

# TEACHERS' RETIREMENT SYSTEM OF KENTUCKY

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*Serving Kentucky Teachers Since 1940*

**GARY L. HARBIN, CPA**  
*Executive Secretary*  
(502) 848-8500

Special Meeting of the

KTRS Board of Trustees

AGENDA

January 21, 2016, 12:30 p.m., ET

Meeting Called to Order

Roll Call

1. Report of the Benefits and Funding Committee

2. Report of the Personnel Committee

General Discussion

Adjournment

The meeting will take place in the Board Room at the office of the  
Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY.

# 2016 Legislative Summary

## SB 2

**Primary sponsor:** Chairman Bowen

**Status:** in Senate State and Local Government Committee

### Key points

- Adds six governor-appointed trustees subject to Senate confirmation with provisions to stagger the terms
- Two gubernatorial appointees shall have investment experience (*two experts have served on the Investment Committee since 2008*)
- Requires KTRS to disclose on its website and upon request investment fees in addition to investment holdings and commissions (*already disclosed in CAFR and on website*)
- Requires KTRS to disclose on its website and upon request all contracts and offering documents for services, goods or property purchased or utilized by KTRS (*while general contracts are not published on website, the information described is available through KTRS's website and the state's Open Door portal; with investing contracts, KTRS follows industry best practices used by the vast majority of public pension plans in disclosing the investment manager, how much the manager is paid and the nature of the investment*)
- Requires KTRS to follow the state's model procurement code regarding budgeting and the procurement of services, goods and property for contracts established or renewed after July 1
- Requires that KTRS's board, staff and investment advisers follow the CFA Institute's codes of conduct (*already KTRS board policy*)
- Bans use of placement agents (*KTRS board policy already bans use*)
- Requires Senate confirmation of executive secretary

## HB 271

**Primary sponsor:** Rep. Miller

**Status:** in House State Government Committee

### Key points

- Requires the Public Pension Oversight Board to study and report by Dec. 1 whether administrative and investment functions of all of the state-administered retirement systems should be consolidated and/or privatized. The analysis shall include a review of investment returns and expenses and administrative expenses
- Requires the state-administered retirement systems to disclose data on each member or recipient of a benefit, including a unique identification number which shall not be the member's Social Security number or personal identification number issued by the systems, information on the retirement status, actual or projected benefits payments and other retirement information for each member

## **HB 1**

**Primary sponsor:** Speaker Stumbo

**Status:** in House Appropriations and Revenue Committee

### **Key points**

- Authorizes bonding not to exceed \$3.3 billion in fiscal year 2016-2017
- Provides the state shall pay the additional amount needed to fund the KTRS pension fund on an actuarially sound basis starting July 1, 2015, and continuing for each year thereafter
- Provides that funds committed to KTRS shall be utilized to fund debt service on the bonds authorized by this bill and states the intent for future budgets to continue doing so
- Establishes intent to phase into the full annual contribution for the KTRS pension fund with direct state appropriations on a pro-rata basis through fiscal year 2024-2025

### **Other anticipated legislation**

- Shared responsibility 2.0 – New pension structure for new hires that equally shares cost and risk of teachers' pensions
- Senate funding plan – Sen. Bowen has said a funding plan is forthcoming that would step into full funding of the annual contribution over four years in 25 percent increments
- New benefit tier – As part of funding negotiations, several legislators have indicated they would like a new benefit tier for new hires and, possibly, benefit changes for current teachers (outside the Inviolable Contract)

As of Jan. 21, 2016

Special Board of Trustees Meeting

Kentucky Teachers' Retirement System

## KTRS BOARD OF TRUSTEES' ACHIEVMENTS SINCE 1998

1998 In response to legislation providing for non-standard, or "air time," service credit purchases, the Board established and maintained a cost formula that required members to pay the full actuarial cost of the purchase. The KTRS cost was substantially more expensive than the cost with KRS.

2001 Reduced actuarial costs of adverse selection, a/k/a "cherry-picking", of medical insurance plans by making permanent any election to terminate coverage by a surviving spouse of a member.

### 2002 Board-Proposed Legislation Enacted as Law - HB 637

Completely overhauled post-retirement return-to-work provisions.

- Limited compensation earnable by retirees in KTRS-covered positions
- Limited the number of retirees that can return to work full-time and allowed only if there are no other qualified applicants
- Established mandatory breaks in service before a retiree can return to work in a KTRS-covered position

Reduced retirement factors for new members who retire with less than ten years of service.

### Board's Internal Plan Modifications

Increased years of service from 20 to 27 that are required for eligibility for maximum supplement payable by KTRS toward single premium for retiree medical insurance.

Reduced percentages of premium payable by KTRS for all retirees with less than 27 years of service.

Required retirees returning to work to obtain medical insurance with their active employer if that coverage is as good as or better than KTRS coverage, regardless of whether re-employment is in the public or private sector.

### 2004 Board Proposed Legislation Enacted as Law - HB 434

All service credit purchases, except leaves of absence, become purchasable only under the standard full actuarial cost formula.

2005 Board's Internal Plan Modifications

In first "live" case where contract negotiations with an investment manager revealed a payment to a placement agent, KTRS ceased negotiations and chose another candidate. This position was adopted years before placement agents became a public issue and remains an important part of KTRS policy.

2006 Board's Internal Plan Modifications

Positioned Medicare drug plan to take advantage of Medicare Part D subsidies.

2007 Board's Internal Plan Modifications

Positioned Medicare medical plan to capture federal subsidies of the Medicare Advantage program.

2009 Board's Internal Plan Modifications

Expanded the Investment Committee to include five Board members and two outside, investment experts of nationally high repute.

2010 Board Proposed Legislation Enacted as Law – HB 540

Brought together constituent groups, including representatives of active and retired teachers, school boards, school administrators, and universities, to develop a "Shared Responsibility" approach to funding retiree health care.

- Active teachers began phasing into paying by July 2015 an additional 3% of their paycheck to help fund their retiree health care
- Employers (school districts, universities and state agencies) match the new active teacher contributions
- Retirees under the age of 65 pay an amount equal to the standard Medicare Part B premium toward the cost of their medical insurance (approximately \$105 per month in CY 2014) --- This is in addition to the cost of the plan which the retired teacher pays for, unlike the retired state employee for whom KRS pays the cost
- Commonwealth picked up cost of new retirees under age 65 (the Commonwealth had been paying for all of it prior to Shared Responsibility)
- Moved retiree medical insurance from a pay-as-you-go plan to a prefunded plan that is now being funded on an actuarially sound basis
- Along with internal plan modifications to medical insurance, reduced unfunded liability of medical insurance fund by \$5 billion

Board's Internal Plan Modifications

Moved Medicare plan from Medicare Part D Subsidy primary to Employer Group Waiver Prescription Drug Plan for deeper federal subsidies.

2012 Approved amendment of administrative regulations to tighten disability benefit eligibility for individuals providing substitute teaching and part-time service.

KTRS became an early member of the KY Rx Coalition which combines the purchasing power of its members for greater savings on prescription drugs.

KTRS added a “commercial wrap” to its prescription drug program to take advantage of private drug manufacturers’ 50% subsidy in Medicare Part D’s coverage gap, a/k/a “donut hole”.

2013 Board’s Internal Plan Modifications

Implemented “Spousal Shared Risk Waiver” which made spouses’ decisions to terminate coverage a permanent election unless they subsequently experience a qualifying event. This reduces the actuarial cost of adverse selection, a/k/a “cherry picking”, of health care plans by spouse who would otherwise choose cheaper, lower quality non-KTRS health insurance when healthy and switch to KTRS insurance when health declines.

2014 Implemented a “Medicare High Performance Formulary” that has a 50% coinsurance level for a brand-name, non-preferred drug tier.

TO: Board of Trustees of the  
Kentucky Teachers' Retirement System

FROM: KTRS Personnel Committee

DATE: January 21, 2016

RE: Recommendations Concerning the Executive Secretary

The Personnel Committee of the Board met in special session on November 23, 2015. The Committee evaluated the performance of the Executive Secretary and discussed recommendations to be made to the Board of Trustees.

Committee Action: The Personnel Committee took action and unanimously decided to make recommendations to the Board of Trustees as follows:

- a. Mr. Harbin should be offered a new contract for four years from January 1, 2016 through December 31, 2019.
- b. Mr. Harbin should receive a salary increase of 1% as an in grade promotion for excellent job performance to be effective on January 1, 2016.

Recommendation: This report is for the information of the Board.