# Kentucky Public Pensions Authority Quarterly Board Meeting September 28, 2023 at 10:00 a.m. EST Live Video Conference/Facebook Live AGENDA

1.	Call to Order	Keith Peercy
2.	Legal Opening Statement	Michael Board
3.	Roll Call	Sherry Rankin
4.	Public Comment	Sherry Rankin
5.	Approval of Minutes – June 28, 2023 and July 31, 2023*	Keith Peercy
6.	KPPA Audit Committee Report**	Kristen Coffey
7.	Staffing**	KPPA Executives
8.	FY25-26 Biennial Budget Recommendation*	Michael Lamb
9.	Cyber Insurance Policy**	Michael Lamb
10.	Quarterly Financial Statements	Michael Lamb
11.	Investment Department Update	Steve Willer
12.	Administrative Regulations 105 KAR 1:270 and 105 KAR 1:215*	Carrie Bass Jessica Beaubien
13.	KPPA Executive Director Position**	Keith Peercy
14.	KPPA Meeting Calendar 2024*	Keith Peercy
15.	KPPA Update	David Eager
16.	Legislative Update	David Eager
17.	Paperless Project Presentation	Erin Surratt
18.	New Business**	Keith Peercy
19.	Closed Session – Litigation and Personnel**	Keith Peercy
20.	Adjourn*	Keith Peercy

<sup>\*</sup>Board Action Required

<sup>\*\*</sup>Board Action May Be Required

# MINUTES OF MEETING KENTUCKY PUBLIC PENSIONS AUTHORITY MEETING

### VIA LIVE VIDEO TELECONFERENCE JUNE 28, 2023, AT 10:00 AM ET

At the meeting of the Kentucky Public Pensions Authority held on June 28, 2023, the following Members were present: Keith Peercy (Chair), Prewitt Lane, William O'Mara, Betty Pendergrass, Dr. Merl Hackbart, Lynn Hampton, Jerry Powell, and William Summers, V. Staff members present were KRS CEO John Chilton, CERS CEO Ed Owens, III, David Eager, Rebecca Adkins, Erin Surratt, Michael Board, Lori Casey, D'Juan Surratt, Steve Willer, Anthony Chiu, Michael Lamb, Connie Davis, Elizabeth Smith, Kristen Coffey, Madeline Perry, Matthew Daugherty, Melinda Wofford, Ashley Gabbard, Leigh Ann Davis, Carrie Bass, Jillian Hall, Jessica Beaubien, Katie Park, Phillip Cook and Sherry Rankin.

Mr. Peercy called the meeting to order.

Mr. Board read the Legal Public Statement.

Ms. Rankin called roll.

There being no *Public Comment*, Mr. Peercy introduced agenda item *Approval of Meeting Minutes* – *April 27, 2023, and May 26, 2023 (Video 00:06:48 to 00:07:14)*. Mr. Powell made a motion and was seconded by Ms. Hampton to approve both minutes as presented. The motion passed unanimously.

Mr. Peercy introduced agenda item FY24 Administrative Budget, FY24 Hybrid Percentage, FY24 Investment Budget, and FY23 Board Separation Expenses (Video 00:07:15 to 00:42:47).

Mr. Lamb provided an overview of the work conducted by the FY 2024 Budget Workgroup and reviewed the FY 2023 Separation Costs with the KPPA. Mr. O'Mara made a motion to approve the FY23 separation expenses of \$402,707 to be paid by the CERS trusts. Dr. Hackbart seconded the motion and the motion passed unanimously.

1

Mr. Lamb presented a high-level summary of the FY 2024 Hybrid Percentage. He described the methodology used to establish the Hybrid Percentage. A motion to approve the FY24 hybrid percentage of 64.34% for CERS and 35.66% for KRS to be applied to the administrative expenses of KPPA and continue to allow the CERS and KRS Boards to determine the split for the plans under their administrative purview was made by Ms. Pendergrass. Mr. O'Mara seconded the motion. The motion passed unanimously.

Additionally, the FY 2024 KPPA Administrative Budget was reviewed by Mr. Lamb.

\*\*\*Mr. Summers entered the Meeting\*\*\*

Ms. Hampton made a motion to approve the FY24 KPPA administrative budget of \$50,440,800.00 as presented. Mr. Powell seconded the motion and the motion passed unanimously.

Mr. Lamb reviewed the FY 2024 KPPA Investment Budget. A motion to approve the FY24 KPPA investment budget of \$10,270,500.00, as presented was made by Mr. Powell. Dr. Hackbart seconded the motion and the motion passed unanimously.

Lastly, Mr. Lamb presented the Quarterly Financial Statements. He reviewed the Combining Statement of Fiduciary Net Position of the Pension Funds as of March 31, 2023. Next, Mr. Lamb briefly reviewed the Combining Statement of Changes in Fiduciary Net Position of the Pension Funds for the nine-month period ending March 31, 2023, Combining Statement of Fiduciary Net Position of Insurance Funds as of March 31, 2023, and the Combining Statement of Changes in Fiduciary Net Position of Insurance Funds for the nine-month period ending March 31, 2023, with the Authority Members. Mr. Lamb went on to present the CERS/KERS/SPRS Pension and Insurance Funds Contribution Reports for the nine-month period ending March 31, 2023. He briefly presented the FY 2022-2023 KPPA Administrative Budget and Budget-to-Actual Analysis for the nine-month period ending March 31, 2023. The JP Morgan Chase Earnings and Fees and Hard Interest Earned for the nine-month period ending March 31, 2023, were also presented. Lastly, the Outstanding Invoices by Type and Employer and Penalty Invoices Reports were presented.

Mr. Peercy introduced agenda item *KPPA Audit Committee Meeting Summary* (Video 00:42:48 to 00:44:26). Ms. Coffey stated that the Joint Audit Committee met on May 25, 2023. The Committee reviewed informational items and approved the Annual Audit Plan. She requested that the KPPA

ratify this action taken by the Joint Audit Committee. A motion to approve the KPPA Audit Plan as presented was made by Mr. Powell. The motion was seconded by Ms. Hampton and passed unanimously.

Mr. Peercy introduced agenda item *Implementation of HB 587* (*Video 00:44:27 to 01:13:15*). Mr. Board presented all proposed KPPA Bylaw amendments. Ms. Hampton made a motion to approve the amendments to the KPPA Statement of Bylaws and Committee Organization as presented. The motion was seconded by Mr. Powell and the motion passed unanimously.

Ms. Coffey briefly presented the new Charter for the Audit Committee. The KPPA Audit Committee reviewed and approved the Charter, said Ms. Coffey. She requested that the Authority ratify the action taken by the KPPA Audit Committee. Mr. O'Mara made a motion to approve the Charter for the Audit Committee as presented and was seconded by Mr. Powell. The motion passed unanimously.

Next, Ms. Lori Casey presented the Chief Auditor Position Description. The description was drafted with input from Staff and had been approved by the KPPA Audit Committee. There was discussion regarding the significant changes in the role/position duties of the Chief Auditor and Division Director of Internal Audit. Ms. Coffey explained that there is a noticeable difference in the two positions. She indicated that additional staff would be needed in the future to absorb the position duties of the Division Director of Internal Audit. Ms. Hampton made a motion to table the approval of the Chief Auditor Position Description. The motion to table was seconded by Ms. Pendergrass. A roll call vote was taken; the motion passed unanimously.

Mr. Board outlined the outstanding items required prior to the full implementation of HB 587. He advised that the KPPA Audit Committee had yet to complete their review of the Charter for the Division of Internal Audit and that the Charter would be presented to the Authority once finalized.

There was discussion concerning the administrative reporting structure of the Chief Auditor position. Since the KPPA Audit Committee recommended the appointment of Kristen Coffey to the position of Chief Auditor, Ms. Pendergrass asked if the Authority may vote regarding this recommendation despite the tabling of the approval of the position description. Mr. Board advised that KPPA may vote; however, the discussion would be more appropriate for Closed Session. Mr. Peercy advised that Authority Members that the Closed Session discussions would be surrounding litigation and

employee matters.

Mr. Peercy introduced agenda item *Administrative Regulation 105 KAR 1:457* (*Video 01:13:16 to 01:16:48*). Ms. Jessica Beaubien presented 105 KAR 1:457, In-Line-of-Duty Survivor Benefits, which is a new administrative regulation establishing the procedures and the processes for filing and or administering an application for In-Line-of-Duty Survivor Benefits for eligible beneficiaries. 105 KAR 1:457 was presented to the Ad Hoc Regulations Committee for the Board on June 13, 2023, said Ms. Beaubien. The Committee approved sending to the full Board for approval upon edits to Section 6 and Section (7)(3)(a). Ms. Beaubien reviewed all requested changes with the Authority Members. The Office of Legal Services requested that the Authority authorize 105 KAR 1:457, In-Line-of-Duty Survivor Benefits, to be filed with the Regulations Compiler.

A motion to approve regulation 105 KAR 1:457 as presented, and to direct staff to file the regulation with the Office of the Regulations Compiler at LRC was made by Mr. Powell. Ms. Hampton seconded the motion and the motion passed unanimously.

Mr. Peercy introduced agenda item *Office of Financial Management Reorganization (Video 01:16:49 to 01:21:36)*. Mr. Eager stated that the addition of a Chief Financial Officer (CFO) position prompted the plan to establish an Office of Financial Management. The Office of Financial Management will oversee the Division of Accounting, which includes the Cash Management branch and the Investment Operations branch. The Office will also be responsible for external bank relations and the oversight of the actuary, said Mr. Eager.

Ms. Pendergrass made a motion to approve the reorganization of KPPA to establish an Office of Financial Management. Dr. Hackbart seconded the motion and the motion passed unanimously.

Further, a motion to establish the non-merit position of Executive Director, Office of Financial Management was made by Ms. Hampton and seconded by Mr. Powell. The motion passed unanimously.

Mr. Peercy introduced agenda item *Investment Department Update* (Video 01:21:37 to 01:33:40). Mr. Willer stated that the KRS Investment Committee met on May 15, 2023, and the CERS Investment Committee met on June 9, 2023. KPPA Investment Staff and Wilshire provided a review of economic conditions, market activity, and updated asset class assumptions. Staff also discussed

absolute and relative performance and asset allocations for the pension and insurance portfolios, compliance, the investment budget, and asset/liability and asset allocation projects. In addition, an update on the implementation of the systems' proxy voting polices was provided at these meetings.

Mr. Willer went on to provide a brief overview of these topics with the Authority Members.

Mr. Board wished to provide clarification regarding the information provided in agenda item *Implementation of HB 587*. He advised that if the Chief Auditor position was vacant as of June 29, 2023, Ms. Coffey would report to the Authority as the position of Division Director of Internal Audit is second in command within the Division. Since the KPPA did not discuss the reporting structure of the Chief Auditor position, Mr. O'Mara made a motion to have the Chief Auditor position report administratively to the KPPA Chair in the interim. Ms. Hampton seconded the motion and the motion passed unanimously.

Mr. Peercy introduced agenda item *KPPA Update* (*Video 01:33:41 to 01:48:55*). Mr. Eager provided the KPPA with a written report. He touched on KPPA Staffing, the Annual Budget, the development of the Strategic Plan with Provaliant Staff, the Government Officials' Newsletter, the Member Newsletter, the Summary Plan Description, the promotion of Brian Caldwell to Fixed Income Portfolio Manager, the CEM Investment Department Benchmarking, the KPPA Housekeeping Bill, and the recent Joint State Government Committee Presentation in the written report. There was discussion surrounding the search for a new KPPA Louisville Office, the reporting of quasi agencies participating in KERS Nonhazardous, as well as the CEM Investment Department Benchmarking Study.

Mr. Peercy introduced agenda item *New Business* (Video 01:48:56 to 01:49:05) – None.

Mr. Peercy introduced agenda item *Closed Session* (*Video 01:49:06 to 01:50:18*). Ms. Hampton made a motion and was seconded by Mr. Powell to enter closed session for the purposes of litigation and employee matters. The motion passed unanimously.

Mr. Peercy 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'

5

KPPA Board Meeting - Approval of Minutes - June 28, 2023 and July 31, 2023

litigation strategy and preserving any available attorney-client privilege. Also, for employee matters

which concern the appointment, discipline, dismissal, or member account information of an

employee pursuant to 61.810(1)(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 61.661(1) that each member account be administered in a confidential manner.

Closed Session (Video - Part 2 - 00:45:00 to 00:01:11). Coming back into open session, Mr. Peercy

requested that the KPPA Audit Committee further review the issue of the job duties and

responsibilities of the Chief Auditor position and report back to the Authority.

There being no further business, Mr. Peercy *adjourned* the meeting.

Copies of all documents presented are incorporated as part of the Minutes of the KPPA held June

28, 2023, 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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6

7

### **CERTIFICATION**

I do certify that I was present at this meeting, and on the various items considered by it at this meeting 61.805-61.850 were met in conjunction with this me	g. Further, I certify that all requirements of KRS
	Recording Secretary
We, the Chair of the Kentucky Public Pensions A the Minutes of Meeting held on June 28, 2023 were	•
	KPPA Board Chair
	Executive Director
I have reviewed the Minutes of the June 28, 2023 for content, form, and legality.	3, Kentucky Public Pensions Authority Meeting
	Executive Director, Office of Legal Services

## MINUTES OF MEETING KENTUCKY PUBLIC PENSIONS AUTHORITY

# SPECIAL CALLED MEETING MEETING VIA LIVE VIDEO TELECONFERENCE JULY 31, 2023, AT 10:00 AM ET

At the Special Called Meeting of the Board of the Kentucky Public Pensions Authority held on July 31, 2023, the following members were present: Keith Peercy (Chair), Dr. Merl Hackbart, Lynn Hampton, Prewitt Lane, William O'Mara, Betty Pendergrass, Jerry Powell and William Summers, V. Staff members present were KRS CEO John Chilton, CERS CEO Ed Owens, III, David Eager, Rebecca Adkins, Erin Surratt, Michael Board, Leigh Ann Davis, Mike Lamb, Steve Willer, Phillip Cook, Katie Park, and Sherry Rankin. Others present included Katie Wright and Peter Cummins with Frost Brown Todd LLC.

Mr. Peercy called the meeting to order.

Mr. Board read the Legal Opening Statement.

Ms. Rankin called roll.

Ms. Rankin advised that two (2) *Public Comments* were submitted and read first comment submitted by Marja Lee Amburgey aloud to the Authority Members:

I am a retired state employee. Cost of living had increased drastically over the years but nothing like now. Decisions has to purchase food or medicine or pay bills. Please approve a cost of living increase to go along with the cost of living today. Thank you.

Next, Ms. Rankin read the second comment submitted by Ryan W. Rumfelt aloud to the Authority Members:

Thank you for taking time to listen to my concerns. Firstly, while reading the Judicial Retirement Plan (JRP) for Kentucky, some interesting and concerning facts came to light. The research I've conducted so far is limited, however, I suspect other plans are affected also. The research can be found from public resources and official government and business websites. Please feel free to contact me for site(s) information if you need to conduct further research.

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Secondly, on page two of the April 24, 2023, Public Pension Review Board minutes, Mr. Bo Craycraft states that the Judicial Retirement Plan (JRP), shares and voting rights, go to Baird Trust, a division of Robert W. Baird & Co. Inc. The Securities Exchange Commission (SEC) requires proxy voting service companies like Institutional Stockholder Services (ISS) which Baird uses, to make available to the public their proxy voting policy and voting record. In Baird's voting policy is a section called "Securities Lending Program". This section states that Baird Trust can lend out plan ownership to others. A practice which is ripe for abuse. How? After the shares are lent out, the potential exists to sell the shares short onto the market. The consequence is that stock values drop and so does the entire retirement plan. Of most concern is that Baird Trust uses ISS, which combined with Glass Lewis make up approximately 90% of the market cap for actuarial services in the United States. In addition, ISS is foreign owned, which may not align with the best interests of most Kentuckians. Their future and money may be at stake by having foreign entities manage their retirement plans. In addition, ISS conforms to Environmental, Social Governance (ESG) investing. Proxy voting rights fall under ISS control. This means ISS can use those proxy votes as they please. Personally, I believe that ESG investing and its impact on the boardroom has become overly aggressive in recent years. Once a company's board member disagrees with ISS, they can simply remove the board member. Power overreach without checks and balances appears to negate the best interests of Kentuckians. The concerns I found while doing research seem timely to bring up due to discussions and voting on Kentucky HB 236. Also, as a citizen and investor, the goal is to make as many people as possible aware of what could potentially happen to retirement plans once they leave the state's control. Granted, state's financial decisions should be based on pecuniary factors. However, are the retirement plans really getting the best rate of return when their own stocks in said plan are being used against itself? BLUF: Investors may get a slightly higher return percentage, but is it worth the risk of having foreign companies controlling so much voting power, which consequently decides which businesses fail or succeed? Thank you for taking time to read my concerns. If there is anything that needs clarification or further discussion, you may contact the phone number below. Again, Thank you.

Mr. Peercy introduced agenda item *Closed Session* (*Part 1 - Video 00:09:58 to 00:11:00*). Mr. Powell made a motion and was seconded by Ms. Hampton to enter closed session for the purpose of litigation. The motion passed unanimously.

KPPA Board Meeting - Approval of Minutes - June 28, 2023 and July 31, 2023

Mr. Peercy 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.

**Closed Session** (Part 2 - Video 00:01:12 to 00:01:32)

Mr. Peercy stated that the Authority took action per the advice of outside counsel pursuant to KRS

61.815(2).

There being no further business, Mr. Peercy *adjourned* the meeting.

Copies of all documents presented are incorporated as part of the Minutes of the KPPA Board held

July 31, 2023, 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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3

11

### **CERTIFICATION**

I do certify that I was present at this meeting, and I hat on the various items considered by it at this meeting. Full 61.805-61.850 were met in conjunction with this meeting.	orther, I certify that all requirements of KRS
	Recording Secretary
We, the Chair of the Kentucky Public Pensions Author Minutes of Meeting held on July 31, 2023, were approve	
	KPPA Chair
	Executive Director
I have reviewed the Minutes of the July 31, 2023, K for content, form, and legality.	entucky Public Pensions Authority Meeting
E	xecutive Director. Office of Legal Services



## Kentucky Public Pensions Authority

### **Division of Internal Audit**



To: Trustees of the Kentucky Public Pensions Authority

From: William O'Mara, Chair

**KPPA Audit Committee** 

Kristen N. Coffey, CICA

Division Director, Division of Internal Audit

Date: September 28, 2023

Subject: Summary of KPPA Audit Committee Meetings

The KPPA Audit Committee held a special called meeting on July 26, 2023, and a regularly scheduled meeting on August 24, 2023.

#### 1. Requested actions by the Authority\*

- a. Ratify the Audit Committee's approval of the job description of the Chief Auditor.
- b. Ratify the Audit Committee's approval of the Charter for the Division of Internal Audit.
  - i. A decision is needed on who will be responsible for approving the Chief Auditor's weekly timesheet, leave requests, work schedule, and training/educational opportunity requests will handle these tasks.
  - ii. A decision is needed on who will perform the evaluation of the Chief Auditor and how this will be documented.
- c. Ratify the Audit Committee's approval of the items to be regularly presented to the KPPA Audit Committee.
- d. Ratify the Audit Committee's approval of the budget for the Division of Internal Audit.
- e. Appointment of a Chief Auditor.

## 2. The following other items were also discussed during the Audit Committee meeting. These were presented for informational purposes only.

- a. Overview of the fiscal year 2023 external audit.
- b. Financial Statements for the fiscal year ended June 30, 2023.
- c. Information disclosures Four disclosures affecting four members.
- d. Anonymous Tips Seven open cases.
- e. Auditor Independence Statements.
- f. Internal Audit Budget 1.90% of budget remained at June 30, 2023.
- g. Status of current internal audits *24 projects on the audit plan, 14 in progress, none completed.*

<sup>\*</sup>Authority action may be required



# Kentucky Personnel Cabinet Position Description

Position Number: 31044863 - Division Director
Position Description Effective Date: 07/21/2022 to 12/31/9999

31155979	
izational ID Organizational Shor	t Text
764 31100	
nnel Subarea Employee Effective I	Date
- FT Exempt 01/16/2018 to 12/31/9	9999
Job Short Text	
933 01600V170916	
·	764 31100  nnel Subarea Employee Effective   FT Exempt 01/16/2018 to 12/31/9  Job Short Text

#### Statement of Duties: Briefly state the main function of the job

Evaluates accounting, financial, and other operational activities as an independent appraisal function as appropriate. Provides direction for all areas of Internal Audit within the Kentucky Public Pensions Authority (KPPA). Establishes the internal audit activity's function and responsibilities. Establishes and documents procedures and oversees management of the internal audit activity. Reports internal audit activities to management, Investment Committee, Audit Committee, and the Board of Trustees; and performs other duties as required.

#### Task No:1

Formulates internal audit programs in order that all aspects of transactions are audited. Prepares risk analysis and annual audit plan. Develops an effective team of competent subordinates who understand, and are able to discharge the obligations of their positions/jobs. Supervises and directs audit staff. Reviews, corrects, and comments on staff work scopes, plans, work papers and reports.

25%

#### Task No:2

Ensures effective management of the financial resources of KPPA and that all operations are within the policies and plans as laid down by management, Board Policies and Statutes. Prepares audit programs and conducts audits.

25%

#### Task No:3

Prepares reports containing observations, comments and recommendations for management and the Board based on carried out work. Reports audit findings and recommendations to management, Investment Committee, Audit Committee, and the Board of Trustees. Assists the Audit Chair in Audit Committee Meeting Preparation and follow up.

20%

#### Task No:4

Maintains employee records. Approves leaves, overtime requests, and timesheets. Provides development, coaching and feedback to staff including time management and attendance. Ensures completion of performance evaluations. Recommends personnel actions.

10%

Page 1



# Kentucky Personnel Cabinet Position Description

Position Number: 31044863 - Division Director
Position Description Effective Date: 07/21/2022 to 12/31/9999

Participates in all meetings of the Investment, and Retiree Health Care Comconsideration of policy/procedures formulation matters and other allied matter overall operations of KPPA.				
Task No:6				
Liaising with the external auditors in order that both external and internal aud will be carried out efficiently and effectively with minimum duplication of efformation facilitates reviews, and coordinates audits with external auditors or others a	rts.			
Task No:7				
Performs other duties as assigned.				
			Total Perd	centage
s the incumbent of this position conduct performance appraisals on ordinate employees?	$\circ$	No	•	Yes
If yes, list ALL JOB Titles(s) and Position Number(s) supervised.				
Retirement Investment Specialist II 31121830 Auditor 31125885 Auditor 31135540				
s the incumbent of this position supervise employees, inmates, interim ployees, etc. which do not require the completion of a performance raisal?	•	No	0	Yes
If yes, list all employees supervised and indicate the relationship to incumber	nt.			
there any essential functions of this position that require an incumbent to	o:			
ct Check Box to indicate as YES				_
tain a valid driver's license?				L
be required to carry and/or use a firearm?				Ĺ
eavy objects or work in uncomfortable positions for extended periods of time?				Ĺ
xposed to dangerous working conditions including rough terrain?				
uently communicate in person or by other means of technology?				
nd a major portion of time using a computer?				
xposed to contagious diseases?				L R
overtime or alternate work schedules?				

Page2



# Kentucky Personnel Cabinet Position Description

#### Others - Please Describe:

Travel may be required

Position Description printed: 07/19/2023



### **Worksheet - POSITION DESCRIPTION - Worksheet**



This is NOT an official Personnel Cabinet Position Description form. ONLY a medium to provide the Position Description information to the agency contact with access to the official Personnel Cabinet's Position Description form in KHRIS.

Org Unit ID:	1020076	64-10202966				Position:	TRD	
Job Number:	102001	20001933 TBD		Job Title:		r osition.	טטו	
	Position Title: Division Director New position title?							
Org Unit Title:				tucky Public Pensions Aut	hority			
	Is Chief of C		nar radit radi	itality i abilo i cholone rtal	Hority			
Personnel Are	a:	(0001) Executiv	e	Personnel SubArea:		(1000) FT Exempt		
Employee Group:		B- Non-Chapter		Employee SubGroup:	ASC Salary 37.5			
Pay Grade Type:		Salaried 37.5 H	rs	Pay Grade Area:	•			
		00		Level (if applicable):				
Х	Unclassified	?						
	If unclass	ified, provide Wo	rking Title:	Chief Auditor				
Х	Included in (	CAP		Not Included in Cap				
Work County:		FRANKLIN						
Function Grou	p:	Kentucky Public	Pensions Au	uthority				
Time Approve	r:							
Cost Center:		3110000000						
Supervisor Pos	No:							
Order Number	r:							
WBS Element	:							
Functional Are	ea:							
Remarks:								
Statement of [	Outies (Briefl	y state the main	function of th	is position):				
Kentucky Public   management of t other duties as re Auditor shall insti	Pensions Author he internal audequired. The Ch tute a systema	ority (KPPA). Establi it activity. Reports in hief Auditor of the Ke tic, disciplined appro	shes the interna- ternal audit action entucky Public Forach to evaluate	an independent appraisal functional audit activity's function and revivities to management, Investme Pensions Authority Board (Author the effectiveness of internal coance established by the Institut	sponsibilities. E ent Committee, prity) shall assis ntrols of the Au	stablishes and documents proc Audit Committee, and the Board t the Authority in fulfilling their fi thority's governance structure.	edures and ove d of Trustees; a iduciary duties.	ersees nd performs The Chief
	,	and duties perfo tered tasks must	•	position. Begin with the m	ost important	duty. Enter the % assigner	ed for each ta	ask or duty.
	Committee, and reports contain management. A Prepare material are able to discontinuous committee.	d KPPA staff, develoing observations an As needed, present als for Audit Commi	op and maintain d recommendat reports to the C ttee meetings. E ns of their positions	l aspects of transactions are au annual Prepares risk analysis tions. Present reports to Audit CERS and KRS Boards or their Cevelops an effective team of or ens/jobs. Supervises and direct rs, and reports.	assessment and committee, the Accommittees (e.go	nd annual audit plan. Prepare Authority, and KPPA . Investment Committees). dinates who understand, and	<del>25</del> 45	%

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Task 2:	Ensures effective management of the financial resources of KPPA laid down by management, Board Policies and Statutes. Prepares (Board, Committee, or agency) involving creation of policies, procedure Authority to ensure effective management of financial resource and Authority policies. Participate on working groups formed to involving procedure of the procedure	audit progedures, or es and to e	grams and conducts of other matters relating ensure operations are	audits. Participate in meetings of the overall operations of within statutes, regulations,	<del>25</del> 20	%		
Task 3:	<del>-20</del> 10	%						
Task 4:	10	%						
Task 5:	sideration of policy/procedures- oper staffing of the Division of tions will be carried out-	5	%					
Task 6:	n the interest of the s Retirement System, and s or others as necessary.	5	%					
Task 7:	Performs other duties as assigned.			Total Percentage:	5 100	% %		
The superviso	or must certify that the information listed is, to the best o	f his/her	knowledge, comp		he position			
	reviewed the information contained herein.							
	(who certifies that the above statement is true):							
	mbent of this position conduct performance appraisals	l <sub>v</sub>	tv=0	*NO				
	e employees?	Х	[YES	[NO				
If yes, list <u>ALL</u> Job Title(s) and Position Number(s) supervised: Internal Auditor - 31150866 Auditor I - 31135540 Auditor II - 31125885 Retirement Investment Specialist II - 31121830								
Does the incumbent of this position supervise employees, inmates, interim employees, etc Which do not require the completion of a performance appraisal?  X YES NO								
	If yes, list ALL employees supervised and indicate the relationship to incumbent.							
	1858 - Co-op/Intern essential functions of this position that require an incun	nhent to:						
ivie mere allà	(Select check be		ndicate as 'YES')					

#### KPPA Board Meeting - KPPA Audit Committee Report

KPPA Audit Committee Meeting - Conversion of job description from Division Director of Internal Audit to Chief Auditor

May be required to carry a	cense?	
	and/or use a Firearm?	
Lift heavy objects or work	in uncomfortable positions for extended periods of time	ne?
Be exposed to dangerous	working conditions including rough terrain?	
X Frequently communicate i	in person or by other means of technology?	
X Spends a major portion of	f time using a computer?	
Be exposed to contagious	s disease?	
X Work overtime or alternate	e work schedules?	
Additional Information:		
Travel may be required.		
Traver may be required.		
	Submission/Responsibility	
and accurate. I understand that subm	ection 4, I certify that these duties and tasks and a nitting false information can lead to disciplinary ac	
Supervisor responsible for this position	ion:	·
Supervisor responsible for this position Printed Name:	ion: Signature:	Date
Printed Name:	<u> </u>	Date
Printed Name: Printed Title:	Signature:	
Printed Name: Printed Title:	Signature: ronic signatures are equivalent to written signatures, pursu	ant to KRS 369.118]
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Printed Name:  Printed Title:  [Elect Date Entered: Entered By:	Signature: ronic signatures are equivalent to written signatures, pursu	ant to KRS 369.118]

13



Total percentage for all entered tasks must be 100%.

### **Worksheet - POSITION DESCRIPTION - Worksheet**



This is NOT an official Personnel Cabinet Position Description form. ONLY a medium to provide the Position Description information to the agency contact with access to the official Personnel Cabinet's Position Description form in KHRIS.

Org Unit ID:	10200764				Position:		
Job Number:			Job Title:	Chief Audito	r		
Position Title:	Chief Auditor						
Org Unit Title:	Division of Inter	nal Audit					
[Is Ch	nief of Org Unit?						
Personnel Area:	(0001) Executiv	re	Personnel SubArea:		(1000) FT Exempt		
Employee Group:	G- Pers Srv Ctr	-No BN	Employee SubGroup:		C Salary 37.5		
Pay Grade Type:	Salaried 37.5 H	rs	Pay Grade Area:				
Grade:	00		Level (if applicable):				
Uncl	assified?						
If	unclassified, provide Wo	orking Title:	Chief Auditor				
Inclu	ided in CAP		Not Included in Cap				
Work County:	FRANKLIN	<u> </u>	-				
Function Group:	Kentucky Public	Kentucky Public Pensions Authority					
Time Approver:							
Cost Center:	3110000000	3110000000					
Supervisor Pos No:							
Order Number:							
WBS Element:							
Functional Area:							
Remarks:							
Statement of Dutie	s (Briefly state the main	function of th	nis position):				
systematic, disciplined	approach to evaluate the e	ffectiveness of		rity's governance	their fiduciary duties. The Chief Auditor shall institute a structure. Work shall be performed in accordance with		
List up to (7) prima	ry tasks and duties perfe	ormed by this	position. Begin with the	most importan	t duty. Enter the % assigned for each task or duty.		

	In conjunction with the Audit Committee, and KPPA staff, develor Prepare reports containing observations and recommendations. KPPA management. As needed, present reports to the CERS ar Committees). Prepare materials for Audit Committee meetings. correct, and comment on staff work scopes, plans, work papers,								
Task 1:			45	%					
	Participate in meetings (Board, Committee, or agency) involving cr the overall operations of the Authority to ensure effective managen within statutes, regulations, and Authority policies. Participate on w at KPPA.	nent of financial resources and to ensure operations are							
Task 2:			20	%					
TOOK 2.	Maintain employee records. Approve leave, overtime requests, and times including time management and attendance. Ensure completion of performance and action of performance an			70					
Task 3:			10	%					
Task 4:	Serves as first level support for audit software utilized by Division o how to use the program. Create standard work paper templates to available in audit software program.	10	%						
Task 5:	Ensure proper staffing of the Division of Internal Audit. Ensure all ir hours.	5	%						
Task 6:	Liaise with external auditors in order to ensure that both the extern- solely in the interest of the beneficiaries and participants of the Co Retirement System, and State Police Retirement System.	5	%						
Task 7:	Performs other duties as assigned.	5	%						
Tuok 7.	. Showing only states as accignos.	Total Percentage:	100	%					
	r must certify that the information listed is, to the best of reviewed the information contained herein.	his/her knowledge, complete and accurate, and if the	he position is	filled the					
	(who certifies that the above statement is true):								
Supervisor Na	me:								
Does the incu on subordinate	YES NO								
If yes, list ALL	Job Title(s) and Position Number(s) supervised:								
Auditor I - 311 Auditor II - 31	f yes, list <u>ALL</u> Job Title(s) and Position Number(s) supervised:  nternal Auditor - 31150866  Auditor I - 31135540  Auditor II - 31125885  Retirement Investment Specialist II - 31121830								

#### KPPA Board Meeting - KPPA Audit Committee Report

KPPA Audit Committee Meeting - Conversion of job description from Division Director of Internal Audit to Chief Auditor

Does the incumbent of this position supervise employee	es, inmates,		
interim employees, ect. Which do not require the comple	etion of a		
performance appraisal?		YES	NO
If yes, list <u>ALL</u> employees supervised and indicate the re	elationship to incum	bent.	
Are there any essential functions of this position that rec	quire an incumbent	to:	
	(Select check box(es) t	o indicate as 'YES')	
Maintain a valid driver's license?			
May be required to carry and/or use a Fire	earm?		
Lift heavy objects or work in uncomfortable	le positions for exte	nded periods of time?	
Be exposed to dangerous working conditi	ions including rough	n terrain?	
Frequently communicate in person or by	other means of tech	nnology?	
Spends a major portion of time using a co	omputer?		
Be exposed to contagious disease?			
Work overtime or alternate work schedule	es?		
Additional Information:			
Travel may be required.			
	Submission/Re	esponsibility	
	Oubili 331011/10	oponomity	
In accordance with 101 KAR 2:020 Section 4, I certif	y that these duties	s and tasks and all ot	her information contained herein are true
and accurate. I understand that submitting false info	ormation can lead	to disciplinary action	ւ, up to and including dismissal.
Supervisor responsible for this position:			
Printed Name:	Signature:		Date
D: ( 179			
Printed Title:			
		en signatures, pursuant to	
	MPLETED/FILLED-	-IN AFTER PROCESSI	ING:
Date Entered:	=		
Entered By:	_		
Comments:			
			PC/DHRA/DEM/CC
			Revised: February 2020

16

#### **Kentucky Public Pensions Authority**

#### Charter for the Division of Internal Audit

Throughout this Charter, the Kentucky Public Pensions Authority Board will be referred to as the Authority. When referring to the Kentucky Public Pensions Authority as an administrative organization, the acronym KPPA will be used. However, in reference to the Audit Committee, "KPPA Audit Committee" will be used. In that instance, KPPA will refer to the Kentucky Public Pensions Authority Board.

#### I. Charter

This Charter establishes the authority and responsibility of the Division of Internal Audit (Internal Audit).

#### II. Mission of Internal Audit

Internal Audit helps the Authority as well as the Board of Trustees (Board) of the County Employees Retirement System (CERS) and the Kentucky Retirement Systems (KRS) meet their fiduciary duties by enhancing and protecting organizational value by providing risk-based and objective assurance, advice, and insight.

#### III. Core Principles of Internal Audit

- 1. Demonstrate integrity.
- 2. Demonstrate competence and due professional care.
- 3. Remain independent, which is defined as objective and free from undue influence.
- 4. Support the strategies, objectives, and risks of the organization.
- 5. Remain appropriately positioned and adequately resourced.
- 6. Demonstrate quality and continuous improvement.
- 7. Communicate effectively.
- 8. Provide risk-based assurance.
- 9. Remain insightful, proactive, and future focused.
- 10. Promote organizational improvement.

#### IV. Audit Standards

Internal Audit shall adhere to the *International Standards for the Professional Practice of Internal Auditing* (Standards) issued by the Institute of Internal Auditors (IIA). Where applicable, Internal Audit will observe standards and statements issued by other accounting and auditing organizations located within the United States of America. Internal Audit is expected to abide by the IIA Code of Ethics (Exhibit A).

Internal Audit will adhere to the IIA's Mandatory Guidance, which includes the Core Principles for the Professional Practice of Internal Auditing (see section III), the Code of Ethics (see Exhibit A), the Standards<sup>1</sup>, and the definition of internal auditing (see section VI). The Mandatory Guidance constitutes the fundamental requirements for the professional practice of internal auditing and the principles against which to evaluate the effectiveness of the Internal Audit's performance.

<sup>&</sup>lt;sup>1</sup> https://na.theiia.org/standards-guidance/Pages/Standards-and-Guidance-IPPF.aspx

#### V. KPPA Audit Committee

The purpose, statutory authorization, composition, and responsibilities of the KPPA Audit Committee are outlined in the Charter for the Audit Committee<sup>2</sup>.

#### VI. The Internal Audit Function

#### Definition

As defined by the IIA, internal auditing is "an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes."

#### Purpose and Objective

Internal Audit was originally established in July 2003. Internal Audit's purpose is to assist the Authority, the CERS and KRS Boards of Trustees, the Chief Executive Officer (CEO) of both CERS and KRS, and the KPPA Executive Director in fulfilling their governance role.

The primary objective of Internal Audit is to assist all levels of management in achieving the effective discharge of their assigned responsibilities by providing independent analysis, appraisals, advice, and recommendations concerning the activities reviewed. Internal Audit also assists in achieving sound managerial control over all financial and operational aspects including, but not limited to, accounting, investments, benefits, legal compliance, asset management, and information management and control systems.

Internal Audit helps the Authority and the systems it is tasked with administrating and operating, accomplish their objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes. Accomplishment of the Internal Audit objective may involve:

- 1. Evaluating the adequacy and effectiveness of the system of internal controls.
- Participating in working groups established to review known or suspected fraud, waste, or abuse in any area of KPPA, CERS, or KRS.
- Evaluating the relevance, reliability, and integrity of management, financial and operating data, and reports.
- Evaluating the systems established to ensure compliance with statutory requirements, regulations, policies, plans, and procedures that could have a significant impact on operations.
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets
- 6. Evaluating the economy, efficiency, and effectiveness with which resources are employed.
- Evaluating operations or programs to ascertain whether results are consistent with objectives and goals established by the Authority, CERS, and KRS as well as evaluating whether the operations or programs are being carried out as planned.
- 8. Assessing the adequacy of established systems and procedures.
- Conducting special assignments and investigations on behalf of the Authority, CERS, or KRS into any matter or activity affecting the probity, interests, and operating efficiency of KPPA, CERS and KRS.

Page 2 of 14

<sup>&</sup>lt;sup>2</sup> https://kyret.ky.gov/About/Meet the Administration/Pages/Board-Policies.aspx

#### Independence

Internal Audit is an advisory function having independent status within KPPA.

- 1. The Chief Auditor and Internal Audit staff shall be independent of any other office, division, branch, or section.
- 2. The Chief Auditor and Internal Audit staff shall have direct access, as deemed necessary, to the Authority and/or KPPA, CERS, and KRS staff.
- The Chief Auditor and Internal Audit staff shall not be involved in the day-to-day operation of the KPPA, CERS, or KRS.
- The Chief Auditor and Internal Audit staff shall not be responsible for the detailed development and/or implementation of new systems but should be consulted during the system development process on the control measures to be incorporated in new or amended systems and be advised of approved variations or new developments.
- The Chief Auditor shall have no managerial powers, functions, or duties except those relating to the management of the Division of Internal Audit.

#### Authority

As described in Kentucky Revised Statutes 61.505, the Chief Auditor shall report directly to the Authority in the performance of all internal audit functions. The Authority has delegated some of this statutory authority to the KPPA Audit Committee. This delegation is described in the Charter for the Audit Committee.

The [DECISION NEEDED] will be responsible for approving the Chief Auditor's weekly timesheet, leave requests, work schedule, and training/educational opportunity requests.

It is incumbent that all KPPA, CERS, and KRS staff render assistance to the Chief Auditor and Internal Audit staff in carrying out their audit duties.

- 1. The Chief Auditor and Internal Audit staff shall have access, at all reasonable times, to all books, documents, accounts, property, vouchers, records, correspondence, and other data of KPPA, CERS, and KRS necessary for the proper performance of the internal audit function. This includes having read-only access to internal systems, drives, and websites that are used to store documents, procedures, policies, etc.
- The Chief Auditor and Internal Audit staff shall have access to generate reports from internal and external systems as deemed necessary for the proper performance of the internal audit function. If there are any disagreements related to access, the disagreements will be addressed by the KPPA Audit Committee in accordance with the Charter for the Audit Committee.
- 3. The Chief Auditor and Internal Audit staff shall have the right, at all reasonable times, to enter any premises of KPPA and to request and promptly receive from any KPPA, CERS, or KRS staff all information and such explanations deemed necessary for the Chief Auditor and Internal Audit staff to formulate an opinion on the probity of action, adequacy of systems, and/or of controls.

The Chief Auditor shall be responsible to the Authority for the functional control of internal audit activities in relation to:

- 1. Development, implementation, and oversight of internal audit methods and procedures.
- Development and control of an efficient Audit Plan.
- Scope and boundaries of internal audits.
- 4. Documentation of audit findings.

Commented [CK(1]: Note to KPPA Board: A decision is needed on who will handle these tasks. These responsibilities can be performed by the Chair of the Audit Committee, the KPPA Chair, or delegated to a KPPA staff member.

The following information was provided in relation to how these

- tasks are handled for the KPPA Executive Director:

  1.HR approves the Executive Director's weekly KHRIS
  - timesheet.
  - 2. The Executive Director notifies his direct reports and the
  - Executive team when he will be out of the office.

    3.The Executive Director's work from home schedule was documented in an email but was not officially approved.

  - 4.The Executive Director's flexible work schedule is documented on the KPPA Flexible Work Schedule form and the form was signed by the HR Division Director.
- The KPPA Board Chair would approve the Executive Director's requests to attend educational conferences

Page 3 of 14

- Assistance in the investigation of significant suspected fraudulent activities and promptly notifying the KPPA Audit Committee, the Authority, the CEOs of CERS and KRS, and the appropriate level of KPPA management of the results of any findings and conclusions.
- Maintenance of certain records such as, but not limited to, records related to internal audits and CERS and KRS Board elections.
- Considering the scope of work of the external auditors and regulators, as appropriate, for providing optimal audit coverage at a reasonable overall cost.
- 8. Fulfilling the objectives of the Division of Internal Audit.
- Utilizing Internal Audit resources to maximize the efficiency and effectiveness of the internal audit function.
- 10. Adherence to appropriate auditing standards, including, but not limited to, International Standards for the Professional Practice of Internal Auditing, Generally Accepted Government Auditing Standards, and standards issued by the Auditing Standards Board (e.g., Statements on Auditing Standards, Statements on Standards for Attestation Engagements, and Statements on Quality Control Standards).
- 11. Review of the Annual Comprehensive Financial Report(s) and Summary Annual Financial Report(s).

#### Relationship with External Auditors

Assistance may be provided to the external auditor during the annual audit of the CERS and KRS financial statements or other audit engagements. The Chief Auditor shall work with the external auditors to foster a cooperative working relationship, reduce the incidence of duplication of effort, ensure appropriate sharing of information, and ensure coordination of the overall audit effort. Upon request, the Chief Auditor shall make available to the external auditors all internal audit working papers, programs, flowcharts, and reports.

#### VII. Internal Control System

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) issued the Internal Control – Integrated Framework <sup>3</sup> to provide guidance to entities on setting up an effective internal control system. The Government Finance Officers Association recommends governments adopt COSO as the conceptual basis for designing, implementing, operating, and evaluating internal control so as to provide reasonable assurance that they are achieving their operational, reporting, and compliance objectives.<sup>4</sup>

Internal Audit utilizes guidance outlined in the COSO Internal Control Integrated Framework as well as the Standards for Internal Control in the Federal Government<sup>5</sup> to perform reviews and assessments that help ensure these principles are established and working as intended.

#### Roles in the Internal Control System

Internal controls are the responsibility of KPPA management; however, all members of an organization play a role in the system.

- Oversight Body This includes the Authority, CERS Board, KRS Board, CERS CEO, and KRS CEO. The responsibilities include overseeing the strategic direction and obligations related to accountability. The oversight body should oversee management's design, implementation, and operation of the internal control system.
- Management Role This includes the KPPA Executive Director, Deputy Executive Director, Chief Investment Officer, Executive Director-Office of Operations, Executive Director-Office of

Page 4 of 14

<sup>&</sup>lt;sup>3</sup> COSO Internal Control - Integrated Framework Principles

<sup>&</sup>lt;sup>4</sup> GFOA Internal Control Framework

<sup>&</sup>lt;sup>5</sup> GAO Standards for Internal Control in the Federal Government

- Benefits, Executive Director-Office of Legal Services, and Chief Financial Officer. Management is directly responsible for all activities of an entity, including the design, implementation, and operating effectiveness of the internal control system.
- Personnel Role this includes all other KPPA staff. Personnel help management design, implement, and operate the internal control system. Personnel is responsible for reporting issues noted in the entity's operations, reporting, and compliance.

#### Components of COSO

There are five components of COSO. Each component consists of different principles that are needed to effectively design, implement, and operate an internal control system. An entity must establish a comprehensive framework for internal control that includes all five essential components identified by the COSO. The entity must also ensure that each component of internal control is functioning in a manner consistent with all relevant principles. A complete discussion is provided by the COSO Internal Control Integrated Framework (see footnote 3) and the Standards for Internal Control in the Federal Government (see footnote 5).

#### VIII. Scope of Responsibilities

In order fulfill the Internal Audit mission, staff will be responsible for the following activities:

#### Internal Audit Function

- In coordination with KPPA Division of Human Resources, Chief Auditor will appoint all
  employees deemed necessary to fulfill the mission of Internal Audit.
- 2. Chief Auditor will oversee the day-to-day operations of Internal Audit.
- Chief Auditor will work cooperatively with the CEOs of the CERS and KRS as well as KPPA management.

#### Internal Controls and Compliance

- Work with the KPPA Audit Committee, the CEOs for the CERS and KRS, and the KPPA Executive Director and other appropriate KPPA staff in the performance of an annual risk assessment.
- 2. Develop an audit plan to address items noted in the risk assessment.
- Test and evaluate effectiveness of policies and procedures that are in place to determine if they achieve strategic, risk management and operational objectives.
- Perform audit, consulting, and assurance services as well as special projects in support of the Audit Plan and in compliance with Internal Audit procedures.

#### **Board and Committee Meetings**

- Prepare agenda and meeting materials (to be presented by Internal Audit) for KPPA Audit Committee meetings.
- Strive to provide meeting materials (to be presented by Internal Audit) to trustees at least one week prior to the meeting date.
- Present results of audit, consulting, and assurance services as well as results of special projects to the KPPA Audit Committee and the Authority. If requested, present results to the CERS and/or KRS Boards of Trustees or any committee of those Boards.

#### Specific Areas of Expertise

Since Internal Audit has limited resources and specialized requirements are needed to administer a complex public pension system, Internal Audit may request third-party expertise to assist in fulfilling audit goals (e.g., information technology and data security). Outsourced third party audits will be approved by the KPPA Audit Committee. The findings, recommendations, and management comments

Page 5 of 14

will be presented to the KPPA Audit Committee for approval and for subsequent ratification by the Authority.

#### IX. Internal Audit Practices

#### Conflicts of Interest

Internal auditors shall be objective and free from undue influence in performing their job. Objectivity requires internal auditors to have an impartial and unbiased attitude, to avoid conflicts of interest, and to perform audits in such a manner that no significant quality compromises occur. To help ensure that internal auditors are not placed in an environment impeding their ability to make objective, professional judgments, Internal Audit will take the following precautionary measures:

- All Internal Audit staff will be required to complete an annual Independence Statement certifying
  that auditors have no actual or perceived conflict that would impair their objectivity or
  independence.
- Internal Audit staff assignments will be made so that potential and actual conflicts of interest and bias are avoided. If a conflict of interest or bias is present, the auditor(s) will be reassigned.
- 3. Internal Audit staff assignments will be rotated periodically, if practicable to do so.
- 4. Internal Audit staff will not assume operational responsibilities.
- For a period of no less than one year, Internal Audit staff will refrain from assessing specific operations for which they were previously responsible.

#### Due Professional Care

Internal auditors shall apply the care and skill expected of a reasonably prudent and competent auditor. Due professional care does not imply infallibility and internal auditors must exercise due professional care, with consideration of the following:

- 1. Extent of work needed to achieve the engagement's objectives.
- Relative complexity, materiality, or significance of matters to which assurance procedures are applied.
- 3. Adequacy and effectiveness of risk management, control, and governance processes.
- 4. Probability of significant errors, irregularities, or non-compliance.
- 5. Cost of assurance in relation to potential benefits.
- Use of various software tools including, but not limited to TeamMate, Excel, Access, Word, Tableau, and Gravity.

#### Proficiency and Continuous Professional Education (CPE)

Internal Audit staff shall collectively possess the knowledge, skills, attributes, and other competencies essential to the practice of internal auditing within the organization. Educational and work experience criteria have been established for the various positions within Internal Audit. To maintain their proficiency, all auditors are encouraged to continue their education and will be provided adequate opportunities to do so. Such continuing education ensures that internal auditors remain current on professional techniques and standards. If an auditor holds a certification, continuing education hours necessary to meet certification requirements should be obtained. If no certification requirements are necessary, a minimum of 24 hours of continuing auditor education shall be obtained annually. Continuing education may be obtained through membership and participation in professional societies, attendance at conferences, college courses, and inhouse training. KPPA may reimburse an auditor for the cost of obtaining continuing education; however, the employee must obtain approval prior to registering for any course or seminar.

Internal Audit staff are encouraged to obtain professional certification(s). Accreditation is an important indicator of an auditor's technical proficiency. The following certifications are <u>some</u> of those available to auditors (this list is not all-inclusive):

Page 6 of 14

- 1. Certified Internal Auditor,
- 2. Certified Fraud Examiner,
- 3. Certified Government Financial Manager,
- 4. Certified Information Systems Auditor, and
- 5. Certified Public Accountant.

#### Performance Evaluations

Performance evaluations for <u>merit</u> employees shall be conducted as outlined in the Commonwealth of Kentucky Personnel Policies and Kentucky Revised Statutes Chapter 18A. The <u>DECISION NEEDED</u> shall review the performance for the Chief Auditor.

#### Records Retention and Disposition

As required by the Kentucky Department for Libraries and Archives, Internal Audit shall retain a complete file of each audit and consulting service made under its authority for a period of eight (8) years and an electronic copy of all final reports shall be retained by Internal Audit indefinitely. To guard against identity theft and fraud, destruction of business records and materials shall be done in a secured manner such as using the on-site Division of Waste Management recycle containers. All CD/DVD materials shall be submitted to the KPPA Information Security Officer.

#### X. Quality Assurance and Improvement Plan

Internal Audit will maintain a quality assurance and improvement program that covers all aspects of the internal audit function. The program will include an evaluation of Internal Audit's conformance with the Standards and an evaluation of whether internal auditors apply the IIA's Code of Ethics (see Exhibit A). The program will also assess the efficiency and effectiveness of Internal Audit and identify opportunities for improvement.

Internal Audit will conduct both ongoing and periodic internal assessments. Internal Audit should strive to have a qualified, independent assessor (or assessment team) conduct an external assessment at least once every five (5) years. The Chief Auditor will provide the results, including planned corrective action, of the internal and external assessments to the KPPA Audit Committee.

#### Internal Assessments

- Ongoing Monitoring Ongoing monitoring for routine internal audit activities are an integral part
  of the day-to-day supervision, review, and measurement of the internal audit activity. The
  measurement tools for ongoing monitoring are engagement supervision; feedback from auditees,
  KPPA management, and the KPPA Audit Committee; Audit Plan completion; and identification
  and analysis of other performance metrics such as recommendations accepted.
- Periodic Assessments Internal Audit will conduct a Self-Assessment as outlined by the IIA.
   Internal Audit will strive to complete a Self-Assessment every three years.

#### External Assessments

Internal Audit should strive to have a qualified, independent assessor (or assessment team) conduct an external assessment at least once every five years. This can be completed as either a Self-Assessment with Independent External Validation or a full external assessment. The Chief Auditor will disclose the results and any needed corrective action to the KPPA Audit Committee.

Page **7** of **14** 

**Commented [CK(2]:** Note to the KPPA Board: A decision is needed on who will perform the evaluation of the Chief Auditor and how this will be documented.

#### XI. Internal Audit Services

The scope of Internal Audit shall be sufficiently comprehensive to enable the effective and regular review of all operational, financial, and related activities. Coverage may extend to all areas of KPPA, CERS, and KRS and include financial, accounting, investments, benefits, administrative, computing, and other operational activities. The extent and frequency of internal audits will depend upon varying circumstances such as results of previous audits, relative risk associated with activities, materiality, the adequacy of the system of internal control, and resources available to Internal Audit.

Internal Audit provides independent audit, consulting, and assurance services to assist management in balancing operational efficiency with risk identification, assessment, and control. Internal Audit reports to the Authority and collaborates with trustees and KPPA, CERS, and KRS staff to enhance assurance and accountability at all levels of KPPA, CERS, and KRS. To meet the responsibilities and objectives as set forth in the Internal Audit Charter, it is necessary for Internal Audit to perform varying types of services depending on the circumstances and requests. Services can be requested by the KPPA Audit Committee; the Authority; the CERS and KRS Boards; or any member of KPPA, CERS, or KRS staff. If a request is made by someone outside of the KPPA Audit Committee, the Chief Auditor will seek approval from the Chair of the KPPA Audit Committee before engaging in the service. Internal Audit provides the following types of audits, consulting, and assurance services.

#### **Audits**

- 1. Internal Control Audits Internal Control audits serve as a systematic evaluation of the effectiveness and efficiency of internal controls in mitigating risks and ensuring the reliability of financial reporting. An Internal Control audit aims to assess the design, implementation, and operating effectiveness of controls across various business processes and functions. This comprehensive examination involves evaluating the adequacy of policies, procedures, segregation of duties, access controls, and monitoring mechanisms. An Internal Control audit can identify weaknesses, gaps, and potential vulnerabilities within systems, which enables KPPA to implement corrective measures and strengthen their control environment. Ultimately, these audits contribute to the overall governance, risk management, and compliance framework of KPPA, promoting transparency, accountability, and the achievement of strategic objectives.
- Compliance Audits Compliance audits determine whether an organizational area has complied
  with federal law, <u>Kentucky Revised Statutes</u>, <u>Kentucky Administrative Regulations</u>, agency
  policies and procedures, and division specific procedures,
- 3. Operational Audits Operational audits analyze how effectively and efficiently business units achieve organization and/or division goals. Effectiveness is measured by how successful a business unit is at achieving goals. Efficiency is measured by how well the business unit uses resources to achieve the goals.
- 4. Investment Audits Investment audits may be performed to review movement of funds (e.g., purchases, sales, and income), cash management, manager fees, and other investment related activities. Investment audits may also be performed to ensure compliance with procurement regulations, contracts, internal policies and procedures as well as to ensure proper internal controls exist over the investment function.
- Investigative Audits Investigative audits may result from findings during a routine audit or from information received from sources outside of Internal Audit. These audits are normally requested

Page 8 of 14

by a trustees or staff of the KPPA, CERS, or KRS as a result of information received from a tip. These audits focus on alleged, irregular conduct. Reasons for investigative audits may include internal theft, misuse of agency property, and/or conflicts of interest. The Chief Auditor will refer this information to the KPPA Audit Committee Chair and Executive Director, Office of Legal Services. The Executive Director, Office of Legal Services will take immediate action to collect and preserve as much relevant evidence as possible. It is essential that the records in question be removed from the division/employee under investigation or otherwise safeguarded. The KPPA Audit Committee, in coordination with the Executive Director, Office of Legal Services and appropriate KPPA management will determine if an investigative audit needs to be conducted by Internal Audit, in accordance with Internal Audit procedures. These audits may include expertise from internal and external experts in fields, such as but not limited to, legal, information technology, human resources, and accounting. A draft investigative audit report will be provided to the KPPA Audit Committee. The KPPA Audit Committee will determine if further actions are needed. The KPPA Audit Committee will control any internal or external report distribution.

- 6. Information Technology Audits Audits of information systems and technology may be performed to determine whether existing or new computer applications and hardware function in an accurate and efficient manner and include adequate internal controls. Internal Audit may be involved in the evaluation/implementation of a new system to review the system development methodology and the effectiveness and efficiency of the internal controls being implemented. These audits could include reviews of general controls which affect all computer applications. Examples may include computer security, disaster recovery, business continuity, program change controls, and quality control procedures.
- 7. Financial Audits A financial audit is a review intended to serve as a basis for expressing an opinion regarding the fairness, consistency, and conformity of financial information with generally accepted accounting principles (GAAP). Financial audits can be comprehensive or limited in scope depending on the objectives.
  - a. A comprehensive financial audit consists of a review of the financial statements of an entity over a specific duration of time to accurately express an opinion on those statements. Such an audit is conducted in accordance with generally accepted auditing standards (GAAS) as adopted by the American Institute of Certified Public Accountants (AICPA). For CERS and KRS, an external auditor performs this type of audit annually. At least every five years, the Auditor of Public Accounts performs the annual financial audit.
  - b. A limited financial audit concentrates on a review of specific financial transactions. The primary concerns include determining the accuracy of data and evaluation of controls by reviewing the following items:
    - i. Physical control over assets,
    - ii. System of authorization and approval,
    - iii. Separation of duties between operations and custody of assets.

An engagement may involve more than one type of audit. For example, most audits performed are a combination of an internal controls, compliance, and operational audit.

<u>Assurance Services</u> – Assurance services help the organization improve their operations and financial performance.

1. Process Reviews – A process review is specific to a single business process. These reviews assess the effectiveness of internal controls over the process as well as test the efficiency of the process. These reviews also help ensure the business process is operating the way management intended. These reviews are typically performed in conjunction with a new business process being developed or immediately after a new business process is implemented. These reviews may be performed as

Page **9** of **14** 

needed in response to findings identified while performing other types of services within a particular division.

2. Policy Reviews – During a policy review, Internal Audit analyzes either a new or established policy. Internal audit will ensure the policy complies with applicable Kentucky Revised Statutes, Kentucky Administrative Regulations, and federal laws. Internal Audit will also determine if the policy establishes sufficient internal controls in relation to the related business process. For example, during a review of a policy related to invoice payment, Internal Audit would ensure internal controls have been designed to ensure timely payment, prevent duplicate payment, establish segregation of duties, etc.

 $\underline{Consulting\ Services}-Consulting\ services\ help\ organizations\ improve\ their\ efficiency\ and\ effectiveness.$ 

- 1. Internal Audit staff may participate in the preparation of the Strategic Plan.
- Internal Audit staff may participate on various work groups including, but not limited to, the KPPA
  Information Technology Governance team, the Continuity of Operations team, and other similar
  KPPA, CERS, or KRS working groups in order to provide an unbiased review of any policies and
  procedures created from these teams.

#### Other Services

- 1. Agreed Upon Procedures An Agreed Upon Procedures engagement is performed only upon request. During these engagements, the requestor specifies exactly what the auditor is to do. The auditor then performs only the requested procedures. An opinion is not expressed in these reviews. For example, a request could be made to review all expenditures posted to a particular account(s) during a specific timeframe to determine if any expenditures were improperly coded to the account(s). Internal Audit would review the requested account(s) over the specified timeframe and issue a report indicating how many expenditures were posted incorrectly. These engagements are beneficial if there is an area a division wants to review but does not have the resources or time to perform the review themselves.
- 2. Annual Report Review Each year, KPPA personnel prepares an Annual Comprehensive Financial Report for the County Employees Retirement System and Kentucky Retirement Systems. Prior to presentation to the Authority, the CERS Board, and KRS Board, Internal Audit will perform a review the Annual Comprehensive Financial Report and identify any perceived errors or discrepancies. However, the KPPA staff, not Internal Audit, is responsible for the substantive content, accuracy, consistency, and completeness of the Annual Comprehensive Financial Report.
- 3. Summary Annual Financial Report Review Each year, KPPA personnel prepares a Summary Annual Financial Report for the County Employees Retirement System and Kentucky Retirement Systems. Internal Audit will review the Summary Annual Financial Report and identify any perceived errors or discrepancies. However, the KPPA staff, not Internal Audit, is responsible for the substantive content, accuracy, consistency, and completeness of the Summary Annual Financial Report.
- 4. Referencing During the course of various types of audit, consulting, and assurance services, the Chief Auditor may identify continuing patterns of conduct or reoccurring "themes" (e.g. the same type of problem is noted in multiple divisions). For example, findings for two divisions within an office, which identify a broader office finding (e.g., lack of controls, need for increased communication, absence of performance criteria, insufficient data processing policy, etc.). When developing the Audit Plan, Internal Audit always considers these themes when scheduling audits for the next period, particularly when these items impact the KPPA mission.

Page 10 of 14

Board of Trustee Elections – Internal Audit assists in both CERS and KRS Board elections.
 Detailed Internal Audit procedures related to the Board elections can be found on the <u>KPPA Process</u>
 <u>Documentation SharePoint site.</u>

#### XII. Audit Process

#### Methodology

For all audit projects, the person responsible for the activity under review shall be advised and given the opportunity to discuss the following:

- 1. Prior to the audit: Objectives and scope of the audit to be conducted.
- 2. During the audit:
  - a. Preliminary findings and recommendations. These will be provided to staff in charge of the area under review and may also be provided to the Executive Director over the area under review, if requested.
  - b. Documentation of audit processes, including information that will be used to develop the background of the audit report and/or included as an exhibit in the audit report. This information will be provided to staff in charge of the area under review and may also be provided to the Executive Director over the area under review, if requested.
  - Final findings and recommendations. These will be released to management over the area under review so a response can be provided.
  - d. Draft audit report, without management's responses. This will be released to Executive Director over the area under review and the KPPA Executive Director.
- Upon completion of the audit: Completed audit report that includes final findings and recommendations with management's response to the findings and any additional auditor responses.

#### Audit Reports

A comprehensive written report will be prepared and issued by Internal Audit at the conclusion of each audit and will be distributed as considered appropriate. A copy of each report is to be made available on a timely basis to the KPPA Audit Committee, the Authority, the CEOs of the CERS and KRS, and applicable members of KPPA staff. Audit reports will normally explain the scope and objectives of the audit, present findings and conclusions in an objective manner relevant to the specific user's needs and make recommendations where appropriate.

#### XIII. Annual Risk Assessment and Audit Plan

Consistent with the long-term strategic plan, the Chief Auditor shall prepare an annual Risk Assessment and Audit Plan providing for the review of significant operations of KPPA, CERS, and KRS pertaining to the achievement of objectives.

The Risk Assessment and Audit Plan shall be presented to the KPPA Audit Committee for deliberation and approval. Upon approval by the KPPA Audit Committee, the Risk Assessment and Audit Plan will be submitted to the Authority for ratification. After ratification by the Authority, the Risk Assessment and Audit Plan may be presented to the CERS Board and KRS Board for informational purposes.

#### Risk Assessment

Internal Audit assesses risks of KPPA, CERS, and KRS by seeking input from the trustees of the Authority, CERS, and KRS as well as key personnel of KPPA, CERS, and KRS. Internal Audit also reviews the results of past internal and external audits. Internal Audit then considers organizational risks, such as the COSO

Page **11** of **14** 

components, existing internal controls, staffing, system changes, regulatory and legal changes, impact to the financial statements and organization reputation.

The Risk Assessment methodology is based upon the following five-part process:

- 1. Identifying KPPA, CERS, and KRS activities/processes (these become the "audit universe").
- 2. Scoring the organizational risks for each process identified in the audit universe.
- 3. Ranking the processes by overall risk.

Internal Audit staff utilize audit software to determine the overall risk of each item in the audit universe. The inherent risk and inherent likelihood of each item are scored using a point value with zero (0) representing the lowest level and ten (10) representing the highest level of inherent risk/likelihood. The risk and likelihood individual scores are combined to generate the overall risk to the KPPA, CERS, and KRS. The overall risk scores for all items are then ranked highest to lowest.

#### Audit Plan

Based upon the results of the Risk Assessment as well as requests from trustees and/or KPPA, CERS, and KRS management, Internal Audit develops the Audit Plan. The Audit Plan is created through a prioritization process that includes scheduling audits for the highest risk areas as well as areas that have not been reviewed in recent years. The Audit Plan represents potential audits to be completed during the upcoming fiscal year. Internal Audit also identifies other potential audit segments such as business processes, expense contracts, and functional areas that may cross over operational units.

Throughout the fiscal year, the Audit Plan may be reviewed, evaluated, and modified according to the specific risk factors related to KPPA, CERS, and KRS operations and internal controls If an adjustment is needed to the Audit Plan based on the periodic evaluation or if Internal Audit receives a request to complete an audit not previously identified on the Audit Plan, the requested modification(s) shall be forwarded to the Chair of the KPPA Audit Committee for approval.

- The Chair of the KPPA Audit Committee can approve the requested modification(s) without seeking input from the rest of the KPPA Audit Committee. In these instances, the requested modification(s) will be added to the Audit Plan and reported to the KPPA Audit Committee as a part of the update on the "Status of Current Projects" at the next regularly scheduled KPPA Audit Committee meeting.
- The KPPA Audit Committee Chair can call a special meeting to discuss the requested modification(s). In these instances, the KPPA Audit Committee will vote on whether to make the requested modifications to the Audit Plan.

#### Tracking Projects

Internal Audit staff continually track audits and other projects with electronic audit software. If a request is made to complete projects not foreseen during the development of the audit plan, these additional projects are also tracked through the audit software. The status of current projects is presented to the KPPA Audit Committee at each quarterly meeting. All findings and recommendations, including status and implementation dates, are thoroughly tracked, and documented using appropriate methodologies.

#### XIV. Internal Audit Procedures

Detailed Internal Audit procedures can be found on the <u>Internal Audit Process Documentation SharePoint</u>

Page 12 of 14

XV. Ap		
We, the und	lersigned, do certify that this	Charter was approved on 28th day of September 2023.
KPPA Audi	t Committee Chair	Date
Board Chair Kentucky Pu	blic Pensions Authority	Date
Chief Audit	or	Date
History:	Approval Date: <mark>Septen</mark> Amended:	per 28, 2023

Page **13** of **14** 

#### **EXHIBIT A**

## { CODE of ETHICS...}

#### // PRINCIPLES

are expected to apply and uphold the following principles:

#### · Integrity

igrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own inferests or by others in forming judgments.

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Internal auditors apply the knowledge, skills, and experience needed in the performance of informal audit services.

#### // RULES OF CONDUCT

Internal Auditors:

- 1.1. Shall perform their work with honesty, diligence, and responsibility.
- 1.2. Shall observe the law and make disclosures expected by the law and the profession.
- 1.3. Shall not knowingly be a party to any Hegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organization.
- 1.4. Shall respect and contribute to the legitimate and ethical objectives of the organization.

2. Objectivity Internal Auditors:

- 2.1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.
- 2.2. Shall not accept anything that may impair or be presumed to impair their professional judgment.
- 2.3. Shall disclose all material facts known to them that, if not disclosed, may distart the reporting of activities under

#### 3. Confidentiality

Internal Auditors:

- 3.1. Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization.

#### 4. Competency

Internal Auditors:

- 4.1. Shall engage only in those services for which they have the necessary knowledge, skills, and experience.
- Shall perform internal audit services in accordance with the International Standard's for the Professional Practice of Internal Auditing.
- 4.3. Shall continually improve their proficiency and the effectiveness and quality of their services.

The Institute of Internal Auditors

Page 14 of 14



## **Kentucky Public Pensions Authority**

## **Internal Audit Administration**



To: Members of the KPPA Audit Committee

From: Kristen N. Coffey, CICA

Division Director, Internal Audit Administration

Date: August 24, 2023

Subject: Proposed Audit Committee Agenda Items

KPPA staff present information to various boards and committees each quarter. In order to reduce the amount of duplicate information being presented at these meetings, staff are requesting that Audit Committee members consider the proposed schedule oulined below.

## Indicates possible approval needed

Indicates potential ratification needed

Торіс	Audit Committee	CERS Finance Committee	KRS Board	KPPA Board
Overview of Fiscal Year External Audit	X			Χ
DRAFT Results of fiscal year external audit, including	X	X	X	X
a. Financial Section of the Annual Report				
b. GASB 67 and 74				
DRAFT GASB 68 and GASB 75 Proportionate Share Audits	X	X	X	X
Management Letter Comments	Χ			X
Auditor Communications with those Charged with Governance	X			Χ
Fiscal Year Ended Financial Statements (unaudited)	X	Χ	X	Χ
Quarterly Financial Statements, including		X	X	X
a. Contribution Report				
b. Admin Expenses				
c. Penalty Waiver Report				
d. Outstanding Invoices Report				
Update on External Audit/ACFR Timetable	Х	Х	Х	Х
Memorandum on Submission of ACFR	Х	Х	Х	Х
APA Approval Request for External Audit		Х	Х	X
DRAFT Management Response to GFOA ACFR Letter	X	Χ	X	X
Request for Infrastructure and Application Security Assessment	X			X
Charter for the Joint Audit Committee	X			X
Charter for the Division of Internal Audit Administration	X			X

Торіс	Audit Committee	CERS Finance Committee	KRS Board	KPPA Board
Annual Risk Assessment and Audit Plan	X			X
Approval of Internal Audit Budget for Upcoming Fiscal Year	X			X
Quarterly Internal Audit Budget	Χ			Χ
Issued Reports and/or Memorandums	X			X
Follow-up on Open Internal Audit Findings and Recommendations	X			X
Status of Current Internal Audit Projects	Х			Х
Information Disclosure Incidents	Х			X
Anonymous Tips	Х			Х
Auditor Independence Statements	Х			Х
Professional Articles	Χ			X

**Requested Action:** KPPA staff request that the Audit Committee approve the presented schedule.

KPPA Audit Committee Meeting - KPPA Audit Committee Administrative Updates



## **Kentucky Public Pensions Authority**



## Internal Audit Administration

To: Members of the KPPA Audit Committee

From: Kristen N. Coffey, CICA

Division Director, Internal Audit Administration

Date: August 24, 2023

Subject: Fiscal Year 2023 Internal Audit Budget as of June 30, 2023 and Proposed FY 2024 Budget

Account Number	Account Name	FYE 2023 Adjusted Budget	E	2023 Actual xpenditures	Remaining Budget	Percent Remaining
111	Salaries	\$ 275,872.24	\$	282,092.59	\$ (6,220.35)	-2.25%
121	Employer Paid FICA	21,104.23		21,126.46	(22.23)	-0.11%
122	Employer Paid Retirement	231,649.92		214,421.11	17,228.81	7.44%
123	Employer Paid Health Insurance	40,000.00		41,353.44	(1,353.44)	-3.38%
124	Employer Paid Life Insurance	55.00		53.00	2.00	3.64%
133T	Employee Training	1,000.00		-	1,000.00	100.00%
259T	Conference Expenses	2,000.00		714.00	1,286.00	64.30%
361T	Travel - In State	500.00		-	500.00	100.00%
362T	Travel - Out State	500.00		1,076.98	(576.98)	-115.40%
381T	Dues & Subscriptions	1,500.00		1,250.00	250.00	16.67%
399T	Miscellaneous	200.00		-	200.00	100.00%
847T	Computer Equipment	35,000.00		35,698.98	(698.98)	-2.00%
	Total	\$ 609,381.39	\$	597,786.56	\$ 11,594.83	1.90%

KPPA Audit Committee Meeting - KPPA Audit Committee Administrative Updates

#### Proposed FY 2024 Budget

Account Number	Account Name	FYE 2023 Actual	FYE 2024 Budget	Co	fariance of Budget Impared to Institution Buriance Year
111	Salaries <sup>1</sup>	\$ 282,092.59	\$ 339,000.00	\$	56,907.41
121	Employer Paid FICA <sup>1</sup>	\$ 21,126.46	25,933.50		4,807.04
122	Employer Paid Retirement <sup>1</sup>	\$ 214,421.11	280,879.65		66,458.54
123	Employer Paid Health Insurance	\$ 41,353.44	45,000.00		3,646.56
124	Employer Paid Life Insurance	\$ 53.00	60.00		7.00
133T	Employee Training	\$ -	3,400.00		3,400.00
259T	Conference Expenses	\$ 714.00	3,000.00		2,286.00
361T	Travel - In State	\$ -	1,000.00		1,000.00
362T	Travel - Out State	\$ 1,076.98	3,000.00		1,923.02
381T	Dues & Subscriptions	\$ 1,250.00	1,200.00		(50.00)
399T	Miscellaneous	\$ =	200.00		200.00
847T	Computer Equipment <sup>2</sup>	\$ 35,698.98	20,000.00		(15,698.98)
	Total	\$ 597,786.56	\$ 722,673.15	\$ :	124,886.59

<sup>1.</sup> Increase in salary line items reflects the 6% raise approved for all state employees as well as potential reclassifications for some employees.

<sup>2.</sup> Computer equipment budget amount includes a surcharge paid to the 3rd party vendor that we must work with as a part of the 45A process. Without that surcharge, the cost of the software would be \$10,780.



## Staffing Challenges

We continue to examine remedies to the recruitment and retention challenges faced at KPPA. The following are actions that are currently planned:

- 1. Adjust Salaries on Retirement System Counselor series
- 2. Increase CAP to 284
- 3. Hire Internal Hearing Officers



#### 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: Kentucky Public Pensions Authority Board

From: David L. Eager, Executive Director

Date: September 28, 2023

Subject: Staffing Challenges

The staff at Kentucky Public Pensions Authority (KPPA) are a talented and dedicated team of employees. I appreciate their commitment to excellence in service to plan members and all stakeholders.

Effective September 16, 2016, KPPA employees became subject to KRS 18A which placed their employment status within the rights, responsibilities, privileges, and restrictions set forth for public employees by the Department of Personnel. Maximum headcount (CAP) was set at 270. KPPA has averaged 250 since this time.

In the post-COVID employment environment of state government, it has become increasingly more difficult to recruit and retain the skilled staff necessary to appropriately service our membership. KPPA turnover averages 11.4% annually since 2016. Most state agencies are experiencing similar challenges. To combat these challenges, Personnel has raised the midpoint for all grades multiple times including the most recent which was effective 9/16/2023. For varying reasons, the turnover rate at KPPA is higher among retirement counselors and legal.

Additionally, KPPA has a significant number of long-time employees who are at or are approaching 20+ years of service. The difficulties that we are experiencing with recruitment and retention will grow as this group of employees elect to retire in the coming years. With each retirement of a 20-year employee, there is a significant loss of knowledge and skill.

The executive team has worked closely with HR, business team leadership, and Personnel on potential actions that may provide relief to these challenges. The Strategic Planning initiative is expected to make recommendations to address these challenges as well.

We continue to examine remedies to this issue, but there are actions that I plan to make at this time:

- 1. Adjust Salaries on Retirement System Counselor (RSC)
- 2. Increase CAP to 284
- 3. Hire Internal Hearing Officers

### **Retirement System Counselors (RSC)**

Of the 270 staff positions, 39% are in the RSC series. Current turnover for the counselor series is 20%. We must address recruitment and retention for this group that is so critical to providing excellent service to members.

One option when attempting to hire a qualified candidate is to offer a salary that is higher than the entry level for the grade. This is a common practice in state government and is one of the reasons that Personnel has increased midpoints recently. Not all agencies do this, but those who do appear to be more successful at hiring. To maintain pay equity, the agency is required to bring any current employee in the same job class up to that pay level if the existing employee has the same or more experience. We rarely have done this within the RSC series because there are so many staff members in each level that the impact to budget has been prohibitive.

The combination that we do not hire counselors at midpoint and that other agencies are hiring at or close to midpoint for the same grade level has exacerbated the challenges faced in hiring and retaining counselors. With the complexity of the plans, the length of training and the statutes and processes that even new counselors are required to master, it is difficult to retain counselors because they can find easier work for more pay at other agencies.

For each of the RSC job classifications, I, II, III and IV, we plan to begin hiring at a rate higher than entry level for the grade. When a counselor is promoted or reclassified into the next level, they will again be brought in at higher than entry level. This will require simultaneously increasing pay for existing counselors to remain compliant with Personnel rules and to assist with retention. The fully burdened cost to this is estimated at \$722,100 and will affect 65 current employees with an average salary increase of \$6,390 annually.

Please see following pages for more details on the analysis.

#### **Increase CAP**

Staff count maximums (CAP) for executive branch agencies is set by the Finance Cabinet because staffing is usually a large percentage of an agency's budget. For KPPA it recently averaged 80% of the budget.

CAP for KPPA is currently set at 270. We average 250 employees. We consistently have 20 positions open for which we are actively recruiting. There are a few positions that have been open for an extended period, but most of the open positions are different from month to month.

There are a few areas that currently need more staff or may need staff in the coming months:

- ➤ ERCE to allow for compliance audits and contract audits
- Investments
- Legal see hearing officers in next section
- ➤ Strategic Plan More positions will be required to implement the plan

An increase in CAP may help us retain Retirement System Counselors at the levels we need because we plan to "over-hire" RSC positions to offset the high turnover in that area.

More details on an increase in CAP are in the KBUD budget discussion later in this meeting.

## **Hire Hearing Officers**

Similar to the issue we had with retention of qualified medical examiners, we have issues retaining contracts for hearing officers. We struggle to maintain the necessary number of hearing officers to provide the services required, at the same time we have experienced an uptick in hearing requests. The result is a higher than acceptable backlog of hearings.

Legal staff explored the possibility of hiring more hearing officers and/or outsourcing all hearing officers to a vendor. After exploring the options, the recommendation is to hire two new internal staff members to serve as hearing officers.

Please see the following pages for more details on the analysis.

This memo is for informational purposes.

### **Retirement System Counselor Series - Salary Update Request**

The current full-time headcount at KPPA is 253. Employees in the Retirement System Counselor series make up 39% of total staff. For the FY 22/23, turnover for the Retirement System Counselor series was 20%.

We are requesting to update the Retirement System Counselor salary scale to bring new Counselors in at \$45,000 annually. As a result of this change, we would need to increase the salaries of employees currently in the Retirement System Counselor series as noted. We have also added a 5% increase for Retirement System Counselor IV's who have been in the Retirement System Counselor series for 16 or more years to address the issue of compression.

The initial fully burdened cost of this increase is estimated to be \$722,078. This includes the salary, employer FICA and employer retirement.

Job Title	Current KPPA Annual Salary	Proposed Annual Salary	Current Annual Mid-Point	Number of Impacted Employees
Retirement System Counselor I	\$33,663	\$45,000	\$50,495	13
Retirement System Counselor I (off of initial probation)	\$35,346	\$47,250	\$50,495	6 (1 not impacted)
Retirement System Counselor II	\$37,113	\$49,613	\$55,544	9 (2 not impacted)
Retirement System Counselor III	\$38,969	\$52,093	\$61,096	4
Retirement System Counselor IV & Resource Management Analyst III	\$58,797	\$58,797	\$67,205	0 (31 not impacted)
Retirement System Counselor IV & Resource Management Analyst III With 16+ years as a Counselor	\$58,797	\$61,737	\$67,205	33



# Hearing Officer Data



## **Hearing Officer Annual Cost**

## Number of officers on contract continues to decrease as case load increases.

Fiscal Year	# of Officers	Annual Cost (billable time plus mileage)	Hourly Pay	Median Case Load per Officer*	Average Case Load per Officer*
2018	6	\$114,001.42	\$60.00	38	34
2019	8	\$118,324.74	\$60.00	44	34
2020	4	\$80,148.56	\$60.00	38	38
2021	5	\$76,730.00	\$60.00	60	80
2022	5	\$118,336.52	\$100.00	45	66
2023	4	\$200,067.82	\$125.00	76	76

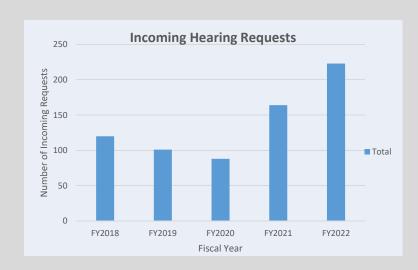
<sup>\*</sup>Based on Q4 data from each fiscal year.



## **Incoming Hearing Requests**

## Incoming hearing requests continues to increase year over year.

Fiscal Year	Hearing Requests
2018	120
2019	101
2020	88
2021	164
2022	223





## **Hearing Officer Billable Time**

## Total hearing officer billable time remains about the same.

Total Sum of Hearing Officer Billable Time in Hours							
Row Labels	Administrative	Disability	<b>Total Hours</b>				
2018 Q4	162.25	216	378.25				
2019 Q4	130.5	270.25	400.75				
2020 Q4	54.2	234.75	288.95				
2021 Q4	89.75	298.5	388.25				
2022 Q4	74	311	385				



## **Hearing Officer Billable Time**

# Average hours billed per case continues to decrease year over year.

Average Hours Billed by Case						
		Average Hours				
Fiscal Year	# of Cases	Administrative	Disability			
2018 Q4	117	2.50	1.53			
2019 Q4	90	2.72	2.25			
2020 Q4	89	1.43	1.57			
2021 Q4	109	0.83	1.03			
2022 Q4	116	0.60	1.49			



## **Request for Extensions**

# Requests for Recommended Orders extensions increased in FY 2023.

FY	# of Requests
2018	7
2019	8
2020	6
2021	15
2022	14
2023	37





## **Hearing Officer Recommended Order**

• In FY23 Q4 15 recommended orders were issued.

	Time from Hearing Request to Recommended Order
Average*	640.42 days
Median*	602.5 days
Highest*	898 days (Disability – Regular matter)
Lowest*	462 days (administrative – Termination matter)

<sup>\*</sup>Based on FY23 Q4 data



Budget Workgroup FY 25/26 Biennial Budget KPPA Board Presentation 9-28-2023



# Workgroup

- Ms. Lynn Hampton, KPPA Board Member and Chair-Kentucky Retirement System (KRS) Board of Trustees,
- Mr. William O'Mara, KPPA Board Member and County Employees Retirement System (CERS) Trustee,
- Mr. David Eager, KPPA Executive Director,
- Mr. Ed Owens III, CERS CEO,
- Mr. John Chilton, KRS CEO,
- Ms. Rebecca Adkins, KPPA Deputy Executive Director,
- Mr. Mike Lamb, KPPA Chief Financial Officer

In addition, multiple KPPA employees contributed to and participated in the multiple Workgroup meetings, and we express our sincere thanks for all their efforts.

# FY 2024 Administrative Budget

AMOUNT SPENT FY 2023	\$ 40,984,427	\$ (9,200,073)
FY 2023 Budget (KBUD)	\$ 50,184,500	
AMOUNT SPENT FY 2022	\$ 40,478,665	\$ (7,526,835)
FY 2022 Budget (KBUD)	\$ 48,005,500	
AMOUNT SPENT FY 2021	\$ 35,750,706	\$ (13,137,494)
FY 2021 Budget (KBUD)	\$ 48,888,200	

ADMINISTRATIVE EXPENSES	FY 2023 ADMIN BUDGET			2024 ADMIN BUDGET	FY 2024 BUDGET vs FY 2023 BUDGET		% Change
PERSONNEL							
Subtotal	\$	36,355,548	\$	34,520,287		(1,835,262)	-5.05%
LEGAL CONTRACTS							
Subtotal	\$	980,000	\$	1,210,000		230,000	23.47%
AUDITING							
Subtotal	\$	200,000	\$	300,000		100,000	50.00%
ACTURIAL SERVICES							
Subtotal	\$	500,000	\$	500,000		-	0.00%
MEDICAL EXAMINERS / HEARING OFFICERS							
Subtotal	\$	1,800,000	\$	1,800,000		-	0.00%
OTHER PERSONNEL							
Subtotal	\$	188,000	\$	500,000		312,000	165.96%
PERSONNEL TOTAL	\$	40,023,548	\$	38,830,287	\$	(1,193,262)	-2.98%
OPERATIONAL							
RENTALS - BUILDING & EQUIPMENT							
Subtotal	\$	1,128,500	\$	1,166,500		38,000	3.37%
INFORMATION TECHNOLOGY							
Subtotal	\$	3,578,000	\$	4,190,000		612,000	17.10%
OTHER OPERATIONAL							
Subtotal	\$	1,367,900	\$	1,371,200		3,300	0.24%
OPERATIONAL TOTAL	\$	6,074,400	\$	6,727,700	\$	653,300	10.75%
RESERVE	\$	4,086,552	\$	4,882,814		796,262	19.48%
ADMINISTRATIVE BUDGETED AMOUNT	\$	50,184,500	\$	50,440,800	\$	256,300	0.51%

3

# FY 25/26 Baseline Amounts Provided by OSBD

**TOTAL AMOUNT:** OSBD Provided the KPPA with their FY 25/26 amount.

The amount is \$51,670,900.

This is \$1,230,100 higher than the FY24 Amount of **\$50,440,800**, and determined as follows by OSBD:

\$1,148,600 was provided for the 6 % salary increase, and

located in the Personnel Cabinet appropriation unit

\$81,500 was provided for health insurance increases from the salary and compensation pool

1,230,100.00

81,500.00

**TOTAL AMOUNT:** OSBD also provides the Baseline amounts for Personnel Costs, and that amount is \$37,751,518 (this is part of the \$51.6M Total amount).

**RESTRICTED FUNDS**: Per the OSBD, as we are spending restricted funds, the KPPA has broad discretion in how the \$51.6M is allocated and / or spend among the various administrative line items.

# FY 25/26 Proposed KBUD Baseline Submmission

	This \$37.7M amount comes from the
	OSBD Baseline Personnel reports. We
PERSONNEL	were allowed to include VACANT postions
	(at the mid-point) up to our 270 CAP).

Budget Work Group recommends we place the unallocated "reserve" into the Legal
Contracts Line item for KBUD.

ADMINISTRATIVE EXPENSES	FY	2024 ADMIN BUDGET	FY 2025-2026 UD BASELINE	FY 2024 BUDGET vs FY 2025/2026 KBUD	
PERSONNEL					
Subtotal	\$	34,520,287		\$37,751,518	3,231,232
LEGAL CONTRACTS					
Subtotal	\$	1,210,000	\$ 1,210,000	\$ 4,088,990	2,878,990
AUDITING					
Subtotal	\$	300,000		\$ 300,000	-
ACTURIAL SERVICES					
Subtotal	\$	500,000		\$ 500,000	-
MEDICAL EXAMINERS / HEARING OFFICE	ERS				
Subtotal	\$	1,800,000		\$ 1,800,000	-
OTHER PERSONNEL					
Subtotal	\$	500,000		\$ 500,000	-
PERSONNEL TOTAL	\$	38,830,287	\$ 1,210,000	\$44,940,508	\$ 6,110,222
OPERATIONAL					
RENTALS - BUILDING & EQUIPMENT					
Subtotal	\$	1,166,500		\$ 1,166,500	-
INFORMATION TECHNOLOGY					
Subtotal	\$	4,190,000		\$ 4,190,000	-
OTHER OPERATIONAL					
Subtotal	\$	1,371,200		\$ 1,373,892	2,692
OPERATIONAL TOTAL	\$	6,727,700	\$ -	\$ 6,730,392	\$ 2,692
RESERVE	\$	4,882,814	\$ 2,878,990	\$ -	(4,882,814)
ADMINISTRATIVE BUDGETED AMOUNT	\$	50,440,800	\$ 51,670,900	\$51,670,900	\$ 1,230,100



# Additional Budget Request

2024-2026 KENTUG	CKY BRANCH			PRIORITY			
Additional Budget Requ	est: Position	Detail Recor	d		Cabinet #:		
(All requested columns r	ounded to th	e nearest \$1	00)		Agency#:		
OPERATING BUDGET RECORD B-5					Agency:		
				Approp	riation Unit:		
				Program/S	ervice Unit:		
Governmental Branch:				Su	b Program:		
Cabinet/Function:				Р	osting Unit:		
				REQ	UEST TITLE:		
							Full Time
	Fund	Start	Start	Number of	Pay	Class	Part Time
Position Title	Source	Date	Salary	Positions	Grade	Code	Other
Staff Attorney III (Hearing Officers)	R	7/1/2024	81,300.00	2	17	20001886	Full Time
Retirement System Counselor	R	7/1/2024	50,500.00	6	12	21001305	Full Time
Special Assistant (Risk Officer)	R	7/1/2024	105,000	1	Ungraded	20000377	Full Time
Special Assistant (Investment Analyst	) R	7/1/2025	109,000	2	Ungraded	20000377	Full Time
Retirement System Counselor	R	7/1/2025	50,500.00	2	12	21001305	
Staff Attorney III	R	7/1/2025	81,300.00	1	17	20001886	
TOTAL				14			

6



# Additional Budget Request

FY 2025					
POSITION	Salary	FICA	ERRET	HEALTHINS	Total
Staff Attorney III (Hearing Officers)	81,300	6219.45	53796.21	12195	153,511
Staff Attorney III (Hearing Officers)	81,300	6219.45	53796.21	12195	153,511
Retirement System Counselor	50,500	3863.25	33415.85	7575	95,354
Retirement System Counselor	50,500	3863.25	33415.85	7575	95,354
Retirement System Counselor	50,500	3863.25	33415.85	7575	95,354
Retirement System Counselor	50,500	3863.25	33415.85	7575	95,354
Retirement System Counselor	50,500	3863.25	33415.85	7575	95,354
Retirement System Counselor	50,500	3863.25	33415.85	7575	95,354
Special Assistant (Risk Officer)	105,000	8032.5	69478.5	15750	198,261
TOTAL 2025	570,600	43,651	377,566	85,590	\$ 1,077,406.9
FY 2026					
Special Assistant (Investment Analyst)	109,000	8338.5	72125.3	16350	205,814
Special Assistant (Investment Analyst)	109,000	8338.5	72125.3	16350	205,814
Retirement System Counselor	50,500	3863.25	33415.85	7575	95,354
Retirement System Counselor	50,500	3863.25	33415.85	7575	95,354
Staff Attorney III	81,300	6219.45	53796.21	12195	153,511
TOTAL 2026	400,300	30,623	264,879	60,045	\$ 755,846.5
Total 2025+2026		_			\$ 1,833,253.4

7

# Summary

ADMINISTRATIVE EXPENSES	FY :	2024 ADMIN BUDGET		FY 2025-2026 ROPOSED KBUD BASELINE		DDITION/ REQ	UES <sup>-</sup>	Т		KBUD AF	PROPOSED PPROVAL	BUD	2024 ADMIN IGET		ange
PERSONNEL	PSONNEI			SUBMISSION	F	Y2025	F	Y2026		FY2025	FY2026	FY2025	FY2026	FY2025	FY2026
Subtotal	Ś	34,520,287	\$	37,751,518	\$1.	077,407	\$1	,833,253	\$3	8,828,925	\$39,584,771	4,308,638	5,064,485	12.48%	14.67%
LEGAL CONTRACTS	٦	34,320,207	7	37,731,310	Ψ±,	077,407	71	,033,233	73	0,020,323	<del>\$33,304,771</del>	4,300,030	3,004,403	12.4070	14.0770
Subtotal	\$	1,210,000	\$	4,088,990	\$	-	\$	_	Ś	4,088,990	\$ 4,088,990	2,878,990	2,878,990	237.93%	237.93%
AUDITING	Ť		7	1,000,000	7				Ť	.,000,000	+ 1,000,000				
Subtotal	\$	300,000	\$	300,000	\$	_	\$	-	\$	300,000	\$ 300,000	-	-	0.00%	0.00%
ACTURIAL SERVICES		·		,											
Subtotal	\$	500,000	\$	500,000	\$	-	\$	-	\$	500,000	\$ 500,000	_	-	0.00%	0.00%
MEDICAL EXAMINERS / HEARING OFFICE	ERS														
Subtotal	\$	1,800,000	\$	1,800,000	\$	-	\$	-	\$	1,800,000	\$ 1,800,000	-	-	0.00%	0.00%
OTHER PERSONNEL															
Subtotal	\$	500,000	\$	500,000	\$	-	\$	-	\$	500,000	\$ 500,000	-	-	0.00%	0.00%
PERSONNEL TOTAL	\$	38,830,287	\$	44,940,508	\$1,	077,407	\$1	,833,253	\$4	6,017,915	\$46,773,761	\$7,187,628	\$7,943,475	18.51%	20.46%
OPERATIONAL															
RENTALS - BUILDING & EQUIPMENT															
Subtotal	\$	1,166,500	\$	1,166,500	\$	-	\$	-	\$	1,166,500	\$ 1,166,500	-	-	0.00%	0.00%
INFORMATION TECHNOLOGY															
Subtotal	\$	4,190,000	\$	4,190,000	\$	-	\$	-	\$	4,190,000	\$ 4,190,000	-	-	0.00%	0.00%
OTHER OPERATIONAL															
Subtotal	\$	1,371,200	\$	1,373,892	\$	-	\$	-	\$	1,373,892	\$ 1,373,892	2,692	2,692	0.20%	0.20%
OPERATIONAL TOTAL	\$	6,727,700	\$	6,730,392	\$	-	\$	-	\$	6,730,392	\$ 6,730,392	\$ 2,692	\$ 2,692	0.04%	0.04%
RESERVE	\$	4,882,814	\$		\$		Ş		\$	-	\$ -	(4,882,814)	(4,882,814)	-100.00%	-100.00%
	<u> </u>	·,,- <b>-</b> ·			-		Ť					( :, = = -, = = 1)	,,		
ADMINISTRATIVE BUDGETED AMOUNT	\$	50,440,800	Ţ	51,670,900	\$1,	077,407	\$1	,833,253	ş <mark>5</mark>	2,748,307	\$53,504,154	\$2,307,507	\$3,063,354	4.57%	6.07%



#### **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:

Kentucky Public Pensions Authority (KPPA) Board

From:

Mike Lamb, KPPA, Chief Financial Officer

Date:

September 28, 2023

Subject:

FY25-26 Biennium Budget Recommendations.

The FY 2024 Budget Planning Workgroup (the Workgroup) was formed during the March 14, 2023, KPPA Board meeting and includes:

- Ms. Lynn Hampton, KPPA Board Member and Chair-Kentucky Retirement System (KRS) Board of Trustees,
- Mr. William O'Mara, KPPA Board Member and County Employees Retirement System (CERS) Trustee,
- Mr. David Eager, KPPA Executive Director,
- Mr. Ed Owens III, CERS CEO,
- Mr. John Chilton, KRS CEO,
- Ms. Rebecca Adkins, KPPA Deputy Executive Director,
- Mr. Mike Lamb, KPPA Chief Financial Officer

The Workgroup makes the following recommendations to the KPPA Board related to the FY 25/26 Biennium Budget, due October 1, 2023, to the Office of State Budget Director (OSBD).

#### **RECOMMENDATIONS:**

- I. Approve the FY2025/2026 Biennium Baseline Budget Submission of \$51,670,000.
- 2. Approve an Additional Budget Request (ABR) to increase the KPPA headcount cap by 9 positions for FY 2025, and additional 5 positions for FY 2026. (14 total positions over two years.) at the estimated associated cost (+/- 10%) of \$1.1M for FY 2025, and \$1.8M for FY 2026.



#### 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:

Kentucky Public Pensions Authority (KPPA) Board

From:

Mike Lamb, KPPA, Chief Financial Officer

Date:

September 28, 2023

Subject:

Cyber Security Insurance Policy.

KPPA has issued and RFP for a Cyber Security Insurance, that is to provide coverage for various areas including, but not limited to: Security Breach Response Coverage; Privacy Regulatory Claims Coverage, Cyber-extortion Threat Coverage, Digital Asset Restoration Costs Coverage, etc.

Bids were sought for \$5M of coverage and \$3M of coverage.

The KPPA, RFP team has reviewed all responses from the bids received and believe we will be able to secure a vendor and a cyber policy shortly.

However, the details of the bids, including pricing, etc. are still under embargo as we await the final steps of the process from the Finance and Administration Cabinet, Office of Procurement Services.

Upon completion of these steps, KPPA legal will be able to review and negotiate the final contract prior to issuance of the policy.

The FY2024 administrative budget, did not have an amount specific to a cyber insurance policy premium. However, we do have capacity to cover this expense in either the already approved IT related line item(s) or by re-allocation of a portion of the "reserve".

#### **RECOMMENDATIONS:**

Approve the awarding of a contract for Cyber Security Insurance to whomever is chosen as the successful bidder, including the associated costs to be paid out of the approved FY 2024 administrative budget, including the "reserve" line item if needed.

<b>EXPLANCE</b>			nt of Fiducia					od)	
Kontucky Fulls Tolerana Multicrits	CERS		KERS		SPRS	KPPA		<del></del>	
ASSETS	Nonhazardous			<u> </u>	SPKS	FY 2023	FY 2022	Percentage of Change	Note
CASH AND SHORT-T			Voilliazaruous	nazaruous		F1 2023	F1 2022	or Change	More
	\$662	\$262	\$375	\$141	\$35	\$1,475	\$367	301.45%	1
Cash Deposits	\$002	\$202	\$3/3	<b>Φ141</b>	<b>\$33</b>	\$1,475	<b>Φ307</b>	301.45%	
Short-term Investments	303,178	134,691	648,780	89,143	133,780	1,309,572	1,116,933	17.25%	2
Total Cash and Short-term									
Investments	303,840	134,954	649,155	89,284	133,815	1,311,047	1,117,301	17.34%	
	303,640	134,334	649,199	09,204	133,013	1,311,047	1,117,301	17.34/0	
RECEIVABLES									
Accounts	70.004	20, 402	07.000	4.046	E 240	204 742	255 700	24 420/	2
Receivable	78,684	26,182	87,322	4,216	5,340	201,743	255,799	-21.13%	3
Accounts									
Receivable -	50 507	00.405	04.470	0.700	F 000	400 704	00 004	40.000/	
Investments	58,587	20,435	31,172	6,728	5,800	122,721	82,031	49.60%	4
Total Receivables	137,271	46,617	118,493	10,944	11,140	324,465	337,830	(3.96)%	
INVESTMENTS, AT F									
Core Fixed Income	862,405	299,149	708,383	106,016	118,419	2,094,372	2,030,333	3.15%	
Public Equities	4,327,129	1,494,664	1,169,731	389,000	190,147	7,570,671	6,193,224	22.24%	5
Private Equities	689,017	229,764	159,836	63,179	16,596	1,158,393	1,289,932	(10.20)%	6
Specialty Credit	1,762,779	605,820	613,193	183,057	101,064	3,265,913	3,097,828	5.43%	
Derivatives	(2,478)	(862)	(2,045)	(306)	(342)	(6,034)	(2,864)	(110.69)%	7
Real Return	268,971	89,758	72,726	24,325	10,693	466,472	417,815	11.65%	8
Real Estate	500,825	159,479	170,599	46,519	20,166	897,589	882,759	1.68%	
Total Investments, at			-,	-,-		,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,			
Fair Value	8,408,648	2,877,772	2,892,423	811,790	456,744	15,447,376	13,909,026	11.06%	
Securities Lending	., , .	,- ,	, ,	. ,	,	-, ,	-,,-		
Collateral Invested	176,126	60,803	71,804	18,277	12,028	339,038	391,750	(13.46)%	9
CAPITAL/INTANGIBL			,	,	1=,===			(10110)11	
Capital Assets	1,701	153	929	91	11	2,885	2,885	0.00%	
Intangible Assets	9,961	827	5,920	494	100	17,301	17,301	0.00%	
Accumulated	0,001	OZ1	0,020	707	100	17,001	17,001	0.0070	
Depreciation	(1,701)	(153)	(929)	(91)	(11)	(2,885)	(2,885)	0.00%	
Accumulated	(1,701)	(100)	(323)	(31)	(11)	(2,000)	(2,000)	0.0070	
Amortization	(9,961)	(827)	(5,920)	(494)	(100)	(17,301)	(16,977)	1.91%	
	(9,901)	(021)	(5,920)	(494)	(100)	(17,301)	324		
Total Capital Assets	0.005.005	0.400.445	0.704.075	-		47 404 007		(100.00)%	
Total Assets	9,025,885	3,120,145	3,731,875	930,295	613,726	17,421,927	15,756,231	10.57%	
LIABILITIES	5.004	0.10	0.507			0.400	7.040	00.540/	- 10
Accounts Payable	5,091	816	2,567	599	56	9,128	7,048	29.51%	10
Investment		00.000	=0.04=			4=+ +5 :	100 055	50 <b>-</b> 00:	
Accounts Payable	76,587	26,600	50,340	8,852	8,816	171,194	109,253	56.70%	11
Securities Lending									
Collateral	176,126	60,803	71,804	18,277	12,028	339,038	391,750	(13.46)%	12
Total Liabilities	257,804	88,218	124,711	27,727	20,900	519,360	508,051	2.23%	
Total Fiduciary Net									
Position Restricted									
for Pension Benefits	\$8,768,081		\$3,607,165		\$592,826	\$16,902,566	\$15,248,180	10.85%	
NOTE - Variance Exp	lanation	Difference	es due to round	ding					

<sup>1)</sup> The variance is a result of continuous fluctuation of deposits and transactions that flow through the cash account. As a result of an Internal Audit finding, we continue to evaluate the optimum cash balances at JP Morgan Chase.

<sup>2)</sup> Short term investments are primarily comprised of cash on hand at the custodial bank, the variance in the balance is a result of the cash flows of each plan.

<sup>3)</sup> The decrease in Accounts Receivable is primarily due to the 06/30/2022 CERS and CERH pension/insurance split correction.

<sup>4)</sup> The variance in Investment Accounts Receivable is the result of pending trades.

<sup>5)</sup> The increase in Public Equities is the result of favorable market conditions resulting in realized and unrealized gains

<sup>6)</sup> The decrease in Private Equities is the result of more distributions than contributions for the asset class most notable for KERS and SPRS who did not participate from 2011-2021.

<sup>7)</sup> The variance in Derivatives is a result of hedging and arbitration of risk within the portfolios.

<sup>8)</sup> Despite the increase shown on the statements for Real Return, the overall asset class has actually declined due to the liquidation of Putnam. However, most of Putnam's assets were held in cash (Short-term Investments) at the end of FY22 which is skewing the data.

<sup>9)</sup> The variance is a result of the demand of the Securities Lending Program.

<sup>10)</sup> The variance in Accounts Payable is due to an Increase in the payroll and leave liability accrual as well as an increase in outstanding employer credit invoices.

<sup>11)</sup> The variance in Investment Accounts Payable is due to pending trades.

<b>KPPA</b>	For the twelve	month perio	ent of Chang d ending June 3 Thousands) (Un	0, 2023, wit					
	CERS	CERS	KERS	KERS	SPRS	KPPA	Total	Percentage	
	Nonhazardous	Hazardous	Nonhazardous I			FY 2023		of Change	
ADDITIONS	_								
Member Contributions	\$145,491	\$53,246	\$84,563	\$17,459	\$5,250	\$306,008	\$290,471	5.35%	
Employer Pay Credit	\$50,830	\$20,206	\$22,012	\$8,758	\$1,585	\$103,390	\$80,710	28.10%	1
Employer Contributions	635,723	267,703	114,408	64,021	56,536	1,138,391	1,091,160	4.33%	
Actuarially Accrued Liability Contributions (AALC)	_	_	898,546	-	-	898,546	912,705	(1.55)%	
General Fund Appropriation	_	-	240,000	-	-	240,000	215,000	11.63%	2
Pension Spiking Contributions	46	186	16	29	-	276	122	126.38%	3
Health Insurance Contributions (HB1)	(30)	(20)	(12)	(7)	(8)	(78)	(208)	(62.59)%	4
Employer Cessation Contributions	-	_	-	-	-	_	63,113	(100.00)%	5
Total Contributions	832,061	341,320	1,359,532	90,259	63,362	2,686,534	2,653,072	1.26%	
INVESTMENT INCOME From Investing Activities									
Net Appreciation (Depreciation) in FV of	007.444	040.044	404.777	50.004	05.400	4 070 457	(4.475.000)	404.000/	
Investments	637,414	219,241	134,777	56,604	25,422	1,073,457		191.29%	6
Interest/Dividends Total Investing Activities Income	239,709 877,123	83,235 302,476	102,220 236,996	26,388 82,991	17,889 43,311	469,440 1,542,897	429,376 (746,506)	9.33%	
Less: Investment Expense	52,167	17,540	15,205	4,914	2,227	92,054	75,188	22.43%	7
Less: Performance Fees	10,465	3,295	1,866	910	336	16,871	96,461	(82.51)%	8
Net Income from Investing Activities	814,490	281,641	219,926	77,167	40,748	1,433,972	(918,155)	(	
From Securities Lending Activities									
Securities Lending Income	8,998	3,143	2,918	867	489	16,414	1,652		
Less: Securities Lending Borrower Rebates (Income)/ Expense	7,904	2,760	2,526	756	426	14,371	(506)		
Less: Securities	404	F-7	50	47		000	004		
Lending Agent Fees  Net Income from Securities Lending	930	325	333	17 94	53	306 1,736	1,834		
Net Investment Income	815,420	281,966	220,259	77,262	40,801	1,435,708	(916,321)	256.68%	
Total Additions	1,647,481	623,286	1,579,791	167,520	104,164	4,122,242	1,736,752	137.35%	
DEDUCTIONS	, ,	-,	, ,	,,,,,	,	,,- · <b>-</b>	, , , , , , , _		
Benefit Payments	894,351	319,593	1,023,704	78,636	63,804	2,380,088	2,328,592	2.21%	
Refunds	23,263	6,568	11,847	4,041	166	45,886	42,927	6.89%	
Administrative									
Expenses Total Padvetions	24,131	2,125	13,818	1,513	293	41,881	39,743		
Total Deductions  Net Increase (Decrease)	941,746	328,287	1,049,369	84,190	64,263	2,467,855	2,411,263	2.35%	
in Fiduciary Net Position Restricted for Pension Benefits	705,735	294,999	530,422	83,330	39,900	1,654,387	(674,511)		
Total Fiduciary Net Position Restricted for Pension Benefits			<i>,</i>				, , ,		
Beginning of Period	8,062,346	2,736,928	3,076,743	819,237	552,926	15,248,180	15,922,691	(4.24)%	
End of Period	\$8,768,081	\$3,031,927	\$3,607,165	\$902,568	\$592,826	\$16,902,566	\$15,248,180	10.85%	
NOTE - Variance Explain		(a. lia a u =	a Tian 2 was such		Differences	due to roun	ding.		

<sup>1)</sup> The Employer Pay Credit will continue to increase as Tier 3 members increase.

NOTE - Variance Explanation continued on next page.

<sup>2)</sup> General Fund Appropriation 4th Quarter FY 2023 (KERS only): HB1 \$135,000,000; HB604 \$105,000,000; Compared to 4th Quarter FY 2022 (SPRS only) \$215,000,000;

<sup>3)</sup> Pension Spiking contributions increased due to an increase in KERS Hazardous and CERS Hazardous.

<sup>4)</sup> Health Insurance Contributions continue to fluctuate in the Pension accounts due to Tier 2 and Tier 3 retiree health insurance system costs as well as corrections being processed to previous fiscal years.

<sup>5)</sup> Employer Cessation payment received from Kentucky Housing Corporation FY2022.

### KPPA Board Meeting - Quarterly Financial Statements

- 6) The increase in Net Appreciation in Fair Value of Investments is the result of unrealized gains in public equity.
- 7) The increase in Investment Expense is primarily the result of increased partnership expenses for Specialty Credit.
- 8) The decrease in performance fees is the result of less than favorable market conditions causing returns to drop, impacting those fees directly related to performance most notably Private Equity, Real Estate and Specialty Credit.

<b>E</b> KPPA	Combining	Statement	of Fiducia	ry Net Pos	sition -	Insuranc	e Funds		
Services Public Resource Authority	As of June 30, 2	023, with Com	parative Totals	as of June 3	0, 2022 (\$	in Thousan	ds) (Unaudi	ted)	
	CERS	CERS	KERS	KERS	SPRS	KPPA		Percentage	
ASSETS	Nonhazardous	Hazardous N	lonhazardous	Hazardous		FY 2023	FY 2022	of Change	Note
<b>CASH AND SHORT-TI</b>	RM INVESTMEN	TS							
Cash Deposits	\$259	\$8	\$105	\$9	\$8	\$389	\$255	52.63%	1
Short-term									
Investments	132,269	31,789	170,092	29,906	10,868	374,923	431,686	(13.15)%	2
Total Cash and									
Short-term									
Investments	132,528	31,797	170,196	29,915	10,876	375,312	431,941	(13.11)%	
RECEIVABLES									
Accounts									
Receivable	12,658	4,082	13,235	334	956	31,265	39,914	(21.67)%	3
Investment									
Accounts	00.440	40.050	44 740	4.004	4.700	50 504	07.400	0.4.000/	
Receivable	22,443	10,253	11,749	4,294	1,762	50,501	37,496	34.68%	
Total Receivables	35,101	14,335	24,984	4,628	2,719	81,767	77,410	5.63%	
INVESTMENTS, AT FAIR VALUE									
Core Fixed Income	327,065	148,991	171,536	72,740	27,887	748,219	753,514	(0.70)%	
Public Equities	1,633,030	807,897	637,102	268,599	108,362	3,454,991	2,871,630	20.31%	5
Private Equities	268,195	150,750	94,390	53,885	23,922	591,143	625,456	(5.49)%	
Specialty Credit	664,738	330,931	295,825	134,897	53,531	1,479,922	1,401,887	5.57%	
Derivatives	(908)	(412)	(478)	(200)	(78)	(2,076)	(934)	(122.40)%	6
Real Return	82,403	43,561	31,681	17,472	6,563	181,681	164,241	10.62%	7
Real Estate	173,577	95,157	54,522	39,974	15,293	378,523	372,995	1.48%	
Total Investments, at									
Fair Value	3,148,101	1,576,874	1,284,579	587,368	235,481	6,832,402	6,188,789	10.40%	
Securities Lending									
Collateral Invested	59,513	29,266	26,420	11,270	4,491	130,959	146,144	(10.39)%	
Total Assets	3,375,242	1,652,273	1,506,180	633,180	253,566	7,420,440	6,844,284	8.42%	
LIABILITIES									
Accounts Payable	223	22	118	-	1	363	57,501	(99.37)%	9
Investment									
Accounts Payable	27,873	12,877	14,161	5,588	2,277	62,777	43,999	42.68%	10
Securities Lending									
Collateral	59,513	29,266	26,420	11,270	4,491	130,959	146,144	(10.39)%	
Total Liabilities	87,609	42,164	40,699	16,858	6,769	194,100	247,644	(21.62)%	
Total Fiduciary Net									
Position Restricted	#0.00 <b>=</b> 00=	64 646 465	04 405 405	0040.000	*0.40 <b>=</b> 0=	67.000.040	60 500 040		
for OPEB	\$3,287,633	\$1,610,108	\$1,465,480	. ,	\$246,797	\$7,226,340	\$6,596,640	9.55%	
NOTE - Variance Expl	anation	Difference	s due to roundi	ng					

- 1) The variance is a result of continuous fluctuation of deposits and transactions that flow through the cash account. As a result of an Internal Audit finding, we continue to evaluate the optimum cash balances at JP Morgan Chase.
- 2) Short term investments are primarily comprised of cash on hand at the custodial bank, the balance decline is the result of cash being invested.
- 3) The decrease in Accounts Receivable is due to a decrease in the member/employer month-end accrual due to the decreased insurance transfer rate.
- 4) The variance in Investment Accounts Receivable is the result of pending trades.
- 5) The increase in Public Equities is the result of favorable market conditions resulting in realized and unrealized gains
- 6) The variance in Derivatives is a result of hedging and arbitration of risk within the portfolios.
- 7) Despite the increase shown on the statements for Real Return, the overall asset class has actually declined due to liquidation of Putnam. However, most of Putnam's assets were held in cash (Short-term Investments) at the end of FY22 due to the liquidation which is skewing the data
- 8) The variance is a result of the demands of the Securities Lending Program.
- 9) The decrease in Accounts Payable is primarily due to the 06/30/2022 CERS and CERH pension/insurance split correction.
- 10) The variance In Investment Accounts Payable is due to pending trades.
- 11) The variance is a result of the demands of the Securities Lending Program.



## Combining Statement of Changes In Fiduciary Net Position - Insurance Funds

For the twelve month period ending June 30, 2023, with Comparative Totals for the twelve month period ending June 30, 2022 (\$ In Thousands) (Unaudited)

	period ending		KERS Non-			KPPA	Total	Doroontono	
	CERS Non- hazardous			KERS Hazardous	SPRS	FY 2023		Percentage of Change	Note
ADDITIONS	nazaraous	Hazardous	mazaraous	azar aous		1 1 2023	1 1 2022	or onlange	Note
Employer Contributions	\$99,501	\$45,605	\$35,542	\$37	\$9,289	\$189,975	\$217,319	(12.58)%	1
Actuarially Accrued	Ψ33,301	Ψ+3,003	Ψ00,042	ΨΟΊ	Ψ3,203	Ψ103,373	ΨΖ17,313	(12.50)70	
Liability Contributions									
(AALC)	=	=	87,674	-	-	\$87,674	\$101,637	(13.74)%	2
Medicare Drug								,	
Reimbursement	-	-	4	-	-	4	3	57.23%	
Insurance Premiums	294	(546)	(27)	(69)	(131)	(479)	364	(231.69)%	3
Humana Gain Share									
Payment	5,951	914	4,851	368	224	12,308	18,381	(33.04)%	4
Retired Re-employed						40.070	40.000	0.500/	
Healthcare	4,922	1,611	5,885	1,452	-	13,870	12,666	9.50%	
Health Insurance	17,502	3,987	8,368	1,591	356	24 005	27 700	14 450/	_
Contributions (HB1)	17,502	3,967	0,300	1,591	330	31,805	27,790	14.45%	5
Employer Cessation Contributions	_	_	_	_	_	_	2,404	(100.00)%	6
Total Contributions	128,170	51,571	142,297	3,380	9,738	335,156	380,566	(11.93)%	
INVESTMENT INCOME	120,110	01,071	142,201	0,000	3,700	000,100	000,000	(11.55)70	
From Investing Activities									
Net Appreciation									
(Depreciation) in FV of									
Investments	240,043	116,609	95,983	39,902	16,099	508,637	(482,475)	205.42%	7
Interest/Dividends	88,629	43,939	42,258	17,802	7,164	199,792	192,803	3.62%	
Total Investing Activities									
Income	328,673	160,548	138,242	57,704	23,263	708,429	(289,672)		
Less: Investment									
Expense	19,478	10,174	7,451	3,946	1,559	42,608	34,478	23.58%	8
Less: Performance Fees	3,499	1,782	2,870	819	299	9,270	49,495	(81.27)%	
Net Income from Investing	005.000	440.504	107.004	F0.000	04.404	050 554	(070.045)		
Activities	305,696	148,591	127,921	52,939	21,404	656,551	(373,645)		
From Securities Lending									
Activities Securities Lending Income	2,775	1,336	1,124	460	196	5,890	679		
Less: Securities Lending	2,773	1,550	1,124	400	190	3,090	019		
Borrower Rebates									
(Income)/Expense	2,414	1,162	969	399	169	5,113	(198)		
Less: Securities Lending		.,					(100)		
Agent Fees	54	26	23	9	4	116	131		
Net Income from Securities									
Lending	307	148	132	52	23	661	745	(11.28)%	10
Net Investment Income	306,003	148,739	128,052	52,991	21,427	657,212	(372,900)	276.24%	
Total Additions	434,173	200,310	270,350	56,371	31,165	992,368	7,666	12,844.93%	
DEDUCTIONS									
Healthcare Premiums									
Subsidies	123,587	93,485	103,952	19,748	14,290	355,063	377,015	(5.82)%	
Administrative Expenses	937	522	771	123	74	2,427	2,453	(1.06)%	
Self-Funded Healthcare									
Costs	3,241	171	1,668	80	18	5,178	5,152	0.51%	
Excise Tax Insurance	-	-	-	-	-	-	19	(100.00)%	11
Total Deductions	127,765	94,178	106,391	19,951	14,382	362,668	384,639	(5.71)%	
Net Increase (Decrease)									
in Fiduciary Net Position Restricted for OPEB	306,408	106,131	163,959	36,420	16,782	629,700	(376,973)		
Total Fiduciary Net	300,408	100,131	103,939	30,420	10,702	029,700	(310,913)		
Position Restricted for OPEB									
Beginning of Period	2,981,224	1,503,977	1,301,522	579,902	230.015	6,596,640	6,973,613	(5.41)%	
End of Period		\$1,610,108	\$1,465,480			\$7,226,340		9.55%	
						. ,,• .•	, ,	/0	
NOTE - Variance Explanation	1.	Differences	due to round	ina					

NOTE - Variance Explanation continued on next page.

- 2) AALC will fluctuate year to year based on the actuarial valuation.
- 3) Health Insurance Premiums decreased primarily due to refunds processed to hazardous retirees for premiums paid for dependents that should have been covered by KPPA.
- 4) The Humana Gain Share payment will fluctuate year to year based on claims paid.
- 5) Health Insurance Contributions will continue to rise as Tier 2 and Tier 3 members increase.
- 6) Employer Cessation payment received from Kentucky Housing Corporation FY2022.
- 7) The increase in Net Appreciation in Fair Value of Investments is the result of unrealized gains in public equity.
- 8) The increase in Investment Expense is primarily the result of increased partnership expenses for Specialty Credit.
- 9) The decrease in performance fees is the result in less than favorable market conditions causing returns to drop, impacting those fees directly related to performance most notably Private Equity, Real Estate and Specialty Credit.
- 10) The variance is a result of the demand of the Securities Lending Program.
- 11) The Excise Tax will fluctuate based on the timing of the posting of the payment.

Pension Funds Contribution Report

For the twelve month period ending June 30, 2023, with Comparative Totals for the twelve month period ending June 30, 2022 (\$ in Millions)

Millions)									
CERS	County Employees Retirement System								
County Employees Retirement System	Nonhaza	ardous	Hazar	dous					
	FY23	FY22	FY23	FY22					
Member Contributions	\$145.5	\$144.4	\$53.3	\$52.7					
Employer Pay Credit	\$50.8	\$42.2	\$20.2	\$16.8					
Employer Contributions	635.8	606.8	267.9	222.0					
Net Investment Income	178.0	136.8	62.7	48.7					
Total Inflows	1,010.1	930.2	404.1	340.2					
Benefit Payments/Refunds	917.6	878.0	326.2	311.6					
Administrative Expenses	24.1	22.7	2.1	2.0					
Total Outflows	941.7	900.7	328.3	313.6					
NET Contributions	68.4	29.5	75.8	26.6					
Realized Gain/(Loss)	3.4	374.0	(0.8)	126.0					
Unrealized Gain/(Loss)	633.9	(1,011.8)	220.0	(350.1)					
Change in Net Position	705.7	(608.3)	295.0	(197.5)					
Beginning of Period	8,062.3	8,670.7	2,736.9	2,934.4					
End of Period	\$8,768.0	\$8,062.3	\$3,031.9	\$2,736.9					
Differences due to rounding.									
Net Contributions*	(\$109.6)	(\$107.3)	\$13.1	(\$22.1)					
Cash Flow as % of Assets	(1.25)%	(1.33)%	0.43%	(0.80)%					
Net Investment Income	\$178.0	\$136.8	\$62.7	\$48.7					
Yield as % of Assets	2.03%	1.70%	2.07%	1.78%					

<sup>\*</sup>Net Contributions are less Net Investment Income.

Pension Funds Contribution Report										
For the twelve month period ending June Millions)	30, 2023, with	Comparative Tot	als for the twel	ve month perio	d ending June 3	0, 2022 (\$ in				
VEDS	Kentucky Employees				State Police					
Kentucky Employees Retrement System	Retirement System				Retirement					
<b>SPRS</b>	Nonhazardous		Hazardous		System					
State Police Retirement System	FY23	FY22	FY23	FY22	FY23	FY22				
Member Contributions	\$84.6	\$74.2	\$17.5	\$15.1	\$5.2	\$3.9				
Employer Pay Credit	\$22.0	\$15.3	\$8.7	\$5.5	\$1.6	\$0.9				
Employer Contributions	114.4	141.1	64.0	59.1	56.5	62.3				
Actuarially Accrued Liability										
Contributions	898.5	912.7	-	-	-	-				
Employer Cessation										
Contributions	-	63.1	-	-	-	-				
General Fund Appropriations	240.0	-	-	-	-	215.0				
Net Investment Income	85.5	52.7	20.7	15.1	15.4	6.3				
Total Inflows	1,445.0	1,259.1	110.9	94.8	78.7	288.4				
Benefit Payments/Refund	1,035.6	1,035.5	82.7	82.0	64.0	64.4				
Administrative Expenses	13.8	13.3	1.5	1.5	0.3	0.3				
Total Outflows	1,049.4	1,048.8	84.2	83.5	64.3	64.7				
NET Contributions	395.6	210.2	26.7	11.3	14.4	223.7				
Realized Gain/(Loss)	(18.7)	91.4	(1.4)	35.3	(4.1)	11.3				
Unrealized Gain/(Loss)	153.5	(310.0)	58.0	(102.3)	29.5	(39.8)				
Change in Net Position	530.4	(8.4)	83.3	(55.7)	39.8	195.2				
Beginning of Period	3,076.7	3,085.0	819.2	874.9	552.9	357.7				
End of Period	\$3,607.1	\$3,076.7	902.5	\$819.2	\$592.7	\$552.9				
Differences due to rounding.										
Net Contributions*	\$310.1	\$157.5	\$6.0	\$(3.8)	\$(1.0)	\$217.4				
Cash Flow as % of Assets	8.60%	5.12%	0.67%	(0.46)%	(0.17)%	39.31%				
Net Investment Income	\$85.5	\$52.7	\$20.7	\$15.1	\$15.4	\$6.3				
Yield as % of Assets	2.37%	1.71%	2.29%	1.84%	2.59%	1.15%				

<sup>\*</sup>Net Contributions are less Net Investment Income.

Insurance Fund Contribution Report

For the twelve month period ending June 30, 2023, with Comparative Totals for the twelve month period ending June 30, 2022 (\$ in Millions)

Millions)						
<b>P</b> CEDC	County Employees Retirement					
CERS	System					
County Employees Retirement System	Nonhazar		Hazardous			
	FY23	FY22	FY23	FY22		
Employer Contributions	\$99.5	\$118.6	\$45.6	\$58.4		
Insurance Premiums	0.3	0.5	(0.5)	(0.3)		
Humana Gain Share	6.0	8.9	0.9	1.3		
Retired Reemployed Healthcare	4.9	4.8	1.6	1.5		
Health Insurance Contributions	17.5	16.0	4.0	3.8		
Net Investment Income	66.0	51.6	32.1	24.8		
Total Inflows	194.2	200.4	83.7	89.5		
Healthcare Premiums	126.8	137.7	93.7	89.5		
Administrative Expenses	0.9	0.9	0.5	0.5		
Total Outflows	127.7	138.6	94.2	90.0		
NET Contributions	66.5	61.8	(10.5)	(0.5)		
Realized Gain/(Loss)	0.6	137.9	2.1	74.1		
Unrealized Gain/(Loss)	239.4	(360.3)	114.5	(177.4)		
Change in Net Position	306.5	(160.6)	106.1	(103.8)		
Beginning of Period	2,981.2	3,141.8	1,504.0	1,607.8		
End of Period	\$3,287.7	\$2,981.2	\$1,610.1	\$1,504.0		
Differences due to rounding.						
Not Contributions*	фО <b>Б</b>	¢40.2	<u></u>	<b></b>		
Net Contributions*	\$0.5	\$10.2	\$(42.6)	\$(25.3)		
Cash Flow as % of Assets	0.02%	0.34%	(2.65)%	(1.68)%		
Net Investment Income	\$66.0	\$51.6	\$32.1	\$24.8		
Yield as % of Assets	2.01%	1.73%	2.00%	1.65%		

<sup>\*</sup>Net Contributions are less Net Investment Income.

#### **Insurance Fund Contribution Report** For the twelve month period ending June 30, 2023, with Comparative Totals for the twelve month period ending June 30, 2022 (\$ in Millions) **Kentucky Employees** State Police **Retirement System** Retirement **System** Nonhazardous Hazardous FY23 FY22 FY23 FY22 FY23 FY22 **Employer Contributions** \$31.6 \$8.8 \$35.5 \$-\$-\$9.3 **Actuarially Accrued Liability** Contributions 87.7 101.6 **Employer Cessation** Contributions 2.4 Insurance Premiums 0.2 (0.1)(0.1)Humana Gain Share 4.9 7.3 0.4 0.5 0.2 0.3 Retired Reemployed Healthcare 5.9 5.1 1.5 1.3 Health Insurance Contributions 8.4 6.6 1.6 1.2 0.4 0.3 Net Investment Income 32.1 20.0 13.1 9.5 5.3 3.6 174.5 15.1 **Total Inflows** 174.8 16.5 12.5 13.0 Healthcare Premiums 105.6 120.0 19.8 20.5 14.3 14.5 0.1 Administrative Expenses 8.0 8.0 0.1 0.1 0.1 **Total Outflows** 106.4 120.8 19.9 20.6 14.4 14.6 **NET Contributions** 68.1 54.0 (3.4)(8.1)0.7 (1.6)Realized Gain/(Loss) (7.2)40.9 0.1 26.9 (0.1)11.3 Unrealized Gain/(Loss) 103.1 (146.5)39.8 (63.8)16.2 (25.7)(51.6)Change in Net Position 164.0 36.5 (45.0)16.8 (16.0)Beginning of Period 1,301.5 246.0 1,353.1 579.9 624.9 230.0 **End of Period** \$1,465.5 \$1,301.5 \$616.4 \$579.9 \$246.8 \$230.0 Differences due to rounding. **Net Contributions\*** \$36.0 \$34.0 \$(16.5) \$(17.6) \$(4.6) \$(5.2) (2.27)%Cash Flow as % of Assets 2.46% 2.61% (2.67)%(3.02)%(1.88)%Net Investment Income \$32.1 \$20.0 \$13.1 \$9.5 \$3.6 \$5.3 Yield as % of Assets 2.19% 1.54% 2.12% 1.63% 2.16% 1.58%

<sup>\*</sup>Net Contributions are less Net Investment Income.

KPPA ADMINISTRATIVE BUDGET FY 2022-2023  BUDGET-TO-ACTUAL ANALYSIS  FOR THE FISCAL YEAR ENDING JUNE 30, 2023, WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDING JUNE 30, 2022											
FOR THE FISCAL YEAR	R ENDING JUNE 30		PARATIVE TOTALS								
Account Name	Budgeted	FY 2023 Expense	Remaining	Percent Remaining	FY 2022 Expense	Percent Difference					
PERSONNEL											
Staff											
Salaries/Wages	\$17,000,000	\$16,431,880	\$568,120	3.34%	\$15,628,481	5.14%					
Wages (Overtime)	285,000	209,522	75,478	26.48%	174,159	20.31%					
Emp Paid FICA	1,270,448	1,210,689	59,759	4.70%	1,113,391	8.74%					
Emp Paid Retirement	14,865,100	12,503,955	2,361,145	15.88%	12,421,914	0.66%					
Emp Paid Health Ins	2,700,000	2,382,370	317,630	11.76%	2,455,352	(2.97)%					
Emp Paid Sick Leave Adoption Assistance Benefit	115,000 8,000	213,594	(98,594) 8,000	(85.73)% 100.00%	86,032 7,000	148.27% (100.00)%					
Workers Compensation	75,000	11,116	63,884	85.18%	7,000	(85.21)%					
Unemployment	8,000	8,834	(834)	(10.42)%	75,105	100.00%					
Emp Paid Life Ins	3,000	2,953	47	1.57%	2,905	1.65%					
Employee Training	18,000	10,722	7,278	40.43%	9,685	10.71%					
Bonds	-	-	- 7,270	0.00%	81	(100.00)%					
Staff Subtotal	36,347,548	32,985,636	3,361,913	9.25%	31,974,163	3.16%					
LEGAL & AUDITING	, . ,	- ,,	.,,.		. ,. ,						
SERVICES											
Legal Hearing Officers	100,000	197,202	(97,202)	(97.20)%	117,998	67.12%					
Legal (Stoll, Keenon)	150,000	74,994	75,006	50.00%	88,189	(14.96)%					
Frost Brown	80,000	344,263	(264,263)	(330.33)%	40,458	750.91%					
Reinhart	25,000	276	24,724	98.90%	-	100.00%					
Ice Miller	505,645	239,921	60,079	20.03%	701,266	(65.79)%					
Johnson, Bowman, Branco LLC	150,000	108,718	41,283	27.52%	95,428	13.93%					
Dentons Bingham &											
Greenebaum	150,000	42,099	107,901	71.93%	52,661	(20.06)%					
Legal Expense	25,000	23	24,977	99.91%	138	(83.33)%					
Auditing	200,000	109,510	90,490	45.24%	141,883	(22.82)%					
Total Legal & Auditing Services	1,180,000	1,117,005	62,995	5.34%	1,238,020	(9.77)%					
CONSULTING SERVICES	1,100,000	1,117,005	62,995	5.34%	1,230,020	(9.77)70					
Medical Reviewers	1,800,000	1,413,350	386,650	21.48%	1,593,144	(11.29)%					
Escrow for Actuary Fees	1,000,000	(32,866)	32,866	0.00%	1,000,144	(100.00)%					
Total Consulting Services	1,800,000	1,380,484	419,516	23.31%	1,593,144	(13.35)%					
CONTRACTUAL SERVICES	1,000,000	1,000,101	110,010		.,000,	(10.00),0					
Miscellaneous Contracts	100,000	97,223	2,777	2.78%	20,124	383.12%					
Human Resources Consulting	8,000	-	8,000	100.00%	5,794	(100.00)%					
Actuarial Services	500,000	523,627	(23,627)	(4.73)%	474,411	10.37%					
Facility Security Charges	80,000	33,782	46,218	57.77%	104,067	(67.54)%					
Tuition Assistance	8,000	-	8,000	100.00%	-	0.00%					
Contractual Subtotal	696,000	654,632	41,368	5.94%	604,396	8.31%					
PERSONNEL SUBTOTAL	\$40,023,548	\$36,137,757	\$3,885,791	9.71%	\$35,442,380	1.96%					
OPERATIONAL											
Natural Gas	35,000	35,685	(685)	(1.96)%	31,229	14.27%					
Electric	125,000	110,404	14,596	11.68%	105,960	4.19%					
Rent-Non State Building	56,000	37,982	18,018	32.18%	50,643	(25.00)%					
Building Rental - PPW	1,000,000	962,097	37,903	3.79%	962,097	0.00%					
Copier Rental	67,000	85,173	(18,173)	(27.12)%	86,605	(1.65)%					
Rental Carpool	5,500	4,421	1,079	19.62%	3,881	13.91%					
Vehicle/Equip. Maint.	1,000	1,123	(123)	(12.30)%	249	351.00%					
Postage	420,000	351,762	68,238	16.25%	376,335	(6.53)%					
Freight	200	41	159	79.28%	155	(73.55)%					
Printing (State)	12,000	1,045	10,955	91.29%	6,508	(83.94)%					
Printing (non-state)	105,000	67,376	37,624	35.83%	71,162	(5.32)%					
Insurance Carbage Callection	12,000	5,572	6,428	53.57%	5,422	2.77%					
Garbage Collection	6,000	6,716	(716)	(11.93)%	4,853	38.39%					
Conference Expense Conference Exp. Investment	35,000	21,532	13,468	38.48%	24,816	(13.23)%					
Conference Exp. Investment  Conference Exp. Audit	2,000	794	(64) 1,206	0.00% 60.30%	<del>-</del>	100.00%					
MARS Usage	50,000	27,100		45.80%	27,100	0.00%					
IVII II TO OSage	30,000	21,100	22,300	45.00%	21,100	0.0076					

#### **KPPA ADMINISTRATIVE BUDGET 2022-23 BUDGET-TO-ACTUAL ANALYSIS** FOR THE FISCAL YEAR ENDING JUNE 30, 2023, WITH COMPARATIVE TOTALS FOR THE FISCAL YEAR ENDING JUNE 30, 2022 **FY 2023 Percent** FY 2022 Percent **Account Name Budgeted Expense** Remaining Remaining **Expense Difference** COVID-19 Expenses 12,000 4,836 7,164 59.70% 12,686 (61.88)% Office Supplies 75,000 70,638 4,362 5.82% 82,826 (14.72)% Furniture & Office Equipment 20,000 654 19,346 96.73% 1,825 (64.16)% 13,905 1,095 Travel (In-State) 15,000 7.30% 5,526 151.63% Travel (In-State) Investment 956.41% 1,000 412 588 58.80% 39 Travel (In-State) Audit 500 500 100.00% 0.00% Travel (Out of State) 75,000 49,026 25,974 34.63% 9,148 435.92% Travel (Out of State) Investment 100,000 21,412 78,588 78.59% 7,393 189.63% Travel (Out of State) Audit (115.40)% 100.00% 500 1,077 (577)70,000 Dues & Subscriptions 61,001 8,999 12.86% 52,488 16.22% Dues & Subscriptions Invest 17,000 13.243 3.757 22.10% 12.228 8.30% Dues & Subscriptions Audit 73.33% (45.80)% 1,500 400 1,100 738 Miscellaneous 70,000 56,021 13,979 19.97% 34,336 63.16% Miscellaneous Investment 0.00% 0.00% Miscellaneous Audit 200 200 100.00% 0.00% COT Charges 25,000 26,373 (1,373)(5.49)% 28.640 (7.92)% Telephone - Wireless 35.35% 7,000 7,336 (336)(4.80)%5,420 Telephone - Other 150,000 100,524 49,476 32.98% 117,806 (14.67)% Telephone - Video Conference 4,836 (4,836)0.00% 100.00% 3,500,000 2,671,684 2,916,313 Computer Equip./Software 828,316 23.67% 100.00% Comp. Equip./Software Invest 0.00% 0.00% Comp. Equip/Software Audit 3,000 24,407 (21,407)(713.56)% 100.00% OPERATIONAL SUBTOTAL \$6,074,400 \$4,846,670 \$1,227,730 20.21% \$5,039,064 (3.82)% SUB-TOTAL \$46,097,948 \$40,984,427 \$5,113,522 11.09% \$40,481,444 1.24% Reserve 4,086,552 4,086,552 100.00% 0.00% TOTAL \$50,184,500 \$9,200,074 18.33% \$40,481,445 1.24% \$40,984,427

Plan	Budgeted	FY 2023 Expense	% of Total KPPA FY 2023 Expense
CERS Nonhazardous	\$28,896,235	\$23,598,833	57.58%
CERS Hazardous	2,559,410	2,090,206	5.10%
KERS Nonhazardous	16,543,320	13,510,516	32.965%
KERS Hazardous	1,824,207	1,489,784	3.635%
SPRS	361,328	295,088	0.720%
TOTAL	\$50,184,500	\$40,984,427	

Differences due to rounding

Plan - Specific	CERS	CERS	KERS	KERS		
Expenses	Nonhazardous	Hazardous	Nonhazardous	Hazardous	SPRS	Total
FY 2023 Expense	\$23,598,833	\$2,090,206	\$13,510,516	\$1,489,784	\$295,088	\$40,984,427
Hybrid Percent Adjustment	(450,865)	(39,900)	(258,106)	(28,461)	(5,637)	(782,969)
Plan Specific Adjustment	102,618	9,093	241,884	26,667	-	380,262
Separation Expense Adjustment	369,927	32,780	-	-	-	402,707
Total Expenses	\$23,620,513	\$2,092,179	\$13,494,294	\$1,487,990	\$289,451	\$40,984,427

JP MORGAN CHASE CREDIT EARNINGS AND FEES													
	FOR THE FISCAL YEAR ENDING JUNE 30, 2023												
	Net												
Earnings Fees Earnings													
June-22	\$5,289	\$(5,906)	\$(616)										
July-22	8,921	(5,814)	3,107										
August-22	17,621	(6,185)	11,436										
September-22	17,026	(6,033)	10,993										
October-22	24,574	(6,031)	18,543										
November-22	59,589	(5,070)	54,519										
December-22	10,556	(6,884)	3,673										
January-23	10,331	(6,550)	3,781										
February-23	1,707	(6,524)	(4,817)										
March-23	2,825	(6,510)	(3,685)										
April-23	4,006	(6,836)	(2,830)										
May-23	6,688	(7,084)	(396)										
June-23	2,286	(7,762)	(5,476)										
Total	\$171,419	\$(83,187)	\$101,654										

JP MORGAN CHASE HARD INTEREST EARNED FOR THE FISCAL YEAR ENDING JUNE 30, 2023									
	Clearing Account	CERS	KERS	Total					
February-23	\$20,504	\$5,149	\$3,415	\$29,068					
March-23	15,428	6,688	4,505	26,621					
April-23	18,436	8,902	11,611	38,949					
May-23	20,922	10,733	7,681	39,335					
June-23	35,786	5,856	3,775	45,417					
Total	\$111,075	\$37,328	\$30,986	\$179,389					



## KENTUCKY PUBLIC PENSIONS AUTHORITY Outstanding Invoices by Type and Employer

Invoice Type	6/30/2023	3/31/2023	Change H/(L)
Actuarially Accrued Liability Contribution	\$2,964,818	\$2,652,617	12%
Averaging Refund to Employer	(414,622)	(373,896)	11%
Employer Free Military and Decompression Service	113,916	321,476	(65)%
Member Pension Spiking Refund	(37,073)	(36,412)	2%
Monthly Reporting Invoice	(129,492)	(70,817)	83%
Penalty – Monthly Reporting	248,270	236,617	5%
Reinstatement	180,401	181,136	0%
Other Invoices**	(119,735)	(113,579)	5%
Total	2,806,482	2,797,142	
Health Insurance Reimbursement	1,028,896	1,211,864	(15)%
Omitted Employer	1,370,875	1,413,424	(3)%
Employer Pension Spiking*	1,518,040	1,548,475	(2)%
Standard Sick Leave	1,595,073	3,937,496	(59)%
USERRA Protected Military	35,030	354,117	(90)%
Total	5,547,915	8,465,376	(34)%
Grand Total	\$8,354,396	\$11,262,518	(26)%

<sup>\*</sup>Pension Spiking invoices on this report are Employer Pension Spiking. By statute these invoices are due 12 months from the invoice date. Employer Pension Spiking is in effect only for retirements prior to July 1, 2018, therefore, unless there has been a recently created invoice for a backdated retirement, all of these invoices are greater than 12 months old.

<sup>\*\*</sup>Other Invoices include Expense Allowance; Expired Post Pending; IPS Employer Refund; Master Commissioner Employer (ANOC); Omitted Employer PPEND; Penalty EOY Reporting; Personnel Adjustment; and, Refunded Member Contributions Due.

Employer Name (Top Ten)	6/30/2023	3/31/2023	Change H/(L)
Kentucky River Community Care***	\$2,900,680	\$2,547,639	14%
Kentucky River Regional Jail***	893,893	893,893	0%
Kentucky State Police	475,825	4,074,942	(88)%
Dept for Community Based Services	426,385	178,430	139%
City of Covington***	401,760	407,533	-1%
Kenton County Airport Board***	381,979	375,004	2%
Dept for Behavioral Health Dev Intellectual Dis.	272,927	193,920	41%
City of Fort Thomas***	255,655	250,942	2%
Dept of Highways	236,393	(86,581)	-373%
Livingston County Fiscal Court***	\$228,567	\$230,872	-1%

<sup>\*\*\*</sup>Indicates invoices in litigation

		Total Unpaid Balance	Invoice Count
CERS		\$1,993,865	1,410
CERH		1,265,348	167
KERS		4,463,679	1,046
KERH		156,898	27
SPRS		474,606	18
	Grand Total:	\$8,354,396	2,668

## KENTUCKY PUBLIC PENSIONS AUTHORITY

## Penalty Invoices Report From: 4/1/2023 To: 6/30/2023

Note: Delinquent Interest amounts are included in the totals for the invoice

	Invoice Amount	Invoice Remaining Balance	Delinquent Interest	Invoice Status Date	Invoice Due Date	Invoice Status	Employer Classification	Plan	Comments
	2,638	- Dalarice			12/17/2022		Fiscal Courts	CERS	Employer in good standing with KPPA
	1,000			- 5/4/2023	3/18/2023		County Attorneys	CERS	Circumstances outside of employer's control
	1,000			- 5/4/2023	3/18/2023		County Attorneys	CERS	Circumstances outside of employer's control
	1,000			- 5/4/2023	3/18/2023		County Attorneys	CERS	Circumstances outside of employer's control
	1,000	_		- 5/4/2023	3/18/2023		County Attorneys	CERS	Circumstances outside of employer's control
	1,000	_		- 4/4/2023	4/30/2023		Master Commissioner	KERS	New employer reporting official
	1,000			- 4/4/2023	5/3/2023		Master Commissioner	KERS	New employer reporting official
	1,000			- 5/8/2023	5/25/2023		Boards of Education	CERS	KPPA error
	1,000			21121222	6/16/2023		Fire Departments	CERS	Employer in good standing with KPPA
OTAL:	\$10,638	\$-	\$-		0/10/2020	0/1140	The Beparanents	OEIKO	Employer in good standing with 171
0	<b>V.10,000</b>	<del></del>	•						
	1,000	1,000		- 4/5/2023	5/5/2023	CRTD	Special Districts & Boards	CERS	
	1,000	1,000		- 4/11/2023	5/11/2023		County Attorneys	KERS	
	1,000	1,000		- 4/11/2023	5/11/2023		County Attorneys	KERS	
	1,000	1,000		- 4/18/2023	5/18/2023		Utility Boards	CERS	
	1,000	1,000		- 4/25/2023	5/25/2023		Fiscal Courts	CERS	
	1,000	1,000		- 4/25/2023	5/25/2023		Fiscal Courts	CERS	
	1,000	1,000		- 4/25/2023	5/25/2023		Fiscal Courts	CERS	
	1,000	1,000		- 4/25/2023	5/25/2023		Fiscal Courts	CERS	
	1,000	1,000		- 4/25/2023	5/25/2023		Fiscal Courts	CERS	
	1,000	1,000		- 4/25/2023	5/25/2023		County Attorneys	CERS	
	1,045	1,045		- 4/25/2023	5/25/2023		Fiscal Courts	CERS	
	1,000	1,000		- 5/17/2023	6/16/2023		Libraries	CERS	
	1,000	1,000		- 5/22/2023	6/21/2023		Cities	CERS	
	1,000	1,000		- 5/22/2023	6/21/2023		Master Commissioner	KERS	
	1,000	1,000		- 5/24/2023	6/23/2023		Fiscal Courts	CERS	
	1,000	1,000		- 6/6/2023	7/6/2023		County Attorneys	KERS	
	1,000	1,000		- 6/7/2023	7/7/2023		County Attorneys	CERS	
	1,000	1,000		- 6/7/2023	7/7/2023		County Attorneys	CERS	
	1,000	1,000		- 6/21/2023	7/21/2023		County Attorneys	CERS	
	1,000	1,000		- 6/22/2023	7/22/2023		Cities	CERS	
	1,000	1,000		- 6/22/2023	7/22/2023		County Attorneys	CERS	
	1,000	1,000		- 6/26/2023	7/26/2023		County Attorneys	KERS	
	1,000	1,000		- 6/27/2023	7/27/2023		Fiscal Courts	CERS	
	1,000	1,000		- 6/30/2023	7/30/2023		County Attorneys	KERS	
	1,000	1,000		- 6/30/2023	7/30/2023		County Attorneys	KERS	
	1,000	1,000		- 6/30/2023	7/30/2023		County Attorneys	KERS	

# Penalty Invoices Report From: 4/1/2023 To: 6/30/2023 Note: Delinquent Interest amounts are included in the totals for the invoice

Note: Delinquent interest amounts are included in the totals for the invoice									
	Invoice Amount	Invoice Remaining Balance	Delinquent Interest	Invoice Status Date	Invoice Due Date	Invoice Status	Employer Classification	Plan	Comments
	1,000	1,000		- 6/30/2023	7/30/2023		County Attorneys	KERS	
	1,000	1,000		- 6/30/2023	7/30/2023	-	County Attorneys	KERS	
	1,000	1,000		- 6/30/2023	7/30/2023		County Attorneys	KERS	
TOTAL:	\$29,045	\$29,045			.,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,				
	1,000	-		- 6/8/2023	8/17/2013	PAID	Housing Authorities	CERS	
	1,000	-		- 6/12/2023	9/8/2022	PAID	Boards of Education	CERS	
	1,000	-		- 4/25/2023	12/18/2022	PAID	Boards of Education	CERS	
	1,000	-		- 6/2/2023	1/6/2023	PAID	County Attorneys	KERS	
	1,000	-		- 6/6/2023	1/12/2023	PAID	Tourist Commissions	CERS	
	1,000	-		- 5/3/2023	1/20/2023	PAID	County Attorneys	KERS	
	2,751	-		- 5/26/2023	2/23/2023	PAID	Boards of Education	CERS	
	1,000	-		4/7/2023	2/23/2023	PAID	Special Districts & Boards	CERS	
	1,000	-		4/4/2023	3/19/2023	PAID	Sanitation Districts	CERS	
	1,000	-		- 5/2/2023	3/19/2023	PAID	Cities	CERS	
	1,000	-		- 4/6/2023	3/22/2023	PAID	Cities	CERS	
	1,000	-		4/4/2023	4/8/2023	PAID	County Attorneys	CERS	
	1,000			- 4/27/2023	4/16/2023	PAID	Non-P1 State Agencies	KERS	
	1,000			- 4/10/2023	4/16/2023	PAID	Fiscal Courts	CERS	
	113,377			- 4/27/2023	4/19/2023	PAID	Urban Government Agencies	CERS	
	1,000			- 5/4/2023	4/19/2023	PAID	Fiscal Courts	CERS	
	2,731			- 5/26/2023	5/4/2023	PAID	Boards of Education	CERS	
	1,000			- 4/21/2023	5/6/2023	PAID	Cities	CERS	
	1,000			- 5/9/2023	5/21/2023	PAID	Cities	CERS	
	1,000			- 5/31/2023	5/27/2023	PAID	Non-P1 State Agencies	KERS	
	74,610	_		- 5/31/2023	5/28/2023	PAID	Urban Government Agencies	CERS	
	1,000	_		- 5/11/2023	6/1/2023	PAID	Cities	CERS	
	1,000	_		- 6/30/2023	6/3/2023	PAID	County Attorneys	KERS	
	1,000	_		- 6/7/2023	6/8/2023	PAID	Housing Authorities	CERS	
1,000		_		- 5/19/2023	6/9/2023	PAID	County Attorneys	KERS	
	1,000			- 5/19/2023	6/10/2023	PAID	County Attorneys	KERS	
	1,000			- 6/6/2023	6/14/2023	PAID	Fiscal Courts	CERS	
	1,000			- 6/6/2023	6/15/2023	PAID	Fiscal Courts	CERS	
	1,000			- 5/30/2023	6/18/2023	PAID	County Attorneys	KERS	
	1,000			5/30/2023	6/18/2023	PAID	County Attorneys	KERS	
	1,000			- 6/5/2023	6/24/2023	PAID	Boards of Education	CERS	
	1,000	-		- 6/27/2023	7/22/2023	PAID	Fiscal Courts	CERS	

## Penalty Invoices Report From: 4/1/2023 To: 6/30/2023

Note: Delinquent Interest amounts are included in the totals for the invoice

	Invoice	Remaining	Delinquent	Invoice	Invoice	Invoice			
	Amount	Balance	Interest	Status Date	Due Date	Status	Employer Classification	Plan	Comments
TOTAL:	\$221,470	\$-	\$-						

Notes:

Invoice Status:

CANC - Cancelled

CRTD - Created

PAID - Paid



### 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: Kentucky Public Pensions Authority

From: Steve Willer, CIO

Office of Investments

Date: September 28, 2023

Subject: Summary of Investment Committee Meetings

The Kentucky Retirement Systems Investment Committee held a regularly scheduled meeting on August 8, 2023 and the County Employees Retirement System Investment Committee held a regularly scheduled meeting on August 30, 2023.

- 1. No recommendations were made that required approval by the Investment Committees.
- 2. No actions were taken that required ratification by the Kentucky Retirement Systems Board of Trustees or the County Employees Retirement Systems Board of Trustees.
- 3. Investment Staff and Wilshire presented material\* and discussed the following items during the Investment Committee meetings.
  - a. Review of Economic Conditions, Market Activity, and updated Asset Class Assumptions
  - b. Absolute and Relative Performance and Asset Allocations for the Pension and Insurance Portfolios For the Fiscal year performance of all portfolios exceeded their Assumed Rates of Return and matched or outperformed their respective benchmark.

Pension Composite 9.54% vs Pension Composite Benchmark 8.88% Insurance Composite 10.15% vs Insurance Composite Benchmark 9.27%

KERS Pension 6.96% SPRS Pension 7.58% Benchmark 7.02%

KERSH Pension 9.46% KERS Insurance 9.87% KERSH Insurance 9.29% SPRS Insurance 9.46% Benchmark 8.70% CERS Pension 10.24%
CERSH Pension 10.33%
CERS Insurance 10.33%
CERSH Insurance 10.11%
Benchmark 9.54%

- c. Compliance No compliance violations as of June 30, 2023
- d. Investment Budget Update For Fiscal 2023, expenditures totaled \$6.2MM, \$2.4mm under budget. The total approved for the FY24 Investment Budget is \$10.3MM, an increase of \$1.7MM which includes an increase of \$3MM for legal expenses related to ongoing litigation.
- e. Implementation of the KRS and CERS Proxy Voting Policies As of 6/30/23 all amendments have been finalized and all eligible proxies are being voted in accordance with the KRS and CERS Proxy Voting Policies.
- f. Asset/Liability and Asset Allocation project Finalizing recommended revisions to the Asset Allocation targets and ranges to be presented to the Investment Committees based on updated Capital Market Assumptions

<sup>\*</sup>All material presented is available in Board Books and was reviewed at the Investment Committee meetings.

KPPA MONTHLY PERFORMANCE UPDATE

KERS/KERS-H/SPRS

#### **Overview**

The narrative focus of the markets shifted from 'transitory' to 'resilient' as risk markets continued to rebound and perform better than expectations despite a multitude of headwinds including the gradual acceptance that inflation might take longer to moderate than hoped resulting in the global central banks having to keep interest rates higher for longer.

The KRS Pension Composite produced a return of 2.48% for the quarter. The KERS and SPRS Pension portfolios returned 2.38% and 2.27% respectively, while their benchmark gained 2.67%. The KERS-H Pension portfolio gained 2.98% versus its benchmark return of 3.64%. The KRS Insurance Composite produced a 3.00% return for the quarter underperforming the blended benchmark which returned 3.64%. The funds underperformed their respective benchmarks during the quarter due to similar drivers of attribution. While the portfolios benefited from their underweight to Real Estate, which was the weakest performing asset class during the period, the relative underperformance in the Public Equity and Private Equity portfolios and the overweights to Cash weighed on performance. The underperformance in the Private Equity portfolios was partially driven by vintage and legacy issues as Plans took a funding hiatus for several years due to liquidity concerns which limited their participation.

For the fiscal year, the KRS Pension Composite gained 7.49%, outperforming the benchmark return of 7.32%, while the KRS Insurance Composite returned 9.67%, outperforming the benchmark return of 8.70%. Fiscal Year outperformance was driven by strong performance in the Public Equities, Core Fixed Income and Real Return portfolios as well as the underweight to Real Estate which were partially offset by underperformance in the Specialty Credit portfolio as well as the Cash overweight in some funds. Outperformance in most Private Equity portfolios provided a boost to performance versus benchmarks.

#### **Public Equity**

Global equity markets continued to advance during the second quarter, gaining 6.18% per the MSCI ACWI. This brought the asset class return to 16.53% for the one-year period. US markets outpaced Non-US markets for the year (18.95% versus 12.47%), driven by their significant outperformance during the quarter ending June 30, 2023. For the quarter, US markets returned 8.39% per the Russell 3000, compared to the 2.38% of international markets.

US market gains during the second quarter were the result of a narrow market driven almost entirely by mega cap tech, growth, and the excitement surrounding artificial intelligence (AI). The fuel behind this

#### KPPA MONTHLY PERFORMANCE UPDATE

KERS/KERS-H/SPRS

market push was four-fold. Liquidity provided in response to the regional banking crisis experienced in the early quarter, mega cap safe haven perception during volatility, P/E multiple expansion in large cap tech names, and an almost euphoric response to AI and its potential. In addition, inflation and the Fed continue to significantly influence the market. Inflation continued to fall during the quarter, allowing the Fed to slow the pace of additional hikes, causing some to conclude that we may have reached the end of the tightening cycle.

Non-US developed markets pushed higher, partly in response to abating concerns surrounding the US banking system. European and UK markets gained as their central banks continued to raise rates in an attempt to curtail inflation in the region. Broadly speaking, as with the domestic market, large-cap stocks outperformed small caps, and growth outpaced value. An interesting phenomenon is occurring where a divergence between hard and soft data continues to manifest. Despite recession fears, the consumer has remained relatively strong and wage growth continues. Manufacturing trends also remain positive as supply chain issues subside and capacity continues to come online.

The KPPA global equity returned 5.57% during the quarter versus its benchmark return of 6.18%. Relative underperformance is primarily the result of allocation. The KPPA global equity portfolio is slightly underweight domestic markets compared to that of the benchmark, which created a relative performance headwind as US markets broadly outperformed their international counterparts.

Within the US equity allocation, the portfolio trailed its index by 61bps (7.78% vs 8.39%). This was the result of a combination of stock selection and allocation decisions. Strong returns concentrated in just seven names at the top of the market drove US index returns and created a hurdle for active management. The "Magnificent 7" returned approximately 64% in the first 6 months of the year versus just 3% for the rest of the S&P 500. This extraordinary performance has now created a scenario were these few companies account for over 15% of the global market cap. As a result, investments down market cap and those with a value orientation had no chance of keeping pace. The strong relative outperformance of the mega cap growth names seems unsustainable.

The international equity allocation performed well from a relative perspective, returning 2.47% versus the benchmark return of 2.38%. Relative outperformance was driven by strong stock selection from the value mandates within the portfolio, both active developed and the emerging market managers.

The KPPA global equity portfolio returned 17.74% versus 16.53% for the fiscal year. This was primarily attributed to stock selection. The US equity portion of the portfolio returned 18.54% versus the Russell 3000 return of 18.95%. Stock selection was particularly strong within the mid-, small, and micro-cap

#### KPPA MONTHLY PERFORMANCE UPDATE

KERS/KERS-H/SPRS

strategies; however, it was not able to overcome the influence of the narrow market and value headwinds. The Non-US portfolio returned 16.43% versus the MSCI ACWI Ex-US return of 12.72%. Strong stock selection drove relative outperformance, with all active mandates, with the exception of one, beating their respective benchmark.

#### **Core Fixed Income**

The Bloomberg U.S. Aggregate Bond Index returned (0.36%) for June resulting in a quarterly loss of (0.84%) and finishing the fiscal year losing (0.94%) as U.S. Treasury yields rose and credit spreads tightened. The yield curve inverted further during June, almost entirely from higher yields at the shorter end of the curve. Rising fed funds expectations, reinforced by data consistently stronger than expected in June, helped move 2-year UST yields to their highest since the first week of March. The 10 year and 20 year Treasuries were steadier through the month, reaching as high as 3.84% and 4.12%, respectively. Bank tensions caused the 2-year UST to rally in March, narrowing the 10s-2s spread, but the inversion has since moved to its widest level of the quarter.

Corporate bonds were the best performing spread sector for the quarter and fiscal year, returning 1.31% and 3.98% in excess returns to Treasuries, respectively. The Securitized sector (CMBS, ABS and MBS) provided 0.76% excess return for the quarter but a loss of (0.41%) for the fiscal year.

The Core Fixed Income portfolio posted a loss of (0.12%) for the quarter but a positive return of 1.27% for the fiscal year, outperforming the benchmark by 0.72% for the quarter and 2.21% for the fiscal year. The relative outperformance is directly attributable to the underweight overall duration as rates rose and allocations to the Corporate and ABS sectors within our mandates.

## Specialty Credit - Private Equity - Real Return - Real Estate

High yield bonds delivered strong returns for the quarter and fiscal year as the benchmark posted returns of 2.45% and 9.94%, respectively. Performance was driven by positive sentiment around the economy, including receding macro risks and resilient labor market data causing spreads to compress on the high yield side. For the loan universe, key performance drivers were a steady rise in rates, lighter retail withdrawals and collateralized loan obligation (CLO) origination.

#### KPPA MONTHLY PERFORMANCE UPDATE

KERS/KERS-H/SPRS

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The Specialty Credit portfolio returned 1.90% for the quarter ending June 30 and 7.16% for the fiscal year underperforming the benchmark by 0.55% and 2.78%, respectively. The relative underperformance was driven by portfolios with underlying real estate exposure as part of the mandate as those sectors lagged as well as the issues associated with timing differences between the private market mandates and the public market benchmarks which tend to be exacerbated during periods of larger moves in the public markets. However, the portfolio has performed well over longer time periods as represented by the 3-Year and 5-Year returns outperforming the benchmark by 2.96% and 1.88%, respectively. The top three managers within the Specialty Credit portfolio for the fiscal year were Capital Springs returning 21.41%, Blue Torch returning 14.13% and Arrowmark returning 13.81%.

The slowdown in M&A and real estate that began in 2022 continued through the first half of 2023. Increasing interest rates have reduced the value of the discounted cash flows that underpin asset values, but this mathematic change has generally not been accepted by sellers in their expectations of asset value.

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Though not as steep as the decline in public markets, valuations in private equity and venture capital fell noticeably during the fiscal year. The aforementioned decline in deal activity has also slowed fundraising. The \$107 billion raised by global private equity firms from April-June 2023 was down 35% compared to prior year and the lowest quarterly total since 2018, according to Preqin. The KPPA portfolio has been primarily impacted by markdowns in its legacy fund-of-funds and venture capital assets. While many of

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KERS/KERS-H/SPRS

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The 3-month T-Bill ended June yielding 5.28%. However, from a total return perspective, the cash benchmark returned 0.43% for the month, 1.25% for the quarter and ended the fiscal year returning 3.75%. The pause from the Federal Reserve allowed the cash portfolio to catch-up to market rates

#### KPPA MONTHLY PERFORMANCE UPDATE

KERS/KERS-H/SPRS

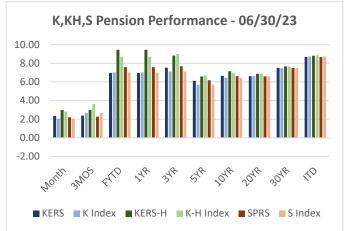
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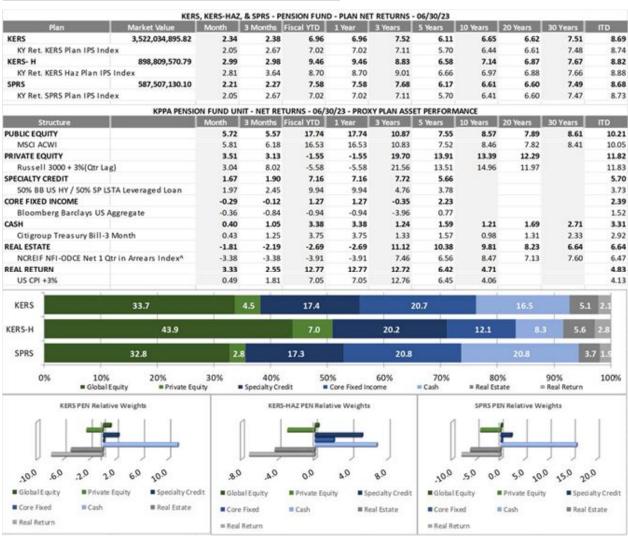
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#### KPPA MONTHLY PERFORMANCE UPDATE

KERS/KERS-H/SPRS







KERS/KERS-H/SPRS

KPPA MONTHLY PERFORMANCE UPDATE

June 2023

KERS INS, KERS-HAZ INS, SPRS INS - INSURANCE FUND - PLAN NET RETURNS - 06/30/23 h 3 Months Fiscal YTD 1 Year 3 Years 5 Years 10 Years 20 Years 30 Years KERS INS 1,452,258,101.74 2.99 3.07 9.87 9.87 8.88 6.46 6.85 6.51 6.71 7.26 KY Ins. KERS Plan IPS Index 2.81 3.64 8.70 8.70 8.75 6.49 6.97 6.95 7.06 7.58 KERS - H INS 615,978,995.36 2.89 2.85 9.29 9.29 9.25 6.65 7.17 6.68 6.82 7.35 8.70 8.70 8.87 KY Ins. KERS Haz Plan IPS Index 2.81 3.64 6.43 6.96 6.95 7.06 7.58 SPRS INS 245,833,526.36 3.00 2.96 9.46 9.46 9.43 6.88 7.35 6.76 6.88 7.40 KY Ins. SPRS Plan IPS Index 2.81 3.64 8.70 8.70 8.87 6.43 6.98 6.96 7.07 7.58 KPPA INSURANCE FUND UNIT - NET RETURNS - 06/30/23 - PROXY PLAN ASSET PERFORMANCE Struct ths Fiscal YTD 1 Year ars 5 Y ars 30 Years PUBLIC EQUITY 5.71 5.52 17.60 17.60 10.88 7.53 8.62 7.80 8.57 MSCI ACWI 5.81 6.18 16.53 16.53 10.81 7.49 8.47 7.55 8.37 PRIVATE EQUITY 2.60 2.53 1.99 1.99 21.29 13.25 14.42 11.79 10.96 Russell 3000 + 3%(Qtr Lag) 3.04 8.02 -5.58 -5.58 21.56 13.51 14.96 11.74 11.39 1.68 SPECIALTY CREDIT 2.01 7.37 7.37 7.78 5.61 5.57 50% BB US HY / 50% SP LSTA Leveraged Loan 1.97 3.73 2.45 9.94 9.94 4.76 3.78 CORE FIXED INCOME -0.31-0.151.14 1.14 -0.482.06 2.11 Bloomberg Barclays US Aggregate -0.36 -0.84 -0.94 -0.94 -3.96 0.77 1.52 CASH 0.40 1.04 3.36 3.36 1.22 1.48 1.03 1.53 2.45 0.43 1.25 3.75 3.75 1.33 1.57 0.98 2.35 Citigroup Treasury Bill-3 Month 1.31 REAL ESTATE -2.02 -2.38 -3.06 -3.06 10.84 10.29 9.76 9.60 NCREIF NFI-ODCE Net 1 Qtr in Arrears Index<sup>a</sup> -3.38 -3.38 -3.91 -3.91 7.46 8.47 6.18 6.56 REAL RETURN 3.56 2.86 11.12 11.12 11.64 6.28 4.54 4.60 US CPI +3% 0.49 1.81 7.05 7.05 11.94 6.45 4.11 4.18 KERS INS 44.5 20.3 12.1 4.2 2.2 KERS-H INS 44.2 21.3 12.1 SPRS INS 44.7 21.2 11.6 0% 70% 80% 90% 100% ■ Global Equity ■ Private Equity ■ Specialty Credit Core Fixed Income **■** Cash **■ Real Estate** Real Return SPRS Insurance Relative Weights KERS Insurance Relative Weights KERS-HAZ Insurance Relative Weights 08. 120 0,4 0,8 0.4. 08. 40 0.8 08 0,0 0,8 0.4 04 00 00 00 Private Equity ■ Global Equity ■ Global Equity Global Equity ■ Specialty Credit Private Equity ■ Specialty Credit ■ Private Equity ■ Specialty Credit Core Fixed m Real Estate Core Fixed Cash. ■ Real Estate Core Fixed Cash ■ Real Estate III Real Return III Real Return ■ Real Return

KPPA MONTHLY PERFORMANCE UPDATE

CERS/CERS-H

#### **Overview**

The narrative focus of the markets shifted from 'transitory' to 'resilient' as risk markets continued to rebound and perform better than expectations despite a multitude of headwinds including the gradual acceptance that inflation might take longer to moderate than hoped resulting in the global central banks having to keep interest rates higher for longer.

The CERS and CERS-H Pension portfolios produced returns of 3.30% and 3.31% respectively during the quarter while the CERS Insurance portfolio returned 3.24% and the CERS-H Insurance portfolio produced a return of 3.25% compared to their benchmark performance of 4.06%. Underperformance in the Public Equity and Private Equity portfolios were the primary drivers of relative performance during the quarter as the benefit from the underweight to Real Return was offset by the proxy overweight to Specialty Credit. The relative underperformance in the Private Equity portfolios was partially driven by vintage and legacy issues as well as the issues associated with timing differences between the private market mandates and the public market benchmarks which tend to be exacerbated during periods of larger moves in the public markets.

For the fiscal year, the CERS Pension Composite gained 10.27%, outperforming the benchmark return of 9.54%, while the CERS Insurance Composite returned 10.26%, outperforming the benchmark return by 72bps. Fiscal Year outperformance was driven by strong performance in the Public Equities, Core Fixed Income, Private Equity and Real Return portfolios which was partially offset by underperformance in the Specialty Credit portfolio.

#### **Public Equity**

Global equity markets continued to advance during the second quarter, gaining 6.18% per the MSCI ACWI. This brought the asset class return to 16.53% for the one-year period. US markets outpaced Non-US markets for the year (18.95% versus 12.47%), driven by their significant outperformance during the quarter ending June 30, 2023. For the quarter, US markets returned 8.39% per the Russell 3000, compared to the 2.38% of international markets.

US market gains during the second quarter were the result of a narrow market driven almost entirely by mega cap tech, growth, and the excitement surrounding artificial intelligence (AI). The fuel behind this

## KPPA MONTHLY PERFORMANCE UPDATE

CERS/CERS-H

market push was four-fold. Liquidity provided in response to the regional banking crisis experienced in the early quarter, mega cap safe haven perception during volatility, P/E multiple expansion in large cap tech names, and an almost euphoric response to AI and its potential. In addition, inflation and the Fed continue to significantly influence the market. Inflation continued to fall during the quarter, allowing the Fed to slow the pace of additional hikes, causing some to conclude that we may have reached the end of the tightening cycle.

Non-US developed markets pushed higher, partly in response to abating concerns surrounding the US banking system. European and UK markets gained as their central banks continued to raise rates in an attempt to curtail inflation in the region. Broadly speaking, as with the domestic market, large-cap stocks outperformed small caps, and growth outpaced value. An interesting phenomenon is occurring where a divergence between hard and soft data continues to manifest. Despite recession fears, the consumer has remained relatively strong and wage growth continues. Manufacturing trends also remain positive as supply chain issues subside and capacity continues to come online.

The KPPA global equity returned 5.57% during the quarter versus its benchmark return of 6.18%. Relative underperformance is primarily the result of allocation. The KPPA global equity portfolio is slightly underweight domestic markets compared to that of the benchmark, which created a relative performance headwind as US markets broadly outperformed their international counterparts.

Within the US equity allocation, the portfolio trailed its index by 61bps (7.78% vs 8.39%). This was the result of a combination of stock selection and allocation decisions. Strong returns concentrated in just seven names at the top of the market drove US index returns and created a hurdle for active management. The "Magnificent 7" returned approximately 64% in the first 6 months of the year versus just 3% for the rest of the S&P 500. This extraordinary performance has now created a scenario were these few companies account for over 15% of the global market cap. As a result, investments down market cap and those with a value orientation had no chance of keeping pace. The strong relative outperformance of the mega cap growth names seems unsustainable.

The international equity allocation performed well from a relative perspective, returning 2.47% versus the benchmark return of 2.38%. Relative outperformance was driven by strong stock selection from the value mandates within the portfolio, both active developed and the emerging market managers.

The KPPA global equity portfolio returned 17.74% versus 16.53% for the fiscal year. This was primarily attributed to stock selection. The US equity portion of the portfolio returned 18.54% versus the Russell 3000 return of 18.95%. Stock selection was particularly strong within the mid-, small, and micro-cap

#### KPPA MONTHLY PERFORMANCE UPDATE

CERS/CERS-H

strategies; however, it was not able to overcome the influence of the narrow market and value headwinds. The Non-US portfolio returned 16.43% versus the MSCI ACWI Ex-US return of 12.72%. Strong stock selection drove relative outperformance, with all active mandates, with the exception of one, beating their respective benchmark.

#### **Core Fixed Income**

The Bloomberg U.S. Aggregate Bond Index returned (0.36%) for June resulting in a quarterly loss of (0.84%) and finishing the fiscal year losing (0.94%) as U.S. Treasury yields rose and credit spreads tightened. The yield curve inverted further during June, almost entirely from higher yields at the shorter end of the curve. Rising fed funds expectations, reinforced by data consistently stronger than expected in June, helped move 2-year UST yields to their highest since the first week of March. The 10 year and 20 year Treasuries were steadier through the month, reaching as high as 3.84% and 4.12%, respectively. Bank tensions caused the 2-year UST to rally in March, narrowing the 10s-2s spread, but the inversion has since moved to its widest level of the quarter.

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High yield bonds delivered strong returns for the quarter and fiscal year as the benchmark posted returns of 2.45% and 9.94%, respectively. Performance was driven by positive sentiment around the economy, including receding macro risks and resilient labor market data causing spreads to compress on the high yield side. For the loan universe, key performance drivers were a steady rise in rates, lighter retail withdrawals and collateralized loan obligation (CLO) origination.

## KPPA MONTHLY PERFORMANCE UPDATE

CERS/CERS-H

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**CERS/CERS-H** 

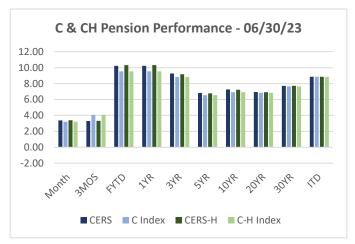
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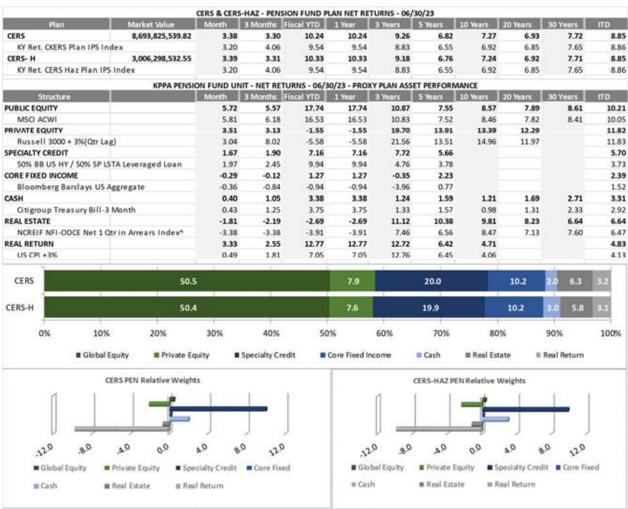
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CERS/CERS-H

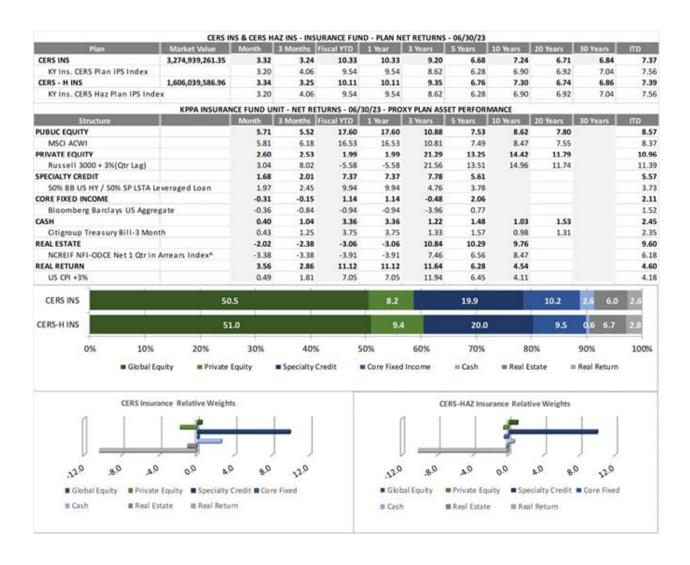






#### KPPA MONTHLY PERFORMANCE UPDATE

CERS/CERS-H



## **MEMORANDUM**

TO: Board of the Kentucky Public Pensions Authority ("Board")

FROM: Carrie Bass, Staff Attorney Supervisor, Non-Advocacy Division, Office of Legal

Services

Jessica Beaubien, Policy Specialist, Non-Advocacy Division, Office of Legal Services

DATE: September 15, 2023

RE: Board approval and authorization of KPPA staff to file an amended administrative

regulation, 105 KAR 1:215, Administrative Hearing, with the Office of the Regulations

Compiler at the Legislative Research Commission ("Regulations Compiler")

## Purpose of amended administrative regulation:

Kentucky Revised Statutes 61.505(1)(g) authorizes the Board to promulgate and amend administrative regulations "on behalf of the Kentucky Retirement Systems and the County Employees Retirement System, individually or collectively" as long as the regulations are consistent with the provisions of Kentucky Revised Statutes 16.505 to 16.652, 61.510 to 61.705, 78.510 to 78.852, and 61.505. 105 KAR 1:215, Administrative Hearing, is consistent with these provisions of the Kentucky Revised Statutes.

105 KAR 1:215 provides the administrative appeals procedures for an affected person aggrieved by a decision of the agency or an employer required to pay additional actuarial costs pursuant to KRS 61.598 and 78.545. Please be aware that definitions for commonly used language found in this administrative regulation can be found in 105 KAR 1:001, Definitions for 105 KAR Chapter 1.

The proposed amendment to 105 KAR 1:215 includes the following changes consistent with the KPPA's current practices in conducting administrative hearings:

- 1. Incorporates administrative appeals procedures for employers required to pay additional actuarial costs and for an affected person whose disability retirement benefits have been denied, reduced, discontinued, or denied reinstatement.
- 2. Provides for the use of the agency portal for the administrative hearing process and the administrative record.
- 3. Provides details related to:
  - a. Notification of the right to request a hearing;
  - b. Filing a request for a hearing;
  - c. Prehearing and Status Conferences;
  - d. Agreed Orders and Motions to Dismiss;
  - e. The administrative hearing;
  - f. Closing of the evidence, Position Statements, Recommended Orders, and Exceptions;
  - g. Board findings; and
  - h. Requesting copies of the administrative record.

1

105 KAR 1:215 was presented to the Ad Hoc Regulations Committee for the Board on August 15, 2023. The Committee approved sending to the full Board for approval.

## **Staff Recommendation:**

The Office of Legal Services requests that the Committee review the attached materials and authorize filing 105 KAR 1:215, Administrative Hearing, with the Regulations Compiler.

## **List of attached materials:**

- 1. 105 KAR 1:215, Administrative Hearing
- 2. Form 2940, Agency Portal Exemption.

FINANCE AND ADMINISTRATION CABINET

Kentucky Public Pensions Authority

(Amendment)

105 KAR 1:215. Administrative hearing.

RELATES TO: KRS <u>13B.010-13B170</u>, 16.505-16.652, 61.510-61.705, 78.510-78.852

STATUTORY AUTHORITY: KRS 61.505(1)(g) [KRS 61.645(9)(e)]

NECESSITY, FUNCTION, AND CONFORMITY: KRS 61.505(1)(g) authorizes the Kentucky Public Pensions Authority to promulgate all administrative regulations on behalf of the Kentucky Retirement Systems and the County Employees Retirement System that are consistent with KRS 16.510 to 16.652, 61.510 to 61.705, and 78.510 to 78.852. [KRS 61.645(9)(e) authorizes the Board of Trustees of Kentucky Retirement Systems to promulgate all administrative regulations necessary or proper in order to carry out the provisions of KRS 61.515 to 61.705, 16.510 to 16.652, and 78.520 to 78.852.] KRS 61.645(16) and 78.782(16) provide[s] that an affected person aggrieved by a decision of the agency [system], which is not a determination relating to disability retirement benefits, or an employer that is required to pay additional actuarial costs pursuant to KRS 61.598 and 78.545, may have the right to request an administrative hearing prior to the filing of an appeal in court. KRS 61.615(3), 61.665(3), 78.545 and 78.5528(3) provide that an affected person whose disability retirement benefits have been denied, reduced, discontinued, or denied for reinstatement may have the right to request an administrative hearing prior to filing of an appeal in court. This administrative regulation establishes the administrative appeal procedures.

Section 1. Definitions.

(1) "Administrative hearing" or "hearing" is defined by KRS 13B.010(2).

- (2) "Administrative record" means the official record of hearing as defined by KRS 13B.130.
- (3) "Affected person" means a member, retired member, beneficiary, or recipient [as defined in KRS 16.505, 61.510 and 78.510].
- (4) "Agency portal" means an online portal which stores and tracks relevant information related to an administrative hearing held in accordance with KRS Chapter 13B, including:
  - (a) The evidentiary record;
  - (b) Notices of scheduled pretrial conferences, status conferences, or hearings; and
  - (c) Reports, findings, Briefs, Position Statements, Reply Position Statements, Exceptions, and Orders.
- (5) "Authorized agency staff" means employees of the agency who are approved parties to access the agency portal.
- (6) "Briefing Order" means an order issued by the hearing officer that provides deadlines for the parties to file any of the following:
  - (a) Position Statements and Reply Position Statements; or
  - (b) Briefs containing procedural, factual, or legal arguments.
- (7) "Claimant" means an affected person who has filed an appeal due to a substantial impairment or an employer that is required to pay additional actuarial costs pursuant to KRS 61.598 and 78.545, and whose matter is still pending at the administrative or appellate court levels.
- (8) "Entry of appearance" means a written statement filed at the retirement office attesting that a claimant is represented by an attorney in an administrative hearing process held in accordance with KRS Chapter 13B.

- (9) "Evidentiary record" means all evidence, including video recordings of the administrative hearing, received and considered by the agency pertaining to a specific claimant's administrative hearing held in accordance with KRS Chapter 13B.
  - (10) "Final Order" is defined by KRS 13B.010(6).
  - (11) "Hearing officer" is defined by KRS 13B.010(7).
  - (12) "Party" is defined by KRS 13B.010(3).
- (13) "Position statement" means a written statement each party may file to explain his or her arguments of fact and law based upon the evidentiary record and applicable statutory and case law.
  - (14) "Recommended Order" is defined by KRS 13B.010(5).
- (15) "Reply Position Statement" means a written statement each party may file to explain his or her rebuttal arguments of fact and law that address the factual and legal arguments in the opposing party's position statement.
  - (16) "Substantially impair" means:
  - (a)1. The denial, discontinuance, or reduction of an affected person's benefits;
- 2. The final determination by the agency that an affected person must repay overpaid benefits; or
- 3. The final determination by the agency that the affected person is not exempt from the reduction of creditable compensation in accordance with KRS 61.598 and 78.545; and
- (b) Does not include calculation methodology found in KRS 16.505-16.652, KRS 61.510-61.705, KRS 78.510-78.852, and KAR Title 105.

Section 2. Agency portal.

(1) The agency shall provide a unique method for approved parties to access the administrative record, including hearing recordings, memorandums, and any other relevant

documentation related to administrative hearings held in accordance with KRS Chapter 13B for the matter in which they are directly involved, in the agency portal. Access shall be granted to the following:

- (a) Members of the Administrative Appeals Committee (AAC) or Disability Appeals

  Committee (DAC) as applicable;
  - (b) The claimant or the claimant's attorney;
  - (c) The hearing officer assigned to the matter; and
  - (d) Authorized agency staff.
- (2) If a request for an administrative hearing in accordance with Section 5 of this administrative regulation is received by the agency, the agency shall notify the claimant or the claimant's attorney, as indicated on the request or entry of appearance, of the use of the agency portal for administrative hearings. The notice shall include details concerning:
- (a) The use of the affected person's personal email, or his or her attorney's email, and how to provide or update that email for access to the agency portal; and
- (b) How to request an exemption from use of the agency portal in accordance with Section 3 of this administrative regulation.
- (3)(a) The claimant or the claimant's attorney, the applicable hearing officer, and authorized agency staff shall receive notification when the following becomes available on the agency portal, as applicable:
  - 1. The evidentiary record;
  - 2. Additional documents when they are received and uploaded;
  - 3. Details of scheduled pretrial conferences, status conferences, or hearings;
  - 4. Any additional information related to the administrative record as it becomes available;

- 5. Reports, findings, Briefs, Position Statements, Reply Position Statements, Exceptions and Orders; and
- 6. Video recordings of the administrative hearing.
- (b)1. The agency shall provide notification to the claimant, or the claimant's attorney, detailing how to file and view documentation for inclusion in the evidentiary record and any other relevant documentation related to administrative hearings held in accordance with KRS Chapter 13B, such as motions, briefs, and exceptions.
- 2. Documentation shall be filed through mail, electronic mail, in-person delivery, or fax as provided in the notice, and shall be considered in compliance with KRS 13B.080(2).
- (4) AAC or DAC members shall receive notification when the evidentiary record is ready for review in the agency portal.
  - Section 3. Agency portal use exemption.
- (1)(a) A claimant may be exempt from use of the agency portal only if he or she files a completed request in accordance with subsection (2) of this section and meets one of the following criteria:
  - 1. The claimant does not have internet access;
- 2. The claimant does not have access to a computer, smart phone, or tablet capable of allowing him or her to adequately use the agency portal; or
- 3. The claimant has an impairment or disability that limits his or her ability to use electronic communications.
- (b) There is no agency portal use exemption available for hearing officers, DAC or AAC members, authorized agency staff, or attorneys.
- (2)(a) To request an agency portal use exemption, the claimant shall complete and file a valid Form 2940, Agency Portal Exemption.

(b) Once a valid Form 2940 is on file with the agency, the affected person shall only be granted access to the agency portal if he or she completes and files a new valid Form 2940 electing to withdraw the previously filed exemption request and provides a valid email address.

(c) The last valid Form 2940 on file with the agency shall control whether the affected person has access to the agency portal.

Section <u>4</u> [2]. <u>Notification of the right to request an administrative hearing.</u>

(1)(a) If the <u>agency issues a final determination</u> [system takes action] which substantially impairs an affected person's benefits or rights under KRS 16.505 to 16.652, 61.510 to 61.705 or 78.510 to 78.852, except <u>as provided in subsection (2) of this section [except action which relates to entitlement to disability benefits], the <u>agency [system]</u> shall notify the affected person of the opportunity to request <u>an administrative hearing by the end of day thirty (30) calendar days from the date of the notice [a hearing by submitting the request in writing within thirty (30) days after the date of the notice of the opportunity to request a hearing. The request for hearing shall be filled with the executive director of the system at its office in Frankfort. The request for hearing shall contain a short and plain statement of the basis for request.]. The notification shall be contained in the notice of the final determination.</u></u>

(b) If the agency issues a final determination that an employer is required to pay additional actuarial costs pursuant to KRS 61.598 and 78.545, the agency shall notify the affected employer of the opportunity to request an administrative hearing by the end of day thirty (30) calendar days from the date of the notice. The notification shall be contained in the notice of the final determination.

(2)(a) If the agency issues a final determination which denies an affected person disability retirement benefits, the agency shall notify the affected person of the opportunity to request an

administrative hearing by the end of day one hundred eighty (180) calendar days from the date of the notice as prescribed by KRS 61.665(2) and 78.545.

- (b) If the agency issues a final determination which reduces or discontinues an affected person's disability retirement benefits, or which denies reinstatement of the affected person's disability retirement benefit, the agency shall notify the affected person of the opportunity to request an administrative hearing by the end of day sixty (60) calendar days from the date of the notice as prescribed by KRS 61.615(3) and 78.5528(3).
  - (c) The notification shall be contained in the notice of the final determination.
  - Section <u>5</u> [<del>3</del>]. Request for an administrative hearing.
- (1) All requests for an administrative hearing shall be in writing and shall include a short and plain statement of the basis for the request. The request shall be filed as provided in the notice of the right to appeal and within the timeframes prescribed in Section 4 of this administrative regulation.
- (2) Failure of the affected person to request a formal hearing within the <u>prescribed</u> timeframes [period of time specified] shall preclude the affected person from requesting an <u>administrative</u> [a] hearing at a later time.
- (3) An Entry of Appearance may be filed with the request for an administrative hearing or at any time during the administrative hearing process.

Section <u>6</u> [4]. <u>Prehearing conference.</u>

(1) The prehearing conference shall be held telephonically. The agency shall provide notice to the affected person or his or her attorney of the date, time, and instructions for providing a phone number. [The system may, either through review of its records or conference with the affected person, recommend a favorable determination prior to scheduling a hearing. Upon

notification of a favorable determination, the affected person may withdraw the hearing request or request that the hearing be scheduled.]

- (2) The prehearing conference shall be initiated by agency staff and shall be presided over by the hearing officer in accordance with KRS 13B.070. During the prehearing conference, the parties shall prepare stipulations, clarify the issues to be decided, request issuance of subpoenas and orders, and address other matters that will promote the orderly and prompt conduct of the hearing. [The hearing officer may request a prehearing conference or may consider new evidence not already part of the affected person's file. The prehearing conference is an informal procedure, presided over by the hearing officer. Every effort shall be made by all parties to dispose of controversies, to narrow and define issues, and to facilitate prompt settlement of the claim.]
- (3) If at the conclusion of the prehearing conference <u>either party needs time to submit</u> <u>additional documentation</u>, the hearing officer shall schedule a status conference for follow up [the parties have not reached an agreement on all the issues, the hearing officer shall schedule a hearing to be held within a reasonable time].
- (4) If at the conclusion of the prehearing conference all documentation is submitted and all parties agree to proceed, an administrative hearing shall be scheduled. [If the parties agree upon a settlement after the prehearing conference but before the hearing, the settlement agreement shall be filed with the hearing officer. The hearing shall be cancelled and notice of the cancellation shall be served on all parties.]

#### Section 7. Status conference.

(1) If held, a status conference shall be held telephonically. The agency shall provide notice to the affected person or his or her attorney of the date, time, and instructions for providing a phone number for the status conference.

- (2) A status conferences may be held to discuss any outstanding issues or documentation from the prehearing conference or a previous status conference.
- (3) Additional status conferences may be held until pending issues are resolved and the parties agree to proceed with the administrative hearing.
- (4) A post administrative hearing status conference may be held to follow up on cases put on hold for further records in accordance with Section 10(5) of this administrative regulation.

Section 8. Agreed Orders and Motions to Dismiss.

- (1) If at any time both parties agree to a settlement on the issue of the pending administrative appeal, a settlement agreement may occur through either an Agreed Order or a Motion to Dismiss filed with the hearing officer.
- (2) Pursuant to KRS 13B.080(6), a Motion to Dismiss may be filed with the hearing officer if:
- (a) The claimant or agency fails to appear at more than one (1) pre-hearing or status conference, and if the agency fails to reschedule or the claimant fails to contact the agency to reschedule, within fourteen (14) calendar days of the second missed conference;
- (b) The claimant or agency fails to participate in any stage of the hearing process, or fails to comply with an order of the hearing officer; or
  - (c) The claimant decides to discontinue his or her appeal for any reason.
- (3) The hearing officer may complete a Recommended Order of Dismissal in accordance with Section 13 of this administrative regulation based on the settlement agreement or Motion to Dismiss filed with him or her in accordance with subsection (1) and (2) of this section.

Section 9. Notice of administrative hearing. The agency shall notify the affected person of the date, time, and location of the administrative hearing in accordance with KRS 13B.050(2).

The notice shall provide the details about the hearing required by KRS 13B.050(3).

Section 10. Administrative hearing.

- (1) Administrative hearings shall be held at the retirement office in Frankfort or by secure video teleconference.
- (2) Administrative hearings shall be conducted in accordance with KRS 13B.010-13B.170. Evidence, testimony, motions, and objections may be introduced during the administrative hearing, and shall be accurately and completely recorded by the agency. The hearing officer may issue subpoenas in accordance with KRS 13B.080(3).
- (3) The hearing officer presiding over an administrative hearing shall not be bound by factual or legal findings of other state or federal agencies.
- (4) Decisions in administrative hearings shall be based on a preponderance of evidence in the record as it relates to the substantial impairment. The party's burden of proof shall be assigned as established in KRS 13B.090(7).
- (a) For determinations pursuant to KRS 61.598(2), the agency shall bear the burden of proof to show the propriety of the agency's final determination that the member's creditable compensation should be reduced and that no exception as set forth in KRS 61.598(4) applies.
- (b) For determinations pursuant to KRS 61.598(5), the employer shall bear the burden of proof to show that the increase in the employee's creditable compensation was the result of a bona fide promotion or career advancement.
- (5)(a) The hearing officer may place the case on hold to allow either party additional time to submit further evidence discussed at the hearing. If this occurs, a deadline to file the additional evidence shall be provided by the hearing officer.
- (b) The hearing officer may schedule a status conference to follow up on cases held for further evidence.

Section 11. Close of evidentiary record.

- (1) The hearing officer shall close the evidentiary record once all evidence has been filed.
- (2) After the evidentiary record has been closed, the hearing officer or DAC/AAC may order the evidentiary record reopened for the submission of additional evidence.

Section 12. Briefing Order.

- (1)(a) After the close of the evidentiary record, each party shall have the opportunity to simultaneously file Position Statements. The parties shall further have the opportunity to simultaneously file a Reply Position Statement to the other party's Position Statement.
- (b) The hearing officer shall issue a Briefing Order that details deadlines for filing each of the following:
  - 1. Position Statements;
  - 2. Reply Position Statements; and
- 3. The Recommended Order, the due date for which shall not exceed sixty (60) calendar days from the deadline for the Reply Position Statements.
- (2) The hearing officer shall take the Position Statements and Reply Position Statements provided in accordance with subsection (1) of this section into consideration when completing the Recommended Order in accordance with Section 13 of this administrative regulation.

Section <u>13 [5]</u>. <u>Recommended Order.</u>

- (1)(a) The hearing officer shall submit a Recommended Order to the board that contains a recitation of the evidence, the appropriate findings of fact, and conclusions of law.
- (b) The hearing officer's findings of fact and conclusions of law shall be based upon the evidentiary record as a whole.
- (c) The hearing officer's findings of fact shall include a finding concerning the credibility of each witness whose testimony is included in the evidentiary record. [The hearing officer shall make a report and a recommended order to the board. The report and recommended order shall

contain the appropriate findings of fact and conclusions of law. The hearing officer shall mail postage prepaid, a copy of his report and recommended order to all parties. The parties may file exceptions to the report and recommended order. There shall be no other or further submissions.]

- (2)(a) The agency's Executive Director of the Office of Benefits shall approve or deny hearing officer requests for an extension time to file his or her Recommended Order.
- (b) If any extension of time is granted for a hearing officer to complete his or her Recommended Order, the agency shall notify the claimant or his or her legal representative when the extension is granted. Each extension shall not exceed thirty (30) calendar days. The hearing officer may request multiple extensions in the same administrative case.
- (3) A copy of the hearing officer's Recommended Order shall be mailed by first-class U.S. mail or, if permitted by law, electronically mailed through the agency portal to all parties.
- (4) Each party may file written exceptions to the Recommended Order detailing any issue the party has with the Recommended Order no later than the end of day fifteen (15) calendar days from the date the Recommended Order was mailed by first class U.S. mail or, if permitted by law, electronically mailed through the agency portal.

Section 14 [6]. Board findings.

- (1) The DAC and AAC shall have the authority to act upon the Recommended Order on behalf of the board pursuant to this section and in accordance with KRS 13B.120, 61.615, 61.645, 61.665, 78.545, 78.5528, and 78.782. [The board shall consider an act on the recommended order in accordance with KRS 13B.120.]
- (2)(a) The DAC or AAC shall have ninety (90) calendar days from the date of the Recommended Order to provide a Final Order of the board.

- (b) A Final Order of the board shall be based on substantial evidence appearing in the record as a whole and shall set forth the decision of the board and the facts and law upon which the decision is based.
- (c) The DAC or AAC shall act in accordance with KRS 13B.120 regarding the Recommended Order.
  - Section <u>15</u> [7]. <u>Notification of findings.</u>
  - (1) All parties shall be provided with the Final Order of the board.
- (2)(a) The Final Order of the board shall be provided to the claimant or his or her legal representative by certified mail in accordance with KRS 13B.120. The agency shall immediately enter the fact of mailing in the record.
- (b) Service by certified mail is complete upon delivery of the envelope. The return receipt shall be proof of the time, place, and manner of service. The agency shall document and file the return receipt when it is received.
- (c) If the envelope is returned with an endorsement showing failure of delivery, that fact shall be documented in the record, and the returned envelope shall be filed in the record. The agency shall make at least one (1) additional attempt to provide the Final Order of the board to the affected person or his or her legal representative by certified mail documenting and filing the outcome in accordance with this subsection. [The system shall mail the final decision of the board to the affected person or his legal representative. If any extension of time is granted by the board for a hearing officer to complete his report, the system shall notify the affected person or his legal representative when the extension is granted.

Section 8. A final order of the board shall be based on substantial evidence appearing in the record as a whole and shall set forth the decision of the board and the facts and law upon which the decision is based.

Section 9. Formal hearings shall be held at the system's office in Frankfort unless another location is determined by the hearing officer.

Section 10. All requests for a hearing pursuant to this section shall be made in writing.

Section 11. The board may establish an appeals committee whose members shall be appointed by the chairman and who shall have the authority to act upon the recommendations and reports of the hearing officer pursuant to this section on behalf of the board.

Section 16. Supplemental copies of an administrative record.

- (1) A claimant, or his or her attorney, may request a supplemental paper copy of all or part of the administrative record at a rate of ten (10) cents per page, cost of postage, and staff time to process the request consistent with KRS 61.874, if the claimant, or his or her attorney:
  - (a) Originally received a paper copy of the administrative record;
- (b) Met an exemption to receive a paper copy of the administrative record under Section 3 of this administrative regulation; or
  - (c) No longer has access to the agency portal.
- (2) The claimant, or his or her attorney, may request a supplemental copy of all or part of the administrative record on an approved data storage device. Supplemental copies shall be provided at the following rates, if the claimant, or his or her attorney met one of the requirements identified in subsection (1)(a)-(c) of this section:
  - (a) Ten (10) dollars for each approved data storage device;
  - (b) Cost of postage; and
  - (c) Staff time to process the request consistent with KRS 61.874.
- (3)(a) The supplemental copy of the administrative record shall not be mailed or otherwise provided to the claimant, or his or her attorney, until the applicable fees described in subsection (1) or (2) of this section are paid in full.

- (b) The agency shall provide the amount of the cost for the applicable supplemental copy in accordance with subsection (1) or (2) of this section to the claimant, or his or her attorney.
- (c) Payment for the supplemental copy shall be made by check or money order for the full amount owed and made payable to the Kentucky State Treasurer. The payment shall be mailed or delivered in-person to the retirement office.

Section <u>17</u> [42]. <u>Judicial review.</u> Any affected person aggrieved by a <u>Final Order</u> [final order] of the board may seek judicial review after all administrative appeals have been exhausted by filing suit in the Franklin Circuit Court within the time period prescribed in KRS 13B.140.

Section 13. Any proposed order or order shall be served by one (1) of the following methods:

- (1) The system may place a copy of the document to be served in an envelope, and address the envelope to the affected person to be served at the address of the affected person existing in the system files or at the address set forth in written instructions furnished by the affected person or his legal representative. The system shall affix adequate postage and place the sealed envelope in the United States mail as certified mail return receipt requested. The system shall immediately enter the fact of mailing in the record and make entry when the return receipt is received. If the envelope is returned with an endorsement showing failure of delivery, that fact shall be entered in the record. The system shall file the return receipt or returned envelope in the record. Service by certified mail is complete upon delivery of the envelope. The return receipt shall be proof of the time, place, and manner of service.
- (2) The system may cause the document, with necessary copies, to be transferred for service to any person authorized by the board or by any statute or rule to deliver them, who shall serve the documents, and the endorsed return shall be proof of the time and manner of service.

- (3) The methods of service specified in this section shall be supplemental to and shall be accepted as an alternative to any other method of service specified by other applicable law.]

  Section 18. Incorporation by reference.
- (1) Form 2940, Agency Portal Exemption, updated June 2023, is incorporated by reference.
- (2) This material may be inspected, copied, or obtained, subject to applicable copyright law, at the Kentucky Public Pensions Authority, 1260 Louisville Road, Frankfort, Kentucky 40601, Monday through Friday, 8 a.m. to 4:30 p.m. This material is also available on the agency website at kyret.ky.gov.

(18 Ky.R. 934; 1326; eff. 11-8-1991; 19 Ky.R. 969; eff. 12-9-1992; 21 Ky.R. 1527; eff. 2-8-1995; 22 Ky.R. 777; eff. 12-7-1995; 29 Ky.R. 770; 1252; eff. 11-12-2002; TAm eff. 3-5-2019; Crt eff. 3-5-2019.)

APPROVED:	
DAVID L. EAGER,	<u></u>
EXECUTIVE DIRECTOR KENTUCKY PUBLIC PENSIONS AUTHORITY	5/112

PUBLIC HEARING AND PUBLIC COMMENT PERIOD: A public hearing to allow for public comment on this administrative regulation shall be held on December 21, 2023, at 10:00 a.m. Eastern Time at the Kentucky Public Pensions Authority (KPPA), 1270 Louisville Road, Frankfort, Kentucky 40601. Individuals interested in presenting a public comment at this hearing shall notify this agency in writing no later than five workdays prior to the hearing of their intent to attend. If no notification of intent to attend the hearing was received by that date, the hearing may be cancelled. A transcript of the public hearing will not be made unless a written request for a transcript is made.

If you do not wish to be heard at the public hearing, you may submit written comments on the proposed administrative regulation. Written comments shall be accepted until December 31, 2023. Send written notification of intent to be heard at the public hearing or written comments on the proposed administrative regulation to the contact person.

KPPA shall file a response with the Regulations Compiler to any public comments received, whether at the public comment hearing or in writing, via a Statement of Consideration no later than the 15<sup>th</sup> day of the month following the end of the public comment period, or upon filing a written request for extension, no later than the 15<sup>th</sup> day of the second month following the end of the public comment period.

CONTACT PERSON: Jessica Beaubien, Policy Specialist, Kentucky Public Pensions Authority, 1260 Louisville Road, Frankfort, KY 40601, email Legal.Non-Advocacy@kyret.ky.gov, telephone (502) 696-8800 ext. 8570, facsimile (502) 696-8615.

# REGULATORY IMPACT ANALYSIS AND TIERING STATEMENT

Regulation number: 105 KAR 1:215 Contact person: Jessica Beaubien Phone number: 502-696-8800 ext. 8570 Email: Legal.Non-Advocacy@kyret.ky.gov

- (1)Provide a brief summary of:
- (a) What this administrative regulation does: This administrative regulation establishes the administrative appeal procedures for an affected person whose retirement benefits have been denied, reduced, or discontinued.
- (b) The necessity of this administrative regulation: This amended administrative regulation is necessary in order to include policy and procedures that were not found in the previous version, and to require the use of the agency portal except when an affected individual meets an exemption.
- (c) How this administrative regulation conforms to the content of the authorizing statutes: KRS 61.505(1)(g) authorizes the Kentucky Public Pensions Authority to promulgate all administrative regulations on behalf of the Kentucky Retirement Systems and the County Employee Retirement System that are consistent with KRS 16.510 to 16.652, 61.510 to 61.705, and 78.510 to 78.852. KRS 61.645(16) and 78.782(16) provide that an affected person aggrieved by a decision of the system, which is not a determination relating to disability retirement benefits, may have the right to request an administrative hearing prior to the filing of an appeal in court. KRS 61.615(3), 61.665(3), 78.545 and 78.5528(3) provide that an affected person whose disability retirement benefits have been denied, reduced, or discontinued may have the right to request an administrative hearing prior to filing of an appeal in court.
- (d) How this administrative regulation currently assists or will assist in the effective administration of the statutes: This amended administrative regulation will allow KPPA to effectively administer administrative hearings through an electronic agency portal, and for affected individuals to have a clear set of procedures.
  - (2) If this is an amendment to an existing administrative regulation, provide a brief summary of:
- (a) How the amendment will change this existing administrative regulation: This amended administrative regulation is adds procedures that were not found in the previous version and details on the use and requirements of the agency portal.
- (b) The necessity of the amendment to this administrative regulation: This amended administrative regulation is necessary in order to include policy and procedures that were not found in the previous version, and to require the use of the agency portal except when an affected individual meets an exemption.
- (c) How the amendment conforms to the content of the authorizing statutes: KRS 61.505(1)(g) authorizes the Kentucky Public Pensions Authority to promulgate all administrative regulations on behalf of the Kentucky Retirement Systems and the County Employee Retirement System that are consistent with KRS 16.510 to 16.652, 61.510 to 61.705, and 78.510 to 78.852. KRS 61.645(16) and 78.782(16) provide that an affected person aggrieved by a decision of the system, which is not a determination relating to disability retirement benefits, may have the right to request an administrative hearing prior to the filing of an appeal in court. KRS 61.615(3), 61.665(3), 78.545 and 78.5528(3) provide that an affected person whose disability retirement benefits have been denied, reduced, or discontinued may have the right to request an administrative hearing prior to filing of an appeal in court.
- (d) How the amendment will assist in the effective administration of the statutes: This amended administrative regulation will assist in the effective administration of KRS 61.615(3), 61.645(16), 61.665(3), 78.545, 78.5528(3), and 78.782(16) by detailing the administrative appeals process and procedures, and by providing the requirements for the agency portal.
- (3) List the type and number of individuals, businesses, organizations, or state and local governments affected by this administrative regulation: This administrative regulation does not affect businesses, organizations, or state and local governments except for the KPPA. It is unknown how

many individuals this administrative regulation affects because it is unknown how many individuals will file an appeal in the future.

- (4) Provide an analysis of how the entities identified in question (3) will be impacted by either the implementation of this administrative regulation, if new, or by the change, if it is an amendment, including:
- (a) List the actions that each of the regulated entities identified in question (3) will have to take to comply with this administrative regulation or amendment: KPPA already has the agency portal built and in use. KPPA is already in compliance with this amended administrative regulation.
- (b) In complying with this administrative regulation or amendment, how much will it cost each of the entities identified in question (3): Nothing.
- (c) As a result of compliance, what benefits will accrue to the entities identified in question (3): The reduction of paper and cost of mailing.
  - (5) Provide an estimate of how much it will cost to implement this administrative regulation:
  - (a) Initially: Minimal.
  - (b) On a continuing basis: Minimal.
- (6) What is the source of the funding to be used for the implementation and enforcement of this administrative regulation: Administrative expenses of the Kentucky Public Pensions Authority are paid from the Retirement Allowance Account (trust and agency funds).
- (7) Provide an assessment of whether an increase in fees or funding will be necessary to implement this administrative regulation, if new, or by the change if it is an amendment: An increase in fees of funding will not be necessary to implement this amended administrative regulation.
- (8) State whether or not this administrative regulation establishes any fees or directly or indirectly increases any fees: This administrative regulation establishes fees for requested supplemental copies of an administrative record in certain instances.
  - (9) TIERING: Is tiering applied? (Explain why or why not) Tiering is not applied.

#### FISCAL NOTE

Regulation number: 105 KAR 1:215 Contact person: Jessica Beaubien Phone number: 502-696-8800 ext. 8570 Email: Legal.Non-Advocacy@kyret.ky.gov

- (1) What units, parts, or divisions of state or local government (including cities, counties, fire departments, or school districts) will be impacted by this administrative regulation? None except KPPA.
- (2) Identify each state or federal statute or federal regulation that requires or authorizes the action taken by the administrative regulation. KRS 61.505(1)(g) authorizes the Kentucky Public Pensions Authority to promulgate all administrative regulations on behalf of the Kentucky Retirement Systems and the County Employee Retirement System that are consistent with KRS 16.510 to 16.652, 61.510 to 61.705, and 78.510 to 78.852.
- (3) Estimate the effect of this administrative regulation on the expenditures and revenues of a state or local government agency (including cities, counties, fire departments, or school districts) for the first full year the administrative regulation is to be in effect.
- (a) How much revenue will this administrative regulation generate for the state or local government (including cities, counties, fire departments, or school districts) for the first year? None.
- (b) How much revenue will this administrative regulation generate for the state or local government (including cities, counties, fire departments, or school districts) for subsequent years? None.
  - (c) How much will it cost to administer this program for the first year? Minimal.
  - (d) How much will it cost to administer this program for subsequent years? Minimal.

Note: If specific dollar estimates cannot be determined, provide a brief narrative to explain the fiscal impact of the administrative regulation.

Revenues (+/-): None.

Expenditures (+/-): None.

Other Explanation:

- (4) Estimate the effect of this administrative regulation on the expenditures and cost savings of regulated entities for the first full year the administrative regulation is to be in effect.
- (a) How much cost savings will this administrative regulation generate for the regulated entities for the first year? Unknown.
- (b) How much cost savings will this administrative regulation generate for the regulated entities for subsequent years? Unknown.
  - (c) How much will it cost the regulated entities for the first year? Unknown.
  - (d) How much will it cost the regulated entities for subsequent years? Unknown.

Note: If specific dollar estimates cannot be determined, provide a brief narrative to explain the fiscal impact of the administrative regulation.

Cost Savings(+/-): Unknown.

Expenditures (+/-): Unknown.

Other Explanation: This administrative regulation as amended allows for the KPPA to utilize an agency portal for electronic records and notifications to the affected persons, hearing officers, Administrative Appeals Committee, Disability Appeals Committee and internally, and therefore reduces the use of paper and cost of mailing documents.

(5) Explain whether this administrative regulation will have a major economic impact, as defined below. "Major economic impact" means an overall negative or adverse economic impact from an administrative regulation of five hundred thousand dollars (\$500,000) or more on state or local government or regulated entities, in aggregate, as determined by the promulgating administrative bodies. [KRS 13A.010(13)]. This administrative regulation will not have a major economic impact.

# SUMMARY OF MATERIAL INCORPORATED BY REFERENCE

Form 2940, Agency Portal Exemption, is a one (1) page form claimants can use to request an exemption from the use of the agency portal for his or her administrative hearing record.

Member Information Please provide your Member ID or Social Security number in the Member ID box below.



Form **2940** 06/2023

# **Agency Portal Exemption**

Member Name:	Member ID:			
Kentucky Public Pensions Authority Agency Portal  The Kentucky Public Pensions Authority (KPPA) utilizes an online agency portal which stores and tracks administrative records, hearing recordings, memorandums, and any other relevant documentation related to administrative hearings held in accordance with KRS Chapter 13B. A member or his or her attorney shall receive notification via email when documents are available in the agency portal, which can include important documents or orders related to the administrative hearing.				
Exemption Request				
At least one option must be selected for this form to be valid and processed by agency shall not allow an exemption pursuant to 105 KAR 1:215.	KPPA. If none of the options apply to you, the			
$\hfill \square$ I am requesting an exemption for use of the agency portal for the following r	eason(s):			
☐ I do not have internet access.				
$\ \ \square$ I do not have access to a computer, smart phone, or tablet capable of	allowing me to adequately use the agency portal.			
☐ I have an impairment or disability that limits my ability to use electronic	communications.			
Withdrawing Exemption Request If you select this option, an email address <u>must</u> be provided below. If there is not be completed.  I am withdrawing my previous exemption request and elect to use the agence				
Email Address:				
Certification				
I am represented by Counsel, Hon.	· OB			
I am represented by Counsel, Hon.  I am representing myself in this Administrative Appeals process and have been				
I understand that once the Agency Portal Exemption Form is on file with KPPA, the only way to use the Agency Portal is to withdraw my exemption request by filing an updated Agency Portal Exemption Form.				
I certify that all the information completed on this form is true and accurate.				
I acknowledge that I have full understanding that any person who provides a false statement, report, or representation to a governmental entity such as KPPA is subject to the penalty of perjury in accordance with KRS 523.010, et seq.				
Signature:	Date:			

# Members have four options for submitting this form to KPPA:

- **1. Email:** Use the KPPA Secure Email Portal and send an email to <u>KPPAHearingFilings@kyret.ky.gov</u> Go to <u>KYRET.KY.GOV</u> and select the Contact tab for details on using secure email.
- 2. Self Service: Use the Documents feature in Self Service at MYRETIREMENT.KY.GOV to upload documents and forms
- 3. Mail: Office of Legal Services, 1260 Louisville Road, Frankfort, KY 40601
- **4. Fax:** (502) 696-8615

# **MEMORANDUM**

TO: Board of the Kentucky Public Pensions Authority ("Board")

FROM: Carrie Bass, Staff Attorney Supervisor, Non-Advocacy Division, Office of Legal

Services

Jessica Beaubien, Policy Specialist, Non-Advocacy Division, Office of Legal Services

DATE: September 15, 2023

RE: Board approval and authorization of KPPA staff to file an amended administrative

regulation, 105 KAR 1:270, Federal tax withholding or direct rollover of eligible distributions, with the Office of the Regulations Compiler at the Legislative Research

Commission ("Regulations Compiler")

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### Purpose of amended administrative regulation:

Kentucky Revised Statutes 61.505(1)(g) authorizes the Board to promulgate and amend administrative regulations "on behalf of the Kentucky Retirement Systems and the County Employees Retirement System, individually or collectively" as long as the regulations are consistent with the provisions of Kentucky Revised Statutes 16.505 to 16.652, 61.510 to 61.705, 78.510 to 78.852, and 61.505. 105 KAR 1:270, Federal tax withholding or direct rollover of eligible distributions, is consistent with these provisions of the Kentucky Revised Statutes.

105 KAR 1:270 establishes the procedure for informing affected members, beneficiaries, and alternate payees of their rights regarding federal taxation rules and provides forms for members, beneficiaries, and alternate payees to indicate their preference for federal tax withholding or direct rollover of eligible distributions. This administrative regulation also establishes a procedure to issue a check to an alternate payee of a qualified domestic relations order if the alternate payee does not file the form required for federal income tax purposes within a reasonable time, and a procedure in the event that an alternate payee cannot be located. Please be aware that definitions for commonly used language found in this administrative regulation can be found in 105 KAR 1:001, Definitions for 105 KAR Chapter 1.

The proposed amendment to 105 KAR 1:270 includes the following changes:

- 1. Language stating that the forms and documents incorporated by reference are available on the Kentucky Public Pensions Authority's website has been removed throughout the administrative regulation, as this is redundant in light of new KRS Chapter 13A requirements that all forms and documents incorporated by reference be available on an agency's website.
- 2. Section 2: Clarifying language has been added to address situations in which a member requests a refund of their accumulated account balance, but later becomes ineligible to actually receive the refund under state and federal law.
- 3. Section 4: Clarifying language has been added to address situations in which there is a single beneficiary receiving an eligible distribution and, separately, situations in which there are multiple beneficiaries receiving an eligible distribution.

- 4. Section 5: Section added to incorporate the use of the Form 6025, Direct Rollover/Direct Payment Election Form for a Member, Beneficiary, or Alternate Payee Regarding an Eligible Rollover Distribution, for the \$5,000 death benefit.
- 5. Section 6: Section added to incorporate the use of the Form 6025, Direct Rollover/Direct Payment Election Form for a Member, Beneficiary, or Alternate Payee Regarding an Eligible Rollover Distribution, for certain death in-line-of-duty benefits.
- 6. Section 9: Incorporates a new form, the Form 6028, Withholding Certificate for Nonperiodic Payments and Eligible Rollover Distributions, that allows members, beneficiaries, and alternate payees choosing to receive direct payment of eligible distributions to withhold greater than the mandatory federal tax from the eligible distribution.
- 7. Section 10: Incorporates updates to the Special Tax Notice and Form 4527, Certification by a "Qualified Public Safety Employee" and Request for an Exception to the 10% Early Distribution Penalty in IRC 72(t), based on recent federal law changes.

105 KAR 1:270 was presented to the Ad Hoc Regulations Committee for the Board on August 15, 2023. The Committee approved sending to the full Board for approval upon edits to Section 2(1)(a), Section 3(2)(a), and Section 4(1)(b), along with correcting the Form 4527 revision date, all of which have been completed.

# **Staff Recommendation:**

The Office of Legal Services requests that the Board review the attached materials and authorize 105 KAR 1:270, Federal tax withholding or direct rollover of eligible distributions, to be filed with the Regulations Compiler.

#### List of attached materials:

- 1. 105 KAR 1:270, Federal tax withholding or direct rollover of eligible distributions
- 2. Special Tax Notice Regarding Payments
- 3. Form 4525, Application for Refund of Member Contributions and Direct Rollover/Direct Payment Selection
- 4. Form 4527, Certification by a "Qualified Public Safety Employee" and Request for an Exception to the 10% Early Distribution Penalty in IRC 72(t)
- 5. Form 6010, Estimated Retirement Allowance
- 6. Form 6025, Direct Rollover/Direct Payment Election Form for a Member, Beneficiary, or Alternate Payee Regarding an Eligible Rollover Distribution
- 7. Form 6028, Withholding Certificate for Nonperiodic Payments and Eligible Rollover Distributions

- 1 FINANCE AND ADMINISTRATION CABINET
- 2 Kentucky Public Pensions Authority
- 3 (Amendment)

- 4 105 KAR 1:270. Federal tax withholding or direct rollover of [funds for ]eligible distributions.
- 5 RELATES TO: KRS 16.505, 16.578, 16.645, 61.505(1)(g[f]), 61.510, 61.625, 61.635,
- 6 61.640, 61.690,78.510, 78.545, 26 U.S.C. 72(t), 401(a), 402
- 7 STATUTORY AUTHORITY: KRS 61.505(1)(g[f])
  - NECESSITY, FUNCTION, AND CONFORMITY: KRS 61.505(1)(g[f])authorizes the Kentucky Public Pensions Authority to promulgate administrative regulations on behalf of the Kentucky Retirement Systems and the County Employees Retirement System that are consistent with KRS 16.510 to 16.652, 61.515 to 61.705, [16.510 to 16.652, ]and 78.520 to 78.852. 26 U.S.C. 402 establishes the federal taxation requirements regarding direct rollovers of distributions and the withholding of federal income tax on distributions that are not rolled over to an IRA or other qualified plan. This administrative regulation establishes the procedure for informing affected members, beneficiaries, and alternate payees of their rights with regard to federal taxation rules and provides forms for members, beneficiaries, and alternate payees to indicate their preference for federal tax withholding or direct rollover of eligible distributions[funds]. This administrative regulation also establishes a procedure to issue a check to an alternate payee of a qualified domestic relations order if the alternate payee does not file the form required for federal income tax purposes [at the retirement office] within a reasonable time, and a procedure in the event that an alternate payee cannot be located.
- Section 1. Definitions.

1	(1) "Beneficiary" means a person designated by the member in accordance with KRS
2	61.542 and 78.545 to receive any available benefits in the event of the member's death. The
3	"beneficiary" may be different from the person designed as the death benefit beneficiary.
4	(2) "Death benefit beneficiary" means a person designated by the member in accordance
5	with KRS 61.705 and 78.5538 to receive the five thousand dollar (\$5,000) death benefit in the
6	event of the member's death. The "death benefit beneficiary" may be different from the person
7	designated as the beneficiary.
8	(3) "Eligible beneficiary" means a person who:
9	(a) Meets the eligibility qualifications for in-line-of-duty death benefits as provided by KRS
10	16.601(1)-(3) and 78.5534(1)-(3) or duty-related death benefits as provided by KRS 61.621(3)
11	and 78.545; and
12	(b) Elects, or has a parent or guardian who elects on his or her behalf, the payment option
13	for benefits that includes the one-time payment of ten thousand dollars (\$10,000) in accordance
14	with KRS 16.601(1)(b) or (3) and 78.5534(1)(b) or (3) or 61.621(3)(b) and 78.545.
15	[ Definitions contained in KRS 16.505, 61.510, and 78.510 shall apply to this
16	administrative regulation.
17	(2) Prior to April 1, 2021, "the Agency" means the Kentucky Retirement Systems, which
18	administers the State Police Retirement System, the Kentucky Employees Retirement System,
19	and the County Employees Retirement System. Effective April 1, 2021, "the Agency" means the
20	Kentucky Public Pensions Authority, which is authorized to carry out the day-to-day
21	administrative needs of the Kentucky Retirement Systems (comprised of the State Police
22	Retirement System and the Kentucky Employees Retirement System) and the County
23	Employees Retirement System.

1	(3) "File" means the following methods for delivering or submitting a form to the retirement
2	office: mail, fax, secure email, in-person delivery, and upload via Self Service on the Web site
3	maintained by the agency (if available).
4	(4) "Provide" means the following methods for the agency to make a form available to a
5	member, beneficiary, or alternate payee: mail, fax, secure email, and upload via Self Service on
6	the Web site maintained by the agency (if available).]
7	Section 2. Application for Refund of Accumulated Account Balance.
8	(1)(a) To apply for[receive] a refund of an accumulated account balance in accordance
9	with KRS 61.625 and 78.545, a member shall complete and file[apply for a refund on] a valid
10	Form 4525, Application for Refund of Member Contributions and Direct Rollover/Direct Payment
11	Selection, selecting the option for payment.
12	(b) If the member intends to have the funds from the refund of an accumulated account
13	balance rolled over directly into an IRA or other qualified plan, the member shall have the trustee
14	or institution relevant to the IRA or other qualified plan complete the applicable section of the
15	Form 4525, Application for Refund of Member Contributions and Direct Rollover/Direct Payment
16	Selection, certifying that the rollover will be accepted.
17	(c) The employer(s) may complete the applicable portion of the Form 4525, Application
18	for Refund of Member Contributions and Direct Rollover/Direct Payment Selection, verifying
19	termination of employment.
20	(2) Upon request by the member, the agency shall provide the Form 4525, Application for
21	Refund of Member Contributions and Direct Rollover/Direct Payment Selection, and[along with]

a copy of the Special Tax Notice Regarding Payments, to the member.

1	[(c) Additionally, the agency may make the Form 4525, Application for Refund of Member
2	Contributions and Direct Rollover/Direct Payment Selection, along with a copy of the Special
3	Tax Notice Regarding Payments, available on its Web site.
4	(2)(a) The member shall complete the Form 4525, Application for Refund of Member
5	Contributions and Direct Rollover/Direct Payment Selection, and file it at the retirement office.
6	(b) If the member intends to have the funds rolled over directly into an IRA or other plan,
7	the member shall have the trustee or institution complete the applicable section of the Form
8	4525, Application for Refund of Member Contributions and Direct Rollover/Direct Payment
9	Selection, certifying that the rollover will be accepted.
10	(c) The employer(s) participating in the agency from which the member has terminated
11	employment may complete the applicable portion of the Form 4525, Application for Refund of
12	Member Contributions and Direct Rollover/Direct Payment Selection, verifying termination of
13	employment.]
14	(3)(a) The refund of the accumulated account balance[contributions] shall not be
15	processed unless the member is eligible to receive a refund pursuant to KRS 61.625 and 78.545
16	and the valid Form 4525, Application for Refund of Member Contributions and Direct
17	Rollover/Direct Payment Selection, is filed[by the member at the retirement office].
18	(b) The refund of the accumulated account balance[contributions] shall not be processed
19	earlier than forty-five (45) calendar days from the date of the member's termination of
20	employment with the participating employer(s) that previously employed the member.
21	(c)1. The member's refund of the accumulated account balance shall not be processed if
22	within forty-five (45) calendar days of the date of the member's termination of employment with
23	the employer(s):

1	a. The member reemploys in any position, including a full-time, part-time, seasonal,
2	temporary, emergency, interim, probationary, or intermittent position with one (1) or more
3	employer(s) through which he or she has participated; or
4	b. The member participates in the system(s) from which his or her accumulated account
5	balance refund has been requested.
6	2. A member whose accumulated account balance refund is not processed pursuant to
7	subparagraph 1. of this paragraph may reapply for a refund in accordance with subsection (1)
8	of this section if the member again becomes eligible to receive a refund of his or her accumulated
9	account balance pursuant to KRS 61.625 and 78.545.
LO	(4) The member shall be required to repay the accumulated account balance refund to
l1	the systems in compliance with KRS 61.685(1) and 78.545 if, at the time of the member's receipt
12	of the accumulated account balance refund, the member is:
L3	1. Reemployed in any position, including a full-time, part-time, seasonal, temporary,
L4	emergency, interim, probationary, or intermittent position, with one (1) or more employer(s)
15	through which he or she participated; or
L6	2. Participating in the system from which the accumulated account balance refund was
L7	been requested.
18	Section 3. Required Form for[following] Member Selection of an Actuarial Refund
19	Retirement Payment Option, Lump-sum Refund of the accumulated account
20	balance[Contributions], or Partial Lump-sum Retirement Payment Option.
21	(1)[ <del>(a)</del> ] Along with each [ <del>blank</del> ]Form 6010, Estimated Retirement Allowance, the agency
22	shall provide the member with the Form 6025, Direct Rollover/Direct Payment Election Form for
23	a Member, Beneficiary, or Alternate Payee Regarding an Eligible Rollover Distribution,

and[along with] the Special Tax Notice Regarding Payments[, to the member].

1	[(b) Additionally, the agency may make the Form 6025, Direct Rollover/Direct Payment
2	Election Form for a Member, Beneficiary, or Alternate Payee Regarding an Eligible Rollover
3	Distribution, along with a copy of the Special Tax Notice Regarding Payments, available on its
4	Web site.]
5	(2)(a) If the member files a valid[completes the] Form 6010, Estimated Retirement
6	Allowance, on which[and selects] an actuarial refund retirement payment option, lump-sum
7	refund of the accumulated account balance[contributions], or partial lump-sum retirement
8	payment option is selected, the member shall also file a valid[complete the] Form 6025, Direct
9	Rollover/Direct Payment Election Form for a Member, Beneficiary, or Alternate Payee Regarding
10	an Eligible Rollover Distribution, selecting the option for payment[, and file both completed forms

(b) If the member intends to have the funds rolled over directly into an IRA or other <u>qualified</u> plan, the member shall have the trustee or institution <u>relevant to the IRA or other qualified plan</u> complete the applicable section of the Form 6025, Direct Rollover/Direct Payment Election Form for a Member, Beneficiary, or Alternate Payee Regarding an Eligible Rollover Distribution, certifying that the rollover will be accepted.

at the retirement office].

- (3) The agency shall not process payment of an actuarial refund retirement payment option, lump-sum refund of the accumulated account balance, or partial lump-sum retirement payment option to the member unless the following are on file:
- 20 (a) A valid Form 6010, Estimated Retirement Allowance, with the actuarial refund
  21 retirement payment option, lump-sum refund of the accumulated account balance, or partial
  22 lump-sum retirement option for payment selected; and
  - (b) A valid[The payment option selected by the member on the completed and filed Form 6010, Estimated Retirement Allowance, shall not be processed unless the completed] Form

- 1 6025, Direct Rollover/Direct Payment Election Form for a Member, Beneficiary, or Alternate
- 2 Payee Regarding an Eligible Rollover Distribution[, is filed at the retirement office].
- Section 4. Required Form <u>for[following]</u> Beneficiary Selection of Lump-sum Payment
- 4 Option or Sixty (60) Months Certain Payment Option, or if Beneficiary Eligible for Lump-sum
- 5 Refund of the Accumulated Account Balance[Contributions] Only.
  - (1) Single beneficiary.

- 7 (a) 1. Along with each Form 6010, Estimated Retirement Allowance, the agency shall
- 8 provide the beneficiary with the Form 6025, Direct Rollover/Direct Payment Election Form for a
- 9 Member, Beneficiary, or Alternate Payee Regarding an Eligible Rollover Distribution, and the
- 10 Special Tax Notice Regarding Payments. [Upon receipt of a completed Form 6010, Estimated
- 11 Retirement Allowance, on which the beneficiary of the deceased member has selected the lump-
- 12 sum actuarial refund, lump-sum refund of the deceased member's accumulated account
- balance, or sixty (60) months certain payment option, the agency shall provide the Form 6025,
- 14 Direct Rollover/Direct Payment Election Form for a Member, Beneficiary, or Alternate Payee
- 15 Regarding an Eligible Rollover Distribution, along with with the Special Tax Notice Regarding
- 16 Payments, to the beneficiary of the deceased member.
- 2.[(b)] If the beneficiary[-of the deceased member] is only eligible for a lump-sum refund
- of the deceased member's accumulated account balance, the agency shall provide the Form
- 19 6025, Direct Rollover, Direct Payment Election Form for a Member, Beneficiary, or Alternate
- 20 Payee Regarding Eligible Rollover Distribution, and along with the Special Tax Notice
- 21 Regarding Payments, to the beneficiary[-of the deceased member].
- 22 [(c) Additionally, the agency may make the Form 6025, Direct Rollover/Direct Payment
- 23 Election Form for a Member, Beneficiary, or Alternate Payee Regarding an Eligible Rollover

Distribution, along with a copy of the Special Tax Notice Regarding Payments, available on its

Web site.

(b)1.[(2)(a)] If the beneficiary files a valid Form 6010, Estimated Retirement Allowance, on which a lump-sum actuarial refund, lump-sum refund of the deceased member's accumulated account balance, or sixty (60) months certain payment option is selected, or if the beneficiary is only eligible for a lump-sum refund of the deceased member's accumulated account balance, the beneficiary shall also file a valid [The beneficiary of the deceased member shall complete the] Form 6025, Direct Rollover/Direct Payment Election Form for a Member, Beneficiary, or Alternate Payee Regarding an Eligible Rollover Distribution, selecting the option for payment[, and file it at the retirement office].

<u>2.[(b)]</u> If the beneficiary[<u>of the deceased member</u>] intends to have the funds rolled over directly into an IRA or other <u>qualified</u> plan, the beneficiary[<u>of the deceased member</u>] shall have the trustee or institution <u>relevant to the IRA or other qualified plan</u> complete the applicable section of the Form 6025, Direct Rollover/Direct Payment Election Form for a Member, Beneficiary, or Alternate Payee Regarding an Eligible Rollover Distribution, certifying that the rollover will be accepted.

- (c) The agency shall not process payment to the beneficiary of a lump-sum actuarial refund, lump-sum refund of the deceased member's accumulated account balance, or sixty (60) months certain payment option unless the following are on file:
- 1. A valid Form 6010, Estimated Retirement Allowance, with the actuarial refund retirement payment option, lump-sum refund of the accumulated account balance, or partial lump-sum retirement payment option selected; and
- 2. A valid Form 6025, Direct Rollover/Direct Payment Election Form for a Member,

  Beneficiary, or Alternate Payee Regarding an Eligible Rollover Distribution.

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(a) If there are multiple beneficiaries and the beneficiaries have elected a lump-sum actuarial refund, lump-sum refund of the deceased member's accumulated account balance, or sixty (60) months certain payment option, all beneficiaries must agree to the option for payment selected and file a single valid Form 6010, Estimated Retirement Allowance, indicating the selection agreed upon, and signed by all beneficiaries. Each beneficiary shall also file a valid Form 6025, Direct Rollover/Direct Payment Election Form for a Member, Beneficiary, or Alternate Payee Regarding an Eligible Rollover Distribution.

(b) If there are multiple beneficiaries and the beneficiaries are only eligible for a lump-sum refund of the deceased member's accumulated account balance, each beneficiary shall file a valid Form 6025, Direct Rollover/Direct Payment Election Form for a Member, Beneficiary, or Alternate Payee Regarding an Eligible Rollover Distribution.

(c) Any beneficiary that intends to have his or her portion of the funds rolled over directly into an IRA or other qualified plan shall have the trustee or institution relevant to the IRA or other qualified plan complete the applicable section of the Form 6025, Direct Rollover/Direct Payment Election Form for a Member, Beneficiary, or Alternate Payee Regarding an Eligible Rollover Distribution, certifying that the rollover will be accepted.

- (d) The agency shall not process payment of a lump-sum actuarial refund, lump-sum refund of the deceased member's accumulated account balance, or sixty (60) months certain payment option to a beneficiary unless the following are on file for all beneficiaries:
- 1. A single valid Form 6010, Estimated Retirement Allowance, completed in accordance with paragraph (a) of this subsection, if applicable; and

1	2. A valid Form 6025, Direct Rollover/Direct Payment Election Form for a Member,
2	Beneficiary, or Alternate Payee Regarding an Eligible Rollover Distribution, for each beneficiary
3	completed in accordance with paragraphs (b) and (c) of this subsection.
4	(3) This section solely establishes the forms and requirements for beneficiaries related to
5	direct rollovers of distributions and the withholding of federal income tax on distributions that are
6	not rolled over to an IRA or other qualified plan. Beneficiaries subject to this section may also be
7	subject to additional requirements under 105 KAR 1:180 and 105 KAR 1:240.
8	[(3)(a)The payment option selected by the beneficiary of the deceased member on a Form
9	6010, Estimated Retirement Allowance shall not be processed unless the completed Form 6025,
10	Direct Rollover/Direct Payment Election Form for a Member, Beneficiary, or Alternate Payee
11	Regarding an Eligible Rollover Distribution, is filed at the retirement office.
12	(b) If the beneficiary of the deceased member is only eligible for a lump-sum refund of the
13	deceased member's accumulated account balance, payment to the beneficiary of the deceased
14	member shall not be processed unless the completed Form 6025, Direct Rollover/Direct
15	Payment Election Form for a Member, Beneficiary, or Alternate Payee Regarding an Eligible
16	Rollover Distribution, is filed at the retirement office.]
17	Section 5. Required Form for Death Benefit Beneficiaries.
18	(1) Upon a member's death, the agency shall provide the Form 6025, Direct Rollover,
19	Direct Payment Election Form for a Member, Beneficiary, or Alternate Payee Regarding Eligible
20	Rollover Distribution, and the Special Tax Notice Regarding Payments, to the death benefit
21	beneficiary.
22	(2)(a) The death benefit beneficiary shall file a valid Form 6025, Direct Rollover/Direct
23	Payment Election Form for a Member, Beneficiary, or Alternate Payee Regarding an Eligible
24	Rollover Distribution.

1	(b) If the death benefit beneficiary intends to have the funds rolled over directly into an
2	IRA or other qualified plan, the death benefit beneficiary shall have the trustee or institution
3	relevant to the IRA or other qualified plan complete the applicable section of the Form 6025,
4	Direct Rollover/Direct Payment Election Form for a Member, Beneficiary, or Alternate Payee
5	Regarding an Eligible Rollover Distribution, certifying that the rollover will be accepted.
6	(3) Payment to the death benefit beneficiary shall not be processed unless the member
7	is deceased and the valid Form 6025, Direct Rollover/Direct Payment Election Form for a
8	Member, Beneficiary, or Alternate Payee Regarding an Eligible Rollover Distribution, is filed.
9	(4) This section solely establishes the forms and requirements for death benefit
10	beneficiaries related to direct rollovers of distributions and the withholding of federal income tax
11	on distributions that are not rolled over to an IRA or other qualified plan. Death benefit
12	beneficiaries subject to this section may also be subject to additional requirements under 105
13	KAR 1:240.
14	Section 6. Required Form for Eligible Beneficiaries.
15	(1) The agency shall provide the Form 6025, Direct Rollover, Direct Payment Election
16	Form for a Member, Beneficiary, or Alternate Payee Regarding Eligible Rollover Distribution,
17	and the Special Tax Notice Regarding Payments, to the eligible beneficiary.
18	(2)(a) The eligible beneficiary shall file a valid Form 6025, Direct Rollover/Direct Payment
19	Election Form for a Member, Beneficiary, or Alternate Payee Regarding an Eligible Rollover
20	<u>Distribution.</u>
21	(b) If the eligible beneficiary intends to have the funds rolled over directly into an IRA or
22	other qualified plan, the eligible beneficiary shall have the trustee or institution relevant to the
23	IRA or other qualified plan complete the applicable section of the Form 6025, Direct

Rollover/Direct Payment Election Form for a Member, Beneficiary, or Alternate Payee Regarding
 an Eligible Rollover Distribution, certifying that the rollover will be accepted.

- (3) Payment to the eligible beneficiary shall not be processed unless the member is deceased and the valid Form 6025, Direct Rollover/Direct Payment Election Form for a Member, Beneficiary, or Alternate Payee Regarding an Eligible Rollover Distribution, is filed.
  - (4) This section solely establishes the forms and requirements for eligible beneficiaries related to direct rollovers of distributions and the withholding of federal income tax on distributions that are not rolled over to an IRA or other qualified plan. Eligible beneficiaries subject to this section may also be subject to additional requirements under 105 KAR 1:457.

Section 7[5]. Required Form for Alternate Payee who is Eligible for Actuarial Refund or Partial Lump-sum Payment Option, or Eligible for a Portion of the Lump-sum Refund, Partial Lump-sum, or Actuarial Refund Retirement Payment Option selected by the Member.

(1)[(a)] If the alternate payee is eligible for a lump-sum portion of the member's accumulated account balance,[contributions] actuarial refund, or partial lump-sum payment option pursuant to a qualified domestic relations order, or an actuarial refund or partial lump-sum payment option pursuant to a qualified domestic relations order, the agency shall provide the Form 6025, Direct Rollover/Direct Payment Election Form for a Member, Beneficiary, or Alternate Payee Regarding an Eligible Rollover Distribution, and[along with] the Special Tax Notice Regarding Payments, to the alternate payee.

[(b) If the alternate payee is eligible for an actuarial refund or partial lump-sum payment option pursuant to a qualified domestic relations order, the agency shall provide a Form 6025, Direct Rollover/Direct Payment Election Form for a Member, Beneficiary, or Alternate Payee Regarding an Eligible Rollover Distribution, along with the Special Tax Notice Regarding Payments, to the alternate payee.]

[(c) Additionally, the agency may make the Form 6025, Direct Rollover/Direct Payment

Election Form for a Member, Beneficiary, or Alternate Payee Regarding an Eligible Rollover

Distribution, along with a copy of the Special Tax Notice Regarding Payments, available on its

Web site.]

- (2)(a) To receive a lump-sum portion of the member's accumulated account balance, actuarial refund, or partial lump-sum payment option pursuant to a qualified domestic relations order, or to receive an actuarial refund or partial lump-sum payment pursuant to a qualified domestic relations order, the [The] alternate payee shall file a valid [complete the] Form 6025, Direct Rollover/Direct Payment Election Form for a Member, Beneficiary, or Alternate Payee Regarding an Eligible Rollover Distribution [, and file it at the retirement office].
- (b) If the alternate payee intends to have the funds described in paragraph (2)(a) of this subsection rolled over directly into an IRA or other qualified plan, the alternate payee shall have the trustee or institution relevant to the IRA or other qualified plan complete the applicable section of the Form 6025, Direct Rollover/Direct Payment Election Form for a Member, Beneficiary, or Alternate Payee Regarding an Eligible Rollover Distribution, certifying that the rollover will be accepted.
- (3) The payment to an alternate payee of an actuarial refund or lump-sum refund <u>pursuant</u> to a qualified domestic relations order, or a portion of the member's accumulated account balance, actuarial refund, or partial lump-sum payment option pursuant to the qualified domestic relations order shall not be processed until the <u>valid[completed]</u> Form 6025, Direct Rollover/Direct Payment Election Form for a Member, Beneficiary, or Alternate Payee Regarding an Eligible Rollover Distribution, is filed[-at the retirement office].
- (4)(a) If the alternate payee does not file[<u>at the retirement office</u>] the <u>valid</u> Form 6025, Direct Rollover/Direct Payment Election Form for a Member, Beneficiary, or Alternate Payee

- 1 Regarding an Eligible Rollover Distribution, by the end of day [within] thirty (30) calendar days
- 2 <u>from[of receipt of ]the date the form and the Special Tax Notice Regarding Payments were</u>
- provided to the alternate payee, the alternate payee's payment shall be processed and treated
- 4 for federal income tax purposes as if the alternate payee had made an election to directly receive
  - the funds instead of rolling over the payment to an IRA or other <u>qualified</u> plan.
  - (b)1. The agency shall hold the amount payable to the alternate payee under this section
- for at least <u>one hundred eighty (180) calendar</u> days after the payment becomes payable.
- 8 <u>2.[4.]</u> The agency shall make all reasonable efforts to locate the alternate payee during
- the <u>one hundred eighty (180) calendar</u> days, and shall make payment to the alternate payee if
- 10 he or she is located within that period.
- 3.[2.] If the alternate payee has not been located during the time period described in
- 12 <u>subparagraph 1. of this paragraph [-within 180 days after the alternate payee's payment</u>
- becomes payable] and the agency has exhausted all reasonable efforts to locate the alternate
- payee, the agency shall pay the payment held to the member and shall assign the federal tax
- liability for this payment to the member. Interest shall not accrue on this lump-sum payment
- during the one hundred eighty (180) calendar day period or thereafter. If the alternate payee is
- subsequently located, any amounts already paid to the member shall no longer be payable to
- the alternate payee.

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- Section 8[6]. Optional Form for Qualified Public Safety Employee electing to receive an
- 20 Actuarial Refund Retirement Payment Option, Lump-sum Refund, Partial Lump-sum Refund, or
- Ten (10) Year Certain Retirement Payment Option.
- 22 (1) A member who was last employed as a "qualified public safety employee" as defined
- in 26 U.S.C. Internal Revenue Code, Section 72(t), and who is electing to receive an actuarial
- refund, lump-sum refund of the accumulated account balance, partial lump-sum refund, or the

- ten (10) years certain option, shall not be subject to the ten (10) percent early distribution tax
- 2 penalty [if electing to receive an actuarial refund, lump-sum refund, partial lump-sum refund, or
- 3 the ten (10) years certain option ]if the member files the following valid[completed] forms[at the
- 4 retirement office]:
- 5 (a) The Form 4527, Certification by a "Qualified Public Safety Employee" and Request for
- an Exception to the 10% Early Distribution Penalty in IRC 72(t); and
- 7 (b) The Form 4525, Application for Refund of Member Contributions and Direct
- 8 Rollover/Direct Payment Selection, or the Form 6025, Direct Rollover/Direct Payment Election
- 9 Form for a Member, Beneficiary, or Alternate Payee Regarding an Eligible Rollover Distribution.
- (2)[(a)] Upon request by the member, the agency shall provide the Form 4527, Certification
- by a "Qualified Public Safety Employee" and Request for an Exception to the 10% Early
- Distribution Penalty in IRC 72(t), to the member.
- [(b) Additionally, the agency may make the Form 4527, Certification by a "Qualified Public
- 14 Safety Employee" and Request for an Exception to the 10% Early Distribution Penalty in IRC
- 15 72(t), available on its Web site.
- Section 9. Optional Form for Greater Federal Tax Withholding.
- 17 (1)(a) If the member does not elect to have the refund of the accumulated account balance
- rolled over directly into an IRA or other qualified plan, except as provided in paragraph (b) of this
- subsection, twenty (20) percent for federal taxes shall be withheld from funds paid to a member
- who files a valid Form 4525, Application for Refund of Member Contributions and Direct
- 21 Rollover/Direct Payment Selection, in accordance with Section 2 of this administrative
- 22 regulation.

- (b) If the member wants to withhold more than the mandatory twenty (20) percent of the
   funds for federal taxes, the member shall file a valid Form 6028, Withholding Certificate for
   Nonperiodic Payments and Eligible Rollover Distributions.
  - (2)(a) If the member, beneficiary, death benefit beneficiary, eligible beneficiary, or alternate payee does not elect to have the funds rolled over directly into an IRA or other qualified plan, except as provided in paragraph (b) of this subsection, twenty (20) percent for federal taxes shall be withheld from funds paid to the member, beneficiary, or alternate payee who files a valid Form 6025, Direct Rollover/Direct Payment Election Form for a Member, Beneficiary, or Alternate Payee Regarding an Eligible Rollover Distribution, in accordance with Sections 3 through 7 of this administrative regulation.
  - (b) If the member, beneficiary, death benefit beneficiary, eligible beneficiary, or alternate payee wants to withhold more than the mandatory twenty (20) percent of the funds for federal taxes, the member, beneficiary, or alternate payee shall file a valid Form 6028, Withholding Certificate for Nonperiodic Payments and Eligible Rollover Distributions.
- (c) If an invalid, incomplete, or incorrect Form 6028, "Withholding Certificate for

  Nonperiodic Payments and Eligible Rollover Distributions," is filed, the agency shall notify the

  person who filed the incomplete or incorrect Form 6028 that he or she has until the end of day

  forty-five (45) calendar days from the date of notification to file a corrected valid Form 6028, or

  the funds will be paid with the regular twenty (20) percent withholding for federal taxes.
- 20 <u>Section 10.[Section 7.]</u> Incorporation by Reference.

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- 21 (1) The following material is incorporated by reference:
- 22 (a) "Special Tax Notice Regarding Payments", July 2023;
- (b) Form 4525, "Application for Refund of Member Contributions and Direct
   Rollover/Direct Payment Selection", <u>April [February]</u> 2021;

- 1 [(b) "Special Tax Notice Regarding Payments", February 2021;]
- 2 (c) Form 4527, "Certification by a "Qualified Public Safety Employee" and Request for an
- 3 Exception to the 10% Early Distribution Penalty in IRC 72(t)", September 2023;
- 4 (d) Form 6010, "Estimated Retirement Allowance", April [February] 2021;
- 5 (e)[(d)] Form 6025, "Direct Rollover/Direct Payment Election Form for a Member,
- 6 Beneficiary, or Alternate Payee Regarding an Eligible Rollover Distribution", April [February]
- 7 2021; and
- 8 (f) Form 6028, "Withholding Certificate for Nonperiodic Payments and Eligible Rollover
- 9 <u>Distributions", November 2022.</u>
- 10 [(e) Form 4527, "Certification by a "Qualified Public Safety Employee" and Request for
- an Exception to the 10% Early Distribution Penalty in IRC 72(t)", February 2021.]
- 12 (2) This material may be inspected, copied, or obtained, subject to applicable copyright
- law, at the Kentucky Public Pensions Authority, 1260 Louisville Road, Frankfort, Kentucky
- 40601, Monday through Friday, from 8 a.m. to 4:30 p.m., or on the agency's Website at
- 15 kyret.ky.gov.
- 16 (19 Ky.R. 2352; eff. 6-7-1993; Am. 20 Ky.R. 830; eff. 12-6-1993; 21 Ky.R. 1532; eff. 2-8-
- 17 1995; 29 Ky.R. 773; eff. 11-12-2002; 34 Ky.R. 121; 545; eff. 10-5-2007; 35 Ky.R. 119; eff. 10-3-
- 2008; Crt eff. 2-24-2020; 47 Ky.R. 2623; 48 Ky.R. 767; eff. 11-30-2021.)

APPROVED:	
DAVID L. EAGER,	DATE
EXECUTIVE DIRECTOR KENTUCKY PUBLIC PENSIONS AUTHORITY	

PUBLIC HEARING AND PUBLIC COMMENT PERIOD: A public hearing to allow for public comment on this administrative regulation shall be held on Thursday, December 21, 2023, at 10:00 a.m. Eastern Time at the Kentucky Public Pensions Authority (KPPA), 1270 Louisville Road, Frankfort, Kentucky 40601. Individuals interested in presenting a public comment at this hearing shall notify this agency in writing no later than five workdays prior to the hearing of their intent to attend. If no notification of intent to attend the hearing was received by that date, the hearing may be cancelled. A transcript of the public hearing will not be made unless a written request for a transcript is made.

If you do not wish to be heard at the public hearing, you may submit written comments on the proposed administrative regulation. Written comments shall be accepted until December 31, 2023. Send written notification of intent to be heard at the public hearing or written comments on the proposed administrative regulation to the contact person.

KPPA shall file a response with the Regulations Compiler to any public comments received, whether at the public comment hearing or in writing, via a Statement of Consideration no later than the 15th day of the month following the end of the public comment period, or upon filing a written request for extension, no later than the 15th day of the second month following the end of the public comment period.

CONTACT PERSON: Jessica Beaubien, Policy Specialist, Kentucky Public Pensions Authority, 1260 Louisville Road, Frankfort, KY 40601, email Legal.Non-Advocacy@kyret.ky.gov, telephone (502) 696-8800 ext. 8570, facsimile (502) 696-8615.

#### REGULATORY IMPACT ANALYSIS AND TIERING STATEMENT

Regulation number: 105 KAR 1:270
Contact person: Jessica Beaubien
Phone number: 502-696-8800 ext. 8570
Email: Legal.Non-Advocacy@kyret.ky.gov

(1)Provide a brief summary of:

- (a) What this administrative regulation does: This administrative regulation establishes the procedure for informing affected members, beneficiaries, and alternate payees of their rights with regard to federal taxation rules and provides forms for members, beneficiaries, and alternate payees to indicate their preference for federal tax withholding and/or direct rollover of funds. This administrative regulation also establishes a procedure to issue a check to an alternate payee of a qualified domestic relations order if the alternate payee does not file the form required for federal income tax purposes within a reasonable time, and a procedure for the event that an alternate payee cannot be located.
- (b) The necessity of this administrative regulation: This administrative regulation is necessary to establish the procedure for informing affected members, beneficiaries, and alternate payees of their rights with regard to federal taxation rules and provides forms for members, beneficiaries, and alternate payees to indicate their preference for federal tax withholding or direct rollover of funds. This administrative regulation also is necessary to establish a procedure to issue a check to an alternate payee of a qualified domestic relations order if the alternate payee does not file the form required for federal income tax purposes within a reasonable time, and a procedure for the event that an alternate payee cannot be located.
- (c) How this administrative regulation conforms to the content of the authorizing statutes: This administrative regulation conforms to the authorizing statute because it is necessary to carry out the provisions of KRS 16.510 to 16.652, 61.515 to 61.705, and 78.520 to 78.852 in accordance with KRS 61.505(1)(g).
- (d) How this administrative regulation currently assists or will assist in the effective administration of the statutes: This administrative regulation establishes the procedures and forms necessary to carry out the provisions of KRS 16.510 to 16.652, 61.515 to 61.705, and 78.520 to 78.852, and assists the Kentucky Public Pensions Authority, Kentucky Retirement Systems, and County Employees Retirement System with ensuring compliance with federal law.
  - (2) If this is an amendment to an existing administrative regulation, provide a brief summary of:
- (a) How the amendment will change this existing administrative regulation: The amendment removes language stating that the material incorporated by reference is available on the Kentucky Public Pensions Authority's website, as this is redundant in light of the current KRS Chapter 13A requirement that all material incorporated by reference be available on an agency's website. Additionally, the amendment incorporates a new form (Form 6028, Withholding Certificate for Nonperiodic Payments and Eligible Rollover Distributions), an updated notice (Special Tax Notice), and an updated form (Form 4527, Certification by a "Qualified Public Safety Employee" and Request for an Exception to the 10% Early Distribution Penalty in IRC 72(t)). The amendment also clarifies the existing administrative regulation.
- (b) The necessity of the amendment to this administrative regulation: The amendment is necessary to incorporate a new form (Form 6028, Withholding Certificate for Nonperiodic Payments and Eligible Rollover Distributions), an updated notice (Special Tax Notice), and an updated form (Form 4527, Certification by a "Qualified Public Safety Employee" and Request for an Exception to the 10% Early Distribution Penalty in IRC 72(t)). The amendment also is necessary to clarify the existing administrative regulation.
- (c) How the amendment conforms to the content of the authorizing statutes: The amendment conforms to the authorizing statute because it is necessary to carry out the provisions of KRS 16.510 to 16.652, 61.515 to 61.705, and 78.520 to 78.852 in accordance with KRS 61.505(1)(g).

- (d) How the amendment will assist in the effective administration of the statutes: The amendment establishes the procedures and forms necessary to carry out the provisions of KRS 16.510 to 16.652, 61.515 to 61.705, and 78.520 to 78.852, and assists the Kentucky Public Pensions Authority, Kentucky Retirement Systems, and County Employees Retirement System with ensuring compliance with federal law.
- (3) List the type and number of individuals, businesses, organizations, or state and local governments affected by this administrative regulation: Three (3) state government entities are affected: the Kentucky Public Pensions Authority, the Kentucky Retirement Systems, and the County Employees Retirement System. An unknown number of individuals (the members, beneficiaries, and alternate payees of the Kentucky Retirement Systems and the County Employees Retirement System) are affected.
- (4) Provide an analysis of how the entities identified in question (3) will be impacted by either the implementation of this administrative regulation, if new, or by the change, if it is an amendment, including:
- (a) List the actions that each of the regulated entities identified in question (3) will have to take to comply with this administrative regulation or amendment: None. The Kentucky Public Pensions Authority, the Kentucky Retirement Systems, and the County Employees Retirement System are each already compliant with this amendment.
- (b) In complying with this administrative regulation or amendment, how much will it cost each of the entities identified in question (3): There will be no additional cost of compliance with this amendment. The Kentucky Public Pensions Authority, the Kentucky Retirement Systems, and the County Employees Retirement System are each already compliant with this amendment.
- (c) As a result of compliance, what benefits will accrue to the entities identified in question (3): The benefit accruing to the Kentucky Public Pensions Authority, the Kentucky Retirement Systems, and the County Employees Retirement System through this amendment is continued compliance with state and federal law.
  - (5) Provide an estimate of how much it will cost to implement this administrative regulation:
  - (a) Initially: None.
  - (b) On a continuing basis: Negligible.
- (6) What is the source of the funding to be used for the implementation and enforcement of this administrative regulation: Administrative expenses of the Kentucky Public Pensions Authority are paid from the Retirement Allowance Account (trust and agency funds).
- (7) Provide an assessment of whether an increase in fees or funding will be necessary to implement this administrative regulation, if new, or by the change if it is an amendment: No increase in fees or funding required.
- (8) State whether or not this administrative regulation establishes any fees or directly or indirectly increases any fees: No fees are established or increased.
  - (9) TIERING: Is tiering applied? (Explain why or why not) Tiering is not applied.

#### FISCAL NOTE

Regulation number: 105 KAR 1:270
Contact person: Jessica Beaubien
Phone number: 502-696-8800 ext. 8570
Email: Legal.Non-Advocacy@kyret.ky.gov

- (1) What units, parts, or divisions of state or local government (including cities, counties, fire departments, or school districts) will be impacted by this administrative regulation? The Kentucky Public Pensions Authority, the Kentucky Retirement Systems, and the County Employees Retirement System.
- (2) Identify each state or federal statute or federal regulation that requires or authorizes the action taken by the administrative regulation. KRS 61.505(1)(g).
- (3) Estimate the effect of this administrative regulation on the expenditures and revenues of a state or local government agency (including cities, counties, fire departments, or school districts) for the first full year the administrative regulation is to be in effect.
- (a) How much revenue will this administrative regulation generate for the state or local government (including cities, counties, fire departments, or school districts) for the first year? None.
- (b) How much revenue will this administrative regulation generate for the state or local government (including cities, counties, fire departments, or school districts) for subsequent years? None.
  - (c) How much will it cost to administer this program for the first year? Negligible.
  - (d) How much will it cost to administer this program for subsequent years? Negligible.

Note: If specific dollar estimates cannot be determined, provide a brief narrative to explain the fiscal impact of the administrative regulation.

Revenues (+/-): None

Expenditures (+/-): Negligible

Other Explanation: The Kentucky Public Pensions Authority, the Kentucky Retirement Systems, and the County Employees Retirement System are each already compliant with this amendment.

- (4) Estimate the effect of this administrative regulation on the expenditures and cost savings of regulated entities for the first full year the administrative regulation is to be in effect.
- (a) How much cost savings will this administrative regulation generate for the regulated entities for the first year? None.
- (b) How much cost savings will this administrative regulation generate for the regulated entities for subsequent years? None.
  - (c) How much will it cost the regulated entities for the first year? Negligible..
  - (d) How much will it cost the regulated entities for subsequent years? Negligible.

Note: If specific dollar estimates cannot be determined, provide a brief narrative to explain the fiscal impact of the administrative regulation.

Cost Savings(+/-): None.

Expenditures (+/-): Negligible.

Other Explanation: The Kentucky Public Pensions Authority, the Kentucky Retirement Systems, and the County Employees Retirement System are each already compliant with this amendment.

(5) Explain whether this administrative regulation will have a major economic impact, as defined below. "Major economic impact" means an overall negative or adverse economic impact from an administrative regulation of five hundred thousand dollars (\$500,000) or more on state or local government or regulated entities, in aggregate, as determined by the promulgating administrative bodies. [KRS 13A.010(13)]. This amendment will not have a major economic impact because there will not be a five hundred thousand dollar (\$500,000) or more economic impact on the Kentucky Public Pensions Authority, the Kentucky Retirement Systems, or the County Employees Retirement System as a result of this amendment.

#### SUMMARY OF MATERIAL INCORPORATED BY REFERENCE

"Special Tax Notice Regarding Payments," is a six (6) page document that is provided to members, beneficiaries, and alternate payees when all or a portion of a payment he or she is receiving from the Kentucky Employees Retirement System, County Employees Retirement System, or State Police Retirement System is eligible to be rolled over to a qualified plan. This notice provides the member, beneficiary, or alternate payee with information on federal tax requirements. This notice was updated due to federal law changes.

Form 4525, "Application for Refund of Member Contributions and Direct Rollover/Direct Payment Selection," is a three (3) page form that members of the Kentucky Employees Retirement System, State Police Retirement System, or the County Employees Retirement System use to apply for a refund of his or her accumulated account balance if the member is eligible and chooses to receive a refund pursuant to KRS 61.625 and 78.545. This form was updated in April 2021 due to a change in agency name.

Form 4527, "Certification by a 'Qualified Public Safety Employee' and Request for an Exception to the 10% Early Distribution Penalty in IRC 72(t)," is a one (1) page form that members of the Kentucky Employees Retirement System, State Police Retirement System, or the County Employees Retirement System who were last employed as a "qualified public safety employee" as defined in 26 U.S.C. Internal Revenue Code, Section 72(t), completes to be exempt from the ten (10) percent early distribution tax penalty when he or she elects to receive an actuarial refund, lump-sum refund of the accumulated account balance, partial lump-sum refund, or the ten (10) years certain option. This form was updated to add Correctional Officers, to clarify service requirements, and to enhance the legal statement.

Form 6010, "Estimated Retirement Allowance," is a one (1) page form that members and beneficiaries of the Kentucky Employees Retirement System, State Police Retirement System, or the County Employees Retirement System use to select their monthly payment option when required. This form was updated in April 2021 due to a change in agency name.

Form 6025, "Direct Rollover/Direct Payment Election Form for a Member, Beneficiary, or Alternate Payee Regarding an Eligible Rollover Distribution," is a two (2) page form that members, beneficiaries, and alternate payees must file when they elect an actuarial refund retirement payment option, lump-sum refund of the accumulated account balance, or partial lump-sum retirement payment option. This form was updated in April 2021 due to a change in agency name.

Form 6028, "Withholding Certificate for Nonperiodic Payments and Eligible Rollover Distributions," is a three (3) page form members, beneficiaries, and alternate payees must file when they elect to withhold more than the mandatory twenty (20) percent of the funds for federal taxes. This is a new form.

## KENTUCKY PUBLIC PENSIONS AUTHORITY

1260 Louisville Road • Frankfort, KY 40601 Phone: (502) 696-8800 • Fax: (502) 696-8822 • kyret.ky.gov Revised 07/2023

# Special Tax Notice Application for Refund of Member Contributions

You are receiving this notice because all or a portion of a payment you are receiving from the Kentucky Employees Retirement System, County Employees Retirement System, or State Police Retirement System (the "Plan") is eligible to be rolled over to an IRA or an employer plan. This notice is intended to help you decide whether to do such a rollover. If you have additional questions after reading this notice, you can contact your Plan Administrator at 1-502-696-8800 or 1-800-928-4646.

Rules that apply to most payments from a plan are described in the "General Information About Rollovers" section. Special rules that only apply in certain circumstances are described in the "Special Rules and Options" section.

#### **General Information About Rollovers**

#### How can a rollover affect my taxes?

You will be taxed on a payment from the Plan if you do not roll it over. If you are under age 59½ and do not do a rollover, you will also have to pay a 10% additional income tax on early distributions (generally, distributions made before age 59½), unless an exception applies. However, if you do a rollover, you will not have to pay tax until you receive payments later and the 10% additional income tax will not apply if those payments are made after you are age 59½ (or if an exception to the 10% additional income tax applies).

### What types of retirement accounts and plans may accept my rollover?

You may roll over the payment to either an IRA (an individual retirement account or individual retirement annuity) or an employer plan (a tax-qualified plan, section 403(b) plan, or governmental section 457(b) plan) that will accept the rollover. The rules of the IRA or employer plan that holds the rollover will determine your investment options, fees, and rights to payment from the IRA or employer plan. Further, the amount rolled over will become subject to the tax rules that apply to the IRA or employer plan (for example, IRAs are not subject to spousal consent rules and IRAs may not provide loans). Further, the amount rolled over will become subject to the tax rules that apply to the IRA or employer plan.

#### How do I do a rollover?

There are two ways to do a rollover. You can do either a direct rollover or a 60-day rollover.

If you do a direct rollover, the Plan will make the payment directly to your IRA or an employer plan. You should contact the IRA sponsor or the administrator of the employer plan for information on how to do a direct rollover.

If you do not do a direct rollover, you may still do a rollover by making a deposit into an IRA or eligible employer plan that will accept it. Generally, you will have 60 days after you receive the payment to make the deposit. If you do not do a direct rollover, the Plan is required to withhold 20% of the payment for federal income taxes (up to the amount of cash and property received other than employer stock). This means that, in order to roll over the entire payment in a 60-day rollover, you must use other funds to make up for the 20% withheld.

If you do not roll over the entire amount of the payment, the portion not rolled over will be taxed and will be subject to the 10% additional income tax on early distributions if you are under age 59 ½ (unless an exception applies).

#### How much may I roll over?

If you wish to do a rollover, you may roll over all or part of the amount eligible for rollover. Any payment from the Plan is eligible for rollover, except:

- Certain a period of at least 10 years or over your life or life expectancy (or the joint lives or joint life expectancies of you and your beneficiary);
- Required minimum distributions after age 70½ (if you were born before July 1, 1949), after age 72 (if you were born after June 30, 1949), after age 73 (if you were born on or after January 1, 1951), or after death;
- Corrective distributions of contributions that exceed tax law limitations; and
- Distributions of certain premiums for health and accident insurance.

KPPA can tell you what portion of a payment is eligible for rollover.

#### If I don't do a rollover, will I have to pay the 10% additional income tax on early distributions?

If you are under age 59½, you will have to pay the 10% additional income tax on early distributions for any payment from the Plan (including amounts withheld for income tax) that you do not roll over, unless one of the exceptions listed below applies. This tax applies to the part of the distribution that you must include in income and is in addition to the regular income tax on the payment not rolled over.

The 10% additional income tax does not apply to the following payments from the Plan:

- Payments made after you separate from service if you will be at least age 55 in the year of the separation;
- Payments that start after you separate from service if paid at least annually in equal or close to equal amounts over your life or life expectancy (or the joint lives or joint life expectancies of you and your beneficiary);
- Payments from a governmental plan made after you separate from service if you are a qualified public safety employee and you will be at least age 50 or have 25 or more years of service in the plan in the year of the separation;
- · Payments made due to disability;
- · Payments after your death;
- Corrective distributions of contributions that exceed tax law limitations;
- Payments made directly to the government to satisfy a federal tax levy;
- Payments made under a qualified domestic relations order (QDRO);
- Payments up to the amount of your deductible medical expenses (without regard to whether you itemize deductions for the taxable year);
- Certain payments made while you are on active duty if you were a member of a reserve component called to duty after September 11, 2001, for more than 179 days
- Payments of up to \$22,000 made to you if the payment is a qualified disaster recovery distribution;
- · Payments made to you if you are terminally ill, as determined by applicable federal requirements or guidance; and
- Phased retirement payments made to federal employees.

#### If I do a rollover to an IRA, will the 10% additional income tax apply to early distributions from the IRA?

If you receive a payment from an IRA when you are under age 59 ½, you will have to pay the 10% additional income tax on early distributions on the part of the distribution that you must include in income, unless an exception applies. In general, the exceptions to the 10% additional income tax for early distributions from an IRA are the same as the exceptions listed above for early distributions from a plan. However, there are a few differences for payments from an IRA, including:

- The exception for payments made after you separate from service if you will be at least age 55 in the year of the separation (or age 50 or have 25 or more years of service in the Plan for qualified public safety employees) does not apply;
- The exception for qualified domestic relations orders (QDROs) does not apply (although a special rule applies under which, as part of a divorce or separation agreement, a tax-free transfer may be made directly to an IRA of a spouse or former spouse); and
- The exception for payments made at least annually in equal or close to equal amounts over a specified period applies without regard to whether you have had a separation from service.

If you are a "qualified public safety employee," in order not to be subject to the additional 10% early distribution tax on this payment, you must submit a fully completed "Form 4527, Certification by a Qualified Public Safety Employee and Request for an Exception to the ten (10) percent Early Distribution Penalty in IRC 72(t)" to the retirement office. Upon request, Kentucky Public Pensions Authority can provide a copy of the Form 4527 to you. The Form 4527 is also available on the Authority's website, <a href="kyret.ky.gov">kyret.ky.gov</a>.

Additional exceptions apply for payments from an IRA, including:

- Payments for qualified higher education expenses;
- Payments up to \$10,000 used in a qualified first-time home purchase; and
- Payments for health insurance premiums after you have received unemployment compensation for 12 consecutive weeks (or would have been eligible to receive unemployment compensation but for self-employed status).

#### Will I owe State income taxes?

This notice does not address any State or local income tax rules (including withholding rules).

#### **Special Rules and Options**

#### If your payment includes after-tax contributions

After-tax contributions included in a payment are not taxed. If you receive a partial payment of your total benefit, an allocable portion of your after-tax contributions is included in the payment, so you cannot take a payment of only after-tax contributions. However, if you have pre-1987 after-tax contributions maintained in a separate account, a special rule may apply to determine whether the after-tax contributions are included in the payment. In addition, special rules apply when you do a rollover, as described below.

You may roll over to an IRA a payment that includes after-tax contributions through either a direct rollover or a 60-day rollover. You must keep track of the aggregate amount of the after-tax contributions in all of your IRAs (in order to determine your taxable income for later payments from the IRAs). Using the Form 4525, Application for Refund of Member Contributions and Direct Rollover/Direct Payment Selection, or the Form 6025, Direct Rollover/Direct Payment Election Form for a Member, Beneficiary, or Alternate Payee Regarding an Eligible Rollover Distribution, you will elect how your after-tax contributions will be distributed separately from how your pre-tax contributions will be distributed. The Plan will distribute your after-tax contributions and pre-tax contributions in accordance with your elections for each.

You may roll over to an employer plan all of a payment that includes after-tax contributions, but only through a direct rollover (and only if the receiving plan separately accounts for after-tax contributions and is not a governmental section 457(b) plan). You can do a 60-day rollover to an employer plan of part of a payment that includes after-tax contributions, but only up to the amount of the payment that would be taxable if not rolled over.

#### If you miss the 60-day rollover deadline

Generally, the 60-day rollover deadline cannot be extended. However, the IRS has the limited authority to waive the deadline under certain extraordinary circumstances, such as when external events prevented you from completing the rollover by the 60-day rollover deadline. Under certain circumstances, you may claim eligibility for a waiver of the 60-day rollover deadline by making a written self-certification. Otherwise, to apply for a waiver from the IRS, you must file a private letter ruling request with the IRS. Private letter ruling requests require the payment of a nonrefundable user fee. For more information, see IRS Publication 590-A, Contributions to Individual Retirement Arrangements (IRAs).

#### If you were born on or before January 1, 1936

If you were born on or before January 1, 1936 and receive a lump sum distribution that you do not roll over, special rules for calculating the amount of the tax on the payment might apply to you. For more information, see IRS Publication 575, *Pension and Annuity Income*.

#### If you roll over your payment to a Roth IRA

If you roll over a payment from the Plan to a Roth IRA, a special rule applies under which the amount of the payment rolled over (reduced by any after-tax amounts) will be taxed. In general, the 10% additional income tax on early distributions will not apply (unless you take the amount rolled over out of the Roth IRA within the 5 years year period that begins on January 1 of the year of the rollover).

If you roll over the payment to a Roth IRA, later payments from the Roth IRA that are qualified distributions will not be taxed (including earnings after the rollover). A qualified distribution from a Roth IRA is a payment made after you are age 59½ (or after your death or disability, or as a qualified first-time homebuyer distribution of up to \$10,000) and after you have had a Roth IRA for at least 5 years. In applying this 5-year rule, you count from January 1 of the year for which your first contribution was made to a Roth IRA. Payments from the Roth IRA that are not qualified distributions will be taxed to the extent of earnings after the rollover, including the 10% additional income tax on early distributions (unless an exception applies). You do not have to take required minimum distributions from a Roth IRA during your lifetime.

For more IRS information, see IRS Publication 590-A, Contributions to Individual Retirement Arrangements (IRAs), and Publication 590-B, Distributions from Individual Retirement Arrangements (IRAs).

You cannot roll over a distribution to a designated Roth account in another employer's plan.

#### If you are not a Plan member

<u>Payments after death of the member.</u> If you receive a distribution after the member's death that you do not roll over, the distribution generally will be taxed in the same manner described elsewhere in this notice. However, the 10% additional income tax on early distributions and the special rules for public safety officers do not apply, and the special rule described under the section "If you were born on or before January 1, 1936" applies only if the deceased member was born on or before January 1, 1936.

#### If you are a surviving spouse

If you receive a payment from the Plan as the surviving spouse of a deceased member, you have the same rollover options that the member would have had, as described elsewhere in this notice. In addition, if you choose to do a rollover to an IRA, you may treat the IRA as your own or as an inherited IRA.

An IRA you treat as your own is treated like any other IRA of yours, so that payments made to you before you are age 59½ will be subject to the 10% additional income tax on early distributions (unless an exception applies) and required minimum distributions from your IRA do not have to start until after you are age 70½ (if you were born before July 1, 1949) or age 72 (if you were born after June 30, 1949), or after age 73 (if you were born on or after January 1, 1951).

If you treat the IRA as an inherited IRA, payments from the IRA will not be subject to the 10% additional income tax on early distributions. However, if the member had started taking required minimum distributions, you will have to receive required minimum distributions from the inherited IRA. If the member had not started taking required minimum distributions from the Plan, you will not have to start receiving required minimum distributions from the inherited IRA until the year the member would have been age 70½ (if the member was born before July 1, 1949) or age 72 (if the member was born after June 30, 1949), or after age 73 (if the member was born on or after January 1, 1951).

If you are a surviving beneficiary other than a spouse. If you receive a payment from the Plan because of the member's death and you are a designated beneficiary other than a surviving spouse, the only rollover option you have is to do a direct rollover to an inherited IRA. Payments from the inherited IRA will not be subject to the 10% additional income tax on early distributions. You will have to receive required minimum distributions from the inherited IRA.

#### Payments under a QDRO

If you are the spouse or former spouse of the member who receives a lump-sum payment from the Plan under a QDRO ("alternate payee"), you generally have the same options and the same tax treatment that the member would have (for example, you may roll over the payment to your own IRA or an eligible employer plan that will accept it). However, payments under the QDRO will not be subject to the 10% additional income tax on early distributions.

If the alternate payee does not return the Form 6025, Direct Rollover/Direct Payment Election Form for a Member, Beneficiary, or Alternate Payee Regarding an Eligible Rollover Distribution, within thirty (30) days of receipt of the form and this notice, the lump-sum payment shall be processed and treated for federal income tax purposes as if the alternate payee had made an election to directly receive the funds instead of rolling over the payment to an IRA or an eligible employer plan.

In the event that the Plan cannot locate an alternate payee when a lump-sum payment from the Plan pursuant to a QDRO becomes payable, the Plan shall hold the amount payable to the alternate payee and shall make payment to the alternate payee if he or she is located within one hundred eighty (180) days after the payment becomes payable. If the alternate payee has not been located within one hundred eighty (180) days after the alternate payee's payment becomes payable, the Plan shall pay the payment held to the member and shall assign the federal tax liability for this payment to the member. No interest shall accrue on this lump-sum payment during the one hundred and eighty (180) day period or thereafter. If the alternate payee is subsequently located, any amounts already paid to the member shall no longer be payable to the alternate payee.

#### If you are a nonresident alien

If you are a nonresident alien and you do not do a direct rollover to a U.S. IRA or U.S. employer plan, instead of withholding 20%, the Plan is generally required to withhold 30% of the payment for federal income taxes. If the amount withheld exceeds the amount of tax you owe (as may happen if you do a 60- day rollover), you may request an income tax refund by filing Form 1040NR and attaching your Form 1042-S. See Form W-8BEN for claiming that you are entitled to a reduced rate of withholding under an income tax treaty. For more information, see also IRS Publication 519, U.S. Tax Guide for Aliens, and IRS Publication 515, Withholding of Tax on Nonresident Aliens and Foreign Entities.

#### **Other Special Rules**

If a payment is one in a series of payments for less than 10 years, your choice whether to do a direct rollover will apply to all later payments in the series (unless you make a different choice for later payments).

If your payments for the year are less than \$200 (not including payments from a designated Roth account in the Plan), the Plan is not required to allow you to do a direct rollover. However, you may do a 60-day rollover.

You may have special rollover rights if you recently served in the U.S. Armed Forces. For more information on special rollover rights related to the U.S. Armed Forces, see IRS Publication 3, Armed Forces' Tax Guide. You also may have special rollover rights if you were affected by a federally declared disaster (or similar event), or if you received a distribution on account of a disaster. For more information on special rollover rights related to disaster relief, see the IRS website at www.irs.gov.

#### **For More Information**

You may wish to consult with the Plan administrator or payor, or a professional tax advisor, before taking a payment from the Plan. Also, you can find more detailed information on the federal tax treatment of payments from employer plans in: IRS Publication 575, *Pension and Annuity Income*; IRS Publication 590- A, *Contributions to Individual Retirement Arrangements (IRAs)*; IRS Publication 590-B, *Distributions from Individual Retirement Arrangements (IRAs)*; and IRS Publication 571, **Tax-Sheltered Annuity Plans (403(b) Plans)**. These publications are available from a local IRS office, on the web at www.irs.gov, or by calling 1-800-TAX-FORM



KENTUCKY PUBLIC PENSIONS AUTHORITY
1260 Louisville Road • Frankfort, KY 40601
Phone: (502) 696-8800 • Fax: (502) 696-8822 • kyret.ky.gov



Form 4525 Revised 04/2021

## Application for Refund of Member Contributions and Direct Rollover/Direct Payment Selection

The earliest a refund may be processed is 45 days following termination of employment. KPPA does not guarantee the date a refund will be issued or the date it will be received once mailed from our office.

Required Information: Failure to complete all items and sign this form could result in delays. This form and verification

Member Name:	Member Name:			ember ID:			
Address:		City:		State:	Zip C	ode:	
Phone (select type)  Mobile Home Work			Email:				
Date of Birth:			Gender: Mal	le 🗌 Fema	le		
					Termina	ation Date	
System	Name of Agency Refund/Rollover Requested From		Mo	onth	Day	Year	
Kentucky Employees Retirement System (KERS)							
County Employees Retirement System (CERS)							
State Police Retirement System (SPRS)							
Distribution of Payment Election office for assistance from a cour lelect a complete distribution of four refund will include taxable moni	nselor to avoid possib my payment as follow	ole delays in ws:	processing your b	enefits.			
rom this column.	es, you must select one o		If your refund will include non-taxable monies, you must select one option from this column.				
Taxable Portion (Monies have not yet l	oeen taxed)	Non-T	Non-Taxable Portion (Monies have already been taxed)				
Direct Rollover		☐ Dir	Direct Rollover				
Paid Directly to me (less 20% withholding*)		☐ Pa	Paid Directly to me				
D-#:-! D-II: #	, balance	Pa	rtial Rollover in the an	nount of \$	, I	oalance	

Member Information	
Member Name:	Member ID:
Employer Information: If you have terminated of have your former employer complete the information.	employment with a participating agency within the last 6 months, please mation below.
Employer Name:	Employer Code:
	Were there wages reported to KPPA after termination?
If so, were those wages earned prior to the termin	nation?
Signature of Agency Official:	Date:
Printed Name of Agency Official:	
Title:	Agency Phone Number:
Acknowledgments: Subject to penalty of KRS	
I acknowledge that federal and state law both Kentucky Retirement Systems (KRS) and the	require a bona fide separation from service with all employers participating in the County Employees Retirement System (CERS) and, in some cases, entities affiliated entucky Public Pensions Authority to pay a refund of a retirement account.
<ul> <li>If I am taking a refund of my retirement account KRS and the CERS. I also affirm that I do not in some cases, entities affiliated with participat</li> </ul>	nt, I affirm that I have had a separation from service with all employers participating in the have a prearranged agreement to return to work for a participating employer (including, ting employers) after I have received a refund.
relationship (including, but not limited to, work	rvice" as used in this affidavit means a complete severance of any kind of employment as an independent contractor or leased employee) with all employers participating in the , entities affiliated with participating employers).
<ul> <li>I understand that the term "prearranged agree employers participating in the KRS and the CE received a refund.</li> </ul>	ment" as used in this affidavit means any contemplation of return to employment with ERS (including, in some cases, entities affiliated with participating employers) after I have
are to be construed in a broad manner, and in participating employers, regardless of whether	pating in the KRS and the CERS" and "participating employer" as used in this affidavit clude not only the employer itself, but may also include certain entities affiliated with r such entities are holding themselves out as legally separate entities. I am aware that I thority for assistance if I have any questions about whether an entity affiliated with a see terms.
<ul> <li>I acknowledge that if I fail to comply with feder all refunded contributions paid in error.</li> </ul>	ral and state law regarding bona fide separation from service, I will be required to repay
<ul> <li>I acknowledge that I have full understanding the penalty of perjury in accordance with Kentucky</li> </ul>	nat any person who provides a false statement, report, or representation is subject to the y Revised Statutes 523.010, et seq.
<ul> <li>I understand that by taking a refund, I am forfe</li> </ul>	eiting all service credit and eligibility for future retirement benefits.
	on or after January 1, 2014) and I am not eligible to retire, I understand that by taking a eligible to participate in the KRS and/or CERS again if I should become reemployed with to re-establish my original participation date.
	on or after January 1, 2014), and I am eligible to retire, and taking a refund that is a be eligible to participate in the KRS or the CERS again if I should become reemployed
Certification	
option indicated above. I understand that my paymer office. I understand that I have a right to at least 30 or regarding receipt or rollover of these funds, and by sunderstand that if I elect to receive any or all of the tafederal income taxes.* I understand that no tax will be plan, or other retirement plan that can accept the roll receiving the rollover complete page 3 of this form.	NOTICE REGARDING PLAN PAYMENTS and have selected the distribution in the will not be processed until this form is completed and returned to the retirement days from my receipt of the SPECIAL TAX NOTICE in which to make my decision signing and returning this form, I waive my right to the full 30-day period. I axable portion directly, 20% of the taxable portion paid to me will be withheld for my be withheld if I have the entire taxable portion rolled over directly to an IRA, qualified lover. If I elect to have any or all of the payment rolled over, I will have the Trustee ithholding rate is 30% instead of 20%, unless a tax treaty exemption applies.
,	

Note: Signature of Member is required. Signature of Witness is also required. Failure to sign form and have your signature witnessed by another person will result in the form being voided.

Page 2

Date:

Date:

Signature:

Witness Signature:

Member Name:	Member ID:
Direct Rollover Information: To be completed by Trustee of IRA or sections if the distribution will include a taxable portion and a nor	
Taxable Portion (Monies have not yet been taxed)	
☐ Traditional Individual Retirement Account/Annuity	
Roth Individual Retirement Account/Annuity	
☐ 401(a) Qualified Plan, 403(a) Qualified Annuity, 403(b) Annu	ity Contract, or 457(b) Governmental Plan
SIMPLE IRA that has been established for at least two (2) year	ars
Make check payable to:	
Account number (if applicable):	
Send check to:	
As agent for the above named plan, I certify that the above plan is an edistributee of pre-tax dollars that would otherwise be taxable upon distributee.	
Trustee/Agent Signature:	Phone:
Title:	Date:
	<del></del>
Non-Taxable Portion (Monies have already been taxed)	
Non-Taxable Portion (Monies have already been taxed)	
Non-Taxable Portion (Monies have already been taxed)  Traditional Individual Retirement Account/Annuity	
Non-Taxable Portion (Monies have already been taxed)  Traditional Individual Retirement Account/Annuity  Roth Individual Retirement Account/Annuity	
Non-Taxable Portion (Monies have already been taxed)  Traditional Individual Retirement Account/Annuity  Roth Individual Retirement Account/Annuity  401(a) Qualified Plan or 403(b) Annuity Contract	
Non-Taxable Portion (Monies have already been taxed)  Traditional Individual Retirement Account/Annuity  Roth Individual Retirement Account/Annuity  401(a) Qualified Plan or 403(b) Annuity Contract  Make check payable to:	
Non-Taxable Portion (Monies have already been taxed)  Traditional Individual Retirement Account/Annuity  Roth Individual Retirement Account/Annuity  401(a) Qualified Plan or 403(b) Annuity Contract  Make check payable to:  Account number (if applicable):	eligible plan and will accept the rollover for the benefit of the
Non-Taxable Portion (Monies have already been taxed)  Traditional Individual Retirement Account/Annuity  Roth Individual Retirement Account/Annuity  401(a) Qualified Plan or 403(b) Annuity Contract  Make check payable to:  Account number (if applicable):  Send check to:  As agent for the above named plan, I certify that the above plan is an edistributee of post-tax dollars, and will separately account for such pos	eligible plan and will accept the rollover for the benefit of the t-tax dollars, in the case of a 401(a) qualified plan or a 403



Form 4527 Revised 09/2023

# Certification by a "Qualified Public Safety Employee" and Request for an Exception to the 10% Early Distribution Penalty in IRC Section 72(t)

Member Information Please provide your Member ID or Social Security number in the Member ID box below.

Member Name:	Member ID:			
Address:	City:		State:	Zip Code:
You may complete this form and avoid a 10% early distril	bution tax penalty if yo	u meet all of	the following	g criteria:
<ul> <li>You were last employed as a "qualified public sa penalty, the term "qualified public safety employed services requiring specialized training in the area emergency medical services); and</li> </ul>	ee" generally means ar	n employee v	vhose princip	oal duties include
<ul> <li>You elected to receive an early distribution of an 10-year Certain Option from the Kentucky Retire August 18, 2006; and</li> </ul>				
<ul> <li>You were age fifty (50) or older, or you have at lesservice.</li> </ul>	east twenty-five (25) ye	ars of servic	e, during the	year of separation from
If you do not complete this form and file it at the retirement subject to a 10% early distribution penalty. Section 72(t) of distribution tax penalty of an early distribution from the Ko System. There is an exception to the additional tax for pure Revenue Code. The exception provides that the early distribution on or after August 18, years of service, during the year of separation from service.	of the Internal Revenue entucky Retirement Sy ublic safety employees stribution penalty will no 2006, and who was agoe.	e Code provi stems or the set forth in S ot apply to a	des for an ac County Emp Section 72(t)( "qualified pu	dditional 10% early bloyees Retirement (10) of the Internal blic safety employee"
Certification of Status as a "Qualified Public Safety E				
I,, certify the immediately prior to my retirement or my most recer separation from service, I was an employee particip in the (check all that are applicable):	nt requiring spe	ecialized tra le):	•	s included services area of (check all that
Kentucky Employees Retirement System	Firefighting			
County Employees Retirement System	Correction	-		
State Police Retirement System		y medical se	rvices	
I am making this certification under penalty of perjury in common Form 1099-R with respect to a benefit payment that I have County Employees Retirement System. I certify that the inunderstanding that any person who provides a false state is subject to the penalty of perjury in accordance with KR cause to be submitted a false or fraudulent claim for the penalty I was not entitled to receive, but also liable for ci	ve received or will rece nformation provided is ement, report, or repres S 523.010, et seq. I fu payment or receipt of b	ive from the true and acceptation to a rther acknown penefit, I may	Kentucky Recurate. I ackroa governmen reledge that if renot only be	etirement Systems or the howledge that I have full hatal entity such as KPPA I knowingly submit or
Signature:		[	Date:	

KENTUCKY PUBLIC PENSIONS AUTHOR 1260 Louisville Road • Frankfort, KY 40601 Phone: (502) 696-8800 • Fax: (502) 696-8822 • kyret.ky.gov	71.71.71	*6010/
		FORM 6010
FORM 6010 ESTIMATED	RETIREMENT ALLOWANCE	
Retirement	Date:	
Retiremen	Plan:	
Retiremen	nt Type:	
Member Information	Beneficiary Information	
	Beneficiary: Beneficiary Date of Birth:	
Member Date of Birth: Member ID:		
Please Select ONE payment option by checking one box below	Payment to member while living	Payment to beneficiary after member's death
LIFE WITH 10 YEARS CERTAIN		î
LIFE WITH 15 YEARS CERTAIN		
LIFE WITH 20 YEARS CERTAIN		
SURVIVORSHIP 100%		
SURVIVORSHIP 66 2/3%		
SURVIVORSHIP 50%		
POP-UP		
10 YEARS CERTAIN		
I REJECT ALL MONTHLY PAYMENT OPTIONS APPROXIMATELY I AM ALSO FOR BENEFITS PROVIDED BY THE KENTUCKY PUB	REITING ANY HEALTH INSUI	RANCE AND DEATH
NOTE: If you select the actuarial refund or lump sum in Form 6025, Direct Rollover/Direct Payment Election F	refund you must also complete orm. The Form 6025 is located	and return the enclosed in the Special Tax Notice.
This estimate was calculated using an early retiremen	t percentage of 100.00%.	
Certification		
I CERTIFY THAT I HAVE SELECTED THE OPTION O DAY OF THE MONTH IN WHICH I RECEIVE MY FIR TO CHANGE MY PAYMENT OPTION OR MY BENEF	ST RETIREMENT CHECK, I W	
Signature of Recipient:		ate:
Signature of Spouse:		ate:
Witnessed by:		ate:
EORM 6010 MODA TH		Page 1 of 1



**Recipient Information** 

Member Name:

KENTUCKY PUBLIC PENSIONS AUTHORITY 1260 Louisville Road • Frankfort, KY 40601 Phone: (502) 696-8800 • Fax: (502) 696-8822 • kyret.ky.gov



Member ID:

Revised 06/2023

## Direct Rollover/Direct Payment Election Form for a Member, Beneficiary, or Alternate Payee Regarding an Eligible Rollover Distribution

Required Information: Failure to complete all items and sign this form could delay the processing of your lump sum/ monthly benefit.

If you are not the member, please provide your name an	d Social Security Number (SSN) b	elow.			
Name:		SSN:			
Address:	City:	State:	Zip Code:		
Is this a new address?					
This form must be completed if you are electing to receive an "eligible rollover distribution." <b>Failure to complete this form could delay the processing of your lump sum/monthly benefit.</b> If you are the member, the following payment options are "eligible rollover distributions": Actuarial Refund, Partial Lump Sum, and Refund of Contributions. If you are a beneficiary, the following payment options are "eligible rollover distributions": Actuarial Refund, Refund of Contributions, \$5,000 Death Benefit, \$10,000 Lump Sum pursuant to KRS 16.601 and 78.5534, and 60 Months Certain.					
Please read the enclosed SPECIAL TAX NOTICE REGARDING PLAN PAYMENTS. If you have questions about the SPECIAL TAX NOTICE, please contact a qualified tax advisor. Kentucky Public Pensions Authority employees are not qualified to answer questions concerning your tax status or the effects of the federal tax laws and regulations. After you have read the SPECIAL TAX NOTICE, you must complete the following form to certify that you have read the SPECIAL TAX NOTICE and to make your selections with regard to treatment of your payment.					
Distribution of Payment Election: If you are unsure a office for assistance from a counselor to avoid poss	ible delays in processing your b		n, please contact our		
I elect a complete distribution of my payment as follows the following of the portion will include a taxable portion, you must one option from this column.  Taxable Portion (Monies have not yet been taxed)		s column.			
☐ Direct Rollover	☐ Direct Rollover				
☐ Paid Directly to me (less 20% withholding*)	☐ Paid Directly to me				
Partial Rollover in the amount of \$, balar (less 20% withholding*) paid to me.	Partial Rollover in the paid to me.	amount of \$	, balance		
Complete pag	ge 2 only if you select a rollover				
I certify that I have read the enclosed SPECIAL TAX NOTICE REGARDING PLAN PAYMENTS and have selected the distribution option indicated above. I understand that my payment will not be processed until this form is completed and returned to the retirement office. I understand that I have a right to at least 30 days from my receipt of the SPECIAL TAX NOTICE in which to make my decision regarding receipt or rollover of these funds, and by signing and returning this form, I waive my right to the full 30-day period. I understand that if I elect to receive any or all of the taxable portion directly, 20% of the taxable portion paid to me will be withheld for my federal income taxes.* I understand that no tax will be withheld if I have the entire taxable portion rolled over. If I elect to have any or all of the payment rolled over, I will have the Trustee receiving the rollover complete the back of this form. I understand that in the case of monthly payments, my selection will remain in effect for each monthly payment until I change my election. I hereby certify that the information completed on this form is true and accurate. I acknowledge that I have full understanding that any person who provides a false statement, report, or representation to a governmental entity such as KPPA is subject to the penalty of perjury in accordance with KRS 523.010, et seq. I further acknowledge that if I knowingly submit or cause to be submitted a false or fraudulent claim for the payment or receipt of benefit, I (personally) may be liable for restitution of the benefits for which I or a minor recipient was not eligible to receive, civil payments, legal fees, and costs.					
Signature:	Date	e:			
*If you are a nonresident alien, the mandatory withholding	rate is 30% instead of 20%, unless	a tax treaty exe	mption applies. Page 1		

Recipient Information	
Member Name:	Member ID:
Direct Rollover Information: To be completed by Trustee of If sections if the distribution will include a taxable portion and	
Taxable Portion (Monies have not yet been taxed)	
☐ Traditional Individual Retirement Account/Annuity*	
☐ Roth Individual Retirement Account/Annuity*	
☐ 401(a) Qualified Plan, 403(a) Qualified Annuity, 403(b)	Annuity Contract, or 457(b) Governmental Plan*
SIMPLE IRA that has been established for at least two (	(2) years*
Make check payable to:	
Account number (if applicable):	
Send check to:	
As agent for the above named plan, I certify that the above plan is distributee of pre-tax dollars that would otherwise be taxable upor	
Trustee/Agent Signature:	Phone:
Title:	Date:
Non-Taxable Portion (Monies have already been taxed)	
☐ Traditional Individual Retirement Account/Annuity*	
Roth Individual Retirement Account/Annuity*	
☐ 401(a) Qualified Plan or 403(b) Annuity Contract*	
Make check payable to:	
Account number (if applicable):	
Send check to:	
As agent for the above named plan, I certify that the above plan is distributee of post-tax dollars, and will separately account for sucl 403(b) annuity contract.	
Trustee/Agent Signature:	Phone:
Title:	Date:

<sup>\*</sup> If you are a non-spouse beneficiary, you may only rollover your payment to an "inherited" individual retirement account/annuity. The "inherited" IRA may be either a traditional IRA or a Roth IRA.



#### KENTUCKY PUBLIC PENSIONS AUTHORITY

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



#### Form W-4R 2022

Department of the Treasury Internal Revenue Service

1a First name and middle initial

## Withholding Certificate for Nonperiodic Payments and Eligible Rollover Distributions

▶ Give Form W4-R to the payer of your retirement payments.

Last name

Form 6028 11/2022 OMB No. 1545-0074

1b Social security number

Address			
City or tov	vn, state, and ZIP code		
•	nholding rate is determined by the type of payment you will receive. For nonperiodic payments, the default withholding rate is 10%. You can 0% and 100% on line 2. Generally, you can't choose less than 10% for pa possessions. For an eligible rollover distribution, the default withholding rate is 20%. on line 2. You may not choose a rate less than 20%.	yments to be delivered outside the Uni	ted States and its
inst	nplete this line if you would like a rate of withholding that is different from ructions on page 2 and the Marginal Rate Tables below for additional infornber (no decimals)	mation. Enter the rate as a whole	2 %
Sign Here	Your signature (This form is not valid unless you sign it.)	Date	
	Member Name	Member ID	

#### General Instructions

Section references are to the Internal Revenue Code. **Future developments.** For the latest information about any future developments related to Form W-4R, such as legislation enacted after it was published, go to www.irs.gov/FormW4R. **Purpose of form.** Complete Form W-4R to have payers withhold the correct amount of federal income tax from your nonperiodic payment or eligible rollover distribution from an employer retirement plan, annuity (including a commercial annuity), or individual retirement arrangement (IRA). See page 2 for the rules and options that are available for each type of payment. Don't use Form W-4R for periodic payments (payments made in installments at regular intervals over a

period of more than 1 year) from these plans or arrangements. Instead, use Form W-4P, Withholding Certificate for Periodic Pension or Annuity Payments. For more information on withholding, see Pub. 505, Tax Withholding and Estimated Tax. **Caution:** If you have too little tax withheld, you will generally owe tax when you file your tax return and may owe a penalty unless you make timely payments of estimated tax. If too much tax is withheld, you will generally be due a refund when you file your tax return. Your withholding choice (or an election not to have withholding on a nonperiodic payment) will generally apply to any future payment from the same plan or IRA. Submit a new Form W-4R if you want to change your election.

#### **2022 Marginal Rate Tables**

You may use these tables to help you select the appropriate withholding rate for this payment or distribution. Add your income from all sources and use the column that matches your filing status to find the corresponding rate of withholding. See page 2 for more information on how to use this table.

	ingle iling separately	Married filing jointly or Qualifying widow(er)		Head of household	
Total income over—	Tax rate for every dollar more	Total income over—	Tax rate for every dollar more	Total income over—	Tax rate for every dollar more
\$0	0%	\$0	0%	\$0	0%
12,950	10%	25,900	10%	19,400	10%
23,225	12%	46,450	12%	34,050	12%
54,725	22%	109,450	22%	75,300	22%
102,025	24%	204,050	24%	108,450	24%
183,000	32%	366,000	32%	189,450	32%
228,900	35%	457,800	35%	235,350	35%
552,850*	37%	673,750	37%	559,300	37%

<sup>\*</sup> If married filing separately, use \$336,875 instead for this 37% rate.

Form **W-4R** (2022)

Form W-4R (2022) Page  ${f 2}$ 

#### **General Instructions (continued)**

Nonperiodic payments—10% withholding. Your payer must withhold at a default 10% rate from the taxable amount of nonperiodic payments unless you enter a different rate on line 2. Distributions from an IRA that are payable on demand are treated as nonperiodic payments. Note that the default rate of withholding may not be appropriate for your tax situation. You may choose to have no federal income tax withheld by entering "-0-" on line 2. See the specific instructions below for more information. Generally, you are not permitted to elect to have federal income tax withheld at a rate of less than 10% (including "-0-") on any payments to be delivered outside the United States and its possessions.

**Note:** If you don't give Form W-4R to your payer, you don't provide an SSN, or the IRS notifies the payer that you gave an incorrect SSN, then the payer must withhold 10% of the payment for federal income tax and can't honor requests to have a lower (or no) amount withheld. Generally, for payments that began before 2022, your current withholding election (or your default rate) remains in effect unless you submit a Form W-4R.

**Eligible rollover distributions—20% withholding.** Distributions you receive from qualified retirement plans (for example, 401(k) plans and section 457(b) plans maintained by a governmental employer) or tax-sheltered annuities that are eligible to be rolled over to an IRA or qualified plan are subject to a 20% default rate of withholding on the taxable amount of the distribution. You can't choose withholding at a rate of less than 20% (including "-0-"). Note that the default rate of withholding may be too low for your tax situation. You may choose to enter a rate higher than 20% on line 2. Don't give Form W-4R to your payer unless you want more than 20% withheld.

Note that the following payments are not eligible rollover distributions: (a) qualifying "hardship" distributions, and (b) distributions required by federal law, such as required minimum distributions. See Pub. 505 for details. See also Nonperiodic payments—10% withholding above.

**Payments to nonresident aliens and foreign estates.** Do not use Form W-4R. See Pub. 515, Withholding of Tax on Nonresident Aliens and Foreign Entities, and Pub. 519, U.S. Tax Guide for Aliens, for more information.

**Tax relief for victims of terrorist attacks.** If your disability payments for injuries incurred as a direct result of a terrorist attack are not taxable, enter "-0-" on line 2. See Pub. 3920, Tax Relief for Victims of Terrorist Attacks, for more details.

#### Specific Instructions Line 1b

For an estate, enter the estate's employer identification number (EIN) in the area reserved for "Social security number."

#### Line 2

**More withholding.** If you want more than the default rate withheld from your payment, you may enter a higher rate on line 2.

**Less withholding (nonperiodic payments only).** If permitted, you may enter a lower rate on line 2 (including "-0-") if you want less than the 10% default rate withheld from your payment. If you have already paid, or plan to pay, your tax on this payment through other withholding or estimated tax payments, you may want to enter "-0-".

**Suggestion for determining withholding.** Consider using the Marginal Rate Tables on page 1 to help you select the appropriate withholding rate for this payment or distribution. The tables are most accurate if the appropriate amount of tax on all other sources of income, deductions, and credits has been paid through other withholding or estimated tax payments. If the appropriate amount of tax on those sources of income has not been paid through other withholding or estimated tax payments, you can pay that tax through withholding on this payment by entering a rate that is greater than the rate in the Marginal Rate Tables.

The marginal tax rate is the rate of tax on each additional dollar of income you receive above a particular amount of income. You can use the table for your filing status as a guide to find a rate of withholding for amounts above the total income level in the table.

To determine the appropriate rate of withholding from the table, do the following. Step 1: Find the rate that corresponds with your total income not including the payment. Step 2: Add your total income and the taxable amount of the payment and find the corresponding rate.

If these two rates are the same, enter that rate on line 2. (See Example 1 below.)

If the two rates differ, multiply (a) the amount in the lower rate bracket by the rate for that bracket, and (b) the amount in the higher rate bracket by the rate for that bracket. Add these two numbers; this is the expected tax for this payment. To get the rate to have withheld, divide this amount by the taxable amount of the payment. Round up to the next whole number and enter that rate on line 2. (See Example 2 below.)

If you prefer a simpler approach (but one that may lead to overwithholding), find the rate that corresponds to your total income including the payment and enter that rate on line 2.

**Examples.** Assume the following facts for Examples 1 and 2. Your filing status is single. You expect the taxable amount of your payment to be \$20,000. Appropriate amounts have been withheld for all other sources of income and any deductions or credits.

**Example 1.** You expect your total income to be \$60,000 without the payment. Step 1: Because your total income without the payment, \$60,000, is greater than \$54,725 but less than \$102,025, the corresponding rate is 22%. Step 2: Because your total income with the payment, \$80,000, is greater than \$54,725 but less than \$102,025, the corresponding rate is 22%. Because these two rates are the same, enter "22" on line 2.

**Example 2.** You expect your total income to be \$42,500 without the payment. Step 1: Because your total income without the payment, \$42,500, is greater than \$23,225 but less than \$54,725, the corresponding rate is 12%. Step 2: Because your total income with the payment, \$62,500, is greater than \$54,725 but less than \$102,025, the corresponding rate is 22%. The two rates differ. \$12,225 of the \$20,000 payment is in the lower bracket (\$54,725 less your total income of \$42,500 without the payment), and \$7,775 is in the higher bracket (\$20,000 less the \$12,225 that is in the lower bracket). Multiply \$12,225 by 12% to get \$1,467. Multiply \$7,775 by 22% to get \$1,710.50. The sum of these two amounts is \$3,177.50. This is the estimated tax on your payment. This amount corresponds to 15.9% of the \$20,000 payment (\$3,177.50 divided by \$20,000). Rounding up to the next whole number, enter "16" on line 2.

Form W-4R (2022) Page **3** 

Privacy Act and Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to provide this information only if you want to (a) request additional federal income tax withholding from your nonperiodic payment(s) or eligible rollover distribution(s); (b) choose not to have federal income tax withheld from your nonperiodic payment(s), when permitted; or (c) change a previous Form W-4R (or a previous Form W-4P that you completed with respect to your nonperiodic payments or eligible rollover distributions). To do any of the aforementioned, you are required by sections 3405(e) and 6109 and their regulations to provide the information requested on this form. Failure to provide this information may result in inaccurate withholding on your payment(s). Failure to provide a properly completed form will result in your payment(s) being subject to the default rate; providing fraudulent information may subject you to penalties.

Routine uses of this information include giving it to the Department of Justice for civil and criminal litigation, and to cities, states, the District of Columbia, and U.S.

commonwealths and possessions for use in administering their tax laws. We may also disclose this information to other countries under a tax treaty, to federal and state agencies to enforce federal nontax criminal laws, or to federal law enforcement and intelligence agencies to combat terrorism.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The average time and expenses required to complete and file this form will vary depending on individual circumstances. For estimated averages, see the instructions for your income tax return.

If you have suggestions for making this form simpler, we would be happy to hear from

<b>■</b> Dec 2023			January 2024	ļ		Feb 2024 ▶
Sun	Mon 1 New Year's Day	Tue 2	Wed 3	Thu 4	Fri 5	Sat 6
7	8	<b>9</b> CERS Personnel Committee	10	11	12	13
14	<b>15</b> Martin Luther King, Jr.	16	17 CERS Board Trustee Training	18	19	20
21	22	23	24	25	26	27
28	29	30	31		1	

<b>■</b> Jan 2024			February 202	4		Mar 2024 ▶
Sun	Mon	Tue	Wed	Thu 1	Fri 2	Sat 3
4	5	6	7	8	9	10
11	12	13	14 CERS Actuarial Committee	15 Joint Retiree Health Plan Committee	16	17
18	19 CERS Finance Committee	20	KRS Investment Committee	22	23	24
25	26	27 KPPA Audit Committee	28 CERS Investment Committee	29		

▼ Feb 2024			March 202	4		Apr 2024 ▶
Sun	Mon	Tue	Wed	Thu	Fri 1	Sat 2
3	4	5	6	7	8	9
10	11	12	13 KRS Board	14	15	16
17	18	19	20 CERS Board	<b>21</b> KPPA Board	22	23
24	25	26	27	28	29 Good Friday – ½ day	30
31						

■ Mar 2024			April 2024			May 2024 ▶
Sun	Mon 1	Tue 2	Wed 3	Thu 4	Fri 5	Sat 6
7	8	9 KRS Annual Board Meeting	10 CERS Actuarial Committee	11	12	13
14	15	16	17 CERS Annual Board Meeting	18	19	20
21	22	23	24	25 KPPA Annual Board Meeting	26	27
28	29	30				

■ Apr 2024			May 2024			Jun 2024 ▶
Sun	Mon	Tue	Wed	Thu	Fri	Sat
			1	2	3	4
5	6	7	8 Joint Retiree Health Plan Committee	9	10	11
12	13	14	15	16 KRS Investment Committee	17	18
19	20 CERS Finance Committee	21	CERS Investment Committee	23	24	25
26	27 Memorial Day	28	29	<b>30</b> KPPA Audit Committee	31	

<b>■</b> May 2024			June 2024	1		Jul 2024 ▶
Sun	Mon	Tue	Wed	Thu	Fri	Sat 1
2	3	4 CERS Personnel Committee	5	6	7	8
9	10	11	12	13	14	15
16	17	18 KRS Board	19 CERS Board	20	21	22
23	24	25	26	<b>27</b> KPPA Board	28	29
30		1		1	1	

<b>■</b> Jun 2024			July 2024			Aug 2024 ▶
Sun	Mon 1	Tue 2	Wed 3	Thu 4 Independence Day	Fri 5	Sat 6
7	8	9	10	11	12	13
14	15	16	17 CERS Trustee Training	18	19	20
21	22	23	24	25	26	27
28	29 CERS Legislative Committee	30	31			

<b>■</b> Jul 2024			August 2024			Sep 2024 ▶
Sun	Mon	Tue	Wed	Thu 1	Fri 2	Sat 3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19 CERS Finance Committee	20	21 KRS Investment Committee	22	23	24
25	26 CERS Legislative Committee	<b>27</b> KPPA Audit Committee	28 CERS Investment Committee	29	30	31

■ Aug 2024			September 2	024		Oct 2024 ▶
Sun	Mon	Tue	Wed	Thu	Fri	Sat
1	<b>2</b> Labor Day	Joint Retiree Health Plan Committee	4	5	6	7
8	9	10	11 CERS Board	<b>12</b> KRS Board	13	14
15	16	17	18	19	20	21
22	23	24	25	<b>26</b> KPPA Board	27	28
29	30					

Sep 2024			October 2024	1		Nov 2024 ▶
Sun	Mon	Tue 1	Wed 2	Thu 3	Fri 4	Sat 5
6	7	8	9	10	11	12
13	14	15	16 CERS Board Trustee Training	17	18	19
20	21 Joint Retiree Health Plan Committee	22	23	24	25	26
27	28	29	30 CERS Actuarial Committee	31		

✓ Oct 2024			November 2	024		Dec 2024 ▶
Sun	Mon	Tue	Wed	Thu	Fri 1	Sat 2
3	4	5 Election Day	6 CERS Board	7	8	9
10	<b>11</b> Veterans Day	12	13 KRS Board	14	15	16
17	18	<b>19</b> KPPA Audit	20	<b>21</b> KRS Investment Committee	22	23
24	25 CERS Finance Committee	26 CERS Investment	27	28 Thanksgiving Day	<b>29</b> Office closed	30

Nov 2024			December 20	024		<u>Jan 2025</u> ▶
Sun	Mon	Tue	Wed	Thu	Fri	Sat
1	2	3	<b>4</b> KRS Board	<b>5</b> KPPA Board	6	7
8	9 CERS Board	10	11	12	13	14
15	16	17	18	19	20	21
22	23	<b>24</b> Christmas Eve	25 Christmas Day	26	27	28
29	30	31 New Year's Eve				



#### 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: Kentucky Public Pensions Authority Board

From: David Eager, Executive Director

Date: September 28, 2023

Subject: KPPA Update

#### I. LEGISLATION:

### Housekeeping Bill

- Staff met with Representative D.J. Johnson, Senator Jimmy Higdon, Senator Robby Mills, and representatives of KACo, LOC, and the SBA to discuss our Housekeeping Bill. They agree to find a sponsor and submit as presented.
- Have submitted language to LRC for KPPA, KERS, and CERS to lease or acquire property for the purpose of being able to operate.
- Provided an actuarial analysis on Tier 3 Hazardous members moving to Tier 2.
- **II. CEM VOICE OF THE CUSTOMER:** Planning to retain CEM to conduct interviews with members who have recently been served regarding their servicing experience. This appears to be a unique service (i.e., no other providers).
- **III. KEY PERFORMANCE INDICATOR (KPI) PROJECT:** The KPI project continues to get refined. Initially we plan to have 19 KPIs with 16 of those being actively updated. The next phase will include 5 KPIs focused on KPPA cyber security.
- IV. KPPA STRATEGIC PLAN: An update from Provaliant is scheduled for September 7<sup>th</sup>.
- **V. STAFFING:** We currently have 262 employees; 254 full-time, 7 interim, and 1 part-time. Thirteen employees have been hired since the last KPPA meeting.

Division	Title
ERCE	1 Retirement System Counselor
Member Services	4 Retirement System Counselors
Membership Support	3 Retirement System Counselors
Disability & Survivor Benefits	2 Retirement System Counselors
Retiree Healthcare	1 Retirement System Counselor
Legal Advocacy	1 Law Clerk
Legal Non-Advocacy	1 Administrative Specialist III

- VI. FINANCE CABINET: Met with Ryan Barrow, Steve Starkweather, and staff of The Commonwealth of Kentucky Office of Financial Management. We are complying with their request for a KPPA litigation document for use with the rating agency and other public requests.
- VII. SAFR: A draft of the SAFR is underway. Communications began working on the SAFR layout last month, as well as updating various components of the report with data available following completion of KPPA's Fiscal Year end jobs. As additional data is provided to Communications staff, SAFR updates will continue, with an initial draft of the full report available to executives for review in early November.
- **VIII. CONFERENCE ATTENDANCE:** KPPA staff have attended several conferences since May 2023 and are scheduled to attend additional conferences this calendar year.

#### May

CEM Benchmarking- Rebecca Adkins

#### <u>June</u>

2023 Chief Officers Summit-Rebecca Adkins

#### July

Institutional Limited Partners Association (ILPA) 2023 Legal Documents Course- Carrie Bass

#### August

Institutional Investor Week Conference- Anthony Chiu NASRA Conference- Rebecca Adkins, Michael Board, Ed Owens, III, and John Chilton Public Pension Funding Forum- Erin Surratt

#### <u>September</u>

ARCTOS Annual Meeting- Anthony Chiu Stockbridge's Annual Meeting- Anthony Chiu Fund Evaluation Group- Anthony Chiu Info-Tech Live 2023- Dominique McKinley ILPA Private Equity Legal Conference- Victoria Hale

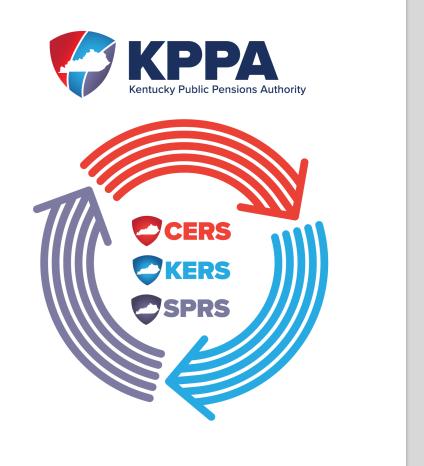
### <u>October</u>

Public Pension Finance Forum- Mike Lamb Association of Asian American Investment Managers- Anthony Chiu

- IX. LEGISLATIVE PRESENTATION: Presenting to the Jt. A&R Committee on September 20<sup>th</sup>.
- X. ALL EMPLOYEE MEETINGS: Scheduled for September 26<sup>th</sup> and 27<sup>th</sup>.

XI. CYBER INSURANCE: KPPA has received some bids for a \$5M Cyber Insurance Policy from various vendors. The procurement team has evaluated the bidders and feels comfortable in making a selection. Upon selection, contract negotiations will begin with the successful bidder and Legal will have a chance to review the proposed policy and coverage(s).







Mandate # 2: Provide members with efficient access to information and helpful counseling to meet their individual needs.

Mandate #6: Insist on a culture of continuous enhancement to everything we do.

KPPA's paperless option will be like financial businesses, healthcare institutions and other government entities many of us interact with.





## **Expanding what we are already doing with Self Service:**

- Online Service Purchase Cost
- Correspondence available in Message Center
- Online Retirement Application
- Online Health Insurance Enrollment
- Online PIN Request
- Document Upload



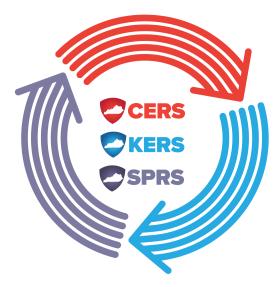




## **Paperless Benefits**

- ✓ Easy access to information
- ✓ No mail delays
- √ Email validation processes are in place
- ✓ Self Service is a secure site
- ✓ PIN required to make changes online
- ✓ Anticipate correspondence cost savings (print and postage expenses)







## **COMING IN 2024**



## What does Paperless mean?

- Valid Email Address defaults to paperless unless they opt-out
- Account specific (LOB documents) go to the Message Center
- Specific Exceptions:
  - 1099Rs
  - Notifications/orders related to administrative hearings required to be mailed by KRS Chapter 13B
  - Trustee Election Ballots
  - Minimum Distribution notices
  - Other documents identified by benefits staff



## Members can opt-out at any time:

- Self Service (PIN required)
- Call (PIN required)
- Submit Form 2040 (Change of Contact Information)

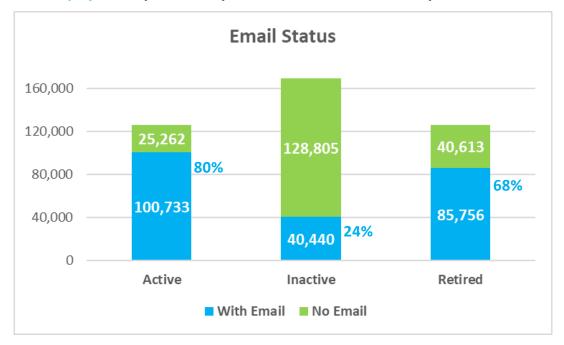


## \*Opt-out does not apply to general information:

• Member Newsletters, Insurance Reminders, Trustee Election Reminders



- 1. Current members with valid email: Default to paperless unless they opt-out
- 2. Current members with no valid email: No change; option to opt-out when valid email is provided
- 3. New members & new payees: Option to opt-out when valid email is provided





## Basic Message - with Open Enrollment

- KEHP Open Enrollment
- Social Media

## Specific Message - Later this year

- Website/Self Service banners
- Include with 1099Rs
- Member Newsletters
- Social Media
- Participating Employers
- Stakeholder Groups (KPR, KGR, KLC, KaCO, KSBA, etc.).
- Update KHRIS tile
- Direct mailer to current members (February 2024)
- Phone message (coordinate with mailing)
- Add graphic to envelopes

**Implementation Spring 2024** 

