



34TH

annual report

TEACHERS' RETIREMENT SYSTEM

STATE OF KENTUCKY

1973-74

DECEMBER 1974



COMMONWEALTH OF KENTUCKY
TEACHERS' RETIREMENT SYSTEM
216 WEST MAIN STREET
FRANKFORT, KENTUCKY
40601

Ted L. Crosthwait
Executive Secretary

Pat N. Miller
Deputy Executive Secretary
for Member Relations

Charles L. Bratton
Deputy Executive Secretary
for Finance and Accounting

December 23, 1974

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

Dear Governor Ford:

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

Significant gains were realized in terms of return on investments, average benefits to members, and capital worth of the System's assets. On July 1, 1974, the average monthly benefit to all retirement payees was \$307 as compared to an average of \$286 per month a year earlier, and \$270 per month two years ago. The rate of investment income on fixed dollar assets on June 30, 1974, had increased to 7% on an annual basis, up from an annual rate of 6.55% at the end of the previous year. The total assets of the System increased during the year from a total of \$383.6 million to \$424 million, a gain of \$40.4 million in total assets.

Provision of \$2.7 million toward payment of the State's Prior Service Obligation in the 1972-74 biennium, and an additional \$12.2 million for the biennium beginning July 1, 1974, places the System back on a reasonable amortization schedule. If the executive budgets for the ensuing fourteen years continue the level of appropriation provided in the 1975-76 appropriation the entire obligation will be retired by 1990. This is the original amortization schedule adopted by the 1960 General Assembly.

The appropriation of approximately \$2.2 million for cost of living bonus payments in the 1972-74 biennium, and the further provision of \$6.6 million to continue these payments for 1974-76 have made it possible for our retired teachers to meet the problems of "double digit" inflation without undue hardship. Without these additional benefits, thousands of these older teachers would have suffered substantial reductions in standards of living.

Kentucky teachers, both active and retired, recognize the keen interest you have shown in the Teachers' Retirement System. Your concern for the actuarial soundness of the System and for the welfare of retired teachers is especially appreciated by all concerned.

The Board of Trustees is committed to continuing the excellent programs provided by the System, and wish to express sincere thanks to you and the General Assembly for your interest and support.

Respectfully yours,

Harold Miller, Chairman
Board of Trustees

Ted L. Crosthwait
Executive Secretary

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TEACHERS' RETIREMENT SYSTEM
STATE OF KENTUCKY

BOARD OF TRUSTEES

Elected by members:

Mr. Harold Miller, Chairman	Fort Thomas
Mrs. James Sheehan, Vice-Chairman	Danville
Mr. W. D. Bruce, Jr.	Louisville
Mrs. Martha Baker	Paducah
Mrs. Ruth Reeves	Ashland
Mr. Talton K. Stone	Elizabethtown
Mr. Rumsey Taylor, Sr.	Princeton

Ex-Officio:

Mr. Drexell R. Davis, State Treasurer	Frankfort
Dr. Lyman V. Ginger, Superintendent of Public Instruction	Frankfort

STAFF

Ted L. Crosthwait, Executive Secretary

Pat Miller, Deputy Executive Secretary

Charles L. Bratton, Deputy Executive Secretary

Huggins & Company, Actuary

The Boston Company of Louisville, Inc., Investment Counselors

Michael T. Auxier	Betty Cohorn	Rodney Roberts
Barbara Ballard	Anna Mae Connelly	Isabelle Royalty
Louise Bates	Nancy Cosby	Donna Smith
Hazel Buffin	Donna Dalton	Martha Sudduth
Joan Burke	Wilma Gaines	Frances Terhune
Polly Casey	Mary J. Games	Doris Ward
David Clifford	Dennis E. Ivy	Elizabeth Wood
	Alean McDonald	Frances Wright

HIGHLIGHTS OF THE TEACHERS' RETIREMENT SYSTEM OF THE STATE OF KENTUCKY

I. Organization and Administration

The Teachers' Retirement System was established by Acts of the 1938 General Assembly to begin operation on July 1, 1940. The first retirements under the System were effective July 1, 1942.

A nine-member Board of Trustees is responsible for the administration of the System with an Executive Secretary as chief executive officer. Seven trustees are elected by members of the System. The State Treasurer and Superintendent of Public Instruction are ex-officio trustees.

II. Membership

All persons employed in regular full-time positions by local boards of education, state and regional vocational schools, the Kentucky School for the Blind and the Kentucky School for the Deaf in positions requiring certification by the State Department of Education as a condition of employment. Also included in membership are regular full-time faculty and staff members of the five regional universities and employees of the State Department of Education who are employed in positions requiring certification or a professional level of training as a condition of employment.

Membership in the System is mandatory for all eligible employees. Contribution by members is 7.70% of gross salary received from all employment covered by the System. The State matches the member contributions and in addition makes temporary appropriations to cover unfunded liabilities for prior service and for cost-of-living supplements for retired members.

III. Survivors and Death Benefits

A death benefit of \$2,000 is payable to the estate of a member who dies while in active contributing service or is retired for service or disability.

Benefits to surviving widows, dependent widowers, children, and other dependents are available under certain circumstances. For survivors of members who die while in active service the benefits may be in the form of a lump sum monthly payment based on a statutory schedule of benefits, or, if the member was eligible to retire at the time of death the benefit may be based on the actuarial equivalent of the member's vested annuity.

After retirement for service the retirement option chosen by the retiree determines what benefits, if any, are payable to a surviving beneficiary.

IV. Disability Benefits

Disability benefits are payable to members who:

- (a) Have eight years or more contributing service in Kentucky.
- (b) Become disabled while in active employment in a covered position.
- (c) Are under age sixty at time of application for benefits.
- (d) Apply within one year of last contributing service in Kentucky.
- (e) Are approved by a three-member medical review board as being physically or mentally unable to carry on the responsibilities of a teacher.

During an entitlement period the benefit is equal to one-half the last contract salary in a covered position. The entitlement period is five years or one year for each four years Kentucky service, whichever is the greater.

At the end of the entitlement period, the benefit is recalculated using the service retirement formula without regard to age. The disability retiree is given service credit for the period of entitlement as though in active contributing service.

Disability retirees, their spouses, and dependent children are covered by the Comprehensive Hospital-Medical Insurance Plan provided by the System without charge.

V. Service Retirement

Members of the System may qualify for service retirement by:

- (a) Reaching age sixty with five years or more Kentucky service after July 1, 1941.
- (b) Completing thirty years Kentucky service at any age (a discount is applied to benefits payable to retirees less than age fifty-five).

The service retirement benefit under the Straight Life Annuity is two percent times years of service after July 1, 1941, times average salary for five highest years, plus \$40 for each year of service prior to July 1, 1941. The minimum annuity is \$55 per month or \$5.00 per month for each year of service credit, whichever is the greater. There is no maximum annuity.

Post retirement benefits consist of a permanent increment of one percent of base annuity which is added each July, plus special supplementary benefits as approved by the General Assembly. During the 1972-74 biennium special benefits of five percent of annual benefit were paid in 1972 and again in 1973.

VI. Options

Members retiring for service and disability retirees having benefits recalculated on the service retirement formula may select from several retirement options. The basic annuity as calculated by the retirement formula is a Straight Life Annuity with refundable balance. The retiree may also select a life annuity with ten years guaranteed or one of the joint and last survivor annuities. The appropriate actuarial discounts are applied to the basic annuity based on the age and sex of the member and the beneficiary.

An option may not be changed after the effective date of the annuity, neither may the beneficiary be changed on a joint survivor option.

VII. Comprehensive Hospital-Medical Insurance Plan

Service retirees over age fifty-five and disability retirees have coverage for hospital-medical expenses under the Comprehensive Hospital-Medical Plan. When the retiree becomes eligible for coverage, this same protection is extended to the spouse and dependent children.

The Plan pays eighty percent of covered expenses for hospital-medical services, and for prescription drugs after a \$25 annual deduction. When a person covered by the Plan becomes eligible for Medicare coverage, the coverage becomes a Medicare supplement. Payments are based on expenses not reimbursable by Medicare.

Costs of this protection are paid by a one-fourth percent contribution by active members, matched by the State.

VIII. Miscellaneous Sources of Service Credit

Under certain circumstances service credit will be allowed by the System for military service, out-of-state teaching, periods of official leave, part-time and substitute teaching.

Persons having such service should contact the System for details.

FINANCIAL

During the year ending June 30, 1974, assets of the Teachers' Retirement System increased \$40,365,640 to a total of \$424,001,276. This increase represents a growth rate of approximately 10.5%. It should be noted that of the \$424 million in assets, \$184.7 million is credited to member accounts (Teachers' Savings Fund) and a like amount is reserved in the State Accumulation Fund as state matching for member contributions. This leaves a free reserve for benefit payments of \$54.6 million. During the month of July, 1974, benefit payments exceeded \$3.1 million which indicates a reserve sufficient to cover only 17.6 months of benefits. This should not be a matter of great concern if future funding is at a desirable level.

Pages 8 and 9 represent a comparative review of the financial status of the System for the last three years. Relative to the application of funds, it is particularly significant that amounts paid for retirement benefits have increased from \$22.7 million in 1972 to \$33.2 million in 1974. This represents an increase of approximately 46% within a two year period, and is subject to even greater increases due to the 30-year retirement provision which became effective July 1, 1974. This figure is projected to reach \$38.7 million during 1975.

The following statistics, not necessarily financial in nature, are provided to assist in formulating a total picture of the Teachers' Retirement System and its responsibilities.

	<u>At July 1</u>	
	<u>1973</u>	<u>1974</u>
Number of Active Members	46,954	46,515
Average Balance per Active Member	\$ 3,341	\$ 3,753
Number of Service Retirants Receiving Benefits	8,705	9,463
Average Monthly Benefits per Service Retirant	\$ 286	\$ 307
Number of Members Receiving Disability Benefits	568	594
Average Monthly Benefit per Disability Retirant	\$ 223	\$ 241
Number of Survivors Receiving Monthly Benefits	360	389
Average Monthly Benefit per Survivor	\$ 161	\$ 170

BALANCE SHEET
 Teachers' Retirement System
 June 30, 1974

ASSETS

Cash, All Funds	\$ 5,040,681.00	
Special Reserve Account, Aetna Life Insurance Company	<u>530,159.58</u>	\$ 5,570,840.58
Underpayments Due from Employers		17,094.95
Investments	\$ 420,247,365.60	
Unamortized premium on Investments	1,455,466.08	
Accrued Interest Purchased	<u>90,057.06</u>	
Sub-total: Investments plus deferred charges	\$ 421,792,888.74	
Deduct Unamortized Discount on Investments	<u>3,379,548.47</u>	
		\$ <u>418,413,340.27</u>
TOTAL ASSETS		\$ <u>424,001,275.80</u>

FUND BALANCES

Teachers' Savings Fund	\$ 184,683,730.16	
State Accumulation Fund	184,683,730.16	
Guarantee Fund	13,637,005.55	
Hospital and Medical Insurance Fund	6,996,935.10	
Voluntary Contributions, Active Members	2,073,367.59	
Administrative Expense Fund	29,873.42	
Allowance Reserve Fund		
Teachers' Contributions	\$ 5,121,231.16	
State Contributions (Permanent)	<u>19,556,314.98</u>	
		24,677,546.14
Survivor and Death Benefit Fund		
Reserve from Contributions from Active Members	6,293,116.16	
Reserve from State Matching Contributions	613,647.08	
Teachers' Balances, Accounts in Benefit Status	72,159.37	
State Reserve for Accounts in Benefit Status	<u>240,165.07</u>	
		<u>7,219,087.68</u>
TOTAL FUND BALANCES		\$ <u>424,001,275.80</u>

STATEMENT OF SOURCES AND APPLICATIONS OF FUNDS
 Teachers' Retirement System
 for the period July 1, 1973 - June 30, 1974

CASH BALANCE, ALL FUNDS, July 1, 1973 \$ 6,258,237.91

Sources:

Teachers' Savings	\$ 27,003,178.52	
Reinstatements	165,514.01	
Voluntary Unmatched Contributions	<u>351,751.86</u>	
Total from Members		\$ 27,520,444.39

State Contributions:

Permanent, to match Teachers' Savings	25,226,962.66	
Deficiency appropriation for matching	83,308.37	
Prior Service Deficiency	2,405,000.00	
Administrative expenses	420,000.00	
1973 Bonus Payment to Retirees	<u>1,219,358.97</u>	
		29,354,630.00
Interest Collected, Bonds Redeemed or Sold, Adjustments		184,722,093.62
Employer Matching of Teacher Contributions (Federal Funds)		<u>1,775,589.01</u>

Total Receipts \$ 243,372,757.02

TOTAL CASH AVAILABLE \$ 249,630,994.93

Applications:

Administrative Expenses, Current Year		\$ 390,126.58
Net Decrease in Special Reserve-Aetna Insurance Co.		24,320.00
Refunds to Membership		3,629,397.75
Premiums for Comprehensive Medical Insurance Plan		1,404,652.12
Benefits for Service and Disability Retirement	\$ 31,740,644.31	
Survivor Payments	738,060.00	
Death Benefits	702,750.43	
1973 Bonus to Retirees	<u>1,219,358.97</u>	
		34,400,813.71
Purchase of Investments and Miscellaneous Adjustments		204,210,844.19

Total Disbursements \$ 244,060,154.35

CASH BALANCE, ALL FUNDS, June 30, 1974 \$ 5,570,840.58

TEACHERS' RETIREMENT SYSTEM
COMPARATIVE BALANCE SHEET
June 30, 1974

	June 30, 1972		June 30, 1973		June 30, 1974	
	AMOUNT	%	AMOUNT	%	AMOUNT	%
<u>ASSETS</u>						
Cash, All Funds	\$ 12,872,694.88	3.73	\$ 5,703,758.33	1.49	\$ 5,040,681.00	1.19
Special Reserve Account, Aetna Life Insurance	546,383.58	.16	554,479.58	.14	530,159.58	.12
Underpayments -(Overpayments)from Employers	2,624.28	.01	(41,793.84)	(.01)	17,094.95	.01
Investments	332,807,631.66	96.30	378,403,868.28	98.62	420,247,365.60	99.11
Unamortized Premium on Investments	1,478,891.23	.43	1,480,237.04	.39	1,455,466.08	.34
Accrued Interest Purchased	163,473.19	.05	2,984.41	.01	90,057.06	.02
Unamortized Discount on Investments	<u>(2,349,770.64)</u>	<u>(.68)</u>	<u>(2,467,847.64)</u>	<u>(.64)</u>	<u>(3,379,548.47)</u>	<u>(.79)</u>
TOTAL ASSETS	<u>\$345,521,928.18</u>	100.00	<u>\$ 383,635,686.16</u>	100.00	<u>\$424,001,275.80</u>	100.00
<u>FUND BALANCES</u>						
Teachers' Savings Fund	\$153,215,427.99	44.35	\$ 167,602,603.16	43.69	\$184,683,730.16	43.56
State Accumulation Fund	153,215,427.99	44.35	167,602,603.16	43.69	184,683,730.16	43.56
Guarantee Fund	9,725,225.49	2.80	12,300,756.95	3.21	13,637,005.55	3.22
Hospital and Medical Insurance Fund	5,644,072.32	1.63	6,352,470.32	1.65	6,996,935.10	1.64
Voluntary Contributions Fund	1,620,896.85	.47	1,788,675.37	.46	2,073,367.59	.49
Administrative Expense Fund	37,342.74	.01	18,378.67	.01	29,873.42	.01
Allowance Reserve Fund	16,584,073.95	4.80	21,637,504.61	5.64	24,677,546.14	5.82
Survivor and Death Benefit Fund	<u>5,479,460.85</u>	<u>1.59</u>	<u>6,332,693.92</u>	<u>1.65</u>	<u>7,219,087.68</u>	<u>1.70</u>
TOTAL FUND BALANCES	<u>\$345,521,928.18</u>	100.00	<u>\$383,635,686.16</u>	100.00	<u>\$424,001,275.80</u>	100.00

TEACHERS' RETIREMENT SYSTEM
COMPARATIVE STATEMENT OF SOURCE AND APPLICATION OF FUNDS
June 30, 1974

	YEAR ENDING					
	June 30, 1972		June 30, 1973		June 30, 1974	
	AMOUNT	%	AMOUNT	%	AMOUNT	%
Beginning Cash Balance:	\$ 14,782,769.31		\$ 13,419,078.46		\$ 6,258,237.91	
<u>Source of Funds</u>						
Teachers' Savings	\$ 23,062,733.07	18.15	\$ 24,885,851.66	16.83	\$ 27,003,178.52	11.10
Reinstatements	159,087.89	.12	158,214.05	.11	165,514.01	.07
Voluntary Unmatched Contributions	329,992.52	.26	341,523.28	.23	351,751.86	.14
State Contributions:						
Permanent, to match teachers' savings	21,339,419.50	16.80	23,042,763.66	15.58	25,226,962.66	10.37
Deficiency appropriation for matching	850,966.50	.67	963,746.91	.65	83,308.37	.03
Prior Service Commitment			750,000.00	.51	2,405,000.00	.99
Administrative Expenses	342,675.00	.27	373,100.00	.25	420,000.00	.17
Bonus Payment to Retirees			1,004,289.43	.68	1,219,358.97	.50
Interest Collected, Bonds Redeemed or Sold, Adjustments	79,009,111.47	62.19	94,514,005.90	63.90	184,722,093.62	75.90
Recovery from Aetna Life Insurance Company	227,120.45	.18	8,096.00	.01		
Employer Matching of Teacher Contributions (Federal Funds)	<u>1,733,656.39</u>	<u>1.36</u>	<u>1,852,868.65</u>	<u>1.25</u>	<u>1,775,589.01</u>	<u>.73</u>
Total Source of Funds	\$ 127,054,762.79	100.00	\$ 147,894,459.54	100.00	\$ 243,372,757.02	100.00
Total Cash Available	\$ <u>141,837,532.10</u>		\$ <u>161,313,538.00</u>		\$ <u>249,630,994.93</u>	
<u>Application of Funds</u>						
Administrative Expenses	\$ 324,554.12	.25	\$ 354,721.33	.23	\$ 390,126.58	.16
Net Decrease in Special Reserve Account-Aetna Ins. Co.					24,320.00	.01
Refunds for Withdrawal from Membership	2,992,943.69	2.33	3,789,907.67	2.44	3,629,397.75	1.49
Premiums for Comprehensive Medical Insurance	1,074,783.78	.84	1,218,228.75	.79	1,404,652.12	.58
Benefits for Service and Disability Retirement	21,552,155.98	16.78	26,900,568.97	17.35	31,740,644.31	13.00
Survivor Benefits	625,411.75	.49	688,051.75	.44	738,060.00	.30
Death Benefits	547,260.63	.43	655,001.44	.42	702,750.43	.29
Bonus Payments			1,004,289.43	.65	1,219,358.97	.50
Purchase of Investments and Miscellaneous Adjustments	<u>101,301,343.69</u>	<u>78.88</u>	<u>120,444,530.75</u>	<u>77.68</u>	<u>204,210,844.19</u>	<u>83.67</u>
Total Application of Funds	\$ <u>128,418,453.64</u>	100.00	\$ <u>155,055,300.09</u>	100.00	\$ <u>244,060,154.35</u>	100.00
Ending Cash Balance	\$ <u>13,419,078.46</u>		\$ <u>6,258,237.91</u>		\$ <u>5,570,840.58</u>	

COMPARISON OF TEACHERS' SAVINGS AND MATCHING FUNDS
 Teachers' Retirement System
 for the period July 1, 1940 through June 30, 1974

Date	Teachers' Savings	Federal Matching Contributions	State Matching Contributions	State Prior Service Contributions	State Cont. Bonus Benefits	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
1971-72	23,062,733.07	1,733,656.39	22,190,386.00			342,675.00
1972-73	24,885,851.66	1,852,868.65	24,006,510.57	750,000.00	1,004,289.43	373,100.00
1973-74	<u>27,003,178.52</u>	<u>1,775,589.01</u>	<u>25,310,271.03</u>	<u>2,405,000.00</u>	<u>1,219,358.97</u>	<u>420,000.00</u>
TOTALS	\$ <u>243,152,571.25</u>	\$ <u>11,715,336.10</u>	<u>232,316,066.34</u>	<u>14,725,087.38</u>	<u>2,223,648.40</u>	<u>4,932,318.52</u>

RECAPITULATION

State permanent contributions to match teacher payments	232,316,066.34
Federal Matching through remittances by employers	<u>11,715,336.10</u>
Total matching under the statutory requirement for 100% matching of teachers payments	244,031,402.44
Teacher payments made thru June, 1974	<u>243,152,571.25</u>
State surplus to be applied to Prior Service obligation at the end of the 1974-76 biennium	878,831.19

REGULAR REFUNDS
Teachers' Retirement System
July 1, 1940 to June 30, 1974

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
1971-72	3,011	2,812,762.92	36	131,650.80	40	5,953.59	3,087	2,950,367.31
1972-73	4,048	3,485,841.89	59	197,514.29	24	1,366.87	4,131	3,684,723.05
1973-74	2,956	3,245,099.68	51	173,900.70	13	4,833.36	3,020	3,423,833.74
TOTALS	<u>75,170</u>	<u>\$ 31,049,320.85</u>	<u>1,876</u>	<u>\$ 2,595,385.36</u>	<u>998</u>	<u>\$ 54,162.36</u>	<u>78,044</u>	<u>\$ 33,698,868.57</u>

ANALYSIS OF ACCOUNTS REFUNDED 1973-74
Teachers' Retirement System of the State of Kentucky

<u>REASON FOR WITHDRAWAL</u>	<u>MALES</u>	<u>FEMALES</u>	<u>TOTAL</u>	<u>AMOUNT</u>
Other Teaching Employment:				
State of Ohio	30	71	101	81,215.25
State of Florida	19	49	68	82,966.11
State of Indiana	22	46	68	68,606.91
Other States	161	293	454	525,159.00
Outside Limits of USA	6	10	16	26,970.72
Kentucky Schools not covered by Teachers' Retirement System	29	44	73	94,120.59
Non-Teaching Employment:				
Entered Business or Industry	377	119	496	701,787.45
Church-Related Profession	11	3	14	22,335.02
Medical Profession	2	0	2	4,422.01
Legal Profession	3	0	3	3,444.49
Military Service	11	3	14	9,135.40
Further Training & Education	67	74	141	123,552.96
Local, State, or Federal Government	48	51	99	99,382.76
Homemaking, Family Duties, Children	0	358	358	426,921.53
Spouse Transferred Within Kentucky	0	5	5	5,572.76
Spouse Transferred Out of Kentucky	1	252	253	296,337.95
Moved Residence to Another State	7	46	53	51,220.41
Emergency Teacher, Not Re-employed	53	81	134	123,483.69
Salary too Low	46	2	48	72,833.33
Needed the Money	5	5	10	9,348.64
Disliked Teaching	12	12	24	20,319.60
Personal Reasons	68	139	207	242,106.40
Illness of Member	10	10	20	52,430.88
Death of Member	13	38	51	173,900.70
Absent from Profession 4-6 Years	0	2	2	921.49
Lost Service Credit, Absent 7 or more Yrs.	69	224	293	100,504.33
Adjustments	<u>6</u>	<u>7</u>	<u>13</u>	<u>4,833.36</u>
Sub-total	1,076	1,944	3,020	3,423,833.74
Refunds from Voluntary Savings	51	26	77	189,381.09
Not Eligible for Membership	<u>24</u>	<u>49</u>	<u>73</u>	<u>16,182.92</u>
Grand Total	1,151	2,019	3,170	3,629,397.75

INVESTMENTS

The following two pages provide a summary of the investment situation for the System's trust fund at the close of the fiscal year.

Major changes in distribution of securities held by the fund were a reduction of percentages in common stocks, and a substantial increase in the portion devoted to federal agencies.

Average yield on fixed dollar assets increased from 6.55% to 7% per annum. A major portion of this increase was due to high short-term interest rates, and a continuation of the program of exchanging securities which was initiated several years ago.

Details of the various transactions are too voluminous to include here, but such information is available to auditors and other interested persons.

Following is some general information concerning the investment program which may be of interest to members of the System:

1. As far as Teachers' Retirement is concerned Kentucky is a "legal list" state. This is the type, quality and in some cases the amounts of investments are stated specifically in the Statutes.

2. The Board of Trustees annually appoints an investment committee consisting of two board members and the executive secretary. This committee makes investments subject to full board approval. Investment counsel is retained by the board on contract. Presently the Boston Co. of Louisville serves in this capacity.

3. Within the framework of the Statutes the Board of Trustees has established a detailed policy governing investment procedures. This policy, which is subject to change as conditions warrant, is available to interested persons.

4. The return from invested reserves is one of the very important revenue sources for active and retired teachers. For example, a teacher entering the profession after 1966 will find that her contributions will pay 25% of her retirement benefits, the state's contribution 25% and investment return the remaining 50%.

5. The inroads of inflation is perhaps the greatest fear of retirement years. Improved investment return, both greater interest income and capital gains, offers the greatest protection from this danger.

ANALYSIS OF INVESTMENTS HELD AT JUNE 30, 1974

to show annual yield rate

Teachers' Retirement System of the State of Kentucky

	Percentage of Total	Par Value	Net Annual Interest/Indicated Dividend Income	Net Annual Yield
U. S. Treasury - Repurchase Agreement	.29%	\$ 1,200,000.00	\$ 126,600.00	10.550%
Obligations Secured by U. S. Treasury	1.64%	6,890,830.38	423,653.85	6.148%
Federal Agencies	8.49%	35,664,194.96	2,814,780.42	7.892%
FHA & VA Mortgages	9.79%	41,149,547.90	2,376,063.16	5.774%
Other Guaranteed Mortgages	2.95%	12,413,606.72	823,388.49	6.633%
Corporate Bonds	51.78%	217,598,551.79	15,510,339.63	7.128%
Kentucky Industrial Development Finance Authority	.29%	1,221,666.71	61,058.33	4.998%
Sub-Total	75.23%	\$316,138,398.46	\$22,135,883.88	
<u>NET YIELD RATE:</u>				
$\$ 22,135,883.88 \div \$ 316,138,398.46 = 7.002\%$				
<u>Not Included Above:</u>				
2,179,109 Shares Common Stocks	24.77%	\$104,108,967.14	\$ 2,701,076.60	
$\$ 2,701,076.60 \div 104,108,967.14 = 2.594\%$				
TOTAL INVESTMENTS	100.00%	\$420,247,365.60		

SUMMARY OF INVESTMENT TOTALS AND YIELDS
ON FIXED DOLLAR ASSETS

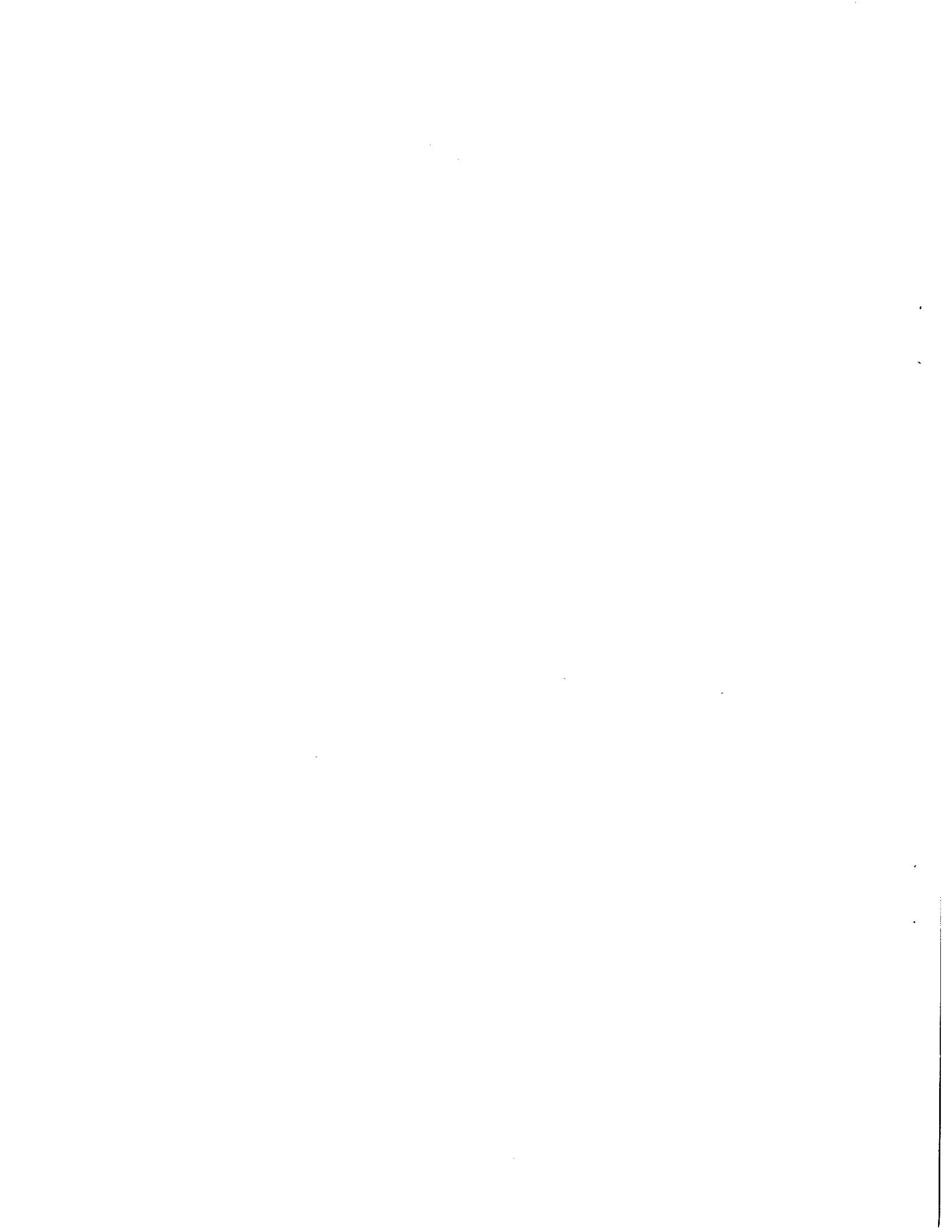
<u>Year</u>	<u>Total of Invested Assets</u>	<u>Fixed Dollar Net Yield</u>
1959	\$ 57,572,000	3.39
1960	64,655,000	3.53
1961	78,017,000	3.81
1962	90,712,000	4.03
1963	102,938,000	4.17
1964	118,466,000	4.27
1965	132,805,000	4.43
1966	152,609,000	4.58
1967	174,612,000	4.69
1968	200,836,000	5.06
1969	235,898,000	5.32
1970	267,514,029	5.59
1971	295,882,441	6.08
1972	332,807,632	6.34
1973	378,403,868	6.55
1974	420,247,366	7.00

ACTUARIAL VALUATION

The Actuarial Valuation as of July 1, 1974, had not been received as of the publication date of this report. This valuation will be available in the offices of the System for inspection by interested persons.

AUDIT REPORT

Each year, the records of the Teachers' Retirement System are subject to a certified financial audit to be conducted by an independent auditing firm. For the fiscal year ended June 30, 1974, the Charles T. Mitchell Company, a Certified Public Accounting firm, performed the audit. The next 18 pages contain the certification and the audited financial statements as prepared by the CPA firm.



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CHARLES T. MITCHELL COMPANY
CERTIFIED PUBLIC ACCOUNTANTS
BOX 698
FRANKFORT, KENTUCKY
TELEPHONE 227-7395

CHARLES T. MITCHELL, C.P.A.
DON C. GILES, C.P.A.

December 9, 1974

MEMBERS
KY. SOC. C.P.A.
AMER. INST. C.P.A.

The Board of Trustees
Kentucky Teachers' Retirement System
214 W. Main Street
Frankfort, Kentucky 40601

Gentlemen:

We have examined the balance sheet of the Kentucky Teachers' Retirement System as of June 30, 1974 and the related statements of operation and fund balance for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of the Kentucky Teachers' Retirement System at June 30, 1974, and the results of its operations for the year then ended, in accordance with generally accepted governmental accounting principles applied on a basis consistent with that of the preceding year.

Respectfully submitted,

Charles T. Mitchell Co.

CHARLES T. MITCHELL CO.

KENTUCKY TEACHERS' RETIREMENT SYSTEM
BOARD OF TRUSTEES AND ADMINISTRATIVE PERSONNEL
FISCAL YEAR ENDED JUNE 30, 1974

BOARD MEMBERS

Harold Miller, Chairman / Teacher Trustee
Mrs. James Sheehan, Vice-Chairman / Lay Trustee
Mrs. Martha Baker, Member / Teacher Trustee
W. D. Bruce, Jr., Member / Teacher Trustee
T.K. Stone, Member / Retired Teacher Trustee
Ruth Reeves, Member / Teacher Trustee
Drexell Davis, Member Ex-officio / State Treasurer
Ed Hancock, Member Ex-officio / Attorney General
Lyman Ginger, Member Ex-officio / Superintendent of Public Instruction

ADMINISTRATIVE PERSONNEL

Ted L. Crosthwait, Executive Secretary
Pat Miller, Deputy Executive Secretary
Charles L. Bratton, Deputy Executive Secretary

KENTUCKY TEACHERS' RETIREMENT SYSTEM
BALANCE SHEET
JUNE 30, 1974 AND 1973

	JUNE 30	
<u>ASSETS</u>	<u>1974</u>	<u>1973</u>
Cash	\$ 5 040 681 00	\$ 5 703 758 33
Investments - at cost:		
Bonds and notes (approximate quoted market value \$276,556,431.05 as of June 30, 1974)	314 214 316 07	272 443 606 68
Common and preferred stocks (approximate quoted market value \$86,325,310.25 as of June 30, 1974)	104 108 967 14	104 972 651 00
Accrued interest purchased	90 057 06	2 984 41
Special reserve account, Atena Life Insurance Co.	530 159 58	554 479 58
Irregular payments - escrow account	17 094 95	
<u>TOTAL ASSETS</u>	<u>\$424 001 275 80</u>	<u>\$383 677 480 00</u>
<u>LIABILITIES AND FUND BALANCES</u>		
<u>LIABILITIES</u>		
Irregular payments - escrow account	\$	\$ 41 793 84
Treasurers unredeemed checks	2 426 78	3 051 87
TOTAL LIABILITIES	<u>\$ 2 426 78</u>	<u>\$ 44 845 71</u>
<u>FUND BALANCES</u>		
Teachers' Savings Fund	\$184 683 730 16	\$167 602 603 16
State Accumulation Fund	184 683 730 16	167 602 603 16
Allowance Reserve Fund	24 677 546 14	21 637 504 61
Guarantee Fund	13 671 409 04	12 297 705 08
Voluntary Contribution Fund	2 036 537 32	1 788 675 37
Hospital and Medical Insurance Fund	6 996 935 10	6 352 470 32
Survivors and Death Benefit Fund	7 219 087 68	6 332 693 92
General Expense Fund	29 873 42	18 378 67
TOTAL FUND BALANCES	<u>\$423 998 849 02</u>	<u>\$383 632 634 29</u>
<u>TOTAL LIABILITIES AND FUND BALANCE</u>	<u>\$424 001 275 80</u>	<u>\$383 677 480 00</u>

The accompanying notes are an integral part of these statements.

KENTUCKY TEACHERS' RETIREMENT SYSTEM
 COMBINED STATEMENT OF OPERATIONS AND FUND BALANCE
 FOR THE YEARS ENDED JUNE 30, 1974 AND 1973

	YEAR ENDED JUNE 30	
	1974	1973
<u>REVENUES</u>		
Teachers' contributions	\$ 27 003 178 52	\$ 24 885 851 66
Teachers' reinstatements	168 514 01	158 214 05
Voluntary contributions	351 751 86	341 523 28
Employers' matching contributions	1 775 589 01	1 852 868 65
State matching contributions	27 874 630 00	24 756 510 57
General fund appropriations (state)	420 000 00	373 100 00
Interest earned on investments	21 614 556 82	19 203 256 67
Gain (loss) on sale of investments	(71 936 14)	188 675 88
Irregular payments - escrow account Aetna Life Insurance Company	53 444 74	
Interest	31 883 00	32 342 00
Experience deficit	(56 203 00)	(24 246 00)
Forfeitures and adjustments	2 226 44	331 73
Cost of living bonus appropriation	1 060 000 00	910 000 00
TOTAL REVENUES	\$ 80 227 635 26	\$ 72 678 428 49
<u>EXPENDITURES</u>		
Refunds	\$ 3 629 397 75	\$ 3 789 907 67
Benefits for service and disability retirements	31 740 644 31	26 900 568 97
Survivor and death benefits	1 440 810 43	1 343 053 19
Cost of living bonus	1 219 358 97	910 000 00
General fund expenses	390 126 58	354 721 33
Investment council and processing fees	33 254 72	
Comprehensive medical insurance premiums	1 404 652 12	1 218 228 75
Self insurance medical payments	3 175 65	6 824 35
Irregular payments - escrow account		41 793 84
TOTAL EXPENDITURES	\$ 39 861 420 53	\$ 34 565 098 10
<u>EXCESS OF REVENUE OVER EXPENDITURES</u>	\$ 40 366 214 73	\$ 38 113 330 39
<u>FUND BALANCE</u>		
Beginning of year	383 632 634 29	345 519 303 90
End of year	\$423 998 849 02	\$383 632 634 29

The accompanying notes are an integral part of these statements.

KENTUCKY TEACHERS' RETIREMENT SYSTEM
TEACHERS' SAVINGS FUND
STATEMENT OF OPERATIONS AND FUND BALANCE
FOR THE YEARS ENDED JUNE 30, 1974 AND 1973

	<u>YEAR ENDED JUNE 30</u>	
	<u>1974</u>	<u>1973</u>
<u>REVENUES</u>		
Teachers' contributions	\$ 25 105 949 76	\$ 23 117 328 74
Reinstatements	18 365 18	32 935 17
Partially matched reinstatements	96 797 46	82 844 36
Irregular payments current year - escrow	15 984 89	
Irregular payments prior year - escrow	33 753 37	
Transfers from Guarantee Fund:		
Interest on fund balance	4 661 421 91	4 214 124 55
Forfeitures and adjustments	4 787 33	5 101 87
TOTAL REVENUES	<u>\$ 29 937 059 90</u>	<u>\$ 27 452 334 69</u>
<u>EXPENDITURES</u>		
Refunds - regular	\$ 3 423 833 74	\$ 3 684 723 05
Refunds - special	16 182 92	16 911 48
Irregular payments current year - escrow		41 793 84
Transfers to Allowance Reserve Fund:		
Retirements	9 319 724 27	9 195 264 10
Transfers to Guarantee Fund:		
Forfeitures and adjustments	6 279 91	
Transfers to Survivors and Death Benefit Fund:		
Survivors benefits	89 912 06	123 842 77
TOTAL EXPENDITURES	<u>\$ 12 855 932 90</u>	<u>\$ 13 062 535 24</u>
<u>EXCESS OF REVENUES OVER EXPENDITURES</u>	\$ 17 081 127 00	\$ 14 389 799 45
<u>FUND BALANCE</u>		
Beginning of year	<u>167 602 603 16</u>	<u>153 212 803 71</u>
End of year	\$184 683 730 16	\$167 602 603 16

The accompanying notes are an integral part of these statements.

KENTUCKY TEACHERS' RETIREMENT SYSTEM
STATE ACCUMULATION FUND
STATEMENT OF OPERATIONS AND FUND BALANCE
FOR THE YEARS ENDED JUNE 30, 1974 AND 1973

	YEAR ENDED JUNE 30	
	<u>1974</u>	<u>1973</u>
<u>REVENUES</u>		
State contributions-permanent	\$ 25 187 156 20	\$ 22 360 598 95
State contributions - temporary	750 000 00	750 000 00
Employers matching contributions	1 648 760 19	1 720 520 99
Teachers' reinstatement contributions	53 351 37	42 434 52
Expense fund balance - 1973 and 1972	18 378 67	37 342 74
Transfers from Guarantee Fund:		
Interest on fund balance	4 661 421 91	4 214 124 55
Reinstatements	18 365 18	32 935 17
Partially matched reinstatements	48 315 66	40 409 84
To adjust for underpayment by employers	15 984 89	
To close 1972-73 overpayments by employers	33 753 37	
Forfeitures and adjustments		1 181 81
TOTAL REVENUES	<u>\$ 32 435 487 44</u>	<u>\$ 29 199 548 57</u>
<u>EXPENDITURES</u>		
Transfers to Allowance Reserve Fund:		
Retirements	\$ 9 319 724 27	\$ 9 195 338 35
State contributions - temporary	750 000 00	750 000 00
Expense fund balance - 1973 and 1972	18 378 67	37 342 74
Transfers to Guarantee Fund:		
Refunds	3 438 664 30	3 700 505 23
To comply with KRS 161.420 (7) (see note 1)		963 746 91
To adjust for overpayment by employers		38 808 56
To close 1971-72 underpayment by employers		2 788 84
Forfeitures and adjustments	6 279 91	
Transfers to Survivors and Death Benefit Fund:		
Survivors' benefits	89 912 06	123 842 77
Transfer made to comply with KRS 161.420 (7) and KRS 161.550 (see note 1)	1 730 593 48	
Forfeitures and adjustments	807 75	
TOTAL EXPENDITURES	<u>\$ 15 354 360 44</u>	<u>\$ 14 812 373 40</u>
<u>EXCESS OF REVENUES OVER EXPENDITURES</u>	<u>\$ 17 081 127 00</u>	<u>\$ 14 387 175 17</u>
<u>FUND BALANCE</u>		
Beginning of year	<u>167 602 603 16</u>	<u>153 215 427 99</u>
End of year	\$184 683 730 16	\$167 602 603 16

The accompanying notes are an integral part of these statements.

KENTUCKY TEACHERS' RETIREMENT SYSTEM
ALLOWANCE RESERVE FUND
STATEMENT OF OPERATIONS AND FUND BALANCE
FOR THE YEARS ENDED JUNE 30, 1974 AND 1973

	YEAR ENDED JUNE 30	
	1974	1973
<u>REVENUES</u>		
Transfers from Teachers' Savings Fund:		
Retirement	\$ 9 319 724 27	\$ 9 195 264 10
Transfers from State Accumulation Fund:		
Retirement	9 319 724 27	9 195 338 35
State contributions-temporary (see note 2)	750 000 00	750 000 00
Expense fund balance - 1973 and 1972 (see note 2)	18 378 67	37 342 74
Transfers from Guarantee Fund:		
Interest on fund balance (see note 2)	709 566 89	538 161 94
State deficiency in prior service obligation for teachers retired (see note 2)	13 077 587 67	12 079 397 41
Transfers from Voluntary Contribution Fund:		
Teachers' and employers' voluntary contributions	83 043 79	168 022 87
Transfers made to comply with KRS 161.420 (7) and KRS 161.550 (see note 1)	1 655 000 00	
Additional transfer to cover balance of cost of living bonus (see note 1)	159 358 97	94 289 43
Cost of living bonus appropriation	1 060 000 00	910 000 00
Forfeitures and adjustments	6 377 22	
TOTAL REVENUES	\$ 36 158 761 75	\$ 32 967 816 84
<u>EXPENDITURES</u>		
Benefits for service and disability retirements	\$ 31 740 644 31	\$ 26 900 568 97
Transfers to Voluntary Contribution Fund:		
To correct transfer - July 1971	107 918 38	
Transfers to Survivors and Death Benefit Fund:		
Change in recipients' status	50 798 56	9 359 02
Cost of living bonus	1 219 358 97	1 004 289 43
Forfeitures and adjustments		168 76
TOTAL EXPENDITURES	\$ 33 118 720 22	\$ 27 914 386 18
<u>EXCESS OF REVENUES OVER EXPENDITURES</u>	\$ 3 040 041 53	\$ 5 053 430 66
<u>FUND BALANCE</u>		
Beginning of year	21 637 504 61	16 584 073 95
End of year	\$ 24 677 546 14	\$ 21 637 504 61

The accompanying notes are an integral part of these statements.

KENTUCKY TEACHERS' RETIREMENT SYSTEM
 GUARANTEE FUND
 STATEMENT OF OPERATIONS AND FUND BALANCE
 FOR THE YEARS ENDED JUNE 30, 1974 AND 1973

	YEAR ENDED JUNE 30	
	1974	1973
<u>REVENUES</u>		
Interest earned on investments	\$ 21 614 556 82	\$ 19 203 256 67
Transfers from Teachers' Savings Fund:		
To close inactive accounts	6 279 91	
Transfers from State Accumulation Fund:		
Refunds	3 438 664 30	3 700 505 23
To comply with KRS 161.420 (7) (see note 1)		963 746 91
To adjust for overpayment by employers		38 808 56
To close out 1971-72 underpayments by employers		2 788 84
To close inactive accounts	6 279 91	
Transfers from Voluntary Contribution Fund:		
To adjust voluntary contributions to actual	36 830 27	
Transfers from Survivor and Death Benefit Fund:		
To adjust for overpayment by employers		2 985 28
To close out 1971-72 underpayments by employers		214 52
Transfers made to comply with		
KRS 161-420 (7) and KRS 161.550 (see note 1)	83 308 37	
Gain (loss) on sale of investments	(71 936 14)	188 675 88
TOTAL REVENUES	\$ 25 113 983 44	\$ 24 100 981 89
 <u>EXPENDITURES (SEE SCHEDULE)</u>	 23 740 279 48	 21 528 502 30
 <u>EXCESS OF REVENUES OVER EXPENDITURES</u>	 \$ 1 373 703 96	 \$ 2 572 479 59
 <u>FUND BALANCE</u>		
Beginning of year	12 297 705 08	9 725 225 49
End of year	\$ 13 671 409 04	\$ 12 297 705 08

The accompanying notes are an integral part of these statements.

KENTUCKY TEACHERS' RETIREMENT SYSTEM
 GUARANTEE FUND
 SCHEDULE OF EXPENDITURES
 FOR THE YEARS ENDED JUNE 30, 1974 AND 1973

EXPENDITURES	YEAR ENDED JUNE 30	
	1974	1973
Investment council and processing fees	\$ 33 254 72	\$
Transfers to Teachers' Savings Fund:		
Interest on fund balance	4 661 421 91	4 214 124 55
Transfers to State Accumulation Fund:		
Interest on fund balance	4 661 421 91	4 214 124 55
Reinstatements	18 365 18	32 935 17
Partially matched reinstatements	48 315 66	40 409 84
To adjust for underpayment by employers	15 984 89	
To close 1972-73 overpayments by employers	33 753 37	
Transfers to Allowance Reserve Fund:		
Interest on fund balance	709 566 89	538 161 94
State deficiency in service obligations for teachers retired (see note 2)	13 077 587 67	12 079 397 41
Transfers to Voluntary Contribution Fund:		
Interest on fund balance	97 120 18	82 551 25
Transfers to Hospital and Medical Insurance Fund:		
Interest on fund balance	176 653 75	156 285 98
To adjust for underpayment by employers	555 03	
To close 1972-73 overpayments by employers	1 298 21	
Transfers to Survivors and Death Benefit Fund:		
Interest on fund balance	196 622 71	170 172 58
To adjust for underpayment by employers	555 03	
To close 1972-73 overpayments by employers	1 298 21	
Forfeitures and adjustments	6 504 16	339 03
TOTAL EXPENDITURES	\$ 23 740 279 48	\$ 21 528 502 30

The accompanying notes are an integral part of these statements.

KENTUCKY TEACHERS' RETIREMENT SYSTEM
 VOLUNTARY CONTRIBUTION FUND
 STATEMENT OF OPERATIONS AND FUND BALANCE
 FOR THE YEARS ENDED JUNE 30, 1974 AND 1973

	<u>YEAR ENDED JUNE 30</u>	
	<u>1974</u>	<u>1973</u>
<u>REVENUES</u>		
Voluntary contributions	\$ 351 751 86	\$ 341 523 28
Transfers from Guarantee Fund:		
Interest on fund balance	97 120 18	82 551 25
Transfers from Allowance Reserve Fund:		
To correct transfer - July, 1971	107 918 38	
Forfeitures and adjustments	326 68	
TOTAL REVENUES	<u>\$ 557 117 10</u>	<u>\$ 424 074 53</u>
<u>EXPENDITURES</u>		
Refunds - teachers' voluntary contributions and employers' voluntary contributions	\$ 189 381 09	\$ 88 273 14
Transfers to Allowance Reserve Fund:		
Voluntary contributions used in determining retirement benefits	83 043 79	168 022 87
Transfers to Guarantee Funds:		
To adjust voluntary contributions to actual	36 830 27	
TOTAL EXPENDITURES	<u>\$ 309 255 15</u>	<u>\$ 256 296 01</u>
<u>EXCESS OF REVENUES OVER EXPENDITURES</u>	\$ 247 861 95	\$ 167 778 52
<u>FUND BALANCE</u>		
Beginning of year	<u>1 788 675 37</u>	<u>1 620 896 85</u>
End of year	\$ 2 036 537 32	\$ 1 788 675 37

The accompanying notes are an integral part of these statements.

KENTUCKY TEACHERS' RETIREMENT SYSTEM
HOSPITAL AND MEDICAL INSURANCE FUND
STATEMENT OF OPERATIONS AND FUND BALANCE
FOR THE YEARS ENDED JUNE 30, 1974 AND 1973

	YEAR ENDED JUNE 30	
	1974	1973
<u>REVENUES</u>		
Teachers' contributions	\$ 948 614 38	\$ 884 261 46
Employer matching contributions	63 414 41	66 173 83
State matching contributions	968 736 90	822 955 81
Transfers from Teachers' Savings Fund:		
To adjust for underpayment by employers	555 03	
To close 1972-73 overpayments by employers	1 298 21	
Transfers from Guarantee Funds:		
Interest on fund balance	176 653 75	156 285 98
To adjust for underpayment by employers	555 03	
To close 1972-73 overpayment by employers	1 298 21	
Aetna Life Insurance Company:		
Interest	31 883 00	32 342 00
Experience deficit	(56 203 00)	(24 246 00)
TOTAL REVENUES	\$ 2 136 805 92	\$ 1 937 773 08
<u>EXPENDITURES</u>		
Comprehensive medical insurance premiums	\$ 1 404 652 12	\$ 1 218 228 75
Self insurance medical payments	3 175 65	6 824 35
Transfers made to comply with KRS 161.420 (7) and 161.550 (see note 1)	83 536 93	
Forfeitures and adjustments	976 44	4 321 98
TOTAL EXPENDITURES	\$ 1 492 341 14	\$ 1 229 375 08
<u>EXCESS OF REVENUES OVER EXPENDITURES</u>	\$ 644 464 78	\$ 708 398 00
<u>FUND BALANCE</u>		
Beginning of year	6 352 470 32	5 644 072 32
End of year	\$ 6 996 935 10	\$ 6 352 470 32

The accompanying notes are an integral part of these statements.

KENTUCKY TEACHERS' RETIREMENT SYSTEM
SURVIVOR AND DEATH BENEFIT BUND
STATEMENT OF OPERATIONS AND FUND BALANCE
FOR THE YEARS ENDED JUNE 30, 1974 AND 1973

<u>REVENUES</u>	YEAR ENDED JUNE 30	
	1974	1973
Teachers' contributions	\$ 948 614 38	\$ 884 261 46
Employer matching contributions	63 414 41	66 173 83
State matching contributions	968 736 90	822 955 81
Transfers from Teachers' Savings Fund:		
Survivor payments	89 912 06	123 842 77
To adjust for underpayment by employers	555 03	
To close 1972-73 overpayments by employers	1 298 21	
Transfers from State Accumulation Fund:		
Survivor payments	89 912 06	123 842 77
Transfers from Allowance Reserve Fund:		
Change in recipients' status	50 798 56	9 359 02
Transfers from Guarantee Fund:		
Interest on fund balance	196 622 71	170 172 58
To adjust for underpayment by employers	555 03	
To close 1972-73 overpayments by employers	1 298 21	
TOTAL REVENUES	\$ 2 411 717 56	\$ 2 200 608 24
<u>EXPENDITURES</u>		
Survivor and death benefit payments	\$ 1 440 810 43	\$ 1 343 053 19
Transfers to Guarantee Fund:		
To adjust for overpayment by employers		2 985 28
To close out 1971-72 underpayment by employers		214 52
Transfers to comply with KRS 161.420 (7) and 161.550 (see note 1)	83 536 93	
Forfeitures and adjustments	976 44	1 122 18
TOTAL EXPENDITURES	\$ 1 525 323 80	\$ 1 347 375 17
<u>EXCESS OF REVENUES OVER EXPENDITURES</u>	\$ 886 393 76	\$ 853 233 07
<u>FUND BALANCE</u>		
Beginning of year	6 332 693 92	5 479 460 85
End of year	\$ 7 219 087 68	\$ 6 332 693 92

The accompanying notes are an integral part of these statements.

KENTUCKY TEACHERS' RETIREMENT SYSTEM
 GENERAL EXPENSE FUND
 STATEMENT OF OPERATIONS
 FOR THE YEARS ENDED JUNE 30, 1974 AND 1973

	YEAR ENDED JUNE 30	
	1974	1973
<u>ALLOTMENTS</u>		
Regular legislative appropriations	\$ 420 000 00	\$ 373 100 00
<u>EXPENDITURES</u>		
Personal Services		
Salaries	\$ 264 010 40	\$ 243 874 85
Contracted professional and consulting services	22 092 52	22 596 96
Occasional labor and related services		328 60
CURRENT OPERATING EXPENSES		
Postage, freight, and express	23 187 72	20 364 61
Telephone and telegraph	3 763 83	4 156 00
Travel-in state	3 796 09	3 605 92
Travel-out of state	1 801 42	1 032 78
Printing	9 552 52	8 942 29
Maintenance of equipment	1 598 94	2 172 79
Maintenance of building	740 43	299 61
Office supplies	5 481 12	5 272 77
Motor fuels	187 02	309 47
Rental of building	17 453 00	13 238 52
Rental of equipment	23 807 08	15 026 91
Insurance	1 985 44	1 880 34
Fidelity bonds	12 00	136 00
Dues and subscriptions	1 668 04	1 033 13
Miscellaneous	604 50	3 543 96
CAPITAL OUTLAY		
Furniture, fixtures, and equipment	8 384 51	6 905 82
TOTAL EXPENDITURES	\$ 390 126 58	\$ 354 721 33
ENDING BALANCE LAPSED TO TEACHERS' RETIREMENT SYSTEM ALLOWANCE RESERVE FUND	\$ 29 873 42	\$ 18 378 67

The accompanying notes are an integral part of these statements.

KENTUCKY TEACHERS' RETIREMENT SYSTEM
BALANCE SHEET COMMENTS
JUNE 30, 1974

CASH - \$5,040,681.00

Cash consists of:

Cash on deposit with The Kentucky State Treasurer \$ 5 040 681 00

INVESTMENTS - AT COST

Investments consist of:

BONDS AND NOTES

MATURITY VALUE

Obligations Secured by U.S. Treasury

Treasury bonds and bills	\$ 1 200 000 00
Federal agencies	35 664 194 96
Republic of Panama External Secured	2 385 000 00
Maritime bonds	3 869 000 00
FHA and VA mortgages	41 149 547 90
Railroad notes	636 830 38
Other mortgages	12 413 606 72

Total Obligations Secured by U.S. Treasury \$ 97 318 179 96

Corporate Bonds

Telephone	\$ 17 700 000 00
Public Utilities	48 858 000 00
Industrials	52 936 569 23
Finance	66 925 955 13
Railroad	19 019 277 43
Miscellaneous	12 158 750 00

Total Corporate Bonds 217 598 551 79

Other

Kentucky Industrial Development Finance Authority Notes	<u>1 221 666 71</u>
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TOTAL BONDS AND NOTES AT MATURITY VALUE \$316 138 398 46

Unamortized premiums	\$ 1 455 466 08
Unamortized discounts	<u>(3 379 548 47)</u>
Net unamortized premiums (discounts)	<u>(1 924 082 39)</u>

TOTAL BONDS AND NOTES NET OF UNAMORTIZED PREMIUMS (DISCOUNTS) \$314 214 316 07

COMMON AND PREFERRED STOCKS \$104 108 967 14

Investments are being made in accordance with KRS 161.430.

KENTUCKY TEACHERS' RETIREMENT SYSTEM
BALANCE SHEET COMMENTS (CONTINUED)
JUNE 30, 1974

ACCRUED INTEREST PURCHASED - \$90,057.06

This is the amount of accrued interest purchased upon the acquisition of bonds and notes.

SPECIAL RESERVE ACCOUNT AETNA LIFE INSURANCE CO - \$530,159.58

This reserve is maintained in an agreement with Aetna Life Insurance Company to cover loss experience in excess of estimated premiums on medical insurance. This reserve is maintained at a level approximately equal to three months premiums. Interest is currently being paid by the Aetna Life Insurance Company on this reserve. An adjustment is also made annually by the insurance company to allow for an experience credit or deficit.

IRREGULAR PAYMENTS - ESCROW ACCOUNT - \$17,094.95

During the year school districts and other agencies submit teachers' contributions monthly in a lump sum, individual accounts are not credited. On June 30 of each year these school districts and other agencies submit a year end report which designates the amount that each individual's account is to be credited for the year's contributions. Irregular payments-escrow account is the amount that the actual monthly contributions differ from the year end reports. School districts and other agencies are contacted in the subsequent year in order to reconcile these differences.

TREASURERS UNREDEEMED CHECKS - \$2,426.78

This account is the amount of checks issued on behalf of the Retirement System and have not been redeemed in a reasonable amount of time.

TEACHERS' SAVINGS FUND - \$184,683,730.16

This fund consists of contributions paid by members of the Retirement System and interest assigned by the Board of Trustees from the Guarantee Fund. The accumulated contributions of a member, returned to him upon his withdrawal or paid to his estate or designated beneficiary in the event of his death shall be paid from the Teachers' Savings Fund. Any accumulated contributions forfeited by a failure of a member or his estate to claim same shall be transferred from the Teachers' Savings Fund to the Guarantee Fund. The accumulated contributions of a member shall be transferred from the Teachers' Savings Fund to the Allowance Reserve Fund in the event of retirement by reason of service or disability.

STATE ACCUMULATION FUND - \$184,683,730.16

This fund consists of state appropriations to the Retirement System which are used for matching the members contributions. Also included in the state accumulation fund is interest assigned by the Board of Trustees from the Guarantee Fund.

At the time of retirement of a member, there shall be transferred from this fund to the Allowance Reserve Fund an amount which together with the sum transferred from the Teachers' Savings Fund will be sufficient to provide the member the allowance granted in KRS 161.620 and 161.660. Upon termination by a member, his share of the state matching appropriations is transferred to the Guarantee Fund.

KENTUCKY TEACHERS' RETIREMENT SYSTEM
BALANCE SHEET COMMENTS (CONTINUED)
JUNE 30, 1974

ALLOWANCE RESERVE FUND - \$24,677,546.14

This fund consists of transfers from other funds in order to provide for all retirement allowances. Also included in this fund are state appropriations for a cost of living bonus, which was paid to eligible participants.

GUARANTEE FUND - \$13,671,409.04

This fund receives all interest and dividends on investments; deposits; gifts and bequests; transfers, from the Teachers' Savings Fund and State Accumulation Fund by reason of lack of claimant or because of a surplus in any fund; and any other money whose disposition is not otherwise provided for. The interest allowed by the Board of Trustees to each of the other funds shall be paid from this fund. Any deficit occurring in any fund that would not be automatically covered shall be met by the payments from the Guarantee Fund to that fund.

VOLUNTARY CONTRIBUTION FUND - \$2,036,537.32

Members are allowed to contribute two per cent or more of their annual compensation to their accounts. These voluntary contributions earn interest for the members at the rate of 5.25% compounded monthly. These contributions are returned to the member upon request or they can be used to increase the members allowance at the time of his retirement.

HOSPITAL AND MEDICAL INSURANCE FUND - \$6,996,935.10

This fund receives an amount equal to one-half of one per cent (.5%) of the gross annual payroll of all members. One-quarter of one per cent (.25%) of such funds derives from member contributions and one-quarter of one per cent (.25%) from state appropriations. These funds are used for meeting costs resulting from medical and hospital services to retired members as provided by KRS 161.675. Any amounts not required to meet current costs are maintained as a reserve for this benefit.

SURVIVORS AND DEATH BENEFIT FUND - \$7,219,087.68

This fund receives an amount equal to one-half of one per cent (.5%) of the gross annual payroll of all members. One-quarter of one per cent (.25%) of such funds derives from member contributions and one-quarter of one per cent (.25%) from state appropriations. In addition, whenever a change in status of member results in an obligation on this fund, there is transferred to this fund from the Teachers' Savings Fund, the State Accumulation Fund and the Allowance Reserve Fund such amounts as may be held in these funds for the member. All claims for benefits under KRS 161.520 and 161.655 are paid from this fund. Any amounts not required to meet current costs are maintained as a reserve for this benefit.

GENERAL EXPENSE FUND - \$29,873.42

Each fiscal year, an amount not greater than 4% of the receipts of the State Accumulation Fund shall be set aside into the expense fund to defray administrative expenses of the Retirement System. The balance of this fund is transferred annually to the Allowance Reserve Fund.

KENTUCKY TEACHERS' RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 1974

NOTE #1

In order to balance the State Accumulation Fund with the Teachers' Savings Fund, \$1,730,593.48 was transferred from the State Accumulation Fund along with \$83,536.93 from the Hospital and Medical Insurance Fund and \$83,536.93 from the Survivors and Death Benefit Fund. In prior years these funds were transferred to the Guarantee Fund, but this year, through an agreement with the Office for Policy and Management, \$1,200,000.00 was used to reduce the state's prior service obligation in accordance with KRS 161.550. In order to cover increase minimum annuity costs for fiscal year 1973-74, a transfer of \$455,000.00 to the Allowance Reserve Fund was also necessary. Of the balance of the transfer, \$159,358.97 was used to defray the balance of the cost of living bonus not covered by the original state appropriation, with \$83,308.37 remaining and being transferred to the Guarantee Fund in accordance with KRS 161.420 (7).

NOTE #2

Retirement allowances paid, first reduce the member's contributions until they are exhausted, then the state matching contributions are used to cover the allowances. When both the member's contributions and the state matching contributions are exhausted, the retirement allowance is paid from investment earnings and funds available through actuarial provisions. For the year ended June 30, 1974, \$16,210,533.23 was paid in excess of teachers' contributions and state matching contributions. This amount comprised of: (1) transfers from the State Accumulation Fund; state contributions-temporary - \$750,000.00, 1972-73 General Expense Fund balance - \$18,378.67, and state appropriations - \$1,655,000.00, and (2) transfers from the Guarantee Fund - \$13,077,587.67, and interest on fund balance - \$709,566.89.

