



**County Employees Retirement System  
Actuary Committee – Regular Meeting  
April 8, 2026 at 2:00 PM ET  
Live Video Conference/Facebook Live**

**AGENDA**

- |  |  |
|--|--|
| <b>1. Call to Order</b>  | <b>Michael Foster</b>  |
| <b>2. Opening Statement</b>  | <b>Eric Branco</b>   |
| <b>3. Roll Call</b>  | <b>Sherry Rankin</b>   |
| <b>4. Public Comment</b>   | <b>Sherry Rankin</b>   |
| <b>5. Approval of Minutes* -- November 6, 2025</b>                     | <b>Michael Foster</b>  |
| <b>6. Forward Looking Return Expectations</b>                          | <b>David Lindberg<br/>Craig Morton<br/>Chris Tessman</b>           |
| <b>7. Review of Actuarial Economic Assumptions</b>                     | <b>Danny White, GRS<br/>Janie Shaw, GRS<br/>Krysti Kiesel, GRS</b> |
| <b>8. Discussion Surrounding Employer Funded 13<sup>th</sup> Check</b> | <b>Ed Owens, III<br/>GRS Team</b>                                  |
| <b>9. ADJOURN</b>  | <b>Michael Foster</b>  |

***\*Committee Action May Be Taken***

**MINUTES OF MEETING  
COUNTY EMPLOYEES RETIREMENT SYSTEM  
SPECIAL-CALLED  
ACTUARIAL COMMITTEE MEETING  
NOVEMBER 6, 2025, AT 2:00 P.M.  
VIA LIVE VIDEO TELECONFERENCE**

At the Special-Called Meeting of the Actuarial Committee of the County Employees Retirement System Board of Trustees held on November 6, 2025, the following members were present: Michael Foster (Chair), Dr. Patricia Carver, George Cheatham, Dr. Merl Hackbart, and Steven Webb. Staff members present were CERS CEO Ed Owens III, Ryan Barrow, Erin Surratt, Michael Lamb, Michael Board, Victoria Hale, Shaun Case, Sandy Hardin, and Sherry Rankin. Others present included Danny White, Krysti Kiesel, and Janie Shaw with GRS and Eric Branco with Johnson, Branco and Brennan, LLP.

1. Mr. Foster called the meeting to order.
2. Mr. Branco read the Opening Statement.
3. Ms. Rankin took Roll Call.
4. Ms. Rankin noted that no ***Public Comment*** was submitted.
5. Mr. Foster introduced agenda item ***Approval of Minutes – May 7, 2025*** (Video 00:06:46 to 00:07:30). Mr. Cheatham made a motion to approve the May 7, 2025, minutes as presented. Dr. Hackbart seconded the motion. The motion passed unanimously.
6. Mr. Foster introduced agenda item ***Draft Actuarial Valuations*** (Video 00:07:30 to 00:47:53). Mr. Danny White and Ms. Krysti Kiesel presented the finalized draft actuarial valuation for the June 30, 2025, highlighting updated membership data, asset performance, and minor changes to insurance benefits. The valuation showed strong investment returns exceeding expectations, with over 11% gains across all funds, resulting in a \$901 million asset gain—of which \$630 million was recognized to stabilize

contribution rates. Active membership and payroll continued to grow, contributing to changes in funding needs. For the fiscal year ending 2027, employer contribution rates are set to adjust: pension fund rates decreased due to reduced unfunded liabilities and amortization costs, while insurance fund rates increased due to legislative changes and higher premiums. Overall, both hazardous and non-hazardous funds saw a year-over-year decrease of over 1% in contribution rates as a percentage of payroll. In dollar terms, contributions for the non-hazardous fund declined, while the hazardous fund saw a slight increase due to payroll growth. Mr. Webb inquired about payroll growth assumptions, and Mr. White clarified that while these assumptions don't affect liabilities directly, they influence how unfunded liabilities are financed. He stressed the importance of conservative estimates, especially for underfunded plans with long amortization periods, noting that once a plan is nearly fully funded, the assumption becomes less critical.

Ms. Kiesel then summarized the year's asset and liability experience and its impact on the unfunded liability. She explained that the pension fund showed a decrease in unfunded liability, as strong investment performance helped offset liability losses. However, on the insurance side, while investment experience was favorable, it was not sufficient to counterbalance premium experience and legislative impacts, resulting in an increase in unfunded liability. Taken together, both funds experienced a slight overall increase in unfunded liability, with the primary drivers being premium and legislative factors affecting the insurance fund.

Mr. Cheatham raised a question to help newer trustees better understand the concept of five-year smoothing, asking whether the recent strong investment returns were included in the reported \$901 million figure or spread across multiple years. Ms. Kiesel clarified that the \$901 million reflected the market value of assets entirely from this year, while the recognized amount was \$630 million, which incorporated gains from prior years under the smoothing method. Mr. Cheatham emphasized the importance of explaining the purpose and impact of smoothing in both favorable and unfavorable markets. Mr. White expanded on this point, noting that liabilities such as salary increases or insurance changes are recognized immediately, while assets are more volatile and, therefore, smoothed over

five years at a rate of 20% per year. He explained that this approach dampens volatility in contribution rates, as actuarial values are currently about 5% lower than market values. Gains will be recognized gradually unless offset by future losses, helping stabilize funding costs despite market fluctuations. Mr. White also reviewed historical changes, highlighting that adjustments to economic and demographic assumptions in 2017 and 2019 materially increased employer contribution requirements, which were phased in over several years. With that phase-in now complete, recent contribution efforts have positively impacted the funded ratio. He concluded by noting that membership counts have returned to positive growth, driven by workforce and employer needs, which is a favorable trend for the system.

The presentation then turned to payroll and membership counts. It was noted that recent payroll increases have been unusually high, described as an anomaly in over 25 years of actuarial experience. While these increases have persisted for the past four years, it was cautioned that it would not be prudent to project such growth into the future, as tighter budgets are expected to dampen payroll changes. In contrast, active and retiree membership counts can be projected with greater confidence. Because retirements follow predictable patterns and the transition of active members into retirement is a known quantity, these counts are expected to continue trending steadily forward. This makes membership projections more reliable compared to payroll growth, which is subject to economic and budgetary pressures.

Mr. Cheatham asked for clarification on how much of the payroll increase was attributable to higher headcount versus wage growth. Mr. White responded that the majority of the increase appeared to come from salary increases for existing members rather than new hires, noting that new members typically enter at lower-than-average salaries. He estimated that roughly 65–75% of the payroll growth was due to wage increases among current members. Mr. Lamb added that his own figures, based on raw contribution reports, were less precise and subject to fluctuations, emphasizing that the actuarial data from GRS provided a more reliable measure. Mr. White further explained that differences between Mr. Lamb's data and actuarial counts likely stemmed from timing and turnover,

as contribution reports capture all members who contributed during a period, while actuarial counts reflect active members at a specific snapshot date. Mr. Cheatham concluded by suggesting that cost-of-living adjustments for existing employees may trend higher in coming years given economic conditions, while Mr. White acknowledged the point and noted that time will ultimately reveal how payroll dynamics evolve.

The presentation moved into projections and rate development, beginning with a breakdown of how employer contribution rates are calculated. This includes the normal cost rate for pension and insurance, member contributions, administrative expenses based on prior year payroll, and amortization costs under the funding policy adopted by the CERS Board. These elements combine into the total employer rate, which reflects changes in funding status, unfunded liability, and funded ratios for both hazardous and non-hazardous plans.

Projections assumed a steady 6.5% return and full payment of actuarially determined contributions. For the non-hazardous plan, the unfunded liability is concentrated in pension rather than insurance. Deferred investment gains are expected to reduce unfunded liability significantly in the near term, with contribution rates declining over the next three to four years before rising again after 2043 as new amortization layers are added. Insurance liabilities remain relatively small. The hazardous plan shows similar trends, though at different magnitudes, and overall results are consistent with last year's outlook. Closing comments emphasized that favorable investment experience has been offset by liability changes, but pension unfunded liability continues to decline. Unlike medical premiums, which are more predictable, salary growth introduces volatility, underscoring the importance of maintaining current funding policies and assumptions. Sensitivity analyses showed that changes in discount rates, inflation, or payroll growth assumptions can significantly affect contribution rates, though not necessarily funding ratios. Trustees were reminded that detailed numerical tables and charts are included in the packet, along with a full report, and that while the materials are marked draft, no substantive changes are anticipated pending Board approval.

Mr. Cheatham made a motion to accept the 2025 Actuarial Valuation as presented, including accepting the employer contribution rates for the fiscal year beginning July 1, 2026, and ending June 30, 2027, and to forward it to the CERS Board for approval. Dr. Hackbart seconded the motion. Following Mr. Foster's commendation of the report as both detailed and beneficial, the motion passed unanimously.

7. There being no further business, Mr. Foster called for a motion to *adjourn*. Mr. Webb made the motion to adjourn the meeting. Dr. Carver seconded the motion. The motion passed unanimously. Mr. Foster adjourned the meeting.

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## CERTIFICATION

I do certify that I was present at this meeting, and I have recorded the above actions of the Trustees on the various items considered by it at this meeting. Further, I certify that all requirements of KRS 61.805-61.850 were met in conjunction with this meeting.

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Recording Secretary

I, the Chair of the Actuarial Committee of the County Employees Retirement System Board of Trustees, do certify that the Minutes of Meeting held on November 6, 2025, were approved on April 8, 2026.

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Chair of the CERS Actuarial Committee

I have reviewed the Minutes of the November 6, 2025, Board of Trustees Meeting for content, form, and legality.

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Executive Director  
Office of Legal Services

**Wilshire**

# Capital Market Return Assumptions Update

December 31, 2025

## Update to Annual Report

- Capital market return assumptions are updated on a quarterly basis for new asset allocation studies
- Full assumption methodology is available in Wilshire Consulting’s annual paper
- Following analysis serves as an update to the year-end report, with an update to the CERS assumptions shown below

Standard ACA (10 Years)	Public Equity	Private Equity	Core Fixed Income	Specialty Credit	Cash	Real Estate	Real Return	CERS Portfolio
Target Weight (%)	45.00	8.00	13.00	20.00	2.00	5.00	7.00	100.00
Compounded Return (%)	5.05	7.60	4.90	7.00	3.25	6.55	6.40	6.18
Risk (%)	17.05	27.80	4.75	9.05	0.75	13.95	10.95	11.65
Yield (%)	1.65	0.00	5.75	9.55	3.25	2.95	2.85	3.83

Correlation	Public Equity	Private Equity	Core Fixed Income	Specialty Credit	Cash	Real Estate	Real Return
Public Equity	1.00						
Private Equity	0.74	1.00					
Core Fixed Income	0.20	0.30	1.00				
Specialty Credit	0.57	0.31	0.15	1.00			
Cash	-0.06	0.00	0.18	-0.09	1.00		
Real Estate	0.54	0.52	0.18	0.63	-0.05	1.00	
Real Return	0.59	0.50	0.15	0.60	-0.01	0.50	1.00

Custom CERS basket assumptions from Asset-Liability Study used on this page only for Private Equity, Specialty Credit and Real Return

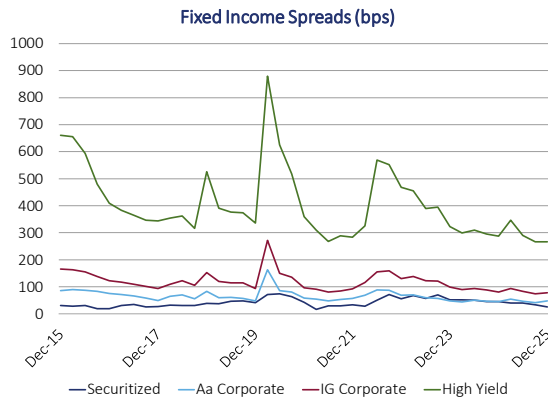
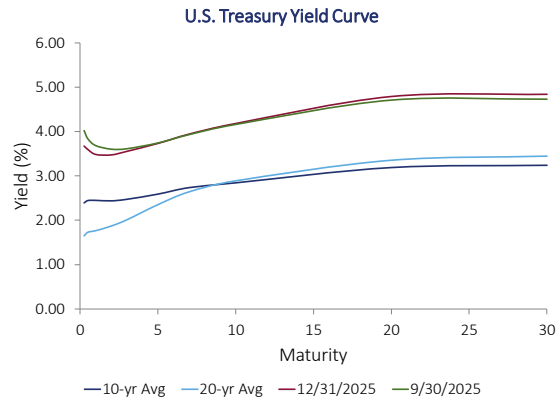
## Summary Changes

- Yield curve rotated around the 5-year with the short end of the curve down and longer rates rising
  - Curve movements resulted in slightly higher forecasts for fixed income asset classes
  - Little change in spreads for investment grade and high yield bonds
- Yields on real asset securities are mostly up from last quarter; inflation assumption down modestly at 2.30%
- Equity assumptions are up; private equity to a similar degree due to slight changes in leverage costs
- Equity risk premium increased due to an increase in the equity forecast greater than the change in core bonds

Asset Class Assumption	Total Return (%)			Risk (%)
	Sep 2025	Change	Dec 2025	
Inflation	2.35	-0.05	2.30	1.75
Cash Equivalents	3.30	-0.05	3.25	0.75
Treasuries	4.40	0.05	4.45	5.00
Core Bonds	4.90	0.00	4.90	4.75
LT Core Bonds	5.10	0.05	5.15	9.95
High Yield Bonds	6.05	0.00	6.05	10.00
Private Credit	7.45	0.00	7.45	12.75
Global RE Securities	5.80	0.15	5.95	16.55
Private Real Estate	6.45	0.10	6.55	13.95
U.S. Stocks	4.10	0.35	4.45	17.00
Dev. ex-U.S. Stocks	5.10	0.35	5.45	18.00
Emerging Market Stocks	5.35	0.35	5.70	26.00
Private Equity	6.00	0.30	6.30	29.65
Hedge Funds	5.90	0.10	6.00	6.60
Global 60/40 (ACWI/U.S. Core)	5.05	0.25	5.30	10.75

Implied Risk Premia	Relative Return (%)		
	Sep 2025	Change	Dec 2025
Cash - Inflation	0.95	0.00	0.95
Treasury - Cash	1.10	0.10	1.20
Core - Treasury	0.50	-0.05	0.45
Long-Term Core - Core	0.20	0.05	0.25
High Yield - Core	1.15	0.00	1.15
Global RESI - Core	0.90	0.15	1.05
U.S. Stocks - Core	-0.80	0.35	-0.45
Private Equity - U.S. Stocks	1.90	-0.05	1.85
Implied Real Return (ACA - CPI)			
U.S. Stocks	1.75	0.40	2.15
U.S. Bonds	2.55	0.05	2.60
Cash Equivalents	0.95	0.00	0.95

Fixed Income

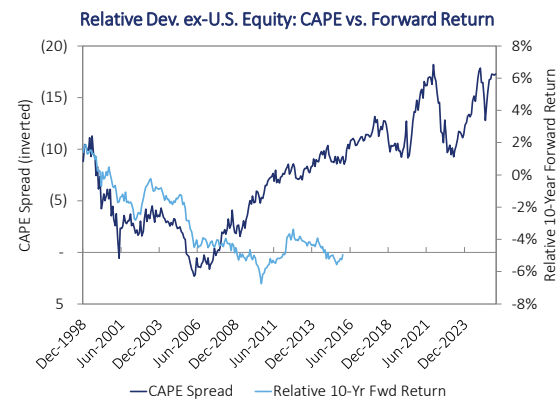
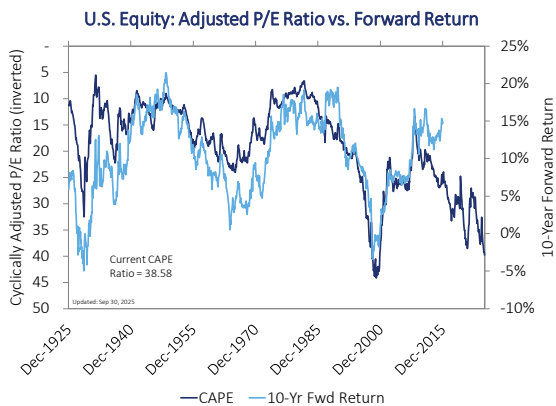
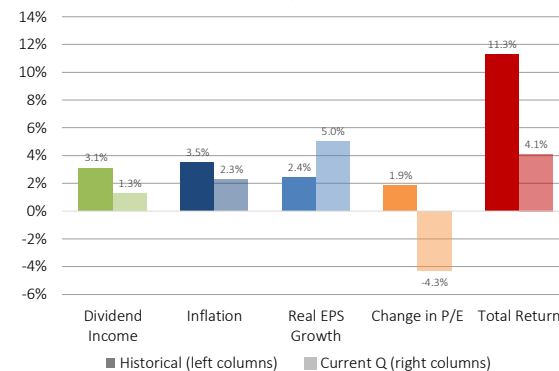


Inflation & Fixed Income		Sep 2025	Change	Dec 2025
<b>Inflation</b>	10-Year Treasury Yield	4.15	0.02	4.17
	10-Year Real Yield	<u>1.78</u>	<u>0.12</u>	<u>1.90</u>
	Breakeven Inflation	2.37	(0.10)	2.27
	<b>Inflation Forecast</b>	<b>2.35</b>	<b>(0.05)</b>	<b>2.30</b>
<b>Cash</b>	91-Day T-Bill Yield	4.02	(0.35)	3.67
	T-Bill Yield in 10 Yrs	3.25	0.00	3.25
	<b>Cash Forecast</b>	<b>3.30</b>	<b>(0.05)</b>	<b>3.25</b>
<b>Treasury</b>	U.S. Treasury Idx Yield	3.94	(0.05)	3.89
	Treasury Idx Yield in 10 Yrs	5.15	0.15	5.30
	<b>Treasury Idx Forecast</b>	<b>4.40</b>	<b>0.05</b>	<b>4.45</b>
	U.S. LT Treasury Idx Yield	4.71	0.08	4.79
	LT Treasury Idx Yield in 10 Yrs	5.04	0.17	5.21
<b>LT Treasury Idx Forecast</b>	<b>4.65</b>	<b>0.10</b>	<b>4.75</b>	
<b>Spread</b>	U.S. Corporate Idx OAS	0.74	0.04	0.78
	Corporate Idx OAS in 10 Yrs	1.48	(0.00)	1.48
	<b>Corporate Idx Forecast</b>	<b>5.30</b>	<b>0.05</b>	<b>5.35</b>
	<b>U.S. Core Bond Forecast</b>	<b>4.90</b>	<b>0.00</b>	<b>4.90</b>
	<b>U.S. LT Core Bond Forecast</b>	<b>5.10</b>	<b>0.05</b>	<b>5.15</b>
U.S. High Yield Idx OAS	2.67	(0.01)	2.66	
High Yield Idx OAS in 10 Yrs	4.90	(0.01)	4.89	
<b>High Yield Bond Forecast</b>	<b>6.05</b>	<b>0.00</b>	<b>6.05</b>	

## Equity Markets

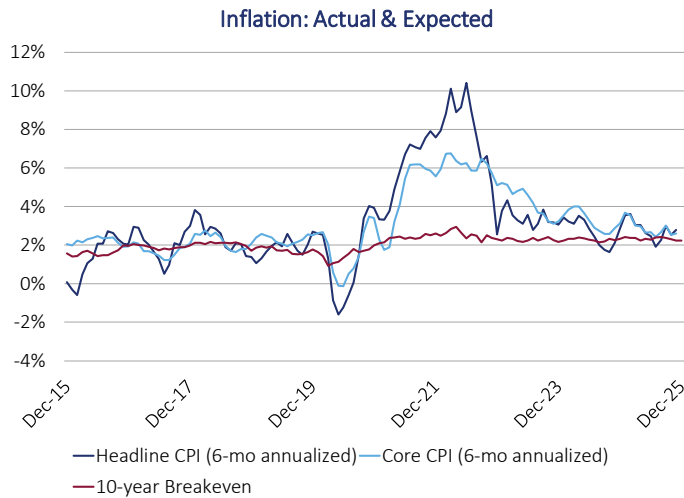
Equity: Wilshire Modeling Output		Sep 2025	Change	Dec 2025
Equity	DDM	6.85	0.00	6.85
	IGV	1.85	2.25	4.10
	CAPE	0.75	(0.50)	0.25
<b>U.S. Equity Forecast</b>		<b>4.10</b>	<b>0.35</b>	<b>4.45</b>
<b>Dev-ex-US Equity Forecast</b>		<b>5.10</b>	<b>0.35</b>	<b>5.45</b>
<b>EM Equity Forecast</b>		<b>5.35</b>	<b>0.35</b>	<b>5.70</b>

IGV Components: History (since 1951) vs. Forecast



## Real Assets

- Inflation assumption of 2.30% is down and roughly equal to breakeven
- Public real asset yields are mostly up; assumed cap rate in private real estate is also up slightly
- Commodity assumption is down from last quarter

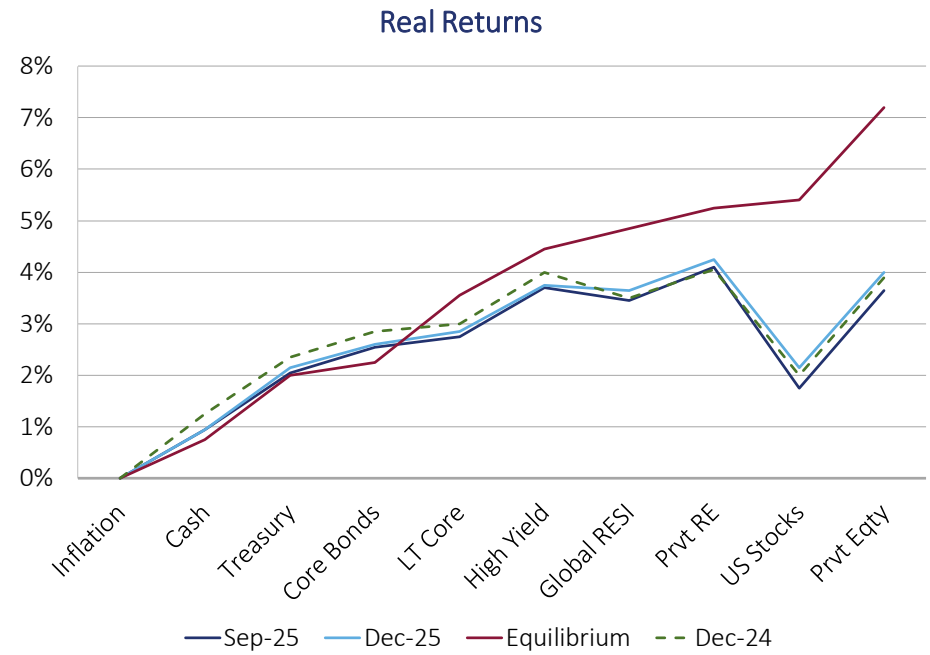
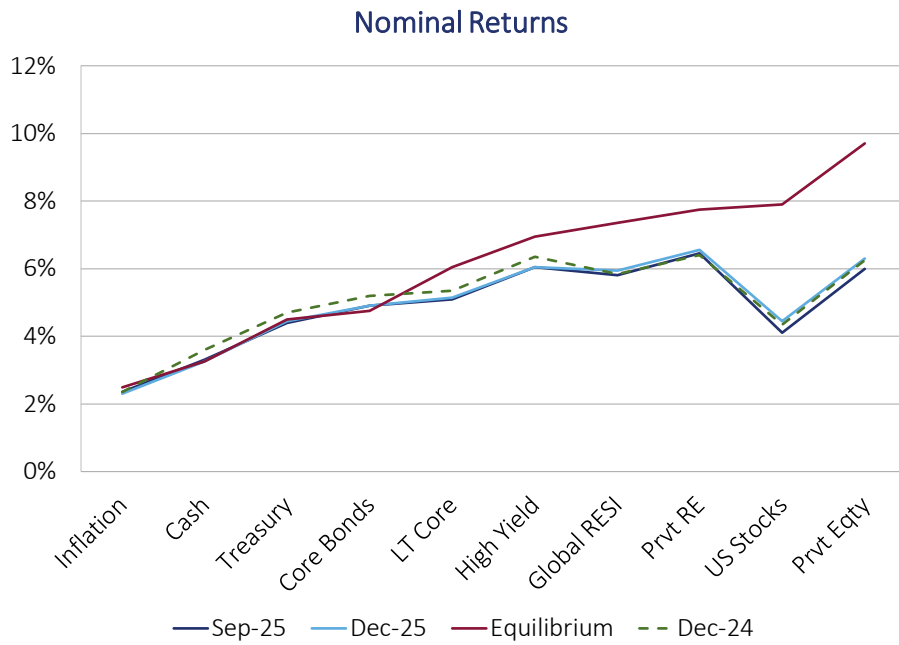


Asset Class Assumption	Total Return (%)			Risk (%)
	Sep 2025	Change	Dec 2025	
U.S. TIPS	4.35	0.10	4.45	6.00
Global RE Securities	5.80	0.15	5.95	16.55
Private Real Estate	6.45	0.10	6.55	13.95
Commodities	4.85	-0.05	4.80	16.00

Real Assets		Sep 2025	Change	Dec 2025
<b>Listed</b>	Inflation Capture (75%)	1.75	0.00	1.75
	REIT Yield	3.88	0.19	4.07
	Midstream Energy Yield	4.87	0.16	5.04
	Global Infrastructure Yield	3.66	(0.37)	3.29
<b>Private</b>	Real Estate Cap Rate	4.75	0.05	4.80
	Cost of Debt (Private)	6.60	0.10	6.70
Infra. v RE Cap Rate Differential		(0.22)	(0.56)	(0.78)
Infra. Leverage / RE Leverage		2.5	0.0	2.5

## Equilibrium Assumptions

### Current versus Equilibrium Asset Class Assumptions



## Important Information

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March 31, 2026

Board of Trustees  
 County Employees Retirement System  
 Perimeter Park West  
 1260 Louisville Road  
 Frankfort, KY 40601

**Re: Economic Assumptions for Use in the Upcoming June 30, 2026 Actuarial Valuation**

Dear Trustees of the Board:

Each year the actuarial committee reviews the principal economic assumptions (i.e. price inflation, investment return assumption, and payroll growth) for use in the actuarial valuation. Economic and demographic assumptions used in an actuarial valuation should be representative of the System’s expected long-term experience. These assumptions are not intended to consistently model short-term (e.g. the next two to five years) experience, but are supposed to be representative of expected long-term trends. As a result, short-term experience may differ significantly from the long-term assumption used in an actuarial valuation.

The three primary economic assumptions used in an actuarial valuation include the price inflation, investment return, and payroll growth assumption. The following analysis and exhibits provide our recommended assumptions to be adopted by the Board for use in the June 30, 2026 actuarial valuation and rationale for each recommendation.

Assumption	June 30, 2025 Valuation Adopted Assumption	June 30, 2026 Valuation Recommended Assumption
Price Inflation	2.50%	2.50%
Investment Return	6.50%	6.50%
Payroll Growth <sup>1</sup>	2.00%	2.00%

<sup>1</sup> The recommended payroll growth assumption includes an underlying assumption that future active membership will remain relatively unchanged.

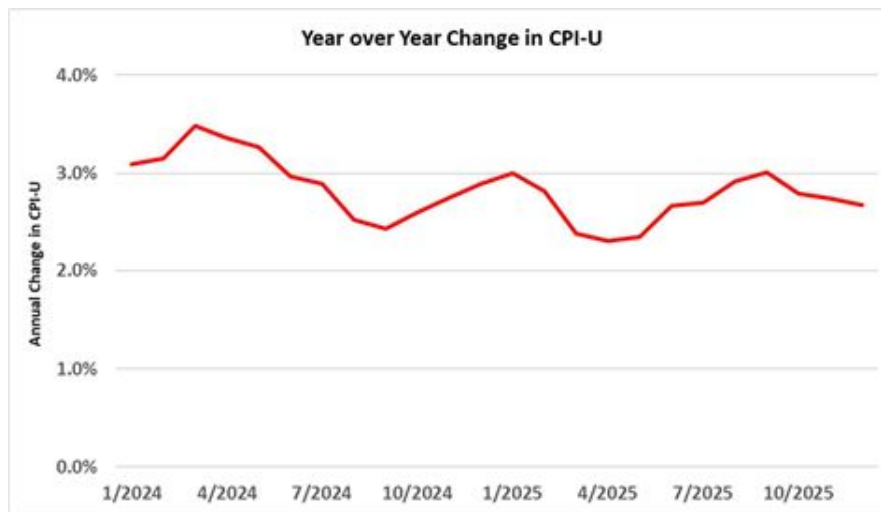
**Price Inflation Assumption**

Retirement benefits provided to members in CERS are not explicitly impacted by the actual change in price inflation. The current price inflation assumption is 2.50% and was increased from 2.30% in the last experience study conducted in 2022. For this analysis we reviewed several sources that

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provide various perspectives of forward-looking inflation expectations and recommend the continued use of a 2.50% inflation assumption in the 2026 actuarial valuation.

We recognize that actual inflation as measured by the change in CPI has been much higher than the current 2.50% assumption during the last 60 months. However, as the following chart shows, actual inflation for the last 24 months has been relatively steady with some indications of downward trend.



Many investment professionals and economists are communicating that inflation volatility and risk have the potential to remain elevated above historical levels for the next 12 to 24 months. However, given the long-time horizon of an actuarial valuation, the Federal Reserve's conviction to return to a 2.00% target inflation, and the relative immateriality of this assumption in the actuarial valuation, we believe a 2.50% inflation assumption continues to be reasonable for this purpose. Please see Exhibit 1 for more information on the comparison of future inflation expectations from various sources.

### **Investment Return Assumption**

The investment return assumption is perhaps the most important and most subjective assumption used in an actuarial valuation. It represents the expected long-term return on plan assets and is used to discount future expected benefit payments to the valuation date in order to determine the liabilities of the plan. The investment return assumption was increased from 6.25% to 6.50% as of the June 30, 2023 actuarial valuation and remained at 6.50% for each of the last two actuarial valuations.

We believe the most appropriate approach in identifying a reasonable investment return assumption is to understand forward-looking expectations developed by professional investment



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consulting firms. To do this, we have analyzed CERS's investment policy with the capital market assumptions from eight nationally recognized investment consultants, including Wilshire Advisors which is CERS's investment consultant. The asset allocation used in this analysis is based on the target asset allocation documented in the CERS February 25, 2026 investment committee material.

Also, since investment consultants update their assumptions on at least an annual basis, we also compared their expectations developed in 2026, to their prior two-year assumptions using the same target asset allocation to identify and isolate the change in return expectations due to changes in capital market expectations. Attached is Exhibit 2 that provides this comparison for each investment consulting firm for 2024, 2025, and 2026.

It is our recommendation that the CERS Board adopt the continued use of a 6.50% investment return assumption for the valuation of the pension and insurance funds at June 30, 2026. Given the methodology used by the investment consultants to develop their expectations, it is possible their expectations for the shorter term revert higher as the economy enters an expected increasing interest rate setting.

### **Payroll Growth Assumption**

The payroll growth assumption is only used in the development of the amortization cost component of the contribution rate. When emerging membership payroll changes are consistent with the payroll growth assumption, the amortization cost will remain relatively constant as a percentage of payroll (assuming there are no other gains or losses). However, if the future change in payroll is consistently less (more) than assumed, then the amortization cost will gradually increase (decrease) as a percentage of membership payroll. Note, due to the actuarial backloading in the amortization payments, there is greater financial risk to having a payroll growth assumption that is too high versus too low.

The change in membership payroll is primarily driven by underlying changes in salary increases for individual members as well as the number of members earning benefits in the System. There are many external and economic factors that can influence the change in both of these underlying elements. The assumed rate of salary increases individuals receive are based on long-term expectations of average increases across all economic cycles that include times of expansion and contraction. Similarly, when reviewing the change in active membership headcount, our analysis considers the inherent long-term nature of this assumption across all economic cycles.

The current payroll growth assumption is 2.00% of pay for the non-hazardous and hazardous funds (pension and insurance) and has been the adopted assumption since 2017. In other words, the actuarial valuation assumes that total membership payroll will grow by 2.00% each year for the development of the annual amortization cost. Underlying this assumption is an implicit assumption that the active membership headcount will relatively unchanged in future years. Note, that in any given year, active headcount could increase or decrease but as long as membership payroll



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continues to change as assumed, the amortization cost as a percentage of pay will not change due to changes in payroll.

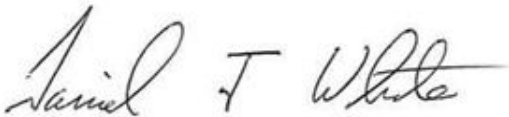
Exhibit three provides a ten-year historical experience of the change in membership headcount and membership payroll. While the number of active members and membership payroll has noticeably increased over the last four years, we believe it is reasonable to continue to assume that active membership headcount will remain relatively constant in future years for both the non-hazardous and hazardous funds, as the economic conditions continue to remain steady and improving for local government entities that participate in CERS. As a result, we also believe the current 2.00% payroll growth assumption is reasonable and we recommend the Board adopt a 2.00% payroll growth assumption for use in the June 30, 2026 actuarial valuation for both the non-hazardous and hazardous plans. As a final note to this point, maintaining the current 2.0% payroll growth assumption, rather than increasing it, prevents additional actuarial backloading and reduces the System's future contribution risk with respect to the System's funding policy.

**Closing Comments**

This analysis was conducted in accordance with generally accepted actuarial principles and practices. We believe these recommended assumptions comply with Actuarial Standard of Practice No. 27, Selection of Economic Assumptions for Measuring Pension Obligations.

All of the undersigned are members of the American Academy of Actuaries and meet all of the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. In addition, all of the undersigned are experienced in performing valuations for large public retirement systems.

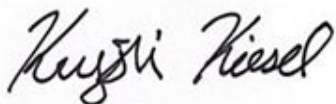
Sincerely,



Daniel J. White, FSA, EA, MAAA  
Senior Consultant



Janie Shaw, ASA, EA, MAAA  
Senior Consultant

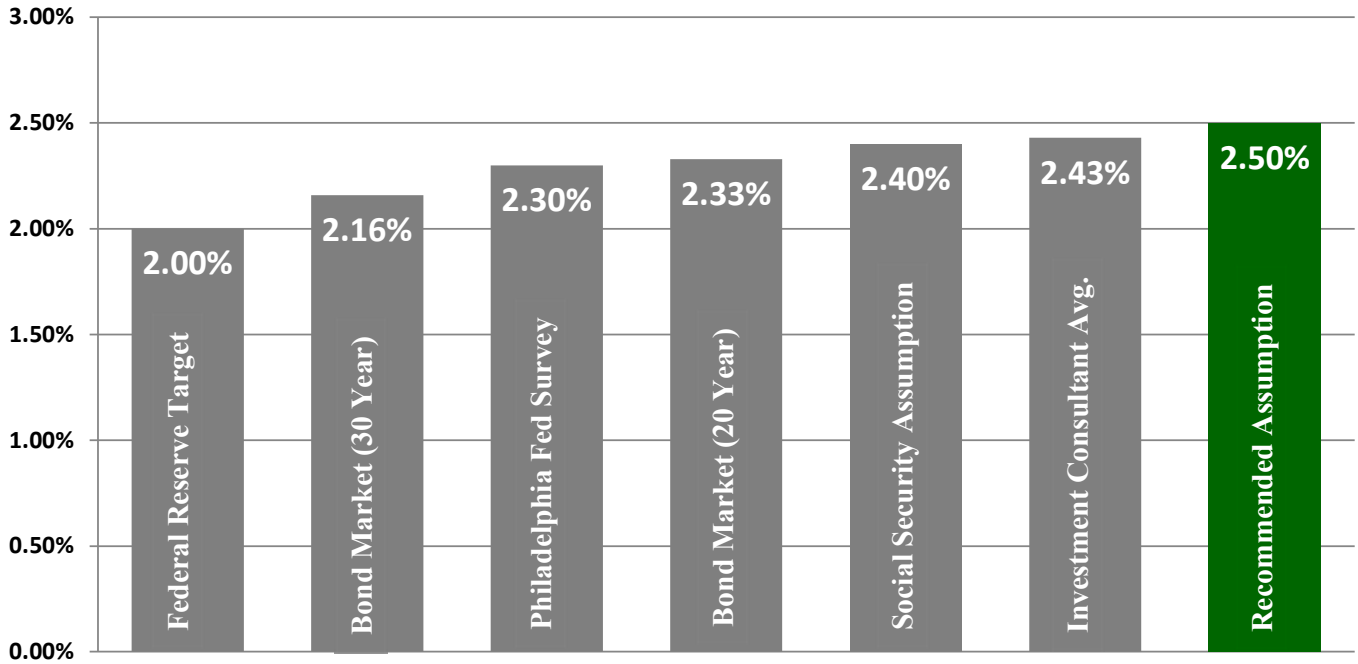


Krysti Kiesel, ASA, EA, MAAA  
Consultant

Enclosure



## Exhibit 1. Comparison of Price Inflation Assumption to Sources of Forward-Looking Expectations



## Exhibit 2. Review of Forward-Looking Capital Market Expectations Mapped CERS’s Target Investment Allocation February 2026

	Investment Consultant	50th Percentile Expected Return (Geometric)			Probability of Exceeding 6.50%		
		2026	2025	2024	2026	2025	2024
		(2)	(3)	(4)	(5)	(6)	(7)
<b>7 to 10 Year Expectations</b>	1	5.8%	6.4%	5.8%	43%	49%	43%
	2	6.0%	6.0%	6.5%	45%	45%	50%
	3	6.6%	6.4%	6.9%	51%	49%	54%
	4	6.6%	6.8%	7.1%	51%	53%	56%
	5	6.6%	6.7%	6.9%	51%	52%	54%
	6	6.6%	7.1%	7.1%	51%	55%	56%
	7	7.0%	6.8%	6.6%	55%	54%	51%
	8	7.0%	7.3%	7.0%	56%	59%	55%
	9	7.1%	7.1%	7.4%	56%	56%	59%
<b>20 to 30 Year Expectations</b>	1	5.9%	6.2%	6.2%	43%	47%	47%
	2	7.1%	7.2%	7.2%	56%	58%	58%
	3	7.2%	7.4%	7.4%	58%	59%	59%
	4	7.2%	7.3%	7.3%	59%	58%	58%
	5	7.3%	7.6%	7.2%	59%	57%	57%
	6	7.5%	7.5%	7.4%	59%	59%	59%
7-10 Year Expectation Avg:		6.6%	6.7%	6.8%	51%	52%	53%
20-30 Year Expectation Avg:		7.0%	7.2%	7.1%	55%	56%	56%

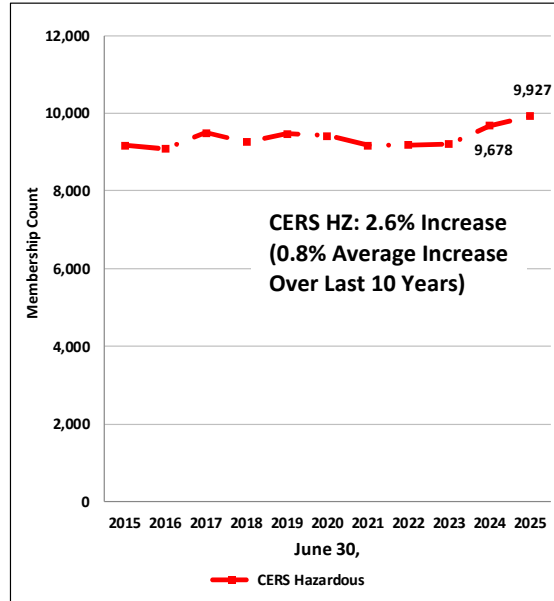
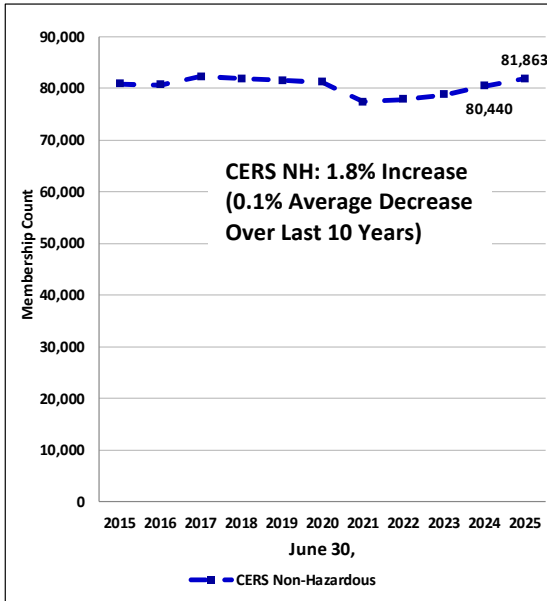
The primary purpose of performing this analysis using multiple investment consulting firms is to quantify the possible difference in forward looking return expectations within the professional investment community. We have provided this analysis based on information from the following investment consulting firms, which include CERS’s investment consultant, Wilshire Associates:

- Aon
- BNY Mellon
- Blackrock
- Callan
- Cambridge
- Mercer
- NEPC
- RVK
- Versus
- Wilshire Associates

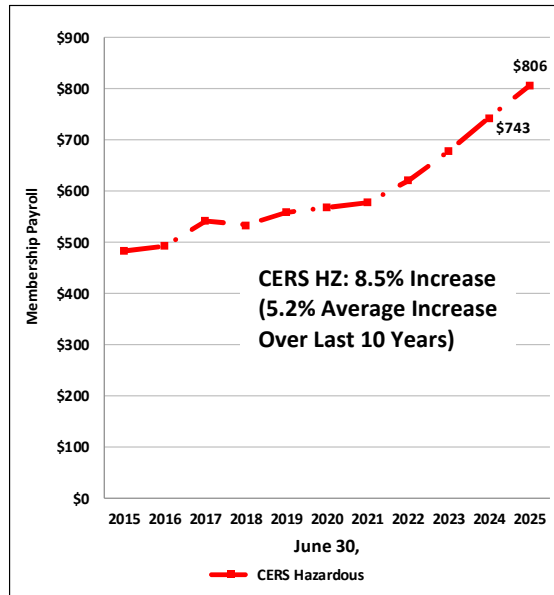
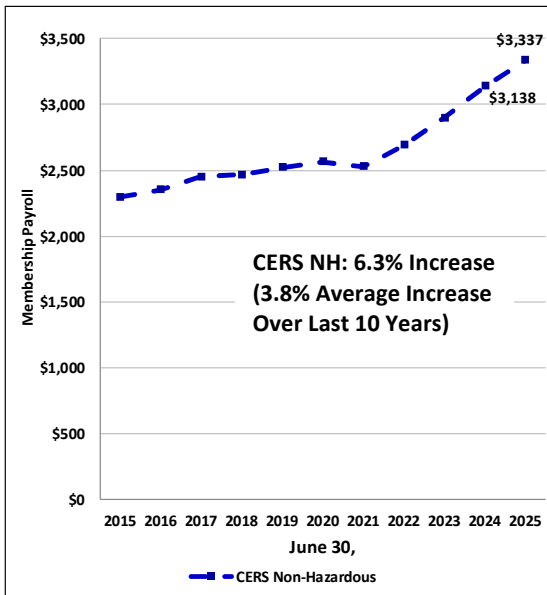


## Exhibit 3. Review of Historical Change in Active Membership Headcount and Payroll

### Change in Active Membership Headcount



### Change in Membership Payroll





January 22, 2026

Mr. Ed Owens III, CEO  
 County Employees Retirement System  
 Kentucky Public Pensions Authority  
 1260 Louisville Road  
 Frankfort, KY 40601

**Re: Actuarial Analysis of House Bill 406 (26 RS BR 1542) and its Financial Impact on the County Employees Retirement System**

Dear Mr. Owens:

We have reviewed Section 3 of the proposed legislation HB 406 (26 RS BR 1542), and the purpose of this letter is to communicate the actuarial analysis of this legislation in regards to the County Employees Retirement System (CERS). Note, the actuarial impact of the other sections of this proposed legislation was out of the scope of this letter and will be provided separately.

**Summary of Provisions of Proposed Legislation and Fiscal Impact**

Section 3 of this proposed legislation allows the CERS Board to elect to provide members in receipt of a monthly retirement allowance a one-time supplemental payment in July 2026. This payment would be equal to the monthly retirement allowance received by the member in June 2026. Additionally, the member must have been retired for at least 12 months in order to receive the payment. If provided, the board must fund the one-time supplemental payment by increasing employer contribution rates, effective July 1, 2027, for a one-year or two-year period in order to cover the full actuarial cost of the supplemental payment.

The additional supplemental payment would be approximately \$78 million to the retirees in the CERS non-hazardous pension fund and \$28 million to the retirees in the CERS hazardous pension fund. The following table provides the increase in the employer contribution requirements required to fund the full actuarial cost over a one-year, two-year, and three-year period.

**Table 1. Cost of a Supplemental Payment to Participating Employers**

System	Supplemental Payment	Estimated FYE2027 Payroll	1-Year Cost	2-Year Cost	3-Year Cost
(1)	(2)	(3)	(4)	(5)	(6)
CERS Non-Hazardous	\$78 million	\$3,404 million	2.47%	1.26%	0.86%
CERS Hazardous	\$28 million	\$823 million	3.67%	1.87%	1.28%

Mr. Ed Owens III, CEO  
 January 22, 2026  
 Page 2

We have provided the one-year and two-year cost periods in accordance with the proposed legislation. To be consistent with prior requests, we have also provided the three-year cost for comparison. We believe the use of a two-year period to fund the benefit increase would be reasonable if this is a one-time supplemental payment. However, if future legislation were enacted to provide additional recurring payments, we believe it would be more fiscally responsible and appropriate to fund additional payments over a one-year period and in the same or following fiscal year that they are incurred.

**Summary of Impact to Retirees**

Since this is a one-time payment to the retirees, the increased benefit is immediately incurred and distributed. As such, there is no impact to the long-term cost of the pension funds. The table below provides the number of annuitants in each pension fund as of June 30, 2025 as well as the estimated average one-time payment that would be provided to each annuitant.

**Table 2. Impact to Retirees in CERS**

<b>System</b> (1)	<b>Number of Retirees</b> (2)	<b>Average Annual Benefit</b> (3)	<b>Average Supplemental Payment</b> (4)	<b>Total Supplemental Payment Distribution</b> (5)
CERS Non-Hazardous	73,570	\$12,720	\$1,060	\$78 million
CERS Hazardous	12,074	\$28,200	\$2,350	\$28 million

**Basis of Calculations**

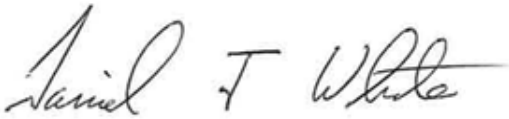
GRS based the calculations and analysis in this letter on the member data provided by KPPA for use in performing the actuarial valuation as of June 30, 2025. Since the supplemental payment is a one-time benefit, there are not any significant assumptions or methods required to determine the fiscal cost. This communication shall not be construed to provide tax advice, legal advice or investment advice. Finally, no statement in this letter is intended to be interpreted as a recommendation in favor of or in opposition to the changes studied herein.



Mr. Ed Owens III, CEO  
January 22, 2026  
Page 3

All three of the undersigned are members of the American Academy of Actuaries and meet all of the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein. In addition, all three are independent of KPPA and are experienced in performing valuations for large public retirement systems.

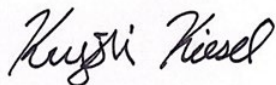
Sincerely,  
**Gabriel, Roeder, Smith & Company**



Daniel J. White, FSA, EA, MAAA  
Senior Consultant and Actuary



Jamie Shaw, ASA, EA, MAAA  
Consultant and Actuary



Krysti Kiesel, ASA, EA, MAAA  
Consultant and Actuary

DRAFT

