



# KPPA

Kentucky Public Pensions Authority

## PUBLIC PENSION OVERSIGHT BOARD UPDATE

**Kentucky Public Pensions Authority**  
**County Employees Retirement System**  
**Kentucky Retirement Systems**

April 25, 2022

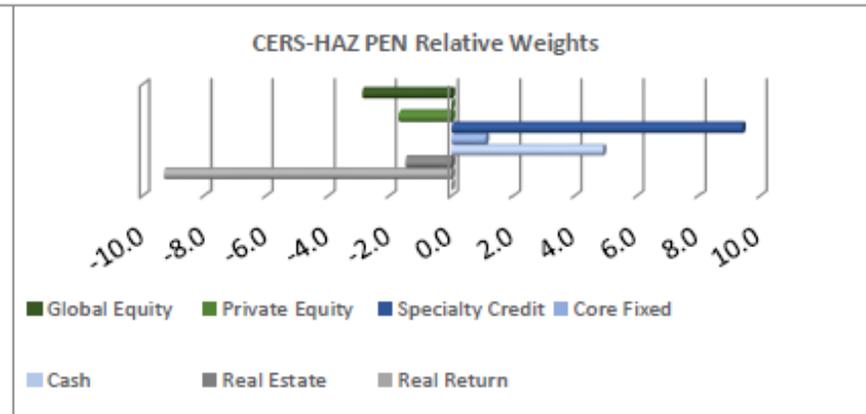
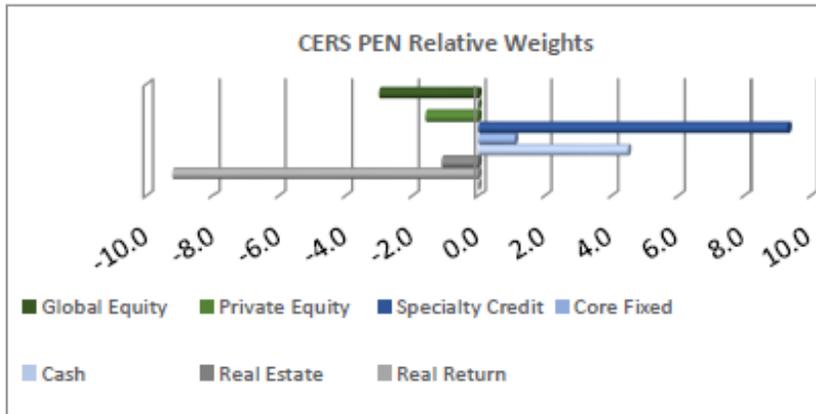
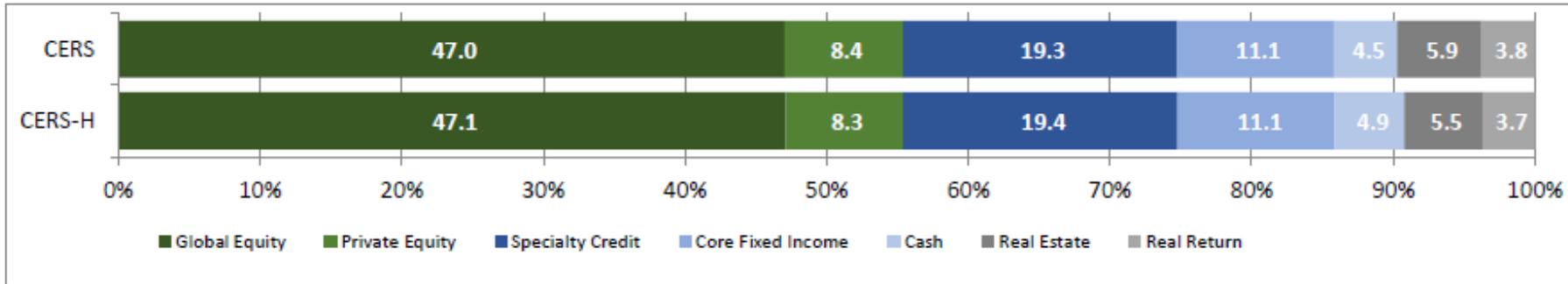
# Agenda

- Investment Performance Update
- Asset Allocation
- Environmental, Social and Governance (ESG)
- Proxy Voting
- Impact of 8% Salary Increase

# Investment Performance Update

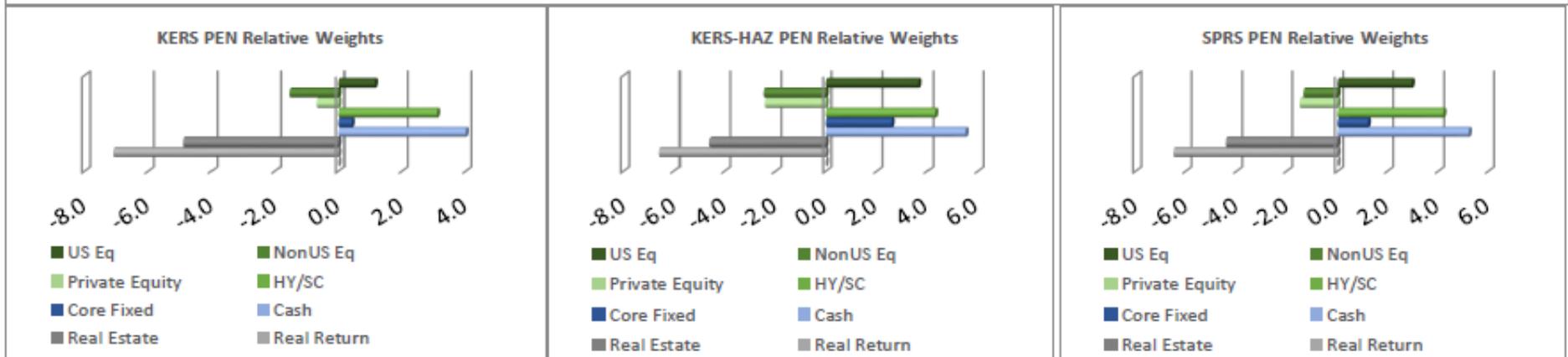
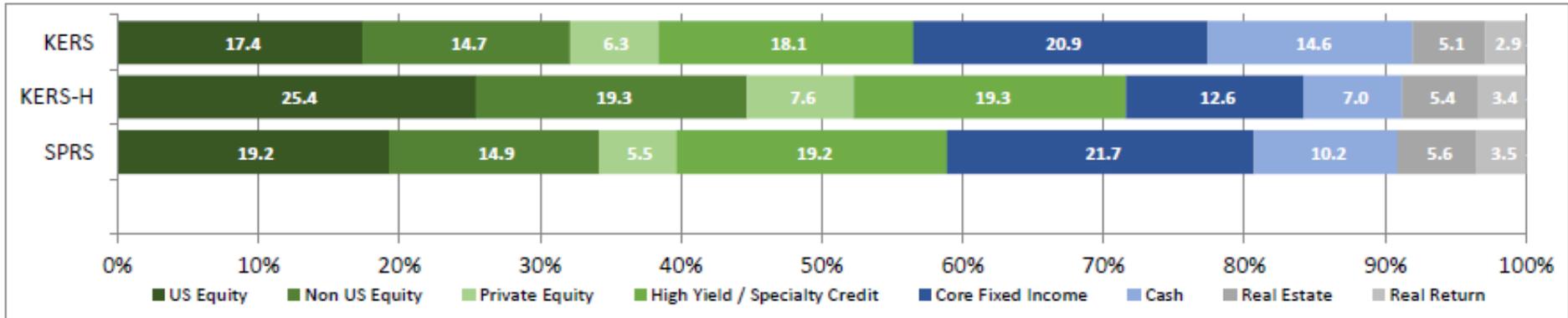
CERS & CERS-HAZ - PENSION FUND PLAN NET RETURNS - 03/31/22 - PRELIMINARY DATA

Plan	Market Value	Month	3 Months	Fiscal YTD	1 Year	3 Years	5 Years	10 Years	20 Years	ITD
CERS	8,609,013,719.93	0.70	-3.16	1.42	7.14	9.77	8.84	7.99	6.83	9.09
KY Ret. CKERS Plan Index		1.86	-1.75	2.38	8.50	9.85	8.67	7.98	6.86	9.16
CERS- H	2,927,404,155.47	0.71	-3.16	1.37	7.01	9.66	8.78	7.97	6.82	9.09
KY Ret. CERS Haz Plan Index		1.86	-1.75	2.38	8.50	9.85	8.67	7.98	6.86	9.16



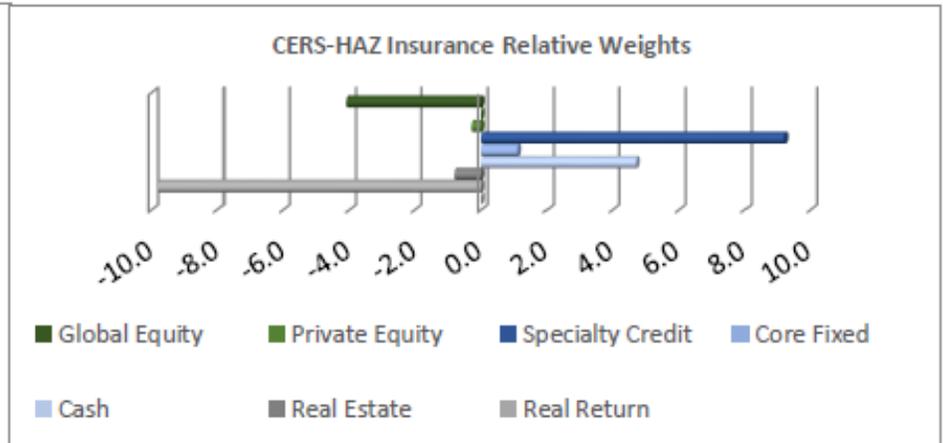
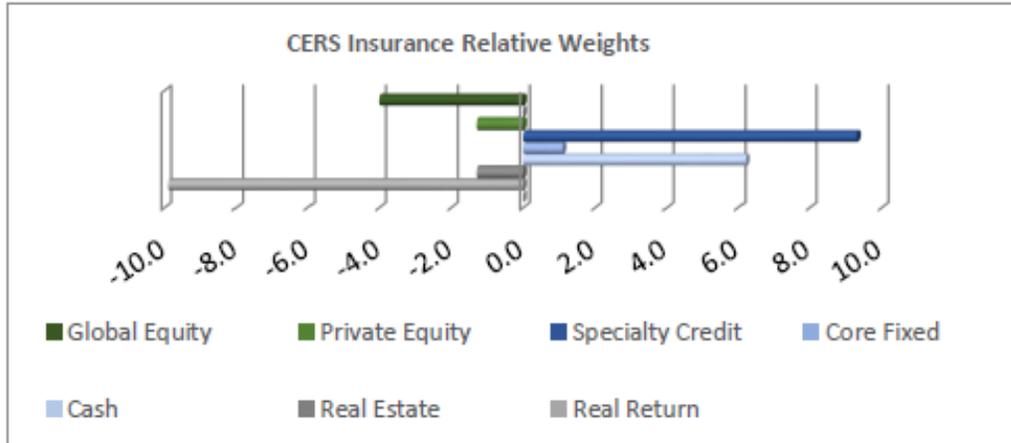
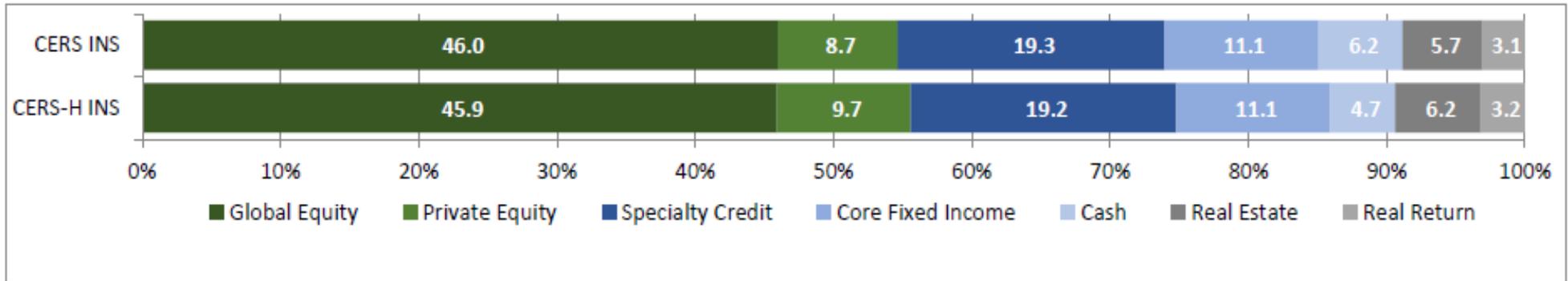
KERS, KERS-HAZ, & SPRS - PENSION FUND - PLAN NET RETURNS - 03/31/22 - PRELIMINARY DATA

Plan	Market Value	Month	3 Months	Fiscal YTD	1 Year	3 Years	5 Years	10 Years	20 Years	ITD
KERS	3,171,824,646.94	0.20	-2.78	0.54	5.86	8.96	8.12	7.52	6.59	8.97
KY Ret. KERS Plan Index		1.02	-2.31	1.69	6.67	8.45	7.70	7.49	6.62	9.03
KERS- H	877,502,977.13	0.58	-3.26	1.06	6.61	9.51	8.66	7.91	6.79	9.07
KY Ret. KERS Haz Plan Index		1.59	-2.18	2.71	8.85	9.96	8.74	8.02	6.88	9.17
SPRS	351,695,011.51	0.26	-2.87	0.68	5.55	8.74	7.98	7.37	6.52	8.93
KY Ret. SPRS Plan Index		1.02	-2.31	1.69	6.67	8.45	7.71	7.46	6.60	9.02



CERS INS & CERS HAZ INS - INSURANCE FUND - PLAN NET RETURNS - 03/31/22 - PRELIMINARY DATA

Plan	Market Value	Month	3 Months	Fiscal YTD	1 Year	3 Years	5 Years	10 Years	20 Years	ITD
CERS INS	3,221,078,245.79	0.66	-2.94	1.76	7.04	9.43	8.73	7.83	6.30	7.57
KY Ins. CERS Plan Index		1.86	-1.75	2.59	8.08	9.42	8.48	7.91	6.49	7.83
CERS - H INS	1,623,955,990.13	0.66	-2.94	2.00	7.38	9.54	8.84	7.90	6.33	7.58
KY Ins. CERS Haz Plan Index		1.86	-1.75	2.59	8.08	9.42	8.48	7.91	6.49	7.83

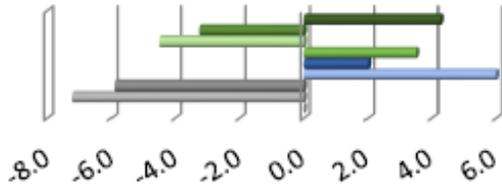


KERS INS, KERS-HAZ INS, SPRS INS - INSURANCE FUND - PLAN NET RETURNS - 03/31/22 - PRELIMINARY DATA

Plan	Market Value	Month	3 Months	Fiscal YTD	1 Year	3 Years	5 Years	10 Years	20 Years	ITD
<b>KERS INS</b>	<b>1,384,669,264.35</b>	0.58	-3.35	0.59	5.78	9.29	8.24	7.45	6.11	7.45
KY Ins. KERS Plan Index		1.66	-2.15	3.11	8.62	9.79	8.62	7.97	6.52	7.85
<b>KERS - H INS</b>	<b>622,488,744.19</b>	0.57	-3.05	1.79	7.22	9.44	8.64	7.77	6.27	7.55
KY Ins. KERS Haz Plan Index		1.66	-2.15	3.11	8.62	9.61	8.58	7.96	6.51	7.85
<b>SPRS INS</b>	<b>245,933,744.46</b>	0.53	-3.09	1.87	7.35	9.74	8.95	7.94	6.36	7.60
KY Ins. SPRS Plan Index		1.66	-2.15	3.11	8.62	9.61	8.59	7.97	6.52	7.85

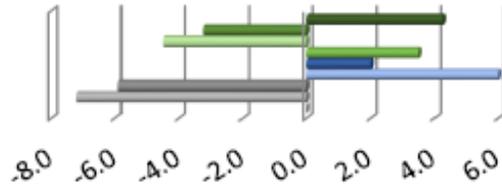


KERS Insurance Relative Weights



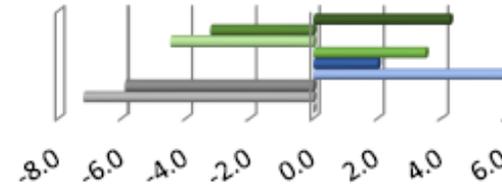
- US Eq
- NonUS Eq
- Private Equity
- HY/SC
- Core Fixed
- Cash
- Real Estate
- Real Return

KERS-HAZ Insurance Relative Weights



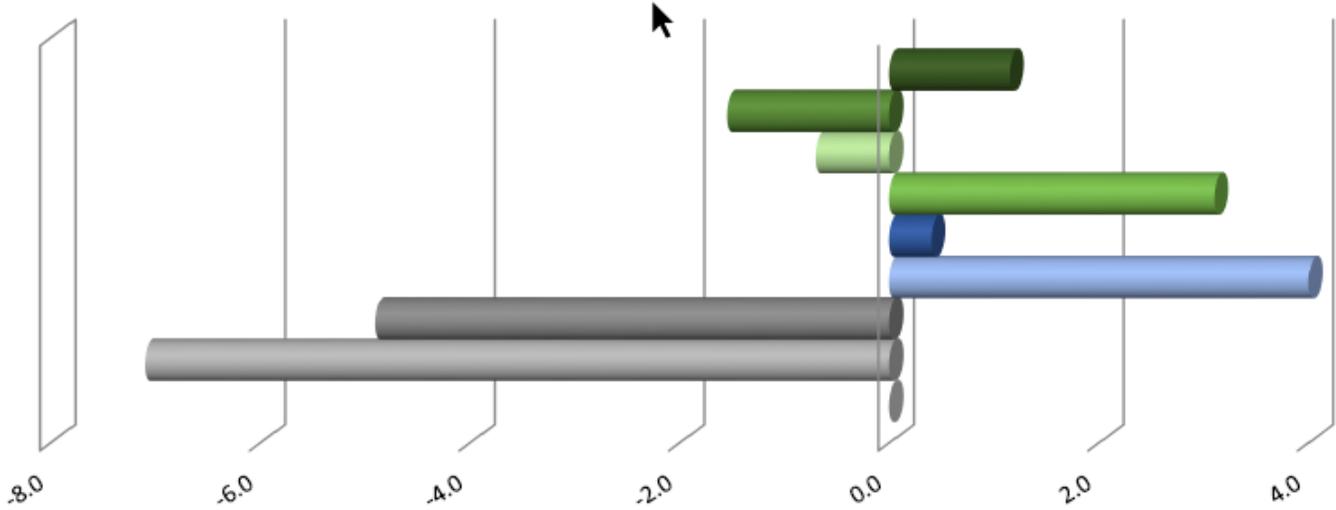
- US Eq
- NonUS Eq
- Private Equity
- HY/SC
- Core Fixed
- Cash
- Real Estate
- Real Return

SPRS Insurance Relative Weights



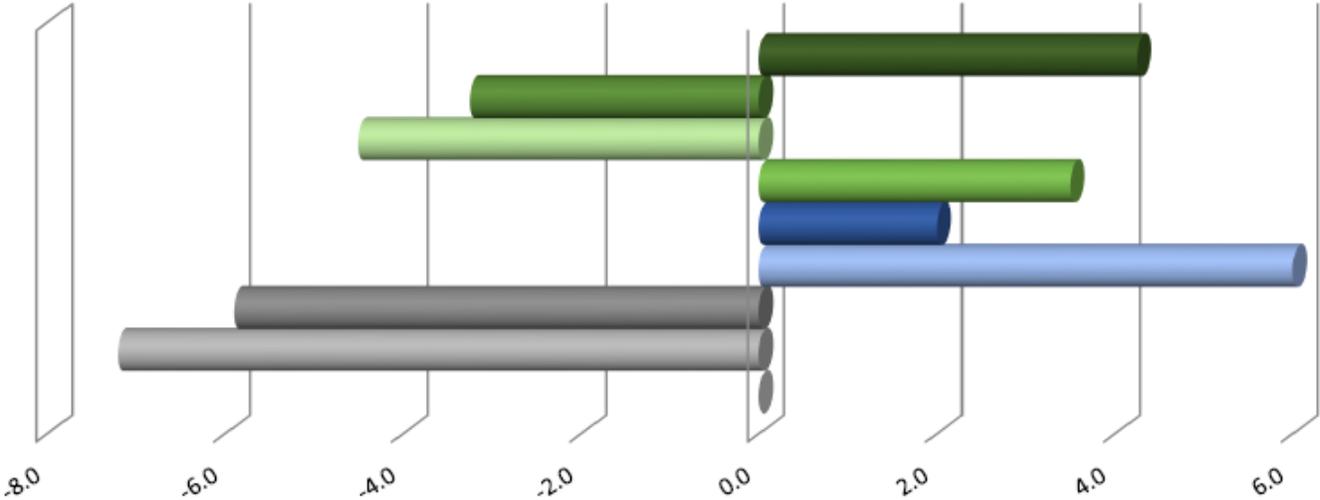
- US Eq
- NonUS Eq
- Private Equity
- HY/SC
- Core Fixed
- Cash
- Real Estate
- Real Return

# KERS PEN Relative Weights



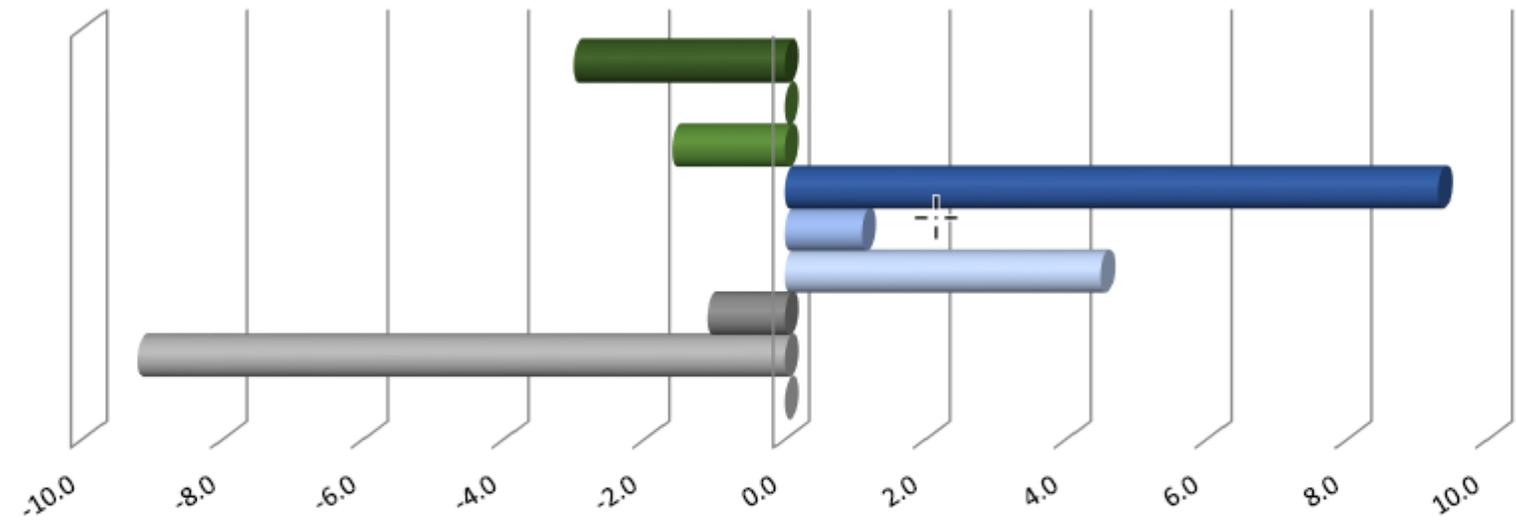
- US Eq
- NonUS Eq
- Private Equity
- HY/SC
- Core Fixed
- Cash
- Real Estate
- Real Return

# KERS Insurance Relative Weights



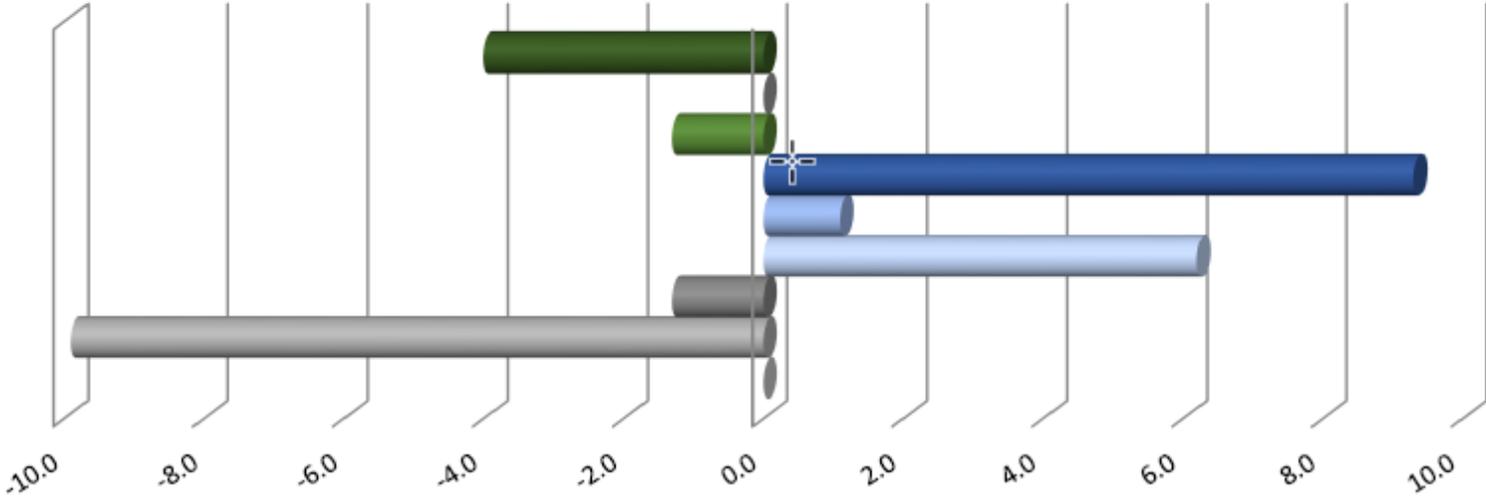
- US Eq
- NonUS Eq
- Private Equity
- HY/SC
- Core Fixed
- Cash
- Real Estate
- Real Return

## CERS PEN Relative Weights



- Global Equity
- Private Equity
- Specialty Credit
- Core Fixed
- Cash
- Real Estate
- Real Return

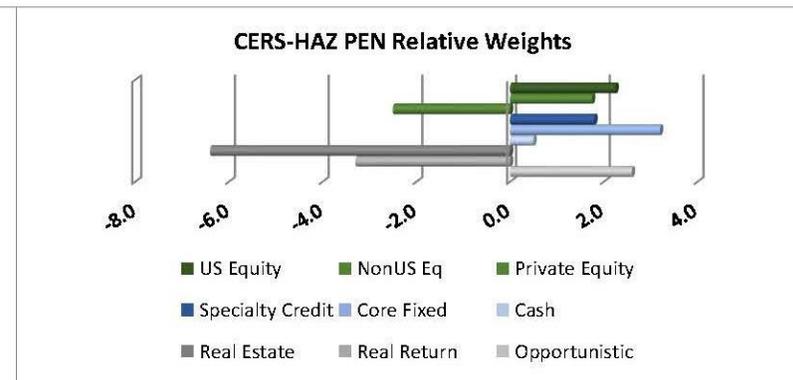
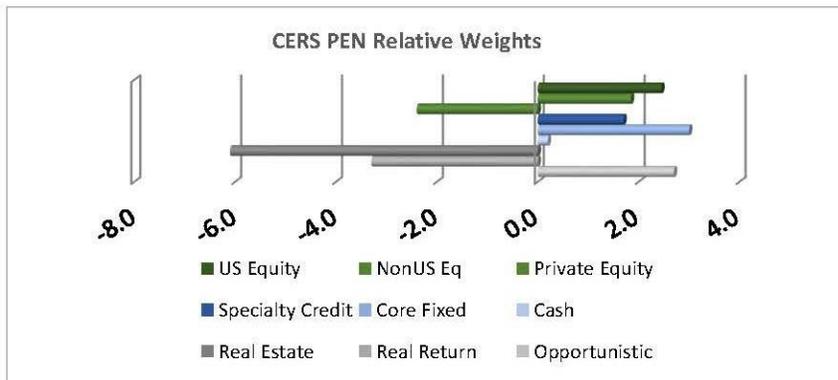
# CERS Insurance Relative Weights



- Global Equity
- Private Equity
- Specialty Credit
- Core Fixed
- Cash
- Real Estate
- Real Return

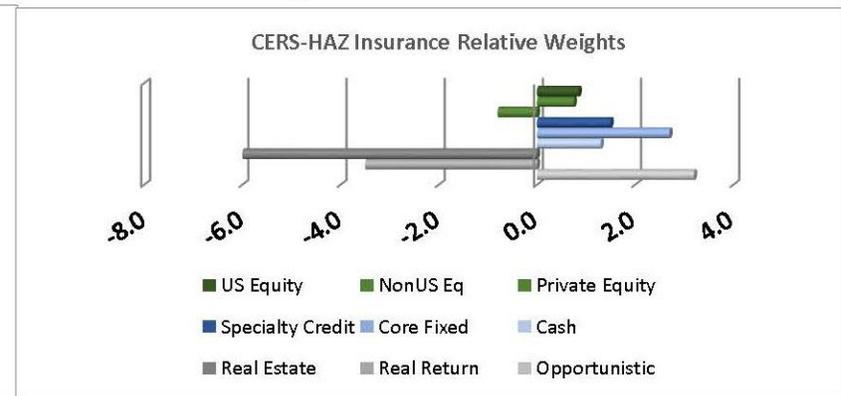
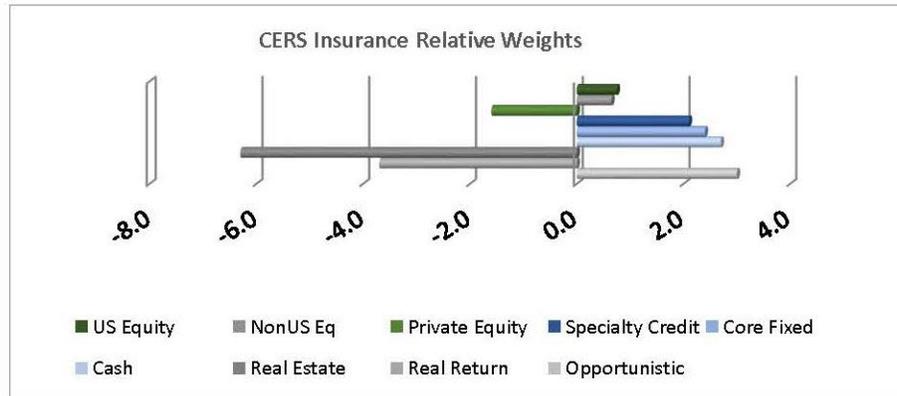
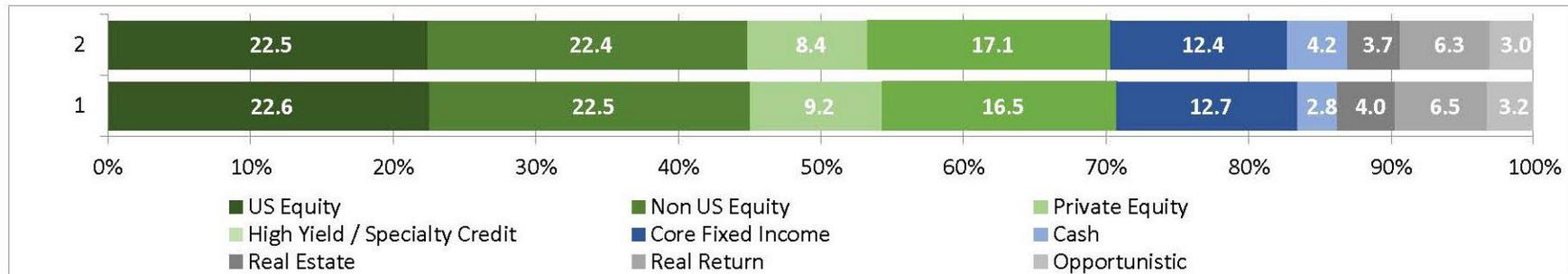
CERS & CERS-HAZ - PENSION FUND PLAN NET RETURNS - 06/30/21

Plan	Market Value	Month	3 Months	Fiscal YTD	1 Year	3 Years	5 Years	10 Years	20 Years	ITD
<b>CERS</b>	<b>8,604,440,219.91</b>	<b>1.56</b>	<b>5.64</b>	<b>25.72</b>	<b>25.72</b>	<b>10.27</b>	<b>10.66</b>	<b>7.98</b>	<b>6.73</b>	<b>9.24</b>
KY Ret. CKERS Plan Index		2.14	5.97	25.74	25.74	10.24	10.26	7.89	6.70	9.29
<b>CERS- H</b>	<b>2,917,372,185.06</b>	<b>1.52</b>	<b>5.56</b>	<b>25.58</b>	<b>25.58</b>	<b>10.20</b>	<b>10.60</b>	<b>7.97</b>	<b>6.72</b>	<b>9.24</b>
KY Ret. CERS Haz Plan Index		2.14	5.97	25.74	25.74	10.24	10.26	7.89	6.70	9.29



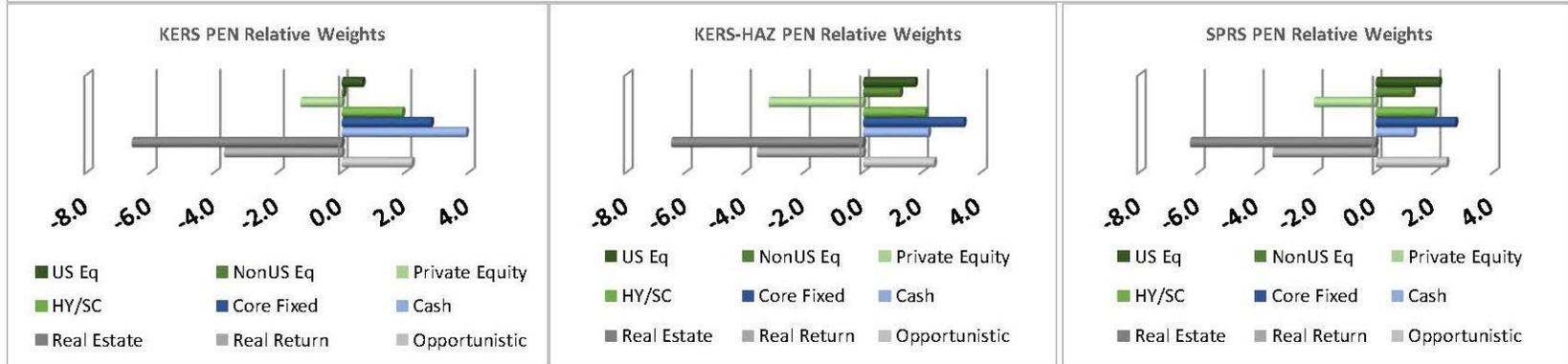
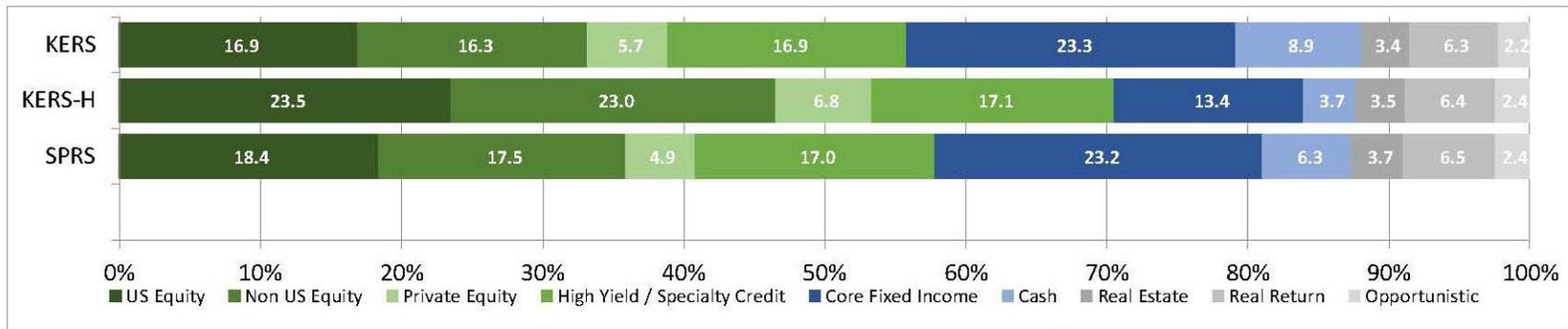
CERS INS & CERS HAZ INS - INSURANCE FUND - PLAN NET RETURNS - 06/30/21

Plan	Market Value	Month	3 Months	Fiscal YTD	1 Year	3 Years	5 Years	10 Years	20 Years	ITD
CERS INS	3,126,270,621.14	1.38	5.20	24.78	24.78	9.81	10.45	7.61	6.05	7.68
KY Ins. CERS Plan Index		1.72	5.35	24.76	24.76	9.70	10.01	7.80	6.17	7.93
CERS - H INS	1,603,149,442.36	1.45	5.28	24.98	24.98	9.86	10.50	7.65	6.07	7.69
KY Ins. CERS Haz Plan Index		1.72	5.35	24.76	24.76	9.70	10.01	7.80	6.17	7.93



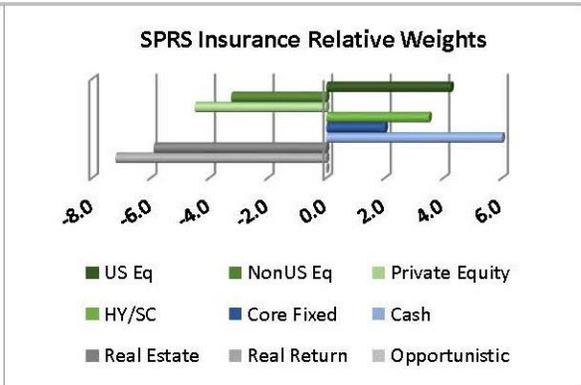
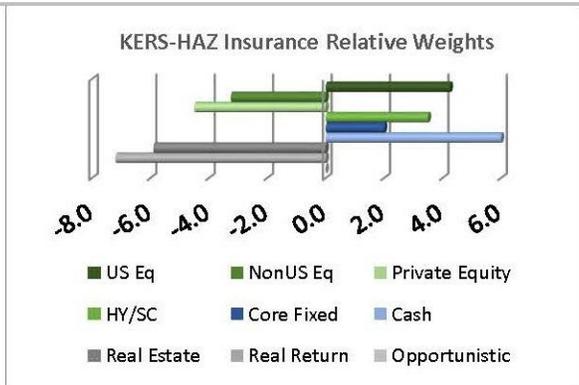
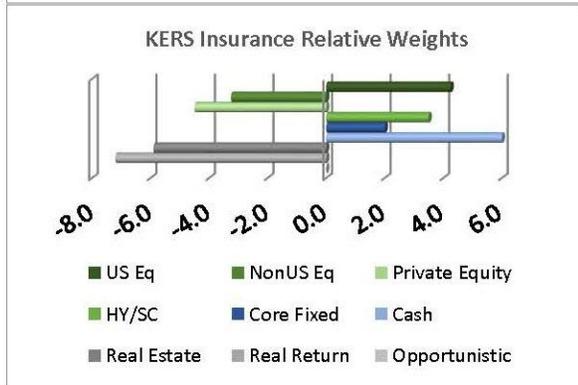
KERS, KERS-HAZ, & SPRS - PENSION FUND - PLAN NET RETURNS - 06/30/21

Plan	Market Value	Month	3 Months	Fiscal YTD	1 Year	3 Years	5 Years	10 Years	20 Years	ITD
<b>KERS</b>	<b>3,039,487,630.18</b>	<b>1.77</b>	<b>5.30</b>	<b>22.56</b>	<b>22.56</b>	<b>9.87</b>	<b>9.83</b>	<b>7.60</b>	<b>6.54</b>	<b>9.14</b>
KY Ret. KERS Plan Index		1.76	4.89	20.60	20.60	9.00	9.14	7.47	6.49	9.17
<b>KERS- H</b>	<b>871,318,980.04</b>	<b>1.49</b>	<b>5.49</b>	<b>25.21</b>	<b>25.21</b>	<b>10.13</b>	<b>10.49</b>	<b>7.93</b>	<b>6.70</b>	<b>9.23</b>
KY Ret. KERS Haz Plan Index		2.14	5.97	25.74	25.74	10.24	10.25	7.89	6.70	9.29
<b>SPRS</b>	<b>349,362,280.65</b>	<b>1.42</b>	<b>4.83</b>	<b>21.70</b>	<b>21.70</b>	<b>9.56</b>	<b>9.75</b>	<b>7.43</b>	<b>6.46</b>	<b>9.09</b>
KY Ret. SPRS Plan Index		1.76	4.89	20.60	20.60	9.00	9.28	7.44	6.47	9.16



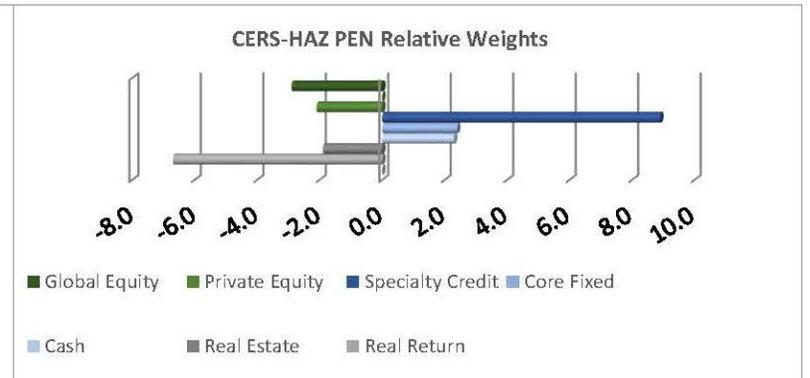
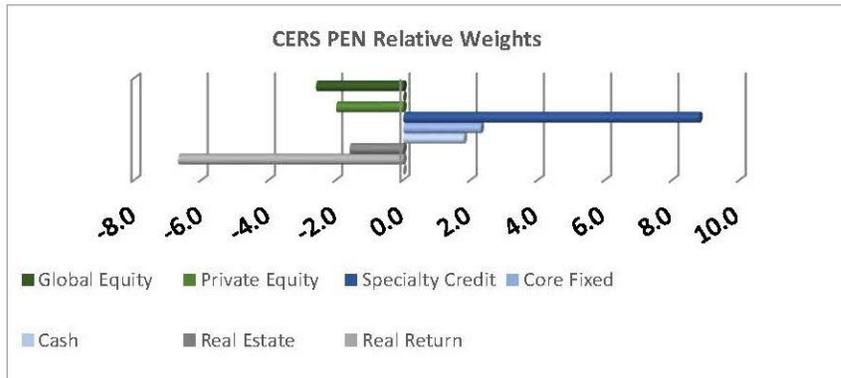
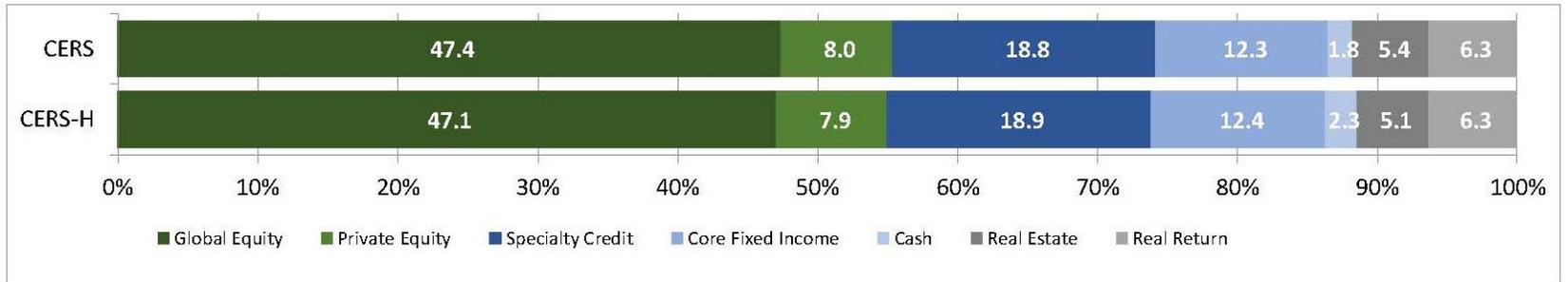
KERS INS, KERS-HAZ INS, SPRS INS - INSURANCE FUND - PLAN NET RETURNS - 06/30/21

Plan	Market Value	Month	3 Months	Fiscal YTD	1 Year	3 Years	5 Years	10 Years	20 Years	ITD
<b>KERS INS</b>	<b>1,338,254,449.78</b>	<b>1.12</b>	<b>5.16</b>	<b>25.16</b>	<b>25.16</b>	<b>9.87</b>	<b>10.26</b>	<b>7.35</b>	<b>5.92</b>	<b>7.61</b>
KY Ins. KERS Plan Index		1.72	5.35	24.35	24.35	9.80	10.13	7.80	6.17	7.93
<b>KERS - H INS</b>	<b>624,467,844.28</b>	<b>1.43</b>	<b>5.33</b>	<b>24.97</b>	<b>24.97</b>	<b>9.76</b>	<b>10.37</b>	<b>7.55</b>	<b>6.02</b>	<b>7.66</b>
KY Ins. KERS Haz Plan Index		1.72	5.35	24.76	24.76	9.70	10.03	7.78	6.17	7.93
<b>SPRS INS</b>	<b>245,159,681.24</b>	<b>1.53</b>	<b>5.38</b>	<b>25.34</b>	<b>25.34</b>	<b>10.08</b>	<b>10.65</b>	<b>7.71</b>	<b>6.10</b>	<b>7.71</b>
KY Ins. SPRS Plan Index		1.72	5.35	24.76	24.76	9.70	10.01	7.80	6.18	7.93



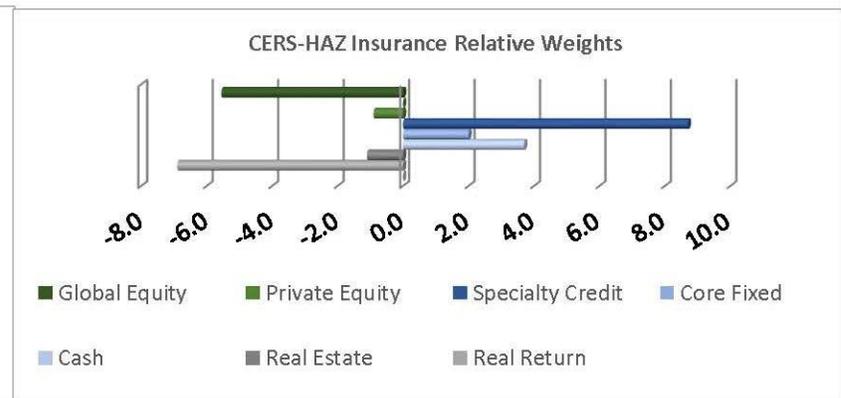
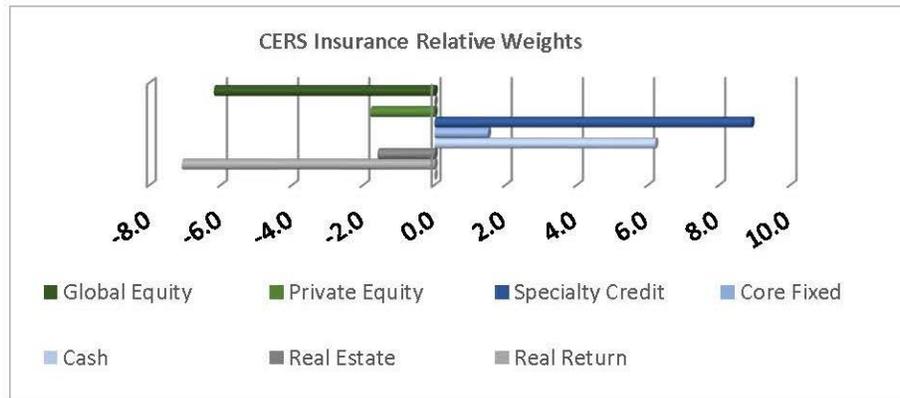
CERS & CERS-HAZ - PENSION FUND PLAN NET RETURNS - 12/31/21

Plan	Market Value	Month	3 Months	Fiscal YTD	1 Year	3 Years	5 Years	10 Years	20 Years	ITD
<b>CERS</b>	<b>8,923,323,681.73</b>	<b>2.67</b>	<b>3.46</b>	<b>4.74</b>	<b>15.03</b>	<b>13.23</b>	<b>10.54</b>	<b>9.04</b>	<b>7.03</b>	<b>9.25</b>
KY Ret. CKERS Plan Index		2.23	3.04	4.21	13.98	12.81	10.06	8.96	6.99	9.28
<b>CERS- H</b>	<b>3,028,237,861.80</b>	<b>2.63</b>	<b>3.40</b>	<b>4.68</b>	<b>14.85</b>	<b>13.12</b>	<b>10.48</b>	<b>9.02</b>	<b>7.02</b>	<b>9.24</b>
KY Ret. CERS Haz Plan Index		2.23	3.04	4.21	13.98	12.81	10.06	8.96	6.99	9.28



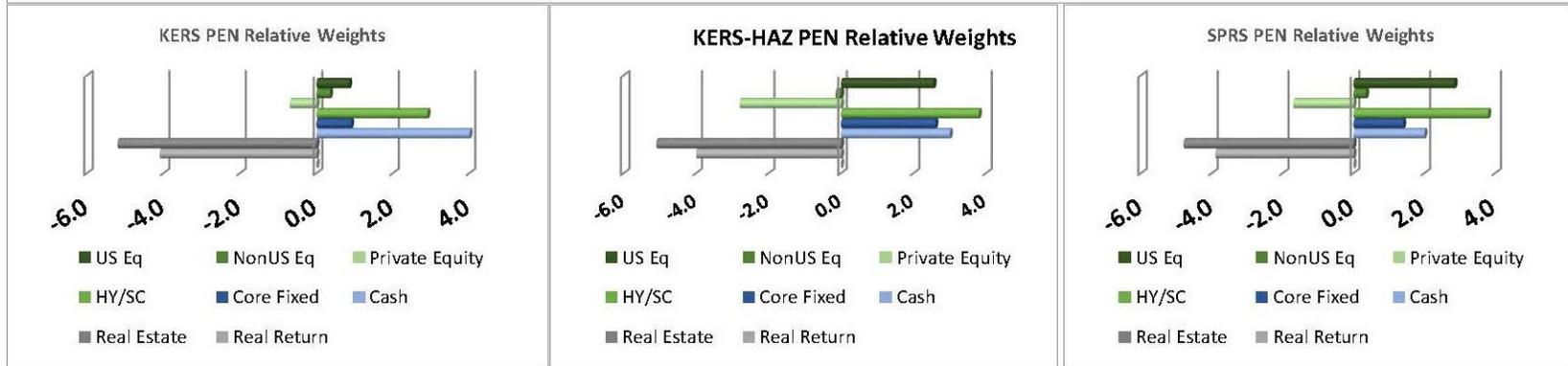
CERS INS & CERS HAZ INS - INSURANCE FUND - PLAN NET RETURNS - 12/31/21

Plan	Market Value	Month	3 Months	Fiscal YTD	1 Year	3 Years	5 Years	10 Years	20 Years	ITD
CERS INS	3,306,721,515.18	2.65	3.40	4.84	14.58	12.73	10.37	8.84	6.52	7.71
KY Ins. CERS Plan Index		2.23	3.08	4.42	13.54	12.41	9.87	8.88	6.64	7.95
CERS - H INS	1,676,535,706.73	2.72	3.49	5.09	15.02	12.85	10.48	8.90	6.55	7.73
KY Ins. CERS Haz Plan Index		2.23	3.08	4.42	13.54	12.41	9.87	8.89	6.64	7.95



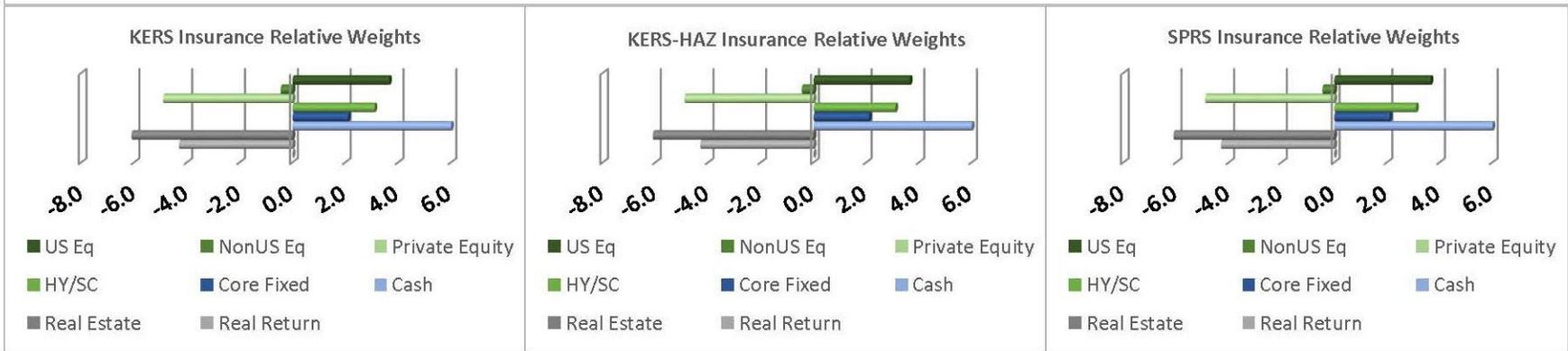
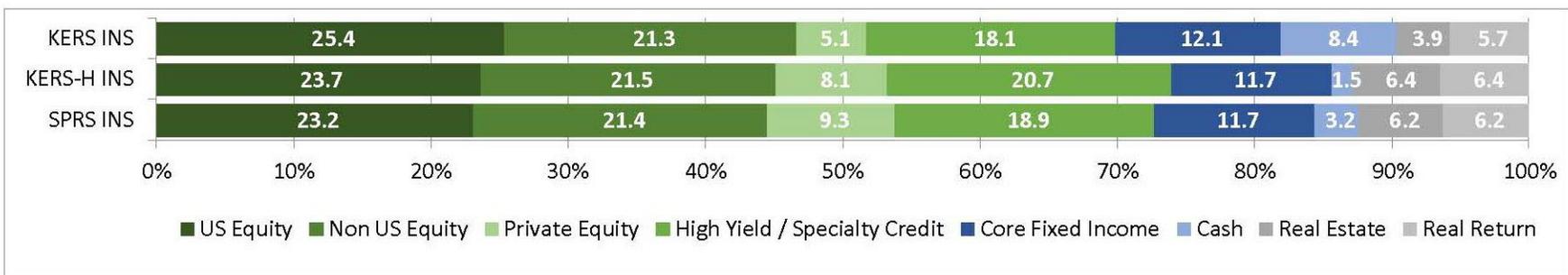
KERS, KERS-HAZ, & SPRS - PENSION FUND - PLAN NET RETURNS - 12/31/21

Plan	Market Value	Month	3 Months	Fiscal YTD	1 Year	3 Years	5 Years	10 Years	20 Years	ITD
<b>KERS</b>	<b>3,217,062,171.61</b>	<b>1.77</b>	<b>2.46</b>	<b>3.41</b>	<b>12.38</b>	<b>11.84</b>	<b>9.56</b>	<b>8.52</b>	<b>6.77</b>	<b>9.11</b>
KY Ret. KERS Plan Index		2.47	3.12	4.09	11.49	11.56	9.05	8.53	6.78	9.16
<b>KERS- H</b>	<b>909,124,949.42</b>	<b>2.59</b>	<b>3.32</b>	<b>4.47</b>	<b>14.39</b>	<b>12.95</b>	<b>10.37</b>	<b>8.96</b>	<b>6.99</b>	<b>9.23</b>
KY Ret. KERS Haz Plan Index		3.02	3.84	5.01	14.85	13.10	10.23	9.04	7.03	9.30
<b>SPRS</b>	<b>362,267,478.52</b>	<b>2.03</b>	<b>2.68</b>	<b>3.65</b>	<b>12.13</b>	<b>11.81</b>	<b>9.51</b>	<b>8.38</b>	<b>6.70</b>	<b>9.07</b>
KY Ret. SPRS Plan Index		2.47	3.12	4.09	11.49	11.56	9.13	8.49	6.76	9.15



KERS INS, KERS-HAZ INS, SPRS INS - INSURANCE FUND - PLAN NET RETURNS - 12/31/21

Plan	Market Value	Month	3 Months	Fiscal YTD	1 Year	3 Years	5 Years	10 Years	20 Years	ITD
<b>KERS INS</b>	<b>1,425,458,095.96</b>	<b>2.62</b>	<b>3.39</b>	<b>4.08</b>	<b>13.54</b>	<b>12.90</b>	<b>9.95</b>	<b>8.50</b>	<b>6.35</b>	<b>7.62</b>
KY Ins. KERS Plan Index		3.17	4.02	5.37	14.58	13.05	10.13	8.98	6.68	7.98
<b>KERS - H INS</b>	<b>646,763,436.67</b>	<b>2.77</b>	<b>3.56</b>	<b>4.99</b>	<b>14.94</b>	<b>12.80</b>	<b>10.30</b>	<b>8.79</b>	<b>6.49</b>	<b>7.70</b>
KY Ins. KERS Haz Plan Index		3.17	4.02	5.37	14.58	12.75	10.07	8.97	6.68	7.97
<b>SPRS INS</b>	<b>255,197,572.31</b>	<b>2.76</b>	<b>3.53</b>	<b>5.12</b>	<b>15.17</b>	<b>13.10</b>	<b>10.62</b>	<b>8.97</b>	<b>6.58</b>	<b>7.75</b>
KY Ins. SPRS Plan Index		3.17	4.02	5.37	14.58	12.75	10.07	8.99	6.69	7.98



# Asset Allocation

## ASSET ALLOCATION

### CERS Pension/Insurance

#### Before

Asset Class	Target	Min/Max Range
<b>Growth</b>	<b>68.5%</b>	<b>58.23-78.78%</b>
US Equity	21.75%	15.23%-28.28%
Non US Equity	21.75%	15.23%-28.28%
Private Equity	10%	7%-13%
High Yield / Specialty Credit	15%	10.5%-19.5%
<b>Liquidity</b>	<b>11.5%</b>	<b>9.2%-13.8%</b>
Core Fixed Income	10%	8%-12%
Cash	1.5%	0%-3%
<b>Diversifying</b>	<b>20%</b>	
Real Estate	10%	7%-13%
Real Return	10%	7%-13%
<b>Opportunistic</b>	<b>0%</b>	<b>0%-5%</b>

#### After allocation study

Asset Class	Target	Min/Max Range
<b>Equity</b>		
Public Equity	50%	35%-65%
Private Equity	10%	7%-13%
<b>Fixed Income</b>		
Core Fixed Income	10%	8%-12%
Specialty Credit*	10%	7%-13%
Cash	0%	0%-3%
<b>Inflation Protected</b>		
Real Estate	7%	5%-9%
Real Return	13%	9%-17%

\*Includes High Yield Bonds

## ASSET ALLOCATION

### KERS Non-Hazardous/SPRS

#### Current

Asset Class	Target	Min/Max Range
<b>Growth</b>	<b>54.5%</b>	<b>46.33%-62.68%</b>
US Equity	16.25%	11.38%-21.13%
Non US Equity	16.25%	11.38%-21.13%
Private Equity	7%	4.9%-9.1%
High Yield / Specialty Credit	15%	10.5%-19.5%
<b>Liquidity</b>	<b>25.5%</b>	<b>20.4%-30.6%</b>
Core Fixed Income	20.5%	16.4%-24.6%
Cash	5%	0%-10%
<b>Diversifying</b>	<b>20%</b>	<b>17%-23%</b>
Real Estate	10%	7%-13%
Real Return	10%	7%-13%
<b>Opportunistic</b>	<b>0%</b>	<b>0%-5%</b>

#### After allocation study

Asset Class	Target	Min/Max Range
<b>Equity</b>		
Public Equity	32.5%	24%-42%
Private Equity	7%	4%-9%
<b>Fixed Income</b>		
Core Fixed Income	20.5%	16.5%-24.5%
Specialty Credit*	15%	10.5%-19.5%
Cash	5%	0%-10%
<b>Inflation Protected</b>		
Real Estate	10%	7%-13%
Real Return	10%	7%-13%

\*Includes High Yield Bonds

## ASSET ALLOCATION

### KERS Hazardous/Insurance

#### Current

Asset Class	Target	Min/Max Range
<b>Growth</b>	<b>68.5%</b>	<b>58.23-78.78%</b>
US Equity	21.75%	15.23%-28.28%
Non US Equity	21.75%	15.23%-28.28%
Private Equity	10%	7%-13%
High Yield / Specialty Credit	15%	10.5%-19.5%
<b>Liquidity</b>	<b>11.5%</b>	<b>9.2%-13.8%</b>
Core Fixed Income	10%	8%-12%
Cash	1.5%	0%-3%
<b>Diversifying</b>	<b>20%</b>	
Real Estate	10%	7%-13%
Real Return	10%	7%-13%
<b>Opportunistic</b>	<b>0%</b>	<b>0%-5%</b>

#### After allocation study

Asset Class	Target	Min/Max Range
<b>Equity</b>		
Public Equity	43.5%	30%-50%
Private Equity	10%	7%-13%
<b>Fixed Income</b>		
Core Fixed Income	10%	8%-12%
Specialty Credit*	15%	10%-20%
Cash	1.5%	0%-3%
<b>Inflation Protected</b>		
Real Estate	10%	7%-13%
Real Return	10%	7%-13%

\*Includes High Yield Bonds

# Environmental, Social and Governance (ESG)

# Kentucky Retirement Systems Environmental, Social and Governance Reporting (ESG)

There is a world-wide trend towards significantly increasing disclosures of ESG related information to investors.

The initial focus is on environmental issues, with social and governance issues coming later. Publicly-traded companies, including businesses doing business with those companies and investment advisors/managers will be rated on metrics associated with ESG rules.

# Examples of ESG Reporting

## Social

- Community relations
- Diversity, equity, and inclusion
- Employee health and safety
- Human capital development
- Labor management
- Privacy and data security
- Product quality and safety
- Supply-chain standards

# Examples of ESG Reporting

## Governance

- Anti bribery and anticorruption
- Board composition & elections
- Business ethics
- Corporate resiliency
- Diversity of leadership
- Executive compensation
- Lobbying and political contributions
- Ownership structure
- Tax transparency

On March 21, 2022, the SEC proposed rules to enhance and standardize climate-related disclosures for investors. These rules do not include issues related to Social or Governance issues.

Disclosures in SEC reports include information about short-term, medium-term, and long-term climate-related risks that are:

“...reasonably likely to have a material impact on their business, results of operations, or financial condition, and certain climate-related financial statement metrics in a note to their audited financial statements.”

Significantly, the SEC reporting rules include environmental issues for “upstream and downstream activities in its value chain,” that is, customers and suppliers.

The initial reporting is expected to begin in the 2023 calendar year financial reports, with reporting requirements expanding in the future.

# KRS ESG Perspective

# Kentucky Retirement Systems' perspective onto ESG issues

The KRS Investment Committee is very aware of proposals related to ESG. They also understand that the reporting requirements will develop over time, much like Generally Accepted Accounting Principles (GAAP) issues that have developed over a lengthy period of time, and which will continue to evolve.

In February, KRS' Investment Policy Statement was amended to include the paragraph shown below. This policy, which focuses on the financial considerations will continue to be clarified in the future as ESG guidance is revealed.

The KRS Investment Committee adopted an investment policy statement in which KRS recognizes the importance of responsible investing. Accordingly, the Trustees acknowledge that integrating Environment, Social, and Governance (ESG) policy principles that engages the issue from a risk, opportunity and fiduciary duty perspective will enhance investment results. The overriding consideration for the Trustees will continue to be investing to maximize the long-term returns for plan beneficiaries.

# CERS ESG Perspective

# Duty of Loyalty

A fiduciary has a duty to act in the Interest of the Trust as if it had no other competing interest to protect

Requires undivided loyalty to members and beneficiaries\*

\* 26 U.S.C. sec 401 (a)

# Kentucky Statutes

KRS 78.782 9(d) *The board shall do all things, take all actions, and promulgate all administrative regulations, not inconsistent with the provisions of KRS 78.510 to 78.852, necessary or proper in order to carry out the provisions of KRS 78.510 to 78.852. Notwithstanding any other evidence of legislative intent, it is hereby declared to be the controlling legislative intent that the provisions of KRS 78.510 to 78.852 conform with federal statute or regulation and meet the qualification requirements under 26 U.S.C. sec. 401(a), applicable federal regulations, and other published guidance. Provisions of KRS 78.510 to 78.852 which conflict with federal statute or regulation or qualification under 26 U.S.C. sec. 401(a), applicable federal regulations, and other published guidance shall not be available.*

# Duty of Loyalty: Courts

- The 6<sup>th</sup> Circuit has explained that fiduciary duties have three components:
  - All decisions must be made with an eye to the interests of the participants and beneficiaries
  - An unwavering duty to act both as a prudent person would act in a similar situation and with single-minded devotion to those same plan participants and beneficiaries
  - Act for the exclusive-purpose of providing benefits to plan beneficiaries

Chao v. Hall Holding Co., Inc., 285 F.3d 415, 426 (6<sup>th</sup> Cir. 2002)

# ESG Incorporated

On November 10, 2021 the CERS Board of Trustees amended the Investment Policy Statement to read:

The CERS Trustees recognize the importance of responsible investing. Accordingly, the Trustees acknowledge that integrating Environment, Social, and Governance (ESG) policy principles that engages the issue from a risk, opportunity and fiduciary duty perspective will enhance investment results. The overriding consideration for the Trustees will continue to be investing to maximize the long-term returns for plan beneficiaries.

# Kentucky Statutes

KRS 78.790

(3) The board, in keeping with its responsibility as the trustee and wherever feasible, shall give priority to the investment of funds in obligations calculated to improve the industrial development and enhance the economic welfare of the Commonwealth.

# Divestiture

- Not in best interest of members to develop a divestiture policy
  - Only able to lead constructive change when you are part of the discussion
  - Divestiture removes your voice from consideration
- Creating sustained value for companies' owners require a long-term perspective

# Proxy Voting

- Proxy voting is a form of voting whereby a member of a decision-making body may delegate their voting power to a representative, to enable a vote in absence
- Each Board recognizes that voting its shares of public companies' by proxies is an important responsibility in assuring the overall performance goals of each plan
- We currently use ISS as our proxy to cast those votes (they vote by proxy)
- ISS is guided by the respective proxy voting policies of each Board

# Impact of 8% Salary Increases

# 8% Raises

Question: Do the 8% raises impact the considerations relative to the 0% payroll growth assumptions?

Definition: Payroll growth (change) = change in the number of members + average salary change

Answer: Not immediately

Assumptions meant to cover the long term (i.e. liability write down over the next 27 years)

GRS Opinion: Current 0% assumptions appropriate until the Systems experience several years where active membership has at least ceased declining

Upward assumption changes will be more likely if the pay raise(s) help employers hire more people so both the number of members and the average compensation are rising.

# Additional Pension Cost Attributable to the 8% Raises

## KERS Nonhazardous

Normal Cost of 9.97% = \$11 million added annual cost

Unfunded liability annual amortization = no increase due to the provisions of HB 8 in 2021

Note: HB 8 prevented a \$29 million shortfall inasmuch as KNH payroll declined by 2.8%

## KERS Hazardous

The increase is projected to be between \$1 million and \$2 million

## SPRS

\$215 million appropriation reduced the contribution rate from 140.5% to just under 100% for FY 23 and FY 24

HB 259 provided significant increases in salaries for SPRS members earning benefits.

The offsetting factors are estimated to cause the SPRS contribution to go up from \$45 million to \$49 million to \$51 million.



# KPPPA

Kentucky Public Pensions Authority

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