

# CERS Board Autonomy Now What?

Betty Pendergrass, CERS Chair

Ed Owens, CERS CEO

Dr. Merl Hackbart, CERS Investment Committee  
Chair

Bill O'Mara, CERS Finance Committee Chair

## Session Objectives

- Outline new governance structure
- Highlight new CERS statutes
- Explain administrative coordination with KPPA
- Describe CERS Investment Strategy
- Frame CERS Finance oversight

## 2020 HB 484

- Prior to 2021, CERS governance was combined with KERS & SPRS
- 2020 Legislation created a new separate 9-member CERS Board of Trustees
- New Board characteristics mirror prior statutory requirements
- 2021 Legislation added technical corrections
- 2021 Legislation also added separate statutes for CERS pension plans

3

## Why Separate Governance?

	CERS	Total All Funds	CERS %
Employers	1,132	1,468	77.1%
Active members	93,341	130,087	71.7%
Inactive members	93,597	148,367	63.1%
Retirees	69,318	117,675	58.9%
Pension Assets (in thousands)	\$ 9,407	\$ 12,699	74.1%
Insurance Assets (in thousands)	\$ 3,903	\$ 5,687	68.6%
Unfunded Pension Liability (in thousands)	\$ 10,373	\$ 25,730	40.3%
Unfunded OPEB Liability (in thousands)	\$ 1,110	\$ 2,537	43.8%
Trustees (prior to 4/1/2021)	6	17	35.3%

4

## CERS Board of Trustees

- **Nine Trustees**
  - **3 Elected from membership**
  - **3 Appointed by Governor with retirement administration expertise**
  - **3 Appointed by Governor with investment expertise**
  - **Governor's appointments represent KACo, KLC, and KSBA**
  - **All Trustees have 4-year terms**

5

## Meet the Trustees

- More details, <https://kyret.ky.gov/About/Boards/Pages/CERS-Board.aspx>
- Jerry Powell, Vice-Chair, Chairs Joint Health Committee, retired law enforcement
- Dr. Patricia Carver, Bellarmine Asst Professor, retired Louisville & MSD finance
- George "Lisle" Cheatham, Investment consultant, retired Mayor & KLC officer
- Mike Foster, Chairs Actuarial Committee, attorney, former KACo officer
- J. T. Fulkerson, Retired Finance Director, City of Owensboro & KGFOA official
- Dr. Merl Hackbart, Chairs Investment Committee, UK Professor Emeritus
- Dr. Martin Milkman, Murray State Professor Emeritus
- Bill O'Mara, Chairs Finance Committee, retired LFUCG Commissioner of Finance

6

## CERS Committee Structure

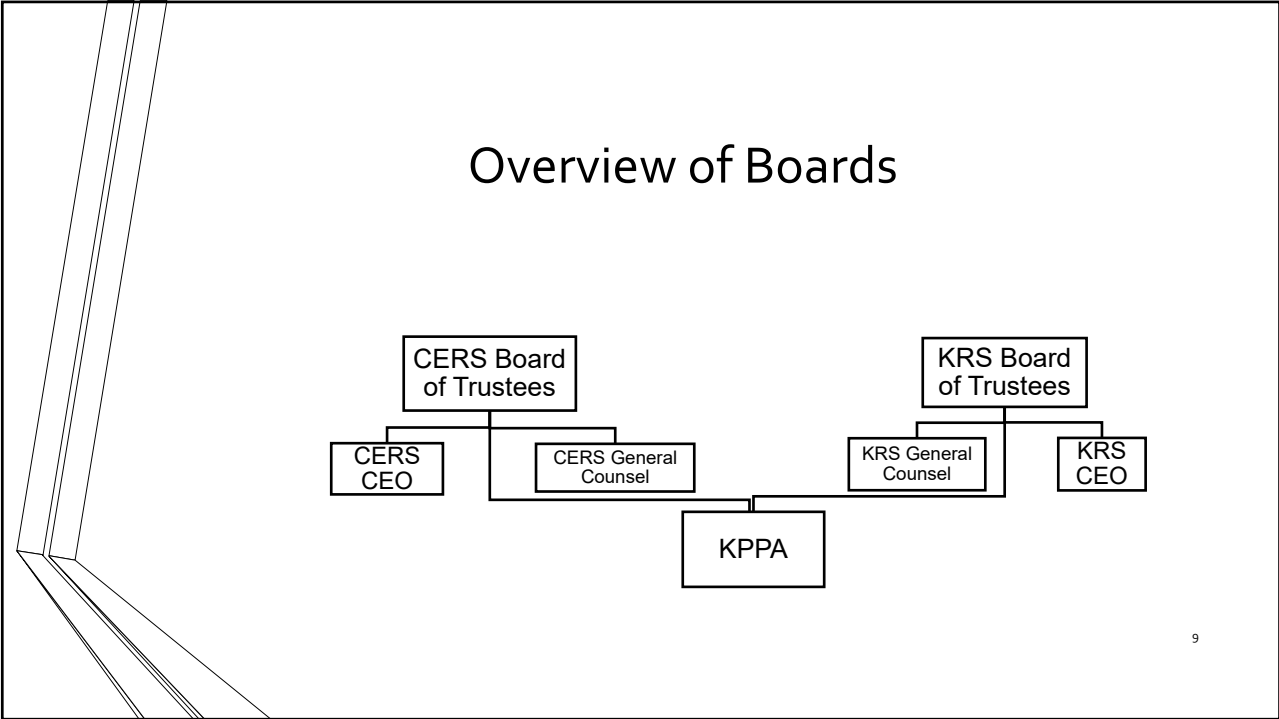
- **Actuarial Committee**—1 retirement admin, 1 investment, 1 elected
- **Disability & Administrative Appeals**—2 CERS Trustees on one DAC; 1 on the other DAC
- **Finance**—At least 3, not more than 4
- **Investment**—3 Investment appointees, 1 elected, 1 retirement admin
- **Joint Retiree Health Care**—2 CERS & 2 KRS Trustees
- **Joint Audit**—2 CERS & 2 KRS Trustees

7

## Key CERS Pension Statutes

Topic	Statute
Actuarial studies	KRS 78.784
CERS Board & duties	KRS 78.782
Fund Assets	KRS 78.630
Member accounts	KRS 78.640
Investment management	KRS 78.790
Member benefits	KRS 78.510 – 78.852
Employer contributions	KRS 78.635
Code of Ethics	KRS 11A.010
Health Insurance	KRS 61.701

8



- ## KPPA (Kentucky Public Pensions Authority)
- Administrative authority handles day-to-day operations
  - Structure
    - CERS & KRS Chairs and Investment Committee Chairs are automatically on KPPA
    - CERS & KRS Chair each appoint 2 additional Trustees
  - CERS Trustees on KPPA
    - Betty Pendergrass, Vice-Chair
    - Dr. Merl Hackbart
    - Bill O'Mara
    - Jerry Powell
- 10

# CERS Non Haz Projected Contribution Estimates

Fiscal Year	Estimated Funded Ratio*	Estimated Employer Contribution %
2021	49%	24.06%
2025	57%	24.97%
2030	64%	24.27%
2035	74%	23.84%
2040	88%	23.71%
2045	100%	3.73%
* Projections based on 2019 Actuarial valuation		

# CERS Haz Projected Contribution Estimates

Fiscal Year	Estimated Funded Ratio*	Estimated Employer Contribution %
2021	45%	30.06%
2025	53%	46.37%
2030	62%	45.09%
2035	74%	43.46%
2040	89%	42.80%
2045	100%	5.97%
* Projections based on 2019 Actuarial valuation		

## CERS CEO

- **Ed Owens, III**
  - Bank community and government affairs Senior Vice-President
  - Federal Reserve Bank Senior Examiner
  - Consultant for start-up companies
  - Fannie Mae Partnership Office Executive

13

## CERS CEO Duties

- **Collaborates with KPPA Staff**
- **Keeps CERS Trustees Informed**
- **Coordinates meeting agendas and presentations**
- **Liaison with PPOB and General Assembly**
- **Primary contact for KACo, KLC, KSBA**

14

## **CERS CEO Goals & Strategies**

- **Ensure the protection and long-term growth of CERS assets**
- **Become a strategic partner for KACo, KLC, KBSA**
- **Have a laser focus on employer contribution rates**
- **Identify opportunities to highlight the economic engine CERS represents to the Commonwealth**

15

## **Current CERS Investment Related Actions**

- **Update and refine the Investment Policy Statement**
- **Update the Investment Procurement Policy**
- **Endorse KPPA's administrative investment policies**
- **Evaluate asset allocation based on updated asset liability study**
- **Strengthen performance reporting**

16



## Investment Committee Responsibilities

1. Review and Monitor Investment Performance
2. Review and Adjust Portfolio Composition (Asset Allocation)
3. Review and Analyze Implications of Stress Tests
4. Review and Approve Fund Managers
5. Monitor Financial Markets and Economic Outlook
6. Work with KPPA investment staff to ensure compliance with CERS investment policy guidelines

## Pension System Cash Flows

1. **Cash inflows:**
  - A. **Employee** (required contribution) and **Employer** (appropriated) contributions
  - B. **Investment Income**
2. **Cash outflows:**
  - A. Accrued Retiree Benefits
  - B. Administrative Costs



**Note:** Employer contributions are "Estimated" and known as the **ARC** (Actuarially Required/Recommended contribution or appropriation)

## CERS Finance Oversight

- CERS Finance Committee
  - Focused on internal financial reporting
  - Evaluates cash flow reports
  - Oversight of KPPA administrative cost allocations to CERS
  - Reviews applications for hazardous duty positions
  - Reviews applications for employer membership or cessation
- Joint Audit Committee
  - Coordinates with external auditors on annual consolidated audit
  - Coordinates with KPPA Internal Audit Division

19

## CERS Pension Cash Flow

Pension Fund Contribution Report CERS Non-Hazardous and CERS Hazardous March 31, 2021 (compared to March 31, 2020) (\$ in millions)				
	 CERS NON-HAZARDOUS <small>County Employees Retirement System</small>		 CERS HAZARDOUS <small>County Employees Retirement System</small>	
	FY21	FY20	FY21	FY20
<b>Contributions</b>				
<i>Member Contributions</i>	\$119.4	\$125.8	\$46.9	\$48.7
<i>Employer Contributions</i>	338.6	345.7	129.6	127.1
<i>Net Investment Income</i>	98.8	97.7	33.4	33.8
<b>Contribution Inflows</b>	<b>556.8</b>	<b>569.2</b>	<b>209.9</b>	<b>209.6</b>
<i>Benefit Payments/Refunds</i>	629.4	608.6	220.4	208.6
<i>Administrative Expenses</i>	16.2	16.2	1.5	1.4
<b>Contribution Outflows</b>	<b>645.6</b>	<b>624.8</b>	<b>221.8</b>	<b>210.1</b>
<b>NET CONTRIBUTIONS</b>	<b>(88.8)</b>	<b>(55.6)</b>	<b>(11.9)</b>	<b>(0.5)</b>
<i>Realized and Unrealized Gain/(Loss)</i>	1,224.4	(623.6)	413.3	(213.5)
<b>Change in Net Position</b>	<b>1,131.6</b>	<b>(679.2)</b>	<b>401.4</b>	<b>(214.0)</b>
<i>Beginning of Period</i>	7,110.9	7,243.0	2,395.7	2,429.6
<b>End of Period</b>	<b>\$8,246.5</b>	<b>\$6,563.8</b>	<b>\$2,797.1</b>	<b>\$2,215.6</b>

20

## CERS Insurance Cash Flow

Insurance Fund Contribution Report CERS Non-Hazardous and CERS Hazardous March 31, 2021 (compared to March 31, 2020) (in \$ millions)				
<b>Contributions</b>	<b>CERS</b> NON-HAZARDOUS		<b>CERS</b> HAZARDOUS	
	FY21	FY20	FY21	FY20
<i>Employer Contributions</i>	\$89.3	\$90.7	\$43.9	\$42.9
<i>Insurance Premiums</i>	21.1	0.5	2.8	-
<i>Retired Reemployed Healthcare</i>	3.6	3.6	0.9	0.8
<i>Health Insurance Contributions (HB1)</i>	9.7	9.4	2.3	2.1
<i>Net Investment Income</i>	31.3	33.4	15.6	17.4
<b>Contribution Inflows</b>	<b>155.0</b>	<b>137.6</b>	<b>65.5</b>	<b>63.2</b>
<i>Healthcare Premiums</i>	107.7	103.5	63.7	61.1
<i>Administrative Expenses</i>	0.7	0.7	0.3	0.3
<b>Contribution Outflows</b>	<b>108.4</b>	<b>104.2</b>	<b>64.0</b>	<b>61.4</b>
<b>NET Contributions</b>	<b>46.6</b>	<b>33.4</b>	<b>1.5</b>	<b>1.8</b>
<i>Realized and Unrealized Gain/(Loss)</i>	434.3	(216.3)	226.7	(111.5)
<b>Change in Net Position</b>	<b>480.9</b>	<b>(182.9)</b>	<b>228.2</b>	<b>(109.7)</b>
<i>Beginning of Period</i>	2,498.1	2,486.5	1,305.1	1,324.8
<i>End of Period</i>	<b>\$2,979.0</b>	<b>\$2,303.6</b>	<b>\$1,533.3</b>	<b>\$1,215.1</b>

21

## Finance Goals

- Monitor and expand understanding of admin costs and allocations to CERS
- Clarify details of financial reports and explore improvements on presentation
- Monitor draw of funds to finance KPPA admin costs
- Active participation on Joint Audit Committee and ensure independence of the office

22

## Additional Resources

- Summary Annual Financial Reports – <https://kyret.ky.gov/Publications/Pages/Summary-Annual-Reports.aspx>
- Actuarial Valuations – <https://kyret.ky.gov/Publications/Pages/Actuarial-Valuations.aspx>
- Meeting Calendar – <https://kyret.ky.gov/About/Meeting-Calendar/Pages/default.aspx>
- Investment Library – <https://kyret.ky.gov/Investments/Pages/default.aspx>
- Annual Comprehensive Financial Reports – <https://kyret.ky.gov/Publications/Pages/Annual-Reports.aspx>
- Experience Studies – <https://kyret.ky.gov/Publications/Pages/Experience-Studies.aspx>

23

## ???QUESTIONS???

- Yes
- No
- Maybe
- Bet on the Bear

24

## Betty Pendergrass



Chair - CERS Board of Trustees  
Chair - Joint CERS-KRS Audit Committee  
Member - DAC/AAC  
Vice Chair - KPPA

**Elected by County Employees Retirement System members – Term Expires March 31, 2025**

Betty Pendergrass was first elected to serve as one of three elected representatives for the County Employees Retirement System (CERS) in March 2017. She was reelected in February 2021 and is the Chair of the CERS Board of Trustees under the new KPPA governance structure. As CERS Chair, she is a member of the KPPA, where she serves as Vice Chair.

Ms. Pendergrass is a local government consultant in Kentucky. During her forty-year career in local government finance, she has served as Local Government Advisor Chief for the Kentucky Department for Local Government, and as Chief Financial Officer for several Kentucky local governments. Since her retirement, Ms. Pendergrass has continued to provide management consulting services to local governments and continuing professional education for governmental managers and CPAs conducting governmental audits.

Ms. Pendergrass was an ex-officio member of the Lexington-Fayette Urban County Police & Fire Pension Board of Trustees for nearly ten years. She has also served on the American Institute of Certified Public Accountants (AICPA) Governmental Accounting and Auditing Committee as well as several other committee and Task Force positions with the AICPA. She has authored PPC's *Guides to Governmental Financial Statements Illustrations and Trends and Preparing Governmental Financial Statements* publications, as well as courses and publications for the AICPA Continuing Education Division, the Association of Government Accountants, Bisk Education, and Sheshunoff Publishing. She has also been a discussion leader for national conferences and group training seminars.

Ms. Pendergrass received her Bachelor of Business Administration degree in Accounting, with High Distinction, from Eastern Kentucky University.



## Merl Hackbart

Chair - CERS Investment Committee  
Member - CERS Actuarial Subcommittee  
Member - KPPA

### **Governor Appointee – Term expires March 31, 2025**

Merl M. Hackbart was appointed to the CERS Board of Trustees by Governor Andy Beshear for a four-year term beginning April 1, 2021. He serves on the CERS Investment Committee.

Dr. Hackbart, PhD, is Professor Emeritus of Finance and Public Policy at the University of Kentucky. In addition to his career at the University of Kentucky, he has served twice as State Budget Director for Kentucky, was part of the state's Consensus Forecasting Group and has served on the Council on Postsecondary Education. He has held several administrative positions at UK including Special Assistant to the Provost, Interim and Associate Dean of the Gatton College of Business and Economics and Director of the Martin School of Public Policy and Administration. His research has focused on public financial management, bond financing, public pensions and municipal securities. He is a member of Financial Executives International, the Association of Public Budgeting & Financial Management and Rotary International among other organizations. He is a Fellow in the National Academy of Public Administration and has been inducted into the Kentucky Public Service Hall of Fame among other recognitions.



## Bill O'Mara

Chair – CERS Finance Committee  
Member – CERS Investment Committee  
Member – Joint CERS-KRS Audit Committee  
Member – KPPA

### **Governor Appointee – Term expires March 31, 2025**

Mr. O'Mara recently retired after a forty-five year career in accounting and finance. The last 25 years he worked for the Lexington Fayette Urban County Government. He served as Acting Commissioner of Finance and Administration in 2009 and 2012 and appointed to Commissioner of Finance in 2013. As Commissioner of Finance Mr. O'Mara served as a director on the Lexington Employee Pension Board and the Lexington Police and Fire Pension Board. He also participated in the Lexington Police and Fire Pension Task Force in 2011 as well as the restructuring of the investments in the Lexington City Employee Pension. Prior to entering the public sector Mr. O'Mara gained experience in accounting, budgeting, and finance in positions in the fast food restaurant and collegiate sports entertainment sectors.

Mr. O'Mara is a member of the Institute of Management Accountants, the Government Finance Officers Association, and a founding member of the Kentucky Occupational License Association. He was a Better Business Bureau Arbitrator for 10 years, and currently serves on the Lexington Old Courthouse Board.

Mr. O'Mara received his Bachelor of Arts degree in History and a Master of Business Administration from the University of Kentucky. He is a Certified Management Accountant.

## Ed Owens III



Ed Owens III is a former community and government affairs specialist at Fifth Third Bank and a former senior regulator at the Federal Reserve Bank of Cleveland. Most recently, Mr. Owens was a consultant for Project Golden Eagle, a group of African-American businessmen seeking to acquire a publicly-traded middle-market company. He also consulted with litigation attorneys regarding banking issues and regulations and assisted startup and early-stage companies with establishing corporate governance protocols, banking relationships, and additional funding opportunities. Prior to that, he was a senior vice president at Fifth Third Bank in Cincinnati, where he led both community and governmental affairs efforts. Mr. Owens also worked as a senior examiner at the Cleveland Fed, where he communicated Reserve Bank findings to corporate boards of directors and executive management, conducted fair Lending and Community Reinvestment Act (CRA) investigations, and consulted with large bank members on strengthening risk management protocols and increasing net operating income. In addition, he previously worked as a trial attorney at the Commodity Futures Trading Commission and was an Assistant Commonwealth's Attorney with the Fayette County Attorney's Office. He earned his law degree from the University of Kentucky College of Law, and prior to that his Bachelor's in Marketing from UK.