

**BOARD OF TRUSTEES ANNUAL MEETING  
KENTUCKY RETIREMENT SYSTEMS  
APRIL 19, 2018 AT 10:00 A.M. EASTERN  
1270 LOUISVILLE ROAD, FRANKFORT, KENTUCKY 40601**

1. Roll Call
2. [KRS Employee Service Recognition Awards- John Farris](#)
3. [Ratification of KERS Election\\*- Kristen Coffey](#)
4. Introduction and Oath of Office of Newly Elected Trustees; Sherry Kremer and Raymond Campbell Connell –Alane Foley
5. [Approval of Meeting Minutes # 415\\*](#)
6. Executive Director Discussion- John Farris
7. [Legislative Update – David Eager/ Mark Blackwell](#)
8. Public Comment
9. Other Business:
  - [KRS Update and IT Department Presentation – David Eager/ Rebecca Adkins](#)
  - [Other Items](#)
10. Closed Session [Litigation]
11. Election of KRS Board of Trustees Offices: Chair and Vice Chair\* - David Eager
12. Adjourn

*\* Board Action Required*

# 5 Years

Crystle Nation.....	Disability & Death
Matthew Wiggins .....	Enterprise & Technology Services
Alane Foley .....	Executive
Daniel Peters .....	Member Services
Karen Roggenkamp .....	Operations
Mary Coleman .....	Retiree Health Care



# 10 Years

Debbie Hall .....	Disability & Death
Brent Shannon .....	Disability & Death
Jason Hargis .....	Disability & Death
Bob Patrick .....	Enterprise & Technology Services
Mike Diebold .....	Enterprise & Technology Services
Joe Gilbert IV .....	Investments
Kristi Wackowski .....	Legal
Tracy Chambers .....	Legal
Ashley Gabbard .....	Member Services
Tracy Thomas .....	Member Services
Shawn Hutton .....	Member Services
Rebecca Johnson .....	Membership Support
Brad McGuire .....	Procurement & Office Services
Amy Hockensmith .....	Quality Assurance



# 15 Years

Vonda Donoho .....	Accounting
Erin Surratt .....	Benefits
Amy Fields .....	Communications
Bethany Senter .....	Disability & Death
Andy Franklin .....	Enterprise & Technology Services
Phillip Cook .....	Enterprise & Technology Services
Marlane Robinson .....	Human Resources
Angela Stevens .....	Operations
Anne Baker .....	Procurement & Office Services
Ellen Collins .....	Member Services
Jean Hutcherson .....	Member Services
Shannon Bellamy .....	Membership Support
Carolyn Harris .....	Retiree Services Payroll



# 20 Years

Kristy Bramblett .....	Accounting
Jennifer Chesser .....	Disability & Death
Tracy Allnutt .....	Employer Reporting Compliance & Education
Lisa Perry .....	Executive
Linda McMurray .....	Procurement & Office Services
Kathy Satterley .....	Retiree Health Care
Pamela Spencer .....	Retiree Services Payroll
Lisa Hilton .....	Retiree Services Payroll
Cherelyn Collins .....	Retiree Services Payroll
Michelle Rodgers .....	Retiree Services Payroll





# 25 Years

Andra Deaton .....	Quality Assurance
Rebecca Stephens .....	Quality Assurance





## KENTUCKY RETIREMENT SYSTEMS

David L. Eager, Interim Executive Director

Perimeter Park West • 1260 Louisville Road • Frankfort, Kentucky 40601

kyret.ky.gov • Phone: 502-696-8800 • Fax: 502-696-8822



To: Members of the Board

From: David L. Eager  
Interim Executive Director

Date: April 19, 2018

Subject: KERS Fall/Winter Election 2018 Results

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The members and retirees of the Kentucky Employees Retirement System (KERS) elected Ms. Sherry Lynn Kremer and Mr. Raymond Campbell Connell to serve a four year term, commencing April 1, 2018. This will constitute a first Board term for both candidates.

The Board's contracted auditing firm, Dean, Dorton, Allen, & Ford, PLLC, Certified Public Accountants, received 11,310 ballots. Of those ballots, 10,942 were deemed qualified and 368 were declared to be invalid. The qualified ballots included 74 write-in votes. There were 36 ballots returned to Kentucky Retirement Systems as undeliverable.

The election was certified on March 15, 2018. A copy of the certification letter is attached.

Once the KERS election is declared final, the External Auditor will destroy all ballots in his/her possession and provide a certificate to that effect to the Interim Executive Director, or his designee. In addition, the Director of the Division of Internal Audit Administration will destroy all ballots in her possession that were returned as undeliverable and provide a certificate to that effect to the Interim Executive Director, or his designee.

In accordance with Kentucky Revised Statute 61.645(4)(b), it will require at least 1,094 signatures (1/10 of the qualified votes) to nominate a candidate by petition for the next KERS Trustee election.

**RECOMMENDATION:** The Interim Executive Director recommends acceptance of the External Auditor's certification letter of the winners of the KERS Fall/Winter 2018 Board election, and declare the election final.



March 15, 2018

Mr. David Eager  
 Interim Executive Director  
 Kentucky Retirement Systems  
 1260 Louisville Road  
 Frankfort, KY 40601

Dear David:

We have tabulated the ballots of the 2018 Kentucky Employees' Retirement System (KERS) 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 the 2018 KERS election as follows:

<u>CANDIDATE</u>	<u>TOTAL VOTES</u>
Sherry Lynn Kremer	7,117
Raymond Campbell Connell	6,625
Mary Helen Peter	4,129
Cary Brandon Bishop	2,911
Various write-in candidates	<u>74</u>
 Total votes	 <u>20,856</u>

Additionally, below is a summary of the number of ballots received related to the 2018 KERS election:

Valid ballots	10,942
Invalid ballots – no signature	262
Invalid ballots – excess of 2 votes	14
Invalid ballots – no vote	31
Invalid ballots – signature not match name	1
Invalid ballots – postmarked after 3/1/18	<u>60</u>
 Total ballots received	 <u>11,310</u>

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. John R. Farris  
 Chair, Board of Directors

**Ms. Kristen N. Coffey**  
 Director of Internal Audit





Candidate: Sherry Lynn Kremer

KERS Position: Active – Finance Division Manager – Kentucky State Fair Board

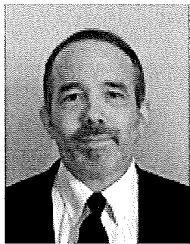
Education, Certifications, & Associations:

Graduate of Sullivan university with Bachelor of Science degrees in Finance, Management, and Marketing (Summa cum Laude).

Over 21 years experience in state government. Responsibilities include management of cash, accounting programs, general ledger, and accounts receivable. Partnered in the creation of a cash monitoring system to centralize cash processes to ensure efficient operation and reconciliation. Responsible for the direct revenue and expense budgets for the Kentucky Exposition Center and the Kentucky International Convention Center. Yearly budget of 45 million plus.

Residence: Louisville, KY – Jefferson County

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Candidate: Raymond Campbell Connell

KERS Position: Active – Staff Attorney – Finance & Administration Cabinet

Education, Certifications, & Associations:

Raymond Campbell Connell has been an attorney with the Finance and Administration Cabinet for over ten years. He grew up in Kentucky and was an economics major at Williams College. After receiving his J.D. degree from the University of Kentucky College of Law, he moved to Washington D.C., where he worked as an attorney for the Internal Revenue Service and several large law firms. During his years of private practice, Raymond Campbell Connell gained expertise in complex financial transactions while performing work for large investment banks. Currently, he resides in Lexington with his two elementary age children. He is committed to attempting to ensure that Kentucky's legislature fully funds our pension systems, and that the systems operate in the most responsible manner possible.

Residence: Lexington, KY – Fayette County

**MINUTES OF MEETING #415**  
**BOARD OF TRUSTEES KENTUCKY RETIREMENT SYSTEMS**  
**MEETING FEBRUARY 15, 2018 AT 10:00A.M.**  
**1270 LOUISVILLE ROAD, FRANKFORT, KENTUCKY 40601**

At the Meeting of the Board of Trustees held on February 15, 2018 the following members were present: John Farris (Chair), John Chilton, William Cook, Kelly Downard, JT Fulkerson, David Gallagher, David Harris, Vince Lang, Matthew Monteiro, Keith Percy, Betty Pendergrass, Mary Helen Peter, Jerry Powell, Neil Ramsey, David Rich, and LaDonna Koebel as proxy for Secretary Stephens. Staff members present were David Eager, Karen Roggenkamp, Mark Blackwell, Erin Surratt, Rich Robben, Connie Davis, Kristen Coffey, Connie Pettyjohn, Shawn Sparks, Katherine Rupinen, Joseph Bowman, Shaun Case, Ann Case, and Alane Foley. Also present were Larry Totten, Chris Biddle, Michele Hill, Rebecca Heckler, Steve Starkweather, Bo Cracraft, and Carey Bishop. Larry Loew and Carla Whaley from Humana were also present.

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Ms. Alane Foley called roll.

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Mr. Farris acknowledged Mr. Vince Lang as this will be his final meeting. He thanked him for his service over the years.

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Mr. Farris introduced agenda item *Approval of Minutes – December 7, 2017*. Mr. Lang moved and was seconded by Ms. Peter to approve the minutes. The motion passed unanimously.

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Mr. Farris introduced the agenda item *Audit Committee Report*. Ms. Kristen Coffey was introduced by Mr. Eager; she is the new Division Director of Internal Audit.

Ms. Coffey provided an update to the Board regarding the KERS election, SPRS election and the APA Audit. This was for informational purposes only.

Ms. Roggenkamp provided details to the Board regarding *Approval of Hazardous Duty Positions*. These were approved at the February 1, 2018 Audit Committee Meeting. Mr. Lang moved and was seconded by Mr. Powell to ratify this approval. The motion passed unanimously.

Ms. Roggenkamp gave an overview of the *Quarterly Financial Statements as of December 31, 2018, Net Position Cash Flows and Administrative Expenses*. These were all presented for informational purposes only.

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Mr. Farris introduced agenda item *Applications to Voluntarily Cease Participation in KERS*. Ms. Erin Surratt gave details on the two agencies requesting to cease participation; Kentucky Bar Association and Child Watch Counseling and Advocacy Center. Ms. Peter moved and was seconded by Ms. Pendergrass to accept the application to voluntarily cease participation in KERS. The motion passed unanimously.

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Mr. Farris introduced agenda item *Investment Committee and Investment Portfolio Quarterly Report*. Mr. Harris and Mr. Robben provided an investment update to the Board. This was for informational purposes only.

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Mr. Farris introduced agenda item *Retiree Health Care Committee Report*. Mr. Lang and Ms. Connie Pettyjohn advised that the Retiree Health Care Committee voted to cover the cost of Telehealth for the Medical Only and Medicare Advantage Mirror self-insured plans effective April 1, 2018. An additional administrative fee of \$0.20 per member per month (PMPM) would be incurred for those individuals enrolled in the Medical Only and Medicare Advantage Mirror Plans. This would increase the PMPM for the administrative fee from \$31.50 to \$31.70 (or an increase of approximately \$9,677.00 annually). The claims payment for each Telehealth service utilized is \$49.00 compared to an estimated \$42.00 per office visit and \$293.00 for an emergency room visit. Mr. Lang moved and was seconded by Mr. Powell to ratify the vote made by the Retiree Health Care Committee. The motion passed unanimously.

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Mr. Farris introduced agenda item *Legislative Update*. Mr. Eager and Mr. Sparks provided an update to the Board. This was for informational purposes only.

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Mr. Farris introduced agenda item *KRS Administrative Update*. Ms. Cassandra Weiss provided a summary on the model procurement code. Ms. Erin Surratt provided a retiree benefit update and Mr. Shawn Sparks provided an update on website development. These were all provided for informational purposes only.

Mr. Eager discussed Kentucky Retirement Systems: Our Six Mandates and reviewed a DRAFT agenda for an educational meeting day at the KRS offices on May 16, 2018.

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Mr. Powell made a motion and was seconded by Mr. Chilton to go into closed session; the motion carried. Mr. Farris read the following statement and the meeting moved into closed session: A motion having been made in open session to move into closed session for a specific purpose, and such motion having carried by majority vote in open, public session, the Board shall now enter closed session to consider litigation, pursuant to KRS 61.810(1)(c), because of the necessity of protecting the confidentiality of the Systems' litigation strategy and preserving any available attorney-client privilege. All public attendees exited the meeting.

Mr. Farris called the meeting back into open session. There were no actions taken during closed session.

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There being no further business, Mr. Fulkerson moved and was seconded by Mr. Downard to adjourn the meeting. The motion passed unanimously. The meeting adjourned at 11:47 a.m. to meet again on April 19, 2018 or upon the call of the Interim Executive Director or the Chair of the Board of Trustees.

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Copies of all documents presented are incorporated as part of the Minutes of the Board of Trustees as of February 15, 2018.

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**CERTIFICATION**

I do certify that I was present at this meeting, and I have recorded the above actions of the Directors on the various items considered by it at this meeting. Further, I certify that all requirements of KRS 61.805-61.850 were met in conjunction with this meeting.

\_\_\_\_\_  
Recording Secretary

We, the Chair of the Board of Directors of the Kentucky Retirement Systems and Executive Director of the Kentucky Retirement Systems, do certify that the Minutes of Meeting Number 415, held on February 15, 2018, were approved on April 19, 2018.

\_\_\_\_\_  
Chair of the Board of Directors

\_\_\_\_\_  
Interim Executive Director

I have reviewed the Minutes of the February 15, 2018 Board of Trustees Meeting for content, form, and legality.

\_\_\_\_\_  
Executive Director  
Office of Legal Services

# LEGISLATION IN 2018

## SB 151 (Pension Reform)

### 1. Creates a Defined Contribution Tier 4

- Optional to new employees (or opt-in Tier 3)
- Current employees have a one-time opt-in option
- All Tiers can opt-in to Tier 4

### 2. Changes earnings credit on Tier 3

WAS: 4% + 75% of excess over 4%, 5 year average

NOW: 85% of fund earnings, 10 year average

### 3. Changes Funding Policy

WAS: Percent of payroll

NOW: Normal cost percentage plus level dollar funding with new 30 year closed end unfunded liability amortization

### 4. Adds 1% Employee Health Care Contribution

- Members who began participating between 7/1/03 and 8/31/08

## **LEGISLATION IN 2018**

### **SB 151 (Pension Reform)**

- 5. Changes Sick Leave Rules**
- 6. Changes Retired Re-employed Rules**
- 7. Public Pension Oversight Board (PPOB) to establish an advisory committee to study possible CERS separation**
  - Report due to PPOB no later than December 1, 2019**

## **LEGISLATION IN 2018**

### **HB 185 (Line of Duty Deaths)**

- 1. Defines Monthly Average Pay (MAP)**
- 2. Increases spouse's benefit from 25% to 75% of MAP**
- 3. If no surviving spouse, increase dependent child payment from 10% to:**
  - 50% for one dependent child
  - 65% for two dependent children
  - 75% for three dependent children
- 4. Insurance premium for spouse and children fully paid**
- 5. Estimated additional annual cost \$700 thousand**

## LEGISLATION IN 2018

### HB 362 (Cessation)

#### 1. Phases in CERS contribution rates beginning FY 2019

- Will increase by 12% a year (*example: 19.18% goes to 21.48%*)
- Allowed for 10 years

#### 2. Allows approximately 215 employers to opt-out

- Calculate unfunded liability per HB 351
- Allows them to pay over a period of up to 40 years
- Charge 0% interest on the loan
- Would effectively cost KRS about \$2 billion
- Would raise KERS Non-Hazardous contribution rate by 6-8%

#### 3. Vetoed by the Governor. Replaced by:

- Item #1 (above) did not change
- Item #2 (above) was replaced with portions of HB 265 and HB 487.  
KRS will provide an opt-out plan by December 2018.



## LEGISLATION IN 2018

**HB 200** (State Executive Branch budget) and  
**HB 265** (Budget Cleanup bill - EMERGENCY)

- 1. KRS administrative budget approved at \$47 mil in FY2018-19 and \$48 mil for FY2019-20**
  - Provides additional General Fund allocation of \$1 mil in both FY2018-2019 and FY2019-2020 to be applied to the SPRS pension fund's unfunded liability
- 2. Under HB 265, employer contribution rates for FY2019 shall be 49.47% (41.06% for pension and 8.41% for insurance) for KERS Non-Hazardous employers**
  - Regional Mental Health/Mental Retardation Boards
  - Local and District Health Departments
  - Contracted Entities (e.g. Child Advocacy Centers)
  - State Universities and Community Colleges
  - Contribution funding from Finance and Administration Cabinet and Personnel Cabinet Enterprise Fund

## LEGISLATION IN 2018

**HB 200** (State Executive Branch budget) and  
**HB 265** (Budget Cleanup bill - EMERGENCY)

- 3. HB 200 transfers \$4 mil in FY2018-2019 to the Department of Kentucky State Police to pay pension spiking costs and sick leave service credit**
- 4. Prohibits transfer of funds to the General Fund from the Kentucky Permanent Pension Fund**
- 5. Any surplus moneys from FY 2017-2018 will be appropriated to KRS to be applied to the KERS Non-Hazardous pension fund's unfunded liability**

## LEGISLATION IN 2018

**HB 200** (State Executive Branch budget) and  
**HB 265** (Budget Cleanup bill - EMERGENCY)

**6. Surplus moneys from FY2018-2019 are to be allocated as follows:**

- "... up to \$70 mil..." to the Teachers' Retirement System Medical Insurance Fund
- Any remaining amount to KRS to be applied to unfunded pension liability of KERS Non-Hazardous pension fund

**7. No COLAs for KRS retirees**

**8. No raises for state employees, with a few exceptions (social workers and forensic laboratory technicians)**

## Enterprise and Technology Services (ETS)

### Rebecca Adkins, Interim Director

#### FY17 ETS Costs

Description	ETS	Total KRS	ETS % of KRS
Salaries/Services	\$ 2,660,738	\$ 18,550,714	14%
Pension & Benefits	\$ 1,895,027	\$ 9,963,798	19%
<b>Total</b>	<b>\$ 4,555,765</b>	<b>\$ 28,514,513</b>	<b>16%</b>

#### FY17 ETS Operational Costs

Description	ETS	Total KRS	ETS % of KRS
Hardware/Software/Services	\$ 3,025,912	\$ 5,234,678	58%

#### ETS Staffing as of April 2018

Description	ETS	Total KRS	ETS % of KRS
Employees	33	247	13%
Open Positions	8	23	35%
<b>Total</b>	<b>41</b>	<b>270</b>	<b>15%</b>

#### ETS – Business Areas

Branch	Manager	Total Employees	Open Positions	Contractors
Technical Services	Chris Johnson	7	1	0
Service Desk	Magnus Geijer	6	1	1
Information Security		3	0	0
Application Services	Dominique McKinley	7	0	3
Application Services	Karen Pierson	7	0	2
Data Services	Open	6	5	3
EPMO		4	1	0
Division Director		1	0	0
<b>Total</b>		<b>41</b>	<b>8</b>	<b>9</b>

#### Turnover Since 9/1/2016

Transfers Out	Retirement	Internal Transfers	Total
4	2	2	8
50%	25%	25%	19% of 41 ETS Employees
75%			

## **DIVISION SUMMARY**

ETS provides an enterprise and technology framework and services to support the current and future needs of KRS. The division strives to maximize the value of technology investments so that business activities are managed effectively, securely and reliably.

Technical Services (Infrastructure)	Hardware and technical framework including PCs, iPads, phones, Help Desk, Wi-Fi, firewalls, storage, backups, disaster recovery
Application Services (Development) 2	START line-of-business software, self-service, interfaces, reporting
Data and Analytics	START designs and testing leadership and support, database management, Tableau, data support for legislative and actuarial inquiries and open records requests
Enterprise Project Management	Agency-wide project leadership and support, technical strategic planning and trend analysis, IT procurement
Information Security	Identify and gauge security risks, evaluate and recommend appropriate security measures, manage threats and incidents, develop standards and guidelines, foster a security-aware workforce

## **KEY ACCOMPLISHMENTS**

1. Completed Disaster Recovery – successful production failover to Louisville site
2. Major hardware upgrades – f5 firewall, Exchange 2016, certificate authority, SQL 2016, Windows 10, Office 2016 and SharePoint 2016
3. Major software upgrades/enhancements: Replaced and decommissioned ODM, IssueTracker to TFS migration, TFS Data issue deployment using DBUP, LiveCycle upgrade, secure email for PIN resets for self-service, more than 1,000 modifications to START line-of-business or its data and 650 code reviews completed
4. Resolved 5,412 help desk tickets
5. Processed 197,503 correspondence packages from START line-of-business to members and retirees
6. Added web analytics to member/retiree/employer self-service in preparation of self-service redesign
7. Decommissioned the AS400
8. Coordinated the creation/modification of process documentation agency-wide including the creation of an agency wiki
9. Developed process for imaging non-START documents in searchable text and storing in SharePoint
10. Began the process of implementing 45A model procurement for IT goods and services



**KEY STATISTICS**

Key Metrics per Calendar Year	2017	2016	2015	2014
Security Incidents Investigated	7	6	5	20
Security Awareness Communications Sent	81	184	270	234
Security Exemptions Reviewed and Approved	38	42	65	18

Incoming Email	2017	2016	2015
Blocked	75,856	146,568	451,195
Delivered	792,566	645,273	660,278

**GOALS FOR THE NEXT 12 MONTHS**

1. Disaster Recovery Exercise expanded
2. Maintain infrastructure and tools via the 45A model procurement process including patches and upgrades or replacements of hardware and software including f5 upgrade, Windows Application Servers 2016 upgrade, migration to McAfee full disk encryption, FileNet patches, and firewall code upgrades
3. Complete Skype implementation and training
4. Successful implementation of legislation – 2017 SB 104 (member pension spiking), 2018 SB 151 (pension reform), HB 185 (ILOD/Duty Related benefits) and HB 362 (employer contributions)
5. Reduction of key development backlog as prioritized by IT Governance (proration, Tier 3, averaging and self-service redesign)
6. Proactively secure the KRS environment and educate staff regarding security
7. Retain staff and maintain training of staff

**Other:**

8. KRS Status Report – Tableau
9. eDiscovery tool evaluation
10. CAFR tool
11. Louisville Alternate site expansion
12. Business Continuity
13. Data Breach exercises

## **Strengths**

- IT Governance – executive leadership and approval of strategic plan
- Security – multi-layered approach, great staff training and awareness
- Stable, well-maintained infrastructure that provides excellent availability
- Disaster recovery
- Support a LARGE in-house line of business application. The ownership of our START code (vs. vendor reliance) is instrumental in being able to implement legislative changes and remain cost effective
- Support KRS business needs 24/7

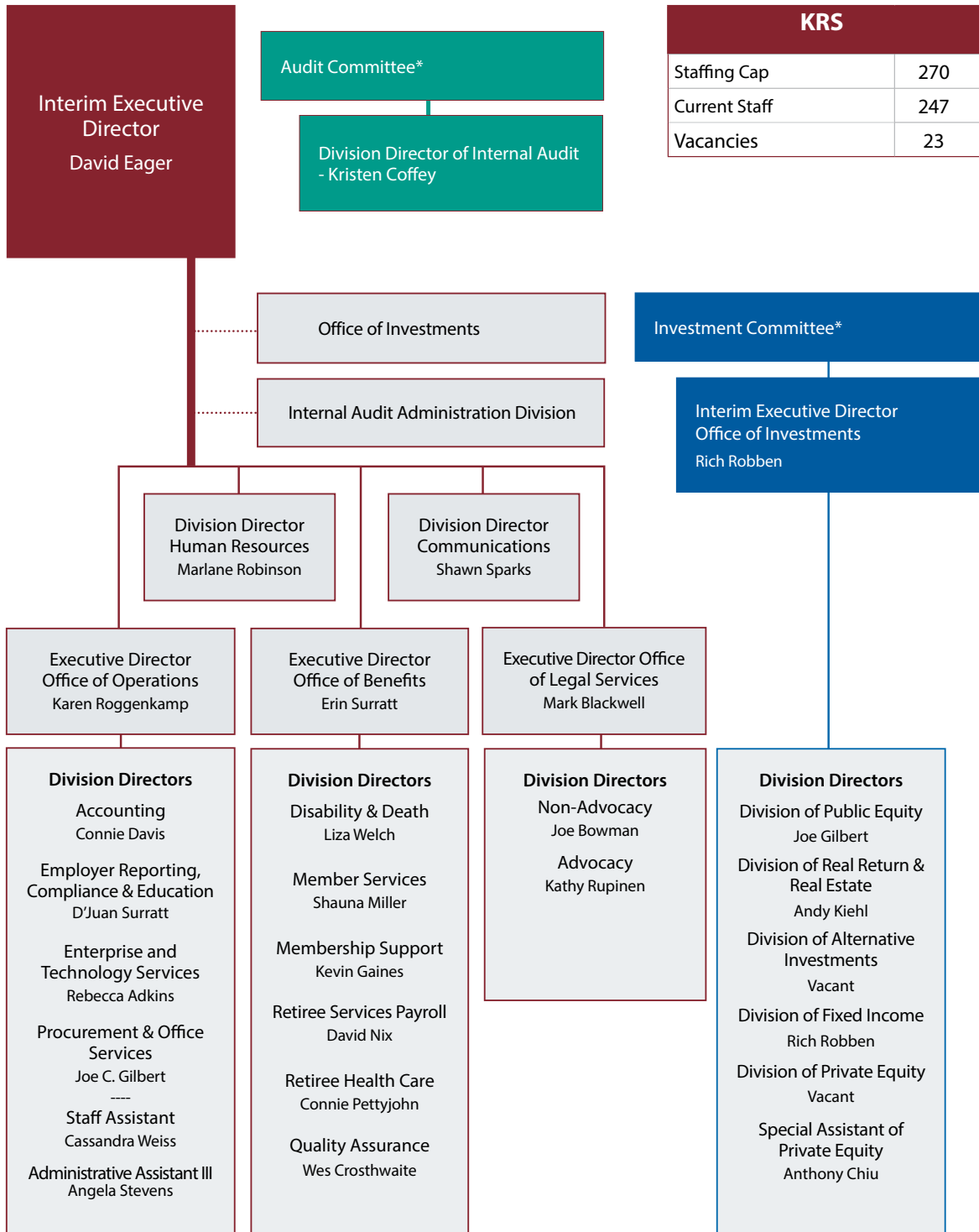
## **Challenges**

- Keeping staff – highly skilled, easily transferable skill sets. Most staff have 10 years+
- Model Procurement 45A Implementation
  - Limited staff expertise
  - Process continues to evolve
  - IT expenditures over \$1,000 must be approved by COT and OPS
  - KRS inexperience and the complex nature of the procurement process has caused delays in procurement
  - Innovation and agility suffer due to the time-consuming nature of the process
- Legislation Implementation
  - A challenge to innovation due to limited resources – staff and budget resources
  - Limits ability to drive efficiency and improve customer service through technology solutions
  - 2017 SB104 – pension spiking responsibility to members
    - 4,700 staff hours to implement
  - Pension Reform
    - 1,400+ staff hours to date



# KRS STAFFING

(as of April 16, 2018)



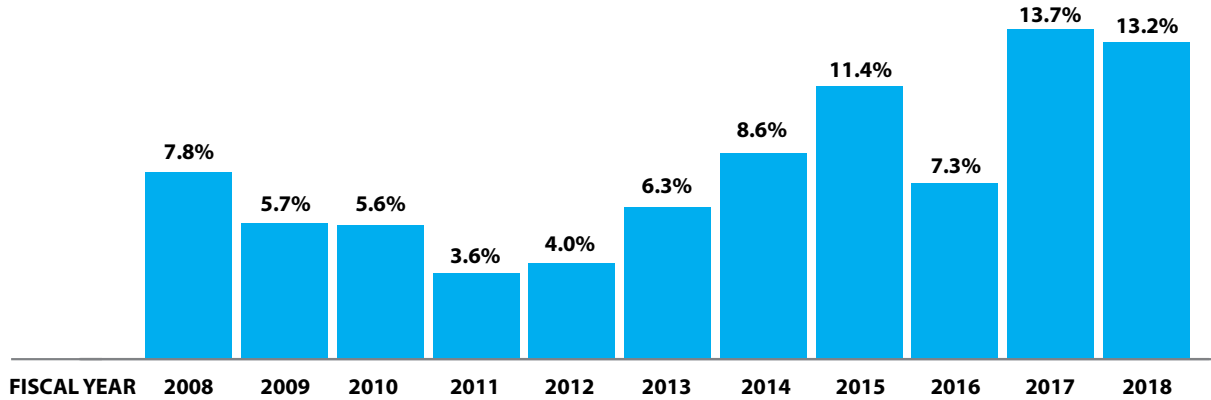
KRS	
Staffing Cap	270
Current Staff	247
Vacancies	23

\* Committees report to KRS Board of Trustees



# KRS STAFF TURNOVER HISTORY

## Staff Annualized Turnover



### Retirements vs. Non Retirements

Fiscal Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>KRS Staff Retirements</b>	5	9	4	1	2	8	12	5	2	11	12
<b>Non Retirements</b>	14	5	10	8	8	8	10	24	17	23	20
<b>Average Headcount</b>	244	247	251	251	251	253	256	256	260	248	242

### VACANCY BREAKDOWN By Department *(as of April 16, 2018)*

<b>Office of Legal Services</b>	
Division of Advocacy	1
Division of Non Advocacy	2
<b>Office of Operations</b>	
Division of Employer Reporting Compliance & Education	2
Division of Procurement & Office Services	1
Division of Accounting	5
Division of Enterprise & Technology Services	8
<b>Office of Benefits</b>	
Division of Membership Support	1
Division of Member Services	1
Division of Disability & Death	1
<b>Office of Investments</b>	
Investments	1
<b>Total Vacancies</b>	<b>23</b>

# **KENTUCKY RETIREMENT SYSTEMS**

**Kentucky Employees Retirement System  
County Employees Retirement System  
State Police Retirement System**

## **Annual Progress Report Calendar Year 2017**



**KRS Board of Trustees  
APRIL 19, 2018**

## *Operations*

### **Communications Division**

Shawn Sparks, Director

#### **SUMMARY OF DIVISION**

The KRS Communications Division is responsible for developing and delivering communications strategies and content to the Systems' diverse audience of stakeholders, elected officials, media outlets, and the general public. Our Mission is to explain all aspects of the retirement system in an engaging and informative way, which will contribute to a better understanding of the Systems' role in the lives of all Kentuckians.

We also handle the Systems' Constituent Services requests, administer the Systems' Information Disclosure notification process; and collaborate with the Member Services and Employer Reporting, Compliance and Education Divisions to identify active member training needs, develop training materials and online resources, and promote training opportunities by communicating with employer contacts at our participating agencies. Specific Division activities include:

- \* Developing the Systems' communication, content and branding strategies
- \* Managing the KRS website and social media accounts
- \* Managing media relations in concert with the KRS Executive Director and Board of Trustees
- \* Creating, editing and distributing KRS publications, including the Systems' Summary Annual Financial Report (SAFR)
- \* Creating graphic design, video, and photographic content
- \* Serving as the main agency contact for the Constituent Services Offices of the Legislative Research Commission, Governor's office, Kentucky's Congressional Delegation and other state agencies
- \* Administering the Systems' Information Disclosure notification process, including identifying, tracking, investigating and documenting the resolution of disclosure incidents.
- \* Keeping KRS staff informed of KRS-related news in a timely fashion
- \* Providing KRS staff and Board of Trustees members with daily legislative tracking and analysis of retirement-related bills and resolutions during all Kentucky General Assembly sessions
- \* Responding to requests for information from outside entities, including elected officials and the media

*Communications Division, continued*

## **KEY ACCOMPLISHMENTS**

### **COMMUNICATIONS – WEBSITE AND SOCIAL MEDIA**

1. Successfully **launched a redesigned version of the KRS website** on July 5, 2017. By September 2017 we noted an increase in traffic from an average of 3,896 visitors per week to an average of 8,331 visitors per week.
2. For Calendar Year 2017, the website had 243,904 users who generated over 4 million pageviews (a PAGEVIEW is recorded every time a page is opened in a browser). In addition, once a visitor arrives at a website, national averages indicate they will typically search around on about 2.5 pages. Our early 2017 rate of 2.77 pages was in line with this average, but by the end of Calendar Year 2017 that number had dramatically increased to 9.26 pages viewed during a session.

Both statistics (pageviews and average pages viewed per session) seem to indicate visitors are coming to our site and spending time exploring the different materials we have posted. **Our goal of positioning the KRS website as the authority on retirement issues appears to be on its way to being achieved.**

3. The “bounce rate” for the prior website was 46.90% in February 2017, but by the end of Calendar Year 2017 the bounce rate had decreased to 0.20%. A BOUNCE RATE represents the percentage of visitors who enter a site and then leave (“bounce”) rather than continuing to view other pages within the same site.

High bounce rates typically indicate that the website isn’t doing a good job of attracting the continued interest of visitors. Our dramatic improvement in this area (previously 46.90% versus the current 0.20%) seems to indicate that **our website is becoming a valuable tool** for visitors to find information about the Systems.

4. We have noted a **huge increase in visitors that arrive on our website from clicking on a Facebook post** (136 people in January 2017 versus 3,171 people in January 2018). This would indicate that our emphasis on using the KRS Facebook page to drive traffic to our website is being very successful.
5. As of the end of Calendar Year 2017, **the KRS Facebook page was the 4<sup>th</sup> most-followed site among the 50 state pension systems we track** (behind the Michigan Office of Retirement Services, Ohio PERS, and CALPERS). **Facebook followers reached a record high of 14,630 by the end of Calendar Year 2017**, up from 12,034 at the end of Calendar Year 2016. By comparison, CALPERS had 14,891 followers during the same timeframe.
6. Added a page to the KRS website, titled “KRS F.Y.I.” where visitors can contact us to ask questions about the Systems, learn about organizational announcements, and stay informed about upcoming events. From its inception in late August 2017 through the end of Calendar Year 2017 we responded to over 200 questions and posted more than a dozen short articles.

### **COMMUNICATIONS – DIGITAL PRESENTATIONS, VIDEOS, AND PUBLICATIONS**

1. Provided digital presentations using PowerPoint and Keynote for training, meetings, and lobby monitors.
2. The KRS YouTube video library has 60 videos that were viewed 10,199 times in Calendar Year 2017.



*Communications Division, continued*

3. The Comprehensive Annual Financial Report (CAFR) and Summary Annual Financial Report (SAFR) were completed and have been well received. Costs were reduced by eliminating the printed version of the Comprehensive Annual Financial Report and providing it in a digital-only format. The Annual Report won three awards including *American Graphic Design*, *In-House Graphic Design* that was published in a magazine, and a *Kentucky Association of Government Communicators* (KAGC) graphic design award.
4. Other publications produced in 2017 included Open Enrollment, Qualifying Events, Medical-Only and Mirror Plan booklets.

**COMMUNICATIONS – EMPLOYER EDUCATION AND OUTREACH**

1. In concert with the KRS Employer Reporting, Compliance and Education Division, the Communications Division has worked to improve the Systems' service to our employer reporting partners and active members.
2. From June through December 2017, 12 Employer Newsletters were created and emailed to officials.
3. In July and August 2017, 328 employer surveys were received and 50 telephone interviews were conducted.
4. From October through December 2017, 16 reporting Official training sessions were held at 10 locations around the Commonwealth.

**CONSTITUENT SERVICES/GOVERNMENT RELATIONS**

1. Successfully resolved **507 constituent services cases** for legislators and other elected officials during Calendar Year 2017, for an average of 42.25 cases per month (507/12), a 7.1% increase over Calendar Year 2016. Regularly recognized by Governor's staff, Legislative Research Commission (LRC) staff, and individual KRS members for our attention to detail and successful disposition of cases.
2. Performed **daily legislative tracking duties** for the 2017 Kentucky General Assembly 30-day regular session. This required the review of **1,306 bills and resolutions** to determine potential impact on KRS, and the **active tracking of 47 bills and resolutions** of direct interest to KRS over a 87-day period (10 bills became law). Routinely 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) throughout the Session.

**INFORMATION DISCLOSURES**

1. Investigated and completed 25 separate disclosure cases affecting 148 KRS members and beneficiaries during Calendar Year 2017.
2. Disclosure notifications occurred within the recommended 60-day timeframe for action as outlined in the KRS Data Disclosure Procedures document.

*Communications Division, continued*

**OTHER ACTIVITIES**

1. Invited to speak at four (4) Kentucky Public Retirees meetings in Louisville, Flemingsburg, and London.
2. Continue to provide assistance to KRS executive staff as needed, including research and response to various national surveys and requests for information on behalf of agency.

**KEY STATISTICS**

1. Following a successful launch of a redesigned KRS website in July 2017, we saw an increase in website traffic from an average of 3,896 visitors per week to an average of 8,331 visitors per week in the first three months (from July to September 2017).
2. Reduced the website “bounce rate” from 46.90% in February 2017 to 0.20% by the end of Calendar Year 2017. A BOUNCE RATE represents the percentage of visitors who enter a site and then leave (“bounce”) rather than continuing to view other pages within the same site.
3. Noted a dramatic increase in visitors that arrive on our website from clicking on a Facebook post (136 people in January 2017 versus 3,171 people in January 2018).
4. KRS website page views: 4,004,903
5. Facebook Page Followers: 14,630
6. Ranked 4<sup>th</sup> most-followed Facebook site among the top 50 State Pension Agencies we track.
7. YouTube video views: 10,199
8. 12 Employer Newsletters created, 328 employer surveys received, 50 telephone interviews conducted, and 16 reporting Official training sessions held at 10 locations around the Commonwealth.
9. 507 Constituent Services cases successfully resolved.
10. Investigated and completed 25 separate disclosure cases affecting 148 KRS members and beneficiaries.
11. Reviewed 1,306 bills and resolutions, and tracked 47 bills and resolutions of direct interest to KRS during the 2017 Regular Legislative Session. Routinely 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) throughout the Session.

**COMMUNICATIONS DIVISION’S GOALS FOR THE NEXT 12 MONTHS**

1. Work to position the KRS website as “the” trusted authority on retirement issues by regularly posting current, relevant, factual information.
2. Use the KRS Facebook page and KRS social media outlets (Twitter, etc.) to drive traffic to our website.

*Communications Division, continued*

3. Continue to expand the resources available on the KRS website to better inform and educate our members, retirees, and the general public.
4. Support Pre-Retirement Education Programs (PREP) Sessions with social media campaigns and graphic needs.
5. Support employer and member outreach programs with social media campaigns, educational presentations and booklets.
6. Increase video/webinar educational opportunities.
7. Redesign KRS publications as needed (Tier booklets, Summary Plan Description, etc.).
8. Assist the Interim Executive Director's plan to survey employers and other constituents in order to better respond to their needs and respond accordingly.
9. Monitor analytics and work to increase member reach.
10. Continue member communication efforts with newsletters and social media.
11. Continue to provide assistance to members, beneficiaries, and outside entities (elected officials, constituent groups, interested individuals, etc.) through daily focus on Constituent Services caseload.
12. Conduct legislative tracking duties for the 60-day 2018 Kentucky General Assembly Regular Session.
13. Continue to manage the KRS Disclosure Notification Process. Inform affected members of disclosures in a timely fashion in accordance with state statutes, answer questions from concerned members, and address any disclosure issues as they arise.

## ***Operations***



### **ACCOUNTING DIVISION**

#### **Elizabeth Smith, Assistant Director**

#### **Cash Management**

#### **SUMMARY OF DIVISION**

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

#### **KEY ACCOMPLISHMENTS**

1. Completed annual audit with one finding on member and employer contribution accruals. Accounting management has updated their procedures to review employer contribution history and more accurately validate the final year-end accrual.
2. Processed approximately \$42.3 million in service purchases during Fiscal 2017; this includes installment purchase service contracts, rollovers/transfers from financial institutions and personal checks from our members.
3. Completed Fiscal Year 2017 Comprehensive Annual Report, in compliance with accounting standards.
4. Collected approximately \$5.2 million in pension spiking contributions.

**KEY STATISTICS**

	FYE 2017		FYE 2016	
	<i>Pension</i>	<i>Insurance</i>	<i>Pension</i>	<i>Insurance</i>
Total Plan Net Assets	\$12.5B	\$5.0B	\$11.9B	\$4.6B
Inc (Dec) in Plan Net Position	\$1,044.1M	\$552.6M	(\$768.7)M	(\$15.6)M
Net Investment Income	\$1,415.1M	\$575.2M	(\$75.9)M	(\$5.2)M
Total Admin Expense	\$35.3M		\$34.3M	

**CASH MANAGMENT GOALS FOR THE NEXT 12 MONTHS**

1. Ensure that internal controls are strong and functioning as designed.
2. Ensure that contributions are invested in a timely manner to maximize investment potential.
3. Ensure that financial statements are error free and properly reflect the financial health of KRS.
4. Ensure that the financial statements meet all Governmental Accounting Standards Board (GASB) and Generally Accepted Accounting Principles (GAAP) requirements.
5. Automate the CAFR and SAFR process.
6. Ensure that staff are properly trained and participating in continuing education.
7. Support ERCE in collecting past due Employer Contributions.



## **EMPLOYER REPORTING, COMPLIANCE & EDUCATION**

**D’Juan Surratt, Assistant Director**

### **SUMMARY OF DIVISION**

The Employer Reporting, Compliance and Education Division currently consists of twenty five (25) employees, including one Assistant Director, three managers, and 21 ERCE specialists (two are interim) who are divided up amongst Web/File reporters, Kentucky Human Resource Information System (KHRIS) and School Board. The ERCE Division educates 1,454 employers on compliance, regulations, policies and procedures. The Division trains employers across the state on how to utilize the START system and properly report their employees to Kentucky Retirement Systems. The Division also corrects and adjusts records that have been reported by the employer, and assists to Executive, Legal, Member Services, Membership Support and Accounting.

### **KEY ACCOMPLISHMENTS**

1. ERCE corrected a total of 76,869 errors during 2017. Error correction to maintain record accuracy is critical to our Benefits staff and membership.
2. ERCE processed 20,899 adjustments on individual records in calendar year 2017.
3. ERCE completed 17 reporting official trainings throughout the state for File/Web agencies.
4. ERCE improved communication channels with Reporting Officials and HR representatives by sending 17 electronic newsletters to provide employers with important topics and information.
5. ERCE and Member Services collaborated to perform pension spiking webinars for employers on Senate Bill 2 (Employer pension spiking form 2013 legislation) and SB 104 (Member pension spiking from 2017 legislation).
6. KHRIS team has continued a concentrated effort with Personnel Cabinet to clear outstanding pended transactions.
7. ERCE has implemented an invoice follow-up process to better document records of employer contact regarding outstanding invoices.
8. Employer satisfaction surveys were conducted to hear directly from employers on how overall service can be enhanced.

*ERCE Division, continued*

9. ERCE worked directly with Accounting to implement a more strict and better documented process for late monthly reporting penalties and any requests to have late penalties waived.
10. ERCE made a concentrated effort to contact employers that have been delinquent in their monthly reporting. Certified letters were mailed to the Agency Head/Mayor concerning the delinquent report(s). Since the implementation of this process we have seen a 50% decrease in the total number of delinquent employers.

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

1. Continue to reduce incoming errors.
2. Continued focus on providing employer trainings throughout the state and via webinars.
3. Continued focus on monitoring and resolving issues with employers that have delinquent monthly reports.
4. Coordinate with Member Services to offer Reporting Official training sessions at Pre-Retirement Education Program (PREP) locations.
5. Continued design and implementation of the invoice follow-up process to reduce outstanding employer invoice balances.
6. Continued employer communication via newsletters, website, webinars and trainings.
7. Begin a process to define and remedy KHRIS employer business process flaws that result in errors.
8. Implement and make design modifications for possible legislative changes.

## ***Operations***



### **ENTERPRISE AND TECHNOLOGY SERVICES DIVISION**

#### **Rebecca Adkins, Interim Director**

#### **SUMMARY OF DIVISION**

The Division of Enterprise and Technology Services provides an enterprise and technology framework and services to support the current and future needs of KRS. The division strives to maximize the value of technology investments so that KRS business activities are managed effectively, securely and reliably.

- Infrastructure – Hardware and technical framework including PCs, iPads, phones, Help Desk, Wi-Fi, firewalls, storage, backups, disaster recovery
- Development – START line-of-business software, self-service, interfaces, reporting
- Data and Analytics – START designs and testing leadership and support, database management, Tableau, data support for legislative and actuarial inquiries and open records requests
- Enterprise Project Management – Agency-wide project leadership and support, technical strategic planning and trend analysis, IT procurement
- Information Security – identify and gauge security risks, evaluate and recommend appropriate security measures, manage threats and incidents, develop standards and guidelines, foster a security-aware workforce

#### **KEY ACCOMPLISHMENTS**

1. Completed Disaster Recovery – successful production failover to Louisville site
2. Major hardware upgrades – f5 firewall, Exchange 2016, certificate authority, SQL 2016, Windows 10, Office 2016 and SharePoint 2016
3. Major software upgrades/enhancements: Replaced and decommissioned ODM, IssueTracker to TFS migration, TFS Data issue deployment using DBUP, LiveCycle upgrade, secure email for PIN resets for self-service, more than 1,000 modifications to START line-of-business or its data and 650 code reviews completed
4. Resolved 5,412 help desk tickets
5. Processed 197,503 correspondence packages from START line-of-business to members and retirees
6. Added web analytics to member/retiree/employer self-service in preparation of self-service redesign
7. Decommissioned the AS400 (old legacy retirement system)
8. Coordinated the creation/modification of process documentation agency-wide including the creation of an agency wiki
9. Developed process for imaging non-START documents in searchable text and storing in SharePoint
10. Began the process of implementing 45A model procurement for IT goods and services



**KEY STATISTICS**

<b>Key Metrics per Calendar Year</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Security Incidents Investigated	7	6	5	20
Security Awareness Communications Sent	81	184	270	234
Security Exemptions Reviewed and Approved	38	42	65	18

<b>Incoming Email</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Blocked	75,856	146,568	451,195
Delivered	792,566	645,273	660,278

**GOALS FOR THE NEXT 12 MONTHS**

1. Disaster Recovery Exercise expanded
2. Maintain infrastructure and tools via the 45A model procurement process including patches and upgrades or replacements of hardware and software including f5 upgrade, Windows Application Servers 2016 upgrade, migration to McAfee full disk encryption, FileNet patches, and firewall code upgrades.
3. Complete the Skype implementation and training
4. Successful implementation of legislation – 2017 SB 104 (member pension spiking), 2018 SB 151 (pension reform), HB 185 (ILOD/Duty Related benefits) and HB 362 (employer cessation)
5. Reduction of key development backlog as prioritized by IT Governance (proration, Tier 3, averaging and self-service redesign)
6. Proactively secure the KRS environment and educate staff regarding security
7. Retain staff and maintain training of staff

## ***Operations***



### **PROCUREMENT & OFFICE SERVICES** **DIVISION**

**Joe C. Gilbert, Director**

#### **SUMMARY OF DIVISION**

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

#### **KEY ACCOMPLISHMENTS**

1. KRS has made several improvements to facilities security including new locks, visitor restrooms, utility protection, and a security guard and a security video system.
2. Met all mailing deadlines.
3. All documents received by KRS were made available agency wide in the shortest amount of time.

#### **KEY STATISTICS**

1. Processed and scanned 1,001,617 document pages in 2016 and 943,803 document pages in 2017 in the Imaging Branch.
2. Indexed 161,448 documents in 2016 and 294,839 documents in 2017 in the Imaging Branch including indexing, Quality Control (QC), re-indexing, correction, document deletion and verification.
3. Over 100,967 actions were processed in 2016 and 212,217 actions were processed in 2017 with the microfiche and film this includes indexing these images to the member files.
4. Captured over 46,767 Faxes in FileNet in 2016 and 76,750 in 2017.
5. Made 766 vehicle runs in 2016 and 752 vehicle runs in 2017.
6. Processed 119,372 pieces of incoming mail in 2016 and 131,484 in 2017.
7. Processed 222,404 pieces of outgoing mail in 2016 and 217,032 in 2017.

8. Mailed 52,156 recurring checks in 2016 and 51,504 in 2017.
9. Mailed 81,742 check stubs to retirees in 2016 and 96,259 in 2017.
10. Destroyed 188 boxes of records and sent 480 boxes of records to underground storage in 2016 and sent 401 boxes in 2017 to underground storage based on our records retention plan.

### **Procurement & O S GOALS FOR THE NEXT 12 MONTHS**

1. Assess KRS buildings and grounds to continue to meet and improve the working environment and plan for future needs.
2. Monitor and enhance KRS physical security.
3. Continually review all processes in order to reduce mailing, copying, supply and equipment costs.
4. Increase the number of staff with Kentucky Procurement Institute certification.
5. Provide training for staff on the new eMars 3.11 system and procurement training as it pertains to model procurement code compliance.
6. Develop a standard operating procedures manual for model procurement code purposes.

## Division of Disability and Death



**Liza Welch,**  
**Division Director,**  
**Disability and Death**

1. Summary:

The Division of Disability and Death consists of two Disability Applications and Review Branches, the Death Branch, and the Disability and Death Support Branch. The Division processes applications for disability retirement, performs annual medical and employment reviews, and processes benefits for beneficiaries of deceased active members and retirees. The Division currently has 24 employees and utilizes the services of 8 contracted licensed physicians and mental health professionals.

2. Accomplishments:

1. *Began sending sympathy cards on behalf of KRS to person beneficiaries.*
2. *Assisted Membership Support with disability calls as a result of the mandatory KEHP health insurance open enrollment.*
3. *Assisted Member Services with backlog reduction for calculation requests.*
4. *Assisted Membership Support with disability calls during a period of high call volume due to pension reform discussions.*
5. *Death and Disability management and staff worked together across branches to reallocate job tasks and avoid backlog in the division workload.*
6. *Trained additional counselors to perform Social Security/Workers Compensation Audits and Testing.*
7. *Reviewed, updated, and edited Division procedures and added them to SharePoint as a part of the Process Documentation Project.*

3. Statistics:

<b>Activity</b>	<b>2017</b>	<b>2016</b>
Disability applications processed	757	785
Percent of applications approved for disability retirement on first review	52.18%	48.33%
Percent of applications denied for disability retirement on first review	47.82%	51.68%
Visitors counseled in office for disability	870	919
Disability retirees contacted for annual review	819	1,020
Voice recorded disability determinations transcribed	3,553	3,599
Deaths reported to KRS	5,662	9,141
Visitors counseled in office for deceased member accounts	460	598

<b>Death Payments issued for 2016 and 2017</b>	<b>2017</b>	<b>2017</b>	<b>2016</b>	<b>2016</b>
<b>Active Death Refunds</b>				
KERS	117	\$528,154.55 (46.44%)	128	\$596,916.96 (46%)
CERS	223	\$609,059.88 (53.55%)	211	\$689,977.35 (53.16%)
SPRS	1	\$119.23 (00.01%)	2	\$10,825.10 (00.84%)
<b>TOTAL</b>	<b>341</b>	<b>\$1,137,333.66</b>	<b>341</b>	<b>\$1,297,719.41</b>
<b>Actuarial Refunds</b>				
KERS	28	\$1,589,488.09 (48.45%)	15	\$778,391.40 (27.70%)
CERS	58	\$1,691,038.93 (51.54%)	47	\$2,026,122.90 (72.10%)
SPRS	1	\$97.29 (00.01%)	1	\$5,548.06 (00.20%)
<b>TOTAL</b>	<b>87</b>	<b>\$3,280,624.31</b>	<b>63</b>	<b>\$2,810,062.36</b>
<b>Death In the Line of Duty/Duty Related (\$10,000)</b>				
KERS	0	\$0	0	\$0
CERS	1	\$10,000.00 (100%)	1	\$10,000.00 (100%)
SPRS	0	\$0	0	\$0
<b>TOTAL</b>	<b>1</b>	<b>\$10,000.00</b>	<b>1</b>	<b>\$10,000.00</b>
<b>\$5,000 Death Benefits</b>				
KERS	917	\$4,585,000.00 (39.02%)	993	\$4,965,000.00 (42.82%)
CERS	1422	\$7,110,000.00 (60.51%)	1313	\$6,565,000.00 (56.61%)
SPRS	11	\$55,000.00 (00.47%)	13	\$65,000.00 (00.57%)
<b>TOTAL</b>	<b>2350</b>	<b>\$11,750,000.00</b>	<b>2319</b>	<b>\$11,595,000.00</b>
<b>Guaranteed Refunds (Contributions &amp; Interest Balance)</b>				
KERS	15	\$197,736.52 (34.61%)	24	\$447,831.49 (57.33%)
CERS	32	\$373,579.81 (65.39%)	31	\$333,203.94 (42.64%)
SPRS	0	\$0 (00.00%)	0	\$0 (00.00%)
<b>TOTAL</b>	<b>47</b>	<b>\$571,316.33</b>	<b>55</b>	<b>\$781,035.43</b>

4. List your Division's Goals for the next 12 months (no more than 10)
  1. *Coordinate with ERCE and Communications staff to improve employer outreach regarding disability benefits available to their employees. Update the Disability Retirement brochure.*
  2. *Train 4 additional Membership Support Counselors to take disability phone calls.*
  3. *Transition and train 3 new Disability Counselors.*
  4. *Explore streamlining the Medical Examiner review process either through an update to the current application or by contracting with a third party.*
  5. *Keep response time for disability estimate requests to within one week.*
  6. *Maintain a two week turnaround time for transcribing Medical Examiner dictation.*
  7. *Keep response to death reports to within 10 business days.*

## Member Services



**Shauna Miller**  
**Division Director,**  
**Member Services**

### **SUMMARY OF DIVISION**

Member Services is comprised of one Division Director, two Retirement Program Managers, 18 Benefits Counselors and two Administrative Assistants. Counselors within the Division are 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 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 Benefits; 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 Teachers' Retirement System of Kentucky; responds to general correspondence received through the mail; identifies system issues and logs appropriate reports, reviews and tests system enhancements; coordinates and provides member outreach throughout the state.

### **KEY ACCOMPLISHMENTS**

1. Expanded Counselor Training to include new Counselors from other Divisions to provide comprehensive overview of Kentucky Retirement System.
2. Successfully completed two separate training periods.
3. Implemented manual process for pension spiking and provided training to staff.
4. Maintained an average response time of 14 days or less on calculation requests.
5. Planned and conducted 24 Pre-Retirement Education Program (PREP) sessions at 12 locations across the state reaching over 2300 members and agency contacts.
6. Staff participated in 56 events across the state for Member Outreach including group presentations and individual counseling reaching approximately 4000 members.
7. Collaborated with the Employer Reporting, Compliance and Education (ERCE) Division to create and present Pension Spiking Webinars to employers.
8. Created video presentations for use on website and for group presentations including Annual Statement Review, Form 6000/Section H review for employers, Pension Spiking and All Tiers Presentation.
9. Provided staff to assist with incoming calls during Health Insurance Open Enrollment.
10. Completed Document Processing Project by expected deadline.

**COMPARISON OF YEARLY STATISTICS**

	2017	2016
Members Counseled in Office	5,614	5,858
Retirement Requests Processed	6,756	5,283
Benefit Estimate Requests Processed	10,179	8,081
Service Purchase Requests Processed	5,332	4,817

**MEMBER SERVICES' GOALS FOR THE NEXT 12 MONTHS**

1. Conduct PREP sessions across the state in the summer of 2018. Eleven separate locations planned with capability to accommodate double the number reached in 2017. Coordinating with ERCE staff to provide targeted outreach efforts to both members and their employers simultaneously.
2. Continue to focus on member requests and retirements as we expect to continue to see an increase in requests.
3. Provide training to counseling staff and others on Pension Reform.
4. Participate in extensive efforts required for Pension Reform implementation. Continue to identify system issues or need for enhancement. Log appropriate requests and provide testing to ensure accuracy and expected outcomes.
5. Provide training to newly hired counselors which consists of those from other divisions; providing basic benefits training to counselors from ERCE and Retiree Health Care to furnish them with a base of knowledge that will be beneficial to their specific training once they go to their respective areas.
6. Continue to participate in Process Documentation Project to maintain and update Benefits Procedure Manual as applicable.



# Membership Support



**Kevin Gaines,  
Director  
Membership Support**

## SUMMARY OF DIVISION

The Division of Membership Support consists of three branches: Employee Call Center, Retiree Call Center, and Call Center Support.

The primary function of both the Employee Call Center and Retiree Call Center is to provide members with convenient, one-on-one access to counselors that can assist them with their questions and retirement planning by phone. Counselors within both branches also respond to member requests submitted via e-mail, mail, and fax. Our counselors are responsible for the processing and checking of member refunds and assist their counterparts in Member Services with retirement estimates and service purchase calculations requested by members.

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

## KEY ACCOMPLISHMENTS

1. 4 additional counselors hired and trained for MSUP in 2017
2. 237 Cessation transfers processed for members of KEMI and CCU
3. Multiple MSUP staff assisted with PREP sessions, including video and editing of PREPs for online use
4. Implemented refund education letter to send when members request refund materials along with an updated refund application (Form 4525)
5. MSUP Process Documentation updated and added to the KRS Wiki
6. MSUP staff assisted with on-going backlog reduction project

## KEY STATISTICS

	2017	2016
Average Number of Counselors	21	19
Inbound Calls	251,513	223,521
Outbound Calls	15,960	18,338
Emails Responses to Members	4357	3904
Estimates Processed	3046	1899
Service Purchase Calculations	2224	1956

Refunds Processed	4178	4273
Refunds Checked	4548	4295
Pension Verifications Responses	1501	1234
Incoming Mail Prepared for Scanning	32,836	31,914
Work Items Indexed	61,594	68,837
Membership Forms Processed	20,905	17,997
Correspondence for Invalid Membership Forms	4835	3935

#### **GOALS FOR THE NEXT 12 MONTHS**

1. On-going assistance with Benefits backlog maintenance of work items within 2 weeks of the request date
2. MSUP staff will assist Member Services division with member outreach initiatives for Member Self Service group trainings and Pre-Retirement Education Programs (PREP)
3. Implementation of various employee suggestions resulting from KRS Employee Survey
4. MSUP management will collaborate with Retiree Health Care to develop suggested policy and procedures for staff when handling member phone calls/communications threatening self-harm, harm to KRS, or harm to others.
5. On-going review and updates to KRS Wiki to maintain procedural information

## *Retiree Services*



### **David Nix, Division Director Retiree Services**

#### **SUMMARY OF DIVISION**

Retiree Services is responsible for maintaining all payees' benefit accounts from the onset of initial retirement to cessation of benefits, ensuring the deadlines for each monthly and supplemental payroll are met. Such maintenance includes, but is not limited to, detailed changes to payees' benefits, overpayment recovery, changes to federal tax withholding and direct deposit. Retiree Services also administers retiree court ordered deductions, IRS Levies and the division of marital property.

#### **KEY ACCOMPLISHMENTS**

1. Collaborated with KRS' Information Technology team and Communications to provide statistical information for Comprehensive Annual Financial Report (CAFR) and Summary Annual Financial Report (SAFR).
2. Completed account and benefit changes for 11,581 post-retirement audits submitted by the Division of Quality Assurance.
3. Coordinated printing and distribution of 2017 1099Rs. Collaborated with KRS' Information Technology, Communications staff and the external printing vendor to facilitate mailing 14 days before Federal compliance deadline.
4. Maintained Qualified Excess Benefit Accounts (QEBA's) for 55 recipients and provided data to Local Government for distribution of 2017 W-2 Wage and Earnings Statements.
5. Assisted Membership Support by taking 2991 Retired Call Center phone calls and processing 783 Membership Refunds.
6. Worked with Division of Quality Assurance, KRS' Information Technology and business teams to identify and test Problem Incident Reports (PIR) required for START deficiencies and enhancements.
7. Audited 9000 accounts for date of birth discrepancies and updated with the correct dates of birth.

8. Designed additional auditing reports and implemented additional auditing procedures.
9. Participated in the Process Documentation Project. Completed comprehensive updates to Division procedures and training manuals prior to project deadline.
10. All staff were provided 9 training courses. Additional professional development training courses were offered to management and staff who showed an interest in future management opportunities.

## **KEY STATISTICS**

### **COMPARISON OF YEARLY STATISTICS**

	<b>2017</b>	<b>2016</b>
<b>New Retirements</b>	7,938	7,111
<b>Total Number of MONTHLY Recipients as of 12/2017 Payroll</b>	120,938	116,016
<b>MONTHLY Gross Payroll Total of Benefit Payments as of 12/2017 Payroll</b>	\$ 170,051,015	\$ 162,910,273
<b>Changes to Accounts/ Benefits /Deductions of monthly recipients *Excludes changes made by members via Retiree Self Service</b>	53,805	47,302
<b>Visitors Counseled in office.</b>	1,139	1,112
<b>Total number of original recipient 1099Rs generated.</b>	132,343	127,048
<b>Total Number of Payments paid within Supplemental Payrolls as of 12/2017</b>	10,418	9,452
<b>Total Gross Sum of all one-time payments paid within Supplemental Payrolls</b>	\$64,841,697.01	\$ 51,336,475

**RETIREE SERVICES DIVISION'S GOALS FOR THE NEXT 12 MONTHS**

1. Continue to assist Membership support with Retired Call Center Calls and Membership Refund.
2. Continue to train and develop Division staff by enhancing their knowledge of START functionality including all areas of benefits administration while making modifications to procedures manuals. Share knowledge and experience with other areas of benefits administration.
3. Recognize opportunities for ongoing START functionality improvements to tweak Division's processes in order to improve efficiencies and improve customer service. Increase the number and quality of payroll auditing reports. Make design modification to decrease the number of data PIRs.
4. Continue professional development and mentoring. Provide targeted, in-depth business process and compliance training for business continuity purposes.
5. Participate in a collaborative effort with Membership Support to update, redesign and enhance Retiree Self-Service and information available to recipients on KRS website.

## Retiree Health



### Connie Pettyjohn, Division Director Retiree Health Care

#### 1. Summary of Retiree Health Care Division.

The Retiree Health Care (RHC) division assists retirees in navigating the complexity of health insurance after retirement, and administers a variety of member insurance needs such as eligibility and enrollment for both non-Medicare eligible and Medicare eligible retiree health insurance plans. RHC coordinates with the Kentucky Employees Health Plan (KEHP) and Humana Medicare Advantage Plans. RHC is responsible for payment of health insurance premiums to the Health Insurance Providers and for resolving discrepancies in enrollment, eligibility and payment of premiums.

#### 2. Summary of Retiree Health Care Division's key accomplishments.

1. *Mandatory Open Enrollment for non-Medicare eligible, retirees, eligible spouse and dependents – approximately 37,315 lives as of March 2018 (36,026 as of March 2017).*
2. *Implementation of hazardous duty dependent verification for 6256 electronically during Open Enrollment. (1,002 completed the form electronically).*
3. *Re-implementation of Medicare Secondary Payer process November 2017 (74 terminations processed).*
4. *Aging Into Medicare-Age 65 Webinar/Recording, viewed 1,354 times for a total of 17,596 minutes.*
5. *Process Documentation Implementation for Retiree Health Care (Comprehensive Policy and Procedures).*

#### 3. Key Retiree Health Care Division Statistics:

	CY 2016	CY 2017
Insurance Phone Calls	38,838	46,306
Insurance Visitors	2,764	3,495
Non-Medicare eligible insurance applications	35,393	40,961
Medicare eligible insurance applications	4,647	5,053
Web enrollments	14,293	11,964
Open Enrollment Benefit Fairs/Seminars	1,856	2,184
Emails	1,294	851

#### 4. Retiree Health Care Division Goals for the next 12 months.

1. *Quality customer service with emphasis on Retiree Health Insurance Benefit Education and Self-management Skills.*
2. *Improve customer service – RHC web enrollment for health insurance, such as Aging into 65/Medicare Webinar/Video, Health Insurance Enrollment MSS, and Completion of Form 6256 including education on the rationale for compliance.*

3. *Continue monitoring phone system stats for areas of customer service improvement.*
4. *Finalize implementation of Medicare Secondary Payer Law – utilizing KRS system reporting and work flows for retired re-employed forms.*

# Quality Assurance



**Wes Crosthwaite,**  
**Director**  
**Division of Quality Assurance**

## Summary of Division

The Quality Assurance Division is responsible for pre-retirement and post-retirement auditing of member accounts to ensure data integrity, along with confirming benefit amounts paid to KRS' members are within federal and state statutory and regulatory compliance. The Division is also accountable for the testing and support required for all of Benefits' processes, including those impacted by special business and technology projects as well as training new Retirement Systems Counselors. The division currently has 27 employees (21 regular full-time; 6 interim)

## Key Accomplishments

1. Supported the following KRS business projects: Employer Cessation from KRS, Member Annual Statements, Benefits Backlog Reduction Plan for 2017 and 2018, Fiscal Year End testing of CAFR data.
2. Reduced Post-Retirement Audit backlog by 92%
3. Tested more than 340 Work Items for the Benefits business area.
4. Supported the following IT projects: Transition to TFS, Disaster Recovery, Tier 3 Backlog. Reduction Plan, SB 104, HB 185 and Pension Reform.
5. Assisted Member Services with KRS Member Outreach.
6. Updated procedure manuals for the Process Documentation Project.

## Key Statistics

### Comparison of Yearly Statistics

	<u>2017</u>	<u>2016</u>
Benefits' Defect/Design Modification Work Items Created	172	333
Benefits' Defect/Design Modification Work Items Resolved	66	247
Benefits' Data Work Items Created	347	414
Benefits' Data Work Items Resolved	278	362
Post-Retirement Audits Completed	11,852	8,125
Pre-Retirement Audits Completed	15,095	12,930

## Goals for the Next 12 Months

1. Ensure Pre-Retirement Audits for backlog requests are kept within a two week response time.



2. Ensure Post-Retirement audits are kept within a three month completion time.
3. Continue staff training for personal and career development.
4. Continue support of IT projects such as Tier 3 Backlog Reduction Plan and Pension Reform.
5. Continue support of KRS business projects.

# Investments



**Rich Robben**  
**Interim CIO,**  
**Investments**

## KRS ANNUAL PROGRESS REPORT FOR CALENDAR YEAR 2017

- The Investments Division is responsible for the oversight and investment of all plan assets.

### Key Metrics

#### Number of Managers

Number of External Managers / Partnerships		
	12/31/2016	12/31/2017
Equities	14	11
Fixed Income	7	11
Real Return	12	11
Absolute Return*	22	19
Real Estate	15	17
Private Equity	<u>65</u>	<u>65</u>
Total **	135	134

\* Does not include underlying managers in Fund of Funds structures

\*\* Number of actual "accounts" managed would be double these numbers since each manager has a Pension and an Insurance Account

#### Internal versus External Management

Pension Assets				
	12/31/2016		12/31/2017	
Internally Managed	\$2,138,668,848	19.32%	\$2,645,471,483	21.40%
Externally Managed	\$8,930,969,863	80.68%	\$9,715,508,897	78.60%
Total Assets	\$11,069,638,711		\$12,360,980,380	
Insurance Assets				
	12/31/2016		12/31/2017	
Internally Managed	\$969,242,119	21.99%	\$1,098,854,172	21.60%
Externally Managed	\$3,437,447,308	78.01%	\$3,987,859,768	78.40%
Total Assets	\$4,406,689,427		\$5,086,713,940	

The percentage of internally managed asset increased slightly over the year due to the market performance of US Public Equity, which is the asset class where we manage the bulk of our internal assets.

*Active versus Passive Investments*

Active vs Passive Management				
	Pension		Insurance	
Indexed	\$3,962,884,811	32.06%	\$1,709,414,430	33.61%
Enhanced Index	\$959,029,010	7.76%	\$345,476,229	6.79%
Actively Managed	\$7,439,066,559	60.18%	\$3,031,823,281	59.60%
Total Assets	\$12,360,980,380		\$5,086,713,940	

*New and Terminated Investments*

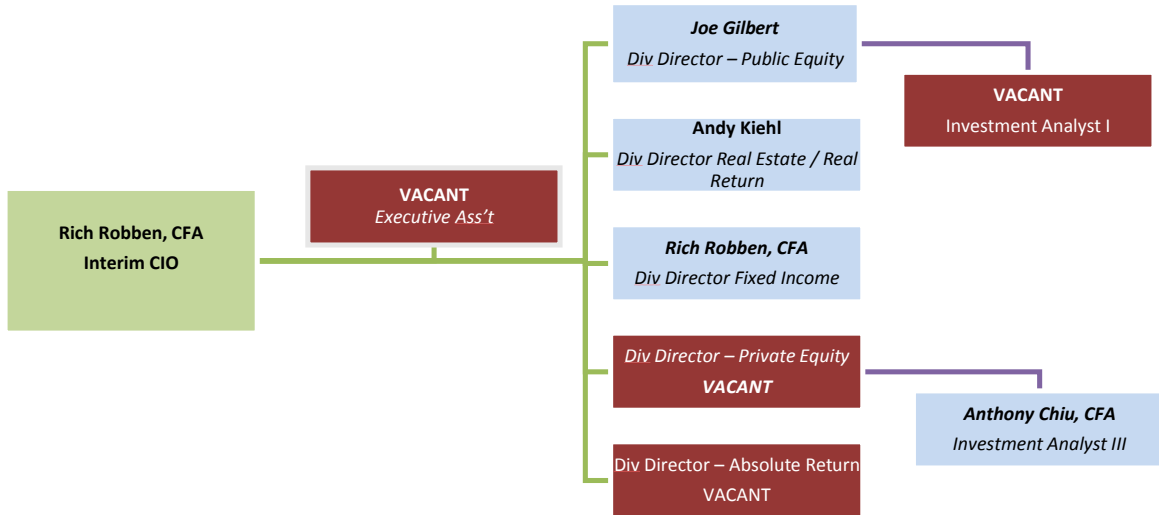
New Investments		
Fund / Firm	Asset Class	Amount
Benefit Street Partners	Fixed Income Credit	\$150,000,000
Luber Adler Real Estate Fund VII-B	Real Estate	\$45,000,000
Fundamental Partners III	Real Estate	\$100,000,000
White Oak	Fixed Income Credit	\$150,000,000
BNY Intermediate Credit Index Bond Fund	Fixed Income Core	\$300,000,000
Blackrock Intermediate Credit Indexed CTF	Fixed Income Core	\$720,000,000
<b>Total</b>		<b>\$1,465,000,000</b>

Terminated Investments		
Fund / Firm	Asset Class	*Amount
DSAM Fund LP	Hedge Fund /Absolute Return	\$19,632,671
Finisterre Global Op	Hedge Fund /Absolute Return	\$21,123,383
Glenview Institution	Hedge Fund /Absolute Return	\$24,191,629
KNIGHTHEAD	Hedge Fund /Absolute Return	\$18,052,680
LibreMax Capital	Hedge Fund /Absolute Return	\$10,628,091
Luxor Capital	Hedge Fund /Absolute Return	\$15,828,228
Pine River	Hedge Fund /Absolute Return	\$20,246,123
QMS Diversified GLBL	Hedge Fund /Absolute Return	\$24,068,808
Scopia PX LLC	Hedge Fund /Absolute Return	\$30,817,296
Senator LP Pension	Hedge Fund /Absolute Return	\$30,993,672
Tourbillon Global Eq	Hedge Fund /Absolute Return	\$36,352,231
Prisma**	Hedge Fund /Absolute Return	\$247,758,202
PAAMCO	Hedge Fund /Absolute Return	\$11,734,027
<b>Total</b>		<b>\$511,427,041</b>

\* Value as of 12/31/16

\*\* Represents the value of investments liquidated within the Fund of Funds during 2017

**Investment Staff**



During the year the Investment Team lost 3 members, including the Executive Director of Investments and the administrative support staff member. Mr. Robben has been serving as the Interim Executive Director of Investments, and Mr. Chiu has been acting as the division director of both Absolute Return and Private Equity. Additionally, our investment consultant, Wilshire Associates, has been providing support in Absolute Return and Private Equity areas to supplement existing staff. Overall, the Investment team, now totaling 4 staff members, continues to produce excellent long-term results at an all-in cost of less than 1 basis point.

**Performance**

Performance over the calendar year was exceptional, with all plans returning well above their assumed rates of return. Since inception performance continues to be well above the assumed rate of return. Returns were slightly below the benchmark for all plans over the calendar year.

<b>Pension Plans Calendar Year 2017 Net of Fees Performance</b>						
<b>Plans</b>	<b>Market Value</b>	<b>Fiscal YTD (6 Mos)</b>	<b>1 Year (2017)</b>	<b>3 Years</b>	<b>5 Years</b>	<b>Since Inception</b>
<b>KERS (ARR=5.25%)</b>	<b>\$2,070,630,034</b>	<b>6.47%</b>	<b>13.98%</b>	<b>6.88%</b>	<b>7.74%</b>	<b>9.18%</b>
KERS Plan Index		6.53%	14.09%	7.29%	8.10%	9.32%
<b>KERS- H (ARR=6.25%)</b>	<b>\$643,170,908</b>	<b>7.40%</b>	<b>15.97%</b>	<b>7.80%</b>	<b>8.20%</b>	<b>9.25%</b>
KERS Haz Plan Index		7.60%	16.28%	7.70%	8.39%	9.36%
<b>CERS (ARR=6.25%)</b>	<b>\$7,060,352,032</b>	<b>7.45%</b>	<b>16.10%</b>	<b>7.81%</b>	<b>8.21%</b>	<b>9.25%</b>
CERS Plan Index		7.60%	16.29%	7.67%	8.39%	9.36%
<b>CERS- H (ARR=6.25%)</b>	<b>\$2,350,255,173</b>	<b>7.42%</b>	<b>16.04%</b>	<b>7.84%</b>	<b>8.22%</b>	<b>9.26%</b>
CERS Haz Plan Index		7.60%	16.29%	7.67%	8.39%	9.36%
<b>SPRS (ARR=5.25%)</b>	<b>\$258,465,838</b>	<b>6.70%</b>	<b>14.54%</b>	<b>6.78%</b>	<b>7.60%</b>	<b>9.16%</b>
SPRS Plan Index		6.90%	14.90%	7.26%	8.12%	9.32%

<b>Insurance Plans Calendar year 2017 Net of Fees Performance</b>						
<b>Plans</b>	<b>Market Value</b>	<b>Fiscal YTD (6 Mos)</b>	<b>1 Year (2017)</b>	<b>3 Years</b>	<b>5 Years</b>	<b>Since Inception</b>
<b>KERS INS (ARR=6.25%)</b>	<b>\$826,960,050</b>	<b>7.11%</b>	<b>15.48%</b>	<b>7.53%</b>	<b>7.72%</b>	<b>7.49%</b>
KERS Plan Index		7.63%	16.37%	7.77%	8.46%	7.89%
<b>KERS - H INS (ARR=6.25%)</b>	<b>\$512,852,745</b>	<b>7.45%</b>	<b>16.04%</b>	<b>7.83%</b>	<b>8.07%</b>	<b>7.54%</b>
KERS Haz Plan Index		7.64%	16.40%	7.83%	8.50%	7.90%
<b>CERS INS (ARR=6.25%)</b>	<b>\$2,303,344,256</b>	<b>7.55%</b>	<b>16.17%</b>	<b>7.95%</b>	<b>8.12%</b>	<b>7.55%</b>
CERS Plan Index		7.65%	16.40%	7.87%	8.52%	7.90%
<b>CERS - H INS (ARR=6.25%)</b>	<b>\$1,254,947,593</b>	<b>7.59%</b>	<b>16.25%</b>	<b>8.02%</b>	<b>8.16%</b>	<b>7.56%</b>
CERS Haz Plan Index		7.65%	16.40%	7.88%	8.53%	7.90%
<b>SPRS INS (ARR=6.25%)</b>	<b>\$188,609,297</b>	<b>7.61%</b>	<b>16.28%</b>	<b>7.99%</b>	<b>8.14%</b>	<b>7.56%</b>
SPRS Plan Index		7.65%	16.40%	7.90%	8.54%	7.90%

### ***Accomplishments***

- Produced exceptional investment returns well above our actuarially assumed rate of return.
- Developed and implemented a new Investment Procurement Policy in accordance with new legislation.
- Implemented new transparency legislation by posting investment contracts and fee data to our website.
- Developed and adopted new asset allocation policies for each of our systems that better reflect the funded status, risk tolerance, and cash flow needs of each plan.
- Terminated 3 Investment Consultants and replaced them with Wilshire Associates, resulting in significant savings to the systems and a more unified view of our investment portfolios.
- Continued the restructuring of our Absolute Return portfolio as directed by the Investment Committee.
- Worked with Wilshire Associates to review the performance benchmarks for each plan.

### ***Goals for 2018***

- Fill all open staff positions
- Continue to produce investment returns above the assumed rate of return for each system.
- Increase the percentage of assets managed internally in order to drive down cost and simplify the portfolio, specifically in the area of Core Fixed Income.
- Finalize the implementation of our new asset allocations for each plan.
- Evaluate investment options for the new 401a plan.