KENTUCKY
TEACHERS' RETIREMENT SYSTEM

RETIRED 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 serious deliberations by these groups of its effect on retirees, members

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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.

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

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 occur, the amount paid by retirees would adjust accordingly at that time.

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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 and Other Employers

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 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.

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.

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".)

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.

Warning to Kentucky Seniors about Medicare Scam

Kentucky senior citizens are cautioned about fraudulent phone calls asking them for personal information so that new Medicare cards may be issued to the consumers. The caller claims to represent Medicare or the Social Security office and asks the consumer to verify or provide information, such as a Medicare number. The calls are being received here in Kentucky and other states.

Calls reported so far have originated from 866-234-2255. When investigators dialed the number, they reached a recording that states that the number is being spoofed by "Medicare scammers" and that calls should be reported to the Attorney General or the Federal Communications Commission.

As always, consumers need to be cautious when speaking to unknown individuals on the telephone, and to never give out any personal information over the phone: including date of birth, Medicare or Social Security number, policy numbers, credit card numbers or bank account information.

If you receive one of these calls, hang up the phone immediately. Medicare or Social Security employees will not contact you via phone requesting this type of information. If you have any questions about the status of your Medicare of Social Security benefits, you can contact the agencies directly.

Individuals wishing to report these calls may contact the Attorney General's Consumer Protection Division toll free at 1-866-877-7867 or by filing a complaint at www.ag.ky.gov.

Under Age 65

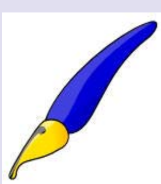
Kentucky Employees' Health Plan (KEHP) Dependent Eligibility Audit

(for enrollees with Parent Plus, Couple or Family Coverage)

As advised during the 2010 Open Enrollment in the fall of 2009, the Kentucky Employees' Health Plan is conducting a Dependent Eligibility Audit. In early April, retirees with dependent coverage should have received a letter from Chapman Kelly, Inc, an independent firm contracted to verify dependent eligibility. The initial phase of the program was "Amnesty Phase" and allowed you to review the eligibility conditions and terminate coverage for any ineligible dependents. The second phase is a "Verification Phase" and you will be required to provide documentation of your dependent's eligibility for KEHP coverage. If you knowingly submit false information or fail to provide the required documentation by the Verification Phase deadline, your dependent(s) will be removed from coverage and KEHP may seek to recover claims for the ineligible period of coverage. Questions regarding this audit should be directed to Chapman Kelly at www.mydependentcheck.com/KEHP or by calling 1-877-223-8478.

All Retirees

KTRS retirees and other annuitants are reminded that when they change their address, they should notify KTRS **in writing** in order to continue to receive their KTRS mail on a timely basis. All retirees receive a 1099R in January, a check stub in July indicating COLA increases, and newsletters and special mailings which may include retiree medical insurance information or notices.



Age 65 and Over

Medicare Eligible Health Plan (MEHP) Reminders!

The KTRS Medicare Eligible Health Plan (MEHP) for those eligible for Medicare due to age or disability is currently administered by Humana and Medco. If you are enrolled in the MEHP, please understand that if you enroll in either a Medicare Advantage plan or a Medicare Part D plan outside of KTRS, Medicare will notify Humana and Medco and your KTRS MEHP will be terminated. If you want to cancel your KTRS MEHP, please contact KTRS in writing. Do not contact Humana, Medco or Medicare to cancel your KTRS MEHP coverage.

Also, if you are enrolled in the KTRS MEHP, all of your information at KTRS must match the information on file for you at the Social Security Administration. Medicare obtains your information from Social Security and if your information at KTRS does not match, your enrollment into the MEHP could be rejected by Medicare. Therefore, it is very important that your name, including your middle initial, date of birth, and even your address at KTRS match Social Security's information.

WHCRA ANNUAL NOTICE

Do you know that your plan, as required by the Women's Health and Cancer Rights Act of 1998, provides benefits for mastectomy-related services including all stages of reconstruction and surgery to achieve symmetry between the breasts, prostheses, and complications resulting from a mastectomy, including lymphedema? Call your Plan Administrator at 1-866-396-8810 for more information.

~ QUESTIONS ~

Call one of our
Information Specialists

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

Reminder to Re-employed Retirees

If you are re-employed by an agency that participates in the KEHP and you are eligible for health insurance, you will be required to waive coverage with KTRS. In some instances, other employers may offer health insurance that is as good as or better than that offered by KTRS. In those cases, it will be necessary to obtain your insurance coverage through your employer rather than KTRS. Please contact KTRS if you have any questions.

Members Should Designate a Beneficiary for their KTRS Account

All active and retired members should designate a beneficiary for their KTRS account. Active members need to file beneficiary designations for both the receipt of the KTRS life insurance benefit and for receipt of their account balance. Retired members need to file a beneficiary designation for the KTRS life insurance benefit. Failure to designate a beneficiary can result in much unnecessary difficulty and expense for a member's survivors, including the need to go through the expense of probate and the appointment of an administrator or executor even in those cases where these costs and procedures could otherwise have been avoided. For active members, failure to designate a spouse as beneficiary can result in the loss of valuable spousal survivor benefits. Designation of a beneficiary is by far the best way for you to ensure that your wishes for the distribution of these valuable assets is properly carried out. Please contact the retirement system if you need a beneficiary designation form.

TEACHERS' RETIREMENT SYSTEM
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