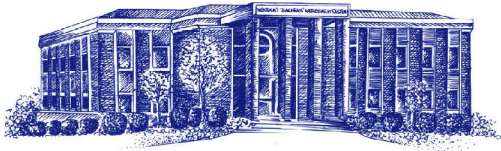


KENTUCKY

TEACHERS' RETIREMENT SYSTEM

RETIRED 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:

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ARE YOU TURNING 65 IN 2012?

*Here is some very
important guidance.*

If enrolled in insurance through KTRS you will receive a packet several months before your 65th birthday. Following is a sample of the information you will receive.

As of the first day of the month that you reach your 65th birthday you will no longer be eligible for the Kentucky Employees' Health Plan and **you must obtain Medicare** to continue medical and prescription coverage through KTRS. Contact Social Security to enroll in Medicare approximately three months before your birth month. See sections below regarding enrolling in Medicare and their respective income adjusted premiums established by Social Security. It is imperative that your demographic information at Social Security match what you have on file at KTRS

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"...[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 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.

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including your name, date of birth, and your address or your plan enrollment could be affected. Since Medicare will not accept a PO Box address, you must supply KTRS with a residential address, too. If your 65th birthday is the first day of the month, your Medicare will become effective the month prior and you can enroll in the MEHP early. If this is your desire, contact KTRS at 800-618-1687 for enrollment forms.

You must provide documentation to KTRS verifying your Medicare enrollment before the first day of your birth month in which you turn age 65. **Complete the Medicare Information**

Form (MIF) supplied by KTRS with an attached copy of your Medicare card, and submit them to KTRS to be enrolled in the MEHP coverage currently with Humana and Express Scripts (ESI). Upon receipt, KTRS will submit enrollment to Humana and ESI for the first day of your birth month. Humana and Express Scripts will then submit your enrollment directly to Medicare for approval. In the event that proof of your Medicare Part B coverage is not provided to KTRS before the first day of your birth month, you will not be enrolled in this MEHP coverage through KTRS. If you are the retiree and your coverage terminates, then your spouse is not eligible for coverage. And, outside of the annual open enrollment, you will only be eligible to re-enroll within 30 days of obtaining Part B of Medicare or another valid qualifying event. If you do not wish to be enrolled in the KTRS coverage, you must notify this office in writing by the 10th of the month prior to your birth month to decline the MEHP coverage. If you do not submit the required documentation, you will not have coverage under the KTRS MEHP.

ENROLLING IN MEDICARE

Part A generally covers services furnished by providers like hospitals or skilled nursing facilities. Most people automatically receive premium free Part A coverage from Social Security. This is because they or a spouse paid Medicare taxes while working. If you do not automatically receive Part A at no cost, you are not required to purchase Part A, and the KTRS plan will pay as Medicare would have paid on Part A expenses, excluding the MEHP deductibles and copayments. When you contact Social Security to enroll in Medicare, please make sure they check to see if you qualify for Part A free not only through your Social Security and/or Medicare tax payments but also through your spouse's. You could also qualify through an ex-spouse or a deceased spouse.

Part B covers most other medical services not covered by Part A such as physician's services and outpatient services. All retirees/spouses must

"TURNING 65 SOON" continued on page 4 ...

enroll in Part B and pay the required monthly income adjusted premium to Social Security. Contact Social Security to determine your Part B income adjusted premium. See section on higher income persons. In some cases, your Part B premium could be higher if you fail to enroll when you first become eligible. If you fail to enroll in Part B, you will not be enrolled in the KTRS MEHP. If at any time while enrolled in the MEHP, your Part B coverage lapses due to non-payment or any other reason, you will be terminated from the KTRS MEHP and you will be responsible for the actual cost of any claims.

Part D is prescription coverage that is offered through Medicare-approved plans. Part D is available to anyone who is eligible for and enrolled in Medicare Part A and/or Part B. If you are in the MEHP and have Medicare, you will have Medicare Part D prescription coverage through KTRS via ESI and **you must NOT enroll in a Medicare Part D plan outside of KTRS. If you enroll in another Medicare Part D plan, your Humana and ESI coverage through the KTRS MEHP will be terminated immediately.** Just like Medicare Part B, Medicare Part D requires monthly income adjusted premium payments to Social Security. Contact Social Security to determine your Part D income adjusted premium (if any). See section on higher income persons.

HIGHER INCOME PERSONS

Medicare law requires some higher income persons to pay higher premiums to Social Security for Medicare Part B (medical insurance) and Medicare Part D (prescription drug coverage). This Medicare law generally affects individuals with incomes higher than \$85,000 and couples with incomes higher than \$170,000. Medicare/Social Security will contact the Internal Revenue Service to get information about your total income.

YOUR KTRS MEDICAL COVERAGE

The MEHP medical plan is a Medicare Advantage plan currently administered by Humana. This plan allows you the same in and out-of-network cost-share; therefore you can see

any licensed provider who accepts Medicare patients and Medicare assignment and agrees to bill Humana directly. If any of your providers are unfamiliar with the Medicare Advantage plan for KTRS, please have them call Humana Provider Relations at 1-800-626-2741. Show your new Humana Medicare Advantage ID card each time you receive care and have providers file claims directly with Humana instead of Medicare. **Please note: if you enroll in another Medicare Advantage Plan outside of KTRS, your Humana and ESI coverage will be terminated immediately.**

YOUR KTRS PRESCRIPTION COVERAGE

The KTRS MEHP Prescription Drug Plan is a Medicare-approved Part D plan insured by Express Scripts (ESI). The program consists of a Retail Drug Program and a Mail Service Drug Program. The Retail Drug Program is designed for initial and short-term prescriptions and allows up to a 34 day supply of medication to be obtained at a retail pharmacy. As an added convenience, a 90 day supply of prescription medication may be filled at retail for the full coinsurance cost times three months. The Mail Service Drug Program is designed for prescriptions which are taken on a long-term basis and allows up to a 90 day supply of medication to be obtained at ESI's mail service pharmacy. If you need specific information regarding a prescription cost and/or restrictions prior to your effective date of coverage, you can visit <https://member.express-scripts.com/preview/ktrs2012> or phone the KY Rx Coalition at:



KY Rx Coalition @ 1-855-218-5979

BENEFIT BOOKLETS AND IDENTIFICATION CARDS

You can access benefit documents at www.ktrs.ky.gov. After your coverage begins you will receive Evidence of Coverage Booklets giving the ESI and Humana plan rules. Also, we must inform you that if the Humana Medicare Advantage plan ever denies a claim or a service,

2011 TAX YEAR INFORMATION

KTRS mailed the 1099R tax forms during the last week of January 2012. The tax statement contains confidential information and can only be mailed to the member's address currently on record with KTRS. For your privacy and protection, the member, power of attorney, or beneficiary must submit a written request to KTRS in order to send the 1099R form to an address that is different from the one currently on record with KTRS. The written request may be mailed to KTRS, or faxed to (502) 573-0254. This special request will not change your permanent address record unless you specifically request that it be changed. You may also visit the KTRS Website at www.ktrs.ky.gov for additional information and forms, including the change of address forms.

To request a duplicate for a lost 1099R form, please call 1-800-618-1687. The KTRS Call Center staff will verify your correct name and address for mailing the duplicate form and for the permanent record file.

Need to contact someone?

KTRS 502/848-8500
 Toll Free 800-618-1687
 KERS 502-696-8800
 Toll Free 800-928-4646
 Deferred Compensation 502-573-7925
 Toll Free 800-542-2667
 KY Revenue
 Cabinet 502-564-4581
 IRS 800-829-1040

THE EASY EXPLANATION

BOX 1

Shows your total KTRS pension benefit prior to withholdings.

**BOX 1 (less)
BOX 2a= BOX 5**

BOX 2a

Shows the taxable portion of your benefit. If blank, box 2b "Taxable Amount Not Determined" should be marked. In this case, please see your tax advisor.

BOX 5

Shows the nontaxable portion of the total. This amount is **NOT** reported anywhere on your tax return. It is an 'information only' box.

BOX 9b

This box will only show an amount in the first year of retirement. It provides the total amount of previously taxed contributions.

Form 1099-R 2011		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 61-0600439		FEDERAL COPY B - File with Recipient's FEDERAL Tax Return	
Recipient Information		1 Gross Distribution BOX 1		2a Taxable Amount BOX 2a		2b Taxable Amount Not Determined <input type="checkbox"/> Total Distribution <input type="checkbox"/>	
		3 Amount in Box 2a Eligible for Capital Gain Election		4 Federal Income Tax Withheld		5 Employee Contributions BOX 5	
Recipient Identification Number		6 Net unrealized appreciation in employer's securities		7 Distribution Code <input type="checkbox"/> IRA/SEP/ Simple <input type="checkbox"/>		8 Other	
Payer's Full Name and Address KENTUCKY TEACHERS' RETIREMENT SYSTEM 479 VERSAILLES ROAD FRANKFORT KY 40601-3800		9a Your Percent of Total Distrib.		9b Total Emp. Contribution BOX 9b		10 Amount allocable to IRR within 5 years	
		12 State Tax Withheld		13 State/Payer's State Number KY 077156		11 1st year of desig. Roth contrib. State Taxable Percentage %	
BOXES 12 -14 Shows the state tax information. KTRS does not withhold state taxes. Only pension income attributable to service credit earned after January 1, 1998, is subject to Kentucky state taxes. Outside Kentucky, your resident state tax regulations apply.							

KENTUCKY STATE TAX LAWS

The majority of our members do not owe Kentucky state taxes on KTRS benefits. KTRS strongly recommends you seek the advice of a qualified tax preparer for any specific questions concerning Kentucky income taxes on your pension.

The good news is that when calculating your Kentucky state income tax liability, there is a \$41,110 EXCLUSION for total state taxable pension income on the Form 740 Kentucky Income Tax Return. Your Form 740 begins with the federal adjusted gross income (AGI). Schedule M of the KY state return allows adjustments to the federal AGI. Schedule P of the KY state return is NOT always required; it reports pension income in more detail. You may want to take this newsletter to your tax preparer.

You must compute the state taxable amount. Multiply the state taxable percentage (next to box 12) by the federal taxable amount in box 2a to arrive at the state taxable amount. DON'T FORGET TO APPLY THE KENTUCKY PENSION INCOME EXCLUSION AGAINST THE STATE TAXABLE AMOUNT.

Kentucky Tax Form 740 - SCHEDULE M

Add all your 1099R, Box 2a,
FEDERAL taxable amounts.

IF THE TOTAL IS UNDER \$41,110 YOU DO NOT HAVE TO FILL OUT KY 740 - SCHEDULE P. Just subtract the amount from the federal AGI by entering the amount on Part II, line 11. Therefore, you do not owe any state taxes on pensions.

IF THE TOTAL IS OVER \$41,110 YOU MUST FILL OUT KY 740 - SCHEDULE P. Even if you are required to fill out a KY 740 - Schedule P, most retired teachers still do not owe any Kentucky state taxes.

Kentucky Tax Form 740 - SCHEDULE P

Add all your 1099R, STATE taxable amounts. Enter the total on Part II of Schedule P.

IF THE TOTAL IS UNDER \$41,110 YOU DO NOT OWE ANY KENTUCKY STATE INCOME TAX ON PENSIONS. Follow instructions on completing the schedule.

IF THE TOTAL IS OVER \$41,110 YOU OWE KY STATE TAXES ON THE AMOUNT ABOVE THE EXCLUSION AMOUNT. Again, follow instructions on completing the schedule.

CAUTION:

*Computing a Kentucky state taxable amount does not mean you owe Kentucky state taxes!!

*The requirement to prepare KY 740 - Schedule P does not mean you owe state taxes!

Retired Prior to January 1, 1998

KTRS remains as KY STATE NONTAXABLE income. If you receive more than \$41,110 federal taxable pension income you still must prepare KY 740 - Schedule P.

Retired After January 1, 1998 TOTAL FEDERAL RETIREMENT INCOME LESS THAN \$41,110

If total federal taxable income is less than \$41,110 then all pension income is KY STATE NONTAXABLE income.

Retired After January 1, 1998 TOTAL RETIREMENT INCOME ^{III} MORE THAN \$41,110

You must fill out KY 740 - Schedule P on your State Income Tax Return. Follow the instructions. Your 1099R will have the information needed to complete the KY 740 - Schedule P.

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you have the right to appeal and ask for a review of the denied claim or service. If Humana's decision isn't made in your favor, an independent organization that works for Medicare will automatically review your appeal. If your correctly completed MIF is submitted to KTRS in a timely manner and Medicare approves your enrollment, you should receive ID cards before your coverage is effective. Prior to receipt of your ID cards, if Humana and ESI have processed your enrollment, you can access a letter of medical coverage or print a temporary ID card by registering at www.humana.com and www.express-scripts.com. To avoid any possible lapse in your medication with the KTRS MEHP, obtain a refill through your current plan on the last day of the month prior to your birth month.

The following information is the monthly cost of the 2012 MEHP (you must also continue to pay your Medicare Part B premium and any

additional Part B and D income adjusted premium billed by Social Security).

Listed below is the monthly cost of the 2012 MEHP
(You must also continue to pay your Medicare Part B premium and any additional Part B and D income adjusted premium billed by Social Security.)

Years of Service	KTRS Entry Date Before 07/01/02	KTRS Entry Date on or After 07/01/02	KTRS Entry Date on or After 07/01/08	Spouses Pay Full Premium Rate of:
5-9.99	\$202.50	\$243.00	Not Eligible	\$270.00
10-14.99	\$135.00	\$202.50	Not Eligible	
15-19.99	\$67.50	\$148.50	\$148.50	
20-24.99	\$0.00	\$94.50	\$94.50	
25-25.99	\$0.00	\$27.00	\$27.00	
26-26.99	\$0.00	\$13.50	\$13.50	
27 or more	\$0.00	\$0.00	\$0.00	

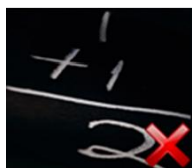
You can obtain additional information about enrolling in Medicare by contacting **Social Security at 1-800-772-1213, Medicare at 1-800-633-4227**, or www.medicare.gov on the web. If you have any other questions, please contact KTRS at 1-800-618-1687.

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.



Two Is Not Always Better Than One

Caution/Reminder to MEHP Participants on the Medicare Advantage Plan through Humana

Medicare does not allow beneficiaries to have more than one Medicare Advantage Plan or Medicare Part D Prescription Drug Plan.

Signing up for another Medicare Advantage Plan or Medicare Part D Prescription Plan outside of KTRS will disenroll you from the KTRS MEHP, both medical and drug plans.

Retirees Under Age 65

The KEHP Announces HumanaVitalitySM

The Kentucky Employees' Health Plan (KEHP) Announces HumanaVitalitySM, a whole new approach to wellness! Are you looking for a reason or some extra motivation to start living a healthier lifestyle? Or, are you already making healthy lifestyle choices?

Either way, HumanaVitality is designed for you! With the Personal PathwayTM approach, HumanaVitality will plan activities and goals according to your needs. And the best part is the incentives are incredible! From electronics to entertainment to hotel stays and more! All for taking care of your health.

And because it's part of your KEHP, you can start using it on your plan's effective date. All you have to do is log in on and take the health assessment. Find out more, log in or register on <http://personnel.ky.gov/dei/wellness/>.

