

# 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**

# 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%

# 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**

# 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

# CERS Committee Structure

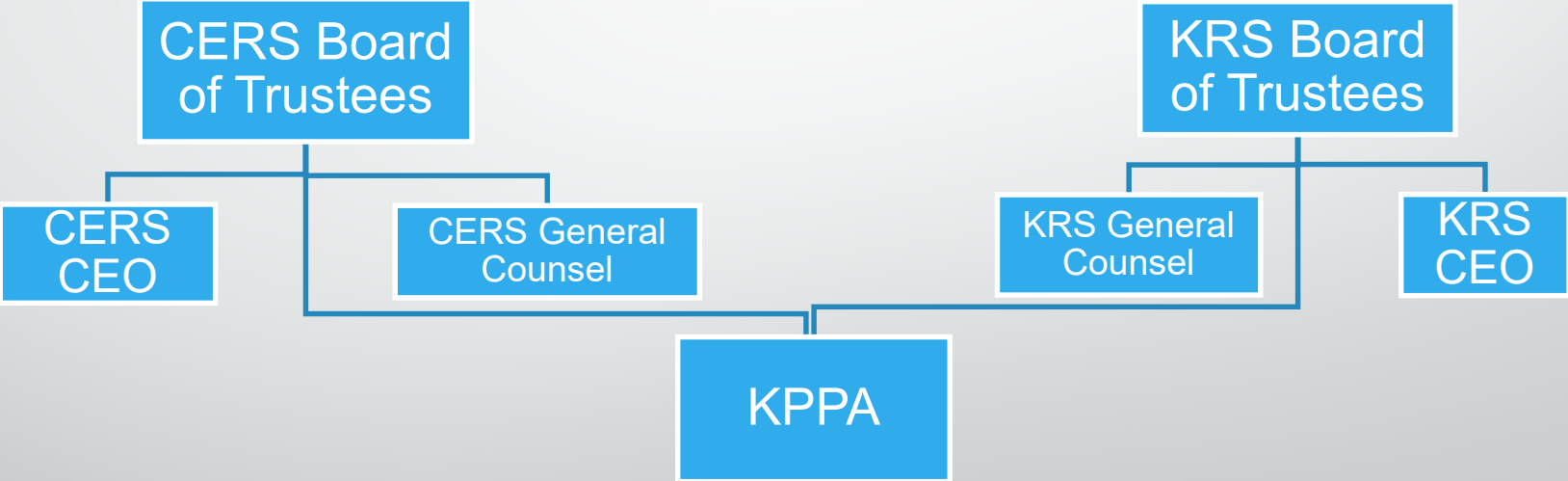
- **Actuarial Committee—1 retirement admin, 1 investment, 1 elected**
- **Disability & Administrative Appeals—2 CERS Trustees on one DAC; 1 on the other DAC**
- **Finance—At least 3, not more than 4**
- **Investment—3 Investment appointees, 1 elected, 1 retirement admin**
- **Joint Retiree Health Care—2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

# 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



# Overview of Boards



# 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

# 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

# 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**

# 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**

# 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





# **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

# 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>	
Contributions	FY21	FY20	FY21	FY20
<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
<i>End of Period</i>	\$8,246.5	\$6,563.8	\$2,797.1	\$2,215.6

# CERS Insurance Cash Flow

Insurance 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>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>	\$2,979.0	\$2,303.6	\$1,533.3	\$1,215.1

# 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

# 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>

# ???QUESTIONS???

- Yes
- No
- Maybe
- Bet on the Bear