

PUBLIC PENSION OVERSIGHT BOARD

Minutes

October 22, 2024

Call to Order and Roll Call

The sixth meeting of the Public Pension Oversight Board was held on October 22, 2024, at 2:30 PM in Room 154 of the Capitol Annex. Representative DJ Johnson, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Jimmy Higdon, Co-Chair; Representative DJ Johnson, Co-Chair; Senators Karen Berg, Robby Mills, Gerald A. Neal, Michael J. Nemes, and Mike Wilson; Representatives Derrick Graham, Jason Petrie, and James Tipton; Auditor Allison Ball, John Hicks, Victor Maddox, and Sharon Mattingly.

Guests: Bo Cracraft, Executive Director, Judicial Form Retirement System; Ryan Barrow, Executive Director, and Erin Surratt, Executive Director, Office of Benefits, and Rebecca Adkins, Deputy Executive Director, Kentucky Public Pensions Authority; and Beau Barnes, Deputy Executive Secretary and General Counsel, Teachers' Retirement System.

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

Approval of Minutes

Senator Higdon moved that the minutes of the August 27, 2024, meeting be approved. Representative Tipton seconded the motion, and the minutes were approved without objection.

Overview of System Membership/Payroll Data (JFRS)

Bo Cracraft, Executive Director, Judicial Form Retirement System, stated all information presented is preliminary and unaudited. He presented an overview of membership and payroll data for the Judicial Retirement Plan (JRP) and the Legislators Retirement Plan (LRP), including the total number of members for each year 2020 through 2024 that were active, inactive, or retired, along with the number of active members in the cash balance plan and legacy tier benefit plan. Mr. Cracraft noted the cash balance plan membership is growing. Percentages were provided for each year 2020 through 2024 for the active to retired ratio.

Mr. Cracraft provided active membership data for the last five actuarial valuations for JRP and LRP, including active payroll, average salary, average age, and average service credit for all active members and the average salary, highest salary, and lowest salary for career employees (25 plus years). Mr. Cracraft noted that the plans have remained consistent.

Mr. Cracraft provided information on active salary distribution. For JRP, fiscal year ending July 30, 2024, the salary range was just over \$137,000 for a district judge and up to \$170,000 for a chief justice. A small number of judges were paid just under \$100,000, representing judges who did not serve a full 12 months. For LRP, calendar year ending December 31, 2023, the salary range was anywhere from below \$20,000 up to \$80,000, with the most common salaries being \$40,000 to \$60,000.

Mr. Cracraft provided retired membership information for the last five funding actuarial valuations for JRP and LRP, including retiree payroll, average benefit, highest benefit, lowest benefit, average final compensation, and average years of service for all retirees and for career retirees only (25 plus years of service at retirement).

Lastly, Mr. Cracraft provided information on retiree benefit distribution for the fiscal year ending June 30, 2024. For JRP, the range for benefit distribution was about \$20,000 to \$100,000, and for LRP, the benefit distribution range was about \$20,000 to \$80,000.

In response to Senator Higdon, Mr. Cracraft stated two LRP members receive over \$100,000 in benefits, and LRP retiree payment information is available via open records requests.

In response to Representative Johnson, Mr. Cracraft agreed that the higher benefit distributions in LRP are members who finished their career in the legislative branch and moved to the executive or judicial branch where they received a higher salary.

In response to Senator Wilson, Mr. Cracraft stated anyone that is a recipient of a monthly allowance is eligible for some level of health benefit. Senator Wilson asked that the Judicial Form Retirement System (JFRS) healthcare data be provided at the next meeting.

In response to Representative Tipton, Mr. Cracraft agreed there are several legislators who participate in the Kentucky Public Pensions Authority (KPPA) or the Teachers' Retirement System (TRS), along with a small number who are retired and reemployed and do not participate. Mr. Cracraft agreed that legislative salaries increased slightly from 2015 to 2023.

Senator Mills concurred with Representative Tipton that new legislators are required to participate in either LRP or the Kentucky Employees Retirement System (KERS).

Overview of System Membership/Payroll Data (KPPA)

Ryan Barrow, Executive Director, KPPA, stated all information presented was preliminary and unaudited. He began with an overview of tier levels which included timelines and membership data of all active, inactive, and retired members as of June 30, 2024, for all systems with a ratio of active to retired. Mr. Barrow provided a graph of membership trends for County Employees Retirement System (CERS) nonhazardous and Kentucky Employees Retirement System (KERS) nonhazardous for FY2020 through FY2024.

Erin Surratt, Executive Director, Office of Benefits, KPPA, discussed the active member payroll data from FY2020 through FY2024. She provided a graph for FY2024 showing member average age and average service for all systems.

In response to Representative Johnson, Ms. Surratt agreed that the average age for the beginning of service is 30 years of age or slightly older.

Ms. Surratt provided FY2020 through FY2024 actuarial data for total payroll, average salary, average age, and average years of service credit for all members of the Kentucky Retirement Systems (KRS) and CERS.

Rebecca Adkins, Deputy Executive Director, KPPA, discussed retiree payroll data for FY2020 through FY2024 for all systems, which included total benefit payments, average final compensation, average annual payment, and average years of service. She also provided the annual maximum and minimum payment for CERS nonhazardous and KERS nonhazardous retirees.

In response to Representative Johnson, Ms. Adkins stated KPPA did not look at the mean value for the retiree group. Representative Johnson asked KPPA to provide that data at the next meeting.

In response to Senator Higdon, Ms. Adkins said even minimum benefit payments of between \$0.12 to \$3.84 are direct deposited to members. Ms. Surratt stated that in order for a retiree to continue to receive health insurance coverage, they need to receive a monthly retirement benefit.

In response to Representative Johnson, Ms. Surratt stated low benefit payments could be due to a member having a low number of years of service or having service credit

with multiple retirement systems and retiring with reciprocity with a greater number of years of service in one retirement system over another.

In response to Senator Nemes, Ms. Surratt stated for a retiree reemployed within KPPA, there cannot be a prearranged agreement with a participating employer prior to retirement, and once retired, a member must have a break in service for at least one calendar month.

In response to Representative Graham, Ms. Surratt agreed that a retired reemployed individual cannot receive a second retirement, but believes they can participate in Deferred Comp.

In response to Mr. Maddox regarding the member receiving a \$207,000 benefit, Ms. Surratt provided the benefit formula under the tier overview for the minimum/maximum pay for KERS nonhazardous and stated the member retired with over 40 years of service.

Ms. Adkins continued with FY2020 through FY2024 new retiree versus career retiree average final compensation, average annual payment, average years of service, and the maximum and minimum annual payment for CERS nonhazardous and KERS nonhazardous.

Lastly, Ms. Adkins provided FY2024 annual benefit ranges for all systems. She noted that 67 percent of retirees make less than \$20,000 a year, 90 percent make less than \$40,000 a year, and 188 members make \$100,000 or more.

Overview of System Membership/Payroll Data (TRS)

Beau Barnes, Deputy Executive Secretary and General Counsel, TRS, stated all information presented is preliminary and unaudited. He began with membership data for 2020 through 2024 for contributing, noncontributing, and retired members. Mr. Barnes noted that in 2024 there are 74,383 noncontributing members.

In response to a question from Senator Mills, Mr. Barnes stated data for the 74,383 noncontributing members has not been shared with any other agencies at this time, but agreed that notifying the Kentucky Department of Education could provide a useful tool for soliciting teachers back into the profession.

In response to Senator Berg, Mr. Barnes stated anyone working in a TRS-covered position has to contribute to the system.

Mr. Barnes discussed the four account types and tier levels set by entry date for TRS 1, TRS 2, TRS 3, and TRS 4, including contributing active member distribution in each tier as of June 30, 2024.

Mr. Barnes discussed the active member payroll for 2020 through 2024. He provided total payroll and contract earnings that included average, high, and low earnings. He noted 4,189 members make less than \$20,000 a year and 2,690 members make \$100,000 or more a year.

Mr. Barnes discussed retired member annuities for 2020 through 2024. He provided total payroll with 2024 being \$2.243 billion.

In response to Senator Higdon, Mr. Barnes stated members who have a benefit of \$100,000 or more are most often administrators and some work at universities.

Mr. Barnes continued with the annual payments that included average service at retirement, final average salary, along with the average, high, and low annual payments for 2020 through 2024. He provided the distribution of retired member benefits for FY2024 with 10,456 members earning under \$20,000 and 847 members earning \$100,000 or more. Mr. Barnes provided the annual gross benefits as of June 30, 2024, for service retirees including number of retirees, amount of earnings, and years of service. He noted that 82 percent of TRS retirees receive \$60,000 or less and only 1.6 percent receive more than \$100,000.

In response to Senator Higdon, Mr. Barnes stated the \$250,000 high annual payment is the high annual payment being paid to a specific member and not an average.

In response to Representative Tipton, Mr. Barnes stated, for members who reach more than 30 years of service, the retirement factor is 3.0 percent. Members who retire with 27 or more years of service and are at least 55 years of age have their retirement allowances calculated at a high three average salary calculation opposed to a high five average salary calculation. Representative Tipton requested TRS to forward to Public Pension Oversight Board (PPOB) members the number of noncontributing members by age.

In response to an additional question, Mr. Barnes explained the rules for TRS retired reemployed, including no prearranged agreements, various breaks in service depending on which employer, and whether the employment is full or part time. He explained there is a critical shortage program that allows employers to hire a very limited number of retirees and allows them to pay any amount of compensation. In response to a follow-

up, Mr. Barnes stated TRS differs from KPPA on break in service time periods because TRS takes a more conservative approach regarding its interpretation of guidelines from the IRS due to past litigation and the possibility of the whole retirement plan being subject to disqualification. Additionally, Mr. Barnes stated that a one-month break is not really a break for teachers because it is shorter than the summer break between school years. In response to an additional question, Mr. Barnes agreed that the General Assembly passed temporary legislation during COVID that allowed teachers to have a 30-day break in service in place of the 90-day break in service. The critical shortage guidelines have been reset back to 1 percent. In response to a final follow-up, Mr. Barnes stated there were a small number of teachers that did return to work after a 30-day break in service under the temporary legislation with no issues from the IRS.

In response to Senator Nemes, Mr. Barnes stated retired members have no break in service requirement if they take a position outside of TRS.

In response to Senator Berg, Mr. Barnes stated he did not have information on what period of time other states are using for a break in service for retired reemployed members. Senator Berg requested information on what other states are using for a required break in service.

In response to Senator Higdon, Mr. Barnes stated TRS 1 and TRS 2 are the same for lump sum payments for unused sick leave and includes them in the final average salary calculation for retirement purposes with no limits. TRS 3 caps the number of sick days that can be used for retirement calculation purposes at 300 days. TRS 4 does not allow the use of sick leave days for retirement calculation purposes. In response to a follow-up, Mr. Barnes stated most districts have policies where unused personal days can roll over into sick leave year to year with no limit for TRS 1 and TRS 2. Sick leave will be compensated at 30 percent of the daily rate the teacher is earning. TRS 3 unused personal days can also roll over into sick leave with no limit. Employees who work 12 months per year, TRS 1 and TRS 2, can be paid 100 percent of their daily rate up to 60 days of annual leave and the lump sum payment is applied to the final average salary for retirement calculation purposes. TRS 3 and TRS 4 cannot use any payment for unused annual leave for retirement calculation purposes.

Representative Johnson requested information from TRS on the average years of service and average age of those who receive a retirement of \$60,000.

Representative Johnson announced that all retirement bills need to be vetted by the PPOB before being sent to committees during session.

Adjournment

With no further business, the meeting was adjourned.