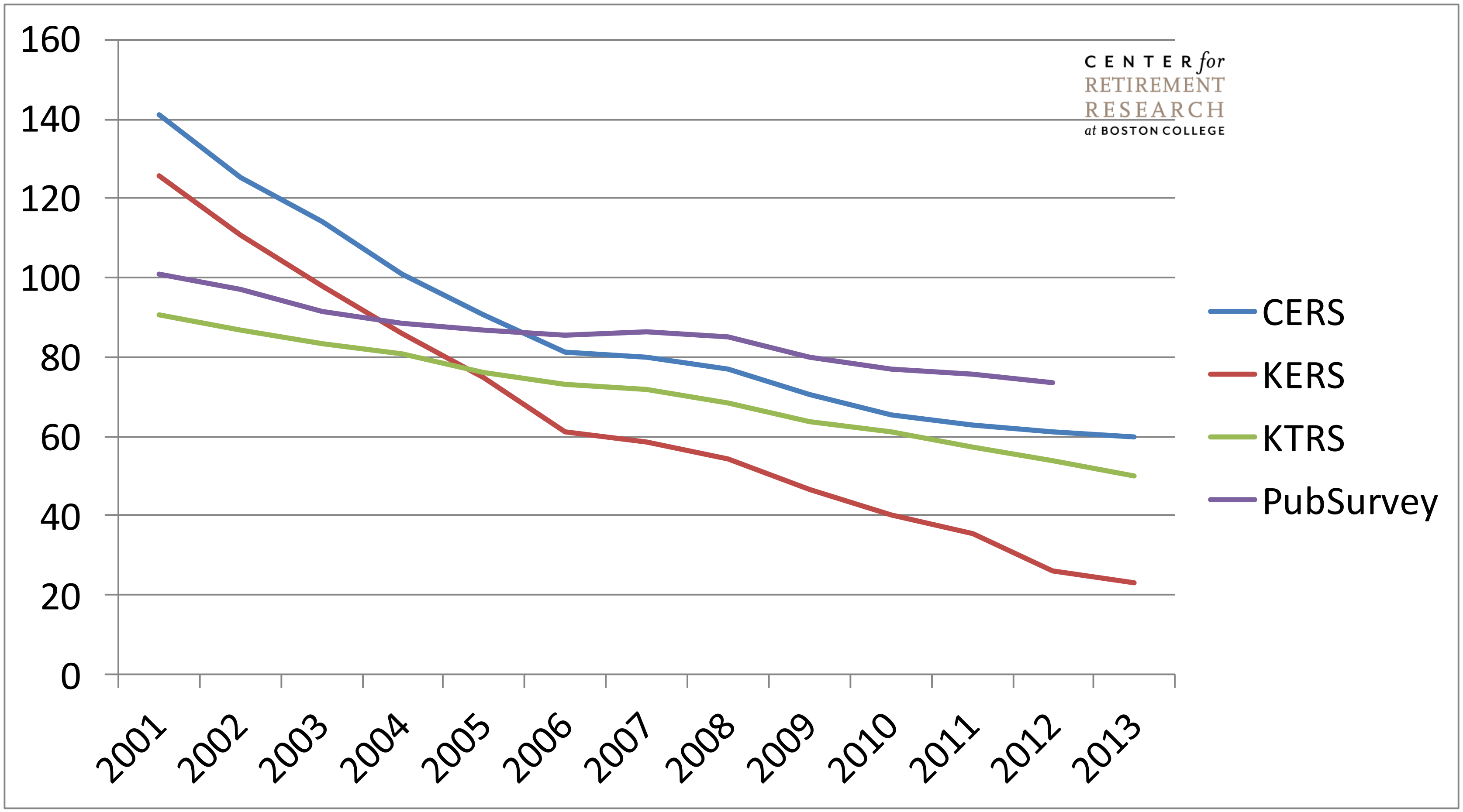
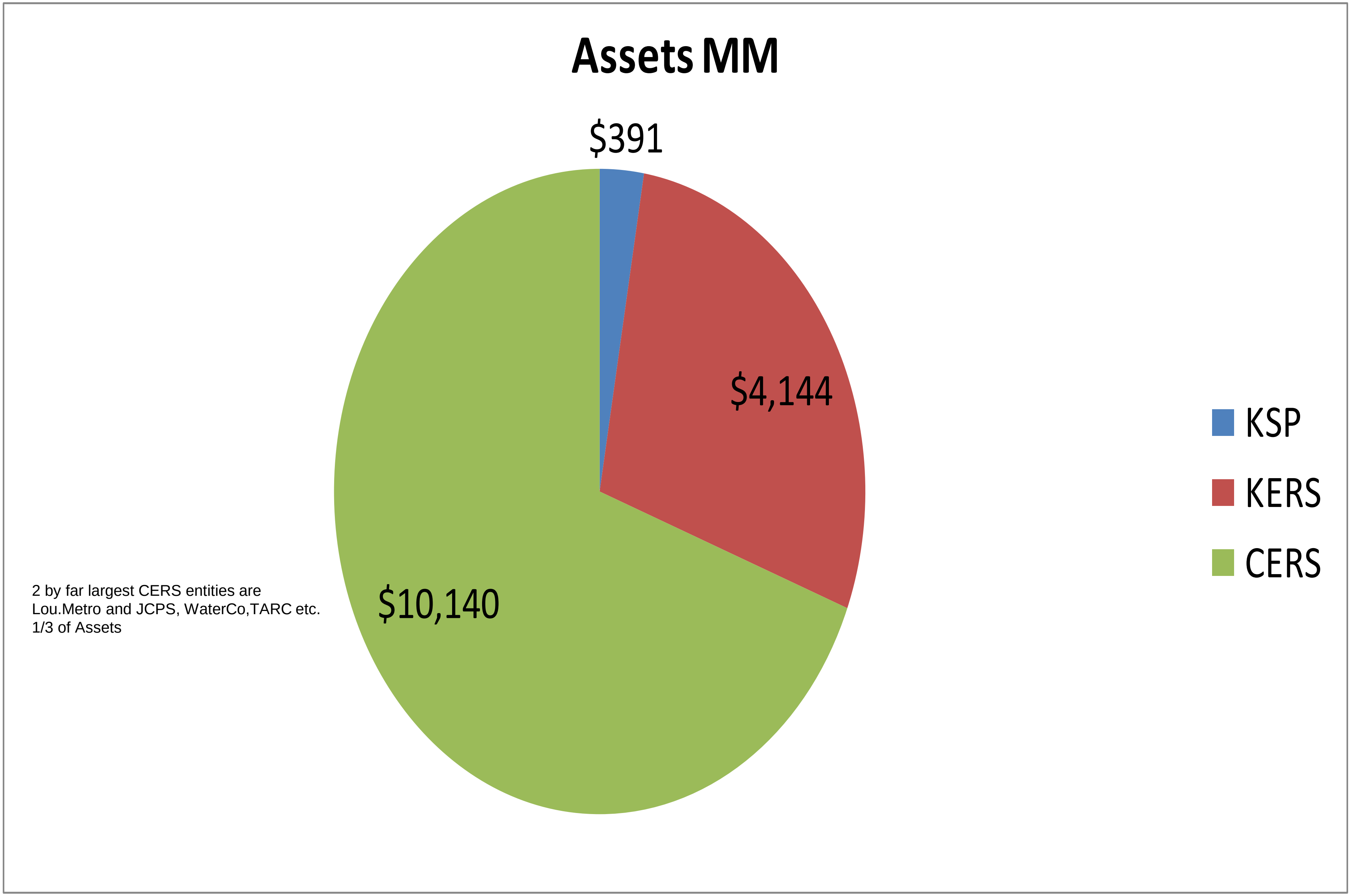
CERS Independence

Metro Council On Pensions

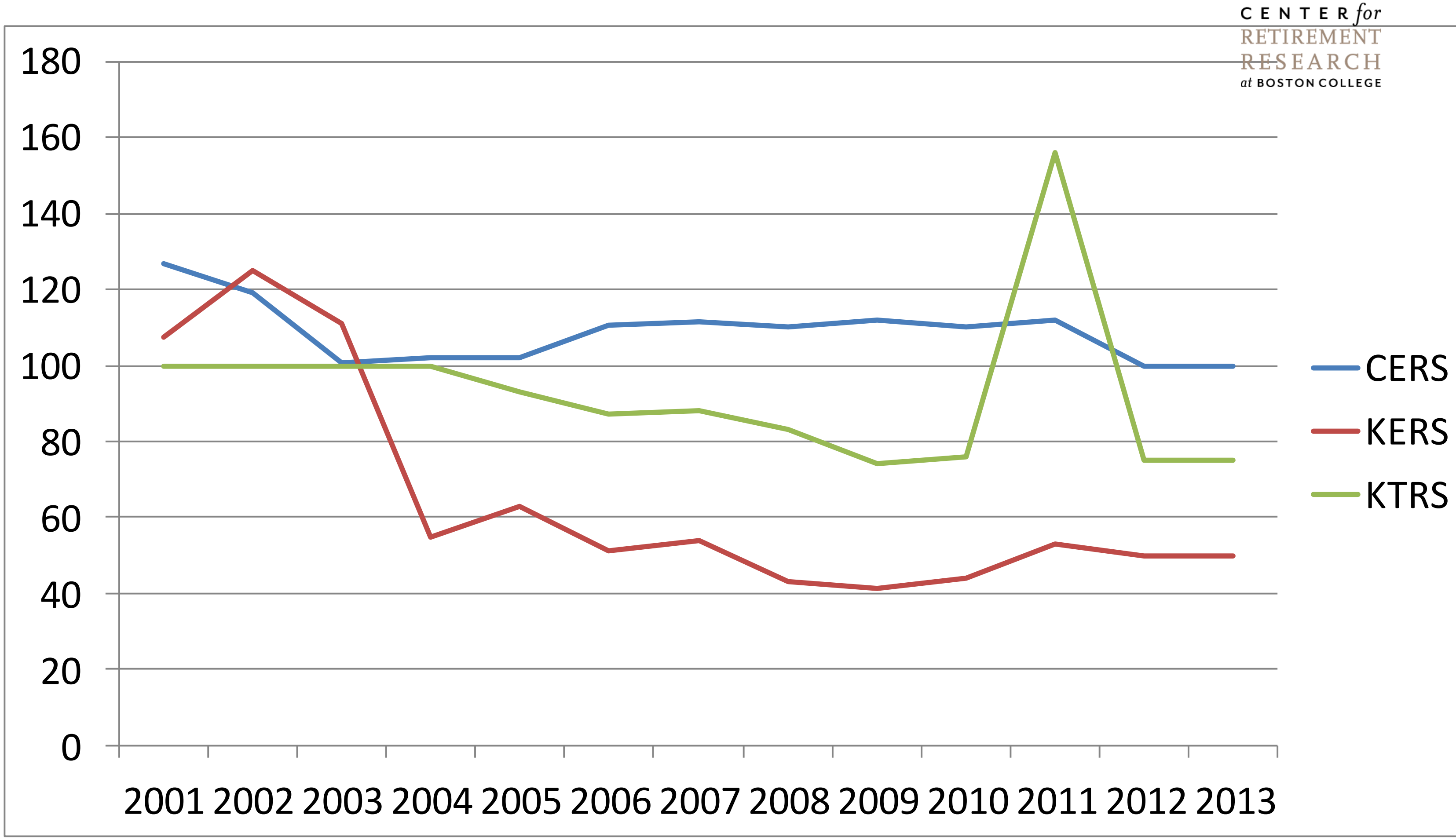
- Metro Council President Jim King stated that *"Any solution for solving the pension crisis should include separating or otherwise protecting the participants of CERS from the dangerously underfunded KERS."*
- Jerry Miller Resolution – proposes a bold solution to protect CERS from KERS by pulling it into an independent entity

Funding Ratios




Assets MM
$391
$4,144
$10,140
KSP
KERS
CERS
2 by far largest CERS entities are
Lou.Metro and JCPS, WaterCo,TARC etc.
1/3 of Assets

ARC Contribution



KRS Commingling

- KRS is an umbrella agency that comingles 10 different plans
- KERS the worst funded at 23%, and the best funded CERS at 60% have very different objectives in governance and investments.
- As a trustee of KRS I felt that this comingling made it impossible to do my fiduciary duty around investment issues and I commissioned an outside counsel report.
  - http://blogs-images.forbes.com/edwardsiedle/files/2012/03/KRS-PDF.pdf
- I became very concerned with currency losses being moved from KERS onto CERS, and for CERS bearing a disproportionate share of administrative costs.
- What is worse is that KRS commingles the investments of CERS and KERS. CERS basically subsidizes the liquidity needs of KERS. This really costs CERS in a big up market like Fiscal 2013.

KACO

- Kentucky Association of Counties (KACO) came out strongly on this issue in mid 2012.
  - *Some of Kentucky's counties and municipalities, which by law have been obliged to be more fiscally responsible than the state, want out of the state system..* The Kentucky Association of Counties, or KACO, already has been advocating for Kentucky's County Employee Retirement System secession.
- LaRue County Judge Executive Tommy Turner, KACO chairman, provided this testimony to the General Assembly in August 2012.
  - *Separate CERS as a stand-alone governing board.*
  - *County governments have been consistent in paying 100 percent of the contribution amount required of us.*
  - *We ask that you review the possibility of allowing CERS to be governed by their own board.*
  - *CERS can reach the 80 percent funding threshold at a much faster rate than KERS.*
  - *The viability of CERS is not in jeopardy with it currently having a funding level of around 63 percent and it will not encounter a cash flow problem.*
    - *In fact, under the provisions instituted in HB 1, the contribution rates for CERS will begin to fall in the future for participating agencies.*
    - *Allowing CERS to having its own governing board would ensure CERS members benefit from the 100 percent participation payments that have been contributed.*
- *Under its current makeup, the Kentucky Retirement System must operate with decisions based on … the most poorly funded program in the system, which is Kentucky Employees Retirement. Comparatively, the other plans in the system are relatively well funded. With a separate board, CERS would be in a better position to adjust investment options and maintain less liquidity than the current system must keep on hand to pay out benefits.*

SB2

- Put out the fire with Cities and Counties by actually lowering their payments for 2014
- However this was done by kicking the can
  - 1. amortization of underfunding of the CERS pension from 25 to 30 years.
  - 2. Increases funded ratio of retiree health plans CERS (so they can fund them less in this years budget) by raising investment assumptions from 4.5% to 7.75% and amortization from 25 to 30 years

Comingling Investments Losses

- 7.75% assumed return for the blended CERS and KERS return.
- Given negative cash flows of KERS and liquidity needs CERS should be outperforming significantly if they were commingled in any years with positive markets

If CERS was as solvent as Detroit

- Most pensions making full ARC payments are 75% to 85% funded, while CERS is 60% funded.   For example Detroit Police and Fire is 100% funded, and regular workers 77% funded for a blend rate at 85%.
- So if you assume CERS is behind 15-25% of their $12.6 billion liability that is between $1.9 billion and $3.1 billion lost to drag from KERS.
- Since this $2-3 billion in the ARC is funded over 30 years that is $63 -$103 million a year for CERS total. This cost Louisville entities over $20 mm a year in additional ARC payments, Lou. Metro around $10 million a year

Lou Metro Firefighters

- Metro Government, by way of Metro Council, sent Kentucky Retirement Systems a $10 million check to go into CERS without consulting an actuary.
- Only $5 million net made its way to CERS
- I share the opinion of the "Ville Voice", the leading Louisville Political blog that*, "Because it's entirely possible that the KRS is anticipating that $10-$11 million windfall from Metro Government in CERS (County Employee Retirement System)… and that's why $5 million was shifted to shore up KERS by the distribution of currency losses."*
- I also share this other opinion, *"Most everyone we speak with in Frankfort believes operating costs and other expenses are being unfairly put on the back of CERS. "*

Admin Costs would be lower

- KRS spends $25 million a year on administration with its 250 non-merit employees.
- KTRS (Teachers) is of similar size but only spends $8.9 mm on admin fees with around 120 employees.
- CERS non-haz for typical County and City workers gets 33% of the benefits paid out by KRS, but picks up 67% of the administrative costs.
- NCPERS a public Pension Trade group highlighted how that with a staff of just eight employees The Arkansas Local Police and Fire Retirement System administer benefits for 18,000 active and retirement plan participants and 500 participating employer groups

Cut the Line

Investment Underperformance

- KRS underperforms the average Public Pension Plan by $534 million for Calendar 2013
- CERS underperformance given 71% of Assets translates into an underperformance of $380 million
- KTRS system has performance close to national average so CERS if managed by the Teachers would have saved similar amount.

BIO

- Chris Tobe, CFA,CAIA has 25 years of institutional investment experience with a focus on Public Pension plans. From 2008-2012 he served as a Trustee and on the Investment Committee for the $13 billion Kentucky Retirement Systems, but his involvement goes back to 1997 when he worked with Kentucky State Auditor Ed Hatchett and published a 40 page report on the investments of both the Kentucky Retirement Systems and the Kentucky Teachers Retirements Systems. In his consulting practice he has worked with major public plans in Texas, Maryland, Oklahoma, Missouri, Michigan and the District of Columbia. As a public pension trustee he completed the Program for Advanced Trustee Studies at Harvard Law School and Fiduciary College held at the Rock Center at Stanford University. He has published articles on public pension investing in the Financial Analysts Journal, Journal of Investment Consulting, Journal of Performance Measurement, Plan Sponsor Magazine. He first wrote on the Kentucky Pension Funding problem in 2004 entitled *"Why Kentucky Needs a Strong Treasurer"* for the Kentucky Gazette He currently writes a column for the Wall Street Journal Marketwatch Retirement site, and has been quoted in numerous publications including Forbes, Bloomberg, Reuters, Pensions & Investments and the Wall Street Journal print edition. He holds a MBA in Finance and Accounting from Indiana U. Bloomington and a BA in Economics from Tulane University. He has taught the MBA Investment Class at the University of Louisville.