



479 Versailles Road
Frankfort, KY 40601
800-618-1687

Teachers' Retirement System

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TRS's Solid Foundation Ensures Retirement by Gary L. Harbin, CPA, Executive Secretary

Kentucky teachers should have great confidence in how their contributions are invested alongside state contributions for the retirement security of educators.

TRS's assets, as of June 30, topped \$19 billion – a record. By another measure, TRS's 15.37 percent gain in investments for the fiscal year that ended then was among the best in the country for large public pension plans. In fact, a recent review by Pensions & Investments magazine said TRS's return was fourth among public pension plans.

After fees and expenses that are some of the lowest in the country, the 15.02 percent net return shows that your retirement dollars are invested efficiently.

See "Solid Foundation" page 2

TRS Pilot Program to Assist MEHP Retirees, Medical Professionals in Making Medication Decisions Using DNA Testing

TRS has begun a pilot program for selected Medicare Eligible Health Plan (MEHP) retirees involving what is called personalized medicine.

This pilot project uses DNA testing to help a patient's doctor make more effective treatment decisions for better health outcomes.

The pilot, which has been months in development and began in November 2017, is focused on making sure that a retiree's medications are safe and will be beneficial. Without this testing, medicines may be prescribed that don't work with a retiree's individual physiology (as shown through DNA

testing) and that, in some cases, may be fatal.

Coriell Life Sciences, which has been providing clinical research services for more than 64 years, is TRS's partner in the pilot.

Besides the health benefit to retirees, the pilot is expected to provide significant cost savings to the plan by reducing adverse drug reactions and the trial-and-error period that some patients see.

If the pilot is successful, the program could be expanded to include other MEHP enrollees.

“Solid Foundation” continued from page 1

Of course, since TRS is a long-term investor, its success isn't defined by any single good year or any one bad year. So most importantly, TRS's returns over longer periods are exceptional as well.

For example, a report by Cliffwater, an investing group with which TRS has no ties, showed TRS's investments for the last decade – a period that includes the Great Recession – were tied for eighth among 67 large public plans nationally. TRS tied for sixth best in that same report in achieving the best returns considering how much risk was taken.

For the one-year period ending Sept. 30, 2017, TRS's investment performance grossed 15.4 percent, which the system's independent investing consultant found was in the top 3 percent for the quarter and the year among public plans with more than \$1 billion under management.

Also, TRS's return for the last 30 years is above 8 percent, which is consistent with the 7.5 percent assumed rate of return. That performance by TRS over the long haul demonstrates the methods and assumptions of the teachers' investment program are valid.

All these ranking and returns show current and retired teachers that their investment team is among the nation's very best. TRS's long-term investment strategy and return assumptions work.

Nonetheless, those approaches and assumptions aren't just taken for granted. Actuarial and investment assumptions are constantly reviewed internally and by outside

experts. Additionally, at least every five years, TRS does a study to examine its assumptions.

Recent reports by the Public Pension Oversight Board staff, NASRA and Horizon, an annual report based on a survey of what 35 investment advising firms are seeing now and projecting for the future, all show that the 7.5 percent investment return is in line with other large pension plans. Further justifying the reasonableness of the 7.5 percent assumed return, TRS's investment consultant Aon used the assumptions of future market performance in the 2017 Horizon survey to see what return TRS's target asset allocation would produce over the next 20 years. The result was a 7.7 percent gain.

TRS's approach stems, in part, from the historical continuity that helped build the system's solid foundation. The agency has had just five executive secretaries in 78 years and only three chief investment officers (the position was created in the 1970s). For almost a decade, the Investment Committee has included two nationally recognized investment experts. The Board of Trustees – as it has been since the beginning in 1940 – largely is elected by the membership. Also, two statewide leaders serve by virtue of their offices and, beginning last year, the governor appointed two trustees who have investment experience.

Whether markets are up or down, in times that are predictable or not, TRS's investing philosophy that focuses on the long term helps provide the foundation for the retirement security of Kentucky's teachers.

Regarding Pension Reform

The possibility of pension reform in Kentucky continues to grab headlines in newspapers and on websites across the state.

So many ideas have been proposed for pension changes that it serves no purpose to speculate on what any final reform will contain regarding benefits for current teachers and retirees. But the best advice is to watch and see what happens. As fiduciaries for your retirement funds, TRS encourages teachers and retirees to pay attention to these evolving headlines.

Proposal Could Affect Under-65 Retirees' Health Insurance Cost

The proposed 2018-2020 state budget as initially filed in House Bill 200 eliminates the state's contribution toward retiree health care for any teachers under 65 who either are retiring or retired on or after July 1, 2010.

Under the 2010 Shared Responsibility law, the state has paid most of the premium cost for those retirees' coverage. Kentucky's Inviolable Contract law guarantees retired teachers access to group coverage, but the details of that coverage – including costs to the member – can change.

If the initially filed budget proposal becomes law, retirees could have to pay the full premium as soon as July 1, 2018.

Under that scenario, an under-65 retiree, using 2018 rates, could have to pay \$729.34 a month for single PPO coverage compared to the \$216.38 currently paid by those retirees under existing law. Different coverage levels, such as family coverage, could cost more.

No changes have been proposed for retirees 65 and older or who retired before July 1, 2010. The 3.75 percent contribution made by active teachers is for prefunding over-65 retiree health care.

The budget still will go through the legislative process, and what will become law cannot be predicted.

TRS Financial Updates



Actuaries and auditors have completed their annual work evaluating the condition of the retirement system for Kentucky's teachers. Here's what the reviews, and other updates, show:

- The pension plan's funding ratio improved to 56.4 percent as of June 30, 2017, from 54.6 percent a year earlier. The unfunded accrued liability decreased by \$200 million to \$14.3 billion. The system received 99 percent of the actuarially required contribution – thanks to a

\$499 million additional contribution from the state budget.

- The medical insurance fund improved to 26.7 percent funded compared to 21.9 percent the prior year. Before Shared Responsibility was enacted in 2010, the funding ratio was at 3.5 percent at the end of fiscal year 2009.
- The investing return for the fiscal year was 15.37 gross and 15.02 percent net.

Insurance for Re-Employed Retirees

Retirees who return to the workforce often have to drop health insurance coverage through the Teachers' Retirement System. So, if you become re-employed after you retire, please contact TRS to determine your eligibility for health insurance.

If returning to work in an agency that participates in the Kentucky Employees' Health Plan (KEHP) where health insurance is offered, coverage through TRS must be terminated, regardless of whether someone is in the KEHP or the Medicare Eligible Health Plan (MEHP).

If you decide to return to work somewhere that does not participate in the KEHP but where health insurance is offered, coverage through TRS must be terminated unless that new coverage is not as comparable as TRS coverage. Someone in this situation may be asked to certify the validity.

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

Turning 65 Webinars, Seminars Offered

TRS is hosting a series of seminars and webinars in the coming months geared toward the many retirees who find turning 65 to be daunting as they approach Medicare eligibility. Let TRS help with a full presentation and walkthrough on the features and benefits of the TRS Medicare Eligible Health Plan (MEHP).



Wiley State Resort Park in Prestonsburg and May 2 at The Corbin Center. All start at 9 a.m. local time. (The March 21 seminar in Frankfort is full.)

The webinars, which can be viewed on your computer, are March 20, June 5, Sept. 11 and Dec. 12.

Registration is required and can be done by calling 800-618-1687, extension 8853, or by visiting <https://trs.ky.gov/active-members/seminars-workshops#65> and clicking the appropriate link for seminars or webinars.

Seminars are April 11 at the Madisonville Community College's Brown Badgett Technology Center, April 18 at the Jenny

Name a Life Insurance Beneficiary

Failure to designate a beneficiary can result in the loss of valuable benefits for survivors in the event of the death of a member of the Teachers' Retirement System.

One of the most important responsibilities as an active, contributing TRS member is to maintain a current beneficiary designation; unfortunately, many TRS members have not done this.

In the event of an active member's death, beneficiaries receive both the contributions accredited to the member's TRS account and the TRS life insurance benefit.

A beneficiary is not required to be a relative and members may designate their estate as beneficiary. However, a spouse who isn't named a beneficiary must sign an acknowledgement on the form that names a beneficiary.

If you marry after becoming a member, your spouse automatically becomes your primary active account beneficiary and your previous primary beneficiary designation is void. To designate your new spouse as beneficiary of your life insurance benefit, however, you need to submit a new beneficiary designation form to TRS. Divorce voids any previous designation of your spouse as a beneficiary and, unless there is another appropriately designated beneficiary remaining, your estate becomes your primary beneficiary by operation of law. If you are married and designate a beneficiary other than your spouse, your spouse will not be eligible for survivorship benefits.

Forms to designate or change an active member's beneficiaries are available on the TRS website: <https://trs.ky.gov/active-members/resources/forms-active/>.

REMINDER: Upon the Death of an Active or Retired Teacher

Eligible spouses have 30 days from the member's death to elect or decline health insurance coverage through the Teachers' Retirement System. Be careful making that decision because it is permanent. Once coverage is declined or waived, no qualifying event will allow the surviving spouse to re-enroll.

Information Center Aims to be One-Stop Source for TRS Members

When calling the Teachers' Retirement System, the phone is answered in the Information Center where the goal is providing members with whatever they need in one stop. The Information Center is staffed by eight TRS employees whose primary function is to answer members' phone calls about all aspects of the retirement system. For example, staff can assist teachers at the start of their careers with completing membership forms. During careers, staff can assist with leave-of-absence information. And staff can assist with the preparation of retirement applications.

The most common requests for assistance are about: requesting estimates; applications for retirement, disability and refunds and other TRS forms; insurance; and death reports.

Retiree questions include topics such as interpreting or obtaining duplicate 1099R forms and insurance costs, changes and open enrollments.

The Information Center also can help with registration for, and navigation in, the Pathway self-service portal, which also can provide answers to many questions.

Tips for calling the Information Center

To assure quick service, please have your TRS member ID or the last 4 digits of your Social Security number.

Please understand not all requests can be made over the telephone.

For members' safety, all account updates must include your original signature.

Visiting TRS

Do you need to come to Frankfort for answers about your benefits from TRS? You don't have to but you're more than welcome to visit.

TRS has 17 counselors who can meet with you concerning your retirement account. TRS is open 8 a.m. to 5 p.m. ET, Monday through Friday (except holidays). No appointment is necessary – just come into the office, sign in with the receptionist, and you will be seen as quickly as possible.

Certain times of the year are busier than others, such as summer, spring break and fall breaks.

For those who don't want to drive to Frankfort, requests can be made and answered through TRS's information center (800-618-1687 or info@trs.ky.gov). Account information, including an online estimator, is available 24-7 through the Pathway member self-service portal.

Minimum Distribution Requirements

Anyone approaching 70½ and who no longer is working for a participating TRS employer should know that federal tax law requires withdrawals from retirement accounts at that age. That's true even if the person isn't vested with five years of service or if it's a return-to-work account.

If vested with at least five years of service, anyone 70½ is required to withdraw contributions by filing a retirement application to start receiving a retirement allowance.

Someone that age who doesn't have five years of service must file an application for a refund of his or her account.

Failure to make a timely withdrawal of retirement account contributions may result in

federal tax penalties.

If you are 70½ or older and no longer contributing to the retirement system, please contact TRS immediately for the 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 a refund soon after a 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.



TRS
Teachers' Retirement System
of the State of Kentucky
479 Versailles Road
Frankfort, Kentucky 40601-3800



New Contact Information?

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

Even if you change your address with the school district where you work (or worked), the school district doesn't report that change to TRS. So, TRS needs to be notified of the change independently by members.

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

TRS offers multiple ways to update your information, including by changing it in the Pathway member self-service portal. Also, members may mail or fax a signed letter to TRS with your name and TRS ID and the new information.

Finally, a downloadable form also is available from the website.

The fax is 502-848-8599, and the mailing address is: 479 Versailles Rd. Frankfort, KY 40601.

Website <https://trs.ky.gov>



info@trs.ky.gov



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