

Fifteenth Annual Report

of the

TEACHERS' RETIREMENT SYSTEM

of the

State of Kentucky



OCTOBER, 1955

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BOARD OF TRUSTEES

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Ex-officio member
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Mrs. Anna Mae Connelly, Account Clerk
Mrs. Alean McDonald, Bookkeeping Machine Operator
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FOREWORD

I have the honor of announcing that the new Retirement Act went into effect July 1, 1955. It will never be necessary to amend the Retirement Law with respect to an increase in the contributions of the members or of the State since the 3% to age 30; 4% from age 30 to age 39, inclusive; and 5% from age 40 until retirement with the State support required by Section 161.550 will be sufficient to maintain the Retirement System at a level of benefits which will be satisfactory to the teachers of Kentucky, in my opinion.

Under the Foundation Program the salaries of teachers will increase according to their qualifications, and this means that their retirement benefits will increase accordingly. It may, however, be necessary and advisable to increase the minimum retirement benefits in 1958 due to the increase in the cost of living.

During my term as Superintendent of Public Instruction and exofficio member of the Retirement Board, we have seen the number of retired teachers increase by 50%, their benefits increase by an average of approximately 30%, and the assets of the Retirement System increase by \$10,000,000. This represents a satisfactory steady growth in usefulness and in the ability to serve the teachers of Kentucky. Up to this time the Retirement System has paid to the teachers more than \$7,000,000, which is another measure of its effectiveness. Disbursements will, of course, increase rapidly under the new Retirement Law; however, it will require \$10,700,000 to pay the benefits of teachers already retired.

In promoting the Foundation Program, we should by no means lose sight of the Retirement System even though it may require something like \$4,000,000 a year on the part of the State to finance the Retirement System. This is a large appropriation, but it is well worth it, and in view of the fact that 58% of our teachers have already passed the age of 40, it is obvious that substantial amounts of funds will be needed in the not too distant future for the benefit of those who will retire out of the present faculty in the next decade or two.

My predecessor expressed a warning and a hope that we would be able to avoid any entanglement with Social Security, or with any other retirement system and that we concentrate upon the development and protection of the Teachers' Retirement System. So far we have been able to accomplish these objectives.

My hope for the future is that the teachers will be just as alert during the next four years as they have been during the past four years in the protection and improvement of their Retirement System. Lord Bacon said that "Knowledge is Power", and Goethe said that "What is not fully understood is not possessed". A thorough knowledge of your Retirement System will enable you to appreciate its many excellent points, and it will give you the power to protect it from all outside influences. Leaders are ineffective without followers. Every teacher in Kentucky must be either a leader or a follower if we are to realize the benefits of the Foundation Program and the Teachers' Retirement System.

(Signed) Wendell P. Butler
Wendell P. Butler

Superintendent of Public Instruction
and Member of the Retirement Board

LETTER OF TRANSMITTAL

COMMONWEALTH OF KENTUCKY

TEACHERS' RETIREMENT SYSTEM

FRANKFORT

Honorable Lawrence W. Wetherby
Governor of Kentucky
Frankfort, Kentucky
Dear Governor Wetherby:

We have the honor to respectfully submit to you this the Fifteenth Annual Report of the Board of Trustees of the Teachers' Retirement System of the State of Kentucky, prepared and submitted in accordance with K.R.S. 161.320, and covering the period July 1, 1954, to June 30, 1955, the last fiscal year.

The last actuarial valuation of the assets and liabilities, the last balance sheet, accumulated cash and securities of the System, membership, service, withdrawals, deaths, and other pertinent information are all included in this Report in proper form.

Due to the allotment of the \$400,000 from the Governor's Emergency Fund, the amendment providing for greater contributions under Section 161.540 and greater retirement allowances under Section 161.620 went into effect July 1, 1955. The teachers are very thankful for this improvement, so is the Board of Trustees.

Record of the proceedings of the Board of Trustees is maintained in good order, the funds of the System safely invested, and the Law faithfully carried out.

Respectfully yours,
(Signed) L. C. Curry
L. C. Curry
Chairman, Board of Trustees

(Signed) N. O. Kimbler
N. O. Kimbler
Secretary, Teachers' Retirement System

FIFTEENTH ANNUAL REPORT

INTRODUCTION

The Teachers' Retirement System of the State of Kentucky was 15 years old on July 1, 1955. This Annual Report will look back some as well as forward, and make some reference to other Annual Reports.

For a description of the 18 amendments made to the Retirement Act, see the Fourteenth Annual Report. To date all amendments requested by the profession have been passed and have become the Law.

The future outlook and prospects of the Teachers' Retirement System are better today than ever before in the 15-year period of its existence. This is largely due to two things: (1) The profession is becoming aware of the threat of Social Security OASI to their Retirement System and is preparing to meet the threat, and (2) the extra appropriation of \$400,000 by Governor Lawrence W. Wetherby from his Emergency Fund July 1, 1955, for the purpose of putting (H. B. 322) the new amendment into effect.

For a discussion of OASI for Kentucky teachers, see the Fourteenth Annual Report and each Annual Report since 1949. Also, please be referred to Progress Report of KEA-Department of Education Committee included herein.

Copy of the Executive Order of the Governor fixing (2) follows:

"COMMONWEALTH OF KENTUCKY

OFFICE OF THE GOVERNOR

EXECUTIVE ORDER

NO. 1

Frankfort, Kentucky

July 6, 1955

"WHEREAS, The General Assembly, Regular Session, 1954, in enacting House Bill No. 20, known as the Budget Bill, provided an emergency fund of \$500,000 for fiscal year 1955-56 for meeting ordinary recurring and extra-ordinary expenses deemed emergencies by the Governor, and to be expended by the Governor in his discretion of any part of said fund, and

"WHEREAS, it is imperative that sufficient funds be provided for the Teachers' Retirement System, Teachers' Retirement Fund, and

"WHEREAS, the additional amount that is needed for the fiscal year 1955-56 will aggregate the sum of \$400,000, and

"WHEREAS, there are no funds available to meet this need, except as may be allotted out of the Governor's General Emergency Fund hereinafter mentioned and by reason thereof an emergency is, therefore, declared to exist.

"THEREFORE, I, LAWRENCE W. WETHERBY, Governor of the Commonwealth of Kentucky, by virtue of the authority vested in me as such by this executive order, hereby authorize and direct the Commissioner of Finance and the State Treasurer to cause to be set up out of the Governor's General Emergency Fund (Section 4, Part I, subsection c, 1955-56 appropriation) the sum of \$400,000 to be transferred from the Governor's General Emergency Fund to the Teachers' Retirement System, Teachers' Retirement Fund, Account Number 47-2-01-010, and to be expended in accordance with the allotments that may be made by the Commissioner of Finance and in accordance with the law governing disbursements.

"Given under my hand as Governor of the Commonwealth of Kentucky.

"Done at Frankfort, Kentucky, this the sixth day of July, in the year of our Lord one thousand nine hundred and fifty-five, and in the one hundred and sixty-second year of the Commonwealth.

SEAL

/s/ Lawrence W. Wetherby
Lawrence W. Wetherby, Governor of the
Commonwealth of Kentucky"

/s/ Charles K. O'Connell sbr
Secretary of State"

Including those retired on July 1, 1955, 2,130 teachers have been retired under the program. This is approximately one-tenth of the membership as it is today. Retirements have been slow due to the low allowances paid and due to the scarcity of teachers. We can expect the retirement of 2,600 teachers during the next 13 years.

During the 15 years, the Retirement System has paid to teachers \$7,302,000 in benefits. This compares with assets of \$32,600,000 at the close of the year. Under a recent New York date line, the Institute of Life Insurance reported an expenditure of \$150,000,000 last year, and reserves of \$8 billion for its 3,185,000 annuity contract holders. The disbursements of the Retirement System are greater in proportion to the reserves than that of Insurance Companies.

The Institute reported the increase in aggregate premium payments as eight times the amount paid 15 years ago; this compares roughly with the experience of the Retirement System. As long as the Retirement System operates like a life insurance company, no difficulties will arise. History shows that it is the pay-as-you-go plans and not the reserve plans which bring grief to the participants.

The Retirement System operates on a matching basis with the State contributing whatever additional is necessary to provide the annuity and to pay for prior service. The teachers have in their savings fund \$13,250,000; the State the same amount in the matching fund. The State has paid \$4,325,000 for prior service. Interest and profits over the 15 years amount to \$4,500,000. The Law requires that a certain amount of interest be used as earned and the remainder be placed in reserve.

When the Retirement System began, July 1, 1940, investments permitted by the Law and economic conditions, limited interest income to an average of 2.35%; the average today is 2.79% with the average going upward. Throughout the country the trend is toward more liberalization in the matter of investments for pension and annuity funds. The Board and Secretary are conservative in this important matter and are duly restricted by the Law. Sound principles of investment are followed, and during the life of the System no principal or interest has been lost. When the Retirement System is fully matured, the interest on the funds will provide for approximately one-half of the cost of the annuities.

The Retirement System has a median rating among the Systems of the various states, being about twenty-fifth from the top. Teachers are learning that their prospective individual equity in the System is far greater than the amount they have paid in as individuals, being about \$350 for each year of service credit at this time. This equity will increase with time and larger salaries. It is encouraging to participate in a System that is better with each passing year. Some improvements will come automatically as we get farther away from low salaries of the past and to better salaries of the future, accumulate more years of membership service, and to the place where prior service does not dominate the retiring teacher's record.

There will be a greater use of Options; and of the voluntary retirement plans, both by employers and employees under 161.705, KRS.

The Teachers' Retirement System has made good progress during its first 15 years, but improvement is cumulative and the next 15 years will see allowances and service credit quadruple in value and in usefulness to the teachers and school systems of the State. The holding power of the Retirement System is evidenced by the fact that 58% of the member teachers are over 40 years old. Those with 10 or more years of service credit cannot afford to withdraw lightly, and they do not. During the next 15 years, the maximum limit of half-pay can safely be removed and "fringe" benefits provided as desired by the profession.

Everyone who has contributed to the initiation and development of the Teachers' Retirement System can justly be proud of the progress made. The emphasis now should be upon the proper financing under the new Law and the Foundation Program and the avoidance of all entanglements with Social Security, employees' retirement plans, or other such movement. For an evaluation of the costs and benefits of Social Security OASI, see the Fourteenth Annual Report.

"PROGRESS REPORT OF KENTUCKY EDUCATION ASSOCIATION— DEPARTMENT OF EDUCATION COMMITTEE ON TEACHER RETIREMENT AND SOCIAL SECURITY

"Because of the widespread interest of our teachers in the possible desirability of supplementing our teacher retirement system with social security, your committee appointed to study the question has thought it proper to take advantage of the meeting of the KEA Planning Board, the presidents and secretaries of KEA Districts and the KEA Board of Directors to make a progress report.

"Your committee was aware from the beginning that the task was big. As each member, individually, has studied the material available and has had the benefit of three meetings for exchanging ideas and securing information from others invited to sit with us, we have all become even more certain of the complexity of the problem.

"The chairman of the committee supplied each member with a considerable amount of background material for study before the initial meeting on January 4. This meeting lasted throughout the day. Present, in addition to committee members, on invitation of the committee, were Mr. J. M. Dodson, Executive Secretary, and Mr. N. B. McMillian, Director of Research and Information of KEA, Mr. N. O. Kimbler, Executive Secretary of the Kentucky Teachers Retirement System, Mr. Carl Eckert, from the Louisville office of Social Security (federal), Mr. O. A. Taylor, from the State Social Security office, and Dr. Madaline K. Remmlein, assistant director of NEA Research Division and specialist in the field of social security and teacher retirement systems.

"From these persons, the committee members gained information in regard to federal and state legislation and some knowledge of what has been done in other states in which similar studies have been completed, or are now in progress. It appears that there is ample time for a thorough study to be made. State authorities agree that no legally effective referendum on social security coverage can be held unless and until the General Assembly passes enabling legislation. This delay would not be as detrimental as it might appear, since action to secure coverage, if taken before January 1, 1958, could be made retroactive to January 1, 1955.

"Because there have been so many inquiries about the cost of financing the improvements in the teacher retirement system which were enacted by the 1954 General Assembly as compared with the cost of social security coverage, it seems appropriate to report that the **teacher retirement system improvements** will cost the state, approximately, \$600,000 per year, and social security coverage, approximately \$1,000,000 per year. (On the basis of salaries for 1954-55.)

"In response to widespread interest in the inclusion of survivors' benefits in teacher retirement system, your committee has assembled information about it. This was not difficult because a study had already been made by the teacher retirement system board and legislation prepared for the last General Assembly, but the propitious time for its introduction never came. The cost, about \$25,000 per year, is surprisingly low.

"Many have asked what assurance there is that the 1956 General Assembly will appropriate the money to finance the improved teacher retirement system. This committee cannot speak for the General Assembly but observes that the improved legislation was passed by the 1954 General Assembly with only a single dissenting vote and that there seems to be every reason to suppose that the 1956 General Assembly will complete the job.

"Reviewing these facts and many others assembled and discussed in three lengthy meetings, the committee sees these possibilities: (1) The teacher retirement system as amended by the 1954 General Assembly* fully financed July 1, 1956; (2) The teacher retirement system as amended by the 1954 General Assembly* fully financed July 1, 1956, with improvements including survivors' benefits; (3) The teacher retirement system as amended by the 1954 General Assembly* fully financed July 1, 1956, with social security as a supplement; (4) The teacher retirement system financed at its present level** with social security as a supplement; (5) An integrated program of teacher retirement and social security.

"A casual study of these possibilities and their application to individual members of the retirement system leads at once to the observation that the benefits under any one of the plans may vary greatly for an individual, depending on his age, marital status, number of dependents, whether, if married, the spouse is already covered by social security, etc.

"It is the mature judgment of the committee that no valid report can be prepared without making a study of the membership of the retirement system to determine how typical members representative of categories enumerated above will fare under the different arrangements.

"When we consider that years of preparation went into the establishment of the retirement system and fifteen years of operation have refined it into an increasingly effective organization, and when we consider further that the State of Kentucky, through its General Assembly, has made available the money to keep it fiscally sound and that it now has resources of more than \$30,000,000, we feel that any action which might impair the services of the system to its more than 21,000 members, both active and retired, should be taken only after most careful and thorough study.

"When we consider what social security means to millions of our citizens and the fact that it offers to teachers some benefits not now offered by the retirement system, we feel the obligation to investigate fully its benefits. Another reason for careful study of social security for teachers is the fact that it is a program designed for **all** the people of the country and it is important to see how it would apply to **one specific group**—the teaching profession.

"In other words the assured benefits of the teachers retirement system are so great that the teachers of Kentucky cannot afford to take any chances of impairing the system and the possible benefits from social security are so great that it may not be laid lightly aside.

"Our task is to analyze the various possibilities to determine the plan which (1) will assure the greatest benefits to our teachers (2) will be reasonable in cost to teachers and state (3) will most nearly meet the needs of our teachers as a group (4) will have the approval of the public and the support of the General Assembly."

*Maximum annuity one-half of average of best 5 consecutive years' salary.

**Maximum annuity \$1,200.

COMMITTEE

Omer C. Carmichael
Mrs. Frances Rice
N. C. Turpen, Chairman

Miss Sara Rives
Ralph Woods
Gordie Young

LEGISLATIVE

In the future the legislative problem will be to prevent undesirable legislation and any legislation which will constitute a continuing threat to the Retirement System, such as Enabling Acts for Social Security, Old Age and Survivors' Insurance.

If certain age groups require a larger retirement annuity now, or in the near future, ways and means should be worked out under 161.705 KRS without new legislation.

Table A is prepared showing the situation in a typical tax supported college in Kentucky in order to determine the amount of the annuity payable to the members whose ages are given in column two upon retirement and the amount necessary to be contributed by the college under Section 161.705 KRS to provide the supplement. For convenience in handling the tables, the work is divided, and Table B is inserted to show the total amount needed in each year to provide the supplement indicated and the total amount for the period 1955 to 1966. The estimated cost of Social Security during the same period is indicated in the last two columns of Table B.

By using the information in these two tables the amount needed to supplement the annuity up to any amount may be calculated. If we take teacher (1), for whom the annuity will be \$1,464.25, it will require \$636 per year to bring the annuity up to \$2,100, or \$936 per year to bring the annuity up to \$2,400, and so on. From Table B it is noticed that there will be no retirements until 1959, giving a sufficient length of time for the college to accumulate the necessary funds in the Retirement System for this purpose.

According to our calculation, the supplement could certainly run to a very high figure before the cost would be anything like one-fourth as much as the cost of Social Security to the college and to the teachers for this period of time. A pay roll of \$450,000 is used without increments in the aggregate.

The cost of the supplement to bring each annuitant up to \$2,400 in this case would be \$43,687 for the 11-year period, whereas the cost of Social Security for both teacher and college would be \$238,500.

If certain groups with small children and other dependents desire survivors' benefits, such benefits can be provided by amending the Retirement Law. At this time suggestive legislation is being prepared for the approval or disapproval of the profession or its delegates.

The cost and value of survivors' benefits as provided by OASI are usually overestimated. There follows a scale of values from Bowles, Andrews & Towne, Actuaries:

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TABLE A
TABLE SHOWING THE AMOUNT NECESSARY TO BRING ANNUITIES UP TO
\$2,100 OR \$2,400 FOR MEMBERS AGE 60 AND OLDER
AT A TYPICAL KENTUCKY STATE COLLEGE

Teacher	Age	Prior Service & Salary Base	Service Under Old Law & Salary Base	Service Under New Law & Salary Base	Annuity at 70	Amount to Make \$2,100	Amount to Make \$2,400	Remarks
(1)	66	22 yrs. \$2,000.00	14 yrs. \$2,400.00	4 yrs. \$4,075.00	\$1,464.25	\$ 636.00	\$ 936.00	(1) Has Social Security as farm supervisor. \$660.
(2)	66	18.9 yrs. \$2,000.00	14 yrs. \$2,400.00	4 yrs. \$4,375.00	1,415.41	685.00	985.00	(2) 6½ yrs. 0-3 (?).
(3)	64	22 yrs. \$2,000.00	14 yrs. \$2,400.00	6 yrs. \$4,950.00	1,463.75	636.00	936.00	(3) Husband died 1933. Has son.
(4)	64	none	14 yrs. \$1,630.00	6 yrs. \$1,950.00	547.05	1,553.00	1,853.00	(4) Under Social Security. \$780. Note low salary.
(5)	64	19.8 yrs. \$2,000.00	14 yrs. \$2,400.00	6 yrs. \$4,550.00	1,377.75	722.00	1,022.00	(5)
(6)	64	none	9 yrs. \$2,400.00	6 yrs. \$4,350.00	780.75	1,319.00	1,619.00	(6) Private school 18 yrs. No credit.
(7)	62	20.6 yrs. \$2,000.00	14 yrs. \$2,400.00	8 yrs. \$4,650.00	1,567.00	533.00	833.00	(7) Making voluntary contributions. \$2,526.07. Married since 1940.
(8)	62	4.5 yrs. \$ 675.00	7 yrs. \$2,400.00	8 yrs. \$5,550.00	1,261.90	838.00	1,138.00	(8) 3 yrs. 0-3 may be credited.
(9)	61	27 yrs. \$1,042.20	14 yrs. \$2,400.00	9 yrs. \$3,820.00	1,387.04	713.00	1,013.00	(9)
(10)	61	16 yrs. \$1,960.00	14 yrs. \$2,400.00	9 yrs. \$4,920.00	1,896.94	203.00	503.00	(10) Wife and two grown children.
(11)	60	none	8 yrs. \$2,400.00	10 yrs. \$4,750.00	1,333.51	766.00	1,066.00	(11)

(1) Annual increment \$50 on salary. (2) Total present pay roll \$450,000 \times 2% = \$9,000 per year, cost of Social Security, 1955-56. (3) 109 teachers; salaries \$450,000.

TABLE B
COMPARISON OF THE COST OF THE SUPPLEMENT WITH THE COST OF
SOCIAL SECURITY FOR TEACHERS AGE 60 AND OLDER
ON TABLE A

Year	Supplement to \$2,100	Supplement to \$2,400	Loss From Death	Rate	Estimated Cost of Social Security	
					College	Teachers
1955-56	none	none	Not calculated	2%	\$ 9,000.00	\$ 9,000.00
1956-57	none	none		2%	9,000.00	9,000.00
1957-58	none	none		2%	9,000.00	9,000.00
1958-59	none	none		2%	9,000.00	9,000.00
1959-60	\$ 1,321.00	\$ 1,921.00		2½%	11,250.00	11,250.00
1960-61	1,321.00	1,921.00		2½%	11,250.00	11,250.00
1961-62	5,521.00	7,321.00		2½%	11,250.00	11,250.00
1962-63	5,521.00	7,321.00		2½%	11,250.00	11,250.00
1963-64	6,892.00	7,921.00		2½%	11,250.00	11,250.00
1964-65	7,808.00	8,408.00		3%	13,500.00	13,500.00
1965-66	8,574.00	8,874.00		3%	13,500.00	13,500.00
	<u>\$36,958.00</u>	<u>\$43,687.00</u>			<u>\$119,250.00</u>	<u>\$119,250.00</u>

TABLE C
VALUE OF SURVIVORS' BENEFITS AND PRIMARY BENEFIT
UNDER SOCIAL SECURITY OASI AS A PER CENT OF PAY ROLL

Primary Benefit	4.71% (Out of 4% to 8%)
Wife's	.41%
Widow's	1.03%
Child's	.34%
Parents'	.03%
Mother's	.15%
Death Benefit	.14%
Disability Freeze	.07%
	<hr/>
	6.88%
Administration	?

From the above table it is evident that such survivors as parents or even children as a group receive a very small benefit, being a fraction of 1%, whereas the cost to employee and employer ranges from a present 4% to a future 8%. (Both per cents are of the pay roll). For teachers the value would be lower because teachers as a group do not have as many children as a cross section of the population, and the mortality rate is lower. To take the whole Social Security Program in order to have survivors' benefits is like buying a suit of clothes in order to get a pair of socks.

It is our opinion that reasonable survivors' benefits can be provided by amendment to the Retirement Act and without additional contributions from members or the State for the foreseeable future. We have only about 15 or 20 children orphaned by death of father or mother each year.

In addition to survivors' benefits, a study is being made of the possibility of providing an annuity for a surviving dependent beneficiary in case a member who is eligible for an annuity dies before retirement. With the present larger contributions, this appears to be practical. For a further discussion of Legislation, see the Fourteenth Annual Report.

STATISTICAL
TABLE I

Table I. Membership 1940-55, is a table of totals. It supplies such information as total active membership, which is 25,571 teachers; total professional service records in force, 29,379; total number deceased before retirement, 790, and so on.

Last year was the first year during which the number of teachers without prior service exceeded the number with prior service, not including the retired.

The number of individual accounts set up and the number of different names carried as an enrolled member during the 15 years of operation is 60,869. This indicates the great and continual shifting of teachers in Kentucky into and out of the profession here. The greater part of the shifting is in the earlier ages.

TABLE C
VALUE OF SURVIVORS' BENEFITS AND PRIMARY BENEFIT
UNDER SOCIAL SECURITY OASI AS A PER CENT OF PAY ROLL

Primary Benefit	4.71% (Out of 4% to 8%)
Wife's	.41%
Widow's	1.03%
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Mother's	.15%
Death Benefit	.14%
Disability Freeze	.07%
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	6.88%
Administration	?

From the above table it is evident that such survivors as parents or even children as a group receive a very small benefit, being a fraction of 1%, whereas the cost to employee and employer ranges from a present 4% to a future 8%. (Both per cents are of the pay roll). For teachers the value would be lower because teachers as a group do not have as many children as a cross section of the population, and the mortality rate is lower. To take the whole Social Security Program in order to have survivors' benefits is like buying a suit of clothes in order to get a pair of socks.

It is our opinion that reasonable survivors' benefits can be provided by amendment to the Retirement Act and without additional contributions from members or the State for the foreseeable future. We have only about 15 or 20 children orphaned by death of father or mother each year.

In addition to survivors' benefits, a study is being made of the possibility of providing an annuity for a surviving dependent beneficiary in case a member who is eligible for an annuity dies before retirement. With the present larger contributions, this appears to be practical. For a further discussion of Legislation, see the Fourteenth Annual Report.

STATISTICAL
TABLE I

Table I. Membership 1940-55, is a table of totals. It supplies such information as total active membership, which is 25,571 teachers; total professional service records in force, 29,379; total number deceased before retirement, 790, and so on.

Last year was the first year during which the number of teachers without prior service exceeded the number with prior service, not including the retired.

The number of individual accounts set up and the number of different names carried as an enrolled member during the 15 years of operation is 60,869. This indicates the great and continual shifting of teachers in Kentucky into and out of the profession here. The greater part of the shifting is in the earlier ages.

The holding power of the Retirement System is shown by **Table XX. The Distribution of 21,356 Members.** This reveals the bulk of the teachers centered around middle-age and age 45, the modal age. The average age of the membership is 41.2 years. The modal age and the average are moving upward in age every year. This is apparently because young teachers are not being recruited in great enough numbers.

The active membership is comprised of 5,552 men and 15,804 women; the comparative percentages, 26-% and 74+%. The relative and actual number of men is increasing.

During the 15 years, there has been 323 deaths among men, and 467 deaths among women, total 790, before retirement. This is a rate of .00388 for men, and .00197 for women per 100,000. This is a very low rate. During 1954-55 we lost by death 13 men and 34 women, a total of 47. Six children under the age of 18 lost their father, and eight children lost their mother, a total of 14 children. None were completely orphaned.

The principal causes of death were, from cancer 15; diseases of the heart and circulatory system 11; cerebral hemorrhage 6; accidental death 6; stomach disorders 4; kidney diseases 2; suicide 2; and one unknown; total 47. Upon death the member's account is paid to the beneficiary as a death benefit. The largest paid was \$1,621; the smallest \$28.35, and the average \$801.27.

TABLE I. MEMBERSHIP 1940-55

	SERVICE RECORDS			Members Without Records Filed	Totals
	With Prior Service	Without Prior Service	Total with Records Filed		
Active Membership	10,947	13,343	24,290	1,281	25,571
Inactive Membership	517	2,198	2,715	1,093	3,808
Inactive accounts Membership lost	373	582	955	1,856	2,811
Absence of 13 Years	226	14	240	138	378
Professional Service Records in Force	11,464	15,541	27,005	2,374	29,379
Deceased Before Retirement	608	92	700	90	790
Withdrawn	10,255	10,425	20,680	4,695	25,375
Retired	2,123	13	2,136		2,136
	11,464	15,541	27,005	2,374	29,379
	13,585	11,126	24,711	6,779	31,490
Total Accounts Handled 1940-55	25,049	26,667	51,716	9,153	60,869

**TABLE XX. The Distribution of 21,356 Members as to Ages and Salaries
(Actual Salary) July 1, 1955**

Attained Age	Number Teaching	Average Salary	Total Salaries
18	10	\$1,314.70	\$ 13,147.00
19	74	1,383.78	102,400.00
20	169	1,593.34	269,274.00
21	255	1,794.95	457,711.00
22	433	2,111.79	914,404.00
23	466	2,195.71	1,023,200.00
24	459	2,246.64	1,031,206.00
25	507	2,311.38	1,171,872.00
26	510	2,356.33	1,201,726.00
27	512	2,457.76	1,258,374.00
28	572	2,502.18	1,431,249.00
29	508	2,592.05	1,316,759.00
30	477	2,600.08	1,240,238.00
31	418	2,614.84	1,093,003.00
32	420	2,657.92	1,116,328.00
33	445	2,691.89	1,197,890.00
34	425	2,708.25	1,151,007.00
35	475	2,649.79	1,258,650.00
36	433	2,631.13	1,139,280.00
37	465	2,764.34	1,285,418.00
38	447	2,701.98	1,207,786.00
39	550	2,736.15	1,504,884.00
40	589	2,672.66	1,574,199.00
41	649	2,720.72	1,765,750.00
42	710	2,736.62	1,943,003.00
43	757	2,663.73	2,016,446.00
44	731	2,731.55	1,996,760.00
45	766	2,728.58	2,090,091.00
46	724	2,800.64	2,027,664.00
47	756	2,753.96	2,081,995.00
48	698	2,752.73	1,921,405.00
49	700	2,914.15	2,039,902.00
50	601	2,885.76	1,734,339.00
51	565	2,914.12	1,646,477.00
52	504	2,843.50	1,433,122.00
53	446	2,941.79	1,312,040.00
54	387	2,952.09	1,142,458.00
55	327	2,987.83	977,020.00
56	302	2,980.03	899,969.00
57	295	2,959.43	873,033.00
58	225	2,985.67	671,775.00
59	241	2,929.64	706,043.00
60	221	2,863.01	632,725.00
61	215	2,940.10	632,121.00
62	173	3,030.70	524,311.00
63	171	3,151.58	538,921.00
64	122	3,016.89	368,061.00
65	138	3,140.68	433,414.00
66	83	2,867.73	238,022.00
67	84	2,898.82	243,501.00
68	81	2,951.67	239,085.00
69	65	2,932.66	190,623.00
Totals & Average	21,356*	\$2,682.15	\$57,280,081.00

*Does not include 17 part-time teachers and 789 teachers who had not filed A-1's and A-2's.

Average Age of Men Teachers—39.97

Average Age of Women Teachers—41.63

Average Age of the 21,356 Teachers—41.20

The most dangerous ages for men are about ages 25, 29, 38, 50, and in the early 60's. For women, ages 32, 38, and from age 40 to age 49; age 52 and from age 57 to 63. More teachers have died at age 61 than at any other age.

Table XX shows the modal age at 45 years. This means that many teachers have decided to continue in the profession until eligible for an annuity, and that comparatively few young people are coming into the profession. A career teacher beginning at age 23 is eligible for an annuity at age 53, after 30 years of service. There are 3,576 teachers age 53 and older.

The aggregate salaries of the 21,356 members distributed in Table XX is \$57,280,081. The highest average falls at age 63, and it is \$3,151.58; the average for the group is \$2,682.15. This high average age of 41.20 years among the membership means that in a few years the reserves of the Retirement System will be drawn upon heavily for annuities. Now is the time to maintain adequate reserves.

**TABLE VIII. Distribution of 11,305 Members Who Have
Prior Service Credit with Attained Age
July 1, 1955**

When Table VIII was first constructed at the beginning of the Retirement System, there were 212,000 years of prior service in force. Withdrawals have canceled 77,415.1 years, and retirements have matured about 50,000 years of prior service. Older teachers have come into the profession from time to time, as for example 102 such teachers during 1954-55, so that there remains in force 119,725.5 years of prior service as of July 1, 1954, held by 11,305 members. The youngest member with prior service is 33 years old, and the modal age is 49. This prior service credit will return to the holders \$6,346,000 according to the estimate of the Actuary.

TABLE III

Table III. Distribution by ages of 1,896 new members who came into membership in 1954-55, compares with 2,009 who came into membership last year. There are 560 men and 1,336 women as new members. The modal age for men is 23 and for women age 22. The average salary for all is \$2,036.49 and compares with \$1,849.17 for last year.

The older ages represent former members who have returned to membership after an extended interruption of their teaching service. If a member is absent more than six years, membership is lost and upon returning to the profession a new membership is taken. All of these new members under the age of 41 can qualify for the maximum retirement allowance by age 70; others will receive a proportionate annuity according to service record at retirement.

In addition to these 1,896 new teachers, there were 102 with prior service credit who returned to the profession, making a total of 1,998 new members. This addition is offset by the withdrawal of 1,614 teachers who had taught within the last three years. There were 2,207 withdrawals, but 593 had been absent for more than six years.

TABLE VIII. Distribution of 11,305 Members Who Have Prior Service Credit With Attained Age July 1, 1955

Attained Age	Number of Members	PRIOR SERVICE YEARS		PRIOR SERVICE SALARY	
		Years	Average	Total	Average
33	22	37.0	1.68	\$ 8,673.06	\$ 394.23
34	22	29.3	1.33	12,172.76	553.30
35	78	90.7	1.16	44,244.88	567.24
36	113	158.1	1.39	65,452.86	579.22
37	151	95.1	.62	87,925.72	582.28
38	190	411.1	2.16	115,677.38	608.82
39	261	662.1	2.53	168,598.84	645.97
40	294	1,031.8	3.50	182,133.85	619.50
41	373	1,560.3	4.18	249,773.26	669.63
42	451	2,458.1	5.45	300,178.15	665.58
43	505	3,027.8	5.99	348,719.79	690.53
44	538	3,776.1	7.01	387,548.83	720.35
45	519	3,771.1	7.26	384,898.47	741.61
46	602	5,262.7	8.74	480,865.47	798.77
47	637	5,987.4	9.39	506,728.63	795.49
48	588	5,655.4	9.61	503,152.34	855.70
49	651	6,788.4	10.42	563,209.73	865.14
50	592	6,529.2	11.02	545,830.49	922.01
51	532	6,226.5	11.70	493,747.27	928.09
52	498	6,191.9	12.43	464,839.19	933.41
53	463	6,036.3	13.03	461,867.18	997.55
54	328	4,673.8	14.24	337,872.43	1,030.09
55	364	5,219.5	14.33	379,546.76	1,042.71
56	306	4,389.9	14.34	321,167.88	1,049.56
57	289	4,290.6	14.84	301,459.60	1,043.11
58	237	3,878.3	15.98	232,236.19	979.89
59	232	3,715.2	16.01	245,192.39	1,056.86
60	248	4,153.4	16.74	263,881.81	1,064.03
61	195	3,397.5	17.42	202,901.96	1,040.52
62	191	3,736.7	19.56	214,751.56	1,124.35
63	188	3,495.1	18.59	206,085.26	1,096.19
64	145	2,823.0	19.46	158,070.61	1,090.14
65	125	2,475.1	19.80	146,361.72	1,170.89
66	130	2,674.0	20.56	154,433.99	1,187.95
67	90	1,671.7	18.57	87,963.20	977.36
68	74	1,584.4	21.41	83,486.13	1,128.19
69	83	1,760.9	21.21	99,107.58	1,194.06
Totals & Averages	11,305	119,725.5	10.59	\$9,810,757.22	\$ 867.82

Of the 1,614 withdrawing, positions in other states were taken by 325; California 12, Florida 24, Illinois 28, Indiana 36, Tennessee 34, Ohio 104, and so on. A Kentucky teacher can get a higher salary in any of the states bordering Kentucky. Often when a Kentucky teacher is settled in a position in another state, she becomes a recruiting agent for that school system and assists her teacher friends in Kentucky to find employment there. In some cases a majority of the teachers are led out of a Kentucky school system to employment in another state. Many of our best teachers are going away—our less able teachers seldom go.

Other professions draw upon the teaching staff for recruits. The ministry and related church work took 35; civil service and businesses of various kinds took 152, and 24 went into business for themselves.

TABLE III. Distribution by Ages of 1,896 Teachers Without Prior Service Who Became Members of the Teachers' Retirement System During the Year 1954-55

Attained Age	Men	S. S. SALARIES		Women	S. S. SALARIES	
		Total	Average		Total	Average
18	2	\$ 2,843.10	\$1,421.55	9	\$ 11,966.20	\$1,329.58
19	13	18,006.40	1,385.10	52	71,731.78	1,379.46
20	28	44,419.64	1,586.42	68	112,183.41	1,649.76
21	22	40,071.79	1,821.45	100	180,879.36	1,808.79
22	42	84,310.55	2,007.39	188	409,201.94	2,176.61
23	46	97,721.81	2,124.39	121	268,754.02	2,221.11
24	26	53,825.75	2,070.22	71	153,091.54	2,156.22
25	39	86,083.08	2,207.26	53	112,825.94	2,128.78
26	39	86,846.80	2,226.84	34	71,865.50	2,113.69
27	39	87,875.00	2,253.21	34	71,026.92	2,089.03
28	39	82,353.15	2,111.62	43	83,322.33	1,937.73
29	21	46,950.10	2,235.72	25	50,623.50	2,024.94
30	23	50,938.20	2,214.70	24	49,492.80	2,062.20
31	17	36,455.25	2,144.43	26	51,751.00	1,990.42
32	18	39,063.00	2,170.17	26	53,835.13	2,070.58
33	9	18,938.90	2,104.32	19	38,018.82	2,000.99
34	14	31,659.40	2,261.39	23	45,233.70	1,966.68
35	8	17,438.60	2,179.83	24	48,614.05	2,025.59
36	7	15,647.60	2,235.37	29	57,712.25	1,990.08
37	9	19,648.10	2,183.12	30	62,756.70	2,091.89
38	13	24,709.24	1,900.71	22	47,615.49	2,164.34
39	9	20,095.00	2,232.77	27	56,904.34	2,107.57
40	7	16,311.20	2,330.17	33	65,998.80	1,999.96
41	9	18,595.70	2,066.19	28	57,029.35	2,036.76
42	8	17,639.00	2,204.88	28	54,804.30	1,957.30
43	3	6,250.00	2,083.33	31	65,423.95	2,110.45
44	7	14,872.25	2,124.61	27	56,134.30	2,079.05
45	6	11,762.22	1,960.37	14	28,491.55	2,035.11
46	4	8,064.00	2,016.00	12	23,932.00	1,994.33
47	6	10,794.20	1,799.03	20	40,628.40	2,031.42
48	4	8,967.90	2,241.98	20	40,501.81	2,025.09
49	1	2,400.00	2,400.00	7	12,976.40	1,853.77
50	6	13,234.00	2,205.67	10	18,160.24	1,816.02
51	.....	.....	.....	6	13,441.00	2,240.17
52	3	6,294.00	2,098.00	5	9,594.84	1,918.97
53	.....	.....	.....	6	13,200.00	2,200.00
54	3	6,800.00	2,266.67	6	11,417.90	1,902.98
55	1	2,400.00	2,400.00	5	9,091.05	1,818.21
56	1	2,400.00	2,400.00	6	12,012.25	2,002.04
57	1	2,400.00	2,400.00	3	6,990.90	2,330.30
58	3	6,410.00	2,136.67	3	5,487.68	1,829.23
59	1	2,400.00	2,400.00	4	7,091.40	1,772.85
60	1	2,400.00	2,400.00	2	4,800.00	2,400.00
61	.....	.....	.....	1	1,450.00	1,450.00
62	.....	.....	.....	2	3,582.90	1,791.45
63	1	2,400.00	2,400.00	.....	.....	.....
64	.....	.....	.....	1	1,528.20	1,528.20
65	1	2,400.00	2,400.00	1	1,773.00	1,773.00
66	.....	.....	.....	5	10,952.40	2,190.48
67	.....	.....	.....	.....	.....	.....
68	.....	.....	.....	2	4,180.00	2,090.00
Totals & Averages	560	\$1,171,094.93	\$2,091.24	1,336	\$2,690,080.74	\$2,013.53
Total—1,896		Average Salary—\$2,036.49				

TABLE VII. Members Who Have Withdrawn Before Retirement 1940-55

Entrance Age	Members Without Prior Service	Members With Prior Service	PRIOR SERVICE		PRIOR SERVICE SALARIES	
			Total	Average	Total	Average
16	22	.....	.....	.....	\$ .....	\$ .....
17	350	5	4.3	.860	2,763.08	552.62
18	1,218	60	63.0	1.050	32,250.18	537.50
19	1,313	165	201.9	1.223	87,307.58	529.14
20	1,313	295	446.9	1.514	172,832.54	585.78
21	1,473	457	867.0	1.897	293,987.50	643.30
22	1,201	536	1,206.6	2.251	376,760.59	702.91
23	856	516	1,625.8	3.150	377,117.30	730.85
24	694	631	2,458.8	3.896	455,770.53	722.30
25	686	644	2,822.2	4.382	481,804.75	748.14
26	519	633	3,294.3	5.204	471,840.39	745.40
27	454	628	3,750.5	5.972	488,299.67	777.55
28	375	600	3,984.5	6.640	465,655.12	776.09
29	344	577	4,079.5	7.070	447,089.76	774.85
30	328	606	4,695.1	7.747	494,007.52	815.19
31	249	526	4,194.8	7.974	440,781.89	837.99
32	241	506	4,279.9	8.458	423,667.48	837.29
33	191	458	4,025.8	8.789	389,457.15	850.34
34	217	421	3,886.9	9.232	372,335.62	884.41
35	173	402	3,623.7	9.014	348,542.56	867.02
36	159	316	2,978.2	9.424	292,623.01	926.02
37	168	296	2,866.9	9.685	264,385.32	893.19
38	163	246	2,290.1	9.309	224,240.01	911.54
39	121	220	1,976.1	8.982	190,866.09	867.57
40	116	184	1,762.2	9.577	152,562.43	829.14
41	109	172	1,697.4	9.868	156,850.71	914.92
42	90	161	1,662.2	10.324	141,711.49	880.20
43	82	123	1,251.2	10.172	100,164.84	814.35
44	76	111	1,095.4	9.868	86,775.49	781.76
45	76	108	1,150.8	10.655	94,986.97	879.51
46	63	98	935.0	9.540	81,033.67	826.87
47	74	75	715.2	9.536	59,687.26	795.83
48	56	69	641.2	9.292	48,460.57	702.33
49	51	74	880.3	11.895	65,078.22	879.44
50	48	73	852.8	11.682	51,793.52	709.50
51	28	57	584.9	10.261	40,171.15	704.75
52	36	45	501.8	11.151	35,728.57	793.97
53	26	48	519.4	10.820	34,300.55	714.59
54	31	37	419.2	11.329	23,494.19	634.98
55	25	43	478.7	11.132	26,678.66	620.43
56	26	35	406.7	11.620	22,992.76	656.94
57	24	39	492.1	12.617	26,767.29	686.34
58	16	20	215.8	10.790	14,452.82	722.64
59	13	21	294.1	14.004	12,982.72	618.22
60	12	24	309.2	12.883	15,148.33	631.18
61	10	15	213.7	14.246	10,174.82	678.32
62	10	14	157.8	11.271	11,613.85	829.56
63	4	12	127.1	10.592	8,002.25	666.85
64	4	5	66.0	13.200	1,934.66	386.93
65	3	8	129.1	16.138	5,644.14	705.51
66	3	.....	.....	.....	.....	.....
67	5	4	90.0	22.500	3,453.84	863.46
68	1	2	45.0	22.500	1,726.92	863.46
69	1	.....	.....	.....	.....	.....
70-74*	3	4	98.0	24.500	3,453.84	863.46
Totals & Averages	13,950	11,425	77,415.1	6.775	\$8,932,212.17	\$781.81

*Not Eligible for Retirement.

**During the years 1940-55 the number of those withdrawing who did not file professional service records were prorated to columns 2 and 3 on this table.

The state teacher training institutions cannot, or do not, fill the breach made by transferring to other states. There is only one encouraging sign—over 5,000 teachers are taking in-service training this year as they teach.

The conclusion that taxpayers of Kentucky are educating teachers for other states is inescapable. This is because salaries and working conditions are so attractive in other states that teachers leave Kentucky, even though they would prefer to remain here. The remedy lies in financing the Foundation Program.

It is not practical to put in the Annual Report all of the statistical tables. Schools and libraries should maintain a file of Annual Reports for reference by those who may desire more information than is given here. It is not possible now to supply back numbers of all Annual Reports, but there was a time when each was available. Reference is also made to the Teachers Retirement Law, 1954, and the teacher's Handbook, published by the Board of Trustees. Rules and Regulations are mimeographed and distributed after legal filing with the State Legislative Research Commission.

**TABLE IX. Teachers Retired for Age or Disability,
Recovered From Disability, or Deceased
July 1, 1942, Through July 1, 1955**

From June 30, 1942, to and including July 1, 1955, 2,136 members have retired. Of this number, 1,879 retired for age or superannuation, and 257 for disability. Of the number retired, 1,659 are living. During the year three retired teachers died at ages above 90 years, and many are at an advanced age.

There are three points worthy of note:

(1) Teachers should start planning for retirement as early as possible. Secure a home or a life interest in a home. Invest regularly in something secure even though it may be only \$10 a month.

(2) Prepare for at least your life expectancy after retirement. Many teachers retiring in 1942 are still living. Those who have a home and income in addition to their retirement annuity are much better off, enjoy life more and get better care in old age. Old age often brings illness and expense for hospital, medicine, and doctor's bills.

(3) Do not retire too early. Members retiring early at this time get a lower annuity and in old age it is not sufficient.

**TABLE IXa. Deceased Retired Teachers
Age at Death, July 1, 1955**

There is a decline in the number of deaths at the age of 80 years; and a greater number have died at the age of 73 years than at any other age. There were 44 who lived beyond the age of 80. The actual death rate for

TABLE IX
TEACHERS RETIRED FOR AGE OR DISABILITY,
RECOVERED FROM DISABILITY, OR DECEASED
July 1, 1942, Through July 1, 1955

	SUPERANNUATION		DISABILITY			Living Retired At End of Year
	Retirements	Deaths	Retirements	Recovered	Deaths	
1942-43	232	15	14	1	1	229
1943-44	93	14	9	0	3	314
1944-45	71	14	6	0	0	377
1945-46	109	33	11	2	1	461
1946-47	142	26	23	1	4	595
1947-48	111	30	16	0	3	689
1948-49	122	26	14	1	2	796
1949-50	125	42	24	1	6	896
1950-51	167	38	35	2	2	1,056
1951-52	129	48	23	2	6	1,152
1952-53	161	50*	25	1	3	1,284
1953-54	149	38*	24	4	5	1,410
1954-55	149	43	24	3	6	1,531
Sub-total—						
thru 6/30/55	1,760	417	248	18	42	1,531
July 1, 1955	119	.....	9	.....	.....	128
TOTALS	1,879	417	257	18	42	1,659*

*In addition to payments to 1,659 living retired teachers, annuity payments are made to survivors of two teachers who retired under Settlement Options.

the retired men is .02665 per 100,000, and for the women .01891. The average age for retirement for disability is 52.6 years. Teachers age 60 or older cannot retire for disability. If they retire, it must be for age. The earliest retirements for disability were at age 39; the earliest retirements for supranuation, age 48, upon the completion of 30 years of service.

The first teachers retired in 1942-43 with ages ranging up to 83. After that year there was compulsory retirement at age 70. The year 1943-44 is, therefore, a more typical year. Out of the 93 retiring in 1943-44, 54 are living. Deaths have been as follows: seven in 1943-44; three in 1944-45; three in 1945-46; six in 1946-47; two in 1947-48; five in 1948-49; three in 1949-50; three in 1950-51; three in 1951-52; six in 1952-53; two in 1953-54; and three in 1954-55. Two retired for disability, recovered before age 60, and returned to teaching.

The life expectancy of a man retiring at age 70 is 11.6 years; of a woman 14.4 years, a difference of 2.8 years. The early retirements are the more expensive even though the annuity is reduced. For a man retiring at age 60, life expectancy is 17.55 years; for a woman, 21.02 years, a difference of 3.47 years. The age range for living retired teachers is from 39 to 95 years. The number now age 80 or older is, for men 51; and for women 114. The modal age (age of greatest number) for men is 70, and for women 70 years. There are 388 retirants still under the age of 65 years.

TABLE IXa
DECEASED RETIRED TEACHERS

Age at Death

July 1, 1955

Age	Men	Women	Total
42	0	1	1
48	0	1	1
50	0	2	2
51	0	2	2
52	1	4	5
54	3	3	6
56	0	1	1
57	2	3	5
58	1	3	4
59	0	2	2
60	3	7	10
61	2	5	7
62	3	2	5
63	5	6	11
64	8	8	16
65	7	6	13
66	6	7	13
67	4	5	9
68	4	6	10
69	10	10	20
70	11	12	23
71	12	17	29
72	12	16	28
73	13	22	35
74	16	12	28
75	7	14	21
76	13	13	26
77	11	8	19
78	10	10	20
79	11	9	20
80	8	15	23
81	2	7	9
82	1	4	5
83	1	2	3
84	6	2	8
85	1	2	3
86	1	2	3
87	1	3	4
88	1	2	3
89	2	1	3
90	2	1	3
Totals	201	258	459

The number of retired men exceeding the age of 80 before death is 77; the number of women 155. Forty-five have attained the age of 85, and 26 are still living.

The Budget Request for 1956-58 will consist of an estimate of the salaries to be received by the members of the Retirement System mul-

TABLE W
COMPARISON OF BUDGET REQUESTS
WITH APPROPRIATIONS RECEIVED

Biennium	Retirement Budget Request	Received From Appropriations	Deficiency
1940-42	\$ 1,500,000.00	\$ 1,000,000.00	\$ 500,000.00
1942-44	1,719,600.00	1,300,000.00	419,600.00
1944-46	1,945,250.00	1,622,000.00	323,250.00
1946-48	2,340,000.00	1,912,000.00	428,000.00
1948-50	5,393,456.64	5,393,456.64	-----
1950-52	3,258,540.00	3,270,000.00	(11,460.00)
1952-54	4,254,340.00	3,870,804.00	383,536.00
1954-56	4,439,605.00	3,822,000.00	617,605.00
Totals	\$24,850,791.64	\$22,190,260.64	\$2,660,531.00*

*All of this deficiency of \$2,660,531 shows up in the Allowance Reserve Fund from which annuities are paid. See Balance Sheet for Fund balances.

tiplied by 4.4312%, the average contribution of members. To this is to be added \$640,865 for prior service, plus \$75,000 for office expense. The State has paid for the support of the Retirement System \$14,757,702.98 for matching members' contributions, \$4,821,162.79 for prior service, and \$611,138.87 for office administrative expense. During this period, receipts from interest and profits from securities amounted to \$4,592,808.11. Receipts from all sources were \$39,603,585.77.

ACTUARIAL

Periodically the Actuary of the Retirement System makes a long-view study of the needs of the System. The last Balance Sheet prepared by him is required by Law to be included in each Annual Report. The obligation for prior service is always a millstone about the neck of a retirement system, but it is essential for the benefit of teachers who cannot by reason of age pay very much into the Funds. For retired teachers, the obligation for prior service is \$7,275,761.11, and for active teachers with prior service \$6,345,871.91. This is to be amortized by appropriations of \$640,685 per year for 30 years. Three per cent compound interest is assumed and increases the amount to be amortized at that rate.

The amount in the Teachers' Savings Fund and the State Accumulation Fund, totaling \$27,118,732.36, is for subsequent service earned and still valid since July 1, 1941. This amount, plus the interest it will earn, is calculated to be adequate.

From this Balance Sheet it is determined that \$98,759,869.81 put at 3% compound interest would be sufficient to pay the annuities of all retired and active teachers now in the System. Since the System has assets of \$32,616,295.56, it is 33% funded. The System is actuarially sound, but it can be kept that way only by receiving adequate appropriations. See the Fourteenth Annual Report for a full discussion of the last Valuation Balance Sheet and Report of the Actuary.

VALUATION BALANCE SHEET—JULY 1, 1954
WITH ADJUSTMENTS FOR INCREASED ASSETS AND PRIOR
SERVICE OBLIGATIONS AS PER THE DATES INDICATED
(On basis of asumed retirement at age 65)

ASSETS

Current Assets

Cash, 7-1-55	\$ 254,319.91	\$
Investments	32,103,000.00	
Unamortized Premiums, less discount.....	243,723.79	
Accrued Interest on Bonds Purchased....	15,251.86	

Net Current Assets	<u>32,616,295.56</u>
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Deferred Assets: (Present Value on 3% interest assumption, etc.)

(1) Present Value Teachers' contributions mandatory by reason of Subsequent Service, 7-1-54. (A')....	24,961,991.93
(2) Present Value State's contributions mandatory by reason of Subsequent Service, 7-1-54. (A'')..	24,961,991.93
(3) Indicated deficiency from members' future contributions (Amendment 7-1-54)	<u>2,597,957.37</u>

Deferred Assets mandatory by reason of Subsequent Service	<u>\$52,521,941.23</u>
--	------------------------

(4) Actuarial Reserve Deficiency:

Deferred obligations of the Commonwealth of Kentucky. Present Value Accrued obligation mandatory by reason of Prior Service, 7-1-54

Active Members	\$ 5,033,612.71	\$
Members eligible to retire	1,312,259.20	6,345,871.91

(5) Current Assets Deficiency:

Present Value of Accrued Prior Service obligation due retired teachers, 7-1-55	9,403,514.89
Less: State's Prior Service Contributions	<u>2,127,753.78</u>

Net Allowance Reserve Fund

deficit	<u>7,275,761.11</u>
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Deferred Assets mandatory by reason of Prior Service

\$13,621,633.02

TOTAL ASSETS

\$98,759,869.81

VALUATION BALANCE SHEET—JULY 1, 1954
WITH ADJUSTMENTS FOR INCREASED ASSETS AND PRIOR
SERVICE OBLIGATION AS PER THE DATES INDICATED

(On basis of assumed retirement at age 65)

LIABILITIES

Current Liabilities

(1) Expense Fund, 7-1-55	\$	\$ 6,557.01
(2) Teachers' Savings Fund—		
Accumulated Contributions by		
reason of Subsequent Service,		
7-1-55	13,550,350.25	
Voluntary Contributions, Active		
Members, 7-1-55	18,031.86	13,568,382.11
	<hr/>	
(3) State Accumulation Fund—		
Accumulated Contributions		
(State) by reason of Subsequent		
Service, 7-1-55		13,550,350.25
(4) Allowance Reserve Fund:		
Retired Teachers' S.S. Contribu-		
tions with Accumulated In-		
terest, 7-1-55	214,348.86	
State S.S. Contribution, Retired		
Teachers' with Accumulated		
Interest, 7-1-55	455,136.10	
Voluntary Contributions, Retired		
Members, 7-1-55	6,009.98	
State P.S. Contributions, Retired		
Teachers, 7-1-55	2,127,753.78	2,803,248.72
	<hr/>	
(5) Guarantee Fund, 7-1-55		2,687,757.47
		<hr/>
Current Liabilities		<u>\$32,616,295.56</u>

**Deferred Liabilities: (Present Value on
3% interest assumption, etc.)**

(6) Present Value Benefits mandatory by reason of Subsequent Service, active members, 7-1-54 (B')	52,281,535.36
(7) Present Value Benefits mandatory by reason of S.S., members eligible to retire, 7-1-54. (B''').....	240,405.87
	<hr/>
Deferred Liabilities mandatory by reason of S.S. (B' plus B''')	<u>\$52,521,941.23</u>

(8) Present Value Benefits mandatory by reason of Prior Service, 7-1-54	
Active Members (B)	5,033,612.71
Members eligible to retire (B'')	1,312,259.20
	<hr/>
	6,345,871.91
(9) Present Value Benefits mandatory by reason of Prior Service—	
Retired Teachers (B'''), 7-1-55	9,403,514.89
Less: State's Prior Service	
Contributions	2,127,753.78
	<hr/>
	7,275,761.11
Deferred Liabilities mandatory by reason of Prior Service	13,621,633.02
TOTAL LIABILITIES	<hr/> <hr/>
	\$98,759,869.81

BALANCE SHEET TEACHERS RETIREMENT SYSTEM

June 30, 1955

This Balance Sheet is as of June 30, and that of the Actuary as of July 1, and all items will not be exactly identical by reason of transfers of credit among Funds on July 1, 1955. Both reflect the assets of the System to be \$32,616,295.56. The State's contribution designated as "permanent" is the matching contribution, and that designated as "temporary" is for prior service. The "temporary" contribution will cease when all prior service is paid for.

FINANCIAL

It is not usually recognized that the Teachers' Retirement Office is one of the largest banking and investment businesses in the State. With 25,571 active accounts receiving interest each month, and 22,077 accounts receiving contributions for from eight to twelve months each year, all of which are kept in balance and in good order constantly, it is almost unbelievable that such a small staff could accomplish it.

The coming and going of every teacher in the State is reflected in the bookkeeping of the Retirement Office. Accounts are set up for new members, transfers from district to district on the ledgers and controls, refunds for deaths and withdrawals, the personal contributions for reinstatement, military leave, leave for other reasons, changes in beneficiary, changes in names by reason of marriage, contributions by members on deferred retirement, are only a partial listing of the financial transactions.

Last year (1954-55) 31 members were on deferred retirement, 93 on leave of absence, 16 regular substitute teachers, 76 taught a part of the year and paid for the full year, 26 were in military service, 10 paid for

BALANCE SHEET
TEACHERS' RETIREMENT SYSTEM
June 30, 1955

ASSETS

Cash, Unencumbered,		
All Funds	\$ 249,435.01	
Cash, Encumbered	4,884.90	
Investments		\$ 254,319.91
Deferred Charges:		32,103,000.00
Unamortized Premium on		
Investments	\$ 292,813.44	
Accrued Interest		
Purchased	15,251.86	
Sub-total	308,065.30	
Unamortized Discount on		
Investments	49,089.65	258,975.65
TOTAL ASSETS		\$32,616,295.56

LIABILITIES AND FUND BALANCES

Expense Fund Encumbrances		
(See Schedule 1)		4,884.90
Fund Balances:		
Expense Fund	1,672.11	
Teachers' Savings Fund...	13,693,178.12	
State Accumulation Fund	13,693,178.12	
Guarantee Fund	2,687,757.47	
Voluntary Contributions,		
Active Members	18,031.86	
Allowance Reserve Fund:		
Teachers' Contributions	77,530.97	
State "Permanent"		
Contributions	312,308.23	
State "Temporary"		
Contributions	2,127,753.78	2,517,592.98
Total Fund Balances		32,611,410.66
TOTAL LIABILITIES AND		
FUND BALANCES		\$32,616,295.56

out-of-state service, 17 reinstated withdrawn accounts, 67 corrected dues on former years, 51 made voluntary contributions, and others under various sections of the Law made personal contributions.

The Trial Balance for the year shows that the Retirement Office handled approximately \$40,000,000 during the year, and at a cost of

\$68,889.71, which is 17 ten-thousandths of 1% of the funds handled. We challenge any private business to do as well.

The cost of operation of the office is limited to 4% of the receipts of the State Accumulation Fund, and not of the receipts of all the Funds. The receipts of the State Accumulation Fund were \$1,753,438.35, and 3.93% of this amount was expended for administration. During the fiscal year of operation 1940-41, there was no limit on expenditures. A table of Cost of Administration follows. The total cost of administration for the 15 years is \$611,138.89, all of which is paid by the State.

Due to the sale and maturity of \$2,409,233.78 of the U. S. Treasury Bonds, receipts are larger than normal. On the bonds sold a profit was made on each issue, and the receipts were invested at a higher yield. It is the policy of the Board to sell securities if a profit can be made and if reinvestment at a higher yield is possible. Interest and profits over the 15 years amount to \$4,592,808.11, which is equal to 14% of the assets. Much of this interest has been used, but the proper proportion is in the reserves. When the Retirement System reaches its maturity, the interest on the reserves will pay one-half the cost of the annuities. This is one of the advantages of a reserve system.

COST OF ADMINISTRATION TEACHERS' RETIREMENT SYSTEM

July 1, 1940, to June 30, 1955

Year	Receipts of State Accumulation Fund (for Matching & P.S.)	Administrative Expenses	Per Cent of Receipts
1940-41	\$ 476,089.49	\$23,669.88	4.97%
1941-42	481,713.03	18,232.93	3.79%
1942-43	627,680.61	22,317.03	3.56%
1943-44	625,300.00	24,633.20	3.94%
1944-45	772,866.80	25,908.68	3.35%
1945-46	791,641.32	31,390.43	3.97%
1946-47	919,490.57	36,039.67	3.92%
1947-48	919,960.33	36,409.41	3.96%
1948-49	1,434,834.59	41,059.78	2.90%
	2,439,606.64*		
1949-50	1,434,315.22	43,396.76	3.03%
1950-51	1,577,988.24	52,324.68	3.32%
1951-52	1,580,070.32	58,303.98	3.69%
1952-53	2,102,681.02	57,490.72	2.73%
1953-54	1,649,688.28	61,165.65	3.71%
1954-55	1,753,438.35	68,889.71**	3.93%

* The amount of the special Prior Service appropriation in 1948-49 \$2,439,606.64, was not included in Receipts of State Accumulation Fund for this computation.

**Net amount of 1954-55 administrative expenses after liquidation of outstanding encumbrances.

STATEMENT OF RECEIPTS AND DISBURSEMENTS

TEACHERS' RETIREMENT SYSTEM

for the Period July 1, 1954-June 30, 1955

CASH BALANCE, ALL FUNDS,

JULY 1, 1954

\$ 103,894.45

Receipts:

Teachers' Savings\$1,600,804.58

Reinstatements 5,240.32

Voluntary Unmatched

Contributions 5,991.18

Total from Members.....

\$1,612,036.08

State Contributions:

Administrative Expenses 70,000.00

Matching Funds for 1954-55

and 1955-56 2,503,043.20

Temporary Contribution for

Prior Service 151,231.80

2,724,275.00

Interest Collections on

Investments 752,339.32

U. S. Treasury Bonds Paid at

Maturity or Sold at a Profit

2,409,233.78

Annuity Checks Returned.....

3,114.07

Total Receipts

7,500,998.25

TOTAL CASH AVAILABLE.....

\$7,604,892.70

Disbursements:

Administrative Expenses Cur-

rent Year (Schedule 2).....

63,442.99

Liquidation of Prior Year

Encumbrances 4,655.80

68,098.79

Refunds for Withdrawal from

Membership 350,971.62

Retirement Allowance

Payments:

Superannuation 820,563.23

Disability 90,987.94

Voluntary 586.32

912,137.49

Purchases of Investments.....

6,019,364.89

Total Disbursements

\$7,350,572.79

CASH BALANCE, ALL FUNDS, JUNE 30, 1955.....

\$ 254,319.91

ANALYSIS OF RECEIPTS
TEACHERS' RETIREMENT SYSTEM
Fiscal Years 1940-41 through 1954-55

Date	Teachers' Savings*	Re- instatements	State Matching Contribution	State Prior Service Contribution	State Contribution for Expenses	Interest and Profit	Total Receipts
7/1/40 - 6/30/44	\$ 2,063,716.64	\$ 675.28	\$ 2,063,636.92	\$ 146,846.21	\$ 89,516.87	\$ 161,132.57	\$ 4,525,574.49
1944-45	646,738.13	1,532.32	646,559.38	126,240.62	26,200.00	115,572.02	1,562,842.47
1945-46	659,667.42	1,710.26	658,004.24	133,345.76	31,650.00	163,671.56	1,648,049.24
1946-47	867,521.73	2,868.82	867,222.82	52,008.18	36,769.00	180,529.08	2,006,919.63
1947-48	1,010,250.24	2,027.34	867,231.00	52,000.00	36,769.00	221,023.20	2,189,300.78
1948-49	1,105,134.40	537.41	1,247,642.85	2,626,438.79	41,500.00	318,688.22	5,339,941.67
1949-50	1,181,924.12	1,049.89	1,181,632.98	252,242.02	44,000.00	429,361.89	3,090,210.90
1950-51	1,251,317.46	4,002.05	1,250,896.04	326,488.96	52,615.00	399,979.09	3,285,298.60
1951-52	1,413,081.57	4,290.75	1,410,675.96	169,104.04	60,220.00	528,127.92	3,535,500.24
1952-53	1,470,569.81*	3,887.05	1,460,497.62	640,267.38	59,039.00	610,139.97	4,244,400.83
1953-54	1,509,971.81*	6,262.44	1,503,190.97	144,949.03	62,860.00	688,046.72	3,915,280.97
1954-55	1,606,795.76	5,240.32	1,600,512.20	151,231.80	70,000.00	776,485.87	4,210,265.95
TOTALS	\$14,786,689.09	\$34,083.93	\$14,757,702.98	\$4,821,162.79	\$611,138.87	\$4,592,808.11	\$39,603,585.77

* Includes Voluntary Unmatched Contributions.

REFUNDS
Teachers' Retirement System
July 1, 1940, to June 30, 1955

Date	Withdrawals		Deceased		Special		Total	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
1940-44	2,654	\$ 106,474.07	148	\$ 11,447.66	21	\$ 231.76	2,823	\$ 118,153.49
1944-45	914	48,760.45	52	6,567.58	8	168.27	974	55,496.30
1945-46	1,621	103,926.44	61	8,654.01	7	71.37	1,689	112,651.82
1946-47	2,161	135,006.00	37	6,298.25	19	467.06	2,217	141,771.31
1947-48	1,759	128,236.67	55	12,866.81	18	478.03	1,832	141,581.51
1948-49	2,048	152,409.50	68	18,104.35	13	137.90	2,129	170,651.75
1949-50	1,938	176,872.29	48	14,917.02	23	286.43	2,009	192,075.74
1950-51	2,709	243,534.94	84	28,475.11	19	466.51	2,812	272,476.56
1951-52	2,384	243,689.14	67	28,461.17	16	552.63	2,467	272,702.94
1952-53	2,954	288,013.06	72	24,405.01	4	53.51	3,030	312,471.58
1953-54	2,268	278,483.49	51	32,243.80	9	155.22	2,328	310,882.51
1954-55	2,164	313,019.33	47	37,659.91	13	292.38	2,224	350,971.62
TOTALS	25,574	\$2,218,425.38	790	\$230,100.68	170	\$3,361.07	26,534	\$2,451,887.13

**RETIREMENT ALLOWANCES PAID
TEACHERS' RETIREMENT SYSTEM
July 1, 1942, through June 30, 1955**

Year	Cause of Retirement		Funds from which Paid			Total	Percentage Paid from State "Temporary" Funds
	Age	Disability	TC	SC(Perm.)	SC(Temp.)		
1942-43	\$ 62,439.36	\$ 1,426.56	\$ 15,791.10	\$ 15,215.22	\$ 32,859.60	\$ 63,865.92	51.5%
1943-44	80,761.09	2,316.70	9,491.37	8,345.75	65,240.67	83,077.79	78.5%
1944-45	101,589.73	2,862.12	14,258.05	11,527.58	78,666.22	104,451.85	75.3%
1945-46	130,057.95	3,803.48	24,692.91	13,686.44	95,482.08	133,861.43	71.3%
1946-47	201,523.60	13,866.57	40,215.35	28,118.59	147,056.23	215,390.17 (a)	68.3%
1947-48	234,395.83	17,978.71	38,185.99	31,348.35	182,840.20	252,374.54	72.4%
1948-49	268,804.55	20,763.60	46,017.03	29,902.32	213,648.80	289,568.15	73.8%
1949-50	306,449.13	24,918.44	57,683.56	36,823.79	236,860.22	331,367.57	71.5%
1950-51	466,318.45	51,224.27	90,904.36	66,228.19	360,410.17	517,542.72 (b)	69.6%
1951-52	516,131.59	58,080.73	86,685.31	68,091.54	419,435.47	574,212.32	73.0%
1952-53	580,791.54	66,293.72	120,169.70	67,935.42	458,980.14	647,085.26	70.9%
1953-54	651,556.68	73,639.60	137,788.76	93,637.63	493,769.89	725,196.28	68.1%
1954-55	818,463.88	90,559.54	155,608.13	123,280.98	630,134.31	909,023.42 (c)	69.3%
TOTALS	\$4,419,283.38	\$427,734.04	\$837,491.62	\$594,141.80	\$3,415,384.00	\$4,847,017.42 (d)	70.5%

(a) Minimum allowance raised to \$10 per service credit year not to exceed 30 years.

(b) Minimum allowance raised to \$16 per year of service credit.

(c) Minimum allowance raised to \$18 per year of service credit for maximum of 35 years.

(d) 17.3% of allowance payments from funds paid by teachers, 82.7% of payments from State matching fund and "temporary" contributions.

ANALYSIS OF INVESTMENTS HELD AS OF JULY 21, 1955
to show annual yield rate
Teachers' Retirement System
July 26, 1955

	Par Value	Interest Collection Per Year	Premium (Discount) Amortization	Net Interest Earning	Annual Yield
Registered, By Subscription at Par:					
U. S. Treasury Bonds 2½%	\$ 5,200,000.00	\$130,000.00	\$	\$130,000.00	2.500%
U. S. Treasury Bonds 2.760%	600,000.00	16,560.00	.....	16,560.00	2.760%
Registered, By Subscription at Premium:					
U. S. Treasury Bonds 2¾%	11,000,000.00	302,500.00	7,245.04	295,254.96	2.684%
Coupon Bonds, By Subscription at Par:					
U. S. Treasury 2½%, 2¾%, 3%, & 3¼%	2,524,000.00	74,035.00	.....	74,035.00	2.933%
Ky. Dept. Highways, Turnpike Revenue	300,000.00	10,200.00	.....	10,200.00	3.400%
School Building Revenue & Corporate	215,000.00	6,512.50	.....	6,512.50	3.029%
Coupon Bonds, Purchased at Premium:					
U. S. Treasury 2½%	1,400,000.00	35,000.00	346.90	34,653.10	2.475%
U. S. Treasury 3¼%	1,200,000.00	39,000.00	1,697.42	37,302.58	3.108%
U. S. Treasury 3%	3,210,000.00	96,300.00	273.70	96,026.30	2.991%
Highway Bonds, Ky., La., & Conn.	451,000.00	14,705.00	753.68	13,951.32	3.093%
Voted Bonds & School Revenue	1,373,000.00	43,260.00	1,435.98	41,824.02	3.046%
Corporate, Mortgage & Debenture	2,540,000.00	79,318.75	2,079.54	77,239.21	3.040%
Coupon Bonds, Purchased at Discount:					
U. S. Treasury 2½%	1,000,000.00	25,000.00	(1,764.20)	26,764.20	2.676%
U. S. Treasury 3¼%	300,000.00	9,750.00	(58.12)	9,808.12	3.269%
Highway Bonds, Kentucky & Louisiana	760,000.00	23,400.00	(351.34)	23,751.34	3.125%
School Building Revenue Bonds	690,000.00	19,962.50	(416.50)	20,379.00	2.953%
TOTALS	\$32,763,000.00	\$925,503.75	\$11,242.10	\$914,261.65	

NET YIELD—\$914,261.65 ÷ \$32,763,000.00 = 2.79053%

RECAPITULATION OF INVESTMENTS
Teachers' Retirement System of the State of Kentucky
June 30, 1955

Schedule 3

	"A" & "B" Registered	"C" Coupon At Par	"D" Coupon At Premium	"E" Coupon At Discount	Total
U. S. Treasury Bonds, purchased at par.....	\$ 5,800,000.00	\$2,224,000.00	\$	\$	\$
U. S. Treasury Bonds, exchanges and purchases at premium	11,000,000.00	.....	5,600,000.00	.....	.....
U. S. Treasury Bonds, purchased at discount	.....	.....	.....	1,300,000.00	25,924,000.00
State Obligations, purchased before Law amended by 1954 General Assembly.....	.....	.....	165,000.00	360,000.00	525,000.00
Obligations of Commonwealth of Kentucky, or Kentucky Departments .....	.....	300,000.00	286,000.00	400,000.00	986,000.00
Voted Bonds, School Improvement Bonds, School or Educational Revenue Bonds, Maximum 16% .....	.....	115,000.00	1,273,000.00	640,000.00	2,028,000.00
Corporate Bonds, Mortgage or Debentures, Maximum 8% .....	.....	100,000.00	2,540,000.00	.....	2,640,000.00
TOTAL—through purchase No. 298.....	\$16,800,000.00	\$2,739,000.00	\$9,864,000.00	\$2,700,000.00	\$32,103,000.00

Statement of Analysis of Receipts shows the receipts of the System since its beginning to be \$39,603,585.77. The State has liquidated about 25% of the obligation for prior service. More than one-half of this was received in one Administration, that of Governor Earle C. Clements. The obligation for prior service would have been paid but for the regular increase each four years of the retirement allowances of retired teachers. Those who think the minimum retirement allowance should be \$100 per month should realize that such a procedure would increase the obligation for prior service to about \$25,000,000 from the present level of \$13,-621,633.02, not including the amount already paid of \$4,821,162.79.

When a member dies or leaves the profession permanently, or what is thought to be permanently, a refund of her account is made. A few return to teaching again, and if they return before an absence of more than three years, they may return the refund plus interest and reinstate, provided they do so during the first semester of service. The average amount refunded during the 15 years is about \$163,459. It is noted that the number of withdrawals remains about the same, but the trend in amount is upward, due to larger contributions as the average age of the teachers advance and their salaries increase.

Since teachers retiring now and formerly have a service record dominated by prior service, 70.5% of annuities and allowances for 1954-55 was paid from prior service appropriations from the State and interest thereon. Of the \$4,847,017.42 paid, 17.3% has come from the teachers' contributions. As teachers accumulate more membership service credit, this percentage will increase and the cost to the State will decrease from the present 82.7%. This trend would be visible now but for the regular increases in retirement allowances of retired teachers. Increases were made by Legislative action in 1946, 1950, and 1954.

The bonds yielding 2½% are nearly all U. S. Treasury Series "G". As they mature now the amounts not used currently will be invested to yield approximately 3%. The loss on selling the \$1,400,000 yielding 2.475% is too great to warrant their sales for reinvestment on the present market. The average yield on the portfolio is 2.79% and it is moving upward.

Slightly more than one-half of the portfolio is invested in U. S. Treasury registered bonds. On registered bonds the Treasury mails a check for the semiannual interest, which saves several hours of work on clipping coupons.

The corporate bonds are all from utility corporations, such as Commonwealth Edison, American Telephone and Telegraph, and similar issues, all have a standard rating of highest or next highest.

There has been no default or delay in payment of interest or principal, and none is anticipated. The net yield of all investments is a little over 2.79% and amounts to \$914,261.65 per annum. In course of time the interest on the Funds should amount to approximately one-half of the cost of annuities, leaving one-fourth to be paid by the teachers and one-fourth by the State in appropriations.

STATE AUDITOR'S REPORT

On account of recent losses from his staff, the State Auditor was not able to audit the Teachers' Retirement System for the year 1954-55 prior to the date on which the Annual Report must be submitted to the State Printer, and for that reason, we are including "COMMENTS" from the last State Auditor's Report for the year 1953-54.

We expect that the State Auditor will complete an audit of the Teachers' Retirement System within the next month.

"COMMENTS

"The examination of the records of the Teachers' Retirement System for the year ending June 30, 1954 included a review of all receipts and disbursements of funds, the activities and management of the System in relation to its divisions of service to members and a check on the observance of the laws of the State, governing the maintenance of the System.

"Strict compliance with the provisions of the statute is maintained, and the financial records of the System are in reconciliation with the records of the Finance Department and the State Treasury Department.

"This audit was made as of June 30, 1954, ending of the fiscal year. All figures herein are as they appear in the records of the System on that date.

"Adjustments made by outstanding encumbrances, and transfers between accounts as provided by law, result in reconciliation with the records of the Finance and Treasury Departments.

"The Treasury Department shows investments of \$28,684,000.00 as of June 30, 1954. The System's records show total investments of \$28,681,995.96, a difference of \$2,004.04. The Treasury carries a purchase of U. S. 91-day bills at maturity value \$750,000.00 whereas the System carries them at the purchase value \$747,995.96, a difference of \$2,004.04

"The average yield on all investments is 2.68103%—an increase over the prior year yield of .03503%.

"The fund balance of the System, under the provisions of KRS 161.420 is allotted to various sub-funds, as provided in that section of the law.

"All receipts of the System are now credited to one major controlling fund balance, then allotted to the proper sub-fund in a subsidiary ledger. Under the law, the various sub-funds are dependent upon each other, and various transfers between the funds are provided.

"The report and statements herein show the condition of the Teachers' Retirement System as a whole and not as a number of separated legal entities. This method eliminates duplicate bookkeeping, effects economy in the keeping of all records and meets all provisions of the law.

"In this report and in future reports, the portion of the expense fund, allotted for capital outlay, is not and will not be shown as fixed assets on

the balance sheet. However, records are kept on the actual physical inventory of furniture, fixtures and equipment but the monetary value will not be included in financial reports.

"It is our opinion that all funds coming into the System are properly accounted for; that the status of the System may be ascertained at any time desired; that the actuarial set-up is such that any member may ascertain his or her standing in the System promptly upon application; and the management is complying fully with the provisions of the statutes."

"Frankfort, Kentucky
December 10, 1954

"Honorable Lawrence Wetherby
Governor of Kentucky
Frankfort, Kentucky

Dear Governor Wetherby:

"We submit herewith report of our audit of the Teachers' Retirement
System of the State of Kentucky, for the year ending June 30, 1954.

"This examination was made by D. H. Starnes, under my supervision.

"Respectfully,

(Signed) T. H. Tinsley
T. H. Tinsley
Auditor of Public Accounts"