

**MINUTES OF MEETING
KENTUCKY PUBLIC PENSIONS AUTHORITY
MEETING VIA LIVE VIDEO TELECONFERENCE
MARCH 24, 2022 AT 10:00 AM ET**

At the meeting of the Board of the Kentucky Public Pensions Authority held on March 24, 2022 the following members were present: Keith Percy (Chair), John Cheshire, Campbell Connell, Prewitt Lane, William O'Mara, Betty Pendergrass, and Jerry Powell. Staff members present were KRS CEO John Chilton, CERS CEO Ed Owens, III, David Eager, Rebecca Adkins, Erin Surratt, Michael Board, Steven Herbert, Connie Davis, Kristen Coffey, Ashley Gabbard, D'Juan Surratt, Victoria Hale, Carrie Bass, Ann Case, Shaun Case, Glenna Frasher and Sherry Rankin.

Mr. Percy called the meeting to order.

Mr. Board read the Legal Opening Statement.

Ms. Rankin called roll.

There being no *Public Comment* submitted, Mr. Percy introduced agenda item *Approval of Meeting Minutes – December 8, 2021 and January 27, 2022*. Mr. Lane made a motion and was seconded by Mr. Powell to approve the minutes as presented. The motion passed unanimously.

Mr. Percy introduced agenda item *Investment Update*. Mr. Herbert began by reviewing the KPPA Statutory Compliance Checklist as it pertains to Website Postings. He indicated that work is still progressing toward making sure our reporting is compliant with the KRS statutes. Mr. Herbert provided an overview of the Investment Return summary reports for all of the plans for the quarter ended December 31, 2021. This information was provided for informational purposes.

Mr. Percy introduced agenda item *Joint Audit Committee Reports*. Ms. Pendergrass provided a review of the Joint Audit meeting which was held on February 22, 2022. She stated the items that were presented for informational purposes included the KPPA Archives Policy, the Financial Statements for the quarter ended December 31, 2021, a follow-up on the 2021 Annual Comprehensive Financial Report, Fiscal Year End June 30, 2021 End of Year Audit Requirements,

and the APA Approval Request for the Fiscal Year 2022 External Audit. She indicated that some items were deferred to be presented at a later date including the results of the GASB 68 and GASB 75 Proportionate Share Audits for fiscal year ended June 30, 2021, the results of the Plan Liquidity Audit, Phase 1, and additions to the Current Audit Plan.

Mr. Peercy introduced agenda item *Quarterly Financial Reports*. Ms. Adkins reviewed the Combining Statement of Fiduciary Net Position for both the Pension and Insurance Funds, and the Combining Statement of Changes in Fiduciary Net Position for both the Pension and Insurance Funds, Administrative Budget to Actual Analysis, and Contribution Reports for both Pension and Insurance Funds for all systems. Ms. Pendergrass asked about the status of the possible 25th pay check that was requested by the Finance Cabinet. Ms. Adkins stated that it is in the Budget Bill and it will depend upon which version of the Budget Bill is passed.

Mr. Peercy introduced the agenda item Administrative Expense Allocation. Ms. Adkins stated that in accordance with statutes, Kentucky Public Pensions Authority has the responsibility of determining how to prorate, assign or allocate to the County Employees Retirement System and Kentucky Retirement Systems all expenses incurred by or on behalf of Kentucky Public Pensions Authority. The issue for the Board's consideration is which methodology to utilize to allocate the bulk of the administrative expenses. The KPPA Board assigned the task of researching all allocation options to a workgroup comprised of Trustees William O'Mara and Prewitt Lane, CEOs John Chilton and Ed Owens, III, David Eager, Rebecca Adkins, and Connie Davis.

Ms. Adkins reviewed the current allocation calculation which is solely based on the number of members (retired, active, and inactive) in each of the pension funds as of June 30th of the prior fiscal year. She stated that the reasoning behind this methodology is that the number of members who require services would be a significant factor in determining the expenses required to service those members.

Ms. Adkins indicated that the goal of this working group was to find a methodology that was both equitable to all plans yet simple enough to maintain transparency and auditability while limiting manual entries. While some expenses are currently allocated directly to KRS or CERS, Ms. Adkins mentioned the operations for allocating the remainder of the administrative expenses between KRS

and CERS:

Membership. Administrative expenses should be allocated based on membership. This is based on the premise that increases in membership necessitate more KPPA staff, and staff is a critical component of the administrative expenses.

50%/50%. Administrative expenses should be allocated 50%/50 because, if the systems were separate, each system would have to incur similar costs.

Assets under management. This method of allocating expenses relates primarily to investment-related expenses.

The workgroup determined a Hybrid method that splits the administrative budget into large categories. Each category is assigned one of the three allocation methods that best fit the categories. Mr. Chilton began a discussion on the possibility of allocating some expenses directly where expenses incurred for the benefit of one system and from which the other system does not benefit will be allocated 100% to the system so benefitting. E.g. actuarial studies relating to legislative proposals that affect only one system and legal expenses related to litigation affecting only one system. This category includes the allocation of expenses required by 2022 HB 297.

Ms. Adkins presented a schedule that was approved by the workgroup, and which indicated the proposed allocation method for each category.

After a lengthy discussion, Ms. Pendergrass made a motion to accept the five recommendations from the workgroup. Ms. Pendergrass amended her initial motion to include the Committee's discussion. Mr. Lane seconded the motion.

A combination of all methodologies be used to define a fiscal percentage of
CERS 62.39%

KRS 37.61%

will be adjusted to split the KPPA legal staff between Advocacy which will be based on membership and Non-Advocacy which will be based on a 50/50 split for CERS and for KRS.

Allow KRS and CERS Boards to determine the split of administrative expenses for plans under their administrative purview.

Reevaluate (true-up) the CERS/KRS split prior to the beginning of every fiscal year. During the subsequent annual reevaluations, the accounting department may identify significant costs, identified as groups of similar costs exceeding \$10,000, which should be a direct charge instead of the allocation method, and make the effective date of the recommended CERS/KRSS percentages July 1, 2021 (that is, the entire fiscal year 2022), and instruct KPPA accounting staff to make correcting entries to implement that date.

Since the evaluation process was just completed, use the FY 2022 hybrid percentages for FY 2023. Beginning with the fiscal year 2024, the annual reevaluation process will be based on the actual costs from previous fiscal years rather than the budget estimates.

Pursuant to a roll call vote, the motion, as amended, passed unanimously.

Ms. Adkins then stated that the accounting department will be developing procedures for this process.

Mr. Peercy introduced agenda item *Amendments to 105 KAR 1:390*. Ms. Bass requested authorization to file amendments to the retired reemployed regulation which essentially outlines processes and procedures for implementing state and federal requirements for our retired members who want to reemploy with participating employers through a variety of employment arrangements. She indicated that these changes fall into three categories: 1) clarify the existing regulation and incorporate minor changes necessitated by the creation of separate statutes for the County Employees Retirement System; 2) explain how health insurance premium reimbursements will be allocated when a retired member is reemployed by multiple participating employers in a manner that constitutes reemployment in a regular full-time position as defined in statute; and 3) incorporate by reference various forms required for participating employers to be exempt from payment of employer contributions and health insurance premium reimbursements for retired members reemployed as police officers and school resource officers. Ms. Pendergrass asked if the proposed administrative regulation be posted to the KPPA website prior to the public hearing that is scheduled on June 28, 2022. Ms. Bass indicated that historically those proposed regulations have not been posted to the KPPA website as it is not required by KRS 13A, which governs administrative regulations. However, that is something that can be taken under advisement. Ms. Pendergrass

suggested that if public comments are being sought regarding the regulation, it would be helpful for the public to make comments if they were able to review it prior to the public hearing. She suggested that the regulation should be posted to the website since the only resource that constituents currently have is the material that is posted for today's meeting and that the public hearing date of June 28, 2022 also be promoted on the website. Mr. Connell made a motion and was seconded by Mr. Cheshire to approve the amendments to 105 KAR 1:390 and to authorize the office of legal services to file the regulation with LRC. The motion passed unanimously.

Mr. Percy introduced agenda item *Legislative Updates*. Mr. Eager reviewed two current bills that have the most impact on KPPA. The first bill is House Bill 297, the KPPA housekeeping bill, is a 170 page bill that includes a variety of items included in the bill. One of the items includes the addition of 6 unclassified employees in the Investment Department, removing these positions from under the 18A provisions and thereby allowing KPPA to be more competitive in our search to fill these important and much needed positions. The language included requires the Boards approval of position descriptions and to set salary ranges. Other items that impact KPPA included in the Bill provides the Board conduct an annual review of the Executive Director, provides that we report to the Public Pension Oversight Board annually the detailed number of employees, salaries, changes in salaries and other information, and resolves issues with health insurance coverage by our retired reemployed members who were denied by Medicare as their primary provider.

Mr. Eager stated House Bill 668 was a result of the previous employer appeals regarding House Bill 8, wherein employers were seeking member information that KPPA feels is confidential to the member. KPPA did provide the employers with the names of the members that were associated with the liability assessed to the employer. House Bill 668 specifies that KPPA provide member information to employers, if they request it. He stated that the information that will be released to them will be the same information that is released to GRS. Even though KPPA sees this sharing of information as a potential release of confidential member information, KPPA will comply with statutory requirements.

Mr. Percy introduced agenda item *KPPA Updates*. Mr. Eager began with KPPA staffing and stated that it is increasingly difficult to recruit and retain employees mainly due to non-competitive salaries. KPPA currently has 250 employees of its approved 270 positions. Mr. Eager praised Marlane Robinson and the Human Resources staff for their hard work in trying to locate and interview potential

candidates. He stated that KPPA is currently looking to fill six (6) intern positions in Audit, Communication, IT and Investment departments. He feels this is a great opportunity to provide a service to our Universities and looks forward as more interest grows in providing intern positions in other areas of KPPA.

Mr. Eager announced that May 2nd will be the date that KPPA staff will implement their supervisor-approved work rotation schedules. Ms. Pendergrass asked about repeating the Administrative Study that had been completed in the past by CEM. She indicated that it would be helpful to have an outside agency do a thorough review of our operational costs for a system of our size and complexity. Mr. Eager agreed and stated that information has been received from CEM and this matter will be revisited in the Fall to see if our situation is stable enough to move forward with conducting a new study.

Ms. Adkins reviewed the timeline for the Actuary Request for Proposal. She stated that the current contract for actuarial services has no more renewals, and in accordance with KRS 45A, the Kentucky Model Procurement Code, KPPA has posted a request for proposal for these services for fiscal year 2023. This was provided for informational purposes only.

Mr. Percy introduced agenda item – *New Business*. Mr. Percy stated that there is no new business to discuss.

Mr. Percy introduced agenda item – *Closed Session*. Mr. Percy indicated that there will be no need for a closed session at this time.

Mr. Percy gave Mr. Connell a chance to have time to express his final words as he will be leaving the Board at the end of March.

Mr. Powell made a motion and was seconded by Mr. Connell 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 March 24, 2022 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 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 March 24, 2022 were approved on June 16, 2022.


KPPA Board Chair


Executive Director

I have reviewed the Minutes of the March 24, 2022 Kentucky Public Pensions Authority Meeting for content, form, and legality.


Executive Director, Office of Legal Services