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# KRSNews

Kentucky Employees Retirement System  
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## 2002 Legislative Proposals A plan to improve services

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I do not have to tell you, the members of Kentucky Retirement Systems, that this office could make improvements in the services we provide. Many of you have waited patiently for several months to receive a service purchase cost or benefit estimate.

The retirement office staff appreciates your patience. Each month, our staff handles an average of more than 70,000 incoming and outgoing phone calls and sees nearly 900 office visitors. They produce more than 5,000 benefit and service purchase estimates each month, yet still have a backlog totaling more than 5,600 outstanding requests.

I can assure you that the delays you experience are not through lack of hard work on the part of the retirement staff. They worked 22,000 hours of overtime last year or the equivalent of 11 additional full-time employees. The overtime took a toll, however, and we had a 24% turnover in employees.

This situation is not a good one for you or for this agency. You deserve to receive timely and accurate responses to your requests, whatever they may be. You deserve to receive a comprehensive answer to your question in sufficient time to allow you to take the necessary action to enhance your retirement benefits.

Clearly, if the Kentucky Retirement Systems is going to provide that level of service, we must have an adequate number of well-trained employees. We need to be able to answer your calls, in person preferably, calculate your service purchase costs in time for you to take advantage of market conditions for purposes of loans or rollovers, and ultimately to see that you receive retirement and insurance benefits accurately and on time. (continued)

**Also Inside:** 2001 Financial Highlights; What you should know about military service; When a recipient becomes eligible for Medicare.

The Board of Trustees wants to provide a high level of service to the 241,000 active and retired members of the Kentucky Retirement Systems. Their ability to do so has been hampered because, while they are responsible for administering the benefits, they do not currently have the authority to take all necessary actions to attract and retain an adequate staff. Governor Patton and Personnel Secretary Carol Palmore have been very helpful in increasing the size of the retirement staff, but with the coming budget shortfalls, it will become more difficult.

The Board is proposing legislation that would give it full authority for hiring an adequate staff and for setting the compensation and classification for that staff. This proposal comes as a result of an ongoing fiduciary compliance review. In addition, the proposed change conforms to the standards in the Uniform Management of Public Employees Retirement Systems Act. This proposal, if approved by the 2002 General Assembly, will give the Board the flexibility to respond to increases in demands, like those being experienced right now as a result of the changes in the federal transfer/rollover rules.

The proposed legislation will require the Board to provide a system of classification, compensation and

benefits comparable to those of state employees. This will protect current employees rights and provide a means to reduce turnover among staff.

**Representative Joe Barrows** of Versailles has agreed to sponsor this legislation. We will be working for its passage in the 2002 session. You may check our web site [www.kyret.com](http://www.kyret.com) in January to learn the bill number.

### **Other items in the Board's legislative proposals:**

The legislative proposals also contain provisions to ensure that those public employees called to serve in the military will receive all the benefits they deserve for their sacrifice, including preservation of service purchases, credit for both service and salary upon return to employment, and the right of any veteran to purchase military service, regardless of whether he or she served one year or 20 years in the military.

Finally, the Board proposes several changes to conform to the new transfer and rollover provisions included in the recent federal law which will allow for the rollover and tax-deferred transfer of 457, 403(b) and other qualified retirement funds for purchase of service credit. These provisions offer greater opportunities for the state's public workforce to provide for their retirement.

## **Important Events in January 2002**

2002 General Assembly begins.  
1099-Rs are mailed to recipients.

KERS trustee election ballots mailed to KERS members and retirees.

# Kentucky Retirement Systems

## 2001 Financial Highlights

This discussion and analysis of Kentucky Retirement Systems' financial performance provides an overview of the retirement systems' and insurance fund's financial activities for the fiscal year ended June 30, 2001.

Please read it in conjunction with the retirement systems' financial statements and insurance fund's financial statements contained in the Audited Financial Statements and Independent Auditor's Report or in the Comprehensive Annual Financial Report available at [www.kyret.com](http://www.kyret.com) under Annual Reports.

### **RETIREMENT SYSTEMS**

The combined plan net assets of all pension funds administered by Kentucky Retirement Systems decreased by \$920.8 million during the 2000-2001 fiscal year. Assets in the pension funds exceeded actuarial liabilities for the year. Note that cost of living increases are not pre-funded. Instead, the cost of each raise is recognized as a liability in the year in which it occurs.

Salaries totaling \$3.5 billion requiring both employee and employer pension contributions were reported during the year.

The covered payroll increased \$225 million over the prior reporting period. Although, the covered payroll increased, the corresponding employer contributions decreased by

\$17.1 million for a total employer contribution amount of \$288.1 million. This decrease is attributable to four of the five pension funds experiencing a decrease in the required employer contribution rate.

Contributions paid by employees were \$250.2 and \$246.6 million respectively for the years ended June 30, 2001 and June 30, 2000. This increase is a reflection of the increase in covered payroll.

Net appreciation in fair value of investments revealed net depreciation of \$1.1 billion compared to net appreciation of \$210 million for the prior fiscal year. The pension funds realized gains on sales of investments of \$992.7 million compared to \$2.1 billion for the year ended June 30, 2000. This decline in the net appreciation in the fair value of investments compared to the prior year is due to less favorable market conditions.

Investment income net of investment expense from all sources including securities lending was \$408 million representing an increase of approximately \$25 million compared to last fiscal year.

Pension benefits paid to retirees and beneficiaries increased \$72 million bringing total benefit payments to \$549 million. Refund of contributions paid to former members upon termination of employment decreased from \$21 million to \$19 million.

Administrative expense and other deductions totaled \$10.2 million.

### **INSURANCE FUND**

The combined plan net assets of the insurance fund administered by Kentucky Retirement Systems increased by \$59.3 million during the 2000-2001 fiscal year.

Combined insurance liabilities exceeded combined assets in the insurance funds by \$3.4 billion.

Employer contributions of \$182.6 million were received. This is an increase of \$2.3 million over the prior fiscal year.

Net appreciation in fair value of investments results were net depreciation of \$72 million compared to net appreciation of \$31 million for the prior fiscal year. The insurance fund realized gains on sales of investments of \$42.7 million compared to \$71 million in the prior fiscal year. This decline in the net appreciation in the fair value of investments compared to the prior year is due to less favorable market conditions.

Investment income net of investment expense from all sources including securities lending was \$31.1 million representing an increase of approximately \$4.6 million compared to last fiscal year.

Premiums paid by the fund for hospital and medical insurance coverage increased \$15.4 million to total \$81.9 million for the year.

Administrative fees paid to the State Personnel Cabinet for administration of the insurance program for retirees not eligible for Medicare totaled \$714 thousand compared to \$331 thousand for the prior year.

This increase is due to the increase in the administrative rate charged per retiree.

### **KENTUCKY RETIREMENT SYSTEMS AS A WHOLE**

Kentucky Retirement Systems' combined plan net assets decreased during the year ended June 30, 2001 by \$861.5 million from \$13,703.2 million to \$12,841.7 million. Plan net assets for the prior fiscal year increased by \$628.4 million. The decrease for the plan year ended June 30, 2001 is attributable to less favorable market conditions than the prior fiscal year.

Plan net assets of the pension funds decreased by 7.3% (\$11,763.2 million compared to \$12,684.0 million). All of these assets are restricted in use to provide monthly retirement allowances to members who contributed to the pension funds as employees and their beneficiaries.

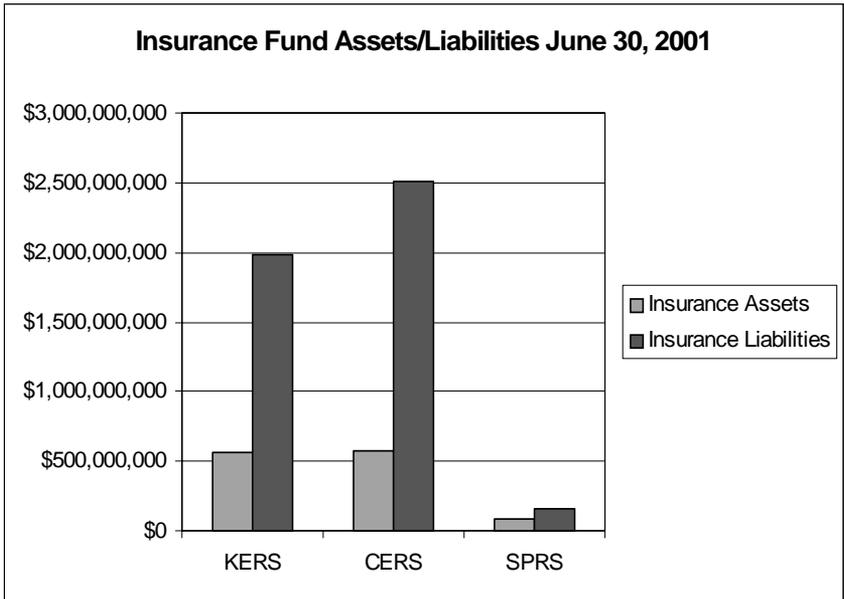
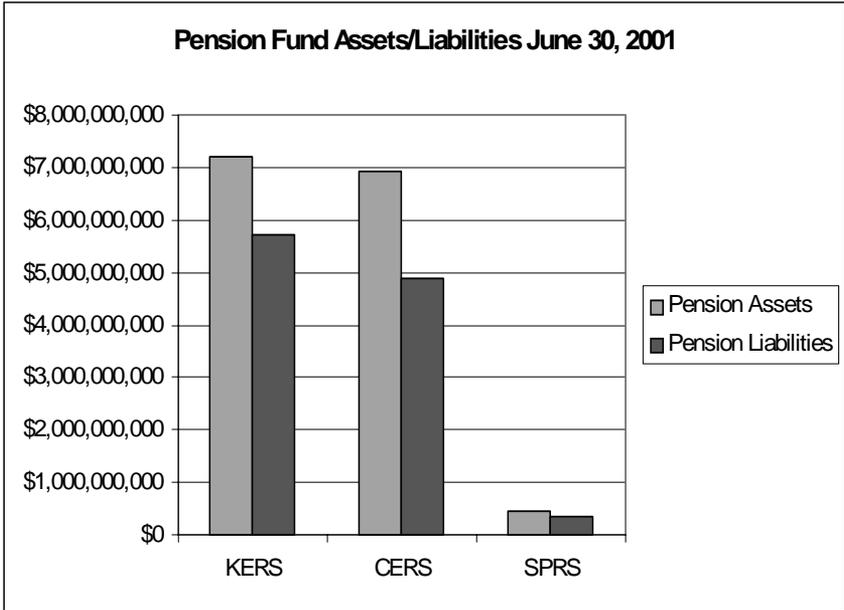
This plan net asset decrease is attributable primarily to the decline in the net appreciation in the fair value of investments due to less favorable market conditions in general.

Plan net assets of the insurance fund increased by 5.8% (\$1,078.5 million compared to \$1,019.2 million). All of these assets are restricted in use to provide hospital and medical insurance benefits to members of the pension funds who receive a monthly retirement allowance.

Even though there was an increase in plan net assets for the year, the increase was not of the magnitude of the increase for the prior year.

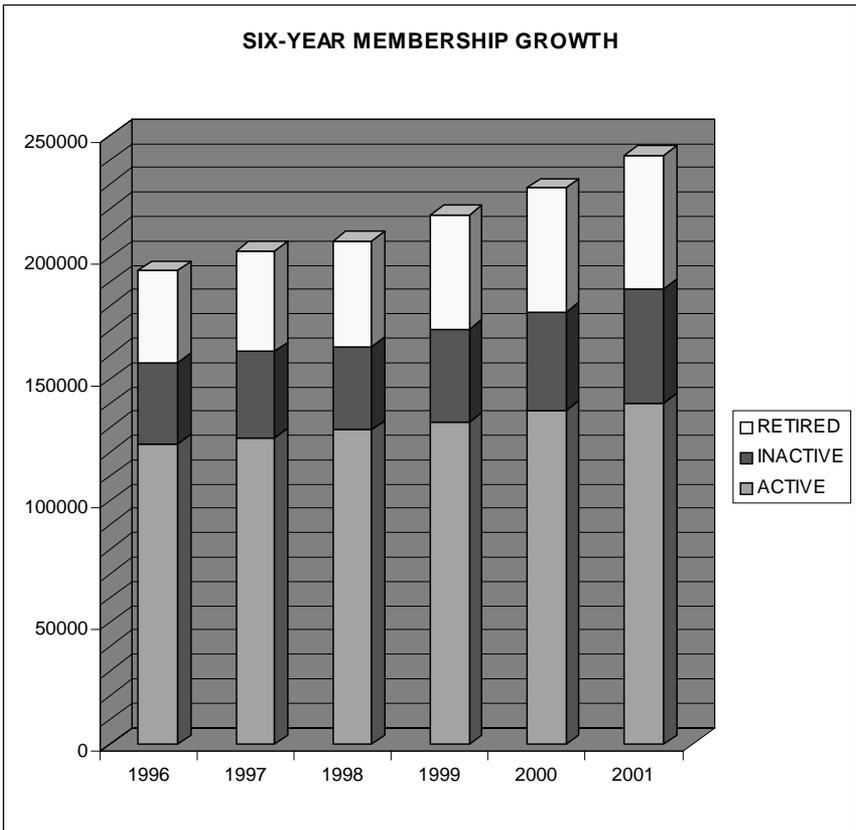
This reduction in the amount of increase in plan assets arose primarily because of two factors.

First, there was a decline in the net appreciation in the fair value of investments due to less favorable market conditions as explained above for the pension funds. The second factor was a 23.1% increase in health insurance premiums paid for the year (\$81.9 million compared to \$66.5 million).



# MEMBERSHIP AS OF JUNE 30, 2001

SYSTEM	ACTIVE	INACTIVE	RETIRED	TOTAL
<b>KERS</b>	47,780	16,741	25,118	89,639
<b>KERS</b>				
<b>Hazardous</b>	4,228	922	1,053	6,203
<b>TOTAL</b>	<b>52,008</b>	<b>17,663</b>	<b>26,171</b>	<b>95,842</b>
<b>CERS</b>	78,773	28,356	24,415	131,544
<b>CERS</b>				
<b>Hazardous</b>	8,586	610	3,221	12,417
<b>TOTAL</b>	<b>87,359</b>	<b>28,966</b>	<b>27,636</b>	<b>143,961</b>
<b>SPRS</b>	<b>1,016</b>	<b>90</b>	<b>842</b>	<b>1,948</b>
<b>GRAND</b>				
<b>TOTAL</b>	<b>140,383</b>	<b>46,719</b>	<b>54,649</b>	<b>241,751</b>



# **Retirement Benefits & Military Service**

**H**ere is what you should know about retirement if you are called into active duty. These procedures are included in the retirement systems proposed legislation for 2002.

**I**f you are employed with a participating employer and are called into active duty service or might be in the near future, here are some things you should know about your retirement benefits:

**I**f you have a payroll-deducted installment service purchase going, your purchase will be suspended with the last paycheck you receive from your employer. When you return to employment, subject to the requirements of the , your payroll deductions will be resumed unless you specifically request they be stopped. The amount of your installment payments will be the same as when you left.

**I**f you requested a cost to purchase service credit, but had not received it by the time you left to enter the military, you will be entitled to make the purchase with a cost based on the date of your original request when you return to employment, so long as you do so by the deadline provided on the cost.

**W**hen you return to your job, you will be entitled to retirement service credit for your period of military leave. You must provide the retirement office with proof of military service (a copy of the DD-214).

**R**emember: Before you leave, make sure your beneficiary designation is current.

## What Happens When a Recipient Becomes Eligible for Medicare?

Recipients of a monthly retirement allowance who have medical insurance through KRS and are eligible for Medicare must choose a Medicare eligible plan offered in their county of residence.

For a Medicare eligible dependent, though, the insurance coverage available to them is based on the Medicare eligibility status of the recipient—the person who is receiving the monthly benefit. If the recipient is eligible for Medicare, the Medicare eligible dependent must also choose a Medicare eligible plan in order to have coverage through KRS.

If the recipient is **not** Medicare eligible, the recipient may continue the Medicare eligible dependent's coverage under their Commonwealth Group plan or may obtain a Medicare eligible plan for the dependent.

Before selecting coverage for a Medicare eligible dependent under a Commonwealth Group Couple, Parent Plus or Family Plan, a decision must be made on when to make the dependent's Medicare Part B coverage

effective. Contact the local Social Security Administration office and discuss the issues concerning the effective date and cost of the dependent's Medicare Part B coverage if it is cancelled or not obtained until a later date. Failure to obtain Medicare Part B when first eligible can result in a higher Medicare cost in the future.

Another topic for discussion with both the SSA office and our office is what medical insurance options would be available to the dependent should they lose dependent status through the recipient's retirement account.

When applying for Medicare eligible coverage through the retirement office, it is important for Medicare eligible individuals to have both Medicare Part A and Part B coverage through the Social Security Administration. Failure to obtain Part B coverage may result in substantially higher medical bills.

Medicare eligible military retirees (including retired guard members and reservists) and their Medicare eligible family members and widows/widowers

may have medical insurance benefits available to them through the Department of Defense's healthcare system (e.g. the *TRICARE For Life* program). For more information about these benefits, call 1-888-DOD-LIFE (1-888-363-5433).

The retirement office automatically mails a Medicare eligible packet to recipients with insurance through the retirement system shortly before the recipient's (or the covered dependent's) 65th birthday to inform them of their medical insurance choices.

*Recipients must notify the retirement office if they or their dependent becomes eligible for Medicare because of a disability.*

Contact the retirement office as soon as the notice of the effective date for Medicare is received from the Social Security Administration.

Recipients may make changes in coverage or add coverage for themselves and their Medicare eligible dependents during the annual Medicare open enrollment period. The Medicare open enrollment period typically runs from the middle of November to the middle of December each year.

Questions concerning medical insurance coverage can be directed to our office in writing or by calling 564-4646, extension 4520 from within Franklin County, KY or 1-800-928-4646, extension 4520 outside of Franklin County, KY.

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## Common Mistakes on the Notification of Retirement

It is important to take the time to fill out the Notification of Retirement completely and accurately. Here are the most common mistakes made:

**Confusing date of termination with retirement date.** Retirement date is the first day of the month in which you want to begin receiving retirement benefits. For employees, the termination date should be the last day of the preceding month. **Forgetting to sign the form and having someone witness your signature.** If your spouse signs, you don't need another witness.

**Not writing down the beneficiary's birthdate and Social Security Number.** Benefits are based on your age and your beneficiary's age. Without the beneficiary's birthdate, we cannot determine the amounts for the survivorship options. The Social Security number is needed to properly report income taxes when your beneficiary becomes eligible to receive benefits. **Filing the Notification of Retirement more than six months before your expected retirement date.** A Notification of Retirement submitted more than six months in advance of termination is not valid. Generally, filing the notification two months prior to your retirement date is sufficient time to process all the forms.

# KENTUCKY INCOME TAX AND YOUR RETIREMENT BENEFIT

The pensions of KERS, CERS and SPRS recipients retiring since 1998 have seen a gradual phasing in of taxation. At the same time a substantial exclusion (\$36,414 in 2000) of retirement income from all sources decreased the tax liability for most retirees in the state, public and private alike.

All types of retirement income are excluded from income tax, subject to an upper limit or "cap." Public pension benefits attributable to service after December 31, 1997, are included with other pension income for tax purposes, but subject to the new exclusion. See Kentucky Revenue Cabinet form Schedule P for the 2001 exclusion.

Retirement income from nonpublic sources is excludable, subject to the "cap." This includes IRAs, profit-sharing plans, retirement plans, annuities and employee savings plans (including Kentucky Deferred Compensation). As a general rule, any income reported on the federal income tax return as IRA, pension or annuity income or for income averaging will be eligible for the exclusion.

The amount of KERS, CERS and SPRS benefits included as taxable income is based on the percentage of service earned after 1997, subject to the exclusion. Nonqualified service is not included in either the service after 1997 or the total service when determining the percentage.

The exclusions in the tax law are per taxpayer. If a married couple files jointly or separately on the same tax return, each will receive the exclusion.

Here are some examples to illustrate how the tax law affects pension income.

## **EXAMPLE 1:**

Jane was employed by the state in 1970. She retires at the end of 2004. Her KERS pension for 2005 is \$30,000. She also receives \$15,000 in payments from Deferred Compensation. Her 2005 tax computation is as follows:

A. Figure taxable pension income from KERS. She has 7 years service after December 1997 divided by 34 years total=20.5882% X \$30,000=\$6,176.

B. Add taxable pension income from all sources:

\$ 6,176 KERS  
\$15,000 Deferred Compensation  
\$21,176 Total taxable pension income

C. Apply the Exclusion.

\$36,414 Exclusion \* (2000 exclusion. 2004 may be higher)  
\$21,176 Taxable pension income  
\$ 0 Taxable pension income.

**EXAMPLE 2:**

Assume Joe and Jane are married. Joe's income is \$14,500 and Jane's is \$45,000, making their total combined income \$59,500. Their taxable pension income in 2005 would be 0, even if they filed on the same return. The exclusion applies to each taxpayer. The individual calculations would be made, individual exclusions applied, and then the taxable income (\$0) included on their tax form.

The following is a copy of the worksheet from the 2000 Schedule P for determining the portion of your KERS, CERS or SPRS pension subject to inclusion as taxable income.

Note that on line 2, "service credit purchased pursuant to Internal Revenue Code 415(n)" means nonqualified service. On line 3, "purchased service credit," by definition, also excludes nonqualified service.



Worksheet for Federal, Kentucky State and Kentucky Local Government Retirees Who Retired After 12/31/97

Complete this worksheet to determine the exempt amount of your pension. If your retirement system has amount earned after December 31, 1997, complete line 1, enter the taxable amount on line 6 and comment system has computed the taxable percentage, complete line 1, enter the taxable percentage on line 6 and 7.

1. Enter federally taxable amount of federal, Kentucky state and Kentucky local government pension income. (Use a separate worksheet for each governmental pension.) .....
  2. Enter months of service credit earned after 12/31/97. (Do not include service credit purchased pursuant to Internal Revenue Code 415(n).)
  3. Enter total months of service including purchased service credits .....
  4. Divide line 2 by line 3 and enter result .....
  5. Multiply line 1 by line 4 .....
  6. Enter amount of pension earned after 12/31/97 from line 5 or Form 1099-R. (Include in Part II, line 2, with all other non-lump-sum pension and retirement income.) .....
  7. Subtract line 6 from line 1. Enter here and in Part I, line 1(b) .....
- This is the amount of exempt pension.

**Further details and forms are included in Kentucky Income Tax packets from the Kentucky Revenue Cabinet. Tax forms and other information can be found on the web at <http://revenue.state.ky.us/>**

**For more information about your tax status, contact a qualified tax advisor. Kentucky Retirement Systems employees are not qualified to advise you regarding your personal income taxes.**

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