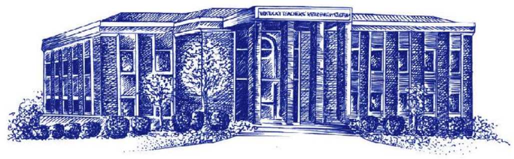
K E N T U C K Y
Teachers' Retirement System

RETIRED MEMBER EDITION



MAY 2012

Headlines

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

◆ *Upcoming KTRS Board of Trustees Election*

◆ *Shared Responsibility Solution ... New Effective Rates July 1, 2012*

◆ *Fraud Alert for People with Diabetes*

◆ *MEdicare Eligible Health Plan (MEHP) 2013 OPEN ENROLLMENT ~ Age 65 & Over or Medicare Disabled ~ LAST OPPORTUNITY TO ENROLL A MEDICARE ELIGIBLE SPOUSE*

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

"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

continued on page 2 ...

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"Shared Responsibility" and Careful Management of Costs Eliminate $5.2 Billion Liability! continued from page 1 ...

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 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.

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.

Shared Responsibility Solution ... New Rates Effective July 1, 2012

As reported to you in previous newsletters, historic legislation was enacted during the 2010 Session of the General Assembly. This legislation was broadly supported across the education community by active and retired teacher groups, school boards and administrators, universities and other education groups. As a result, the KTRS medical insurance program was placed on an actuarially sound basis. This, in turn, continued its availability to both current retirees and active teachers who will want to retire one day with medical insurance. This was only possible by the collective effort of all concerned groups agreeing to a shared responsibility solution for funding this very important benefit.

Active members participate in the shared responsibility solution by paying a percentage of their salary to the medical insurance fund. This amount will be 1.75% of their salary effective July 1, 2012. By July 1, 2015, all active members will have phased in to paying 3.75% of their salary into the KTRS medical insurance fund. School districts and other employers, for their part, are matching the active members' contributions to the medical insurance fund. The Commonwealth of Kentucky, for its part, is paying the net cost of medical insurance for all retirees under age 65 who retired on or after July 1, 2010.

KTRS retirees participate in the shared responsibility solution by paying either the Medicare Part B premium if they are age 65 and over, or, if under age 65, by phasing into paying the equivalent of the Standard Medicare Part B premium. Under the shared responsibility solution, retirees under age 65 paid an amount equivalent to 1/3 of the Standard Medicare Part B premium effective July 1, 2010, then 2/3 of the Standard Medicare Part B premium effective July 1, 2011. This amount will increase to the full Standard Medicare Part B Premium effective July 1, 2012. As such, the amount deducted from your retirement allowance for your portion of the shared responsibility solution will increase from $66.00 to $99.90 per month starting with the July 2012 pension payment.

At a time when state finances across the nation are creating budget crises and some vocal proponents are arguing that public employee retirement benefits should be slashed, it is a tribute to Kentucky's education community that it came together with a reasonable solution to preserve a critically important retirement benefit. Thank you again for sharing in this solution.

Effective Date	Medicare Part B Monthly Cost	Cost to Retire Under Age 65
July 1, 2010	$110.50	$37.00 (1/3 x $110.50)
January 1, 2011	$115.40	$39.00 (1/3 x $115.40)
July 1, 2011	$115.40	$77.00 (2/3 x $115.40)
January 1, 2012	$99.90	$66.00 (2/3 x $99.90)
July 1, 2012	$99.90	$99.90 (Full Premium Equivalent)

WHRCA Notice

Do you know that your plan, as required by the Women's Health and Cancer Rights Act of 1998, provides benefits for mastectomy-related services including all stages of reconstruction and surgery to achieve symmetry between the breasts, prostheses, and complications resulting from a mastectomy, including lymphedema? Call your Plan Administrator at 1-866-307-2494 for more information.

MEDICARE ELIGIBLE HEALTH PLAN (MEHP)
2013 OPEN ENROLLMENT
~ Age 65 & Over or Medicare Disabled ~
LAST OPPORTUNITY TO ENROLL A MEDICARE ELIGIBLE SPOUSE

2013 OPEN ENROLLMENT
begins October 15 and ENDS December 7, 2012

- **If you are currently enrolled in the KTRS MEHP, you do not need to do anything to continue coverage for 2013.**
- **If you are a Medicare eligible spouse of a KTRS retiree and not currently enrolled, this is your last opportunity to enroll in the KTRS MEHP during open enrollment.**
- **If you are the spouse of a retiree and wish to enroll after January 1, 2013, you must experience a valid KTRS qualifying event.**

This is to inform eligible retirees and spouses, age 65 or older or Medicare disabled and **not already enrolled** in the KTRS Medicare Eligible Health Plan (MEHP), that **OPEN ENROLLMENT begins October 15 and ENDS December 7, 2012. If you are currently enrolled in the KTRS MEHP, you do not need to do anything to continue your coverage into 2013.** However, if you are not currently enrolled in the MEHP and wish to have coverage effective January 1, 2013, you may download an MEHP application at www.ktrs.ky.gov or you may contact KTRS at 1-800-618-1687 for an enrollment form and return the completed form to this office by **December 7, 2012**. If you are turning 65 between now and 2013, you will receive an informational packet regarding enrollment. Retirees have the option to enroll in future Open Enrollment periods or can enroll outside of Open Enrollment by showing evidence of a qualifying event within 30 days of the event date and be enrolled in, at least, Part B of Medicare. But, if you are the spouse of a KTRS retiree you must have Parts A & B of Medicare and this is your last opportunity to enroll during Open Enrollment. Spouses that do not enroll during **this** Open Enrollment will only be eligible to enroll in the future if they experience a valid KTRS qualifying event such as the loss of other Employer/Retirement sponsored coverage, expiration of COBRA, or death of the retiree. The spouse must show evidence of the valid KTRS qualifying event within 30 days, must be enrolled in Medicare Parts A & B, and must provide a copy of your marriage certificate.

For the calendar year 2012, the monthly cost for the KTRS MEHP is $270 per person. Currently, KTRS pays all or a portion of the premium for retirees based on their KTRS entry date and years of service at retirement. Spouses of KTRS retirees pay full premium cost for their coverage. **The 2013 monthly cost has not been determined at this time.**

Please note that upon enrolling in the KTRS MEHP, you must be careful to avoid any pitfall in which your KTRS MEHP would automatically be terminated. Enrolling in another Medicare Advantage plan or another Medicare Part D prescription drug plan other than the KTRS MEHP will automatically terminate your KTRS MEHP. Medicare rules will not allow you to be enrolled in two Medicare Advantage plans and/or two Medicare Part D prescription drug plans at the same time. Your coverage will also be terminated in the event your Medicare Part B lapses or you do not sign up for Medicare Part B in a timely fashion. The standard Medicare Part B monthly premium for 2012 is $99.90 to be paid directly to Social Security. The 2013 Part B premium is expected to be released in October 2012. Medicare charges a penalty for those who do not sign up for Medicare Part B or Part D when first eligible and some people with higher incomes pay higher premiums directly to Social Security (KTRS is not a part of this determination). However, if in the

continued on page 5 ...

"Medicare Eligible Health Plan (MEHP) 2013 Open Enrollment continued from page 4 ...

future you ever want to cancel your KTRS MEHP, you must submit your request to KTRS in writing. Do not contact Humana, Express Scripts, or Medicare to cancel your KTRS MEHP coverage.

Call KTRS at 1-800-618-1687 if you have further questions on the KTRS MEHP.

Fraud Alert for People with Diabetes

Criminals who plot to defraud the Government and steal money from the American people have a new target: PEOPLE WITH DIABETES!

Although the precise method may vary, the scheme generally involves someone pretending to be from the Government, a diabetes association, or even Medicare, calling you. The caller offers "free" diabetic supplies, such as glucose meters, diabetic test strips, or lancets. The caller may also offer other supplies such as heating pads, lift seats, foot orthotics, or joint braces, in exchange for the beneficiaries' Medicare or financial information, or confirmation of this type of personal information. Additionally, you may receive items in the mail that you did not order.

The call is a scam!

If you receive such a call, OIG recommends the following actions:

1. Protect Your Medicare and Other Personal Information

Do not provide your Medicare number or other personal information. Be suspicious of anyone who offers free items or services and then asks for your Medicare or financial information. These calls are not coming from Medicare, diabetes associations, or other similar organizations. While the caller says the items are "free," the items are still billed to Medicare. Once your Medicare information is in the hands of a dishonest person or supplier, you are susceptible to further scams. Alert others about this scheme, and remind them not to provide strangers Medicare numbers or other personal information.

2. Report the Call to Law Enforcement

Report the call to the OIG Hotline at 1-800-HHS-TIPS or online at www.OIG.HHS.gov/fraud/hotline. As part of your report, provide the name of the company that called you, the company's telephone number and address, and a summary of your conversation with the caller.

3. Check Your Medicare Summary Notice and Medicare Bills

Check your Medicare Summary Notice and other medical information to see if you were charged for items you did not order or did not receive. Also, check for items that were billed multiple times, such as glucose meters, diabetes test strips and lancets, and other supplies. Report any irregular activity to your health care provider and the OIG Hotline at 1-800-HHS-TIPS or online at www.OIG.HHS.gov/fraud/hotline.

4. Do Not Accept Items That You Did Not Order

You are under no obligation to accept items that you did not order. Instead, you should refuse the delivery and/or return to the sender. Keep a record of the sender's name and the date you returned the item(s) to help OIG catch any future illegal billing.

The Department of Health and Human Services, Office of Inspector General (OIG) fights fraud in Government programs. As part of this effort, the OIG relies upon alert citizens to help them catch those who steal from American taxpayers.

For more information see this website:

http://oig.hhs.gov/newsroom/news-releases/2012/alert20120309.asp

KTRS received this NLRC e-lert. The NLRC e-lert is a publication of the National Legal Resource Center, a collaborative effort developed by the Administration on Aging, US Department of Health and Human Services. The NLRC e-lert is produced by the American Bar Association Commission on Law and Aging in tandem with its NLRC partners, The Center for Elder Rights Advocacy, the Center for Social Gerontology, National Consumer Law Center, and National Senior Citizens Law Center.

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 1, 2013 for existing spouses, any spouses aging into the MEHP on January 1, 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 1, 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.

MAY 2012

TEACHERS' RETIREMENT SYSTEM
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