

## 2023 REGULAR SESSION – KPPA LEGISLATIVE SUMMARY

The 2023 Regular Session of the Kentucky General Assembly adjourned on Thursday, March 30, 2023. Highlights of the 2023 Session include: KPPA tracked a combined total of 63 bills and resolutions (29 on the “Daily List” and 34 on the “Other List”) and provided 17 actuarial analyses to LRC for the 30-day session.

### [House Bill 236: Fiduciary Duties Owed to the State-Administered Retirement Systems](#)

**House Bill 236** amends [KRS 61.650](#) and [KRS 78.790](#) to stipulate that fiduciaries shall consider the sole interest of the systems’ members and beneficiaries using only “pecuniary factors,” which are defined in the bill as factors with “... a direct and material connection to the financial risk or financial return of an investment.” In particular, the bill prohibits the consideration of “nonpecuniary interests” – including environmental, social, political, and ideological interests – in making investment decisions.

The bill also requires the CERS and KRS Boards to adopt proxy guidelines and ensure that all proxy votes are executed by either the board or a proxy voting service that has acknowledged a fiduciary duty in writing and that commits to following the Board’s policy. Finally, House Bill 236 requires a report of proxy votes to be provided to the boards at least once a quarter.

Because the systems are, and have always been, fiduciaries that are required to invest solely in the interest of the members and retirees, KPPA and the other state-administered retirement systems submitted [Actuarial Analysis letters to the General Assembly](#) that said there is no expected actuarial impact from this bill. In fact, the CERS and KRS Boards adopted Investment Policy Statements (IPS) respective to their systems in 2022, and those policies were already in alignment with the requirements of House Bill 236. However, the letters from each of the systems covered by this bill say there is an expected increase in administrative costs for each plan to cover the cost of compiling and reporting proxy votes on a quarterly basis.

### [House Bill 506: Establish a Partial Lump Sum Option \(PLSO\) for Retirees and Reduce Required Break for Employment After Retirement](#)

**House Bill 506** reinstates the Partial Lump Sum Option (PLSO), a familiar retirement payment option for members who retired from CERS, KERS, or SPRS on or before January 1, 2009. Additionally, House Bill 506 allows a one calendar month break in service for ALL retired members of the Systems who wish to return to employment with a participating agency of the Systems administered by the Authority. The PLSO option and the change in requirements for retired reemployed members is effective for retirement dates beginning January 1, 2024.

### [House Bill 551: Legalize Sports Wagering in Kentucky and Create Wagering Administration Fund: Portion of Remaining Funds to go to Kentucky Permanent Pension Fund](#)

**House Bill 551** legalizes sports wagering in Kentucky and creates the Wagering Administration Fund to pay for the administrative expenses involved with overseeing sports wagering activities. After administrative costs have been paid, a portion of any remaining funds in the Wagering Administration Fund will be deposited in the Kentucky Permanent Pension Fund established in [KRS 42.205](#). Any

allocations from this Fund to the plans operated by KPPA that are above and beyond their actuarially recommended employer contribution rates would likely help decrease the Systems' unfunded liability.

### **[HB 587: Internal Audit Functions at KPPA](#)**

KPPA first recognized the value of identifying risks and evaluating the adequacy of controls when it established its Internal Audit Division in 2003. Currently, the Internal Auditor is a non-merit, 18A employee reporting to the Joint Audit Committee, which is comprised of appointed trustees from the CERS and KRS Boards. **House Bill 587** removes the Internal Auditor position from 18A and gives the KPPA Board the authority to appoint someone to the role. Additionally, under the new legislation, the Internal Auditor reports directly to the KPPA Board or its subcommittee to perform internal audit functions as directed by the Authority. [KPPA has begun to research how the change will impact its current governance structure.](#)

### **State Senate Confirms Gubernatorial Appointments to KRS Board**

State law requires that gubernatorial appointments to the KRS Board receive Senate approval. On March 30, three (3) Senate Resolutions confirming Governor Andy Beshear's recent appointments to the KRS Board were unanimously adopted by a vote of 37-0:

1. [Senate Resolution 152](#), sponsored by Senator Julie Raque Adams, confirmed the reappointment of [Lynn Hampton](#) to the Kentucky Retirement Systems Board of Trustees for a term expiring June 17, 2026;
2. [Senate Resolution 226](#), sponsored by Senator Jimmy Higdon, confirmed the appointment of [Ramsey Bova](#) to the Kentucky Retirement Systems Board of Trustees for a term expiring June 17, 2026; and
3. [Senate Resolution 251](#), sponsored by Senator Julie Raque Adams, confirmed the reappointment of [William Summers V](#) to the Kentucky Retirement Systems Board of Trustees for a term expiring June 17, 2026.

The resolutions only required Senate confirmation and did not need to be adopted in the House of Representatives.

### **[House Bill 49: KPPA Housekeeping Bill](#)**

Finally, one bill that did not receive final passage but is important to mention is **House Bill 49**, the KPPA housekeeping bill. House Bill 49 passed the full House 95-0 on February 28 and was received in the Senate the next day, March 1. The bill received two readings in the Senate, but unfortunately it was not assigned to the Senate State and Local Government committee until March 29 and the committee did not meet again before the Legislature adjourned *Sine Die* on March 30.

While all state agencies have an occasional need for cleanup legislation, KPPA is somewhat unique in that the Systems we operate are widely regarded to be some of the most complex public pension plans in the nation. As such, our agency works with the Public Pension Oversight Board (PPOB) and various individual legislators each Session and during the interim to keep our lengthy statutes current and in sync with legal decisions and federal laws. We also work to further clarify previous legislative changes to the statutes on those occasions when our daily experiences reveal unexpected issues in our operation of the Systems.