PUBLIC PENSION OVERSIGHT BOARD

Kentucky Retirement Systems Administrative Subcommittee

Minutes

December 17, 2018

Call to Order and Roll Call

The 4th meeting of the Kentucky Retirement Systems Administrative Subcommittee of the Public Pension Oversight Board was held on Monday, December 17, 2018, at 10:00 AM, in Room 154 of the Capitol Annex. Representative Russell Webber, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Wil Schroder, Co-Chair; Representative Russell Webber, Co-Chair; Senators Jimmy Higdon and Dennis Parrett; Representatives DJ Johnson and Arnold Simpson; John Chilton, and James M. "Mac" Jefferson.

Guests: Jennifer Black Hans and Bo Cracraft, LRC Staff.

LRC Staff: Jennifer Black Hans, Bo Cracraft, and Angela Rhodes.

Approval of Minutes

Representative Simpson moved that the minutes of the October 22, 2018 meeting be approved. Representative Johnson seconded the motion, and the minutes were approved without objection.

Public Pension Board Composition, Representation, and Structure Review

Jennifer Hans and Bo Cracraft, LRC Staff, presented a review and case study of state and local retirement plan board compositions. Ms. Hans pointed out that staff research hoped to identify trends in board composition, appointed to elected ratios, and local member representation, but ultimately no clear trends were revealed.

Ms. Hans began with a quick summary of the spectrum of plans studied by staff, which included a consolidated model similar to Kentucky Retirement Systems (KRS), a consolidated administration with separate board governance, and fully separated plans, utilized in several states and similar to the model proposed by SB 226. In addition, Ms. Hans reviewed the history of the KRS statutory board structure and stated it has remained the same for 40 years with only recent changes made between 2013 and 2017 as a result of statutory changes.

Ms. Hans discussed a survey of over 80 retirement system boards conducted by the National Association of State Retirement Administrators (NASRA). She noted that 31 systems had no elected members and for the majority of boards included in the survey has more appointed than elected trustees. No general ratio of local members were evident, even for municipal-only plans, and pointed out that many boards included employer appointees, legislative appointees, and public-at-large members. According to the survey, member representation was evident for nearly all plans and in many cases required by statute.

Mr. Cracraft discussed board structures of consolidated plans, narrowing the review to systems where multiple underlying plans were governed and administered by a single board of trustees. He said that fifteen plans are similar to KRS, and he provided a summary of each plan's board of trustees, broken down by appointed, ex-officio, and elected members. The smaller, narrower group looked pretty similar to the larger universe provided by NASRA. Almost half of the boards did not include elected positions and 12 of the 15 boards were majority appointed. All but one of the plans had member representation, which was required by statute. For 5 of the 15 plans, at least half the board represented underlying plan membership.

Mr. Cracraft noted that some states sourced members through an election process, while other states required appointed trustees to be members. He identified Colorado and Mississippi as two examples of states that utilized an election process to choose board members. He reviewed Tennessee and Wyoming, two states where plan members are appointed to the board as a result of an appointment process.

Mr. Cracraft discussed whether the size of a plan's membership was reflected in their representation on the boards. Board structure is generally defined by statute and not something that changes dynamically, while membership for a retirement plan changes pretty rapidly in some cases. He provided a summary of active and retired membership for the Colorado, Mississippi, Tennessee, and Wyoming plans, and pointed out that in many cases local board representation was relatively proportional to the retirement plan membership.

In response to a question from Mr. Chilton, Mr. Cracraft stated that three of the KRS board appointments are made by the Governor from a list of three individuals provided by the Kentucky League of Cities (KLC), Kentucky Association of Counties (KACo), and Kentucky School Boards Association (KSBA), respectively. This process is similar to the state of Tennessee; however, in Tennessee, the three appointments are made directly by the local government organizations rather than by the governor from a list.

In response to questions from Representative Simpson regarding employer contributions versus employee contributions and how that might affect board representation, Mr. Cracraft stated staff would follow up and report to the Chairs at a later time.

In response to a comment from Representative Johnson regarding how the percentage of assets could also impact board representation, Mr. Cracraft agreed to follow up.

Ms. Hans reviewed states utilizing separate boards for plan governance, but consolidated plan administration under a single entity. Ms. Hans reviewed about 16 plans across 7 states and compared each plan's board of trustees broken down by the number of appointed, ex-officio, and elected members. Many of the boards were majority-appointed and tended to be smaller in size relative to other state plans. Ms. Hans reviewed the structures of Alabama and Vermont, which have a majority elected board members, and Arkansas and North Carolina, which have a majority of appointed board members.

Ms. Hans singled out the state of North Carolina and its structure as a case study. North Carolina has two separate boards of trustees, which govern plans that have been administered by the North Carolina Retirement Systems (NCRS) since 1976. One board oversees the Teachers' and State Employees' Retirement System (TSERS) and the other board oversees the Local Government Employees Retirement System (LGERS). NCRS has over 900,000 members, but, of that number, LGERS represented approximately 300,000 local government employees, which is similar to the size of CERS. Plan membership is represented by each board independently, but that the two boards do share some trustees and meet on a quarterly basis, at least, and on the same days.

In response to a question from Representative Simpson regarding how assets were invested, Ms. Hans stated that, while the funds are accounted for separately, the retirement system does consolidate investment transactions, which is similar to the way KRS handles their separate funds.

Ms. Hans provided a summary of the composition of both North Carolina boards. Both boards consist of 13 members and that each has the responsibility of governing some additional legacy funds. Both plans are completely appointed or ex-officio, with the Governor appointing 8 trustees who represent members of the plans. Ms. Hans also stated that LGERS has a fire and police advisory panel that has 7 members, who communicate ideas and recommendations to the LGERS Board.

In closing, Ms. Hans expressed a hope that the case study and review of governance models had provided the committee with a different perspective and a window into how other states were handling board composition. While staff's research had not identified a clear or discernable trend in board composition across states, the research does indicate that majority appointed boards were edging out majority elected boards. Further, staff's review did indicate that a majority of boards have a diversified representation of plan membership.

In response to questions from Senator Parrett, Mr. Cracraft indicated that after researching consolidated plans, the model and structure utilized by Kentucky did not look much different than its peers. He noted the KRS board was a bit larger, primarily due to the additional investment professional appointees, but it had member representation and CERS had a slightly larger number of trustees. Ms. Hans added that after her review of plans with separated boards, the single staff administration model utilized in North Carolina allows for economies of scale as well as ensuring that the separate retirement systems function with a little more consistency.

In response to a question from Senator Schroder regarding the governor appointees, Ms. Hans confirmed that 3 of the 10 appointees are selected by the governor from a list of three individuals submitted from the KLC, KACo, and KSBA.

In response to questions from Mr. Chilton with regards to the composition of separated investment management boards, Mr. Cracraft stated that at a high level, boards will consist of more financial professionals rather than underlying plan members.

In response to comments from Senator Higdon with regards the Tennessee model and its use of consolidation to reduce expenses, Mr. Cracraft agreed that Tennessee had an interesting model and noted how the state also incorporated legislative and investment advisory committees into its process.

Senator Schroder expressed his gratitude to Representation Simpson on their last meeting day together.

With no further business, the meeting was adjourned. The next regularly scheduled meeting is Monday, January 28, 2019.