PUBLIC PENSION OVERSIGHT BOARD

Minutes

August 26, 2025

Call to Order and Roll Call
The fifth meeting of the Public Pension Oversight Board was held on August 26, 2025, at 2:30 PM in Room 154 of the Capitol Annex. Senator Jimmy Higdon, Chair, called the meeting to order, and the secretary called the roll.

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

Guests: Bo Cracraft, Executive Director, Judicial Form Retirement System (JFRS); Ryan Barrow, Executive Director, Kentucky Public Pensions Authority (KPPA) and Erin Surratt, Executive Director, Office of Benefits, KPPA; Beau Barnes, Deputy Executive Secretary and General Counsel, Teachers' Retirement System (TRS).

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

Approval of Minutes
Senator Elkins moved that the minutes of the July 29, 2025, meeting be approved. Senator Funke Frommeyer seconded the motion, and the minutes were approved without objection.

Projected Employer Costs and FY Ended Investment Returns/Cash Flows - JFRS
Bo Cracraft, Executive Director, JFRS, presented a review of the investment performance for the Judicial Retirement Plan (JRP) and the Legislators' Retirement Plan. He discussed the fiscal year end investment performance for the defined benefit and hybrid cash balance plans and provided the 1-, 3-, 5-, 10-, 20-, and 30-year rates of return. Mr. Cracraft further discussed the asset allocation for both plans and cash flow for both plans for FYTD 2025 compared to FYTD 2024.

In response to Co-Chair Thomas, Mr. Cracraft stated JFRS' interest credit is around 11.4 percent for both plans.

Mr. Cracraft discussed the 2025 Experience Study for JFRS noting minor assumption adjustments for individual salary increases, cash balance interest credit rates, and mortality, retirement, and termination rates.

In response to Senator Funke Frommeyer, Mr. Cracraft stated the small increase in liability due to mortality was the result of adding about half a year of life expectancy across the board.

In response to Representative Johnson, Mr. Cracraft stated most of the minor changes from the 2025 Experience Study impact normal cost.

Mr. Cracraft discussed JFRS' current budget and projected employer costs. The current employer contribution for FY 2026 is $703,000 with a projected increase to $2,050,000 for FY 2027. These numbers do not reflect investment gains/losses from the past 2 years that will be recognized in the upcoming valuation when final budget requests are finalized. He discussed the employer contribution trends for both plans and stated they are fully funded.

In response to Representative Tipton, Mr. Cracraft stated the projected increase of employer costs for JRP is due to assumption changes that increased liabilities.

In response to Chair Higdon, Mr. Cracraft stated as a result of significant changes, mostly driven by the Inflation Reduction Act, increases have been seen in the Medicare Advantage premiums for the 2025 plan year.

Projected Employer Costs and FY Ended Investment Returns/Cash Flows - KPPA
Ryan Barrow, Executive Director, KPPA, discussed 2025 highlights and stated that all plans exceeded their actuarially assumed rates of return, met or exceeded policy benchmarks, produced top decile risk adjusted performance, and were within policy asset allocation ranges. He also discussed the success of KPPA's initiatives to reduce accounts receivable and increase the number of investment staff with the opportunity for additional growth.

Mr. Barrow presented a review of the investment performance for all plans. He discussed the pension and insurance fund investment returns for the fiscal year ending June 30, 2025. He provided the FYTD, 1-, 3-, 5-, 10-, 20-, and 30-year net of fees rates of return.

Mr. Barrow further discussed the asset allocation for all plans and pension cash flows for all plans for FYTD 2025 compared to FYTD 2024.

Erin Surratt, Executive Director, Office of Benefits, KPPA, discussed the insurance cash flow for all plans for FYTD 2025 compared to FYTD 2024. She noted all health funds were well funded.

Mr. Barrow discussed KPPA's projected employer costs for the Kentucky Employees Retirement System (KERS) nonhazardous and County Employees Retirement System (CERS) nonhazardous plans.

In response to Representative Camuel, Mr. Barrow stated to his knowledge, there is not a direct investment in Trump Media, but it is possible to have some exposure with index funds. In response to a follow-up, Mr. Barrow stated KPPA's board has a fiduciary duty and believes they are compliant with existing investment laws.

In response to Representative Tipton, Mr. Barrow stated the asset class has a great baring on risk tolerance and the boards, outside consultants, and internal investment staff look at risks in the variations over time related to the earnings. He stated KPPA does diversify some investments into smaller asset classes to help mitigate risk. Mr. Barrow also stated KPPA considers factors such as future political ramifications and tensions around the world in their investment analysis.

In response to Senator Funke Frommeyer, Mr. Barrow stated CERS and KERS asset allocations are selected by their respective boards in conjunction with KPPA staff, outside investment consultants, and actuaries running simulations based on study data.

In response to Chair Higdon, Mr. Barrow agreed there has been a significant increase in assets and positive cash flow for the KERS nonhazardous pension fund due to supplemental funding and improved returns. Mr. Barrow stated the negative cash flow for the retiree health fund is due primarily to increased usage of retiree health benefits and that the CERS pension funds experienced positive cash flow. Ms. Surratt stated KPPA expects to see increased costs for the Medicare Advantage Plan.

In response to Representative Petrie, Mr. Barrow stated KPPA can provide the board information of what the cash flow and assets would be for KERS without the contributions from the General Assembly.

Projected Employer Costs and FY Ended Investment Returns/Cash Flows - TRS
Beau Barnes, Deputy Executive Secretary and General Counsel, TRS, began his presentation by mentioning that TRS' five-year Experience Study will be available sometime in 2026.

Mr. Barnes provided information on TRS' investment performance. He discussed the preliminary and unaudited gross and net performance for the retirement and health insurance plans for the quarter ending June 30, 2025, for the 1-, 3-, 5-, 10-, and 20-year time periods. The retirement plans 30-year compounded gross return was 7.95 percent.

Mr. Barnes discussed cash flow for both plans for FYTD 2025 compared to FYTD 2024, reviewed the retirement and health insurance cash flows, and presented the total net plan assets across both time periods.

In response to Senator Funke Frommeyer, Mr. Barnes stated the increase in employer contributions in FYTD 2025 compared to FYTD 2024 is due to an increase of contributions from the Commonwealth.

Mr. Barnes discussed asset allocation as of June 30, 2025, for the retirement and health insurance plans.

Representative Tipton commented that the General Assembly has fully funded statutory rates and unfunded liability budget requests from TRS since 2017. The future total costs for TRS will soon reach $2.6 billion for one year. In response to Representative Tipton, Mr. Barnes stated the growing costs are due to major assumption changes made by TRS as it relates to investment returns, mortality rates, and payroll growth which are driving up unfunded liabilities.

Mr. Barnes discussed contribution trends for the health insurance trust and retirement annuity trust.

In response to Chair Higdon, Mr. Barnes stated under the retirement annuity trust contribution trends, the employers fixed rate decreased after 2023 due to reduction in federal funding.

In response to Representative Petrie, Mr. Barnes stated "state fixed" is the percentage of payroll provided in the trends chart.

Mr. Barnes discussed the actuarial 30-year projections for the retirement annuity fund based on an assumed 7.1 percent investment return. He discussed the 2026-28 budget requests for the pension fund and the state's shared responsibility portion for health insurance for FY 2024 through FY 2028.

Mr. Barnes updated members on TRS account types by entry date.

Chair Higdon commented that administrators in TRS accumulate more sick leave than teachers and that prior to Senate Bill 9, administrators were rolling annual leave into sick leave.

In response to Representative Johnson, Mr. Barnes stated school districts can voluntarily pay 30 percent of the additional costs for unused sick leave upon retirement, which is then added to the retiring member's last annual salary.

In response to Representative Tipton, Mr. Barnes stated the 1.71 percent contribution rate for the statutory 1.5 percent Cost of Living Adjustment (COLA) is an actuarially produced number that accounts for unfunded liability in the cost and is not specifically listed in statute. In response to a follow-up, Mr. Barnes agreed the statutory rate is not enough to fund the COLA and the state is backfilling that portion of unfunded liability payment.

In response to Chair Higdon, Mr. Barnes stated the annual and sick leave are part of the unfunded liability.

In response to Chair Higdon, Mr. Barnes agreed that many TRS members are paid 100 percent for their annual leave.

In response to Chair Higdon, Mr. Barnes stated TRS paid two percent mandatory contribution on the supplemental account. He stated he would have to follow-up on whether or not the lack of federal funding shown on the retirement annuity trust trends chart is transferred to the state unfunded liability payment. Mr. Barnes stated the benefit payments/refunds $44 million increase from FY 2024 for the health insurance trust is due to possible KEHP premiums and maybe an increase in TRS healthcare. Mr. Barnes also noted for highly compensated individuals there are federal law limitations on how much compensation may be applied for retirement purposes.

Senator Nemes commented that Chair Higdon is saying that an individual using their leave days at the end of their career has not had a chance to compound interest over the course of their career and that the group as a whole helps cover the costs.

Next Meeting - September 23, 2025

Adjournment
There being no further business, the meeting was adjourned.