



# TEACHERS' RETIREMENT SYSTEM

## of the State of Kentucky

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### BOARD OF TRUSTEES

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State Treasurer

**JASON GLASS, Ed.D.**  
Education Commissioner

**GARY L. HARBIN, CPA**  
Executive Secretary

Regular Quarterly Meeting of the

TRS Board of Trustees

### A G E N D A

September 20, 2021, 12:30 p.m. ET

Board Called to Order

Roll Call

1. Reports for Consent
  - 1.1. Consideration/Approval of Minutes
    - 1.1.1. Quarterly Meeting of the Board of Trustees, June 21, 2021
  - 1.2. Applications for Retirement and Annuity
  - 1.3. Survivor Benefits
  - 1.4. Life Insurance Benefits
  - 1.5. Refunds
  - 1.6. Interim Financial Statements
2. Report of the Investment Committee
3. Report of the Insurance Committee
4. Report of the Governance and Audit Committee
5. Report of the Legislative Committee
6. Executive Secretary's Observations and Comments

General Discussion

Adjournment

The meeting will be conducted by live video teleconference.  
Information on accessing the meeting will be provided on TRS's website at:  
<https://trs.ky.gov/administration>

TO: Board of Trustees of the Teachers' Retirement System of the State of Kentucky

FROM: Gary L. Harbin, CPA  
Executive Secretary

DATE: September 20, 2021

RE: Reports for Consent

1.1. Consideration/Approval of Minutes

1.1.1. Quarterly Meeting of the Board of Trustees held June 21, 2021

1.2. Applications for Retirement and Annuity

The list of members who retired June, July and August 2021 is included in the board materials. Attached is a summary of the payments and a comparison to the same period last year. Initial retirements for the period included 1,229 retirees with monthly payments totaling \$4,150,489.77. During the same period last year, 1,119 retirements resulted in monthly payments totaling \$3,790,331.09.

Recommendation: The board is requested to approve the initial payments listed as reported.

1.3. Survivor Benefits

The list of persons qualifying for survivor benefit payments for the quarter April 1, 2021, through June 30, 2021, is included in the board materials. During the period, 14 survivor benefits commenced with a total monthly payment of \$2,400.

Recommendation: The board is requested to approve survivor benefit payments as reported.

1.4. Life Insurance Benefits

The list of payments of life insurance benefits due to death of active and retired teachers for the period April 1, 2021, through June 30, 2021, is included in the board materials. Eight payments to the estates or beneficiaries of active teachers and 269 payments to the estates or beneficiaries of retired teachers combined for total payments of \$1,361,000. During the same quarter in 2020, 253 payments amounted to \$1,247,000.

Recommendation: The board is requested to approve the payment of life insurance benefits as reported.

1.5. Refunds

The report of refunds for the quarter ended June 30, 2021, also is attached. During the quarter, 352 refunds totaled \$4,781,134.17. The refunds are for the following categories:

|                     |           |                       |
|---------------------|-----------|-----------------------|
| Regular withdrawals | 326       | \$3,745,381.41        |
| Deaths              | <u>26</u> | <u>\$1,035,752.76</u> |
| Totals              | 352       | \$4,781,134.17        |

During the same quarter in 2020, 296 refunds totaled \$3,641,860.70.

Recommendation: The board is requested to approve the payment of refunds as reported.

#### 1.6. Interim Financial Statements

Attached are the Interim Financial Statements for the quarter ended June 30, 2021.

Recommendation: The Interim Financial Statements are provided for informational purposes only and require no action.

***Teachers' Retirement System of Kentucky***  
**Initial Applications for Retirement and Annuity**  
**2021**

|   | <b>June</b>                | <b>July</b>                  | <b>August</b>                | <b>Total</b>                   | <b>Same Period 2020</b>        |
|---|----------------------------|------------------------------|------------------------------|--------------------------------|--------------------------------|
| <b>Handicapped<br/>Child</b>                                | <i>0</i><br>\$0.00         | <i>0</i><br>\$0.00           | <i>0</i><br>\$0.00           | <i>0</i><br>\$0.00             | <i>0</i><br>\$0.00             |
| <b>Disability<br/>Retirement</b>                            | <i>4</i><br>\$10,150.27    | <i>11</i><br>\$30,260.24     | <i>11</i><br>\$28,763.56     | <i>26</i><br>\$69,174.07       | <i>25</i><br>\$64,788.50       |
| <b>Service<br/>Retirement</b>                               | <i>222</i><br>\$755,689.72 | <i>627</i><br>\$2,117,688.47 | <i>350</i><br>\$1,184,228.37 | <i>1,199</i><br>\$4,057,606.56 | <i>1,091</i><br>\$3,716,411.49 |
| <b>Beneficiary<br/>of Member<br/>Eligible to<br/>Retire</b> | <i>0</i><br>\$0.00         | <i>3</i><br>\$19,088.30      | <i>1</i><br>\$4,620.84       | <i>4</i><br>\$23,709.14        | <i>3</i><br>\$9,131.10         |
| <b>TOTALS</b>   | <i>226</i><br>\$765,839.99 | <i>641</i><br>\$2,167,037.01 | <i>362</i><br>\$1,217,612.77 | <i>1,229</i><br>\$4,150,489.77 | <i>1,119</i><br>\$3,790,331.09 |

**Reports for Consent  
Member Account Refunds  
For the period April 2021 - June 2021**

| Active Refunds | Count | Net Refund | Taxes Withheld | Rollovers  | Total        |
|----------------|-------|------------|----------------|------------|--------------|
| April          | 106   | 344,779.40 | 85,807.74      | 538,718.93 | 969,306.07   |
| May            | 103   | 409,817.44 | 101,881.06     | 590,769.99 | 1,102,468.49 |
| June           | 117   | 774,875.48 | 193,360.17     | 705,371.20 | 1,673,606.85 |
| Total          | 326   |            |                |            | 3,745,381.41 |

| Deceased Refunds | Count | Net Refund | Taxes Withheld | Rollovers  | Total        |
|------------------|-------|------------|----------------|------------|--------------|
| April            | 10    | 323,526.04 | 80,724.33      | 148,100.35 | 552,350.72   |
| May              | 7     | 245,095.99 | 27,858.85      | 0.00       | 272,954.84   |
| June             | 9     | 168,500.99 | 41,009.91      | 936.30     | 210,447.20   |
| Total            | 26    |            |                |            | 1,035,752.76 |

| Total Refunds | Count | Net Refund | Taxes Withheld | Rollovers  | Total        |
|---------------|-------|------------|----------------|------------|--------------|
| April         | 116   | 668,305.44 | 166,532.07     | 686,819.28 | 1,521,656.79 |
| May           | 110   | 654,913.43 | 129,739.91     | 590,769.99 | 1,375,423.33 |
| June          | 126   | 943,376.47 | 234,370.08     | 706,307.50 | 1,884,054.05 |
| Total         | 352   |            |                |            | 4,781,134.17 |

# **TEACHERS' RETIREMENT SYSTEM**

**OF THE STATE OF KENTUCKY**



***INTERIM FINANCIAL STATEMENTS***

**QUARTER ENDED JUNE 30, 2021**  
**(FAIR VALUE – UNADJUSTED & UNAUDITED)**

**Statements of Plan Net Assets**  
**as of June 30, 2021 and 2020**  
(Fair Value - Unadjusted & Unaudited )

|   | Retirement<br>Annuity Trust |                   | Health<br>Insurance Trust |                  | Life<br>Insurance Trust |               | Other<br>Funds |              | TOTAL             |                   |
|---|-----------------------------|-------------------|---------------------------|------------------|-------------------------|---------------|----------------|--------------|-------------------|-------------------|
|   | FY 2021                     | FY 2020           | FY 2021                   | FY 2020          | FY 2021                 | FY 2020       | FY 2021        | FY 2020      | FY 2021           | FY 2020           |
| <b>ASSETS</b>   |                             |                   |                           |                  |                         |               |                |              |                   |                   |
| Cash  | \$ 177,163,375              | \$ 145,187,806    | \$ 68,767,282             | \$ 59,313,496    | \$ 274,743              |               | \$ 253,916     | \$ 32,119    | \$ 246,459,316    | \$ 204,533,421    |
| Receivables   |                             |                   |                           |                  |                         |               |                |              |                   |                   |
| Contributions   | 49,630,590                  | 53,939,286        | 10,344,680                | 25,205,437       | 47,267                  | 13,058        |                |              | 60,022,537        | 79,157,781        |
| State of Kentucky                                     | -                           | -                 | -                         | -                | 81,540                  | 178,131       |                |              | 81,540            | 178,131           |
| Investment Income                                     | 45,254,996                  | 42,747,821        | 3,441,069                 | 2,942,288        | 263,725                 | 273,122       | 2,645          | 2,682        | 48,962,435        | 45,965,913        |
| Investment Sales Receivable                           | 58,963,007                  | 14,904,196        | 2,949,484                 | 1,494,412        | 13,985                  | 13,018        |                |              | 61,926,476        | 16,411,626        |
| Installment Account Receivable                        | 82,355                      | 88,387            |                           |                  |                         |               |                |              | 82,355            | 88,387            |
| Other Receivables                                     | 2,862                       | 22,170            | 37,947,151                | 31,412,496       |                         |               |                |              | 37,950,013        | 31,434,666        |
| Due from Other Funds                                  | 3,848,217                   | 2,084,771         |                           |                  |                         |               |                |              | 3,848,217         | 2,084,771         |
| Total Receivables                                     | 157,782,027                 | 113,786,631       | 54,682,384                | 61,054,633       | 406,517                 | 477,329       | 2,645          | 2,682        | 212,873,573       | 175,321,275       |
| Investments at Market Value                           |                             |                   |                           |                  |                         |               |                |              |                   |                   |
| Short Term Investments                                | 1,065,314,674               | 757,664,315       | 157,506,899               | 26,908,534       | 9,405,976               | 12,219,575    | 349,252        | 354,977      | 1,232,576,801     | 797,147,401       |
| Bonds and Mortgages                                   | 3,627,641,860               | 2,942,102,333     | 155,171,801               | 128,746,941      | 20,043,254              | 14,143,524    | 279,516        | 315,524      | 3,803,136,431     | 3,085,308,322     |
| Stocks  | 16,068,066,132              | 12,593,762,661    | 1,274,610,864             | 914,010,573      | 68,281,332              | 55,860,313    | 482,531        | 348,641      | 17,411,440,859    | 13,563,982,188    |
| Alternative Investments                               | 1,758,133,237               | 1,465,067,724     | 170,660,050               | 113,773,957      | 1,420,802               | 361,320       |                |              | 1,930,214,089     | 1,579,203,001     |
| Real Estate   | 1,405,889,581               | 1,227,834,915     | 111,459,521               | 82,393,040       | 5,181,114               | 2,399,699     |                |              | 1,522,530,216     | 1,312,627,654     |
| Additional Categories                                 | 1,803,453,180               | 1,549,337,817     | 349,991,170               | 262,798,450      | 2,549,353               | 2,034,758     |                |              | 2,155,993,703     | 1,814,171,025     |
| Total Investments                                     | 25,728,498,664              | 20,535,769,765    | 2,219,400,305             | 1,528,631,495    | 106,881,831             | 87,019,189    | 1,111,299      | 1,019,142    | 28,055,892,099    | 22,152,439,591    |
| Capital Assets<br>( net of accumulated depreciation ) | 10,255,925                  | 12,072,094        |                           |                  |                         |               |                |              | 10,255,925        | 12,072,094        |
| Total Assets  | 26,073,699,991              | 20,806,816,296    | 2,342,849,971             | 1,648,999,624    | 107,563,091             | 87,496,518    | 1,367,860      | 1,053,943    | 28,525,480,913    | 22,544,366,381    |
| <b>LIABILITIES</b>                                    |                             |                   |                           |                  |                         |               |                |              |                   |                   |
| Liabilities   |                             |                   |                           |                  |                         |               |                |              |                   |                   |
| Accrued Expenses and Other Liabilities                | 14,815,496                  | 8,559,121         | 7,472,716                 | 9,039,424        |                         | 52,641        |                |              | 22,288,212        | 17,651,186        |
| State of Kentucky                                     |                             |                   | 22,741,764                | 14,762,969       |                         |               |                |              | 22,741,764        | 14,762,969        |
| Contributions Not Posted                              | -                           | -                 | -                         | 291,343          |                         |               |                |              | -                 | 291,343           |
| Investment Purchases Payable                          | 77,369,441                  | 64,834,604        | 6,719,338                 | 3,323,593        | 13,539                  | 12,321        | -              | -            | 84,102,318        | 68,170,518        |
| Investment Fees Payable                               | 18,620,079                  | 16,422,249        | 1,643,815                 | 2,859,798        | 52,158                  | 27,685        | -              | -            | 20,316,052        | 19,309,732        |
| Due to Other Funds                                    | -                           | -                 | 3,775,247                 | 2,047,238        | 70,478                  | 35,980        | 2,492          | 1,554        | 3,848,217         | 2,084,772         |
| Total Liabilities                                     | 110,805,016                 | 89,815,974        | 42,352,880                | 32,324,365       | 136,175                 | 128,627       | 2,492          | 1,554        | 153,296,563       | 122,270,520       |
| NET ASSETS HELD IN TRUST<br>FOR PENSION BENEFITS      | \$ 25,962,894,975           | \$ 20,717,000,322 | \$ 2,300,497,091          | \$ 1,616,675,259 | \$ 107,426,916          | \$ 87,367,891 | \$ 1,365,368   | \$ 1,052,389 | \$ 28,372,184,350 | \$ 22,422,095,861 |

**Statements of Changes in Plan Net Assets**  
**For the Twelve Months Ended June 30, 2021 and 2020**  
(Fair Value - Unadjusted & Unaudited )

|  | Retirement<br>Annuity Trust |                   | Health<br>Insurance Trust |                  | Life<br>Insurance Trust |               | Other<br>Funds |              | TOTAL             |                   |
|--|-----------------------------|-------------------|---------------------------|------------------|-------------------------|---------------|----------------|--------------|-------------------|-------------------|
|  | FY 2021                     | FY 2020           | FY 2021                   | FY 2020          | FY 2021                 | FY 2020       | FY 2021        | FY 2020      | FY 2021           | FY 2020           |
| <b>ADDITIONS</b>   |                             |                   |                           |                  |                         |               |                |              |                   |                   |
| <b>Contributions</b>                                     |                             |                   |                           |                  |                         |               |                |              |                   |                   |
| Employer- State Paid                                     | \$ 1,060,257,414            | \$ 1,048,192,668  | \$ 78,216,742             | \$ 77,191,060    | \$ 1,852,447            | \$ 1,543,413  | \$ -           | \$ -         | \$ 1,140,326,603  | \$ 1,126,927,141  |
| Employer- LSD, Other                                     | 113,836,023                 | 86,088,427        | 106,662,998               | 107,434,413      | 285,928                 | 252,976       | 365,866        | -            | 221,150,815       | 193,775,816       |
| Member- Active   | 327,833,177                 | 324,664,055       | 127,753,430               | 133,470,962      |                         |               |                |              | 455,586,607       | 458,135,017       |
| Member- Retired  |                             |                   | 59,871,663                | 59,338,283       |                         |               |                |              | 59,871,663        | 59,338,283        |
| Recovery Income  |                             |                   | 120,747,316               | 100,375,748      |                         |               |                |              | 120,747,316       | 100,375,748       |
|  | -----                       | -----             | -----                     | -----            | -----                   | -----         | -----          | -----        | -----             | -----             |
| Total Contribution                                       | 1,501,926,614               | 1,458,945,150     | 493,252,149               | 477,810,466      | 2,138,375               | 1,796,389     | 365,866        | -            | 1,997,683,004     | 1,938,552,005     |
| <b>Investment Income/(Loss)</b>                          |                             |                   |                           |                  |                         |               |                |              |                   |                   |
| <b>Net Appreciation/(Depreciation) in</b>                |                             |                   |                           |                  |                         |               |                |              |                   |                   |
| Fair Value of Investments                                | 5,759,598,152               | 723,233,155       | 499,516,141               | 19,256,856       | 23,273,275              | 3,954,293     | 97,882         | 60,956       | 6,282,485,450     | 746,505,260       |
| Interest   | 96,251,897                  | 171,256,317       | 737,237                   | 11,545,773       | 548,043                 | 690,620       | 9,547          | 15,335       | 97,546,724        | 183,508,045       |
| Dividends  | 208,073,365                 | 234,318,496       | 9,586,461                 | 7,331,916        | 583,808                 | 719,334       | 6,489          | 6,758        | 218,250,123       | 242,376,504       |
| Rental Income, Net                                       | 21,821,971                  | 27,049,513        |                           |                  |                         |               |                |              | 21,821,971        | 27,049,513        |
| Securities Lending, Net                                  | 2,751,699                   | 2,228,729         |                           |                  | 52,028                  | 37,974        | 690            | 440          | 2,804,417         | 2,267,143         |
|  | -----                       | -----             | -----                     | -----            | -----                   | -----         | -----          | -----        | -----             | -----             |
| Gross Investment Income                                  | 6,088,497,084               | 1,158,086,210     | 509,839,839               | 38,134,545       | 24,457,154              | 5,402,221     | 114,608        | 83,489       | 6,622,908,685     | 1,201,706,465     |
| Less Investment Expense                                  | (71,312,772)                | (64,062,834)      | (6,639,090)               | (5,659,596)      | (382,006)               | (236,018)     | -              | -            | (78,333,868)      | (69,958,448)      |
|  | -----                       | -----             | -----                     | -----            | -----                   | -----         | -----          | -----        | -----             | -----             |
| Net Investment Income                                    | 6,017,184,312               | 1,094,023,376     | 503,200,749               | 32,474,949       | 24,075,148              | 5,166,203     | 114,608        | 83,489       | 6,544,574,817     | 1,131,748,017     |
|  | -----                       | -----             | -----                     | -----            | -----                   | -----         | -----          | -----        | -----             | -----             |
| Total Additions  | 7,519,110,926               | 2,552,968,526     | 996,452,898               | 510,285,415      | 26,213,523              | 6,962,592     | 480,474        | 83,489       | 8,542,257,821     | 3,070,300,022     |
| <b>DEDUCTIONS</b>  |                             |                   |                           |                  |                         |               |                |              |                   |                   |
| Benefits   | 2,235,240,616               | 2,167,239,241     |                           |                  | 6,120,000               | 5,317,000     | 166,555        | 229,574      | 2,241,527,171     | 2,172,785,815     |
| Refunds of Contributions                                 | 25,373,818                  | 28,472,217        |                           |                  |                         |               |                |              | 25,373,818        | 28,472,217        |
| Under 65 Insurance Expenses                              |                             |                   | 106,822,555               | 109,708,027      |                         |               |                |              | 106,822,555       | 109,708,027       |
| Over 65 Insurance Expenses                               |                             |                   | 204,080,504               | 195,874,947      |                         |               |                |              | 204,080,504       | 195,874,947       |
| Administrative Expense                                   | 12,601,841                  | 12,166,651        | 1,728,008                 | 2,047,238        | 34,498                  | 35,980        | 939            | 1,554        | 14,365,286        | 14,251,423        |
|  | -----                       | -----             | -----                     | -----            | -----                   | -----         | -----          | -----        | -----             | -----             |
| Total Deductions   | 2,273,216,275               | 2,207,878,109     | 312,631,067               | 307,630,212      | 6,154,498               | 5,352,980     | 167,494        | 231,128      | 2,592,169,334     | 2,521,092,429     |
| <b>Net Increase ( Decrease )</b>                         |                             |                   |                           |                  |                         |               |                |              |                   |                   |
|  | 5,245,894,651               | 345,090,417       | 683,821,831               | 202,655,203      | 20,059,025              | 1,609,612     | 312,980        | (147,639)    | 5,950,088,487     | 549,207,593       |
| <b>NET ASSETS HELD IN TRUST<br/>FOR PENSION BENEFITS</b> |                             |                   |                           |                  |                         |               |                |              |                   |                   |
| Beginning of year  | 20,717,000,324              | 20,371,909,905    | 1,616,675,260             | 1,414,020,056    | 87,367,891              | 85,758,279    | 1,052,388      | 1,200,028    | 22,422,095,863    | 21,872,888,268    |
| Ending of period   | \$ 25,962,894,975           | \$ 20,717,000,322 | \$ 2,300,497,091          | \$ 1,616,675,259 | \$ 107,426,916          | \$ 87,367,891 | \$ 1,365,368   | \$ 1,052,389 | \$ 28,372,184,350 | \$ 22,422,095,861 |
|  | =====                       | =====             | =====                     | =====            | =====                   | =====         | =====          | =====        | =====             | =====             |



TO: Board of Trustees of the Teachers' Retirement System of the State of Kentucky

FROM: Gary L. Harbin, CPA  
Executive Secretary

DATE: September 20, 2021

RE: Report of the Investment Committee

1. Investment Committee Meeting and Actions: New investments presented at the August 26, 2021, Investment Committee meeting were as follows: a commitment of up to \$100 million from the Retirement Annuity Trust, up to \$10 million from the Health Insurance Trust and up to \$5 million from the Life Insurance Trust to Baillie Gifford Private Companies II; a commitment of up to \$50 million from the Retirement Annuity Trust, up to \$10 million from the Health Insurance Trust and up to \$5 million from the Life Insurance Trust to Silver Lake Alpine II; and a commitment of up to \$25 million from the Retirement Annuity Trust and up to \$5 million from the TRS Health Insurance Trust to the Apax Credit Fund. The committee ratified the contract with Lord Abbett for fiscal year 2022. Outside managers Wellington Asset Management and Fort Washington presented on their respective portfolios.

2. Purchases and Disposals: The Report of the Investment Committee for the quarter ended June 30, 2021, is presented for review and approval. During this quarter, 1,936 purchases amounted to \$2,362,411,969.40 and 2,070 disposals amounted to \$2,128,054,196.44. The disposals consisted of 1,716 sales, 311 principal payments and 43 redemptions. While each of these transactions is initiated by TRS investment staff, the custodian of securities is responsible for handling and securing each stock, bond or other type of investment. At the end of the quarter, TRS's invested securities had a book value of \$17,686,617,417.16 and a market value of \$25,728,805,148.02.

3. Staff's Comments on Economic and Market Conditions: In the second calendar quarter of 2021, markets were focused on reopening efforts, an accelerating global vaccine rollout, continued accommodative global central bank policy and expectations for further fiscal expansion in the United States. The supportive policy backdrop led to a strong quarter for risk assets. Global equities were paced by the United States, as substantial upward earnings revisions during the quarter helped the S&P 500 to an 8.5% gain. Broad U.S. economic conditions remained robust as the recovery took hold. Nonfarm payroll growth averaged 567,000 jobs per month during the quarter. Payrolls increased by 850,000 alone in June, with the leisure and hospitality sectors accounting for an outsized portion of gains as states relaxed pandemic related restrictions. Supply constraints, amid heightened demand for goods and the rapid pace of economic growth, led to a series of above-consensus price level changes during the quarter. June's Consumer Price Index (CPI) release indicated year-over-year price level changes of 5.4%, with core CPI increasing at 4.5%. With rate hikes largely off the table in the near-term, investor focus remained on the Federal Reserve tapering its \$120 billion monthly asset purchase program. Consensus is building around the December meeting for an announcement, assuming the pace of economic recovery continues as expected. Overall, the global economic recovery continues to advance, with the International Monetary Fund forecasting a global gross domestic product growth rate of 6.0% and 4.4% in 2021 and 2022, respectively.

U.S. equity markets built on the solid start to 2021 with strong performance in the second calendar quarter. Sentiment was driven by continued monetary and fiscal stimulus, along with increased vaccination rates that led to economic reopening efforts across the country. Large- and mid-cap growth stocks outperformed value in the quarter; however, value stocks continued to lead growth stocks in the small-cap space. With the exception of utilities, sectors posted positive returns in the quarter. Real estate outperformed all other sectors as housing prices continued to rise. Growth-oriented technology stocks bounced back from a poor first quarter as earnings were stronger than expected. Active management generally struggled in the quarter, as the majority of large- and mid-cap managers failed to keep pace with their respective benchmarks. Developed international markets delivered positive returns in the second quarter as growth outperformed value — a reversal of the first quarter value rally.

The Bloomberg Barclays U.S. Aggregate returned 1.8% in the second quarter, remaining down 1.6% for the calendar year. Treasury yields fell despite an easing of pandemic-related restrictions, which supported economic growth and rising inflationary pressures. The 10-year Treasury yield declined to 1.45% from 1.74% at the end of the first quarter. The Bloomberg U.S. High Yield returned 2.7% in the quarter.

Core private real estate generated a positive 3.9% return in the quarter, as reported by the NFI-ODCE, with the total return comprising of 1% income and 2.9% price appreciation. Transaction volume has started to increase in the United States with cap rates continuing to trend downward. Real estate continued to recover from the impact of the pandemic, bringing a collective sense that a particularly challenging period for real estate fundamentals is in the rearview mirror. Remaining concerns include the pace of workers returning to the office, additional stimulus dollars and the potential impact of higher inflation. Historically, real estate investments have performed well in inflationary environments as rents are regularly reset to market rates.

4. Performance: Investment performance was strong for the quarter ending June 30, 2021. The Retirement Annuity Trust Fund's portfolio appreciated 5.61% and 29.94% for quarter and 12-month period respectively, in line with the Policy Index, which increased 5.87% and 28.65%. TRS's domestic equities increased 7.78%, underperforming the S&P 1500 that increased 8.14% for the quarter. TRS's international stocks returned 4.52% and trailed the MSCI All Country ex U.S. index, which returned of 5.64% for the quarter. Alternatives and additional categories made positive contributions in the quarter with private equity up 11.99% and additional categories returning 3.4%. TRS's fixed income returned 2.78%, outperforming the Bloomberg Barclays Gov/Credit Bond index that returned 2.42%. Real estate was up 2.51%.

**Recommendation:** The executive secretary recommends that the board accept and ratify the Report of the Investment Committee.

*Teachers' Retirement System of the State of Kentucky*  
*Retirement Annuity Trust*  
*Quarterly Investment Performance*  
*Gross Returns*  
*For the Period Ended June 30, 2021*

| FINAL   | Market Value         | Last Qtr | FYTD  | 1-Year | 3-Year* | 5-Year* | 10-Year* | 20-Year* |
|---|----------------------|----------|-------|--------|---------|---------|----------|----------|
| <b>TOTAL PLAN</b>   | \$ 25,728,805,148.02 | 5.61     | 29.94 | 29.94  | 13.34   | 13.23   | 10.32    | 7.53     |
| <i>Policy Benchmark</i>                                     |                      | 5.87     | 28.65 | 28.65  | 12.94   | 12.42   | 9.93     | -        |
| <b>Total Equity</b>   | \$ 16,165,741,254.80 | 6.66     | 44.65 | 44.65  | 16.90   | 17.32   | 12.84    | 8.08     |
| <b>Domestic Equity</b>                                      | \$ 10,738,569,040.82 | 7.78     | 47.70 | 47.70  | 18.81   | 18.45   | 14.79    | 9.01     |
| <i>S&amp;P 1500 Index</i>                                   |                      | 8.14     | 42.12 | 42.12  | 18.12   | 17.38   | 14.63    | 8.61     |
| <b>All-Cap Equities</b>                                     | \$ 556,689,904.73    | 7.33     | 51.58 | 51.58  | 21.26   | -       | -        | -        |
| <i>Russell 3000 Index</i>                                   |                      | 8.24     | 44.16 | 44.16  | 18.73   | -       | -        | -        |
| <b>Large-Cap Equities</b>                                   | \$ 8,743,869,052.77  | 8.52     | 46.78 | 46.78  | 19.43   | 18.78   | 14.95    | -        |
| <i>S&amp;P 500 Index</i>                                    |                      | 8.55     | 40.79 | 40.79  | 18.67   | 17.65   | 14.84    | -        |
| <b>Mid-Cap Equities</b>                                     | \$ 873,084,743.86    | 3.46     | 47.68 | 47.68  | 14.99   | 16.50   | 13.71    | -        |
| <i>S&amp;P 400 Index</i>                                    |                      | 3.64     | 53.24 | 53.24  | 13.17   | 14.29   | 12.40    | -        |
| <b>Small-Cap Equities</b>                                   | \$ 564,925,339.46    | 3.93     | 60.06 | 60.06  | 12.99   | 15.88   | 13.65    | -        |
| <i>S&amp;P 600 Index</i>                                    |                      | 4.51     | 67.40 | 67.40  | 12.20   | 15.82   | 13.49    | -        |
| <b>International Equity</b>                                 | \$ 5,427,172,213.98  | 4.52     | 38.86 | 38.86  | 13.38   | 15.24   | 8.22     | -        |
| <i>MSCI AC World Ex US</i>                                  |                      | 5.64     | 36.29 | 36.29  | 9.88    | 11.59   | 5.93     | -        |
| <b>Fixed Income</b>   | \$ 3,934,716,083.66  | 2.78     | -0.13 | -0.13  | 6.21    | 3.72    | 4.25     | 5.34     |
| <i>Bloomberg Barclays Govt/Credit Index</i>                 |                      | 2.42     | -0.39 | -0.39  | 5.95    | 3.31    | 3.71     | 4.73     |
| <b>Real Estate</b>  | \$ 1,405,889,580.45  | 2.51     | 6.74  | 6.74   | 6.67    | 8.34    | 8.65     | 9.02     |
| <b>In House Real Estate Equity</b>                          | \$ 402,420,071.66    | 1.39     | 3.89  | 3.89   | 4.87    | 7.70    | 7.89     | 8.33     |
| <i>CPI plus 2%</i>  |                      | 2.84     | 7.43  | 7.43   | 4.62    | 4.49    | 3.92     | 4.13     |
| <b>Core Real Estate</b>                                     | \$ 622,821,679.50    | 2.31     | 4.42  | 4.42   | 6.49    | 7.09    | 10.15    | -        |
| <i>NCREIF ODCE (VW) Index</i>                               |                      | 3.93     | 8.02  | 8.02   | 5.52    | 6.57    | 9.60     | -        |
| <b>Non-Core Real Estate</b>                                 | \$ 380,647,829.29    | 4.04     | 13.70 | 13.70  | 9.18    | 10.67   | 14.76    | -        |
| <i>NCREIF Property Index</i>                                |                      | 3.59     | 7.37  | 7.37   | 5.50    | 6.13    | 8.79     | -        |
| <b>Private Equity</b>                                       | \$ 1,549,761,484.65  | 11.99    | 38.66 | 38.66  | 15.87   | 15.98   | 13.28    | -        |
| <b>Mature Private Equity</b>                                | \$ 741,219,170.69    | 12.49    | 37.09 | 37.09  | 13.66   | 13.19   | -        | -        |
| <i>S&amp;P 500 Index plus 3%</i>                            |                      | 9.35     | 45.02 | 45.02  | 22.23   | 21.17   | -        | -        |
| <b>Private Equity &lt; 5 Years</b>                          | \$ 808,542,313.96    | 11.29    | 43.90 | 43.90  | 18.46   | 18.88   | -        | -        |
| <b>Timberland</b>   | \$ 208,371,752.67    | 0.78     | -5.57 | -5.57  | 0.53    | 0.37    | 2.74     | -        |
| <i>NCREIF Timberland Index</i>                              |                      | 1.70     | 3.10  | 3.10   | 2.12    | 2.65    | 4.66     | -        |
| <b>Additional Categories</b>                                | \$ 1,840,153,888.47  | 3.40     | 16.35 | 16.35  | 6.76    | 6.92    | 6.14     | -        |
| <i>B of A Merrill Lynch U.S. High Yield Master II Index</i> |                      | 2.77     | 15.62 | 15.62  | 7.15    | 7.30    | 6.50     | -        |
| <b>Cash (Unallocated)</b>                                   | \$ 624,171,103.32    | 0.01     | 0.03  | 0.03   | 1.19    | 1.11    | 0.62     | 1.48     |
| <i>90 Day T-Bill</i>  |                      | 0.00     | 0.09  | 0.09   | 1.34    | 1.16    | 0.61     | 1.31     |

**Total Trust Gross Return for 30-year period\* 8.59**

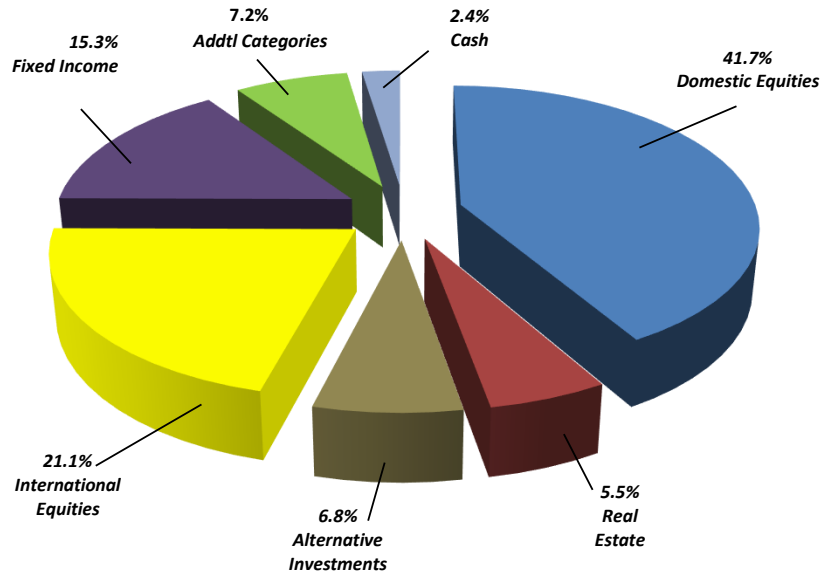
\*Returns are annualized for periods longer than one year

\*\* Prior to July 1, 2008, TRS did not benchmark overall fund performance. Effective July 1, 2008, the Board of Trustees approved a Policy Index that represents the returns of appropriate benchmarks for the various asset classes weighted by the mid-point of the strategic range for the current fiscal year.

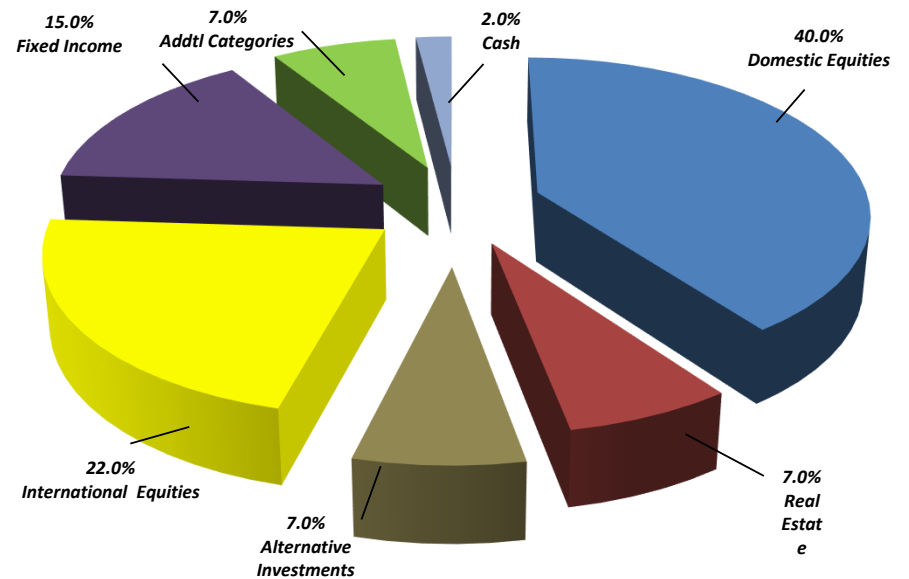
**Teachers' Retirement System of Kentucky**  
Quarterly Investment Update  
For the period ended June 30, 2021

| (\$ in millions)       | \$'s              | 6/30/2021<br>Actual % | 3/31/2021<br>Actual % | Target %      | Strategic<br>Ranges |
|------------------------|-------------------|-----------------------|-----------------------|---------------|---------------------|
| Domestic Equities      | \$10,738.6        | 41.7%                 | 40.7%                 | 40.0%         | 34.0 - 48.0%        |
| Real Estate            | 1,405.9           | 5.5%                  | 5.8%                  | 7.0%          | 4.0 - 10.0%         |
| Alternative Inv.       | 1,758.1           | 6.8%                  | 6.1%                  | 7.0%          | 4.0 - 10.0%         |
| International Equities | 5,427.2           | 21.1%                 | 21.2%                 | 22.0%         | 18.0 - 25.0%        |
| Fixed Income           | 3,934.7           | 15.3%                 | 15.8%                 | 15.0%         | 8.0 - 22.0%         |
| Addtl Categories       | 1,840.1           | 7.2%                  | 7.3%                  | 7.0%          | 4.0 - 15.0%         |
| Cash                   | 624.2             | 2.4%                  | 3.1%                  | 2.0%          | 1.0 - 5.0%          |
| <b>Total</b>           | <b>\$25,728.8</b> | <b>100.0%</b>         | <b>100.0%</b>         | <b>100.0%</b> |                     |

**ACTUAL %**



**TARGET %**



*Teachers' Retirement System of the State of Kentucky*  
*Health Insurance Trust*  
**Quarterly Investment Performance**  
**Gross Returns**  
**For the Period Ended June 30, 2021**

FINAL

|  | <u>Market Value</u> | <u>Last Qtr</u> | <u>FYTD</u> | <u>1-Year</u> | <u>3-Year*</u> | <u>5-Year*</u> | <u>10-Year*</u> | <u>20-Year*</u> |
|--|---------------------|-----------------|-------------|---------------|----------------|----------------|-----------------|-----------------|
| <b><u>TOTAL PLAN</u></b>                         | \$2,219,400,304.83  | 6.40            | 31.53       | 31.53         | 12.92          | 12.48          | -               |                 |
| <i>Policy Benchmark</i>                          |                     | 6.18            | 29.96       | 29.96         | 12.29          | 12.10          | -               |                 |
| <b><u>Total Equity</u></b>                       | \$1,275,845,514.39  | 7.89            | 44.40       | 44.40         | 16.03          |                |                 |                 |
| <b><u>Domestic Equity</u></b>                    | \$ 171,521,014.24   | 12.34           | 67.63       | 67.63         | 27.30          | -              | -               |                 |
| <i>S&amp;P 500 Index</i>                         |                     | 8.55            | 40.79       | 40.79         | 18.67          | -              | -               |                 |
| <i>Russell 3000</i>                              |                     | 8.24            | 44.16       | 44.16         | 18.73          |                |                 |                 |
| <b><u>Global Equities</u></b>                    | \$1,104,324,500.15  | 7.23            | 41.49       | 41.49         | 14.61          | 14.92          | 10.32           |                 |
| <i>MSCI AC World IMI (Net)</i>                   |                     | 7.18            | 40.94       | 40.94         | 14.24          | 14.55          | 9.90            |                 |
| <b><u>Fixed Income</u></b>                       | \$ 192,012,876.07   | 2.00            | -0.32       | -0.32         | 5.91           | 3.32           | 2.45            |                 |
| <i>Barclays Government Credit</i>                |                     | 2.42            | -0.39       | -0.39         | 5.95           | 3.31           | 3.71            |                 |
| <b><u>Real Estate:</u></b>                       | \$ 111,459,520.93   | 3.57            | 11.88       | 11.88         | 9.40           | 10.06          | -               |                 |
| <b><u>Core Real Estate</u></b>                   | \$ 55,419,069.96    | 2.57            | 6.76        | 6.76          | 7.71           | 7.61           | -               |                 |
| <i>NCREIF ODCE (VW)</i>                          |                     | 3.93            | 8.02        | 8.02          | 5.52           | 6.57           | -               |                 |
| <b><u>Non-Core Real Estate</u></b>               | \$ 56,040,450.97    | 4.55            | 16.37       | 16.37         | 10.86          | 11.68          | -               |                 |
| <i>NCREIF Property Index</i>                     |                     | 3.59            | 7.37        | 7.37          | 5.50           | 6.13           | -               |                 |
| <b><u>Private Equity</u></b>                     | \$ 170,660,049.68   | 14.24           | 42.60       | 42.60         | 16.22          | 17.85          | -               |                 |
| <b><u>Mature Private Equity</u></b>              | \$ 51,786,723.90    | 16.15           | 37.07       | 37.07         | 17.05          | 15.78          | -               |                 |
| <i>S&amp;P 500 plus 3%</i>                       |                     | 9.35            | 45.02       | 45.02         | 22.23          | 21.17          | -               |                 |
| <b><u>Private Equity &lt; 5 Years</u></b>        | \$ 118,873,325.78   | 13.14           | 48.85       | 48.85         | 17.26          | 18.73          | -               |                 |
|  |                     |                 | -           |               |                |                |                 |                 |
| <b><u>Additional Categories:</u></b>             | \$ 359,849,493.55   | 3.23            | 16.73       | 16.73         | 6.92           | 7.14           | 6.10            |                 |
| <i>B of A Merrill Lynch High Yield Master II</i> |                     | 2.77            | 15.62       | 15.62         | 7.15           | 7.30           | 6.50            |                 |
|  |                     |                 | -           |               |                |                |                 |                 |
| <b><u>Cash (Unallocated)</u></b>                 | \$ 109,572,850.21   | 0.01            | 0.04        | 0.04          | 1.28           | 1.15           | 0.64            |                 |
| <i>90 Day T-Bill</i>                             |                     | 0.00            | 0.09        | 0.09          | 1.34           | 1.16           | 0.61            |                 |

\*Returns are annualized for periods longer than one year

\*\* Prior to July 1, 2015, TRS did not benchmark overall fund performance. Effective July 1, 2015, the Board of Trustees approved a Policy Index that represents the returns of appropriate benchmarks for the various asset classes weighted by the mid point of the strategic range for the current fiscal year.

# Teachers' Retirement System of Kentucky

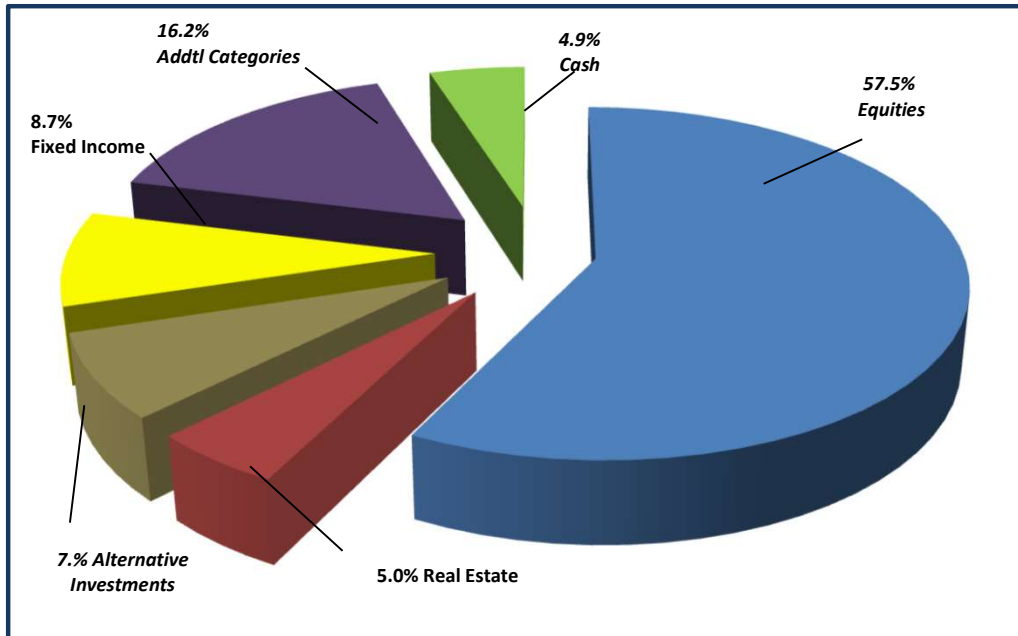
## Insurance Trust Fund

Quarterly Investment Update

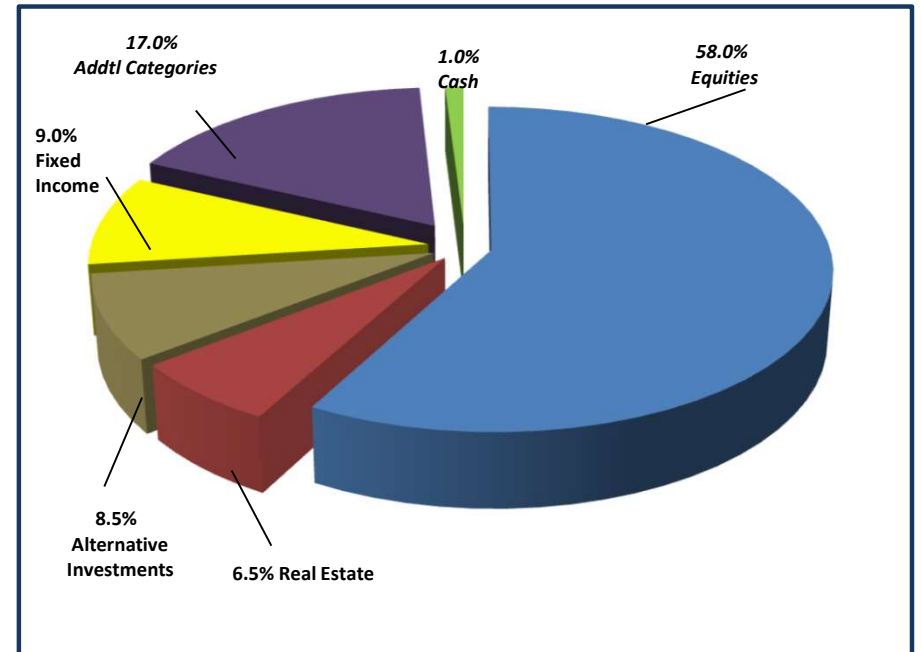
For the period ended June 30, 2021

| (\$ in thousands) | \$'s                        | 6/30/2021<br>Actual % | 3/31/2021<br>Actual % | Target %             | Strategic<br>Ranges |
|-------------------|-----------------------------|-----------------------|-----------------------|----------------------|---------------------|
| Equities          | \$1,275,845.5               | 57.5%                 | 57.8%                 | 58.0%                | 51.0 - 64.0%        |
| Real Estate       | \$111,459.5                 | 5.0%                  | 5.1%                  | 6.5%                 | 4.0 - 12.0%         |
| Alternative Inv.  | \$170,660.0                 | 7.7%                  | 7.1%                  | 8.5%                 | 5.0 - 12.0%         |
| Fixed Income      | \$192,012.9                 | 8.7%                  | 9.2%                  | 9.0%                 | 6.0 - 12.0%         |
| Addtl Categories  | \$359,849.5                 | 16.2%                 | 17.5%                 | 17.0%                | 14.0 - 21.0%        |
| Cash              | \$109,572.9                 | 4.9%                  | 3.3%                  | 1.0%                 | 0.0 - 4.0%          |
| <b>Total</b>      | <b><u>\$2,219,400.3</u></b> | <b><u>100.0%</u></b>  | <b><u>100.0%</u></b>  | <b><u>100.0%</u></b> |                     |

**ACTUAL %**



**TARGET %**



|                               |  |                      |
|-------------------------------|--|----------------------|
| TOTAL BV INVESTED AT 03/31/21 |  | \$ 17,452,259,644.20 |
|-------------------------------|--|----------------------|

April Activity

|                     |                      |                |
|---------------------|----------------------|----------------|
| Purchases           | 705,941,060.26       |                |
| Disposals           | (516,051,736.34)     |                |
| Paydowns            | (7,257,648.33)       |                |
| Redemptions         | (16,550,446.26)      |                |
| Short-Term Pool Net | <u>74,774,923.32</u> | 240,856,152.65 |

May Activity

|                     |                         |                 |
|---------------------|-------------------------|-----------------|
| Purchases           | 476,837,598.52          |                 |
| Disposals           | (345,704,992.25)        |                 |
| Paydowns            | (2,406,379.24)          |                 |
| Redemptions         | (11,270,196.97)         |                 |
| Short-Term Pool Net | <u>(134,178,071.92)</u> | (16,722,041.86) |

June Activity

|                     |                        |               |
|---------------------|------------------------|---------------|
| Purchases           | 455,823,425.22         |               |
| Disposals           | (341,284,847.17)       |               |
| Paydowns            | (2,967,306.24)         |               |
| Redemptions         | (22,418,258.90)        |               |
| Short-Term Pool Net | <u>(78,929,350.74)</u> | 10,223,662.17 |

|                               |  |                                    |
|-------------------------------|--|------------------------------------|
| TOTAL BV INVESTED AT 06/30/21 |  | <u><u>\$ 17,686,617,417.16</u></u> |
|-------------------------------|--|------------------------------------|

\* TRS recognizes investment transactions on the date they occur. Transaction settlements, generally, occur days following transactions. The interim period between transaction date and settlement date represents a "pending period". At the time this statement was produced, (\$18,406,428.58) in net transactions had occurred but had not settled. The statement does not include either expected cash receipts or disbursements associated with these pending trades. Upon settlement of these pending transactions, the net effect would be as follows:

|                   |                             |
|-------------------|-----------------------------|
| Total Short Term  | 1,065,621,158               |
| - Pending Payable | <u>18,406,429</u>           |
| Net               | <u><u>1,047,214,729</u></u> |

# INVESTMENT ACTIVITY

## April 1, 2021 -- June 30, 2021

**Total Book Value Invested @ 04/01/21** \$ 17,452,259,644.20

**Purchases:**

|       |                          |                   |                     |
|-------|--------------------------|-------------------|---------------------|
| 372   | Cash Equivalents         | \$ 723,809,885.40 |                     |
| 229   | Fixed Income Securities  | 336,788,201.10    |                     |
| 0     | Principal Paydowns       | -                 |                     |
| 0     | Redemptions / Maturities | -                 |                     |
| 989   | Equity Securities        | 746,088,116.04    |                     |
| 30    | Real Estate              | 58,718,759.27     |                     |
| 111   | Alternative Investments  | 219,677,852.51    |                     |
| 205   | Additional Categories    | 277,329,155.08    |                     |
| <hr/> |                          | <hr/>             |                     |
| 1936  | Total Purchases          |                   | \$ 2,362,411,969.40 |

**Disposals:**

|       |                                     |                   |                     |
|-------|-------------------------------------|-------------------|---------------------|
| 318   | Cash Equivalents                    | \$ 862,142,384.74 |                     |
| 63    | Fixed Income Securities             | 305,859,376.62    |                     |
| 311   | Principal Paydowns                  | 12,631,333.81     |                     |
| 22    | Redemptions / Maturities            | 35,166,501.75     |                     |
| 916   | Equity Securities                   | 506,047,701.36    |                     |
| 43    | Real Estate                         | 23,141,836.34     |                     |
| 173   | Alternative Investments             | 120,911,682.02    |                     |
| 203   | Additional Categories               | 247,080,979.42    |                     |
| 0     | Additional Principal Paydowns       | -                 |                     |
| 21    | Additional Redemptions / Maturities | 15,072,400.38     |                     |
| <hr/> |                                     | <hr/>             |                     |
| 2070  | Total Disposals                     |                   | \$ 2,128,054,196.44 |

**Total Book Value Invested @ 06/30/21** \$ 17,686,617,417.16

**Total Par Value Invested @ 06/30/21** \$ 17,683,119,478.77

**Total Market Value Invested @ 06/30/21** \$ 25,728,805,148.02

\* TRS recognizes investment transactions on the date they occur. Transaction settlements, generally, occur days following transactions. The interim period between transaction date and settlement date represents a "pending period". At the time this statement was produced, (\$18,406,428.58 in net transactions had occurred but had not settled. The statement does not include either expected cash receipts or disbursements associated with these pending trades. Upon settlement of these pending transactions, the net effect would be as follows:

|                   |                             |
|-------------------|-----------------------------|
| Total Short Term  | 1,065,621,158               |
| - Pending Payable | 18,406,429                  |
| Net               | <u><u>1,047,214,729</u></u> |



TO: Board of Trustees of the Teachers' Retirement System of the State of Kentucky

FROM: Gary L. Harbin, CPA  
Executive Secretary

DATE: September 20, 2021

RE: Report of the Insurance Committee

On September 20, 2021, prior to the quarterly board meeting, the Insurance Committee will meet. Thereafter, the committee will report to the board on the following matters:

1. KEHP rates for 2022. A health insurance benefit supplement is being recommended to the committee for the Kentucky Employees' Health Plan (KEHP) up to \$704.84 per month in 2022 for those retirees fulfilling the necessary service requirements. Also, a KEHP administrative fee of \$8.00 per person per month (PPPM) for plan year 2022 is being recommended to the committee. (The administrative fee may increase beginning in July 2022 with the new state budget. Staff will report to the committee any such increase.)
2. MEHP rate for 2022. A rate is being recommended to the committee of up to \$211 per month for the 2022 TRS Medicare Eligible Health Plan (MEHP), which includes a combined UnitedHealthcare Medicare Advantage plan and Express Scripts Medicare Part D drug plan, for those retirees fulfilling the necessary service requirements.
3. Drug formulary for 2022. Staff is recommending the Insurance Committee approve the ESI Medicare High Performance Formulary for the MEHP effective January 1, 2022.

Any actions by the Insurance Committee will be reported to the board with a request for those actions to be accepted and ratified.

TO: Board of Trustees of the Teachers' Retirement System of the State of Kentucky

FROM: Gary L. Harbin, CPA  
Executive Secretary

DATE: September 20, 2021

RE: Report of the Governance and Audit Committee

The Governance and Audit Committee will have a special meeting on September 20, 2021, prior to the quarterly board meeting.

Any actions by the Governance and Audit Committee will be reported to the board with a request for those actions to be accepted and ratified.



**Cavanaugh Macdonald**  
CONSULTING, LLC

*The experience and dedication you deserve*

# Teachers' Retirement System of the State of Kentucky Experience Investigation for the Five-Year Period Ending June 30, 2020

**Ed Koebel, Chief Executive Officer**  
**Alisa Bennett, President**

**September 20, 2021**





# Pension Recap

## ➤ HB258 – March 2021

- Introduced new tier of benefits for members hired on or after January 1, 2022
- Estimated Projected Savings for next 30 years in Employer Contributions over all plans = \$3.6B

## ➤ Experience Investigation – June 2021

- Reviewed all actuarial assumptions and methods used in the valuation and projection analysis

## ➤ Asset Experience – August 2021

- 29.94% resulting in \$6 billion for the retirement annuity
- Will be phased-in over next 5 valuations using smoothing method

## ➤ Board Meeting – September 2021

- Implementation of actuarial determinations

# Experience Investigation Determinations Pension



## ➤ Significant Changes

- Lower the investment return assumption for all plans to 7.10%
- Lower the payroll growth assumption used in the level percentage of payroll amortization methodology from 3.50% to 2.75%
- Generational Mortality and update to new Public Sector Mortality Tables
- In addition to experience study determinations, TRS achieved record investment gains in FYE 21 that exceed impact of actuarial determinations

# Experience Investigation Determinations Pension

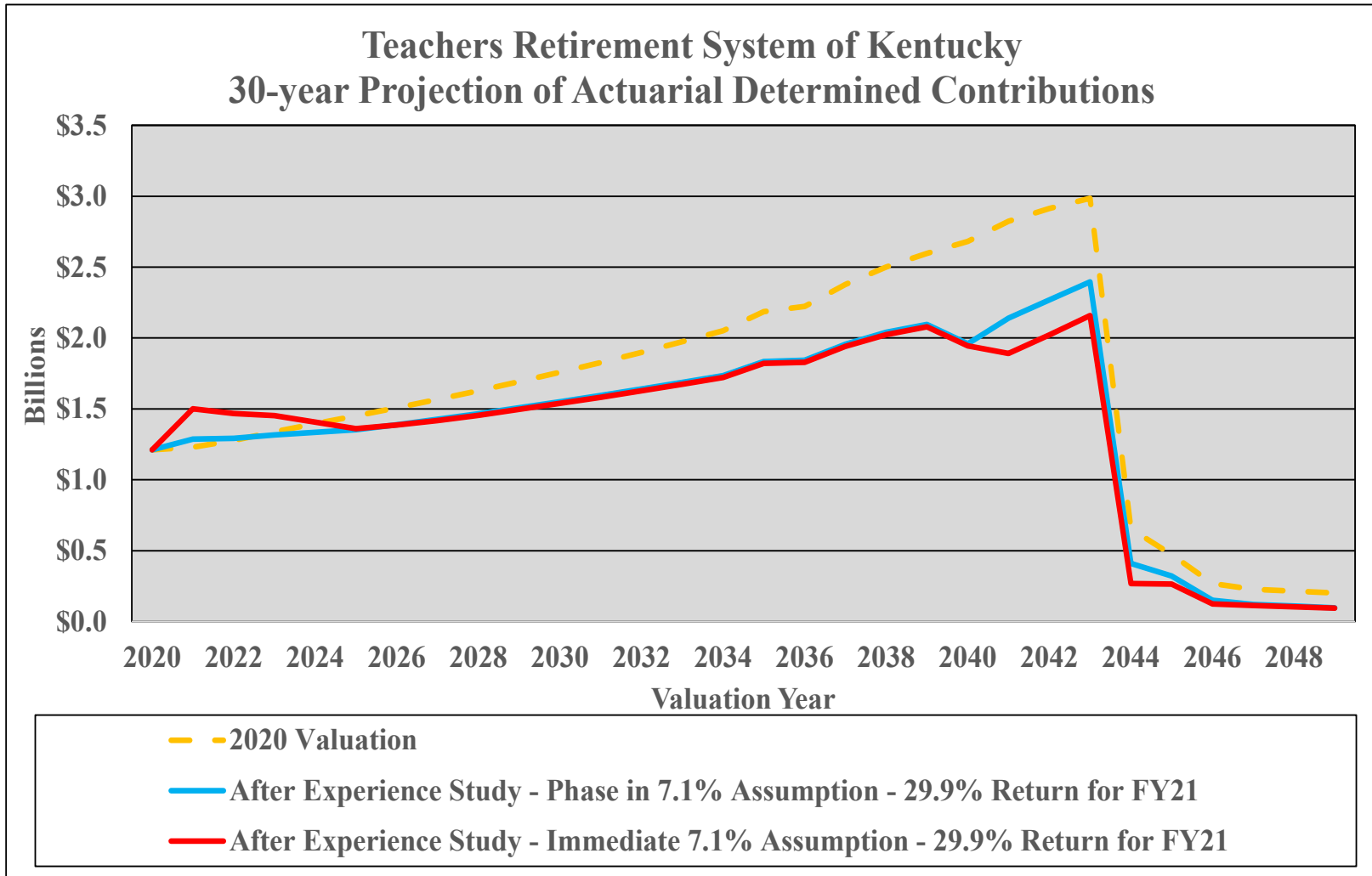


## ➤ Implementation Options

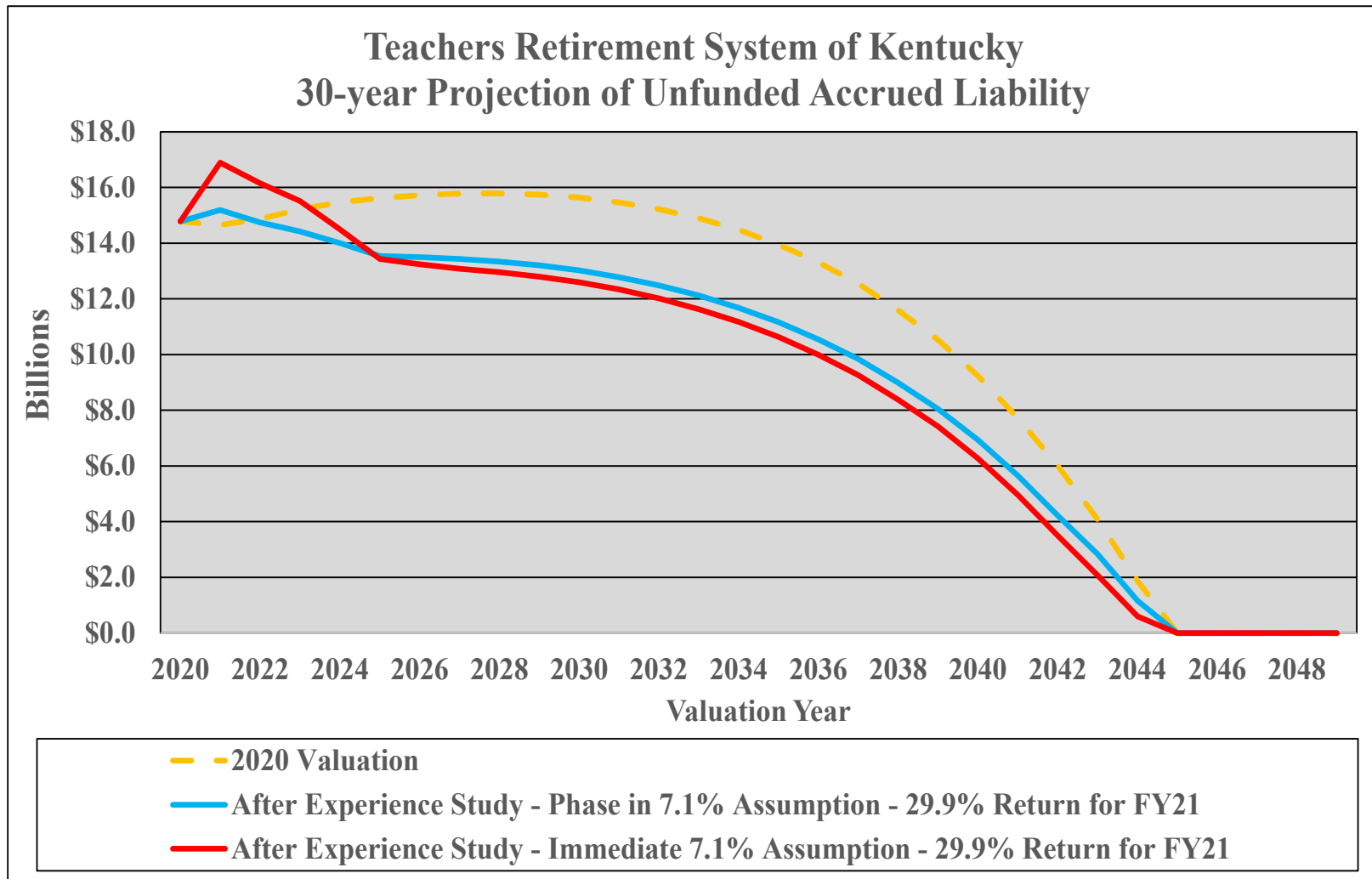
*Under all scenarios, full funding is reached at the same date*

- Implement all changes immediately for 2021 valuation
- Implement all changes immediately and phase-in contributions over five years to match the current five-year smoothing of investment gains
- Implement mortality changes immediately while phasing in other changes over the next five years

# TRS Projections Pension Financial Impact – Next 30 years



# TRS Projections Pension Financial Impact – Next 30 years





# Recommendations to Board



## ➤ Retirement Annuity Trust

Implement all changes immediately and phase-in contributions over five years to match the current five-year smoothing of investment gains



# Health Trust Recap

## ➤ HB258 – March 2021

- Introduced new tier of benefits for members hired on or after January 1, 2022
- Estimated Projected Savings for next 30 years in Employer Contributions in OPEB Health Trust = \$0.95B

## ➤ Experience Investigation – June 2021

- Reviewed all actuarial assumptions and methods used in the valuation and projection analysis

## ➤ Asset Experience – August 2021

- 31.53% resulting in \$500 million for health insurance
- Will be phased-in over next 5 valuations using smoothing method

## ➤ Board Meeting – September 2021

- Implementation of actuarial determinations

# Experience Investigation Determinations

## Health Trust



### ➤ Significant Changes

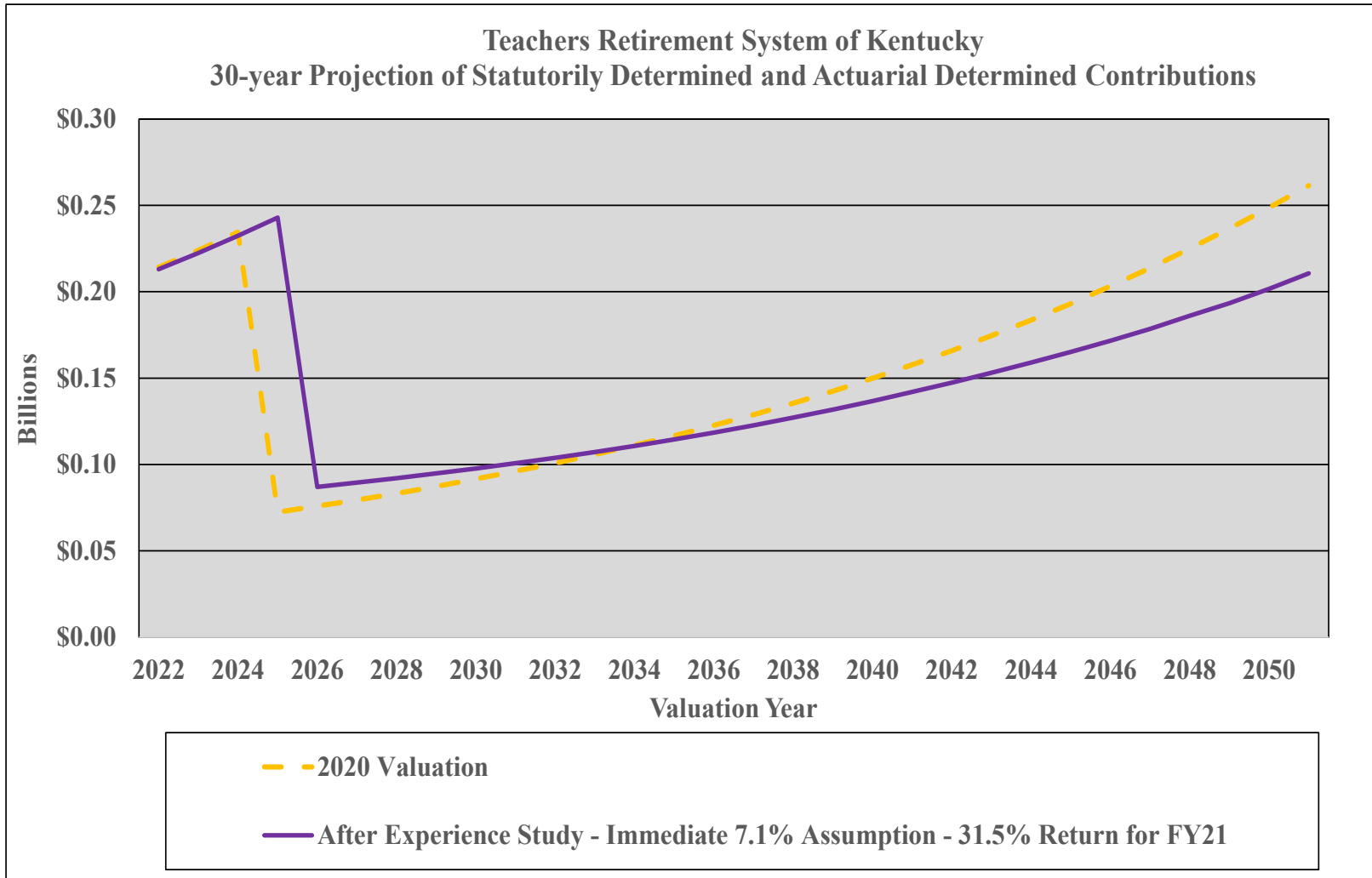
- Lower the investment return assumption for all plans to 7.10%
- Lower the inflation assumption, which leads to lower ultimate healthcare trend assumption
- In addition to experience study determinations, TRS achieved record investment gains in FYE 21 that exceed impact of actuarial determinations

### ➤ Implementation Options

- Implement all changes immediately for 2021 valuation
- Implement all changes immediately and phase-in contributions over five years to match the current five-year smoothing of investment gains
- Implement mortality changes immediately while phasing in other changes over the next five years

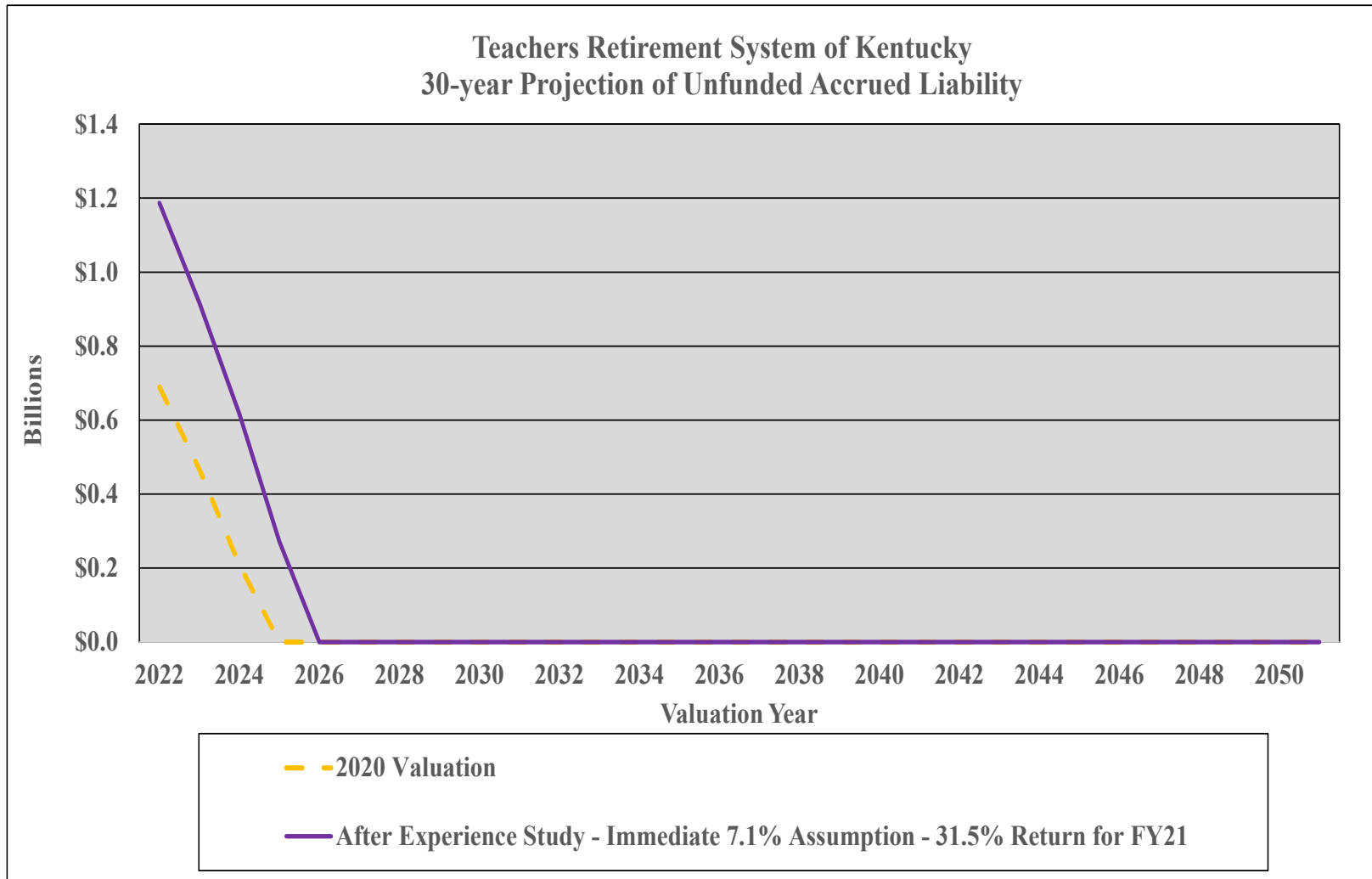
# TRS Projections Health Trust

## Financial Impact – Next 30 years



# TRS Projections Health Trust

## Financial Impact – Next 30 years



# Recommendations to Board



- Retiree Health Insurance Trust
  - Adopt all changes immediately

TO: Board of Trustees of the Teachers' Retirement System of the State of Kentucky

FROM: Gary L. Harbin, CPA  
Executive Secretary

DATE: September 20, 2021

RE: Report of the Legislative Committee

The Legislative Committee will have a special meeting on September 20, 2021, prior to the quarterly board meeting. The committee will present a report to the board during the quarterly meeting.

TO: Board of Trustees of the Teachers' Retirement System of the State of Kentucky

FROM: Gary L. Harbin, CPA  
Executive Secretary

DATE: September 20, 2021

SUBJECT: Executive Secretary's Observations and Comments

1. Trustee Education Program: The TRS Board of Trustees always has been devoted to gaining timely and relevant training on matters related to the proper administration of the retirement system. The board expressed its dedication to continuing education on November 17, 2008, when it adopted the Teachers' Retirement System Trustee Education Program in accordance with KRS 161.250(3)(c). The policy is contained in Appendix 9 of the Board Governance Manual. Chapter 3, subparagraph 6 of the policy provides that the executive secretary will report concerning this program each year at the September board meeting.

From July 2020 through June 2021, trustees attended 267.5 hours of combined approved training in accordance with the program. The approved training activities included a mix of programs and activities presented by national retirement associations, TRS staff and TRS service providers with expertise in investments, law and actuarial concepts. Topics covered a broad range of subjects, including pension and medical benefits administration, investment concepts, legal compliance, fiduciary duty and other matters that enhance the effectiveness of trustees in fulfilling their roles and satisfying their duties under law.

TRS staff also assisted with providing specific training to trustees. TRS staff presented a one-day workshop that focused primarily on investment concepts, ethics and governance matters.

2. Annual Trustee Workshop: TRS staff is planning a one-day trustee workshop that will focus on current issues in the administration of the retirement system. Staff anticipates presentations on funding, plan design, actuarial issues, investment concepts, ethics, governance and other matters. The trustee workshop is tentatively scheduled for Monday, November 22, 2021.

3. GASB Statement Nos. 67 and 68: In June 2012, the Governmental Accounting Standards Board (GASB) approved two statements concerning the accounting and financial reporting of pensions by state and local governments and pension plans. Statement No. 67, *Financial Reporting for Pension Plans*, addresses financial reporting for state and local government pension plans. Statement No. 68, *Accounting and Financial Reporting for Pensions*, establishes new accounting and financial reporting requirements for governments that provide their employees with pensions. While the two statements were being developed, TRS took an active role in communicating issues and concerns to GASB through a consortium of similarly situated public pension plans.

Statement No. 67 took effect for the fiscal year ending June 30, 2014. Statement No. 68 took effect for the state and universities for the fiscal year ending June 30, 2015.



Because of some concern expressed previously as to how these accounting standards apply to Kentucky school districts, particularly whether these new accounting standards would affect the budgets of the districts, two important points should be noted.

First, as a critical reminder, GASB standards generally apply only to financial reporting. They do not mandate how a governmental pension plan is to be funded. In Kentucky, the commonwealth has a statutory obligation to provide pension funding through the employer retirement contributions it makes on behalf of teachers and administrators and, for members prior to January 1, 2022, payments toward the unfunded liability. As such, the responsibility for making employer contributions and addressing the pre-2022 unfunded liability of TRS rests with the commonwealth, not the local school districts. The new GASB accounting standards do not change the funding responsibility. GASB accounting standards do not require school districts to make employer contributions to TRS.

Second, while these GASB accounting standards impose financial reporting standards on governmental employers regarding pension liability, Kentucky is very different from other states in that Kentucky teachers and administrators generally are treated as employees of the commonwealth for pension and other purposes. Given this circumstance, GASB has confirmed that the commonwealth is responsible for reporting the annual required contributions and pension liabilities. Furthermore, GASB also has confirmed that Kentucky schools are not required to report a share of the pension liability in district financial statements.

TRS GASB 67 and 68 Reports: TRS published the accounting information required under Statement No. 67 in TRS's annual financial report for the fiscal years ending June 30, 2020 and 2019.

On July 30, 2021, TRS published the "GASB Statement No. 68 Report ... Prepared as of and for the year ended June 30, 2020" for use by the state and other TRS employers. TRS's report was audited by the external auditor, which expressed the opinion that the schedules present fairly, in all material respects, the employer allocation and other matters addressed.

GASB Statement Nos. 74 and 75: In June 2015, GASB approved two statements concerning the accounting and financial reporting of other postemployment benefits (OPEB) by state and local governments and benefit plans. Statement No. 74, *Financial Reporting for Postemployment Benefits Other Than Pension Plans*, addresses financial reporting for OPEB plans. Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes new accounting and financial reporting requirements for governments that provide their employees with OPEB.

TRS GASB 74 and 75 Reports: TRS published the accounting information required under Statement No. 74 in TRS's annual financial report for the fiscal years ending June 30, 2020 and 2019.

On July 6, 2021, TRS published the "GASB Statement No. 75 Report ... Prepared as of and for the fiscal year ended June 30, 2020" for use by the state and other TRS employers. TRS's report was audited by the external auditor, which expressed the opinion that the schedules present

fairly, in all material respects, the employer allocation and other matters addressed.

The GASB Statement Nos. 68 and 75 reports and the external audit reports are available for review by the board.

4. Executive Secretary's Meetings: The executive secretary has had meetings with several groups recently and will report to the board concerning the following:

|                    |  |
|--------------------|--|
| June 28-29, 2021   | Attended NCTR System Directors Meeting                       |
| July 8, 2021       | Meeting with Kentucky Public Pensions Authority (KPPA) staff |
| July 9, 2021       | Meeting with KPPA staff                                      |
| July 13, 2021      | Meeting with legal advisors                                  |
| July 15, 2021      | Attended Asset Allocation webinar                            |
| July 16, 2021      | Meeting with public relations consultant                     |
| July 19, 2021      | Meeting with actuary   |
| July 20, 2021      | Attended Interim Joint Committee on State Government meeting |
| August 5, 2021     | Meeting with Bellwether Enterprise                           |
| August 5, 2021     | Meeting with public relations consultant                     |
| August 10, 2021    | Meeting with Todd Asset Management                           |
| August 18, 2021    | Attended KEA-R board meeting                                 |
| August 23, 2021    | Meeting with actuary   |
| August 24, 2021    | Meeting with public relations consultant                     |
| August 27, 2021    | Attended KRTA workshop                                       |
| September 3, 2021  | Meeting with actuary   |
| September 16, 2021 | Attended Know Your Rx Coalition Board Meeting                |

5. Next Meeting: The next quarterly meeting of the board will be December 20, 2021.