

**Kentucky Retirement Systems Board of Trustees
Special Called Board Meeting
November 1, 2022, 10:00 a.m. ET
Live Video Conference/Facebook Live
AGENDA**

- | | |
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| 1. Call to Order | Lynn Hampton |
| 2. Legal Public Statement | Office of Legal Services |
| 3. Roll Call/Public Comment | Sherry Rankin |
| 4. Approval of Minutes – September 14, 2022* | Lynn Hampton |
| 5. Status update of FY22 Financial Statement External Audit | Allen Norvell, Blue & CO
Ryan Graham, Blue & CO |
| 6. Review DRAFT 2022 Actuarial Valuation * | Danny White, GRS
Janie Shaw, GRS |
| 7. Joint Retiree Health Plan Committee Report | Connie Pettyjohn |
| 8. KRS Update | John Chilton |
| 9. KPPA Update | David Eager |
| 10. Department Spotlight – IT | Dominique McKinley |
| 11. New Business** | Lynn Hampton |
| 12. Closed Session** | Lynn Hampton |
| 13. Adjourn* | Lynn Hampton |

**Board Action Required*

***Board Action May Be Required*

**MINUTES OF MEETING
BOARD OF TRUSTEES KENTUCKY RETIREMENT SYSTEMS
SEPTEMBER 14, 2022 AT 10:00 AM ET
VIA LIVE VIDEO TELECONFERENCE**

At the meeting of the Kentucky Retirement Systems Board of Trustees held on September 14, 2022, the following members were present: Lynn Hampton (Chair), Keith Peercy, David Adkins, John Cheshire, Prewitt Lane, Pamela Thompson, Ramsey Bova, and William Summers, V. Staff members present were KRS CEO John Chilton, CERS CEO Ed Owens, III, David Eager, Erin Surratt, Rebecca Adkins, Michael Board, Victoria Hale, Connie Pettyjohn, Kristen Coffey, Connie Davis, D’Juan Surratt, Carrie Bass, Leigh Ann Davis, Madeline Perry, Dominique McKinley, Jared Crawford, Jessica Beaubien, Elizabeth Smith, Ashley Gabbard, Steve Willer, Katie Park, Phillip Cook, and Sherry Rankin. Others present were Larry Loew and Tracey Garrison with Humana.

Ms. Hampton called the meeting to order.

Ms. Hale read the Legal Public Statement.

Ms. Rankin called roll and read the received *Public Comment* aloud:

The Calcaterra Pollack investigation states that its report has provided recommendations for best practices on investment activities. Those suggestions are included within a Legal Recommendations document that has not been made public. In view of the obvious shortcomings revealed by the report, we call upon the KRS board to publicly disclose the recommendations relating to best investment practices and to provide to stakeholders a progress report on whether those practices have been implemented. Jim Carrol.

Ms. Hampton introduced agenda item *Approval of Minutes – June 6, 2022 and September 1, 2022*. A motion was made by Mr. Lane and seconded by Mr. Summers to approve the June 6, 2022 minutes as presented. The motion passed unanimously. A motion was made by Mr. Summers and seconded by Mr. Peercy to approve the September 1, 2022 minutes as presented. The motion passed unanimously.

Ms. Hampton introduced agenda item *State Police Retirement System Trustee Election*.

Mr. Peercy exited the meeting

Ms. Madeline Perry stated that one candidate is on the ballot for the SPRS Election and requested that the Board approve Mr. Keith Percy to be placed on the ballot and to approve the ballot as being the official ballot. Mr. Adkins clarified that there is currently not a candidate on the ballot. The Board would be taking action to place a candidate on the ballot and indicate that it is the official ballot.

A motion was made by Mr. Adkins to elect Keith Percy as a candidate to be placed on the ballot for the upcoming SPRS election and for a roll call vote to be taken. Mr. Lane seconded the motion and Ms. Rankin facilitated the roll call vote. The KRS Board of Trustees voted unanimously to elect Keith Percy as the candidate to be placed on the ballot for the upcoming SPRS election. The motion passed unanimously. Mr. Adkins made a motion to declare the ballot the Official Ballot for the upcoming SPRS Election. The motion was seconded by Mr. Summers and passed unanimously.

Mr. Percy returned to the meeting

Ms. Hampton announced to Mr. Percy that he was placed on the Official Ballot for the upcoming SPRS Election.

Ms. Hampton introduced agenda item *Quarterly Performance Reports*. Mr. Willer presented the Quarterly Performance Reports for June, July, and August. He stated that there was elevated volatility in those months. June was an extremely difficult month for markets, stated Mr. Willer, as global equities were down about 8.5% and the high-yield market was down about 6.5%. Loans were down by about 2% and core bonds were down approximately 1.5% for the month of June. During the month of July, global equities were up over 7% with U.S. equities up almost 9.5%. High-yield increased by about 6% and loans increased over 2%. Core bonds increased almost 2.5% and commodities in real estate and cryptocurrencies also increased in July. In August, investors anticipated a period of potential slowing economic growth and rising unemployment rates while inflation and prices for consumers remained high, said Mr. Willer. Global equities were down 4%, high-yield was down 2.5%, and core bonds suffered by about 3%. Mr. Willer reported that about one billion dollars was invested in public markets across the pension and insurance trust with about 350 million of those funds for KERS Hazardous, KERS Nonhazardous, and SPRS. Currently, there is about 300 to 400 million in committed capital for both real estate and private equity mandates. Mr. Willer reported that the Office of Investments is currently engaged in several searches including multi-asset commodities, agriculture, infrastructure, and a variety of unique and compelling asset

strategies. Mr. Willer stated that he is also evaluating using public market securities and short-term proxies for private asset classes. The role of the Office of Investments is to work alongside the Investment Committee, Board of Trustees, and Wilshire to establish the asset allocation targets and ranges in the IPS, stated Mr. Willer. These ranges are the guide under which Investment Staff must operate. Mr. Willer reported that all funds held up relatively well throughout the fiscal year against benchmarks and peers. The median pension plan was down about 10% to 11% for the fiscal year ending June 30, 2022. The KERS pension plan was down 5.19%, KERS Hazardous was down 5.95%, and SPRS was down 4.63%. The ten-year and thirty-year returns for all funds exceeded their IPS Policy benchmarks. In July, KERS was up 3.2%, KERS Hazardous was up 4% and SPRS was up 3.1%. Mr. Willer felt that this was a strong performance. Additionally, all funds exceeded their benchmarks by 12 to 76 basis points. Plans were down about 1.5 to 180 basis points across funds in August, however, performance held up well with outperformance relative to the index of about 30 basis points for the month of August, said Mr. Willer. Next, Mr. Willer reviewed the Total Fund Attribution of the KERS Pension Plan as of June 30, 2022 with the Board. He stated that allocation was the most significant hindrance on performance across all plans. Mr. Willer provided return, standard deviation, and sharpe ratio metrics for the KERS Pension Plan versus all public plans for the period ending June 30, 2022. Ms. Hampton asked how long he believes it would take for cash to be moved into investments and rebalanced. Ms. Bova asked if the standard deviation included the large cash position. Mr. Willer stated that the standard deviation metric included all allocations and reflects what the standard deviation was as of June 30, 2022. Mr. Lane added that the large cash allocations are not really an investment strategy and stated that he was pleased to get these contributions from the State. Further, Mr. Lane stated that it takes a while after the cash comes in to get it invested. Mr. Willer advised that he and his team are prudent and opportunistic in their approach and make small investments overtime as opposed to investing large sums at once. Mr. Eager stated that the Legislative Research Commission (LRC) has requested that the impact of being off target be reported. Mr. Summers asked when that report to LRC would be due. Mr. Eager stated that no date was specified but would likely be discussed at the next meeting of the Public Pension Oversight Board (PPOB) meeting or the following PPOB meeting. He added that some of the benchmarks had changed causing an increase in the real estate benchmark which resulted in an underweight period of time. Mr. Willer reviewed the Asset Allocation Compliance report for period ending June 30, 2022 and stated that there were underweights in real estate and real returns and corresponding overweights in cash and specialty credit. The general fund allocation to SPRS was significant relative to the size of the fund and resulted in a little over 45% of the fund being cash

when the allocation was received. Mr. Willer reported that about 60% of that appropriation had been invested as of the end of May 2022. Mr. Lane added that it is fairly liquid to move cash into public equity markets and core fixed income. However, that is not the case for other asset allocations as there is often lag time. Mr. Lane added that the use of proxy assets had been discussed in the past but are ultimately not what the Board wants to own in those asset classes. Mr. Adkins asked what the assumptions or expectations should be in regards to targets. He explained that the Board understands the challenges to reaching targets quickly but would like to know if there are internal processes in place to prevent being outside of the range bands in the future. Further, should the Board have the expectation that this will not occur again once remediated or is there validity in moving in and out of the bands. Mr. Willer stated that the discretion provided by Board and Investment Committee is that Staff may operate within those approved ranges; therefore, staying within ranges is the primary goal as opposed to focusing on the target. Ms. Hampton stated that it is unlikely that funds would be turned down if it meant allocations would be outside of their ranges. Mr. Willer agreed and stated that he would accept funds if it meant being outside of range. Mr. Summers praised Mr. Willer and his presentation and asked that he continue to educate and communicate with the Board on these Investment matters. Mr. Willer agreed that continued education and a high level of communication is important between Staff, Committees, and the Board of Trustees. Mr. Eager advised that Staff has requested that LRC do a training session during the first week of the next general assembly for new representatives and senators. Mr. Adkins asked if this is the time to have a cash position that can go into private equities given that the markets are down and if there is a reason to be optimistic. Mr. Willer confirmed that now is an opportune time considering the potential volatility in markets. Mr. Willer briefly reviewed the unit holdings, investment fees and expenses, and investment strategy and plan guidelines compliance reports with the Board. Ms. Bova asked why the public equity exceptions have not been moved into the category in the S&P 500 Index in which they belong to be compliant. Mr. Willer advised that they are held in the internally managed S&P 500 portfolio and the guidelines of that portfolio state that any security held must be within the S&P 500. Mr. Willer advised that most of these were the result of a spin-offs and are fractional shares. Mr. Willer stated that typically these fractional shares are held in suspense or written off and will be cleaned up on the internal rebalance portfolio. Ms. Bova was surprised to find that KRS is out of compliance due to these fractional shares. Mr. Lane stated that the Investment Committee will be reviewing this issue more closely and suggested that the Committee define what the S&P 500 'not in compliance' definition is. Mr. Willer added that implementing a de minimis rule may be a solution, however, he explained that this is not an

important area of focus relative to compliance.

Ms. Hampton introduced agenda item *Quarterly Financial Statements*. Ms. Rebecca Adkins presented the item. She began by presenting the Combining Statement of Fiduciary Net Position. Pension plans were up 3.04% from June 30, 2021 to June 30, 2022. The increase was attributed to the 215 million dollars which was deposited to SPRS at the end of the fiscal year, stated Ms. Adkins. KERS Nonhazardous was down .27% and KERS Hazardous was down 6.37%. Ms. Adkins advised that SPRS was up 54.6% due to the 215 million dollars; however, if the funds had not been appropriated, SPRS would have been down 5.52%. Next, Ms. Adkins reviewed the Combining Statement of Fiduciary Net Position for the Insurance Funds. KERS Nonhazardous was down 3.81%, KERS Hazardous was down 7.29%, and SPRS was down about 6.5%. The Pension Funds Contribution Report was also reviewed; total inflows were down and outflows were up. There was a significant loss in unrealized gains, however, all plans were cash flow positive. Ms. Hampton asked if it would be possible to break out the FY21 Employer Contributions and the Actuarially Accrued Liability for comparative purposes. Ms. Adkins advised that this cannot be done because the data was not separated in FY21 as it was in FY22, however, she could provide a total. Mr. Eager suggested that separating the normal cost and the liability pay down would perhaps provide a better picture. Ms. Adkins agreed that Mr. Eager's suggestion would work and said she would calculate numbers. Ms. Adkins reviewed the KERS and SPRS Insurance Fund Contribution Report for period ending June 30, 2022. She reported that contributions were down 20 million dollars due to the pension-insurance split provided by the actuary; less money was put into insurance. Ms. Adkins stated that KERS Nonhazardous is cash flow positive in insurance even prior to investment returns and that KERS Hazardous and SPRS are both cash flow negative. Mr. Eager stated that if House Bill 8 had not been passed, the funds received would have been 34 million dollars less. Ms. Adkins reported on the Administrative Budget. She stated that KPPA was under budget by about 15.67%. Line items over budget included adoption assistance, Ice Miller (legal), auditing, medical reviewers, natural gas, printing, conferences, and office supplies. A total of 40.4 million dollars was spent in FY22. Ms. Hampton asked Ms. Adkins to further explain why KPPA was under budget and Ms. Adkins advised that it was due to the reserve amount. She further explained that when legislative changes were occurring about four or five years ago, Staff requested an increase in the budget and placed those additional funds in the reserve. This reserve allows flexibility should additional projects or legislative work arise after the budget has been completed for the year. However, there are cons to having this reserve amount which has been a topic of discussion for the Board in the past. Funds were moved out of the reserve for the first time in FY22 for Johnson Bowman Branco, LLP. to

provide legal services to KRS and CERS. Ms. Adkins advised that the Board may decide that they do not want the reserve; however, reacquiring the reserve would require a statutory change. Ms. Hampton asked if there is a balance sheet account for the reserve. Ms. Connie Davis stated that she would look into it. Ms. Elizabeth Smith added that there is not a balance sheet account because the funds are not moved until necessary; the funds stay in the trust and are spent as needed. Ms. Adkins reviewed the FY22 hybrid percentages for the Board separation expenses which were effective July 1, 2022 as well as plan-specific expenses and year-end adjustments. Ms. Hampton asked Ms. Adkins to review the plan for next year in developing the hybrid percentages. She stated that the KPPA Board elected to use those hybrid percentages effective July 1, 2022 and to use them for the entirety of FY23. Moving forward, a study will be required annually or biennially to determine an equitable division of administrative expenses. She advised that the findings of that study will be presented and a recommendation will be made to the Board. Next, Ms. Adkins reported on the KRS Outstanding Invoices by Type and Employer which was a previous request of the Board. Lastly, Ms. Adkins briefly reviewed the KERS and SPRS Penalty Invoices Report and advised that invoice penalties cannot be assessed to the SPRS by statute and that the decision to issue a penalty to an employer is made by Connie Davis, Division Director of Accounting.

Ms. Hampton introduced agenda item *Joint Audit Committee Report* and stated that the Joint Audit Committee met on August 25, 2022 and discussed several items, however, there were no items needing Board ratification. Ms. Kristen Coffey reported that the Audit Department was working on several audits and hopes to bring results to the Board once finalized. Ms. Hampton added that Blue & Co. was retained for the 2022 audit. They attended the August 25, 2022 meeting and discussed the 2022 audit and timeline with the Joint Audit Committee.

Ms. Hampton introduced agenda item *Joint Retiree Health Plan Committee Report*. Ms. Connie Pettyjohn stated that the Joint Retiree Health Plan Committee met on September 6, 2022 to discuss the non-Medicare eligible and the Medicare eligible plans that will be available to retirees for calendar year 2023. Ms. Pettyjohn reviewed in detail the Retiree Health Plan Committee recommendations for non-Medicare eligible retirees (KEHP Plan). These recommendations may be found on pages 74-75 of the meeting materials. Mr. Peercy made a motion to accept the recommendations of the Retiree Health Plan Committee for the non-Medicare eligible retirees. Mr. Lane seconded the motion and the motion passed unanimously. Next, Ms. Pettyjohn discussed in detail the Retiree Health Plan Committee recommendations for Medicare eligible retirees with the Board. These recommendations can be reviewed on pages 76-77 of the meeting material. Mr. Larry

Loew with Humana added that he and the team at Humana would be happy to conduct a Trustee education session to further explain how the Medicare Advantage Plans are funded. Mr. Eager stated that he would allow Ms. Hampton to decide if she would like such an event to be scheduled. Mr. Summers stated that he would find an education session to be very beneficial as he is new to the Board. Ms. Hampton stated that she would see what could be put together. Mr. Peercy stated that he would like the Retiree Health Plan Committee be more precise in the future and do a true smoothing calculation in order for retirees to budget and be closer to what the actual premium is for the current year. Mr. Peercy made a motion to accept the recommendations of the Retiree Health Plan Committee for Medicare eligible retirees. Mr. Lane seconded the motion and the motion passed unanimously. Ms. Hampton added that she learned a great deal from this discussion and commended the thoughtfulness of Staff and the Retiree Health Plan Committee in taking care of all retirees. Mr. Eager stated that he liked Mr. Peercy's idea of a smoothing calculation. He added that this can be done as it is for other areas such as the actuary. Lastly, Ms. Hampton announced that Humana won the contract in the bid process and would continue to serve KPPA.

Ms. Hampton introduced agenda item *HB 668 Audit Percentage Recommendation*. Ms. Adkins stated that KRS 61.5991 requires staff to audit a certain percentage of responses from KERS employers. She further explained that employers are required to report data on contracted employees to KPPA in order to allow the Authority to report the data to the Legislative Research Committee (LRC) and to the Office of the State Budget Director (OSBD). Ms. Adkins explained that the Board must determine the percentage of agencies that will be audited and the timeframe for these audits. Ms. Adkins reviewed the proposed timeline for the completion of 10% of 100 agencies (10 agencies). Mr. Summers made a motion accept the Staff recommendation that 10% of the agencies impacted by House Bill 668 be audited annually for KRS 61.5991 (2)(a)(2) compliance. Mr. Lane seconded the motion and the motion passed unanimously. Ms. Bova asked if 10% of 100 agencies would assume that after ten years all agencies would be audited. Ms. Adkins stated that the percentage may be changed overtime but that is a reasonable assumption unless an agency would need to be audited a second time. Mr. Adkins asked if there is a requirement that the Board dictate the audit schedule or could it be left at the discretion of Staff. Ms. Adkins advised that the requirement is that the Board approve the schedule. Mr. Adkins suggested that the Staff be given one date to complete all 10 audits. Ms. Adkins noted that in order to be fair to employers, she believed the statute to require a more detailed timetable. She added that 5% of 100 agencies would be more in line with current staffing levels. Mr. Adkins stated that he would be more comfortable approving a pilot phase in which two smaller and one larger agency are audited and then a realistic

timeline be drafted. Mr. Eager stated that he liked the idea of all audits to be completed by a certain date as it would provide more flexibility. A second motion was made by Mr. Adkins to instruct Staff to audit (1) small agency and (1) larger agency prior to February 1, 2023 and report to the KRS Board the capacity to effectively administer those audits, and all currently approved audits be completed by August 15, 2023. Mr. William Summers agreed to modify his previous motion to that of Mr. Adkins. Mr. Chilton asked if Staff is able to audit ahead of the schedule that is approved. Mr. Eager advised that Staff may work ahead of schedule, if time permits. Mr. Chilton asked what Staff will do regarding the 13 of the 100 agencies which have yet to report. Mr. D'Jaun Surratt stated that those accounts may be audited, however, action regarding those agencies has yet to be discussed internally. Ms. Adkins stated that one or two of those 13 may be audited, but not all. The motion made by Mr. Adkins was seconded by Mr. Summers and the motion passed unanimously.

Ms. Hampton introduced agenda item *Approval of Board Meeting Calendar*. Ms. Hampton directed the Board to the proposed Board Meeting Calendar found in their Board Books. She stated that this Calendar for 2023 was created to ensure that meeting dates and times do not overlap with other Board and Committee meetings. Ms. Hampton stated that this calendar does not include any special meetings that may be scheduled throughout the year and advised her fellow Board Members to make a note of these meetings dates on their personal calendars. A motion to approve the KRS Board and Meeting Calendar for 2023 was made by Mr. Adkins and seconded by Mr. Lane. The motion passed unanimously. KRS CEO John Chilton requested that Ms. Rankin send out electronic calendar invites for all approved meeting dates. In addition, Mr. Lane requested that a PDF of the calendar be emailed to all Board Members. Ms. Rankin stated that she would be happy to fulfill both requests.

Ms. Hampton introduced agenda item *105 KAR 1:371 (repealer for 105 KAR 1:370)*. Ms. Carrie Bass presented the item. She stated that KRS 61.505 created the Kentucky Public Pensions Authority (KPPA) to administer and operate the personnel system for the Kentucky Retirement Systems and the County Employees Retirement System, therefore, 105 KAR 1:370 is no longer needed. Ms. Bass recommended that the regulation be removed to alleviate any future updates and clean up the administrative regulations. Ms. Hampton thanked Ms. Bass for her work to clean up the regulations. Mr. Peercy made a motion to approve 105 KAR 1:371, which repeals 105 KAR 1:370, and to authorize its filing with the Regulations Compiler. Mr. Adkins seconded the motion and the motion passed unanimously.

Ms. Hampton introduced agenda item *KRS Update*. KRS CEO John Chilton presented the KRS Update to the Board. He stated that he has been working on tasks pertaining to current litigation. He

has also been spending time preparing for the various meetings that have taken place. He anticipates working on legislature matters in the next three months in preparation for the upcoming session. Additionally, he has been meeting with Mr. Eager and others regarding the Housekeeping Bill.

Ms. Hampton introduced agenda item *KPPA Update*. Mr. Eager stated in the past funding had been the biggest issue for KPPA but funds are currently moving in the right direction. Now, he anticipates staffing to be the issue moving forward. KPPA has authorization for 270 positions, however, only about 250 of those positions are filled. Authorization for a new Chief Financial Officer (CFO) was received and interviews have begun for the position. Recruitment and retention are the primary focuses at this time. Mr. Eager and Human Resources Director, Lori Casey, have discussed implementing a more aggressive recruitment approach and plan to create plans for succession. Mr. Eager also discussed employee morale and stated that morale is good overall and that generally employees like working for KPPA; however, the mandate for employees to return to the office for a minimum of three days per week has created some unhappiness among employees. Mr. Eager advised that this mandate is in line with organizations in the financial services industry. The number of personal days taken by Staff was reduced by 1,117 days in the first full year working from home, stated Mr. Eager. The Personnel Cabinet allowed an appeal for departments which were not public-facing to be exempted from the mandate. Nine departments were included in a memo to the Personnel Cabinet requesting exemption; all nine departments received the exemption. Departments that will be held to the mandate will begin phasing into the office gradually over the next month. Additionally, the Executive team is working to interview firms who have expertise in strategic planning for businesses and a request for proposal (RFP) will be issued soon. Mr. Eager also mentioned that the C.E.M. project is underway and is on schedule. Additionally, Humana and GRS were ranked the highest and selected in their respective RFP processes and will continue serving KPPA. Lastly, Mr. Eager stated that a request was received from the Attorney General and the State Treasurer offices. Mr. Michael Board advised that a call was received about a month ago from the Attorney General's office. Mr. Eager and two individuals from the State Treasurer's office were also on the call. They wished to discuss Black Rock and a letter written to Black Rock with concerns regarding their investment, ESG considerations, management of funds, and proxy voting. Further, Mr. Board stated that the Kentucky Attorney General was a signatory on that letter and those on the call asked if KPPA would be willing to be in support of that letter. A statewide approach to ESG involving KPPA, Teachers' Retirement, the Attorney General's office, Treasury, Finance; essentially, all agencies involving money etc. was also discussed. Mr. Board stated that the response was that KPPA is willing to listen but cannot commit until more information is provided. Therefore,

they stated that more information and detail would be sent over for review via a letter. Mr. Board stated that concerns were expressed over the fiduciary duty of KRS and CERS Trustees and he agreed to review the proposal prior to making any decisions. As of the date of the meeting, no letter had been received. Should a letter be received, it will be brought to the Board for discussion as it would be a Board-level decision. Ms. Hampton thanked Mr. Board and Mr. Eager for the information and asked that Mr. Prewitt Lane weigh in on the topic. She also suggested that the Investment Committee discuss and bring a recommendation to the Board. Mr. Lane stated that the ESG Policy is located on the website and that Investment Committee would be happy to discuss with guidance from the KPPA Office of Legal Services. Mr. Eager advised that the request of the Attorney General is not an investment issue, but a policy issue which relates to the full Board. However, Mr. Eager added that the Investment Committee is the closest to the ESG issue and is well versed in the policy, but it is a Board issue. Mr. Eager asked if it would be possible to delegate the responsibility to two or three Board Members. Ms. Hampton stated that the Investment Committee would meet that request. Mr. Adkins stated that he would not feel comfortable weighing in on a politically motivated effort that essentially undermines the fiduciary duty owed to the funds and advised that he would be hesitant to sign onto such a letter. Mr. Eager assured Mr. Adkins that Staff agrees with his statement, but wanted to bring the issue to the Board's attention. Mr. Adkins added that he would advise against creating a process for this at this time but would be responsive to the request as deemed appropriate. Mr. Board reiterated that there is no action or response needed at this time but was brought to the Board's attention for informational purposes. Ms. Hampton asked which Board Members should be included on the further discussion of the topic. Mr. Lane stated that based on the discussion and information provided, he believes that no action is needed at this time. Mr. Chilton added that he is unsure of what the proposal will be, therefore, it is difficult to make any selection or plan. Ms. Hampton then suggested to table the item until the letter is received. Mr. Summers asked Mr. Eager if those individuals on the call expected a response or action. Mr. Board stated that he believes no action was expected; they would send us the letter. Mr. Eager added that no indication was given on whether or not KPPA would cooperate. Mr. Summers asked if the Staff recommendation is to take no action at this time. Mr. Eager and Mr. Board confirmed that no action is needed at this time.

Due to Board time constraints, Ms. Hampton introduced agenda item *New Business* and stated that the item would be discussed during *Closed Session*. A motion was made by Mr. Adkins and seconded by Mr. Lane to enter into closed session. The motion passed unanimously.

Ms. Victoria Hale read the following statement and the meeting moved into closed session:

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 closed session to consider the dismissal of an employee pursuant to KRS 61.810(f) and 61.810(1)(k), it is necessary to enter closed session because of the sensitive nature of the material to be considered regarding this employee and the requirement of KRS 61.661(1) that each member's account be administered in a confidential manner and 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.

Ms. Hampton called the meeting back to open session and stated that no reportable action was taken.

Item *Department Spotlight-IT* was postponed to the next KRS Board of Trustees Meeting.

Ms. Hampton opened the floor for a motion to adjourn. Mr. Peercy made a motion and was seconded by Mr. Summers 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 September 14, 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 Kentucky Retirement Systems, do certify that the Minutes of Meeting held on September 14, 2022 were approved on November 1, 2022.

Chair of the Board of Trustees

I have reviewed the Minutes of the September 14, 2022 Board of Trustees Meeting for content, form, and legality.

Executive Director
Office of Legal Services



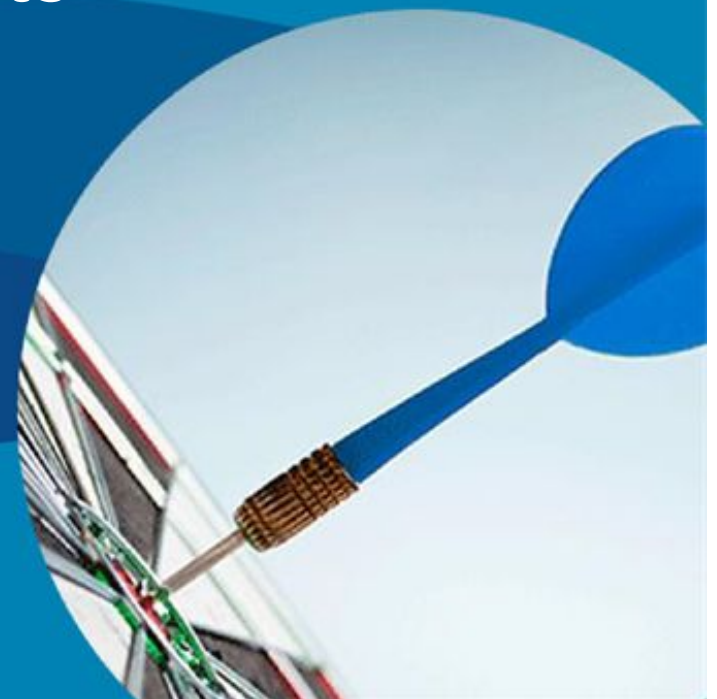
Kentucky Retirement Systems

2022 Actuarial Valuation Results

November 1, 2022

Janie Shaw, ASA, EA, MAAA

Danny White, FSA, EA, MAAA



Comments on Valuation Results

- Overview of legislation passed in 2022
 - **SB 209:** increased health insurance benefits to members hired after July 1, 2003
 - **HB 259:** conversion of unused sick leave to employer pay credits to SPRS members earning benefits in the cash balance plan
 - **HB 1 and HB 604:** provides \$240 million in additional appropriations to the non-hazardous retirement fund each year for two years (FY 2023 and FY 2024)
 - **HB 1:** also provided \$215 million in additional appropriations to the SPRS retirement fund in FY 2022



Comments on Valuation Results

- Change in active membership and covered payroll
 - Active membership declined in both KERS funds and increased for SPRS
 - Hazardous: 1.7% increase in covered payroll
 - SPRS: 5.6% increase in covered payroll
 - Employer contribution for the non-hazardous fund is no longer tied to payroll



Comments on Valuation Results

- FYE 2022 Investment Experience
 - -5% to -6% return on market value (varies by fund)
 - Assumed rate of return: 5.25% for Non-Hazardous KERS and SPRS retirement funds
 - Assumed rate of return: 6.25% for KERS Hazardous retirement fund and Insurance funds
 - Fund assets \$743M less than expected for KERS and SPRS (\$471M pension and \$272M insurance)
 - \$41M in asset gains recognized this year (\$31M pension and \$10M insurance)



Comments on Valuation Results

- Retirement Fund Liability Experience
 - \$306M loss for all KERS/SPRS retirement funds combined
 - Liability within 2.0% of expected
- Insurance Fund Liability Experience
 - \$1,054M gain for all KERS/SPRS insurance funds combined
 - Medicare premiums decreased significantly from 2022 to 2023



Comments on KERS Non-Haz Retirement Fund

- Imperative to maintain or increase contribution effort for the non-hazardous retirement fund
 - June 30, 2022 plan assets were \$3,014 million
 - Fund distributed \$1,048 million in benefit payments and administrative expenses in FYE 2022
 - Fund received \$1,206 million in employer and member contributions in FYE 2022



Actuarially Determined Employer Contributions

	KERS Non-Hazardous		KERS Hazardous		SPRS	
	2021 Val	2022 Val	2021 Val	2022 Val	2021 Val	2022 Val
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Pension Fund	7.82%	7.74%	31.82%	30.12%	85.32%	85.39%
Insurance Fund	<u>2.15%</u>	<u>1.86%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>14.11%</u>	<u>3.68%</u>
Actuarially Determined Contribution Rate, payable as a percentage of payroll	9.97%	9.60%	31.82%	30.12%	99.43%	89.07%
Difference		(0.37)%		(1.70)%		(10.36)%
Amortization Cost – Pension	\$ 906M	\$ 901M				
Amortization Cost – Insurance	<u>88M</u>	<u>5M</u>				
Amortization Cost - Total	\$ 994M	\$ 906M	N/A	N/A	N/A	N/A
Difference		\$ (88)				

Note: The 2021 valuation established the contribution requirement for FYE2023 and FYE2024.



Actuarially Determined Employer Contributions (\$millions)

	KERS Non-Hazardous		KERS Hazardous		SPRS	
	2021 Val	2022 Val	2021 Val	2022 Val	2021 Val	2022 Val
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Pension Fund	\$ 1,012	\$ 1,006	\$ 52	\$ 50	\$ 39	\$ 41
Insurance Fund	<u>117</u>	<u>30</u>	<u>0</u>	<u>0</u>	<u>6</u>	<u>2</u>
Total Actuarially Determined Employer Contribution	\$ 1,129	\$ 1,036	\$ 52	\$ 50	\$ 45	\$ 43
Change in Actuarially Determined Employer Contribution		\$ (93)		\$ (2)		\$ (2)

Note: The 2021 valuation established the contribution requirement for FYE2023 and FYE2024.
The 2022 valuation was provided for informational purposes only.



Change in Required Employer Contributions

KERS Non-Hazardous – Amortization Cost

	KERS Non-Hazardous (\$millions)		
	Pension	Insurance	Total
Amortization Cost – 2021 Val	\$ 906	\$ 88	\$ 994
\$240M in Appropriations	(20)	0	(20)
Investment Experience	(2)	(1)	(3)
Demographic Experience	17	(85)	(68)
Plan Change – SB 209	<u>0</u>	<u>3</u>	<u>3</u>
Total Change	\$(5)	\$(83)	\$(88)
Amortization Cost – 2022 Val	\$ 901	\$ 5	\$ 906

Reflects only appropriations budgeted for FY 2023. Next year's valuation expected to recognize an additional \$20 million reduction due to FY 2024 appropriations.

Significant decrease in Medicare health insurance premiums from 2022 to 2023



Change in Required Employer Contributions

KERS Haz – Actuarially Determined Contribution Rate

	KERS Hazardous (% of pay)		
	Pension	Insurance	Total
Contribution Rate – 2021 Val	31.82%	0.00%	31.82%
Investment Experience	(0.29)%	N/A	(0.29)%
Demographic Experience	(1.41)%	N/A	(1.41)%
Plan Change – SB 209	<u>0 %</u>	<u>N/A</u>	<u>0.00 %</u>
Total Change	(1.70)%	N/A	(1.70)%
Contribution Rate – 2022 Val	30.12%	0.00%	30.12%



Change in Required Employer Contributions

SPRS – Actuarially Determined Contribution Rate

	SPRS (% of pay)		
	Pension	Insurance	Total
Contribution Rate – 2021 Val	85.32%	14.11%	99.43%
Investment Experience	(0.42)%	(0.51)%	(0.93)%
Demographic Experience	(1.66)%	(11.58)%	(13.24)%
Plan Change – HB 259 / SB 209	<u>2.15 %</u>	<u>1.66 %</u>	<u>3.81 %</u>
Total Change	0.07 %	(10.43)%	(10.36)%
Contribution Rate – 2022 Val	85.39%	3.68%	89.07%

Return on actuarial value of assets
6% pension, 7% insurance

Significant decrease in Medicare
health insurance premiums from
2022 to 2023

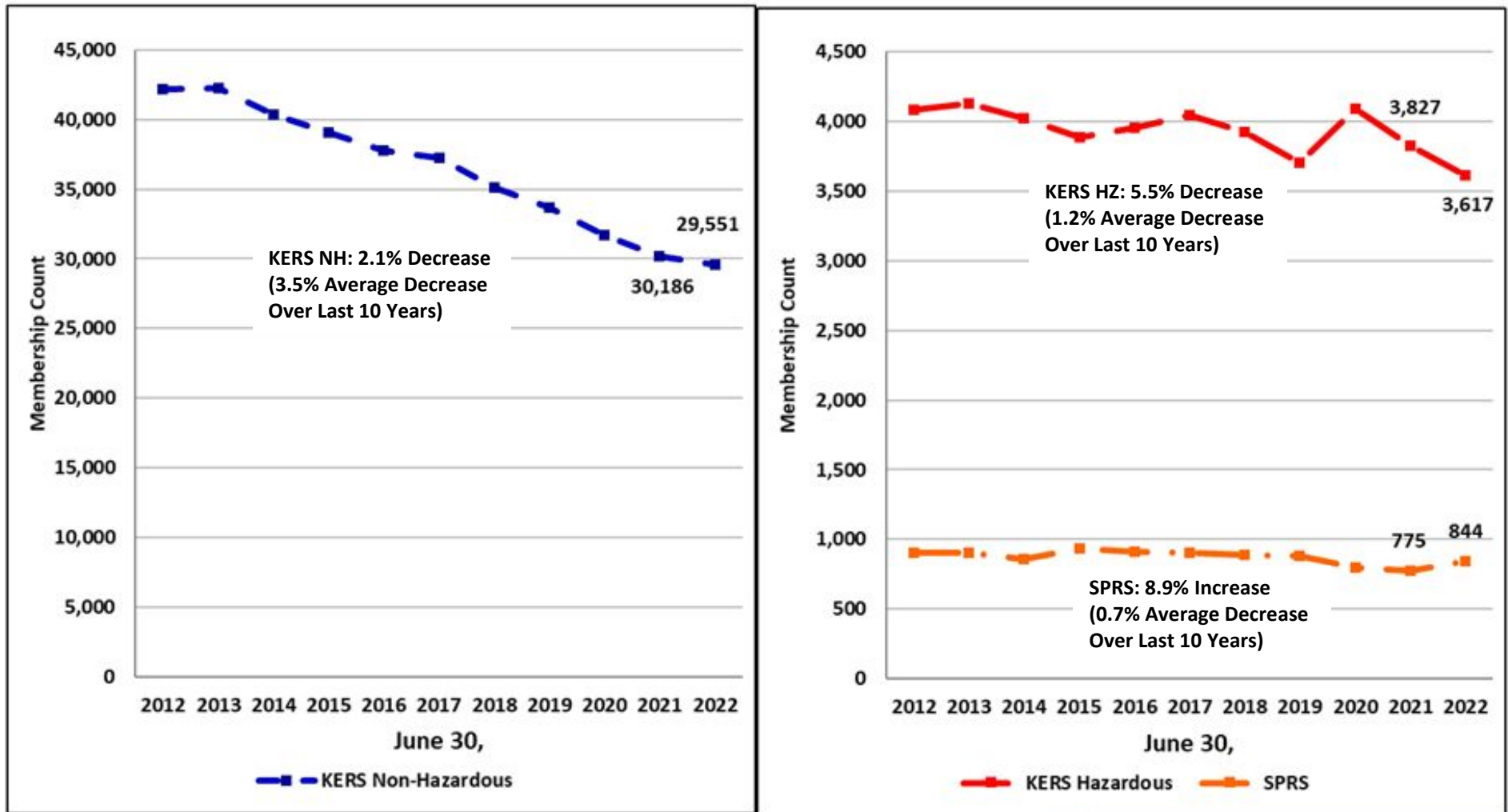


Unfunded Actuarial Accrued Liability – Actuarial Value of Asset Basis (\$ in Billions)

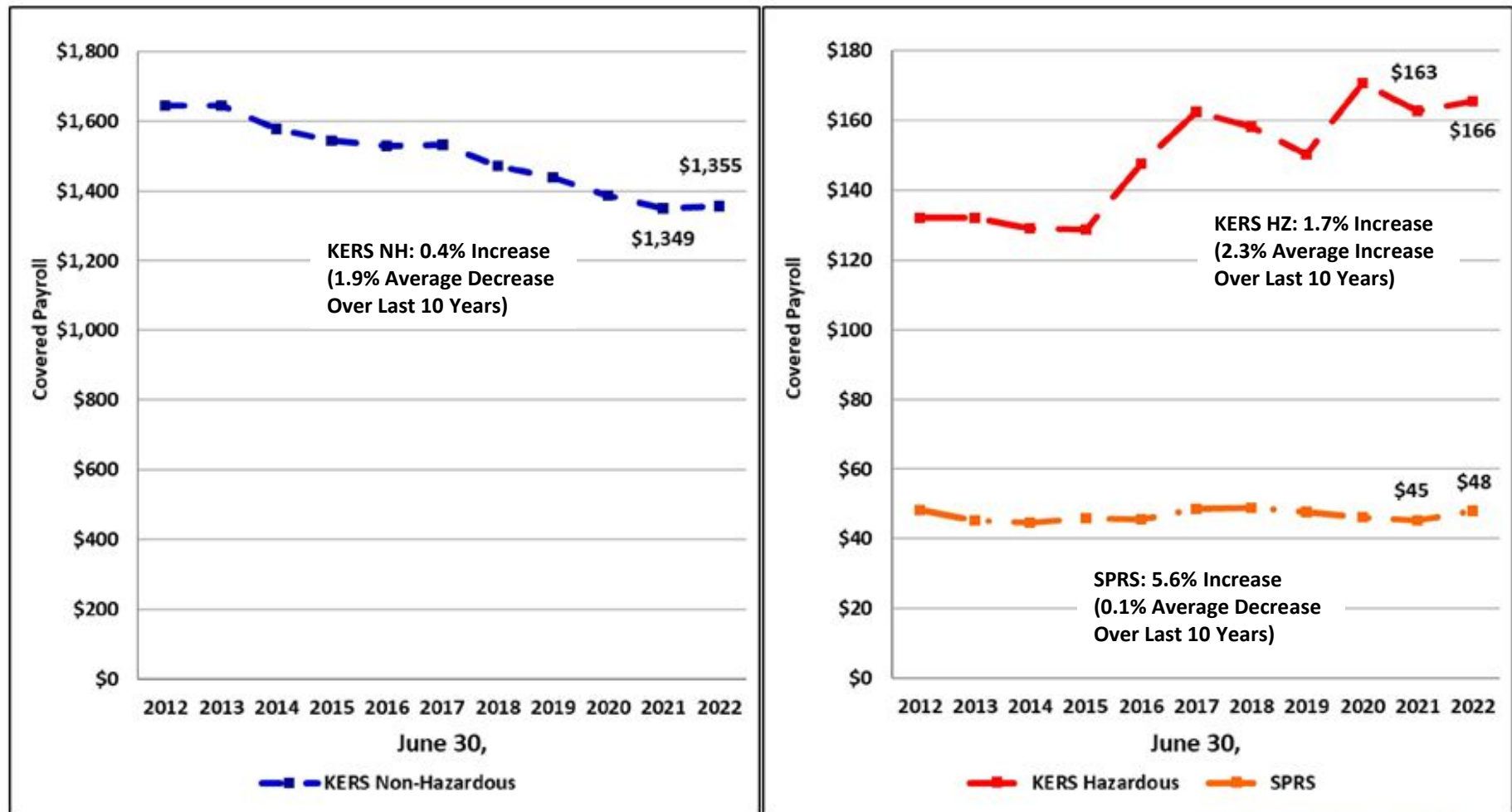
	KERS Non-Hazardous		KERS Hazardous		SPRS	
	2021 Val	2022 Val	2021 Val	2022 Val	2021 Val	2022 Val
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Pension Fund	\$ 13.59	\$ 13.51	\$ 0.51	\$ 0.48	\$ 0.73	\$ 0.51
Insurance Fund	<u>1.28</u>	<u>0.37</u>	<u>(0.15)</u>	<u>(0.25)</u>	<u>0.05</u>	<u>0.00</u>
Total Unfunded Actuarial Accrued Liability	\$ 14.87	\$ 13.88	\$ 0.36	\$ 0.23	\$ 0.78	\$ 0.51
Change in Unfunded Actuarial Accrued Liability		\$ (0.99)		\$ (0.13)		\$ (0.27)



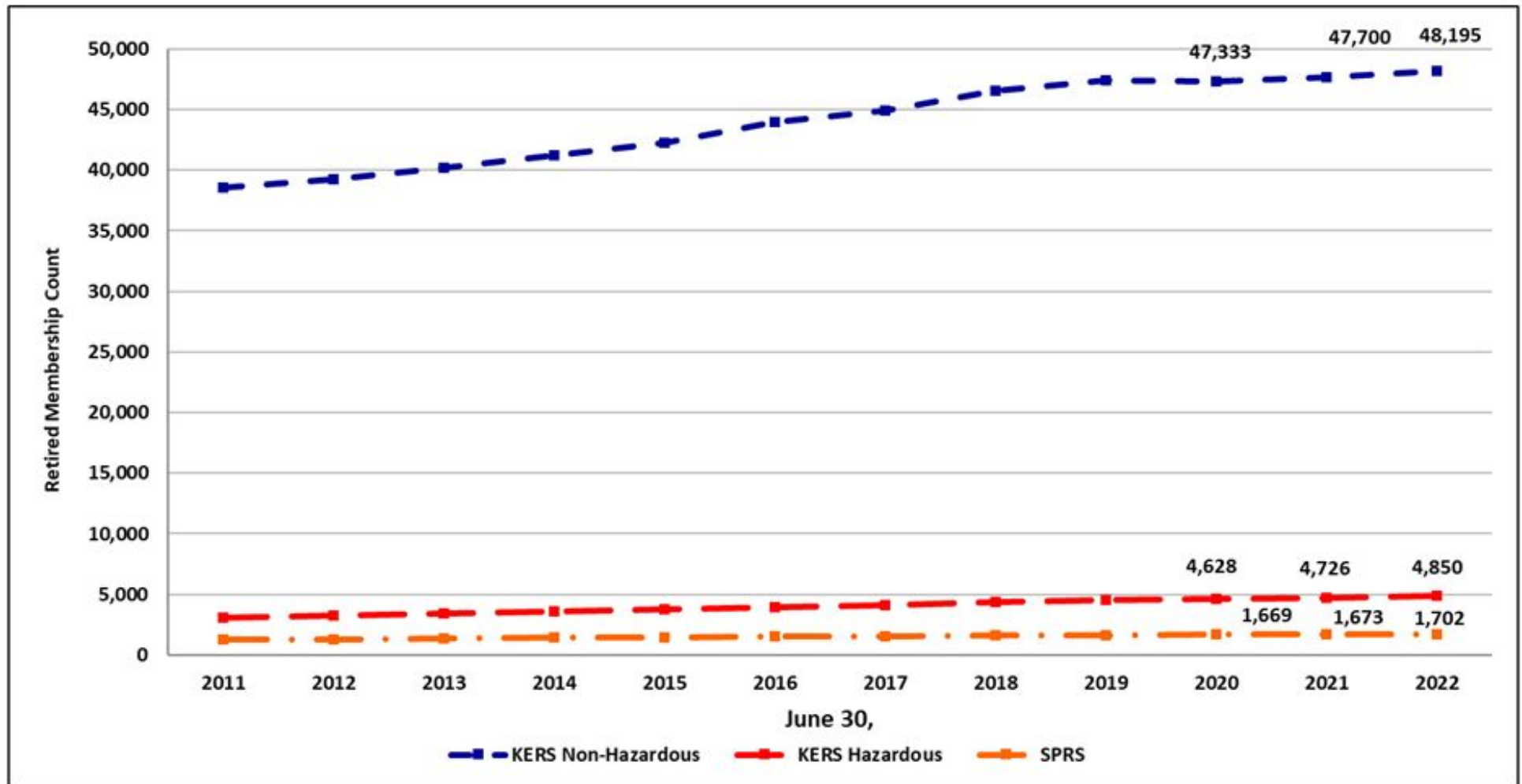
Active Membership Count



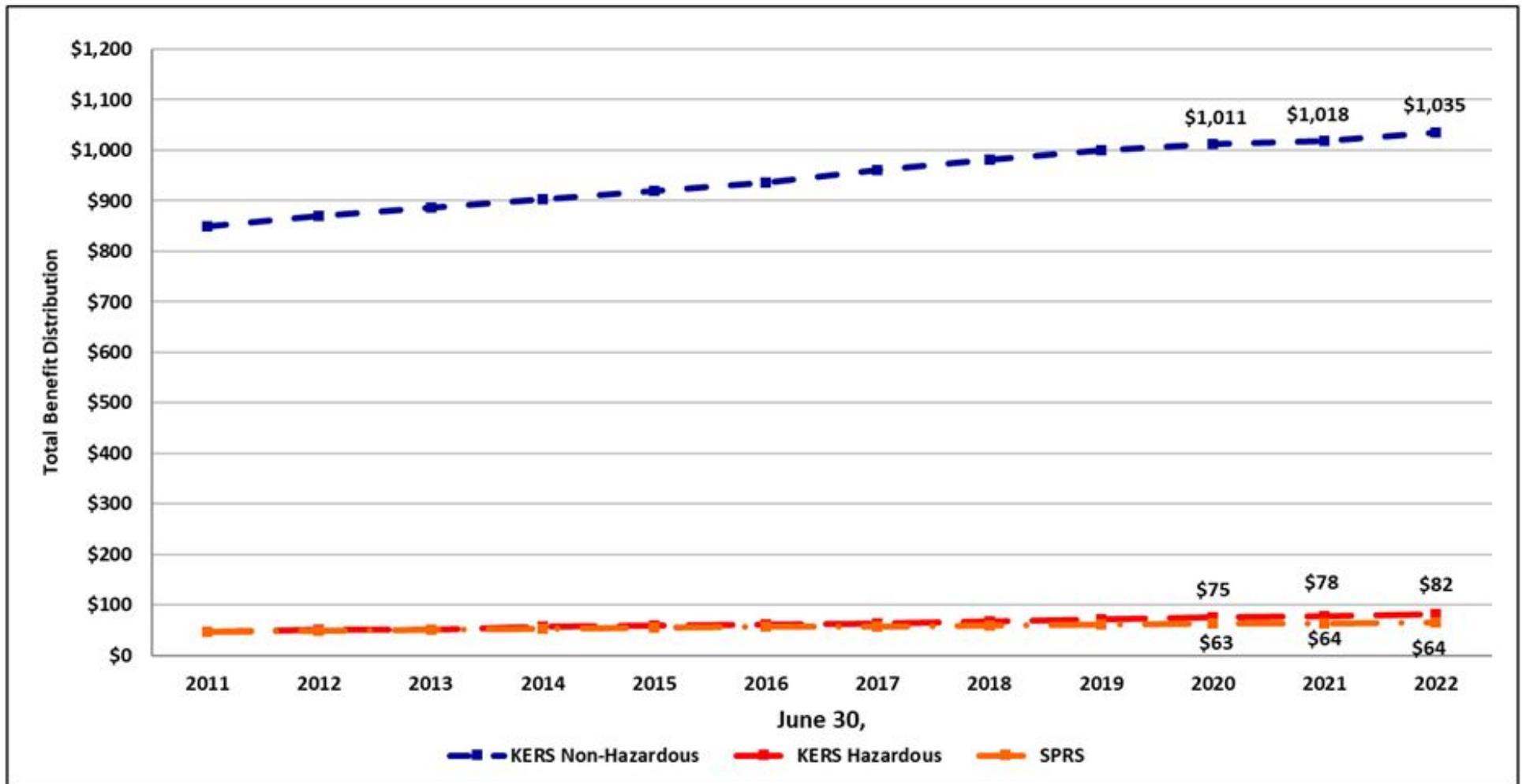
Covered Payroll (\$ in Millions)



Retired Membership Count



Pension Benefit Distributions (\$ in Millions)



Funding Results – KERS (\$ in millions)

Item	Non-Hazardous System				Hazardous System			
	Pension		Insurance		Pension		Insurance	
	2021	2022	2021	2022	2021	2022	2021	2022
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Total Normal Cost Rate	11.96%	11.76%	2.54%	2.29%	16.01%	15.72%	4.46%	4.07%
Member Rate	<u>(5.00%)</u>	<u>(5.00%)</u>	<u>(0.45%)</u>	<u>(0.49%)</u>	<u>(8.00%)</u>	<u>(8.00%)</u>	<u>(0.66%)</u>	<u>(0.70%)</u>
Employer Normal Cost Rate	6.96%	6.76%	2.09%	1.80%	8.01%	7.72%	3.80%	3.37%
Administrative Expenses	0.86%	0.98%	0.06%	0.06%	0.77%	0.88%	0.07%	0.08%
Amortization Cost	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>23.04%</u>	<u>21.52%</u>	<u>(7.59%)</u>	<u>(13.39%)</u>
Total Actuarially Determined Rate	7.82%	7.74%	2.15%	1.86%	31.82%	30.12%	0.00%	0.00%
Amortization Cost to be Allocated	\$906	\$901	\$88	\$5	N/A	N/A	N/A	N/A
Actuarial Accrued Liability (AAL)	\$16,321	\$16,577	\$2,574	\$1,782	\$1,295	\$1,317	\$424	\$347
Actuarial Value of Assets	<u>2,736</u>	<u>3,065</u>	<u>1,291</u>	<u>1,410</u>	<u>782</u>	<u>832</u>	<u>575</u>	<u>598</u>
Unfunded AAL	\$13,585	\$13,511	\$1,283	\$373	\$513	\$484	(\$151)	(\$251)
Funded Ratio	16.8%	18.5%	50.2%	79.1%	60.4%	63.2%	135.5%	172.2%



Funding Results – SPRS (\$ in millions)

Item	Pension		Insurance	
	2021	2022	2021	2022
(1)	(2)	(3)	(4)	(5)
Total Normal Cost Rate	26.13%	26.92%	7.35%	7.03%
Member Rate	<u>(8.00%)</u>	<u>(8.00%)</u>	<u>(0.46%)</u>	<u>(0.52%)</u>
Employer Normal Cost Rate	18.13%	18.92%	6.89%	6.51%
Administrative Expenses	0.47%	0.57%	0.20%	0.15%
Amortization Cost	<u>66.72%</u>	<u>65.90%</u>	<u>7.02%</u>	<u>(2.98%)</u>
Total Actuarially Determined Rate	85.32%	85.39%	14.11%	3.68%
Actuarial Accrued Liability (AAL)	\$1,053	\$1,067	\$272	\$233
Actuarial Value of Assets	<u>323</u>	<u>560</u>	<u>223</u>	<u>234</u>
Unfunded AAL	\$730	\$507	\$49	\$(1)
Funded Ratio	30.7%	52.5%	82.0%	100.6%



PROJECTION INFORMATION PENSION AND INSURANCE



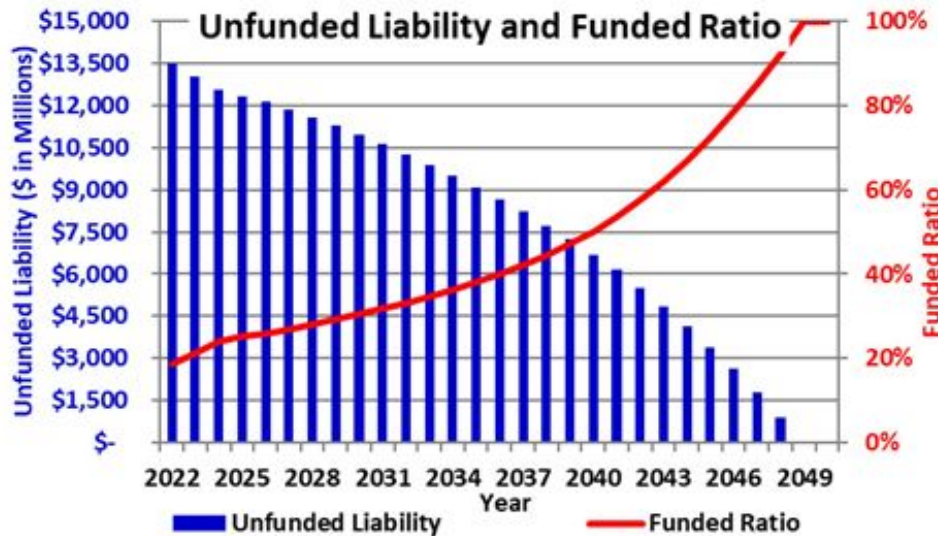
Projection Assumptions

- Assumes that all actuarial assumptions are realized, including the assumed annual asset return of 5.25%/6.25%
- Full actuarially determined contribution paid each biennium
- Covered payroll assumed to remain level
 - Total active population assumed to decrease 2% each year

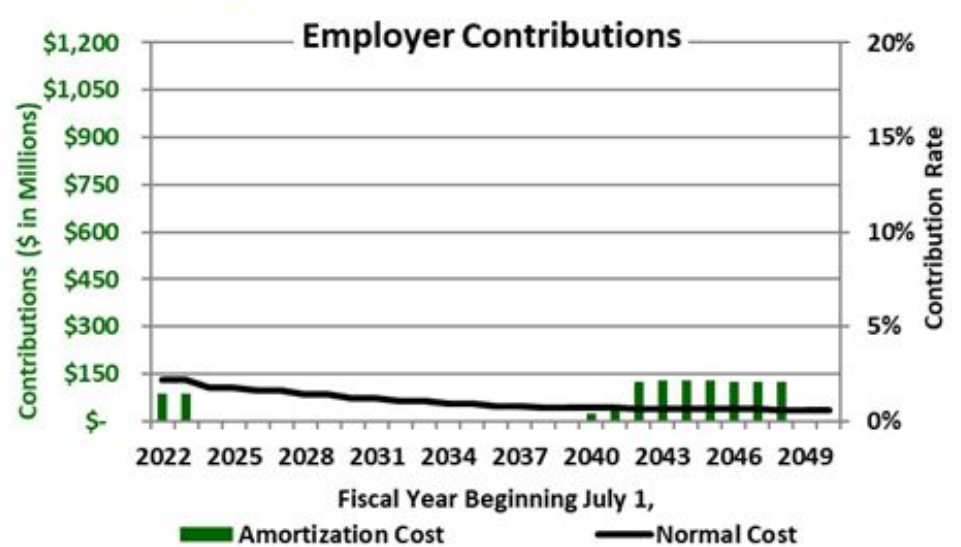
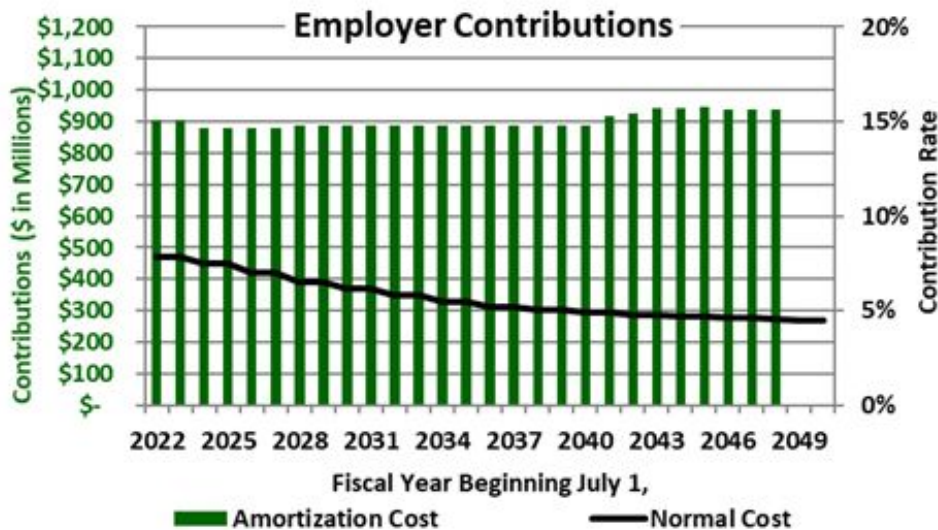
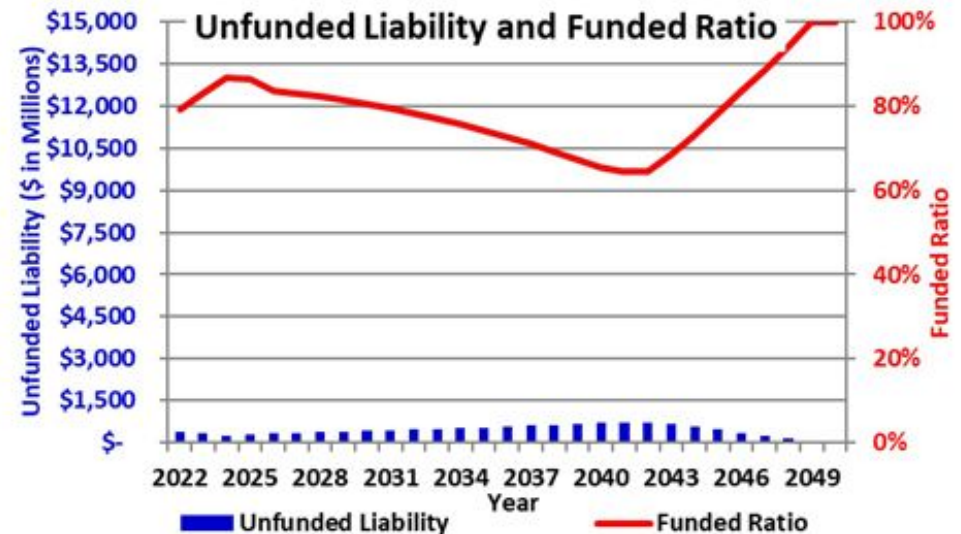


KERS Non-Hazardous Projection

Pension

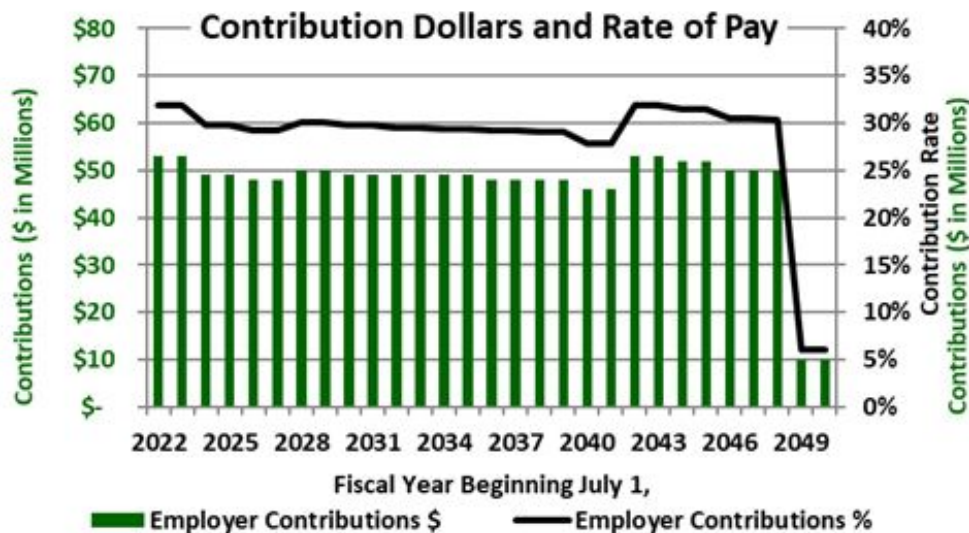
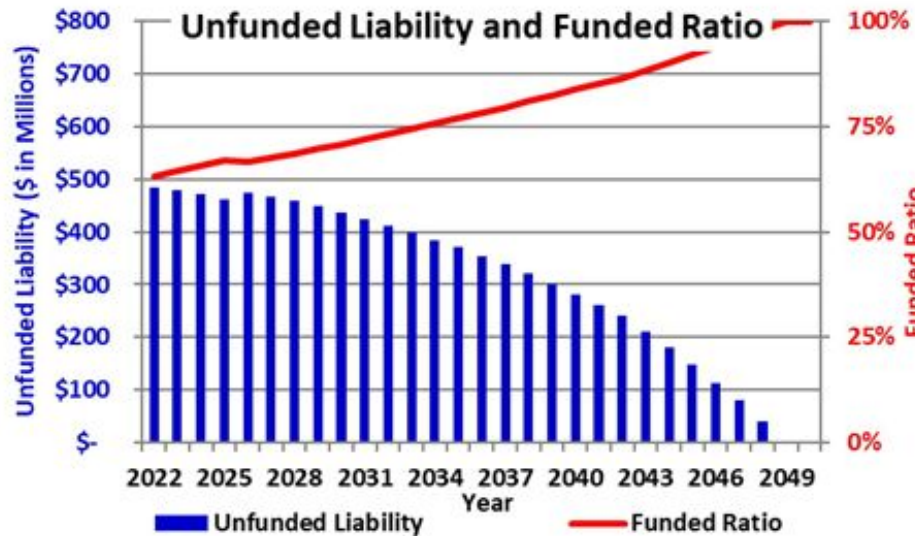


Insurance

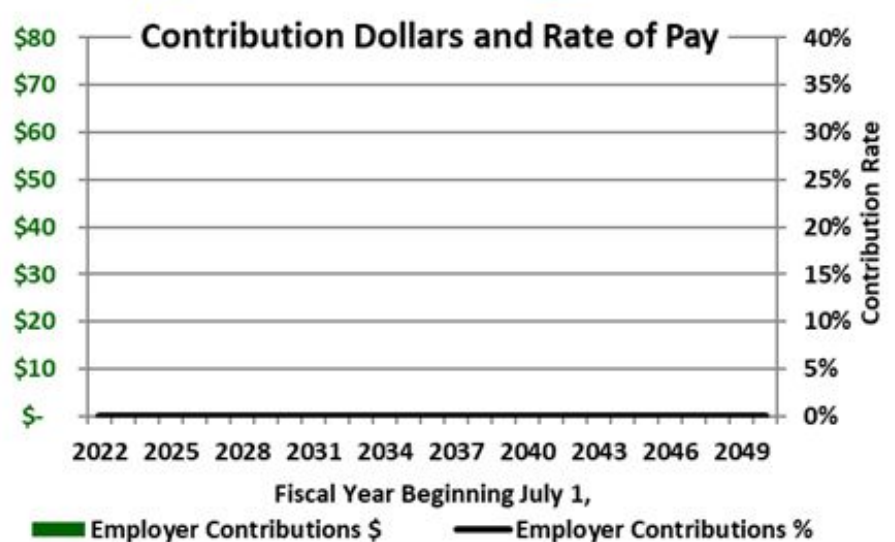
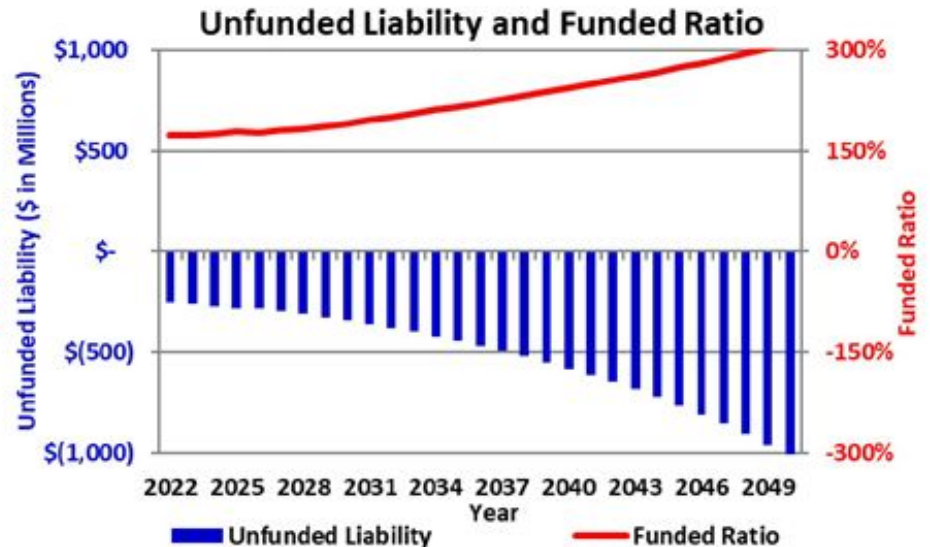


KERS Hazardous Projection

Pension

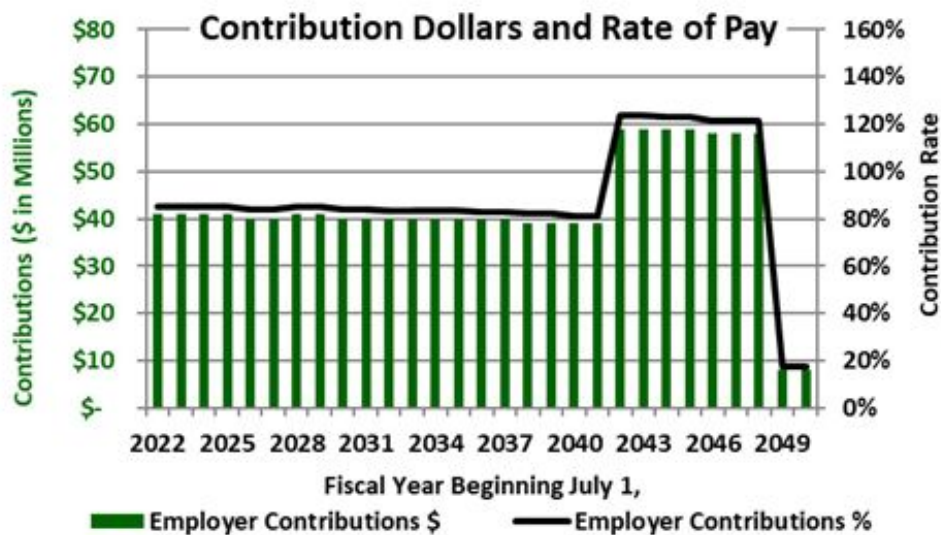
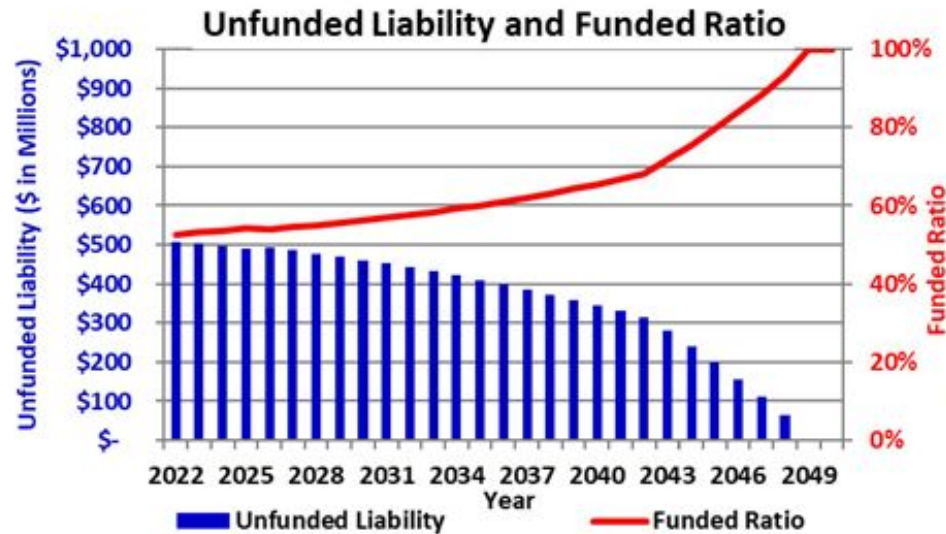


Insurance

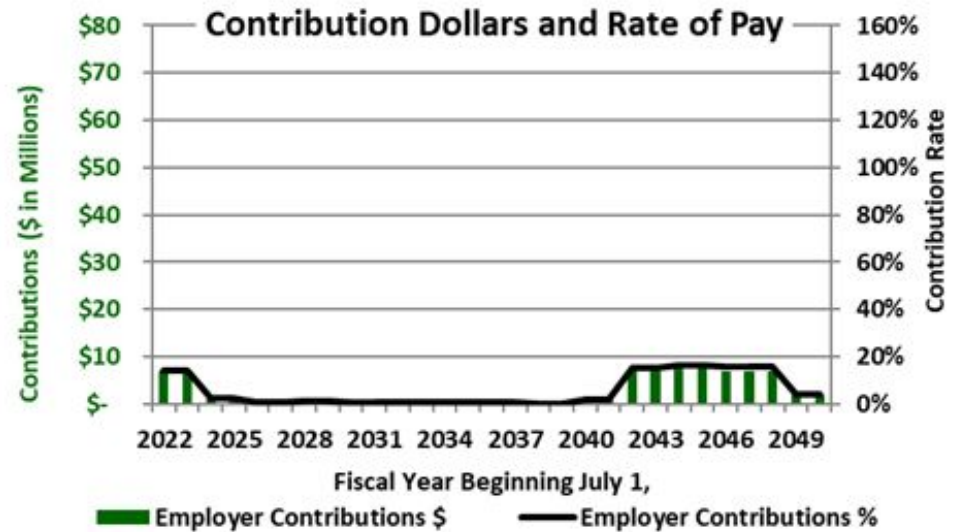
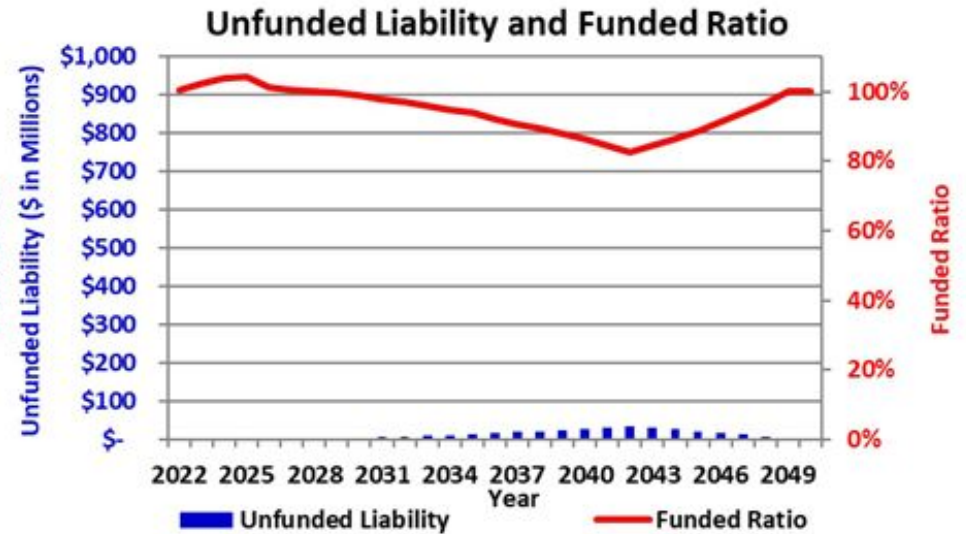


SPRS Projection

Pension



Insurance



Closing Comments on 2022 Valuation Results

- The decrease in the Medicare premiums from 2022 to 2023 significantly improved the funded status of the insurance funds and lowered the required contribution effort across all funds
- The FYE 2022 investment losses almost offset the FYE 2021 investment gains (compared to the investment return assumption)
- It is imperative the State and participating employers continue contributing the actuarially determined contributions in each future year to improve the System's financial security



Disclaimers

- This presentation is intended to be used in conjunction with the actuarial valuation as of June 30, 2022. This presentation should not be relied on for any purpose other than the purpose described in the valuation report.
- This presentation shall not be construed to provide tax advice, legal advice or investment advice.
- Readers are cautioned to examine original source materials and to consult with subject matter experts before making decisions related to the subject matter of this presentation.





KENTUCKY PUBLIC PENSIONS AUTHORITY

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TO: Members of the KRS Board of Trustees

FROM: Joint CERS & KRS Retiree Health Plan Committee

DATE: November 1, 2022

SUBJECT: Joint CERS & KRS Retiree Health Plan Committee Report

The Joint CERS & KRS Retiree Health Plan Committee met on Monday, October 24, 2022 and reviewed an informational presentation from Humana regarding 2023 Pharmacy Review, 2022 Member Satisfaction Survey Results, and 2023 CMS Star Ratings.

2023 Formulary changes:

- Prior authorization changes impact 386 (0.65%) members.
- Negative tier changes impact 1,141 (1.9%) members.
- Positive tier changes impact 2,542 (4.2%) members.
- Step therapy changes impact 1,314 (2.2%) members.

The Committee also reviewed the impact of the Inflation Reduction Act (IRA). Vaccines will have a \$0 member cost and Insulin will be available at a \$35 copayment or less. Humana's CMS Star Ratings have risen to 4.5 Stars. The Committee reviewed the 2022 KPPA Member Satisfaction Survey Results. Overall satisfaction has not changed with 68% being Very Satisfied vs. 61% for 2021, and Satisfied at 23% vs. 29% for 2021, and Somewhat Satisfied/Dissatisfied at 6% vs. 8% for 2021.

The Division of Retiree Health Care (RHC) has conducted several member outreach engagements for the Non-Medicare Open Enrollment (OE). Emails were delivered to 26,941 individuals. Additionally, RHC staff has answered 5,058 phone calls and responded to 180 emails thus far, as well as, seeing scheduled in-person visitors and virtual appointments. Online Enrollments have increased in 2022 with 1,663 vs. 1,264 in 2021. OE is not mandatory, therefore, members only need to submit an application if they want to change their coverage for 2023. Webinars have continued to be a successful form of communication with members. Webinars have been provided to the individuals on the Kentucky Employee Health Plan (KEHP) plans and will be provided to retirees enrolled in the Humana Medicare plans during the last week of October and November. RHC is attending Retiree meetings at numerous locations throughout the state during October and November in partnership with Humana.



KPPA
Kentucky Public Pensions Authority

September 2022

Enterprise & Technology Services

DOMINIQUE MCKINLEY, DIVISION DIRECTOR

Kentucky Public Pensions Authority

Enterprise & Technology Services Vision and Mission

Mission

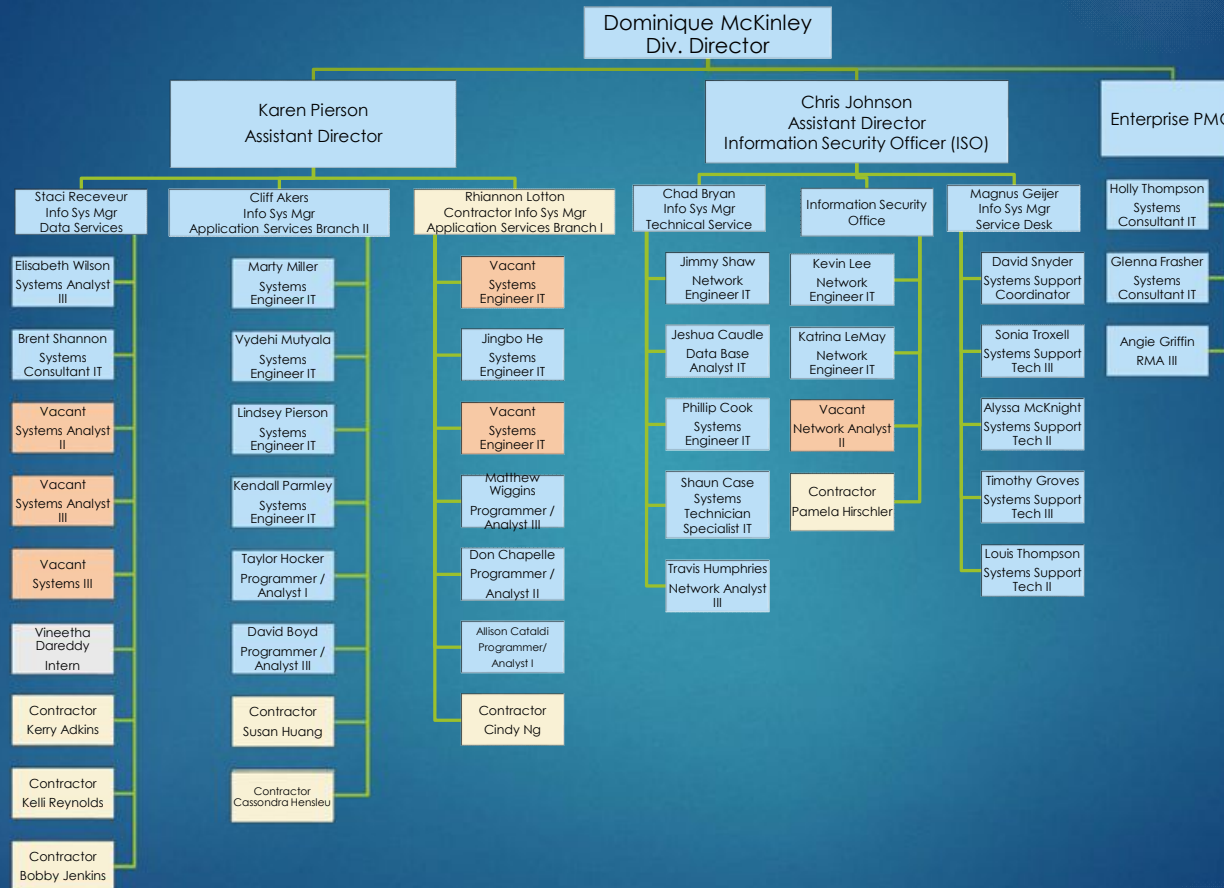
- Leading collaborative efforts to provide secure, innovative solutions for retirement benefits to enhance employee productivity and member experiences.

Vision

- ETS strives to empower the business and be prepared to deliver:
- Transparent communication that builds trust
- Secure next generation systems to benefit agency goals
- Flexible opportunities and research to enable staff to modernize
- Timely prioritized services utilizing established standards and governance

Organizational Chart

DETS



* As of August 31, 2022

Areas Of Support

DETS



What we Support

Operations

- Customer Service
- Phone System Support
- Problem Resolution
- Batch Processing

Business & Data Analysis

- Data Request
- Legislation Implementation
- Reports
- Design & Testing
- Process Improvement

Application Development

- Enhancements
- Legislation Implementation
- Bug Fixes
- Upgrades

Enterprise Architecture

- Cloud Implementation
- Server Administration
- Network Monitoring
- Backups

Security

- Training
- Incident Reporting
- Log Monitoring
- Audits
- Policy

Project Management

- Procurement
- Enterprise IT Projects
- Product review
- Cost Analysis

Current IT Initiatives

DETS



Provide timely, predictable and secure systems, services and solutions based on agency priorities

Security Enhancements

Software Upgrades

Build Process

Capacity Management

Fraud Prevention

Hybrid Remote Work



Foster a culture that succeeds through communication, education and partnership

Paperless Option

Quarterly Security Training

Self Service Enhancement

Security Training & Education



Promote an organization built on continuous improvement and adaptability.

M365

Continuity of Operations Plan

Software Upgrades

Build Process

Hybrid Remote Work

Disaster Recovery

Moving Forward

DETS

All services to be secure for members and staff

Increase security awareness by collaborating with stakeholders to better understand business needs, educate staff and provide services in a secure manner.

ETS will proactively engage the business

ETS and the agency need to work together to increase transparency of activities and needs required to fulfill the agency expectations.