Teachers' Retirement System

ACTIVE MEMBER EDITION

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TRS KENTUCKY

479 Versailles Road
Frankfort, KY 40601
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INSIDE:

Thank You

by Gary L. Harbin, CPA, Executive Secretary

As everyone is very well aware, this has been a high-profile year for pension issues, including pension legislation that was enacted in the recent legislative session. The Teachers' Retirement System of the State of Kentucky is an administrator of retirement benefits for Kentucky's educators and, consequently, doesn't take stands on legislation. But we at TRS would be remiss not to acknowledge the outpouring of support for your retirement system in recent months.

Thank you so much for the faith you have put in us, and the kind comments about us that you expressed to board members, staff and elected officials.

We are also humbled by your expressions of confidence in the TRS Board of Trustees, and your comments that the board remain intact and independent over the operations of the system, as it has since 1940. We appreciate the many, many phone calls and emails we received from you as you sought to make sure that you had accurate information about your retirement system.

Thanks to you, TRS stands on the past 78 years and looks ahead to the next 78 to work for you and your retirement as a reward for your noble service to Kentucky's students, families and taxpayers. It is an honor to work on your behalf to provide you with the secure retirement that you earned serving Kentucky's children.

Again, thank you.

Cash Balance Benefits Tier Created

The retirement changes in Senate Bill 151 have been signed into law by Gov. Matt Bevin. This article contains some basic information about what the bill does in relation to the Teachers' Retirement System of the State of Kentucky and the new cash balance tier for new teachers hired on or after Jan. 1.

This article attempts to answer many of the questions that have surfaced about the change. Separate articles in this addition detail how the 2018-20 budget and revenue bills will impact the retirement system.

As always, before any retirement decision, check with TRS regarding how your individual retirement may be impacted.

TRS officials continue to review the details of SB 151 and are working with the developers of the Pathway system to create the technical infrastructure for the cash balance plan and other provisions of the new law.

- For retirees, no changes are made to their pensions.
- For active teachers, the amount of sick leave that can be used to add to the final average salary upon which a pension benefit is determined is capped at the number of days a teacher has Dec. 31. Also, the amount other TRS members can use toward service credit is capped as of that date.
- For new teachers who start on or after Jan. 1, the cash balance plan will be the retirement benefit provided (unless the new teacher has a non-refunded account with a Kentucky retirement system and, thereby, is considered a pre-Jan. 1 employee because of prior employment).
- The benefit under the cash balance plan will be based on a teacher's contributions plus employer and investment earnings credits. The investment credits, in simplified terms, are applied annually and consist of 85 percent of an average based on the 10-year net investment returns of TRS. Under the new law, the interest credit must be at least 0 percent. For example, if a 10-year net return as calculated by the law was 10 percent, the account would be credited with an 8.5 percent gain.

- New teachers in the cash balance plan will be eligible for retirement in one of two ways. First, at age 57 and once their age plus years of service equals 87 (also known as Rule of 87). Second, at 65 with five years of service.
- At retirement, members may choose either a lifetime annuity based upon their account balance or a lump-sum refund of their account.
- Members choosing the lump sum refund will not be eligible for retiree medical insurance through TRS. State law only allows TRS to provide retiree health insurance to members who are receiving a monthly benefit.
- Employer credits are vested to members after five years of service. Members refunding (before then) would get their contributions and the investment earnings credits on their contributions, but not the employer credit nor the investment credit on that employer contribution.
- New members under the cash balance plan are not covered by an inviolable contract.
- Should the terms of the cash balance plan be changed, SB 151 provides that the amount of the accumulated account balance the member has accrued at the time of any amendment, suspension or reduction shall not be affected.
- Because the cash balance plan is a new tier, the money can be invested alongside the funds of the defined benefit plan for current and retired teachers.

New State Budget Provides Full Funding for TRS; First Time In More Than A Decade

For the first time in a decade, the full required contribution for the Teachers' Retirement System of the State of Kentucky is included in the biennial budget. That consists of about $2 billion total, including the full $1.09 billion requested in additional funding to address the unfunded liability.

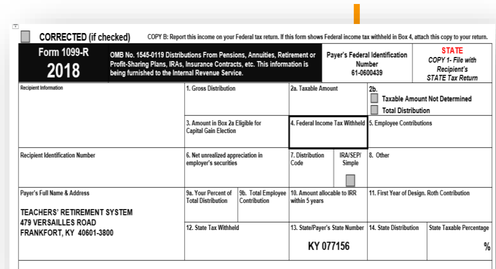
The new budget is on the heels of the two-year spending plan that expires June 30 where TRS received 94 percent of the required contribution.

"These new funds are hugely important for TRS," Executive Secretary Gary Harbin said. "This keeps the system on the path to full funding. We're thankful to Gov. Matt Bevin and the legislature for this tremendous support."

Kentucky Tax Exclusion for Pensions Changed

A revenue bill that recently became law changes how much of most retired teachers' pensions are exempt from state tax.

Pension income that was earned on service rendered before Jan. 1, 1998, remains exempt from state tax.


CORRECTED (if checked)
COPY B: Report this income on your Federal tax return. If this form shows Federal income tax withheld in Box 4, attach this copy to your return.
Form 1099-R
2018
OMB No. 1545-0119 Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc. This information is being furnished to the Internal Revenue Service.
Payer's Federal Identification Number 61-0600439
STATE COPY 1- File with Recipient's STATE Tax Return
Recipient Information
1. Gross Distribution
2a. Taxable Amount
2b. Taxable Amount Not Determined
Total Distribution
3. Amount in Box 2a Eligible for Capital Gain Election
4. Federal Income Tax Withheld
5. Employee Contributions
Recipient Identification Number
6. Net unrealized appreciation in employer's securities
7. Distribution Code
IRA/SEP/ Simple
8. Other
Payer's Full Name & Address
TEACHERS' RETIREMENT SYSTEM
479 VERSAILLES ROAD
FRANKFORT, KY 40601-3800
9a. Your Percent of Total Distribution
9b. Total Employee Contribution
10. Amount allocable to IRR within 5 years
11. First Year of Design. Roth Contribution
12. State Tax Withheld
13. State/Payer's State Number
KY 077156
14. State Distribution
State Taxable Percentage
%

House Bill 366, among a number of tax changes, reduced the exclusion for pension income from service after that date to $31,110 from $41,110. That means a person receiving a benefit of $51,110 a year now (earned from 1998 service and beyond) will pay state tax on the $20,000 that is above the $31,110 that is excluded.

TRS recommends you seek the advice of a qualified tax preparer for any specific questions concerning Kentucky income taxes on your pension.

TRS mails 1099R tax forms at the end of every January.

What the Budget Means for Retired Teacher Health Care and the Non-Single Subsidy

The 2018-20 budget funds retiree health coverage in ways that if repeated in future budgets would negatively impact retiree health care. TRS is beginning discussions, described more fully below, to ensure the long-term availability and current coverage levels of the retirement system's retiree health plan.

"Certainly, this was a difficult budget, and TRS is very thankful for the additional funding it received for the pension fund," TRS Executive Secretary Gary Harbin said. "At the same time, using medical insurance trust dollars in future budgets for purposes that were not intended would jeopardize retiree health care in the long run."

TRS retirees receive health care through two plans. The first is the Kentucky Employees' Health Plan (KEHP) administered by the state Personnel Cabinet for under-65 and not Medicare-eligible retirees. This is the same pay-as-you-go plan that covers active teachers and state employees.

The second plan is the Medicare Eligible Health Plan (MEHP) administered by TRS for Medicare-eligible retirees and those 65 and over. The MEHP is exclusively for TRS members and its accompanying Medical Insurance Fund (TRS fund) has not had money re-allocated to help balance the budget. The TRS fund's assets – currently at a funding ratio of 26.7 percent – are for the claims of the MEHP's over-65 single coverage in the next 26 years. So, while the TRS fund is prefunded, it doesn't have a surplus unless the funding ratio exceeds 100 percent.

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The new 2018-20 budget assigns the costs for two pieces of retiree health care – one dealing with premiums for the dependents of retired teachers and the other dealing with premiums for under-65 retired teachers – to the TRS fund that covers MEHP claims. Neither of those expenses were envisioned in 2010, when Shared Responsibility became law, as uses for the TRS fund.

One piece of the budget not envisioned in 2010 allows TRS to pay the non-single subsidy – something TRS

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cannot do without the permission of the legislature – out of the TRS fund. This costs about $10 million a year. The legislative authority given to TRS also requires approval of the Board of Trustees.

Generally, this benefit has been provided since 2004, with funding and/or permission from the state, for under-65 retirees who want to cover dependents through a family, parent plus or couple plan. These retirees represent about 7 percent of all retirees.

Based on the most recent budget passed, it would appear any subsidy going forward for dependents covered through under-65 retired teachers would be the responsibility of the TRS fund.

Using the TRS fund for the subsidy for the dependents of under-65 retirees is manageable in the short term; however, it's inconsistent with the 2010 Shared Responsibility solution and unsustainable in the long term. The retirement system for other state employees eliminated this subsidy several years ago.

The dependent subsidy expense, if continued year after year, could lead to coverage reductions for all retirees and defeat the primary goal of Shared Responsibility to protect the coverage of the entire retired teacher population.

TRS will be reviewing the loss of funding for dependent care of under-65 retirees and will be meeting with education stakeholder groups to reach a consensus on sustainable options for the future in time for 2019 plan year.

The other piece of the budget requires TRS to pay what has been the state's share of under-65 single coverage from the TRS fund to cover those same members who retired on July 1, 2010, or after. (The TRS fund, as envisioned by the 2010 Shared Responsibility law, already pays the cost of under-65 health insurance for those members who retired prior to July 1, 2010.) The budget calls for any state surplus from the 2018-2019 fiscal year to go to TRS toward the $70 million one-year cost of the single-coverage premium subsidy for under-65 retirees that otherwise will come from the TRS fund.

"Earmarking any surplus for what has been the state's share of under-65 retired teacher coverage is a positive sign that this hopefully is a one-time budgeting occurrence," Harbin said. "However, if continued, the cost would lead to coverage reductions or premium increases for retired teachers."

Teachers' Retirement System
of the State of Kentucky
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TEACHERS' Retirement System TRS KENTUCKY

New Contact Information?

Keeping your contact information current ensures that you receive important communications from the Teachers' Retirement System, such as annual statements, newsletters, trustee election ballots, payment stubs and tax forms.

Even if you change your address with the school district where you work (or worked), the school district doesn't report that change to TRS. So, TRS needs to be notified of the change independently by members.

Besides your physical address, please keep email addresses and telephone numbers up to date.

TRS offers multiple ways to update your information, including by changing it in the Pathway member self-service portal. Also, members may mail or fax a signed letter to TRS with your name and TRS ID and the new information.

Finally, a downloadable form also is available from the website.

The fax is 502-848-8599, and the mailing address is: 479 Versailles Rd. Frankfort, KY 40601.

Website https://trs.ky.gov

info@trs.ky.gov

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