KRS BOARD TAKES ACTION ON ECONOMIC ASSUMPTIONS
Message from KRS Board of Trustees Chair, John Farris

The 17-member KRS Board of Trustees has been hard at work. Most recently, it has been reviewing the assumptions used to determine the pension and insurance plans’ unfunded liabilities and contribution rates. Board members want to make sure the economic assumptions (investment earnings, payroll growth, and inflation) accurately reflect the best thinking about the future.

As such, the Board retained Milliman, a nationally known actuarial firm, to conduct an assumptions audit of KRS’ five pension and five insurance plans. The Board met on May 18, 2017 and heard Milliman’s analysis and recommendations. KRS’ new, ongoing consulting actuary, Gabriel, Roeder, Smith & Company, was also in attendance and provided helpful commentary to the Board.

“The Board concluded that the economic assumptions used in recent years have been too optimistic. This has resulted in severely understating the unfunded liabilities and underfunding the contributions required to reduce those liabilities.”
- John Farris

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DOUBLE DIGIT INVESTMENT RETURNS
Investment Returns for KRS Pension and Insurance Funds Grow by Double Digits in Fiscal Year Ended June 30, 2017

The investment returns for all KRS pension and insurance funds under management grew by double digits in the fiscal year that ended June 30, 2017.

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LEGISLATIVE UPDATE:
2017 GENERAL ASSEMBLY REGULAR SESSION

The 2017 Regular Session of the Kentucky General Assembly adjourned on March 30. Several bills addressing pressing retirement issues were passed this year.

The following is a summary of six bills that passed this Session that will have an impact on Kentucky Retirement Systems:

1. Senate Bill 2
Sponsored by Senator Joe Bowen, makes several changes to the internal governance and operational structure of Kentucky Retirement Systems. The bill also includes a section that confirms much of the Governor’s Executive Order from June 2016.

Link to bill:
http://www.lrc.ky.gov/record/17RS/SB2.htm

2. Senate Bill 3
Sponsored by Senator Christian McDaniel, requires the retirement information for any member of the General Assembly, past or present, to be available to the public upon request. NOTE: Unless a KRS member is a current or former member of the Kentucky General Assembly their retirement benefit information is still confidential.

Link to bill:

3. Senate Bill 104
Sponsored by Senator Christian McDaniel, contains changes to how pension “spikes” are determined. A “pension spike” is when a person who is nearing retirement has their salary increase by more than 10% over the previous year’s salary.

SB 104 also has language that would allow Tier 1 and 2 active members to “opt out,” or withdraw, from one of those Tiers and join Tier 3, which is the hybrid cash balance plan. The opt-out provision would not take effect unless KRS receives a favorable Private Letter Ruling from the Internal Revenue Service (IRS). KRS has submitted a request for a Private Letter Ruling and is waiting to receive guidance from the IRS. Until then, we are unable to process any member requests related to this provision.

For more information on SB 104, visit the “Pension Spiking Frequently Asked Questions” page at the following link: https://kyret.ky.gov/Publications/Pages/SB-104-FAQ's.aspx

Link to bill:
http://www.lrc.ky.gov/record/17RS/SB104.htm

4. Senate Bill 126
Sponsored by Senator Christian McDaniel. For Tier 2 participants, SB 126 amends the definition of “final compensation” to allow state and county employees to use partial fiscal years to reach a final compensation calculation that is at least 60 months for Non-Hazardous employees and at least 36 months for Hazardous employees.

Link to bill:
http://www.lrc.ky.gov/record/17RS/SB126.htm

5. House Bill 173
Sponsored by Representative Jerry Miller. House Bill 173 makes various changes to allow KRS statutes to conform to federal law requirements and generally help KRS become more operationally efficient.

Link to bill:
http://www.lrc.ky.gov/record/17RS/HB173.htm

6. House Bill 351
Sponsored by Representative Jerry Miller. Legislation from the 2015 Session created new statutes that allow participating agencies to voluntarily cease participation in the Systems. In order to do so, one requirement is that the agency has to pay the full actuarial cost of their obligation to the Systems. Until the 2017 Session, agencies were allowed to pay in a lump sum, or through installments over a time period that could be as long as 20 years.

House Bill 351 removes the installment payment option and specifies the formula for determining the assumed rate of return in the cost calculation. The new formula will help insure that agencies will pay the full actuarial cost to leave the Systems.

Link to bill:
http://www.lrc.ky.gov/record/17RS/HB351.htm
DOUBLE DIGIT RETURNS...continued

"The excellent investment returns reflect not only the attractive market conditions, but also the work done by our new Investment Committee and the Interim CIO and his staff," said Interim Executive Director David Eager. "Throughout the year they have been adjusting our portfolios to better reflect the needs of each fund, to reduce management fees, and increase the risk adjusted returns. The results bear out the success they have had," Eager noted.

Insurance funds also enjoyed double-digit growth this past fiscal year. The KERS Non-Hazardous Insurance Fund posted a gain of 13.78%, while the KERS Hazardous Insurance Fund returned 13.76%; CERS Non-Hazardous grew by 13.67%; CERS Hazardous posted 13.70%; and SPRS finished the fiscal year with a 13.70% gain.

"It's very gratifying for the investment team to see that all of our efforts, and the efforts of the Investment Committee, over the last year have produced positive results," said KRS Interim Executive Director of Investments Rich Robben. "I am particularly proud that all of our plans will end the year with more assets than they started with at the beginning of the year."

Kentucky Retirement Systems is a $16 billion public pension fund serving over 372,000 active and retired members.

RUMORS ABOUT BENEFIT CHANGES

We've heard them periodically over the years... it's not unusual for rumors about possible retirement benefit changes to spread as we approach the beginning of any legislative session.

But this year, with The PFM Group’s third report expected in late August, a Special Called Session of the Kentucky General Assembly on the near horizon, and the 60-day Regular Session beginning in January 2018, the rumors are becoming even more prominent.

While we don't know what the future holds, here are a few points to consider:

1. Rumors are just that: rumors, and not facts. If something affecting the benefits administered by Kentucky Retirement Systems is confirmed, we will inform you via the KRS website and KRS social media outlets, such as Facebook and Twitter.

2. Retirement benefits administered by KRS are based on state and federal law. This means the Kentucky General Assembly has to introduce legislation and pass it before any changes to benefits can occur. To stay current with legislative happenings, or to read more information about the legislative process, please visit the Kentucky Legislative Research Commission website: http://lrc.ky.gov/

3. Our counselors and other KRS employees are not authorized to discuss hypothetical, or "what if," situations. We are only able to explain benefit options as they are currently written in state law.

MESSAGE FROM THE CHAIR...continued

The KRS Trustees focused on the KERS Non-Hazardous and SPRS pension plans first. The Board concluded that the economic assumptions used in recent years have been too optimistic. This has resulted in severely understating the unfunded liabilities and underfunding the contributions required to reduce those liabilities. Based upon the actuaries' research and other input, on May 18 the Board voted to make the following changes to the assumptions that will be used in the June 30, 2017 Actuarial Valuations for those two plans:

• Cut the inflation assumption from 3.25% to 2.3% (annual inflation for the past 10 years has been 2.2%)

The Board addressed the economic assumptions for the KERS Hazardous, CERS Non-Hazardous, and CERS Hazardous pension plans, and all five insurance plans, at the July 12, 2017 Special Called meeting. The Board voted to make the following changes:

• Reduce the annual interest rate assumption from 7.5% to 6.25% for the CERS Non-Hazardous, CERS Hazardous, and KERS Hazardous pension plans

• Reduce the annual interest rate assumption from 7.5% to 6.25% for all KRS insurance plans

• Lower the annual payroll growth assumption from 4.0% to 0.0% (annual payroll growth for the last 10 years had been -1.1% for KERS Non-Hazardous and -0.5% for SPRS)

• The adoption of these more conservative assumptions is paramount if KRS is to return to a sounder financial condition.
MEDICARE MEMBER SATISFACTION SURVEY

Each year the Systems’ health plan administrator, Humana, uses an outside group to conduct a telephone survey of retirees to measure KRS Member Satisfaction with the Medicare Advantage Plans offered by their company. A random sample of retirees who had been active on the Humana plan for at least three months were contacted by interviewers in November 2016. Once again, retirees gave high marks to Humana.

Key Findings:

- Overall satisfaction with Humana as the health plan administrator was 93%, and 92% of retirees said they would recommend Humana to their friends and family.

- Among members who have used their plan to visit a doctor or hospital in the three months prior to the interview, the vast majority continue to be satisfied with claim processing (96%) and with accuracy (97%) and timeliness (95%).

- The percentage of plan members who called the Medicare Advantage Customer Care line about a problem or issue with their plan has remained consistent compared to a year ago (8% in 2016 vs. 7% in 2015). Over two-thirds of members who contacted the customer care line were satisfied with the handling of the problem or issue.

- Eight out of every ten plan members had no suggestions for improvements to the customer service experience. The few who did have suggestions wanted an improved automated system with a response from a live person and more knowledgeable customer services representatives. A similar response was captured in 2015.

HOW DID HUMANA BECOME THE SYSTEMS’ HEALTH PLAN ADMINISTRATOR?

Humana was originally selected by a competitive bid process to provide the Medicare Advantage plans for the KRS Medicare eligible benefit in 2012 for plan years 2013 through 2015. The Board of Trustees chose Humana because they could provide the same plan benefit structure as the KRS plans being offered in 2012 and could adopt the KRS prescription drug formulary, all at a savings of $30 million to the KRS Trusts and Retirees for Plan Year 2013.

In 2015, KRS issued another competitive bid for the KRS Medicare Advantage Plans. Following a thorough review of all respondents to the bid offering, the Systems again awarded the contract to Humana for Plan Years 2016 through 2018 with three (3) additional one (1) year options for renewal. Humana was selected because of the benefits they offer in the Medicare Advantage plans, including the enhanced pharmacy benefit and the continued savings they offer to the KRS Trusts and Retirees.

KRS BENEFICIARY DESIGNATION

Not yet retired? Make sure you have a beneficiary designation on file with KRS.

If you haven’t started receiving benefits from Kentucky Retirement Systems, we encourage you to make sure you have a beneficiary designation on file with our office. You can login to your Member Self Service account at https://myretirement.ky.gov to check on your beneficiary information. You can update or change your beneficiaries at any time prior to your retirement by submitting a valid Form 2035, Beneficiary Designation to our office.

Members may name both principal and contingent beneficiaries in their retirement account. The principal beneficiary will receive benefits in the event of the member’s death prior to retirement. The contingent beneficiary will receive benefits in the event of the member’s death only if the principal beneficiary(s) are also deceased. A beneficiary may be one individual, multiple individuals, your estate, or a trust.

IF YOU PASS AWAY PRIOR TO RETIRING AND DO NOT HAVE A VALID FORM 2035 IN YOUR FILE, YOUR ESTATE WILL AUTOMATICALLY BE YOUR BENEFICIARY.

Learn more about beneficiary designations by visiting the following link to our website: https://kyret.ky.gov/Members/Death-Benefits/Pages/Your-Beneficiary.aspx
KRS ACTIVELY WORKING TO PROVIDE BETTER CUSTOMER SERVICE FOR MEMBERS

Significant Improvements in Benefits Administration Noted

In 2015, Kentucky Retirement Systems hired CEM Benchmarking Inc., a global benchmarking company that specializes in providing insights into the best practices of pension funds and other managers of large pools of capital, to conduct a comprehensive study of our Benefits Administration. The study compared KRS to a custom peer group of similar pension systems, and ranked us based on factors such as total administration cost, complexity of the Systems, and our customer service satisfaction levels.

CEM presented the results of the study to the Board of Trustees in April 2016 (read the original report here: https://kyret.ky.gov/About/Board-of-Trustees/Pages/Public-Pension-Oversight-Board-Materials.aspx). While KRS compared favorably to our peer systems in terms of total administration cost, particularly considering our complexity (our pension administration cost per active member was $35 lower per active member when compared to our peers, despite being one of the most complex systems in the group), we were rated well below our peers in terms of total service to our members. Therefore, with actionable benchmarking information in hand, we began actively working to improve this area and implement the recommendations of the study.

The Board received a status update on those efforts during the May 18, 2017 Board meeting. We are pleased to announce that KRS has made significant progress in improving our member’s customer service experiences.

Improvements include:
• Call Center menu layers have decreased from 3 to 2 layers. A menu layer is a series of options that callers negotiate before speaking to someone.
• Call Center wait times decreased to an average of less than 5 minutes (down from 6 minutes and 19 seconds) in Fiscal Year 2017. When excluding high call volume related to health insurance Open Enrollment during October and November, average wait time was 3 minutes and 39 seconds.
• Turnaround time for providing written retirement estimates has decreased from an average of 180 days to an average of 14 days (the peer average for Fiscal Year 2015 was 20 days)
• Turnaround time for providing service credit purchase estimates have also decreased from an average of 180 days to an average of 14 days (the peer average for Fiscal Year 2015 was 32 days)

We will continue to explore new ways of enhancing our services to our members. Thank you for your patience and ongoing support as we make additional improvements in this area.

WATCHING OUR EXPENSES

KRS is very mindful of Ben Franklin’s adage, “a penny saved is a penny earned.” We are always looking for opportunities to save money by closely watching our administrative expenses, negotiating favorable terms with our vendors, and streamlining our operations whenever possible.

For example, each time we initiate a competitive bidding process, whether it be for legal services or a printing contractor, we always use the provider’s fee as an important criteria in the evaluation process. And, before we make the final selection, we ask the leading contenders to offer their “last and best fee.” Usually we are able to get a reduced fee and the final decision can be made accordingly.

Another way we are watching our expenses is by consolidating our investment manager roles. For example, equity managers may charge 0.5% for managing $100 million and 0.35% for managing $200 million. If we have two managers managing $100 million each, it costs us $1 million in fees per year. If we consolidate those roles and only have one manager running a $200 million portfolio, our fees are $700,000 per year.

KRS strives to be a prudent steward of your money, and we remain dedicated to getting the most value out of every dollar we spend.
TOP 10 MISTAKES ON THE FORM 6000

The “Form 6000, Notification of Retirement” is the main Form you complete to begin the retirement process. Unfortunately, nearly a third of the Forms we receive contain simple errors that make the Form invalid: this means we have to reject it, and you have to start from the beginning and complete a new Form 6000.

To avoid delays in processing your retirement, it’s crucial that you fill out the Form 6000 correctly. Here are the Top 10 Mistakes that we see in completing this Form:

1. Incorrect information on the Form. Please take your time and ensure everything is correct.

2. Blank Sections, and no signature. Don’t leave any of the Sections blank, and be sure to sign the Form and make sure you have your signature witnessed.

3. Have your employer complete “Section H.”

4. In “Section G,” don’t check lines 2 or 3 if you check Box 1. If you check #2, you must check ONE box. Don’t leave the number of allowances blank. Blank does NOT equal zero on this Form.

5. Don’t check more than one option for beneficiary on Section D & E. You can only pick ONE option.

6. Not including a voided check or written documentation from your financial institution.

1. Go to MyRetirement.ky.gov
   This is the direct link to your Self Service account. You can also login from kyret.ky.gov.

2. Connect to Your Account
   Click the “Need to Register?” link just below the login button. To register, you will enter your Social Security number, date of birth, a valid email address and KRS-issued Personal Identification Number (PIN) so we can identify your account. Your PIN can be found on an Annual Statement issued prior to 2012. If you can’t find your PIN, please call our office to request a new one.

3. Create Login Information
   We will ask you to create a User ID and Password, which you will use each time you login to your account. For additional security, you will answer a secret question. This answer will be used if you need to reset your User ID or Password.

Please take a couple of minutes to watch our video to avoid delays as you file for retirement.

https://kyret.ky.gov/Members/Ready-To-Retire/Pages/default.aspx

Simple steps to manage your retirement account

With our Self Service feature, you can manage your retirement account from the comfort of your own home. Interested? Here’s how to get started:

ACTIVE MEMBERS CAN:
- Update Contact Information
- Request an Account Balance Letter
- Calculate Retirement Estimates
- Estimate Costs to Purchase Eligible Service
- View Annual Statements

RETIREES CAN:
- Change Tax Withholdings
- Maintain Direct Deposit Information
- View 1099-R
- Update Mailing Address
- Submit Health Insurance Application during Open Enrollment

Please make sure we have your current email in Self Service.

Go one more step and follow us on Facebook.com/kyretirement

7. Not providing a legible date of birth verification or name change verification.

8. Not providing name change verification for member or beneficiary.

9. “Termination Date” and “Retirement Date” cannot be the same date.

10. Submitting an outdated Form 6000. Current Forms - https://kyret.ky.gov/Publications/Forms/Pages/Member-Forms.aspx
PREP TOUR CONCLUDES

Kentucky Retirement Systems counselors travelled around the state in spring 2017 conducting Pre-Retirement Education Program (PREP) sessions to help our members understand their retirement benefits and better prepare them for their next phase of life.

PREP sessions are a comprehensive overview of KRS’ retirement benefits and are designed for members who are within two years of retirement eligibility.

Representatives of Kentucky Deferred Compensation (KDC) and the Social Security Administration (SSA) accompanied our staff as they visited 11 locations and led 27 PREP sessions for more than 1,500 members.

Although the 2017 sessions have ended, we plan to begin offering PREPs annually rather than every two years as we have in the past. If you did not receive an email invitation to one of our PREP sessions and you meet the above described criteria, please be sure to login to your Member Self Service account to update your email address, or call 1-800-928-4646 with your PIN.

A special thanks to the state parks, Kentucky Exposition Center, Northern Kentucky Convention Center, Kentucky Association of Counties, the vendors, Kentucky Deferred Compensation, the Social Security Administration, and our members for helping make the 2017 PREP sessions such a success.

What happens to your KRS health insurance coverage when you turn 65 years old and transition to Medicare?

Transition To Medicare Webinar recording available

Earlier this summer the KRS Retiree Health Care Division conducted a webinar for prospective Medicare eligible members on the topic of transitioning to Medicare eligible health insurance coverage. The webinar explains what to expect when transitioning to Medicare, how to enroll to ensure a smooth transition, and discusses the current Humana Medicare Advantage options available through KRS.

Learn more at https://kyret.ky.gov/About/Outreach_and_Programs/Pages/Webinars-and-Videos.aspx
MEMBERSHIP FOCUS

With changes in the management structure, KRS remains focused on our mission of serving our diverse membership needs. KRS paid almost $1.9 billion in benefit payments to over 103,000 recipients - a significant economic benefit to Kentucky. We provided insurance to over 86,000 members and families through the end of fiscal year 2016. Our call center answered over 250,000 phone inquiries.

PFM Study

Last fall, Governor Bevin, through the Office of the State Budget Director, enlisted the services of the PFM Group to conduct a “Pension Performance and Best Practices Analysis” of the state’s three public pension plans. An interim report, “Transparency and Governance,” was submitted in late December 2016.

The report’s recommendations contain no surprises. In most cases, the recommendations are already practices followed by KRS. Actions taken by Governor Bevin appointing members to the KRS Board of Trustees who have investment backgrounds follows the report’s recommendations to “…enhance governance, reporting, contracting, and personnel practices.”

At the May 22 meeting of the Public Pension Oversight Board (PPOD), PFM presented their second report. That report is an assessment of the financial condition, benefit comparisons, and management practices of all of the state’s retirement systems. PFM identified the causes that led to the severe underfunding. Their final report will outline their recommendations designed to improve the financial health and management of the Systems.

LOOKING FORWARD

“We have confidence that meeting our financial challenges is within our power, albeit the road to recovery is a long one. All of us at KRS, along with Governor Bevin, the Legislature and legislative leadership, have begun to address the important funding issues we are facing. We are committed to seeing KRS in a healthy position once again.”

David Eager
Interim Executive Director

REDESIGNED KRS WEBSITE UNVEILED

As part of our ongoing commitment to transparency, we have created a more user-friendly website with additional resources and a visual design that will allow you to search our site more easily.

We invite you to explore the new site and give us your feedback as we continue to improve your experience with the Systems.

Visit us at https://kyret.ky.gov

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Telephone
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Toll Free: 1-800-928-4646 (Toll Free)
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KRS Office Hours
8:00 a.m. to 4:30 p.m. Eastern Time
Monday – Friday

KRS Website
https://kyret.ky.gov
Self Service
http://MyRetirement.ky.gov

General Email
krs.mail@kyret.ky.gov

NOTE: Please do not include any sensitive information, such as your Social Security number, in any email correspondence with KRS.

We invite you to connect with us!

Facebook.com/kyretirement
Twitter - @KYretire

YouTube.com/user/KentuckyRetire