

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

1963-64



DECEMBER, 1964

December 15, 1964

Honorable Edward T. Breathitt
Governor of Commonwealth of Kentucky
Frankfort, Kentucky

Dear Governor Breathitt:

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

During the period covered by this Report substantial improvements were made in the benefit structure of the Retirement System. We wish to express our deep appreciation for your support of the legislation which made this improvement possible.

The increased costs of these benefits have been recognized by increasing the contribution of members to seven percent of gross salary, matched by legislative appropriation. As you are aware, this increased rate is not effective until July 1, 1965, although the improved benefits became effective July 1, 1964.

There still exists, according to the Valuation of the Actuary, June 30, 1962, an unfunded liability for prior service of almost thirty million dollars. If this obligation is met by the Commonwealth in an orderly manner the fiscal integrity of the Teachers' Retirement System will continue to be assured. We request your assistance to this end.

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:

Mrs. Edna Lindle, Chairman Henderson
Mrs. James Sheehan, Vice Chairman Danville
Ted L. Crosthwait Bardstown
Millard Tolliver Jackson

Ex-Officio

Emerson Beauchamp, State Treasurer Frankfort
Robert Matthews, Attorney General Frankfort
Harry Sparks, Superintendent of Public Instruction Frankfort

STAFF

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

Anna Jean Blackwell	Wilma Gaines	Jean L. Pulliam
Joan Burke	Edna Inman	Isabelle Royalty
Polly Casey	Bobby Kelly	Martha Sudduth
Betty Cohorn	Susan Leathers	Doris W. Ward
Anna Mae Connelly	Alean McDonald	Dorothy L. Wood
Nancy G. Cosby	Helen N. Meade	Frances Wright
	Amanda Owens	

PART I. LEGISLATION

The 1964 session of the General Assembly constitutes an important milestone in the growth and development of the Teachers' Retirement System. The improved benefit program enacted into law perhaps represents the greatest improvement in the retirement program since its inception.

As a result of legislation developed and proposed by the Board of Trustees, the following were made a part of the law:

1. All service after 1941 is calculated on the basis of the average salary for the five highest consecutive years.
2. The maximum, or ceiling, on annuities was increased to seventy-five percent of average salary.
3. A new disability benefit equal to one-half of last salary was provided.
4. The death benefit was increased to \$1,000.
5. The amount of Kentucky service necessary to retire at age 60 was reduced to ten years.
6. The contribution rate for members, matched by the State, was increased to seven percent of salary (becomes effective July 1, 1965).
7. Comprehensive medical insurance coverage for all retired teachers age 60 and over, and the spouses of such teachers.
8. Reduction in the period of contributing service necessary to qualify for survivor's benefits, to three years of such service.
9. Spouses or legal dependents of teachers who die in contributing service after having qualified for retirement are eligible for monthly annuities in lieu of account refund.

It is perhaps a tribute to this program that it was adopted without dissenting vote in either house of the General Assembly. It will be noted that the benefit improvements were adopted one year in advance of the increase in contribution rate. This creates a temporary problem which has no long term significance if future legislative appropriations reflect full matching and an additional amount to underwrite the prior service liability.

PART II. FINANCIAL

The Balance Sheet and Statement of Receipts and Disbursements reflect the continuing healthy financial condition of the Teachers' Retirement System.

The assets of the System as of June 30 approached the 120 million dollar mark making this fund one of the larger financial institutions in the Commonwealth. These are trust funds held for the benefit of persons who have retired and to meet benefit liabilities of those who will retire in the future.

Payments from the Allowance Reserve Fund reveal that approximately 80 percent of payments to retired teachers in 1963-64 derived from State funds.

Regular refunds of account increased slightly and there was also an increase in the amount of the individual accounts refunded.

BALANCE SHEET
Teachers' Retirement System
June 30, 1964

ASSETS

Cash, Unencumbered, All Funds	\$ 820,491.42	
Cash, Encumbered	45,120.83	\$ 865,612.25
Investments		117,302,440.20

Deferred Charges:

Unamortized Premium on Investments	\$870,998.89
Accrued Interest Purchased	15,705.07

Sub-total	886,703.96	
Unamortized Discount on Investments	588,702.63	298,001.33

TOTAL ASSETS		<u>\$118,466,053.78</u>
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**LIABILITIES AND
FUND BALANCES**

Expense Fund Encumbrances and Escrow Items		\$ 45,120.83
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Fund Balances:

Expense Fund	\$ 12,379.39	
Teachers' Savings Fund ..	54,863,552.48	
State Accumulation Fund..	54,863,552.48	
Guarantee Fund	5,863,009.96	
Voluntary Contributions, Active Members	198,141.94	
Allowance Reserve Fund ..	2,620,296.70	
Total Fund Balances		<u>118,420,932.95</u>

TOTAL LIABILITIES AND FUND BALANCES		<u>\$118,466,053.78</u>
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STATEMENT OF RECEIPTS AND DISBURSEMENTS

Teachers' Retirement System

for the Period July 1, 1963—June 30, 1964

CASH BALANCE, ALL FUNDS JULY 1, 1963 \$ 893,500.19

Receipts:

Teachers' Savings	\$7,076,348.40	
Regular Reinstatements	10,727.38	
Partially Matched Reinstatements	123,630.00	
Voluntary Unmatched Contributions	84,518.27	
Total from Members ..		\$ 7,295,224.05

State Contributions:

"Permanent"—to match Teachers' Savings	\$7,074,866.28	
"Temporary"—to reduce Prior Service Obligation	696,608.72	
Administrative Expense	220,657.00	7,992,132.00
Interest Collected, Bonds Redeemed or Sold		16,795,348.82
Annuity Checks Returned, Benefit Adjustments		17,054.96
Total Receipts		<u>32,099,759.83</u>

TOTAL CASH AVAILABLE..... \$32,993,260.02

Disbursements:

Administrative Expenses Current Year	\$ 201,572.86	
Liquidation of Prior Year Encumbrances	8,234.39	\$ 209,807.25
Refunds for Withdrawal from Membership		1,186,260.68
Death Benefit Payments—members deceased before retirement	\$ 28,000.00	
Death Benefits for Retired, Deceased	71,500.00	
Retirement Allowances, Final Settlements and Survivor Benefits	4,025,002.93	4,124,502.93
Purchases of Investments..		26,607,076.91
Total Disbursements		<u>32,127,647.77</u>

CASH BALANCE, ALL FUNDS—June 30, 1964 \$ 865,612.25

ANALYSIS OF RECEIPTS
Teachers' Retirement System
Fiscal Years 1940-41 through 1963-64

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
7/1/48-6/30/52 ..	4,951,457.55	9,880.10	5,090,847.83	3,374,273.81	198,335.00	1,676,157.12	15,300,951.41
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
1962-63	6,795,670.37*	110,996.21	6,763,615.18	950,175.82	196,846.00	3,866,534.20	18,683,837.78
1963-64	7,160,866.67	134,357.38	7,074,866.28	696,608.72	220,657.00	4,401,450.78	19,688,806.83
	<u>\$58,639,165.97</u>	<u>\$825,279.99</u>	<u>\$57,589,639.43</u>	<u>\$10,744,341.69</u>	<u>\$1,952,978.52</u>	<u>\$25,533,142.28</u>	<u>\$155,284,547.88</u>

*Includes Voluntary Unmatched Contributions.

SOURCE OF ALLOWANCE RESERVE FUND PAYMENTS
Teachers' Retirement System
July 1, 1942, through June 30, 1964

Year	Total Benefits	Paid from Teachers' Contributions	Paid from State Funds: Matching Contribution	Prior Service Contribution	Percentage Paid from State "Temporary" Funds
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	213,648.80	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%
1962-63	3,793,152.74	856,809.14	440,755.58	2,495,588.02	65.8%
1963-64	4,008,123.14	803,751.29	552,538.46	2,651,833.39	66.2%
TOTALS	\$25,863,633.11	\$5,019,066.86	\$3,275,802.43	\$17,568,763.82	67.9%

For the period only 19.4% of aggregate benefit payments have been derived from teachers' individual savings accounts.

COST OF ADMINISTRATION
Teachers' Retirement System
July 1, 1940, through June 30, 1964

Year	Receipts of State Accumulation Fund (for Matching & Prior Service)	Administration 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
1962-63	7,739,140.00	193,366.07	2.49
1963-64	7,771,475.00	207,730.97	2.67

*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, 1966**

Biennium	Budget Request	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	.....
1962-64	15,902,769.00	15,902,769.00	.....
1964-66	20,077,902.00	19,848,090.00	229,812.00
Totals	\$93,256,382.64	\$90,133,824.64	\$3,122,558.00

REFUNDS
Teachers' Retirement System
July 1, 1940, to June 30, 1964

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
7/1/48-6/30/52	9,079	816,505.87	267	89,957.65	71	1,443.47	9,417	907,906.99
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	724,240.16	69	113,975.25	42	1,769.95	2,281	839,985.36
1962-63*	2,106	826,457.63	66	115,303.28	48	1,718.89	2,220	943,479.80
1963-64	2,310	1,035,242.10	60	144,154.22	26	1,460.21	2,396	1,180,856.53
TOTALS	44,744	\$7,482,367.91	1,360	\$1,023,662.06	636	\$18,361.49	46,740	\$8,524,391.46

*Does not include Refunds of Voluntary Unmatched Contributions.

ANALYSIS OF ACCOUNTS REFUNDED 1963-64
Teachers' Retirement System of the State of Kentucky

REASONS FOR WITHDRAWAL	Males	Females	TOTAL
Other Teaching Employment:			
State of Ohio	83	77	160
State of Florida	15	16	31
State of Indiana	33	30	63
Other States	83	79	162
Outside Limits of U. S. A.	6	13	19
Kentucky College or School not covered by Teachers' Retirement System	34	19	53
Non-Teaching Employment:			
Entered Business or Industry	161	50	211
Church-Related Profession	43	8	51
Medical Profession	6	1	7
Legal Profession	6	.....	6
Military Service	23	4	27
Further Training & Education.....	82	33	115
Homemaking, Family Duties, Children.....	.....	305	305
Husband Transferred Within Kentucky.....	.....	4	4
Husband Transferred Out of Kentucky.....	.....	99	99
Moved Residence to Another State.....	118	348	466
Emergency Teacher, Lack of Training,			
Not Re-Employed	42	84	126
Salary Too Low	29	3	32
Needed the Money	3	10	13
Disliked Teaching	1	1	2
Personal Reasons	70	85	155
Illness of Member	15	43	58
Death of Member	20	40	60
Absent From Profession 4-6 years.....	17	57	74
Lost Service Credit, Absent 7 or More Years	16	55	71
TOTALS	906	1,464	2,370

PART III. INVESTMENTS

Income from invested reserves becomes of ever greater importance as a source of revenue to pay benefits to retiring teachers. For all teachers who entered employment after 1955 the income from the investment of their contributions and the matching state appropriation will provide approximately one-half of the funds necessary to provide their annuity reserves.

This fact has been one of the strengths of our system. The fact that teachers and the state contribute now to meet future obligations means that these funds can be invested and the income therefrom reduces the cost both to the member and the State. In a number of states the state appropriation is delayed until sometime in the future, resulting in a loss of investment income and increased costs.

The return on our invested reserves continues to be in the top twenty percent of public retirement systems and at the same time the portfolio is of excellent quality.

ANALYSIS OF INVESTMENTS HELD AT JUNE 30, 1964
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 Bills & Bonds.....	19.14%	\$ 22,447,000.00	\$ 715,510.10	3.188%
Obligations Secured by U. S. Treasury.....	2.26%	2,647,000.00	124,386.01	4.699%
Capehart Mortgages	8.16%	9,575,833.18	433,655.93	4.529%
FHA & VA Mortgages	12.08%	14,167,862.53	695,686.59	4.910%
Other Guaranteed Mortgages	1.94%	2,276,027.45	117,500.21	5.163%
Corporate Bonds	44.35%	52,017,368.14	2,327,182.13	4.474%
School & Municipal Bonds	2.82%	3,313,000.00	139,726.70	4.218%
Totals	90.75%	\$106,444,081.30	\$4,553,647.67	
NET YIELD RATE:				
$\$4,553,647.67 \div \$106,444,081.30 = 4.277972\%$				
Not Included Above:				
160,077 shares Stocks	6.94%	8,144,230.56		
Two permanent Mortgage Loans (5¼%, less servicing) which are still in construction status, Face Value	2.31%	2,714,128.34		
TOTAL INVESTMENTS	100.00%	\$117,302,440.20		