$ 168,991,967	31.10%	\$ 128,903,832	1.30%	\$ 127,245,133
Summary of Changes in Fiduciary Net Position	2021	% Increase (Decrease)	2020	% Increase (Decrease)	2019
Additions					
Employer contributions	\$ -	0.00%	\$ -	0.00%	\$ -
Member contributions	\$ 303,989	21.81%	\$ 249,558	18.22%	\$ 211,105
Net investment income	45,973,559	535.37%	7,235,760	-49.55%	14,343,715
Appropriations for administrative expense	-	-100.00%	311,400	0.52%	309,800
Litigation proceeds	374	100.00%	-	-100.00%	3,596
Employer pay credit	-	0.00%	-	-100.00%	887
Total additions	46,277,922	493.56%	7,796,718	-47.56%	14,869,103
Deductions					
Benefit payments	5,117,304	3.15%	4,961,239	4.91%	4,728,939
Insurance premiums	834,997	2.96%	811,016	5.81%	766,517
Administrative expenses	225,851	-23.24%	294,231	112.07%	138,740
Refund of member contributions	11,635	-83.73%	71,533	100.00%	-
Total deductions	6,189,787	0.84%	6,138,019	8.94%	5,634,196
Change in fiduciary net position	\$ 40,088,135	2316.84%	\$ 1,658,699	-82.04%	\$ 9,234,907

**KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS****June 30, 2021****(Continued)****Discussion of Currently Known Facts, Decisions, or Conditions**

Accounting standards require that the Statement of Fiduciary Net Position state asset value at fair value and include only benefits and refunds due to plan members and beneficiaries and accrued investment and administrative expenses as of the reporting date. Information regarding the actuarial funding status of the defined benefit pension plans and the medical insurance plans is provided in the Schedules of Changes in Net Pension Liability and Related Ratios, the Schedules of Changes in Net OPEB Liability and Related Ratios, respectively.

Annual contributions of the Commonwealth are set by the Kentucky Revised Statutes. During the years ended June 30, 2015 through June 30, 2018, the General Assembly appropriated the statutorily required annual contributions to both the Judicial Plan and Legislators Plan. During the years ended June 20, 2011 through June 30, 2014, the General Assembly suspended state statutes so that contributions could be reduced. In the Judicial Plan, the reductions were: FY11, 44%; FY12, 48%; FY13, 69% and, FY14, 71%. In the Legislators Plan, the reductions were: FY11, 44%; FY12, 48%; FY13, 53% and, FY14, 57%. The Schedules of Pension Contributions and Schedules of OPEB Contributions (on pages 53 through 56) indicate the contributions that have been made while the statutes were suspended. During the year ended June 30, 2021 and 2020, the General Assembly appropriated the statutorily required annual contributions for the Judicial Plan only. The General Assembly suspended state statutes so that contributions could be reduced for the Legislators Plan. There were no contributions appropriated to the Legislative Plan in fiscal year 2021 or 2020.

Contacting the System

This financial report is designed to provide a general overview of the System's finances. If you have any questions concerning the information provided, contact the Kentucky Judicial Form Retirement System at 305 Ann Street, Frankfort, KY 40601.

FINANCIAL STATEMENTS

**KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
STATEMENT OF FIDUCIARY NET POSITION**

June 30, 2021

	Kentucky Judicial Retirement Plan			Kentucky Legislators Retirement Plan			System total
	Pension	Medical insurance	Total	Pension	Medical insurance	Total	
Cash and cash equivalents	\$ 1,098,882	\$ 328,154	\$ 1,427,036	\$ 1,371,838	\$ 986,199	\$ 2,358,037	\$ 3,785,073
Receivables							
Accrued interest receivable	1,101,165	328,835	1,430,000	238,171	171,220	409,391	1,839,391
Dividend receivable	179,105	53,485	232,590	39,224	28,197	67,421	300,011
Members' contribution receivable	103,004	30,759	133,763	9,342	6,716	16,058	149,821
Total receivables	1,383,274	413,079	1,796,353	286,737	206,133	492,870	2,289,223
Investments at fair value							
Investments held by State Treasury	221,296	66,085	287,381	147,886	106,314	254,200	541,581
Governmental securities	711,114	212,402	923,516	118,128	84,901	203,029	1,126,545
Mutual funds	1,629,256	486,640	2,115,896	318,804	229,128	547,932	2,663,828
Corporate notes	121,298,449	36,230,495	157,528,944	25,483,779	18,315,535	43,799,314	201,328,258
Common stock	322,105,395	96,209,293	418,314,688	70,597,334	50,739,251	121,336,585	539,651,273
Total investments	445,965,510	133,204,915	579,170,425	96,665,931	69,475,129	166,141,060	745,311,485
Fiduciary net position - restricted for pension and other post-employment benefits	<u>\$ 448,447,666</u>	<u>\$ 133,946,148</u>	<u>\$ 582,393,814</u>	<u>\$ 98,324,506</u>	<u>\$ 70,667,461</u>	<u>\$168,991,967</u>	<u>\$ 751,385,781</u>

The accompanying notes are an integral part of this financial statement.

**KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
STATEMENT OF FIDUCIARY NET POSITION**

June 30, 2020

	Kentucky Judicial Retirement Plan			Kentucky Legislators Retirement Plan			System total
	Pension	Medical insurance	Total	Pension	Medical insurance	Total	
Cash and cash equivalents	\$ 869,758	\$ 252,385	\$ 1,122,143	\$ 1,136,043	\$ 776,835	\$ 1,912,878	\$ 3,035,021
Receivables							
Accrued interest receivable	829,003	240,558	1,069,561	186,346	127,425	313,771	1,383,332
Dividend receivable	177,673	51,557	229,230	39,565	27,055	66,620	295,850
Members' contribution receivable	102,631	29,782	132,413	8,938	6,111	15,049	147,462
Total receivables	1,109,307	321,897	1,431,204	234,849	160,591	395,440	1,826,644
Investments at fair value							
Investments held by State Treasury	18,286	5,306	23,592	111,605	76,316	187,921	211,513
Governmental securities	4,448,649	1,251,692	5,700,341	607,508	415,152	1,022,660	6,723,001
Corporate notes	75,585,699	21,972,489	97,558,188	16,450,504	11,241,764	27,692,268	125,250,456
Common stock	259,377,060	75,265,434	334,642,494	58,034,046	39,658,619	97,692,665	432,335,159
Total investments	339,429,694	98,494,921	437,924,615	75,203,663	51,391,851	126,595,514	564,520,129
Fiduciary net position - restricted for pension and other post-employment benefits	<u>\$ 341,408,759</u>	<u>\$ 99,069,203</u>	<u>\$ 440,477,962</u>	<u>\$ 76,574,555</u>	<u>\$ 52,329,277</u>	<u>\$ 128,903,832</u>	<u>\$ 569,381,794</u>

The accompanying notes are an integral part of this financial statement.

**KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**

For the Year Ended June 30, 2021

	Kentucky Judicial Retirement Plan			Kentucky Legislators Retirement Plan			System total
	Pension	Medical insurance	Total	Pension	Medical insurance	Total	
Additions							
Contributions							
Employer	\$ 6,567,812	\$ -	\$ 6,567,812	\$ -	\$ -	\$ -	\$ 6,567,812
Member	2,077,329	52,359	2,129,688	283,416	20,573	303,989	2,433,677
Total contributions	8,645,141	52,359	8,697,500	283,416	20,573	303,989	9,001,489
Appropriations for administrative expenses	578,711	977	579,688	-	-	-	579,688
Litigation proceeds	1,157	345	1,502	218	156	374	1,876
Investments							
Net appreciation (realized and unrealized)	114,865,912	34,375,492	149,241,404	25,288,842	18,050,923	43,339,765	192,581,169
Interest	2,980,225	889,970	3,870,195	506,959	364,447	871,406	4,741,601
Dividends	5,089,867	1,519,961	6,609,828	1,110,744	798,502	1,909,246	8,519,074
Total investment income	122,936,004	36,785,423	159,721,427	26,906,545	19,213,872	46,120,417	205,841,844
Less investment expenses	393,699	117,568	511,267	85,438	61,420	146,858	658,125
Net investment income	122,542,305	36,667,855	159,210,160	26,821,107	19,152,452	45,973,559	205,183,719
Total additions	131,767,314	36,721,536	168,488,850	27,104,741	19,173,181	46,277,922	214,766,772
Deductions							
Benefit payments	24,365,151	-	24,365,151	5,117,304	-	5,117,304	29,482,455
Insurance premiums	-	1,844,591	1,844,591	-	834,997	834,997	2,679,588
Administrative expense	357,904	-	357,904	225,851	-	225,851	583,755
Refund of member contributions	5,352	-	5,352	11,635	-	11,635	16,987
Total deductions	24,728,407	1,844,591	26,572,998	5,354,790	834,997	6,189,787	32,762,785
Net increase in plan position	107,038,907	34,876,945	141,915,852	21,749,951	18,338,184	40,088,135	182,003,987
Fiduciary net position - restricted, beginning of year	341,408,759	99,069,203	440,477,962	76,574,555	52,329,277	128,903,832	569,381,794
Fiduciary net position - restricted, end of year	<u>\$ 448,447,666</u>	<u>\$ 133,946,148</u>	<u>\$ 582,393,814</u>	<u>\$ 98,324,506</u>	<u>\$ 70,667,461</u>	<u>\$ 168,991,967</u>	<u>\$ 751,385,781</u>

The accompanying notes are an integral part of this financial statement.

**KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**

For the Year Ended June 30, 2020

	Kentucky Judicial Retirement Plan			Kentucky Legislators Retirement Plan			System total
	Pension	Medical insurance	Total	Pension	Medical insurance	Total	
Additions							
Contributions							
Employer	\$ 8,732,300	\$ -	\$ 8,732,300	\$ -	\$ -	\$ -	\$ 8,732,300
Member	1,885,843	45,610	1,931,453	231,072	18,486	249,558	2,181,011
Total contributions	10,618,143	45,610	10,663,753	231,072	18,486	249,558	10,913,311
Appropriations for administrative expenses	649,910	188,590	838,500	184,938	126,462	311,400	1,149,900
Litigation proceeds	30	7	37	-	-	-	37
Investments							
Net appreciation (realized and unrealized)	11,428,851	3,311,512	14,740,363	2,518,350	1,720,822	4,239,172	18,979,535
Interest	2,861,061	830,216	3,691,277	613,613	419,593	1,033,206	4,724,483
Dividends	5,121,743	1,486,215	6,607,958	1,166,217	797,469	1,963,686	8,571,644
Total investment income	19,411,655	5,627,943	25,039,598	4,298,180	2,937,884	7,236,064	32,275,662
Less investment expenses	342,664	99,434	442,098	181	123	304	442,402
Net investment income	19,068,991	5,528,509	24,597,500	4,297,999	2,937,761	7,235,760	31,833,260
Total additions	30,337,074	5,762,716	36,099,790	4,714,009	3,082,709	7,796,718	43,896,508
Deductions							
Benefit payments	24,401,791	-	24,401,791	4,961,239	-	4,961,239	29,363,030
Insurance premiums	-	1,987,397	1,987,397	-	811,016	811,016	2,798,413
Administrative expense	335,654	56,307	391,961	168,418	125,813	294,231	686,192
Refund of member contributions	-	-	-	71,533	-	71,533	71,533
Total deductions	24,737,445	2,043,704	26,781,149	5,201,190	936,829	6,138,019	32,919,168
Net increase in plan position	5,599,629	3,719,012	9,318,641	(487,181)	2,145,880	1,658,699	10,977,340
Fiduciary net position - restricted, beginning of year	335,809,130	95,350,191	431,159,321	77,061,736	50,183,397	127,245,133	558,404,454
Fiduciary net position - restricted, end of year	<u>\$ 341,408,759</u>	<u>\$ 99,069,203</u>	<u>\$ 440,477,962</u>	<u>\$ 76,574,555</u>	<u>\$ 52,329,277</u>	<u>\$ 128,903,832</u>	<u>\$ 569,381,794</u>

The accompanying notes are an integral part of this financial statement.

NOTES TO THE FINANCIAL STATEMENTS

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021

Note A - Description of the System

Under the provisions of the Kentucky Revised Statutes, the Kentucky Judicial Retirement Plan and the Kentucky Legislators Retirement Plan have the same Board of Trustees and are coordinated administratively as the Kentucky Judicial Form Retirement System (the "System"). As a result of the common governance, the financial statements for the respective plans are presented on a combined basis. The Board of Trustees of the System consists of eight members, three of whom are appointed by the Supreme Court, two by the Governor, one by the President of the Kentucky Senate, one by the Speaker of the Kentucky House of Representatives, and one by the President and Speaker jointly. Although the Plans share a common Board of Trustees, each Plan maintains its own investments and pays benefits to its members only from its own assets. Each Plan has a defined benefit and hybrid cash balance component which provide both pension and medical benefits to members.

The System is a component unit of the Commonwealth of Kentucky ("Commonwealth"). The System's fiduciary net position and the changes in the System's fiduciary net position are included in the Commonwealth's Annual Comprehensive Financial Report ("ACFR") as a pension trust fund in the fiduciary funds financial statement. Financial statements of the Commonwealth and its component units that form the Commonwealth reporting entity have been issued separately and are audited by the elected Auditor of Public Accounts.

Note B - Summary of Significant Accounting Policies

1. Basis of Accounting: The financial statements of the System have been prepared in accordance with generally accepted accounting principles ("GAAP") as it applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the standard setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Standards and Interpretations), constitute GAAP for governmental units.
2. Accounting Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.
3. Subsequent Events: Subsequent events for the System have been considered through the date of the Independent Auditor's Report, which represents the date the financial statements were available to be issued.
4. Cash and Cash Equivalents: The System considers all cash and short-term investments with an original maturity of three months or less to be cash and cash equivalents.
5. Member Contributions: Member contributions to the plans are recognized when due to the System based on the provisions of the plans.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021
(Continued)

Note B - Summary of Significant Accounting Policies (Continued)

6. Benefit Payments and Refunds: Benefit payments and refunds are recognized when due and payable in accordance with the terms of the plans.
7. Investments: Plan investments are reported at fair value. Fair value is the amount that the Plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller.
8. Net Pension and OPEB Liabilities: The System obtains actuarial valuation reports to estimate the net pension and other post-employment benefits ("OPEB") liabilities on a bi-annual basis. The most recent actuarial valuation had a measurement date of July 1, 2021.
9. New Accounting Pronouncements: In June 2017, the GASB issued statement No. 87, *Leases*. The provisions of this statement are effective for fiscal years beginning after June 15, 2021. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about the government entity's leasing activities.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, provides guidance on the accounting and financial reporting for subscription-based information technology arrangements ("SBITAs") for governments. This Statement defines an SBITA, establishes that a SBITA results in a right-to-use subscription intangible asset and a corresponding subscription liability, provides the capitalization criteria for outlays other than subscription payments and requires note disclosures regarding an SBITA. The standards for SBITAs are based on the standards established in Statement No. 87, *Leases*. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022.

The System is currently evaluating the impact that will result from adopting the GASB statement and is currently unable to disclose the impact of adoption of the standards on the financial position and operations.

**KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2021

(Continued)

Note C - Plan Description and Contribution Information

Kentucky Judicial Retirement Plan

Membership

Total membership in the Kentucky Judicial Retirement Plan consisted of the following at June 30, 2021 and 2020:

	2021		2020	
	Defined Benefit	Cash Balance	Defined Benefit	Cash Balance
Retirees and beneficiaries receiving benefits	356	-	352	-
Terminated plan members - vested	12	2	12	-
Active plan members	179	52	188	44
Total	<u>547</u>	<u>54</u>	<u>552</u>	<u>44</u>
Number of participating employers	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

Plan Description - Defined Benefit Plan

The Kentucky Judicial Retirement Plan contains a single employer defined benefit plan that provides retirement benefits and medical insurance premium supplements, and covers the District, Circuit, Court of Appeals and Supreme Court judges.

The Judicial Defined Benefit (DB) Plan provides retirement, disability, and death benefits to plan members and their beneficiaries. Prior to June 30, 2009, cost-of-living adjustments ("COLA"), keyed to the Consumer Price Index, were provided on July 1 of each year. Commencing in 2009, the COLA on July 1 of each year is 1.50%. The COLA created in 2009 was suspended by legislative action in 2012, and no COLA's have since been granted. By legislative action in 2013, the statute was amended to provide that each July 1, a recipient of a monthly pension benefit from the Judicial DB Plan shall receive a 1.50% cost-of-living adjustment (pro-rated for the first year, if the recipient has been retired for less than one year) if:

1. The funding level of the Judicial DB Plan is greater than 100% and subsequent legislation authorizes the use of any surplus actuarial assets to provide for the increase; and
2. The Kentucky General Assembly appropriates sufficient funds to fully prefund the increase.

Supplemental increases to the 1.50% cost-of-living adjustment will require prefunding, appropriation, and legislative action by the Kentucky General Assembly.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021
(Continued)

Note C - Plan Description and Contribution Information (Continued)

Kentucky Judicial Retirement Plan (Continued)

Plan Description - Defined Benefit Plan (Continued)

Additionally, legislation provides that a pension benefit shall be increased, if necessary, so that it equals an amount calculated by using a 1.5125% benefit rate and the current 60-month average earnings of the position held by the member at the time of retirement, subject to a 4.0% COLA annually.

As an additional retirement benefit, the Judicial DB Plan will pay a percentage, based on years of service, of the members' hospital and medical insurance coverage for the retirees and their qualified dependents.

Vesting is achieved when the member has eight years of state governmental service credit. Former members who are not vested are entitled to a refund of their accumulated contributions.

There are special statutory provisions regarding disability benefits and death benefits in the line of duty.

As of January 1, 2014, participation in the Judicial DB Plan is closed to new members. All new members of the Judicial Plan participate in the Judicial Hybrid Cash Balance (HCB) Plan. However, membership in the Judicial DB Plan is reactivated if a former participant of the Judicial DB Plan becomes eligible again to participate in the Judicial Plan.

Plan Description - Hybrid Cash Balance

The Judicial HCB Plan provides retirement benefits to a vested member electing to participate in the Judicial Plan after January 1, 2014, and to their beneficiaries, based on the member's accumulated cash balance account. The cash balance account consists of the member's personal contributions, the employer's current pay credit of 4.00% and applicable interest. The retiree has certain distribution options, including lifetime annuity, lump sum and optional survivor benefit payments.

Vesting is achieved either (a) at age 65 with accumulation of five years of active service credit in the Judicial HCB Plan and any other state-supported retirement system of the Commonwealth; or (b) at least age 57 and the member's accumulated active service credit in the Judicial HCB Plan and other state-supported retirement system of the Commonwealth plus his/her age is at least 87.

A non-vested member (one with less than five years of service) is entitled to a refund of his/her personal contributions but forfeits the employer credit. A refund of the cash balance account for a member with five or more years of service includes his/her personal contributions, the employer credit, and applicable interest.

There are special statutory provisions regarding disability benefits and death benefits in the line of duty.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021
(Continued)

Note C - Plan Description and Contribution Information (Continued)

Kentucky Judicial Retirement Plan (Continued)

Plan Description - Hybrid Cash Balance (Continued)

Any cost-of-living adjustment (pro-rated for the first year if the recipient has been retired for less than one year) will be granted providing the following statutory requirements occur:

1. The funding level of the Judicial HCB Plan is greater than 100% and subsequent legislation authorizes the use of any surplus actuarial assets to provide for the increase; and
2. The Kentucky General Assembly appropriates sufficient funds to fully prefund the increase.

As an additional retirement benefit, a recipient of a hybrid cash balance retirement allowance with at least 15 years of State service is eligible for a monthly health insurance benefit. The health insurance benefit of \$10.00 for each year of plan service is adjusted for inflation (1.5% per year). The minimum service requirement is waived for a member who is disabled in the line of duty or for the qualified survivor of a member who is killed in the line of duty.

Contributions - Defined Benefit Plan

Members electing to participate in the Plan prior to September 1, 2008, contribute 5% of their official salary, and members electing to participate in the Plan on or after September 1, 2008 contribute 6% of their official salary. Once a member has earned sufficient service credit to have accrued a benefit of 100% of final average compensation, then employee contributions shall cease. For the years ending June 30, 2021 and 2020, the Commonwealth made a normal contribution at the actuarially-determined rate calculated by utilizing the entry age normal method of funding, and a past service contribution equal to 1% of the unfunded past service liability and contributed interest on the unfunded past service liabilities at the actuarially-assumed interest rate of 6.5%, in an amount equal to 100% of the amount required by Kentucky Revised Statutes ("KRS") 21.515.

Additionally, the Commonwealth made an appropriation to cover administrative expenses of the Judicial DB Plan. Members may transfer qualified member and Commonwealth contributions into the Judicial DB Plan from other state funded retirement plans.

Contributions - Hybrid Cash Balance Plan

Members electing to participate in the Judicial HCB Plan contribute an amount equal to 6% of official salary. Of this, 1% is to be used to fund retiree health benefits and is not refundable. For each pay period that a personal contribution is made, the Commonwealth will apply an employer credit of 4% of official salary to the member's account. On June 30 of each year, interest, in accordance with KRS 21.402, will be credited to the account. As of June 30, 2021, and 2020, approximately \$3.0 million and \$1.6 million, respectively, of the fiduciary net position of the Systems relates to the Judicial HCB Plan.

**KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2021

(Continued)

Note C - Plan Description and Contribution Information (Continued)

Kentucky Legislators Retirement Plan

Membership

Total membership in the Kentucky Legislators Retirement Plan consisted of the following at June 30, 2021 and 2020:

	2021		2020	
	Defined Benefit	Cash Balance	Defined Benefit	Cash Balance
Retirees and beneficiaries receiving benefits	245	-	241	-
Terminated plan members - vested	39	8	38	-
Active plan members	43	58	54	48
Total	<u>327</u>	<u>66</u>	<u>333</u>	<u>48</u>
Number of participating employers	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

Plan Description - Defined Benefit Plan

The Legislators DB Plan is a single employer defined benefit plan that provides retirement benefits and medical insurance premium supplements and covers the members of Kentucky's General Assembly.

The Legislators DB Plan provides retirement, disability, and death benefits to plan members and their beneficiaries. Prior to June 30, 2009, COLA, keyed to the Consumer Price Index, were provided on July 1 of each year. Commencing in 2009, the COLA on July 1 of each year is 1.50%. The COLA created in 2009 was suspended by legislative action in 2012, and no COLA's have since been granted. By legislative action in 2013, the statute was amended to provide that each July 1, a recipient of a monthly pension benefit from the Legislators DB Plan shall receive a 1.50% cost-of-living adjustment (pro-rated for the first year, if the recipient has been retired for less than one year) if:

1. The funding level of the Legislators DB Plan is greater than 100% and subsequent legislation authorizes the use of any surplus actuarial assets to provide for the increase; and
2. The Kentucky General Assembly appropriates sufficient funds to fully prefund the increase.

Supplemental increases to the 1.50% cost-of-living adjustment will require prefunding, appropriation and legislative action by the Kentucky General Assembly.

Additionally, legislation provides that a pension benefit shall be increased, if necessary, so that it equals an amount calculated by using a 1.5125% benefit rate and the current 60-month average earnings of the position held by the member at the time of retirement, subject to a 4.0% COLA annually.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021
(Continued)

Note C - Plan Description and Contribution Information (Continued)

Kentucky Legislators Retirement Plan (Continued)

Plan Description - Defined Benefit Plan (Continued)

As an additional retirement benefit, the Legislators DB Plan will pay a percentage, based on years of service, of the members' hospital and medical insurance coverage for the retirees and their qualified dependents.

Vesting is achieved when the member has five years of legislative service or eight years of state governmental service credit. Former members who are not vested are entitled to a refund of their accumulated contributions.

There are special statutory provisions regarding disability benefits and death benefits in the line of duty.

As of January 1, 2014, participation in the Legislators DB Plan is closed to new members. All new members of the Legislators Plan participate in the Legislators HCB Plan. However, membership in the Legislators DB Plan is reactivated if a former participant of the Legislators DB Plan becomes eligible again to participate in the Legislators Plan.

Plan Description - Hybrid Cash Balance Plan

The Legislators HCB Plan provides retirement benefits to a vested member electing to participate in the Legislators Plan after January 1, 2014, and to their beneficiaries, based on the member's accumulated cash balance account. The cash balance account consists of the member's personal contributions, the employer's current pay credit of 4.00% and applicable interest. The retiree has certain distribution options, including lifetime annuity, lump sum and optional survivor benefit payments. Vesting is achieved either (a) at age 65 with accumulation of five years of active service credit in the Legislators HCB Plan and any other state-supported retirement system of the Commonwealth; or (b) at least age 57 and the member's accumulated active service credit in the Legislators HCB Plan and other state-supported retirement systems of the Commonwealth plus his/her age is at least 87.

A non-vested member (one with less than five years of service) is entitled to a refund of his/her personal contributions but forfeits the employer credit. A refund of the cash balance account for a member with five or more years of service includes his/her personal contributions, the employer credit, and applicable interest.

There are special statutory provisions regarding disability benefits and death benefits in the line of duty.

Any cost-of-living adjustment (pro-rated for the first year if the recipient has been retired for less than one year) will be granted providing the following statutory requirements occur:

1. The funding level of the Legislators HCB Plan is greater than 100% and subsequent legislation authorizes the use of any surplus actuarial assets to provide for the increase; and
2. The Kentucky General Assembly appropriates sufficient funds to fully prefund the increase.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021
(Continued)

Note C - Plan Description and Contribution Information (Continued)

Kentucky Legislators Retirement Plan (Continued)

Plan Description – Hybrid Cash Balance Plan (Continued)

As an additional retirement benefit, a recipient of a hybrid cash balance retirement allowance with at least 15 years of State service is eligible for a monthly health insurance benefit. The health insurance benefit is \$10.00 for each year of plan service. The minimum service requirement is waived for a member who is disabled in the line of duty or for the qualified survivor of a member who is killed in the line of duty.

Contributions - Defined Benefit Plan

Members entering membership on or after September 1, 2008 must contribute 6% of their "creditable compensation," as defined. Members who first participate on or after July 1, 1978 and prior to September 1, 2008 contribute at a rate of 5% of their "creditable compensation." Once a member has earned sufficient service credit to have accrued a benefit of 100% of final average compensation, employee contributions shall cease. The actuary recommends that the Commonwealth make a normal contribution at the determined rate calculated by utilizing the entry age normal method of funding, and a past service contribution equal to 1% of the unfunded past service liability and contributed interest on the unfunded past service liabilities at the actuarially assumed interest rate of 6.5%, in an amount equal to 100% of the amount required by KRS 21.515. The Commonwealth made no contributions in 2021 or 2020.

Contributions - Hybrid Cash Balance Plan

Members electing to participate in the Legislators HCB Plan contribute an amount equal to 6% of official salary. Of this, 1% is to be used to fund retiree health benefits and is not refundable. For each pay period that a personal contribution is made, the Commonwealth will apply an employer credit of 4% of official salary to the member's account. On June 30 of each year, interest, in accordance with KRS 21.402 will be credited to the account. As of June 30, 2021 and 2020, approximately \$762,827 and \$399,000, respectively, of the fiduciary net position of the System relates to the Legislators HCB Plan.

Note D - Investments

Each plan has its own investment committee. The committee governing the Judicial Retirement Plan consists of the three judicial appointees and the two gubernatorial appointees to the System's Board of Trustees. The committee governing the Legislators Retirement Plan consists of the three legislative appointees and the two gubernatorial appointees to the System's Board of Trustees.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021
(Continued)

Note D - Investments (Continued)

All investment decisions conform to the parameters established by KRS 386.010 and the System's policy statements enumerated below:

1. Cash and cash equivalent balances will be held separately for each fund as liquidity reserve for the payment of certain fund expenses, pension or qualified refund payments, and insurance premium requirements.
2. Equities will have a target allocation of 70% of the portfolio's market value (with a fluctuation tolerance of up to 10%).
3. Fixed income securities and/or cash equivalents will have a target allocation of 30% of the portfolio's market value (with a fluctuation tolerance of up to 10%).
4. If an allocation exceeds its targeted range, the applicable Investment Committee will be notified of the status of the Fund's portfolio allocation percentages. Such Committee may direct the fund manager to, on a timely basis, adjust the Fund's applicable allocation percentage to bring the Fund's portfolio back into its targeted range. If the Committee does not make a rebalancing recommendation, the fund manager, at its discretion, may or may not adjust the Fund's portfolio allocations.

Equities

1. Investments in common stocks shall be from those stocks that meet the statutory standards for investment of trust funds, except that 50% of the total portfolio of each Fund may not be invested in common stocks with a dividend payment history of less than 5 years.
2. Investments in an individual equity security shall not exceed 5% of the fund's then current market value of the equity portfolio. At a time when the security's value reaches 8% of the fund's market value of the equity portfolio, the Manager shall immediately notify the appropriate investment committee so that the investment committee may determine a course of action.
3. Equity investment in a particular industry shall not exceed 25% of the fund's market value of the equity portfolio.
4. Any equity benchmark selected by the manager for any fund must be a broad market benchmark and must reasonably reflect the nature and risk of the underlying investments of such fund's equity portfolio.
5. The fund manager is prohibited from investing in private placements, unregistered securities, hedge funds, letter stock, uncovered options, common trust funds or collective funds, or from engaging in short sales, margin transactions, or other specialized investment activities.

Fixed Income

1. No issues (with the exception of those of the U.S. Government and its Agencies) may be purchased with more than 15 years duration at the time of purchase.
2. Investments in securities of the U.S. Government and its Agencies may be purchased with a maturity of up to 30 years, but the weighted average maturity of those securities in each Fund shall not exceed 10 years.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021
(Continued)

Note D - Investments (Continued)

Fixed Income (Continued)

3. Investments in securities of a single issuer (with the exception of U.S. Government and its Agencies) of each Fund must not exceed 5% of the Fund's market value of the fixed income portfolio.
4. Only corporate debt issues that meet or exceed a credit rating of BBB from Standard & Poor's and/or a BAA rating Moody's may be purchased.
5. Preferred stocks must be rated A or better by Moody's and/or Standard & Poor's at the time of purchase.
6. Investment in bonds will be limited to those eligible for purchase by national banks.
7. Bond maturities will be reasonably spaced with due consideration given to call provisions.
8. Any fixed income benchmark selected by the manager for any fund must be a broad market benchmark and must reasonably reflect the nature and risk of the underlying investments of such fund's fixed income portfolio.
9. Each Fund's fixed income portfolio duration, defined as the weighted average of the modified durations of all of the Fund's fixed income investments, shall at all times be generally consistent with the duration of its fixed income benchmark, plus or minus one year.
10. The fund manager is prohibited from investing in private placements, from speculating in fixed income or interest rate futures, and from arbitrage or any other specialized investments. No investments shall be made in proprietary funds of the fund manager without written consent of the Investment Committee.

Cash and Cash Equivalents

1. The fund manager may maintain cash and cash equivalent balances as part of a Fund's portfolio allocations in anticipation of liquidity reserve needs or as temporary Fund investments pending longer term portfolio investments.
2. Any cash and cash equivalent investments held in the liquidity reserves or within Fund portfolios may be made in the following types of short-term investments, with limits and requirements as described below:
 - a. Treasury bills;
 - b. Commercial paper investments and marketable short-term money market securities, each with time of purchase ratings of as least A-2 or P-2 by Standard & Poor's or Moody's, respectively, and each with time of purchase maturities of no longer than 270 days;
 - c. Marketable short-term money market funds of marketable short term securities, under the following limits for each such fund: fund ratings at least AAA or Aaa by Standard & Poor's or Moody's, respectively, at time of purchase; final maturities of underlying fund investments of no longer than 13 months from dates of acquisition; and fund weighted average maturity of underlying fund investments of no longer than 60 days at all times;

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021
(Continued)

Note D - Investments (Continued)

Cash and Cash Equivalents (Continued)

- d. Corporate cash equivalent investments with maturities no longer than one year, provided any such investment shall be restricted to not more than 7% per issuer;
 - e. Repurchase agreements relating to and consistent with the instruments described in these Cash and Cash Equivalent Guidelines provided such agreements have a maturity deemed to be no longer than the scheduled maturity period remaining on the underlying securities covered by such agreement; and/or
3. All cash and cash equivalents should have maturities no longer than one year from the date of their acquisition.
 4. The fund manager may invest no more than 10% of the market values of either of the two Defined Benefit Funds' portfolios, and no more than 5% of the market values of either of the two Hybrid Cash Balance Funds' portfolios, in cash or cash equivalents of a single government agency other than U.S. Government agencies. Investment in obligations of the U.S. Government and its agencies are not restricted.

Rate of Return

For the year ended June 30, 2021, the annual money-weighted rate of return on pension plan investments, net of investment expense, for the Judicial Plan and Legislators Plan was 37.2% and 37.3%, respectively. For the year ended June 30, 2020, the annual money-weighted rate of return investments, net of investment expense, for the Judicial Plan and Legislators Plan was 6.0%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. More specifically, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Investment Fees

All fees paid to the investment manager are paid directly from each Plan with the cost calculated as a percentage of the portfolio market value.

**KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2021

(Continued)

Note D - Investments (Continued)

All investments held by the System are insured or registered and held by the System or by its agent in the System's name. The credit risk disclosures for the U.S. governmental securities and corporate notes within the Judicial Plan are as follows as of June 30:

	<u>Judicial Retirement Plan</u>		
	S&P Quality Rating	<u>2021</u>	<u>2020</u>
U.S. governmental securities	AA+	\$ -	\$ 5,565,229
	N/A	923,516	135,112
		<u>\$ 923,516</u>	<u>\$ 5,700,341</u>
Corporate notes	AAA	\$ 8,142,255	\$ 3,311,430
	AA+	3,790,955	5,919,505
	AA	2,047,300	2,097,860
	AA-	13,006,250	8,719,740
	A+	37,507,364	13,762,917
	A	20,827,740	20,807,335
	A-	26,575,075	15,229,815
	BBB+	28,310,600	9,675,640
	BBB	13,469,025	13,701,520
	BBB-	3,852,380	3,832,115
	Not Rated*	-	500,311
			<u>\$ 157,528,944</u>
Total		<u>\$ 158,452,460</u>	<u>\$ 103,258,529</u>

*Investment in iShares Intermediate Credit Bond ETF for the Hybrid Cash Balance Plan is a combination of securities and a single rating is not assigned.

**KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2021

(Continued)

Note D - Investments (Continued)

The credit risk disclosures for the municipal securities, foreign governmental securities, and corporate notes within the Legislators Plan are as follows at June 30:

<u>Legislators Retirement Plan</u>			
	S&P Quality Rating	2021	2020
U.S. governmental securities	AA+	\$ -	\$ 1,022,660
	N/A	203,029	134,201
		<u>\$ 203,029</u>	<u>\$ 1,156,861</u>
Corporate notes	AAA	\$ 2,440,697	\$ 1,103,810
	AA+	1,028,973	1,819,836
	AA	1,018,240	1,048,200
	AA-	3,518,685	1,889,028
	A+	10,290,233	3,692,821
	A	4,645,123	6,284,138
	A-	8,222,085	3,350,249
	BBB+	7,171,870	2,840,220
	BBB	4,211,085	4,282,444
	BBB-	1,100,680	1,094,890
	Not Rated*	151,643	152,431
			<u>\$ 43,799,314</u>
Total		<u>\$ 44,002,343</u>	<u>\$ 28,714,928</u>

* Investment in iShares Intermediate Credit Bond ETF for the Hybrid Cash Balance Plan is a combination of securities and a single rating is not assigned.

Concentration of Investments

Investments exceeded more than 5% of Plan fiduciary net position as follows: At June 30, 2021, Microsoft Corporation at 5.85% in the Judicial Plan; and Microsoft Corporation at 5.79% in the Legislators Plan. At June 30, 2020, Microsoft Corporation at 6.88%, Apple, Inc. at 6.41%, Home Depot, Inc. at 5.69%, and Progressive Corp at 5.18% in the Judicial Plan; and Microsoft Corporation at 6.89%, Apple, Inc. at 6.49%, Home Depot, Inc. at 5.73%, and Progressive Corp at 5.26% in the Legislators Plan.

**KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2021

(Continued)

Note D - Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The System manages its exposure to declines in fair value by purchasing a diverse combination of equity securities and debt securities with varying maturities.

The debt securities and related maturities within the Judicial Plan are as follows at June 30, 2021:

	Amount	Less than one year	1-5 years	6-10 years
Governmental securities	\$ 923,516	\$ 923,516	\$ -	\$ -
Corporate notes	157,528,944	9,730,044	70,822,815	76,976,085
	<u>\$ 158,452,460</u>	<u>\$ 10,653,560</u>	<u>\$ 70,822,815</u>	<u>\$ 76,976,085</u>

The debt securities and related maturities within the Judicial Plan are as follows at June 30, 2020:

	Amount	Less than one year	1-5 years	6-10 years
Governmental securities	\$ 5,700,341	\$ 3,714,422	\$ -	\$ 1,985,919
Corporate notes	97,558,188	13,746,771	58,082,732	25,728,685
	<u>\$ 103,258,529</u>	<u>\$ 17,461,193</u>	<u>\$ 58,082,732</u>	<u>\$ 27,714,604</u>

The debt securities and related maturities within the Legislators Plan are as follows at June 30, 2021:

	Amount	Less than one year	1-5 years	6-10 years
Governmental securities	\$ 203,029	\$ 203,029	\$ -	\$ -
Corporate notes	43,799,314	4,669,786	18,219,038	20,910,490
	<u>\$ 44,002,343</u>	<u>\$ 4,872,815</u>	<u>\$ 18,219,038</u>	<u>\$ 20,910,490</u>

The debt securities and related maturities within the Legislators Plan are as follows at June 30, 2020:

	Amount	Less than one year	1-5 years	6-10 years
Governmental securities	\$ 1,156,861	\$ 1,156,861	\$ -	\$ -
Corporate notes	27,558,067	4,358,542	18,711,055	4,488,470
	<u>\$ 28,714,928</u>	<u>\$ 5,515,403</u>	<u>\$ 18,711,055</u>	<u>\$ 4,488,470</u>

**KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2021

(Continued)

Note D - Investments (Continued)

Foreign Currency Risk

Foreign currency risk is defined as the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

Investments held by the Judicial Plan at June 30 include the following corporate notes subject to foreign currency risk:

	<u>Currency</u>	<u>2021</u>	<u>2020</u>
Schlumberger Limited	Euro	\$ 3,733,240	\$ 3,757,460
HSBC Holdings Note	British pound	3,593,800	3,693,585
		<u>\$ 7,327,040</u>	<u>\$ 7,451,045</u>

Investments held by the Legislators Plan at June 30 include the following corporate notes and governmental securities subject to foreign currency risk:

	<u>Currency</u>	<u>2021</u>	<u>2020</u>
Schlumberger Limited	Euro	\$ 1,066,640	\$ 1,073,560
HSBC Holdings Note	British pound	1,026,800	1,055,310
		<u>\$ 2,093,440</u>	<u>\$ 2,128,870</u>

The Plans invest in various investment securities. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect amounts reported in the Statements of Fiduciary Net Position and the Statements of Changes in Fiduciary Net Position.

Cash and Investments Held by State Treasury

The System's cash deposits are held in the Commonwealth's general depository and Investments held by State Treasury. At June 30, 2021 and 2020, the System's share of deposits in the Commonwealth's general depository (State investment pool) totaled \$1,948,273 and \$802,613, respectively. The Commonwealth's ACFR for the year ended June 30, 2021 should be referred to for required disclosures.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021
(Continued)

Note E - Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the entity has the ability to access.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2021 and 2020.

- U.S. Government Securities: Value using pricing models maximizing the use of observable inputs for similar securities.
- Investments held by the State Treasury and Cash Equivalents: Valued at cost which approximates fair value.
- Common Stocks: Valued at the closing price reported on the New York Stock Exchange.
- Corporate Notes: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks or a broker quote if available.
- Foreign Government Securities: Valued using pricing for interactive data which offers daily evaluations and related data for international fixed income securities with embedded equity options including convertible and exchangeable bonds.

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021
(Continued)

Note E - Fair Value Measurements (Continued)

The following tables set forth by level, within the hierarchy, the System's assets and liabilities measured at fair value on recurring basis as of June 30, 2021 are as follows:

Judicial Retirement Plan

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments held by State Treasury	\$ 287,381	\$ -	\$ -	\$ 287,381
Common stocks	418,314,688	-	-	418,314,688
Mutual funds	2,115,896	-	-	2,115,896
Corporate notes and governmental securities	923,516	157,528,944	-	158,452,460
	<u>\$ 421,641,481</u>	<u>\$ 157,528,944</u>	<u>\$ -</u>	<u>\$ 579,170,425</u>

Legislators Retirement Plan

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments held by State Treasury	\$ 234,075	\$ 20,125	\$ -	\$ 254,200
Common stocks	121,336,585	-	-	121,336,585
Mutual funds	547,932	-	-	547,932
Corporate notes and governmental securities	354,671	43,647,672	-	44,002,343
	<u>\$ 122,473,263</u>	<u>\$ 43,667,797</u>	<u>\$ -</u>	<u>\$ 166,141,060</u>

The following tables set forth by level, within the hierarchy, the System's assets and liabilities measured at fair value on recurring basis as of June 30, 2020 are as follows:

Judicial Retirement Plan

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments held by State Treasury and cash equivalents	\$ 23,592	\$ -	\$ -	\$ 23,592
Common stocks	334,642,494	-	-	334,642,494
Corporate notes and governmental securities	6,200,652	97,057,877	-	103,258,529
	<u>\$ 340,866,738</u>	<u>\$ 97,057,877</u>	<u>\$ -</u>	<u>\$ 437,924,615</u>

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021
(Continued)

Note E - Fair Value Measurements (Continued)

Legislators Retirement Plan

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments held by State Treasury and cash equivalents	\$ 187,921	\$ -	\$ -	\$ 187,921
Common stocks	97,692,665	-	-	97,692,665
Corporate notes and governmental securities	1,309,294	27,405,634	-	28,714,928
 Total assets at fair value	 <u>\$ 99,189,880</u>	 <u>\$ 27,405,634</u>	 <u>\$ -</u>	 <u>\$ 126,595,514</u>

System's policy is to recognize transfers between levels as of the actual date of the event or change in circumstances. There were no transfers between levels during 2021 or 2020.

Note F - Net Pension Liability

Judicial Retirement Plan

The components of the net pension liability of the Judicial Plan were as follows:

	<u>2021</u>	<u>2020</u>
Total pension liability	\$ 379,534,564	\$ 372,741,124
Pension plan fiduciary net position	<u>(448,440,179)</u>	<u>(341,306,128)</u>
 Plan's net position (asset) liability	 <u>\$ (68,905,615)</u>	 <u>\$ 31,434,996</u>
 Plan fiduciary net position as a percentage of the total pension liability	 118.2%	 91.6%

Beginning with the July 1, 2021, valuation report, the traditional and hybrid tiers of JFRS have been treated as one plan for all calculations. All results prior to July 1, 2021, contained in this report have been combined from the results reported in the separate traditional and hybrid tier reports prepared in prior years. Effective July 1, 2021, separate valuation reports will not be prepared, and all results contained will be calculated based on the full plan containing both tiers of benefits.

**KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2021

(Continued)

Note F - Net Pension Liability (Continued)

Judicial Retirement Plan (Continued)

The following are the actuarial methods and assumptions used to develop the above liabilities at June 30, 2021 and 2020:

	<u>June 30, 2021</u>	<u>June 30, 2020</u>
Valuation date	July 1, 2020	July 1, 2019
Actuarial cost method	Entry Age Normal funding method	Entry Age Normal funding method
Amortization method	Interest + 1% Unfunded Past Liability	Interest + 1% Unfunded Past Liability
Asset valuation method	Market Value	Market Value
Investment return	6.50%	6.50% for Defined and 4.00% for Hybrid
Inflation	3.00%	3.00%
Projected salary increases	1% for the next three years, and 3.5% thereafter	1% for the next five years, and 3.5% thereafter

Mortality rates were based on the PubG-2010 (A) Table with Pre and Post Commencement Rates with projected mortality improvements after year 2010 under Projected Scale MP-2020 (male and female scales); i.e., full generational mortality. Prior to June 30, 2021, mortality rates were based on the 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 females scales); i.e., full generational mortality. The actuarial assumptions used in the July 1, 2021 valuation were based on the results of an actuarial experience study based on plan experience from 2013 to 2019, adopted by the board on April 23, 2021.

The long-term expected rate of return on Judicial Retirement Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Judicial Retirement Plan's target asset allocation as of June 30, 2021 and 2020 (see the discussion of the Judicial Retirement Plan's investment policy) are summarized in the following table:

<u>Asset class</u>	<u>Long-term expected real rate of return</u>
Domestic equity	4.50%
International equity	2.50%
Fixed income	-0.55%
Cash	-2.00%

**KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2021

(Continued)

Note F - Net Pension Liability (Continued)

Judicial Retirement Plan (Continued)

The discount used to measure the total pension liability as of July 1, 2021 was 6.50%. The discount used to measure the total pension liability as of July 1, 2020, was 6.47% for the Judicial Defined Benefit Plan and 4.00% for the Judicial Hybrid Cash Balance Plan. 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 these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, 6.5% was used for discount rate/long-term rate of return assumption for GASB calculations.

The following presents the net pension liability of the Judicial Retirement Plan at June 30, 2021, calculated using the discount rate of 6.50%, as well as what the Judicial Defined Benefit Plan's pension liability would be if it was calculated using a discount rate that is 1% point lower (5.50%) or 1% point higher (7.50%) than the current rate:

	1% decrease 5.50%	Current rate 6.50%	1% increase 7.50%
Net pension asset	\$ (30,909,803)	\$ (68,905,615)	\$ (101,198,896)

Legislators Retirement Plan

The components of the net pension liability of the Legislators Defined Benefit Plan were as follows:

	<u>2021</u>	<u>2020</u>
Total pension liability	\$ 72,568,155	\$ 71,968,765
Pension plan fiduciary net position	<u>(98,291,597)</u>	<u>(76,409,564)</u>
Plan's net position asset	<u>\$ (25,723,442)</u>	<u>\$ (4,440,799)</u>
Plan fiduciary net position as a percentage of the total pension liability	135.5%	106.2%

Beginning with the July 1, 2021, valuation report, the traditional and hybrid tiers of KJRP have been treated as one plan for all calculations. All results prior to July 1, 2021, contained in this report have been combined from the results reported in the separate traditional and hybrid tier reports prepared in prior years. Effective July 1, 2021, separate valuation reports will not be prepared, and all results contained will be calculated based on the full plan containing both tiers of benefits.

**KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2021

(Continued)

Note F - Net Pension Liability (Continued)

Legislators Retirement Plan (Continued)

The following are the actuarial methods and assumptions used to develop the above liabilities at June 30, 2021 and 2020:

	<u>June 30, 2021</u>	<u>June 30, 2020</u>
Valuation date	July 1, 2020	July 1, 2019
Actuarial cost method	Entry Age Normal funding method	Entry Age Normal funding method
Amortization method	Interest + 1% Unfunded Past Liability	Interest + 1% Unfunded Past Liability
Asset valuation method	Market Value	Market Value
	6.50%	6.50% for Defined and 4.00% for
Investment return		Hybrid
Inflation	3.00%	3.00%
Projected salary increases	1% for the next three years, and 3.5% thereafter	1% for the next five years, and 3.5% thereafter

Mortality rates were based on the PubG-2010 (A) Table with Pre and Post Commencement Rates with projected mortality improvements after year 2010 under Projected Scale MP-2020 (male and female scales); i.e., full generational mortality. Prior to June 30, 2021, mortality rates were based on the 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 females scales); i.e., full generational mortality. The actuarial assumptions used in the July 1, 2021 valuation were based on the results of an actuarial experience study based on plan experience from 2013 to 2019, adopted by the board on April 23, 2021.

The long-term expected rate of return on Legislators Retirement Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Legislators Retirement Plan's target asset allocation as of June 30, 2021 and 2020 (see the discussion of the Legislators Retirement Plan's investment policy) are summarized in the following table:

<u>Asset class</u>	<u>Long-term expected real rate of return</u>
Domestic equity	4.50%
International equity	2.50%
Fixed income	-0.55%
Cash	-2.00%

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021
(Continued)

Note F - Net Pension Liability (Continued)

Legislators Retirement Plan (Continued)

The discount used to measure the total pension liability as of July 1, 2021 was 6.5%. The discount used to measure the total pension liability as of July 1, 2020, was 6.5% for the Legislator Defined Benefit Plan and 4.00% for the Legislator Hybrid Cash Plan. 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 these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, 6.5% was used for discount rate/long-term rate of return assumption for GASB calculations.

The following presents the net pension liability of the Legislators Retirement Plan at June 30, 2021, calculated using the discount rate of 6.5%, as well as what the Legislators Defined Benefit Plan's pension liability would be if it was calculated using a discount rate that is 1% point lower (5.5%) or 1% point higher (7.5%) than the current rate:

	1% decrease 5.50%	Current rate 6.50%	1% increase 7.50%
Net pension asset	\$ (18,505,613)	\$ (25,723,442)	\$ (31,819,537)

Note G - Net Other Post-Employment Benefits ("OPEB")

Judicial Retirement Plan

The components of the net OPEB liability of the Judicial Retirement Plan as of June 30, 2021 and 2020, were as follows:

	<u>2021</u>	<u>2020</u>
Total OPEB liability	\$ 39,389,897	\$ 48,982,286
Plan fiduciary net position	<u>(133,915,389)</u>	<u>(99,039,421)</u>
Plan's net OPEB asset	<u>\$ (94,525,492)</u>	<u>\$ (50,057,135)</u>
Plan fiduciary net position as a percentage of the total OPEB liability	340.0%	202.2%

Beginning with the July 1, 2021, valuation report, the traditional and hybrid tiers of KJRP have been treated as one plan for all calculations. All results prior to July 1, 2021, contained in this report have been combined from the results reported in the separate traditional and hybrid tier reports prepared in prior years. Effective July 1, 2021, separate valuation reports will not be prepared, and all results contained will be calculated based on the full plan containing both tiers of benefits.

**KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2021

(Continued)

Note G - Net Other Post-Employment Benefits ("OPEB") (Continued)

Judicial Retirement Plan (Continued)

The following are the actuarial methods and assumptions used to develop the above liabilities as of June 30, 2021 and 2020:

	June 30, 2021	June 30, 2020
Valuation date	July 1, 2020	July 1, 2019
Inflation	2.50%	2.50%
Salary increases	1% for the next five years, and 3.5% thereafter	1% for the next five years, and 3.5% thereafter
Investment rate of return	6.50%	6.50% for Defined Benefit and 4.00% for Hybrid Cash
Healthcare cost trend rates	6.25% level for 2 years, then 5.75% and following the Getzen model thereafter until reaching an ultimate rate of 4.04% in the year 2075	7.00% level for 3 years, then 6.75% and following the Getzen model thereafter until reaching an ultimate rate of 3.94% in the year 2075

Mortality rates were based on the PubG-2010 (A) Table with Pre and Post Commencement Rates with projected mortality improvements after year 2010 under Projected Scale MP-2020 (male and female scales); i.e., full generational mortality. For the OPEB Plan, the headcounted weighted average was used. Prior to June 30, 2021, mortality rates were based on the 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.

The long-term expected rate of return on Judicial OPEB Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Judicial OPEB Plan's target asset allocation as of June 30, 2021 (see the discussion of the Judicial OPEB Plan's investment policy) are summarized in the following table:

Asset class	Long-term expected real rate of return
Domestic equity	4.50%
International equity	2.50%
Fixed income	-0.55%
Cash	-2.00%

**KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2021

(Continued)

Note G - Net Other Post-Employment Benefits ("OPEB") (Continued)

Judicial Retirement Plan (Continued)

The discount used to measure the total OPEB liability as of July 1, 2021 was 6.50%. The discount used to measure the total OPEB liability as of July 1, 2020, was 6.50% for the Judicial Defined Benefit Plan and 4.00% for the Judicial Hybrid Cash Balance Plan. 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 these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, 6.5% was used for discount rate/long-term rate of return assumption for GASB calculations.

The following presents the net OPEB liability of the Judicial DB Plan as of June 30, 2021, calculated using the discount rate of 6.50%, as well as what the Judicial DB Plan's OPEB liability would be if it was calculated using a discount rate that is 1% point lower (5.50%) or 1% point higher (7.50%) than the current rate:

	1% decrease 5.50%	Current rate 6.50%	1% increase 7.50%
Net OPEB asset	\$ (89,719,406)	\$ (94,525,492)	\$ (98,540,671)

The table below presents the OPEB liability of the Judicial Retirement Plan as of June 30, 2021, as well as what the Judicial Retirement Plan's OPEB liability would be if it was calculated using a healthcare cost trend that is 1% lower or 1% higher than the current rate. The 2021 OPEB liability is calculated using the healthcare cost trend of 6.25% level for 2 years then 5.75% and following the Getzen model thereafter until reaching an ultimate rate of 4.04% in the year 2075.

	1% decrease on trend assumption	Current rate on trend assumption	1% increase on trend assumption
Net OPEB asset	\$ (98,693,698)	\$ (94,525,492)	\$ (89,544,556)

**KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2021

(Continued)

Note G - Net Other Post-Employment Benefits ("OPEB") (Continued)

Legislators Retirement Plan

The components of the net OPEB liability of the Legislators Retirement Plan as of June 30, 2021 and 2020, were as follows:

	<u>2021</u>	<u>2020</u>
Total OPEB liability	\$ 15,667,998	\$ 20,244,775
Plan fiduciary net position	<u>(70,660,745)</u>	<u>(52,249,481)</u>
Plan's net OPEB asset	<u>\$ (54,992,747)</u>	<u>\$ (32,004,706)</u>
Plan fiduciary net position as a percentage of the total OPEB liability	451.0%	258.1%

Beginning with the July 1, 2021, valuation report, the traditional and hybrid tiers of KJRP have been treated as one plan for all calculations. All results prior to July 1, 2021, contained in this report have been combined from the results reported in the separate traditional and hybrid tier reports prepared in prior years. Effective July 1, 2021, separate valuation reports will not be prepared, and all results contained will be calculated based on the full plan containing both tiers of benefits.

The following are the actuarial methods and assumptions used to develop the above liabilities as of June 30, 2021 and 2020:

	<u>June 30, 2021</u>	<u>June 30, 2020</u>
Valuation date	July 1, 2020	July 1, 2019
Inflation	2.50%	2.50%
Salary increases	1% for the next five years, and 3.5% thereafter	1% for the next five years, and 3.5% thereafter
Investment rate of return	6.50%	6.50% for Defined Benefit and 4.00% for Hybrid Cash
Healthcare cost trend rates	6.25% level for 2 years, then 5.75% and following the Getzen model thereafter until reaching an ultimate rate of 4.04% in the year 2075	7.00% level for 3 years, then 6.75% and following the Getzen model thereafter until reaching an ultimate rate of 3.94% in the year 2075

Mortality rates were based on the PubG-2010 (A) Table with Pre and Post Commencement Rates with projected mortality improvements after year 2010 under Projected Scale MP-2020 (male and female scales); i.e., full generational mortality. For the OPEB Plan, the headcounted weighted average was used. Prior to June 30, 2021, mortality rates were based on the 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 females scales); i.e., full generational mortality.

**KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2021

(Continued)

Note G - Net Other Post-Employment Benefits ("OPEB") (Continued)

Legislators Retirement Plan (Continued)

The long-term expected rate of return on Legislators Retirement Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Legislators Retirement Plan's target asset allocation as of June 30, 2021 and 2020 (see the discussion of the Legislators Retirement Plan's investment policy) are summarized in the following table:

<u>Asset class</u>	<u>Long-term expected real rate of return</u>
Domestic equity	4.50%
International equity	2.50%
Fixed income	-0.55%
Cash	-2.00%

The discount used to measure the total OPEB liability as of July 1, 2021 was 6.50%. The discount used to measure the total OPEB liability as of July 1, 2020, was 6.50% for the Legislator Defined Benefit Plan and 4.00% for the Legislator Hybrid Cash Balance Plan. 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 these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, 6.5% was used for discount rate/long-term rate of return assumption for GASB calculations.

The following presents the net OPEB liability of the Legislators Retirement Plan as of June 30, 2021, calculated using the discount rate of 6.50%, as well as what the Legislators Retirement Plan's OPEB liability would be if it was calculated using a discount rate that is 1% point lower (5.50%) or 1% point higher (7.50%) than the current rate:

	<u>1% decrease 5.50%</u>	<u>Current rate 6.50%</u>	<u>1% increase 7.50%</u>
Net OPEB asset	\$ (53,167,720)	\$ (54,992,747)	\$ (56,512,044)

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2021
(Continued)

Note G - Net Other Post-Employment Benefits ("OPEB") (Continued)

Legislators Retirement Plan (Continued)

The following presents the OPEB liability of the Legislators Retirement Plan as of June 30, 2021, as well as what the Legislators Retirement Plan's OPEB liability would be if it was calculated using a healthcare cost trend that is 1% lower or 1% higher than the current rate: The 2020 OPEB liability is calculated using the healthcare cost trend of 6.25% level for 2 years then 5.75% and following the Getzen model thereafter until reaching an ultimate rate of 4.04% in the year 2075.

	1% decrease on trend assumption	Current rate on trend assumption	1% increase on trend assumption
Net OPEB asset	\$ (56,485,021)	\$ (54,992,747)	\$ (53,223,029)

Note H - Risk Management

Claims against the Board of Trustees of the System, or any of its staff, as a result of actual or alleged breach of fiduciary duty are insured with a commercial insurance policy. Coverage provided is limited to \$20,000,000. Claims for job-related illnesses or injuries are insured by the Commonwealth's self-insured workers' compensation program. Payments approved by the program are not subject to maximum limitations.

Note I - Income Tax Status

The Judicial Plan and Legislators Plan each received from the Internal Revenue Service favorable determination letters dated February 15, 2017, which state that the Plans constitute qualified plans under Section 401(a) of the Internal Revenue Code.

The System believes that the Plans are currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. Any compensation deferred under either Plan, as well as income attributable to the deferrals, is not includable in federal and state taxable income until actually paid or otherwise made available to the participant or their named beneficiary.

Note J - Risk and Uncertainties

In March 2020, the World Health Organization declared the global novel coronavirus disease 2019 ("COVID-19") outbreak a pandemic. Further, the United States Centers for Disease Control and Prevention confirmed the spread of the disease throughout the United States. As of the date the financial statements were available to be issued, the System's operations have not been significantly impacted by the COVID-19 outbreak. The System's operations could be adversely affected as a result of COVID-19, but the impact is not known at this point as the scale and severity of the outbreak, and resulting economic impact, is still largely unknown.

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REQUIRED SUPPLEMENTARY INFORMATION

**KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
Years Ended June 30**

Kentucky Judicial Retirement Plan

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability								
Service cost	\$ 3,600,000	\$ 3,500,000	\$ 4,100,000	\$ 4,100,000	\$ 4,900,000	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000
Interest	23,700,000	23,400,000	22,900,000	22,700,000	23,800,000	23,400,000	22,200,000	21,900,000
Changes in benefit terms	-	-	-	-	-	-	100,000	-
Differences between expected and actual experience	(5,300,000)	-	(100,000)	-	(8,800,000)	-	4,400,000	-
Changes in assumptions	9,100,000	-	(7,700,000)	-	(2,100,000)	-	(4,400,000)	29,100,000
Benefit payments/refunds of member contributions	(24,400,000)	(24,400,000)	(24,200,000)	(23,200,000)	(23,000,000)	(22,900,000)	(22,300,000)	(21,800,000)
Net change in total pension liability	6,700,000	2,500,000	(5,000,000)	3,600,000	(5,200,000)	5,500,000	5,000,000	34,200,000
Total pension liability - beginning	372,700,000	370,300,000	375,200,000	371,500,000	376,800,000	371,300,000	366,300,000	332,100,000
Total pension liability - ending	<u>\$ 379,400,000</u>	<u>\$ 372,800,000</u>	<u>\$ 370,200,000</u>	<u>\$ 375,100,000</u>	<u>\$ 371,600,000</u>	<u>\$ 376,800,000</u>	<u>\$ 371,300,000</u>	<u>\$ 366,300,000</u>
Pension plan fiduciary net position								
Contributions - employer	\$ 6,800,000	\$ 8,700,000	\$ 8,700,000	\$ 12,000,000	\$ 12,000,000	\$ 15,200,000	\$ 15,100,000	\$ 10,800,000
Contributions - member	1,900,000	1,700,000	1,500,000	2,000,000	1,600,000	1,800,000	1,900,000	2,800,000
Transfer in payments	-	-	-	600,000	-	100,000	200,000	1,600,000
Net investment income	122,800,000	19,500,000	38,600,000	27,100,000	34,600,000	8,700,000	25,600,000	33,200,000
Benefit payments/refunds of member contributions	(24,400,000)	(24,400,000)	(24,200,000)	(23,200,000)	(23,000,000)	(22,900,000)	(22,200,000)	(21,800,000)
Administrative expenses	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Net change in plan fiduciary net position	107,100,000	5,500,000	24,600,000	18,500,000	25,200,000	2,900,000	20,600,000	26,600,000
Pension plan fiduciary net position - beginning	341,300,000	335,700,000	311,100,000	292,700,000	267,500,000	264,600,000	243,900,000	217,300,000
Pension plan fiduciary net position - ending	<u>\$ 448,400,000</u>	<u>\$ 341,200,000</u>	<u>\$ 335,700,000</u>	<u>\$ 311,200,000</u>	<u>\$ 292,700,000</u>	<u>\$ 267,500,000</u>	<u>\$ 264,500,000</u>	<u>\$ 243,900,000</u>
Net pension (asset) liability - ending	<u>\$ (69,000,000)</u>	<u>\$ 31,600,000</u>	<u>\$ 34,500,000</u>	<u>\$ 63,900,000</u>	<u>\$ 78,900,000</u>	<u>\$ 109,300,000</u>	<u>\$ 106,800,000</u>	<u>\$ 122,400,000</u>
Pension plan fiduciary net position as a % of the total pension liability	118.2%	91.6%	90.7%	82.9%	78.8%	71.0%	71.3%	66.6%
Covered payroll	\$ 29,500,000	\$ 30,900,000	\$ 30,600,000	\$ 30,600,000	\$ 30,300,000	\$ 31,900,000	\$ 31,900,000	\$ 32,900,000
Net pension liability as a % of covered payroll	-233.6%	101.6%	113.1%	209.5%	260.1%	342.6%	334.5%	371.7%

Note: This schedule is intended to present 10 years of contributions and related ratios. Currently, only those years with information available are presented. The amounts presented above were determined as of the fiscal year ended above. Amounts rounded to nearest \$100,000.

**KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
Years Ended June 30
(Continued)**

Kentucky Legislators Retirement Plan

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability								
Service cost	\$ 500,000	\$ 600,000	\$ 700,000	\$ 700,000	\$ 700,000	\$ 900,000	\$ 1,000,000	\$ 1,000,000
Interest	4,600,000	4,500,000	4,600,000	4,600,000	5,300,000	5,200,000	5,100,000	4,900,000
Changes in benefit terms	-	-	-	-	-	-	-	-
Differences between expected and actual experience	(2,000,000)	-	(2,800,000)	-	(6,400,000)	-	(3,400,000)	-
Changes in assumptions	2,600,000	-	(300,000)	-	(200,000)	-	(1,500,000)	3,700,000
Benefit payments/refunds of member contributions	(5,100,000)	(5,000,000)	(4,700,000)	(4,500,000)	(4,200,000)	(4,000,000)	(3,700,000)	(3,500,000)
Net change in total pension liability	600,000	100,000	(2,500,000)	800,000	(4,800,000)	2,100,000	(2,500,000)	6,100,000
Total pension liability - beginning	<u>72,000,000</u>	<u>71,900,000</u>	<u>74,400,000</u>	<u>73,600,000</u>	<u>78,400,000</u>	<u>76,200,000</u>	<u>78,700,000</u>	<u>72,600,000</u>
Total pension liability - ending	<u>\$ 72,600,000</u>	<u>\$ 72,000,000</u>	<u>\$ 71,900,000</u>	<u>\$ 74,400,000</u>	<u>\$ 73,600,000</u>	<u>\$ 78,300,000</u>	<u>\$ 76,200,000</u>	<u>\$ 78,700,000</u>
Pension plan fiduciary net position								
Contributions - employer	\$ -	\$ -	\$ -	\$ 2,400,000	\$ 2,400,000	\$ 3,400,000	\$ 3,400,000	\$ 1,800,000
Contributions - member	300,000	200,000	200,000	200,000	300,000	300,000	200,000	200,000
Transfer in payments	-	-	-	-	100,000	-	-	-
Net investment income	26,700,000	4,300,000	8,600,000	6,200,000	7,900,000	2,000,000	5,600,000	7,900,000
Benefit payments/refunds of member contributions	(5,100,000)	(5,000,000)	(4,700,000)	(4,500,000)	(4,200,000)	(4,000,000)	(3,700,000)	(3,500,000)
Administrative expenses	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Net change in plan fiduciary net position	21,900,000	(500,000)	4,100,000	4,300,000	6,500,000	1,700,000	5,500,000	6,400,000
Pension plan fiduciary net position - beginning	<u>76,400,000</u>	<u>76,900,000</u>	<u>72,800,000</u>	<u>68,400,000</u>	<u>61,900,000</u>	<u>60,100,000</u>	<u>54,600,000</u>	<u>48,200,000</u>
Pension plan fiduciary net position - ending	<u>\$ 98,300,000</u>	<u>\$ 76,400,000</u>	<u>\$ 76,900,000</u>	<u>\$ 72,700,000</u>	<u>\$ 68,400,000</u>	<u>\$ 61,800,000</u>	<u>\$ 60,100,000</u>	<u>\$ 54,600,000</u>
Net pension (asset) liability - ending	<u>\$ (25,700,000)</u>	<u>\$ (4,400,000)</u>	<u>\$ (5,000,000)</u>	<u>\$ 1,700,000</u>	<u>\$ 5,200,000</u>	<u>\$ 16,500,000</u>	<u>\$ 16,100,000</u>	<u>\$ 24,100,000</u>
Pension plan fiduciary net position as a % of the total pension liability	135.4%	106.1%	107.0%	97.8%	92.9%	79.0%	78.9%	69.4%
Covered payroll	\$ 4,200,000	\$ 4,300,000	\$ 4,300,000	\$ 4,400,000	\$ 4,400,000	\$ 4,900,000	\$ 4,900,000	\$ 5,000,000
Net pension (asset) liability as a % of covered payroll	-611.9%	-102.3%	-116.3%	36.4%	118.2%	336.7%	328.6%	483.2%

Note: This schedule is intended to present 10 years of contributions and related ratios. Currently, only those years with information available are presented. The amounts presented above were determined as of the fiscal year ended above. Amounts rounded to nearest \$100.

**KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
Years Ended June 30**

<u>Kentucky Judicial OPEB Plan</u>					
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB liability					
Service cost	\$ 700,000	\$ 700,000	\$ 900,000	\$ 900,000	\$ 1,200,000
Interest	3,200,000	3,000,000	3,600,000	3,300,000	4,600,000
Changes in benefit terms	-	-	-	-	-
Differences between expected and actual experience	(9,300,000)	-	(9,700,000)	-	(22,100,000)
Changes in assumptions	(2,300,000)	-	100,000	-	5,600,000
Benefit payments/refunds of member contributions	(1,800,000)	(2,000,000)	(2,000,000)	(2,000,000)	(1,900,000)
Net change in total pension liability	(9,500,000)	1,700,000	(7,100,000)	2,200,000	(12,600,000)
Total pension liability - beginning	49,000,000	47,300,000	54,400,000	52,100,000	64,700,000
Total pension liability - ending	<u>39,500,000</u>	<u>49,000,000</u>	<u>47,300,000</u>	<u>54,300,000</u>	<u>52,100,000</u>
Plan fiduciary net position					
Contributions - employer	\$ -	\$ -	\$ -	\$ 1,200,000	\$ 1,200,000
Contributions - member	100,000	-	-	200,000	100,000
Transfer in payments	-	-	-	100,000	-
Net investment income	36,700,000	5,600,000	11,000,000	7,600,000	9,400,000
Benefit payments/refunds of member contributions	(1,800,000)	(2,000,000)	(2,000,000)	(2,000,000)	(1,900,000)
Administrative expenses	-	-	-	-	-
Other	-	-	-	-	-
Net change in plan fiduciary net position	35,000,000	3,600,000	9,000,000	7,100,000	8,800,000
Pension plan fiduciary net position - beginning	99,000,000	95,400,000	86,300,000	79,200,000	70,300,000
Pension plan fiduciary net position - ending	<u>\$ 134,000,000</u>	<u>\$ 99,000,000</u>	<u>\$ 95,300,000</u>	<u>\$ 86,300,000</u>	<u>\$ 79,100,000</u>
Net pension (asset) liability - ending	<u>\$ (94,500,000)</u>	<u>\$ (50,000,000)</u>	<u>\$ (48,000,000)</u>	<u>\$ (32,000,000)</u>	<u>\$ (27,000,000)</u>
Pension plan fiduciary net position as a % of the total pension liability	339.8%	202.0%	201.7%	158.6%	152.0%
Covered payroll	\$ 29,500,000	\$ 30,900,000	\$ 30,600,000	\$ 30,600,000	\$ 30,300,000
Net pension (asset) liability as a % of covered payroll	-320.3%	-161.8%	-156.9%	-104.6%	-89.1%

Note: This schedule is intended to present 10 years of contributions and related ratios. Currently, only those years with information available are presented. The amounts presented above were determined as of the fiscal year ended above. Amounts rounded to nearest \$100,000

KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
Years Ended June 30
(Continued)

	<u>Kentucky Legislators OPEB Plan</u>				
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB liability					
Service cost	\$ 200,000	\$ 100,000	\$ 300,000	\$ 300,000	\$ 400,000
Interest	1,300,000	1,200,000	1,500,000	1,400,000	2,000,000
Changes in benefit terms	-	-	-	-	-
Differences between expected and actual experience	(4,800,000)	-	(4,400,000)	-	(10,600,000)
Changes in assumptions	(400,000)	-	-	-	2,300,000
Benefit payments/refunds of member contributions	<u>(800,000)</u>	<u>(800,000)</u>	<u>(800,000)</u>	<u>(800,000)</u>	<u>(700,000)</u>
Net change in total pension liability	(4,500,000)	500,000	(3,400,000)	900,000	(6,600,000)
Total pension liability - beginning	<u>20,200,000</u>	<u>19,700,000</u>	<u>23,100,000</u>	<u>22,000,000</u>	<u>28,600,000</u>
Total pension liability - ending	<u>\$ 15,700,000</u>	<u>\$ 20,200,000</u>	<u>\$ 19,700,000</u>	<u>\$ 22,900,000</u>	<u>\$ 22,000,000</u>
Plan fiduciary net position					
Contributions - employer	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions - member	-	-	-	-	-
Transfer in payments	-	-	-	-	-
Net investment income	19,200,000	2,900,000	5,700,000	3,900,000	4,900,000
Benefit payments/refunds of member contributions	(800,000)	(800,000)	(800,000)	(800,000)	(700,000)
Administrative expenses	-	-	-	-	-
Other	-	-	-	-	-
Net change in plan fiduciary net position	18,400,000	2,100,000	4,900,000	3,100,000	4,200,000
Pension plan fiduciary net position - beginning	<u>52,100,000</u>	<u>50,000,000</u>	<u>45,100,000</u>	<u>42,000,000</u>	<u>37,800,000</u>
Pension plan fiduciary net position - ending	<u>\$ 70,500,000</u>	<u>\$ 52,100,000</u>	<u>\$ 50,000,000</u>	<u>\$ 45,100,000</u>	<u>\$ 42,000,000</u>
Net pension (asset) liability - ending	<u>\$ (54,800,000)</u>	<u>\$ (31,900,000)</u>	<u>\$ (30,300,000)</u>	<u>\$ (22,200,000)</u>	<u>\$ (20,000,000)</u>
Pension plan fiduciary net position as a % of the total pension liability	450.3%	258.9%	254.3%	195.2%	190.9%
Covered payroll	\$ 4,200,000	\$ 4,300,000	\$ 4,300,000	\$ 4,400,000	\$ 4,400,000
Net pension liability as a % of covered payroll	-1304.8%	-741.9%	-704.7%	-504.5%	-454.5%

Note: This schedule is intended to present 10 years of contributions and related ratios. Currently, only those years with information available are presented. The amounts presented above were determined as of the fiscal year ended above. Amounts rounded to nearest \$100,000.

**KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
Years Ended June 30**

Kentucky Judicial Retirement Plan

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Actuarially determined contribution	\$ 6,700,000	\$ 9,800,000	\$ 9,200,000	\$ 11,900,000	\$ 11,884,797	\$ 15,171,300	\$ 15,142,300	\$ 15,219,761	\$ 15,219,761	\$ 10,302,430	\$ 10,302,430
Contributions in relation to the actuarially determined contribution	6,800,000	8,600,000	8,600,000	11,900,000	11,884,797	15,171,300	15,142,300	10,804,715	10,398,987	4,945,968	4,533,804
Contribution deficiency	(100,000)	1,200,000	600,000	-	-	-	-	4,415,046	4,820,774	5,356,462	5,768,626
Covered Payroll	29,500,000	30,900,000	30,600,000	30,600,000	30,300,000	31,900,000	31,900,000	32,930,076	32,930,076	33,175,215	33,175,215
Contributions as a percentage of covered payroll	23.1%	28.2%	28.4%	39.2%	39.6%	47.6%	47.3%	32.8%	31.6%	14.9%	13.7%
Investment return:	6.5%	6.50%	6.50%	6.24%	6.24%	6.41%	6.41%	6.15%	7.00%	7.00%	7.00%
Valuation Date:	July 1, 2020	July 1, 2019	July 1, 2019	July 1, 2017	July 1, 2015	July 1, 2013	July 1, 2013	July 1, 2011	July 1, 2011	July 1, 2009	July 1, 2009

Methods and assumptions used to determine contributions

Actuarial cost method	Entry Age Normal funding method. Prior to July 1, 2013, the actuarial accrued liability was calculated using the projected unit credit cost method.
Amortization method	Interest + 1% Unfunded Past Liability
Asset valuation method	Market value
Inflation	3.00%
Projected salary increases	1% for the next three years, and 3.5% thereafter. Prior to July 1, 2021, the future salary increase assumption was 1% for the next five years and 3.5% thereafter. Prior to July 1, 2013, the future salary increase assumption was 1% for the next year, 1% the following year and 3.5% thereafter.
Mortality	PubG-2010 (A) Table with Pre and Post Commencement Rates with projected mortality improvements after year 2010 under Projection Scale MP-2020 (male and female scales). Prior to July 1, 2021, 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, mortality rates were based on IRS 2008 Mortality Tables without collar adjustments with Pre and Post Commencement Rates with projected mortality improvements after year 200 under Projection Scale AA (male and female scales).

Note: Effective for the year ended June 30, 2008, medical insurance employer contributions have been segregated from defined benefit contributions.

**KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
Years Ended June 30
(Continued)**

Kentucky Legislators Retirement Plan

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Actuarially determined contribution	\$ 400,000	\$ 1,200,000	\$ 1,100,000	\$ 2,400,000	\$ 2,384,500	\$ 3,414,500	\$ 3,408,800	\$ 3,214,854	\$ 3,214,854	\$ 2,140,019	\$ 2,140,019
Contributions in relation to the actuarially determined contribution	-	-	-	2,400,000	2,384,500	3,414,500	3,408,800	1,824,956	1,696,000	1,027,200	941,600
Contribution deficiency	400,000	1,200,000	1,100,000	-	-	-	-	1,389,898	1,518,854	1,112,819	1,198,419
Covered Payroll	4,200,000	4,300,000	4,300,000	4,400,000	4,400,000	4,919,000	4,919,000	4,987,823	4,987,823	5,192,619	5,192,619
Contributions as a percentage of covered payroll	0.0%	0.0%	0.0%	54.5%	54.2%	69.4%	69.3%	36.6%	34.0%	19.8%	18.1%
Investment return:	6.50%	6.50%	6.50%	6.45%	6.45%	6.85%	6.85%	6.50%	7.00%	7.00%	7.00%
Valuation Date:	July 1, 2020	July 1, 2019	July 1, 2019	July 1, 2017	July 1, 2015	July 1, 2013	July 1, 2013	July 1, 2011	July 1, 2011	July 1, 2009	July 1, 2009

Methods and assumptions used to determine contributions

Actuarial cost method	Entry Age Normal funding method. Prior to July 1, 2013, the actuarial accrued liability was calculated using the projected unit credit cost method
Amortization method	Interest + 1% Unfunded Past Liability
Asset valuation method	Market value
Inflation	3.00%
Projected salary increases	1% for the next three years, and 3.5% thereafter. Prior to July 1, 2021, the future salary increase assumption was 1% for the next five years and 3.5% thereafter. Prior to July 1, 2013, the future salary increase assumption was 1% for the next year, 1% the following year and 3.5% thereafter.
Mortality	PubG-2010 (A) Table with Pre and Post Commencement Rates with projected mortality improvements after year 2010 under Projection Scale MP-2020 (male and female scales). Prior to July 1, 2021, 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, mortality rates were based on IRS 2008 Mortality Tables without collar adjustments with Pre and Post Commencement Rates with projected mortality improvements after year 200 under Projection Scale AA (male and female scales).

Note: Effective for the year ended June 30, 2008, medical insurance employer contributions have been segregated from defined benefit contributions.

**KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF OPEB CONTRIBUTIONS
Years Ended June 30**

Kentucky Judicial OPEB Plan

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ 1,200,000	\$ 1,217,903	\$ 1,274,480	\$ 1,274,480	\$ 893,242	\$ 893,242	\$ 695,787	\$ 695,787
Contributions in relation to the actuarially determined contribution	-	-	-	1,200,000	1,217,903	1,274,480	1,274,480	634,125	610,313	334,032	306,196
Contribution deficiency	-	-	-	-	-	-	-	259,117	282,929	361,755	389,591
Covered payroll	29,500,000	30,900,000	30,600,000	30,600,000	30,300,000	31,945,000	31,945,000	32,930,000	32,930,000	33,775,000	33,175,000
Contributions as a percentage of covered payroll	0.0%	0.0%	0.0%	3.9%	4.4%	4.0%	4.0%	1.9%	1.9%	1.0%	0.9%
Investment return	6.50%	6.50%	6.50%	6.24%	6.24%	6.41%	6.41%	6.15%	7.00%	7.00%	7.00%
Valuation date	July 1, 2020	July 1, 2019	July 1, 2019	July 1, 2017	July 1, 2015	July 1, 2013	July 1, 2013	July 1, 2011	July 1, 2011	July 1, 2009	July 1, 2009

Methods and assumptions used to determine contributions

Actuarial cost method	Entry Age Normal funding method. Prior to July 1 2013, the actuarial accrued liability was calculated using the projected unit credit cost method.
Amortization method	Interest + 1% Unfunded Past Liability
Asset valuation method	Market value
Investment return	For July 1, 2021, an investment return of 6.5% was used for the Defined Benefit and Hybrid Tier. For July 1, 2020 and 2019 an investment return of 6.5% was used. For July 1, 2018 and 2017, an investment return of 6.24% was used. For July 1, 2016 and 2015, an investment return of 6.41% was used. For July 1, 2014, an investment return of 6.15% was used. Prior to July 1, 2013, an investment return of 7.0% was used. For July 1, 2020 through 2015 an investment return of 4.0% was used for the Hybrid Tier.
Inflation	3.00%
Projected salary increases	1% for the next three years, and 3.5% thereafter. Prior to July 1, 2021, the future salary increase assumption was 1% for the next five years, and 3.5% thereafter. Prior to July 1, 2013, the future salary increase assumption was 1% for the next year, 1% the following year and 3.5% thereafter.
Healthcare cost trend rates	6.25% level for 2 years, then 5.75% and following the Getzen model thereafter until reaching an ultimate rate of 4.04% in the year 2075
Mortality	PubG-2010 (A) Table with Pre and Post Commencement Rates with projected mortality improvements after year 2010 under Projection Scale MP-2020 (male and female scales); i.e., full generational mortality. For the OPEB Plan, the headcounted weighted version of this table was used. Prior to July 1, 2021, mortality rates were based on 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, mortality rates were based on IRS 2008 Mortality Tables without collar adjustments with Pre and Post Commencement Rates with projected mortality improvements after year 200 under Projection Scale AA (male and female scales).

Note: Effective for the year ended June 30, 2008, medical insurance employer contributions have been segregated from defined benefit contributions.

**KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF OPEB CONTRIBUTIONS
Years Ended June 30
(Continued)**

Kentucky Legislators OPEB Plan

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Actuarially determined contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the actuarially determined contribution		-	-	-	-	-	-	-	-	-	-
Contribution deficiency		-	-	-	-	-	-	-	-	-	-
Covered payroll	4,200,000	4,300,000	4,300,000	4,400,000	4,400,000	5,300,000	5,300,000	4,987,823	4,987,823	5,192,619	5,192,619
Contributions as a percentage of covered payroll	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Investment return	6.50%	6.50%	6.50%	6.45%	6.45%	6.85%	6.85%	6.45%	7.00%	7.00%	7.00%
Valuation date	July 1, 2020	July 1, 2019	July 1, 2019	July 1, 2017	July 1, 2015	July 1, 2013	July 1, 2013	July 1, 2011	July 1, 2011	July 1, 2009	July 1, 2009

Methods and assumptions used to determine contributions

Actuarial cost method	Entry Age Normal funding method
Amortization method	Interest + 1% Unfunded Past Liability
Asset valuation method	Market value
Investment return	For July 1, 2021, an investment return of 6.5% was used for the Defined Benefit and Hybrid Tier. For July 1, 2020 and 2019 an investment return of 6.5% was used. For July 1, 2018 and 2017, an investment return of 6.24% was used. For July 1, 2016 and 2015, an investment return of 6.41% was used. For July 1, 2014, an investment return of 6.15% was used.
Inflation	3.00%
Projected salary increases	1% for the next three years, and 3.5% thereafter. Prior to July 1, 2021, the future salary increase assumption was 1% for the next five years, and 3.5% thereafter.
Healthcare cost trend rates	6.25% level for 2 years, then 5.75% and following the Getzen model thereafter until reaching an ultimate rate of 4.04% in the year 2075
Mortality	PubG-2010 (A) Table with Pre and Post Commencement Rates with projected mortality improvements after year 2010 under Projection Scale MP-2020 (male and female scales); i.e., full generational mortality. For the OPEB Plan, the headcounted weighted version of this table was used. Prior to July 1, 2021, mortality rates were based on 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, mortality rates were based on IRS 2008 Mortality Tables without collar adjustments with Pre and Post Commencement Rates with projected mortality improvements after year 200 under Projection Scale AA (male and female scales).

Note: Effective for the year ended June 30, 2008, medical insurance employer contributions have been segregated from defined benefit contributions.

**KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF INVESTMENT RETURNS
Years Ended June 30**

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Kentucky Judicial Defined Benefit Pension Plan and Kentucky Judicial Hybrid Cash Balance Pension								
Annual money-weighted rate of return, net of investment expense	37.2%	6.0%	12.9%	9.4%	12.8%	3.2%	10.2%	15.0%
Kentucky Legislative Defined Benefit Pension Plan and Kentucky Legislative Hybrid Cash Balance								
Annual money-weighted rate of return, net of investment expense	37.3%	6.0%	12.6%	9.4%	12.7%	3.6%	10.1%	16.7%
Kentucky Judicial Defined Benefit OPEB Plan and Kentucky Judicial Hybrid Cash Balance OPEB								
Annual money-weighted rate of return, net of investment expense	37.2%	6.0%	12.9%	9.4%	12.8%	3.2%	10.2%	15.0%
Kentucky Legislative Defined Benefit OPEB Plan and Kentucky Legislative Hybrid Cash Balance								
Annual money-weighted rate of return, net of investment expense	37.3%	6.0%	12.6%	9.4%	12.7%	3.6%	10.1%	16.7%

Note: This schedule is intended to present 10 years of contribution information. Currently, only those years with information available are presented.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*

Independent Auditor's Report

Board of Trustees
Kentucky Judicial Form Retirement System

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Kentucky Judicial Form Retirement System (JFRS), a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise JFRS's basic financial statements, and have issued our report thereon dated November 12, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the JFRS's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the JFRS's internal control. Accordingly, we do not express an opinion on the effectiveness of the JFRS's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With *Government Auditing Standards*
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the JFRS's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,

A handwritten signature in cursive script that reads "Farrah Petter". The signature is written in dark ink and is positioned above the printed name.

Farrah Petter, CPA
Assistant Auditor of Public Accounts

November 12, 2021