KENTUCKY PUBLIC PENSIONS AUTHORITY
David L. Eager, Executive Director
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February 28, 2023

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

RE: House Bill 236 (23 RS BR 1181) – HCS 1 Version
AA Statement Required by KRS 6.350
AA Statement 1 and 2 of 5

Dear Ms. Carney:

The Kentucky Public Pensions Authority (KPPA) had previously provided an Actuarial Analysis of House Bill 236 (2023 RS BR 1181) via letter dated February 22, 2023. We have now examined the HCS 1 Version of House Bill 236 (2023 RS BR 1181).

The HCS 1 Version of House Bill 236 (2023 RS BR 1181) retains its original provisions; amends KRS 21.450, 61.650, 78.790, and 161.430 to expand scope of persons owing a fiduciary duty to the respective state-administered retirement systems and prohibits any contract or agreement from voiding such fiduciary duties; amends KRS 21.450, 61.650, and 78.790 to require third-party fiduciaries to acknowledge their fiduciary duties in writing; amends KRS 21.540, 61.650, 78.790, and 161.430 to require the boards of the state-administered retirement systems to adopt their own proxy guidelines, prevent the boards from following the recommendations of a proxy voting service or proxy adviser unless the proxy adviser acknowledges its fiduciary duties in writing, and requires the boards to either vote their own shares or have the proxy voting service or proxy adviser voting the system's shares commit to follow the board's proxy guidelines; amends KRS 21.540, 61.645, 78.782, and 161.250 to require the quarterly reporting of proxy votes to the boards of the state-administered retirement systems; and makes technical changes.

Kentucky Public Pensions Authority (KPPA) staff members have examined the HCS 1 Version of House Bill 236 (2023 RS BR 1181) as it applies to the County Employees Retirement System and the Kentucky Retirement Systems. We have determined that the bill will not increase or decrease benefits or the participation in benefits in any of the retirement systems administered by KPPA. Additionally, we do not anticipate it will increase or decrease the unfunded actuarial liability of the pension plans administered by the KPPA.

House Bill 236 (2023 RS BR 1181) – HCS 1 Version
AA Statement Required by KRS 6.350

In accordance with KRS 6.350(2)(c), Kentucky Public Pensions Authority certifies the following:

1. The estimate number of individuals potentially affected as of June 30, 2022, are 122,932 active members; 162,809 inactive members; and 124,341 retired members in the systems administered by the KPPA.

2. There is no estimated change in benefit payments.

3. There is no estimated change in employer costs.

4. Administrative expenses may increase due to additional oversight required by the KPPA investment staff concerning fiduciary acknowledgements by the proxy advisor. Additionally, the passage of this legislation would require current investment staff to be delegated to vote proxies or require the Office of Investments to hire additional staff to provide a means for the investment committees or Boards to vote the proxies.

We have not requested any further actuarial analysis of House Bill 236 (2023 RS BR 1181) – HCS 1 Version by the Authority's independent actuary.

Please let me know if you have any questions regarding our analysis of House Bill 236 (2023 RS BR 1181) – HCS 1 Version.

Sincerely,

David Eager

David L. Eager
Executive Director
Kentucky Public Pensions Authority

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

TRS
KENTUCKY

February 27, 2023

Katie Carney
Office of Special Projects
Legislative Research Commission
Frankfort, KY 40601

RE: 23 RS HB 236 HCS 1
AA Statement 3 of 5

Dear Ms. Carney:

23 RS HB 236 HCS 1, an Act relating to the fiduciary duties owed to the state-administered retirement systems, would, in part, amend KRS 161.430 to provide a definition for investing of retirement system assets "solely in the interest of the members in beneficiaries" as being an interest that is determined using only pecuniary factors and shall not include any purpose to further a nonpecuniary interest; defines "pecuniary factor" as a consideration having a direct and material connection to the financial risk or financial return of an investment; defines "material connection" as being established if there is a substantial likelihood that a reasonable investor would consider it important in determining the financial risk or the financial return of an investment; and defines "nonpecuniary interest" incudes an environmental, social, political, or ideological interest. The bill also adds investment managers and advisers to the list of individuals required to adhere to certain fiduciary principles. 23 RS HB 236 HCS 1 also provides guidelines for evidence that a fiduciary has considered or acted on a nonpecuniary interest.

23 RS HB 236 HCS 1 would not increase or decrease retirement benefits or participation in benefits. Its definition of sole interest of members and beneficiaries, using only pecuniary factors, appears to require TRS to consider the pecuniary interest of the member with a goal of obtaining maximum returns within acceptable levels of risk. This is consistent with TRS current investment practices, but likely would have some additional administrative costs related to the compilation of and reporting of proxy votes.

Given the foregoing, TRS has not requested a formal actuarial analysis from the independent actuary.

TRS certifies, in compliance with KRS 6.350(2)(c), as follows:

1. There are nearly 140,000 members of TRS.
2. There would be no increase or decrease in benefits, or participation in benefits.
3. There would be no increase in school district administrative costs.
4. There would be some increase in TRS administrative costs as described above.

Sincerely,

Robert B. Barnes
Deputy Executive Secretary and
General Counsel

JUDICIAL FORM RETIREMENT SYSTEM
JUDICIAL RETIREMENT PLAN | LEGISLATORS RETIREMENT PLAN

John R. Grise, Chairman
Board of Trustees

Bo Cracraft
Executive Director

February 28, 2023

Ms. Katie Carney
Director's Office
Legislative Research Commission
Capitol Annex, Room 104
Frankfort, KY 40601

HB 236 HCS 1/BR 1181
AA Statement 4 and 5 of 5

Dear Ms. Carney:

JFRS has examined **HB 236 HCS 1**, which amends KRS 21.450 to expand scope of persons owing a fiduciary duty to the respective state-administered retirement systems, provide that fiduciaries consider solely the interest of the members and beneficiaries using only pecuniary factors, and prohibit any contract or agreement from voiding such fiduciary duties. In addition, the legislation would require the JFRS Board adopt proxy guidelines, provide that all proxy votes are executed by the board or a proxy voting service that has acknowledged a fiduciary duty in writing and who commits to following the Board policy. Lastly, the bill would require a quarterly report of proxy votes.

We have determined that the bill will not increase or decrease benefits, or increase or decrease participation in benefits, or change the actuarial liability of either plan administered by JFRS.

In compliance with KRS 6.350(2)(c), the Judicial Form Retirement Systems (the agency in charge with the administration of JRP and LRP) certifies the following:

1. There has no individuals affected. As of June 30, 2021, there were a total of 601 individuals participating in JRP and 393 individuals participating in LRP.
2. There is no estimated change in benefits.
3. There is no estimated change to employer costs.
4. There would likely be an increase in administrative expense as staff sought to comply with the additional proxy requirements of this legislation.

We have not requested any further actuarial analysis of HB 236 HCS 1 by the Systems' independent actuary. Please let me know if you have any questions regarding our analysis.

Sincerely,

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Bo Cracraft
Executive Director

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