

PUBLIC PENSION OVERSIGHT BOARD

Minutes

February 24, 2025

Call to Order and Roll Call

The second meeting of the Public Pension Oversight Board was held on February 24, 2025, at 2:00 PM in Room 154 of the Capitol Annex. Representative Walker Thomas, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Jimmy Higdon, Co-Chair; Representative Walker Thomas, Co-Chair; Senators Karen Berg, Greg Elkins, Shelley Funke Frommeyer, Michael J. Nemes, and Mike Wilson; Representatives David Hale, Tina Bojanowski, Adrielle Camuel, DJ Johnson, Jason Petrie, and James Tipton; Allison Ball and Victor Maddox.

Guests: Senator Matt Nunn and Chris Nolan, American Property Casualty Insurance Association.

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

Approval of Minutes

Senator Elkins moved that the minutes of the January 27, 2025, meeting be approved. Representative Johnson seconded the motion, and the minutes were approved without objection.

HB 694 - AN ACT relating to Teachers' Retirement System benefit funding

Representative Jason Petrie discussed legislation to create a new section of KRS 161.220 to 161.716, relating to the Teachers' Retirement System (TRS), to require that once the TRS retiree health fund reaches an actuarial funding level of at least 100 percent, the employer contributions for retiree health shall be used to pay down the unfunded liability of the TRS pension fund. The legislation would also require that if the actuarial funding level of the TRS retiree health fund falls below 95 percent, the employer contributions shall revert back to the retiree health fund until the retiree health fund reaches 100 percent funding. It would also amend KRS 161.540, 161.550, and 161.675 to provide that the TRS board of trustees shall not recommend changes to the General Assembly to reduce employee or employer contributions for retiree health or reduce board adopted charges under the shared responsibility provisions for health benefits for

retirees under the age of 65 until the pension and retiree health funds are each 100 percent funded and to amend KRS 161.420 to conform.

In response to Representative Bojanowski, Representative Petrie stated the legislation is not shifting the responsibility of paying the unfunded liability to the teachers.

In response to Senator Funke Frommeyer, Representative Petrie stated on-behalf-of payments made by the state for local school districts, health trust contributions would be shifted over to the pension fund in the event of 100 percent funding of the health insurance trust fund, and the same is true for other employer contributions.

In response to Representative Tipton, Representative Petrie stated HB 694 sets a default position and agreed the legislation deals with the 3 percent of pay for retiree health made by local school districts, and is open to discussions for statutory considerations going forward to reduce the 3.75 percent of pay made by employees upon 100 percent funding of the health insurance trust fund. Representative Petrie stated he is open to discussion regarding applying the same mechanism to the other state-administered retirement systems' health funds.

In response to Representative Camuel, Representative Petrie explained the shared responsibility dealt with just the health insurance trust fund with multiple funding components. He stated he is open to discussions regarding teacher contributions.

In response to Senator Berg, Representative Petrie described the actuarial process for determining when the health insurance trust fund is anticipated to reach 100 percent funding. He stated when the health fund reaches 100 percent funding it is estimated to be able to cover medical costs for members.

Senator Higdon commented he hopes educators will receive some of the 3.75 percent contributions back.

SB 183 - AN ACT relating to the fiduciary duties owed to the state-administered retirement systems

Senator Matt Nunn and Chris Nolan, American Property Casualty Insurance Association, discussed legislation to amend KRS 21.450, 61.650, 78.790, and 161.430 relating to the fiduciary duties owed to the state-administered retirement systems to define "shareholder-sponsored proposal" and "economic analysis"; require a proxy adviser under contract with a state-administered retirement system to conduct and document an economic analysis prior to voting on or recommending a vote on a shareholder-sponsored proposal that is inconsistent with the recommendation of the board of

directors of the issuer of shares in order to demonstrate that a vote against management's recommendation is solely in the interest of the retirement plan members and beneficiaries; and make technical corrections.

In response to Senator Berg, Mr. Nolan explained a proxy advisor is a manager for a pension fund that holds blocks of votes and recommends how the votes should be voted. In response to a follow-up, Senator Nunn stated Kentucky does use proxy advisors.

In response to Representative Tipton, Mr. Nolan stated the new legislation strengthens existing legislation from the previous year by requiring proxy advisors to provide an economic analysis that shows what their decision was based on if they vote against the pension board's proxy voting guidelines.

In response to Representative Bojanowski, Senator Nunn stated the legislation does not prevent pension funds from investing in companies with higher environmental, social, or governance factors if that investment is predicted to have a higher return, but merely places a responsibility on the proxy advisors not to make recommendations for votes based on those types of factors unless it is in the best interest of the retirees.

In response to Representative Camuel, Senator Nunn stated the legislation is a proactive measure for future shareholder votes. Mr. Nolan added there is evidence through numerous studies that have identified dozens of examples where proposals have been put forth that have not been proven to be in the best economic interest of the company. In response to a follow-up, Senator Nunn stated the value of a company that a pension system is invested in does affect the value of that pension system.

In response to Representative Johnson, Senator Nunn stated he is not aware of any type of penalties in the legislation.

Senator Nemes commented that proxy advisors should only vote on returns and explain other endeavors.

Discussion on Public Pension Oversight Board Membership

Senator Higdon discussed possible legislation expanding the membership for the Public Pension Oversight Board (PPOB). The current Chairs of the Senate and House Appropriations and Revenue Committee and the Senate State and Local Government and House State Government Committees would become permanent members, which would raise the membership from 8 members to 10 members each for the House and Senate. Also, he would like to add the state treasurer to the membership and modify

language to allow former legislators or former members of the pension systems as appointees of the Governor, Senate President, and Speaker of the House.

In response to Representative Bojanowski, Senator Higdon stated with the new legislation, retirees or even active members could serve on the PPOB as an appointee of the Governor, Senate President, or Speaker of the House.

Adjournment

There being no further business, the meeting was adjourned.