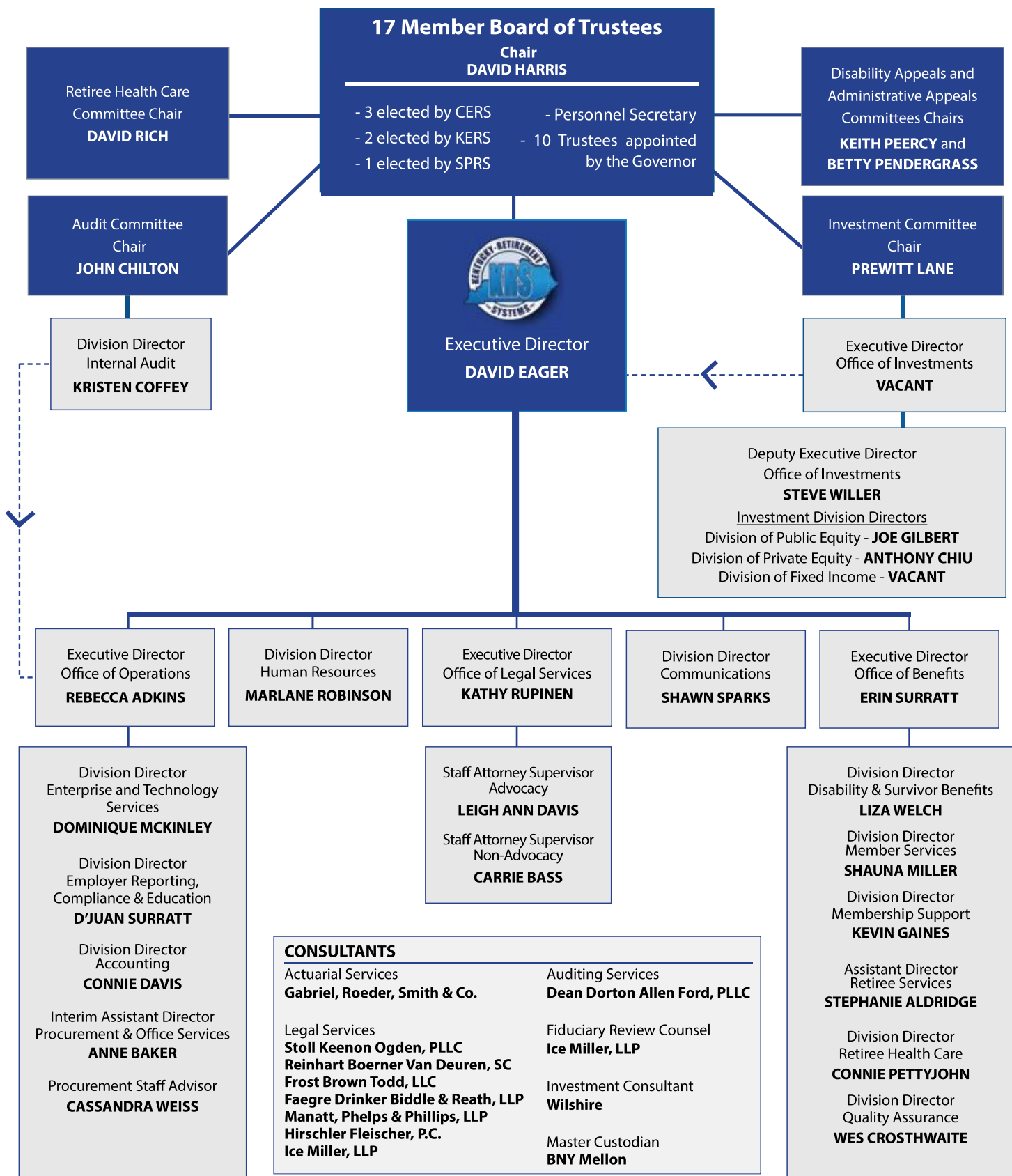


**KENTUCKY RETIREMENT SYSTEMS  
KRS and CERS NEW TRUSTEE ORIENTATION  
MARCH 16, 2021 at 2:00 P.M., EASTERN  
VIA LIVE TELECONFERENCE/FACEBOOK LIVE  
AGENDA**

- 1) Welcome and Agenda Walk Through - David Eager
- 2) Organization Chart and Duties
  - a. HR and Communications – David Eager
  - b. Office of Investments – David Eager
  - c. Office of Operations (Audit, Accounting, Investment Operations, Employer Reporting, Procurement and Office Services, IT) – Rebecca Adkins
  - d. Office of Benefits (Disability and Survivor Benefits, Member Services, Membership Support, Retiree Services, Retiree Health Care, and Quality Assurance) – Erin Surratt
  - e. Office of Legal Services (Advocacy and Non-Advocacy) – Kathy Rupinen
  - f. Outside Services – David Eager
  - g. Office of Benefits (Retirement and Retiree Healthcare) - Erin Surratt
  - h. Membership – Erin Surratt
  - i. Actuarial – David Eager
- 3) Organization and Governance
  - a. Board and Board Committee Structure Including HB 484/HB 9 – David Eager
  - b. Open Meetings and Open Records – Kathy Rupinen
  - c. State Ethics – Kathy Rupinen
  - d. Fiduciary Duties – Kathy Rupinen
  - e. KRS Mandates – David Eager
- 4) Investments and Asset Allocation – Steven Herbert
- 5) Fixed Allocation Funding (HB 8) – David Eager
- 6) Questions and Answers – All Executive Directors

# KRS AGENCY STRUCTURE

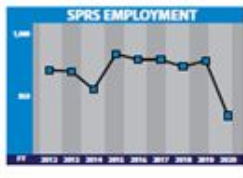
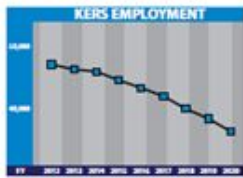
as of December 3, 2020



# PARTICIPATING EMPLOYERS

## EMPLOYER REPORTING

KRS staff works with 1,468 employers entrusted with the responsibility of reporting all employees on a monthly basis.



Employer Classification	FY 20 Number of Agencies	FY 20 Number of Employees	FY 12 Number of Employees	% Change
<b>CERS</b>				
Airport Boards	5	531	504	5.36%
Ambulance Services	19	416	434	-4.15%
Area Development Districts	14	645	690	-6.52%
Boards of Education	172	48,154	49,363	-2.45%
Cities	221	10,275	10,146	1.27%
Community Action	21	2,861	2,816	1.60%
Conservation Districts	49	58	61	-4.92%
County Attorneys	79	567	690	-17.83%
County Clerks	16	588	595	-1.18%
Development Authorities	6	10	10	0.00%
Fire Departments	32	1,001	757	32.23%
Fiscal Courts	118	10,982	10,884	0.90%
Health Departments	1	342	283	20.85%
Housing Authorities	41	419	435	-3.68%
Jailers	2	68	33	106.06%
Libraries	85	1,259	1,159	8.63%
Other Retirement Systems	2	3	3	0.00%
P1 State Agencies	4	1,585	1,696	-6.54%
Parks and Recreation	7	55	62	-11.29%
Planning Commissions	16	204	206	-0.97%
Police Departments	2	15	15	0.00%
Riverport Authorities	5	69	67	2.99%
Sanitation Districts	9	352	348	1.15%
Sheriff Departments	12	737	980	-24.80%
Special Districts & Boards	49	1,370	1,564	-12.40%
Tourist Commissions	23	178	177	0.56%
Urban Government	2	6,521	6,763	-3.58%
Utility Boards	120	4,076	3,894	4.67%
<b>Total</b>	<b>1,132</b>	<b>93,341</b>	<b>94,635</b>	<b>-1.37%</b>
<b>KERS</b>				
County Attorneys	59	172	353	-51.27%
Health Departments	60	1,956	3,449	-43.29%
Master Commissioner	34	65	74	-12.16%
Non-P1 State Agencies	34	791	1,381	-42.72%
Other Retirement Systems	1	22	28	-21.43%
P1 State Agencies	128	28,835	31,751	-9.18%
Regional Mental Health Units	12	1,809	5,823	-68.93%
Universities	7	2,298	3,929	-41.51%
<b>Total</b>	<b>335</b>	<b>35,948</b>	<b>46,788</b>	<b>-23.17%</b>
<b>SPRS</b>				
Kentucky State Police	1	798	909	-12.21%
<b>TOTAL</b>	<b>1,468</b>	<b>130,087</b>	<b>142,332</b>	<b>-8.60%</b>

## **CONSULTANTS**

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Actuarial Services

**Gabriel, Roeder, Smith & Co.**

Legal Services

**Stoll Keenon Ogden, PLLC**

**Reinhart Boerner Van Deuren, SC**

**Frost Brown Todd, LLC**

**Faegre Drinker Biddle & Reath, LLP**

**Manatt, Phelps & Phillips, LLP**

**Hirschler Fleischer, P.C.**

**Ice Miller, LLP**

Auditing Services

**Dean Dorton Allen Ford, PLLC**

Fiduciary Review Counsel

**Ice Miller, LLP**

Investment Consultant

**Wilshire**

Master Custodian

**BNY Mellon**

# SYSTEMS AND BENEFIT TIERS

KRS administers three systems. CERS and KERS are multiple-employer, cost-sharing defined benefit pension plans with Non-Hazardous and Hazardous members. SPRS is a single-employer, defined benefit pension plan with Hazardous members. Each system covers regular full-time members employed by the participating agencies.

## BENEFIT TIERS

Each plan provides pension and insurance benefits based on the member's participation date.



Participation Date  
Prior to 9/1/2008



Participation Date  
9/1/2008 - 12/31/2013



Participation Date  
1/1/14 and after

## HEALTH INSURANCE

KRS pays a percentage of the monthly contribution rate or a dollar amount toward insurance coverage. The contribution amount is based on the retired member's participation date, years of service, and type of service. A percentage of the monthly contribution rate is paid for members participating prior to July 1, 2003. A dollar amount is paid toward insurance coverage for members participating on or after July 1, 2003.

## MEMBERSHIP AS OF JUNE 30, 2020

### Our Systems

#### COUNTY EMPLOYEES RETIREMENT SYSTEM

CERS participating employers include local governments (county and city), school boards, and eligible local agencies. The Non-Hazardous and Hazardous plans combined cover 255,713 members.

#### KENTUCKY EMPLOYEES RETIREMENT SYSTEM

KERS participating employers include state departments, boards, and employers directed by Executive Order of the Governor to participate in KERS, which covers 136,557 members.

#### STATE POLICE RETIREMENT SYSTEM

SPRS covers all full-time Kentucky State Police troopers.



235,008 MEMBERS



20,705 MEMBERS

#### ACTIVE MEMBERSHIP

Tier 1	31,516
Tier 2	13,946
Tier 3	37,996
<b>Total</b>	<b>83,458</b>

AVERAGE AGE  
**47.8**  
AVERAGE ANNUAL SALARY  
**\$31,574**

Tier 1	3,969
Tier 2	1,908
Tier 3	3,473
<b>Total</b>	<b>9,350</b>

AVERAGE AGE  
**38.4**  
AVERAGE ANNUAL SALARY  
**\$60,363**

#### INACTIVE MEMBERSHIP

Tier 1	50,669
Tier 2	17,488
Tier 3	22,516
<b>Total</b>	<b>90,673</b>

NON-VESTED AVERAGE CONTRIBUTIONS & INTEREST  
**\$1,238**  
VESTED AVERAGE ANNUAL DEFERRED BENEFIT  
**\$1,580**

Tier 1	1,448
Tier 2	571
Tier 3	905
<b>Total</b>	<b>2,924</b>

NON-VESTED AVERAGE CONTRIBUTIONS & INTEREST  
**\$3,584**  
VESTED AVERAGE ANNUAL DEFERRED BENEFIT  
**\$4,325**

#### RETIRED MEMBERSHIP

Tier 1	60,195
Tier 2	669
Tier 3	13
<b>Total</b>	<b>60,887</b>

AVERAGE AGE  
**70.7**  
AVERAGE ANNUAL BENEFIT PAYMENT  
**\$11,915**

Tier 1	8,412
Tier 2	16
Tier 3	3
<b>Total</b>	<b>8,431</b>

AVERAGE AGE  
**62.1**  
AVERAGE ANNUAL BENEFIT PAYMENT  
**\$28,437**



123,365 MEMBERS



13,192 MEMBERS



2,670 MEMBERS

**ACTIVE MEMBERSHIP**

Tier 1	15,274
Tier 2	5,554
Tier 3	10,362
Total	31,190

AVERAGE AGE  
**45.7**  
AVERAGE ANNUAL SALARY  
**\$43,774**

Tier 1	1,262
Tier 2	727
Tier 3	2,123
Total	4,112

AVERAGE AGE  
**39.8**  
AVERAGE ANNUAL SALARY  
**\$41,726**

Tier 1	403
Tier 2	195
Tier 3	200
Total	798

AVERAGE AGE  
**37.5**  
AVERAGE ANNUAL SALARY  
**\$57,826**

**INACTIVE MEMBERSHIP**

Tier 1	31,761
Tier 2	8,733
Tier 3	8,089
Total	48,583

NON-VESTED AVERAGE CONTRIBUTIONS & INTEREST  
**\$1,856**  
VESTED AVERAGE ANNUAL DEFERRED BENEFIT  
**\$2,719**

Tier 1	1,823
Tier 2	1,280
Tier 3	2,735
Total	5,838

NON-VESTED AVERAGE CONTRIBUTIONS & INTEREST  
**\$1,816**  
VESTED AVERAGE ANNUAL DEFERRED BENEFIT  
**\$2,101**

Tier 1	179
Tier 2	63
Tier 3	107
Total	349

NON-VESTED AVERAGE CONTRIBUTIONS & INTEREST  
**\$1,286**  
VESTED AVERAGE ANNUAL DEFERRED BENEFIT  
**\$3,221**

**RETIRED MEMBERSHIP**

Tier 1	43,386
Tier 2	196
Tier 3	10
Total	43,592

AVERAGE AGE  
**69.6**  
AVERAGE ANNUAL BENEFIT PAYMENT  
**\$21,440**

Tier 1	3,205
Tier 2	36
Tier 3	1
Total	3,242

AVERAGE AGE  
**65.0**  
AVERAGE ANNUAL BENEFIT PAYMENT  
**\$15,737**

Tier 1	1,522
Tier 2	1
Tier 3	0
Total	1,523

AVERAGE AGE  
**63.0**  
AVERAGE ANNUAL BENEFIT PAYMENT  
**\$39,766**

**TOTAL MEMBERSHIP**



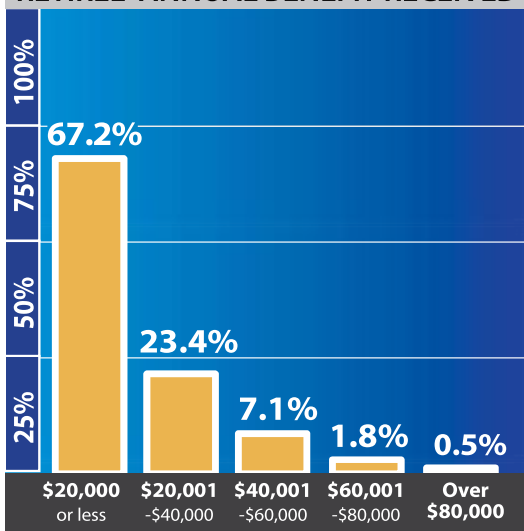
**PARTICIPATING EMPLOYERS**

**1,468**

**TOTALS BY TIER**

Tier 1	255,024
Tier 2	51,383
Tier 3	88,533
Total	<b>394,940</b>

**RETIREE ANNUAL BENEFIT RECEIVED**





# Actuarial Valuation Results

June 30, 2020 CAFR (Pension)



### KNOWN at valuation date

1. Age
2. Salary
3. Gender
4. Service to date
5. Occupation

### ASSUMED at valuation date

1. Future salary increases
2. Retirement date
3. Death rates before and after retirement
4. Disability rates; other termination rates
5. Investment return (discount rate) = 6.25%



Date of Hire  
(Age 37)

Total Active  
83,458

Retirement  
(Age 61)

Total Retired  
60,887

Average Age at Death  
(Age 80)





# Actuarial Valuation Results

June 30, 2020 CAFR (Pension)

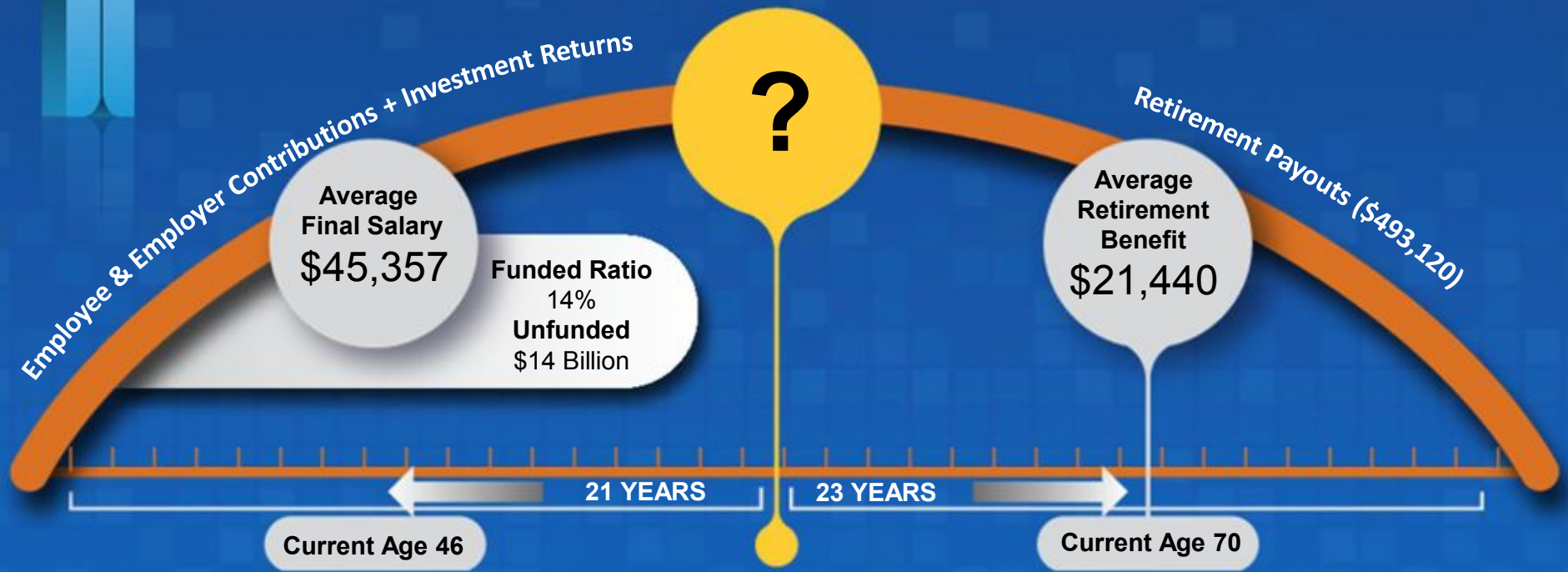


## KNOWN at valuation date

1. Age
2. Salary
3. Gender
4. Service to date
5. Occupation

## ASSUMED at valuation date

1. Future salary increases
2. Retirement date
3. Death rates before and after retirement
4. Disability rates; other termination rates
5. Investment return (discount rate) = 5.25%



Date of Hire  
(Age 37)

Total Active  
31,190

Retirement  
(Age 57)

Total Retired  
43,592

Average Age at Death  
(Age 81)

# ACTUARIAL REPORT

## Summary of Actuarial Valuation Results as of June 30, 2020 (\$ in Millions)

	CERS Non-Hazardous	CERS Hazardous	KERS Non-Hazardous	KERS Hazardous	SPRS	TOTAL KRS
<b>ACTUARIALLY DETERMINED CONTRIBUTION RATES</b>						
Pension Fund	23.88%	43.23%	75.32%	33.43%	127.99%	
Insurance Fund	4.17%	8.73%	9.71%	0.00%	18.07%	
Total Calculated Employer Contribution	28.05%	51.96%	85.03%	33.43%	146.06%	
<b>FUNDED STATUS AS OF VALUATION DATE</b>						
<b>PENSION FUNDS</b>						
Actuarial Liability	\$14,611	\$5,431	\$16,349	\$1,284	\$1,053	\$38,728
Actuarial Value of Assets	\$7,221	\$2,448	\$2,323	\$710	\$296	\$12,998
Unfunded Liability on Actuarial Value of Assets	\$7,390	\$2,983	\$14,026	\$574	\$757	\$25,730
Funding Ratio on Actuarial Value of Assets	49.42%	45.07%	14.21%	55.27%	28.12%	33.56%
Market Value of Assets	\$7,027	\$2,380	\$2,308	\$690	\$294	\$12,699
Unfunded Liability on Market Value of Assets	\$7,584	\$3,051	\$14,041	\$594	\$759	\$26,029
Funding Ratio on Market Value of Assets	48.10%	43.81%	14.12%	53.78%	27.91%	32.79%
<b>INSURANCE FUND</b>						
Actuarial Liability	\$3,392	\$1,741	\$2,565	\$428	\$276	\$8,402
Actuarial Value of Assets	\$2,661	\$1,362	\$1,096	\$539	\$207	\$5,865
Unfunded Liability on Actuarial Value of Assets	\$731	\$379	\$1,469	(\$111)	\$69	\$2,537
Funding Ratio on Actuarial Value of Assets	78.46%	78.23%	42.73%	126.00%	74.97%	69.80%
Market Value of Assets	\$2,582	\$1,321	\$1,061	\$522	\$201	\$5,687
Unfunded Liability on Market Value of Assets	\$810	\$420	\$1,504	(\$94)	\$75	\$2,715
Funding Ratio on Market Value of Assets	76.11%	75.88%	41.35%	121.91%	72.91%	67.69%

## EXPERIENCE STUDY AND ECONOMIC ASSUMPTIONS

Regular experience studies help ensure the underlying economic and demographic assumptions (such as expected payroll growth, investment returns, and retiree life expectancy) accurately reflect plan experience. Accuracy is important because these assumptions are used to calculate the annual employer contribution rate that will allow KRS to pay for current and future retiree benefits.

Experience studies are performed by KRS' independent actuary at least every five years to compare each plan's actual experience to what had been expected (the assumptions). The most recent Experience Study was completed in April 2019. Based on that study, retirement rates, termination rates, disability incidence rates, salary increase assumptions and mortality assumptions were adjusted or reaffirmed, resulting in a net increase in liabilities of \$1,801 million and \$489 million for the pension and insurance funds, respectively. Economic assumptions set by the 2019 Study remained the same in Fiscal Year 2020.

### Economic Assumptions as of June 30, 2020

	CERS Non-Hazardous	CERS Hazardous	KERS Non-Hazardous	KERS Hazardous	SPRS
Assumed Investment Return - Pension	6.25%	6.25%	5.25%	6.25%	5.25%
Assumed Investment Return - Insurance	6.25%	6.25%	6.25%	6.25%	6.25%
Inflation Factor	2.30%	2.30%	2.30%	2.30%	2.30%
Payroll Growth	2.00%	2.00%	0.00%	0.00%	0.00%

## KENTUCKY PUBLIC PENSIONS AUTHORITY

During the 2020 Legislative Session, [HB 484](#) was passed establishing a new governance structure for KRS. Effective April 1, 2021, KRS as an Agency of the Commonwealth will be known as the Kentucky Public Pensions Authority (KPPA). Current KRS employees will become KPPA employees and continue to provide administrative support, investment management, and conduct daily activities for the new CERS, KRS, and KPPA boards. KPPA will be led by an Executive Director who will work with the Chief Executive Officers of the CERS and KRS boards to carry out the statutory provisions of the systems.

### CERS BOARD

#### COUNTY EMPLOYEES RETIREMENT SYSTEM

- 3 trustees elected by members
- 6 trustees appointed by the Governor selected from lists of candidates provided by KACo, KLC and KSBA

### KPPA BOARD

- CERS Board Chair
- KRS Board Chair
- CERS Investment Committee Chair
- CERS Trustee, Elected by Members\*
- CERS Trustee, Governor Appointee\*
- KRS Investment Committee Chair
- KRS Trustee, Elected by Members\*\*
- KRS Trustee, Governor Appointee\*\*

*\*Selected by the CERS Board Chair*

*\*\*Selected by the KRS Board Chair*

### KRS BOARD

#### KENTUCKY EMPLOYEES RETIREMENT SYSTEM & STATE POLICE RETIREMENT SYSTEM

- 3 trustees elected by members
- 6 trustees appointed by the Governor

# Open Records and Open Meetings Primer

1

KATHY RUPINEN, EXECUTIVE DIRECTOR, OFFICE OF LEGAL SERVICES

3/15/2021

# Kentucky Open Records

## Kentucky Revised Statutes 61.870-61.884.

- ▶ “Public record” is broadly defined in KRS 61.870 as “**all** books, papers, maps, photographs, cards, tapes, discs, diskettes, recordings, software, or other documentation regardless of physical form or characteristics, which are prepared, owned, used, **in the possession of or retained by a public agency.**” (Emphasis added)
- ▶ Open records requests can be made in writing to the agency by letter, fax, or through the website portal
- ▶ The agency has designated a custodian—Office of Legal Services, Division of Non-Advocacy—to receive and respond timely to all requests
  - ▶ There is normally a three (3) business day response deadline, by which the agency must provide the requested records, state why the request was denied or partially withheld, or indicate when the records will be available and ready for reproduction or inspection
  - ▶ By Executive Order, there is currently a ten (10) business day response due to COVID
- ▶ For non-commercial requests, an agency can only charge \$0.10 per page for copies
- ▶ For commercial requests, an agency can charge for both reproduction costs and staff time to complete the request

# Kentucky Open Records

## Kentucky Revised Statutes 61.870-61.884.

- ▶ KRS 61.871 provides that ***“free and open examination of public records is in the public interest and the exceptions provided for by KRS 61.878 or otherwise provided by law shall be strictly construed, even though such examination may cause inconvenience or embarrassment to public officials or others.”***
- ▶ An agency is not required to respond to a mere request for information
- ▶ An agency is not required to create a record in response to an open records request
  - ▶ It can only provide inspection or copies of records in its possession
- ▶ KRS 61.878 lists certain records which are exempted from open records requests absent a court order (or permission of the individual if requesting member records), including:
  - ▶ Records of which disclosure would be an invasion of personal privacy
  - ▶ Preliminary drafts, notes, or correspondence which is not intended to give notice of final agency action
  - ▶ Preliminary recommendations and preliminary memoranda in which opinions are expressed or policies formulated or recommended

# Kentucky Open Records

## Kentucky Revised Statutes 61.870-61.884.

- ▶ Kentucky Retirement Systems routinely receives requests for:
  - ▶ All quarterly investment holdings along with associated information such as name of issuer, number of shares held, issuer identifier, vintage year, distributions, IRR, FMV of the investment, etc.
  - ▶ Proxy voting records for the past quarter
  - ▶ Full meeting materials of Board and/or Investment Committee meetings
  - ▶ Minutes of past Board and/or Investment meetings
- ▶ Many of these requests are commercial in nature, while others come from private citizens or educational institutions
- ▶ The denial of an open records request, the withholding of certain records, or the redaction of information by an agency can be appealed to the Attorney General, or in many cases can also be appealed straight to Circuit Court. An AG opinion can be appealed to Circuit Court within thirty days of the decision.



# Open Records Best Practices

- ▶ The Open Records Act favors transparency unless an exception clearly applies
- ▶ Assume that any written communications regarding the business of the agency may be subject to disclosure and reproduction
  - ▶ This includes email, instant messaging, and texting from both state agency **and** personal accounts
- ▶ Any requests for documents received by Board members should be forwarded to the Office of Legal Services, Division of Non-Advocacy for processing and response through the designated agency channels

# Open Records 2020 HB 312

- ▶ Just passed the Senate on 3/12/2021, should take effect June 28, 2021
- ▶ Some relevant changes:
  - ▶ Limits requests to residents of Kentucky, exempts out of state news gathering organizations
  - ▶ Increases the response time to five (5) business days
  - ▶ Requires public records rules and regulations to be posted on agency website along with the standardized request form to be developed by the Office of the Attorney General
  - ▶ Provides that an agency shall not require the use of any particular form for the submission of an open records request, but shall accept the form developed by the Attorney General

# Kentucky Open Meetings Act

## Kentucky Revised Statutes 61.800-61.850

- ▶ In KRS 61.800, the General Assembly states ***“the formation of public policy is public business and shall not be conducted in secret ....”***
- ▶ KRS 61.810 provides the specific limited exceptions to the Open Meetings Act, including pending litigation and discussion or hearings that might lead to the appointment, dismissal, or discipline of an individual employee, among others
- ▶ KRS 61.815 requires that:
  - ▶ Notice be given in open session of the general nature of the business to be discussed in closed session, the reason for the closed session;
  - ▶ Closed session may only be entered after a motion has been made and carried by majority vote in open session;
  - ▶ No final action may be taken at a closed session; and
  - ▶ No matters may be discussed at a closed session other than those publicly announced prior to convening the closed session.
- ▶ KRS 61.826 provides that a public agency may conduct meetings by video teleconference, but not by telephone
  - ▶ A Board member may listen to the meeting by speakerphone but will not count toward the quorum and cannot vote or otherwise participate in the meeting

# Kentucky Open Meetings Act

## Kentucky Revised Statutes 61.800-61.850

- ▶ The Open Meetings Act is to be interpreted most favorably to the public—Board members must comply with the strict letter of the law
- ▶ The Open Meetings Act applies to meetings at which a quorum of the Board members discuss public business or at which action is taken. However, any discussion of public business by a quorum of the Board members will trigger the requirement of the Open Meetings Act even if no action is taken.
  - ▶ Thus, a work session or retreat by the Board members are public meetings under the Open Meetings Act (business is being discussed, even though action may not be taken)
  - ▶ A quorum of the Board members can attend a social gathering, a sporting event, or church service, without triggering the requirements of the Open Meetings Act, unless they discuss the public business of the agency at those events which will trigger the open meetings requirements
  - ▶ It is highly recommended that a quorum of Board members not attend an in person educational conference or meeting not scheduled by the Board in order to avoid any possible Open Meetings Act violations
- ▶ The Open Meetings Act prohibits Board members from attending a series of less than quorum meetings where members attending one or more of the meetings collectively constitute a quorum if the meetings are held to avoid the requirements of the Act.
- ▶ Special meetings must have proper written notice with the date, time, and place of the meeting along with the agenda. The meeting actions and discussion are limited to those items on the agenda.
  - ▶ Agencies are not required to conduct business in the most convenient location and time, but the Open Meetings Act is interpreted to prevent agencies from conducting business at inconvenient times or locations which would effectively render public knowledge or participation impossible

# Open Meetings Best Practices

- ▶ When entering into closed session via remote attendance through video teleconference at a Board Meeting, to ensure that confidential information is not disclosed:
  - ▶ Remain in a private area, preferably with a closed door
  - ▶ Wear headphones
- ▶ There is to be no recording of any manner, audio or video, of any closed session by any Board member
- ▶ During closed session, discuss only the matters referred to generally during the open session as the reason for needing closed session

# Ethical Guidelines for KPPA Boards of Trustees

*2021 Boards of Trustees Orientation*

# Prohibition Against Self-Dealing – KRS 11A.020 & 11A.040

- A member of a regulatory Board:
  - May not hold, in whole or in part;
  - Any contract, agreement, lease, sale, or purchase;
  - That has been made, entered into, awarded, or granted by the Board on which he or she serves.
- This prohibition applies to:
  - Self;
  - A business in which the member owns or controls an interest of more than five percent (5%);
  - Any other person for the member's use or benefit, including a spouse.

# Obligation to Disclose and Abstain – KRS 11A.030

- A Board member must disclose to other members of the Board on which he or she serves:
  - Any direct or indirect interest;
  - In any undertaking;
  - That puts the member's personal interest in conflict with that of the Board on which he or she serves.
- The disclosure must be made in writing or recorded in the minutes of a formal meeting.
- The member is required to abstain from all decisions concerning his or her interest if the decision will affect him or her as a member of a business, profession, occupation, or group different than other members of the businesses, profession, occupation, or group.



# Acceptance of Gifts – KRS 11A.045

- A Board member, and his or her spouse and dependent children, are prohibited from accepting any gifts that total a value of more than \$25 per source in a single calendar year from any person or business that is:
  - Doing business with;
  - Regulated by;
  - Seeking grants from;
  - Involved in litigation against;
  - Lobbying; or
  - Attempting to influence the actions of the Board on which the member serves.
- The gift exclusion includes but is not limited to:
  - Travel expenses
  - Meals
  - Alcoholic beverages
  - Honoraria

# Prohibited Gift Sources – KRS 11A.045

- Exceptions include personal campaign contributions, gift from a family member, publicly available door prizes, or a ticket to a sporting event for which the member paid face value.

# Statement of Financial Disclosure – KRS 11A.050

- Current Members Filing Annually
  - Officers file annually on or before April 15. The form can be submitted any time between January 1 and April 15. Officers will complete the questions with information that applies for the entire previous calendar year during which he or she served in an officer position.
- Newly Hired or Appointed Members
  - Newly hired, appointed, or detailed public servants serving in an officer position shall file an SFD within 30 days of their start date.
- Leaving the Board
  - Complete the current year Form within 30 days of your separation date. Complete Questions #9-18 for the current year from January 1 through date of departure.

## Penalties – KRS 11A.990

- Any person who violates KRS 11A.040 shall be guilty of a Class D felony. In addition:
  - (a) The judgment of conviction for a violation of KRS 11A.040(2) shall recite that the offender is disqualified to hold office thereafter; and
  - (b) Any person who violates KRS 11A.040(1) to (5) shall be judged to have forfeited any employment, or constitutional or statutory office he holds, provisions of KRS Chapter 18A to the contrary notwithstanding.
- Any officer, public servant, or candidate required to file a statement of financial disclosure under KRS 11A.050 who does not file the statement by a date specified in that section shall have his salary withheld from the first day of noncompliance until he shall have completed the action required by law. The amount withheld shall be deducted from his overall pay and allowances and shall be recoverable upon the filing of the statement of financial disclosure.

# References

- Executive Order 2008-454
- Executive Order 2009-882
- Executive Order 2016-377
- Kentucky Revised Statutes Chapter 11A

# A Brief Look at Fiduciary Duty

# SOURCES OF FIDUCIARY DUTIES/RESPONSIBILITY

- Internal Revenue Code – Applicable to governmental plans.
- Kentucky Revised Statutes and Kentucky Administrative Regulations
- Retirement Board By-laws
- Third Restatement of the Law of Trusts (aka Restatement (Third) of Trusts).
- Common Law of Trusts – also known as case law or precedent.
- ▶ **\*\*ERISA** – Not specifically applicable to governmental plans, but an excellent resource due to robust regulatory framework and extensive developed case law, and the source courts turn to when determining if a public pension plan or trustee has violated its/their fiduciary duties.

# Fiduciary duties

## ▶ DUTY OF LOYALTY

- ▶ Requires a fiduciary to administer the plan solely in the interest of participants and beneficiaries (Exclusive Benefit Rule).
- ▶ Prohibits a fiduciary from engaging in self-dealing – must act for the exclusive purpose of providing benefits.
- ▶ Must act impartially, avoiding conflicts of interest.

## ▶ DUTY OF CARE/PRUDENCE

- ▶ Addresses the manner in which fiduciaries carry out their duties.
- ▶ Fiduciaries must follow the terms of the plan documents.
- ▶ Fiduciaries must administer the plan as a prudent person would under similar circumstances (acting in the same capacity with the same knowledge).
- ▶ Requires fiduciaries to exercise reasonable skill, care, and caution in carrying out their responsibilities.
- ▶ Fiduciaries must incur only reasonable and necessary costs.
- ▶ Diversify investments to minimize risks



# FUNDAMENTAL FIDUCIARY PRINCIPLES

*CFA INSTITUTE PENSION TRUSTEE CODE OF CONDUCT*

1. Act in the best interests of plan participants
2. Use reasonable care and prudent judgment
3. Act with skill, competence and diligence
4. Maintain independence and objectivity
5. Abide by applicable law
6. Deal fairly among plan participants
7. Act consistently with the plan's mission
8. Review/monitor effectiveness of service providers
9. Maintain confidentiality
10. Communicate in a transparent manner



## 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 inclusion and diversity, effectiveness, morale, safety and retention.
- Insist on a culture of **continuous enhancement** to **everything** we do.

Net Returns By Plan - PENSION FUNDS (\$ in Millions)												
Plan	Fair Value (\$ in Millions)	% of Total Fair Value	1 Year (%)		3 Years (%)		5 Years (%)		10 Years (%)		Inception (%)	
			KRS	Index	KRS	Index	KRS	Index	KRS	Index	KRS	Index
CERS Non-Hazardous	\$7,048	55.40	0.84	0.51	5.07	4.85	5.60	5.41	7.37	7.53	8.82	8.90
CERS Hazardous	2,377	18.68	0.71	0.51	5.04	4.85	5.60	5.41	7.36	7.53	8.82	8.90
KERS Non-Hazardous	2,318	18.21	2.36	1.07	5.17	4.76	5.31	5.33	7.26	7.47	8.79	8.88
KERS Hazardous	694	5.45	0.95	0.51	5.06	4.85	5.58	5.41	7.36	7.53	8.82	8.90
SPRS	287	2.25	2.21	1.07	5.17	4.83	5.21	5.28	7.17	7.46	8.76	8.88
<b>KRS*</b>	<b>\$12,724</b>	<b>100.00</b>	<b>1.15</b>	<b>0.50</b>	<b>5.14</b>	<b>4.75</b>	<b>5.58</b>	<b>5.38</b>	<b>7.37</b>	<b>7.55</b>	<b>8.82</b>	<b>8.90</b>

\*The KRS total is not a weighted average of each plan. Each plan has a different asset allocation which results in different returns compared to the overall pool.

Net Returns By Allocation - PENSION FUNDS (\$ in Millions) Note: Fair values are adjusted for accruals and expenses														
Structure	Inception	Fair Value (\$ in Millions)	% of Total	1 Year (%)		3 Years (%)		5 Years (%)		10 Years (%)		Inception To Date		External FEES (\$ in Millions)
				KRS	Index	KRS	Index	KRS	Index	KRS	Index	KRS	Index	
Total Fund	4/1/1984	\$12,724	100.00	1.15	0.50	5.14	4.75	5.58	5.38	7.37	7.55	8.82	8.90	\$56.5
Total Public Equity	4/1/1984	4,840	38.04	1.44	0.86	5.88	5.53	6.25	5.99	8.93	9.10	10.15	9.98	10.5
U.S. Equity	4/1/1984	2,430	19.10	4.86	6.53	8.96	10.04	9.14	10.03	12.95	13.71	11.08	11.18	3.2
Non-U.S. Equity <sup>1</sup>	7/1/2000	2,410	18.94	-2.03	-4.74	3.17	0.99	3.86	2.38	5.35	5.32	2.88	2.94	7.3
Core Fixed Income	4/1/1984	2,550	20.04	5.33	8.74	4.23	5.32	3.80	4.30	-	-	3.59	3.96	3.5
Specialty Credit	7/1/2017	2,046	16.08	-1.38	-0.98	3.71	2.71	-	-	-	-	3.71	2.71	14.0
Opportunistic	7/1/2018	328	2.58	-2.76	-1.99	-	-	-	-	-	-	3.72	0.96	2.5
Real Return	7/1/2011	742	5.83	-9.24	-9.24	-0.95	-0.95	1.11	1.11	-	-	2.32	1.41	4.3
Private Equity	7/1/2002	1,052	8.27	0.29	0.29	8.59	8.59	8.77	8.77	11.27	13.99	10.56	10.28	5.0
Real Estate	7/1/1984	573	4.50	9.77	3.93	9.93	5.85	9.77	7.48	10.59	10.42	6.28	6.39	12.3
Absolute Return	4/1/2010	179	1.40	-4.19	0.87	0.18	2.63	-0.13	1.46	3.18	2.79	2.84	2.73	1.0
Cash Account <sup>2</sup>	1/1/1988	\$414	3.26	1.89	1.56	2.05	1.72	1.52	1.15	0.93	0.61	3.50	3.07	\$3.4

<sup>1</sup>Equities include trade commissions. <sup>2</sup>Cash accounts include custodian, consulting and miscellaneous investment expenses.