

MINUTES
KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES

January 29, 2021

The meeting of the Board of Trustees was called to order by Chairperson Suresh Ramamurthi at 10:02 a.m. on January 29, 2021, in the Retirement System Board Room, Topeka, Kansas.

Board members present: Suresh Ramamurthi, Chairperson (via Zoom)
 Kelly Arnold (via Zoom)
 Ernie Claudel (via Zoom)
 Ron Johnson (via Zoom)
 Emily Hill (via Zoom)
 Lynn Rogers (via Zoom)
 Brad Stratton (via Zoom)
 Ryan Trader (via Zoom)
 James Zakoura (via Zoom)

Board members absent: None

Chairperson Suresh Ramamurthi welcomed all participants.

Chairperson Ramamurthi addressed the Board and stated that the purpose of the meeting was to give the Board members another opportunity for a discussion, and come to a decision on the contents of a letter from the Board of Trustees to the Governor.

Public Comments

There were no public comments.

**Continued Review and Discussion of the Governor’s Funding
Recommendations for KPERS for Fiscal Years 2021 and 2022**

Chairperson Ramamurthi recognized Alan Conroy, Executive Director. Mr. Conroy stated that in previous years, the letter sent to the Governor has indicated support for the solid funding of KPERS and the Trust Fund. The draft letter to be discussed was written as a direct and clear policy response from the Board of Trustees as KPERS’ fiduciaries and to provide a response to the reamortization portion of the Governor’s proposal.

Chairperson Ramamurthi recognized Laurie McKinnon, General Counsel. Ms. McKinnon discussed the Board’s fiduciary responsibilities. Ms. McKinnon stated that as part of the Board’s fiduciary duties, KPERS does not advocate for one position or the other, but does provide to the Governor and the Legislature all relevant information regarding funding, best practices, and examples of what is working in other retirement systems.

Chairperson Ramamurthi recognized Trustee Brad Stratton. Trustee Stratton stated there were no concerns with the message of the letter to the Governor, but would like to review and discuss the following four items:

- Reamortization
- Payments for the contributions funding from 2017 and 2019
 - Is KPERS funding level 80% or 100% in order to consider reamortization?
- Should this letter be addressed to only the Governor, or should it include legislative leadership, both majority and minority parties?
- Include language for those Board members that did not want to sign off on the letter.

Chairperson Ramamurthi stated the fiduciary responsibility is to be 100% funded. Mr. Conroy agreed that the goal is to be 100% funded. Ms. McKinnon concurred that as fiduciaries, KPERS should be 100% funded.

Chairperson Ramamurthi recognized Trustee Ernie Claudel, who concurred the Trust Fund should be 100% funded.

Chairperson Ramamurthi recognized Trustee James Zakoura. Trustee Zakoura stated the Board members and consultants are not advocating the consideration for the Trust Fund to be under 100% funded. Rather what is on the table is when the funding is at 80% and, could this be the time to look into reviewing the possibility of reamortization.

Chairperson Ramamurthi recognized Trustee Lynn Rogers. Trustee Rogers stated the letter should be a non-partisan letter, addressed to the Legislature as well as the Governor. The Governor has made recommendations, but the budget decisions are presently before the Legislature for consideration. The need to educate the Legislature that the Trust Fund being fully funded, as well as the full yearly contribution payments being made, are equally as important. Any delay in payment will affect the goal of the Trust Fund being 100% funded.

Chairperson Ramamurthi recognized Trustee Brad Stratton. Trustee Stratton discussed the letter to the Governor specifically, a sentence in fourth paragraph:

The Retirement System is now within that timeframe, but we are not yet in a sound funding position.

Trustee Stratton would like to give this sentence more clarity as to the 100% funding and where we are at in the reamortization schedule.

Chairperson Ramamurthi asked Alan Conroy, Executive Director, to make the following change to the letter:

The Retirement System is now within that timeframe, but at 70% funded, we are not yet in a sound funding position.

Chairperson Ramamurthi recognized Trustee Emily Hill. Trustee Hill agreed with Trustee Stratton regarding the Trust Fund goal being 100% funded. In order to keep the information nonpolitical, she would like to include in the letter that reamortization can be the most fiscally prudent decision to make.

Chairperson Ramamurthi recognized Trustee Trader. Trustee Trader stated he agreed with Trustee Hill, and asked if this sentence that Trustee Hill would like to clarify:

However, that best practice is contingent upon a sound funding position.

Chairperson Ramamurthi recognized Trustee Emily Hill. Trustee Hill stated that wording in the sentence, may be sufficient, and she would want to make it clear that the Board of Trustees is following the advice of the experts, and that our fiduciary responsibility is for the Trust Fund to be 100% funded, but reamortization can be appropriate.

Chairperson Ramamurthi recognized Trustee Ron Johnson. Trustee Johnson stated that there are different paths for the Trust Fund to become 100% funded. He stated that the Board needs to communicate to the Legislature the benchmarks before the Board would recommend a reamortization. He stated that he is not in favor of reamortization when the Trust Fund is only 70% funded. He would like to communicate to the Legislature that according to the Comprehensive Annual Financial Report (CAFR), KPERS paid out \$1.8 billion in benefits for Fiscal Year 2020. Does the legislature realize that amount was paid in benefits, and that 90% of the money paid to participants stayed in Kansas?

Chairperson Ramamurthi recognized Trustee Ernie Claudel. Trustee Claudel stated that KPERS has communicated the information regarding the amount of money that the KPERS Trust fund has paid in benefits to members in various Kansas counties. The Kansas Coalition of Public Retirees (KCPR) has given the information to the Legislature and county officials. Trustee Claudel also stated that it is very important that the Trust Fund is 100% funded.

Chairperson Ramamurthi recognized Trustee James Zakoura. Trustee Zakoura agreed with what the previous Trustees had stated and recapped with the following:

- The Board needs to stay true to the 100% funding principal of the KPERS Trust Fund.
- The Board needs to be open to the possibility that we may need to consider reamortization or some other form a payment when the Trust Fund reaches at least 80% funded.
- The Board has stated that we would like to be as precise as possible to the Legislature, however, we must understand that every three years we set the assumption rate for the system, and those changes can fluctuate. This could affect the unfunded liability more than the reamortization schedule.

In this letter to the Governor, the Board needs to express how extraordinary grateful we are to the Legislature for what they passed last year toward fully funding KPERS, and that we want to be partners in how we meet this obligation, and not antagonistic in any way. And to attain a joint commitment between the Board and the Legislature to fund the annual level that will allow us to meet the \$1.8 billion yearly obligation.

Chairperson Ramamurthi stated that the stock market is unsettled at this time, and even when the Trust Fund achieves the 80% funding, reamortization will depend on what is happening in the stock market at that time, what the assumption rate is for the system, and other variables that would have to be considered.

Chairperson Ramamurthi recognized Alan Conroy, Executive Director. Mr. Conroy reviewed that the Trust Fund income is 50% investment earnings, 17% employee contributions, and the balance comes from employer contributions. Mr. Conroy also stated that the letter needs the wording to be carefully selected so the members will understand that their benefits are safe.

Chairperson Ramamurthi recognized Trustee Ryan Trader. Trustee Trader stated that one way to direct the letter as non-partisan is to describe what the investment group has done with the money that has been placed in the Trust Fund in the past, and how it has been successful, and to highlight KPERS strengths.

Chairperson Ramamurthi recognized Alan Conroy. Mr. Conroy stated that there will be another letter that will go out to all legislators, and will include a cover letter, the *KPERS Fast Facts*, and *KPERS Funding Policy* informational briefs. Reamortization can be beneficial at the appropriate time. The next Triennial Actuarial Experience Study and the Asset Liability study is set for calendar year 2022. In January 2023, the Board may be ready to make recommendations to make some adjustments. If adjustment are made, it will be reflected in 2026, and based upon all the current assumption and projections KPERS funded ratio in 2026 would be 80% funded. That assumes the 7.75% rate as was indicated in the Triennial Actuarial Experience Study. As an example, when KPERS went from 8.0% to 7.75% rate, with just a quarter percent change, the impact from an actuarial standpoint, increased the unfunded actuarial liability by a half a billion dollars. There will be many actuarial assumptions to consider and discuss in the Triennial Actuarial Experience Study.

Chairperson Ramamurthi directed a question to Alan Conroy, Executive Director. What exactly is the impact of this letter? Mr. Conroy responded, the Board would have a formal position in terms of the Governor's budget proposal, and it does immortalize the Board's position on the Governor's budget proposal.

Chairperson Ramamurthi recognized Trustee Ernie Claudel. Trustee Claudel stated that the letter also gives comments from the Board for the Director to support when he speaks to the Legislature. Trustee Claudel does not support starting a reamortization at this point, and starting the underfunding all over again. The advice from our consultants is to be cautious with the cash flow, so we do not have to take the money out of investments to pay the benefits. The Board is not taking a political position, rather an educated position that since the state has an obligation to pay the benefits, and the Trust Fund is underfunded, and it is not the right time to reamortize.

Chairperson Ramamurthi stated that the direction should be the State of Kansas has an obligation to contribute, the state should keep making the contributions, and to catch up with the contributions toward the 100% funding.

Chairperson Ramamurthi recognized Trustee James Zakoura. Trustee Zakoura stated that he supports the letter with the addition of the 80% provision.

Chairperson Ramamurthi recognized Trustee Ernie Claudel. Trustee Claudel stated that if the Board decides to implement the 80% provision, the letter should state 80% funded in the Board's opinion, would be the proper time to take a serious look at whether it was the right time to reamortize.

Chairperson Ramamurthi asked the consultant Allan Emkin to explain why would the funding level at 80% be the right time to reamortize? Mr. Emkin stated that this issue was not an investment issue, but an actuarial funding issue, and that he would defer to the actuarial consultant Pat Beckham, Cavanaugh Macdonald, and her team to address the issue.

Chairperson Ramamurthi recognized Alan Conroy, Executive Director. Mr. Conroy stated Pat Beckham, Cavanaugh Macdonald, and her team are not attending the meeting today. Mr. Conroy stated that Pat Beckham, and the consultants at Cavanaugh Macdonald have been consistent in their testimony to the Board through the years as described in the letter, that the time to seriously consider reamortization is when we are 15 – 10 years out from extinguishing the unfunded liability, and particularly when you approach the ten year mark, because of the volatility of the employer contributions will then need to make up the difference in funding, should there be shortfalls in the market and will smooth out the volatility. If there would be a sizeable increase, the employer contribution rate could go up considerably from year to year which has a large impact when local units and the State try to build their budgets.

Chairperson Ramamurthi recognized Trustee Lynn Rogers. Trustee Rogers stated that he does support the letter, however it should be addressed to the Governor and both bodies of the legislators for a nonpartisan approach. It should acknowledge that we are in a very difficult time because of COVID-19 and the economic recovery that we are going through. The 80% funding liability is the starting point, and acknowledge the other things that will affect the decision are the contribution rates, and the amount that the Legislature allocates. If we have not sent the Legislature a letter of any previous failures for them to fund where KPERs need to be, then that is what will make this letter partisan. Trustee Rogers noted the need to acknowledge they are in a tough boat, they have a lot of organizations asking for money, but this is a very high requirement and a promise that we have made with thousands of Kansans, we know they support those Kansans. But we also know that there are multiple things that will go into this consideration. Again, we should not look at this until we are at 80% funded, but all that depends on earnings, the market, contributions from the Legislature, and payouts to beneficiaries.

Chairperson Ramamurthi directed a question to Alan Conroy, Executive Director. We have been paying on this amortization for 26 years, which would leave 14 years left on the current amortization. That would be 2035, not 2033, can you explain? Mr. Conroy stated that it gets back to the statutory time lag in terms of the delay of employer contributions. It was a 40 amortization period which was set to begin in 1993 by the Legislature and to be extinguished in 2033, but because of the way the statutory formula works, in terms of those employer contributions, there is a time lag, so there is a big drop in the fiscal year bases is not until Fiscal Year 2035. Those statutory rates are delayed, and if the Board does the Triennial Actuarial Experience Study in 2022, it sets whatever changes you want to make in January 2023, and that's not reflected until Fiscal Year 2026. That is a statutory provision, so there is a delay from the calendar year and the fiscal year difference. The calendar year 2033 is correct based on the amortization period, but the way the employer contributions trail, the big drop off then, the last payment for this amortization schedule is the Fiscal Year 2035.

Chairperson Ramamurthi recognized Trustee Ron Johnson. Trustee Johnson suggested adding as an attachment the KPERS funding policy, and the provision adequate funding of at least 80% before reamortization. The letter should state that KPERS has paid our \$1.8 billion in benefits last year.

Chairperson Ramamurthi asked Trustees if they supported Trustee Johnson's suggestion. Trustee Zakoura, agreed. Trustee Arnold agreed along with the suggestion from Trustee Rogers that the letter be addressed to the Governor as well as both parties of the Legislature. Trustee Hill agreed with the letter with the suggested changes. Trustee Rogers agreed with the letter with the suggested changes. Trustee Claudel agreed with the letter, and stated that the Board has communicated to the Legislature in prior years about the level of funding on numerous occasions, when both parties were in power, and does not believe this letter will be seen as a political statement. Trustee Trader supports the letter with the changes. Trustee Stratton concurs with the letter with the changes.

Chairperson Ramamurthi recognized Alan Conroy, Executive Director. Mr. Conroy stated that the updated letter will be sent to the Board, and barring any objections, this will be the letter that will go forward.

Chairperson Ramamurthi recognized Trustee Ron Johnson. Trustee Johnson asked Alan Conroy, Executive Director if the KPERS funding policy would be attached to the letter. Mr. Conroy stated that there will actually be separate letter to all the Legislature. The letter discussed today is for the Governor and bi-partisan leadership. The other letter will go to all the legislators as a welcome back letter and will included the *KPERS Fast Facts*, and *KPERS Funding Policy* informational briefs.

Trustee James Zakoura moved that KPERS Board authorize the sending of the draft letter that the Board discussed today with the amendments/additions as proposed by Trustee Johnson, Trustee Stratton, and Trustee Rogers. The letter as amended be approved by the KPERS Board of Trustees for sending to the Honorable Governor, Speaker of the House, and President of the Senate and other appropriate legislative leaders. The motion was seconded by Trustee Ron Johnson. The motion carried.

Chairperson Ramamurthi recognized Alan Conroy, Executive Director. Mr. Conroy stated that the amended letter will be redistributed to the members of the Board of Trustee's by Monday, February 1, 2021 for the Board to review.

Other Business

No other business was discussed.

Board Self Evaluation

There was no further discussion.

Chairperson Ramamurthi adjourned the meeting at 11:03 a.m.