

KENTUCKY

TEACHERS' RETIREMENT SYSTEM



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Declining Retirement Security? **Not with the KTRS Defined Benefit Group Retirement Plan!**

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

After increasing retirement security for the elderly every year since the great depression, this year a majority of Americans are now headed toward a retirement in which they will be financially worse off than their parents.¹ Although many factors have contributed to this reversal of fortune, I believe the primary culprit is America's growing reliance on 401(k) type individual savings accounts for retirement.

KTRS began operations back in 1940 as a defined benefit retirement plan for the Commonwealth's teachers. After more than 72 years in operation, KTRS continues to ensure retirement security with a plan that provides lifetime retirement income for retired teachers. The KTRS defined benefit group retirement plan provides retirement security in a more cost effective way than any other means.

At the end of 2012, balances in 401(k) savings accounts stood at record highs because of strong investment returns and increased contributions by

participants.² Good news, right? In actuality, it is not good news. The balances in 401(k) type savings accounts are still so low (despite record highs) that a majority of participants can expect a much lower standard of living in their retirement years.

Since being introduced more than 30 years ago, the 401(k) type savings accounts have proven woefully inadequate for those relying on them as their primary retirement income. Moreover, participants in savings plans pay higher costs and run the risk of dependence on family and social programs in later years when savings are depleted. The vast majority of Americans are deeply worried about their retirement security³ and the features of 401(k) type savings accounts do nothing to allay those concerns.

The KTRS defined benefit group retirement plan ensures retirement security and its positive features stand in stark contrast to "do-it-yourself" 401(k) savings accounts.

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Not with the KTRS Defined Benefit
Group Retirement Plan!*

continued from page 1 ... Declining Retirement Security? Not with the KTRS Defined Benefit Group Retirement Plan!

Investment Professionals Manage Your KTRS Retirement Funds

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. 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.⁴ 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.

KTRS invests and plans for the long-term. At June 30, 2012, KTRS’s 30 year rate of return stood at 9.52%, 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 teachers.

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. In this way, most of the costs of retirement are paid from investment earnings (please refer to the chart below). The KTRS investment program helps ensure retirement security for KTRS’s members and economical operations are also beneficial for the taxpayers of the Commonwealth.

Beginning Balance as of July 1, 1985	\$1.8
Member Contributions	5.4
Employer Contributions	9.1
Investment Income	16.6
Benefit Payments & Refunds	(17.9)
Administrative Expenses	(0.1)
Ending Balance as of June 30, 2012	\$14.9

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.

KTRS provides 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.

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Declining Retirement Security?
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Conclusion

Since 1940, KTRS has provided low-cost, high-quality retirement security for the teachers of Kentucky whether financial markets were tranquil or volatile, on the rise or falling. 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 The Washington Post, "Fiscal trouble ahead for most future retirees," February 16, 2013, Michael A. Fletcher.

² Market Watch, "401(k) balances hit record highs," February 14, 2013, Andrea Combs.

³ National Institute On Retirement Security, February 26, 2013, "Pensions and Retirement Security 2013: A Roadmap for Policy Makers."

⁴ National Institute On Retirement Security, August 2008, "A Better Bang for the Buck: The Economic Efficiencies of Defined Benefit Pension Plans."

~ MEHP ~

Express Scripts/Medco Merger Branding Strategy

As you already know, Express Scripts and Medco are now one company. The new Express Scripts is committed to helping millions of Americans like you have access to affordable medications and the services you need to stay healthy.

The combined company is in the process of changing the name on all of its communications to Express Scripts. Until the renaming process is complete, you'll sometimes see the Medco name in pharmacy communications and on the Web, even though your prescription drug plan is still

administered by Express Scripts. Express Scripts is proceeding carefully to continue to provide you with the high-quality service you expect as two companies together.

In the meantime, you should continue to refill your prescriptions as you normally would by using your current prescription drug Member ID card, refill order forms, Express Scripts' website, or the toll-free Customer Service telephone numbers on your Member ID card.

If you have questions, please call the Express Scripts phone numbers on the back of your Member ID card, or as always, you can contact a pharmacist at the Kentucky Rx Coalition at 1-855-218-5979 to discuss your prescriptions.

~ MEHP ~

Express Scripts Specialty Pharmacy Becomes Accredo

In 2012, Express Scripts announced that they are combining their specialty pharmacies, CuraScript and Accredo, and organizing them under the name Accredo.

Express Scripts will be relicensing the CuraScript pharmacies to the Accredo name throughout 2013. Over this time period they will be assisting CuraScript patients and physicians through the transition, completing the process in early 2014.

Patients will be notified of this change, but will not be required to take any action. Their specialty pharmacy professionals will directly and proactively manage each patient's transition. In many cases, the only change patients will notice is the pharmacy name on their medication labels and shipping packages.

As always, you can contact a pharmacist at the Kentucky Rx Coalition at 1-855-218-5979 to discuss your prescriptions.

2012 Tax Year Information

KTRS mailed the 1099R tax forms during the last week of January 2013. 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.

1099R 2012	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 <input type="checkbox"/> Total Distribution <input type="checkbox"/>	
		3 Amount in Box 2a Eligible for Capital Gain Election	4 Federal Income Tax Withheld	BOX 5 5 Employee Contributions		
Recipient Identification Number		6 Net unrealized appreciation in employer's securities	7 Distribution Code	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	11 1st year of desig. Roth contrib.	
		12 State Tax Withheld	13 State/Payer's State Number KY 077156	14 State Distribution	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	Retired After January 1, 1998 <i>TOTAL FEDERAL RETIREMENT INCOME LESS THAN \$41,110</i>	Retired After January 1, 1998 <i>TOTAL RETIREMENT INCOME MORE THAN \$41,110</i>
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.	If total federal taxable income is less than \$41,110 then all pension income is KY STATE NONTAXABLE income.	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.

Exploration of a Medicare High Performance Formulary for 2014 with a Change in the Third Tier Drug Cost Share (Up to 50%) for Brand Non-Preferred Drugs

With the guidance of the KY Rx Coalition, the KTRS MEHP is exploring a move to a Medicare High Performance Formulary for 2014 with the third tier drug coinsurance (brand non-preferred) moving to as much as 50% coinsurance at both retail and mail. With this potential change, there will be a drug available on tier one or tier two for any drug therapeutic categories represented on tier three. Also, the copayment for tier one and two drugs at both retail and mail will not change. So, you may still get a 90-day supply of a generic drug at mail order for \$10 and a 90-day supply of a brand preferred drug at mail order for \$20. At the retail pharmacy, you may still get a 34-day supply or a 90-day supply of a generic drug or brand preferred drug at a 20% coinsurance. As always, drugs are subject to move tier levels as determined by independent physicians.

A move to a Medicare High Performance Formulary will help KTRS to maximize the changing pharmacy landscape by incenting the use of generic and low cost brand medications. The brand patents for many blockbuster brand drugs have or will expire between 2001 and 2014 producing a \$126 billion savings for the purchaser of drugs, saving both the KTRS covered retirees and the KTRS MEHP. In 2013 and 2014, Diovan, Nexium, and Celebrex will lose their brand patents allowing lower cost generics for these blockbuster drugs to enter the market.

The Express Scripts Medicare High Performance Formulary is comprised of generics and lower cost brand medications. Clinical appropriateness of the drug, not cost, is Express Scripts' foremost consideration. Express Scripts develops clinically sound formularies based on evaluations of independent physicians. CMS (Centers for

Medicare & Medicaid Services) gives final approval of the Medicare High Performance Formulary.

The Medicare High Performance Formulary has advantages for both KTRS covered members and the KTRS MEHP, as follows:

- Increases physician and member awareness of lower-cost, equally effective therapies, which are often generic medications.
- Lower copayment for chronic medications.
- Plan sustainability, best value.
- Helps reduce overall drug spend without compromising quality.
- Preserves the longevity of the prescription benefit.

With the Express Scripts Medicare High Performance Formulary, the exhibit below describes the most common non-preferred drugs where a copayment/coinsurance change will be experienced.

Most Common Drugs with Copayment Changes
<u>Non-preferred Medication / Most Common Use</u>
ACTONEL / Osteoporosis
ANDROGEL / Testosterone Replacement
AVODART / Enlarged Prostate
BENICAR, BENICAR HCT / High Blood Pressure
BYSTOLIC/ High Blood Pressure
COREG CR/ High Blood Pressure/Heart Failure
HUMALOG / Diabetes
LANTUS SOLOSTAR/ Diabetes
LEVEMIR/ Diabetes
LUMIGAN / Glaucoma
NASONEX/ Allergies
PREMARIN / Estrogen Replacement
SYNTHROID / Thyroid Replacement
TRICOR / High Triglycerides-Cholesterol
TRILIPIX / High Triglycerides-Cholesterol
VENTOLIN HFA / Asthma
VIVELLE-DOT / Estrogen Replacement
VYTORIN / High Cholesterol

Exploration of a Medicare High Performance Formulary for 2014 continued from page 6 ...

With the Express Scripts Medicare High Performance Formulary, the three comparisons below demonstrate the non-preferred and preferred drugs for three very common conditions which are stomach acid/ulcer conditions, high blood pressure, and high cholesterol.

Most Common Medications with Copayment Changes

PLEASE NOTE: NON-Preferred Formulary Options will be available for as high as 50% Coinsurance.

Talk to your Doctor now about changing to a preferred option.

STOMACH ACID/ULCER MEDICATIONS

NON-preferred Formulary Options (HIGHEST copayment)	Preferred Formulary Options (LOWER copayment)
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Aciphex Dexilant Prilosec Prevacid	Omeprazole <i>(generic Prilosec)</i> Lansoprazole <i>(generic Prevacid)</i> Pantoprazole <i>(generic Protonix)</i>
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MEDICATIONS FOR HIGH BLOOD PRESSURE

NON-preferred Formulary Options (HIGHEST copayment)	Preferred Formulary Options (LOWER copayment)
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Atacand/Atacand HCT Avapro Benicar/Benicar HCT Diovan/Diovan HCT Edarbi	Losartan <i>(generic Cozaar)</i> Eprosartan <i>(generic Tevetan)</i> Irbesartan <i>(generic Avapro)</i> Valsartan/HCT Valsartan <i>(generic Diovan)</i>
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MEDICATIONS FOR HIGH CHOLESTEROL

NON-preferred Formulary Options (HIGHEST copayment)	Preferred Formulary Options (LOWER copayment)
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Livalo Lescol XL Lipitor Vytorin	Atorvastatin <i>(generic Lipitor)</i> Pravastatin <i>(generic Pravachol)</i> Simvastatin <i>(generic Zocor)</i> Fluvastatin <i>(generic Lescol)</i> Crestor
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Many of the KTRS retirees and spouses covered on the MEHP are now realizing that they have a personal "live" pharmacist available to them by phone toll-free at 1-855-218-5979. Each of the four pharmacists detailed below can help KTRS covered members identify lower cost prescription alternatives. They will also contact your physician to facilitate seeking authorization for lower cost alternative drug therapies. They can be a great resource for adverse drug effects, drug interactions and general medication information. Call them now if you would already like to explore a lower cost prescription alternative.

KY Rx Coalition Pharm-Assist Support Contact Us @ 1-855-218-5979

Counseling service via live pharmacists available to KTRS member includes:

- Identification of lower cost prescription alternatives.
- Contacting physician to facilitate seeking authorization for lower cost alternative therapies.
- Educational resources for members – adverse effects, drug interactions and general medication information.

Give one of us a call if you have questions!

Lucy Wells
Clinical Director
Kentucky Rx Coalition
email: lucy.wells@uky.edu

Lea Goggin
Dedicated Clinical Pharmacist
Kentucky Rx Coalition
email: lea.goggin@uky.edu

Carrie Isaacs
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**TEACHERS' RETIREMENT SYSTEM
OF THE STATE OF KENTUCKY**

479 Versailles Road
Frankfort, Kentucky 40601-3800

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Health Insurance for Retirees Returning to Work

KTRS recently reviewed its laws and procedures regarding health insurance for retirees who return to work and become eligible for insurance through their active employers. The return-to-work scenarios reviewed were as follows: (1) Waiver Return-to-Work, (2) Non-waiver Return-to-Work (standard and critical shortage programs), and (3) Disability Return-to-Work.

As a result of the review, effective July 1, 2013, KTRS-provided health insurance coverage will be terminated for any age retiree at the end of the month in which re-employment occurs, instead of when the active employment insurance coverage begins. The cost of the KTRS-provided health insurance for the month when re-employment begins will be deducted from the retiree's annuity. If the annuity is not large enough to cover the

insurance deduction, the retiree will be billed. Retirees under the age of 65 who are enrolled through the Kentucky Employees' Health Plan (KEHP) may elect to continue COBRA coverage until their active employment coverage begins.

Disability Earnings Limitation

By law, retirees who receive a disability retirement allowance may earn in permitted employment additional income in an amount that when added to their disability retirement allowance does not exceed a set earnings limitation. If the earnings limitation is exceeded with employment income, a retiree's disability retirement allowance is reduced on a dollar-for-dollar basis. Beginning with the 2013 calendar year, the earnings limitation has been increased to \$41,982. If you have questions regarding the earnings limitation or what constitutes permitted employment, please contact KTRS.