

**BOARD OF TRUSTEES ANNUAL MEETING  
KENTUCKY RETIREMENT SYSTEMS  
APRIL 16, 2020 AT 10:00 A.M. EASTERN  
1270 LOUISVILLE ROAD, FRANKFORT, KENTUCKY 40601**

1. Roll Call
2. KRS Employee Service Recognition Awards- Dave Harris, Marlane Robinson
3. Approval of February 20, 2020 Meeting Minutes\*
4. Legislative Update - David Eager
5. Other Business:
  - KRS Update- David Eager
6. Election of KRS Board of Trustees Officers: Chair and Vice Chair\* - David Eager
7. Closed Session [Pending Litigation KRS 61.810(1)(c) ]; Personnel KRS61.810(1)(f)]\*
8. Adjourn

*\* Board Action Required*

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board  
FROM: David L. Eager  
Executive Director  
DATE: April 16, 2020  
SUBJECT: Service Recognition Awards

In 1988, the Board elected to annually recognize members of the staff for their service to the Board and the members of the Kentucky Retirement Systems. Certificates and pins are given for each five-year period an employee has been on the retirement systems' staff.

The following **9** employees will receive their **five-year** service award:

Katie Hollingsworth	Disability & Survivor Benefits
Amanda Clark	Employer Reporting Compliance & Education
Jamie O'Brien	Employer Reporting Compliance & Education
Andy Kiehl	Investments
James Rich Robben	Investments
John Hardy Breeding	Member Services
Kristopher McDaniel	Membership Support
Lucas Taylor	Retiree Health Care
Monica Champniss	Retiree Health Care

The following **6** employees will receive their **ten-year** service award:

Natalie Young	Accounting
Blaine Walker	Employer Reporting Compliance & Education
Jimmy Shaw Jr.	Enterprise & Technology Services
Kendall Parmley	Enterprise & Technology Services
Bradford Lofton	Member Services
Joseph C. Gilbert III	Procurement & Office Services

The following **4** employees will receive their **fifteen-year** service award:

Edmond Willayi	Enterprise & Technology Services
Jon Cliff Akers	Enterprise & Technology Services
John Franklin	Membership Support
Odette Gwandi	Membership Support

The following **13** employees will receive their **twenty-year** service award:

Chrystal McChesney	Disability & Survivor Benefits
Dan Childers	Disability & Survivor Benefits
Shannon Cole	Disability & Survivor Benefits
Wendi Pierce	Disability & Survivor Benefits
Angela Hawkins	Employer Reporting Compliance & Education
Suzanne Elphingstone	Employer Reporting Compliance & Education
John Chris Land	Member Services
Brian Sharp	Membership Support
Paul Singleton	Membership Support
Heather Darnell	Quality Assurance
Kristi Hammons	Quality Assurance
George Jeff Wyatt	Retiree Health Care
John King	Retiree Health Care

The following **5** employees will receive their **twenty five-year** service award:

Elizabeth Smith	Accounting
Vicki Hockensmith	Disability & Survivor Benefits
Terry Ethington	Enterprise & Technology Services
Shauna Miller	Member Services
Walter Weitzel III	Membership Support

The following employee will receive her **thirty-year** service award:

Rebecca Mooney	Accounting
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# ANNUAL SERVICE RECOGNITION AWARDS

April 16, 2020





# FIVE YEARS

- |                     |   |
|---------------------|---|
| Katie Hollingsworth | Disability & Survivor Benefits            |
| Amanda Clark        | Employer Reporting Compliance & Education |
| Jamie O'Brien       | Employer Reporting Compliance & Education |
| Andy Kiehl          | Investments                               |
| James Rich Robben   | Investments                               |
| John Hardy Breeding | Member Services                           |
| Kristopher McDaniel | Membership Support                        |
| Lucas Taylor        | Retiree Health Care                       |
| Monica Champniss    | Retiree Health Care                       |





# TEN YEARS

Natalie Young

Accounting



Blaine Walker

Employer Reporting Compliance & Education



Jimmy Shaw Jr.

Enterprise & Technology Services



Kendall Parmley

Enterprise & Technology Services



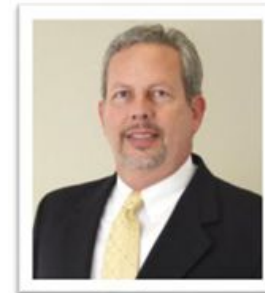
Bradford Lofton

Member Services



Joseph C. Gilbert III

Procurement & Office Services



# FIFTEEN YEARS



Edmond Willayi

Enterprise & Technology Services



Jon Cliff Akers

Enterprise & Technology Services



John Franklin

Membership Support



Odette Gwandi

Membership Support







# TWENTY YEARS

- |                      |   |
|----------------------|---|
| Chrystal McChesney   | Disability & Survivor Benefits            |
| Dan Childers         | Disability & Survivor Benefits            |
| Shannon Cole         | Disability & Survivor Benefits            |
| Wendi Pierce         | Disability & Survivor Benefits            |
| Angela Hawkins       | Employer Reporting Compliance & Education |
| Suzanne Elphingstone | Employer Reporting Compliance & Education |
| John Chris Land      | Member Services                           |
| Brian Sharp          | Membership Support                        |
| Paul Singleton       | Membership Support                        |
| Heather Darnell      | Quality Assurance                         |
| Kristi Hammons       | Quality Assurance                         |
| George Jeff Wyatt    | Retiree Health Care                       |
| John King            | Retiree Health Care                       |







# TWENTY FIVE YEARS

Elizabeth Smith

Accounting



Vicki Hockensmith

Disability & Survivor Benefits



Terry Ethington

Enterprise & Technology Services



Shauna Miller

Member Services



Walter Weitzel III

Membership Support





# THIRTY YEARS

Rebecca Mooney

Accounting



**MINUTES OF MEETING #427**  
**BOARD OF TRUSTEES KENTUCKY RETIREMENT SYSTEMS**  
**QUARTERLY MEETING FEBRUARY 20, 2020 AT 10:00A.M.**  
**1270 LOUISVILLE ROAD, FRANKFORT, KENTUCKY 40601**

At the Quarterly Meeting of the Board of Trustees held on February 20, 2020 the following members were present: David Harris (Chair), Joe Brothers, John Chilton, John Cheshire, Raymond Connell, Kelly Downard, JT Fulkerson, Sherry Kremer, Prewitt Lane, Keith Peercy, Jerry Powell, David Rich and Lindy Casebier as proxy for Sec. Gerina Whethers. Staff members present were David Eager, Rebecca Adkins, Erin Surratt, Kathy Rupinen, Carrie Bass, Connie Pettyjohn, Cassandra Weiss, Elizabeth Smith, Rich Robben, Shawn Sparks, Ann Case, Jared Crawford, Shaun Case, Phillip Cook and Alane Foley. Also present were Larry Totten, Jim Carroll, Michele Hill, Baylee Kinsley, Garrett Wymer, Bill Barton, Teresa Sanders, Larry Loew and Steve Starkweather.

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Mr. Harris called the meeting to order.

Ms. Alane Foley called roll.

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Mr. Harris introduced agenda item *Approval of Minutes- December 5, 2019*. A motion was made by Mr. Brothers and was seconded by Mr. Downard to approve the minutes as presented. The motion passed unanimously.

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Mr. Harris introduced agenda item *Public Comment*. Mr. Jim Carroll, President of Kentucky Government Retirees addressed the Board regarding HB 484. He also suggested that PPOB hold a special called meeting to discuss these issues.

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Mr. Harris introduced agenda item *Audit Committee Report*. Mr. Chilton introduced Anthony Allen and Simon Keemer from Dean Dorton. They provided a review of GASB 68 and 75 proportionate share audits. Mr. Fulkerson moved and was seconded by Mr. Brothers to accept the audit report as presented. The motion passed unanimously.

Ms. Erin Surratt provided details regarding hazardous duty position requests. Mr. Rich moved and was seconded by Mr. Powell to approve hazardous duty coverage for Pleasure Ridge Park Fire,

City of Erlanger, City of Stanford, City of Georgetown and the City of Winchester. The motion passed unanimously.

Ms. Rebecca Adkins provided details on the following reports: *Quarterly Financial Statements as of December 31, 2019, Cash Flows, Administrative Expenses, Employer Penalty Waivers and Outstand Employer Invoices*. These were provided for informational purposes only.

\*\*\*

Mr. Harris introduced agenda item *Application to Voluntarily Cease Participation in KERS*. Ms. Erin Surratt advised the Trustees that Gateway Children’s Advocacy Center has completed all of the necessary requirements to voluntarily cease participation in Kentucky Employees Retirement Systems. Mr. Powell moved and was seconded by Mr. Fulkerson to approve the voluntary cessation of Gateway Children’s Advocacy Center. The motion passed unanimously.

\*\*\*

Mr. Harris introduced agenda item *Investment Committee and Portfolio Quarterly Report, Investment Policy Statement Recommendation*. Mr. Prewitt Lane and Mr. Rich Robben provided an investment performance update for the Trustees and reviewed the Investment Policy Statement draft. Mr. Downard moved and was seconded by Mr. Fulkerson to ratify the Investment Policy Statement that was approved by the Investment Committee in February 4, 2020. The motion passed unanimously.

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Mr. Harris introduced agenda item *Retiree Health Plan Committee Report*. Mr. David Rich and Ms. Connie Pettyjohn provided details of their February 11, 2020 meeting. This was presented for informational purposes only.

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Mr. David Eager provided a Legislative Update and a KRS Administrative Update. These were provided for informational purposes only.

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Mr. Harris introduced agenda item *Proposed Changes to the Bylaws*. Mr. David Eager discussed updating the Per Diem Policy with the Trustees. Mr. Brothers moved and was seconded by Mr. Downard to amend the agenda line item 10 to read “*Proposed Change to the Per Diem Policy*”.

The motion passed unanimously. Mr. Fulkerson moved and was seconded by Mr. Brothers to accept the proposed changes to the Per Diem Policy as presented. The motion passed unanimously.

\*\*\*

Mr. Harris introduced agenda item *Other Business*. Mr. David Eager discussed updating the Board Meeting Public Participation Policy to add a public comment agenda line item for Committee Meetings. Mr. Powell moved and was seconded by Mr. Fulkerson to amend the Board Meeting Public Participation Policy as presented. The motion passed unanimously.

\*\*\*

A motion was made by Mr. Powell and seconded by Mr. Fulkerson to go in to closed session. The motion passed unanimously.

Mr. Harris read the following statement and the meeting moved into closed session: A motion having been made in open session to move into closed session for a specific purpose, and such motion having carried by majority vote in open, public session, the Board shall now enter closed session to consider litigation, pursuant to KRS 61.810(1)(c), because of the necessity of protecting the confidentiality of the Systems' litigation strategy and preserving any available attorney-client privilege. All public attendees exited the meeting.

The meeting was called back into open session. No action was taken.

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There being no further business, a motion was made at 12:45 p.m. by Mr. Rich and seconded by Mr. Downard to adjourn the meeting, to meet again on April 16, 2020 or upon the call of the Executive Director or the Chair of the Board of Trustees. The motion passed unanimously.

\*\*\*

Copies of all documents presented are incorporated as part of the Minutes of the Board of Trustees held February 20, 2020 except documents provided during a closed session conducted pursuant to the open meetings act and exempt under the open records act.

## CERTIFICATION

I do certify that I was present at this meeting, and I have recorded the above actions of the Directors on the various items considered by it at this meeting. Further, I certify that all requirements of KRS 61.805-61.850 were met in conjunction with this meeting.

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Recording Secretary

We, the Chair of the Board of Directors of the Kentucky Retirement Systems and Executive Director of the Kentucky Retirement Systems, do certify that the Minutes of Meeting Number 427, held on February 20, 2020 were approved on April 16, 2020.

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Chair of the Board of Directors

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Executive Director

I have reviewed the Minutes of the February 20, 2020 Board of Trustees Meeting for content, form, and legality.

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Executive Director  
Office of Legal Services





## KENTUCKY RETIREMENT SYSTEMS

David L. Eager, Executive Director

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### MEMORANDUM

**TO:** Kentucky Retirement Systems Board of Trustees  
**FROM:** David L. Eager, Executive Director  
**DATE:** April 14, 2020  
**SUBJECT:** 2020 Kentucky General Assembly Regular Session Legislative Update

The following memo summarizes significant retirement-related legislation passed during the 2020 Regular Session, as of April 14, 2020. KRS staff continue to review the new legislation and will notify employers, members, and retirees of any changes that may impact them as soon as the internal reviews are complete.

#### LEGISLATIVE SESSION BACKGROUND INFORMATION:

The 2020 Regular Session of the Kentucky General Assembly convened at Noon Eastern time on January 7. This was intended to be a 60-day legislative session, but due to scheduling changes in response to the COVID-19 crisis the General Assembly will only meet 53 days this Session before adjourning *Sine Die* (Latin for "without a day") on Wednesday, April 15.

**This was a budget-writing session**, where the General Assembly would typically approve a State Executive Branch Budget for the two-year period beginning on July 1, 2020 and extending through June 30, 2022 (FY Ended 2021 and FY Ended 2022). However, again due to the COVID-19 crisis, the legislature only sent a proposed one-year budget to Governor Beshear for his consideration, and a budget for FY Ended 2022 will have to be introduced in a later Session. More on the State Executive Budget bill below.

**LEGISLATIVE TRACKING PROCESS:** During legislative sessions, Kentucky Retirement Systems tracks proposed legislation of importance to the Systems and its members as bills move through the process. This Session **we actively tracked 46 bills or resolutions on the "Daily Legislative Update" List** (bills with a direct potential impact on the Systems) **and 45 bills on the "Other Retirement-Related Legislation" List** (bills that may have an indirect effect on the Systems).

Each day when the General Assembly is in Session, links to the updated Lists are emailed to KRS employees and the Board of Trustees. The lists are then posted to the KRS website, and announcements are posted to Facebook and Twitter with links to the Legislative home page. We began sharing our tracking lists publicly a few years ago to help keep our members and employers constantly informed about the status of important legislation.

#### HOUSEKEEPING BILL (HOUSE BILL 207) STATUS:

**House Bill 207** (J. Miller), the Systems' Housekeeping bill, did not pass, although many of the elements contained in the bill were included in a bill that did pass (House Bill 484, the CERS separation bill). The Housekeeping bill was initially passed by the full House 91-0 on January 29 and subsequently assigned to the Senate State and Local Government committee on February 3. However, the bill was never placed on the agenda for consideration and died in committee.

**SIGNIFICANT LEGISLATION THAT PASSED THIS SESSION:**

There were several important bills and resolutions that passed this Session and will have an impact on Kentucky Retirement Systems. One of the most significant is Senate Bill 249.

1. **Senate Bill 249** (C. McDaniel) resets the amortization period for financing the unfunded liability of all KRS plans from 24 years to 30 years. The new 30-year amortization schedule resulted in new and lower ARC rates for FYE 2021 (please refer to the discussion of House Bill 352, below, for the rates);
  - a. The bill also extends by one year the date for Quasi-governmental agencies to decide if they want to voluntarily cease participation in KERS (except for university and community college employers, who must elect to voluntarily cease participation prior to January 1, 2021), and
  - b. Pauses the CERS employer rate phase-in for one year.

**CURRENT STATUS:** This bill was signed by the Governor on April 8, 2020. Senate Bill 249 contains an Emergency clause, so it took effect upon the Governor's signature.

**STATE EXECUTIVE BRANCH BUDGET BILL**

2. Another significant bill is **House Bill 352** (S. Rudy), the State Executive Branch budget bill. As mentioned earlier, the General Assembly would typically approve a State Executive Branch budget for the two-year period beginning on July 1, 2020 and extending through June 30, 2022 (FY Ended 2021 and FY Ended 2022). However, due to the COVID-19 crisis, the legislature only sent a proposed one-year budget to Governor Beshear for his consideration, and a budget for FY Ended 2022 will have to be introduced in a later Session (a possible Special Session called by the Governor, or the next Regular Session beginning in January 2021).
  - a. The bill contains money from the State to assist with the employer contribution rates for Regional Mental Health/Mental Retardation Boards (\$23,274,100); local and district health departments (\$25,394,600); and contracted entities (domestic violence shelters, rape crisis centers, and child advocacy centers - \$1,498,900);
  - b. The budget fully funds the benefits earned by all State employees;
  - c. The Actuarially Required Contribution (ARC) is based upon the new 30-year amortization period as set in Senate Bill 249;
  - d. The contribution rates from July 1, 2020- June 30, 2021 are as follows:
    - i. KERS Nonhazardous: 84.43% (73.28% pension and 11.15% insurance). The actuary originally recommended 93.01% for FY Ended June 30, 2021\*
    - ii. KERS Hazardous: 36.00% (all 36% to pension, 0% to insurance). The actuary originally recommended 38.71% for FY Ended June 30, 2021\*
    - iii. SPRS: 143.48% (123.79% pension and 19.69% insurance). The actuary originally recommended 156.97% for FY Ended June 30, 2021\*. However, the bill does include

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\* Based on 24-year amortization period

an additional \$384,000 in fiscal year 2020-2021 to be applied to the unfunded pension liability of the State Police Retirement System pension fund.

- e. The contribution rate for Quasi-governmental agencies from July 1, 2020- June 30, 2021 will remain frozen at 49.47% (41.06% pension and 8.41% insurance) for all Nonhazardous duty employees employed by Mental Health/Mental Retardation Boards, Local and District Health Departments, State-supported universities and community colleges, domestic violence centers, rape crisis centers, child advocacy centers, and any other agency eligible to voluntarily cease participation in the Kentucky Employees Retirement System pursuant to KRS 61.522;
- f. The bill contains no raises for State employees, and no Cost of Living Adjustments (COLAs) for retirees. The bill does contain language establishing a process and procedures for State employee layoffs, furloughs, and reduced hours in the event that the Commonwealth or any agency determines it necessary; and
- g. As referenced above: although not included in the State Executive Branch Budget bill, legislation freezing the CERS employer contribution rates at their current level for one more year was passed during the 2020 Regular Session. Per Senate Bill 249, the employer contribution rates for CERS from July 1, 2020- June 30, 2021 are as follows:
  - i. CERS Nonhazardous: 24.06% (*19.30% pension and 4.76% insurance*)
  - ii. CERS Hazardous: 39.58% (*36.06% pension, 9.52% insurance*)

**CURRENT STATUS:** Governor Beshear line-item vetoed 18 different parts of the bill on April 13, 2020, but none of the vetoes directly affected Kentucky Retirement Systems. The new budget begins on July 1, 2020.

3. **House Bill 484** (R. Webber, *et al*), the CERS separation bill, also passed this Session. For the past several years the Kentucky League of Cities has spearheaded a major effort to separate the governance of the County Employees Retirement System (CERS) from Kentucky Retirement Systems, arguing that CERS is the largest system within KRS but does not have proportional representation on the Board of Trustees.

House Bill 484 establishes one 9-member board for the Kentucky Employees Retirement System (KERS) and the State Police Retirement System (SPRS), and a second 9-member board for the County Employees Retirement System (CERS). Further, the bill establishes a third 8-member board, the Kentucky Public Pension Authority Board, which will be responsible for the day-to-day operations of all three systems including having all current staff members be under its authority. The employees will still be subject to the provisions of KRS Chapter 18A and the State Personnel Cabinet.

Although there would be no current impact on the actuarial liabilities of the Systems from implementing House Bill 484, it is expected to increase our administrative expenses. This includes the expense of supporting two additional Boards (the separate CERS Board and the Kentucky Public Pension Authority Board for daily operations) and any associated parallel committees and subcommittees (Audit, Investment, Retiree Health Plan, Disability/Administrative Appeals Committee, Actuarial Subcommittee) and the duplication of professional services from outside

vendors (accounting firms, investment managers, master trustees) and KRS staff to handle the additional workload. We also expect a loss of buying power for KERS and SPRS to take advantage of economies of scale in negotiating contracts with investment managers, investment consultants, insurance companies, and other providers.

Finally, we believe the Commonwealth may still be responsible for liabilities incurred by CERS employers who subsequently are unable to meet their pension obligations. Unlike the KERS and SPRS Systems which have the Commonwealth as the “backstop funder for all agencies”, the CERS plans have no such backstop funder and legally the Commonwealth could be required to cover the unfunded liabilities for employers who default on their contributions.

**CURRENT STATUS:** Governor Beshear signed the bill on April 7, 2020. House Bill 484 had an Emergency clause covering one part of the bill: it prohibits the Governor from reorganizing the various retirement boards by executive order like Governor Bevin did in 2016. That part of the bill took effect immediately upon the signature of the Governor. The rest of the bill generally either takes effect on April 1, 2021 or July 1, 2021 (dates specified in the bill).

4. The next significant bill, **House Bill 271** (J. Blanton), concerns death in-line-of-duty benefits. The bill does the following:
  - a. Previously, surviving spouses of members who died due to a duty-related injury would have their monthly benefit payments reduced if they remarried. House Bill 271 removes those provisions and the monthly benefit amount will no longer be reduced;
  - b. The bill also restores the original benefit amount for surviving spouses of members who have already remarried (this currently applies to 1 person);
  - c. Increases the benefits for beneficiaries who chose to receive lifetime monthly benefits in lieu of the line-of-duty survivor benefits to the amount calculated under the line-of-duty survivor provisions (currently 13 beneficiaries); and
  - d. Provides a window for a surviving spouse of a member who died prior to April 13, 2018, to make a claim for line-of-duty survivor benefits on or before January 1, 2021 (the number of people affected is unknown, but it is not expected that many people would be eligible).

GRS, the Systems’ actuary, determined the bill would increase benefits for approximately 14 surviving spouses to date, and the average benefit of these members would increase from \$1,100 per month to \$2,300 per month. There is no measurable fiscal impact on the Systems.

**CURRENT STATUS:** The bill was signed by Governor Beshear on March 27. House Bill 271 contained an Emergency clause, so it took effect upon the Governor’s signature.

5. Several Senate Resolutions were adopted this Session that confirmed recent gubernatorial appointments (or reappointments) to the KRS Board of Trustees.
  - a. **Senate Resolution 93** (J. Adams) confirmed the reappointment of Patrick Kelly Downard to the Board for a term expiring June 17, 2023;

- b. **Senate Resolution 234** (J. Adams) confirmed the appointment of Joseph L. Grossman to the Board for a term expiring June 17, 2022;
  - c. **Senate Resolution 236** (J. Adams) confirmed the appointment of Caswell Prewitt Lane to the Board for a term expiring June 17, 2023;
  - d. **Senate Resolution 237** (J. Adams) confirmed the appointment of John Carroll Cheshire III to the Board for a term expiring June 17, 2023; and
  - e. **Senate Resolution 270** (J. Adams) confirmed the reappointment of Matthew Louis Monteiro to the Board for a term expiring June 17, 2023.
6. **Senate Bill 177** (A. Kerr) mandates that local boards of education shall allow emergency leave to any full-time or part-time classified employee if it is in relation to the COVID-19 public health emergency. This will count toward the number of days worked during the school year for determining service credit.

**CURRENT STATUS:** The bill was signed by Governor Beshear on March 24. Senate Bill 177 contained an Emergency clause, so it took effect upon the Governor's signature.

7. Finally, as of April 14 it appears that **Senate Bill 239** (M. Wilson) will pass. This bill includes provisions for Mayors age 62 and above to retire and begin drawing a benefit, but they do not have to resign office to do so. However, they would not build any further retirement service credit for this extended time in office. The bill also removes current statutory limitations on the number of retired police officers that can be reemployed by a city.

**CURRENT STATUS:** The bill passed the full House 78-9 on April 14, 2020. It now heads back to the Senate for concurrence, and then should be sent to the Governor for his consideration.

**RECOMMENDATION:** This memorandum is provided for informational purposes only.



# Senate Bill 249 Highlights

*Presented to KRS Board of Trustees*  
*April 16, 2020*





**Senate Bill 249** resets the amortization period for financing the unfunded liability of the KERS Nonhazardous pension and insurance plans from 24 years to 30 years

The new 30-year amortization schedule resulted in new and lower Actuarially Required Contribution (ARC) rates for FYE 2021

The new KERS Nonhazardous rate for FYE 2021 is 84.43% versus the original rate of 93.01%



- The bill also freezes the CERS employer contribution rates for one year
- Employer contribution rates for CERS from July 1, 2020- June 30, 2021:
  - **CERS Nonhazardous: 24.06%**  
*(19.30% pension and 4.76% insurance)*
  - **CERS Hazardous: 39.58%**  
*(36.06% pension, 9.52% insurance)*
- The combined reduction in contributions (All Systems) for FYE 2021 is \$235 million



The bill **extends by one year** the date for Quasi-governmental agencies to decide if they want to voluntarily cease participation in KERS

- The one-year extension does not include university and community college employers, who must elect to voluntarily cease participation prior to January 1, 2021



**Senate Bill 249** was signed by Governor Beshear on April 8, 2020

The bill contains an Emergency clause, so it took effect upon the Governor's signature





# State Executive Branch Budget (House Bill 352) Highlights

*Presented to KRS Board of Trustees*

*April 16, 2020*



## The 2020 Regular Session of the Kentucky General Assembly was a budget-writing session

- The General Assembly would typically approve a State Executive Branch Budget for the two-year period beginning on July 1, 2020 and extending through June 30, 2022 (FY Ended 2021 and FY Ended 2022)
- However, due to the COVID-19 crisis, the legislature only sent a proposed one-year budget to Governor Beshear for his consideration
- A budget for FY Ended 2022 will have to be introduced in a later Session





**House Bill 352** contains money from the State to assist with the employer contribution rates in FYE 2021 for:

- Regional Mental Health/Mental Retardation Boards (\$23,274,100);
- Local and district health departments (\$25,394,600); and
- Contracted entities (domestic violence shelters, rape crisis centers, and child advocacy centers - \$1,498,900)



## Employer Contribution Rates:

- The budget fully funds the benefits earned by all State employees
- The Actuarially Required Contribution (ARC) is based upon the new 30-year amortization period as set in Senate Bill 249



## Employer Contribution Rates:

The contribution rates from July 1, 2020- June 30, 2021 are as follows:

- **KERS Nonhazardous: 84.43%**  
(73.28% pension and 11.15% insurance)
  - Actuary originally recommended 93.01% for FYE 2021\*
  
- **KERS Hazardous: 36.00%**  
(all 36% to pension, 0% to insurance)
  - Actuary originally recommended 38.71% for FYE 2021\*
  
- **SPRS: 143.48%**  
(123.79% pension and 19.69% insurance)
  - Actuary originally recommended 156.97% for FYE 2021\*
  - However, the bill does include an additional \$384,000 in FY 2020-2021 to be applied to the unfunded pension liability of the SPRS pension fund

\* Based on 24-year amortization period



## Employer Contribution Rates:

The Quasi-governmental agency employer contribution rate from July 1, 2020- June 30, 2021 will remain frozen at **49.47%** (*41.06% pension and 8.41% insurance*) for all Nonhazardous duty employees employed by:

- Mental Health/Mental Retardation Boards
- Local and District Health Departments
- State supported universities and community colleges
- Domestic violence centers
- Rape crisis centers
- Child advocacy centers; and
- Any other agency eligible to voluntarily cease participation in the Kentucky Employees Retirement System pursuant to KRS 61.522





- The bill contains no raises for State employees, and no Cost of Living Adjustments (COLAs) for retirees
- The bill does contain language establishing a process and procedures for State employee layoffs, furloughs, and reduced hours in the event that the Commonwealth or any agency determines it necessary



# Issues to Consider Regarding House Bill 484

(CERS separation bill)

*Presented to KRS Board of Trustees*

*April 16, 2020*



## House Bill 484 separates the governance of the County Employees Retirement System (CERS) from KRS

- Signed by Governor Beshear on April 7, 2020
- Most provisions in the bill take effect on APRIL 1, 2021
- One provision already in effect: Governor cannot reorganize, replace, amend, or abolish the membership of the various retirement boards





## House Bill 484 Establishes Three Retirement Boards:

- One 9-member board to administer the Kentucky Employees Retirement System (KERS) and the State Police Retirement System (SPRS)
- One 9-member board to administer the County Employees Retirement System (CERS); and
- One 8-member board, known as the Kentucky Public Pension Authority Board
  - Responsible for the day-to-day operations of all three systems
  - All current KRS staff members become KPPA staff members
  - Employees will still be subject to KRS Chapter 18A and the state Personnel Cabinet





## 1. KPPA is an Eight-Member Board

- a. KPPA was created as an 8 person board (*Section 2(1) on page 2*)
  - i. Four (4) members from CERS
  - ii. Four (4) members from KRS (representing KERS and SPRS)

- b. In addition, HB 484 states, “*...all actions taken by the authority shall be by affirmative vote of a majority of the authority members present.*” (*Section 2(7) (c) on page 5*)

**This creates:**

- A likelihood of stalemates and inability to take action; or
- Potential litigation if tie votes occur between the two systems



## 2. Conflicting Directions

- a. KPPA has the duty to perform “other tasks or duties as directed solely or jointly by the boards of the Kentucky Retirement Systems or the County Employees Retirement System.” *(See Section 2(1)(f) on page 3)*
- b. What happens if KRS and CERS provide conflicting directions to KPPA?
  - i. Potential problems could include:
    1. Inaction on time-sensitive matters while the issue is being resolved
    2. Conflicts of interest for Legal staff who have professional licenses preventing dual representation of parties with conflicting interests
    3. Need for an Attorney General Opinion or litigation to resolve issue



### 3. Financial Obligations

- a. Although CERS Employers are responsible for providing the funding required under KRS 78.510 to 78.852, the “inviolable contract” is still with the Commonwealth  
*(See Section 39(1), page 203)*
- b. The bill prohibits municipalities from declaring bankruptcy, but there is no statutory protection if they become insolvent
- c. Unlike the K plans where the State can “backstop” an agency that is unable to make its full contribution (witness the quasi agency waiver in SB 249), the counties and cities have no such source of subsidy



## 4. Required Experts

- a. Members with investment experience may have to serve on multiple boards and committees (KPPA and KRS or CERS)
- b. This would require a significant time commitment, which may make it difficult to recruit enough qualified members willing to serve





## 5. Expense to Implement HB 484

- a. Although there would be no current impact on the actuarial liabilities of the Systems from implementing House Bill 484, it is expected to increase our administrative expenses
- b. Expected administrative cost increases due to:
  - i. Supporting two additional Boards (the separate CERS Board and the Kentucky Public Pension Authority Board for daily operations)
  - ii. Supporting any associated parallel committees and subcommittees (Audit, Investment, Retiree Health Plan, Disability/Administrative Appeals Committee, Actuarial Subcommittee)



## 5. Expense to Implement HB 484

*(Continued)*

- b. Expected administrative cost increases due to:
  - iii. Duplication of professional services from outside vendors (accounting firms, investment managers, master trustees)
  - iv. Hiring additional KRS staff to handle the additional workload
  - v. Expected loss of buying power for KERS and SPRS to take advantage of economies of scale in negotiating contracts with investment managers, investment consultants, insurance companies, and other providers

**Performance**

**Performance – Pension**

