

Kentucky Teachers' Retirement System



Gary L. Harbin, CPA
Executive Secretary

Information for

Calloway County Retired Teachers Association



August 12, 2013

Kentucky Teachers' Retirement System



*Established in 1938, KTRS provides
“Retirement Security” for
Kentucky’s educators.*



Kentucky Teachers' Retirement System – **a Defined Benefit “Group Retirement” Plan**

- **Lowest cost option to provide lifetime retirement security.**
- **Replaces Social Security for Kentucky teachers.**
- **Great recruitment tool to attract and retain career educators.**
- **Pooled investments professionally managed.**
- **Low administrative costs.**

AGENDA

1

System Statistics

2

Overview of Investment Governance

3

History of Funding Retiree Health Care

4

Budget for 2012-13 and 2013-14

Recap of Actuarial Status of the System

as of June 30, 2012

In Millions of Dollars

<u><i>Pre-funded</i></u>	Assets	Liabilities	Unfunded	Percent
RETIREMENT Benefit Fund	14,691.4	26,973.9	12,282.5	54.5%

<u><i>Pre-funded*</i></u>	Assets	Liabilities	Unfunded	Percent
MEDICAL Benefit Fund	338.7	3,594.5	3,255.8	9.4%

** Transitioning to Pre-funded as of July 1, 2010*

S&P 500 Returns for Last 50 Years

July 5, 2012



Field of Membership

as of December 2012

Active	0 – 26 Years	Non-eligible	44,607
	27+ Years*	Eligible	<u>15,181</u>
	Total Active		59,788
	Sub/PT/Retired Return to Work		<u>15,607</u>
	Total Contributing Members		73,395
	Inactive		17,833
	Retired, Beneficiaries & Survivors		47,061
	Total		140,289

** and/or age 55 with 5 or more years of service within the next fiscal year*

Kentucky Teachers' Retirement System

Retiree Analysis

Retiree AGE- <i>Dec 31st</i>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Age 100 years old or more	37	41	38	46	56	62
Age 95-99 years old	266	273	278	279	276	233
Age 90-94 years old	758	704	710	708	705	707
Age 80-89 years old	3,687	3,784	3,890	4,074	4,239	4,295
TOTAL RETIREES	4,748	4,802	4,916	5,107	5,276	5,297

Positive Impact of KTRS



For School Districts

- Provides a benefit to attract and retain quality teachers.
- When teachers retire, this provides positions for new teachers and promotions for current teachers.
- When teachers retire, this reduces payroll costs as retiring teachers are replaced by new teachers.



For Members

- **Provides retirement security for those who have devoted their careers to teaching.**
 - A life-time retirement benefit determined by the member's length of service and salary.
 - A medical benefit prefunded through shared responsibility.

Positive Impact of KTRS for State & Local Economies

- KTRS pays monthly (*July 2012*):
 - \$129.5 million in retirement annuity benefits
 - \$20 million in medical benefits
- 46,894 retirees, beneficiaries & survivors
- 92% of KTRS retirees live in Kentucky



Retired teachers have a significant economic impact in every county in Kentucky.

KTRS is the Safety Net for K-12 Teachers

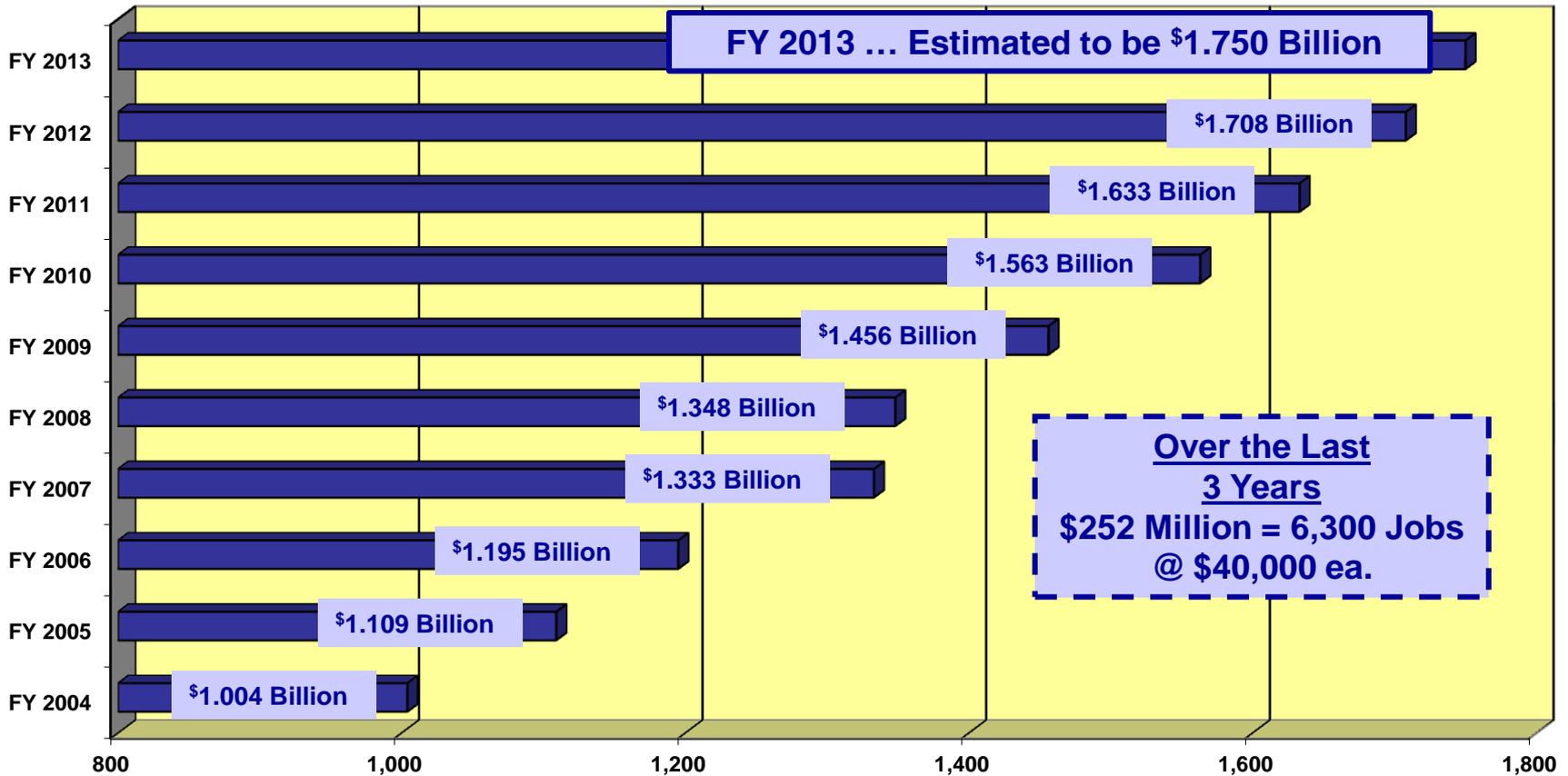
96% of KTRS members cannot participate in
Social Security.

This saves the Commonwealth
of Kentucky \$530M+.

*KTRS must be funded to secure this
safety net for teachers.*



KTRS Distributes Hundreds of Millions of Dollars Annually



Kentucky Teachers' Retirement System
a Defined Benefit Group Retirement Plan

A Unique Comparison of ...

The Defined Benefit
Group Retirement Plan

to

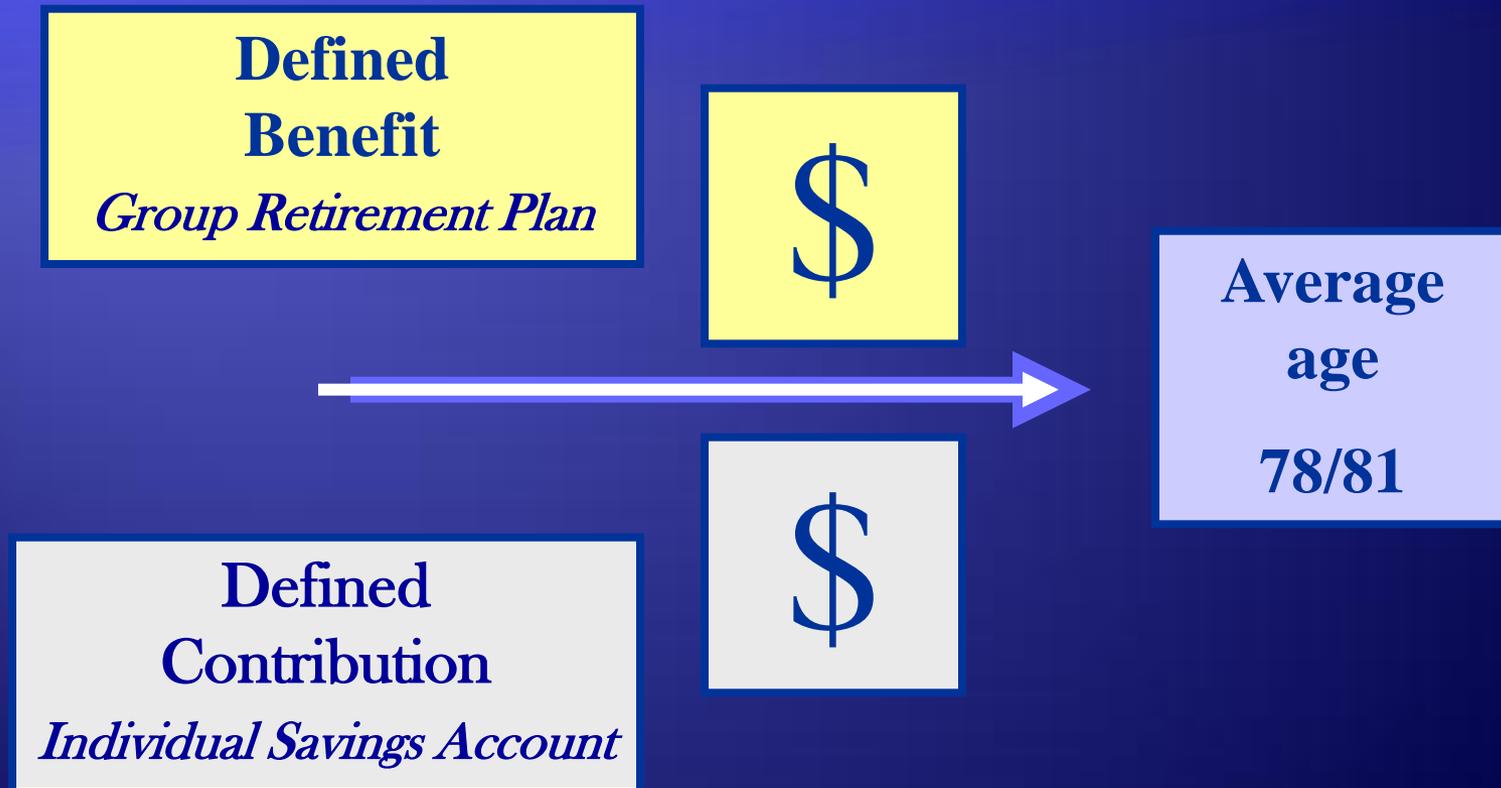
The Defined Contribution
Individual Savings Account

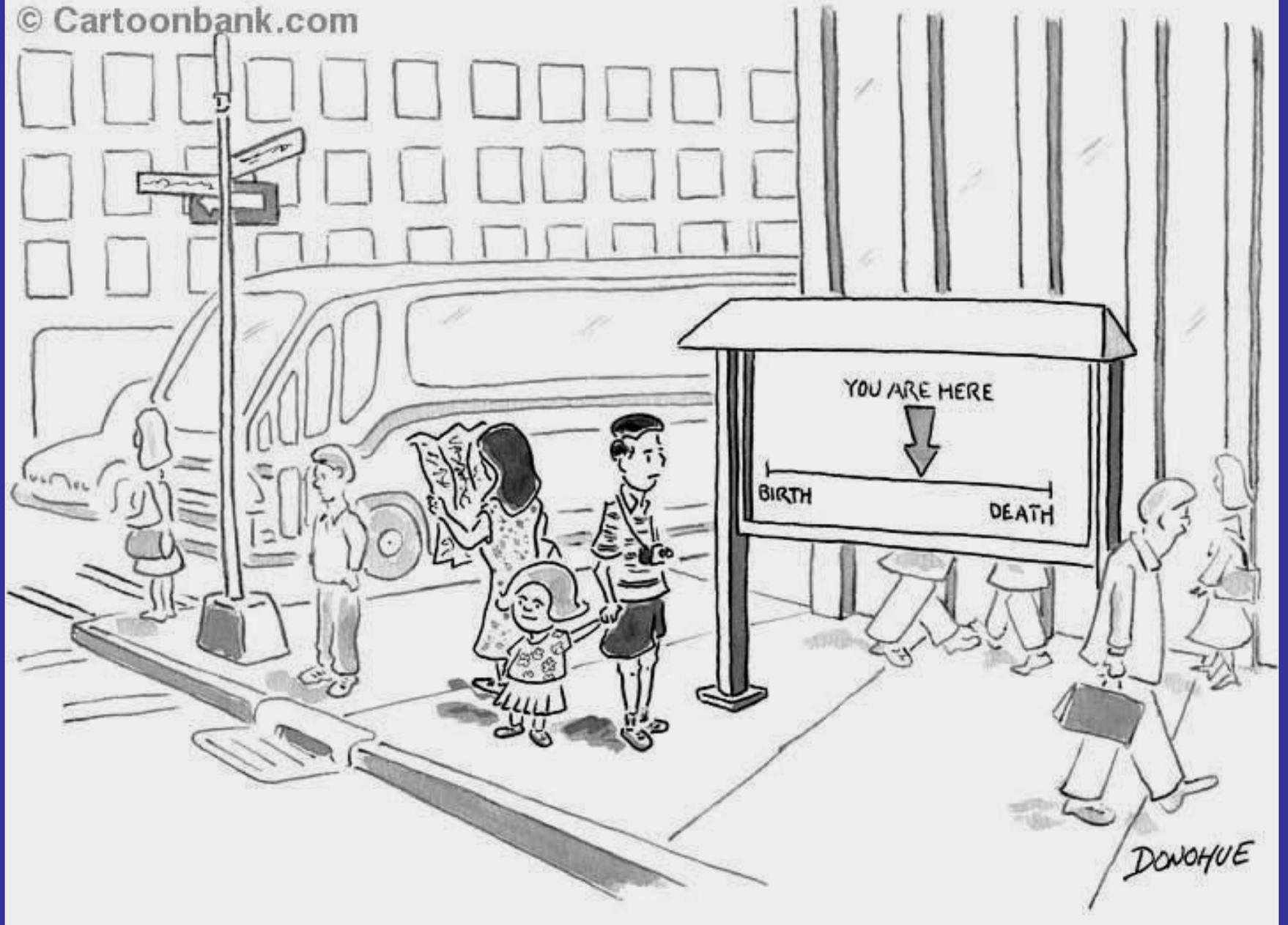
Gary L. Harbin, CPA

Executive Secretary

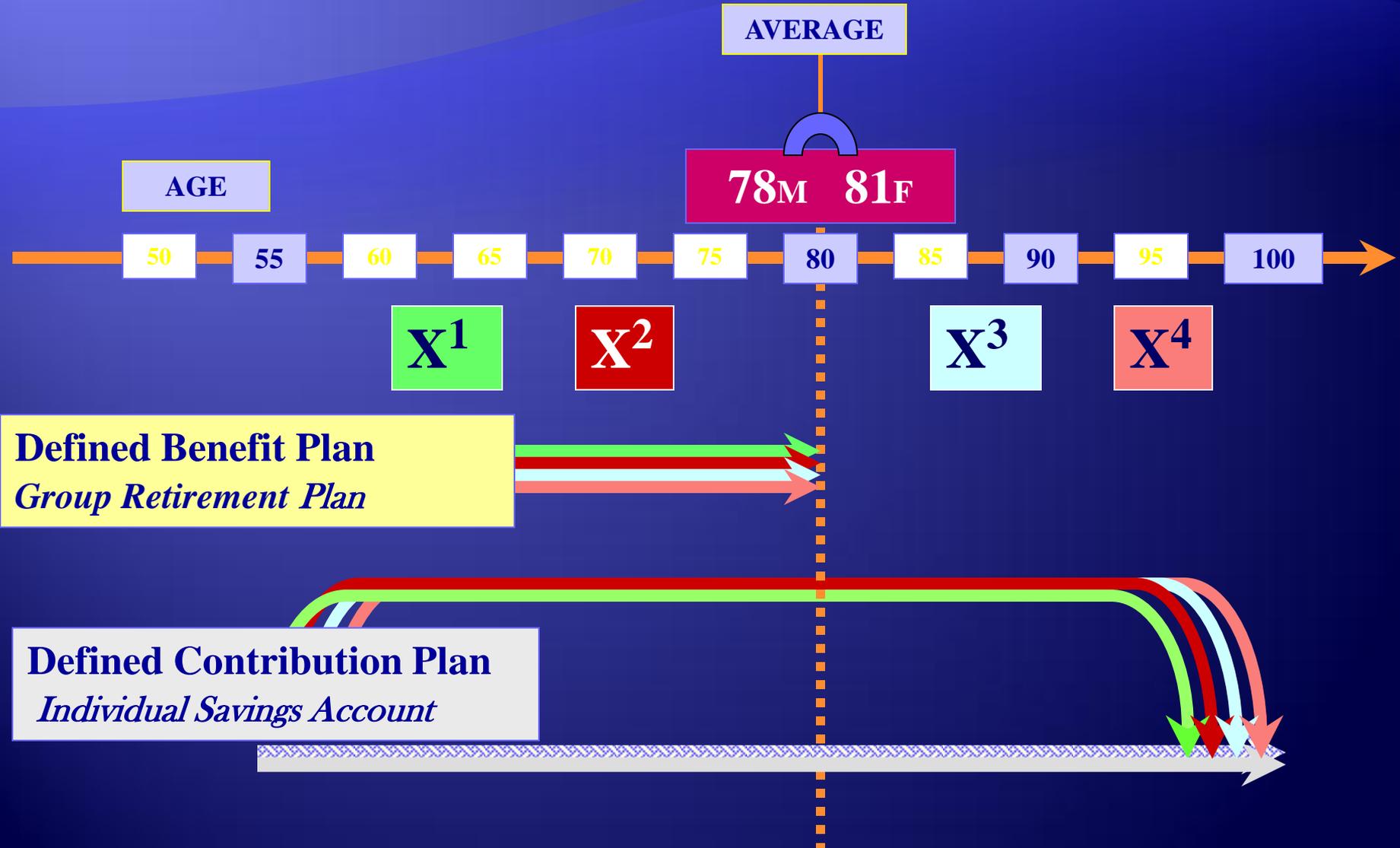
January 28, 2008

What's the best way to achieve financial retirement security?





Which costs more?



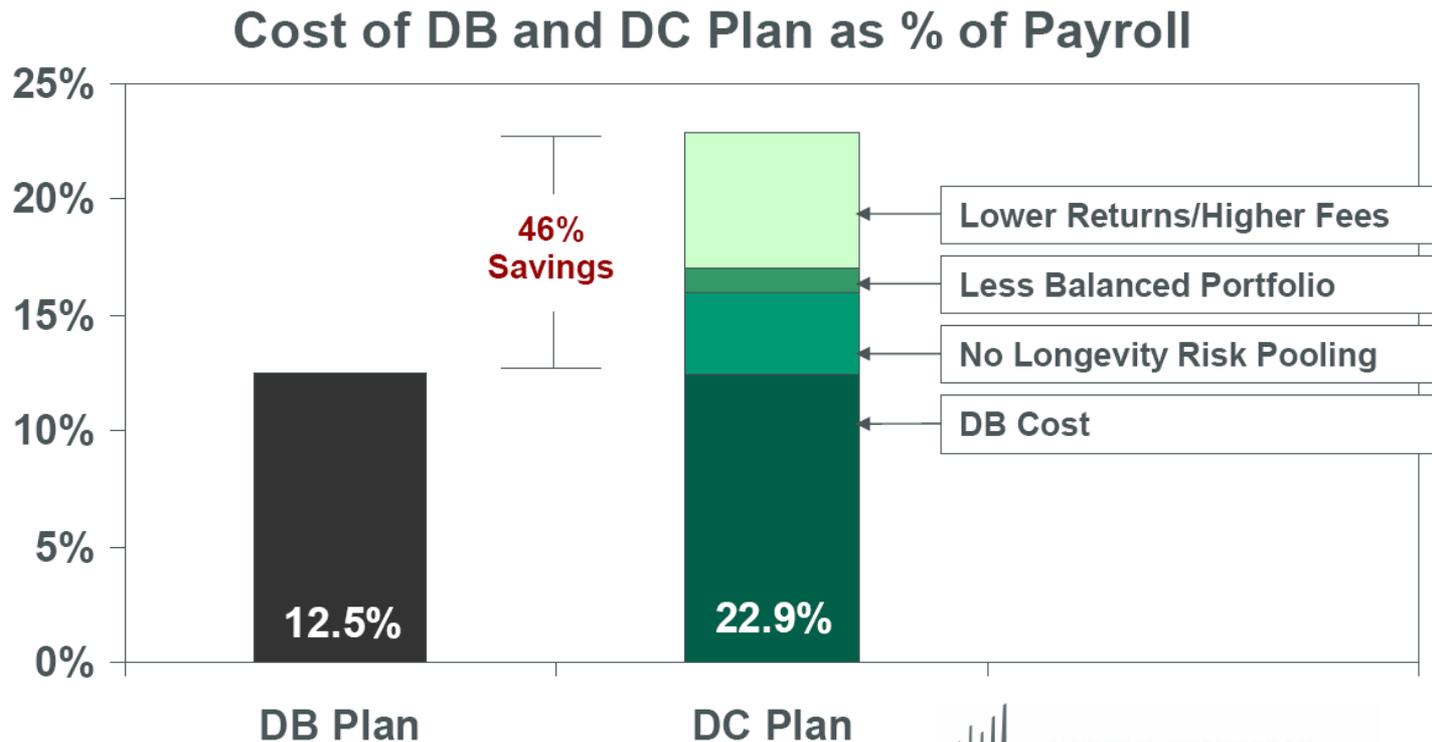


Defined
Benefit
Group Retirement
Plan



Defined Contribution
Individual Savings
Account

DB Plan Can Deliver Same Benefit at About Half the Cost of DC Plan



NATIONAL INSTITUTE ON
Retirement Security

AGENDA

2

Overview of Investment Governance

✓ *System Statistics*

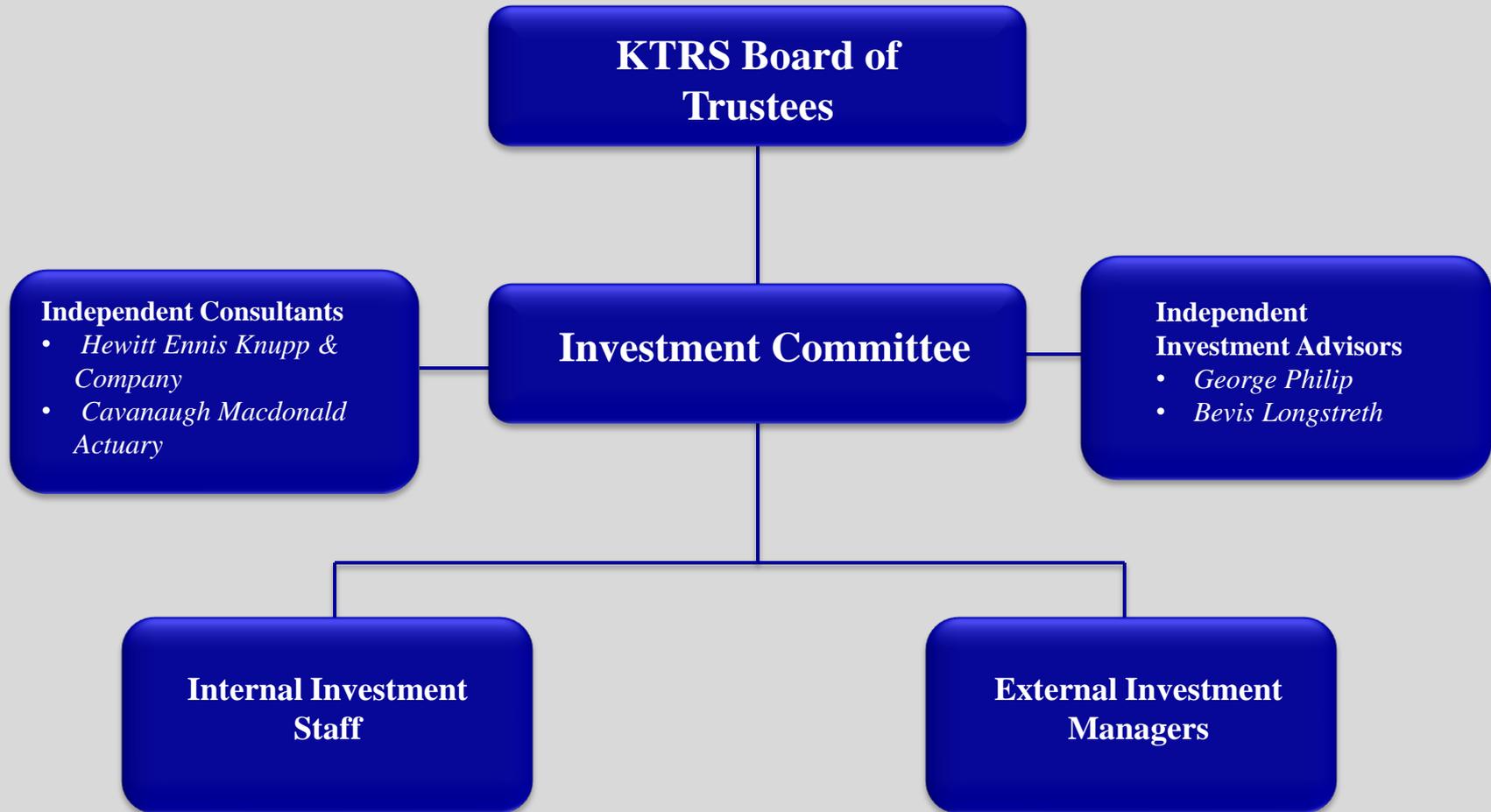
History of Funding Retiree Health Care

Budget for 2012-13 and 2013-14

The Structure of the KTRS Investment Committee ...

- Exceeds current industry standards.
- Is leading “Best Practices” for Investment Committee Structure.
- Has been recommended for use in other States including North Carolina.

KENTUCKY TEACHERS' RETIREMENT SYSTEM
Organizational Chart for Investments



KTRS Board of Trustees



**DR. TOM
SHELTON**
Chair, Lexington



**RONALD L.
SANDERS**
*Vice Chair,
Hodgenville*



**ARTHUR
GREEN**
Elkton



**HOLLIS
GRITTON**
Union



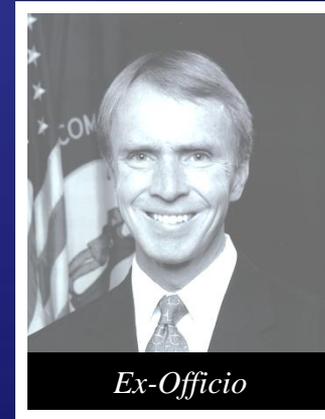
**DR. JAY
MORGAN**
Murray



**RUTH ANN
SWEAZY**
Taylorsville

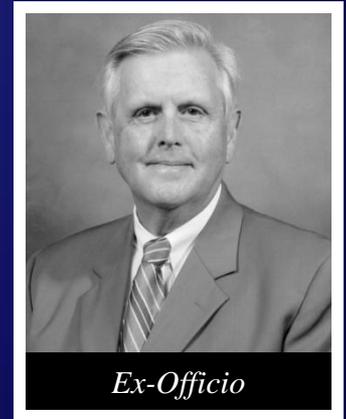


**LAURA
ZIMMERMAN**
Lexington



Ex-Officio

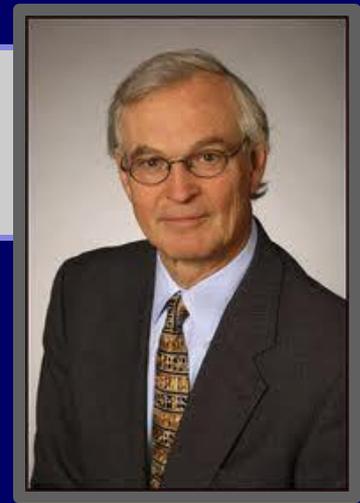
**TODD
HOLLENBACH**
State Treasurer



Ex-Officio

**DR. TERRY
HOLLIDAY**
*Commissioner of the
Dept. of Education*

Bevis Longstreth



Professional Investment Activities:

- Since 2005, Member Board of Directors of Grantham, Mayo & Van Otterloo, LLC, Chairman of the Risk Committee.
- From 1972 to 1981 and since 1984, Member, Finance Committee, Rockefeller Family Fund, responsible for investment strategy, manager selection and monitoring, Chairman from 1987 to 2004.
- Appointed Commissioner, Securities and Exchange Commission, 1981: re-appointed, 1982; resigned January 13, 1984.
- Member of the Board of Governors of American Stock Exchange from 1992 to 1998.

Bevis Longstreth ...

Professional Investment Activities (Continued):

- Member of Board of Trustees of College Retirement Equities Fund (CREF) of TIAA-CREF from 1996 to 2006.
- Member of Board of Directors of AMVESCO PLC (INVESCO) from 1993 to 2006.
- Member of the Pension Finance Committee of The World Bank from 1987 to 1995.
- Author of three books including, Modern Investment Management and the Prudent Man Rule.
- Author of over forty investment articles appearing in various publications including Financial Times, New York Times, Washington Post, Chicago Tribune, The Banker Magazine, The Journal of Portfolio Management.

George M. Philip



Professional Activities:

- President University of New York at Albany
- Currently is Investment Advisor to New York State Teachers' Retirement System.
- Serves and has served on numerous boards and investment committees including:
 - New York Stock Exchange, Advisory Committee
 - Chair of the Council of Institutional Investors
 - Director of US Airways Group
 - Director of First Niagara Financial Group (\$15Bn Bank Group)
 - Director of the Real Estate Investment Standards Board

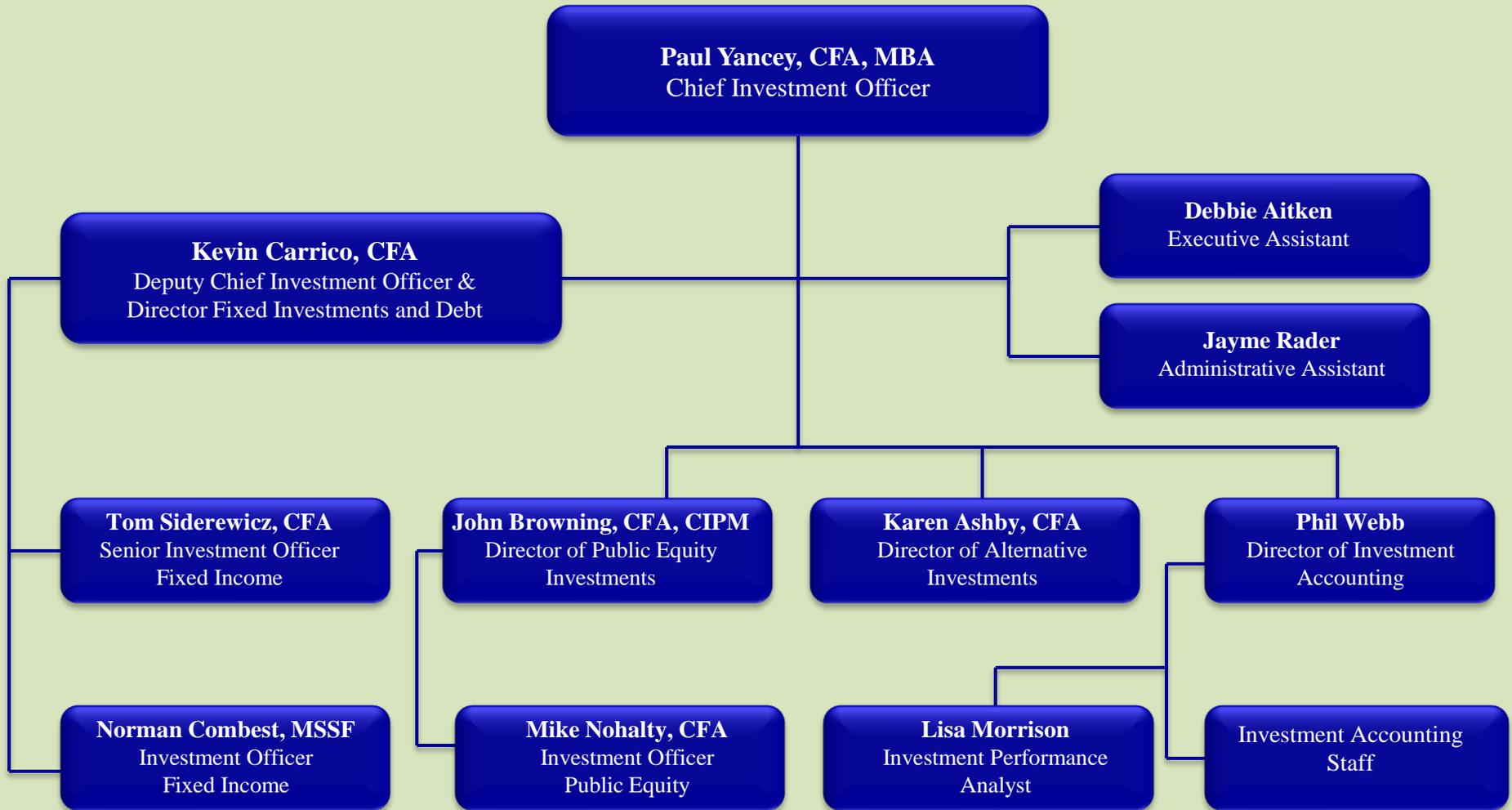
George M. Philip ...

Professional Activities (continued):

- From 1971 to 2007 –
New York State Teachers Retirement System*
 - Chief Real Estate Investment Officer - 1988 to 1992
 - Chief Investment Officer - 1992 to 2007
 - Executive Director - 1995 to 2007

* *One of the ten largest public pension funds in the United States, \$105 billion fund with 400,000 members. Mr. Philip was instrumental in diversification of portfolio including real estate and other alternative assets.*

KENTUCKY TEACHERS' RETIREMENT SYSTEM
Organizational Chart for Investments



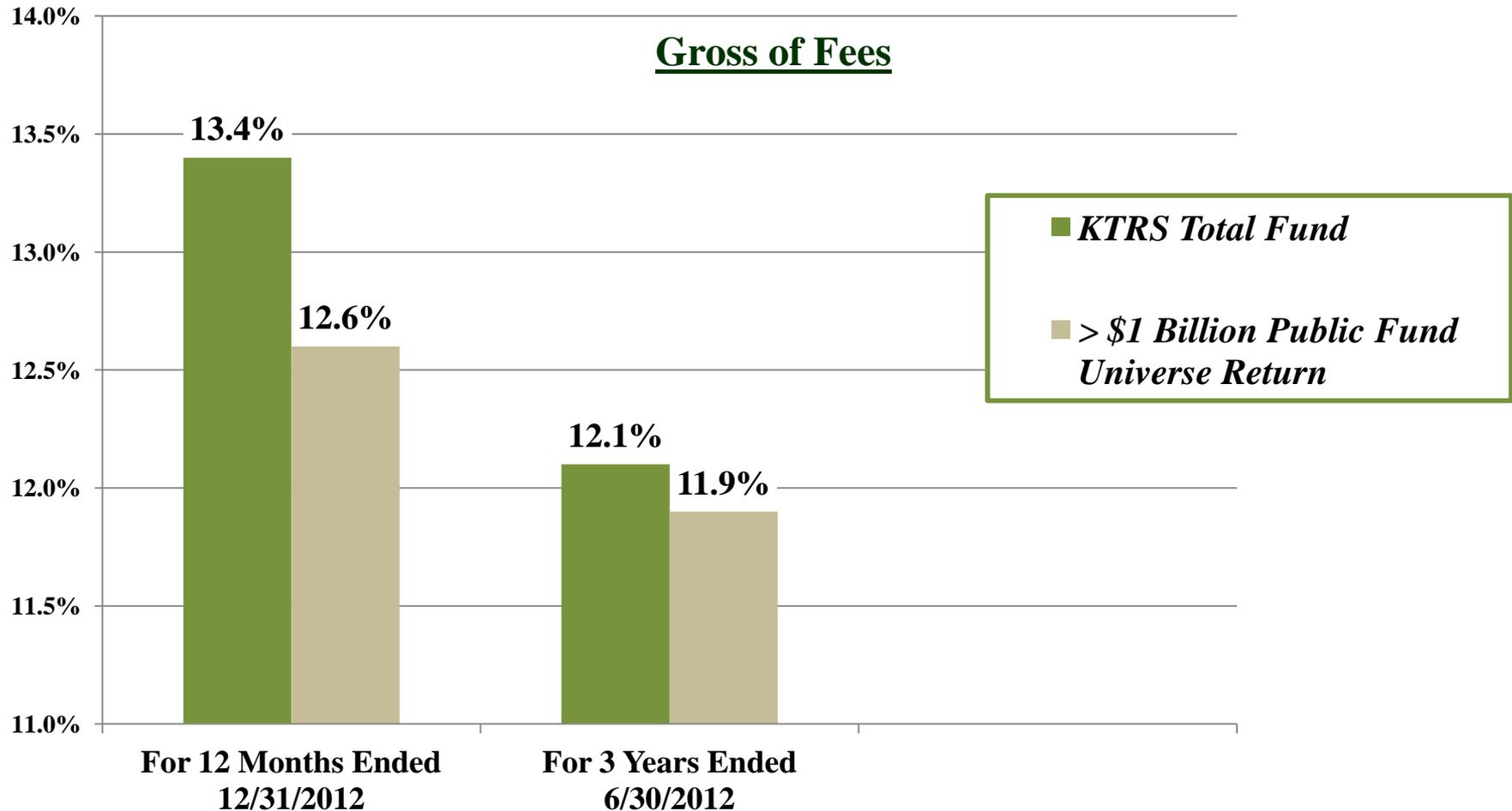
~ Internal staff includes ~

- **Five Senior Investment Professionals, each with over 20 years investment experience**
- **Six Chartered Financial Analysts**

KTRS Returns vs. a Broad Universe of Public Funds

as of 12/31/2012

Over the past five years, KTRS returns ranked in the top 30% of a broad universe of public funds over \$1 billion in assets and did so with less risk.



AGENDA

3

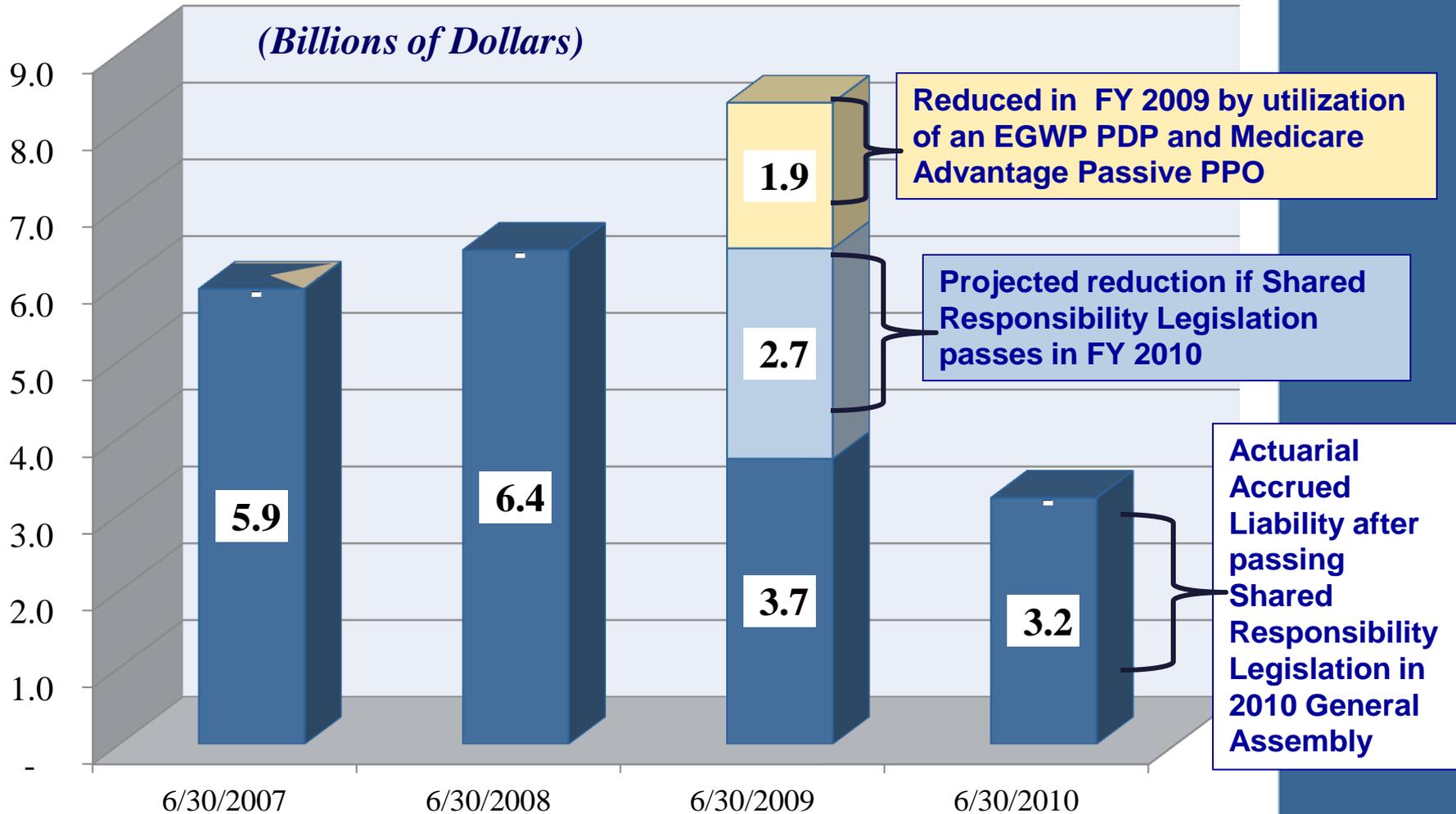
History of Funding Retiree Health Care

✓ *System Statistics*

✓ *Overview of Investment Governance*

Budget for 2012-13 and 2013-14

Actuarial Accrued Liability



■ 6/30/2011 = 3.1

■ 6/30/2012 = 3.3

AGENDA

4

Budget for 2012-13 and 2013-14

✓ *System Statistics*

✓ *Overview of Investment Governance*

✓ *History of Funding Retiree Health Care*

What Happened to My Retirement in the 2012 Legislative Session?



KENTUCKY TEACHERS' RETIREMENT SYSTEM

Prior to Passage of Shared Responsibility for Funding Medical Plan Schedule of Budget Requests

Fiscal Year	Retirement Plan			Medical Plan				
	Requested	Paid	Not Paid	Permitted	Borrowed/Needed	Repaid	Total	Cumulative
FY 1998-99				30,600,000			30,600,000	30,600,000
FY 1999-00				32,600,000			32,600,000	63,200,000
FY 2000-01				75,300,000			75,300,000	138,500,000
FY 2001-02				77,600,000			77,600,000	216,100,000
FY 2002-03				58,400,000			58,400,000	274,500,000
FY 2003-04				33,800,000			33,800,000	308,300,000
FY 2004-05				27,400,000	29,169,700	9,222,595	47,347,105	355,647,105
FY 2005-06					62,294,800	14,225,702	48,069,098	403,716,203
FY 2006-07	0.11%	3,174,600	3,174,600	-	73,000,000	14,031,965	58,968,035	462,684,238
FY 2007-08	1.32%	38,965,900	38,965,900	-	125,000,000	8,905,000	116,095,000	578,779,238
FY 2008-09	1.88%	60,499,800		60,499,800	133,400,000		133,400,000	712,179,238
FY 2009-10	2.46%	82,331,200		82,331,200	134,200,000		134,200,000	846,379,238
FY 2010-11	3.59%	121,457,000		121,457,000	170,000,000		170,000,000	1,016,379,238
FY 2011-12	5.81%	208,649,000		208,649,000	170,000,000		170,000,000	1,186,379,238
FY 2012-13	7.27%	260,980,000	-	260,980,000	217,000,000		217,000,000	
FY 2013-14	8.02%	299,420,000	-	299,420,000	243,000,000		243,000,000	
FY 2014-15					293,000,000		293,000,000	
FY 2015-16					322,000,000		322,000,000	
				335,700,000	1,972,064,500	46,385,262	2,261,379,238	

KENTUCKY TEACHERS' RETIREMENT SYSTEM

After Passage of Shared Responsibility for Funding Medical Plan

Schedule of Budget Requests

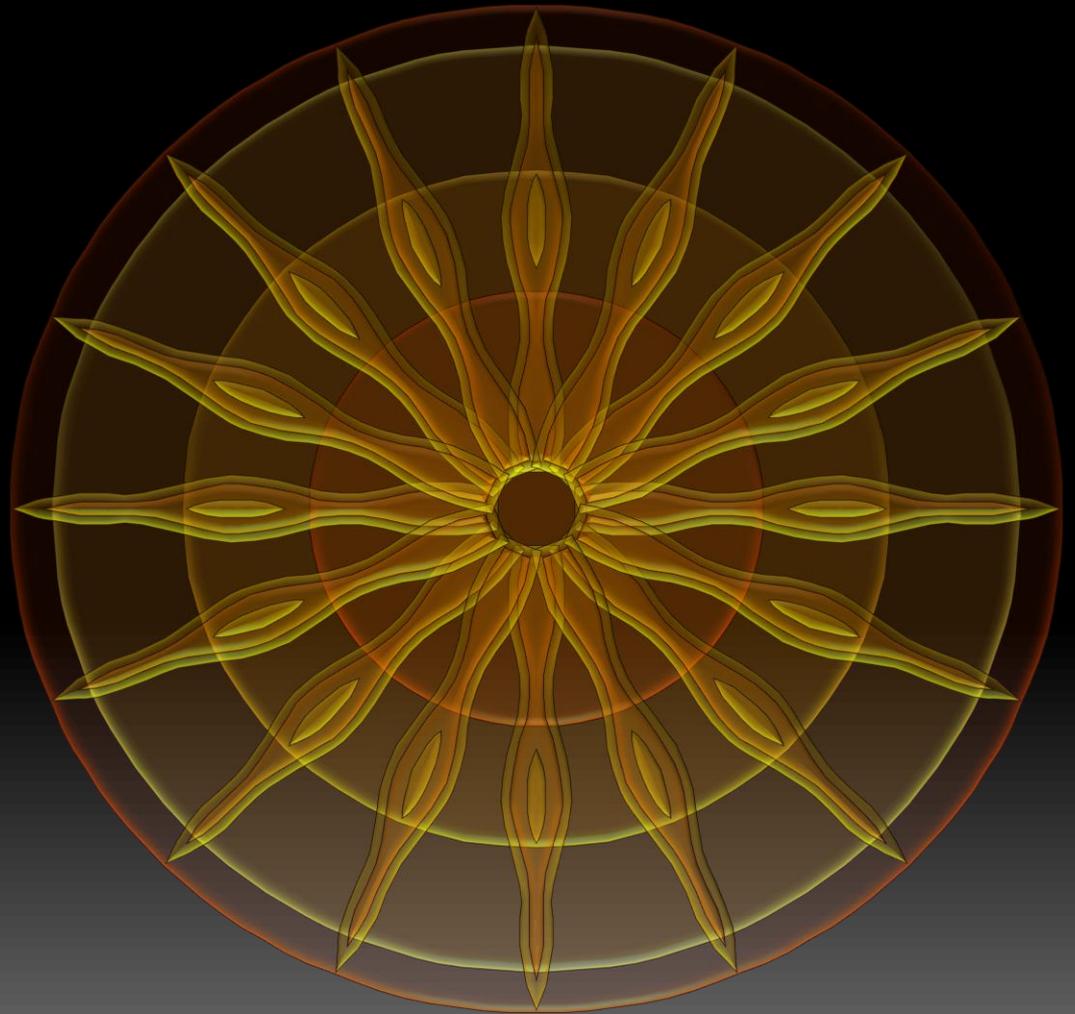
Fiscal Year	Retirement Plan			Medical Plan					
	Requested	Paid	Not Paid	Permitted	Transition Funding	Ky Shared Responsibility	Paid	Total	Cumulative
FY 1998-99				30,600,000				30,600,000	30,600,000
FY 1999-00				32,600,000				32,600,000	63,200,000
FY 2000-01				75,300,000				75,300,000	138,500,000
FY 2001-02				77,600,000				77,600,000	216,100,000
FY 2002-03				58,400,000				58,400,000	274,500,000
FY 2003-04				33,800,000				33,800,000	308,300,000
FY 2004-05				27,400,000	29,169,700		29,169,700	27,400,000	335,700,000
FY 2005-06					62,294,800		62,294,800	-	335,700,000
FY 2006-07	0.11%	3,174,600	3,174,600	-	73,000,000		73,000,000	-	335,700,000
FY 2007-08	1.32%	38,965,900	38,965,900	-	125,000,000		125,000,000	-	335,700,000
FY 2008-09	1.88%	60,499,800	-	60,499,800	133,400,000		133,400,000	-	335,700,000
FY 2009-10	2.46%	82,331,200	-	82,331,200	134,200,000		134,200,000	-	335,700,000
FY 2010-11	3.59%	121,457,000	-	121,457,000	138,700,000	7,200,000	145,900,000	-	335,700,000
FY 2011-12	5.81%	208,649,000	-	208,649,000	108,100,000	14,400,000	122,500,000	-	335,700,000
FY 2012-13	7.27%	260,980,000	-	260,980,000	78,000,000	28,500,000		106,500,000	442,200,000
FY 2013-14	8.02%	299,420,000	-	299,420,000	45,900,000	38,700,000		84,600,000	526,800,000
FY 2014-15					-	51,200,000			
FY 2015-16					-	61,300,000			
				335,700,000	927,764,500		825,464,500	526,800,000	

Pension Obligation Bond Projections

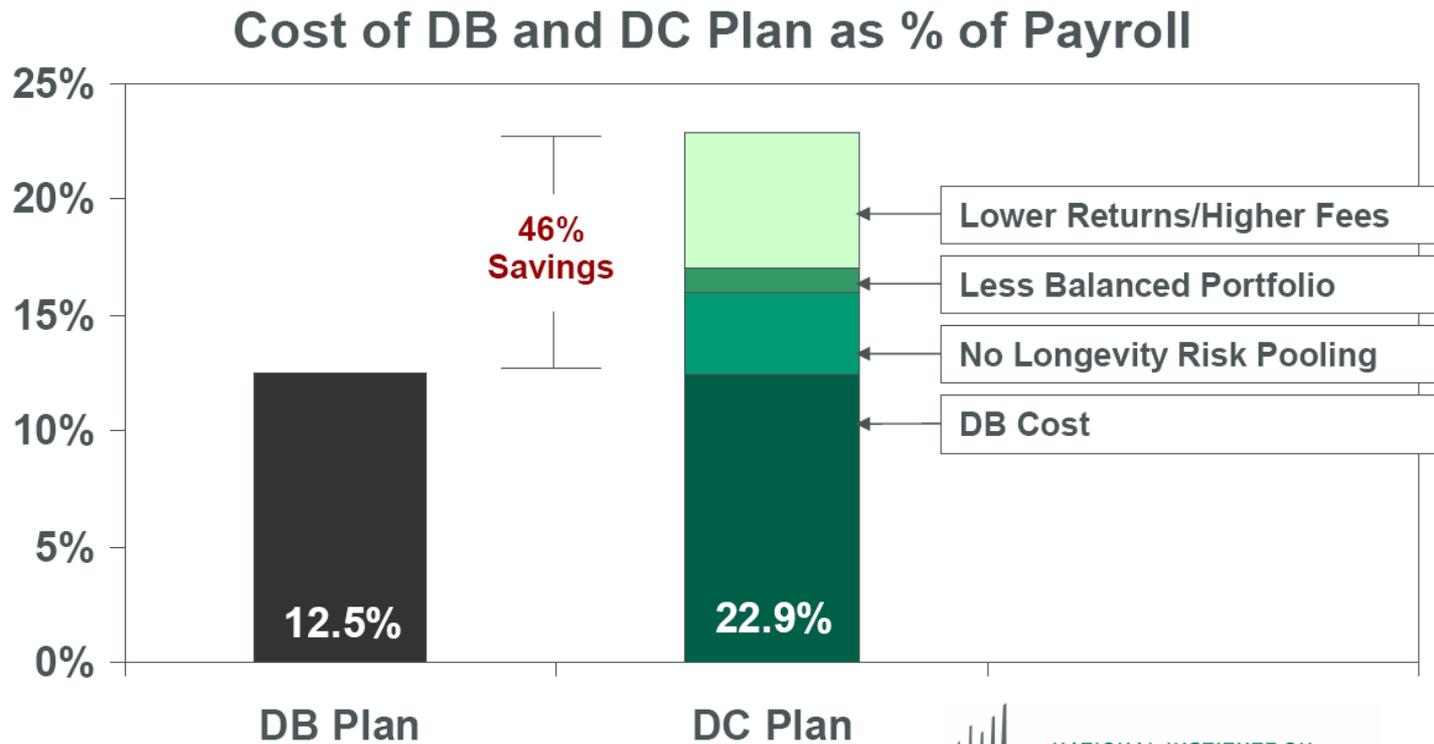
7/1/2013	Investment	Earnings	Balance	Debt	Payment	Principal	Interest	Balance of Bond	
6/30/2014	1	2,000,000,000	150,000,000	2,150,000,000	2,000,000,000	141,520,596	69,546,050	71,974,546	1,930,453,950
6/30/2015	2	2,150,000,000	161,250,000	2,311,250,000	1,930,453,950	141,520,596	72,093,482	69,427,114	1,858,360,468
6/29/2016	3	2,311,250,000	173,343,800	2,484,593,800	1,858,360,468	141,520,596	74,734,225	66,786,371	1,783,626,243
6/30/2017	4	2,484,593,800	186,344,500	2,670,938,300	1,783,626,243	141,520,596	77,471,696	64,048,900	1,706,154,547
6/30/2018	5	2,670,938,300	200,320,400	2,871,258,700	1,706,154,547	141,520,596	80,309,440	61,211,156	1,625,845,107
6/30/2019	6	2,871,258,700	215,344,400	3,086,603,100	1,625,845,107	141,520,596	83,251,128	58,269,468	1,542,593,979
6/29/2020	7	3,086,603,100	231,495,200	3,318,098,300	1,542,593,979	141,520,596	86,300,569	55,220,027	1,456,293,410
6/30/2021	8	3,318,098,300	248,857,400	3,566,955,700	1,456,293,410	141,520,596	89,461,709	52,058,887	1,366,831,701
6/30/2022	9	3,566,955,700	267,521,700	3,834,477,400	1,366,831,701	141,520,596	92,738,640	48,781,956	1,274,093,061
6/30/2023	10	3,834,477,400	287,585,800	4,122,063,200	1,274,093,061	141,520,596	96,135,602	45,384,994	1,177,957,459
6/29/2024	11	4,122,063,200	309,154,700	4,431,217,900	1,177,957,459	141,520,596	99,656,994	41,863,602	1,078,300,465
6/30/2025	12	4,431,217,900	332,341,300	4,763,559,200	1,078,300,465	141,520,596	103,307,373	38,213,223	974,993,092
6/30/2026	13	4,763,559,200	357,266,900	5,120,826,100	974,993,092	141,520,596	107,091,461	34,429,135	867,901,631
6/30/2027	14	5,120,826,100	384,062,000	5,504,888,100	867,901,631	141,520,596	111,014,159	30,506,437	756,887,472
6/29/2028	15	5,504,888,100	412,866,600	5,917,754,700	756,887,472	141,520,596	115,080,544	26,440,052	641,806,928
6/30/2029	16	5,917,754,700	443,831,600	6,361,586,300	641,806,928	141,520,596	119,295,878	22,224,718	522,511,050
6/30/2030	17	6,361,586,300	477,119,000	6,838,705,300	522,511,050	141,520,596	123,665,617	17,854,979	398,845,433
6/30/2031	18	6,838,705,300	512,902,900	7,351,608,200	398,845,433	141,520,596	128,195,417	13,325,179	270,650,016
6/29/2032	19	7,351,608,200	551,370,600	7,902,978,800	270,650,016	141,520,596	132,891,141	8,629,455	137,758,875
6/30/2033	20	7,902,978,800	592,723,400	8,495,702,200	137,758,875	141,520,596	137,758,879	3,761,717	(4)
		8,495,702,200		8,495,702,200					
		8,495,702,200	6,495,702,200	8,495,702,200	2,830,411,920	2,000,000,004	830,411,916		
6/30/2034	21	8,495,702,200	637,177,700	9,132,879,900	-	-	-		
6/30/2035	22	9,132,879,900	684,966,000	9,817,845,900	-	-	-		
6/29/2036	23	9,817,845,900	736,338,400	10,554,184,300	-	-	-		
6/30/2037	24	10,554,184,300	791,563,800	11,345,748,100	-	-	-		
6/30/2038	25	11,345,748,100	850,931,100	12,196,679,200	-	-	-		
6/30/2039	26	12,196,679,200	914,750,900	13,111,430,100	-	-	-		
6/29/2040	27	13,111,430,100	983,357,300	14,094,787,400	-	-	-		
6/30/2041	28	14,094,787,400	1,057,109,100	15,151,896,500	-	-	-		
6/30/2042	29	15,151,896,500	1,136,392,200	16,288,288,700	-	-	-		
6/30/2043	30	16,288,288,700	1,221,621,700	17,509,910,400	-	-	-		
		17,509,910,400	15,509,910,400		2,830,411,920	2,000,000,004	830,411,916		

Pension Obligation Bond Projections

Bonus Slides



DB Plan Can Deliver Same Benefit at About Half the Cost of DC Plan



NATIONAL INSTITUTE ON
Retirement Security

Kentucky Teachers Retirement System
Schedule of Funds Available for Retirement Benefits
For the Twenty-Seven Year Period Ending June 30, 2012

Defined Benefit Plan – Retirement Benefits – (Pre-Funded)

in billions

Beginning Balance as of	July 1, 1985	\$ 1.8
Member Contributions		5.4
Employer Contributions		9.1
Investment Income		16.6
Benefit Payments & Refunds		(17.9)
Administrative Expenses		(0.1)
Ending Balance as of	June 30, 2012	\$ 14.9

Kentucky Teachers Retirement System
Schedule of Funds Available for Medical Benefits
For the Twenty-Seven Year Period Ending June 30, 2012

Defined Contribution Plan – Medical Benefits – (Pay-go)

Medical Insurance ... in billions

Beginning Balance as of	July 1, 1985	\$ 0.0	
Member Contributions		1.0	
Employer Contributions		1.8	
Investment Income		0.2	
Medical Insurance Benefits		(2.7)	
Administrative Expenses		-	
Ending Balance as of	June 30, 2012	\$ 0.3	*

** Through Shared Responsibility, this fund became a pre-funded fund as of July 1, 2011.*

For Your Retirement Security ...

✓ The **Inviolable Contract** protects your KTRS Pension.

✓ **Shared Responsibility** protects your Medical Benefit.





Teachers' Retirement System
of the State of Kentucky

*Our Members
Come First!*

1.800.618.1687

502.848.8500

www.ktrs.ky.gov

Protecting & Preserving Teachers' Retirement Benefits