

Kentucky Retirement Systems

Understanding Your Retirement Benefits



*Informational Handbook For
Non-Hazardous Employees*

Kentucky Employees Retirement System (KERS)

County Employees Retirement System (CERS)

2007-2008

What Is Kentucky Retirement Systems?

The Commonwealth of Kentucky provides retirement benefits for most state and county employees through the Kentucky Retirement Systems (Systems). The Systems are governed by a nine member Board of Trustees and consists of three separate Retirement Systems:

Kentucky Employees Retirement System (KERS)

Established July 1, 1956 for state employees

County Employees Retirement System (CERS)

Established July 1, 1958 for local government employees and classified school board employees

State Police Retirement System (SPRS)

Established July 1, 1958 for uniformed Kentucky State Police officers

Funding for retirement benefits is provided by employee contributions deducted from an employee's wages, employer contributions paid by each state and county agency participating in the Systems, and investment income.

The employee contribution rate is set by state statute. Non-hazardous employees currently contribute 5% of total gross earnings.

Employers contribute at the rate determined by the Board of Trustees to be necessary for the actuarial soundness of the systems, as required by Kentucky Revised Statute 61.565.

Contributions to the Systems are currently tax deferred.

When Can I Retire?

For Non-Hazardous members, the requirements for **Normal Retirement** are:

A non-hazardous member, age 65 or older, with at least 1 month of service credit, may elect to receive a benefit for life that is an actuarial equivalent to twice the member's contributions and interest.

A non-hazardous member, age 65 or older, with at least 48 months of service credit, is eligible to receive an unreduced monthly benefit for life based on the member's salary and service credit.

For Non-Hazardous members, the requirements for **Early Retirement** are:

A non-hazardous member with 27 or more years of service credit can retire at any time with no reduction in benefits.

A non-hazardous member with at least 25, but less than 27 years of service credit, may retire at any time, prior to age 65, with a reduction in benefits.

A non-hazardous member, age 55, with at least 5 years of service credit, may retire with a reduction in benefits.

If a member is eligible for a reduced benefit, the amount of reduction will depend upon the member's age or years of service at retirement. The following chart shows the reductions for age or service.

% of Benefit Paid For Each Year A Non-Hazardous Member is Short of 27 Years of Service or Age 65

1 Year	93.5%	6 Years:	63.0%
2 Years:	87.0%	7 Years:	58.5%
3 Years:	80.5%	8 Years:	54.0%
4 Years:	74.0%	9 Years:	49.5%
5 Years:	67.5%	10 Years:	45.0%

How Is My Monthly Benefit From The Systems Determined?

The three systems administered by the Systems are qualified defined benefit plans. A defined benefit plan pays benefits based on a formula. The formula for calculation of benefits is:

$$\text{Final Compensation} \times \text{Benefit Factor} \times \text{Years of Service} = \text{Annual Benefit}$$

Final Compensation

By definition, Final Compensation is the average of the five (5-High) or three (3-High) fiscal years during which the member had the highest monthly average salary. Final Compensation is determined by dividing the total salary earned during the period (5-High or 3-High) by the total months worked during the period and then multiplying by twelve (to annualize the value).

If the Final Compensation is based on the 5-High, it must include at least 48 months and a minimum of five fiscal years. When Final Compensation is based on the 3-High, it must include at least 24 months and a minimum of three fiscal years.

In both cases, if the years with the highest monthly average (5-High or 3-High) do not contain the minimum number of months required (48 months or 24 months), additional years must be added into the Final Compensation until the minimum number of months required has been obtained. The fiscal years do not have to be consecutive, although for most members, the last years are generally the years of highest earnings.

Non-Hazardous members may qualify for either a 5-High or 3-High Final Compensation calculation. In order to qualify for 3-High Final Compensation, a non-hazardous member must meet all of the following:

1. You must have a minimum 27 years of service credit.
2. Your age + service credit must equal at least 75 years.
3. Your effective date of retirement is between August 1, 2001 and January 1, 2009.

Non-Hazardous members who do not meet the criteria for 3-High Final compensation qualify for 5-High Final Compensation.

EXAMPLE

John Doe is a non-hazardous employee and is planning to retire August 1, 2008. John's Final Compensation under 5-High Final Compensation and 3-High Final Compensation (if he would be eligible) for this retirement date is listed below.

Fiscal Year	High-5 Final Compensation		High-3 Final Compensation	
	Salary	Mos.	Salary	Mos.
2008-2009	\$2,625.00	1	\$2,625.00	1
2007-2008	\$30,000.00	12	\$30,000.00	12
2006-2007	\$28,500.00	12	\$28,500.00	12
2005-2006	\$27,000.00	12	-----	----
2004-2005	\$25,500.00	12	-----	----
Total:	\$113,625.00	49	\$61,125.00	25
	\$113,625.00		\$61,125.00	
	÷ 49 Months		÷ 25 Months	
	X 12 (to annualize value)		X 12 (to annualize value)	
Final Comp.:	\$27,826.53		\$29,340.00	

Benefit Factors

Benefit factors for each retirement system (KERS, CERS, and SPRS) are set by state statute. Benefit factors are different for each retirement system and vary depending upon the type of service (hazardous/non-hazardous), the amount of service, and in some cases the timing of the service and/or retirement date. The benefit factors for Non-Hazardous members are as follows:

- KERS is 1.97% - IF: Member does not have 13 months credit from 1/1/1998 through 1/1/1999
- KERS is 2.0% - IF: Member has 13 months credit from 1/1/1998 through 1/1/1999
- KERS is 2.2% - IF: Member has 13 months credit from 1/1/1998 through 1/1/1999, has 20 or more years of service credit, and retires between 2/1/1999 and 1/1/2009
- CERS is 2.2% - IF: Member began participating prior to 8/1/2004
- CERS is 2.0% - IF: Member began participating on or after 8/1/2004

Years of Service

The service used to calculate retirement benefits includes current service, prior service, purchased service, and sick leave service (if the agency participates in a Systems approved sick leave program).

1. **Current Service:** Current service is service earned as a contributing member. For each month in which wages and contributions are reported for regular full-time employment, a member earns one month of service credit.

A regular full-time position is a position that averages 100 or more hours per month over a calendar or fiscal year. For local school boards, a regular full-time position is a permanent full-time, permanent part-time or substitute non certified position where the job duties require the employee to average 80 or more hours of work per month over the actual days worked.

2. **Prior Service:** Prior service is all service rendered before July 1, 1956 in KERS and July 1, 1958 in CERS and SPRS. There is no cost for this service. A member must have a minimum of 12 months current service in the same system in which he has the prior service in order to use the prior service toward a retirement benefit. Prior service is only credited for months in which the member worked at least 100 hours in performing his job duties.

3. **Purchased Service:** There are more than 30 types of service a participating member may purchase in order to increase service credit. The requirements for each purchase type are regulated by state statute and the appropriate verification must be filed with the Systems before the purchase cost can be calculated.

4. **Sick Leave Service:** Most members of KERS and SPRS receive service credit for all unused accumulated sick leave at the time of retirement. Members of CERS *may* receive service credit for their sick leave at the time of retirement if their employer has adopted a sick leave program with the Systems. There are 2 types of sick leave programs that the CERS employer may adopt – Standard or Alternate.

EXAMPLE BENEFIT CALCULATION

John Doe works in a non-hazardous position for an agency participating in CERS. He is retiring August 1, 2008 with a Final Compensation of \$29,340.00 and 27 years of service credit. The formula at full retirement is as follows:

Final Compensation	x	Benefit Factor	x	Years of Service	=	Annual Benefit
\$29,340	x	2.20%	x	27 Years	=	\$17,427.96
$\$17,427.96 \div 12 \text{ Months} = \$1,452.33 \text{ per month under the Basic Option.}$						

Upon retirement, a member may elect to receive the Basic Option payment. However, the Systems provides various payment options so that a retiring employee can select a monthly benefit option more suited to his or her particular retirement needs.

Can I Buy Additional Service Credit?

There are more than 30 types of service an employee may purchase in order to increase service credit. Most types of service must meet the following minimum requirements in order to be purchased:

The service must be in a full-time position in accordance with KRS 61.510 and KRS 78.510.

The service cannot be credited to another defined benefit retirement plan.

The member or the employer must provide verification of employment as required by the Systems.

Most purchase types also require the member to be vested in KERS, CERS, or SPRS at the time the purchase is made. In order to be vested, a member under the age of 65 must have at least 60 months of service credit, while a member over the age of 65 must have at least 48 months of service credit. Retirees or members who are not contributing to one of the state administered retirement systems cannot purchase service credit. Retirees who have returned to work and are contributing to a new retirement account cannot purchase service they were eligible to purchase prior to their initial retirement.

Some types of service available for purchase include;

- Non-Qualified Service
- Active Duty Military
- State University Service
- Federal Service
- School Board Summer Months
- Seasonal or Temporary Service

For a complete listing, please refer to the Systems Summary Plan Description.

Using Service Purchases to Vest For Benefits

2004 legislative amendments mandate that service purchased **on or after August 1, 2004** by current and future employees will not be used to determine insurance benefits at retirement. There are two exceptions to this amendment: recontribution of refunded service and omitted service.

Legislative changes in 2004 also provide that service purchased by employees who began participating **on or after August 1, 2004** will not apply toward vesting for health insurance or retirement benefits. The same two exceptions apply to this amendment.

Will I Have Health Insurance When I Retire?

The Systems provides group rates on medical insurance and other managed care coverage for retired members. Participation in the insurance program is optional and requires the completion of the proper forms at the time of retirement in order to obtain the insurance coverage. The Systems provides access to health insurance coverage through the Kentucky Employees Group Health Plan for recipients until they reach age 65 and/or become Medicare eligible. After a retired member becomes eligible for Medicare, coverage is available through a Medicare eligible plan offered by the Systems. A retired member's spouse and/or dependents may also be covered on health insurance through the Systems.

Benefits for Members Participating Prior to July 1, 2003

The Systems pays a percentage of the monthly contribution rate for medical insurance coverage based on the retired member's years of service and type of service (hazardous or non-hazardous). The percentage of the monthly contribution rate paid is shown in the following table.

Percent of the Monthly Insurance Contribution Paid Based Upon Service Credit at Retirement

Years of Service Credit	% Paid ¹
At least 4 years but less than 10 years	25%
At least 10 years but less than 15 years	50%
At least 15 years but less than 20 years	75%
20 or more years	100%

¹100% of the monthly contribution is paid toward health insurance for a retired member in a non-hazardous position who is totally disabled from any employment as a result of a duty-related injury regardless of actual service.

100% of the monthly contribution is paid toward health insurance for the spouse and dependent children of a member who was in a non-hazardous position and died as a result of a duty related injury, regardless of the deceased member's service. The insurance benefit will be provided as long as the spouse and dependent children are eligible for a monthly benefit.

Members Participating On or After July 1, 2003

For a member whose participation began on or after July 1, 2003, eligibility for insurance benefits shall not be provided until the member has earned at least one hundred twenty (120) months of service in the state-administered retirement systems.

Non-Hazardous members whose participation begins on or after July 1, 2003 will earn a contribution for insurance of ten dollars (\$10) per month for each year of earned service.

EXAMPLE

If a non-hazardous member began participating July 1, 2003 and retires with 20 years of actual service, the contribution paid by the Systems for insurance coverage is \$200 per month.

The monthly insurance contribution will be increased annually by the change in the Consumer Price Index (CPI) not to exceed 5%. The annual increase shall be cumulative and shall continue to accrue after the member's retirement for as long as a monthly insurance contribution is payable to the retired member or beneficiary.

For retired reemployed members whose reemployment begins on or after July 1, 2003, the second account will stand on its own in regard to the insurance paid by the Systems.

What If I Become Disabled?

Qualification

A non-hazardous member may qualify for disability if:

- The member has at least 60 months of service credit, 12 of which are credited as current service.
- The member applies within 24 months of the last day of paid employment in a regular full-time position.
- The medical examiners employed by the Systems determines that the member is functionally incapacitated since his or her last day of paid employment from performing his or her job, or a job of similar duties.

In addition, members participating prior to August 1, 2004 who are eligible for an unreduced benefit may not apply for a disability benefit.

An incapacity must not result directly or indirectly from bodily injury, mental illness, disease or condition which pre-existed membership in the Systems or reemployment, whichever is more recent. This prohibition shall not apply if the incapacity is the result of bodily injury, mental illness, disease, or condition that has been substantially aggravated by an injury or accident arising out of or in the course of employment, or if the member has at least 16 years of current or prior service with employers participating in the Systems.

Disability In the Line of Duty

The 60 month service requirement shall be waived if the disability is a result of a duty-related injury. A duty related injury is a single traumatic event that occurs while the employee is performing the duties of his position; or a single act of violence committed against the employee that is found to be related to his job duties, whether or not it occurs at his job site. The person must be totally and permanently disabled to engage in any occupation for remuneration or profit as a result of a duty related injury.

What Happens If I Die Before Retiring?

Naming a Beneficiary

Prior to retirement, a member may name a principal and contingent beneficiary for his or her retirement account by completing and filing a Form 2035, Beneficiary Designation, with the Systems. The principal beneficiary will receive benefits in the event of the member's death. The contingent beneficiary will receive benefits in the event of the member's death ONLY if all of the named principal beneficiaries are deceased. A beneficiary may be one individual, multiple individuals, the member's estate, or a trust. Prior to retirement, a member may change his or her beneficiary designation at any time by completing and submitting a new Form 2035 to the Systems.

Will My Beneficiary Receive a Monthly Benefit?

The beneficiary of a deceased member will be eligible for a monthly benefit if the member was:

- Eligible for Normal or Early Retirement at the time of death; or
- Under the age of 55 with at least 60 months of service credit and currently working for a participating agency at the time of death; or
- No longer working for a participating agency but at the time of death had at least 144 months of service credit.

Payment Options Available to Beneficiaries

If the beneficiary is eligible for a monthly benefit, the following payment options are provided:

If the beneficiary is an *individual*, the beneficiary may choose a lifetime monthly benefit which is equal to the Survivorship 100% Option amount. A single beneficiary may also choose a lump sum actuarial refund, a monthly payment for 5 years, or a monthly payment for 10 years.

Multiple beneficiaries, an estate, or a trust may choose a lump sum actuarial refund, a monthly payment for 5 years, or a monthly payment for 10 years.

Benefits paid to the beneficiary are based on the amount that would have been payable to the member had he or she filed for retirement at the time of death.

Death In the Line of Duty

The spouse of a non-hazardous member whose death resulted from a single traumatic event that occurred while the employee was performing the duties of his or her position or an act of violence committed against the employee that was related to the member’s job duties shall be eligible for the higher of the normal death benefit or a \$10,000 lump sum payment. In addition, each eligible dependent child will receive 10% of the member’s monthly final rate of pay up to a maximum of 40%.

\$5,000 Death Benefit

If the retiring member will be receiving a monthly benefit based on at least 48 months or more of combined service with KERS, CERS, or SPRS, he or she is entitled to name a beneficiary for a \$5,000 death benefit payable upon his or her death to an individual, estate, or established trust. This benefit is not a form of insurance since there is no policy. With the \$5,000 death benefit, the member can name a beneficiary other than the person named for the monthly benefit and can change the beneficiary designation at any time.

Members with multiple accounts are entitled to only one death benefit. The \$5,000 death benefit is subject to federal income tax, but may be eligible for rollover into a qualified plan if the beneficiary was also the spouse of the member.

What Happens If I Die After Retiring?

Naming A Beneficiary

At the time of retirement, the member may name ONLY ONE PERSON, his or her estate, or a trust as beneficiary of the monthly retirement allowance. The retired member may not change this designation once the first retirement allowance has been issued from the State Treasurer. If the beneficiary dies or divorces the retired member, state law provides that the member’s estate becomes the beneficiary. There are no survivorship payment options available if the beneficiary is the estate or a trust.

What If I Have Service in Another State Administered System?

Members who have service in more than one retirement plan administered by the Commonwealth of Kentucky may be allowed to combine the service in the plans to determine eligibility for benefits, total service credit and final compensation (years of highest salary). Each system will pay a benefit based on the amount of service in that system.

State Administered Retirement Systems

- Kentucky Employees Retirement System (KERS)¹
- County Employees Retirement System (CERS)¹
- State Police Retirement System (SPRS)¹
- Kentucky Teachers Retirement System (KTRS)
- Legislators Retirement Plan (LRP)
- Judicial Retirement Plan (JRP)

EXAMPLE

John was employed with a local board of education in a classified position and accumulated 10 years of service in CERS. He is now employed with the same board of education as a teacher and has accumulated 17 years of service in KTRS. John would be eligible to retire at any age with no reductions in his retirement benefits because he has accumulated a combined total of 27 years of service. John would receive a retirement check from CERS based upon his 10 years of service and a separate retirement check from KTRS based on his 17 years of service. John would need to apply to each retirement system separately for retirement benefits.

¹Note: KERS, CERS, and SPRS are administered by Kentucky Retirement Systems (Systems). Questions pertaining to any other retirement system should be directed to the appropriate retirement system.



What Happens to My Account If I Leave Employment?

Termination of Employment

Upon termination of employment, you have three options in regard to your retirement account: (1) retire if eligible; (2) leave the contributions in the Systems until you reach retirement eligibility; or (3) or take a refund of your account balance.

Refund of Contributions

If you choose to take a refund of your account balance, you will receive your employee retirement contributions plus any accumulated interest. You will not receive a refund of any employer contributions made on your behalf.

Payment of your refund can be made directly to you or the funds can be rolled into another qualified retirement plan. If you elect to receive a direct payment, the Systems is required to withhold 20% for federal income taxes. The amount withheld is not a penalty tax and will apply towards your federal tax liability for the year in which the refund was issued. Additional taxes due to age or other factors may also apply if you choose to receive a direct payment.

In order to process a refund of contributions, you must complete a Form 4525, Request for Refund of Contributions. In addition, a completed Form 2001, Membership Information, must be on file with the Systems. The agency reporting official is also required to submit a completed Form 2020 or Personnel Action Form listing your date of termination. A refund cannot be issued until all three forms are filed with the Systems.

Minimum Distribution Requirements

Federal tax law requires members who are no longer working for a participating the Systems employer to begin drawing benefits or withdraw contributions soon after reaching age 70 ½. If you are age 65 or older, you may wish to begin planning for withdrawal or retirement in order to avoid any applicable penalties. If you are age 70 ½ or older and no longer contributing to one of the Systems, please contact the retirement office immediately for the appropriate forms to apply for retirement or a refund to avoid substantial and recurring federal tax penalties.

Federal tax law also requires the beneficiary of an active or retired member to begin receiving benefits or take a refund soon after the member's death. Beneficiaries should contact the retirement office soon after the member's death to begin receiving benefits or take a refund in order to avoid any applicable penalties.

Will My Benefits Increase After Retirement?

The 1996 General Assembly enacted an automatic cost of living adjustment ("COLA") provision for all recipients of Kentucky Retirement Systems benefits. Each year in July, a recipient's retirement allowance is increased by the average annual increase in the CPI for all urban consumers for the preceding calendar year not to exceed 5%. The CPI is announced in January by the U.S. Department of Labor, Bureau of Statistics.

The COLA is given automatically. However, the General Assembly has the authority to reduce, suspend or eliminate the COLA in the future. The COLA is not a guaranteed benefit.

What Are My Responsibilities?

New Employee

Upon employment in a regular full-time position, an employee is required to complete a Form 2001, Membership Information, and a Form 2035, Beneficiary Designation. No benefit will be paid, including a refund of account, until a completed Form 2001 is received in the Systems' office. Valid forms must be on file at the retirement office in Frankfort to be effective.

Change of Address

It is important to keep your address current with the Systems. Doing so will ensure retirement checks, annual statements, newsletters, and any requested materials are delivered to you on time. If you need to change your address with the Systems, please follow the procedures listed below:

- **Check With the Post Office:** Be sure that your correct address is on file at the U.S. Post Office. Each month, the Systems updates the address on file for you with the U.S. Post Office through the National Change of Address (NCOA) system. If the correct address is not on file with the Post Office, your address on file at the retirement office may be replaced with an incorrect address, and mail from the Systems may not be forwarded by the Post Office.
- **Complete and File a Form 2040:** You should also complete a Form 2040, Change of Address Notification and file it with the Systems. A copy of this form can be sent to your home address by calling the Systems or you can download a copy from the web site.

How Do I Contact the Retirement Office?

Members with questions about their accounts can contact the Retirement Office through the following methods:

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 Phone	1-800-928-4646 outside Frankfort 502-696-8800 in Frankfort	Telephone inquiries are handled by the Systems' call center, which assists callers in obtaining services or forms and with answers to questions about the Systems. You can also make an appointment to see a KRS counselor at the retirement office or submit a request for information by contacting the Call Center.
Web Page	Visit us online at: www.kyret.com	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.

