

INTERIM JOINT COMMITTEE ON APPROPRIATIONS AND REVENUE

Budget Review Subcommittee on General Government, Finance, Personnel, and Public Retirement

Minutes of the 2nd Meeting of the 2018 Interim

August 30, 2018

Call to Order and Roll Call

The second meeting of the Budget Review Subcommittee on General Government, Finance, Personnel, and Public Retirement of the Interim Joint Committee on Appropriations and Revenue was held on Thursday, August 30, 2018, at 10:00 AM, in Room 149 of the Capitol Annex. Senator Danny Carroll, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Danny Carroll, Co-Chair; Representative Suzanne Miles, Co-Chair; Representatives Tim Couch, Jim Gooch Jr., Richard Heath, Kim King, Adam Koenig, Russ A. Meyer, Phil Moffett, and Rick G. Nelson.

Guests: David Eager, Executive Director, Kentucky Retirement Systems, and Beau Barnes, Deputy Executive Secretary and General Counsel, Kentucky Teachers' Retirement System.

LRC Staff: Jonathan Eakin, Liz Columbia, Tammy Branham, and Spring Emerson.

Kentucky Retirement Systems (KRS)

David Eager, Executive Director of the Kentucky Retirement Systems, provided a brief overview of retirement trends and potential budget impacts of the five systems under the KRS umbrella.

In response to a question from Chair Carroll, Mr. Eager said that three kinds of investments are being used: 20 percent is managed internally with Index Funds; 60 percent is with external managers; and, the remaining 20 percent with limited partnerships. If County Employee Retirement System (CERS) were to separate from the other systems, it would impact the Kentucky Employees Retirement System (KERS) by about \$8 million to \$10 million per year.

In response to questions from Representative Koenig, Mr. Eager said the employer contribution rate in KERS non-hazardous for a salary of \$50,000 was approximately \$25,000 and will be \$40,000 in the future. In the CERS plan, it was about \$10,000 and will be approximately \$15,000. The percentage is currently 20, and is moving toward 30 percent. In the Kentucky State Police Retirement Plan, the employer contribution for a \$50,000 salary would be approximately \$75,000, with the contribution rate being about 142 percent. One of the health insurance plans has excess funding, and the other four are in the red but are improving. They are better than any pension fund, at around 65 percent. The \$43 billion unfunded liability in the pension systems includes the health insurance plans.

In response to a question from Representative Koenig regarding city and county debts being the responsibility of the state upon the separation of the CERS, Mr. Eager said he would provide that information at a later date.

In response to a question from Representative Moffitt, Mr. Eager said there is a group of approximately 125,000 that are vested but no longer active. A task force is looking at how aspects of HB362 can be replaced, and the report is due by December 2018.

In response to a question from Chair Carroll regarding liability issues with the separation of the CERS and impact to KRS overall, Mr. Eager said liability is a gray area. Approximately \$1 million of the \$8 million to \$10 million impact to the investments could be attributed to the CERS. It could take eight to ten years to unwind the limited partnerships, and is a very complicated process.

In response to a question from Representative Meyer, Mr. Eager said his telephone number is an open line for questions.

Chair Carroll stated there are no easy solutions. He thanked Mr. Eager for his presence before the subcommittee and the information he provided.

Kentucky Teachers' Retirement System (KTRS)

Beau Barnes, Deputy Executive Secretary and General Counsel of the KTRS, provided an overview of retirement trends and potential budget impacts of the agency.

In response to questions from Chair Carroll, Mr. Barnes said there are about 75,000 part-time working teachers, about 60,000 full-time working teachers, and about 55,000 retired teachers in the KTRS. The gap between the groups has lessened through the years, and that is expected in any pension plan, and at some point that ratio will level out.

In response to a question from Representative Miles, Mr. Barnes said he would be glad to attend public forums to educate and update members of KTRS on their pension status, as he has done in the past.

In response to a question from Representative Moffitt, Mr. Barnes said the negative cash flow had reached \$650 million before any funding was received. There was a negative cash flow of \$300 million last fiscal year, but that is a manageable amount. The negative cash flow as a percentage of assets was at 5.5 percent previously, and now it is down to about three percent.

In response to questions from Representative Koenig, Mr. Barnes said the percentage of salary paid by employers is approximately 30 percent, and is evaluated actuarially every year. The Commonwealth makes the payments on behalf of the school districts, which contribute three percent of teacher payroll to the health insurance fund. The health insurance fund went from being 3.5 percent funded in 2009 to 26.7 percent funded in 2017, and continues to grow.

In response to questions from Chair Carroll, Mr. Barnes said the return rate varies and market volatility can be expected. Return rates will average out over a 30-year period. The KTRS has never been 100 percent funded, but if it were, smaller adjustments could be made and the risk issue could be addressed. KTRS staff is ready to implement Senate Bill 151, should the Supreme Court overrule the Circuit Court ruling.

In response to a question from Representative Moffitt, Mr. Barnes said the benefit enhancements encourage teachers to work longer, therefore helping with asset preservation.

Approval of Minutes

A motion was made by Representative Koenig to approve the minutes of the June 28, 2018 meeting, seconded by Representative Meyer, and the minutes were approved without objection.

Adjournment

There being no further business, the meeting was adjourned at 11:23 AM.