

**MINUTES OF MEETING  
COUNTY EMPLOYEES RETIREMENT SYSTEM  
BOARD OF TRUSTEES MEETING  
November 9, 2022 AT 2:00 P.M. ET  
VIA LIVE VIDEO TELECONFERENCE**

At the regular meeting of the County Employees Retirement System Board of Trustees held on November 9, 2022, the following members were present: Betty Pendergrass (Chair), Dr. Patricia Carver, George Cheatham, Michael Foster, JT Fulkerson, Dr. Merl Hackbart, Dr. Martin Milkman, William O'Mara, and Jerry Powell. Staff members present were CERS CEO Ed Owens, III, David Eager, Rebecca Adkins, Michael Board, Victoria Hale, Kristen Coffey, Connie Davis, D'Juan Surratt, Jared Crawford, Steve Willer, Connie Pettyjohn, Ann Case, Ashley Gabbard, Katie Park, Phillip Cook, and Sherry Rankin. Others present included Danny White and Janie Shaw with GRS, Larry Loew and Tracey Garrison with Humana, and William Johnson and Eric Branco with Johnson Bowman Branco, LLP.

Ms. Pendergrass called the meeting to order.

Mr. Board read the Opening Statement.

Ms. Pendergrass advised that the meeting was being conducted both in-person and via Zoom. She stated that the hybrid approach will continue; however, will vary each meeting.

Ms. Rankin took Roll Call.

Ms. Rankin read the *Public Comment* received from William D. Jones aloud to the CERS Board of Trustees: WHEN are retirees going to receive a COLA??? Social Security folks, State Employees, Federal Employees, etc. get them but WE don't!! How and when will you address this concern? I'm tired of the "Suspending Statute" every time the LAW requires we receive a COLA. Ms. Pendergrass reported that a written response was sent to Mr. Jones by Mr. Shawn Sparks of KPPA's Division of Communications. She added that the CERS Board of Trustees is researching several options and opportunities for addressing or asking the General Assembly to address the issue.

Ms. Pendergrass introduced agenda item *Approval of Minutes – September 14, 2022*. Mr. Fulkerson made a motion to the minutes as presented and was seconded by Dr. Milkman. The motion passed unanimously.

Ms. Pendergrass advised that she wished to move the agenda item *Joint Retire Health Plan Committee Report* to after the *Actuarial Committee Report*.

Ms. Pendergrass introduced agenda item *Finance Committee Report*. Accounting Director, Ms. Connie Davis reported on the progress of the external audit. Ms. Davis reported that she continues to meet with the auditors weekly to discuss outstanding items and to monitor the progress of the audit. The external audit is currently on schedule.

Ms. Pendergrass introduced agenda item *Actuarial Committee Report*. Mr. Foster presented the Actuarial Committee Report. He stated that Actuarial Committee met on November 2, 2022. The Committee reviewed and approved the draft 2022 Actuarial Valuation Report and recommends that the CERS Board of Trustees ratify the draft Valuation Report for submission to the Public Pensions Oversight Board (PPOB). The Committee also approved a recommendation to have the full CERS Board of Trustees move the next scheduled Actuarial Committee meeting from February 8, 2023 to April 12, 2023 at 2:00 p.m. EST. Lastly, the Actuarial Committee approved the components of its strategic plan and recommends that the CERS Board of Trustees ratify them.

Ms. Pendergrass stated that she wished to address the recommendation to have the full CERS Board of Trustees move the next scheduled Actuarial Committee meeting from February 8, 2023 to April 12, 2023 at 2:00 p.m. EST with item #9. Further, she stated that the Actuarial Valuation Report is like the action taken on the External Audit Report; therefore, the language should state that the Committee reviewed and *accepted* the draft 2022 Actuarial Valuation Report and asked if the Committee would accept the change in the language. Mr. Foster agreed that the change would be appropriate. Ms. Pendergrass asked Mr. Danny White and Ms. Janie Shaw with GRS to discuss the 2022 Actuarial Evaluation. Mr. White presented a summary of the 2022 Actuarial Valuation Results with the CERS Board of Trustees. He reviewed the impact of legislation passed in 2022 and the change in active membership and covered payroll. Active membership increased across both funds and covered payroll increased by 6.4% in CERS Nonhazardous and 7.4% in CERS Hazardous. There was a 6% return on market value and assumed rate of return of 6.25%, said Mr. White. Fund assets were \$1, 943 million less than expected and there were \$110 million dollars in

asset gains recognized in FY22. Mr. White also reported that there was a \$482 million dollar loss in the pension for CERS Nonhazardous and a \$92 million dollar loss for CERS Hazardous. He advised that the large loss in CERS Nonhazardous could be attributed to retirees receiving a benefit from both the Nonhazardous and Hazardous plans as well as an increase in salaries. However, there was \$1,582 million dollar gain for both CERS insurance funds combined, and Medicare premiums significantly decreased from 2022 to 2023. Ms. Janie Shaw continued the presentation and reviewed the required employer contributions with the Board of Trustees. Ms. Shaw reported these contributions decreased for both the CERS Hazardous and Nonhazardous funds. The valuation as of June 30, 2021, are the contributions for FY2023 and the valuation as of June 30, 2022, will be the contributions for 2024 and are effective July 1, 2023. Mr. White added that even though the contribution rate is decreasing, the dollar amounts collected are increasing. The active membership count was relatively stable comparing this year to last year, said Ms. Shaw, with an increase of about .6% in CERS Nonhazardous funds. Ms. Shaw stated that active membership count is important because it is a driver of covered payroll which is how contributions are collected. Over the last ten years, the average increase in covered payroll was about 2% in CERS Nonhazardous and about 3% in CERS Hazardous. Further, Ms. Shaw reported that the current assumption for covered payroll is 2% and stated that the actual experience is near 2%. Retired membership count was reviewed; there have been steady increases year over year, as expected. Pension benefit distributions are also increasing steadily and are expected to increase for the foreseeable future, reported Ms. Shaw. She advised that pension benefit distributions will level-off at some point as more Tier 3 retirees are taking the place of Tier 1 retirees since those benefits are not as rich. Ms. Pendergrass clarified that the distribution increase is not based on changes in benefit structure but based on the number of distributions that are made to retirees and the growth in the retiree population. Ms. Shaw agreed with the clarification. Mr. Eager asked Ms. Shaw to comment on the practices of State funds as it relates to pay as you go versus prefunding insurance and comment on the current healthy funded ratios. Ms. Shaw advised that often insurance funds are not funded; therefore, systems will pay as they go. It is not common to see insurance funds be funded, therefore, being over 100% funded is rare. She also advised that these insurance plans are well funded because the CERS Board of Trustees has done a great job managing the insurance costs. Mr. O'Mara asked if there will be a yo-yo effect when the over funding is depleted and rates begin to rise, and what employers should expect in future years. Mr. White stated that the yo-yo effect is possible, however, a rate of future increase in premiums is an assumption which was increased to about 9% and Humana also provides a two-year guarantee which states that they cannot increase premiums more than 5% each year. Mr. Powell asked Mr. White if he had reviewed

the statutes regarding the modeling for healthcare such as Kentucky Care Standards. Mr. White confirmed that the required minimum standards are always reviewed and reflected. Dr. Hackbart asked for information regarding the funding ratio for the health insurance system over the last ten years. Specifically, when did the CERS insurance fund reach this level of funding. Mr. White advised that the information can be found in the KPPA Annual Report and stated that this is a historic high for the funding ratio. Dr. Hackbart asked Mr. White to describe the major drivers to the funding ratio. Mr. White reported that the significant driver is the controlling of costs. Ms. Pendergrass stated that the historical information on funding ratios may be added to the agenda for the CERS Board of Trustees Meeting on December 5, 2022. She and Mr. Powell will gather and organize the historical information and the trend analysis completed by the Joint Retiree Health Plan Committee in the past. Mr. White presented the projection assumptions for pension and insurance for CERS Nonhazardous and CERS Hazardous with the Board. Mr. White presented final comments on the 2022 valuation results. Mr. Eager advised the Board of Trustees that Mr. White and Ms. Shaw will be present at the upcoming meeting of the Public Pensions Oversight Board (PPOB) to report this information and answer questions. Mr. White stated that the material presented to the PPOB will be similar but may be condensed. Mr. Powell asked if the CERS retirees are statistically credible enough to use for a mortality assumption or will a national published table need to be used. Mr. White did not have an answer; however, he advised that this information would be presented to the CERS Board of Trustees in the Spring of 2023. Ms. Pendergrass asked Mr. White to explore if there is data available to compare the CERS and KRS experiences and identify a combined mortality based on the entire population. Additionally, did Covid-19 change life expectancy for experiences. He advised that Covid-19 did influence the valuation but is difficult to identify the true impact at this time. Mr. Cheatham asked what is considered a statistically valid number for CERS to do the mortality assumption based on CERS experience. Mr. White advised that the valid number is 1,000 deaths per gender over a 5-year period. Dr. Hackbart stated that the pension system was actuarially overfunded and led to significant policy changes in the 1990s. Ms. Pendergrass added that this applied to KRS more than CERS. Dr. Hackbart agreed and continued stating that the assumptions were created based on the strong economy of the 1990s and have affected the long-term funding ratio of the system. He advised that the Board should be cautious in the relative confidence of projections. Mr. Eager added that this idea could also be applied to investment returns. Mr. Foster made a motion to ratify the Actuarial Committee's acceptance of the Draft 2022 Actuarial Valuation. The motion was seconded by Dr. Hackbart and passed unanimously.

Next, Ms. Pendergrass asked Mr. Foster to present the Actuarial Committee's components of the strategic plan. Mr. Foster asked Ms. Pendergrass to review the Actuarial Committee Strategic Plan as he needed to step away for a moment.

\*\*\*Mr. Foster exited the meeting. \*\*\*

Ms. Pendergrass stated that the Actuarial Committee included a variety of issues in their strategic plan.

\*\*\*Mr. Foster reentered the meeting. \*\*\*

She briefly described each of the four components. Ms. Pendergrass attended the recent NCPERS Conference in Nashville, Tennessee. She stated that she attended a presentation which discussed performance tool to measure metrics in a pension system. Ms. Pendergrass advised that a training would be scheduled for January of 2023 to present case studies and the use of the performance tool. She also advised that the Committee may edit the components once the Committee members attend the January training. Mr. Foster made a motion to ratify the Actuarial Committee's components of the strategic plan as presented and was seconded by Mr. O'Mara. The motion passed unanimously.

Ms. Pendergrass introduced agenda item *Joint Retiree Health Plan Committee Report*. Mr. Powell stated that the Joint Retiree Health Plan Committee met on October 24, 2022, and that the provided material was informational. Ms. Connie Pettyjohn reported that over 8,000 calls had been taken in the month of October. She asked Humana to provide the Board of Trustees with additional information regarding the Inflation Reduction Act. Ms. Tracey Garrison and Mr. Larry Loew with Humana briefly shared some of the changes caused by the Inflation Reduction Act. Ms. Garrison was pleased to announce that Humana reached a 4.5-star rating across the country. Mr. Powell stated that the CERS Nonhazardous funding ratio for healthcare was 132.1% and 101% for CERS Hazardous; therefore, have exceeded 100% funding in both plans. Mr. Eager added that this information was not available when the Joint Retiree Health Plan Committee met on October 24, 2022. Mr. Powell stated that he and the Committee may call a Special Meeting in December to review options to enhance benefits. Ms. Pettyjohn asked Mr. Powell if he had a date in mind for the Special Meeting. Mr. Powell stated that the date is flexible, and that the Committee would select a date once the discussion material is gathered.

Ms. Pendergrass introduced agenda item *Amended Meeting Calendar 2023*. Ms. Pendergrass reminded the Board of Trustees that the Actuarial Committee wished to move the February 8, 2023 Actuarial Committee meeting to April 12, 2023 at 2:00 p.m. However, Ms. Pendergrass expressed that April 12<sup>th</sup> may be too late in the year. She advised that it was recommended to schedule a Joint Investment and Actuarial Committee meeting to discuss issues that affect the management in both areas; however, Ms. Pendergrass proposed that a Special CERS Board Meeting be held in December to discuss investment management and actuarial management. Dr. Hackbart and Mr. Foster would lead the discussions at the Special Meeting, said Ms. Pendergrass. She asked Mr. Foster for his availability on December 19 and 21, 2022. He advised that he would be available on December 21, 2022. Additionally, Ms. Pendergrass stated that the Special Meeting would begin at 11:00 a.m. EST and would include a working lunch. She asked Ms. Rankin to review the KPPA Staff Calendar to confirm that the Boardroom and required Staff would be available on December 21, 2022. Ms. Hale advised that the Office of Legal Services was scheduled to hold hearings in the Boardroom for most of the day. It was determined that the Office of Legal Services would find an alternate location to conduct the hearings. A motion was made by Mr. Foster to schedule a Special Called Meeting of the CERS Board of Trustees on December 21, 2022 at 11:00 a.m. to discuss investment and actuarial management. Dr. Carver seconded the motion and the motion passed unanimously. A motion was made by Mr. Foster to move the February 8, 2023 Actuarial Committee meeting to April 12, 2023 at 2:00 p.m. Dr. Carver seconded the motion and the motion passed unanimously. Lastly, Ms. Pendergrass reminded the Board of Trustees of the training she plans to schedule in January of 2023 to review a new performance analysis tool and evaluating key metrics for pension management.

Ms. Pendergrass introduced agenda item *Administrative*. CERS CEO Ed Owens, III, presented the *CEO Update*. He stated that KPPA recently received a letter from the State Attorney General (AG) and State Treasurer. Attached to the letter was the most recent AG opinion and they wished to know if KPPA through the investment policies are adhering to the direction of the AG opinion. The letter was discussed, and it was determined that a response would state that the CERS and KRS Board of Trustees and their Investment Committees are responsible for setting their investment policies. Additionally, the response would include the upcoming scheduled meeting dates of these respective Boards and indicate that a response would be provided after those meetings. Mr. Owens stated that he is working with Johnson Bowman Branco, LLP. and Dr. Hackbart to draft a response and hopes to present that drafted response to the CERS Investment

Committee later in the month. Also, a meeting of the Legislative Working Group is to be scheduled to review and discuss Housekeeping Bill items. Mr. Owens expressed that the Legislative Working group should provide a formal endorsement of the Housekeeping Bill items to KPPA to indicate the group has thoroughly reviewed the items. Lastly, Mr. Willer has asked that Mr. Owens, Dr. Hackbart, and Johnson Bowman Branco, LLP. review the CERS Procurement Policy; this meeting will take place in the coming months. Mr. Eager added that the AG was advised that the deadline indicated in the letter would not be met; however, a response would be provided as soon as possible.

Ms. Pendergrass introduced item *KPPA Update*. Mr. Michael Board advised the Board of Trustees that there was communication with the Finance Cabinet last Spring and Summer regarding payment for the rate that KPPA would pay counsel representing KPPA Officers and Trustees in litigation. He advised that statutorily the rate that is approved by the Government Contract Review Committee is \$725 per hour. Currently, all fees being paid to counsel representing KPPA Officers and Trustees is paid by the Fiduciary Liability Policy. The policy is expiring soon and once expired, the payments will come directly from the trust; therefore, will be confined by the rate of \$725 per hour. Mr. Board stated that he and the CERS and KRS CEOs discussed a higher rate to be requested. On July 7, 2022, Mr. Board drafted and submitted a letter to the Finance Cabinet requesting that a rate of \$250 per hour be approved. The letter was sent on behalf of KPPA, KRS, and CERS. In the interim, there was a need to request an increase in the rate to \$350 per hour; therefore, Mr. Board quickly drafted and sent a letter requesting the increase on half of KPPA, KRS, and CERS. Mr. Board advised that this request did not come before the CERS Board, therefore, he stated that the letter should not have listed CERS. Mr. Board stated that he has now discussed the matter with the CERS Chair and will present all drafted communications to the CERS Board of Trustees in the future prior to submission. Ms. Pendergrass thanked Mr. Board for his report.

Ms. Pendergrass introduced agenda item *Closed Session*. Mr. Cheatham made a motion and was seconded by Mr. Powell to enter closed session for the purpose of litigation. The motion passed unanimously.

Ms. Pendergrass read the following closed session statement: A motion having been made in open session 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 closed 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.

Coming back into open session, Ms. Pendergrass stated that the Board will be taking no action as the result of the closed session discussions and opened the floor for adjournment. Dr. Milkman made a motion and seconded by Mr. Fulkerson 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 9, 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 left blank intentionally*



## 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 9, 2022 were approved on December 5, 2022.

  
Chair of the Board of Trustees

I have reviewed the Minutes of the November 9, 2022 Board of Trustees Meeting for content, form, and legality.

  
Executive Director  
Office of Legal Services