PUBLIC PENSION OVERSIGHT BOARD
Minutes
November 20, 2023

Call to Order and Roll Call

The 9th meeting of the Public Pension Oversight Board was held on November 20, 2023, at 3:00 PM in Room 154 of the Capitol Annex. Senator Jimmy Higdon, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative DJ Johnson Co-Chair; Senator Jimmy Higdon Co-Chair; Senators Christian McDaniel, Robby Mills, Michael J. Nemes, and Mike Wilson; Representatives David Hale, Ken Fleming, Derrick Graham, Jason Petrie, Phillip Pratt, James Tipton, and Russell Webber; Mike Harmon, Victor Maddox, and Sharon Mattingly.

Guests: Bo Cracraft, Executive Director, Judicial Form Retirement System; David Eager, Executive Director, and Erin Surratt, Executive Director, Office of Benefits, Kentucky Public Pensions Authority; Danny White, FSA, EA, MAAA, GRS; Beau Barnes, Deputy Executive Secretary and General Counsel, Teachers' Retirement System; Representative Daniel Grossberg, and Adele Singer, retired teacher.

LRC Staff: Brad Gross, Michael Clancy, Jennifer Hans, and Angela Rhodes.

Approval of Minutes

Senator Wilson moved that the minutes of the October 24, 2023, meeting be approved. Senator Mills seconded the motion, and the minutes were approved without objection.

Actuarial Valuation Update – Judicial Form Retirement System

Bo Cracraft, Executive Director, Judicial Form Retirement System (JFRS), discussed the actuarial valuation updates for the Judicial Retirement Plan (JRP) and Legislators Retirement Plan (LRP) for both pension and health funds. He noted that both the pension and health funds are fully funded for both plans with a slight contribution request for JRP pension for the current budget.

Mr. Cracraft discussed the actuarial summary and actuarial trends for both JRP and LRP. He noted that the funding level improved on the pension fund with a slight deterioration for the health fund.

In response to a question from Senator Higdon, Mr. Cracraft stated that JFRS' funding driver for the pension funds are their investment returns. The health fund, specifically the cash balance plan, is overfunded due to the benefit being accrued in the form of normal cost matching contributions received and positive experience with premiums.

Actuarial Valuation Update – Kentucky Public Pensions Authority
David Eager, Executive Director, Kentucky Public Pensions Authority (KPPA), discussed the actuarial valuation updates. All five pension funds had their funded statuses improve with four of the five insurance funds fully funded. The additional $695 million in appropriations over FY 2022-2024 had a very positive impact. Its investments outperformed market benchmarks, median public fund peer returns, and assumed rates of return. KPPA's cash flow was positive.

Mr. Eager discussed the actuarial valuation results for the Kentucky Retirement Systems (KRS), which included changes in active membership and payroll, passed legislation, fiscal year end 2023 investment experience, retirement fund liability, and insurance fund liability.

Mr. Eager discussed the actuarial valuation results for the County Employees Retirement System, which included funding results, actuarial information, and employer contribution rates and cost.

Mr. Eager discussed sensitivity analysis and stated it is a projection of future costs and funded statuses if the future experience is different than the current assumptions.

In response to questions from Senator Higdon, Mr. Eager agreed that when raising the assumed rate of return the contribution rate decreases. When the assumed rate of return is lowered, the contribution rate increases. In response to a question regarding House Bill 8, Mr. Eager stated that KPPA did not have the data on quasi-governmental agency participation, but would conduct an analysis to try and determine the percentages.

In response to a question from Senator Higdon regarding the differences in contribution rates for the Kentucky Employers Retirement System's (KERS) non-hazardous and hazardous plans, Mr. Eager stated the actuary makes the calculated determination to progress to a fully funded status in 2049. In response to a follow-up question, Danny White, GRS, stated that he is not aware if statute permits the KRS board of trustees to maintain a prior year rate if it is higher. Senator Higdon and Representative Petrie requested a written opinion on whether the KRS board of trustees has the authority to hold rates steady as opposed to lowering them without either a statutory change or budget language.

In response to a question from Representative Johnson, Mr. Eager stated that he is unsure if the increase in membership will continue.

Representative Tipton commented for clarification that the valuations are a determination of the contribution rate in future years.

In response to a question from Senator Higdon, Mr. Eager agreed that $994 million is the current amount being paid from the 2021 valuations for KERS non-hazardous.

In response to a question from Representative Tipton, Erin Surratt, Executive Director, Office of Benefits, KPPA, stated that it is at the discretion of the employer to petition the board for hazardous coverage for an employee position. Also, there are statutory requirements that must be met for a position to be considered hazardous.

In response to a question from Representative Graham regarding a cost-of-living adjustment (COLA), Mr. Eager stated that KPPA responds to requests and determines the cost of the purposed COLAs, but the determination on whether to move forward on a benefit increase is in the hands of the legislature. In response to a follow-up question, Senator Higdon responded that he himself has requested information from KPPA regarding different scenarios relating to the proposal of a 13th payment, but nothing is concrete. He cautioned that there will be no COLAs unless the systems are 100 percent funded.

In response to a question from Senator Higdon, regarding employer costs being exempted for certain hazardous duty retirees, Mr. Eager stated that he would consult with staff and seek clarification on what exactly needs to be produced for a response.

Actuarial Valuation Update – Teachers’ Retirement System

Beau Barnes, Deputy Executive Secretary and General Counsel, Teachers’ Retirement System (TRS), discussed the actuarial valuation updates, which included the actuarial valuations summary, actuarial findings, five-year history, 30-year projections, FY 2024-2026 budget requests, and state costs. He noted key findings that: both the retirement annuity and health insurance trusts received full funding; the retirement annuity trust funded ratio was flat at just under 60 percent, which was anticipated by the actuary in the 30-year projections over the next several years; TRS 4 continues to be fully funded; the health insurance trust’s funded ratio topped 70 percent (71.3 percent); and both trusts are on track for full funding within amortization periods.

In response to a question from Representative Johnson, Mr. Barnes stated that the additional funding was used to pay off other unfunded liabilities for past benefit improvements for retired teacher sick leave and old COLAs, therefore the funding did help but it did not have a noticeable effect on the rate. In response to a follow-up Mr. Barnes stated that if additional funding was provided it would be a big positive, because getting funding earlier rather than later helps a lot.

In response to questions from Senator Higdon, Mr. Barnes stated the health insurance fund is projected to be fully funded in five years, although this depends on federal subsidies and prescription drug rebates. In response to an additional question, Mr. Barnes agreed that the 4.4 percent negative cash flow totals about $900 million. Senator Higdon commented that he is concerned a $900 million negative cash flow is unhealthy. Mr. Barnes stated that it is normal to have a negative cash flow with pension plans and, according to TRS' actuary, as long as the plan is within the 3 to 4 percent range that is manageable. In response to an additional question, Mr. Barnes stated that the gain/(loss) analysis “other” source is the shortfall of money coming in versus the interest growing on the unfunded liability. Mr. Barnes stated that he does not believe the sick leave liability is included within the gain/(loss) analysis. In response to an additional question, Mr. Barnes agreed that TRS’ budget request will expand to a little over $2 billion in the future.

In response to a question from Senator Mills, Mr. Barnes stated the increased budget request from FY 2025 to FY 2026 is driven by the unfunded liability.

In response to questions from Senator Higdon, Mr. Barnes stated he would provide the information at a later time on whether the differences in contribution rates had to do with TRS’ decision to phase in losses as opposed to smoothing them in. In response to an additional question, Mr. Barnes stated the sick day liability for current teachers is $563 million based on the 2023 valuation, which is determined by a group-based projection for the entire membership population.

Discussion of Proposed Legislation
Representative Daniel Grossberg along with Adele Singer, retired teacher, discussed proposed legislation to allow members of the TRS to make up a maximum of ten unpaid days to count for service credit toward retirement. Currently, if a teacher takes off for a religious holiday that is not fixed into the school calendar, the absence goes against their retirement time.

Mrs. Singer commented that she has worked for the public school system since 1990. When the Jewish holidays approached, she would ask for time off to observe. Since she only had three personal days a year, she was told to call in sick. Several years later, she was told she could take off religious holidays with unpaid days once her personal days were exhausted. The years of sick days and/or unpaid days used cost her an entire year of service towards her retirement.

In response to a question from Representative Graham, Representative Grossberg stated with the passage of the bill, it would be possible to make up some of the missed days, for example during summer school. However, currently in Jefferson County those make up days are used for paid days, but they do not count as service credit towards retirement. Representative Graham suggested that there should be discussion with TRS. Representative Grossberg stated that discussions had taken place and that a written report was produced that suggested there would be minimal impact on the retirement system.

Representative Tipton commented that the Kentucky Association of School Administrators and Kentucky Association of School Superintendents are on board with the bill. The issue is what qualifies as a full year service credit in relation to the contract between teacher and school system.

In response to a question from Mike Harmon, Representative Grossberg stated that the current bill is not for those who are already drawing benefits from the retirement system, but could be addressed in the future.

In response to a question from Senator Higdon, Representative Grossberg stated that converting current sick days to personal days is a more complex outcome.

Adjournment
There being no further business, the meeting was adjourned.