

**MINUTES OF MEETING
COUNTY EMPLOYEES RETIREMENT SYSTEM
SPECIAL CALLED ACTUARIAL COMMITTEE MEETING
MARCH 14, 2022 AT 2:00 P.M.
VIA LIVE VIDEO TELECONFERENCE**

At the special called meeting of the Actuarial Committee of the County Employees Retirement System Board of Trustees held on March 14, 2022 the following members were present: Michael Foster – Chair, Dr. Merl Hackbart, and Dr. Patricia Carver. Other Trustees present included George Cheatham and Betty Pendergrass. Staff members present were CERS CEO Ed Owens, III, KRS CEO John Chilton, David Eager, Erin Surratt, Victoria Hale, Kristen Coffey, Connie Davis, Cassandra Weiss, Steven Herbert, Ashley Gabbard, Glenna Frasher, and Sherry Rankin. Others present included Danny White and Janie Shaw with GRS.

Mr. Foster called the meeting to order.

Ms. Hale read the Legal Opening Statement.

Ms. Rankin took Roll Call.

There being no *Public Comment* submitted, Mr. Foster introduced agenda item *Approval of Minutes from the November 8, 2021 Meeting*. A motion was made by Dr. Hackbart and seconded by Dr. Carver to approve the minutes as presented. The motion passed unanimously.

Mr. Foster introduced agenda item *Economics Assumptions for Actuarial Valuation*. Mr. Danny White presented the Economics Assumptions for Actuarial Valuation for the County Employees Retirement Systems (CERS). Each year the Actuarial Committee reviews the price inflation, investment return, and payroll growth economic assumptions. Mr. White announced that the 2022 valuation recommended assumptions were as follows: price inflation will be 2.30%, investment return will be 6.25%, and payroll growth 2.00%. Mr. White indicated that these percentages have not changed from 2021. He shared a graph which illustrated the comparison of the price inflation assumption to sources of forward-looking expectations. He also reviewed the forward-looking capital market expectations and stated that five investment consultants are listed as sources for the data presented: BNY Mellon, J.P. Morgan, Mercer, NEPC, and Wilshire Associates. Mr. White

added that Mercer and Wilshire Associates provided both short-term and long-term expectations. He stated that there has been a long-term downward trend of these capital market return assumptions and a march downward over the last ten years of lowering the expectations year over year. He stated that in 2022 there was a pause on this downward trend. Dr. Hackbart asked if consultants one and two were the same for the short-term and long-term expectations. Mr. White stated that they are blinded in order, lowest to highest. He added that additional investment consultants were listed last year, however, their data was not available at the time of the analysis. Dr. Hackbart asked if Mr. White was able to analyze to what extent the consultant observations or predictions compare to their accuracy of prior observations over the last ten year period. Mr. White said that BNY Mellon has a report which provides this data. Mr. White stated that he would follow up with Ms. Surratt to provide that data to the Committee. Next, payroll growth assumption was reviewed. Mr. White stated that covered payroll is positive and has averaged 1.1% over the last ten years. He advised that the 2% payroll growth assumption is still within a reasonable range but may need to be adjusted in the future. Dr. Hackbart asked Mr. White to provide the definition of covered payroll and active membership. He stated that covered payroll includes the salaries of membership that is reported to KPPA or the sum of the individuals who are earning benefits in the system. Active membership is the number of members who are earning benefits, in this case, as of June 30, 2022. Dr. Hackbart asked how the CERS assumptions compare to peers. Mr. White shared a distribution of investment return assumptions from fiscal year 2001 to present with the Committee. He explained the distribution graph and stated that he expects to see a downward trend in the return assumptions used by state retirement systems. Ms. Pendergrass presented a historical summary of the investment earnings and actuarial discount rate since fiscal year 2012. Mr. White added that this historical summary is relevant to review for historical purposes and is worthwhile. Dr. Carver asked why the discount rate would be lowered if returns have remained steady. Ms. Pendergrass stated that the investment asset allocation was reconfigured to take money out of equities and increase investments in fixed income in 2017. Dr. Hackbart asked if an asterisk could be added to the GRS letter/report assumption table indicating the definition of payroll growth. Mr. White stated that he will follow up with that adjustment to the report. Mr. Cheatham asked for clarification regarding the payroll assumption. He stated that local governments and school systems are operating on a relatively fixed income and with payroll growth due to market forces, the number of positions are decreasing while the payroll growth is increasing. Further, Mr. Cheatham asked if the assumption accounts for this. Mr. White stated that this assumption accounts for two factors: the amount of individual salaries and the underlying change in membership. Ms. Janie Shaw with GRS added that the current year was a good example of these changes in covered

payroll and further explained the covered payroll growth graphs in the GRS letter/report. Mr. Cheatham asked if it is possible to split the payroll growth assumption of 2% and allocate a portion of that to a number of beneficiaries versus actual growth in wages. Mr. Cheatham added that he is seeing the number of positions decrease and agencies are making up for that with payroll growth in order to be competitive. Dr. Hackbart agreed and added that in many cases positions are being eliminated due to technological advances. Mr. White stated that they do not explicitly break out the components but rather they look at the sensitivity based on certain scenarios such as decreases in membership and population growth. Dr. Hackbart also asked if 'covered payroll' could be changed to 'membership payroll'. Mr. White explained that 'covered' is term used to describe a member's covered earned membership in the system, it is synonymous with 'membership' payroll and are interchangeable. Dr. Hackbart asked that this change be made throughout the GRS letter/report. Ms. Shaw added that this assumption projects the payroll is for the entire active population and is different than the assumption for an individual member. Ms. Pendergrass asked what the payroll growth percentage was prior to 2017. Mr. White advised that the payroll growth was 4%. Dr. Carver made a motion to recommend to the CERS Board that they adopt the recommended economic assumptions in the upcoming June 30, 222 Actuarial Valuation as proposed by GRS. Dr. Hackbart seconded the motion and the motion passed unanimously.

Mr. Foster introduced agenda item *Actuary RFP Process*. Ms. Erin Surratt presented the informational item in lieu of Ms. Rebecca Adkins. Ms. Surratt stated that according to KRS 61.505, KPPA must hire a single actuary consulting firm to provide services for KRS and CERS. The current contract for actuarial services has no more renewals, therefore, a request for proposal (RFP) was posted for these services for fiscal year 2023. Ms. Surratt reported the procurement team notified as many potential vendors as the team was aware of, including all that are registered with the Commonwealth of Kentucky. The RFP was released on February 21, 2022 and proposals are due by March 29, 2022 at 3:00 p.m. EST. Mr. Foster asked where and how the RFP was released. Ms. Weiss stated that per KRS 45A it is required that the RFP be posted using the State Procurement System and is available on the Vendor Self Service website and the KPPA website. Dr. Hackbart asked if a panel will be utilized to review the submitted proposals and make a selection. Ms. Weiss stated that once the proposals are reviewed and confirmed to have met all necessary requirements, they will be submitted to an evaluation team for scoring. The evaluators will be subject matter experts and KPPA employees. The vendor which receives the highest score will be offered a contract award. Mr. Foster asked if there will be a recommendation to the full Board prior to contract award. Mr. Weiss advised that once the contract award is made, the Board

will be notified and may review the contract. Further, Mr. Foster asked who makes the award to the selected vendor. CERS CEO Ed Owens, III, stated that the awards for the actuarial services and custodial bank are made by KPPA, by statute. Additionally, the individual Boards have the opportunity to make an award for their investment advisor, by statute.

Dr. Carver made a motion and was seconded by Dr. Hackbart 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 on March 14, 2022, 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

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 County Employees Retirement System, do certify that the Minutes of Meeting held on March 14, 2022 were approved on November 2, 2022.


Chair of the Board of Trustees

I have reviewed the Minutes of the March 14, 2022 Board of Trustees Meeting for content, form, and legality.


Executive Director
Office of Legal Services