Kentucky Retirement Systems
Member and Employer News

Volume 25, Issue 3 Fall 2007

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Member News

Volume 25, Issue 3 *Fall 2007*

An Update on the Work of the Governor's Blue Ribbon Commission on Public Employee Retirement Systems:

This seems to be an opportune time to report to all our members on the progress of the Governor's Blue Ribbon Commission on Public Employee Retirement Systems and to provide my observations and insights as one of the Governor's appointees to the Commission.

The 24-member Blue Ribbon Commission, which was created by an Executive Order of the Governor, began its work on April 16, 2007. Its mission, as stated in the Executive Order, is to "study methods to address the current unfunded liabilities of the Commonwealth's retirement programs so as to fulfill the promises to current retirees and employees and to ensure appropriate levels of benefits for future employees." While the original plan was that the Commission would present its findings and proposals no later than December 1, 2007, that date has now been delayed to January 1, 2008, just days before the start of the 2008 legislative session. The delay was primarily caused by the rejection of a recommended legal consulting contract by a legislative oversight committee, which was later overturned by the Secretary of the Finance and Administration Cabinet.

At its organizational meeting on April 16, the Commission membership was divided into three distinct working groups:

Work Group 1 was charged with the responsibility of defining a strategy to fulfill commitments by the Commonwealth and local government employers to existing employees and retirees. This work group has met on several occasions and has focused on educating group members about how the Commonwealth's retirement systems are funded, how actuarial science is applied to determine the short and long-term liabilities, and what has caused the existing unfunded liabilities of the systems. Additionally, the members have been briefed on new Governmental Accounting Standard Boards' (GASB) requirements regarding the accounting for and reporting of Other Post-Employment Benefits (OPEB), such as health insurance benefits, which have greatly impacted the funding status of the Commonwealth's retirement systems. This working group has been chaired by Mr. Brad Cowgill, State Budget Director, who recently left to assume the position of interim President for the Kentucky Council on Postsecondary Education. Brad Cowgill has been an excellent chairman of this work group and contributed much to the workings of the Commission.

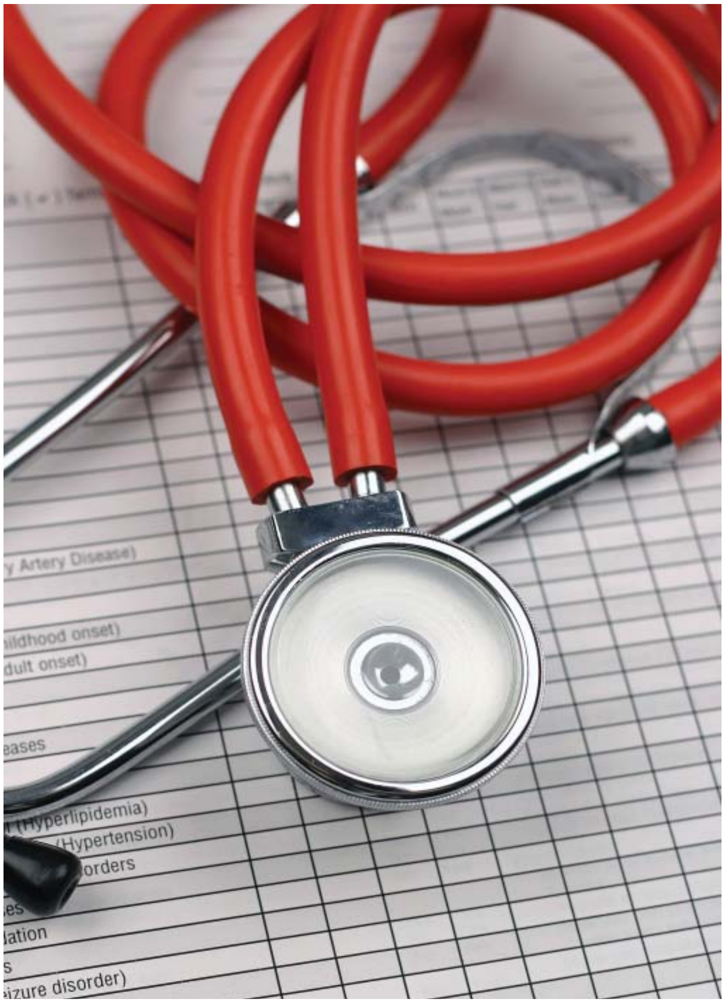
Work Group 2 was given the task of examining the needs of future employees for retirement security and flexibility and to make recommendations regarding the appropriate level of pension benefits to attract and retain future public employees. Work Group 2 has met on three occasions. Gary Harbin, Executive Secretary of the Kentucky Teachers' Retirement System (KTRS) and I presented

EXECUTIVE DIRECTOR REMAINS AT KRS IN INTERIM POSITION:

Many of you will recall that in the May 2007 newsletter, I penned "My Final Message to the Membership" in connection with the announcement of my June 1 retirement. This newsletter seems to be an appropriate time and forum to bring you up-to-date on my status and the status of the search for my replacement.

Following the announcement of my retirement, I accepted an offer of the KRS Board of Trustees to stay on as Executive Director of the Systems on an interim basis until the Board was able to conduct a national search and hire my successor and to allow me to continue participation with the Blue Ribbon Commission studying retirement systems. Thus, my June 1 retirement was "suspended" and I have continued to act as Executive Director on an "at will" basis and I have also continued to serve as one of the Governor's appointees to the Blue Ribbon Commission on Public Employees Retirement Systems. The search for a new Executive Director is now underway. The Search Committee formed by the KRS Board has hired Hudepohl & Associates from Worthington, Ohio, to conduct a nationwide search that is expected to take several months. Until that process is complete and a new Executive Director has been hired, I look forward to my continuing service to the membership of the Kentucky Retirement System's as the Executive Director on an interim basis.

William P. Hanes



information regarding our respective systems. The working group also heard from Keith Brainard, Research Director for the National Association of State Retirement Administrators (NASRA), who provided a comparative analysis of other state-wide retirement systems. Additionally, the working group heard testimony from representatives of the Coalition for Sustainable Benefits (a group comprised of the Kentucky Chamber of Commerce, the Kentucky League of Cities, and the Prichard Committee), and from the Kentucky Deferred Compensation Authority. Brian Crall, Secretary of the Personnel Cabinet, serves as the chairman of this working group. Mr. Crall is doing an excellent job as he continues to encourage all members to express their views and gives them ample opportunity to do so. He clearly intends that the interests of all parties be considered as the working group reviews the potential for pension and health plan design changes that will be sustainable and will meet the needs of future public retirees.

Work Group 3 was charged with developing a recommendation to provide sustainable employment and post employment healthcare plans and benefits for current and future public employees. Most members of our retirement systems understand very well how health insurance benefits continue to be the most significant cost driver associated with our public employee retirement systems. It is not an overstatement to say that health insurance costs are out of control. The rising cost of health insurance is not just a Kentucky economic crisis, but is a national economic crisis. Neither this work group, nor the Blue Ribbon Commission, will resolve this national crisis; nevertheless, their work on this subject is critically important since health insurance costs have created the greatest part of the unfunded liabilities of our public retirement systems. The chairman of the working group is Mark Birdwhistle, Secretary of the Cabinet for Families and Children, who also has served as an excellent facilitator. To date, his work group members have heard testimony from KTRS and KRS regarding the various health plans available to retirees, including the self-funded Medicare-eligible health plan administered by KRS and the Medicare Advantage plans offered by KTRS. Representatives from the Personnel Cabinet have also discussed the Kentucky Employees Health Plan (KEHP), which is available to active state employees and pre-Medicare eligible retirees.

Although the Blue Ribbon Commission members have been diligently engaged in an educational effort for over four months, there have been no discussions to this point about recommendations designed to address the funding problems or regarding the actual redesign of pension and health insurance benefits for future employees. As we all know, time is running very short before the beginning of the 2008 legislative session and much work is left to be done. Although I am admittedly a bit concerned about any impact the Commission will ultimately have on the 2008 legislative session, I remain hopeful that the work of this Blue Ribbon Commission will not be in vain and that meaningful recommendations will be forthcoming in the time remaining before the beginning of next legislative session.

I do have concerns that I want to express related to the Blue Ribbon Commission's work over the next few months.

Unfortunately, the Blue Ribbon Commission has experienced a significant turnover in leadership. Former Secretary of the Finance and Administration Cabinet, John Farris, initially was in charge as chairman of the Blue Ribbon Commission. Upon his resignation several months into the process, he was replaced by Brian Crall, who must now shoulder a much larger share of the leadership burden during the coming months. I do believe that Mr. Crall will succeed in doing so. Earlier, I mentioned the loss of former State Budget Director, Brad Cowgill, including the knowledge and leadership he has brought to the Commission. I do believe that his replacement, Mike Burnside, is very capable and will serve the Commission well. However, I fear that the loss of knowledge gained by Mr. Farris and Mr. Cowgill through the first several months of the Commission's deliberations will be difficult to replace in the short time left for the Commission to do its work.

An even more significant concern is the level of expectation that I believe exists with some Commission members regarding the ability of the Commission and legislature to come up with a "cure" for the rising employer contribution rates caused by high unfunded liabilities and ever-increasing health insurance costs. These Commission members indicate that the budgetary strain on employers is unbearable and seem to have an expectation that the Commission will make recommendations to the legislature that will result in significant and sudden relief to employers. I also believe that some Commission members may expect that the consulting actuary or consulting legal counsel will provide opinions to facilitate significant and immediate relief. The truth is that there is nothing that this Commission or the Kentucky General Assembly can do to create a significant and immediate "panacea" to eliminate the funding problems faced by our Commonwealth's public retirement systems.

As most of you have learned over the years by reading numerous KRS newsletter articles related to pension funding, benefit levels for both pension and health benefits are set by the legislature and the liabilities for benefits owed are advance funded based on well defined actuarial principles. These actuarial principles do not accommodate any major change in methodology that will provide sudden relief from increasing employer contribution rates. The actuarial consultant hired by the Commission will simply not provide any dramatic methodology change to create significant short-term cost reductions.

Furthermore, as a general rule, once the benefit levels are set, they become an inviolable contractual obligation of the participating employer, which is protected by Kentucky statutory and constitutional law. In other words, the benefit levels cannot be retroactively reduced. The legislature may only change benefit levels for future employees (as was done in 2003), but not for current employees or retirees. I did not believe that the legal consultant hired by the Commission would provide a strikingly different opinion regarding the breadth of the contractual obligation that binds the Commonwealth and other employers than what I have repeatedly told you, the legislature, and other policy makers over the past 22 years.

In fact, my conclusions regarding the broad scope of the inviolable contract were confirmed by the report of Joe Wyatt, partner in the law firm of Morrision & Foerster, the attorney hired by the Blue Ribbon Commission as its legal consultant on the inviolable

contract issue. Mr. Wyatt's legal report was delivered to the blue Ribbon commission at its most recent meeting on September 25. In essence, Mr. Wyatt's legal conclusion, which was confirmed by Mr. Robert Klausner, an attorney with a nationwide legal practice representing public benefit pension plans, is that "any modification that is found to reduce benefits could be held to constitute an unlawful impairment of the 'inviolable contract.'"

Nonetheless, I believe that several of the Commission members are of the belief that major relief is on the way with an interpretation from the legal consultant that the level of health insurance benefits that is contractually pledged to members can be substantially reduced. Governor Fletcher announced at the very first meeting of the Blue Ribbon Commission that he intended to provide to current and retired members every benefit that has been promised, and I know that many members of the Commission expect the same, whether there is an opinion change regarding the breadth of that contractual promise or not. I want to quickly add that based on all of my discussions of these matters with representatives of Governor Fletcher's staff, I believe it is the Governor's intent to honor his commitment and the current and past promises made.

I would like to point out that on the pension side, a significant exception to both the principle of advance funding and the contractual obligation is the retiree COLA. The statute authorizing the retiree COLA provides that it is not contractual and, thus, can be limited or repealed at any future date. The cost of the COLA is not advance funded, but becomes a new liability of the systems when it is granted and, as a result, each new COLA creates significant additional unfunded liabilities for the systems. This is one area where there could be a legislative change that would have a measurable impact on increasing costs related to pensions.

Finally, you know from previous articles that the KRS Board of Trustees and I are very concerned about what retirement plan is made available to future public employees. As you know, I have raised a number of issues in prior newsletters related to the debate over Defined Benefit (DB) plans vs. Defined Contributions (DC) plans. I continue to assert, based on actuarial analyses and other expert reports, that DB plans provide more retirement security at a lower cost, but that DC plans can provide a very desirable retirement income supplement. However, the argument for a complete replacement of a DB plan with a traditional DC plan is usually made on ideological bases that ignore important public policy considerations and significant cost issues. In terms of cost, our KRS actuary has estimated that the first year actuarial cost of closing our current DB plans and switching to a DC plan would be more than $282 million dollars based on 2005 data. This does not consider the additional high costs of administration and educational effort that would be necessary with such a change.

The business of the Blue Ribbon Commission is very important to you, whether you are an active or retired member of one of the Commonwealth's public retirement systems. A very significant educational process is going on with members of the Commission, and I believe that the benefit of that education will somehow impact the legislative process in the next and future sessions. In some other states, major changes have been made in retirement plan design without adequate knowledge of the consequences of the changes and, more times than not, these changes have been based on false suppositions. In several cases, the changes have been reversed when the true impact of the changes is realized. In other instances, legislators continue to debate the wisdom of changes previously made. I am very hopeful that we will emerge from this process with realistic proposals that can be considered and adopted by the Kentucky General Assembly and that we will avoid the mistakes made elsewhere. I urge you to stay abreast of the work of the Blue Ribbon Commission, and to watch with interest the progression of these matters before the Kentucky General Assembly.

You can access meeting agendas and various reports of the Blue Ribbon Commission at http://finance.ky.gov/Blue+Ribbon+Commission/retcom.htm.

PENSION PROTECTION ACT OF 2006—Health Care Tax Credit

The **Pension Protection Act of 2006** permits **eligible retired Public Safety Officers** to exclude from retirement income up to $3,000 of distributions from their KRS retirement benefit for direct payment of health care premiums. This **Internal Revenue Service (IRS) tax benefit** became effective January 1, 2007.

To take advantage of the tax credit, the eligible Public Safety Officer will need to claim the associated tax benefits on their individual tax return. The IRS Form 1040 and other forms are being adjusted to include the tax credit. The retired Public Safety Officer should consult with a qualified tax professional for information regarding eligibility and claiming the tax credit.

Frequently Asked Questions regarding the Tax Credit:

Q: Who qualifies for the $3,000 health care tax credit under the Pension Protection Act of 2006?

A: The Pension Protection Act of 2006 permits eligible retired Public Safety Officers to exclude from retirement income up to $3,000 of distributions from their KRS retirement plan for direct payment of health care premiums.

Q: How is Public Safety Officer defined under the Pension Protection Act of 2006?

A: The Pension Protection Act of 2006 defines Public Safety Officer as "an individual serving a public agency in an official capacity, with or without compensation, as a law enforcement officer, as a firefighter, as a chaplain, or as a member of a rescue squad or ambulance crew."*

Under this federal definition, duties of a law enforcement officer may include control or reduction of crime, prosecution or adjudication, and/or correction and detention. Supervision of these duties may also fall within the federal Public Safety Officer definition.

*As defined in the Omnibus Crime Control and Safe Streets Act of 1968 (42 U.S.C. 3796b(9)(A)).

Q: Do any other eligibility requirements apply?

A: In addition to meeting the Pension Protection Act of 2006 definition, the retired Public Safety Officer must have separated from service as a Public Safety Officer and retired on disability or attained the normal retirement age. (Normal retirement age is 55 for hazardous duty positions and 65 for non-hazardous duty positions).

Q: I'm an eligible Public Safety Officer. Can I pay my health care premiums myself and still receive the $3,000 tax benefit granted under the Pension Protection Act of 2006?

A: No. The law requires KRS to exclude the funds from the distribution of the Public Safety Officer's retirement benefits and pay the premiums directly to the health care plan.

Q: Who has the final word in determining "Public Safety Officer" status as it relates to the Pension Protection Act of 2006?

A: *It is the responsibility of each individual to determine his or her Public Safety Officer eligibility. The individual's responsibility also applies in the event of an IRS audit.* Public Safety Officer determinations will ultimately be made by the IRS. Retirees should consult with a qualified tax professional for information regarding eligibility and claiming the tax credit.

Q: What are the advantages of excluding from income up to $3,000 from my KRS retirement benefits?

A: This is an IRS tax benefit. If you are an eligible Public Safety Officer, you are permitted to claim up to $3,000 to exclude from the taxable distribution of your KRS retirement allowance.

Q: If my spouse or dependent, who is not an eligible Public Safety Officer, survives me, will the $3,000 exclusion and tax benefit granted by the Pension Protection Act of 2006 continue to apply as a survivor benefit?

A: No. A survivor benefit does not apply.

Q: I'm a retired Public Safety Officer with 20 years of service credit and my health care premiums are fully paid by KRS. Does the $3,000 tax benefit granted under the Pension Protection Act of 2006 apply to me?

A: No. Since you have no premiums to pay, this tax benefit does not apply to you. However, if you pay any part of the premiums through payroll deduction of your retirement benefits, you may qualify for the tax credit.

Q: I'm an eligible Public Safety Officer. Can I exclude from income the maximum $3,000 of deductions from my KRS retirement?

A: Under the Pension Protection Act of 2006, you may exclude the lesser of $3,000 or the actual amount of health care premiums paid and deducted from your KRS retirement benefits.

Q: Are the excluded funds reported to the IRS on Form 1009R or Form 1040?

A: *The IRS recently issued new guidelines on how these funds are to be reported.* In accordance with the most recent IRS information, KRS will not report the amount of these excluded funds on your 1099R. To receive this tax benefit, *the eligible retired Public Safety Officer must report the excluded funds on IRS Form 1040* when filing his or her annual income tax return. KRS continues to monitor IRS guidelines on this subject and may publish updated information as it becomes available.

This article is merely intended for informational purposes only and 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 tax matters, you should consult with a qualified tax professional.

New Regulations Issued for Working After Retirement

The Internal Revenue Service ("IRS") has recently issued final regulations regarding the establishment of a Normal Retirement Age for qualified pension plans, such as KERS, CERS, and SPRS. In those regulations, the IRS makes it very clear that qualified pension plans cannot make a distribution without a bona fide separation from service except in very limited circumstances. The preamble notes that this requirement has been in place since regulations were issued in 1956. In addition, federal tax law imposes a 10% tax penalty on qualified pension plan distributions to retirees who are less than 59 ½ unless there has been a bona fide separation from service. This penalty has been in place since the Tax Reform Act of 1986.

On June 29, 2007, KRS issued a notice to all KRS members, retirees, and participating agencies explaining the impact of these new regulations. Shortly, thereafter, on August 3, 2007, the KRS Board of Trustees adopted an emergency regulation, 105 KAR 1:390E (the "Emergency Regulation") on Employment after Retirement. In the Emergency Regulation, KRS has restated its policy on commencement of a retirement benefit by requiring a bona fide separation from service to comply with federal tax law and KRS has also reexamined state law to determine how to apply KRS 61.637 in a variety of situations. As part of the Emergency Regulation, KRS has also adopted Form 6751, "Member and Employer Certification Regarding Reemployment." Both the Emergency Regulation and Form 6751 are on the KRS website (www.kyret.com).

The Kentucky Retirement Systems under KRS 61.645(9)(g) is required to take steps to assure that KERS, CERS, and SPRS retain their qualified pension status under Internal Revenue Code Section 401(a). In addition, Kentucky Retirement Systems wishes to avoid adverse tax consequences for its members.

What is a "Bona Fide Separation from Service"?

Under state and federal law, a Retiree may be eligible to receive a retirement benefit only if he has a "Bona Fide Separation from Service." Under Kentucky law, one calendar month separation is generally required for a benefit to begin. Federal law imposes an additional requirement. In order to have a bona fide separation from service under federal law, there must be a cessation of the employment relationship between an employee and employer. This also means there cannot be a prearranged agreement prior to separation for that employee to return to employment with the same employer at any time in the future after retirement. Under the Emergency Regulation, a prearranged agreement to be reemployed as a leased employee or as independent contractor will be evaluated by KRS to determine if there is a continuing employment relationship.

In order to implement this requirement for a bona fide separation from service, the retiring member

and the member's last employer must certify on Form 6751 at the time of application for a retirement benefit that there is no prearranged agreement to reemploy the retiring member. Thereafter, the retired member is required to report to KRS future employment in any capacity with any employer.

The Emergency Regulations take advantage of an important exception that is found in federal law to permit KRS members who have reached normal retirement age to receive a retirement benefit without a bona fide separation from service, so long as they meet other state and federal law requirements. The Emergency Regulation reflects state statutes providing that normal retirement age is age 65 for a non-hazardous member and age 55 for a hazardous member.

Who is the "same employer"?

Under the federal law, the question that must be answered is whether the retiring member has really separated from service with his employer. Therefore, the Emergency Regulation from a federal law standpoint focuses special attention on those situations where the Retiree is reemployed by the same employer.

For purposes of applying KRS 61.637, all employers participating in the Kentucky Employees Retirement System and the State Police Retirement System are considered the same employer.

A Retiree from the County Employees Retirement System, who after initial retirement is hired by the county[1] from which the member retired, shall be considered to have been hired by the same employer.

Where a Retiree is reemployed by a different employer, KRS' focus will primarily be on state law requirements.

Returning to a position that is required to participate in the Systems

- Retiree must have at least a one calendar month break in service.
- Retiree must have a bona fide separation from service (no prearranged reemployment agreement with the same employer).

1 As defined by KRS 78.510(3).

- If Retiree is returning to employment with the same employer, without a one calendar month break in service, his retirement will be voided.
- If Retiree is returning to employment with the same employer in a position with the same principal duties, his retirement benefits will be suspended for a period not to exceed six months from his termination date, if he has observed a one calendar month break in service and if there was a bona fide separation from service.
- If Retiree is returning to employment with the same employer in a position with different principal duties, his retirement benefits will continue unaffected, if he has observed a one calendar month break in service and if there was a bona fide separation from service.
- If Retiree is returning to employment with a different employer, his retirement benefits will continue unaffected, if he has observed the one calendar month break in service. A one month break is not required if the Retiree is returning to a different employer, participating in a different retirement system. For example, retiring from an employer that participates in KERS and returning to employment with a different employer that participates in CERS does not require a one month break.

IF THE RETIREE DOES NOT HAVE A ONE CALENDAR MONTH BREAK IN SERVICE OR DOES NOT HAVE A BONA FIDE SEPARATION FROM SERVICE, THE RETIREMENT WILL BE VOIDED IF THE RETIREE RETURNS TO WORK FOR THE SAME EMPLOYER.

IF THE RETIREE DOES NOT HAVE A ONE CALENDAR MONTH BREAK IN SERVICE, THE RETIREMENT WILL BE VOIDED IF THE RETIREE RETURNS TO WORK IN ANY COVERED POSITION WITH A DIFFERENT EMPLOYER PARTICIPATING IN THE SAME RETIREMENT SYSTEM.

THE REQUIREMENT FOR A BONA FIDE SEPARATION FROM SERVICE DOES NOT APPLY TO A MEMBER WHO HAS REACHED NORMAL RETIREMENT AGE.

Returning to a position that is not required to participate in the Systems, *i.e.*, temporary, seasonal, interim, part-time (as defined by Kentucky law)

- Retiree must have a bona fide separation from service (no prearranged reemployment agreement with the same employer).

- Retiree must have a one calendar month break in service.

- If Retiree is reemployed by the same employer, within one calendar month of his effective retirement date, his retirement benefits will be suspended for the duration of his reemployment.

- If Retiree is reemployed by the same employer, after at least a one calendar month break in service and with a bona fide separation from service, his retirement benefits will continue unaffected. Please note that if Retiree does not have a bona fide separation from service, his retirement benefits will be suspended for the duration of reemployment.

- If Retiree is returning to employment with the same employer in a position with the same principal duties, his retirement benefits will be suspended for a period not to exceed six months from his termination date, if he has observed a one calendar month break in service and if there was a bona fide separation from service.

- If Retiree is reemployed by a different employer, his retirement benefits will continue unaffected.

IF THE RETIREE DOES NOT HAVE A ONE CALENDAR MONTH BREAK IN SERVICE OR DOES NOT HAVE A BONA FIDE SEPARATION FROM SERVICE, THE BENEFIT WILL BE SUSPENDED IF THE RETIREE RETURNS TO WORK FOR THE SAME EMPLOYER.

THE REQUIREMENT FOR A BONA FIDE SEPARATION FROM SERVICE DOES NOT APPLY TO A MEMBER WHO HAS REACHED NORMAL RETIREMENT AGE.

Returning to different employer and contributing to a different retirement system

A Retiree may return to employment immediately, with a different employer, contributing to a different retirement system from which he is receiving his retirement benefits, without affecting his retirement benefits. As noted above, all employers participating in the Kentucky Employees Retirement System and the State Police Retirement System are considered the same employer.

Returning to same employer and contributing to a different retirement system

If a member has a bona fide separation from service and returns to work with the same employer in a different retirement system (whether administered by KRS or not), the member's retirement benefit may continue during the reemployment. However, if the Retiree has not had a one calendar month suspension, the Retiree's benefit is suspended for one month.

If a member has not had a bona fide separation from service and returns to work with the same employer in a different retirement system (whether administered by KRS or not), the member's retirement is voided.

THE REQUIREMENT FOR A BONA FIDE SEPARATION FROM SERVICE DOES NOT APPLY TO A MEMBER WHO HAS REACHED NORMAL RETIREMENT AGE.

Returning to employment with a non-participating employer

In general, a Retiree may return to employment at any time for an employer who does not participate in the Kentucky Retirement Systems without affecting his retirement benefits. However, Kentucky Retirement Systems may examine certain employment arrangements such as employment as an independent contractor and employment through a private leasing company, temporary staffing agency, or any other company. If a Retiree is planning to return to employment with any entity, the Retiree must contact the Kentucky Retirement Systems in writing.

Kentucky Retirement Systems has promulgated emergency administrative regulations regarding the issues outlined in this memorandum.

This memorandum is intended merely for informational purposes only and is not intended as a substitute for applicable Federal or state law (including the Emergency Regulation), nor will its interpretation prevail should a conflict arise between its contents and applicable Federal or state law. Before making decisions about returning to employment after retirement, the member should consult with a qualified tax professional.

Income Tax Withholdings

If you are a retiree you have the option to choose the amount of federal income tax that is withheld from your benefit payments. This notice serves as a reminder that you may change that decision if you wish.

Beginning in January of each new tax year, the amount of federal tax being withheld from your monthly benefit payments (if any) may change due to possible changes in the tax withholding tables.

Your original choice on withholding will remain in effect until you file a new election with the retirement office.

Withholding is one way for you to pay a portion of your income tax. If no tax or not enough tax is withheld from your benefits, you may have to pay estimated taxes during the year, or a tax penalty at the end of the year. Of course, whether you have to pay federal income tax on your benefit payments depends on the total amount of your taxable income. Remember, for many people, Social Security benefits are not taxable. If you are a U.S. citizen receiving your benefits in a foreign country, the IRS requires withholding from your monthly benefit payments. If you are not a U.S. citizen, and are living in a foreign country, different income tax rules apply to you. Please contact the retirement office if you have any questions.

Your decision on withholding is an important one. You may wish to discuss it with a qualified tax advisor.

Choosing Direct Deposit

If you are now receiving a check and would prefer that the retirement office deposit your monthly payment directly to your account, call the retirement office and request a Form 6130, Authorization for Deposit of Retirement Payments, or you may download this form from www.kyret.com.

Direct deposit is the safest and most reliable method of payment because it insures that your check will not be lost, stolen or delayed. Your money will be in your account on the day you expect it, you will not need to rush to the bank to deposit your check, and you may travel without worrying about arranging for someone to watch for your check. You will receive a "check stub" every January and July, and you will receive a letter or mailer should the amount of your deposit change at any other time during the year.

Employer Spotlight

As an employer, you are an important partner with KRS in the provision of services to our members and retirees. You do this on a daily basis in many ways; from providing important information to members on retirement benefits to providing KRS the necessary information to effectively administer our programs. KRS recognizes the importance of our partnership and continuously strives to improve the manner in which you interact with us.

As you know, KRS is currently engaged in a project called START (Strategic Technology Advancements for the Retirement of Tomorrow) that will dramatically change the way in which we provide services to employers, members, and retirees. Among other advantages, START will allow employers to report member earnings and make changes to personnel information on-line.

In preparation for the employer improvements of the START project, KRS is developing a survey tool to help us better understand how you interact with KRS today and how we may better serve your needs in the future. More importantly, this survey will provide an avenue for your input into the employer reporting features of START. It is anticipated that this survey will be distributed to employers early in 2008.

In our continuing efforts to protect member information, KRS is working hard to provide additional tools to employers that will facilitate the secure exchange of information between our organizations.

For example, KRS is currently implementing a new "Secure Email" service that will allow us to communicate important or sensitive information with you via encrypted electronic mail. Utilizing this same service, you as an employer will be able to reply conveniently and securely back to KRS.

KRS is actively developing other services that will allow for the broader exchange of information (such as your monthly service and contribution reports) securely and electronically. Please stay tuned. In the very near future, KRS will be contacting employers directly with more information and guidance on how to take advantage of these new services.

Thank you for your continued partnership with Kentucky Retirement Systems. We know that we could not provide the services that our members and retirees have come to expect without your help.

2008 Health Insurance Update

Health insurance open enrollment for retirees and beneficiaries of the Systems is just around the corner. You should be receiving information for the 2008 plan year if you have not already. If you are a retiree or beneficiary, please take a few minutes to read the information below so you will be better prepared to make an appropriate decision about your health care coverage for the 2008 plan year.

Medicare Eligible Retirees & Beneficiaries

The Board of Trustees met in early September to review and adopt the plan choices and premiums offered to Medicare eligible retirees. For the 2008 plan year, the following information and changes will apply:

Open Enrollment Period: Medicare eligible retirees and beneficiaries will have the opportunity to elect or to amend coverage for the 2008 plan year during the open enrollment period. **The open enrollment period for Medicare eligible retirees will begin October 29, 2007 and will end December 31, 2007.**

KRS Health Plans: The Systems will once again be offering the three self-funded plans for Medicare eligible retirees and beneficiaries. These plans include the KRS Health Plan-Medical Only, KRS Health Plan-Plus, and KRS Health Plan-Premium.

For the 2008 plan year, premiums for the KRS Health Plans will be as follows:

	Plan	Premium
	KRS Health Plan-Medical Only	$144.00
	KRS Health Plan-Plus	$260.00
	KRS Health Plan-Premium	$329.00

If you are currently enrolled under the KRS Health Plan-Medical Only, KRS Health Plan-Plus, or the KRS Health Plan-Premium and do not wish to make changes to coverage, you will not be required to complete a new enrollment form during the open enrollment period to maintain coverage under that plan for the 2008 plan year.

Plan Information: All open enrollment material will be bound into one book, including enrollment forms. The open enrollment material will also serve as your plan coverage booklet for the 2008 plan year. Please be sure to keep this book for future reference if you take health insurance coverage through one of the KRS Health Plans.

Non-Medicare Eligible Retirees & Beneficiaries

Open Enrollment Period: Non-Medicare eligible retirees and beneficiaries participating in the Kentucky Employees Health Plan (KEHP) will have the opportunity to elect or to amend coverage for the 2008 plan year during the open enrollment period. **The open enrollment period for non-Medicare eligible retirees will begin October 15, 2007 and will end October 26, 2007.**

Plans Offered: The KEHP will once again be offering the Commonwealth Essential, Commonwealth Enhanced, and Commonwealth Premier plans in 2008.

If you are currently enrolled in Commonwealth Essential, Commonwealth Enhanced, and Commonwealth Premier and do not wish to make changes to coverage, you will not be required to complete a new enrollment form during the open enrollment period to maintain coverage under that plan for the 2008 plan year.

There will be no changes to the plan design of the Commonwealth Essential, Commonwealth Enhanced, and Commonwealth Premier.

Information on premium costs and contributions is contained in the open enrollment material mailed to you.

Medicare Premiums And Coinsurance Rates For 2008

Question

What are the Medicare premiums and coinsurance rates for 2008?

Answer

The following is a listing of the Medicare premium, deductible, and coinsurance rates that will be in effect in 2008:

Medicare Premiums for 2008:

Part A: (Hospital Insurance) Premium

- Most people do not pay a monthly Part A premium because they or a spouse has 40 or more quarters of Medicare-covered employment.
- The Part A premium is $233.00 for people having 30-39 quarters of Medicare-covered employment.
- The Part A premium is $423.00 per month for people who are not otherwise eligible for premium-free hospital insurance and have less than 30 quarters of Medicare-covered employment.

Part B: (Medical Insurance) Premium
$96.40 per month*

Medicare Deductible and Coinsurance Amounts for 2008:

Part A: (pays for inpatient hospital, skilled nursing facility, and some home health care) For each benefit period Medicare pays all covered costs except the Medicare Part A deductible (2008 = $1,024) during the first 60 days and coinsurance amounts for hospital stays that last beyond 60 days and no more than 150 days.

For each benefit period you pay:

- A total of $1,024 for a hospital stay of 1-60 days.
- $256 per day for days 61-90 of a hospital stay.
- $512 per day for days 91-150 of a hospital stay (Lifetime Reserve Days).
- All costs for each day beyond 150 days

Skilled Nursing Facility Coinsurance

- $128.00 per day for days 21 through 100 each benefit period.

Part B: (covers Medicare eligible physician services, outpatient hospital services, certain home health services, durable medical equipment)

- $135.00 per year. (Note: You pay 20% of the Medicare-approved amount for services after you meet the $135.00 deductible.)

Additional information about the Medicare premiums, deductibles, and coinsurance rates for 2008 is available in the October 1, 2007 Fact Sheet titled, "CMS Announces Medicare Premiums, Deductibles for 2008" on the www.cms.gov website.

***Note**: If your income is above $82,000 (single) or $164,000 (married couple), then your Medicare Part B premium may be higher than $96.40 per month. For additional details please refer to the www.cms.gov website.

Know Your Numbers

Kentucky Retirement Systems has developed the following "Know Your Numbers" educational information to raise awareness of your heart-healthy numbers.

Your blood pressure, cholesterol, glucose and Body Mass Index (BMI) measurements – or "your numbers" – are key indicators of cardiac health. By learning what your current numbers are, what your targets should be, and then working to reach or maintain those targets, you can lessen your chance of developing heart disease.

Blood Pressure

Your heart pumps oxygen-rich blood to all parts of the body. Blood pressure is the force at which blood presses against your artery walls. It is recorded as two numbers

120	Number when heart is pumping (systolic)
80	Number when heart is resting (diastolic)

A blood pressure consistently above 120/80 is considered "pre" hypertension (high blood pressure). Blood pressure higher than 140/90 is considered to be "high blood pressure."

If you fit into either one of these categories, you should talk with your physician about a plan to reduce your risk of heart disease, stroke, kidney damage and other complications.

Know Your Number

Checking your blood pressure is painless and fast.

Blood Pressure Screening Results

Systolic	Diastolic	Classification	Recommended Follow Up
<120	<80	Normal	Recheck every 2 years
120-130	80-90	Prehypertension	Lifestyle Changes: 1 Year recheck
140-159	90-99	Hypertension Stage 1	Follow-up with PCP Recheck every 2 months
>160	>100	Hypertension Stage 2	Follow up with PCP within 1 month
>180	>110	Severe Hypertension	Follow up with PCP immediately

Body Mass Index (BMI)

Body Mass Index (BMI) is a tool for indicating weight status in adults. It is a measure of weight to height. Here is a chart that gives the BMI for various weights and heights.

BMI (kg/m^2)	19	20	21	22	23	24	25	26	27	28	29	30	35	40
Height (in.)	**Weight (lb.)**													
58	91	96	100	105	110	115	119	124	129	134	138	143	167	191
59	94	99	104	109	114	119	124	128	133	138	143	148	173	198
60	97	102	107	112	118	123	128	133	138	143	148	153	179	204
61	100	106	111	116	122	127	132	137	143	148	153	158	185	211
62	104	109	115	120	126	131	136	142	147	153	158	164	191	218
63	107	113	118	124	130	135	141	146	152	158	163	169	197	225
64	110	116	122	128	134	140	145	151	157	163	169	174	204	232
65	114	120	126	132	138	144	150	156	162	168	174	180	210	240
66	118	124	130	136	142	148	155	161	167	173	179	186	216	247
67	121	127	134	140	146	153	159	166	172	178	185	191	223	255
68	125	131	138	144	151	158	164	171	177	184	190	197	230	262
69	128	135	142	149	155	162	169	176	182	189	196	203	236	270
70	132	139	146	153	160	167	174	181	188	195	202	207	243	278
71	136	143	150	157	165	172	179	186	193	200	208	215	250	286
72	140	147	154	162	169	177	184	191	199	206	213	221	258	294
73	144	151	159	166	174	182	189	197	204	212	219	227	265	302
74	148	155	163	171	179	186	194	202	210	218	225	233	272	311
75	152	160	168	176	184	192	200	208	216	224	232	240	279	319
76	156	164	172	180	189	197	205	213	221	230	238	246	287	328

Body weight in pounds according to height and body mass index.

What Does Your BMI Mean?

BMI= 18.5 – 24.9 Normal Weight. Good for you! Try not to gain weight.

BMI = 25-29.9 Overweight. You should strongly consider losing weight, especially if you have two or more risk factors for heart disease and your waist measurement is high (over 35" for women, over 40" for men). If you have questions , ask your doctor about risk factors for heart disease and what weight loss plan might be right for you.

BMI = 30 or greater. You need to lose weight. Lose weight slowly – about ½ to 1 pound a week. Talk with your doctor or a nutritionist if you need help.

Cholesterol

Cholesterol is a fat-like substance that travels in the blood. A limited amount of it is needed by your body to function.

Cholesterol comes from two sources: your body and the foods you eat. Your body makes all the cholesterol it needs.

You can't "feel" high cholesterol, but when there is too much of it in your body, it needs to be treated. Over time, excess cholesterol may build up in your blood vessels. This narrows your blood vessels and reduces blood flow to the heart. That's why high cholesterol can lead to serious health problems.

Know Your Numbers!

A simple blood test by your doctor will help you see where you stand.

	Total Cholesterol Level
Target	Less than 200 mg/dL
Borderline High	200-239 mg/dL
High	240 mg/dL and above

Glucose (Sugar)

Glucose provides your body with the energy it needs to function properly. When your glucose gets too high, you may have pre-diabetes or diabetes which requires ongoing care.

Any of the following conditions can increase your risk of getting diabetes. If you:

- Are over the age of 45
- Are overweight
- Do not exercise regularly
- Have a parent or sibling with diabetes
- A woman who has given birth to a baby weighing more than 9 pounds
- Are African American, Hispanic American/Latino, Native American, Asian American or Pacific Islander

Know Your Numbers!

Some of the more common symptoms of diabetes are extreme thirst, frequent urination, increased hunger, fatigue, blurry vision and unplanned weight loss or gain. A simple blood test by your doctor will help you see where you stand.

	Blood Glucose Level (on an empty stomach)
Target	Less than 100 mg/dL
Pre-Diabetes	100-125 mg/dL
Diabetes	126 mg/dL and above (on two tests on different days)