



Member Newsletter

Focused on Your Future

2006 General Assembly Update

by William P. Hanes

The 60-day regular session of the 2006 General Assembly came to a close on April 12, 2006. Although more than 1,600 bills were introduced this session, the focus of the Systems was centered on one-HB 380, the Executive Branch Budget. Our main goal with regard to this Bill was full funding of the actuarially recommended employer contribution rates for the Kentucky Employees Retirement System (KERS) and the State Police Retirement System (SPRS).

The Systems' Board and staff worked very hard toward this goal both before and during the session, as did many of you. I want to personally thank each of you for your efforts in contacting the Governor's office and your local legislators to raise awareness of this critical funding issue. Due to our combined efforts, KERS and SPRS will receive a modest increase in the employer contributions over the next budget biennium, the first since 2000-2001.

Unfortunately, the employer contribution rates provided in HB 380 are still short of the amount recommended by the Board and its consulting actuary to maintain the financial stability of the Systems. This means there is still work to do in raising awareness of the issue and a need for each of you to continue to contact the Governor's office and your local legislators to express your concerns. I encourage each of you to read the remainder of this newsletter to learn more details about the Budget Bill and the effects it will have on your retirement plans.

What Did the 2006-2008 Executive Branch Budget Provide?

During the budget process this session, improvements were made by the Governor and the House of Representatives that increased the employer contribution rates for KERS and SPRS from historically low levels. Between the increases specified by the Governor and the House of Representatives, total funding for the biennium was increased by an estimated \$100.9 million. However, the rates are still short of the amount recommended by the Systems and its consulting actuary (see chart below).

Based upon the Systems' projections, the two year budget reduction will result in a shortfall of more than \$377 million-the largest on record. When the 2006-2008 budget biennium is complete, reductions to the KERS and SPRS employer contribution rates will have occurred in 9 of the last 15 fiscal years and for the sixth year in a row. The cumulative effect of all reductions in today's dollars amounts to more than \$774 million in lost contributions and investment opportunities.

As I have mentioned before, the financial impact of these rate reductions will be even greater in the long run, considering the compounding effect over the years ahead. Much like a home mortgage where the payments over the life of the loan are significantly greater than the original price of the home, rate reductions today will require even greater taxpayer dollars tomorrow to make

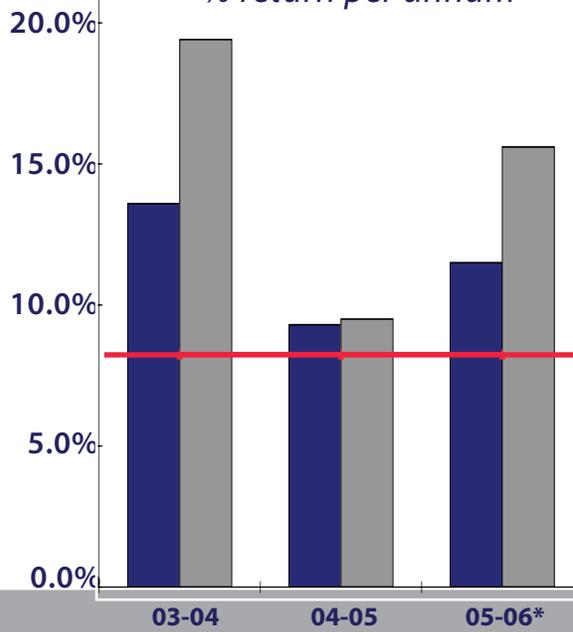
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System	Rate Requested for Upcoming Biennium by the Systems		Rate Provided by HB 380, Executive Branch Budget	
	2006-2007	2007-2008	2006-2007	2007-2008
KERS Non-Hazardous	17.13%	20.15%	7.75%	8.50%
KERS Hazardous	23.32%	25.34%	22.00%	24.25%
SPRS	42.30%	47.06%	25.50%	28.00%

up for lost investment returns. These reductions are also requiring the Systems to liquidate assets to pay benefits at a time when investment returns are performing above the assumed 8.25% rate of return, which is further eroding the financial stability of the Systems (see chart below).

KRS Investment Returns

% return per annum



	03-04	04-05	05-06*
Pension Funds	13.59%	9.30%	11.50%
Insurance Funds	19.41%	9.50%	15.60%
Assumed Rate of Return	8.25%	8.25%	8.25%

* Through April 30, 2006

Dependent Subsidy Issues

In recent sessions of the General Assembly, legislators have appropriated General Fund monies to KRS to subsidize the cost of couple, family, and parent plus coverage for non-Medicare eligible retirees. These past appropriations have been separate from the employer contribution rate and have been passed on to retirees in the form of lower premiums for dependent coverage. As such, they do not improve the financial stability of the plans but rather provide retirees with the same cost for dependent coverage afforded to active employees. Within the budget bill, the Legislature amended retirement law to require the Systems to pay the subsidy from the

Insurance Trusts. Consequently, a significant portion of the \$100.9 million in additional funding provided to the Systems this session will be expended to provide this benefit.

In addition, the language adopted in the Budget Bill did not include funding or authorization to subsidize the cost of couple, family, and parent plus coverage for non-Medicare eligible hazardous duty retirees and beneficiaries. Most hazardous duty retirees and beneficiaries have an account based upon 20 or more years of hazardous duty service and are eligible for the full contribution rate for dependent coverage and therefore would not be affected by this legislation. However, hazardous duty non-Medicare eligible retirees and beneficiaries who have an account with less than 20 years of hazardous duty service, which does not include non-hazardous service credit, may be required to pay additional costs for couple, family, or parent plus coverage beginning July 1, 2006.

Premium Reductions Effective July 1, 2006

One encouraging development this session has been the reduction in health insurance premiums and subsidy costs for state employees and non-Medicare eligible retirees provided by the Budget Bill effective July 1, 2006. Over the last two years insurance premiums paid by the Systems for non-Medicare eligible retirees participating in the Kentucky Employees Health Plan (KEHP) have increased by more than 70% (January 1, 2004 to January 1, 2006). Since the Systems is responsible for providing payment of retiree healthcare benefits, the reduction in costs effective July 1, 2006 will help reduce some of the Systems' liabilities in the future.

Continued Growth in State Debt

Several Legislators and the Governor have commented on their concerns regarding the level of debt enacted this session. I too have similar concerns about this issue. In 2005, a record \$1.91 billion in bonded debt was enacted to fund new projects and programs only to be surpassed this session with another record setting \$2.01 billion in new debt (see

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chart below). These new programs have come at the expense of adequately funding the Systems and will result in even more competition for General Fund dollars in future sessions, as the new debt service will require greater commitments in the long run.

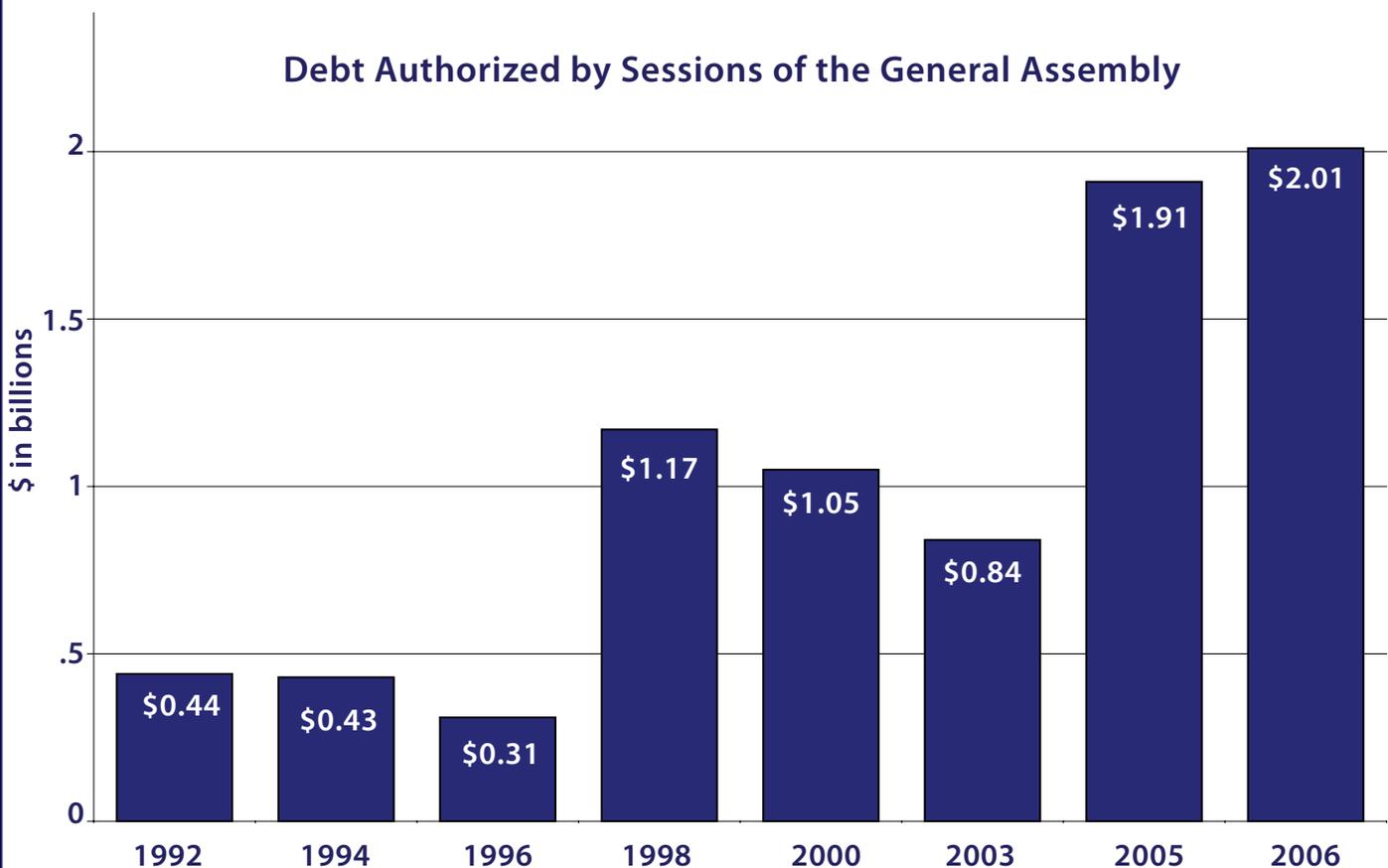
Solutions to the Funding Problems

During this session, there was considerable discussion about appointing a panel or conducting a comprehensive review to examine the funding issues facing the Systems. I want to reiterate to each of you that it doesn't take a specially appointed panel or a comprehensive review by the state to solve the funding issues facing the Systems. What it does take is commitment to appropriate the full employer contribution rates rather than an arbitrarily determined amount so that new projects and programs can be funded.

Perhaps we should take a close look at a neighboring state to the east. In West Virginia, both the Governor and Legislative leadership worked together to not only fully fund the employer contributions for the state's teacher retirement plan this year, but to also commit to paying an additional \$384 million to help reduce unfunded liabilities and improve the plan's financial stability.

As a member of the Systems, I want to thank each of you for your efforts this session. I encourage you to continue your work to ensure the Systems are adequately funded in the future.

Debt Authorized by Sessions of the General Assembly



2006 Cost of Living Raise to Retirees

Retired members and beneficiaries who are receiving a benefit as of June 2006 will receive a 3.4% increase on their July retirement allowance. The increase will be given automatically and is based on the percentage increase in the annual average of the Consumer Price Index for all urban consumers.

2006 Pre-Retirement Education

The Systems will once again be conducting One-on-One conferences and Pre-Retirement Education Seminars throughout the state. If you are vested in the Systems, you will find a complete schedule enclosed with this newsletter. Please note that the Systems will no longer be sending postcards prior to each conference. More information may be found in the enclosed pamphlet or by visiting our web site at www.kyret.com.

Annual Statements Will Be Updated in 2006

The format and content of the Annual Statement of Account sent to active and inactive members will be changing significantly this year. The Annual Statement will have a new look and will include the following content changes:

PIN: A Personal Identification Number (PIN) will be assigned to each member who receives an Annual Statement. If you have already established a PIN for your account, the PIN you have on file will be listed on the Annual Statement.

Note: In order to access confidential account information over the phone, you will need to have both your Social Security Number and PIN available when you call the retirement office. Be sure to keep your Annual Statement in a secure location. Social Security Numbers have been removed from the Annual Statement in order to safeguard you from identity theft.

One Statement for Multiple Accounts: In the past, members with service in more than one system received multiple annual statements. Beginning with the 2006 Annual Statement, members with

service in more than one system will receive one annual statement that includes information for all accounts.

More Information: In the past, a condensed version of the Summary Plan Description was provided with each Annual Statement. Beginning with the 2006 Annual Statement, each active and inactive member will instead receive a copy of the entire Summary Plan Description in the Annual Statement mailing.

We hope that you like the new annual statement and welcome your comments as to the format and content of the Annual Statement.

Interest Rate Changing July 1, 2006

Based upon the results of the 2006 Experience Study, the investment return assumption will be reduced from 8.25% to 7.75% per annum. Consequently, the interest rate applicable for determining the cost of Recontribution of Refunded Service and for determining the amortized payment on a before tax or after tax Installment of Purchase Service Agreement (IPS) will be reduced to 7.75% for calculations requested on or after July 1, 2006.

Non-Medicare Eligible Retirees Costs of Coverage May Change July 1, 2006

Due to the changes enacted by the legislature in HB 380, the cost for non-Medicare eligible retiree health insurance premiums may be changing July 1, 2006. Any adjustments to your individual costs for coverage will be reflected on the July 2006 check stub.

Smoking Cessation Program

The Personnel Cabinet, Department for Employee Insurance, is pleased to announce that the Kentucky Employees Health Plan now offers a Smoking Cessation Program as part of your health insurance benefit. This Program is available to any non-Medicare eligible retiree and/or dependent over the age of 18 that is enrolled in the Kentucky Employees Health Plan (KEHP). Additional information regarding the Smoking Cessation Program, including brochures, is available online at <http://personnel.ky.gov/wellness/>. If you have additional questions, you may contact the Department of Employee Insurance Member Services Branch at 1-888-581-8834 or 502-564-6534.

Resumes Sought for SPRS Board Member Election

Request for Nominations

In early 2007, employees, inactive members and retired members of the State Police Retirement System (SPRS) will vote for an individual to serve on the KRS Board of Trustees.

Per Kentucky Revised Statutes 61.645, the Board may place three names on the ballot for the position to be filled. The Board of Trustees is asking for names of members who would be interested in running for the SPRS Trustee position.

Eligibility Requirements for SPRS Trustee:

To be eligible to serve as a SPRS Board Trustee, an individual must be an employee, inactive member, or retired member of SPRS.

Individuals who are currently serving as elected or appointed city, county, or district officers should also be aware of the constitutional and statutory provisions that may prevent them from simultaneously serving on the Board of Trustees. Kentucky Revised Statutes 61.645 and Section 165 of the Constitution of Kentucky establish when a constitutional incompatibility may exist. If you are concerned that a constitutional incompatibility may exist between a position you currently hold and membership on the KRS Board of Trustees, you may wish to contact the Attorney General's Office for further guidance.

Submitting a Request for Nomination

If you are interested in serving on the Board as a SPRS Trustee, please submit a resume to the Systems no later than August 1, 2006. Please be sure to include your Social Security Number with any information you submit to the Systems.

The Board of Trustees will select three names, assuming enough resumes are received. These names will appear on the ballot to be mailed to SPRS members in early 2007.

Note: Resumes received at the Systems after August 1, 2006 will not be considered for nomination by the Board at the quarterly meeting in August.

KERS Board Members Election Update

Active, inactive, and retired members of the Kentucky Employees Retirement System (KERS) have re-elected Mr. Bobby D. Henson and Ms. Susan S. Horne to each serve another 4-year term, commencing April 1, 2006. This will constitute a third Board term for both Mr. Henson and Ms. Horne. The election results were certified on March 7, 2006 by Carpenter, Mountjoy, & Bressler PSC Certified Public Accountants, the external audit firm contracted by the Systems.



Bobby Henson, a resident of Frankfort, KY, was one of the two individuals elected to serve the next four years as the KERS representative to the KRS Board of Trustees. Mr. Henson is a retired KERS member and currently serves as a member of the KRS Board of Trustees. His term will expire on March 31, 2010.



Susan Horne, a resident of Lexington, KY, was one of the two individuals elected to serve the next four years as the KERS representative to the KRS Board of Trustees. Ms. Horne is a retired KERS member, currently serves as a member of the KRS Board of Trustees and is employed as an attorney in private practice. Her term will expire on March 31, 2010.

Identity Theft and You

Over the next few months you will notice that the Systems is taking increased steps to safeguard your personal information. This is an effort to protect our members from the growing threat of identity theft. Please take a few minutes to review the following information and take steps at home to protect yourself.

What Is Identity Theft?

Identity theft is a crime and it involves acquiring key pieces of someone's identifying information—such as name, address, date of birth, social security number and mother's maiden name—in order to impersonate him or her. This information enables the thief to commit numerous forms of fraud which include taking over a victim's financial accounts, applying for loans, credit cards and social security benefits, using existing credit accounts to run up charges, writing bad checks, renting apartments, buying cars and establishing services with utility and phone

companies. Thieves will ruin their victim's credit. They may also use their victim's name when committing crimes or driving offenses, resulting in warrants being issued in the victim's name.

Here are some important statistics about identity theft you should know:

- Identity theft is the fastest growing crime in the United States.
- There are 6,000 new victims each day, with women being affected more than men.
- The money lost due to identity theft increased from \$442 million in 1995 to \$5 billion in 2003.
- As much as \$2 billion a year may result from the major financial loss of credit card related identity theft.
- As consumers, each of us is paying for the loss when we pay our bills.

How Can They Get My Identity?

Thieves can steal your information from a variety of sources including:

- From your trash. Identity thieves get copies of credit card receipts, credit applications and other information that have been placed in trash containers.
- From your mailbox. Thieves steal letters waiting to be picked up by postal carriers.
- By using e-mail. Thieves often pose as legitimate companies you do business with in order to obtain personal information or financial information.

**Step-by-step information is available
in the Attorney General's
IDENTITY THEFT VICTIM KIT
To obtain a kit, call toll-free:
1-888-432-9257**



Protect Yourself

- ✓ Review your bank and credit card statements as soon as you receive them.
- ✓ Order a copy of your credit report annually and check it carefully. You are entitled to a free copy once every 12 months. Call 1-877-322-8228 or go online: www.annualcreditreport.com.
- ✓ Always take your credit card receipts.
- ✓ Never give bank or credit card information over the phone unless you initiated the call and know the business.
- ✓ When ordering by phone or online, use a credit card rather than a debit card.
- ✓ Don't e-mail personal or financial information.
- ✓ If you get an e-mail or pop-up message that asks for personal or financial information, do not reply or click on the link in the message.
- ✓ Shred or destroy any personal identifying documents before disposing of them.
- ✓ Secure personal information in your home.

- From stolen wallets or purses.
- By using the Internet. Internet abusers can steal information you share on the Internet or piece together information available about you on the Internet.
- By dishonest personnel. Your employee records or other personal records can be accessed and the information sold to identity thieves.

Who Is At Risk?

Each of us is a potential victim. It can happen to anyone. If you are a victim of identity theft, you should contact the following:

- The Federal Trade Commission at 1-877-ID-THEFT (1-877-438-4338).
- The law enforcement agency that has jurisdiction where the crime occurred and where you live.
- The U.S. Postal Inspector at your post office if you think your identity may have been compromised as the result of lost or stolen mail or if you think an identity thief has filed a change of address on you.
- Your creditors if any of your credit has been compromised.
- The Social Security Administration at 1-800-269-0271 for social security number misuse.
- The numbers provided for your ATM and debit cards if your card or account number has been compromised.
- The county where any false judgments may have been entered against you so they can be notified you are a victim of identity theft. Victims of identity theft can be wrongly accused of crimes committed by the thief.

Would You Like To Verify Who Is Checking Your Credit?

By contacting the credit bureaus listed below you can now have control of who receives a credit report on you.

- Trans Union 1-800-680-7289
- Equifax 1-800-272-9281 or 1-800-525-6285
- Experian 1-888-397-3742

Kentucky Retirement Systems
Perimeter Park West
1260 Louisville Road
Frankfort, Kentucky 40601



Contacting Kentucky Retirement Systems

By Mail Kentucky Retirement Systems
 Perimeter Park West
 1260 Louisville Road
 Frankfort, KY 40601-6124

All written inquiries should include the member's name, social security number, home mailing address, and signature. If you are requesting an estimate of retirement benefits, please include all retirement dates you are considering. If you are requesting a service purchase calculation, please include the type of purchase and the necessary verification if required.

By 1-800-928-4646
Phone 502-696-8800

Telephone inquiries are handled by the Retirement Systems' call center, which assists callers in obtaining services or forms and with answers to questions about the Retirement Systems. You can also make an appointment to see a counselor at the retirement office or submit a request for information by contacting the call center.

Web Visit us online at: www.kyret.com
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You can generate individual retirement estimates online by going to www.kyret.com and selecting "Online Benefit Estimator." Educational materials and forms are also available on our web page.

This publication is intended merely as a general information reference for members of the Kentucky Retirement Systems. If you have any specific questions about the subjects covered by this publication, you should contact the retirement office. This publication is not intended as a substitute for applicable Federal or state law, nor will its interpretation prevail should a conflict arise between its contents and applicable Federal or state law. Before making decisions about your retirement, you should contact the Systems.