

**MINUTES OF MEETING
BOARD OF TRUSTEES KENTUCKY RETIREMENT SYSTEMS
December 2, 2021 AT 10:00 AM ET
VIA LIVE VIDEO TELECONFERENCE**

At the meeting of the Kentucky Retirement Systems Board of Trustees held on December 2, 2021 the following members were present: Keith Peercy (Chair), Bruce Brown, John Cheshire, Raymond Connell, Joseph Grossman, Lynn Hampton, Prewitt Lane, Pamela Thompson and Larry Totten. Staff members present were KRS CEO John Chilton, David Eager, Rebecca Adkins, Erin Surratt, Michael Board, Steven Herbert, Victoria Hale, Connie Davis, D’Juan Surratt, Jared Crawford, Kristen Coffey, Jillian Hall, Wes Crosthwaite, Staci Receveur, Ashley Gabbard, Shaun Case, Phillip Cook, Glenna Frasher and Sherry Rankin. Others in attendance included Danny White and Janie Shaw with GRS Consulting; Chris Tessman and Craig Morton with Wilshire; and Allen Norvell and Ryan Graham with Blue and Co.

Mr. Peercy called the meeting to order.

Mr. Michael Board read the Legal Public Statement.

Ms. Sherry Rankin called roll.

There being no public comment, Mr. Peercy introduced agenda item *Approval of Minutes – November 16, 2021*. Mr. Totten made a motion and Mr. Lane seconded to approve the minutes as presented. The motion passed unanimously.

Mr. Peercy introduced agenda item *Approval of Annual Actuarial Valuations and Contribution Rates*. Ms. Janie Shaw with GRS began by indicating the full presentation was previously presented to this Board at the November 2021 meeting. Therefore, she reviewed the required contribution rates of 9.97% for the KERS Non-Hazardous, 31.82% for KERS Hazardous, and 140.51% for State Police systems which will go into effect on July 1, 2022. Ms. Shaw noted the reduction in the rates over the last valuation, and this is due to the favorable return on investments that occurred during the 2021 Fiscal Year. A motion was made by Mr. Totten and seconded by Ms. Hampton to approve the annual actuarial valuation. The motion passed unanimously. A motion was made by Ms. Hampton and seconded by Mr. Totten to adopt the employer contribution rates as presented. The motion passed unanimously.

Mr. Percy introduced agenda item *Wilshire Quarterly Investment Reports*. Mr. Lane introduced Chris Tessman and Craig Morton from Wilshire to present the quarterly report ending September 30, 2021 for the Kentucky Employees Retirement System and State Police Retirement System. Mr. Morton reviewed the Asset Class Performance. Mr. Morton continued to review the quarterly charts reflecting the Economic Growth, Consumer Activity, Inflation and Employment levels, US Equity Market, Non-US Equity Market, US Fixed Income, and the September 2021 Asset Class Assumptions. Mr. Tessman then reviewed quarterly charts that reflected the Asset Allocation Compliance, Total Fund Attribution, Plan Sponsor Peer Group Analysis, Plan Sponsor Scattergram, and the Asset Allocation and Performance charts. Mr. Grossman asked Mr. Herbert his thoughts related to our current position, where we are outside of the Investment Policy Statement, are changes to the Investment Policy Statement needed at this time. Mr. Herbert indicated that changes are not needed at this time to the Investment Policy Statement, and that it will take a little time to realize the changes that were recently made in regards to the Real Estate market. This presentation was for informational purposes only.

Mr. Percy introduced agenda item *External Audit*. Mr. Ryan Graham and Mr. Allen Norvell with Blue and Co. indicated that a more intensive review of the audit report was provided to the Joint Audit Committee. Mr. Graham indicated that staff is continuing to work on items identified in that meeting, but noted it is not substantial, and the draft is presented here for your review and questions. He stated that the final version is expected to be completed by December 8, 2021, as it will need to be sent to the State for their financial reporting. In reviewing the opinion from Blue and Co, Mr. Graham stated that their report will be issued as a “clean” or “unmodified” opinion, which they also plan to issue upon the final version of the report. A motion was made by Mr. Totten and seconded by Mr. Cheshire to adopt the external audit report as presented.

Mr. Percy introduced agenda item *Joint Audit Committee Reports and Recommendations*. Ms. Hampton requested that Mr. Board review the process of how material in Joint committees are to be reported to the respective Boards. Mr. Board indicated that discussions about the relationship between the Joint Audit Committee and the KPPA Board have occurred. Mr. Board explained that the Joint Audit Committee is comprised of members from both the County Employees Retirement System and the Kentucky Retirement Systems and that the committee structure is such that the members of the joint committee would report back to their respective Boards and not directly to the KPPA Board. He suggested that the best approach might be to have a representative of each

of the County Employees Retirement System and the Kentucky Retirement Systems who are also a member of the Kentucky Public Pensions Authority, to then report to KPPA that their respective Boards have reviewed and approved the reports. Mr. Board stated that the external and internal auditors would then independently present their reports directly to the KPPA Board. He explained that structurally, there is not a process of getting those reports to the KPPA Board since the Joint Audit Committee has no direct relation to KPPA. Ms. Hampton questioned whether the previous agenda item of the External Audit report was in compliance with the process Mr. Board just reviewed. Mr. Board verified and indicated the need for someone from this Board who is also on the KPPA Board to report to the KPPA meeting the outcome of the approval of the report. Ms. Hampton indicated to Mr. Percy that someone would need to be appointed to report the approval to the KPPA Board. Mr. Percy stated that he, or one of the other members of KPPA, would report the vote to the KPPA Board.

Ms. Hampton began her report by stating that the Joint Audit Committee met on November 30, 2021 in a special called meeting where the committee discussed the Financial Statements that were just reviewed and approved by this Board. Ms. Coffey reviewed the results from an audit of the Review of the Employer Penalty Invoice Waiver Process. The audit noted two findings from this audit and it resulted in placing penalty invoice waivers in an email account that is accessible to all staff involved in the waiver process and to update the related policy and procedures. This report was provided for informational purposes only.

Mr. Percy introduced agenda item *Quarterly Financial Reports*. Mr. Percy indicated that these reports were provided and reviewed in the previous meeting, and unless the Trustees had questions, this agenda item would be passed without review. There being no questions, the meeting proceeded.

Mr. Percy introduced agenda item *Biennial Budget Request*. Ms. Adkins advised the Board that the Biennial Budget Request for Fiscal Years 2023 and 2024 has been submitted and wanted to provide the details regarding the request. Ms. Adkins noted that no additional funds were requested. Ms. Adkins reviewed the spreadsheet created for comparison purposes for the Board. The overall budget remained flat. Ms. Adkins then reviewed the process for the Biennial Budget, and indicated that this is just a request and it is sent both to LRC and the Finance Cabinet. The Finance Cabinet compiles these requests from all of the agencies in the Executive Branch to create

the Governor's Budget Proposal. LRC also compiles these to assist both houses of the legislature to create their budget bill. Ms. Adkins reiterated that this is just a request, and that it must be approved by the legislature. Ms. Adkins indicated that KPPA Staff Vonda Donoho and Elizabeth Smith worked in conjunction with our assigned Budget Analyst to finalize the figures used in our budget request. Mr. Connell asked if the employees of KPPA are on the normal state salary schedule. Ms. Adkins confirmed and stated that KPPA falls under 18A. Mr. Connell then questioned how the system is paying for raises of employees. Ms. Adkins answered that this a requirement from the Finance Cabinet, called a defined calculation and forces a calculation of a 1% increase in salaries. Ms. Thompson questioned the increase in the fiscal year 2022 budgeted amount for salaries, and why it was such an increase over the Fiscal Year 2021 expenditure for salaries. Ms. Adkins stated that KPPA is understaffed, with 270 approved positions and only about 248 currently filled, and to also cover for the Boards CEO positions and any other positions that may occur due to the separation of the Boards. Ms. Hampton questioned the large increases found for the medical reviewers and asked for clarification. Ms. Adkins explained that the medical reviewers are physicians who review application for disability benefits and historically, the agency has experienced great difficulty in retaining the contracted medical examiners. After sending out a Request for Information to seek information regarding any outside companies that could provide this type of service, it was discovered that there are vendors who could provide the assistance that would be needed to process our disability applications. After performing a cost analysis, it was determined that this would be more efficient. Ms. Hampton asked if this had already occurred and was in place now. Ms. Adkins confirmed. For the benefit of the newer Trustees and as a refresher, the administrative budget comes from the pension funds. KPPA does not receive general funds nor does it use insurance funds. All administrative expenses come from the pension funds. Mr. Totten asked a question pertaining to any caps put on the number of positions and/or employees the agency hires. He questioned whether the agency has been put under any stress regarding the filling of positions or face lowering the cap on the number of employees. Ms. Adkins answered that she has not been made aware of anything nor has seen any indication of that. This material was presented for informational purposes only.

Mr. Percy introduced agenda item *Bylaw Amendments*. Mr. Percy stated that the only change to the Bylaws pertains to the Board being allowed to make changes to the Bylaws during a Special Called Meetings. Mr. Board indicated that the substantive change will be in Section 2.6, where it will state that the Bylaws may be amended at any regular or special meeting of the Board of

Trustees. Mr. Board explained that there is a group working to revise the Board and Committee meeting schedule in an attempt to add some space between all of the meetings. Once this calendar is complete, these Bylaws will need to be amended again, which will require a Special Called Meeting. The current Bylaws do not allow for changes to be made during a Special Called Meeting, thus the need for this amendment. A motion was made by Mr. Grossman and seconded by Mr. Totten to approve the amendments to the KRS Bylaws as presented. The motion passed unanimously.

Mr. Percy introduced agenda item *Legislative Updates*. Mr. Eager began by explaining that any proposed legislation that may have an impact on the systems, either the administration or costs, has to have an actuarial analysis (AA) completed. The AA requests come to KPPA from LRC and are reviewed by KPPA staff to determine if we should a) Send an internally generated AA letting LRS know that we see no fiscal or administrative impact, b) Send an internally generated AA stating we believe there is an administrative impact but no fiscal impact, or c) We believe there could be a fiscal impact in which case we request an AA from GRS. Once we obtain the AA from GRS, it is sent to LRC. During the last session, in total there were about 35 actuarial analysis completed, and it is anticipated that this session will be around the same, if not more. To date, one request has been received.

Mr. Percy introduced agenda item *House Bill 8 Appeals Decisions*. Ms. Adkins reviewed House Bill 8 that was passed during the 2021 Regular Session of the Kentucky General Assembly. The passing of this bill changed the calculation methodology for the KERS Nonhazardous employer contributions from a percent of payroll to normal cost plus a flat amount which is equal to each agency's assigned percentage of the annual total unfunded actuarially accrued liability of the KERS Nonhazardous fund over a closed period. The assigned percentage is based on the liability that was attributable to the agency as of June 30, 2019. The bill allowed agencies affected by this change to submit a one-time appeal of the members who made up the assigned liability percentage. It limited the type of appeals that could be submitted to or considered by the Board. The three valid bases of appeals are as follows: the agency can claim that it was not the member's last participating employer; the member was hired through a contract between the executive branch and the employer to provide services to the executive branch; or the member was employed by the appealing agency because a community mental health center was contracted to provide services at a facility previously operated by the executive branch. Ms. Adkins noted that House Bill 8 places

the burden of proof regarding these appeals on the appealing employer. She stated that 87 employers requested data, but only 47 agencies appealed a total of 5,191 members. Ms. Adkins discussed the process that KPPA staff followed in reviewing these appeals. Mr. Connell questioned the basis of the appeals for the contract laborers and community health centers. Ms. Adkins explained that there are agencies contracted with the State who do the work that was formerly done by state employees; therefore the state should be responsible for the contribution and unfunded liability issues. The third appeal basis pertains to a facility that was owned and operated by the state. The responsibility of running this facility was contracted to other agencies. Ms. Hampton questioned whether it is denying a person, or simply moving the liability from one entity to the state. Ms. Adkins stated that this does not have any effect on members or their benefits. Ms. Adkins further stated, the KERS plans will get their funds either way, it is just the determination of the appeal that decides who will pay the liability. These are the appeals the Board is being asked to review and on which a final Board decision is due before December 31, 2021. Ms. Adkins advised that during the final review of the process, it appears that there may have been an issue with a small number of appeals. The Board is not making a determination based on each appeal, but that the process as a whole was appropriate because it would have taken too many trustee resources to review each of the 5,191 appeals. Ms. Adkins stated that the final approve/deny numbers are not exact until we have a final resolution on the small number that are still outstanding. She suggested that the Board carefully review the process that was developed and utilized. If you agree with the process, then I feel confident that the experts we have working on this information, being senior benefit counselors and attorneys, can make the correct determination based on the process in place. Ms. Adkins advises that the numbers will change, but does not expect a significant change. Mr. Totten questioned if the change would be in the total number of members affected or how they are divided among the three appeal basis. Ms. Adkins replied that the change would occur in the number of employees recommended to be denied and the number of employees recommended to be approved. Ms. Hampton questioned where and how were the errors found. Ms. Adkins indicated that due to the volume of information, spreadsheets were used for tracking and an error was found in the spreadsheet for one of the larger employers. The staff is meticulously going through all of the spreadsheets to ensure that all of the information contained thereon is accurate. Mr. Connell commended the efforts of the staff and stated that the process was thoroughly developed and found it easier to approve the overall process rather than to review over 5,100 appeals. Mr. Totten asked if the Board was under any deadlines for approval. Ms. Adkins stated that the final decision needs to be made by December 31, 2021. Mr. Totten

asked if the Statute allows for the approval of a process rather than the approval of the determinations. Ms. Adkins stated her understanding would be that the Statute calls for the Board to make a final decision. Ms. Hall indicated that the Statute reads that the Board is to make the final decision on the determinations of all the appeals. Mr. Percy stated that it is his opinion that the Board approve staff recommendations on the determinations, as it would be nearly impossible for the Board to review every appeal. He stated that the Board needs to rely upon staff expertise and the process they have developed and utilized, and to approve their recommendations regarding these appeals. Mr. Connell made a motion and seconded by Mr. Totten to adopt the recommendations of the KPPA staff regarding the determinations related to the House Bill 8 appeals. Ms. Hampton questioned whether we should provide a range regarding the numbers of approvals and denials without having the final numbers. Mr. Percy stated that by approving the recommendations of the staff, that includes what we are reviewing today as well as what they decide after our meeting has concluded. Ms. Hampton asked Ms. Adkins that once the numbers have been finalized, if that information could be brought back to the Board for informational purposes. Ms. Adkins agreed to report back to the Board the final results. Mr. Chilton asked if the employer would receive a letter informing them of the final decision. Ms. Adkins indicated that the employer will be sent a letter with a specific list of those employees who were denied and those should be sent to them in a few weeks. The motion passed unanimously.

Mr. Percy introduced agenda item *CEO Report*. Mr. Chilton indicated that he will be working with Mr. Eager in the upcoming legislative session, both in the background and in meeting with the legislators. Mr. Chilton announced that there will be information forthcoming regarding the Trustee Education requirements and opportunities that will be available during the first quarter of the new calendar year.

Mr. Percy introduced agenda item *New Business*. Mr. Percy announced that he had no new business and unless anyone had new business, this agenda item would be passed. Since no new business, the meeting continued.

Mr. Percy introduced agenda item *Closed Session*. A motion was made by Mr. Cheshire and seconded by Mr. Lane to go in to closed session. Prior to the vote, Mr. Percy, Mr. Cheshire and Mr. Eager all recused themselves from the closed session portion of this meeting. The motion passed unanimously.

Mr. Peercy read the following statement and the meeting moved into closed session: A motion having been made in open session to move into a closed session for a specific purpose, and such motion having carried by majority vote in open, public session, the Board shall now enter closed session to consider 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. All public attendees exited the meeting.

Mr. Lane called the meeting back to open session. There being no action taken during the closed session, Mr. Lane opened the floor for a motion to adjourn. Mr. Totten made a motion and Mr. Connell seconded to adjourn the meeting. The motion passed unanimously.

Copies of all documents presented are incorporated as part of the Minutes of the Board of Trustees held December 2, 2021 except documents provided during a closed session conducted pursuant to the open meetings act and exempt under the open records act.

The remainder of this page intentionally left blank

The remainder of this page intentionally left blank

CERTIFICATION

I do certify that I was present at this meeting, and I have recorded the above actions of the Trustees on the various items considered by it at this meeting. Further, I certify that all requirements of KRS 61.805-61.850 were met in conjunction with this meeting.


Recording Secretary

I, the Chair of the Board of Trustees of the Kentucky Retirement Systems, do certify that the Minutes of Meeting held on December 2, 2021 were approved on March 2, 2022.


Chair of the Board of Trustees

I have reviewed the Minutes of the December 2, 2021 Board of Trustees Meeting for content, form, and legality.


Executive Director
Office of Legal
Services