

KENTUCKY

TEACHERS' RETIREMENT SYSTEM

ACTIVE
MEMBER EDITION



JULY/AUGUST
2015

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Members Elect Trustees to KTRS Board

The election for the two positions on the KTRS Board of Trustees, due to the expiring terms for a lay trustee and an active trustee, was conducted during May. Dr. Terry Holliday, Chief State School Officer, certified the results of the election to the KTRS Board of Trustees. Terms end June 30, 2019.



RONALD L. SANDERS
of **Hodgenville**, was
elected to a four-year term
as a lay trustee. Mr.
Sanders was elected to the
Board of Trustees in
December 2004 to fill the
unexpired term of Sen.

Julian M. Carroll. He is a graduate of the School of Banking of the South at Louisiana State University, a graduate of the Kentucky School of Banking at the University of Kentucky and attended Western Kentucky University. Mr. Sanders is President, Chief Executive Officer and Director of Magnolia Bank and President and Director of Magnolia Bancshares Inc., Hodgenville. His civic involvement includes Community Bankers of Kentucky, 2000 Banker of the Year Award, LaRue County Outstanding Business Person Award, Director and President of the LaRue County Industrial Foundation and Trustee of the Lincoln Museum, Hodgenville. Mr. Sanders is currently chair of the KTRS Board of Trustees' Investment Committee, vice chair of the Administrative Appeals Committee, vice chair of the Governance & Audit Committee and member of the Personnel Committee.



ALI WRIGHT
of **Georgetown**, was
elected to a four-year
term as an active teacher
trustee. Ms. Wright is a
National Board
Certified math teacher

currently teaching Algebra 2 and AP Calculus 2 at Lafayette High School in Fayette County. Since 2013 she has divided her time between teaching and leading as a teacherpreneur for the Center for Teaching Quality, which is a nonprofit organization focused on teacher leadership. With 14 years of teaching experience, Ms. Wright is a leader at the school, district, state and national levels. She served as co-department chair and SBDM teacher member at her school. She is a member of the Kentucky Education Association TALK (Teaching Advocates Leading KY) team, Fayette County's Cultural Responsive Teaching and Learning Committee, the Prichard Committee Team for Teacher Effectiveness and CTQ's Implementing Common Core Standards Team. Ms. Wright received her master's degree from Eastern Kentucky University in 2007 with an emphasis in teaching mathematics. Ms. Wright is currently chair of the KTRS Board of Trustees' Nominating Committee and a member of the Personnel and Investments committees.

Encouraging News For Teachers: Gov. Beshear Establishes KTRS Funding Work Group

from Executive Secretary Gary L. Harbin, CPA

On June 16, 2015, Gov. Steve Beshear established the "Kentucky Teachers' Retirement System Funding Work Group." The governor created the Funding Work Group after the 2015 General Assembly did not enact a long-term solution for funding teachers' pensions.

The governor's emphasis on funding teachers' pensions is encouraging news for the more than 140,000 active and retired teachers — and their beneficiaries — who receive nearly \$2 billion in pension and health insurance payments every year.

The governor charged the group with reviewing best practices in other states regarding pension benefits, conducting a comprehensive review of funding options and making recommendations for improving the fiscal solvency of KTRS.

Beshear, who asked for recommendations from the work group by December 1st, said at the work group's creation:

"We must assure that the Kentucky Teachers' Retirement System is able to fully honor our commitments to our teachers and those who retired from teaching."

The Funding Issue: Since 2008, given finite revenue and challenging budgets, the state has been unable to pay the full annual required contribution for teachers' pensions. That means current retirees are being paid by liquidating investments that ideally would be saved, invested and used to pay future retirees. In fact, more than \$1 of every \$3 paid in pension benefits to retired teachers comes from selling the fund's assets — something that wasn't necessary less than a decade ago.

KTRS's actuary projects that, without required contributions, the retirement fund will exhaust all assets by 2036. Although KTRS has enough assets to pay retirees for many years, maintaining a financially secure plan means it is absolutely essential that the state take action and develop a plan to contribute the funds necessary for long-term sustainability of the retirement plan. Most teachers do not participate in Social Security and, therefore, rely exclusively on KTRS for retirement security.

As of June 30, 2014, on an actuarial funding basis, KTRS reported assets of \$16.2 billion to pay total liabilities of \$30.2 billion. With only 53.6 percent of the assets needed to pay liabilities, KTRS is well below the commonly cited standard of 80 percent funded where pension funds are viewed as having some measure of security and stability for inevitable market declines.

The Funding Work Group: The KTRS Funding Work Group is composed of 25 education, political and business

leaders from across the state. I serve on the Funding Work Group on behalf of KTRS. Additionally, educational community representatives include: JCTA, KASA, KASS, KEA, KEA-R, KRTA, KSBA and 3KT.

This is encouraging for teachers because a similarly structured group helped solve a major health care funding problem with the 2010 passage of the highly successful "Shared Responsibility Solution." The Shared Responsibility law eliminated \$5.2 billion in liability for retired teachers' health insurance and positioned our retiree health insurance to be prefunded. It also helped the retirement plan by ending the state's borrowing from retirement contributions to pay for health insurance and repaid previous loans. The health insurance fund now is financially stable and on schedule to achieve full funding. Fortunately, the work that led to the 2010 law also gives the current work group members a deep understanding of KTRS.



Initial meetings: At the first meeting on July 17, Lt. Gov. Crit Luallen told members that no easy options exist, but the fund must be stabilized. The issue impacts every Kentuckian — not just members of the teachers' plan — because the state's bond rating will be hurt if a long-term solution isn't found.

Also at the first meeting, KTRS staff reported on the retirement system's investments, low-cost operations, retiree health insurance and the long-term funding solution considered by the 2015 General Assembly. As originally filed, House Bill 4 allowed for \$3.3 billion in bonds at historically low rates and provided time for elected leaders to increase pension funding.

KTRS's investment program performs exceptionally well, staff said. For example, the teachers' fund earned a return of 8.6 percent during the year that ended March 31, 2015, placing it in the top 10 percent of large public pension plans nationwide. The performance in the last three years was in the top 8 percent of large public pension plans and the performance in the last five years was in the top 13 percent. Investments in the last 30 years returned 9.5 percent, exceeding the assumed KTRS rate of return of 7.5 percent.

Where we go from here: The long-term investment performance of the KTRS Board of Trustees and professional investment staff is great news for teachers and the taxpayers of Kentucky. The teachers' plan is the most cost effective and efficient means to provide retirement security for Kentucky's teachers.

The concern Lt. Gov. Luallen mentioned about the state's bond rating is due, in part, to a change in governmental accounting standards for reporting retirement liabilities.

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Those changes, because of ongoing funding levels, will require reporting higher future liabilities in the state's financial statements. That, in turn, may increase the state's costs when it issues bonds. Alternatively, the negative impact on the bond rating is less likely if the state adopts a long-term funding plan.

Adopting and implementing a funding plan during the 2016 legislative session will help the state and ensure the long-term sustainability of the retirement plan. The time is right to adopt a long-term retirement funding plan and the KTRS Board of Trustees is ready to work with the governor, legislators and the education community to find a workable solution.

The Commonwealth of Kentucky has made a solemn commitment to ensure the retirement security of teachers. By building consensus on issues affecting the retirement system and by working with political leaders and Kentucky's education community, we can find a solution to the funding problem, just like was done in 2010 for retiree health insurance.

Waiting another budget cycle to establish adequate funding for the retirement plan will only make the problem harder to solve. Therefore, KTRS's Board of Trustees continues to call upon Kentucky's political leaders to take thoughtful action, based upon the efforts of the current Funding Work Group, during the next legislative session to adopt a long-term funding solution for the retirement plan.



Participate in the Work Group Process

~ FUTURE MEETINGS ~

All meetings begin at 10 a.m. Eastern and can be watched live

online through KET (<http://www.ket.org/legislature/>) or later (<http://www.ket.org/legislature/archives/>).

- | | | |
|---------------------|---------------------|---------------------|
| August 28 | September 25 | November 6 |
| September 11 | September 16 | September 20 |

For meeting materials or to comment to the working group, visit the Work Group's homepage on the governor's website: <http://governor.ky.gov/KTRS-Funding>

Highlights of first Work Group meetings

■ "If we do not have a stable secure retirement system for our teachers, Kentucky will never be able to compete in education at the highest levels. We've made too many recent strides in job creation, health care access and education rankings to risk losing those gains now if we aren't able to fulfill our commitment to teachers and continue attracting the best and brightest educators." — Lt. Gov. Crit Luallen, July 17 meeting.

■ P.J. Kelly, a partner with AON Hewitt, said KTRS's investment program receives an "A+" or "A" in every statistical category. While Kelly noted that KTRS's

investment program produces exceptional performance at very low costs, even KTRS's excellent investment program cannot overcome underfunding. — July 17 meeting.

■ William B. "Flick" Forna of Pension Trustee Advisors, the working group's consultant, said KTRS investment returns and administrative costs aren't the problem. Many issues, including retiree health care, have been solved. The state needs to pay the actuarially required contribution to strengthen the solvency of KTRS. — July 31 meeting.

Cost Estimates for 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.

Deadlines for Purchasing Service Credit

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

FY 2014-2015 LEAVES OF ABSENCE

DEADLINE for purchase is June 30, 2016

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

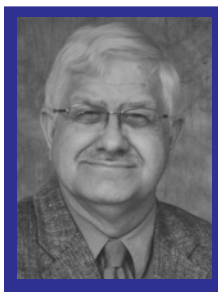
FY 2014-2015 UNPAID DAYS

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

DEADLINE for purchase is December 31, 2015

* 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.**

KTRS Board of Trustees Chair & Vice Chair Elected



ARTHUR GREEN of Elkton, was elected chair of the Board of Trustees for the 2015-2016 fiscal year at the Board of Trustees meeting held June 15. Mr. Green's previous tenure was as the active teacher trustee from September 1996 to June 2006. During that time, he was chair 2005-2006 and vice-chair 2002-2005.



DR. JAY MORGAN of Murray, was elected vice chair of the Board of Trustees for the 2015-2016 fiscal year at the Board of Trustees meeting held June 15. Dr. Morgan's previous tenure was from July 2006 to December 2010.

Active Teacher Sought for KTRS Board of Trustees

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 whom is customarily an administrator. A vacancy has occurred for an active teacher trustee. This term is scheduled to expire June 30, 2018.

Members who wish to submit the name of an active KTRS teacher for the Board's consideration to complete the remaining three years of the 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 September 8, 2015.

Membership in the Kentucky Teachers' Retirement System is Established in KRS 161.250

KTRS membership is mandatory for all persons in eligible agencies occupying positions that require either certification or graduation from a four-year college or university as a condition of employment.

Additionally, any person providing part-time or substitute teaching services that are the same or similar to those teaching services provided by full-time, certified teachers shall be a member of the retirement system, regardless of whether certification or graduation from a four-year college or university is required. University employees, however, must be employed on a full-time basis (seven-tenths or more of normal full-time service measured by the contract days in the position for which they are employed) and must be filling a position requiring either certification or a four-year degree in order to be eligible for membership in KTRS. Positions subject to KTRS membership remain so even if the individual filling the position is hired as an independent contractor or under a third party contract or any other alternate employment arrangement.

Agencies eligible for participation in KTRS include public elementary and secondary schools, regional educational cooperatives, Eastern Kentucky University, Kentucky State University, Morehead State University, Murray State University, Western Kentucky University, the School for the Deaf, the School for the Blind, the Kentucky Community and Technical College System, the Department of Education, the Education Professional Standards Board and other agencies as specified by law.

Further detailed information may be found in your Summary Plan Description on our website in the "Publications" section.

Recent Supreme Court Ruling on Same-Sex Marriages

As a result of the recent U.S. Supreme Court ruling that same-sex marriages shall be recognized in all 50 states, KTRS members who have entered into a legal marriage ceremony with a spouse of the same sex have new opportunities in regard to pension, survivor and medical insurance benefits.

What this means for active members is that now a same-sex spouse who is designated as the only primary beneficiary of the member's account is eligible for certain survivor benefits in the event the member predeceases his or her spouse. Remember, a beneficiary for the retirement account is a **separate designation** from a beneficiary for the life insurance benefit and there is a separate beneficiary designation form for each. As an active member, you may change your beneficiary anytime by filing the proper form(s) with KTRS. If you have questions about the survivor benefits that are available to spouses of active members or if you are unsure who your beneficiary is, please contact KTRS at 1-800-618-1687.

Do You Have Service With Another Kentucky Retirement System?

KTRS is subject to “reciprocity” statutes and regulations that require the recognition of service credit in the other state-funded retirement systems in Kentucky in determining eligibility for your retirement benefits. The other state-funded retirement systems include the Kentucky Employees’ Retirement System, County Employees’ Retirement System, State Police Retirement System, Judicial Retirement Plan and Legislators’ Retirement Plan. Reciprocity laws are applicable to members who have established membership and maintained active accounts in more than one Kentucky state-funded retirement system. These laws allow members to consolidate service to determine eligibility in all systems. KTRS works with all other state systems to assure no overlap in service has occurred. Members cannot receive more than one year of service credit in one fiscal year when service credits from all retirement systems are added together. The following are things to remember in determining your eligibility to retire when you have service with more than one retirement system:



Eligibility: You must follow the rules and regulations of each system to determine your eligibility to retire your reciprocity account. You may be eligible to retire in one, but not the other. If you are not eligible to retire in one system, it is possible that you are not eligible to retire in the other.

Same Retirement Date: Coordinate and complete all necessary paperwork and return required documents within each retirement system’s deadline to ensure the same retirement date in each system.

Return to Work: Make sure that you comply with the post-retirement, return-to-work laws in all systems from which you are retiring before returning to employment with an employer that participates in any of the retirement systems. Failing to do so can void your retirement benefits in all systems.

Health Insurance: Insurance can be taken in any system in which you qualify for insurance. A form must be completed for each system to take or waive the insurance. Please remember you will still be required to pay your portion of “Shared Responsibility” to KTRS when taking your insurance with any of the other Kentucky retirement systems.

Re-employed Retirees

KTRS retirees who return to work and become eligible for insurance coverage are ineligible for KTRS coverage. Therefore, if your active employment makes you eligible for insurance coverage, you must waive coverage through KTRS. If you become re-employed, please contact KTRS to determine your eligibility for health insurance.

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.

Upon the Death of an Active or Retired Teacher

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

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. The current earnings limitation is \$41,982. If you have questions regarding the earnings limitation or what constitutes permitted employment, please contact KTRS.

Retirement 101 Workshops

These workshops will increase your knowledge of the KTRS Defined Benefit "Group Retirement" Plan, ways to plan and increase your retirement, plus valuable information that will aid you with your future retirement decisions!

October 15, 2015

Registration 4:30 PM

Workshop: 5:00-7:00 PM

(Local Time)

Natural Bridge SRP

Woodland Center

Slade, KY

Pre-Retirement Seminars

For those planning to retire within the next five years, this seminar will provide you with information on health insurance, resources you will need to help you map out your retirement plan, plus much, much more!

October 24, 2015

Registration 8:30 AM

Workshop: 9:00 AM-Noon

(Local Time)

Jenny Wiley SRP

75 Theatre Court

Prestonsburg, KY

Please visit www.ktrs.ky.gov for ADDITIONAL FALL WORKSHOP DATES and for ALL workshop & seminar PRE-REGISTRATION. You MUST Register to Attend!

