Commonwealth of Kentucky
Finance and Administration Cabinet
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Steven L. Beshear
Governor

Jonathan Miller
Secretary

To the Honorable Governor Steven L. Beshear,

On behalf of the Kentucky Public Pension Work Group established by your May 29, 2008 Executive Order (2008-460), I submit the following final report for your approval. As stated in the Executive Order the Task Force was charged with:

a. Conducting a comprehensive operation and governance review of fiduciary duties and the investments of the state-administered retirement systems;
b. Examining and recommending appropriate investment benchmarks, policies, and portfolio strategies, based on investment returns and asset allocations of comparable public pension plans and systems;
c. Reviewing the securities litigation policies and programs of the state-administered retirement systems, including the amount of losses recovered by the state-administered retirement systems under their current securities litigation policies and programs, reviewing the possibility of authorizing the Attorney General to act on behalf of the state-administered retirement systems regarding securities litigation, and providing recommendations to the Governor to ensure the state-administered retirement systems are recovering an appropriate level of losses due to securities fraud;
d. Studying the creation of a new retirement system, to be known as the Local Government Employees Retirement System. Membership in the Local Government Employees Retirement System would consist of employees, employers, and retirees of agencies participating in the County Employees Retirement System who are not school boards as defined by KRS 78.510(4);
e. Studying the potential transfer of classified school board employees and retirees currently participating in the County Employees Retirement System to the Kentucky Teachers' Retirement System, while ensuring that in the event that such a transfer occurs, the classified school board employees who become members of the County Employees Retirement System on or after July 1, 2008, shall be provided with the same benefits provided to classified school board employees who become members of the Kentucky Teachers' Retirement System on or after the effective date of the transfer to the Kentucky Teachers' Retirement System;
f. Examining the potential benefits, issues, and financial impacts on employees, retirees, retirement systems, and General Fund requirements that would result from the actions described by subsections (d) and (e) above, and, should such actions take place, studying a full and final disposition of the assets of the County Employees Retirement System in a manner that ensures that classified school employees are guaranteed their full retirement benefits;

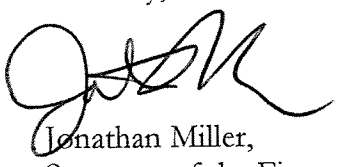
g. Reviewing the experiences of other state public pension systems that have employed defined contribution or annuity-type plans for their employees, and analyzing the effectiveness of their employment in Kentucky; and
h. Providing recommendations to the Governor for a long-term funding strategy for pension and health care benefits, with the goal of ensuring adequate funding of the actuarially required contributions to the state-administered retirement systems by 2020, and phasing into the actuarially required contribution rates for the Kentucky Employees Retirement System and the State Police Retirement System as follows:
    i. For the employer contribution rate for the Kentucky Employees Retirement System pertaining to nonhazardous employees, to work towards the goal of contributing eighty-five percent (85%) of the actuarially required contribution for fiscal year beginning July 1, 2020.
    ii. For the employer contribution rate for the Kentucky Employees Retirement System pertaining to hazardous employees, to work towards the goal of contributing ninety-five percent (95%) of the actuarially required contribution for fiscal year beginning July 1, 2016.
    iii. For the employer contribution rate for the State Police Retirement System, to work towards the goal of contributing ninety-five percent (95%) of the actuarially required contribution for fiscal year beginning July 1, 2017.

Pursuant to that charge, the Public Pension Work Group divided into six subcommittees including:

a. Investments: Chaired by Treasurer Todd Hollenbach
b. Securities Litigation: Chaired by Attorney General Jack Conway
c. County Employees Retirement System: Chaired by Auditor Crit Luallen
d. Defined Contribution Plans: Chaired by Secretary Nikki Jackson
e. State Funding: Chaired by State Budget Director Mary Lassiter
f. Healthcare: Chaired by Deputy Secretary Tim Longmeyer, pursuant to the Governor's subsequent directive for additional study.

The Work Group engaged representatives from both public and private sectors, and acted in a bi-partisan, inclusive effort with stakeholders to produce the attached report. The final report is based on a compilation of ideas from Work Group members and the general public..

Sincerely,



Jonathan Miller,
Secretary of the Finance and Administration Cabinet