

TEACHERS' RETIREMENT SYSTEM OF KENTUCKY

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UPDATED FUNDING LEVELS FOR TEACHERS' PENSIONS REPORTED TO KTRS BOARD

FRANKFORT, Ky. – The Kentucky Teachers' Retirement System Board of Trustees on Wednesday accepted two evaluations of the financial position of the fund that serves the retirement needs of more than 120,000 teachers and education professionals. The board also reviewed and accepted an external audit of the agency that showed the practices of Kentucky's largest financial institution are sound.

Both of the latest reviews of KTRS's financial position continue to show serious unfunded liabilities.

One of the funding reviews showed a growth in unfunded liability, while the other showed a decrease because, in large part, of above-average returns in the 2013-14 fiscal year.

"We're exactly where we expected to be," KTRS Executive Secretary Gary Harbin, CPA, said. "There's no surprise to us in the size of our unfunded liability given that we haven't gotten the necessary additional contributions."

Traditional method	June 30, 2015	June 30, 2014
Liabilities	\$31.1 billion	\$30.2 billion
Assets (smoothed)	\$17.2 billion	\$16.2 billion
Unfunded liabilities	\$13.9 billion	\$14 billion
Funding ratio	55.3 percent	53.6 percent

A funding analysis provided to the board, using traditional actuarial methods, by Cavanaugh Macdonald Consulting LLC showed the funding ratio improved 1.7 percentage points from the prior year to 55.3 as of June 30, 2015. Unfunded liabilities totaled \$13.9 billion – close to last year's \$14 billion.

Also, Cavanaugh provided the board with an accounting analysis of its assets and liabilities under the Governmental Accounting Standards Board's (GASB) Statement No. 67. The alternative

GASB 67 method	June 30, 2015	June 30, 2014
Liabilities	\$42.48 billion	\$39.69 billion
Assets	\$18.05 billion	\$18.09 billion
Unfunded liabilities	\$24.43 billion	\$21.59 billion
Funding ratio	42.49 percent	45.59 percent

accounting standardizes accounting of all pension plans across the country, which includes using the market value of the plan's assets. Because of the lack of funding, the standard also requires KTRS to use a lower assumed growth rate for liabilities and assets of 4.88 percent (compared to the standard 7.5 percent). While the standardized accounting results in higher

unfunded liabilities being shown, it does not replace the traditional method used for budgeting.

Under the GASB 67 methodology, the funding ratio fell to 42.49 percent as of June 30, 2015, compared with being at 45.59 percent a year ago. The unfunded liability grew to \$24.43 billion from \$21.59 billion a year ago.

The recently concluded KTRS Funding Work Group report said approving a funding solution is critical in the upcoming session of the General Assembly.

“Discussions are going on right now among leaders in the education field, picking up where the work group finished, to find a comprehensive solution that will be good for teachers and taxpayers,” Harbin said. “We are hopeful those talks can produce a consensus recommendation prior to the legislative session.”

A full scope actuarial audit conducted by The Segal Group, which examined the work of Cavanaugh, was clean and recommended no change that would have a significant impact on plan cost.

“We are pleased that the audit verifies that both KTRS and Cavanaugh are doing things the right way,” Harbin said.