



**Cavanaugh Macdonald**  
CONSULTING, LLC

*The experience and dedication you deserve*



**Teachers' Retirement System  
of the State of Kentucky  
Report of the Actuary on the  
Annual Valuation of the  
Retirement Annuity Trust**

**Prepared as of June 30, 2020**





# Cavanaugh Macdonald

CONSULTING, LLC

*The experience and dedication you deserve*

November 13, 2020

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

Members of the Board:

Section 161.400 of the law governing the operation of the Teachers' Retirement System of the State of Kentucky provides that the actuary shall make an actuarial valuation of the system. We have submitted the results of the annual actuarial valuation prepared as of June 30, 2020. While not verifying the data at source, the actuary performed tests for consistency and reasonability. The combined member and state contribution rates as a percentage of payroll for the fiscal year ending June 30, 2023 required to support the total benefits of the system are as follows:

Group	Combined Member and State Contribution Requirement
University members hired before July 1, 2008	36.81%
University members hired on or after July 1, 2008	37.81%
Non-University members hired before July 1, 2008	39.77%
Non-University members hired on or after July 1, 2008	40.77%

These rates represent an increase since the previous valuation in the total pension actuarially determined employer contribution rates (ADEC) of 0.51% of payroll for the fiscal year ending June 30, 2023.

A breakdown of the changes in the components of the ADEC are as follows:

- a decrease in the expected state special appropriation from 3.05% to 2.61%, or 0.44% of payroll,
- an increase in the amount required for life insurance benefits of 0.07% to 0.08% of payroll,
- the additional required increase of 0.96%, from 14.82% to 15.78%

The financing objective of the system is that contribution rates will remain relatively level over time as a percentage of payroll. The promised benefits of the system are included in the actuarially calculated contribution rates which are developed using the entry age normal cost method.



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Five-year market related value of plan assets is used for actuarial valuation purposes. Gains and losses are reflected in the total unfunded actuarial accrued liability that is being amortized by regular annual contributions as a level percentage of payroll in accordance with the funding policy adopted by the Board, on the assumption that payroll will increase by 3.5% annually. The assumptions recommended by the actuary and adopted by the Board are reasonably related to the experience under the system and to reasonable expectations of anticipated experience under the system.

We have prepared the trend information shown in the Schedule of Funding Progress in the Financial Section of the Annual Report and Schedule A, Schedule B, Schedule C, Solvency Test and Analysis of Financial Experience shown in the Actuarial Section of the Annual Report. We have also included a Sensitivity Analysis that is required under Actuarial Standards of Practice Statement No. 51 (ASOP 51).

This is to certify that the independent consulting actuary is a member of the American Academy of Actuaries and has experience in performing valuations for public retirement systems, that the assumptions and methods used for funding purposes meet the parameters set by Actuarial Standards of Practice, and that the actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the retirement system and on actuarial assumptions that are internally consistent and reasonably based on the actual experience of the system.

Future actuarial results may differ significantly from the current results presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Since the potential impact of such factors is outside the scope of a normal annual actuarial valuation, an analysis of the range of results is not presented herein.

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. We will continue to monitor the situation and advise the Board in the future of any adjustments that we believe would be appropriate.

This actuarial valuation was performed to determine the recommended funding amount for the system. The asset values used to determine unfunded actuarial accrued liabilities and funded ratios are not market values but less volatile market related values. A smoothing technique is applied to market values to determine the market-related values. The unfunded actuarial accrued liability amounts and funded ratios using the market value of assets would be different. The interest rate used for determining liabilities is based on the expected return of assets. Therefore, liability amounts in this report cannot be used to assess a settlement of the obligation.



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For fiscal years ending 2007 through 2018, the system was not funded on an actuarially sound basis as the full actuarially determined employer contributions were not made by the State. However, additional appropriations of \$553.6 million and \$538.3 million were made for fiscal years ending 2019 and 2020, respectively which was enough to satisfy the actuarially determined employer contributions. Also, it is our understanding that the state budget includes an additional appropriation to the pension plan equal to the ADEC for the 2021 fiscal year.

**If contributions by the employer to the system in subsequent fiscal years are less than those required, the assets are expected to become insufficient to pay promised benefits. However, assuming that contributions to the system are made by the employer and state from year to year in the future at rates recommended on the basis of the successive actuarial valuations, the continued sufficiency of the assets to provide the benefits called for under the system may be safely anticipated.**

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 – Summary of Principal Results

1. For convenience of reference, the principal results of the valuation and a comparison with the results of the previous valuation are summarized below (all dollar amounts are \$1,000's):

Valuation Date	June 30, 2020	June 30, 2019
Number of active members	73,151	72,647
Annual salaries	\$ 3,723,482	\$ 3,648,428
Number of annuitants and beneficiaries	56,629	55,613
Annual allowances	\$ 2,198,098	\$ 2,124,452
Assets:		
Market value	\$ 20,717,000	\$ 20,371,910
Actuarial value	20,796,494	20,154,161
Actuarial Accrued Liability	\$ 35,582,250	\$ 34,676,713
Unfunded Actuarial Accrued Liability (UAAL)	\$ 14,785,756	\$ 14,522,552
Funded Ratio based on Actuarial Value of Assets	58.4%	58.1%
Amortization period (years)	24.4	25.4

Contribution rates are shown separately for university and non-university members on the following pages.



## Section I – Summary of Principal Results

### CONTRIBUTION RATES FOR UNIVERSITY MEMBERS

Valuation Date	June 30, 2020		June 30, 2019	
For fiscal year ending:	June 30, 2023		June 30, 2022	
	Members hired before 7/1/2008	Members on and after 7/1/2008	Members hired before 7/1/2008	Members on and after 7/1/2008
Retirement Annuity Trust:				
Normal	10.570%	10.570%	10.690%	10.690%
Actuarial Accrued Liability	<u>26.240</u>	<u>27.240</u>	<u>25.610</u>	<u>26.610</u>
Total	36.810%	37.810%	36.300%	37.300%
Member	7.625%	7.625%	7.625%	7.625%
State	<u>29.185</u>	<u>30.185</u>	<u>28.675</u>	<u>29.675</u>
Total	36.810%	37.810%	36.300%	37.300%
Life Insurance Trust:				
State	0.080%	0.080%	0.070%	0.070%
Health Insurance Trust:				
Member	2.775%	2.775%	2.775%	2.775%
State Match	<u>2.775</u>	<u>1.775</u>	<u>2.775</u>	<u>1.775</u>
Total	5.550%	4.550%	5.550%	4.550%
Total Contributions	<u>42.440%</u>	<u>42.440%</u>	<u>41.920%</u>	<u>41.920%</u>
Member Statutory	10.400%	10.400%	10.400%	10.400%
State Statutory	13.650	13.650	13.650	13.650
Required Increase	15.780	15.780	14.820	14.820
State Special	<u>2.610</u>	<u>2.610</u>	<u>3.050</u>	<u>3.050</u>
Total	42.440%	42.440%	41.920%	41.920%



## Section I – Summary of Principal Results

### CONTRIBUTION RATES FOR NON-UNIVERSITY MEMBERS

Valuation Date	June 30, 2020		June 30, 2019	
For fiscal year ending:	June 30, 2023		June 30, 2022	
	Members hired before 7/1/2008	Members on and after 7/1/2008	Members hired before 7/1/2008	Members on and after 7/1/2008
Retirement Annuity Trust:				
Normal	14.820%	14.820%	14.840%	14.840%
Accrued liability	<u>24.950</u>	<u>25.950</u>	<u>24.420</u>	<u>25.420</u>
Total	39.770%	40.770%	39.260%	40.260%
Member	9.105%	9.105%	9.105%	9.105%
State	<u>30.665</u>	<u>31.665</u>	<u>30.155</u>	<u>31.155</u>
Total	39.770%	40.770%	39.260%	40.260%
Life Insurance Trust:				
State	0.080%	0.080%	0.070%	0.070%
Health Insurance Trust:				
Member	3.750%	3.750%	3.750%	3.750%
State Match	<u>3.750</u>	<u>2.750</u>	<u>3.750</u>	<u>2.750</u>
Total	7.500%	6.500%	7.500%	6.500%
Total Contributions	<u>47.350%</u>	<u>47.350%</u>	<u>46.830%</u>	<u>46.830%</u>
Member Statutory	12.855%	12.855%	12.855%	12.855%
State Statutory	16.105	16.105	16.105	16.105
Required Increase	15.780	15.780	14.820	14.820
State Special	<u>2.610</u>	<u>2.610</u>	<u>3.050</u>	<u>3.050</u>
Total	47.350%	47.350%	46.830%	46.830%





## Section I – Summary of Principal Results

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2. The valuation includes only the assets and liabilities associated with the pension plan. The valuation of the Health Insurance Fund and the active and retired life insurance benefits has been prepared separately.
3. Comments on the valuation results as of June 30, 2020 are given in Section IV and further discussion of the contribution levels is set out in Sections V and VI.
4. Schedule B shows the development of the actuarial value of assets. The assumed investment rate of return is 7.50%. Schedule D of this report outlines the full set of actuarial assumptions and methods employed in the current valuation. There have been no changes since the previous valuation.
5. Provisions of the system, as summarized in Schedule F, were taken into account in the current valuation. There have been no changes since the previous valuation.
6. The funded ratio shown in the Summary of Principal Results, is the ratio of actuarial value of assets to the actuarial accrued liability. The funded status would be different based on the market value of assets. The funded ratio is an indication of progress in funding the promised benefits. Since the ratio is less than 100%, there is a need for additional contributions toward the payment of the unfunded actuarial accrued liability. In addition, this funded ratio does not have any relationship to measuring the sufficiency if the plan had to settle its liabilities.



## Section II – Membership Data

1. Data regarding the membership of the system for use as a basis of the valuation were furnished by the retirement system office. The following table shows the number of active members and their annual salaries as of June 30, 2020 on the basis of which the valuation was prepared.

GROUP	NUMBER	ANNUAL SALARIES (\$1,000's)
University hired before 7/1/2008	1,294	\$ 98,639
University hired after 7/1/2008	1,827	93,852
Non-University Full Time hired before 7/1/2008	30,530	2,109,507
Non-University Full Time hired after 7/1/2008	26,638	1,340,951
Non-University Part Time hired before 7/1/2008	1,563	13,321
Non-University Part Time hired after 7/1/2008	<u>11,299</u>	<u>67,212</u>
Total	73,151	\$ 3,723,482

2. The following table shows the number and annual retirement allowances payable to annuitants and beneficiaries on the roll of the retirement system as of the valuation date.

**THE NUMBER AND ANNUAL RETIREMENT ALLOWANCES OF  
ANNUITANTS AND BENEFICIARIES ON THE ROLL  
AS OF JUNE 30, 2020**

GROUP	NUMBER	ANNUAL RETIREMENT ALLOWANCES <sup>1</sup> (\$1,000's)
Service Retirements	49,414	\$ 2,001,837
Disability Retirements	2,848	88,179
Beneficiaries of Deceased Members	<u>4,367</u>	<u>108,082</u>
Total	56,629	\$ 2,198,098

<sup>1</sup> Includes cost-of-living adjustments effective through July 1, 2020.

In addition, there are 9,139 terminated vested employees entitled to benefits in the future and 47,609 inactive non-vested members.

3. Table 1 of Schedule G shows a distribution by age and years of service of the number and annual salaries of active members included in the valuation, while Table 2 shows the number and annual retirement allowances of annuitants and beneficiaries included in the valuation, distributed by age.



## Section III – Assets

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1. As of June 30, 2020, the market value of pension plan assets for valuation purposes held by the system amounted to \$20,717,000,324. This value excludes assets in the Health Insurance Trust, the 403(b) Program Reserve Fund, and the Life Insurance Trust, which are not included in the assets used for pension plan valuation purposes. The investment return for the plan year ending June 30, 2020 on a market value basis was 5.47%. Schedule C shows the receipts and disbursements for the year preceding the valuation date and a reconciliation of the asset balances for the pension plan.
2. The five-year market related value of pension plan assets used for valuation purposes as of June 30, 2020 was \$20,796,494,009. The estimated investment return for the plan year ending June 30, 2020 on an actuarial value of assets basis was 7.03%, compared to the assumed investment rate of return for the period of 7.50%. Schedule B shows the development of the actuarial value of assets as of June 30, 2020.
3. Below is a history of actual investment rates of return for the pension plan over the past five years:

Fiscal Year End	Market Value Rate of Return	Actuarial Value Rate of Return
2020	5.5%	7.0%
2019	5.6%	7.1%
2018	10.5%	9.1%
2017	15.0%	9.3%
2016	-1.0%	7.6%



## Section IV – Comments on Valuation

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1. Schedule A of this report contains the valuation balance sheet which shows the present and prospective assets and liabilities of the system as of June 30, 2020. The valuation was prepared in accordance with the actuarial assumptions and the actuarial cost method, which are described in Schedule D and Schedule E.
2. The valuation balance sheet shows that the system has total prospective liabilities of \$17,194,675,575 for benefits expected to be paid on account of the present active members. The liability on account of benefits payable to annuitants and beneficiaries amounts to \$22,719,860,022 of which \$650,405,845 is for special appropriations remaining to be made toward funding ad hoc increases and sick leave allowances granted after 1981. The liability for benefits expected to be paid to inactive members and to members entitled to deferred vested benefits is \$438,783,047. The total prospective liabilities of the system amounts to \$40,353,318,644. Against these liabilities, the system has present assets for valuation purposes of \$20,796,494,009. When this amount is deducted from the total liabilities of \$40,353,318,644, there remains \$19,556,824,635 as the present value contributions to be made in the future.
3. The employer's contributions to the system consist of normal contributions and actuarial accrued liability contributions. The valuation indicates that employer normal contributions at the rate of 10.57% of payroll for University and 14.82% of payroll for Non-University are required.
4. Prospective normal employer and employee contributions have a present value of \$4,771,069,098. When this amount is subtracted from \$19,556,824,635, which is the present value of the total future contributions to be made by the employer, there remains \$14,785,755,537 as the amount of future unfunded actuarial accrued liability contributions.
5. The unfunded actuarial accrued liability increased by approximately \$263.2 million for the plan year ending June 30, 2020, however, the funding ratio increased from 58.1% to 58.4%. See Section VII for a complete breakdown of the experience of the system.



## Section V – Contributions Payable Under the System

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1. Section 161.540 of the retirement law provides that each university member contribute 10.400% of annual salary to the system and each non-university member contribute 12.855% of annual salary. Of this amount, for each university member, 2.775% is paid to the Health Insurance Trust for medical benefits and for each non-university member, 3.75% is paid to the Health Insurance Trust for medical benefits. The remainder, 7.625% for university members and 9.105% for non-university members, is applicable for the retirement benefits taken into account in the valuation.
2. Section 161.550 provides that the State will match a portion of the member contributions and contribute a supplemental 3.25% of members' salaries towards discharging the system's unfunded obligations. Additional contributions are made to the Health Insurance Trust as required under 161.550(3).
3. Therefore for university members, 10.875% of the salaries of active members who become members before July 1, 2008 and 11.875% of the salaries of active members who become members on or after July 1, 2008 is funded by statute or supplemental funding for the pension plan and Life Insurance Trust. For non-university members, 12.355% of the salaries of active members who become members before July 1, 2008 and 13.355% of the salaries of active members who become members on or after July 1, 2008 is funded by statute or supplemental funding for the pension plan and Life Insurance Trust. Of these amounts, 0.08% of payroll will be allocated to the Life Insurance Trust. Based on the results of the valuation, an additional 15.78% of payroll for both university and non-university will be required in order to maintain the amortization of the unfunded actuarial accrued liability of the pension plan based on the funding policy adopted by the Board. An additional special appropriation of 2.61% of total payroll will be made by the State. Therefore, the total actuarially determined employer contribution rate to the pension plan is 29.185% for university members who become members before July 1, 2008 and 30.185% for university members who become members on or after July 1, 2008. The total actuarially determined employer contribution rate to the pension plan is 30.665% for non-university members who become members before July 1, 2008 and 31.665% for non-university members who become members on or after July 1, 2008. The total member and employer contribution rates to the pension plan are shown in the following tables.



## Section V – Contributions Payable Under the System

### CONTRIBUTION RATES BY SOURCE

#### UNIVERSITY

	Members hired before 7/1/2008	Members hired on and after 7/1/2008
<b><u>Member</u></b>		
Statutory Total	10.400%	10.400%
Statutory Health Insurance Trust	<u>(2.775)</u>	<u>(2.775)</u>
Contribution to Retirement Annuity Trust	7.625%	7.625%
<b><u>Employer</u></b>		
Statutory Matching Total	10.400%	10.400%
Statutory Health Insurance Trust	(2.775)	(1.775)
Supplemental Funding	<u>3.250</u>	<u>3.250</u>
Subtotal	10.875%	11.875%
Life Insurance Trust	(0.080)%	(0.080)%
Additional to Comply with Board Funding Policy	15.780	15.780
Special Appropriation	<u>2.610</u>	<u>2.610</u>
Contribution to Retirement Annuity Trust	29.185%	30.185%
Total Contribution to Retirement Annuity Trust	36.810%	37.810%



## Section V – Contributions Payable Under the System

### CONTRIBUTION RATES BY SOURCE

#### NON-UNIVERSITY

	Members hired before 7/1/2008	Members hired on and after 7/1/2008
<b><u>Member</u></b>		
Statutory Total	12.855%	12.855%
Statutory Medical Insurance Trust	<u>(3.750)</u>	<u>(3.750)</u>
Contribution to Retirement Annuity Trust	9.105%	9.105%
<b><u>Employer</u></b>		
Statutory Matching Total	12.855%	12.855%
Statutory Medical Insurance Trust	(3.750)	(2.750)
Supplemental Funding	<u>3.250</u>	<u>3.250</u>
Subtotal	12.355%	13.355%
Life Insurance Trust	(0.080)%	(0.080)%
Additional to Comply with Board Funding Policy	15.780	15.780
Special Appropriation	<u>2.610</u>	<u>2.610</u>
Contribution to Retirement Annuity Trust	30.665%	31.665%
Total Contribution to Retirement Annuity Trust	39.770%	40.770%

4. The valuation indicates that normal contributions at the rate of 10.57% of active university members' salaries and 14.82% of active non-university members' salaries are required. The difference between the total contribution rate and the normal rate remains to be applied toward the liquidation of the unfunded actuarial accrued liability. This actuarial accrued liability rate, based on the assumptions set forth in the Board's funding policy, is 26.24% for university members hired before July 1, 2008, 27.24% for university members hired on and after July 1, 2008, 24.95% for non-university members hired before July 1, 2008, and 25.95% for non-university members hired on and after July 1, 2008. These rates include special appropriations of 2.61% of payroll to be made by the State. These rates are shown in the following table:



## Section V – Contributions Payable Under the System

### ACTUARIALLY DETERMINED CONTRIBUTION RATES

RATE	PERCENTAGE OF ACTIVE MEMBERS' SALARIES			
	UNIVERSITY		NON-UNIVERSITY	
	Members hired before 7/1/2008	Members hired on and after 7/1/2008	Members hired before 7/1/2008	Members hired on and after 7/1/2008
Normal	10.57%	10.57%	14.82%	14.82%
Actuarial Accrued liability*	<u>26.24</u>	<u>27.24</u>	<u>24.95</u>	<u>25.95</u>
Total	36.81%	37.81%	39.77%	40.77%

\* Includes special appropriations of 2.61% of payroll to be made by the State.

5. The following table shows the components of the total Unfunded Actuarial Accrued Liability (UAAL) and the derivation of the UAAL contribution rate in accordance with the funding policy:

### TOTAL UAAL AND UAAL CONTRIBUTION PAYMENT

(Dollar amounts in thousands)

	ORIGINAL UAAL	CURRENT UAAL	REMAINING AMORTIZATION PERIOD (YEARS)	AMORTIZATION PAYMENT
Legacy	\$14,010,205	\$15,243,438	24	\$985,971
New Incremental 6/30/2015	(351,610)	(341,789)	15	(30,451)
New Incremental 6/30/2016	340,766	334,601	16	28,430
New Incremental 6/30/2017	(428,468)	(424,616)	17	(34,538)
New Incremental 6/30/2018	(192,240)	(191,635)	18	(14,972)
New Incremental 6/30/2019	53,306	53,293	19	4,011
New Incremental 6/30/2020	112,464	<u>112,464</u>	20	<u>8,177</u>
Total UAAL		\$14,785,756		\$946,628
Blended amortization period (years)				24.4





## Section VI – Comments on Level of Funding

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1. Our calculations indicate that the contribution rates shown in the previous section will be sufficient to cover the benefits of the system, the annual 1.5% increases in the allowances of retired members and beneficiaries, and the liabilities for ad hoc increases and sick leave allowances granted after 1981.
2. The valuation indicates that the present statutory contribution rates, supplemental funding and special appropriations, if continued at the current level percentage, along with an additional required contribution of 15.78%, are sufficient to meet the cost of benefits currently accruing and provide for the amortization of the unfunded actuarial accrued liability in accordance with the Board funding policy. However, as existing special contributions expire, the statutory contributions or supplemental funding may be required to increase as an equal percentage of payroll.



## Section VI – Comments on Level of Funding

3. There are no excess assets or contributions available to provide additional benefits, and there is a cumulative increase in the required employer contribution of 15.78% of payroll for the fiscal year ending June 30, 2023, as shown in the following table:

<u>Valuation Date</u>	<u>Fiscal Year</u>	<u>Increase/ (Decrease)</u>	<u>Cumulative Increase</u>	<u>Amount</u>
June 30, 2004	June 30, 2007	0.11%	0.11%	\$ 3,174,600
June 30, 2005	June 30, 2008	1.21	1.32	38,965,900
June 30, 2006	June 30, 2009	0.56	1.88	60,499,800
June 30, 2007	June 30, 2010	0.58	2.46	82,331,200
June 30, 2008	June 30, 2011	1.13	3.59	121,457,000
June 30, 2009	June 30, 2012	2.22	5.81	208,649,000
June 30, 2010	June 30, 2013	1.46	7.27	260,980,000
June 30, 2011	June 30, 2014	0.75	8.02	299,420,000
June 30, 2012	June 30, 2015	2.40	10.42	386,400,000
June 30, 2013	June 30, 2016	2.55	12.97	487,400,000
June 30, 2014	June 30, 2017	0.83	13.80	520,372,000
June 30, 2015	June 30, 2018	(0.31)	13.49	512,883,000
June 30, 2016	June 30, 2019	1.12	14.61	553,597,000
June 30, 2017	June 30, 2020	(0.51)	14.10	538,253,000
June 30, 2018	June 30, 2021	0.17	14.27	551,092,000
June 30, 2019	June 30, 2022	0.55	14.82	579,208,000
June 30, 2020	June 30, 2023	0.96	15.78	629,415,000

The amounts above are calculated by the actuary as the minimum additional dollar amount to be contributed by the State in order to comply with the Board's funding policy. Effective September 21, 2020, 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%. In addition, as existing special contributions expire, the statutory contributions or supplemental funding may be required to increase as an equal percentage of payroll, in order to amortize the unfunded actuarial accrued liability in accordance with the Board funding policy. Any further benefit improvements must be accompanied by the entire additional contributions necessary to support the benefits.



## Section VII – Analysis of Financial Experience

The following table shows the estimated gain or loss from various factors that resulted in an increase of \$263,203,640 in the unfunded actuarial accrued liability from \$14,522,551,897 to \$14,785,755,537 during the year ending June 30, 2020. The increase in the unfunded actuarial accrued liability was primarily due to demographic losses in turnover and retirement, as well as investment return on an actuarial value basis that was less than expected. These losses were partially offset by a gain in salary increases that were less than expected.

### **ANALYSIS OF FINANCIAL EXPERIENCE**

(Dollar amounts in thousands)

ITEM	AMOUNT OF INCREASE/ (DECREASE)
Interest (7.50%) added to previous unfunded actuarial accrued liability	\$ 1,089,191
Expected actuarial accrued liability contribution	(961,029)
Experience:	
Valuation asset growth	92,211
Pensioners' mortality	33,916
Turnover and retirements	70,319
New entrants	44,463
Salary increases	(105,867)
Amendments	0
Assumption changes	0
Method changes	0
Total	\$ 263,204



## Section VIII – Accounting Information

The information required under Governmental Accounting Standards Board (GASB) Statements No. 67 and 68 will be issued in separate reports. The following information is provided for informational purposes only.

- The following is a distribution of the number of employees by type of membership.

### NUMBER OF ACTIVE AND RETIRED MEMBERS AS OF JUNE 30, 2020

GROUP	NUMBER
Retirees and beneficiaries currently receiving benefits	56,629
Terminated vested employees entitled to benefits but not yet receiving benefits	9,139
Inactive non-vested members	47,609
Active plan members	<u>73,151</u>
Total	186,528

- The schedule of funding progress is shown below.

### SCHEDULE OF FUNDING PROGRESS (Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Annual Salaries (c)	UAAL as a Percentage of Annual Salaries ((b - a) / c)
6/30/2015	\$17,219,520	\$31,149,962	\$13,930,442	55.3%	\$3,515,113	396.3%
6/30/2016*	17,496,894	32,028,227	14,531,333	54.6	3,537,226	410.8
6/30/2017	18,514,638	32,819,887	14,305,249	56.4	3,563,584	401.4
6/30/2018	19,496,056	33,795,671	14,299,615	57.7	3,605,116	396.6
6/30/2019	20,154,161	34,676,713	14,522,552	58.1	3,648,428	398.0
6/30/2020	20,796,494	35,582,250	14,785,756	58.4	3,723,482	397.1

\* Reflects change in assumptions



## Section VIII – Accounting Information

3. The information presented above was determined as part of the actuarial valuation at June 30, 2020. Additional information as of the latest actuarial valuation follows.

Valuation date	6/30/2020
Actuarial cost method	Entry Age
Amortization method	Level percent of pay, closed
Remaining amortization period	24.4 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment Rate of Return*	7.50%
Projected salary Increases**	3.50% - 7.30%
Cost-of-living adjustments	1.50% Annually
*Includes price inflation at	3.00%
**Includes wage inflation at	3.50%

### SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ending June 30	Actuarially Determined Employer Contributions	Actual Employer Contributions	Percentage Contributed
2015	\$ 913,653,854	\$ 559,579,290	61%
2016	999,270,174	565,454,590	57
2017	1,076,617,093	1,060,719,993	99
2018	1,080,892,201	1,048,671,201	97
2019	1,123,034,823	1,123,034,823	100
2020	1,134,281,095	1,134,281,095	100



## Section IX – Risk Assessment

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Actuarial Standards of Practice (ASOP) No. 51, issued by the Actuarial Standards Board, provides guidance on assessing and disclosing risks related to pension plan funding. This guidance is binding on all credentialed actuaries practicing in the United States. This standard was issued as final in September 2017 with application to measurement dates on or after November 1, 2018.

The term “risk” frequently has a negative connotation, but from an actuarial perspective, it may be thought of as simply the fact that what actually happens in the real world will not always match what was expected, based on actuarial assumptions. Of course, when actual experience is better than expected, the favorable risk is easily absorbed. The risk of unfavorable experience will likely be unpleasant, and so there is an understandable focus on aspects of risk that are negative.

Risk usually can be reduced or eliminated at some cost. Consumers, for example, buy auto and home insurance to reduce the risk associated with accidents or catastrophes. Another way to express this concept, however, is that there is generally some reward for assuming risk. Thus, retirement plans invest not just in US Treasury bonds which have almost no risk, but also in equities which are considerably riskier – because they have an expected reward of a higher return that justifies the risk.

Under ASOP 51, the actuary is called on to identify the significant risks to the pension plan and provide information to help those sponsoring and administering the plan understand the implications of these risks. In this section, we identify some of the key risks for the Plan and provide information to help interested parties better understand these risks.



## Section IX – Risk Assessment

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### *Sensitivity Analysis*

The valuation results are a projection of expected benefit payments based on the actuarial assumptions. Actual experience will differ from these assumptions, either increasing or decreasing liabilities and valuation results. The charts on the following pages provide a simple analysis on how the costs are sensitive to changes in the assumed discount rate, the assumed price inflation rate and the rate of wage inflation. The charts show the actuarial accrued liability, the unfunded actuarial accrued liability, the funded ratio and the employer contribution rate under each of the following scenarios:

- **TABLE 1** - The discount rate assumption sensitivity analysis shows the valuation results with the baseline discount rate assumption, 7.50%, together with an increase and a decrease of 1.00% in the discount rate. Under this scenario, the underlying price inflation rate assumption is held constant at 3.00% and the wage inflation assumption is held constant at 3.50%.
- **TABLE 2** - The price inflation assumption sensitivity analysis shows the valuation results with the baseline underlying price inflation rate assumption, 3.00%, together with decreases in the price inflation rate to 2.75% and 2.50%. Under this scenario, the decrease in the underlying price inflation rate assumption leads to corresponding decreases in the discount rate (7.25% and 7.00%, respectively), the wage inflation assumption (3.25% and 3.00%, respectively), and the assumed rates of salary increase for active members.
- **TABLE 3** - The wage inflation assumption sensitivity analysis shows the valuation results with the baseline underlying wage inflation assumption, 3.50%, together with decreases in the wage inflation assumption to 2.00% and 0.00%. Under this scenario, all other assumptions, including the individual member salary scale, are held constant so that the only impact is in the amortization of the unfunded actuarial accrued liability, leading to higher employer contribution rates.



## Section IX – Risk Assessment

TABLE 1

TEACHERS' RETIREMENT SYSTEM OF KENTUCKY ASSUMED DISCOUNT RATE SENSITIVITY ANALYSIS AS OF JUNE 30, 2020			
	(\$1,000's)		
	Decrease Discount Rate	Valuation Results	Increase Discount Rate
Actuarial Accrued Liability	\$ 39,646,802	\$ 35,582,250	\$ 32,170,538
Actuarial Value of Assets	<u>20,796,494</u>	<u>20,796,494</u>	<u>20,796,494</u>
Unfunded Actuarial Accrued Liability	\$ 18,850,308	\$ 14,785,756	\$ 11,374,044
Funded Ratio	52.5%	58.4%	64.6%
Employer ADEC – University*	38.815%	30.185%	22.675%
Employer ADEC – Non-University*	40.295%	31.665%	24.155%
Discount Rate	6.50%	7.50%	8.50%
Wage Inflation Rate	3.50%	3.50%	3.50%
Price Inflation Rate	3.00%	3.00%	3.00%

\* Less 1% for members hired before July 1, 2008.

TABLE 2

TEACHERS' RETIREMENT SYSTEM OF KENTUCKY PRICE INFLATION ASSUMPTION SENSITIVITY ANALYSIS AS OF JUNE 30, 2020			
	(\$1,000's)		
	Valuation Results	Decrease Inflation Rate 0.25%	Decrease Inflation Rate 0.50%
Actuarial Accrued Liability	\$ 35,582,250	\$ 36,409,033	\$ 37,270,778
Actuarial Value of Assets	<u>20,796,494</u>	<u>20,796,494</u>	<u>20,796,494</u>
Unfunded Actuarial Accrued Liability	\$ 14,785,756	\$ 15,612,539	\$ 16,474,284
Funded Ratio	58.4%	57.1%	55.8%
Employer ADEC – University*	30.185%	32.255%	34.425%
Employer ADEC – Non-University*	31.665%	33.735%	35.905%
Discount Rate	7.50%	7.25%	7.00%
Wage Inflation Rate	3.50%	3.25%	3.00%
Price Inflation Rate	3.00%	2.75%	2.50%

\* Less 1% for members hired before July 1, 2008.





## Section IX – Risk Assessment

TABLE 3

TEACHERS' RETIREMENT SYSTEM OF KENTUCKY WAGE INFLATION ASSUMPTION SENSITIVITY ANALYSIS AS OF JUNE 30, 2020			
	((\$1,000's))		
	Valuation Results	Decrease Wage Inflation to 2%	No Wage Inflation
Actuarial Accrued Liability	\$ 35,582,250	\$ 35,582,250	\$ 35,582,250
Actuarial Value of Assets	<u>20,796,494</u>	<u>20,796,494</u>	<u>20,796,494</u>
Unfunded Actuarial Accrued Liability	\$ 14,785,756	\$ 14,785,756	\$ 14,785,756
Funded Ratio	58.4%	58.4%	58.4%
Employer ADEC – University*	30.185%	34.395%	40.685%
Employer ADEC – Non-University*	31.665%	35.875%	42.165%
Discount Rate	7.50%	7.50%	7.50%
Wage Inflation Rate	3.50%	2.00%	0.00%
Price Inflation Rate	3.00%	3.00%	3.00%

\* Less 1% for members hired before July 1, 2008.



## Schedule A – Valuation Balance Sheet and Solvency Test

SHOWING THE PRESENT AND PROSPECTIVE ASSETS AND LIABILITIES  
AS OF JUNE 30, 2020  
(Dollar amounts in thousands)

<b>ACTUARIAL LIABILITIES</b>		
(1)	Present value of prospective benefits payable on account of present active members	
-	Service retirement benefits	\$ 16,088,383
-	Disability retirement benefits	707,182
-	Death and survivor benefits	129,283
-	Refunds of member contributions	<u>269,828</u>
	Total	\$ 17,194,676
(2)	Present value of prospective benefits payable on account of present retired and disabled members, and beneficiaries of deceased members	
-	Service retirement benefits	\$ 20,997,811
-	Disability retirement benefits	837,243
-	Death and survivor benefits	<u>884,806</u>
	Total	\$ 22,719,860
(3)	Present value of prospective benefits payable on account of inactive members and members entitled to deferred vested benefits	\$ <u>438,783</u>
(4)	TOTAL ACTUARIAL LIABILITIES	<u>\$ 40,353,319</u>
<b>PRESENT AND PROSPECTIVE ASSETS</b>		
(5)	Actuarial value of assets	\$ 20,796,494
(6)	Present value of total future contributions = (4)-(5)	\$ 19,556,825
(7)	Present value of future member contributions and employer normal contributions	\$ 4,771,069
(8)	Prospective unfunded actuarial accrued liability contributions = (6)-(7)	<u>\$ 14,785,756</u>
(9)	TOTAL PRESENT AND PROSPECTIVE ASSETS	<u>\$ 40,353,319</u>



## Schedule A – Valuation Balance Sheet and Solvency Test

### SOLVENCY TEST (Dollar amounts in millions)

Valuation Date	<u>Aggregate Actuarial Accrued Liability For</u>			Valuation Assets	<u>Portion of Accrued Liabilities Covered by Assets</u>		
	(1)	(2)	(3)		(1)	(2)	(3)
	Active Member Contributions	Retirants And Beneficiaries	Active Members (Employer Financed Portion)				
6/30/2015	\$3,700.6	\$19,522.5	\$7,926.8	\$17,219.5	100%	69%	0%
6/30/2016	3,756.0	20,416.4	7,855.8	17,496.9	100	67	0
6/30/2017	3,849.9	21,108.0	7,862.1	18,514.6	100	69	0
6/30/2018	3,927.8	21,922.5	7,945.4	19,496.1	100	71	0
6/30/2019	4,022.4	22,601.6	8,052.7	20,154.2	100	71	0
6/30/2020	4,158.7	23,158.6	8,265.0	20,796.5	100	72	0



## Schedule B – Development of the Actuarial Value of Assets

AS OF JUNE 30, 2020

(1)	Actuarial Value of Assets Beginning of Year	\$ 20,154,160,629
(2)	Net Position at Market Value at End of Year	\$ 20,717,000,324
(3)	Net Position at Market Value at Beginning of Year	\$ 20,371,909,905
(4)	Cash Flow	
a.	Contributions	\$ 1,458,945,150
b.	Benefit Payments	2,195,711,458
c.	Administrative Expense	<u>12,166,651</u>
d.	Net: (4)a – (4)b – (4)c	\$ (748,932,959)
(5)	Investment Income	
a.	Market total: (2) – (3) – (4)d	\$ 1,094,023,378
b.	Assumed Rate	7.50%
c.	Amount for Immediate Recognition: [ (3) x (5)b ] + [ (4)d x (5)b x 0.5 ]	\$ 1,499,808,257
d.	Amount for Phased-In Recognition: (5)a – (5)c	\$ (405,784,879)
(6)	Phased-In Recognition of Investment Income	
a.	Current Year: 0.20 x (5)d	\$ (81,156,976)
b.	First Prior Year	(77,474,783)
c.	Second Prior Year	115,121,921
d.	Third Prior Year	247,314,724
e.	Fourth Prior Year	<u>(312,346,804)</u>
f.	Total Recognized Investment Gain	\$ (108,541,918)
(7)	Actuarial Value of Assets End of Year: (1) + (4)d + (5)c + (6)f	\$ 20,796,494,009
(8)	Difference Between Market & Actuarial Values: (2) – (7)	\$ (79,493,685)
(9)	Net Investment Rate of Return on Actuarial Value:	7.03%



## Schedule C – Summary of Receipts and Disbursements

### SUMMARY OF RECEIPTS AND DISBURSEMENTS\* (Market Value)

	For the Year Ending	
	June 30, 2020	June 30, 2019
<b>Receipts for the Year</b>		
Contributions		
Members	\$ 324,664,055	\$ 321,172,166
Employers	<u>1,134,281,095</u>	<u>1,123,034,823</u>
Total	1,458,945,150	1,444,206,989
Net Investment Income	<u>1,094,023,378</u>	<u>1,085,189,349</u>
<b>TOTAL</b>	<b>\$ 2,552,968,528</b>	<b>\$ 2,529,396,338</b>
<b>Disbursements for the Year</b>		
Benefit Payments	\$ 2,167,239,241	\$ 2,094,364,072
Refunds to Members	28,472,217	32,403,149
Miscellaneous, including expenses	<u>12,166,651</u>	<u>12,352,308</u>
<b>TOTAL</b>	<b>\$ 2,207,878,109</b>	<b>\$ 2,139,119,529</b>
<b>Excess of Receipts over Disbursements</b>	<b>\$ 345,090,419</b>	<b>\$ 390,276,809</b>
<b>Reconciliation of Net Position</b>		
Net Position as of the Beginning of the Year	\$ 20,371,909,905	\$ 19,981,633,096
Excess of Receipts over Disbursements	<u>345,090,419</u>	<u>390,276,809</u>
Net Position as of the End of the Year	<u><u>\$ 20,717,000,324</u></u>	<u><u>\$ 20,371,909,905</u></u>
Net Investment Rate of Return on Market Value	5.5%	5.6%

\* Excludes assets for Health Insurance Trust, the 403(b) Program Reserve Fund and the Life Insurance Trust.



## Schedule D – Outline 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, 2015, submitted to and adopted by the Board on September 19, 2016.

INVESTMENT RATE OF RETURN: 7.50% per annum, compounded annually, including price inflation at 3.00% per annum.

SALARY INCREASES: Representative values of the assumed annual rates of future salary increases are as follows and include wage inflation at 3.50% per annum:

<u>Age</u>	<u>Annual Rate</u>
20	7.20%
25	6.40
30	5.40
35	4.70
40	4.20
45	3.80
50	3.70
55	3.50
60	3.50
65	3.50

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

### Males

Age	Annual Rate of						
	DEATH	DISABILITY	WITHDRAWAL			RETIREMENT	
			Service			Before 27 Years of Service	After 27 Years of Service*
			0 – 4	5 – 9	10+		
20	0.019%	0.01%	11.00%				
25	0.021	0.01	11.00	3.00%			
30	0.025	0.01	11.00	3.00	3.00%		
35	0.043	0.04	12.00	3.50	1.40		
40	0.060	0.09	12.00	4.50	1.40		
45	0.084	0.20	12.00	4.50	1.30		17.0%
50	0.119	0.30	14.00	4.50	1.90		17.0
55	0.202	0.58	15.00	4.50	2.40	5.0%	45.0
60	0.340	0.75	15.00	4.00	2.40	13.0	35.0
62	0.419	0.75	15.00	3.80	2.40	15.0	25.0
65	0.565	0.75	15.00	3.50	2.40	20.0	25.0
70	0.913	0.75	20.00	0.00	0.00	20.0	20.0
75	1.556	0.75	20.00	0.00	0.00	100.0	100.0

\*Plus 7.5% in year when first eligible for unreduced retirement with 27 years of service.



## Schedule D – Outline of Actuarial Assumptions and Methods

### Females

Age	Annual Rate of						
	DEATH	DISABILITY	WITHDRAWAL			RETIREMENT	
			Service			Before 27 Years of Service	After 27 Years of Service*
			0 – 4	5 – 9	10+		
20	0.007%	0.01%	9.00%				
25	0.008	0.01	9.00	4.00%			
30	0.010	0.03	12.00	4.00	1.65%		
35	0.018	0.06	12.00	4.00	1.50		
40	0.026	0.12	12.00	4.00	1.30		
45	0.042	0.25	13.00	4.00	1.20		15.0%
50	0.062	0.44	13.00	5.00	1.50		18.0
55	0.096	0.65	15.00	5.00	2.00	5.5%	50.0
60	0.157	0.85	15.00	5.00	2.00	14.0	40.0
62	0.197	0.85	15.00	4.60	2.00	14.0	40.0
65	0.287	0.85	15.00	4.00	2.00	22.0	35.0
70	0.495	0.85	15.00	0.00	0.00	20.0	35.0
75	0.831	0.85	15.00	0.00	0.00	100.0	100.0

\*Plus 7.5% in year when first eligible for unreduced retirement with 27 years of service.

**DEATHS AFTER RETIREMENT:** The RP-2000 Combined Mortality Table projected to 2025 using scale BB (set forward two years for males and one year for females) is used for death after service retirement and beneficiaries. The RP-2000 Disabled Mortality Table (set forward two years for males and seven years for females) is used for death after disability retirement. There is a margin for future mortality improvement in the tables used by the system. Based on the results of the most recent experience study adopted by the Board on September 19, 2016, the numbers of expected future deaths are 15-19% less than the actual number of deaths that occurred during the study period for healthy retirees and 13-17% less than expected under the selected table for disabled retirees. Representative values of the assumed annual rates of death after service retirement and after disability retirement are shown below:

Age	Annual Rate of Death After			
	Service Retirement		Disability Retirement	
	Male	Female	Male	Female
45	0.1609%	0.1135%	2.3306%	1.2482%
50	0.2474	0.1718	2.9279	1.5650
55	0.4246	0.2658	3.4400	1.7807
60	0.6985	0.4409	3.5881	2.3164
65	1.1300	0.8100	3.8275	3.1687
70	1.8697	1.3739	4.7566	4.4032
75	3.2147	2.2899	6.3153	6.0857
80	5.5160	3.7551	8.3527	8.4679
85	9.5631	6.3873	10.9122	12.7572
90	17.2787	11.2476	17.2787	19.4718
95	27.1263	18.1190	27.1263	24.2074



## **Schedule D – Outline of Actuarial Assumptions and Methods**

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ASSETS: Five-year market related actuarial value, as developed in Schedule B. The actuarial value of assets recognizes a portion of the difference between the market value of assets and the expected actuarial value of assets, based on the ultimate assumed valuation rate of return of 7.50%. The amount recognized each year is 20% of the difference between market value and expected actuarial value.

EXPENSE LOAD: None.

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

LOADS: Unused sick leave: 2% of active liability





## Schedule E – Actuarial Cost Method

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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 (currently at 7.50%), of each active member's expected benefit at retirement or death is determined, based on his/her age, service, sex and compensation. The calculations take into account 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/her 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 actuarial 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/her anticipated covered service, would be required in addition to the contributions of the member to meet the cost of all benefits payable on his/her behalf.
4. The unfunded actuarial 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 F – Summary of Main System Provisions

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### AS INTERPRETED FOR VALUATION PURPOSES

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, 2020. 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	<p>The annual retirement allowance for non-university members is equal to:</p> <ul style="list-style-type: none"><li>(a) 2.0% of final average salary multiplied by service before July 1, 1983, plus</li><li>(b) 2.5% of final average salary multiplied by service after July 1, 1983.</li><li>(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.</li></ul>



## Schedule F – Summary of Main System Provisions

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- (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.

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 F – Summary of Main System Provisions

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### Disability Retirement Allowance

#### Condition for Allowance

Totally and permanently incapable of being employed as a teacher and under 27 years of service but after completing 5 years of service.

#### Amount of Allowance

The disability allowance is equal to 60% of the member's final average salary. The disability allowance is payable over an entitlement period equal to 25% of the service credited to the member at the date of disability or five years, whichever is longer. After the disability entitlement period has expired and if the member remains disabled, he will be retired under service retirement. The service retirement allowance will be computed with service credit given for the period of disability retirement. The allowance will not be less than \$6,000 per year. The service retirement allowance will not be reduced for commencement of the allowance before age 60 or the completion of 27 years of service.

### Benefits Payable on Separation from Service

Any member who ceases to be in service is entitled to receive his contributions with allowable interest. A member who has completed 5 years of creditable service and leaves his contributions with the system may be continued in the membership of the system after separation from service, and file application for service retirement after the attainment of age 60.

### Life Insurance

A separate Life Insurance Trust has been created as of June 30, 2000 to pay benefits on behalf of deceased TRS active and retired members.



## Schedule F – Summary of Main System Provisions

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### 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.



## Schedule F – Summary of Main System Provisions

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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.

### 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 G – Tables of Employee Data

**TABLE 1**  
**AGE – SERVICE TABLE**

Distribution of Active Members as of June 30, 2020 by Age and Service Groups

Attained Age	Completed Years of Service									Total	
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 & Over	No.	Payroll
Under 25	1,644	1,754	4							3,402	\$ 82,097,488
25 to 29	963	4,538	1,801							7,302	292,413,583
30 to 34	660	1,914	4,403	1,546	3					8,526	408,737,279
35 to 39	645	1,540	2,187	4,310	1,627	2				10,311	556,918,177
40 to 44	604	1,244	1,362	2,058	4,210	1,270	5			10,753	630,994,996
45 to 49	450	946	1,046	1,422	2,042	3,849	1,095	2		10,852	683,664,756
50 to 54	614	713	674	988	1,316	1,844	2,184	368	3	8,704	537,397,081
55 to 59	881	844	432	583	877	941	854	248	42	5,702	297,546,435
60 to 64	772	938	318	255	455	464	360	112	50	3,724	149,382,482
65 to 69	605	820	270	126	138	173	130	50	47	2,359	60,865,741
70 & Over	407	610	266	72	56	37	33	14	21	1,516	23,463,558
Total Count	8,245	15,861	12,763	11,360	10,724	8,580	4,661	794	163	73,151	\$ 3,723,481,576

Average Age: 43.8  
Average Service: 11.1



## Schedule G – Tables of Employee Data

TABLE 2

### SCHEDULE OF ACTIVE MEMBER VALUATION DATA

<u>Valuation Date</u>	<u>Number</u>	<u>Annual Payroll</u>	<u>Annual Average Pay</u>	<u>% Increase in Average Pay</u>
6/30/2020	73,151	\$ 3,723,481,576	\$ 50,901	1.35%
6/30/2019	72,647	3,648,427,710	50,221	0.58
6/30/2018	72,205	3,605,115,787	49,929	1.06
6/30/2017	72,130	3,563,584,342	49,405	0.35
6/30/2016	71,848	3,537,226,348	49,232	1.19
6/30/2015	72,246	3,515,113,127	48,655	2.45
6/30/2014	73,407	3,486,326,799	47,493	2.12
6/30/2013	74,831	3,480,066,406	46,506	1.51
6/30/2012	75,951	3,479,567,004	45,813	1.33
6/30/2011	76,349	3,451,756,287	45,210	3.97





## Schedule G – Tables of Employee Data

TABLE 3

**NUMBER OF RETIRED MEMBERS AND BENEFICIARIES  
AND THEIR BENEFITS BY AGE  
AS OF JUNE 30, 2020**

Attained Age	Number of Members	Total Annual Benefits	Average Annual Benefits
49 & Under	842	\$ 10,508,714	\$ 12,481
50 - 54	1,559	64,582,634	41,426
55 - 59	4,207	186,408,305	44,309
60 - 64	7,274	308,255,456	42,378
65 - 69	11,727	482,331,176	41,130
70 - 74	13,753	537,860,706	39,109
75 - 79	8,176	308,673,013	37,754
80 - 84	4,798	168,549,094	35,129
85 - 89	2,691	86,189,692	32,029
90 - 94	1,212	35,037,099	28,908
95 & Over	<u>390</u>	<u>9,702,024</u>	<u>24,877</u>
Total	56,629	\$ 2,198,097,913	\$ 38,816

Average Current Age: 70.4

Average Age at Retirement: 56.2



## Schedule G – Tables of Employee Data

TABLE 4

### SCHEDULE OF RETIRANTS, BENEFICIARIES AND SURVIVORS ADDED TO AND REMOVED FROM ROLLS

Fiscal Year Ending June 30	ADDED TO ROLLS		REMOVED FROM ROLLS		ROLLS AT END OF YEAR		Increase In Annual Allowances	Average Annual Allowance
	Number	Annual Allowances (in millions)	Number	Annual Allowances (in millions)	Number	Annual Allowances (in millions)		
2011	2,133	\$98.9	848	\$17.7	44,419	\$1,433.4	6.0%	\$32,270
2012	2,513	111.2	838	19.4	46,094	1,525.2	6.4%	33,089
2013	2,303	105.7	991	22.2	47,406	1,608.7	5.5%	33,934
2014	2,146	99.6	976	23.4	48,576	1,684.9	4.7%	34,685
2015	2,917	119.1	1,671	36.3	49,822	1,767.6	4.9%	35,479
2016	2,753	128.2	1,012	26.9	51,563	1,868.9	5.7%	36,244
2017	2,638	119.8	1,235	35.2	52,966	1,953.5	4.5%	36,881
2018	2,499	120.0	1,088	30.0	54,377	2,043.5	4.6%	37,581
2019	2,355	113.8	1,119	32.8	55,613	2,124.5	4.0%	38,201
2020	2,145	107.6	1,129	34.0	56,629	2,198.1	3.5%	38,816



## **Schedule H – 20-year Baseline Projection of TRS**

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The results of actuarial valuations are a “snapshot” of the financial position on the valuation date, based on the assumed number of active employees and current beneficiaries. Projections simulate future actuarial valuation results over a forecast period (twenty years in this case) by “creating” future new hires and performing valuations using the projected membership. The following items are assumed for the projected results provided on the following page.

- Active Employee Growth Rate: 0.00%
- Valuation Discount Rate: 7.50%
- Investment Rate of Return: 7.50% each year
- Actuarial Value of Assets: 5 year smoothing, No Corridor
- Amortization Method: Level Percent of Payroll, Closed
- Amortization Bases:
  - Legacy amortization from 2014 valuation amortized over closed 30-year period
  - Subsequent bases amortized over closed 20-year period from date of valuation
- Amortization Period: Weighted 24.4-year period as of Valuation Date
- Future Contributions: Based on Expected Actuarially Determined Contributions

All other demographic and economic changes are assumed to occur in accordance with the actuarial assumptions used for the actuarial valuation.



## Schedule H – 20-year Baseline Projection of TRS

Fiscal Year End	Non-University Payroll (1)	University Payroll (2)	Total Payroll (3)	Unfunded Accrued Liability (4)	Funding Ratio (5)	Actuarially Determined Contribution in Dollars (6)
2023	\$3,716,763	\$188,454	\$3,905,217	\$14,785,756	58.4%	\$1,210,385
2024	3,810,973	188,452	3,999,425	14,650,560	59.6%	1,229,553
2025	3,907,520	189,788	4,097,308	14,877,747	59.9%	1,278,091
2026	4,003,397	191,807	4,195,204	15,210,791	59.9%	1,338,585
2027	4,098,744	194,531	4,293,275	15,467,177	60.1%	1,395,827
2028	4,194,908	198,021	4,392,929	15,617,027	60.5%	1,449,944
2029	4,295,997	201,887	4,497,884	15,721,663	61.0%	1,507,464
2030	4,400,886	205,828	4,606,714	15,778,267	61.7%	1,566,858
2031	4,509,648	210,000	4,719,648	15,786,666	62.4%	1,627,370
2032	4,623,125	214,241	4,837,366	15,742,286	63.2%	1,692,458
2033	4,741,595	218,364	4,959,959	15,638,654	64.0%	1,758,709
2034	4,863,604	223,292	5,086,896	15,467,326	65.0%	1,826,947
2035	4,993,467	227,687	5,221,154	15,223,595	66.1%	1,899,024
2036	5,129,751	232,104	5,361,855	14,894,761	67.4%	1,973,468
2037	5,273,440	237,377	5,510,817	14,474,653	68.8%	2,051,322
2038	5,425,178	242,986	5,668,164	13,950,121	70.4%	2,186,112
2039	5,585,919	249,262	5,835,181	13,311,620	72.1%	2,223,629
2040	5,755,718	255,985	6,011,703	12,548,475	74.1%	2,376,657
2041	5,935,708	263,325	6,199,033	11,592,219	76.4%	2,500,570
2042	6,125,444	270,819	6,396,263	10,529,322	78.9%	2,596,353