KENTUCKY

TEACHERS' RETIREMENT SYSTEM

ACTIVE MEMBER EDITION

April/May 2010

Historic Legislation Passes

Kentucky's Education Community, General Assembly and Governor Establish a Solution of Shared Responsibility for Long-Term Funding of Retiree Health Care

Retiree health care legislation, developed and supported by the education community, passed through the Kentucky House of Representatives and Senate, without a single negative vote, and was signed into law on Tuesday, April 13, 2010, by the Governor. This legislation helps insure that not only Kentucky's current retired teachers, but active teachers when they retire as well, will continue to receive health benefits. It also helps the pension fund.

The medical benefit, first provided in 1964, was established on a pay-as-you-go basis similar to Medicare. In other words, all dollars coming in were used to pay for retiree medical benefits as they became due, leaving no spare funds to invest to cover future costs. The source of funding consisted of contributions from active members with the state paying an equal amount. Currently these contributions are .75% of salary (1.75% for those members hired after June 30, 2008). For years now, the costs of providing retiree health care have overwhelmed the contributions generated by these two sources of funding. For the most recent year, these contributions generated only $48 million of the $182 million cost, a shortfall of $134 million.

As previously reported, to make up this growing shortfall, the state has been redirecting contributions away from the teachers' pension fund to the medical insurance fund. Since 2004, over $560 million has been redirected with the agreement it will be repaid by the state with interest over staggered 10 year terms. At this rate, even with repayment, the assets of the pension plan would be depleted by 2029. Though all involved knew this practice wasn't sustainable long-term, we are extremely grateful to the General Assembly and Governor for providing this short-term strategy without which retiree health care would have been drastically cut years ago. This short-term strategy provided needed time to develop a long-term solution.

The Shared Responsibility Solution

The KTRS Board of Trustees and Executive Secretary, Gary Harbin, have been calling attention to this growing problem for years. With the immediate urgency of the issue, the Board of Trustees and the staff of KTRS began working with constituent groups representing Kentucky's education community. This included retired teachers, active teachers, school boards, school superintendents and the state to search for a solution to this problem. Numerous meetings among these constituent groups involved reviewing many options presented by experts. From these meetings, a consensus was formed to support a solution of Shared Responsibility. This proposed solution, developed only after

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serious deliberations by these groups of its effect on retirees, members and employers, was introduced in the General Assembly on February 26, 2010, as House Bill 540.

House Bill 540 is a Shared Responsibility solution that provides permanent funding for retiree health care and ends the long history of underfunding this important benefit. Shared Responsibility calls upon each party (active teachers, retired teachers, school districts, and the state) to share in a piece of the solution by investing a little more now to receive substantial returns later.

The Shared Responsibility Solution for Active Teachers

Active teachers are an essential piece of the Shared Responsibility solution and were key in passing this legislation. Views of active teachers were sought throughout and though teachers will be contributing more, the long-term benefit they receive will be far greater. In short, this legislation was about helping teachers and improving their security in retirement.

Under Shared Responsibility, active members will now have medical benefits when they retire. Without Shared Responsibility, teachers would have to pay the full cost of health care, currently $7,068 per year. As is clearly evident, without medical benefits, retirement security is uncertain. The likely outcome would be that teachers would need to work much longer to make up for the loss of this benefit. Shared Responsibility means teachers will be able to retire at a time of their choice, with greater retirement security.

Effective July 1, 2010, most active members will begin contributing an additional ¼ of 1% of salary on a pre-tax basis into the medical insurance fund. For the average teacher earning $45,000 per year, the net amount will be approximately $8 per month in the first year. Over six years, this will gradually increase to three percent. Historically, salary increases over that time span have been more than sufficient to offset this amount.

The Shared Responsibility Solution for Retired Teachers

The second piece of the Shared Responsibility solution is provided by retirees who receive medical benefits. Retired teachers also are an essential piece of the Shared Responsibility solution and were very instrumental in passing this legislation. Their views and insights were sought to determine the impact of this legislation on both current and future retirees. They certainly were cognizant that Shared Responsibility would save this most important benefit for retirees and strongly supported it.

Retirees participate by paying either the Medicare Part B premium if they are age 65 and over, or by paying into the medical insurance fund the equivalent of the Medicare Part B premium if under age 65. Since retirees age 65 and over are already paying the Medicare Part B premium (standard rate of $110.50 per month) they will experience no change. Retirees under age 65, regardless of retirement date, who receive medical benefits through the Kentucky Employees' Health Plan, will begin contributing an additional amount to the medical insurance fund effective July 1, 2010. This amount is based on the Standard Medicare Part B premium that is currently paid by retirees age 65 and over. The amount will be 1/3 of the cost of the Standard Medicare Part B premium, or $37 per month (1/3 x $110.50) for the last six months of 2010. The Standard Medicare Part B premium is subject to adjustment by the Centers for Medicare and Medicaid Services each January 1st. Should that

Shared Responsibility Solution
Supported by:

Jefferson County Teachers Association
Kentucky Association of School Administrators
Kentucky Association of School Superintendents
Kentucky Education Association
Kentucky Education Association-Retired
Kentucky Retired Teachers Association
Kentucky School Boards Association
KTRS Board of Trustees-*fiduciary*
Universities & Community Colleges
and others

~listed in alphabetical order

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occur, the amount paid by retirees would adjust accordingly at that time. Effective July 1, 2011, the amount will be 2/3 of the cost of the Standard Medicare Part B premium, and effective July 1, 2012, the amount will then be equal to the full Standard Medicare Part B premium paid by retirees age 65 and over. Amounts contributed will be automatically deducted from the monthly pension.

The Shared Responsibility Solution for School Districts

School districts and other employers provide the third piece of the Shared Responsibility solution by paying the same additional amount that active members will contribute. Shared Responsibility will save the school districts future salary costs estimated to be over $300 million per year by maintaining normal retirement patterns. To further explain, a series of negative events would occur for employers if the medical benefit for retirees is lost. As the bubble of baby boomers in America approaches retirement age, approximately one in four of Kentucky's teachers today is eligible to retire. Replacement of those teachers lowers salary costs for districts because retiring teachers on average earn $57,000 per year compared to starting teacher average salaries of $34,000. Without the medical benefit, the average retirement age would move closer to age 65, the time retirees would be eligible for lower cost coverage through Medicare. Therefore, by employers participating in Shared Responsibility, they are able to maintain normal retirement patterns and reduce the overall cost of education.

The KTRS Board of Trustees sincerely appreciates all the many active and retired members that participated in the enactment of this historic legislation. With your efforts in bringing attention to the need for funding retiree health care, this important benefit has been saved.

The Shared Responsibility Solution for the Commonwealth

Beginning July 1, 2010, the state will begin paying the net cost of medical insurance for all new retirees who are not Medicare eligible, thus providing the final piece of the Shared Responsibility solution. In addition to saving future salary costs, Shared Responsibility has other far reaching positive impacts for the Commonwealth. By pre-funding this benefit, taxpayers will be relieved of over $2.8 billion of future costs in funding retiree health care (as based on last year's actuarial report, the unfunded liability will be reduced from $6.2 billion to $3.4 billion). In addition, by relieving Kentucky taxpayers of these future liabilities, bond rating agencies will look upon future borrowings of the Commonwealth more positively, giving the state a better rating, thus a better interest rate on debt and reducing the amount of interest the Commonwealth will pay on that debt.

As originally drafted and supported by the various groups in the education community, House Bill 540 also required increased matching contributions by the state into the pension fund to begin addressing its unfunded liability. Though the final version of the bill omitted these contributions, the KTRS Board of Trustees is most appreciative that a number of members of the General Assembly stated that they will work with the education community on a solution addressing this need. Kentucky Teachers' Retirement System benefits are not only valuable to the retirement security of more than 123,000 educators; they also provide a $1.5 billion, and growing, economic stimulus that is injected annually into local economies across the Commonwealth.

Legislative leaders have applauded Kentucky's education community for their strong leadership and hard work in developing the Shared Responsibility approach that will provide the needed funding for the health care of current and future retired teachers. The pension and medical benefits are *extraordinary tools* for recruitment and retention of teachers. Protecting the integrity of these tools continues the Commonwealth's commitment to education and Kentucky's future.

(For answers to frequently asked questions, please visit www.ktrs.ky.gov "Historic Legislation Passes".)

Important Information for Year 2010 Retirees

The following answers are provided to help with often-asked questions pertaining to retirement.

If I am planning to retire this year, what should I do in preparation?

- **Request the KTRS Application for Service Retirement packet.** You will need this retirement packet from the KTRS office at **least 60 days before** your prospective date of retirement.
- You will be required to submit copies of your signed Social Security card and the official, certified birth certificate when you submit your retirement application.
- A copy of your official certified marriage license is required if married.
- If you select a payment option that provides a lifetime benefit to a surviving beneficiary, you will need to provide a copy of the beneficiary's official, certified birth certificate.

Does my employer need to complete any part of my retirement application?

- **YES.** Sections VIII and IX need to be completed and signed by your employer in order to finalize your retirement application. *Please allow sufficient time for your employer to complete these sections.*

What is the deadline to file for JULY 1st retirements?

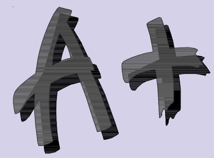
- JULY retirement applications must be received in the KTRS office no later than **June 1, 2010**. All retirement applications must be submitted by the **FIRST of the month PRIOR to the month of retirement.**

When will I receive my first check?

- To be eligible for the June effective date, retiring members must complete their employment contract and resign from their position by May 31st.
- A one-month service credit reduction will occur for June retirements. June 1st retirees will receive their first annuity payment by direct deposit on June 28th.
- July 1st retirees will receive their first annuity payment by direct deposit on July 29th.
  Please be reminded that as a result of 1998 legislation, all retirement payments must be sent by Electronic Funds Transfer (EFT). Section III of the retirement application requires you to supply your financial institution information and attach your voided or cancelled check.

If I am retiring this year, when will my medical insurance become effective through KTRS?

- Your medical insurance will be effective through KTRS on the first day of the month your retirement is effective. *(Provided your completed insurance application was received by the deadline.)*



Your Homework for a Successful Retirement Experience!

What you will need:

- **Your KTRS Service Retirement application.**
  (Form 23) ***(must be completed and signed by YOU and YOUR EMPLOYER).*** *Watch for* ***instructional video*** *on "How to Complete the Service Retirement Application" Coming in May!*
- **A copy of your official certified birth certificate.**
- **A copy of your Social Security card.**
  (issued by the SSA and bearing its seal and your signature).
- **A copy of your official certified marriage license.**
  (if married at the time of your retirement)
- **A copy of your beneficiary's official certified birth certificate.**
  (if Retirement Option III, IIIA, IV or IVA is selected).
- ***And* remember to submit payment for certain service credit purchases two months prior to your retirement.**
  (If you are qualifying previously purchased out-of-state service or purchasing non-standard, prior military, or out-of-state service to retire, the retirement system will calculate the amount due and notify you in writing upon receipt of your completed application.)

Upcoming KTRS Board of Trustees Election

The Teachers' Retirement System is governed by a nine member Board of Trustees. Two trustees are ex-officio members, the Chief State School Officer and the State Treasurer. The remaining seven trustees are elected by the retired and active membership. Elections are held in May of each year to fill either one or two positions on the Board. Positions are held for four-year terms and the elections are staggered. This May, the membership will elect a lay member trustee and an active member trustee. The candidates for the lay position are Robert M. Conley, the incumbent, from Paintsville, and John David King from Barbourville. The candidates for the active teacher position are Laura Zimmerman, the incumbent, from Lexington, and Patty Evans, from Campbellsville.

In early May, each retired and active KTRS member will receive a ballot with information about the candidates. Retired members will receive a yellow ballot and active members will receive a blue ballot. Please select your candidate, tear along the perforation, and drop the ballot in the mail. Postage is prepaid. You may return your ballot any time during May, but no later than May 31, 2010. The Chief State School Officer is responsible for counting the ballots.

All members are urged to review the qualifications of each candidate and cast their ballot for the candidate that they feel has the best qualifications to be an effective member of the Board of Trustees. The results of the election will be announced in the next KTRS newsletter.

Reciprocity Member Alert

A reciprocity member is a member who has established membership and maintained active retirement accounts in more than one of the state retirement systems. The law allows members to determine their eligibility for retirement benefits by combining service credit in all systems. Each system will calculate its annuity separately.

Any member who has service in both Teachers' Retirement and one of the state administered retirement systems must file a retirement application with a coordinating retirement date if choosing a reciprocity retirement. You must complete and file paper work (applications and insurance forms) for both retirement systems before benefits begin from any system.

If you have any questions concerning a reciprocity retirement, please contact the KTRS office.

~ QUESTIONS ~

Call one of our
Information Specialists

Toll Free
1-800-618-1687
Monday thru Friday
8:00 - 5:00pm

Deadlines for the Purchase of Service Credit

FY 2008-09 Leaves of Absence *
Contact KTRS about recovering this credit.

DEADLINE for purchase is ***June 30, 2010***

FY 2009-10 Unpaid Contract Days *
Contact KTRS about eligibility to obtain full service and/or salary credit.

DEADLINE for purchase is ***December 31, 2010***

FY 2009-10 Leaves of Absence *
Contact KTRS about recovering this credit.

DEADLINE for purchase is ***June 30, 2011***

** Appropriate forms can be obtained at www.ktrs.ky.gov and must be completed by your employer.*

Career Planning Workshops

Registration 9:00 A.M.	NEW Workshop TIME 9:15 – NOON (Local Time)
July 23, 2010	**July 27, 2010**
General Butler SRP	Lake Barkley SRP
1608 Highway 227	3500 State Park Road
Carrollton, KY	Cadiz, KY

Please visit www.ktrs.ky.gov for additional workshop dates AND REGISTRATION.

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Minimum Distribution Requirements

Federal tax law requires members who are no longer working for a participating KTRS employer to begin drawing benefits or withdraw contributions soon after reaching age 70½. If you are age 65 or older, you may wish to begin planning for withdrawal or retirement in order to avoid any applicable penalties. If you are age 70½ or older and no longer contributing to the retirement system, please contact KTRS immediately for the appropriate forms to apply for retirement or a refund to avoid substantial and recurring federal tax penalties.

Federal tax law also requires the beneficiary of an active or retired member to begin receiving benefits or take a refund soon after the member's death.

Beneficiaries should contact the retirement office soon after the member's death to begin receiving benefits or take a refund in order to avoid any applicable penalties.

APR/MAY 2010

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OF THE STATE OF KENTUCKY
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