



# KPPA

Kentucky Public Pensions Authority

# KPPA OVERVIEW

## Appropriations & Revenue Interim Committee

July 7, 2021

**David Eager, Executive Director**  
Kentucky Public Pensions Authority (KPPA)

# Three Key Events

## 1. SENATE BILL 2 (2013) – Established Tier 3 and required full funding of ARC

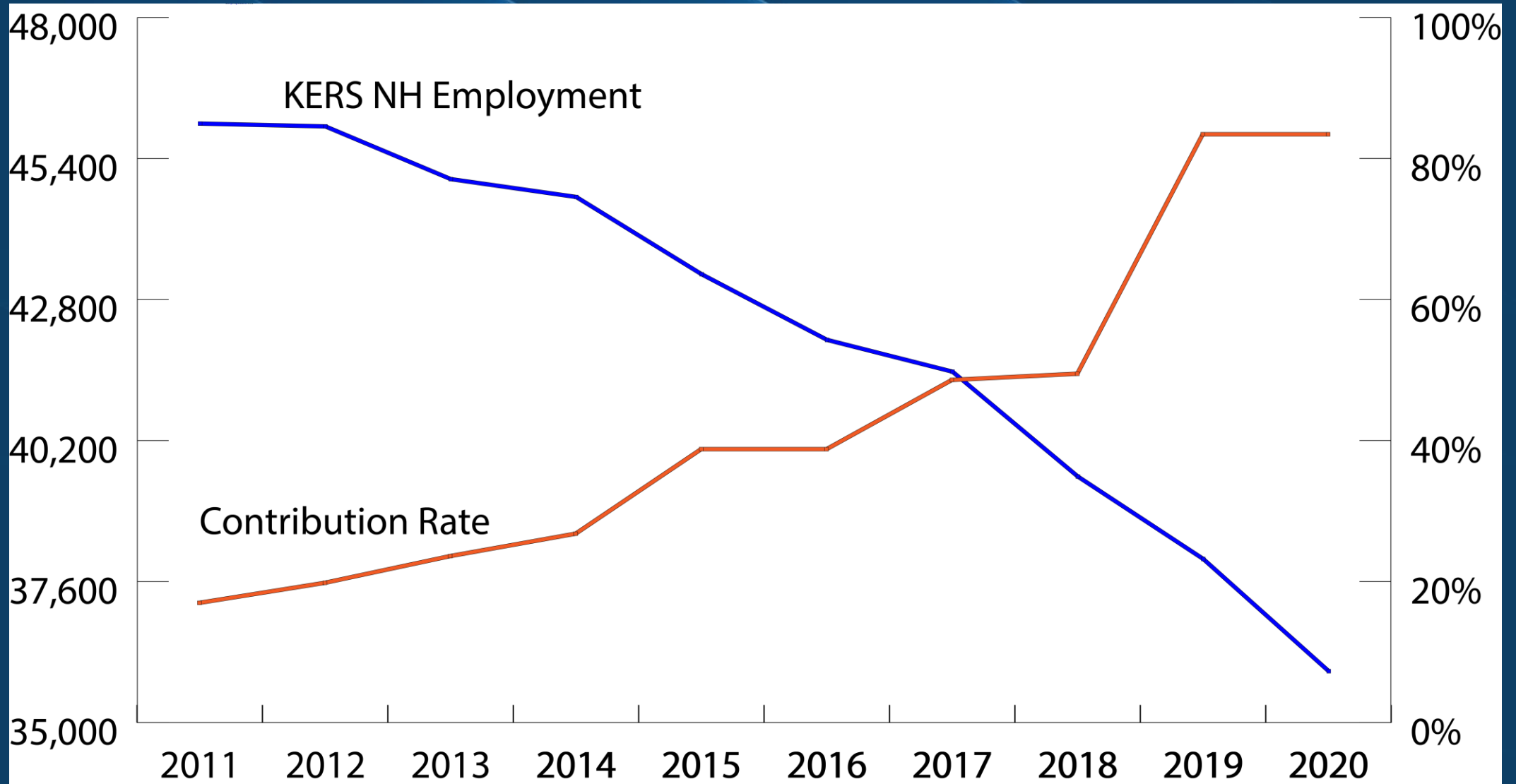
- ▶ Tier 3:
  - ▶ Employees and employers make contributions just like a 401 (k).
  - ▶ Balances earn a minimum 4% annually.
  - ▶ No active unfunded liability.
  - ▶ Balance at retirement converts to cash or an annuity-like payment.
  - ▶ Pension normal cost less than 4% vs. 9%-12% for the KERS plans.
- ▶ Full ARC funding
  - ▶ Previously was at the biennial discretion of the Legislature and the Governor
  - ▶ Budgeted less than the ARC 12 straight years ... on average about 60% less

# Three Key Events (con't)

## 2. RESET OF ECONOMIC AND MORTALITY ASSUMPTIONS (2017 and 2019)

- ▶ The FY 2019 Valuation used lower earnings and payroll growth assumptions.
  - ▶ 5.25% / 6.25% earnings vs. previous 6.75% / 7.50%
  - ▶ 0% / 2% overall payroll growth vs. previous 4%
  - ▶ Life expectancy extended two years
  - ▶ Now use intergenerational method
- ▶ KERS NH contribution rate went from 49% to 83% in FY 2019.

# KERS Nonhazardous Employment Decline



# Three Key Events (con't)

## 3. House Bill 8 (2021)

- ▶ Changed the method of funding KERS-NH pension plan

Old Method	New Method
Employer contribution = a % of their payroll	Employer contribution = the amortization of their own unfunded liability
Problem-encourages employers to outsource or otherwise reduce their staff in order to reduce their contribution	Solution-Contribution is a fixed percent of the total unfunded liability of the System. Not impacted by changes in payroll.

# Board structure



# Performance and Cash Flow Highlights

KERS, CERS and SPRS as of May 31, 2021

## Performance

- ▶ All Pension YTD performance was 23.05% resulting in a net increase of \$2.9B in assets.
  - ▶ Performance above the benchmark\* was 139 bps which is equal to \$176.8M
- ▶ All Insurance YTD performance was 23.28% resulting in a net increase of \$1.3B in assets.
  - ▶ Performance above the benchmark\* was 140 bps which is equal to \$76.8M

## Cash Flow

(\$ in Millions)	Net Cash Flow w/o Investment Income**	Net Cash Flow w/ Investment Income**
<b>KERS</b>	<b>\$193.5</b>	<b>\$234.2</b>
<b>CERS</b>	<b>(\$218.2)</b>	<b>(\$100.9)</b>

\*Benchmark returns equal targeted allocations investment in the respective indices.

\*\*Dividends and interest




# Pension - Investment Update 5/31/21

## Net of Fees Rates of Return




	Market Value (in \$millions)	FYTD	1 Year	3 Years	5 Years	10 Years	20 Years	30 Years
<b>KERS Non-Hazardous</b>	<b>\$2,983.0</b>	<b>20.4%</b>	<b>22.0%</b>	<b>9.2%</b>	<b>9.5%</b>	<b>7.3%</b>	<b>6.4%</b>	<b>8.1%</b>
<i>Plan Index</i>		19.0%	19.8%	8.5%	9.0%	7.2%	6.4%	8.0%
<b>KERS Hazardous</b>	<b>\$858.2</b>	<b>23.4%</b>	<b>24.6%</b>	<b>9.6%</b>	<b>10.1%</b>	<b>7.6%</b>	<b>6.6%</b>	<b>8.2%</b>
<i>Plan Index</i>		22.3%	23.1%	9.2%	9.9%	7.6%	6.6%	8.1%
<b>CERS Non-Hazardous</b>	<b>\$8,490.7</b>	<b>23.8%</b>	<b>24.9%</b>	<b>9.7%</b>	<b>10.3%</b>	<b>7.7%</b>	<b>6.6%</b>	<b>8.2%</b>
		22.3%	23.1%	9.2%	9.9%	7.6%	6.6%	8.1%
<b>CERS Hazardous</b>	<b>\$2,878.9</b>	<b>23.7%</b>	<b>24.7%</b>	<b>9.6%</b>	<b>10.2%</b>	<b>7.7%</b>	<b>6.6%</b>	<b>8.2%</b>
		22.3%	23.1%	9.2%	9.9%	7.6%	6.6%	8.1%
<b>SPRS</b>	<b>\$342.6</b>	<b>20.0%</b>	<b>21.6%</b>	<b>9.0%</b>	<b>9.4%</b>	<b>7.2%</b>	<b>6.3%</b>	<b>8.1%</b>
<i>Plan Index</i>		19.0%	19.8%	8.4%	9.1%	7.2%	6.4%	8.0%



**Pension Fund Contribution Report**  
**KERS Non-Hazardous, KERS Hazardous & SPRS**  
**March 31, 2021 (compared to March 31, 2020)**  
(\$ in millions)

	 <b>KERS</b> NON-HAZARDOUS <small>Kentucky Employees Retirement System</small>		 <b>KERS</b> HAZARDOUS <small>Kentucky Employees Retirement System</small>		 <b>SPRS</b> State Police Retirement System	
<b>Contributions</b>	<b>FY21</b>	<b>FY20</b>	<b>FY21</b>	<b>FY20</b>	<b>FY21</b>	<b>FY20</b>
<i>Member Contributions</i>	\$82.5	\$89.4	\$18.3	\$18.1	\$4.4	\$4.4
<i>Employer Contributions</i>	1,055.0	913.3	57.2	57.5	55.0	57.8
<i>Net Investment Income</i>	40.7	36.0	12.1	11.9	5.1	4.9
<b>Contribution Inflows</b>	<b>1,178.2</b>	<b>1,038.7</b>	<b>87.6</b>	<b>87.5</b>	<b>64.5</b>	<b>67.1</b>
<i>Benefit Payments/Refunds</i>	933.6	927.2	71.5	68.8	58.2	57.3
<i>Administrative Expenses</i>	10.4	10.6	1.1	1.0	0.2	0.2
<b>Contribution Outflows</b>	<b>944.0</b>	<b>937.8</b>	<b>72.6</b>	<b>69.8</b>	<b>58.4</b>	<b>57.5</b>
<b>NET Contributions</b>	<b>234.2</b>	<b>100.9</b>	<b>15.0</b>	<b>17.7</b>	<b>6.1</b>	<b>9.6</b>
<i>Realized and Unrealized Gain/(Loss)</i>	435.6	(12.3)	150.1	(11.9)	52.1	(2.3)
<b>Change in Net Position</b>	<b>669.8</b>	<b>88.6</b>	<b>165.1</b>	<b>5.8</b>	<b>58.2</b>	<b>7.3</b>
<i>Beginning of Period</i>	2,362.2	2,286.6	697.4	687.9	295.0	287.2
<i>End of Period</i>	<b>\$3,032.0</b>	<b>\$2,375.2</b>	<b>\$862.5</b>	<b>\$693.7</b>	<b>\$353.2</b>	<b>\$294.5</b>

**Insurance Fund Contribution Report**  
**KERS Non-Hazardous, KERS Hazardous & SPRS**  
**March 31, 2021 (compared to March 31, 2020)**  
(\$ in millions)

	 <b>KERS</b> NON-HAZARDOUS Kentucky Employees Retirement System		 <b>KERS</b> HAZARDOUS Kentucky Employees Retirement System		 <b>SPRS</b> State Police Retirement System	
<b>Contributions</b>	<b>FY21</b>	<b>FY20</b>	<b>FY21</b>	<b>FY20</b>	<b>FY21</b>	<b>FY20</b>
<i>Employer Contributions</i>	\$169.3	\$156.5	\$ -	\$4.1	\$8.5	\$12.1
<i>Insurance Premiums</i>	17.3	0.2	1.2	-	0.8	-
<i>Retired Reemployed Healthcare</i>	4.2	4.1	1.2	1.2	-	-
<i>Health Insurance Contributions (HB1)</i>	5.8	5.6	1.1	1.0	0.2	0.2
<i>Net Investment Income</i>	16.4	16.9	7.7	8.5	2.8	3.1
<b>Contribution Inflow</b>	<b>213.0</b>	<b>183.3</b>	<b>11.2</b>	<b>14.8</b>	<b>12.4</b>	<b>15.4</b>
<i>Healthcare Premiums</i>	114.8	115.8	18.5	18.1	13.3	13.0
<i>Administrative Expenses</i>	0.7	0.8	0.1	0.1	0.1	0.1
<b>Contribution Outflow</b>	<b>115.5</b>	<b>116.6</b>	<b>18.6</b>	<b>18.2</b>	<b>13.4</b>	<b>13.1</b>
<b>NET Contributions</b>	<b>97.5</b>	<b>66.7</b>	<b>(7.4)</b>	<b>(3.4)</b>	<b>(1.0)</b>	<b>2.3</b>
<i>Realized and Unrealized Gain/(Loss)</i>	227.6	(18.2)	110.0	(10.8)	43.5	(2.8)
<b>Change in Net Position</b>	<b>325.1</b>	<b>48.5</b>	<b>102.6</b>	<b>(14.2)</b>	<b>42.5</b>	<b>(0.5)</b>
<i>Beginning of Period</i>	1,006.5	942.1	514.7	527.1	200.2	200.1
<i>Ending of Period</i>	\$1,331.6	\$990.6	\$617.3	512.9	\$242.7	\$199.6

# Estimated Impact of FY 2021 Investment Returns

KERS-NH Unfunded Accrued Actuarial Liability/Funded Ratio

## Unfunded Liability (\$Millions)

FY Beg 7/1	Current*	New Proj.**	Difference
2022	\$13,695	\$13,433	(\$262)
2027	\$12,395	\$11,767	(\$628)
2032	\$10,659	\$10,174	(\$485)
2039	\$7,325	\$7,118	(\$207)
2049	-	-	-

## Funded Ratio

FY Beg 7/1	Current*	New Proj.**	Difference
2022	16%	18%	2%
2027	23%	26%	3%
2032	30%	33%	3%
2039	46%	48%	2%
2049	100%	100%	0%

\*Based on 5.25% earnings each year

\*\*Based on 2021 actual earnings and 5.25% each year thereafter

# Estimated Impact of FY 2021 Investment Returns

KERS-NH Employer Contribution dollar amount/percentage

## Employer Contributions (\$Millions)

FY Beg 7/1	Current*	New Proj.**	Difference
2022	\$1,034	\$1,024	(10)
2027	\$1,022	\$965	(57)
2032	\$1,011	\$953	(58)
2039	\$1,009	\$951	(58)
2049	\$52	\$55	3

## Employer Contribution Rate

FY Beg 7/1	Current*	New Proj.**	Difference
2022	75.6%	74.9%	-0.7%
2027	76.2%	72.0%	-4.2%
2032	76.1%	71.7%	-4.4%
2039	74.7%	70.4%	-4.3%
2049	3.8%	4.0%	0.2%

\*Based on 5.25% earnings each year

\*\*Based on 2021 actual earnings and 5.25% each year thereafter

# Estimated Impact of FY 2021 Investment Returns

CERS-NH Unfunded Accrued Actuarial Liability/Funded Ratio

## Unfunded Liability (\$Millions)

FY Beg 7/1	Current*	New Proj.**	Difference
2022	\$7,588	\$7,007	(\$581)
2027	\$7,576	\$6,164	(\$1,412)
2032	\$7,006	\$5,834	(\$1,172)
2039	\$5,280	\$4,729	(\$551)
2049	-	-	-

## Funded Ratio

FY Beg 7/1	Current*	New Proj.**	Difference
2022	50%	54%	4%
2027	55%	63%	8%
2032	61%	67%	6%
2039	72%	75%	3%
2049	100%	100%	0%

\*Based on 6.25% earnings each year

\*\*Based on 2021 actual earnings and 6.25% each year thereafter

# Estimated Impact of FY 2021 Investment Returns

CERS-NH Employer Contribution dollar amount/percentage

## Employer Contributions (\$Millions)

FY Beg 7/1	Current*	New Proj.**	Difference
2022	\$631	\$610	(21)
2027	\$683	\$561	(122)
2032	\$731	\$597	(134)
2039	\$825	\$670	(155)
2049	\$174	\$175	1

## Employer Contribution Rate

FY Beg 7/1	Current*	New Proj.**	Difference
2022	23.6%	22.8%	-0.8
2027	23.1%	19.0%	-4.1%
2032	22.2%	18.1%	-4.1%
2039	21.3%	17.3%	-4.0%
2049	3.5%	3.6%	0.1%

\*Based on 6.25% earnings each year

\*\*Based on 2021 actual earnings and 6.25% each year thereafter



# KPPPA

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