

# KENTUCKY

## TEACHERS' RETIREMENT SYSTEM

ACTIVE MEMBER  
EDITION



MAY  
2013

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## *An Independent Board of Trustees* "The Foundation of Retirement Security"

by

**Gary L. Harbin, CPA**  
**Executive Secretary**

**Kentucky Teachers' Retirement System**

KTRS's independent Board of Trustees is charged with defending the retirement security of Kentucky's teachers. The work of the Board is vitally important to the proper functioning of the retirement system. For more than 70 years, through wars, world-wide economic recessions, natural disasters, terrorist attacks, and other travails, the Board has successfully met its obligations to the members and beneficiaries of the retirement system and the Commonwealth of Kentucky.

This month every active and retired member of KTRS will have the opportunity to vote for candidates for two open positions on the Board. The results of the election will be announced by the Board on Monday, June 17, 2013, and thereafter, the terms for the two positions will begin on July 1, 2013. I would like to encourage every member to participate in this important election and continue to support the Board's long history of committed service.

KTRS began operations on July 1, 1940 with \$1 million. From that starting point, KTRS has grown to be the largest financial institution in the Commonwealth of Kentucky. KTRS currently has more than 137,000 active and retired members and invests over \$16.2 billion of teachers' deferred

income. KTRS's annual payroll to retirees exceeds \$1.7 billion. Most of this money stays within the state and is a significant economic stimulus to every county in the Commonwealth.

Although KTRS is a large, complex organization, it is an effective and efficient operation. While providing unrivaled retirement security, KTRS is also recognized for having some of the lowest administrative expenses (including reasonable salary costs) for statewide pension plans in the country. KTRS's positive qualities are the result of many years of consistent control and oversight by an independent Board of Trustees.

The following is a brief summary of the composition of the Board, their duties and responsibilities, and some recent accomplishments that help ensure retirement security.

### Composition

The Board is composed of nine members. Seven of the nine trustees are elected by the membership of the system and two members serve in ex officio positions.

- ◆ Four of the elective trustees are active members of the retirement system and known as "teacher trustees."
- ◆ One elective trustee is an annuitant of the retirement system and known as

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the "retired teacher trustee."

- ◆ Two elective trustees are persons who are not members of the teaching profession and known as "lay trustees."
- ◆ The two ex officio trustees are the Commissioner of Education and State Treasurer.

### Duties and Responsibilities

The nine members of the Board are responsible for the general administration, management, and proper operation of the retirement system. In fulfilling these responsibilities, each member of the Board acts in a fiduciary capacity to the members of the retirement system. This means that the Board must transact the business of the retirement system according to the highest standards of ethical conduct and put the interests of members before their personal interests.

The processes and procedures of the Board are published in the "Governance Manual", which is available to the public on KTRS's website.<sup>1</sup> The Governance Manual describes in understandable terms how the Board conducts its business, what laws and regulations govern its operations, and what policies and procedures it follows to ensure fiduciary duties are satisfied.

### Some Recent Accomplishments

Over the last five years, the Board has made dramatic progress in improving the operations and the long-term sustainability of the retirement system. These accomplishments resulted from the Board building consensus on issues affecting the retirement system by working with political leaders and Kentucky's education community. The Board has repeatedly demonstrated an unwavering commitment to satisfying its fiduciary duties, meeting the expectations of Kentucky's education community, and easing financial burdens on the state.

#### **1. \$5.2 Billion Savings in Retired Teacher Health Care Plan.**

Under the Board's leadership, \$5.2 billion in liability was eliminated from the retired teacher health care plan. This savings was accomplished through implementation of the 2010 "shared responsibility" solution to pre-fund retiree healthcare (\$3.3 billion) and careful management of health care costs (\$1.9 billion).<sup>2</sup> One example of cost savings is the Board's action to join the KYRX Coalition, which is spearheaded by the

University of Kentucky. By joining the Coalition, KTRS achieves annual savings through leveraging greater prescription purchasing power and deeper drug discounts. As an added benefit, a dedicated staff of pharmacists with the KYRX Coalition can help each member with their prescriptions and how to maximize their prescription dollars. Eliminating \$5.2 billion in liability helps ensure the retirement security of teachers, improves the financial condition of the Commonwealth, and eases burdens on taxpayers.

#### **2. Nationally Recognized Experts Added to Investment Committee.**

The Board implemented recommendations made by Governor Steve Beshear's bipartisan Public Pension Working Group, including expanding the membership on the investment committee to include additional trustees and two investment experts. Since 2009, Bevis Longstreth and George Philip have served as investment experts on the KTRS investment committee. These two nationally recognized experts have added significant value to the investment program because of their extensive backgrounds in finance, risk management, governance, and alternative investments.

#### **3. Model Investment Program.**

Focusing on retirement security begins with a disciplined process of investing. KTRS adheres to a carefully planned long-term investment strategy rather than making short-term decisions based upon an emotional response to market conditions. Careful long-term planning and risk control helped KTRS avoid unsound investments, which have resulted in devastating losses for many investors during the economic downturn. 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%.

#### **4. Low Cost, Effective, and Efficient Operations.**

KTRS is also recognized for having some of the lowest administrative expenses for statewide pension plans in the country. The Board carefully monitors administrative expenses and has mandated adherence to strict accounting standards and a system of internal controls. Moreover, the Board

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<sup>1</sup> See the KTRS Board of Trustees Governance Manual at [http://ktrs.ky.gov/08\\_about\\_KTRS/01\\_board\\_trustees.htm](http://ktrs.ky.gov/08_about_KTRS/01_board_trustees.htm).

<sup>2</sup> As of the June 30, 2011 Actuarial Valuation.

has established a Governance and Audit Committee to assist the Board in fulfilling its fiduciary oversight responsibilities for all administrative expenses of the system. The members of the Board, as fiduciaries, are committed to making sure that members' retirement monies pay only reasonable and appropriate expenses of administering the system.

### 5. **Transparency in Operations.**

The operations of the Board are a model of transparency in state government. No other branch of government or agency comes close to meeting KTRS's standards of performance, ethical conduct in business, reporting requirements, professional education, and efficiency. All business of the Board is conducted in public meetings and the dates of regular quarterly meetings are published a year in advance.

The philosophy and practice of the Board is dominated by the ideas of following the highest standards of ethical conduct and putting the interests of members and beneficiaries first. For more than 70 years, the independent Board of Trustees of KTRS has successfully upheld its obligations to members, the education community, and the Commonwealth of Kentucky.

### **Important Information on Cost Estimates for Actuarial Service Credit Purchases**

KTRS is routinely requested to provide cost estimates to members wishing to purchase service credit and these estimates are often provided months, even years, before the purchase is actually made. It is important to remember that these cost estimates are truly just that. They are only estimates and subject to change for a variety of reasons. These include the discovery of errors, changes in the member's age, differences in the member's anticipated and actual income or sick/annual leave days, amendment of actuarial factors, and a variety of other reasons. As such, any member planning to purchase service credit is strongly advised to obtain a current estimate before making any permanent retirement decisions, even if the last estimate is only a few months old. Furthermore, as a result of recent adjustments to the actuarial service purchase formula, some estimates provided prior to April 2013 may be less than the actual cost and a new estimate should be requested.

## **May 2013 KTRS Board of Trustees Election**

As stated in our previous article, 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. During this year's election, the membership will elect a retired member trustee and



an active member trustee. The candidates for the retired member position are Charles Ludwig, from Louisville, and Arthur Green from Elkton. Both candidates are previous members of the KTRS Board of Trustees.

The candidates for the active member position are Jay Morgan, Ph.D., from Murray who is also a past member of the KTRS Board of Trustees; and Michael H. Ross, from Maysville.

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 your ballot must not be postmarked after May 31, 2013. 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.

## Retirement 101 Workshops

Please note different  
times for each workshop

### June 24, 2013

Registration: 8:30 am  
Workshop: 9:00 – 11:00 am  
(Local Time)  
River Park Center  
101 Daviess Street  
Owensboro, KY

### July 18, 2013

Registration 8:30 am  
Workshop: 9:00 – 11:00 am  
(Local Time)  
KY River ADD  
917 Perry Park Rd  
Hazard, KY

### August 21, 2013

Registration 4:30 pm  
Workshop: 5:00 – 7:00 pm  
(Local Time)  
Greenbo Lake SRP  
965 Lodge Rd  
Greenup, KY

**\* YOU MUST PRE-REGISTER TO ATTEND! \***

Please visit [www.ktrs.ky.gov](http://www.ktrs.ky.gov) for **ADDITIONAL DATES**  
and for **ALL** workshop & seminar **PRE-REGISTRATION**.

## Pre-Retirement Seminars

Please note different  
times for each workshop

### June 26, 2013

Registration 8:30 am  
Seminar: 9:00 am – Noon  
(Local Time)  
Holiday Inn Express  
50 Stevie Lynn Dr  
Somerset, KY

### July 2, 2013

Registration 8:30 am  
Seminar: 9:00 am – Noon  
(Local Time)  
The Centre on Main  
425 South Main St  
Leitchfield, KY

### August 3, 2013

Registration 8:30 am  
Seminar: 9:00 am – Noon  
(Local Time)  
Holiday Inn  
Louisville East  
1325 S. Hurstbourne Pkwy  
Louisville, KY

## Deadlines for Purchasing Service Credit

### FY 2011-12

#### Leaves of Absence \*

Contact KTRS about eligibility  
to obtain full service and/or  
salary credit.

**DEADLINE for purchase is  
June 30, 2013**

Contact your employer for appropriate  
form.

Use form LOA-1

### FY 2012-2013

#### Unpaid Days \*

Have your employer complete  
Form LS-1 and submit to  
KTRS.

**DEADLINE for purchase is  
December 31, 2013**

\* Appropriate forms can be  
obtained at [www.ktrs.ky.gov](http://www.ktrs.ky.gov)  
and must be **completed by your  
employer**.