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Teachers' Retirement System

RETIRED
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From the Executive Secretary What Top Investment Performance For a Decade Means for Kentucky Teachers and Taxpayers

By Gary L. Harbin, CPA

With the new year marking the end of the “teens,” many people are looking back and debating the “best of’s” for a decade. One undebatable conclusion for that decade and more is that Kentucky public school teachers’ retirement funds are being invested significantly better than other institutional investors. In both performance and low-cost investing, TRS is paying off for Kentucky’s teachers and all taxpayers.

As of June 30, 2019, TRS achieved top 8% investment performance during the last 10 years among public plans with assets over \$1 billion as ranked by Aon. That top decile performance isn’t just a percentage or a percentile, it’s real dollars.

See Top Investment Performance, page 2

Electronic Voting Option Continues for 2020 Trustee Election in April

TRS again will offer the option of electronic voting for the Board of Trustees election. Electronic voting will be available through Pathway (<https://mss.trs.ky.gov>) between April 1 and 19. Reminders will be communicated broadly, including through Facebook and Twitter.

The goals of this for trustee elections are to provide a secure method for people who prefer to vote by personal device and to increase participation in the elections.

See Electronic Voting, page 2

Top Investment Performance, from page 1

In the last 11 years, TRS has earned \$3 billion in net investment income over the typical pension plan. That overperformance helps ensure retirement security and decreases the state's liability by that amount.

Speaking of liability, it's also worth remembering that the 2010 Shared Responsibility law, which prefunded retiree health insurance, along with other cost-saving measures undertaken at the time saved the state \$5 billion in liabilities.

So, it's more than fair to say that the efforts of the TRS Board of Trustees; educators and lawmakers; and TRS staff have resulted in an \$8 billion reduction in liabilities for the state in the last 11 years.

All this continues a track record of growth over many decades that shows the sustainability of this

benefit for teachers. The Retirement Annuity Trust had \$1.8 billion in 1985. Since that time, TRS has paid \$30.9 billion in payments and ended the most recent fiscal year with \$20.4 billion in assets.

How is that possible? Because TRS investments earned \$27.5 billion with \$22.2 billion in contributions during the 34 years. For the last three decades, TRS has earned compounded returns of 8.13%.

With all this looking back a decade and looking forward, it's clear that this teachers' retirement system is the best deal the state of Kentucky can have — for retirees, teachers and other taxpayers. The numbers, decade after decade, confirm the growth of TRS and why teachers will be able to rely on it for decades to come. Feel free to put TRS on your "best of" lists.

Electronic Voting, from page 1

The electronic voting will be followed by voting by paper ballot in May. Once the period for electronic voting is closed, paper ballots will be printed and mailed to anyone who hasn't already voted.

On-screen ballots, which include candidate biographies, are similar to the paper ballots TRS has used for years.

The election will be overseen, as required by law, by the Kentucky Department of Education (KDE), and votes will be tallied at KDE, which forwards the results to TRS. The votes on electronic ballots will not be seen by anyone at TRS; the paper ballots will continue to be mailed to KDE.

Results will be announced in June, and the new trustee's four-year term begins July 1.



The 11-member TRS board includes seven trustees elected by active members and retirees. The other four consist of two, the education commissioner and the state treasurer, who serve by reason of their office and two who are appointed by the governor with investment experience.

One active teacher seat is up for election this year.

New Rules in Place for TRS Retirees Returning to Work with a TRS Employer

In order to ensure that TRS members are able to make tax-deferred contributions toward retirement, new rules are in place so that TRS's return-to-work policies comply with federal law for retirees returning to work with any employer covered by TRS. The changes apply only to members who retired on or after Jan. 1, 2020.

Two of the biggest changes, before a retiree can return to work with a TRS employer, are the required break in service will be measured from the date of retirement, not the last day worked, and the break is required even if your new job with a TRS employer will not be a TRS position.

Also, retirees returning to work with any TRS employer will have to sign – along with the new employer – a form certifying no agreement was made prior to retiring about returning to work. This includes retirees returning to work with a different TRS employer. In order to ensure that retirements actually are retirements, federal tax law prohibits retiring with an agreement of being rehired.

Under the new rules, the break in service also now is required for university members seeking to return to work with a TRS employer.

Additionally, this means universities in TRS no longer will be permitted to use programs that allow for a reduced workload immediately after retirement without a break in service.

As a reminder, a three-month break in service is required if returning to work for the same TRS employer part time or a different TRS employer part or full time. A 12-month break is required if returning to the same TRS employer full time. And those break rules apply regardless of whether the new position is certified or classified.

Also, as a reminder, the retiree may not provide any paid or unpaid service to a TRS-participating employer during the break in service, such as – for example – reading to students, helping set up a stage, collecting tickets, putting up chairs or working in a school concession stand. The restriction does not ban retirees from school property during the break in service. Retirees, as long as they are not providing a service to the TRS employer, may – for example – visit; attend school functions like plays and sporting events as a spectator; and take grandchildren to school. Most importantly, retirees who are in their break-in-service period should call TRS before doing anything for a TRS employer that they're unsure is permitted during a break in service.



TRS Investment Performance 5.9% for Fiscal Year 2019

The teachers' pension fund saw a 5.9% gross and 5.59% net of fees return for the fiscal year that ended June 30. While the one-year performance is below the 7.5% assumed rate of return, TRS is a long-term investor and any single year's return should be viewed accordingly.

	1-year	3-year	5-year	10-year	20-year
Gross	5.9%	10.62%	7.08%	10.33%	6%
Benchmarks	7.44%	10.22%	7.04%	10.15%	N/A
Net of Fees	5.59%	10.31%	6.82 %	10.08%	5.85%

TRS is beating its benchmarks (which are measured against gross returns) for the 3-year, 5-year and 10-year returns, with performance in the top 10% of pension plans for each of those periods as ranked by Aon. The performance for the one-year return was in line with Aon's average return.

The 30-year compounded gross return is 8.13%.

Funded Ratio Improves for Pension, Medical Funds

With the most recent work of actuaries and auditors done, the Teachers' Retirement System's funded ratio for the Retirement Annuity Trust improved for the fourth time in the last five years.

During the fiscal year that ended June 30, TRS experienced the first year of full funding. Another year of full funding is budgeted for the current fiscal year as well. Both of these follow nearly full funding in the 2016-2018 biennium.

Thanks to this funding and investment returns on it, the funded ratio of the retirement annuity improved to 58.1%, from 57.7% the prior year, according to the actuarial valuation. According to the most recent audit, the fiduciary net position of all TRS funds has improved more than \$4.2 billion since June 30, 2016. Both the actuarial valuation and annual audit were released in November.

With retiree health insurance, Shared Responsibility, which went into effect in 2010, has resulted in the Health Insurance Trust reaching 46% funding compared to pay-as-you-go status before the law took effect.

Before Shared Responsibility was enacted in 2010, the funding ratio was at 3.5% at the end of fiscal year 2009.

2-Page Section for You and Your Tax Preparer

2019 Tax Year Information

Tax Time Tips

On the next pages of the newsletter are illustrations aimed at helping you complete the pension-related parts of tax returns.

These tips should not, however, be considered the only advice needed. Rules and forms likely will differ for retirees who now live outside Kentucky. Retirees may want to confer with a tax preparer or use a computer program for tax form preparation. TRS assumes no liability in providing this general guidance. Most importantly, remember that pension income up to \$31,110 is exempt from Kentucky taxes – and is completely exempt for service credit before Jan. 1, 1998.

Form 1099-R

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

The tax statement contains confidential information and can only be mailed to the member’s address that is currently on record with TRS. For TRS to send the form to a different address, the member, beneficiary or power of attorney must submit a written request to TRS. The written, signed request may be mailed to TRS or faxed to 502-573-0254 and should specify if the address change is permanent. The address change form is available on the Retired Member forms page at trs.ky.gov. Duplicates are available using Pathway (mss.trs.ky.gov), which provides members online access to account information, or by calling 800-618-1687. The graphic below highlights the different components of the 1099-R.

Form 1099-R 2019	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-xxxxxxx	STATE <i>COPY 1- File with Recipient's STATE Tax Return</i>
Recipient Information	1. Gross Distribution 1	2a. Taxable Amount 2a	2b. <input type="checkbox"/> Taxable Amount Not Determined <input type="checkbox"/> Total Distribution	
	3. Amount in Box 2a Eligible for Capital Gain Election	4. Federal Income Tax Withheld	5. Employee Contributions 5	
Recipient Identification Number	6. Net unrealized appreciation in employer's securities	7. Distribution Code	IRA/SEP/ Simple <input type="checkbox"/>	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 9b	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	14. State Distribution	State Taxable Percentage %

BOX 1

Shows total pension benefit before withholding.

BOX 2a

Shows taxable portion of benefit. If blank, "Taxable Amount Not Determined" in Box 2b should be marked.

BOX 5

Shows the amount member personally contributed to what was received. The Box 5 amount is nontaxable and is **not** used on personal returns (i.e. IRS Form 1040, Ky. Form 740).

BOX 9b

Only used in first year of retirement to show amount of previously taxed contributions.

Kentucky State Taxes

Most members do not owe Kentucky state taxes on TRS benefits. You may want to take a copy of these pages to your tax preparer.

Kentucky law excludes up to \$31,110 in pension income from state tax (no pension income from service before Jan. 1, 1998 is taxable), so don't forget to apply the Kentucky pension income exclusion against the amount taxable by the state.

Here's how:

The Kentucky return begins with the federal adjusted gross income, which is on line 5 of Form 740. But that figure can be lowered using the deduction of up to \$31,110. On Schedule M, which is where deductions are itemized, line 9 allows up to \$31,110 to be deducted. If the amount in box 2a of the 1099-R (or the sum of box 2a amounts, if you have more than one 1099-R) exceeds \$31,110, a Schedule P, which reports pension income in detail, will need to be filed. Follow the instructions on the form to determine the amount that goes on Schedule M line 9.



Federal Taxes

Upon retirement, federal taxable income must be reported to the IRS. Under federal tax law, members must pay taxes on tax-sheltered annuities immediately. If you made contributions prior to August 1982 or made personal payments to the retirement system, TRS will calculate the amount of contributions upon which federal income taxes already have been paid and will report on the 1099-R the amount of your annuity that is still subject to income tax.

Need Help?

Tax forms may be obtained through the Kentucky Department of Revenue at <http://revenue.ky.gov/Get-Help/Pages/Forms.aspx>.

- TRS: 800-618-1687
- KRS: 800-928-4646
- Deferred Compensation: 800-542-2667
- Kentucky Revenue Cabinet: 502-564-4581
- IRS: 800-829-1040

Security Dos and Don'ts

As the Teachers' Retirement System encourages members to do more with their accounts online, some pointers are in order to ensure the security of your account. First, know that TRS is aware of your login information. TRS will never ask you for your password over the telephone or by email. Don't give this information to anyone, even if they claim to be a representative of TRS. The following tips are gleaned from a variety of websites.



DO

- Create different passwords for different accounts.
- Use combinations of uppercase and lowercase letters, numbers and special characters.
- Keep your computer and device software up to date.
- Use a password or personal ID number on your mobile phone.

DON'T

- Share passwords with others.
- Post information like credit card numbers or passwords on public sites.
- Click links, open mail or open attachments from an untrusted source.
- Respond to phone calls, letters or emails requesting confidential data.

KEHP

LivingWell Promise

It's time to keep your LivingWell Promise for the Kentucky Employees' Health Plan (KEHP). All KEHP plan holders are required to complete an online health assessment or biometric screening by July 1.

Here's how to complete the LivingWell Promise:

Health assessment:

- Complete this 10-minute online questionnaire at KEHPlivingwell.com. When registering, use your Social Security number as your unique ID.

Biometric screening:

 Complete one of these three options.

- Participate in an onsite screening at a local health department.
- Visit a LabCorp location.
- Visit your health care provider or a local pharmacy clinic.

For more information, visit KEHPlivingwell.com to print the biometric screening form or LabCorp voucher.

Contact StayWell at 866-746-1316 with any questions.

Teachers' Retirement System
of the State of Kentucky
479 Versailles Road
Frankfort, Kentucky 40601-3800



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, tax forms and retiree health insurance updates.

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 and retirees.

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

TRS offers multiple ways to update personal information, including by changing it online using Pathway. Also, members and retirees 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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