

KENTUCKY

TEACHERS' RETIREMENT SYSTEM

RETIRED MEMBER
EDITION



August
2012

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Members Re-Elect Trustee to KTRS Board

In May 2012, the membership of KTRS elected one active teacher trustee for a term beginning July 1, 2012. Dr. Terry Holliday, Chief State School Officer, certified the results of the election to the KTRS Board of Trustees.

DR. TOM SHELTON of Lexington, the incumbent, was re-elected to a four-year term as active teacher trustee. Dr. Shelton has served as an active teacher trustee on the Board of Trustees since July 2008.

Dr. Shelton has served as superintendent of Fayette County Public Schools since September 2011 after seven years of service as superintendent of the Daviess County Public Schools district and nine years of service as the district's assistant superintendent for finance and operations. He is a lifetime member and former president of the Kentucky Association of School Business Officials, providing training and instruction in school budgeting and finance to district administrators; and also provides financial and leadership training to new superintendents through the Kentucky Association of School Administrators and Kentucky Department of Education. He participated and taught in the University of Kentucky Certified School Financial Management Institute, and is a member of KEA, working with its membership for advocacy on insurance and retirement issues. Dr. Shelton is currently serving on the board of the Kentucky Association of School Superintendents, the Commissioner's Superintendent Advisory Council, and as President of the Council for Better Education.

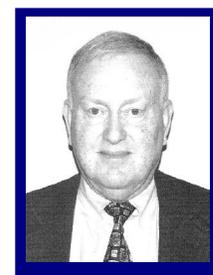
His civic involvement has included membership on the Boards of Commerce Lexington, the United Way and Chamber of Commerce of Owensboro/Daviess County, and the Community Foundation of Owensboro/Daviess County.

Dr. Shelton is currently vice-chair of the Insurance Committee; vice-chair of the Personnel Committee; alternate on Administrative Appeals Committee; a member on the Investment Committee; and a member on the Legislative Committee. Dr. Shelton's current term of office began July 1, 2012 and will end June 30, 2016.

KTRS Board of Trustees Chair & Vice-Chair Elected

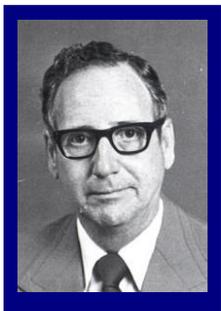


DR. TOM SHELTON, of Lexington, was elected chair of the Board of Trustees for the 2012-2013 fiscal year at the Board of Trustees meeting held June 18, 2012. Dr. Shelton has represented the membership as an active trustee member since 2008.



RONALD L. SANDERS, of Hodgenville, was re-elected vice-chair of the Board of Trustees for the 2012-2013 fiscal year at the Board of Trustees meeting held June 18, 2012. He served as the Board's vice-chair in 2011-2012. Mr. Sanders has represented the membership as a lay trustee since 2004.

After Over Two Decades of Serving Kentucky's Teachers Robert M. Conley Retires from the Board of Trustees



At the regular quarterly meeting of the Board of Trustees on June 18, 2012, **Mr. Robert M. Conley** announced that he was retiring from the Board effective June 30, 2012. Mr. Conley told the Board "...serving the members of KTRS and helping to craft one of the best systems in America has been one of the greatest honors of my life, but after a long career, I feel it is the right time for me to leave...I will miss working with the Board and staff...." During the meeting, Barbara Sterrett, former Chair of the Board, thanked Mr. Conley for his exemplary service and numerous contributions to the successful operation of the system.

A lifelong native of Paintsville, Mr. Conley has been the recipient of numerous honors and awards including "Citizen of the Century" in 2010 from civic groups in Johnson County. Mr. Conley attended Berea College, graduated from Eastern Kentucky University, and completed graduate work in banking at schools in Kentucky and Louisiana. Mr. Conley was a soldier in the European Theater during World War II, and upon returning from the war, taught in the Paintsville City Schools for two years. In 1948, he embarked on a career in banking with the First National Bank of Paintsville, rising from bank teller to executive vice president and then chief executive officer at the time he retired in 1980.

After serving in World War II, teaching in public school, and completing a successful career in banking that spanned more than three decades, most people would deem it appropriate to take a small break. However, Mr. Conley never slowed down and immediately took up several positions in public service. Mr. Conley served as the finance officer for Johnson County and thereafter as the finance officer/budget director for the City of Paintsville. He is credited with pulling both the County and City

out of debt and leaving a surplus of funds at the end of his terms. During this time, Mr. Conley was also very active in civic and community affairs holding leadership roles with the Chamber of Commerce, Easter Seals, Kiwanis Club, and the American Red Cross. Mr. Conley also served on the Board of the Paintsville Independent Schools, Board of Advisors at Prestonsburg Community College, and served as treasurer of the Methodist Church for 38 years. Mr. Conley also authored several books and articles concerning the history of Johnson County.

In 1988, Mr. Conley was elected as a lay member of the Board of Trustees of Kentucky Teachers' Retirement System. In 1991, Mr. Conley was appointed vice-chair of the Investment Committee and served in that role for 15 years. Thereafter, he served as chair of the Investment Committee until his resignation. He had a significant oversight role in modernizing and diversifying the investment program, and during his service assets under management increased from \$3.3 billion to \$15.6 billion.

"Mr. Conley's public life has included roles as a soldier, teacher, banker, trustee, public servant, and author. I also know he was devoted to his late wife Barbara and daughter Brenda. He is a sterling example of being a true gentleman in all aspects of his life and his 23 years of service on the Board will be remembered because of his impeccable character, dedication to service, and consistent prudence and good business judgment," said Gary Harbin, Executive Secretary of KTRS.

The Pathway System: Member Enrollment and Employer Reporting on Track for 2013



In August 2011, staff began designing and building the "Pathway System," which is KTRS's new information technology system for members and employers. The Pathway System will support internet based transactions between members, employers, and KTRS, and will allow members to directly access and transact in their retirement accounts. "The Pathway System will provide the backbone of our services to our members," said Gary Harbin, KTRS Executive Secretary.

KTRS maintains a large amount of information that is necessary for the administration of member accounts, and it maintains this information for periods of time that can last over 80 years. To be useful, this information must be accessible, accurate, and secure.

Pathway will be put into production in phases over the next 3 years. Work has been proceeding according to schedule and about 25% of the overall project has been completed.

The design work for internet based functions including member enrollment, employer reporting, service credit purchases, and related accounting functions, was completed this spring. KTRS had assistance with the design work from finance and technology staff with school boards, universities, the Kentucky Department of Education, and other employers. "The assistance of the 'users' of the employer reporting functions was very much appreciated and they certainly improved overall design work for the system," said Harbin.

Based upon the design work, the initial construction of member enrollment and employer reporting was recently completed. Extensive testing of those components will begin in a few weeks and again KTRS will be seeking the assistance of finance and technology staff from

participating employers to help with testing. KTRS is also in the process of planning training for employers on how to use the member enrollment and employer reporting functions, which will begin in early 2013. Thereafter, the member enrollment and employer reporting functions will go into production in July/August 2013.

"We are designing the system to have unflinching accuracy and also to be easy to use. We think this internet based system will open up more opportunities for quality service to KTRS members and employers," said Harbin.

Board Structure & Solicitation of Candidates for Consideration

The Teachers' Retirement System is governed by a nine-member Board of Trustees. Two members of the Board, the Chief School Officer and the State Treasurer, are ex-officio members. The remaining seven trustees are elected by the combined retired and active membership. Two of the seven elected trustees are identified as "lay members," and are persons who are not KTRS members. One trustee is a retired teacher; the other four trustees are active members, one of which is customarily an administrator. The seat that Robert M. Conley vacated on June 30, 2012, is one of the two lay member positions. Mr. Conley's term is scheduled to expire in 2014. Pursuant to KRS 161.270, the Board will select an interim replacement.

Historically, the lay trustee position has been filled by an individual with a finance or investment background. Members who wish to submit the name of a person for the Board's consideration to complete the remaining two years of Mr. Conley's term should forward submissions to the address below:

**Chairman of the Nominating Committee
Kentucky Teachers' Retirement System
479 Versailles Road
Frankfort, KY 40601**

Suggested candidates for the interim appointment must be received at KTRS no later than August 31, 2012.

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 who 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 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.

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 (see below) that currently permit a spouse who previously waived KTRS MEHP coverage to later reenroll 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.

MEHP Spousal Qualifying Events



- **Marriage**
 - New Spouses have 30 days from the date of marriage to enroll.
- **Spouse Losing other Employer/Retirement System Sponsored Coverage**
 - Spouse must provide proof from employer/retirement system providing insurance termination date and reason for termination.
 - Cannot be self-terminated.
- **Spouse's COBRA Expires**
 - Spouse must provide a COBRA termination letter showing the date COBRA expires.
 - Cannot be self-terminated.
- **Tag-along with Retiree**
 - Spouse can be enrolled when Retiree enrolls because Spouse was unable to be covered due to Retiree not having KTRS coverage.
- **Death of Retiree**
 - Spouses have 30 days from the Retiree's death to elect coverage or decline coverage. If coverage is declined or waived, it is a permanent election – no Qualifying Event will allow the surviving spouse to re-enroll.
- **Spouse Turning Age 65**
 - Spouse must enroll in Medicare Parts A and B and enroll in the KTRS MEHP within 30 days of their 65th birthday.

*** KTRS
must
receive all
forms
within
thirty days
of the
qualifying
event date.**

KEHP Enrollees Who Are Eligible for Medicare

In the past, KTRS has allowed under age 65 retirees and/or dependents who are eligible for Medicare to choose to continue to be covered on the under 65 Kentucky Employees' Health Plan (KEHP) or move to the KTRS Medicare Eligible Health Plan (MEHP). The cost to KTRS to cover a Medicare-eligible member on the KEHP with only secondary coverage is more than double the cost of the MEHP.

Effective January 1, 2013, anyone wishing to enroll in insurance through KTRS (including spouses) who is under age 65 and eligible for Medicare Parts A and B will only be allowed to enroll in the MEHP. Those without Medicare Part B must enroll in Medicare Part B and move to the MEHP no later than July 1, 2013. (Medicare Part B enrollment is January through March for a July 1 effective date. Contact Social Security at 1-800-772-1213 to enroll in Medicare Part B.) If they do not obtain Medicare Part B, they will not be eligible for the KEHP or MEHP effective July 1, 2013. All spouses must obtain both Medicare Part A and Medicare Part B to be able to enroll in the MEHP.

If you or any of your covered dependents are under age 65, enrolled in the KEHP, and have Medicare, please contact the KTRS office regarding your options.

These reasonable and necessary steps will help insure the continuation of affordable medical insurance for all KTRS participants. Please watch future newsletters for more details.



TEACHERS' RETIREMENT SYSTEM
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