Information for

Let’s Talk About Some Particulars of KTRS

Spring 2014
Kentucky Teachers’ Retirement System

Established in 1938, KTRS provides “Retirement Security” for Kentucky’s educators.
Does the Board take their fiduciary responsibilities & obligations seriously?

ANSWER: YES
• 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
Does KTRS Board keep a watchful eye on administrative costs of the plan?

ANSWER: YES
KTRS investment costs and administrative costs are among the lowest in the nation for statewide pension plans.
INVESTMENT EXPENSES as a Percentage of Pension Assets for KRS, KTRS, and the Average of Other States FY 2002 to FY 2009

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

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.
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
- Retirement Security
# Field of Membership

*as of December 2013*

<table>
<thead>
<tr>
<th>Category</th>
<th>0 – 26 Years</th>
<th>27+ Years*</th>
<th>Total Active</th>
<th>Sub/PT/Retired Return to Work</th>
<th>Total Contributing Members</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0 – 26 Years</td>
<td></td>
<td>43,976</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>27+ Years*</td>
<td>14,991</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Active</td>
<td>58,967</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sub/PT/Retired Return to Work</td>
<td></td>
<td>15,584</td>
<td></td>
<td></td>
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<tr>
<td>Total Contributing Members</td>
<td>74,551</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

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

Members of the
Kentucky Society of CPA's by Age by Gender

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Female</th>
<th>Male</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 30</td>
<td>317</td>
<td>266</td>
</tr>
<tr>
<td>30-39</td>
<td>687</td>
<td>708</td>
</tr>
<tr>
<td>40-49</td>
<td>525</td>
<td>1018</td>
</tr>
<tr>
<td>50-59</td>
<td>191</td>
<td>728</td>
</tr>
<tr>
<td>60-69</td>
<td>33</td>
<td>209</td>
</tr>
<tr>
<td>70+</td>
<td>4</td>
<td>163</td>
</tr>
</tbody>
</table>
## KTRS Benefit Payments For December 2013

<table>
<thead>
<tr>
<th>Benefit Type</th>
<th>Age Less Than 80</th>
<th>Age 80 and Above</th>
<th>All Ages</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Male</td>
<td>Female</td>
<td>Total</td>
</tr>
<tr>
<td>Normal Retirement</td>
<td>11,081</td>
<td>25,728</td>
<td>36,809</td>
</tr>
<tr>
<td>Disability Retirement</td>
<td>578</td>
<td>1,916</td>
<td>2,494</td>
</tr>
<tr>
<td>Survivor Payment</td>
<td>164</td>
<td>202</td>
<td>366</td>
</tr>
<tr>
<td>Beneficiary Payment</td>
<td>629</td>
<td>1,344</td>
<td>1,973</td>
</tr>
<tr>
<td>Adult Disabled Dependent</td>
<td>184</td>
<td>130</td>
<td>314</td>
</tr>
<tr>
<td>Other Recipient **</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>12,636</td>
<td>29,320</td>
<td>41,956</td>
</tr>
</tbody>
</table>

**Includes Child Support and IRS Levy Payments**

<table>
<thead>
<tr>
<th>Benefit Type</th>
<th>Age Less Than 80</th>
<th>Age 80 and Above</th>
<th>All Ages</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Male</td>
<td>Female</td>
<td>Total</td>
</tr>
<tr>
<td>Normal Retirement</td>
<td>26.4%</td>
<td>61.3%</td>
<td>87.7%</td>
</tr>
<tr>
<td>Disability Retirement</td>
<td>1.4%</td>
<td>4.6%</td>
<td>5.9%</td>
</tr>
<tr>
<td>Survivor Payment</td>
<td>0.4%</td>
<td>0.5%</td>
<td>0.9%</td>
</tr>
<tr>
<td>Beneficiary Payment</td>
<td>1.5%</td>
<td>3.2%</td>
<td>4.7%</td>
</tr>
<tr>
<td>Adult Disabled Dependent</td>
<td>0.4%</td>
<td>0.3%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Other Recipient **</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>30.1%</td>
<td>69.9%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>
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.
## Recap of Actuarial Status of the System

### as of June 30, 2013

<table>
<thead>
<tr>
<th></th>
<th>Pre-funded</th>
<th>Pre-funded*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RETIREMENT</strong></td>
<td><em>Transitioning to Pre-funded as of July 1, 2010</em></td>
<td></td>
</tr>
<tr>
<td>Benefit Fund</td>
<td>Assets</td>
<td>Liabilities</td>
</tr>
<tr>
<td></td>
<td>14,962.8</td>
<td>28,817.2</td>
</tr>
<tr>
<td><strong>MEDICAL</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefit Fund</td>
<td>Assets</td>
<td>Liabilities</td>
</tr>
<tr>
<td></td>
<td>412.2</td>
<td>3,521.1</td>
</tr>
</tbody>
</table>

*In Millions of Dollars*
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.
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

Retired teachers have a significant economic impact in every county in Kentucky.
KTRS Distributes Hundreds of Millions of Dollars Annually

Over the Last 3 Years
$252 Million = 6,300 Jobs @ $40,000 ea.
Is the current structure (DB plan) of teachers’ pensions the best way to provide for retirement?

ANSWER: YES
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
Defined Contribution
Individual Savings Account
DB Plan Can Deliver Same Benefit at About Half the Cost of DC Plan

Cost of DB and DC Plan as % of Payroll

- 12.5% for DB Plan
- 22.9% for DC Plan

46% Savings

- Lower Returns/Higher Fees
- Less Balanced Portfolio
- No Longevity Risk Pooling
- DB Cost

www.nirsonline.org
Is the investment performance being adequately managed for optimum results?

ANSWER

YES
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

KTRS Board of Trustees

Investment Committee

Independent Consultants
- Hewitt Ennis Knupp & Company
- Cavanaugh Macdonald Actuary

Internal Investment Staff

External Investment Managers

Independent Investment Advisors
- George Philip
- Bevis Longstreth
Board of Trustees Expands Investment Committee

- Seven members – five trustees, two non-trustees.
- Two of the five trustees have investment experience.
- Both non-trustees are investment experts.
- All members of Investment Committee sign conflict of interest statements.
- All trustees receive continuing investment related education.
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.


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 AMVESCAP 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.
Climate for Change

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

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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
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
August 7, 2013
# 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 Plonline.com/publicfunds13.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Pension Fund</th>
<th>Return</th>
<th>Benchmark</th>
<th>Out-performance (basis pts.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Oklahoma Teachers</td>
<td>17.40%</td>
<td>14.40%</td>
<td>300</td>
</tr>
<tr>
<td>2</td>
<td>San Bernardino County</td>
<td>15.05%</td>
<td>8.20%</td>
<td>685</td>
</tr>
<tr>
<td>3</td>
<td>Stanislaus County</td>
<td>14.60%</td>
<td>11.53%</td>
<td>307</td>
</tr>
<tr>
<td>4</td>
<td>Missouri Local Government</td>
<td>14.50%</td>
<td>9.10%</td>
<td>540</td>
</tr>
<tr>
<td>5</td>
<td>Nashville &amp; Davidson County</td>
<td>14.22%</td>
<td>10.99%</td>
<td>323</td>
</tr>
<tr>
<td>6</td>
<td>Minnesota Board</td>
<td>14.20%</td>
<td>12.90%</td>
<td>130</td>
</tr>
<tr>
<td>7</td>
<td>Dallas Employees</td>
<td>14.20%</td>
<td>13.10%</td>
<td>110</td>
</tr>
<tr>
<td>8</td>
<td>Kentucky Teachers</td>
<td>14.10%</td>
<td>12.90%</td>
<td>120</td>
</tr>
<tr>
<td>9</td>
<td>Louisiana Schools</td>
<td>14.01%</td>
<td>13.48%</td>
<td>53</td>
</tr>
<tr>
<td>10</td>
<td>CalSTRS</td>
<td>13.80%</td>
<td>13.30%</td>
<td>50</td>
</tr>
</tbody>
</table>

Wilshire TUCS all public median 12.40%

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

### KTRS Returns

**Fiscal Year Ended December 31, 2013**

<table>
<thead>
<tr>
<th></th>
<th>1-Year</th>
<th>3-Year</th>
<th>5-Year</th>
<th>30-Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>19.7%</td>
<td>11.2%</td>
<td>13.4%</td>
<td>8.9%</td>
</tr>
</tbody>
</table>

Over the last year KTRS returns have been in the **“TOP 4%”** of pension plans in the nation.
Has the previous pension reform helped .....?

ANSWER YES
• The average benefit for a full-time teacher working 30 years is about $36,000 per year.

• Teachers do not receive Social Security.

• Teachers pensions are their source of retirement.

• Pension reform has happened twice in the last decade.
Pension Reform

Teachers hired after July 1, 2008

- Significantly reduced multiplier.
- Limited to 300 days sick leave.
- 15 year vesting for retiree health care
- Increased retirement conditions:
  - Age 60 with 5 years service.
  - Under age 60 must have 10 years service.
- Must contribute additional 1% for retiree health care (this was increased to additional 3% by Shared Responsibility).
Pension Reform since July 2002

- Prior to 2002
- July 1, 2002
- July 1, 2008

- 20% decrease
- 20% decrease
- 8% decrease

- 12% decrease

- Multipliers
Has the cost of retiree health care been addressed?

ANSWER: YES
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.
## Medical Insurance Fund

**Projected covered payroll (000,000s)**

### Active Teachers

- Currently at .75% (1.75% hired on or after July 1, 2008) Rates will match for FY 2013
- Increase medical contribution (Note: 1% increase is less than 1 months premium)

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Active Teachers</td>
<td>0.75%</td>
<td>0.75%</td>
<td>0.75%</td>
<td>0.75%</td>
<td>0.75%</td>
<td>0.75%</td>
</tr>
<tr>
<td></td>
<td>0.25%</td>
<td>0.50%</td>
<td>1.00%</td>
<td>1.50%</td>
<td>2.25%</td>
<td>3.00%</td>
</tr>
<tr>
<td></td>
<td>1.00%</td>
<td>1.25%</td>
<td>1.75%</td>
<td>2.25%</td>
<td>3.00%</td>
<td>3.75%</td>
</tr>
</tbody>
</table>

### Retired Teachers

- Retirees under Medicare eligible age
- Pay equivalent to the Medicare Part B Premium paid by retirees age 65+
- Phase in starting July 1, 2010

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirees under Medicare eligible age</td>
<td>110.50</td>
<td>121.00</td>
<td>131.00</td>
<td>141.00</td>
<td>150.00</td>
<td>158.00</td>
</tr>
<tr>
<td>Pay equivalent to the Medicare Part B Premium paid by retirees age 65+</td>
<td>37.00</td>
<td>81.00</td>
<td>131.00</td>
<td>141.00</td>
<td>150.00</td>
<td>158.00</td>
</tr>
</tbody>
</table>

### Employers

- School districts and other employers
- Phase into paying a medical contribution for retirees

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Employers</td>
<td>0.25%</td>
<td>0.50%</td>
<td>1.00%</td>
<td>1.50%</td>
<td>2.25%</td>
<td>3.00%</td>
</tr>
</tbody>
</table>

### State

- Pick up net health care cost for new retirees under Medicare eligible age

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>State</td>
<td>589.14</td>
<td>645.00</td>
<td>700.00</td>
<td>753.00</td>
<td>802.00</td>
<td>846.00</td>
</tr>
<tr>
<td>Current KEHP premium and future estimated premium</td>
<td>37.00</td>
<td>81.00</td>
<td>131.00</td>
<td>141.00</td>
<td>150.00</td>
<td>158.00</td>
</tr>
<tr>
<td>Less projected Medicare equivalent premiums paid by retirees</td>
<td>552.14</td>
<td>564.00</td>
<td>569.00</td>
<td>612.00</td>
<td>652.00</td>
<td>688.00</td>
</tr>
</tbody>
</table>

- Net cost for State per new retiree starting July 1, 2010

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>State</td>
<td>552.14</td>
<td>564.00</td>
<td>569.00</td>
<td>612.00</td>
<td>652.00</td>
<td>688.00</td>
</tr>
</tbody>
</table>

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**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>State</td>
<td>0.25%</td>
<td>0.50%</td>
<td>1.00%</td>
<td>1.50%</td>
<td>2.25%</td>
<td>3.00%</td>
</tr>
</tbody>
</table>
Official Signing of House Bill 540

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

Governor Beshear officially signs House Bill 540

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

Thursday, May 27, 2010
Has Shared Responsibility helped the retiree medical benefit?

ANSWER: YES
Actuarial Accrued Liability

(Billions of Dollars)

- Reduced in FY 2009 by utilization of an EGWP PDP and Medicare Advantage Passive PPO
- Projected reduction if Shared Responsibility Legislation passes in FY 2010
- Actuarial Accrued Liability after passing Shared Responsibility Legislation in 2010 General Assembly

- 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

| Date         | Description                                                                 |
|--------------|                                                                            |
| 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. |
• 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.
Our Members Come First!

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Protecting & Preserving Teachers’ Retirement Benefits