



27th

annual report

TEACHERS' RETIREMENT SYSTEM

**STATE OF KENTUCKY
1966-1967**

DECEMBER 1967



COMMONWEALTH OF KENTUCKY
TEACHERS' RETIREMENT SYSTEM

JAMES L. SUBLETT
EXECUTIVE SECRETARY

309 LEWIS STREET
FRANKFORT

VERA BECKHAM
ASSISTANT SECRETARY

December 13, 1967

Honorable Louie B. Nunn, Governor
Commonwealth of Kentucky
Frankfort, Kentucky

Dear Governor Nunn:

In compliance with the provisions of Section 161.320 of the Kentucky Revised Statutes we submit herewith the Twenty-seventh Annual Report of the Teachers' Retirement System of the State of Kentucky.

This report is being submitted in a different format than that used in former reports. At the present time an audit of the 1965-67 period required by policy of the Board of Trustees and an actuarial valuation and experience study required by K.R.S. 161.400 are being conducted. These reports will not be received in time to be included. Therefore, it was decided to submit the required annual report in multilithed form; as soon as the reports mentioned above are available they, together with the material submitted herewith will be published in a permanent form.

You will note that the legislative appropriation for 1966-67 was insufficient to match the contributions of teachers. A similar situation will exist in 1967-68. These deficiencies plus appropriations to meet the amortized portion of the state's liability for prior service should be included in the budget for 1968-70. These amounts have been included in the budget requests submitted by this agency to the Finance Department.

We solicit your assistance in our continuing effort to provide excellent retirement and related benefits to Kentucky's teachers.

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.....Fort 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, Chief Accountant
Huggins & Company, Actuary

Anna Jean Blackwell	Wilma Gaines	Jean L. Pulliam
Joan Burke	Alean McDonald	Isabelle Royalty
Polly Casey	Arthur McDonald	Martha Sudduth
Betty Cohorn	Helen N. Meade	Doris Ward
Anna Mae Connelly	Amanda Owens	Dorothy L. Wood
Nancy G. Cosby		Francis Wright

PART I. FINANCIAL

The Balance Sheet reveals that the assets of the System on June 30, 1967, exceeded \$177 million. It can be expected that by June 30, 1968, assets will pass the \$200 million mark. Sometimes there is a tendency to feel that such an amount would permit larger benefits, lower contributions, or reduction of state appropriations.

It must be realized, however, that these are trust funds; in large measure held to pay benefits to future retiring teachers. Unless adequate reserves are established now future liabilities will exceed future assets with the resulting inability to pay benefits.

The report on the Allowance Reserve fund indicates that of benefits paid to retirants in 1966-67 only 23.6 percent came from teacher contributions. The remaining 76.4 percent resulted from state matching contributions and from the excellent return realized on the funds' invested assets. Use of these funds to finance current benefits prevents their accumulation as reserves for the future. This is the reason that resumption of the state appropriation to finance previous service liability is of paramount importance. Continued neglect can lead to a very serious situation.

BALANCE SHEET
Teachers' Retirement System
June 30, 1967

ASSETS

Cash, Unencumbered, All Funds	\$ 2,530,927.81	
Cash, Encumbered	7,982.63	\$ 2,537,956.44
	<u>7,982.63</u>	
Investments	\$173,433,945.62	
Unamortized Premium on Investments	2,657,503.51	
Accrued Interest Purchased	<u>47,722.76</u>	
Total - Investments plus Deferred Charges	\$176,139,171.89	
Deduct Unamortized Discount on Investments	<u>1,526,548.70</u>	<u>\$174,612,623.19</u>
 TOTAL ASSETS		 <u>\$177,150,579.63</u>

LIABILITIES AND FUND BALANCES

Expense Fund Encumbrances		\$ 7,082.63
 <u>Fund Balances:</u>		
Teachers' Savings Fund	\$ 81,678,456.25	
State Accumulation Fund	81,120,499.61	
Guarantee Fund	10,813,209.30	
Voluntary Contributions, Active Members	499,589.29	
Allowance Reserve Fund	759,351.41	
Hospital & Medical Insurance Fund	956,144.32	
Survivor & Death Benefit Fund	1,298,856.08	
Expense Fund	<u>17,390.74</u>	
Total Fund Balances		<u>\$177,143,497.00</u>
 TOTAL LIABILITIES AND FUND BALANCES		 <u>\$177,150,579.63</u>

STATEMENT OF RECEIPTS AND DISBURSEMENTS
 Teachers' Retirement System
 for the Period July 1, 1966 - June 30, 1967

CASH BALANCE, ALL FUNDS JULY 1, 1966

\$ 2,185,818.79

Receipts:

Teachers' Savings	\$14,163,257.71	
Reinstatements	152,312.44	
Voluntary Unmatched Contributions	<u>155,484.39</u>	
Total from Members		\$14,471,054.54

State Contributions:

"Permanent" - to match Teachers' Savings	\$12,621,567.00	
Administrative Expense	<u>237,063.00</u>	12,858,630.00
Interest Collected, Bonds Redeemed or Sold		19,854,876.51
Annuity Checks Returned, Other Adjustments		30,929.31
Employer Matching of Teacher Contributions		<u>942,771.10</u>

Total Receipts

48,158,261.46

TOTAL CASH AVAILABLE

\$50,344,080.25

Disbursements:

Administrative Expenses Current Year	\$ 212,589.63	
Liquidation of Prior Year Encumbrances	<u>7,556.49</u>	\$ 220,146.12
Refunds for Withdrawal from Membership		1,656,926.14
Premiums for Comprehensive Medical Plan		387,433.51
Benefits for Service & Disability Retirement	7,859,066.40	
Survivor Payments	218,775.38	
Death Benefits	<u>189,000.00</u>	8,266,841.78
Purchase of Investments		<u>37,274,776.26</u>

Total Disbursements

47,806,123.81

CASH BALANCE, ALL FUNDS --June 30, 1967

\$ 2,537,956.44

ANALYSIS OF RECEIPTS
 Teachers' Retirement System
 Fiscal Years 1940-41 through 1966-67

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	4,583.72	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
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
1966-67	<u>14,318,742.10</u>	<u>152,312.44</u>	<u>12,621,567.00</u>	<u>---</u>	<u>237,063.00</u>	<u>6,786,657.62</u>	<u>34,116,342.16</u>
	<u>\$92,792,487.04</u>	<u>\$1,184,252.79</u>	<u>\$88,735,333.80</u>	<u>\$11,145,124.32</u>	<u>\$2,665,131.52</u>	<u>\$42,929,059.78</u>	<u>\$239,451,389.25</u>

*Includes Voluntary Unmatched Contributions

SOURCE OF ALLOWANCE RESERVE FUND PAYMENTS
Teachers' Retirement System
July 1, 1942, through June 30, 1967

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%
	<u>Minimum \$10/year (limit 30 years)</u>				
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	289,368.15	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%
	<u>Minimum \$16/year (limit 30 years)</u>				
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%
	<u>Minimum \$18/year (limit 35 years)</u>				
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%
	<u>Minimum \$25/year (years not limited)</u>				
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%
	<u>Minimum \$40/year for career teachers</u>				
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%
	<u>P.S. & C.S. Formula Improved</u>				
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	1,779,084.59	975,729.19	3,216,347.98	53.8%
	<u>Formula improved, retire age 60 without discount</u>				
1966-67	7,837,052.50	2,398,788.63	1,320,462.59	4,117,801.28	52.5%
	<u>\$44,690,618.21</u>	<u>\$10,535,940.02</u>	<u>\$6,385,493.63</u>	<u>\$27,769,184.56</u>	62.1%

For the entire period only 23.6% 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
Totals	\$118,912,638.64	\$115,789,454.64	\$3,123,184.00

COST OF ADMINISTRATION

Teachers' Retirement System

July 1, 1940, through June 30, 1967

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
1966-67	12,621,567.00	220,146.12	1.74

*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, 1967

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
1966-67	2,512	1,500,846.42	49	143,133.98	29	2,420.61	2,590	1,646,401.01
	<u>52,053</u>	<u>\$11,549,657.90</u>	<u>1,525</u>	<u>\$1,413,179.63</u>	<u>727</u>	<u>\$23,968.95</u>	<u>54,305</u>	<u>\$12,986,806.48</u>

ANALYSIS OF ACCOUNTS REFUNDED 1966-67

Teachers' Retirement System of the State of Kentucky

<u>REASONS FOR WITHDRAWAL</u>	<u>MALES</u>	<u>FEMALES</u>	<u>TOTAL</u>
Other Teaching Employment:			
State of Ohio	65	89	154
State of Florida	28	30	58
State of Indiana	44	65	109
Other States	135	202	337
Outside Limits of U. S. A.	7	7	14
Kentucky College or School not covered by Teachers' Retirement System	31	25	56
Non-Teaching Employment:			
Entered Business or Industry	149	35	184
Church-Related Profession	37	11	48
Medical Profession	3	7	10
Legal Profession	3	0	3
Military Service	28	4	32
Further Training & Education	89	92	181
Local, State, or Federal Government	48	33	81
Homemaking, Family Duties, Children	0	551	551
Husband Transferred Within Kentucky	0	1	1
Husband Transferred Out of Kentucky	0	61	61
Moved Residence to Another State	39	214	253
Emergency Teacher, Lack of Training, Not Re-employed	27	64	91
Salary Too Low	53	8	61
Needed The Money	12	16	28
Disliked Teaching	11	6	17
Personal Reasons	38	47	85
Illness of Member	9	29	38
Death of Member	13	36	49
Absent from Profession 4 - 6 years	0	2	2
Lost Service Credit, Absent 7 or More Years	<u>14</u>	<u>43</u>	<u>57</u>
TOTALS	<u>883</u>	<u>1,678</u>	<u>2,561</u>

PART II. INVESTMENTS

In recent years the performance of the teachers' retirement system investment portfolio has been extremely favorable. The indicated yield of 4.78 percent places the system in the top ten percent in the nation in point of investment return. This has been achieved at the same time that quality of security has been a prime factor.

It is important to realize that money can be spent but once. If income from invested reserves is used as an offset against previously incurred liabilities--which are the responsibility of the state--then a dangerous situation will exist.

Any monies realized from wise investment management should accrue to the welfare of present and future beneficiaries of the retirement program.

ANALYSIS OF INVESTMENTS HELD AT JUNE 30, 1967
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	6.49%	\$ 11,247,000.00	\$ 384,503.02	3.419%
Obligations Secured by U. S. Treasury	2.20%	3,812,500.00	189,960.71	4.983%
Federal Agencies	1.41%	2,450,000.00	87,990.60	3.591%
FHA & VA Mortgages	22.05%	38,250,272.70	1,919,209.58	5.018%
Other Guaranteed Mortgages	3.31%	5,746,762.14	297,631.31	5.179%
Corporate Bonds	52.51%	91,071,588.88	4,427,504.11	4.862%
School & Municipal Bonds	.72%	1,243,000.00	56,708.96	4.562%
Kentucky Industrial Development Finance Authority	.66%	1,150,000.00	55,750.00	4.848%
Sub-Total	89.35%	\$ 154,971,123.72	\$ 7,419,258.29	
NET YIELD RATE:				
$\$7,419,258.29 \div \$154,971,123.72 = 4.788\%$				
<u>Not Included Above:</u>				
364,576 Shares Common Stocks	9.99%	17,323,096.61		
25,000 Shares Preferred Stocks	.14%	241,766.29		
Guaranteed Mortgages in Construction Status	.52%	897,959.00		
TOTAL INVESTMENTS	100.00%	\$ 173,433,945.62		