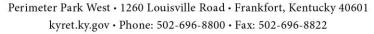


KENTUCKY RETIREMENT SYSTEMS

David L. Eager, Executive Director





March 12, 2019

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

RE: House Bill 489 (2019 RS BR 1579) SCS 1 Version

AA Statement Required by KRS 6.350

AA Statement 1 of 2

Dear Ms. Carney:

Kentucky Retirement Systems (KRS) had previously provided an Actuarial Analysis of House Bill 489 (2019 RS BR 1579) via letter dated February 27, 2019. KRS staff members have now examined the Senate Committee Substitute (SCS) 1 version of House Bill 489 (2019 RS BR 1579), which contains an Emergency clause. Our analysis only pertains to the KRS plans.

Aside from the addition of an Emergency clause, we have determined that the SCS 1 Version of House Bill 489 (19 RS BR 1579) does not differ from the language contained in the original version of the bill. Therefore, the Actuarial Analysis of House Bill 489 (2019 RS BR 1579), dated February 27, 2019, is applicable to House Bill 489 (2019 RS BR 1579) SCS 1 Version.

We have not requested any further actuarial analysis of House Bill 489 (2019 RS BR 1579) SCS 1 Version by the Systems' independent actuary. Please let me know if you have any questions regarding our analysis of House Bill 489 (2019 RS BR 1579) SCS 1 Version.

Sincerely,

David L. Eager Executive Director

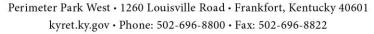
Kentucky Retirement Systems

David Euger



KENTUCKY RETIREMENT SYSTEMS

David L. Eager, Executive Director





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 (2019 RS BR 1579)

AA Statement Required by KRS 6.350

Dear Ms. Carney:

House Bill 489 (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 (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 (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

House Bill 489 (2019 RS BR 1579) AA Statement Required by KRS 6.350 Page 2

4. There is no estimated change to administrative expenses.

We have not requested any further actuarial analysis of House Bill 489 (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 (2019 RS BR 1579).

Sincerely,

David L. Eager

Executive Director

Kentucky Retirement Systems

David Enger

TEACHERS' RETIREMENT SYSTEM

of the State of Kentucky

GARY L. HARBIN, CPA **Executive Secretary**

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

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

March 12, 2019

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

RE: HB 489 SCS (19 RS)

AA Statement 2 of 2

Dear Ms. Carney:

House Bill 489 SCS (19 RS), 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.

The only changes that the SCS makes to the bill as originally filed are purely technical, with the exception of the addition of an emergency clause. The changes made by the SCS, therefore, do not impact or change the findings of the actuarial analysis submitted by the retirement system's actuary by letter dated February 27, 2019. That letter states that this legislation does not increase or decrease benefits or increase or decrease participation in benefits or have a negative impact on the actuarial accrued liabilities of TRS.

Although from an actuarial standpoint there is no negative impact as a result of this bill, not having the appropriate standards 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 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

Ms. Carney March 12, 2019 Page Two

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

Beau Barnes

Deputy Executive Secretary of Operations and

General Counsel

cc. Leona Deleon



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 AA Statement 2 of 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

Seay Rames

General Counsel

cc. Leona Deleon



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 – 19 RS BR 1579

Dear Beau:

As requested, we have prepared an actuarial analysis of the impact of House Bill 489 – 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

Edward J. Workel

Cathy Turcot

Cathy Turcot
Principal and Managing Director

S:\2019\Kentucky Teachers\Outgoing Correspondence\Actuarial Impact - House Bill 489 - 19 RS BR 1579.docx