



31st
annual report

TEACHERS' RETIREMENT SYSTEM

**STATE OF KENTUCKY
1970-1971**

DECEMBER 1971



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COMMONWEALTH OF KENTUCKY
TEACHERS' RETIREMENT SYSTEM

TED L. CROSTHWAIT
EXECUTIVE SECRETARY

309 LEWIS STREET
FRANKFORT

PAT N. MILLER
ASSISTANT SECRETARY

December 27, 1971

Honorable Wendell H. Ford, Governor
Commonwealth of Kentucky
Capitol Building
Frankfort, Kentucky 40601

Dear Governor Ford:

Submitted herewith is the Thirty-first Annual Report of the Teachers' Retirement System of the State of Kentucky as provided for in KRS 161.320.

The Teachers' Retirement System ended the fiscal year with new highs in terms of return on investments, average benefits to members, and capital worth of the System's assets. On June 30, 1971, the average monthly benefit to retired teachers was \$230 as compared to an average of \$212 per month a year earlier, and an average of \$183 per month two years ago. The rate of investment income on June 30, 1971, had increased to 6.08% on an annual basis, up from an annual rate of 5.59% at the end of the previous fiscal year. The assets of the System increased during the year from a total of \$272 million to \$310 million, a gain of \$38 million in total assets.

On the debit side of the ledger is the fact that accrued obligations for present and future benefits are also increasing quite rapidly as teachers' salaries are increased. There is also a large deficit in the funding of benefits based on service prior to July 1, 1941. Appropriations to the "Prior Service Fund" have totaled less than \$1 million since 1964. Neglect of this phase of the System's financing is beginning to pose serious problems from an actuarial viewpoint, and the State should begin a regular amortization of this obligation.

Kentucky teachers have an excellent program of retirement benefits, and appreciate the interest you have shown in keeping the System on a sound actuarial basis. We are, however, weak in the area of cost-of-living increases for persons already retired. The Board of Trustees will have recommendations in this area for your consideration and for possible legislation.

The Board of Trustees is dedicated to providing the maximum benefits possible within the limits of financial ability as indicated by periodic actuarial valuations.

TEACHERS' RETIREMENT SYSTEM

The assistance and cooperation of the Executive and Legislative branches of State Government are essential to the success of the retirement program. Your continued interest and support will be deeply appreciated.

Respectfully yours,

Harold Miller, Chairman
Board of Trustees

Ted L. Crosthwait
Executive Secretary
Teachers' Retirement System
of the State of Kentucky

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TEACHERS' RETIREMENT SYSTEM
STATE OF KENTUCKY

BOARD OF TRUSTEES

Elected by members:

Harold Miller, Chairman Fort Thomas
Mrs. James Sheehan, Vice Chairman Danville
W. D. Bruce, Jr. Louisville
Mrs. Martha Baker Paducah

Ex-Officio:

Mrs. Thelma Stovall, State Treasurer Frankfort
John Breckinridge, Attorney General Frankfort
Wendell P. Butler, Superintendent of Public Instruction Frankfort

STAFF

Ted L. Crosthwait, Executive Secretary

Pat Miller, Assistant Secretary

William R. Holt, Supervisor of Finance & Accounting

Huggins & Company, Actuary

Todd-Boston Company, Inc., Investment Counselors

| | | |
|----------------|-------------------|------------------|
| Louise Bates | Anna Mae Connelly | Isabelle Royalty |
| Hazel Buffin | Nancy G. Cosby | Martha Sudduth |
| Joan Burke | Wilma Gaines | Doris Ward |
| Polly Casey | Mary J. Games | Dorothy Wood |
| Brenda Clemons | Scott Kring | Elizabeth Wood |
| Betty Cohorn | Alean McDonald | Frances Wright |
| | Jean Pulliam | |

PART I. FINANCIAL

The Balance Sheet reveals that the assets of the System on June 30, 1971, were \$310,023,680.05, approximately fourteen percent larger than for the same date in 1970. If this rate of percentage increase continues, the assets of the System will exceed \$350,000,000 by June 30, 1972. This increase in the assets is a result of the larger amount of member and state contributions which comes from salary increases and additional members, plus greater return on the investments of the System.

Sometimes there is a tendency on the part of public officials and members of the System to feel that the increasing amount of the assets of the Teachers' Retirement System would permit larger or extended benefits, lower contributions, or a reduction of state appropriations. It must be realized, however, that these are trust funds and held in large measure in reserve to assure retirement and related benefits for teachers who may be expected to retire in the future or who will at least receive their contributions in the form of refunds. Unless adequate reserves are established and maintained now, future liabilities will exceed future assets with the resulting inability to pay benefits.

It should be noted that of the \$310 million in total assets, \$138 million is credited to member accounts (Teachers' Savings Fund) and a like amount is set aside as state matching for member contributions (State Accumulation Fund). This leaves a free reserve for benefits of only \$34 million. At the present rate of benefit costs (\$22 million per year), we have a free reserve sufficient to cover only about nineteen months of benefits. The state of this reserve fund emphasizes the need for prompt attention to the "Prior Service Obligation" of the System, but is of course no reason for strong concern if future funding is at a desirable level.

BALANCE SHEET
 Teachers' Retirement System
 June 30, 1971

ASSETS

| | | |
|---|---------------------|--------------------------------|
| Cash, All Funds | \$14,338,506.18 | |
| Special Reserve Account, Aetna Life Insurance Company | <u>444,263.13</u> | \$14,782,769.31 |
| Investments | \$295,882,441.14 | |
| Unamortized Premium on Investments | 1,783,798.37 | |
| Accrued Interest Purchased | <u>304,685.77</u> | |
| Sub-total: Investments plus deferred charges | \$297,970,925.28 | |
| Deduct Unamortized Discount on Investments | <u>2,730,014.54</u> | <u>295,240,910.74</u> |
| TOTAL ASSETS | | <u><u>\$310,023,680.05</u></u> |

FUND BALANCES *

| | | |
|---|---------------------|--------------------------------|
| Teachers' Savings Fund | \$138,184,798.96 | |
| State Accumulation Fund | 138,184,798.96 | |
| Guarantee Fund | 19,645,694.67 | |
| Voluntary Contributions, Active Members | 1,419,781.62 | |
| Expense Fund | 40,880.70 | |
| Allowance Reserve Fund | 3,081,947.11 | |
| Hospital & Medical Insurance Fund | 4,703,816.08 | |
| Survivor & Death Benefit Fund | <u>4,761,961.95</u> | |
| TOTAL FUND BALANCES | | <u><u>\$310,023,680.05</u></u> |

*Distribution of funds to various accounts is subject to final audit.

STATEMENT OF RECEIPTS AND DISBURSEMENTS
 Teachers' Retirement System
 for the period July 1, 1970 - June 30, 1971

CASH BALANCE, ALL FUNDS - JULY 1, 1970 \$5,095,776.83

Receipts:

| | | |
|-----------------------------------|-------------------|-----------------|
| Teachers' Savings | \$22,005,053.79 | |
| Reinstatements | 203,355.97 | |
| Voluntary Unmatched Contributions | <u>328,259.71</u> | |
| Total from Members | | \$22,536,669.47 |

State Contributions:

| | | |
|--|-------------------|---------------|
| "Permanent" to match Teachers' Savings | \$20,351,111.52 | |
| Deficiency appropriation for matching | 2,162,416.48 | |
| Administrative Expenses | <u>364,742.00</u> | |
| Total from State Appropriations | | 22,878,270.00 |

| | | |
|--|--|--------------|
| Employer Matching of Teacher Contributions | | 1,653,942.27 |
| Aetna Special Reserve Account Recovery | | 75,583.96 |

| | | |
|---|--|-----------------------|
| Interest Collected, Bonds Redeemed or Sold; Adjustments | | <u>97,542,869.48</u> |
| Total Receipts | | <u>144,687,335.18</u> |

TOTAL CASH AVAILABLE \$149,783,112.01

Disbursements:

| | | |
|---|-----------------|--------------|
| Administrative Expenses for current year | \$323,861.30 | |
| Liquidation of Prior Year Encumbrances | <u>3,287.80</u> | \$327,149.10 |
| Refunds for Withdrawal from Membership | | 3,510,477.53 |
| Premiums for Comprehensive Medical Insurance Plan | | 959,334.27 |

| | | |
|--|-------------------|---------------|
| Benefits for Service & Disability Retirement | \$17,470,077.33 | |
| Survivor Payments | 625,778.69 | |
| Death Benefits | <u>508,000.00</u> | |
| | | 18,603,856.02 |

| | | |
|-------------------------|--|-----------------------|
| Purchase of Investments | | <u>111,599,525.78</u> |
|-------------------------|--|-----------------------|

| | | |
|---------------------|--|-----------------------|
| Total Disbursements | | <u>135,000,342.70</u> |
|---------------------|--|-----------------------|

CASH BALANCE, ALL FUNDS - JUNE 30, 1971 \$14,782,769.31

COMPARISON OF TEACHERS' SAVINGS AND MATCHING FUNDS
 Teachers' Retirement System
 for the period July 1, 1940 through June 30, 1971

| Date | Teachers' Savings | Federal Matching Contributions | State Matching Contributions | State Prior Service Contributions | State Contribution for Expenses |
|------------------|-------------------------|--------------------------------|------------------------------|-----------------------------------|---------------------------------|
| 7/1/40 - 6/30/44 | \$ 2,063,716.64 | \$ -- | \$ 2,063,636.92 | \$ 147,146.21 | \$ 89,216.87 |
| 7/1/44 - 6/30/48 | 3,184,177.52 | -- | 3,039,017.44 | 363,594.56 | 131,388.00 |
| 7/1/48 - 6/30/52 | 4,951,457.55 | -- | 5,090,847.83 | 3,374,273.81 | 198,335.00 |
| 7/1/52 - 6/30/56 | 7,267,163.31 | -- | 6,494,101.79 | 936,448.21 | 262,254.00 |
| 1956-57 | 3,397,252.11 | -- | 3,396,749.24 | 611,125.76 | 89,000.00 |
| 1957-58 | 3,523,727.93 | -- | 3,523,551.57 | 612,278.43 | 125,225.00 |
| 1958-59 | 3,863,489.84 | -- | 3,858,543.67 | 479,306.33 | 129,350.00 |
| 1959-60 | 4,186,490.96 | -- | 4,184,427.58 | 281,225.77 | 178,146.65 |
| 1960-61 | 5,792,722.05 | -- | 5,790,585.89 | 1,173,039.11 | 161,375.00 |
| 1961-62 | 6,311,472.35 | -- | 6,309,696.04 | 1,119,118.96 | 171,185.00 |
| 1962-63 | 6,765,354.48 | -- | 6,763,615.18 | 950,175.82 | 196,846.00 |
| 1963-64 | 7,076,348.40 | -- | 7,074,866.28 | 696,608.72 | 220,657.00 |
| 1964-65 | 7,780,975.02 | -- | 7,780,017.37 | 400,782.63 | 219,200.00 |
| 1965-66 | 11,839,447.87 | 147,969.24 | 10,744,110.00 | -- | 255,890.00 |
| 1966-67 | 14,163,257.71 | 942,771.10 | 12,621,567.00 | -- | 237,063.00 |
| 1967-68 | 16,173,617.90 | 951,273.29 | 14,172,000.00 | -- | 225,000.00 |
| 1968-69 | 18,080,829.17 | 1,301,561.26 | 18,475,036.94 | 424,963.06 | 266,760.00 |
| 1969-70 | 19,774,253.40 | 1,355,704.89 | 16,913,000.00 | -- | 274,910.00 |
| 1970-71 | 22,005,053.79 | 1,653,942.27 | 22,513,528.00 | -- | 364,742.00 |
| TOTALS | \$168,200,808.00 | \$6,353,222.05 | \$160,808,898.74 | \$11,570,087.38 | \$3,796,543.52 |

SUMMARY

1. Permanent contributions to match teacher payments \$ 160,808,898.74
 Federal matching through remittances by Employers 6,353,222.05
 Total matching under the statutory requirement for
 100% matching of teacher payments \$ 167,162,120.79
2. The deficit of \$1,038,688 in current matching contributions is expected to be substantially reduced by June 30, 1972, on the basis of appropriations made for the 1971-72 fiscal year.
3. There have not been adequate appropriations to amortize the Prior Service Obligation.

REFUNDS
 Teachers' Retirement System
 July 1, 1940 to June 30, 1971

| Date | Withdrawals | | Deaths | | Adjustments | | TOTAL | |
|------------------|-------------|-----------------|--------|----------------|-------------|-------------|--------|-----------------|
| | No. | Amount | No. | Amount | No. | Amount | No. | Amount |
| 7/1/40 - 6/30/44 | 2,654 | \$ 106,474.07 | 148 | 11,447.66 | 21 | \$ 231.76 | 2,823 | \$ 118,153.49 |
| 7/1/44 - 6/30/48 | 6,455 | 415,929.56 | 205 | 34,386.65 | 52 | 1,184.73 | 6,712 | 451,500.94 |
| 7/1/48 - 6/30/52 | 9,079 | 816,505.87 | 267 | 89,957.65 | 71 | 1,443.47 | 9,417 | 907,906.99 |
| 7/1/52 - 6/30/56 | 9,488 | 1,204,087.67 | 237 | 147,531.23 | 39 | 727.79 | 9,764 | 1,352,346.69 |
| 1956-57 | 1,832 | 381,015.98 | 67 | 63,100.03 | 10 | 502.87 | 1,909 | 444,618.88 |
| 1957-58 | 2,183 | 422,166.84 | 60 | 63,459.52 | 11 | 176.36 | 2,254 | 485,802.72 |
| 1958-59 | 2,153 | 432,917.49 | 59 | 66,659.22 | 198 | 4,946.17 | 2,410 | 504,522.88 |
| 1959-60 | 2,642 | 599,648.10 | 69 | 94,122.66 | 66 | 2,053.57 | 2,777 | 695,824.33 |
| 1960-61 | 1,672 | 517,682.44 | 53 | 79,564.69 | 52 | 2,145.72 | 1,777 | 599,392.85 |
| 1961-62 | 2,170 | 724,240.16 | 69 | 113,975.25 | 42 | 1,769.95 | 2,281 | 839,985.36 |
| 1962-63 | 2,106 | 826,457.63 | 66 | 115,303.28 | 48 | 1,718.89 | 2,220 | 943,479.80 |
| 1963-64 | 2,310 | 1,035,242.10 | 60 | 144,154.22 | 26 | 1,460.21 | 2,396 | 1,180,856.53 |
| 1964-65 | 2,380 | 1,190,715.07 | 72 | 156,186.68 | 39 | 1,930.17 | 2,491 | 1,348,831.92 |
| 1965-66 | 2,417 | 1,375,728.50 | 44 | 90,196.91 | 23 | 1,256.68 | 2,484 | 1,467,182.09 |
| 1966-67 | 2,512 | 1,500,846.42 | 49 | 143,133.98 | 29 | 2,420.61 | 2,590 | 1,646,401.01 |
| 1967-68 | 2,766 | 1,858,115.15 | 48 | 138,362.23 | 16 | 975.68 | 2,830 | 1,997,453.06 |
| 1968-69 | 3,081 | 2,204,896.23 | 48 | 152,415.64 | 90 | 2,264.79 | 3,219 | 2,359,576.66 |
| 1969-70 | 3,447 | 2,651,430.47 | 53 | 200,204.03 | 48 | 8,097.76 | 3,548 | 2,859,732.26 |
| 1970-71 | 3,808 | 3,241,516.61 | 56 | 188,158.04 | 40 | 6,701.36 | 3,904 | 3,436,376.01 |
| TOTALS | 65,155 | \$21,505,616.46 | 1,730 | \$2,092,319.57 | 921 | \$42,008.54 | 67,806 | \$23,639,944.57 |

ANALYSIS OF ACCOUNTS REFUNDED 1970-71
Teachers' Retirement System of the State of Kentucky

| <u>REASONS FOR WITHDRAWAL</u> | <u>MALES</u> | <u>FEMALES</u> | <u>TOTAL</u> |
|--|--------------|----------------|--------------|
| Other Teaching Employment: | | | |
| State of Ohio | 67 | 114 | 181 |
| State of Florida | 23 | 43 | 66 |
| State of Indiana | 52 | 77 | 129 |
| Other States | 238 | 461 | 699 |
| Outside Limits of U.S.A. | 11 | 20 | 31 |
| Kentucky College or school not covered by Teachers' Retirement System | 36 | 46 | 82 |
| Non-Teaching Employment: | | | |
| Entered Business or Industry | 252 | 70 | 322 |
| Church-Related Profession | 20 | 8 | 28 |
| Medical Profession | 2 | 2 | 4 |
| Legal Profession | 11 | 1 | 12 |
| Military Service | 77 | 0 | 77 |
| Further Training & Education | 140 | 164 | 304 |
| Local, State, or Federal Government | 38 | 28 | 66 |
| Homemaking, Family Duties, Children | 0 | 823 | 823 |
| Husband Transferred Within Kentucky | 0 | 2 | 2 |
| Husband Transferred Out of Kentucky | 0 | 186 | 186 |
| Moved Residence to Another State | 33 | 44 | 77 |
| Emergency Teacher, Lack of Training, Not Re-employed | 46 | 88 | 134 |
| Salary too low | 74 | 11 | 85 |
| Needed the Money | 3 | 16 | 19 |
| Disliked Teaching | 29 | 26 | 55 |
| Personal Reasons | 125 | 172 | 297 |
| Illness of Member | 10 | 30 | 40 |
| Death of Member | 12 | 44 | 56 |
| Absent from Profession 4 - 6 years | 0 | 2 | 2 |
| Lost Service Credit, Absent 7 or more Years | <u>25</u> | <u>62</u> | <u>87</u> |
| TOTALS | <u>1,324</u> | <u>2,540</u> | <u>3,864</u> |

PART II. INVESTMENTS

Again the Teachers' Retirement System ended the year with record returns on invested reserves. Our yield again is in the upper ten percent of similar systems throughout the nation. These results are secured within a framework of high quality investments.

Action by the 1968 General Assembly increased the permissible investment in common stocks to twenty-five percent of assets. At the close of the 1970-71 fiscal year the share of assets invested in common and preferred stocks was approximately the same as at the close of the previous fiscal year, but the total amount invested in common stocks had increased by about \$8 1/2 million.

During this fiscal year the Trustees have continued an active program of portfolio improvements through exchanges of securities whenever favorable "swaps" are presented. Increases of yields on investments have resulted both from higher interest rates on current offerings and on improvements of returns due to exchanges of securities. Details of the various exchanges are too voluminous to include here, but information on each transaction is available to auditors and other interested persons.

ANALYSIS OF INVESTMENTS HELD AT JUNE 30, 1971
to show annual yield rate
Teachers' Retirement System of the State of Kentucky

| | <u>Percentage of Total</u> | <u>Par Value</u> | <u>Interest Income/Year</u> | <u>Annual Yield</u> |
|---|--------------------------------|----------------------|---------------------------------|-------------------------|
| Obligations Secured by U. S. Treasury | 1.79% | \$ 5,287,830.38 | \$ 302,355.39 | 5.718% |
| Federal Agencies | 3.32% | 9,837,416.76 | 558,849.62 | 5.681% |
| FHA & VA Mortgages | 15.24% | 45,089,377.86 | 2,477,640.02 | 5.495% |
| Other Guaranteed Mortgages | 4.21% | 12,460,067.96 | 802,148.71 | 6.438% |
| Corporate Bonds | 55.97% | 165,592,907.76 | 10,359,435.63 | 6.256% |
| Municipal Bonds | .18% | 544,000.00 | 27,381.26 | 5.033% |
| Kentucky Industrial Development Finance Authority | .49% | 1,438,333.33 | 71,725.00 | 4.987% |
| | | <hr/> | <hr/> | |
| Sub-Total | 81.20% | \$ 240,249,934.05 | \$14,599,535.63 ✓ | |
| <u>NET YIELD RATE:</u> | | | | |
| $\$14,599,535.63 \div \$240,249,934.05 = 6.077\%$ | | | | |
| <u>Not Included Above:</u> | | | | |
| 1,266,545 Shares Common Stocks | 18.49% | 54,713,947.48 | | |
| 6,196 Shares Preferred Stocks | .14% | 415,659.61 | | |
| Guaranteed Mortgage in Construction Status | .17% | 502,900.00 | | |
| | | <hr/> | | |
| TOTAL INVESTMENTS | 100.00% | \$ 295,882,441.14 | | |
| | | <hr/> <hr/> | | |

SUMMARY OF INVESTMENT PROFIT YIELDS

| <u>Year</u> | <u>Invested Assets</u> | <u>Net Yield</u> |
|-------------|------------------------|------------------|
| 1959 | \$ 57,572,000 | 3.39 |
| 1960 | 64,655,000 | 3.53 |
| 1961 | 78,017,000 | 3.81 |
| 1962 | 90,712,000 | 4.03 |
| 1963 | 102,938,000 | 4.17 |
| 1964 | 118,466,000 | 4.27 |
| 1965 | 132,805,000 | 4.43 |
| 1966 | 152,609,000 | 4.58 |
| 1967 | 174,612,000 | 4.69 |
| 1968 | 200,836,000 | 5.06 |
| 1969 | 235,898,000 | 5.32 |
| 1970 | 267,514,029 | 5.59 |
| 1971 | 295,882,441 | 6.08 |

Actuarial Valuation and Audit Reports for this fiscal year are not complete at this time. These items will be distributed as a supplement to this Report at a later date.