

Twenty-second Annual Report
of the
TEACHERS' RETIREMENT SYSTEM
OF THE
STATE OF KENTUCKY

1961-62



DECEMBER, 1962

TEACHERS' RETIREMENT SYSTEM
of the
STATE OF KENTUCKY

December 27, 1962

Honorable Bert T. Combs
Governor of Commonwealth of Kentucky
Frankfort, Kentucky

Dear Governor Combs:

We transmit herewith in accordance with the provisions of Section 161.320 of the Kentucky Revised Statutes the Twenty-second Annual Report of the Teachers' Retirement System of the State of Kentucky.

You will perhaps recall that in the Twenty-first Report an audit report was included covering the three years 1958-59 to 1960-61. This report was made by a firm of Certified Public Accountants. At that time the Board of Trustees established a policy of conducting audits each two years and thus there is no audit report herein. Such a report will be included in the Twenty-third Report.

As has been often indicated in the past, the Teachers' Retirement System continues to operate on a sound financial basis. This is due, in no small part, to the tax program which you established and the budgetary provisions made therefrom. On behalf of the Board of Trustees and the teachers we express our collective appreciation.

Respectfully yours,

Edna Lindle
Chairman, Board of Trustees

James L. Sublett
Executive Secretary
Teachers' Retirement System
of the State of Kentucky

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TEACHERS' RETIREMENT SYSTEM
STATE OF KENTUCKY

BOARD OF TRUSTEES

Elected by members:

W. S. Milburn, Chairman..... Louisville
Mrs. Edna Lindle, Vice Chairman..... Henderson
Mrs. James Sheehan..... Danville
Ted Crosthwait..... Bardstown

Ex-officio:

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

STAFF

James L. Sublett, Executive Secretary
Vera Beckham, Assistant Secretary
William Ray Holt, Administrative Officer
L. C. Cortright, Actuary

Joan Burke	Susan Leathers	Isabelle Royalty
Polly Casey	Alean McDonald	Martha C. Sudduth
Anna Mae Connelly	Helen N. Meade	Anna Jean Tracy
Nancy G. Cosby	Elizabeth Merchant	Doris W. Ward
Wilma Gaines	Amanda Owens	William D. Wentworth
Edna Inman	Jean L. Pulliam	Dorothy L. Wood
		Frances Wright

PART I. LEGISLATION

During the 1962 session of the General Assembly a number of important changes were made in the Teachers' Retirement Statutes. Without additional cost to either members or the Commonwealth significant improvement was accomplished. The following provisions were written into the law:

1. Eliminate sex differential in annuities to men and women.
2. Substantial increases in survivors benefits.
3. Eliminate one-half salary maximum as applied to minimal annuities.
4. "Vesting" after 15 years of service to be exercised at age 60.
5. Credit for Armed Forces Service prior to membership in the Teachers' Retirement System.
6. Reduce continuous service requirement for disability retirement to one year instead of five years.
7. Transfer out-of-state service by members, not to exceed sixteen years.
8. Waiver of annuity with return to teaching for person less than age 70.
9. Extend deferred retirement privilege from age 60 to 65.

These amendments resulting in larger payments to survivors, upward adjustment in annuity to about twenty percent of retired teachers, and an improved retirement system structure were accomplished without any increase in the cost to either members or the Commonwealth.

PART II. FINANCIAL STATEMENTS

Perhaps no documents reveal the true position of an organization as do the Balance Sheet and Statement of Receipts and Disbursements. These statements of the Teachers' Retirement System presented herewith reveal the very sound fiscal condition of the funds. This is borne out by the actuarial balance sheet set forth in another section.

It seems worth noting that again administrative costs, expressed as a percentage of current receipt from legislative appropriation, declined. In fact in only one previous year was there a lower administrative cost.

Attention is directed to the source of Allowance Reserve Fund payments. As most members are aware, the Allowance Reserve Fund is that fund from which benefits are paid to retired teachers. Since 1943 slightly in excess of 18 million dollars has been paid to retired teachers in benefits. Of this amount almost 15 million dollars has been paid by the Commonwealth.

Refund of accounts reversed the situation in the previous fiscal year and increased. However, the increase was not so marked as might have been expected and has been exceeded in several other years.

BALANCE SHEET

Teachers' Retirement System

June 30, 1962

ASSETS

Cash, Unencumbered, All Funds	\$ 674,059.87	
Cash, Encumbered	87,948.58	\$ 762,008.45
Investments		89,652,215.07

Deferred Charges:

Unamortized Premium on Investments	\$851,976.90	
Accrued Interest Purchased	37,185.45	
Sub-total	\$ 889,162.35	
Unamortized Discount on Investments	590,779.49	298,382.86

TOTAL ASSETS \$90,712,606.38

**LIABILITIES AND
FUND BALANCES**

Expense Fund Encumbrances
and Escrow Items..... \$ 87,948.58

Fund Balances:

Expense Fund	\$ 3,753.53	
Teachers' Savings Fund.....	42,012,131.69	
State Accumulation Fund....	42,012,131.69	
Guarantee Fund	4,760,384.55	
Voluntary Contributions, Active Members	116,243.60	
Allowance Reserve Fund.....	1,720,012.74	
Total Fund Balances		\$90,624,657.80

TOTAL LIABILITIES
AND FUND BALANCES... \$90,712,606.38

STATEMENT OF RECEIPTS AND DISBURSEMENTS
Teachers' Retirement System
for the Period July 1, 1961—June 30, 1962

CASH BALANCE, ALL FUNDS—JULY 1, 1961.....		\$ 726,503.66
Receipts:		
Teachers' Savings	\$6,311,472.35	
Regular Reinstatements.....	12,715.21	
Partially Matched Reinstatements	107,615.86	
Voluntary Unmatched Contributions	32,830.19	
Total from Members		\$ 6,464,633.61
State Contributions:		
"Permanent"—to match Teachers' Savings	\$6,309,696.04	
"Temporary"—to reduce Prior Service Obligation..	1,119,118.96	
Administrative Expense	171,185.00	\$ 7,600,000.00
Interest Collected, Bonds Redeemed or Sold.....		19,661,085.72
Annuity Checks Returned, Benefit Adjustments		11,715.28
Total Receipts		33,737,434.61
TOTAL CASH AVAILABLE...		\$34,463,938.27
Disbursements:		
Administrative Expenses Current Year	\$ 166,321.69	
Liquidation of Prior Year Encumbrances	4,369.31	\$ 170,691.00
Refunds for Withdrawal from Membership	\$ 840,855.29	
Death Benefit Payments— members deceased before retirement	32,000.00	
Retirement Allowance Payments	3,324,740.22	4,197,595.51
Purchases of Investments.....		29,333,643.31
Total Disbursements		\$33,701,929.82
CASH BALANCE, ALL FUNDS—JUNE 30, 1962.....		<u>\$ 762,008.45</u>

ANALYSIS OF RECEIPTS
 Teachers' Retirement System
 Fiscal Years 1940-41 through 1961-62

Date	Teachers' Savings*	Rein-statements	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	\$ 147,146.21	\$ 89,216.87	\$ 161,182.57	\$ 4,525,574.49
7/1/44-6/30/48	3,184,177.52	8,138.74	3,039,017.44	363,594.56	131,388.00	680,795.86	7,407,112.12
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	3,585,500.24
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
1955-56	2,706,333.97*	5,730.97	1,929,901.00	.....	70,355.00	908,548.21	5,620,869.15
1956-57	3,409,800.55*	6,946.98	3,396,749.24	611,125.76	89,000.00	1,082,779.34	8,596,401.87
1957-58	3,533,508.21*	4,583.72	3,523,551.57	612,278.43	125,225.00	1,557,061.91	9,356,208.84
1958-59	3,877,031.28*	7,026.22	3,858,543.67	479,306.33	129,350.00	1,638,554.23	9,989,811.73
1959-60	4,198,829.94*	10,015.71	4,184,427.58	281,225.77	178,146.65	2,045,440.74	10,898,086.39
1960-61	5,826,133.35*	391,207.80	5,790,585.89	1,173,039.11	161,375.00	2,537,175.78	15,879,516.93
1961-62	6,344,302.54*	120,331.07	6,309,696.04	1,119,118.96	171,185.00	2,902,788.98	16,967,422.59
	\$44,682,628.93	\$579,926.40	\$43,751,157.97	\$9,097,557.15	\$1,535,475.52	\$17,265,157.30	\$116,911,903.27

*Includes Voluntary Unmatched Contributions.

SOURCE OF ALLOWANCE RESERVE FUND PAYMENTS

Teachers' Retirement System

July 1, 1942, through June 30, 1962

Year	Total Benefits	Paid from Teachers' Contributions	Paid from State Funds:		Percentage Paid from State "Temporary" Funds
			Matching Contribution	Prior Service Contribution	
1942-43	\$ 63,865.92	\$ 15,791.10	\$ 15,215.22	\$ 32,859.60	51.5%
1943-44	83,077.79	9,491.37	8,345.75	65,240.67	78.5%
1944-45	104,451.85	14,258.05	11,527.58	78,666.22	75.3%
1945-46	133,861.43	24,692.91	13,686.44	95,482.08	71.3%
	Minimum \$10/year (limit 30 years)				
1946-47	215,390.17	40,215.35	28,118.59	147,056.23	68.3%
1947-48	252,374.54	38,185.99	31,348.35	182,840.20	72.4%
1948-49	289,568.15	46,017.03	29,902.32	213,648.20	73.8%
1949-50	331,367.57	57,683.56	36,823.79	236,860.22	71.5%
	Minimum \$16/year (limit 30 years)				
1950-51	517,542.72	90,904.36	66,228.19	360,410.17	69.6%
1951-52	574,212.32	86,685.31	68,091.54	419,435.47	73.0%
1952-53	647,085.26	120,169.70	67,935.42	458,980.14	70.9%
1953-54	725,196.28	137,788.76	93,637.63	493,769.89	68.1%
	Minimum \$18/year (limit 35 years)				
1954-55	909,023.42	155,608.13	123,280.98	630,134.31	69.3%
1955-56	982,596.56	164,026.16	130,416.71	688,153.69	70.0%
1956-57	1,049,427.01	184,815.47	119,989.90	744,621.64	71.0%
1957-58	1,138,397.08	235,990.95	126,817.43	775,588.70	68.1%
	Minimum \$25/year (years not limited)				
1958-59	1,819,873.84	395,932.80	233,975.69	1,189,965.35	65.4%
1959-60	1,950,244.95	430,754.17	271,427.76	1,248,063.02	64.0%
	Minimum \$40/year for career teachers				
1960-61	3,015,564.82	529,515.82	424,639.95	2,061,409.05	68.4%
1961-62	3,259,235.55	579,979.44	381,099.15	2,298,156.96	70.5%
TOTALS	\$18,062,357.23	\$3,358,506.43	\$2,282,508.39	\$12,421,342.41	68.8%

For the twenty-year period only 18.6% of aggregate benefit payments have been derived from teachers' individual savings accounts.

COST OF ADMINISTRATION
Teachers' Retirement System
July 1, 1940 through June 30, 1962

Year	Receipts of State Accumulation Fund (for Matching & Prior Service)	Administrative Expenses	Percentage 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
1955-56	2,693,326.38	69,548.14	2.58
1956-57	4,008,681.86	88,407.80	2.21
1957-58	4,261,055.00	111,868.14	2.62
1958-59	4,337,850.00	128,489.00	2.97
1959-60	4,465,653.35	164,768.85**	3.68
1960-61	6,963,625.00	170,103.70	2.44
1961-62	7,428,815.00	170,691.00	2.30

*Special appropriation for prior service is not reflected in administrative expense computations.

**Includes non-recurring capital outlay expenditure of \$33,500 for accounting machines charged off in one year instead of being amortized over the life of the equipment.

**COMPARISON OF BUDGET REQUESTS
WITH APPROPRIATIONS RECEIVED
July 1, 1940, through June 30, 1962**

Biennium	Request Budget	Appropriations	Not Appropriated
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
1956-58	8,356,705.00	8,356,705.00	.....
1958-60	9,343,215.00	9,111,000.00	232,215.00
1960-62	14,725,000.00	14,725,000.00	.....
Totals	\$57,275,711.64	\$54,382,965.64	\$2,892,746.00

REFUNDS
Teachers' Retirement System
July 1, 1940, to June 30, 1962

Date	Withdrawals		Deceased		Special		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
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	236.43	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	2,334	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
1955-56	2,102	324,571.79	67	53,222.51	13	226.68	2,182	378,020.98
1956-57*	1,832	381,015.98	67	63,100.03	10	502.87	1,909	444,618.88
1957-58*	2,183	422,166.84	60	63,459.52	11	176.36	2,254	485,802.72
1958-59*	2,153	432,917.49	59	66,659.22	198	4,946.17	2,410	504,522.88
1959-60*	2,642	599,648.10	69	94,122.66	66	2,053.57	2,777	695,824.33
1960-61*	1,672	517,682.44	53	79,564.69	52	2,145.72	1,777	599,392.85
1961-62*	2,170	724,209.15	69	114,005.25	42	1,770.96	2,281	839,985.36
TOTALS	40,328	\$5,620,637.17	1,234	\$764,234.56	562	\$15,183.40	42,124	\$6,400,055.13

*Does not include Refunds of Voluntary Unmatched Contributions.

ANALYSIS OF ACCOUNTS REFUNDED 1961-62
Teachers' Retirement System of the State of Kentucky

REASONS FOR WITHDRAWAL	Males	Females	TOTAL
Other Teaching Employment:			
State of Ohio	39	76	115
State of Florida.....	22	26	48
State of Indiana.....	14	19	33
Other States	57	85	142
Outside Limits of U. S. A.....	.....	4	4
Kentucky College or School not covered by Teachers' Retirement System.....	23	40	63
Non-Teaching Employment:			
Entered Business or Industry.....	157	72	229
Church-Related Profession	63	12	75
Medical Profession	7	3	10
Legal Profession	5	1	6
Military Service	29	4	33
Further Training & Education.....	53	44	97
Homemaking, Family Duties, Children.....	.....	349	349
Husband Transferred Within Kentucky.....	.....	3	3
Husband Transferred Out of Kentucky.....	.....	116	116
Moved Residence to Another State.....	64	258	322
Emergency Teacher, Lack of Training, Not Re-Employed	53	154	207
Salary Too Low	27	14	41
Needed the Money	10	10	20
Disliked Teaching	9	9	18
Personal Reasons	48	85	133
Illness of Member	17	45	62
Death of Member	24	45	69
Absent From Profession 4-6 Years.....	5	28	33
Lost Service Credit, Absent 7 or More Years..	2	9	11
TOTALS	728	1,511	2,239

PART III. INVESTMENTS

Income from the investment of the several funds of the Retirement System is an increasingly important source of revenue. As it has been possible to secure a more flexible and intelligent investment policy through legislative amendment and Board of Trustees policy the rate of return from our investments has risen steadily. This upward rise makes it possible to show a net yield on the entire portfolio as of June 30, 1962, slightly exceeding four percent. This rate of return has been achieved by active and careful management of the portfolio, maintaining a flexible position permitting maximum yield consistent with safety and marketability.

During the 1962 session of the General Assembly amendments were secured which will make it possible to further improve this source of revenue. The percentage of funds which can be invested in high grade corporate bonds was increased to 60. Authority was granted to invest in the obligation of United States government agencies. This permits the purchase of mortgages insured by the Federal Housing Administration or guaranteed by the Veteran's Administration. A twofold benefit is realized by securing a very favorable return and investing more money in the economy of Kentucky through home mortgages.

ANALYSIS OF INVESTMENTS HELD AT JUNE 30, 1962
to show annual yield rate
Teachers' Retirement System of the State of Kentucky

	Percentage of Total	Par Value	Interest Income/Year	Annual Yield
U. S. Treasury Obligations.....	37.2%	\$33,242,292.71	\$1,199,690.09	3.598%
Corporate Bonds	45.6%	40,871,000.00	1,785,352.41	4.368%
School & Municipal Bonds.....	10.5%	9,428,000.00	384,064.96	4.074%
Kentucky Obligations	2.2%	2,019,000.00	87,096.84	4.314%
TOTALS	95.5%	\$85,660,292.71	\$3,456,204.30	

NET YIELD RATE:

$$\$3,456,204.30 \div \$85,660,292.71 = 4.034779\%$$

Not Included Above:

71,477 shares Common Stocks.....	4.5%	3,991,922.36	
TOTAL INVESTMENTS	100.0%	\$89,652,215.07	

PART IV. ACTUARIAL VALUATION

At the end of each two-year period the consulting actuary makes a valuation of the projected assets and liabilities of the Retirement System. At the time that the Twenty-first Annual Report was made the actuary had not completed his study and no valuation report was included in that Report. Subsequent to that time the actuarial valuation was received and accepted by the Board of Trustees and copy was transmitted to the Governor.

However, there was no wide dissemination of the report and thus it is included herewith, although made in the previous fiscal year. We direct members' attention to the excellent condition of the system as revealed by the actuary's conclusions.

ACTUARIAL VALUATION

VALUATION BALANCE SHEET

With the use of the statistical data reflecting the age, service and salary characteristics of the members, and applying the actuarial criteria described in this report,* a Valuation Balance Sheet has been prepared showing the assets and liabilities of the system from a technical standpoint. In the preparation of this statement, a technique is used which is similar in many respects to that followed by accountants in the preparation of a financial balance sheet. The form of statement prepared by the actuary, however, differs from the accountant's balance sheet in that it shows, in addition to the results of current financial operations, the actuary's appraisal or evaluation of the accrued and prospective liabilities and the present and prospective assets determined in accordance with actuarial requirements.

The Valuation Balance Sheet is presented in the following pages. It includes: (1) the present value of the annuities and benefits entered upon and in force; (2) the unfunded accrued liability (subject to amortization) for prior service, i.e. service prior to July 1, 1941; (3) the accrued liability for subsequent service, i.e. service on or after July 1, 1941; (4) the present value of benefits to be earned by the members during the remainder of their assumed periods of service after the date of valuation; and (5) the present and prospective assets.

A fully funded basis exists when assets are on hand which are equal to the difference between (1) the total of all liabilities, both accrued and prospective, and (2) the present value of future contributions by the members and the State.

*The statistical data and calculations are eliminated from this report because they are used only to arrive at the conclusions and balance sheet.

VALUATION BALANCE SHEET—JUNE 30, 1961

A S S E T S

PRESENT ASSETS

Fund Balances:

Expense Fund	\$	2,663.21	
Teachers' Savings Fund.....		36,055,706.35	
State Accumulation Fund.....		36,055,706.35	
Guarantee Fund		4,338,543.28	
Voluntary Contributions, Active			
Members		92,013.90	
Allowance Reserve Fund:			
Teachers'			
Contributions	\$	329,830.19	
State "Permanent"			
Contributions		1,141,218.83	1,471,049.02
			<hr/>
Total Fund Balances.....	\$		78,015,682.11

PROSPECTIVE ASSETS

Deferred Obligation of Teachers and the State of Kentucky for service subsequent to June 30, 1961— Present value of future teachers' contributions	\$	55,703,659.71	
Present value of prospective State matching contributions		55,703,659.71	
			<hr/>
Total Prospective Assets.....			111,407,319.42

DEFERRED ASSETS

Deferred Obligation of the State of Kentucky— Present value of accrued obligation for service prior to July 1, 1941— Active Members	\$	5,892,551.00	
Retired Teachers.....	\$26,178,736.59		
Less Guarantee Fund		4,338,543.28	
Less Allowance Reserve Fund ...		1,471,049.02	20,369,144.29
			<hr/>
Total Deferred Assets.....			26,261,695.29
			<hr/>
TOTAL ASSETS	\$		215,684,696.82
			<hr/> <hr/>

VALUATION BALANCE SHEET—JUNE 30, 1961
LIABILITIES AND RESERVES

ACCRUED LIABILITIES

Reserve Requirements:

Retirement Annuities...\$22,885,504.61

Less: Allowance

Reserve June 1,471,049.02 \$ 21,414,455.59

Disability Annuities 4,304,729.00

Survivors' Benefits in Force..... 414,565.00

Death Benefit 44,987.00 \$ 26,178,736.59

Present Value of Benefits Mandatory
to Active Members on account of
service prior to July 1, 1941..... 5,892,551.00

Present Value of Benefits Mandatory
on account of Subsequent Service—

Service July 1, 1941 to June 30, 1955 \$ 14,789,685.00

Service July 1, 1955 to June 30, 1961 31,914,345.00 46,704,030.00

Reserve for Refunds 12,703,691.35

Reserve for Mortality and Turnover
Fluctuations, and Future Salary

Increments 12,703,691.35

Special Reserves

Expense Fund 2,663.21

Voluntary Contributions by

Members 92,013.90 94,677.11

PROSPECTIVE LIABILITIES

Present Value of Benefits on Account
of Subsequent Service, i.e. service
after June 30, 1961:

Pension Benefits \$102,898,886.66

Disability Benefits and excess S.S.

Deferred Assets over S.S. Deferred

Liabilities 8,508,432.76 111,407,319.42

**TOTAL LIABILITIES AND
RESERVES**

\$215,684,696.82

1958 AMENDMENTS

As discussed in the 1958 Valuation Report, the increases in retirement allowances to those already retired, gratuitously granted by the 1958 amendments, have brought about an appreciable increase in the prior service liability. The increase in this liability item will not prove to be an unreasonable burden as long as the State continues, as in recent years, to discharge its amortization requirement for prior service in terms of its "temporary" contributions.

SURVIVORS AND DEATH BENEFITS

An addition to the benefit schedule was made as of July 1, 1958, providing survivors benefits to teachers covering both male and female beneficiaries. An insurance provision granting a death benefit for both active members and those on retirement was also added to augment the schedule of benefits. Both of these benefits have been fully described in the beginning of this report.

It is understood that both of these benefits are being financed currently out of interest earnings above the 3% basic rate assumed to maintain reserves. In the case of the survivors benefits, the cost is partially offset by the member's accumulated contributions at date of death plus the matching contribution by the State.

Reserves for the survivors benefits in force have been provided but no accrued liability for these benefits or for the death benefit has been included in the financial statement due to the foregoing method of financing the requirements for current payments.

For the fiscal year ended June 30, 1961, death benefit payments are shown at \$21,000.00 on account of active members and \$54,500.00 on account of annuitants. Voluntary and survivors benefit payments amounted to \$43,215.14 for the year. The combined payments totaled \$118,715.14.

Without giving effect to the members' accumulated contributions and the State's matching payments in the case of survivors benefits, it is noted that these payments are considerably below the excess of interest receipts above the 3% basic rate.

INVESTMENTS

The revised investment authority granted by the 1958 amendments to the retirement law has resulted in a broader diversification of the investments. More particularly and perhaps of greater significance is the substantial increase in interest income to the system which this change has brought about.

The average rate of income on investments has shown a steady and persistent upward trend. Continued improvement may be expected in this area of operations under the established policy of the Board of Trustees. It is noted that the annual yield rate on the entire investment account as of June 30, 1961, excluding the income from common stocks and the 4½% Capehart mortgage loan was 3.818%. The yield rate on common stocks held less than a full year may be measured by the amount of dividends paid on such stocks for a yearly period in comparison with the purchase price for these stocks. Because of the character of this type of security, it might be of interest to show at the end of each year the market value thereof for the information of the Board of Trustees.

CONCLUSION

The results of the valuation disclose gratifying progress in the operations of the system since June 30, 1958 when the last valuation was made. The management policies of the Board of Trustees and the administrative procedures in force reflect a conscientious and constructive approach to all problems arising in the operation of the system. The financial provisions are adequate and will insure its proper development in accordance with recognized concepts governing sound retirement planning for public employees in the teaching profession.

The accrued obligation for prior service, i.e. service prior to July 1, 1941, covering both active members and teachers retired on account of superannuation and disability is being gradually reduced under the plan of amortization previously instituted which is being adhered to consistently. This reflects great credit upon the State of Kentucky and upon all those identified with the direction and administration of the system.

The subsequent service liability, i.e. service after July 1, 1941, is fully funded. The 5% contribution by the members of the system matched by the State at the time the contributions are made should provide adequately for future service, and thereby insure the continuance of sound principles consistent with recognized actuarial criteria in the financing of the system's obligations.

The survivors' benefits and death benefits are now being paid out of excess interest earnings, that is, interest income above the 3% rate used in the calculation of reserves and annuity liabilities. It is understood that this procedure was initiated as a temporary measure. It is the considered opinion of your actuary that these benefits, being of an insurance character, should be financed by an additional contribution by the member of ¼ of 1% of salary matched by the State. Calculations relative to the cost of these benefits, which were made as a part of this valuation, discloses that they can be financed by a total contribution of ½ of 1% of payroll. Specific reserve fund accounts could and should be established to which the separate contribution for these purposes would be credited and against which the expenditures on account thereof would be charged.

Any excess interest income as is realized by the system over and above the basic interest assumption established for the system should be retained as a safety measure to provide for future fluctuations in costs for both prior service and subsequent service, and for variations in reserve requirements on annuities in force.

Attention is directed to the Valuation Balance Sheet in which, it will be noted, a reserve for mortality and turnover fluctuations and future salary increases, is shown in the case of subsequent service liabilities from July 1, 1941 to June 30, 1961. This is required for sound management policy and to insure that any adverse experience in future years resulting from these factors and from possible statistical variations will be adequately compensated.

The considerate cooperation of James Sublett, Executive Secretary, and the members of his able staff in supplying the statistical and financial data required for this valuation are hereby acknowledged with deep appreciation.

Respectfully submitted,
L. C. Cortright, M.C.A.
Actuary