

**MINUTES OF MEETING
KENTUCKY RETIREMENT SYSTEMS
BOARD OF TRUSTEES SPECIAL CALLED MEETING
DECEMBER 5, 2023, AT 10:30 AM, E.T.
VIA LIVE VIDEO TELECONFERENCE**

At the Meeting of the Kentucky Retirement Systems Board of Trustees held on December 5, 2023 the following members were present: Lynn Hampton (Chair), Ramsey Bova, Mary Eaves, Prewitt Lane, Keith Peercy, Pamela Thompson, and William Summers, V. Staff members present were CERS CEO Ed Owens, III, KRS CEO John Chilton, David Eager, Rebecca Adkins, Erin Surratt, Michael Board, Victoria Hale, Leigh Ann Davis, Carrie Bass, Michael Lamb, Connie Davis, D’Juan Surratt, Steve Willer, Ashley Gabbard, Katie Park, Phillip Cook, and Sherry Rankin. Others present included Chris Tessman with Wilshire, and Danny White, Janie Shaw with GRS, Adam Gordon and Linda Hinton with the Auditor of Public Accounts, and Irina Strelkova with Frost Brown Todd.

Ms. Hampton called the meeting to order.

Mr. Board read the Legal Public Statement.

There being no *Public Comment* submitted, Ms. Rankin called roll.

Ms. Hampton introduced agenda item *Approval of Minutes – November 14, 2023 (Video 00:06:19 to 00:06:57)*. A motion was made by Mr. Summers and seconded by Ms. Eaves to approve the minutes as presented. The motion passed unanimously.

Ms. Hampton introduced agenda item *External Audit (Video 00:06:58 to 00:18:33)*. Mr. Adam Gordon with the Office of Public Accounts presented the draft 2023 Annual Comprehensive Financial Report (ACFR) at the most recent meeting of the KPPA Audit Committee. Mr. Gordon briefly reviewed the draft Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2023, with the KRS Board of Trustees.

Ms. Eaves made a motion to accept the Fiscal Year Ended June 30, 2023, External Audit Report as presented, including any recommendations and management’s responses. Mr. Peercy seconded the

motion and the motion passed unanimously.

Ms. Hampton introduced the *Approval of June 30, 2023, Actuarial Valuations for KERS Hazardous, KERS Non-Hazardous, and SPRS* (Video 00:18:34 to 00:20:50). Ms. Shaw and Mr. White with GRS briefly reviewed the 2023 Actuarial Valuation Results.

Mr. Peercy made a motion to approve the June 30, 2023, Actuarial Valuation as presented. The motion was seconded by Mr. Lane and passed unanimously.

Ms. Hampton introduced agenda item *Approval of FY25-26 Contribution Rates* (Video 00:20:51 to 00:28:04). KRS CEO John Chilton presented the FY25-26 Contribution Rates as recommended by the KPPA Actuaries, Gabriel Roeder Smith (GRS).

After brief discussion, Ms. Eaves made a motion to approve the FY25-26 Contribution Rates as presented. Mr. Lane seconded the motion and the motion passed unanimously.

Ms. Hampton introduced agenda item *Quarterly Investment Performance Report* (Video 00:28:05 to 00:43:25). The CERS Investment Committee met on November 9, 2023. The Committee reviewed informational items only; therefore, no items required ratification by the KRS Board of Trustees, reported Mr. Willer. He presented KRS first quarter performance results for FY 2024 to the Trustees. Mr. Willer provided a brief update on the asset liability and asset allocation study being conducted in collaboration with Wilshire. He advised that a special called KRS Investment Committee meeting would likely be scheduled for January of 2024 to present the study findings and make recommendations.

Ms. Hampton introduced agenda item *Quarterly Financial Reports* (Video 00:43:26 to 01:06:53). Mr. Lamb presented the Quarterly Financial Reports to the CERS Finance Committee, said Mr. O'Mara. Mr. Lamb briefly reviewed these reports with the CERS Board of Trustees.

He reviewed the Combining Statement of Fiduciary Net Position of the Pension Funds as of September 30, 2023. Mr. Lamb briefly reviewed the Combining Statement of Changes in Fiduciary Net Position of the Pension Funds for the three-month period ending September 30, 2023. The KRS Pension Funds Contribution Report was also presented.

Mr. Lamb went on to present the Combining Statement of Fiduciary Net Position of Insurance Funds as of September 30, 2023, and the Combining Statement of Changes in Fiduciary Net Position of Insurance Funds for the three-month period ending September 30, 2023, with the KRS Board of Trustees. Next, he reviewed the KRS Insurance Funds Contribution Report for the three-month period ending September 30, 2023. The KRS Outstanding Invoices by Type and Employer and Penalty Invoices Reports were presented to the Trustees.

The newly created FY 2023-2024 KPPA Administrative Budget – Budget-to-Actual Summary Analysis for the three-month period ending September 30, 2023, was highlighted by Mr. Lamb.

Lastly, the Mr. Lamb briefly reviewed the separation/plan-specific expenses and the JP Morgan Chase Credit Earnings and Fees and Hard Interest Earned for the fiscal year ending June 30, 2024. He advised that additional information requested by the KRS Board of Trustees regarding JP Morgan Chase Credit Earnings and Fees and Hard Interest Earned was forthcoming.

Ms. Hampton introduced agenda item *Annuity Rates Discussion (Video 01:06:54 to 01:37:39)*. Ms. Hampton provided background on the recent discussions surrounding increasing the investment rate for annuity calculations. She stated that when the KRS Board of Trustees previously discussed the increase, the Board was under the impression that the CERS Board of Trustees had adopted an increased rate. However, the CERS Board of Trustees had not, but deferred the topic to the KRS Board of Trustees.

Since then, CERS adopted a rate of 5.875% which is halfway between the KRS assumed investment earnings rate (5.25%) and the CERS assumed investment earnings rate (6.50%), said Ms. Hampton. She also reported that the Actuary, GRS, had completed additional work relating this issue as requested by the KRS Board of Trustees.

Mr. Chilton advised that a change in rate primarily affects Tier 3 members because their retirement is a dollar amount that is accumulated over their time of employment. He reviewed a detailed memorandum and exhibits provided by the GRS illustrating the estimated financial cost of alternative administrative factor assumptions (5.25%, 5.875% and 6.50%) across all KRS and CERS plans.

The KRS Board of Trustees needed to decide whether to adjust the current Annuity/delayed service

purchase interest rate of 5.25% and interest rate of 7.50%, said Mr. Chilton.

Mr. Chilton recommended the following: (1) adjust the annuity rate to 5.875%; and (2) maintain the interest charged on service purchases, etc. at 7.50% because that amount approximates what might have been earned if the money had been in the plans since withdrawal.

Mr. Chilton reported that GRS was comfortable with a rate of 5.25% or an increased rate of 5.87%. Ms. Hampton asked if this would no longer be an issue if the KRS Board of Trustees was comfortable with increasing risk. Mr. Chilton stated that the contribution rate could be changed if the Board was inclined to do so. Ms. Hampton requested that the KRS Actuarial Committee discuss what funding level would be required to increase risk. Mr. Lane stated that the Committee would need to look at the life expectancy of the Tier 3 members since there is an actuarial component to it. Mr. Eager noted that the last actuarial asset liability study recently reviewed by Wilshire indicated that their expectation is that higher returns will be earned moving forward at the current risk level.

Mr. Chilton advised that a change the assumed rate of return would have a financial impact regardless of the rate. Ms. Janie Shaw with GRS explained why there would be an additional cost associated with changing the administrative factors.

Ms. Bova asked if the the covered payroll of the Tier 3 employees was important to review in deciding to increase contributions. Ms. Shaw stated that as the Tier 3 population increases, there would be a slightly larger increase in the dollar amount, but it is a small percentage of the overall contributions. Ms. Bova asked when the first Tier 3 member would retire. Ms. Surratt provided a brief overview of the retirement eligibility requirements for KERS, SPRS, and CERS hazardous and nonhazardous Tier 3 employees. Ms. Bova asked if a percentage change would affect members who have already retired. Ms. Surratt advised that retirees have the factor that was in place at their time of retirement.

Mr. Chilton noted that an increase in rates would apply to all employee payroll, not just Tier 3. Therefore, the contribution rate for all tiers is the same. Mr. Chilton asked Ms. Shaw if the increase in contribution rate was included and embedded in the rates that were approved. Ms. Shaw advised that an increase in contribution rates was not included. Mr. Chilton asked if approved, it would include and changing the rates that were just approved for the future contributions. Ms. Shaw deferred the question to KPPA Staff. Ms. Adkins reported that the change in rate would not affect the funding rate

but would affect the contribution rate. Ms. Shaw confirmed that the employer contribution rate would change and reiterated that the change was not included in the recent actuarial valuation. Ms. Adkins described the process for submitting the anticipated contribution rates to the Office of the State Budget Director and the Legislative Research Commission (LRC).

Mr. Percy asked why this topic was being discussed since it had been voted on and approved at a previous meeting. There were misconceptions of the actions taken by the CERS Board of Trustees, said Ms. Hampton. Mr. Percy noted that there had been no change in the situation because CERS had voted on and approved an increased rate since the last meeting of the KRS Board of Trustees. Ms. Hampton confirmed; however, she wished to further discuss the topic again since additional data was provided by GRS.

Mr. Percy reiterated that the same situation remains and that rescinding the previous approval of the KRS Board of Trustees would devalue the Tier 3 retirement.

Mr. Board noted the importance of a fiduciary view of this topic from the perspective of assuming that funds will earn 5.25% and KRS would annuitize Tier 3 retirees at 5.75%. Per the advice of fiduciary counsel, the decisions made should be reasonable considering all circumstances and all reasons for the decisions made should be documented, said Mr. Board.

Ms. Eaves asked if Mr. Chilton's recommendation of 7.50% for the interest charged on service purchases, etc. was the rate that the CERS Board of Trustees had approved. Mr. Chilton confirmed that CERS had approved that rate and was the current rate which applies to all plans. He added that the KRS Board of Trustees was to decide whether to amend that rate or not.

Since there was no change in situation and the KRS Board of Trustees had already adopted the rate of 5.875% at the November meeting and there was no change made to the 7.50% rate, Mr. Board recommended no action. Therefore, no action was taken by the KRS Board of Trustees.

****Ms. Thompson exited the meeting****

Ms. Hampton introduced agenda item ***KRS Bylaw Revisions*** (Video 01:37:40 to 01:58:35). Mr. Board presented a proposed revision to Section 2.1 Standing Committees of the KRS Bylaws.

Current:

Any trustee may attend any meeting of any Committee of which he or she is not a Committee member but shall not have a vote.

Proposed:

Any trustee who wishes to observe a meeting of a committee of which he or she is not a member should do so by watching via live broadcast.

Mr. Board explained that if an eight-member Board of Trustees has a three-member Committee and two additional Trustees attend a meeting of that committee, a quorum is present. Should the two additional Trustees participate in the discussion of public business, the Board of Trustees would be in violation of the Open Meetings Act.

He reported that attorney general opinions advise that the attendance of a non-committee members at a committee meeting does not yield a violation of the Open Meetings Act; however, if the non-committee members take over the meeting or if the matters discussed are in the purview of the Board of Trustees that would create a violation.

Mr. Board encouraged Trustees to attend virtual meetings of committees which they are not a member via live broadcast. This method is a conservative approach and eliminates the risk for an Open Meetings Act violation, said Mr. Board.

There was discussion regarding the ability of a member of the public versus non-committee members/trustees to attend meetings. There was resistance to the recommendation made by Mr. Board.

He advised that the proposed language only addresses virtual meetings, not in-person meetings. Mr. Board advised that additional language would be needed to address in-person meetings if the KRS Board of Trustees wished to adopt the presented revision to the KRS bylaws.

Ms. Eaves asked if live broadcast was a required by statute. Mr. Board stated that KPPA is required to allow the public to view all Board and Committee meetings. KPPA fulfills that requirement by

providing the live broadcast via Facebook. The live broadcast is also made available to the public in the KPPA lobby (Building A), advised Mr. Board.

Mr. Chilton noted that the word *should* used in the recommended revision implies an option. Mr. Board stated that he can present amended language and along with additional language addressing in-person meetings at a future meeting of the KRS Board of Trustees.

No action was taken by the KRS Board of Trustees. It was requested that Mr. Board consider the discussion and concerns expressed by the KRS Board of Trustees and present further revised KRS bylaws at the next meeting of the KRS Board of Trustees.

Ms. Hampton introduced agenda item ***KRS CEO Update*** (Video 01:58:36 to 01:59:35). Mr. Chilton provided a brief report on the happenings since the last meeting of the KRS Board of Trustees meeting.

Ms. Hampton introduced agenda item ***KPPA Update*** (Video 01:59:36 to 02:00:05). Mr. Eager provided the KRS Board of Trustees with a written KPPA Update. No questions or comments were made regarding the update.

Ms. Hampton introduced agenda item ***New Business*** (Video 02:00:06 to 02:01:00). Ms. Hampton thanked the KPPA Executive Staff for their continued efforts in exploring the ability to lease an office space for the KPPA Office of Investments Staff in Louisville.

Ms. Hampton introduced agenda item ***Closed Session*** (Video 02:01:03 to 02:02:30) and requested a motion to enter closed session to discuss pending litigation pursuant to KRS 61.810(c). A motion was made by Ms. Bova and seconded by Mr. Summers. The motion passed unanimously.

Mr. Board 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.

Closed Session (Video - Part 2 - 00:01:01 to 00:02:17)

Ms. Hampton called the meeting back to open session and requested a motion to approve the KPPA Legal Staff to take enforcement action, if necessary, as discussed in closed session. Mr. Peercy made the motion and was seconded by Ms. Bova. The motion passed unanimously.

There being no further business, Ms. Hampton adjourned the meeting.

Copies of all documents presented are incorporated as part of the Minutes of the Board of Trustees held December 5, 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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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 5, 2023, were approved on March 13, 2024.


Chair of the Board of Trustees

I have reviewed the Minutes of the December 5, 2023, Board of Trustees Meeting for content, form, and legality.


Executive Director
Office of Legal Services