

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

*1965-66*  
**1966-67**



**DECEMBER, 1966**

December 15, 1966

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

Dear Governor Breathitt:

Transmitted herewith is the Twenty-sixth Annual Report of the Teachers' Retirement System of the State of Kentucky. This submission is made in keeping with the provisions of Section 161.320 of the Kentucky Revised Statutes.

As you are aware important changes were accomplished in the retirement program in the period covered by this report. Your support of this legislative program is deeply appreciated. These improvements provide for Kentucky teachers a program of retirement and related benefits second to none in our nation.

Excellent benefits however are worthless unless adequately financed. It is our opinion that the present program can be financed if the State fully matches member contributions and if annual appropriations to amortize the unfunded liability for previous service are resumed. Failure to do either can have dire consequences for the teachers of Kentucky.

Again we express our appreciation for your assistance and elicit your support in keeping the Teachers' Retirement System adequately financed.

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  
Harold Miller .....Ft. Thomas

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	Margie Gatewood	Isabelle Royalty
Polly Casey	Edna Inman	Martha Sudduth
Betty Cohorn	Bobby Kelly	Doris Ward
Anna Mae Connelly	Alean McDonald	Dorothy L. Wood
Nancy G. Cosby	Helen N. Meade	Frances Wright
	Amanda Owens	

## PART I. LEGISLATION

The legislative program presented to the 1966 session of the General Assembly by the Board of Trustees of the Teachers' Retirement System included significant benefit changes. In addition some of the changes established new patterns which will set the standards for years to come.

While in total number of changes this program did not equal earlier proposals the significance of the changes is greater than any achieved in the past.

The improvements made were as follows:

1. The normal retirement (no discount) age was reduced from sixty-five to sixty.
2. The percentage factor used in calculating benefits based on contributing service was increased from  $1\frac{3}{4}$  percent to 2 percent.
3. Forty dollars per year of service was established as the basis for calculating benefits for prior service.
4. Benefits of those teachers retired prior to July 1, 1964, were increased by 10 percent or to \$45 for each year of service whichever was larger.
5. Effective July 1, 1967, and annually on July 1 thereafter, provision is made for one percent increases in retired teacher benefits.
6. The consecutive service requirement was removed from the calculation of the salary base. The five highest years average now become the base.

As during the past several sessions the legislation was adopted without a dissenting vote. Additionally, many members of the General Assembly were of much assistance in preventing the passage of legislation detrimental to the retirement program.

## PART II. FINANCIAL

As the Balance Sheet reveals, the assets of the System on June 30, 1966, exceeded 150 million dollars. These are trust funds held for the benefit of persons who have retired and to meet the benefit liabilities of those who will retire in the future.

The report on the Allowance Reserve Fund reveals that of benefits paid to retirants in 1965-66 slightly less than 30 percent resulted from teacher contributions. The remaining 71 percent resulted from state matching contributions and from excess investment income produced from the excellent performance of the System's portfolio. Use of these funds currently prevents their accumulation as future reserves. Resumption of the state appropriation for previous service liability would make it possible to resume the accumulation of more adequate reserves. **Securing this appropriation should be a prime legislative objective for 1968.**

**BALANCE SHEET**  
**Teachers' Retirement System**  
**June 30, 1966**

<b>ASSETS</b>		
Cash, Unencumbered, All Funds .....	\$ 2,176,224.62	
Cash, Encumbered .....	9,624.17	\$ 2,185,818.79
Investments .....	\$149,257,183.61	
Unamortized Premium on Investments .....	2,285,146.71	
Accrued Interest Purchased .....	68,783.41	
Total—Investments plus Deferred Charges .....	151,611,113.73	
Deduct Unamortized Dis- count on Investments .....	1,187,032.96	150,424,080.77
<b>TOTAL ASSETS .....</b>		<u><u>\$152,609,899.56</u></u>
<b>LIABILITIES AND FUND BALANCES</b>		
Expense Fund Encumbrances .....		\$ 9,624.17
<b>Fund Balances:</b>		
Teachers' Savings Fund....	\$ 70,943,090.55	
State Accumulation Fund..	70,943,090.55	
Guarantee Fund .....	5,934,826.15	
Voluntary Contributions, Active Members .....	364,764.20	
Allowance Reserve Fund..	3,409,807.22	
Hospital & Medical Insurance Fund .....	339,158.09	
Survivor & Death Benefit Fund .....	654,499.27	
Expense Fund .....	11,039.36	
<b>Total Fund Balances .....</b>		<u>152,600,275.39</u>
<b>TOTAL LIABILITIES AND FUND BALANCES .....</b>		<u><u>\$152,609,899.56</u></u>

**STATEMENT OF RECEIPTS AND DISBURSEMENTS**  
**Teachers' Retirement System**  
**for the Period July 1, 1965—June 30, 1966**

<b>CASH BALANCE, ALL FUNDS JULY 1, 1965.....</b>		<b>\$ 889,873.84</b>
<b>Receipts:</b>		
Teachers' Contributions .....	\$11,839,447.87	
Reinstatements .....	77,594.19	
Voluntary Unmatched Contributions .....	109,098.73	
<b>Total from Members.....</b>		<u>\$12,026,140.79</u>
<b>State Contributions:</b>		
"Permanent"—to match Teachers' Savings .....	\$10,744,110.00	
Administrative Expense .....	255,890.00	11,000,000.00
<b>Interest Collected, Bonds Redeemed or Sold .....</b>		<u>26,932,091.38</u>
Annuity Checks Returned, Benefit Adjustments .....		51,623.57
Employer Matching of Teacher Contributions .....		147,969.24
<b>Total Receipts .....</b>		<u>\$50,157,824.98</u>
<b>TOTAL CASH AVAILABLE..</b>		<u>\$51,047,698.82</u>
<b>Disbursements:</b>		
Administrative Expenses Current Year .....	\$ 235,226.47	
Liquidation of Prior Year Encumbrances .....	24,222.36	\$ 259,448.83
<b>Refunds for Withdrawal from Membership .....</b>		<u>1,468,836.40</u>
Premiums for Compre- hensive Medical Plan .....		528,323.07
Benefits for Service & Disability Retirement .....	5,992,933.66	
Survivor Payments .....	163,351.74	
Death Benefits .....	219,500.00	6,375,785.40
<b>Purchase of Investments....</b>		<u>40,229,486.33</u>
<b>Total Disbursements .....</b>		<u>48,861,880.03</u>
<b>CASH BALANCE, ALL FUNDS—June 30, 1966.....</b>		<u><u>\$ 2,185,818.79</u></u>

**ANALYSIS OF RECEIPTS**  
**Teachers' Retirement System**  
**Fiscal Years 1940-41 through 1965-66**

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	1,802,779.34	8,596,401.87
1957-58	3,533,508.21	4,588.72	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
1964-65	7,886,032.37	129,066.14	7,780,017.37	400,782.63	219,200.00	5,391,261.59	21,806,360.10
1965-66	11,948,546.60	77,594.19	10,744,110.00	-----	255,890.00	5,217,998.29	28,244,139.08
	<u>\$78,473,744.94</u>	<u>\$1,031,940.35</u>	<u>\$76,113,766.80</u>	<u>\$11,145,124.32</u>	<u>\$2,428,068.52</u>	<u>\$36,142,402.16</u>	<u>\$205,335,047.09</u>

\*Includes Voluntary Unmatched Contributions



**SOURCE OF ALLOWANCE RESERVE FUND PAYMENTS**

**Teachers' Retirement System**

July 1, 1942, through June 30, 1966

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%
<b>Minimum \$10/year (limit 30 years)</b>					
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%
<b>Minimum \$16/year (limit 30 years)</b>					
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%
<b>Minimum \$18/year (limit 35 years)</b>					
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%
<b>Minimum \$25/year (years not limited)</b>					
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%
<b>Minimum \$40/year for career teachers</b>					
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%
<b>P.S. &amp; C.S. Formula Improved</b>					
1964-65 .....	5,018,770.84	1,338,999.94	813,499.42	2,866,271.48	57.1%
1965-66 .....	5,971,161.76	1,782,998.13	974,946.38	3,213,217.25	53.8%
<b>TOTALS</b> .....	<b>\$36,853,565.71</b>	<b>\$8,141,064.93</b>	<b>\$5,064,248.23</b>	<b>\$23,648,252.55</b>	<b>64.2%</b>

For the period only 22.1% of aggregate benefit payments have been derived from teachers' individual savings accounts.

**COMPARISON OF BUDGET REQUESTS  
WITH APPROPRIATIONS RECEIVED  
July 1, 1940, through June 30, 1968**

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
1966-68	25,656,256.00	25,655,630.00	626.00
<b>Totals</b>	<b>\$118,912,638.64</b>	<b>\$115,789,454.64</b>	<b>\$3,123,184.00</b>

**COST OF ADMINISTRATION  
Teachers' Retirement System  
July 1, 1940, through June 30, 1966**

Year	Receipts of State Accumulation Fund (for Matching and 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
1964-65	8,191,883.41	200,567.87	2.44
1965-66	10,744,110.00	259,448.83***	2.41

\*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.

\*\*\*Includes \$46,000 capital outlay for data processing equipment.

**REFUNDS**  
**Teachers' Retirement System**  
**July 1, 1940, to June 30, 1966**

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
1964-65 .....	2,380	1,190,715.07	72	156,186.68	39	1,930.17	2,491	1,348,831.92
1965-66 .....	2,417	1,375,728.50	44	90,196.91	23	1,256.68	2,484	1,467,182.09
<b>TOTALS .....</b>	<b>49,541</b>	<b>\$10,048,811.48</b>	<b>1,476</b>	<b>\$1,270,045.65</b>	<b>698</b>	<b>\$21,548.34</b>	<b>51,715</b>	<b>\$11,340,405.47</b>

**ANALYSIS OF ACCOUNTS REFUNDED 1965-66**  
**Teachers' Retirement System of the State of Kentucky**

REASONS FOR WITHDRAWAL	Males	Females	TOTAL
Other Teaching Employment:			
State of Ohio .....	65	114	179
State of Florida .....	17	28	45
State of Indiana .....	39	34	73
Other States .....	127	140	267
Outside Limits of U. S. A. ....	6	9	15
Kentucky College or School not covered by Teachers' Retirement System.....	37	30	67
Non-Teaching Employment:			
Entered Business or Industry .....	181	33	214
Church-Related Profession .....	27	13	40
Medical Profession .....	4	3	7
Legal Profession .....	14	1	15
Military Service .....	29	6	35
Further Training & Education.....	75	54	129
Local, State, or Federal Government.....	46	19	65
Homemaking, Family Duties, Children.....		383	383
Husband Transferred Within Kentucky.....		1	1
Husband Transferred Out of Kentucky.....		73	73
Moved Residence to Another State.....	51	235	286
Emergency Teacher, Lack of Training, Not Re-Employed .....	29	77	106
Salary Too Low .....	70	7	77
Needed The Money .....	7	21	28
Disliked Teaching .....	6	10	16
Personal Reasons .....	46	75	121
Illness of Member .....	11	29	40
Death of Member .....	16	28	44
Absent from Profession 4-6 Years.....	7	19	26
Lost Service Credit, Absent 7 or More Years .....	19	90	109
<b>TOTALS .....</b>	<b>929</b>	<b>1,532</b>	<b>2,461</b>

### **PART III. INVESTMENTS**

Return and safety of principal are the two prime requisites of investments for pension funds. The portfolio of the Teachers' Retirement System ranks very high in both respects. The return compares favorably with other pension funds and with the performance of the insurance industry. The quality and diversification of investments also is excellent.

Income from invested reserves is an important source of benefits. If such funds are not used currently to meet unsatisfied obligations they accumulate as reserves for future benefit improvements. Thus every improvement in investment return over that required in the basic retirement program is of great importance in the overall retirement program.

**ANALYSIS OF INVESTMENTS HELD AT JUNE 30, 1966**  
**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.....	7.54%	\$ 11,247,000.00	\$ 384,503.02	3.419%
Obligations Secured by U. S. Treasury.....	2.21%	3,304,000.00	157,566.03	4.769%
Federal Nat. Mtg. Participation Certificates..	2.85%	4,250,000.00	176,109.36	4.144%
FHA & VA Mortgages .....	22.57%	33,682,140.62	1,650,522.50	4.900%
Other Guaranteed Mortgages .....	3.48%	5,193,689.60	268,759.88	5.175%
Corporate Bonds .....	48.69%	72,669,888.95	3,347,865.37	4.607%
School & Municipal Bonds.....	1.72%	2,571,000.00	112,671.80	4.382%
Kentucky Industrial Development Finance Authority .....	.23%	350,000.00	15,750.00	4.500%
<b>TOTALS</b> .....	<b>89.29%</b>	<b>\$133,267,719.17</b>	<b>\$6,113,747.96</b>	
<b>NET YIELD RATE:</b>				
				$\$6,113,747.96 \div \$133,267,719.17 = 4.588\%$
<b>Not Included Above:</b>				
339,400 shares Stock .....	10.42%	15,554,980.57		
Guaranteed Mortgage in Construction Status .....	.29%	434,483.87		
<b>TOTAL INVESTMENTS</b> .....	<b>100.00%</b>	<b>\$149,257,183.61</b>		