

Kentucky Teachers' Retirement System

GASB Statement 68 Information

(Required Pension Note Disclosure for Annual Financial Report issued on or after June 30, 2015)

ATTENTION: KTRS Reporting Officials

This information provides required information for inclusion in your school district's annual financial report. If you are not involved with the financial statement preparation, please forward this document to the Agency's FINANCIAL/ACCOUNTING MANAGER or the Agency's outside auditor.

The Governmental Accounting Standards Board (GASB) Statement 68, *Accounting and Reporting for Pensions* by State and Local Government Employers, which became effective for fiscal years beginning after June 15, 2014, requires that certain actuarial and pension disclosures by school districts be included in their financial statements. The Teachers' Retirement System of the State of Kentucky is furnishing this information so that districts can comply with the GASB requirements.

Additional information required by GASB Statement 68 will have to be derived from the reporting district's payroll records. Additional questions may be resolved by consulting with your school district financial auditor.

Kentucky School District Notes to the Financial Statements for the Year Ended June 30, 20X9

(Dollar amounts in thousands)

Summary of Significant Accounting Policies

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teachers' Retirement System of the State of Kentucky (KTRS) and additions to/deductions from KTRS's fiduciary net position have been determined on the same basis as they are reported by KTRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note X

General Information about the Pension Plan

Plan description - Teaching-certified employees of the Kentucky School District are provided pensions through the Teachers' Retirement System of the State of Kentucky (KTRS)—a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the state. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter

161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. KTRS issues a publicly available financial report that can be obtained at http://www.ktrs.ky.gov/05_publications/index.htm.

Benefits provided - For members who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, members become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, members must either:

- 1.) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or
- 2.) Complete 27 years of Kentucky service.

Participants that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university members with an account established prior to July 1, 2002 receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. New members (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service less than ten years. New members after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, members who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for members hired on or after that date.

Final average salary is defined as the member's five (5) highest annual salaries for those with less than 27 years of service. Members at least age 55 with 27 or more years of service may use their three (3) highest annual salaries to compute the final average salary. KTRS also provides disability benefits for vested members at the rate of sixty (60) percent of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing members and \$5,000 for retired or disabled members.

Cost of living increases are one and one-half (1.5) percent annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

Contributions - Contribution rates are established by Kentucky Revised Statutes (KRS). Non-university members are required to contribute 12.105% of their salaries to the System. University members are required to contribute 9.895% of their salaries. KRS 161.580 allows each university to reduce the contribution of its members by 2.215%; therefore, university members contribute 7.68% of their salary to KTRS.

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions of the amount 13.105% of salaries for local school district and regional cooperative employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. University employers contribute 15.36% of salaries of members. For local school district and regional cooperative members whose salaries are federally funded, the employer contributes 15.355% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

Medical Insurance Plan

Plan description - In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide post-employment healthcare benefits to eligible members and dependents. The KTRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees health Plan administered by the Kentucky Department of Employee Insurance. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

Funding policy – In order to fund the post-retirement healthcare benefit, six percent (6.00%) of the gross annual payroll of members before July 1, 2008 is contributed. Three percent (3.00%) is paid by member contributions and three quarters percent (.75%) from state appropriation and two and one quarter percent (2.25%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 20X9, the Kentucky School District did not report a liability for its proportionate share of the net pension liability because the State of Kentucky provides the pension support directly to KTRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

State's proportionate share of the net pension liability associated with the District	<u>\$ 14,910</u>
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The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2014, the District's proportion was ____ percent.

For the year ended June 30, 20X9, the District recognized pension expense of \$_____ and revenue of \$_____ for support provided by the State. At June 30, 20X9, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 48,836	\$ 48,620
Changes of assumptions	24,571	26,211
Net difference between projected and actual earnings on pension plan investments	7,762	7,194
Changes in proportion and differences between District contributions and proportionate share of contributions	75	15
District contributions subsequent to the measurement date	<u>48,576</u>	<u>47,406</u>
Total	<u>129,820</u>	<u>129,446</u>

\$48,576 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 20Y0. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
20Y0	\$ (27)
20Y1	16
20Y2	22
20Y3	55
20Y4	55
Thereafter	130

Actuarial assumptions – The total pension liability in the June 30, 20X8 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Investment rate of return	7.50%, net of pension plan investment expense, including inflation.
Projected salary increases	4.00 – 8.20%, including inflation
Inflation rate	3.50%
Municipal Bond Index Rate	4.35%
Single Equivalent Interest Rate	5.23%

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of 1 year for females. The last experience study was performed in 2011 and the next experience study is scheduled to be conducted in 2016.

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.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	45.0%	6.4%
Non U.S. Equity	17.0%	6.5%
Fixed Income	24.0%	1.6%
High Yield Bonds	4.0%	3.1%
Real Estate	4.0%	5.8%
Alternatives	4.0%	6.8%
Cash	2.0%	1.5%
Total	100.0%	

Discount rate - The discount rate used to measure the total pension liability was 5.23%. 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 the Employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until the 2036 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2035 and a municipal bond index rate of 4.35% was applied to all periods of projected benefit payments after 2035. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

The following table presents the net pension liability of the System, calculated using the discount rate of 5.23%, 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 (4.23%) or 1-percentage-point higher (6.23%) than the current rate:

<i>(in thousands)</i>	1% Decrease (4.23%)	Current Discount Rate (5.23%)	1% Increase (6.23%)
Systems' net pension liability	\$ 27,122,640	\$ 21,592,157	\$ 17,027,992

Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued KTRS financial report.

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY**

Kentucky Teachers' Retirement System

Last 10 Fiscal Years*

(Dollar amounts in thousands)

	<u>20X9</u>	<u>20X8</u>	<u>20X7</u>	<u>20X6</u>
District's proportion of the net pension liability (asset)	0.020%	0.019%	0.019%	0.019%
District's proportionate share of the net pension liability (asset)	\$ 1,491	\$ 1,174	\$ 1,297	\$ 1,349
State's proportionate share of the net pension liability (asset) associated with the District	<u>13,419</u>	<u>10,564</u>	<u>11,675</u>	<u>12,145</u>
Total	<u>\$ 14,910</u>	<u>\$ 11,738</u>	<u>\$ 12,972</u>	<u>\$ 13,494</u>
District's covered-employee payroll	\$ 11,512	\$ 10,412	\$ 9,715	\$ 9,553
District's proportionate share of the net pension liability (asset as a percentage of its covered-employee payroll)	12.95%	11.28%	13.35%	14.12%
Plan fiduciary net position as a percentage of the total pension liability	81.38%	83.20%	80.41%	78.53%

* The amounts presented for each fiscal year were determined as of June 30.

<i>Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.</i>

<u>20X5</u>	<u>20X4</u>	<u>20X3</u>	<u>20X2</u>	<u>20X1</u>	<u>20X0</u>
0.020%	0.020%	0.019%	0.021%	0.021%	0.021%
\$ 1,489	\$ 1,161	\$ 437	\$ (235)	\$ (126)	\$ (93)
<u>13,402</u>	<u>10,445</u>	<u>3,935</u>	<u>(2,119)</u>	<u>(1,137)</u>	<u>(834)</u>
<u>\$ 14,891</u>	<u>\$ 11,606</u>	<u>\$ 4,372</u>	<u>\$ (2,354)</u>	<u>\$ (1,263)</u>	<u>\$ (927)</u>
\$ 9,522	\$ 9,299	\$ 8,709	\$ 8,175	\$ 7,909	\$ 7,659
15.64%	12.49%	5.02%	-2.87%	-1.59%	-1.21%
75.79%	79.74%	91.78%	104.52%	102.63%	102.10%

SCHEDULE OF DISTRICT CONTRIBUTIONS

Kentucky Teachers' Retirement System

Last 10 Fiscal Years*

(Dollar amounts in thousands)

	<u>20X9</u>	<u>20X8</u>	<u>20X7</u>	<u>20X6</u>
Contractually required contribution	\$ 210	\$ 206	\$ 197	\$ 165
Contributions in relation to the Contractually required contribution	<u>(210)</u>	<u>(206)</u>	<u>(197)</u>	<u>(165)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 12,097	\$ 10,962	\$ 10,063	\$ 9,634
Contributions as a percentage of covered- employee payroll	1.74%	1.88%	1.96%	1.71%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

<u>20X5</u>	<u>20X4</u>	<u>20X3</u>	<u>20X2</u>	<u>20X1</u>	<u>20X0</u>
\$ 118	\$ 90	\$ 82	\$ 77	\$ 88	\$ 108
<u>(118)</u>	<u>(90)</u>	<u>(82)</u>	<u>(77)</u>	<u>(88)</u>	<u>(108)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 9,538	\$ 9,410	\$ 9,004	\$ 8,442	\$ 8,042	\$ 7,784
1.24%	0.96%	0.91%	0.91%	1.09%	1.39%

Notes to Required Supplementary Information

For the Year Ended June 30, 20X9

Changes of benefit terms – None.

Changes of assumptions – None.