

MEMORANDUM

TO: The Board of Directors
Kentucky Retirement Systems

FROM: Karen Roggenkamp
Executive Director, Operations

DATE: February 16, 2017

SUBJECT: Biennium Employer Actuarial Rates by Plan

Employer contribution rates are set in accordance with KRS 61.565(1)(a), (2) and (4). For the current biennium, the Board set the contribution rate on December 3, 2015. Pursuant to KRS 61.565(3)(b), the Board may amend the contribution rates for the County Employees Retirement Systems (CERS) as of July 1, for the second year of the biennium based on the most recent Board approved actuarial valuation. The System is required to notify employers of any changes prior to July 1 of the second year of the biennium. There is no similar provision that permits the Board to amend the contribution rate for the Kentucky Employees Retirement System (KERS) and the State Police Retirement System (SPRS), for the second year of the biennium.

At the December 1, 2016 Board meeting, the Board approved contribution rates for CERS based on the fiscal year 2016 actuarial valuation. The approved rates were 19.18% (CERS Non-hazardous) and 31.55% (CERS Hazardous). As required by statute, these rates have been communicated to CERS employers.

No further action for KERS and SPRS is required by the Board for fiscal year 2018. The 2018 rates as approved in the biennium budget are:

KERS Non-hazardous	49.47%
KERS Hazardous	23.70%
SPRS	91.24%

The Board will next have to consider employer contribution rates on or before November 13, 2017.

RECOMMENDATION: This memo is presented for informational purposes only.

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board

FROM: Connie Davis
Internal Audit Director

DATE: February 16, 2017

SUBJECT: Quarterly Reports of the Audit Committee

The Audit Committee held its quarterly meeting on February 2, 2017. The purpose of the meeting was to review and discuss, among other miscellaneous audit related items, the following:

1. The Audit Committee approved the November 3, 2016, Audit Committee meeting minutes.

2. The Audit Committee approved the Contract and Execution Process Audit Report.

➤ *Review of Contract and Execution Process Audit*

Please see the attached spreadsheet with findings, recommendations, and management's corrective action.

3. The Audit Committee reviewed the year-to-date fiscal year 2017 financial reports, final fiscal year 2016 information, audit findings remediation progress, Internal Audit fiscal year 2017 budget, and other information.

➤ *Review of Quarterly Financial Statements 12/31/2016*

➤ *Review of Outstanding Invoices*

➤ *Disclosures of Assets, Liabilities, and Contingencies – June 30, 2016*

➤ *Review of Fiscal Year End June 30, 2016, End of Year Audit Requirements*

➤ *Review of Management Follow-up on Audit Findings and Recommendations Summary Dashboard*

➤ *Review of Information Disclosure Incidents, 4th Quarter Calendar Year 2016*

➤ *Review of Internal Audit Budget 12/31/2016*

➤ *Review of Anonymous Reporting Spreadsheet*

4. The Audit Committee received an update on pending Board elections.

- *County Employees Retirement System Winter/Spring Board Election 2017 Memoranda*
- *County Employees Retirement System Summer/Fall Board Election 2017 Memoranda*
- *Kentucky Employees Retirement System Board Election 2018 Memoranda*

5. The Audit Committee deferred the annual review of the charters to the next Audit Committee Meeting.

- *Status of Current Audits Memoranda*
- *Annual Review of the Charters of the Audit Committee, the Division of Internal Audit, and the Internal Audit Procedures Manual*
 - *Discuss the Role of the Audit Committee*

6. The Audit Committee approved the Request for Proposal – Audit Services.

- *APA Prior Approval Letter*
- *Request for Proposal – Audit Services*

7. The Audit Committee approved the Request for Proposal – Actuarial Consulting Services and discussed other business.

- *Request for Proposal – Actuarial Consulting Services*
- *Other Business*
- *Professional Article*

8. The Audit Committee approved the Conflict of Interest Complaint to be presented to the full Board with a recommendation of “No finding”.

RECOMMENDATION: The Audit Committee requests that the Board ratify the actions taken by the Audit Committee.

Kentucky Retirement Systems
Internal Audit

Contract Audit					
Finding #	Rating	Exception/Recommendation	Management's Response	Date Completed	Date Verified
1	High	Contract not on file. /KRS should maintain a copy of all executed contracts with any subsequent amendments for vendors that it continues to conduct business. Expenses paid not congruent with contract. Overpayment of \$16,551.60/Business units should review services received and the rates charged by a vendor prior to paying the invoice.	The Legal Department agrees that contracts should be on file on KRS. The new position of contract administrator will be responsible for all contracts being on file.		
2	High	Expenses paid not congruent with contract. Overpayment of \$16,551.60/Business units should review services received and the rates charged by a vendor prior to paying the invoice.	Retiree Health Care has implemented a process requiring an additional review by RHC management staff to ensure an invoice is correct based on the contract.		
a	High	\$11,272.50 in supplemental work that was not in the contract./ Business units should review services received and the rates charged by a vendor prior to paying the invoice.	The Contract does authorize the presentations at \$3,500 but is silent on the hours/expenses incurred for report preparation. The Executive Director did authorize the payments. Probably a lesson learned in terms of the contract language.		
b	High	\$1,942 overpayment for incorrect hourly rate./Business units should review services received and the rates charged by a vendor prior to paying the invoice.	The Legal Department agrees with the finding. It has been in contact with the vendor and the overpayment will be corrected.		
c	High	\$1,364.50 overpayment for incorrect hourly rate./Business units should review services received and the rates charged by a vendor prior to paying the invoice.	The Director of Retiree Healthcare reviewed the invoices with this vendor from January 1, 2013 through January 1, 2016 and facilitated a refund from the vendor in the amount of \$3,756.55.	10/12/2016	

Contract Audit

Finding #	Rating	Exception/Recommendation	Management's Response	Date Completed	Date Verified
d	High	<p>\$1,339.60 overpayment due to misinterpretation of the fee schedule./Business units should review services received and the rates charged by a vendor prior to paying the invoice.</p>	<p>Legal agrees that the contract may have been misinterpreted. However, it is unclear that it will result in an overpayment due to KRS. The invoices do not list the number of qualifying events actually processed if the fee is under \$150. Legal will work with Retiree Health to resolve the issue./ RHC disputes the findings by the Internal Auditor. There is no overpayment and the invoice is being processed correctly. This was verified with Discovery Benefits for the Medical Only Plan COBRA Management. Kentucky Retirement Systems (KRS) Legal staff is reviewing the contract, fee schedule and invoices in order to provide a determinations as well. RHC is continuing to process the invoices based on the contract in the manner that RHC and Discovery Benefits agrees upon and based on the contract.</p>		
e	High	<p>\$483.00 overpayment for incorrect hourly rate./Business units should review services received and the rates charged by a vendor prior to paying the invoice.</p>	<p>The Legal Department agrees with the finding. The overpayment has been corrected.</p>	10/12/2016	
f	High	<p>\$150.00 overpayment for item already in contract fee./Business units should review services received and the rates charged by a vendor prior to paying the invoice.</p>			
3	High	<p>KRS doesn't have written procedures and a formal contract tracking process./Recommends that thorough procedures be drafted to document the process and procedures for all types of contracts or legal agreements that KRS executes. Recommends KRS establish contracting limits.</p>	<p>You have some very good/well stated recommendations. I hope that the new contract administrator position would quickly help KRS further strengthen our contract management controls. /The Legal Department agrees with the finding. The new contract administrator will be taking many of these responsibilities. Written procedures will be developed by the Legal Department in consultation with management.</p>		

Contract Audit

Finding #	Rating	Exception/Recommendation	Management's Response	Date Completed	Date Verified
4	Medium	Expenses incurred and paid after contract expired, \$3,948.50./Recommends an extension, if available, or new contract should be executed prior to paying for services beyond the contract period. Recommends that all contracts, regardless of amount, be tracked and monitored.			
5	Medium	Late approval of memo of agreement by Board and exceeded fiscal year. Payment of \$1,190.00 after fiscal year end./Recommend that all memorandum of agreements be approved by the Board prior to execution. All memorandum of agreements should contain the provisions and terms required by KRS' procurement policy. Prior to services being received and paid for, extensions, or new agreements should be executed.	The Legal Department disagrees with the recommendation that all memorandum of agreement be approved by the Board prior to execution. The Procurement Policy only requires board approval of MOUs the cost of which will exceed \$50,000. Only those MOUs should be approved by the Board prior to execution./ The Retiree Health Plan Committee of the Board of Trustees voted for approval of the Memorandum of Agreement (MOA) on September 4, 2014. The MOA was signed on October 13, 2014 and October 14, 2014 by KRS and the Personnel Cabinet, Department of Employees Insurance(DEI). Health insurance contracts are executed on a calendar year or plan year basis, they are not completed on a fiscal year basis. All health insurance contracts at KRS are on a calendar year basis. RHC recommends that this be addressed in the KRS Procurement Policies. The expenses paid to this vendor for services were within the 12 month period of the execution date noted above. RHC notes that the MOA contains information about amending or termination by either party in the first paragraph.		

Contract Audit

Finding #	Rating	Exception/Recommendation	Management's Response	Date Completed	Date Verified
6	Medium	<p>External Counsel positions were not in the contract. No rates were established for this position in the contract. \$1,182.40 paid for the positions./The General Counsel should work with the External Counsels to set a price or address the pay rate for External Counsel employees who are not contemplated in the contract or not pay these expenses.</p>	<p>The Legal Department does not agree with the finding that requirement to file a response to the letter for KRS' auditor is outside the scope of the contract. The auditor sends letters to external counsel every year, which require response. Every Legal contract contains a provision for other services as needed or required. I do not know which external counsel was involved in the finding, but most of the contracts have provisions for the hourly rate of personnel by position if the person is not specified by name in the contract.</p>		

Contract Audit

Finding #	Rating	Exception/Recommendation	Management's Response	Date Completed	Date Verified
7	Low	<p>Expenses paid after total hours reached accounted for \$13,076.25 in contract expenses./Recommend a change order should be executed prior to paying for services beyond the hours approved in the Statement of Work. All contracts regardless of amount or execution method, should be tracked and monitored in the contract log.</p>	<p>As discussed, I disagree with the finding as to holding the contract spend to the Statement of Work by position. The SOW is intended as an overall estimate of a IT project to establish a contract value, not a precise accounting/tracking expended for each position type. Our contractor IT SOW's purpose was to give guidance to the vendor as to the types of resources (ex: developer, business analyst, programmer) that would be needed to implement a 18 month strategic plan. Resource needs by position will vary based on a individual project need - while adhering to the total contract authorized amount. The controls around the spend are (1) review & approval of the weekly hours of each contractor by the manager of the contract resources; (2) review of the hours and comparison of the contract-to-date amount vs. contract value by the budget analyst (see attached); (3) review and approval by CTO and COO. As an example, the START project (approved by OSB) had an authorized total \$ amount, then estimated \$ by implementation phase. Resource needs changed as the project proceeded based on the complexity of the phase and changes to work scope. I had several discussion with Jana (Smith) in OSB as to completing the final phase and using the remaining funds. the guidance was always - get the best value from the resources as possible and don't exceed the authorized contract value. entering a change request for every resource type seems an over complication and additional paperwork. If we had overspent the contract value, then I would totally support the audit finding. /The Legal Department agrees with the finding. The new contract administrator will be responsible for maintaining the contract repository.</p>		

Contract Audit

Finding #	Rating	Exception/Recommendation	Management's Response	Date Completed	Date Verified
a	Low	<p>KRS paid \$55 more per hour for 46 hours that were performed by a Senior Consultant instead of the position the work was to be performed according to the Statement of Work. This totaled \$7,590./Recommend a change order should be executed prior to paying for services beyond the hours approved in the Statement of Work. All contracts regardless of amount or execution method, should be tracked and monitored in the contract log.</p>			
b	Low	<p>KRS paid \$25 more per hour for 33.25 hours that were performed by a Senior Consultant instead of the position the work was to be performed according to the Statement of Work. This totaled \$5,486.25./Recommend a change order should be executed prior to paying for services beyond the hours approved in the Statement of Work. All contracts regardless of amount or execution method, should be tracked and monitored in the contract log.</p>			

Contract Audit

Finding #	Rating	Exception/Recommendation	Management's Response	Date Completed	Date Verified
8	Low	<p>Contracts not in the repository. 3 contracts over \$40,000 were not in the Legal repository, but were on file with another employee in the business unit. /KRS contract repository should maintain a copy of all dually executed contracts, as well as any subsequent amendments, for current vendors. Recommend upon execution, the executed version of all contracts, quotes, and Statements of Work, regardless of size, contracting method or business unit be included in the repository.</p>			
9	Low	<p>Written documentation for quotes not on file./For all quotes, KRS should develop and document a process to ensure that the required amount of quotes are obtained and documented prior to executing a small purchase.</p>			
a	Low	<p>Purchase agreements between \$10,000 and \$19,999 require 3 quotes. Only one quote was obtained for 6 of the 8 agreements . There was no written documentation for 2 of the agreements./For all quotes, KRS should develop and document a process to ensure that the required amount of quotes are obtained and documented prior to executing a small purchase.</p>			

Contract Audit

Finding #	Rating	Exception/Recommendation	Management's Response	Date Completed	Date Verified
b	Low	A Statement of Work from fiscal year 2015 was not on file. Personnel changed in April 2015 and documentation has for quotes, purchase orders and statements of work has improved.			
10	Low	Insurance Certificate not reviewed for two vendors. Certificate not on file./Insurance coverage should be reviewed as a regular function on an annual basis.	KRS reviews insurance vendor warranties, registration to do Business, Compliance with Ethics Provisions, and Subcontracts and Affiliate Arrangements during a Request for Proposal (RFP). RHC will require the insurance certificate in October 2016. The Humana RFP was reviewed during June 2015.		

MEMORANDUM

Date: January 23, 2017
To: Connie Davis
 Director of Internal Audit
From: Karen Roggenkamp
 Executive Director of Operations
Re: **FY 2017 Financial Highlights**

KENTUCKY RETIREMENT SYSTEMS						
Net Position Comparison – Pension Fund						
	KERS	KHAZ	CERS	CHAZ	SPRS	TOTAL
Second Quarter of FY 2017	\$1,988,213,313	\$558,833,690	\$6,351,995,181	\$2,093,289,632	\$234,696,492	\$11,227,028,307
FY 2016 End of Period (6/30/16)	\$1,980,292,118	\$527,879,431	\$6,141,394,419	\$2,010,174,047	\$218,012,479	\$10,877,752,495
Change in Net Position	\$7,921,195	\$30,954,258	\$210,600,762	\$83,115,585	\$16,684,012	\$349,275,812

FY 2017 Summary (period ending December 31):

Total Pension Net Assets were \$11.2 Billion at quarter end compared to \$10.9 Billion at the end of Fiscal Year (FY) 2016. The primary factors of \$349.3 Million (3.2%) increase were higher employer contributions and positive investment performance.

Comments & Comparisons to Prior Year:

- Total **Contributions** were \$812 Million which is an increase of \$174 Million from second quarter of FY16. The following were the major drivers of the increase in contributions:
 - Member contributions increased by \$17M due to an increase in covered payroll for CERS and CHAZ.
 - Employer contributions increased by \$105.7M due to an increase in the contribution rates across all plans.
 - The inflow of \$49.1M as appropriated by the General Fund (HB 303) during last year’s legislative session.
- Overall **Investment Income** was \$551.8M compared to a negative \$338.7M last year. The major drivers of the increase in Investment Income were:
 - The net appreciation in the FV of Investments increased from a negative \$378.4M in FY16 to a positive \$416.0M in FY17. The increase in FV for the second quarter of FY17 was driven primarily by the performance in the Public Equity sector with realized gains of \$177.5M and unrealized gains of \$167.2M for FY17.
 - Interest and Dividends earned during the 2017 fiscal year increased by \$106.7M from prior year to \$185.8M. Partnership income from Absolute Return, Private Equity and Real Return in the amount of \$43.6M accompanied with dividends of \$47.1M were the major source of income for the quarter
 - Investment expenses were \$50.0M slightly higher than FY16 of \$41.2M.
- Total **Deductions** were \$1.0B (up \$32.5M from 2016). Benefits/Refunds totaled \$995.7M. The 3.7% increase was comparable to prior years. Pension administrative expenses were \$18.8M compared to \$21.4M for same period last year. In FY 2017, DEI health plan administrative expenses are charged to the Insurance Trust (approximately \$2.0 million annually).

KENTUCKY RETIREMENT SYSTEMS						
Net Position Comparison – Insurance Fund						
	KERS	KHAZ	CERS	CHAZ	SPRS	TOTAL
Second Quarter of FY 2017	\$707,930,968	\$454,366,542	\$2,005,798,866	\$1,102,849,653	\$167,017,051	\$4,437,963,079
FY 2016 End of Period (6/30/16)	\$668,318,886	\$437,395,843	\$1,908,549,216	\$1,056,097,315	\$160,947,901	\$4,231,309,161
Change in Net Position	\$39,612,082	\$16,970,699	\$97,249,649	\$46,752,338	\$6,069,150	\$206,653,919

FY 2017 Summary (period ending December 31):

Total Insurance Net Assets were \$4.2 Billion at the end of Fiscal Year (FY) 2016 and increased by 4.9% to \$4.4 Billion. Total contributions and net investment income were \$386.4M offset deductions of \$179.7M, resulted in an increase in net position of \$206.7M.

Comments & Comparisons to Prior Year:

- Total **Contributions** were \$164.1M (\$7.9M lower than 2016) due to a decrease in required employer contributions credited to the insurance fund across three of the five plans.
- Overall **Investment Income** was positive \$238.7M compared to a negative \$107.5M in 2016. The major drivers of Investment Income were:
 - The net appreciation in the FV of Investments was positive \$173.0M compared to negative \$139.0M in 2016. The increase in FY during the first quarter of FY17 is primarily due to the positive performance in the Public Equity sector reporting realized gains of \$31.7M and unrealized gains of \$67.1M.
 - Interest and Dividends were \$65.7M (increase of \$34.2M from the prior year). Partnership income of \$12.9M accompanied with dividends of \$19.7M were the major source of income for the quarter.
 - Investment expenses were \$16.8M, slightly higher than FY16 of \$16.2M
- Total **Deductions** were \$179.7M (higher by \$3.5M compared to 2016). A slight increase in Healthcare Premiums accounted for increase.

**KRS ADMINISTRATIVE BUDGET 2016-17
BUDGET-TO-ACTUAL ANALYSIS**

For Period Ending December 31, 2016

Acc't #	Account Name	Budgeted	Actual Expenditures	Remaining	% Remaining
	PERSONNEL				
111	Salaries	\$14,520,000	\$7,813,097	\$6,706,903	46.19%
113	Casual Labor	\$0	\$0	\$0	0.00%
114	Wages (Per Diem)	\$56,000	\$2,881	\$53,119	94.85%
115	Wages (Overtime)	\$450,000	\$167,661	\$282,339	62.74%
119	Wages (Block 50)	\$100,000	\$22,372	\$77,628	77.63%
120	Benefits	\$0	\$5,858	(\$5,858)	0.00%
120	Miscellaneous	\$0	\$0	\$0	0.00%
121	Emp Paid FICA	\$1,107,282	\$549,239	\$558,043	50.40%
122	Emp Paid Retirement	\$6,744,764	\$3,733,643	\$3,011,121	44.64%
123	Emp Paid Health Ins	\$2,402,968	\$1,172,642	\$1,230,326	51.20%
124	Emp Paid Life Ins	\$4,003	\$1,773	\$2,230	55.71%
125	Emp Paid HRA	\$0	\$88,266	(\$88,266)	0.00%
126	Health Insurance Admin Fee	\$26,400	\$7,992	\$18,408	69.73%
127	HRA Adm Fee	\$13,000	\$4,104	\$8,896	68.43%
128	Emp Paid Sick Leave	\$40,000	\$0	\$40,000	100.00%
129	Adoption Assistance Benefit	\$0	\$0	\$0	0.00%
111A	Escrow For Admin Fees	\$0	\$0	\$0	0.00%
131	Workers Compensation	\$50,400	\$50,422	(\$22)	-0.04%
132	Unemployment	\$10,000	\$0	\$10,000	100.00%
133	Tuition Assistance	\$35,000	\$11,839	\$23,161	66.18%
133I	Investment Tuition Assistance	\$5,000	\$2,240	\$2,760	55.20%
133T	Audit Tuition Assistance	\$2,500	\$0	\$2,500	100.00%
135	Bonds	\$3,000	\$51	\$2,949	98.30%
141	LEGAL & AUDITING SERVICES				
141A	Legal Hearing Officers	\$350,000	\$97,828	\$252,172	72.05%
141B	Legal (Stoll, Keenon)	\$250,000	\$33,412	\$216,588	86.64%
141C	Polsinelli Shugart	\$100,000	\$0	\$100,000	100.00%
141E	Reinhart	\$500,000	\$163,054	\$336,946	67.39%
141F	Ice Miller	\$500,000	\$60,667	\$439,333	87.87%
141L	Middleton Reutlinger	\$80,000	\$48,094	\$31,906	39.88%
142	Auditing	\$250,000	\$35,000	\$215,000	86.00%
146	CONSULTING SERVICES				
146A	Medical Reviewers	\$380,000	\$161,520	\$218,480	57.49%
146B	Medical Reports	\$10,000	\$0	\$10,000	100.00%
146C	Medical Exams	\$35,000	\$17,761	\$17,239	49.26%
146E	Escrow for Actuary Fees	\$0	\$0		
150	CONTRACTUAL SERVICES				
150C	Miscellaneous Contracts	\$275,000	\$25,938	\$249,062	90.57%
150D	Health Consultant	\$125,000	(\$3,757)	\$128,757	103.01%
150E	Banking	\$9,000	\$0	\$9,000	100.00%
150F	PBI	\$9,000	\$0	\$9,000	100.00%
150G	Human Resources Consulting	\$100,000	\$0	\$100,000	100.00%
150H	Health Insurance Admin Fee	\$2,500,000	\$1,104,554	\$1,395,446	55.82%
150I	Investment Consulting	\$600,000	\$0	\$600,000	100.00%
150J	Medical Claims TPA	\$1,843,772	\$0	\$1,843,772	100.00%
150K	Pharmacy Claims TPA	\$1,019,200	\$0	\$1,019,200	100.00%
159	Actuarial Services	\$650,000	\$114,031	\$535,969	82.46%
162	Facility Security Charges	\$3,200	\$1,596	\$1,604	50.13%
	PERSONNEL SUBTOTAL	\$35,159,489	\$15,493,779	\$19,665,710	55.93%

BUDGET-TO-ACTUAL ANALYSIS

Acc't #	Account Name	Budgeted	Actual Expenditures	Remaining	% Remaining
	OPERATIONAL				
211	Natural Gas	\$25,000	\$3,130	\$21,870	87.48%
212	Electric	\$190,000	\$80,387	\$109,613	57.69%
221	Rent-NonState Building	\$33,500	\$16,344	\$17,156	51.21%
222	Rent -State Owned Building	\$710,200	\$355,230	\$354,970	49.98%
223	Equipment Rental	\$12,000	\$7,163	\$4,837	40.31%
224	Copier Rental	\$100,000	\$33,038	\$66,962	66.96%
226	Rental Carpool	\$0	\$0	\$0	0.00%
232	Vehicle/Equip. Mainten.	\$29,000	\$1,355	\$27,645	95.33%
241	Postage	\$525,000	\$173,360	\$351,640	66.98%
242	Freight	\$1,200	\$287	\$913	76.09%
251	Printing (State)	\$1,000	\$0	\$1,000	100.00%
252	Printing (non-state)	\$300,000	\$53,945	\$246,055	82.02%
254	Insurance	\$85,000	\$440	\$84,560	99.48%
256	Garbage Collection	\$15,000	\$7,101	\$7,899	52.66%
259	Conference Expense	\$40,000	\$3,626	\$36,374	90.94%
259I	Conference Exp. Investment	\$12,600	\$2,000	\$10,600	84.13%
259T	Conference Exp. Audit	\$1,500	\$0	\$1,500	100.00%
300	MARS Usage	\$35,000	\$13,550	\$21,450	61.29%
321	Office Supplies	\$150,000	\$32,582	\$117,418	78.28%
331	Data Processing Supplies	\$150,000	\$3,405	\$146,595	97.73%
343	Motor Fuels & Lubricants	\$3,000	\$943	\$2,057	68.55%
346	Furniture & Office Equipment	\$350,000	\$1,146	\$348,854	99.67%
361	Travel (In-State)	\$75,000	\$16,394	\$58,606	78.14%
361I	Travel (In-State) Investment	\$1,500	\$0	\$1,500	100.00%
361T	Travel (In-State) Audit	\$500	\$0	\$500	100.00%
362	Travel (Out of State)	\$20,000	\$5,441	\$14,559	72.80%
362I	Travel (Out of State) Invest	\$50,000	\$15,860	\$34,140	68.28%
362T	Travel (Out of State) Audit	\$2,500	\$0	\$2,500	100.00%
381	Dues & Subscriptions	\$85,000	\$27,978	\$57,022	67.08%
381I	Dues & Subscriptions Invest	\$15,000	\$10,930	\$4,070	27.13%
381T	Dues & Subscriptions Audit	\$5,000	\$220	\$4,780	95.60%
399	Miscellaneous	\$75,211	\$2,620	\$72,591	96.52%
399I	Miscellaneous Investment	\$20,000	\$1,259	\$18,741	93.71%
399T	Miscellaneous Audit	\$2,000	\$231	\$1,769	88.45%
601	Capital Outlay	\$0	\$0	\$0	0.00%
802	COT Charges	\$90,000	\$28,123	\$61,877	68.75%
814	Telephone - Wireless	\$8,000	\$2,249	\$5,751	71.88%
815	Telephone - Other	\$250,000	\$45,027	\$204,973	81.99%
847	Computer Equip./Software	\$4,000,000	\$836,592	\$3,163,408	79.09%
847I	Comp. Equip./Software Invest	\$190,000	\$0	\$190,000	100.00%
847T	Comp. Equip./Software Audit	\$1,000	\$0	\$1,000	100.00%
	OPERATIONAL SUBTOTAL	\$7,659,711	\$1,781,956	\$5,877,755	76.74%
	TOTALS	\$42,819,200	\$17,275,735	\$25,543,465	59.65%

TO: David L. Eager
Interim Executive Director

FROM: Connie A. Davis, CIA, CGAP, CRMA,
Internal Audit Director

DATE: January 23, 2017

SUBJECT: CERS Board Member Election Winter/Spring 2017 Ballot Memo

In accordance with the Kentucky Retirement Systems' (KRS) Board of Directors Election Policy and Procedures, I have reviewed the DRAFT of the official ballot for the two seats to be voted on by the members of the County Employee Retirement System (CERS). I hereby certify that the DRAFT ballot is in compliance with the aforementioned policy and procedures.

The ballot will be sent directly to the printer to print, and mailed directly from the print shop. As you are aware, once the ballot is sent to the printer, no public employee will have access to the ballot in order to maintain its integrity.

The printer will issue to me a certification that the official printed ballots were delivered to the United States Postal Service. This mailing will capture CERS members who are official members of CERS as of December 31, 2016. A post mark deadline of March 1, 2017, has been established for the return of the official ballots to the external auditor for tabulation by the aforementioned policy and procedures and in accordance with the Kentucky Revised Statute 61.645(4)(f).

I will continue to keep you informed of the progress of the election process. Should you have any questions regarding the CERS ballot and/or election process, please do not hesitate to contact me.

cc: John R. Farris, Chair
Board of Directors

Carmine G. Iaccarino
Executive Director, Office of Legal Services

Rich Robben, CFA
Interim Executive Director, Fixed Income Assets

David L. Eager
January 23, 2017
Page 2

Rebecca Stephens
Chief Benefits Officer

Karen D. Roggenkamp
Executive Director, Office of Operations

Scarlett Consalvi
Communications Assistant Division Director

h:/CERS Winter/Spring 2017 ballot memo.doc

Seeking Applicants from CERS for Summer/Fall 2017 Election to the Board of Directors of Kentucky Retirement Systems

Request for Nominations

KRS 61.645 provides that one Director shall be elected by the members of CERS for a four year term. The next election for a Director from CERS will be held in late 2017 for the term beginning November 1, 2017, and ending October 31, 2021. Kentucky Retirement Systems is seeking applications from members of CERS interested in serving as a Director.

Eligibility Requirements for CERS Directors

Applicants must be an active, inactive, or retired member of CERS. Applicants cannot be current or former employees of Kentucky Retirement Systems and cannot hold an office or position that is constitutionally incompatible with the position of director. A person who has served three consecutive terms on the board is ineligible to apply unless there has been at least four years since his or her last term ended.

Application Process

An applicant must submit a completed application, a detailed resume, and a signed release for a criminal background check to be performed by Kentucky State Police. You may obtain the application on our website, [kyret.ky.gov](http://www.kyret.ky.gov). You may obtain the release form for a criminal background check by Kentucky State Police at http://www.kentuckystatepolice.org/pdf/employment_rev11_10.pdf. This web link is also available on our website. If you wish to receive these forms by mail you may contact Connie Davis at 502-696-8459 (800-928-4646 ext. 8459).

Your application, resume, and signed release for criminal background check must be **received** at the office of Kentucky Retirement Systems by **close of business on February 28, 2017**. Please mail your application, resume, and signed release for criminal background check to:

Connie Davis
Division of Internal Audit
Kentucky Retirement Systems
1260 Louisville Road
Frankfort, Kentucky 40601

The Board of Directors will nominate up to three applicants as candidates to be a director at its annual board meeting currently scheduled for April 20, 2017.

Note: Applications, resumes, and releases for background checks received after February 28, 2017, will not be considered for nomination by the Board at the annual meeting in April.

Meeting for Individuals Submitting a Resume

An informational meeting will be held in March 2017 for all individuals who submit a resume to the Board for nomination. The purpose of the meeting will be to acquaint individuals with the election process and to review the administration of Kentucky Retirement Systems.

Nominations by the Membership

Individuals may also be placed on the election ballot by submitting a petition from the CERS membership. Per Kentucky Revised Statute 61.645, the petition must contain the name, last four digits of social security number, and signature of no less than 1/10th of the number of members voting in the last election. Based upon 2013 election results, the petition would require a minimum of 1,101 (1/10th of 11,012 qualified votes) names, last four digits of social security numbers, and signatures from the current CERS membership. Petitions to be included on the CERS election ballot must be submitted to the Division of Internal Audit no later than June 30, 2017. Petitions should be mailed to address above.

Election Timetable

February 28, 2017	Due date for receipt of application, resume, and authorization of back ground check for Board nomination.
March, 2017	Informational meeting for individuals submitting a resume.
April 20, 2017	Annual Board Meeting. The Board may nominate up to three candidates to be placed on the election ballot for the CERS position on the Board of Directors.
June 30, 2017	Last day to file a petition to be placed on the election ballot.
July 31, 2017	Ballots prepared.
August 20, 2017	Ballots mailed to CERS membership.
October 1, 2017	Last day to return a ballot.
October 15, 2017	Ballots tabulated.
November 1, 2017	Winner of election begins term of office.

Seeking Applicants from KERS for 2018 Election to the Board of Directors of Kentucky Retirement Systems

Request for Nominations

KRS 61.645 provides that two Directors shall be elected by the members of KERS for a four year term. The next election for Directors from KERS will be held in early 2018 for the term beginning April 1, 2018 and ending March 31, 2022. Kentucky Retirement Systems is seeking applications from members of KERS interested in serving as a Director.

Eligibility Requirements for KERS Directors

Applicants must be an active, inactive, or retired member of KERS. Applicants cannot be current or former employees of Kentucky Retirement Systems and cannot hold an office or position that is constitutionally incompatible with the position of Director. A person who has served three consecutive terms on the board is ineligible to apply unless there has been at least four years since his or her last term ended.

Application Process

An applicant must submit a completed application, a detailed resume, and a signed release for a criminal background check to be performed by Kentucky State Police. You may obtain the application on our website, kyret.ky.gov. You may obtain the release form for a criminal background check by Kentucky State Police at http://www.kentuckystatepolice.org/pdf/employment_rev11_10.pdf. This web link is also available on our website. If you wish to receive these forms by mail you may contact Connie Davis at 502-696-8459 (800-928-4646 ext. 8459).

Your application, resume, and signed release for criminal background check must be **received** at the office of Kentucky Retirement Systems by **close of business on July 31, 2017**. Please mail your application, resume, and signed release for criminal background check to:

Connie Davis
Division of Internal Audit
Kentucky Retirement Systems
1260 Louisville Road
Frankfort, Kentucky 40601

The Board of Directors will nominate up to six applicants as candidates to be a Director at its regular quarterly board meeting currently scheduled for September 14, 2017.

Note: Applications, resumes, and releases for background checks received after July 31, 2017, will not be considered for nomination by the Board at the quarterly meeting in September.

Meeting for Individuals Submitting a Resume

An informational meeting will be held in August 2017 for all individuals who submit a resume to the Board for nomination. The purpose of the meeting will be to acquaint individuals with the election process and to review the administration of Kentucky Retirement Systems.

Nominations by the Membership

Individuals may also be placed on the election ballot by submitting a petition from the KERS membership. Per Kentucky Revised Statute 61.645, the petition must contain the name, last four digits of social security number, and signature of no less than 1/10th of the number of members voting in the last election. Based upon 2014 election results, the petition would require a minimum of 1,271 (1/10th of 12,713 qualified votes) names, last four digits of social security numbers, and signatures from the current KERS membership. Petitions to be included on the KERS election ballot must be submitted to the Division of Internal Audit no later than November 30, 2017. Petitions should be mailed to Connie Davis at the address above.

Election Timetable

July 31, 2017	Due date for receipt of resumes for Board nomination.
August, 2017	Informational meeting for individuals submitting a resume.
September 14, 2017	Quarterly Board Meeting. The Board may nominate up to six candidates to be placed on the election ballot for the KERS positions on the Board of Directors.
November 30, 2017	Last day to file a petition to be placed on the election ballot.
December 31, 2017	Ballots prepared.
January 20, 2018	Ballots mailed to KERS membership.
March 1, 2018	Last day to return a ballot.
March 15, 2018	Ballots tabulated.
April 1, 2018	Winners of election begin term of office.



KENTUCKY RETIREMENT SYSTEMS

David L. Eager, Interim Executive Director
Perimeter Park West • 1260 Louisville Road • Frankfort, Kentucky 40601
kyrcr.ky.gov • Phone: 502-696-8800 • Fax: 502-696-8822



MEMORANDUM

Date: February 2, 2017

To: John Chilton, CPA, Chair,
Audit Committee of the Board of Directors

From: Connie A. Davis, CIA, CGAP, CRMA, *CAD*
Internal Audit Director

Re: Conflict of Interest Complaint

A formal complaint against a KRS Board member was received by Internal Audit. The Audit Committee is required by the Conflict of Interest and Confidentiality Policy to determine the course of action to take. The Conflict of Interest and Confidentiality Policy, the formal complaint, and the response are enclosed.

Legal will provide a verbal update during the meeting.

Action is required of the Committee.

Enclosure

cc: David Rich, Member
Audit Committee of the Board of Directors

Mary Helen Peter, Member
Audit Committee of the Board of Directors

Randy K. Stevens, Member
Audit Committee of the Board of Directors

David J. Adams, Member
Audit Committee of the Board of Directors

David L. Eager
Interim Executive Director

Carmine G. Iaccarino
Executive Director, Office of Legal Services

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KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board

FROM: Connie Pettyjohn, RN
Division Director, Retiree Health Care

DATE: February 16, 2017

SUBJECT: Retiree Health Plan Committee Report

The Retiree Health Plan Committee met on Tuesday, February 14, 2017, to discuss and make decisions regarding the formulary for the Medicare eligible health plans for the 2018 plan year.

The Committee reviewed a detailed presentation from Humana regarding the below three (3) drug categories that are covered on the Medicare eligible health plans formulary. These drugs are not covered under the Centers for Medicare and Medicaid Services (CMS) covered drug list. The Committee voted that these drugs will no longer be covered on the formulary in 2018.

- Over the Counter (OTC) coverage of Claritin and Zyrtec by the Medicare eligible plans will not be covered on the formulary in 2018. This decision results in a cost savings of approximately \$0.30 per member per month, estimated at \$175,000 per year.
- Coverage of Prescription Cough and Cold medications by the Medicare eligible plans will not be covered on the formulary in 2018. This decision results in a cost savings of approximately \$0.25 per member per month, estimated at \$150,000 per year.
- Coverage of Prescription Vitamins and Minerals by the Medicare eligible plans will not be covered on the formulary in 2018. This decision results in a cost savings of approximately \$0.25 per member per month, estimated at \$380,000 per year.

The Committee reviewed the information presented regarding the Consolidated Omnibus Reconciliation Act (COBRA) contractor for the KRS Medical Only Plan. The Committee voted that KRS obtain bids from vendors instead of issuing a Request for Proposal (RFP), as the yearly average for the monthly invoice is \$3,600.

The Committee reviewed the information presented regarding the Kentucky Group Health Insurance Board (KGHIB) representative. This representative, who must be a KRS retiree, will attend the KGHIB meetings that are held by the Personnel Cabinet. The Committee voted that Mary Helen Peter would serve as KRS' representative.

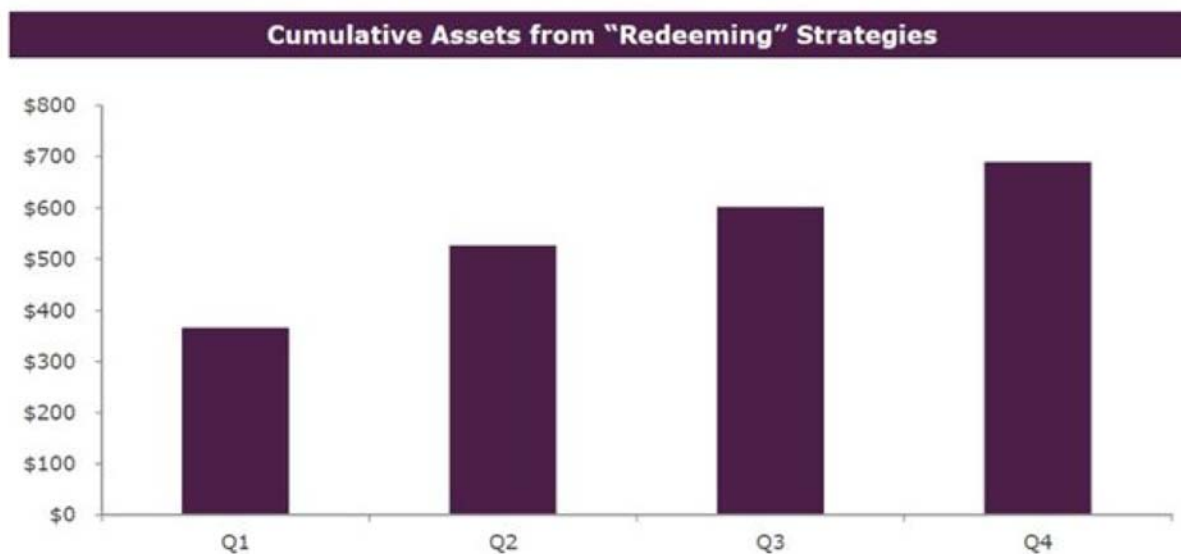
RECOMMENDATION: The RHP Committee recommends that the Board of Directors ratify the RHP Committee action.

To: Investment Committee
From: Richard Robben, Interim CIO / Director of Fixed Income
Date: February 16th, 2017
Subject: Investment Committee Quarterly Report

Since the last board of directors meeting in December, the Investment Committee has been very busy working on several initiatives that we would like to report on. The most important of those are as follows:

Review of our Absolute Return portfolio and managers

As you may recall, we announced towards the end of 2016 that we plan to cull approximately half of these mandates in order to streamline the portfolio, and to ensure that the mandates we keep are serving their intended purpose by providing an alpha stream that is uncorrelated with the rest of our portfolio and commensurate to the fees being paid. Staff has made significant progress on this initiative, as staff currently expects to see over \$500MM of redemptions returned to KRS by the end of Q22017, and an additional \$200MM+ by the end of 2017 when staff expects to have this task largely completed.



Annual review of Asset Allocation and Investment Policy Statement

At our January 20th meeting, Mr. Harris announced that he was appointing a sub-committee in regards to allocations and investment policies. Mr. Bill Cook and Mr. Neil Ramsey have been working with Investment staff and our general consultant RVK, Inc. to review and update our current asset allocation, and to review our Investment Policy Statement. The sub-committee reported at our February 7th meeting that they hope to have a recommendation on adjustments to each plans asset allocation by mid-March. The review of the Investment Policy Statement, which is being led by Mr. Cook, will be a somewhat longer task.

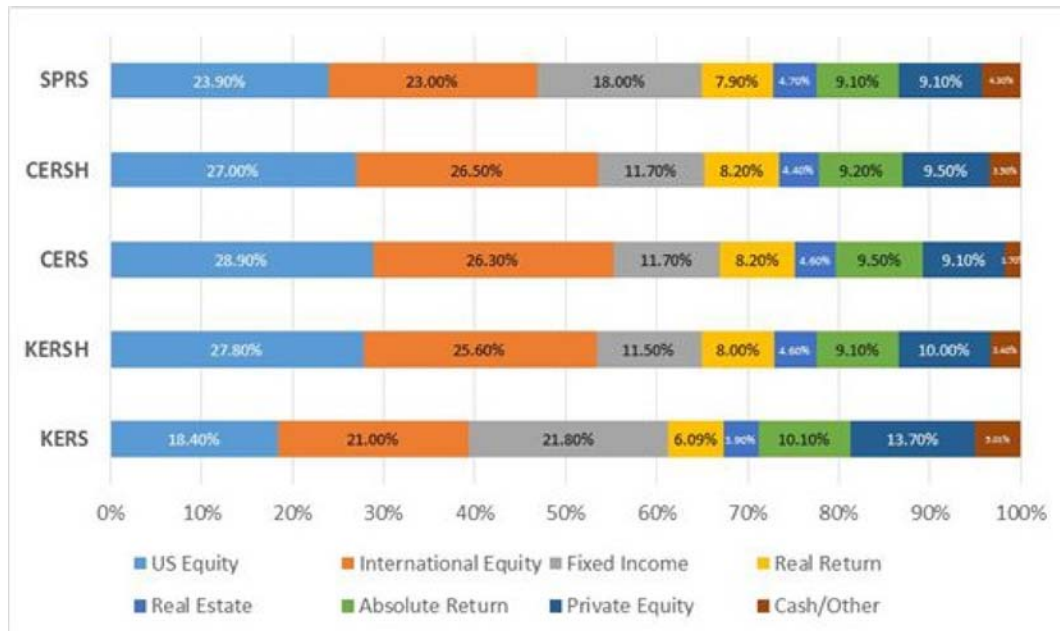
Change in provider of Securities Lending services

In early January, Investment Staff completed the transition of securities lending providers to BNY Mellon. All lending is now being done by BNY, and that revenue stream has been restored. The transition was completed with no issues or problems, and staff is pleased with BNY's service in this capacity.

Performance

Kentucky Retirement Systems Quarterly Investment Update: 12/31/2016						
Pension Plans	Market Value	Quarter to Date	Fiscal YTD	1 Year	3 Years	5 Years
TOTAL FUND	\$11,069,638,711.35	1.13%	5.18%	7.71%	4.03%	7.37%
KY Ret. Blended Index			5.08%	7.81%	4.58%	8.03%
KERS	\$1,916,028,732	0.82%	4.37%	5.95%	3.79%	7.10%
Performance Benchmark		0.85%	4.58%	7.75%	4.48%	8.01%
KERS- H	\$553,434,161	1.12%	4.96%	7.84%	4.08%	7.45%
Performance Benchmark		1.04%	5.17%	7.78%	4.24%	7.89%
CERS	\$6,301,258,722	1.09%	5.14%	7.85%	3.91%	7.32%
Performance Benchmark		1.06%	5.21%	7.84%	4.23%	7.88%
CERS- H	\$2,075,365,784	1.13%	5.25%	8.12%	4.20%	7.53%
Performance Benchmark		1.05%	5.19%	7.82%	4.23%	7.88%
SPRS	\$223,551,312	1.16%	4.76%	6.67%	3.63%	7.18%
Performance Benchmark		0.93%	4.85%	7.80%	4.21%	7.87%

Our Pension plans had a good quarter, gaining approximately 1.13% bringing their FYTD return to 5.18%. Pension plan allocations remain in-line with targets.



Insurance Plans

Kentucky Retirement Systems Quarterly Investment Update: 12/31/2016

Individual Insurance Plans	Market Value	Quarter to Date	Fiscal YTD	1 Year	3 Years	5 Years
TOTAL FUND	\$4,406,689,427	1.26%	5.29%	8.33%	4.16%	7.29%
KY Ins. Blended Index		1.03%	5.09%	8.02%	4.83%	8.09%
KERS INS	\$695,278,938	1.35%	5.47%	8.27%	3.88%	7.03%
KY Ins. KERS Plan Index		1.17%	5.41%	8.28%	4.37%	7.86%
KERS - H INS	\$453,809,722	1.31%	5.33%	8.27%	4.12%	7.30%
KY Ins. KERS Haz Plan Index		1.10%	5.25%	8.15%	4.42%	7.89%
CERS INS	\$1,993,356,699	1.23%	5.22%	8.27%	4.20%	7.32%
KY Ins. CERS Plan Index		1.05%	5.15%	8.07%	4.46%	7.92%
CERS - H INS	\$1,097,995,261	1.22%	5.21%	8.34%	4.24%	7.35%
KY Ins. CERS Haz Plan Index		1.05%	5.14%	8.06%	4.47%	7.92%
SPRS INS	\$166,248,806	1.21%	5.21%	8.25%	4.20%	7.32%
KY Ins. SPRS Plan Index		1.05%	5.14%	8.06%	4.48%	7.93%

The Insurance plans experienced similar performance, posting an average Q4 2016 return of 1.26% bringing their FYTD return to 5.29%. The Insurance plans also remain allocated within targets:



KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board

FROM: David Harris, Chair
Investment Committee

DATE: February 16, 2017

SUBJECT: Recommendation of Committee
Investment Counsel

The Investment Committee reviewed the Responses to the RFP for Investment Counsel at its meeting on February 7, 2017. The Committee recommends entering into a contract with Reinhart Boerner Van Deuren, S.C under the following terms.

Keith L. Johnson, \$375/hour
Jussi P. Snellman \$375/hour
Ryan S. Stippich \$360/hour
Bryant D. Ferguson \$270/hour
Woomin Kang \$245/hour
Megan K. Jackson \$270/hour
John K. Tokarz \$270/hour
Daniel P. Cooper \$360/hour
Maya Zahn Rhine \$245/hour
Michael T. Solberg \$245/hour
Nicholas Zuiker \$230/hour
Amanda Klein (& other paralegals) \$105/hour

These rates are the same rates as in the current contract. Reinhart has a longstanding existing attorney/client relationship with Kentucky Retirement Systems dating back to 2008 providing all the services required by the RFP. The attorneys assigned to work with KRS are very qualified and have extensive experience in representing public pension plans. Keith L. Johnson has 21 years of public pension experience including working as Chief Legal Officer for the State of Wisconsin Investment Board, which is the 9th largest public pension fund in the U.S. Kentucky Retirement Systems works directly with Reinhart member Jussi P. Snellman. Reinhart also represents Kentucky Teachers' Retirement

System as well as the pension plans for New York City, San Francisco, Wisconsin, Connecticut, Hawaii, New Mexico, Kentucky Teachers, the government of Finland and others. Reinhart has represented 30 U.S. and European governmental pension funds in making more than \$6.5 billion worth of commitments to over 350 private funds in the last five years.

Reinhart is a “Conflict-Free, Investor-Only Representation” law firm meaning its sole focus is on institutional investors. Reinhart was one of the first law firms to advocate requiring disclosure of finders and placement fees by investment managers. Reinhart refers to KRS as a “core client” and has always been very responsive and thorough in its representation.

RECOMMENDATION: The Investment Committee recommends that the Board authorize a contract with Reinhart Boerner Van Deuren, S.C under the terms provided in this memorandum subject to successful contract negotiations.

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board
FROM: Chris Miller
DATE: February 16, 2017
SUBJECT: Hazardous Position Classification

AGENCIES ARE ASKING FOR HAZARDOUS DUTY COVERAGE FOR THE FOLLOWING EMPLOYEES:

Agency	Position	Effective Date
City of Pikeville	Commissioner of Public Safety	March 1, 2017
Mason County Fiscal Court	Sheriff	December 1, 2016
Mason County Fiscal Court	Deputy Sheriff	December 1, 2016
City of Covington	Fire Lieutenant	January 1, 2017
City of Bowling Green	Company Commander/EMT	March 1, 2017
Kentucky State University	Chief of Police	March 1, 2017
Kentucky State University	Police Sergeant	March 1, 2017
Kentucky State University	Senior Patrol Officer	March 1, 2017
Kentucky State University	Patrol Officer	March 1, 2017
Breckinridge County Fiscal Court	Sheriff	March 1, 2017
Breckinridge County Fiscal Court	Deputy Sheriff	March 1, 2017
City of Florence	Police Corporal	March 1, 2017
City of Florence	Police Sergeant	March 1, 2017
City of Florence	Police Lieutenant	March 1, 2017
City of Florence	Police Captain	March 1, 2017
City of Florence	Police Chief	March 1, 2017
City of Florence	Fire/EMS Lieutenant	March 1, 2017
City of Florence	Fire/EMS Captain	March 1, 2017
City of Florence	Fire/EMS Commander	March 1, 2017
City of Florence	Fire/EMS Chief	March 1, 2017
City of Florence	Assistant Fire/EMS Chief	March 1, 2017

RECOMMENDATION: KRS Staff has reviewed the above requests and feel that these requests meet statutory guidelines for Hazardous coverage. Position Questionnaires and Job Descriptions are available for Board review.

KENTUCKY RETIREMENT SYSTEMS

Board Meeting Public Participation Policy

The Kentucky Retirement Systems (KRS) Board of Directors has adopted the following policies regarding public participation at meetings of the KRS Board:

1. Public comments may be allowed at meetings of the KRS Board of Directors. Public comments will not be accepted at KRS Board committee meetings.
2. The Board shall only accept comments regarding items that are included on the meeting agenda.
3. Public comments will only be accepted during the portion of the meeting set aside for public comments. The portion of the meeting set aside for public comments, if any, will be noted on the agenda of each meeting.
4. The Board shall allot no more than a total of thirty (30) minutes for public comments at any regular or special meeting. **No individual presentation shall exceed three (3) minutes.** The Board Chair shall have the authority to limit or extend the amount of time for public or individual comments set forth in this section, unless determined by a majority vote of the full Board. Statements shall be timed by the Board Chair or designee and time limits will be strictly enforced.
5. A person who desires to speak to the Board shall register at the Board meeting room on the day of the meeting. Registration sheets shall customarily be available at least thirty (30) minutes prior to the scheduled start of the Board meeting, and registration shall close five (5) minutes before the scheduled start of the meeting. Required registration information shall include the name and address of the person providing the comments, the name of the organization (if any) the person represents, the topic(s) to be discussed, and, if the person is a pension system member, the name of the pension system in which the person participates.
6. **Public comments are subject to the following rules:**
 - a. **A person who has registered to speak shall, at the appropriate time, be acknowledged by the Board Chair. The person shall state his/her first and last name before speaking and state the topic to be addressed.**
 - b. **Written comments may be submitted to the Board Chair by a speaker and copies shall be distributed to the full Board following the meeting.**
 - c. **No person may speak more than once on the same topic.**
 - d. **Comments shall be directed to the Board, not to individual Board members. Questions to the Board or individual board members will not be entertained.**
 - e. **Statements shall not be abusive or argumentative. No profane or vulgar language will be tolerated.**
7. The Board chair shall enforce these rules and may, subject to appeal to the full Board, take actions necessary to maintain order at the Board meeting. Such actions may include, but are not limited to:
 - a. interrupting a person making a statement, if the statement is too lengthy, unduly repetitive or otherwise violates these rules; and
 - b. limiting the total amount of time devoted to public statements based on the number of persons wishing to make statements and the length of the Board's agenda.

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board
FROM: David L. Eager
Interim Executive Director
DATE: February 16, 2017

SUBJECT: Administrative Appeals Committee Quarterly Report

The Administrative Appeals Committee held meetings on October 27, November 21, and December 21, 2016. A total of 11 cases were acted upon in the quarter resulting in 2 denials, 1 continuance, 1 discontinuance, 1 reinstatement, 1 bona fide, 1 not bona fide, and 4 dismissals.

	<u>Denials</u>	
KERS	CERS	SPRS
2	0	0

	<u>Continuances</u>	
KERS	CERS	SPRS
0	1	0

	<u>Discontinuances</u>	
KERS	CERS	SPRS
0	1	0

	<u>Reinstatements</u>	
KERS	CERS	SPRS
0	1	0

	<u>Bona Fide</u>	
KERS	CERS	SPRS
0	1	0

	<u>Not Bona Fide</u>	
KERS	CERS	SPRS
0	1	0

	<u>Remands</u>	
KERS	CERS	SPRS
0	0	0

	<u>Dismissals</u>	
KERS	CERS	SPRS
1	3	0

RECOMMENDATION: This is for informational purposes only. No action is required by the Board.

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board

FROM: David L. Eager
Interim Executive Director

DATE: February 16, 2017

SUBJECT: Disability Appeals Committee Quarterly Report

The Disability Appeals Committee held meetings on October 27, November 21, and December 21, 2016. A total of 25 disability claims were acted upon during the quarter resulting in 21 denials, 3 approvals, and 1 dismissal.

Denials

KERS	CERS	SPRS
5	16	0

Approvals

KERS	CERS	SPRS
1	2	0

Dismissals

KERS	CERS	SPRS
0	1	0

Remands

KERS	CERS	SPRS
0	0	0

RECOMMENDATION: This is for informational purposes only. No action is required by the Board.

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board
FROM: David L. Eager
Interim Executive Director
DATE: February 16, 2017
SUBJECT: Death Benefit Payments, Second Quarter, 16-17

The table below reflects the number of deceased retired members whose death benefit was paid during this quarter of the fiscal year and the total amount paid by each system.

DEATH BENEFIT PAYMENTS

	<u>Number of Deceased Retirees</u>	<u>Total Amount Paid</u>
KERS	184	\$920,000.00
CERS	253	\$1,265,000.00
SPRS	2	\$10,000.00
TOTALS	439	\$2,195,000.00

RECOMMENDATION: This report is provided for informational purposes only.

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board

FROM: David L. Eager
Interim Executive Director

DATE: February 16, 2017

SUBJECT: Initial Retirement Cases, Second Quarter, 16-17

The tables below show the distribution of new retirees who retired during this quarter of the fiscal year by retirement mode and the retirees with 27 or more years of service.

DISTRIBUTION BY RETIREMENT MODE

<u>MODE</u>	<u>KERS</u>	<u>CERS</u>	<u>SPRS</u>	<u>TOTAL</u>	<u>PERCENT</u>
Normal Retirement	111	249	0	360	26.0%
Early Retirement	266	539	7	812	60.0%
Disability Retirement	23	51	0	74	5.0%
Retirement Eligible Refund	27	36	0	63	5.0%
Death of Members Eligible to Retire	12	39	0	51	4.0%
Grand Totals	439	914	7	1360	100%

RETIREES WITH 27 OR MORE YEARS OF SERVICE

	<u>KERS</u>	<u>CERS</u>	<u>SPRS</u>	<u>TOTAL</u>
Under Normal Retirement Age	88	120	1	209
At and Over Normal Retirement Age	5	15	0	20
Grand Totals	93	135	1	229

RECOMMENDATION: This report is provided for informational purposes only.

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board

FROM: David L. Eager
Interim Executive Director

DATE: February 16, 2017

SUBJECT: Refund of Member Contributions for Quarter Ended December 2016

There were 1,232 refunds totaling \$7,181,821.96 paid to former members of the systems during the second quarter. Refund payments during the past (12) twelve quarters were as follows:

Quarter Ended	Amount	Number of Refunds
12/31/2016	\$7,181,822	1,232
09/30/2016	\$9,946,770	2,076
06/30/2016	\$7,409,420	1,343
03/31/2016	\$7,166,689	1,170
12/31/2015	\$7,546,369	1,219
09/30/2015	\$9,457,518	1,967
06/30/2015	\$7,830,169	1,334
03/31/2015	\$8,735,671	1,393
12/31/2014	\$7,953,236	1,338
09/30/2014	\$11,208,677	2,465
06/30/2014	\$8,829,317	2,167
03/31/2014	\$8,595,267	1,605
12/31/2013	\$8,063,089	1,696

RECOMMENDATION: This report is provided for informational purposes only.

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board
FROM: David L. Eager
Interim Executive Director
DATE: February 16, 2017
SUBJECT: Report of Decisions by the Medical Examiners

DISABILITY

During the second quarter of the fiscal year, the Medical Examiners reviewed a total of 167 applicants for disability retirement. There were 93 (55.69%) recommended for approval and 74 (44.31%) recommended for denial.

Approvals

<u>KERS</u>	<u>CERS</u>	<u>SPRS</u>	<u>TOTAL</u>
21	72	0	93

Duty Related Approvals

<u>KERS</u>	<u>CERS</u>	<u>SPRS</u>	<u>TOTAL</u>
0	0	0	0

Denials

<u>KERS</u>	<u>CERS</u>	<u>SPRS</u>	<u>TOTAL</u>
26	48	0	74

HAZARDOUS DISABILITY

During the second quarter of the fiscal year, the Medical Examiners reviewed a total of 8 applicants for hazardous disability retirement. There were 2 (25.00%) recommended for denial and 6 (75.00%) recommended for approval.

Approvals

<u>KERS</u>	<u>CERS</u>	<u>SPRS</u>	<u>TOTAL</u>
0	2	0	2

In the Line of Duty Approvals

<u>KERS</u>	<u>CERS</u>	<u>SPRS</u>	<u>TOTAL</u>
0	4	0	4

Total and Permanent Approvals

<u>KERS</u>	<u>CERS</u>	<u>SPRS</u>	<u>TOTAL</u>
0	0	0	0

ANNUAL REVIEW OF DISABILITY RECIPIENTS

During the second quarter of the fiscal year, the Medical Examiners made final decisions on a total of 266 annual reviews of disability recipients. The disability benefits of 248 recipients (93.23%) were continued and the disability benefits of 18 recipients (6.77%) were terminated.

RECOMMENDATION: This is for informational purposes only. No action is required by the board.

2017 LEGISLATION STATUS CHART

BILL NUMBER	SPONSOR	BRIEF DESCRIPTION	BILL HISTORY						CURRENT & PENDING STATUS
			Introduced	Passed Committee	Passed 1 st Chamber	Passed Committee	Passed 2 nd Chamber	Sent to Governor	
<u>SB2</u>	Bowen, <i>et al</i>	"Pension transparency" bill EMERGENCY	1-3-17	2-8-17	PASSED (37-0) 2-8-17				Feb 14, 2017 - posted in State Government (H) committee
<u>SB 3</u>	McDaniel, <i>et al</i>	Disclosure of retirement information for current and former members of the General Assembly EMERGENCY	1-3-17	1-5-17	PASSED (36-0) 1-5-17	1-7-17	PASSED (95-1) 1-7-17	1-7-17	Jan 09, 2017 - Signed by Governor
<u>SB 104</u>	McDaniel	Pension spiking/opt-out provisions EMERGENCY	1-6-17	2-8-17	PASSED (37-0) 2-15-17				Feb 15, 2017 - 3rd reading, passed 37-0 with Committee Substitute (1)

BILL HISTORY									
BILL NUMBER	SPONSOR	BRIEF DESCRIPTION	Introduced	Passed Committee	Passed 1 st Chamber	Passed Committee	Passed 2 nd Chamber	Sent to Governor	CURRENT & PENDING STATUS
SB 112	McDaniel	SPRS Funding EMERGENCY	2-7-17	2-14-17					Feb 15, 2017 - 2nd reading, to Rules
SB 126	McDaniel	Final Compensation calculation	2-7-17						Appropriations & Revenue (S)
SB 167	R. Jones II	Public Service Commission	2-13-17						Natural Resources & Energy (S)
SB 197	J. Bowen	Transfer of contract staff- Department of Criminal Justice Training EMERGENCY	2-15-17						Feb 15, 2017 - introduced in Senate
SB 204	McGarvey	Casino gaming- proceeds to KERS Haz and Nonhazardous and KTRS until 2028	2-15-17						Feb 15, 2017 - introduced in Senate

BILL HISTORY									
BILL NUMBER	SPONSOR	BRIEF DESCRIPTION	Introduced	Passed Committee	Passed 1 st Chamber	Passed Committee	Passed 2 nd Chamber	Sent to Governor	CURRENT & PENDING STATUS
HCR 49	Kay	Reaffirm Commonwealth's commitment to maintaining pension benefits	2-8-17						State Government (H)
HB 41	Kay, Richards	Independence and Transparency of KRS Board EMERGENCY	1-3-17						State Government (H)
HB 42	Kay, Richards	Retirement benefits for legislators	1-3-17						State Government (H)
HB 45	Elliott	Retirement benefits for legislators	1-3-17						State Government (H)
HB 56	Imes, Morgan	Disclosure of retirement information for current and former members of the General Assembly	1-3-17						State Government (H)
HB 87	Riggs	Pension spiking EMERGENCY	1-3-17						State Government (H)

BILL HISTORY									
BILL NUMBER	SPONSOR	BRIEF DESCRIPTION	Introduced	Passed Committee	Passed 1 st Chamber	Passed Committee	Passed 2 nd Chamber	Sent to Governor	CURRENT & PENDING STATUS
HB 96	Fischer	Agency participation in the state health plan	1-3-17	2-9-17	PASSED (92-0) 2-15-17				Feb 15, 2017 - 3rd reading, passed 92-0
HB 103	Moffett	Charter schools	1-3-17						Education (H)
HB 167	J. Miller	KRS HOUSEKEEPING BILL (1 of 2)	1-7-17						State Government (H)
HB 173	J. Miller	KRS HOUSEKEEPING BILL (2 of 2)	1-7-17	2-9-17					Feb 13, 2017 - posted for passage in the Regular Orders of the Day for Thursday, February 16, 2017
HB 273	R. Mills	Retirement benefits for legislators EMERGENCY	2-9-17						State Government (H)
HB 283	J. Miller	Disclosure of public retirement information	2-9-17						Feb 14, 2017 - posted in State Government (H) committee

BILL HISTORY									
BILL NUMBER	SPONSOR	BRIEF DESCRIPTION	Introduced	Passed Committee	Passed 1 st Chamber	Passed Committee	Passed 2 nd Chamber	Sent to Governor	CURRENT & PENDING STATUS
HB 286	J. Kay	Eliminating retirement benefits for legislators taking office on or after January 1, 2018	2-9-17						State Government (H)
HB 287	J. Kay	Eliminating retirement benefits for state officers and their political appointments taking office on or after December 1, 2019	2-9-17						State Government (H)
HB 351	J. Miller	Voluntary cessation of participating agencies EMERGENCY	2-14-17						Feb 15, 2017 - to State Government (H)
HB 373	J. Miller	Casino gaming-proceeds to KERS Nonhazardous and KTRS until 2027	2-14-17						Feb 15, 2017 - to Elections, Const. Amendments & Intergovernmental Affairs (H)



KENTUCKY RETIREMENT SYSTEMS:

OUR SIX MANDATES

- Strive for appropriate funding for all plans.
- Provide members with efficient access to information and helpful counseling to meet their individual needs.
- Manage the assets in accordance with each plan's needs while adding value to a passive portfolio.
- Communicate effectively with all constituents, while ensuring appropriate transparency.
- Maintain a work environment that promotes employee effectiveness, morale, and retention.
- Insist on a culture of **continuous enhancement** to **everything** we do.

Biggest potential improvements to your total service score		
Rank	Factor	Potential Improvement
# 1	On average, members calling your call center reach a knowledgeable person in 379 seconds. To achieve a perfect service score, members must reach a knowledgeable person on the phone in 20 seconds or less.	+ 3.82
# 2	On average, you provide a service credit purchase in 180 days. To achieve a perfect service score, you must be able to provide a service credit purchase estimate in 1 day or less.	+ 3.10
# 3	17.0% of your incoming calls resulted in undesired outcomes. To achieve a perfect service score, members must experience no undesired call outcomes.	+ 2.88
# 4	You have 3 menu layers. To achieve a perfect service score you must have one or fewer menu layers.	+ 1.70
# 5	You provide estimates on average in 180 days. To achieve a perfect service score, the weighted average time required to provide written and online estimates must be same day or less.	+ 1.48

