



Local Defined-Benefit Pension Plans In Kentucky

Research Report No. 411

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Local Defined-Benefit Pension Plans In Kentucky

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Research Report No. 411

Legislative Research Commission

Frankfort, Kentucky
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Adopted June 11, 2015

Abstract

As of 1988, statute closed entry to new enrollees for almost all local defined-benefit pension plans. Existing plan members could switch to the County Employees Retirement System or stay in their plans. There remain 30 such plans, mostly for police and firefighters, in 22 cities. The only plan still accepting new enrollees is the one for Lexington-Fayette County police and firefighters. It has nearly one-half of the more than 2,100 retirees and beneficiaries in the 30 plans. The 29 closed plans have practically no active employees, and many have relatively few retirees and beneficiaries. For closed plans reporting ages, two-thirds of retirees and beneficiaries are at least 75 years old. Statute requires that funds be actuarially sound, but there is nothing in Kentucky statute to indicate that the state is financially responsible for retirement plans outside of those in the Kentucky Retirement Systems. The Lexington-Fayette County police and firefighter plan is 76 percent funded. Of the 29 closed plans, 12 have assets valued at 65 percent or more of liabilities; 6 plans have funded ratios of less than 5 percent. For each of three cities, the annual actuarially required contribution to its pension plan is the equivalent of nearly 5 percent or more of its general fund revenue. The report makes three recommendations directed to the General Assembly related to pension plan governance, administration, and reporting.

Foreword

Numerous officials and staff of local governments provided documents and answered questions. The authors also thank officials of the Kentucky League of Cities, especially Bryanna Carroll, and staff and officials of the Kentucky Retirement Systems, especially Shawn Sparks. Among LRC staff, Brad Gross was especially helpful.

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Frankfort, Kentucky
June 11, 2015

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Summary

House Bill 398, enacted in 1988, closed entry to new enrollees to most local defined-benefit pension plans and gave existing members the choice to stay in their existing plan or move to the County Employees Retirement System (CERS).

There remain 30 local defined-benefit pension plans outside of CERS in 22 cities. The only one still accepting new enrollees is the plan for Lexington-Fayette County police and firefighters.

22 Plans For Police And Firefighters			8 Plans For Other Employees	
Ashland	Glasgow	Mayfield	Ashland	Lexington-Fayette
Bowling Green	Hazard	Murray	Covington	Newport
Corbin	Henderson	Newport	Franklin	Owensboro
Covington	Hopkinsville	Owensboro	Henderson	Paducah
Danville	Lexington-Fayette	Paducah		
Fort Thomas	Louisville (2 plans)	Richmond		
Frankfort	Madisonville	Winchester		

There is nothing in Kentucky statute to indicate that the state is financially responsible for retirement plans outside of those in the Kentucky Retirement Systems. Kentucky statute does specify an inviolable contract between the locality and employees, but not police and firefighters, of urban-county governments and second- and third-class cities.

For police and firefighter plans of second-, third-, and fourth-class cities, statute provides that one retired police officer and one retired firefighter serve on the governing board. Statute does not provide for the contingency that all remaining retirees may be from the same department. A more general issue related to the governing board is that as the number of retirees in a plan declines, there may not be any of them who are able or willing to serve on the board. If so, the governing board could be as small as two local officials.

Recommendation 1

The General Assembly may wish to consider revising statutes related to the composition of governing boards of police and firefighter plans of second-, third-, and fourth-class cities.

According to statute, each local governmental pension plan must, at least once every 3 years, perform an actuarial evaluation that is to be sent to the Legislative Research Commission (LRC). Most plans now appear to be performing the required evaluations, but hardly any are submitting them to LRC.

There are 2,163 retirees and beneficiaries in the 30 local pension plans. The Lexington-Fayette County police and firefighter plan has 1,070 retirees and beneficiaries, which is nearly one-half of the statewide total. The remaining 29 plans have a total of 1,093 retirees and beneficiaries. Of the plans closed to new enrollments, four systems have one active employee each. The remaining 25 systems have no active employees. Louisville has more than 30 percent of the retirees and beneficiaries of closed plans. Covington has more than 10 percent. Thirteen cities have 30 or fewer retirees and beneficiaries, including five cities with 10 or fewer.

The average age of retirees and beneficiaries of the Lexington-Fayette County police and firefighter plan is 63. For closed plans that reported ages, two-thirds of retirees and beneficiaries are at least 75 years old.

The average pension for Lexington-Fayette County police and firefighters, in the one open plan, was \$50,091. For 14 of the 29 closed plans, the average pension was between \$15,000 and \$20,000. Five plans had an average of less than \$10,000 and five had an average of more than \$20,000.

Statute requires that funds be actuarially sound. The Lexington-Fayette police and firefighter plan is 76 percent funded. Five of the closed plans (Lexington-Fayette and Owensboro employees and Frankfort, Newport, and Bowling Green police and firefighters) are approximately 100 percent funded or greater. Seven closed plans are 65 percent to 75 percent funded. Six closed plans have funded ratios of less than 5 percent. However, for all closed plans reporting projected benefits, annual benefits appear to have peaked and will decline over coming years.

Over the past 10 years, Covington, Lexington-Fayette County, Newport, Owensboro, and Paducah have issued bonds to pay down the liabilities of their local pension systems.

For 19 of 22 localities with closed plans, the annual required contribution plus any pension bond payment represents less than 4 percent of general fund revenue. This includes nine cities for which the percentage is 1 or less. The three plans with the highest actuarially required payments as a percentage of general fund revenue are the police and firefighter plans of Corbin (4.8 percent of general fund revenue), Hazard (7.3 percent), and Mayfield (9.7 percent). As a share of general fund revenue, annual benefits for the Mayfield plan are 2.2 percentage points lower than the required payment, though.

An issue for the closed plans, in the near future for some, is that at some point there will be no retirees and beneficiaries for whom benefits have to be paid. The only statute that covers the repeal of a local defined-benefit plan applies to police and firefighter plans in fourth- and fifth-class cities.

Recommendation 2

The General Assembly may wish to revise statutes governing local defined-benefit pension plans to establish procedures for the repeal of plans with no retirees and beneficiaries.

When a plan has few retirees and beneficiaries, it is feasible that the city will be able to manage the annual cost of the plan regardless of the pension fund's actuarial status, so having an actuarial study done every 3 years as required by statute may not be worthwhile for all plans.

Recommendation 3

The General Assembly may wish to consider revising the timing of actuarial reports as specified in KRS 65.156.

Local Defined-Benefit Pension Plans In Kentucky

At its December 2013 meeting, the Program Review and Investigations Committee voted to initiate a study of local government pension plans that are not part of the Kentucky Retirement Systems.

At its December 2013 meeting, the Program Review and Investigations Committee voted to initiate a study of local government pension plans that are not part of the Kentucky Retirement Systems. The primary objectives of this study are to describe and analyze existing defined-benefit local pension plans including their financial status and state laws that govern them.

Conclusions

This report has eight conclusions.

- House Bill 398, enacted in 1988, closed most local defined-benefit pension plans to new enrollees. Existing members of those plans could remain in the local plan or transfer to the County Employees Retirement System. Nearly 90 percent transferred.
- There is no inviolable contract language in statute to indicate that the state is financially responsible for the local plans.
- Thirty local defined-benefit pension plans remain, of which only the one for Lexington-Fayette County police and firefighters is still open to new enrollees. Of the more than 2,100 retirees and beneficiaries in the 30 plans, nearly one-half are in the Lexington-Fayette County plan.
- Of the 29 plans closed to new enrollees, 25 have no active employees; 4 have one active employee each.
- A few of the plans are fully funded or close to being so. For a few plans, assets would cover less than 5 percent of liabilities. For the plans closed to new enrollees, annual benefits appear to have peaked and will decline in coming years. The one plan open to new enrollees appears to be financially sound.
- For three localities, the annual actuarially required contribution for their defined-benefit pension plans other than the County Employees Retirement System represents approximately 5 percent or more of city general fund revenue.
- Each city is statutorily required to perform an actuarial evaluation on its pension plan at least every 3 years and submit the evaluation to the Legislative Research Commission. Most cities now do the evaluations on time, but most do not submit the reports.
- For the closed plans, at some point there will be no retirees and beneficiaries for whom benefits have to be paid. The only statute that covers the repeal of a local defined-benefit plan does not apply to most plans.

Only 1 Of 30 Local Defined-Benefit Plans Is Open To New Enrollees

House Bill 398, enacted in 1988, closed entry to new enrollees to most local defined-benefit pension plans and gave existing members the choice to stay in their existing plan or move to the County Employees Retirement System.

House Bill 398, enacted in 1988, closed entry by new enrollees into local defined-benefit pension plans except those in first-class cities and urban-county governments.^a As of August 1, 1988, the defined-benefit pension plan provided to city employees would be the County Employees Retirement System (CERS). Employees could choose to remain with their current plan, but more than 87 percent chose to transfer to CERS.¹

There remain 30 local defined-benefit pension plans in 22 cities.

Table 1 lists the remaining 30 local defined-benefit pension plans of 22 cities. Program Review identified the plans based on information provided by staff of the Legislative Research Commission (LRC), the Kentucky League of Cities, and Kentucky Retirement Systems; an LRC report on the implementation of HB 398; and local officials.²

**Table 1
 Local Defined-Benefit Pension Plans**

22 Plans For Police And Firefighters			8 Plans For Other Employees	
Ashland	Glasgow	Mayfield	Ashland	Lexington-Fayette
Bowling Green	Hazard	Murray	Covington	Newport
Corbin	Henderson	Newport	Franklin	Owensboro
Covington	Hopkinsville	Owensboro	Henderson	Paducah
Danville	Lexington-Fayette*	Paducah		
Fort Thomas	Louisville (2 plans)	Richmond		
Frankfort	Madisonville	Winchester		

*The only plan open to new enrollees.

The only local plan still accepting new members is the Lexington-Fayette Urban County Government Policemen's and Firefighters' Retirement Fund.

The only plan accepting new enrollees is the Lexington-Fayette Urban County Government Policemen's and Firefighters' Retirement Fund, authorized by KRS Chapter 67A. The 30 local plans have more than 2,100 retirees and beneficiaries, of which nearly one-half are in the Lexington-Fayette plan. The typical closed plan has relatively few retirees and beneficiaries. Eighteen plans have 30 or fewer retirees and beneficiaries, which includes seven plans with 10 or fewer. Four closed plans have one active employee each; the other closed plans have no active employees.

^a The first-class city, Louisville, chose to provide pensions through CERS, which its governing body is permitted to do under KRS 95.290. Lexington-Fayette County has chosen to keep its existing police and firefighter plan active.

Governing Statutes

Requirements That Apply To All Plans

No State Financial Responsibility For Local Pension Plans Outside CERS. KRS 16.652(1) (State Police Retirement System), KRS 61.692(1) (Kentucky Employees Retirement System), and KRS 78.852(1) (County Employees Retirement System) specify that there is an inviolable contract between the state and the pension plan member:

in consideration of the contributions by the member, and in further consideration of benefits received by the state from the member's employment ... shall constitute an inviolable contract of the Commonwealth, and the benefits provided therein shall, except as provided in KRS 6.696, not be subject to reduction or impairment by alteration, amendment or repeal.

There is nothing in Kentucky statute to indicate that the state is financially responsible for retirement plans outside of those in the Kentucky Retirement Systems.

There is nothing in Kentucky statute to indicate that the state is financially responsible for other local retirement plans. According to a Kentucky League of Cities official, there is no state-related inviolable contract language in local pension documents.³

Kentucky statute does specify an inviolable contract between the locality and employees, but not police and firefighters, of urban-county governments and second- and third-class cities.

For the Lexington-Fayette employees:

From and after the effective date of the urban-county form of government there shall be, with respect to each employee, an inviolable contract between the urban-county government as employer and such employee (KRS 67A.330).

According to 67A.210, this provision is "independent" and does not "affect the laws governing the police and fire departments, nor their pension funds.

For pension funds of second- and third-class cities, "an inviolable contract shall be created between the city as employer and its employees" (KRS 90.400(7), KRS 90.410(4)).

By statute, each local governmental pension plan must, at least once every 3 years, do an actuarial evaluation and submit it to the Legislative Research Commission (LRC). Most appear to be doing the evaluations, but few are submitting them.

Reporting. KRS 65.156 creates an actuarial evaluation requirement for local government defined-benefit pension systems. According to the statute, the governing board of any such system shall submit the retirement system to an actuarial evaluation at least once every three (3) years, if the system provides a defined benefit. The evaluation shall be prepared

by an actuary who is a fellow of the Society of Actuaries, a member of the American Academy of Actuaries, or an enrolled actuary under the Employees' Retirement Income Security Act of 1975. The board shall send a copy of the most recent evaluation to the librarian of the Legislative Research Commission by September 1, 1982, and thereafter the board shall send a copy of each new evaluation within ten (10) days of receipt (KRS 65.156(1)).

It is unknown how many plans produced the required actuarial report every 3 years since 1988. Three police and firefighter plans have not produced a report in the past 3 years: Corbin (last report in 2011), Mayfield (2010), and Murray (2011). It is unknown when the last actuarial reports were done for the Franklin city employee and Glasgow police and firefighter plans.^b For the vast majority of local defined-benefit pension plans, there is no evidence that reports have been submitted to LRC as required by statute. Some local officials contacted by Program Review staff seemed unaware that such reporting was required.

Statute requires that funds be actuarially sound.

Actuarial Soundness. KRS 65.156(3) requires that cities with defined-benefit pension plans contribute annually to adequately fund the plan

as the actuary states is necessary to maintain cash flow adequate to pay retiree and beneficiary payments until financial obligations to all retirees and beneficiaries are fully satisfied.

The Kentucky Court of Appeals held in 1994 that a fund is actuarially sound only at 100 percent funded. "The trial court interpreted [actuarial soundness] to mean that a [cost-of-living adjustment (COLA)] may be granted only if it can be 'supported' by the fund without any additional city contribution."⁴ In this case, it was determined that a COLA for retirees is legal only when the fund contains a surplus. The American Academy of Actuaries also suggests a funding ratio of 100 percent.⁵

According to a US Government Accountability Office report, a "funded ratio of 80 percent or more is within the range that many public sector experts, union officials, and advocates view as a healthy pension system."⁶

^b Some information on plans is available in the cities' annual financial reports.

Requirements That Vary By City Classification

Table 2 indicates the governing statutes by city classification prior to the 2014 reclassification for cities with local pension plans.

Table 2
Kentucky Statutes Governing Local Defined-Benefit Pension Plans

City Classification	Localities With Plans	Employees	Police And Firefighters
First	Louisville		95.290
Urban-county	Lexington-Fayette County	67A.315– 67A.350	67A.360– 67A.690
Second	Ashland, Bowling Green, Covington, Frankfort, Henderson, Hopkinsville, Newport, Owensboro, Paducah, Richmond	90.400	95.851– 95.884
Third	Danville, Glasgow, Hazard, Mayfield, Murray, Winchester	*	95.518– 95.529
Fourth	Corbin, Fort Thomas, Franklin, Madisonville	*	95.761– 95.785

* There are no third- or fourth-class employee plans.

Source: Kentucky Revised Statutes; Kentucky League of Cities. “List of Cities by Classification.”

Statutory requirements for how a plan is to be governed vary by city classification and whether the plan is for city employees or for police and firefighters.

Governance. Table 3 summarizes the statutory requirements for the governing boards of local defined-benefit pension plans. For city employee plans, the governing board is specified for urban-county governments. The governing board for a second- or third-class city employee plan is determined by the city.

Governing boards for police and firefighter plans in second-, third-, and fourth-class cities are similar. Board members are government officials and retirees of the plans. If there are a specified number of active members of the plans, active members are also represented on the board. The governing board for urban-county governments also includes active members regardless of the number of active members of the plan. The governing board for first-class cities is determined by the city’s legislative body, but there must be separate boards for police and firefighter plans.

Table 3
Statutory Requirements For Governance Of Local Defined-Benefit Pension Plans
By Classification Of City

Classification, Plan	Governing Board	KRS	
First, police and fire	Determined by city legislative body, separate boards for police and fire funds, majority of board members must be receiving pensions, no more than one member of city legislative body on pension board	95.290(2)	
Urban-county, employees*	Mayor, 4 members of legislative body, secretary of finance and administration dept., director of personnel division, 3 civil service employees	67A.320(3)	
Urban-county, police and fire*	Mayor, commissioner of public safety, commissioner of finance, director of human resources, 2 retired members, police chief, fire chief, 2 active members of police dept., 2 active members of fire dept.	67A.530(1)	
Second, employees	Determined by the city	90.400(3)	
Second, police and fire	If no active members: mayor, city treasurer, 1 retired police officer, 1 retired firefighter	If active members: add 1 active member of each dept. If all active members are in 1 dept., add 2 active members from that dept.	95.869(1)
Third, police and fire (regular and alternative)	If fewer than 6 active members: mayor, city treasurer, 1 retired police officer, 1 retired firefighter	If 6 or more active members: add 1 active member of each dept. If all active members are in one dept., add 2 active members from that dept.	90.530(1) 90.520(2) 95.622(2)
Fourth, police and fire	If fewer than 6 active members: mayor, city treasurer, 1 member of legislative body appointed by mayor, 1 retired police officer, 1 retired firefighter	If 6 or more active members: add 1 active member of each dept. If all active members are in 1 dept., add 2 active members from that dept.	95.767(1)

Note: There are no third- or fourth-class city employee plans.

*The city finance and personnel positions are referred to differently in the statutes governing the employee and police and fire pension funds. In practice, the same officials serve on both pension fund boards.

Source: Kentucky Revised Statutes.

For police and firefighter plans of second-, third-, and fourth-class cities, statute provides for representation of active members on the board but with the contingency that all members may be from the

same department. So, if all active members are firefighters, for example, both employee representatives on the board would be firefighters instead of one firefighter and one police officer. Statute provides for no such contingency for retired employees. If there are no retirees from one department, presumably the other department would still have only one representative on the governing board.

A more general issue is that as the number of retirees in a plan declines, there may not be any who are able or willing to serve on the governing board. If so, the governing board could be as small as two local officials.

Recommendation 1

Recommendation 1

The General Assembly may wish to consider revising statutes related to the composition of governing boards of police and firefighter plans of second-, third-, and fourth-class cities.

Other statutory requirements cover employee contributions, required service time and age for retirement, reporting by the plan, cost-of-living adjustments, and eligibility for benefits by employees' beneficiaries.

Other Requirements. A myriad of other statutory specifications for local defined-benefit pensions vary by city classification. Table 4 summarizes requirements for whether statute specifies what employee contributions will be, what benefits will be, whether there is a minimum service time and age to retire, and whether and how often the plan is to report to its city. There are no requirements for these criteria for first-class city police and firefighter plans. For other police and firefighter plans, minimum service time to retirement is 20 years. For all such departments except those in third-class cities, statute also specifies a minimum retirement age.

Statute specifies benefits for all police and firefighter plans except for those in first-class cities. For fourth-class city plans and regular third-class city plans, the maximum pension is 50 percent of salary. For third-class city plans, statute allows for an alternative plan with a pension of up to 75 percent of salary, the same as for second-class cities.

The statutory requirements for city employee plans are minimal compared to requirements for police and firefighter plans.

For all plans except first-class city police and firefighter retirement plans, statute requires the plans to report to local government quarterly or annually.

Table 4
Statutory Requirements For Employee Contributions, Benefits,
Minimum Service Time And Age, And Required Local Reporting

City Classification, Plan	Employee Contributions Specified	Benefits Specified	Minimum Retirement Service Time, Age	Required Reporting To Locality
First, police and fire	No	No	No	No
Urban-county, employees	No, but maximum % of salary set	No	No	At least every 3 months to mayor
Urban-county, police and fire	Yes	Formula based on years of service and salary	Before 3/14/2013: 20 years of service; after: 20 years of service and 50 years old	Annual audit to government
Second, employees	No	No	No	At least every 3 months to mayor
Second, police and fire	No	Formula based on years of service and salary, maximum of 75% of salary	20 years of service, 50 years old	Annual audit, report to city
Third, police and fire	Yes	Regular plan: 50% of salary; alternative: 50% to 75% of salary depending on years of service	20 years of service	Annual report to city legislative body
Fourth, Police and Fire	Yes	Maximum of 50 % of salary	20 years of service, 51 years old	Annual report to city legislative body

Note: There are no third- or fourth-class city employee plans.
Source: Kentucky Revised Statutes.

Among the other statutory provisions that vary by city classification are those related to COLAs and who are eligible beneficiaries of retirees with pensions. The details can be quite different depending on the city classification and type of plan. For example, the statute governing pension plans for employees of second-class cities does not mention COLAs or beneficiaries, so presumably these decisions are left to the plans' governing boards.

Two other examples are statutes with specific requirements. For second-class city police and firefighter plans, statute specifies who qualifies as a beneficiary and what benefits will be depending on whether the pension plan member died while working due to occupational causes or not or died while retired (KRS 95.860; 95.861). Depending on circumstances, beneficiaries may be a surviving spouse (whose benefits vary by age), minor children, or dependent parents.

For third-class city police and firefighter plans, the pension board "shall," if "actuarially feasible," order an increase in benefits equal to the COLA for a Social Security recipient up to a maximum of 5 percent (KRS 95.560(2)).

Employees, Retirees, And Beneficiaries Of Plans

There are 2,163 retirees and beneficiaries in the 30 local pension plans. The Lexington-Fayette County police and firefighter plan has 1,070 retirees and beneficiaries, which is nearly one-half the statewide total. The 29 closed plans have 1,093 total retirees and beneficiaries. Of the plans closed to new enrollments, four plans have one active employee each. The remaining 25 plans have no active employees.

As shown in Table 5, according to the most recent documentation available, there are 2,163 retirees and beneficiaries in 30 local pension plans. Lexington-Fayette County police and firefighters—the only plan open to new enrollees—has 1,070 retirees and beneficiaries, which is nearly one-half of the statewide total. The remaining 29 plans have 1,093 total retirees and beneficiaries.^c

Of the plans closed to new enrollments, four plans have one active employee each. The remaining 25 plans have no active employees.

^c Not all the reports on which this number is based are from the most recent year, so the current number is almost certainly lower than 1,093.

Table 5
Employees, Retirees, And Beneficiaries Of Local Defined-Benefit Pension Plans

Pension Plan (As Of 2014 Or 2013 Unless Noted)	Active Employees	Retirees And Beneficiaries	Retirees	Beneficiaries
Plans Closed To New Enrollees				
Ashland Police and Firefighters	0	30		
Ashland Utilities Employees	0	28		
Bowling Green Police and Fire	0	43	19	24
Corbin Police and Firefighters (2011)	0	25	16	9
Covington City Employees	0	43		
Covington Police and Firemen	0	72		
Danville Police and Firefighters	0	13	8	5
Fort Thomas Police and Fire	0	5	2	3
Frankfort Police and Firefighters	0	15	9	6
Franklin City Employees	0	20		
Glasgow Policemen and Firemen	0	2		
Hazard Policemen and Firemen	0	26		
Henderson Civil Service	1	9		
Henderson Police and Fire	0	20		
Hopkinsville Police and Firemen	0	28		
Lexington-Fayette City Employees	0	83		
Louisville Firefighters	0	183		
Louisville Policemen	1	151		
Madisonville Police and Firefighters	0	29	22	7
Mayfield Police and Fire (2010)	1	33	23	10
Murray Police and Firefighters (2011)	0	10	5	5
Newport Employees	0	25	10	15
Newport Police and Firefighters	0	32	15	17
Owensboro City Employees	0	38	9	29
Owensboro Police and Firefighters	0	49	27	22
Paducah Appointive Employee	0	4	1	3
Paducah Police and Firefighters	1	61	34	27
Richmond Police and Fire	0	8	1	7
Winchester Policemen and Firemen	0	8		
Total	4	1,093		
Plan Open To New Enrollees				
Lexington-Fayette Police and Firemen	1,097	1,070		

Note: Plans vary as to whether the numbers of retirees and beneficiaries are reported separately.

Source: Actuarial reports of pension plans, annual financial reports of cities, and local officials. See appendix.

For the closed plans that reported the numbers of retirees and beneficiaries separately, 52.1 percent were retirees. If this percentage holds for all local plans, there would be 569 retirees and 524 beneficiaries in closed plans statewide.

Louisville has more than 30 percent of the retirees and beneficiaries of closed plans. Covington has more than 10 percent. Thirteen cities have 30 or fewer retirees and beneficiaries, including five cities with 10 or fewer.

Table 6 indicates the number of retirees and beneficiaries for closed plans per city, with the numbers combined for multiple plans of the same locality. Louisville has more than 30 percent of the retirees and beneficiaries of closed plans. Covington has more than 10 percent. More than 60 percent of retirees and beneficiaries are in those two plans plus those of Lexington-Fayette County (city employees), Owensboro, and Paducah. Thirteen cities have 30 or fewer retirees and beneficiaries, including five cities with 10 or fewer: Fort Thomas, Glasgow, Murray, Richmond, and Winchester.

Table 6
Retirees And Beneficiaries By City Of Local
Defined-Benefit Pension Plans Closed To New Enrollees

City/Plan (As Of 2014 Or 2013 Unless Noted)	Retirees And Beneficiaries	Percent Of Total	Cumulative Percentage
Louisville: Firefighters, Police	334	30.6%	30.6%
Covington: Employees, Police And Firefighters	115	10.5	41.1
Owensboro: Employees, Police And Firefighters	87	8.0	49.0
Lexington-Fayette Employees	83	7.6	56.6
Paducah: Employees, Police And Firefighters	65	5.9	62.6
Ashland: Employees, Police And Firefighters	58	5.3	67.9
Newport: Employees, Police And Firefighters	57	5.2	73.1
Bowling Green Police And Firefighters	43	3.9	77.0
Mayfield Police And Firefighters (2010)	33	3.0	80.1
Henderson: Employees, Police And Firefighters	29	2.7	82.7
Madisonville Police and Firefighters	29	2.6	85.4
Hopkinsville Police And Firefighters	28	2.5	87.9
Hazard Police And Firefighters	26	2.4	90.3
Corbin Police and Firefighters (2011)	25	2.3	92.6
Franklin Employees	20	1.8	94.4
Frankfort Police and Firefighters	15	1.4	95.8
Danville Police and Firefighters	13	1.2	97.0
Murray Police and Firefighters (2011)	10	0.9	97.9
Richmond Police And Firefighters	8	0.7	98.6
Winchester Police And Firefighters	8	0.7	99.4
Fort Thomas Police And Firefighters	5	0.5	99.8
Glasgow Police And Firefighters	2	0.2	100.0
Total	1,093		

Note: Percentages may not add to cumulative percentages shown due to rounding.

Source: Actuarial reports of pension plans and annual financial reports of cities. See appendix.

Age Of Retirees And Beneficiaries

For plans that reported the ages of retirees and beneficiaries, the only closed plan with an average age below 70 is the one for Mayfield police and firefighters. The average age of retirees and beneficiaries for the other closed plans ranges from 71 to 81. The average age for retirees and beneficiaries of the open Lexington-Fayette County police and firefighter plan is 63.

Some actuarial reports of the retirement funds provide the average age of retirees and beneficiaries or categorize them according to age so that average age can be estimated.^d The results are shown in Table 7. The average age for retirees and beneficiaries of the open Lexington-Fayette County police and firefighter plan is 63.

The only closed plan with an average age below 70 for retirees and beneficiaries overall is the one for Mayfield police and firefighters, which is as of 2010. The average age of retirees and beneficiaries for the other closed plans ranges from 71 to 81.

Table 7
Average Age Of Retirees And Beneficiaries
Of 14 Local Defined-Benefit Pension Plans

Pension Plan	Retirees And Beneficiaries		Year
	Retirees	Beneficiaries	
Plans Closed To New Enrollees			
Bowling Green Police and Fire	76	74	2014
Corbin Police and Firefighters	71	68	2011
Fort Thomas Police and Fire	77	74	2013
Frankfort Police and Firefighters	79	79	2013
Hopkinsville Police and Firemen	73		2012
Madisonville Police and Firefighters	72	72	2013
Mayfield Police and Fire	63	59	2010
Murray Police and Firefighters	73	72	2011
Newport Employees	80	81	2014
Newport Police and Firefighters	78	80	2014
Owensboro City Employees	81	78	2014
Owensboro Police and Firefighters	79	79	2014
Richmond Police and Fire	81	82	2013
Plan Open To New Enrollees			
Lexington-Fayette Police and Firemen	63		2013

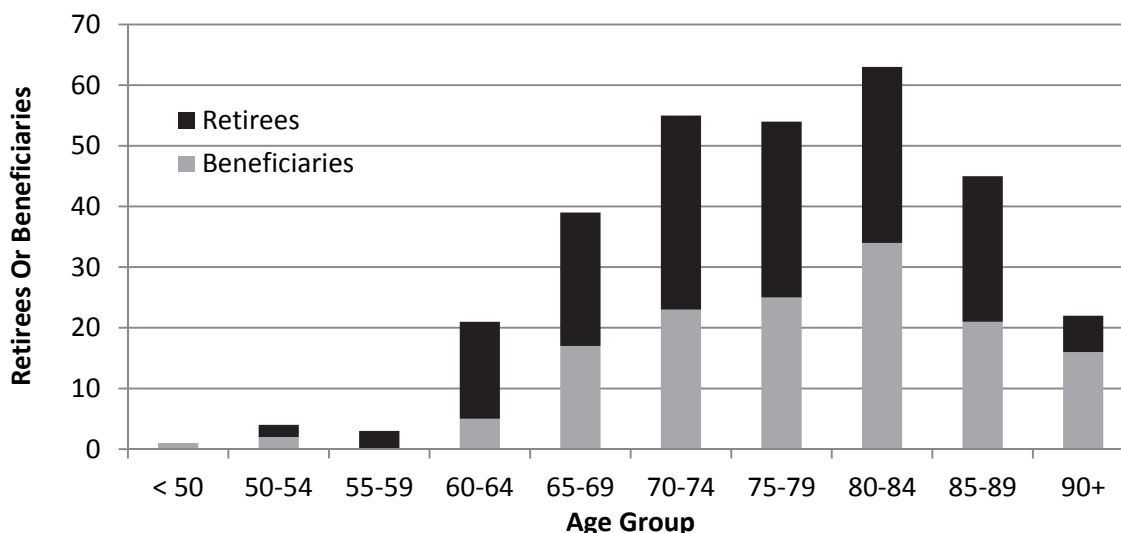
Note: Ages are rounded to the nearest year. These are the local pension plans for which the ages of retirees and beneficiaries were reported. The actuarial reports of the Fort Thomas, Hopkinsville, Mayfield, and Newport plans indicated actual average age. For other plans, the average was estimated using tables of retirees and beneficiaries grouped according to age.

Source: Actuarial reports of plans. See appendix.

^d For a category with an upper and a lower bound, the midpoint was assumed for each person in the category. For example, each person in the category “55-59” was assumed to be 57 years old. For a category with no lower bound, the highest value was assumed, “50” for the category “50 or younger,” for example. For a category with no upper bound, the lowest value was assumed, “90” for the category “90 and older,” for example. For three plans, the actual averages and age groups were reported. The calculated averages based on age categories and the actual averages differed by 1 year or less for these plans.

Figure A shows the number of retirees and beneficiaries by age group for closed plans. A few retirees and beneficiaries are younger than 60, but two-thirds are at least 75.

Figure A
Ages Of Retirees And Beneficiaries Of 12 Local Defined-Benefit Pension Plans Closed To New Enrollees



Note: The 12 local pension plans summarized are those for which average ages of retirees and beneficiaries could be calculated from reported information. The plans are the employee plans of Newport and Owensboro and the police and firefighter plans of Bowling Green, Corbin, Fort Thomas, Frankfort, Madisonville, Mayfield, Murray, Owensboro, Newport, and Richmond.
 Source: Actuarial reports of plans. See appendix.

Pensions Of Retirees And Beneficiaries

For 14 of the 29 closed plans, the average pension was between \$15,000 and \$20,000. Five plans had an average of less than \$10,000 and five had an average of more than \$20,000. The average pension for Lexington-Fayette County police and firefighters, the one open plan, was \$50,091.

Table 8 shows the average annual pension for the 30 local plans. For retirees and beneficiaries overall, the median average pension for closed plans was nearly \$17,000. For 14 of the 29 closed plans, the average pension was between \$15,000 and \$20,000. Five plans had an average of less than \$10,000 and five had an average of more than \$20,000. The average pension for Lexington-Fayette County police and firefighters, the one open plan, was \$50,091.

Twelve plans provided sufficient documentation for calculation of average pensions for retirees and beneficiaries separately. The pension formula for beneficiaries of a retiree typically results in a pension of well less than 100 percent of the retiree's pension. The median retiree pension of \$23,246 was more than twice the beneficiary average. Given this, the differences in the overall average pension among plans will be affected by the proportions of retirees and beneficiaries receiving benefits at any given time.

Table 8
Average Annual Pension Of Retirees And Beneficiaries
Of Local Defined-Benefit Pension Plans
(Ordered From Lowest To Highest)

Pension Plan (As Of 2014 Or 2013 Unless Noted)	Retirees And Beneficiaries		
	Retirees	Retirees	Beneficiaries
Plans Closed To New Enrollees			
Paducah Appointive Employee	\$5,288		
Franklin Employees*	5,751		
Fort Thomas Police and Fire	6,675	\$7,543	\$6,097
Newport Employees	9,751	12,887	7,660
Owensboro City Employees	9,778	18,168	7,174
Newport Police and Firefighters	12,120	15,744	8,922
Winchester Policemen and Firemen	13,920		
Hopkinsville Police and Firemen	14,306		
Covington City Employees	14,506		
Richmond Police and Fire	14,730	24,572	13,324
Louisville Policemen	15,380		
Louisville Firefighters	15,899		
Glasgow Policemen and Firemen	16,155		
Murray Police and Firefighters (2011)	16,269	23,578	8,960
Mayfield Police and Fire (2010)	16,991	19,704	10,752
Corbin Police and Firefighters (2011)	17,911	23,246	8,426
Henderson Civil Service	18,185		
Hazard Policemen and Firemen	18,224		
Danville Police and Firefighters	18,597		
Owensboro Police and Firefighters	18,928	24,000	12,703
Ashland Police and Firefighters	19,414		
Madisonville Police and Firefighters	19,419	22,117	10,938
Lexington-Fayette City Employees	19,624		
Covington Police and Firemen	20,086		
Bowling Green Police and Fire	20,743	24,071	18,108
Henderson Police and Fire	20,823		
Frankfort Police and Firefighters	21,704	24,543	17,445
Paducah Police and Firefighters	23,690		
Ashland Utilities Employees	26,143		
Median	16,991	22,682	9,856
Plan Open To New Enrollees			
Lexington-Fayette Police and Firemen	50,091		

*Includes health and life insurance benefits.

Note: Some actuarial reports indicate average benefits for retirees and beneficiaries separately. For all other plans, the overall average benefit shown for retirees and beneficiaries is annual total benefits divided by the total number of retirees and beneficiaries.

Source: Actuarial reports of plans and annual financial reports of cities. See appendix.

Financial Status Of Plans

Five of the closed plans—Lexington and Owensboro employees and Bowling Green, Frankfort, and Newport and police and firefighters—are approximately 100 percent funded or greater. Seven closed plans are 65 percent to 75 percent funded. Six closed plans have funded ratios of less than 5 percent. The open Lexington police and firefighter plan is 76 percent funded.

The assets and liabilities of the plans are shown in Table 9. Plans are ordered from highest to lowest funded ratio, which is assets divided by liability. Five of the plans—Lexington-Fayette and Owensboro employees and Bowling Green, Frankfort, and Newport police and firefighters—are at approximately 100 percent funded or greater. Seven closed plans are 65 percent to 75 percent funded. The open Lexington-Fayette police and firefighter plan is 76 percent funded.

Seventeen closed plans—more than one-half of the total—have funded ratios of less than 55 percent. This includes six plans with funded ratios of less than 5 percent: Franklin and Henderson employees and Glasgow, Henderson, Madisonville, and Mayfield police and firefighters. Such plans are, intentionally or de facto, pay-as-you-go plans.

Table 9
Accrued Assets And Liabilities Of Local Defined-Benefit Pension Plans
(In Order Of Highest To Lowest Funded Ratio)

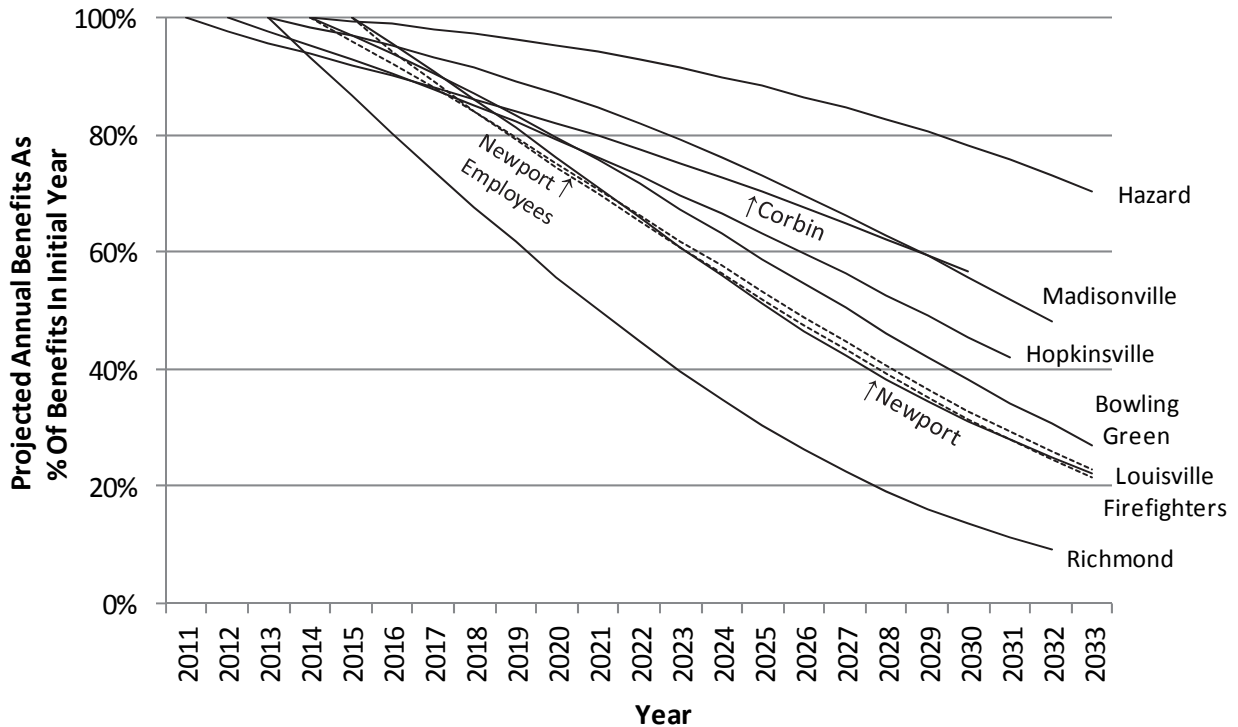
Pension Plan (As Of 2014 Or 2013 Unless Noted)	Assets	Liability	Unfunded Liability	Funded Ratio
Plans Closed To New Enrollees				
Lexington-Fayette City Employees	\$30,783,518	\$11,925,758	-\$18,857,760	258%
Frankfort Police and Firefighters	5,338,199	2,791,663	-2,546,536	191
Owensboro City Employees	3,651,086	2,620,236	-1,030,850	139
Newport Police and Firefighters	2,750,270	2,767,019	16,749	99
Bowling Green Police and Fire	7,628,297	7,840,553	212,256	97
Covington Police and Firemen	7,745,820	10,383,315	2,637,495	75
Fort Thomas Police and Fire	215,163	286,758	71,595	75
Richmond Police and Fire	628,508	901,079	272,571	70
Winchester Policemen and Firemen	1,472,928	2,128,956	656,028	69
Newport Employees	1,153,201	1,715,278	562,077	67
Covington City Employees	3,066,741	4,685,750	1,619,009	65
Paducah Police and Firefighters	7,135,789	10,975,910	3,840,121	65
Murray Police and Firefighters (2011)	871,322	1,676,604	805,282	52
Paducah Appointive Employee	47,868	104,709	56,841	46
Louisville Policemen	6,930,328	16,437,502	9,507,174	42
Louisville Firefighters	8,248,555	21,770,331	13,521,776	38
Owensboro Police and Firefighters	2,671,494	7,419,570	4,748,076	36
Ashland Utilities Employees	2,362,804	7,823,259	5,460,455	30
Danville Police and Firefighters	804,534	2,653,431	1,848,897	30
Hopkinsville Police and Firemen (2012)	1,024,444	3,919,278	2,894,834	26
Hazard Policemen and Firemen	1,390,048	5,992,207	4,602,159	23
Ashland Police and Firefighters	731,401	4,338,361	3,606,960	17
Corbin Police and Firefighters (2011)	745,281	5,968,251	5,222,970	12
Mayfield Police and Fire (2010)	525,201	14,588,162	14,062,961	4
Madisonville Police and Firefighters	86,831	4,996,804	4,909,973	2
Franklin Employees	0	1,455,926	1,455,926	0
Glasgow Policemen and Firemen	1,143	Not reported		0
Henderson Civil Service	4,453	1,470,749	1,466,296	0
Henderson Police and Fire	0	4,893,846	4,906,293	0
Plan Open To New Enrollees				
Lexington-Fayette Police and Firemen	579,749,633	760,384,029	180,634,396	76

Source: Actuarial reports of plans and annual financial reports of cities. See appendix.

Annual benefits appear to have peaked and will decline over coming years.

A cause for financial optimism from the cities' perspective is that annual benefits appear to have peaked and will decline over coming years. This is indicated in Figure B, which shows the projected trends in benefits for the retirement plans for which this information was provided in the plans' most recent actuarial reports.

Figure B
Projected Benefits For Nine Local Defined-Benefit Pension Plans Closed To New Enrollees



Note: Projections are shown for all plans for which such information was available. Plans are for both police and firefighters except for the plans for Newport employees and Louisville firefighters. Beginning years vary by plan based on when projections were done.

Source: Actuarial reports of plans. See appendix.

The beginning and ending years in the figure for each retirement plan vary depending on when the actuarial study was done. For each year shown, the figure indicates the projected benefits paid per plan as a percentage of the initial year. For example, the projected benefits for Bowling Green in 2014 were \$880,801. As percentages of this number, the projected annual benefits are 80 percent in 2020 and 27 percent in 2033.^e

To varying degrees, benefits are projected to decline for every city. With the exceptions of Corbin and Hazard, projected annual benefits by the end of the time period are less than one-half of the current values.

There are three caveats. Projected benefits were not available for all the local plans, and some plans with the lowest funded ratios

^e Calculated from Bowling Green. *Police and Firefighters Retirement Fund, Actuarial Valuation and Report*. Jan. 1, 2014. P. 15.

are not included.^f The different actuaries writing the reports are not necessarily using the same methods to make projections. Finally, the projected benefits assume no COLAs. If cities provide consistent COLAs over the entire period, the dollar values would be higher but the trends would be the same. The trends will change if COLAs increase over time.

Bonds

Over the past 10 years, Covington, Lexington-Fayette County, Newport, Owensboro, and Paducah have issued bonds to pay down the liabilities of their local pension plans.

At least five localities have issued bonds whose proceeds were used to pay down the liabilities of their pension plans. The Lexington-Fayette Urban County Government has issued more than \$136 million in bonds to fund its police and fire pension fund: more than \$76 million in 2009, more than \$38 million in 2010, and \$31 million in 2012. The total annual payment for all three bonds for fiscal year 2014 was \$5,365,000.⁷

Covington issued a \$14,410,000 pension obligation bond in 2004 to fund liabilities in its city employee and police and firefighter retirement funds. At the time of issuance, the city entered into an interest rate swap to change the variable rate into a fixed rate in practice. The debt was restructured in October 2014 to remove the swap and get a fixed interest rate. Debt service was \$1,038,111 in FY 2014. Starting in FY 2015, annual principal and interest payments are approximately \$1 million per year until the bond matures in 2029.⁸

Newport issued \$7,705,000 in bonds to fund liabilities in its city employee and police and firefighter retirement funds in 2007. Debt service for the bonds in FY 2014 was \$583,375.⁹

In 2006, Owensboro issued a \$4,100,000 bond to fund its police and firefighter pension plan. Debt service in FY 2014 was \$301,407.¹⁰

Also in 2006, Paducah issued \$6,100,000 in bonds to finance the liability of the its police and firefighter pension fund. Debt service in FY 2014 for the bond was \$497,221. The bonds were refinanced in July 2014.¹¹

^f Plans with relatively low funded ratios that are included are those for Louisville firefighters (38 percent funded) and Hopkinsville (26 percent), Hazard (23 percent), Corbin (12 percent), and Madisonville (2 percent) police and firefighters.

Benefits And Contributions

Table 10 shows benefits, the city's contribution, the actuarially required contribution, and payments for pension bonds for the most recent year for which data were available. Table 11 shows the annual required contribution and any pension bond payments at the city level as a percentage of the city's annual general fund revenue. This does not mean that payments are necessarily coming entirely from general funds, but it is meant to provide context among different-sized cities. Note that this was done for this report; these localities do not report required contribution and pension bond payments as percentages of general fund revenue.

For the Lexington-Fayette County police and firefighter plan, the city's required contribution and pension bond payments represented 9.4 percent of local general fund revenue in FY 2014.

For a closed plan with a relatively low funding ratio, it is still possible for the actuarially required contribution to be lower than current annual benefit payments. The required contribution is the annual payment that will put the plan on course to be fully funded over a long period of time, which can range from 10 to 30 years. If projected benefits are expected to decrease, this means the annual required contribution may be lower.

Also note that, by definition, employees in these plans are not in CERS, so higher costs for these funds mean lower costs for CERS, all else equal.

For 19 of 22 localities with closed plans, the annual required contribution plus any pension bond payment represents less than 4 percent of general fund revenue. This includes nine cities for which the level is 1 percent or less.

For 19 of 22 localities with closed plans, the annual required contribution plus any pension bond payment represents less than 4 percent of general fund revenue. This includes nine cities for which the level is 1 percent or less.

Table 10
Benefits, Contributions, And Pension Bond Payments
For Local Defined-Benefit Pension Plans

Pension Plan (As Of 2014 Or 2013)	Benefits	Contribution By City	Required Contribution By City	Pension Bond Payment
Plans Closed To New Enrollees				
Ashland Police and Firefighters	\$582,431	\$316,277	\$425,142	
Ashland Utilities Employees	731,999	650,912	383,103	
Bowling Green Police and Fire	894,455	400,000	0	
Corbin Police and Firefighters	371,781	461,693	369,536	
Covington City Employees	623,456	138,459	138,459	
Covington Police and Firemen	1,446,162	389,889	283,601	\$1,038,111
Danville Police and Firefighters	241,766	126,000	154,658	
Fort Thomas Police and Fire	33,377	30,539	0	
Frankfort Police and Firefighters	336,007	0	0	
Franklin City Employees	115,011	113,635	151,095	
Glasgow Policemen and Firemen*	32,310	32,400		
Hazard Policemen and Firemen	473,811	475,488	473,851	
Henderson Civil Service	181,852	196,454	111,630	
Henderson Police and Fire	416,461	412,000	396,671	
Hopkinsville Police and Firemen	400,558	400,000	761,220	
Lexington-Fayette City Employees	1,628,793	0	0	
Louisville Firefighters	2,909,451	2,794,251	2,794,251	
Louisville Policemen	2,322,444	1,543,678	1,543,678	
Madisonville Police and Firefighters	548,889	500,000	556,103	
Mayfield Police and Fire	568,441	560,818	727,792	
Murray Police and Firefighters**	176,052	156,372	78,221	
Newport Employees	243,758	0	51,289	583,375
Newport Police and Firefighters	392,370	0	1,528	
Owensboro City Employees	426,592	0	0	
Owensboro Police and Firefighters	931,980	0	508,246	301,408
Paducah Appointive Employees	21,152	0	10,779	
Paducah Police and Firefighters	1,445,080	420,834	421,933	497,221
Richmond Police and Fire	117,840	0	22,515	
Winchester Policemen and Firemen	111,358	5,000	145,214	
Plan Open To New Enrollees				
Lexington-Fayette Police and Firemen	53,597,352	23,217,413	23,217,413	5,365,000

*No reported required contribution.

**The required contribution is not reported in the city's annual financial reports. The required contribution shown is the annual payment for a 15-year amortization of liabilities from the 2011 actuarial report for the plan.

Source: Annual city financial statements and local officials. See appendix.

Table 11
Annual Actuarially Required Contribution And Pension Bond
Payment As A Percentage Of General Fund Revenue
(Ordered From Lowest To Highest)

City/Plan (As Of 2014 Or 2013)	Required Contribution By City	Pension Bond Payment	Total
Plans Closed To New Enrollees			
Bowling Green Police and Fire	0.0%		0.0%
Fort Thomas Police and Fire	0.0		0.0
Frankfort Police and Firefighters	0.0		0.0
Lexington-Fayette City Employees	0.0		0.0
Richmond Police and Fire	0.1		0.1
Glasgow Policemen and Firemen	0.3*		0.3
Louisville: Firefighters, Policemen	0.7		0.7
Murray Police and Firefighters	0.9		0.9
Winchester Policemen and Firemen	1.0		1.0
Danville Police and Firefighters	1.3		1.3
Owensboro: City Employees, Police and Firefighters	1.2	0.7%	1.9
Henderson: Civil Service, Police and Fire	2.1		2.1
Franklin City Employees	2.3		2.3
Hopkinsville Police and Firemen	2.6		2.6
Paducah: Appointive Employees, Police and Firefighters	1.4	1.6	3.0
Covington: City Employees, Police and Firemen	0.9	2.2	3.1
Newport: Employees, Police and Firefighters	0.3	3.2	3.4
Ashland: Police and Firefighters, Utilities Employees	3.5		3.5
Madisonville Police and Firefighters	3.9		3.9
Corbin Police and Firefighters	4.8		4.8
Hazard Policemen and Firemen	7.3		7.3
Mayfield Police and Fire	9.7		9.7
Plan Open To New Enrollees			
Lexington-Fayette Police And Firemen	7.6	1.8	9.4

Note: Contribution and bond payment may not add the total shown due to rounding.

*The Glasgow plan does not report an actuarially required contribution. The number used in the table is annual benefits.

Source: Annual city financial statements and local officials. See appendix.

Among the closed plans, the localities with the highest costs as a percentage of revenue are mostly those with two pension plans and those whose eligible employees disproportionately decided to stay with their existing plans rather than switch to CERS in 1988. For example, all Ashland utility employees and all Hazard police and firefighters kept their existing plans in 1988. Of Mayfield's 66 police and firefighters at the time, only 21 switched to CERS.¹²

The three plans with the highest actuarially required payments as a percentage of general fund revenue are the police and firefighter plans of Corbin (4.8 percent of general fund revenue), Hazard (7.3 percent), and Mayfield (9.7 percent).

The three plans for which cities have required payments of approximately 5 percent or more are police and firefighter plans with relatively low funded ratios: Corbin (4.8 percent of general fund revenue), Hazard (7.3 percent), and Mayfield (9.7 percent). As a share of general fund revenue, though, annual benefits for the Mayfield plan are 2.2 percentage points lower than the required payment. A factor for Hazard and Mayfield is that they have a relatively high number of retirees and beneficiaries. Hazard has 26, and Mayfield has 33. The average for other fourth-class cities is 9. Mayfield is the only one of the three that reported on the age of retirees and beneficiaries. As of 2010, the average was 63, significantly younger than for other closed plans.

That said, for some small pension plans, typical measures of financial status may not always be useful. A pay-as-you-go plan with no assets may not be a cause for concern. The annual benefits for Glasgow, which is 0 percent funded, represent 0.3 percent of general fund revenue because the plan has only two retirees and beneficiaries. Two police and firefighter plans, Danville (30 percent funded) and Hopkinsville (28 percent funded) have similar funding ratios, but the cost of the Hopkinsville plan as a percentage of general fund revenue is twice as high because it has twice as many retirees and beneficiaries and a significantly higher unfunded liability.

Governing Statutes

Summarizing the report so far, almost all local defined-benefit pension plans have been closed to new enrollees for nearly 30 years. The closed plans have very few active employees, and their annual benefit costs are expected to decline. The one open plan seems to be on a sound financial basis.

An issue for the closed plans, in the near future for some, is that at some point there will be no retirees and beneficiaries for whom benefits have to be paid. The only statute that covers the repeal of a local defined-benefit plan applies to police and firefighter plans in fourth- and fifth-class cities. Whether such statutory language would be useful for other types of plans and, if so, what the language would be, are decisions to be made by the General Assembly.

An issue for the closed plans, in the near future for some, is that at some point there will be no retirees and beneficiaries for whom benefits have to be paid. That could be a problem because the statutes governing these plans are more appropriate for active, growing plans. Local and plan officials may benefit from legislative guidance on how plans are to be ended.

The only statute that covers the repeal of a local defined-benefit plan is KRS 95.783, which applies to police and firefighter plans in fourth- and fifth-class cities—3 of the 29 plans. A repeal ordinance can be adopted only by a unanimous vote of the city legislative body. The pension board is to dispose of remaining funds as follows:

All unexpended moneys appropriated to said pension fund out of the said city's general fund to the policemen's and firefighters' pension fund by the said legislative body of such city and at the time of adoption of a repeal ordinance shall revert back to the city's general fund. All other unexpended moneys or property which has come into the said pension fund's hands shall be liquidated by said board of trustees in the following manner: All unexpended moneys in the said pension fund which accumulated thereto by pick up of employee contributions by the employer pursuant to KRS 65.155 or assessments from policemen's and firefighters' salaries and gifts, or accumulated thereto in any manner except appropriations from the said city's general fund, shall revert back to the active or retired policemen and firefighters and dependents who have qualified under KRS 95.761 to 95.785 in such city. In the division to the beneficiaries, the board of said trustees shall use in the division of said fund the per centum of the present salaries of such members.

Whether such statutory language would be useful for other types of plans and, if so, what the language would be, are decisions to be made by the General Assembly.

Recommendation 2

Recommendation 2

The General Assembly may wish to revise statutes governing local defined-benefit pension plans to establish procedures for the repeal of plans with no retirees and beneficiaries.

When a plan has few retirees and beneficiaries, it is feasible that the annual cost of the plan will be manageable by the city regardless of the pension fund's actuarial status. Given this, it is possible that the cost of having an actuarial study done every 3 years as required by statute may not be worthwhile for all plans.

Before plans have no retirees and beneficiaries, the numbers of retirees and beneficiaries will decrease to the point that there will only be a few of them. Some plans have reached this point already: seven plans have 10 or fewer retirees and beneficiaries, including three plans with 5 or fewer. When a plan has so few members receiving benefits, it is feasible that the cost of the plan will be manageable by the city regardless of the pension fund's actuarial status. Given this, it may be advisable for the statutory reporting requirement to take the status of the plan into account. Having an actuarial study done every 3 years may not be worthwhile for all local pension plans.

Recommendation 3

Recommendation 3

The General Assembly may wish to consider revising the timing of actuarial reports as specified in KRS 65.156.

Appendix

Sources Of Financial Information

Almost all the financial information for this Program Review report came from actuarial reports for local defined-benefit pension plans and annual financial reports of the cities with those plans. The following table indicates the source report and page numbers for the number of retirees and beneficiaries, assets and liabilities, annual benefits, annual city contributions, annual actuarially required contributions by cities, projected benefits, age of retirees and beneficiaries, and annual city general fund revenue. In some cases, the number used for a measure will differ among tables in this report. For example, if an actuarial report provided details on the pensions of retirees and beneficiaries separately, that information was used in Table 8. If total benefits for a more recent year were available in the city's financial report, that number was used for Table 10, which does not distinguish between retirees and beneficiaries.

In the table, "Actuarial" indicates the actuarial report of the pension plan. "Financial" indicates an annual city financial report.

For the Franklin employee plan, the breakdown of retirees and beneficiaries is from Crabtree, Scott. Telephone Interview. April 20, 2015.

For the Lexington-Fayette County employee and police and firefighter plans, the numbers of retirees and beneficiaries as of 2014 are from Emmons, Jamie. "Program Review and Investigations Committee Report." Message to Greg Hager. June 10, 2015. Email.

The titles of the financial reports and actuarial reports are listed below.

Ashland. *Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2014.*

Bowling Green. *Comprehensive Annual Financial Report For The Fiscal Year Ended June 30, 2014; Police and Firefighters Retirement Fund Actuarial Valuation and Report, January 1, 2014.*

Corbin. *Basic Financial Statements And Supplementary Information, Year Ended June 30, 2014; Police and Firefighters' Pension Fund Valuation as of July 1, 2011.*

Covington. *Comprehensive Annual Financial Report For The Fiscal Year Ended June 30, 2014.*

Danville. *Financial Statements, June 30, 2014.*

Fort Thomas. *Annual Financial Statements, Year Ended June 30, 2014; Police & Fire Pension Fund, Tri-Annual Actuarial Report, June 30, 2013.*

Frankfort. *Financial Statements, Year Ended June 30, 2014; Police and Firefighters' Retirement Fund, Valuation as of January 1, 2013.*

Franklin. *Annual Financial Report, Year Ended June 30, 2014.*

Glasgow. *Annual Financial Report, June 30, 2013.*

Hazard. *Financial Statements And Report Of Audit For The Year Ended June 30, 2013; Policemen's and Firemen's Pension Fund, Actuarial Evaluation, July 1, 2013.*

Henderson. *Comprehensive Annual Financial Report For The Fiscal Year Ended June 30, 2014.*

Hopkinsville. *Comprehensive Annual Financial Report For The Fiscal Year Ended June 30, 2014; Policemen's And Firefighter's Pension Fund, Valuation And Report As of January 1, 2012.*

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Winchester. *Audited Basic Financial Statements Including Supplementary Data And Independent Auditor's Reports For The Year Ended June 30, 2014.*

Plan/Report/Year	Page Number In Source Report For							
	Retirees And Beneficiaries	Assets And Liabilities	Benefits	Contribution	Required Contribution	Projected Benefits	Age	General Fund
Ashland Police and Firefighters, Utilities Employees; Financial; 2014	56	56	55	55	57			33
Bowling Green Police and Fire; Financial; 2014		64	35	35	64			68
Bowling Green Police and Fire; Actuarial; 2014	3		14			15	14	
Corbin Police and Firefighters; Financial; 2014			30	30	30			12
Corbin Police and Firefighters; Actuarial; 2011	16	11				14	16	
Covington City Employees; Financial; 2014	50	51	33	33	66			19
Covington Police and Firemen; Financial; 2014	53	55	33	33	67			19
Danville Police and Firefighters; Financial; 2014	30	32	45	33	46			12
Fort Thomas Police and Fire; Financial; 2014	33		19	19				16
Fort Thomas Police and Fire; Actuarial; 2013	8	4	7		5			
Frankfort Police and Firefighters; Actuarial; 2013	12	10	14		5	13	14	
Frankfort Police and Firefighters; Financial; 2014			20	37	37			13
Franklin City Employees; Financial; 2014	52	53	52	53	53			61
Glasgow Policemen and Firemen; Financial; 2013	59	31	32	32				65
Hazard Policemen and Firemen; Financial; 2013				55				62
Hazard Policemen and Firemen; Actuarial; 2013	2	2	2		2,3	6		
Henderson Civil Service, Police and Fire; Financial; 2014	74	74	79	77	77			36
Hopkinsville Police and Firemen; Financial; 2014	71	73	44	44	73			95
Hopkinsville Police and Firemen; Actuarial; 2012						11	9	

Plan/Report/Year	Page Number In Source Report For							General Fund
	Retirees And Beneficiaries	Assets And Liabilities	Benefits	Contribution	Required Contribution	Projected Benefits	Age	
Lexington-Fayette City Employees, Police and Firemen; Financial; 2014		92	98	92	92			38
Lexington-Fayette Police and Firemen; Actuarial; 2013							25	
Louisville Policemen, Firefighters; Financial; 2014	89	91	92	92	92			22
Louisville Firefighters; Actuarial; 2014						12		
Madisonville Police and Firefighters; Financial; 2014		41	24	24	42			9
Madisonville Police and Firefighters; Actuarial; 2013	16		16			14	16	
Mayfield Police and Fire; Financial; 2013			13	13	32			10
Mayfield Police and Fire; Actuarial; 2010	4	2	4					
Murray Police and Firefighters; Financial; 2014			19	19				34
Murray Police and Firefighters; Actuarial; 2011	10, 12	9	12		9		12	
Newport Employees; Financial; 2014	47	53	71	52	68			58
Newport Police and Firefighters; Financial; 2014	48	53	71	52	69			58
Newport Employees; Actuarial; 2014	5-7		5-7			3	5-7	
Newport Police and Firefighters; Actuarial; 2014	7-9		7-9			5	7-9	
Owensboro City Employees; Financial; 2014		65	79	79	83			24
Owensboro Police and Firefighters; Financial; 2014		65	80	80	83			24
Owensboro City Employees; Actuarial; 2014	1		2				2	
Owensboro Police and Firefighters; Actuarial; 2014	1		2				2	

Plan/Report/Year	Page Number In Source Report For							
	Retirees And Beneficiaries	Assets And Liabilities	Benefits	Contribution	Required Contribution	Projected Benefits	Age	General Fund
Paducah Appointive Employees, Police and Firefighters; Financial; 2014	78	80	110	79	79			42
Richmond Police and Fire; Financial; 2013		45	23	47	45			50
Richmond Police and Fire; Actuarial; 2013	14		14			13	14	
Winchester Policemen and Firemen; Financial; 2014	68	68	43	67	67			36

Endnotes

- ¹ Kentucky. Legislative Research Commission. *Report On The Merger Of City Retirement Systems*. Research Memorandum No. 453. Dec. 1991. P. 2.
- ² Kentucky. Legislative Research Commission. *Report On The Merger Of City Retirement Systems*. Research Memorandum No. 453. Dec. 1991.
- ³ Carroll, Bryanna. Kentucky League of Cities. Governmental Affairs Advocacy Manager. Personal interview. July 2, 2014.
- ⁴ *Keeton v. City of Ashland*, 883 S.W.2d 894, 896 (Ky. Ct. App. 1994).
- ⁵ American Academy of Actuaries. *Issue Brief: The 80% Pension Funding Standard Myth*. July 2012. P. 2.
- ⁶ United States. Government Accountability Office. *State and Local Government Retiree Benefits: Current Status of Benefit Structures, Protections, and Fiscal Outlook for Funding Future Costs*. September 2007. P. 30.
- ⁷ Lexington-Fayette Urban County Government. *Comprehensive Annual Financial Report For The Year Ended June 30, 2013*. P. 77; Emmons, Jamie. “Program Review and Investigations Committee Report.” Message to Greg Hager. June 10, 2015. Email.
- ⁸ Covington. *Comprehensive Annual Financial Report For The Fiscal Year Ended June 30, 2014*. Pp. 45-46, 84; Goetz, Lisa. “Employees, Police and Fire Pensions.” Messages to Greg Hager. April 7, 2015; May 8, 2015. Email.
- ⁹ Newport. *Comprehensive Annual Financial Report For Year Ending June 30, 2014*. Pp. 46, 52.
- ¹⁰ Owensboro. *Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2014*; Galloway, Dane. “Owensboro-Debt questions.” Message to Greg Hager. May 13, 2015. Email.
- ¹¹ Paducah. *Comprehensive Annual Financial Report, Year Ended June 30, 2014*. Pp. 5, 26; Perkins, Jonathan. “Question about pension bond—PFPF FY 2014 CAFR.” Message to Greg Hager. May 8, 2015. Email.
- ¹² Kentucky. Legislative Research Commission. *Report On The Merger Of City Retirement Systems*. Research Memorandum No. 453. Dec. 1991. P. 3.

