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May 4, 2012

Mr. Chad Hancock  
Financial Administrator  
Lexington-Fayette Urban County Government  
Department of Finance and Administration  
200 East Main Street  
Lexington, KY 40507

**Subject: COLA Study for Lexington-Fayette Retirement System for the Employees of the Urban County Government**

Dear Chad:

As requested, we have determined the impact of permanently increasing the COLA from 3% annually to 5% and 7% annually.

The results are based on the most recent valuation as of July 1, 2011. The table below outlines the impact on the unfunded liability. In all cases the System has sufficient assets so that contributions are not necessary to fund the promised benefits of the System.

	Valuation Results (3% COLA)	5% COLA	7% COLA
Actuarial Accrued Liability			
Retirees	\$ 7,382,642	\$ 8,346,576	\$ 9,530,161
Beneficiaries	7,362,267	8,439,932	9,814,056
Death Benefit	109,949	109,949	109,949
Expense Load (1.44%)	<u>213,910</u>	<u>243,309</u>	<u>280,140</u>
Total	\$ 15,068,768	\$ 17,139,766	\$ 19,734,306
Assets	\$ 27,052,395	\$ 27,052,395	\$ 27,052,395
Unfunded Actuarial Accrued Liability	\$ (11,983,627)	\$ (9,912,629)	\$ (7,318,089)
Funded Ratio	180%	158%	137%

Please be advised that by increasing the COLA, the funded ratio declines. A funded ratio that is greater than 100% indicates a surplus the System can rely on to absorb adverse actuarial experience that may occur in the future in the form of less than anticipated investment returns or members living longer than expected.

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I certify that I am a member of the American Academy of Actuaries and that I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

If you have any questions, please give me a call.

Sincerely,

Todd B. Green, ASA, FCA, MAAA  
Principal & Consulting Actuary