



Kentucky Retirement Systems

BUDGET REVIEW SUBCOMMITTEE

on General Government, Finance, Personnel Public Retirement of the
Interim Joint Committee on Appropriations and Revenue






David Eager
Executive Director

August 30, 2018



- 1. Retirement trends and the potential impact**
- 2. How are funds invested?**
- 3. How are gains and losses allocated to each system?**
- 4. What impact would a CERS separation have on the investment returns for the systems?**

IMPACT OF RETIREMENTS

MEMBERS		as of 6/30/18			as of 6/30/17
		Active	Retired	Ratio	Funded – Funded Ratios
	KERS Non-Hazardous	34,845	42,175	0.83	14%
	KERS Hazardous	3,963	3,010	1.32	54%
	CERS Non-Hazardous	84,435	56,630	1.49	53%
	CERS Hazardous	9,285	7,647	1.21	48%
	SPRS	891	1,445	0.62	27%
	<i>Total</i>	133,419	110,907	1.20	

Investment Impact:

- Portfolios cannot take much risk
- Results in low interest assumptions (5.25%, 6.25%)

Cash Flow impact:

- KERS Non-Haz and SPRS are the most negatively impacted

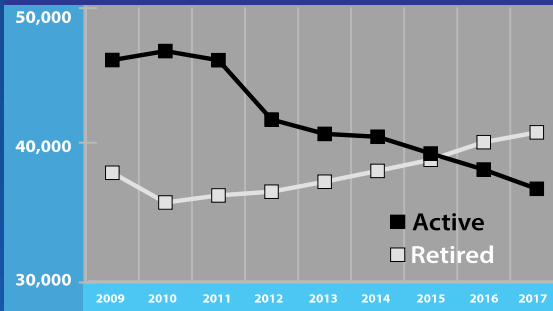
IMPACT OF RETIREMENTS

Active vs Retired Trends by Plan

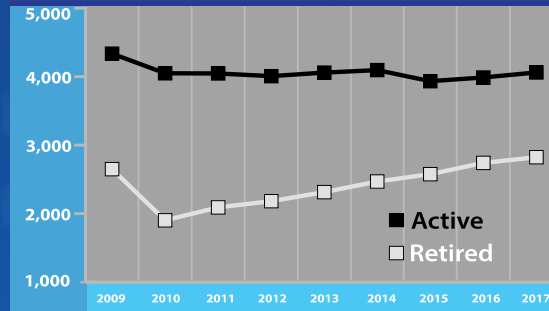
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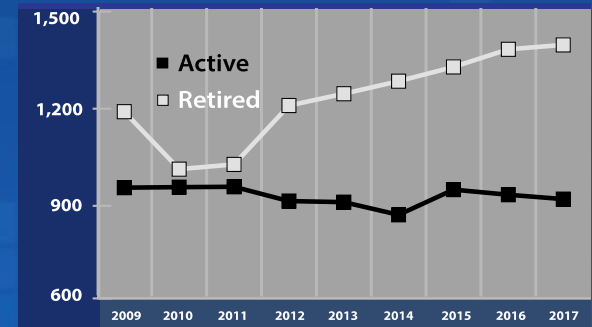
ACTIVE EMPLOYEE VS RETIRED



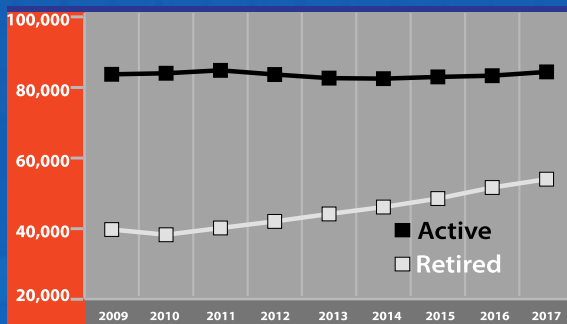
ACTIVE EMPLOYEE VS RETIRED



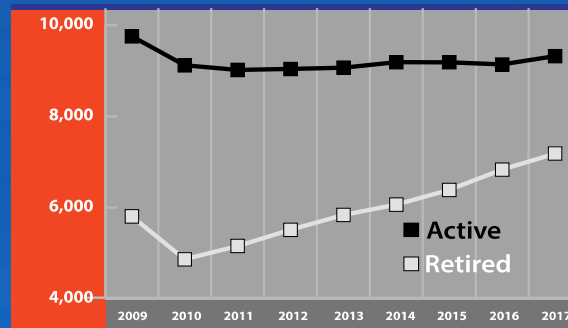
ACTIVE EMPLOYEE VS RETIRED



ACTIVE EMPLOYEE VS RETIRED

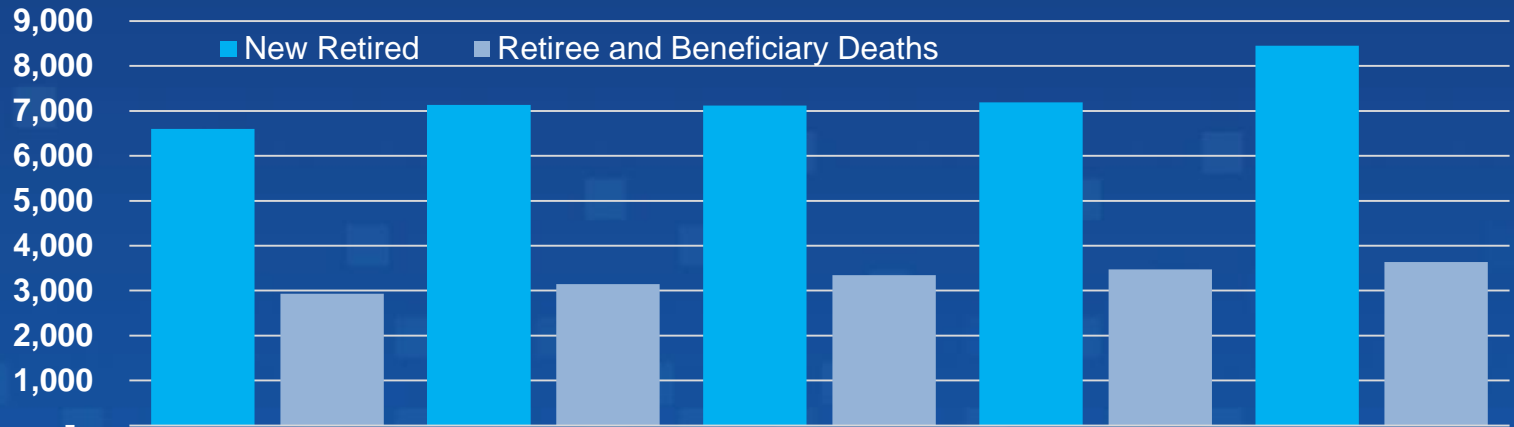


ACTIVE EMPLOYEE VS RETIRED



RETIREMENT TRENDS

New Retirees* and Death FY 2014-2018



	2014	2015	2016	2017	2018
KERS	2,368	2,349	2,323	2,349	3,066
CERS	4,153	4,732	4,743	4,808	5,312
SPRS	74	54	50	29	68
TOTAL NEW RETIREE	6,595	7,135	7,116	7,186	8,446
Retiree and Beneficiary Deaths	2,935	3,144	3,347	3,474	3,638
Retiree Growth Rate		8.2%	-0.3%	1.0%	17.5%

* Retirees receiving 1st retirement check by Plan

IMPACT OF RETIREMENTS

<i>KRS PENSIONS (\$ in millions)</i>					
	2014	2015	2016	2017	2018
Contributions	\$1,056	\$1,284	\$1,262	\$1,599	\$1,634
Benefits and Expenses	1,835	1,896	1,967	2,045	2,131
NET	\$(780)	\$(612)	\$(705)	\$(446)	\$(497)

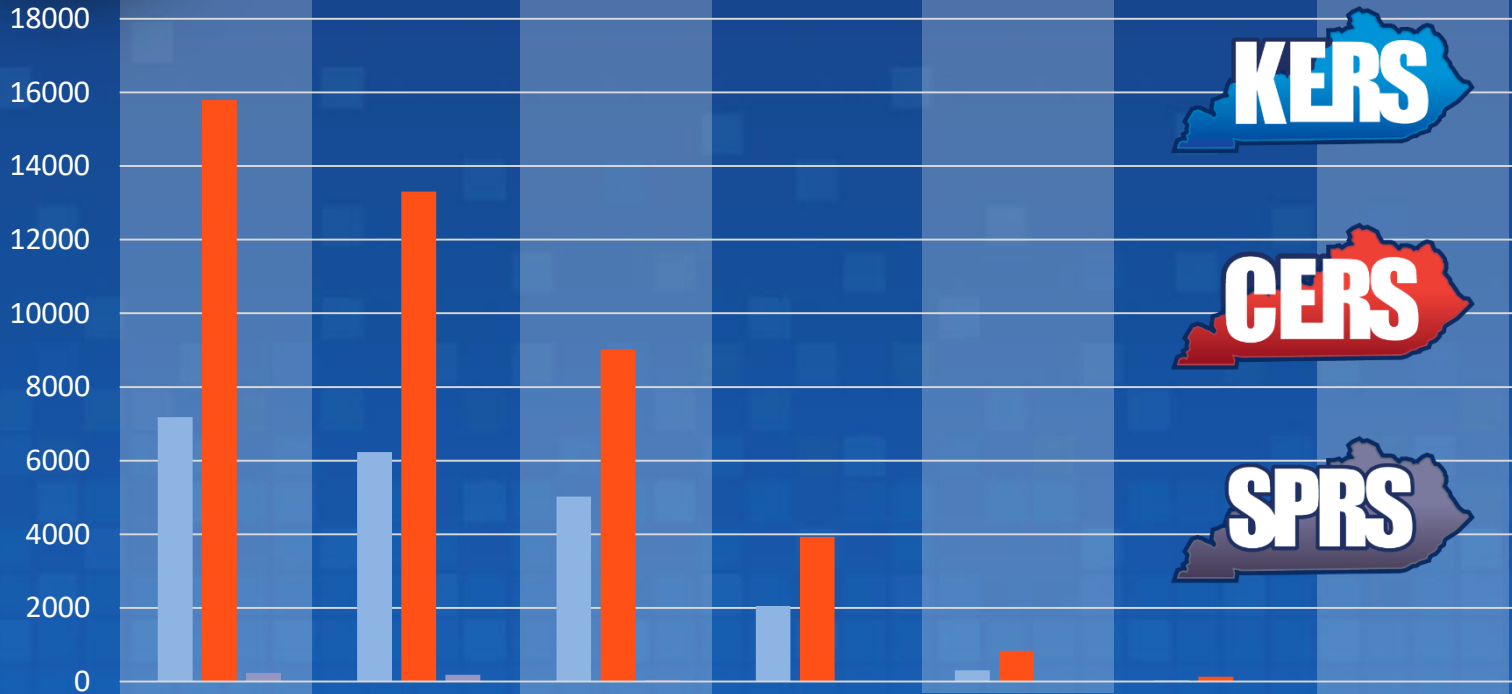
Investment Impact:

- Need liquid and low volatility investments
- Want income producing assets



RETIREMENT TRENDS

Remaining Active Tier 1



	0 - 5 years	6 - 10 years	11 - 15 years	16 - 20 years	21 - 25 years	26 - 30 years	30+ years	Total
KERS	7,177	6,231	5,021	2,051	301	24	0	20,805
CERS	15,798	13,307	9,021	3,927	831	125	0	43,009
SPRS	236	180	39	17	0	0	0	472
Total	23,211	19,718	14,081	5,995	1,132	149	0	64,286

*Totals by Plan Membership

INVESTMENT ALLOCATIONS

As of 6/30/18

	KERS NON-HAZ	CERS NON-HAZ
DOMESTIC EQUITIES	15.7%	19.1%
Non U.S. Equities	19.6%	22.8%
Private Equities	11.8%	9.3%
FIXED INCOME	29.6%	26.2%
ALTERNATIVES:		
Real Estate	4.7%	4.7%
Real Returns	8.1%	8.7%
Absolute Returns	6.3%	5.6%
CASH	4.2%	3.6%
TOTAL	100%	100%

- Assets custodied at BNY Mellon
- All 10 Plans have separate trusts
 - Can't move money from one trust to another
 - Produce their own investment performance (gains & losses)
- 82% Externally managed
- 18% Internally managed
- 4 Investment professionals
- 4 Investment operations staff

IMPACT ON MANAGEMENT of the Plans' Assets

SCENARIO 1

- CERS and KERS/SPRS have separate Boards, Investment Committees, and investment policies. KRS infrastructure stays in place.

IMPACT: Minimal, if any, investment, financial or administrative impact

SCENARIO 2

- CERS and KERS/SPRS separate in every way, and become two totally separate systems

IMPACT: Would need to staff two investment departments

- Expense per dollar of assets would increase
 - Duplication of effort/staffing/resources
 - Less fee leverage
- Performance could be better or worse
 - Depends on staff expertise and resources