Teachers' Retirement System of the State of Kentucky

SUMMARY PLAN DESCRIPTION

Updated through 2011

The Summary Plan Description is also available on the KTRS website at www.ktrs.ky.gov

IMPORTANT NOTICE

Information contained in the Summary Plan Description applies generally only to members employed on a full-time basis contributing to their first account. Retirees contributing to a second account, members providing part-time and substitute services, and persons who became members on or after July 1, 2008, should look in this publication or contact KTRS for special rules governing their participation in the retirement system.

The Summary Plan Description is meant to serve only as a general informational resource to assist members in understanding the nature of the retirement system. Every attempt is made to ensure that the information contained in this Summary Plan Description is accurate. However, in the case of conflict between the Summary Plan Description and applicable law, the applicable law will govern. The Summary Plan Description is published only once every two years. The Kentucky General Assembly meets every year. Therefore, there may be legislative changes that are not reflected in the current Summary Plan Description. Additionally, changes in regulations and policy may not be reflected in the current Summary Plan Description. As such, it is extremely important that you read the KTRS newsletters carefully for updates regarding the retirement system and contact KTRS counselors before making important decisions regarding your retirement account.

Summary Plan Description 2011

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INTRODUCTION

The Kentucky Revised Statutes provide for the Board of Trustees of the Kentucky Teachers' Retirement System (KTRS) to furnish all active contributing members with a Summary Plan Description of the retirement program. This publication has been prepared to provide a basic description of the KTRS retirement plan. Space does not permit a comprehensive review of all plan provisions. You may need to request additional information from KTRS to answer questions that may arise after reading the material presented in this publication. The Summary Plan Description is published only once every two years. The most recent edition can be found at the KTRS website at www.ktrs.ky.gov. The Kentucky General Assembly meets every year, therefore, there may be legislative changes that are not reflected in the current edition of the Summary Plan Description. Additionally, there may be changes in regulation or policy that are not reflected in the current edition of the Summary Plan Description. It is strongly advised that you read all KTRS newsletters carefully for updates regarding the retirement system and contact KTRS counselors when making retirement decisions. A thorough understanding of your account is necessary to insure that you may take advantage of every opportunity to keep your account in proper order. Some opportunities available to you, such as purchasing additional service credit, must be completed by a specified date. Legislative amendments may also affect your ability to improve your account. Should you have questions concerning your individual account, please contact KTRS in writing. Each member's account is administered in a confidential manner and specific data regarding a member's account shall not be released unless authorized by the member. The legal framework of the plan is set forth in Chapter 161 of the

Kentucky Revised Statutes (KRS 161.220 through KRS 161.716, and KRS 161.990) and in applicable administrative regulations adopted by the KTRS Board of Trustees, both of which govern the System's operation and administration.

Every effort has been made to ensure that the information presented in this Summary Plan Description is accurate. However, in cases of conflict, the retirement plan will be administered in accordance with the relevant statutes and administrative regulations.

~ GENERAL INFORMATION ~

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Mr. Gary L. Harbin, CPA
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Kentucky Teachers' Retirement System

IS A DEFINED BENEFIT GROUP RETIREMENT PLAN

One of the most important pieces of your compensation package that you receive as an employee is your participation in the Kentucky Teachers' Retirement System (KTRS) retirement plan. The benefits include:

- ◆ A retirement allowance that will be paid to you the rest of your life, no matter how long you live.
- ◆ Cost of living adjustments that will increase your retirement allowance over your lifetime.
- ◆ Access to a high-quality, low-cost retiree medical insurance program.
- ◆ A disability retirement program while you are an active employee.
- ◆ A life insurance benefit ($5,000 for retirees, $2,000 for actives).

KTRS is a "defined benefit" group retirement plan qualified under Section 401(a) of the Internal Revenue Code and is operated on a fiscal year basis ending June 30 of each year. As a result of the qualified status of KTRS, since August 1, 1982 your regular contributions to the retirement system that are deducted from your salary are not subject to taxation, but the portion of your retirement allowance based on these pre-tax contributions will be.

Defined benefit group retirement plans like KTRS are proven to provide a more efficient means of delivering retirement security than "defined contribution" individual savings accounts such as 401(k) accounts. National studies have found as follow:

- ◆ Defined benefit group retirement plans provide higher investment returns, because they are (1) professionally managed and (2) have lower investment costs.
- ◆ As a group retirement plan, they continually optimize their investment portfolios whereas individuals with 401(k) accounts must shift their portfolios to take much less risk as they near retirement thus receiving lower investment returns.
- ◆ Defined benefit plans as "group" retirement plans pool longevity risk and efficiently save enough only for the average age of mortality whereas individuals with 401(k) accounts

must save for beyond the average age of mortality to ensure that they do not run out of money.

As a result of these efficiencies, defined benefit group retirement plans are on average approximately 46% less costly than defined contribution individual savings accounts.

A KTRS retirement allowance may not, by law, be assigned by you, or attached or garnished by a creditor, or otherwise subject to legal process, except for the payment of court ordered child support or in response a Qualified Domestic Relations Order (QDRO), or to satisfy an Internal Revenue Service tax levy. You may not withdraw your contributions to KTRS unless you permanently separate from service from your KTRS-covered employment, nor may you borrow against your contributions to KTRS. If you do permanently separate from service from your KTRS-covered employment, and if you do wish to then refund your contributions to KTRS, you may maintain the tax deferred status of your contributions to the retirement system by rolling them over or transferring them in a timely and appropriate manner to another qualified tax-deferred plan. If you are eligible to retire when you permanently separate from service from your KTRS-covered employment, you must elect to receive a retirement allowance from KTRS rather than a refund of your contributions, unless you wish to use your contributions to purchase retirement credit in another retirement system or unless a KTRS retirement allowance would make you ineligible for Social Security benefits. You do not, however, make FICA contributions to Social Security as a result of your KTRS-covered employment unless you are an employee of a university or community college. As a result of your employment in a position that does not participate in Social Security, the current federal Windfall Elimination Provision law will reduce any Social Security income that you could draw from any Social Security-covered employment and the federal Government Pension Offset will substantially reduce any Social Security benefit that you might draw as the spouse or widower of a Social Security recipient. These are provisions of federal law. You may contact the Social Security Administration or visit their website at www.ssa.gov for details.

MEMBERSHIP

KTRS membership is mandatory for all persons in eligible agencies occupying positions that require either certification or graduation from a four (4) 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 (4) 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. An “optional” retirement plan is authorized for designated employees of public institutions of higher education. The optional retirement plan is based on the defined contribution individual savings account model. Eligible university employees must make an election to participate in an optional retirement plan within thirty (30) days of their date of employment. KTRS does not have any involvement in the management of optional retirement plans. Individuals who choose to participate in an optional retirement plan have a “one-time-only” opportunity to change to KTRS as long as they are employed in a position otherwise eligible to participate in KTRS. Individuals exercising this option will participate in KTRS prospectively only and cannot purchase as KTRS service credit any previous service during which they participated in an optional retirement plan, unless they exercise this option within the first six (6) years and six (6) months of continuous service for their university employer. Individuals who elect to change to KTRS within the first six (6) years and (6) months may purchase previous service as KTRS service credit if they file this election within the retirement system on KTRS-prescribed forms within the six (6) year and six (6) month period. Eligible members may combine service credit in KTRS and other public retirement systems in Kentucky to qualify for retirement benefits.

To become eligible for KTRS membership benefits, you must file an "F-1" membership application form through your employer. You should file your membership application immediately upon employment.

OVERVIEW

There are many features and options offered by the KTRS Retirement Plan that you should take time to understand. The following paragraphs briefly describe those features and options. More detailed information will be presented in later sections of this Summary Plan Description. Members employed on a substitute or part-time basis (i.e. less than seven-tenths of a full contract year) should contact KTRS for a more detailed explanation of various provisions of the retirement plan as the provisions described in this Summary Plan Description are generally addressed to members employed in full-time positions. Furthermore, persons who became members on or after July 1, 2008 should refer to the end of this Summary Plan Description for provisions that relate specifically to them as a result of pension legislation enacted during the 2008 Special Session of the General Assembly.

Vested Account

Your retirement account is vested when you have completed five (5) years of creditable Kentucky service. Vesting entitles you, as long as you do not receive a refund of your account, to future benefits even if you are not currently contributing to the system. If you discontinue employment in a KTRS-covered position and do not withdraw your account, you should contact KTRS concerning your eligibility for future retirement benefits.

Service Retirement

You are eligible for service retirement without an actuarial reduction in your retirement allowance if you have twenty-seven (27) or more years of active Kentucky service regardless of age. You may also retire without an actuarial reduction in your retirement allowance if you have five (5) or more years of active Kentucky service and are at least age sixty (60). Additionally, you may retire for service if you have at least five (5) years of Kentucky service and are at least age fifty-five (55), but you will be subject to an actuarial reduction in your retirement allowance. In either case, the more years of service credit that you earn, the greater your retirement allowance will be, up to a maximum amount (as measured on a single life annuity) equaling the actuarial equivalent of your last yearly salary or your final average salary, whichever amount is greater.

Disability Retirement

Disability retirement is available for persons who become disabled prior to retiring for service. Members must have completed five (5) or more years of Kentucky service and must apply within one (1) year of their last contributing service. Members with twenty-seven (27) or more years of service credit are eligible for service retirement only. Disability retirement is available for members with less than five (5) years of service only if they are physically or mentally incapacitated as a result of an injury related directly to their covered employment.

Life Insurance & Survivor Benefits

Life insurance benefits are payable to the estate or designated beneficiary of active contributing members and retired members. Survivor benefits are payable as appropriate to eligible survivors of active contributing members and to eligible survivors of disability retirees whose death occurs during the entitlement period.

Purchase of Service Credit

If eligible, members may purchase additional service credit to increase their annuity. Categories of service that may be purchased include:

1) reinstatement of previously withdrawn KTRS service;
2) current and non-current leaves of absence;
3) military service;
4) out-of-state teaching service;
5) Peace Corps service;
6) federal Head Start service;
7) fractional service/balance of the year;
8) mental health and mental retardation service; or
9) non-qualified service

Service credit may be purchased by making a lump sum payment to the retirement system or, if eligible, by making payroll-deducted or bank draft installment payments. Purchases of service credit may also be made as permitted under the Internal Revenue Code by rolling over or transferring funds from another qualified plan. Service that has been or will be used in qualifying for an annuity with another retirement system that is financed in whole or part by public funds cannot be purchased as service credit with KTRS.

Refund of Account Balance

If you permanently terminate employment covered by KTRS and wish to have your money returned to you, the system will refund your account. Your account balance consists of member contributions plus earned interest, less medical insurance fund deductions. If you are eligible for service retirement, you cannot refund your account unless it would prohibit you from qualifying for Social Security benefits or you choose to withdraw all or part of the service to obtain credit in another retirement plan. If you are contemplating a refund of your account balance, you should contact KTRS for more details. Your refund may be subject to an IRS early withdrawal penalty if you are under age 59 ½, unless you transfer or roll over your refund to another eligible plan. If the refund is paid directly to you, there are federal deadlines by which you must roll your refund into another eligible plan to avoid the IRS early withdrawal penalty.

Minimum Distribution Requirement

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 70 ½ or older 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.

NOTE: You do not need to take any further action with KTRS if you have already applied for and are receiving a retirement allowance or you have refunded your account.

RETIREMENT SYSTEM FINANCES

Funding the Retirement System

Both members and employers are required to make contributions to help fund the benefits KTRS offers. All benefits are financed from the following three sources:

1. contributions from members;
2. contributions from employers; and
3. investment earnings.

All members except those employed by a university or a community college currently contribute ten point three five five percent (10.355%) of their gross salary [individuals who become members on or after July 1, 2008 contribute ten point eight five five percent (10.855%)]. University members and community college members contribute at a lesser rate of eight point seven one five (8.715%) that is reflective of the retirement factor upon which university and community college members' retirement allowances are calculated [post-secondary employees who become members on or after July 1, 2008 contribute nine point eight three seven five percent (9.375%)]. University members also contribute to Social Security while most other active members do not contribute to Social Security. KRS 161.565 permits the universities to contribute two point two one five percent (2.215%) of the eight point seven one five (8.715%) on behalf of their members. Member contributions are automatically deducted from each member's salary. KRS 161.550 establishes the employer funding level at an amount equal to that contributed by KTRS members and in addition requires the employer to provide an appropriation of three point two five percent (3.25%) of salaries. The current employer contributions are thirteen point one zero five percent (13.105%) for non-university members and thirteen point eight four percent (13.84%) for university members.

As a result of legislation enacted in 2010 that provides a Shared Responsibility Solution to funding the KTRS Medical Insurance Fund so that health insurance will continue to be available to active members who one day will retire, the percentages contributed by all active, non-university members will gradually increase through the year 2015 until they reach twelve point eight five five percent (12.855%). The university employee contribution will increase to ten point four (10.4%). School districts and other employers will match these contributions. Retired members under the age of sixty-five (65) will phase into paying into the KTRS Medical Insurance Fund an amount equal to the Standard Medicare Part B premium toward the cost of their medical insurance. The Commonwealth of Kentucky, for its portion of the Shared Responsibility Solution to paying for retiree health care, is paying the net cost of medical insurance for all retirees under the age of sixty-five (65) who retire on or after July 1, 2010.

The required member contribution is deducted from each member's salary each pay period and forwarded to KTRS. Each reporting agency is required to forward all amounts deducted from salaries within fifteen (15) days following the end of each payroll period. When these deductions have been made, the contributions immediately become trust funds that may only be used for the exclusive benefit of KTRS members.

Member and employer contributions are invested under the authority provided in the KTRS statutes and administrative regulations. The Board of Trustees delegates investment authority to an Investment Committee comprised of two (2) lay trustees who are required to have investment experience, three (3) additional trustees, and two (2) investment experts who are selected by the Investment Committee to serve as non-voting members. The Investment Committee works closely with experienced investment counselors contracted with by the Board of Trustees to provide investment advice. In addition, KTRS employs in-house staff, including Chartered Financial Analysts, who have extensive investment experience.

Investment income pays for the bulk of the average retiree's lifetime retirement allowance. Employer and member contributions only provide for approximately six years' worth of retirement allowance payments—all the remaining years are paid for with investment earnings.

Adequacy of Funding

KRS 161.400 requires an actuarial valuation to determine whether the system is being properly funded. KTRS contracts with an independent actuary to evaluate the system's ability to fund all costs involved with its operation.

In December of 2011, the actuary submitted experience and valuation reports on KTRS for the period ended June 30, 2011. The actuary reported that pension liabilities not funded with current assets were $11,060,554. The actuary noted the pension obligation bond issued by the State on August 26, 2010, to pay off past borrowings from the pension fund that were used for the Medical Insurance Fund.

Assuming that contributions to KTRS are made by the employer from year to year at the rates recommended by the actuary, the continued sufficiency of the retirement fund to provide benefits may be safely anticipated. These figures do not include the funded status of the medical insurance program, which, although it has a large unfunded liability, has now been established on an actuarially sound basis as a result of the Shared Responsibility Solution which is moving the program to a pre-funded status as additional contributions are deposited in the Medical Insurance Fund. The Shared Responsibility Solution also ends the allocation by the Commonwealth of contributions to the Medical Insurance Fund that would have otherwise been used to fund pension benefits. Any further benefit improvements, including ad hoc increases, should be accompanied by the additional contributions necessary to support the benefits.

In addition to periodic actuarial reports, KTRS produces an annual financial report in December of each year. This report contains the system's annual audit and is furnished to employers and other interested parties on a routine basis. Copies of the report will be provided to individual members upon request and is also available on the KTRS website at www.ktrs.ky.gov.

YOUR RESPONSIBILITY TO KEEP YOUR ACCOUNT INFORMATION CURRENT

Annual Statement of Retirement Account

After the close of each fiscal year, you will receive a statement of your account. This will report to you the salary and service credit earned in the preceding fiscal years, the contributions made, total monies in your account, the beneficiaries for your active member retirement account and life insurance benefit, and your total service credit. If you think there is an error in this statement, contact your employer, unless the error concerns your designated beneficiary. In case of designation of beneficiary errors, you should contact KTRS to request a beneficiary designation form. The annual statement is subject to final audit and correction by KTRS in accordance with the applicable statutes and regulations.

Change of Name and/or Address

Your KTRS Identification Number is the identification number for your account. Your Social Security number is required for tax reporting purposes. It is your responsibility to send KTRS written notification of any status changes, such as name and address. A copy of your Social

Security card is requested at the time of your membership so KTRS can verify the accuracy of your Social Security number.

Beneficiary Designations

One of your most important responsibilities as an active contributing member is to make sure you have the proper forms on file with KTRS designating whom you want to receive certain benefits available from your account in the event of your death. There are two different beneficiary designations for you to make—one is for receipt of the contributions accredited to your active KTRS account and the other for the KTRS life insurance benefit. The two beneficiaries may be the same person, or two different people, but, two different forms must be filled out and filed with KTRS. Failure to designate your spouse as primary beneficiary to receive the contributions accredited to your active account (or in the absence of a spouse, any legal dependent) can result in loss of valuable benefits for your survivors. A beneficiary is not required to be a relative and you may designate your estate as beneficiary.

If you marry after becoming a member, your spouse automatically becomes your primary beneficiary for both the refund of contributions from your active account and for the life insurance benefit. Any previous primary beneficiary designations made by you become void. 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. (Beneficiary designations for optional *joint and survivor annuities* that may be selected by retiring members to be effective after retirement may be changed only under certain limited conditions discussed later in this booklet.)

NOTE: *Please remember to keep your address current with KTRS.*

PURCHASE OF ADDITIONAL SERVICE CREDIT

What is Service Credit?

Service credit is the time you accumulate during your career in KTRS-covered positions that will be used in calculating your retirement benefit. The more service credit you have at the time of retirement, the greater your retirement allowance will be. You can never have more than one year of service credit for any one fiscal year (July 1 to June 30). There are opportunities for members to purchase additional service credit to add to their retirement accounts. The various types of service credit purchases are described below. The decision whether to purchase service credit is yours alone and should be judged according to your particular circumstances and retirement goals. You may wish to consult with your financial adviser to help you decide whether a service credit purchase is advisable in your circumstances and helps you achieve your retirement goals.

Reinstatement

If you resign from a KTRS-covered position, you may either withdraw your funds or leave the funds on deposit. If you withdraw the funds, your membership will be cancelled just as if you had never contributed to the System, and if you later return to KTRS-covered employment, it will be as a new member. You may reinstate a withdrawn account if you have contributing service equal to at least one (1) year by repaying the amount of the original withdrawal plus eight percent (8%) interest compounded annually from the date of withdrawal to the date of repayment. After the account is reinstated, your membership status is the same as if the account had never been withdrawn.

Current Leave of Absence

You may also make contributions to KTRS while on an official, current leave of absence as provided under the statutes and administrative regulations that are effective at the time the leave is granted. A current leave of absence is a leave that has been granted for the current fiscal year or school year or the year immediately preceding the current year. You are permitted to purchase a current leave of absence until June 30 of the year following the year in which the leave was granted. Interest is charged on a leave purchased after the end of the year in which the leave occurred. University members placed on paid sabbatical leave are eligible to make personal contributions to KTRS in order to receive service credit for their sabbatical time. Leaves of absence must be certified to KTRS by your employer. Members are limited to the purchase of three (3) years leave of absence in a ten (10) year period. Failure to properly comply with the statutory provisions or administrative regulations of the KTRS Board of Trustees can result in the permanent loss of your ability to purchase a current leave of absence.

Non-Current Leave of Absence

You may be eligible to purchase service credit for a non-current leave of absence when the leave was granted for health reasons, for maternity or child rearing, or to improve your educational qualifications. "Health reasons" include official leaves granted as a result of your own ill health or to take care of a seriously ill child, spouse or parent, or for any health reason defined under the Family Medical Leave Act. A non-current leave of absence is a leave that has occurred since July 1, 1964, and prior to the fiscal year preceding the current fiscal year. The leave must be certified to KTRS by supplying a copy of the board minutes that granted the leave. If you are employed by an agency in which a board does not grant leaves of absence, other official and contemporaneously generated documentation evidencing both the leave and the reason for it may suffice. You will be required to pay both the employer and the member contributions, plus any accrued interest at the rate of eight percent (8%) per annum, when purchasing non-current leaves of absence. You may not receive credit for more than two (2) years under this provision.

Military Service
Prior Military and Public Health Service

You may receive service credit for up to six (6) years of active military service or service in the commissioned corps of the Public Health Services if you are in active contributing status, were in the military or Public Health Service prior to your employment in a position covered by KTRS, and purchase the credit prior to retirement. Service may be credited only if the discharge was honorable. To obtain a statement of cost and service credit, send KTRS an official copy of your Form DD 214 or other official military records establishing your dates of entry and release from active duty. KRS 161.507(4)(a) requires you to contribute one hundred percent (100%) of the actuarial cost of each year of military service credited. Prior military service is considered Kentucky teaching service, but does not count toward vesting your account. If you are drawing or eligible to draw retirement benefits for twenty (20) or more years of active duty military service, you are not eligible to purchase military service credit. No credit shall be granted for service that is being used to qualify for annuity benefits from another retirement system financed wholly or in part with public funds.

Military Service After Becoming a Member of KTRS

You may also receive service credit for military service that occurs after you become a member of KTRS if you give your employer advance written or verbal notice of performing military service and you return directly to covered employment following the military service. Contributions are based upon the salary you would have earned during the period of your absence for military service plus interest at eight percent (8%) per annum. If you are drawing or eligible to draw retirement benefits for twenty (20) or more years of active duty military service, you are not eligible to purchase military service credit. No credit shall be granted for service that is being used to qualify for annuity benefits from another retirement system financed wholly or in part with public funds. As a result of legislation enacted by the General Assembly in 2006, the Commonwealth of Kentucky now pays the member contribution for all certified staff employed in the local school districts who are members of a state National Guard or reserve component ordered to active military duty by the President of the United States. In order to qualify, members must timely return to employment in their districts upon release from active duty. Only upon a timely return to employment is the Commonwealth obligated to pay the member contribution. In 2007, the General Assembly agreed to pay the member contribution retroactively for those members who timely returned to their school districts on or after January 1, 2003. In addition to state law, the Uniformed Services Employment and Re-employment Rights Act (USERRA) provides federal guidelines for continued participation in KTRS while you are on active duty. KTRS can provide you only with very limited, general information regarding USERRA as this is a federal law subject to federal amendment and interpretation. Therefore, you should always contact the federal authorities charged with the administration of USERRA if you have any questions regarding its application to your individual circumstances. The National Committee for Employer Support of the Guard and Reserves maintains a USERRA website at www.esgr.org. You may also contact their toll-free number at (800) 336-4590 and ask for Ombudsmen Services.

Military Service
National Guard and the Military Reserves

Active contributing members of KTRS may receive service credit for service in the military reserves or the National Guard. The member may purchase one (1) month of service for each six (6) months of service in the reserves or the National Guard. The member shall pay the full actuarial cost for this service. This service cannot be used in meeting the service requirements for either regular service retirement or disability retirement. If you are drawing or eligible to draw retirement benefits for twenty (20) or more years of active duty military service, you are not eligible to purchase National Guard or military reserve service as service credit. No credit shall be granted for service that is being used to qualify for annuity benefits from another retirement system financed wholly or in part with public funds.

Out-of-State Service

If you are an active contributing member of KTRS with at least one (1) year of KTRS service subsequent to the latest out-of-state service and you contributed to KTRS prior to July 1, 1976, you are eligible to purchase retirement service credit for up to ten (10) years of certifiable out-of-state service performed in a public school or United States Government Dependency School. If you entered KTRS on or after July 1, 1976, you may purchase one (1) year of out of-state service credit for every two (2) years of Kentucky service completed. Also, members who joined the System on or after July 1, 1976, and have completed ten (10) years of Kentucky service, may purchase credit for up to ten (10) years of acceptable out-of-state service. Only full-time out-of-state service is purchasable. Part-time and substitute service are not. Credit will not be granted for service that is being or will be used in qualifying for annuity benefits from another state. You may purchase retirement credit for out-of-state teaching service rendered under contract in public schools in another state, or service performed at the University of Kentucky, University of Louisville, and Northern Kentucky University. Members may purchase out-of-state teaching service by paying the full actuarial cost of the service. Out-of-state credit counts the same as Kentucky service when calculating your retirement benefit, but it does not count toward the five (5) years of Kentucky service required for vesting. For members who purchased out-of-state service prior to July 1, 2005, an additional charge must be paid to use this service to qualify for retirement based only on achieving twenty-seven (27) years of service since out-of-state service purchased prior to July 1, 2005 was not based upon the current full actuarial cost formula. This additional charge is computed by multiplying eight percent (8%) times your final average salary at retirement for each year of out-of-state service that is qualified. Members age sixty (60) or older are not required to pay the additional charge, unless out of state service is used to qualify for the three (3) year final average salary formula. In this case, members are required to make the qualifying payment at retirement.

If you wish to obtain retirement credit for out-of-state service, you must have your former employer certify your out-of-state service to KTRS on forms prescribed by KTRS. Upon receipt of the certification, KTRS will notify you concerning the amount of service you may purchase and the cost. Out-of-state service may be purchased at any time by an active contributing member, however, all service credit purchases are subject to a final reconciliation and correction at the time of retirement. Following the reconciliation, any members who overpaid for their service will receive a refund, while any members who underpaid will be required to make an additional payment.

Peace Corps Service

If you have completed service as a federal Peace Corps volunteer you may be eligible to purchase retirement system credit for your service. Members who are eligible may purchase up to two (2) years of qualifying service credit. Peace Corps service is purchasable at full actuarial cost. Peace Corps service purchased prior to July 1, 2005 was purchased under a different formula than the current full actuarial cost formula. As such, for purchases under the old formula an additional charge must be paid to use this service to qualify for retirement based only on achieving twenty-seven (27) years of service. To obtain a statement of your cost and purchasable credit, send KTRS a certified copy of your Certification of Peace Corps Volunteer Service. No credit shall be granted for service that is being used to qualify for annuity benefits from another retirement system financed wholly or in part with public funds.

Fractional Service/Balance of the Year Purchases Members Who Work at Least 7/10 of the Year

If you are employed on a regular full-time or part-time basis, or as a substitute teacher, and actually work less than the regular contract year, you will earn less than a full year of service credit. If your employment continues for seventy percent (70%) of the regular contract year or more, but less than the full year, you may make a personal contribution which will provide a full year of service credit. If your employment began after the start of the contract year, you are not eligible to purchase credit for service prior to the time of your employment. All payments must be made by December 31 following the fiscal year in which the fractional service occurred.

Fractional Service/Balance of the Year Purchases Members Who Work at Least 1/2 of the Year

If you are employed on a regular full-time basis under a contract that requires service for every day of a full contract year that would normally provide you with one full year of service credit, and complete the first one-half (1/2) or more of that regular contract year you may purchase the balance of the contract year. This option cannot be exercised more than once every three (3) years. All payments must be made by December 31 following the fiscal year in which the fractional service occurred.

Members Who Are Employed for at Least One (1) Complete Pay Period

If, at the beginning of the fiscal year, you are employed on a regular full-time basis under a contract that requires service for every day of a full contract year that would normally provide you with one full year of service credit, and you work for at least one (1) complete pay period you may purchase the balance of the year for a full year of service credit. This option cannot be exercised more than once every ten (10) years. All payments must be made by June 30 of the fiscal year following the year in which the salary payment was made.

Non-Qualified Service Credit

An active contributing member who has a minimum of twenty (20) years of service credit may purchase up to a maximum of five (5) years of service credit not otherwise provided for in the KTRS statutes and which meets the definition of non-qualified service as contained in federal law. Non-qualified service is purchasable only at full actuarial cost, and this is determined at the time of retirement. All service credit purchases are subject to a final reconciliation and correction at the time of retirement. Following the reconciliation, any members who overpaid for their service will receive a refund, while any members who underpaid will be required to make an additional payment.

Kentucky Legislative Service

A member of KTRS who has service as a Kentucky Legislator which is not covered by a retirement system administered by the Commonwealth of Kentucky may purchase up to four (4) years of such service for credit in this retirement system by paying the full actuarial cost of the service credit.

Federal Head Start Service

An active contributing member of KTRS who was formerly employed by a federal Head Start Agency and who did not participate in a state-administered retirement system may obtain KTRS service credit for the period of the member's Head Start service. Federal Head Start service is purchasable at full actuarial cost.

Regional Community Mental Health and Mental Retardation Service Program

An active contributing member of KTRS who was formerly employed by a Regional Community Mental Health and Mental Retardation Service Program and who did not participate in a state administered retirement system may obtain credit for the period of the member's service by paying the full actuarial cost of the service credit purchased.

Universities Only

Part-time Service

Universities cannot deduct retirement contributions from the salaries of part-time employees, unless the employee is employed on at least a seven-tenths (7/10) basis of regular full-time service. If a part-time university employee has an active account from previous Kentucky service, he or she may make personal retirement contributions and receive service credit under the following conditions:

a. An active member who teaches or is paid the equivalent of at least three-tenths (3/10) or more of regular full-time service may apply to KTRS to pay retirement contributions and receive fractional service credit.
b. An active member who teaches or is paid on the basis of at least seven-tenths (7/10) of regular full-time service may apply to the retirement system to pay contributions on an equivalent annual salary and receive a full year of service credit.

Questions concerning this type of service should be directed to KTRS. Personal payments for part-time service must be made by December 31, immediately following the fiscal year in which the part-time service was rendered. If the payment is not made by this date, the right to purchase is lost.

Universities Only

Switching from the Optional Retirement Plan (ORP) to KTRS and Purchasing the Prior ORP Years

Effective July 1, 2008, employees of universities who have less than six and one-half (6 1/2) years of employment in a KTRS-eligible position and who are participating in the Optional Retirement Plan (ORP) may make a one-time election to switch from the ORP to KTRS and purchase the prior ORP years of service.

The purchased ORP years are not used in meeting eligibility requirements or determining the extent of participation in the KTRS medical insurance, disability and survivorship programs. Individuals who elect to change from the ORP to KTRS are not eligible for the survivorship or disability programs based on medical conditions that existed prior to becoming a KTRS member. The purchased ORP years are considered as KTRS service and do count toward vesting your KTRS account. The purchase may be made by personal payment or rollover from another tax sheltered account.

Contact KTRS for additional information on certifying ORP service, cost estimates and purchase procedures.

Purchasing Service Credit in Time to Improve Your Account

If you are interested in purchasing additional service credit for most active duty military service that interrupts your employment in a KTRS covered position, as well as non-current leaves of absence or reinstatement of a withdrawn account, you may contact KTRS anytime during your career in a KTRS-covered position, but at least ninety (90) days prior to your retirement date. Remember, current leaves of absence purchases, fractional/balance of the year purchases, and part-time service purchases must be made by certain deadlines as previously identified under the individual heading for each of these types of service credit purchases. Additionally, there may be other conditions and deadlines if you are purchasing active duty military service credit under the USERRA provisions. You are encouraged to put your account in order prior to filing a retirement application. You will not be permitted to purchase service credit of any kind for your account after the effective date of your retirement. KTRS must receive payments made by you or your employer in time to process the retirement application. Approval of your retirement application will be delayed until all payments have been received.

Installment Payments

If you are in active contributing status, you may purchase certain types of service credit by making monthly installment payments of principal and interest through payroll deduction or by bank draft in lieu of a lump sum payment. To initiate an installment payment plan you are required to make a written request. This allows KTRS to determine if you are eligible to purchase service credit by installment payments. Your contribution plus interest must be at least $1,000. The minimum monthly payment is $50. Installment payments can be paid over a period of time ranging from twelve (12) months minimum to sixty (60) months maximum.

Rollovers and Transfers From Other Eligible Plans

You may purchase service credit in KTRS as permitted under the Internal Revenue Code by rolling over or transferring funds from another eligible plan. There may be certain limitations. If you are interested in rolling over or transferring funds from another eligible plan, you should contact KTRS for details.

Full Actuarial Cost Purchases

The methodology for calculating the full actuarial cost of service credit purchases is subject to periodic review by the retirement system's actuary and may be adjusted if necessary to ensure that the full actuarial cost is charged.

Important Notice Regarding Service Credit Purchases

All payments for service credit purchases, whether made in lump sum or by installment, are subject to a final reconciliation at the time of retirement to ensure that the member has paid the correct cost of the service. Overpayments by the member will be refunded. Underpayments will require the member to pay any additional amount necessary to reflect the true cost of the service.

SURVIVOR BENEFITS

Survivor benefits are monthly benefits provided to eligible survivors of an active contributing member upon the death of the member. Survivor benefits are also available to eligible survivors if the member has made contributions in the previous fiscal year or if the member is receiving benefits during the five-year disability entitlement period at the time of death.

Persons who may, *if eligible*, qualify for survivor benefits include:

1. A member's widow or widower if named as primary beneficiary;
2. Unmarried children:
   a. under age eighteen (18);
   b. up to age twenty-three (23) if a full-time student in college; and
   c. Mentally or physically disabled adult children;
3. Dependent parents; or
4. Dependent brothers or sisters.

Survivor benefits are not available once the member retires under the service retirement formula. Survivor benefits terminate upon the marriage of the survivor. Survivor benefits are available in lieu of a refund of a member's account.

The five (5) categories of survivor benefits are discussed in greater detail below:

Surviving Spouse Benefits

The basic monthly payment for a surviving spouse is $180 with no restriction on other income. If a surviving spouse's income from other sources is less than $6,600 per year, he or she is eligible to receive $240 per month. Monthly payments are guaranteed for a surviving spouse's life, except that eligibility ceases upon remarriage. The surviving spouse of a member who dies in active contributing status with at least ten (10) years of service may be entitled to an actuarially equivalent annuity. This annuity would become available to the surviving spouse at the time the member would have become eligible for retirement by reason of age. Monthly payments are guaranteed for a surviving spouse's life, except that eligibility ceases upon remarriage. Surviving spouses selecting this benefit may receive monthly survivor benefits of $180 or $240 while waiting to qualify for the annuity benefits provided they do not remarry before eligibility conditions are met.

A surviving spouse may be eligible for these benefits only if the member designated the spouse as his or her primary beneficiary.

Children and Other Dependents

Dependent children under age eighteen (18) qualify for a monthly allowance regardless of the income or marital status of the remaining parent. Benefit eligibility ceases at the end of the month the child reaches age eighteen (18) or marries, or age nineteen (19) if still a full-time high school student. Surviving children may apply to continue these benefits into the ages between eighteen (18) and twenty-three (23) if they are full-time students in a recognized educational program beyond the high school level. Eligibility for benefits ceases at age twenty-three (23), when a student drops to part-time status, graduates or leaves school, or upon marriage. Payments are suspended for the period between high school graduation and full-time enrollment and attendance in college. If a surviving child marries while receiving benefits, his or her eligibility for benefits is terminated.

If there is a surviving child who is age eighteen (18) or older whose mental or physical condition made that child dependent on the member at the time of death, the child is eligible for an allowance of $200 per month. This allowance is payable for the life of the child or until the mental or physical condition creating the dependency no longer exists or the child marries.

Dependent parents or siblings may qualify for survivor benefits in the absence of a widow, widower, minor children, or a physically or mentally incapacitated adult child if they are able to establish dependency upon the deceased member.

NOTE: *Survivor benefits are available to eligible survivors of non-vested members who are employed on a substitute or part-time basis only if the member completed at least sixty-nine hundredths (.69) of a full contract year in a single fiscal year and the member's death occurred during the remainder of that fiscal year or the immediately succeeding fiscal year. Additionally, for eligible survivors of these non-vested members, survivor benefits will be available only if the member's death was the result of a single, traumatic, physical injury related directly to the member's covered employment. Survivor benefits are available to eligible survivors of vested members who are employed on a substitute or part-time basis only if the member completed at least sixty-nine hundredths (.69) of* *a full contract year in a single fiscal year and the member's death occurred during the remainder of that fiscal year or the immediately succeeding fiscal year. A vested member's death does not have to be the result of a single, traumatic, physical injury related directly to the member's covered employment in order for survivorship benefits to be available to eligible survivors. You should contact KTRS for more details regarding these eligibility conditions.*

Death of a Member Eligible to Retire

If an active contributing member dies with twenty-seven (27) or more years of service or is at least fifty-five (55) years of age with five (5) years of service, the surviving spouse, or in the absence of an eligible spouse a legal dependent, if named as primary beneficiary, may choose to receive an annuity in lieu of survivor benefits or a refund of the member's account. The annuity will be actuarially equivalent to the annuity the member would have received had the member retired the day before death. A spouse or legal dependent is limited to selecting an option providing either a straight life annuity with refundable balance (Option I) or a term certain option. A surviving spouse may receive this benefit while surviving children are simultaneously receiving survivor benefits, but a surviving legal dependent may not receive this benefit if surviving children are receiving survivor benefits. A spouse or legal dependent would continue to receive benefit payments for their lifetime with no income restrictions. A spouse's remarriage would not affect eligibility.

The surviving spouse, of an active member who was eligible to retire upon death, may currently elect to participate in medical insurance coverage available through KTRS by making the appropriate premium payments. This election must be made within thirty (30) days of the member's death. Medical coverage terminates if the spouse remarries.

Refund of Member Contributions

If there are no eligible survivors for one of the foregoing monthly survivorship benefits, the accumulated contributions plus interest will be paid to either the designated beneficiary or estate. Or, if survivor benefits are terminated before total payments equal the refundable amount in the KTRS account at the time of death, the difference will be paid to the designated beneficiary or estate.

Life Insurance Benefit

You are covered by a $2,000 life insurance benefit from the first day of employment in a full-time KTRS covered position. This coverage continues as long as you remain in active contributing status. Service and disability retirees are covered by a $5,000 life insurance benefit. Life insurance benefits are paid to the member's estate or designated beneficiary. To designate a beneficiary, you must complete a "Designation of Beneficiary for KTRS Life Insurance Benefit" form.

Subsequent divorce will void a spouse's designation as beneficiary, but will not terminate the designation of a trust as beneficiary even if the former spouse is a beneficiary to the trust. Subsequent marriage will instate the new spouse as the primary beneficiary and terminate any previous primary beneficiary designation, including a trust. The life insurance benefit is payable in addition to any other benefits that may accrue and is comparable to a paid-up life insurance policy.

NOTE: For non-vested members who are employed on a substitute or part-time basis, life insurance benefits are available only if the member completed at least sixty-nine hundredths (.69) of a full contract year in a single fiscal year and the member's death occurred during the remainder of that fiscal year or the immediately succeeding fiscal year. Additionally, for non-vested members life insurance benefits will be available only if the member's death was the result of a single, traumatic, physical injury related directly to the member's covered employment. For vested members who are employed on a substitute or part-time basis, life insurance benefits are available only if the member completed at least sixty-nine hundredths (.69) of a full contract year in a single fiscal year and the member's death occurred during the remainder of that fiscal year or the immediately succeeding fiscal year. A vested member's death does not have to be the result of a single, traumatic, physical injury related directly to the member's covered employment in order for life insurance benefits to be provided. You should contact KTRS for more details regarding these eligibility conditions.

RETIREMENT ESTIMATES

To obtain a complete estimate of your retirement benefits contact KTRS and include the following information:

a. Name;
b. Address;
c. Social Security number or KTRS ID number;
d. Current year salary;
e. Beneficiary's birth date;
f. Projected retirement date;
g. If the employer pays for sick days, provide balance of unused sick leave; and
h. Projected salary increases for each year beyond the current year. You may also wish to visit the KTRS homepage at www.ktrs.ky.gov and click on the Retirement Benefit Estimator to obtain an unofficial, basic estimate of an Option I straight life annuity based upon the hypothetical information that you provide.

RETIREMENT APPLICATION

Service Retirement

You must first obtain and complete an "Application for Service Retirement" available only through KTRS. You may retire at any time during a year with the approval of your employer. Your retirement will take effect on the first day of the month.

Your application must be on file with KTRS one (1) month prior to your retirement date (example: For a January 1 retirement date, your application must be received by KTRS no later than December 1). These one-month advance filing deadlines provide KTRS staff with the time needed to accurately process retirement applications of all new retirees. A member who is employed in a position that normally requires twelve (12) months of service in a single fiscal year can retire prior to July 1 only with a corresponding pro rata reduction in service and salary credit.

Disability Retirement

To retire for reasons of a disabling condition that prevents your continued employment, you must first obtain and complete an "Application for Disability Retirement". If approved, disability retirement takes effect on the first day of the month following the month in which the application is filed with KTRS.

Documents Required

In addition to the application for retirement (Form 23 for service retirement and Form 21 for disability retirement), the following documents must be on file in the KTRS office prior to your retirement:

1. A copy of your **official, government certified** birth certificate; <u>and</u>
2. A copy of your **official, government issued** Social Security card. (These cards bear the seal of the Social Security Administration).
3. A copy of your **official, government certified** marriage license if married.
4. For service retirement, if choosing a joint and survivor retirement option [i.e. Options III, III(a), IV or IV(a)], a copy of the beneficiary's **official, government certified** birth certificate must also be filed with KTRS prior to your retirement. For disability retirement, this document is required for any primary beneficiary.

APPLICATION PROCESSING

Once KTRS has received your application and completed the calculation of your retirement benefit, you will be notified in writing of your monthly annuity amount based on the retirement option you selected. This information should be received prior to your first annuity payment. If you file an application and later change your mind, you may cancel your retirement or change your retirement option by notifying KTRS in writing no later than the fifteenth (15^{th}) day of the month your retirement becomes effective. Cancellation voids the retirement application and your medical insurance coverage.

TAX ASPECTS

Active Member Contributions

Under KRS 161.540(2), and in compliance with section 414(h) of the United States Internal Revenue Code, employers shall pick up these member contributions for all compensation earned on or after August 1, 1982, and these contributions shall be treated as employer contributions for tax treatment under the Internal Revenue Code and

KRS 141.010(10). As such, member contributions are not taxed until they are received by the member.

Retirement Allowances / Beneficiary and Survivorship Payments

All persons receiving benefits from KTRS will receive a Form 1099R, "Distributions From Pensions, Annuities, Retirement . . .etc." on an annual basis. The 1099R reports the member's gross benefits received, taxes withheld, federal taxable income and income subject to Kentucky state income taxes. KTRS mails these statements the last week of January. The Internal Revenue Service (IRS) and the Kentucky Revenue Cabinet are also provided with this information.

Federal - - - Upon retirement, you must report your federal taxable income to the IRS. Under federal tax law, you must pay taxes on your tax-sheltered annuities immediately. If you made contributions prior to August 1982 or made personal payments to the retirement system, KTRS will exclude a small portion of your retirement annuity from taxation over your expected lifetime or that of your beneficiary. When you retire, you must complete a Form W-4P instructing KTRS how to withhold federal taxes from your annuity. If you elect to withhold, KTRS will withhold federal taxes on the taxable portion of your annuity as calculated using the "simplified general rule".

State of Kentucky- - - Your retirement annuity is exempt from Kentucky income tax if you retired before January 1, 1998. Members who retire after January 1, 1998, will need to determine IF they owe Kentucky income tax. Due to a state pension exclusion on the Kentucky Income Tax Form 740, KTRS estimates it will take several years before most retirees who retire after January 1, 1998 will pay Kentucky state income taxes. Please reference the current year Kentucky income tax form instructions for the amount of the pension income exclusion. To determine if your KTRS retirement annuity is subject to Kentucky state income tax, multiply the amount in box 2a at the top of your 1099R tax statement by the state taxable percentage to determine the Kentucky state taxable amount before the pension exclusion. Then, compare the Kentucky state taxable amount to the Kentucky state pension exclusion to determine if any Kentucky state income tax is owed. (Please note, pension income from all sources must be totaled and compared to the Kentucky state pension exclusion.)

SERVICE RETIREMENT

The two (2) types of service retirement available are “Unreduced Benefit” and “Reduced Benefit” retirement.

A. Unreduced benefit retirement

(1) Members with twenty-seven (27) or more years of active Kentucky service regardless of age may retire with no actuarial reduction in benefits.

(2) Members with five (5) or more years of active Kentucky service who are at least age sixty (60) may retire with no actuarial reduction in benefits.

B. Reduced benefit retirement

Members age fifty-five (55) or more but less than age sixty (60) who have five (5) or more years of Kentucky service, but less than twenty-seven (27) years of service, may retire with reduced benefits.

The actuarial reduction rate is five percent (5%) for each year the member’s age is less than sixty (60) or five percent (5%) for each year the member’s Kentucky service is less than twenty-seven (27) years, whichever is the lesser number. In either case, the more years of service credit that you earn, the greater your retirement allowance will be, up to a maximum amount (as measured on a single life annuity) equaling the actuarial equivalent of your last yearly salary or your final average salary, whichever amount is greater.

Your age is considered as the age attained on the first day of the month immediately following your birth date. To qualify for retirement, you must have a properly completed retirement application on file in the offices of KTRS no later than one (1) month prior to your retirement date. Although KTRS counselors are available to answer questions about effective retirement dates, it is solely your responsibility to select a retirement date that best suits your retirement plans.

Members who have established membership and maintained active accounts in more than one (1) state-funded retirement system (the Kentucky Employees’ Retirement System, the County Employees’ Retirement System, the State Police Retirement System, the Legislators’ Retirement Plan, the Judicial Retirement System, or the Kentucky Teachers’ Retirement System) may determine their eligibility for retirement benefits by combining service credit in all systems.

RETIREMENT OPTIONS

Selecting the "option" under which KTRS will pay your retirement allowance is one of the most important retirement decisions you will make. The KTRS staff is available to work with you to insure your full understanding of all retirement options. The final decision, however, is yours.

Option I

Straight Life Annuity with Refundable Balance

The Straight Life Annuity (SLA) is the basic retirement plan. This provides you with the largest monthly annuity throughout your life with annuity payments ceasing upon death. If you die before you receive monthly payments equal to the contributions posted to your account, the balance will be refunded to your estate or beneficiary.

You may wish to consider an SLA if you do not have dependents to be supported after your death. You may change to a Joint-Survivor Annuity if you marry or remarry after retirement. A copy of your new spouse's official, government certified birth certificate, as well as your marriage certificate, must accompany your application for a joint-survivor annuity. The effective date of your new option selection will be the first of the month following receipt of the application at KTRS.

You have **sixty (60) days** from the date of the marriage to make this change with KTRS. As discussed below, marriage serves as just one of the qualifying events that allows members to change a selected retirement option after they have already retired.

A joint-survivor annuity with your new spouse as beneficiary will reduce your monthly annuity but will provide a continuing benefit to your new spouse after your death. In some cases, the reduction is substantial depending on the ages of the member and spouse at the time of the option selection.

Option II

Ten Years Certain and Life Thereafter

This option provides you with a monthly retirement annuity that is somewhat smaller than the annuity provided under Option I. Under Option II, in the event of your death within the first ten (10) years of your retirement, your beneficiary would receive the same monthly annuity that you were receiving at the time of your death until the expiration of the ten (10) year period. If you survive beyond the ten (10) year period, you will continue to receive for the rest of your life the monthly retirement annuity that you were receiving during the ten (10) year period, but your beneficiary will not be eligible for survivorship benefits in the event of your death. The age of the beneficiary is of no consequence under this option.

Years certain payment plans are also available in five (5), fifteen (15), and twenty (20) year certain periods. This option insures that a guaranteed amount will be returned. If your beneficiary predeceases you before the 5, 10, 15, or 20 year guaranteed period expires, you may name a new beneficiary.

Option III
Joint-Survivor Annuity

This option allows you to elect a lifetime annuity in an amount less than the SLA benefit to provide at your death a lifetime annuity to your designated beneficiary. Your beneficiary's monthly annuity would equal the annuity you received. This option is most useful when you have other income available that will cease upon your death or when your beneficiary's primary income will be the KTRS annuity.

NOTE: *Under this option, if you select as your beneficiary a person other than your spouse, an Internal Revenue Service regulation may require a substantial reduction in the benefit your beneficiary would be eligible to draw. Please contact KTRS to determine whether your non-spouse beneficiary designation is affected by this regulation.*

Option III(a)
Joint-Survivor Annuity with "Pop-up" Option

This option is identical to Option III except that, in the event your beneficiary predeceases you, your annuity increases to the amount you would have received under Option I.

NOTE: Under this option, if you select as your beneficiary a person other than your spouse, an Internal Revenue Service regulation may require a substantial reduction in the benefit your beneficiary would be eligible to draw. Please contact KTRS to determine whether your non-spouse beneficiary designation is affected by this regulation.

Option IV
Joint-Survivor Annuity, One-half Benefit to Beneficiary

This option allows you to elect a reduced lifetime annuity for yourself so that you may provide your beneficiary with a lifetime annuity after your death. Your beneficiary's annuity would equal one-half (1/2) of the amount you were receiving.

Option IV(a)
Joint-Survivor Annuity, One-half Benefit to *Beneficiary with "Pop-up" Option*

This option is identical to Option IV except that in the event your beneficiary predeceases you , your annuity increases to the amount you would have received under Option I. The restrictions that apply to Option III(a) in making changes to your plan also apply to this plan.

Option V
Other Payment

In most cases, the payment plans provided in Options I through IV(a) will meet your needs. However, for some members a plan of payment other than those provided under the first six (6) options is desirable. To accommodate those members an Option V is available. This option allows a member to provide a benefit or benefits to a person or persons whom the member shall designate who have an insurable interest in the member's life. If this option is chosen, it must be certified by the System's actuary to be of equivalent value to the annuity provided under Option I, and it shall be approved by the Board of Trustees.

Note: The annuity amount payable under each option will be less than the Option I Life Annuity amount because of the additional benefits or survivor features. For Options III, III(a), IV, IV(a), and possibly Option V, the age of your beneficiary has a direct bearing on the amount of retirement allowance that you will receive.

Changing Your Option After Retirement

There are a few, limited qualifying events that may permit you to change, with certain conditions, your retirement option during retirement. The ability to change a retirement option and the extent to which it can be changed depend on both the retirement option you chose at retirement and the qualifying event that you subsequently experience. Qualifying events are events that occur during retirement and include divorce, annulment of marriage, dissolution of marriage, marriage, remarriage, death of a spouse and death of a beneficiary. If you have any questions as to which of the qualifying events applies to you, contact your attorney. Changing retirement options may reduce the amount of your retirement allowance. If you experience a qualifying event and are interested in exploring whether you are eligible to change to a different retirement option, you should contact the Retirement System immediately, as you have **only sixty (60) days** from the date of the qualifying event in which to file with KTRS an election for a new retirement option. If the qualifying event is the dissolution of your marriage (divorce), the sixty (60) days by which you must file your election for a new retirement option begin running from the date the court first enters an order dissolving your marriage and not from the dates of any other orders the court might issue such as an order dividing marital property. If the qualifying event is dissolution of marriage (divorce) and if the sixty (60) day deadline has passed, you are only eligible to remove your ex-spouse as the beneficiary. You are not allowed to change your optional plan of payment, nor can you rename a beneficiary, nor can you receive an increase or decrease of your monthly retirement allowance. Please note, if you have selected a retirement plan that would otherwise allow you to pop-up to a straight life annuity in the event of the death of your beneficiary and you elect to remove that beneficiary, the right to increase your retirement allowance should you survive your ex-spouse will be permanently lost.

Annuity Estimate

The Straight Life Annuity with Refundable Balance (Option I) is the basic retirement plan and must be calculated before adjustments can be made for optional retirement plans or for early retirement.

The following steps will provide you with a general understanding of how a Straight Life Annuity (Option I) is calculated. These steps do not include limits that may be imposed by state and federal law in the calculation of retirement allowances.

STEP 1 / Salary Credit:

a. Total your five (5) highest years of salary and divide by five (5) to determine your final average salary, or;
b. Total your three (3) highest years of salary and divide by three (3) to determine your final average salary if you are at least fifty-five (55) years of age and have at least twenty-seven (27) years of Kentucky service at the time of your initial retirement.

NOTE: *Salaries received in the last three (3) years that are included in the highest five (5) or three (3) annual salaries used in calculating the final average salary are reviewed to ensure that the increases received for those years* *over prior years do not exceed the percentage increase received by all other members employed by the employer. See KRS 161.220(9)(b). These salaries are also reviewed to ensure that they do not include a benefit or salary adjustment not available to other members. See KRS 161.220(10). That portion of salaries or compensation in excess of these limits cannot, by law, be used in calculating a member's retirement allowance and the contributions made on the disallowed amount will be refunded to the member.*

STEP 2 / Service Credit:

a. Total your years of service before June 30, 1983. Multiply the total service by the final average salary from Step 1 and then by 2%. If you are a university member, total your years of service to present, multiply the total service by the final average salary and then by 2%. University and community college members disregard sections (b) and (c) of this step.
b. Multiply the total service after July 1, 1983, by the final average salary from Step 1 and then by 2.5%. (If you retire on or after July 1, 2004, multiply qualifying service in excess of thirty years by 3.0%. Contact KTRS for details.)
c. Total the values computed in (a) and (b) to find your yearly Straight Life Annuity.

NOTE: *Your retirement allowance, as measured by the Straight Life Annuity, cannot exceed your last annual compensation or your final average salary, whichever is greater. If you became a member of KTRS on or after July 1, 2002, and before July 1, 2008, or if you are a retired member of KTRS and started a new account under the return to work provisions during this time frame, and you retire with less than ten (10) years of service credit, you are eligible for a retirement factor of 2.0%, not 2.5%, for each year of service. The calculation of your retirement allowance is subject to limits imposed by state and federal law. All estimates, including those provided by KTRS, are subject to correction and adjustment upon detection of any error. At the time of retirement, an audit of each member's account is conducted to search for errors and to make any necessary corrections or adjustments. Corrections and adjustments, however, can occur at any time, even after retirement.*

STEP 3:

Divide the yearly annuity by twelve (12) to determine your monthly annuity under the Option I (Straight Life Annuity) Plan.

STEP 4:

If your age or service does not entitle you to unreduced benefits, calculate the applicable statutory reduction. (Refer to Service Retirement section for explanation of reduced benefit retirement.)

Combining KTRS Service with Service in Another State Administered Retirement System

KTRS is subject to "reciprocity" statutes and regulations that require the recognition of service in the other state-funded retirement systems in Kentucky in determining eligibility for retirement benefits. The state-funded retirement systems include the Kentucky Employees' Retirement System, County Employees' Retirement System, State Police Retirement System, Legislators' Retirement Plan, Judicial Retirement System and Kentucky Teachers' Retirement System. Reciprocity laws are applicable to members who have established membership and maintained active accounts in more than one of these state-funded retirement systems. These laws allow members to determine their eligibility for retirement benefits by combining service credit in all systems. Service credit is coordinated between the systems to assure no overlap in service. Members can never receive more than a total of one year of service credit for a fiscal year when service credit from all retirement systems in which they have participated is added together. Each system will calculate your annuity separately. Your KTRS final average salary is based on the five (5) highest annual salaries, or three (3) highest if you qualify, regardless of the system under which the service was rendered. Under KTRS, members who have at least twenty-seven (27) years of Kentucky service credit and who are at least fifty-five (55) years of age at the time of the initial retirement are eligible to have their final average salary based upon their three (3) highest annual salaries in the calculation of the KTRS retirement annuity. Under the reciprocity laws, calculation of retirement allowances will be based on the formula in effect for each retirement system involved. Any legally required reductions in annuity payments will be applied by each system according to the laws and administrative regulations governing that system. In lieu of combined service accounts, a member may request in writing that each retirement account be kept separate. Unless you make a written request to separate your accounts, you must file all necessary forms and documents with each retirement system from which you are retiring before a retirement allowance is payable from any retirement system. If combining service with any of the other Kentucky public retirement systems, please contact each system for the necessary forms in order to retire from that system properly.

NOTE: *KTRS will recognize non-qualified service credit purchased in another state administered retirement system only to the extent that you have an equivalent number of full months of active employment in the position covered by the other retirement system during the period that the non-qualified service credit is purchased.*

Cost of Living Adjustments

A standard, statutory cost of living adjustment ("COLA") in the full amount of one and one-half percent (1½%) is provided annually to retirees who have been retired for at least one (1) year prior to July 1, the annual effective date of the COLA. For members who were retired for less than a full year immediately preceding the date a COLA becomes effective, the COLA is awarded on a pro rata basis depending on how long the member was retired during the prior fiscal year. For example, a member who retires on January 1 of any given year would receive only one-half of the COLA that would become effective on the following July 1. In addition to the standard one and one-half percent (1½%) COLA, KTRS asks the Governor and General Assembly for an additional "ad hoc" COLA when funding appears available to help retirement allowances keep pace with inflation. In recent years, due to the difficult budgetary times, funding has not been available for ad hoc COLAs.

Minimum Value of a Year of Service

The minimum value of each year of service is $440 multiplied by your total years of service. This minimum value provides a base retirement income for first accounts. It is based on the Straight Life Annuity option and will be reduced proportionately for any other option choice or any other discount that was taken at the time of retirement.

Payment of Annuities

Retirement annuities are payable monthly. Your first payment will be paid on or before the last day of the month in which your retirement is effective. You may expect to receive future payments near the end of each month.

Electronic Funds Transfer (EFT)

You are required to have your annuity check directly deposited to your savings or checking account by electronic funds transfer (EFT). Direct deposit prevents late delivery, loss, or theft of your annuity check. In addition, if you are away from home, your money is deposited to your account.

To have your check deposited by EFT (Electronic Funds Transfer), you should complete the EFT section of the retirement application and attach a personalized voided check or request an Authorization for Direct Deposit of KTRS Annuities form from KTRS.

Disabled Adult Child

An additional monthly benefit of $200 is available if you have an adult child whose mental or physical condition is sufficient to cause dependency on you at retirement. Eligibility for this payment shall continue for the lifetime of the child, until the time the mental or physical condition creating the dependency no longer exists, or until the child marries. Benefits under this program shall also be available to adopted children. The Board of Trustees shall be the sole judge of eligibility or dependency, and proper KTRS documentation must be completed at the time of retirement to apply for these benefits.

DISABILITY RETIREMENT

To be eligible for disability retirement, you must have completed five (5) or more years of Kentucky service and must apply for disability retirement within one (1) year of your last contributing service. The disability must have occurred during the most recent period of employment in a covered position subsequent to the completion of five (5) years of service in Kentucky. Medical evidence must show you are physically or mentally disabled from further performance of service in a KTRS-covered position and your disability is expected to be permanent, lasting twelve (12) months or more. If you have twenty-seven (27) or more years of service credit, you are eligible for service retirement only. If you have less than five (5) years of service, you may also apply for disability retirement, but only if you are mentally or physically incapacitated due to an injury directly related to your covered employment. If approved for disability retirement, you will enter an initial "entitlement period". During the entitlement period, your benefit will equal sixty percent (60%) of your final average salary if you have at least five (5) or more years of Kentucky service, and fifty percent (50%) of your current annual contract salary if you have less than five (5) years of Kentucky service. If you combine accounts from other state-funded retirement systems with your KTRS account, your disability retirement payments will be prorated with each retirement system paying its proportional share according to the amount of service you have in each system. Entitlement service credit is service credit that you earn while on disability during the entitlement period. Members can earn a maximum of five (5) years of entitlement service credit. Entitlement service credit is added to your account at the end of the entitlement period. Total KTRS service credit when entitlement service credit is added cannot exceed twenty-seven (27) years. The entitlement period is reduced if you have been on disability retirement previously. KTRS contributions are not required while you are on disability. An impartial KTRS Medical Review Committee (Committee) composed of licensed physicians reviews all disability retirement applications. The Committee recommends the disposition of each case to KTRS. It is not unusual for additional medical information to be required by the Committee. After receiving the Committee's recommendations, KTRS then makes a determination on each individual application.

If you remain disabled at the end of your entitlement period, your disability retirement allowance will be recalculated using a different formula based on service credit. The minimum monthly allowance shall be $500 under Option I (Straight Life Annuity). If you are less than sixty (60) years of age at the end of the entitlement period, you will be considered to be sixty (60) years of age and not subject to a reduction in benefits due to early retirement. All restrictions on earning limitations and yearly medical examinations will apply to a disabled retiree. Pursuant to KRS 161.662, under certain conditions school districts must return disability retirees to employment if they recover within twenty-four (24) months of the date of their disability retirement.

Disability retirees may not teach or be employed in a public or private position that entails duties or qualification requirements similar to positions subject to participation in KTRS either within or outside of the state of Kentucky. This prohibition applies to both paid and unpaid/volunteer employment, in any capacity, and regardless of whether the students are children or adults. Nor may individuals receiving disability retirement be employed in any position which qualifies them for membership in a retirement system financed in whole or part by public funds. If you become employed in another occupation, one dissimilar to any KTRS-covered position and one that does not qualify you for participation in a publically funded retirement system, you must make a report of the duties involved, compensation received and other pertinent information to the Retirement System. There are important limitations on the amount of earnings that you may receive in employment while on disability retirement. You should contact a KTRS counselor to determine what the earnings limits are. Violation of the earnings limits will have a direct financial impact on your disability retirement allowance, even to the extent of eliminating it altogether.

If the character or the extent of other employment indicates that you may not be disabled for teaching services or other KTRS covered employment, a new appraisal of your case will be made through reexamination.

If the findings of the new examination reveal that you are capable of employment in a KTRS-covered position, disability retirement will be terminated.

If a disability retiree passes away during the entitlement period, survivorship benefits are available as follows: 1) If the disability retiree had less than twenty-seven (27) years of service credit at the time of death, any spousal benefit would terminate upon remarriage. 2) If the disability retiree had earned, prior to death, the maximum twenty-seven (27) years of service credit earnable under disability retirement, the surviving spouse may be eligible for a monthly benefit that would last their lifetime and remarriage would not cancel this benefit. Please refer to the section on "Death and Survivor Benefits" for additional information.

NOTE: *Non-vested members who are employed on a substitute or part-time basis are eligible to apply for disability retirement only after they complete at least sixty-nine hundredths (.69) of a full contract year in a single fiscal year. Their eligibility extends from the remainder of the fiscal year in which they have completed sixty-nine (.69) of a full contract year through the next immediately succeeding fiscal year. Furthermore, the disability must have occurred during the most recent period of employment in a KTRS-covered position and have been the result of a single, traumatic, physical injury related directly to the member's covered employment. Vested members who are employed on a substitute or part-time basis are eligible to apply for disability retirement only after they complete at least sixty-nine hundredths (.69) of a full contract year in a single fiscal year. Their eligibility extends from the remainder of the fiscal year in which they have completed sixty-nine (.69) of a full contract year through the next immediately succeeding fiscal year. A vested member's disability does not have to be the result of a single, traumatic, physical injury related directly to the member's covered employment, but it does have to have occurred during the most recent period of employment in a covered position. You should contact KTRS for more details regarding these eligibility conditions.*

KTRS MEDICAL PROGRAM

A KTRS medical program is offered to retirees. The medical program is completely separate from and independent of the retirement allowance and other retirement benefits that are provided to members. The dollar amount that KTRS will pay toward coverage is directly related to the number of years of service credit with which each member retires. Coverage for spouses, and dependent children of members who are under the age of sixty-five (65), may also be available at the member's cost.

Retired members who return to work in any position that makes them eligible for the state-sponsored medical insurance coverage that is offered to active teachers and public employees (Kentucky Employees Health Plan) must waive their coverage with KTRS. Retired members whose post-retirement employment provides them with medical insurance other than the Kentucky Employees Health Plan that is as good or better than the coverage provided to them as retirees of KTRS may be required to waive coverage through KTRS and instead seek coverage through their active employer. Retirees with questions about medical coverage and post-retirement employment should contact KTRS for details.

Important: Eligibility conditions and levels of coverage are subject to change according to the funding available for the medical program. It is very important that you read your KTRS Newsletters carefully in case there are any changes in the medical program. The information contained in the preceding two (2) paragraphs contains only a very brief description of some of the highlights of the current medical program. For retirees under the age of sixty-five (65), important additional information is contained in the Personnel Cabinet's Summary Plan Descriptions. These Summary Plan Descriptions are available on the Personnel Cabinet's website which can be found at http://personnel.ky.gov/dei/ and may also be requested by writing to the Department of Employee Insurance, 501 High Street, 2nd Floor, Frankfort, KY 40601. For retirees aged sixty-five (65) and over, important additional information is available on the KTRS website at www.ktrs.ky.gov or by calling KTRS at 1 800 618-1687.

POST-RETIREMENT EMPLOYMENT

Waiving Your Retirement Benefits

If you retire for service, you may elect to waive your annuity and return to regular, full-time employment in a Kentucky public school or state agency covered by KTRS without limitation on the number of days you may work or on the compensation you may earn. Returning to work by waiving your current annuity can potentially increase your annuity when you eventually cease your post-retirement employment. This is the primary reason retirees choose this option to return to work. You do not have to experience a separation in service following retirement before returning to employment as you do with the other post-retirement employment programs. You cannot receive annuity payments or cost of living increases during the waiver period. You must also waive your KTRS medical insurance.

During the period you waive your retirement allowance, KTRS contributions will be deducted from your salary by your employer. If you remain “on waiver” for at least one (1) full contract year, you may have your annuity recalculated. Otherwise, your contributions will be refunded to you at the end of the waiver period. If you do remain on waiver for at least one (1) full contract year, upon cessation of employment your annuity will be recalculated using both your additional service credit and the salaries you earned during the waiver period if those salaries are higher than the salaries that you earned prior to your initial retirement. Discounts that were applied during your initial retirement may also be reduced or eliminated depending on how many years you return to work on waiver. Recalculations do not incorporate the cost of living adjustments that were generally applied to all retirement allowances during your return to work on waiver.

You may return to the retirement payroll upon your employer’s verification that your employment has been terminated. This must be done on the prescribed form furnished by the KTRS office. A member retired for service who has been employed the equivalent of twenty-five (25) days or more during a school year under one of the other retire-and-return-to-work provisions may waive his or her retirement annuity during that school year a maximum of one (1) time during any five (5) year period. A member who returns to retirement after having been actively employed by waiving his or her retirement allowance must experience a break in service before returning to work under one of the other retire-and-return-to-work provisions. This break in service helps in safeguarding the actuarial soundness of the System and also helps to confirm that a bona fide retirement has occurred as required by the Internal Revenue Service. See the section titled "Breaks in Service After Retirement".

If you want to exercise a retirement waiver, you should write or call KTRS for a Waiver Application Form or download a copy from the KTRS website at www.ktrs.ky.gov. If you have any questions concerning any employment after retirement, you should contact KTRS.

Returning to Work Without Having to Waive Your Retirement Allowance (For Non-Post Secondary Positions ONLY)

General Provisions

There are opportunities for KTRS retirees to return to work in part-time and full-time positions while continuing to draw their retirement allowance. Under these return to work provisions, members make contributions to the retirement system and start a new retirement account. If you returned to work under these provisions prior to July 1, 2008, and earn at least five (5) full years of service credit in the new account, you will be entitled to a new retirement allowance when you meet the minimum age requirements. Members who earn less than ten (10) years of service credit in their new account will be entitled to a retirement allowance of two percent (2%) of their high five (5) final average salary for each year of service.

Members who earn at least ten (10) years of service credit in their new account will be entitled to a retirement allowance of two and one half (2 ½ %) of their high five (5) final average salary for each year of service. Members not vesting in their new retirement account will be entitled to a refund of their account as provided under KRS 161.470(6). Service credit is determined by dividing the number of days worked by the number of days in the full year's contract.

If you return to work on or after July 1, 2008, and earn at least five (5) full years of service credit in your new account you will also be eligible for a new retirement allowance when you meet the minimum age requirements. The vesting requirements, however, for eligibility to receive a retirement allowance are different from those for members who returned to work prior to July 1, 2008. Also, the percentages to be applied to each year of service in the calculation of your new retirement allowance are different. Please see the section following later entitled "2008 Legislation, House Bill 1, New Pension Provisions" for further detail.

Retired members returning to work under these provisions and starting a new retirement account will not be entitled to a duplication of medical insurance, life insurance or adult handicapped child benefits, nor will they be eligible for disability retirement or survivorship benefits with this new account. Members cannot purchase any service credit in the new account that they would have been eligible to purchase prior to initial retirement. New accounts are administered independently from and have no reciprocal relationship with the first account.

All KTRS retirees are reminded that when they return to active employment and are eligible for medical insurance coverage through the Kentucky Employees Health Plan, administered by the Kentucky Personnel Cabinet, they are required to waive their KTRS medical insurance coverage. Termination of the active employment is considered a qualifying event that permits the member to once again enroll through KTRS for medical insurance. It is advisable to contact KTRS six (6) weeks before termination of employment to set up your KTRS health insurance.

Breaks in Service After Retirement

Retired members returning to work under these provisions must experience a complete break in service before returning in any paid or unpaid capacity either part-time or full-time in a KTRS position, or to any position that is substantially similar to the one from which they retired, or to any position with a KTRS employer which generally requires a four-year degree or certification which is modified in an attempt to remove it from participation in KTRS. A break in service is also required before returning to active employment under these provisions from the “waiver” retire-and-return-to-work program. Employment is defined to include any return to work arrangement, including arrangements in which an individual provides services to a KTRS employer as an employee, as an independent contractor, as an employee of a third party, or any other arrangement. The required break in service applies only to paid or unpaid *services*, it does not prohibit a retiree from picking up a child or grandchild from school or attending a school function such as a play or ball game as a spectator since the retiree would not be providing any type of service directly or indirectly for school or other KTRS employer. This break in service protects the actuarial soundness of the System and helps to confirm that a bona fide retirement has occurred as required by the Internal Revenue Service.

All new retirees who desire to return to work on a *part-time or substitute* basis must experience at least a complete three (3) month break before returning to covered employment in a KTRS position. Part-time/substitute employment is defined as employment for less than seven-tenths (7/10) of the contract days in the position for which you are being employed.

All retirees who desire to return to *full-time* employment must experience a minimum three (3) month complete break in service before returning to work with a different employer from which they retired and must experience a complete break in service of one (1) year before returning to work full-time with the employer from which they retired. Full-time employment is defined as employment equal to or greater than seven-tenths (7/10) of the contract days in the position for which the member is being re-employed.

Alternative Breaks in Service

Effective July 1, 2004, a retired member may return to employment after a complete two (2) month break in service. This opportunity to return to work earlier requires the retired member to forfeit his or her retirement allowance for the balance of the required standard break in service. To return to part-time employment with any employer or full-time employment with an employer from which the member did not retire, the retired member must forfeit one (1) month's retirement allowance following the complete two (2) month break in service. To return to work full-time with the same employer from which the member retired, the retired member would forfeit ten (10) month's of retirement allowance following the complete two (2) month break in service. For retired members returning to full-time employment for the same employer from which they retired, the forfeiture of their retirement allowance is required on a month-for-month basis for each month the member has less than a full twelve (12) month break in service. A minimum, complete two (2) month break in service is required under all of the foregoing scenarios. Call KTRS to request the forms required to initiate this option.

Number of Full-time Positions Available

The number of retired KTRS annuitants that each KTRS employer can re-employ in full-time positions is limited to three percent (3%) of each employer's active full-time non-retired KTRS membership. Additionally, the employer must obtain KTRS written approval on form RET-FT each fiscal year to be eligible to hire retired KTRS annuitants in the standard three percent (3%) full-time program.

Calculating the Daily Wage Threshold (DWT)

Retirees are also reminded of the need to obtain their Daily Wage Threshold (DWT) from KTRS. The DWT represents the maximum daily rate of pay retirees may earn on a daily basis by virtue of their return to covered employment, without experiencing a reduction in their KTRS annuity payment. The DWT has been established by statute at 75% of retirees' last daily rate of pay prior to their initial retirement date for those retirees who retired with thirty (30) or more years of service. All KTRS retirees with a retirement date prior to August 1, 2002 have a DWT of seventy-five percent (75%). The DWT has been established by statute at sixty-five percent (65%) of retirees' last daily rate of pay prior to their initial retirement date for those retirees who retired with less than thirty (30) years service. The DWT may be indexed (increased) by the consumer price index (CPI) on an annual basis for those retirees who have been retired for one (1) year or more. The CPI increase will be applied to the last annual compensation in a KTRS-covered position, whenever that compensation was earned.

IMPORTANT NOTE: *It is very important that any KTRS retiree who has questions about the break in service requirements and/or the daily wage threshold contact KTRS before returning to covered employment. There are serious consequences for failure to comply with these mandatory return-to-work provisions, including the voiding of the member's retirement and the required return of all benefits paid by KTRS to the retiree.*

Critical Shortage Positions

Effective July 1, 2004, a local school district may employ retired members in a limited number of full-time or part-time teaching or administrative positions in which the Daily Wage Threshold will not apply. Prior to employment in a critical shortage position, the local school superintendent must certify to KTRS that there are no other qualified applicants available for the position. The required breaks in service must still be met. The district may employ a maximum of two (2) retirees per district, or a number not exceeding one percent (1%) of all the active full-time employees within the district, whichever number is greater. This number is available from KTRS. Retired members returning to work in a critical shortage position will start a second account with the Retirement System that, if they vest in, will pay them a second retirement allowance under conditions similar to the standard return-to-work provisions set forth above.

Reporting of Employment in Kentucky Local School Districts and Agencies

Each local school district and agency employing retired members of KTRS is to maintain a record of the hours and days employed and the compensation paid to each annuitant. This information is to be kept for ALL KTRS retirees whether in KTRS positions or non-KTRS positions. Those in non-KTRS positions are reported on forms prescribed by the system. Penalties may be imposed when the employer fails to meet the August 1 reporting date or fails to provide the information required for employment of retired members of the system.

Returning to Work in Post-Secondary Positions

Retirees who retire on July 1 may return to part-time teaching in a university or community college position not to exceed twelve (12) teaching hours in any one (1) fiscal year. Retired members may return to a non-teaching or administrative post-secondary position for a period not to exceed one hundred (100) days in any one fiscal year.

Reporting of Employment in Kentucky Universities and Community Colleges

Each university and community college employing retired members of KTRS is required to maintain a record of the days employed and the compensation paid to each annuitant. Universities and community colleges must report all retired members to KTRS in the one hundred (100)-day program, in part-time teaching of 12 credit hours or less, full-time teaching, as well as those in non-KTRS positions. Following the completion of the fiscal year and no later than August 1, the employer will report this information to KTRS on forms prescribed by the system. Penalties may be imposed when the employer fails to meet the August 1 reporting date or fails to provide the information required for employment of retired members of the system.

Employment in Non-KTRS Positions

Retired members who wish to return to employment with KTRS employers in positions that do not qualify for KTRS membership may do so. Prior to the retiree's employment in a "non-KTRS" position, the employer must submit a Form 30-E, Request for Exemption from KTRS Employment Limitations. KTRS will notify the employer and the retired member whether the KTRS return-to-work provisions apply, or whether the retiree is exempt from the application of these provisions. Failure by the employer to submit the Form 30-E and obtain a written determination by KTRS will cause the retired member to be in violation of the return to work provisions.

DIVISION OF MARITAL PROPERTY

Supreme Court Ruling on Treatment of Teachers' Pensions in Divorce Proceedings

Under the KTRS statutes, there has been for many years a provision that clearly states that during dissolution of marriage (divorce) proceedings teachers' retirement allowances are not subject to classification or division as marital property and that they cannot even be considered as an "economic circumstance" when dividing other assets of the marriage. In other words, teachers' retirement allowances could not be considered at all during a divorce. This provision is codified under KRS 161.700(2).

In the late 1990's, however, this protection became less certain when a divorce statute, KRS 403.190(4), was amended to state that if the retirement benefits of one spouse are "excepted" from classification as marital property, then the retirement benefits of the other spouse are excepted as well, but neither spouse shall enjoy a greater exception than the other. The language of this statute is a little confusing and left open the question whether it overrode the clear language of KRS 161.700(2).

On September 20, 2007, the Kentucky Supreme Court rendered an opinion addressing this issue that concludes that teachers' retirement allowances are at least potentially subject to consideration in divorce proceedings due to the amendment of KRS 403.190(4) in the late 1990's. This case is <u>Shown v. Shown</u>, 233 S.W. 3d 718 (Ky. 2007) (hereinafter "<u>Shown</u>"). Any member engaged in divorce proceedings is strongly advised to have his or her attorney read this case and the above-referenced statutes very carefully to determine whether they apply to the individual facts and circumstances of his or her case.

Qualified Domestic Relations Orders (QDROs)

As a result of the Court's ruling in the <u>Shown</u> case, legislation was enacted in 2010 that requires KTRS to accept Qualified Domestic Relations Orders (QDROs) that allow courts to award a portion of a member's service retirement allowance, disability retirement allowance or termination of employment refund, to a former spouse, child or dependent. QDRO's directed to KTRS must, by law, be issued according to a specific format, with all accompanying forms and must follow all other applicable statutory [KRS 161.700(2)] and regulatory [102 KAR 1:320] requirements. More information regarding QDRO's and KTRS is available on the KTRS website which you are urged to have your attorney review. KTRS legal staff is also available to answer questions regarding the format and procedure for directing valid QDRO's to the retirement system. KTRS cannot, however, provide legal advice to members regarding their divorce proceedings and they are advised to consult with their attorneys on such matters.

LOSS OF BENEFITS

Termination of Employment Prior to Eligibility for Retirement

If you resign from your KTRS-covered position prior to becoming eligible for retirement, you may either withdraw the contributions and interest posted to your retirement account or leave them deposited with KTRS. Remember, however, that shortly after you reach age 70½ you must withdraw these funds as required by federal tax law (see prior section entitled "Minimum Distribution Requirement"). If you withdraw the funds, your membership will be cancelled just as if you had never contributed to KTRS. You may reinstate a withdrawn account by re-paying the withdrawn funds, with interest, if you later return to a KTRS-covered position and earn contributing service equal to one (1) year. After the account is reinstated, your membership status is the same as if the account had never been withdrawn. Classroom teachers are not entitled to a full year of service credit if their total paid days are less than 180 of a 185-day contract for a regular school or fiscal year. You may, however, be eligible to purchase service credit for an incomplete year if you meet the conditions established by statute and administrative regulations.

Conviction of a Felony Related to Your Job

During the 2002 Legislative Session, the General Assembly amended KRS 161.470(5) to provide that "persons hired on or after August 1, 2002" who are convicted of "a felony related to his employment" shall forfeit his or her retirement benefits and shall be entitled instead only to a return of his or her retirement contributions with any accumulated interest. Forfeiture of retirement benefits shall be stayed pending any appeal of such a conviction. You should notify the retirement system should you experience such an event.

CORRECTION OF ERRORS

KTRS is required by statute to correct any errors that result in any annuitant or beneficiary receiving more or less in benefits than he or she is entitled to receive. In such cases, KTRS is required to adjust the payments made to the annuitant or beneficiary so that the annuitant or beneficiary receives only the payment to which he or she is entitled.

APPEALS

If you feel that the System has denied a valid claim or made an error in computation in your account you may request reconsideration of that decision. Requests for reconsideration of a determination made by a KTRS counselor should be directed, in writing, to the KTRS Director of Member Benefits. Requests for reconsideration of a determination by the KTRS Director of Member Benefits should be directed, in writing, to the KTRS Deputy Executive Secretary of Operations. The KTRS Deputy Executive Secretary of Operations will then issue the final agency decision pending administrative review. Any final agency decision by KTRS that materially affects the amount of service retirement allowance, the amount of service credit, eligibility for service or disability retirement, or eligibility for survivorship benefits may be appealed in writing with the opportunity to request an administrative hearing pursuant to the provisions of KRS 161.250(2) and Chapter 13B.

2008 PENSION LEGISLATION
HOUSE BILL 1
NEW PENSION PROVISIONS
EFFECTIVE JULY 1, 2008

Who is Affected by House Bill 1?

Those individuals who became members of the Kentucky Teachers' Retirement System on or after July 1, 2008, and have not previously established an active, un-refunded Kentucky Retirement System account prior to July 1, 2008, will be affected. This will include newly hired individuals, retirees who return to work on or after July 1, 2008 who do not waive their retirement and former Kentucky Teachers' Retirement System members with refunded accounts who are hired after July 1, 2008.

New Retirement Factors
Used to Calculate Retirement Benefit
Effective July 1, 2008

Non-university members

- 1.7% of final average salary if retiring with 1-10 years of service.
- 2.0% of final average salary if retiring with 10.01 to 20 years of service.
- 2.3% of final average salary if retiring with 20.01 to 26 years of service.
- 2.5% of final average salary if retiring with 26.01 to 30 years of service.
- 3.0% of final average salary for each year over 30 years of service.

University members

- 1.5% of final average salary if retiring with 1-10 years of service.
- 1.7% of final average salary if retiring with 10.01 to 20years of service.
- 1.85% of final average salary if retiring with 20.01 to 26.99 years of service.
- 2.0% of final average salary if retiring with 27 or more years of service.

Contribution Rate for New Members

Effective July 1, 2008

Through June 30, 2013, non-university members will contribute ten point eight five five percent (10.855%) of their salary on a pre-tax basis toward their retirement. This rate will increase by an additional two (2.0) percentage points by the 2014-2015 fiscal year as a result of the Shared Responsibility Solution that will pre-fund your retiree health care. In addition, members who have refunded their accounts and retirees who return-to-work without waiving their retirement benefits on or after July 1, 2008, will fall under these new provisions.

Through June 30, 2013, university members will contribute seven point one six percent (7.16%) of their salary on a pre-tax basis toward their retirement. This rate will increase by an additional one point zero two five (1.025) percentage points by the 2014-2015 fiscal year as a result of the Shared Responsibility Solution that will pre-fund your retiree health care. In addition, members who have refunded their accounts or have not purchased service prior to July 1, 2008, under the optional retirement plan, will fall under these new provisions.

Sick Leave / Annual Leave / Compensatory Leave

Effective July 1, 2008

Up to three hundred (300) unused sick leave days may be used in your retirement calculation. In the local school districts, partial payments at the time of retirement by the district for unused sick leave may be included in retirement calculations as additional salary credit. In other KTRS participating agencies, unused sick leave may be included in retirement calculations as additional service credit.

Annual leave payments will not be used in your Kentucky Teachers' Retirement System retirement calculation.

Accumulated compensatory leave payments will not be used in your Kentucky Teachers' Retirement System retirement calculation.

Eligibility for Retirement

Effective July 1, 2008

Under the provisions of 2008's House Bill 1, a member can retire at any age with twenty-seven (27) years of service or at age sixty (60) with five (5) years of service. A member with at least ten (10) years of service may receive a retirement benefit once they reach fifty-five (55) years of age. There will be a six percent (6%) reduction in the benefit for each year under age sixty (60), or each year under twenty-seven (27) years, whichever is the lesser number. Retirees who return to work and do not waive their retirement account, on or after July 1, 2008, will also fall under these provisions.

Transferring from an Optional Retirement Plan

If you do not have an active account with Kentucky Teachers' Retirement System prior to July 1, 2008, you will fall under the new legislation. However, if you purchase the service credit earned in the university where you participated in an "optional" retirement plan, and that service was rendered prior to July 1, 2008, you will be permitted to participate under the pre-HB1 provisions.

Purchase of prior service by eligible university staff who transfer to the Kentucky Teachers' Retirement System is only possible within the first six (6) years and six (6) months of employment with the university.

Refunded Account

A member with a refunded account must participate for a minimum of one (1) year in the Kentucky Teachers' Retirement System as a newly hired member. At the end of that year you have the option, by statute, to reinstate your refunded account with interest. If you choose to reinstate your account, and your account existed prior to July 1, 2008, your employer will be notified to stop deducting the non-refundable additional one percent (1%) contribution to the Medical Insurance Fund as required by HB 1. If you have a refunded account in the Kentucky Retirement Systems, you will need to contact them at 800-928-4646 for reinstatement procedures.

Non-Qualified Purchases

Effective July 1, 2008

Under the new HB 1, a teacher in a local school district [member] can purchase up to ten (10) months non-qualified service, if the educator has completed the prior school year with at least twenty-six 26 years and two 2 months of service, but less than twenty-seven 27 years of service.

Non-Current Leave of Absence

Effective July 1, 2008

Under House Bill 1, a member may purchase a non-current leave of absence at full actuarial cost, which is calculated the same way as non-qualified service purchases. The documentation evidencing the granting of the leave is still required.

Health Insurance Coverage

For members entering the System on or after July 1, 2008, the percentage paid toward the insurance premium by the Kentucky Teachers' Retirement System, at retirement, is currently as follows:

10-14.99 years -	Not Eligible
15-19.99 years -	45%
20-24.99 years -	65%
25-25.99 years -	90%
26-26.99 years -	95%
27 or more years -	100%

Levels of coverage and eligibility conditions are subject to change depending upon the funds available to finance the health insurance program.

~ NOTES ~