



35TH

annual report

TEACHERS' RETIREMENT SYSTEM

STATE OF KENTUCKY

1974-75

DECEMBER 1975



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 31, 1975

Honorable Julian Carroll, Governor
Commonwealth of Kentucky
Capitol Building
Frankfort, Kentucky 40601

Dear Governor Carroll:

Submitted herewith is the Thirty-fifth 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, 1975, the average monthly benefit to all retirement payees was \$320 as compared to an average of \$307 per month a year earlier, and \$286 per month two years ago. The rate of investment income on fixed dollar assets on June 30, 1975, had increased to 7.13% on an annual basis, up from an annual rate of 7.00% at the end of the previous year. The total assets of the System increased during the year from a total of \$424.0 million to \$474.1 million, a gain of \$50.1 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, placed 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 provision of \$6.6 million to make cost-of-living 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,


W. D. Bruce, Jr., 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. W. D. Bruce, Jr. Chairman	Louisville
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Ex-Officio:

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Pat Miller, Deputy Executive Secretary

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Nancy Cosby	Bette Long	Doris Ward
Donna Dalton	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, 1975, assets of the Teachers' Retirement System increased \$50,102,650 to a total of \$474,103,926. This represents an increase in assets of 11.8%. During the previous fiscal year, assets increased 10.5%. The additional increase in 1974-75 can be attributed to an appropriation of \$7,267,400 for amortization of the "Prior Service" obligation.

It should be noted that of the \$474 million in assets, \$204.1 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 reserve for benefit payments of \$65.9 million which compares favorably with a reserve of \$54.6 million for the previous fiscal year.

Total benefit payments for 1974-75 were \$42.3 million, an increase of \$7.9 million over 1973-74. Total benefit payments for 1975-76 are projected at \$46.5 million.

Pages 8 and 9 provide a comparative review of the financial status of the System for the last three years. 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>1974</u>	<u>1975</u>
Number of Active Members	46,515	46,911
Average Balance per Active Member	\$ 3,753	\$ 4,080
Number of Service Retirants Receiving Benefits	9,463	10,328
Average Monthly Benefits per Service Retirant	\$ 307	\$ 320
Number of Members Receiving Disability Benefits	594	623
Average Monthly Benefit per Disability Retirant	\$ 241	\$ 255
Number of Survivors Receiving Monthly Benefits	389	618
Average Monthly Benefit per Survivor	\$ 170	\$ 212

BALANCE SHEET
Teachers' Retirement System
June 30, 1975

ASSETS

Cash, All Funds	\$ 2,402,976.80	
Special Reserve Account, Aetna Life Insurance Company	<u>130,677.58</u>	
		\$ 2,533,654.38
Underpayments Due from Employers		34,759.40
Investments	\$474,003,924.93	
Unamortized premium on Investments	1,567,310.74	
Accrued Interest Purchased	<u>292,871.72</u>	
Sub-total: Investments plus deferred charges	\$475,864,107.39	
Deduct Unamortized Discount on Investments	<u>4,328,595.57</u>	
		<u>\$471,535,511.82</u>
TOTAL ASSETS		<u>\$474,103,925.60</u>

FUND BALANCES

Teachers' Savings Fund		\$204,122,170.48
State Accumulation Fund		204,122,170.48
Guarantee Fund		18,467,379.36
Hospital and Medical Insurance Fund		6,766,049.49
Voluntary Contributions, Active Members		2,069,695.11
Administrative Expense Fund		2,771.13
Allowance Reserve Fund		
Teachers' Contributions	\$ 6,594,889.47	
State Contributions (Permanent)	<u>23,340,496.85</u>	
		29,935,386.32
Survivor and Death Benefit Fund		
Reserve from Contributions from Active Members	7,321,031.10	
Reserve from State Matching Contributions	661,012.44	
Teachers' Balances, Accounts in Benefit Status	277,508.50	
State Reserve for Accounts in Benefit Status	<u>358,751.19</u>	
		<u>8,618,303.23</u>

TOTAL FUND BALANCES

\$474,103,925.60

STATEMENT OF SOURCES AND APPLICATIONS OF FUNDS
 Teachers' Retirement System
 for the period July 1, 1974 - June 30, 1975

CASH BALANCE, ALL FUNDS, July 1, 1974

\$ 5,570,840.58

Sources:

Teachers' Savings	\$31,973,452.50
Reinstatements	402,089.05
Voluntary Unmatched Contributions	<u>348,805.53</u>

Total from Members \$ 32,724,347.08

State Contributions:

Permanent, to match Teachers' Savings	29,721,938.46
Prior Service Deficiency	7,267,400.00
Administrative expenses	455,300.00
1974 Bonus Payment to Retirees	<u>2,974,061.54</u>

40,418,700.00
340,307,826.18

Interest Collected, Bonds Redeemed or Sold, Adjustments

Employer Matching of Teacher Contributions (Federal Funds) 2,152,024.72

Total Receipts \$415,602,897.98

TOTAL CASH AVAILABLE

\$421,173,738.56

Applications:

Administrative Expenses, Current Year	\$ 452,528.87
Net Decrease in Special Reserve-Aetna Insurance Co.	399,482.00
Refunds to Membership	4,257,525.86

Premiums for Comprehensive Medical Insurance Plan 2,077,532.99

Benefits for Service and Disability Retirement	\$37,177,812.64
Survivor Payments	1,522,462.03
Death Benefits	660,874.32
1974 Bonus to Retirees	<u>2,974,061.54</u>

42,335,210.53
369,117,803.93

Purchase of Investments and Miscellaneous Adjustments

Total Disbursements \$418,640,084.18

CASH BALANCE, ALL FUNDS, June 30, 1975

\$ 2,533,654.38

TEACHERS' RETIREMENT SYSTEM
COMPARATIVE BALANCE SHEET
June 30, 1975

ASSETS	June 30, 1973		June 30, 1974		June 30, 1975	
	AMOUNT	%	AMOUNT	%	AMOUNT	%
Cash, All Funds	\$ 5,703,758.33	1.49	\$ 5,040,681.00	1.19	2,402,976.80	.51
Special Reserve Account, Aetna Life Insurance	554,479.58	.14	530,159.58	.12	130,677.58	.03
Underpayments - (Overpayments) from Employers	(41,793.84)	(.01)	17,094.95	.01	34,759.40	.01
Investments	378,403,868.28	98.62	420,247,365.60	99.11	474,003,924.93	99.97
Unamortized Premium on Investments	1,480,237.04	.39	1,455,466.08	.34	1,567,310.74	.33
Accrued Interest Purchased	2,984.41	.01	90,057.06	.02	292,871.72	.06
Unamortized Discount on Investments	(2,467,847.64)	(.64)	(3,379,548.47)	(.79)	(4,328,595.57)	(.91)
TOTAL ASSETS	\$ <u>383,635,686.16</u>	100.00	\$ <u>424,001,275.80</u>	100.00	<u>474,103,925.60</u>	100.00
<u>FUND BALANCES</u>						
Teachers' Savings Fund	\$ 167,602,603.16	43.69	\$184,683,730.16	43.56	204,122,170.48	43.05
State Accumulation Fund	167,602,603.16	43.69	184,683,730.16	43.56	204,122,170.48	43.05
Guarantee Fund	12,300,756.95	3.21	13,637,005.55	3.22	18,467,379.36	3.90
Hospital and Medical Insurance Fund	6,352,470.32	1.65	6,996,935.10	1.64	6,766,049.49	1.43
Voluntary Contributions Fund	1,788,675.37	.46	2,073,367.59	.49	2,069,695.11	.44
Administrative Expense Fund	18,378.67	.01	29,873.42	.01	2,771.13	.01
Allowance Reserve Fund	21,637,504.61	5.64	24,677,546.14	5.82	29,935,386.32	6.31
Survivor and Death Benefit Fund	<u>6,332,693.92</u>	<u>1.65</u>	<u>7,219,087.68</u>	<u>1.70</u>	<u>8,618,303.23</u>	<u>1.81</u>
TOTAL FUND BALANCES	<u>383,635,686.16</u>	100.00	<u>424,001,275.80</u>	100.00	<u>474,103,925.60</u>	100.00

TEACHERS' RETIREMENT SYSTEM
COMPARATIVE STATEMENT OF SOURCE AND APPLICATION OF FUNDS
June 30, 1975

	YEAR ENDING					
	June 30, 1973		June 30, 1974		June 30, 1975	
	AMOUNT	%	AMOUNT	%	AMOUNT	%
Beginning Cash Balance:	\$ 13,419,078.46		\$ 6,258,237.91		\$ 5,570,840.58	
<u>Source of Funds</u>						
Teachers' Savings	\$ 24,885,851.66	16.83	\$ 27,003,178.52	11.10	\$ 31,973,452.50	7.70
Reinstatements	158,214.05	.11	165,514.01	.07	402,089.05	.09
Voluntary Unmatched Contributions	341,523.28	.23	351,751.86	.14	348,805.53	.08
<u>State Contributions:</u>						
Permanent, to match teachers' savings	23,042,763.66	15.58	25,226,962.66	10.37	29,721,938.46	7.15
Deficiency appropriation for matching	963,746.91	.65	83,308.37	.03		
Prior Service Commitment	750,000.00	.51	2,405,000.00	.99	7,267,400.00	1.75
Administrative Expenses	373,100.00	.25	420,000.00	.17	455,300.00	.11
Bonus Payment to Retirees	1,004,289.43	.68	1,219,358.97	.50	2,974,061.54	.72
Interest Collected, Bonds Redeemed or Sold, Adjustments	94,514,005.90	63.90	184,722,093.62	75.90	340,307,826.18	81.88
Recovery from Aetna Life Insurance Company	8,096.00	.01				
Employer Matching of Teacher Contributions (Federal Funds)	<u>1,852,868.65</u>	<u>1.25</u>	<u>1,775,589.01</u>	<u>.73</u>	<u>2,152,024.72</u>	<u>.52</u>
Total Source of Funds	\$ 147,894,459.54	100.00	\$ 243,372,757.02	100.00	\$ 415,602,897.98	100.00
Total Cash Available	\$ <u>161,313,538.00</u>		\$ <u>249,630,994.93</u>		\$ <u>421,173,738.56</u>	
<u>Application of Funds</u>						
Administrative Expenses	\$ 354,721.33	.23	\$ 390,126.58	.16	\$ 452,528.87	.11
Net Decrease in Special Reserve Account-Aetna Ins. Co.			24,320.00	.01	399,482.00	.10
Refunds for Withdrawal from Membership	3,789,907.67	2.44	3,629,397.75	1.49	4,257,525.86	1.02
Premiums for Comprehensive Medical Insurance	1,218,228.75	.79	1,404,652.12	.58	2,077,532.99	.50
Benefits for Service and Disability Retirement	26,900,568.97	17.35	31,740,644.31	13.00	37,177,812.64	8.88
Survivor Benefits	688,051.75	.44	738,060.00	.30	1,522,462.03	.36
Death Benefits	655,001.44	.42	702,750.43	.29	660,874.32	.16
Bonus Payments	1,004,289.43	.65	1,219,358.97	.50	2,974,061.54	.71
Purchase of Investments and Miscellaneous Adjustments	<u>120,444,530.75</u>	<u>77.68</u>	<u>204,210,844.19</u>	<u>83.67</u>	<u>369,117,803.93</u>	<u>88.16</u>
Total Application of Funds	\$ <u>155,055,300.09</u>	100.00	\$ <u>244,060,154.35</u>	100.00	\$ <u>418,640,084.18</u>	100.00
Ending Cash Balance	\$ <u>6,258,237.91</u>		\$ <u>5,570,840.58</u>		\$ <u>2,533,654.38</u>	

COMPARISON OF TEACHERS' SAVINGS AND MATCHING FUNDS
 Teachers' Retirement System
 for the period July 1, 1940 through June 30, 1975

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	27,003,178.52	1,775,589.01	25,310,271.03	2,405,000.00	1,219,358.97	420,000.00
1974-75	31,973,452.50	2,152,024.72	29,721,938.46	7,267,400.00	2,974,061.54	455,300.00
TOTALS	\$ 275,126,023.75	\$13,867,360.82	\$ 262,038,004.80	\$ 21,992,487.38	5,197,709.94	\$ 5,387,618.52

RECAPITULATION

State permanent contributions to match teacher payments	262,038,004.80
Federal Matching through remittances by employers	<u>13,867,360.82</u>
Total matching under the statutory requirement for 100% matching of teachers payments	275,905,365.62
Teacher payments made thru June, 1974	<u>275,126,023.75</u>
State surplus to be held in reserve for possible state deficiency in future years	<u>779,341.87</u>

REGULAR REFUNDS
Teachers' Retirement System
July 1, 1940 to June 30, 1975

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
7/1/56-6/30/60	8,810	1,835,748.41	255	287,341.43	285	7,678.97	9,350	2,130,768.81
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
1974-75	2,822	3,756,969.63	43	205,715.67	16	1,418.87	2,881	3,964,104.17
TOTALS	77,992	\$34,806,290.48	1,919	\$2,801,101.03	1,014	\$55,581.23	80,925	\$37,662,972.74

ANAYLSIS OF ACCOUNTS REFUNDED 1974-75
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	24	55	79	61,509.04
State of Florida	20	48	68	97,527.21
State of Indiana	15	35	50	66,811.15
Other States	147	302	449	609,699.95
Outside Limits of USA	6	5	11	11,878.23
Kentucky Schools not covered by Teachers' Retirement System	24	45	69	81,056.75
Non-Teaching Employment:				
Entered Business or Industry	365	133	498	853,898.99
Church-Related Profession	14	5	19	23,146.87
Medical Profession	2	1	3	2,130.68
Legal Profession	1	1	2	2,413.47
Military Service	15	5	20	13,868.37
Further Training & Education	67	78	145	179,685.94
Local, State, or Federal Government	36	27	63	77,243.57
Homemaking, Family Duties, Children	1	350	351	472,748.43
Spouse Transferred Within Kentucky	0	9	9	13,498.16
Spouse Transferred Out of Kentucky	1	313	314	399,753.48
Moved Residence to Another State	10	25	35	37,337.77
Emergency Teacher, Not Re-employed	31	58	89	105,406.66
Salary too Low	32	6	38	61,365.55
Needed the Money	2	11	13	17,245.21
Disliked Teaching	2	2	4	1,678.82
Personal Reasons	110	164	274	423,944.66
Illness of Member	4	17	21	51,069.23
Death of Member	12	31	43	205,715.67
Lost Service Credit, Absent 7 or more Yrs.	37	161	198	92,051.44
Adjustments	<u>6</u>	<u>10</u>	<u>16</u>	<u>1,418.87</u>
Sub-total	984	1,897	2,881	3,964,104.17
Refunds from Voluntary Savings	50	38	88	279,678.88
Not Eligible for Membership	<u>37</u>	<u>67</u>	<u>104</u>	<u>13,742.81</u>
Grand Total	<u>1,071</u>	<u>2,002</u>	<u>3,073</u>	<u>4,257,525.86</u>

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 7.00% to 7.13% per annum. A major portion of this increase was due to relatively 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 Company 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, 1975
to show annual yield rate
Teachers' Retirement System of the State of Kentucky

	<u>Percentage of Total</u>	<u>Par Value</u>	<u>Net Annual Interest/Indicated Dividend Income</u>	<u>Net Annual Yield</u>
U. S. Treasury - Repurchase Agreements & Notes	3.06%	\$ 14,500,000.00	\$ 956,444.02	6.596%
Obligations Secured by U. S. Treasury	1.19%	5,629,830.38	368,084.41	6.538%
Federal Agencies	17.77%	84,221,305.62	6,704,341.65	7.960%
FHA & VA Mortgages	8.58%	40,688,920.55	2,416,106.30	5.938%
Other Guaranteed Mortgages	2.57%	12,162,807.39	807,878.66	6.642%
Corporate Bonds	48.22%	228,581,872.64	16,293,218.30	7.128%
Kentucky Industrial Development Finance Authority	.24%	1,125,000.07	56,241.66	4.999%
	<hr/>	<hr/>	<hr/>	
Sub-Total	81.63%	\$386,909,736.65	\$27,602,315.00	
 <u>NET YIELD RATE:</u>				
$\$27,602,315.00 \div \$386,909,736.65 = 7.134\%$				
 <u>Not Included Above:</u>				
1,670,335 Shares Common Stocks	18.37%	87,094,188.28	\$ 2,515,065.40	
$\$2,515,065.40 \div \$87,094,188.28 = 2.888\%$				
	<hr/>	<hr/>		
TOTAL INVESTMENTS	100.00%	\$474,003,924.93		
	<hr/> <hr/>	<hr/> <hr/>		

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
1975	474,003,925	7.13

ACTUARIAL VALUATION

KRS 161.400 requires that an Actuarial Valuation be performed at least once in each two year period. The most recent Actuarial Valuation was completed as of July 1, 1974, and has been previously distributed to concerned individuals and organizations. Certain excerpts from the Actuarial Report are included herewith to assist you in understanding the retirement program, and perhaps more importantly, to focus attention on the limitations of the Retirement System if adequate funding levels are not realized.

Part III of the Actuarial Report states "The Retirement System is actuarially sound assuming that the total payroll continues to expand substantially in the future as the result of increases in the number of members and that the State begins to make adequate annual provision for funding the unfunded prior service liability of the system." Concerning the unfunded prior service liability, it should be noted that the state did make a significant appropriation (\$7.2 million) for this purpose during the 1974-75 fiscal year.

The next actuarial valuation will be conducted as of July 1, 1976.

P A R T I

Valuation as of July 1, 1974

The results of the valuation of the System are summarized in the actuarial balance sheet set forth on the following page. These results are based on (a) membership data provided by the System, (b) the various service tables and salary scales developed as a result of the actuarial investigation of the System for the period from July 1, 1959 to June 30, 1966, as reported on December 18, 1967, and (c) an assumed investment yield rate of $4\frac{1}{2}\%$ per annum, compounded annually. This rate has been in use since the July 1, 1968 valuation.

It will be noted that the assets in the balance sheet are broken down into the two main categories: (1) the present assets, based on the value shown on the books of the System, and (2) prospective assets represented by future member and State contributions by and on behalf of present members. The various fund balances included in the total present assets of \$424,001,276 are shown in the balance sheet and the distribution of these present assets is shown in a footnote.

In the prospective asset category, the present values of members' and State's contributions were each computed at a rate of 7.45% of salaries. This compares with 6.75% of salary used in the July 1, 1972 valuation. While the actual rate for each is 7.7% of salaries, $\frac{1}{4}\%$ of this rate is paid to the Hospital and Medical Insurance Fund. Since this Fund is considered to be self-supporting, both the assets and liabilities for benefits from the Fund were eliminated from our valuation, except to the extent of reserves already on hand in the Fund. Therefore, the prospective assets reflect a present value of only a 7.45% rate for each of the members' and State's contributions, while the only liability

ACTUARIAL BALANCE SHEET SHOWING PRESENT AND PROSPECTIVE ASSETS AND LIABILITIES AS OF JULY 1, 1974

<u>A S S E T S</u>	:	<u>L I A B I L I T I E S</u>
<u>Present assets at book value</u>	:	<u>Present value of benefits payable</u>
Teachers' Savings Fund - \$174,786,702*	:	<u>to present annuitants:</u>
State Accumulation Fund 174,786,702*	:	Service retirement benefits -- \$400,601,617
Guarantee Fund ----- 13,637,006*	:	Disability retirement benefits 16,742,692
Voluntary Contributions	:	Present and future death and
Active Members ----- 1,993,712*	:	survivor benefits ----- <u>29,436,030</u>
Allowance Reserve Fund - 44,463,286*	:	\$ 446,780,339
Hospital and Medical	:	<u>Present value of future benefits</u>
Insurance Fund ----- 6,996,935	:	<u>payable to active and inactive members:</u>
Survivor and Death	:	Service retirement benefits -- \$768,378,199
Benefit Fund ----- 7,307,060*	:	Disability retirement benefits 53,012,351
Expense Fund ----- <u>29,873</u>	:	Refunds of contributions ----- 153,015,708
\$ 424,001,276**	:	Death and survivor benefits -- <u>66,146,460</u>
<u>Prospective assets:</u>	:	\$1,040,852,718
Present value of future	:	<u>Special reserves:</u>
7.45% contributions	:	Voluntary Contributions -
of present members ---- \$315,047,805	:	Active Members ----- \$ 1,993,712
Present value of future	:	Hospital and Medical
State 7.45% contribu-	:	Insurance Fund ----- 6,996,935
tions related to	:	Expense Fund ----- <u>29,873</u>
present members ----- 315,047,805	:	\$ 9,020,520
Deficiency in reserves	:	
to be financed in the	:	
future related to:	:	
Prior service ----- 57,476,380	:	
Service subsequent	:	
to July 1, 1941 ---- <u>385,080,311</u>	:	
<u>\$1,072,652,301</u>	:	
TOTAL ASSETS ----- <u>\$1,496,653,577</u>	:	TOTAL LIABILITIES ----- <u>\$1,496,653,577</u>

*June 30, 1974 balance as adjusted for transfers made July 1, 1974 on account of retirements on July 1, 1974.

**Total present assets distributed as follows:

Cash -----	\$ 5,040,681
Special Reserve Account -----	530,160
Underpayments due from Employers -----	17,095
Invested assets -----	420,247,365
Amortization Reserves for Premiums and	
Discounts on Investments -----	(-)1,924,082
Accrued interest -----	90,057
TOTAL	<u>\$424,001,276</u>

shown for hospital and medical benefits are for the reserves currently in the Fund. Both of these present values, each amounting to \$315,047,805, relate only to contributions by and on behalf of present members. The other item in this prospective asset category refers to a deficiency in reserves on the basis of this valuation totalling \$442,556,691 which will be discussed in Part II of this report.

On the liability side of the balance sheet, there are two main divisions of the liability; the first related to the present annuitants and the second to the present active and inactive members. It will be noted that the total liability on account of benefits payable in the future to annuitants is \$446,780,339; the liability on account of benefits payable in the future to active and inactive members amounts to \$1,040,852,718; and, finally, there are special reserve items of \$9,020,520 representing the balances in the account for Voluntary Contributions and in the Hospital and Medical Insurance Fund and the Expense Fund.

P A R T I I

Sufficiency of Contribution Rates Under the Law in Effect as of July 1, 1974

In this part of the report, we would like to discuss the sufficiency of the present contribution rates of 7.45% by the member and 7.45% by the State under the System as in effect as of July 1, 1974. The rates used are the amounts which are available for retirement and death benefits; i.e., the 15.4% total contribution less the amounts contributed by the members and matched by the State for hospital and medical insurance.

In order to study the adequacy of the contribution rate of the Systems as in effect on July 1, 1974, we must turn to the balance sheet shown on page 2. While most of the following comments are related to the asset side of the actuarial balance sheet, and in particular to the value of prospective future contributions on account of present members, it should be made clear that our calculation of the liability side of the actuarial balance sheet takes into account the number of members who may be expected to withdraw from the Retirement System prior to eligibility for deferred vested benefits, including as a liability only the amount of their accumulated contributions at the time of withdrawal. In other words, we have assumed that some of the present members will be paid retirement annuities, some will be paid disability benefits, the beneficiaries of some will be paid death or survivor benefits after the death of the member in service, and some will leave employment in the public schools and receive no more than their accumulated deposits. The liability side of the balance sheet includes our estimated value for each of these types of payments.

It will be noted in the balance sheet that, as compared with the total liability of \$1,496,653,577 to provide all present and future benefits as of July 1, 1974, there were assets on hand of \$424,001,276. This means

that the present value of assets needed in the future to balance the liabilities is in the amount of \$1,072,652,301. It can be seen from the balance sheet that \$315,047,805 of these future assets represents the present value of the members' effective 7.45% contributions in the future and the same figure of \$315,047,805, the corresponding value of the State's effective 7.45% contributions in the future. When the total of these amounts is deducted from \$1,072,652,301, we arrive at the over-all deficiency in reserve for the present members to be financed in the future and this figure is \$442,556,691.

Part of this deficiency, in the amount of \$57,476,380, represents the unfunded portion of prior service benefits payable under the provisions of the Kentucky Teachers' Retirement Law. The Law (Section 161.550) provides for supplemental appropriations by the State to discharge this prior service obligation, so that the deficiency remaining to be funded from "permanent" State contributions is \$442,556,691 minus \$57,476,380, or \$385,080,311.

If there is a deficiency after taking into account the present value of all future member and State contributions for present members, a question arises as to how it is possible to meet the current deficiency of \$385,080,311 with the present contribution rate. One possible answer is based on the fact that this rate is more than adequate for future members if the present benefit structure remains in effect, and would provide excess funds in future years for funding the deficit.

We have made tests which indicate that the total contribution rate required, on the average, to fund the benefits of new entrants as a level percentage of salary during membership is 11.50% of payroll. This is an increase in the corresponding rate of 10.40% used for our previous valuation as of July 1, 1972 and results from the liberalization in early retirement benefits. Since this average required rate of contribution is 11.50% and the member contributes 7.45%, the State must contribute the

remaining 4.05% of salary to meet the normal costs. This means that, for future entrants, there is a residual State contribution of 3.40% (i.e., 7.45% - 4.05%) which may be applied toward the deficiency for the present members.

* * * * *

Our calculations indicate that, if 3.40% out of the effective contribution of 7.45% by the State for future entrants is applied to fund the total unfunded accrued liability of \$385,080,311 as of July 1, 1974 (ignoring the unfunded prior service liability), the funding periods on the three different assumptions as to future increases in payrolls as the result of new entrants are as follows:

<u>Assumptions as to Future Increases in Payroll as the Result of Future Entrants</u>		
<u>Level</u>	<u>4% Annual Increase</u>	<u>6% Annual Increase</u>
Period of funding deficiency ----- Never	32.9 years	25.6 years

Based on these results, it is our opinion that a net State contribution rate of 7.45% of payroll along with a net 7.45% contribution rate paid by members is sufficient to fund the normal cost each year and to complete the funding of the deficiency of \$385,080,311 over a reasonable period of years. These funding periods have decreased from 39.3 years (with 4% annual increases) and 29.2 years (with 6% annual increases) since the 1972 valuation, and these decreases are encouraging. However, we consider the plan still needs a period of relative stability in order to continue this decreased funding period.

In addition to recommending no major liberalizations without corresponding contribution increases, we wish to convey our concern about two aspects of operations. First of all, it should be pointed out that the funding period above does not make any provision for taking care of

the unfunded prior service liability of the System. While the Law requires that the "state shall contribute an amount sufficient to discharge the prior service obligation with interest assumed by the state, over a period not greater than thirty years", such contributions are not being fully paid. As a result, the amount of such liability has increased from \$55,618,577 as of July 1, 1972 to \$57,476,380 as of July 1, 1974. In order to fund a liability of this size over the sixteen years remaining as of July 1, 1974 out of the original thirty year period, the State would have to make annual contributions of \$4,895,963 on July 1 of each of those sixteen years. This represents an increase of \$500,000 in the annual payment over that derived as of July 1, 1972. If such contributions are not forthcoming, the actuarial soundness of the System could well be jeopardized.

A second concern relates to the continually increasing liabilities being created under the System as the result of benefit liberalizations. The deficiency under the System (other than that related to prior service benefits) has increased during the period since our last valuation as of July 1, 1972 from \$350,877,589 to \$385,080,311. Furthermore, because of substantial benefit increases to present annuitants, there were less assets on hand in the entire System as of July 1, 1974 (excluding the Teachers' Savings Fund which, of course, represents the accumulations of the presently active and inactive members) than there were liabilities for present annuitants. This situation has deteriorated further since the 1972 valuation. Stated another way, if the System had terminated as of July 1, 1974, the assets would not have been sufficient to both return the personal funds, including interest, paid in by the presently non-retired teachers and provide the remaining lifetime annuities to present annuitants on the basis of our current actuarial

assumptions. Thus, if the System had ceased operations on July 1, 1974, no State funds would have been available for any teacher who had not yet retired. A period of stability should enable the State to rebuild the assets so that active as well as retired members will have some funds on hand to undergird the liabilities for their accrued benefits.

P A R T I I I

Summary and Recommendations

This valuation of the Retirement System as of July 1, 1974 has been made using the actuarial tables developed in the actuarial investigation for the period July 1, 1959 to June 30, 1966 as submitted in our report dated December 18, 1967. In conjunction with these actuarial tables, we have used an interest assumption of 4½% per annum. These actuarial assumptions are summarized in Appendix A and we have also included as Appendix B a summary of the benefit provisions of the Retirement System.

This valuation reveals that the Retirement System is actuarially sound assuming that the total payroll continues to expand substantially in the future as the result of increases in the number of members and that the State begins to make adequate annual provision for funding the unfunded prior service liability of the System. While it is true that the deficiency of \$385,080,311 in addition to the unfunded prior service liability of \$57,476,380 is very high in relation to the present assets and the prospective contributions, the period required to fund the deficiency is not unduly lengthy - ranging from approximately 33 years, assuming that the total payroll increases at a rate of 4% annually in the future, to approximately 26 years, assuming increases at the rate of 6% annually in the future. These periods represent reductions from the corresponding respective periods of 40 years and 30 years which were quoted in our valuation report as of July 1, 1972.

One unfavorable aspect of the combined deficiency of \$442,556,691 is that it is higher than the corresponding amount of \$406,496,166 as of July 1, 1972. It might have been expected that the deficiency would have been reduced because of the introduction of new members for whom the total

15.40% rate of contribution by the member and the State is more than sufficient to fund benefits. However, this was more than counter-balanced by the additional liabilities resulting from (1) substantial number of new annuitants and increased average benefits for all annuitants and (2) rates of salary increases substantially in excess of those assumed in calculating liabilities. Since retirement benefits are primarily based on the average of the five highest salaries, salary increases for individuals at rates higher than assumed can lead to substantial increases in the deficiency.

Another unfavorable factor is the fact that the State made insufficient payments toward the prior service liability for the fiscal years of the System ending June 30, 1973 and June 30, 1974. This situation has resulted in an increase in this liability which will have to be funded over future years.

It is our conclusion that the Retirement System is actuarially sound and that the deficiency can be met in the future. However, we recommend that no further benefit liberalizations be made at this time, without corresponding increases in contribution levels, because of (1) the experience relating to rates of increase in individual salaries, (2) the lack of payment by the State of required amounts toward the prior service liability, (3) the increasing deficiency and (4) the relatively small size of assets (which are insufficient to cover the liabilities for refunds to present members of their own contributions with interest and for future benefit payments to present annuitants, thus leaving no assets available for present members). Furthermore, the State should increase their direct appropriations in the full amount required as soon as possible in order to reduce the unfunded liability for prior service.

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, 1975, the Charles T. Mitchell Company, a Certified Public Accounting firm, performed the audit. The next several pages contain the certification and the audited financial statements as prepared by the CPA firm.



TEACHERS' RETIREMENT SYSTEM
OF THE COMMONWEALTH OF KENTUCKY

REPORT OF EXAMINATION
FOR FISCAL YEAR ENDED

JUNE 30, 1975

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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 12, 1975

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, 1975 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, 1975, and the results of its operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Respectfully submitted,

Charles T. Mitchell Co.

CHARLES T. MITCHELL COMPANY

KENTUCKY TEACHERS' RETIREMENT SYSTEM
BOARD OF TRUSTEES AND ADMINISTRATIVE PERSONNEL
HOLDING OFFICE AT DECEMBER 12, 1975

BOARD MEMBERS

W. D. Bruce, Jr. Chairman / Teacher Trustee
Mrs. James Sheehan, Vice-Chairman / Lay Trustee
Mrs. Martha Baker, Member / Teacher Trustee
Mrs. Edythe Hayes, Member / Teacher Trustee
T. K. Stone, Member / Retired Teacher Trustee
Ruth Reeves, Member / Teacher Trustee
Runsey Taylor, Sr., Member / Lay Trustee
Drexell Davis, Member Ex-officio / State Treasurer
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, 1975 AND 1974

<u>ASSETS</u>	<u>JUNE 30 1975</u>	<u>JUNE 30 1974</u>
Cash	\$ 2 402 976 80	\$ 5 040 681 00
Investments, at cost:		
Bonds and notes (approximate quoted market values: \$343,012,437.00 as of June 30, 1975 and \$276,556,431.05 as of June 30, 1974)	384 148 451 82	314 214 316 07
Common and preferred stocks (approximate quoted market values: \$71,544,420.00 as of June 30, 1974 and \$86,325,310.25 as of June 30, 1974)	87 094 188 28	104 108 967 14
Accrued interest purchased	292 871 72	90 057 06
Special reserve account, Aetna Life Insurance Co	130 677 58	530 159 58
Irregular payments - escrow account	34 759 40	17 094 95
TOTAL ASSETS	\$474 103 925 60	\$424 001 275 80
<u>LIABILITIES AND FUND BALANCES</u>		
LIABILITIES		
Treasurers unredeemed checks	\$ 3 374 52	\$ 2 426 78
FUND BALANCES		
Teachers' Savings Fund	\$204 122 170 48	\$184 683 730 16
State Accumulation Fund	204 122 170 48	184 683 730 16
Allowance Reserve Fund	29 935 386 32	24 677 546 14
Guarantee Fund	18 464 004 84	13 671 409 04
Voluntary Contribution Fund	2 069 695 11	2 036 537 32
Hospital and Medical Insurance Fund	6 766 049 49	6 996 935 10
Survivors and Death Benefits Fund	8 618 303 23	7 219 087 68
General Expense Fund	2 771 13	29 873 42
TOTAL FUND BALANCES	\$474 100 551 08	\$423 998 849 02
TOTAL LIABILITIES AND FUND BALANCES	\$474 103 925 60	\$424 001 275 80

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, 1975 AND 1974

	FISCAL YEAR ENDED JUNE 30,	
	1975	1974
<u>REVENUES</u>		
Teachers' contributions	\$ 31 973 452 50	\$ 27 003 178 52
State matching contributions	36 939 500 00	27 874 630 00
Interest earned on investments	26 363 912 92	21 614 556 82
Cost of living bonus appropriation	3 023 900 00	1 060 000 00
Employers matching contributions	2 152 024 72	1 775 589 01
General Expense Fund appropriations	455 300 00	420 000 00
Voluntary contributions	348 805 53	351 751 86
Teachers' reinstatements	402 089 05	168 514 01
Irregular payments - escrow account	7 611 63	53 444 74
Aetna Life Insurance Company - reserve		
Interest income	31 810 00	31 883 00
Experience deficit	(431 292 00)	(56 203 00)
Gain (loss) on sale of investments	(1 938 075 50)	(71 936 14)
Forfeitures and adjustments	4 461 46	2 226 44
TOTAL REVENUES	\$ 99 333 500 31	\$ 80 227 635 26
<u>EXPENDITURES</u>		
Benefits for service and disability retirements	\$ 37 177 812 64	\$ 31 740 644 31
Refund members' contributions	4 257 525 86	3 629 397 75
Cost of living bonus	2 974 061 54	1 219 358 97
Survivor and death benefits	2 183 336 35	1 440 810 43
Comprehensive medical insurance premiums	2 077 532 99	1 404 652 12
General Expense Fund expenditures	452 528 87	390 126 58
Investment counsel and processing fees	109 000 00	33 254 72
Self insurance medical payments		3 175 65
	\$ 49 231 798 25	\$ 39 861 420 53
<u>EXCESS OF REVENUES OVER EXPENDITURES</u>	\$ 50 101 702 06	\$ 40 366 214 73
<u>TOTAL FUND BALANCES</u>		
Beginning of year	423 998 849 02	383 632 634 29
End of Year	\$474 100 551 08	\$423 998 849 02

KENTUCKY TEACHERS' RETIREMENT SYSTEM
TEACHERS' SAVINGS FUND
STATEMENT OF OPERATIONS AND FUND BALANCE
FOR THE YEARS ENDED JUNE 30, 1975 AND 1974

	YEAR ENDED JUNE 30	
	1975	1974
<u>REVENUES</u>		
Teachers' contributions	\$ 29 917 622 62	\$ 25 105 949 76
Reinstatements	369 667 63	18 365 18
Partially matched reinstatements		96 797 46
Irregular payments current year - escrow	32 502 30	15 984 89
Irregular payments prior year - escrow		33 753 37
Transfers from Guarantee Fund:		
Interest on fund balance	5 086 962 31	4 661 421 91
Forfeitures and adjustments	3 796 91	4 787 33
TOTAL REVENUES	\$ 35 410 551 77	\$ 29 937 059 90
<u>EXPENDITURES</u>		
Refunds - regular	\$ 3 964 104 17	\$ 3 423 833 74
Refunds - special	13 742 81	16 182 92
Irregular payments prior year - escrow	25 208 65	
Transfers to Allowance Reserve Fund:		
Retirements	11 627 640 47	9 319 724 27
Transfers to Guarantee Fund:		
Forfeitures and adjustments	6 227 92	6 279 91
Transfers to Survivors and Death Benefit Fund:		
Survivors benefits	335 187 43	89 912 06
TOTAL EXPENDITURES	\$ 15 972 111 45	\$ 12 855 932 90
<u>EXCESS OF REVENUES OVER EXPENDITURES</u>	\$ 19 438 440 32	\$ 17 081 127 00
<u>FUND BALANCE</u>		
Beginning of year	184 683 730 16	167 602 603 16
End of year	\$204 122 170 48	\$184 683 730 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, 1975 AND 1974

	YEAR ENDED JUNE 30	
	1975	1974
<u>REVENUES</u>		
State contributions - permanent	\$ 27 744 463 76	\$ 25 187 156 20
State contributions - prior service	7 267 400 00	750 000 00
Employers' matching contributions	2 012 283 00	1 648 760 19
Teachers' reinstatement contributions	32 421 42	53 351 37
Expense fund balance - 1974 and 1973	29 873 42	18 378 67
Transfers from Guarantee Fund:		
Interest on fund balance	5 086 962 31	4 661 421 91
Reinstatements	369 667 63	18 365 18
Partially matched reinstatements		48 315 66
To adjust for underpayment by employers	32 502 30	15 984 89
To adjust state contributions to match teachers' contributions (see note 1)	131 186 85	
To close 1972-73 overpayments by employers		33 753 37
TOTAL REVENUES	\$ 42 706 760 69	\$ 32 435 487 44
<u>EXPENDITURES</u>		
Transfers to Allowance Reserve Fund:		
Retirements	\$ 11 627 640 47	\$ 9 319 724 27
State contributions - temporary	7 267 400 00	750 000 00
Expense fund balance - 1974 and 1973	29 873 42	18 378 67
Transfers to Guarantee Fund:		
To close 1973-74 underpayments by employers	25 208 65	
Refunds	3 975 387 78	3 438 664 30
Forfeitures and adjustments	6 322 70	6 279 91
Transfers to Survivors and Death Benefit Fund:		
Survivors' benefits	335 187 43	89 912 06
Transfer made to comply with KRS 161.420(7) and KRS 161.550		1 730 593 48
Forfeitures and adjustments	1 299 92	807 75
TOTAL EXPENDITURES	\$ 23 268 320 37	\$ 15 354 360 44
<u>EXCESS OF REVENUES OVER EXPENDITURES</u>	\$ 19 438 440 32	\$ 17 081 127 00
<u>FUND BALANCES</u>		
Beginning of year	184 683 730 16	167 602 603 16
End of year	\$204 122 170 48	\$184 683 730 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, 1975 AND 1974

	YEAR ENDED JUNE 30	
	1975	1974
<u>REVENUES</u>		
Transfers from Teachers' Savings Fund:		
Retirement	\$ 11 627 640 47	\$ 9 319 724 27
Transfers from State Accumulation Fund:		
Retirement	11 627 640 47	9 319 724 27
State contributions - prior service (see note 2)	7 267 400 00	750 000 00
Expense fund balance - 1974 and 1973 (see note 2)	29 873 42	18 378 67
Transfers from Guarantee Fund:		
Interest on fund balance (see note 2)	979 410 38	709 566 89
State deficiency in service obligations for teachers retired (see note 2)	11 358 771 97	13 077 587 67
Transfers from Voluntary Contribution Fund:		
Teachers' and employers voluntary contributions	160 064 13	83 043 79
Transfers made to comply with KRS 161.420 (7) and KRS 161.550		1 655 000 00
Cost of living bonus appropriation	3 023 900 00	1 060 000 00
Additional transfer to cover balance of cost of living bonus appropriation		159 358 97
Forfeitures and adjustments	3 658 45	6 377 22
TOTAL REVENUES	\$ 46 078 359 29	\$ 36 158 761 75
<u>EXPENDITURES</u>		
Benefits for service and disability retirements	\$ 37 177 812 64	\$ 31 740 644 31
Transfers to Guarantee Fund:		
Over-appropriation for cost of living bonus (see note 1)	49 838 46	
Transfers to Survivors and Death Benefit Fund:		
Change in recipients' status	78 773 98	50 798 56
Transfer to comply with KRS 161.420 (6) and KRS 161.525 (see note 3)	540 032 49	
Transfers to Voluntary Contribution Fund:		
To correct transfer - July 1971		107 918 38
Cost of living bonus	2 974 061 54	1 219 358 97
TOTAL EXPENDITURES	\$ 40 820 519 11	\$ 33 118 720 22
<u>EXCESS OF REVENUES OVER EXPENDITURES</u>	\$ 5 257 840 18	\$ 3 040 041 53
<u>FUND BALANCE</u>		
Beginning of year	24 677 546 14	21 637 504 61
End of year	\$ 29 935 386 32	\$ 24 677 546 14

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, 1975 AND 1974

	YEAR ENDED JUNE 30	
	1975	1974
<u>REVENUES</u>		
Interest and dividends earned on investments	\$ 26 363 912 92	\$ 21 614 556 82
Transfers from Teachers' Savings Fund:		
To close inactive accounts	6 227 92	6 279 91
Transfers from State Accumulation Fund:		
Refunds	3 975 387 78	3 438 664 30
To close out 1973-74 underpayments by employers	25 208 65	
To close inactive accounts	6 322 70	6 279 91
Transfers from Allowance Reserve Fund:		
To adjust for overmatches by State in accordance with KRS 161.420 (7)	49 838 46	
Transfers from Voluntary Contribution Fund:		
To adjust voluntary contributions to actual	338 36	36 830 27
Transfers from Hospital and Medical Insurance Fund:		
To close out 1973-74 underpayments by employers	969 56	
To adjust for overmatches by State in accordance with KRS 161.420 (7)	5 774 04	
Transfers from Survivors Death Benefit Fund:		
To close out 1973-74 underpayments by employers	969 56	
To adjust for overmatches by State in accordance with KRS 161.420 (7)	5 774 04	
Transfer made to comply with KRS 161.420 (7) and KRS 161.550		83 308 37
Gain (loss) on sale of investments	(1 938 075 50)	(71 936 14)
TOTAL REVENUES	<u>\$ 28 502 648 49</u>	<u>\$ 25 113 983 44</u>
<u>EXPENDITURES</u>		
Investment counsel and processing fees	\$ 109 000 00	\$ 33 254 72
Transfers to Teachers' Savings Fund:		
Interest on fund balance	5 086 962 31	4 661 421 91
Transfers to State Accumulation Fund:		
Interest on fund balance	5 086 962 31	4 661 421 91
Reinstatements	369 667 63	18 365 18
Partially matched reinstatements		48 315 66
To adjust for underpayment by employers	32 502 30	15 984 89
To close 1972-73 overpayments by employers		33 753 37
To adjust State contributions to match teachers' contributions (see note 1)	131 186 85	
Transfers to Allowance Reserve Fund:		
Interest on fund balance	979 410 38	709 566 89
State deficiency in service obligations for teachers retired (see note 2)	11 358 771 97	13 077 587 67
Transfers to Voluntary Contribution Fund:		
Interest on fund balance	107 438 87	97 120 18

KENTUCKY TEACHERS' RETIREMENT SYSTEM
 GUARANTEE FUND
 STATEMENT OF OPERATIONS AND FUND BALANCE (CONTINUED)
 FOR THE YEARS ENDED JUNE 30, 1975 AND 1974

EXPENDITURES (CONTINUED)	YEAR ENDED JUNE 30,	
	1975	1974
Transfers to Hospital and Medical Insurance Fund:		
Interest on fund balance	\$ 190 818 22	\$ 176 653 75
To adjust for underpayment by employers	1 128 55	555 03
To close 1972-73 overpayments by employers		1 298 21
Transfers to Survivors Death Benefit Fund:		
Interest on fund balance	239 156 76	196 622 71
To adjust for underpayment by employers	1 128 55	555 03
To close 1972-73 overpayments by employers		1 298 21
Forfeitures and adjustments	15 917 99	6 504 16
TOTAL EXPENDITURES	\$23 710 052 69	\$23 740 279 48
<u>EXCESS OF REVENUES OVER EXPENDITURES</u>	\$ 4 792 595 80	\$ 1 373 703 96
<u>FUND BALANCE</u>		
Beginning of year	13 671 409 04	12 297 705 08
End of Year	\$18 464 004 84	\$13 671 409 04

The accompanying notes are an integral part of these statements.

KENTUCKY TEACHERS' RETIREMENT SYSTEM
VOLUNTARY CONTRIBUTION FUND
STATEMENT OF OPERATIONS AND FUND BALANCE

	YEAR ENDED JUNE 30	
	1975	1974
<u>REVENUES</u>		
Voluntary contributions	\$ 348 805 53	\$ 351 751 86
Transfers from Guarantee Fund:		
Interest on fund balance	107 438 87	97 120 18
Transfers from Allowance Reserve Fund:		
To correct transfer - July, 1971		107 918 38
Forfeitures and adjustments	16 994 76	326 68
TOTAL REVENUES	\$ 473 239 16	\$ 557 117 10
<u>EXPENDITURES</u>		
Refunds - teachers' voluntary contributions and employers' voluntary contributions	\$ 279 678 88	\$ 189 381 09
Transfers to Allowance Reserve Fund:		
Voluntary contributions used in determining retirement benefits	160 064 13	83 043 79
Transfers to Guarantee Fund:		
To adjust voluntary contributions to actual	338 36	36 830 27
TOTAL EXPENDITURES	\$ 440 081 37	\$ 309 255 15
<u>EXCESS OF REVENUES OVER EXPENDITURES</u>	\$ 33 157 79	\$ 247 861 95
<u>FUND BALANCE</u>		
Beginning of year	2 036 537 32	\$ 1 788 675 37
End of year	\$ 2 069 695 11	\$ 2 036 537 32

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, 1975 AND 1974

	YEAR ENDED JUNE 30	
	1975	1974
<u>REVENUES</u>		
Teachers' contributions	\$ 1 027 914 94	\$ 948 614 38
Employer matching contributions	69 870 86	63 414 41
State matching contributions	963 818 12	968 736 90
Transfers from Teachers' Savings Fund:		
To adjust for underpayment by employers	1 128 55	555 03
To close 1972-73 overpayments by employers		1 298 21
Transfers from Guarantee Fund:		
Interest on fund balance	190 818 22	176 653 75
To adjust for underpayment by employers	1 128 55	555 03
To close 1972-73 overpayments by employers		1 298 21
Aetna Life Insurance Company:		
Interest	31 810 00	31 883 00
Experience deficit	(431 292 00)	(56 203 00)
TOTAL REVENUES	\$ 1 855 197 24	\$ 2 136 805 92
<u>EXPENDITURES</u>		
Comprehensive medical insurance premiums	\$ 2 077 532 99	\$ 1 404 652 12
Self insurance medical payments		3 175 65
Transfers made to comply with KRS 161.420 (7) and KRS 161.550 (see note 1)	5 774 04	83 536 93
Transfers to Teachers' Savings Fund:		
To close 1973-74 underpayment by employers	969 56	
Transfers to Guarantee Fund:		
To close 1973-74 underpayment by employers	969 56	
Forfeitures and adjustments	836 70	976 44
TOTAL EXPENDITURES	\$ 2 086 082 85	\$ 1 492 341 14
<u>EXCESS (DEFICIT) REVENUES OVER EXPENDITURES</u>	\$ (230 885 61)	\$ 644 464 78
<u>FUND BALANCE</u>		
Beginning of year	6 996 935 10	6 352 470 32
End of year	\$ 6 766 049 49	\$ 6 996 935 10

The accompanying notes are an integral part of these statements.

KENTUCKY TEACHERS' RETIREMENT SYSTEM
SURVIVOR AND DEATH BENEFIT FUND
STATEMENT OF OPERATIONS AND FUND BALANCE
FOR THE YEARS ENDED JUNE 30, 1975 AND 1974

	YEAR ENDED JUNE 30	
	1975	1974
<u>REVENUES</u>		
Teachers' contributions	\$ 1 027 914 94	\$ 948 614 38
Employer matching contributions	69 870 86	63 414 41
State matching contributions	963 818 12	968 736 90
Transfers from Teachers' Savings Fund:		
Survivor payments	335 187 43	89 912 06
To adjust for underpayment by employers	1 128 55	555 03
To close 1972-73 overpayment by employers		1 298 21
Transfers from State Accumulation Fund:		
Survivor payments	335 187 43	89 912 06
Transfers from Allowance Reserve Fund:		
Change in recipients status	78 773 98	50 798 56
Transfer to comply with KRS 161.420 (6) and KRS 161.525 (see note 3)	540 032 49	
Transfers from Guarantee Fund:		
Interest on fund balance	239 156 76	196 622 71
To adjust for underpayment by employers	1 128 55	555 03
To close 1972-73 overpayment by employers		1 298 21
TOTAL REVENUES	\$ 3 592 199 11	\$ 2 411 717 56
<u>EXPENDITURES</u>		
Survivor and death benefit payments	\$ 2 183 336 35	\$ 1 440 810 43
Transfers to Teachers' Savings Fund:		
To close 1973-74 underpayment by employers	969 56	
Transfers to Guarantee Fund:		
To close 1973-74 underpayment by employers	969 56	
Transfers to comply with KRS 161.420 (7) and 161.550 (see note 1)	5 774 04	83 536 93
Forfeitures and adjustments	1 934 05	976 44
TOTAL EXPENDITURES	\$ 2 192 983 56	\$ 1 525 323 80
<u>EXCESS OF REVENUES OVER EXPENDITURES</u>	\$ 1 399 215 55	\$ 886 393 76
<u>FUND BALANCE</u>		
Beginning of year	7 219 087 68	6 332 693 92
End of year	\$ 8 618 303 23	\$ 7 219 087 68

The accompanying notes are an integral part of these statements.

KENTUCKY TEACHERS' RETIREMENT SYSTEM
 GENERAL EXPENSE FUND
 STATEMENT OF OPERATIONS
 FOR THE FISCAL YEARS ENDED JUNE 30, 1975 AND 1974

	YEAR ENDED JUNE 30	
	1975	1974
<u>ALLOTMENTS</u>		
Regular legislative appropriations	\$ 455 300 00	\$ 420 000 00
<u>EXPENDITURES</u>		
Personal Services		
Salaries	\$ 288 682 46	\$ 264 010 40
Contracted professional and consulting services	50 897 05	22 092 52
Current Operating Expenses		
Life insurance - employees	420 23	
Postage, freight, and express	26 281 50	23 187 72
Telephone and telegraph	4 966 99	3 763 83
Travel - in state	4 034 13	3 796 09
Travel - out of state	2 033 00	1 801 42
Printing	7 545 11	9 552 52
Maintenance of equipment	1 700 63	1 598 94
Maintenance of building		740 43
Office supplies	6 750 07	5 481 12
Motor fuels	304 28	187 02
Rental of building	18 029 04	17 453 00
Rental of equipment	25 860 43	23 807 08
Insurance	1 255 01	1 985 44
Fidelity bonds	70 00	12 00
Dues and subscriptions	1 622 37	1 668 04
Miscellaneous	661 09	604 50
Capital Outlay		
Furniture, fixtures, and equipment	11 415 48	8 384 51
TOTAL EXPENDITURES	\$ 452 528 87	\$ 390 126 58
Ending balance lapsed to Teachers' Retirement System Allowance Reserve Fund	\$ 2 771 13	\$ 29 873 42

The accompanying notes are an integral part of these statements.

KENTUCKY TEACHERS' RETIREMENT SYSTEM
BALANCE SHEET COMMENTS
JUNE 30, 1975

CASH - \$2,402,976.80

Cash consists of:

Cash on Deposit with The Kentucky State Treasurer	\$ 2 402 976 80
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INVESTMENTS - AT COST

Investments consist of:

BOND AND NOTES

MATURITY VALUE

Obligations Secured by U.S. Treasury		
Treasury Bonds and Bills	\$14 500 000 00	
Federal Agencies	84 221 305 62	
Republic of Panama External Secured	2 385 000 00	
Maritime Bonds	2 613 000 00	
FHA and VA Mortgages	40 688 920 55	
Railroad Notes	631 830 38	
Other Mortgages	12 162 807 39	
Total Obligations Secured by U.S. Treasury		\$157 202 863 94

Corporate Bonds

Telephone	\$23 700 000 00	
Public Utilities	54 545 000 00	
Industrials	77 723 307 69	
Finance	52 750 883 93	
Railroad	17 779 681 02	
Miscellaneous	2 083 000 00	
Total Corporate Bonds		228 581 872 64

Other

Kentucky Industrial Development Finance Authority Notes		1 125 000 07
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TOTAL BONDS AND NOTES AT MATURITY VALUE

\$386 909 736 65

Unamortized Premiums	\$ 1 567 310 74	
Unamortized Discounts	(4 328 595 57)	
Net Unamortized Premiums (Discounts)		(2 761 284 83)

TOTAL BONDS AND NOTES NET OF AMORTIZED PREMIUMS (DISCOUNTS)

\$384 148 451 82

COMMON AND PREFERRED STOCKS

\$ 87 094 188 28

Investments are being made in accordance with KRS 161.430

KENTUCKY TEACHERS' RETIREMENT SYSTEM
BALANCE SHEET COMMENTS (CONTINUED)
JUNE 30, 1975

ACCRUED INTEREST PURCHASED - \$292,871.72

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

SPECIAL RESERVE ACCOUNT AETNA LIFE INSURANCE CO - \$130,677.58

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 premium. 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.

At present time, the reserve is below requirements as specified in the agreement. Based on an evaluation by the insurance company for the period May 1, 1974 to May 1, 1975 this reserve balance should be approximately \$965,000. The Retirement System is making monthly deposits to re-establish this reserve.

IRREGULAR PAYMENTS - ESCROW ACCOUNT - \$34,759.40

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 - \$3,374.52

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 - \$204,122,170.48

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 - \$204,122,170.48

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

KENTUCKY TEACHERS' RETIREMENT SYSTEM
BALANCE SHEET COMMENTS (CONTINUED)
JUNE 30, 1975

STATE ACCUMULATION FUND (CONTINUED)

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.

ALLOWANCE RESERVE FUND - \$29,935,386.32

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 - \$18,464,004.84

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 - \$2,069,695.11

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 - \$6,766,049.49

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 - \$8,618,303.23

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 - \$2,771.13

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, 1975

NOTE #1

State appropriations used to match teachers' contributions to the Health Maintenance Insurance Fund exceeded those contributions by \$5,744.04. Likewise, state appropriations exceeded teachers' contributions to the Survivor and Death Benefit Fund by \$5,774.04. In addition to this, the appropriation to cover the cost of living bonus exceeded the actual cost of the bonus by \$49,838.46. The total of these three excesses (\$61,386.54) was transferred to the Guarantee Fund in accordance with KRS 161.420 (7).

In order to balance the State Accumulation Fund with the Teachers' Savings Fund, \$131,186.85 was transferred from the Guarantee Fund to the State Accumulation 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, 1975, \$19,635,455.77 was paid in excess of teachers' contributions and state matching contributions. This amount is comprised of: (1) transfers from the State Accumulation Fund: state contributions - prior service - \$7,267,400.00, and 1973-74 General Expense Fund balance - \$29,873.42 and (2) transfers from the Guarantee Fund: \$11,358,771.97, and interest on fund balance - \$979,410.38.

NOTE #3

Transfers from the Allowance Reserve Fund to the Survivor Death Benefit Fund in the amount of \$540,032.49 were necessary in order to comply with KRS 161.525. These transfers were to allow the spouse or legal dependent, upon the death of a member eligible to retire, to elect an annuity in lieu of refund of the member's account.

NOTE #4

Beginning July 1, 1960 the state is required under KRS 161.550 "to contribute an amount sufficient to discharge prior service obligation with interest assumed by the state, over a period not greater than thirty years".

No payments were made through June 30, 1972 at which time the actuarial report disclosed that this obligation was \$55,618,577.00. The report also disclosed that for the system to be actuarially sound this obligation must be met.

From July 1, 1972 through June 30, 1974 the state contributed \$3,155,000.00 toward this obligation. This did not fully meet the required payments and the obligation increased to \$57,476,380.00 due to a loss of future investment potential by Teachers' Retirement using a 4 1/2% annual rate of interest to amortize the deficiency.

KENTUCKY TEACHERS' RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 1975

NOTE #4 (CONTINUED)

For the period July 1, 1974 through June 30, 1975 the state contributed \$7,267,400.00 of which \$2,384,532.00 applied to the 1972-74 prior service increase and \$4,882,868.00 liquidated the 1974-75 state requirement. The state must continue to pay \$4,882,868.00 annually through 1990 in order to discharge the total prior service obligation.