Kentucky Teachers' Retirement System

Gary L. Harbin, CPA
Executive Secretary

Information for

Let's Talk About Some Particulars of KTRS

Spring 2014

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

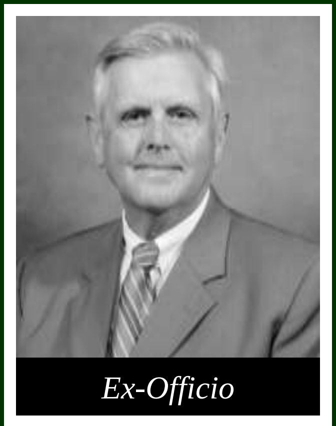
HOLLIS GRITTON
Union

DR. JAY MORGAN
Murray

RONALD L. SANDERS
Hodgenville

RUTH ANN SWEAZY
Taylorsville

TODD HOLLENBACH
State Treasurer



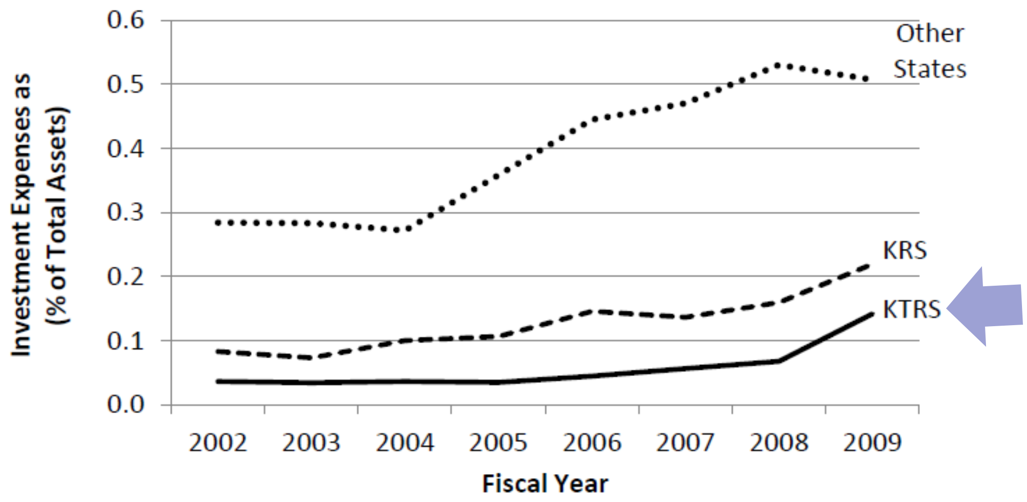
DR. TERRY HOLLIDAY
Commissioner of the Dept. of Education

Does KTRS Board keep a watchful eye on administrative costs of the plan?

ANSWER

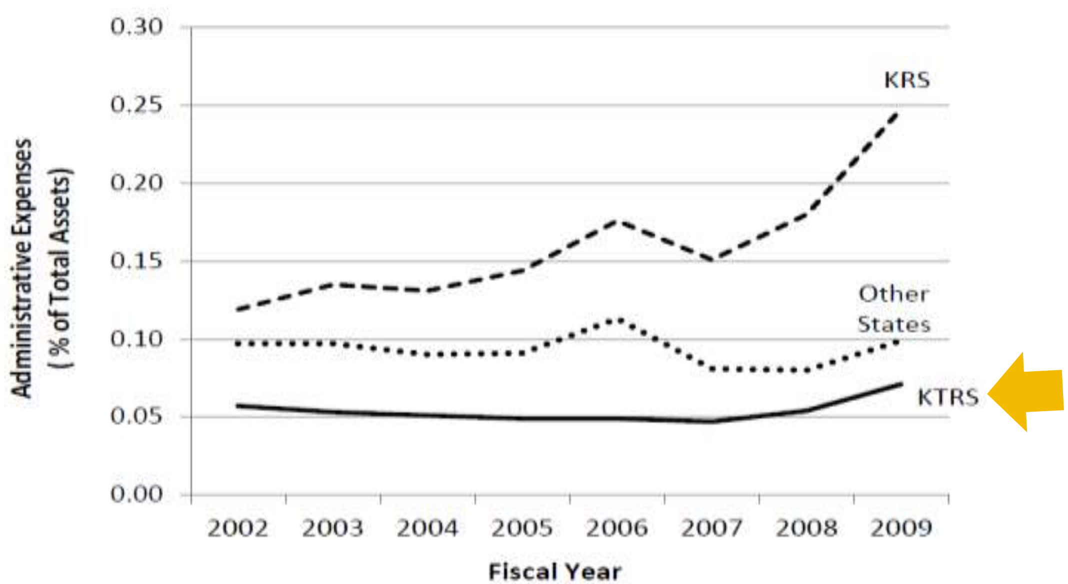
YES

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



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

KTRS Quick Facts …

Membership Over 141,000

$17.9 Billion in Assets

KTRS Distributes Over $137 Million <u>Monthly</u> in Retirement Benefits

Over 48,000 Receive a Benefit from KTRS

14,991 Eligible to Retire

Field of Membership

as of December 2013

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

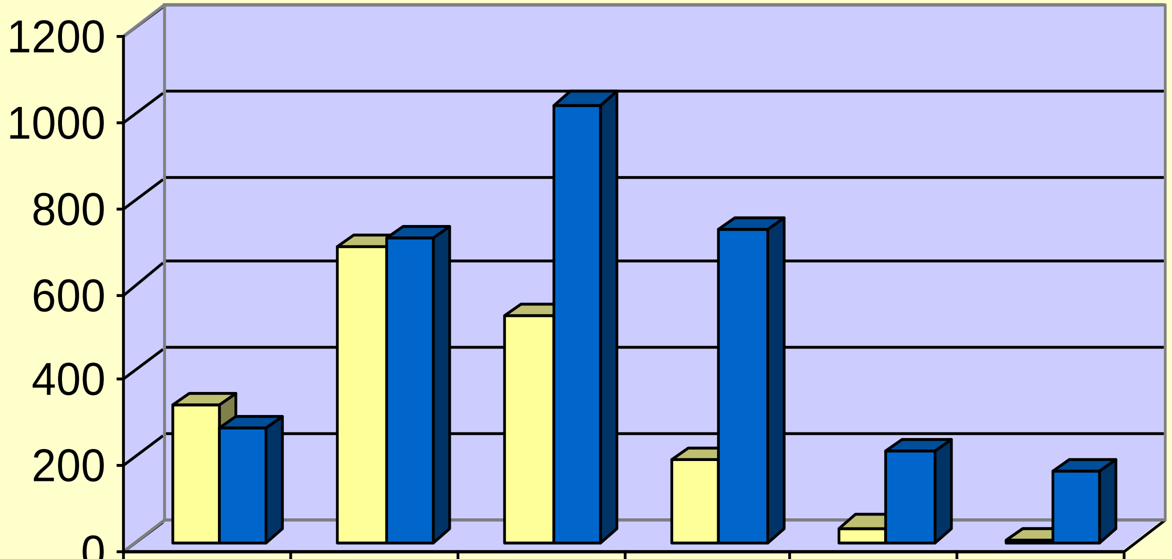
Retiree Analysis

Retiree AGE- *Dec 31st*

	2007	2008	2009	2010	2011	2012	2013
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**

Demographics

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



	< 30	30-39	40-49	50-59	60-69	70 +
Female	317	687	525	191	33	4
Male	266	708	1018	728	209	163

KTRS Benefit Payments For December 2013

Benefit Type	Age Less Than 80			Age 80 and Above			All Ages		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Normal Retirement	11,081	25,728	36,809	1,553	3,858	5,411	12,634	29,586	42,220
Disability Retirement	578	1,916	2,494	31	93	124	609	2,009	2,618
Survivor Payment	164	202	366	1	31	32	165	233	398
Beneficiary Payment	629	1,344	1,973	185	735	920	814	2,079	2,893
Adult Disabled Dependent	184	130	314	1	-	1	185	130	315
Other Recipient **	-	-	-	-	19	19	-	19	19
Total	12,636	29,320	41,956	1,771	4,736	6,507	14,407	34,056	48,463

** Includes Child Support and IRS Levy Payments

Benefit Type	Age Less Than 80			Age 80 and Above			All Ages		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Normal Retirement	26.4%	61.3%	87.7%	23.9%	59.3%	83.2%	26.1%	61.0%	87.1%
Disability Retirement	1.4%	4.6%	5.9%	0.5%	1.4%	1.9%	1.3%	4.1%	5.4%
Survivor Payment	0.4%	0.5%	0.9%	0.0%	0.5%	0.5%	0.3%	0.5%	0.8%
Beneficiary Payment	1.5%	3.2%	4.7%	2.8%	11.3%	14.1%	1.7%	4.3%	6.0%
Adult Disabled Dependent	0.4%	0.3%	0.7%	0.0%	0.0%	0.0%	0.4%	0.3%	0.6%
Other Recipient **	0.0%	0.0%	0.0%	0.0%	0.3%	0.3%	0.0%	0.0%	0.0%
Total	30.1%	69.9%	100.0%	27.2%	72.8%	100.0%	29.7%	70.3%	100.0%

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

In Millions of Dollars

Pre-funded	Assets	Liabilities	Unfunded	Percent
RETIREMENT Benefit Fund	14,962.8	28,817.2	13,854.4	51.9%

*Pre-funded**	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*

Positive Impact of KTRS

For Members

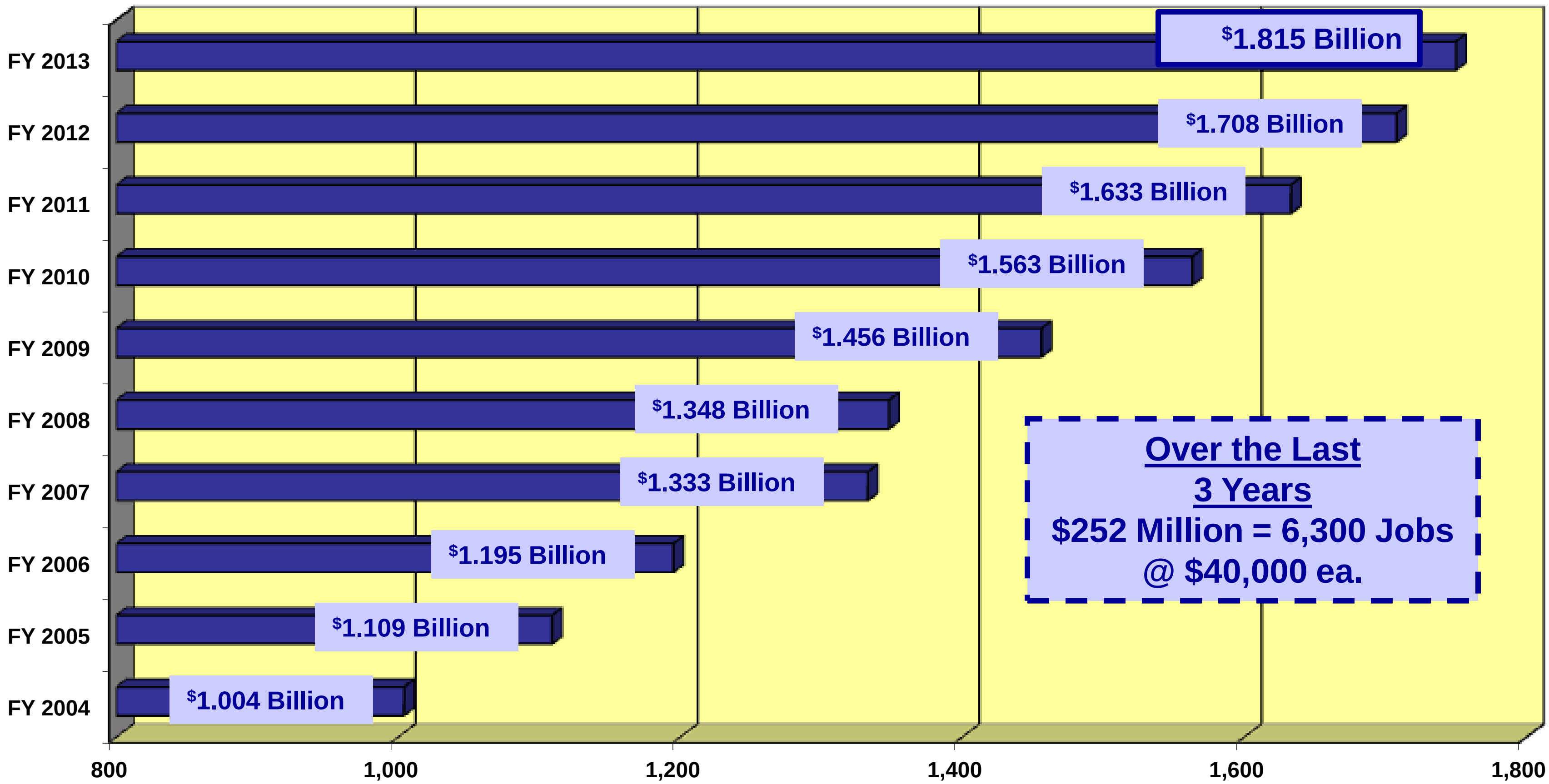
- **Provides retirement security for those who have devoted their careers to teaching.**
    - A life-time retirement benefit determined by the member’s length of service and salary.
    - A medical benefit prefunded through shared responsibility.

POSITIVE IMPACT

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

- **KTRS pays <u>monthly</u>** *<u>(July 2013)</u>*:
  - $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



Is the current structure (DB plan) of teachers' pensions the best way to provide for retirement?

ANSWER

YES

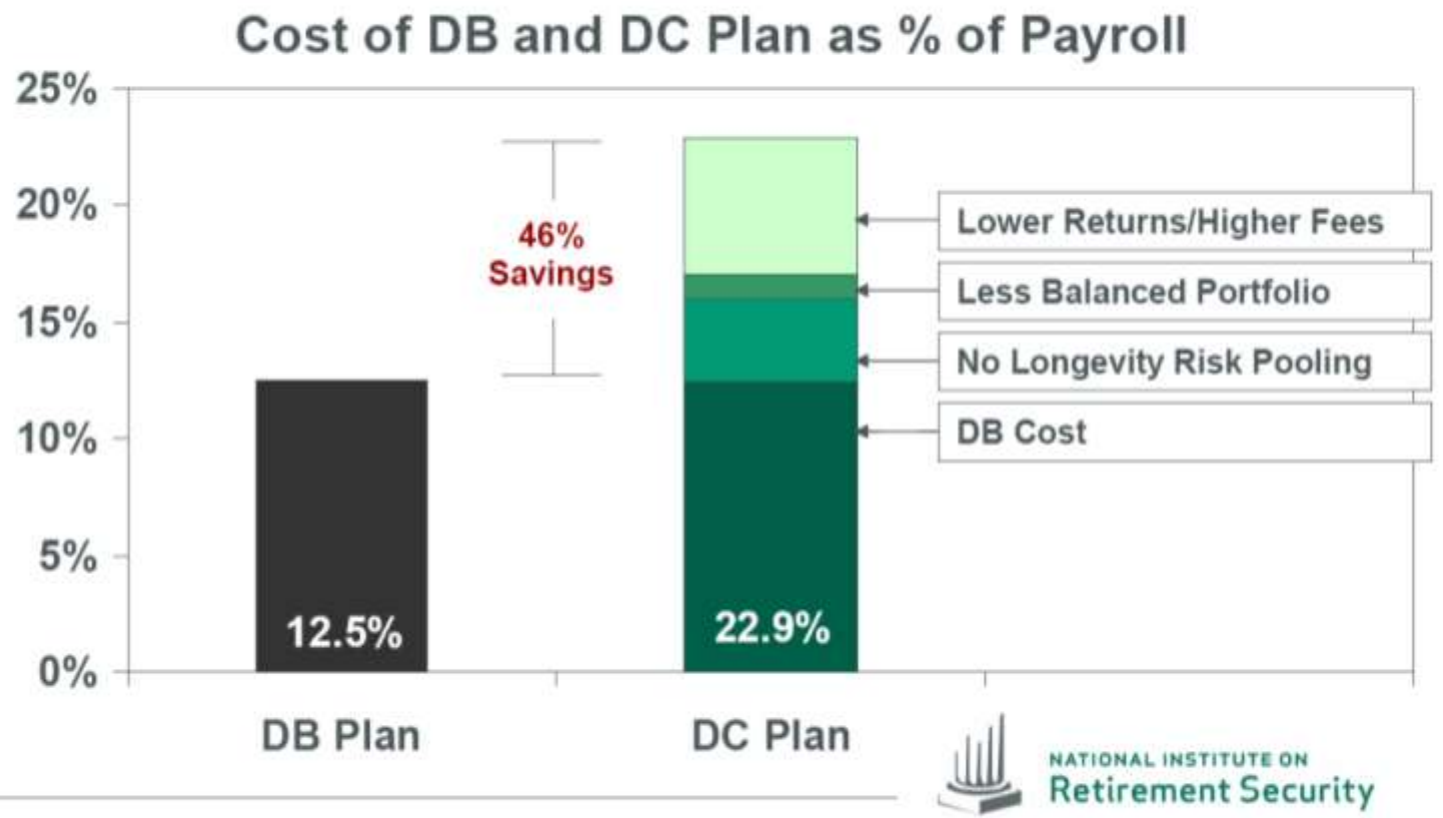
Defined benefit plans are <u>the most cost effective</u> way to provide for retirement.

- **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



Is the investment performance being adequately managed for optimum results?

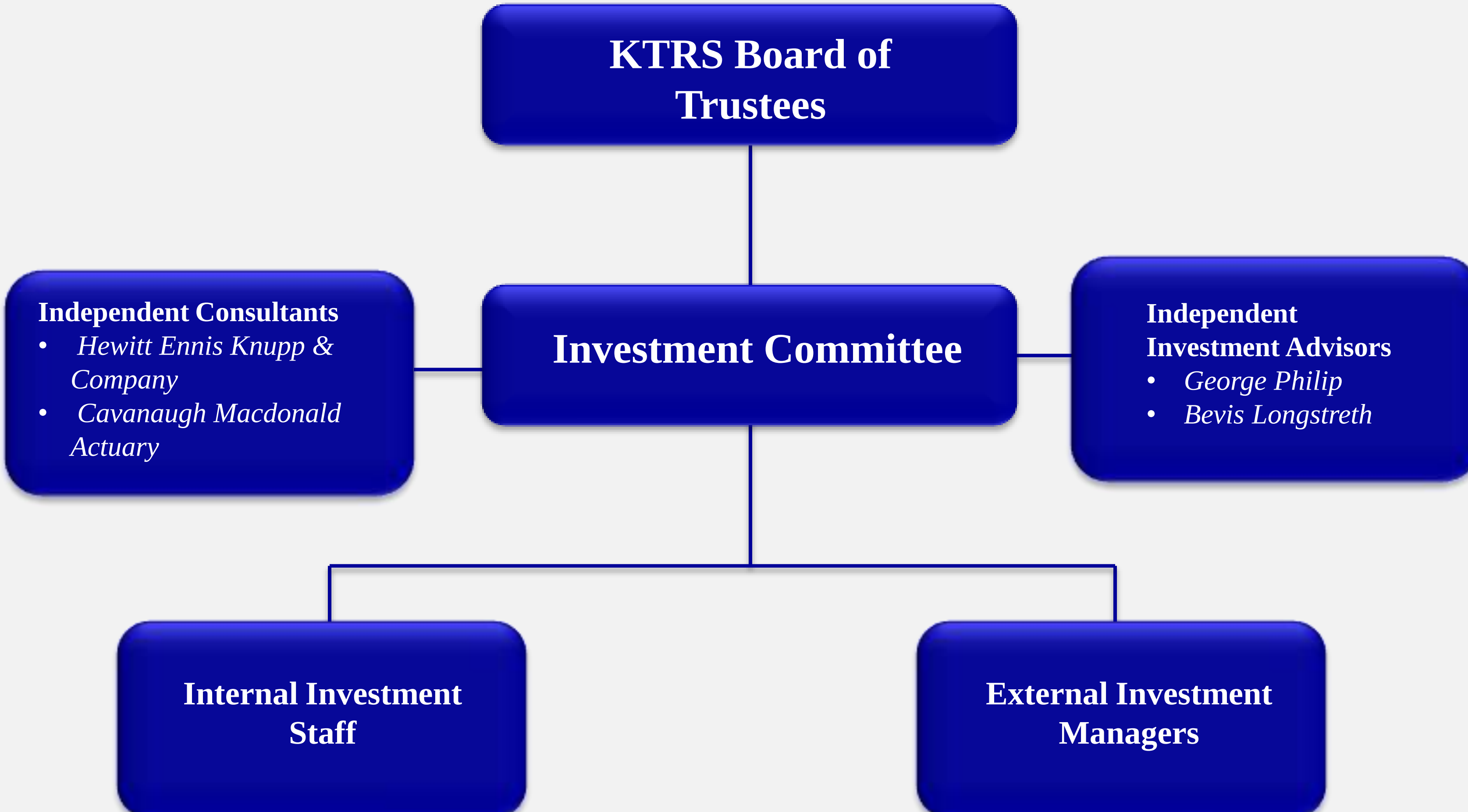
ANSWER

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



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

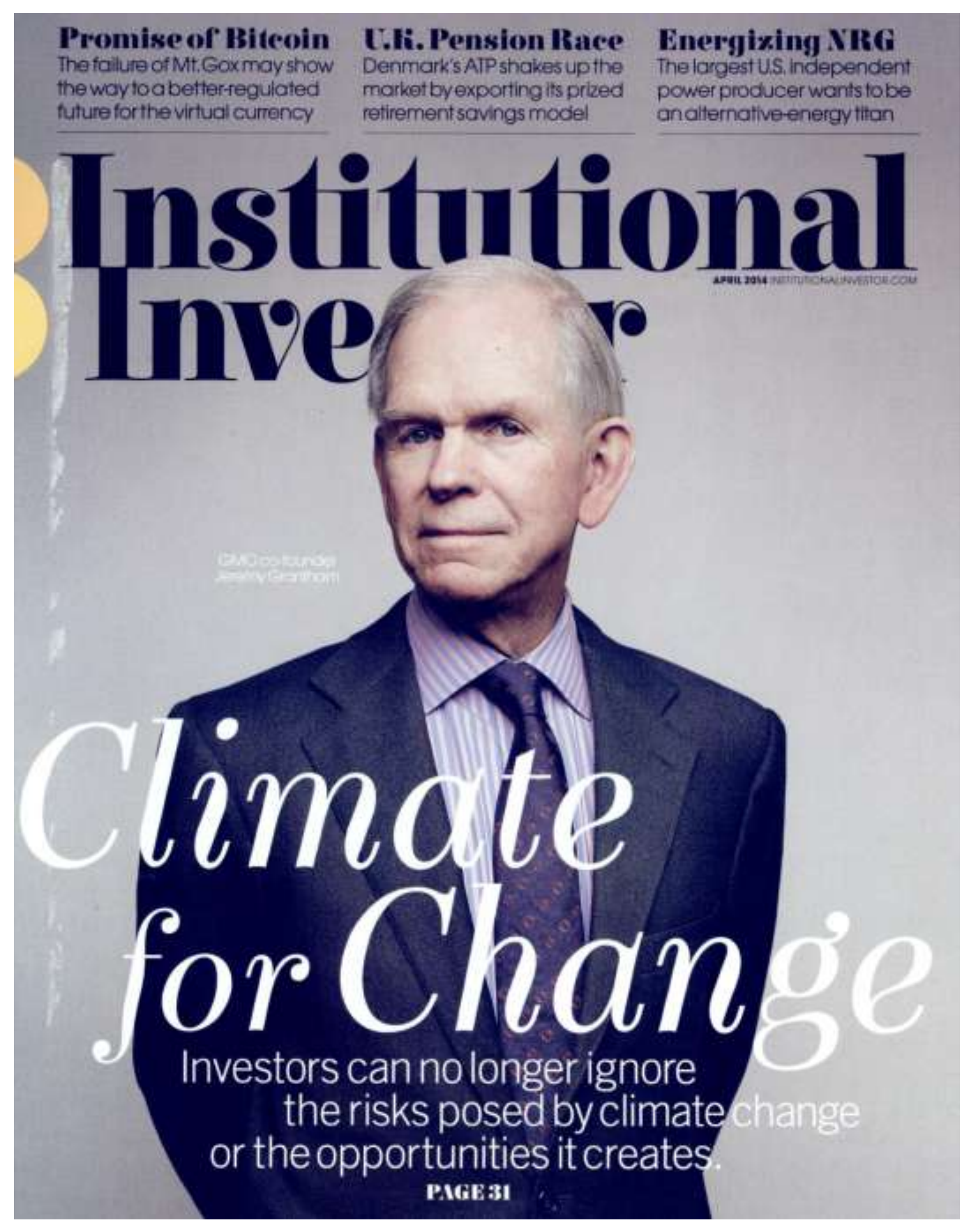
Professional Investment Activities:

- 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.
- 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 …

<u>Professional Investment Activities (continued):</u>

- 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, <u>Modern Investment Management and the Prudent Man Rule.</u>
- 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
APRIL 2014 INSTITUTIONALINVESTOR.COM
Climate for Change
Investors can no longer ignore the risks posed by climate change or the opportunities it creates.
PAGE 31

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.*


$SPX S&P 500 Large Cap Index INDX
7-Aug-2013
© StockCharts.com
Open 1708.01 High 1709.24 Low 1684.91 Close 1690.91 Volume 5.5B Chg -18.76 (-1.10%)
$SPX (Weekly) 1690.91
S&P 500
Returns for Last 50 Years
August 7, 2013
1709.67
1527.46
1247.41
965.80
800.58
1363.61
1123.53
1022.58
683.38
335.89
300.09
223.91
170.80
149.02
140.52
103.71
100.55
119.87
107.46
106.79
87.45
108.37
104.05
91.61
93.81
73.20
72.25
62.34
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61 62 63 64 65 66 67 68 69 70 71 72 73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10 11 12 13
50 100 150 200 250 300 350 400 450 500 550 600 650 700 750 800 850 900 950 1000 1050 1100 1150 1200 1250 1300 1350 1400 1450 1500

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

Olsen, Kevin."U.S. Equity, Credit Boost Public Plan Returns. " Pension and Investments Sept. 16, 2013.

INVESTMENT PERFORMANCE

KTRS RETURNS

FISCAL YEAR ENDED DECEMBER 31, 2013

1-Year	3-Year	5-Year	30-Year
19.7%	11.2%	13.4%	8.9%

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

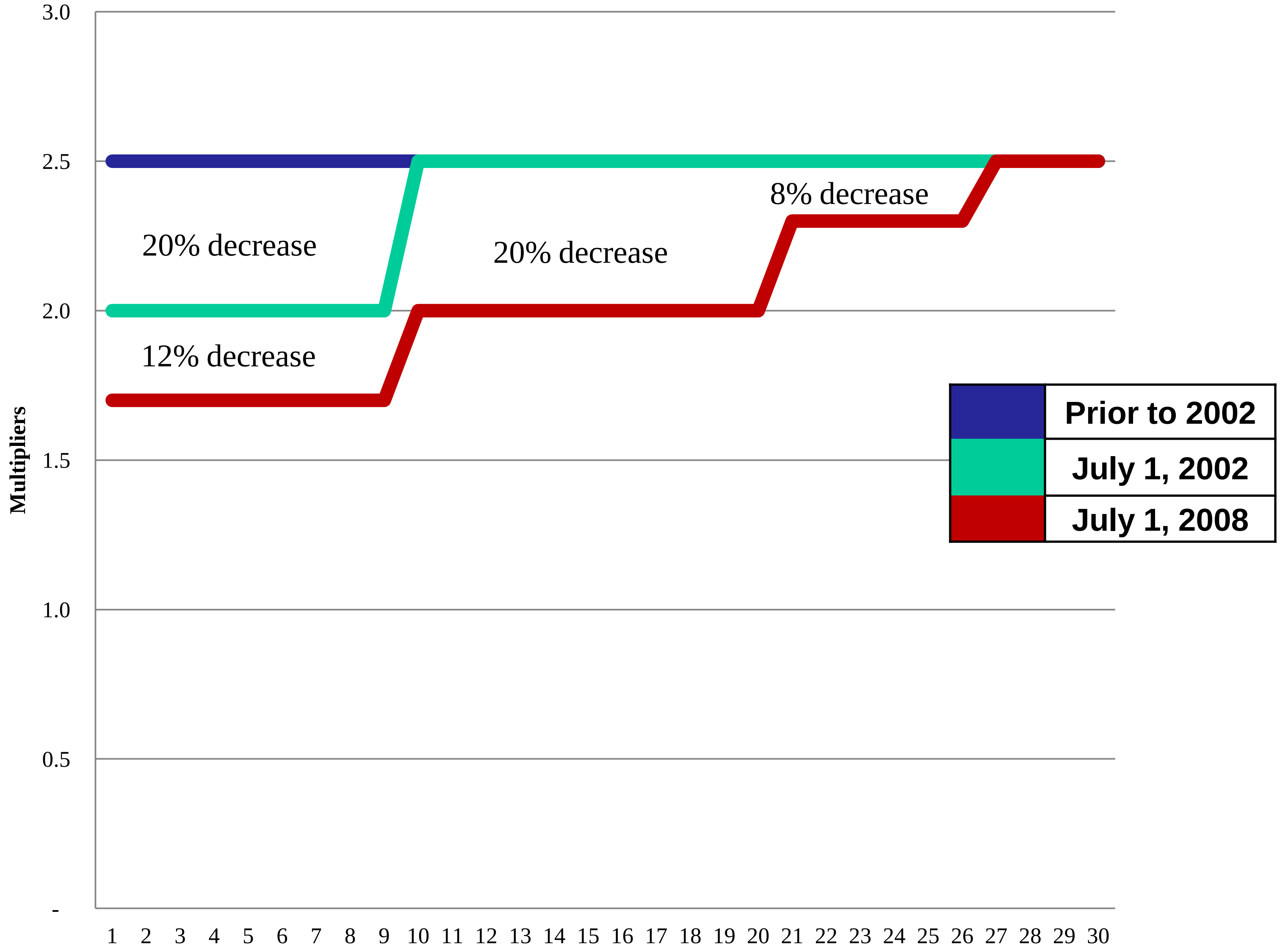
- The average benefit for a full-time teacher working 30 years is about $36,000 per year.
- Teachers do not receive Social Security.
- Teachers pensions are their source of retirement.
- Pension reform has happened twice in the last decade.

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

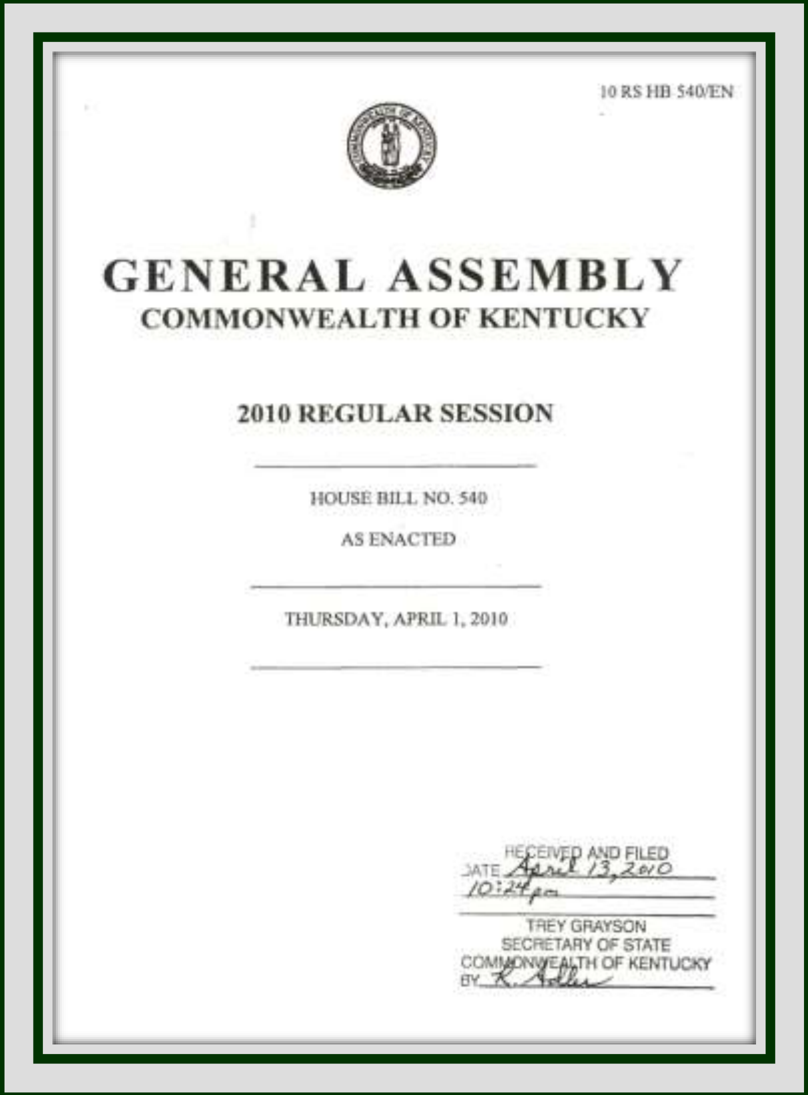


Has the cost of retiree health care been addressed?

ANSWER

YES

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



10 RS HB 540/EN

GENERAL ASSEMBLY
COMMONWEALTH OF KENTUCKY

2010 REGULAR SESSION

HOUSE BILL NO. 540

AS ENACTED

THURSDAY, APRIL 1, 2010

RECEIVED AND FILED
DATE April 13, 2010
10:24 pm
TREY GRAYSON
SECRETARY OF STATE
COMMONWEALTH OF KENTUCKY
BY

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)	0.25%	0.50%	1.00%	1.50%	2.25%	3.00%
	1.00%	1.25%	1.75%	2.25%	3.00%	3.75%

Retired Teachers

Retirees under Medicare eligible age	CY 2010	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015
	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

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

State

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

	CY 2010	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015
Current KEHP premium and ***future estimated premium***	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.*

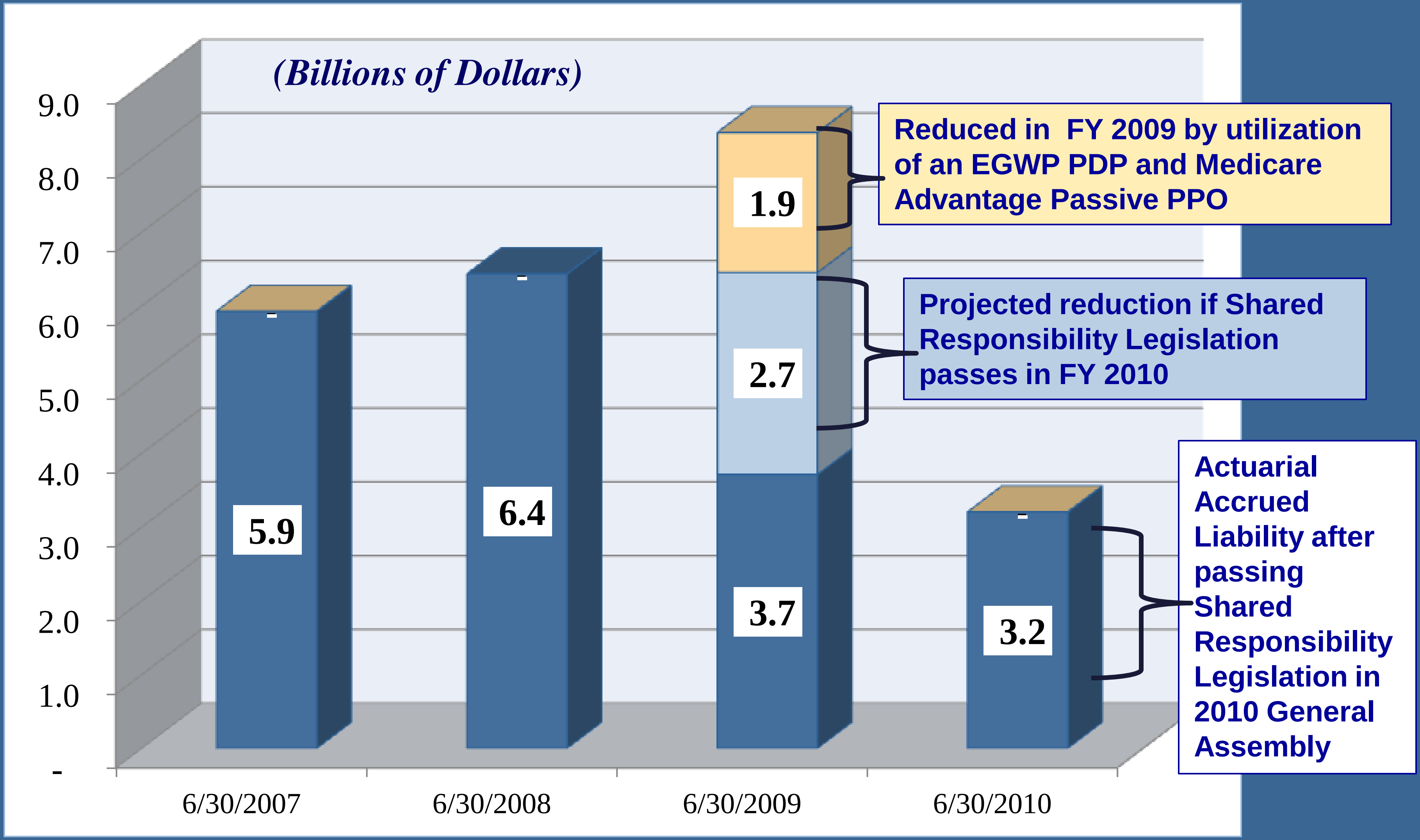
Thursday, May 27, 2010

Has Shared Responsibility helped the retiree medical benefit?

ANSWER

YES

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.

KTRS

KENTUCKY TEACHERS' Retirement System

Serving Kentucky Teachers — Since 1940 —

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