

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board

FROM: William A. Thielen
Executive Director

DATE: April 16, 2015

SUBJECT: Service Recognition Awards

In 1988, the Board elected to annually recognize members of the staff for their service to the Board and the members of the Kentucky Retirement Systems. Certificates and pins are given for each five-year period an employee has been on the retirement systems' staff.

The following **11** employees will receive their five-year service award:

| | |
|----------------------|--|
| Natalie Young | Accounting |
| Blaine Walker | Employer Reporting Compliance & Education |
| Jimmy Shaw Jr | Enterprise Strategies & Information Security |
| Rhiannon Lotton | Information Technology |
| Kendall Parmley | Information Technology |
| Luis A Oms Jr | Information Technology |
| Joseph Bowman | Legal |
| Deborah Crocker | Legal |
| Bradford Lofton | Member Services |
| Kappu Karpagam | Procurement & Office Services |
| Joseph C Gilbert III | Procurement & Office Services |

The following **7** employees will receive their ten-year service award:

| | |
|------------------|-------------------------------|
| Edmond Willayi | Information Technology |
| Cliff Akers | Information Technology |
| Gregory Nix | Member Services |
| John Franklin | Membership Support |
| Odette Gwandi | Membership Support |
| Darin Deaton | Procurement & Office Services |
| Margaret Griffin | Retiree Health Care |

The following **18** employees will receive their fifteen-year service award:

| | |
|----------------------|---|
| Wendi Pierce | Disability & Death |
| Shannon Cole | Disability & Death |
| Chrystal McChesney | Disability & Death |
| Heather Darnell | Disability & Death |
| Dan Childers | Disability & Death |
| Angela Hawkins | Employer Reporting Compliance & Education |
| Suzanne Elphingstone | Employer Reporting Compliance & Education |
| Kimberly Leet | Human Resources |
| Jennifer Jones | Legal |
| Kristi Hammons | Member Services |
| Francis Gwandi | Member Services |
| Wade Scalf | Member Services |
| Christy Franklin | Member Services |
| John King Jr | Member Services |
| Chris Land | Member Services |
| Paul Singleton | Membership Support |
| Brian Sharp | Membership Support |
| Jeff Wyatt | Retiree Health Care |

The following **9** employees will receive their twenty-year service award:

| | |
|--------------------|---|
| Liz Smith | Accounting |
| Vicki Hockensmith | Disability & Death |
| Angela Marshall | Employer Reporting Compliance & Education |
| Gina Franklin | Employer Reporting Compliance & Education |
| Terry Ethington | Information Technology |
| Sarah Schooler | Member Services |
| Shauna Miller | Member Services |
| Walter Weitzel III | Membership Support |
| Donna Casey | Procurement & Office Services |

The following **3** employees will receive their twenty-five-year service award:

| | |
|----------------|---|
| Rebecca Mooney | Accounting |
| Terri Price | Disability & Death |
| Sarah Webb | Employer Reporting Compliance & Education |

The following employee will receive her thirty-year service award:

| | |
|--------------|------------|
| Laura Miller | Accounting |
|--------------|------------|



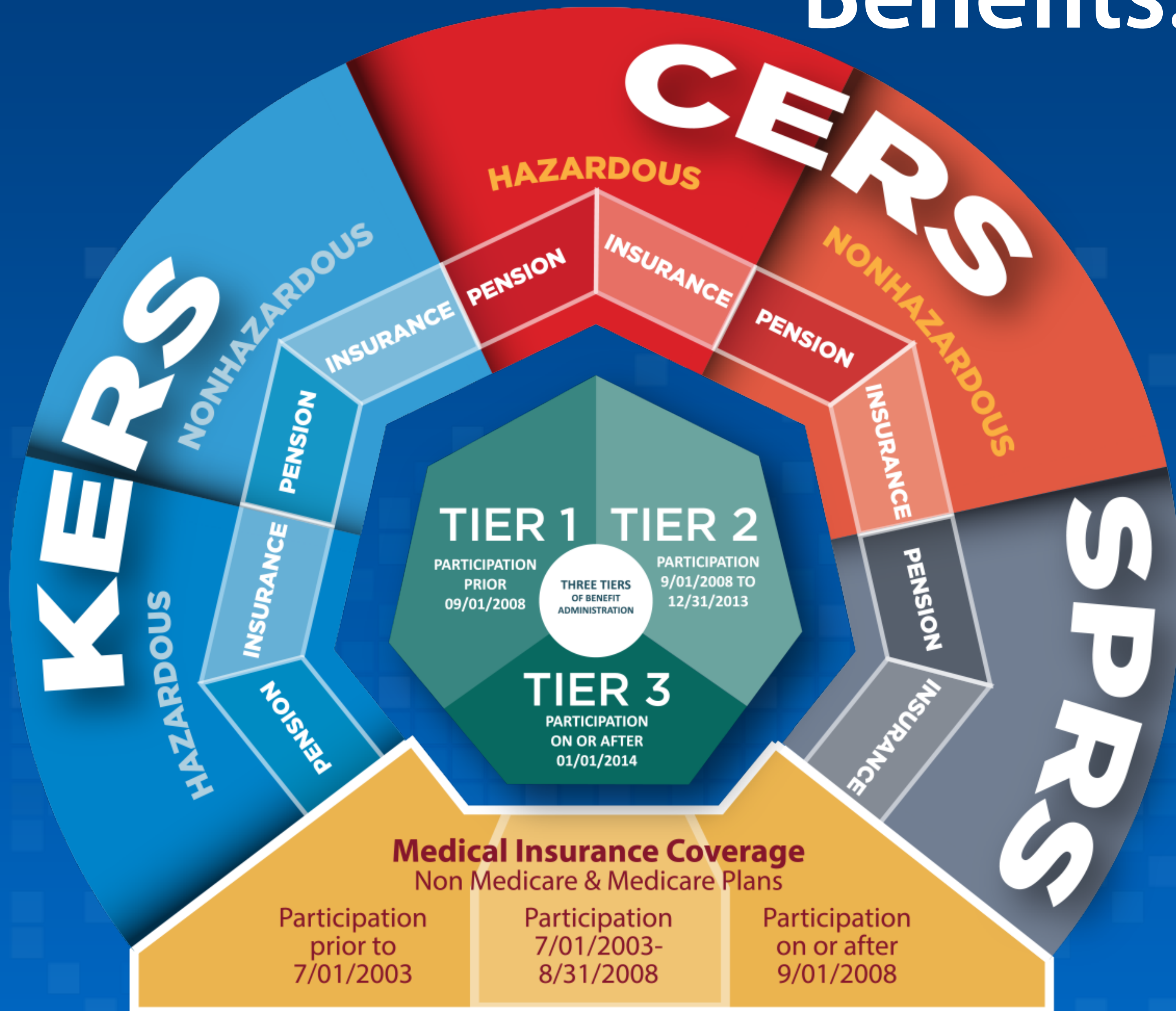
Kentucky Retirement Systems

BUILDING
a better **FUTURE**
for Kentuckians

Annual Progress Report
2014-15



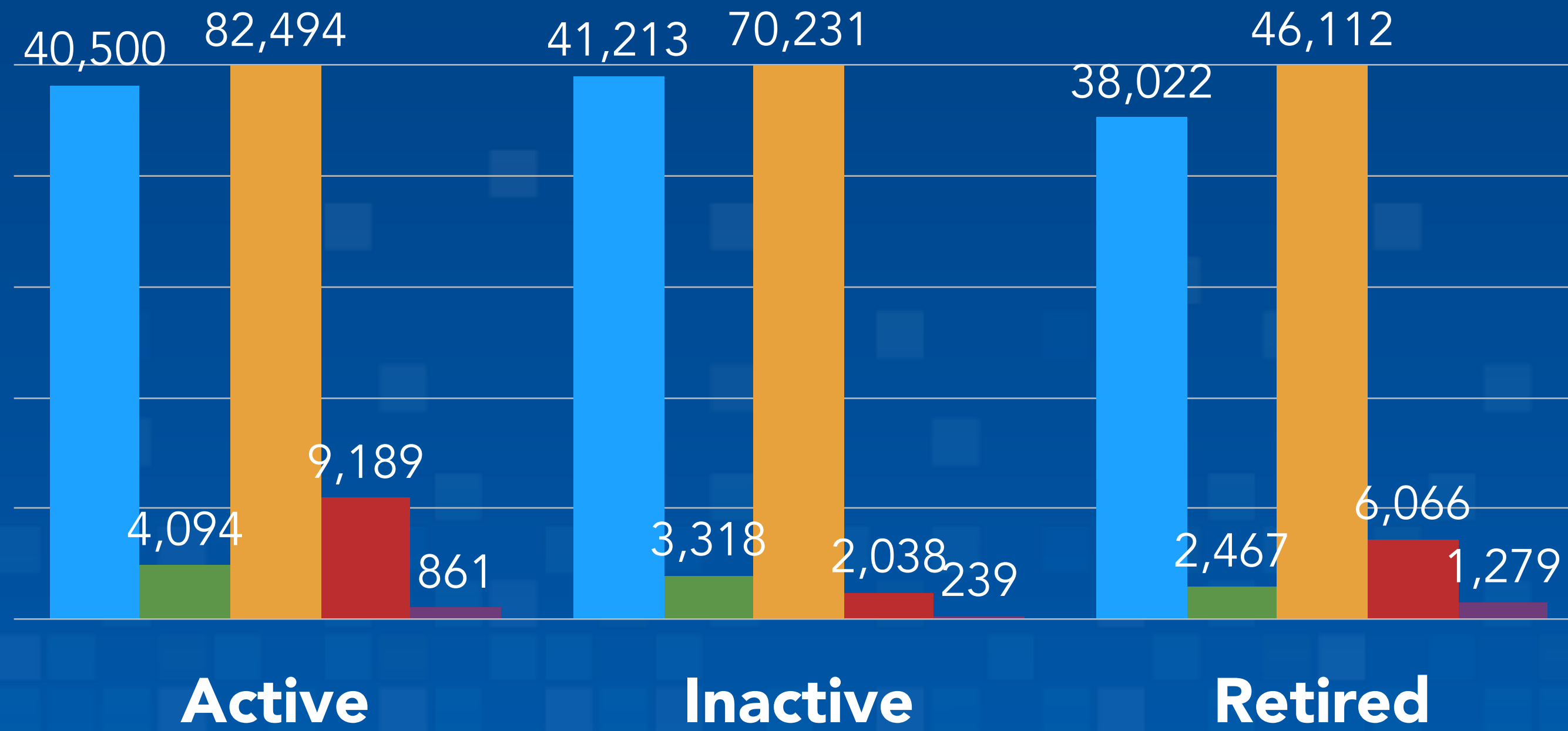
Benefits: Pension & Health Insurance



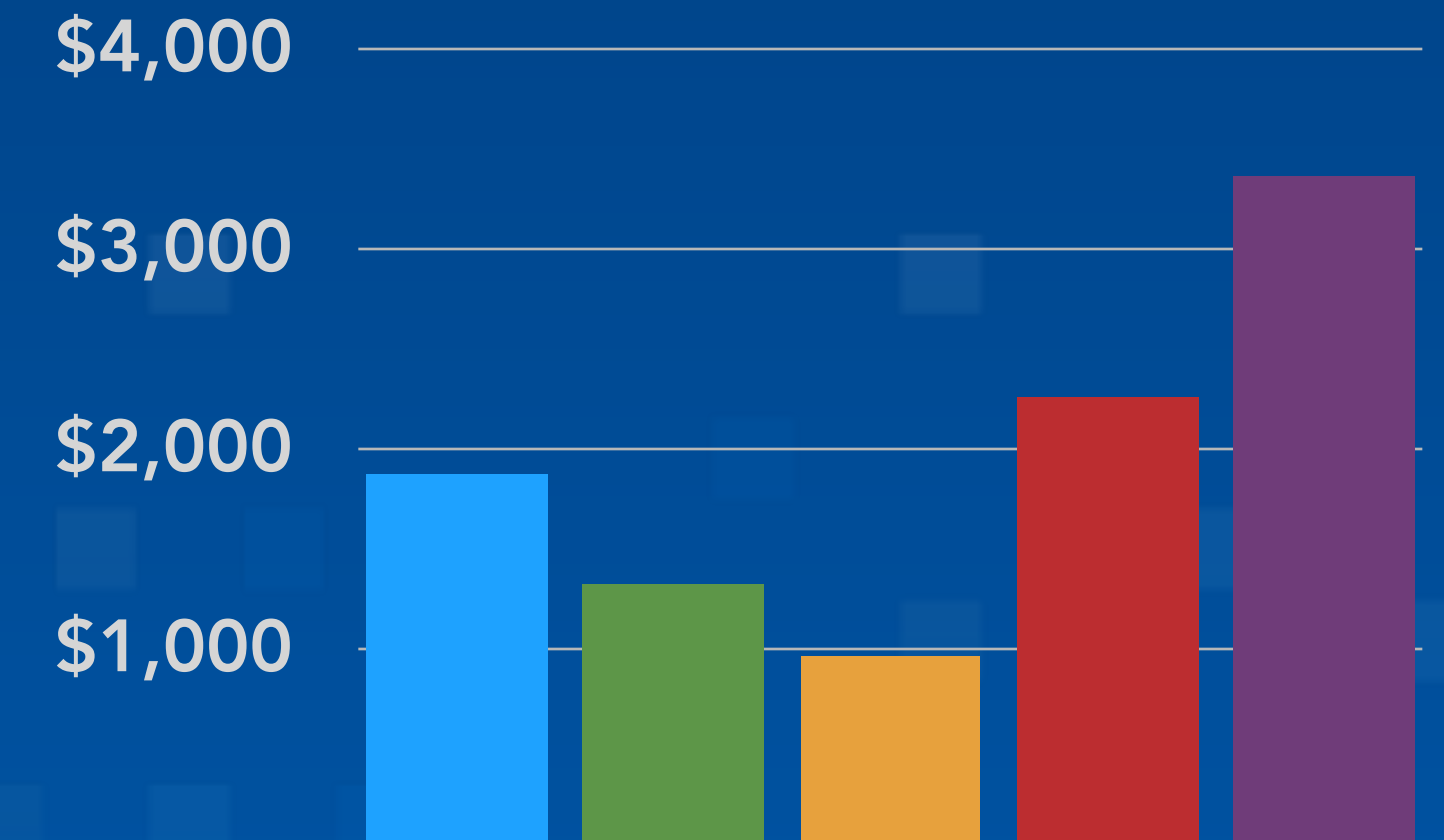
A unique & complex pension system.

2014 Membership

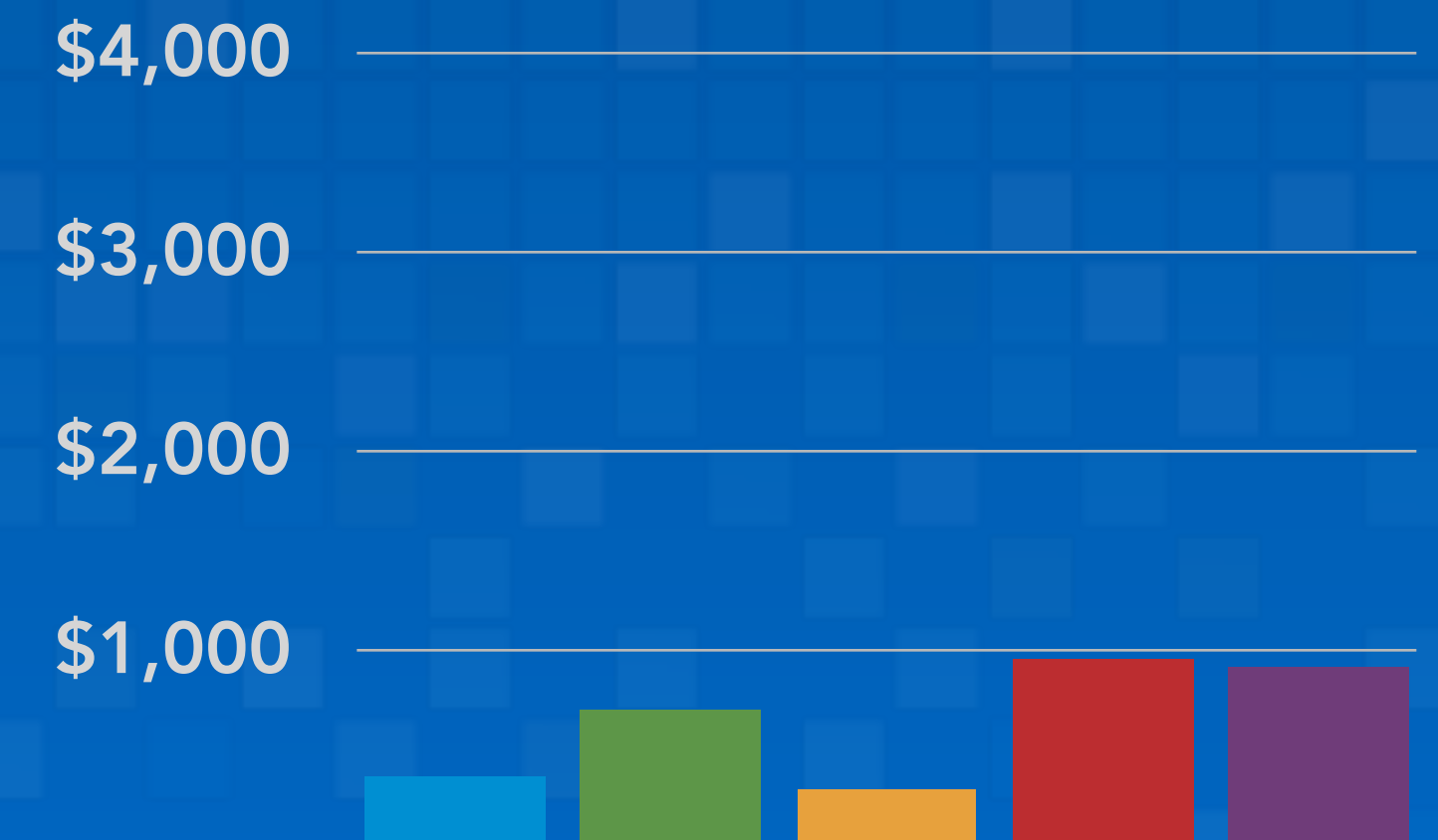
Membership Breakdown



Average Monthly Pension



Average Monthly System Payment for Health Insurance

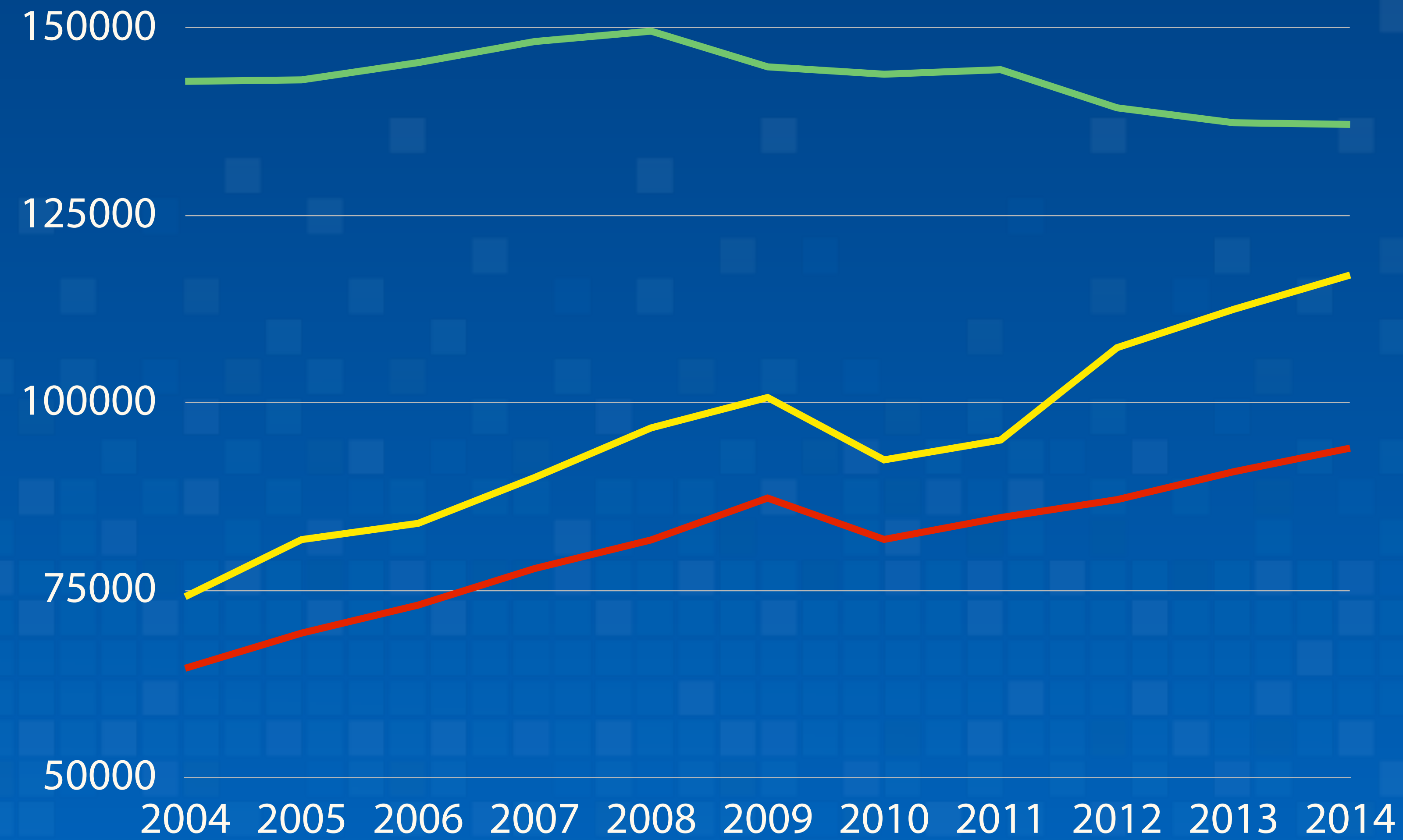


As of June 30, 2014

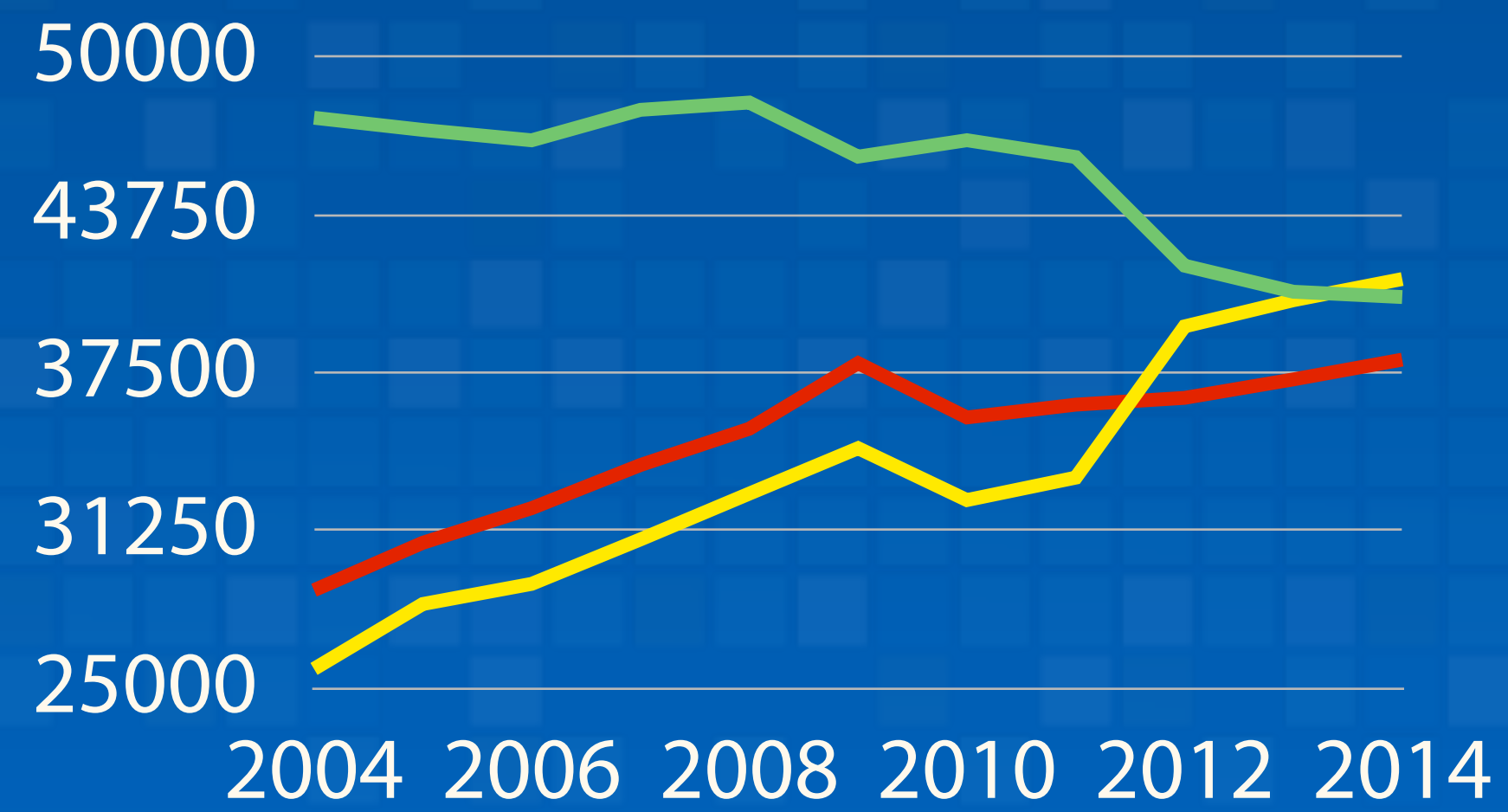
2014 Membership



Total



KERS Nonhaz



As of June 30, 2014

- Active
- Inactive
- Retired

Pension Membership by Tier

KERS hazardous

| | Active | Inactive | Retired | Total |
|--------------|--------------|--------------|--------------|--------------|
| Tier 1 | 2,232 | 2,002 | 2,467 | 6,701 |
| Tier 2 | 1,505 | 1,231 | 0 | 2,736 |
| Tier 3 | 357 | 85 | 0 | 442 |
| Total | 4,094 | 3,318 | 2,467 | 9,879 |

KERS nonhazardous

| | Active | Inactive | Retired | Total |
|--------------|---------------|---------------|---------------|----------------|
| Tier 1 | 27,869 | 33,941 | 38,022 | 99,832 |
| Tier 2 | 11,145 | 7,102 | 0 | 18,247 |
| Tier 3 | 1,486 | 170 | 0 | 1,656 |
| Total | 40,500 | 41,213 | 38,022 | 119,735 |

SPRS

| | Active | Inactive | Retired | Total |
|--------------|------------|------------|--------------|--------------|
| Tier 1 | 704 | 185 | 1,278 | 2,167 |
| Tier 2 | 157 | 54 | 1 | 212 |
| Tier 3 | 0 | 0 | 0 | 0 |
| Total | 861 | 239 | 1,279 | 2,379 |

CERS hazardous

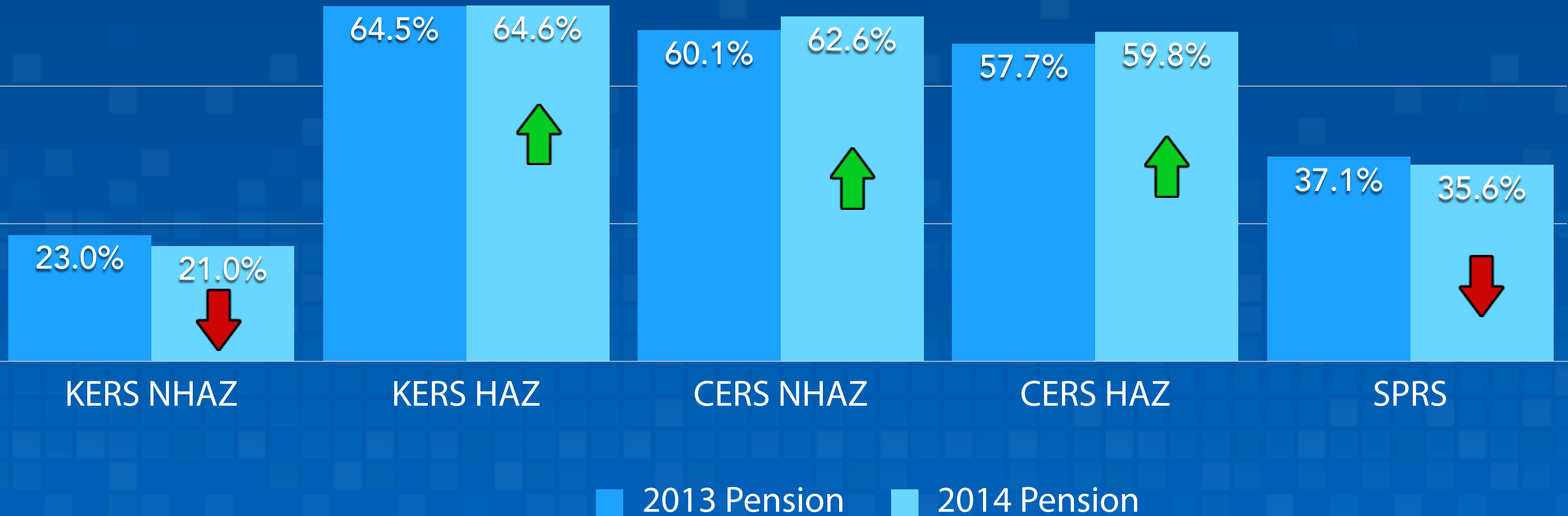
| | Active | Inactive | Retired | Total |
|--------------|--------------|--------------|--------------|---------------|
| Tier 1 | 6,770 | 1,607 | 6,065 | 14,382 |
| Tier 2 | 2,281 | 425 | 1 | 2,707 |
| Tier 3 | 198 | 6 | 0 | 204 |
| Total | 9,189 | 2,038 | 6,066 | 17,293 |

CERS nonhazardous

| | Active | Inactive | Retired | Total |
|--------------|---------------|---------------|---------------|----------------|
| Tier 1 | 53,190 | 55,520 | 46,111 | 154,821 |
| Tier 2 | 26,419 | 14,521 | 1 | 40,941 |
| Tier 3 | 2,885 | 190 | 0 | 3,075 |
| Total | 82,494 | 70,231 | 46,112 | 198,837 |

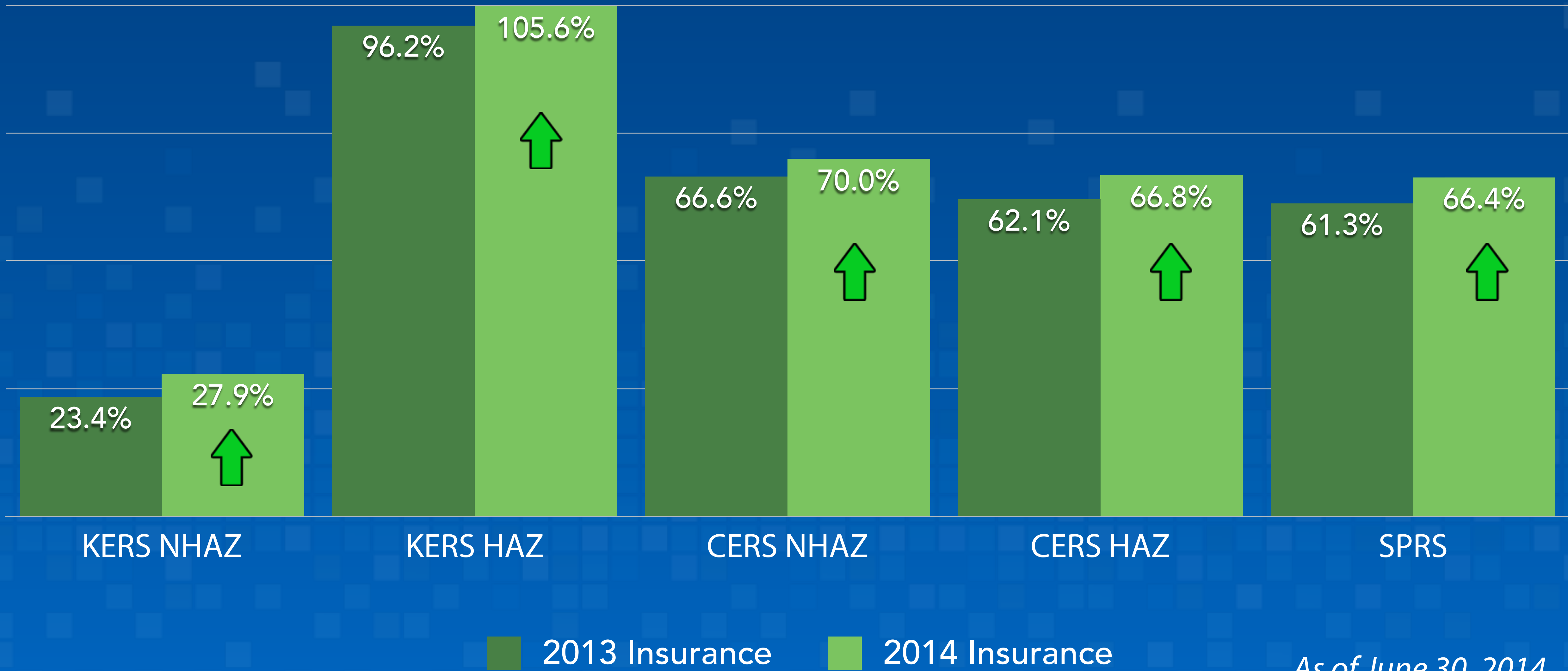
As of June 30, 2014

Actuarial Funding Level - Pension



As of June 30, 2014

Actuarial Funding Level - Insurance



As of June 30, 2014

Financial Summary

(\$ in Millions)

| <i>Plan Net Position</i> | Pension Funds | | Insurance Funds | | Total | |
|--------------------------|---------------|----------|-----------------|----------|----------|----------|
| | FYE 2014 | FYE 2013 | FYE 2014 | FYE 2013 | FYE 2014 | FYE 2013 |
| Net Assets | \$12,016 | \$11,153 | \$3,865 | \$3,473 | \$15,881 | \$14,626 |

 **\$1.3 Billion increase driven by Investment Performance**

| <i>Changes in Net Plan Position</i> | Pension Funds | | Insurance Funds | | Total | |
|-------------------------------------|---------------|----------|-----------------|----------|----------|----------|
| | FYE 2014 | FYE 2013 | FYE 2014 | FYE 2013 | FYE 2014 | FYE 2013 |
| Total Additions | 2,699 | 2,168 | 933 | 804 | 3,631 | 2,972 |
| Total Deductions | 1,836 | 1,769 | 300 | 372 | 2,136 | 2,141 |
| Increase in Net Plan Position | \$863 | \$399 | \$633 | \$433 | \$1,495 | \$832 |

 **4% increase in retirement payroll**

As of June 30, 2014

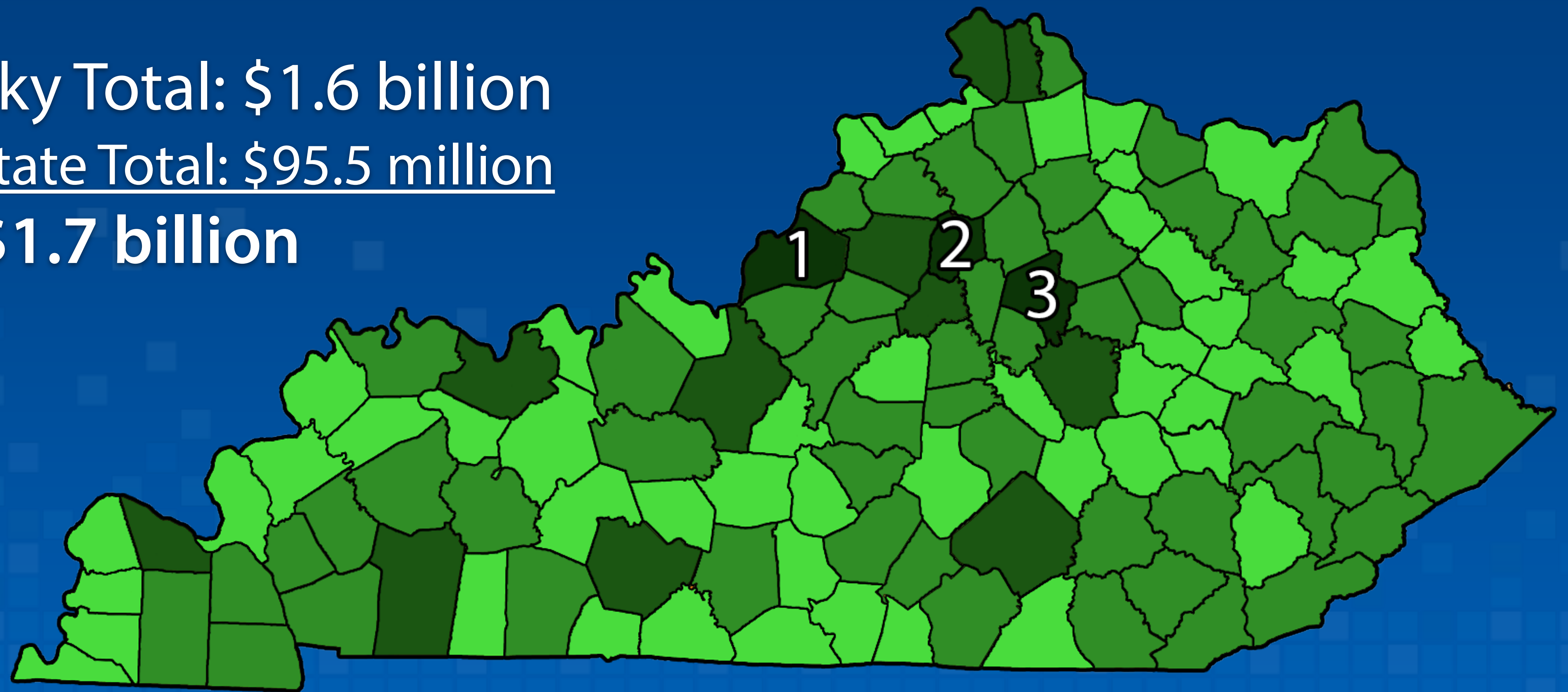
As of June 30, 2014

2014 Fiscal Benefits

Kentucky Total: \$1.6 billion

Out of State Total: \$95.5 million

Total: \$1.7 billion



■ Less than 5 million ■ 5 to 19.9 million ■ 20 to 79.9 million ■ More than 80 million

1 Jefferson
\$289,349,458

2 Franklin
\$180,723,291

3 Fayette
\$97,289,271

2014 Key Agency Events

Q1

- Welcomed 2 new KERS Board Members
- Legislative session ends without Housekeeping Bill approval
- David Peden Named CIO
- Pension Spiking provisions of SB2 implemented

Q2

- Adverse Seven Counties Decision - Appeal Filed
- City of Fort Wright Legal Action
- Town Hall & Investment Webinars
- Fiscal year ends w/strong investment performance of 15.55% vs Benchmark of 14.91%
- 5yr Actuarial Experience Study Results
- New CERS Board Member Welcomed

Q3

- Becky Stephens named CBO
- 1st Employee merit increases awarded since 2009
- Call Back Assist added to Call Center
- Call Center hours extended for open enrollment

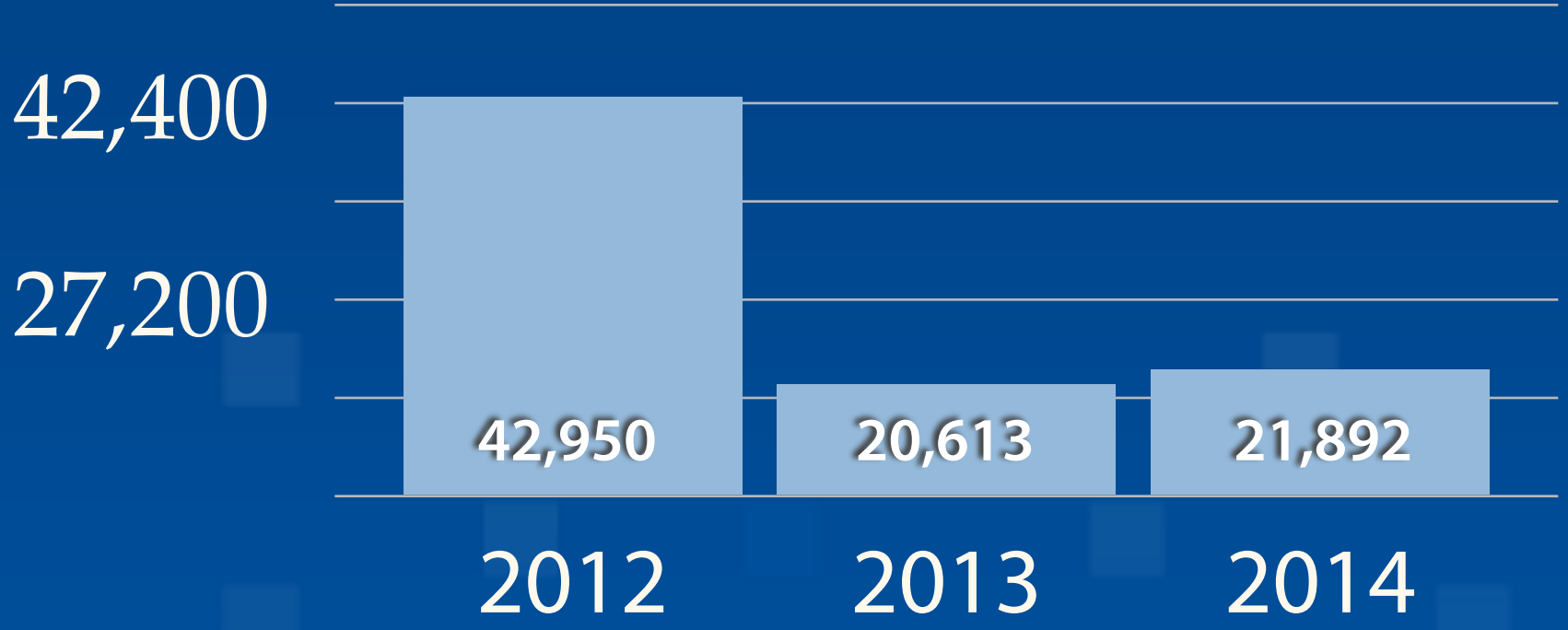
Q4

- Mandated Health Insurance Open Enrollment begins w/staff flex schedules paused
- Annual Board Retreat
- Actuarial Valuation Completed
- CAFR & Summary Annual Financial Report Completed



2014 Staffing Levels

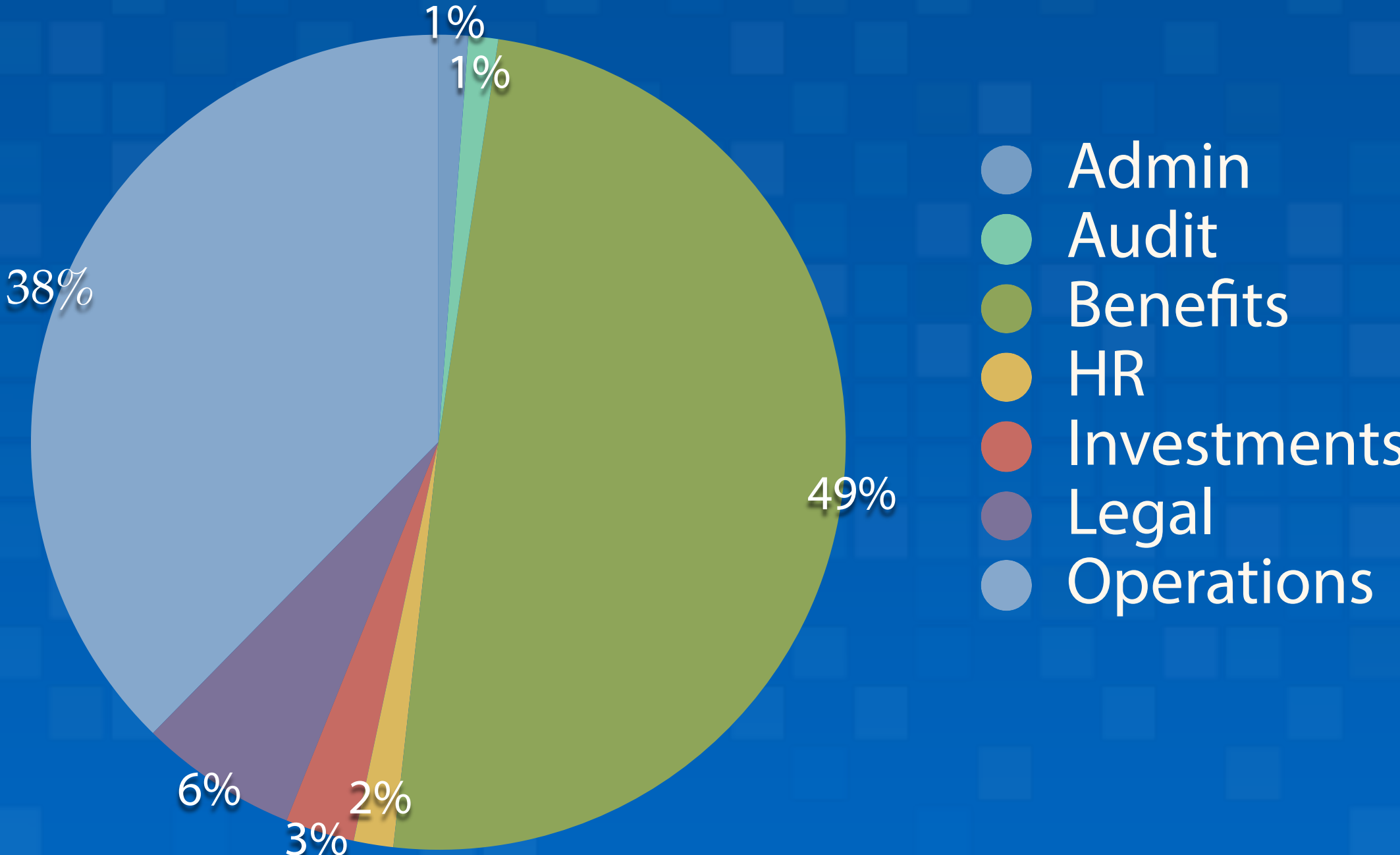
Total Overtime Hours



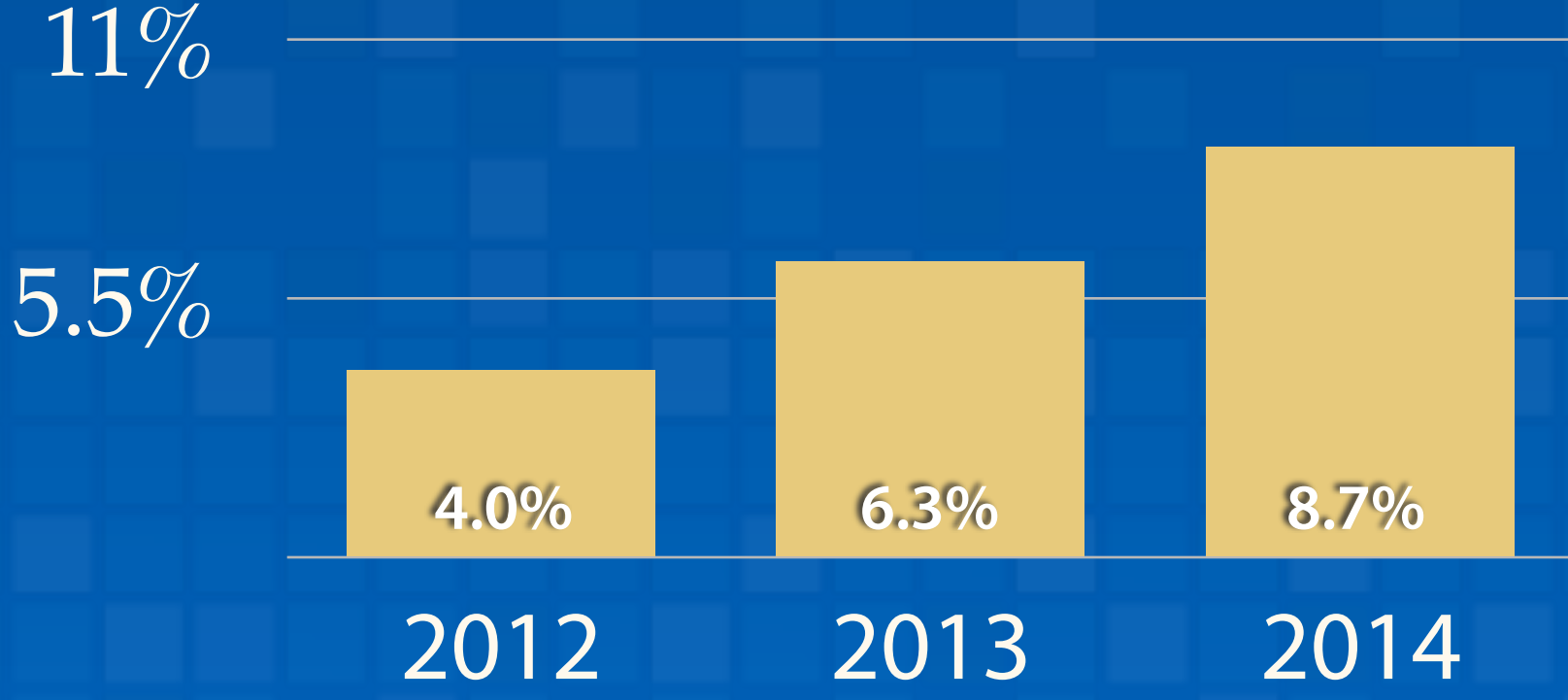
Minority Staffing



2014 Staffing = 258

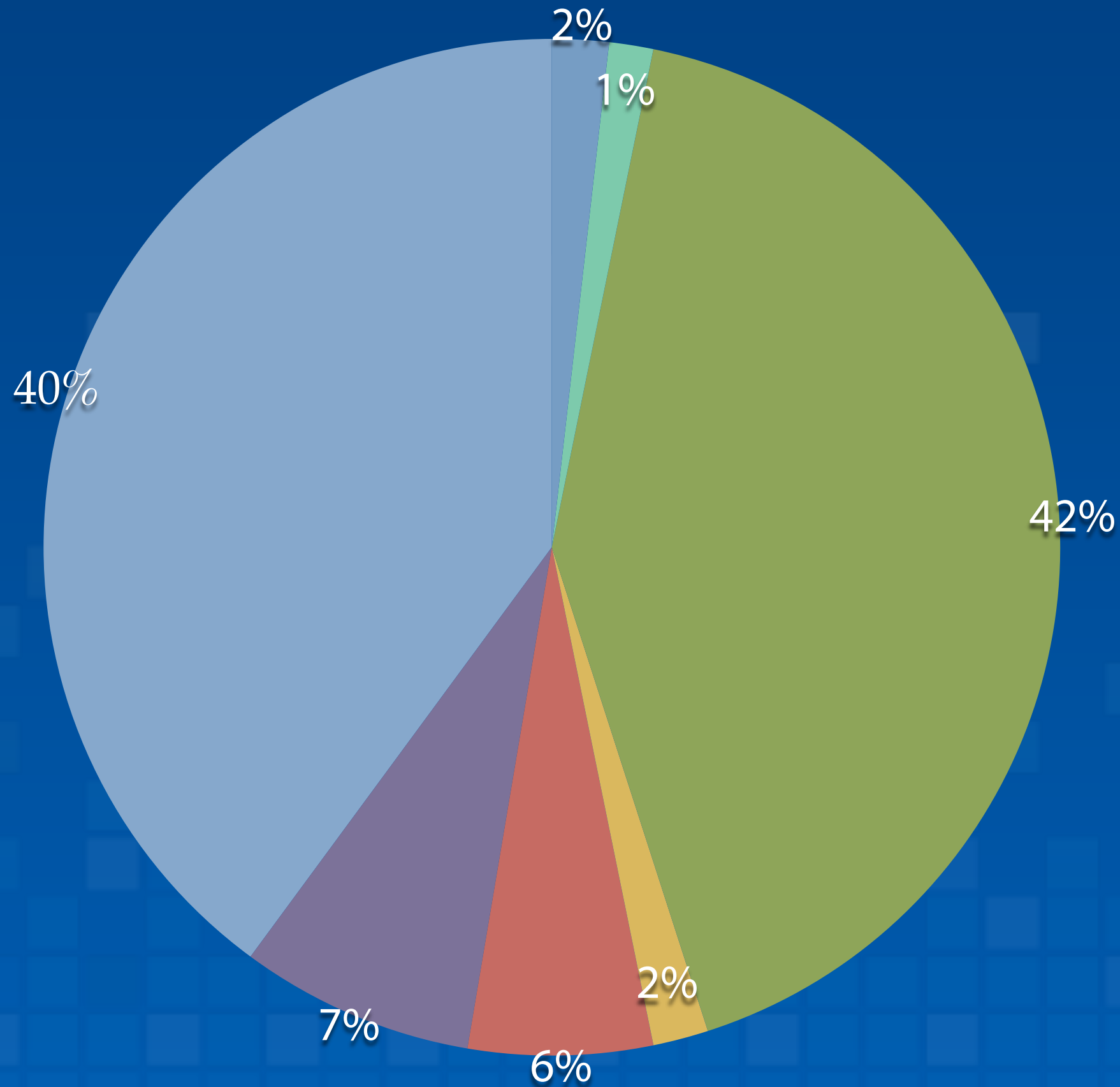


Annual Turnover



As of June 30, 2014

2014 Staffing Expense



- Admin
- HR
- Operations
- Audit
- Investments
- Benefits
- Legal

2014 Staffing Expense

| \$ in Millions | | | |
|------------------|------|------|------|
| | 2012 | 2013 | 2014 |
| Base Salaries | 13.5 | 13.5 | 13.5 |
| Retirement | 2.7 | 3.3 | 3.7 |
| Health Insurance | 1.6 | 1.9 | 2.0 |
| FICA | 1.0 | 1.0 | 1.0 |

Stats:

- 2012-14: Base Salaries Average 37% of KRS Adm Expenses
- 2012-14: Benefits Average 16% of KRS Adm Expenses

As of June 30, 2014

Investments

2014 Top 5 Highlights

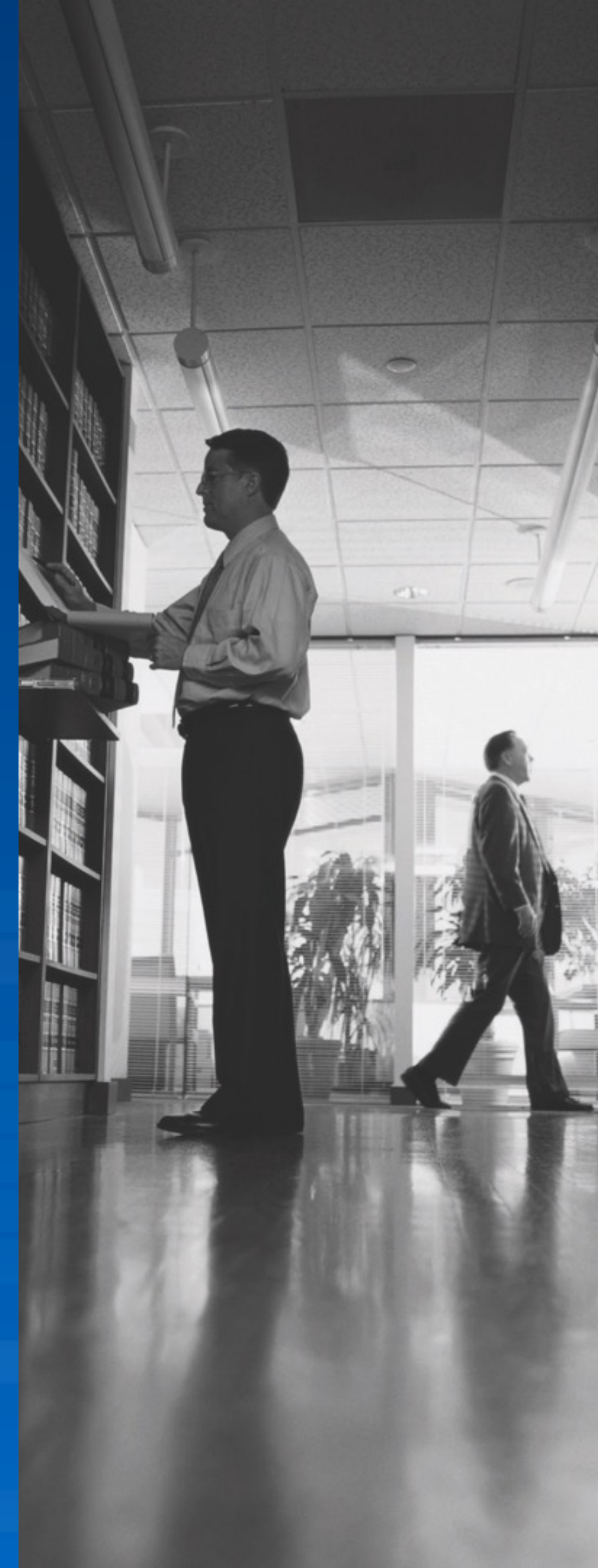
Successful portfolio management despite significant staff turnover

\$1.3 billion Non-U.S. equity restructure

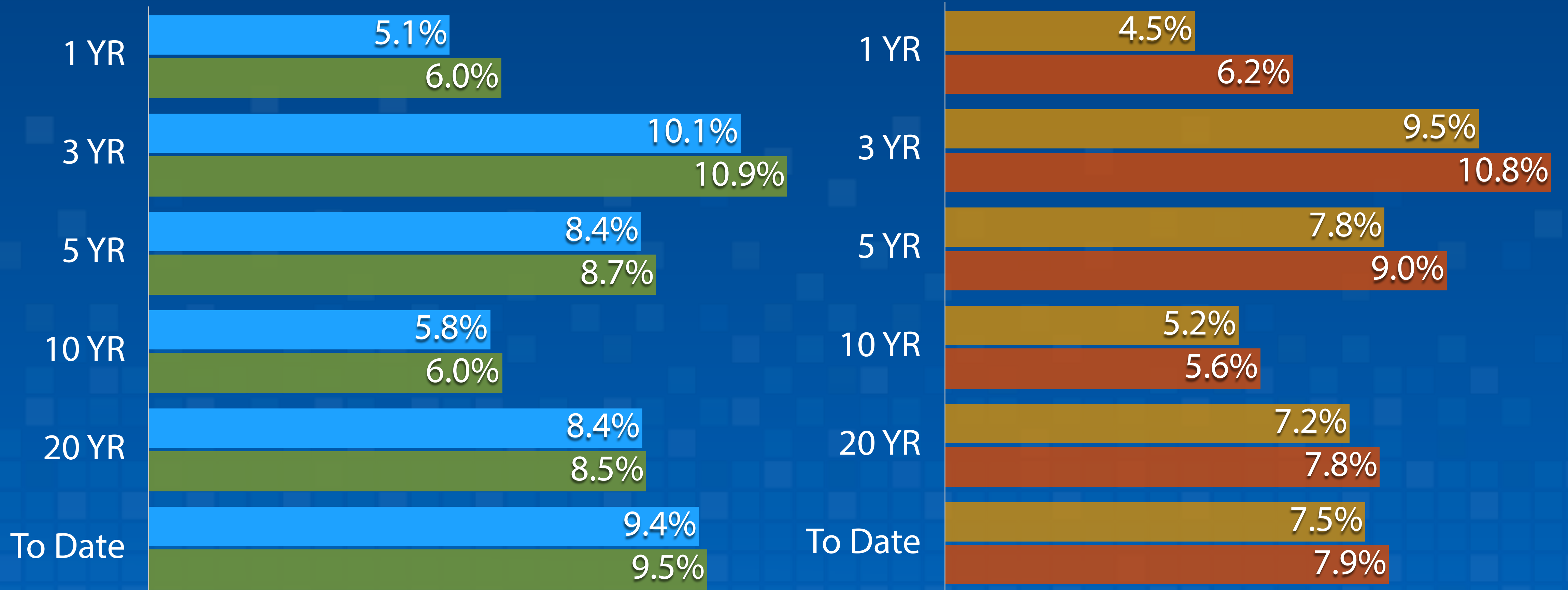
Increased portfolio diversification; added new investments

Hired new private equity consultant

Annual investment policies



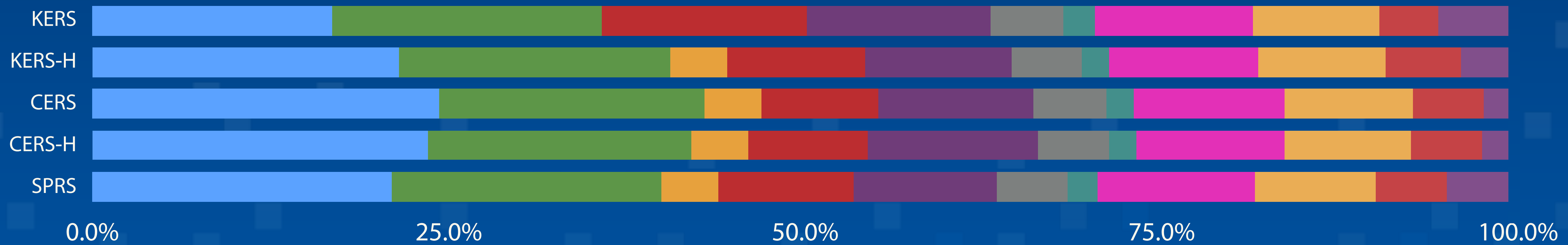
Investments: Fund Performance



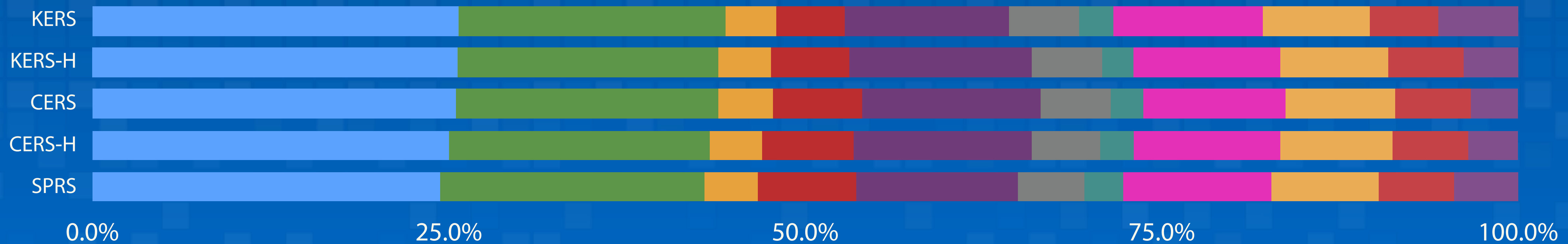
■ Pension Plan Total ■ Pension Plan Index ■ Insurance Plan Total ■ Insurance Plan Index

Investments: Pension & Insurance Fund

Pension Plan Allocations



Insurance Plan Allocations





Investments

2015 Top 5 Challenges

Complete asset/liability study & implement new allocations

Conduct public equity structure study; domestic equities being the primary focus

Build out direct hedge fund portfolio; explore strategic partnerships with fund of funds managers

Research infrastructure/tools for internal use in private equity/hedge funds/fixed income

Evaluate KERS nonhazardous private equity exposure & its liquidity implications

Legal

2014 Top 5 Highlights

KERS and CERS withdrawal legislation

Implementation of the Pension Spiking provisions of SB2

Comprehensive regulatory amendments to clarify and improve KRS' health insurance administration

KRS Housekeeping Bill - introduced in the 2015 Regular Session of the General Assembly

Developed litigation procedures to pursue & collect overpayments



Legal: Admin Litigation & Internal Review



152
Hearing
Requests

↓ **178**



158
Hearings

↓ **172**



165
DAC/AAC Cases
Reviewed

↓ **187**



602
Pre-Hearing &
Status
Conferences

↑ **493**



4,273
Reemployment
Requests

↑ **3,292**



6,581
Legal Documents
Reviewed

↑ **5,556**

2014
2013

Legal: Litigation & Court Cases



Franklin Circuit Court

30

Cases

↑ 27



Court of Appeals

6

Cases

↓ 12



Kentucky Supreme Court

7

Motions for
Discretionary Review

↑ 6



External Counsel
\$2.4 Million

↑ \$871 thousand

2014

2013



Legal

2015 Top 5 Challenges

Implementation of a regulatory framework for HB 62

Implementation of additional legislation impacting KRS passed during the 2015 regular session

Prepare KRS' IRS Cycle E filing for governmental plans

Assess the numerous agency participation issues facing KRS in light of HB62 & SCS

Represent KRS in a variety of legal forums & provide advice allowing KRS to fulfill statutory mandates

Benefits

2014 Top 5 Highlights

Leadership Changes

Implementation of Call Back Assist

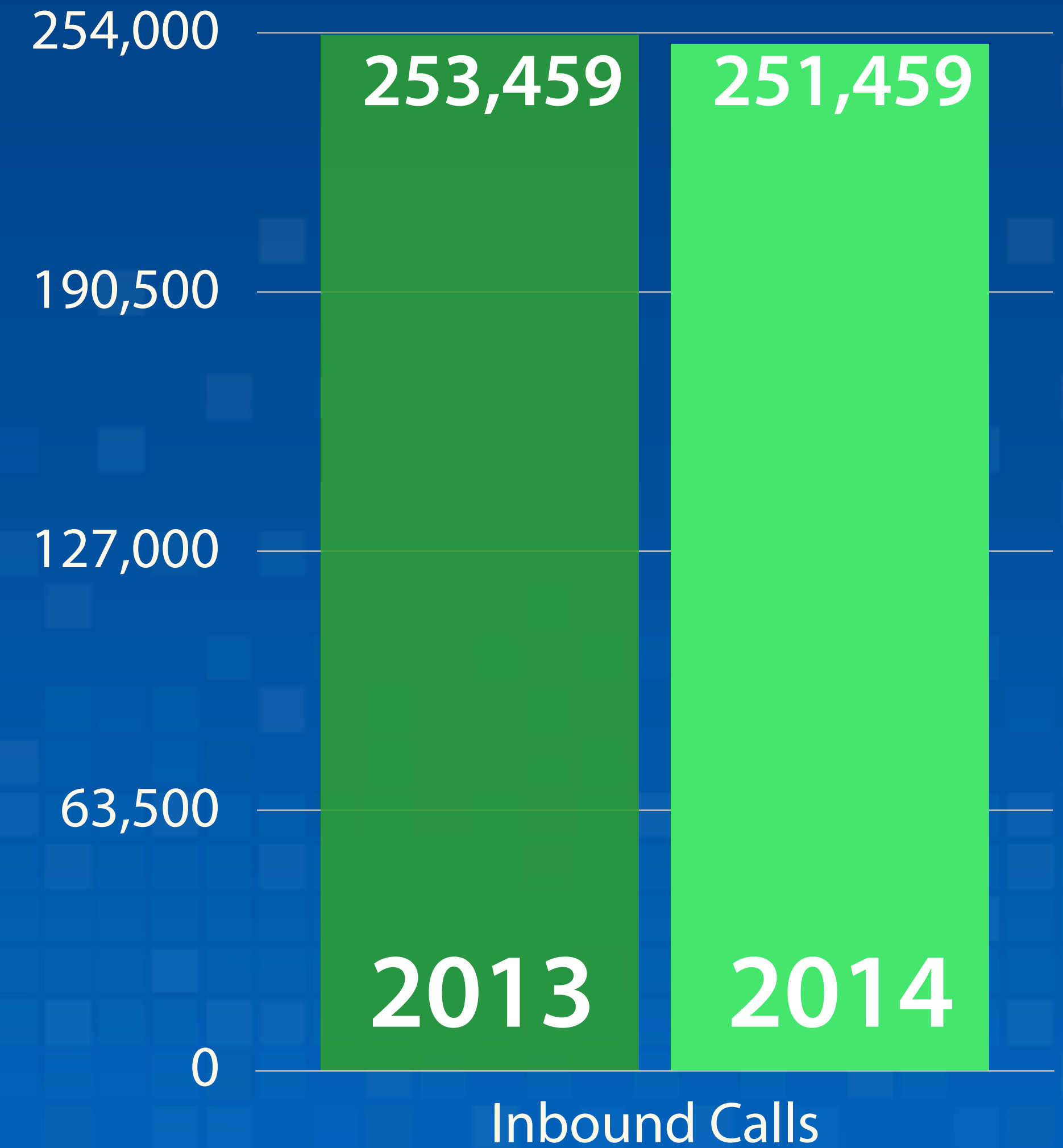
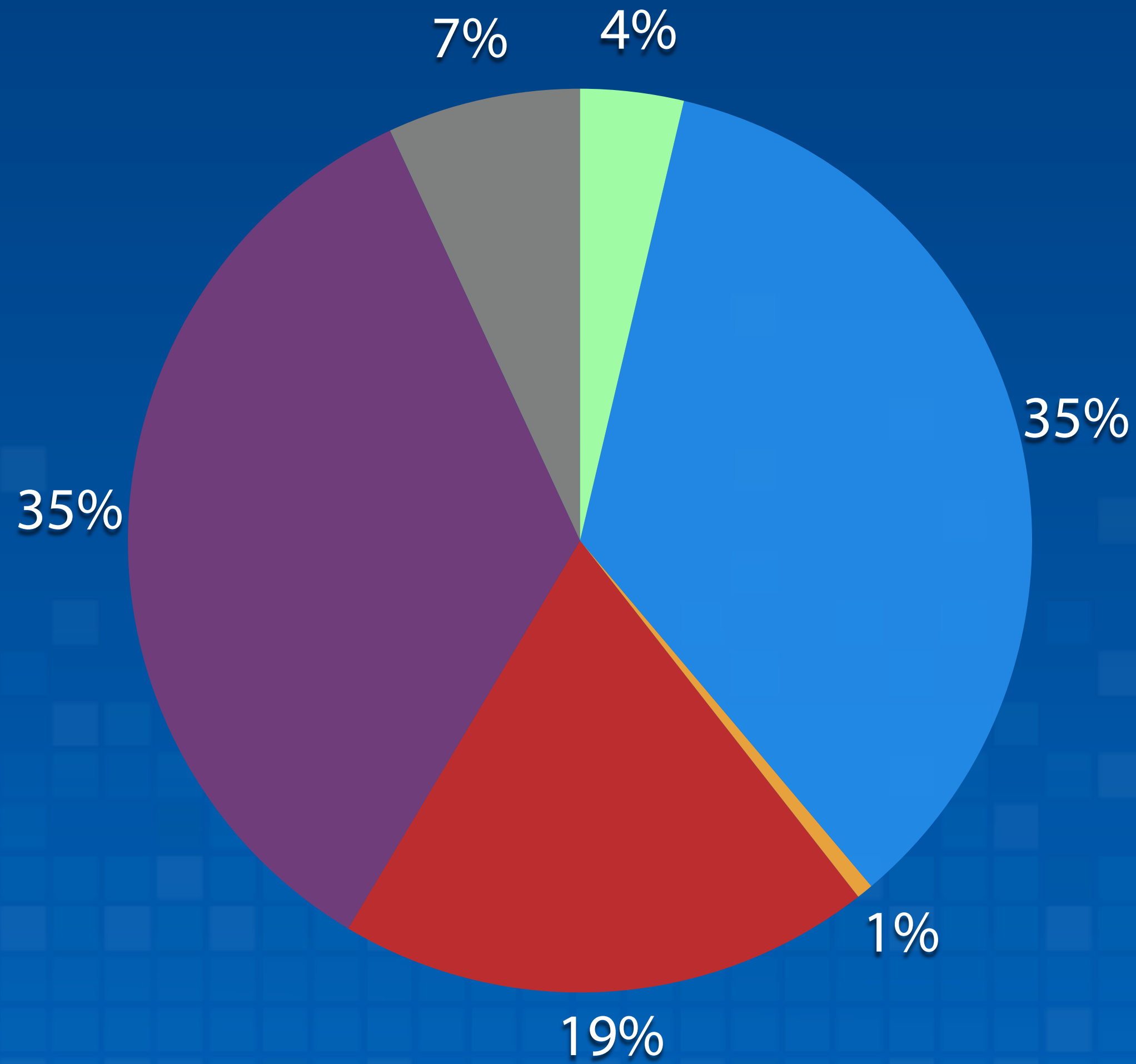
Mandatory KEHP Open Enrollment - extended Call Center hours

Created Strategic Plan to Reduce Backlog

START Support - 1,010 Issues Resolved



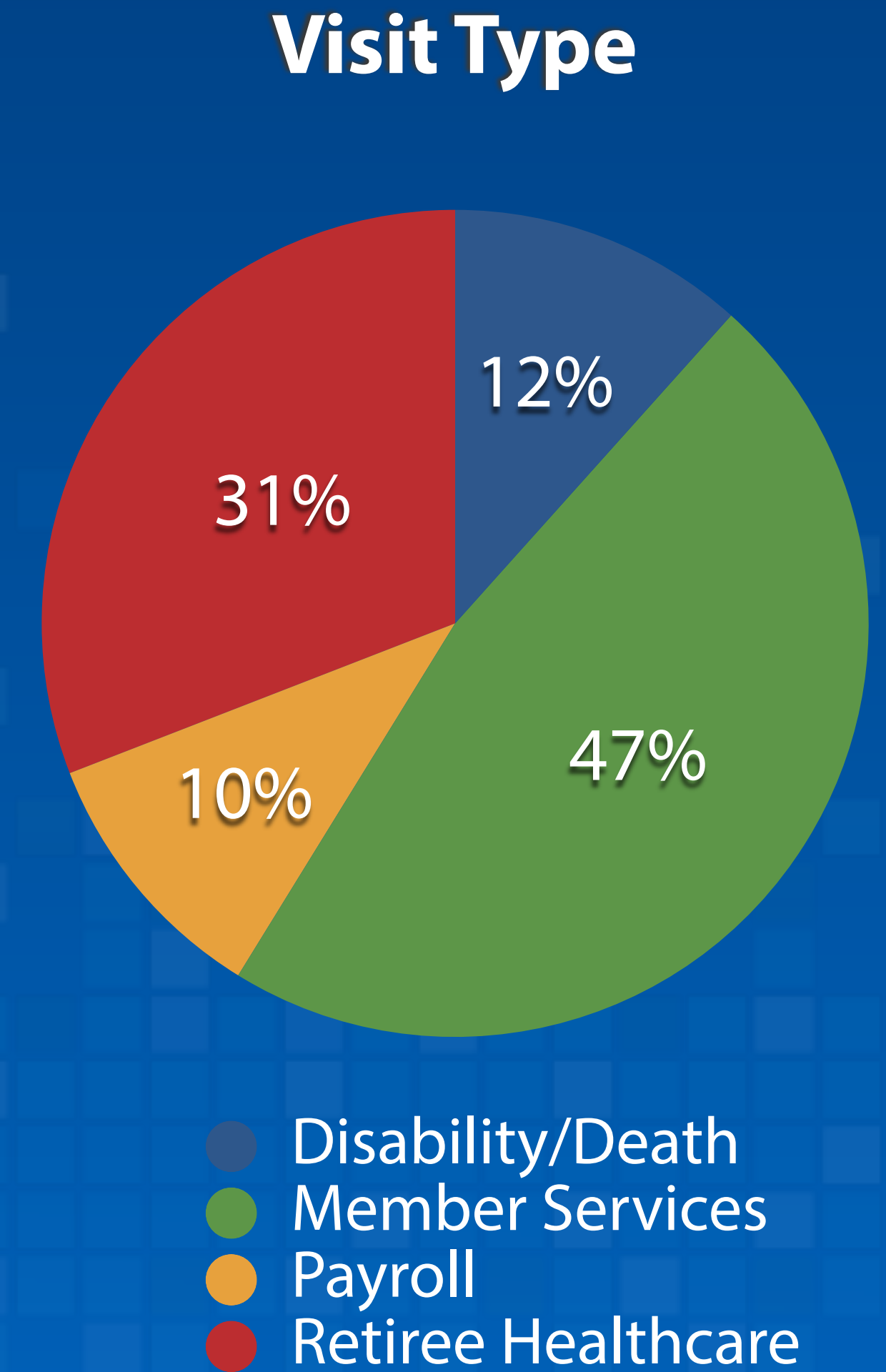
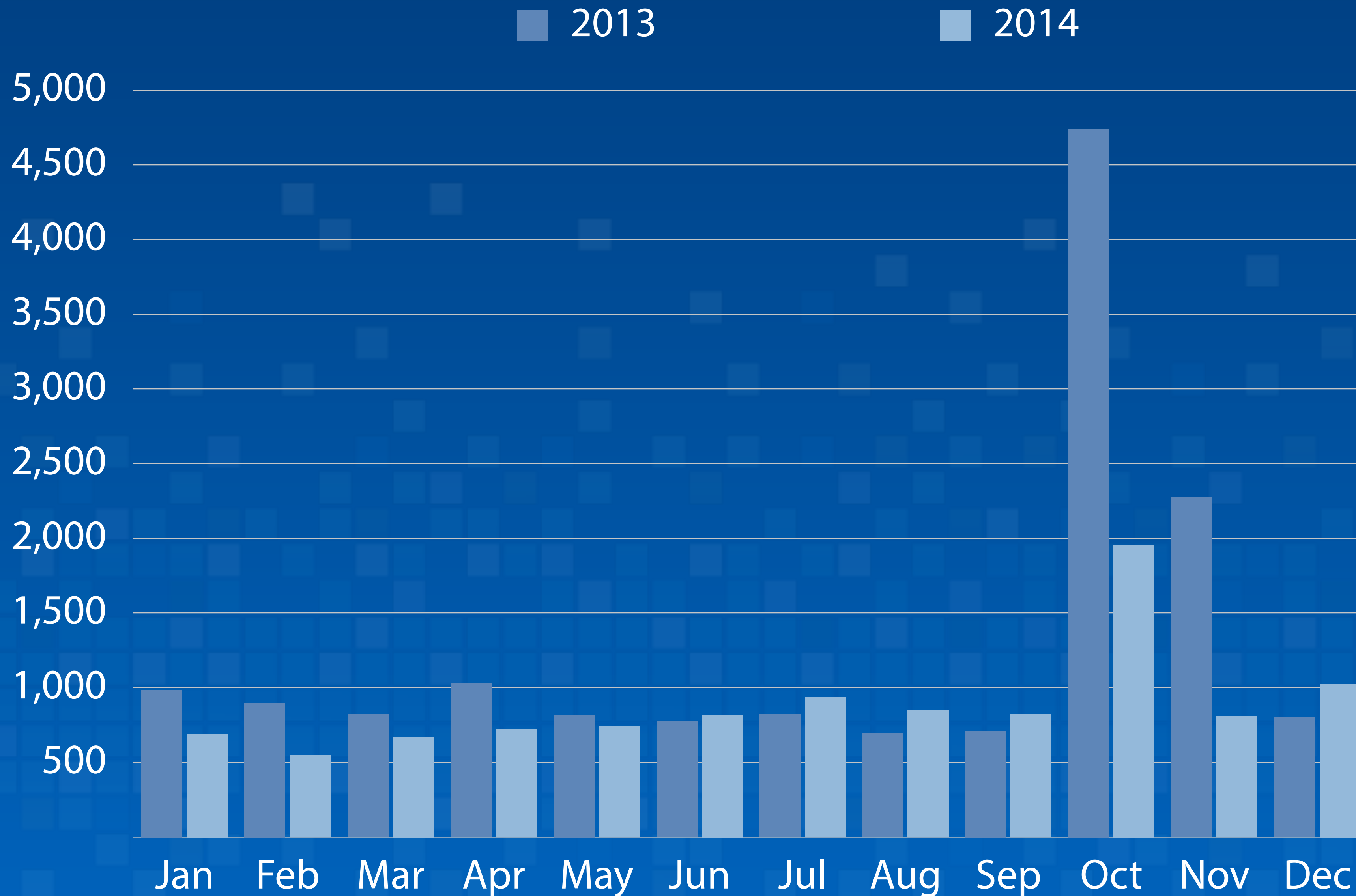
Benefits: 2014 Call Volume



- Appointments
- Disability
- Employed Call Center
- Insurance
- Operator
- Retiree Call Center

*55% Escalations

Benefits: 2014 Visitors



* While total # of visitors decreased, visitors for Member Services and Disability/Death divisions increased by 10%

Benefits: By the Numbers

5,270

Refunds Processed

↓ 5,538

3,789

Email Replies

↓ 4,720

6,856

New Retirements

↓ 6,970

10,182

Pre-Retirement Audits

↓ 10,578

19,342

Service Purchase
Calculations &
Benefit Estimates

↑ 17,236

776

Disability Applications

↓ 868

107,406

Monthly Recipients

↑ 103,237

4,358

Retirement Recalculations
& Audits

↑ 2,415

2014
2013

Retiree Health Care

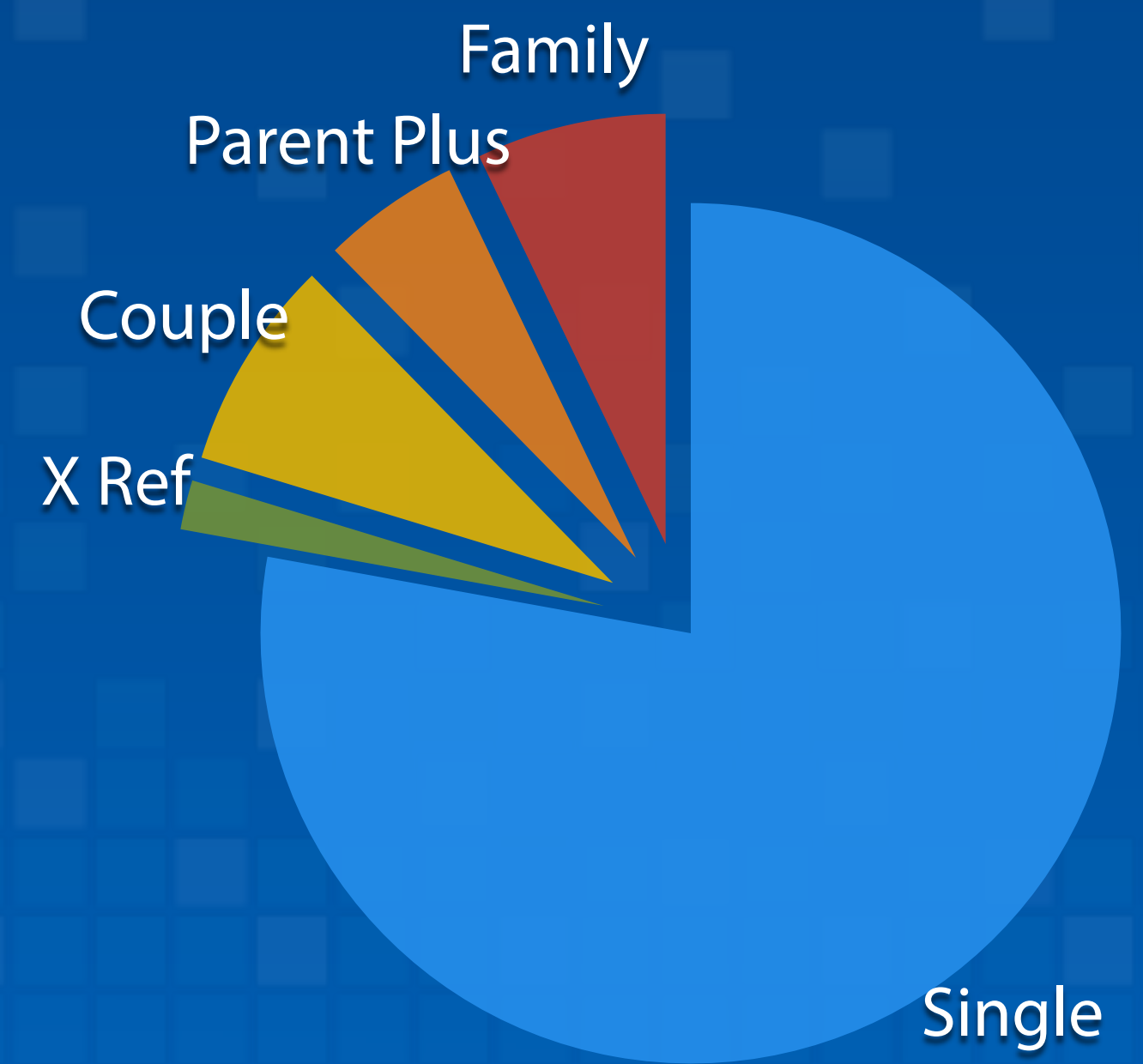
Events

KEHP Open Enrollment Webinars

Benefit Fairs

Retiree Outreach

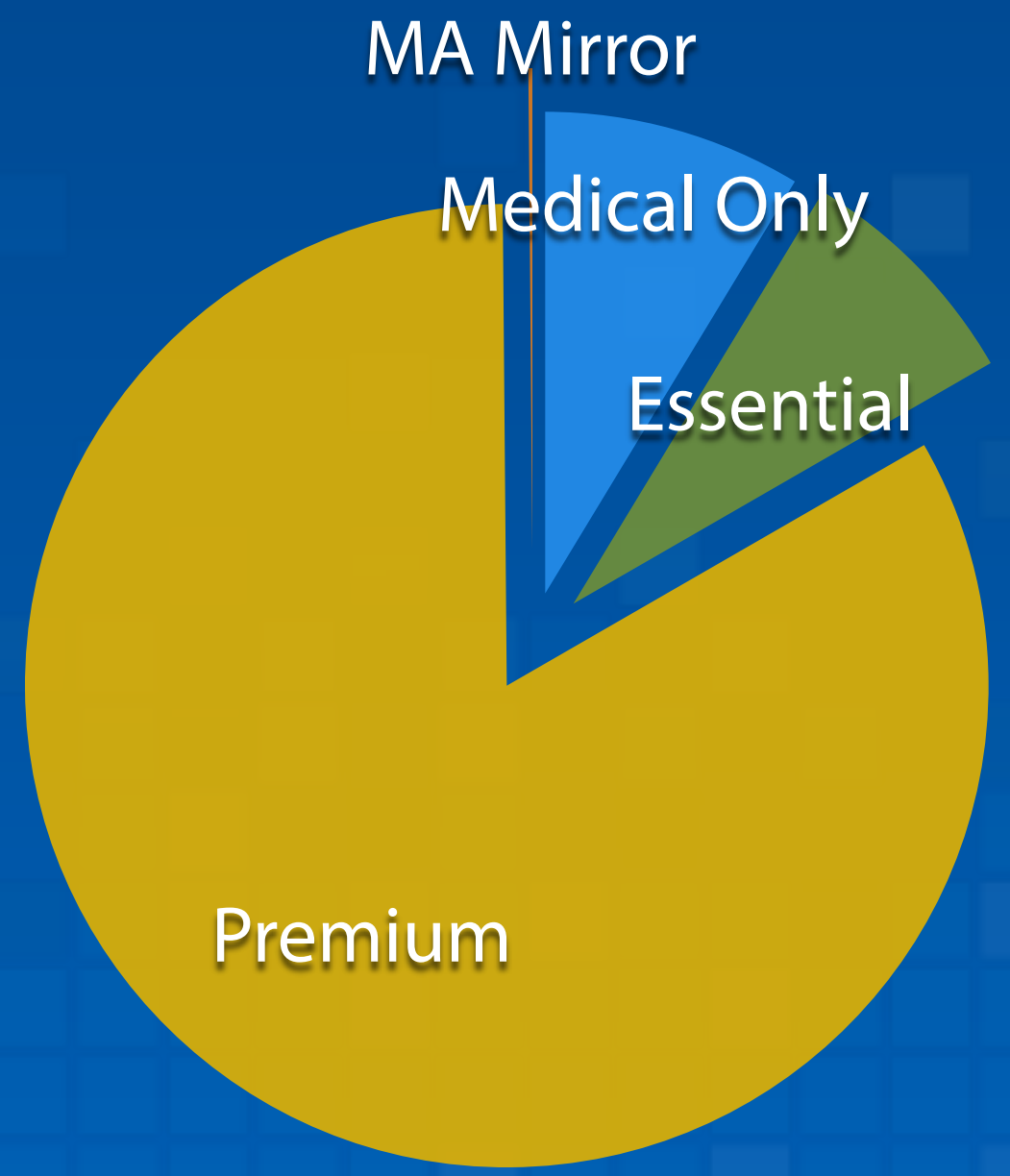
KEHP Enrollments



25,941
Plan Holders

36,545
Covered
↑ **8.6%**

Medicare Eligible Enrollments

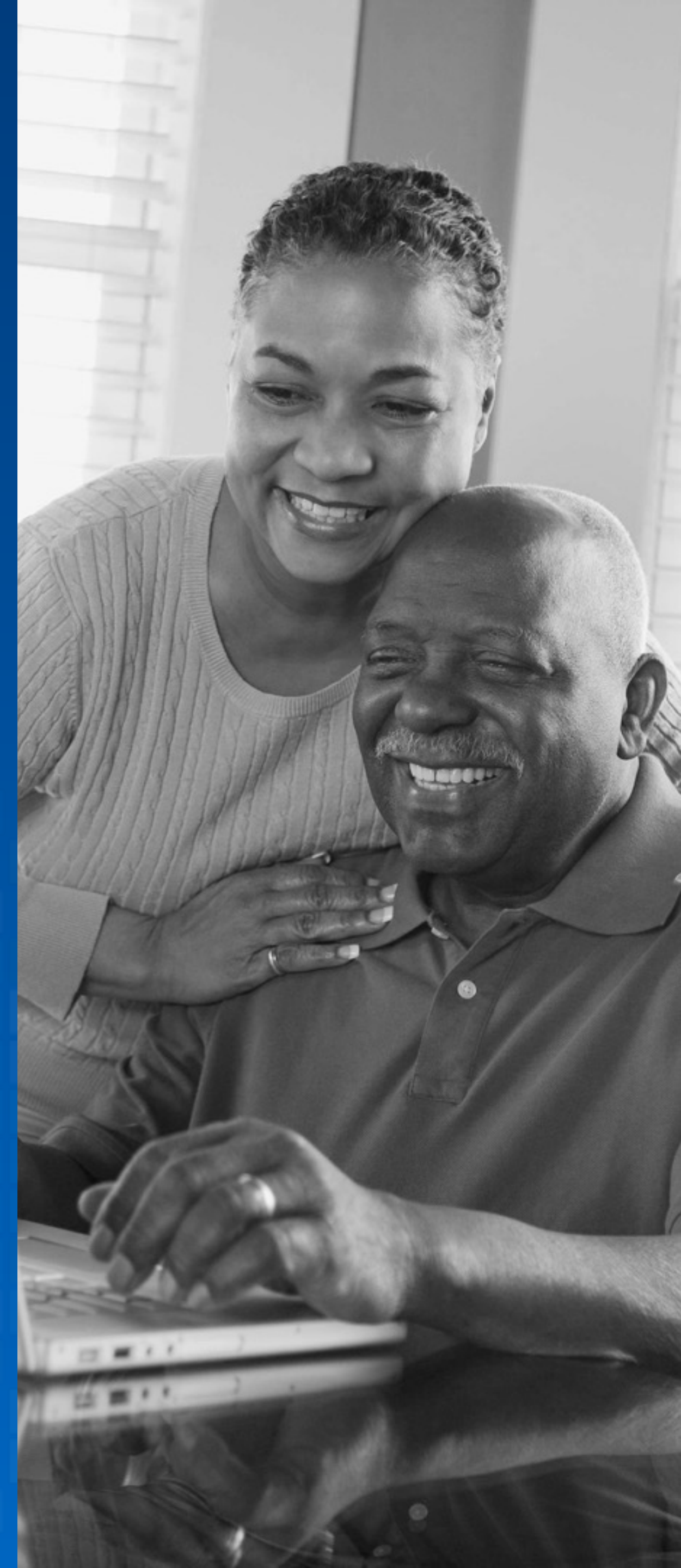


48,584
Retirees/Dependents/Spouses
↑ **4.8%**

Benefits: Backlog Reduction Plan

- 14,288 distinct persons
 - 3,040 Estimates and Service Purchase Requests
 - 50% to be completed by 4/30/2015
 - Goal was met on 3/19/2015
 - 11,248 Post Retirement Audits
 - 25% to be completed by 4/30/2015
- 4 month effort led by CBO with special teams from:
 - Member Services
 - Disability & Death
 - Membership Support
 - Employer Reporting and Compliance

effective 1/5/2015





Benefits

2015 Top 5 Challenges

Backlog Reduction Plan - Member Requests and Post Retirement Audits

Accurate Employer Reporting - KHRIS issues

Staff training and development

Balancing Customer Service with call and visitor volume and backlog

START Support - Problem Incident Reports and Enhancements

Operations

2014 Top 5 Highlights

Stronger internal controls & audit issue resolution

Infrastructure investments for disaster recovery, call center, storage

GASB 67 implemented; GASB 68 readiness

Enhanced employer & member communications

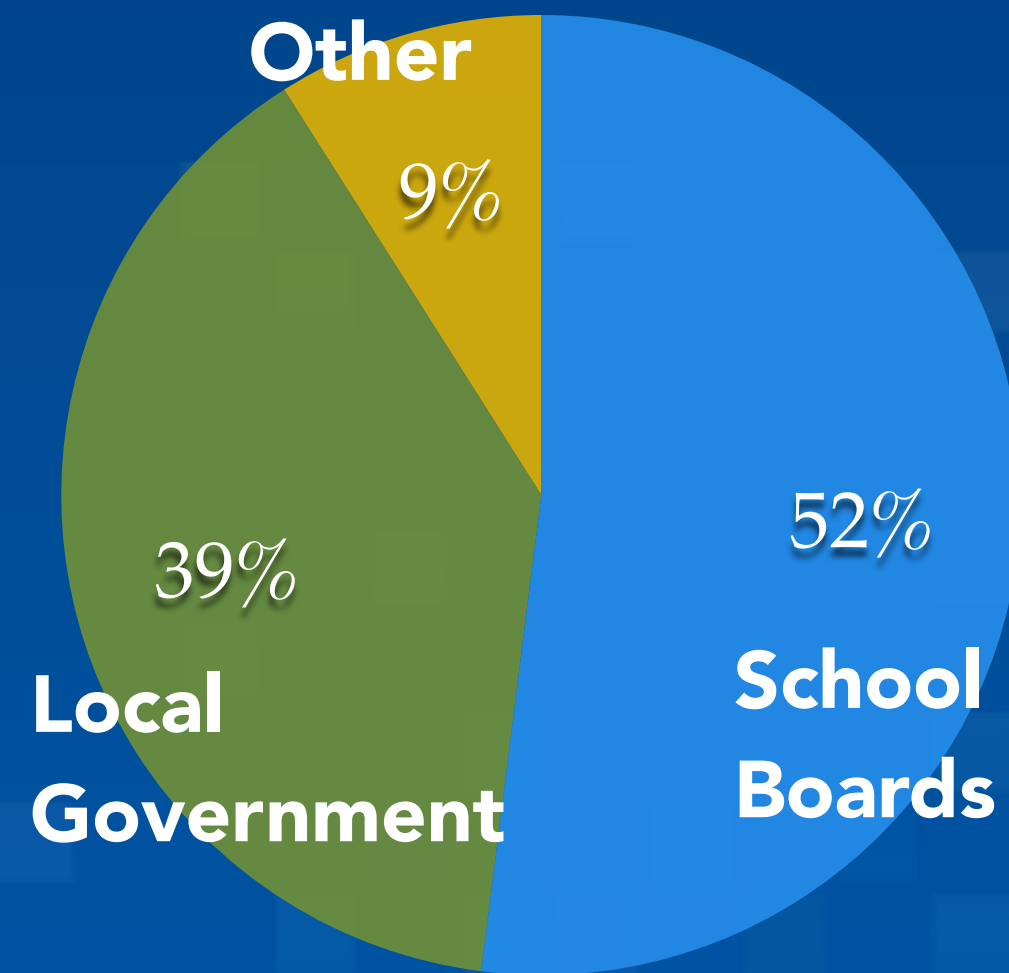
Annual financial reports (PFAR/CAFR)



Operations

Employer Reporting Compliance & Education

1,492 Employers



Increased Focus

Fewer Errors = Operational Efficiencies

- Increased Monetary Receipts
- Accurate Service Credit
- Accurate Retirement Payouts

How

- Onsite Employer Visits
- Employer Training/Internal Staff Training
- Video Outreach
- Webinars

Outstanding Invoices \$ in thousands

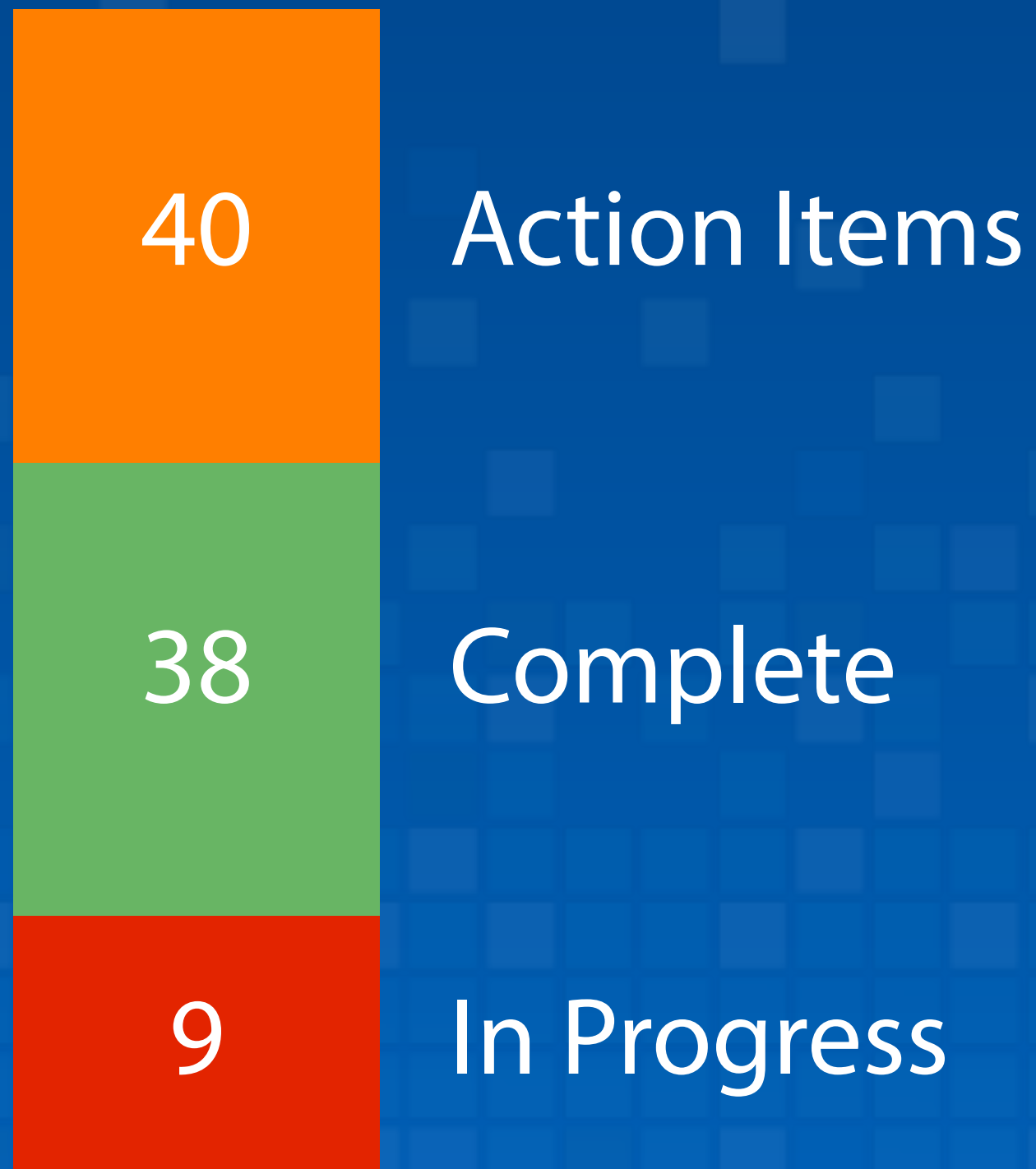
| | Dec 31. 2013 | Dec 31. 2014 | March 2015 |
|-------------------|-----------------|-----------------|----------------|
| Monthly Reporting | 3,610 | 2,405 | 2,154 |
| Penalties | 392 | 303 | 334 |
| Pension Spiking | 0 | 266 | 630* |
| Total | \$4,002 | \$2,974 | \$3,118 |

* 12 months to pay per SB2

Operations

2014 Additional Work Effort

APA Audit Mitigation



GASB 67
GASB 68



House Bill 364:
Re-employment of
Retired Police Officers



Senate Bill 2:
Pension Spiking



House Bill 5:
Public Agency
Disclosures

Website Views

↑ 1,268,454
Total Page Views 2014

Home
451,563
35.6%

About
173,541
13.7%

Governance
25,244
1.9%

Employees
250,300
19.7%

Retirees
91,891
7.2%

Insurance
143,364
11.3%

Employers
45,796
3.6%

Investments
7,551
0.6%

Contact Us
70,409
5.5%

Home

About ▾

Governance ▾

Employees ▾

Retirees ▾

Insurance ▾

Employers ▾

Investments ▾

Contact Us

Outreach

14 Publications in 2014 including...



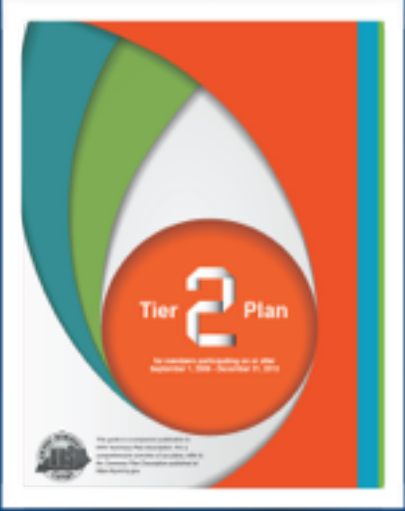
PAFR



CAFR



Tier 1



Tier 2



Tier 3

Webinars

Town Halls

9 Sessions
1,240 Views

Employer

2 GASB
Sessions

Member Education

16 Sessions
Over 1,633 Attendees

Open Enrollment

6 Sessions
291 Attendees

Social Media



Facebook - 3,054 "Likes" with average growth +100 monthly



Twitter - New account introduced in October, 2014 with 66 new "followers"



MailChimp - Email Newsletter published in spring & fall with 40,355 Subscribers



YouTube - New account introduced in August, 2014 with 8,646 video views.

Field Visits

↑ 6,750 Outreach attendees

- General Education Webinars
- Individual MSS Sessions
- Informational Meetings (General Q&A)

Using Technology to Deliver Member Solutions



KRS deploys System/36 computer system

KRS has 120 employees supporting 178,418 members with a single pension plan tier

KRS installs AS/400 in 1991/92

Planning begins for a client server system replacement for the AS/400

START client server system goes into production in 2011

AS/400 Computer System retirement in 2015.

Planning Begins on Strategies to deliver services to our members.

1960's to Mid-1980's

1980's to Early 1990's

Late 1990's to 2009

Mid-2000's to Today

2015 and Beyond

Mainframes

- Centralized
- Batch Processing
- Highly Available
- AS/400 is Introduced

Client Server

- Personal Computers
- Early Networks
- Lots of Servers

Internet Age

- World Wide Web
- Smart Phones and Tablets
- Cloud Computing Begins

Cloud Computing

- Fast, Highly-Available Broadband Networks
- Large Remote Data Centers
- Mobile Support
- Improved Disaster Recovery

The Future Is Now

- Cloud Computing as the Standard
- Mobile First Thinking
- Customer Service Anywhere/Anytime
- Mobile Enabled Services

Service

Goal: Use technology to deliver high value services to KRS membership at a lower cost structure with improved data quality in a secure environment

Delivery Platforms

2013-2014

- Frankfort Facility
- Call Center
- Monthly Employer File Reporting
- Member Self-Service Portal
- Website
- Social Media
- On-site Data Center / Limited Disaster Recovery Capability

Enhancements

2014-2015

- Call Back Assist
- Video Education
- Webinars
- Disaster Recovery Equipment Deployment

Delivery Improvements

Next 24 Months

- Expand Member Counseling Options
- Member Self-Service Improvements
- Mobile-Focused Solutions
- Cloud Services to Improve Availability, Support & Security
- Disaster Recovery Readiness

Balanced Staffing of 260 Employees

"If you always do what you always did, then you will always get what you always got." - Albert Einstein

KRS Initiatives

Call Back Assist

Addition to Existing Phone System

Lowered Call Center Wait Times

Reduced Abandoned Calls & Member Re-Dials

Handled 23% Increase in Insurance Calls

Greater Than 30% Usage Rate



Time Management

Cloud Based w/Time & Attendance

Project and Cost Tracking

Replace AS/400 at Lower Annual Costs

Enhanced View of Labor Efforts

Better Utilization of Staffing Resources

The Future is Now



Operations

2015 Top 5 Challenges

GASB 68 Implementation - 1,492 employers

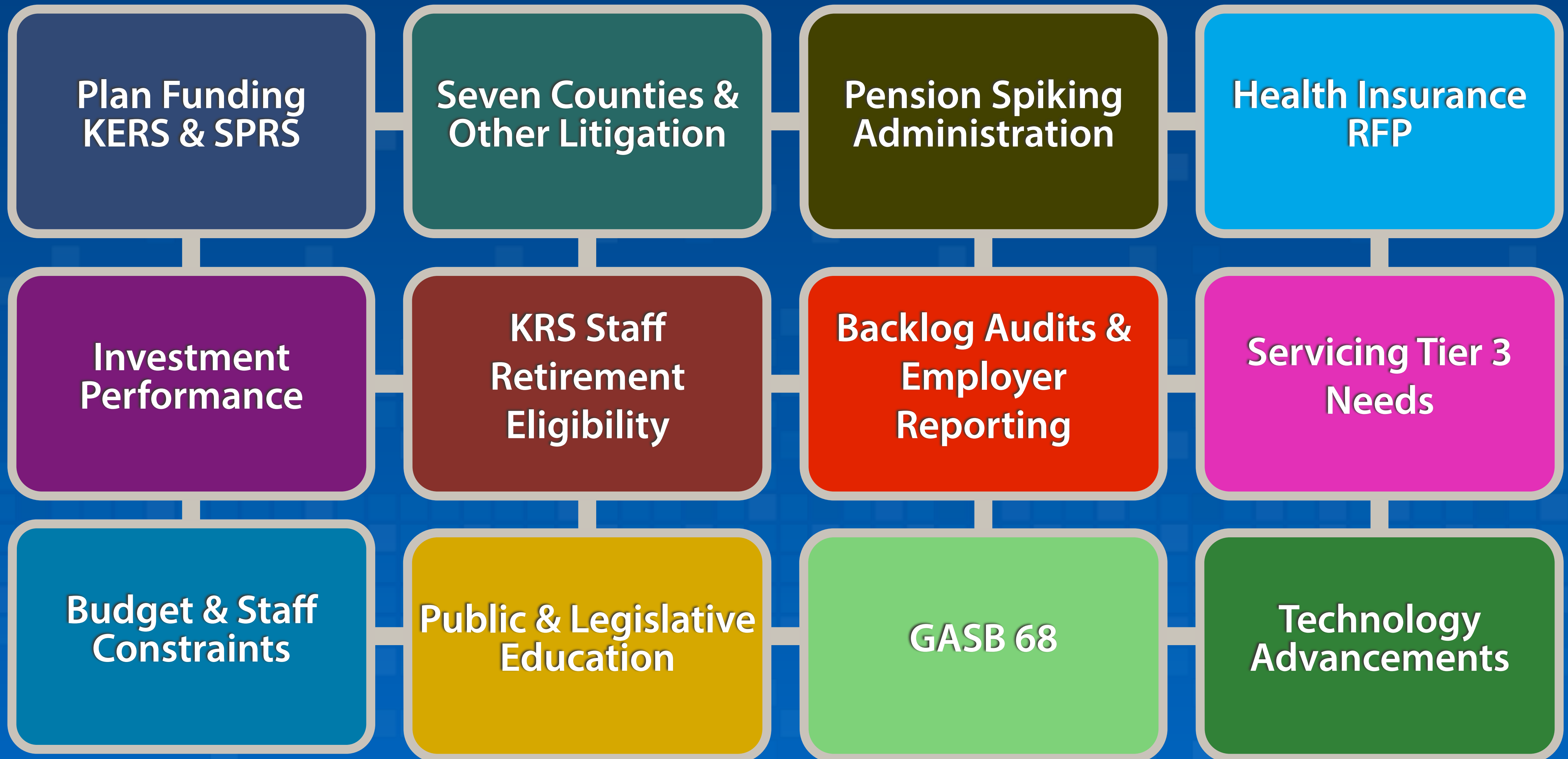
Improve employer reporting & reduce outstanding invoice balance

Biennial budget submission FY 17 & 18

Technology investments - catch up & change

Drive operational efficiency

Agency Challenges



Plan Funding
KERS & SPRS

Seven Counties &
Other Litigation

Pension Spiking
Administration

Health Insurance
RFP

Investment
Performance

KRS Staff
Retirement
Eligibility

Backlog Audits &
Employer
Reporting

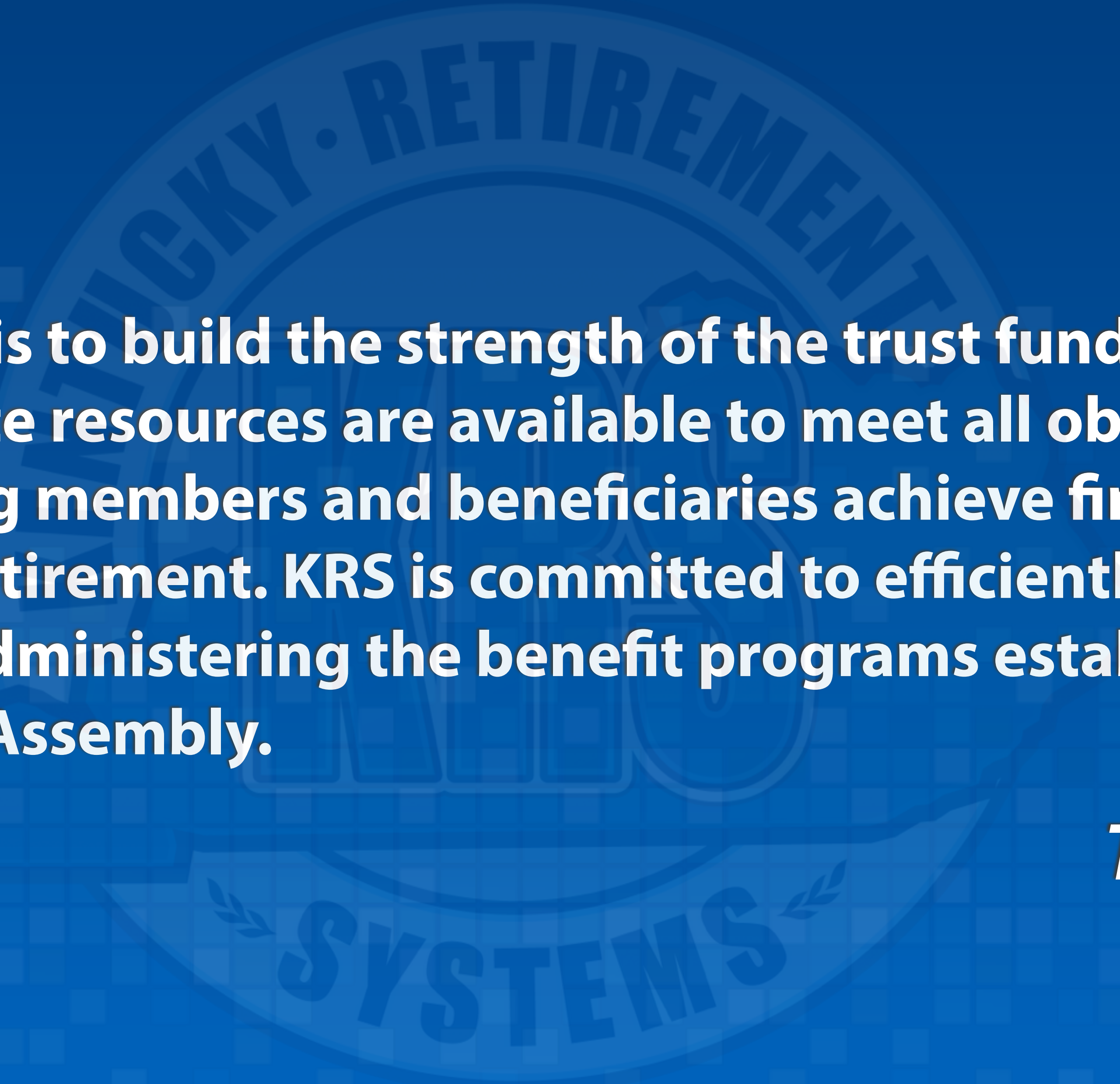
Servicing Tier 3
Needs

Budget & Staff
Constraints

Public & Legislative
Education

GASB 68

Technology
Advancements



Our mission is to build the strength of the trust funds to ensure that adequate resources are available to meet all obligations, while helping members and beneficiaries achieve financial security in retirement. KRS is committed to efficiently and effectively administering the benefit programs established by the General Assembly.

Thank You!

Kentucky Retirement Systems

Kentucky Employees Retirement System

County Employees Retirement System

State Police Retirement System

ANNUAL PROGRESS REPORT

FOR CALENDAR YEAR 2014



Presented to the KRS Board of Trustees

April 16, 2015

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Executive Director's Letter



ANNUAL PROGRESS REPORT EXECUTIVE DIRECTOR'S LETTER William A. Thielen, Executive Director

April 16, 2015

Dear Board Members:

On behalf of the Executive Management and staff of Kentucky Retirement Systems, I am pleased to present the Board of Trustees with the *Kentucky Retirement Systems Annual Progress Report for Calendar Year 2014*.

In addition to the electronic presentation, the following supplemental pages outline the year's major events in more detail, and provide insight into the daily operations of many KRS divisions. Our Chief Officers and Division Directors will be available at the Board meeting to address any questions you might have.

Sincerely,

William A. Thielen
Executive Director

Investments



David Peden, Chief Investment Officer

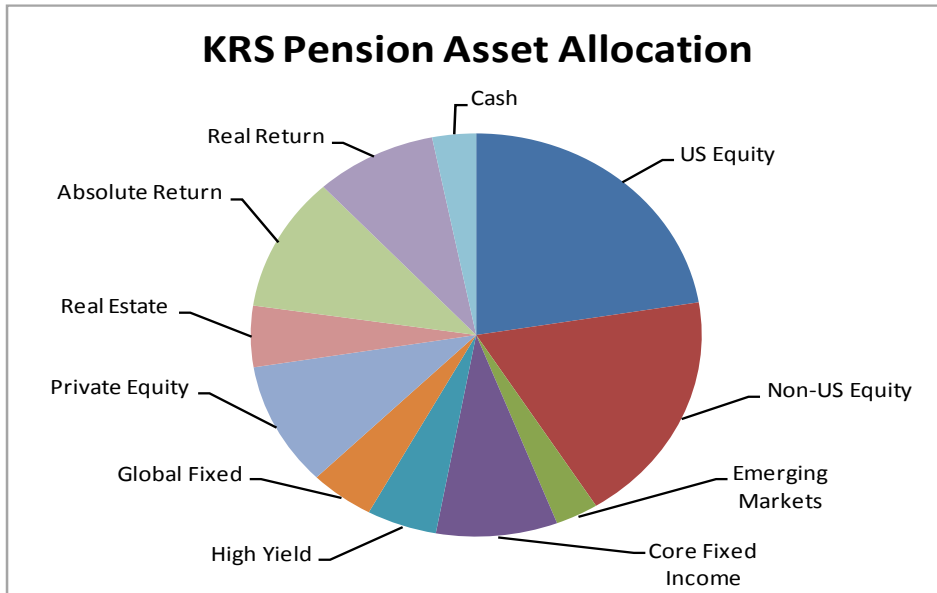
SUMMARY OF DIVISION

The Investments Division of KRS has responsibility for rebalancing the investment portfolios to maintain target asset allocations and for maintaining proper liquidity to meet benefit payments. Further responsibilities include the monitoring of all external investment managers, the portfolio management of the internally managed S&P 500, cash and Treasury Inflation Protected Securities (TIPS) portfolios, and evaluating any new investment opportunities or investment managers for recommendation to the investment committee for approval. The division is responsible for the external investment managers' compliance with investment policy, reviewing and negotiating investment legal documents and contracts for newly approved investment mandates, and ensuring performance data is accurate as calculated by BNY Mellon. The division is also responsible for communicating investment performance to the Systems' constituents.

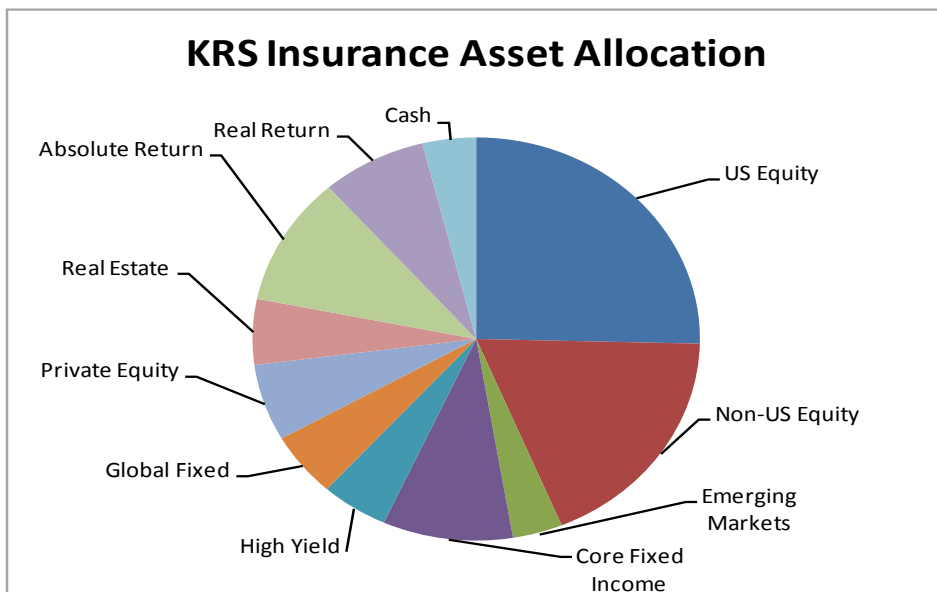
KEY ACCOMPLISHMENTS

1. Successful in managing the portfolio during a year of unimaginable employee turnover
2. Managed nearly \$2 billion in U.S. Large Cap equities internally
3. Completed a \$1.3 billion Non-U.S. equity restructure
4. Invested \$425 million in four new real asset managers
5. Invested \$120 million in three new real estate managers
6. Added \$100 million of secondary Private Equity exposure to predominantly the insurance portfolio
7. Successfully transitioned to a new private equity consultant
8. Added private debt to the fixed income portfolio
9. Added four new hedge fund investments to the direct absolute return portfolio
10. Updated the Investment Policies
11. The Pension plan net performance was 5.14%. The Insurance plan net performance was 4.46%.

KEY STATISTICS



| Pension | 1-Yr | 3-Yr | 5-Yr | 10-Yr |
|------------|------|-------|------|-------|
| Total Fund | 5.14 | 10.11 | 8.41 | 5.83 |
| Benchmark | 6.02 | 10.91 | 8.67 | 6.03 |



| Insurance | 1-Yr | 3-Yr | 5-Yr | 10-Yr |
|------------|------|-------|------|-------|
| Total Fund | 4.46 | 9.52 | 7.84 | 5.24 |
| Benchmark | 6.21 | 10.81 | 8.95 | 5.63 |

KEY STATISTICS (Continued)

| KRS - PENSION | | | | | |
|----------------------|-------------|--------------|-------------|--------------|-------------|
| | 1 YR | 3 YR | 5 YR | 10 YR | ITD |
| KERS | 5.98 | 10.23 | 8.48 | 5.86 | 9.41 |
| KERS Plan Index | 5.38 | 10.75 | 8.58 | 5.99 | 9.52 |
| KERS-H | 4.90 | 10.08 | 8.39 | 5.82 | 9.40 |
| KHAZ Plan Index | 5.44 | 10.82 | 8.62 | 6.00 | 9.53 |
| CERS | 4.91 | 10.08 | 8.39 | 5.82 | 9.40 |
| CERS Plan Index | 5.50 | 10.84 | 8.63 | 6.01 | 9.53 |
| CERS-H | 4.92 | 10.07 | 8.38 | 5.82 | 9.40 |
| CHAZ Plan Index | 5.49 | 10.84 | 8.63 | 6.01 | 9.53 |
| SPRS | 4.96 | 10.10 | 8.40 | 5.83 | 9.40 |
| SPRS Plan Index | 5.37 | 10.79 | 8.60 | 6.00 | 9.53 |

| KRS - INSURANCE | | | | | |
|------------------------|-------------|-------------|-------------|--------------|-------------|
| | 1 YR | 3 YR | 5 YR | 10 YR | ITD |
| KERS INS | 4.28 | 9.32 | 7.72 | 5.18 | 7.48 |
| INS KERS Plan Index | 5.73 | 10.73 | 8.90 | 5.60 | 7.91 |
| KERS-H INS | 4.51 | 9.60 | 7.89 | 5.27 | 7.51 |
| INS KHAZ Plan Index | 5.74 | 10.74 | 8.91 | 5.61 | 7.91 |
| CERS INS | 4.51 | 9.57 | 7.87 | 5.26 | 7.51 |
| INS CERS Plan Index | 5.73 | 10.74 | 8.91 | 5.61 | 7.91 |
| CERS-H INS | 4.52 | 9.56 | 7.86 | 5.25 | 7.51 |
| INS CHAZ Plan Index | 5.73 | 10.74 | 8.91 | 5.61 | 7.91 |
| SPRS INS | 4.50 | 9.56 | 7.86 | 5.25 | 7.51 |
| INS SPRS Plan Index | 5.72 | 10.74 | 8.91 | 5.60 | 7.91 |

INVESTMENTS DIVISION'S GOALS FOR THE NEXT 12 MONTHS

1. Work with RVK to complete the asset/liability study and work with the investment committee to approve a new asset allocation for all five pension systems and all five insurance systems.
2. Successfully fill all vacant positions on the investment team and integrate all new team members into the KRS process.
3. Conduct a structure study on the public equity portfolio likely leading to fewer investment managers, increased passive management, introduction of low-volatility equity, an overweight to U.S. mid cap equity, and overweight to active value managers.
4. Increase internal management within the U.S. equity portfolio.
5. Introduce active management into the small cap equity allocation.
6. Continue building out the direct hedge fund portfolio and evaluate an opportunity to change the fund of hedge fund relationships to strategic partnerships.
7. Conduct due diligence on European real estate managers.
8. Integrate the newly approved real estate co-investment program into the portfolio.
9. Evaluate investment opportunities based on the dislocation in the energy industry.
10. Re-assess the opportunity in emerging markets.
11. Evaluate adding multi sector credit and multi sector fixed income to the fixed income portfolio.
12. Research the infrastructure and tools necessary to improve the monitoring of the private equity portfolio and hedge fund portfolio.
13. Research the tools necessary for greater internal fixed income trading.
14. Evaluate adding private equity co-investment opportunities.
15. Evaluate opportunities to reduce the private equity exposure to venture capital and for KERS non-Hazardous Pension.



LEGAL DIVISION

Brian Thomas, General Counsel

SUMMARY OF DIVISION

The Legal Department currently consists of 16 employees, including the General Counsel, 2 Assistant General Counsels, 2 non-advocacy Staff Attorneys, 5 advocacy Staff Attorneys, the Administrative Appeals Coordinator, 3 Paralegals and 2 Administrative Assistants.

The Legal Department represents the Retirement Systems in legal actions at the administrative hearing level, Franklin Circuit Court, Court of Appeals, the Kentucky Supreme Court and US Bankruptcy Court. This representation includes working with outside counsel in Federal Bankruptcy actions and various other matters. The Legal Department routinely provides advice to agency staff and the Board of Trustees regarding state statutes controlling the Kentucky Retirement Systems, ethical issues, and federal law, such as USERRA, ADAA, FMLA, and tax law. The Legal Department reviews and drafts contracts, proposed legislation and administrative regulations. The Legal Department also reviews legal documents submitted to the Retirement Systems by member, beneficiaries, or participating agencies and advises agency staff on the proper course of action based upon those documents. The Legal Department has provided training or instructional information to agency staff and agency contractors on a variety of issues including the application of disability statutes and the administrative hearing process, and ethical issues. The Legal Department regularly assists in various investigations regarding reports of misconduct or fraud and collection of funds due the retirement systems by members and member agencies.

KEY ACCOMPLISHMENTS

1. Drafted a proposed KRS Housekeeping Bill, prefiled and eventually introduced as HB 108 in the 2015 Regular Session of the Kentucky General Assembly;
2. Worked with various constituencies regarding the crafting of KERS and CERS withdrawal legislation;
3. Assisted in the creation and implementation of the Pension Spiking (KRS 61.598) provisions of Senate Bill 2, enacted during the 2013 Regular Session of the Kentucky General Assembly.
 - a. Amendment of 105 KAR 1:140 (Eff. March 7, 2014);
 - b. Creation of Pension Spiking Workflows;

KEY ACCOMPLISHMENTS (Continued)

4. Successfully incorporated a second DAC/ACC committee establishing an alternating monthly schedule;
 - a. Implemented to use of laptop computers for committee member's to review DAC/ACC case materials;
5. Proposed and filed comprehensive regulatory amendments to clarify and improve KRS' health insurance administration;
 - a. Proposed creation of 105 KAR 1:410
 - b. Proposed repeal 105 KAR 1:290 and 1:360;
6. Developed litigation procedures for implementing the new Pension Spiking legislation.
7. Obtained a judgment to recover over \$316,000 in fraudulently received retirement benefits.
8. Developed procedures for streamlining the implementation of repayment agreements for various retirement benefit overpayments.
9. Obtained judgments recovering over \$217,000 in retirement benefits paid in violation of the retired-reemployed statutes.
10. Assisted in resolving collection of delinquent contributions from five member agencies.
11. Worked with representatives from the Personnel Board to clarify procedures for application of Personnel Board Orders affecting retirement accounts.

KEY STATISTICS

1. Legal documents

- a. Reviewed and took appropriate action on approximately 6,581 legal documents, including divorce decrees, guardianships, Power of Attorney (POAs), Qualified Domestic Relations Orders (QDROs), subpoenas and other miscellaneous court orders and documents
- b. 5,556 legal documents reviewed in 2013

2. Reemployment following retirement

- a. Reviewed approximately 4,273 requests for permission
- b. 3,292 requests reviewed in 2013

3. Administrative hearing requests

- a. Processed approximately 152 valid administrative hearing requests
- b. 178 valid requests received in 2013

4. DAC/ACC Review

- a. 165 cases reviewed in 2014
- b. 187 reviewed in 2013

5. Court Decisions

- a. 6 Decisions Granting/Denying Motions for Discretionary Review by the Kentucky Supreme Court (4 in 2013)
 - 4 decisions issued in 2013
- b. 10 Court of Appeals decisions in 2014
 - 12 Court of Appeals decisions in 2013
- c. 10 Franklin Circuit Court decisions
 - 32 Franklin Circuit Court decisions in 2013

6. New Court Filings

- a. 30 Administrative Appeal cases filed against the Kentucky Retirement Systems at Franklin Circuit Court
- b. 27 new Franklin Circuit Court cases in 2013
- c. 6 Appeals were commenced by or filed against the Kentucky Retirement Systems at the Court of Appeals
 - 12 Appeals in 2013
- d. 7 Motions for Discretionary Review cases were filed by or filed against Kentucky Retirement Systems at the Kentucky Supreme Court
 - 6 Motions for Discretionary Review in Calendar Year 2013

KEY STATISTICS (Continued)

- 7. Approximately 602 Pre-Hearing or Status Conferences were scheduled**
 - 493 Pre-Hearing or Status Conferences scheduled in 2013

- 8. Approximately 158 Administrative Hearing were scheduled and all post hearing activities, including compliance with briefing schedules and filing exceptions to Hearing Officer Recommended Orders when appropriate, were performed**
 - 172 in Calendar year 2013

LEGAL DIVISION'S GOALS FOR THE NEXT 12 MONTHS

1. Implementation and creation of a regulatory framework for HB 62 regarding agency participation.
2. Conduct extensive research on legal and factual issues surrounding agency participation.
3. Continue to pursue the litigation of four bankruptcy cases in Federal Bankruptcy Court including the bankruptcy filed by Seven Counties Services to cease its participation in Kentucky Employees Retirement System.
4. Continue to represent the Kentucky Retirement Systems in a variety of legal forums and to provide legal advice that will allow the Kentucky Retirement Systems to successfully fulfill its statutory mandate and provide quality services to the members and beneficiaries of the Kentucky Retirement Systems.
5. Implementation of any additional legislation impacting KRS.
6. Reviewing and amending the governing administrative regulations in order to update forms and implement new procedures.
7. Prepare IRS Cycle E filing for governmental plans.

Benefit Services



DISABILITY AND DEATH DIVISION **Liza Welch, Director**

SUMMARY OF DIVISION

The Division of Disability and Death consists of two Disability Applications and Review Branches, the Death Branch, and the Disability and Death Support Branch. The Division processes applications for disability retirement, performs annual medical and employment reviews, processes benefits for beneficiaries of deceased active members and retirees and conducts pre- and post-retirement audits for all disability and death applicants and recipients. The Division currently has 27 employees and utilizes the services of 8 contracted licensed physicians and mental health professionals.

KEY ACCOMPLISHMENTS

1. Maintained disability case load with reduced staff and with minimal overtime.
2. Assisted Membership Support with disability calls as a result of the mandatory KEHP health insurance open enrollment.
3. Created a Retirement Program Manager position for the Disability and Death Support Branch. This branch's manager and staff were able to take over the initial processing of incoming disability Form 6000s from the disability managers and counselors, allowing them to focus their efforts on processing disability calculations and reviews and reducing post retirement account audit backlog.
4. Trained 2 members of the Death Branch on post retirement account audits to help reduce the backlog in a more timely manner.
5. Death Branch implemented process changes identified by KRS' internal auditors to reduce the risk of overpayment of death benefits.

Disability and Death Division, continued

KEY STATISTICS

| Activity | 2014 | 2013 |
|--|-------|-------|
| Disability applications processed | 776 | 868 |
| Percent of applications approved for disability retirement on first review | 45% | 44% |
| Percent of applications denied for disability retirement on first review | 55% | 56% |
| Visitors counseled in office for disability | 814 | 833 |
| Disability retirees contacted for annual review | 789 | 731 |
| Voice recorded disability determinations transcribed | 3,844 | 4,055 |
| Active and retired member deaths processed | 3,324 | 3,026 |
| Beneficiary deaths processed | 2,734 | 2,621 |
| Visitors counseled in office for deceased member accounts | 518 | 383 |
| Visitors counseled in office as retirees* | 867 | 1,734 |

*In September 2014, the Division of Retiree Payroll resumed seeing retiree visitors.

| Death Payments Issued for 2014 and 2013 | 2014 | 2014 | 2013 | 2013 |
|---|-------|--------------|-------|--------------|
| Active Death Refunds | | | | |
| KERS | 113 | \$383,078 | 127 | \$330,060 |
| CERS | 228 | \$647,990 | 232 | \$542,541 |
| SPRS | 0 | \$0 | 0 | \$0 |
| TOTAL | 341 | \$1,031,068 | 359 | \$872,600 |
| Actuarial Refunds | | | | |
| KERS | 30 | \$1,441,682 | 20 | \$1,061,179 |
| CERS | 36 | \$1,137,796 | 38 | \$1,153,797 |
| SPRS | 0 | \$0 | 0 | \$0 |
| TOTAL | 66 | \$2,579,478 | 58 | \$2,214,976 |
| Death In the Line of Duty/Duty Related (\$10,000) | | | | |
| KERS | 0 | \$0 | 1 | \$10,000 |
| CERS | 0 | \$0 | 3 | \$30,000 |
| SPRS | 1 | \$10,000 | 0 | \$0 |
| TOTAL | 1 | \$10,000 | 4 | \$40,000 |
| \$5,000 Death Benefits | | | | |
| KERS | 907 | \$4,539,000 | 919 | \$4,595,000 |
| CERS | 1,160 | \$5,820,000 | 1,108 | \$5,540,000 |
| SPRS | 18 | \$90,000 | 12 | \$60,000 |
| TOTAL | 2,085 | \$10,449,000 | 2,039 | \$10,195,000 |
| Guaranteed Refunds (Contributions & Interest Balance) | | | | |
| KERS | 20 | \$190,983 | 17 | \$257,908 |
| CERS | 41 | \$420,893 | 31 | \$209,035 |
| SPRS | 0 | \$0 | 0 | \$0 |
| TOTAL | 61 | \$611,877 | 48 | \$466,943 |

DISABILITY DIVISION'S GOALS FOR THE NEXT 12 MONTHS

1. Achieve and maintain a turnaround time of less than two weeks for transcribing Medical Examiners' dictations.
2. Make initial contact with beneficiaries in less than 7 days from the date the death was reported.
3. Eliminate the backlog of disability and death post retirement audits.
4. Work with Information Technology to continue to improve disability and death processes and applications.

Benefit Services



MEMBER SERVICES DIVISION

Shauna Miller, Director

SUMMARY OF DIVISION

The Member Services Division is comprised of 39 employees including one Division Director, six (6) Retirement Program Managers, 30 Benefits Counselors and two (2) Administrative Assistants. The three (3) Branches are Pre-Retirement Account Audit, Benefits Counseling and Benefits Audit. Counselors within the Division assist members who visit KRS' office or contact KRS via e-mail, phone, fax, or mail for retirement information including: application for service retirement, application for refund of contributions and interest, and estimation of retirement benefits and service purchase calculations.

KEY ACCOMPLISHMENTS

1. Counseled over 5,000 members in office.
2. Processed over 5,600 retirements.
3. Conducted over 13,700 audits.
4. Logged and tested over 500 Problem Incident Reports (PIR's).
5. Benefits Counselors assisted members at several off-site locations in 2014.
 - Pre-Retirement Conferences in both Frankfort and Louisville in September.
 - All Employee meetings at Administrative Office of the Courts (AOC) in September.
 - Boone County Library in September.
 - Several counselors met with individual employees at Morehead State University to assist with an early retirement incentive in May.
 - Several Counselors presented a series of sessions with employees of Eastern State Hospital to assist with the buyout by the University of Kentucky in April.

KEY STATISTICS

COMPARISON OF YEARLY STATISTICS

| | 2014 | 2013 |
|--|-------|-------|
| Members Counseled in Office | 5,108 | 4,577 |
| Retirement Requests Processed | 5,682 | 5,464 |
| Benefit Estimate Requests Processed | 7,840 | 7,355 |
| Service Purchase Requests Processed | 4,183 | 3,736 |
| Refund Requests Processed | 2,033 | 2,215 |
| Pre-Retirement Account Audits Completed | 9,747 | 8,655 |
| Post-Retirement Account Audits Completed | 4,056 | 2,063 |
| Pre-Retirement QDRO Inquiries Processed | 720 | 699 |

MEMBER SERVICES DIVISION’S GOALS FOR THE NEXT 12 MONTHS

1. Continue to work toward a significant reduction in backlog for both member requests and post-retirement audits. We are currently working on a Backlog Reduction Plan incorporating several staff members throughout Benefits whose main focus is the reduction of backlog.
2. Complete training of four new Retirement Systems Counselors for the Counseling branches.
3. Continue required testing for outstanding PIR’s and implementation of FileNet upgrade.

Benefit Services



MEMBERSHIP SUPPORT DIVISION

Kevin Gaines, Director

SUMMARY OF DIVISION

The Division of Membership Support consists of three branches: Employed Call Center, Retired Call Center, and Call Center Support.

The primary function of both the Employed Call Center and Retired Call Center is to provide members with convenient, one-on-one access to counselors that can assist them with their questions and retirement planning by phone. Counselors within both branches also respond to member requests submitted via e-mail, mail, and fax.

The Call Center Support Branch is responsible for answering KRS operator calls, receiving and keying forms sent by members such as name and address changes, beneficiary designations for employed member accounts, and death benefit beneficiary designation forms from retired members. They prepare daily mail for scanning, index forms to launch workflows, distribute electronic faxes to the various divisions within KRS, and correspond with members concerning incorrectly completed forms.

KEY ACCOMPLISHMENTS

1. Implemented Callback Assist to reduce caller wait time spent in queue
2. Coordinated staffing to provide extended call center hours for members during Open Enrollment

KEY STATISTICS

COMPARISON OF YEARLY STATISTICS

| | 2014 | 2013 |
|--|-------------|-------------|
| Inbound Calls | 209,488 | 214,024 |
| Outbound Calls | 19,779 | 19,092 |
| Email Responses to Members | 3,789 | 4,720 |
| Estimates Processed | 2,014 | 1,953 |
| Service Purchase Calculations | 1,066 | 985 |
| Refunds Processed | 2,821 | 3,323 |
| Refunds Checked | 4,249 | 4,227 |
| Pension Verification Responses | 1,242 | 1,599 |
| Incoming Mail Prepared for Scanning | 31,344 | 39,183 |
| Work Items Indexed | 66,198 | 67,344 |
| Membership Forms Processed | 18,670 | 19,544 |
| Correspondence for Invalid Membership Forms | 4,978 | 5,348 |

MEMBERSHIP SUPPORT DIVISION'S GOALS FOR THE NEXT 12 MONTHS

1. MSUP to continue providing assistance toward Benefits Backlog Reduction Plan

Benefit Services



RETIREE SERVICES/PAYROLL DIVISION

David Nix, Director

SUMMARY OF DIVISION

Retiree Services/Payroll is responsible for maintaining all payees' benefit accounts from the onset of initial retirement to cessation of benefits, ensuring the deadlines for each monthly and weekly supplemental payroll are met. Such maintenance includes, but is not limited to, detailed changes to payees' benefits, overpayment recovery, changes to federal tax withholding and direct deposit.

2014 Transitional Changes:

1. David Nix accepted the position of Director of Retiree Services/Payroll effective 9/1/2014, after the appointment of Rebecca Stephens to the position of Chief Benefits Officer. Stephanie Aldridge was appointed to the position of Retirement Program Manager effective 9/1/2014 as well.
2. Retiree Service/Payroll Division was re-located to Building A in order to join the other Benefits Divisions under the Chief Benefits Officer.

KEY ACCOMPLISHMENTS

1. Collaborated with KRS' Information Technology team and Communications to provide statistical information for Comprehensive Annual Financial Report (CAFR) and Popular Annual Financial Report (PAFR).
2. Completed account and benefit changes for 4,087 post retirement audits submitted by Member Services and Disability and Death Divisions.
3. Collaborated with KRS' Information Technology and Communications staff, along with the external printing vendor, to distribute the 2014 1099Rs.
4. Maintained Qualified Excess Benefit Accounts (QEBA's) for 59 recipients and provided data to Local Government for distribution of 2014 W-2 Wage and Earnings Statements.
5. Assisted Membership Support with Retired Call Center phone calls as a result of the mandatory Kentucky Employees Health Plan (KEHP) health insurance open enrollment.

6. Implemented process changes identified by Auditor of Public Accounts (APA) staff as well as KRS' Internal Audit staff.
7. Worked with KRS' Information Technology and business teams to identify and test Problem Incident Reports (PIR) required for START deficiencies and enhancements.
8. Transitioned Division staff to Building A to be closer in proximity to other Benefits staff in order to assist with members visiting the office, backlog reduction, and phone calls.

KEY STATISTICS

COMPARISON OF YEARLY STATISTICS

| | 2014 | 2013 |
|---|----------------|----------------|
| New Retirements | 6,856 | 6,970 |
| Total Number of MONTHLY Recipients as of 12/2014 Payroll | 107,406 | 103,237 |
| MONTHLY Gross Payroll Total of Benefit Payments as of 12/2014 Payroll | \$ 150,527,681 | \$ 145,683,428 |
| Changes to Accounts/ Benefits /Deductions of monthly recipients *Excludes changes made by members via Retiree Self Service | 47,778 | 41,650 |
| Total Number of Payments paid within Supplemental Payrolls as of 12/2014 | 10,163 | 10,343 |
| Total Gross Sum of all one-time payments paid within Supplemental Payrolls | \$ 56,136,975 | \$ 55,707,299 |

RETIREE SERVICES/PAYROLL DIVISION'S GOALS FOR THE NEXT 12 MONTHS

1. Assist other Divisions within Benefits with Retired Call Center phone calls and data cleanup efforts.
2. Support efforts of the Benefits' Backlog Reduction Plan(s) by processing an increased number of post retirement benefit re-calculations with minimum overtime to accomplish plan objectives.
3. Recognize opportunities provided by ongoing START functionality improvements to tweak Division's Processes in order to improve efficiencies.
4. Continue to train and develop Division staff. Enhance their knowledge of START functionality including all areas of benefits administration.



RETIREE HEALTH CARE DIVISION

Connie Pettyjohn, Director

SUMMARY OF DIVISION

The Retiree Health Care (RHC) Division consists of twenty (20) employees: Division Director, Claims Analyst, CMS Communications Coordinator, Case Manager, two (2) Retirement Program Managers, twelve (12) Retirement System Counselors, and two (2) Administrative Assistants. Staff assists retirees in navigating the complications of health insurance after retirement, and administrates a variety of member insurance needs such as eligibility and enrollment for both non-Medicare eligible and Medicare eligible retiree health insurance plans. RHC coordinates with the Kentucky Employees Health Plan (KEHP) and Humana Medicare Advantage Plans. RHC is responsible for payment of health insurance premiums to the Health Insurance Providers and for resolving discrepancies in enrollment, eligibility and payment of premiums.

KEY ACCOMPLISHMENTS

1. Mandatory Open Enrollment for non-Medicare eligible retirees, eligible spouse and dependents – approximately 38,000 lives.
2. Implementation of enhanced customer service measures – call back assist project, allowing retirees to submit a request for a call back that allows them to maintain their position in line when a wait time of greater than 7 minutes is determined.
3. Extended call center hours during September and October 2014 allowed RHC to provide service to a greater number of retirees during Open Enrollment than previous years.
4. Reduction of KEHP Discrepancies – enrollment and premiums.
5. Successful completion of the Centers for Medicare and Medicaid (CMS), 1/3 Financial Audit of the 2012 Employer Group Waiver Plan (EGWP).

KEY STATISTICS

COMPARISON OF YEARLY STATISTICS

| | CY 2014 | CY 2013 |
|---|----------------|----------------|
| Insurance Phone Calls | 37,373 | 30,450 |
| Insurance Visitors | 3,287 | 3,694 |
| Non-Medicare eligible insurance applications | 27,903 | 26,934 |
| Medicare eligible insurance applications | 6,667 | 6,506 |
| Web enrollments | 9,378 | 6,300 |
| Open Enrollment Benefit Fairs/Seminars | 3,247 | 3,000 |

RETIREE HEALTH CARE DIVISION'S GOALS FOR THE NEXT 12 MONTHS

1. Consider opportunities provided by ongoing START functionality improvements such as year round web enrollments for new retirees.
2. Continue to train and develop Division staff: Active and Effective Listening – Basic Steps to Conflict Resolution
3. Support efforts of the Backlog Reduction Plan for post retirement audit recalculations which can cause an increase in the volume of health insurance benefit reviews.
4. Implementation of Minimum Essential Coverage reporting of the non-Medicare eligible retirees, spouses, and dependents enrolled in a health insurance plan with KRS during plan year 2015. Reporting is due March 1, 2016 to the IRS and January 31, 2016 to the covered individual.
5. Continue to provide quality customer service with emphasis on Retiree Health Insurance Benefit Education and Self-Management Skills to increase efficiency and effectiveness with daily business processes

Operations



ACCOUNTING DIVISION Todd E. Coleman, CPA, Controller

SUMMARY OF DIVISION

The Division is responsible for the collection, posting and balancing of employer/employee contributions, including service purchase payments; the posting and balancing of investment activity; monitoring and approving all funds leaving the custodial bank; transferring contributions to the custodial bank for investment; transferring funds from the custodial bank to the depository bank to provide for retiree payrolls, refunds and administrative expenses; and, posting/reconciling all general ledger transactions to provide periodic and annual financial statements.

KEY ACCOMPLISHMENTS

1. Acquired the Cash Management of funds held at BNY Mellon – previously an Investment Function.
2. Reduced Staff through retirements and attrition to create a more efficient and cost effective division.
3. Completed Annual Audit with minimal findings.

KEY STATISTICS

| | FYE 2014 | | FYE 2013 | |
|--------------------------------------|-----------------|-----------------|-----------------|-----------------|
| | Pension | Insurance | Pension | Insurance |
| Total Plan Net Assets | \$13.5 Billion | \$4.4 Billion | \$12.6 Billion | \$4 Billion |
| Increase in Plan Net Position | \$862.8 Million | \$632.5 Million | \$399.1 Million | \$432.5 Million |
| Net Investment Income | \$1.6 Billion | \$527 Million | \$1.1 Billion | \$314 Million |
| Total Administrative Expenses | \$34.2 Million | | \$40.3 Million | |

ACCOUNTING DIVISION'S GOALS FOR THE NEXT 12 MONTHS

1. Ensure that internal controls are strong and functioning as designed
2. Ensure that contributions are invested in a timely manner to maximize investment potential
3. Ensure that financial statements are error free and properly reflect the financial health of KRS
4. Ensure that the financial statements meet all applicable Governmental Accounting Standards Board (GASB) and Generally Accepted Accounting Principles (GAAP) requirements
5. Ensure that staff is properly trained and participating in continuing education



COMMUNICATIONS DIVISION **Scarlett Consalvi, Director**

SUMMARY OF DIVISION

The Communications Division creates and maintains the agency's public presence through publications, the Kyret website, social media, and educational outreach.

KEY ACCOMPLISHMENTS

1. Over 1 million website hits
2. Redesigned Educational Outreach Initiatives
3. New Video Offerings
4. Comprehensive Annual Financial Report (CAFR) and new Popular Annual Financial Report (PAFR) completed and well received

KEY STATISTICS

1. Over 1 million website hits
2. 6,750 members attended outreach sessions
3. 1,200 members attended webinars

COMMUNICATIONS DIVISION'S GOALS FOR THE NEXT 12 MONTHS

1. Conduct Pre-Retirement Education Programs (PREP) Sessions
2. Continue to enhance Popular Annual Financial Report
3. Increase video/webinar educational opportunities
4. Redesign KRS educational publications



EMPLOYER COMPLIANCE & EDUCATION

Sarah Webb, Director

SUMMARY OF DIVISION

As of the last Annual Report, ECE (Employer Compliance and Education) and the ER (Employer Reporting) branch from our Accounting Division had reorganized to form ERCE (Employer Reporting, Compliance and Education). The reorganization has proved to be a success but we are still doing some streamlining and ongoing analysis. The Division currently consists of twenty (20) employees, including one Director, two managers, and 17 ERCE specialists who are divided up amongst Web/File reporters, Kentucky Human Resource Information System (KHRIS), and School Board. ERCE educates the employers on compliance, rules and regulations, policies and procedures. We train employers on how to utilize and work out of the START system. We correct and adjust records that have been reported by the employer, and provide assistance to Executive, Legal, Member Services, Membership Support and Accounting.

KEY ACCOMPLISHMENTS

1. ERCE corrected a total of 86,691 errors during 2014
2. ERCE reduced the number of incoming errors by 2,330 for a total of 6,021 at year end. We have reduced the number of incoming by a grand total of 7,310 since we did our reorganization at the beginning of 8/2013. At that time there were 13,331 incoming errors
3. We created several videos for the website for employers to use. 13 how-to videos for Employer Self Service (ESS), 1 for GASB 67 & 68, and 1 for pension spiking
4. We took over Quality Control (QC) last year from our Accounting Division (they had an employee to retire 8/1/14) and qc'd 15,342 records in that 5 month period
5. Hired a second manager for the File/Web team, which has turned out to be a success. We have moved a few people around on the teams and trying to fit the pieces of the puzzle. We still have work to do on our reorganization. It has been a work in progress and will continue to be. We had an employee leave this year and promoted the manager internally, therefore we are hoping to fill at least one of the positions in the upcoming year. We are trying to figure out the best fit for some of the employees that have come over through our reorganization.

EMPLOYER REPORTING, COMPLIANCE & EDUCATION DIVISION'S GOALS FOR THE NEXT 12 MONTHS

1. Reduce incoming errors to a more reasonable number.
2. Begin assisting employers with Monthly Reporting Invoices.
3. Train internal staff on all aspects of Employer Reporting, Adjustments, QC, Invoices and Compliance. Since the two areas have merged, and lots of procedures and rules have changed we have implemented mandatory training so that everyone gets the same training going forward. With the implementation of START back in 2011, there wasn't a lot of time for in -depth training, which is greatly needed.
4. Putting into motion a new process for error correction. We are going to utilize some of our technology this coming year (Vidyo, possibly Go To Meeting) to assist employers (we are currently utilizing e-mail and agency visits) to give them the knowledge they need to reduce errors on their reports , take invoices, and to educate them on rules, statutes and regulations.
5. Put more videos and information on the website so the employer has it all at their disposal. We need to teach a lot of our employers how to fish. Make it easier for them to find what they need to help them with their reporting or to answer general questions they may have.
6. Look into what kind of employer training is necessary this year and try to reach out to some of our more problem employers to give them one-on- one training.
7. Working on the balancing aspect of Personnel Cabinet 001 (PC001) and trying to resolve their outstanding pended transactions. Gina will be training an additional person for this job.



INFORMATION TECHNOLOGY DIVISION

Jeff Lockett, Director

SUMMARY OF DIVISION

The Information Technology Division strives to provide high quality, responsive, cost-effective, and appropriately controlled information technology solutions and services to enable all KRS divisions to achieve the mission of efficiently and effectively administering the benefits programs established by state government. The Division consists of a director, three managers, and 34 staff divided across a Data Services team, an Application Services team, and a Technical Services team to meet these objectives.

KEY ACCOMPLISHMENTS

1. Successfully implemented a video teleconference solution that has improved employer training and communications while improving employee productivity.
2. Successfully implemented the callback assist functionality in the phone system to minimize member wait times when contacting the call center during periods of heavy call volume, such as health insurance open enrollment.
3. Completed hardware upgrades for START servers, storage, and network equipment resulting in improved performance, availability, and supportability. Disaster recovery hardware was successfully relocated to the hot site, and initial data replication testing was successfully completed.
4. Initiated a major upgrade of the FileNet document management system, which is used to store and process documents in the START pension and benefits administration system.
5. Initiated a major upgrade of the iLog software, which supports health insurance eligibility rules in the START pension and benefits administration system.
6. Completed six major releases of the START system. Functionality included support for pension spiking invoicing, health insurance open enrollment, year-end processing, defect corrections, and other enhancements.

KEY ACCOMPLISHMENTS (Continued)

7. Initiated a project to select a new time and attendance system for employees. This system will replace a legacy system that will no longer be supported.
8. Improved the deployment of Microsoft patches and other third party software to better mitigate information security and operational risks from older software with known vulnerabilities.

INFORMATION TECHNOLOGY DIVISION'S GOALS FOR THE NEXT 12 MONTHS

1. Complete the projects to upgrade the FileNet document management system and the iLog business rule software.
2. Select a new time and attendance system and complete the implementation for all agency employees. Additional costs will be saved when the legacy system can be retired.
3. Continue deploying major releases of the START system. Planned functionality includes support for annual interest posting, a public calculator for Tier 3 members, sick leave billing updates, new Affordable Care Act (ACA) reporting requirements, mitigation of security vulnerabilities, health insurance open enrollment, year-end processing, defect corrections, and other enhancements.
4. Initiate and complete the upgrade of the Great Plains accounting and payroll system.
5. Install and configure new software, servers, storage, and network equipment to support all major projects, agency growth, and the disaster recovery configuration. The disaster recovery plan will be updated to reflect the new configuration, and formal tests of the plan will be scheduled and executed.



PLANNING & CONSTITUENT SERVICES

Shawn Sparks, Director

SUMMARY OF DIVISION

The Planning and Constituent Services Division serves as the main agency contact for the constituent service offices of the Governor, Legislative Research Commission, and Kentucky's Congressional Delegation. Other duties include helping to insure the Systems' operations can withstand unexpected disruptions through the creation of an agency business continuity plan; responsibility for tracking and analyzing legislation during General Assembly sessions; responsibility for the KRS Disclosure Notification Process/agency HIPAA Privacy Officer duties; and conducting various research projects as needed.

KEY ACCOMPLISHMENTS

PLANNING:

1. Developed and conducted an extensive tabletop training exercise for KRS Executive Management and Directors to test the effectiveness of the KRS Business Continuity Plan (December 2014).
2. Developed, maintained, and emailed a Business Continuity Call Tree document to all KRS Executives, Directors, and selected key staff throughout the year.

CONSTITUENT SERVICES/GOVERNMENT RELATIONS:

1. Personally handled **374 constituent services cases** for legislators and other elected officials during Calendar Year 2014, for an average of 31 cases per month (374/12). Regularly recognized by Governor's staff, Legislative Research Commission (LRC) staff, and individual KRS members for attention to detail and successful disposition of cases.
2. Performed **daily legislative tracking duties** for the 2014 Kentucky General Assembly 60-day regular session. Updated agency staff on legislative events, and sent daily emails to over 280 individuals (including KRS Staff, KRS Board of Trustees, and other interested parties who had requested to be on the distribution list).
3. Personally reviewed **1,478 bills and resolutions** to determine potential impact on KRS, and **actively tracked 42 bills and resolutions** of direct interest to KRS over a 99-day period. This represents a **22% increase** in the number of bills reviewed and a **12% increase** over the number of tracked bills from CY 2013.

INFORMATION DISCLOSURES:

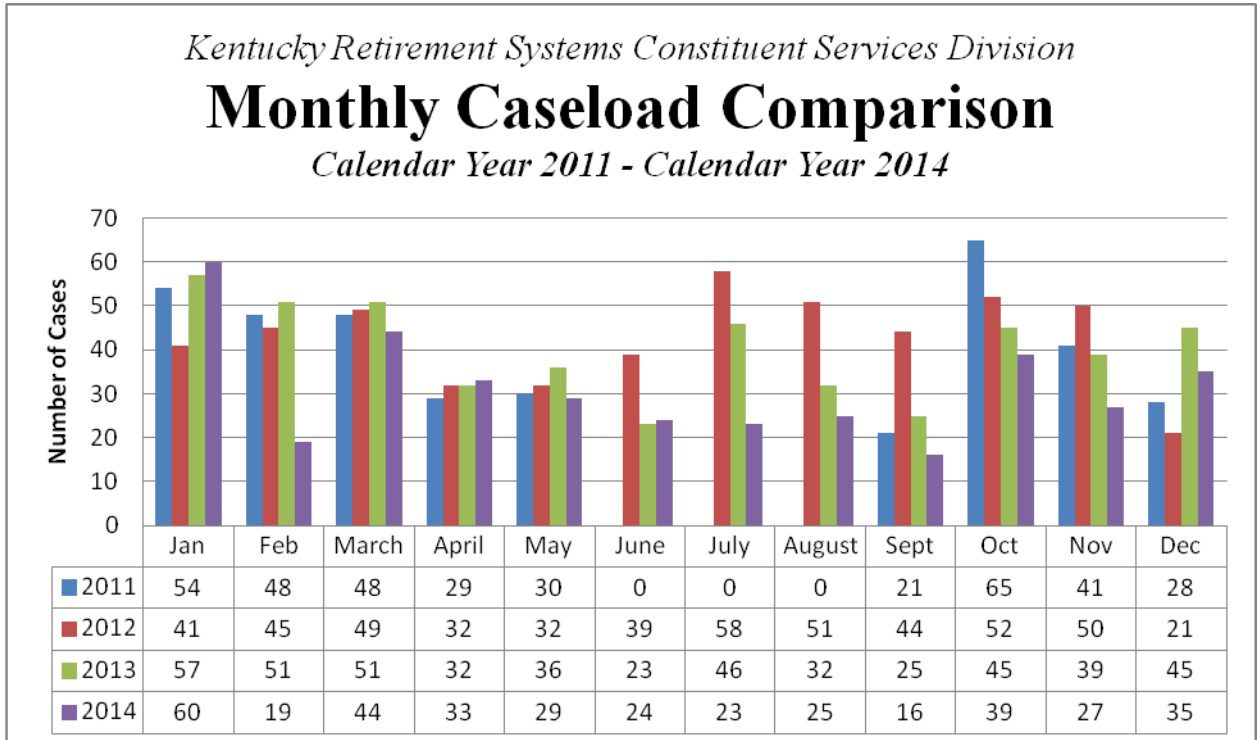
1. Personally investigated and completed 103 separate disclosure cases affecting 2,298 KRS members and beneficiaries.
2. Disclosure notifications occurred within the recommended 60-day timeframe for action as outlined in the KRS Data Disclosure Procedures document.

OTHER ACTIVITIES:

1. Serves as one of two **Harassment Investigation Officers** for KRS. Conducted three investigations in Calendar Year 2014.
2. Invited to speak at three Kentucky Public Retirees meetings (Louisville, Carrollton, Flemingsburg) in 2014.
3. Continue to provide assistance to KRS executive staff as needed, including research and response to various national surveys and requests for information on behalf of agency.

KEY STATISTICS

CONSTITUENT SERVICES STATISTICS:



ABOVE: Monthly Caseload Comparison by Calendar Year (2011 – 2014). Personally handled 374 constituent services cases, for an average of 31 cases per month (374/12).

INFORMATION DISCLOSURE STATISTICS (Calendar Years 2012, 2013, 2014):

| CY | Quarter | Number of Incidents by Disclosure Source | | | Number of Incidents by Disclosure Type | | | | | Number of Members Affected by Disclosure Source | | |
|------|--------------|--|-----------------|------------|--|-------------|----------|----------|------------|---|-----------------|--------------|
| | | KRS | External Agency | Total | Email | Postal Mail | Fax | Other | Total | KRS | External Agency | Total |
| 2012 | 1st | 6 | 28 | 34 | 24 | 8 | 0 | 2 | 34 | 6 | 127 | 133 |
| | 2nd | 12 | 20 | 32 | 22 | 7 | 1 | 2 | 32 | 29 | 256 | 285 |
| | 3rd | 9 | 26 | 35 | 27 | 7 | 0 | 1 | 35 | 472 | 752 | 1,224 |
| | 4th | 5 | 19 | 24 | 21 | 1 | 1 | 1 | 24 | 5 | 30 | 35 |
| | Total | 32 | 93 | 125 | 94 | 23 | 2 | 6 | 125 | 512 | 1,165 | 1,677 |
| 2013 | 1st | 2 | 12 | 14 | 14 | 0 | 0 | 0 | 14 | 2 | 197 | 199 |
| | 2nd | 7 | 14 | 21 | 21 | 0 | 0 | 0 | 21 | 154 | 61 | 215 |
| | 3rd | 4 | 31 | 35 | 32 | 1 | 2 | 0 | 35 | 23 | 867 | 890 |
| | 4th | 6 | 24 | 30 | 27 | 3 | 0 | 0 | 30 | 8 | 43 | 51 |
| | Total | 19 | 81 | 100 | 94 | 4 | 2 | 0 | 100 | 187 | 1,168 | 1,355 |
| 2014 | 1st | 11 | 25 | 36 | 28 | 7 | 0 | 1 | 36 | 11 | 130 | 141 |
| | 2nd | 4 | 18 | 22 | 18 | 3 | 1 | 0 | 22 | 4 | 73 | 77 |
| | 3rd | 3 | 12 | 15 | 12 | 3 | 0 | 0 | 15 | 4 | 270 | 274 |
| | 4th | 13 | 17 | 30 | 22 | 6 | 0 | 2 | 30 | 19 | 1,787 | 1,806 |
| | Total | 31 | 72 | 103 | 80 | 19 | 1 | 3 | 103 | 38 | 2,260 | 2,298 |

ABOVE: Disclosure Statistics by Calendar Year (2012 – 2014). Personally investigated and completed 103 separate disclosure cases affecting 2,298 KRS members and beneficiaries. The disclosure notifications occurred within the recommended 60-day timeframe for action as outlined in the KRS Data Disclosure Procedures document.

PLANNING & CONSTITUENT SERVICES DIVISION'S GOALS FOR THE NEXT 12 MONTHS

1. Continue to provide assistance to members, beneficiaries, and outside entities (elected officials, constituent groups, interested individuals, etc.) through daily focus on Constituent Services caseload.
2. Conduct legislative tracking duties for the 30-day 2015 Kentucky General Assembly regular session.
3. Update KRS Business Continuity Plan and conduct training exercises for senior staff.
4. Continue to personally manage the KRS Disclosure Notification Process. Inform affected members of disclosures in a timely fashion in accordance with new statutes (HB 5 and HB 232, 2014 Regular Session): answer questions from concerned members and address any disclosure issues as they arise.



PROCUREMENT AND OFFICE SERVICES

Joe C. Gilbert, Director

SUMMARY OF DIVISION

The Procurement and Office Services Division's responsibilities include procurement, property management, record management, inventory, mail services along with microfiche, fax and document scanning and indexing

KEY ACCOMPLISHMENTS

1. KRS buildings and grounds have been renovated to improve the working environment
2. Met all mailing deadlines
3. All documents received by KRS were made available agency wide in the shortest amount of time.

KEY STATISTICS

1. Processed and scanned 1,000,544 document pages in 2013 and 1,003,436 document pages in 2014 in the Imaging Branch
2. Indexed 193,827 documents in 2013 and 181,232 documents in 2014 in the Imaging Branch including indexing, Quality Control (QC), re-indexing, correction, document deletion and verification
3. Over 101,000 actions in 2013 and 98,952 actions were processed with the microfiche and film this includes indexing these images to the member files
4. Captured over 89,000 Faxes in Filenet in 2013 and 92,040 in 2014
5. Made approximately 650 vehicle runs in 2013 and 763 vehicle runs in 2014
6. Processed approximately 115,000 pieces of incoming mail in 2013 and 95,484 in 2014
7. Processed approximately 221,000 pieces of outgoing mail in 2013 and 251,740 in 2014

KEY STATISTICS (Continued)

8. Mailed approximately 82,000 recurring checks in 2013 and 70,331 in 2014
9. Mailed 109,584 check stubs to retirees in 2013 and 114,184 in 2014
10. Destroyed 272 boxes of records and sent 570 boxes of records to underground storage in 2013 and destroyed 207 boxes of records and sent 477 boxes in 2014 to underground storage based on our records retention plan

PROCUREMENT & OFFICE SERVICES DIVISION'S GOALS FOR THE NEXT 12 MONTHS

1. Assess KRS buildings and grounds to continue to meet and improve the working environment and plan for future needs
2. Enhance the document capture function with integrated software
3. Continually review all processes in order to reduce mailing, copying, supply and equipment costs.



INFORMATION SECURITY OFFICE **Mark McChesney, Information Security Officer**

SUMMARY OF DIVISION

The Kentucky Retirement Systems Information Security Office was established in 2006 with the appointment of an Information Security Officer (ISO) to lead the development, implementation, and maintenance of an information security and risk management program. The Office's strategic goals include:

- Protect critical information resources from unauthorized access, modification, disclosure, or destruction.
- Assess and identify security risks to the organization and evaluate and recommend appropriate security measure to reduce or eliminate that risk.
- Manage threats and incidents impacting KRS' information resources.
- Develop policies, procedures, standards, and guidelines that incorporate industry best practices and state and federal requirements while supporting KRS business objectives.
- Evaluate the effectiveness of security processes and monitor compliance with internal and external requirements.
- Foster a security-aware workforce by the development and implementation of an effective security awareness program.

The ISO reports directly to the Chief Operations Officer and manages two information security analysts in protecting KRS' information resources. Information Security staff have acquired information security accreditation to ensure they possess the necessary competencies and skill sets to protect KRS.

KEY ACCOMPLISHMENTS

1. Facilitated and managed quarterly Security Steering Committee Meetings comprised of all Executive Management and strategic Senior Management staff.
2. Provided technology guidance and security expertise for numerous mission-critical projects at KRS.

KEY ACCOMPLISHMENTS (Continued)

3. Facilitated and managed the assessment of the IT infrastructure by a third-party vendor to identify potential threats and vulnerabilities that could have a significant impact on KRS operations; determined acceptable levels of risk; and mitigated identified vulnerabilities. Conducted preliminary server/infrastructure assessments to reduce the third-party assessment costs.
4. Facilitated and managed the code review of the START application by a third-party vendor.
5. Conducted internal assessments of approximately 350 KRS workstations and printers for security vulnerabilities and worked with the Information Technology Division to remediate identified issues.
6. Performed regular monitoring of manual and automated security mechanisms and remediated potential security threats or other anomalies. This included the routine review of security logs such as email encryption, malware, system access, internet usage, and anomalous network events.
7. Investigated and documented 20 reported security incidents that included:
 - Malware infections
 - Phishing/spam
 - Security policy violations
 - Unauthorized access to systems and facilities
 - Unsecure entry doors
 - Theft of iPad
 - Social engineering attempts
 - Disgruntled member threats
 - Server room air conditioner malfunction
 - Failed network logons
 - Suspicious telephone calls
 - Investigated numerous log event issues
8. Provided analysis, review and approval of 18 security exemptions to policies, controls or best practices to ensure the appropriate risk management of potential vulnerabilities and/or issues.

KEY ACCOMPLISHMENTS (Continued)

9. Provided security awareness and educational materials for employees, employers, members, and outside entities, including: a. the creation of security-related articles for the quarterly employee newsletter and articles for the member newsletter, b. the distribution of 53 security awareness communications to employees and an additional 183 to executive management and other critical staff, c. the procurement of Securing the Human computer-based training modules for employees through a partnership with the Multi-State Information Sharing and Analysis Center (MS-ISAC) and SANS, d. presentations for the National Pension Education Association (NPEA) and International Association of Financial Crime Investigators (IAFCI), and e. presentations at Kentucky Public Retirees chapter meetings.

10. Represented KRS in various national organizations/associations/conferences such as Multi-State Information Sharing and Analysis Center (MS-ISAC) Monthly Meetings, National Association of State Chief Information Officers (NASCIO) Monthly Meetings of the Security & Privacy Committee and Enterprise Architecture Committee, InfraGard Quarterly Meetings, National Association of State Technology Directors (NASTD), Information Systems Security Association (ISSA) and the DerbyCon Information Security Conference

KEY STATISTICS

| Key Metrics per Calendar Year | 2014 | 2013 |
|---|------|------|
| Security Incidents Investigated | 20 | 67 |
| Security Awareness Communications Sent | 234 | 203 |
| Security Exemptions Reviewed and Approved | 18 | 34 |

INFORMATION SECURITY OFFICE’S GOALS FOR THE NEXT 12 MONTHS

1. Develop and enhance a quarterly security dashboard to track key metrics and communicate to executives and other stakeholders.
2. Track and facilitate the mitigation of information technology-related audit findings.
3. Continue to research and investigate opportunities to support, enhance, and guide KRS strategies for delivering services while mitigating security threats.
4. Review management policies for updates needed to support changing technologies and evolving KRS business needs.
5. Continue to perform or support risk assessment, threat analysis, and remediation efforts to enable KRS technical and business staff to react to a rapidly changing threat environment.

KENTUCKY RETIREMENT SYSTEMS INTERNAL CONFLICT OF INTEREST STATEMENT

I, _____, in my role as _____ at the Kentucky Retirement Systems (“KRS”), recognize the need to maintain the public’s confidence and trust in the integrity of KRS and the Commonwealth of Kentucky.

I understand that I have the obligation to diligently identify, disclose, avoid and manage conflicts of interest that may arise through my relationship with KRS.

I will conduct my activities with KRS so that I do not advance or protect my own interests or the private interests of others with whom I have a relationship, in a way that is detrimental to the interests of KRS.

In every instance in which I am acting on behalf of KRS, I will conduct my activities in a manner to best promote the interests of KRS.

I agree not to attempt to influence KRS in disregard of the interest of its members and beneficiaries.

In all matters where an official decision must be made that may favorably or detrimentally impact my own financial interests or the financial interests of others with whom I have a relationship, I will reveal that relationship and abstain from involvement in the official decision.

When a conflict of interest arises, or when a potential conflict of interest arises, I will disclose that conflict or potential conflict to my supervisor or contact person at KRS and seek resolution of that issue.

I understand that I am subject to the conflict of interest provisions of the Executive Branch Code of Ethics as set forth in KRS Chapter 11A pursuant to the Kentucky Retirement Systems Conflict of Interest Policy and agree to abide by these provisions.

CONFLICT OF INTEREST QUESTIONNAIRE

Have you, or any family member as defined in KRS 11A.010(4) or business associate of yours directly or indirectly:

1. **Interests and Investments:** Knowingly acquired any interest in or received any type of payment or remuneration from any business that does business with Kentucky Retirement Systems? If your answer is yes, please list the business, the type of payment or remuneration, and the date of the payment in the space provided at the end of this statement.

Yes No

2. **Past Work Relationships:** Knowingly been involved in any work relationships in the past that would either constitute or create the appearance of a conflict of interest with Kentucky Retirement Systems? If your answer is yes, please list the person and the work relationship in the space provided at the end of this statement.

Yes No

3. **Gifts and Entertainment:** Knowingly received any gifts, entertainment or other thing of value from any business that does business with Kentucky Retirement Systems or is seeking to do business with KRS? If your answer is yes, please list the gift, entertainment or other thing of value, the person or business from which you received the gift, entertainment, or other thing of value, and the date of receipt in the space provided at the end of this statement.

Yes No

4. **Improper Activities:** Knowingly engaged in any activity or have any interest or arrangement that might appear to involve a conflict of interest with Kentucky Retirement Systems' Conflict of Interest and Confidentiality Policy, or the Executive Branch Code of Ethics? If your answer is yes, please list the activity, interest, or arrangement in the space provided at the end of this statement.

Yes No

If any "Yes" box is checked in answer to any of the above questions, please explain in the space provided. Use additional sheets if necessary.

I have read the Kentucky Retirement Systems' Conflict of Interest and Confidentiality Policy, as well as the Executive Branch Code of Ethic, and agree to report, in writing, to the Executive Director and the Chairman of the Board of Trustees of Kentucky Retirement Systems, any situation which either poses or may pose a possible conflict of interest.

Agreed this the _____ day of _____, 2015.

Signature

Name

Title

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board

FROM: William A. Thielen
Executive Director

DATE: April 16, 2015

SUBJECT: Fiduciary Liability Insurance Policy

The Board's fiduciary liability insurance coverage under a policy issued by Alterra America Insurance Company (Alterra) will expire April 25, 2015. This policy was obtained through a bidding process conducted by the Division of State Risk & Insurance Services of the Kentucky Finance and Administration Cabinet. The coverage that is currently effective with Alterra, including the basic policy terms, is summarized below. A comparison of the coverage Alterra is offering for the period April 25, 2014 through April 25, 2015 is also noted. Additionally, a copy of the Alterra proposal accompanies this memorandum.

| <u>2014-2015 Coverage/Terms</u> | <u>2015-2016 Proposed Coverage/Terms</u> |
|--|---|
| Liability Limit: \$5,000,000 | \$5,000,000 |
| Deductible: \$250,000 | \$250,000 |
| Coverage Period: 1 year | 1 year |
| Term: 4-25-14 – 4-25-15 | 4-25-15 to 4-25-16 |
| Annual Premium: \$64,675.58 | \$79,622.87 |

As you can see, the coverage and terms have remained the same; however, the premium has increased approximately \$15,000 or 23%. The reasons provided for the increase are the City of Fort Wright legal action and general industry trends. We requested other provider quotes, but all declined and one cited the current unfunded liability status. The policy does cover attorney fees, subject to the deductible amount (\$250,000) and the coverage limit (\$5,000,000).

There two options for consideration: (1) the Board could decide not to renew the policy and self-insure the fiduciary liability risk or (2) renew at the higher premium.

RECOMMENDATION: None. Open for Board Discussion.

An Insurance Proposal Prepared For:

Kentucky Retirement Systems

Presented By:
William Pettit, CIC

March 4, 2015



181 Prosperous Place
Lexington KY 40509

Phone: (859) 263-2771

Fax: (859) 263-1999

Website: <http://www.vanmeterins.com>

Kentucky Retirement Systems

Your Van Meter Insurance Group Account Service Team

| | |
|---|--|
| Producer Phone: Email: | Will Pettit 859-263-2771 x4118 wpettit@vanmeterins.com |
| Account Manager: Phone: Email: | Cheryl E. Altizer 859-263-2771 x4117 caltizer@vanmeterins.com |
| Certificates of Insurance Phone: Email: | Maxine Chenault &/or Sheryl Thomason 859-263-2771 x4103 &/or x4147 lexcert@vanmeterins.com |
| Claims Representative Phone: Email: | Phyllis Milliner 270-529-3506 x4235 pmilliner@vanmeterins.com |
| Loss Prevention Services Phone: Email: | Mike Henschel 859-263-2771 mhenschel@ers.net |
| Bonds/Surety Services Phone: Email: | Mike Baas 270-529-3511 mbaas@vanmeterins.com |
| Employee Benefits Phone: Email: | Jon Carroll 859-263-2771 x4116 jcarroll@vanmeterins.com |
| Personal Insurance Representative Phone: Email: | Clay Pear 859-263-2771 x4109 cpear@vanmeterins.com |

Any of these staff members will be pleased to assist you with your service needs.

All coverage quotes are for the April 25, 2015 to April 25, 2016 effective dates. This proposal of insurance **does not constitute a binding** of insurance coverage.

The values, limits of insurance and other information contained in this proposal of insurance are **based upon information you provided**. Please carefully review it for accuracy and adequacy.

Coverage proposed may not be identical to, or as broad as, coverage in your expiring policy(s).

Higher limits of liability may be available. Please advise us if you desire proposals for higher limits of liability.

If you believe there is property not protected by this proposal; uncovered business operations; inadequate limits of insurance for real or business property, business income; or any other exposures or limits of insurance not addressed by this proposal of insurance, please advise us so we can discuss protecting your uninsured financial interests.

If any of your **exposures to loss change after coverage is bound**, and during the policy term, (e.g. new operations, hiring employees in other states, acquiring property, etc.) please let us know so that proper coverage(s) can be discussed.

Proposed coverage(s) **may exclude risks of Mold, Fungus, Yeast, Mildew, Microbe or Bacteria**. Refer to the actual policy forms for specific terms and conditions relating to these exposures to loss. Protection against these risks of loss may be available and we would be happy to discuss this possibility with you.

Proposed coverage(s) **may exclude risks of Construction Defect, Silica, EIFS and Subsidence for Residential Construction**. Please refer to actual policy forms for specific terms and conditions relating to these exposures to loss. Protection against these risks of loss may be available, and we would be happy to discuss this possibility with you.

Proposed coverage(s) **may exclude risks of War, Military Action or Terrorism**. Please refer to actual policy forms for specific terms and conditions relating to these exposures to loss. Protection against these risks of loss may be available, and we would be happy to discuss this possibility with you.

Asbestos Liability and Pollution Liability risks of loss are excluded from coverage provided in this proposal.

All coverage summaries are for proposal purposes only, and are not a legal contract.

Always refer to your actual policies for the specific terms, conditions, limitations and exclusions that will govern in the event of a loss.

Specimen copies of the proposed policy forms are available for review.

Van Meter Insurance Group's goal is to secure your assets and protect your future. In addition to comprehensive insurance program, we also provide ongoing services to our clients. They include but are not limited to the following:

Obtain and review loss information for each of your insurance coverages.

Provide assistance in the resolution of your claims.

Furnish information on paid claims and claims reserves.

Review your insurance company's loss control activities and work with you and your insurance company to establish a comprehensive loss control plan.

Provide premium allocation of each of your departments, locations and/or divisions.

Review leases, rental agreements and other contracts to determine if their insurance requirements fall within your program.

Review your payrolls and sales at the end of six months to determine if the estimate used on the policy premium remains accurate.

Monitor insurance company services (Loss Control, Auditing, Claims, etc...)

Verify audit calculations, dividend calculations and experience modifications.

Conduct an annual review of insurance values, levels of coverage changes in exposures, etc., within your program.

Kentucky Retirement Systems

Trustee & Fiduciary Liability

Named Insured

**Commonwealth of Kentucky
Kentucky Retirement Systems
Kentucky Employees Retirement System (KERS)
County Employees Retirement System (CERS)
State Police Retirement System (SPRS)
Kentucky Retirement Systems Insurance Fund**

INSURANCE COMPANY: Alterra America Insurance Company (Admitted)

A.M. BEST RATING: A XV

Limit of Liability: \$5,000,000 Each Claim and Aggregate

Deductible: \$250,000 Each Claim

Highlights of Coverage:

- \$200,000 sublimit for IRS Closing Agreement Program/Employee Plans Compliance Resolution sanctions, fines or penalties.
- \$1,500,000 sublimit for HIPAA fines and penalties. Chubb sublimit at \$25,000
- Full limits for defense costs.
- Choice of Counsel is up to the insured.
- No hammer clause
- Final adjudication wording for the personal conduct exclusion.
- 90-day cancellation/non-renewal and 14 days non-payment.
- Government entity immunity.

Endorsements:

Pending and Prior Litigation Exclusion: 2/25/1985

Kentucky Retirement Systems

Premium Quotation Summary

Policy Term: April 25, 2015 to April 25, 2016

| COVERAGE | CARRIER | ANNUAL PREMIUM |
|---------------------------------|------------------------|-----------------------|
| | | |
| Trustee and Fiduciary Liability | Alterra America Ins Co | \$78,215.00 |
| KY state Tax 1.8% | | \$ 1,407.87 |
| | | |
| TOTAL | | \$79,622.87 |

Agency Bill, Full Annual or Outside Financing

Commonwealth of Kentucky Retirement Systems

Current Guide to Best's Ratings

| | | | |
|---|-----------------------|--|---------------------------|
| <p>For a complete explanation of Best's Ratings, please refer to the Preface of Best's Insurance Reports or Best's Key Rating Guide. Best's Ratings reflect our independent opinion, but are not a warranty of a company's financial strength and ability to meet its obligations to policyholders.</p> | | | |
| BEST'S RATINGS | | | |
| <p>A.M. Best ratings (A++ to F) are assigned to insurance companies that subscribe to our interactive rating service. The Best's Rating represents an opinion based on a comprehensive quantitative and qualitative evaluation of a company's balance sheet strength, operating performance and business profile.</p> | | | |
| Secure Best's Ratings | | Vulnerable Best's Ratings | |
| A++ and A+ | Superior | B and B- | Fair |
| A and A- | Excellent | C++ and C+ | Marginal |
| B++ and B+ | Very Good | C and C- | Weak |
| | | D | Poor |
| | | E...Under Regulatory Supervision | |
| RATING MODIFIERS and AFFILIATION CODES | | | |
| <p>Under Review (u) Rating Modifiers are assigned to Best's Ratings to identify companies whose rating opinions are Under Review and may be subject to near-term change. Best's Public Data (pd) Rating Modifiers may be assigned to Health Maintenance Organizations (HMOs), Canadian, UK and other European insurers that do not subscribe to our interactive rating process. Best's Public Data Ratings reflect both qualitative and quantitative analysis using publicly available data and other public information. Syndicate (s) Rating Modifiers are assigned to syndicates operating at Lloyd's. Affiliation Codes are based on a group (g). Pooling (p) or Reinsurance (r) affiliation with other insurers.</p> | | | |
| -----Rating Modifiers----- | | -----Affiliation Codes----- | |
| u - Under Review | | g - Group | |
| s - Syndicate | | p - Pooled | |
| pd - Public Data | | r - Reinsured | |
| NOT RATED CATEGORIES (NR) | | | |
| <p>Companies not assigned a Best's Rating are assigned to one of five NR categories which identifies the primary reason a rating opinion was not assigned to the company. For additional information, refer to the Preface.</p> | | | |
| NR-1... Insufficient Data | | NR-4...Company Request | |
| NR-2...Insufficient Size and/or Operating Experience | | NR-5...Not Formally Followed | |
| NR-3... Rating Procedure Inapplicable | | | |
| FINANCIAL SIZE CATEGORIES (FSC) | | | |
| <p>Assigned to all insurance companies and reflects their size based on their capital, surplus and conditional reserve funds in million of US dollars, using the scale below. For additional information refer to the Preface.</p> | | | |
| FSC I | less than 1 | FSC V | 10 to 25 |
| FSC II | 1 to 2 | FSC VI | 25 to 50 |
| FSC XIV | 1,500 to 2,000 | FSC VII | 50 to 100 |
| FSC III | 2 to 5 | FSC VIII | 100 to 250 |
| FSC IV | 5 to 10 | FSC IX | 250 to 500 |
| | | FSC X | 500 to 750 |
| | | FSC XI | 750 to 1,000 |
| | | FSC XII | 1,000 to 1,250 |
| | | FSC XIII | 1,250 to 1,500 |
| | | FSC XV | greater than 2,000 |
| How to obtain the latest Best's Ratings | | | |
| <p>For the latest Best's Ratings and Best's Company Reports (which include Best's Ratings) visit the A.M. Best web site at www.ambest.com. You may also obtain Best's Company Reports by calling our Customer Service Department at +1-908-439-2200, ext. 5742. To expedite your request, please provide the company's identification number (AMB #).</p> | | <p>All rating actions are published in the Rating Monitor section of BestWeek(r). Selected rating changes and new ratings are published in Best's Review(r) (our monthly magazine)</p> | |

Version 061802

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Commonwealth of Kentucky Retirement Systems

Abbreviations & Definitions

DED = DEDUCTIBLE – A specified dollar amount beyond which coverage begins. Various deductible amounts are available.

VALUATIONS – Property may be valued in several different ways. Insurance companies commonly use one of the following approaches to determine value, which also determines how a loss will be paid.

RC = REPLACEMENT COST – The replacement cost of a property item is the cost to repair or replace damaged items with like kind and quality without deduction for depreciation. This is important since you could face a substantial loss if you must replace property at today's prices but receive only the depreciated value of the property that was destroyed.

ACV = ACTUAL CASH VALUE – pays for the cost to repair or replace damaged property with like kind and quality, less reasonable deductions for wear and tear, deterioration and economic obsolescence.

AA = AGREED VALUE – is used to remove the coinsurance requirement for covered property. Under agreed value coverage you agree that the amount of coverage purchased is adequate, and any coinsurance requirements are waived if the limit of insurance equals the agreed value.

MR = MONTHLY REPORTING – is most commonly used when the insured's inventory/stock fluctuates throughout the year. The insured reports the actual values to the company per each location on a monthly basis. In the event of a loss the amount of settlement will be based upon the monthly reports.

COINS% = COINSURANCE – A policy may contain a coinsurance clause requiring that the limit of coverage be a minimum percentage (usually 80%) of the insurable value of your property. If the amount of insurance carried is less than what is required by the clause, any claim payment may be reduced by the same percentage as the deficiency. For example, covered property worth \$100,000 may require a minimum of 80% or \$80,000, of coverage for compliance with the policy's coinsurance requirement. If only \$60,000 of coverage is carried (25% less than the required \$80,000), then any loss payment would be reduced by 25%.

IF = INFLATION GUARD – The insured can insure a building for its full value at the beginning of the policy year. However, at the end of the year, it might not be insured for its full value because of inflation. This problem can be corrected by adding inflation guard coverage. With inflation guard, the policy limit increases gradually during the policy term so that the total increase equals the total desired percentage increase at the end of the policy term.

ALS = ACTUAL LOSS SUSTAINED – If Business Interruption coverage is provided and a covered cause of loss occurs that results in an interruption to the insured's business. The policy pays for the net profit which the insured is prevented from earning. It includes charges and expenses (including ordinary payroll) only to the extent that the charges and expenses would have been incurred had no loss occurred.

EQ = EARTHQUAKE COVERAGE – This endorsement extends your covered causes of loss to include damage that results directly from an earthquake. All earthquake shocks that occur within a 168 hour period (one week) are considered to be a single occurrence. A separate deductible applies and it is determined by the value of the insured property.

COMP = COMPREHENSIVE – This coverage is used to insure against loss or damage to a covered vehicle resulting from loss excluding collision or upset.

SCL = SPECIFIED CAUSE OF LOSS – This is a form used to provide coverage against loss from fire, lightning, explosion, theft, windstorm, hail, earthquake, flood, malicious mischief or vandalism and the sinking, burning, collision or derailment of a conveyance transporting the covered auto.

PIP = PERSONAL INJURY PROTECTION – An endorsement that adds no-fault benefits. No-Fault means in the event of a covered automobile accident, each party files the claim with his or her own insurer regardless of who is at fault. The PIP endorsement is only available in certain states with No-Fault laws. This endorsement applies only to bodily injury and not to property damage. (The state of Michigan is the exception to property damage) No-Fault laws vary widely from state to state.

HIRED AUTO – This is a coverage applied to autos leased, hired, rented or borrowed for use in the insured's business. Coverage may be purchased for liability, physical damage or both.

CSL = COMBINED SINGLE LIMIT – This term is used primarily in automobile policies. The term in the automobile policy means that the coverage limit for bodily injury and property damage in any single accident is "combined" into one limit. If the automobile policy has a CSL of \$500,000 per accident, the most the policy will pay for all injuries and property damage to a third party is \$500,000 per accident.

ADMITTED/NON-ADMITTED CARRIER STATE GUARANTY FUNDS – The term "admitted" carrier refers to an insurer, which has been approved by a given state's insurance department to write business within that state. State Guaranty Funds protect "admitted" carriers, should insolvency (bankruptcy) of the insurer occur, to the maximums provided according to the appropriate state's statutes. The extent of protection varies by state and is typically less than the limits of protection provided by the insurance policy. A "non-admitted" carrier is not protected at all by the State Guaranty Fund should the carrier become insolvent (bankrupt).

IT IS IMPORTANT TO KEEP IN MIND THAT AN ADMITTED OR A NON-ADMITTED STATUS, AS WELL AS THE RESULTING APPLICABILITY OF ANY STATE'S GUARANTY FUND, ARE ISSUES ONLY IF/WHEN A CARRIER IS DECLARED INSOLVENT.

MINIMUM AND DEPOSIT PREMIUM – This is the amount of premium due at inception. Although the policy is "ratable", that is, subject to adjustment based on a rate per exposure unit, under no circumstances will the annual earned premium be less than the minimum premium. In other words, the policy may generate an additional premium based on audit but not a return of premium.

MINIMUM EARNED PREMIUM – A minimum earned premium endorsement can be attached to either a flat charge policy or an adjustable policy. In either case, this amount is the least that will be retained by the carrier once the policy is effective. The amount retained will be the greater of the actual earned premium whether calculated on a pro-rata or short rate basis, or the minimum earned premium.

Van Meter Insurance Group is committed to act in your best interest by providing products and services that meet your needs and desires. It has been a long-standing practice in the insurance industry for carriers to have compensation arrangements with consultants and brokers who bring value to the distribution system through performance, expertise and efficiency. We believe that such arrangements enhance our ability to access markets in your interest. Such arrangements also enable and encourage us to make investments in technology, compliance, market research and risk management methods that deliver value to you over the long term by lowering the cost of risk. It is, therefore, our policy and practice that we should provide you with all available information regarding compensation arrangements.

From most of the insurance products we provide you we earn a commission. Commissions are normally calculated as a percentage of the premium paid to the insurer for the specific policy. The commission is included in the premium paid by you. Your Van Meter Insurance professional, who places and services your insurance, may be paid compensation that varies directly with the commissions we receive.

We also receive income through contingency arrangements with some of the insurers that we represent. This type of commission is called “contingent” because to qualify for payment we normally need to meet established goals for profitability, retention or growth standards across all of the policies we have with a given insurer. Sometimes this compensation is contingent because we must show that we have helped the insurer gather and assess underwriting information so as to renew existing policies and have contributed to their success as well adds to your risk management needs throughout a year. If, in a given year, we do not meet an insurer’s requirements, then we are not eligible for a contingent commission and we receive no payment. Over the previous year, our contingent income has averaged less than 1% of premiums. Please let us know whenever you wish to know specific information about our compensation from the products and services we are providing you. We are pleased to keep you informed.

Commonwealth of Kentucky Retirement Systems

Market Security Policy Overview

Van Meter Insurance Group is committed to protecting the assets of its clients by monitoring the financial conditions of carriers and other providers with which it places business. In recent years the importance has become more critical than ever. Our role as your trusted advisor demands that we address this need.

A.M. Best Company was incorporated in 1899. It has become the leading source of information of the financial condition of both U.S. and international insurance companies that subscribe to its rating service. Best's primary source of information is official annual and quarterly (if available) financial statements filed with state, province or country regulators in which the company is domiciled. These reports are supplemented by other publicly available documents, such as SEC, GAAP or IAS financial statements, and other public and confidential documents as available.

Van Meter Insurance Group has established a Market Security Committee to oversee policies, procedures and standards relating to the financial security of those carriers and other providers with which it places business. The committee is composed of company senior management. It monitors the financial condition of approved carriers, using A.M. Best Company as its' information source. The committee must approve all carriers and other suppliers.

Van Meter Insurance Group assigns our carriers into categories. Notification procedures vary with each category based upon the financial condition as interpreted from A.M. Best Company reports.

"Approved carriers" – Any provider with an A.M. Best's rating of A- VII or higher. The Best's rating of approved carriers must be disclosed on proposals to clients and prospects clients prior to binding, along with a copy of the "Current Guide to Best's Ratings."

"Conditional approved carriers" – Any provider with an A.M. Best's rating of B+ VII to, and including, A- VI. The Best's rating of conditional approved carriers must be disclosed on proposals to clients and prospects prior to binding, along with a copy of the "Current Guide to Best's Ratings." In addition, the proposal must contain a copy of Best's latest Financial Overview Report for the carrier. A copy of the Van Meter Insurance Group Market Security Policy Overview and Conditional Approved Carrier Disclaimer must be included. The client is not required to sign the disclaimer.

"Exception approved carriers" – Any provider with an A.M. Best's rating of B+ VI or below. Also included in this category are: the "not rated" (NR) A.M. Best categories; carriers not listed in Best's "Key Rating Guide", Risk Retention Groups (RRGs), Captives, Self-Insured Funds, and any other alternative risk bearing schemes. The Best's rating of exception-approved carriers must be disclosed on proposals to clients and prospects prior to binding, along with a copy of the "Current Guide to Best's Ratings." In addition, the proposal must contain a copy of Best's latest Financial Overview Report for the carrier, and a copy of the Van Meter Insurance Group Market Security Policy Overview. The client must sign a disclaimer document acknowledging the carrier rating and financial condition as well as an understanding of the risk involved, and authorizing placement of coverage.

"Prohibited carriers" – All providers not assigned to one of the above-mentioned groups. These providers will not be presented to clients at any time, for any reason.

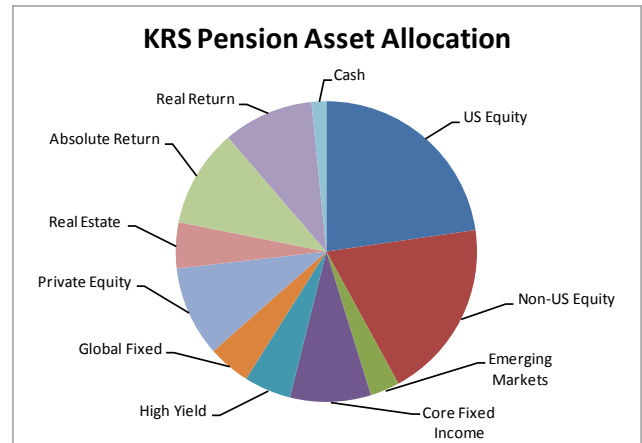
Van Meter Insurance Group does not guarantee, nor make representations in regard to, and expressly disclaims responsibility for, the financial conditions of insurers with which it places business.

What’s going on in the marketplace?

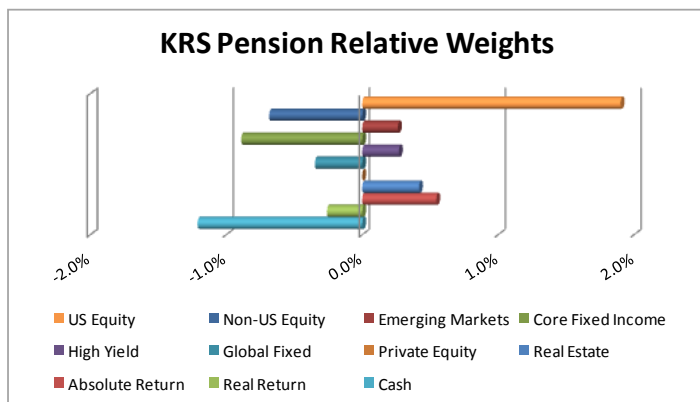
February of 2015 was a month of rallying stock prices as the United States and pan-European region showed signs of moderate economic growth. After a challenging couple of months, the energy and materials sectors rebounded as oil prices slowly began to increase. Large cap U.S. equities were up 4.08% during the month of February (S&P 500 index). U.S. Small Cap equities performed particularly well, growing by 5.71% during the same time. February was also a good month for Non U.S. equities in both developed and emerging markets. The MSCI ACWI ex U.S. index, a global market index, earned 4.30%, while the MSCI Emerging Market Index earned 2.42%. This economic growth caused some investors to fear a potential interest rate hike by the Feds, which caused high quality bond issuances to retreat slightly.

The U.S. equity indexes had their best monthly performances since 2011 when the economy was still recovering from the 2008 financial crisis. Investors retreated from U.S. high quality bonds and instead shifted back into riskier European bonds as the ECB signaled a quantitative easing program, thus backstopping many European issuances. The Barclays U.S. Aggregate Index declined by -0.9%, while the 10-year U.S. Treasury yield increased by 35 basis points to 1.99%.

European equities rallied right alongside their U.S. counterparts during the month. This asset appreciation can be attributed in part to improving retail sales, as well as investor optimism due to the ECB’s aggressive stimulus program and the Fed’s signal of careful unwind of their own quantitative easing program. Within the pan-European bond market, Italy and Spain saw sovereign debt yields plummet as investors anticipated the ECB’s bond buying program. Germany’s 10-year bond, however, remained flat over the period. In Japan, equities increased significantly as the economy began to digest Prime Minister Shinzo Abe’s “third arrow” of economic reforms (a consumption tax). Markets were also favorable in Australia, where interest rate cuts early in the month surprised investors and helped to drive equity markets higher. Emerging market equities drifted slightly higher due to positive momentum from the developed markets.



| | Feb | 1-Yr | 3-Yr | 5-Yr | 10-Yr |
|------------|------|------|------|------|-------|
| Total Fund | 2.32 | 6.30 | 8.73 | 8.93 | 6.08 |
| Benchmark | 2.21 | 7.48 | 9.36 | 9.28 | 6.27 |



Overall, the U.S. economy remains the global driver for growth. The strength of the U.S. dollar, as well as the increase in U.S. equity performance helped to pave the way for an outstanding month for stocks globally.

What added value this month?

PENSION – From a manager selection standpoint, the portfolio performed well during the month of February adding value in all but two asset classes and outperforming the benchmark by 11 basis points. The U.S. equity portfolio was the highest performer of the month, earning 5.64%. Within the U.S. Equity portfolio, Westwood Management’s value strategy performed

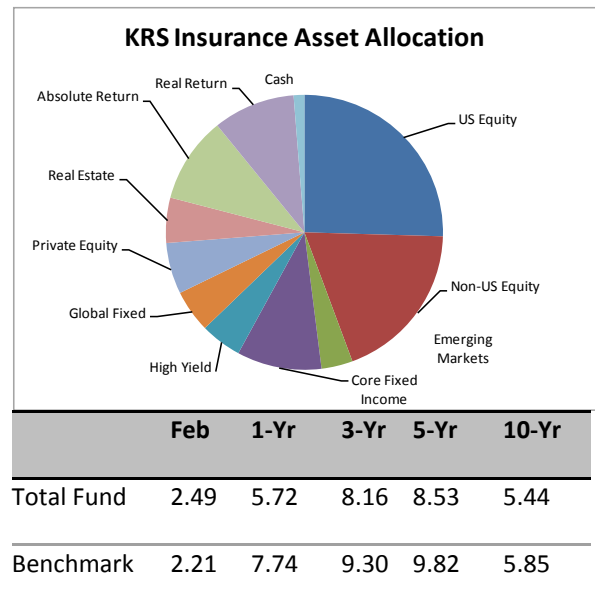
best relative to its benchmark, outperforming it by 245 basis points. Fixed income did relatively well during this period, outperforming its benchmark by 62 basis points. Real return also added value, adding 94 basis points of downside protection against its benchmark, which achieved a -0.56% return.

It was beneficial for KRS to overweight equities in an month where global equities rallied. Overweighting the fixed income and real return asset classes also added value to the portfolio, offering downside protection against poorly performing benchmarks. Overall, the pension portfolio boasted a 2.32% return in February.

INSURANCE – From a manager selection standpoint, the portfolio benefited from the performance of the Fixed Income allocation, which returned 0.03% versus its benchmark return of -0.58% (a difference of 55 basis points). The Real Return allocation also added 93 basis points of downside protection, helping the pension portfolio achieve its return of 2.49% during the past month. Although U.S. equities fell slightly short of their benchmark, they earned a 5.72% return, making them the highest performing asset class from an absolute standpoint. In line with the pension portfolio, Westwood Management provided a return of 7.19%, thus generating active alpha.

What detracted this month?

PENSION – From a manager selection standpoint, the asset class that reduced returns the most came from the Absolute Return portfolio, which lagged behind its benchmark by 64 basis points and had a negative return for the month. Within U.S. Equity, the Northern Trust portfolio struggled relative to its benchmark, falling short by 5 basis points. Because Non U.S. Equity markets had such a strong performing month, the overall portfolio suffered due to being 0.7% underweight in this area. From an absolute standpoint, the only relevant negative return came from the Absolute Return asset class.



INSURANCE – Similar to the pension funds, the insurance trusts suffered from relative underperformance within the Absolute Return and Emerging Market strategies. Although the U.S. Equities strategy performed well during the past month, it struggled next to its benchmark, trailing by 7 basis points. Within U.S. Equity, the Northern Trust portfolio struggled most during the past month earning 35 basis points below its benchmark. From an absolute standpoint, Absolute Return was the only relevant negative performing asset class for February.

NOTES:

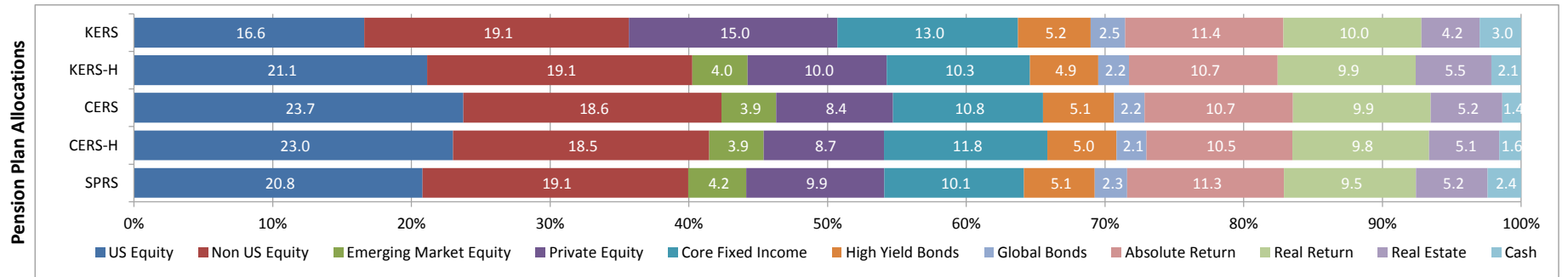
- 1) Returns displayed are “net”. For the purposes of this report, total fund return information is net of fees and expenses, with audited data beginning in July 2011. At the manager level (detailed return sheets pgs.4-5), returns are net of fees beginning with July 2011, and gross of fees for prior data.
- 2) Individual plan allocation and performance (pg.6).
- 3) Prior to January 1, 2014, the inception date for the Private Equity asset class was stated as 10/1/1990 for Pension Fund and 6/1/2001 for Insurance Fund. Prior to 07/01/02, the characteristics of the allocation, and the benchmark itself, were more closely aligned with Real Estate. As such, it is not appropriate to report this portion of the return stream within the Private Equity allocation, whose true inception date has been determined to be 07/01/02 based on funding the Systems’ first private equity mandate. The portion of the original return streams that are no longer reported within the Private Equity allocation (Pension from 10/1/90 to 06/30/02; Insurance 06/01/01 to 06/30/02) are reported within the Fund Level performance figures.

- | | |
|---|--|
| <p>4) Private Equity Composite (Pension) Inception (07/01/02) to 06/30/11 60.00% S&P 1500 Composite Index 40.00% Barclays US Corporate High Yield Index 07/01/11 to Present 100.00% Russell 3000 Index + 4% (Qtr Lag)</p> | <p>Private Equity Composite (Insurance) Inception (07/01/02) to 06/30/11 80.00% S&P 1500 Composite Index 20.00% Barclays US Corporate High Yield Index 07/01/11 to Present 100.00% Russell 3000 Index + 4% (Qtr Lag)</p> |
|---|--|
- 5) The Private Equity Benchmark, from one month returns up until five year returns, is equal to the performance of the KRS Private Equity allocation. Given there is not appropriate benchmark to use for short term performance evaluation, this will allow greater focus on longer term returns, which is more appropriate given the long term nature of private equity investments.

KENTUCKY RETIREMENT SYSTEMS - PENSION FUND - NET RETURNS - 02/28/15

| Structure | Benchmark | Inception | Market Value | % of Total | Month | QTD | Fiscal YTD | 1 Year | 3 Years | 5 Years | 10 Years | 20 Years | ITD | | | | | | | | | | |
|---------------------------|---|-----------------|--------------------------|---------------|--------------|--------------|--------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|--------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|
| TOTAL FUND | KY Ret. Blended Index | 4/1/1984 | 11,593,460,056.02 | 100.00 | 2.32 | 2.21 | 2.14 | 2.41 | 1.14 | 2.30 | 6.90 | 7.48 | 8.73 | 9.36 | 8.93 | 9.28 | 6.08 | 6.27 | 8.27 | 8.39 | 9.42 | 9.57 | |
| US PUBLIC | KY Domestic Equity Blend | 4/1/1984 | 2,632,321,092.35 | 22.71 | 5.64 | 5.79 | 2.78 | 2.85 | 7.12 | 8.25 | 12.46 | 14.12 | 17.12 | 18.02 | 15.83 | 16.44 | 8.24 | 8.38 | 10.11 | 10.05 | 11.56 | 11.53 | |
| INTERNAL MID CAP GROWTH | Russell Midcap Index | 8/1/2014 | 230,895,915.70 | 1.99 | 5.03 | 5.12 | 3.88 | 3.94 | | | | | | | | | | | | | 10.76 | 10.88 | |
| INVESCO | S&P 500 - Total Return Index | 8/1/2005 | 237,211,238.98 | 2.05 | 4.49 | 5.75 | 2.18 | 2.57 | 6.65 | 8.85 | 13.98 | 15.51 | 18.29 | 18.00 | 16.05 | 16.18 | | | | | | 9.17 | 7.99 |
| NTGI STRUCTURED | Russell 2000 Index | 10/1/1999 | 241,351,238.25 | 2.08 | 5.89 | 5.94 | 2.64 | 2.53 | 5.19 | 4.22 | 7.58 | 5.63 | 18.03 | 16.58 | 17.83 | 15.97 | 9.41 | 8.31 | | | | 10.47 | 8.53 |
| RIVER ROAD | Russell 3000 Value Index | 7/1/2011 | 32,306,371.90 | 0.28 | 5.23 | 4.82 | 1.82 | 0.62 | 6.46 | 5.04 | 12.51 | 12.70 | 16.02 | 17.89 | | | | | | | | 14.24 | 15.03 |
| S&P 500 INDEX | KY Ret. S&P Blend | 7/1/2001 | 1,391,867,476.99 | 12.01 | 5.76 | 5.75 | 2.59 | 2.57 | 8.90 | 8.85 | 15.50 | 15.51 | 17.91 | 18.00 | 16.54 | 16.46 | 8.36 | 8.29 | | | | 6.64 | 6.59 |
| SASCO CAPITAL | Russell Midcap Value Index | 7/1/2012 | 49,651,296.20 | 0.43 | 4.59 | 4.10 | 0.58 | 2.61 | -5.03 | 5.94 | 2.21 | 13.63 | | | | | | | | | | 17.17 | 22.76 |
| SYSTEMATIC | Russell Midcap Value Index | 7/1/2012 | 207,141,606.96 | 1.79 | 4.92 | 4.10 | 2.43 | 2.61 | 0.58 | 5.94 | 6.76 | 13.63 | | | | | | | | | | 18.80 | 22.76 |
| TRANSITION ACCOUNT | | | 14,915.18 | 0.00 | | | | | | | | | | | | | | | | | | | |
| WESTFIELD CAPITAL | Russell 3000 Growth Index | 7/1/2011 | 134,712,939.47 | 1.16 | 7.28 | 6.71 | 4.93 | 5.01 | 11.31 | 11.42 | 13.65 | 15.51 | 20.75 | 18.03 | | | | | | | | 17.13 | 16.38 |
| WESTWOOD MGMT | Russell 3000 Value Index | 7/1/2011 | 107,168,095.67 | 0.92 | 7.27 | 4.82 | 3.91 | 0.62 | 6.81 | 5.04 | 13.00 | 12.70 | 17.25 | 17.89 | | | | | | | | 13.83 | 15.03 |
| EQUITY NON US | KY Ret.Int'l Eq. Blended Index | 7/1/2000 | 2,238,066,050.26 | 19.30 | 5.39 | 5.36 | 5.09 | 5.22 | -3.68 | -4.05 | 0.79 | 1.31 | 7.07 | 6.96 | 6.07 | 7.12 | 5.08 | 5.21 | | | | 2.64 | 3.26 |
| AMERICAN CENTURY | KY MSCI ACWI ex-US Index | 7/1/2014 | 146,220,060.01 | 1.26 | 6.12 | 5.36 | 5.82 | 5.22 | -0.60 | -4.05 | | | | | | | | | | | | -0.60 | -4.05 |
| BLACKROCK ACWI EX | MSCI All Country World Ex United States Net Index | 7/1/2009 | 927,923,677.26 | 8.00 | 5.34 | 5.35 | 5.20 | 5.19 | -4.23 | -4.20 | 0.90 | 0.87 | 6.67 | 6.49 | 6.74 | 6.55 | | | | | | 9.08 | 8.91 |
| BOSTON CO NON-US VALUE | KY MSCI Blended Index | 5/1/2005 | 135,025,060.53 | 1.16 | 6.80 | 5.46 | 4.12 | 5.22 | -6.98 | -4.05 | -1.74 | 1.31 | 5.86 | 6.96 | 4.32 | 6.96 | | | | | | 4.37 | 5.32 |
| FRANKLIN TEMPLETON | KY MSCI ACWI ex-US Index | 7/1/2014 | 146,025,719.56 | 1.26 | 5.63 | 5.36 | 6.17 | 5.22 | -1.63 | -4.05 | | | | | | | | | | | | -1.63 | -4.05 |
| LAZARD ASSET MANAGEMENT | KY MSCI ACWI ex-US Index | 7/1/2014 | 290,951,925.13 | 2.51 | 5.46 | 5.36 | 5.05 | 5.22 | -1.88 | -4.05 | | | | | | | | | | | | -1.88 | -4.05 |
| LSV ASSET MANAGEMENT | KY MSCI ACWI ex-US Index | 7/1/2014 | 141,992,714.94 | 1.22 | 4.09 | 5.36 | 3.89 | 5.22 | -4.30 | -4.05 | | | | | | | | | | | | -4.30 | -4.05 |
| NON-US TRANSITION ACCOUNT | | | 252,599.25 | 0.00 | | | | | | | | | | | | | | | | | | | |
| NTGI INTL SM CAP | MSCI AC World ex USA Small Cap Net Index | 12/1/2008 | 161,384,912.33 | 1.39 | 5.50 | 5.46 | 5.13 | 5.07 | -5.72 | -5.97 | -1.97 | -2.43 | 7.79 | 7.32 | 8.05 | 8.36 | | | | | | 15.64 | 16.26 |
| PYRAMIS NON-US GROWTH | KY MSCI Blended Index | 8/1/2001 | 288,289,381.25 | 2.49 | 4.92 | 5.36 | 4.94 | 5.22 | -3.10 | -4.05 | 0.42 | 1.31 | 7.69 | 6.96 | 7.71 | 6.96 | 5.38 | 4.73 | | | | 6.63 | 5.83 |
| EQ EMERGING MKTS | MSCI Emerging Markets Index | 7/1/2011 | 366,453,855.84 | 3.16 | 2.67 | 3.11 | 3.71 | 3.73 | -5.30 | -4.20 | 3.96 | 5.38 | 1.20 | 0.01 | | | | | | | | 0.81 | -1.21 |
| ABERDEEN | MSCI Emerging Markets Index | 4/1/2008 | 118,630,394.59 | 1.02 | 3.52 | 3.11 | 5.53 | 3.73 | -3.86 | -4.20 | 8.02 | 5.38 | 2.08 | 0.01 | 7.86 | 3.97 | | | | | | 6.95 | 1.17 |
| BLACKROCK EMERG MKTS | MSCI Emerging Markets Net Dividend Index | 7/1/2013 | 128,194,970.80 | 1.11 | 3.07 | 3.10 | 3.67 | 3.71 | -4.54 | -4.42 | 4.84 | 5.01 | | | | | | | | | | 5.29 | 5.46 |
| WELLINGTON | MSCI Emerging Markets Index | 4/1/2008 | 119,628,490.45 | 1.03 | 1.41 | 3.11 | 2.00 | 3.73 | -7.46 | -4.20 | -1.21 | 5.38 | -1.22 | 0.01 | 2.14 | 3.97 | | | | | | 0.36 | 1.17 |
| PUBLIC EQUITY | Global Equity Blended Index | 4/1/1984 | 5,236,840,998.45 | 45.17 | 3.32 | 5.35 | 3.82 | 4.01 | 1.41 | 1.44 | 6.62 | 7.43 | 11.49 | 10.74 | 11.18 | 6.35 | 6.17 | 9.16 | 8.92 | 10.94 | 10.79 | | |
| FIXED INCOME | KY Ret.Fixed Blended Index | 4/1/1984 | 2,123,843,539.33 | 18.32 | 0.04 | -0.58 | 1.40 | 1.31 | 1.98 | 2.64 | 4.65 | 4.80 | 4.53 | 3.19 | 5.88 | 4.78 | 5.22 | 4.99 | 6.28 | 6.22 | 7.93 | 7.65 | |
| CERBERUS | | 9/1/2014 | 63,668,969.42 | 0.55 | 0.00 | 0.00 | 0.00 | | | | | | | | | | | | | | | 1.17 | |
| COLUMBIA | Barclays U.S. Corporate High Yield | 11/1/2011 | 146,748,982.76 | 1.27 | 2.06 | 2.41 | 3.56 | 3.09 | 2.41 | 0.15 | 4.89 | 2.80 | 8.11 | 7.60 | | | | | | | | 9.35 | 8.69 |
| LOOMIS | Barclays U.S. Corporate High Yield | 11/1/2011 | 142,601,600.92 | 1.23 | 2.12 | 2.41 | 2.72 | 3.09 | 0.06 | 0.15 | 3.97 | 2.80 | 9.07 | 7.60 | | | | | | | | 10.55 | 8.69 |
| MANULIFE ASSET MGMT | Barclays Multiverse Index | 12/1/2011 | 411,420,793.86 | 3.55 | 2.27 | -0.67 | 3.70 | -0.87 | 3.37 | -5.15 | 5.49 | -2.79 | 5.72 | 0.11 | | | | | | | | 6.51 | 0.88 |
| NISA | Barclays U.S. Aggregate Bond Index | 2/1/2009 | 1,000,943,013.88 | 8.63 | -0.93 | -0.94 | 1.21 | 1.14 | 3.34 | 3.12 | 5.33 | 5.05 | 2.90 | 2.76 | 4.41 | 4.29 | | | | | | 5.15 | 4.98 |
| PIMCO | PIMCO Blended Index | 12/1/2009 | 13,700,491.70 | 0.12 | -0.79 | -0.51 | 0.68 | 0.43 | -1.12 | -1.26 | 1.03 | 1.23 | 1.90 | 1.53 | 3.61 | 3.75 | | | | | | 3.86 | 4.01 |
| SHENKMAN CAP | ShenKman Blended Index | 10/1/2010 | 109,154,927.07 | 0.94 | 1.87 | 1.41 | 2.39 | 1.75 | 0.68 | 0.75 | 2.47 | 2.96 | 5.23 | 6.49 | | | | | | | | 5.80 | 6.87 |
| STONE HARBOR | JP Morgan Emerging Markets Bond Index GD | 12/1/2010 | 110,470,545.98 | 0.95 | 2.42 | 0.85 | 2.17 | 1.79 | -3.21 | 0.63 | 3.45 | 6.86 | 2.10 | 5.37 | | | | | | | | 4.55 | 6.37 |
| WATERFALL | Opportunistic FI Blended Index | 2/1/2010 | 125,134,213.74 | 1.08 | 0.66 | 1.48 | 1.25 | 1.91 | 5.68 | 0.36 | 10.10 | 2.31 | 12.40 | 5.14 | 13.73 | 6.19 | | | | | | 13.98 | 6.12 |
| REAL RETURN | PENSION REAL RETURN CUSTOM BM | 7/1/2011 | 1,128,595,217.98 | 9.73 | 0.38 | -0.56 | 2.11 | 1.14 | -2.80 | -1.78 | 2.31 | 2.10 | 2.11 | 3.50 | | | | | | | | 4.57 | 3.49 |
| AMERRA AGRI FUND II | | 12/1/2012 | 34,397,305.81 | 0.30 | 0.00 | 0.00 | 0.00 | | 4.75 | | 8.63 | | | | | | | | | | | 3.78 | |
| BTG PACTUAL | | 12/1/2014 | 3,491,996.59 | 0.03 | 0.00 | | | | | | | | | | | | | | | | | 0.00 | |
| INTERNAL TIPS | Barclays U.S. Treasury: US TIPS Index | 5/1/2002 | 345,219,213.04 | 2.98 | -0.77 | -0.86 | 1.76 | 1.59 | -0.90 | -1.51 | 2.35 | 1.75 | 0.30 | -0.02 | 4.26 | 4.14 | 4.58 | 4.48 | | | | 5.75 | 5.66 |
| MAGNETAR MTP | | 7/1/2013 | 77,708,432.00 | 0.67 | -1.91 | | -3.62 | | -6.95 | | -3.10 | | | | | | | | | | | 1.37 | |
| NUVEEN | Nuveen Real Asset Custom Index | 2/1/2015 | 222,251,307.00 | 1.92 | 0.11 | 0.08 | | | | | | | | | | | | | | | | 0.11 | 0.08 |
| OBERLAND CAPITAL | | 10/1/2014 | 3,656,999.99 | 0.03 | 0.00 | 0.00 | 0.00 | | | | 0.00 | | | | | | | | | | | -3.19 | |
| PIMCO ALL ASSET | Barclays U.S. Treasury Inflation Notes: 1-10 Year | 12/1/2011 | 339,991,646.64 | 2.93 | 1.37 | -0.87 | 4.90 | 1.60 | -3.78 | -1.42 | 1.50 | 0.81 | 3.89 | -0.06 | | | | | | | | 5.85 | 0.46 |
| TORTOISE CAPITAL | Alerian MLP Index | 8/1/2009 | 93,470,160.84 | 0.81 | 3.97 | 2.08 | 0.98 | -1.04 | -7.59 | -10.83 | 10.90 | 3.30 | 17.32 | 9.30 | 21.07 | 15.31 | | | | | | 23.39 | 18.15 |
| TPF II | | 10/1/2008 | 8,408,147.00 | 0.07 | 0.00 | 0.00 | 0.00 | 0.40 | | | -0.88 | | | -1.88 | | | | | | | | -4.21 | |
| ABSOLUTE RETURN | HFRI Fund of Funds Diversified Index - 1 Month Arrears | 4/1/2010 | 1,221,767,118.42 | 10.54 | -0.45 | 0.19 | -0.18 | 0.48 | 0.57 | 2.63 | 3.29 | 4.13 | 7.32 | 5.25 | UPDATE | | | | | | | 5.74 | 5.13 |
| BAAM | | 9/1/2011 | 385,196,933.00 | 3.32 | -0.40 | 0.10 | 2.59 | | | | 6.08 | | | 8.56 | | | | | | | | 3.54 | |
| HBK II | | 12/1/2013 | 15,601,384.00 | 0.13 | -0.30 | -0.88 | -0.68 | | | | 2.02 | | | | | | | | | | | 7.87 | |
| JANA PARTNERS | | 9/1/2014 | 14,268,577.00 | 0.12 | -4.61 | -4.24 | | | | | | | | | | | | | | | | 3.19 | |
| KNIGHTHEAD | | 1/1/2014 | 15,500,590.00 | 0.13 | -1.27 | -2.14 | | | -3.14 | | 0.07 | | | | | | | | | | | | |

KENTUCKY RETIREMENT SYSTEMS - PENSION & INSURANCE - PLAN PERFORMANCE & ALLOCATION - 02/28//15



KRS - PENSION

| | Month | FYTD | 1 YR | 3 YR | 5 YR | 10 YR | ITD |
|-----------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| KERS | 1.95 | 1.29 | 6.83 | 8.77 | 8.96 | 6.10 | 9.87 |
| KERS Plan Index | 2.04 | 1.66 | 6.50 | 9.15 | 9.16 | 6.22 | 9.82 |
| KERS-H | 2.32 | 0.95 | 6.15 | 8.72 | 8.93 | 6.08 | 9.74 |
| KHAZ Plan Index | 2.34 | 1.59 | 6.87 | 9.26 | 9.22 | 6.25 | 10.00 |
| CERS | 2.44 | 1.11 | 6.16 | 8.75 | 8.95 | 6.09 | 9.79 |
| CERS Plan Index | 2.43 | 1.65 | 6.94 | 9.28 | 9.24 | 6.25 | 10.05 |
| CERS-H | 2.38 | 1.11 | 6.16 | 8.73 | 8.93 | 6.08 | 9.75 |
| CHAZ Plan Index | 2.41 | 1.64 | 6.93 | 9.28 | 9.24 | 6.25 | 10.04 |
| SPRS | 2.31 | 1.04 | 6.21 | 8.74 | 8.94 | 6.09 | 9.79 |
| SPRS Plan Index | 2.35 | 1.56 | 6.81 | 9.23 | 9.21 | 6.24 | 9.95 |

KRS - INSURANCE

| | Month | FYTD | 1 YR | 3 YR | 5 YR | 10 YR | ITD |
|---------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| KERS INS | 2.51 | 1.06 | 5.66 | 7.96 | 8.41 | 5.38 | 9.08 |
| INS KERS Plan Index | 2.61 | 1.92 | 7.20 | 9.22 | 9.77 | 5.83 | 10.23 |
| KERS-H INS | 2.50 | 1.15 | 5.77 | 8.24 | 8.58 | 5.46 | 9.59 |
| INS KHAZ Plan Index | 2.57 | 1.92 | 7.20 | 9.22 | 9.77 | 5.83 | 10.24 |
| CERS INS | 2.49 | 1.16 | 5.75 | 8.21 | 8.56 | 5.45 | 9.54 |
| INS CERS Plan Index | 2.52 | 1.91 | 7.19 | 9.22 | 9.77 | 5.83 | 10.23 |
| CERS-H INS | 2.46 | 1.13 | 5.73 | 8.19 | 8.54 | 5.44 | 9.50 |
| INS CHAZ Plan Index | 2.52 | 1.91 | 7.19 | 9.22 | 9.77 | 5.83 | 10.23 |
| SPRS INS | 2.45 | 1.09 | 5.72 | 8.19 | 8.54 | 5.44 | 9.50 |
| INS SPRS Plan Index | 2.49 | 1.90 | 7.18 | 9.22 | 9.77 | 5.83 | 10.22 |

