

161.420 Funds of retirement system. (Declared void -- See LRC Note Below)

All of the assets of the retirement system are for the exclusive purpose of providing benefits to members and annuitants and defraying reasonable expenses of administering the system. The board of trustees shall be the trustee of all funds of the system and shall have full power and responsibility for administering the funds. All the assets of the retirement system shall be credited according to the purpose for which they are held to one (1) of the following funds:

- (1) The expense fund shall consist of the funds set aside from year to year by the board of trustees to defray the expenses of the administration of the retirement system. Each fiscal year an amount not greater than four percent (4%) of the dividends and interest income earned from investments during the immediate past fiscal year shall be set aside into the expense fund or expended for the administration of the retirement system;
- (2)
 - (a) The teachers' savings fund shall consist of:
 1. The contributions paid by members of the retirement system into this fund and regular interest assigned by the board of trustees from the guarantee fund or established by KRS 161.235, as applicable; and
 2. For individuals who become members of the Teachers' Retirement System on or after January 1, 2019, who are participating in the hybrid cash balance plan, the employer pay credit and regular interest to the hybrid cash balance plan as provided by KRS 161.235 that is assigned by the board of trustees from the guarantee fund.
 - (b) A member may not borrow any amount of his or her accumulated account balance in the teachers' savings fund, or any regular interest earned thereon.
 - (c) The accumulated contributions or accumulated account balance of a member which are returned to him upon his withdrawal or paid to his estate or designated beneficiary in the event of his death shall be paid from the teachers' savings fund.
 - (d) Any accumulated account balance in the teachers' savings fund forfeited by a failure of a teacher or his estate to claim these contributions shall be transferred from this fund to the guarantee fund.
 - (e) For an individual who becomes a member of the Teachers' Retirement System prior to January 1, 2019, the accumulated account balance of a member in the teachers' savings fund shall be transferred from this fund to the allowance reserve fund in the event of retirement by reason of service or disability.
 - (f) For an individual who becomes a member of the Teachers' Retirement System on or after January 1, 2019, who is participating in the hybrid cash balance plan who elects to annuitize his or her accumulated account balance as prescribed by KRS 161.235(7)(a) or (b), the member's accumulated account balance shall be transferred to the allowance reserve fund;
- (3) The state accumulation fund shall consist of funds paid by employers and appropriated by the state for the purpose of providing annuities and survivor benefits, including any sums appropriated for meeting unfunded liabilities, together

with regular interest assigned by the board of trustees from the guarantee fund. At the time of retirement or death of a member there shall be transferred from the state accumulation fund to the allowance reserve fund an amount which together with the sum transferred from the teachers' savings fund will be sufficient to provide the member a retirement allowance and provide for benefits under KRS 161.520 and 161.525. There shall also be transferred from the state accumulation fund to the teachers' savings fund, the amount needed to fund the employer credits required by KRS 161.235;

- (4) The allowance reserve fund shall be the fund from which shall be paid all retirement allowances and benefits provided under KRS 161.520 and 161.525. In addition, whenever a change in the status of a member results in an obligation on this fund, there shall be transferred to this fund from the teachers' savings fund and the state accumulation fund, the amounts as may be held in those funds for the account or benefit of the member;
- (5) (a) Effective January 1, 2019, the medical insurance fund, which is an account established according to 26 U.S.C. sec. 401(h), shall consist of amounts accumulated for the purpose of providing benefits as provided in KRS 161.675, including:
 1. The member contributions required by KRS 161.540(1)(a)2. and (1)(b)2.;
 2. The employer contribution required by KRS 161.550(1)(a)1.b., (1)(a)2.b., and (3)(a);
 3. State appropriations as set forth in KRS 161.550(2), unless the contributions are made to a trust fund under 26 U.S.C. sec. 115 established by the board for this purpose; and
 4. Interest income from the investments of the fund from contributions received by the fund under subparagraphs 1. to 3. of this paragraph, and from income earned on those investments.
- (b) All claims for benefits under KRS 161.675 shall be paid from this fund or from any trust fund under 26 U.S.C. sec. 115 as established by the board for this purpose. Any amounts deposited to the fund that are not required to meet current costs shall be maintained as a reserve in the fund for these benefits. The board shall take the necessary and appropriate steps, including promulgating administrative regulations and procedures to maintain the status of the medical insurance fund as an account subject to 26 U.S.C. sec. 401(h);
- (6) The guarantee fund shall be maintained to facilitate the crediting of uniform interest on the amounts of the other funds, except the expense fund, to finance operating expenses directly related to investment management services, and to provide a contingent fund out of which special requirements of any of the other funds may be covered. All income, interest, and dividends derived from the authorized deposits and investments shall be paid into the guarantee fund. Any funds received from gifts and bequests, which the board is hereby authorized to accept and expend without limitation in a manner either expressed by the donor or deemed to be in the best interest of the membership, shall be credited to the guarantee fund. Any funds

transferred from the teachers' savings fund by reason of lack of claimant or because of a surplus in any fund and any other moneys whose disposition is not otherwise provided for, shall also be credited to the guarantee fund. The interest allowed by the board of trustees to each of the other funds shall be paid to these funds from the guarantee fund. Any deficit occurring in any fund that would not be automatically covered shall be met by the payments from the guarantee fund to that fund;

- (7) The school employee annuity fund shall consist of those funds voluntarily contributed under the provisions of Section 403(b) of the Internal Revenue Code by a retired member of the Teachers' Retirement System with accounts that existed on or after July 1, 1996. The contributions shall not be picked up as provided in KRS 161.540(2). Separate member accounts shall be maintained for each member. The board of trustees may promulgate administrative regulations pursuant to KRS Chapter 13A to manage this program;
- (8) The supplemental retirement benefit fund shall consist of those funds contributed by the employer for the purpose of constituting a qualified government excess benefit plan as described in Section 415 of the Internal Revenue Code for accounts that existed on or after July 1, 1996. The board of trustees shall promulgate administrative regulations pursuant to KRS Chapter 13A to administer this program; and
- (9) The life insurance benefit fund shall consist of amounts accumulated for the purpose of providing benefits provided under KRS 161.655. The board of trustees may allocate to this fund a percentage of the employer and state contributions as provided under KRS 161.550. The allocation to this fund will be in an amount that the actuary determines necessary to fund the obligation of providing the benefits provided under KRS 161.655.

Effective: July 14, 2018

History: Amended 2018 Ky. Acts ch. 107, sec. 47, effective July 14, 2018. -- Amended 2010 Ky. Acts ch. 159, sec. 2, effective July 1, 2010. -- Amended 2008 (1st Extra. Sess.) Ky. Acts ch. 1, sec. 31, effective June 27, 2008. -- Amended 2004 Ky. Acts ch. 121, sec. 4, effective July 1, 2004. -- Amended 2002 Ky. Acts ch. 275, sec. 8, effective July 1, 2002. -- Amended 2000 Ky. Acts ch. 498, sec. 8, effective July 1, 2000. -- Amended 1998 Ky. Acts ch. 515, sec. 5, effective July 1, 1998. -- Amended 1994 Ky. Acts ch. 369, sec. 4, effective July 1, 1994. -- Amended 1992 Ky. Acts ch. 192, sec. 3, effective July 1, 1992. -- Amended 1990 Ky. Acts ch. 442, sec. 2, effective September 1, 1990; and ch. 476, Pt. V, sec. 498, effective July 13, 1990. -- Amended 1988 Ky. Acts ch. 363, sec. 3, effective July 1, 1988. -- Amended 1986 Ky. Acts ch. 440, sec. 4, effective July 1, 1986. -- Amended 1984 Ky. Acts ch. 253, sec. 6, effective July 1, 1984. -- Amended 1978 Ky. Acts ch. 152, sec. 3, effective March 28, 1978. -- Amended 1974 Ky. Acts ch. 395, sec. 6, effective July 1, 1974. -- Amended 1964 Ky. Acts ch. 43, sec. 4. -- Recodified 1942 Ky. Acts ch. 208, sec. 1, effective October 1, 1942, from Ky. Stat. sec. 4506b-35.

Legislative Research Commission Note (12/13/2018). On December 13, 2018, the Kentucky Supreme Court ruled that the passage of 2018 SB 151 (2018 Ky. Acts ch. 107), did not comply with the three-readings rule of Kentucky Constitution Section 46 and that the legislation is, therefore, constitutionally invalid and declared void. That ruling applies to changes made to this statute in that Act.