2020 REGULAR SESSION

HOUSE BUDGET REVIEW SUBCOMMITTEE ON PERSONNEL,
PUBLIC RETIREMENT, AND FINANCE
of the
HOUSE STANDING COMMITTEE ON APPROPRIATIONS AND REVENUE

3rd Meeting

February 27, 2020

The Budget Review Subcommittee on Personnel, Public Retirement, and Finance of the House Standing Committee on Appropriations and Revenue held its third meeting of the 2020 Regular Session on February 27, 2020, at 10:00 AM, in Room 129 of the Capitol Annex. The Chair called the meeting to order, and the secretary called the roll.

Members Present: Representative Myron Dossett, Chair; Representatives Joe Graviss, Adam Koenig, Jerry T. Miller, Phillip Pratt, and Nancy Tate.

Guests: Beau Barnes, Deputy Executive Secretary and General Counsel, Teachers' Retirement System (TRS); David Eager, Executive Director, Kentucky Retirement Systems (KRS); and, Rich Robben, CFA, Executive Director, Office of Investments, KRS.

LRC Staff: Chuck Truesdell, Seth Dawson, Liz Columbia, Dillard Collier, Jim Thornton, and Spring Emerson.

Approval of Minutes
Chair Dossett called for a motion to approve the minutes of the last meeting, held on February 20, 2020. A motion was made by Representative Miller, seconded by Representative Graviss, and the minutes were approved without objection.

Teachers' Retirement System
Mr. Barnes provided a presentation and overview of the agency and its budgetary issues.

In response to a question from Representative Graviss regarding the non-single subsidy, Mr. Barnes said that amount ranged between $10 million and $12 million per year.

In response to questions from Representative Miller, Mr. Barnes said any available surplus funds would go to the health insurance trust, and the current balance is $1.6 billion.

In response to a question from Chair Dossett, Mr. Barnes said the Governor's recommended budget does not include language to provide a dependent subsidy.

In response to a question from Representative Miller, Mr. Barnes said the age of retirement is a huge cost driver, and the current average age of teacher retirement is 59.5, which is higher than it used to be. In 1999, the average age was 54. The higher retirement age is extremely helpful from an actuarial standpoint.

Kentucky Retirement Systems
Mr. Eager and Mr. Robben provided a presentation and overview of the agency and its budgetary issues.

In response to a question from Representative Koenig, Mr. Robben said the Sharpe Ratio is a measure of the rate of return per unit of risk, so more is better. When plans are underfunded, rate of return becomes very important in order to minimize volatility. Mr. Eager added that they are doing an effective job of adding value with a limited amount of risk.

In response to a question from Chair Dossett regarding mortality rates, Mr. Eager said the previous expected morality rate at retirement age was 21 or 22 additional years for males and 23 or 24 additional years for females. Two more years have been added to those numbers. KRS members tend to live longer than the average person. Life expectancy has been declining meaningfully among the 20 to 35 age group, as a result of suicides, drug overdoses, and other things. The life expectancy of the overall population is lengthening.

In response to a question from Representative Pratt, Mr. Eager said he will provide data on life expectancy numbers to the committee at a later date. Mr. Robben said the KERS has $2.2 billion in assets, but pays out over $1 billion per year, which is an extremely high payout ratio. There is a meaningful difference in returns between the two plans, and they are managed very differently.

In response to a question from Representative Graviss, Mr. Eager said if the Actuarially Required Contribution (ARC) was paid, all the plans would be fully funded.

In response to questions from Representative Pratt regarding market corrections, Mr. Eager said the actuary projects over a twenty-four year period, and takes those market corrections into consideration. Mr. Robben added that when estimating assumed rates of return, those market corrections are factored in. By statute, assumptions are reconsidered every five years. They could look at economic considerations every two years, and demographics every four years, as long as they fall within the five-year statutory requirement.

Adjournment
There being no further questions, the meeting was adjourned at 11:03 AM.