

PPOB Update

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Interim Joint Cmte. On State Govt.
June 27, 2018

PPOB → Background

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- Creation: 2013 by SB 2 (pension reform measure)
- Statutory Authority: KRS 7A.200 to 7A.260
- Purpose per KRS 7A.200:

“...to review, analyze, and provide oversight to the General Assembly on the benefits, administration, investments, funding, laws and administrative regulations, and legislation pertaining to the state-administered retirement systems.”
- Oversight Responsibilities:
 - **Kentucky Retirement Systems (KRS):** Kentucky Employees Retirement System (KERS), County Employees Retirement System (CERS), and the State Police Retirement System (SPRS).

Note: KERS & CERS include both non-hazardous (NH)/hazardous duty (H) benefit and contribution structures.
 - **Teachers’ Retirement System (TRS)**¹
 - **Judicial Form Retirement System (JFRS):** Legislators’ Retirement Plan (LRP) and Judicial Retirement Plan (JRP)¹

Note: All funds have a pension and retiree health fund. TRS also has a life insurance fund.
- Membership (19 members):
 - Legislators (12 members): Sen. Joe Bowen, Co-Chair, Rep. Jerry Miller, Co-chair, Sen. Jimmy Higdon, Sen. Christian McDaniel, Sen. Gerald A. Neal, Sen. Dennis Parrett, Sen. Wil Schroder, Rep. Ken Fleming, Rep. DJ Johnson, Rep. James Kay, Rep. Arnold Simpson, Rep. Russell Webber
 - Ex-officio (3 members): John Chilton, State Budget Director; Mike Harmon, State Auditor; J. Michael Brown, serving as designee for Attorney General Andy Beshear
 - Appointees (4 members): Timothy Fyffe (Speaker appointee); Sharon Mattingly (Senate President appointee); James M. "Mac" Jefferson (Gov. appointee); vacant (Gov. appointee).
 - ✦ Must have 10 years of “investment experience” or “retirement experience”

¹ Oversight responsibilities added in 2015

PPOB → Background

System Membership (6/30/2017)

SYSTEM MEMBERSHIP				
System	Active Members	Inactive Members	Retired Members	Total
KERS NH	36,725	44,848	40,813	122,386
KERS H	4,061	4,363	2,823	11,247
CERS NH	84,401	78,940	54,018	217,359
CERS H	9,321	2,442	7,186	18,949
SPRS	910	278	1,393	2,581
KRS TOTAL	135,418	130,871	106,233	372,522
TRS	72,130	51,422	52,966	176,518
TRS TOTAL	72,130	51,422	52,966	176,518
LRP	80	43	220	343
JRP	227	17	332	576
JFRS TOTAL	307	60	552	919

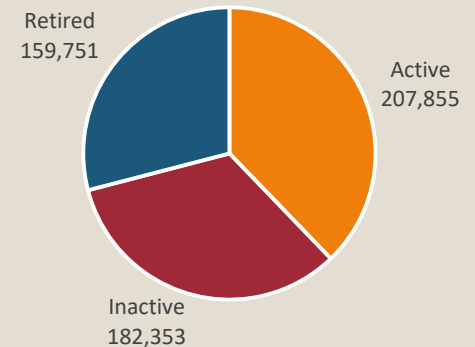
Active members are employees contributing to the systems; inactive members are former employees with accounts who have not retired; and retired members includes both retired employees and beneficiaries.

Additional Detail (6/30/2017)

KRS MEMBERSHIP BY TIER				
	Active Members	Inactive Members	Retired Members	Total
TIER 1	70,542	90,058	106,058	266,658
TIER 2	28,997	27,072	176	56,245
TIER 3	35,879	13,741	0	49,620
TOTAL	134,518	130,871	106,346	372,523

Tier 1 members began participating in the systems prior to Sept. 1, 2008; Tier 2 members began participating in the systems on or after Sept. 1, 2008 but prior to Jan. 1, 2014; Tier 3 members began participating in the systems on or after Jan. 1, 2014.

549,959
Total Members



PPOB → Background

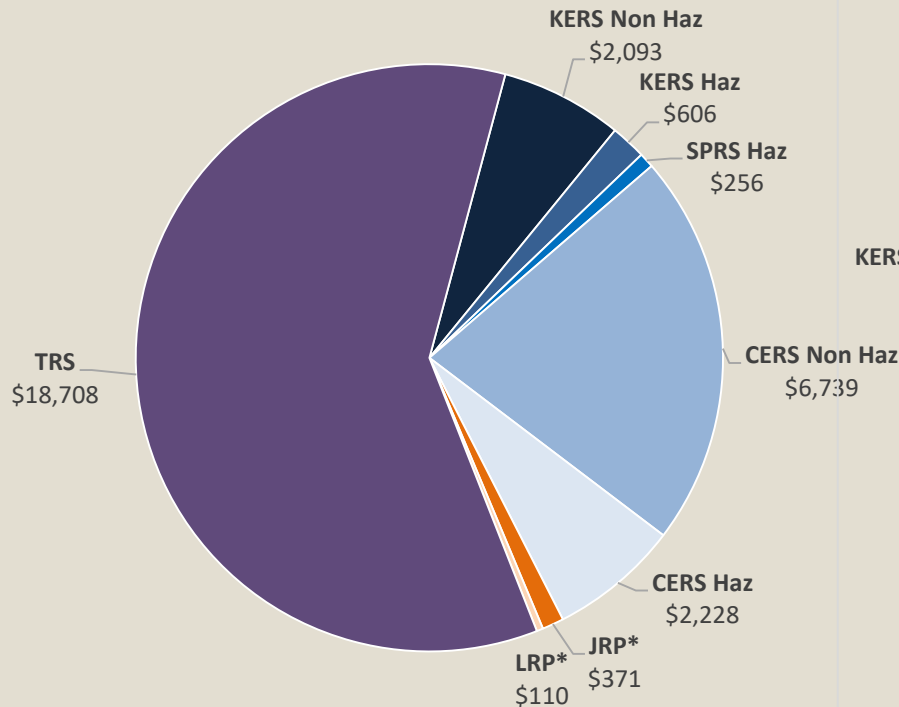
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Total Assets Under Management - \$36.8 Billion

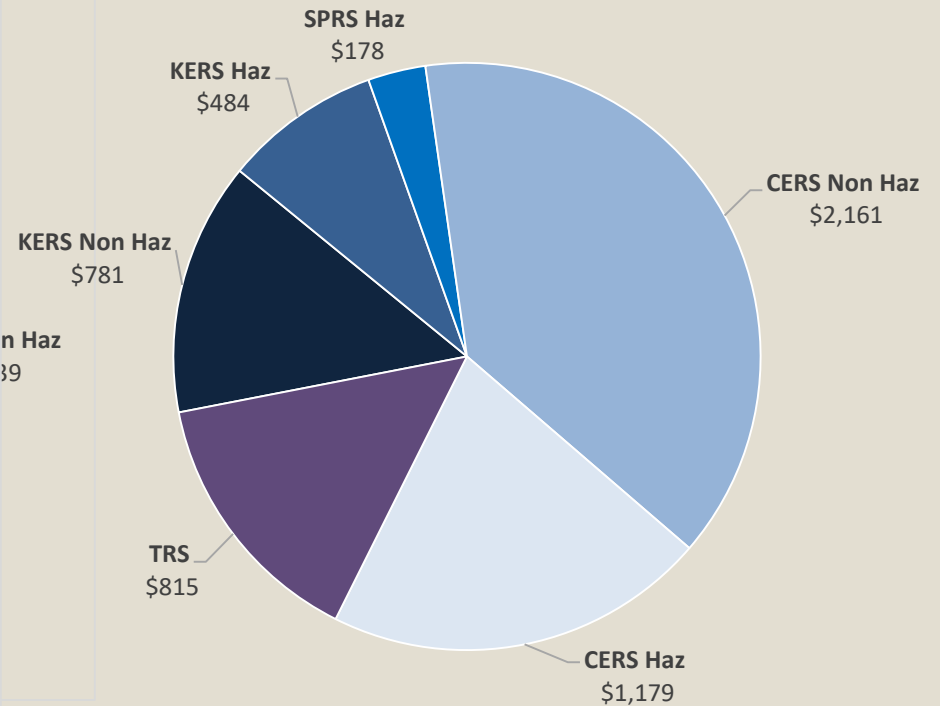
By System

As of June 30, 2017

Pension - \$31.1B



Insurance - \$5.7B



* Includes both JRP/LRP pension and insurance assets

PPOB → Background

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2017 Actuarial Valuation Results

System	Funding Level (%)		Unfunded Liability (\$)	
	<u>Pension</u>	<u>Health</u>	<u>Pension</u>	<u>Health</u>
KERS NH	13.6% ↓	30.7% ↑	\$13.468 B	\$1.860 B
KERS H	54.1% ↓	117.6% ↓	\$0.514 B	-\$0.074 B
CERS NH	52.8% ↓	66.4% ↓	\$6.039 B	\$1.128 B
CERS H	48.1% ↓	66.9% ↓	\$2.411 B	\$0.592 B
SPRS	27.0% ↓	65.2% ↓	\$0.706 B	\$0.096 B
TRS	56.4% ↑	26.7% ↑	\$14.305 B	\$2.706 B
LRP*	88.8% ↑	181.3% ↑	\$0.008 B	-\$0.018 B
JRP*	76.6% ↑	144.3% ↑	\$0.084 B	-\$0.023 B
Sub Total:			\$37.535 B	\$6.267 B
Combined Total:			\$43.802 B	

Source: KRS, TRS, JFRS Actuarial Valuations; *LRP and JRP combine pension & retiree health into one statistic for purposes of reporting funding levels/unfunded liabilities. Data has been separated and confirmed by JFRS for purposes of providing comparable data. LRP & JRP Cash Balance plans (post-2014) members have separate actuarial statistics.

PPOB → *Recent Reviews/Study (2016 & 2017)*

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Study Examples

- **Bi-Annual Investment Review (statutory)**
 - Perform 50 state comparison of returns/asset allocation
 - Analyze investment fees
 - Historical & recent changes to returns/asset allocations
- **Investment Return Assumption/Payroll Growth Assumption Review**
 - Perform 50 state comparison and trends
 - Impacts of adjusting assumptions on ARC/actuarial stats
 - Ky. System experience vs. assumption
 - Statutory requirements
- **Transparency Trends & Discussion**
 - Perform 50 state comparison and trends
 - Comparison of each state system & statutory requirements
- **Investment expense disclosure and trends**
 - Review of accounting requirements
 - 50 state comparison
 - Challenges/trends
- **Others: Funding policy reviews, adm. expense study, board governance review (Ky. Systems & national comparison)**

Testimony Examples

- **Quarterly System Investment/Cash Flow Updates**
- **Annually testimony from employee, employer, retiree, and other interest groups on proposals/ideas**
- **Annual review of system actuarial valuations**
- **System testimony on changes in asset allocations, actuarial assumptions, issues**
- **2018 Pension Reform**
- **Legislative proposal/measures updates**
- **System testimony on “inviolable contract” provisions**

Annual report includes a system summary, study info/testimony, and recommendations.

PPOB → *SB 2 Compliance (Transparency)*

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- **SB 2 (2017) passed into law**
 - Changes in Board Governance
 - ✦ Added Gov. appointees w/ “investment experience” and required Senate confirmation
 - Est. standardized investment return and expense disclosure.
 - ✦ Report net of fees for each system, asset class, and manager
 - Placed systems under states’ Model Procurement Code (MPC)
 - ✦ Exception: Procurement Policy for Investment Contracts adopted by board and approved by Sec’y of Finance.
 - Required CFA Institute’s Code of Conduct for staff, trustees, and contracted investment advisors.
 - Public disclosure of offering documents and contracts
- **PPOB recommendation from 2017:**
 - Research and review the effectiveness of the 2017 pension transparency reforms instituted under SB 2; and
 - Report findings to the board to determine if additional transparency or accountability measures should be recommended.
- **June 25th, 2018 PPOB Mtg.:**
 - 1st step in process.
 - LRC staff review of compliance based upon questionnaires and supporting documentation provided by systems.
 - Review detailed areas where systems were either in full compliance or partial compliance.

PPOB → *CERS Separation*

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- **SB 226 (2017) did not pass into law**
 - If the bill had passed, would have separated CERS from the administration of the Kentucky Retirement Systems (separate board, separate statutory structure, etc.)
 - Vocal proponents & opponents
- Section 86 of SB 151 directed establishment of an advisory committee to study the benefits and drawbacks of separating the County Employees Retirement System from the Kentucky Retirement Systems or restructuring the administration of the systems administered by the Kentucky Retirement Systems.
 - Report required by December 1, 2019.
- Board already has authority to establish advisory committees for various subjects under KRS 7A.260.
- June 25, 2018 PPOB meeting, an advisory committee consisting of 8 PPOB members was established for this purpose (subject to LRC approval).

PPOB → *KRS Agency Cessation of Participation*

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- **Legislative Background**

- As employer rates have increased, agency participation issues have grown (i.e. Seven County Services bankruptcy, contracting, etc.)
- 2015: HB 62 was passed which allowed certain agencies in KERS and CERS to voluntarily cease participating in the systems by paying full actuarial costs.
- 2017: HB 351 est. required assumptions for employers exiting systems (increasing the cost) & removed installment pmt. option
- 2018:
 - ✦ HB 362: Would have provided a window for eligible agencies to cease participating in KERS or CERS by paying actuarial costs through installments without interest over 30 years. Also would have allowed add. quasi-state agencies to exit (regional universities/KCTCS, health depts.)
 - ✦ HB 487 was subsequently passed and removed the window passed by HB 362 for agencies ceasing participation and returned the statute to what the statute provided prior to HB 362.
 - ✦ HB 265 provided 1 year of employer rate relief to quasi-state agencies in KERS (like CMHC's, health depts., etc.) and kept the rate at 49.47% of pay for these employers (meaning they would pay the same amount in FY 19 as they are doing in FY 18) instead of 83.43% of pay general state government agencies are paying.

- **Will be a study item for 2018**

- KRS has indicated that they are working on potential options to address this issue and will provide that info to the PPOB/GA this year before the next session.

PPOB → *Other 2018 Items*

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- Annual investment reviews
- Quarterly investment/cash flow updates
- Cash flow review (in light of recent state budget/legislation)
- Review FY 2017 actuarial valuations & financial data
- Additional testimony
- 2018 PPOB report/recommendations