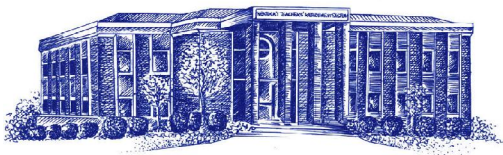


KENTUCKY

TEACHERS' RETIREMENT SYSTEM

ACTIVE MEMBER
EDITION



MARCH
2012

KTRS IS DESIGNED TO ENSURE RETIREMENT SECURITY

A Message from the Executive Secretary
Gary L. Harbin, CPA

The Wall Street Journal recently published an article describing the plight of a growing number of people over age 75 working or seeking work.¹ The article noted that most elderly workers would prefer to be retired; however, they are compelled to work to meet their basic needs.

The article described various reasons for the financial insecurity of the elderly workers. Most relied upon 401(k) defined contribution savings accounts or IRAs that suffered significant losses during the financial downturn. Some people had unexpected medical expenses that depleted retirement savings or simply lived longer than planned.

The elderly workers in the article were healthy enough to work and could find employment. Unfortunately, many elderly are not so lucky, and have far more unattractive choices like being completely dependant on family and public assistance to meet financial needs.

I have great sympathy for elderly people lacking retirement security. Their stories remind me of the foundational ideas cited for starting KTRS over 70 years ago. Having a defined benefit group retirement plan makes as much sense today as it did when KTRS began operations back in 1940. KTRS is designed to ensure retirement security and it does so in a more cost effective way than any other means.

Let's examine a few of the key features of KTRS that ensure retirement security and how they compare to real life examples of "do-it-yourself" 401(k) savings accounts.

INVESTMENT PROFESSIONALS MANAGE YOUR KTRS RETIREMENT FUNDS

KTRS weathered the financial downturn of 2008-2009 remarkably well, beating the performance of most other institutional investors. Emerging from the financial downturn, KTRS achieved robust double-digit returns for the last two

consecutive years. However, many people with 401(k) accounts experienced dramatic losses during the financial crisis and then locked in those losses by abandoning investments at the bottom of the market. One person profiled in the Wall Street Journal article is a widow living in Hawaii described as follows:

"...[She] planned to retire from her job as a tour leader in Honolulu three years ago. The 78-year-old woman decided to stay after losing about half of the \$300,000 in her retirement account during the downturn. 'I did some high-risk things,' she said of her investments. She has since moved her remaining savings into bonds and other safe but low-yield investments...."

Most people simply lack the investment knowledge to make informed decisions about risk, diversification, and other critical matters. Individual investors usually have short-term focus and lack the means to invest in long-term diversified portfolios. As a result, retirement security can be literally wiped out in one market downturn.

KTRS has a long and consistent record of strong investment

"Retirement Security"
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performance. These results have been the product of a fundamental long-term investment philosophy and a high degree of professionalism. Because member assets are pooled together and managed by a diverse group of experts, KTRS typically has better long-term results than individual investors and a greater capacity for riding out periodic downturns in the market.

Moreover, KTRS achieves these superior results at much lower costs than individual investors. The National Institute on Retirement Security conducted a study making an "apples to apples" calculation of the actual dollar contributions required for a defined benefit group retirement plan (like KTRS) and a 401(k) savings account to achieve the same target retirement benefits. The study found that traditional defined benefit group retirement plans provide the same retirement income at nearly half the cost of 401(k) defined contribution savings accounts.²

At June 30, 2011, KTRS's 20 year rate of return stood at 7.7%, which is right on target with the Board's investment policy and long-term assumed rate of return of 7.5%. KTRS's investment program is carefully managed by investment experts who are committed to implementing the retirement plan's long-term objectives and ensuring the retirement security of members.

Across the nation, defined benefit group retirement plans like KTRS pay about 70% of the costs of retirement with investment earnings and all of the costs of administering the retirement system are paid from investment earnings.³ The KTRS investment program helps ensure retirement security for KTRS's members and is also beneficial for the taxpayers of the Commonwealth.

KTRS PROVIDES LIFETIME RETIREMENT INCOME

Many people who rely on 401(k) savings accounts for retirement are finding out too late that they have not saved enough money. Unexpected medical expenses, investment losses, or living longer than expected can

result in poverty, dependence, and a loss of dignity in the last years of life.

One of the people profiled in the Wall Street Journal article is an 87-year-old woman who now collects tickets at a movie theatre for \$7.25 per hour. She only works 4 hours each week, and she wants a second job, but worries she may not have the physical stamina to work both day and night. She had saved \$28,000 for retirement and thought that would be enough along with Social Security. However, her retirement savings were quickly exhausted to pay for her sister's cancer treatments not covered by Medicare. After she pays rent with her monthly Social Security check, she has \$31 left. Along with working at the theatre, she has turned to public assistance in the form of food stamps.

KTRS provides a predictable monthly retirement income that cannot be outlived. It also provides ancillary benefits such as medical insurance, the ability to designate a beneficiary to receive benefits after your death, and disability benefits if you become disabled prior to normal retirement.

CONCLUSION

The KTRS defined benefit group retirement plan is the most secure retirement system for Kentucky's educators, most of whom do not participate in the federal Social Security program and therefore rely primarily upon KTRS for their retirement security. KTRS's efficient, effective, and secure plan stands in stark contrast to the substantial social risks and high costs associated with 401(k) savings accounts.

¹ Wall Street Journal, "More Elderly Find They Can't Afford Not To Work," January 21, 2012, Greene and Tergesen.

² National Institute On Retirement Security, August 2008, "A Better Bang for the Buck: The Economic Efficiencies of Defined Benefit Pension Plans."

³ See KTRS's website at http://www.ktrs.ky.gov/05_publications/index.htm to view a Schedule of Funds available For Retirement Benefits For the Twenty-Six Year Period Ending June 30, 2011.

Important Information for Year 2012 Retirees

The following answers are provided to help with often-asked questions pertaining to retirement.

If I am planning to retire this year, what should I do in preparation?

- **Request the KTRS Application for Service Retirement packet.** You will need this retirement packet from the KTRS office at **least 60 days before** your prospective date of retirement.
- You will be required to submit copies of your signed Social Security card and the official, certified birth certificate when you submit your retirement application.
- A copy of your official certified marriage license is required if married.
- If you select a payment option that provides a lifetime benefit to a surviving beneficiary, you will need to provide a copy of the beneficiary's official, certified birth certificate.

Does my employer need to complete any part of my retirement application?

- **YES.** Sections VIII and IX need to be completed and signed by your employer in order to finalize your retirement application. *Please allow sufficient time for your employer to complete these sections.*

What is the deadline to file for JULY 1st retirements?

- **JULY** retirement applications must be received in the KTRS office no later than **June 1, 2012**. All retirement applications must be submitted by the **FIRST of the month PRIOR to the month of retirement.**

When will I receive my first check?

- You will receive your first check at the end of the month in which your retirement takes effect. *For example, if you retire June 1st, your check will be direct deposited on June 28th. Please be reminded that as a result of 1998 legislation, all retirement payments must be sent by Electronic Funds Transfer (EFT). Section III of the retirement application requires you to supply your financial institution information and attach your voided or cancelled check.*

When can I retire if my contract is completed in May?

- To be eligible for the June 1st effective date, retiring members must complete their employment contract and resign from their position by May 31st.
- A one-month service credit reduction will occur for June 1st retirements.

If I am retiring this year, when will my medical insurance become effective through KTRS?

- Your medical insurance will be effective through KTRS on the first day of the month your retirement is effective. *(Provided your completed insurance application was received by the deadline.)*



**Your Homework
for a
Successful
Retirement
Experience!**

What you will need:

Your KTRS Service Retirement application.

*(Form 23) (must be completed and signed by YOU and YOUR EMPLOYER). See www.ktrs.ky.gov for the **Instructional Video** for help on how to complete the Retirement Application.*

A copy of your official certified birth certificate.

A copy of your Social Security card.

(issued by the SSA and bearing its seal and your signature).

A copy of your official certified marriage license.

(if married at the time of your retirement)

A copy of your beneficiary's official certified birth certificate.

(if Retirement Option III, IIIA, IV or IVA is selected).

And remember to submit payment for certain service credit purchases two months prior to your retirement.

(If you are qualifying previously purchased out-of-state service or purchasing non-standard, prior military, or out-of-state service to retire, the retirement system will calculate the amount due and notify you in writing upon receipt of your completed application.)

Spousal Shared Risk Insurance Waiver Starting in 2013 to Eliminate Adverse Selection

My house is on fire, may I buy fire insurance from you please? An eligible retiree may insure their Medicare eligible spouse in the retirement system's Medicare Eligible Health Plan (MEHP) by paying the full premium for coverage. Thereafter, the Medicare eligible spouse may decide to leave the KTRS MEHP plan to join a lower cost plan. Of course, the lower cost plan could be inferior insurance with coverage gaps, donut holes, and limited provider networks. The inferior insurance is not an issue when the spouse is healthy and using few prescription drugs; however, when the spouse becomes sick he or she tends to want to return to the higher quality KTRS MEHP plan during annual open enrollment. This is known as "adverse selection" against the KTRS MEHP plan, which ultimately can have a negative effect on the KTRS Medical Insurance Trust Fund. Adverse

selection defeats the purpose of an insurance risk pool, whereby participants pay monthly premiums when they are healthy as well as sick.

Additionally, KTRS's contractual arrangements with Humana and Express Scripts Medicare plans provide for higher premiums if plan participation falls below 85% of existing participation. Because retirees' eligible spouses currently make up about 17% of the MEHP insured population, KTRS must act prudently on behalf of all the membership by tightening the qualifying event rules that currently permit a spouse who previously waived KTRS MEHP coverage to later re-enroll in the KTRS MEHP plan.

KTRS is preparing an implementation plan and procedures to take effect January 01, 2013 for

existing spouses, any spouses aging into the MEHP on January 01, 2013 or later, and also for newly retired members in 2013 who would like to cover a Medicare eligible spouse. KTRS will be communicating about this plan amendment with the remainder of spouses already on MEHP coverage or currently waiving MEHP coverage during the final spousal annual MEHP open enrollment in the fall of 2012 for an effective date of January 01, 2013. These reasonable and necessary steps will help insure the continuation of affordable MEHP medical insurance for all participants, both retirees and their spouses. Please watch future newsletters for more details.

Deadlines for the Purchase of Service Credit

All forms must be **COMPLETED BY YOUR EMPLOYER**

FY 2010-11 Leaves of Absence *
DEADLINE for purchase is
June 30, 2012

Contact your employer for appropriate forms. Use form LOA-1

FY 2011-12 Unpaid Contract Days *
DEADLINE for purchase is
December 31, 2012

Contact your employer for appropriate forms. Use form LS

* Contact your **EMPLOYER** for the correct form or they may be found on our website at www.ktrs.ky.gov/employer/active_member.

Career Planning Workshops

Registration 4:30 P.M.
Workshop 5:00 - 7:00 P.M.
(Local Time)

<u>April 16</u> Hampton Inn 1415 Lowes Drive Murray, KY	<u>May 7</u> Jenny Wiley SRP 75 Theatre Court Prestonsburg, KY
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Pre-Retirement Seminars

Registration 8:30 A.M.
Seminar 9:00 A.M. – NOON
(Local Time)

<u>April 21</u> Grayson Conference Center 371 Stevens Lane #C Grayson, KY	<u>May 12</u> Holiday Inn 7905 Freedom Way Florence, KY
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Please visit www.ktrs.ky.gov for additional & upcoming Workshops & Seminars.
YOU MUST PRE-REGISTER TO ATTEND!

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