

Kentucky Teachers' Retirement System

Information for

KRTA Annual Meeting



April 22, 2014



Gary L. Harbin, CPA
Executive Secretary

Kentucky Teachers' Retirement System



*Established in 1938, KTRS provides
“Retirement Security” for
Kentucky’s educators.*



Did you know that ...

The KTRS Board Structure

is a Win for you and for Kentucky's Taxpayers!

The KTRS DB Structure

is a Win for you and for Kentucky's Taxpayers!

The KTRS Investment Structure

is a Win for you and for Kentucky's Taxpayers!

The KTRS Retiree Health Care Structure

is a Win for you and Kentucky's Taxpayers!

The KTRS Board Structure

*is a Win for you and for
Kentucky's Taxpayers!*



- For 75 years, the independent Board of Trustees has successfully upheld its obligations to members, the education community, and the taxpayers of the Commonwealth of Kentucky.
- The Board has done so in a cost effective way while avoiding pitfalls that other retirement systems have experienced.



THE BOARD OF TRUSTEES

Are the Fiduciaries of the System

Members Elect the Seven Trustees to a Four-Year Term on the Board.



**DR. TOM
SHELTON**
Chair, Lexington



**LAURA
ZIMMERMAN**
Vice Chair, Lexington



**ARTHUR
GREEN**
Elkton



**HOLLIS
GRITTON**
Union



**DR. JAY
MORGAN**
Murray



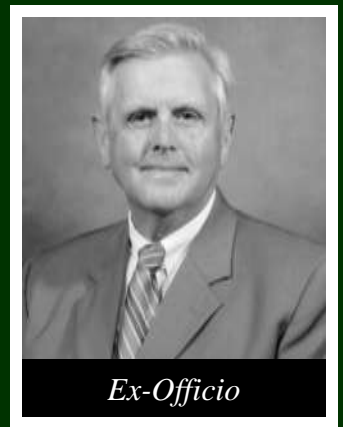
**RONALD L.
SANDERS**
Hodgenville



**RUTH ANN
SWEAZY**
Taylorsville



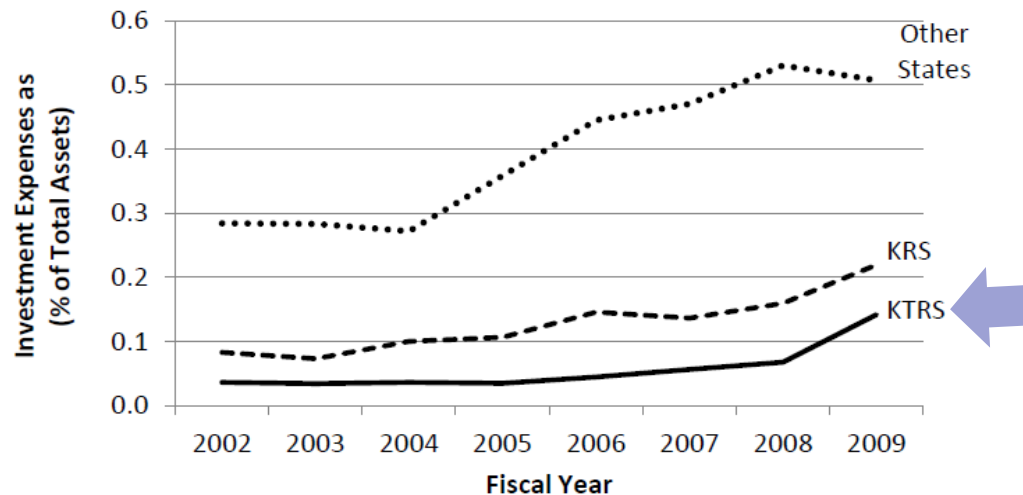
TODD HOLLENBACH
State Treasurer



DR. TERRY HOLLIDAY
*Commissioner of the Dept.
of Education*



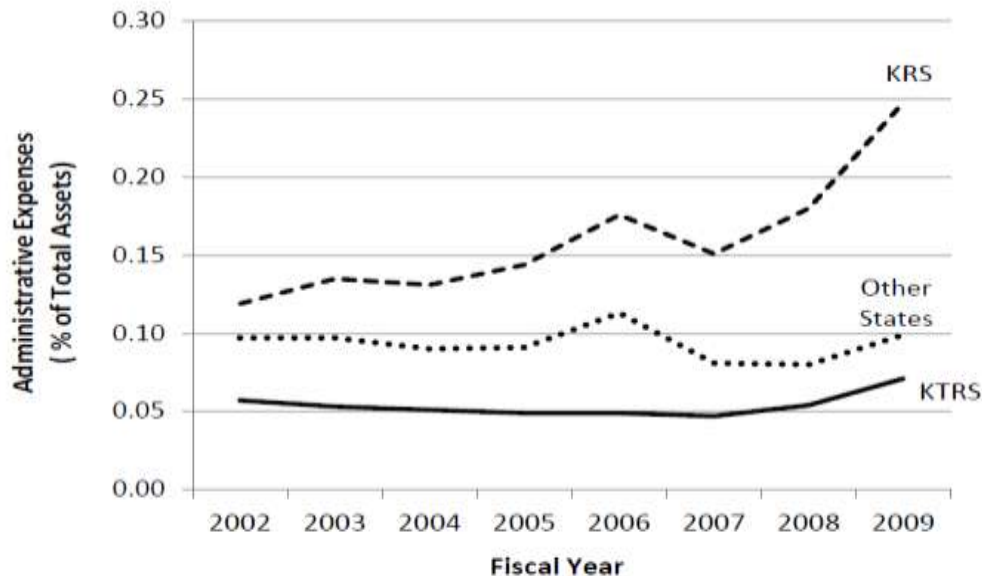
**KTRS investment
costs and
administrative
costs are among
the lowest in the
nation for
statewide pension
plans.**



Note: Value of pension plan assets is the market value.

Source: Staff analysis of data from Boston College's Center for Retirement Research; Commonwealth. Kentucky Retirement. *Comprehensive*, various years; ; Commonwealth. Kentucky Teachers'. *Comprehensive*, various years.

INVESTMENT EXPENSES
as a Percentage of Pension Assets for KRS, KTRS, and the Average of Other States FY 2002 to FY 2009



Note: Value of pension plan assets is the market value.

Source: Staff's analysis of data from Boston College's Center for Retirement Research.

ADMINISTRATIVE EXPENSES
as a Percentage of Pension Plan Assets for KRS, KTRS, and Average of Other States FY 2002 to FY 2009

*Program Review and
Investigations Committee
9.13.2012*

KTRS Quick Facts ...



**Membership Over
141,000**

**\$17.9 Billion
in Assets**



**KTRS Distributes Over
\$137 Million Monthly
in Retirement Benefits**



**Over 48,000 Receive
a Benefit
from KTRS**

**14,991 Eligible
to Retire**

Recap of Actuarial Status of the System

as of June 30, 2013

In Millions of Dollars

<u><i>Pre-funded</i></u>	Assets	Liabilities	Unfunded	Percent
RETIREMENT Benefit Fund	14,962.8	28,817.2	13,854.4	51.9%

<u><i>Pre-funded*</i></u>	Assets	Liabilities	Unfunded	Percent
MEDICAL Benefit Fund	412.2	3,521.1	3,108.9	11.7%

** Transitioning to Pre-funded as of July 1, 2010*

Field of Membership

as of December 2013

Active	0 – 26 Years	Non-eligible	43,976
	27+ Years*	Eligible	<u>14,991</u>
	Total Active		58,967
	Sub/PT/Retired Return to Work		<u>15,584</u>
	Total Contributing Members		74,551

Inactive	18,506
Retired, Beneficiaries & Survivors	48,463
Total	141,520

** and/or age 55 with 5 or more years of service within the next fiscal year*

Kentucky Teachers' Retirement System

Retiree Analysis

Retiree AGE- *Dec 31st*

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Age 100 years old or more	37	41	38	46	56	62	50
Age 95-99 years old	266	273	278	279	276	233	220
Age 90-94 years old	758	704	710	708	705	707	743
Age 80-89 years old	3,687	3,784	3,890	4,074	4,239	4,295	4,522
TOTAL RETIREES	4,748	4,802	4,916	5,107	5,276	5,297	5,337

KTRS Retirees ...

Under Age 80

	NUMBER	PERCENT
Females	29,320	70%
Males	12,636	30%
Total	41,956	100%

Age 80 & Above

	NUMBER	PERCENT
Females	4,736	73%
Males	1,771	27%
Total	6,507	100%



Positive Impact of KTRS

For School Districts

- ❖ Provides a benefit to attract and retain quality teachers.
- ❖ When teachers retire, this provides positions for new teachers and promotions for current teachers.
- ❖ When teachers retire, this reduces payroll costs as retiring teachers are replaced by new teachers.



Positive Impact of KTRS

For Members

- **Provides retirement security for those who have devoted their careers to teaching.**
 - A life-time retirement benefit determined by the member's length of service and salary.
 - A medical benefit prefunded through shared responsibility.



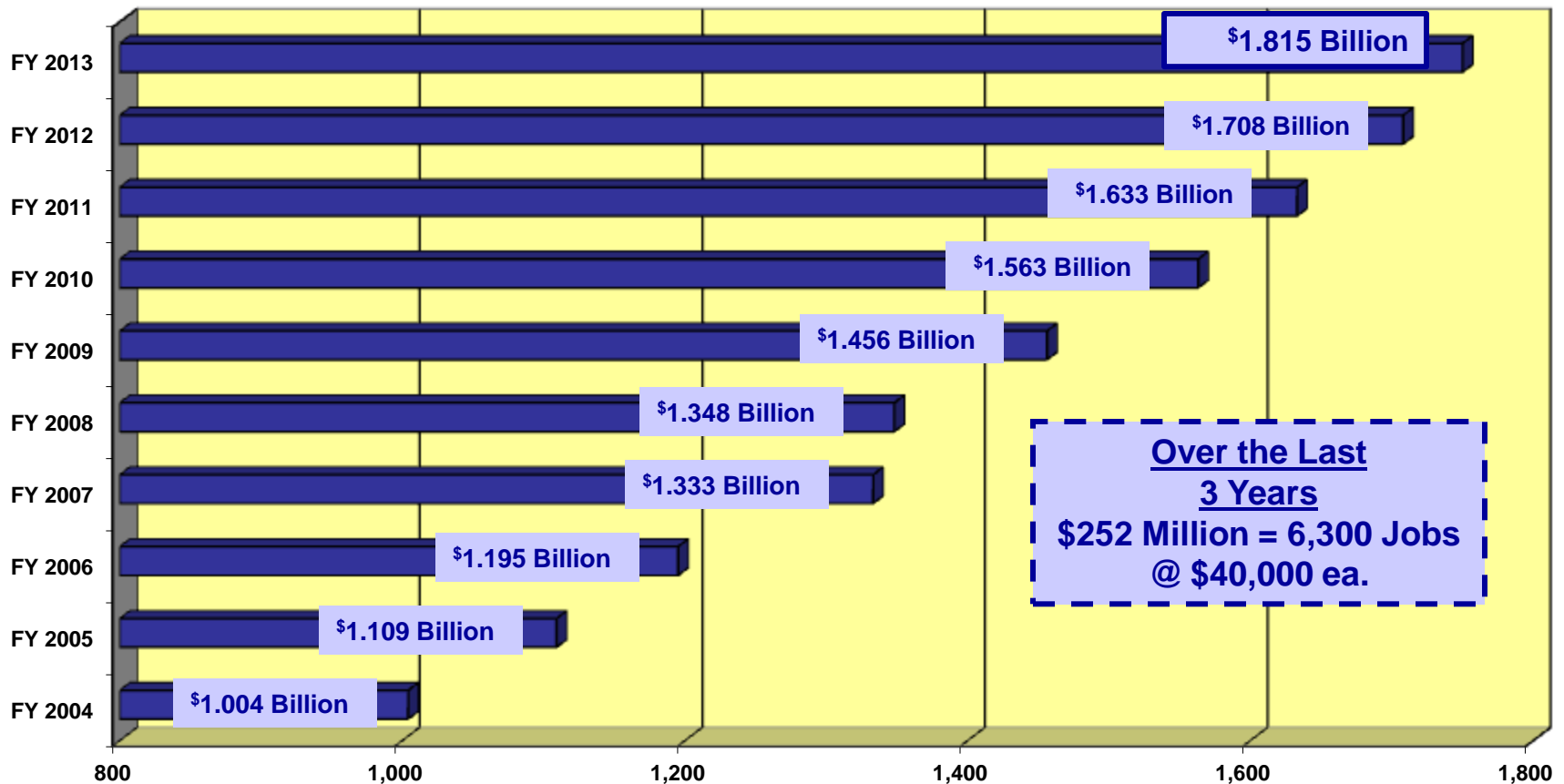


Retired teachers have a significant economic impact in every county in Kentucky.

- KTRS pays monthly (*July 2013*):
 - \$137.0 million in retirement annuity benefits
 - \$20.5 million in medical benefits
- 48,214 retirees, beneficiaries & survivors
- 92% of KTRS retirees live in Kentucky



KTRS Distributes Hundreds of Millions of Dollars Annually



The KTRS DB Structure

*is a Win for you and for
Kentucky's Taxpayers!*



Defined Benefit Plans are
THE MOST COST EFFECTIVE
way to provide for retirement.

- Professionally managed investments.
- Low administrative costs.
- Insurance against longevity risk and market timing risk.

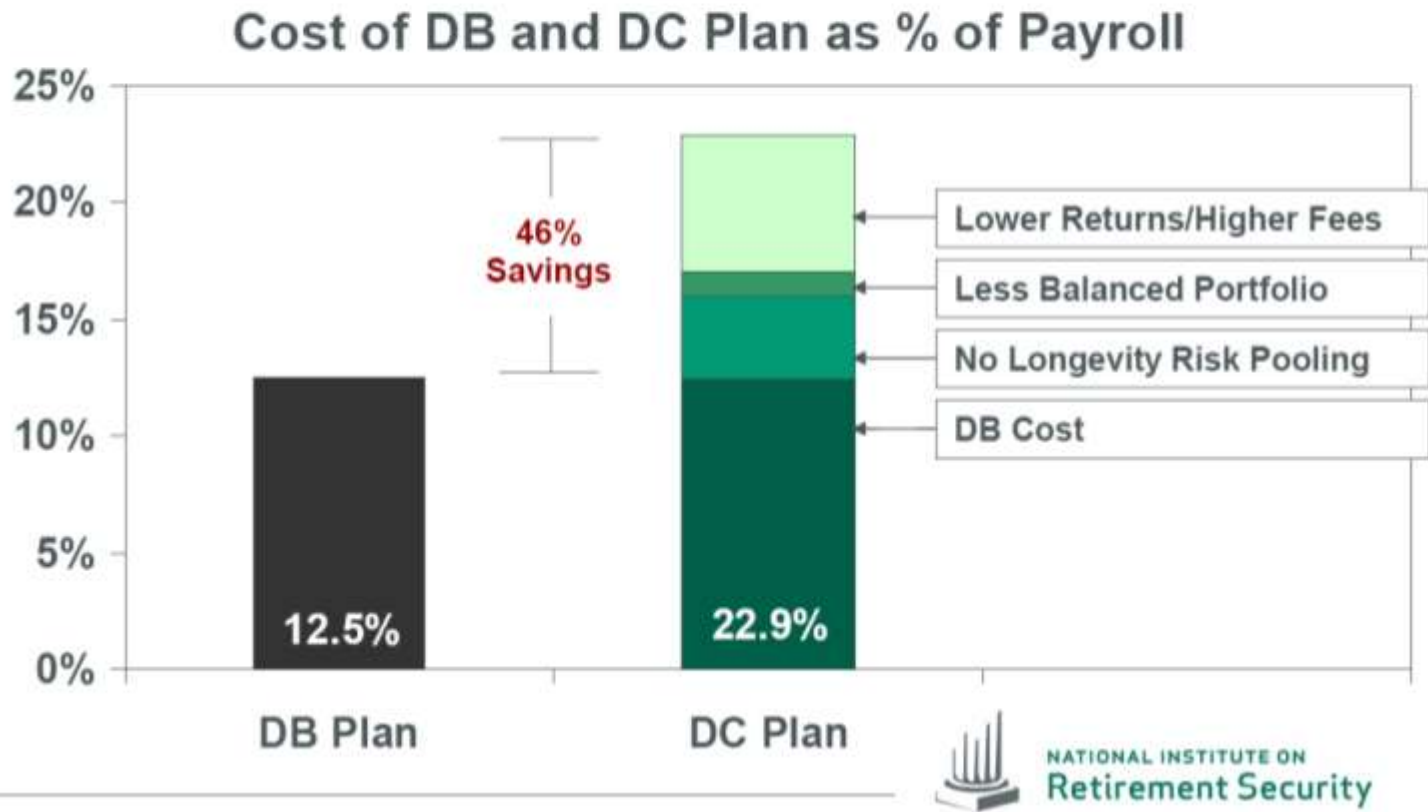


Defined Benefit *Group Retirement* Plan

A scenic photograph of a person in a red canoe fishing on a river. The person is wearing a hat and a life vest, and is holding a fishing rod. The river flows over a rocky bed, and a waterfall is visible in the foreground. The background is a dense forest of green trees under a clear blue sky. The text "Defined Contribution Individual Savings Account" is overlaid on the right side of the image.

Defined Contribution *Individual Savings* Account

DB Plan Can Deliver Same Benefit at About Half the Cost of DC Plan



The KTRS Investment Structure

*is a Win for you and
for Kentucky's Taxpayers!*

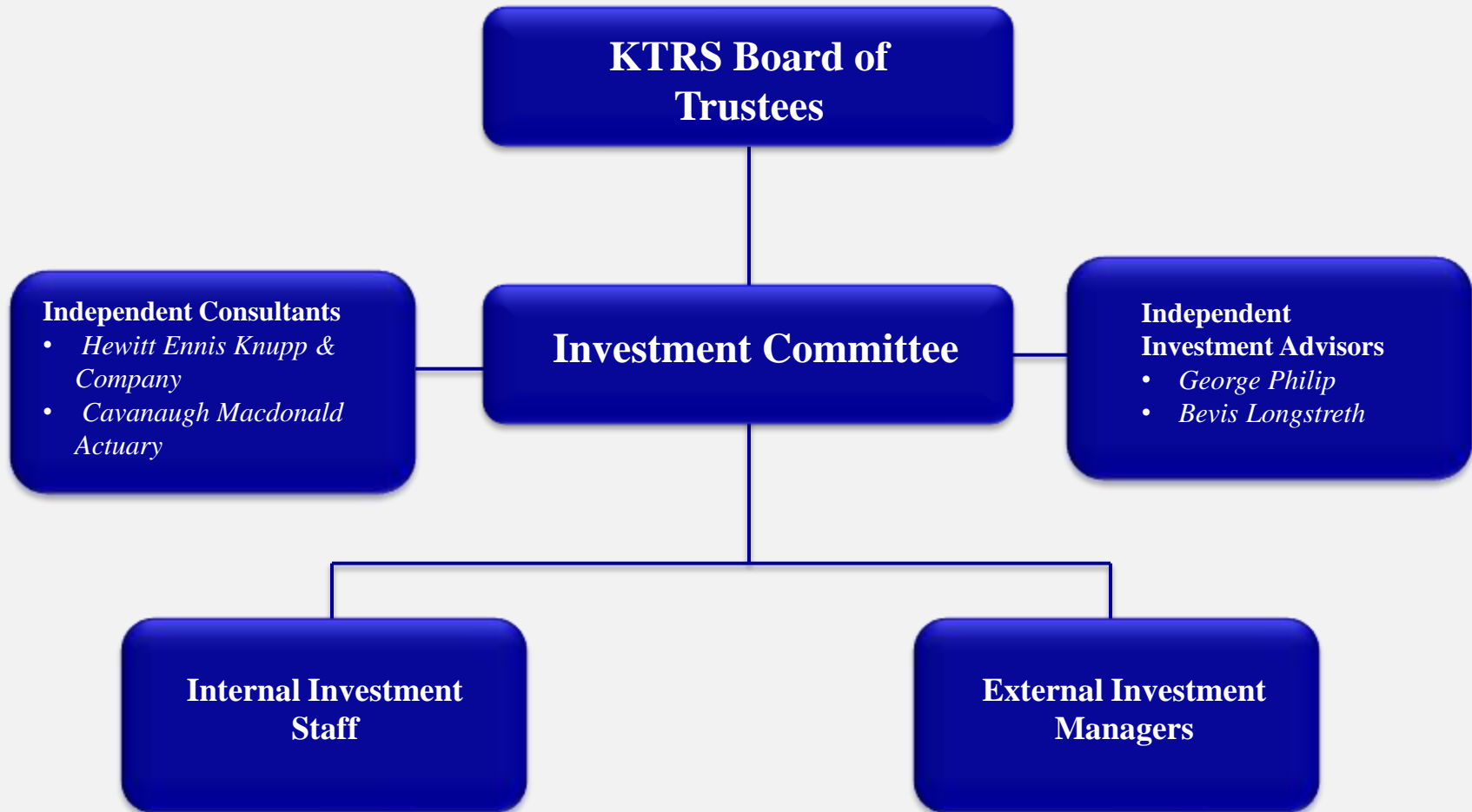


**KTRS has strong
Investment
Committee structure
with Elected Board
members working
with Outside
Investment
Professionals to guide
the investment
of teachers' assets.**



KENTUCKY TEACHERS' RETIREMENT SYSTEM

Organizational Chart for Investments

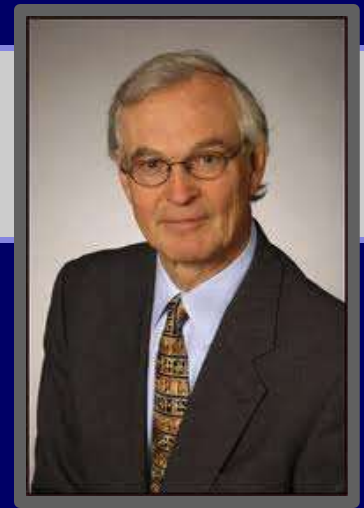


The Structure of the KTRS Investment Committee ...



- Exceeds current industry standards.
- Is leading “Best Practices” for Investment Committee Structure.
- Has been recommended for use in other States.

Bevis Longstreth



Professional Investment Activities:

- Since 2005, Member Board of Directors of Grantham, Mayo & Van Otterloo, LLC, Chairman of the Risk Committee.
- From 1972 to 1981 and since 1984, Member, Finance Committee, Rockefeller Family Fund, responsible for investment strategy, manager selection and monitoring, Chairman from 1987 to 2004.
- Appointed Commissioner, Securities and Exchange Commission, 1981: re-appointed, 1982; resigned January 13, 1984.
- Member of the Board of Governors of American Stock Exchange from 1992 to 1998.

Bevis Longstreth ...

Professional Investment Activities (continued):

- Member of Board of Trustees of College Retirement Equities Fund (CREF) of TIAA-CREF from 1996 to 2006.
- Member of Board of Directors of AMVESCO PLC (INVESCO) from 1993 to 2006.
- Member of the Pension Finance Committee of The World Bank from 1987 to 1995.
- Author of three books including, Modern Investment Management and the Prudent Man Rule.
- Author of over forty investment articles appearing in various publications including Financial Times, New York Times, Washington Post, Chicago Tribune, The Banker Magazine, The Journal of Portfolio Management.

Promise of Bitcoin

The failure of Mt. Gox may show the way to a better-regulated future for the virtual currency

U.K. Pension Race

Denmark's ATP shakes up the market by exporting its prized retirement savings model

Energizing NRG

The largest U.S. independent power producer wants to be an alternative-energy titan

Institutional Investor

APRIL 2014 INSTITUTIONALINVESTOR.COM

CMG Co-founder
Jeremy Grantham

Climate for Change

Investors can no longer ignore the risks posed by climate change or the opportunities it creates.

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George M. Philip



Professional Activities:

- President University of New York at Albany
- Currently is Investment Advisor to New York State Teachers' Retirement System.
- Serves and has served on numerous boards and investment committees including:
 - New York Stock Exchange, Advisory Committee
 - Chair of the Council of Institutional Investors
 - Director of US Airways Group
 - Director of First Niagara Financial Group (\$15Bn Bank Group)
 - Director of the Real Estate Investment Standards Board

George M. Philip ...

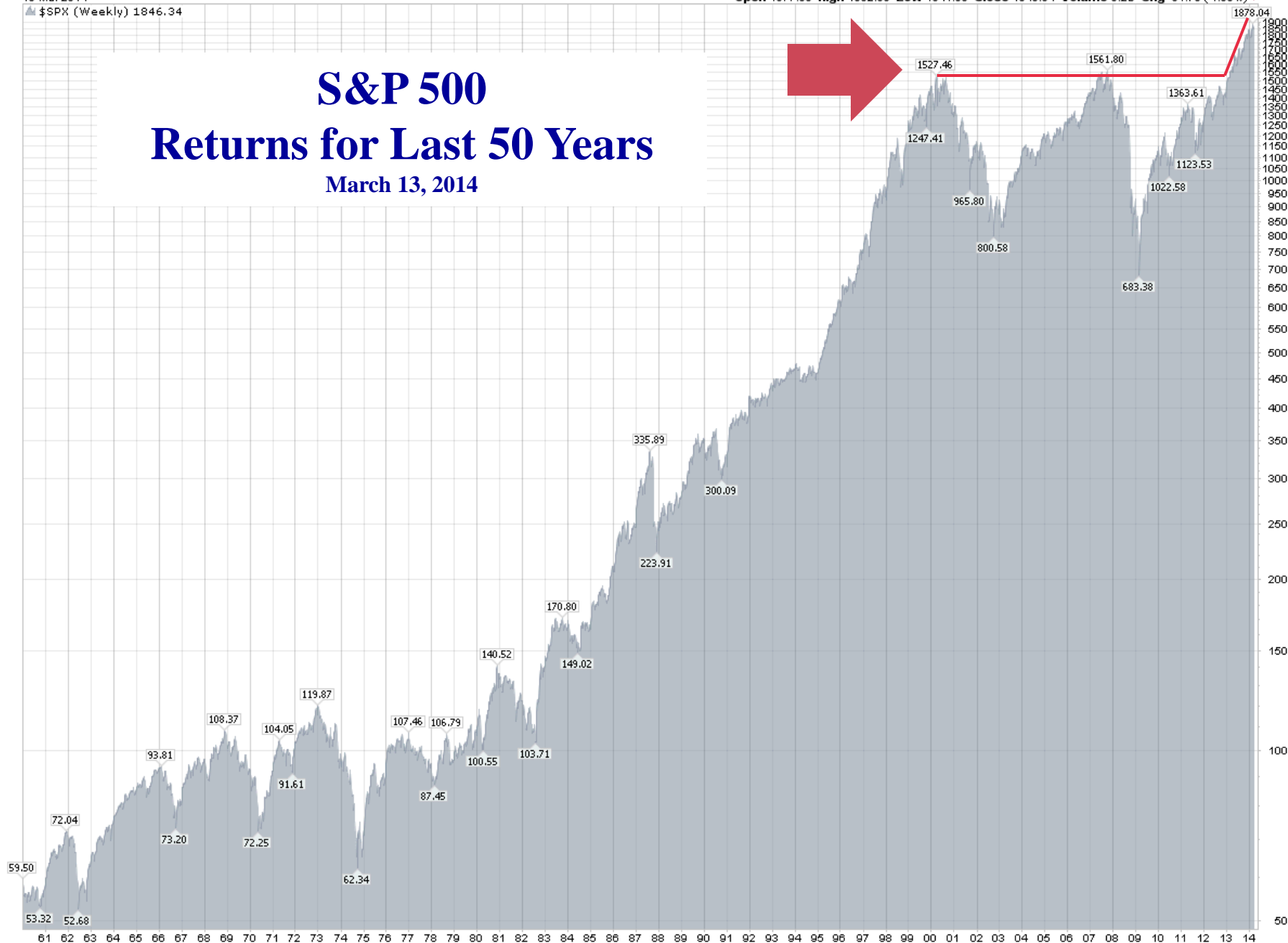
Professional Activities (continued):

- From 1971 to 2007 –
New York State Teachers Retirement System*
 - Chief Real Estate Investment Officer - 1988 to 1992
 - Chief Investment Officer - 1992 to 2007
 - Executive Director - 1995 to 2007

** One of the ten largest public pension funds in the United States, \$105 billion fund with 400,000 members. Mr. Philip was instrumental in diversification of portfolio including real estate and other alternative assets.*

S&P 500 Returns for Last 50 Years

March 13, 2014



Top-Performing Public Pension Funds

Top-performing public pension funds

Ranked by one-year return as of June 30. For the full set of data, go to Pionline.com/publicfunds13.

Rank	Pension fund	Return	Benchmark	Out-performance (basis pts.)
1	Oklahoma Teachers	17.40%	14.40%	300
2	San Bernardino County	15.05%	8.20%	685
3	Stanislaus County	14.60%	11.53%	307
4	Missouri Local Government	14.50%	9.10%	540
5	Nashville & Davidson County	14.22%	10.99%	323
6	Minnesota Board	14.20%	12.90%	130
7	Dallas Employees	14.20%	13.10%	110
8	Kentucky Teachers	14.10%	12.90%	120
9	Louisiana Schools	14.01%	13.48%	53
10	CalSTRS	13.80%	13.30%	50
Wilshire TUCS all public median		12.40%		

Source: Plan reports, Wilshire Associates' Trust Universe Comparison Service

INVESTMENT PERFORMANCE

KTRS RETURNS

FISCAL YEAR ENDED DECEMBER 31, 2013

1-Year

19.7%

3-Year

11.2%

5-Year

13.4%

30-Year

8.9%

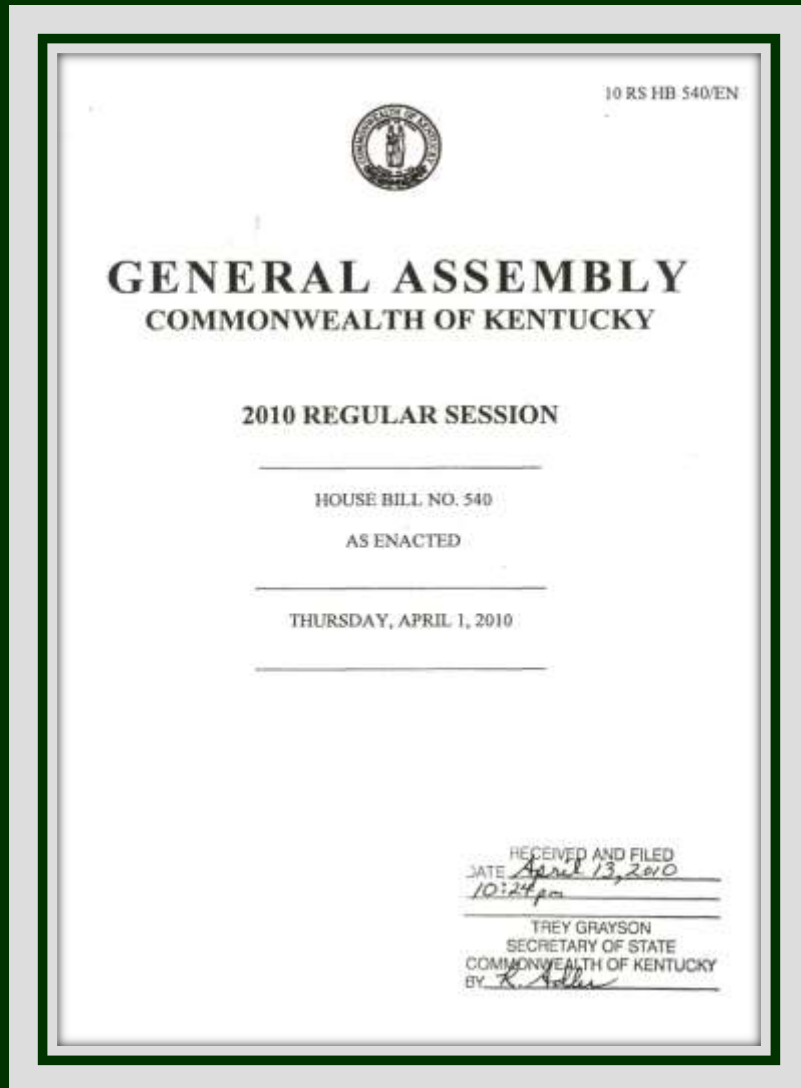


Over the last year KTRS
returns have been in the
“TOP 4%”
of pension plans
in the nation.

The KTRS Retiree Health Care Structure *is a Win for you and for Kentucky's Taxpayers!*



A Solution of Shared Responsibility for Long-Term Funding of Retiree Health Care



The Education Community, General Assembly, and Governor came together in 2010 and solved the funding for retiree health care – eliminating \$5 billion in cost to taxpayers for retired teachers' health care.

Constituency Groups' Long-Term Plan of Shared Responsibility for Funding Retired Teachers' Health Care

Medical Insurance Fund

Projected covered payroll (000,000s)

Active Teachers

	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16
Currently at .75% (1.75% hired on or after July 1, 2008) Rates will match for FY 2013	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%
Increase medical contribution (Note: 1% increase is less than 1 months premium)	<u>0.25%</u>	<u>0.50%</u>	<u>1.00%</u>	<u>1.50%</u>	<u>2.25%</u>	<u>3.00%</u>
	1.00%	1.25%	1.75%	2.25%	3.00%	3.75%

Retired Teachers

	CY 2010	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015
Retirees under Medicare eligible age	110.50	121.00	131.00	141.00	150.00	158.00
Pay equivalent to the Medicare Part B Premium paid by retirees age 65+ phase in starting July 1, 2010	37.00	81.00	131.00	141.00	150.00	158.00

Employers

	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16
School districts and other employers						
Phase into paying a medical contribution for retirees	0.25%	0.50%	1.00%	1.50%	2.25%	3.00%

State

	CY 2010	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015
Pick up net health care cost for new retirees under Medicare eligible age						
Current KEHP premium and <i>future estimated premium</i>	589.14	645.00	700.00	753.00	802.00	846.00
Less projected Medicare equivalent premiums paid by retirees	37.00	81.00	131.00	141.00	150.00	158.00
Net cost for State per new retiree starting July 1, 2010	552.14	564.00	569.00	612.00	652.00	688.00

Amount State redirects to fund retiree health care to be repaid over 10 years at 7.5%

Pension Fund

State

Required matching funding going to the Pension Fund

	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16
Matching contributions of active members	0.25%	0.50%	1.00%	1.50%	2.25%	3.00%

Official Signing of House Bill 540



*Governor Beshear
officially signs
House Bill 540*



Gary L. Harbin, CPA
*Executive Secretary of the
Kentucky Teachers'
Retirement System speaks on
behalf of the agency.*

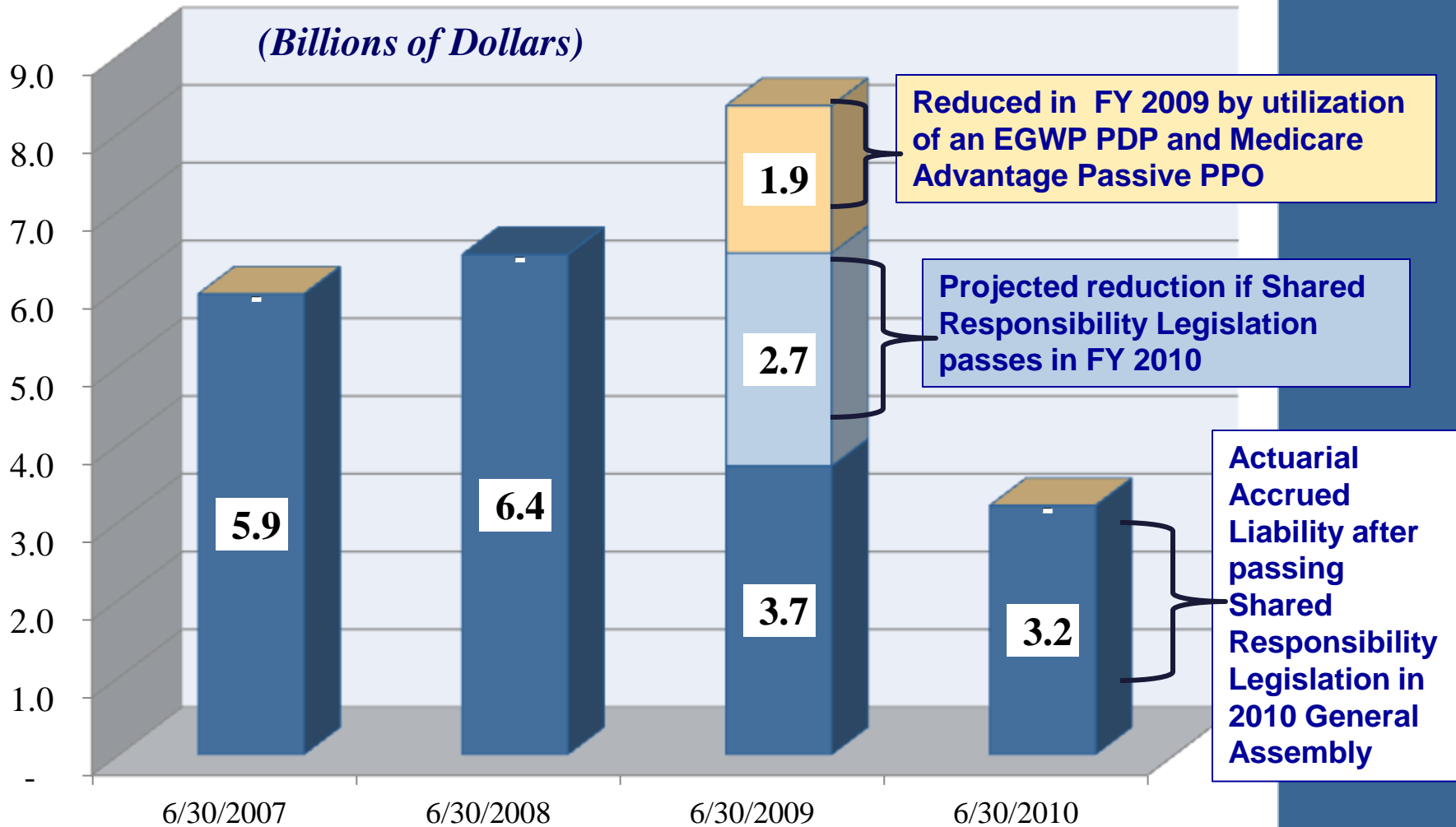


Dr. Robert Wagoner,
*Executive Director of the
Kentucky Retired Teachers
Association, speaks on
behalf of the agency.*



Thursday, May 27, 2010

Actuarial Accrued Liability



■ 6/30/2011 = 3.1

■ 6/30/2012 = 3.3

■ 6/30/2013 = 3.1

Positive News:
**States contributions – though short of amount
needed – have increased since 2008**

August 2010	\$465 million bond to repay retirement fund
February 2011	\$268 million bond to fund state's portion of Shared Responsibility.
March 2013	\$152 million bond to fund state's portion of Shared Responsibility.
July 2013	\$38 million appropriated from general fund to fund Shared Responsibility.
Budget for FY 15/16	as stands; includes \$50 million and \$61 million to fund Shared Responsibility.

Upcoming Changes for the State

- Amount of additional funding needed from State for FY 15/16 is \$386 million and \$487 million respectively.
- The State has indicated that it will be unable to pay this additional funding.
- Accounting rules for 2015 will require the State to report the unfunded liability using a lower assumed rate of return without this funding, thus increasing the unfunded liability from \$13.9 billion to \$21.9 billion.
- The State is committed to meeting its obligation to teachers.



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Teachers' Retirement System
of the State of Kentucky

***Our Members
Come First!***

1.800.618.1687

502.848.8500

www.ktrs.ky.gov

Protecting & Preserving Teachers' Retirement Benefits