

1 AN ACT relating to the state-administered retirement systems.

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

3 ➔Section 1. KRS 21.540 is amended to read as follows:

4 (1) Except as provided in KRS 21.550, 21.560, and subsections (3) and (7) of this
5 section, the board of trustees of the Judicial Form Retirement System shall be
6 charged with the administration of that system and of KRS 21.350 to 21.510, and
7 shall have all powers necessary thereto, including the power to promulgate all
8 reasonable administrative regulations, pass upon questions of eligibility and
9 disability, make employments for services, and to contract for fiduciary liability
10 insurance, and for investment counseling, actuarial, auditing, and other professional
11 services subject to the limitations of KRS Chapters 45, 45A, 56, and 57. The
12 administrative expenses shall be paid out of an administrative account which shall
13 be funded by transfers of the necessary money, in appropriate ratio, from the funds
14 provided for in KRS 21.550 and 21.560.

15 (2) (a) A qualified domestic relations order issued by a court or administrative
16 agency shall be honored by the Judicial Form Retirement System if the order
17 is in compliance with the requirements established by the retirement system.

18 (b) Except in cases involving child support payments, the Judicial Form
19 Retirement System may charge reasonable and necessary fees and expenses to
20 the participant and the alternate payee of a qualified domestic relations order
21 for the administration of the qualified domestic relations order by the
22 retirement system. All fees and expenses shall be established by
23 administrative regulations promulgated by the board of trustees of the
24 retirement system. The qualified domestic relations order shall specify
25 whether the fees and expenses provided by this subsection shall be paid:

- 26 1. Solely by the participant;
27 2. Solely by the alternate payee; or

- 1 3. Equally shared by the participant and alternate payee.
- 2 (c) For purposes of this subsection, a "qualified domestic relations order" shall
- 3 mean any judgment, decree, or order, including approval of a property
- 4 settlement agreement, that:
- 5 1. Is issued by a court or administrative agency; and
- 6 2. Relates to the provision of child support, alimony payments, or marital
- 7 property rights to a spouse, former spouse, child, or other dependent of a
- 8 member.
- 9 (3) Notwithstanding any other evidence of legislative intent, it is hereby declared to be
- 10 the controlling legislative intent that the provisions of KRS 21.345 to 21.580 and
- 11 6.500 to 6.577 shall conform with federal statutes or regulations and meet the
- 12 qualification requirements under 26 U.S.C. sec. 401(a), applicable federal
- 13 regulations, and other published guidance, and the board shall have the authority to
- 14 promulgate administrative regulations, with retroactive effect if required under
- 15 federal law, to conform the Legislators' Retirement Plan and the Judicial Retirement
- 16 Plan with federal statutes and regulations and to meet the qualification requirements
- 17 under 26 U.S.C. sec. 401(a).
- 18 (4) In order to improve public transparency regarding the administration of the
- 19 Legislators' Retirement Plan and the Judicial Retirement Plan, the board of trustees
- 20 of the Judicial Form Retirement System shall adopt a best-practices model by
- 21 posting the following information to the system's Web site and shall make it
- 22 available to the public:
- 23 (a) Meeting notices and agendas for all meetings of the board. Notices and
- 24 agendas shall be posted to the system's Web site at least seventy-two (72)
- 25 hours in advance of the board or committee meetings, except in the case of
- 26 special or emergency meetings as provided by KRS 61.823;
- 27 (b) A list of the members of the board of trustees and membership on each

- 1 committee established by the board, including any investment committees;
- 2 (c) A list of system staff and each staff's salary;
- 3 (d) A list of the fund's professional consultants and their respective fees and
4 commissions paid by the system;
- 5 (e) A list of the system's expenditures;
- 6 (f) The annual financial audit of the system, which shall include but not be
7 limited to a statement of plan net assets, a statement of changes in plan net
8 assets, an actuarial value of assets, a schedule of investments, a statement of
9 funded status and funding progress, and other supporting data;
- 10 (g) All external audits;
- 11 (h) The annual actuarial valuation report of pension and retiree health benefits of
12 each retirement plan administered by the system, which shall include a general
13 statistical section and information on contributions, benefit payouts, and
14 retirement plan demographic data;
- 15 (i) All board minutes or other materials that require adoption or ratification by
16 the board of trustees or committees of the board. The items listed in this
17 paragraph shall be posted within seventy-two (72) hours of adoption or
18 ratification by the board or committees;
- 19 (j) All bylaws, policies, or procedures adopted or ratified by the board of trustees
20 or by committees of the board;
- 21 (k) The summary plan description for each plan administered by the system;
- 22 (l) A document or a link to documents containing an unofficial copy of the
23 statutes governing the plans administered by the Judicial Form Retirement
24 System;
- 25 (m) Investment information, including all investment holdings in aggregate, fees,
26 and commissions for each fund administered by the board, which shall be
27 updated on a quarterly basis for fiscal years beginning on or after July 1, 2017.

1 The system shall request from all managers, partnerships, and any other
 2 available sources all information regarding fees and commissions **paid to each**
 3 **manager or partnership** and shall ~~be based on the requested information~~
 4 ~~received~~:

- 5 1. Disclose **by asset class** the dollar value of fees and commissions paid ~~to~~
 6 ~~each individual manager or partnership~~;
- 7 2. Disclose **by asset class** the dollar value of any profit sharing, carried
 8 interest, or any other partnership incentive arrangements, partnership
 9 agreements, or any other partnership expenses received by or paid ~~to~~
 10 ~~each manager or partnership~~; and
- 11 3. As applicable, report each fee or commission by manager or partnership
 12 consistent with standards established by the Institutional Limited
 13 Partners Association (ILPA).

14 In addition to the requirements of this paragraph, the system shall also
 15 disclose the name and address of all individual underlying managers or
 16 partners in any fund of funds in which system assets are invested;

- 17 (n) An update of net investment returns, asset allocations, and the performance of
 18 the funds against benchmarks adopted by the board for each fund, for each
 19 asset class administered by the board, and for each manager over a historical
 20 period. The update shall be posted on a quarterly basis for fiscal years
 21 beginning on or after July 1, 2017;
- 22 (o) All contracts, **renewals, modifications,** or offering documents for services,
 23 goods, or property purchased or utilized by the system, **for fiscal years**
 24 **beginning on or after July 1, 2017.** Notwithstanding KRS 61.878, all
 25 contracts, including investment contracts, shall be subject to review by the
 26 board, the Auditor of Public Accounts, and the Government Contract Review
 27 Committee established pursuant to KRS 45A.705. If any public record

1 contains material which is not excepted under KRS 61.878, the system shall
2 separate the excepted material by removal, segregation, or redaction,
3 according to a procedure approved by the retirement system board, and
4 make the nonexcepted material available for examination; and

5 (p) Information regarding the system's financial and actuarial condition that is
6 easily understood by the members, retired members, and the public.

7 Nothing in this subsection shall require or compel the Judicial Form Retirement
8 System to disclose information specific to the account of an individual member of
9 the Legislators' Retirement Plan or the Judicial Retirement Plan.

10 (5) No trustee or employee of the board shall:

11 (a) Have any interest, direct or indirect, in the gains or profits of any investment
12 or transaction made by the board, provided that the provisions of this
13 paragraph shall not prohibit a member or retiree of one (1) of the retirement
14 plans administered by the system from serving as a trustee;

15 (b) Directly or indirectly, for himself or herself or as an agent, use the assets of
16 the system, except to make current and necessary payments authorized by the
17 board;

18 (c) Become an endorser, surety, or obligor for moneys loaned by or borrowed
19 from the board;

20 (d) Have a contract or agreement with the retirement system, individually or
21 through a business owned by the trustee or the employee;

22 (e) Use his or her official position with the retirement system to obtain a financial
23 gain or benefit or advantage for himself or herself or a family member;

24 (f) Use confidential information acquired during his or her tenure with the
25 systems to further his or her own economic interests or that of another person;
26 or

27 (g) Hold outside employment with, or accept compensation from, any person or

1 business with which he or she has involvement as part of his or her official
2 position with the system. The provisions of this paragraph shall not prohibit:

- 3 1. A trustee from serving as a judge or member of the General Assembly;
- 4 or
- 5 2. A trustee from serving on the board if the compensation is de minimus
6 and incidental to the trustee's outside employment. If the compensation
7 is more than de minimus, the trustee shall disclose the amount of the
8 compensation to the other trustees and recuse himself or herself from
9 any matters involving hiring or retaining a person or a business from
10 whom more than de minimus amounts are received by the trustee. For
11 purposes of this section, "de minimus" means an insignificant amount
12 that does not raise a reasonable question as to the trustee's objectivity.

13 (6) Notwithstanding any other provision of KRS 6.500 to 6.577 and 21.345 to 21.580 to
14 the contrary, no funds of the Legislators' Retirement Plan or the Judicial Retirement
15 Plan, including fees and commissions paid to an investment manager, private fund,
16 or company issuing securities, who manages systems assets, shall be used to pay
17 fees and commissions to placement agents. For purposes of this subsection,
18 "placement agent" means a third-party individual, who is not an employee, or firm,
19 wholly or partially owned by the entity being hired, who solicits investments on
20 behalf of an investment manager, private fund, or company issuing securities.

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

- 26 (a) On or before July 1, 2017, the board shall consult with the secretary of the
27 Finance and Administration Cabinet or his or her designee to develop an

- 1 investment procurement policy, which shall be written to meet best practices
2 in investment management procurement;
- 3 (b) Thirty (30) days prior to adoption, the board shall tender the preliminary
4 investment procurement policy to the secretary of the Finance and
5 Administration Cabinet or his or her designee for review and comment;
- 6 (c) Upon receipt of comments from the secretary of the Finance and
7 Administration Cabinet or his or her designee, the board shall choose to adopt
8 or not adopt any recommended changes;
- 9 (d) Upon adoption, the board shall tender the final investment procurement policy
10 to the secretary of the Finance and Administration Cabinet or his or her
11 designee;
- 12 (e) No later than thirty (30) days after receipt of the investment procurement
13 policy, the secretary or his or her designee shall certify whether the board's
14 investment procurement policy meets or does not meet best practices for
15 investment management procurement; and
- 16 (f) Any amendments to the investment procurement policy shall adhere to the
17 requirements set forth by paragraphs (b) to (e) of this subsection.
- 18 (8) (a) 1. Upon request by any person, the Judicial Form Retirement System shall
19 release the following information from the accounts of any member or
20 retiree of the Legislators' Retirement Plan or the Judicial Retirement
21 Plan, if the member or retiree is a current or former officeholder in the
22 Kentucky General Assembly:
- 23 a. The first and last name of the member or retiree;
- 24 b. The plan or plans in which the member has an account or from
25 which the retiree is receiving a monthly retirement allowance;
- 26 c. The status of the member or retiree, including but not limited to
27 whether he or she is a contributing to the plans but has not retired,

- 1 or a retiree drawing a monthly retirement allowance;
- 2 d. If the individual is a retiree, the monthly retirement allowance that
- 3 he or she was receiving at the end of the most recently completed
- 4 fiscal year; and
- 5 e. If the individual is a member who has not yet retired, the estimated
- 6 monthly retirement allowance that he or she is eligible to receive
- 7 on the first date he or she would be eligible for an unreduced
- 8 retirement allowance, using his or her service credit, final
- 9 compensation, and accumulated account balance at the end of the
- 10 most recently completed fiscal year.
- 11 2. No information shall be disclosed under this paragraph from an account
- 12 that is paying benefits to a beneficiary due to the death of a member or
- 13 retiree.
- 14 (b) The release of information under paragraph (a) of this subsection shall not
- 15 constitute a violation of the Open Records Act, KRS 61.870 to 61.884.
- 16 ➔Section 2. KRS 61.645 is amended to read as follows:
- 17 (1) The County Employees Retirement System, Kentucky Employees Retirement
- 18 System, and State Police Retirement System shall be administered by the board of
- 19 trustees of the Kentucky Retirement Systems composed of seventeen (17) members,
- 20 who shall be selected as follows:
- 21 (a) The secretary of the Personnel Cabinet shall serve as trustee for as long as he
- 22 occupies the position of secretary under KRS 18A.015, except as provided
- 23 under subsections (5) and (6) of this section;
- 24 (b) Three (3) trustees, who shall be members or retired from the County
- 25 Employees Retirement System, elected by the members and retired members
- 26 of the County Employees Retirement System;
- 27 (c) One (1) trustee, who shall be a member or retired from the State Police

1 Retirement System, elected by the members and retired members of the State
2 Police Retirement System;

3 (d) Two (2) trustees, who shall be members or retired from the Kentucky
4 Employees Retirement System, elected by the members and retired members
5 of the Kentucky Employees Retirement System; and

6 (e) Ten (10) trustees, appointed by the Governor of the Commonwealth, subject
7 to Senate confirmation in accordance with KRS 11.160 for each appointment
8 or reappointment. Of the ten (10) trustees appointed by the Governor:

9 1. One (1) trustee shall be knowledgeable about the impact of pension
10 requirements on local governments;

11 2. One (1) trustee shall be appointed from a list of three (3) applicants
12 submitted by the Kentucky League of Cities;

13 3 One (1) trustee shall be appointed from a list of three (3) applicants
14 submitted by the Kentucky Association of Counties;

15 4. One (1) trustee shall be appointed from a list of three (3) applicants
16 submitted by the Kentucky School Boards Association; and

17 5. Six (6) trustees shall have investment experience. For purposes of this
18 subparagraph, a trustee with "investment experience" means an
19 individual who does not have a conflict of interest, as provided by KRS
20 61.655, and who has at least ten (10) years of experience in one (1) of
21 the following areas of expertise:

22 a. A portfolio manager acting in a fiduciary capacity;

23 b. A professional securities analyst or investment consultant;

24 c. A current or retired employee or principal of a trust institution,
25 investment or finance organization, or endowment fund acting in
26 an investment-related capacity;

27 d. A chartered financial analyst in good standing as determined by the

1 CFA Institute; or

2 e. A university professor, teaching investment-related studies.

3 (2) The board is hereby granted the powers and privileges of a corporation, including
4 but not limited to the following powers:

5 (a) To sue and be sued in its corporate name;

6 (b) To make bylaws not inconsistent with the law;

7 (c) To conduct the business and promote the purposes for which it was formed;

8 (d) Except as provided in KRS 61.650(6), to contract for investment counseling,
9 actuarial, auditing, medical, and other professional or technical services as
10 required to carry out the obligations of the board subject to KRS Chapters 45,
11 45A, 56, and 57;

12 (e) To purchase fiduciary liability insurance;

13 (f) Except as provided in KRS 61.650(6), to acquire, hold, sell, dispose of,
14 pledge, lease, or mortgage, the goods or property necessary to exercise the
15 board's powers and perform the board's duties subject to KRS Chapters 45,
16 45A, and 56; and

17 (g) The board shall reimburse any trustee, officer, or employee for any legal
18 expense resulting from a civil action arising out of the performance of his
19 official duties. The hourly rate of reimbursement for any contract for legal
20 services under this paragraph shall not exceed the maximum hourly rate
21 provided in the Legal Services Duties and Maximum Rate Schedule
22 promulgated by the Government Contract Review Committee established
23 pursuant to KRS 45A.705, unless a higher rate is specifically approved by the
24 secretary of the Finance and Administration Cabinet or his or her designee.

25 (3) (a) Notwithstanding the provisions of subsection (1) of this section, each trustee
26 shall serve a term of four (4) years or until his successor is duly qualified
27 except as otherwise provided in this section. An elected trustee or a trustee

1 appointed by the Governor under subsection (1)(e) of this section, shall not
2 serve more than three (3) consecutive four (4) year terms. An elected trustee
3 or a trustee appointed by the Governor under subsection (1)(e) of this section,
4 who has served three (3) consecutive terms may be elected or appointed again
5 after an absence of four (4) years from the board.

6 (b) The term limits established by paragraph (a) of this subsection shall apply to
7 trustees serving on or after July 1, 2012, and all terms of office served prior to
8 July 1, 2012, shall be used to determine if the trustee has exceeded the term
9 limits provided by paragraph (a) of this subsection.

10 (4) (a) The trustees selected by the membership of each of the various retirement
11 systems shall be elected by ballot. For each trustee to be elected, the board
12 may nominate, not less than six (6) months before a term of office of a trustee
13 is due to expire, three (3) constitutionally eligible individuals.

14 (b) Individuals may be nominated by the retirement system members which are to
15 elect the trustee by presenting to the executive director, not less than four (4)
16 months before a term of office of a trustee is due to expire, a petition, bearing
17 the name, last four digits of the Social Security number, and signature of no
18 less than one-tenth (1/10) of the number voting in the last election by the
19 retirement system members.

20 (c) Within four (4) months of the nominations made in accordance with
21 paragraphs (a) and (b) of this subsection, the executive director shall cause to
22 be prepared an official ballot. The ballot shall include the name, address, and
23 position title of each individual nominated by the board and by petition.
24 Provisions shall also be made for write-in votes.

25 (d) Except as provided by paragraph (j) of this subsection, the ballots shall be
26 distributed to the eligible voters by mail to their last known residence address.

27 (e) The ballots shall be addressed to the Kentucky Retirement Systems in care of

1 a predetermined box number at a United States Post Office located within
2 Kentucky or submitted electronically as provided by paragraph (j) of this
3 subsection. Access to this post office box shall be limited to the board's
4 contracted auditing firm. The individual receiving a plurality of votes shall be
5 declared elected.

6 (f) The eligible voter shall cast his ballot by checking a square opposite the name
7 of the candidate of his choice. He shall sign and mail the ballot or submit the
8 electronic ballot at least thirty (30) days prior to the date the term to be filled
9 is due to expire. The latest mailing date, or date of submission in the case of
10 electronic ballots, shall be provided on the ballot.

11 (g) The board's contracted auditing firm shall report in writing the outcome to the
12 chair of the board of trustees. Cost of an election shall be payable from the
13 funds of the system for which the trustee is elected.

14 (h) For purposes of this subsection, an eligible voter shall be a person who was a
15 member of the retirement system on December 31 of the year preceding the
16 election year.

17 (i) Each individual who submits a request to be nominated by the board under
18 paragraph (a) of this subsection and each individual who is nominated by the
19 membership under paragraph (b) of this subsection shall:

20 1. Complete an application developed by the retirement systems which
21 shall include but not be limited to a disclosure of any prior felonies and
22 any conflicts of interest that would hinder the individual's ability to
23 serve on the board;

24 2. Submit a resume detailing the individual's education and employment
25 history and a cover letter detailing the member's qualifications for
26 serving as trustee to the board; and

27 3. Authorize the systems to have a criminal background check performed.

1 The criminal background check shall be performed by the Department of
2 Kentucky State Police.

3 (j) In lieu of the ballots mailed to members and retired members as provided by
4 this subsection, the systems may by promulgation of administrative regulation
5 pursuant to KRS Chapter 13A conduct trustee elections using electronic
6 ballots, except that the systems shall mail a paper ballot upon request of any
7 eligible voter.

8 (5) Any vacancy which may occur in an appointed position shall be filled in the same
9 manner which provides for the selection of the particular trustee, and any vacancy
10 which may occur in an elected position shall be filled by appointment by a majority
11 vote of the remaining elected trustees with a person selected from the system in
12 which the vacancy occurs, and if the secretary of the Personnel Cabinet resigns his
13 position as trustee, it shall be filled by appointment made by the Governor;
14 however, any vacancy shall be filled only for the duration of the unexpired term. In
15 the event of a vacancy of an elected trustee, Kentucky Retirement Systems shall
16 notify members of the system in which the vacancy occurs of the vacancy and the
17 opportunity to be considered for the vacant position. Any vacancy shall be filled
18 within ninety (90) days of the position becoming vacant.

19 (6) (a) Membership on the board of trustees shall not be incompatible with any other
20 office unless a constitutional incompatibility exists. No trustee shall serve in
21 more than one (1) position as trustee on the board; and if a trustee holds more
22 than one (1) position as trustee on the board, he shall resign a position.

23 (b) A trustee shall be removed from office upon conviction of a felony or for a
24 finding of a violation of any provision of KRS 11A.020 or 11A.040 by a court
25 of competent jurisdiction.

26 (c) A current or former employee of Kentucky Retirement Systems shall not be
27 eligible to serve as a member of the board.

- 1 (7) Trustees who do not otherwise receive a salary from the State Treasury shall receive
2 a per diem of eighty dollars (\$80) for each day they are in session or on official
3 duty, and they shall be reimbursed for their actual and necessary expenses in
4 accordance with state administrative regulations and standards.
- 5 (8) (a) The board shall meet at least once in each quarter of the year and may meet in
6 special session upon the call of the chair or the executive director.
- 7 (b) The board shall elect a chair and a vice chair. The chair shall not serve more
8 than four (4) consecutive years as chair or vice-chair of the board. The vice-
9 chair shall not serve more than four (4) consecutive years as chair or vice-
10 chair of the board. A trustee who has served four (4) consecutive years as
11 chair or vice-chair of the board may be elected chair or vice-chair of the board
12 after an absence of two (2) years from the positions.
- 13 (c) A majority of the trustees shall constitute a quorum and all actions taken by
14 the board shall be by affirmative vote of a majority of the trustees present.
- 15 (9) (a) The board of trustees shall appoint or contract for the services of an executive
16 director and fix the compensation and other terms of employment for this
17 position without limitation of the provisions of KRS Chapters 18A and KRS
18 64.640. The executive director shall be the chief administrative officer of the
19 board.
- 20 (b) The board of trustees shall authorize the executive director to appoint the
21 employees deemed necessary to transact the business of the system. All
22 employees of the systems, except for the executive director, shall be subject to
23 the state personnel system established pursuant to KRS 18A.005 to 18A.204
24 and shall have their salaries determined by the secretary of the Personnel
25 Cabinet.
- 26 (c) The board shall require the executive director and the employees as it thinks
27 proper to execute bonds for the faithful performance of their duties

1 notwithstanding the limitations of KRS Chapter 62.

2 (d) The board shall establish a system of accounting.

3 (e) The board shall do all things, take all actions, and promulgate all
4 administrative regulations, not inconsistent with the provisions of KRS 16.505
5 to 16.652, 61.510 to 61.705, and 78.510 to 78.852, necessary or proper in
6 order to carry out the provisions of KRS 16.505 to 16.652, 61.510 to 61.705,
7 and 78.510 to 78.852. Notwithstanding any other evidence of legislative
8 intent, it is hereby declared to be the controlling legislative intent that the
9 provisions of KRS 16.505 to 16.652, 61.510 to 61.705, and 78.510 to 78.852
10 conform with federal statute or regulation and meet the qualification
11 requirements under 26 U.S.C. sec. 401(a), applicable federal regulations, and
12 other published guidance. Provisions of KRS 16.505 to 16.652, 61.510 to
13 61.705, and 78.510 to 78.852 which conflict with federal statute or regulation
14 or qualification under 26 U.S.C. sec. 401(a), applicable federal regulations,
15 and other published guidance shall not be available. The board shall have the
16 authority to promulgate administrative regulations to conform with federal
17 statute and regulation and to meet the qualification requirements under 26
18 U.S.C. sec. 401(a), including an administrative regulation to comply with 26
19 U.S.C. sec. 401(a)(9).

20 (10) Notwithstanding any statute to the contrary, employees shall not be considered
21 legislative agents under KRS 6.611.

22 (11) The Attorney General, or an assistant designated by him, may attend each meeting
23 of the board and may receive the agenda, board minutes, and other information
24 distributed to trustees of the board upon request. The Attorney General may act as
25 legal adviser and attorney for the board, and the board may contract for legal
26 services, notwithstanding the limitations of KRS Chapter 12 or 13B.

27 (12) (a) The system shall publish an annual financial report showing all receipts,

1 disbursements, assets, and liabilities. The annual report shall include a copy of
2 an audit conducted in accordance with generally accepted auditing standards.
3 Except as provided by paragraph (b) of this subsection, the board may select
4 an independent certified public accountant or the Auditor of Public Accounts
5 to perform the audit. If the audit is performed by an independent certified
6 public accountant, the Auditor of Public Accounts shall not be required to
7 perform an audit pursuant to KRS 43.050(2)(a), but may perform an audit at
8 his discretion. All proceedings and records of the board shall be open for
9 inspection by the public. The system shall make copies of the audit required
10 by this subsection available for examination by any member, retiree, or
11 beneficiary in the office of the executive director of the Kentucky Retirement
12 Systems and in other places as necessary to make the audit available to all
13 members, retirees, and beneficiaries. A copy of the annual audit shall be sent
14 to the Legislative Research Commission no later than ten (10) days after
15 receipt by the board.

16 (b) At least once every five (5) years, the Auditor of Public Accounts shall
17 perform the audit described by this subsection, and the system shall reimburse
18 the Auditor of Public Accounts for all costs of the audit. The Auditor of
19 Public Accounts shall determine which fiscal year during the five (5) year
20 period the audit prescribed by this paragraph will be completed.

21 (13) All expenses incurred by or on behalf of the system and the board in the
22 administration of the system during a fiscal year shall be paid from the retirement
23 allowance account. Any other statute to the contrary notwithstanding, authorization
24 for all expenditures relating to the administrative operations of the system shall be
25 contained in the biennial budget unit request, branch budget recommendation, and
26 the financial plan adopted by the General Assembly pursuant to KRS Chapter 48.

27 (14) Any person adversely affected by a decision of the board, except as provided under

1 subsection (16) of this section or KRS 61.665, involving KRS 16.505 to 16.652,
2 61.510 to 61.705, and 78.510 to 78.852, may appeal the decision of the board to the
3 Franklin Circuit Court within sixty (60) days of the board action.

4 (15) (a) A trustee shall discharge his duties as a trustee, including his duties as a
5 member of a committee:

- 6 1. In good faith;
- 7 2. On an informed basis; and
- 8 3. In a manner he honestly believes to be in the best interest of the
9 Kentucky Retirement Systems.

10 (b) A trustee discharges his duties on an informed basis if, when he makes an
11 inquiry into the business and affairs of the Kentucky Retirement Systems or
12 into a particular action to be taken or decision to be made, he exercises the
13 care an ordinary prudent person in a like position would exercise under similar
14 circumstances.

15 (c) In discharging his duties, a trustee may rely on information, opinions, reports,
16 or statements, including financial statements and other financial data, if
17 prepared or presented by:

- 18 1. One (1) or more officers or employees of the Kentucky Retirement
19 Systems whom the trustee honestly believes to be reliable and competent
20 in the matters presented;
- 21 2. Legal counsel, public accountants, actuaries, or other persons as to
22 matters the trustee honestly believes are within the person's professional
23 or expert competence; or
- 24 3. A committee of the board of trustees of which he is not a member if the
25 trustee honestly believes the committee merits confidence.

26 (d) A trustee shall not be considered as acting in good faith if he has knowledge
27 concerning the matter in question that makes reliance otherwise permitted by

1 paragraph (c) of this subsection unwarranted.

2 (e) Any action taken as a trustee, or any failure to take any action as a trustee,
3 shall not be the basis for monetary damages or injunctive relief unless:

4 1. The trustee has breached or failed to perform the duties of the trustee's
5 office in compliance with this section; and

6 2. In the case of an action for monetary damages, the breach or failure to
7 perform constitutes willful misconduct or wanton or reckless disregard
8 for human rights, safety, or property.

9 (f) A person bringing an action for monetary damages under this section shall
10 have the burden of proving by clear and convincing evidence the provisions of
11 paragraph (e)1. and 2. of this subsection, and the burden of proving that the
12 breach or failure to perform was the legal cause of damages suffered by the
13 Kentucky Retirement Systems.

14 (g) Nothing in this section shall eliminate or limit the liability of any trustee for
15 any act or omission occurring prior to July 15, 1988.

16 (h) In discharging his or her administrative duties under this section, a trustee
17 shall strive to administer the retirement system in an efficient and cost-
18 effective manner for the taxpayers of the Commonwealth of Kentucky.

19 (16) When an order by the system substantially impairs the benefits or rights of a
20 member, retired member, or recipient, except action which relates to entitlement to
21 disability benefits, or when an employer disagrees with an order of the system as
22 provided by KRS 61.598, the affected member, retired member, recipient, or
23 employer may request a hearing to be held in accordance with KRS Chapter 13B.
24 The board may establish an appeals committee whose members shall be appointed
25 by the chair and who shall have authority to act upon the recommendations and
26 reports of the hearing officer on behalf of the board. The member, retired member,
27 recipient, or employer aggrieved by a final order of the board following the hearing

1 may appeal the decision to the Franklin Circuit Court, in accordance with KRS
2 Chapter 13B.

3 (17) The board shall give the Kentucky Education Support Personnel Association
4 twenty-four (24) hours notice of the board meetings, to the extent possible.

5 (18) The board shall establish a formal trustee education program for all trustees of the
6 board. The program shall include but not be limited to the following:

7 (a) A required orientation program for all new trustees elected or appointed to the
8 board. The orientation program shall include training on:

- 9 1. Benefits and benefits administration;
- 10 2. Investment concepts, policies, and current composition and
11 administration of retirement systems investments;
- 12 3. Laws, bylaws, and administrative regulations pertaining to the
13 retirement systems and to fiduciaries; and
- 14 4. Actuarial and financial concepts pertaining to the retirement systems.

15 If a trustee fails to complete the orientation program within one (1) year from
16 the beginning of his or her first term on the board, the retirement systems shall
17 withhold payment of the per diem and travel expenses due to the board
18 member under this section and KRS 16.640 and 78.780 until the trustee has
19 completed the orientation program;

20 (b) Annual required training for board members on the administration, benefits,
21 financing, and investing of the retirement systems. If a trustee fails to
22 complete the annual required training during the calendar or fiscal year, the
23 retirement systems shall withhold payment of the per diem and travel
24 expenses due to the board member under this section and KRS 16.640 and
25 78.780 until the board member has met the annual training requirements; and

26 (c) The retirement systems shall incorporate by reference in an administrative
27 regulation, pursuant to KRS 13A.2251, the trustee education program.

- 1 (19) In order to improve public transparency regarding the administration of the systems,
2 the board of trustees shall adopt a best practices model by posting the following
3 information to the retirement systems' Web site and shall make available to the
4 public:
- 5 (a) Meeting notices and agendas for all meetings of the board. Notices and
6 agendas shall be posted to the retirement systems' Web site at least seventy-
7 two (72) hours in advance of the board or committee meetings, except in the
8 case of special or emergency meetings as provided by KRS 61.823;
- 9 (b) The Comprehensive Annual Financial Report with the information as follows:
- 10 1. A general overview and update on the retirement systems by the
11 executive director;
- 12 2. A listing of the board of trustees;
- 13 3. A listing of key staff;
- 14 4. An organizational chart;
- 15 5. Financial information, including a statement of plan net assets, a
16 statement of changes in plan net assets, an actuarial value of assets, a
17 schedule of investments, a statement of funded status and funding
18 progress, and other supporting data;
- 19 6. Investment information, including a general overview, a list of the
20 retirement system's professional consultants, a total net of fees return on
21 retirement systems investments over a historical period, an investment
22 summary, contracted investment management expenses, transaction
23 commissions, and a schedule of investments;
- 24 7. The annual actuarial valuation report on the pension benefit and the
25 medical insurance benefit; and
- 26 8. A general statistical section, including information on contributions,
27 benefit payouts, and retirement systems' demographic data;

- 1 (c) All external audits;
- 2 (d) All board minutes or other materials that require adoption or ratification by
3 the board of trustees. The items listed in this paragraph shall be posted within
4 seventy-two (72) hours of adoption or ratification of the board;
- 5 (e) All bylaws, policies, or procedures adopted or ratified by the board of trustees;
- 6 (f) The retirement systems' summary plan description;
- 7 (g) A document containing an unofficial copy of the statutes governing the
8 systems administered by Kentucky Retirement Systems;
- 9 (h) A listing of the members of the board of trustees and membership on each
10 committee established by the board, including any investment committees;
- 11 (i) All investment holdings in aggregate, fees, and commissions for each fund
12 administered by the board, which shall be updated on a quarterly basis for
13 fiscal years beginning on or after July 1, 2017. The systems shall request from
14 all managers, partnerships, and any other available sources all information
15 regarding fees and commissions *paid to each manager or partnership* and
16 shall ~~[- based on the requested information received]:~~
- 17 1. Disclose *by asset class* the dollar value of fees and commissions paid ~~to~~
18 ~~each individual manager or partnership];~~
 - 19 2. Disclose *by asset class* the dollar value of any profit sharing, carried
20 interest, or any other partnership incentive arrangements, partnership
21 agreements, or any other partnership expenses received by or paid ~~to~~
22 ~~each manager or partnership];~~ and
 - 23 3. As applicable, report each fee or commission by manager or partnership
24 consistent with standards established by the Institutional Limited
25 Partners Association (ILPA).

26 In addition to the requirements of this paragraph, the systems shall also
27 disclose the name and address of all individual underlying managers or

- 1 partners in any fund of funds in which system assets are invested;
- 2 (j) An update of net of fees investment returns, asset allocations, and the
3 performance of the funds against benchmarks adopted by the board for each
4 fund, for each asset class administered by the board, and for each manager.
5 The update shall be posted on a quarterly basis for fiscal years beginning on or
6 after July 1, 2017;
- 7 (k) A searchable database of the systems' expenditures and a listing of each
8 individual employed by the systems along with the employee's salary or
9 wages. In lieu of posting the information required by this paragraph to the
10 systems' Web site, the systems may provide the information through a Web
11 site established by the executive branch to inform the public about executive
12 branch agency expenditures and public employee salaries and wages;
- 13 (l) All contracts, renewals, modifications, or offering documents for services,
14 goods, or property purchased or utilized by the systems for fiscal years
15 beginning on or after July 1, 2017; and
- 16 (m) Information regarding the systems' financial and actuarial condition that is
17 easily understood by the members, retired members, and the public.
- 18 (20) Notwithstanding the requirements of subsection (19) of this section, the retirement
19 systems shall not be required to furnish information that is protected under KRS
20 61.661, exempt under KRS 61.878, or that, if disclosed, would compromise the
21 retirement systems' ability to competitively invest in real estate or other asset
22 classes, except that no provision of this section or KRS 61.878 shall exclude
23 disclosure and review of all contracts, including investment contracts, by the board,
24 the Auditor of Public Accounts, and the Government Contract Review Committee
25 established pursuant to KRS 45A.705 or the disclosure of investment fees and
26 commissions as provided by this section. If any public record contains material
27 which is not excepted under this section, the systems shall separate the excepted

1 material by removal, segregation, or redaction, according to a procedure approved
2 by the retirement system board, and make the nonexcepted material available for
3 examination.

4 (21) Notwithstanding any other provision of KRS 16.505 to 16.652, 61.510 to 61.705,
5 and 78.510 to 78.852 to the contrary, no funds of the systems administered by
6 Kentucky Retirement Systems, including fees and commissions paid to an
7 investment manager, private fund, or company issuing securities, who manages
8 systems assets, shall be used to pay fees and commissions to placement agents. For
9 purposes of this subsection, "placement agent" means a third-party individual, who
10 is not an employee, or firm, wholly or partially owned by the entity being hired,
11 who solicits investments on behalf of an investment manager, private fund, or
12 company issuing securities.

13 ➔Section 3. KRS 161.250 is amended to read as follows:

14 (1) (a) The general administration and management of the retirement system, and the
15 responsibility for its proper operation and for making effective provisions of
16 KRS 161.155 and 161.220 to 161.714 are vested in a board of trustees to be
17 known as the "Board of Trustees of the Teachers' Retirement System of the
18 State of Kentucky."

19 (b) The board of trustees shall consist of the following:

- 20 1. The chief state school officer;
- 21 2. The State Treasurer;
- 22 3. Two (2) trustees, appointed by the Governor of the Commonwealth,
23 subject to Senate confirmation in accordance with KRS 11.160 for each
24 appointment or reappointment. These two (2) trustees shall have
25 investment experience. For purposes of this subparagraph, a trustee with
26 "investment experience" means an individual who does not have a
27 conflict of interest, as provided by KRS 161.460, and who has at least

1 ten (10) years of experience in one (1) of the following areas of
2 expertise:

- 3 a. A portfolio manager acting in a fiduciary capacity;
- 4 b. A professional securities analyst or investment consultant;
- 5 c. A current or retired employee or principal of a trust institution,
6 investment or finance organization, or endowment fund acting in
7 an investment-related capacity;
- 8 d. A chartered financial analyst in good standing as determined by the
9 CFA Institute; or
- 10 e. A university professor, teaching investment-related studies; and

11 4. Seven (7) other trustees elected as provided in KRS 161.260. Four (4) of
12 the elective trustees shall be members of the retirement system, to be
13 known as teacher trustees, two (2) shall be persons who are not members
14 of the teaching profession, to be known as the lay trustees, and one (1)
15 shall be an annuitant of the retirement system to be known as the retired
16 teacher trustee. One (1) teacher trustee shall be elected annually for a
17 four-year term. The retired teacher trustee shall be elected every four (4)
18 years. The chief state school officer and the State Treasurer are
19 considered ex officio members of the board of trustees and may
20 designate in writing a person to represent them at board meetings.

21 (c) 1. Elective trustees shall not serve more than three (3) consecutive four (4)
22 year terms. An elective trustee who has served three (3) consecutive
23 terms may be elected again after an absence of four (4) years from the
24 board of trustees.

25 2. The term limits established by subparagraph 1. of this paragraph shall
26 apply to elective trustees serving on or after July 1, 2012, and all terms
27 of office served prior to July 1, 2012, shall be used to determine if the

1 elective trustee has exceeded the term limits provided by subparagraph
2 1. of this paragraph.

3 (d) 1. Each appointed trustee shall serve a term of four (4) years. An appointed
4 trustee shall not serve more than three (3) consecutive four (4) year
5 terms. An appointed trustee who has served three (3) consecutive terms
6 may be appointed again after an absence of four (4) years from the board
7 of trustees.

8 2. Any vacancy that occurs in an appointed position shall be filled in the
9 same manner that provides for the selection of the trustee; however, any
10 vacancy shall be filled only for the duration of the unexpired term.

11 (2) A member, retired member, or designated beneficiary may appeal the retirement
12 system's decisions that materially affect the amount of service retirement allowance,
13 amount of service credit, eligibility for service retirement, or eligibility for
14 survivorship benefits to which that member, retired member, or designated
15 beneficiary claims to be entitled. All appeals must be in writing and filed with the
16 retirement system within thirty (30) days of the claimant's first notice of the
17 retirement system's decision. For purposes of this section, notice shall be complete
18 and effective upon the date of mailing of the retirement system's decision to the
19 claimant at the claimant's last known address. Failure by the claimant to file a
20 written appeal with the retirement system within the thirty (30) day period shall
21 result in the decision of the retirement system becoming permanent with the effect
22 of a final and unappealable order. Appeals may include a request for an
23 administrative hearing which shall be conducted in accordance with the provisions
24 of KRS Chapter 13B. The board of trustees may establish an appeals committee
25 whose members shall be appointed by the chairperson and who shall have the
26 authority to act upon the report and recommendation of the hearing officer by
27 issuing a final order on behalf of the full board of trustees. A member, retired

1 member, or designated beneficiary who has filed a timely, written appeal of a
2 decision of the retirement system may, following the administrative hearing and
3 issuance of the final order by the board of trustees, appeal the final order of the
4 board of trustees to the Franklin Circuit Court in accordance with the provisions of
5 KRS Chapter 13B.

6 (3) The board of trustees shall establish a formal trustee education program for all
7 trustees of the board. The program shall include but not be limited to the following:

8 (a) A required orientation program for all new trustees to the board. The
9 orientation program shall include training on:

- 10 1. Benefits and benefits administration;
- 11 2. Investment concepts, policies, and current composition and
12 administration of retirement system investments;
- 13 3. Laws, bylaws, and administrative regulations pertaining to the
14 retirement system and to fiduciaries; and
- 15 4. Actuarial and financial concepts pertaining to the retirement system.

16 If a trustee fails to complete the orientation program within one (1) year from
17 the beginning of his or her first term on the board, the retirement system shall
18 withhold payment of the per diem and travel expenses due to the board
19 member under KRS 161.290 until the trustee has completed the orientation
20 program;

21 (b) Annual required training for trustees on the administration, benefits,
22 financing, and investing of the retirement system. If a trustee fails to complete
23 the annual required training during the calendar or fiscal year, the retirement
24 system shall withhold payment of the per diem and travel expenses due to the
25 board member under KRS 161.290 until the board member has met the annual
26 training requirements; and

27 (c) The retirement system shall incorporate by reference in an administrative

1 regulation, pursuant to KRS 13A.2251, the trustee education program.

2 (4) In order to improve public transparency regarding the administration of the system,
3 the board of trustees shall adopt a best practices model by posting the following
4 information to the retirement system's Web site and shall make available to the
5 public:

6 (a) Meeting notices and agendas for all meetings of the board. Notices and
7 agendas shall be posted to the retirement system's Web site at least seventy-
8 two (72) hours in advance of the board or committee meetings, except in the
9 case of special or emergency meetings as provided by KRS 61.823;

10 (b) The Comprehensive Annual Financial Report with the information as follows:

11 1. A general overview and update on the retirement system by the
12 executive secretary;

13 2. A listing of the board of trustees;

14 3. A listing of key staff;

15 4. An organizational chart;

16 5. Financial information, including a statement of plan net assets, a
17 statement of changes in plan net assets, an actuarial value of assets, a
18 schedule of investments, a statement of funded status and funding
19 progress, and other supporting data;

20 6. Investment information, including a general overview, a list of the
21 retirement system's professional consultants, a total net return on
22 retirement system investments over a historical period, an investment
23 summary, contracted investment management expenses, transaction
24 commissions, and a schedule of investments;

25 7. The annual actuarial valuation report on the pension benefit and the
26 medical insurance benefit; and

27 8. A general statistical section, including information on contributions,

- 1 benefit payouts, and retirement system demographic data;
- 2 (c) All external audits;
- 3 (d) All board minutes or other materials that require adoption or ratification by
4 the board of trustees. The items listed in this paragraph shall be posted within
5 seventy-two (72) hours of adoption or ratification of the board;
- 6 (e) All bylaws, policies, or procedures adopted or ratified by the board of trustees;
- 7 (f) The retirement system's summary plan description;
- 8 (g) The retirement system's law book;
- 9 (h) A listing of the members of the board of trustees and membership on each
10 committee established by the board, including any investment committees;
- 11 (i) All investment holdings in aggregate, fees, and commissions for each fund
12 administered by the board, which shall be updated on a quarterly basis for
13 fiscal years beginning on or after July 1, 2017. The system shall request from
14 all managers, partnerships, and any other available sources all information
15 regarding fees and commissions paid to each manager or partnership and
16 shall ~~[- based on the requested information received]:~~
- 17 1. Disclose by asset class the dollar value of fees or commissions paid ~~[- to~~
18 ~~each individual manager or partnership];~~
 - 19 2. Disclose by asset class the dollar value of any profit sharing, carried
20 interest, or any other partnership incentive arrangements, partnership
21 agreements, or any other partnership expenses received by or paid ~~[- to~~
22 ~~each manager or partnership];~~ and
 - 23 3. As applicable, report each fee or commission by manager or partnership
24 consistent with standards established by the Institutional Limited
25 Partners Association (ILPA).

26 In addition to the requirements of this paragraph, the system shall also
27 disclose the name and address of all individual underlying managers or

- 1 partners in any fund of funds in which system assets are invested;
- 2 (j) An update of net of fees investment returns, asset allocations, and the
3 performance of the funds against benchmarks adopted by the board for each
4 fund, for each asset class administered by the board, and for each manager.
5 The update shall be posted on a quarterly basis for fiscal years beginning on or
6 after July 1, 2017;
- 7 (k) All contracts, renewals, modifications, or offering documents for services,
8 goods, or property purchased or utilized by the system for fiscal years
9 beginning on or after July 1, 2017; and
- 10 (l) A searchable database of the system's expenditures and a listing of each
11 individual employed by the system along with the employee's salary or wages.
12 In lieu of posting the information required by this paragraph to the system's
13 Web site, the system may provide the information through a Web site
14 established by the executive branch to inform the public about executive
15 branch agency expenditures and public employee salaries and wages.
- 16 (5) Notwithstanding the requirements of subsection (4) of this section, the retirement
17 system shall not be required to furnish information that is protected under KRS
18 161.585, exempt under KRS 61.878, or that, if disclosed, would compromise the
19 retirement system's ability to competitively invest in real estate or other asset
20 classes, except that no provision of this section or KRS 61.878 shall exclude
21 disclosure and review of all contracts, including investment contracts, by the board,
22 the Auditor of Public Accounts, and the Government Contract Review Committee
23 established pursuant to KRS 45A.705 or the disclosure of investment fees and
24 commissions as provided by this section. If any public record contains material
25 which is not excepted under this section, the system shall separate the excepted
26 material by removal, segregation, or redaction, according to a procedure approved
27 by the retirement board, and make the nonexcepted material available for

- 1 examination.
- 2 (6) For any benefit improvements the General Assembly has authorized the board of
- 3 trustees to establish under KRS 161.220 to 161.716 and that require formal
- 4 adoption by the board, the board shall establish the benefits by promulgation of
- 5 administrative regulations in accordance with KRS Chapter 13A.