



**County Employees Retirement System
Board of Trustees – Annual Meeting
April 20, 2022 at 2:00 pm ET (1:00 pm CT)
Live Video Conference/Facebook Live**

AGENDA

- | | | |
|-----|---|-------------------|
| 1. | Call to Order | Betty Pendergrass |
| 2. | Opening Statement | Michael Board |
| 3. | Roll Call | Sherry Rankin |
| 4. | Public Comment | Sherry Rankin |
| 5. | Approval of Minutes* -- March 16 & March 31, 2022 | Betty Pendergrass |
| 6. | Elections* | |
| | a. Chair | Betty Pendergrass |
| | b. Vice Chair | CERS Chair |
| | c. Committee Assignments | CERS Chair |
| 7. | CERS Strategic Plan | Betty Pendergrass |
| 8. | Joint Audit Committee Report* | Betty Pendergrass |
| | a. Additions to Internal Audit Plan | Kristen Coffey |
| | b. Internal Audit Reports* | Kristen Coffey |
| 9. | Administrative Cost Allocation Methodology* | Bill O'Mara |
| 10. | Administrative | |
| | a. Department Spotlight—Member Services | Shauna Miller |
| | b. COLA discussion | Jerry Powell |
| | c. KPPA Update | Dave Eager |
| | d. CEO Report | Ed Owens, III |
| 11. | Closed Session* | Joe Bowman |
| 12. | Adjourn | CERS Chair |

***Board May Take Action**

**MINUTES OF MEETING
COUNTY EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING
MARCH 16, 2022 AT 2:00 P.M. ET
VIA LIVE VIDEO TELECONFERENCE**

At the meeting of the County Employees Retirement System Board of Trustees held on March 16, 2022 the following members were present: Betty Pendergrass (Chair), Dr. Patricia Carver, George Cheatham, JT Fulkerson, Dr. Merl Hackbart, Dr. Martin Milkman, William O'Mara, and Jerry Powell. Staff members present was CERS CEO Ed Owens, III, KRS CEO John Chilton, David Eager, Rebecca Adkins, Erin Surratt, Michael Board, Steven Herbert, Vicki Hale, Ann Case, Connie Davis, Connie Pettyjohn, Kristen Coffey, D'Juan Surratt, Jared Crawford, Shauna Miller, Steve Willer, Ashley Gabbard, Glenna Frasher and Sherry Rankin. Others present included Eric Branco with Johnson Bowman and Branco; Tracey Garrison and Larry Loew with Humana; Danny White and Janie Shaw with GRS Consulting; and David Lindberg, Craig Morton and Chris Tessman with Wilshire.

Ms. Pendergrass called the meeting to order.

Mr. Board read the Legal Opening Statement.

Ms. Rankin took Roll Call. There were no public comments received.

Ms. Pendergrass introduced agenda item *Approval of Minutes – January 26, 2022, January 31, 2022 and February 7, 2022*. Mr. Fulkerson made a motion and was seconded by Dr. Milkman to approve all of the minutes as presented. The motion passed unanimously.

Ms. Pendergrass introduced agenda item *CERS Strategic Plan*. Ms. Pendergrass stated that the rough draft of the CERS Strategic Plan presented today is a combination of research conducted on various strategic plans, including the Colorado pension system, as well as input from Dr. Carver and Mr. Fulkerson regarding information from the various CERS committees. Ms. Pendergrass indicated that the goals of the strategic plan would be organized around the committee structure, working with the chairs of those committees to identify the goals. Ms. Pendergrass reviewed the tentative structure of the goals, including the measures and targets, to assist the Board in evaluating

progression toward the goals. Ms. Pendergrass stated that the need for an Ad Hoc working group, to include herself, Dr. Carver and Mr. Fulkerson, to coordinate the collaboration of material from the various CERS Committee Chairs. Dr. Milkman made a motion and was seconded by Dr. Carver to approve the Ad Hoc working group for the CERS Strategic Plan. The motion passed unanimously. Ms. Pendergrass indicated that a template form would be sent to all of the committee chairs to assist in identifying the goals, objectives, measures and targets for their committee. She indicated that Finance and Investment Committees will work with Dr. Carver, and that Actuarial and Joint Retiree Health will work with Mr. Fulkerson. Once all of the information is gathered and the plan is updated, it will be brought at a future meeting for further discussion and consideration.

Ms. Pendergrass introduced agenda item *Actuarial Committee Report*. Dr. Carver stated that the committee met on March 14, 2022 and reviewed the actuarial demographic information from GRS. GRS provided a brief overview of the key economic assumptions including price inflation, investment return and payroll growth. She indicated that the committee reviewed the GRS recommendations and voted to recommend the following assumptions for use in the 2022 Actuarial Valuation to the CERS Board of Trustees for approval: Price inflation, 2.3%; Investment return, 6.25%; and payroll growth, 2.0%. The committee requests the Board's ratification of these recommendations. Mr. White and Ms. Shaw answered questions of the board regarding the recommended assumptions and the components used to determine those assumption rates. Dr. Carver made a motion and was seconded by Mr. Fulkerson to adopt the recommended economic assumptions in the upcoming June 30, 2022 Actuarial Valuations as proposed by GRS. Although Mr. Cheatham and Ms. Pendergrass voted against the motion, it passed with a majority vote.

Ms. Pendergrass introduced agenda item *Finance Committee Report*. Mr. O'Mara stated that the Finance Committee met on February 24, 2022. The committee considered and approved a total of eleven (11) requests for Hazardous Duty designations for positions in member organizations. After hearing the presentation from KPPA staff indicating that staff had reviewed each request and determined that they met the statutory guidelines for Hazardous coverage. Mr. O'Mara made a motion was seconded by Mr. Fulkerson to approve the Hazardous Duty requests. The motion passed unanimously.

Mr. O'Mara indicated that due to the multiple reviews of the Financial Reports at various

committee and Board levels, the material would be referenced and would be available for Trustee questions regarding the content. Mr. O'Mara stated that a brief discussion of the work being done by the Joint Work Group on the administrative cost allocation also took place at the committee meeting. The recommendations from the Work Group will be presented at the KPPA Board meeting on March 24, 2022, at which time it will be determined if more work will be needed by the Work Group.

Ms. Pendergrass introduced agenda item *Investment Committee Report*. Dr. Hackbart stated that the Investment Committee met on February 16, 2022 and approved several Administrative Policies which are being brought today for Board consideration. Dr. Hackbart made a motion and was seconded by Mr. Powell to adopt the amended CERS Administrative Investment Policies as presented. The motion passed unanimously.

Dr. Hackbart indicated that other items of interest that occurred at the committee level was the suggested pooling language that is being introduced to the Investment Policy Statement. This matter was tabled to provide Mr. Herbert with time to have a training session for Trustees concerning the mechanics of pooling. Dr. Hackbart stated the committee also had a presentation by KPPA Investment Operations on how management fees are calculated and reported; KPPA Investment office presented rationale for the redemption of the Putnam Dynamic Asset Allocation; and the Investment Office discussed its plan to bring our reporting into compliance with KRS 61.645 and KRS 78.782.

Dr. Hackbart introduced Mr. Herbert to provide the CERS Quarterly Investment Reports. Mr. Herbert stated that since his reporting was reviewed at the Investment Committee level, he passed reviewing it unless Trustees had questions. He instead suggested that Wilshire give their quarterly investment reports for quarter ending December 2021. David Lindberg and Craig Morton reviewed the Asset Class Performance, Asset Class Assumptions, Economic Growth, Consumer Activity, Business Activity, Inflation and Employment, Risk Monitor, US Equity Market, Non US Equity Market, US Fixed Income, High Yield Bond Market, Real Assets, Asset Allocation Compliance, Total Fund Attribution, Plan Sponsor Peer Group Analysis and Charts, Asset Allocation and Performance Reports. Ms. Pendergrass asked for a brief summary of the impacts that Russian investments in our particular portfolio. Mr. Morton stated that those investments will be concentrated in the Equity portfolio and unfortunately, most managers will have to sit on these

due to the markets being frozen. Mr. Herbert added that the impact was relatively small in comparison and that the Investment staff are keeping a close watch on these markets.

Ms. Pendergrass introduced agenda item *Joint Audit Committee Report*. Ms. Pendergrass reported that due to waiting for a technical correction in House Bill 297, the Employer Proportionate Share Audits will be delayed. She stated that Ms. Coffey has provided several internal audit reports for informational purposes only.

Ms. Pendergrass introduced the CERS Board of Trustees Election Policy and asked Ms. Coffey to review the recent changes made to the policy. She stated previously the Board changed the Policy to include electronic voting. Ms. Coffey indicating that the changes made to the policy was the addition of the requirement of applicants to submit a picture upon submission, as well as adding an email where the applicant can submit their application electronically. Ms. Coffey stated the most significant change is adding DocuSign as a method of submitting an application. Ms. Coffey brought attention to Section 2 under the Nomination of the Board section indicating that the nominations must occur no later than September 30th and as long as the CERS Board maintains that July 31st as the current due date for applications, nothing would change. However, if the Board changes the due date, that the dates in this section would also need to be changed. Ms. Coffey explained that House Bill 297 allows KPPA to exclude a member address that has been marked as invalid in the KPPA system. Section 5 in the Election by Membership portion has the new wording if House Bill 297 passes this legislative session. Mr. Powell made a motion and was seconded by Mr. Fulkerson to approve the amendments made to the CERS Election Policy. The motion passed unanimously.

Ms. Pendergrass introduced agenda item *Joint Retiree Health Care Committee Report*. Mr. Powell reported that the Joint Retiree Health Plan Committee met on February 10, 2022 and reviewed an informational presentation from Humana regarding the Account Management for 2021. Ms. Pettyjohn reported that due to a calculation error, there was a premium reduction of \$1.26 on the Prescription Drug Plans for 2022. This is an increase in benefits from what the Boards approved in September 2021.

Ms. Pendergrass introduced agenda item *Administrative*. Ms. Pendergrass began by stating that due to time constraints the Department Spotlight on Member Services will be deferred to a later

meeting. Ms. Pendergrass announced that an upcoming Trustee Education Session on the CFA Code of Conduct and stated that more information would be coming to the Trustees regarding this session.

Ms. Pendergrass introduced the CERS Trustee Per Diem Policy and asked Mr. Owens to review the changes that have been made to the Policy. Mr. Owens indicated that this policy speaks to the per diem rate for Trustees while in session, defines the meaning of in session and defines the official duties of the Trustees. Mr. Fulkerson made a motion and was seconded by Mr. Powell to approve the CERS Trustee Per Diem Policy.

Ms. Pendergrass introduced Mr. Eager to provide a KPPA Update. Mr. Eager stated that House Bill 297, the KPPA Housekeeping Bill, is moving forward through the legislative process. Mr. Eager announced that plans are being made to return to the office in a more formal basis on May 2, 2022, with all employees working out a more definite remote and/or in office work schedule.

Ms. Pendergrass introduced Mr. Owens to provide a CEO Report. Mr. Owens used this time to announce the recent passing of former State Senator Joe Bowen from Owensboro. He stated that Mr. Bowen served the 8th Senate district from 2010 through 2018, at which time he was chair of the Senate State and Local Government Committee and Co-Chair of the Public Pension Oversight Board. Mr. Owens stated that Mr. Bowen was known as the “Godfather of Separation” when he filed the first separation bill that lead to what is the CERS Board today. Mr. Owens stated he thought it appropriate to spend a moment to recognize him today.

Ms. Pendergrass introduced agenda item *Closed Session*. Mr. Powell made a motion and was seconded by Dr. Fulkerson to go into closed session for the purpose of litigation. The motion passed unanimously.

Ms. Pendergrass read the following closed session statement, “A motion having been made in open session to move into a closed session for a specific purpose, and such motion having carried by majority vote in open, public session, the Board shall now enter close 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”.

Ms. Pendergrass stated that the Board will be taking no action as the result of the closed session discussions and opened the floor for adjournment. Mr. Powell made a motion and seconded by Dr. Milkman to adjourn the meeting. The motion passed unanimously.

Copies of all documents presented are incorporated as part of the Minutes of the Board of Trustees held March 31, 2022 except documents provided during a closed session conducted pursuant to the open meetings act and exempt under the open records act.

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CERTIFICATION

I do certify that I was present at this meeting, and I have recorded the above actions of the Trustees 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.

Recording Secretary

I, the Chair of the Board of Trustees of the County Employees Retirement System, do certify that the Minutes of Meeting held on March 31, 2022 were approved on April 20, 2022.

Chair of the Board of Trustees

I have reviewed the Minutes of the March 31, 2022 Board of Trustees Meeting for content, form, and legality.

Executive Director
Office of Legal Services

**MINUTES OF MEETING
COUNTY EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES SPECIAL CALLED MEETING
MARCH 31, 2022 AT 2:00 P.M. ET
VIA LIVE VIDEO TELECONFERENCE**

At the special called meeting of the County Employees Retirement System Board of Trustees held on March 31, 2022 the following members were present: Betty Pendergrass (Chair), Dr. Patricia Carver, George Cheatham, Michael Foster, Dr. Merl Hackbart, Dr. Martin Milkman, William O'Mara, and Jerry Powell. Staff members present was CERS CEO Ed Owens, III, KRS CEO John Chilton, David Eager, Erin Surratt, Michael Board, Steven Herbert, Vicki Hale, Glenna Frasher and Sherry Rankin. Others present included Ben Johnson and Eric Branco with Johnson Bowman and Branco; Benjamin Lewis with Dentons; and Paul Harnice and Christopher Schaefer with Stoll Keenon Ogden.

Ms. Pendergrass called the meeting to order.

Mr. Board read the Legal Opening Statement.

Ms. Rankin took Roll Call. There were submissions of public comment received. Ms. Rankin read the following:

”My name is Catherine New I am a retiree of Jefferson District Court in Jefferson County. I retired in May of 2007, I was hired August of 1978. And as of this date I have not received a pay raise of any kind. It is truly sad we as employees who put all the years of service to the state and do a very important job. Get no respect for our service, in way of any kind of pay raise cost of living or anything. The cost as you all know what it takes just to live, and we are the same. And of course we don't qualify for food stamp, so we are struggling terribly, some have got other jobs, but ones of us who have health issues aren't that lucky to do so, some even have spouses, but I don't I'm single and it is hard trying to figure out is food more important or are my meds. So, I am pleading for you to please consider so kind of a cost of living raise for us retirees. Thank you for listening. Cathy New”

The following public comment was received multiple times, but only read one time:

“CERS hasn’t had an increase since 2012. During times of surplus in the Commonwealth, some attention should be given to the unfunded liability and the folks who have gone a decade without a COLA. There are also potential new revenue streams that always seem to be stuck in the mud that could help. While everyone must do their share and recognize the unfunded liability, a “forever” freeze on COLA is an unfair burden on pensioners, especially with the inflation experienced by everyone. I would expect the Kentucky Public Pension administrators to lobby for increases for the pension members.

Mark Doran, Pension Member (Retired - Louisville Metro Government)

Linda Noe, Retired CERS Member

Edwin Noe, Retired CERS Member”

Ms. Pendergrass indicated that due to this being a special called meeting, these public comments cannot be discussed and asked that they be brought to the April meeting. She introduced agenda item *Closed Session*. Mr. Powell made a motion and was seconded by Dr. Milkman to go into closed session for the purpose of litigation. The motion passed unanimously.

Ms. Pendergrass read the following closed session statement, “A motion having been made in open session to move into a closed session for a specific purpose, and such motion having carried by majority vote in open, public session, the Board shall now enter close 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”.

Ms. Pendergrass stated that the Board will be taking no action as the result of the closed session discussions and opened the floor for adjournment. Mr. Powell made a motion and seconded by Mr. Foster to adjourn the meeting. The motion passed unanimously.

Copies of all documents presented are incorporated as part of the Minutes of the Board of Trustees held March 31, 2022 except documents provided during a closed session conducted pursuant to the open meetings act and exempt under the open records act.

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Recording Secretary

I, the Chair of the Board of Trustees of the County Employees Retirement System, do certify that the Minutes of Meeting held on March 31, 2022 were approved on April 20, 2022.

Chair of the Board of Trustees

I have reviewed the Minutes of the March 31, 2022 Board of Trustees Meeting for content, form, and legality.

Executive Director
Office of Legal Services



**KENTUCKY COUNTY EMPLOYEES RETIREMENT SYSTEM
STRATEGIC PLAN 2022-2026**



**KENTUCKY COUNTY EMPLOYEES' RETIREMENT SYSTEM
STRATEGIC PLAN 2022-2026**

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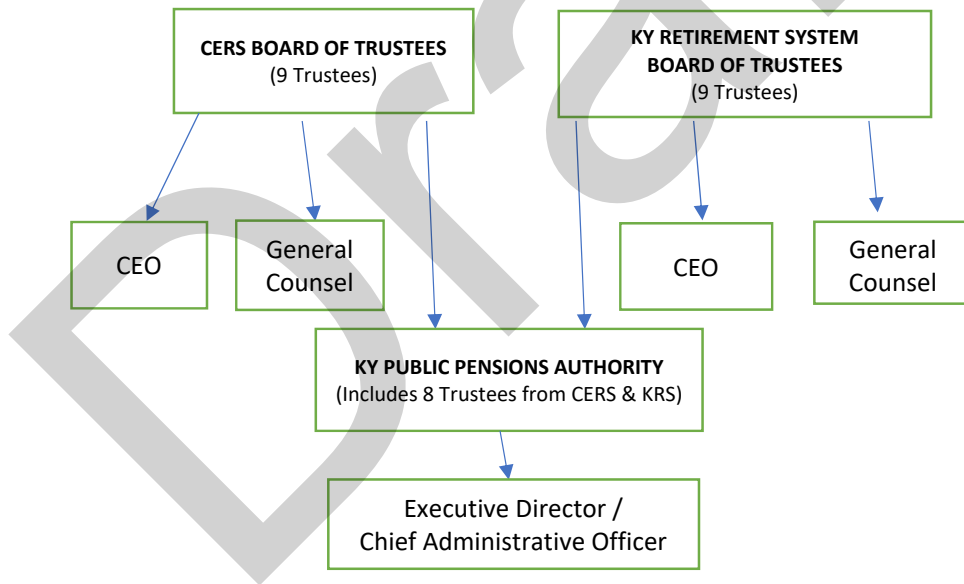
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EXECUTIVE SUMMARY

INTRODUCTION

The Kentucky County Employees Retirement System (CERS) was established July 1, 1958, by the Kentucky General Assembly. Guidance for CERS is found in Chapter 78 of the Kentucky Revised Statutes (KRS). Chapter 78 outlines the governing board structure, postretirement plan design, membership, and authority for employee and employer contributions for both a Non-Hazardous plan and a Hazardous plan. In 2020, the Kentucky General Assembly created a separate governing board for CERS and effective April 1, 2021, the new governance structure was initiated.

Administrative support is provided by the Kentucky Public Pensions Authority (KPPA), also created effective April 1, 2021 (KRS 61.505). CERS is represented by four Trustees on the KPPA governing board along with four Trustees from the Kentucky Retirement Systems (Ky Retirement). Ky Retirement is the governing board for the Kentucky Employees Retirement Systems (KERS—hazardous and nonhazardous) and the State Police Retirement System (SPRS). The relationship among the three board is illustrated below.



Employees of cities, counties, and special purpose governments are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Public Pensions Authority (KPPA), an agency of the Commonwealth of Kentucky. In addition, employees of Kentucky school districts whose positions do not require a degree beyond a high school diploma also participate in CERS. As of April 1, 2021, Kentucky Revised Statute (“KRS”) Section 78.782 shifted the governance of CERS to a separate Board of Trustees of the County Employees Retirement System. The CERS Board manages the CERS trust, including investment management. KPPA provides the day-to-day administration (KRS 61.505) for accounting and benefit

*2022 – 2026 CERS Strategic Plan
Executive Summary (continued)*

administration for CERS. The Kentucky General Assembly has the authority to establish and amend benefit provisions.

CERS, KERS, and SPRS all provide defined benefit pension and other post-employment benefits for public employees. Retirement benefits to these retirees adds over \$2 billion to the Commonwealth's economy across 120 counties.

This inaugural Strategic Plan outlines the key goals and objectives that the CERS Board of Trustees hopes will provide a sustainable governing structure in compliance with the organizational guidance in Kentucky Revised Statutes, Chapter 78. The CERS Board of Trustees recognizes the importance of a partnership with key stakeholders in the Commonwealth, including public employees, employers, professional associations, and the citizens of the Commonwealth. These goals are focused on supporting the CERS organization, investment management, and support services to our membership. Postretirement benefits for both pension income and postretirement healthcare are critical for supporting all the public services to the citizens and the public employees who provide those services. These benefits provide financial security to CERS members and return an economic benefit to the citizens we serve.

The CERS Board of Trustees takes its fiduciary role very seriously. Governing statutes include specific guidance about our fiduciary roles and compliance with both the Kentucky Executive Branch Ethics Code and the CFA Pension Trustee Code of Conduct. In addition, Chapter 78 outlines the basic structures for investment management, Trustee education, as well as accountability and transparency. Goals in this Strategic Plan were selected based on the underlying guidance in Chapter 78 and the expectations of our stakeholders and the citizens of the Commonwealth.

MISSION

To deliver governance for the postretirement plans that support the financial security of our membership.

VISION

Provide a sustainable funding structure with an approach that is viable for all stakeholders.

CORE VALUES

We focus on supporting the KPPA delivery of quality customer service, providing a sound investment strategy, and communicating with our stakeholders to demonstrate transparency and accountability.

Our efforts will adhere to basic principles for quality customer service, ethical conduct, excellence, fiduciary duty, and ongoing operational improvement. We also commit to collaboration with the Kentucky Retirement System Board of Trustees to enhance the retirement programs for KERS and SPRS, as well as CERS.

2022 – 2026 CERS Strategic Plan
Executive Summary (continued)

STRATEGIC GOALS

Now that CERS has completed its organizational first year and adopted Board administrative and governance policies, the focus of the 2022 – 2026 Strategic Plan includes the following goals to strengthen the CERS retirement plans.

- Goal 1** *Actuarial* **Strengthen actuarial administration to achieve full funding of the CERS plans.**
- Goal 2** *Investment* **Enhance investment management to support prudent portfolio performance and compliance oversight.**
- Goal 3** *Audit* **Support the internal audit process to enhance ongoing operational process improvement.**
- Goal 4** *Finance* **Collaborate with Kentucky Retirement Systems to develop a cost-effective administrative cost budget, financial management, and cost allocation policies.**
- Goal 5** *Healthcare* **Support ongoing improvements to the healthcare benefit structure that improve the quality of life for retirees.**
- Goal 6** *Administrative* **Finalize structure to support efficient governance for CERS post-retirement plans.**

The Strategic Goals section outlines the goals, expands the discussion of objectives for each goal, including targets and measurement principles, and describes how the Board will identify success. The last section of the Plan summarizes a proposed timeline for working on the goals and objectives.

FUTURE PLANNING

The CERS Board of Trustees has developed this first five-year strategic plan to set the stage for future improvements in managing the postretirement benefit plans for local government employees. We also plan to update this strategic plan in the future to maintain a dynamic governance and management structure for the CERS plans, members, stakeholders, and citizens.

GOALS, OBJECTIVES, MEASURES AND TARGETS
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Goal 1 *Actuarial* Strengthen actuarial administration to achieve full funding of the CERS plans.

Objective A. Identify key benchmarks for evaluating funded status.
<p>1) Measure: Actuarial discount rate reflects historical earnings in investment performance. Target: Increase discount in gradual increments through 2024.</p> <p>2) Measure: Payroll growth rate parallels local government employment trends. Target: Experience studies conducted every 3 years, beginning in 2022.</p> <p>3) Measure: Inflation analysis in periodic actuarial experience study. Target: Initial CERS experience study in 2023 after actuarial bids for 2022 valuation are accepted.</p>
Objective B.
<p>1) Measure: Target:</p> <p>2) Measure: Target:</p> <p>3) Measure: Target:</p>
Objective C.
<p>1) Measure: Target:</p> <p>2) Measure: Target:</p> <p>3) Measure: Target:</p>

Goal 1. How Will the CERS Board Evaluate Success
<p>1) Employer contributions are consistent across the five years 2022 – 2027.</p>

2022 – 2026 CERS Strategic Plan
Goals, Objectives, Measures, & Targets (continued)

- | |
|--|
| <ul style="list-style-type: none"> 2) Differences between actual results and actuarial assumptions are declining over the five valuations from 2022 – 2027. 3) Funded status continues to improve. |
|--|

Goal 2 *Investment* Enhance investment management to support prudent portfolio performance and compliance oversight.

Objective A. Define quarterly investment performance and compliance reporting to the CERS Investment committee.
<ul style="list-style-type: none"> 1) Measure: Quarterly reports include both short-term (10 years or less) and long-term (20-year & since inception) performances by asset class and CERS plan (Haz, NonHaz, pension & insurance). Target: Resume investment performance reports in March 2022 and provide historical reports for 3/31/2021, 6/30/2021, 9/30/2021, and 12/31/2021 to Investment Committee by May 25, 2022. 2) Measure: Investment compliance reports include comparisons of actual allocations vs IPS target allocations, manager performance vs benchmarks, portfolio performance vs benchmarks. Target: Resume investment compliance reporting to CERS Investment Committee in May 2022. 3) Measure: CERS investment performance compares favorably with peer statewide defined benefit plans. Target: Resume Wilshire reporting to CERS Investment Committee in May 2022.
Objective B.
<ul style="list-style-type: none"> 1) Measure: Target: 2) Measure: Target: 3) Measure: Target:
Objective C.
<ul style="list-style-type: none"> 1) Measure: Target: 2) Measure:

2022 – 2026 CERS Strategic Plan
Goals, Objectives, Measures, & Targets (continued)

<p>Target:</p> <p>3) Measure:</p> <p>Target:</p>

Goal 2. How Will the CERS Board Evaluate Success
<p>1) Performance and compliance reports provide key information for CERS Investment Committee and Board of Trustees oversight.</p> <p>2) Performance and compliance reports are readily available to stakeholders on the KPPA website.</p>

Goal 3 *Audit Support the internal audit process to enhance ongoing operational process improvement.*

Objective A. Evaluate system risks and identify potential internal audit projects to assess controls designed to manage risks.
<p>1) Measure: COSO (Committee of Sponsoring Organizations) Internal Control Framework principles are mapped to key administrative process.</p> <p>Target: By September 30, 2022</p> <p>2) Measure: Internal Audit project plan identifies type of risk that will be assessed during fieldwork.</p> <p>Target: FY 2023 Internal Audit Plan</p>
Objective B. Review Internal Audit project plans and recommend topics for consideration.
<p>1) Measure: Agency risk assessments identifies key processes that merit inclusion on Internal Audit plan.</p> <p>Target: Ongoing</p> <p>2) Measure: External audit offers recommendations for administrative improvements to address internal control risks.</p> <p>Target: January 2023</p>
Objective C. Develop Trustee education sessions to highlight governing board’s responsibility for internal controls and risk management.
<p>1) Measure: Trustee training on COSO Framework</p> <p>Target: October 2022</p>

2022 – 2026 CERS Strategic Plan
Goals, Objectives, Measures, & Targets (continued)

Goal 3. How Will the CERS Board Evaluate Success	
1)	Increased analysis of internal control risks for key administrative processes are outlined in Internal Audit reports.
2)	Internal Audit reports provide insights for continued improvements in governance.
3)	Trustee Education plan is expanded to include discussion of governing board’s responsibilities for internal controls.

Goal 4 *Finance* **Collaborate with Kentucky Retirement Systems to develop a cost-effective administrative cost budget, financial management, and cost allocation policies.**

Objective A. Adopt Administrative Cost Allocation plan to outline policy for accounting allocations to specific plans.	
1)	Measure: KPPA adopts recommended allocation plan. Target: By March 24, 2022
2)	Measure: Quarterly administrative reports include cost allocations for each CERS plan. Target: May 2022
Objective B. Establish framework for budget development and Board approval prior to submission to Governor’s State Budget Director.	
1)	Measure: CERS Finance Committee reviews proposed administrative budget prior to CERS & KPPA Board discussions. Target: August 2023
2)	Measure: Target:
3)	Measure: Target:
Objective C.	
1)	Measure: Target:
2)	Measure:

2022 – 2026 CERS Strategic Plan
Goals, Objectives, Measures, & Targets (continued)

<p>Target:</p> <p>3) Measure:</p> <p>Target:</p>

Goal 4. How Will the CERS Board Evaluate Success
<p>1) KPPA approves administrative budget prior to submission to Governor’s State Budget Director.</p> <p>2) CERS is able to provide input for managing administrative costs.</p>

Goal 5 *Healthcare Support ongoing improvements to the healthcare benefit structure that improves the quality of life for retirees.*

Objective A. Evaluate health insurance plan performance.
<p>1) Measure: Annual reviews by plan administrator Target: Ongoing</p> <p>2) Measure: Target:</p> <p>3) Measure: Target:</p>
Objective B. Evaluate potential for expanding dental and vision benefits.
<p>1) Measure: Cost analysis of expanded benefits outlines impact of benefit changes. Target: 2023</p> <p>2) Measure: Actuarial funded status of CERS Insurance Plans remains stable or improves. Target: 2022 - 2027</p> <p>3) Measure: Target:</p>
Objective C.
<p>1) Measure: Target:</p> <p>2) Measure:</p>

2022 – 2026 CERS Strategic Plan
Goals, Objectives, Measures, & Targets (continued)

<p>Target:</p> <p>3) Measure:</p> <p>Target:</p>

Goal 5. How Will the CERS Board Evaluate Success
<p>1) Benefits are expanded with cost-effective changes to premiums and contributions.</p> <p>2) Actuarial funded status remains stable or improves.</p>

Goal 6 *Administrative* **Finalize structure to support efficient governance for CERS post-retirement plans.**

Objective A. Establish Personnel Committee and develop framework for CERS staff evaluations, professional development, and succession planning.
<p>1) Measure: Evaluation criteria reflect expectations for CEO performance. Target: June 2022</p> <p>2) Measure: Initial CEO performance evaluation is completed. Target: July 2022</p> <p>3) Measure: Professional development plan for CEO is adopted. Target: September 2022</p>
Objective B. Enhance communications with stakeholders.
<p>1) Measure: Periodic articles in association newsletters. Target: 2022 and ongoing</p> <p>2) Measure: Host webinars to highlight key retirement management issues. Target: September 2022</p> <p>3) Measure: Periodic testimony to Public Pension Oversight Board to highlight CERS performance and governance. Target: April 2022</p>
Objective C. Formalize annual planning for Trustee Education.
<p>1) Measure: Quarterly educational sessions provide a minimum of 6 hours of CERS-sponsored education.</p>

2022 – 2026 CERS Strategic Plan
Goals, Objectives, Measures, & Targets (continued)

<p>Target: 2022 and ongoing</p> <p>2) Measure: Education catalog of videos provide Trustees with additional resources for training hours, including specific training for New Trustee Orientation sessions.</p> <p>Target: January 2023</p> <p>3) Measure: All Trustees meet the statutory requirements for 12 hours of annual training.</p> <p>Target: May 2022 and annually thereafter</p>
<p>Objective D. Establish methodology to evaluate effectiveness of Board governance.</p>
<p>1) Measure: Independent analysis of CERS Board governance</p> <p>Target: 2023</p>
<p>Objective E. Evaluate CERS By-Laws and administrative policies to improve Board’s effectiveness and enhance transparency.</p>
<p>1) Measure: By-laws updated to incorporate recommendations from consultant.</p> <p>Target: 2024</p> <p>2) Measure: Administrative policies updated to incorporate recommendations from consultant.</p> <p>Target: 2024</p>
<p>Objective F. Initiate planning process to update CERS Strategic Plan.</p>
<p>1) Measure: Ad-Hoc Committee appointed to review and update Strategic Plan.</p> <p>Target: 2026</p> <p>2) Measure: Administrative policies updated to incorporate recommendations from consultant.</p> <p>Target: 2024</p>

<p>Goal 6. How Will the CERS Board Evaluate Success</p>
<p>1) Timetable and criteria are established for CEO evaluation.</p> <p>2) Stakeholders’ feedback provides insights for additional improvements for system governance.</p>

2022 – 2026 CERS Strategic Plan

Goals, Objectives, Measures, & Targets (continued)

-
- | |
|---|
| <ol style="list-style-type: none">3) Timetable and criteria are outlined for evaluation of CERS Board governance.4) By-laws and administrative policies are updated or confirmed as effective guidance for governance and accountability.5) Process established for updating the CERS Strategic Plan. |
|---|

Draft

2022 – 2026 CERS STRATEGIC PLAN TIMETABLE

This section outlines a proposed timetable for implementation activities for each Goal and Objective of the Strategic Plan. This timing establishes a proposed schedule for activities that will contribute toward the goals and objectives. Activities may be assigned to CERS Executive Staff, the Board and its Committees, with requests for assistance as needed from the KPPA administrative staff.

GOAL/OBJECTIVE	2022	2023	2024	2025	2026
Goal 1. Actuarial Strengthen the actuarial administration to achieve full funding of the CERS plans.					
1) Identify key benchmarks for evaluating funded status.					
2)					
3)					
4)					

GOAL/OBJECTIVE	2022	2023	2024	2025	2026
Goal 2. Investment Enhance investment management to support prudent portfolio performance and compliance oversight.					
1) Define quarterly investment performance and compliance reporting to the CERS Investment committee					
2)					
3)					
4)					

GOAL/OBJECTIVE	2022	2023	2024	2025	2026
Goal 3. Audit Support the internal audit process to enhance ongoing operational process improvement.					
1) Evaluate system risks and identify potential internal audit projects to assess controls designed to manage risks.					
2) Review Internal Audit project plans and recommend topics for consideration.					
3) Develop Trustee education sessions to highlight governing board’s responsibility for internal controls and risk management.					

2022 – 2026 CERS Strategic Plan
 Timetable (continued)

GOAL/OBJECTIVE	2022	2023	2024	2025	2026
Goal 4. Finance Collaborate with Kentucky Retirement Systems to develop a cost-effective administrative cost budget, financial management, and cost allocation policies.					
1) Adopt Administrative Cost Allocation plan to outline policy for accounting allocations to specific plans.					
2) Establish framework for budget development and Board approval prior to submission Governor’s State Budget director					
3)					
4)					

GOAL/OBJECTIVE	2022	2023	2024	2025	2026
Goal 5. Healthcare Support ongoing improvements to the healthcare benefit structure that improves the quality of life for retirees.					
1) Evaluate health insurance plan performance.					
2) Evaluate potential for expanding dental and vision benefits.					
3)					
4)					

GOAL/OBJECTIVE	2022	2023	2024	2025	2026
Goal 6. Administrative Finalize structure to support efficient governance for CERS post-retirement plans..					
1) Establish Personnel Committee and develop framework for CERS staff evaluations, professional development, and succession planning.					
2) Enhance communications with stakeholders.					
3) Formalize annual planning for Trustee education.					
4) Establish methodology to evaluate effectiveness of Board governance.					

2022 – 2026 CERS Strategic Plan
 Timetable (continued)

5) Evaluate CERS By-Laws and administrative policies to improve Board’s effectiveness and enhance transparency.					
6) Initiate planning process to update CERS Strategic Plan.					

Draft



KENTUCKY PUBLIC PENSIONS AUTHORITY

David L. Eager, Executive Director

1260 Louisville Road • Frankfort, Kentucky 40601
kyret.ky.gov • Phone: 502-696-8800 • Fax: 502-696-8822



Kentucky Public
Pensions Authority

To: County Employees Retirement Systems Board of Trustees

From: Betty Pendergrass, CPA, CGFM, Chair
Joint Audit Committee
Kristen N. Coffey, CICA *KNC*
Division Director, Internal Audit Administration

Date: April 20, 2022

Subject: Summary of Joint Audit Committee Meeting

The County Employees Retirement System (CERS) and Kentucky Retirement Systems (KRS) Joint Audit Committee held a special called meeting on April 7, 2022.

1. Items to be forwarded to the Kentucky Public Pensions Authority:
 - a. **Additions to the Annual Audit Plan (see attached) – Seven audits have been added to the prior approved audit plan.*** – The Joint Audit Committee approved the additions to the audit plan as submitted and recommended submitting the plan to KPPA for review. *Passed unanimously.*

RECOMMENDATION: We request the CERS Board of Trustees ratify the actions taken by the Joint Audit Committee and recommend that the KPPA representatives on the CERS Board take these items to KPPA for consideration.

2. The Plan Liquidity Audit was presented and discussed. It will be discussed further at the next Audit Committee meeting on May 24, 2022.
3. The following other items were also discussed during the Joint Audit Committee meeting. These are presented for informational purposes only.
 - a. Internal Audit Budget – *50.21% of budget remaining.*
 - b. Status of current internal audits – *23 current projects and 18 completed projects.*

***Board of Trustees action may be required**

Attachment



Kentucky Public Pensions Authority

Internal Audit Administration



To: Members of the Joint Audit Committee

From: Kristen N. Coffey, CICA *KNC*
Division Director, Internal Audit Administration

Date: April 7, 2022

Subject: Additions to the Internal Audit Plan

The Division of Internal Audit Administration (Division) has authority to look at all areas of operation within the Kentucky Public Pensions Authority (KPPA). The goal of the Division is to ensure areas are complying with established regulations as well as to suggest ways to increase the efficiency of processes. The Division works with the Joint Audit Committee as well as the Executive Management teams of KPPA, the County Employees Retirement System (CERS), and the Kentucky Retirement Systems (KRS) to identify the highest risk areas. The Division is currently working on an overall agency Risk Assessment. Once that Risk Assessment is completed, an Audit Plan will be presented for approval.

During audits, Division staff routinely make recommendations for future audit consideration. The following items have been identified as areas of potential risk and the Division is requesting approval to add these to the current audit plan.

1. Review of all JP Morgan Chase accounts.
 - There are several bank accounts kept at JP Morgan Chase. This audit would include documenting the purpose of each account, reviewing the cash flows in and out of the accounts, assessing how the funds available in the account are handled at year-end, and determining how the balances in these accounts are reported to management and the Boards.
2. Review of Administrative Expenses, including plan specific expenses.
 - Administrative expenses are shared between CERS and KRS. This audit would look at how the administrative expenses are allocated. This process is still in development. We would perform this audit after the process is officially in place.
3. Review of the employer contribution process, including the balancing process.
 - Employers submit contributions to KPPA each month. This audit would include recalculating the amount of the contribution owed to KPPA, verifying that the amounts received are accurate, and documenting how amounts received are balanced.
4. Review of cash receipt process.
 - The KPPA office still receives checks for some payments. This audit would look at how KPPA handles receipt of the checks to ensure the checks are deposited timely and stored securely. In addition to working with the Division of Accounting, this audit would include speaking to other divisions who have reported that checks are occasionally received by their staff.

5. Review of investment manager and performance fee reconciliations.
 - KPPA pays various fees to investment managers. This audit would recalculate the amount of the fee owed and ensure the proper amount was paid. It would also look at the review process for these payments. These amounts are posted to the KPPA website. As a part of this audit, we would ensure the amount posted on the website accurately reflects the amount paid.
6. Review of the investment reconciliation between BNY Mellon and Great Plains.
 - Investment related information from BNY Mellon is uploaded into the general ledger, which is used in the generation of the KPPA financial statements. This audit would reconcile the information in the general ledger to BNY Mellon to ensure it is accurate.
7. Review of the process for investing direct repo.
 - Investment directors follow a process to calculate the repo for each day. This audit would look at the documented process and ensure it is up-to-date with current practices. This audit would also look at the approval process for these transactions.

On February 11, Internal Audit staff requested to add to the current audit plan a review of the process followed by KPPA staff to update an individual's death status in the KPPA system. Approval to begin this audit was granted on February 14 and this audit is currently in progress.

Action Needed: We request the Joint Audit Committee approve the additions to the current Audit Plan.



KENTUCKY PUBLIC PENSIONS AUTHORITY

David L. Eager, Executive Director

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To: Kentucky Public Pensions Authority Board

From: Administrative Expense Allocation Work Group
William O'Mara, CERS Trustee and CERS Finance Committee Chair
C. Prewitt Lane, KRS Trustee and KRS Investment Committee Chair
David L. Eager, KPPA Executive Director
Ed Owens III, CERS CEO
John Chilton, KRS CEO

Date: March 24, 2022

Subject: Allocation of Administrative Expenses

In accordance with KRS 61.505 11(a), the Kentucky Public Pensions Authority (KPPA) Board has the responsibility of determining how to prorate, assign or allocate to County Employees Retirement System and to Kentucky Retirement Systems all expenses incurred by or on behalf of the KPPA.

KPPA administrative expenses are reported quarterly to the CERS, KRS and KPPA boards. The report includes any plan-specific legal expenses that are allocated exclusively to one or more of the plans via end-of-fiscal year adjustments. The issue for the Board's consideration is which methodology to utilize to allocate the bulk of administrative expenses.

The KPPA Board assigned the task of researching allocation options to a work group of trustees and staff leadership who have been meeting since October 2021. The group was tasked with bringing an allocation recommendation back to the KPPA Board. The following is a summary of the research that was considered and the recommendation.

Current Allocation Calculation

Under the previous governance structure, the former Kentucky Retirement Systems Board of Trustees allocated administrative expenses based on the number of members (retired, active and inactive) in each of the pension funds administered by that Board. This was the basis of the calculation for many years.

Direct expenses were allocated to the specific plan in which the cost occurred and were not reflected in the administrative budget but were tracked within the trust expenditures. Examples of direct expenses are benefit payments, insurance premium costs, and legal case expenses specific to investments. Investment fees are not tracked in administrative expenses and are allocated based on asset allocation. If it is an investment administrative expense, like a research/news resource, the allocation is based on the overall asset allocation of the entire portfolio. Manager fees are based on the specific manager's account asset allocation.

The reasoning behind this methodology is that the number of members who require services would be a significant factor in determining the number of counselors required, brochures ordered, benefits calculated, postage, server storage for data and images, etc. As membership increases, the costs of providing services to the membership also increases. This is especially true for staffing which is a significant portion of the administrative budget. In fiscal year 2021, salaries and benefits accounted for 82% of the actual administrative expenditures (\$29,308,549 of \$35,750,705).

Potential Allocation Methodologies

While exploring possible allocation methodologies, the work group strived to be both equitable and simple – equitable to all plans and yet simple enough to maintain transparency and auditability and to limit manual entries.

Membership

As has been done historically, this allocation methodology uses the premise that more membership necessitates more KPPA staff, and staff is a critical component of administrative expenses. Conversely, not all staffing types are membership dependent. For example, not all administrative expenses increase or decrease with membership changes. For example, the actuary has stated that preparing the valuation costs about the same for KERS as it does for CERS. The systems are so large that the difference in membership is not a factor in costs.

Additionally, the work group decided there are different types of staffing positions and that while some positions increased with membership increases not all did. Legal staff, for example, is more dependent on the number of court cases, legislative changes and system complexity than with membership count.

Assets Under Management

Staff explored basing the allocation on percentage of assets under management (AUM) as of June 30 of the previous fiscal year. Important to note is that investment expenses are not tracked within administrative expenses. Neither are assets and liabilities connected to non-investment staffing and compensation levels which can be a driver of administrative costs. However, the work group did consider that AUM is a driver for investment staff compensation.

Even Division between CERS and KRS

Another option explored is a 50/50 split between the CERS and KRS funds. The primary reasoning on this option is that not all services are membership dependent. The example provided earlier is the actuary. Additionally, while staffing constitutes a major portion of the administrative budget, not all staffing positions increase when membership increases. Executive leadership, for example, is based on defined roles and not on membership. Information Technology security and development is not exclusively driven by the number of members but also by the complexity of the plan rules.

Hybrid

A final option considered by staff is a hybrid of membership count, sharing expenses evenly and AUM. The premise for this is that while there is merit to each allocation methodology. None is a perfect solution on its own.

With the overarching goals of being equitable to all plans and yet simple enough to maintain transparency and auditability and to limit manual errors, the work group decided a hybrid approach may be best. However, for simplicity one percentage to use on all expenditures is critical to reduce human error. Therefore, the decision was made to use a hybrid approach to calculate one percentage for each Board for all expenses.

The administrative budget was split into large categories. Large categories were defined as the usual budget categories and any line items that are \$100,000 or more. Each category was assigned the allocation method that best fit that category. Multiplying the budget for that category by the methodology percentage, an overall total budgeted dollar amount by system was calculated. Using the total dollar amount by system and the total fiscal year budget a single hybrid percentage was calculated for each Board.

Budget Category	Allocation Method	Budgeted FY22	CERS	KRS
Membership as of 6/30/21		100.00%	65.04%	34.96%
50/50		100.00%	50.00%	50.00%
AUM (pension only) as of 6/30/21		100.00%	73.04%	26.96%
PERSONNEL				
KPPA Staff	Mem	\$29,665,107	\$19,294,186	\$10,370,921
KPPA Exec	50/50	\$1,300,000	\$650,000	\$650,000
KPPA Legal	50/50	\$2,500,000	\$1,250,000	\$1,250,000
KPPA Investments	AUM	\$2,100,000	\$1,533,840	\$566,160
Legal contracts	50/50	\$725,000	\$362,500	\$362,500
Auditing	50/50	\$118,350	\$59,175	\$59,175
Actuarial Services	50/50	\$700,000	\$350,000	\$350,000
Medical Examiners/Hearing Off.	Mem	\$1,284,600	\$835,504	\$449,096
Other Services (facility security, HR consults, misc contracts)	50/50	\$153,350	\$76,675	\$76,675
OPERATIONAL				
Building Rental (Frkt)	Mem	\$1,100,000	\$715,440	\$384,560
Operations (IT,Lville rent, travel, dues, office supplies)	Mem	\$4,294,137	\$2,792,907	\$1,501,230
Contingency	50/50	\$4,064,956	\$2,032,478	\$2,032,478
TOTALS		\$48,005,500	\$29,952,704	\$18,052,796
Hybrid Percentage			62.39%	37.61%

Comparison of Methodologies

FY 2022 Budget is \$48,000,500

	Membership		AUM		Even Split		Hybrid	
CERS	65.04%	\$ 31,222,777	73.04%	\$ 35,063,217	50.00%	\$ 24,002,750	62.39%	\$ 29,950,631
KRS	34.96%	\$ 16,782,723	26.96%	\$ 12,942,283	50.00%	\$ 24,002,750	37.61%	\$ 18,054,869
TOTAL	100.00%	\$ 48,005,500	100.00%	\$ 48,005,500	100.00%	\$ 48,005,500	100.00%	\$ 48,005,500

Recommendation:

The work group recommends the following:

1. A combination of all of these methodologies be used to define a fiscal percentage for CERS and for KRS
CERS 62.39%
KRS 37.61%
2. Allow KRS and CERS Boards to determine the split for the plans under their administrative purview
3. Reevaluate the CERS/KRS split prior to the beginning of every fiscal year
4. Make the effective date of the recommended CERS/KRS percentages July 1, 2021, and instruct KPPA accounting staff to make correcting entries to implement that date
5. Since the evaluation process was just completed, use the FY 2022 hybrid percentage for FY 2023

KRS 61.505 11(a)

- (11) (a) All expenses incurred by or on behalf of the Kentucky Public Pensions Authority shall be paid by the systems administered by the Kentucky Retirement Systems or the County Employees Retirement System and shall be prorated, assigned, or allocated to each system as determined by Kentucky Public Pensions Authority.** Any additional initial costs determined by the authority to be attributable solely to establishing a separate County Employees Retirement System board and the Kentucky Public Pensions Authority as provided by this section and KRS 78.782 shall be paid by the County Employees Retirement System. Any additional ongoing annual administrative and investment expenses that occur after the establishment of a separate County Employees Retirement System board and the Kentucky Public Pensions Authority that are determined by the authority to be a direct result of establishing a separate County Employees Retirement System board and the Kentucky Public Pensions Authority shall be paid by the County Employees Retirement System.
- (b) Any other statute to the contrary notwithstanding, authorization for all expenditures relating to the administrative operations of the Kentucky Public Pensions Authority, the Kentucky Retirement Systems, and the County Employees Retirement System shall be contained in the biennial budget unit request, branch budget recommendation, and the financial plan adopted by the General Assembly pursuant to KRS Chapter 48. The request from the Kentucky Public Pensions Authority shall include any specific administrative expenses requested by the Kentucky Retirement Systems board of trustees or the County Employees Retirement System board of trustees pursuant to KRS 61.645(13) or 78.782(13), as applicable, that are not otherwise expenses specified by paragraph (a) of this subsection.

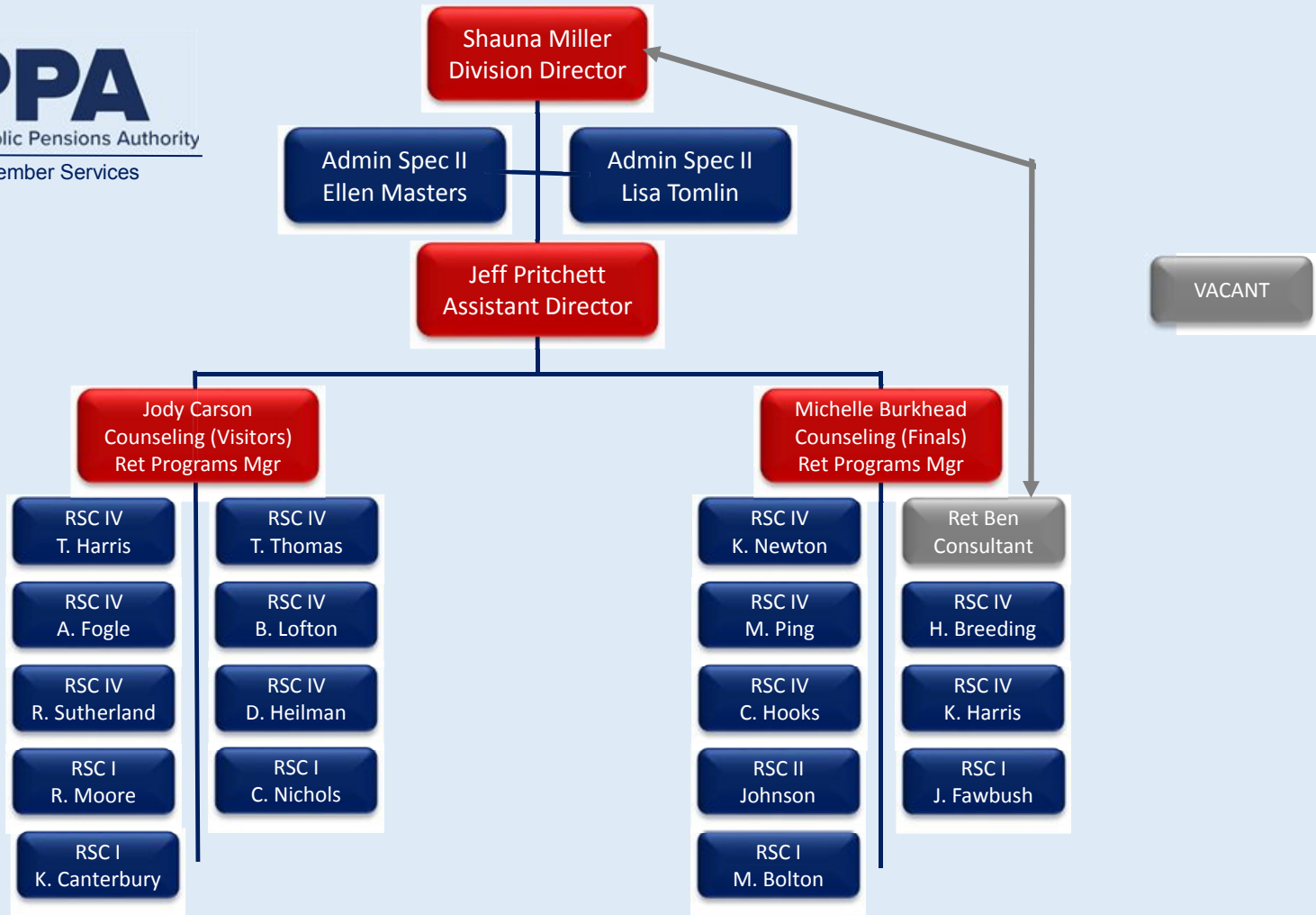


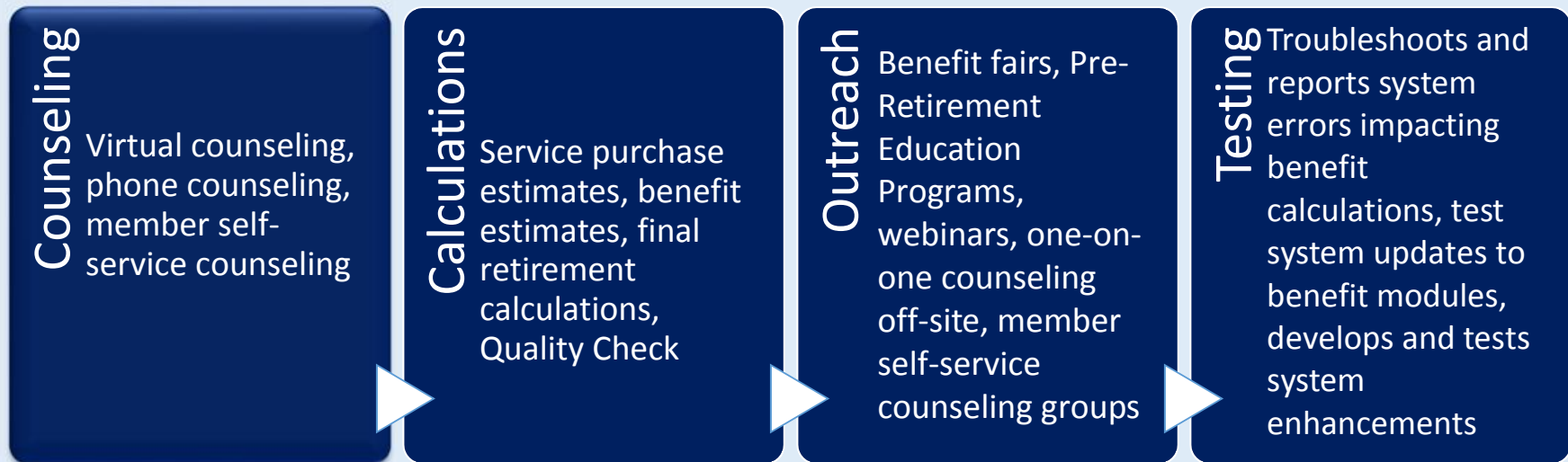
KPPA

Kentucky Public Pensions Authority

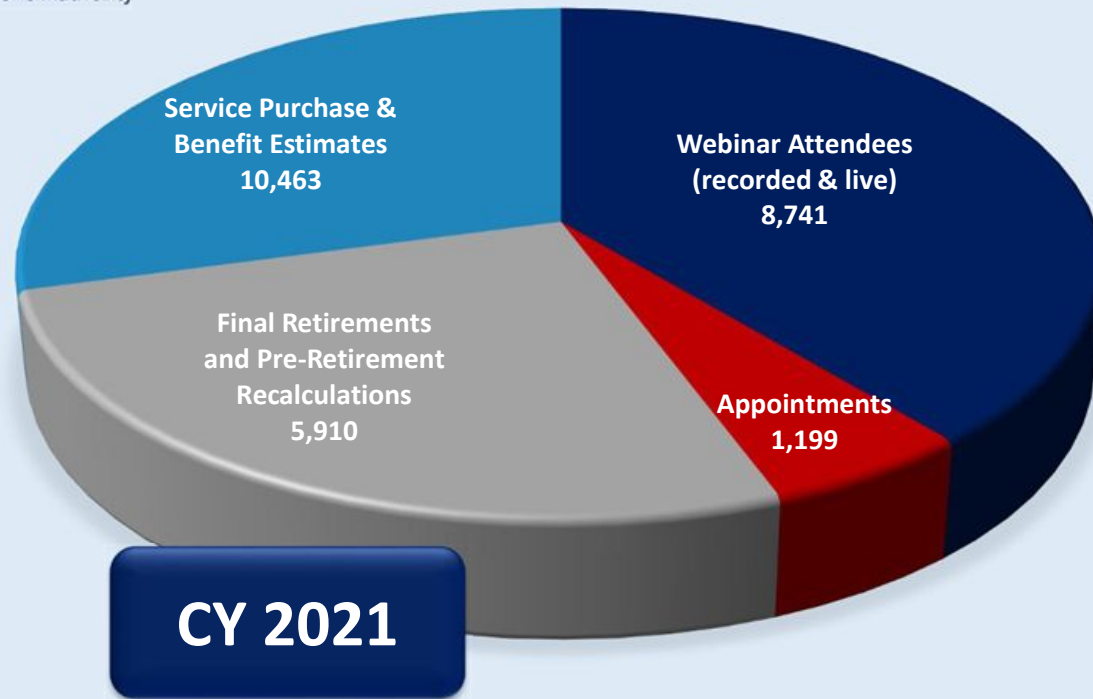
**Office of Benefits
Division of Member Services**

Shauna Miller, Division Director

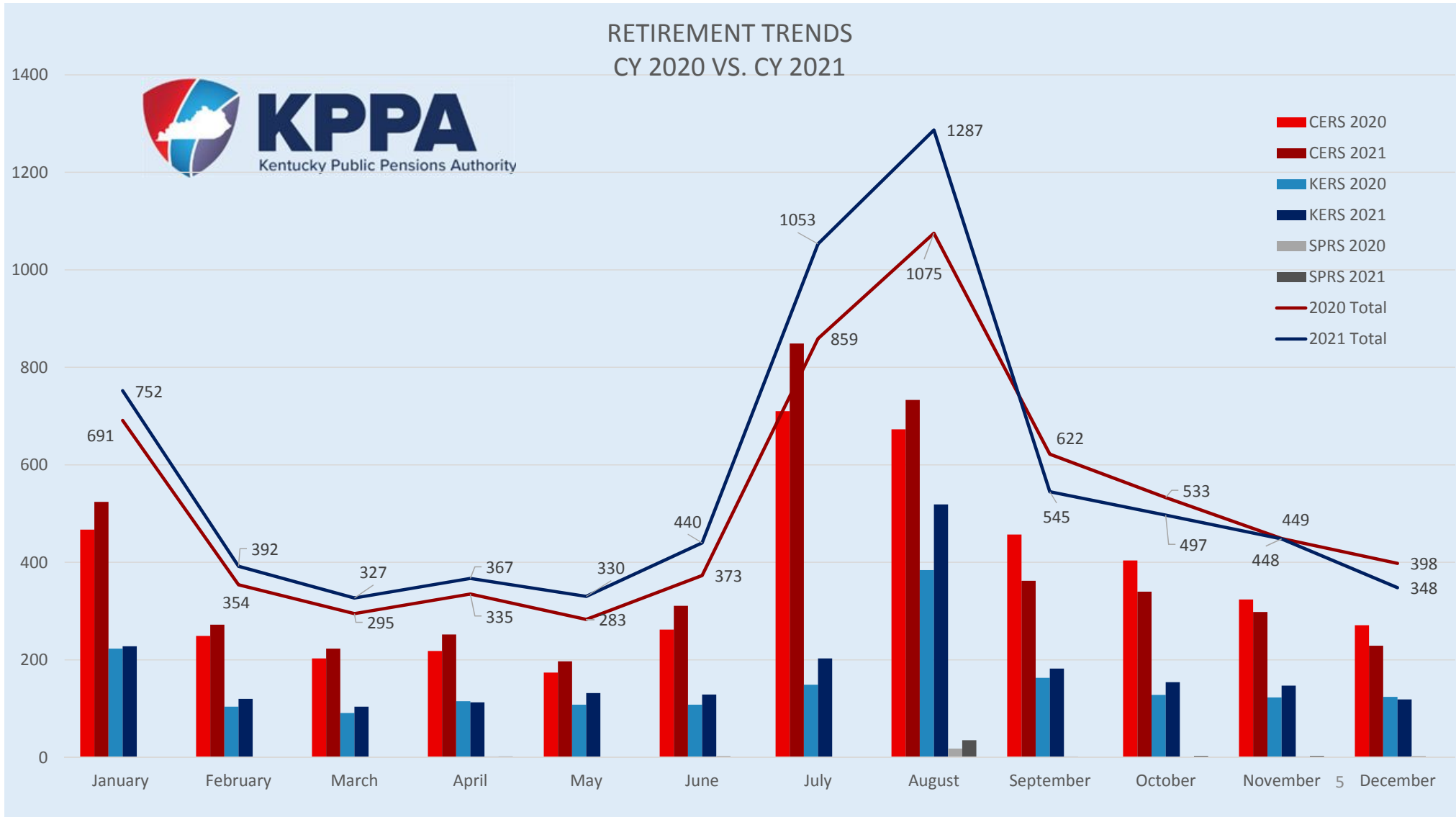




Roles & Responsibilities



Member Services Statistics





Online Retirement

- Launched in MSS February 2020
- 2020- 2,228 members applied for retirement online (46% CY Feb 2020 to CYE)
- 2021- 3,975 members applied for retirement online (59% CY 2021)

Document Upload

- Launched in MSS February 2020
- Allows members to upload documents securely via Member Self Service

Benefit Estimates

- Benefit Estimate Calculator enhanced to encompass more specific member account info

Internal Messaging Center (IMC)

- Immediate and secure access to calculations via Member Self Service

MSS Enhancements



- ✓ Continue to identify system and procedural improvements
- ✓ Retirement Benefit Consultant
- ✓ Update and expand retirement webinar topics
- ✓ Maintain a backlog response time of 2 weeks or less
- ✓ Reintroducing in-person services
- ✓ Additional MSS Enhancements
 - Service Purchase Calculator to generate cost calculations that payments can be applied to
 - Retirement documents in IMC

Looking Forward



Our staff regularly receives positive comments from our membership. Here are a couple of our favorites:

“Here is a belated but heartfelt thank you for helping answer my questions about retirement in our phone session. You really focused on all of my concerns and even brought up some things I had not thought of. Your job can be challenging with so many policies and rules to remember, not to mention some difficult cases. Thanks for taking time to thoroughly help me.”

Member expressed his appreciation for offering virtual appointments stating that he had already scheduled his appointment when an opportunity to travel with his family came up. He was very thankful that he was able to keep his appointment while sitting in Tomorrowland outside of Space Mountain!

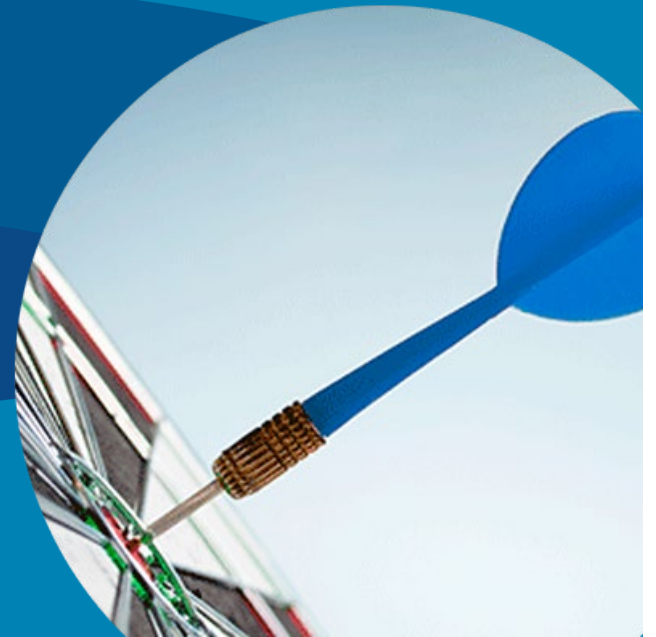
Honorable Mentions



Impact of Benefit Increases County Employees Retirement System (CERS)

November 8, 2021

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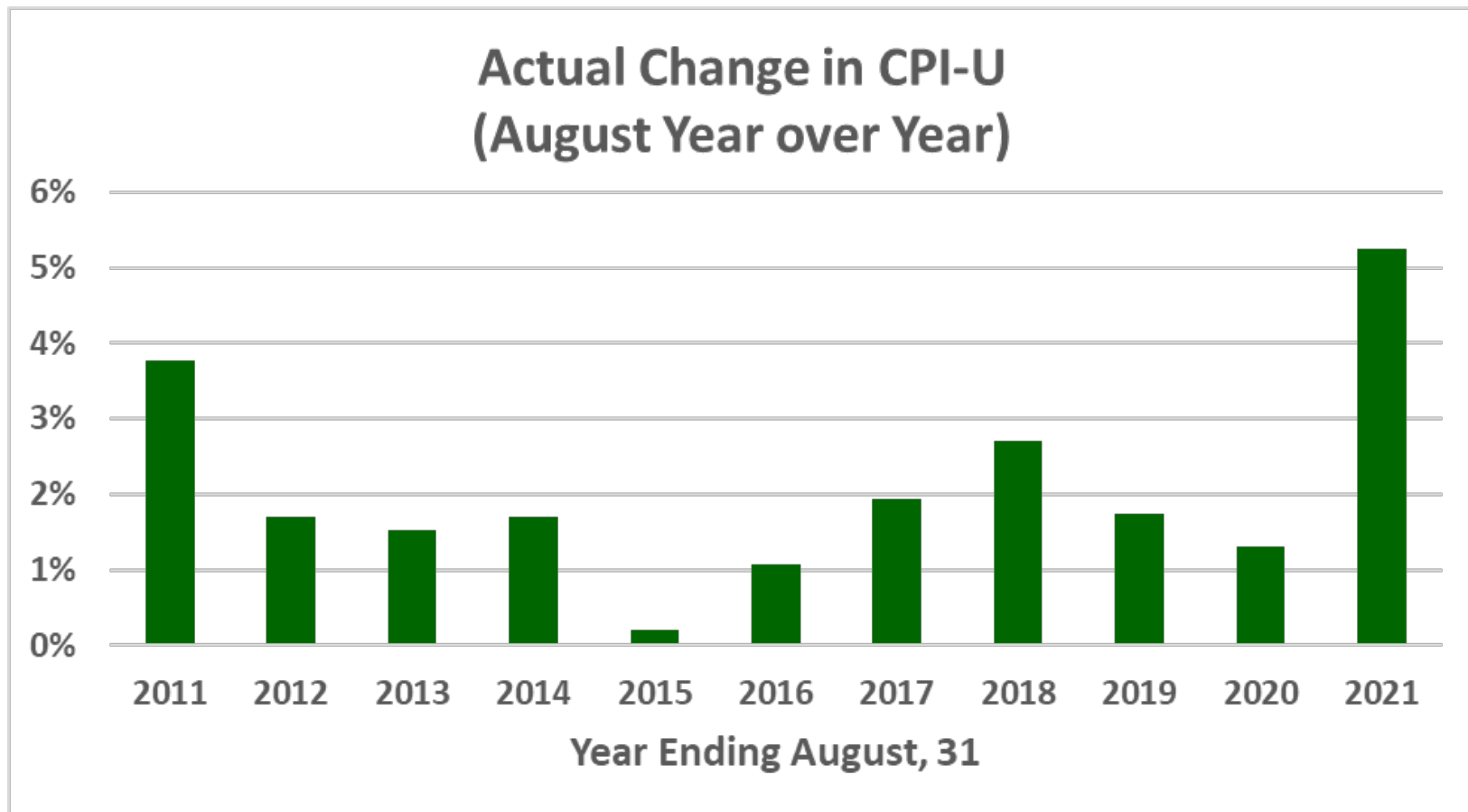


Contents

- Cost-of-Living Adjustment (COLA) Information for the County Employees Retirement System
- Included Information:
 - Historical change in inflation
 - Distribution of plan retirees
 - Estimated decrease in retiree purchasing power
 - Estimated COLA Cost



Actual Historical Change in Inflation

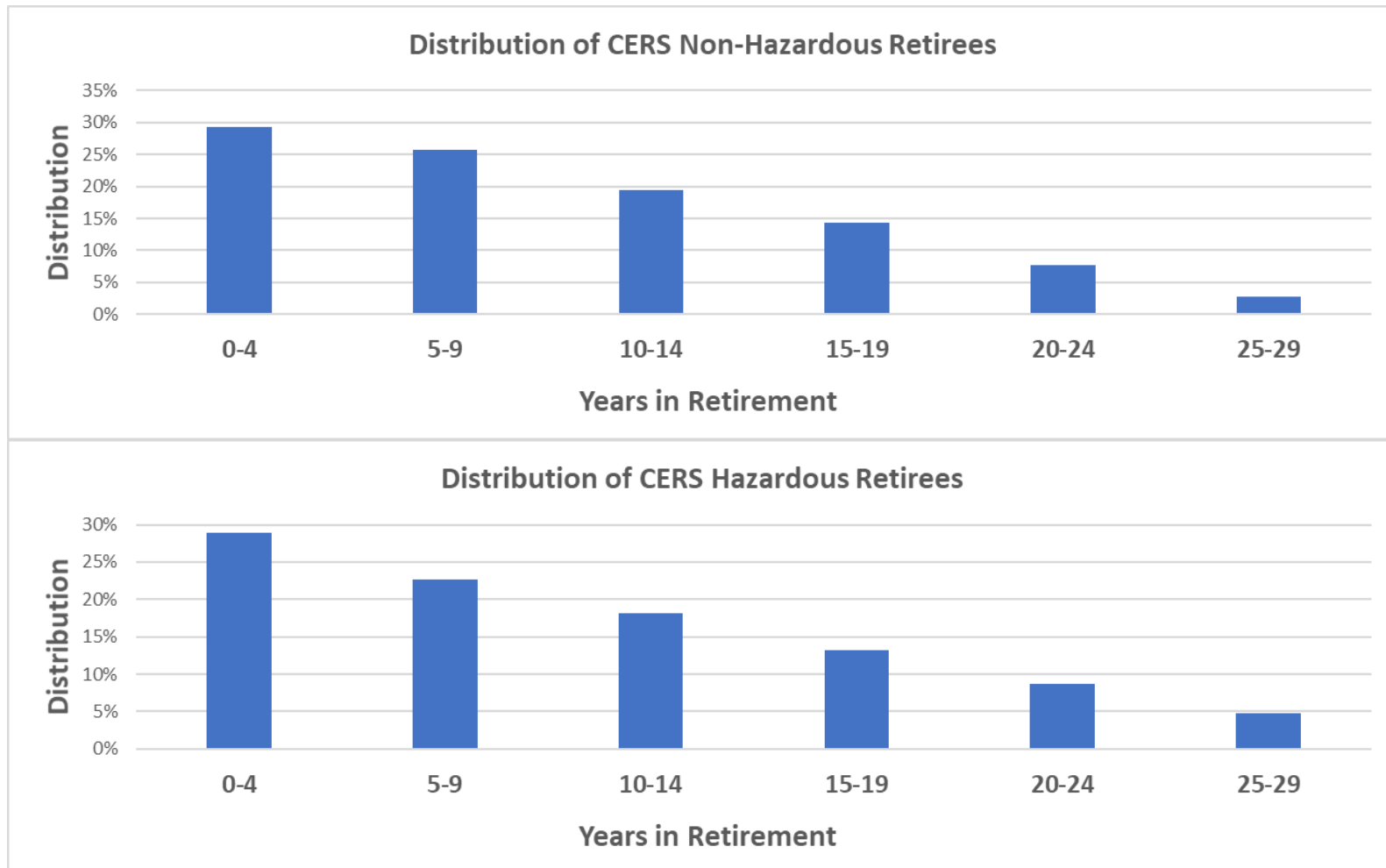


Estimated Change in Retiree Purchasing Power

- The retirement benefits provided by CERS (NonHazardous and Hazardous) does not provide automatic COLA
 - Last ad hoc CPI based COLA provided in 2008
 - Last COLA (1.5%) provided in 2011
- The majority of retirees also participate in Social Security, thus have some inflation protection from their Social Security Benefit

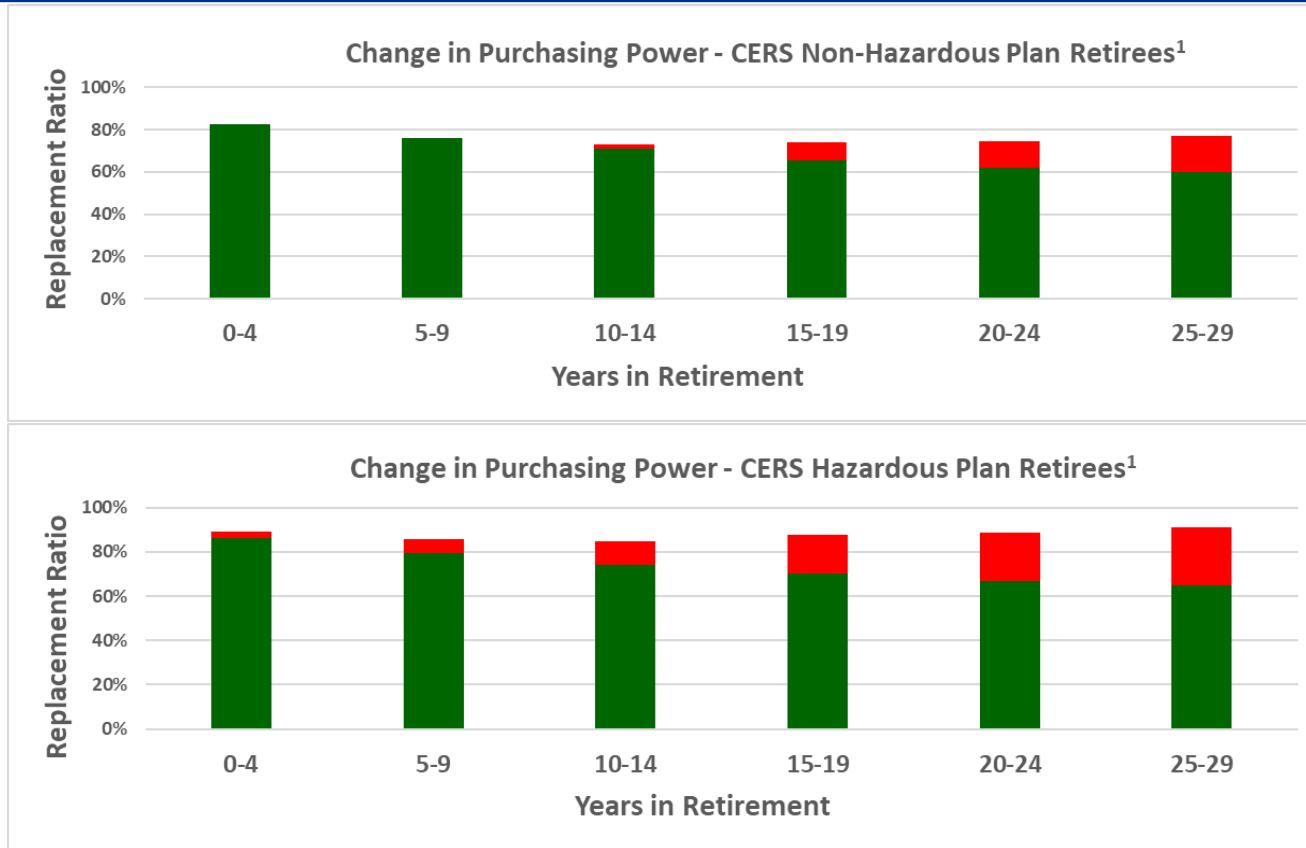


Distribution of Non-Disabled Retirees



¹ Distribution includes all nondisabled retirees regardless of current age as of June 30, 2020. Count is 55,440 Non-Hazardous and 8,639 Hazardous retirees, respectively.

Estimated Decrease in Retiree Purchasing Power of Retirees Currently over Age 65



■ Current Purchasing Power

■ Decrease in Purchasing Power Since Retirement

¹ Analysis limited to nondisabled retirees who retired with 20 or more years of service with a normal retirement benefit (excluding early and disabled retirees) and who are currently over age 65. The analysis assumes the average retiree's age 65 Social Security Benefit is 35% of their final earnings at their retirement date and does not reflect any retirement resources attributable to personal savings. Count is 3,870 Non-Hazardous and 1,057 Hazardous retirees, respectively.

KRS 61.691 and KRS 78.5518

- Effective July 1, 2009, a 1.5% COLA is granted if
 - Funded ratio is greater than 100%, or
 - General Assembly fully prefunds the increase
- Statues also allow for additional increases to be granted to adjust for changes in cost of living if the General Assembly fully prefunds the cost of the benefit increase



Funded Status of Pension Funds (\$millions)

	CERS Non-Haz	CERS Haz	Combined
<u>Funded Status of Pension Funds as of June 30, 2021</u>			
Actuarial Accrued Liability	\$ 14,895	\$ 5,629	\$ 20,524
Actuarial Value of Assets	<u>7,716</u>	<u>2,629</u>	<u>10,345</u>
Unfunded Actuarial Accrued Liability	\$ 7,179	\$ 3,000	\$ 10,179
Funded Ratio at June 30, 2021	52%	47%	50%
FY21 Investment Gain (Market Value) – Pension Fund Only	\$ 1,331	\$ 450	\$ 1,780

Please see the June 30, 2021 Actuarial Valuation report for a summary of the assumptions, methods, plan provisions and data used for this analysis.



Cost of Possible Benefit Increase (\$millions)

	CERS Non-Haz	CERS Haz	Combined
<u>Cost to Fully Fund Benefit Increase</u>			
1.5% "Dividend", or Increase, in Current Retiree Benefits, Increase Payable for Five Years Only*	\$ 62	\$ 22	\$ 84
* Retirees' benefits reduce back to amount prior to 1.5% increase after five years			
One-Time 13 th Check to Current Retirees	69	24	93
One-Time 1.5% Increase in Current Retiree Benefits, Benefit is <u>not</u> Reduced after Increase	116	50	166
Five (5) 1.5% Annual Increases in Current Retiree Benefits, Capped after Five Years, Benefit is <u>not</u> Reduced after Five Years	494	215	709
Permanent Annual 1.5% COLA to Current and Future Retirees	2,105	945	3,050

Except where noted, analysis based on the results of the June 30, 2020 Actuarial Valuation. Please see the June 30, 2020 Actuarial Valuation report for a summary of the assumptions, methods, plan provisions and data used for this analysis. Analysis is further based on June 30, 2021 market value of asset information provided by KPPA on August 20, 2021.

