

**MINUTES  
KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM  
BOARD OF TRUSTEES  
EDUCATIONAL AND PLANNING MEETING**

**October 20, 2022**

On behalf of Chairperson James Zakoura, the meeting was called to order by Alan Conroy, Executive Director, at 10:11 a.m. in the Capitol Federal Conference Room, 12345 College Boulevard, Overland Park, Kansas.

Board Members Present:                    James Zakoura, Chairperson  
    Ron Johnson, Vice Chairperson  
    Ernie Claudel  
    Emily Hill  
    Lynn Rogers  
    Ryan Trader (Virtual October 21, 2022)  
    Sam Williams  
    Jo Yun

Board Members Absent:                    Brad Stratton

**KPERS 101 – A Basic Overview**

Chairperson James Zakoura welcomed guests in attendance, Adam Proffitt, Budget Director, Division of the Budget, Timothy Graham, Director of Governmental Relations and Coalitions, Kansas National Education Association, Stephanie O’Dear, Empower Retirement, and Nick Buckley, Investment Analyst, Meketa. Chairperson Zakoura also welcomed guests Eileen Ma, Revisor of Statutes’ Office, and Melissa Renick, Legislative Research Department, who attended virtually, and all other participants. Chairperson Zakoura provided the summary of the meeting’s topics and discussed the goals of the KPERS 101 session.

**Basics of KPERS Retirement Benefits**

Chairperson Zakoura introduced Mary Beth Green, Chief Benefits Officer. Ms. Green provided an overview of the refresher Basics of KPERS Retirement Benefits. As plan sponsor, the Kansas Legislature establishes the benefits and plan provisions. KPERS has three separate defined benefit plans including:

- Kansas Public Employees Retirement System (KPERS) including KPERS 1, KPERS 2 and KPERS 3;
- Kansas Police and Firemen’s Retirement System (KP&F) including Tier I and Tier II; and
- Kansas Retirement System for Judges.

Ms. Green stated that all KPERS members receive guaranteed, lifetime benefit payments upon retirement. Ms. Green described the Retirement System’s background including the timeline of KPERS and all the different tiers, and a membership overview describing the

percentage of members in each category. The traditional defined benefit plans, including KPERS 1 & 2, KP&F, and Judges, their benefit structure and retirement benefits, and the cash balance plan KPERS 3, with its benefit structure and retirement benefits. Ms. Green responded to questions.

### **Investment Basics Refresher for Trustees**

Chairperson Zakoura recognized Aysun Kilic, Managing Principal, Meketa Investment Group. Ms. Kilic provided a comprehensive overview of investment guide for Trustees that included investment policy, asset/liability process, role of assets, investment manager structure, and the public market manager search process. Ms. Kilic responded to questions.

### **Actuarial Basics Refresher for Trustees**

Chairperson Zakoura recognized Pat Beckham, Principal Consulting Actuary, Cavanaugh Macdonald. Ms. Beckham reviewed the actuarial funding for defined benefit plans, benefits of advanced funding, the basic retirement funding formula: contributions, investment income, benefits paid, expenses (CIBE), the actuarial valuation process, the concept of present value, an illustration of actuarial math for funding a defined benefit plan, the assume one person in a sample defined benefit plan, calculation of expected salary at retirement, definition of actuarial liability, funding with level dollar contributions, contribution as a percentage of payroll, amortization: level dollar vs. level percent of pay, actuarial liability over time, applying the funding methodology to KPERS state/school group, and the actuarial contribution rate. Ms. Beckham responded to questions.

Chairperson Zakoura, adjourned the meeting for a lunch break at 12:08 p.m.

Lunch was made available to members of the Board of Trustees and participants.

### **Welcome and Review of Meeting Goals**

Chairperson James Zakoura resumed the Educational and Planning meeting at 1:09 p.m. Chairperson Zakoura welcomed guests in attendance, which included Adam Proffitt, Budget Director, Division of the Budget, Timothy Graham, Director of Governmental Relations and Coalitions, Kansas National Education Association, Stephanie O'Dear, Empower Retirement, and Nick Buckley, Investment Analyst, Meketa. Chairperson Zakoura also welcomed guests Eileen Ma, Revisor of Statutes' Office, and Melissa Renick, Legislative Research Department, who attended virtually, and all other participants. Chairperson Zakoura reviewed the goals of the session.

### **KPERS Retirement Rates, New Enrollments, and Withdrawals**

Chairperson Zakoura introduced Mary Beth Green, Chief Benefits Officer. Ms. Green provided an overview of the KPERS membership trends including enrollments, retirement rates, and account withdrawal for Fiscal Years 2013–2022. Some of the key touch points include enrollments of new members just starting their careers, processing benefits applications from new retirees, and members leaving covered service who withdraw their account balances. Ms. Green responded to questions.

## **Deferred Compensation Plan One to Five Year Investment Outlook**

Chairperson Zakoura recognized Jake O'Shaughnessy, Managing Director, SageView. Mr. O'Shaughnessy reviewed the Deferred Compensation Economic and Financial Market Outlook.

Mr. O'Shaughnessy reviewed the federal influence in the housing market, the U.S. Dollar value, unemployment, and capital markets. Mr. O'Shaughnessy also reviewed the third quarter numbers in regard to federal policy and inflation, economic scoreboard in employment consumer spending, interest rates, manufacturing, corporate earnings, trade tensions, inflation, GDP growth, housing and fiscal spending. Mr. O'Shaughnessy reviewed the federal legislation that passed the U.S. House in May 2022, including SSRA/EARN/Rise and Shine; Mental Health Matters Act (H.R. 7780); the Retirement Savings Modernization Act, and the U.S. Department of Labor's Environmental, Social and Governance (ESG) Rulemaking as of October 7, 2022. Mr. O'Shaughnessy responded to questions.

## **KPERS 457 Best Practices**

Chairperson Zakoura recognized Arlen Zentner, Deferred Compensation Plan Officer, and Scott Taylor, State Director, Empower. Mr. Zentner and Mr. Taylor reviewed the KPERS 457 Best Practices. KPERS 457 participates in an annual survey conducted by ISS Media and published by PLANSPONSOR, an information magazine resource for America's retirement benefits decision makers. Also reviewed were the 2021 survey results incorporating the responses from over 2,400 sponsors from a broad variety of U.S. industries including participation, plan investments, deferred compensation plan type, plan loans and withdrawals, and participant advice and education. Mr. Zentner and Mr. Taylor responded to questions.

## **Next Scheduled Actuarial Experience Study – September 2023**

Chairperson Zakoura recognized Jarod Waltner, Planning and Research Officer. Mr. Waltner reviewed the history of the purpose of the actuarial experience study, which generally is divided into two categories: economic assumptions and demographic assumptions. The economic assumptions include the inflation rate, investment return assumption and general wage growth and the demographic assumptions include mortality, retirement rates, disability rates, and termination rates. Mr. Waltner responded to questions.

## **The Next Actuarial Standards Change – Actuarial Standards of Practice No. 4**

Chairperson Zakoura recognized Pat Beckham, Principal Consulting Actuary, Cavanaugh Macdonald. Ms. Beckham reviewed the recent changes to Actuarial Standard of Practice Number 4 including: actuarial standards of practice, changes with the greatest impact on public plans, low default risk obligations measure (LDRM), and complexities for KPERS. Ms. Beckham summarized that the corporate plans are heavily regulated and minimum contribution requirements are defined by the federal government. Public plans have no uniform set of funding standards so there is a wide range of funding practices, and the actuarial profession feels a strong obligation to the general public, especially for public plans that rely heavily on actuarial expertise in the funding plan. Ms. Beckham responded to questions.

## **Options to Enhance the KPERS 3 Benefit Structure**

Chairperson Zakoura recognized Jarod Waltner, Planning and Research Officer. Mr. Waltner reviewed the KPERS 3 enhancement options and discussed KPERS 3 benefits, replacement ratios, plan design enhancement options, interest crediting, employer pay credits, annuity rates, implications, and policy considerations. Mr. Waltner responded to questions.

## **Retiree Cost-of-Living Adjustments in Other Public Pension Plans and a Historical Review of Cost-of-Living Adjustments in Kansas**

Chairperson Zakoura recognized Jarod Waltner, Planning and Research Officer. Mr. Waltner reviewed the retiree cost-of-living adjustments in other public pension plans and a historical review of cost-of-living adjustments in Kansas. The cost-of-living adjustment, or COLA, is a plan design feature that helps to mitigate the impact inflation has on the purchasing power of benefits. Public sector retirement plans have either automatic adjustments or ad hoc adjustments. The National Association of State Retirement Administrators (NASRA) reported that in June 2022 a selection of 100 public sectors plans showed that 72 plans included an automatic COLA and 28 (including Kansas) utilized ad hoc COLAs. Mr. Waltner continued with information on the COLA costs and COLA history and responded to questions.

A scheduled KPERS Opportunities Roundtable session with selected members of the KPERS Executive Committee and Trustees was postponed to a future meeting in the interest of time.

Chairperson Zakoura adjourned the meeting at 5:06 p.m.

## **Dinner at the Grand Street Café – 8815 Renner Boulevard, Lenexa, KS**

A dinner was held at the Grand Street Café for the Board of Trustees and staff.

**October 21, 2022**

Chairperson Zakoura opened the meeting at 8:43 a.m. and welcomed guests Timothy Graham, Director of Governmental Relations and Coalitions, Kansas National Education Association, and Nick Buckley, Investment Analyst, Meketa. Chairperson Zakoura also welcomed guests Eileen Ma, Revisor of Statutes' Office, and Melissa Renick, Legislative Research Department, who attended virtually, and all other participants.

### **CEM Investment Benchmarking Report on KPERS**

Chairperson Zakoura recognized Mike Heale, Head, Global Business Development, Customer Experience Management (CEM) Benchmarking. Mr. Heale presented an overview of the KPERS Investment Cost Effectiveness Analysis Summary for the 5-year period ending December 31, 2021. Mr. Heale's report compares the cost and return performance to the 241 funds in CEM's extensive pension database. Benchmark cost analysis suggests that, after adjusting for fund size and asset mix, KPERS fund was low-cost by 5.3 basis points in 2021. The fund was low-cost because it had a lower cost implementation style and it paid less than peers for similar services. Mr. Heale responded to questions.

### **Asset Liability Methodology**

Chairperson Zakoura recognized Jonathan Camp, ASA, Managing Principal, Meketa Investment Group. Mr. Camp presented the asset liability process overview. The project goal is to review and possibly modify KPERS' strategic allocation policy, reflecting the Board's unique definition, tolerance and beliefs about investment risk. Mr. Camp listed key decisions for asset-liability modeling: additional asset classes, asset class constraints, statutory constraints, capital market assumptions, and time horizons. KPERS performs an asset-liability study as part of the strategic asset allocation process. Mr. Camp responded to questions.

### **Alternative Asset Limitation of 15%, Including a Review of Peer Public Pension Plans' Exposure to Private Markets**

Chairperson Zakoura recognized Dean Roney, Deputy Chief Investment Officer for Private Markets and Richard Pugmire, Partner, Mercer. Mr. Roney and Mr. Pugmire reviewed private equity market growth, alternative investments, value creation in private equity, KPERS investment performance, portfolio considerations, institutional alternative allocations by investor type, public funds alternatives allocations, alternative assets definition in Kansas law, current and potential alternative strategy targets, investment process, and prior legislative outcomes. Mr. Roney and Mr. Pugmire responded to questions.

### **CEM Benchmarking Analysis of KPERS Operations**

Chairperson Zakoura recognized Mike Heale, Head, Global Business Development, Customer Experience Management (CEM) Benchmarking. Mr. Heale presented the 2021 fiscal year pension administration benchmarking results. Mr. Heale stated in relation to its peers KPERS' operating costs were lower and performance was higher due to consistent and efficient methods. The report is a fiduciary tool for understanding how costs and service-levels compare to peers. The key global trends include the changing COVID-19 work

and disaster plans, pension administration systems becoming information technology organizations, increasing risks to cyber security, customer experience focus, and improved cost effectiveness. Mr. Heale responded to questions.

### **KPERS Current Working After Retirement Provisions**

Chairperson Zakoura recognized Alan Conroy, Executive Director. Mr. Conroy reviewed the history of the current working after retirement laws, their legal and actuarial implications, required employer contributions, and experience. Mr. Conroy responded to questions.

### **KPERS Strategic Plan Fiscal Years 2022 - 2025**

Chairperson Zakoura recognized Jarod Waltner, Planning and Research Officer. Mr. Waltner presented an overview of the KPERS Strategic Plan for Fiscal Years 2021 - 2025. Mr. Waltner provided information on the initiatives including being a dedicated fiduciary, keeping core values, maintaining strategic goals, sound funding, prudent investments, quality service, reliable and secure data, and talent management. Mr. Waltner responded to questions.

Chairperson Zakoura adjourned the meeting at 12:09 p.m. and participants attended a concluding Educational and Planning Session lunch.