

**MINUTES OF MEETING  
KENTUCKY PUBLIC PENSIONS AUTHORITY  
MEETING VIA LIVE VIDEO TELECONFERENCE  
June 16, 2022 AT 10:00 AM ET**

At the meeting of the Board of the Kentucky Public Pensions Authority held on June 16, 2022, the following members were present: Jerry Powell (Chair), John Cheshire, Prewitt Lane, William O'Mara, Betty Pendergrass, Lynn Hampton, Dr. Merl Hackbart, and Keith Peercy. Other Trustee present was Ramsey Bova. Staff members present were KRS CEO John Chilton, CERS CEO Ed Owens, III, David Eager, Rebecca Adkins, Erin Surratt, Steve Willer, Connie Pettyjohn, Connie Davis, Kristen Coffey, Ashley Gabbard, Jessica Beaubien, Abby Sutherland, Leigh Ann Davis, Elizabeth Smith, Carrie Bass, Ann Case, Glenna Frasher, and Sherry Rankin. Others presented included Janie Shaw with GRS and Allen Norvell with Blue & Co.

Mr. Powell called the meeting to order.

Ms. Leigh Ann Davis read the Legal Opening Statement.

Ms. Rankin called roll and read the two *Public Comments* submitted:

“Public Statement to KPPA Board June 12, 2022 On behalf of stakeholders, I am writing to request that the KPPA board publicly endorse a prefunded cost-of-living adjustment for retirees. We ask that this endorsement be posted on social media and conveyed to the General Assembly. We recognize that the board has a fiduciary duty to the fund itself, rather than to members. In the past, the board has generally taken a neutral position on issues relating to benefits. We note that other public pension boards have a similar fiduciary duty, yet they believe that this duty does not prevent them from taking an advocacy position on benefits. For example, the Louisiana State Employees' Retirement System this year publicly supported a COLA for its retirees. The current situation is dire. We have not received a COLA since 2011 and the current inflation rate is skyrocketing. It is the intent of the Kentucky Government Retirees to engage with legislators to seek a lump-sum, prefunded COLA to help ease the burden of the decline in real income. While we realize that KPPA cannot take the lead in advocating a COLA, we believe it is entirely proper for the board to express its support for such an adjustment. Thank you for your consideration in this matter. Jim Carroll president, Kentucky Government Retirees.”

Ms. Rankin read the second public comment: “Will retirees get a raise. Gas and food are more expensive and other commodities. Robert Cash”

Mr. Powell introduced agenda item *Approval of Meeting Minutes – March 24, 2022 and April 28, 2022*. Mr. Cheshire made a motion and was seconded by Dr. Hackbart to approve the minutes as presented. The motion passed unanimously.

Mr. Powell stated that the item, *Personnel Request for Establishment of an Unclassified Position and Request to Approve the Position Descriptions and Salary Ranges for the Office of Investments* would be presented out of order of the meeting agenda due to staff time constraints. Mr. Eager presented the material and stated that per House Bill 297, it is required that the Board approve and set the compensation ranges for these positions. Mr. Eager advocated the importance of quality talent in the Investment Department and the necessity of an attractive compensation. Mr. Eager said the Executive Director, along with the Investment Chairs, will select the specific compensation within the approved range for each position. Mr. Eager consulted with KPPA Human Resources Staff and utilized a variety of sources to determine the appropriate ranges for the industry. Mr. Eager requested that Ms. Rankin display the Investment Industry Salaries spreadsheet. The spreadsheet was unable to be located; therefore, it was decided to move onto another item for the time being.

Mr. Powell introduced agenda item *Investment Department Update*. Mr. Willer presented the material to the Board. He stated that performance data and updates through May have been provided to the KRS and CERS Boards. Mr. Willer explained that April was a difficult month, however, the plans performed relatively well against their benchmarks. There was an outperformance of about 80 to 155 basis points across plans. In May, the plans held up well and outperformed by an average of about 20 basis points. Mr. Willer added that he and Staff are drafting the Strategic Allocation Plan which will include a timeline and road map with actionable steps to reach IPS targets. The Investment Department is also working to conduct commodity and real estate searches as well as researching co-investment opportunities. Mr. Percy stated that there was a recent infusion of cash into SPRS. He stated that according to GRS, this cash will bring the plan to about 50% funded and will put it in line with the KERS Hazardous plan which has about a 6.25% assumed rate and a more aggressive portfolio. Mr. Percy asked Mr. Willer if there has been any discussion of recommending to the Board that SPRS goes to the higher assumed rate and takes on more risk. Mr. Willer replied and stated that there has been internal discussion and agreed that it would be worth looking into since

the plans have similar profiles. Mr. Eager advised the actuary will be asked to weigh in on this topic at the next Board Meeting. Ms. Hampton requested that Staff add this item to the agenda for the upcoming KRS Board Meeting. Mr. Eager added that the Actuarial Committee should also be consider discussing.

The Investment Industry Salaries spreadsheet was located and Mr. Eager continued his presentation of the *Personnel Request for Establishment of an Unclassified Position and Request to Approve the Position Descriptions and Salary Ranges for the Office of Investments*. Mr. Eager stated that the increased use of telecommuting has also created an added hurdle to overcome when seeking top talent. Candidates now have the opportunity to accept offers from employers outside of their home state with no relocation needed; therefore, compensation should be competitive to avoid flight risk. Ms. Pendergrass referred to the language on the spreadsheet which notes that other employers may offer cash incentives. She asked that the Legal Department research if this is permissible. Mr. Eager stated that there is has been no discussion of offering cash incentives. Dr. Hackbart thanked Mr. Eager and added that the methodology used is reasonable, provides a good perspective, and is the appropriate approach to setting the salary ranges. Ms. Hampton asked for clarification regarding the additional compensation given for the responsibilities of Deputy CIO. Mr. Eager clarified that a specialized position moving to Deputy CIO would receive a salary adjustment since the job duties for Deputy CIO extend far beyond the product area. Ms. Hampton made a motion to approve the Salary Ranges for the positions within the Office of Investments as presented. The motion was seconded by Mr. Cheshire. The motion passed unanimously. Mr. Eager voiced that approval of the Position Descriptions would also be needed. Dr. Hackbart made a motion to approve the Position Descriptions for the positions within the Office of Investments as presented. The motion was seconded by Mr. Lane. The motion passed unanimously.

Mr. Powell introduced agenda item *Joint Audit Committee Report*. Ms. Kristen Coffey stated that the Joint Audit Committee met on May 24, 2022 and reviewed the Updates to the Charter for the Joint Audit Committee and the Updates to the Charter for the Division of Internal Audit Administration. Ms. Coffey stated that the Committee approved these updates and that the Charters have been ratified by the CERS and KRS Board of Trustees. She requested that the KPPA Board also ratify the actions made for the Charters. Mr. O'Mara made a motion to ratify the actions of the Joint Audit Committee that were taken on May 24, 2022. The motion was seconded by Ms. Pendergrass and the motion passed unanimously. Ms. Coffey added that a discussion of the audit

portion of the CERS Strategic Plan was tabled until the August 25, 2022 Joint Audit Committee Meeting. Lastly, she reviewed the audits discussed at the May 24, 2022 meeting; two of the audits had no reportable findings and suggestions have been implemented; and The Plan Liquidity Phase I Audit had six findings and will be further reviewed at the August Joint Audit Committee Meeting. Mr. Powell thanked Ms. Coffey.

Mr. Powell introduced agenda item *GASB 68 and GASB 75 Proportionate Share Audit*. Mr. Allen Norvell of Blue & Co. presented the material to the Board. Mr. Norvell extended his gratitude to the Board for the opportunity to serve and to KPPA Staff and GRS for their assistance. Mr. Norvell reviewed the second phase of the annual engagement for the external auditors which audits the employer allocation schedules as of June 30, 2021. He reminded the Board that the first phase was the audit of the financial statements for fiscal year ending June 30, 2021 which was conducted in the fall of 2021 and released in December 2021. These reports are used by participating employers and their external auditors to prepare their upcoming financial statements for fiscal year ending June 30, 2022. Mr. Norvell reviewed GASB 68 and GASB 75 and advised the Board that these reports are marked as 'draft' pending KPPA Board approval. He directed the Board to the unmodified opinions on GASB 68 and GASB 75 and the issued reports on compliance and internal control over the financial reporting related to GASB 68 and GASB 75 and stated that there were no compliance related findings on either report. Ms. Hampton stated that a positive of the recent legislation is that these reports are now expected to be available by late February. Ms. Pendergrass made a motion to approve the GASB 68 and GASB 75 Proportional Share Audit as presented. The motion was seconded by Mr. O'Mara and the motion passed unanimously.

Mr. Powell introduced agenda item *Allocation of Board Separation Expenses*. Ms. Rebecca Adkins presented the material on behalf of the working group assigned to identify the types/expenses to be designated as Separation Expenses. These expenses are defined as those that are attributable solely to the establishing of separate boards for KRS and CERS and these expenses will continue through June 30, 2024. The working group consisted of Prewitt Lane (KRS), Bill O'Mara (CERS), KRS CEO John Chilton, CERS CEO Ed Owens, III, Executive Director David Eager, Head of Accounting Connie Davis, and Deputy Executive Director Rebecca Adkins. Ms. Adkins reviewed the types and allocations of the Board Separation Expenses and asked the Board to consider the recommended initial (\$329,788.25) and ongoing (\$198,489.26 as of 3/31/2021) Separation Expenses. Mr. O'Mara made a motion to approve the allocation of the Separation Expenses as presented. The motion was

seconded by Mr. Cheshire. The motion passed unanimously. Mr. Lane commended Mr. Bill O'Mara for his diligent work on this matter in partnership with Ms. Adkins. Mr. Powell agreed and thanked Mr. O'Mara on behalf of the CERS and KPPA Boards.

Mr. Powell introduced agenda item *FY 2023 Budget*. Ms. Adkins presented the material to the Board and advised that this item was also assigned to the working group which included Prewitt Lane (KRS), Bill O'Mara (CERS), KRS CEO John Chilton, CERS CEO Ed Owens, III, Executive Director David Eager, Director of Accounting Connie Davis, and Deputy Executive Director Rebecca Adkins. Ms. Adkins stated that the group was to provide a recommendation to the KPPA Board for the fiscal year 2023 budget; statutorily the FY 2023 budget must be approved by the KPPA Board prior to submission. She further explained the budget process and reviewed a summary of the FY 2023 budget with the Board. She advised that all of the administrative budget is restricted funds as the money derives from the pension trust. The working group held extensive discussion regarding salaries, legal contracts, medical reviewers, and the reserve. Ms. Hampton asked for clarification as to why Employee Paid FICA, Employee Paid Retirement, and Employee Paid Health Insurance would increase in FY 2023 and why Employee Paid Life Insurance would decrease. Ms. Adkins explained that Employee Paid Life Insurance was overestimated in FY 2022 and that a multiplier was used with FY 2022 actual spending data to calculate the Employee Paid FICA and Employee Paid Retirement for FY 2023. Mr. Eager reminded Ms. Hampton that these numbers are the budgeted amounts, not the actual amounts which may be higher. Ms. Pendergrass suggested that the FY 2022 actuals and the FY 2023 actuals to date be added as columns in the schedule to aid in the understanding of the new budgeted figures. Mr. Eager advised that the working group did review historical, year-to-date, and projected data. Mr. O'Mara complimented and thanked Ms. Adkins and Staff for their support. He also confirmed that a high level of detail was presented to the working group and reminded the Board that the material being presented is a summary. Further, Mr. O'Mara stated that the methodology used by the working group to prepare the FY 2023 budget was not necessarily used to prepare the FY 2022 budget, therefore, cannot be compared equally for variances. Mr. Percy asked Ms. Adkins if it is permissible to utilize less than a full complement of Staff. Ms. Adkins explained that this budget is for quarterly reporting and far more detailed than the budget that is rigid and set by the Office of State Budget Director and the budget bill. Further, Mr. Percy expressed concern that should the KPPA Board approve this budget with underfunded salaries due to ten less positions being accounted for, will there be issues later requiring emergency action by the Board to mitigate. Ms. Adkins clarified that the Board would just be voting on the detailed version

of the budget for FY 2023. The KPPA Board will vote on the next biennial budget in the fall of 2023. Ms. Adkins stated that she will work with Ms. Rankin to provide the Board with historical spending data and will take another look at the Employee Paid FICA and Employee Paid Retirement figures and report back at a later date. Ms. Hampton suggested that breaking out FICA and Medicare payroll taxes into two separate line items would improve accuracy. Ms. Adkins said she would also explore that for Ms. Hampton. Ms. Hampton also asked about the decrease in employee training. Ms. Adkins stated that approximately only \$3,900 has been spent to date in employee training and that this decrease is due to additional conferences being attended by Staff which is a slightly different budget item. Next, Ms. Adkins reviewed trust spending with the Board. This spending comes from pension and insurance funds. The working group recommended that a budget be developed for trust spending and that a budget-to-actual report be provided to the Investment Committees on a quarterly basis. The line items of the trust budget were separated into three subcategories: manager fees, non-manager fees, and legal contracts. Ms. Adkins reviewed the proposed FY23 trust budget with the Board. Ms. Pendergrass stated that a historical analysis of management and performance fees would be beneficial. Mr. Eager stated that this analysis is very important and will be conducted using a five year period; however, these management fees are uncontrollable. Mr. Lane added that the working group discussed this matter over the course of two meetings and it is not a budget item, but rather an expense that occurs. Ms. Hampton agreed with Mr. Lane and stated that reporting actual spending is beneficial information but the budgeting of these fees is unrealistic. Mr. Willer added that the most relevant information would be to identify where the fees are in a historical context. Mr. Eager stated that he would like to determine how the current management fees compare to that of other funds. Mr. Willer stated that this analysis and comparison should be the focus of the Investment Committee and hopes to provide that data to the Board and Staff in the near future. Mr. O'Mara explained that the working group decided that a new budget within the trust was needed and that it would be useful for education and full disclosure. The group also felt that management fees were important and needed to be reported for people to understand what they are; therefore, the reporting and analysis of these fees is the recommended direction of the group. Ms. Adkins agreed with Mr. O'Mara and asked the Board to consider the recommendations of the working group. Mr. O'Mara made a motion to approve the 2023 Budget for Administrative Expenses and to approve the 2023 Budget for Trust Expenses that will be reported to the CERS and KRS Investment Committees on a quarterly basis. The motion was seconded by Mr. Cheshire and the motion passed unanimously.

Mr. Powell introduced agenda item *Quarterly Financial Statements*. Ms. Adkins reviewed the

Combining Statement of Fiduciary Net Position of all of the pension funds as of March 31, 2022 with the Board. She stated that the pension funds are up 7.97% and that this figure reflects cessation but does not reflect House Bill 1 additions to State Police. Next, Ms. Adkins reviewed the Combining Statement of Changes in Fiduciary Net Position for the pension funds. CERS Nonhazardous is up .3% and CERS Hazardous is up .9%. KERS Nonhazardous is up 5.69% and KERS Hazardous is up 1.08%. SPRS is up 1.68%. Combining Statement of Fiduciary Net Position of the Insurance Funds was also reviewed with an overall increase of 8.74%. Combining Statement of Changes in Fiduciary Net Position for the Insurance Funds illustrated an increase in CERS Nonhazardous of 3.48% and 1.93% for CERS Hazardous. Insurance funds for KERS Nonhazardous was up 3.6% and .22% for KERS Hazardous. Insurance funds for SPRS were up .92%. Ms. Adkins reviewed the Pension Funds Contribution Reports and stated that CERS Nonhazardous was up .3%, Hazardous was up .9%, Member and Employer Contributions have also increased, however, Investment Income has slightly decreased. Also, benefits continue to increase as the number of retirees increase. The cash flow of CERS Hazardous is positive and CERS Nonhazardous cash flow is negative but has improved. The most significant difference is in Unrealized Gains due to market performance. KERS and SPRS Member Contributions were flat, stated Ms. Adkins, and Employer Contributions and Benefits increased. As a whole, KERS Nonhazardous was up 5.69%, 1.8% for Hazardous, and 1.16% for SPRS. The CERS Insurance Fund Contribution Report showed an increase of 3.48% in Nonhazardous and 1.93% in Hazardous. Insurance Premiums have decreased significantly due to the Humana gain share. The KERS/SPRS Insurance Fund Contribution Report illustrated a negative cash flow in KERS Hazardous. Ms. Hampton asked how much of the revenue for SPRS received from HB 1 will be included in FY22. Ms. Adkins stated that 100% of those funds will be in FY22. The funds were not received prior to March 31, 2022, therefore were not included in the presented report. Further, Ms. Hampton asked if the funds will be accounted for as Cash or as Accounts Receivables. Ms. Adkins stated that the funds are Cash. Mr. Eager added that the total cash flow for all ten plans is approximately 300 million dollars; eight to ten years ago the cash flow for these plans was about -700 million dollars. Ms. Pendergrass asked if it would be possible to split the Employer Contributions between fixed allocation from HB 8 and regular service contributions in order to track the fluctuation in HB 8 contributions and how HB 8 affects cash flow. Ms. Adkins and Mr. Eager agreed that this suggestion would be beneficial and that an additional line would be added to the Pension and Insurance Funds Contribution Reports for KERS Nonhazardous. Ms. Adkins briefly reviewed the Administrative Budget with the Board. She stated that there are a few line items that will be over budget, however, approximately 38% remains in the budget and Ms. Adkins is confident

that KPPA will stay under budget. Outstanding invoices were up about 4% for the quarter and 58 penalty invoices were waived, 23 issued, and 36 were paid. Ms. Pendergrass asked if the additional funds for the State Police would allow the agency to pay down SPRS outstanding invoices. Mr. Peercy stated that about 7 million dollars was budgeted by SPRS to pay down those invoices. Lastly, Ms. Adkins reviewed the updated allocation of administrative expenses with the Board. These expenses were split on the basis of membership and will be effective as of July 1, 2021.

A portion of item 12, *Personnel Request for Establishment of an Unclassified Position and Request to Approve the Position Descriptions and Salary Ranges for the Office of Investments*, was overlooked. Ms. Rankin and Mr. Eager advised the Board that approval is needed to petition for a new unclassified position, CFO. Ms. Pendergrass made a motion to authorize the KPPA Executive Director to petition the Secretary of the Personnel Cabinet for the creation of new unclassified position to serve as KPPA's Chief Financial Officer. The motion was seconded by Mr. Cheshire and the motion passed unanimously. Mr. Eager stated that Ms. Hampton and Ms. Pendergrass assisted in the drafting of the job description and the salary range which was suggested to be approximately \$115,000 to \$140,000. Ms. Pendergrass asked how a salary will be selected. Mr. Eager stated that based on candidate qualifications and experience a salary within that range will be offered. The specific compensation request will be taken to the Personnel Cabinet for approval. Ms. Adkins added that statutorily the Board must approve the investment range but not every non-classified position. Mr. Eager stated that Board approval of the salary range/specific compensation is not required, however, he would keep the Board informed should the salary exceed the suggested \$115,000 to \$140,000.

Mr. Powell introduced agenda item *New Administrative Regulations – 105 KAR 1:415 and 105 KAR 1:415E*. Ms. Carrie Bass began her presentation by introducing her colleague Jessica Beaubien who recently joined the Office of Legal Services. Ms. Beaubien is a Policy Specialist focusing on administrative regulation. Ms. Bass directed the Board to the memorandum in their materials which summarizes the new administrative regulations, 105 KAR 1:415 and 105 KAR 1:415E. Effective October 1, 2022, the systems operated by KPPA will establish a new hospital and medical insurance plan through the Kentucky Employees' Health Plan for retired members who are Medicare eligible and reemployed in a regular full-time position with a participating employer. Ms. Bass stated that 105 KAR 1:415 is a new administrative regulation outlining eligibility requirements, procedures, and necessary documentation and forms for the reimbursement of hospital and medical insurance



benefit premiums paid by Medicare eligible retired members who were reemployed in a regular full-time position with a participating employer and were informed by the Kentucky Retirement Systems or the KPPA that they were not eligible for enrollment in an existing group hospital and medical insurance plan through the Kentucky Retirement Systems or the KPPA from March 1, 2017 through September 30, 2022. Ms. Bass advised that KPPA will begin receiving requests for reimbursements beginning August 1, 2022. Mr. Peercy asked about the proof required for reimbursement and expressed concern that it may be difficult for members to gather the required information. Ms. Bass stated that the difficulty, time, and effort expenditure that members may face was discussed by KPPA Staff while drafting the regulation. The June 30, 2023 deadline to submit the form should be sufficient time for members, said Ms. Bass. She and her team will also work with members up to six months after this deadline should further documentation be needed. She also stated that two additional types of documentation are to be added to the list of acceptable proof, pending Board approval. Mr. Powell asked if members would need to submit the form annually. Ms. Bass stated that only one form is needed for all periods of reimbursement being requested. Mr. Peercy made a motion to authorize staff to file the Administrative Regulations as presented. The motion was seconded by Ms. Pendergrass and the motion passed unanimously.

Mr. Powell introduced agenda item *KPPA Update*. Mr. Eager presented the item and stated that KPPA is currently operating with 25% of Staff working onsite. He anticipates that the percentage will grow overtime, however, rising gas prices are a large deterrent as of late. The Actuarial RFP is almost at completion and results will be announced once permitted to do so. Mr. Eager also provided an update regarding experience studies and stated that he continues to meet with the KRS and CERS CEOs every two weeks. The KPPA SAFR and Annual Reports will include the financial and demographic information for all 10 plans. The Government Officials' newsletter was sent out recently and Mr. Eager stated that he has been pleased with the response. A member newsletter is also going out in the coming weeks. Marlane Robinson, Director of Human Resources announced her retirement and will be replaced by Lori Casey effective August 1, 2022. A single source exemption is being requested with the Finance Cabinet for the CEM study. Ms. Ashley Gabbard continues to work with Board Smart on building the dashboard and creating beneficial and informational tools for the Board to increase their knowledge and fulfill their continuing education requirements. Mr. Eager commended Ashley for her work on this project. Ms. Gabbard added that Board Smart has been an excellent tool for Trustees and that the new resources should be available in the near future. Mr. Eager announced that the Executive team is in the process of posting a new

position for an Assistant to Ms. Sherry Rankin and hope to have someone in the position soon.

\*\*\*Ms. Hampton exited the meeting\*\*\*

Lastly, Mr. Eager provided an update on the Strategic Plan. He stated that KPPA is responsible for staffing, facilities, IT, serving members, etc. and it would be helpful to create measurable and realistic expectations through this Strategic Plan. Mr. Eager explained that this is a rough draft which includes the six KPPA mandates with two additional long-term needs. Mr. Powell stated that this is a great first step to see where KPPA needs to go moving going forward. Ms. Pendergrass asked if these six mandates were approved by the KRS Board. Mr. Eager said that the mandates have not been approved and that this is a working document from Staff. Mr. Eager added that he did not see the need for Board approval because the document is guidance for staff in their day-to-day operations and that the mandates have been in place since 2017.

There being no *New Business*, Mr. Powell introduced agenda item *Closed Session*. Ms. Pendergrass made a motion and was seconded by Mr. Peercy enter into closed session. The motion passed unanimously.

Ms. Davis read the following closed session statement and the meeting moved into Closed Session: A motion having been made in opensession 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 close session to consider litigation,pursuant to KRS 61.810(1)(c), because of the necessity of protecting the confidentiality of the Systems' litigation strategy and preserving any available attorney-client privilege.

Mr. Powell stated that the Board will be taking no action as the result of the closed session discussions and opened the floor for adjournment. Ms. Pendergrass made a motion and seconded by Mr. Lane to adjourn the meeting. The motion passed unanimously.

Copies of all documents presented are incorporated as part of the Minutes of the KPPA Board held June 16, 2022 except documents provided during a closed session conducted pursuant to the open meetings act and exempt under the open records act.

## CERTIFICATION

I do certify that I was present at this meeting, and I have recorded the above actions of the Board 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

We, the Chair of the Board of Kentucky Public Pensions Authority and Executive Director, do certify that the Minutes of Meeting held on June 16, 2022 were approved on September 29, 2022.

  
KPPA Board Chair

  
Executive Director

I have reviewed the Minutes of the June 16, 2022 Kentucky Public Pensions Authority Meeting for content, form, and legality.

  
Executive Director, Office of Legal Services