

PUBLIC PENSION OVERSIGHT BOARD

Minutes

January 22, 2024

Call to Order and Roll Call

The 1st meeting of the Public Pension Oversight Board was held on January 22, 2024, at 1:00 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 Danny Carroll, Robby Mills, and Mike Wilson; Representatives Tina Bojanowski, Ken Fleming, Derrick Graham, Phillip Pratt, and James Tipton; Allison Ball, and John Hicks.

Guests: Michael Board, Executive Director, Office of Legal Services, Kentucky Public Pensions Authority.

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

Approval of Minutes

Representative Fleming moved that the minutes of the November 20, 2023, meeting be approved. Representative Tipton seconded the motion, and the minutes were approved without objection.

Announcements

Senator Higdon welcomed the Public Pension Oversight Board's (PPOB) newest member, Auditor Allison Ball. He also welcomed Wil Schroder, proxy for the Attorney General's designee, Victor Maddox.

Teachers' Sick Leave Proposal (Update)

Senator Higdon discussed BR 1563, an update to the Teachers' Retirement System (TRS) sick leave proposal. Senator Higdon stated that he filed Senate Bill 128 during the 2023 Regular Session, which did not pass due to time constraints, but has adjusted that bill with BR 1563.

BR 1563 will still include annual reporting requirements by school districts on the levels of sick leave accrued and requirements for the TRS actuary to outline the sick leave program's cost in the annual valuation. It also adds new language that addresses how much sick leave accruals in future years can be added for purposes of payments and

inclusion in a member's high-3 or high-5. Senator Higdon explained that the bill is not retroactive and will allow any sick leave accrued as of June 30, 2024, to be paid and included in a member's high-3 or high-5. The bill does not impact sick leave accruals, or what is included in sick leave for purposes of leave a member can use while working. He stated that the main change is how much additional sick leave earned in future years can be subject to payment and inclusion in a members high-3 or high-5, which will be limited to sick leave only (no annual leave, no personal days, no other forms of leave earned in the future), and the new bill permits a maximum of 10 additional sick days each year. Senator Higdon stated he also included a provision to allow school districts to purchase service credit, at their own cost, for days above the 10-day threshold.

In response to a question from Representative Tipton, Senator Higdon stated that provisions for teachers working a 12-month employment contract are covered under another statute.

Representative Bojanowski commented that with the shortage of teachers and substitute teachers, she is concerned there could be a possible impact on classroom instruction if teachers are limited on their sick leave accruals. Senator Higdon responded that unused personal and emergency days will no longer be able to be rolled over into sick leave but they can be purchased for service credit by the school district at the school district's discretion.

In response to a question from Senator Wilson, Senator Higdon agreed that a teacher that works 27 years and carries their sick leave should have 270 days. In response to a follow-up, Senator Higdon stated that the highest pay out of sick leave was in the 2017/2018 school year with one person receiving 591 sick days towards their retirement with 25 years of service.

Representative Graham commented that caution needs to be taken on approaching this issue because good teachers are needed. Senator Higdon responded that the intent of the bill is to ensure every teacher is treated the same.

In response to a question from Senator Mills, Senator Higdon stated he was unaware of how a TRS employee received 591 sick days within 25 years of service.

In response to a question from Representative Graham, Senator Higdon stated that he has information providing school year, number of retirees, years of service, and number of sick days accrued.

In response to a question from Ms. Ball, Senator Higdon stated that the districts provide and verify information for sick leave. TRS only sees that information once an individual retires. This bill would require annual reporting to TRS. In response to a follow-up, Senator Higdon stated that he believes the sick leave verification is fairly accurate.

Representative Johnson reminded the board and other observers that the purpose of presenting bills before the PPOB is simply to provide information to the board in order to provide the same to the General Assembly.

House Bill 292

Representative Johnson and Michael Board, Executive Director of the Office Legal Services, Kentucky Public Pensions Authority (KPPA), discussed House Bill 292, which is an act relating to reorganization of KPPA.

Representative Johnson stated the purpose of House Bill 292 is mostly administrative to formalize the current working organizational structure pertaining to certain financial management actions within KPPA. Specifically, it will place a position of chief financial officer (CFO), which currently exists, at the same level as other director level offices within KPPA. If passed, it will simply formalize an organization within KPPA that already exists and will clarify working relationships for future occupants. The bill will not create any new positions, any additional administrative activities, or additional benefits for the CFO.

Mr. Board added that there is also language within the bill, concerning the Office of Benefits, that KPPA is seeking to have removed from the bill.

In response to a question from Representative Bojanowski, Mr. Board stated that KPPA supports and agrees with House Bill 292. Representative Johnson added that the County Employees Retirement System (CERS) and the Kentucky Employees Retirement System (KERS) also agree and support House Bill 292.

BR 1574 - Retiree Health Reimbursements Paid by School Districts

Representative Johnson discussed BR 1574, regarding retiree health reimbursements paid by school districts. Representative Johnson stated that this bill is intended to resolve a situation where a hazardous duty retiree, who wants to continue to serve their community by returning to work for a school, may continue to have his health insurance benefits, including family benefits, covered through CERS.

Currently, retirees returning as employees of school districts are being advised that they have to accept health insurance benefits through the school district, as a condition for

employment, and must pay a higher health insurance premium for family coverage than what they would ordinarily pay through CERS. This results in the retiree paying a penalty in the form of a higher health insurance premium in order to continue to serve his community. Representative Johnson explained that the bill will require the Kentucky Department of Education (KDE) to pay the reimbursement to CERS, which is required under current law, to adjust the policies in some school districts that are forcing these individuals to take coverage through the district.

In response to a question from Senator Carroll, Representative Johnson explained that the bill will have a narrow application to approximately 150 hazardous duty retirees returning to work for school districts, but would not apply to positions such as school resource officers.

In response to a question from Representative Tipton, Representative Johnson confirmed that the issue was not related to teachers' retirement and applied to classified school employees only. In response to a follow-up, Representative Johnson agreed that the bill would apply to any hazardous duty retiree, whether the individual retired from CERS, KERS, or the State Police Retirement System, who returns to work as a classified employee with a school district.

Mr. Hicks commented that he believes with the proposed bill, the Commonwealth will be paying the individual's insurance premiums twice, once for the retiree's benefit and the second from the KDE's budget. Mr. Hicks asked if it would be a better approach to require the school districts to permit in these isolated cases an opt-out provision. Representative Johnson stated that suggestions on a better plan to resolve this issue are welcome.

Representative Bojanowski commented she does not understand why an individual cannot just opt out. LRC staff at the request of the Chair responded by providing a brief legislative history and policy decisions that have led to the current issue. In response to a follow-up, Representative Johnson stated that the KDE cost estimate of \$700,000 would include hazardous and non-hazardous retirees, but he believes the final cost will be much less for the approximately 150 to 175 hazardous retirees under this specific situation. LRC staff provided a response to cost estimates at the request of the Chair.

In response to a question from Representative Graham, Representative Johnson agreed that this bill is still a work in progress.

Adjournment

There being no further business, the meeting was adjourned.