

FIRST ANNUAL REPORT
of the
TEACHERS' RETIREMENT SYSTEM
of the
STATE OF KENTUCKY
for
1940-41

EXHIBIT V.

FIRST ANNUAL REPORT
OF THE
TEACHERS' RETIREMENT SYSTEM OF THE STATE OF KENTUCKY

The Teachers' Retirement System of the State of Kentucky was established by Act of the General Assembly in 1938¹ and amended and made effective by appropriation in 1940².

As provided in the Act of 1938, a Board of Trustees of the Teachers' Retirement System was elected and qualified, and said Board, as a continuous body, has continued to meet and to handle the business of the Retirement System in accordance with the Act creating the same. The present personnel of this Board is as follows:

- Miss Mary J. Maguire, Chairman, Lexington
- Hal E. Dudley, Vice-Chairman, Louisville
- W. F. O'Donnell, Eastern Kentucky State Teachers College, Richmond
- B. L. Trevathan, Benton
- J. W. Brooker, Superintendent Public Instruction, Frankfort
- Hubert Meredith, Attorney General, Frankfort
- M. E. Shannon, State Treasurer, Frankfort.

The Retirement System became operative as to membership and payment of contributions July 1, 1940. It will become operative as to retirement and payment of annuities July 1, 1942. The Board of Trustees employed the personnel and opened an office in the Capitol Building, Frankfort, Kentucky, July 1, 1940.

As provided in Section 4506b-49, Ky. Stat., the eight local Teachers' Retirement Systems in existence when this Act went into effect merged with

¹1938, 1st ex. s., c. 1.
²1940, c. 192, p. 742.

State System. The local systems were in the following cities:

Bowling Green
Covington
Frankfort
Hopkinsville

Lexington
Louisville
Newport
Paducah.

The official acts of the Board of Trustees of the Retirement System are properly recorded and kept in permanent form. The office is properly equipped and staffed with a Secretary, Assistant Secretary, Accountant, two Posting-Bookkeeping Machine Operators and a Stenographer.

The advantages of the Retirement System were quickly recognized by the teachers of the Commonwealth, and at the close of the first fiscal year of operation approximately 96% were in active participation.

As provided in Section 4506b-28, Ky. Stat., 1,036 teachers declined membership and are, therefore, excluded from the provisions of this Act.

As of July 1, 1941, 17,393 Membership and Prior Service Certificates were issued to the teachers who had taught and contributed for one full scholastic year and who had filed data sheet Form A-1, required by the Board of Trustees for the use of the Actuary. One thousand one thirty-seven (1,137) additional teachers are qualified to receive their Membership and Prior Service Certificates as soon as the data form A-1 is filed in the office and verified. This makes a total membership of 18,530 as of July 1, 1941. This does not include those whose memberships were terminated by death or by withdrawal from the teaching profession after the close of the school term and before July 1, 1941. Such withdrawals are as follows:

TABLE I

Termination of Membership by Death and Withdrawal to July 1, 1941

By death	12
By withdrawal	<u>153</u>
Total	165

Upon order of the Board of Trustees, the deposits made by these members were returned to their estates, beneficiaries or to themselves.

The membership in the Retirement System as of July 1, 1941, is given by age groups, prior service and salary in the following table:

TABLE II

Membership by Age Groups, Accredited Prior Service and Salaries
As of July 1, 1941

Age Group	Number Teachers	Prior Service		Salaries	
		Total Years	Average Years	Total	Average
__-24	2,568	5,886.2	2.3	\$ 1,730,547.28	\$ 673.89
25-29	4,347	24,877.8	5.7	3,416,156.09	785.86
30-34	4,024	38,880.9	9.6	3,626,722.65	901.27
35-39	2,774	37,364.1	13.5	2,893,351.14	1,043.02
40-44	1,473	25,452.6	17.2	1,632,729.11	1,108.43
45-49	1,065	21,638.1	20.3	1,230,720.97	1,155.66
50-54	719	16,782.2	23.3	836,764.20	1,163.79
55-59	540	13,652.9	25.3	595,392.81	1,102.58
60-64	386	10,195.6	26.4	431,406.91	1,117.63
65-69	281	8,026.2	28.6	314,394.14	1,118.84
70-__	114	3,378.8	29.6	122,470.15	1,074.30
Totals and Averages	18,292	206,134.6	11.3	16,830,655.25	920.01
	238*	2,689.4*	11.3*	218,962.38*	920.01*
Grand Totals & Averages	18,530	208,824.0	11.3	17,049,617.63	920.01

*Received too late to classify for report.

It appears that there is a slightly less inclination to leave the teaching profession since the Retirement System went into effect. Over a number of years, the normal number to go into other professions and occupations has been approximately 5% or 900 teachers. As shown by Table II, the net membership of the Retirement System as of July 1, 1941, is 18,530. There were, however, during the year 19,398 individual accounts set up in the Teachers' Savings Fund, indicating that there is a considerable number of teachers who taught less than one scholastic year, but who did make their contribution as provided in Section 4506b-36, Ky. Stat.

~~These~~ Contributions, together with a check, payable to E. E. Shannon, State Treasurer, and covering the aggregate, come to the office in the form of a certified copy of the monthly payroll.

The assets of the Retirement System are held in five funds and in an investment account. The balances in these funds and the total assets in the Retirement System are given in the following balance sheet:

TABLE III

Balance Sheet of the Retirement System as of July 1, 1941

Current Assets			
Cash - Available		\$101,986.43	
Cash - Reserved for Encumbrances		<u>4,778.25</u>	
Total Cash		\$106,764.68	
Accounts Receivable		<u>16.99</u>	
Total Current Assets			\$106,781.67
Investments			
U.S. Treasury Bonds (Par)		\$800,000.00	
Unamortized Premium		<u>53,104.83</u>	
Accrued Interest		<u>59.51</u>	
Total Invested			\$853,164.34
Fixed Assets			
Office Equipment			<u>4,473.79</u>
Total Assets			\$964,419.80

Current Liabilities			
Reserve for Encumbered Obligations			
For Office Equipment	\$3,197.59		
For Supplies and Services	<u>696.01</u>		
Total Encumbrances		\$ 3,893.60	
Accounts Payable		37.78	
Refund Claims Allowed		<u>884.65</u>	
Total Current Liabilities			\$ <u>4,816.03</u>
Net Assets			\$959,603.77
 Fund Balances			
Expense Fund Allotment	\$4,022.23		
<u>Less Reserve for Encumbrances</u>	<u>3,893.60</u>		
Expense Fund Surplus		\$ 128.63	
Surplus Invested in Office Equipment		4,473.79	
Teachers' Savings Fund Balance		479,061.24	
State Accumulation Fund Balance		479,082.03	
Allowance Reserve Fund Balance		0.00	
Guarantee Fund Balance		<u>3,141.92 (Def.)</u>	
		\$959,603.77	\$959,603.77

Practically speaking, investments have been limited to U.S. Treasury Bonds. The net interest returns on voted municipal bonds are lower than the net return on certain issues of government bonds. Municipal bonds of the Aaa rating, according to Moody's Bond Record, yield a net interest return of less than 2% in almost all cases.

The investments of the Teachers' Retirement System are all in U.S. Treasury Bonds and the net average yield for 1940-41 was 2.2%.

The State Treasurer holds the following securities for the Retirement System:

Date of Purchase	Description	Amount	Price	Yield
October 19, 1940	U.S. Treasury, 2-3/4%, 65-60	\$50,000	107-22*	2.22%
November 19, 1940	U.S. Treasury, 2-3/4%, 65-60	60,000	109-28	2.14
December 6, 1940	U.S. Treasury, 2-3/4%, 65-60	100,000	110-8	2.11
December 19, 1940	U.S. Treasury, 2-3/4%, 65-60	50,000	111-14	2.05 ✓
January 7, 1941	U.S. Treasury, 2-3/4%, 65-60	45,000	111-8	2.06 ✓
January 7, 1941	U.S. Treasury, 2-3/4%, 65-60	45,000	111-3	2.08 ✓
February 11, 1941	U.S. Treasury, 2-3/4%, 65-60	50,000	107-27	2.26
March 17, 1941	U.S. Treasury, 2-3/4%, 65-60	50,000	108-28	2.20
March 17, 1941	U.S. Treasury, 2-3/4%, 65-60	50,000	108-27	2.19
March 15, 1941	U.S. Treasury, 2-1/2%, 54-52	20,000	100	2.50
April 2, 1941	U.S. Treasury, 2-1/2%, 54-52	40,000	102-8	2.26
April 4, 1941	U.S. Treasury, 2-1/2%, 54-52	40,000	102-8	2.26
May 1, 1941	U.S. Treasury, 2-1/2%, Savings Bonds, Series "Q", 1953	50,000	100	2.50
May 28, 1941	U.S. Treasury, 2-1/2%, 58-56	32,000	100	2.50
June 5, 1941	U.S. Treasury, 2-1/2%, 58-56	100,000	102-25	2.28
June 20, 1941	U.S. Treasury, 2-1/2%, 58-56	<u>18,000</u>	103-18	<u>2.21</u>
	Total	\$800,000	Ave Net Yield...	2.22

*Thirty-seconds of a point.

Note:

Additional investments made from July 1 to November 15, 1941:

September 12, 1941	U.S. Treasury, 2-1/2%, 58-56	\$ 50,000	104-16	2.14%
October 18, 1941	U.S. Treasury, 2-1/2%, 72-67	112,500	100	2.50
October 18, 1941	U.S. Treasury, 2-1/2%, 72-67	240,000	102-31	2.34
November 7, 1941	U.S. Treasury, 2-1/2%, 72-67	<u>150,000</u>	103-16	2.32

Total Purchased to November 15..\$1,352,500

Investments sold between July 1 and November 15, 1941:

October 14, 1941	U.S. Treasury, 2-3/4%, 65-60	140,000	111-19
October 25, 1941	U.S. Treasury, 2-3/4%, 65-60	<u>100,000</u>	112-5

Total Sold to November 15.....\$ 240,000

Balance on hand November 15\$1,112,500

Ave. Net Yield... 2.31

According to Section 4506b-21, Ky. Stat., the Board of Trustees may invest available funds in obligations of the United States Government, obligations of any state and of the first, second and third class cities of Kentucky.

This Section should probably be liberalized to include school bonds and voted county bonds when the issuance has been approved by the courts.

All interest and net income from the sale of securities is held in the Guarantee Fund. There is a deficit of \$3,141.92 in this fund, but it appears that it will be in balance by the end of the second fiscal year.

On October 7, 1941, Honorable D. A. Logan, State Auditor, reported the First Annual Audit of the Teachers' Retirement System. The balance sheet of this audit is shown in Table IV.

TABLE IV

BALANCE SHEET OF FIRST ANNUAL AUDIT BY D. A. LOGAN, EX OFFICIO AUDITOR

	Expense Fund	Teachers Savings Fund	State Accumulation Fund	Allowance Reserve Fund	Guarantee Fund	Totals
<u>Assets:</u>						
Cash	\$ 4,022.23	\$ 51,917.69	\$ 50,859.78	\$ 884.65	\$ (919.67)	\$106,764.68
Investments - U.S. Government Securities (Par Value)	--	--	--	--	800,000.00	800,000.00
Unamortized Premium on Investments	--	--	--	--	53,104.83	53,104.83
Accrued Interest on Investments	--	--	--	--	59.51	59.51
Office Equipment	7,671.38	--	--	--	--	7,671.38
Advances to Guarantee Fund for Investment	--	427,164.34*	426,000.00*	--	--	--
Total Assets	\$11,693.61	\$479,082.03	\$476,859.78	\$ 884.65	\$52,244.67	\$967,600.40
<u>Liabilities:</u>						
Accounts Payable	\$ 3,893.60	--	--	--	--	\$ 3,893.60
Refunds Due Former Members	--	--	--	884.65	--	884.65
Over or Under Payments by Members, Net	--	20.79	--	--	--	20.79
Advances from Other Funds for Investment	--	--	--	--	853,164.34*	--
Fund Balances	7,800.01	479,061.24	476,859.78	--	(919.67)	962,801.36
Total Liabilities and Fund Balances	\$11,693.61	\$479,082.03	\$476,859.78	\$ 884.65	\$52,244.67	\$967,600.40

*Inter fund balances eliminated in totals.
 Parentheses in Guarantee Fund indicate cash overdraft and fund deficit.

The State Auditor makes the following comment in regard to the accounts and records of the Teachers' Retirement System:

"Based upon our examination of the records and upon information obtained by us, it is our opinion that the attached balance sheet, statement of operations and schedules are correctly prepared from the books and fairly set forth the financial condition of the Teachers' Retirement System of the State of Kentucky at June 30, 1941, and the results of its operations for the year ended that date.

"Beginning July 1, 1942, the State shall make annually two contributions, a permanent amount equal to that contributed by all members and a temporary amount equal to two per cent of the salaries of all teachers, in order to cover the obligation assumed by the State for prior service credit. With respect to the fiscal years from July 1, 1940, to June 30, 1942, the State shall make a contribution equal to that of the teachers, but not to exceed \$500,000.00 for each year.

"Apparently the work is carried on efficiently and rapidly. In our opinion, the secretary is well qualified and has a clear understanding of the work. All records are in balance and the accountant is to be commended for their excellent condition.

"The individual members' accounts are segregated, . . . , by counties, cities, institutions and divisions. Trial balances of the controlling accounts of these subdivisions proved in agreement with the above amounts. We tested the accuracy of the subdivision controlling accounts by trial balance of the individual members' accounts."

As provided in Sections 4506b-35(c) and -37, Ky. Stat., the deposits in the Teachers' Savings Fund are matched by the State's contribution, held in the State Accumulation Fund, any surplus from either fund being transferred to and held in the Guarantee Fund. The Teachers' Savings Fund and the State Accumulation Fund are and should be in balance.

In round numbers, \$12,000 of the previous year's contributions of teachers was received too late for deposit in June and was, therefore, deposited in the Teachers' Savings Fund in July and matched from the appropriation for 1941-42. This indicates that the \$500,000 appropriation for 1941-42 will be

short \$24,000. This sum should be taken into consideration when appropriation for 1942-43 is made.

On November 4, 1941, the proposed Educational Amendment No. 1 was approved by the electorate. Appropriations under this Amendment will, no doubt, result in increased teachers' salaries in the lower brackets and in corresponding increases in such teachers' contributions.

In the light of these conditions stated above, the appropriation for matching purposes and expenses of operation should, therefore, be a minimum of \$530,000 for 1942-43 and \$522,000 for 1943-44.

The maximum expense of operation authorized by the Retirement Act is approximately \$20,000 per annum and is included in the above figures to conform with the manner of appropriation for the biennium 1940-42.

The annual temporary appropriation, according to the Retirement Act, is to be a sum equal to 2% of the salaries of "present" teachers who are members. As the "present" teachers die, withdraw or retire, the temporary appropriation will decrease and finally reach zero.

The total salaries of "present" teachers, carefully checked and verified, for the year 1940-41, the last complete year, amount to \$16,831,000 as given in Table II. Two per cent (2%) of this sum is, in round numbers, \$337,000, which would be the sum needed for 1942-43. Since an estimated number of "present" teachers will die, withdraw or retire during the biennium, the temporary appropriation needed for 1943-44 is estimated to be \$10,000 less or \$327,000.

If for any reason the full amount is not appropriated, any reduction therefrom should come from the temporary appropriation and not from the permanent appropriation.

In view of the fact that the year 1940-41 is a "prior service" year, it might be considered that the Commonwealth has already appropriated \$476,000 for prior service, which amount is a surplus in the Retirement System. The \$476,000 contributed by the teachers is not a surplus and should not be so considered.

Care should be exercised that this surplus not be consumed but that it be held as a safeguard against periods of depression.

In accordance with Section 4506b-20, Ky. Stat., an actuarial study was made of the Retirement System as of July 1, 1941, and a detailed report filed in the office of the Board of Trustees. The Board of Trustees has studied this report and suggested that the Actuary's balance sheet of the present worth of the assets and liabilities of the Retirement System be included as Table IV.

TABLE IV

VALUATION BALANCE SHEET
APPROXIMATE LIABILITIES AND ASSETS
OF
THE TEACHERS' RETIREMENT SYSTEM OF KENTUCKY
AS OF
JULY 1, 1941
3% Interest Rate

PRIOR SERVICE

LIABILITIES

Present Value of:	
Benefits Mandatory by Reason of Prior Service	\$2,517,718.37
Benefits Mandatory by Reason of Prior Service for members eligible to retire	<u>1,345,997.28</u>
Total Liabilities by Reason of Prior Service	\$3,863,715.65

ASSETS

Present Value of:	
* State's Accrued Obligations for Prior Service Credits	<u>\$3,863,715.65</u>
Total Assets by Reason of Prior Service	\$3,863,715.65

* In accordance with Section 4506b-37 of the Law, the State undertakes to contribute a temporary amount annually "in order to cover the obligation assumed by the State for Prior Service Credits." The obligation of the State is equivalent in amount to the liabilities for prior service credits. The law attempts to measure this temporary annual appropriation by an amount equal to two per centum of the salaries of all present teachers. Using the current salary scale of all present teachers as a guide, and obtaining a present value based upon 2% thereof, we find that such approximate present value is apparently insufficient to discharge the State's accrued obligations. It also appears that a measure of the present value based upon salaries of present teachers will result in a diminishing return, thus weakening the dependability of the approximate present value. The indicated deficiency is not of immediate concern, but should be taken into consideration in future valuations.

State's accrued obligations for Prior Service	\$3,863,715.65
Approximate present value of State's temporary annual appropriation	<u>3,669,282.23</u>
Indicated deficit	\$ 194,433.42

VALUATION BALANCE SHEET CONT'D.

SUBSEQUENT SERVICELIABILITIES

Present Value of:

Benefits Mandatory by Reason of Subsequent Service	\$10,438,139.10
* Estimate to cover Members' withdrawable funds (Prior to 60)	<u>2,304,999.53</u>
Total Liabilities by Reason of Subsequent Service	\$12,743,138.63

ASSETS

Present Value of:

* Members' Contributions by Reason of Subsequent Service, including funds subject to return in event of death or withdrawal prior to age 60	\$ 7,390,242.61
State's Contributions by Reason of Subsequent Service, none of which is subject to return by reason of death or withdrawal of members prior to 60	<u>5,352,896.02</u>
Total Assets by Reason of Subsequent Service	\$12,743,138.63

* The law specifies that in the event of withdrawal from the system, or death of the member prior to age 60, a member's contribution shall be refunded, together with interest accumulations thereon at 3%. Accordingly, in calculating the present value of members' contributions as a part of assets by reason of subsequent service, due allowance has been made for this contingency. Likewise an equivalent allowance as an estimate has been given consideration in connection with Liabilities by Reason of Subsequent Service.

CONSOLIDATED VALUATION BALANCE SHEETLIABILITIES

Total Liabilities by Reason of Prior Service	\$3,863,715.65
Total Liabilities by Reason of Subsequent Service	<u>12,743,138.63</u>
Total Liabilities	\$16,606,854.28

ASSETS

Total Assets by Reason of Prior Service	\$ 3,863,715.65
Total Assets by Reason of Subsequent Service	<u>12,743,138.63</u>
Total Assets	\$16,606,854.28

The following excerpts are quoted from the report of the Actuary:

"CONCLUSIONS

- "In concluding this first Actuarial Report I wish to direct particular attention to the fact that both Contributions and Benefits are definitely prescribed by law. Being thus fixed, it is clear that their present values were assumed to be equivalents. Changing conditions may develop trends to disturb this actuarial balance, for which contingency no provision is made in the law. Two trends that tend to disturb this balance begin to manifest themselves in this first report.
- "It is difficult, at such an early date in the progress of the affairs of the System, to appraise, with dependable definiteness, the adequacy of the State's 'Temporary Annual Contributions' to fully liquidate its obligations for Prior Service Credits. The trend indicated by the Valuation Balance Sheet points to the fact that at some later date the measure of the "Temporary Annual Contribution" for Prior Service Credits, as set out in the law, may have to be reconsidered and possibly revised.
- "'Regular Interest', which is defined in the law to mean interest at three per cent per annum compounded annually, is the interest assumption on which this first Actuarial Report is based. It is an actuarially sound assumption at the present time. However, in view of the trend toward continued low interest rates on investments in general, it should be constantly borne in mind that any disparity between the actual earned interest rate and the three per cent rate prescribed by law will have a substantial effect on the soundness of the System. A lower interest rate would reflect in the present value of Contributions and Benefits, and would adversely affect all of the reserve funds of the System (except the expense fund), since the contemplations of the law require three per cent interest to maintain these reserve funds.
- "It is my opinion that the Teachers' Retirement System of Kentucky may be considered, at its inception, to be in an actuarially sound position. If, however, the indicated trends continue to manifest themselves, or other trends should develop in future valuations, they will be subject to such recommendations for consideration as circumstances seem to warrant. Reasonable margins of safety have been taken into consideration throughout the calculations making up this report.
- "The rates of withdrawal, mortality, disability and retirement, which have been adopted by your Actuary, appear at this time to furnish a reasonable and conservative basis on which to estimate and appraise the future of the Teachers' Retirement System of Kentucky. It is, therefore, recommended that the tables employed be continued for use until such time as conditions indicate a warranted change in the fundamental assumptions. It is further recommended that the actuarial studies instituted for the purpose of this report be continued each year so as to maintain a continuity of comparisons by which to measure the financial soundness of the System."

The data and statistics necessary to a continuous actuarial evaluation of the Teachers' Retirement System are available. The basic actuarial tables, prepared by the Actuary, are on file in the office.

In accordance with Section 4506b-41, Ky. Stat., retirement is mandatory for all members 70 or older on July 1, 1942. There are 157 teachers in membership in the Retirement System whose ages will range from 70 to 82 years.

Retirement is optional for all members whose ages range from 60 to 69, inclusive, July 1, 1942, provided they have met the requirements of the Act, stated in Section 4506b-41, and have complied with the rules of the Board of Trustees.

The following table sets forth the number, average prior service, age group, average annual compensation and totals. Subsequent service is omitted because it cannot be determined until they retire.

TABLE V

Members Whose Retirement Is Either Optional or Mandatory on July 1, 1942

Age Group	Number	Op. and Man. Retirements	Prior Service	Ave. Salary	An. P.S. Annuity	Ave. Life Expectancy	Total
70 to 82	157	157	30-	\$1,074	\$49,323	6.92	\$352,219
65 to 69	286	66	29-	1,119	15,842	10.02	158,734
60 to 64	<u>367</u>	<u>48</u>	<u>26+</u>	<u>1,118</u>	<u>7,084</u>	<u>13.1</u>	<u>92,796</u>
Totals	810	271	29-	1,092	72,249	8.77	603,749

According to our actuarial table, 66 members will retire out of an eligible group of 286 at ages 65 to 69, inclusive, and 48 will retire out of 367 in age group 60 to 64, inclusive, making a total of 271 who may be expected to retire July 1, 1942. We are of the opinion that these estimates are low, but, according to them, \$72,249 will be needed to pay annuities during 1942-43; and, an estimated \$100,000 for 1943-44.

The total amount needed to meet the obligation of the State for prior service for the members who are 70 to 82 years of age is \$352,219; and for those who will choose to retire, \$251,530, making a total of \$603,749, the present worth of which, for the average life expectancy, is \$475,210.84. This amount should be placed in the Allowance Reserve Fund July 1, 1942.

It is the policy of the Board of Trustees that when a member retires, the whole amount of his annuities during life expectancy shall immediately be transferred to the Allowance Reserve Fund - only by such a policy can the Retirement System remain sound.

The Board of Trustees has adopted the following principles for the guidance of all citizens who are interested in the State Retirement System:

~~The following principles should guide all interested parties in the operation and maintenance of the Teachers' Retirement System:~~

1. That the benefits of the Retirement System are a part of the consideration for which a teacher trains himself and remains in the teaching profession.
2. That the percentage of salary paid by the teacher and matched by the State should be held in trust, intact and properly invested until that particular teacher dies, leaves the profession or retires.
3. That when a teacher retires, the present worth of the whole amount of his annuities, based upon life expectancy, should immediately be set up in the Allowance Reserve Fund and held for his benefit until death.
4. That in consideration of the advantages and provisions of the Retirement Act, the teacher-member makes a definite contribution of salary monthly or annually.
5. That the State's contribution is not a gift or a pension, but a consideration for which the public gets "value received", due to the provisions of the Retirement Act and the like contribution of the teacher.
6. That the Membership and Prior Service Certificate, legally issued, constitutes a valid contract with definite considerations by both parties - the teacher and the Commonwealth of Kentucky.
7. That the Retirement System shall be so supported and operated that it will be actuarially sound according to the best standards at all times.

RULES AND REGULATIONS
Adopted by the Board of Trustees

~~of the~~
~~Teachers' Retirement System of the State of Kentucky~~

I. Rules of Educational Units:

Independent districts, county districts, institutions and departments having teachers participating in the State Retirement System are requested to modify their respective rules, if necessary, so as to bring them into harmony with the Teachers' Retirement Act. (Sec. 4506b-1 to and including Sec. 4506b-51, Ky. Stat.)

II. Fractional Year:

Fractions of a year of service shall be indicated to the nearest tenth.

III. Substitute Teachers:

Substitute teachers when legally employed may have contributions deducted from the salary in the usual manner and receive service credit for the fraction of a year taught and paid for.

If a substitute teacher teaches a semester (or half school term) or more, she is a regular teacher during that year, and membership is compulsory.

IV. New Entrant:

Professional Service Forms A-1 shall be completed and filed with the chief school officer of the educational unit at the time the new (entrant) teacher signs her first annual contract with the employing board.

V. A Special Teacher; Definition:

A special teacher is one legally employed at a fixed salary and who performs duties within the purview of the Retirement Act, and membership is required.

Salary and certificate are subject to the approval of the Department of Education.

VI. Member with Thirty (30)
Years of Service Credit:

A member with thirty (30) years or more of acceptable service is not required to teach consecutively the last five (5) years before retirement. (Secs. 4506b-41 and 4506b-42, Ky. Stat.)

VII. To Retain Membership:

In all cases excepting those designated in Section 4506b-42, Ky. Stat., a teacher to retain membership shall teach at least three years of each six-year period, provided the Board of Trustees reserves the right to extend this time in such cases as may, in its judgment, warrant such extension and, provided further, teachers in military service are excepted.

VIII. Prior Service:

No credit for prior service shall be given unless and until the present teacher shall have been a contributing member for at least one scholastic year.

Prior service shall be granted upon the following additional conditions:

1. To members who taught at any time during 1939-40, (a) and who become members during 1940-41, and (b) who did not decline membership. (Sec. 4506b-31, Ky. Stat.)
2. To members who have taught three years or more of the six-year period ending July 1, 1940. (Sec. 4506b-32, Ky. Stat.)
3. To members who taught a full year during 1940-41.

IX. Credit for Service:

In all cases where any member having a legal right to pay contributions to the Retirement System pays the same according to Law, the amount of service credit paid for shall be added annually to his service record and in no other cases. (Sec. 4506b-42, Ky. Stat.)

X. Individual Contributions:

Members on leave of absence and on military duty may pay their contributions, based upon their last annual contract, directly to the Teachers' Retirement System during such period of leave of absence or military duty. In such cases, receipt shall be given the member as and when payment is made.

XI. Leave of Absence:

No leave of absence shall be granted for a longer period than one scholastic year, provided the employing board may extend any leave of absence annually, but in no case for more than three years in any ten-year period.

Written notice of the granting of leave of absence and the extension of the same shall be filed in the office of the Board of Trustees within two weeks after such action is taken by the employing board and shall be subject to the approval of the Secretary or Board of Trustees before such leave shall be effective for retirement purposes.

XII. Membership:

No Membership Certificate and/or Prior Service Certificate shall be issued to any teacher who has not complied with the requirements of legal employment and paid contributions for at least one full school term, or the equivalent, excepting in those districts or other employing units in which the annual salary for the school term is paid in eleven (11) or twelve (12) equal installments.

In such cases, ten (10) monthly contributions must have been paid currently, and the remaining installments shall be paid not later than August 31.

XIII. Refunds:

Refunds to beneficiaries or administrators on account of death of members and refunds to former members who have withdrawn from the teaching profession may be made upon approval of applications for the same by the Secretary.

It is the policy of the Board of Trustees that such refunds shall be made not later than during the calendar month following the date of approval.

The Secretary shall report to the Board of Trustees upon such refunds at each quarterly meeting; i.e., four times per year.

XIV. Remittance of Contributions:

Employing boards, through their respective treasurers, shall remit promptly to the Retirement System all contributions due to be deducted from teachers' salaries, as and when deducted, as required by Section 4506b-38, Ky. Stat. Since failure to do so affects the teacher's account and service record adversely, boards so offending are liable to the Commonwealth and to the teachers affected for any and all such losses sustained by reason of violation of said section (4506b-38).

XV. Report of Contributions:

Employing boards shall cause to be submitted to the office of the Board of Trustees with each check for teachers' contributions for any and every payroll a detailed report by school months on a form approved by the Department of Education. Teachers' names shall, as far as practical, be entered on said form in alphabetical order. In case any teacher's name appears on the payroll more than once, said teacher's name shall be listed on consecutive lines to facilitate the posting of his account and calculating of interest.

As far as practical, the teachers' names should appear in the same order from month to month.

XVI. Inactive Accounts:

Regular interest shall be credited to all inactive accounts annually for a period of three (3) years, after which no interest shall be credited with respect to any year until the account becomes active, after which date the

regular interest shall be credited annually. (Sec. 4506b-33, Ky. Stat.)

XVII. Service Benefits:

Prior service benefits shall be based upon the average annual salary for the last five years of prior service. (Sec. 4506b-31, Ky. Stat.)

Subsequent service benefits shall be based upon the average annual salary for the last five years of subsequent service.

In either case, when there is less than five years of prior service or subsequent service, the average of such years shall be taken as the factor in determining annuities.

XVIII. Applications for Retirement:

No retirement benefits shall be granted without written application filed on blanks furnished by the Teachers' Retirement System. Data requested on such forms shall be furnished in complete and acceptable form.

Applications for retirement July 1, 1942, may be filed with the Secretary at any time during the year 1941-42.

Applications for retirement during subsequent years may be filed at any time during the preceding year.

XIX. Annuities:

Annuities shall be based upon three factors:

- 1. Age at retirement. (Sec. 4506b-43, Ky. Stat.)
- 2. Years of accredited service. (Sec. 4506b-31, Ky. Stat.)
- 3. Salary as defined in the Law and as designated in the rules of the Board of Trustees. (Sec. 4506b-2, paragraph 10, Ky. Stat.)

XX. Payment of Annuities:

Annuities shall be paid quarterly in the months of September and/or October, December and/or January, March and/or April and June and/or July.

No annuity shall be retroactive, but shall be paid in the first designated month for payments of annuities after the application has been approved and payment authorized.

No annuity shall be paid without the approval of the Secretary and the express authorization of the Board of Trustees, which authorization shall appear in the minutes of the Board, provided that, after the application has been approved and the annuity authorized as provided above, the Secretary shall, without further authorization, cause the quarterly checks to be issued regularly during the life of the annuitant.

The last quarterly check shall be issued for the amount of the accrued annuity to and including the date of the death of the annuitant. (Sec. 4506b-46, Ky. Stat.)

XXI. Annuitant's Account:

For each annuitant, the Secretary shall set up and maintain an account, showing the accumulated contributions of the annuitant, the amount contributed by the State on his behalf to the State Accumulation Fund and the amount contributed by the State in its temporary appropriation for "prior service".

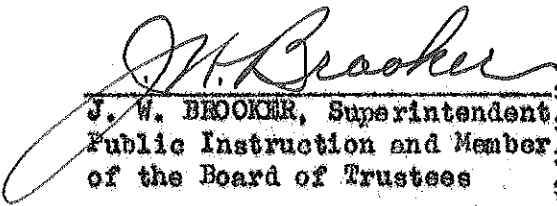
Regular interest shall be credited to these accounts.


XXII. Statement of Account

Upon written request, the Secretary shall, as soon as practical, mail to any member or annuitant requesting the same a statement of his account for the preceding or current fiscal year.

The Board is of the opinion that the Retirement System has made excellent progress during its first year of existence, that the business routine for handling the same has been properly worked out, that its provisions will redound to the benefit of the Commonwealth and that great credit is due the Executive Branch of the State Government for this auspicious beginning.

Respectfully submitted,


 J. W. BROOKER, Superintendent
 Public Instruction and Member
 of the Board of Trustees


 M. O. KIMBLER, Secretary
 Teachers' Retirement System

COMMITTEE

November 15, 1941