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# Member News

e. 2012 SUMMER

Pension & Health Benefits News  
**KENTUCKY RETIREMENT SYSTEMS**  
 1-502-696-8800 ▼ <https://kyret.ky.gov>



## Here comes Summer

Q Summer, Session

FIND THIS ON [kyret.ky.gov](http://kyret.ky.gov)

*We anticipate a very busy summer and fall. But, before looking forward to the coming months, let's take a quick look at what occurred during the past few months at Kentucky Retirement Systems.*

Jennifer Elliott, who had served very ably as the board chair for the past year. Daniel Bauer was elected vice chair of the board.

By **BILL THIELEN**, Interim Executive Director

On April 12, the 2012 Regular Session of the Kentucky General Assembly adjourned Sine Die ("without day"), which means without assigning a day for further meeting. Two bills of interest to our members were enacted during the session. House Bill (HB) 300, sponsored by Rep. Mike Cherry, chair of the House State Government Committee, was passed and became

**W**e are about to enter "Those Lazy-Hazy-Crazy Days of Summer". I'm sure some of you remember the Nat King Cole hit from 1963! At KRS, our summer days might very well be "crazy", but they certainly won't be "lazy".

appointed Dr. Daniel L. Bauer to the KRS Board of Trustees and Jennifer L. Elliott was re-appointed to a second term on the Board. At the KRS Board of Trustees Annual Meeting on April 5, the board elected new leaders. Thomas K. Elliott was elected chair of the Board of Trustees. He replaced

Effective April 1, 2012, Governor Beshear

Continue "Summer" on page 2.

SKIM THE 30-SECOND VERSION

**"Free retirement preparation workshops"** lists the dates and times for upcoming retirement workshops in a city near you. **PAGE 1 (BELOW)**

**"How to create and secure strong passwords"** gives you important advice about creating a strong password that will keep you safe. **PAGE 2**

**"Common questions about Self Service"** answers a few of the most common questions we receive from users of Self Service. **PAGE 3**

**"May 2012 investment updates"** comes straight from our CIO, who details the performance of our various asset classes. **PAGE 7**

▲ **Important for any employee**

▲ **Consider your passwords**

Support for PIN issues, etc.

Important performance data

## Free retirement preparation workshops this Summer

*KRS is launching a new version of our Pre-Retirement Education Program (PREP) and will be hosting meetings throughout the Commonwealth.*

By **AIMEE RIVES**, Communications Staff

**I**t's easy to get lost when it comes to retirement planning. There are so many questions, considerations and decisions as you plan for this milestone. Consider the following basic questions. Do you know the answers?

» *What happens to my benefits if something happens to me?*

» *When can I retire?*

» *How are my retirement benefits calculated?*

» *What about my health insurance?*

KRS wants to answer these questions and more as we help get you pointed in the right direction — toward a full and successful retirement!

This summer, KRS is launching a new version of our Pre-Retirement Education Program (PREP) and will be hosting meetings throughout the Commonwealth.

What is PREP? It is an all-day, com-

REGISTER BY CALLING KRS  
**1-800-928-4646**

Learn how to access your account. Logging in lets you view your service credit, pension balance, beneficiary information, and lots more.

Learn how to calculate a service purchase. You can also create a personalized retirement estimate and calculate the cost to purchase service credit using real-time data.

Continue "PREP" on page 4.

# How to create and secure strong passwords

By MARK McCHESENEY, Chief Security Officer



The internet has become an integral part of our business and personal lives. If you bank, shop or socialize online, you are probably well acquainted with creating accounts and passwords to access these services. However, your information is only as secure as the password you use. To protect yourself from identity theft and financial loss, here are a few tips to help you create strong passwords.

## Things you should DO

DO create passwords with a minimum of 8 characters. In fact, the longer the better. Recent research has shown that complex passwords with at least 12 characters make it virtually impossible for a hacker to crack

them using automated tools such as a password cracking software and high-end computer hardware.

DO create complex passwords that contain all of the following:

- » Upper and lower case letters
- » Numbers
- » At least once special character (! @ # \$ % ^ & \* ? + = / etc.)

DO write down a password on paper if it is hard to remember, but be sure to store the paper in a secure place such as a locked drawer away from your computer or in a seldom-used book on a bookshelf. You can also use a secure password manager on your computer and/or smartphone.

DO change your passwords at least every 3-6 months or whenever you suspect they might have been divulged or compromised or you notice unusual activity related to an account.

DO create different passwords for each online account that you maintain. This will lessen the chances that a cybercriminal gains access to more than one account if

they acquire your password. This is a critical recommendation. Reuse of passwords for multiple web sites is very risky.

## Things you should NOT DO

DO NOT create passwords that contain:

- » A dictionary word (English or foreign)
- » Anyone's name, particularly your spouse's, child's or pet's name.
- » Your birth date, date you were married, or any other notable date that may be easy for someone that knows you to guess
- » Consecutive numbers like 1234
- » Consecutive or patterned letters such as ABCD or ASDF (successive letters on a QWERTY keyboard)
- » There is a newer theory that using a very long passphrase is a good way to create passwords. If you use this approach, make sure you also use the complexity recommendations.

DO NOT share your passwords with anyone.

NEVER provide your password to an unsolicited email request or telephone call. By following these tips, you can ensure a safer online computing experience. ♣

## "Summer" continued

effective on April 11 when signed by the Governor. This bill made a number of "governance" changes affecting KRS. Most notably, the bill established term limits applicable to elected and appointed trustees and to board officers. A trustee may not serve more than three consecutive terms on the board and board officers (chair and vice chair) cannot serve more than four consecutive years. HB 300 also requires placement agents to register as lobbyists with the Executive Branch Ethics Commission. Placement agents are marketing representatives who act as intermediaries between investment management firms seeking to raise money and various investors (like KRS) who may be interested in investing in the companies seeking to raise funds. Finally, among other things, HB 300 requires the Auditor of Public Accounts to conduct the KRS financial audit at least once every five years; and established new conflict of interest provisions applicable to KRS trustees and employees. You can find the full bill at <http://lrc.ky.gov/record/12RS/HB300.htm>.

The General Assembly also enacted House Concurrent Resolution 162 during the regular session. This resolution establishes the Kentucky Public Pension Task Force. This task force is directed to study and develop consensus recommendations concerning the benefits, investments and funding of the state-administered retirement systems, including KRS. It is expected that this task force will begin meeting in June. It is required to submit its findings and recommendations to the Legislative Research Commission by December 7.

KRS staff will also stay very busy this summer and into the fall completing work on the START Project. As most of you no doubt know, START is an acronym for KRS' technology replacement project that has been ongoing since March 2007. In 2009, the retiree phase of this project was implemented, which enabled retirees to use our new web-based self-service system. The final phase of the project — the web-based employer reporting system and the active member functionality, including member self service was implemented in late August 2011. We are currently in the post-implementation warranty period,

which will end in late November 2012. During this period, we are focusing on addressing a variety of implementation issues and making enhancements to the new system. We are also correcting data reporting errors made by participating employers, who are being asked to provide significantly more data than was previously the case. This data is needed to ensure that member accounts are correct and to decrease manual processing for both employers and staff. It is very important that we correct these data errors before our annual valuation and other annual reports are prepared.

Finally, regarding the position of KRS Executive Director, since the last newsletter in August 2011, the Executive Search Committee of the KRS Board of Trustees interviewed a number of candidates for the position, but declined to make an offer of employment to any of the candidates. I was asked to continue in the Interim Executive Director position until sometime after the 2012 General Assembly session when the Board would revisit the issue. I expect that further action regarding the matter will take place in the next 2 or 3 months. We will keep you advised as developments occur. ♣

# Common questions about using Self Service

By MEMBERSHIP SUPPORT Staff

June 30, 2011

PIN Number: **9999**

Participation Date: May 1, 2002

Coverage Type:

service credited as of June 30, 2011.  
reduced benefit as of June 30, 2011.

**Find an old Annual Statement.** Your 4-digit PIN can be found on your Annual Statement.

We understand that using Self Service (<https://myretirement.ky.gov>) can be confusing at first. Here's a few of the most common questions we get from folks trying to login to their retirement account.

## Q1. How do I get a PIN?

A. The PIN can be found printed on the last page of your annual statement. If you no longer have any of these statements, contact our office at 1-800-928-4646 to have a new PIN issued. Please be aware that your address on file must be current before a new PIN can be issued.

## Q2. I got two cards in the mail but the number on them is six digits instead of four.

A. Our office previously mailed KRS member ID cards in August 2011. Your KRS member ID may be used in place of your Social Security Number when contacting KRS. You do not need your member ID to register for Self Service. However, your 4-digit PIN is still required to register for self-service and to obtain confidential information by phone. If you don't know your PIN, call to have a new PIN issued.

## Q3. It is stated in several places that my PIN is on my past annual statements. Will the PIN be on future annual statements?

A. In order to save on mailing costs, future annual statements will be issued electronically, on the self-service website. If you cannot locate your PIN on older annual statements, you should contact our office via telephone to obtain a new one.

## Q4. When trying to re-register, the website tells me I've been locked out of the system. What do I do?

A. On the third unsuccessful attempt to login to Self Service, the website locks your PIN as a security measure. You will need to call 1-800-928-4646 to obtain a new PIN. Please have your Member ID or Social Security Number handy when calling.

## Q5. I don't know if I am registered for Self Service. If so, I have forgotten username and password. What do I do?

A. Since you do not recall if you registered, your best path is to register again. You need your Social Security Number, 4-digit PIN, and date of birth to start over.

## Q6. Can I use my Member ID to login to Self Service?

A. No. The six digit Member ID is a number we use internally in lieu of your Social Security Number. Your username is a name you created when you first registered for Self Service. If you have forgotten your username click on the "forgot user ID or password" link. Have your Social Security Number, date of birth and PIN handy.

## Q7. I can't remember my secret question. What do I do?

A. If the Secret Question doesn't come up, you will need to re-register for self service. To do this, click Register from the Log In Screen and go through the registration process again.

## Q8. Where can I find my account balance in Self Service?

A. The account balance and months of service for Active Members is located under the "Account Summary" tab after logging in to Self Service.

## Q9. How do I find out the cost of "buying time" toward retirement?

A. We recommend you obtain a preliminary cost from the Self Service website. Once you are logged into your account, select "Service Purchase Estimate" on the Services drop-down. This will bring up the Service Purchase Estimate screen.

Under "Calculation Information" enter the cost calculation date. (The cost calculation date is the last calendar day of the month.) For example, for a November 2011 cost calculation, you would enter 11/30/2011.

Under the "Service purchase type:" field, select the type of service you wish to purchase from the dropdown box. You will need to either put in the particular dates your service began or ended, select a refunded period if the service was refunded, or select the dropdown of years to purchase if you wish to purchase non-qualified service. Then, click on the "Calculate Purchase Estimate" button. The screen will refresh with the cost to purchase service. ♣

Self Service by Kentucky Retirement Systems

Member Self Service

Log In To Your Account

User ID

Password

Login

Need to register?

Forgot User ID or Password?

Use Member ID

- View
- Change
- Request
- Check

Looking for... To log in to... at the bottom

**All aboard!** Login to Self Service by visiting <https://myretirement.ky.gov>

No.

000001

Johnson B. Doerson

CALL 1-800-928-4646 USE 000001

**Member ID cards.** Your Member ID is printed on wallet-sized cards.

# Minds can get better with age

By LINDA CLOUD, R.N., Retiree Health Care Case Manager

Often we hear people make remarks such as, “My mind isn’t what it used to be.” It sounds harmless, but if you make remarks like that often enough you will come to believe them.

Two analogies are applicable. First, our minds are like muscles—use them and they grow strong; don’t exercise them and they wither. Second, our minds are like computers. As we age we develop a rich collection of programs (software), which we hopefully update with experience and new information. We acquire a rich repertoire of data. Our processing speed (megahertz) becomes a little slower. A computer with excellent software does things better and faster than a computer with mediocre software. For example, an older, skilled bridge player runs circles around someone who has only been playing for a few years.

If you are inclined to make a remark like “I just can’t remember things very well anymore,” be kind to yourself and remember that you have much larger, richer data files to search than a younger person has. So it may take a little longer. Part of the difficulty in remembering something might be that you now have a lot more information to search. Often if you trust and instruct your mind to continue searching for the information, it comes to you later in the day. That is a good indication that your mind is still sharp. Ask yourself, would I really want to trade a computer with a wealth of programs and data for a computer that had a faster speed but few programs and little data?

While many older people have avoided computers, that too is changing. More and more seniors are using computers and

teaching their friends how as well. E-mail has bonded many families and friends scattered around the country and even around the world. It also has bonded many grandparents and grandchildren. Fortunately, computers are becoming more user-friendly each year. Features to help people with poor vision are improving as well.

We need to think of our minds as flexible, always learning, and open to change. As George Bernard Shaw put it, “Progress is impossible without change, and those who cannot change their minds cannot change anything.” Rev. Denny Brake described the alternative: “Some minds are like concrete, thoroughly mixed up and permanently set.”

So can you teach an old dog new tricks? We don’t wait anymore for someone to teach us, we have lots of ways of learning the tricks at our initiative. ♣

## “PREP” continued

prehensive retirement education program that explains your KRS benefits and will help you make important decisions about your retirement. It is designed for members within 10 years of retirement but all members are welcome. Additionally, PREP will feature a full demonstration of the new Member Self Service website.

The Member Self Service (MSS) site provides access to valuable tools and resources to help you plan for retirement. We want to introduce you to the site and get you comfortable using it so the PREP program

will also feature MSS group training for a hands-on experience. These sessions will be conducted in a computer lab and KRS staff will be available during the session to provide assistance and answer questions.

The PREP program will also feature information on health insurance information for retirees, new legislation and other KRS updates. Advance registration is required for the PREP programs. Members who wish to attend a Member Self Service group training session must also schedule an appointment for that session. Sessions will be scheduled on a first come, first serve basis.

To register for a PREP program and

make an appointment for the group training session, please contact the KRS Membership Support Division at 1-502-696-8800 or 1-800-928-4646.

PREP programs are scheduled to run from 9:00am-4:00pm. The morning program will include general session presentations and in the afternoon, concurrent breakout sessions will be offered. Specific meeting information, including the program agenda and room locations, will be sent to registered members in advance of each PREP program. ♣

Date	City	Location
Friday, June 22nd	Paintsville	Big Sandy Community & Technical College, Mayo Campus
Tuesday, June 26th*	Owensboro	Apollo High School
Tuesday, July 10th	Somerset	Somerset Community and Technical College
Thursday, July 12th*	Lexington	Bluegrass Community & Technical College, Leestown Road Campus
Wednesday, July 25th*	Louisville	VanHoose Education Center
Friday, July 27th	Elizabethtown	Elizabethtown Community and Technical College
Wednesday, Aug. 1st	Ashland	Kentucky Educational Development Corp.
Friday, Aug. 3rd	Frankfort	Transportation Cabinet Conference Center
Tuesday, Aug. 7th	Hopkinsville	Hopkinsville Community College
Thursday, Aug. 9th	Paducah	Western Kentucky Community & Technical College
Friday, Aug. 17th	Erlanger	The METS Center
Wednesday, Aug. 29th	Bowling Green	Knically Conference Center

\* Limited availability

## Found on [kyret.ky.gov](http://kyret.ky.gov)

*We know you're looking for something when you come to our website, and we want to help you find it.*

By **COMMUNICATIONS** Staff

Are you a retiree? A beneficiary? Are you still actively working toward retirement? Answer “Yes” to one of these questions (to yourself – otherwise you may make those around you nervous), then visit [kyret.ky.gov](http://kyret.ky.gov) so we can show you around. When you arrive at our homepage, take a look at the right side of your screen.

### Retirees & Family

If you're a retiree or beneficiary, click the “Retirees & Family” text on the right side of your screen. From here you can login securely to get tailored information about your account by clicking on “Your KRS Account”. This area of the website is called “Self Service”.

When logged in, you can review annual statements, download forms, and lots of other things that don't involve waiting in line.

### Current Employees

If you're still working toward retirement, hang in there! KRS has useful information for you as well. First, visit [kyret.ky.gov](http://kyret.ky.gov). Once you're at the homepage look to the right of your screen and click on “Current Employees”. To login to Self Service click “Your KRS Account”.

You can also play around with different retirement scenarios to see what will benefit you most. Like, should you purchase

time; when is the most ideal month to retire? Self Service is good for these types of decisions and more.

### Learn the ropes this summer

If you're not really sure about this retirement stuff yet, we can help. This summer we'll be travelling to several cities doing demonstrations of Self Service. Dates are available on page 4 of this newsletter or by calling 1-800-928-4646.

### Other useful things

There is a lot going on at KRS. Board meetings, retirement seminars, legislative measures, and mounds of other things we need to tell you about throughout the year.

Please consider subscribing to one of our RSS feeds. We have a little something for everyone: news, committee meetings, investment policy updates, monthly performance figures, holdings, management commissions, and lots more. These feeds make it easy to see when we post something new. ♣

## Board leadership elected

By **COMMUNICATIONS** Staff

The Board of Trustees held its annual meeting on April 5, 2012. Thomas K. Elliott was elected Chairman of the Board of Trustees, and Dr. Daniel L. Bauer was elected vice-chair. Mr. Elliott has served on the KRS Board as vice-chair since 2011.

Currently, Mr. Elliott serves as Senior Vice President of Old National Bank, Louisville, where he leads new commercial, investment, and retail business development. He is also Chairman of the Baptist Hospital Foundation Board where he is committed to reaching out into the community to develop and strengthen partnerships for the healthcare provider.

Dr. Bauer was appointed to the Board this April by Governor Beshear. Dr. Bauer is currently serving as the dean of the Ru-

bel School and teaching MBA courses at Bellarmine University. He was named to Who's Who Among America's Teachers in both 2000 and 2003 and received the 1999 Mid-Continent East “Innovation in Leadership Business Education Award” for development and implementation of an integrated MBA curriculum. His research and scholarly activities have earned Dr. Bauer a national reputation as an expert on business issues relating to “Generation X.” He holds an MBA from the University of Kentucky and a doctor of business administration degree from Mississippi State University. Before coming to Bellarmine, he was a federal bank examiner with the Farm Credit Administration.

Jennifer L. Elliott was reappointed to the

Board by Governor Steve Beshear for a second four-year term beginning April 1. Ms. Elliott is a member of the law firm of Stites & Harbison in Louisville. The focus of her law practice is on regulatory and transactional health care law.

Robert Wilcher has recently resigned from the Board. Consequently, there is a vacancy on the Board for a CERS trustee. If you are an active, inactive, or retired member of CERS and you wish to be nominated by a current member of the Board, you must complete and submit the application (<https://kyret.ky.gov/uploads/board/trustee-election-application.pdf>), authorization for criminal background check, and a resume by close of business June 15, 2012. For more information, please visit <https://kyret.ky.gov/index.php/about/trustees/elections>. ♣

# Seeking applicants from CERS for Board of Trustees election

By **CONNIE DAVIS**, Internal Auditor



**Deadline for application: July 31, 2012.** Due date for receipt of applications, resumes, and releases for background checks.

**K**RS 61.645 provides that two trustees shall be elected by the members of CERS for a four year term. The next election for trustees from CERS will be held in early 2013 for the term beginning April 1, 2013 and ending March 31, 2017. Kentucky Retirement Systems is seeking applications from members of CERS interested in serving as a trustee.

## Eligibility Requirements

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

## Application Process

An applicant must submit a completed application, a detailed resume, and a signed release for a criminal background check to be performed by Kentucky State Police. You may obtain the application on our website, <https://kyret.ky.gov>. You may obtain the release form for a criminal background check by Kentucky State Police at [http://kentuckystatepolice.org/pdf/employment\\_rev11\\_10.pdf](http://kentuckystatepolice.org/pdf/employment_rev11_10.pdf). This web link is also available on our website.

If you wish to receive these forms by mail

you may contact Connie Davis at 1-502-696-8459 (1-800-928-4646 ext. 8459). Your application, resume, and signed release for criminal background check must be received at the office of Kentucky Retirement Systems by close of business on July 31, 2012. Please mail your application, resume, and signed release for criminal background check to:

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

The Board of Trustees will nominate up to six applicants as candidates to be a trustee at its regular quarterly board meeting currently scheduled for August 16, 2012.

Note: Applications, resumes, and releases for background checks received after July 31, 2012, will not be considered for nomination by the Board at the quarterly meeting in August. Meeting for Individuals Submitting an Application, Resume, and Release for a Criminal Background Check

An informational meeting will be held on August 9, 2012 at 1:30pm for all individuals who submitted an application, resume, and a release for a background check to the Board for nomination. The purpose of the meeting will be to acquaint individu-

als with Kentucky Retirement Systems and with the election process. Pictures will be taken at the meeting to be used on the ballot if the applicant is selected.

## Nominations by the Membership

Individuals may also be placed on the election ballot by submitting a petition from the CERS membership. Per Kentucky Revised Statute 61.645, the petition must contain the name, last four digits of social security number, and signature of no less than 1/10th of the number of members voting in the last election. Based upon 2009 election results, the petition would require a minimum of 1,933 names, last four digits of social security numbers, and signatures from the current members of CERS. Petitions to be included on the CERS election ballot must be submitted to the Division of Internal Audit no later than close of business on November 30, 2012. Petitions should be mailed to:

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

## Election Timetable

### July 31, 2012

Due date for receipt of applications, resumes, and releases for background checks.

### August 9, 2012

Informational meeting for individuals submitting an application, resume, and release for a background check.

### August 16, 2012

Quarterly Board Meeting. The Board will nominate 6 candidates to be placed on the election ballot.

### November 30, 2012

Last day to file a petition to be placed on the election ballot.

### January 11, 2013

Ballots mailed to CERS membership.

### March 1, 2013

Last day for ballots. Ballots must be post-marked on or before March 1, 2013.

### March 15, 2013

Ballots tabulated.

### March 20, 2013

Letters mailed to candidates.

### April 1, 2013

Winners of election begin term of office. ♣

## May 2012 investments update

By T.J. Carlson, Chief Investments Officer

The 2011 calendar year was a mixed bag in the end. The first six months provided solid steady returns to investors, then investors were whipsawed by constant volatility in the second half. When the year was over, the US equity markets ended relatively flat while non-US equity markets (especially emerging markets) had tumbled, and the fixed income markets had provided strong nominal returns. For KRS, this translated to relatively flat pension fund performance, dipping -0.44%, with the insurance fund falling -1.94%. Though the pension fund lost ground in nominal terms during 2011, it held up well in relative terms as the benchmark dropped 1.19%. However, the insurance fund did trail its benchmark by 1.54% over the same period. The KRS real estate portfolio was the best performing asset class for 2011; however, the largest earnings contribution came from the fixed income portfolio, which accounts for approximately 20% of KRS' investment dollars, and returned over 7% for the period. The second most meaningful asset class in terms of performance came from the newly funded absolute return investments, which earned nearly 4% for the period. The biggest hindrance to performance came from the non-US equity space; the funds struggled in both absolute and relative terms. During the 2011 calendar year, the KRS' combined portfolios fell in total asset value by nearly \$960 million due to a combination of slightly negative investment returns (\$20 million) and benefit payments of \$940 million (\$820 million of which were actual benefit payments, and another \$120 in healthcare premium subsidies). However, the funds have been able to grow during the first quarter of 2012, adding approximately \$710 million in combined market value.

Besides monitoring the performance of our existing investments and creating further transparency by posting more analysis and portfolio monitoring items to the website, the Investment Division Staff has been working hard to control costs by implementing a trading cost analysis platform to monitor manager trading commissions. Staff has also constructed and maintains a database that tracks all investment division staff costs and ties such costs directly to manager due diligence. Furthermore, Investment Division Staff have created and maintain a database which tracks every meeting between Staff and both prospective and current investment managers. Investment Division Staff have also been working with our consultant and actuary to study each plan's liquidity and the impact of the current asset allocation in order to

report these findings to the Investment Committee.

The period was fairly active in regards to the system's public equity portfolios. Most notable was the portfolio's rebalance in June 2010 as revised asset allocation targets and portfolio benchmarks were adopted. The transition, which included a significant reduction in U.S. equities, included the funding of three active All Cap equity managers and rebalancing the internally managed all cap equity portfolio to fully replicate the S&P 500 index. Moving outside the U.S. markets, staff continued to diversify the Non-US equity allocation from primarily developed countries, adding emerging market exposure to previously developed-only external mandates. This strategic allocation decision was the result of recently adopted benchmarks, along with current target asset allocations. Finally, staff has continued to seek improvements in performance management and systems by implementing a new portfolio management and analytics software package (FactSet) and hiring a trade cost analysis firm to periodically measure trading costs. Moving forward, the department is in the final stages of a search for active U.S. Mid Cap equity managers and will look to make recommendations during the middle of 2012.

The Fixed Income department was tasked with completing several asset allocation and portfolio construction changes during the year ending 2011. First, the fixed income department moved the TIPS portfolio out of the fixed income portfolio and into the real return portfolio. Next, the Insurance account's fixed income exposure was expanded to replicate the Pension plan's fixed income allocation. Next, one of the fixed income manager's mandates was expanded to include global fixed income securities. Finally, after Investment Committee approval and successful contract negotiations, an additional global fixed income manager and two high yield fixed income managers were added to the portfolio during the period. In addition to asset allocation changes, the fixed income department director oversaw the turning off of the securities lending program, which was a precautionary measure taken due to concerns surrounding the U.S. debt ceiling negotiations and a U.S. credit downgrade. Staff is currently in the process of restarting this program with an improved structure, more in-depth guidelines and further risk controls in place.

The Alternatives department, currently charged with overseeing all KRS private equity and real estate investments, had

its fair share of tasks to accomplish. First, KRS committed capital to 4 private equity funds and 2 real estate funds during the period. Next, the Alternatives department updated and the Board approved new private equity and real estate investment policy statements to make them more robust. Alternatives division staff continue to monitor partnership cash flow data and portfolio company holdings and, is also continuing to be proactive in identifying top-performing general partnerships for private equity and real estate investing.

The Absolute and Real Return department was formally created in 2011 and allocations were approved for each plan (10%-12% range for Absolute Return, and 10% target for Real Return with the exception of KERS Insurance which has a 20% allocation). Division Director Christopher Schelling was hired in September 2011, and has since been diligently performing comprehensive analysis while building an internal hedge fund database and performance analysis tool in order to make recommendations to the Investment committee to further build out the portfolio. In 2011, three funds of funds were added to the Absolute Return portfolio. Director Schelling also was instrumental in protecting KRS's interests by actively monitoring the unwind of the Arrowhawk Durable Alpha Fund after the investment manager notified KRS of its intent to cease operations due to difficulty in raising assets in the current markets.

One investment was made in the Real Return portfolio, and the TIPS allocation was transferred from the Fixed Income portfolio into Real Return. Director Schelling is in the process of completing a comprehensive study of real return strategies, asset class allocations, risk/return characteristics of each strategy, and inflation regime analysis to frame his recommendations for the 2012 Investment Committee.

As you can see, KRS Investment Division Staff is continuing to push forward in optimizing the portfolio while actively monitoring the risk/return profile. Though we believe a solid plan has been laid, and construction of the new portfolio is underway, staff will continually search for improvements in order to work in the best interests of each plan's beneficiaries. ♣

**Kentucky Retirement Systems**  
Perimeter Park West  
1260 Louisville Road  
Frankfort, Kentucky 40601  
1-800-928-4646 • <http://kyret.ky.gov>

## Announcements

### No COLA for 2012

The General Assembly decided in House Bill 265, the budget bill which can be read online at [http://lrc.ky.gov/record/12RS/](http://lrc.ky.gov/record/12RS/HB265.htm) [HB265.htm](http://lrc.ky.gov/record/12RS/HB265.htm), to suspend the statutory Cost of Living Adjustments for the next two fiscal years. Therefore in July, payees should not expect to receive check stubs.

### Annual Statements

This August, Annual Statements will be available through the Self Service website rather than printed mailers. This change will save KRS approximately \$100,000 in

printing and postage costs per year. For help using Self Service please see page 3 of this newsletter.

### PREP

KRS is launching a new version of our Pre-Retirement Education Program (PREP) and will be hosting meetings throughout Kentucky. Check out the locations on page 4 and register by calling 1-800-928-4646.

### 2012 Employer rates

The Kentucky Retirement System Board of Trustees adopted the following employer

contribution rates for the fiscal year beginning July 1, 2012, at its November 17, 2011 meeting in accordance with the requirements of KRS 61.565 and the recommendation of the System's independent actuary:

KERS Non-Hazardous	23.61%
KERS Hazardous	29.79%
SPRS	63.67%
CERS Non-Hazardous	19.55%
CERS Hazardous	37.60%

*Member News*  
e. 2012 SUMMER

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