

**MINUTES OF MEETING
KENTUCKY RETIREMENT SYSTEMS
BOARD OF TRUSTEES SPECIAL CALLED MEETING
NOVEMBER 1, 2022 AT 10:00 AM ET
VIA LIVE VIDEO TELECONFERENCE**

At the meeting of the Kentucky Retirement Systems Board of Trustees held on November 1, 2022, the following members were present: Lynn Hampton (Chair), Keith Peercy, David Adkins, John Cheshire, Prewitt Lane, Pamela Thompson, Ramsey Bova, Dr. Crystal Miller, and William Summers, V. Staff members present were KRS CEO John Chilton, CERS CEO Ed Owens, III, David Eager, Erin Surratt, Victoria Hale, Connie Pettyjohn, Kristen Coffey, Connie Davis, D’Juan Surratt, Leigh Ann Davis, Dominique McKinley, Ann Case, Jared Crawford, Elizabeth Smith, Ashley Gabbard, Steve Willer, Katie Park, Phillip Cook, and Sherry Rankin. Others present included Larry Loew and Tracey Garrison with Humana, Danny White and Janie Shaw with GRS, and Allen Norvell and Ryan Graham with Blue and Co.

Ms. Hampton called the meeting to order.

Ms. Hale read the Legal Public Statement.

Ms. Rankin called roll.

There being no *Public Comment* submitted, Ms. Hampton introduced agenda item *Approval of Minutes – September 14, 2022*. A motion was made by Mr. Adkins and seconded by Mr. Lane to approve the September 14, 2022 minutes as presented. The motion passed unanimously.

Ms. Hampton introduced agenda item *Status Update of FY22 Financial Statement External Audit*. Mr. Allen Norvell with Blue and Co. introduced his colleague, Ryan Graham to the KRS Board of Trustees. Audit Director Ryan Graham with Blue and Co. presented the Status Update of FY22 Financial Statement External Audit. He stated that Blue and Co. has received early drafts of the statements and that the drafts are in review. He hopes to provide the final draft within the next few weeks. Mr. Chilton asked Mr. Graham if he had any concerns to report. Mr. Graham stated that there were no concerns to report. Ms. Hampton asked if Mr. Graham if Blue and Co. was on schedule and he confirmed that the audit is on schedule.

Ms. Hampton introduced agenda item *Review DRAFT 2022 Actuarial Valuation*. Mr. Danny White presented the valuation results as of June 30, 2022. Since the Commonwealth sets a two-year budget, the presented report was informational, said Mr. White. He discussed the impact of legislation passed in 2022 on the valuation. Active membership declined in both KERS funds and increased in SPRS, said Mr. White. Covered payroll increased by 1.7% in KERS Hazardous and by 5.6% in SPRS. There was a -5% to -6% return on market value in pension and insurance funds. Additionally, there was a \$306 million dollar loss for all KERS and SPRS retirement funds combined, and a \$1,054 million dollar gain for all KERS and SPRS insurance funds combined. Mr. White stated that about \$300 million of the loss in the retirement funds was attributed to retirees who receive a benefit from both Hazardous and Nonhazardous. Mr. Eager clarified that these losses are not a loss in assets but an experience loss as it relates to the liability. Mr. White agreed and confirmed that the losses are due to the liability being higher than expected. Mr. Chilton asked why the Medicare premiums had decreased. Mr. Eager stated that Humana would need to provide that answer, not GRS. Ms. Janie Shaw with GRS continued the presentation. She advised that it is imperative to maintain or increase the contribution effort for the Nonhazardous retirement fund. Ms. Shaw reviewed the change in required actuarially determined employer contributions of each KRS plan, the amortization cost for KERS Nonhazardous, and the unfunded actuarial accrued liability of the pension and insurance funds with the Board of Trustees. Ms. Shaw stated that active membership count is important because it is a driver of covered payroll which is how contributions are collected for the KERS Hazardous and SPRS plans. She presented the active membership count over the last ten years and reported that active membership has decreased in KERS Nonhazardous and KERS Hazardous, however, active membership had increased in SPRS. Covered payroll in KERS Nonhazardous has begun to level-off and increased in KERS Hazardous and SPRS, said Ms. Shaw. Additionally, she reported that retired membership count and pension benefit distributions continue to increase. Ms. Shaw briefly explained the funding results for the KERS plans to the Board. Mr. Eager advised that the gains and funded status increments are small but will increase each year, particularly in KERS Nonhazardous which has a funded ratio of 18.5%. They bottomed out at 12.9% in FY19, said Mr. Eager. Mr. Eager stated that he is pleased with the direction of funding and the support of legislators and House Bill 8. He also advised that the 18.5% funded ratio does not include the \$480 million dollars that has been received and will be recorded in the valuation for next year. Ms. Hampton asked what the expected outcome for FY22 was after the funding method change. Mr. White stated that the funding of the health insurance plan puts KPPA in an elite group. He advised that these insurance plans are well funded because KPPA has done a

great job managing the costs and the benefits provided by the health insurance. Next, Mr. White reviewed the projection assumptions of KERS Nonhazardous, KERS Hazardous, and SPRS. Mr. Eager commented that the projected assumptions assume that the assumptions will be realized. These assumptions are on the conservative side and may be adjusted overtime, if needed. The legislature could reset the amortization period as they did four years ago, however, Mr. Eager expressed confidence that the PPOB would wish to continue the current path until year 2049. Mr. Peercy stated that the projection of over funding within the KERS Hazardous plan is expected; however, the presented graphs project that funding decreases a few years prior to rebounding in the KERS Nonhazardous and SPRS plans. Mr. Peercy requested that Mr. White explain the decrease. Mr. White explained that the decrease is due to a mechanism of the funding policy that is in statute. Further, Mr. Peercy asked if KPPA should treat SPRS like KERS Hazardous or like the CERS plans which are over 50% funded and if it would be appropriate to change the assumption to 6.25 and increase risk in the portfolio. Mr. White stated that increased assumptions would decrease the contributions and lead to less funding; therefore, if the Board wishes to increase risk, the risk should be added in the investment policy. Mr. Eager reminded the Board that changes in assumptions should be done in small increments overtime. Mr. Lane reported that the Investment Committee has discussed if changes to assumptions are needed and how those changes would be made. In summary, Mr. White stated that it is imperative that the State and participating employers continue contributing the actuarially determined contributions in each future year to improve the System's financial security. Ms. Hampton thanked Mr. White and Ms. Shaw for their presentation. Mr. Eager asked Mr. White to explain the next steps in the valuation process. Mr. White advised that there is a reporting deadline of approximately November 15, 2022 to provide the information to the Legislative Research Commission (LRC) and the val report will be presented to the Board at the next Board of Trustees meeting on December 5, 2022 for adoption. Further, Mr. Eager explained that the data is from the period ending June 30, 2022, and was presented to the Board in December of 2022, which is FY23 and goes into effect July 1, 2023 which is FY24. Mr. Peercy made a motion to approve the Draft 2022 Actuarial Valuation. Ms. Bova seconded the motion and the motion passed unanimously.

Ms. Hampton introduced agenda item *Joint Retiree Health Plan Committee Report*. Ms. Connie Pettyjohn reported that the Joint Retiree Health Plan Committee met on October 24, 2022 and reviewed an informational presentation from Humana regarding 2023 Pharmacy Review, 2022 Member Satisfaction Survey Results, and 2023 CMS Star Ratings. She stated that the recently passed Inflation Reduction Act has an immediate impact to some of the Medicare and other benefits. The

Act will allow vaccines to be given at a zero-member cost share beginning next year, said Ms. Pettyjohn. She also reported that Humana has star ratings which have risen to 4.5 stars. Ms. Tracey Garrison with Humana commented that the vaccines which will now be covered at 100% are those which are administered in a pharmacy setting. Ms. Garrison was pleased to announce that Humana reached a 4.5-star rating across the country. She stated that all memberships in the KPPA plans will be in the 4.5-star plan for 2023. In addition, 500 KPPA retirees participated via phone in the 2022 Member Satisfaction Survey which was the highest number of participants seen in recent years. Overall, Overall satisfaction has not changed with 68% being Very Satisfied vs. 61% for 2021, and Satisfied at 23% vs. 29% for 2021, and Somewhat Satisfied/Dissatisfied at 6% vs. 8% for 2021. Ms. Pettyjohn provided an update on open enrollment for non-Medicare retirees. She reported that 8,334 calls had been received in the month of October and that emails were delivered to 26,941 individuals. Web-enrollments have been successful, and in-person retiree meetings have been conducted in partnership with Humana at numerous locations such as Lexington, Louisville, Frankfort, and Bowling Green. Mr. Chilton asked if Ms. Pettyjohn had any information regarding the decrease in Medicare premiums for the current year and any forecast of what to expect in future years. Ms. Pettyjohn stated that the Inflation Reduction Act will affect Medicare premium changes moving forward as the act directly affects the drug store/point of sale benefit. Mr. Larry Loew with Humana advised that Humana is still evaluating years of data regarding the impact of the Inflation Reduction Act. He reported that there will be changes to the structure of the Part D drug benefit that will take effect in 2024 and that all changes are positive for members. As part of the request for proposal (RFP), Humana agreed to a cap on premiums; premiums cannot increase more than 5% in 2024. Mr. Loew stated that the rates for 2023 are a result of the favorable claims experience and positive reimbursement rates from CMS. Mr. Chilton and Ms. Hampton asked Ms. Pettyjohn to review and provide a recommendation to the Joint Retiree Health Plan Committee regarding decreasing the contribution rate. Mr. Eager stated that this discussion took place recently and it was decided to not change the contribution rate. Ms. Surratt advised that this may be a discussion for future years as the contribution rate has already been set by the Joint Retiree Health Plan Committee and the Board of Trustees for 2023.

Ms. Hampton introduced agenda item *KRS Update*. KRS CEO John Chilton presented the KRS Update. He stated that meetings with the Public Pension Oversight Board (PPOB) continue monthly and have been beneficial and productive. The details of the Housekeeping Bill are being discussed. Additionally, Mr. Chilton reminded Trustees of their education requirements which are required by statute and encouraged all to utilize Board Smart for to complete their required education hours. Ms.

Hampton endorsed Board Smart and stated that it is an informative and useful tool for Trustees.

Ms. Hampton introduced agenda item *KPPA Update*. Mr. Eager provided a KPPA Update. He stated that meetings with PPOB have been helpful and that an education session for legislators is being scheduled. Ms. Carrie Bass is working diligently on the Housekeeping Bill which has been sponsored by Representative Tipton. Mr. Eager reported that KPPA is staffed with 248 employees and has maintained that level for staffing for the last ten years. He added that there are vacancies within the agency, especially within the Office of Investments. He reported that employees are retiring at a slower rate within both CERS and KRS. The Strategic Plan request for proposal (RFP) is in the final stages and is expected to be posted on November 4, 2022. Lastly, Mr. Eager stated that meetings with Mr. Willer, Dr. Hackbart, and Mr. Lane have taken place regarding investments and staffing within the Office of Investments. They are working to determine which assets should be managed passively or in-house to save on management fees. Mr. Willer is collaborating with KPPA Human Resources to modify job descriptions for the portfolio managers and create additional Investment Analyst positions to provide support to Portfolio Managers. There are currently three employees managing \$22 billion dollars in assets, said Mr. Eager. Mr. Eager stated that Dr. Hackbart is interested in creating a formal process by which KPPA follows investment trends and best practices etc. It was also discussed whether a Chief Operating Officer (COO) in the investment management area would be a beneficial addition to the division. Lastly, Mr. Eager would like to formulate a plan to reduce fees. Ms. Hampton asked if there are still interns working within the Office of Investments. Mr. Eager stated that there is one active intern and one open intern position which will likely be filled next summer. He also stated that recruitment at various local universities will need to accelerate to acquire interns and the needed staff for Investments.

Ms. Hampton introduced *Department Spotlight-IT*. The Division Director of Enterprise and Technology Services, Dominique McKinley, presented the Department Spotlight. Ms. McKinley reviewed the mission, vision, and responsibilities/areas of support of the Enterprise and Technology Services Division with the Board of Trustees. The Division is currently staffed with 46 employees; ten of those are contracted employees. Mr. Eager asked Ms. McKinley to briefly touch on contract employees as the most recent hire within the Division is a contract employee. Ms. McKinley confirmed that a new contract employee did start on October 31, 2022 and is a former KPPA employee who retired ten year ago and is now rejoining the Authority. She advised that contract positions are common in the IT field and that she has had great success with contract employees. Ms. Hampton asked how contracted employees are managed. Ms. McKinley stated

that these contracted employees are treated as if they were full-time State employees; however, they are often assigned to special projects. Further, Ms. Hampton asked if contracted employees are contracted for a specific period. These contracts are for one year, said Ms. McKinley. Mr. Chilton asked how many employees within the Division regularly work at the KPPA office. Ms. McKinley stated that Service Desk employees work in-office on a rotating basis and that all other employees can work 100% from home if they choose to do so. She emphasized the importance of security within her division. Ms. McKinley advised that a migration to Microsoft 365 is being rolled out in phases to all KPPA employees and will provide several new upgrades. Ms. Hale reminded Ms. McKinley that Trustees are also impacted by the migration to Microsoft 365. Ms. McKinley advised the Board of Trustees that Boxer mobile application will no longer be used to receive their KPPA emails; it will be replaced by the Microsoft Outlook mobile application. She advised that additional changes would come later in the roll out. Lastly, Ms. McKinley expressed her continued emphasis on security and works to educate employees on potential threats and how to identify them. Mr. Chilton stated that the START System is proprietary and very complex due to the difference in the five different plans administered by KPPA. Ms. McKinley stated that the START System was purchased in 2011 from Deloitte and since has been modified to meet KPPA needs. Ms. Hampton asked if there is an annual fee for the system since KPPA owns the system. There is no annual fee for the system, said Ms. McKinley.

Ms. Hampton stated that there would be no *New Business* or *Closed Session*.

Ms. Hampton opened the floor for a motion to adjourn. Mr. Adkins made a motion and was seconded by Ms. Bova 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 November 1, 2022 except documents provided during a closed session conducted pursuant to the open meetings act and exempt under the open records act.

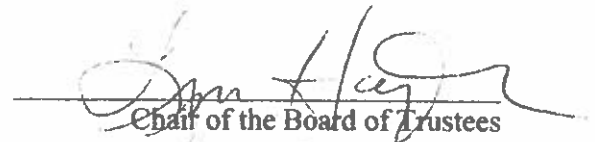
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CERTIFICATION

I do certify that I was present at this meeting, and I have recorded the above actions of the 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 November 1, 2022 were approved on December 1, 2022.


Chair of the Board of Trustees

I have reviewed the Minutes of the November 1, 2022 Board of Trustees Meeting for content, form, and legality.


Executive Director
Office of Legal Services