

KENTUCKY

TEACHERS' RETIREMENT SYSTEM

ACTIVE MEMBER
EDITION



FEBRUARY/MARCH
2014

KTRS's Long-Term Investment Philosophy Continues to Serve Teachers Well

A Message from the Executive Secretary

Gary L. Harbin, CPA

For the twelve month period ended June 30, 2013, KTRS's investment program produced total returns of 14.1%. This means that, during the one year period, teachers' retirement assets increased by \$1.3 billion from \$14.8 billion to \$16.1 billion. This performance ranked in the top 10% of returns for pension funds with over \$1 billion in assets. In the last five years, KTRS's investment performance ranked in the top 7%. Moreover, in the last thirty years, KTRS investment returns have averaged 8.9%, which is consistent with the long-term assumed rate of return of 7.5%.

This history of solid performance is truly remarkable considering investment markets returned near zero for the thirteen year period from June 2000 through June 2013. Only the Great Depression of the 1930s produced more stress on the global financial system. The recent 13 year period was marked by some investors "chasing returns" in high-risk, complex, and unregulated financial instruments. Although some illusory short-term

gains were reported, the risk-takers' investments mostly turned into devastating long-term losses. Moreover, their recklessness damaged the financial system and only now are we beginning to see signs of a durable recovery.

KTRS's investment program continues to serve teachers of Kentucky well with its diversification, governance structure, performance, and cost effectiveness. Hewitt Ennis Knupp, a nationally recognized investment consulting firm, serves as KTRS's General Investment Consultant. In addition, two nationally recognized investment experts serve on the KTRS Investment Committee.

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. Although there has been considerable turmoil in the global financial system over the last seventy-four years, KTRS's long-term investment philosophy continues to serve teachers well.

Headlines

KTRS's
Long-term
Investment
Philosophy
Continues to
Serve Teachers
Well

◆
Essentials for
the 2014
Retiree

◆
Beware of a
Predatory Loan
Disguised as a
"Pension
Advance"

◆
Cost
Estimates for
Actuarial
Service
Credit
Purchases

◆
New IRS
Federal Tax
Law Becomes
Effective

◆
Minimum
Distribution
Requirements

◆
Deadlines for
Purchasing
Service Credit

Essentials for the 2014 Retiree

The following answers are provided to help with often-asked questions pertaining to retirement.

If I am planning to retire this year, what should I do in preparation?

- **Request the KTRS Application for Service Retirement packet.** You will need this retirement packet from the KTRS office at **least 60 days before** your prospective date of retirement.
- You will be required to submit copies of your signed Social Security card and the official, certified birth certificate when you submit your retirement application.
- A copy of your official certified marriage license is required if married.
- If you select a payment option that provides a lifetime benefit to a surviving beneficiary, you will need to provide a copy of the beneficiary's official, certified birth certificate.

Does my employer need to complete any part of my retirement application?

- **YES.** Sections VIII and IX need to be completed and signed by your employer in order to finalize your retirement application. *Please allow sufficient time for your employer to complete these sections.*

What is the deadline to file for JULY 1st retirements?

- **JULY** retirement applications must be received in the KTRS office no later than **June 1st**. All retirement applications must be submitted by the **FIRST** of the month **PRIOR** to the month of retirement.

When will I receive my first check?

- You will receive your first check at the end of the month in which your retirement takes effect. *For example, if you retire June 1st, your check will be direct deposited on June 27th.*
Please be reminded that as a result of 1998 legislation, all retirement payments must be sent by Electronic Funds Transfer (EFT). Section III of the retirement application requires you to supply your financial institution information and attach your voided or cancelled check.

When can I retire if my contract is completed in May?

- To be eligible for the June 1st effective date, retiring members must complete their employment contract and resign from their position by May 31st.
- A one-month service credit reduction will occur for June 1st retirements.

If I am retiring this year, when will my medical insurance become effective through KTRS?

- Your medical insurance will be effective through KTRS on the first day of the month your retirement is effective. *(Provided your completed insurance application was received by the deadline.)*



What You Will Need for a Successful Retirement Experience!

- **Your KTRS Application for Service Retirement (Form 23.)** (This application must be completed and signed by **YOU and YOUR EMPLOYER**).
- **A COPY** of your official certified birth certificate.
- **A COPY** of your Social Security card. (Issued by the SSA and bearing its seal and your signature.)
- **A COPY** of your official certified marriage license. (If married at the time of your retirement.)
- **A COPY** of your beneficiary's official certified birth certificate. (If Retirement Option III, IIIA, IV or IVA is selected.)
- **And remember to submit payment for certain service credit purchases two months prior to your retirement.** (If you are qualifying previously purchased out-of-state service or purchasing non-standard, prior military, or out-of-state service to retire, the retirement system will calculate the amount due and notify you in writing upon receipt of your completed application.)
- **Attend a PRE-RETIREMENT SEMINAR!!**



Beware of a Predatory Loan Disguised as a “Pension Advance”

KTRS wants to make you aware of a new scam aimed at retirees called a “pension advance.” The scheme promises to convert future retirement checks into immediate cash so that you can take a dream vacation, buy a boat, or pay off a debt.

Unfortunately, rather than being a legitimate solution for a short-term financial need, the schemes are actually carefully disguised predatory loans. According to an article in *The New York Times*, the actual interest rates charged on these loans may range from 27% to 106%.¹ In short, the interest rates charged on these loans may be many times greater than the interest rates charged on credit cards and lead to a cycle of indebtedness that is impossible to escape.

You, as a KTRS retiree, are not immune from being targeted by companies who deal in predatory loans and pension advances. Therefore, before you obligate yourself on any loan or pension advance transaction, make certain you understand all of the terms associated with the deal including the actual interest rate, associated fees, and other costs. Moreover, beware of any lender that asks you to assign your future retirement income as a condition of getting a loan. State law provides that your KTRS retirement allowance is not subject to assignment.

For more information about pension advance scams, call or visit the website of the Consumer Financial Protection Bureau: (855) 411-CFPB (2372) or <http://www.consumerfinance.gov/contact-us/>.

¹ *The New York Times*, “Loans Borrowed Against Pensions Squeeze Retirees,” by Jessica Silver-Greenberg, April 27, 2013.



New IRS Federal Tax Law Becomes Effective

The Internal Revenue Service (IRS) requires that a qualified retirement plan like KTRS must treat a same-sex spouse as a spouse for federal tax law purposes. This IRS requirement applies to a spouse in a same-sex marriage validly entered into in a jurisdiction whose laws authorize the marriage, even if the spouse lives in a state that does not recognize the validity of same-sex marriage. A domestic partnership or civil union is not considered a marriage for federal tax law. For more information, see IRS Revenue Ruling 2013-17 and IRS “Answers to Frequently Asked Questions for Individuals of the Same Sex Who Are Married Under State Law.”

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 estimated costs provided prior to May 2013 may be less than the actual cost and a new estimate should be requested.

RETIREMENT 101 WORKSHOP

March 24, 2014
Registration 4:30 pm
5:00 - 7:00 pm
(Local Time)
Capital Plaza Hotel
405 Wilkinson Blvd
Frankfort, KY

PRE-RETIREMENT SEMINAR

March 8, 2014
Registration 8:30 am
9:00 am - Noon
(Local Time)
Holiday Inn Florence
7905 Freedom Way
Florence, KY

Please visit www.ktrs.ky.gov for additional dates and registration.
YOU MUST REGISTER TO ATTEND!

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.

Deadlines for Purchasing Service Credit

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

FY2012-2013
LEAVES OF ABSENCE
DEADLINE for purchase is
June 30, 2014

Contact your employer for required documentation confirming the leave of absence. Use form LOA-1*

FY2013-2014
UNPAID DAYS

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

DEADLINE for purchase is
December 31, 2014

* Employers can either complete the information on the KTRS Employer's Portal or download the forms at www.ktrs.ky.gov. **These forms must be completed and submitted by your employer.**