SUMMARY OF PRIOR STUDIES OF KTRS

2012 – Program Review and Investigations Committee

Over a period of months, the Program Review and Investigations Committee thoroughly studied both KTRS and KRS in regard to the three areas as follows:

1. Organization and Governance
2. Funded Status
3. Investment Rates of Return

The Committee's final report included the findings and recommendations as follows:

1. KTRS investment fees are among the lowest in the nation.
2. KTRS administrative costs are among the lowest in the nation.
3. KTRS total investment returns exceeded its benchmarks in all time periods studied (fiscal year-to-date, 3-year, 5-year, 10-year).
4. In 1995, the Kentucky Supreme Court ruled in *Jones v. Board of Trustees of Kentucky Retirement Systems* (910 S.W.2d 710, Ky. 1995) that KERS members "have the right to the pension benefits they were promised as a result of their employment, at the level promised by the Commonwealth."
5. KTRS should ensure that the Cabinet for Finance and Administration posts on its website more detailed expenditure information than the Cabinet was then posting
6. Statutory language regarding placement agents should be cleaned up.

KTRS took action on all above recommendations.

2008 – Public Pension Working Group (PPWG)

The PPWG was comprised of the six (6) subcommittees to study the areas as follows:

1. Defined Contribution Plan
2. Funding
3. Investments
4. Securities Litigation
5. Healthcare
6. CERS Reorganization

Each subcommittee issued its own final report. The more substantive findings and recommendations from these subcommittees that applied to KTRS are as follows:

1. Kentucky's inviolable contract provision "is the most airtight contract between a public body and its employees in the country" and the "existence of this contract cannot be emphasized enough."
2. As a result of the inviolable contract, benefit changes can be made only for future employees.
3. Making benefit changes for new employees, such as switching them into a Defined Contribution plan, would not reduce the systems' existing unfunded liability.
4. The only way to reduce the unfunded liability is through a "strong commitment to funding the annually required contribution (ARC)," investment returns, and reducing benefit generosity (note: the inviolable contract provision would prohibit the last item).
5. The Commonwealth should consider issuing bonds to pay off all, or a portion, of the funds owed the Teachers' Pension Fund resulting from the reallocation of contributions to pay health insurance. *This happened with the 2010 "Shared Responsibility" legislation.*
6. Measures should be taken to address growing health care costs. *This happened with the 2010 "Shared Responsibility" legislation and with internal cost control measures which, together, eliminated approximately $5 billion in unfunded medical insurance liabilities.*
7. The retirement systems should explore utilizing group purchasing plans for pharmaceuticals. *KTRS did this by becoming an early member of the Kentucky Rx Coalition including such entities as UK and U of L.*
8. The KTRS Investment Committee should be changed to a structure comprised of seven (7) members, two (2) of whom would be lay trustees with investment experience, two (2) of whom would not be Board members, but would have investment experience, and three (3) of whom would be other members of the Board. KTRS employees should not serve as voting members of the committee. *The KTRS Board approved this recommended committee structure at its December 2008 meeting and that structure continues in place today*.
9. KTRS should limit active or passive external manager concentrations to not more than fifteen percent (15%) of market value of the fund. *This recommendation was adopted by KTRS and remains in effect today.*
10. KTRS should review its investment regulation and make any necessary changes to avoid impairment of the implementation of efficient investment portfolios. *KTRS has and continues to take action to amend its investment regulation to promote this recommendation's objective as it is one upon which KTRS fully agrees.*
11. KTRS should establish a comprehensive written policy on its securities litigation procedures. *KTRS has done this as part of its Governance Manual.*

2007 – Blue Ribbon Commission on Public Retirement Systems

The Blue Ribbon Commission on Public Retirement Systems (BRC) was established "to study the methods that would address the current unfunded liabilities of the Commonwealth's retirement programs." The BRC reviewed the areas as follows:

1. Financing
2. Pension benefits

3. Health insurance benefits

The more substantive findings and recommendations from these subcommittees that applied to KTRS are as follows:

1. "The statement of intent [of Kentucky's inviolable contract provision] is one of the strongest among the states."
2. KTRS should conduct an operational and governance review of its investments. *KTRS hired an outside investment consulting firm to conduct such a review in 2008.*
3. If viable, use bonds to help phase into the full ARC for KRS. Not a KTRS issue, but noteworthy that it was considered in 2007 for KRS.
4. Halt the borrowing from KTRS pension fund to pay the cost of health insurance. *This happened with the 2010 "Shared Responsibility" legislation.*
5. Numerous, health plan specific, recommendations were made for the Kentucky Employees Health Plan.
6. Require investment and fiduciary training for all Board members. *KTRS does this through a variety of means, including its Trustee Workshops.*