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GASB STATEMENT NO. 67 REPORT
FOR THE
TEACHERS' RETIREMENT SYSTEM
OF THE STATE OF KENTUCKY

PREPARED AS OF JUNE 30, 2021





Cavanaugh Macdonald

CONSULTING, LLC

The experience and dedication you deserve

November 9, 2021

Board of Trustees
Teachers' Retirement System of the
State of Kentucky
479 Versailles Road
Frankfort, KY 40601-3800

Members of the Board:

Presented in this report is information to assist the Teachers' Retirement System of the State of Kentucky (TRS), in meeting the requirements of the Governmental Accounting Standards Board (GASB) Statement No. 67. This report has been prepared as of June 30, 2021 (the Measurement Date) to assist TRS in better understanding the requirements of GASB 67 and to identify the information to be provided by TRS's actuary, Cavanaugh Macdonald Consulting (CMC).

The annual actuarial valuation used as a basis for much of the information presented in this report was performed as of June 30, 2020. The valuation was based upon data, furnished by the Executive Secretary and TRS staff, concerning active, inactive, and retired members along with pertinent financial information.

To the best of our knowledge, this report is complete and accurate. The necessary calculations were performed by, and under the supervision of, independent actuaries who are members of the American Academy of Actuaries with experience in performing valuations for public retirement systems.

The calculations were prepared in accordance with the principles of practice prescribed by the Actuarial Standards Board, and, in our opinion, meet the requirements of GASB 67.

The actuarial calculations were performed by qualified actuaries according to generally accepted actuarial procedures and methods. The calculations are based on the current provisions of the System, and on actuarial assumptions that are, individually and in the aggregate, internally consistent and reasonably based on the actual experience of the System. In addition, the calculations were completed in compliance with the laws governing the System. The undersigned are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.



Board of Trustees
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We note that as we are preparing this report, the world is in the midst of a pandemic. We have considered available information, but do not believe that there is yet sufficient data to warrant the modification of any of our assumptions at this time due to the pandemic.

In order to prepare the results in this report we have utilized appropriate actuarial models that were developed for this purpose. These models use assumptions about future contingent events along with recognized actuarial approaches to develop the needed results.

These results are only for financial reporting and may not be appropriate for funding purposes or other types of analysis. Calculations for purposes other than satisfying the requirements of GASB 67 may produce significantly different results. Future actuarial results may differ significantly from the current results presented in this report due to such factors as changes in plan experience or changes in economic or demographic assumptions.

Respectfully submitted,

A handwritten signature in blue ink that reads 'Edward J. Koebel'.

Edward J. Koebel, EA, FCA, MAAA
Chief Executive Officer

A handwritten signature in blue ink that reads 'Alisa Bennett'.

Alisa Bennett, FSA, EA, FCA, MAAA
President

A handwritten signature in blue ink that reads 'Cathy Turcot'.

Cathy Turcot
Principal and Managing Director



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Section I – Introduction

The Governmental Accounting Standards Board issued Statement No. 67 (GASB 67), “*Financial Reporting For Pension Plans*”, in June 2012. This report, prepared as of June 30, 2021 (the Measurement Date), presents information to assist the Teachers’ Retirement System of the State of Kentucky (TRS), in meeting the requirements of GASB 67. Much of the material provided in this report is based on the data, assumptions, and results of the annual actuarial valuation of TRS as of June 30, 2020. The results of that valuation were detailed in a report dated November 13, 2020.

GASB 67 requires a measurement of the Total Pension Liability (TPL) utilizing the Entry Age Normal actuarial funding method. If the valuation date at which the TPL is determined is before the measurement date, as is the case here, the TPL must be rolled forward to the measurement date. The Net Pension Liability (NPL) is then set equal to the rolled forward TPL minus the System’s Fiduciary Net Position (FNP) (basically the market values of assets) as of the Measurement Date. The benefit provisions recognized in the calculation of the TPL are summarized in Schedule B. The development of the roll-forward of the TPL is shown in the table on page 5.

Among the assumptions needed for the liability calculation is a Single Equivalent Interest Rate (SEIR) as described by GASB 67. To determine the SEIR, the FNP must be projected into the future for as long as there are anticipated benefits payable under the plan’s provisions applicable to the membership and beneficiaries of the System on the Measurement Date. TRS received 100% of the Actuarially Determined Contribution (ADC) for the 2021 fiscal year and is expected to receive 100% of the ADC in the 2022 fiscal year, therefore, future contributions were projected to be made in accordance with the Funding Policy adopted by the Board. The Funding Policy is shown in Schedule E of this report.

On this basis, if the FNP is not projected to be depleted at any point in the future, the long term expected rate of return on plan investments expected to be used to finance the benefit payments may be used as the SEIR. If, however, the FNP is projected to be depleted, the SEIR is determined as the single rate that will generate a present value of benefit payments equal to the sum of the present value determined by discounting all projected benefit payments through the date of depletion by the long term expected rate of return, and the present value determined by discounting those benefits after the date of depletion by a 20-year tax-exempt municipal bond (rating AA/Aa or higher) rate.

Our calculations indicate that the FNP is not projected to be depleted, therefore, the long term expected rate of return on plan investments, of 7.10 percent, expected to be used to finance benefits may be used as the SEIR. The sections that follow provide the results of all the necessary calculations, presented in the order laid out in GASB 67 for note disclosure and Required Supplementary Information.



Section II – Financial Statement Notes

The material presented herein will follow the order presented in GASB 67. Paragraph numbers are provided for ease of reference.

Paragraphs 30(a) (1)-(3): The information required is to be supplied by the System.

Paragraph 30(a) (4): The data required regarding the membership of the TRS were furnished by the System office. The following table summarizes the membership of the System as of June 30, 2020, the actuarial valuation date.

Membership

	Number
Retirees and Survivors Currently Receiving Benefits	56,629
Terminated Vested Employees Entitled to But Not Yet Receiving Benefits	9,139
Inactive Non-vested Members	47,609
Active Members	73,151
Total	186,528

Paragraphs 30(a)(5)-(6) and Paragraphs 30(b)-(f): The information required is to be supplied by the System.

Paragraphs 31(a) (1)-(4): The information is provided in the following table. As stated on the previous page, the Net Pension Liability (NPL) is equal to the Total Pension Liability (TPL) minus the Fiduciary Net Position (FNP). That result as of June 30, 2021, is presented in the table below (\$ thousands).

	Fiscal Year Ending June 30, 2021
Total Pension Liability (TPL)	\$39,541,567
Fiduciary Net Position (FNP)	<u>25,935,779</u>
Net Pension Liability (NPL)	\$13,605,788
Ratio of FNP to TPL	65.59%



Section II – Financial Statement Notes

Paragraph 31(b) (1)(a)-(f): This paragraph requires information regarding the actuarial assumptions used to measure the TPL. The actuarial assumptions utilized in developing the TPL comply with the Actuarial Standards Board and are outlined in Schedule C. The TPL as of June 30, 2021, was determined by an actuarial valuation prepared as of June 30, 2020, using the new actuarial assumptions adopted by the Board subsequent to the June 30, 2020 valuation based on the experience investigation for the five-year period ending June 30, 2020. The following actuarial assumptions are applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increases	3.00 – 7.50 percent, including inflation
Investment rate of return	7.10 percent, net of pension plan investment expense, including inflation
Post-Retirement Adjustment	1.50 percent
Municipal Bond Index Rate	2.13 percent
Single Equivalent Interest Rate	7.10 percent

Mortality rates were based on the Pub2010 (Teachers Benefit-Weighted) Mortality Table projected generationally with MP-2020 with various set-forwards, set-backs, and adjustments for each of the groups; service, retirees, contingent annuitants, disabled retirees, and active members. The actuarial assumptions used were based on the results of an actuarial experience study for the 5-year period ending June 30, 2020, adopted by the board on September 20, 2021. The assumed long-term investment rate of return was changed from 7.50 percent to 7.10 percent and the price inflation assumption was lowered from 3.0 percent to 2.5 percent. The Municipal Bond Index Rate used for this purpose is the June average of the Bond Buyer General Obligation 20-year Municipal Bond Index.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense 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.



Section II – Financial Statement Notes

The most recent target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by TRS's investment consultant, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rates of Return
Large Cap U.S. Equity	37.4%	4.2%
Small Cap U.S. Equity	2.6%	4.7%
Developed International Equity	16.5%	5.3%
Emerging Markets Equity	5.5%	5.4%
Fixed Income	15.0%	(0.1)%
High Yield Bonds	2.0%	1.7%
Other Additional Categories	5.0%	2.2%
Real Estate	7.0%	4.0%
Private Equity	7.0%	6.9%
Cash	2.0%	(0.3)%
Total	100.0%	

Discount rate. The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and that Employer contributions will be made at the Actuarially Determined Contribution rates for all fiscal years in the future. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Paragraph 31(b) (1) (g): This paragraph requires disclosure of the sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the System, calculated using the discount rate of 7.10 percent, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.10 percent) or 1-percentage-point higher (8.10 percent) than the current rate (\$ thousands):

	1% Decrease (6.10%)	Current Discount Rate (7.10%)	1% Increase (8.10%)
System's net pension liability	\$18,389,990	\$13,605,788	\$9,631,759



Section II – Financial Statement Notes

Paragraph 31(c): June 30, 2020 is the actuarial valuation date upon which the TPL is based. An expected TPL is determined as of June 30, 2021, using standard roll forward techniques for the actual TPL both before and after the assumption changes due to the experience study and the reduction in the assumed investment rate of return. The difference between these two amounts is shown as a change in assumptions. The roll-forward calculation adds the annual normal cost (also called the service cost), subtracts the actual benefit payments, and refunds for the plan year and then applies the expected investment rate of return for the year. In addition, we have determined an expected TPL as of June 30, 2021, based on the TPL roll-forward in the June 30, 2020 GASB 67 report. The difference between this amount and the roll-forward of the actual TPL before the assumption changes is reflected as an experience gain or loss for the year. These procedures are shown in the following table:

TPL Roll-forward (\$ in thousands)	Expected (1)	Actual Before Assumption Changes (2)	Actual After Assumption Changes (3)
(a) Interest rate	7.50%	7.50%	7.10%
(b) TPL as of June 30, 2020	\$35,552,041	\$35,582,250	\$38,534,421
(c) Entry Age Normal Cost for the Year July 1, 2020 – June 30, 2021	563,188	563,188	612,069
(d) Actual Benefit Payments (including refunds) For the year July 1, 2020 – June 30, 2021	2,260,615	2,260,615	2,260,615
(e) TPL as of June 30, 2021 [(b) x (1 + (a))] + (c) – [(d) x (1 + (0.5 x (a)))]	\$36,436,244	\$36,468,719	\$39,541,567
(f) Experience (Gain)/Loss = (e2) – (e1)		\$32,475	
(g) Assumption Change (Gain)/Loss = (e3) – (e2)			\$3,072,848



Section III – Required Supplementary Information

There are several tables of Required Supplementary Information (RSI) that need to be included in the System's financial statements:

Paragraphs 32(a)-(c): The required tables are provided in Schedule A.

Paragraph 32(d): The money-weighted rates of return required are to be supplied by the System.

Paragraph 34: In addition, the following should be noted regarding the RSI:

Changes of benefit terms. None

Changes of assumptions.

In the 2020 experience study, rates of withdrawal, retirement, disability, mortality, and rates of salary increases were adjusted to reflect actual experience more closely. The expectation of mortality was changed to the Pub2010 Mortality Tables (Teachers Benefit-Weighted) projected generationally with MP-2020 with various set forwards, set-backs, and adjustments for each of the groups; service retirees, contingent annuitants, disabled retirees, and actives. The assumed long-term investment rate of return was changed from 7.50 percent to 7.10 percent and the price inflation assumption was lowered from 3.00 percent to 2.50 percent.

In the 2016 valuation, rates of withdrawal, retirement, disability, mortality, and rates of salary increase were adjusted to reflect actual experience more closely. In the 2016 valuation and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables projected to 2025 with projection scale BB, set forward two years for males and one year for females rather than the RP-2000 Mortality Tables projected to 2020 with projection scale AA, which was used prior to 2016.

In the 2011 valuation, rates of withdrawal, retirement, disability, and mortality were adjusted to reflect actual experience more closely. In the 2011 valuation and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables projected to 2020 with projection scale AA, set back one year for females rather than the 1994 Group Annuity Mortality Tables which was used prior to 2016. For the 2011 valuation through the 2013 valuation, an interest smoothing methodology was used to calculate liabilities for purposes of determining the actuarially determined contributions.



Section III – Required Supplementary Information

Methods and assumptions used in calculations of actuarially determined contributions. The actuarially determined contribution rates in the schedule of employer contributions are calculated as of June 30, three years prior to the end of the fiscal year in which contributions are reported (as of June 30, 2018 for the fiscal year 2021 contributions). The following actuarial methods and assumptions were used to determine contribution rates reported in the most recent year of that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	26.5 years
Asset valuation method	5-year smoothed market
Inflation	3.00 percent
Salary increase	3.50 to 7.30 percent, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation



Schedule A – Required Supplementary Information Tables

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY GASB 67 Paragraph 32(a) (\$ in Thousands)

	2021	2020	2019	2018	2017	2016	2015	2014
Total Pension Liability								
Service Cost	\$ 563,188	\$ 552,625	\$ 542,970	\$ 1,104,102	\$ 1,332,587	\$ 1,120,893	\$ 1,015,080	\$ 1,002,338
Interest	2,581,630	2,517,671	2,448,387	2,063,109	1,964,107	2,027,457	2,029,372	1,956,610
Benefit Changes	0	0	0	0	0	0	0	0
Difference between expected and actual experience	32,475	10,661	93,650	(222,473)	199,471	(58,035)	0	0
Changes of Assumption and other inputs	3,072,848	0	0	(14,167,315)	(2,321,327)	4,030,834	1,511,960	(353,043)
Benefit Payments	(2,235,241)	(2,167,239)	(2,094,364)	(2,004,617)	(1,918,612)	(1,833,199)	(1,741,456)	(1,654,376)
Refund of Contributions	<u>(25,374)</u>	<u>(28,472)</u>	<u>(32,403)</u>	<u>(31,073)</u>	<u>(26,305)</u>	<u>(27,748)</u>	<u>(23,033)</u>	<u>(25,462)</u>
Net Change in Total Pension Liability	3,989,526	885,246	958,240	(13,258,267)	(770,079)	5,260,202	2,791,923	926,067
Total Pension Liability – Beginning	<u>35,552,041</u>	<u>34,666,795</u>	<u>33,708,555</u>	<u>46,966,822</u>	<u>47,736,901</u>	<u>42,476,699</u>	<u>39,684,776</u>	<u>38,758,709</u>
Total Pension Liability – Ending (a)	<u>39,541,567</u>	<u>\$35,552,041</u>	<u>\$34,666,795</u>	<u>\$33,708,555</u>	<u>\$46,966,822</u>	<u>\$47,736,901</u>	<u>\$42,476,699</u>	<u>\$39,684,776</u>
Plan Net Position								
Contributions – State of Kentucky	\$ 1,060,257	\$ 1,048,193	\$ 1,051,452	\$ 969,698	\$ 981,417	\$ 484,987	\$ 480,073	\$ 483,330
Contributions – Other Employers	86,720	86,088	71,583	78,973	79,303	80,468	79,506	79,996
Contributions – Member	327,833	324,664	321,172	319,127	313,625	313,044	308,160	304,982
Net Investment Income	6,017,186	1,094,023	1,085,189	1,953,214	2,475,753	(245,215)	862,179	2,803,249
Benefit Payments	(2,235,241)	(2,167,239)	(2,094,364)	(2,004,617)	(1,918,612)	(1,833,199)	(1,741,456)	(1,654,376)
Administrative Expense	(12,602)	(12,167)	(12,352)	(11,388)	(10,314)	(8,636)	(8,869)	(7,956)
Refund of Contributions	(25,374)	(28,472)	(32,403)	(31,073)	(26,305)	(27,748)	(23,033)	(25,462)
Other	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Plan Net Position	5,218,779	345,090	390,277	1,273,934	1,894,867	(1,236,299)	(43,440)	1,983,763
Plan Net Position – Beginning	<u>20,717,000</u>	<u>20,371,910</u>	<u>19,981,633</u>	<u>18,707,699</u>	<u>16,812,832</u>	<u>18,049,131</u>	<u>18,092,571</u>	<u>16,108,808</u>
Plan Net Position – Ending (b)	<u>\$25,935,779</u>	<u>\$20,717,000</u>	<u>\$20,371,910</u>	<u>\$19,981,633</u>	<u>\$18,707,699</u>	<u>\$16,812,832</u>	<u>\$18,049,131</u>	<u>\$18,092,571</u>
Net Pension Liability – Ending (a) – (b)	<u>\$13,605,788</u>	<u>\$14,835,041</u>	<u>\$14,294,885</u>	<u>\$13,726,922</u>	<u>\$28,259,123</u>	<u>\$30,924,069</u>	<u>\$24,427,568</u>	<u>\$21,592,205</u>



Schedule A – Required Supplementary Information Tables

SCHEDULE OF THE NET PENSION LIABILITY GASB 67 Paragraph 32(b) (\$ in Thousands)

	2021	2020	2019	2018	2017	2016	2015	2014
Total Pension Liability	\$39,541,567	\$35,552,041	\$34,666,795	\$33,708,555	\$46,966,822	\$47,736,901	\$42,476,699	\$39,684,776
Plan Net Position	<u>25,935,779</u>	<u>20,717,000</u>	<u>20,371,910</u>	<u>19,981,633</u>	<u>18,707,699</u>	<u>16,812,832</u>	<u>18,049,131</u>	<u>18,092,571</u>
Net Pension Liability	\$13,605,788	\$14,835,041	\$14,294,885	\$13,726,922	\$28,259,123	\$30,924,069	\$24,427,568	\$21,592,205
Ratio of Plan Net Position to Total Pension Liability	65.59%	58.27%	58.76%	59.28%	39.83%	35.22%	42.49%	45.59%
Covered Payroll	\$3,638,905	\$3,569,262	\$3,497,216	\$3,455,660	\$3,415,432	\$3,390,539	\$3,455,008	\$3,317,422
Net Pension Liability as a Percentage of Covered Payroll	373.90%	415.61%	408.75%	397.23%	827.40%	912.07%	707.02%	650.87%



Schedule A – Required Supplementary Information Tables

SCHEDULE OF EMPLOYER CONTRIBUTIONS GASB 67 Paragraph 32(c) (\$ in Thousands)

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Covered Payroll	\$ 3,638,905	\$ 3,569,262	\$ 3,497,216	\$ 3,455,660	\$ 3,415,432	\$ 3,390,539	\$ 3,455,008	\$ 3,317,422	\$ 3,310,710	\$ 3,310,176
Actual Employer Contributions	\$ 1,146,977	\$ 1,134,281	\$ 1,123,035	\$ 1,048,671	\$ 1,060,720	\$ 565,455	\$ 559,579	\$ 563,326	\$ 568,233	\$ 557,340
Actuarially Determined Employer Contributions	<u>1,146,977</u>	<u>1,134,281</u>	<u>1,123,035</u>	<u>1,083,466</u>	<u>1,076,617</u>	<u>999,270</u>	<u>913,654</u>	<u>823,446</u>	<u>802,985</u>	<u>757,822</u>
Annual Contribution Excess (Deficiency)	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>(34,795)</u>	\$ <u>(15,807)</u>	\$ <u>(433,815)</u>	\$ <u>(354,075)</u>	\$ <u>(260,120)</u>	\$ <u>(234,752)</u>	\$ <u>(200,482)</u>
Actual Contribution as a Percentage of Covered Payroll	31.52%	31.78%	32.11%	30.35%	31.06%	16.68%	16.20%	16.98%	17.16%	16.84%



Schedule B – Summary of Main Benefit Provisions

The Teachers' Retirement System of the State of Kentucky was established on July 1, 1940. The valuation took into account amendments to the System effective through June 30, 2021. The following summary describes the main benefit and contribution provisions of the System as interpreted for the valuation.

1 - DEFINITIONS

"Final average salary" means the average of the five highest annual salaries which the member has received for service in a covered position and on which the member has made contributions or on which the public board, institution or agency has picked up the member contributions. For a member who retires after attaining age 55 with 27 years of service, "final average salary" means the average of the three highest annual salaries.

2 - BENEFITS

Service Retirement Allowance

Members Before 7/1/2008

Condition for Allowance	Completion of 27 years of service or attainment of age 55 and 5 years of service.
Amount of Allowance	The annual retirement allowance for non-university members is equal to: <ul style="list-style-type: none"> (a) 2.0% of final average salary multiplied by service before July 1, 1983, plus (b) 2.5% of final average salary multiplied by service after July 1, 1983. (c) For individuals who become members of the Retirement System on or after July 1, 2002 and have less than 10 years of service at retirement, the retirement allowance is 2.0% of final average salary multiplied by service. If, however, they have 10 or more years, they receive a benefit percentage of 2.5% for all years of service up to 30 years. (d) For members retiring on or after July 1, 2004, the retirement allowance formula is 3.0% of final average salary for each year of service credit earned in excess of 30 years.



Schedule B – Summary of Main Benefit Provisions

The annual retirement allowance for university members is equal to 2.0% of final average salary multiplied by all years of service.

For all members, the annual allowance is reduced by 5% per year from the earlier of age 60 or the date the member would have completed 27 years of service.

The minimum annual service allowance for all members is \$440 multiplied by credited service.

Members on and after 7/1/2008

Condition for Retirement

Completion of 27 years of service, attainment of age 60 and 5 years of service or attainment of age 55 and 10 years of service.

Amount of Allowance

The annual retirement allowance for non-university members is equal to:

- 1.7% of final average salary if service is 10 years or less.
- 2.0% of final average salary if service is greater than 10 years and no more than 20 years.
- 2.3% of final average salary if service is greater than 20 years but no more than 26 years.
- 2.5% of final average salary if service is greater than 26 years but no more than 30 years.
- 3.0% of final average salary for years of service greater than 30 years.

The annual retirement allowance for university members is equal to:

- 1.5% of final average salary if service is 10 years or less.
- 1.7% of final average salary if service is greater than 10 years and no more than 20 years.
- 1.85% of final average salary if service is greater than 20 years but less than 27 years.
- 2.0% of final average salary if service is greater than or equal to 27 years.

For all members, the annual allowance is reduced by 6% per year from the earlier of age 60 or the date the member would have completed 27 years of service.



Schedule B – Summary of Main Benefit Provisions

Death Benefits

A surviving spouse of an active member with less than 10 years of service may elect to receive an annual allowance of \$2,880 except that if income from other sources exceeds \$6,600 per year the annual allowance will be \$2,160.

A surviving spouse of an active member with 10 or more years of service may elect to receive an allowance which is the actuarial equivalent of the allowance the deceased member would have received upon retirement. The allowance will commence on the date the deceased member would have been eligible for service retirement and will be payable during the life of the spouse.

If the deceased member is survived by unmarried children under age 18 the following schedule of annual allowances applies:

<u>Number of Children</u>	<u>Annual Allowance</u>
1	\$ 2,400
2	4,080
3	4,800
4 or more	5,280

The allowances are payable until a child attains age 18, or age 23 if a full-time student.

If the member has no eligible survivor, a refund of his accumulated contributions is payable to his estate.

Options

In lieu of the regular Option 1, a retirement allowance payable in the form of a life annuity with refundable balance, any member before retirement may elect to receive a reduced allowance which is actuarially equivalent to the full allowance, in one of the following forms:

Option 2. A single life annuity payable during the member's lifetime with payments for 10 years certain.

Option 3. At the death of the member his allowance is continued throughout the life of his beneficiary.

Option 3(a). At the death of the beneficiary designated by the member under Option 3, the member's benefit will revert to what would have been paid had he not selected an option.

Option 4. At the death of the member one half of his allowance is continued throughout the life of his beneficiary.

Option 4(a). At the death of the beneficiary designated by the member under Option 4, the member's benefit will revert to what would have been paid had he not selected an option.



Schedule B – Summary of Main Benefit Provisions

Post-Retirement Adjustments

The retirement allowance of each retired member and of each beneficiary shall be increased by 1.50% each July 1.

3 - CONTRIBUTIONS

Member Contributions

University members contribute 7.625% of salary to the Retirement System. Non-university members contribute 9.105% of salary to the Retirement System. Member contributions are picked up by the employer.



Schedule C – Statement of Actuarial Assumptions and Methods

The assumptions and methods used in the valuation were selected based on the actuarial experience study prepared as of June 30, 2020, submitted to, and adopted by the Board on September 20, 2021.

INVESTMENT RATE OF RETURN: 7.10% per annum, compounded annually, including price inflation at 2.50% per annum.

SALARY INCREASES: Representative values of the assumed annual rates of future salary increases are as follows and include wage inflation at 2.75% per annum:

<u>Service</u>	<u>Annual Rate</u>
1	7.50%
2	5.50
3	5.00
4	5.00
5	5.00
10	3.25
15	3.25
20+	3.00

SEPARATIONS FROM SERVICE: Representative values of the assumed annual rates of death, disability, withdrawal, service retirement and early retirement are as follows:

AGE	Annual Rates for Males						
	DEATH*	DISABILITY	WITHDRAWAL			RETIREMENT	
			SERVICE			Before 27 Years of Service	After 27 Years of Service**
			0 – 4	5 – 9	10+		
20	0.031%	0.01%	20.00%				
25	0.020	0.01	11.00	3.25%			
30	0.032	0.01	10.00	3.60	2.80%		
35	0.042	0.02	11.00	3.60	1.55		
40	0.052	0.07	12.50	4.00	1.25		
45	0.072	0.18	11.50	4.00	1.10		17.0%
50	0.115	0.28	14.25	4.50	1.10		25.0
55	0.187	0.40	15.00	6.00	1.25	5.25%	40.0
60	0.304	0.50	15.00	0.00	0.00	13.50	33.0
62	0.366	0.50	15.00	0.00	0.00	15.0	30.0
65	0.478	0.50	20.00	0.00	0.00	20.0	30.0
70	0.723	0.50	20.00	0.00	0.00	25.0	30.0
75	1.141	0.50	20.00	0.00	0.00	100.0	100.0

* Base Rates

** Plus 8.5% in year when first eligible for unreduced retirement with 27 years of service.



Schedule C – Statement of Actuarial Assumptions and Methods

AGE	Annual Rates for Females						
	DEATH*	DISABILITY	WITHDRAWAL			RETIREMENT	
			SERVICE			Before 27 Years of Service	After 27 Years of Service**
			0 – 4	5 – 9	10+		
20	0.014%	0.01%	13.00%				
25	0.010	0.01	9.00	4.50%			
30	0.013	0.02	11.00	4.25	1.00%		
35	0.022	0.06	11.00	3.50	1.60		
40	0.030	0.10	12.50	4.00	1.20		
45	0.041	0.24	13.50	4.00	1.00		17.0%
50	0.058	0.38	15.00	4.50	1.25		20.0
55	0.091	0.50	15.00	5.00	1.60	5.0%	50.0
60	0.141	0.60	17.50	0.00	0.00	15.0	40.0
62	0.166	0.62	17.50	0.00	0.00	15.0	40.0
65	0.212	0.65	25.00	0.00	0.00	25.0	40.0
70	0.344	0.65	25.00	0.00	0.00	30.0	35.0
75	0.639	0.65	25.00	0.00	0.00	100.0	100.0

* Base Rates

** Plus 10.0% in year when first eligible for unreduced retirement with 27 years of service.

DEATHS AFTER RETIREMENT: Mortality rates were based on the Pub2010 (Teachers Benefit-Weighted) Mortality table, projected generationally based on Projection Scale MP-2020, with various set-forwards, set-backs, and adjustments for each of the groups. Below is a summary of the specific mortality tables and adjustments for each of the groups:

<u>Group</u>	<u>Membership Table</u>	<u>Set Forward (+)/ Setback (-)</u>	<u>Adjustment to Rates</u>	<u>Projection Scale</u>
Service Retirees	Teachers Benefit-Weighted	Male: +2 Female: +2	Male: 102%, Female: 98%	75% of MP-2020
Contingent Annuitants	Teachers Benefit-Weighted	Male: +2 Female: None	Male: 101%, Female: 100%	75% of MP-2020
Disabled Retirees	Teachers Benefit-Weighted	Male: +1 Female: -2	Male: 96%, Female: 94%	75% of MP-2020
Actives	Teachers Benefit-Weighted	Male: +1 Female: -2	Male: 100%, Female: 98%	75% of MP-2020



Schedule C – Statement of Actuarial Assumptions and Methods

Representative values of the assumed annual rates of death for service retirees, contingent annuitants, and disability retirees are shown below:

Age	Annual Base Rates of Death For					
	Service Retirees		Contingent Annuitants		Disability Retirees	
	Male	Female	Male	Female	Male	Female
45	0.0836%	0.0568%	0.6020%	0.2620%	1.0646%	0.7755%
50	0.1357	0.0843	0.7545	0.3200	1.6435	1.1910
55	0.2744	0.2215	0.8959	0.4460	2.1130	1.5416
60	0.4427	0.3322	1.1413	0.6220	2.4806	1.7616
65	0.7579	0.5351	1.6443	0.8990	3.0653	1.9834
70	1.4066	0.9682	2.5876	1.3530	3.9485	2.4149
75	2.6816	1.8649	4.1006	2.1510	5.3155	3.2562
80	5.0500	3.5819	6.5630	3.5730	7.6118	4.7705
85	9.4585	6.8071	10.7717	6.3160	11.2109	7.3423
90	16.9116	12.6077	17.7306	11.3290	16.9738	11.1653
95	26.9423	21.5110	26.8670	18.5900	24.2170	15.7356

ASSETS: Market Value

ADMINISTRATIVE EXPENSE LOAD: 0.32% of payroll

PERCENT MARRIED: 100%, with females 3 years younger than males

PART-TIMERS: Assume 0.25 years of accrual service per year

LOADS: Unused sick leave: 3% of active liability



Schedule D – Actuarial Cost Method

1. The valuation is prepared on the projected benefit basis, under which the present value, at the interest rate assumed to be earned in the future, of each active member's expected benefit at retirement or death is determined, based on his age, service, sex, and compensation. The calculations consider the probability of a member's death or termination of employment prior to becoming eligible for a benefit, as well as the possibility of his terminating with a service, disability, or survivor's benefit. Future salary increases and post-retirement cost-of-living adjustments are also anticipated. The present value of the expected benefits payable on account of the active members is added to the present value of the expected future payments to retired members and beneficiaries and inactive members to obtain the present value of all expected benefits payable from the System on account of the present group of members and beneficiaries.
2. The employer contributions required to support the benefits of the System are determined following a level funding approach and consist of a normal contribution and an accrued liability contribution.
3. The normal contribution is determined using the "entry age normal" method. Under this method, a calculation is made to determine the uniform and constant percentage rate of employer contribution which, if applied to the compensation of the average new member during the entire period of his anticipated covered service, would be required in addition to the contributions of the member to meet the cost of all benefits payable on his behalf.
4. The unfunded accrued liability is determined by subtracting the present value of prospective employer normal contributions and member contributions, together with the current actuarial value of assets held, from the present value of expected benefits to be paid from the System.



Schedule E – Funding Policy

INTRODUCTION

Pursuant to the provisions of KRS 161.250, the Board of Trustees (board) of the Teachers' Retirement System of the State of Kentucky (TRS) is vested with the responsibility for the general administration and management of the retirement system. The board may adopt procedures necessary to conduct the business of the retirement system as needed. The applicable provisions of the Kentucky Revised Statutes shall control if any inconsistency exists between state law and this policy.

The board's policy is to achieve full funding within specific, closed 30-year periods without extending or resetting those periods. The underpinning of this is to request, as a minimum appropriation, amounts consistent with the annual actuarial valuations. The actuary focuses on a long investment horizon to promote cost stability, predictability and equity among current and future taxpayers. This policy, as detailed below for each trust, confirms the board's process for recommending annual appropriations payable and the primary actuarial assumptions and methodologies associated with calculating the annual appropriations. Other related actuarial assumptions and methodologies not listed in this policy are reported in annual valuations, the most recent experience study or resolutions adopted by the board.

Also, the board may provide options for funding the Retirement Annuity Trust that could accelerate the paying of its unfunded liability ahead of the amortization schedule and reduce costs for the state thereafter to the normal cost.

This policy is in keeping with the board's direction for the Investment Committee to continue investing for maximum returns within the parameters of prudent risk.

This policy will be reviewed regularly and amended or revised as necessary.

BACKGROUND

The level of benefits and funding for teachers' pension and health care are mandated in law by the General Assembly. Also, state law requires that the board, as fiduciary, adopt reasonable actuarial assumptions based upon the advice of a qualified independent actuary and other professionals. Additionally, state law mandates that actuarial assumptions be set using rigorous and transparent processes that adhere to recognized actuarial and financial standards. These processes reflect national best practices, including the Government Finance Officers Association's best practice guidelines for valuations, experience studies and actuarial audits.

TRS evaluates actuarial assumptions (demographic and economic) each year during the actuarial valuation. Several other regular reviews are conducted as well. The return assumptions are reviewed annually by the board's Investment Committee as it evaluates asset allocation. Every five years, the actuary conducts an experience investigation and recommends to the board adjustments to assumptions based upon past trends, current behavior and forecasted experience. TRS also conducts an actuarial audit (an audit of the actuary) at least every 10 years to ensure that assumptions are reasonable and appropriately reflect the cost of the plans. In the investment context, TRS conducts an asset liability modeling study at least every five years — and more often if material changes warrant an updated study. The annual valuation determines the additional required employer contribution that is included in TRS's biennial budget requests.



Schedule E – Funding Policy

The amount that the state owes for benefits consists of two components, normal cost and amortization of unfunded liability. The normal cost is included in the statutory payroll contributions made by members, the state and employers. The amortization of the unfunded liability includes the balance of the statutory payroll contributions paid by the state and employers above amounts needed for the normal cost. In addition, TRS requests additional contributions necessary to amortize the unfunded liability. The funding for medical insurance is outlined by statute as a shared responsibility of employees, employers, retirees and the state.

State law requires, and the TRS board uses, a qualified independent actuary that follows the generally accepted actuarial standards of practice. Some factors considered by the actuary include the length of amortization periods; the projected pattern of cash flows; current and projected interest rates and rates of inflation; and historical and projected returns of the funds. The actuary focuses on a long investment horizon to promote cost stability, predictability and equity among current and future taxpayers.

1. Retirement Annuity Trust Appropriations

KRS 161.714 provides that the retirement benefits promised to members of TRS are “an inviolable contract of the Commonwealth.” To satisfy this solemn commitment, the Commonwealth of Kentucky (state) is required to pay annual retirement appropriations necessary to fund the benefit requirements of retirement system members. All employers participating in TRS are responsible for paying the fixed employer contribution rate set forth in state law. However, the state – as plan guarantor – solely is responsible for paying the additional annual retirement appropriations necessary to keep the retirement system actuarially sound and able to satisfy the contract with members to provide promised benefits under KRS 161.550.

Beginning in 2019, the state made its full actuarially determined contribution. Prior to that, from fiscal year 2009 through 2018, the state did not pay the full annual retirement appropriations necessary to prefund the benefit requirements of members of the retirement system. Over this period, primarily because of the failure to fund, the state’s annual retirement appropriations grew.

Fiscal Year	Requested Minimum Additional Payment for Unfunded Liability	Appropriated
2009	\$ 60,499,800	\$ 0
2010	82,331,200	0
2011	121,457,000	0
2012	208,649,000	0
2013	260,980,000	0
2014	299,420,000	0
2015	386,400,000	0
2016	487,400,000	0
2017	520,372,000	498,537,600
2018	512,883,000	474,724,700
2019	553,597,000	553,597,000
2020	538,253,000	538,253,000
2021	551,092,000	551,092,000
2022	579,208,000	

(Source: TRS Report of the Actuary on the Annual Valuation Prepared as of June 30, 2019)



Schedule E – Funding Policy

The board always has acted as required by state law and requested annual retirement appropriations payable by the state that would ensure that the state meets the contractual obligations to members.

Annual Retirement Appropriations Payable by the State

In each biennial budget request, the board will recommend annual retirement appropriations payable by the state to meet the benefit requirements of the members of the retirement system. The annual retirement appropriations payable by the state are the sum of the fixed employer contribution rate set by state law and the additional annual retirement appropriations necessary to fund the benefit requirements of members of the retirement system (KRS 161.550). The recommended additional annual retirement appropriations payable by the state are calculated by the board's actuary based upon the results of an annual valuation preceding the beginning of each biennium (KRS 161.400).

Calculation of Annual Retirement Appropriations Payable by the State

The board will present the actuarially determined annual retirement appropriations payable by the state, which if paid, are the minimum to meet the benefit requirements of the members of the retirement system, consistent with generally accepted actuarial principles. Based upon technical advice from the board's actuary, the board hereby adopts the following principles for calculating the recommended annual retirement appropriations payable by the state:

- A. Use the Entry Age Normal actuarial cost method;
- B. Use a five-year asset smoothing method;
- C. Use a 30-year closed period that began fiscal year 2014 to amortize the unfunded liability. This is calculated by the actuary as the minimum dollar amount for the state to pay each year, and the amount to be provided by the state shall not be less than the prior year's dollar amount until the plan reaches a funded ratio of 100%;
- D. Use a 20-year closed period to amortize new sources of unfunded liability (new sources of unfunded liability are the unfunded liability consisting of all benefit changes, assumption and method changes and experience gains and/or losses that have occurred since the previous valuation); and
- E. Reach a minimum funded ratio of 100% within the closed period adopted by the board.

Accelerated Funding Options

In recognition that the state may want to pay off the unfunded liability earlier than the closed amortization period and thereby reduce its costs long-term, the board may provide options for funding over and above the actuarially required minimum. The board will provide the analytical support showing the impact of each of these on the current costs and the potential savings.



Schedule E – Funding Policy

2. Retiree Health Insurance Trust

State law provides for a retiree medical plan (KRS 161.675). Since July 1, 2010, retired teachers, active teachers, local school boards, universities and the state have paid contributions for funding the retiree medical plan in accordance with the Shared Responsibility Solution contained in HB 540 (2010 RS). The contributions mandated by Shared Responsibility will meet the benefit requirements of the members of the retirement system, consistent with generally accepted actuarial principles. Based upon technical advice from the board's actuary, the board hereby adopts the following principles concerning the retiree health insurance plan:

- A. Use the Entry Age Normal actuarial cost method;
- B. Use a five-year asset smoothing method;
- C. Use a 30-year closed period that began fiscal year 2011 to amortize the unfunded liability;
- D. Use a 20-year closed period to amortize, as a level percentage of pay, new sources of unfunded liability (new sources of unfunded liability are the unfunded liability consisting of all benefit changes, assumption and method changes and experience gains and/or losses that have occurred since the previous valuation); and
- E. Reach a minimum funded ratio of 100% within the closed period adopted by the board.

3. Life Insurance Trust

State law provides for a life insurance plan for active and retired teachers (KRS 161.655). The life insurance plan is funded by employer contributions. Based upon technical advice from the board's actuary, the board hereby adopts the following principles concerning the life insurance plan:

- A. Use the Entry Age Normal actuarial cost method;
- B. Use a five-year asset smoothing method;
- C. Use a 30-year closed period that began fiscal year 2014, to amortize the unfunded liability;
- D. Use a 20-year closed period to amortize, as a level percentage of pay, new sources of unfunded liability (new sources of unfunded liability are the unfunded liability consisting of all benefit changes, assumption and method changes and experience gains and/or losses that have occurred since the previous valuation); and
- E. Reach a minimum funded ratio of 100% within the closed period adopted by the board.

Adopted December 16, 2013; amended December 9, 2015, September 19, 2016, September 18, 2017, November 14, 2017, September 16, 2019, September 21, 2020