

Kentucky Teachers' Retirement System



Gary L. Harbin, CPA
Executive Secretary

September 16, 2015

Information for
Commerce Lexington
on
**Kentucky's
Public Pension
Challenges**



Presented by
Gary L. Harbin, CPA
Executive Secretary

How Big is KTRS Today?



**Membership
of Over
140,000**



**Over 48,000
Receive a
Benefit from
KTRS**



**KTRS Distributes Over \$151 Million
Monthly in Retirement Benefits**



**KTRS has over
\$ 18.5 Billion in
Assets**



**1 in 4 Teachers
are Eligible to
Retire ...
*Almost 15,000
Teachers!***

Kentucky Teachers Retirement System
Schedule of Funds Available for Retirement Benefits
For the Twenty-Nine Year Period Ending June 30, 2014

Defined Benefit Plan – Retirement Benefits – (Pre-Funded)

in billions

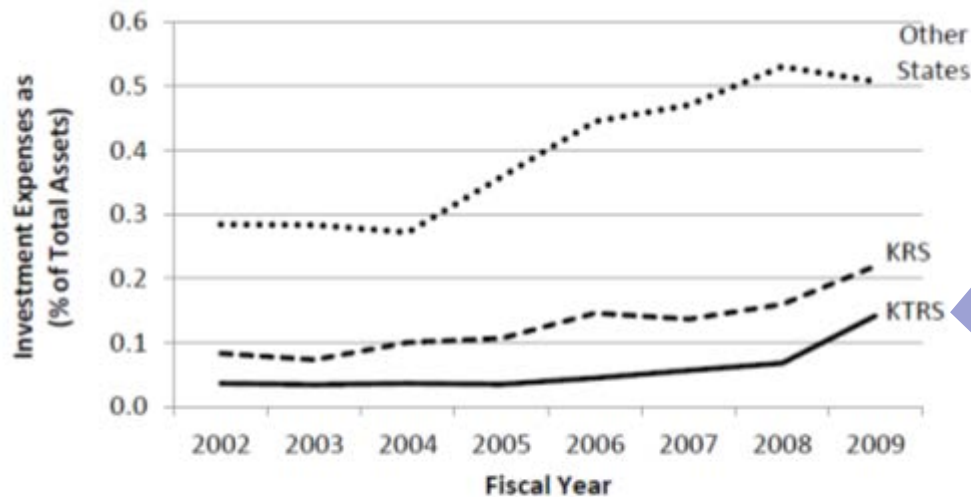
Beginning Balance as of	July 1, 1985	\$ 1.8
Member & Other Contributions		6.0
Employer Contributions		10.2
Investment Income		21.5
Benefit Payments & Refunds		(21.2)
Administrative Expenses		(0.2)
Ending Balance as of	June 30, 2014	\$18.1

How much do Kentucky teachers' pension benefits cost?

- Social Security benefits for workers in Kentucky average **\$1,173** per month.
- Retirement benefits for Kentucky's teachers average **\$3,042** per month.

	Normal Cost	Breakdown of Normal Cost	
		Teachers' Contribution*	State's Contributions
Normal cost of Kentucky K-12 teachers' pension benefits since July 1, 2008	15.68%	9.11%	6.57%
Comparative cost of Social Security	12.40%	6.20%	6.20%
Marginal incremental cost for Kentucky teachers' pension benefits	3.28%	2.91%	0.37%

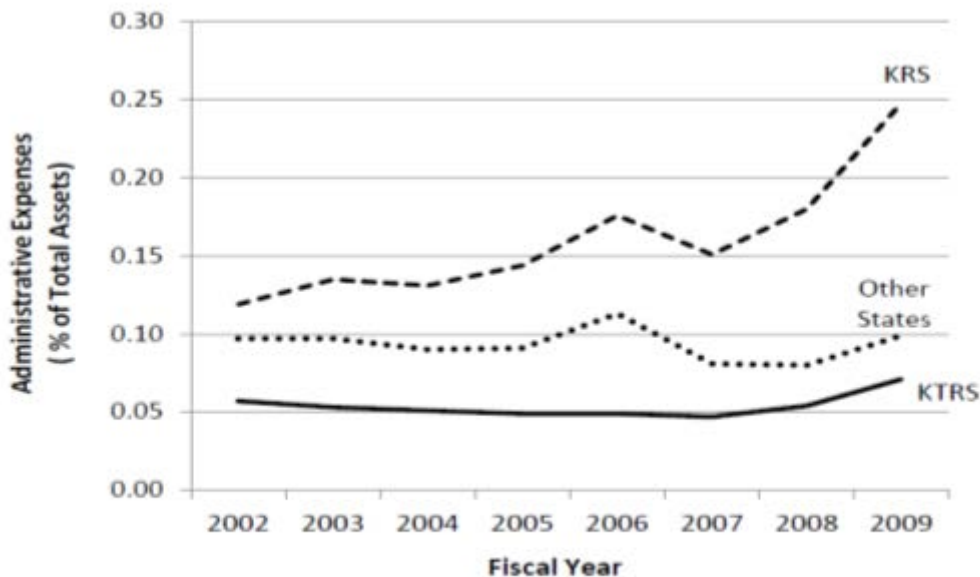
** Teachers also have withheld from their paychecks an additional 3.75% of their salary to pay for retiree medical benefits.*



Note: Value of pension plan assets is the market value.

Source: Staff analysis of data from Boston College's Center for Retirement Research; Commonwealth. Kentucky Retirement. *Comprehensive*, various years; ; Commonwealth. Kentucky Teachers'. *Comprehensive*, various years.

INVESTMENT EXPENSES
as a Percentage of Pension Assets for KRS, KTRS, and the Average of Other States FY 2002 to FY 2009



Note: Value of pension plan assets is the market value.

Source: Staff's analysis of data from Boston College's Center for Retirement Research.

ADMINISTRATIVE EXPENSES
as a Percentage of Pension Plan Assets for KRS, KTRS, and Average of Other States FY 2002 to FY 2009

*Program Review and
Investigations Committee
9.13.2012*

Proof of Low Fees & Investment Costs

*Fees & investment costs documented annually
in the KTRS annual report*

Total \$37,177,750
2/10ths of 1%
of Assets

INVESTMENT SECTION

Investment Expenses

INVESTMENTS continued...	
Equity Partners Fund XV, L.P.	424,315
Capital Partners Fund VII, L.P.	239,298
Superior Michigan	766,830
Superior Investment	65,873
en States	546,311
al Resources Fund X, L.P.	319,266
ropean Principal Fund III, L.P.	375,858
zzanine Fund III, L.P.	375,000
artners Fund III, L.P.	195,217
Carlyle Energy and	
and IV, L.P.	164,423
Energy and Power Fund V, L.P.	219,823
Alternative Managers	\$ 9,290,433

ADVISORY AND OPERATIONAL EXPENSES

New York Mellon	353,749
custodian Fees	\$ 353,749
laKnapp + Associates	338,830
treth	34,533
ip	33,056
nsultant Fees	\$ 440,430

SEARCH	
er Van Deuren	2,237
wer	8,254
gical & Research	\$ 90,339

and Operational	
	2,664,024
ative	\$ 2,664,024

\$ 37,177,750

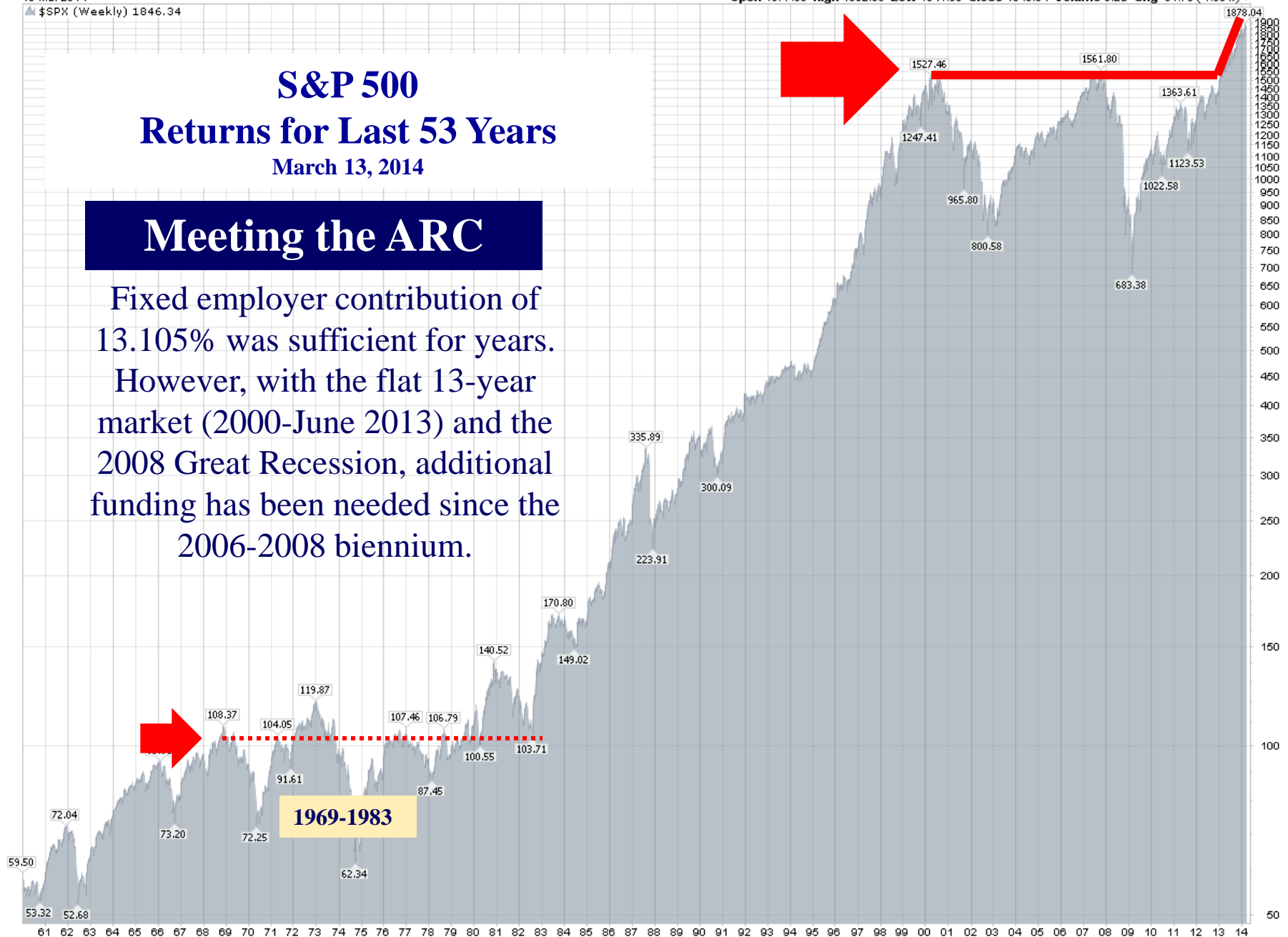
Advisory Private Equity Fund IV, L.P.	103,673
Capital South Fund III, L.P.	-
Carlyle Global Financial Services Fund II, L.P.	672,399
Chrysalis Fund III, L.P.	427,342
Fort Washington Fund V, L.P.	98,964
Fort Washington Fund VI, L.P.	247,000
Fort Washington Fund VII, L.P.	48,113
Harold's Bluegrass LLC Oregon	222,822
Hellman and Friedman Fund VII, L.P.	548,103
JP Morgan Maritime Fund, L.P.	524,742
KKR Fund 2006, L.P.	78,453
KKR European Fund III, L.P.	497,544
Landmark Equity Partners Fund XIV, L.P.	375,000

S&P 500 Returns for Last 53 Years

March 13, 2014

Meeting the ARC

Fixed employer contribution of 13.105% was sufficient for years. However, with the flat 13-year market (2000-June 2013) and the 2008 Great Recession, additional funding has been needed since the 2006-2008 biennium.



INVESTMENT PERFORMANCE

KTRS RETURNS

FISCAL YEAR ENDED JUNE 30, 2015

	1-Year	3-Year	5-Year	10-Year
KTRS	5.1%	12.3%	12.0%	7.0%
CalSTRS	4.8%	12.3%	12.1%	7.0%
Ranking	Top 6%	Top 7%	Top 9%	Top 40%



CalSTRS Facts

\$191.4 billion in assets
68% funded



WEBSITE
<http://crr.bc.edu/>

CENTER *for*
RETIREMENT
RESEARCH
at BOSTON COLLEGE

STATE AND LOCAL PENSION PLANS

NUMBER 45, JUNE 2015

THE FUNDING OF STATE AND LOCAL PENSIONS: 2014-2018

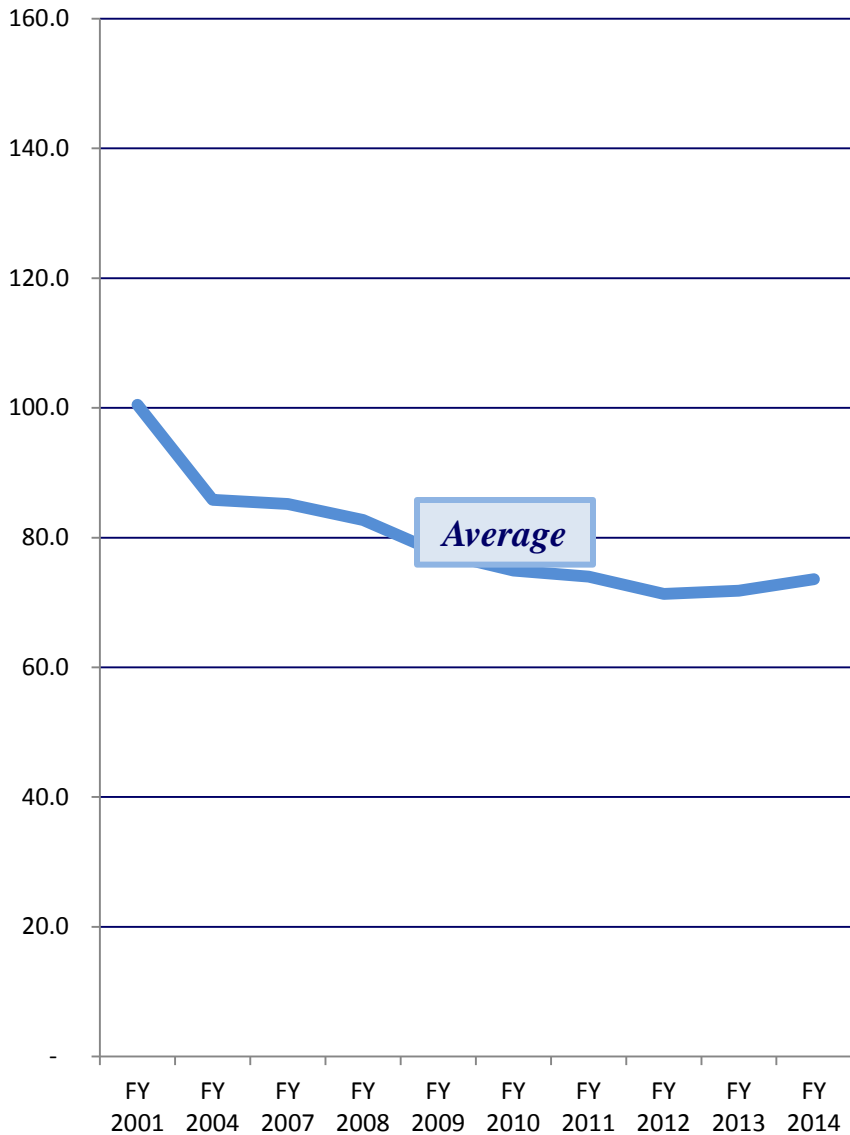
*By Alicia H. Munnell and Jean-Pierre Aubry**

The Funding of State and Local Pensions: 2014-2018

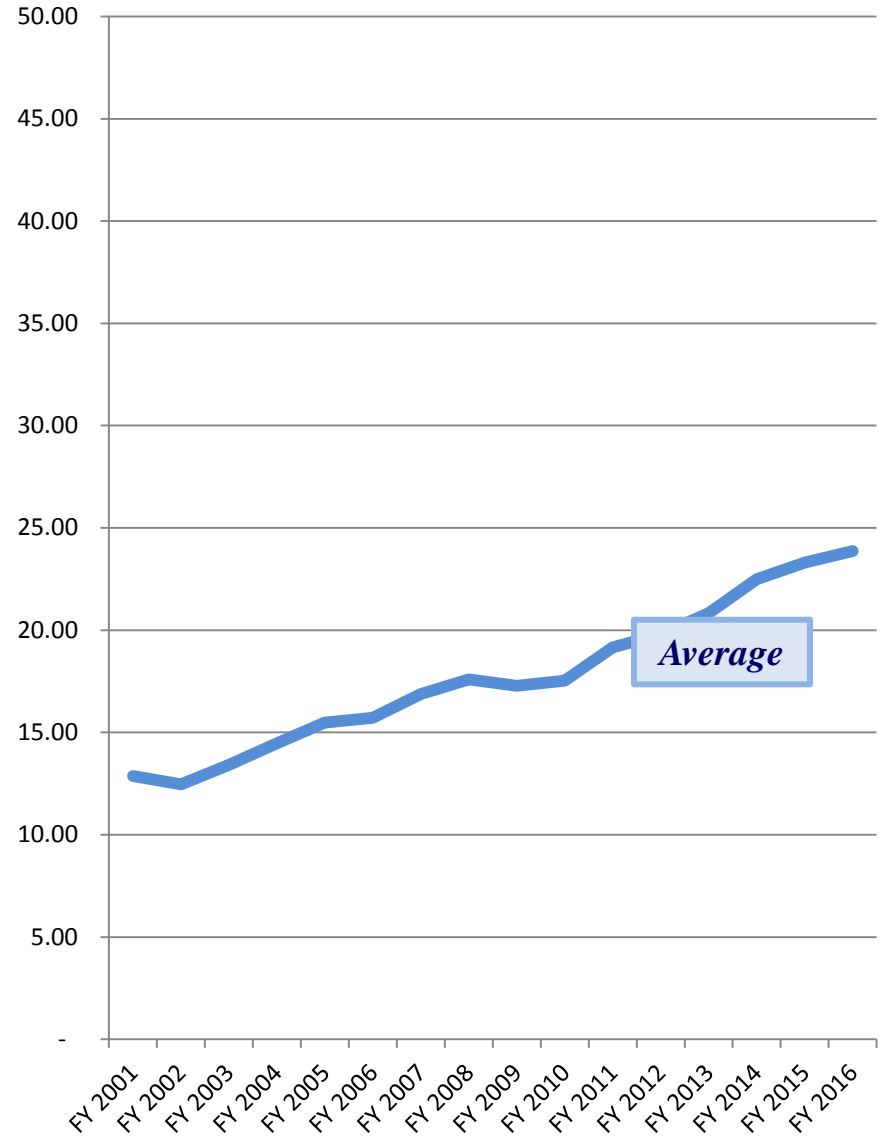
You may download the full brief at

<http://crr.bc.edu/briefs/the-funding-of-state-and-local-pensions-2014-2018/>

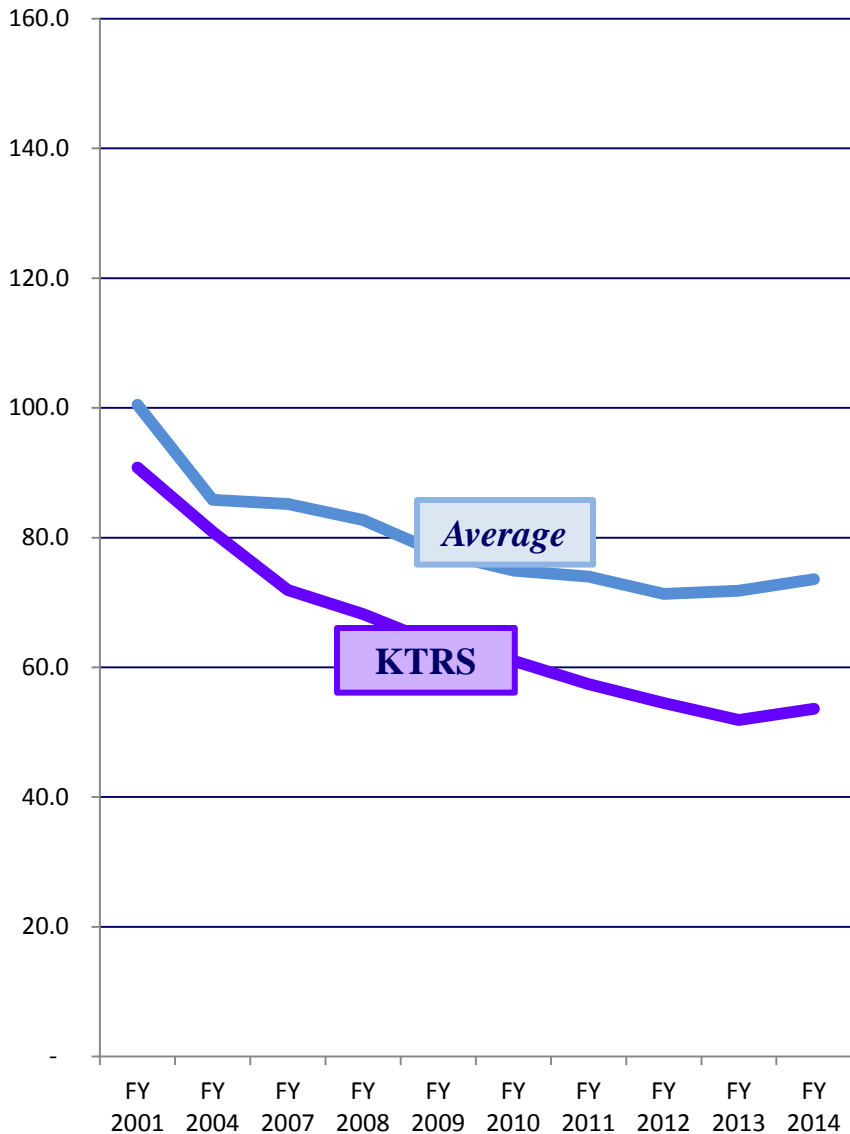
Ratio of Assets to Liabilities for State/Local Plans



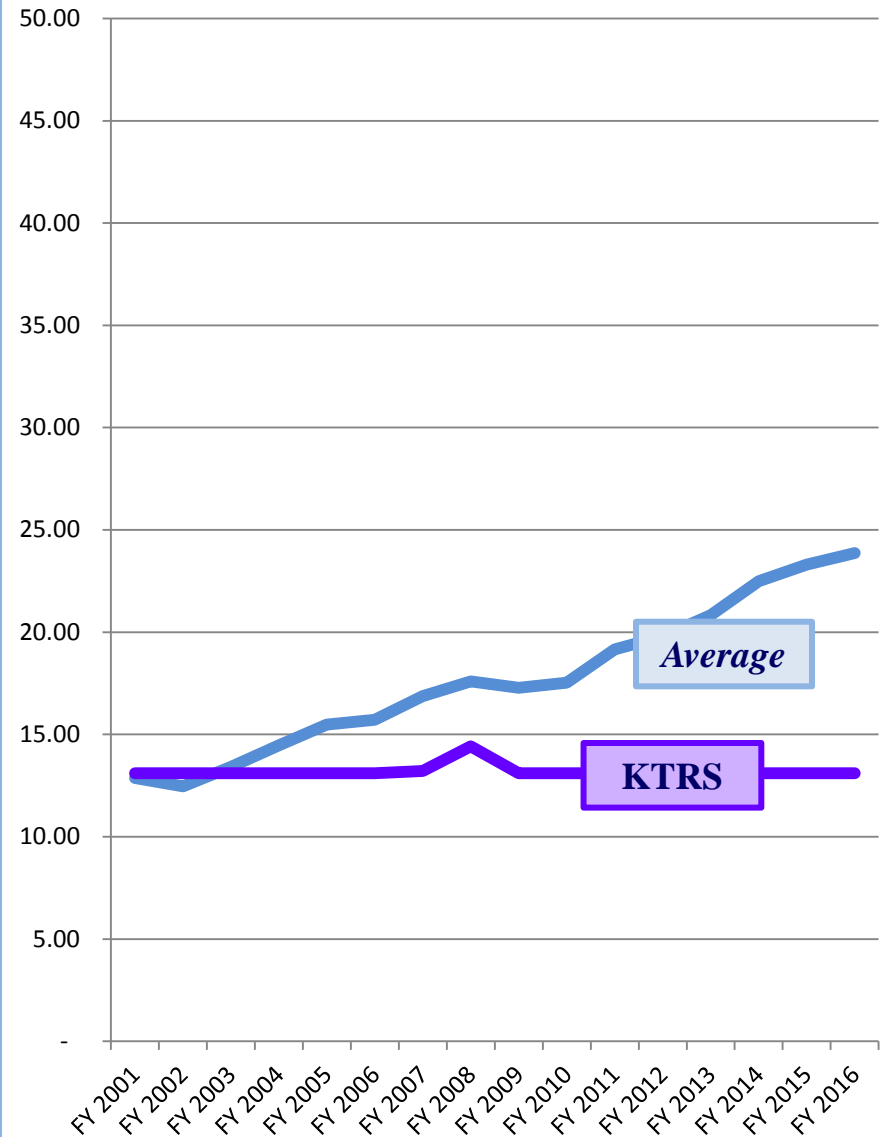
Employer Contribution Rates for State/Local Plans



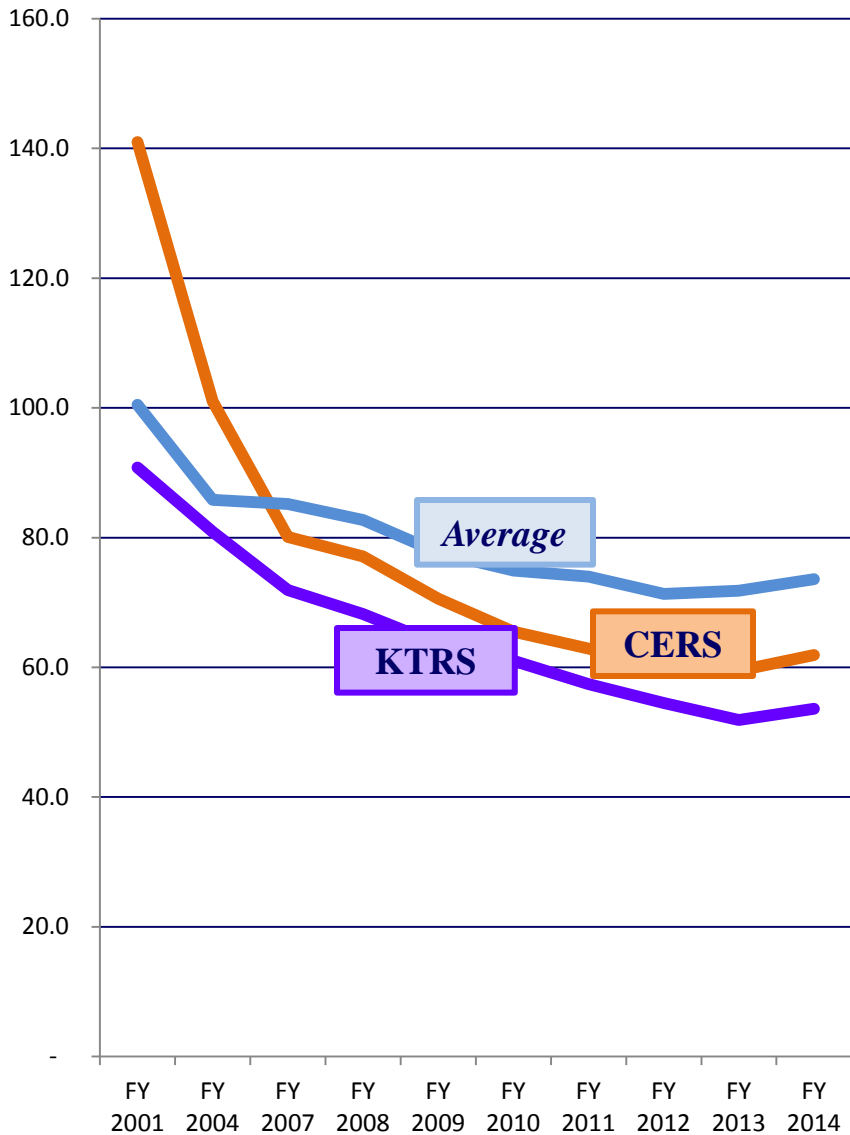
Ratio of Assets to Liabilities for State/Local Plans



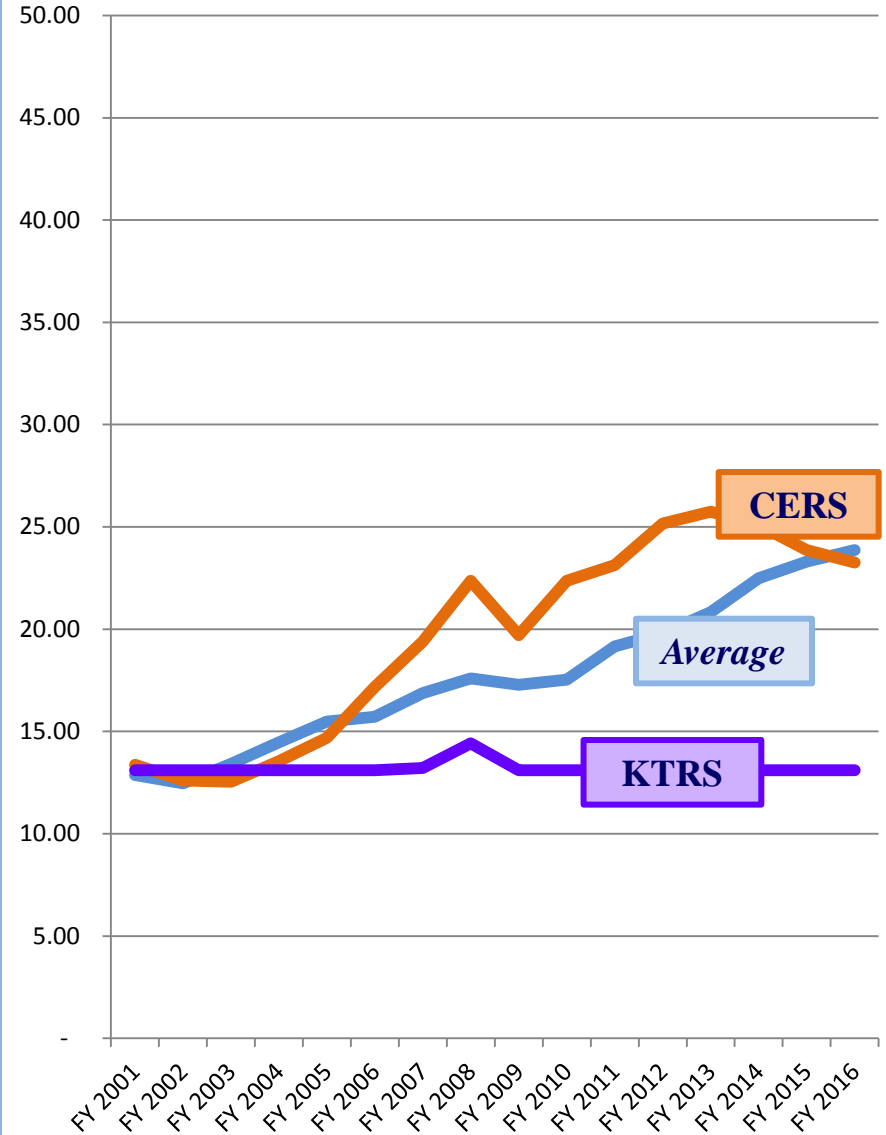
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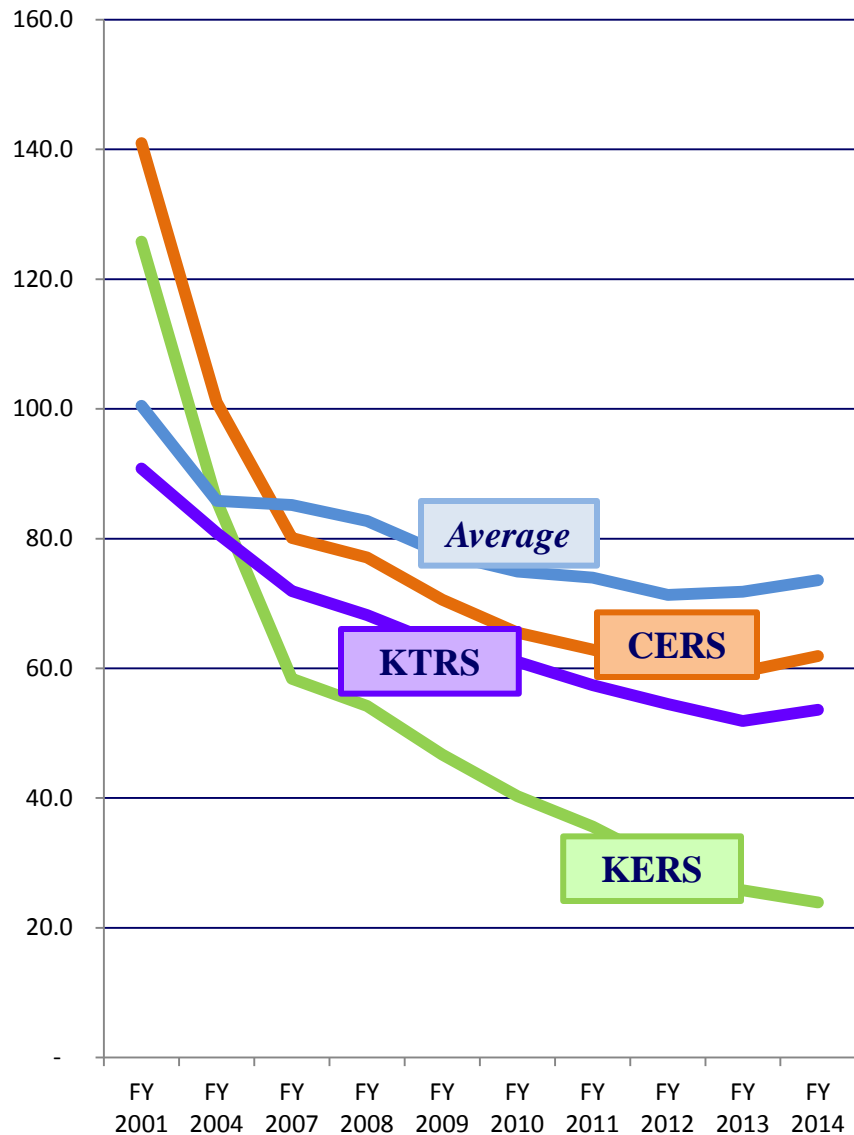
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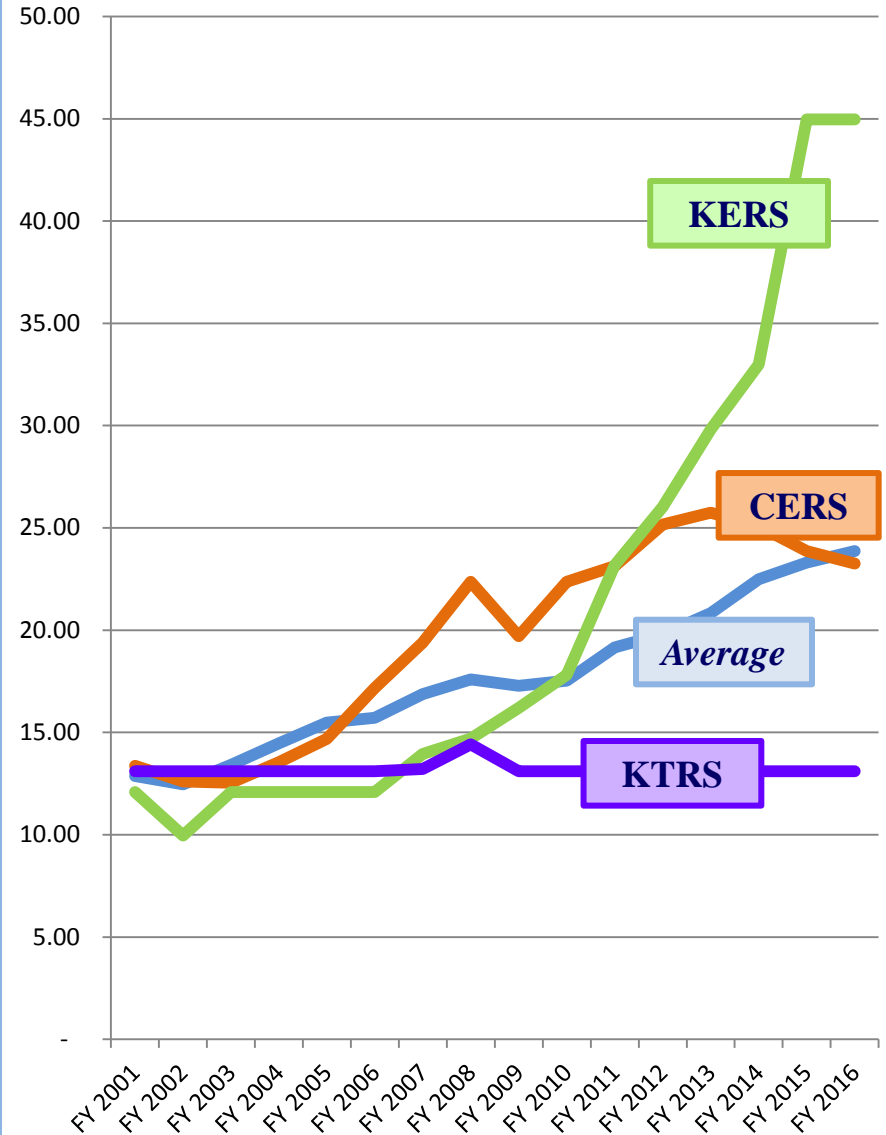
Employer Contribution Rates for State/Local Plans



Ratio of Assets to Liabilities for State/Local Plans



Employer Contribution Rates for State/Local Plans



Failure to Act Costs You



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NEWS | [Kentucky Employees Retirement System, Kentucky Teachers' Retirement System, pension crisis](#)

SEPTEMBER 10, 2015 6:00
AM



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S&P downgrade of Kentucky to increase state's borrowing costs, heighten urgency of addressing pension crisis



Failure to Act Costs You



S&P downgrade of Kentucky to increase state's borrowing costs, heighten urgency of addressing pension crisis

Failure to Act Costs You

Standard & Poor's Rating Service
RatingsDirect

January 26, 2015

.....

“In our view, some of the measures Kentucky has taken to reform its pension liabilities, such as the ARC funding ... lower growth in liabilities.”

“The impact of ... creating a hybrid cash plan with 4% guaranteed return is unclear.”

“Furthermore, the reform efforts do not address KTRS.”

Failure to Act Costs You



THE LATEST!

Failure to Act Costs You



Standard & Poor's Rating Service
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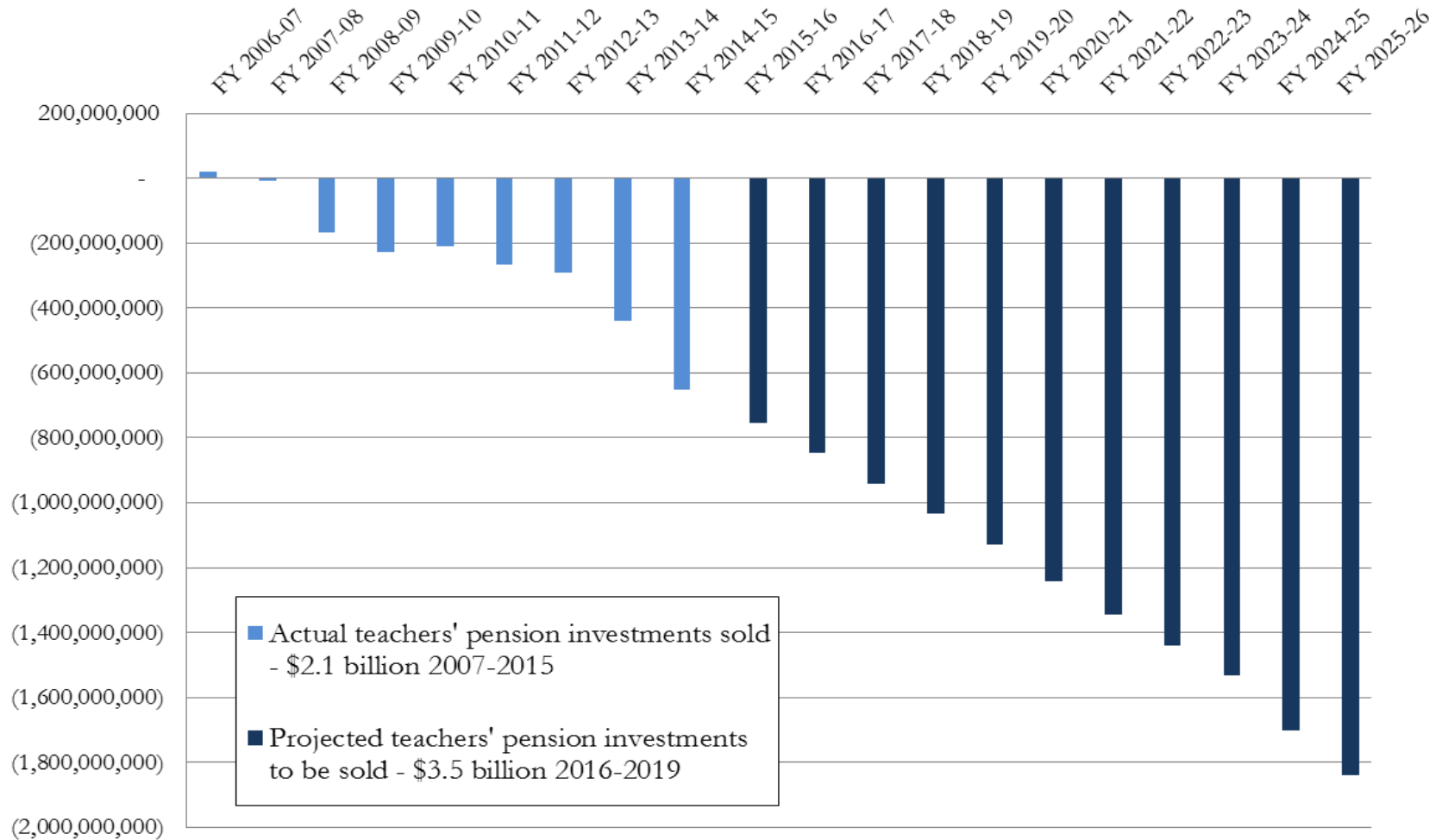
September 3, 2015

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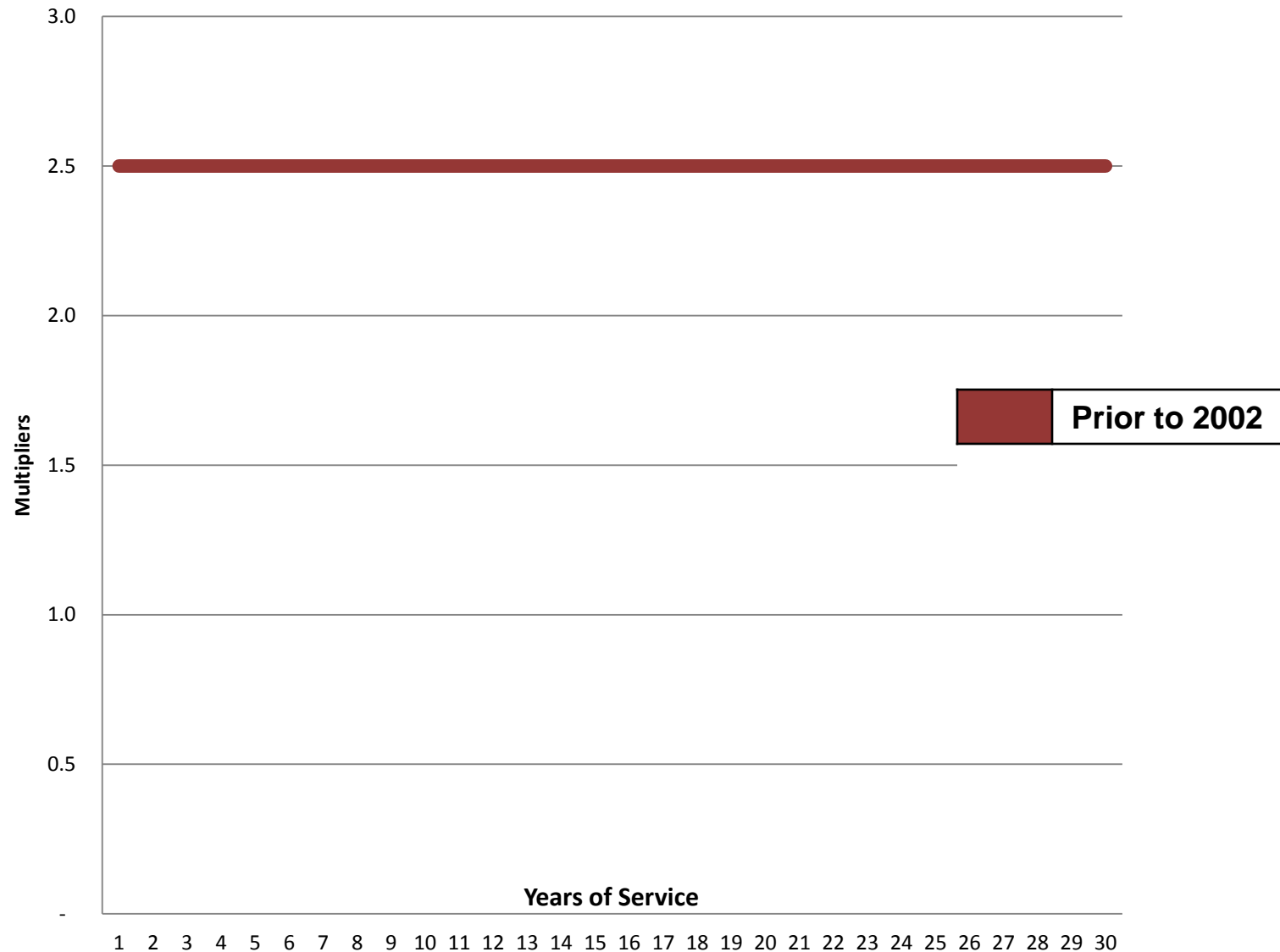
Kentucky Issuer Credit Rating Lowered To
'A+' From 'AA-' on
Underfunded Pension Liabilities

“The current rating also accommodates some additional deterioration in the state’s pension funded levels, which we believe is likely given the state’s demonstrated lack of commitment when it comes to funding its annual contributions.”

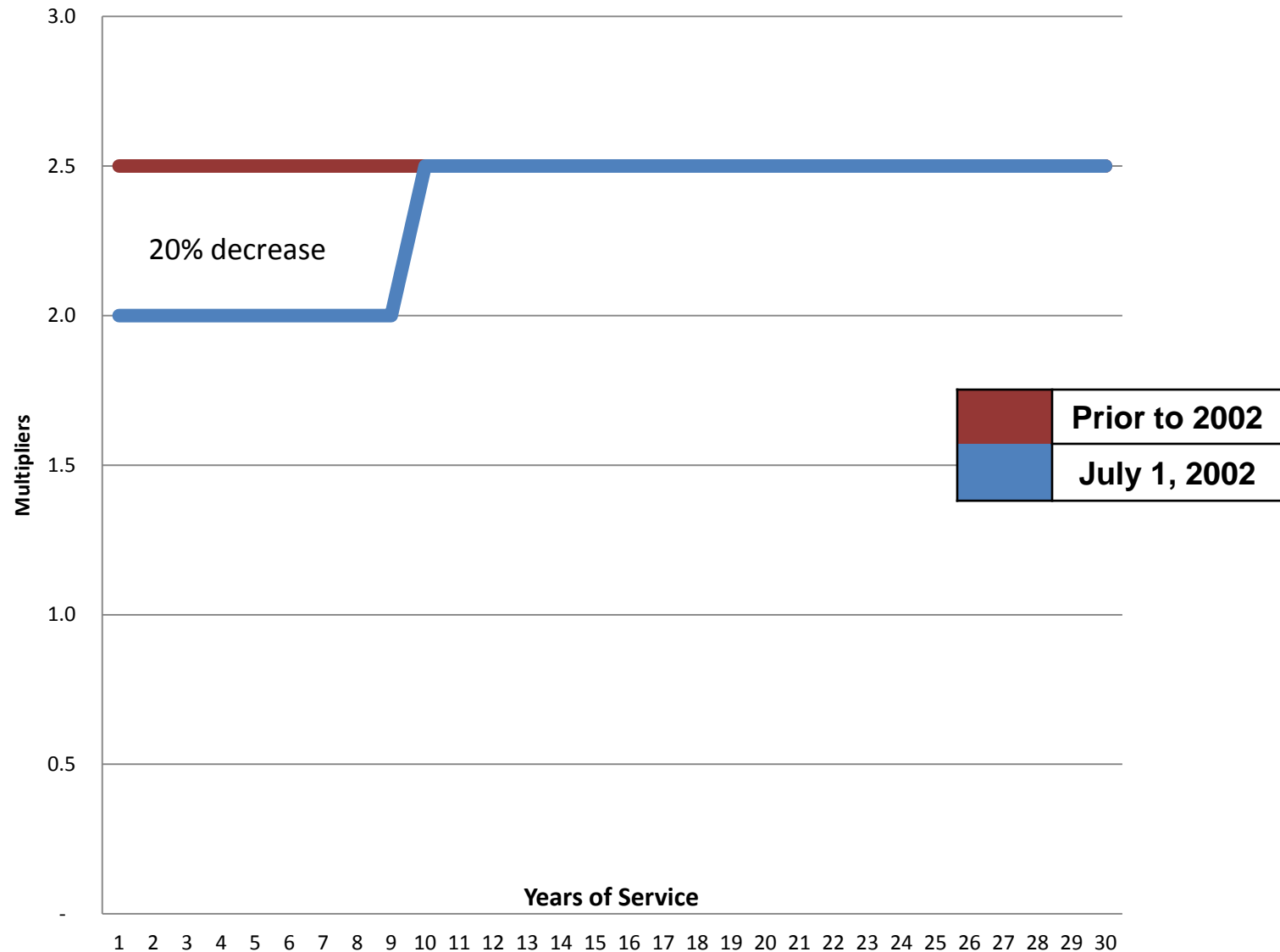
Cash Flow with Current Funding Status



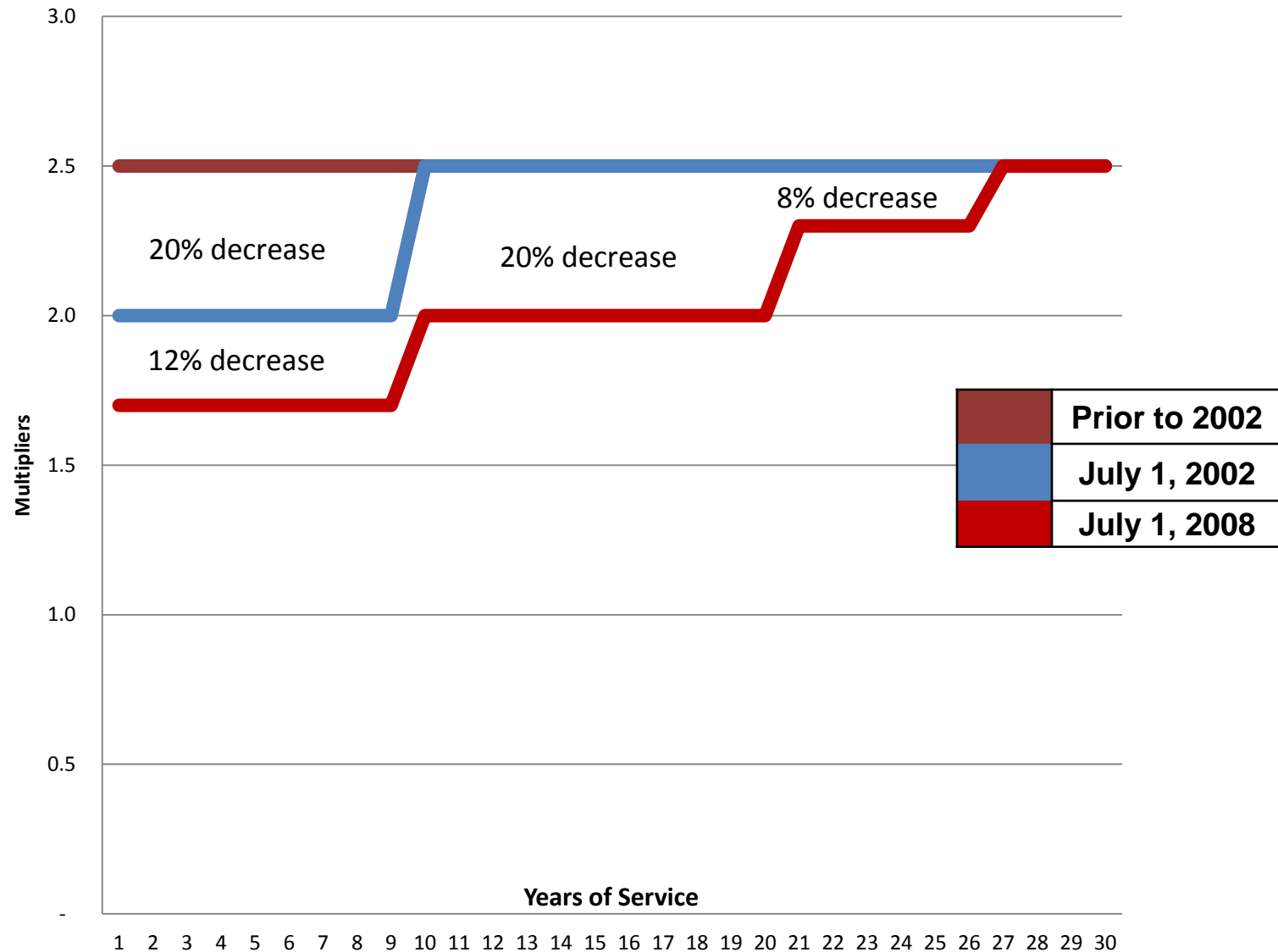
Pension Reform since July 2002



Pension Reform since July 2002



Pension Reform since July 2002



Previous Pension Reform Savings

KTRS changes in 2008 reduced the cost of new teacher benefits from 16.93% to 15.68% of salary.

For the state, that meant the cost of benefits for new teachers is 1.25% lower compared to teachers hired before 2008.

The Success of House Bill 540 is Far Reaching



Governor Beshear expresses his appreciation to Kentucky's educational groups for working together to achieve this historic legislation.

Rep. Carl Rollins (Sponsor of HB 540), Gary L. Harbin (KTRS), Sharron Oxendine (KEA), Governor Beshear, Brent McKim (JCTA), Barbara G. Sterrett (KTRS Trustee, Chair), Dr. Bob Wagoner (KRTA), Bob King (Council on Post Secondary Education), Todd Hollenbach (KY State Treasurer)

Annual Savings from Reforms

**2010 Shared
Responsibility**

\$144.5 million



**2008 Pension
Reform**

**Ultimate savings of
\$45 million**



\$189.5 million





Teachers' Retirement System
of the State of Kentucky

***Our Members
Come First!***

1.800.618.1687

502.848.8500

www.ktrs.ky.gov

Protecting & Preserving Teachers' Retirement Benefits