

KENTUCKY

TEACHERS' RETIREMENT SYSTEM

RETIRED MEMBER
EDITION



November
2012

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Your KTRS "DB Plan" "Defined Benefit Group Retirement Plan" Ensures Against Outliving Your Benefit

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

All across America the baby boom generation is starting to think about retirement. Many of these Americans with defined contribution accounts (like 401(k) accounts) are coming to the stark realization that they have not saved enough money. In a 2009 article titled "Why It's Time to Retire the 401(k)", Time Magazine noted that 46% of all 401(k) accounts have balances less than \$10,000. With such meager savings for retirement, many Americans are at substantial risk for outliving their retirement money and thereafter suffering poverty, dependence, and a loss of dignity in the last years of life.

For a person relying on a 401(k) account, how much money will they need to save to remain self-sufficient for their life? That is a fairly standard calculation if they know they will die on or before their 74th birthday. The much more difficult calculation is trying to figure out how much money they will need if they live beyond normal life expectancy. What if they live well beyond normal life expectancy to be 85, 95, or maybe 105 years old?

The idea of living until 105 may not be as absurd as you might think. KTRS's most senior retiree is 107 years old and has received a monthly pension benefit from KTRS for over 40 years. As you can see from the chart, KTRS has 59 other retirees over 100 years old. There are over 5,300 retirees ages 80 through 99 years old. **Unlike those people with 401(k) accounts, KTRS retirees will NOT outlive their benefits.**

KTRS is a **Defined Benefit Group Retirement Plan** or what is commonly called a "DB Plan." It provides true retirement security for your lifetime. It also provides ancillary benefits such as disability benefits if you become disabled prior to normal retirement.

DB Plans operate similarly to insurance policies by pooling "longevity risk" and carefully monitoring the average life expectancy and the amount of funds that need to be collectively set aside for retirements...no more, nor no less. This type of risk sharing mechanism eliminates the possibility of outliving retirement savings.

DB Plans also operate in an efficient manner for both the retiree and the taxpayers of the Commonwealth. Studies have also shown that on average, DB

	Dec 31, 2011	Jun 30, 2012
Age 100 years old or more	37	60
Age 95-99 years old	266	250
Age 90-94 years old	758	712
Age 80-89 years old	3,687	4,297
TOTAL RETIREES	4,748	5,319

DB Plan continued on page 2 ...

DB Plan continued from page 1 ...

Plans can negotiate lower investment fees and enjoy higher investment returns than individuals do with their 401(k) accounts. As a long-term, group investor, rather than an individual, short-term investor, DB Plans can afford to invest in a more diversified portfolio and have a greater capacity for riding out periodic downturns in the market.

KTRS provides members with efficient pooling of longevity and investment risk. Members' assets are professionally managed at a very low cost. All of these reasons make the KTRS "DB Plan" 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 severe contrast to the substantial social risks and high costs associated with 401(k) accounts.

Minimum Distribution Requirements

Regardless of whether you are vested with at least five (5) years of service or not, if you are no longer working for a participating KTRS employer, federal tax law requires you to take action soon after you reach age 70½ to withdraw the contributions that have been deposited in your retirement account. If you are vested with at least five (5) years of service, you are required to withdraw your contributions by filing a retirement application to start receiving your retirement allowance. If you are not vested with at least five (5) years of service, you are required to file an application for a refund of your account. Failure to take action to timely withdraw the contributions that have been deposited in your retirement account may result in federal tax penalties.

If you are age 70½ or over and no longer contributing to the retirement system, please contact KTRS immediately for the appropriate forms to apply for retirement or a refund to avoid substantial and recurring federal tax penalties. Federal tax law also requires the beneficiary of an

active or retired member to begin receiving benefits or take a refund soon after the member's death.

Beneficiaries should contact the retirement office soon after the member's death to begin receiving benefits or take a refund in order to avoid any applicable penalties.

Re-Employed Retirees Points to Remember!

- ◆ If you are retired and employed by an agency that participates in the Kentucky Employees' Health Plan (KEHP) and you are eligible for health insurance, you must terminate coverage through KTRS.
- ◆ If you are retired and employed by an agency that does not participate in the KEHP, but you are eligible for health insurance through that employment, you must terminate KTRS coverage unless that coverage is not as good as KTRS coverage. You may be asked to certify this information.
- ◆ Additionally, once you terminate that employment or lose eligibility for active insurance, it is your responsibility to contact KTRS within the Qualifying Event period (usually 30 days) to re-enroll and provide the required documentation.

Upcoming 2012 Tax Year Information

KTRS will mail the 1099R tax forms before the end of January 2013. Your tax statement contains confidential information and can only be mailed to your address (the member) currently on record with KTRS. This is for your privacy and protection.

Reminder: Upon the Death of a Retired Teacher

Eligible spouses have 30 days from the retiree's date of death to elect or decline health plan coverage through KTRS. If coverage is declined or waived, it is a permanent election, and no qualifying event will allow the surviving spouse to re-enroll.

Your Life Insurance Beneficiary and Retirement Account Beneficiary ... Are Yours Current?

One of the advantages of being part of KTRS, is that you have 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].

KTRS retirees are reminded that changing the life insurance benefit designation does not affect the beneficiary designation made at retirement that provides for a monthly payment to a survivor in the event of death of the retired member. 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.

Enrollees Who Are Eligible for Medicare

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 and not the KEHP. 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.) **Anyone who is under age 65 and eligible for Medicare but does not obtain Medicare Part B by July 1, 2013, will not be eligible for the KEHP or MEHP.**

These reasonable and necessary steps will help insure the continuation of affordable medical insurance for all KTRS participants.

MEHP: New Humana Medicare ID Cards for 2013

If you are currently on the KTRS Medicare Eligible Health Plan (MEHP), you should expect to receive new Humana ID cards sometime in December for the 2013 plan year. This is required by Medicare due to a change in group numbers for Humana.

At this time we do **NOT** expect to mail new Express Scripts Medicare ID cards for 2013. Please continue to use your current Express Scripts ID card. If you do not have an Express Scripts Medicare ID card, contact them at 1-877-866-5834.

MEHP: Vaccines & Immunizations

This is just a reminder that when receiving the flu and pneumonia vaccine at your retail pharmacy the claims should be submitted to your medical plan, Humana. This is because Medicare considers these vaccines to be Medicare Part B claims. So, when getting the flu or pneumonia vaccines at the retail pharmacy, remember to give the pharmacist your Humana ID card, not your Express Scripts ID card. Important numbers the pharmacy will need to use from your Humana ID card are the BIN=610649 and PCN=03200004. There should be no cost to you if no other services are rendered. If you receive these immunizations at the doctor's office, the doctor will file the claim with Humana for you.

~ FYI ~

Insurance Deduction: If you have an insurance deduction, the January check stubs should reflect your 2013 plan year premiums.

Shared Responsibility Payment: The standard Medicare Part B Premium equivalent was estimated at \$111 per month during the KEHP Open Enrollment. The actual 2013 standard Medicare Part B premium is \$104.90.

KTRS Holiday Closing Schedule:

◆ CHRISTMAS ◆

Monday & Tuesday, December 24-25, 2012

◆ NEW YEAR'S ◆

Monday, December 31, 2012 -
Tuesday, January 1, 2013

KTRS Jeep Retired From Service

If you have ever received printed material from KTRS via the U.S. mail, chances are very good that the information was transported to the Frankfort Post Office in the KTRS Jeep. In January 1996, KTRS purchased the Jeep as a service vehicle supporting mail room operations and facilities maintenance. The Jeep was used by KTRS staff every business day for the last 16.5 years.

Ty Hawkins, KTRS's supervisor of mail room operations, said "the Jeep was always a reliable vehicle, and other than just standard maintenance, the Jeep was never in the repair shop." Then, in July 2012, the Jeep began shuddering intermittently at various speeds. Diagnostic testing of the problem revealed bad news.

The Jeep's front end was worn out. The mechanic noted that it had to be repaired to be safe to operate. He also reported that the Jeep's braking system was failing and must also be replaced. The repair estimate was about 20% of the original purchase price of the vehicle.

"At KTRS, we take good care of equipment and use things until they are worn out," said Tim Hammons, KTRS's manager of facilities maintenance. Hammons explained that staff looked into buying used parts to repair the Jeep. However, even with used parts, the cost of repairing the old Jeep was several times the value

of the vehicle. Therefore, the difficult decision was made to retire the old Jeep rather than fix it.

Over the 16.5 years the Jeep was in service, KTRS staff member Vince Jordan used the vehicle most often. "The Jeep was a great vehicle and we



knew we could make it where we needed to go whether there was snow, ice, rain, flood, or heat wave. The Jeep helped us keep our commitments to the members of the retirement system," said Jordan.

The KTRS Jeep was in service longer than any other vehicle in the state fleet. "Making effective, efficient, long-term use of equipment is just another example of how KTRS makes a conscious effort to keep the costs of administration low for our members", said Eric Wampler, Deputy Executive Secretary of Finance and Administration. "As we evaluate proposals to replace the Jeep, finding the 'best value' vehicle for the long-term will be the primary factor considered", noted Wampler.