

PUBLIC PENSION OVERSIGHT BOARD

Minutes

April 22, 2024

Call to Order and Roll Call

The 3rd meeting of the Public Pension Oversight Board was held on April 22, 2024, at 1:00 PM in Room 154 of the Capitol Annex. Representative DJ Johnson, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative DJ Johnson Co-Chair; Senators Danny Carroll, Christian McDaniel, Michael J. Nemes, and Mike Wilson; Representatives David Hale, Derrick Graham, Jason Petrie, Phillip Pratt, and James Tipton; Allison Ball, Auditor of Public Accounts, John Hicks, and Victor Maddox.

Guests: Bo Cracraft, Executive Director, Judicial Form Retirement System; David Eager, Executive Director and Erin Surratt, Executive Director, Office of Benefits, Kentucky Public Pensions Authority; and Beau Barnes, Deputy Executive Secretary and General Counsel, Teachers' Retirement System

LRC Staff: Brad Gross, Michael Clancy, Jennifer Hans, and Angela Rhodes.

Approval of Minutes

Senator Wilson moved that the minutes of the February 26, 2024, meeting be approved. Representative Tipton seconded the motion, and the minutes were approved without objection.

Investment, Cash Flow, and Legislative Update

Judicial Form Retirement System

Bo Cracraft, Executive Director, Judicial Form Retirement System, presented a review of the investment performance for the Judicial Retirement Plan (JRP) and the Legislators Retirement Plan. He discussed the gross and net performance for the defined-benefit and hybrid cash balance plans for the quarter ending March 31, 2024, and for the 1-, 3-, 5-, 10-, 20-, and 30-year trailing time periods.

Mr. Cracraft discussed cash flow for both plans for FYTD 2024 compared to FYTD 2023. He reviewed the cash inflows, outflows, investment gains and losses, and the total net plan assets across both time periods.

Mr. Cracraft gave a legislative update. House Bill 264 for the Judicial Branch Budget provides the actuarially determined employer contribution (ADEC) for the JRP as requested. Regarding House Bill 263 for the Legislative Branch Budget, the ADEC calculated in 2023 funding valuation equals \$0, therefore, no employer contributions were requested or provided for FY 2025-2026. House Bill 635 will require the system actuary to provide supporting documentation when an actuarial analysis of a bill uses different assumptions or methods than previously established or utilized in the annual valuation.

Kentucky Public Pension Authority

David Eager, Executive Director, Kentucky Public Pensions Authority (KPPA), presented a review of investment performance and provided a cash flow update. Mr. Eager discussed the pension and insurance investment returns for the quarter ending March 31, 2024. He provided the FYTD, 3-, 5-, 10-, 20-, and 30-year net of fees rates of return.

Mr. Eager discussed the pension and insurance cash flow for all plans for FYTD 2024 compared to FYTD 2023. He reviewed the cash inflows, outflows, investment gains and losses, and the total net plan assets across both time periods.

In response to a question from Representative Tipton, Mr. Eager stated the impact of the additional budget appropriations to the State Police Retirement System's (SPRS) and Kentucky Employee Retirement System's (KERS) nonhazardous unfunded pension liabilities in FY 2022-2024 were extremely helpful. In particular, the appropriation to the SPRS unfunded liability changed the funded status of the system from approximately 27 percent to 52 percent and brought the employer contribution rate down from 140 percent to 99 percent. The additional contribution to KERS nonhazardous reduced the unfunded liability by roughly 2 percent per year and increased the funded status from 19 percent to approximately 25 percent.

In response to a question from Representative Johnson, Mr. Eager stated he believes the dynamics of a mature pension plan include a negative cash flow that is offset by the market value appreciation of held assets.

Erin Surratt, Executive Director, Office of Benefits, KPPA, discussed the legislative update. She discussed the Senate's confirmations of appointments and reappointments of trustees to the Kentucky Retirement Systems' Board.

She stated that House Bill 1 and House Bill 6 both allocated additional money to the KERS nonhazardous and SPRS pension funds. In addition, Senate Bill 2, relating to school safety, created a new position of guardian that is exempt from having to pay retired/reemployed contributions and health insurance reimbursements. House Bill 99 is a housekeeping bill that makes technical changes relating to KPPA's administration of the systems and streamlines the disability retirement application review process. House Bill 277 relates to the transfer of Louisville Metro Public Defender Corporation employees to the Department of Public Advocacy, effective July 1, 2024, and allows transferred employees to use an earlier membership date based on their employment date. House Bill 354 provides that health insurance reimbursements for retirees who participated in a hazardous position prior to July 1, 2003, who are then reemployed by a local school board be paid by the Department of Education instead of the local school board. Lastly, House Bill 635 requires the actuary performing an actuarial analysis to clearly note and describe a new assumption or method, explain the basis for selecting the assumption or method, and certify that the information provided in the analysis is accurate.

Representative Johnson noted Mr. Eager's retirement date and thanked him on behalf of the Public Pension Oversight Board for his years of service to the pension funds and the state of Kentucky.

Teachers' Retirement System

Beau Barnes, Teachers' Retirement System (TRS), began his presentation with a reflection of investment returns for the quarter ending December 31, 2023. In the most recent investment performance, he discussed the preliminary gross and net performance for the retirement and insurance plans for the quarter ending March 31, 2024, for the 1-, 3-, 5-, 10-, and 20-year time periods and the 30-year compounded gross return.

In response to a question from Representative Johnson, Mr. Barnes stated that as equities have performed well the benchmarks are doing well. He explained how TRS' outside investment consultant, Aon, produces the benchmarks, but that he could not say for sure what Aon includes to generate those benchmarks. He advised that he would follow-up and report back with additional information.

In response to a question from Representative Tipton, Mr. Barnes explained the smoothing process is where an actuary will smooth individual fiscal year returns over a 5-year period in the annual actuarial valuation. Smoothing helps deal with market

volatility because basing budget requests on short time periods would lead to very erratic requests from year to year.

Mr. Barnes discussed cash flow for both plans for FYTD 2024 compared to FYTD 2023. He reviewed the cash inflows, outflows, investment gains and losses, and the total net plan assets across both time periods.

In response to questions from Representative Johnson regarding cash flow projections, Mr. Barnes stated that the additional budget funding has decreased the unfunded liability, and combined with the increased assets from the additional funding along with achieved investment returns, these increases should generate improvements in cash flow.

Mr. Barnes discussed the asset allocation for the retirement annuity trust and the health insurance trust as of February 29, 2024.

Mr. Barnes gave a legislative update and stated the TRS and teachers are extremely appreciative for the most recent budget (House Bill 6), which marks 10 years of full or nearly full retirement annuity funding. Over the two-year period, the General Assembly provided more than \$1.75 billion in additional funding to meet actuarially required contributions for annuities and \$161 million for the state's cost of non-Medicare eligible retiree health insurance under the shared responsibility provisions. Beyond the requested amounts appropriated in the budget, House Bill 1 provides an additional \$80 million to continue paying off the legacy unfunded liability. Lastly, House Bill 635, which adds requirements to actuary analysis of pending legislation, will impact TRS as well.

In response to questions from Representative Tipton, Mr. Barnes stated that in regards to Senate Bill 4, which did not pass, he believes that it was confirmed that school districts can rollover unused employee personal days into their sick day account, but would need confirmation from Kentucky Department of Education. Mr. Barnes added that beginning with the new benefit tier, TRS 4, sick leave cannot be used in their final average salary.

In response to a question from Representative Johnson, Mr. Barnes stated that in regards to committee substitute to Senate Bill 4, there is not a statute that would require school districts to report sick leave as a separate item. Representative Johnson asked Mr. Barnes to research whether the General Assembly can obtain sick leave reporting without legislation.

Next Meeting

Representative Johnson announced that, due to the Memorial Day holiday, the next meeting of the Public Pension Oversight Board will likely occur on May 20, 2024. A draft interim schedule for future meetings is pending.

Adjournment

There being no further business, the meeting was adjourned.