Kentucky Retired Teachers Association

~ Fall Workshops 2015 ~

Gary L. Harbin, CPA
Executive Secretary

Let’s Talk About …

- KTRS
- Proven Performance
- Importance of Funding
- Legislative Recap
- KTRS Funding Work Group

KTRS was Established by the General Assembly in 1938 and Funded in 1940.

A Defined Benefit Group Retirement Plan was established to provide retirement benefits for local school districts and other public educational agencies in the state.

Current employers comprised of:

173 Local School Districts

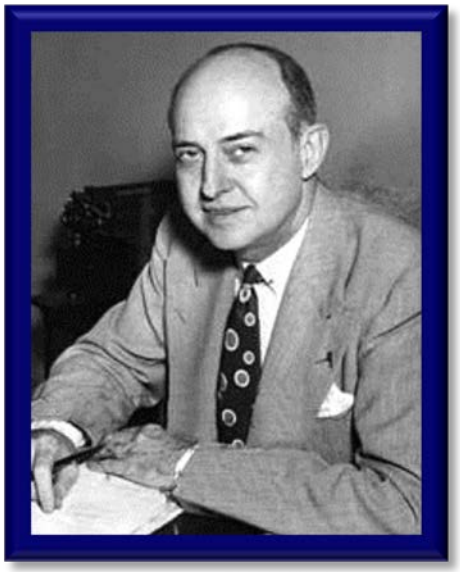
KCTCS

Seventeen Educational Agencies

Five Regional Universities

Gov. Keen Johnson
State of the Commonwealth Address, Jan. 2, 1940

"This is a humanitarian piece of legislation and ... each teacher will be given the opportunity to contribute to a common fund which through the years will assure those teachers who have given a lifetime of service to the childhood of the Commonwealth a certain degree of safety and security in the twilight years of their lives."



Established in 1938, KTRS provides "Retirement Security" for Kentucky's educators.

How Big is KTRS Today?

Membership of Over 140,000

Over 48,000 Receive a Benefit from KTRS

KTRS Distributes Over $151 Million <u>Monthly</u> in Retirement Benefits

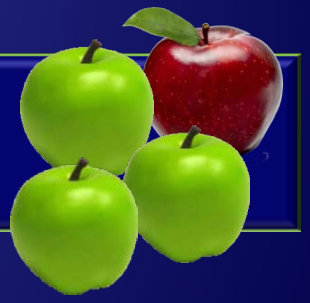
KTRS has over $ 18.5 Billion in Assets

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

Field of Membership

Active	**0 – 26 Years**	**Non-eligible**	**43,976**
	27+ Years*	**Eligible**	**14,991**
	Total Active		**58,967**
	Sub/PT/Retired Return to Work		**15,584**
	Total Contributing Members		**74,551**

1 in 4 Teachers are Eligible to Retire



Inactive	**18,506**
Retired, Beneficiaries & Survivors	**48,463**
Total	**141,520**

** and/or age 55 with 5 or more years of service within the next fiscal year*

THE BOARD OF TRUSTEES
Are the Fiduciaries of the System

Members Elect the Seven Trustees to a Four-Year Term on the Board.

ARTHUR GREEN
Chair, Elkton

DR. JAY MORGAN
Vice Chair, Murray

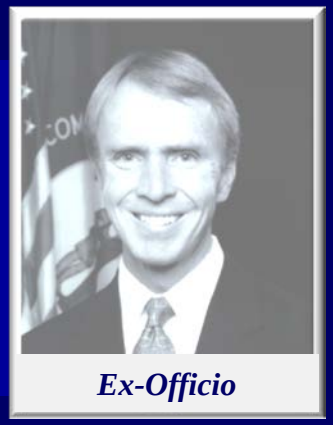
HOLLIS GRITTON
Union

RONALD L. SANDERS
Hodgenville

QUIN SUTTON
Eddyville

ALI WRIGHT
Georgetown

VACANT



Ex-Officio

TODD HOLLENBACH
State Treasurer

Ex-Officio

KEVIN C. BROWN
Interim Commissioner, Dept. of Education

Trustee Elections are Each Year in May

Please complete the ballot below, tear on perforation and mail. NO POSTAGE NECESSARY.

KENTUCKY TEACHERS' Retirement System

KTRS

This year the membership will be selecting one lay trustee and one active teacher trustee.

Please vote for ONLY ONE Lay Trustee and ONLY ONE Active Teacher Trustee.

An extra line is provided if you prefer to vote for a write-in candidate.

OFFICIAL BALLOT

Election of Board of Trustees Members per KRS 161.260

Mail no later than May 31, 2015

Candidates for **Lay Trustee**

1. Ronald L. Sanders, Hodgenville, Kentucky
2. Wendell W. Lyons, Louisville, Kentucky
3. _____

Candidates for **Active Teacher Trustee**

1. Ali Wright, Lexington, Kentucky
2. Keri Meador, Louisville, Kentucky
3. _____

KTRS OFFICIAL BALLOT NUMBER: 12345

Trustee elections are conducted by Ballot.

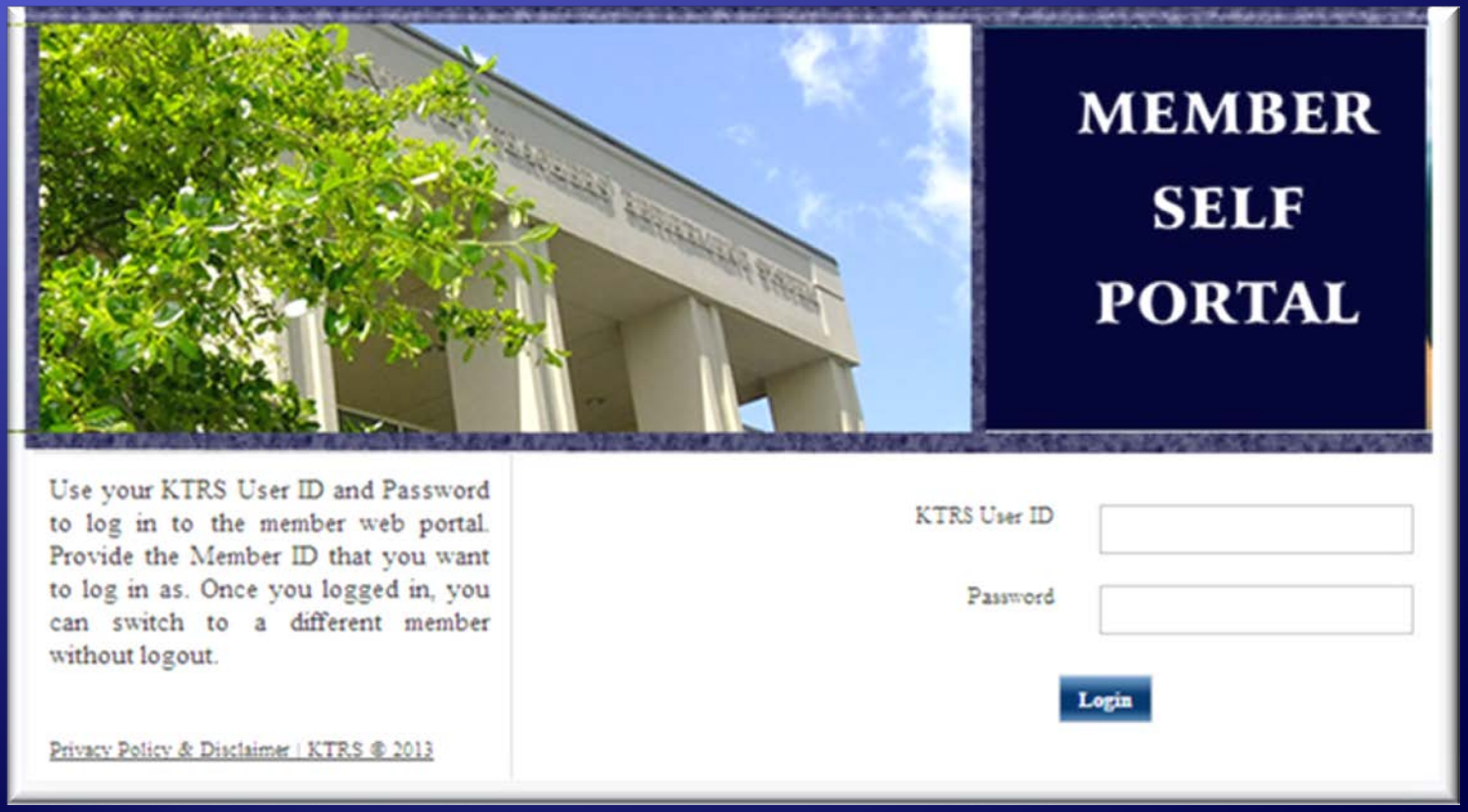
All contributing full-time, part-time and substitute members or those retired from KTRS have the privilege to vote.

KENTUCKY TEACHERS' RETIREMENT SYSTEM

PATHWAY

Your on-line access for …

Active Members | **Retired Members**



Retirements
for June/July

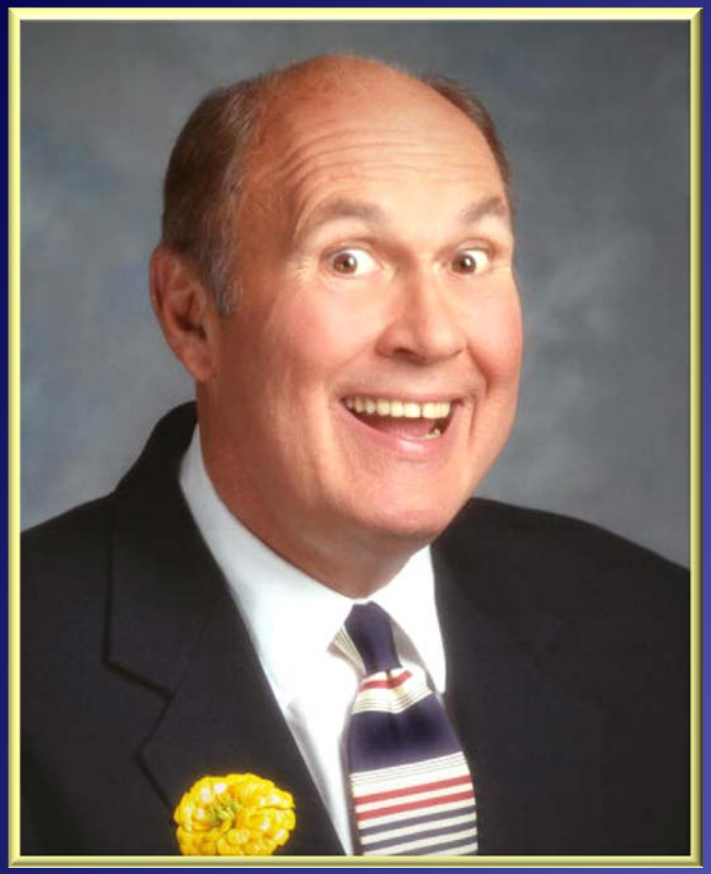
YEAR	RETIREES
2014	1,269
2013	1,354
2012	1,405
2011	1,139
2010	1,189
2009	993
2008	1,348
2007	971
2006	1,099
2005	1,167
2004	1,341
2003	1,089
2002	1,443
2001	1,284

June/July 2015

1,491 Retirements

June/July 2014	June/July 2015
VISITORS	VISITORS
1,812	2,082
CALLS	CALLS
16,100	20,912

KTRS Centenarians!!



100 Years Old or More as of December 31st	
2014	54
2013	20
2012	62
2011	56
2010	46
2009	38
2008	41
2007	37

Importance of KTRS in Retirement

Most teachers do not participate in Social Security and a Federal law offset will, in almost every case, eliminate their ability to receive a Social Security survivor benefit from their spouse's account.

Under Age 80

Females	29,320	70%
Males	12,636	30%
Total	**41,956**	**100%**

Age 80 & Above

Females	4,736	73%
Males	1,771	27%
Total	**6,507**	**100%**

52% of retirees younger than age 80 are single.

52% of retirees less than age 80 are single.

85% of retirees age 80 and above are single.

Schedule of Active Members by Employer

FY Ending June 30, 2014

	EMPLOYERS	ACTIVE MEMBERS		SALARIES	
Non- University Employers					
Local School Districts	173	69,961		3,034,202,815	
Regional Cooperatives	8	340		16,558,252	
State Agencies	15	1,640		86,927,768	
Other	6	105		2,537,457	
TOTAL		**72,046**	***95%***	**3,140,226,292**	***94%***
University Employers	6	4,023	***5%***	211,973,992	***6%***
TOTAL	**208**	**76,069**	***100%***	**3,352,200,284**	***100%***

Proven Performance

Recognized Results

Low Administrative Costs

Solid Investment Performance

Positive Impact on Kentucky's Economy

KENTUCKY TEACHERS RETIREMENT SYSTEM

ADMINISTRATIVE EXPENSES ANALYSIS

KTRS Expenses Compared to Similar Size Systems

As of 6/30/2014	Assets End of Year	Actual Expenses	Expenses as Percentage of Assets
Kentucky Teachers	**18,720,359,574**	**9,078,009**	**0.0485%**
Kansas Public Employees	16,575,660,909	10,085,572	0.0608%
New Mexico Public Employees	15,104,097,545	10,416,788	0.0690%
Georgia Employees	17,266,692,000	14,476,000	0.0838%
Louisiana Teachers	17,900,035,458	15,026,969	0.0839%
Ohio Teachers Retirement System	75,420,054,000	63,485,000	0.0842%
Indiana Public Employees	24,695,285,000	28,959,000	0.1173%

INVESTMENT PERFORMANCE

KTRS RETURNS

FISCAL YEAR ENDED JUNE 30, 2015

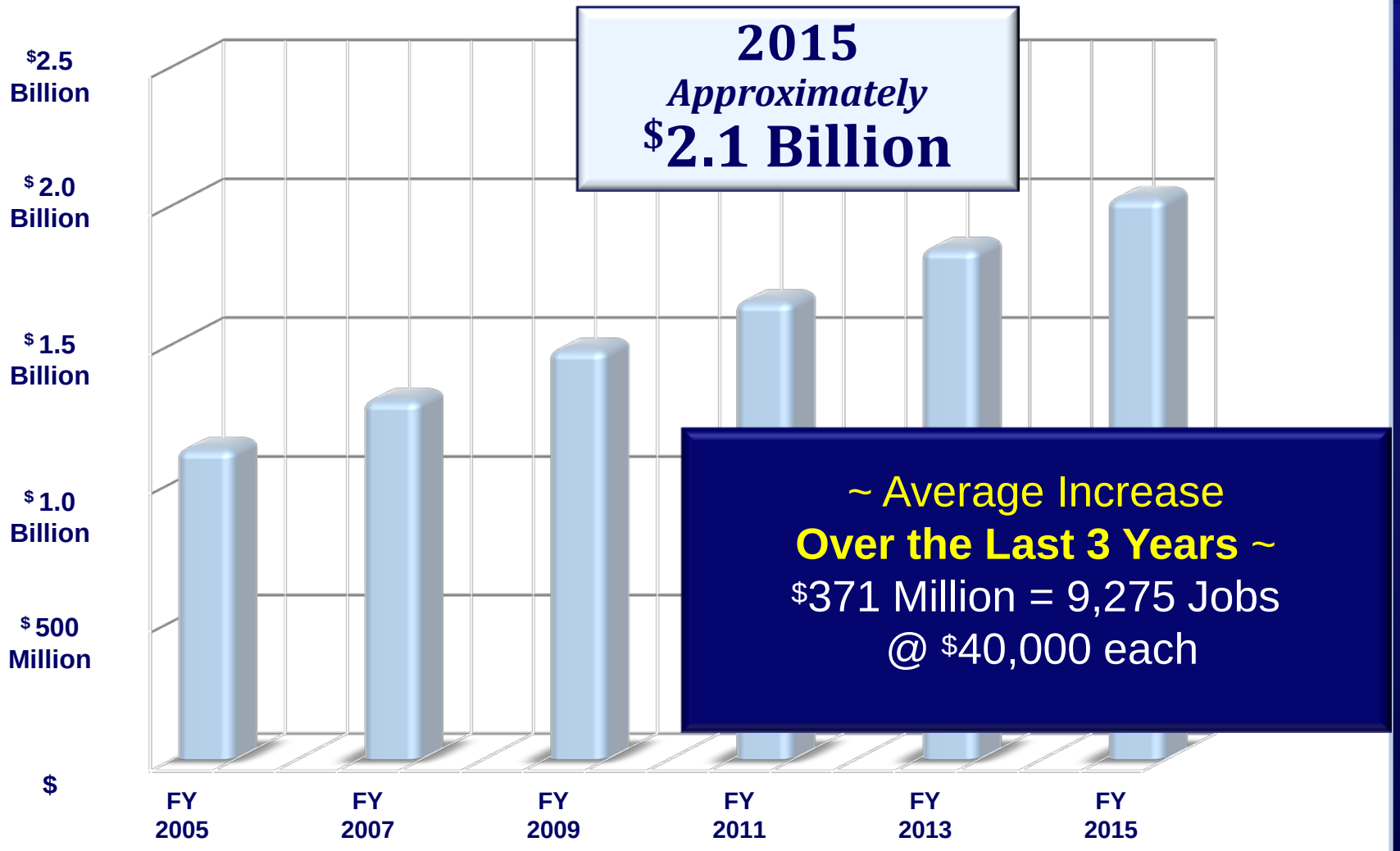
	1-Year	3-Year	5-Year	10-Year
KTRS	5.1%	12.3%	12.0%	7.0%
CalSTRS	4.8%	12.3%	12.1%	7.0%
Ranking	Top 6%	Top 7%	Top 9%	Top 40%

CalSTRS Facts

$191.4 billion in assets

68% funded

Billions in Teacher Pensions Distributed Annually

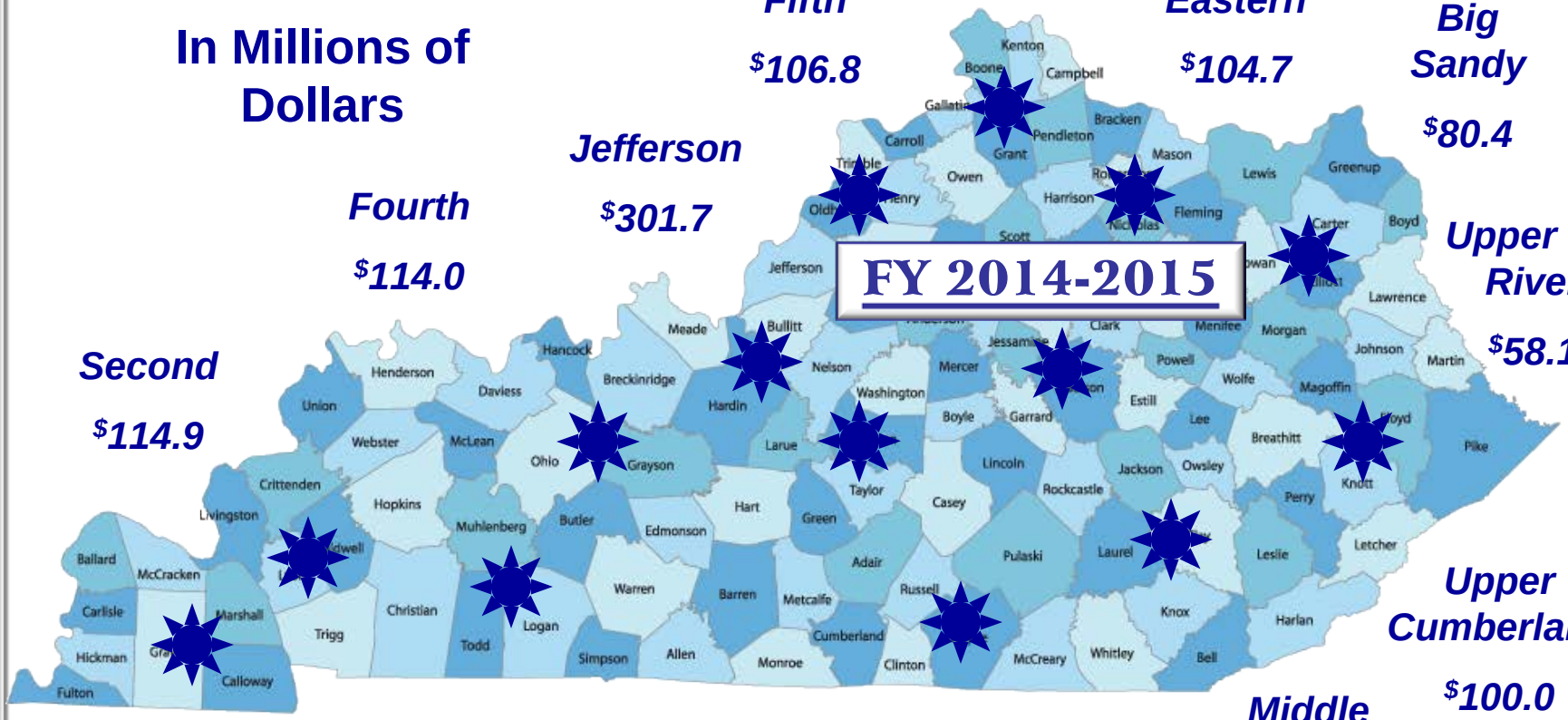


92% of KTRS retirees live in Kentucky.

Retired teachers have a significant economic impact in every county in Kentucky.

KRTA DISTRICTS

In Millions of Dollars



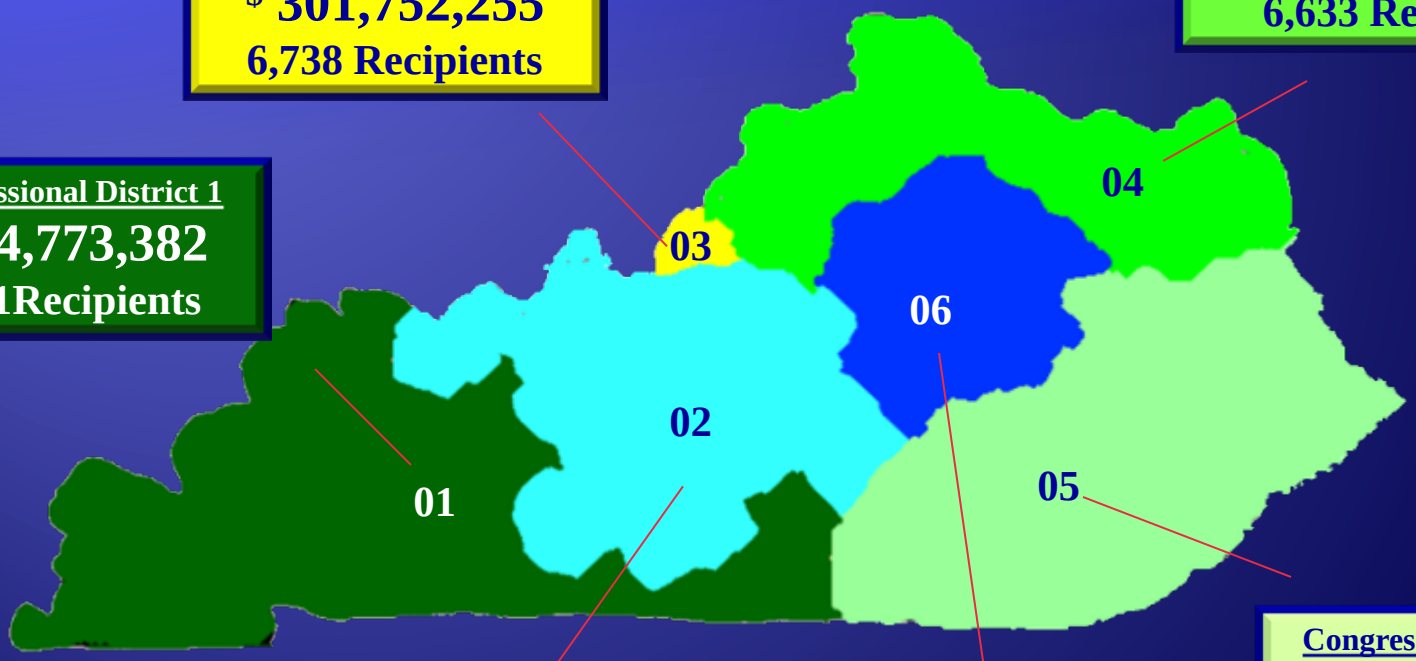
Retired Teachers Have a Significant Economic Impact All Across Kentucky

FY 2014/2015

Congressional District 3
$ 301,752,255
6,738 Recipients

Congressional District 4
$ 261,701,051
6,633 Recipients

Congressional District 1
$ 294,773,382
7,901Recipients



Congressional District 5
$ 327,651,236.75
8,950 Recipients

Congressional District 2
$ 277,929,092
7,165 Recipients

Congressional District 6
$ 304,554,954
8,196 Recipients

The Importance of Funding KTRS

WHAT IS ….

Annual Required Contribution (ARC)

It is the amount needed to pay the benefits of current and future retirees.

Pension Building Blocks

A

R

C

Additional Contribution to pay the benefits, not met by the first two blocks

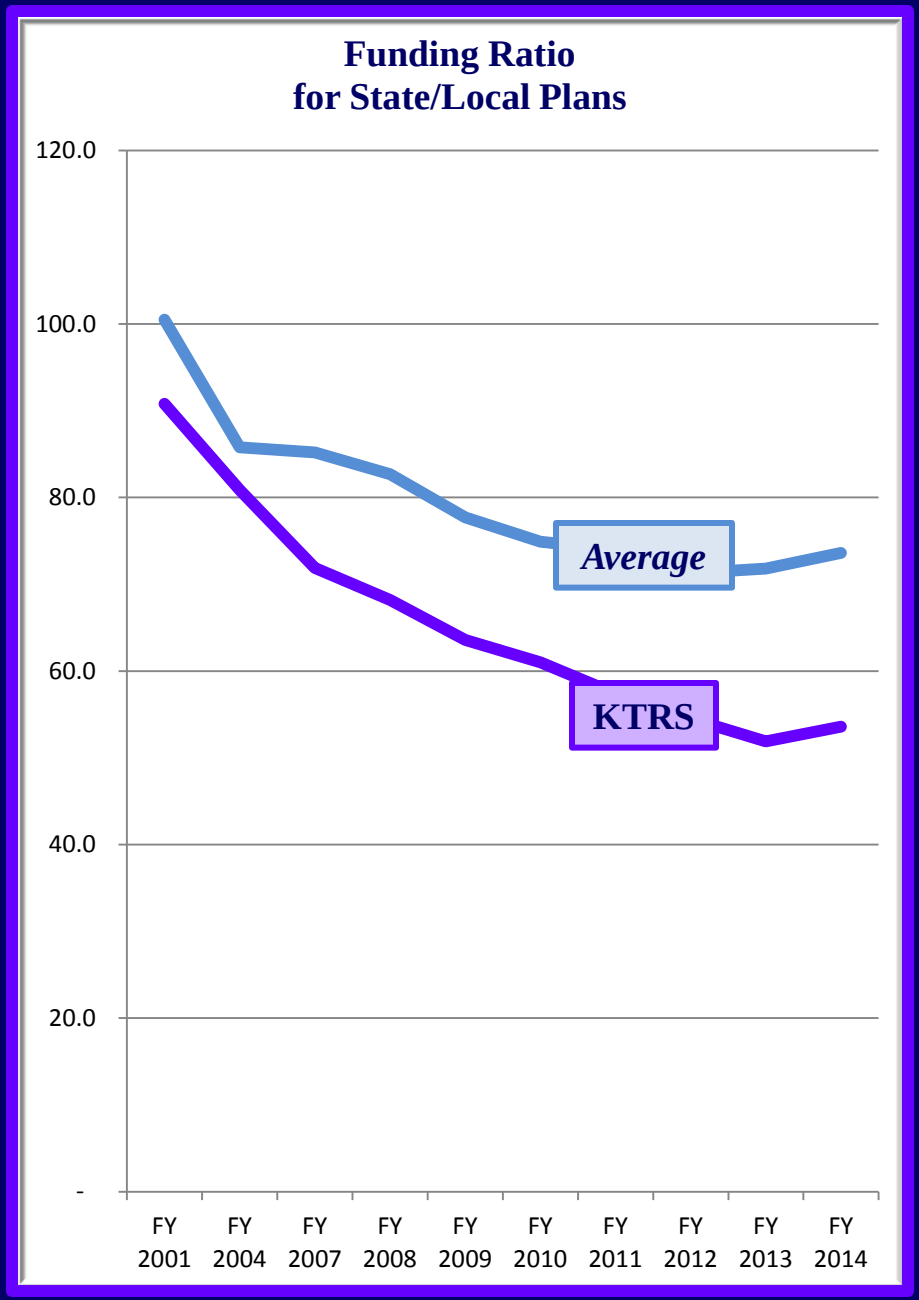
Legally Required State Contributions based on Salary

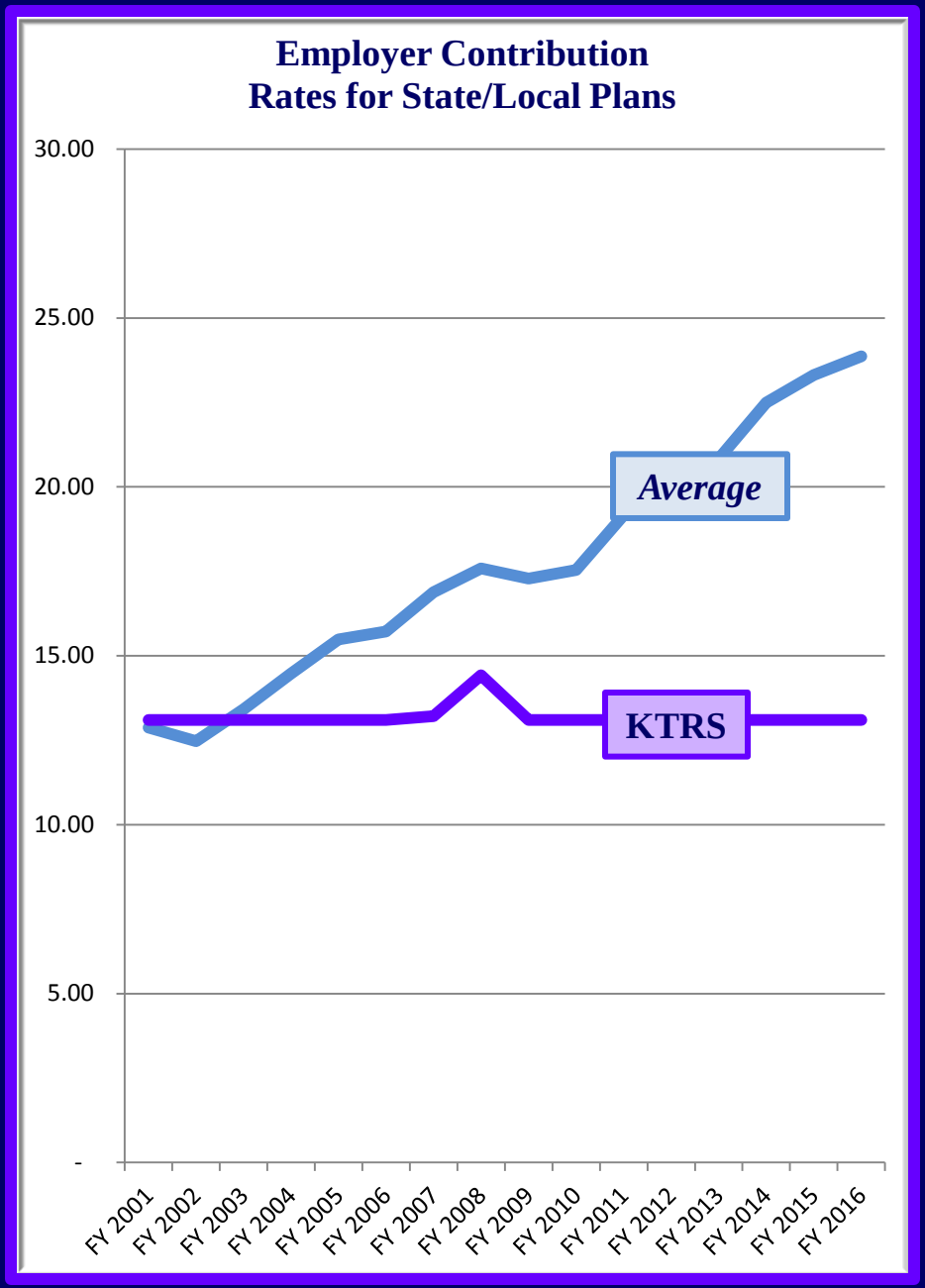
Member Contributions

Meeting the ARC

- State began contributing 13.105% January 1, 1984, which has not changed for over 30 years, other than the 2006-08 biennium.

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





Sources: (1) The Funding of State and Local Pensions: 2014-2018; Center for Retirement Research at Boston College, State and Local Pensions Plans, Number 45, June 2015. (2) KRS Schedule of KERS and CERS Nonhazardous Contribution Rates on kyret.ky.gov. (Adjusted for employer contributions of 6.2% for Social Security.)

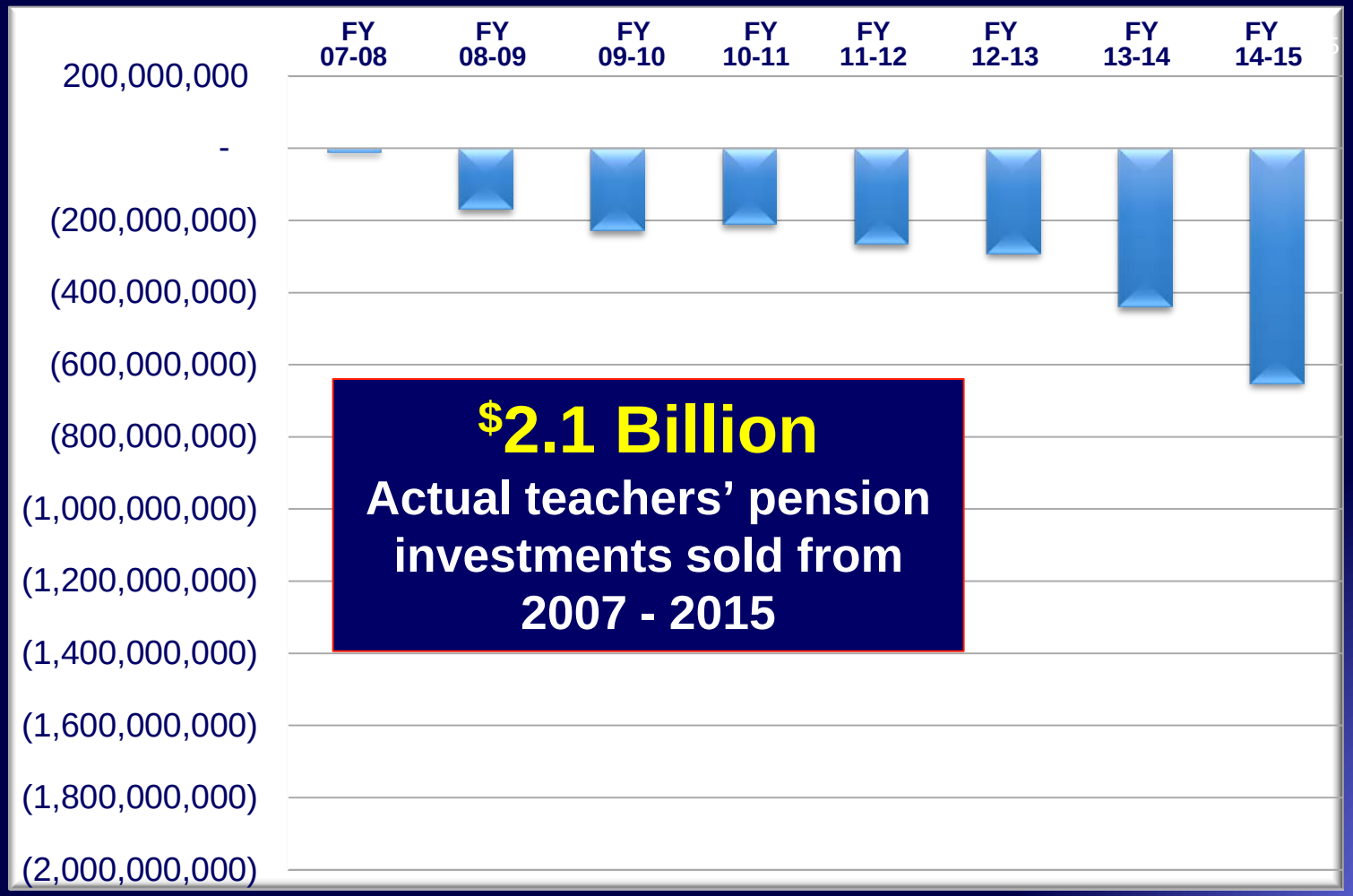
KENTUCKY TEACHERS' RETIREMENT SYSTEM

Additional Funding Needed

Fiscal Year	Requested	Appropriated	Unavailable for Investmenting
FY 2008-09	$60,499,800	0.00	$60,499,800
FY 2009-10	82,331,200	0.00	82,331,200
FY 2010-11	121,457,000	0.00	121,457,000
FY 2011-12	208,649,000	0.00	208,649,000
FY 2012-13	260,980,000	0.00	260,980,000
FY 2013-14	299,420,000	0.00	299,420,000
FY 2014-15	386,400,000	0.00	386,400,000
FY 2015-16	487,400,000	0.00	487,400,000
	$1,907,137,000	**$0.00**	**$1,907,137,000**

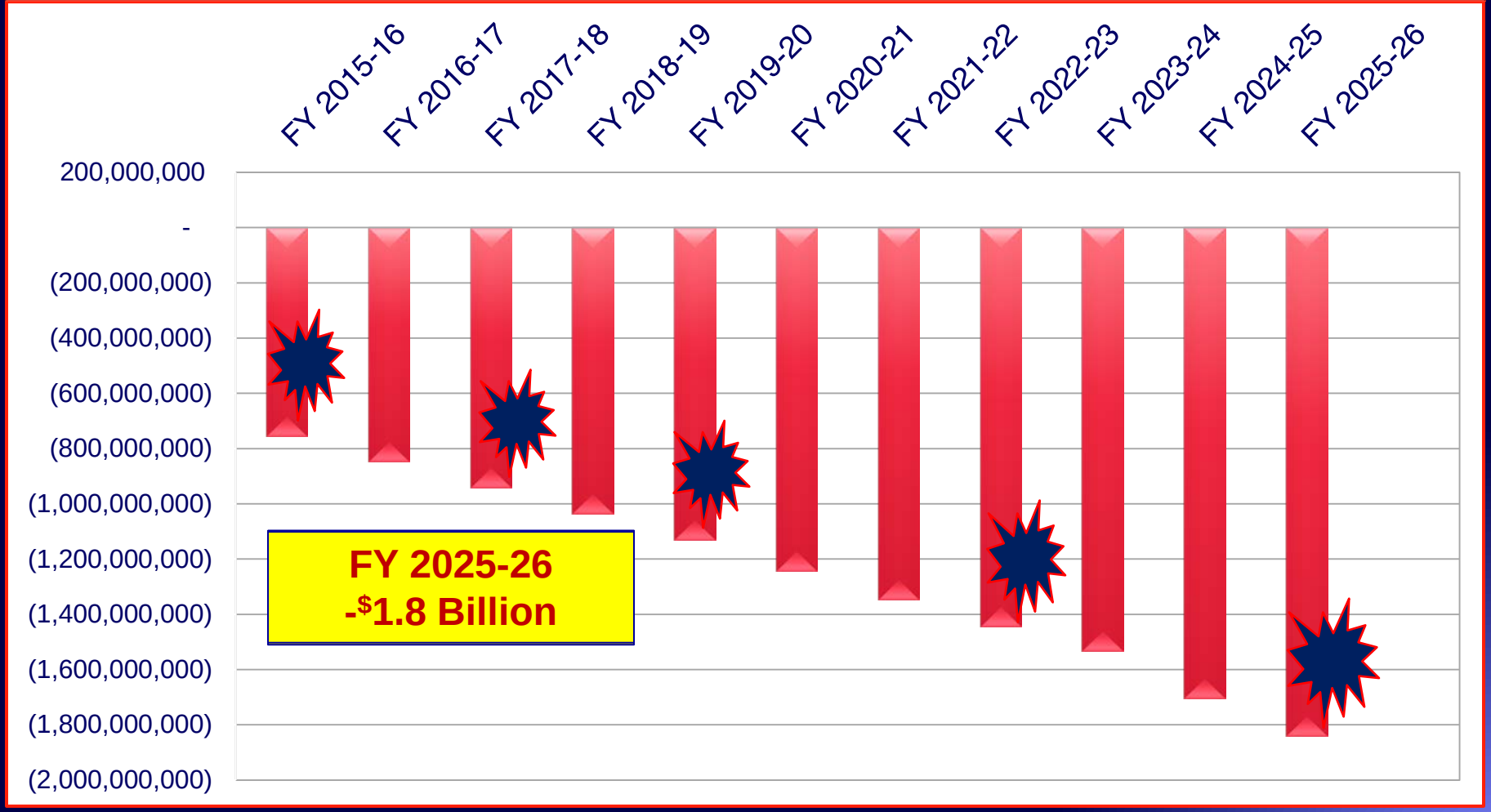
Cash Flow with Current Funding Status

FY 2006-07 was the last time contributions and investment earnings met the cost of pension benefits.

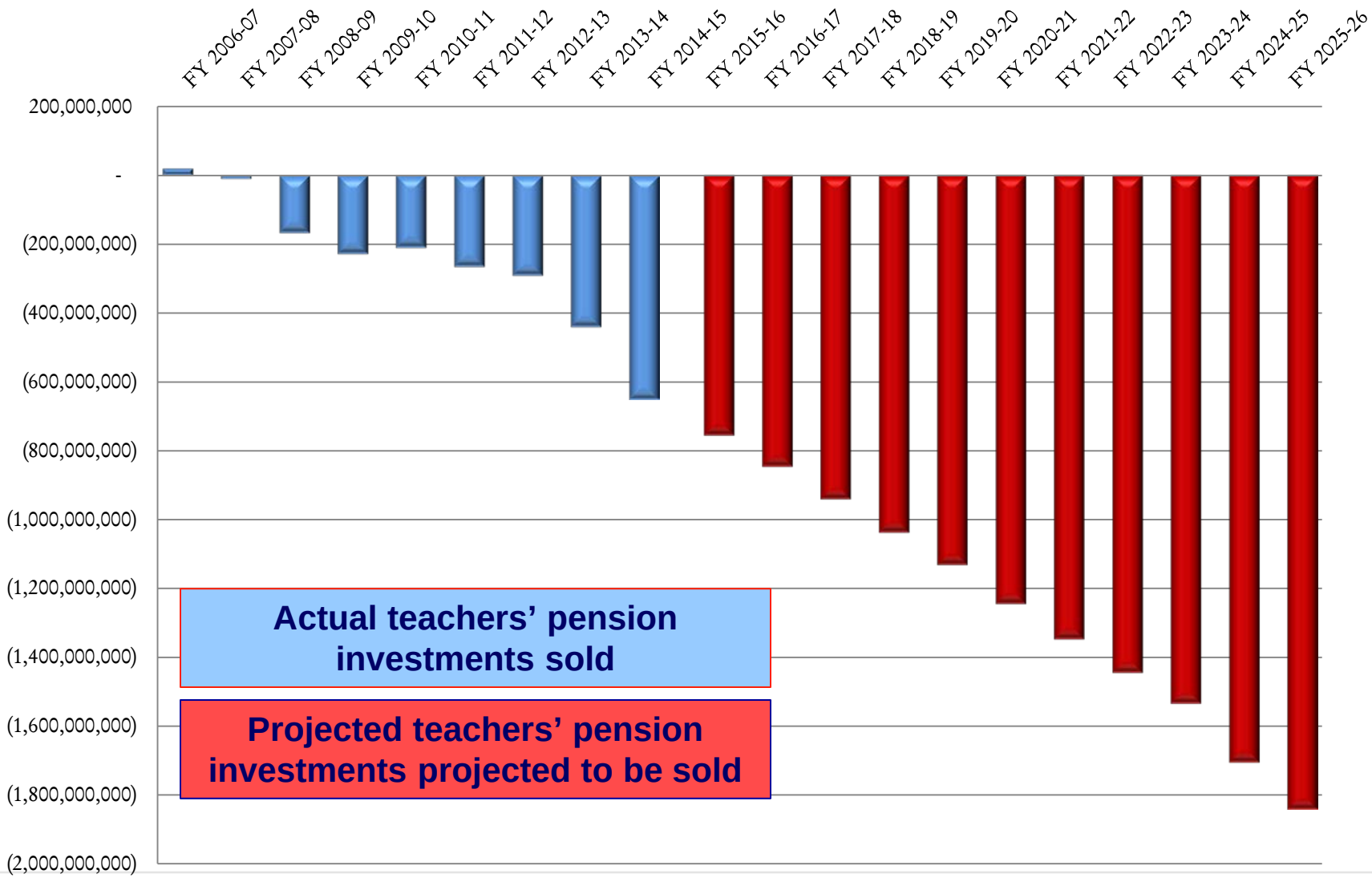


Cash Flow with Current Funding Status

Projected teachers' pension investments to be sold are $3.5 Billion from 2015-2019



Cash Flow with Current Funding Status



The Importance of Funding

- KTRS has been experiencing a negative cash flow since 2008.
- Selling assets hurts investment performance because it limits investment options.
- Additional funding will help stabilize this deteriorating situation.

Legislative Update

Public Pension Oversight Board

Assists the General Assembly with its review, analysis and oversight of the administration, benefits, investments, funding, laws and administrative regulations and legislation pertaining to Kentucky Retirement Systems.

~ Members of the General Assembly ~

- Sen. Joe Bowen (Co-Chair)
- Rep Brent Yonts (Co-Chair)
- Sen. Jimmy Higdon
- Sen. Gerald A. Neal
- Rep. Brian Linder
- Rep Tommy Thompson

~ Citizens ~

- Robyn Bender
- Tom Bennett
- Robert Damron
- Jane Driskell
- James M. “Mac” Jefferson
- Sharon Mattingly
- Alison Stemler

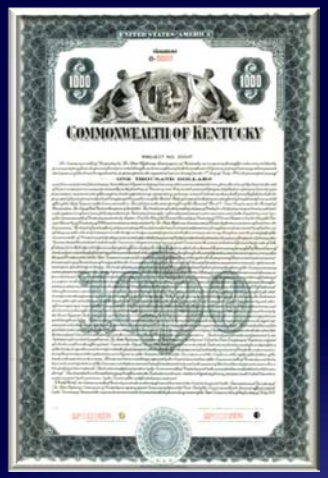
House Bill 4

AN ACT relating to funding for Kentucky Teachers' Retirement System and making an appropriation therefore.

Introduced in the 2015 General Assembly which would have provided a long-term funding solution for KTRS pension fund.

House Bill 4, in its original version without amendment, would have provided a long-term funding solution for the teachers' pensions with the following features:

- A bond of up to $3.3 billion issued at historically low interest rates.
- The bond would have increased retirement security for teachers by immediately increasing the pension's funding level from 53% to 66%.
- No additional funds would have been required to pay for the bond. HB4 bonds, in part, would have taken the place of payments to cover prior debts.
- The bond would not increase the state's debt because the debt owed teachers is already on the state's balance sheet.



House Bill 4, in its original version without amendment, would have provided a long-term funding solution for the teachers' pensions with the following features …

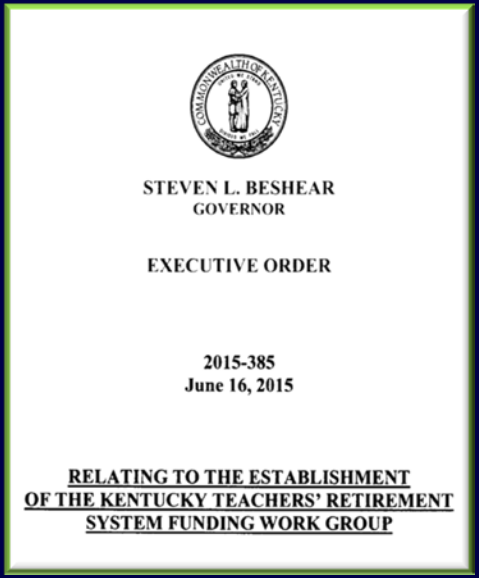
- The bond would provide needed cash flow to pay retired teachers' pensions and thereby stop the liquidation of investment assets;
- The bond would make it possible for the Commonwealth to slowly phase in, over eight years, to the full annual required contribution; and
- **After reaching the annual required contribution, the state would be on track to fully fund teachers' pensions in 20 years!**

Results of House Bill 4

1. The bill passed through the House by a supermajority.
2. The Senate approved its own version of the bill.
3. Legislators couldn't agree on a compromise.
4. Funding was not available.
5. HB4 has brought awareness to the KTRS funding issues.

KTRS Funding Work Group
is Created by Executive Order…

In an effort to strengthen the solvency of the Kentucky Teachers' Retirement System (KTRS), Gov. Steve Beshear by executive order has created a work group made up of policy and education leaders.



STEVEN L. BESHEAR
GOVERNOR

EXECUTIVE ORDER

2015-385
June 16, 2015

RELATING TO THE ESTABLISHMENT
OF THE KENTUCKY TEACHERS' RETIREMENT
SYSTEM FUNDING WORK GROUP

The Kentucky Teachers' Retirement System Funding Work Group, to be led by former state senator and former State Board of Education Chairman David Karem, will meet over the coming months to develop recommendations to resolve a funding shortfall and stabilize and secure funding for the system that serves over 75,000 active and over 45,000 retired members.

KTRS Funding Work Group

Governor appointed members. There is a wide representation which consists of:

- Members of the Education Community
- State Officials
- Kentucky Chamber of Commerce
- Professional Consultants

KTRS Funding Work Group

KTRS Funding Work Group Members

David Karem, former state senator and former chair of the Kentucky Board of Education
David Adkisson, CEO of the Kentucky Chamber of Commerce
Mike Armstrong, Executive Director of the Kentucky School Boards Association
Jason Bailey, Research and Policy Director for Mountain Assoc for Community Economic Development
Mary Ann Blankenship, Executive Director of the Kentucky Education Association
Jane Driskell, State Budget Director
Adam Edelen, Auditor of Public Accounts, who shall serve as a nonvoting member
Amanda Ellis, Associate Commissioner, Office of Next Generation Learners in KDE
Lori Flanery , Secretary of the Finance and Administration Cabinet
Gary Harbin, executive Executive Secretary of the Kentucky Teachers' Retirement System
Todd Hollenbach, State Treasurer, board member of KTRS
Mary Lassiter, Secretary of the Governor's Executive Cabinet
Timothy Longmeyer, Secretary of the Personnel Cabinet
Roger Marcum, Chairman of the Kentucky Board of Education
Brent McKim, Jefferson County Teachers' Association president
Brigitte Blom Ramsey, Executive Director of the Prichard Committee for Academic Excellence
Dr. Tom Shelton, Executive Director of the Kentucky Association of School Superintendents
Dr. Bob Wagoner, Executive Director of the Kentucky Retired Teachers Association
Wayne Young, Executive Director of the Kentucky Association of School Administrators
Senator Damon Thayer
Senator Joe Bowen
Senator Morgan McGarvey
Representative Derrick Graham
Representative Jeff Hoover

~ KTRS Funding Work Group Update ~

Highlights of First Work Group Meetings

- "If we do not have a stable secure retirement system for our teachers, Kentucky will never be able to compete in education at the highest levels."

  — *Lt. Gov. Crit Luallen, July 17 meeting*

- Investment returns and administrative costs aren't the problem. The state needs to pay the actuarially required contribution to strengthen the teachers' pension fund.

  – *William B. "Flick" Fornia, Pension Trustee Advisors, July 31 meeting*

STATE & LOCAL

A6 | August 2, 2015 | The State Journal state-journal.com

KTRS attempts to tackle pension woes

By Brad Bowman

ing in 30 years.

The KTRS workgroup d a lot of information rown at it during the ur-hour session Friday the Capitol Annex, but rtain assumptions were ade going forward.

■ If Kentucky doesn't crease payments into e KTRS, the state won't able to pay its cur- level of benefits and 036.

■ If the state moves forward with a risky pension obligation bond, the bond shouldn't be used as the sole component of the plan as it could hurt Kentucky's credit rating, give little budget flexibility, but is the fastest and softest route into the annual required contribution.

New consultant

Chairman David Ka- introduced William B. "Flick" Fornia of Pension Trustee Advisors as a consultant who has worked on both sides of state pension problems across the United States.

Fornia has worked previously with pension woes in other states that included teacher plans without Social Security benefits like Kentucky, Ohio, Colorado, Alaska, Missouri, California, Louisiana and Rhode Island.

While Fornia said every state's system and situation is different, he quelled any concerns that merging any of the state's pension systems would have any large positive effect.

Moreover, he didn't see the plan's returns or administrative costs as the problem, but the obvious — the plan is about $500 million below the ARC.

At first blush, Fornia said the KTRS financial requests and assumption amounts don't lo overstated and if the state shifted to a hybrid pension system for new hires that included Social Security it wouldn't provide any solutions toward solvency.

"Your problems are fairly big," Fornia said. "Merging the system, going into Social Security ... isn't enough. I think we are trying to find low-hanging fruit. I would contend there isn't any ow-hanging fruit."

See KTRS, A7

New consultant Chairman David Karem introduced William B. **"Flick" Fornia Pension Trustee Advisors as a consultant who has worked on both sides of the state pension problems across the United States**.

"Moreover , he didn't see the plans returns or administrative costs as the problem, but the obvious— the plan is about $500 million below the ARC.

At first blush, Fornia said the KTRS financial requests & assumptions don't look overstated **& if the state shifted to a hybrid pension system for new hires that included Social Security it wouldn't provide any solutions toward solvency."**

Participate in the Work Group Process

For meeting materials or to comment to the working group, visit the Work Group's homepage on the governor's website: http://governor.ky.gov/KTRS-Funding

- Meeting Information
- Materials
- Live Video Streaming

KTRS Funding Work Group

Full report due by December 1st

- KTRS views this work force as a very positive development.
- KTRS is hopeful that the immediate need will be recognized.

2016-18 Budget Needs

- KTRS will request, beyond salary related contributions, additional pension funding of almost $1 billion.
- We may have more opportunity for a solution in the 2016 year since it is a budget year

Recap of Actuarial Status of the System

as of June 30, 2014

Pre-funded	Assets	Liabilities	Unfunded	Percent
RETIREMENT Benefit Fund	$16.1 B	$ 30.1 B	$ 14.0 B	53.6%

*Pre-funded**	Assets	Liabilities	Unfunded	Percent
MEDICAL Benefit Fund	$ 508.9 Million	$ 3.1 B	$ 2.69 B	15.9%

** Transitioning to Pre-funded as of July 1, 2010*

Recap of Actuarial Status of the System

as of June 30, 2014

Pre-funded	Assets	Liabilities	Unfunded	Percent
RETIREMENT Benefit Fund	$16.1 B	$ 30.1 B	$ 14.0 B	53.6%
GASB 67 Valuation	$18.1 B	$39.7 B	$21.6 B	45.6%

*Pre-funded**	Assets	Liabilities	Unfunded	Percent
MEDICAL Benefit Fund	$ 508.9 Million	$ 3.1 B	$ 2.69 B	15.9%

** Transitioning to Pre-funded as of July 1, 2010*

Let's Wrap It Up

Proven Good Management

Structural Problems are <u>NOT</u> the Issue

But the Facts are Simple …

$18 Billion
in
ASSETS

compared to

$30 billion
in
LIABILITIES

The Time is …

As the state's liability grows, the Commonwealth's credit rating will decrease …which will result in higher interest rates for the state.

The Time is …

If bonding is proposed, it would provide needed cash flow to pay retired teachers' pensions and thereby stop the liquidation of investment assets at an inopportune time.

Interest rates continue to be at historic lows.

The Time is …

The need for funding is great and cannot wait. It's the tipping point – something must be done.

WE ARE A TEAM!

KTRS & KRTA

Together Everyone Achieves MORE!!

Because Working Together =
Great Accomplishments!

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