K E N T U C K Y

TEACHERS' RETIREMENT SYSTEM

RETIRED MEMBER EDITION

NOVEMBER 2015

Headlines

As Impacts of Underfunding are Seen, So is Hope for Solution

By Gary L. Harbin, CPA
Executive Secretary

While the education community has worked together over time trying to convince elected officials to fully fund teachers' pensions, many of us have warned that the cost of doing nothing could increase the cost of the ultimate solution. Sadly, but predictably, Standard and Poor's brought that forecast to reality on Sept. 3.

The company, one of three that rates Kentucky's bonds, lowered its grade for the Commonwealth's debt, specifically citing the "chronic underfunding" of pensions as the primary reason. As a result, borrowing money for many Kentucky construction projects now costs the state's taxpayers even more. The increased tab for taxpayers doesn't stop there because the teacher pension debt grows about $1 billion a year, or $3 million each day, that a solution isn't enacted. And because of the pension liabilities, other bond agencies may follow S&P's lead.

Fortunately, however, Kentucky leaders are working to develop a solution that could be implemented by the General Assembly session that begins in January.

"Underfunding" continued on page 2 ...

Rockcastle Teacher Mary Adams Newest KTRS Trustee

Rockcastle County teacher Mary Adams of Brodhead, Ky., is the newest Kentucky Teachers' Retirement System trustee.

The Board of Trustees in September named Adams to fill the active teacher trustee vacancy created by the retirement of former board chair Laura Zimmerman of Lexington. Adams will serve through June 30, 2018.

Adams is a sixth-year teacher with a bachelor's degree in education and a master's in school counseling, both from Eastern Kentucky University. She has been an English teacher at Rockcastle County High School in Mt. Vernon since 2013.

Among her roles at the school, Adams is a representative on the school's site based decision making council and is a sponsor for the National Honor Society and the National BETA Club. She also is a member of the Kentucky Counselors Association.

In a letter to the nominating committee, Adams said she hopes to use her variety of

"Trustee" continued on page 2 ...

"Underfunding" continued from page 1 ...

The Kentucky Teachers' Retirement System Funding Work Group is now choosing from alternatives for how pension underfunding can be addressed and how benefits for future teachers might be altered. A report to Gov. Steve Beshear is due in December, and that report will be sitting on the desk of Gov.-elect Matt Bevin for possible action by legislators next year.

This process is vital in getting legislative leaders to buy into a solution that can secure the retirement of Kentucky educators for decades to come.

A year ago, KTRS put forward a plan for the state to issue bonds to help extricate itself from the unfunded liability. The plan would improve KTRS's cash flow – nearly $800 million in assets are being sold in this year to cover the current checks to retirees – and give the state time to step into paying the full annual required contribution (known as the ARC). The bonding would save the state $200 million a year and $4 billion over 20 years. It would do so at no additional cost to the state because the bonds would be paid off using money currently budgeted to cover bonds that are maturing. Additionally, the interest rate would be about 4 percent compared to the interest on our liabilities growing at the 7.5 percent assumed by actuaries.

While it remains to be seen what role bonding will have in any recommendations, two facts are clear from the Funding Work Group's analysis. The first is that, foremost, if a way can be found to pay the ARC without bonding and keeping teachers' retirement benefits strong then virtually everyone would be for it. The reality is that simple fix might not be possible for Kentucky's strapped budget. As a result, the second fact is that bonding remains a viable option. Rates continue to be low, as the Federal Reserve has yet to raise interest rates, and, even if it did, the original projections for bonding assumed a rate increase. Also, addressing the pension obligation likely would save the state money on its construction projects if the solution triggered bond upgrades.

People who question the bonding idea say the state was prudent not to approve bonds earlier this year because the added debt would hurt the state's credit rating. The reality is just the opposite. Because the state did nothing about its pension debt, the credit rating was downgraded.

The cost of doing nothing is greater than paying the debt to teachers now. We hope the work group finds something that protects our teachers' retirements.

Doing nothing is something that everyone can agree Kentucky can't afford.

Participate in the Work Group Process

~ Future Meetings ~

All meetings begin at 10 a.m. ET and can be watched live online through KET:

(http://www.ket.org/legislature/) or later (http://www.ket.org/legislature/archives/).

Nov. 16 & Dec. 1

~ More Information ~

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

"Trustee" continued from page 1 ...

experience "to better serve our teachers as a voice on the state level."

Previously, Adams taught at Jessamine Career and Technology Center in Nicholasville and at Estill County High School in Irvine.

The Board of Trustees has nine members, including four active teachers, one retired teacher, two citizen members, the state treasurer and the commissioner of education. Also joining the board is Commissioner Stephen Pruitt. Pruitt replaced Terry Holliday, who retired.

New KTRS Chief Investment Officer Named

A Kentucky Teachers' Retirement System transition that was years in the making took place recently as Tom Siderewicz became chief investment officer with the retirement of his longtime predecessor Paul Yancey.

Yancey completed a nearly 29-year career with KTRS on Oct. 1.

The KTRS Board of Trustees approved a resolution honoring Yancey on Sept. 21 for his career with the teachers' pension system, which is Kentucky's largest financial institution.

"Current and retired teachers across Kentucky will benefit for decades because of the sound investing by Paul Yancey and his team through the years," said KTRS Executive Secretary Gary Harbin, CPA. "As well, teachers' long-term futures will continue to be well served as Tom Siderewicz begins as CIO."

Yancey began with KTRS in November 1986 as an analyst and, more recently, had been CIO since December 2004. The agency had about $2.4 billion in assets when he arrived and that total grew during his KTRS career to $18.5 billion as of June 30.

Siderewicz started with KTRS in September 2011 and became deputy chief investment officer Jan. 1. He is a Chartered Financial Analyst with a bachelor's degree in economics from California State University Long Beach. Harbin told trustees that Siderewicz was hired knowing that Yancey would retire at some point and with the goal of an orderly transition.

The teachers' retirement investment team's work resulted in a 5.1 percent return in the fiscal year that ended June 30, better than the 3.1 percent average of other large U.S. pension plans. The investment fees paid by KTRS in the prior fiscal year represented two-tenths of 1 percent of assets.

"I have every confidence that KTRS's investment program will continue to produce exceptional performance at very low cost under Tom's leadership," Harbin said.

Coming to a Website Near You: Benefit Information

Everything you ever wanted to know about your Kentucky Teachers' Retirement System pension is coming to a website portal through your computer, tablet, cellular phone or other electronic device.

Member Login
PATHWAY

After four years in development, KTRS is unveiling its Pathway member self-service portal over the next several months. Current teachers, other members and retirees will be able to get up-to-date information about their account any day of the year at any time of the day. For example, members can obtain retirement benefit estimates and see how much they've contributed toward their retirement.

Since 2011, KTRS has been developing the Pathway system. Employers across the state already use their portal to report information to KTRS in Frankfort. The system also already issues benefit payments for retirees. The last major piece of the project is the self-service portal that will debut to all 140,000 members late this fall. Signups will be staggered through spring.

The first group may sign up beginning in late November. In order to access the portal, a member must have an email address on file at KTRS. For many members, their employer has provided KTRS with an email address. Those members without an email address on file are being notified by mail to supply an email address. Members will be notified by email with information about how and when to sign up for Pathway.

At the same time, KTRS plans to unveil a new website (with the same web address at ktrs.ky.gov) that will provide you with information about the agency, retirement decisions and health care coverage.

Medicare Part B Premiums Going Up, But Not as Much as Originally Proposed

The recent congressional budget deal included a change that will lessen - but not eliminate - an increase in 2016 Medicare Part B premiums for many retirees in the Kentucky Teachers' Retirement System.

The 2015 monthly Part B premium and premium equivalent of $104.90 will increase next year to about $120 with a $3 fee attached for a total of about $123 a month. Without congressional intervention, the increase would have been a 52 percent hike to $159.30.

KTRS staff worked many hours to get the increase lessened for the majority of Kentucky's 48,000 retired teachers.

The issue arose because of a quirk in federal law that "holds harmless" Medicare Part B participants whose premiums are deducted from their Social Security check. Those recipients avoid premium increases in years where there is no cost-of-living adjustment to the Social Security benefit. About 70 percent of recipients are in that category, but the other 30 percent includes most of Kentucky's retired teachers who pay premiums directly because they don't receive Social Security.

The problem with the law before Congress intervened was that the 30 percent group was being forced to pay the entire federally set increase for 2016 - including making up for what would have come from the 70 percent who were being exempted from the increase.

The compromise essentially limits the premium increase to the $120 that all Medicare Part B participants would have been paying if everyone paid the increase. The downsides of the compromise are that some Medicare Part B recipients still will be treated differently than others - the 70 percent whose premiums are deducted from their Social Security will see no 2016 premium increase - and the $3 monthly fee only will be paid by the 30 percent - including most of Kentucky's retired teachers.

Congress inserted the fee as a way to keep the premium relief budget neutral. The lower premiums are being paid for through a loan from the treasury.

The underlying rule behind the increase is that, under the federal rules, premium revenues must equal 25 percent of the cost of Medicare Part B, in which KTRS retirees under the Medicare Eligible Health Plan (MEHP) are required to enroll.

~KEHP~
New Health and Wellness Benefits for KEHP Members

As a KEHP member you have access to many health and wellness benefits that can help you save money on medical expenses. Below are a few details on some of your newest benefits:

♦ In 2015, KEHP became one of the first state employee health plans in the country to offer qualifying members free enrollment in the **National Diabetes Prevention Program (DPP).** The program helps participants make real lifestyle changes to prevent diabetes and is proven to reduce the risk of developing diabetes by 58 percent. At-risk members can enroll in a free DPP course. Visit LivingWell.ky.gov or call Anthem's personal health consultants at 1-844-402-KEHP (5347) to learn more.

♦ For eligible diabetic health plan members, the KEHP is providing a new Diabetes Value Benefit, which aims to reduce out-of-pocket costs for covered diabetic medications and supplies beginning in January.

♦ You can now see a doctor online for free with LiveHealth Online. Talk face-to-face from nearly anywhere in the United States with a doctor 24 hours a day, seven days a week from a computer, tablet or mobile device. Don't wait until you're sick; sign up today at livehealthonline.com.

♦ When life gets busy, it can be hard to find the time to take care of yourself. To help manage your health, reduce stress and bring balance to your life, Anthem is offering you myStrength. Log into **anthem.com** to access myStrength.

Also, view your wellness benefits at LivingWell.ky.gov and your health plan benefits at kehp.ky.gov.

~KEHP~
Under Age 65 and Newly Eligible for Medicare?

Members and dependents under age 65 and newly eligible for Medicare due to a disability must switch to the KTRS Medicare Eligible Health Plan (MEHP).

With the exception of retirees or covered dependents who are under 65 and were Medicare eligible *before* Jan. 1, 2013, Medicare eligible members are not permitted to be in the Kentucky Employees' Health Plan (KEHP).

Please contact KTRS immediately (at 1-800-618-1687) should you or any of your covered dependents become eligible for Medicare.

Under age 65 members who retired prior to Jan. 1, 2013, are grandfathered under a previous rule where KTRS allowed a choice of KEHP or MEHP coverage for retirees and/or dependents who were eligible for Medicare. The cost to KTRS to cover a Medicare eligible member on the KEHP with only secondary coverage is more than double the cost of the MEHP.

The change helps ensure the continuation of affordable medical insurance for all KTRS participants.

~MEHP~
2016 MEHP Open Enrollment, Premiums

Current enrollees in the KTRS Medicare Eligible Health Plan (MEHP) do not need to do anything to continue coverage for 2016, (but open enrollment for the plan ends Dec. 7).

As a reminder, spouses are not eligible to enroll during open enrollment. If you are a retiree who needs to enroll during open enrollment, you can contact KTRS for an MEHP Enrollment Form. Call KTRS at 1-800-618-1687 or download a form from ktrs.ky.gov.

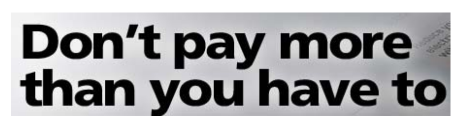
The 2016 MEHP monthly premium is $260 per person, up from this year's $240 per person. KTRS pays all or a portion of the premium for retirees based on their KTRS entry date and years of service at retirement. Spouses of KTRS retirees pay the full premium for their coverage. (The 2016 Medicare Part B premiums, which are set by the federal government, are discussed in another article.)

Remember, enrolling in another Medicare Advantage Plan or another Medicare Part D prescription drug plan means your KTRS MEHP enrollment is terminated. That's true if you have other coverage through a spouse or other retirement and that plan changes to a Medicare Advantage Plan and/or a Medicare Part D prescription drug plan in 2016. It's also true even if you haven't used the other coverage. You are encouraged to check to make sure any other plan you have is not changing for 2016.

~MEHP~
Don't Pay More Than You Should ... *Reminders About Bills From Providers*

Medical bills can be downright confusing, and members have been calling KTRS lately with questions about billing for Medicare-covered medical services and how much a retiree should pay. Here are some answers and tips.

◆ When and how much to pay: After receiving an invoice directly from a medical provider, resist the temptation to pay immediately. That's because you may only owe a small portion of the bill, like 4 percent after your $150 annual medical deductible. Medical providers should send claims, instead, to UnitedHealthcare. UnitedHealthcare then sends you an Explanation of Benefits (EOB) once a month. Match the EOB with the bill the provider already sent you and, then, only pay what UnitedHealthcare indicates as your liability.



◆ What can the doctor charge and how much should be paid: Generally, you should only pay the appropriate coinsurance after your deductible has been met. There are generally two scenarios for billing, which begins with the fee schedule published by Medicare of what it will pay for each covered service. In the first scenario, the vast majority of doctors accept the Medicare Fee Schedule as payment in full. In this case, you would only be responsible to pay your coinsurance after your deductible has been met. In the

"Don't Pay More" continued on page 6...

"Don't Pay More" continued from page 5 ...

second scenario, some Medicare-participating doctors charge more than the Medicare Fee Schedule. In these situations, Medicare allows the doctor to bill up to what is called the Medicare Limiting Charge, which is more than the Medicare Fee Schedule but is capped at a certain amount. The doctor can bill for the difference (also known as "excess charges") between the Medicare Limiting Charge and the Medicare Fee Schedule. But, under the UnitedHealthcare Group Medicare Advantage plan, you do not pay the excess charges and should not receive a bill for those charges. Your doctor should bill UnitedHealthcare, which pays the excess charges. Again, all you pay is the appropriate coinsurance, after your deductible has been met.

◆ What do you do if you think you are being charged more: If you think you have paid too much, UnitedHealthcare customer service is the place to start. Call toll-free at 1-844-518-KTRS (5877), TTY 711, 8 a.m.-8 p.m., Monday through Friday. The customer service team can help you understand your bill and see if there have been any changes since the bill was sent. If you overpaid, ask the doctor's billing office for a refund. If you are not able to get the situation resolved that way, call UnitedHealthcare again and UnitedHealthcare will pursue it on your behalf.

◆ Final reminder: The plan will only pay for covered and necessary medical services. If the service is not a part of the plan's coverage, then you pay the entire amount for the service. Call UnitedHealthcare customer service with any questions about plan benefits or what is covered. They will be happy to assist you.

~MEHP~
New Express Scripts ID Cards Coming

MEHP enrollees should expect to receive new 2016 Express Scripts ID cards in December. Please begin using the new cards on Jan. 1. You should not expect to receive a new UnitedHealthcare ID card for 2016 and should continue to use your current UnitedHealthcare ID card in 2016.

~MEHP~
Changes Regarding Diabetic Testing Supplies

Beginning Jan. 1, participants in the KTRS Medicare Eligible Health Plan (MEHP) will be able to get diabetes testing supplies with no co-pay through the UnitedHealthcare Medicare Advantage plan. Those supplies **will NOT** be covered by Express Scripts.

The brands covered by UnitedHealthcare are One Touch and Accu-Chek Meters and test strips. Other brands of meters/test strips **will not be covered through the MEHP.**

One Touch and Accu-Chek meters and test strips available from:

- Your Local Pharmacy (limited to a 30-day supply)
- Optum Rx (UnitedHealthcare's mail order pharmacy, 90-day supply available)
- National durable medical equipment (DME) providers: Byram Healthcare, Liberty, Edgepark (90-day supply available)

Contact information for mail order providers:

- OptumRx 800-791-7658, PO Box 2975, Mission, KS 66201
- Byram Healthcare 877-902-9726
- Edgepark Medical Supplies 888-394-5375
- Liberty Medical Supply 800-695-2500

Also, for assistance in getting your diabetes testing supply prescriptions, contact the

Know Your Rx Coalition
at 855-218-5979
8 a.m. to 6 p.m. ET
Monday through Friday

They can assist you and your physician in obtaining a new prescription for the meters and test strips if necessary before 2016.

Reemployed Retirees

Retirees who return to the workforce often have to drop health insurance coverage through the Kentucky Teachers' Retirement System. So, if you become reemployed, please contact KTRS to determine your eligibility for health insurance.

If you return to work in an agency that participates in the Kentucky Employees' Health Plan (KEHP) where you are eligible for health insurance, you must terminate your coverage through KTRS, regardless of whether you're in the KEHP or the Medicare Eligible Health Plan (MEHP).

If you return to work somewhere that does not participate in the KEHP but does offer you health insurance, you must terminate KTRS coverage unless that new coverage is not as good as KTRS coverage. You may be asked to certify this information.

Additionally, once you leave a post-retirement job or lose eligibility for the active insurance that came with that job, you must contact KTRS to enroll in its coverage within the qualifying event period (usually 30 days) and provide the required documentation.

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. Be careful making this decision because it is permanent. Once coverage is declined or waived, no qualifying event will allow the surviving spouse to re-enroll.

Moving?

Keeping your contact information updated ensures that you receive important communications from the Kentucky Teachers' Retirement System, such as annual statements, newsletters, trustee election ballots, payment stubs and tax forms.

Besides your physical address, please keep email addresses and telephone numbers up to date.

To update your information, mail or fax a signed letter to KTRS with your name and identification number and the new information. A form is also available for download at ktrs.ky.gov.

The mailing address is:
479 Versailles Rd.
Frankfort, KY 40601.
The fax is (502) 848-8518.

R
NOV
2015

TEACHERS' RETIREMENT SYSTEM
OF THE STATE OF KENTUCKY
479 Versailles Road
Frankfort, Kentucky 40601-3800