

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

**October 28, 2021**

The meeting was called to order by Chairperson James Zakoura, at 10:05 a.m. in the Capitol Federal Conference Room, 12345 College Boulevard, on the campus of the Johnson County Community College, Overland Park, Kansas.

Board Members Present:

- James Zakoura, Chairperson
- Ron Johnson, Vice Chairperson
- Ernie Claudel
- Emily Hill
- Lynn Rogers
- Brad Stratton
- Ryan Trader
- Sam Williams
- Jo Yun

### **KPERS 101 – A Basic Overview**

Chairperson Zakoura welcomed guests in attendance, Andrew Finzen, Legislative Research Department, and Stephanie O’Dear, Empower Retirement. Chairperson Zakoura also welcomed guests Jeff Arpin, Division of the Budget, Eileen Ma, Revisor of Statutes Office, David Wiese, Revisor of Statutes Office, Steven Wu, Legislative Research Department, who attended virtually, and all other participants. Chairperson Zakoura and Mr. Alan Conroy, Executive Director 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 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, and the cash balance plan KPERS 3, with each plan's respective projected example retirement benefits. Ms. Green responded to questions.

### **Investment Basics for Trustees**

Alan Conroy, Executive Director, recognized Allan Emkin, Managing Principal, Meketa Investment Group. Mr. Emkin provided a comprehensive overview of investment issues for Board members in his presentation, "Investment Basics for Trustees." Mr. Emkin responded to questions.

### **Actuarial Basics and Overview for Trustees**

Chairperson Zakoura, recognized Pat Beckham, Principal Consulting Actuary, Cavanaugh Macdonald. Ms. Beckham reviewed the actuarial funding for defined benefit plans, benefits of advance funding, actuarial valuation process, the concept of present value, an illustration of actuarial math for funding a defined benefit plan, the actuarial assumptions for one person in a sample defined benefit plan, calculation of expected salary at retirement, funding the plan benefit, definition of actuarial liability, funding a defined benefit plan with level dollar contributions, contribution as a percentage of payroll, contributions at a level dollar vs. level percent of pay, actuarial liability over time, actuarial funding of a defined benefit plan, applying the funding methodology to KPERS State/School group, and the actuarial contribution rate. Ms. Beckham responded to questions.

Chairperson Zakoura, adjourned the KPERS 101 Session of the meeting for a lunch break at 12:04 p.m.

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

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

Chairperson James Zakoura called the KPERS Board Education and Planning Session to order at 1:06 p.m. Chairperson Zakoura welcomed guests in attendance, which included Andrew Finzen, Legislative Research Department and Stephanie O'Dear, Empower Retirement. Chairperson Zakoura also welcomed Jeff Arpin, Division of the Budget, Eileen Ma, Revisor of Statutes Office, David Wiese, Revisor of Statutes Office, Steven Wu, Legislative Research Department, who attended virtually, and all other participants, and reviewed the goals of the session.

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

Chairperson Zakoura recognized Michael Reid, Vice President, Customer Experience Management (CEM) Benchmarking. Mr. Reid presented an overview of the KPERS Pension Administration Benchmarking Report - FY 2020. Mr. Reid described the CEM benchmarking services, which included investment, pension administration, defined contribution, and global leaders' investment. Mr. Reid described the measured cost and service in relation to KPERS peers. He also discussed insights into current research on pension administration best practices and trends. Mr. Reid stated in relation to its peers KPERS' operating costs were lower and performance was higher due to consistent and efficient methods. Mr. Reid responded to questions.

## **KPERS Retiree Information**

Chairperson Zakoura recognized Trustee Ernie Claudel. Trustee Claudel provided information on the origin of KPERS, the retirement systems national count, Kansas Retirement System, overall outcomes of KPERS Legislative Commission in 2011, privatization report of 2015, trustees requests to the Legislature, a description of a fiduciary, and COLA concerns and facts. Trustee Claudel responded to questions.

## **Rethinking kpers.org: A New Approach to Engaging Users**

Chairperson Zakoura recognized Kristen Basso, Communications Officer. Ms. Basso introduced Connor Henrichs, Digital Specialist. Ms. Basso and Mr. Henrichs provided an overview of rethinking *kpers.org: A new approach to engaging users*. Ms. Basso described the top three reasons members visit *kpers.org*, which include finding information specifically related to the members benefits, accessing the online account of the member, and information about when and how to retire. A description of the pages most visited on the website include the active members home page, KPERS' calculators, leaving employment, contact us, and forms. Ms. Basso shared the goals to use the modernization roadmap for improving *kpers.org*. Mr. Henrich provided an overview of the prototypes of the new *kpers.org*. He shared the new home page, new members, KPERS 3 benefits, the benefits calculator, site map of an online account, and understanding one's individual financial situation. The next steps are to refine content, begin user testing, and acquire more user feedback. Ms. Basso and Mr. Henrichs 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 2022 - 2025. Mr. Waltner provided information on the strategic initiatives including dedicated fiduciary, core values, strategic goals, sound funding, prudent investments, quality service, reliable and secure data, and talent management. Mr. Waltner responded to questions.

## **Deferred Compensation Industry Outlook**

Chairperson Zakoura recognized Arlen Zentner, Deferred Compensation Plan Officer. Mr. Zentner stated that he, along with Jake O'Shaughnessy, Managing Director, SageView, would review the Deferred Compensation Industry Outlook.

Mr. Zentner reviewed the KPERS 457 Deferred Compensation Industry Outlook, and described KPERS 457 today, including the asset value, eligible employees, participants that are currently utilizing the KPERS 457 plan, KPERS 457 participant demographics, KPERS 457 challenges and opportunities, and KPERS 457 initiatives for 2022.

Mr. O'Shaughnessy reviewed the major headlines from the second quarter, which include inflation, supply chain issues, job openings, and high earnings expectations. The major headlines from the third quarter include the federal policy, supply chain issues, and real estate issues in China. Mr. O'Shaughnessy reviewed items currently under consideration in the U.S. Congress including mega-Roth, IRA and the Portable Retirement and Investment Account Act (PRIA). Mr. O'Shaughnessy reviewed the 457 Deferred Compensation Plan Best Practices that include creating an array of low-cost active and passive investment options

for Plan participants, participant retirement education, and servicing and recruitment of underlying local KPERS employers in the KPERS 457 Plan.

### **High-Level Overview of Goals of the Pension Administration Modernization Project**

Chairperson Zakoura recognized Mary Beth Green, Chief Benefits Officer. Ms. Green introduced Susan Hancock, Chief Project Officer. Ms. Hancock presented an overview of the goals of the Pension Administration Modernization Project. The KPERS vision is being the Best-in-Class including improved automation; better access to information, the ability to initiate services online, tailoring communication to members, improving retirement readiness, and improving accuracy, dependability, and the security of our data system.

Ms. Green reviewed the tools to improve services to members, becoming paperless, state-of-the-art customer service tools, and improving the Employer Portal.

Ms. Hancock concluded with the current progress of the Modernization Project. Staff working on the Project have completed visioning sessions and the next steps are include change management, and requirements documents, completing contractual agreements and beginning high-level design. Ms. Hancock and Ms. Green responded to questions.

Chairperson Zakoura adjourned the meeting at 5:07 p.m.

### **Dinner and Presentation at the 180 Room Restaurant - Olathe, KS**

The dinner and presentation were held at the 180 Room Restaurant, 11944 S Strang Line Road, Olathe, Kansas for the Board of Trustees, guests and staff.

### **Economic and Market Outlook**

Chairperson Zakoura recognized Alan Levenson, PhD, Chief US Economist, Fixed Income Division, T. Rowe Price. Mr. Levenson presented to the Board his outlook for the US economy, including monetary and fiscal policy and responded to questions.

## **October 29, 2021**

Chairperson Zakoura opened the meeting at 8:34 a.m. and welcomed guest. Adam Proffitt, Kansas Director of the Budget and all other participates.

Chairperson Zakoura acknowledged Allan Emkin for the honor of being named to *Chief Investment Officer* magazine as its 2021 Knowledge Broker. In its 10th annual list of the world's most influential investment consultants, *Chief Investment Officer* honors top quality industry professionals for their roles as advisors to some of the most complex investment portfolios globally. Mr. Emkin, a Managing Principal at Meketa, serves as the lead consultant for large state and municipal funds, including KPERS, working with some of the largest state pension funds in the United States.

## **Overview on Environmental, Social and Governance in Investments**

Chairperson Zakoura recognized Allan Emkin. Mr. Emkin provided the Board with an overview of the current state of Environmental Social and Governance (ESG) in investments for public pension plans. The presentation included a discussion of the System's statutory requirements with respect to investments, and the relationship between the Board's fiduciary responsibility and ESG investments. Mr. Emkin responded to questions.

## **Investment Risk Metrics**

Chairperson Zakoura introduced Richard Gay, Executive Director, Analytics Client Consultant, Morgan Stanley Capital International (MSCI), Nivedita Nathan, Senior Associate, Analytics Client Coverage, MSCI, and Matthews Juszczak, Vice President, Analytics Client Consultant, MSCI. Mr. Gay presented an overview of MSCI and the firm's capabilities. Mr. Juszczak reviewed the Multi-Asset Class (MAC) factor investment risk model with the Board. Mr. Juszczak also reviewed BarraOne capabilities with respect to risk measurement and monitoring and stress testing. Ms. Nathan reviewed MSCI's future plans for investment risk modeling. Mr. Gay, Mr. Juszczak and Ms. Nathan responded to questions.

## **Overview on Actuarial Assumed Rate of Return**

Chairperson Zakoura recognized Alan Conroy, Executive Director. Mr. Conroy introduced the discussion of the System's actuarial investment return assumption. The investment return assumption is one of the key economic assumptions used in the annual actuarial valuation. The Board of Trustees reviewed the economic assumptions in the 2019 actuarial experience study. Since 2019, the expected return for the total portfolio has declined from 7.1% to 6.0%, based on the capital market assumptions provided by the Board's general investment consultant, increasing the gap between the expected return and the 7.75% assumed return from 0.65% to 1.75%. As of the August 2021 National Association of State Retirement Administrators (NASRA) report of 131 state-level public pension plans, KPERS investment return assumption of 7.75% is the second highest. The current median investment return assumption reported by NASRA is 7.0%. Maintaining a high investment return assumption during a period of low expected returns increases the risk of funding shortfalls and pushing costs to future generations.

Mr. Conroy introduced three speakers including Allan Emkin, Managing Principal, Meketa Investment Group, Pat Beckham, MAAA, EA, FSA, FCA, Cavanaugh Macdonald Consulting, and Elizabeth Miller, CFA, Chief Investment Officer.

Allan Emkin reviewed Meketa's outlook for the expected return of the System's investment portfolio. He discussed the current investment environment of historically low interest rates. Mr. Emkin also discussed the current historically high levels of equity valuations, which are indicative of low expected future equity returns. He discussed the most recent Horizon Survey of investment consultant's capital market assumptions.

Pat Beckham reviewed the actuarial considerations of experiencing lower actual returns than assumed. Actuarial funding uses assumptions to calculate contributions needed while members are working which, with investment earnings, will be sufficient to pay benefits when the member retires. Ms. Beckham discussed the actuarial funding concepts and

provided an example analysis of the scenario of actual returns of 6.5% on key metrics, including contribution rates and amounts.

Elizabeth Miller provided information to the Board on the outlier risk of the System's current 7.75% investment return assumption.

Mr. Conroy concluded the KPERS Investment return assumption discussion. The outlook for the System's expected return has been deteriorating since the 2019 actuarial experience study. This is due to changes in the capital market assumptions across the asset classes, which are affected by historically low interest rates and high equity valuations. The current ten-year forecast for the expected return on the System's investment portfolio is 6.0% based on Meketa's current capital market assumptions. The gap between the forecast expected return and the investment return assumption has risen from 0.65% in 2019 to 1.75% today. Actual investment returns lower than the actuarial investment return assumption can cause systematic underfunding of the System, pushing costs to future generations. The System's 7.75% investment return assumption is significantly higher than the current median return assumption among state level pension plans. Board discussion followed about next steps in the process of reconsidering the actuarial investment return assumption. The consensus was to continue the Board discussion on the topic at the November Board meeting.

Chairperson Zakoura adjourned the meeting and participants attended a concluding Educational and Planning Session lunch at 12:22 p.m.