

# KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM

Public Pension Oversight Board  
November 25, 2019

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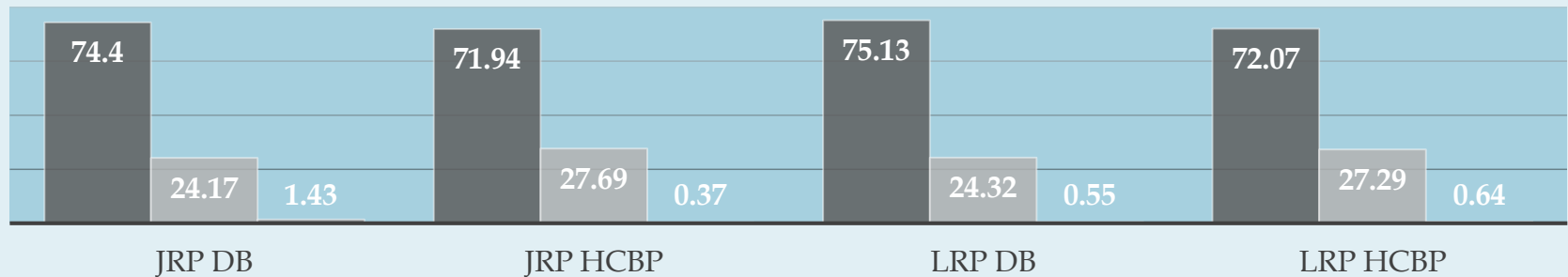
Donna Early  
Executive Director

# Judicial Form Retirement System

## Performance Overview

Ending September 2019	Market Value	3 Months	1 Year	3 Years	5 Years	10 Years	20 Years
<b>Judicial Retirement - Defined Benefit</b>	\$441,362,113	2.14	6.07	11.76	9.99	11.70	7.39
<b>Judicial Retirement - Hybrid Cash Balance</b>	\$1,513,111	1.87	6.25	10.47			
<b>Legislators Retirement - Defined Benefit</b>	\$127,938,079	2.11	5.92	11.64	10.06	11.69	7.35
<b>Legislators Retirement - Hybrid Cash Balance</b>	\$372,135	1.88	6.27	10.50			
<b>Benchmark</b> 70% S&P 500; 30% Barclays Int Govt Cr		1.62	5.80	10.17	8.51	10.29	6.03

## Asset Allocation



**Performance**, Net of Fees <= 3 years; Gross of Fees >=5 years.

**Asset Allocation** Legend: Equity, dark gray; Fixed Income, light gray; Cash, medium gray.

# Judicial Retirement Plan Cash Flow

1 <sup>st</sup> Quarter	FY 2019	FY 2020
<b>Cash Inflows</b>		
Member Contributions	\$263,231.00	\$400,537.00
Employer Contributions/Appropriations	\$9,463,638.00	\$9,570,800.00
Investment Income (Net of Investment Exp)	\$2,284,238.00	\$3,071,970.00
<b>Total Cash Inflows</b>	<b>\$12,011,107.00</b>	<b>\$13,043,307.00</b>
<b>Cash Outflows</b>		
Benefit Payments/Refunds	\$6,356,294.00	\$6,610,697.00
Adm. Expense	\$99,902.00	\$0.00
Other/Misc Expense		\$0.00
<b>Total Cash Outflows</b>	<b>\$6,456,196.00</b>	<b>\$6,610,697.00</b>
<b>NET Cash Flow Before Asset Gain/(Losses)</b>	<b>\$5,554,911.00</b>	<b>\$6,432,610.00</b>
<b>Realized/Unrealized Investment Gains or (Losses)</b>	<b>\$31,288,327.00</b>	<b>\$6,359,291.00</b>
<b>Net Plan Assets</b>	<b>\$36,843,238.00</b>	<b>\$12,791,901.00</b>
<b>Beginning of Period</b>	<b>\$397,560,271.00</b>	<b>\$431,159,321.00</b>
<b>End of Period</b>	<b>\$434,403,509.00</b>	<b>\$443,951,222.00</b>

# Legislators Retirement Plan Cash Flow

1 <sup>st</sup> Quarter	FY 2019	FY 2020
<b>Cash Inflows</b>		
Member Contributions	\$30,359.00	\$52,597.00
Employer Contributions/Appropriations	\$309,800.00	\$311,400.00
Investment Income (Net of Investment Exp)	\$653,091.00	\$805,097.00
<b>Total Cash Inflows</b>	<b>\$993,250.00</b>	<b>\$1,169,094.00</b>
<b>Cash Outflows</b>		
Benefit Payments/Refunds	\$1,333,799.00	\$1,431,806.00
Adm. Expense	\$58,935.00	\$21,934.00
Other/Misc Expense		
<b>Total Cash Outflows</b>	<b>\$1,392,734.00</b>	<b>\$1,453,740.00</b>
<b>NET Cash Flow Before Asset Gain/(Losses)</b>	<b>-\$399,484.00</b>	<b>-\$284,646.00</b>
<b>Realized/Unrealized Investment Gains or (Losses)</b>	<b>\$9,156,147.00</b>	<b>\$1,801,271.00</b>
<b>Net Plan Assets</b>	<b>\$8,756,663.00</b>	<b>\$1,516,625.00</b>
<b>Beginning of Period</b>	<b>\$118,010,226.00</b>	<b>\$127,245,133.00</b>
<b>End of Period</b>	<b>\$126,766,889.00</b>	<b>\$128,761,758.00</b>

# KJFRS Funding Data – 2020-2022 Biennium

Funding Statutes: KRS 21.525 and KRS 21.540(1)	2020-2021 FY		2021-2022 FY		06/30/2019	06/30/2019
<b>Judicial Retirement</b>	<b>ARC</b>	<b>% of Payroll</b>	<b>ARC</b>	<b>% of Payroll</b>	<b>Members</b>	<b>Retirees</b>
Defined Benefit Plan	\$7,349,600.00	28.98%	\$7,802,600.00	30.77%	197	367
Hybrid Cash Balance Plan	\$205,600.00	3.95%	\$214,500.00	4.12%	41	0
<b>Total</b>	<b>\$7,555,200.00</b>	<b>24.72%</b>	<b>\$8,017,100.00</b>	<b>26.23%</b>	<b>238</b>	<b>367</b>
<b>Legislators Retirement</b>						
Defined Benefit Plan	\$537,300.00	21.52%	\$568,300.00	22.76%	52	278
Hybrid Cash Balance Plan	\$128,500.00	7.03%	\$134,500.00	7.36%	43	0
<b>Total</b>	<b>\$665,800.00</b>	<b>15.39%</b>	<b>\$702,800.00</b>	<b>16.25%</b>	<b>95</b>	<b>278</b>

Actuarial Assumptions	
Long-Term Interest Rate, Defined Benefit Plans	6.50%
Long-Term Interest Rate, Hybrid Cash Balance Plans	4.00%
Salary Increase	Rolling 1.00% next five years, 3.50% thereafter
Mortality	RP-2000 tables, with "white collar" adjustment
Turnover/Terminations	Very Light Turnover
Retirement	Rates of retirement for 5 years prior to NRA and 100% at NRA; extra 20% increase in retirement rate in 27th year for DB Plans only
Marital Status	80% married
COLA	None
Load for future non-legislative salary -- LRP only	40% of retirees eligible for reciprocity will have 40% higher salary
Health Care Trend Rates	Grade down from 8% to 5% over 12 years, incorporating the Getzen Model and the 2013 SOA Yamamoto study.

# KJFRS Legislative Agenda

## 2020 Regular Session of the General Assembly

### Proposal to Amend KRS 21.525, Funding Formula Statute

Findley, the JFRS actuary, included the following language in each of its 2019 actuarial valuations of the JFRS plans.

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

Although the Actuarial Standards of Practice 4 “Measuring Pension Obligations” allows for plan liabilities to be calculated under a legally prescribed method, the statement goes on to say: *If, in the actuary’s professional judgment, such an actuarial cost method or amortization method is significantly inconsistent with the plan accumulating adequate assets to make benefit payments when due, assuming that all actuarial assumptions will be realized and that the plan sponsor or other contributing entity will make contributions when due, the actuary should disclose this.*

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

To accomplish this objective, Findley recommends amending the statute as it applies to the Defined Benefit Plans as follows:

Revise the actuarial funding method to amortize all past unfunded as well as new liabilities over a period not more than 30 years (we suggest shorter periods for various sources of new liability) and amortize future gains and losses over a period not more than 15 years. (Note that GASB 68 may require the expensing of liabilities at a faster pace than these amortization periods.)

As to the application to the Hybrid Cash Balance Plans, its recommendation is:

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

# KJFRS Legislative Agenda

## 2020 Regular Session of the General Assembly

### Actuarial Required Contribution

The Judicial Retirement Plan (JRP) is governed by KRS 21.345 to 21.580. The Legislators Retirement Plan (LRP) is governed by KRS 6.500 to 6.577. Retirement benefits to JRP and LRP retirees and prospective retirees are set forth in those statutes. The funding of those benefits is from members' contributions, earnings on investments, and state contributions. The formula for determining the annual state contribution (actuarially required contribution) is prescribed by KRS 21.525. It is **imperative** that adequate funding be made available within the judicial and legislative budgets to support the statutorily guaranteed benefits of JRP and LRP members and retirees.