

KENTUCKY

TEACHERS' RETIREMENT SYSTEM

ACTIVE MEMBER
EDITION



MAY
2012

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"Shared Responsibility" and Careful Management of Costs Eliminate \$5.2 Billion Liability!

*Gary L. Harbin, CPA
Executive Secretary
Kentucky Teachers' Retirement System*

On this second anniversary of the "shared responsibility" solution for pre-funding retired teacher health care, I am very pleased to report that \$5.2 billion in liability has been eliminated from the retired teacher health care plan! This savings was accomplished through implementation of the "shared responsibility" solution (\$3.3 billion) and careful management of health care costs (\$1.9 billion).

You will recall that the health care plan for retired teachers began in 1964 as a "pay-as-you-go" program. Much like Medicare, the program used current contributions by employees and the state to pay for the current costs of providing retiree health care. However, in recent years health care costs overwhelmed the contributions funding the plan. By 2009, the KTRS medical insurance fund faced an actuarial accrued liability of \$8.3 billion. Even more alarming, because contributions to the retirement fund were being redirected to pay for health care, the retirement fund would have been exhausted in 20 years.

All stakeholders acknowledged that this growing liability meant that health care for retired teachers was at a crossroads. The bleak assessment of some was that medical insurance coverage for retired teachers was simply too expensive and should be ended. Others cited the

extraordinary value of KTRS's retirement and health care plans in supporting the recruitment and retention of qualified teachers. They noted the need to sustain the plans as part of the Commonwealth's commitment to education and Kentucky's future.

The situation was set on the right course when Kentucky's education community came together and worked with political leaders to enact the "shared responsibility" solution for pre-funding retiree medical insurance. Constituent groups representing retired teachers, active teachers, school boards, school superintendents, and the state, all worked on the consensus funding solution. The solution provides that all the groups share in the solution by investing a little more now to receive substantial returns later.

The Governor and Legislative leaders have commended Kentucky's education community for their strong leadership and hard work in developing and implementing the solution. After two years, and \$3.3 billion in savings by converting to a pre-funded plan, the "shared responsibility" solution is truly a significant accomplishment on the road to retirement security for current and future retired teachers.

The Board of Trustees of KTRS regularly reviews the health care plan to contain costs

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and maintain a meaningful benefit for retired teachers. Some recent cost saving initiatives include moving the KTRS sponsored Medicare drug plan to an insured Employer Group Waiver Prescription Drug Plan. This action allowed KTRS to receive deeper federal subsidies on an annual basis, and also to trim \$900 million off the KTRS Medical Insurance Fund actuarial liability. KTRS implemented this change with no material changes to the existing drug plan design. Additionally, KTRS joined the KY Rx Coalition, which is spearheaded by the University of Kentucky. By joining the coalition, KTRS will achieve annual savings through leveraging greater prescription purchasing power and deeper drug discounts. As an added benefit, a dedicated staff of pharmacists with the KY Rx Coalition can help each member with their prescriptions and how to maximize their prescription dollars. These and other cost containment measures have resulted in savings of \$1.9 billion since 2009.

KTRS is efficient, effective, and always working to improve the retirement security of Kentucky's teachers. Eliminating \$5.2 billion in liability helps the financial condition of the Commonwealth and eases burdens on taxpayers. Moreover, KTRS benefits are not only valuable to the retirement security of more than 123,000 educators; they also provide a \$1.7 billion, and growing, economic stimulus most of which is injected annually into local economies across the Commonwealth.

Do You Have a Life Insurance Beneficiary?

All members of KTRS are covered by a life insurance benefit. KRS 161.655 sets this benefit at \$5,000 for retirees and \$2,000 for active contributing members. The law specifies that this benefit is payable upon the death of the member to the member's estate or to a party designated by the member on a form prescribed by the retirement system. Members who do not have a party designated to receive this benefit can do so by completing a Designation of Beneficiary Form [KTRS Life Insurance Form DB-1].

Upcoming KTRS Board of Trustees Election

The Teachers' Retirement System is governed by a nine member Board of Trustees. Two trustees are ex-officio members, the Chief State School Officer and the State Treasurer. The remaining seven trustees are elected by the retired and active membership. Elections are held in May of each year to fill either one or two positions on the Board. Positions are held for four-year terms and the elections are staggered. This May, the membership will elect an active member trustee. The candidates for the this position are Dr. Tom Shelton, the incumbent, from Lexington, and Donna Paulin from Bardstown.



In early May, ballots are mailed to each retired and active KTRS member with information about the candidates. Retired members will receive a yellow ballot and active members will receive a blue ballot. Please select your candidate, tear along the perforation, and drop the ballot in the mail. Postage is prepaid. You may return your ballot any time during May, but no later than May 31, 2012. The Chief State School Officer is responsible for counting the ballots.

All members are urged to review the qualifications of each candidate and cast their ballot for the candidate who they feel has the best qualifications to be an effective member of the Board of Trustees. The results of the election will be announced in the next KTRS newsletter.

KTRS retirees are reminded that changing the life insurance benefit designation does not affect the beneficiary designation for your active account.

It is very important that both active and retired KTRS members keep their life insurance beneficiary designation current and up to date. Failure to keep your beneficiary designation up to date could lead to costly legal fees. To request this form call KTRS toll free at:

1-800-618-1687

How Would a Career Planning Workshop or Pre-Retirement Seminar Benefit You?

Throughout the year, KTRS offers Career Planning Workshops to teachers, university faculty, school administrators and others. Members who desire to learn about their KTRS retirement account or how the system operates will benefit from attending one of these sessions. Also available are Pre-Retirement Seminars for those within one to five years of retirement, who would like to know how to maximize their KTRS pension, learn the retirement process, and get all their questions answered. These workshops and seminars are packed with information that will help each person move smoothly from one phase of life into the next.

~ Career Planning Workshops ~

NOTE DIFFERENT WORKSHOP TIMES!

May 7

Registration 4:30 pm
Workshop 5:00 - 7:00 pm
(Local Time)

Jenny Wiley SRP

75 Theatre Court
Prestonsburg, KY 41653

June 25

Registration 8:30 am
Workshop 9:00 - 11:00 am
(Local Time)

Lake Cumberland SRP

5465 State Park Road
Jamestown, KY 42629

July 23

Registration 8:30 am
Workshop 9:00 - 11:00 am
(Local Time)

General Butler SRP

1608 Hwy 227
Carrollton, KY 41008

~ Pre-Retirement Seminars ~

NOTE DIFFERENT WORKSHOP TIMES!

May 12

Registration 8:30 am
Seminar 9:00 am - Noon
(Local Time)

Holiday Inn

7905 Freedom Way
Florence, KY 41042

June 22

Registration 8:30 am
Seminar 9:00 am - Noon
(Local Time)

Hampton Inn

831 Hambley Blvd
Pikeville, KY 41501

July 19

Registration 8:30 am
Seminar 9:00 am - Noon
(Local Time)

Ramada Conference Center

2143 N Broadway
Lexington, KY 40505

Please visit www.ktrs.ky.gov for ALL workshop & seminar **PRE-REGISTRATION**.

YOU MUST PRE-REGISTER TO ATTEND!

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 Leaves of Absence *

*DEADLINE for purchase is **June 30, 2013***
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-1)

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

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.

