

PUBLIC PENSION OVERSIGHT BOARD

Minutes of the 10th Meeting of the 2019 Interim

December 16, 2019

Call to Order and Roll Call

The 10th meeting of the Public Pension Oversight Board was held on Monday, December 16, 2019, at 1:00 PM, in Room 154 of the Capitol Annex. Representative Jim DuPlessis, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Jimmy Higdon, Co-Chair; Representative Jim DuPlessis, Co-Chair; Senators Gerald A. Neal, Dennis Parrett, Wil Schroder, and Mike Wilson; Representatives Joe Graviss, Jerry T. Miller, Phillip Pratt, Russell Webber, and Buddy Wheatley; John Chilton, Mike Harmon, John Hicks, James M. "Mac" Jefferson, and Sharon Mattingly.

Guests: No Guests.

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

Approval of Minutes

Senator Parrett moved that the minutes of the November 25, 2019 meeting be approved. Senator Higdon seconded the motion, and the minutes were approved without objection.

Representative Webber addressed the committee regarding the KRS Administrative Subcommittee (KRS Subcommittee). He stated that on June 25, 2018, the Public Pension Oversight Board (PPOB) established the KRS Subcommittee to study the benefits and drawbacks of separating the governance and administration of the County Employee Retirement System (CERS) from administration of Kentucky Retirement System (KRS) and report to the PPOB by December 2019. During the course of six meetings, the KRS Subcommittee heard testimony from various stakeholders, reviewed history of state and local pension plans dating back to 1942, considered board compensation, representation, and structure in other states, and reviewed recent research on how board compensation can impact investment returns. Representative Webber stated that during the March 2019 KRS Subcommittee meeting, KRS and stakeholders, including the Kentucky League of Cities, testified that, while maintaining their respective initial positions, they had discussed an alternative approach that could result in a compromise. Those discussions have lead Representative Webber to ask LRC staff to draft a bill that would, instead of separating

KRS and CERS, would look at having two separate boards under the administrative umbrella of KRS. Representative Webber asked the PPOB to authorize the KRS Subcommittee to continue meeting through January, February, and possibly into March, with March 13, 2020 being their reporting date for recommendations.

In response to a question from Representative Graviss, Representative Webber stated that any member of the PPOB is more than welcome to be involved in the draft legislation.

Auditor Harmon reminded the committee members that he can participate in votes from a quorum standpoint, but not in any other voting matters since his office audits the retirement systems.

Representative Webber moved that the PPOB extend the deadline for the KRS Subcommittee to report their findings by March 13, 2020. Representative DuPlessis seconded the motion, and the extension was approved without objection.

Recommendations

The 2019 PPOB recommendations were presented by the member that made the recommendation. The recommendations included:

- Representative Miller - The PPOB should study and evaluate the amortization methods/policies state systems use to pay off unfunded liabilities and the impact of layering/stacking of future actuarial gains/losses.
- Representative Miller – Teacher’s Retirement System (TRS) should report carried interest at the asset class level.
- Senator Higdon – The PPOB should in 2020 evaluate: 1) adding the State Treasurer to the PPOB membership; and 2) adding legislators as non-voting members of the KRS and TRS boards.
- Senator Higdon – The PPOB should examine issues and potential solutions to concerns brought forward by KRS regarding who pays the health premium costs of retirees who have service in multiple state-administered retirement systems.
- Senator Higdon – The PPOB should examine the level of funding requests for TRS as it relates to both the pension and retiree health funds and how the 2020 experience study impacts these costs.
- Senator Higdon – The PPOB should twice annually request that the Kentucky Deferred Compensation Authority provide updates on plan participation, asset levels, and performance.
- Representative DuPlessis – Legislation that converts the Kentucky Employees Retirement System (KERS) nonhazardous employer contribution amounts from a payroll based model to a liability based model, similar to the

measures included in BR 292 that has been prefiled for the 2020 Regular Session, should be enacted.

- Senator Higdon – Based upon the State Auditor’s finding regarding SB 2 compliance, legislation should be enacted to address the problems of: 1) reporting of carried interest; 2) posting of investment contracts online; and 3) the gating process for redacting information from contracts.
- Representative Miller – The KRS housekeeping measures that were presented at the November 2019 meeting of the PPOB should be enacted.
- Senator Higdon/Representative DuPlessis – The General Assembly should budget sufficient funds to pay the full actuarially required contribution rates to the KERS, State Police Retirement System, and TRS pension funds.

Representative DuPlessis welcomed Mr. John Hicks as the newest member of the PPOB working as the new state budget director.

In response to a question from Mr. Hicks, Representative DuPlessis noted after conferring with staff that KRS did present the concept of a liability based system to the PPOB earlier in the year.

In response to a question from Representative Graviss regarding SB 151 language that remains in statute, Representative DuPlessis agreed that the PPOB should review striking SB 151 from statute since it was overturned by the Supreme Court. Representative DuPlessis made motion to hear Representative Graviss’ concerns at the January 2020 PPOB meeting about removing SB 151 from the statutes. The motion was approved without objection.

Representative DuPlessis moved that the 2019 Recommendations be approved. Senator Higdon seconded the motion, and the recommendations were approved without objection.

Representative DuPlessis moved that the draft 2019 Annual Report be approved subject to the addition of the recommendations just approved and any technical edits needed. Senator Parrett seconded the motion, and the draft PPOB 2019 Annual Report was approved without objection.

With no further business, the meeting was adjourned.