PUBLIC PENSION OVERSIGHT BOARD

Minutes

November 19, 2024

Call to Order and Roll Call
The seventh meeting of the Public Pension Oversight Board was held on November 19, 2024, at 1:00 PM in Room 149 of the Capitol Annex. Senator Jimmy Higdon, 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, Christian McDaniel, Robby Mills, Gerald A. Neal, Michael J. Nemes, and Mike Wilson; Representatives David Hale, Robert Duvall, and Derrick Graham; and Allison Ball, John Hicks, Victor Maddox.

Guests: Chris Biddle, Executive Director, Kentucky Deferred Compensation Authority; Bo Cracraft, Executive Director, Judicial Form Retirement System; Ryan Barrow, Executive Director, 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, and Angela Rhodes.

Approval of Minutes
Senator Berg moved that the minutes of the October 22, 2024, meeting be approved. Senator Nemes seconded the motion, and the minutes were approved without objection.

Deferred Compensation Authority Update/Housekeeping Proposal
Chris Biddle, Executive Director, Kentucky Deferred Compensation Authority (KDCA), announced the fiftieth anniversary of KDCA and updated members on the continued growth of participants due to auto-enrollment. A three-year communication campaign aimed at helping participants recognize the benefits of allocating a portion of their salary towards retirement planning resulted in a $5.46 million increase in participant dollars within the system.

Mr. Biddle discussed KDCA's 2025 legislation request, which includes codified fiduciary standards, the ability to purchase fiduciary liability insurance, adding a self-correcting mechanism to maintain compliance with federal law, and authorizing KDCA to offer Self Directed Brokage Accounts to participants.

In response to Senator Higdon, Mr. Biddle stated that upon auto enrollment, KDCA offers free certified financial planning.

In response to Auditor Ball, Mr. Biddle stated the fiduciary duty language will be altered from the Kentucky Public Pensions Authority (KPPA) model to suit the needs of KDCA.

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 JFRS is only required to do full funding valuations during odd numbered fiscal years and roll-forward valuations are performed during even numbered fiscal years for the sole purpose of creating Government Accounting Standards Board (GASB) results, which are required for the Commonwealth's financial statements.

Mr. Cracraft discussed the GASB results for JRP and LRP noting a slight change in total pension liability, which is to be expected given the roll-forward methodology, and the net plan position, or market value of assets, grew significantly due to strong investment results.

Mr. Cracraft followed-up with a response to Senator Wilson's question from the October meeting regarding membership data. LRP has 260 total monthly recipients with 154 recipients participating in the health insurance plan with a total premium cost of approximately $100,000 a month. JRP has 405 total recipients with 315 recipients participating in the health insurance plan and a total premium cost of about $235,000 a month.

Actuarial Valuation Update – Kentucky Public Pensions Authority

Ryan Barrow, Executive Director, KPPA, discussed the actuarial valuation updates. He provided an overview of the annual actuarial cycle, which includes board approved assumptions, sensitivity studies, 30-year projections, valuations provided to the KPPA Boards, Legislative Research Commission, and Public Pension Oversight Board (PPOB), and the board approval of employer contribution rates with the new rate going into effect July 1 for County Employee Retirement System (CERS).

Mr. Barrow discussed the actuarial long-term target and stated the unfunded liabilities are amortized over a 30-year closed period, 2019 to 2049. Based on assumptions, the plans are expected to be fully funded in 25 years.

All five pension funds had their funded statuses improve with four of the five health insurance funds fully funded. The additional $650 million in appropriations over FY 2025-2026 had a very positive impact. Their investments outperformed their assumed rate of return across all pension and investment funds.

Rebecca Adkins, Deputy Executive Director, KPPA, discussed the actuary comments on the valuation results. There were increases in active membership payroll for FY23 to FY24 for all plans and actuarial liabilities increased for both the pension and insurance plans for CERS and Kentucky Retirement System due to higher than assumed salary increases for active members and significantly higher Medicare eligible premiums.

In response to Senator Higdon, Ms. Adkins stated the reasons for the increase in active membership payroll is due to higher employee counts and higher pay among employees.

Ms. Adkins provided charts for the active membership counts and membership payroll that showed average increases/decreases from 2014 to 2024 for the CERS and Kentucky Employees Retirement System (KERS) nonhazardous plans.

Ms. Adkins provided charts for the retired membership counts and pension benefit distributions average increases/decreases for all plans from 2014 to 2024.

Mr. Barrow discussed pension and insurance funding results for all plans for FY23 compared to FY24 that included their total actuarially determined rates and funded ratios.

In response to Senator McDaniel, Mr. Barrow agreed that KPPA's actuary, GRS, is reflecting no payroll growth in the actuarial assumptions used to finance unfunded liabilities. Senator McDaniel acknowledged the merit of a conservative approach but encouraged KPPA to push their actuary for an assumption where there is some growth as long as the assumption is actuarially sound.

In response to questions from Senator Higdon regarding why the Board would decrease the contribution rate for CERS when the plan is only 56 percent funded, Ms. Adkins stated that although the contribution rates as a percentage of pay are going down in FY 2025, the dollar value of contributions are expected to be up by $13 million for CERS nonhazardous and $4 million for CERS hazardous due to payroll growth. Senator Higdon commented that his question remains and encouraged the board to leave the rate as a percentage of pay as it is now.

In response to an additional question from Senator Higdon, PPOB member John Hicks, Office of State Budget Director, stated the sports wagering funds go into the permanent pension fund that will be appropriated by the General Assembly and at this time the fund has accumulated over $50 million.

In response to Senator Mills, Mr. Hicks stated the current funds in the permanent pension fund have accumulated in just under a year.

Senator Berg commented that she appreciates the inclusion of the 10-year data.

Actuarial Valuation Update – Teachers' Retirement System
Beau Barnes, Deputy Executive Secretary and General Counsel, Teachers' Retirement System (TRS), provided actuarial valuation updates and key findings for June 30, 2024, that included that both the retirement annuity and health insurance trusts received full funding, the retirement annuity trust funded ratio improved to 59.1 percent, TRS 4 continues to be fully funded, the health insurance trust funded ratio improved to 80.4 percent, and both trusts are on track for full funding within the set amortization periods.

Mr. Barnes discussed the actuarial valuations summary for the retirement annuity and health insurance assets, liabilities, unfunded, and ratios for June 30, 2023, compared to June 30, 2024.

In response to Senator Higdon, Mr. Barnes stated the total liabilities increased by about $1.3 billion.

Mr. Barnes continued his discussion on the actuarial findings for year ended June 30, 2024.

In response to Senator Higdon, Mr. Barnes stated TRS reported as of June 30, 2024, about $536 million in negative cash flow for the year. When reporting negative cash flow, which is contributions coming in and benefits going out, the report does not include investment cash flow. In response to a follow-up question, Mr. Barnes stated that the cash flow for 2024 as a percentage was 3.92 percent, which equals about $536 million.

In response to Representative Johnson, Mr. Barnes agreed the reason the cash flow has improved is due to additional funds the General Assembly distributed. In response to a follow-up question, Mr. Barnes stated as long as the full actuarially required contributions are being made, as they have the last 10 years, the cash flow will continue to improve, otherwise negative cash flow could increase. In response to an additional follow-up, Mr. Barnes agreed that if the General Assembly stopped additional funding, TRS will have an increase in negative cash flow.

In response to Senator McDaniel, Mr. Barnes agreed there is no specific statutory reference to actuarially determined employer contribution (ADEC) funding for TRS, but TRS has received the equivalent of an ADEC from the General Assembly since FY17.

In response to Senator Berg, Mr. Barnes stated that there is a fixed statutory rate and TRS requests additional funding, known as the ADEC, to help pay the unfunded liability within the amortization period. In response to a follow-up question, Mr. Barnes stated changing the set rate for ADEC funding would be a policy decision of the Commonwealth but that the current amount is sufficient.

Mr. Barnes continued with the actuarial findings for the retirement annuity trust experience gain/loss analysis.

In response to Representative Johnson, Mr. Barnes agreed the loss of $326.1 million was due to salary increases that the actuary was not anticipating and that it is included in the unfunded liability.

In response to Senator McDaniel, Mr. Barnes agreed losses due to salary increases are basically a net present value impact to the funding ratio of the plan. In response to a follow-up question, Mr. Barnes stated that the additional unfunded liability for the salary increases will be financed by the Commonwealth.

In response to Senator Berg, Mr. Barnes stated the 7.1 percent reduction was acknowledged immediately for liabilities. In response to a follow-up question, Mr. Barnes stated the actuary can change salary assumptions at any time.

In response to Senator Higdon, Mr. Barnes stated the “other” source in actuarial findings include direct rate smoothing, which is recommended by the actuary as a phase-in over a five-year period. In response to a follow-up regarding if the FY23 investment returns was included in “other”, Mr. Barnes stated he will follow-up on a more detailed list of “other”.

Mr. Barnes discussed the five-year history of the retirement annuity trust contribution detail from FY20 to FY24 for the categories of stated unfunded liability payment, state employer fixed, other employers fixed, and members fixed.

Senator Higdon requested TRS to provide information on what “other employers fixed” include for the retirement annuity trust contribution. In response to a follow-up question, Mr. Barnes agreed that the total “members fixed” for FY20 to FY24 exceeds $1 billion in state contributions. In response to another follow-up, Mr. Barnes agreed that TRS will require $2 billion in state contributions by 2035.

Mr. Barnes discussed the actuarial 30-year projections and the health insurance five-year history.

In response to Senator Higdon, Mr. Barnes stated the actuaries have projected the health insurance trust fund should be fully funded by 2027.

Mr. Barnes discussed the FY26 to FY28 budget requests, including pension amounts and the state’s shared responsibility portion.

In response to Senator Higdon, Mr. Barnes stated for FY27, the total with normal costs will increase measurably from previous years.

Mr. Barnes discussed the state costs for FY25 and FY26 that includes the state statutory fixed rate, state general fund to TRS, and total state funding for TRS.

In response to Senator Higdon, Mr. Barnes stated their board has approved a regulation requiring school districts to report total accumulated sick leave on an annual-bases. In response to an additional question, Mr. Barnes agreed that TRS has a board policy that they never request less funding than in the previous year.

The next scheduled PPOB meeting will be on December 9, 2024.

Adjournment
With no further business, the meeting adjourned.