

## KRS WORKING FOR YOU

As I write this article, the KRS staff is once again preparing for a very busy fall and winter. Open enrollment for both the non-Medicare eligible and the Medicare eligible retirees is just about upon us. This period is always taxing with a tremendous volume of telephone inquiries about retiree health insurance. We will receive the 2014 annual actuarial valuation in early December and the KRS Board of Trustees will set the rates to be paid during the 2016 fiscal year by the employers participating in the CERS system. In accordance with a statutory change made during the 2013 Regular Session of the Kentucky General Assembly, the rates paid by the KERS and SPRS employers were set for both fiscal years 2015 and 2016 in December 2013.

We will also be preparing our annual Comprehensive Annual Financial Report (CAFR) during the next two or three months. This year, we plan only to publish a summary of key data in hard copy form for distribution to legislators, executive branch officials and other interested parties. An electronic copy of the complete CAFR will be posted on the KRS website. We are making this move in an attempt to save funds since the size of the CAFR (it was 169 pages in 2013) will increase due to compliance with new accounting and reporting standards adopted by the Governmental Accounting Standards Board (GASB).

Of course, the next session of the Kentucky General Assembly will convene in early January 2013. We expect that a number of legislative proposals impacting KRS members and the administration of the system will be introduced. KRS will once again seek to have a "housekeeping" bill passed that will clear up technical issues in the statutes and provide additional clarity with respect to various legislative requirements.

Finally, we are continuing to try to improve our communications effort with our members through the KRS Facebook page and the government YouTube site. In that regard, we began a series of webinars presented by executive staff in an attempt to bring current and pertinent information to the members and give them an opportunity to pose questions about KRS issues and operations. These webinars are being posted on the KRS website – [www.kyret.ky.gov](http://www.kyret.ky.gov) – as they are completed. We will continue to try to improve communications in the coming months and any suggestions from the membership will be welcomed. As we wind down 2014 and move into the new year – 2015, please don't hesitate to let us know how we can serve you better.

Bill Thielen  
Executive Director



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## Mandatory Open Enrollment

Register today online on our [Member Self Service Website](#)  
[www.myretirement.ky.gov](http://www.myretirement.ky.gov)



### New Feature for the KRS Call Center

KRS now is offering **Call Back Assist** and extended Call Center hours

At Kentucky Retirement Systems (KRS), we are committed to serving our members in the most thorough and expeditious way possible. During the Open Enrollment period, we sometimes experience call volumes that exceed 1,600 calls per day.

We understand that long hold times are frustrating for our members, so in September we piloted a new **Call Back Assist** option for incoming calls. This feature, offered during heavy call volume periods, provides the option to retain your place in line without having to stay on hold. Based on very positive member response, we are making **Call Back Assist** a permanent addition to our phone system. Now, when you call KRS during peak times, you will be given the option to retain your place in line and when prompted, you may select call back assistance, then leave your name and the phone number for your return call. You will be called back by one of our counselors.

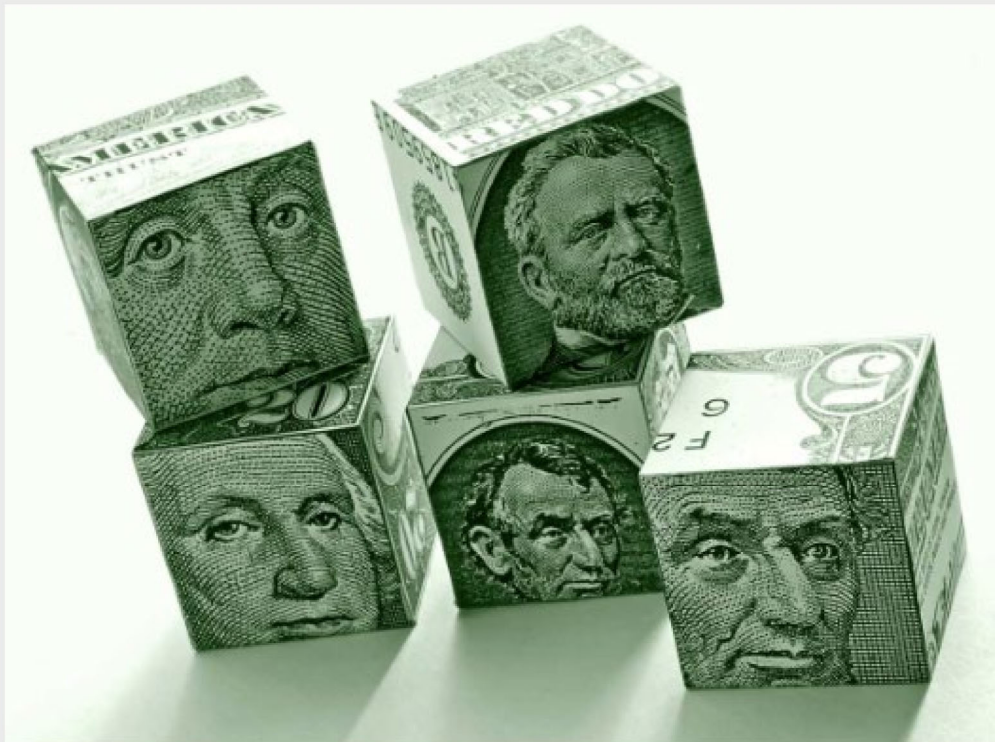
We are confident that this enhancement will help KRS better serve our members. Of course, if you wish, you may remain on the phone and be served in turn.

### Extended Center Hours October 1st -31st

In an effort to better assist our members with Open Enrollment, our Call Center has extended their hours from October 1st thru October 31st. So if you have any questions please give us a call!

**CALL 8:00am to 5:30pm**  
**502-696-8800 (Frankfort) 1-800-928-4646 (Toll-Free)**





## Investment Market Commentary Fiscal Year 2014:

Investment returns were driven by the U.S. public equity market for the fiscal year, continuing the multi-year positive run for U.S. stocks. Investors really haven't seen these types of returns or the duration of the rally since the late 1990s. In addition, the recent IPO market has been robust, allowing private companies to offer shares to the public. Investors finally saw some signs of economic growth in the spring of 2014 after a tough winter where we saw dismal GDP growth and only decent, but not great employment growth. Job growth numbers improved in the spring with all monthly job gains exceeding 200,000 per month, plus GDP in the second quarter of 2014 was 4.2 percent versus negative 2.1 percent for the first quarter of 2014. The second quarter numbers gave some evidence that the U.S. stock market was not getting ahead of itself and staved off any selloff or correction.

While the domestic economy is getting better, the world is not without its worry. The Ukraine and Russia conflict was exacerbated with the downing of the Malaysian Airlines flight, resulting in further economic sanctions placed on Russia. This situation has caused an already weak European economy to get worse and slip back into recession. The European weakness is forcing the European Central Bank to take accommodative actions and increase money supply resulting in extremely low interest rates. European banks still have yet to clean up many bad loans on their books post financial crisis. The Israel and Hamas conflict has been in active military engagement for a number of months now and as the fiscal year was ending, Iraq was in a deteriorating situation politically and militarily, though maybe some progress has been made more recently.

The Federal Reserve continues to taper its bond buying program. Treasury yields really haven't risen since the taper actually began with yields on the 10 year and 30 year range bound. The Fed's message to the markets at the last Federal Open Market Committee meeting is that it intends to keep rates on cash instruments low until the summer of 2015. As a result, high yield fixed income has continued to do tremendously well as market participants search for yield.

Absolute Return strategies are doing well as an overall portfolio diversifier because for the first time post financial crisis, not every asset is either going up or down together. Credit related strategies are doing extremely well, but Long/Short equity managers are struggling a bit due to the overall strength of the equity market. In calendar year 2013, 92% of the companies in the S&P 500 had positive performance, creating a tough environment to try to short stocks. In addition, March 2014 was an incredibly difficult month for long/short equity managers as many of the companies that hedge funds owned traded down in a significant way, though most of those same names rebounded in April. Violent swings in portfolio holdings make it difficult to maintain conviction and often a portfolio manager is forced to sell positions on the way down due to stop loss provisions or to meet potential investor redemptions.

Commercial real estate, specifically core real estate, is priced at fair value. It's hard to imagine an economic scenario that allows commercial real estate to continue to go up in value in the short run. The better value in the real estate markets are properties where owners and property managers can rehab and add value through structural investments in or repurposing existing properties making them more valuable to tenants or potential purchasers.

Private equity realization of returns has been stronger with the IPO markets being robust for the past 12 months. Investors are starting to see quality returns as firms seek to utilize the robust IPO market or sell companies to strategic buyers. Along the same lines, guidance from the Fed with respect to historically low short-term interest rates has allowed underlying portfolio companies to clean up their balance sheets making them more valuable on a cash flow basis and to potential buyers.

### KRS Investment Portfolio Fiscal Year 2014

The composite KRS Pension portfolio performed very well on an absolute basis (+15.55%) and relative to its benchmark (+0.64%) for the fiscal year 2014. All asset classes had positive performance during the fiscal year for the Pension plan on an absolute return basis. The strong performing equity markets provided a positive tailwind for the pension plan with the KRS public equity portfolio returning 22.45% and private equity returning 22.71% for the fiscal year. Other positive contributors to performance were real return 8.99%, absolute return 8.46%, real estate 8.06%, and fixed income 7.05%. Relative to each sector's benchmark the positive contributors were absolute return (+3.38%), real return (+3.32%), and fixed income (+1.85%). The negative performance relative to benchmarks came from real estate (-4.68) and public equity (-0.51%). The performance variance in the KRS real estate portfolio is due to the conservative debt/credit nature of the portfolio's investments, the early stages of capital deployment, and the allocation decisions of the real estate portfolio within the transition to a larger real asset mandate. The KRS investment team was excited about locking in another good annual return for current and future retirees and we look forward to continuously improving the investment portfolio.





## Staff Changes at KRS

The Kentucky Retirement Systems (KRS) is pleased to announce that Executive Director William A. Thielen has appointed David Peden, MBA, CFA, as Chief Investment Officer (CIO). Mr. Peden has served as Interim CIO since January of this year. David joined KRS on March 1, 2009 as the Director of Fixed Income with the KRS Investment Division. He previously was with J.J.B. Hilliard, W.L. Lyons, LLC, Louisville, Kentucky. David received a Bachelor's Degree in Finance with a minor in Economics from Western Kentucky University. He received his MBA from the University of Louisville. He received his designation as a Chartered Financial Analyst (CFA) in 2012.

Rebecca Stephens has been appointed to fill the position of Chief Benefits Officer effective September 1, 2014. A graduate of Kentucky State University, Rebecca joined KRS in 1993 as a Retirement Systems Counselor. She was promoted to a Retirement Program Manager in 1999 and to Director, Division of Member Services in 2001. She transferred from the Division of Member Services to the Division of Payroll (Retiree Services), as Director, in 2013.

Following Rebecca's transfer, David A. Nix was appointed as the Director of the Division of Retiree Payroll, effective September 1, 2014. David has served KRS for the past 14 years. He was first employed in November 2000 as a Retirement Systems Counselor in the Retiree Call Center within the Division of Membership Support. In 2003, David transferred to the Division of Retiree Services and was promoted to Retirement Program Manager in June 2006.

## 2015 SPRS Election State Police Retirement System Nominations

At the quarterly Board of Trustees meeting on September 11, 2014, Keith Peercy and Lisa Rudzinski were nominated as candidates for the Board Seat to the State Police Retirement System (SPRS). The candidates will be placed on the ballot to be mailed in early January 2015 to all SPRS members. Individuals who would like to be placed on the ballot through the petition process must comply with the following: individual must be an active, inactive, or retired member of SPRS and must obtain a minimum of fifty – five (55) names, last four digits of social security numbers, and signatures of active, inactive or retired members of SPRS. The last day to file a petition at the KRS office is at 4:30pm on November 30, 2014, by delivery to the Division of Internal Audit. By December 31, 2014, the official ballot will be prepared and printed by KRS external printer. The official ballot will be mailed to the SPRS membership in January 2015. For your ballot to be officially recorded, it must be postmarked by March 1, 2015. On March 15, 2015, the ballots will be tabulated by our external auditors, Dean, Dorton, PLLC, Certified Public Accountants. The external auditors will be the only ones who have access to the returned ballots. The person receiving the most votes will be elected to the SPRS Board. The new Board member representing SPRS will begin his/her term on April 1, 2015.

To find out more about the election and the candidates [click here](#).



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