

161.420 Funds and accounts of retirement system.

All of the assets of the retirement system are for the exclusive purpose of providing benefits to members and annuitants and defraying reasonable expenses of administering the system. The board of trustees shall be the trustee of all funds of the system and shall have full power and responsibility for administering the funds. 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; and
 2. For individuals who become members of the Teachers' Retirement System on or after January 1, 2022, who are participating in the supplemental benefit component, the employer contributions paid into the supplemental benefit component and regular interest on those contributions as provided by KRS 161.635 and 161.636 that is assigned by the board of trustees from the guarantee fund.

For individuals who become members on or after January 1, 2022, the system shall account for funds in the teachers' savings fund attributable to the nonuniversity members foundational benefit component, nonuniversity members supplemental benefit component, university members foundational benefit component, and university members supplemental benefit component.

- (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 or her upon his or her withdrawal or paid to his or her estate or designated beneficiary in the event of his or her 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 or her estate to claim these contributions shall be transferred from this fund to the guarantee fund.
- (e) Except as provided by paragraph (f) of this subsection, 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, 2022, who is participating in the supplemental benefit

component who elects to annuitize his or her accumulated account balance in the supplemental benefit component as prescribed by KRS 161.635(5)(a) or (b) or 161.636(5)(a) or (b), the member's accumulated account balance in the supplemental benefit component shall be transferred from this fund 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 mandatory employer contributions required by KRS 161.635 and 161.636;
- (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) 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.,(b)2., (c)3., and (d)3.;
 2. The employer contribution required by KRS 161.550(1)(a)2., (b)2., (c)2., (d)3., and (e)3. and (3);
 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 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;
- (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; and
- (10) The stabilization reserve account shall consist of amounts in two (2) separate accounts:
 - (a) One (1) that includes employer contributions as provided by KRS 161.550(1)(d)1. and 2. that exceeds the combined actuarially required employer contribution for the foundational benefit component and the mandatory employer contribution to the supplemental benefit component as provided by KRS 161.633 and 161.635 for those individuals who become nonuniversity members on or after January 1, 2022; and
 - (b) One (1) that includes employer contributions as provided by KRS 161.550(1)(e)1. and 2. that exceeds the combined actuarially required employer contribution for the foundational benefit component and the

mandatory employer contribution to the supplemental benefit component as provided by KRS 161.634 and 161.636 for those individuals who become university members on or after January 1, 2022.

Notwithstanding any other statute to the contrary, funds in these accounts shall only be used to pay off the unfunded liability of the pension and life insurance funds.

Effective: January 1, 2022

History: Repealed, reenacted, and amended 2021 Ky. Acts ch. 157, sec. 13, effective January 1, 2022. -- 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.

2020-2022 Budget Reference. See State/Executive Branch Budget, 2021 Ky. Acts ch. 169, Pt. I, A, 29, (3) at 1075.

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.