

TEACHERS' RETIREMENT SYSTEM OF THE STATE OF KENTUCKY
REGULAR QUARTERLY MEETING OF THE BOARD OF TRUSTEES
JUNE 19, 2017

Minutes of Meeting:

After giving proper notice of a regular quarterly meeting, and a quorum being present, Chair Arthur Green called the TRS Board of Trustees to order at 12:30 p.m., Monday, June 19, 2017, in the Boardroom of the Teachers' Retirement System of the State of Kentucky, 479 Versailles Road, Frankfort, Kentucky.

Members present:

Arthur Green, Chair
Jay Morgan, Vice Chair
Mary Adams
John Boardman
Frank Collecchia
Hollis Gritton
Joshua Underwood
Charles Harman, proxy for Commissioner of Education
Allison Ball, State Treasurer

Others present:

Gary L. Harbin, Teachers' Retirement System of the State of Kentucky
Robert Barnes, Teachers' Retirement System of the State of Kentucky
Eric Wampler, Teachers' Retirement System of the State of Kentucky
Tom Siderewicz, Teachers' Retirement System of the State of Kentucky
Karen Ashby, Teachers' Retirement System of the State of Kentucky
Mark Whelan, Teachers' Retirement System of the State of Kentucky
Nate Van Sickel, Teachers' Retirement System of the State of Kentucky
Greg Hall, Teachers' Retirement System of the State of Kentucky
Jane Gilbert, Teachers' Retirement System of the State of Kentucky
Felicia Penn, Teachers' Retirement System of the State of Kentucky
Teresa Sanders, Office of the State Budget Director
Chuck Truesdell, Legislative Research Commission
Jonathan Eakin, Legislative Research Commission
Steve Starkweather, Office of Financial Management
O. J. Oleka, Office of the State Treasurer
Curt Dame, Aon Consulting
Joyce Dotson, KEA-Retired
Frances Kincer, Retiree
Elizabeth Papania, Retiree
William Papania, Spouse of retiree
Martha Berginski, Retiree
Jane Gettler, Retiree

1. Reports for Consent: Chair Green reviewed the draft minutes of the March 20, 2017, meeting and asked the board to take action on the minutes.

Board Action: The board considered the minutes of the Quarterly Meeting of the Board of Trustees held on March 20, 2017. Upon motion duly made by Ms. Adams, and seconded by Dr. Morgan, the minutes were unanimously approved by the board as written.

Chair Green reviewed the draft minutes of the April 24, 2017, Special Meeting of the Board of Trustees and asked the board to take action on the minutes.

Board Action: The board considered the minutes of the Special Meeting of the Board of Trustees held on April 24, 2017. Upon motion duly made by Mr. Gritton, and seconded by Mr. Underwood, the minutes were unanimously approved by the board as written.

Chair Green reviewed the draft minutes of the March 20, 2017, meeting of the Governance and Audit Committee and asked the committee to take action on the minutes.

Committee Action: The committee considered the minutes of the Special Meeting of the Governance and Audit Committee held on March 20, 2017. Upon motion duly made by Dr. Morgan, and seconded by Ms. Adams, the minutes were unanimously approved by the committee as written.

Applications for Retirement and Annuity, Survivor Benefits, Life Insurance Benefits and Refunds: Mr. Wampler reported to the board regarding benefit payments. Chair Green asked the board to take action on the report of benefit payments.

Board Action: Upon motion duly made by Mr. Gritton, and seconded by Mr. Harman, the applications for retirement and annuity, survivor benefits, life insurance benefits and refunds were approved by the board as reported.

Interim Financial Statements: The board considered the report on the Interim Financial Statements for the quarter ended March 31, 2017. The report was informational and the board took no action on the Interim Financial Statements.

2. Standard Annual Board Actions

2.1. Report of Results of Trustee Election: Mr. Harbin reported to the board concerning the results of the election for the active teacher trustee position and the retired teacher trustee position on the Board of Trustees. The election was held in May 2017, and Dr. Stephen Pruitt, Commissioner of the Department of Education, certified the results on June 12, 2017. A copy of the letter certifying the results of the election is incorporated into the minutes.

Laura Schneider was elected as the active teacher trustee. Her term of office will be July 1, 2017 through June 30, 2021. Brenda McGown was elected as the retired teacher trustee. Her term of office will be July 1, 2017 through June 30, 2021.

2.2. Election of 2017-2018 Board Chair and Vice Chair: Mr. Harbin reported that KRS 161.340 provides that the board shall elect from its membership a chair and a vice chair on an annual basis.

Nominations for Chair and Vice Chair of the Board: Chair Green asked for nominations for the position of chair and vice chair of the board for fiscal year 2017-2018. Dr. Morgan nominated Ron Sanders to serve as chair and Alison Wright to serve as vice chair. Chair Green called for other nominations.

Board Action: Upon motion duly made by Ms. Adams, and seconded by Mr. Gritton, the board voted unanimously to elect Ron Sanders as chair and Alison Wright as vice chair of the TRS Board of Trustees for fiscal year 2017-2018.

2.3. 2017-2018 Committee Appointments: Chair Green reported to the board concerning the standing committees of the board. Chair Green asked members to contact Chair-elect Sanders to express interest in serving on a particular committee.

2.4. Board Appointment of Investment Committee: Chair Green reported to the board concerning the appointment of board members to the Investment Committee. Chair Green referenced information in the memorandum set forth under Tab 2.4. of the materials provided to the board. Chair Green asked for questions or comments. Chair Green asked the board to take action on the appointment of board members to the Investment Committee.

Board Action: Upon motion duly made by Dr. Morgan, and seconded by Mr. Underwood, the board voted unanimously to appoint Ron Sanders (Chair), Hollis Gritton (Vice Chair), Mary Adams, Josh Underwood, Alison Wright, John Boardman and Frank Collecchia to the Investment Committee; and Brenda McGown and Laura Schneider as alternate members of the Investment Committee.

Board Action: Upon motion duly made by Ms. Adams, and seconded by Dr. Morgan, the board voted unanimously to appoint as investment experts Bevis Longstreth and George Philip to serve on the Investment Committee for the period from July 1, 2017 through June 30, 2018.

2.5. Resolution Regarding Purchases or Sales of Investment Instruments: Mr. Harbin reported to the board concerning the resolution regarding the purchases and sales of investment instruments. Mr. Harbin referenced information in the memorandum set forth under Tab 2.5. of the materials provided to the board.

Board Action: Upon motion duly made by Mr. Gritton, and seconded by Mr. Boardman, the board voted unanimously to adopt the following resolution to confirm the authority granted to the executive secretary and the chief investment officer to execute purchases or sales of investment instruments on behalf of the board.

“BE IT RESOLVED, by the Board of Trustees of the Teachers’ Retirement System of the State of Kentucky, that the Executive Secretary or Chief Investment Officer, be and hereby are authorized and empowered to execute purchases or sales of all investment instruments in the name of, or belonging to, the Teachers’ Retirement System of the State of Kentucky, or in its nominee name “KENTRES”, in any capacity.”

2.6. Transfer of Interest: Mr. Harbin reported to the board that KRS 161.440 requires that a transfer of interest be made from the Guarantee Fund to other funds, except the Expense Fund and Medical Insurance Fund.

Chair Green asked for questions or comments. Chair Green asked the board to take action and direct the executive secretary to transfer interest as required by KRS 161.440.

Board Action: Upon motion duly made by Mr. Harman, and seconded by Mr. Underwood, the board unanimously issued the following directive:

“In accordance with KRS 161.440, the Executive Secretary is authorized and directed to credit the required interest on average monthly balances to (1) Teachers’ Savings Fund, (2) State Accumulation Fund and (3) Allowance Reserve Fund, such credits to be transferred from the Guarantee Fund and credited on July 1, 2017.”

2.7. Transfer of Reserve Funds: Mr. Harbin reported to the board that KRS 161.420 requires TRS to transfer an amount equal to the accounts of members retiring on July 1, along with an equal amount from the State Accumulation Fund, to the Allowance Reserve Fund each year. In addition, sufficient sums must be transferred during the year at the time of retirement of individual teachers.

Chair Green asked for questions or comments. Chair Green asked the board to consider the recommendation of the executive secretary.

Board Action: Upon motion duly made by Dr. Morgan, and seconded by Ms. Adams, the board unanimously issued the following directive:

“The Executive Secretary is directed to determine the aggregate amount of the accumulated accounts of teachers retiring during 2016-2017 and to transfer from the Teachers’ Savings Fund to the Allowance Reserve Fund a sum equal to that amount; and further, to transfer a matching amount from the State Accumulation fund to the Allowance Reserve Fund, both of which transfers are authorized by KRS 161.420(2), and (3).”

2.8. 2017-2018 Administrative Expense Fund Budget: Mr. Harbin reported to the board on the 2016-2017 and proposed 2017-2018 Administrative Expense Fund Budget.

Chair Green asked for questions or comments. Chair Green asked the board to take action on the report by the executive secretary.

Board Action: Upon motion duly made by Mr. Gritton, and seconded by Mr. Boardman, the board unanimously voted to approve the 2017-2018 Administrative Expense Fund Budget as presented.

2.9. IRC Section 415(b) Limit: Mr. Harbin reported to the board that KRS 161.611 authorizes a supplemental retirement benefit plan for the sole purpose of enabling TRS to apply the same formula for determining benefits payable to all members of the retirement system whose benefits under the retirement system are limited by Section 415 of the Internal Revenue Code. This plan requires annual transfers from employer contributions to fund the limited benefit.

Chair Green asked for questions or comments. Chair Green asked the board to consider the recommendation of the executive secretary.

Board Action: Upon motion duly made by Mr. Harman, and seconded by Ms. Adams, the board unanimously voted to authorize the executive secretary to make necessary transfers from employer contributions sufficient to provide the benefits authorized in KRS 161.611 for fiscal year 2017-2018.

2.10. Personnel Matters: Mr. Harbin reported the TRS Employee Compensation Plan provides that all employees eligible for annual salary increments shall receive increments equal to the percent funding available for state employees that is provided in the budget approved by the General Assembly. In the 2017 Regular Session of the General Assembly a budget was passed that provides for no state employee annual increments. Therefore, the executive secretary requests authorization from the Board of Trustees to approve normal salary advancements that will maintain salary increments for TRS employees equal to that received by state employees, as provided by the System's Employee Compensation Plan, during fiscal year 2017-2018.

Chair Green asked for questions or comments. Chair Green asked the board to consider the recommendation of the executive secretary.

Board Action: Upon motion duly made by Dr. Morgan, and seconded by Mr. Boardman, the board unanimously voted to approve normal salary advancements that will maintain salary increments for TRS employees equal to that received by state employees, as provided by the System's Employee Compensation Plan, during fiscal year 2017-2018.

3. Report of the Investment Committee: Mr. Siderewicz reported to the board concerning the activities of the Investment Committee and Investment Performance for the quarter ended March 31, 2017 and the Special Meeting of the Investment Committee held on May 16, 2017.

Chair Green asked for questions or comments. Chair Green asked the board to take action on the report by Mr. Siderewicz.

Board Action: Upon motion duly made by Dr. Morgan, and seconded by Ms. Adams, the board voted unanimously to accept and ratify the report of the Investment Committee.

4. Investment Procurement Policy: Mr. Harbin reported to the board on Senate Bill 2 (RS 2017) that requires TRS to consult with the Secretary of the Finance and Administration Cabinet to develop an investment procurement policy. Mr. Wampler presented the details of the policy.

Board Action: Upon motion duly made Mr. Harman, and seconded by Mr. Underwood, the board voted unanimously to adopt the TRS Investment Procurement Policy.

5. Report of the Governance and Audit Committee: Ms. Adams reported that the Governance and Audit Committee met in special session on June 19, 2017, prior to the quarterly meeting of the Board of Trustees. The Governance and Audit Committee took the following actions:

- The internal auditor reported on work during the Fiscal Year 2016-2017.
- The committee reviewed and approved the Fiscal Year 2017-2018 Audit Plan.
- The committee reviewed and approved the contract terms for the general investment consultant, investment experts, actuary, Pathway system project management consultant and pension administration review consultant.
- The committee reviewed staff's report on the audit performed to test the security of TRS's computer network system.

Chair Green asked for questions or comments. Chair Green asked the board to take action on the Report of the Governance and Audit Committee.

Board Action: Upon motion duly made by Ms. Adams, and seconded by Mr. Underwood, the board voted unanimously to accept and ratify the Report of the Governance and Audit Committee.

6. Report of the Insurance Committee: Mr. Harman reported that the Insurance Committee met in special session on June 19, 2017, prior to the quarterly meeting of the Board of Trustees. The Insurance Committee took the following actions:

- The committee reviewed and approved extending the contract with UnitedHealthcare from January 1, 2018 through December 31, 2020.
- The committee reviewed and approved extending the contract with Express Scripts and the Know Your Rx Coalition from January 1, 2018 through December 31, 2020.
- The committee reviewed and approved Aon Consulting's monthly fee of \$19,600 and extending the contract from August 1, 2017 through December 31, 2020.
- The committee reviewed and approved a master services agreement with Coriell Life Sciences for a pharmacogenomics pilot project.

Chair Green asked for questions or comments. Chair Green asked the board to take action on the Report of the Insurance Committee.

Board Action: Upon motion duly made by Mr. Harman, and seconded by Dr. Morgan, the board voted unanimously to accept and ratify the report of the Insurance Committee.

7. Amendment of Administrative Regulation: Mr. Harbin reported that staff is recommending an amendment to 102 KAR 1:070 to reflect a member's ability to file an application for service retirement on-line using the TRS Pathway system.

Board Action: Upon motion duly made by Dr. Morgan, and seconded by Mr. Boardman, the board voted unanimously to approve staff's recommendation to amend 102 KAR 1:070 to reflect a member's ability to file an application for service retirement on-line using the TRS Pathway system.

8. Executive Secretary's Observations and Comments: Mr. Harbin reported to the board on the number of retirements; activities of the Public Sector Healthcare Roundtable; recent meetings of the executive secretary; Jane Gilbert being elected to the State and Local Government Benefits Association board of directors; Mark Whelan being appointed to the Government Finance Officer Association Committee on Retirement and Benefits Administration; Eric Wampler serving as past president of National Association of Public Pension Attorneys; the TRS on the Road program and staff conducted webinars; and the Know Your Rx Coalition now serving the under 65 retirees on the KEHP. The executive secretary's report was informational and the board took no action.

Resolutions Honoring Arthur Green and Jay Morgan: Mr. Harbin read resolutions recognizing Arthur Green and Jay Morgan for their service on the Board of Trustees. Copies of the resolutions are incorporated into the minutes.

Adjournment: There being no further business to come before the board, and upon motion duly made by Dr. Morgan, and seconded by Mr. Underwood, and by unanimous consent of the board, Chair Green declared the meeting adjourned at 1:58 p.m.

CERTIFICATIONS

We, the Chair and the Executive Secretary of the Board of Trustees of the Teachers' Retirement System of the State of Kentucky, do certify that the Minutes of Meeting were approved by the board on September 18, 2017.

Ron Sanders, Chair

Gary L. Harbin, Executive Secretary

I, Robert B. Barnes, do certify adherence to the Kentucky Open Meetings Act, KRS 61.800 et seq., in the conduct of this meeting. I have reviewed the minutes for form, content, and legality.

Robert B. Barnes, Deputy Executive Secretary
and General Counsel

I, Felicia Penn, do certify that I was present at the meeting and duly recorded the actions of the Board of Trustees of the Teachers' Retirement System of the State of Kentucky at its meeting on June 19, 2017.

Felicia Penn
Recording Secretary