



**County Employees Retirement System
Board of Trustees – Regular Meeting
November 9, 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* -- September 14, 2022 | Betty Pendergrass |
| 6. Joint Retiree Health Plan Committee Report | Jerry Powell
Connie Pettyjohn |
| 7. Finance Committee Report | Bill O'Mara
Connie Davis |
| a. FY 2022 External Audit & Reporting | |
| 8. Actuarial Committee Report | Mike Foster
Danny White, GRS
Janie Shaw, GRS |
| a. Review of 2022 Actuarial Valuation | |
| 9. Amended Meeting Calendar 2023* | Betty Pendergrass |
| 10. Administrative | |
| a. CEO Report | Ed Owens, III |
| b. KPPA Update | David Eager |
| 11. Closed Session* | Eric Branco |
| 12. Adjourn | Betty Pendergrass |

*Board May Take Action

**MINUTES OF MEETING
COUNTY EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING
SEPTEMBER 14, 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 September 14, 2022 the following members were present: Betty Pendergrass (Chair), Dr. Patricia Carver, George Cheatham, JT Fulkerson, Dr. Merl Hackbart, Dr. Martin Milkman, and Jerry Powell. Staff members present were CERS CEO Ed Owens, III, David Eager, Rebecca Adkins, Erin Surratt, Michael Board, Victoria Hale, Lori Casey, Connie Davis, Kristen Coffey, D’Juan Surratt, Steve Willer, Jared Crawford, Connie Pettyjohn, Ann Case, Leigh Ann Davis, Elizabeth Smith, Dominique McKinley, Ashley Gabbard, Phillip Cook, Katie Park, and Sherry Rankin. Others present included Larry Loew and Tracey Garrison of Humana, David Lindberg and Craig Morton with Wilshire, and Eric Branco with Johnson Bowman Branco, LLP.

Ms. Pendergrass called the meeting to order.

Mr. Board read the Opening Statement.

Ms. Rankin took Roll Call.

There being no *Public Comment* submitted, Ms. Pendergrass introduced agenda item *Approval of Minutes – June 14, 2022, June 27, 2022, and September 1, 2022*. Mr. Powell made a motion to approve all minutes as presented and was seconded by Dr. Carver. The motion passed unanimously.

Ms. Pendergrass introduced agenda item *Finance Committee Report*. Mr. Fulkerson stated that the Finance Committee met on August 23, 2022. During the meeting, the Committee considered and unanimously approved 17 Hazardous Duty requests. Ms. Adkins advised that the FY22 separation expense adjustments had been completed; therefore, some of the statement figures were different than what was presented to the Finance Committee. She continued to review the Combining Statement of Fiduciary Net Position for the Pension Funds as of June 30, 2022. Ms. Adkins stated that both plans, CERS Hazardous and CERS Nonhazardous, were down 7.4% primarily due to

poor market performance in June of 2022. The Combining Statement of Changes in Fiduciary Net Position of the Pension Funds was also reviewed; member contributions, employer contributions, and deductions had increased. CERS Nonhazardous was down 7.5% and CERS Hazardous was down 7.1% for Changes in Fiduciary Net Position. However, contributions were up and outgoing payments were increasing. CERS Nonhazardous was down 3.76% and CERS Hazardous was down 5.79% for Changes in Fiduciary Net Position in Insurance Funds. The CERS Pension Funds and Insurance Fund Contribution Reports were reviewed. The Hazardous cash flow was negative and the Nonhazardous cash flow was positive for the Pension Funds. In Insurance, inflows were up and outflows were down for Hazardous. Overall, both plans were down 4.45%, however, both were cash flow positive. Next, the KPPA Administrative Budget for FY 2021-2022 was reviewed. Ms. Adkins stated that 40.4 million dollars was spent for the fiscal year which is under budget by about 15%. Line items that were over budget included: adoption assistance, Ice Miller (legal), auditing, medical reviewers, natural gas, printing, conferences, office supplies, miscellaneous, COT charges, and computer equipment. Ms. Adkins reviewed the hybrid percentages of the separation expenses that were finalized in June 2022 and effective July 1, 2021. CERS Outstanding Invoices by Type and Employer and Penalty Invoices were also reviewed with the Board.

Dr. Milkman joined the meeting

Mr. Fulkerson and the Finance Committee requested that the CERS Board of Trustees ratify the actions taken by the Finance Committee. A motion was made by Mr. Powell to ratify the CERS Finance Committee's approval of the hazardous duty requests as presented. The motion and was seconded by Dr. Milkman and passed unanimously.

Ms. Connie Davis presented on the FY 2022 External Audit and Reporting. Ms. Davis reviewed the drafted 2022 Annual Comprehensive Financial Report (ACFR) and Summary Annual Financial Report (SAFR) timelines. The ACFR is due to the State by December 7, 2022. She advised that the GASB 67 and GASB 74 reports will be received from the Actuary soon and the valuations will not be available until late October. The valuations will be presented to the Public Pension Oversight Board (PPOB) in November and will be finalized by the December Board Meeting. The GASB 67 and GASB 74 reports are scheduled to be presented to the CERS Board of Trustees in March of 2023. Ms. Adkins clarified that the CERS Board and KERS Board will both review the Valuations at their November Board meetings prior to being presented to PPOB. Ms. Pendergrass stated that the CERS Board of Trustees has a scheduled meeting on March 15,

2023 and suggested that the meeting be rescheduled to March 9, 2023 to allow the Proportionate Share Audit Reports to be posted in time for the Water District to complete and submit their reports to PSC by the March 31, 2023 deadline. Ms. Rankin reviewed the calendar and stated that Staff would be available to conduct the meeting on the proposed date. Ms. Pendergrass asked that a motion be made to reschedule the March 15, 2023 meeting of the CERS Board of Trustees to March 9, 2023 at 2:00 p.m. A motion was made by Dr. Hackbart and seconded by Dr. Milkman. The motion passed unanimously.

Ms. Pendergrass introduced agenda item *Investment Committee Report*. Dr. Hackbart presented the item and stated that the CERS Investment Committee met on August 23, 2022. No action was taken by the Investment Committee that required ratification of the CERS Board of Trustees. Dr. Hackbart announced that the Committee received a year-end performance report from Wilshire at the Investment Committee meeting. Mr. Willer also reported on fiscal year fourth quarter numbers and gave the Committee a preliminary look at the fiscal year 2023 July and August data, said Dr. Hackbart. Additionally, rationale for a Trust Budget and the Staff's first attempt at establishing the parameters of the Trust Budget were presented to the Committee. Dr. Hackbart stated that it was determined that the Trust Budget would significantly increase the Trustee's oversight of all monies spent from the CERS Trust. Mr. Willer also provided the Investment Committee with a brief update on staffing efforts taking place in the department. Next, Dr. Hackbart asked Mr. Willer to present the CERS Quarterly Investment Report to the CERS Board of Trustees. He stated that the market continued to be extremely volatile and advised that volatility would likely continue for a period of time. 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 over 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% on the due to rising rates. Mr. Willer reported that about one billion dollars was invested in public markets across the pension and insurance with about 650 million of those funds for CERS Nonhazardous and CERS Hazardous pension and insurance plans. 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. These ranges are the guide under which Investment Staff will continue to operate moving forward. Dr. Hackbart thanked Mr. Willer for his report and asked for his insight regarding the state of inflation. Mr. Willer stated that the Federal Reserve System is committed to reducing inflation and expects that growth will remain strong while rates rise. Mr. Willer reported that the funds held up well relative to their benchmarks and against the public plans peer universe given the volatility of the markets. The median pension plan was down about 10% to 11% for the fiscal year ending June 30, 2022. CERS Nonhazardous was down 5.9% and outperformed the benchmark by 51 basis points. CERS Hazardous was down 6.1% and outperformed the benchmark by 34 basis points. Insurance performed very well, outperforming their benchmarks by 79 and 123 basis points. The ten-year, twenty-year, and thirty-year returns for all funds exceeded their IPS Policy benchmarks. Mr. Willer advised that the July performance report was sent out last week and was not included in the material for this meeting. The funds all had a strong performance, stated Mr. Willer, posting returns between 4.2% and 4.3% and exceeding benchmarks by between 56 and 78 basis points. Next, Mr. Willer reviewed the Total Fund Attribution of the CERS Pension Plan for period ending June 30, 2022 with the Board. He stated that allocation was the most significant hindrance on performance across all plans. Mr. Willer stated that the position within the allocations was a positive contributor to performance for the fiscal year. Ms. Pendergrass asked if there are changes to the fund asset allocation that should be considered due to their recent hindrance on gains. Mr. Willer stated that there is not necessarily anything wrong, however, potential modifications to ranges for the asset allocations are being discussed. Mr. Willer provided return, standard deviation, and sharpe ratio metrics for the CERS Pension Plan versus the public plan peer universe for the period ending June 30, 2022 for one, three, and five years. Ms. Pendergrass asked if these metrics included private investments. Mr. Willer confirmed that all assets in the fund are included. Ms. Pendergrass asked Wilshire if it is possible to show these metrics for one, five, and 30 years to show long-term impact on the portfolio. Mr. Craig Morton with Wilshire stated that 30 years would have a severely constrained peer group, however, Mr. Morton agreed to try 10, 20, and 30 years. Ms. Pendergrass suggested that the Investment Committee review these once received from Wilshire and select the year metric that the Committee feels is the most important. Mr. Willer reviewed the Asset Allocation Compliance report for period ending June 30, 2022 and stated that there were underweights in real returns with the corresponding overweight in specialty credit. This underweight was attributed to a Staff decision made in early 2022 to eliminate an 850 million dollar mandate that resided in the real return allocation – roughly 3% to 4% per plan. Mr. Willer

advised that the Office of Investments is actively seeking mandates to replace it. Mr. Willer reported that the Office of Investments is currently engaged in several searches and hopes to bring those to the Board of Trustees soon. Mr. Willer stated that he is also evaluating using public market securities and short-term proxies. He briefly reviewed the unit holdings, investment fees and expenses, and investment strategy and plan guidelines compliance reports with the Board. Mr. Cheatham inquired about Mr. Willer's plan and timeline to get allocations in their respective ranges. He also asked which areas will be addressed first regarding getting into compliance. Mr. Cheatham asked Wilshire when the Board can expect to see an updated report on asset class returns. Mr. Willer stated that he is working on potential modifications to the asset allocation and that his primary focus is to get allocations in range as quickly as possible. Mr. David Lindberg with Wilshire stated that the capital market expectations that are calculated each quarter are for a ten year period looking forward and are higher than they were one year ago. The Investment Committee material included the Capital Market Assumptions which were generalized assumptions. In terms of the policy, Mr. Lindberg stated that the expected return is 7.1% for the asset allocation policy and has increased from 6.2% about a year ago/last fall. Lastly, Mr. Willer stated that the new contract for Wilshire is a work-in-progress and an update will be presented at a later date.

Ms. Pendergrass presented an item not included on the agenda. She presented the CERS Bylaw changes necessary to make the Ad Hoc Personnel Committee into a CERS permanent standing Committee. Ms. Pendergrass advised that the presented material reflects the changes and edits discussed and requested by the Board at the June 14, 2022 CERS Board of Trustees meeting. Dr. Hackbart made a motion to adopt the changes of the CERS bylaws as presented. The motion was seconded by Dr. Milkman and passed unanimously.

Ms. Pendergrass introduced agenda item *Personnel Committee*. Mr. Fulkerson reported that the Ad Hoc Personnel Committee held a Special Called Meeting on September 7, 2022. During the meeting, the CERS Ad Hoc Personnel Committee approved the Employee Performance Appraisal form and process. Mr. Fulkerson stated that the Committee is requesting that the CERS Board of Trustees ratify the CERS Ad Hoc Personnel Committee's approval of the CERS Employee Performance Appraisal form and process as presented. A motion was made by Mr. Powell and was seconded by Dr. Carver. The motion passed unanimously. Dr. Milkman asked which employees would use the approved CERS Employee Performance Appraisal form. Ms. Pendergrass clarified that the form only applies to CEO Ed Owens, III. Dr. Milkman asked Mr. Owens if he is in favor

of the form and process. Mr. Owens stated that he is pleased with the actions and thanked Dr. Milkman for his thoughtfulness. Lastly, Mr. Fulkerson and Ms. Pendergrass advised that Human Resources Director, Lori Casey, and Eric Branco with Johnson Bowman Branco, LLP. are working to finalize projects regarding the CERS Personnel Policy Manual and will report on those once completed.

Ms. Pendergrass introduced agenda item *Joint Audit Committee Report*. Ms. Kristen Coffey presented the Joint Audit Committee Report. She stated that the Joint Audit Committee met on August 25, 2022. There were no actions taken requiring ratification by the CERS Board of Trustees. Ms. Coffey directed the Board to the submitted memo summarizing the Committee's discussions. She stated that the Division of Internal Audit Administration is working on several projects and is hopeful to bring those findings to the next meeting of the Joint Audit Committee. Ms. Pendergrass added that several of the outstanding items are pending the recruitment of a new Chief Financial Officer.

Ms. Pendergrass introduced agenda item *Joint Retiree Health Plan Committee Report*. Mr. Powell reported that the Joint Retiree Health Plan Committee met on September 6, 2022 to discuss and make recommendations regarding the non-Medicare and Medicare eligible health plans for retirees of the systems operated by KPPA for the 2023 plan year. Mr. Powell advised that the Medicare Advantage Plan Request for Proposal (RFP) was awarded to Humana. Ms. Pettyjohn reviewed in detail the Retiree Health Plan Committee recommendations (meeting material, pp. 104-105) for non-Medicare eligible retirees (KEHP Plan). Mr. Powell made a motion to accept the recommendations of the Retiree Health Plan Committee for the non-Medicare eligible retirees (KEHP Plan). Mr. Fulkerson seconded the motion and the motion passed unanimously. Next, Ms. Pettyjohn reviewed the Retiree Health Plan Committee recommendations (meeting material, pp. 106-107) for Medicare eligible retirees and directed the Board to the meeting material for further detail. Mr. Powell made a motion to accept the recommendations of the Retiree Health Plan Committee for Medicare eligible retirees. Mr. Cheatham seconded the motion and the motion passed unanimously.

Ms. Pendergrass introduced agenda item *Legislative Working Group*. Ms. Pendergrass presented the item. She reported that the CERS Legislative Working Group met on September 1, 2022 to discuss housekeeping issues that KPPA is discussing with legislators. She advised the Board of Trustees that the information provided in the meeting material was informational. Mr. Cheatham

stated that he has become aware of benefit/service window issues among emergency service members. Ms. Erin Surratt, Executive Director of Benefits, stated that if an employee is to leave a hazardous position and return to any other position that is not a regular, full-time hazardous position, there is a three-month break in service. Ms. Pendergrass asked that Ms. Surratt and Mr. D’Juan Surratt conduct further research on the relevant statutes and report their findings to the Board for further discussion. Ms. Pendergrass stated that the issue may need to be added to the Housekeeping Bill.

Ms. Pendergrass introduced agenda item *Administrative*. Ms. Pendergrass provided an update on the Strategic Planning efforts. She stated that several Committee Chairs are in need of additional time to prepare their recommendations for their respective Strategic Plans. Ms. Pendergrass advised that these recommendations will be presented to the Board within the next few months or early 2023. Next, Division Director of Enterprise and Technology Services, Dominique McKinley, presented the Department Spotlight. Ms. McKinley discussed the mission, vision, and responsibilities of the Enterprise and Technology Services Division. The Division is currently staffed with 35 full-time employees and seven contractors. There are several positions vacant within the Division and leadership has struggled over the past few years to recruit and hire, said Ms. McKinley. She emphasized the importance of security within her Division. The Division utilizes several preventative tools to minimize risk; training, incident reporting, log monitoring, audits, and policy. Mr. Eager added that these efforts are immensely important as the number of threats continues to increase exponentially. Ms. McKinley advised that a migration to Microsoft 365 is in the works and will be implemented in the coming months to KPPA employees.

CERS CEO Ed Owens, III, provided a brief CEO Report. Mr. Owens announced several upcoming speaking engagements that will take place prior to the next meeting of the CERS Board of Trustees. He stated that the CFA Society of South Africa is holding a convention at the end of October 2022. Mr. Owens will have a recorded segment which will be viewed at the convention. The segment will include information regarding the CFA Pension Trustee Code. In addition, Mr. Owens stated that he will be a panelist at the Global Leaders in Real Estate Summit in New York. The final speaking engagement will be to a graduate school class at the Martin School of Public Policy at the University of Kentucky.

Mr. Eager presented a KPPA Update to the Board of Trustees. Mr. Eager stated that funding had been the greatest issue for the funds in the past, however, new legislation aided this issue. He stated

that the funds are now on track and KPPA is struggling to recruit and fill vacancies within the agency. There are 25 vacant positions across KPPA Divisions; therefore, recruitment has become more critical than ever. Mr. Eager is working closely with Ms. Lori Casey, Human Resources Director, to find additional opportunities for recruitment and to create better strategies for retention and succession planning within the agency. Additionally, employee morale is an area of focus as certain divisions began returning to the office three days per week. Four firms have been interviewed to learn more about what is needed in a business strategic plan. Mr. Eager added that business has become much more complex and that the strategic plan will assist KPPA in discovering the best steps to do more with less staff, etc. Additionally, the C.E.M. Benchmark Study is underway and biweekly CEO meetings continue. Mr. Eager announced that the Housekeeping Bill was sponsored by Representative Tipton and should be completed by October or November of 2022. Lastly, a Request for Proposal (RFP) was released for the Actuary and GRS was awarded the contract. Mr. Eager explained that GRS had served as the Actuary since 2017 and will now continue to serve KPPA.

Mr. Michael Board advised that a call request was received about a month ago from Carmine Iaccarino at the Attorney General's office. The call was held a few days later and included Mr. Board, Mr. Eager, Mr. Iaccarino, and two representatives from the State Treasurer's Office. Mr. Board stated that they wished to discuss a message to BlackRock. Further, Mr. Board explained that a group of 19 Attorney Generals across the country had sent a letter to BlackRock which expressed concerns regarding their ESG considerations and proxy voting. The Kentucky Attorney General was one of the 19 who signed the letter. Mr. Board advised that those on the call wished to gauge the interest of KPPA in participating in that letter and developing a statewide approach to ESG issues which would involve the Attorney General's Office, KPPA, Teachers' Retirement System, The Treasurer's Office, and other areas of State Government. Mr. Board advised that he and Mr. Eager responded by requesting a letter with additional detail and information to review. It was made clear that no commitment or decision would be made until the information was provided in writing. Mr. Board stated that any action would be a Board-level decision and that any developments in the matter would be brought to the Board. As of the date of the meeting, no letter had been received. Mr. Board explained that he wanted to bring this discussion to the Board's attention and was for informational purposes. Ms. Pendergrass asked that Mr. Board and Mr. Eager present the letter, once received, to the CERS Investment Committee to discuss and make a recommendation to the CERS Board of Trustees.

Ms. Pendergrass introduced agenda item *Closed Session*. Mr. Powell made a motion and was seconded by Mr. Cheatham enter 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 closed session to consider litigation, pursuant to KRS 61.810(1)(c), because of the necessity of protecting the confidentiality of the Systems’ litigation strategy and preserving any available attorney-client privilege”.

***Mr. Powell exited the meeting. ***

Coming back into open session, 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. Milkman made a motion and was seconded by Mr. Cheatham 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 County Employees Retirement System, do certify that the Minutes of Meeting held on September 14, 2022 were approved on November 9, 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 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



TO: Members of the CERS Board of Trustees

FROM: Joint CERS & KRS Retiree Health Plan Committee

DATE: November 9, 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.



MEMORANDUM

TO: County Employees Retirement System Board of Trustees

From: Michael Foster, Chair
Actuary Committee

Date: November 9, 2022

Subject: Summary of Actuary Committee Special Meeting

The County Employees Retirement System held their regular quarterly Actuary Committee meeting on November 2, 2022.

1. **The following items were approved by the Actuary Committee and are being forwarded to the County Employees Retirement System Board of Trustees for ratification.**
 - a. The Actuary Committee reviewed and approved the DRAFT 2022 Actuarial Valuation Report and recommends that the CERS Board of Trustees ratify the DRAFT Valuation Report for submission to the PPOB.
 - b. The Actuary Committee approved a recommendation to have the full CERS Board move the next scheduled Actuary Committee meeting from February 8, 2023 to April 12, 2023 at 2:00 pm ET.
 - c. The Actuary Committee approved the components of its strategic plan and recommends that the CERS Board of Trustees ratify them.

RECOMMENDATION: The Actuary Committee requests the County Employees Retirement System Board of Trustees ratify the actions taken by the Actuary Committee.

2. **The following items were also discussed during the Actuary Committee meeting:**
 - a) Janie Shaw from GRS presented the 2022 draft Actuarial Valuation report for the CERS NonHazardous and Hazardous pension and insurance plans. Ms. Shaw noted several key factors that affected the 2022 Valuation:
 - i) Benefit adjustments in 2022 SB209 increased the costs of health insurance subsidies for certain members hired after July 1, 2003, increasing their subsidy for each year of service by \$5.

- ii) Active membership increased across both CERS system with an increase in covered payroll for non-hazardous and 7.4% for hazardous. These increases also exceeded the 10-year averages for the plans.
 - iii) Investment returns lagged below the assumed discount rate, given the current market volatility that affected all investors. The 2022 losses will be amortized over 5 years, so the current recognition of prior years' gains netted to an asset gain of \$110M for the 2022 Valuation.
 - iv) The increased payroll and employee head count also increased the liability projections with a \$482M loss in non-hazardous and \$92M loss for hazardous.
 - v) The Insurance plans benefitted from lower Medicare premiums. With these changes, both insurance plans are now funded at 100% or better and have achieved the funding targets set by the Board.
 - vi) The cumulative impact of these changes lowered the actuarial determined contribution rate from 26.79% in 2021 to 23.34% for non-hazardous in 2022. Hazardous rates decreased from 49.59% to 43.69%.
 - vii) Funded status for all plans also improved to the following:

(1) CERS Non-Hazardous pension	52.0%
(2) CERS Non-Hazardous insurance	132.1%
(3) CERS Hazardous pension	47.6%
(4) CERS Hazardous insurance	101.0%
 - viii) GRS also provided long-term projections based on continuing current assumptions and funding policies. These projections indicate that the pension plans are still on target to achieve full funding in 2048, or earlier.
 - ix) GRS noted that the current employer normal cost of 5.3% for non-hazardous pension and 10.71% for hazardous pension also continue to decline as Tier 3 members with lower benefits replace Tier 1 members.
 - x) More details about the valuation are available in the attached slides and in the full report that will be delivered to CERS in December.
- b) The Committee received a presentation from GRS and Wilshire that addressed the 6.25 discount rate on all CERS plans. GRS gave a review of their economic assumptions including a sensitivity analysis that showed the actuarial impact to the trust of a raise or lowering of the current discount rate by 25 and 50 basis points. Wilshire presented information containing their forward looking return expectations for 10 years, 20 years and 30 years.
- c) The Committee engaged in a discussion concerning strategic plan objectives that could be accomplished by the Committee. The Committee passed those strategic plan items and will seek CERS Board ratification.

- d) The Committee also discussed the schedule for reviewing and evaluating actuarial assumptions for the 2023 Valuation. Normally the Actuarial Committee meets in February so that recommendations can be forwarded to the full Board at their regular quarterly meeting in March. Mr. Owens noted that some capital market information is not available until late February and the Committee would not have comprehensive market information earlier. Ms. Shaw noted that GRS can still work with assumptions changes as late as May or June. Mr. Owens recommended that the Actuarial Committee delay its discussion until April 12, 2023 and give the full Board the remainder of April and May to review the Committee's recommendations. The full Board will still have time to conduct additional research if they need more information. The CERS Actuarial Committee adopted this recommendation and is sending that recommendation to the full CERS Board for consideration at their November 9, 2023, meeting.
- e) The Committee reviewed their suggestions for the actuarial component of the CERS Board Strategic Plan. Ms. Pendergrass noted that she heard a presentation about a pension management performance tool at a recent NCPERS conference. That analysis is designed to help pension trustees evaluate strengths and weaknesses in their pension plan provisions and funding. The tools in this package may be helpful for finalizing the CERS Board Strategic Plan Mr. Foster suggested that the Actuarial Committee could adopt the strategies they have already discussed and revise it later if new information was available in the future. The Committee adopted the strategies outlined in the attached meeting materials and is forwarding the Actuarial Committee component to the full CERS Board to include with the CERS Board Strategic Plan.



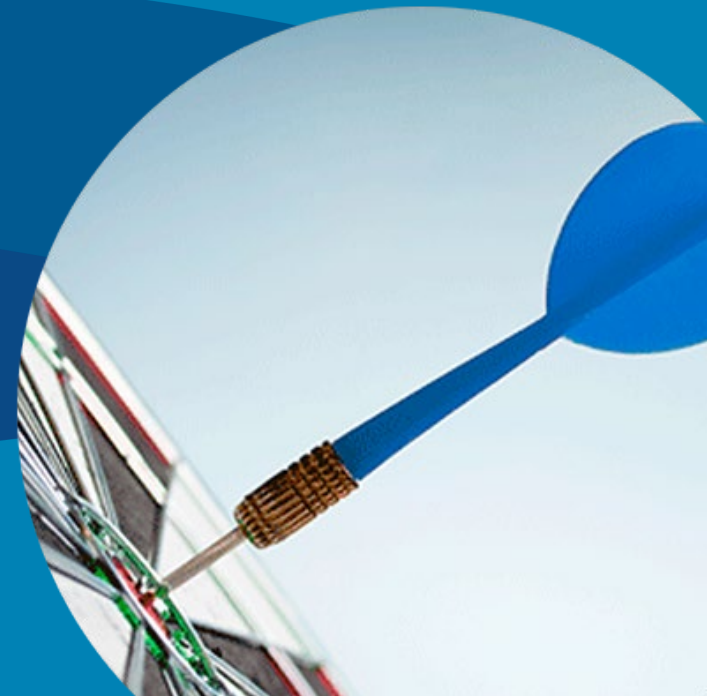
County Employees Retirement System

2022 Actuarial Valuation Results

November 9, 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
- Change in active membership and covered payroll
 - Active membership increased across both funds
 - Non-Hazardous: 6.4% increase in covered payroll
 - Hazardous: 7.4% increase in covered payroll



Comments on Valuation Results

- FYE 2022 Investment Experience
 - -6% return on market value
 - Assumed rate of return: 6.25%
 - Fund assets \$1,943M less than expected for CERS (\$1,382M pension and \$561M insurance)
 - \$110M in asset gains recognized this year (\$80M pension and \$30M insurance)



Comments on Valuation Results

- Retirement Fund Liability Experience
 - \$482M loss for non-hazardous fund
 - \$92M loss for hazardous fund
- Insurance Fund Liability Experience
 - \$1,582M gain for both CERS insurance funds combined
 - Medicare premiums significantly decreased from 2022 to 2023.



Required Employer Contributions

	CERS Non-Hazardous		CERS Hazardous	
	2021 Val	2022 Val	2021 Val	2022 Val
(1)	(2)	(3)	(4)	(5)
Pension Fund	23.40%	23.34%	42.81%	41.11%
Insurance Fund	<u>3.39%</u>	<u>0.00%</u>	<u>6.78%</u>	<u>2.58%</u>
Actuarially Determined Contribution Rate, payable as a percentage of payroll¹	26.79%	23.34%	49.59%	43.69%
Difference		(3.45)%		(5.90)%

¹ 2021 Valuation set the contribution rates for FYE2023. 2022 Valuation will be used to set the contribution rates for FYE2024.



Required Employer Contributions (\$millions)

	CERS Non-Hazardous		CERS Hazardous	
	2021 Val FYE2023	2022 Val FYE2024	2021 Val FYE2023	2022 Val FYE2024
(1)	(2)	(3)	(4)	(5)
<u>Actuarially Determined Employer Contribution</u>				
Pension Fund	\$ 604	\$ 641	\$ 253	\$ 260
Insurance Fund	<u>87</u>	<u>0</u>	<u>40</u>	<u>16</u>
Total Contribution	\$ 691	\$ 641	\$ 293	\$ 276
Change in Contribution		(\$50)		(\$17)



Change in Required Employer Contributions

CERS Non-Haz – Actuarially Determined Contribution Rate

	CERS Non-Hazardous (% of pay)		
	Pension	Insurance	Total
Contribution Rate – 2021 Val	23.40%	3.39%	26.79%
Investment Experience	(0.19)%	(0.06)%	(0.25)%
Demographic Experience	0.13 %	(4.56)%	(4.43)%
Plan Change – SB 209	<u>0.00 %</u>	<u>0.36 %</u>	<u>0.36 %</u>
Total Change	(0.06)%	(4.26)%	(4.32)%
Contribution Rate – 2022 Val	23.34%	0.00%¹	23.34%

Return on actuarial value of assets
7% pension & insurance

Significant decrease in 2023
Medicare premiums

¹ Contribution rate not less than 0.00%.



Change in Required Employer Contributions

CERS Haz – Actuarially Determined Contribution Rate

	CERS Hazardous (% of pay)		
	Pension	Insurance	Total
Contribution Rate – 2021 Val	42.81%	6.78%	49.59%
Investment Experience	(0.25)%	(0.17)%	(0.42)%
Demographic Experience	(1.45)%	(5.02)%	(6.47)%
Plan Change – SB 209	<u>0.00 %</u>	<u>0.99 %</u>	<u>0.99 %</u>
Total Change	(1.70)%	(4.20)%	(5.90)%
Contribution Rate – 2022 Val	41.11%	2.58%	43.69%

Return on actuarial value of assets
7% pension & insurance

Significant decrease in 2023
Medicare premiums

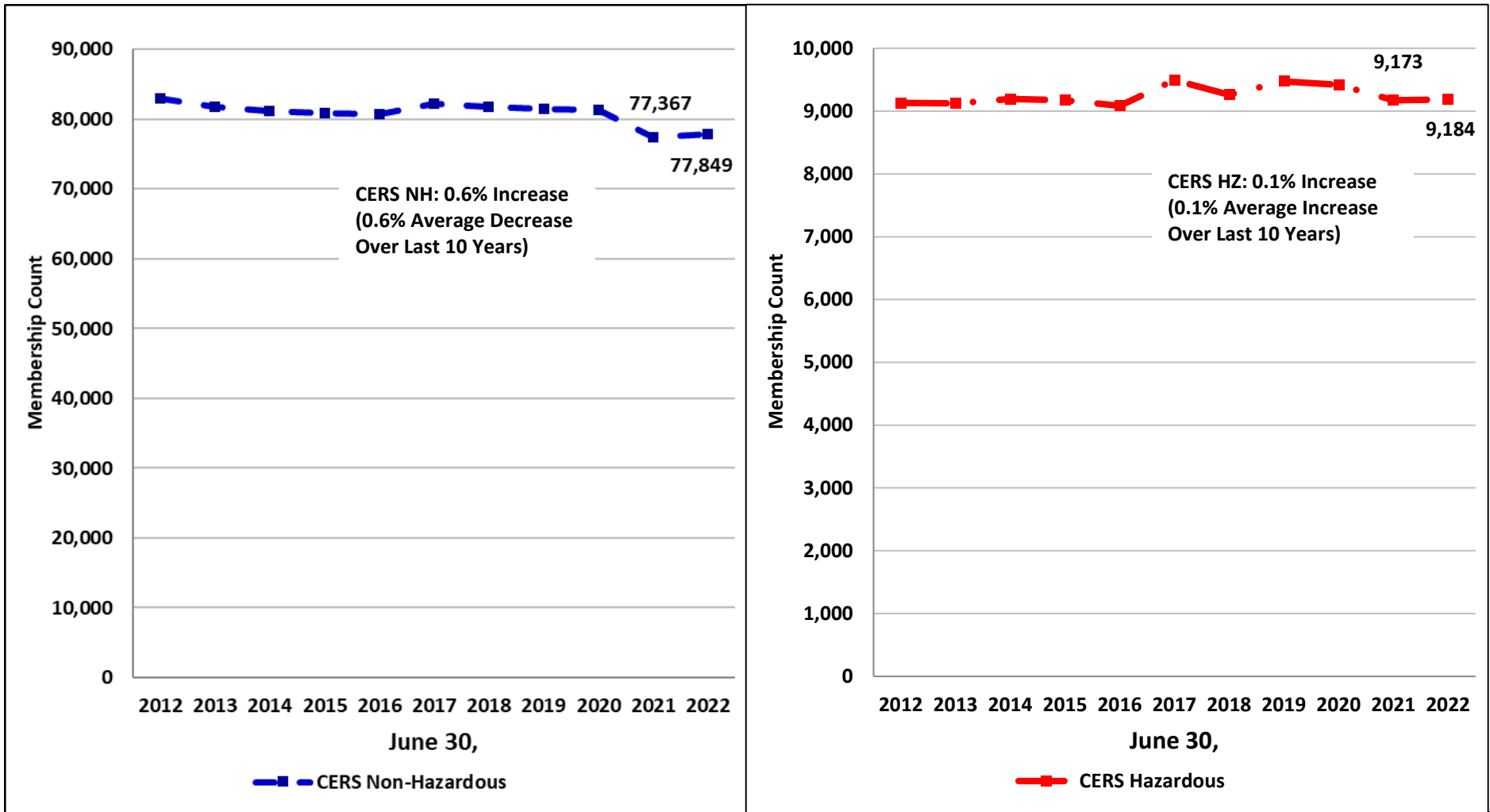


Unfunded Actuarial Accrued Liability – Actuarial Value of Asset Basis (\$ in Billions)

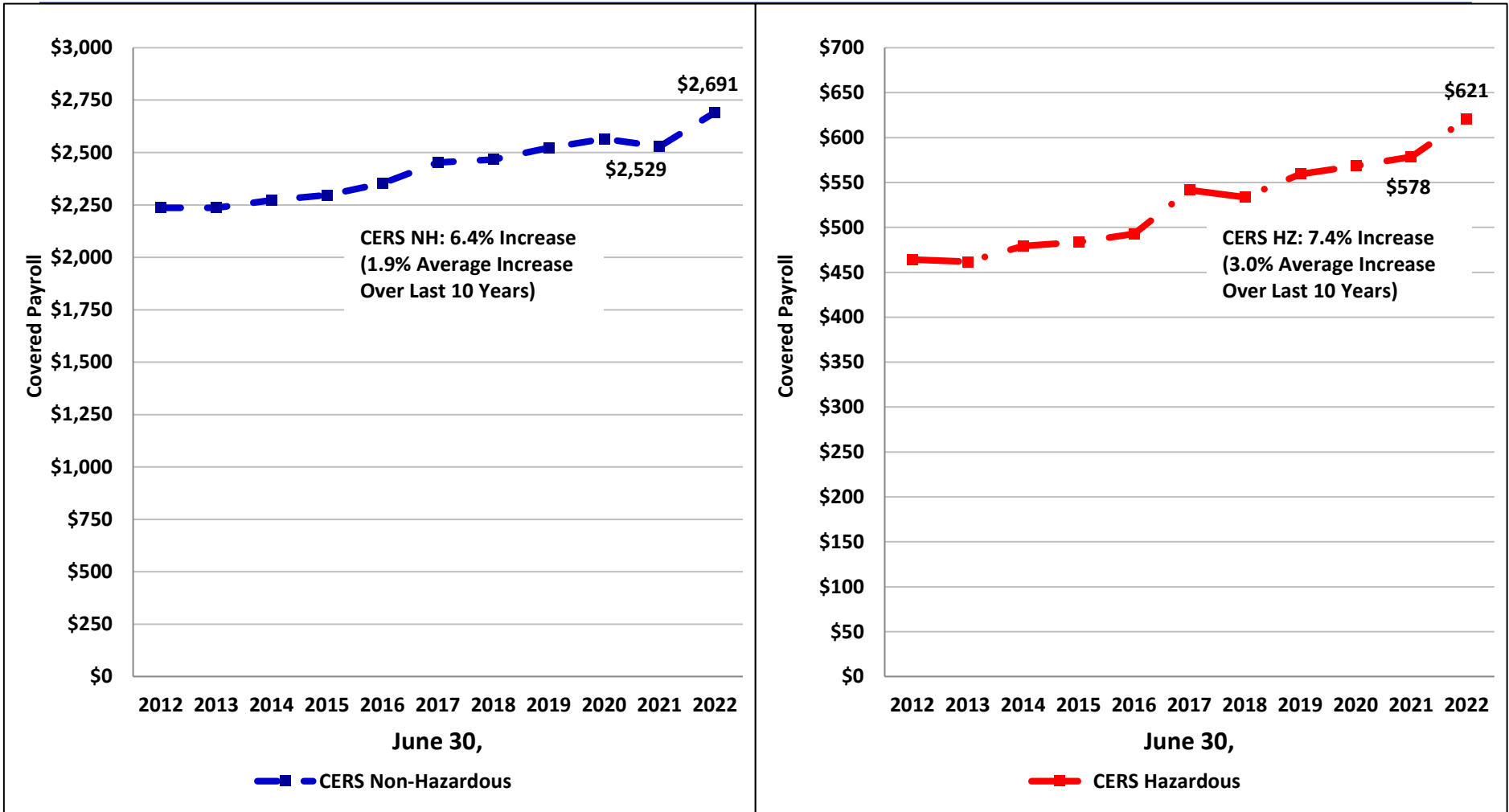
	CERS Non-Hazardous		CERS Hazardous	
	2021 Val	2022 Val	2021 Val	2022 Val
(1)	(2)	(3)	(4)	(5)
Pension Fund	\$ 7.18	\$ 7.53	\$ 3.00	\$ 3.07
Insurance Fund	<u>0.50</u>	<u>(0.77)</u>	<u>0.28</u>	<u>(0.02)</u>
Total Unfunded Actuarial Accrued Liability	\$ 7.68	\$ 6.76	\$ 3.28	\$ 3.05
Change in Unfunded Actuarial Accrued Liability		\$ (0.92)		\$ (0.23)



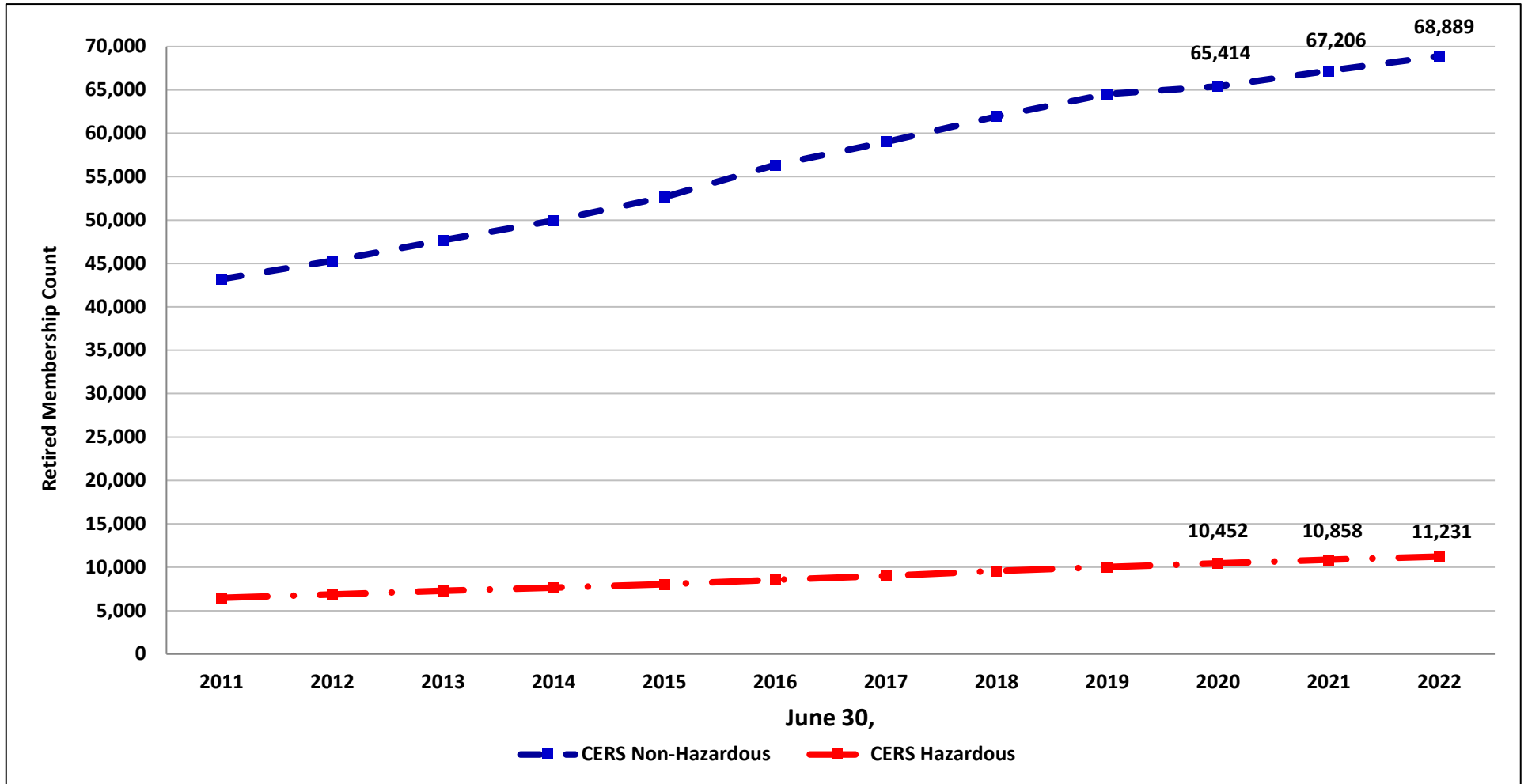
Active Membership Count



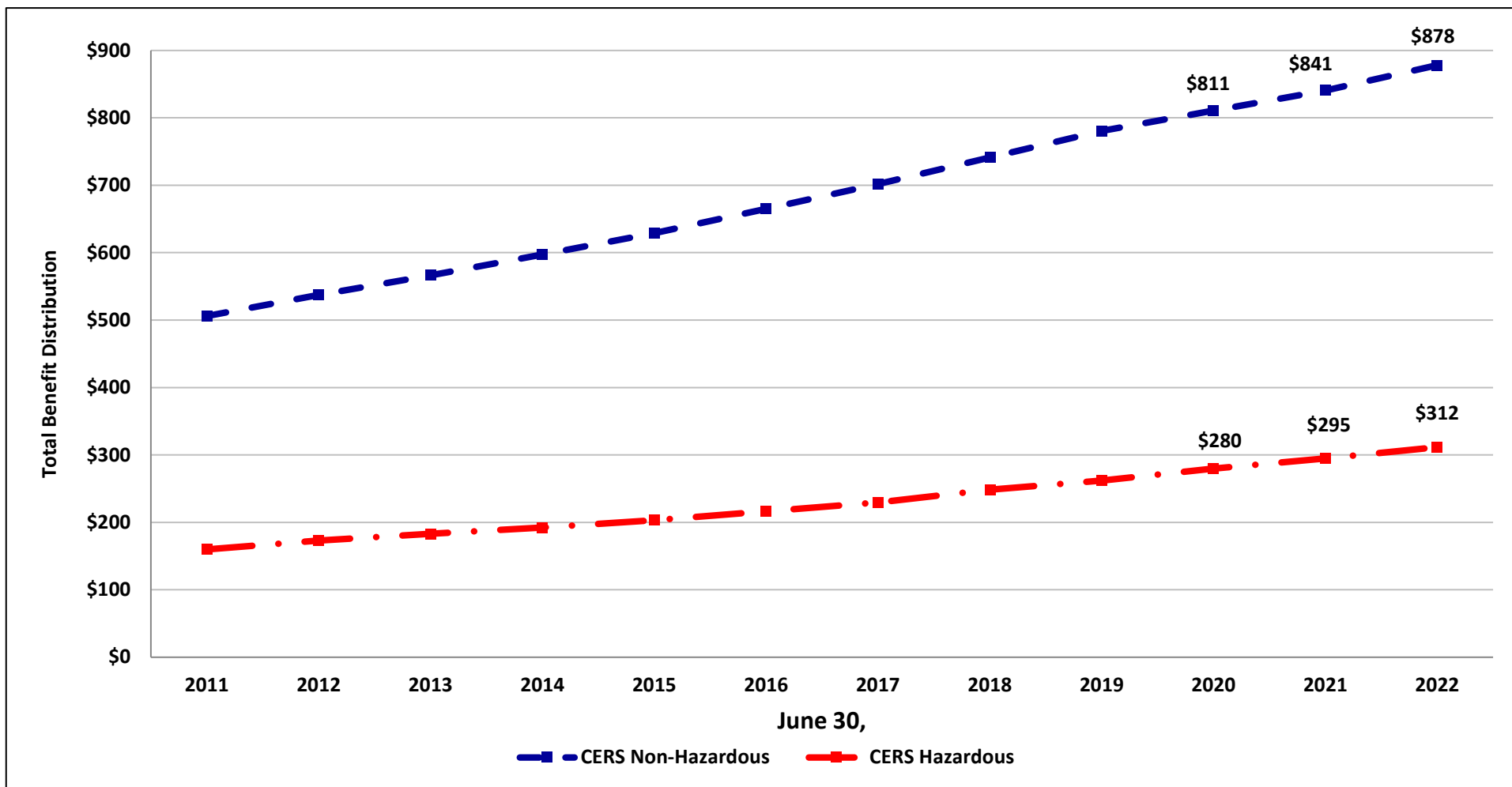
Covered Payroll (\$ in Millions)



Retired Membership Count



Pension Benefit Distributions (\$ in Millions)



Funding Results – CERS (\$ 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	10.44%	10.22%	3.07%	2.69%	18.39%	18.02%	4.83%	4.50%
Member Rate	<u>(5.00%)</u>	<u>(5.00%)</u>	<u>(0.55%)</u>	<u>(0.59%)</u>	<u>(8.00%)</u>	<u>(8.00%)</u>	<u>(0.55%)</u>	<u>(0.59%)</u>
Employer Normal Cost Rate	5.44%	5.22%	2.52%	2.10%	10.39%	10.02%	4.28%	3.91%
Administrative Expenses	0.86%	0.84%	0.04%	0.04%	0.32%	0.32%	0.09%	0.08%
Amortization Cost	<u>17.10%</u>	<u>17.28%</u>	<u>0.83%</u>	<u>-3.01%</u>	<u>32.10%</u>	<u>30.77%</u>	<u>2.41%</u>	<u>-1.41%</u>
Total Actuarially Determined Rate	23.40%	23.34%	3.39%	0.00%	42.81%	41.11%	6.78%	2.58%
Actuarial Accrued Liability (AAL)	\$14,895	\$15,674	\$3,450	\$2,392	\$5,629	\$5,862	\$1,751	\$1,538
Actuarial Value of Assets	<u>7,716</u>	<u>8,149</u>	<u>2,947</u>	<u>3,160</u>	<u>2,629</u>	<u>2,789</u>	<u>1,476</u>	<u>1,554</u>
Unfunded AAL	\$7,179	\$7,525	\$503	(\$768)	\$3,000	\$3,073	\$276	(\$16)
Funded Ratio	51.8%	52.0%	85.4%	132.1%	46.7%	47.6%	84.3%	101.0%



PROJECTION INFORMATION PENSION AND INSURANCE



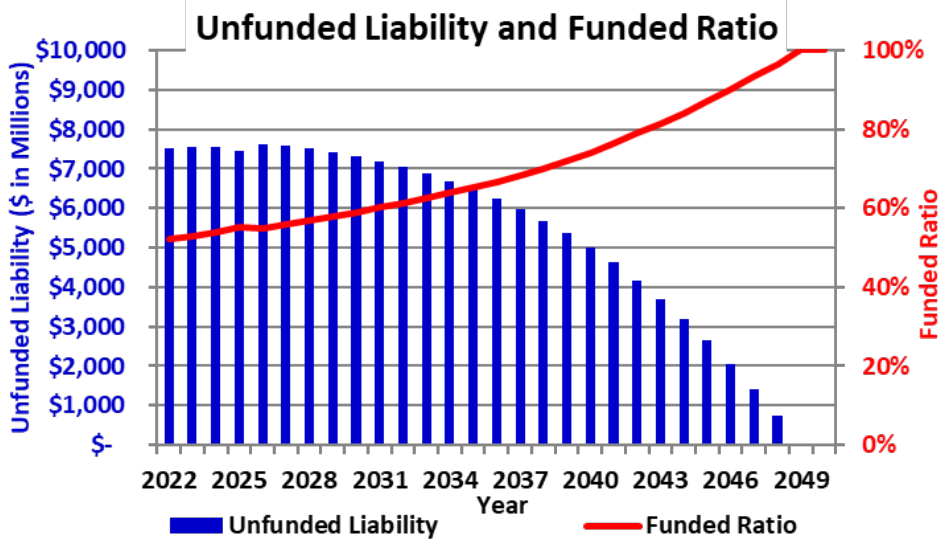
Projection Assumptions

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

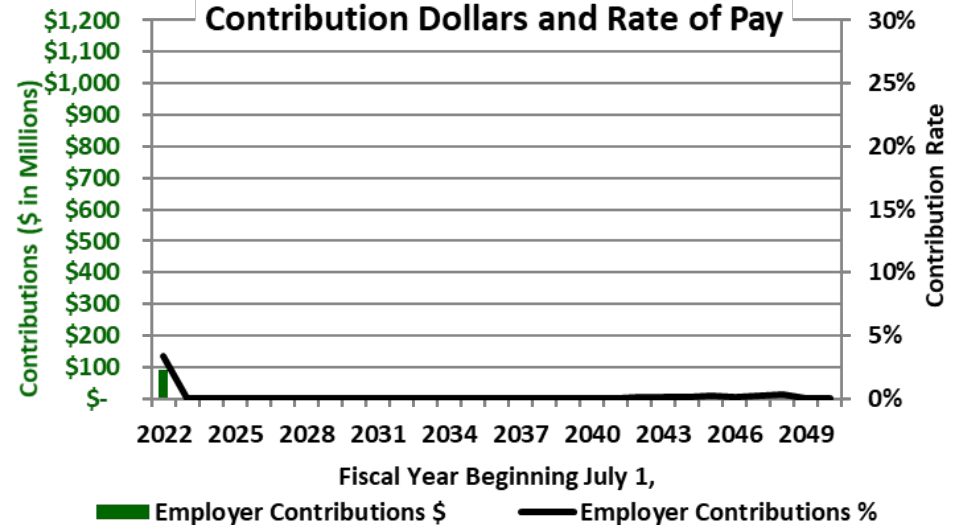
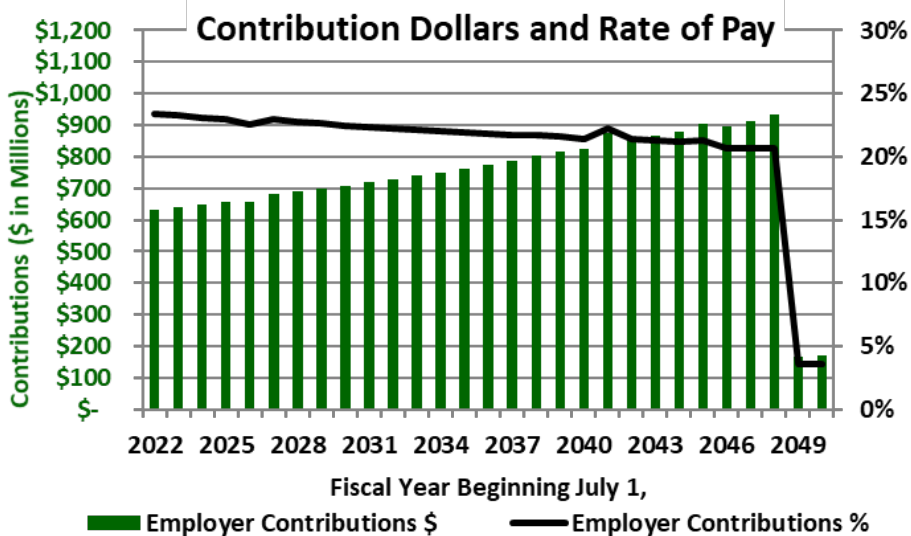
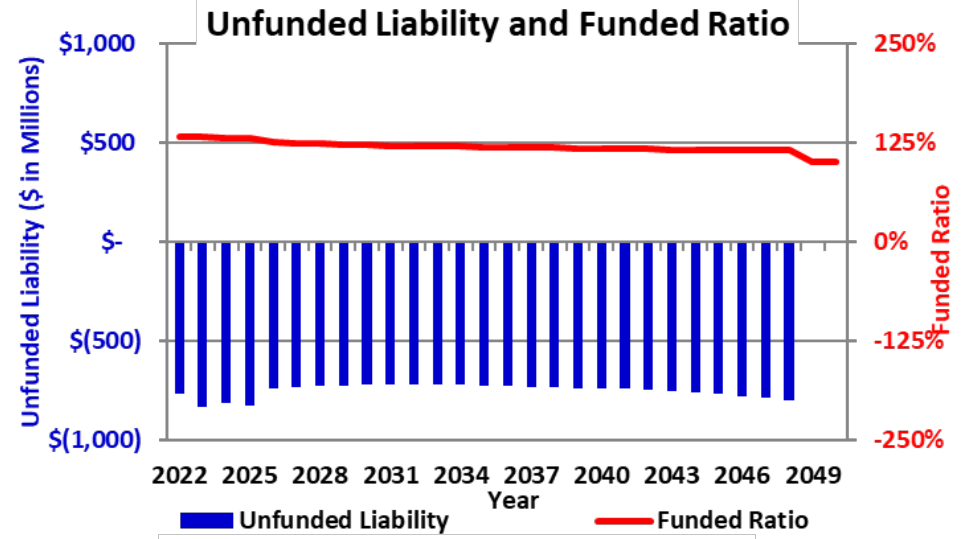


CERS Non-Hazardous Projection

Pension

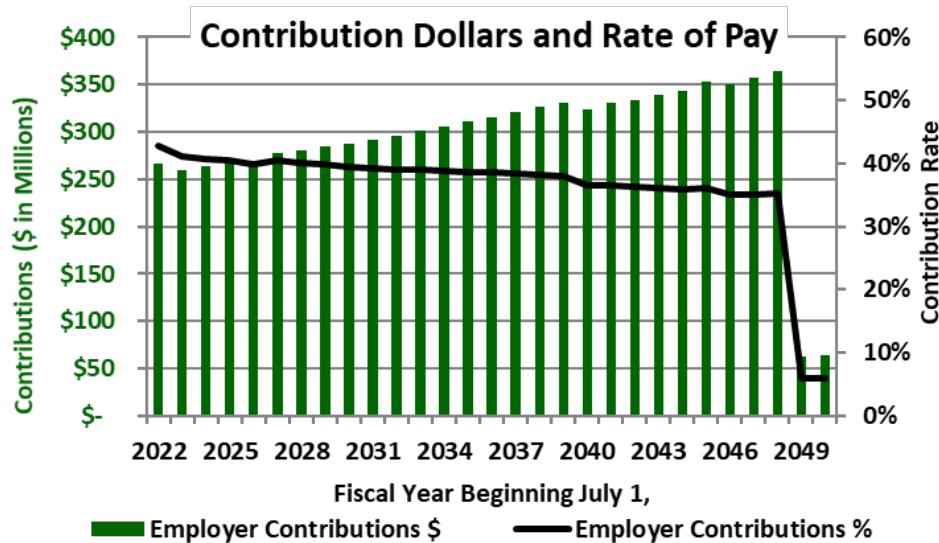
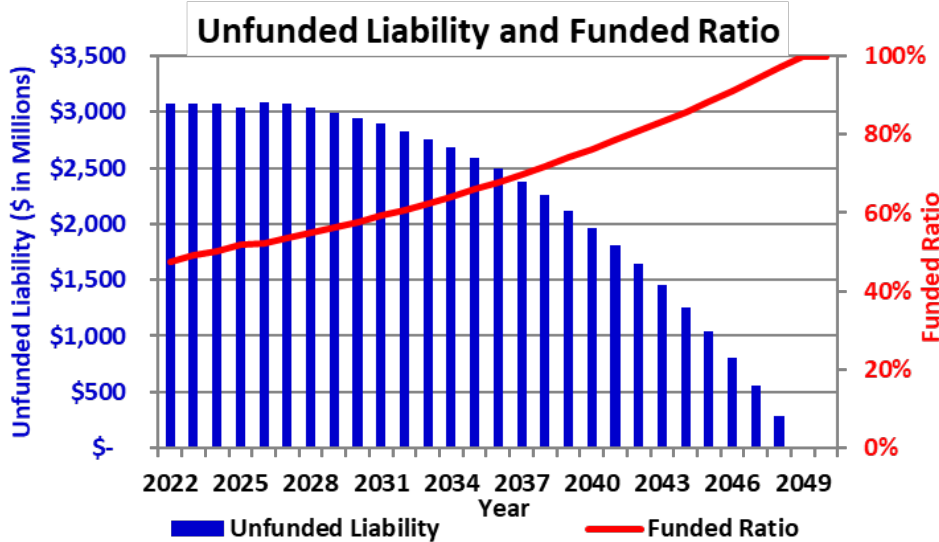


Insurance

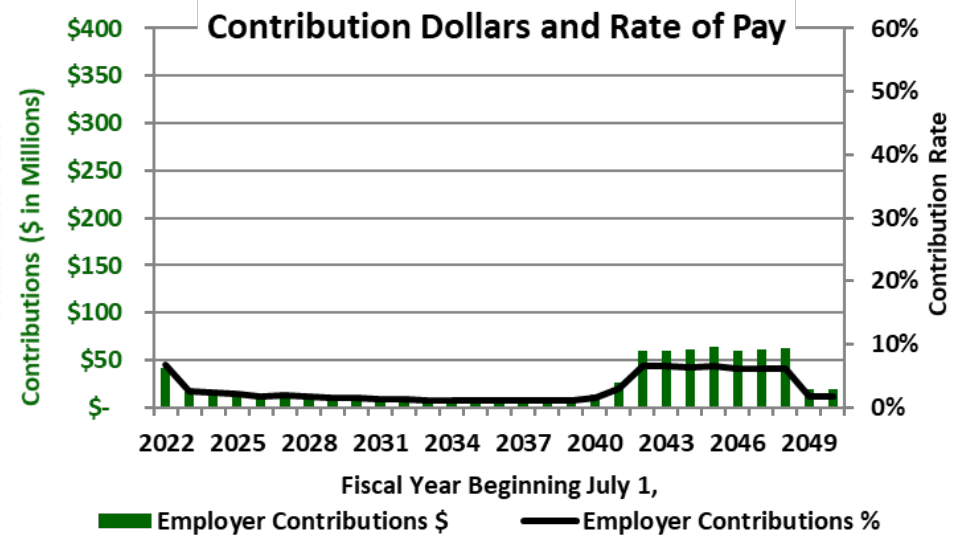
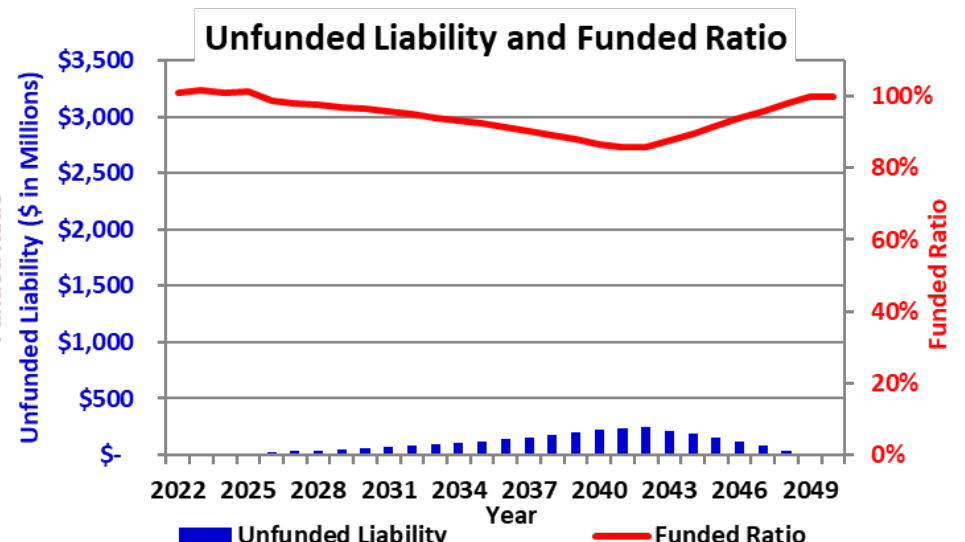


CERS Hazardous Projection

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)
- Actuarially determined contribution rates are fully phased in
- It is imperative the 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.



Calendar is printable and fully editable.

Calendar is printable and fully editable. Downloaded from WinCalendar.com

January 2023									
◀ Dec 2022	Sun	Mon	Tue	Wed	Thu	Fri	Sat	Feb 2023 ▶	
1	2	3	4	5	6	7			
8	9	10	11	12	13	14			
15	16	17	18	19	20	21			
22	23	24	25	26	27	28			
29	30	31							

February 2023						
◀ Jan 2023						Mar 2023 ▶
Sun	Mon	Tue	Wed	Thu	Fri	Sat
			1	2	3	4
5	6	7	8	9	10	11
12	13	14 KRS Investment Committee Mtg	15	16 Joint RHP Committee Mtg	17	18
19	20 CERS Finance Committee Mtg	21	22 CERS Investment Committee Mtg	23	24	25
26	27	28 Joint Audit Committee Mtg				

CERS Board Meeting - Amended Meeting Calendar

◀ Feb 2023		March 2023					Apr 2023 ▶
Sun	Mon	Tue	Wed	Thu	Fri	Sat	
			1 KRS Board Meeting	2	3	4	
5	6	7	8	9 CERS Board Meeting	10	11	
12	13	14	15	16	17	18	
19	20	21	22	23 KPPA Board Meeting	24	25	
26	27	28	29	30	31		

CERS Board Meeting - Amended Meeting Calendar

April 2023							
◀ Mar 2023	Sun	Mon	Tue	Wed	Thu	Fri	May 2023 ▶
							1
2	3	4	5	6	7	8	
9	10	11 KRS Annual Meeting	12 CERS Actuarial Committee Mtg	13	14	15	
16	17	18	19 CERS Annual Meeting	20	21	22	
23	24	25	26	27 KPPA Annual Meeting	28	29	
30							

May 2023						
◀ Apr 2023						Jun 2023 ▶
Sun	Mon	Tue	Wed	Thu	Fri	Sat
	1	2	3	4	5	6
7	8	9	10	11 Joint RHP Committee Mtg	12	13
14	15 KRS Investment Committee Mtg	16	17	18	19	20
21	22	23	24 CERS Investment Committee Mtg	25 Joint Audit Committee Mtg	26	27
28	29	30 CERS Finance Committee Mtg	31			

CERS Board Meeting - Amended Meeting Calendar

June 2023						
◀ May 2023	Sun	Mon	Tue	Wed	Thu	Jul 2023 ▶
					1	2
						3
4	5 KRS Board Meeting	6	7	8	9	10
11	12	13	14 CERS Board Meeting	15	16	17
18	19	20	21	22	23	24
25	26	27	28 KPPA Board Meeting	29	30	

July 2023						
◀ Jun 2023						Aug 2023 ▶
Sun	Mon	Tue	Wed	Thu	Fri	Sat
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

◀ Jul 2023		August 2023					Sep 2023 ▶
Sun	Mon	Tue	Wed	Thu	Fri	Sat	
		1	2	3	4	5	
6	7	8 KRS Investment Committee Mtg	9	10	11	12	
13	14	15	16	17	18	19	
20	21	22 CERS Finance Committee Mtg	23	24 Joint Audit Committee Mtg	25	26	
27	28	29	30 CERS Investment Committee Mtg	31			

CERS Board Meeting - Amended Meeting Calendar

September 2023						
◀ Aug 2023						Oct 2023 ▶
Sun	Mon	Tue	Wed	Thu	Fri	Sat
					1	2
3	4	5 Joint RHP Committee Mtg	6	7	8	9
10	11	12	13 CERS Board Meeting	14 KRS Board Meeting	15	16
17	18	19	20	21	22	23
24	25	26	27	28 KPPA Board Meeting	29	30

CERS Board Meeting - Amended Meeting Calendar

◀ Sep 2023 October 2023 Nov 2023 ▶						
Sun	Mon	Tue	Wed	Thu	Fri	Sat
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23 Joint RHP Committee Mtg	24	25	26	27	28
29	30	31				

CERS Board Meeting - Amended Meeting Calendar

November 2023						
◀ Oct 2023						Dec 2023 ▶
Sun	Mon	Tue	Wed	Thu	Fri	Sat
			1 CERS Actuarial Committee Mtg	2	3	4
5	6	7	8 CERS Board Meeting	9 KRS Investment Committee Mtg	10	11
12	13	14 KRS Board Meeting	15	16 CERS Finance Committee Mtg	17	18
19	20	21	22	23	24	25
26	27 Joint Audit Committee Mtg	28 CERS Investment Committee Mtg	29	30		

CERS Board Meeting - Amended Meeting Calendar

December 2023						
◀ Nov 2023						Jan 2024 ▶
Sun	Mon	Tue	Wed	Thu	Fri	Sat
					1	2
3	4 CERS Board Meeting	5	6 KPPA Board Meeting	7 KRS Board Meeting	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30
31						