



Kentucky Retirement Systems

KRS OVERVIEW
Kentucky Public Retirees
Conference

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June 13, 2019

Kentucky Retirement Systems

Our Six Mandates



- Strive for appropriate funding for all plans.
- Provide members with efficient access to information and helpful counseling to meet their individual needs.
- Manage the assets in accordance with each plan's needs while adding value to a passive portfolio.
- Communicate effectively with all constituents, while ensuring appropriate transparency.
- Maintain a work environment that promotes employee safety, effectiveness, morale, and retention.
- Insist on a culture of **continuous enhancement** to **everything** we do.

Legislative Successes



HB 80 - KRS Electronic Election Balloting

HB 419 - Retired Reemployed Simplification

HB 489 - SEC Code of Ethics Not CFA

Legislative Failures



HB 151 (2018)

- Pension reform - Tier 4 401A plan
- Struck down as unconstitutional

Quasi Agency Conundrum



118 Quasi Agencies

- Regional Universities
- Regional Mental Health Agencies
- Health Departments
- Non P-1 Agencies

Quasi Agency Conundrum



Can't afford to stay in KRS

- Current contribution is 49%
- As of July 2019 should be 83%
- One year waiver costs KRS non-haz \$132 mil

Can't afford to leave

- "Loan" too large to pay off

Legislative Failures



HB 358 (2019)

- Quasi Assistance
 - Opt out
 - Pay off at $49.47\% + 1.5\% / \text{year}$
- Vetoed
 - KRS the bank for poor credit loans
 - Loans had too long of maturities
 - Delinquency provisions
 - Wrong implementation date

KRS Funded Status

06/30/2018



PENSIONS	ASSETS \$ BIL	LIABILITIES \$ BIL	UNFUNDED LIABILITES \$ BIL	FUNDED STATUS
KERS Non- HAZ	\$2.0	\$15.7	\$13.7	12.9%
CERS Non- HAZ	\$7.0	\$13.2	\$6.2	52.7%
TOTAL PENSIONS	\$12.2	\$35.8	\$23.6	34.1%

KRS Contribution Rates FY 2019



	Normal Cost	Unfunded Amortization	Total	Total FY 2018
KERS Non-Haz	10.5%	74.7%	85.2%	49.5%
CERS Non-Haz	8.7%	18.6%	27.3%	19.2%
SPRS	27.0%	116.2%	140.1%	89.7%

KRS Unfunded Contributors



- KRS Boards and Actuary
 - Unrealistic assumptions caused the ARC to be way too low way too long

- KRS Staff
 - Failed to get the message out

KRS Unfunded Contributors



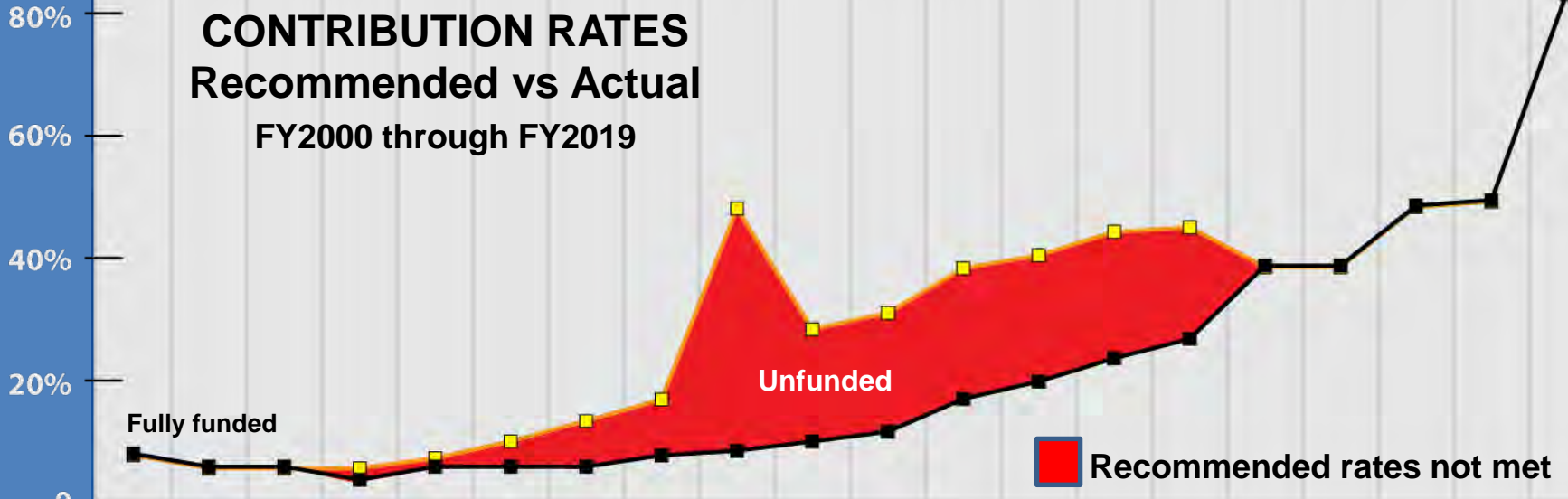
➤ Governors

- Budget requests were less than the ARC

➤ Legislators

- Cut the budgets
- Didn't prefund benefit increases
- Took too long to pass reform legislation

CONTRIBUTION RATES Recommended vs Actual FY2000 through FY2019



FY	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Recommended	8.03	5.89	5.89	5.89	7.53	10.29	13.62	17.13	48.37	28.6	31.29	38.58	40.71	44.55	45.28	38.77	38.77	48.59	49.47	83.43
Actual	8.03	5.89	5.89	3.76	5.89	5.89	5.89	7.75	8.50	10.01	11.61	16.98	19.82	23.61	26.79	38.77	38.77	48.59	49.47	83.43

KEY IMPACT OF CONTRIBUTION SHORTFALL FY1993-2018 (\$ in Millions)

	# of Years Unfunded	Total amount of underfunding	Loss of investment opportunity	Total Shortfall	Current Unfunded Liability	Adjusted Unfunded Liability
Pension	14 Years	\$1,743	\$1,233	\$2,976	\$13,656 12.9%	\$10,680 31.9%

KRS Unfunded Contributors



- The Media
 - Didn't cover the story

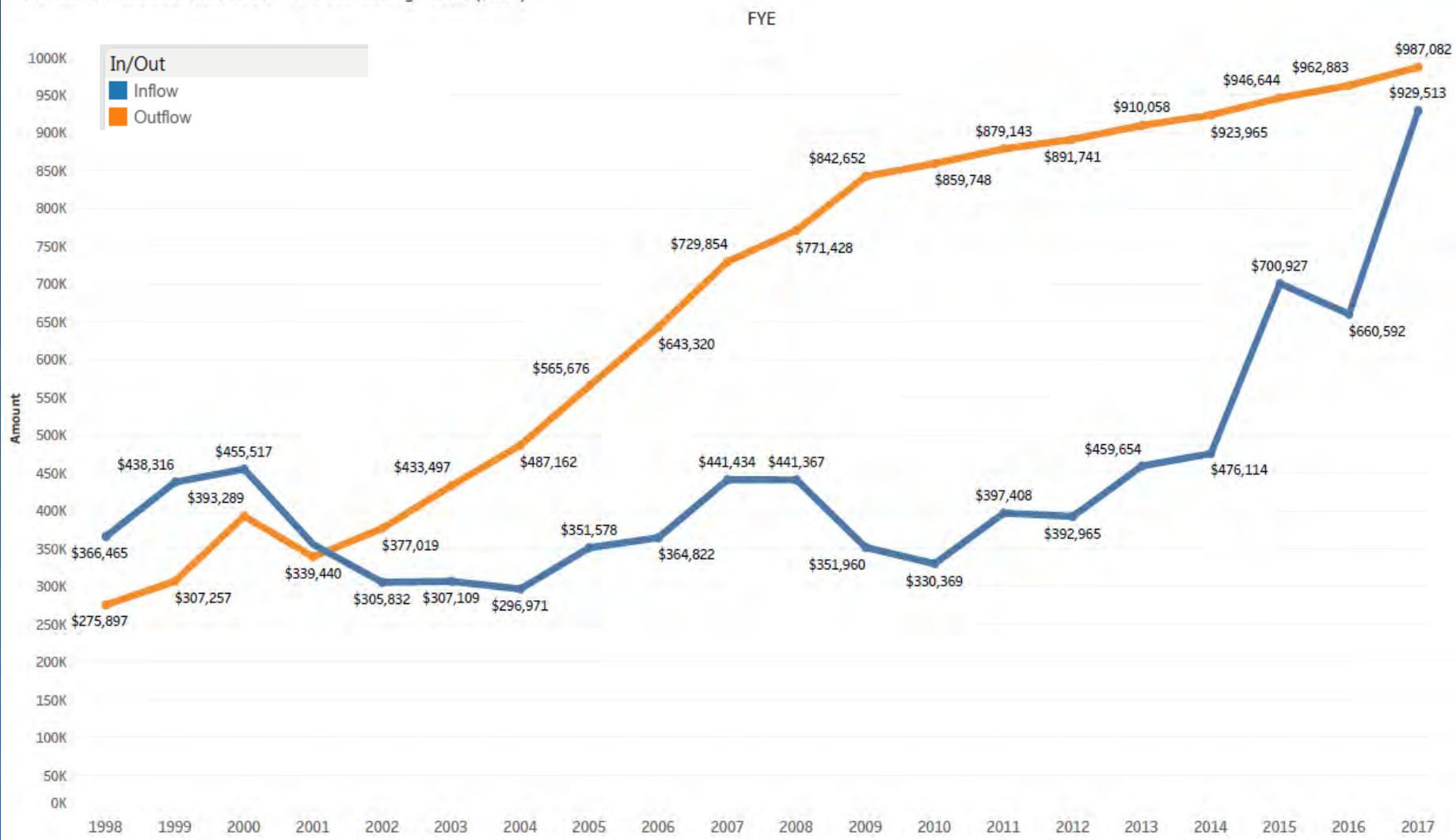
- Equity Market Declines During The Great Recession (-37.6%) and The Dot Com Bubble (-37.6%)
 - Asset reduction/negative cash flow from FY 2002 to FY 2018



KERS Non-Hazardous

Pension Cash Flow with Investment Income and Expense (\$000's) Excluding Investment Gains/Losses

KERS Non-Hazardous Cash Flows FYE 1998 through 2017 (\$000s)



Note: Inflows include Member, Employer and General Fund Contributions.

KRS Unfunded Contributors



➤ Funding Formula

- % of pay funding with a declining workforce

➤ Demographics

- Too many retirees- too few employees

Examples of Workforce Reductions

KERS Non-HAZ State Agencies	Employees FY 2009	Employees FY 2018	Change
County Attorneys	389	351	(9.8%)
Master Commissioners	73	68	(6.8%)
P1 State Agencies	33,820	31,849	(5.7%)
Total	34,282	32,268	(5.9%)

KERS Non-HAZ Quasi Agencies	Employees FY 2009	Employees FY 2018	Change
Health Departments	4,390	2,753	(37.3%)
Non P1 State Agencies	1,721	1,075	(37.5%)
Other Retirement Systems	44	29	(34.1%)
Regional Mental Health Units	8,399	2,907	(65.4%)
Universities	4,875	3,969	(18.6%)
Total	19,429	10,733	(44.8%)

Grand Total	53,711	43,001	(19.9%)
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KRS Membership 06/30/18



KERS Non-Haz	
<u>Active</u>	<u>Retired</u>
34,845	42,175
Ratio: .83	

CERS Non-Haz	
<u>Active</u>	<u>Retired</u>
84,435	56,620
Ratio: 1.49	

KRS Solutions



- Funding Through 2043
... Don't tinker with the assumptions
- Tier 3's Longer-Term Impact
... Be patient
- Fixed Allocation Funding
... A must!!!



CERS Separation



Fixed Allocation Funding

Other Developments at KRS



- Opened the Louisville office
- Launched annual PREP sessions
- Building our email database
- Emphasis on self service

Other Developments at KRS



- Website enhancements
- Electronic balloting
- GRS experience study
- Legislator education
- Facebook live streaming Board and Committee meetings

2019 Upcoming KRS Meetings Live Streamed



Board of Trustees

September 12, November 14, December 5

Investment Committee

June 18, August 27, November 6

Retiree Health Plan Committee

September 5, November 12

Audit Committee

August 22, November 7