

MINUTES OF MEETING NO. 359  
BOARD OF TRUSTEES  
KENTUCKY RETIREMENT SYSTEMS  
August 19, 2010 at 9:00 A.M., E.T.  
Board Room  
Perimeter Park West, 1270 Louisville Road  
Frankfort, Kentucky 40601

Item 1

At the quarterly Meeting of the Board of Trustees held on August 19, 2010, the following members answered to their name: Randy J. Overstreet, Chair, Jennifer L. Elliott, Bobby D. Henson, Vince Lang, W. Lewis Reynolds III, Susan G. Smith Christopher B. Tobe, Robert W. Wilcher and Tim Longmeyer, Personnel Cabinet, proxy for Nikki R. Jackson.

In addition, those present were Robert M. Burnside, Executive Director, and Tracey M. Mulder, Recording Secretary. Also present were William A. Thielen, Charlene Haydon, Brent Aldridge, Schuyler J. Olt, Todd E. Coleman, Connie A. Davis, Marlane F. Robinson, Scarlett Consalvi, Shawn Sparks, Richard Schultz, David Peden, Ann Case, Alpa Vyas and Abby Sutherland, KRS; Rebecca Heckler, Kentucky Public Retirees; Brad Gross, Frank Willey and Kelly Dudley, Legislative Research Commission; Ed Davis, Kentucky Fraternal Order of Police; Paul Glasser, *The State Journal*; Jana Smith, OSBD; Jim Carroll, Eva Smith-Carroll, Fred Nett and Rose Nett.

Mr. Overstreet advised that Mr. Longmeyer was sitting in for Ms. Jackson. An Attorney General's ruling from Scott White, Assistant Deputy Attorney General, advises that KRS 18A.035(1) provides that the Secretary "...may from time to time designate in writing an employee of the cabinet to act for him in case of his absence or inability from any cause to discharge the powers and duties of his position. In this case, the powers and duties of the Secretary shall devolve upon his designee."

Item 2

It was moved by Mr. Reynolds, seconded by Mr. Lang and carried by the Board of Trustees to approve the minutes of meeting number 357 as presented.

It was moved by Mr. Lang, seconded by Ms. Smith and carried by the Board of Trustees to approve the minutes of meeting number 358 as presented. Mr. Reynolds recused himself, stating that he was not present at meeting number 358 held on June 15, 2010.

Item 3

Mr. Overstreet presented the memorandum "Human Resources Committee Report."

Ms. Smith presented the memorandum "Continuation of Health Reimbursement Account (HRA)."

It was moved by Ms. Smith, seconded by Mr. Wilcher and carried by the Board of Trustees to adopt the recommendation of the Human Resources Committee with respect to continuing to provide the Health Reimbursement Account (HRA) for 2011 with a monthly contribution of \$36.74 per eligible employee and the monthly waiver contribution to match that which is provided by the Commonwealth of Kentucky's Personnel Cabinet.

Ms. Smith presented the memorandum "Annual Salary Advancements."

It was moved by Ms. Smith, seconded by Mr. Wilcher and carried by the Board of Trustees to adopt the recommendation of the Human Resources Committee with respect to providing the appropriate Performance Incentive of annual leave hours for the performance planning and review period of July 1, 2009 through June 30, 2010 as presented.

Ms. Smith presented the memorandum "Furloughs for Fiscal Year Ending June 30, 2011."

It was moved by Ms. Smith, seconded by Mr. Wilcher and carried by the Board of Trustees to adopt the recommendation of the Human Resources Committee with respect to delegate the responsibility and decision making authority to the Executive Director to respond to furlough requests and to develop a plan to implement the furloughs.

Ms. Smith advised the Board that the staff is in the process of changing the title of the position of Internal Auditor to a title that better reflects to duties of the position. Staff will finalize this decision and make a recommendation to the Board at a later date.

#### Item 4

Mr. Overstreet presented the memorandum "Affirmative Action Plan."

Ms. Robinson reviewed the memorandum.

This memorandum was presented for informational purposes.

#### Item 5

Mr. Overstreet presented the memorandum "Retiree Health Plan Committee Report."

Mr. Henson reviewed the memorandum and provided a summary of the quarterly Retiree Health Plan Committee meeting that took place on August 10, 2010.

Mr. Schultz presented page 4 of the presentation "*Plan Year 2011 Health Insurance Rate Scenarios for the Medicare Eligible Retirees*" presented by Cavanaugh MacDonald at the previous quarterly Retiree Health Plan Committee meeting and led a discussion regarding the Essential Plan.

It was moved by Ms. Elliott, seconded by Mr. Lang and carried by the Board of Trustees to ratify the action of the Retiree Health Plan Committee with respect to the following:

- Adopt the following monthly rates for the 2011 KRS health plans for Medicare eligible retirees:  
**Medical Only Plan:** \$163 per month  
**Essential Plan:** \$163 per month  
**Premium Plan:** \$355 per month
- Approve the design changes associated with the following for the 2011 plan year:  
Medical Deductible/Maximum-out-of-pocket for the Essential Plan: \$500/\$1,000  
Medical Deductible/Maximum-out-of-pocket for the Premium Plan: \$500/\$1,000
- Adopt the co-payment rates for the KRS Premium Health Plan proposed:  
**1<sup>st</sup> Tier:** \$10, 90 day supply \$20  
**2<sup>nd</sup> Tier:** \$30, 90 day supply \$60  
**3<sup>rd</sup> Tier:** \$55, 90 day supply \$110

#### Item 6

Mr. Overstreet presented the memorandum “Retiree Outreach Program Summary.”

Mr. Burnside reviewed the memorandum.

This memorandum was presented for informational purposes.

#### Item 7

Mr. Overstreet presented the memorandum “Quarterly Reports of the Audit Committee.”

Mr. Reynolds reviewed the memorandum and asked Mr. Burnside if he cared to comment. Mr. Burnside noted that in conducting this audit, staff used the standard procedures that have been in place for a number of years. It is evident that the sensitivity of this audit requires that it should have been handled differently. Mr. Burnside stated that he would take that responsibility and assure the board that any future audit of this nature would be brought to their attention immediately in accordance with the concerns that have been expressed.

Mr. Tobe made a motion that KRS ban the use of placement agents. Mr. Longmeyer seconded the motion for discussion purposes. Mr. Longmeyer expressed his concern that the fees paid to placement agents are outrageous. Mr. Olt clarified that the fees are paid by the individual money managers and not KRS. Mr. Wilcher opined that the fees do come from KRS because they are paid out of the management fees that KRS pays to the money managers. Placement agent fees therefore do have an impact in that money managers will tend to charge more for their management fees to cover the cost of the placement agents. Mr. Longmeyer stated that his concern was a matter of disclosure of the amount of money involved. Mr. Wilcher stated that there are those who would connect the dots to place KRS under a cloud of suspicion. The Chief Investment Officer is the person who recommends a money manager to the Investment Committee and the Committee does not know about the existence of a placement agent until

after the vote is taken. Furthermore, the CIO has departed just as the audit was being released. Mr. Henson stated that there is no direct correlation apparent between the fees charged and the existence of a placement agent. There are many transactions where the money manager charges a lower fee when a placement agent is involved than other managers charge without a placement agent. Mr. Longmeyer stated that the value of a placement agent is to the client, or money manager, not to the investor. He stated that he questioned the decision by KRS to invest with Arrowhawk, and had he known that a placement agent was involved, it would have changed his analysis of that transaction. Mr. Olt noted that the Arrowhawk transaction was included in the audit and conducted in accordance with the Disclosure Policy adopted by the board in August 2009. KRS conducted a background check and found no evidence of wrongdoing in this or any other transaction.

Mr. Wilcher moved that the board not act on the audit in favor of returning it to the Audit Committee for a full rework, and the question of the use of placement agents be referred to the Audit Committee. Mr. Tobe withdrew his motion to ban the use of placement agents and seconded the motion by Mr. Wilcher. The motion carried unanimously.

Mr. Tobe stated that he felt it necessary to personally write a letter to the Securities Exchange Commission explaining to them that he had no personal knowledge of the fees being paid to placement agents until this audit was finalized.

Mr. Reynolds continued with the discussion of the activity of the quarterly Audit Committee meeting. Mr. Wilcher reviewed the changes

It was moved by Mr. Wilcher, seconded by Mr. Tobe and carried by the Board of Trustees to ratify the action of the Audit Committee with respect to approval of the Audit Report "*Review of Death Audit Utilizing the PBI Death Report*"; approval of the Audit Report "*Travel and Procurement Card Expense*"; acceptance of the "Kentucky Retirement Systems – Pension Fund Quarterly Investment Policy and the "Kentucky Retirement Systems – Insurance Fund Quarterly Investment Policy; and approval of the "Kentucky Retirement Systems Board of Trustees Election Policy" as revised.

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Mr. Schultz and Ms. Sutherland departed.

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#### Item 8

Mr. Overstreet presented the memorandum "Financial Statements as of June 30, 2010."

Mr. Thielen reviewed the memorandum.

This memorandum was presented for informational purposes.

#### Item 9

Mr. Overstreet recused himself and turned the proceedings over to Mr. Lang, Vice-Chair of the Board of Trustees. Mr. Lang presented the memorandum "Nominations for SPRS Board Member Election 2011."

Mr. Lang advised that Mr. Overstreet's term as the representative of the State Police Retirement System (SPRS) is due to expire on March 31, 2011. Mr. Overstreet was the only candidate who submitted a resume to be considered for the SPRS Board Member Election.

It was moved by Mr. Henson and seconded by Ms. Smith to nominate Mr. Overstreet to be placed on the SPRS election ballot.

It was moved by Mr. Wilcher, seconded by Ms. Smith and carried by the Board of Trustees to close the nomination process for the SPRS election ballot.

Mr. Lang turned the proceeding back over to Mr. Overstreet.

#### Item 10

Mr. Overstreet presented the memorandum "Legislative Update."

Mr. Burnside advised the Board of recent appearances before legislative committees. He stated that he along with Mr. Aldridge and Jim Voytko, R.V. Kuhns & Associates, appeared before the Program Review and Investigations Committee and the Interim Joint Committee on State Government in the month of July to discuss the KERS Asset Liability Model study.

This memorandum was presented for informational purposes.

#### Item 11

Mr. Overstreet presented the memorandum "Retiree Cost of Living Allowance (COLA)."

Mr. Burnside reviewed the memorandum.

After significant discussion, it was moved by Mr. Wilcher and seconded by Mr. Reynolds that staff and the Legislative and Budget Committee draft a resolution for recommendation at the next quarterly board meeting that would address the actuarial facts as they are known regarding the impact of an unfunded Cost of Living Allowance, as well as the top three or four provisions of the plan that have the most financial impact so that it can be considered and presented to the legislature for the next legislative session.

Mr. Overstreet opined that further studies would need to take place in order to identify the top provisions and recommended that the resolution only pertain to the impact of the COLA. Mr.

Wilcher concurred and accepted Mr. Overstreet's recommendation as an amendment to his original motion. A vote was held and the motion as amended passed unanimously.

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Mr. Thielen departed during the discussion.  
Ms. Consalvi, Ms. Robinson and Mr. Sparks departed following the discussion.

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#### Item 12

Mr. Overstreet presented the memorandum "Initial Retirement Cases, Fourth Quarter, 09-10."

It was moved by Mr. Lang, seconded by Ms. Smith and carried by the Board of Trustees to ratify the action of staff and approve the payment of initial retirement benefits as presented.

#### Item 13

Mr. Overstreet presented the memorandum "Death Benefit Payments, Fourth Quarter, 09-10."

It was moved by Mr. Reynolds, seconded by Ms. Smith and carried by the Board of Trustees to ratify the action of staff and approve the payment of death benefits as presented.

#### Item 14

Mr. Overstreet presented the memorandum "Excess Benefits Payroll, Fourth Quarter, 09-10."

It was moved by Mr. Lang, seconded by Ms. Smith and carried by the Board of Trustees to ratify the action of staff and approve the monthly payments from the excess benefits plan as presented.

#### Item 15

Mr. Overstreet presented the memorandum "Refund of Member Contributions for the Quarter Ended June 30, 2010."

It was moved by Mr. Henson, seconded by Ms. Elliott and carried by the Board of Trustees to approve the action of the staff in the refund of member contributions for the quarter ended June 30, 2010.

Item 16

Mr. Overstreet presented the memorandum "Participation of Additional Agencies and Hazardous Positions."

Ms. Haydon reviewed the memorandum.

It was moved by Mr. Henson, seconded by Ms. Elliott and carried by the Board of Trustees to approve CERS participation of Sanitation District #4.

It was moved by Mr. Lang, seconded by Ms. Elliott and carried by the Board of Trustees to approve hazardous duty coverage for the following positions:

\* For employees who have a participation date prior to September 1, 2008:

- Manger, Adair County Ambulance Service, effective September 1, 2010
- Assistant Manager, Adair County Ambulance Service, effective September 1, 2010
- Deputy Chief, City of Hopkinsville, effective September 1, 2010
- Uniformed Service Major, City of Hopkinsville, effective September 1, 2010
- Support Services Major, City of Hopkinsville, effective September 1, 2010
- Support Services Captain, City of Hopkinsville, effective September 1, 2010
- Detective Lieutenant, City of Hopkinsville, effective September 1, 2010
- Patrol Lieutenant, City of Hopkinsville, effective September 1, 2010

\* For employees hired on or after September 1, 2008:

- Manager, Adair County Ambulance Service, effective September 1, 2010
- Assistant Manager, Adair County Ambulance Service, effective September 1, 2010
- Paramedic, Adair County Ambulance Service, effective September 1, 2010
- EMT, Adair County Ambulance Service, effective September 1, 2009
- Deputy Sheriff, Bullitt County Fiscal Court, effective September 1, 2010
- Police Chief, City of Henderson, effective September 1, 2010
- Deputy Police Chief, City of Henderson, effective September 1, 2010
- Police Major, City of Henderson, effective September 1, 2010
- Police Lieutenant, City of Henderson, effective September 1, 2010
- Police Sergeant, City of Henderson, effective September 1, 2010
- Police Officer, City of Henderson, effective September 1, 2010
- Fire Chief, City of Henderson, effective September 1, 2010
- Asst. Fire Chief, City of Henderson, effective September 1, 2010
- Fire Captain, City of Henderson, effective September 1, 2010
- Fire Lieutenant, City of Henderson, effective September 1, 2010
- Fire Driver-Engineer, City of Henderson, effective September 1, 2010
- Firefighter, City of Henderson, effective September 1, 2010
- Firefighter-In-Training, City of Henderson, effective September 1, 2010
- Deputy Chief, City of Hopkinsville, effective September 1, 2010
- Uniformed Services Major, City of Hopkinsville, effective September 1, 2010
- Support Services Major, City of Hopkinsville, effective September 1, 2010
- Support Services Captain, City of Hopkinsville, effective September 1, 2010
- Detective Lieutenant, City of Hopkinsville, effective September 1, 2010

Patrol Lieutenant, City of Hopkinsville, effective September 1, 2010  
Fire Chief Asst. 40 Hr. No INC, Louisville Metro Government, effective June 1, 2010  
Corrections Deputy, Louisville Metro Government, effective October 1, 2009  
Asst. EMS Director, Louisville Metro Government, effective September 1, 2010  
Firefighter 56 Hr. No INC, Louisville Metro Government, effective September 1, 2010  
Fire Recruit 40 Hr., Louisville Metro Government, effective September 1, 2010  
Firefighter, Jeffersontown Fire District, effective September 1, 2010  
Firefighter, Lake Dreamland Fire District, effective September 1, 2010

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Chris Clark, KRS, entered during the discussion.

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Item 17

Mr. Overstreet presented the memorandum “START Quarterly Report.”

Mr. Clark reviewed the memorandum.

This memorandum was presented for informational purposes.

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Mr. Clark departed.

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Item 18

Mr. Overstreet presented the memorandum “Report on the Actions Taken by the PPW Board of Directors.”

Mr. Henson reviewed the memorandum.

This memorandum was presented for informational purposes.

Item 19

The Board discussed possible dates to hold an annual Board Retreat.

This discussion was for informational purposes.

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Mr. Nett and Mrs. Nett departed during the discussion.

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Item 20

Mr. Overstreet presented the memorandum "Fiduciary and Ethics Reports from Around the Country."

Mr. Olt led a discussion regarding Constitutional issues related to pension benefits.

This discussion was presented for informational purposes.

Item 21

Mr. Overstreet presented the memorandum "Investment Portfolio, June 30, 2010."

Mr. Aldridge reviewed the memorandum.

This memorandum was presented for informational purposes.

Item 22

Mr. Overstreet presented the memorandum "Investment Committee Quarterly Report."

Mr. Lang reviewed the memorandum. He advised the Board of the actions of the CIO Search Committee, which consists of all members of the Investment Committee, related to the process of filling the vacant Chief Investment Officer position. He stated that the CIO Search Committee met and conducted telephone interviews with four of the seven firms that responded to the RFP. He advised that EFL Associates (EFL) was the firm selected to conduct the search and discussed their background and reasons for the selection. Mr. Burnside advised that a representative from EFL would be contacting those trustees that are not members of the Investment Committee in order to get the trustees' input regarding what they expect in a CIO candidate. Mr. Lang advised that the timetable for filling the position of CIO is by the end of the year.

It was moved by Mr. Reynolds, seconded by Ms. Elliott and carried by the Board of Trustees to ratify the action of the Investment Committee with respect to the following:

- Approve R.V. Kuhns & Associates, Inc. (RVK), KRS general consultant, to conduct asset-liability studies for the CERS Non-Hazardous pension and insurance systems, CERS Hazardous pension and insurance systems, and the SPRS pension system.
- Approve internal crossing transactions, for the purpose of reducing transaction expenses, allocation rebalancing and raising liquidity between KRS' pension funds (KERS, CERS and SPRS).
- Approve internal crossing transactions, for the purpose of reducing transaction expenses, allocation rebalancing and raising liquidity between KRS' insurance funds (KERS, CERS

and SPRS).

- Mandate that all internal crossing transactions of private equity or real estate funds must be presented to the Investment Committee prior to execution.
- Appoint Brent Aldridge as the Interim Chief Investment Officer upon receiving Adam Tosh's intent to resign.
- Issue an RFP to hire a national search firm for the purpose of filling the position of CIO.
- Approve, in conjunction with RVK, the following asset allocation mixes for the KERS Non-Hazardous Pension Plan, KERS Hazardous Pension Plan, KERS Non-Hazardous Insurance Fund and KERS Hazardous Insurance Plan:

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**Kentucky Employees Retirement System (KERS)**  
Approved Portfolio Asset Allocations

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	KERS Non-Hazardous		KERS Hazardous	
	Pension	Insurance	Pension	Insurance
<b>Broad US Equity</b>	20%	28%	20%	20%
<b>Broad Int'l Equity</b>	20%	27%	20%	20%
<b>Emerging Markets</b>	4%		4%	4%
<b>Core Fixed Income</b>	10%	15%	10%	10%
<b>Non-US Fixed Income</b>	5%		5%	5%
<b>High Yield</b>	5%		5%	5%
<b>TIPS</b>		15%		
<b>Real Estate</b>	5%		5%	5%
<b>Absolute Return</b>	10%	10%	10%	12%
<b>Private Equity</b>	10%		10%	7%
<b>Real Return</b>	10%	5%	10%	10%
<b>Cash Equivalents</b>	1%	0%	1%	2%
<b>Expected Return – Arithmetic</b>	7.93%	7.18%	7.93%	7.74%
<b>Expected Risk</b>	11.86%	10.57%	11.86%	11.29%
<b>Expected Sharpe Ratio</b>	0.42%	0.40%	0.42%	0.42%
<b>Expected Return/Risk Ratio</b>	0.67%	0.68%	0.67%	0.69%
<b>Expected Return - Compound</b>	7.28%	6.66%	7.28%	7.16%

Item 23

Mr. Overstreet advised that the Legislative and Budget Committee was still working on drafting revisions to the Board Bylaws. Now that the Committee has been tasked with drafting a resolution to present to the legislature, the Committee will need to meet prior to the next quarterly Board meeting. Mr. Henson stated that it could be a possible discussion topic for the Board Retreat.

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It was moved by Ms. Elliott, seconded by Mr. Henson and carried by the Board of Trustees to enter into "Closed Session" for the purposes of 1) discussing 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; 2) discussing member accounts and personnel discipline pursuant to KRS 61.810(1)(f) and KRS 61.810(1)(k) due to the sensitive and personal nature of the medical records to be considered and the requirement of KRS 61.661(1) that each member's account be administered in a confidential manner.

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Mr. Coleman, Ms. Davis, Mr. Peden, Ms. Case, Ms. Vyas, Ms. Heckler, Mr. Gross, Mr. Willey, Ms. Dudley, Mr. Davis, Mr. Glasser, Ms. Smith, Mr. Carroll and Ms. Carroll departed.

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Mr. Overstreet declared the meeting re-open to the public and returned to "Open Session" after discussion of member accounts and litigation in "Closed Session" under the provisions of KRS 61.810(1)(c), (k) and KRS 61.661(1) with no action being taken in "Closed Session."

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#### Item 24

Mr. Overstreet presented the memorandum "Pending Litigation."

Pending litigation was reviewed in closed session pursuant to KRS 61.810(1)(c). During closed session, Mr. Olt presented a letter dated August 18, 2010 from Stoll Keenon Ogden, KRS counsel.

It was moved by Mr. Wilcher, seconded by Mr. Tobe and carried by the Board of Trustees to authorize KRS legal staff to pursue collection efforts of interest on delinquent contributions from the City of Louisville.

#### Item 25

Mr. Overstreet presented the memorandum "Disability Appeals Committee Quarterly Report."

It was moved by Mr. Lang, seconded by Mr. Reynolds and carried by the Board of Trustees to ratify the action of the Disability Appeals Committee for the quarter ending June 30, 2010.

#### Item 26

Mr. Overstreet presented the memorandum "Administrative Appeals Committee Quarterly Report."

It was moved by Ms. Elliott, seconded by Mr. Henson and carried by the Board of Trustees to ratify the action of the Administrative Appeals Committee for the quarter ending June 30, 2010.

Item 27

Mr. Overstreet presented the memorandum "Medical Examiners Approvals/Denials of Disability Retirement."

It was moved by Ms. Smith, seconded by Mr. Henson and carried by the Board of Trustees to ratify the action of staff in the denial of 157 disability applications and approval of 36 disability applications, for the quarter ending June 30, 2010.

Item 28

Mr. Overstreet presented the memorandum "Annual Review Update for Recipients Receiving Disability Benefits."

It was moved by Mr. Reynolds, seconded by Ms. Smith and carried by the Board of Trustees to ratify the action of staff in the termination of disability retirement benefits for three recipients.

Item 29

Mr. Overstreet presented the memorandum "Recommendations for Hazardous Disability Retirement."

It was moved by Mr. Lang, seconded by Ms. Elliott and carried by the Board of Trustees to ratify the action of staff and approve hazardous disability retirement benefits for three applicants, with two of those being approved for in-the-line-of-duty benefits.

Item 30

There being no further business, the meeting was adjourned at 12:27 p.m., to meet on November 18, 2010 at 9:00 A.M., E.T., or upon the call of the Chair, Executive Director, or at the request of five members of the Board.

CERTIFICATION

I, Tracey M. Mulder, do certify that I was present at this meeting and that I have recorded above the action of the Board on the various items considered by it at this meeting. Further, I certify that all requirements of KRS 61.805 through 61.850 were met in connection with this meeting. Finally, I certify that the Minutes and supporting materials have been forwarded to each member of the Board and have been included in the permanent records of the Board.

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Tracey M. Mulder  
Recording Secretary

We, the Chair and the Executive Director of the Board of Trustees of the Kentucky Retirement Systems, do certify that the Minutes of Meeting No. 359 were approved by the Board on November 18, 2010.

Signed: \_\_\_\_\_  
Chair

Signed: \_\_\_\_\_  
Executive Director

I, Schuyler J. Olt, have reviewed the Minutes of Meeting No. 359 for form, content and legality.

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General Counsel