AN ACT relating to public finance.

Be it enacted by the General Assembly of the Commonwealth of Kentucky:

Section 1. KRS 42.500 is amended to read as follows:

(1) There shall be a State Investment Commission composed of the Governor who shall be chairman; the State Treasurer who shall be vice chairman and serve as chairman in the absence of the Governor; the secretary of the Finance and Administration Cabinet; and two (2) persons appointed by the Governor.

(2) The individuals appointed by the Governor shall be selected as follows: one (1) to be selected from a list of five (5) submitted to the Governor by the Kentucky Bankers Association, and one (1) to be selected from a list of five (5) submitted to the Governor by the Independent Community Bankers Association.

(3) The State Investment Commission shall meet at least quarterly to review investment performance and conduct other business. This provision shall not prohibit the commission from meeting more frequently as the need arises.

(4) The Governor, State Treasurer, and secretary of the Finance and Administration Cabinet shall each have the authority to designate, by an instrument in writing over his or her signature and filed with the secretary of the commission as a public record of the commission, an alternate with full authority to:

(a) Attend in the member's absence, for any reason, any properly convened meeting of the commission; and

(b) Participate in the consideration of, and vote upon, business and transactions of the commission.

Each alternate shall be a person on the staff of the appointing member or in the employ of the appointing member's state agency or department.

(5) Any designation of an alternate may, at the appointing member's direction:

(a) Be limited upon the face of the appointing instrument to be effective for only a specific meeting or specified business;
(b) Be shown on the face of the appointing instrument to be a continuing designation, for a period of no more than four (4) years, whenever the appointing member is unable to attend; or

(c) Be revoked at any time by the appointing member in an instrument in writing, over his or her signature, filed with the secretary of the commission as a public record of the commission.

(6) Any person transacting business with, or materially affected by, the business of the commission may accept and rely upon a joint certificate of the secretary of the commission and any member of the commission concerning the designation of any alternate, the time and scope of the designation, and, if it is of a continuing nature, whether and when the designation has been revoked. The joint certificate shall be made and delivered to the person requesting it within a reasonable time after it has been requested in writing, with acceptable identification of the business or transaction to which it refers and the requesting person's interest in the business or transaction.

(7) Any three (3) persons who are members of the commission or alternates authorized under subsections (4) and (5) of this section shall constitute a quorum and may, by majority vote, transact any business of the commission. Any three (3) members of the commission may call a meeting.

(8) The provisions of KRS 61.070 shall not apply to members of the commission.

(9) The commission shall have authority and may, if in its opinion the cash in the State Treasury is in excess of the amount required to meet current expenditures, invest any and all of the excess cash in:

(a) Obligations and contracts for future delivery of obligations backed by the full faith and credit of the United States or a United States government agency, including but not limited to:

1. United States Treasury;
2. Export-Import Bank of the United States;
3. Farmers Home Administration;
4. Government National Mortgage Corporation; and
5. Merchant Marine bonds;

(b) Obligations of any corporation of the United States government or government-sponsored enterprise, including but not limited to:

1. Federal Home Loan Mortgage Corporation;
2. Federal Farm Credit Banks:
   a. Bank for Cooperatives;
   b. Federal Intermediate Credit Banks; and
   c. Federal Land Banks;
3. Federal Home Loan Banks;
4. Federal National Mortgage Association; and
5. Tennessee Valley Authority obligations;

(c) Collateralized or uncollateralized certificates of deposit, issued by banks rated in one (1) of the three (3) highest categories by a nationally recognized statistical rating organization or other interest-bearing accounts in depository institutions chartered by this state or by the United States, except for shares in mutual savings banks;

(d) Bankers acceptances for banks rated in the highest short-term category by a nationally recognized statistical rating organization;

(e) Commercial paper rated in the highest short-term category by a nationally recognized statistical rating organization;

(f) Securities issued by a state or local government, or any instrumentality or agency thereof, in the United States, and rated in one (1) of the three (3) highest long-term categories by a nationally recognized statistical rating organization;
(g) United States denominated corporate, Yankee, and Eurodollar securities, excluding corporate stocks, issued by foreign and domestic issuers, including sovereign and supranational governments, rated in one (1) of the three (3) highest long-term categories by a nationally recognized statistical rating organization;

(h) Asset-backed securities rated in the highest category by a nationally recognized statistical rating organization; and

(i) Shares of mutual funds, each of which shall have the following characteristics:

1. The mutual fund shall be an open-end diversified investment company registered under Federal Investment Company Act of 1940, as amended;

2. The management company of the investment company shall have been in operation for at least five (5) years;

3. The mutual fund shall be rated in the highest category by a nationally recognized statistical rating organization;

4. All of the securities in the mutual fund shall be eligible investments pursuant to this section; and

(j) State and local delinquent property tax claims which upon purchase shall become certificates of delinquency secured by interests in real property not to exceed twenty-five million dollars ($25,000,000) in the aggregate. For any certificates of delinquency that have been exonerated pursuant to KRS 132.220(5), the Department of Revenue shall offset the loss suffered by the Finance and Administration Cabinet against subsequent local distributions to the affected taxing districts as shown on the certificate of delinquency.

(10) The State Investment Commission shall promulgate administrative regulations for the investment and reinvestment of state funds in shares of mutual funds, and the regulations shall specify:

(a) The long and short term goals of any investment;
(b) The specification of moneys to be invested;
(c) The amount of funds which may be invested per instrument;
(d) The qualifications of instruments; and
(e) The acceptable maturity of investments.

(11) Any investment in obligations and securities pursuant to subsection (9) of this
section shall satisfy this section if these obligations are subject to repurchase
agreements, provided that delivery of these obligations is taken either directly or
through an authorized custodian.

(12) (a) The State Investment Commission shall not invest in any of the securities of
a company, or a mutual fund that contains a company, that is participating
in a boycott of Israel at the time of the investment and shall divest itself of
any investment in a company that is participating in a boycott of Israel.

(b) As used in this subsection:
   1. a. "Boycott of Israel" means:
      i. Engaging in actions by refusing to deal or conduct
         business with, abstaining from dealing or conducting
         business with, terminating business or business activities,
         or performing any other act that is intended to limit
         commercial relations with the State of Israel or any person
         or company doing business in the State of Israel or in
         territories controlled by the State of Israel; and
      ii. Engaging in actions that are intended to penalize, inflict
          economic harm, or otherwise limit commercial relations
          with the State of Israel or in territories controlled by the
          State of Israel.
   b. The term does not include actions described in subdivision a. of
      this subparagraph if the actions are:
i. Based upon bona fide business or economic reasons; or

ii. Taken in compliance with or pursuant to actions authorized by federal law; and

2. "Company" means any domestic or foreign organization, association, corporation, partnership, joint venture, limited partnership, limited liability partnership, limited liability company, or other domestic or foreign entity or business association, including without limitation any wholly owned subsidiary, majority owned subsidiary, parent company, or affiliate of such an entity or business.

(13) (a) Income earned from investments made pursuant to this section shall accrue to the credit of the investment income account of the general fund, except that interest from investments of excess cash in the road fund shall be credited to the surplus account of the road fund and interest from investments of excess cash in the game and fish fund shall be credited to the game and fish fund, interest earned from investments of imprest cash funds and funds in the trust and revolving fund for each state public university shall be credited to the appropriate institutional account, and interest earned from the investment of funds accumulated solely by means of contributions and gifts shall not be diverted to any purpose other than that stipulated by the donor, when the donor shall have designated the use to which the interest shall be placed.

(b) Except as otherwise provided by law, or by the obligations and covenants contained in resolutions and trust indentures adopted or entered into for state bond issues, interest earned from the investment of moneys appropriated to the capital construction accounts, trust and agency accounts, and trust and agency revolving accounts shall accrue to the capital construction investment income account.

(c) If there is a revenue shortfall, as defined in KRS 48.010, of five percent (5%)
or less, the secretary of the Finance and Administration Cabinet, upon the
recommendation of the state budget director, may direct the transfer of excess
unappropriated capital construction investment income to the general fund
investment income account. The amount of the transfer shall not exceed the
amount of the shortfall in general fund revenues.

(d) If the capital construction investment income is less than that amount
appropriated by the General Assembly, the secretary of the Finance and
Administration Cabinet may, upon recommendation of the state budget
director, direct the transfer of excess unappropriated general fund investment
income to the capital construction investment income account. The transfer of
general fund investment income revenues to the capital construction
investment income account shall be made only when the actual general fund
revenues are in excess of the enacted estimates under KRS 48.120 and shall be
limited to the amount of the excess general fund revenues. The amount of the
transfer shall not exceed the amount of the shortfall in the capital construction
fund revenues.

(14)(13) The authority granted by this section to the State Investment Commission
shall not extend to any funds that are specifically provided by law to be invested by
some other officer or agency of the state government.

(15)(14) The authority granted by this section to the State Investment Commission
shall only be exercised pursuant to the administrative regulations mandated by KRS
42.525.

(16)(15) Each member of the State Investment Commission, with the exception of the
Governor, shall post bond for his acts or omissions as a member thereof identical in
amount and kind to that posted by the State Treasurer.

SECTION 2. A NEW SECTION OF KRS CHAPTER 45A IS CREATED TO
READ AS FOLLOWS:
(1) As used in this section:

(a) 1. "Boycott of Israel" means:

   a. Engaging in actions by refusing to deal or conduct business
   with, abstaining from dealing or conducting business with,
   terminating business or business activities, or performing any
   other act that is intended to limit commercial relations with the
   State of Israel or any person or company doing business in the
   State of Israel or in territories controlled by the State of Israel;
   and

   b. Engaging in actions that are intended to penalize, inflict
   economic harm or otherwise limit commercial relations with the
   State of Israel or in territories controlled by the State of Israel.

2. The term does not include actions described in subparagraph 1. of this
paragraph if the actions are:

   a. Based upon bona fide business or economic reasons; or

   b. Taken in compliance with or pursuant to actions authorized by
   federal law; and

(b) "Company" means any domestic or foreign organization, association,
corporation, partnership, joint venture, limited partnership, limited liability
partnership, limited liability company, or other domestic or foreign entity or
business association, including, without limitation, any wholly owned
subsidiary, majority owned subsidiary, parent company, or affiliate of such
an entity or business.

(2) After July 15, 2018, the secretary of the Finance and Administration Cabinet or
his or her authorized representative shall not enter into a contract or series of
contracts under KRS Chapter 45A, 175, 176, 177, or 180 with any company
unless the contract includes a written certification that the company is not
currently engaged in, and agrees for the duration of the contract not to engage
in, a boycott of Israel.

(3) This section shall not apply to any contract the total value of which is less than
one hundred thousand dollars ($100,000) over the life of the contract.

(4) Any company that participates in a boycott of Israel while engaged in a contract
finalized with the state under this chapter shall be prohibited from participating
in state contracts for a period of two (2) years from the date of the original
contract, in addition to any other penalties prescribed in this chapter.

Section 3. KRS 61.510 is amended to read as follows:

As used in KRS 61.510 to 61.705, unless the context otherwise requires:

(1) "System" means the Kentucky Employees Retirement System created by KRS
61.510 to 61.705;

(2) "Board" means the board of trustees of the system as provided in KRS 61.645;

(3) "Department" means any state department or board or agency participating in the
system in accordance with appropriate executive order, as provided in KRS 61.520.
For purposes of KRS 61.510 to 61.705, the members, officers, and employees of the
General Assembly and any other body, entity, or instrumentality designated by
executive order by the Governor, shall be deemed to be a department,
notwithstanding whether said body, entity, or instrumentality is an integral part of
state government;

(4) "Examiner" means the medical examiners as provided in KRS 61.665;

(5) "Employee" means the members, officers, and employees of the General Assembly
and every regular full-time, appointed or elective officer or employee of a
participating department, including the Department of Military Affairs. The term
does not include persons engaged as independent contractors, seasonal, emergency,
temporary, interim, and part-time workers. In case of any doubt, the board shall
determine if a person is an employee within the meaning of KRS 61.510 to 61.705;
"Employer" means a department or any authority of a department having the power
to appoint or select an employee in the department, including the Senate and the
House of Representatives, or any other entity, the employees of which are eligible
for membership in the system pursuant to KRS 61.525;

"State" means the Commonwealth of Kentucky;

"Member" means any employee who is included in the membership of the system or
any former employee whose membership has not been terminated under KRS
61.535;

"Service" means the total of current service and prior service as defined in this
section;

"Current service" means the number of years and months of employment as an
employee, on and after July 1, 1956, except that for members, officers, and
employees of the General Assembly this date shall be January 1, 1960, for which
creditable compensation is paid and employee contributions deducted, except as
otherwise provided, and each member, officer, and employee of the General
Assembly shall be credited with a month of current service for each month he
serves in the position;

"Prior service" means the number of years and completed months, expressed as a
fraction of a year, of employment as an employee, prior to July 1, 1956, for which
creditable compensation was paid; except that for members, officers, and employees
of the General Assembly, this date shall be January 1, 1960. An employee shall be
credited with one (1) month of prior service only in those months he received
compensation for at least one hundred (100) hours of work; provided, however, that
each member, officer, and employee of the General Assembly shall be credited with
a month of prior service for each month he served in the position prior to January 1,
1960. Twelve (12) months of current service in the system are required to validate
prior service;
(12) "Accumulated contributions" at any time means the sum of all amounts deducted from the compensation of a member and credited to his individual account in the members' account, including employee contributions picked up after August 1, 1982, pursuant to KRS 61.560(4), together with interest credited on such amounts and any other amounts the member shall have contributed thereto, including interest credited thereon. For members who begin participating on or after September 1, 2008, "accumulated contributions" shall not include employee contributions that are deposited into accounts established pursuant to 26 U.S.C. sec. 401(h) within the funds established in KRS 16.510, 61.515, and 78.520, as prescribed by KRS 61.702(2)(b);

(13) "Creditable compensation":

(a) Means all salary, wages, tips to the extent the tips are reported for income tax purposes, and fees, including payments for compensatory time, paid to the employee as a result of services performed for the employer or for time during which the member is on paid leave, which are includable on the member's federal form W-2 wage and tax statement under the heading "wages, tips, other compensation," including employee contributions picked up after August 1, 1982, pursuant to KRS 61.560(4). For members of the General Assembly, it shall mean all amounts which are includable on the member's federal form W-2 wage and tax statement under the heading "wages, tips, other compensation," including employee contributions picked up after August 1, 1982, pursuant to KRS 6.505(4) or 61.560(4);

(b) Includes:

1. Lump-sum bonuses, severance pay, or employer-provided payments for purchase of service credit, which shall be averaged over the employee's total service with the system in which it is recorded if it is equal to or greater than one thousand dollars ($1,000);
2. Cases where compensation includes maintenance and other perquisites, but the board shall fix the value of that part of the compensation not paid in money;

3. Lump-sum payments for creditable compensation paid as a result of an order of a court of competent jurisdiction, the Personnel Board, or the Commission on Human Rights, or for any creditable compensation paid in anticipation of settlement of an action before a court of competent jurisdiction, the Personnel Board, or the Commission on Human Rights, including notices of violations of state or federal wage and hour statutes or violations of state or federal discrimination statutes, which shall be credited to the fiscal year during which the wages were earned or should have been paid by the employer. This subparagraph shall also include lump-sum payments for reinstated wages pursuant to KRS 61.569, which shall be credited to the period during which the wages were earned or should have been paid by the employer;

4. Amounts which are not includable in the member's gross income by virtue of the member having taken a voluntary salary reduction provided for under applicable provisions of the Internal Revenue Code; and

5. Elective amounts for qualified transportation fringes paid or made available on or after January 1, 2001, for calendar years on or after January 1, 2001, that are not includable in the gross income of the employee by reason of 26 U.S.C. sec. 132(f)(4); and

(c) Excludes:

1. Living allowances, expense reimbursements, lump-sum payments for accrued vacation leave, and other items determined by the board;

2. For employees who begin participating on or after September 1, 2008, lump-sum payments for compensatory time; and
3. For employees who begin participating on or after August 1, 2016, nominal fees paid for services as a volunteer;

(14) "Final compensation" of a member means:

(a) For a member who begins participating before September 1, 2008, who is not employed in a hazardous position, as provided in KRS 61.592, the creditable compensation of the member during the five (5) fiscal years he was paid at the highest average monthly rate divided by the number of months of service credit during that five (5) year period multiplied by twelve (12). The five (5) years may be fractional and need not be consecutive. If the number of months of service credit during the five (5) year period is less than forty-eight (48), one (1) or more additional fiscal years shall be used;

(b) For a member who is not employed in a hazardous position, as provided in KRS 61.592, whose effective retirement date is between August 1, 2001, and January 1, 2009, and whose total service credit is at least twenty-seven (27) years and whose age and years of service total at least seventy-five (75), final compensation means the creditable compensation of the member during the three (3) fiscal years the member was paid at the highest average monthly rate divided by the number of months of service credit during that three (3) years period multiplied by twelve (12). The three (3) years may be fractional and need not be consecutive. If the number of months of service credit during the three (3) year period is less than twenty-four (24), one (1) or more additional fiscal years shall be used. Notwithstanding the provision of KRS 61.565, the funding for this paragraph shall be provided from existing funds of the retirement allowance;

(c) For a member who begins participating before September 1, 2008, who is employed in a hazardous position, as provided in KRS 61.592, the creditable compensation of the member during the three (3) fiscal years he was paid at
the highest average monthly rate divided by the number of months of service credit during that three (3) year period multiplied by twelve (12). The three (3) years may be fractional and need not be consecutive. If the number of months of service credit during the three (3) year period is less than twenty-four (24), one (1) or more additional fiscal years shall be used;

(d) For a member who begins participating on or after September 1, 2008, but prior to January 1, 2014, who is not employed in a hazardous position, as provided in KRS 61.592, the creditable compensation of the member during the five (5) complete fiscal years immediately preceding retirement divided by five (5). Each fiscal year used to determine final compensation must contain twelve (12) months of service credit. If the member does not have five (5) complete fiscal years that each contain twelve (12) months of service credit, then one (1) or more additional fiscal years, which may contain less than twelve (12) months of service credit, shall be added until the number of months in the final compensation calculation is at least sixty (60) months; or

(e) For a member who begins participating on or after September 1, 2008, but prior to January 1, 2014, who is employed in a hazardous position, as provided in KRS 61.592, the creditable compensation of the member during the three (3) complete fiscal years he was paid at the highest average monthly rate divided by three (3). Each fiscal year used to determine final compensation must contain twelve (12) months of service credit. If the member does not have three (3) complete fiscal years that each contain twelve (12) months of service credit, then one (1) or more additional fiscal years, which may contain less than twelve (12) months of service credit, shall be added until the number of months in the final compensation calculation is at least thirty-six (36) months;

(15) "Final rate of pay" means the actual rate upon which earnings of an employee were
calculated during the twelve (12) month period immediately preceding the
member's effective retirement date, including employee contributions picked up
after August 1, 1982, pursuant to KRS 61.560(4). The rate shall be certified to the
system by the employer and the following equivalents shall be used to convert the
rate to an annual rate: two thousand eighty (2,080) hours for eight (8) hour
workdays, nineteen hundred fifty (1,950) hours for seven and one-half (7-1/2) hour
workdays, two hundred sixty (260) days, fifty-two (52) weeks, twelve (12) months,
one (1) year;

(16) "Retirement allowance" means the retirement payments to which a member is
entitled;

(17) "Actuarial equivalent" means a benefit of equal value when computed upon the
basis of the actuarial tables that are adopted by the board. In cases of disability
retirement, the options authorized by KRS 61.635 shall be computed by adding ten
(10) years to the age of the member, unless the member has chosen the Social
Security adjustment option as provided for in KRS 61.635(8), in which case the
member's actual age shall be used. For members who began participating in the
system prior to January 1, 2014, no disability retirement option shall be less than the
same option computed under early retirement;

(18) "Normal retirement date" means the sixty-fifth birthday of a member, unless
otherwise provided in KRS 61.510 to 61.705;

(19) "Fiscal year" of the system means the twelve (12) months from July 1 through the
following June 30, which shall also be the plan year. The "fiscal year" shall be the
limitation year used to determine contribution and benefit limits as established by
26 U.S.C. sec. 415;

(20) "Officers and employees of the General Assembly" means the occupants of those
positions enumerated in KRS 6.150. The term shall also apply to assistants who
were employed by the General Assembly for at least one (1) regular legislative
session prior to July 13, 2004, who elect to participate in the retirement system, and
who serve for at least six (6) regular legislative sessions. Assistants hired after July 13, 2004, shall be designated as interim employees;

(21) "Regular full-time positions," as used in subsection (5) of this section, shall mean all positions that average one hundred (100) or more hours per month determined by using the number of months actually worked within a calendar or fiscal year, including all positions except:

(a) Seasonal positions, which although temporary in duration, are positions which coincide in duration with a particular season or seasons of the year and which may recur regularly from year to year, the period of time shall not exceed nine (9) months;

(b) Emergency positions which are positions which do not exceed thirty (30) working days and are nonrenewable;

(c) Temporary positions which are positions of employment with a participating department for a period of time not to exceed nine (9) months and are nonrenewable;

(d) Part-time positions which are positions which may be permanent in duration, but which require less than a calendar or fiscal year average of one hundred (100) hours of work per month, determined by using the number of months actually worked within a calendar or fiscal year, in the performance of duty; and

(e) Interim positions which are positions established for a one-time or recurring need not to exceed nine (9) months;

(22) "Delayed contribution payment" means an amount paid by an employee for purchase of current service. The amount shall be determined using the same formula in KRS 61.5525, and the payment shall not be picked up by the employer. A delayed contribution payment shall be deposited to the member's account and
considered as accumulated contributions of the individual member. In determining
payments under this subsection, the formula found in this subsection shall prevail
over the one found in KRS 212.434;

(23) "Parted employer" means a department, portion of a department, board, or agency,
such as Outwood Hospital and School, which previously participated in the system,
but due to lease or other contractual arrangement is now operated by a publicly held
corporation or other similar organization, and therefore is no longer participating in
the system. The term "parted employer" shall not include a department, board, or
agency that ceased participation in the system pursuant to KRS 61.522;

(24) "Retired member" means any former member receiving a retirement allowance or
any former member who has filed the necessary documents for retirement benefits
and is no longer contributing to the retirement system;

(25) "Current rate of pay" means the member's actual hourly, daily, weekly, biweekly,
monthly, or yearly rate of pay converted to an annual rate as defined in final rate of
pay. The rate shall be certified by the employer;

(26) "Beneficiary" means the person or persons or estate or trust or trustee designated by
the member in accordance with KRS 61.542 or 61.705 to receive any available
benefits in the event of the member's death. As used in KRS 61.702, "beneficiary"
does not mean an estate, trust, or trustee;

(27) "Recipient" means the retired member or the person or persons designated as
beneficiary by the member and drawing a retirement allowance as a result of the
member's death or a dependent child drawing a retirement allowance. An alternate
payee of a qualified domestic relations order shall not be considered a recipient,
except for purposes of KRS 61.623;

(28) "Level-percentage-of-payroll amortization method" means a method of determining
the annual amortization payment on the unfunded actuarial accrued liability as
expressed as a percentage of payroll over a set period of years. Under this method,
the percentage of payroll shall be projected to remain constant for all years
remaining in the set period and the unfunded actuarially accrued liability shall be
projected to be fully amortized at the conclusion of the set period;

(29) "Increment" means twelve (12) months of service credit which are purchased. The
twelve (12) months need not be consecutive. The final increment may be less than
twelve (12) months;

(30) "Person" means a natural person;

(31) "Retirement office" means the Kentucky Retirement Systems office building in
Frankfort;

(32) "Last day of paid employment" means the last date employer and employee
contributions are required to be reported in accordance with KRS 16.543, 61.543, or
78.615 to the retirement office in order for the employee to receive current service
credit for the month. Last day of paid employment does not mean a date the
employee receives payment for accrued leave, whether by lump sum or otherwise, if
that date occurs twenty-four (24) or more months after previous contributions;

(33) "Objective medical evidence" means reports of examinations or treatments; medical
signs which are anatomical, physiological, or psychological abnormalities that can
be observed; psychiatric signs which are medically demonstrable phenomena
indicating specific abnormalities of behavior, affect, thought, memory, orientation,
or contact with reality; or laboratory findings which are anatomical, physiological,
or psychological phenomena that can be shown by medically acceptable laboratory
diagnostic techniques, including but not limited to chemical tests,
electrocardiograms, electroencephalograms, X-rays, and psychological tests;

(34) "Participating" means an employee is currently earning service credit in the system
as provided in KRS 61.543;

(35) "Month" means a calendar month;

(36) "Membership date" means:
(a) The date upon which the member began participating in the system as provided in KRS 61.543; or
(b) For a member electing to participate in the system pursuant to KRS 196.167(4) who has not previously participated in the system or the Kentucky Teachers' Retirement System, the date the member began participating in a defined contribution plan that meets the requirements of 26 U.S.C. sec. 403(b);

(37) "Participant" means a member, as defined by subsection (8) of this section, or a retired member, as defined by subsection (24) of this section;

(38) "Qualified domestic relations order" means any judgment, decree, or order, including approval of a property settlement agreement, that:
(a) Is issued by a court or administrative agency; and
(b) Relates to the provision of child support, alimony payments, or marital property rights to an alternate payee;

(39) "Alternate payee" means a spouse, former spouse, child, or other dependent of a participant, who is designated to be paid retirement benefits in a qualified domestic relations order;

(40) "Accumulated employer credit" mean the employer pay credit deposited to the member's account and interest credited on such amounts as provided by KRS 16.583 and 61.597;

(41) "Accumulated account balance" means:
(a) For members who began participating in the system prior to January 1, 2014, the member's accumulated contributions; or
(b) For members who began participating in the system on or after January 1, 2014, in the hybrid cash balance plan as provided by KRS 16.583 and 61.597, the combined sum of the member's accumulated contributions and the member's accumulated employer credit;
"Volunteer" means an individual who:

(a) Freely and without pressure or coercion performs hours of service for an employer participating in one (1) of the systems administered by Kentucky Retirement Systems without receipt of compensation for services rendered, except for reimbursement of actual expenses, payment of a nominal fee to offset the costs of performing the voluntary services, or both; and

(b) If a retired member, does not become an employee, leased employee, or independent contractor of the employer for which he or she is performing volunteer services for a period of at least twenty-four (24) months following the retired member's most recent retirement date;

"Nominal fee" means compensation earned for services as a volunteer that does not exceed five hundred dollars ($500) per month. Compensation earned for services as a volunteer from more than one (1) participating employer during a month shall be aggregated to determine whether the compensation exceeds the five hundred dollars ($500) per month maximum provided by this subsection;

"Boycott of Israel" means:

(a) 1. Engaging in actions by refusing to deal or conduct business with, abstaining from dealing or conducting business with, terminating business or business activities with, or performing any other act that is intended to limit commercial relations with the State of Israel or any person or company doing business in the State of Israel or in territories controlled by the State of Israel; and

2. Engaging in actions that are intended to penalize, inflict economic harm, or otherwise limit commercial relations with the State of Israel or in territories controlled by the State of Israel.

(b) The term does not include actions described in paragraph (a) of this subsection if the actions are:
1. Based upon bona fide business or economic reasons; or

2. Taken in compliance with or pursuant to actions authorized by federal law;

(45) "Company" means any domestic or foreign organization, association, corporation, partnership, joint venture, limited partnership, limited liability partnership, limited liability company, or other domestic or foreign entity or business association, including without limitation any wholly owned subsidiary, majority-owned subsidiary, parent company, or affiliate of such an entity or business;

(46) "Direct holdings" in a company means all publicly traded securities of that company that are held in an account or fund, such as a mutual fund, managed by one (1) or more persons under the direction of the Kentucky Retirement Systems in an actively managed account or fund in which the Kentucky Retirement Systems owns all shares or interests; and

(47) "Indirect holdings" in a company means all securities of that company that are held in an account or fund, such as a mutual fund, managed by one (1) or more persons under the direction of the Kentucky Retirement Systems, in which the Kentucky Retirement Systems owns or shares interests with investors not subject to the provisions of this chapter or are held in an index fund.

Section 4. KRS 61.650 is amended to read as follows:

(1) (a) The board shall be the trustee of the several funds created by KRS 16.510, 61.515, 61.701, and 78.520, notwithstanding the provisions of any other statute to the contrary, and shall have exclusive power to invest and reinvest such funds in accordance with federal law.

(b) 1. The board shall establish an investment committee whose membership shall be composed of the following:

a. The six (6) trustees appointed by the Governor pursuant to KRS
61.645(1)(e)5.; and

b. Three (3) trustees appointed by the board chair.

2. The investment committee shall have authority to implement the investment policies adopted by the board and act on behalf of the board on all investment-related matters and to acquire, sell, safeguard, monitor, and manage the assets and securities of the several funds.

(c) A trustee, officer, employee, or other fiduciary shall discharge duties with respect to the retirement system:

1. Solely in the interest of the members and beneficiaries;

2. For the exclusive purpose of providing benefits to members and beneficiaries and paying reasonable expenses of administering the system;

3. With the care, skill, and caution under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with those matters would use in the conduct of an activity of like character and purpose;

4. Impartially, taking into account any differing interests of members and beneficiaries;

5. Incurring any costs that are appropriate and reasonable; and

6. In accordance with a good-faith interpretation of the law governing the retirement system.

(d) In addition to the standards of conduct prescribed by paragraph (c) of this subsection, all individuals associated with the investment and management of retirement system assets, whether contracted investment advisors, board members, or staff employees, shall adhere to the Code of Ethics and Standards of Professional Conduct, the Asset Manager Code of Professional Conduct if the individual is managing retirement system assets, and the Code of Conduct
for Members of a Pension Scheme Governing Body if the individual is a board member. All codes cited in this paragraph are promulgated by the CFA Institute.

(2) All securities acquired under authority of KRS 61.510 to 61.705 shall be registered in the name "Kentucky Retirement Systems" or nominee name as provided by KRS 286.3-225 and every change in registration, by reason of sale or assignment of such securities, shall be accomplished pursuant to written policies adopted by the board.

(3) The board, in keeping with its responsibility as trustee and wherever consistent with its fiduciary responsibilities, shall give priority to the investment of funds in obligation calculated to improve the industrial development and enhance the economic welfare of the Commonwealth.

(4) The contents of real estate appraisals, engineering or feasibility estimates, and evaluations made by or for the system relative to the acquisition or disposition of property, until such time as all of the property has been acquired or sold, shall be excluded from the application of KRS 61.870 to 61.884 and shall be subject to inspection only upon order of a court of competent jurisdiction.

(5) Based upon market value at the time of purchase, the board shall limit the amount of assets managed by any one (1) active or passive investment manager to fifteen percent (15%) of the assets in the pension and insurance funds.

(6) All contracts for the investment or management of assets of the systems shall not be subject to KRS Chapters 45, 45A, 56, and 57. Instead, the board shall conduct the following process to develop and adopt an investment procurement policy with which all prospective contracts for the investment or management of assets of the systems shall comply:

(a) On or before July 1, 2017, the board shall consult with the secretary of the Finance and Administration Cabinet or his or her designee to develop an investment procurement policy, which shall be written to meet best practices
in investment management procurement;

(b) Thirty (30) days prior to adoption, the board shall tender the preliminary investment procurement policy to the secretary of the Finance and Administration Cabinet or his or her designee for review and comment;

(c) Upon receipt of comments from the secretary of the Finance and Administration Cabinet or his or her designee, the board shall choose to adopt or not adopt any recommended changes;

(d) Upon adoption, the board shall tender the final investment procurement policy to the secretary of the Finance and Administration Cabinet or his or her designee;

(e) No later than thirty (30) days after receipt of the investment procurement policy, the secretary or his or her designee shall certify whether the board's investment procurement policy meets or does not meet best practices for investment management procurement; and

(f) Any amendments to the investment procurement policy shall adhere to the requirements set forth by paragraphs (b) to (e) of this subsection.

(7) The Kentucky Retirement Systems shall prepare an annual report of investments of money from public funds that are or have been invested in companies identified to have participated or are actively participating in a boycott of Israel. This report shall be submitted to the Governor and the Legislative Research Commission by February 1 of each year.

(8) The Kentucky Retirement Systems shall:

(a) Sell, redeem, divest, or withdraw all direct holdings of a company participating in a boycott of Israel from the assets under its management within three (3) months after preparing a list described in subsection (7) of this section that includes that company;

(b) Be able to extend the period of time granted in paragraph (a) of this...
subsection to sell, redeem, divest, or withdraw direct holdings in a company
for three (3) additional months if it is not feasible for financial or economic
reasons to sell, redeem, divest, or withhold direct holdings in a company
described in paragraph (a) of this subsection;

(c) Post on the Internet Web site of the Kentucky Retirement Systems on or
before June 30 of each year a list that includes each investment that was
sold, redeemed, divested, or withdrawn under paragraph (a) of this
subsection;

(d) Not acquire securities of a company participating in a boycott of Israel as
part of the direct holdings of the Kentucky Retirement Systems; and

(e) Request that the manager of the indirect holdings of any public fund
consider selling, redeeming, divesting, or withdrawing holdings of a
company participating in a boycott of Israel from the assets under its
management.