

The Road to Retirement

Planning and Strategies for Your Retirement



Plan Administration

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

Kentucky Employees Retirement Systems (KERS) established July 1, 1956 for state employees.

County Employees Retirement Systems (CERS) established July 1, 1958 for local government employees and classified school board employees.

State Police Retirement Systems (SPRS) established July 1, 1958 for uniformed Kentucky State Police officers.

Plan Funding

Funding Sources

Kentucky Retirement Systems' benefits are funded through three sources: employee contributions deducted from an employee's creditable compensation, employer contributions paid by each state and county agency participating in the Kentucky Retirement Systems, and return on investments. The employee contribution rate is set by state statute. 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 and 61.702. For the 2007-2008 fiscal year, contribution rates for employees and employers are as follows:

2007-2008 Employee and Employer Contribution Rate % of Creditable Compensation

	Employee	Employer
KERS Non-Hazardous	5%	8.50% ¹
KERS Hazardous	8%	24.25% ¹
CERS Non-Hazardous	5%	16.17%
CERS Hazardous	8%	33.87%
SPRS	8%	28.00% ¹

Creditable Compensation

Creditable compensation consists of all salary, wages, tips and fees, including payments for compensatory time paid to you as a result of services performed for the employer, including time when you are on paid leave. Lump sum bonuses, severance pay and employer-provided payments for purchase of service credit are also included in creditable compensation; however, if these types of payments exceed \$1,000 for the fiscal year, then the combined payments will be averaged over your total service in the system in which the bonus was paid.

For more information, please see the Summary Plan Description .

Deposit of Contributions

Employee contributions paid to the Systems are deposited to individual member accounts. Employer contributions are deposited to the Retirement Allowance Account and the Insurance Fund and are used to pay monthly benefits to members and to fund the expenses of the Systems. When an employee retires, his or her individual account balance is transferred to the Retirement Allowance Account.

When Is A Member Eligible To Retire?

Background

Retirement eligibility is dependent upon the member's age, service credit, and type of service (non-hazardous or hazardous). For members participating prior to August 1, 2004, the amount of service credit used to determine retirement eligibility includes current service, prior service, purchased service, and sick leave service. For members participating on or after August 1, 2004, the amount of service credit used to determine retirement eligibility includes current service and sick leave service but does not include purchased service, with the exception of Recontribution of Refunded Service and Omitted Service.

Non-Hazardous Members

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 non-hazardous 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.

<i>Years to Attain Age 65 or 27 Years of Service (Whichever is Less)</i>			
<i>% of Non-Hazardous Benefit Paid</i>			
1 Year	93.5%	6 Years	63%
2 Years	87%	7 Years	58.5%
3 Years	80.5%	8 Years	54%
4 Years	74%	9 Years	49.5%
5 Years	67.5%	10 Years	45%

EXAMPLE

A member has 25 years of service and is age 55. If the member chooses to retire, his/her benefit will be reduced to 87% (6.5% for each year away from 27 years of service).

Hazardous Members

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

A hazardous member, age 55 or older, with at least 1 month of hazardous duty service credit may elect to receive a benefit for life that is an actuarial equivalent to twice the member's contributions and interest.

A hazardous member, age 55 or older, with at least 60 months hazardous duty service credit is eligible to receive an unreduced benefit based on the member's salary and service.

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

A hazardous member with 20 or more years of service credit may retire at any time with no reduction in benefits.

A hazardous member, age 50, with at least 15 or more years of service credit may retire with a reduction in benefits.

If a hazardous duty 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 reductions for age or service.

<i>Years to Attain Age 55 or 20 Years of Service (Whichever is Less)</i>	
<i>% of Hazardous Benefit Paid</i>	
1 Year	93.5%
2 Years	87%
3 Years	80.5%
4 Years	74%
5 Years	67.5%

EXAMPLE

A member has 18 years of service and is age 52. If the member chooses to retire, his/her benefit will be reduced to 87.0% (6.5% for each year away from 20 years of service).

How Are Retirement Benefits 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:

$$\begin{array}{ccccccc}
 \textit{Final Compensation} & \times & \textit{Benefit Factor} & \times & \textit{Years of Service Credit} & = & \textit{Annual Benefit} \\
 \\
 \begin{array}{c} \textit{The average salary used for determining benefits at the time of retirement.} \end{array} & & \begin{array}{c} \textit{A percentage based upon the system, the type, and the timing of the member's service.} \end{array} & & \begin{array}{c} \textit{Current Service, Prior Service, Purchased Service, and Sick Leave (if applicable).} \end{array} & &
 \end{array}$$

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.
Example: Member is 48 years of age and has 27 years of service credit. This would total to 75 years of age and service credit.
3. You must retire 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.

Hazardous member retirement benefits are based upon 3-High Final Compensation only.

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	Months
2007-2008	\$2,625.00	1	\$2,625.00	1
2006-2007	\$30,000.00	12	\$30,000.00	12
2005-2006	\$28,500.00	12	\$28,500.00	12
2004-2005	\$27,000.00	12	-----	---
2003-2004	\$25,500.00	12	-----	---
Total:	\$113,625.00	49	\$61,125.00	25
	$\$113,625.00 \div 49 \text{ Months}$		$\$61,125.00 \div 25 \text{ Months}$	
	X 12 (to annualize value)		X 12 (to annualize value)	
Final Compensation:	\$27,826.53		\$29,340.00	

Members approaching retirement should plan termination of employment so that the last day of employment is the last day of the month. Otherwise, the member's Final Compensation might be reduced as a result of an individual's final month representing only a partial month's wages.

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.

Non-Hazardous Member Benefit Factors

KERS is 1.97% - IF: Member does not have 13 months credit for 1/1/1998 – 1/1/1999.

KERS is 2.0% - IF : Member has 13 months credit for 1/1/1998 – 1/1/1999.

KERS is 2.2% - IF: Member has 20 or more years of service credit including 13 months service credit for 1/1/1998 – 1/1/1999 and has an effective retirement date between 2/1/1999 and 1/1/2009.

CERS is 2.2% -IF: Member participated prior to August 1, 2004.

CERS is 2.0% - IF: Member's participation is on or after August 1, 2004.

Hazardous Member Benefit Factors

KERS Hazardous is 2.49%
CERS Hazardous is 2.50%
SPRS is 2.50%

Note: Only those KERS and CERS members participating in a hazardous duty position approved by the Systems Board of Trustees are eligible for hazardous duty benefits.

Years of Service

The years of service credit used to determine retirement benefits can include current service, prior service, purchased service, and sick leave service (if the agency participates in a Systems' approved sick leave program).

A member who has hazardous and non-hazardous service will receive two monthly benefits upon retirement: one for the hazardous service and one for the non-hazardous service. In this situation, a member may have 5-High Final Compensation for the non-hazardous service and 3-High Final Compensation for the hazardous service.

- 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.
- 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 one hundred (100) hours in performing his job duties.
- 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.
- 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 Retirement Systems. There are two (2) types of sick leave programs that the CERS employer may adopt – Standard or Alternate.

The following sick leave chart is provided below to help you determine the number of months of service you may be credited upon retirement if your agency participates in a sick leave program.

***Sick Leave Service Credited Based Upon The Hours Of Sick Leave Accumulated
By Hours Worked Per Day***

4 hr. day	6 hr. day	7 ½ hr. day	8 hr. day	Months of Service
44 – 84	66 – 126	82.5 – 157.5	88 – 168	1
128 – 168	192 – 252	240.0 – 315.0	256 – 336	2
212 – 252	318 – 378	397.5 – 472.5	424 – 504	3
296 – 336	444 – 504	555.0 – 630.0	592 – 672	4
380 – 420	570 – 630	712.5 – 787.5	760 – 840	5
464 – 504	696 – 756	870.0 – 945.0	928 – 1008	6
		1027.5 – 1102.5	1096 – 1176	7
		1185.0 – 1260.0	1264 – 1344	8
		1342.5 – 1417.5	1432 – 1512	9
		1500.0 – 1575.0	1600 – 1680	10
		1657.5 – 1732.5	1768 – 1848	11
		1815.0 – 1890.0	1936 – 2016	12
		1972.5 – 2047.5	2104 – 2184	13
		2130.0 – 2205.0	2272 – 2352	14
		2287.5 – 2362.5	2440 – 2520	15
		2445.0 – 2520.0	2608 – 2688	16
		2602.5 – 2677.5	2776 – 2856	17
		2760.0 – 2835.0	2944 – 3024	18
		2917.5 - 2992.5	3112 - 3192	19

2004 Legislative Changes: Members who began participating in the Systems on or after August 1, 2004 cannot use most service purchase types for determining eligibility for early retirement, normal retirement, disability retirement and death benefits. This provision will apply to all service purchases made by the member or employer with the exception of Omitted Service, Recontribution of Refunded Service and Hazardous Conversions.

Most service purchases made on or after August 1, 2004 will not be used to determine insurance benefits at retirement. This provision will apply to all service purchases made by the member or employer with the exception of Omitted Service, Recontribution of Refunded Service and Hazardous Conversions.

The computation of alternate sick leave is complex. If your agency participates in this plan, it is advisable to consult with a counselor to determine the effect of alternate sick leave credit on your specific benefits.

EXAMPLE BENEFIT CALCULATION

John Doe works in a non-hazardous position for an agency participating in CERS. He is retiring August 1, 2006 with a Final Compensation of \$29,340.00 and 27 years of service credit. The retirement formula is as follows:

<i>Final Compensation</i>	<i>X</i>	<i>Benefit Factor</i>	<i>X</i>	<i>Years of Service Credit</i>	<i>=</i>	<i>Annual Benefit</i>
<i>\$29,340.00</i>	<i>X</i>	<i>2.20%</i>	<i>X</i>	<i>27 Years</i>	<i>=</i>	<i>\$17,427.96 per year</i>

The value produced by the retirement formula is divided by twelve to get a monthly payment under the Basic Option. In the case of John Doe, his monthly payment would be \$1,452.33 under this payment option.

Members Called To Active Military Service

Free military service is service a member is entitled to receive if the member left employment (either terminated or was placed on leave) and within 3 months entered the Armed Forces of the United States, and subsequently returns to employment within two years of receiving an honorable discharge. If the member's employment was in a nonparticipating status, such as seasonal or temporary, the service must be purchased in order for the member to be eligible to receive free military service credit. If the member contributed, but subsequently took a refund for the period immediately prior to the military service, the refund of contributions must be repaid in order for the member to qualify for free military service credit. Service credit and creditable compensation, as provided in 38 U.S.C. sec. 4318, shall be given for a period not to exceed 6 years.

Combining Service With Other Retirement Plans

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.

The six (6) state administered retirement systems are:

- Kentucky Employees Retirement System (KERS)
- County Employees Retirement System (CERS)
- State Police Retirement System (SPRS)
- Kentucky Teachers' Retirement System (KTRS)
- Judicial Retirement System (JRS)
- Legislators' Retirement System (LRS)

If you have an account in more than one of these retirement systems, you should contact the Systems to determine the extent of the reciprocity and the benefits you may be entitled to receive upon retirement. In order to receive benefits from all the systems, you must file the required retirement forms with each system at the time of retirement.

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.

Purchasing Service Credit

Basic Requirements

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 Kentucky Retirement Systems.

Most purchase types require the member to be participating and 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.

How Is the Service Purchase Cost Calculated?

For almost all purchase types, the cost is determined by multiplying the higher of the member's current rate of pay, final rate of pay, or final compensation by the actuarial factor by the number of years of service being purchased (see Delayed Contribution Calculation Method).

Delayed Contribution Calculation Method

Higher of:

Current Rate of Pay -or-				
Final Rate of Pay -or-	X	Actuarial Age Factor	X	Years to Purchase
Final Compensation				

The actuarial factor used to calculate the cost varies based upon your age, years of accrued service credit, applicable benefit factor, and eligibility for final compensation. Purchases not calculated under this method include Recontribution of Refunds taken from the system, Hazardous Conversions, and Omitted Service.

Current Rate of Pay means the member's actual hourly, daily, weekly, bi-weekly, monthly, or yearly rate of pay converted to an annual rate.

Final Rate of Pay means the member's calculated rate of pay based on his regular earnings for the 12 months immediately preceding the cost calculation date.

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.

Purchased service, with the exception of Recontribution of Refunded Service and Omitted Service, will not count toward retirement eligibility for employees who begin participating on or after August 1, 2004.

Listing of Purchase Types

Below is a listing of most service purchase types and the information required to verify the period of service.

<i>Purchase Types Without Service Requirements</i>	<i>Verification Required</i>
<p>Recontribution of Refunded Service: A member currently participating in one of the state administered retirement systems who has taken a refund of retirement contributions for previous employment may regain the service lost by paying the amount of contributions withdrawn plus interest calculated from the time of withdrawal.</p> <p>Note: Six months of additional service is required to validate the purchase.</p>	<p>Information should be on file at the Systems.</p>
<p>Summer Months: A member currently participating in one of the state administered retirement systems who was contracted by a local school board, university, community action agency, or school for the deaf or blind to work 9, 10, or 11 months may purchase up to three (3) additional months to complete a full year.</p>	<p>Information should be on file at the Systems.</p>
<p>Omitted Service: If a member was entitled to service credit but was not reported to the Systems, the member may obtain service by paying the employee contributions on the period of omitted service. If employee contributions are not received within 6 months of notification by the Systems, a participating employee may obtain the service by paying the employee contributions plus any accumulated interest. Service credit will not be awarded to the member's account until the Systems has also received the employer contributions.</p>	<p>Form 4225, Form 4226 (school board) -or- Personnel Forms</p>
<p>Hazardous Conversion: Hazardous duty members may pay the cost to convert eligible non-hazardous service to hazardous service. The service credit must be in a position that was reported to the Systems under non-hazardous coverage, but has since been approved for hazardous duty coverage by the Board of Trustees. The agency where the non-hazardous service was earned must complete a Form 4150, Certification of Employment in a Hazardous Position, in order for the member to convert the service.</p>	<p>Form 4150</p>
<i>Vested Purchase Types</i>	<i>Verification Required</i>
<p>Delayed Service: A member currently participating and vested in KERS, CERS, or SPRS may purchase service with an agency that did not participate in the Systems but has since joined the Systems. Delayed Service is service worked prior to the date the agency began participating in the Systems or in the case of a member who initially rejected membership, service worked from the member's hire date through his election to participate in the Systems.</p>	<p>Form 4225, Form 4226 (school board)</p>
<p>Active Duty Military: A member currently participating and vested in KERS, CERS, or SPRS may purchase all periods of active duty service with a branch of the Armed Forces. This purchase may require that the discharge from service be honorable.</p>	<p>A copy of your DD-Form 214 for each period of active duty.</p>
<p>National Guard/Reserves: A member currently participating and vested in KERS, CERS, or SPRS may purchase one month of credit for every six months served in the National Guard or Reserves.</p>	<p>Most recent Annual Statement of Points.</p>
<p>Maternity Leave/Authorized Sick Leave Without Pay/FMLA Leave: A member currently participating and vested in KERS, CERS, or SPRS may purchase service credit for official maternity leave without pay, approved sick leave without pay, or approved leave without pay under the Family Medical Leave Act (FMLA) that occurred while working for a participating agency.</p>	<p>Form 4225, Form 4226 (school board) or Personnel Forms or a letter from the agency verifying the period of leave.</p>
<p>Seasonal, Temporary, Emergency, Interim or Part-time: A member currently participating and vested in KERS, CERS, or SPRS may purchase service credit for time served in a seasonal, temporary, interim, emergency, or part-time position (more than 100 hours per month) that occurred with a participating agency.</p>	<p>Form 4225, Form 4226 (school board) -or- Personnel Forms</p>

Copies of the forms listed can be requested from the Systems. In addition, copies of the Form 4115, Form 4120, Form 4140, Form 4225, or Form 4226 can be downloaded from our web site at www.kyret.com.

Vested Purchase Types**Verification Required**

State University Service: A member currently participating and vested in KERS, CERS, or SPRS may purchase service credit for certain types of employment with Kentucky's state sponsored universities provided they did not participate in a defined benefit plan during the period of employment. This purchase is limited to the University of Kentucky and the University of Louisville since all other state sponsored universities participate in KERS.

Form 4120

Approved Educational Leave: A member currently participating and vested in KERS, CERS, or SPRS may gain service credit for prior and current service for approved educational leave.

Personnel Forms or Letter from agency verifying the period of leave.

Federal Service: A member currently participating and vested in KERS, CERS, or SPRS may purchase service worked as a full time federal employee provided the member withdrew all funds or did not participate in the Federal Retirement Systems.

Form 4115

Out of State Service (Non-Hazardous): A member currently participating and vested in KERS, CERS, or SPRS may purchase up to 10 years of service credit for full-time out-of-state public service. To qualify, the out-of-state service must have been credited in a state or locally administered defined benefit retirement plan, other than one for teachers. The member must provide verification that he or she has received a refund or is not eligible for a retirement benefit from the period of out-of-state service. The member must also submit a copy of the job description for his or her out of state public service.

Form 4140

Out of State Service (Hazardous): A member currently participating and vested for hazardous duty retirement in KERS, CERS, or SPRS may purchase up to 10 years of service credit for full-time out-of-state public service if the position would be determined as hazardous duty. To qualify, the out-of-state service must have been credited in a state or locally administered defined benefit retirement plan, other than one for teachers. The member must show that he or she has received a refund or is not eligible for a retirement benefit from the period of out of state service.

Form 4140 and a copy of the former job description.

Vocational/Technical School Service: A member currently participating and vested in KERS, CERS, or SPRS may purchase service worked in a non-teaching position with a Vocational/Technical School in the state of Kentucky that averages at least 80 hours per month on a calendar or fiscal year basis.

Form 4225
-or-
Personnel Forms

Community Action Agency/Mental Health-Mental Retardation Service: A member currently participating and vested in KERS, CERS, or SPRS can purchase service for regular full-time employment with an Area Development District (ADD) or Community Action Agency that does not participate in CERS.

Form 4225
-or-
Letter from agency verifying period of service.

Approved Leave to Work for Work-Related Labor Organization: A member currently participating and vested in KERS, CERS, or SPRS may purchase service credit for periods of approved leave to work for a work-related labor organization provided that the agency approving the leave subsequently participated in CERS.

Letter from the IRS or U.S. Dept. of Labor stating that the purchase is allowable under federal restrictions.

Area Development District (ADD)/Business Development Corporation: A member currently participating and vested in KERS, CERS, or SPRS may purchase service for employment with an Area Development District created pursuant to KRS 147A.050 or a business development corporation created pursuant to KRS 155.001 to 155.230 which does not participate in Kentucky Retirement Systems.

Letter from the IRS or U.S. Dept. of Labor stating that the purchase is allowable under federal restrictions.

Non-Qualified Service**Verification Required**

Members currently participating and who participated prior to August 1, 2002, may purchase up to 5 years of service once they have 15 Years of total service in a state administered retirement system. At least 5 of the 15 years required for this purchase type must be in KERS, CERS, or SPRS. The nonqualified service may not be used for benefit purposes until the member has accrued 20 years of service, excluding the nonqualified service.

Information should be on file at the Systems.

Copies of the forms listed can be requested from the Systems. In addition, copies of the Form 4115, Form 4120, Form 4140, Form 4225, or Form 4226 can be downloaded from our web site at www.kyret.com.

Paying For a Service Purchase

Eligible service credit may be purchased by the following payment methods:

1. **Lump Sum Payment:** Service may be purchased by making a lump sum payment to Kentucky Retirement Systems.
2. **Installment Purchase of Service Agreement (IPS):** Members participating in KERS, CERS, or SPRS may elect to have the cost of service deducted from their paycheck on a before-tax or after-tax basis provided the employer has arranged to make installment deductions with the Systems. To be eligible for payroll deduction, the purchase cost must be at least \$1,000.00. One year of installment payments is allowed for each \$1,000.00 in cost with a maximum of five (5) years to pay off the cost. An interest charge of 7.75% compounded annually is applied to the cost with this payment method. More information on the before-tax installment purchase of service agreement (IPS) is covered below.
3. **Rollover or Transfer From a Qualified Plan:** The Internal Revenue Code allows KERS, CERS, and SPRS, which are qualified plans under Section 401(a), to accept rollovers or, in some cases, trustee-to-trustee transfers from other qualified plans such as:

Section 401(a)	Section 401(k)
Section 403(b)	Section 457
A "Conduit" or "Rollover" IRA	Traditional IRA

In order to complete a direct rollover or transfer of funds from another qualified plan to purchase service with the Systems, the member and the financial institution making the direct rollover or transfer of funds must complete a Form 4170, Direct Transfer/Rollover Acknowledgement Form. A copy of this form can be requested from the Systems or can be downloaded from the Systems' web site.

Any combination of these three methods may be used to pay for most service purchases. For example, if a member has a purchase cost totaling \$18,000; he could transfer \$5,000 from a 401(k) account and pay the remaining balance of \$13,000 with a five-year installment payment plan. Members who wish to combine two or more payment methods--or transfer or roll over funds from more than one plan--are advised to contact KRS in advance for more information.

More About the Before-Tax IPS

Kentucky Retirement Systems began accepting before-tax IPS agreements in February 2003. This payment option allows members to purchase service credit with before-tax contributions, which reduces their taxable income in the year the contributions are made. This option does not eliminate taxes but rather defers tax liability until retirement. Often at retirement, a person will be in a lower tax bracket, which can reduce the amount of taxes paid.

The before-tax IPS agreement resembles the after-tax IPS agreement with one major exception. All payroll deductions under the before-tax IPS program shall be **irrevocable** once a member has completed the necessary forms. This means a member cannot stop payment on the contract or pay off the remaining balance except upon death or termination of employment.

Can a Member Stop Payment/Pay Off an IPS Contract?

While Working: Members who are purchasing service credit through an **after-tax** IPS agreement can stop payment or pay off the remaining balance of the contract at any time (subject of 415(c) limits) by notifying the Systems. If the member stops payment and does not pay off the IPS contract, the account will only be credited with the service purchased through the last installment payment.

You cannot stop payment or pay off a **before-tax** IPS agreement while you are actively employed with a participating agency.

Termination of Employment/Death: Upon termination of employment or death, a member or beneficiary will be given 60 days from termination or death to pay off the remaining balance of a before-tax or after-tax IPS agreement (subject of 415(c) limits). If the member or beneficiary chooses not to payoff the remaining balance, the account will only be credited with the amount of service purchased through the last installment payment.

Members planning to retire will also be given 60 days from termination of employment to pay off a before-tax or after-tax installment purchase agreement (subject of 415(c) limits); however, payments for the remaining balance of the contract must be received prior to the member's effective retirement date.

EXAMPLE

John Doe has an installment purchase agreement and is planning to terminate employment on July 31, 2008. He chooses to payoff the remaining balance on the contract with a transfer from his 401(k) and does so on August 10, 2006. Therefore, his effective retirement date will be September 1, 2008. Note: John's health insurance coverage with the Systems cannot begin until John's effective date of retirement.

Members should check with the administrator of their qualified plans to determine the eligibility of funds for rollover or transfer. Certain funds may not be able to be used for certain purchases.

**Service Purchase Limitations Effective
July 1, 2007 Through December 31, 2007**

Section 415 of the Internal Revenue Code (IRC) places restrictions on the amounts that an individual can contribute to his employer-sponsored pension plan. The Kentucky Retirement Systems must comply with the restrictions or lose its status as a 'qualified' plan. In order to maintain the qualified status, KRS must follow Internal Revenue Code 415(c) Limits, which will affect only after-tax contributions for service purchases.

The IRC Section 415 limits contributions to \$45,000 in a plan year (July 1 – June 30). This limit excludes the mandatory employee contributions, which are tax deferred: 5% for non-hazardous employees; 8% for hazardous duty employees. The restriction applies to voluntary lump-sum and after tax payroll deducted amounts used to purchase service credit. For purpose of this discussion, the term 'purchase' shall include payment for additional service, hazardous conversions, or Circuit/Deputy Clerk service transfers. There are very important exceptions from the 415(c) Limits.

1. **Repayment of Refunds** - If a member is recontributing refunded contributions, the member will not be subject to the 415(c) Limits at the time of recontribution.
2. **Pre-Tax Contributions, Rollovers, and Transfers** - The 415(c) Limits do not apply to pre-tax contributions, rollovers (pre-tax and after-tax) and plan-to-plan transfers (pre-tax and after-tax).
3. **In-Service Transfers** - The 415(c) Limits do not apply to in-service transfers from 457(b) plans and 403(b) plans for service purchases.
4. **Grandfathered Purchases** - Individuals who first became a member of a system before July 1, 1999, are not subject to the 415(c) Limits with regard to service that was allowed to be purchased under the terms of the plan in effect on August 5, 1997.
5. **Omitted Service** - If a member is purchasing omitted service, the 415(c) Limits that relate to the period when the member was not covered are used instead of the 415(c) Limits for the year of the payment.

KRS will use the following procedures in applying the 415(c) Limits to after-tax lump sum and installment payments.

1. The service purchase will be analyzed to determine if it is refunded service, omitted service or grandfathered service.
 - a. If the service is refunded service or grandfathered service, the 415(c) Limits will not be applied.
 - b. If the service is omitted service, special 415(c) Limits will be applied.
2. If a member wishes to purchase service that exceeds the 415(c) Limits in any particular year, then the individual's situation will be further analyzed to determine whether a multi-year approach can be followed or if other sources can be used to complete the purchase.
3. If the member is making the purchase with contributions other than after-tax lump sum or installment payments, no 415(c) Limits will be applied to the contributions at the time of purchase.

If at the time of retirement you exceed the federal pension limit, the portion of your retirement benefit that exceeds the federal pension limit imposed by Section 415 of the Internal Revenue Code will be paid by the excess benefit plan and may be subject to eligible employment taxes. If you purchase service over a number of years with after-tax contributions in order to stay within the \$45,000 contribution limit, your service purchases will not count against the pension limit at the time of retirement.

*** If you have service that you are interested in purchasing with after-tax contributions, you should look into the purchase as soon as possible. If you decide to retire in the same year you make a purchase, be sure to check with the retirement office about your purchase before making a final decision on retirement.*

Please call or write the retirement office if you have any questions about Section 415 and service purchases.

Benefits of Purchasing Service Credit

Members purchase service credit for a variety of reasons. Some members purchase in order to retire earlier. For example, a non-hazardous member can work 22 years, purchase 5 years of service and be eligible to retire without penalty based on 27 years of service (22 actual + 5 purchased). Other members purchase service to increase their monthly benefit when they retire (see example on page 16).

Retirement Payment Options

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 their particular retirement needs. The amounts shown in the retirement estimate on the following page are based on a non-hazardous employee's account and are meant only as an example.

Members who are retiring should carefully review their payment options since no changes can be made to the retirement account after the first monthly check has been issued by the State Treasurer. Each member planning to retire should also test each option by assuming various contingencies and the likelihood of the contingencies occurring (i.e. the beneficiary dies before the member). Members should keep in mind that, for most payment options, an individual must be receiving a monthly retirement allowance to participate in the medical insurance program. This is particularly important if their spouse or any dependent children will need continued medical insurance coverage after the member's death.

EXAMPLE

Option Sheet – August 1, 2008

John Doe		Birth date
General Delivery	Mem: John Doe	04/22/1950
Frankfort, Ky. 40601	Bnf: Jane Doe	06/20/1954

Payment Options	Payment to Member While Living	Payment to Beneficiary After Member's Death
Basic.....	\$1,452.33	-0-
Life with 10 Years Certain.....	\$1,423.31	\$1,423.31 or -0-
Life with 15 Years Certain	\$1,391.03	\$1,391.03 or -0-
Life with 20 Years Certain	\$1,353.05	\$1,353.05 or -0-
Survivorship 100%.....	\$1,260.40	\$1,260.40
Survivorship 66 2/3%.....	\$1,318.47	\$879.02
Survivorship 50%.....	\$1,349.57	\$674.79
Pop-Up Option.....	\$1,249.61 OR BASIC	\$1,249.61

Social Security Adjustment Options	Until Age 62	Age 62 & After
Without survivor rights.....	\$1,962.56	\$1,212.56
With survivor rights.....	\$1,795.64	\$1,045.64

Partial Lump-Sum Without Survivor Rights	Payment to Member While Living	Payment to Beneficiary After Member's Death
One Time Payment - \$17,427.96 Plus.....	\$1,182.40	\$.00
One Time Payment - \$34,855.92 Plus.....	\$912.47	\$.00
One Time Payment - \$52,283.88 Plus.....	642.54	\$.00

Partial Lump-Sum With Survivor Rights	Payment to Member While Living	Payment to Beneficiary After Member's Death
One Time Payment - \$15,124.80 Plus.....	\$1,057.10	\$1,057.10
One Time Payment - \$30,249.60 Plus....	\$853.80	\$853.80
One Time Payment - \$45,374.40 Plus.....	\$650.50	\$650.50

John Doe can also reject all monthly payment options and request an actuarial refund of approximately \$72,564.07.

Earnings (and service) in the highest three fiscal years were given as:

Highest 3 years	Months	Benefit Factor	Months of Service
\$2,625.00	01		324
\$30,000.00	12	2.20%	Std Sick Months 0
\$28,500.00	12		Alt Sick Months 0
\$61,125.00	25		Total Months 324

$\$61,125.00 \div 25 \text{ Months} \times 12 = \$29,340.00$ Final Compensation

Social Security payment at age 62 was given as: \$750.00

In addition to his monthly benefit, John will receive 100% of the monthly contribution towards health insurance since his total service credit is at least 20 years and he participated prior to July 1, 2003. Also, if he dies while receiving monthly benefits, Kentucky Retirement Systems will provide his estate or beneficiary with a \$5,000.00 death benefit payment.

Description of Payment Options

Basic Option: This option provides a monthly benefit to the member until death. It does not provide any benefits to the beneficiary after the member's death. It provides the highest monthly lifetime benefit. If the member dies before receiving an amount equal to his or her account balance at the time of retirement, the beneficiary will receive the difference.

Life With 10 Years Certain: A member, age 75 or younger, may choose this option. This guarantees payments for a 120 month period, which begins when the member retires. If the member dies before 120 payments have been made, the beneficiary will receive the remaining payments. If the estate is the beneficiary, the estate shall receive a lump-sum payment which shall be the actuarial equivalent to the remaining payments. If the member survives past the 120 payments, the same monthly benefit continues to the member, but the beneficiary is no longer eligible for benefits.

Life With 15 Years Certain: A member, age 67 or younger, may choose this option. This guarantees payments over a 180 month period, which begins when the member retires. If the member dies before 180 payments have been made, the beneficiary will receive the remaining payments. If the estate is the beneficiary, the estates shall receive a lump-sum payment which shall be the actuarial equivalent to the remaining payments. If the member survives past the 180 payments, the same monthly benefit continues to the member, but the beneficiary is no longer eligible for benefits.

Life With 20 Years Certain: A member, age 61 or younger, may choose this option. This guarantees payments over a 240 month period, which begins when the member retires. If the member dies before 240 payments have been made, the beneficiary will receive the remaining payments. If the estate is the beneficiary, the estate shall receive a lump-sum payment, which shall be the actuarial equivalent to the remaining payments. If the member survives past the 240 month period, the same monthly benefit continues to the member, but the beneficiary is no longer eligible for benefits.

Survivorship 100% Option: This option guarantees a monthly benefit to the member for the member's lifetime. If the member dies before the beneficiary, the beneficiary is eligible for the same monthly benefit until death.

Survivorship 66 2/3% Option: This option guarantees a monthly benefit to the member for the member's lifetime. If the member dies before the beneficiary, the beneficiary is eligible for a monthly benefit equal to 66 2/3% of the member's monthly benefit until death.

Survivorship 50% Option: This option guarantees a monthly benefit to the member for the member's lifetime. If the member dies before the beneficiary, the beneficiary is eligible for a monthly benefit equal to 50% of the member's monthly benefit until death.

Pop-Up Option: This option guarantees a monthly benefit to the member for the member's lifetime. If the member dies before the beneficiary, the beneficiary is eligible for the same monthly benefit until death; however, if the beneficiary dies before the member, the member's monthly benefit "Pops Up," or increases, to the amount under the Basic Option. The member's benefit will also Pop Up if the member's beneficiary is a spouse and they become divorced.

Social Security Adjustment Option (Without Survivor Rights): A member, under age 62, may elect to take a larger monthly payment until reaching age 62, when the member may be eligible for Social Security. The Retirement Systems' monthly benefit will be reduced the month following the member's 62nd birthday. This option allows the younger member to draw a larger benefit until age 62. No Social Security funds are involved, and this option does not affect the amount of Social Security that the member will receive. The beneficiary is not eligible for benefits if the member dies.

Social Security Adjustment Option (With Survivor Rights): This provides the same benefits as the Social Security Adjustment Option Without Survivor Rights. In addition, it guarantees the same benefit to the beneficiary if the member dies. If the member dies before age 62, the beneficiary draws the higher payment until the member would have become age 62. There after, the beneficiary will receive the same reduced monthly benefit that the member would have received.

Partial Lump Sum Without Survivor Rights: This option provides a lump sum equal to 12, 24, or 36 times the monthly benefit under the Basic Option plus a monthly payment to the retired member until death. The monthly payment is actuarially reduced to reflect the amount of the lump sum payment. The lump sum is paid at the same time as the initial monthly benefit. This option does not provide any benefits to the beneficiary after the member's death. If the member dies before receiving an amount equal to his/her account balance at the time of retirement, the beneficiary will receive the difference in one lump sum payment.

Partial Lump Sum With Survivor Rights: This option provides a lump sum equal to 12, 24, or 36 times the monthly benefit under the Survivorship 100% Option plus a monthly payment to the retired member until death. The monthly payment is actuarially reduced to reflect the amount of the lump sum payment. The lump sum is paid at the same time as the initial monthly benefit. If the retired member dies before the beneficiary, the beneficiary is eligible for the same monthly benefit until death. This option provides a monthly benefit after the member's death and will allow the beneficiary to participate in the medical insurance program.

Actuarial Equivalent Refund Option: This option provides a one-time lump sum payment to the member that is the actuarial equivalent of the amount the member would have received had his or her benefits been paid over 60 months. By selecting this option, the member forfeits insurance benefits, the death benefit and any other benefits of the Systems. Be especially careful when considering this payment option; once the check is issued, any other benefits from the Systems are lost. This is a retirement benefit, not a refund of the member's account. An individual electing this payment option cannot repay the actuarial refund if employed with a participating employer at a later date. If selecting this option, you may be subject to additional tax penalties.

Cost of Living Adjustment for Retirees

The 1996 General Assembly enacted an automatic cost of living adjustment ("COLA") provision for all recipients of the Systems' benefits. Each year in July, a recipient's retirement allowance is increased by the average annual increase in the Consumer Price Index ("CPI") for all urban consumers for the preceding calendar year. 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.

Can Members Increase Their Pension Benefits?

Members may be able to increase their Systems' benefits through one or more of the following options:

1. **Purchase Service Credit to Increase Total Service Credit:** If you are eligible to purchase service credit, the additional service credit will be used to determine your benefits when you retire. So, if an employee has worked 27 years and purchases 5 years of non-qualified service, the employee's benefit would be based on 32 years. To see how purchasing service credit can increase retirement benefits, consider the example below.

EXAMPLE

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. Without purchasing any additional service credit, his benefit will be determined as follows:

Final Compensation	X	Benefit Factor	X	Years of Service Credit	=	Annual Benefit	Monthly Benefit
\$29,340.00	X	2.20%	X	27 Years	=	\$17,427.96	\$1,452.33

If he purchases 5 years of non-qualified service credit, his benefit will be determined as follows:

Final Compensation	X	Benefit Factor	X	Years of Service Credit	=	Annual Benefit	Monthly Benefit
\$29,340.00	X	2.20%	X	32 Years	=	\$20,655.36	\$1,721.28

By purchasing the 5 years of non-qualified service credit, John's annual benefit increased by \$3,227.40. On a monthly basis, John's benefit increased by \$268.95.

2. **Using Accrued Sick Leave to Increase Total Service Credit:** Many members are eligible to receive service credit for unused accumulated sick leave upon retirement. Just like purchasing service credit, the additional service provided for unused accumulated sick leave will be used to determine your benefits when you retire. To see how the accumulation of unused sick leave can increase retirement benefits, consider the example below.

EXAMPLE

John Doe works in a non-hazardous position for an agency participating in CERS. The agency participates in the Standard sick leave program and pays the cost for converting all unused accumulated sick leave at retirement to additional service credit. He is retiring August 1, 2006 with a Final Compensation of \$29,340.00 and 27 years of service credit. If he does not have an accumulation of sick leave at retirement, his benefit will be determined as follows:

Final Compensation	X	Benefit Factor	X	Years of Service Credit	=	Annual Benefit	Monthly Benefit
\$29,340.00	X	2.20%	X	27 Years	=	\$17,427.96	\$1,452.33

If he has accumulated 6 months of sick leave at retirement, his benefit will be determined as follows:

Final Compensation	X	Benefit Factor	X	Years of Service Credit	=	Annual Benefit	Monthly Benefit
\$29,340.00	X	2.20%	X	27.5 Years	=	\$17,750.70	\$1,479.23

By having an unused accumulated sick leave balance of 6 months at the time of retirement, John's annual benefit increased by \$322.74. On a monthly basis, John's benefit increased by \$26.90.

3. *Using Accumulated Compensatory Time to Increase Final Compensation:* Many KERS and all SPRS members accrue compensatory time for hours worked in excess of their regular work schedule. At retirement, these members are paid a lump sum amount for their unused accumulated compensatory time balances. This payment is considered creditable compensation and both employee and employer contributions are paid on the lump sum payment for compensatory time. This payment is added into the last month's salary reported to the Retirement Systems and may affect a member's Final Compensation calculation. To see how the accumulation of unused compensatory time can increase retirement benefits, consider the examples below.

EXAMPLE

Joe Smith works in a non-hazardous position for an agency participating in KERS and is planning to retire August 1, 2008. At retirement, he has accrued 239 hours of compensatory time. Based upon a monthly rate of pay of \$3500.00, he will receive a lump sum payment of \$5,163.58. This payment will be added into his last month of paid employment in July. His Final Compensation calculation with and without the lump sum payment for compensatory time is provided below.

<i>Fiscal Year</i>	High-3 Final Compensation (without compensatory time payment)		High-3 Final Compensation (with compensatory time payment of \$5,163.58 in July)	
	<i>Salary</i>	<i>Months</i>	<i>Salary</i>	<i>Months</i>
2008-2009	\$3,500.00	1	\$8,663.58	1
2007-2008	\$39,000.00	12	\$39,000.00	12
2006-2007	\$36,000.00	12	\$36,000.00	12
Total	\$78,500.00	25	\$83,663.58	25
	$\$78,500.00 \div 25 \text{ Months} = \$3,140.00$		$\$83,663.58 \div 25 \text{ Months} = \$3,346.54$	
	x 12 (to annualize value)		x 12 (to annualize value)	
Final Compensation	\$37,680.00		\$40,158.52	

If he did not have an accumulation of compensatory time at retirement, his benefit will be determined as follows:

Final Compensation	x	Benefit Factor	x	Years of Service Credit	=	Annual Benefit	Monthly Benefit
\$37,680.00	x	2.20%	x	27 Years	=	\$22,381.92	\$1,865.16

If he has accumulated 239 hours of compensatory time at retirement, his benefit will be determined as follows:

Final Compensation	x	Benefit Factor	x	Years of Service Credit	=	Annual Benefit	Monthly Benefit
\$40,158.52	x	2.20%	x	27 Years	=	\$23,854.16	\$1,987.85

By having an unused accumulated compensatory time balance of 239 hours at the time of retirement, Joe's annual benefit increased by \$1,472.24. On a monthly basis, Joe's benefit increased by \$122.69.

4. *Examine Various Retirement Dates:* Members often question the best time of the year to retire. Ultimately, the decision is determined by your individual situation and needs. Additional factors you should also consider is how your monthly benefit could be affected by the Cost of Living Adjustment (COLA) for retirees if you should retire by June and how your Final Compensation could change if you work into a new fiscal year and retire August or later. To see how different retirement dates can affect a member's monthly benefit, consider the examples on the following page.

EXAMPLE

Amy Miller works in a non-hazardous position for an agency participating in KERS and is considering two retirement dates: June 1, 2008 and August 1, 2008. She will have 27 years of service if she retires in June and will accumulate 2 additional months of service credit if she retires in August.

If she retires June 1, 2006, she will be eligible to receive a 3.2% Cost of Living Adjustment on her first retirement allowance.

Final Compensation	X	Benefit Factor	X	Years of Service Credit	=	Annual Benefit	Monthly Benefit
\$36,500.00	X	2.20%	X	27 Years	=	\$21,681.00	\$1,806.75
				+ 3.2% COLA		\$ 693.79	\$57.81
						<u>\$22,374.79</u>	<u>\$1,864.56</u>

If she retires August 1, 2006, she will accrue two additional months of service credit and her final compensation will increase as she works into the new fiscal year.

Final Compensation	X	Benefit Factor	X	Years of Service Credit	=	Annual Benefit	Monthly Benefit
\$36,591.26	X	2.20%	X	27.17 Years	=	\$21,869.38	\$1,822.45

By retiring in June and consequently being eligible to receive a COLA on her first retirement allowance, Amy's annual benefit increased by \$505.41. On a monthly basis, Amy's benefit increased by \$42.11.

Tax Treatment Of Benefits

Federal Income Tax

Monthly benefits from KERS, CERS and SPRS are subject to federal income tax. If a member made contributions with after-tax dollars, then a portion of the monthly benefit will not be subject to federal income tax.

State Income Tax

All benefits attributable to service earned on or before December 31, 1997, are exempt from Kentucky income tax. The portion of the member's benefits earned January 1, 1998 and after is subject to Kentucky income tax. Retirement credit for unused sick leave is treated as being earned at the time of retirement.

Effective January 1, 1998, retirement income from all sources including KERS, CERS and SPRS benefits earned January 1, 1998 and after, as well as income from private pensions such as IRAs, Deferred Compensation and others may be excludable up to \$41,110 (see Schedule P in the Kentucky income tax forms for the exclusion amount and calculation).

Both spouses qualify for the exclusion, whether filing jointly or separately, so a married couple would be eligible to exclude retirement income up to twice the total exclusion amount.

EXAMPLE

Example: Jane was employed by the state in 1970. She retired at the end of 2004 with 34 total years. Her KERS pension for the 2007 calendar year is \$30,000. She will also receive \$15,000 from Deferred Compensation. Her 2007 state tax computation is computed below.

1. *Compute taxable pension income from KERS. Jane earned 7 of her 34 years of service credit after December 1997 or 20.5882%. Take this percentage and multiply by her annual benefit of \$30,000, the amount of her KERS benefit subject to state income taxes is \$6,176.*

$$7 \text{ years} \div 34 \text{ years total} = 20.5882\%$$

$$\$30,000 \times 20.5882\% = \$6,176$$

2. *Add taxable pension income from all sources:*

KERS.....\$ 6,176

Deferred Compensation.....\$15,000

Total..... \$21,176

3. *Apply the exclusion: \$41,110 (pension exclusion)*
4. *Taxable pension income for KY income taxes: \$0*

Effects Of Divorce On Retirement Benefits

A final divorce decree voids the designation of a spouse as beneficiary. If the divorce occurs after the first retirement allowance has been issued by the State Treasurer, the retired member's estate becomes the beneficiary of the account.

The member's estate will not be entitled to payments under a survivorship option. In the event of remarriage to the former spouse, the former spouse who was the named beneficiary on the member's notification of retirement shall be reinstated as the member's beneficiary for the payment option previously chosen.

As of July 14, 2000, KERS, CERS and SPRS benefits are not subject to division by a qualified domestic relations order (QDRO), but may be considered in the division of marital property under KRS 403.190(4). This means that the Kentucky Retirement Systems will not accept or honor a QDRO filed at the Systems' office on or after July 14, 2000. QDROs filed at the Systems prior to July 14, 2000 will be honored if the QDRO is in compliance with the provisions of 105 KAR 1:190. The alternate payee of a QDRO is not eligible to carry insurance through the Systems.

Medical Insurance Benefits

Insurance for Retirees and Beneficiaries

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.

The provisions of HB 290 allow the General Assembly to alter the level of insurance benefits for employees participating on or after July 1, 2003.

IMPORTANT: If you have questions regarding insurance coverage, please contact the Retirement Systems prior to making choices regarding insurance.

Note: For Hazardous duty members, the portion paid toward couple, parent plus, or family coverage is based solely on the amount of service the member has in an approved hazardous position.

Example: If the member participating prior to July 1, 2003 has 10 years of non-hazardous service and 10 years of hazardous service, KRS will pay 100% of the monthly contribution for the member and 50% of the difference between the single contribution and the contribution for couple, parent plus, or family coverage.

The \$5,000 death benefit applies only to beneficiaries of retired members receiving a monthly benefit based upon at least 48 months of service credit.

Total Non-Hazardous Service	% Paid for Retired Member¹	Total Hazardous Service	% Paid Toward Dependent Coverage²
Less than 4 years	0%	Less than 4 years	0%
4 – 9+ years	25%	4 – 9+ years	25%
10 – 14+ years	50%	10 – 14+ years	50%
15 – 19+ years	75%	15 – 19+ years	75%
20 or more years	100%	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.

²100% of the monthly contribution is paid towards the health insurance for a member, member's spouse and dependents if the member is in a hazardous position and is disabled in the line of duty 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 hazardous position and dies in the line of duty 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 retirement benefit.

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.

Benefits for 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.

Hazardous duty members whose participation begins on or after July 1, 2003 will earn a contribution for insurance of fifteen dollars (\$15) per month for each year of service.

Upon the retiree's death, the spouse of a hazardous duty member will receive a monthly insurance contribution of ten dollars (\$10) per month for each year of hazardous duty provided the spouse is designated as beneficiary and remains eligible for monthly benefits upon the retired member's death.

EXAMPLE

If a hazardous duty member began participating July 1, 2003 and retires with 20 years of actual hazardous service, the contribution paid by Systems for insurance coverage will be \$300 per month. Upon the member's death, the spouse, if eligible, would receive a monthly insurance contribution of \$200 per month.

The monthly insurance contribution will be increased annually by the change in the CPI. 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.

Medicare Eligible Retiree Health Insurance

When a retiree becomes eligible for Medicare through Social Security, the retiree qualifies for Medicare Eligible Insurance Coverage through Kentucky Retirement Systems. Until the age of 65 it is not required that a retiree choose Medicare Eligible Coverage, but he may choose to do so.

Medicare Eligible Insurance Coverage assumes that the retiree has obtained Medicare Part A and Part B. Failure to obtain Part B may result in substantially higher medical bills.

Percentages paid by KRS toward Medicare Eligible Insurance are determined using the same service parameters as Under 65 Insurance.

Spouse and Dependent Coverage for Medicare Eligible Retirees

If the spouse and dependents are also eligible for Medicare ***Waiver of Health Insurance Coverage***

If a retiring member chooses to waive insurance coverage through the Systems, the contribution the Systems would have paid toward insurance is forfeited and coverage through the Systems cannot be obtained until the next annual open enrollment period or unless a qualifying event occurs.

\$5,000 Death Benefit

In addition to a retirement benefit and health insurance, a retired member's beneficiary may be eligible for a death benefit. If a retired member is receiving a monthly benefit based on at least 48 months of service credit, the Systems will pay a \$5,000 death benefit payment to the beneficiary designated by the member specifically for this benefit. The beneficiary or administrator of the member's estate must submit proper documentation of the date of death and the qualifications of the administrator. 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.

Retirement Procedures

Things to Consider Prior to Filing for Retirement Benefits

A member considering retirement within the next two years should request an estimate of retirement benefits from the Systems. This estimate can be helpful in determining post-retirement income. *Members who are more than two years from retirement can produce their own benefit estimates by using the estimate program found at www.kyret.com.*

The Systems provides benefits counseling. The counseling offices are open Monday through Friday from 8:00 A.M. to 4:30 P.M. Eastern time. **Appointments are required.**

If you will be eligible for Social Security at the time of retirement, you may want to contact your local Social Security Administration office at least 90 days before the anticipated retirement date. Social Security benefits and requirements differ from those of the Retirement Systems. If you will be eligible for Medicare at retirement, it is advisable to contact the Social Security office even earlier. Medicare-eligible retirees must present a copy of their Medicare card if they are applying for Medicare-eligible insurance coverage.

If you are considering a service purchase, you should allow several months to obtain any documentation on the service. In almost every case, the service must be purchased prior to termination and while a contributing member.

When Should I File For Retirement Benefits?

About 45 to 60 days before your retirement date, you should complete the Form 6000, Notification of Retirement, and return it to the Systems. You may file the Notification of Retirement up to six (6) months prior to your retirement date. Because the beneficiary on your Notification of Retirement supersedes all previous designations, once you file your Notification of Retirement, your estate would become your beneficiary if both you and the beneficiary on your Notification of Retirement should die. **EXCEPTION:** If the Form 6000 is withdrawn, invalid, or voided, the prior beneficiary designation on file with the Systems shall remain in effect until changed by the member.

You should also notify your employer so that your employer will be aware of your intended retirement date. The employer needs to know the expected retirement date in order to coordinate final payments and ensure there is no interruption in insurance coverage.

What Happens After I File My Form 6000 with the Systems?

After receiving the Form 6000, Notification of Retirement, the Systems will mail a Form 6010, Estimated Retirement Allowance, and other information including forms for insurance coverage, death benefit, direct deposit, and tax withholding. You must select one payment option, then sign and date the form. There is a space for a spouse to sign if you are married. The Form 6010 must be signed by a witness. Your spouse's signature may serve as the witness signature.

The completed forms must be returned to the Systems along with a copy of your birth certificate. A copy of the birth certificate for the named beneficiary is also required if the beneficiary will be eligible for lifetime payments.

When Can I Expect My First Retirement Check?

If all forms have been completed properly, the first retirement check will be mailed by the 27th of the first month of retirement. After that, the monthly benefit will be deposited to the retired member's account on the 14th or last working day preceding the 14th of each month. Members are required to have the monthly retirement benefit deposited directly to their bank accounts, unless their bank does not participate in the Automated Clearing House.

Important Considerations

It is very important that all forms, especially insurance forms, be completed and returned prior to the desired retirement date. If insurance forms are not returned in time, insurance coverage may lapse. *No payments can be processed until birth certificates, the payment option selection and the direct deposit form are received at the Systems. If you do not return the Form 6010 on which you select a payment option within six (6) months, your Notification of Retirement will be voided. You will need to file a new Notification of Retirement, and the effective retirement date will be after receipt of the second Notification of Retirement.*

Until a final audit of your account is completed, the monthly benefit will be based on the estimate of benefits made prior to final wages. **Once all wages, contributions and sick leave balances have been reported and the date of termination verified, your benefit payment may be adjusted (up or down) to reflect higher or lower actual earnings retroactive to the retirement date.** Retirement benefits will not be adjusted unless the adjustment results in a difference of at least \$2.00 in your monthly payment. The Systems is statutorily required to correct all errors in records without exception. If an error regarding your account is discovered after final audit, it will be corrected. If the correction of the error reveals that you have been overpaid benefits, you are required to repay the benefits.

Disability Benefits And Procedures

Qualifications for Non-Hazardous Members

In order to qualify for disability retirement, a non-hazardous member must meet the following requirements.

The member must have a minimum 60 months of service credit, 12 of which are credited as current service.¹

The member's application must be on file at the Systems no later than 24 months after the last day of paid employment in a regular full-time position.

The medical examiners employed by the Systems determine 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 cannot apply for a disability benefit.

An incapacity must not result directly or indirectly from bodily injury, mental illness, disease or condition which pre-existed the 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.

¹The 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.

Qualifications for Hazardous Members

In order to qualify for disability retirement, a hazardous member must meet the following requirements.

The member must have a minimum 60 months of service credit, 12 of which are credited as current service.¹

The member's application must be on file at the Systems no later than 24 months after the last day of paid employment in a regular full-time position.

A retiring member designates a beneficiary for his or her monthly retirement allowance on Section D of the Form 6000, Notification of Retirement.

The medical examiners employed by the Systems determine:

- The member is incapable of engaging in any occupation for remuneration or profit.
or
- The member is totally incapable of working in a hazardous position, but may still be capable of performing other types of work.

In addition, members participating prior to August 1, 2004 who are eligible for an unreduced benefit cannot 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.

¹ The 60 month service requirement shall be waived if the disability is a total and permanent disability or a hazardous disability that is a result of an act in the line of duty. An act in the line of duty is an act occurring or a thing done which was required in the performance of the specified duties.

Steps Required to Apply for Disability

Members who wish to apply for disability should follow the steps listed below:

Step 1: The member must accurately complete and file a Form 6000, Notification of Retirement, within 24 months of the last day of paid employment in a regular full-time position. Upon receipt of a valid Form 6000, a disability packet will be mailed which includes the forms listed below. If the member's disabling condition resulted from a duty-related injury (non-hazardous members) or as a result of an act in-the-line-of-duty (hazardous members), an incident report must accompany the Form 6000.

Step 2: The member must obtain all medical information pertaining to the disabling condition for which he is applying for disability and file the information with the Systems. The Systems is not responsible for copying medical records for the member.

Step 3: The member must accurately complete a Form 8035, Member Job Description, listing and describing the duties of the job performed as of the last day of paid employment and file the form with the Systems.

Requests for Accommodations: An employee must make a request for reasonable accommodations under the Americans with Disabilities Act (as provided for in 42 U.S.C. sec. 12111(9) and 29 C.F.R. Part 1630. You MUST submit evidence of your request for accommodations.

Step 4: The member must accurately complete a Form 8040, Prescription and Non-prescription Medications, listing all current medications he or she is taking and file the form with the Systems.

Step 5: Once Steps 2 - 4 have been completed, the member will need to certify that the information is ready for the medical examiners to review by completing a Form 8001, Certification of Application for Disability Retirement and Supporting Medical Information, and file the form with the Systems.

How Disability Benefits are Calculated

For members participating prior to August 1, 2004, disability benefits are calculated in the same manner as normal retirement benefits except that additional months of service may be added to the member's account depending on age and years of service.

Members participating on or after August 1, 2004 will be eligible for disability benefits based upon a different formula. The formula for non-hazardous members provides a disability benefit that is the higher of 20% of final rate of pay or the retirement allowance determined in the same manner as for retirement at his or her normal retirement date with years of service and final compensation being determined as of the date of his or her disability. The formula for hazardous duty members provides a disability benefit that is the higher of 25% of the final rate of pay or the retirement allowance determined in the same manner as for retirement at his or her normal retirement date with years of service and final compensation being determined as of the date of his or her disability.

Disability Determination

Upon receipt of the Form 8001 certifying that all objective medical evidence and other required forms are ready to be evaluated by the medical examiners, the Systems will submit all evidence for review. The examiners must determine if the member, since his or her last day of paid employment, has been mentally or physically incapacitated to perform the job, or job of like duties, from which he or she received his or her last paid employment. The incapacity must be expected to last at least 12 months or result in death to be considered permanent. In addition, the incapacity cannot be directly or indirectly related to a condition that pre-existed membership or re-employment for persons with less than 16 years of service, unless objective medical evidence demonstrates that an injury or accident arising out of or in the course of employment substantially aggravated the underlying pre-existing condition.

If disability retirement is approved, the retirement benefit will be effective the first day of the month following the last day of paid employment.

Death Before Retirement

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.

Benefits Provided

If a member dies prior to retirement, the beneficiary may 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 or on official leave 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.

If the beneficiary is *not eligible for a monthly benefit*, a lump sum payment of the member's contributions and any accumulated interest will be paid.

Beneficiary Options

If the beneficiary is eligible for a monthly benefit or actuarial refund, 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 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 Benefits

Non-Hazardous Members; The spouse of a non-hazardous member whose death resulted from a single traumatic event that occurs while the employee is performing the duties of his or her position or an act of violence committed against the employee that is 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 plus a monthly payment of 25% of the deceased member's monthly final rate of pay. In addition, each eligible dependent child will receive 10% of the member's monthly final rate of pay up to a maximum of 40%. Non-Hazardous members who have at least one month of service credit are eligible for duty-related death benefits.

Hazardous Members: If a hazardous duty member dies in the line of duty and the member's spouse is the only principal beneficiary named, the spouse may elect a lump sum payment of \$10,000 and a monthly benefit equal to 25% of the member's monthly final rate of pay, which will continue until death.

If the beneficiary is only one person who is a dependent receiving at least 50% of his or her support from the member, the beneficiary may elect a lump sum payment of \$10,000.

In both of these cases, the beneficiary may choose from these options or from the same benefit options offered under death not in line of duty.

Each dependent child will receive a monthly benefit equal to 10% of the member's monthly final rate of pay. Dependent child payments cannot exceed 40% of the member's monthly final rate of pay.

Beneficiary Responsibilities

The beneficiary is required to submit a death certificate for the deceased member listing the cause of death.

Death After Retirement

Beneficiary Designation at Retirement

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. An estate or trust cannot be eligible for a lifetime payment upon the death of a retired member.

Benefits Provided

Upon notification of a retired member's death, the Systems will notify the individual named as beneficiary regarding his or her status as beneficiary. The beneficiary must complete and file the proper forms along with a death certificate listing the cause of the member's death.

The retired member's estate is entitled to the member's retirement payment for the month of the member's death.

If the retired member selected the Basic Option and had not recovered all the member contributions and interest which had accumulated in his or her retirement account, the beneficiary would receive the remaining account balance.

If the retired member selected a Survivorship Option at the time of retirement, the beneficiary will receive monthly benefits beginning in the month following the member's death. Monthly benefits will not continue if the member's estate has become the beneficiary because the beneficiary has died or divorced the member.

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.

Applying for Death after Retirement Benefits

The beneficiary or estate is required to submit a death certificate for the member listing the cause of death. If death occurred after the effective retirement date, the agency is not required to submit any information.

An audit will be performed on the deceased member's account once the death is reported to the Systems. The retirement office will contact the beneficiary of the account by letter. Please note that a completed beneficiary designation must be on file with the Systems in Frankfort prior to the member's death to be valid. A copy received after the member's death is not acceptable.

Contacting Kentucky Retirement Systems

By Mail	Kentucky Retirement Systems Perimeter Park West 1260 Louisville Road Frankfort, KY 40601-6124	All written inquiries should include the member's name, social security number, home mailing address, and signature. If you are requesting an estimate of retirement benefits, please include all retirement dates you are considering. If you are requesting a service purchase calculation, please include the type of purchase and the necessary verification if required.
By Phone	1-800-928-4646 502-696-8800	Telephone inquiries are handled by the Retirement Systems' call center, which assists callers in obtaining services or forms and with answers to questions about the retirement system. You can also make an appointment to see a counselor at the retirement office or submit a request for information by contacting the call center.
Web Page	Visit us online at: www.kyret.com	You can generate individual retirement estimates online by going to the Systems' web site and selecting "Online Benefit Estimator." Educational materials and forms are also available on our web page.

Note: 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.