



KENTUCKY RETIREMENT SYSTEMS

David L. Eager, Executive Director

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February 27, 2019

Ms. Katie Carney
Office of Fiscal Statement Review
Legislative Research Commission
Capitol Annex, Room 104
Frankfort, KY 40601

RE: House Bill 489 GA (2019 RS BR 1579)
AA Statement Required by KRS 6.350
AA Statement 1 of 2

Dear Ms. Carney:

House Bill 489 GA (2019 RS BR 1579) amends KRS 61.650 to require internal investment staff and investment consultants of the Kentucky Retirement Systems Board of Trustees (KRS) to follow the Code of Ethics and Standards of Professional Conduct promulgated by the CFA Institute; requires investment managers of KRS to comply with the Investment Advisers Act of 1940, as amended, and all applicable federal statutes, rules, and regulations applicable to investment managers; repeals, reenacts, and amends KRS 61.655 to reenact the conflict-of-interest provisions adopted under SB 151/EN 2018; amends KRS 161.430 to require internal investment staff and investment consultants of the Teachers Retirement System Board of Trustees (TRS) to follow the Code of Ethics and Standards of Professional Conduct promulgated by the CFA Institute, but require investment managers of TRS to comply with the Investment Advisers Act of 1940, as amended, and all applicable federal statutes and rules and regulations applicable to investment managers; and the bill repeals, reenacts, and amends KRS 161.460 to reenact the conflict-of-interest provisions adopted under SB 151/EN 2018 and makes technical changes.

Kentucky Retirement Systems staff members have examined House Bill 489 GA (2019 RS BR 1579). Our analysis only pertains to the KRS plans. We have determined that the bill will not increase or decrease benefits in any of the retirement systems administered by Kentucky Retirement Systems, and the bill would not increase or decrease the participation in benefits in any of the retirement systems administered by KRS. Furthermore, House Bill 489 GA (2019 RS BR 1579) would not change the actuarial liability of any of the retirement plans administered by KRS.

In accordance with KRS 6.350 (2)(c), Kentucky Retirement Systems certifies the following:

1. The estimated number of individuals affected as of June 30, 2018 are 379,288 active, inactive, and retired members in all KRS-administered plans;
2. There is no estimated change in benefit payments;
3. There is no estimated change to employer costs; and

4. There is no estimated change to administrative expenses.

We have not requested any further actuarial analysis of House Bill 489 GA (2019 RS BR 1579) by the Systems' independent actuary. Please let me know if you have any questions regarding our analysis of House Bill 489 GA (2019 RS BR 1579).

Sincerely,

A handwritten signature in black ink that reads "David Eager". The signature is written in a cursive, flowing style.

David L. Eager
Executive Director
Kentucky Retirement Systems



TEACHERS' RETIREMENT SYSTEM

of the State of Kentucky

GARY L. HARBIN, CPA
Executive Secretary

ROBERT B. BARNES, JD
Deputy Executive Secretary
Operations and General Counsel

J. ERIC WAMPLER, JD
Deputy Executive Secretary
Finance and Administration

February 27, 2019

Katie Carney
Office of Special Projects
Legislative Research Commission
Capitol Annex, Room 39
Frankfort, KY 40601

RE: HB 489 GA
AA Statement 2 0 2 2

Dear Ms. Carney:

House Bill 489, in part, codifies a more appropriate and protective set of ethical standards of conduct for investment managers who manage money for the Teachers' Retirement System (TRS). These standards are embodied in federal securities laws and provide high ethical standards of conduct for investment managers. They are a higher standard than those currently in statute that require adherence to standards established by the CFA Institute (CFA). Furthermore, the federal standards, unlike the CFA standards, are subject to enforcement by the Securities and Exchange Commission, and non-compliance results in civil penalties and criminal prosecution. Adherence to the CFA standards is not enforced by any regulatory or government authority. Investment managers operate across the nation and from a risk management and administrative perspective desire one uniform set of standards. They are willing to adhere to federal standards but are unable to agree to individual state standards that could vary from state to state.

While the attached actuarial analysis shows that this legislation has no negative impact from an actuarial standpoint, not having the change will, from an investment standpoint, result in the collateral impact of lower returns and less diversification of the portfolio. To wit, four investment managers in the last six months have refused to enter into contracts with TRS because of the CFA standards; all of the managers have worked with TRS in prior funds that have been successful. Three of these lost investment opportunities were in private equity, an asset class that returned for TRS a net (after all fees were paid) 19% for the most recent fiscal year. Continuing to have the wrong standards of ethical conduct for investment managers will continue to hamstring TRS's ability to invest, resulting in lower returns and a portfolio that is less diversified than is optimal. Lower returns will require larger contributions from the commonwealth to make up for the shortfall.

Sincerely,

Robert B. Barnes
Deputy Executive Secretary of Operations and
General Counsel

cc. Leona Deleon



Cavanaugh Macdonald

CONSULTING, LLC

The experience and dedication you deserve

February 27, 2019
Mr. Robert B. Barnes
Deputy Executive Secretary of Operation
Kentucky Teachers' Retirement System
479 Versailles Road
Frankfort, KY 40601-3800

Actuarial Impact – House Bill 489 GA – 19 RS BR 1579

Dear Beau:

As requested, we have prepared an actuarial analysis of the impact of House Bill 489 GA – 19 RS BR 1579 on the Kentucky Teachers' Retirement System (TRS). This bill revises language in KRS 161.430 to require the TRS Board of Trustees and all internal investment staff and investment consultants to adhere to applicable codes of ethics and conduct and to require all investment managers to comply with the Federal Investment Advisers Act of 1940. It also repeals, reenacts and amends KRS 161.460 to reenact the TRS conflict-of-interest provisions.

This bill would not increase or decrease the benefits or increase or decrease participation in the benefits or change the actuarial accrued liability of TRS. Therefore, there would be no negative impact on the unfunded actuarial accrued liabilities or funding levels of the system, and no annual employer costs to TRS for this legislation.

If you have any questions, please do not hesitate to contact us.

Sincerely,

Edward J. Koebel, EA, FCA, MAAA
Principal and Consulting Actuary

Cathy Turcot
Principal and Managing Director

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