

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board

FROM: William A. Thielen
Executive Director

DATE: April 4, 2013

SUBJECT: Oath of Office

The Oath of Office will be administered at the April meeting. There are no materials to be distributed for this agenda item.

RECOMMENDATION: This memorandum is presented for informational purposes only.

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board

FROM: William A. Thielen, Esq.
Executive Director

DATE: April 4, 2013

SUBJECT: CERS Election

The members and retirees of the County Employees' Retirement System (CERS) elected Ms. Betty A. Pendergrass and Mr. Edwin A. Davis to each serve a four year term, commencing April 1, 2013. This will constitute a second Board term for Mr. Davis, and the first for Ms. Pendergrass.

A total of 24,170 ballots were received by the Board's contracted auditing firm, Dean, Dorton, Allen, & Ford, PLLC, Certified Public Accountants, and 23,174 of those were deemed qualified, including 59 write-in votes, and certified on March 14, 2013. A copy of the certification letter is attached.

A total of 3,076 ballots were returned with bad addresses, and 996 ballots were declared to be invalid.

Once the CERS election is declared final, the External Auditor will destroy all ballots in his possession and provide a Certificate to that effect to the Executive Director, or his designee. In addition, the Internal Auditor will destroy all ballots returned with bad addresses in her possession and provide a Certificate to that effect to the Executive Director, or his designee.

In accordance with Kentucky Revised Statute 61.645(4)(b), it will require at least 2,317 signatures to nominate a candidate by petition for the next CERS trustee election.

RECOMMENDATION: The Executive Director recommends acceptance of the External Auditor's certification letter of the winners of the CERS Board election, and declare the election final.

DEAN || DORTON || ALLEN || FORD

COPY

March 14, 2013

Mr. William A. Thielen
 Executive Director
 Kentucky Retirement Systems
 1260 Louisville Road
 Frankfort, KY 40601

Dear Bill:

We have tabulated the ballots of the 2013 County Employees' Retirement System (CERS) Board Member election, and in accordance with the Kentucky Retirement Systems' *Board of Trustees' Election Policy and Procedures* (Election Procedures, Section 10), we hereby certify the results of such election as follows:

<u>CANDIDATE</u>	<u>TOTAL VOTES</u>
Betty Anne Pendergrass	11,653
Edwin Arvie Davis	9,746
David Warren Rich	9,268
Helen Louise Cottongim	5,381
Vince Lang	4,706
Richard Neil Johnstone	3,766
Various write-in candidates	<u>59</u>
Total votes	<u>44,579</u>

Additionally, below is a summary of the number of ballots received related to the 2013 CERS election:

Valid ballots	23,174
Invalid ballots – no signature	801
Invalid ballots – excess of 2 votes	83
Invalid ballots – postmarked after 3/1/13	<u>112</u>
Total ballots received	<u>24,170</u>

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 Suite 600
 Lexington, KY 40507
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 Suite 201 South
 Louisville, KY 40202
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COPY

Mr. William A. Thielen

March 14, 2013

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We appreciate the opportunity to be of service to you.

Very truly yours,

Dean Dorton Allen Ford, PLLC

Dean Dorton Allen Ford, PLLC

cc: Mr. Thomas K. Elliott
Chairman, Board of Trustees
Kentucky Retirement Systems

Ms. Connie Davis
Director of Internal Audit
Kentucky Retirement Systems

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board

FROM: William A. Thielen
Executive Director

DATE: April 4, 2013

SUBJECT: Election of Officers KRS Board of Trustees

The KRS Board of Trustees will elect a Chairman and Vice Chairman at the April 4 meeting. There are no materials to be distributed for this agenda item.

RECOMMENDATION: This memorandum is presented for informational purposes only.

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board

FROM: William A. Thielen
Executive Director

DATE: April 4, 2013

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 **15** employees will receive their five-year service award:

Debbie Hall	Disability & Death
Julie Schuller	Information Security
Bob Patrick	Information Technology
Mike Diebold	Information Technology
Joe Gilbert IV	Investments
Kristi Wackowksi	Legal
Tracy Chambers	Legal
Ashley Gabbard	Member Services
Tracy Thomas	Member Services
Amy Hockensmith	Membership Support
Brent Shannon	Membership Support
Jason Hargis	Membership Support
Rebecca Johnson	Membership Support
Shawn Hutton	Membership Support
Brad McGuire	Procurement & Office Services

The following **17** employees will receive their ten-year service award:

Todd Coleman	Accounting
Vonda Donoho	Accounting
Amy Fields	Communication
Anita Blanton Smith	Disability & Death
Bethany Senter	Disability & Death
Marlane Robinson	Human Resources
Amanda Ricketts	Information Technology
Andy Franklin	Information Technology
Erin Surratt	Information Technology
Phillip Cook	Information Technology

Angela Stevens	Legal
Anne Baker	Member Services
Ellen Baker	Member Services
Jean Hutcherson	Member Services
Robbie Hanks	Member Services
Shannon Bellamy	Membership Support
Carolyn Harris	Retiree Services / Payroll

The following **12** employees will receive their fifteen-year service award:

Kristy Bramblett	Accounting
Linda McMurray	Accounting
Tracy Allnutt	Accounting
Lisa Perry	Administration
Jennifer Chesser	Disability & Death
Pamela Spencer	Disability & Death
Mark Lenz	Information Technology
David Riddle	Retiree Health Care
Kathy Satterley	Retiree Health Care
Lisa Hilton	Retiree Health Care
Cherelyn Collins	Retiree Services / Payroll
Michelle Rodgers	Retiree Services / Payroll

The following **5** employees will receive their twenty-year service award:

Bob Sircy	Accounting
Shari Barber	Accounting
Andra Deaton	Member Services
Rebecca Stephens	Member Services
Mike Fehr	Retiree Health Care

The following employee will receive his twenty five - year service award:

John Davis	Information Technology
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Kentucky Retirement Systems

Kentucky Employees Retirement System – County Employees Retirement System – State Police Retirement System

ANNUAL PROGRESS REPORT FOR CALENDAR YEAR 2012

- *Executive Director's Letter*
 - *Benefit Services*
 - *Investments*
 - *Legal*
 - *Operations*

Presented to the KRS Board of Trustees
April 4, 2013

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Executive Director's Letter



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

April 4, 2013

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 2012*.

It has been another busy year at Kentucky Retirement Systems. Our Benefit Services group processed well over 900 disability applications, counseled more than 5,700 members in office, and handled over 212,000 telephone calls. Our Investment Division continues to actively manage our portfolio through challenging economic times and published a white paper in the prestigious *Journal of Private Equity*; our Legal Department has provided valuable guidance to staff and the Board of Trustees on many complex issues; and the seven divisions within our Operations group remain focused on serving both our internal (fellow KRS employees) and external (employers, members, retirees, etc.) stakeholders to insure our daily tasks are executed with maximum efficiency. I am proud of the professionalism and dedication Kentucky Retirement Systems staff constantly displays in meeting our obligations to our membership.

The following 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

Benefit Services



DISABILITY AND DEATH

Liza Welch, Director

The Division of Disability and Death consists of two Disability Applications and Review Branches, the Death Branch, and the Disability and Death Support Branch. Our division processes applications for disability retirement, performs annual medical and employment reviews, processes benefits for beneficiaries of deceased active members and retirees and handles pre- and post-retirement audits for disability and death applicants and recipients. The Division currently has 25 employees and utilizes the services of 10 contracted licensed physicians and mental health professionals.

Counselors in the Applications and Review Branches assist active and retired members with retirement paperwork and questions regarding disability and early retirement. This involves processing incoming retirement applications and preparing pre-retirement audits, estimates, finals and purchases. Our counselors assist our membership by phone and in the office. Once all necessary documents are filed by the member the counselors prepare the case for the Medical Examiners and notify the members of the decision.

The Applications and Review Branch counselors are also responsible for all post retirement processes for disability retirees. They prepare post retirement audits and check for overpayments due to Social Security and Workers' Compensation payments. These counselors prepare hearing affidavits on pending disability hearing cases. They conduct annual medical and employment reviews on all disability recipients.

Counselors in the Death Branch assist beneficiaries of deceased active and retired members with retirement paperwork and questions regarding death benefits and monthly payments. This involves processing incoming paperwork and preparing pre-retirement audits, estimates and final retirement calculations, as well as post-retirement payroll administration of survivor benefits. These counselors assist our membership by phone, by mail, and in the office. Other duties include recovering overpayments and auditing "probable match" death reports that are generated as a result of the interface between KRS and the Office of Vital Statistics and PBI (Pension Benefits Information). Additionally, the counselors in the Death Branch currently assist all retired members who visit our office with any requests not related to health insurance, a task that used to fall to counselors in the Payroll Division.

The support staff employed in the Disability and Death Support Branch is primarily responsible for transcribing dictation submitted by our Medical Examiners. In 2012 they transcribed 3,421 voice recorded disability determinations. Additionally, this group processes documents submitted via MEDSS, logs activity in START and uploads documents to Library Manager. These employees also process and distribute daily mail to the counselors in the Division.

Disability and Death Division, continued

All the employees of the Disability and Death Division were heavily involved in supporting the START project and have made all necessary transitions and accommodations to continue to provide our disability retirement applicants and recipients with the quality customer service they deserve.

Summary of 2012 Activities:

Disability:

- Processed 964 disability retirement applications.
- 34% of applications were approved for Disability Retirement on first review.
- 66% of applications were denied for Disability Retirement on first review.
- Counseled 1,246 visitors in office.
- Contacted 572 disability retirees for Annual Review.
- Trained counselors in Membership Support on disability retirement so they could begin taking calls regarding disability applications and reviews.
- Assisted Member Services with backlog of estimate requests.
- Contracted with four new Medical Examiners.
- Worked with legal staff to conduct Medical Examiner training for new Medical Examiners and continuing education for existing Medical Examiners.
- Provided training and support to Medical Examiners on the use of MEDSS.

Deaths:

- Processed 3,021 active and retired member deaths.
- Processed 2,535 beneficiary deaths.
- Counseled 423 visitors regarding deceased member accounts and 861 retired visitors with non-insurance related paperwork and questions in office.
- Provided training to retiree death counselors on active member deaths and pre-retirement account audits.

Disability and Death Division, continued

- Death payments issued for 2012:

Active Death Refunds

CERS	197	\$441,655.99
KERS	115	\$465,894.85
SPRS	0	
TOTAL:	312	\$907,550.84

Actuarial Refunds

CERS	25	\$1,081,106.91
KERS	17	\$1,453,011.09
SPRS	0	
TOTAL:	42	\$2,534,118.00

\$5,000 Death Benefits

CERS	977	\$4,885,000.00
KERS	841	\$4,205,000.00
SPRS	13	\$ 65,000.00
TOTAL:	1831	\$9,155,000.00

Guaranteed Refunds (Contribution & Interest balance)

CERS	29	\$164,443.14
KERS	9	\$194,905.54
SPRS	0	
TOTAL:	38	\$359,348.68

Current Status:

- Processing all incoming Form 6000s for disability retirement and performing all associated audits and calculations.
- Responding to death reports for members and beneficiaries and performing all associated audits and calculations.
- Performing audits on new Medical Examiners' dictation and transcription.
- Contacting disability recipients regarding Annual Reviews on a monthly basis.
- Logging issues found while using START and testing the fixes to those issues in a test environment before implementing changes to the "live" environment.
- One employee in training to become a counselor in the Applications and Review Branches and one to become a counselor in the Death Branch.

Disability and Death Division, continued

Strategic Plan for 2012-2013:

- Continue training and support for Call Center staff to transition to all disability calls going through the call center.
- Conduct internal audits to ensure accuracy.
- Conduct audits on Medical Examiners' dictation and transcription.
- Provide training sessions to disability and death staff on procedures to ensure statute/regulation compliance.
- Monitor the disability process from receipt of initial application until a final decision has been made by the Medical Examiners and look for process improvements.
- Process Annual Disability Reviews monthly.
- Monitor disability and death information on web site.
- Assist other Divisions when needed.
- Participate in and provide assistance to START testing and implementation.
- Conduct all business and record keeping in the START system.
- Provide continuing education to our Medical Examiners.
- Cross train death and disability staff where possible.

Benefit Services



MEMBER SERVICES **Becky Stephens, Director**

Member Services is comprised of 40 employees including 1 Division Director, 6 Retirement Program Managers, 32 Benefits Counselors and 2 Administrative Assistants. The 3 Branches are Pre-Retirement Account Audit, Benefits Counseling and Benefits Audit. All 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.

The **Pre-Retirement Account Audit Branch** is comprised of 2 Branch Managers and 8 Benefits Counselors responsible for the pre-retirement account audit of individual member accounts to ensure the accuracy of earned/purchased service, salary, contribution and interest amounts; investigates periods of missing service credit within a member's period of employment; builds "missing" details for data that was not available for conversion into the START system from the LEGACY system; reviews accounts with reciprocity between KRS and JRP, LRP, and KTRS to ensure no overlapping of service credit occurs; collaborates with KRS' Employer Reporting staff to correct service and contribution details of a member's account.

The **Benefits Counseling Branch** is comprised of 3 Branch Managers, 2 Administrative Assistants, and 19 Benefits Counselors responsible for the counseling of all non-retired members of the Systems. Staff provides benefit estimates, service purchase calculations, and installment plan purchase agreements to members who visit KRS' office or make inquiry by other means; reviews member's eligibility and provided documentation to purchase service credit; processes Notifications of Retirement forms received in office and through the mail; collaborates with KRS' Employer Reporting staff to generate omitted billings for Health Insurance Contributions and review omitted billings refuted by participating employers of the Systems; quality checks all calculations performed by staff within the branch; ensures member's initial retirement benefits include all service purchases; coordinates reciprocal benefits with the Judicial Retirement Plan (JRP), the Legislators' Retirement Plan (LRP), and Kentucky Teachers' Retirement System (KTRS); responds to general correspondence received through the mail.

The **Benefits Audit Branch** is comprised of 1 Branch Manager and 4 Benefits Counselors responsible for post retirement audits to ensure accurate benefits are paid to retirees; prepares recalculations of final retirements as required to ensure accuracy of benefits; collaborates with KRS' Employer Reporting staff when service/contributions need to be reduced; collaborates with KRS' Retiree Payroll staff to generate employer sick leave billings; responds to requests for retirement information as a result of divorce proceedings.

Summary of 2012 Activities:

- ❖ Counseled **5,754** members in office and prepared calculations for **380** members who failed to appear for their scheduled appointments
- ❖ Processed **5,059** retirement requests
- ❖ Processed **11,742** benefit estimate requests
- ❖ Processed **3,001** service purchase requests
- ❖ Processed **1,618** refund requests
- ❖ Conducted **9,546** pre-retirement account audits
- ❖ Conducted **7,909** post-retirement account audits
- ❖ Processed **9,483** error and exception audits for school boards.
- ❖ Processed **725** QDRO Pre-Retirement inquiries

- ❖ Becky Stephens, Director, returned to Member Services from full-time START Project dedication from 11/1/2008 to 5/1/2012. Shauna Miller, who served as Interim Director, returned to her Retirement Program Manager position on 5/1/2012.
- ❖ Erin Surratt, Retirement Systems Counselor IV, transferred to the Information Technology Division in Benefit Analyst II position effective 4/16/2012.
- ❖ Jim Davis, Retirement Systems Counselor IV, was loaned to Disability/Death Division to assist with transition of death counseling for active/inactive memberships from Member Services to Disability/Death Division as a result of START organizational changes. He returned to Member Services on 2/1/2012.
- ❖ Administrative staff assisted the Division of Retiree Healthcare with multiple health insurance mailings.
- ❖ Staff provided information as requested to our legal department, internal audit branch and external audit requests. This information included several recalculations of retiree benefits for firefighter settlement with Louisville Metro Government.
- ❖ Staff testified in Administrative Hearings as needed to assist with KRS' legal proceedings.
- ❖ Management staff of Member Services worked closely with IT to resolve Problem Incident Reports (PIRs) before the START Warranty expiration date of 11/26/2012.

Current Status:

- ❖ Becky Stephens, Director, is working closely with other senior management to assist with upcoming APA Audit.
- ❖ Becky Stephens, Director, is working with Ann Case, Deputy Controller, to provide general benefits overview training to the Cash Management staff of Accounting. It is anticipated the same overview will also be provided to the remainder of the Accounting team at a later date.
- ❖ Effective 1/1/2013, three experienced and extremely efficient benefits counselors, Chanceny Perkins, Jeff Axon, and Greg Nix, have been loaned to Accounting to assist with the backlog of records in error through Employer Reporting. These 3 counselors are making a significant impact on the backlog of records in error and are allocated to Accounting through the end of July 2013.
- ❖ Management staff continues to work closely with IT staff to ensure START applications, for which the Division owns, are working properly. PIRs are logged and prioritized with KRS' remaining business needs.
- ❖ The Division was allocated 3 benefits counselor positions and a fourth position was reallocated from a vacant administrative assistant position with the Benefits Counseling Branch. These 4 counselors are in training and expected to join the team just in time for the summer rush.
- ❖ The Division's first priority is to ensure the timely processing of Notifications of Retirement to ensure benefits for our members begin on time. Next, we strive to retain our office appointment availability for those members who need to speak to a counselor to prepare for an impending retirement.
- ❖ In an attempt to help relieve the pressures associated with Member Services' backlog of requests for benefit estimates and service purchases, counselors are actively promoting the self service functionality that was implemented in the last phase of START.
- ❖ Benefits Audit staff continue to work with a significant backlog. The backlog has been exacerbated by KHRIS and START implementation in 2011. Ideally, KRS would like to perform a post-retirement audit of a retiree's benefit within 3 months of the effective retirement date. Due to the increasing volume of retirements and the issues with reconciling contribution detail records between KHRIS and START, the volume greatly outweighs our ability to keep up with the demand. Management is collaborating with KRS' Employer Reporting and IT staff to help resolve the issues of reconciling contribution detail records between KHRIS and START.
- ❖ Effective 2/1/2012, requests for refunds of members' contributions and interest have been distributed to all Member Services' staff. Phase 6 of START shifted this responsibility from Accounting to Member Services. Membership Support assists Member Services with these requests to avoid delays in processing refund checks due to Member Services' backlog.
- ❖ High productivity levels and multi-tasking abilities are displayed by committed and experienced counseling staff with a focus on maintaining accurate records. We are continually re-evaluating and shifting our resources where needed based on priorities.

Strategic Plan for Future:

- ❖ With a technology project as large as START, it is anticipated efficiency will continue to increase the next couple of years. As this occurs, our long term goal is to have all Division staff cross-trained for all processes. This will be an extensive effort, especially with the area of Pre-Retirement Account Audit.
- ❖ When training concludes for the aforementioned 4 benefits counselors, we plan to redistribute staff to assist in backlogged areas.
- ❖ Work with HR/Communications team to update Benefits Procedures Manual to incorporate START processes and procedures through alternate format more easily manageable than the current format.
- ❖ Conduct START refresher training with Division staff.
- ❖ We will continue to monitor office appointment availability and workload levels to determine the need to redistribute staff to ensure accurate and timely information is provided to our membership.

Benefit Services



MEMBERSHIP SUPPORT

Suzanne Howe, Director

The Division of Membership Support is composed of three branches including the Employed Call Center, the Retired Call Center, and Call Center Support. There are thirty employees within the Branch including one Director, two Retirement Program Managers, one Supervisor, one Administrative Assistant, and five Document Processing Specialists.

The Employed Call Center branch responsibilities include educating members before retirement by telephone or email. The most common questions relate to future benefits, potential service purchases, and options available upon terminating employment. This requires the counselors to be able to clearly explain the impact of final compensation, total service, applicable benefit factors, reductions for early retirement, the effect of the member's participation date, IRS requirements regarding the use of pre-tax or post-tax funds for service purchases, and options for completing purchases through payroll deducted installments. Employed Call Center counselors are trained to be able to produce calculations for members when necessary and time allows. However, since the introduction of Member Self-Service on the KRS website, the emphasis for both the Employed and Retired Call Center branches is to encourage members to use self-service to obtain information about their account and produce calculations in which they are interested, which often makes it necessary to guide members through self-service registration and the benefits and service purchase calculators on the KRS website.

The Retired Call Center branch responsibilities include assisting retired members with concerns regarding changes in their KRS benefit, tax withholding, and direct deposit. Additionally, we prepare letters verifying income, respond to the KRS email questions from benefit recipients, and guide members who need help using the KRS website. Counselors in both branches are also trained to process and check refund requests filed by KRS members.

The Call Center Support Branch responsibilities include answering all KRS operator calls, receiving and keying forms sent by members such as name and address changes, beneficiary designations for active member accounts prior to retirement, and death benefit beneficiary designation forms from retired members. They also process the daily mail, index documents, correspond with members for incorrectly completed forms, and distribute faxes to all the divisions of KRS.

Employees in all three branches issue Personal Identification Numbers (PINs) and educate members on the increased access to information they can provide to the member.

Membership Support Division, continued

Five Year Comparison of Membership Support Productivity					
	2008	2009	2010	2011	2012
Total Employees:	40	36	34	30	30
Total Counselors:	26	24	22	20	20
Call Center Support Staff:	10	9	8	6	6
Total Calls Inbound/Outbound	271,968	199,478	233,781	214,448	212,578
KRS Emails Answered	2,561	1,601	1,950	3,210	3,827
Calculations	3,348	4,435	2,856	1,626 *	1,092
Refunds: Processed/Checked	n/a	n/a	n/a	2,920 / 2,976	3,343/4,302
Pension Verification Letters	1,302	1,337	2,799	2,907	2,061
Letters for Invalid Forms	unavailable	unavailable	6,640	11,839	5,984
Forms Indexed	unavailable	unavailable	80,062	98,028	73,410
Forms Processed	unavailable	unavailable	44,662	57,768	23,779

The high numbers for 2008 reflect the workload associated to the end of the retirement incentive, which ended with the 1/2009 retirements.

* All Items are now combined under the same Mbr ID rather than being counted individually, therefore there is no way to compare to previous year with accuracy.

Current Status:

We continue to fulfill our daily responsibilities of educating and assisting members by telephone, responding to KRS emails, and providing substantial support to Member Services in processing and performing quality checks on member refunds. There are currently two new counselors for our division in training, along with one of our tenured Retired Call Center Counselors as we continue our efforts to provide comprehensive cross-training for all counselors to ensure they are prepared to answer a wide range of calls. The new counselors were hired to replace positions left vacant by staff transfers to the Death and Disability Division. Two senior counselors from this division are providing the training for this class of eight counselors representing three divisions. We expect the training to end in mid-May. We now have five counselors trained to answer the incoming Disability calls, allowing the Death and Disability Division more time to focus on other responsibilities.

Strategic Plan for 2013:

We continue to rely on the Avaya phone system, which is gradually losing components of functionality, such as call recording, reporting capability, and quality control monitoring as we work with Avaya and Black Box to adopt a new solution that will offer a stable platform with features to effectively manage KRS telephonic requirements. As of March 1, the Division of Retiree Health Care has once again assumed complete responsibility for the insurance calls allowing this Division to focus on the duties for which we are normally responsible. We look forward to the addition of staff as the new employees begin taking calls allowing contacts to be answered faster making it less stressful for callers and employees. We continue to assist Member Services in the organized push to reduce the backlog of calculation requests filed by members, in addition to processing and checking the active member refunds issued each week. In late spring, the two counselors currently training the new KRS counselors will take part in a large project to edit and update KRS training manuals as the information is transferred to a Wiki format, making the material current and more user friendly.

Benefit Services



PAYROLL DIVISION
(formerly RETIREE SERVICES)
Lela Hatter, Director

Comprised of 9 employees

Division Director	
(1) Retirement Program Manager	(1) Retirement Benefits Analyst
(6) Retirement System Counselors	

The payroll Division is responsible for, and not limited to, maintaining all benefit accounts from the onset of initial retirement to cessation of benefits and ensuring the monthly and weekly supplemental payroll deadlines are met; updating, correcting, changing account details, monthly benefit amounts; maintaining direct deposit and federal tax withholding changes; administering of Form 1099R's and reporting to the IRS; collecting overpayments in monthly benefits and onetime payments; administering IRC415(b) benefits to Qualified Excess Benefit Arrangement recipients, Qualified Domestic Relations Order's, and for IRS levies; monitoring and maintaining dependent children, managing all EFT returns and corrections; handling all returned payroll checks.

Status Details

	2011	2012	2012 vs 2011
New Retirements	6,112	6,393	+ 4.5%
Total Number of Monthly Recipients (Payees) as of December	95,094	98,922	+ 4.02%
Monthly Gross Payroll Total of Benefit Payments (December payroll)	\$ 135,677,680.35	\$ 140,142,926.13	+ 3.29%
Changes to Accounts/ Benefits /Deductions of monthly recipients	31,822	42,215	+ 32.66%
Total Number of Payments paid within Supplemental Payrolls (as of December 30)	9,677	10,154	+ 4.93 %
Total Gross Sum of all onetime payments paid within Supplemental Payrolls	\$ 53,151,398.80	\$ 48,530,325.46	- 9.83 %

Payroll Division, Continued

- Implemented truncation of recipient identification number on the Form 1099-R.
 - Completed account and benefit changes with issuance of retroactive payments to additional groups of the Louisville Firefighter settlement lawsuit.
 - Audited benefit accounts and provided requested detailed information to Law Firm of claimants in the Louisville Firefighter settlement lawsuit. The claimant groups were the two largest of the Louisville Firefighter lawsuit.
 - Completed audit on retired reemployed violators.
 - Transferred one staff member to Information Technology to IT PMO in Business Analyst position effective October 1, 2012.
 - Worked with KRS IT developers and business teams on system deficiencies and enhancements and retesting of relevant fix or modification to ensure expected functionality results.
-

Current Status

- Continuing to provide requested information to Law Firms pertaining to the Louisville Firefighter lawsuit.
 - Continuing to work with KRS IT developers on system deficiencies and enhancements.
 - Auditing benefit accounts with service purchases made August 2004 or after to determine if the purchased service is updated appropriately.
 - Reviewing the Online Help Procedures / references within the START application for needed changes.
 - Reviewing Retiree Training Manual in preparation for the transition to Wiki within the SharePoint site.
-

Strategic Plan for Future

- Update the Online Help procedures / references within the START application.
- Continue providing training sessions for staff.
- Continue working with KRS IT developers on system deficiencies and enhancements.

Investments



ABSOLUTE RETURN STRATEGIES

Christopher Schelling, Director

The Division of Absolute Return has responsibility for the monitoring of all external absolute return managers, currently 3 Funds of Funds ("FoFs"). In the course of monitoring the Funds of Funds, the division is also involved in passively monitoring the underlying managers, a total of 135 additional relationships. Tom Masthay and Bill Murnighan, Investment Analysts on staff, work closely with the Director of Absolute Return Strategies on these mandates. Staff monitors the following portfolios (as of 12/31/12):

Pension			Insurance		
		% of fund			% of fund
Fund of Funds (3 managers)	\$1,123.1 M	10.2%	Fund of Funds (3 managers)	\$323.6 M	9.8%

The division is responsible for monitoring investment manager compliance with investment policy, reviewing investment legal documents and contracts for compliance with state law and investment policy, and maintaining performance data. The division also monitors state and federal laws, regulations and issues related to investment of public funds.

Summary of 2012 Activities:

Pension (CY 2012)			Insurance (CY 2012)		
	KRS	Benchmark		KRS	Benchmark
Fund of Funds (3 managers)	7.06%	3.32%	Fund of Funds (3 managers)	7.16%	3.32%

- Hosted 46 unique calls and 68 individual face-to-face meetings with absolute return or hedge fund managers, including 21 on-site due diligence meetings. The division also built an internal database totaling 424 absolute return managers.
- Successfully managed unwind of Arrowhawk Durable Alpha, recovering 100.1% of invested capital and reinvesting this in the Funds of Funds.
- Developed internal hedge fund performance analysis tool.
- Conducted comprehensive study of hedge fund strategy allocations, diversification and portfolio construction techniques to frame 2013 investment agenda. Developed strategic framework for diversifying and complementing current FoFs with direct investments in order to provide more control over our risks and exposures, potential for better diversification against the rest of portfolio, and lower our fee structure.

All performance numbers are for the calendar year ending December 31, 2012. All asset values are as of December 31, 2012.

Absolute Return Strategies Division, continued

- Initiated RFP process for Absolute Return consultant, performed due diligence on all respondents, including on-site meetings with the top 3 finalists. The division recommended the hiring of Albourne Partners, which was approved by the Investment Committee on Sept. 19th.
- Collaborated with consultant Albourne Partners on researching potential recommendations for strategic absolute return allocation targets and ranges, investment policy changes, and formal absolute return investment agenda for the next 2 to 5 years.
- Performed annual due diligence assessment for each existing manager.

Strategic Plan for 2013:

- Develop formal absolute return strategy allocation targets and 2013 investment agenda, as well as formalize policy recommendations. Current goals include allocating between \$175 to \$200 million total to approximately 10 direct hedge funds, reducing the portfolio's exposure to the equity risk premium, and reducing the overall fee structure.
- Continue to due diligence new absolute return strategies and managers while adding to the internal database.
- Leverage the services of consultant Albourne while also building out the internal resources, policies, and procedures necessary to manage a portfolio of direct hedge funds.
- Perform annual due diligence assessment for each existing manager and vet the capabilities of potential strategic partners.
- Pursue continuing education and certification: Division staff continues to pursue CFA and CAIA designations, among others.

Investments



ALTERNATIVE ASSETS **Brent Aldridge, Director**

The division manages 106 private equity portfolios with 36 general partnership relationships and 8 real estate portfolios with 4 general partnerships. The division is responsible for performing due diligence on alternative investments and partnerships and serving on Limited Partnership Advisory Boards. The division is also responsible for monitoring daily transactions, reviewing legal documents and contracts for compliance with state law and the investment policy, and maintaining performance data. The division continually monitors state and federal laws, regulations and issues related to investment of public funds.

Summary of 2012 Activities:

- Processed 154 private equity capital calls totaling \$197,479,767
- Processed 10 real estate capital calls totaling \$231,178,414
- Processed 203 private equity distributions totaling \$401,414,837
- Processed 17 real estate distributions totaling \$19,266,159
- Attended 6 annual meetings and 3 advisory boards meetings
- Reviewed and met with 67 potential private equity investments throughout year
- Reviewed and met with 40 potential real estate investments throughout year
- Committed \$148M to 3 private equity groups (Wayzata, Harvest and Riverside)
- Staff traveled 30 days during year performing job-related functions
- Committed \$200M to 3 real estate groups (Mesa West, Walton and Greenfield)
- Executed contract and began relationship with PE Consultant Altius Associates
- Liquidity and Solvency Paper completed by staff in September 2012
- 'Consideration around Placement Agents' published in Journal of Private Equity in Fall 2012

Current Status:

- Monitoring partnerships cash flow data, valuations and portfolio company holdings
 - Continuing to be proactive in identifying top-performing general partnerships for private equity and real estate investing
 - Staff working with Altius Associates to identify and invest with the top European-based private equity general partners
 - Researching and evaluating small buyout relationship and possibly adding co-investment opportunities for private equity portfolio
 - Continuing education mandate for staff: Tom Masthay received CFA designation, passed FRM I in July 2012 and FRM II in November 2012. Brent Aldridge and Bill Murnighan passed level one of the CAIA in November 2012.
-

Activities Planned for 2013:

- Continue to explore opportunities provided by the international private equity markets
- Continue to research the merits of a co-investment program
- Research merits of clean-tech, infrastructure and timberland investments and other opportunities in special niche areas
- Continue to expand the real estate portfolio and take advantage of current market opportunities
- Monitor cash flow situation and look for ways to address within asset class

Investments



FIXED INCOME ASSETS

David Peden, Director

The Division of Fixed Income Assets has responsibility for the monitoring of all external fixed income managers and the internally managed cash and TIPS portfolios. Brian Carter, an Investment Analyst on staff, reports directly to the Director of Fixed Income Assets. Brian's time is spent predominantly on tracking the daily cash needs of the system and investing the cash. The division is responsible for investment manager's compliance with investment policy, reviewing investment legal documents and contracts for compliance with state law and investment policy, and maintaining performance data. The division also monitors state and federal laws, regulations and issues related to investment of public funds. The division is also responsible for monitoring the securities lending program. Staff monitors the following portfolios (as of 12/31/12):

Fund Name	Strategy	Assets (in millions)		% of Fund		Start Date*	
		Pension	Insurance	Pension	Insurance	Pension	Insurance
PIMCO	Core/Global	819.2	253.8	7.42%	7.65%	11/1/2011	11/1/2011
NISA	Core	566.7	166.8	5.13%	5.03%	2/1/2009	7/1/2011
Columbia	High Yield Bonds	183.4	43.4	1.66%	1.31%	12/1/2011	12/1/2011
Loomis Sayles	High Yield Bonds	191.8	45.1	1.74%	1.36%	12/1/2011	12/1/2011
Waterfall	Opportunistic/High Yield	120.5	38.3	1.09%	1.16%	1/15/2010	7/1/2011
Stone Harbor	Global/EMD	126.3	28.7	1.14%	0.87%	12/1/2010	7/1/2011
Shenkman	High Yield Loans	119.8	29.3	1.09%	0.88%	10/1/2010	7/1/2011
Manulife	Global	117.3	31.6	1.06%	0.95%	1/1/2012	1/1/2012
Commerce Street	Opportunistic	43.5	8.3	0.39%	0.25%	6/1/2009	6/1/2009
Cash	Short Term	238.2	169.2	2.16%	5.10%	N/A	N/A
Total Fixed/Cash		2,526.8	814.4	22.9%	24.56%	N/A	N/A

*Start date of current strategy

All asset values are as of December 31, 2012.

Summary of 2012 Activities:

	Pension 1 YR Performance		Insurance 1 YR Performance	
	KRS	Benchmark	KRS	Benchmark
Total Fixed Income	10.2%	5.5%	10.0%	5.5%
Cash	0.3%	0.1%	0.5%	0.1%

- The outperformance in 2012 pushed the fixed income portion of the KRS portfolio past its benchmark over every measurement time period (1 year, 3 year, 5 year, 10 year, and inception to date). KRS has not been able to say this since August of 2007.
- The securities lending program earned KRS \$3.45 million – Pension and Insurance combined. Staff restarted the securities lending program with Deutsche Bank in May 2012 after terminating the securities lending program with Northern Trust in 2011. Staff believes the new program has improved structure, guidelines, and risk controls.
- The fixed income division manages the internal TIPS portfolios for the Pension and Insurance accounts. The Pension TIPS portfolio returned 7.15% and the insurance account returned 7.01 for 2012 with the benchmark returning 6.98%.
- Expanded the cash program to include 14 day term repo, 30 day funding notes issued by approved broker dealers, and short term municipal bonds, in addition to the overnight repo KRS was already using.
- The Director of Fixed Income completed the CFA program and earned the right to use the CFA designation.
- Assisted investment team with due diligence on new custodian.
- Performed annual due diligence assessment for each existing manager.

Strategic Plan for 2013:

- Lead a search for a private credit manager that can be included in the fixed income or real return asset allocation.
- Lead a search for a multi sector opportunistic credit manager that can manage a tactical portfolio in a fund of one or separate account for KRS.
- Research the opportunity to invest in life settlements as a fixed income investment.
- Research and discuss with general consultant the right mix of interest rate sensitive and credit fixed income in a rising rate environment.
- Work to expand the monitoring process and procedures for the external fixed income managers.
- Perform annual due diligence assessment for each existing manager.

All performance numbers are for the year ending December 31, 2011.

Investments



PUBLIC EQUITY ASSETS Bo Cracraft, Director

The Division of Public Equity has the responsibility of monitoring all external equity managers along with two internally managed equity index portfolios. The division is led by Bo Cracraft and is directly supported by Joe Gilbert, Investment Analyst. In addition, the division also utilizes the resources of the departments remaining four analysts to monthly reporting, projects, and rebalancing. Staff monitors the following portfolios:

Public Equity Market Value Summary				
	Pension Fund		Insurance Fund	
	Market Value	Pct	Market Value	Pct
US Equity				
All Cap	215,660,983	2.0%	83,443,814	2.5%
Large Cap	1,253,435,790	11.4%	419,716,810	12.7%
Mid Cap	398,786,793	3.6%	134,394,783	4.1%
Small Cap	177,288,868	1.6%	78,228,870	2.4%
Total	2,045,172,434	18.5%	715,784,277	21.6%
Non US Equity				
Broad Non-US	2,223,557,257	20.1%	665,613,297	20.1%
Emerging Markets	460,752,227	4.2%	106,203,424	3.2%
Total	2,684,309,484	24.3%	771,816,721	23.3%

The division is responsible for monitoring daily purchase/sale transactions, investment manager's compliance with investment policies, reviewing investment legal documents and contracts for compliance with state law and coordination with investment policies, and maintaining performance data. In addition, the division handles internal proxy voting and corporate actions on behalf of the internally managed portfolios. Finally, the division monitors state and federal laws, regulations and issues related to the investment of public funds.

All performance numbers are for the year ending December 31, 2012. All asset values are as of December 31, 2012.

Summary of 2012 Performance:

Public Equity Performance Review							
	% Fund	1 Year		3 Year		5 Year	
		KRS	Index	KRS	Index	KRS	Index
Pension							
U.S. Equity*	18.5%	15.9%	16.4%	11.0%	10.6%	2.3%	1.2%
Non-U.S. Equity^	20.1%	16.3%	17.4%	3.5%	4.6%	(1.7%)	(2.2%)
Emerging Markets#	4.2%	23.9%	18.6%	-	-	-	-
Total Equity	42.8%	17.1%	17.2%	7.4%	8.0%	0.5%	0.0%
Insurance							
U.S. Equity*	21.6%	15.9%	16.4%	10.6%	11.0%	1.9%	2.0%
Non-U.S. Equity^	20.1%	16.0%	17.4%	3.0%	4.2%	(2.4%)	(2.8%)
Emerging Markets#	3.2%	24.0%	18.6%	-	-	-	-
Total Equity	44.9%	16.8%	17.2%	6.8%	7.6%	(0.1%)	(0.3%)

* Includes cash equitization ^ includes currency overlay

Emerging Markets became dedicated allocation as of June 30, 2011. Thus, only 1-year return is available
Prior EME performance is incorporated in Non-US trailing returns

All performance numbers are for the year ending December 31, 2012. All asset values are as of December 31, 2012.

Performance: Both the pension and insurance fund public equity portfolios posted strong absolute returns for the year, with relative performance falling just short of the benchmark return of 17.2%.

Performance was driven primarily by manager relative underperformance in both the U.S. and Non-US asset classes, along with an underweight position to U.S. assets. This performance was partially offset by outperformance within the emerging region, along with a slight overweight to the asset class. Over the longer 5-year term, both funds have held firm relative to the benchmarks, although absolute returns have been disappointing.

Summary of 2012 Activities:

- Internally managed \$1.06 billion for Pension and \$419.7 million for Insurance
 - Pension Performance - 15.85% vs. 16.0%
 - Insurance Performance - 15.95% vs. 16.0%
- Assisted CIO with implementation of revised Asset Allocation targets effective Jan 1, 2013
- Funded Mid Cap Equity managers for both the Insurance and Pension funds
- Began manager and portfolio structure study for Non-U.S. equity portfolio.
- Continued involvement with Investment Committee and external managers.
- Continued to monitor proxy voting and corporate actions
- Conducted quarterly performance reviews and annual investment manager reviews.

Strategic Plan for 2013:

- Complete manager and portfolio structure study for Non-U.S. equity portfolio
- Begin and complete Non-U.S. equity manager searches as necessary
- Assist in custody bank conversion from Northern Trust to Bank of New York-Mellon
- Evaluate KERS Equity Asset Allocation and actual or potential equity exposure offsets
- Work with investment team to conduct due diligence on managers
- Perform annual due diligence assessment for each existing manager as per investment policy.

Investments



REAL RETURN ASSETS Christopher Schelling, Director

The Division of Real Return Assets has responsibility for the monitoring of all external real return managers and monitoring the internally managed TIPS portfolio. Director of Fixed Income, David Peden, manages the internal TIPS portfolio, while Tom Masthay and Bill Murnighan, Investment Analysts, both work closely with the Director of Real Assets. Staff monitors the following portfolios (as of 12/31/12):

Pension			Insurance		
		% of fund			% of fund
TIPS (1 external, 1 internal)	\$819.7 M	7.45%	TIPS (1 internal)	\$347.5 M	10.52%
Diversified Inflation Hedge (1 external)	\$233.1 M	2.12%	Diversified Inflation Hedge (1 external)	\$58.0 M	1.76%
MLPs (1 external)	\$56.6 M	0.51%	MLPs (1 external)	\$22.7 M	0.69%
Privates (1 external)	\$14.4 M	0.13%	Privates (1 external)	\$1.6 M	0.05%

The division is responsible for monitoring daily purchase/sale transactions, investment manager's compliance with investment policy, reviewing investment legal documents and contracts for compliance with state law and investment policy, and maintaining performance data. The division also monitors state and federal laws, regulations and issues related to investment of public funds.

Summary of 2012 Activities:

Pension			Insurance		
	KRS	Benchmark		KRS	Benchmark
Real Return Portfolio	9.55%	4.79%	Real Return Portfolio	9.02%	4.79%
TIPS (1 external, 1 internal)	7.06%	6.98%	TIPS (1 internal)	7.01%	6.98%
Diversified Real Return (1 external)	19.91%	5.04%	Diversified Real Return (1 external)	19.91%	5.04%
MLPs (1 external)	8.24%	4.80%	MLPs (1 external)	10.34%	4.80%
Privates (1 external)	2.33%	-	Privates (1 external)	2.33%	-

- Hosted 27 unique calls and 38 individual face-to-face meetings with real return and real asset managers, including 7 on-site due diligence meetings. The division also built an internal database totaling 132 real return managers.
- Conducted comprehensive study of real return strategy and asset class allocations, risk/return characteristics, and inflation regime analysis to frame 2013 investment agenda.

All performance numbers are for the calendar year ending December 31, 2012. All asset values are as of December 31, 2012.

Real Return Assets Division, continued

- Initiated RFP process for Real Return consultant, performed due diligence on all respondents, including on-site meetings with the top 3 finalists. The division recommended the hiring of Albourne Partners, which was approved by the Investment Committee on Sept. 19th.
- Recommended hiring of AMERRA Agri-Fund II. The Investment Committee approved an allocation of approximately \$56 million to AMERRA on Nov. 7th.
- Collaborated with consultant Albourne Partners on researching potential recommendations for strategic real return allocation targets and ranges, investment policy changes, and formal real return investment plan for the next 2 to 5 years.
- Performed annual due diligence assessment for each existing manager.

Strategic Plan for 2013:

- Complete real return strategy allocation targets and 2013 investment agenda, as well as formalize policy recommendations. Current goals include diversifying away from over-reliance on TIPs by allocating to investment such as opportunistic private real assets and liquid commodities, among others.
- Continue to due diligence new real return strategies and managers while adding to the internal database.
- Perform annual due diligence assessment for each existing manager.
- Pursue continuing education and certification: Division staff continues to pursue CFA and CAIA designations, among others.

Legal Department



LEGAL DEPARTMENT

Katherine Rupinen, Interim Assistant General Counsel

The Legal Department currently consists of 14 employees, including the Interim General Counsel, Interim Assistant General Counsel, 2 non-advocacy Staff Attorneys, 5 advocacy Staff Attorneys, the Administrative Appeals Coordinator, 2 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, and the Kentucky Supreme Court. This representation includes working with outside counsel in complex 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, ethics law issues, and complex federal law, such as USERRA, ADAA, FMLA, and tax law. The Legal Department reviews and drafts contracts, as well as proposed legislation and regulations. The Legal Department also reviews legal documents submitted to the Retirement Systems and advises agency staff on the proper course of action based on the legal documents. The Legal Department has provided training or instructional information to agency staff and independent contractors on a variety of issues including the application of disability statutes and the administrative hearing process, and ethics 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.

Summary of 2012 Activities:

Due to the nature of the work performed by the Legal Department, it is difficult to quantify all of the services provided by the Legal Department to the Kentucky Retirement Systems over the past year. The type of work performed and level of involvement varied according to the nature of the issue and the needs of the Divisions. Some examples of the services provided include: commencement of collection actions against members, beneficiaries, and member agencies, providing advice on member and beneficiary health insurance matters, assisting Constituent Services in answering member questions, assisting Disability staff to conduct Medical Examiner continuing education, working with Accounting in processing Personnel Board Orders, working with Human Resources on various personnel matters, and working with Communications on developing a Social Media Policy and editing the Summary Plan Description. The Legal Department also successfully worked with the Centers for Medicare & Medicaid Services (CMS) and the Social Security Administration (SSA) to obtain equitable relief for the individuals who failed to enroll in the Medicare Part B in 2011 when KRS transitioned these individuals from KEHP to the Medicare-eligible plan offered by KRS. The

Legal Department, continued

affected individuals were given a waiver of the late enrollment penalty. Additionally, the individuals who failed to enroll in Medicare Part B were given a special enrollment period to enroll in Part B, and were given the option of making the Part B effective date retroactive to the date that they were required to transition to the Medicare.

Although it is difficult to quantify all of the work performed by the Legal Department, in the past year, statistics representing some of this work can be seen below.

- Reviewed and took appropriate action on approximately 1,271 legal documents, including divorce decrees, guardianships, POAs, QDROs, subpoenas and other miscellaneous court orders and documents.
- Reviewed approximately 1,271 requests for permission for reemployment after retirement.
- Received approximately 168 valid administrative hearing requests.
- Received 5 decisions on Motions for Discretionary review at the Kentucky Supreme Court Opinions, 11 Court of Appeals decisions and 59 Franklin Circuit Court decisions.
- 22 new court cases were commenced by or filed against the Kentucky Retirement Systems at Franklin Circuit Court, 11 cases were commenced by or filed against the Kentucky Retirement Systems at the Court of Appeals, and 2 cases were commenced by or filed against the Kentucky Retirement Systems at the Kentucky Supreme Court
- Approximately 720 Pre-Hearing or Status Conferences were scheduled.
- Approximately 141 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.
- Participated in approximately 15 depositions.
- Participated in approximately 42 Franklin Circuit Court Appearances.
- Revised Administrative Regulations 105 KAR 1: 140, 400, 420, and 430
- Conducted extensive research on legal and factual issues surrounding recent spate of member agencies attempting to cease participation in the Kentucky Retirement Systems.
- Participated in the litigation of three bankruptcy cases in Federal Bankruptcy Court.

The Legal Department will endeavor to continue to represent the Kentucky Retirement Systems to the best of its abilities 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.

Operations



ACCOUNTING Todd E. Coleman, CPA, Controller

The Accounting Division is responsible for:

- the collection, posting and balancing of employer and employee contributions, including service purchase payments;
- transferring contributions to Northern Trust (the custodial bank) for qualification/investment of these funds;
- the transfer of funds from Northern Trust (the custodial bank) to JP Morgan Chase Bank (the depository bank) to provide for retiree payrolls, refunds and administrative expenses;
- processing/correcting employer wage/contribution reports; and,
- posting/reconciling all General Ledger transactions to provide System financial statements.

Responsibilities are accomplished with 25 staff members consisting of two branches:

- The **Cash Management Branch** is managed by Elizabeth H. Smith, with eight staff members.
- The **Employer Reporting Branch** is managed by Gina L. Franklin and Mary R. Satterly, with 14 staff members.

The Employer Reporting phase of the START project went live in September 2011. The Employer Reporting Branch has been working diligently with all agency reporting officials. Questions and errors in agency reporting are continuing to be addressed by the Employer Reporting Staff. The Division of Employer Compliance and Education has also been assisting the Employer Reporting Branch with the processing of error reports and technical reporting issues.

The number of employers reporting through the web total 991, and the number reporting through the file layout total 469. Web Reporting includes a series of steps within the Employer Self Service portion of START used to enter monthly report details for each employee and File Layout Reporting is used by employers to report via an uploaded detail file each month. The file layout serves as a blueprint for the employer to use each month.

Summary of Calendar Year 2012 Activities:

- The Division maintained financial data for approximately 210,000 member annual statements.
- The Division maintained the General Ledger and produced fiscal year end, as well as interim, financial statements.
- Processed approximately 185 new installment service purchases during the calendar year.
- Maintained an average of 1,494 installment purchase contracts (1,219 before-tax and 275 after-tax) during 2012. Some choose not to tax defer their payments should they decide to break the contract.
- Continued in-house training sessions which consisted mainly of Phase 6 of the START Project. External training was also obtained through GFOA, AGA, AICPA, KYCPA, IIA, and the Office for Employee and Organizational Development in the Personnel Cabinet of the Commonwealth.
- Processed approximately 15,881 wage/contribution reports; transferred the contributions to the custodial bank and completed daily qualifications/investment of those funds.
- Participated in START Training Sessions and User Acceptance Testing.
- Processed approximately 81,300 errors for the Employer Error Correction Project in START, since the go live of Phase 6 in September 2011. The majority of these errors are Error 14 (the first contribution for the enrollment appears to be in a different month than the reported employment begin date).
- Effective July 1, 2013, the custodial bank for KRS changed from Northern Trust to Bank of New York-Mellon. Attended several trainings to ensure that KRS' funds will be correctly deposited and transferred to Bank of New York-Mellon for qualification/investment.
- Prepared quarterly, and ad hoc, financial statements for Executive Management, the Audit Committee, and the Board of Trustees.
- Prepared monthly, and ad hoc, budget reports for the Chief Operations Officer.
- Coordinated activities of, and assisted, the external auditors to complete the annual audits of Kentucky Retirement Systems and KRS Perimeter Park West, Inc.
- Prepared the Comprehensive Annual Financial Report for the Commonwealth and submitted it to the Government Finance Officers' Association for review for the *Excellence in Financial Reporting Award*.

Current Status:

- The Division processed approximately 16 installment purchases the first two months of calendar year 2013.
- Processed approximately 2,610 employer wage/contribution reports in January and February, 2013.
- As of February 28, 2013, employer reporting errors amounted to approximately 28,700. The number of errors corrected as of February 28, 2013, totaled approximately 81,300. Staff continue to work error corrections before June 30, 2013, to ensure member annual statements are reflected accurately.
- Continuing daily transfer/qualification of funds to maximize investment earnings.
- On February 1, 2013, Ann M. Case became Deputy Controller.
- On March 1, 2013, Laura Miller transferred from the Division of Investments to Accounting as an Investment Analyst III. Ms. Miller will be working with the investment accounting for KRS.
- On March 1, 2013, the Division of Accounting instituted an organization change so that the Branch Managers (Ms. Mary R. Satterly and Ms. Elizabeth H. Smith) report directly to the Deputy Controller. In addition, the Investment Analyst III reports directly to the Deputy Controller, who reports to the Controller.

Strategic Plan for Fiscal 2014:

- Continue to perform all current responsibilities.
- Continue employee education and training.
- Review and assess current procedures for process improvement.
- Work with the external auditor to prepare the annual audited financial statements and related footnote disclosures/management's discussion and analysis, as well as the comprehensive annual financial report.
- Continue support of the START Project on an ad hoc basis.
- Review and implementation of GASB #67, *"Financial Reporting for Pension Plans"*.
- Review of GASB #68, *"Accounting and Financial Reporting for Pensions"*.
- Effective July 1, 2013, the custodial bank will be Bank of New York-Mellon.

Operations



COMMUNICATIONS **Scarlett Consalvi, Director**

The Communications Division was established in November 2006 illustrating KRS' commitment to educating our membership by enhancing and streamlining our external communications to ensure that KRS clearly and concisely communicates with our membership and constituent audiences. The Division currently consists of one Director, one Education Coordinator and three Communications Specialists.

To date, the Communications Division has been charged with carrying out the agency's communication and education goals and positioning KRS as a reliable source of information for all audiences. All external publications have been redesigned and now have a common look and feel. The Division works closely with other Divisions to determine publication needs, facilitate document reviews and gain legal and budgetary approval for publications. A publication calendar has been established to ensure all publications are reviewed in a timely manner and that all have a consistent message.

Summary of 2012 Activities:

- Created two Member/Employer newsletters to keep the membership informed regarding agency news, legislative issues, and other pertinent news. Worked closely with our external vendor to ensure that the agency received the maximum postal discounts for these mailings. (250,000 copies of each newsletter ordered and mailed).
- Coordinate the printing and mailing of the 1099 forms with IT staff and external vendor. (98,412 copies printed and mailed).
- Coordinate the printing and mailing of the Member ID Cards.
- Revised, redesigned, and coordinated the printing and mailing of 2012 Open Enrollment materials and follow up reminders for non-Medicare eligible retirees. (52,000 printed, distributed through initial mailing and in-house distribution throughout the year).
- Revised, redesigned, and coordinated the printing of 2012 Active Member Handbook materials.
- Revised, redesigned, and coordinated the printing of 2012 Active Member Education materials.

Communications Division, Continued

- Revised, redesigned, and coordinated the printing and mailing of 2012 Open Enrollment materials for Medicare eligible retirees. (58,000 printed, distributed through initial mailing and in-house distribution throughout the year).
- Compiled, redesigned and coordinated the printing of “2012 Comprehensive Annual Financial Report” publications. (200 printed for in-house distribution).
- Conducted 12 PreRetirement education programs throughout the state, reaching 1,700 active members.
- Conducted 72 Member Self Service computer lab sessions through the KY Transportation Cabinet, reaching over 700 employees.
- Facilitated a series of webinar education programs in partnership with the Kentucky Department of Libraries and Archives.
- Worked to support the START Project reviewing, developing and maintaining correspondence for use in the new system.
- Updated agency forms as requested by other Divisions and Chief Officers.
- Continued the effort to fully redesign the website and utilize new communication methods.
- Ensure that all newsletters and other requested materials are provided to members in alternate formats (large print, PDF, Braille).

Activities Planned for 2013:

- Revise and publish all necessary publications. Full scope to be determined by the outcome of the priorities of the agency.
- Complete the redesign, and implement the KRS website.
- Conduct various education sessions throughout the state.
- Begin large group session within KRS.
- Develop and initiate a full education plan to include members and retirees.
- Explore social media outlets to determine additional communications venues.

Operations



EMPLOYER COMPLIANCE & EDUCATION

Sarah Webb, Director

The Division of Employer Compliance and Education currently consists of 11 employees, including one Director, 6 ECE representatives, 1 ECE rep who is committed to training and assisting with START implementation and 2 ECE representatives assisting the Employer Reporting Branch with error correction and other duties as needed on a full-time basis.

The Division's responsibilities include, but are not limited to, the following: explains retirement system programs to non-participating agencies and their employees. Instructs participating agencies in the proper procedures to inform employees of retirement systems information, to maintain correct records, files and reporting procedures. Conduct presentations, including member self service across the state to educate employees and Reporting Official Conferences to educate employers (which we will be conducting in 2012). With the implementation of START, we have become more focused on employer education and employer compliance. A business decision was made to turn the Member education over to the Communications Division due to ECE not being able to assist employees like we used to due to work volume with the implementation of START. ECE has been helping the Employer Reporting branch under Accounting with error correction.

Summary of 2012 Activities:

- Have assisted the Employer Reporting branch under Accounting with error correction for CERS and posted 28,433 errors for the calendar year 2012. The rep that I have loaned to ER has keyed 26,540 error corrections for KHRIS which is the state system.
- ECE reps visited 655 agencies to provide training, get information for other Divisions within KRS, did 104 presentations across the state on member benefits, and did 553 counseling sessions and demonstrated Member Self Service (MSS)
- Staff participated in START trainings last fall for employers:
 - Conducted 52 training sessions across the state to refresh employers on the START and the employer reporting functionality. There were 596 employers that attended and of those employers approximately 900 staff members attended which encompassed reporting officials, payroll officers and HR.
 - Presented START information at multiple Association conferences
 - Staff assisted with a dedicated START employer hotline and e-mail Inbox
 - Providing ongoing support by phone, e-mail and agency visits for the START system
- Collected information from agencies needed internally to process requests.

Employer Compliance and Education Division, Continued

- Compiled spreadsheets to request information from agencies to correct errors and if not received staff went out to collect them.
- Reviewing HP-2's on employees to make sure agency is reporting them in the correct position.
- Special effort to maintain on-going agency contacts for compliance and to represent KRS at benefit fairs (with all START obligations, we tried to honor all requests outside of the START project).
- Dealing with and getting information from agencies that are trying to get out of the retirement system (had several inquiries this year) and dealing with ongoing situations of agencies reporting employees in Non-Participating positions and trying to circumvent the law.
- Assisted 31 agencies with paperwork and conversion of 81 job positions from non-hazardous retirement to hazardous duty retirement. Still having issues with agencies not understanding HB1 and the petitioning of jobs for people hired 9/1/08 or later.

Current Status:

- One ECE rep has been out on medical leave since last October and we had one ECE rep who resigned last November. 2 staff members have been dedicated to the Employer Reporting Branch (to help with error correction, invoices, KHRIS error corrections).
- ECE staff is assisting with error correction (26,000+ errors still needing to be corrected) so that Annual Statements can be correct for 2012/2013. We are also assisting with adjustments to member's accounts, manning the phones during the window when employers can submit their reports (busiest time of the month), resetting passwords, talking employers through on how to make their own adjustments and assisting employers on how to report employees.
- Conducting agency visits (when we can) but for the most part we have been pulled off the road to help with error correction. We are dedicated to this until the end of the fiscal year at which time we will start going out more to focus on the employers who are still having trouble with the new system and actually focus on audits, helping employers with their invoices, catching up on the things we haven't been able to give the attention to since helping with error correction.
- Begin conducting START training sessions for employers both individually and small group sessions.
- Assisting other areas throughout the building in getting information from our agencies that is needed to complete work in office.
- Support Employers with START and make sure they are in compliance.

Employer Compliance and Education Division, Continued

Strategic Plan for 2013 - 2014:

- Provide continued education and training for staff.
- Support employers as they report in START (agency visits, phones, e-mails)
- Assist Employer Reporting as needed
- Begin auditing (which we haven't been able to do up to this point) and handle compliance issues that come to light due to START (time consuming). Agencies reporting people in the wrong hazardous positions, agencies who have yet to look at their invoices, agencies who are not reporting all of their employees per our regulation and agencies who are circumventing the law by placing people in Non-Participating positions and rotating them between seasonal and part-time (huge issue right now).
- Depending on what happens in the session, might possibly be doing some trainings to keep them updated on new laws.
- Possibly conducting small group training sessions at KRS for employers who are having issues. We did a small pilot program last year with invoices and it was a success.
- Following up with Employers who are delinquent.

Operations



INFORMATION TECHNOLOGY

Pam Gibbs, Director

The Information Technology Division exists to provide innovative solutions to enable KRS' business divisions to serve the needs of our members, and accomplish their goals. The division accomplishes its works via three branches, which provide project management, application development, and infrastructure services.

Summary of 2012 Activities:

- Completed 3,011 enhancements/modifications/defect resolutions in the new START system in production in 2012.
- Completed the warranty period of the START Project.
- Implemented Phase I of the iPad Project for use by the Board of Trustees and Executives.
- Initiated Project Management Practices and a Systems Development Life Cycle (SDLC) methodology in support of change management for the START system.
- Managed the Humana Implementation Project to transition the Medicare-eligible retiree population to the Humana Medicare Advantage Plan.
- Initiated the following projects
 - SQL Health Check
 - Website redesign
 - Webinar functionality
 - 2012 1099R implementation and documentation
 - Social Media
- Continued work on the virtualization project with 119 servers virtualized, residing on 18 physical servers. Several key benefits of virtualization include Disaster Recovery capability, increased system uptime, ability to create better test environments, and decreased footprint in the Data Center which will reduce costs on cooling and power consumption.
- Upgraded KRS network log monitoring software.

Information Technology Division, Continued

- Increased the security infrastructure with the addition of a Web Application Firewall and real-time Intrusion Detection and Prevention system.
- Upgraded Wi-Fi for the KRS Campus.
- Implemented several areas of network redundancy for better system uptime.
- Initiated procurement and implementation/configuration of hardware and software for the Disaster Recovery Project. These purchases not only were for the Disaster Recovery project but was also for the hardware refresh for the 5 year old START hardware. Between the refresh of hardware and moving to virtualization KRS will see a sizeable reduction in hardware maintenance cost.

Activities Planned for 2013:

- Complete the Disaster Recovery Project by implementing leading industry technology practices, continuing to leverage the Virtual Infrastructure, and establishing a reoccurring failover test schedule.
- Enhance the Disaster Recovery plan by integrating with the Business Continuity Plan.
- Upgrade the .NET Development Framework and SQL Server version implemented with START.
- Upgrade the Telephone Systems with both hardware and software with newer features as well as adding in Disaster Recovery capabilities.
- Complete rollout of KRS' Two-factor authentication solution.
- Review and test the benefits of moving the majority of KRS users to a virtual desktop.
- Continue enhancements of START functionality.
- Perform design and development for the migration of time and attendance functionality from legacy system with a timeline for testing and implementation.
- Plan and set timeline for upgrade of START FileNet imaging and workflow system.
- Continue efforts to replace, virtualize, and decommission servers and applications as appropriate.
- Complete phase I integration with the new KTRS project.
- Complete integration and transition to BNY Mellon custodial bank project.

Operations



PLANNING & CONSTITUENT SERVICES

Shawn Sparks, Director

The Planning and Constituent Services Division (previously the Division of Government Relations and Strategic Planning) was revamped in November 2006 to emphasize the Systems' dedication to serving our members on both a daily- and long-term basis. The Division currently consists of one Director who reports to the Chief Operations Officer.

From a day-to-day perspective, the Division Director serves as the main agency contact for the constituent service offices of the Governor, Legislative Research Commission, and Kentucky's Congressional Delegation. This role allows the Division to be instrumental in providing an enhanced level of customer service for our members, with the added benefit of fostering a positive opinion of KRS among legislators and the general public. From a long-term perspective, the Planning role of the Division helps to insure the Systems' operations can withstand unexpected disruptions through the creation of an agency business continuity plan, as well as prepare for the future sustainability of the Systems via the creation of a comprehensive strategic plan. The Division is also responsible for tracking and analyzing legislation during General Assembly sessions and conducting various research projects as needed.

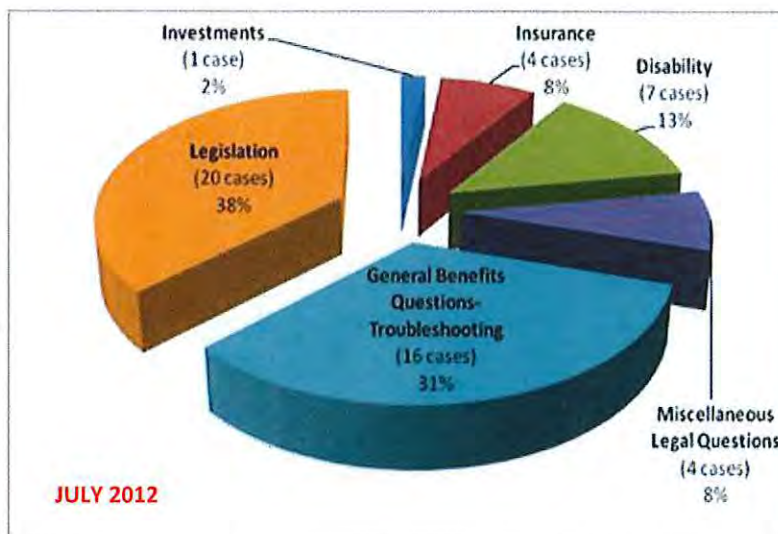
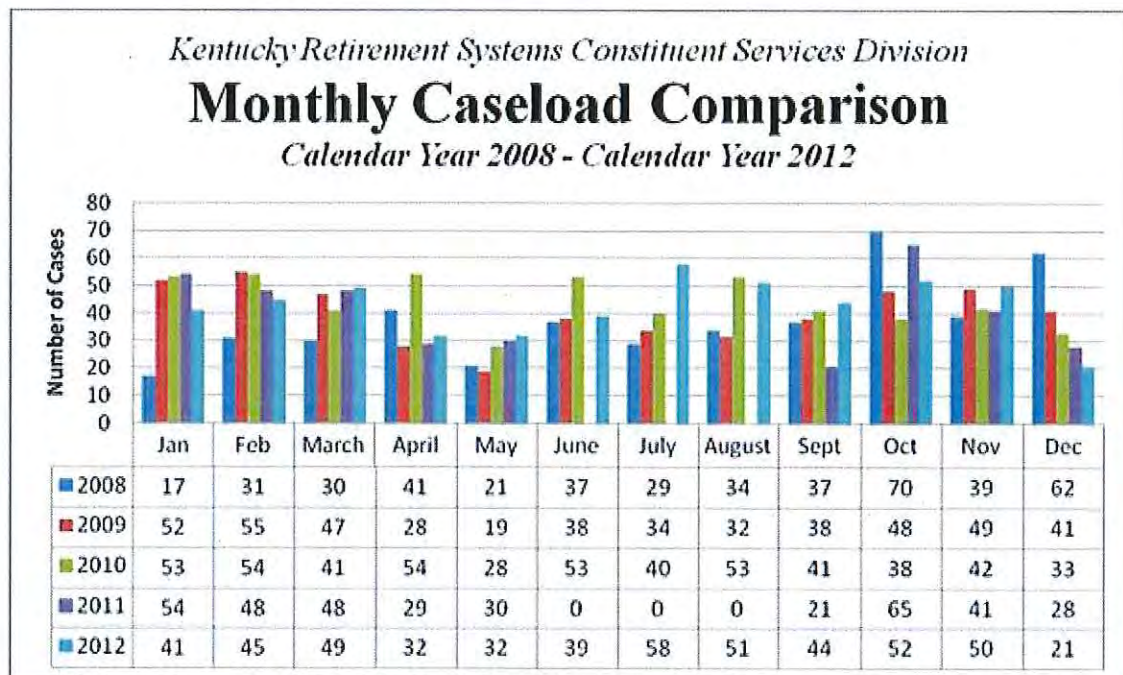
Summary of 2012 Activities:

PLANNING

- Updated the **KRS Business Continuity Plan** covering seven (7) critical KRS business functions and six (6) risk categories for the Systems' operations.
- Continuing Education: Completed fourth year of active membership in a national business continuity/disaster recovery professional association (Association of Contingency Planners-Kentuckiana chapter). Continue to hold Certified Continuity Manager professional designation.
- Continued development of a tabletop training exercise to test the effectiveness of the KRS Business Continuity Plan. Project is temporarily on hold due to current agency workload considerations.
- Continued independent research and development of an agency-wide Strategic Plan for future consideration by KRS senior staff and Board of Trustees.

CONSTITUENT SERVICES

- Personally handled **514 constituent services cases** for legislators and other elected officials during Calendar Year 2012.
- **FIVE** months saw **record-high caseload volumes** (March, May, July, September, November).
- Regularly recognized by Governor's staff, LRC staff, and individual KRS members for attention to detail and successful disposition of cases.



ABOVE: Monthly Caseload Comparison by Calendar Year (2008 – 2012)

LEFT: Sample monthly report. Cases are categorized by general topic.

GOVERNMENT RELATIONS:

- Performed **daily legislative tracking duties** for the 2012 Kentucky General Assembly 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).
- Personally **reviewed 1,392 bills and resolutions** to determine potential impact on KRS, and **actively tracked 18 bills and resolutions** of direct interest to KRS over a 94-day period.
- Wrote a "**Legislative Week in Review**" feature that was emailed along with the tracking lists and provided a recap of the past week's significant events, and continued a **KRS News Compilation** feature introduced during the 2006 General Assembly that provided a weekly gathering of KRS-related news articles from around the state. This compilation was used to keep everyone updated on the public perception of our agency during the session, and can be used for archival purposes in the future.
- In addition to internal use, the daily updates and legislative commentary/analysis contained in the emails are used by professional lobbyists for various special interest groups, insurance companies, and other associations to help protect their client's interests.

OTHER ACTIVITIES:

- Serves as one of two **Harassment Investigation Officers** for KRS. Conducted three separate investigations in Calendar Year 2012.
- Invited to speak at two Kentucky Pubic Retirees meetings in Louisville (Jefferson Regional chapter in April and North Central chapter in August).
- 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.

Activities Planned for 2013:

- Perform daily legislative tracking and analysis function during the 30-day 2013 Kentucky General Assembly, and keep the Board of Trustees and KRS staff informed of significant developments.
- Continue to provide assistance to members, beneficiaries, and outside entities (elected officials, constituent groups, interested individuals, etc.) through daily focus on Constituent Services caseload.
- Revamp current Business Continuity Plan and conduct a tabletop exercise for KRS directors and senior management to test the Plan for effectiveness.
- Assume responsibilities of KRS information disclosure process from Security Team.
- Assume duties as KRS HIPAA Privacy Officer from Senior Advisor Retiree Healthcare effective February 1, 2013.

Operations



PROCUREMENT AND OFFICE SERVICES

Joe C. Gilbert, Director

The Procurement and Office Services Division consists of three branches in addition to the Procurement function: the Records Retention and Inventory Control Branch, the Imaging Branch, and the Mail Center Branch.

The Records Retention and Inventory Control Branch has one Supervisor maintaining all fixed inventory records and overseeing the records retention program.

The Imaging Branch has a Document Processing Supervisor, two Document Processing Specialist in the microfiche area and eight Document Processing Specialists in the imaging area. Their responsibilities include processing (by scanning and indexing) all incoming mail into file net for the entire agency. Microfiche is processed by scanning and indexing into file net and library manager.

The Mail Center Branch has a Mail Center Supervisor and two Mail Services Technicians. They retrieve, open, and direct all incoming mail for the entire agency, prepare and process special mailings, such as insurance information, and process all outgoing mail for the entire agency. We provide support to the agency through procurement and inventory control of office supplies and agency forms supplies.

Summary of 2012 Activities:

- Processed and scanned nearly 990,000 document pages in the imaging Branch
- Indexed 153,980 documents in the Imaging Branch
 - Includes indexing, QC, re-indexing, document deletion and verification
- Over 103,600 actions were processed with the microfiche and film this includes indexing these images to the member files
- Made approximately 620 vehicle runs
- Processed approximately 111,300 pieces of incoming mail
- Processed approximately 216,200 pieces of outgoing mail

Procurement and Office Services Division, Continued

- Mailed approximately 83,700 recurring checks
- Mailed approximately 99,800 check stubs to retirees
- Destroyed 175 boxes of records and sent 246 boxes of records to underground storage based on our records retention plan

Current Status:

- Continuing to scan, index, and process daily mail for all departments.
- Continuing to scan and convert microfiche and 16mm file to file net and library manager.
- Meeting all mailing deadlines and process all incoming and outgoing daily mail in a timely manner.
- Provided KRS suggestions to reduce mailing costs.
- Updated all our processes to comply with the USPS' intelligent barcode reducing mailing costs
- Updated our document retention schedule
 - Implemented the KRS document retention program.
 - We currently comply with current state and KRS document retention policies
 - The KRS document retention officer created the KRS document retention policy
 - The KRS document retention officer monitors the program to insure we comply with our policy
 - Documents are destroyed on schedule
- Completed an inventory count providing Divisions with accurate inventory lists

Strategic Plan for 2013:

- Continually review all processes in order to reduce mailing, copying, and supply costs.
- Assist all other divisions by sorting and completing the initial processing of mail by mail room staff.
- Continue to meet mailing deadline for checks, special mailings, etc.
- Continue to make all documents received by KRS available agency wide in the shortest time possible.
- Focus on the conversion of the microfiche and 16mm images to digital files.

Operations



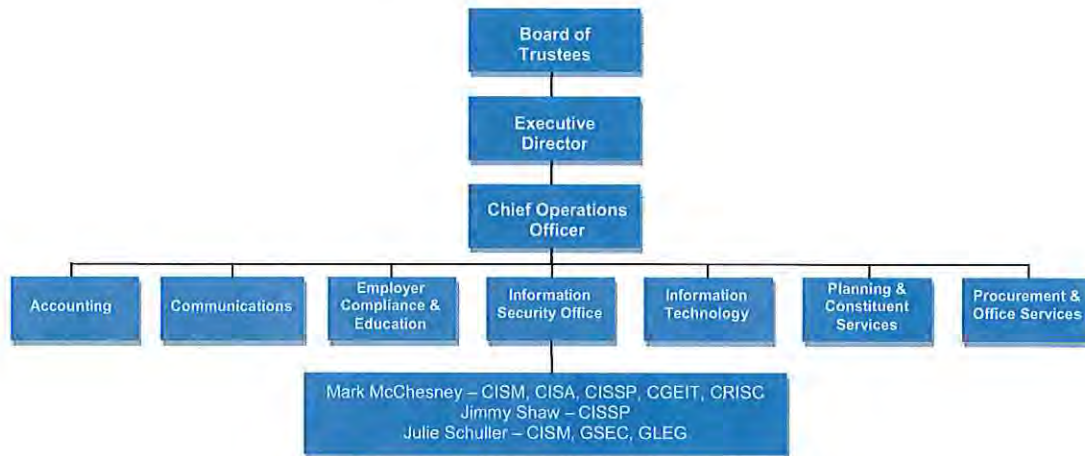
SECURITY OFFICE

Mark McChesney, Information Security Officer

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 (e.g., HIPAA/HITECH, Commonwealth of Kentucky Enterprise Policy, KRS Information Security Policies, etc.)
- 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. All Information Security staff have acquired information security accreditation to ensure they possess the necessary competencies and skill sets to protect KRS.



Summary of 2012 Activities:

- Facilitated and managed quarterly Security Steering Committee Meetings comprised of all Executive Management and strategic Senior Management staff.
- Participated in routine change management meetings.
- Provided technology guidance and security expertise to KRS for the following projects:
 - Network Intrusion Detection/Prevention System Acquisition Project
 - Board of Trustees (et. al.) iPad/BoardBooks Project
 - Social Media Policy Development and Implementation Project
 - Telephone System Replacement Project
 - Webinar Solution Acquisition Project
 - Website Management Project
- Served in an advisory role in various Internal Auditor projects.
- 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.

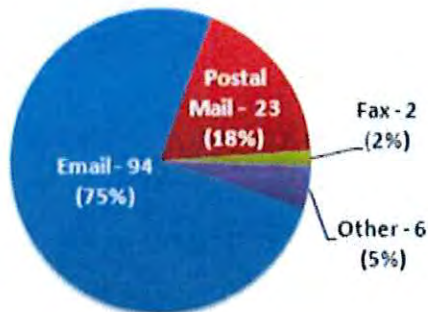
Security Office, Continued

- Conducted preliminary server/infrastructure assessments to reduce third-party assessment costs.
- Conducted internal assessments of approximately 350 KRS workstations and printers for security vulnerabilities and worked with the Information Technology Division to remediate identified issues.
- Performed regular monitoring of manual and automated security mechanisms and remediated potential security threats or other anomalies. This included the routine review of the following security logs:
 - Email Encryption
 - Malware
 - System Access
 - Internet Usage
- Investigated and documented 164 reported security incidents that included:
 - Malware infections
 - Security policy violations
 - Unauthorized access to systems and facilities
 - Data leakage
 - Data disclosure
 - HIPAA breaches
 - Social engineering attempts
 - Threats to employees
 - Attempts to defraud members.
- Documented and investigated 125 data disclosure incidents caused by KRS and/or external agencies.
- Provided and/or managed the notification of 1,677 members whose data were disclosed during CY 2012.

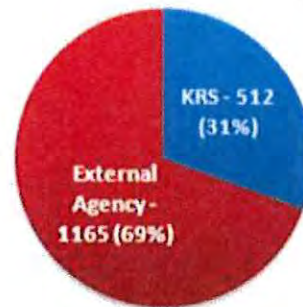
2012 KRS Data Disclosure Incidents

CY	Quarter	Number of Incidents by Disclosure Source			Number of Incidents by Disclosure Type					Number of Members Affected by Disclosure Source		
		KRS	External	Total	Email	Postal	Fax	Other	Total	KRS	External	Total
			Agency			Mail					Agency	
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	1224
	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
	%	26%	74%	100%	75%	18%	2%	5%	100%	31%	69%	100%

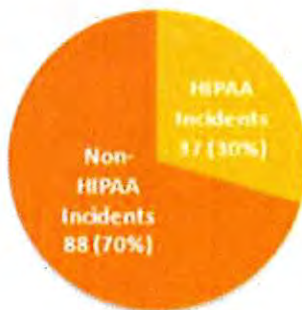
Disclosure Incidents by Type



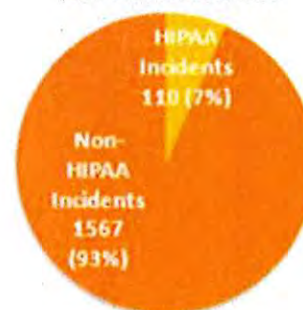
Members Affected by Source



HIPAA Incidents Total



Members Involved in HIPAA Incidents



Security Office, Continued

- Provided security awareness and educational materials for employees, employers, and members including the:
 - Creation and distribution of twelve (12) security awareness newsletters for employees.
 - Creation of three (3) security-related articles for the quarterly employee newsletter and one article for the member newsletter.
 - Distribution of 103 security awareness communications to employees and an additional 30 to executive management covering topics such as:
 - Insider threats
 - Malware
 - Social networking dangers
 - Cyber crime
 - Web security
 - Data protection
 - Identify theft
 - Security policy
 - Home computer security
 - Maintained Security and Training pages on the KRS Intranet that contain the latest security awareness materials, CBT videos, newsletters, policies, software updates, security alerts, etc.
 - Through a partnership with the MS-ISAC and SANS, procured Securing the Human computer-based training modules for employees and trustees.
 - Conducted presentations for statewide retiree meetings.
 - Conducted presentations at Kentucky Public Retirees chapter meetings.
- Represented KRS in various national organizations/associations/conferences:
 - Multi-State Information Sharing and Analysis Center (MS-ISAC) Monthly Meetings
 - National Association of State Chief Information Officers (NASCIO) Month Meetings
 - Security & Privacy Committee
 - Enterprise Architecture Committee
 - InfraGard Quarterly Meetings

- National Association of State Technology Directors (NASTD)
 - Security Special Interest Group
 - Disaster Recovery Special Interest Group
 - Data Center Special Interest Group
- Association of Contingency Planners Bi-Monthly Meetings
- Attended Annual GFIRST Meeting
- Attended Governor's Emergency Management Workshop
- Attended Kentuckiana ISSA Annual Conference
- Attended DerbyCon Security Conference

Activities Planned for 2013:

- Review KRS infrastructure and make recommendations to improve the security and supportability of business solutions.
- Conduct at least two (2) internal vulnerability assessments of the KRS IT infrastructure.
- Facilitate and manage a vulnerability assessment of the IT infrastructure by a third-party vendor.
- Facilitate and manage multiple code reviews of the START application by a third-party vendor.
- Facilitate and manage a Quarterly Steering Committee Meeting.
- Create additional security and privacy materials for members and agencies.
- Continue log monitoring and review.
- Continue employee security awareness activities.
- Continue security incident investigation, response, remediation and documentation.
- Continue data disclosure notifications as required.

NOTES

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board

FROM: William A. Thielen
Executive Director

DATE: April 4, 2013

SUBJECT: Legislative Update

The Executive Director will present a Legislative Update Report to the Board of Trustees at the April 4 meeting.

RECOMMENDATION: This memorandum is presented for informational purposes.

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board

FROM: William A. Thielen
Executive Director

DATE: April 4, 2013

SUBJECT: 2011-2012 Board of Trustees Education Program Update
105 KAR 1:440—Kentucky Retirement Systems Trustee Education Program

Effective with the implementation of House Bill 1 in August 2008 and per the Kentucky Retirement Systems Trustees Education Program adopted November 20, 2008 and amended August 18, 2011, new Trustees are required to complete a total of eight (8) credit hours of trustee education activities and continuing Trustees are required to complete a minimum of twelve (12) hours of trustee education activity.

As was discussed at the April 5, 2012 Annual Board Meeting, all Kentucky Retirement Systems' Board of Trustees had between April 1, 2012 and March 31, 2013 to meet the annual required training.

This memo serves as verification that every member of the Board of Trustees completed the required credit hours of trustee education activities for the 2012-2013 Board Year.

A copy of your Training Transcript and your Certificate of Completion will be distributed at the April meeting.

RECOMMENDATION: This memorandum is presented for informational purposes only.

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board

FROM: William A. Thielen
Executive Director

DATE: April 4, 2013

SUBJECT: Committee Appointments

The Chair of the KRS Board of Trustees will be making the committee appointments effective April 1, 2013. A committee membership list for 2013-2014 will be provided following the announcement of the appointments.

RECOMMENDATION: This memorandum is presented for informational purposes.

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board
FROM: William A. Thielen
Executive Director
DATE: April 4, 2013
SUBJECT: Fiduciary Issues Publications

The publications: *Acceptance of Gifts, Ethical Guidelines for Board Members, Executive Branch Code of Ethics, Open Records and Open Meetings, Your Duty Under the Law, and Your Right to Know* are enclosed to help facilitate the Board's understanding and compliance with these items.

RECOMMENDATION: This memorandum is presented for informational purposes only.

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board

FROM: William A. Thielen
Executive Director

DATE: April 4, 2013

SUBJECT: Proposed KRS Bylaws Amendment

Under Section 1.1e of the KRS Bylaws, the regular fourth quarter meeting of the KRS Board of Trustees is set on the third Thursday of November each year. Last year, the fourth quarter meeting was rescheduled as a special meeting during the first week of December to give the actuaries, auditors and staff additional time to complete the annual valuation, audited financial statements and the Consolidated Annual Financial Report (CAFR) for presentation to the board at its fourth quarter meeting.

The KRS 2013 fiscal year financial statements audit is being conducted by the Kentucky Auditor of Public Accounts pursuant to Kentucky Revised Statutes 61.645(12)(b), which was newly enacted during the 2012 legislative session (House Bill 300). Based on meetings held with personnel from the Auditor's office during February, it appears that the scope of the audit will be expanded and that the Auditor will not likely complete the audit in time to present the final audit to the board at a November meeting. The late completion of the financial statements audit also means that the completion of the actuarial valuation and the CAFR will be delayed.

Because of the expected delay this year in the completion of these reports and the difficulties that are experienced nearly every year in completing the reports in time for a November board meeting, a discussion ensued at the last board meeting about changing the date of the board's regular fourth quarter meeting. Based on the previous discussion, it is being proposed that the board's bylaws be amended to change the date of the fourth quarter meeting each year to the first Thursday of December. A copy of the proposed new bylaw language is included with this memorandum.

RECOMMENDATION: The Executive Director recommends that the KRS Board amend Section 1.1e of its bylaws to change the date of the regular fourth quarter meeting from the third Thursday of November to the first Thursday of December each year.

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board

FROM: William A. Thielen
Executive Director

DATE: April 4, 2013

SUBJECT: Contract with Reinhart Boerner Van Deuren s.c.

At its February 21, 2013 Quarterly Meeting, the board authorized negotiation of a renewal of the contract with Reinhart Boerner Van Deuren s.c. for legal services regarding investments and evaluation of securities claims. The staff recommendation is that the Board approve the renewal contract for a period of two (2) years from July 1, 2013 through June 30, 2015, at the following rates:

Senior Shareholder (including K Johnson)	\$360 per hour (previously \$350 per hour)
Shareholder (including J Snellman & Ryan Stippich)	\$360 per hour (previously \$350 per hour)
Senior Associate (including A Christianson)	\$260 per hour (previously \$265 per hour)
Associate	\$235 per hour (previously \$240 per hour)
Paralegal	\$100 per hour (same)

RECOMMENDATION: The Executive Director recommends the approval of the contract with Reinhart Boerner Van Deuren s.c.

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board

FROM: William A. Thielen
Executive Director

DATE: April 4, 2013

SUBJECT: Fiduciary Liability Insurance Policy

The Board's fiduciary liability insurance coverage under a policy issued by the State National Insurance Company will expire April 25, 2013. 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 State National on the terms summarized below.

Terms/Coverage

Liability Limit:	\$5,000,000
Deductible:	\$ 200,000
Coverage Period:	1 year
Term:	April 25, 2012 – April 25, 2013
Annual Premium:	\$ 73,432.41

An application has been made through the Division of State Risk & Insurance Services for a renewal of this policy. Information regarding the renewal terms and cost is not yet available. As soon as a renewal quote is received, the information will be forwarded to Board members.

RECOMMENDATION: The Executive Director recommends that the Board consider, at its April 4 meeting, whether to renew its fiduciary liability insurance coverage.

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board

FROM: William A. Thielen
Executive Director

DATE: April 4, 2013

SUBJECT: Fiduciary Liability Insurance Policy

Accompanying this memorandum you will find a proposal from Alterra America Insurance Company through Van Meter Insurance Group for fiduciary liability coverage for the KRS Board of Trustees for the period April 25, 2013 through April 24, 2014. The general limit of coverage is \$5,000,000 (each claim and aggregate) with a deductible of \$250,000. The premium for this coverage is \$64,876.12.

The \$250,000 deductible represents an increase from the deductible for the current year policy which is \$200,000. The quoted premium for the coverage with a \$250,000 deductible is \$8,556.29 less than the premium for the current year policy. The company is offering an optional deductible of \$100,000 for total premium of \$67,035.30 which would be \$6,397.11 less expensive than the current year policy.

RECOMMENDATION: The Executive Director recommends that the Board approve the renewal of the fiduciary liability insurance policy with either a \$250,000 or \$100,000 deductible.

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board

FROM: William A. Thielen
Executive Director

DATE: April 4, 2013

SUBJECT: Pending Litigation

This portion of the meeting will be held in closed session. Materials, if any, will be distributed in the closed session.

RECOMMENDATION: This memorandum is presented for informational purposes only.

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board

FROM: William A. Thielen
Executive Director

DATE: April 4, 2013

SUBJECT: Approval of Executive Director Search Committee Minutes

The Executive Director Search Committee was created as a temporary ad hoc committee of the KRS Board of Trustees in 2011 to conduct a search for a new KRS Executive Director. The committee consisted of the full Board of Trustees and four non-voting KRS executive staff members. It was brought to my attention by KRS Board member Randy Overstreet that the minutes of the Executive Director Search Committee were never approved. A copy of the minutes of the seven meetings held by the Executive Director Search Committee accompany this memorandum.

RECOMMENDATION: The Executive Director recommends that the KRS Board members who served on the Executive Director Search Committee vote to approve the minutes of the seven meetings held by the Committee.

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board

FROM: William A. Thielen
Executive Director

DATE: April 4, 2013

SUBJECT: Dean Dorton Allen Ford Requested Increase in CERS Election Fee

In June 2012, Dean Dorton Allen Ford (Dean Dorton) was awarded a contract to conduct financial audits and provide other auditing services to KRS for fiscal years 2012 through 2014 as a result of their response to a Request for Proposals (RFP) issued in November 2011. One of the additional services which Dean Dorton agreed to perform was to tabulate votes submitted in the 2013 County Employees Retirement System election of KRS Board members. In its fee proposal, Dean Dorton submitted a quote of \$9,500 for tabulating the 2013 CERS election results. This quote was based on an estimated 250 hours of time that had been budgeted by former auditors and set out in the RFP.

Dean Dorton reports that the actual number of ballots submitted for the 2013 CERS election was 24,170, a 16.4% increase over the number of ballots submitted in the 2009 CERS election. Dean Dorton also reported that the firm expended 310 hours, rather than the estimated 250 hours, processing the ballots. At the quoted rate of \$9,500 based on an estimated 250 hours of work, Dean Dorton was charging \$38 per hour. If \$38 per hour is paid for the 310 actually worked (60 hours more than estimated), the additional amount would be \$2,280. Dean Dorton is requesting that the firm be paid an additional \$2,000 for the work performed in processing the 2013 CERS election ballots.

RECOMMENDATION: The Executive Director recommends that the Board agree to pay Dean Dorton Allen Ford an additional \$2,000 for the work performed by the firm in processing the 2013 CERS election ballots.