

**MEETING MINUTES
KENTUCKY TEACHERS' RETIREMENT SYSTEM
REGULAR QUARTERLY MEETING OF
THE BOARD OF TRUSTEES
FRANKFORT, KENTUCKY
DECEMBER 15, 2008, 9 A.M., ET**

Under authority of KRS 161.290(1), the Board of Trustees of the Teachers' Retirement System of the State of Kentucky convened in Regular Session in the Board Room of the Teachers' Retirement System Office, 479 Versailles Road, Frankfort, Kentucky, at 9 A.M., ET, Monday, December 15, 2008.

Item 1 - Board Called to Order

Barbara G. Sterrett, Chairperson, called the meeting to order.

Item 2 - Roll Call

Members present were:

Laura A. Zimmerman
Barbara G. Sterrett
Ruth Ann Sweazy
Ronald L. Sanders
Robert M. Conley
Dr. Jay Morgan
Tom Shelton
Gregory M. Rush, Proxy for Jon P. Draud, Commissioner of Education

Members absent were:

Todd Hollenbach (Treasurer Hollenbach joined the meeting at 10:25 A.M.)

Others present were:

Gary L. Harbin, Kentucky Teachers' Retirement System
J. Eric Wampler, Kentucky Teachers' Retirement System
Robert B. Barnes, Kentucky Teachers' Retirement System
Sandra Shroat Bush, Kentucky Teachers' Retirement System
Paul L. Yancey, Kentucky Teachers' Retirement System
Mark E. Whelan, Kentucky Teachers' Retirement System
Mary Pat Dobbins, Kentucky Teachers' Retirement System
Leeann G. Uebel, Kentucky Teachers' Retirement System
Jane C. Gilbert, Kentucky Teachers' Retirement System
Dr. Zella F. Wells, former KTRS Board of Trustees Chair
Cebert Gilbert, Kentucky Retired Teachers' Association
Fred Hester, Kentucky Education Association-Retired
Erlynn Crowe, Kentucky Education Association-Retired
Ed Macdonald, Cavanaugh Macdonald Consulting, LLC
Ed Koebel, Cavanaugh Macdonald Consulting, LLC

Brad Gross, Kentucky Legislative Research Commission
Kelly Dudley, Kentucky Legislative Research Commission
Tom Willis, Kentucky Legislative Research Commission
Frank Willey, Kentucky Legislative Research Commission
Greg Haskamp, Kentucky Finance and Administration Cabinet

Mr. Rush was appointed a permanent proxy for Mr. Jon Draud, on December 12, 2008, and the proxy is attached hereto as Exhibit A and made a part hereof.

Item 3 - Minutes of Last Quarterly Meeting

The Board considered the minutes of the previous meeting held September 15, 2008. Upon motion duly made by Dr. Morgan and seconded by Mr. Conley, the minutes of that meeting were unanimously approved as printed. The Board also considered the minutes of the Special Meeting held November 17, 2008. Upon motion duly made by Mr. Shelton and seconded by Ms. Zimmerman, the minutes of those meetings were unanimously approved as printed.

Item 4 - Report of the Secretary

Chairperson Sterrett recognized Mr. Harbin for the Report of the Secretary. Mr. Harbin recognized Mr. Wampler who presented Items 4(A)-4(E).

Item 4(A) - Applications for Retirement and Annuity

Mr. Wampler distributed a table (a copy of which is attached hereto as Exhibit B and made a part hereof) showing retirements for the months of September, 2008 (a copy of which is attached hereto as Exhibit C and made a part hereof); October, 2008 (a copy of which is attached hereto as Exhibit D and made a part hereof); and November, 2008 (a copy of which is attached hereto as Exhibit E and made a part hereof). He noted that there was 1 payment for handicapped children; 42 payments for disability retirement; 269 payments for service retirement and 4 payments for beneficiaries of members eligible to retire. Initial retirement benefits for the period included 316 individuals with monthly payments totaling \$749,788.48. The Board was asked to approve these initial payments as listed in the detailed monthly reports.

BOARD ACTION:

Chairperson Sterrett asked for questions or comments. Upon motion duly made by Ms. Sweazy and seconded by Mr. Sanders, the initial payments to retirees for the months of September, October and November 2008, were unanimously approved as presented.

Item 4(B) - Survivor Benefits

Mr. Wampler discussed the Survivor Benefits Report (a copy of which is attached hereto as Exhibit F and made a part hereof) that indicates 16 survivor benefits, with a total monthly payment of \$5,846.73 during the three-month period of July - September 2008. The Board was asked to approve the initial payments of these benefits as listed in the detailed report.

BOARD ACTION:

Chairperson Sterrett asked for questions or comments. Upon motion duly made by Mr. Conley and seconded by Ms. Zimmerman, the initial payments for survivor benefits for the months of July, August and September 2008, were unanimously approved as presented.

Item 4(C) - Life Insurance Benefits

Mr. Wampler presented the life insurance benefits report for the period of July 1-September 30, 2008 (a copy of which is attached hereto as Exhibit G and made a part hereof), which shows 13 payments to beneficiaries of active members and 187 payments to beneficiaries of retired members for a total of 200 payments amounting to \$961,000.00. The Board was asked to approve the payment of these benefits.

BOARD ACTION:

Chairperson Sterrett asked for questions or comments. Upon motion duly made by Mr. Sanders and seconded by Mr. Shelton, payments for life insurance benefits for the months of July, August and September 2008 were unanimously approved as presented.

Item 4(D) – Refunds

Mr. Wampler discussed the report of refunds for the quarter ended September 30, 2008 (a copy of which is attached hereto as Exhibit H and made a part hereof), that indicates a total of 605 refunds in the amount of \$5,863,699.82. The Board was asked to ratify the actions of the staff in refunding these accounts.

BOARD ACTION:

Chairperson Sterrett asked for questions or comments. Upon motion duly made by Mr. Shelton and seconded by Ms. Zimmerman, the report of refunds for the quarter ending September 30, 2008 was unanimously ratified as presented.

Item 4(E) - Interim Financial Statements

The Interim Financial Statements for the quarter ended September 30, 2008 (a copy of which is attached hereto as Exhibit I and made a part hereof) are submitted for informational purposes only and require no action of the Board of Trustees. Mr Harbin reminded the Board that the External Auditor's Report is included for review. Exhibit J.

Item 4(F) - Report of the Investment Committee

Mr. Harbin asked Mr. Yancey to present a report of the activities of the Investment Committee for the quarter ended September 30, 2008 (a copy of which is attached hereto as Exhibit K and made a part hereof).

Mr. Yancey reported that during this quarter, there were 1,310 purchases amounting to \$10,135,162,346.34, and 1,646 disposals amounting to \$10,351,939,770.77. The disposals

consisted of 1,016 sales, 517 principal payments and 113 redemptions. While the KTRS Investment Office initiates each of these transactions, the custodian of securities is responsible for handling and securing each stock, bond, or other type of investment. At the end of the quarter, the System's invested securities had a book value of \$13,631,388,339.85 and a market value of \$13,180,961,558.83.

Investment income at the end of the quarter showed an annual rate of 5.3% on fixed dollar assets and 3.2% on total assets. These compare with returns of 5.2% on fixed dollar assets and 3.2% on total assets at the end of the previous quarter.

The System's total assets returned -6.0% for the quarter ended September 30, 2008. The long-term return on all KTRS investments over the past twenty years is 8.2%. While the System's return on its domestic stocks was weak during the quarter at -7.9%, the stocks outperformed the broad U.S. stock market, as measured by the S&P 1500 Index, which earned a return of -8.3%. The System's international stocks outperformed the MSCI EAFE Index during the quarter with a return of -18.0% as compared to -20.5% for the index. The System's bonds also outperformed their benchmark with a return of -1.1%, versus a return of -1.6% for the Barclays Government Credit Index.

Further Developments

The System recently made a commitment, pending satisfactory legal review, to the CapitalSouth Partners Fund III. KTRS has committed \$5 million to this private equity fund. CapitalSouth Partners operates as a Small Business Investment Company (SBIC) and was founded in 1998 to make mezzanine and equity investments, with an emphasis on lower middle-market companies. The System also recently committed \$25 million investment in a commingled timberland fund managed by Hancock Timber Resources. The timberlands are comprised of approximately 114,000 acres located in coastal Oregon.

Additionally, the System continues to diversify into international stocks. In September, allotments totaling \$50 million were given to Baillie Gifford and Baring Asset Management. The System continues to diversify into this asset class utilizing the dollar cost averaging approach.

BOARD ACTION:

Chairperson Sterrett asked for questions or comments. Upon motion duly made by Ms. Zimmerman and seconded by Ms. Sweazy, the Investment Report for the quarter ending September 30, 2008 was unanimously approved as presented.

Item 4 (G). - Recommendation regarding the Investment Committee

Mr. Harbin presented the recommendations made at the conclusion of work by the Governor's Public Pension Working Group concerning investments, a coalition of constituency groups along with members of the Working Group proposed recommendations for KTRS that have been endorsed by the Governor for both pension plans. The recommendations are as follows:

INVESTMENTS

1. The investment committees of both Systems shall be composed of seven (7) members. The composition of the investment committees shall include:
 - a. Two (2) lay trustees of the KTRS Board and two (2) gubernatorial appointees to the KRS Board. These KTRS and KRS individuals must have investment experience as defined in section two (2) below;
 - b. Two (2) individuals with outside investment experience as defined in section two (2) below who would not be full Board members or Trustees and have no other responsibilities within the Systems. They would be selected by the respective boards; and
 - c. Three (3) members of each committee shall be other Board members or Trustees who are not required to meet the investment experience requirements defined in section two (2) below
2. Individuals with "investment experience" shall be defined as individuals, without conflicts of interest, who have at least ten (10) years of experience in any one or more of the following areas of responsibility:
 - a. A portfolio manager acting in a fiduciary capacity
 - b. A professional securities analyst or investment consultant
 - c. A current or retired employee or principal of a trust institution, investment/finance organization or endowment fund acting in an investment-related capacity
 - d. A chartered financial analyst in good standing as determined by the CFA Institute
 - e. A professor at the university level, teaching economics or investment-related studies
 - f. Any other professional with exceptional experience in the field of public or private finances.
3. System employees are prohibited from serving as voting members of the investment committees.
4. Each member of the Systems' investment committees shall participate in continuing education, on an annual basis, consistent with their investment consultant's recommendations of best practices in the pension industry.
5. Both Systems shall conduct an asset/liability modeling study to determine an asset mix that is broadly diversified among traditional and alternative asset classes immediately, and at least every 5 years hence, or more frequently if circumstances warrant such a study.
6. Both Systems shall limit active or passive external manager concentrations to not more than fifteen per cent (15%) of the market value of the fund.
7. Both Systems shall conduct a formal review of the Systems' administrative regulations, using the "prudent man" standard, to remove all regulations that impair the ability of the Systems to implement efficient investment portfolios and take other appropriate actions, as necessary.

Mr. Harbin recommended Board adoption of these recommendations and that the Investment Committee be assigned the task of taking appropriate action toward implementation.

BOARD ACTION:

Chairperson Sterrett asked for questions or comments. Upon motion duly made by Mr. Sanders and seconded by Mr. Conley, the adoption of the Investment Committee recommendations was unanimously approved.

Chairperson Sterrett appointed herself, Dr. Morgan and Tom Shelton to be the additional members of this committee for the duration of one year and upon motion duly made by Mr. Sanders and seconded by Ms. Sweazy such appointments were ratified.

Item 4 (H). - Actuarial Valuation Report

Mr. Koebel of Cavanaugh Macdonald Consulting, LLC presented the Report of the Actuary on the Annual Valuation and Mr. Ed Macdonald of Cavanaugh Macdonald Consulting, LLC presented the Report of the Actuary on the Annual Valuation of the Retiree Medical and Life Insurance Plans. The actuary reports that, "In our opinion, since a portion of the annual contributions required to fund the pension benefits have been allocated to the Medical Insurance Fund by the employer, the retirement fund is not funded by the employer on an actuarially sound basis. Assuming that contributions to the System are made by the employer from year to year in the future at the rates recommended on the basis of the successive actuarial valuations, the continued sufficiency of the retirement fund to provide the benefits called for under the System may be safely anticipated."

The actuary reports that the funded ratio of actuarial assets to liabilities is 68.2% as of June 30, 2008 compared to a funded ratio of 71.9% for June 30, 2007 and 73.1% for June 30, 2006. The decline in the funded ratio is a continuation of the cumulative effect of the transfer of contributions totaling more than \$624 million from the retirement fund to the medical insurance fund from 1998-2008. In addition, the borrowing necessary to complete the current biennium is projected to be \$273 million in 2008-10. Of the \$624 million, \$289 million has been agreed to be repaid over the next ten years at the KTRS actuarial assumed rate of return and initial payments have been received. In addition, the amounts borrowed during this budget cycle have also been agreed to be repaid over a ten- year period. It should be noted these agreements depend on the affirmative action of both future legislatures and governors to continue these payments. Also contributing to the reduced funded ratio are market fluctuations that are being recognized using actuarial smoothing over a five-year period.

The increase in the actuarial liabilities of the system increases the contributions that need to be paid by the employer. For FY 2010, there will be a need for a .58% increase and for FY 2011 there will be a need for a 1.13% increase. These additional amounts result in cumulative increases of 2.46% for FY 2010 and 3.59% for FY 2011.

Mr. Harbin emphasized the goal is to establish the KTRS Health Insurance benefit as a prefunded plan.

The Board was in recess from 10:30 a.m. until 10:45 a.m.

Item 4 (I). - Report of the Legislative Committee

Mr. Harbin explained that the Legislative Committee met on December 5, 2008 and asked Mr. Barnes to review the proposed legislative changes. Mr. Barnes reported a recommendation by the Legislative Committee to amend the administrative regulation 102 KAR 1:070 which pertains to the deadline for filing a retirement application. The proposed amendment would require members to file their retirement applications one month in advance for every month of the year, not just for June and July retirement dates, in order to adjust to changes in the Kentucky Employees Health Plan.

In addition to the amendment of 102 KAR 1:070, the following proposed amendments of other existing regulations, and promulgation of new regulations, have been recommended for approval by the Board in order that KTRS may continue compliance with federal tax law:

1. 102 KAR 1:105. New Regulation to confirm that the Medical Insurance Fund (161.420) is a 401(h) account, which is a special account in a pension plan to provide non-taxable retiree medical benefits. KTRS has administered the Medical Insurance Fund as a 401(h) account. Therefore, KTRS does not anticipate that this regulation will cause any operational changes. The designation of the 401 (h) account will be included in KTRS' Cycle C and the VCP filings with the IRS.
2. 102 KAR 1:170. New Regulation regarding Minimum Distribution. Tax Counsel is recommending the adoption of IRS-approved language regarding required minimum distributions from KTRS. One of the compliance projects for the new year will entail a review of these requirements.
3. 102 KAR 1:225. New Regulation regarding general federal tax compliance. Tax Counsel is recommending new language for a regulation for technical compliance with federal law. These suggested provisions will not cause any administrative changes. They are being recommended in order to demonstrate compliance.
4. 102 KAR 1:230 (amendment). Amendment to Regulation regarding 415 testing. KTRS already has compliance language with regard to 415 limits. Tax Counsel is recommending additional technical compliance language regarding 415 testing. We will be reviewing this with Cavanaugh Macdonald prior to finalizing this rule. Until that review is complete we will not know whether any changes in 415 testing will be recommended.
5. 102 KAR 1:240 (amendment). Amendment to Regulation regarding compensation limits. Tax Counsel is recommending technical amendments regarding compensation limitations under Internal Revenue Code Section 401(a)(17). KTRS already has a compliance provision with respect to 401(a)(17). The proposed amendment provides more detail with respect to the requirements of the federal law.
6. 102 KAR 1:245. New Regulation regarding rollovers and transfers to other plans. Tax Counsel is recommending a new regulation to confirm technical compliance with

rules regarding rollovers and transfers to other plans. KTRS has been in compliance with the federal law requirements. The suggested new regulation codifies the current Internal Revenue Code provisions and provides more detail on the types of rollovers that are permitted. KTRS already has a provision regarding rollovers from other plans -- 102 KAR 1:250.

The Legislative Committee recommended that the Board authorize staff to file with LRC the proposed administrative regulations presented at the meeting and to work with LRC to make recommended changes that do not alter the effect of the amendments to the administrative regulations.

Additional Legislative Proposals

As the legislative proposals are primarily technical amendments that do not change current practice or procedure, the committee decided to defer the housekeeping package to the 2010 legislative session.

BOARD ACTION:

Chairperson Sterrett asked for questions or comments. Upon motion duly made by Dr. Morgan and seconded by Mr. Shelton, the recommendations of the Legislative Committee are approved.

Item 4 (J). - Retiree Healthcare Report

Mr. Harbin asked Jane Gilbert to provide the Retiree Healthcare Report. Jane reviewed the MEHP and KEHP and reported that KTRS provides coverage to approximately 21,000 retirees and beneficiaries age 65 and older and will continue to pursue cost-saving strategies that are available. Changes to the Medicare Advantage Private Fee for Service Plans will not take effect until December 2010, so KTRS will continue to participate in this cost saving program until that date. KTRS has received \$9 million in Medicare Part D subsidy for 9 months in 2008.

The total KEHP enrollment for the 2009 plan year involved approximately 18,000 retirees and staff is researching the possibility of web enrollment for 2010.

Staff is pursuing the Insurance Committee recommendations from the September 2008 Board meeting and will be reporting to the Board as information and details become available.

Item 4 (K). - Report of the Scholarship Committee

Mr. Harbin reported that the Scholarship Committee met before the Board Meeting to make recommendations for the award of the Junita Losey scholarships for 2009. Ms. Losey was a retired teacher from Northern Kentucky who taught for 30 years in the Campbell County school district. She passed away in 1997 and left more than \$400,000 to KTRS in her will. The Board of Trustees used these funds to establish a scholarship fund in Ms. Losey's name.

The \$2,000 scholarships (for a total of \$16,000 per year) are awarded to each of the eight public universities in Kentucky. They select the recipient who is to be a student majoring in education that:

1. Is a graduate of a Kentucky public high school
2. Is a junior or senior in college with a major in education
3. Is a full-time student.
4. Maintains a GPA of 2.8 on a 4.0 scale.

Further, in the past the Board of Trustees has awarded the Junita Losey Scholarship of \$2,000 for tuition, books and fees to a Campbell County High School senior who intends to major in education in a Kentucky public university. This student must have an average GPA in high school of 2.8 on a 4.0 scale. The cash flow of the scholarship fund supports the total expenditure of \$18,000 per year.

Scholarship Committee Recommendation:

That the criteria for selection of candidates for a scholarship award, as well as the monetary value of the scholarship, remain the same for calendar year 2009 as in past years.

BOARD ACTION:

Chairperson Sterrett asked for questions or comments. Upon motion duly made by the Scholarship Committee and seconded by Dr. Morgan, the recommendation of the Scholarship Committee for calendar year 2009 was unanimously adopted as presented.

Item 4 (L). - Executive Secretary's Observations and Comments

Recent Meetings

Mr. Harbin reported on the National Council on Teacher Retirement Executive Committee meeting that he attended in Austin, TX in November. The primary purpose was to discuss the Market Value Liability Approach that corporate actuaries are trying to impose on public pension plans. This Market Value Liability Approach would greatly increase the unfunded liabilities of the system and make the liabilities much more volatile as the liabilities would be calculated on the fluctuations of the Treasury Bill Rates. Mr. Harbin then distributed a whitepaper released by the National Council on Public Employee Retirement Systems on the reasons for continuing current actuarial approaches and not moving into the Market Value Liabilities method. The NCTR Executive Committee met with a representative of the Actuarial Standards Board and the nearly 12 public pension plans represented there let him know that the public pensions plans are very passionate about keeping an evaluation method that will ensure a stable contribution rate.

Mr. Harbin, with other public pension plan representatives, met with the Governmental Accounting Standards Board (GASB) in early December to discuss their concerns with the Market Value Liability method of measuring plan liabilities. GASB assured public pension plans that it will proceed cautiously with its evaluation of the Market Value Liability approach and that a decision is therefore months away.

Mr. Harbin and Jane Gilbert traveled to Columbus in December for a meeting with the Public Sector Healthcare Roundtable to discuss Medicare Part D reimbursements. This group was

established to present health care reform ideas to Congress and that KTRS was one of the original public pension plans that established the PSHR. Also, he gave an example of how public pension plans coming together can be influential in national health care issues in that Medicare Part D did not originally include public pension plans, but at the collective urging of those plans they were considered.

Increase Disability Earnings Limitation – Mr. Harbin informed the Board that he was having staff review the disability earnings limitation and that they would report back to the Board at a later date. Ms. Sweazy asked that staff communicate to the member who had inquired whether this limitation would be increased by the Consumer Price Index this year.

2008 Award from the Public Pension Coordinating Council

The Public Pension Coordinating Council awarded the Certificate of Achievement to KTRS for 2008 for implementing and maintaining high professional standards in administering the affairs of the System. The award is based on compliance with principles judged to underlie exemplary retirement system achievements in the areas of investment, disclosure, actuarial valuation, financial reporting and benefits. These principles are widely acknowledged to be marks of excellence for retirement systems and represent the highest standards of excellence in the public pension industry.

The Public Pension Coordinating Council is a confederation of the National Council on Teacher Retirement, the National Association of State Retirement System Administrators, and the National Conference on Public Employee Retirement Systems.

GFOA Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Teachers' Retirement System of the State of Kentucky for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2007. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The KTRS has received the Certificate of Achievement for the last twenty consecutive years (fiscal years ended 1988-2007). Mr. Harbin stated that KTRS believes that the current report continues to conform to the Certificate of Achievement program requirements, and it shall be submitted to GFOA for consideration for the award.

Board Resolution recognizing the services of Joe Hutchison

Mr. Harbin presented a draft resolution for the Board's consideration recognizing the distinguished services of Joe Hutchison, Deputy Executive Secretary, who retired from the System effective October 1, 2008.

BOARD ACTION:

Upon motion duly made by Mr. Shelton and seconded by Ms. Sweazy, the resolution recognizing the distinguished services of Joe Hutchison, Deputy Executive Secretary, was unanimously approved.

2009 Board of Trustees Meeting Dates

Dates for the Board of Trustees meetings for 2009 are listed below. The meetings will begin at 9 a.m., Eastern Time and will be held in the KTRS Board Room.

Monday, March 16
Monday, June 15
Monday, September 21
Monday, December 21

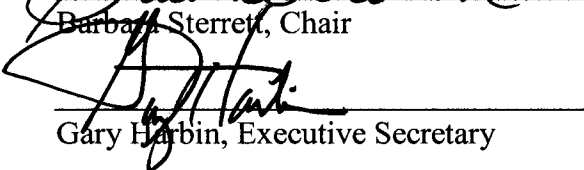
Item 5. - General Discussion

There being no further business to come before the Board of Trustees, and upon motion duly made by Mr. Conley and seconded by Ms. Zimmerman, Chairperson Sterrett declared the meeting adjourned at 11:15 a.m.

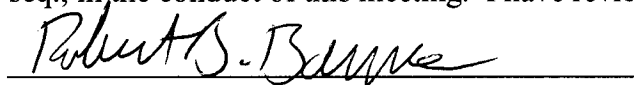
CERTIFICATIONS

We, the Chair and the Executive Secretary of the Board of Trustees of the Kentucky Teachers' Retirement System, do certify that the Minutes of Meeting were approved by the Board on March 16, 2009.

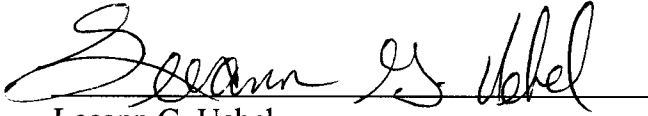

Barbara Sterrett, Chair


Gary 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, Leeann G. Uebel, do certify that I was present at the meeting and duly recorded the actions of the Board of Trustees of the Kentucky Teachers' Retirement System at its meeting on December 15, 2008.

A handwritten signature in cursive script, reading "Leeann G. Uebel", written over a horizontal line.

Leeann G. Uebel
Recording Secretary