

**MINUTES OF MEETING
COUNTY EMPLOYEES RETIREMENT SYSTEM
SPECIAL CALLED ACTUARIAL COMMITTEE MEETING
NOVEMBER 2, 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 November 2, 2022, the following members were present: Michael Foster (Chair), Dr. Merl Hackbart, and Dr. Patricia Carver. Staff members present were CERS CEO Ed Owens, III, David Eager, Erin Surratt, Michael Board, Victoria Hale, Connie Davis, Steve Willer, Ashley Gabbard, Phillip Cook, Katie Park, and Sherry Rankin. Others present included Janie Shaw with GRS and David Lindberg, Craig Morton, and Chris Tessman with Wilshire.

Mr. Foster called the meeting to order.

Ms. Hale read the Opening Legal Statement.

Ms. Rankin took Roll Call.

There being no *Public Comment* submitted, Mr. Foster introduced agenda item *Approval of Minutes – March 14, 2022*. 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 *Draft Actuarial Valuation*. Ms. Janie Shaw with GRS presented the 2022 Actuarial Valuation results. She reviewed legislation passed in 2022 and reported that active membership increased across both funds. Non-hazardous increased by 6.4% and hazardous increased by 7.4% in covered payroll. Contributions are collected based on covered payroll; therefore, an increase in covered payroll results in increased contributions in the fund, said Ms. Shaw. Ms. Shaw reported that there was a negative 6% return on market value. Fund assets for CERS were \$1,943 million less than expected; however, \$110 million in asset gains were recognized this year. Further, retirement liability was higher than expected. There was a \$482 million loss for non-hazardous and a \$92 million loss for the hazardous fund. Ms. Shaw stated that this loss was due to salaries being higher than the assumptions and retirees who receive a benefit

from both non-hazardous and hazardous from the CERS fund. The valuation was not including the non-hazardous portion of the benefit for this group of retirees, said Ms. Shaw. Insurance liability came in less than expected. There was a \$1,582 million gain for both CERS insurance funds combined. Ms. Shaw advised that this gain was driven by significant decreases in Medicare premiums from 2022 to 2023. Trend assumptions were reviewed, and it was determined that Medicare premiums will now increase at a higher rate than in the past. Ms. Shaw commented that the 2022 valuation as of June 30, 2022, set the contributions for 2024 and are effective July 1, 2023. Next, she reviewed the required employer contributions and the change in required employer contributions for CERS non-hazardous and hazardous funds. The investment experience decreased the contribution rate by about 25 basis points and the demographic experience decreased by about 4.5% of pay for CERS non-hazardous, said Ms. Shaw. Additionally, Senate Bill 209 provided an increase of about 36 basis points. CERS hazardous saw a decrease of about 42 basis points and 6.5% of pay due to the demographic experience. Next, Ms. Shaw reviewed the unfunded actuarial accrued liability with the Committee. She stated that liability increased slightly in the pension funds due to the liability being higher than expected and there was a significant decrease in the unfunded liability for insurance. Ms. Shaw further reviewed the active membership count and covered payroll. She reported that there was an increase in active membership count and that the count has remained level over the last ten years. There was also an increase in covered payroll; 6.4% in Non-hazardous and 7.4% for hazardous. Ms. Shaw stated that increases in covered payroll have remained close to the 2% assumption over the last ten years. Steady increases in retired membership count were also reported and is increasing as expected for a mature plan. Ms. Shaw stated that there was also an increase in pension fund benefits being paid out; however, she advised that pension benefit distributions will likely level-off in the future as more Tier 3 retirees are taking the place of Tier 1 retirees since those benefits are not as rich. Dr. Hackbart asked if the retired membership is also projected to increase or stabilize in the future. Ms. Shaw believed that the retired membership count will continue to increase unless active membership were to change. The overall funding results for the CERS pension and insurance funds were briefly reviewed with the CERS Actuarial Committee. Lastly, Ms. Shaw presented the projection assumptions for CERS non-hazardous and hazardous. Ms. Pendergrass asked for clarification regarding a slight drop in the CERS non-hazardous pension unfunded liability and funded ratio graph presented. Ms. Shaw stated that the dip is due to the lack of gains to offset the investment loss that was seen this year. She advised that this may change based on investment returns in the next year. Ms. Shaw closed her presentation by reminding the Committee that it is imperative that participating employers continue contributing the actuarially determined contributions in each future year to improve the

system's financial security. Mr. Eager asked Ms. Shaw to comment on the best practices for funding insurance plans; pay as you go versus funding. She advised that most funds are pay as you go and that it is somewhat rare for a fund to be funded, fully funded or over 100% funded. Ms. Shaw praised the Committee and the CERS Board of Trustees for their efforts in maintaining the insurance funds. Ms. Pendergrass stated that most of the reports that she reviews are pay as you go and underfunded. Mr. Eager added that there is not enough recognition of this positive achievement. Dr. Carver made a motion to approve the Draft 2022 Actuarial Valuation. Dr. Hackbart seconded the motion and the motion passed unanimously.

Mr. Foster introduced agenda item *Discount Rate Discussion*. Mr. Owens stated that the current CERS discount rate is 6.25% which is substantially low in comparison to the median discount rate which is 7.10%. He advised the Committee that Ms. Pendergrass submitted a memo to Mr. Foster with a historical summary of investment earnings and the actuarial discount rate. It was requested that GRS review past economic assumptions and report a sensitivity analysis of what would happen to the portfolio should the Board of Trustees decide to increase or decrease the discount rate by 25 or 50 basis points. In addition, Wilshire was asked to provide new forward-looking return expectations, said Mr. Owens. Mr. Owens advised that he wished to begin this process early to allow the Committee and the CERS Board of Trustees have an opportunity to review a several quarters of data and make an informed decision. Ms. Janie Shaw with GRS presented additional sensitivity scenarios based on the results of the June 30, 2021, actuarial valuation. Mr. Foster asked if there was information available regarding why the discount rate was reduced despite returns being stable. Ms. Pendergrass stated that the reduction occurred in 2016 and was due to a change in asset allocation. Mr. David Lindberg and Mr. Craig Morton with Wilshire presented a capital market return assumptions update. Dr. Hackbart asked Mr. Lindberg if he had read the comments from the Federal Reserve regarding raising rates by 75 basis points. Mr. Lindberg stated that he had yet to review the comments but would soon.

Mr. Foster introduced agenda item *Strategic Planning Process*. Mr. Foster stated that the Strategic Plan continues to be a topic of discussion and asked the Committee if they had any questions or comments regarding the Strategic Plan. Ms. Pendergrass advised that she discovered a new performance tool for pension analysis while attending the recent NCPERS Conference in Nashville, Tennessee. She reported that those who developed the tool have agreed to give a presentation to the CERS Board of Trustees on how the tool may assist in identifying strengths and weaknesses within the System. Ms. Pendergrass stated that she will be scheduling this

education presentation for January of 2023. She requested that all efforts regarding the Strategic Plan be paused until after the presentation. Ms. Pendergrass and Mr. Foster wished to continue with the vote on the presented Actuarial Committee Strategic Plan as it may be modified later, if needed. A motion was made by Dr. Hackbart to approve the Actuarial Committee Strategic Plan as presented. The motion was seconded by Dr. Carver and passed unanimously.

Mr. Foster introduced agenda item *Committee Meeting Date*. Mr. Foster stated that a date for the next meeting of the CERS Actuarial Committee was needed. He asked if there were any date suggestions. Ms. Pendergrass advised that meeting dates for the CERS Actuarial Committee were included in the meeting calendar which was approved in June of 2022. Mr. Owens agreed and stated that the next CERS Actuarial Committee is scheduled for February 8, 2023. He advised that the Committee may wish to reschedule to discuss the new economic assumptions which would be received from GRS at the end of February or early March. Therefore, Mr. Owens stated that it may be prudent to select a date in March of 2023. He suggested March 6th or 7th to meet before the CERS Board of Trustees meeting which is scheduled for March 9, 2023. Ms. Pendergrass advised that all meeting materials are due a week prior to the meeting; therefore, the suggested March dates are unfavorable. She suggested that the CERS Actuarial Committee meet on or before March 2nd to meet this deadline. Mr. Owens stated that the CERS Board of Trustees would need to review and approve discount rate matters prior to June 30, 2023; therefore, the Actuarial Committee could meet on April 12th or 13th and would still fall before the CERS Annual Committee meeting which is scheduled for April 19th and prior to the June CERS Board of Trustees meeting. Ms. Janie Shaw with GRS confirmed that a later date would ensure that all information would be available to present the capital market assumptions and that as long as assumptions are set around June or July, GRS would be ready for the valuations. Mr. Foster asked if there was a consensus on a new meeting date. Mr. Owens reiterated that April 12th or 13th would be the best date. Ms. Pendergrass added that the CERS Actuarial Committee would need to make a recommendation to the CERS Board of Trustees for ratification at the next Board meeting. Dr. Carver made a motion to recommend to the CERS Board of Trustees that the next meeting of the Actuarial Committee be moved to April 12, 2023, at 2:00 p.m. EST. Dr. Hackbart seconded the motion and the motion passed unanimously.

Dr. Hackbart made a motion and was seconded by Dr. Carver 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 November 2, 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 County Employees Retirement System, do certify that the Minutes of Meeting held on November 2, 2022, were approved on April 12, 2023.


Chair of the Board of Trustees

I have reviewed the Minutes of the November 2, 2022 Board of Trustees Meeting for content, form, and legality.


Executive Director
Office of Legal Services