

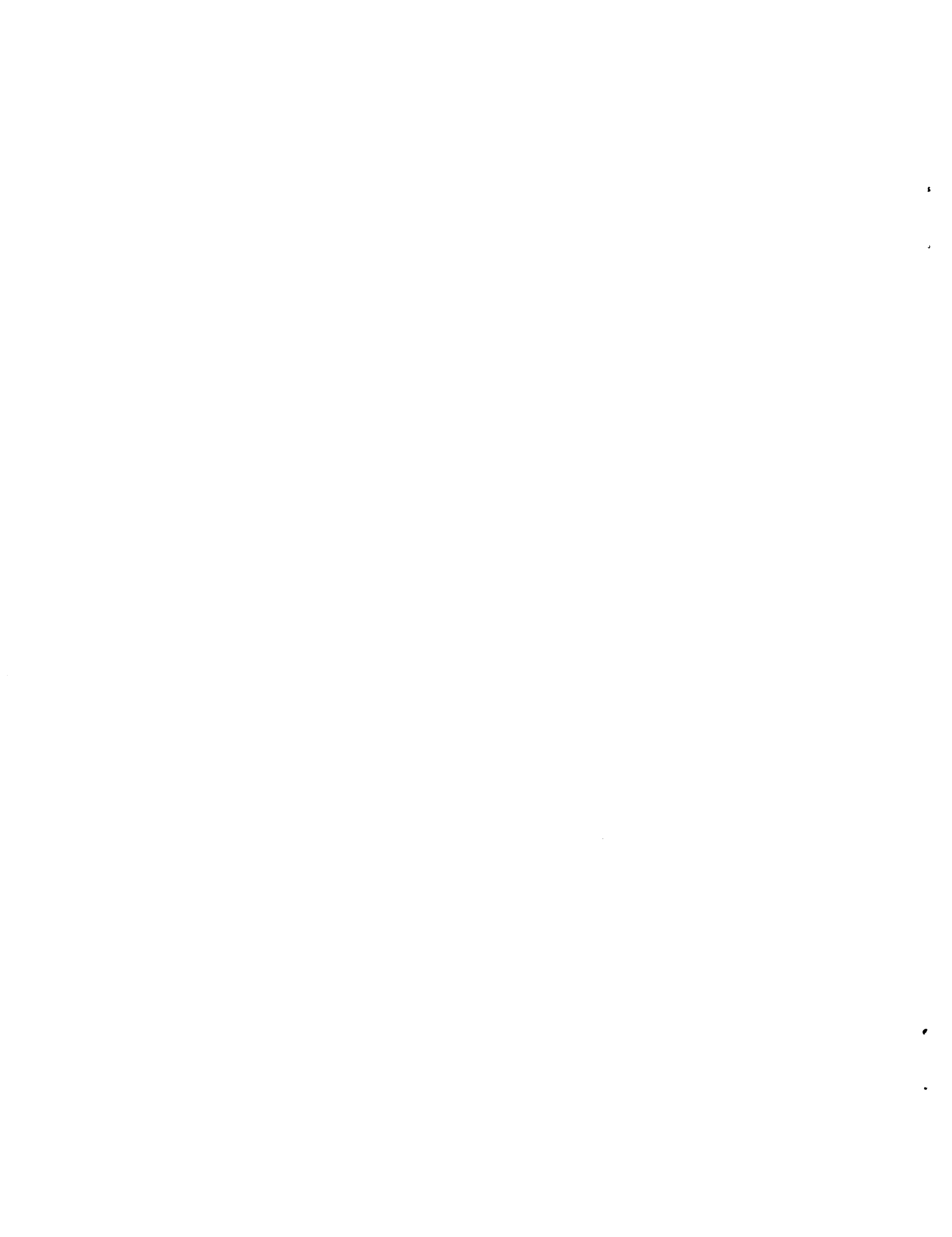
**REPORT OF THE  
SPECIAL COMMITTEE  
ON TEACHER RETIREMENT**

**Senator Nelson Robert Allen, Chair  
Representative Joe Barrows  
Representative Jim Bruce  
Mr. Ted Crosthwait  
Mr. Jack Gardner  
Senator Ed O'Daniel  
Representative David Williams**

**Research Memorandum No. 431**

**Legislative Research Commission  
Frankfort, Kentucky  
January, 1986**

Printed with state funds.





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Minority Floor Leader

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Minority Caucus Chairman

**Helen Garrett**  
Majority Whip

**Jon W. Ackerson**  
Minority Whip

**LEGISLATIVE RESEARCH COMMISSION**

State Capitol

Frankfort, Kentucky 40601

502-564-8100

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**Vic Hellard, Jr.**

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No. 531

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Minority Whip

**MEMORANDUM**

**TO:** Vic Hellard, Jr., Director  
Legislative Research Commission

**FROM:** Janie L. Jones  
Education Committee Staff Administrator

**SUBJECT:** Report of Senate Resolution 22 Study Committee

**DATE:** January 9, 1986

Senate Resolution 22 was approved during the 1985 Extraordinary Session of the General Assembly. The resolution requested that a special legislative committee be established to study the Kentucky Teachers' Retirement System.

This memorandum describes the finding and recommendation of the Committee.

JLJ/chs

1464e

1540e



## REPORT OF SPECIAL COMMITTEE ON TEACHER RETIREMENT

Senate Resolution 22, approved during the 1985 Extraordinary Session of the General Assembly, required the Legislative Research Commission to establish a special committee to study the Kentucky Teachers' Retirement System.

Committee membership consisted of two members of the Interim Joint Committee on Education, two members of the Interim Joint Committee on Appropriations and Revenue, one member of the Interim Joint Committee on Banking and Insurance, and the president and vice-president of the Kentucky Retired Teachers' Association.

Following appointment of the committee members in September, 1985, the Committee met five times prior to the December 1, 1985, deadline established by the resolution. Most meetings were attended by a number of retired teachers and one meeting was devoted to testimony from retired teachers. Among other things, the retired teachers reported that more than 1,200 retired Kentucky teachers are currently living below the poverty level. Members of the Committee agreed that the major concern of the Committee should be the income level of the older retired teacher.

The Committee received extensive data from the Kentucky Teachers' Retirement System, and a representative of the Buck Consulting Actuaries, Inc., actuary for the Retirement System, discussed the system in general and compared Kentucky's system with those of other southern states.

Other actions of the Committee included a discussion of retirement bills which had been prefiled for the 1986 General Assembly and a review of the Kentucky Teacher Retirement System's 1986 legislative proposal. The Committee also approved prefilings of a resolution designating the fourth week of May each year as "Retired Teachers' Week." A second resolution, opposing mandatory Social Security coverage for Kentucky teachers, was sent to Kentucky's Congressional Delegation and to the U. S. Commissioner of Education.

### Characteristics of Retirees

A total of 18,033 persons received some type of benefits from the Teachers' Retirement System during FY 1985. Of that total, 15,653 were on service retirement, 942 were on disability retirement, and the remaining 1,438 received survivor, dependent, or other benefits. The total paid out that year was \$141,288,108.

Ten years earlier in 1976, a total of \$55,262,784 was paid to 10,944 service retirees, 667 disability retirees, and 835 survivor and dependent recipients.

Table I shows data for selected years, to illustrate the growth in the number of retirees.

**Table I**

**SUMMARY OF KTRS BENEFIT PAYROLL INFORMATION 1976 - 1985**

	<u>1985</u>	<u>1983</u>	<u>1981</u>	<u>1978</u>	<u>1976</u>
<b>Service Retirements</b>					
Total Retirees	15,653	14,636	13,522	11,921	10,944
Monthly Payroll \$	10,681,789	9,186,833	7,325,868	5,171,518	4,182,387
<b>Disability Retirements</b>					
Total Retirees	942	874	817	743	667
Monthly Payroll \$	589,357	502,030	405,996	278,760	213,753
<b>Survivor/Dependents</b>					
Total Recipients	1,340	1,292	1,182	938	835
Monthly Payroll \$	485,362	430,298	366,347	252,860	209,092
<b>Miscellaneous</b>					
Total Recipients	98	72	60	--	--
Monthly Payroll \$	17,501	26,768	18,367	--	--
<b>Total Monthly Payroll</b>	<b>\$ 11,774,009</b>	<b>10,145,929</b>	<b>8,116,578</b>	<b>5,703,138</b>	<b>4,605,232</b>
<b>Total Annual Payroll</b>	<b>\$141,288,108</b>	<b>121,751,148</b>	<b>97,398,936</b>	<b>68,437,656</b>	<b>55,262,784</b>
<b>Total Recipients</b>	<b>18,033</b>	<b>16,874</b>	<b>15,581</b>	<b>13,602</b>	<b>12,446</b>
<b>Average Monthly Payment</b>	<b>\$ 653</b>	<b>601</b>	<b>520</b>	<b>419</b>	<b>370</b>

SOURCE: Teachers' Retirement Payroll Records

According to the Retirement System data, members have been retiring at a younger age since 1978, when the penalty was removed for retiring with less than thirty years of service prior to reaching age sixty. Between 1972-78 there were 6,396 retirees; only 1.7% were under age 55. The percentage under age 55 rose to 12.6% for the years 1978-85.

As of July, 1985, the age of members receiving service retirement benefits ranged from ten members between 45 and 49 years old to three members over 100 years old. Close to 2,500 retirees are over eighty years old. Table II shows the number of service retirees by age as of July, 1985.

**Table II**

**AGE BREAKDOWN OF SERVICE RETIREES**

**July, 1985**

<u>Current Age</u>	<u>Number of Retirees</u>	<u>% of Total</u>
45-59	10	.1
50-54	343	2.2
55-59	1,272	8.1
60-64	2,190	14.0
65-69	2,746	17.5
70-74	3,496	22.3
75-79	3,103	19.8
80-84	1,666	10.6
85-89	578	3.7
90-94	207	1.3
95-99	39	.2
100-plus	3	.0

As of June, 1985, slightly over one-third (5,390) of the retirees of all ages receive less than \$500 per month. Of that number, 916 receive less than \$200, 1,042 receive between \$200 and \$300, 1,639 receive between \$300 and \$400, and 1,793 receive between \$400 and \$500. (See Table III.)

Of the approximately 2,500 retirees over age eighty, almost half (1,231) are among the retirees receiving less than \$500 per month in retirement benefits. Of those 1,231, 65 receive less than \$200 per month, 237 receive between \$200 and \$300, 398 receive between \$300 and \$400, and 531 receive between \$400 and \$500 per month.

Table III

NUMBER OF RETIREES RECEIVING  
MONTHLY ANNUITIES OF \$500 OR LESS  
BY AGE

June, 1985

	RANGE OF BENEFIT PAYMENTS				TOTAL
	<u>\$1 - \$200</u>	<u>\$201 - 300</u>	<u>\$301 - \$400</u>	<u>\$401 - 500</u>	
<b>Total Annuitants</b>	916	1,042	1,639	1,793	
<b>Current Age:</b>					
Less than 55	6	1	43	23	73
55-60	111	55	65	51	282
60-70	432	241	274	342	1,289
70-80	302	508	859	846	2,515
80-90	60	209	362	474	1,105
Above 90	<u>5</u>	<u>28</u>	<u>36</u>	<u>57</u>	<u>126</u>
<b>TOTALS</b>	916	1,042	1,639	1,793	5,390

Perhaps the most significant statistic to come to light during the course of the study is the number of retirees who taught for thirty or more years and now receive less than \$500 per month. Table IV shows that of the 5,390 retirees receiving less than \$500 per month, 1,274 have over thirty years of service. Three of the 1,274 receive less than \$200 per month, 11 receive between \$200 and \$300, 512 receive between \$300 and \$400, and 748 receive between \$400 and \$500 per month.



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Table IV

NUMBER OF RETIREES RECEIVING MONTHLY  
ANNUITIES OF \$500 OR LESS  
BY YEARS OF SERVICE

June, 1985

	RANGE OF BENEFIT PAYMENTS			
	<u>\$1 - \$200</u>	<u>\$201 - 300</u>	<u>\$301 - \$400</u>	<u>\$401 - 500</u>
<b>Total</b>				
Annuitants	916	1,042	1,639	1,793
<b>Years of Service:</b>				
Less than 5	84	1	0	0
5 - 10	401	99	8	1
10 - 20	403	607	496	232
20 - 30	25	324	623	812
30 - 40	3	11	505	579
Above 40	0	0	7	169

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Included in Table IV are 176 retirees with more than forty years of service who receive monthly benefits ranging between \$300 to \$500.

At the opposite end of the benefit scale, 2,370 members were receiving more than \$1,000 per month as of July, 1985. Benefits for these members are distributed as follows: 2,261 retirees receive between \$1,000 and \$2,000 per month, 104 receive between \$2,000 and \$3,000, four receive between \$3,000 and \$4,000, and one receives over \$4,000.

**Medical Insurance**

During the period in which a teacher is an active paying member of the Retirement System, a portion of the member's contribution is deposited in the "Survivor, Death, and Medical Insurance Fund." The State deposits an equivalent amount in the fund for the benefit of the member. Among other things, the fund is used to purchase medical insurance for the retired members as well as the active members.

In 1976, the General Assembly lowered the qualifying age for insurance coverage on retirees from 60 to 55.

In 1978, coverage was deleted for the spouses of new members who joined the system after July 1, 1978.

Legislation passed by the 1980 General Assembly provided that premiums paid by the State for medical insurance shall not be considered taxable income for the retiree.

Currently, the amount being deposited in the insurance fund is .62 1/2% of the active member's gross salary. With the state match, the total deposit is 1.25% of gross salary. However, throughout the eighties the rising cost of health insurance has eroded the balance of the fund. Since 1980, expenses of the fund have exceeded the income.

At the end of fiscal 1983, expenses exceeded income of the fund by more than \$5.7 million, resulting in a decision by the board of Trustees to levy a charge of \$10 for insurance coverage for the retiree and \$25 for coverage for the retiree's spouse.

According to information from the Teachers' Retirement System, there are currently 5,704 spouses in the insurance program. Of those in the program, 4,654 (or 82%) are spouses of members with twenty or more years of service. Included in the 4,654 are 3,289 spouses of members with thirty or more years of service. Table V shows the distribution of spouse coverage according to the number of years of service credited to the member.

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Table V

SPOUSE MEDICAL INSURANCE COVERAGE

<u>Member Service</u>	<u>Number</u>
30 years and over	3289
20 - 30 years	1365
10 - 20 years	796
5 - 10 years	<u>254</u>
TOTAL	5704

Note: 4,654 or 82% of the spouses are married to members with 20 or more years of service.

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In 1983 the Board of Trustees of the Retirement System determined that it would be necessary to increase the active member's contribution rate to the insurance fund by .28% of gross pay. The cost of the state match was estimated at \$2.6 million in 1984-85 and \$2.7 million in 1985-86; however, funds were not appropriated by the 1984 General Assembly for the state match. The retirement system then agreed to provide the matching funds for those two years out of the system's excess earnings on investments. In future years the state match will have to be included in the biennial budget.

The members of the Kentucky Retired Teachers' Association have expressed support for eliminating the \$10 insurance premium charge to members, but they have also expressed a willingness to continue the \$25 charge for spouse coverage, if that seems necessary to keep the system financially sound. Data provided by the Retirement System shows 16,595 individuals on either service or disability retirement. Therefore, elimination of the \$10 per month charge for health insurance coverage for the retirees would require an annual appropriation of approximately \$2 million. An additional \$1.7 million per year would be needed to pay the premium for spouse coverage.

The Board of Trustees of the Teachers' Retirement System is proposing that the 1986 General Assembly grant the Board the authority to use up to 2% of the system's annual income from investments to pay the \$10 monthly insurance charge currently being paid by the retiree; the \$25 monthly charge for spouse coverage, under this proposal, would be retained.

### **Cost of Living Increases**

Since 1967 the cost-of-living increases granted retired teachers have averaged approximately one-half of the increase in the consumer price index. This means that the buying power of the retired teacher has steadily declined over the years. The percentage increases granted have varied throughout the years; in the 1984 Session only one percent per year was provided. The 7,941 retirees who earn less than \$500 per month thus received less than \$5 per month increase, while at the same time they were required to begin paying \$10 per month for health insurance.

### **RECOMMENDATIONS**

The Committee approved the following recommendations and endorsements.

1. The Committee recommended that the \$10 insurance premium charge be paid from the Retirement System's income on investments or, if such income is not available, by a direct appropriation by the General Assembly. The Committee does not recommend return of the premiums already paid by retirees unless refunds can be made without affecting other aspects of the program.

2. The Committee recommends that the \$25 insurance premium charge for spouse coverage be continued. However, should funds become available without impacting on the fiscal soundness of the system or other benefits of the retirees, the Committee will support elimination of the \$25 charge.
3. The Committee recommends that a cost-of-living increase of not less than that proposed by the Board of Trustees be provided by the General Assembly. The Board has proposed a first-year increase of one percent per month for each year of retirement, with a maximum of five percent. For the second year, the proposal provides a three percent per month increase. In both cases the increase would be limited to the first \$1,000 of a member's annuity. The Committee strongly emphasizes that this proposal is an absolute minimum cost-of-living increase for retired teachers.
4. The Committee recommends that the current minimum annual allowance of \$88 times the number of years of service credit be increased to \$160 times the years of service credit in FY 1987 and to \$200 times the years of service credit in FY 1988. This change will provide an average monthly allowance of \$500 to those older retirees who are presently receiving small annuity payments.
5. The Committee endorses the concept of retirement with twenty-seven years of service with no reduction in benefits.

# IN SENATE

EXTRAORDINARY SESSION 1985

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SENATE RESOLUTION NO. 22

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FRIDAY, JULY 19, 1985

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Senators Nelson Robert Allen, Benny Ray Bailey, Charles W. Berger, Kenneth O. Gibson, Charles Gregory Higdon, Gene Huff, Robert R. Martin, Danny Meyer, and Eugene Stuart introduced the following resolution which was ordered to be printed.

A RESOLUTION requesting that a special committee be established to study the Kentucky teachers' retirement system.

WHEREAS, our retired teachers have provided a tremendous service to the State of Kentucky and its citizenry; and

WHEREAS, many of our retired teachers dedicated numerous years of their lives, at low salaries, educating our youth; and

WHEREAS, many of our retired teachers are experiencing economic hardships as a result of these low salaries, especially those who retired prior to 1970, and the inflation in our economy in the last decade;

NOW, THEREFORE,

Be it resolved by the Senate of the General Assembly of the Commonwealth of Kentucky:

1           Section 1. That the Legislative Research Commission  
2 be requested to establish a special committee to study  
3 the Kentucky teachers' retirement system.

4           Section 2. Membership of the committee shall com-  
5 prise the following: two (2) members of the interim joint  
6 committee on education; two (2) members of the interim  
7 joint committee on appropriations and revenue; one (1)  
8 member of the interim joint committee on banking and

1 insurance; and two (2) elected leaders of the Kentucky  
2 retired teachers' membership. The chairman of the  
3 committee shall be elected by the membership at the first  
4 meeting which shall be called by the director of the  
5 Legislative Research Commission.

6 Section 3. The committee shall report its findings  
7 and recommendations to the Legislative Research Commis-  
8 sion not later than December 1, 1985.

9 Section 4. Staff services to be utilized by the  
10 committee are estimated to cost \$10,000. These staff  
11 services shall be provided from the regular commission  
12 budget and are subject to the limitations and other  
13 research responsibilities of the commission.





## APPENDIX

- A. Resolution Opposing Mandatory Participation in Social Security by Teachers.
- B. Responses to Resolution.
- C. Kentucky Teachers' Retirement System Legislative Proposal.

A RESOLUTION opposing mandatory participation of teachers in the  
Social Security System.

WHEREAS, the Kentucky Teachers' Retirement System was established  
more than forty years ago to provide a retirement income for teachers; and

WHEREAS, the System has remained actuarially sound while providing  
for the welfare of the retired teacher; and

WHEREAS, teachers are among the lowest paid professionals today and  
would therefore suffer an economic hardship if required to bear the  
additional cost of contributing to Social Security; and

WHEREAS the integrity of the Kentucky Teachers' Retirement System may  
be adversely affected by a forced reduction in participation in the  
System.

NOW, THEREFORE,

Be it resolved by the Special Committee to Study Teachers' Retirement:

Section 1. That the Kentucky Congressional Delegation be informed  
that the Committee is opposed to any requirement mandating that teachers  
in Kentucky participate in the Social Security System.

Section 2. That a copy of this resolution be sent to the members of  
Kentucky's Congressional Delegation, the U. S. Secretary of Education,  
and the Kentucky Education Association.

WILLIAM H. NATCHER  
SECOND DISTRICT, KENTUCKY

WASHINGTON OFFICE:  
7333 RAYBURN HOUSE OFFICE BUILDING

APPENDIX B

MEMBER:

COMMITTEE ON APPROPRIATIONS

SUBCOMMITTEES:

LABOR—HHS—EDUCATION,  
CHAIRMAN

AGRICULTURE AND RELATED AGENCIES  
D.C. BUDGET

**Congress of the United States**  
**House of Representatives**  
**Washington, DC 20515**

December 2, 1985

The Honorable Nelson Robert Allen  
Chairman  
Special Committee to Study  
Teachers' Retirement  
LEGISLATIVE RESEARCH COMMISSION  
State Capitol  
Frankfort, Kentucky 40601

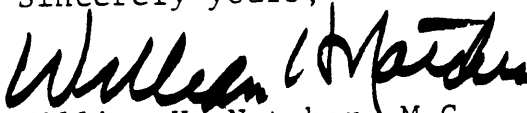
Dear Senator Allen:

This is to acknowledge receipt of your letter of November 27, together with a copy of the Senate Resolution concerning mandatory participation by Kentucky teachers under the Social Security System.

I am against this proposal and want you to know that I will do everything within my power to see that it is not adopted.

I appreciate your sending me a copy of this Resolution at this time and with kind personal regards, I am

Sincerely yours,

  
William H. Natcher, M.C.



UNITED STATES DEPARTMENT OF EDUCATION  
OFFICE OF THE ASSISTANT SECRETARY FOR LEGISLATION AND PUBLIC AFFAIRS

December 3, 1985

The Honorable Nelson Robert Allen  
Chairman, Special Committee to  
Study Teachers' Retirement  
State Capitol  
Frankfort, Kentucky 40601

Dear Senator Allen:

Thank you for sending Secretary Bennett a copy of the resolution of the Special Committee to Study Teacher Retirement which opposes mandatory participation of Kentucky teachers in the Social Security Program.

It is encouraging to note that the State of Kentucky has designed a teachers' retirement program which provides adequate benefits for retired teachers. Through such efforts, states should reap substantial long-range benefits such as the attraction of capable and dedicated teachers who ultimately provide a high quality education program.

Sincerely,

Frances M. Norris  
Deputy Assistant Secretary  
for Legislation

LARRY J. HOPKINS

6TH DISTRICT, KENTUCKY

COMMITTEES:  
AGRICULTURE  
ARMED SERVICES



331 CANNON HOUSE OFFICE BUILDING  
WASHINGTON, DC 20515  
(202) 225-4708

VINE CENTER  
ROOM 207  
333 WEST VINE STREET  
LEXINGTON, KY 40507  
(606) 233-2848

**Congress of the United States**  
**House of Representatives**

December 12, 1985

Honorable Nelson R. Allen  
Chairman  
Special Committee to  
Study Teachers' Retirement  
Capitol  
Frankfort, Kentucky 40601

Dear Nelson:

Thank you for your letter expressing concern for the future of the Kentucky Teachers Retirement System. I would like to take this opportunity to inform you of recent Congressional proceedings.

On October 31, 1985, I voted against H.R. 3128, which mandates participation in the Medicare Program by all state and local employees hired after January 1, 1986.

Since my days in the Kentucky State legislature, I have consistently worked to protect the integrity of the Kentucky Teachers Retirement System and was pleased to have this opportunity to do so again on the federal level. The Medicare expansion was attached to a bill which attempted, however feebly and in my view unsatisfactorily, to reduce the deficit. I am sorry more Members of Congress were not willing to insist on a "cleaner" anti-deficit bill, but the political pressure to be able to go home and brag to constituents about their new-found fiscal conservatism obviously overwhelmed enough of my colleagues to pass the bill.

The Senate is now considering its own budget reconciliation legislation which includes a provision to bring all current and newly hired state and local employees, including public teachers into the Medicare system. After this passes the Senate, a conference committee will convene to resolve the differences between the two plans and present a compromise bill to the House and Senate floors for a vote.

I look forward to hearing from you regarding this and any other issue of importance to you.

Yours very truly,

A handwritten signature in cursive script, appearing to read "Larry J. Hopkins".

LARRY J. HOPKINS  
Member of Congress

LJH:js

CARROLL HUBBARD  
CONGRESSMAN  
1ST DISTRICT, KENTUCKY

2182 RAYBURN HOUSE OFFICE BUILDING  
WASHINGTON, DC 20515  
(202) 225-3115

Congress of the United States  
House of Representatives  
Washington, DC 20515

DEPUTY MAJORITY WHIP  
COMMITTEES  
BANKING, FINANCE AND  
URBAN AFFAIRS  
MERCHANT MARINE  
AND FISHERIES  
CHAIRMAN, SUBCOMMITTEE ON  
GENERAL OVERSIGHT  
AND INVESTIGATIONS OF THE  
BANKING COMMITTEE

December 11, 1985

Honorable Nelson R. Allen  
Chairman, Special Committee to  
Study Teachers' Retirement  
Legislative Research Commission  
State Capitol  
Frankfort, KY 40601

Dear Nelson:

This is to acknowledge and thank you for your letter of  
November 29 and resolution.

Nelson, I appreciate your taking the time to write and  
express your opposition to legislation which would force teachers  
into the Social Security system.

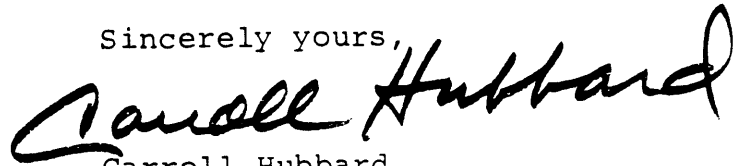
As you may know, unfortunately, the full House on October 31  
approved H.R. 3128, on which I voted No. An amended version of  
this legislation passed the Senate on November 14.

Please know that you may count on my continuing opposition  
to this measure when the House-Senate conference report is brought  
to the House floor for a final vote.

Again, many thanks for your letter. Feel free to contact me  
whenever there is a matter of interest or concern.

With best wishes for you, I am

Sincerely yours,



Carroll Hubbard  
Member of Congress

CH/lp

United States Senate  
WASHINGTON, DC 20510

December 4, 1985

Dear Nelson:

I very much appreciated receiving a copy of the resolution approved by the Special Committee to Study Teacher Retirement in opposition to placing Kentucky teachers under the Social Security system. Let me assure you that I share your concerns.

As you may know, the Senate and House have both completed action on the deficit reduction measure, the so-called reconciliation bill, which implements the savings mandated by the FY 86 budget resolution. Contained in both versions of the bill is a provision which would mandate Medicare coverage for all state and local employees, which would include Kentucky teachers. The House version would mandate coverage for all newly hired employees, while the Senate version would bring all current and newly hired employees under Medicare. However, neither bill provides for Social Security coverage of these employees, nor was such a move even discussed during mark-ups by the Senate Finance and House Ways and Means Committees.

There is some concern that Medicare coverage for state and local employees is just a first step to complete Social Security coverage. I would hope that would not be the case. While there are equity arguments for bringing these workers into the Medicare system, over 80 percent of whom will receive Medicare benefits without paying into the system, the same logic does not follow for Social Security coverage. Bringing these employees, including teachers, into the system would be shortsighted, appearing to reduce the deficit today while adding a tremendous liability to the system in later years. I would not support such a change.

The Honorable Nelson Robert Allen  
1985

-2-

December 4,

The Committee's position on this issue is most valuable to me, Nelson, and I appreciate your keeping me informed of action you are taking. Please give my best wishes to the Committee and assure them that I will not support a move to bring Kentucky teachers under Social Security.

Sincerely,

A handwritten signature in cursive script, appearing to read "Wendell", followed by a horizontal line.

The Honorable Nelson Robert Allen  
Legislative Research Commission  
Special Committee to Study  
Teachers' Retirement  
State Capitol  
Frankfort, Kentucky 40601



1986 LEGISLATIVE RECOMMENDATIONS FOR KTRS

## 161.420 Funds of the retirement system

All of the assets of the retirement system are for the exclusive purpose of providing benefits to members and annuitants and defraying reasonable expenses of administering the system. The board of trustees shall be the trustee of all funds of the system and shall have full power and responsibility for administering the funds. It is hereby declared that the restrictions and rights provided herein shall not be subject to reduction or impairment by alteration, amendment or appeal. All the assets of the retirement system shall be credited according to the purpose for which they are held to one (1) of the following funds: ---

COMMENT: This is an effort to insure that the funds of the System are used exclusively for providing member benefits and reasonable administrative expenses.

(6) The guarantee fund shall be maintained to facilitate the crediting of uniform interest on the amounts of the other funds, except the expense fund, and to provide a contingent fund out of which special requirements of any of the other funds may be covered. All income, interest and dividends derived from the authorized deposits and investments shall be paid into the guarantee fund. Any funds received from gifts and bequests, which the board is hereby authorized to accept, shall be credited to the guarantee fund. Any funds transferred from the teachers' savings fund by reason of lack of claimant or because of a surplus in any fund and any other moneys whose disposition is not otherwise provided for, shall also be credited to the guarantee fund. The interest allowed by the board of trustees to each of the other funds shall be paid to such funds from the guarantee fund. Any deficit existing in any fund shall not be automatically covered, shall be met by the transfer of funds from the guarantee fund to that fund. The board of trustees may at the conclusion of a fiscal year transfer from the guarantee fund to the survivor, death and medical insurance fund an amount not to exceed two percent (2%) of the income earned from investments during the immediate past year.

COMMENT: This limited transfer of investment earnings will enable the System to drop the \$10 monthly premium charge for retired members. The amount of funds is restricted because the balance of all investment earnings is needed to be applied toward the System's liabilities for the retirement programs.

## 161.520 Survivor benefits

(1) Where there is a surviving widow or widower who is named as beneficiary of the member's retirement account, the benefit shall be:

(a) One hundred eighty dollars (\$180) per month with no restriction on other income; or

(b) Two hundred and twenty dollars (\$220) [Two hundred dollars (\$200)] per month when the surviving widow or widower's total income from all sources does not exceed six thousand dollars (\$6,000) per year or five hundred dollars (\$500) per month; or

(2) Where there are surviving unmarried children under age eighteen (18) or under age nineteen (19) if a full-time student in high school, the benefit shall be one hundred eighty dollars (\$180) [one hundred sixty-five dollars (\$165)] per month in the case of one (1) such child, three hundred ten dollars \$310 [two hundred ninety dollars (\$290)] per month in the case of two (2) such children, three hundred sixty dollars (\$360) [three hundred forty dollars (\$340)] per month in the case of three (3) such children, and four hundred dollars (\$400) [three hundred seventy dollars (\$370)] per month in the case of four (4) or more such children. Benefits under this subsection shall apply notwithstanding benefits which may be payable under subsections (1) and (3).

COMMENT: The amounts paid to survivors have not been increased in four years. The proposed increases are limited to spouses with limited income and minor children. The Actuary is analyzing the cost and the cost will be included in the 1986-88 budget request as a separate item.

161.525 Death of member eligible to retire

(3) Upon death of a member in active contributing status at time of his death, who had a minimum of thirty (30) years of service, the spouse, if named as the beneficiary of the member's account shall be entitled to a monthly minimum allowance of three hundred dollars (\$300.00) as the basic straight life annuity. This provision applies to surviving spouses of members who were receiving benefit payments under KRS 161.520 as of June 30, 1986 and to surviving spouses of members who die on or after July 1, 1986.

COMMENT: The 1984 General Assembly amended the law to permit surviving spouses of deceased disability retirees with 30 or more years of service to receive a monthly allowance of \$300. The above proposal would provide the same treatment for surviving spouses of members with 30 or more years of service who died prior to retirement. The change will affect 16 spouses who are now receiving \$180 or \$200 a month and their average age is 82.

161.620 Retirement allowances

(3) Any member qualifying for retirement under a life annuity with refundable balance shall be entitled to receive an annual allowance amounting to not less than one hundred sixty dollars (\$160) [eighty-eight dollars (\$88)] multiplied by the service credit years of the teacher except that no retired teacher who was sixty (60) years of age or older at retirement, and who has five (5) years or more service credit in a position covered by the teachers' retirement system shall receive a monthly benefit of less than seventy-five dollars (\$75). The above minimums shall be effective July 1, 1986, [July 1, 1978,] and shall apply to the retired members receiving annuity payments as of that date and to those members retiring on or subsequent to that date.

(4) Any member qualifying for retirement under a life annuity with refundable balance shall be entitled to receive an annual allowance amounting to not less than two hundred dollars (\$200) multiplied by the service credit years of the teacher except that no retired teacher who was sixty (60) years of age or older at retirement, and who has five (5) years or more service credit in a position covered by the teachers' retirement system shall receive a monthly benefit of less than seventy-five dollars (\$75). The above minimums shall be effective July 1, 1987, and shall apply to the retired members receiving annuity payments as of that date and to those members retiring on or subsequent to that date.

(5) [(4)] The minimum provided in this section shall apply in the case of teachers retired or retiring under an option other than a life annuity with refundable balance in the same proportion to the benefits of the teacher and his beneficiary or beneficiaries as provided in the duly adopted option tables at the time of the member's retirement.

(6) [(5)] Effective July 1, 1986, [July 1, 1982,] the monthly allowance of each member retired on or before July 1, 1985, [July 1, 1981,] and each recipient of a retirement option of such retired members shall be increased in the amount of one percent (1%) of the monthly allowance for each year the member has been retired up to a maximum of five (5) years. The percentage increases shall be based on an assumed maximum allowance of one thousand dollars (\$1,000) per month of annuity in effect the previous month.

(7) Effective July 1, 1987, the monthly allowance of each member retired on or before July 1, 1986, and each recipient of a retirement option of such retired member shall be increased in the amount of three percent (3%) of the monthly allowance. The percentage increases shall be based on an assumed maximum allowance of one thousand dollars (\$1,000) per month of annuity in effect the previous month.

COMMENT: Paragraph (3) increases the minimum value of a year of service from \$88 to \$160 effective July 1, 1986. The new paragraph (4) increases the minimum value per year of service to \$200 effective July 1, 1987. These changes affect retirees who taught at very low salaries, have been retired an average of eighteen years, and who are receiving small annuity payments. There would be no increase for persons who retired with a final average salary of \$10,000 or larger. The monthly allowance would average \$500 after the changes.

The new paragraphs (6) and (7) provide cost-of-living increases for retired members on July 1, 1986 and July 1, 1987.

161.675. Contracts for hospital and major medical insurance for members retired for service or disability - Premiums exempt from premium tax. -

(1) The board of trustees is empowered to enter into contracts with insurance carriers for the purpose of providing a broad program of hospital and medical insurance coverage to members retired for service or disability. Coverage may be extended to the spouses and minor children of said retired members, provided the member began participating in the teachers' retirement system prior to July 1, 1978. Coverage may also be extended to spouses and to minor children of members in active contributing status who are deceased prior to retirement if the surviving spouse is eligible to receive the member's retirement benefit as provided in KRS 161.525 and elects to do so. The board of trustees may offer coverage to spouses not eligible for regular coverage on a cost basis.

COMMENT: This change will permit spouses not eligible for regular spouse coverage to purchase coverage on the basis of cost to the system. This option would be meaningful for older persons who have difficulty in obtaining medical insurance coverage.



