KENTUCKY TEACHERS' RETIREMENT SYSTEM FUNDING WORK GROUP

Notes of Meeting
Sept. 11, 2015

A meeting of the Kentucky Teachers' Retirement System Funding Work Group was held on Friday, Sept. 11, 2015, at 10:03 a.m., in Room 131 of the Capitol Annex, Frankfort, Kentucky.

Present were: Members: David Karem, Chair; David Adkisson; Mike Armstrong; Jason Bailey; Mary Ann Blankenship; Sen. Joe Bowen; Jane Driskell; Amanda Ellis; Rep. Derrick Graham; Gary Harbin; Treasurer Todd Hollenbach; Secretary Timothy Longmeyer; Roger Marcum; Brent McKim; Sen. Morgan McGarvey; Dr. Tom Shelton; Sen. Damon Thayer; and Wayne Young

Also Attending: Tom Bennett (on behalf of Auditor Adam Edelen); J.W. Bryan (on behalf of Secretary Lori Flanery); Janie Caslowe (on behalf of Dr. Bob Wagoner); Kelly Dudley (on behalf of Speaker Greg Stumbo); Perry Papka (on behalf of Brigitte Blom Ramsey); and Shannon Tivitt (on behalf of Secretary Mary Lassiter)

Guests: William B. "Flick" Fornia, Pension Trustee Advisors; and Ben Pasley, Executive Assistant for Gov. Steve Beshear

1. Call to Order: David Karem, chair, called the fourth meeting of the Kentucky Teachers' Retirement System Funding Work Group to order and requested a moment of silence in commemoration of the 9/11 terrorist attacks. He then outlined the format for the meeting, which was devoted to hearing from constituents about their concerns on the pension funding issue.

2. Stephanie Winkler: The first presenter was Stephanie Winkler, the president of the Kentucky Education Association and an on-leave fourth grade teacher in Madison County. She said the 42,000 KEA members believe that state government has made a commitment to them to fund a defined benefit plan that will pay them throughout their retirements until their deaths. Teachers make a daily commitment without decent pay, accolades or the necessary resources while making their own contribution to the retirement plan through each paycheck "without fail." Winkler said a new revenue stream or streams is needed and "no idea should be ignored. … Our teachers and, most importantly, our students deserve the best that we can give them and I implore you to come up with viable solutions."

3. Barry Lee: The second presenter was Barry Lee, the president of the Kentucky Association of School Administrators and director of special education for the Pulaski County Schools. "The economic security of Kentucky's active and retired teachers must be maintained. The Kentucky General Assembly made an unbreakable promise to

Kentucky’s teachers and administrators. That promise was this: that in return for a career of dedicated service to Kentucky’s students, professional educators would be guaranteed a secure, quantifiable and adequate system of retirement benefits. We are now hearing that these assets of KTRS will be depleted in 20 years. That possibility is both immoral and unacceptable. … Bonding is a viable element of the solution.” Rejecting it out of hand is irresponsible, he said. Any structural changes must be measured in terms of the impact on prospective educators. “A restructured retirement system that does not attract quality teaching candidates will inevitably do more harm than good.” In response to a question from Sen. Joe Bowen, Lee said he believes that bonding alone without structural changes “probably” wouldn’t fix the entire funding issue, but there “needs to be a stepping stone to get us moving in the right direction.”

4. <u>Allen Kennedy</u>: The third speaker was retired master electrician Allen Kennedy, president of the Kentucky School Boards Association, a Hancock County school board member and an education professional standards board member. Kennedy said the state is at a crossroads and it’s becoming “increasingly difficult to recruit the brightest and the best” in Hancock County. The quality and quantity of applicants is declining. “The best way for our kids to learn is having bright and capable and dedicated teachers in the classroom.” In response to Brent McKim’s question about whether the meaning of “structural change,” as referenced earlier, could be a dedicated funding source rather than a benefit change, Kennedy and Chair Karem said they didn’t know.

5. <u>David Goldberg</u>: The fourth speaker was David Goldberg, president of Annuity Associates Inc., which he said sells annuities to employees of K-12 schools. He said he’s always favored a defined benefit but not to the current degree of benefits. Goldberg said that he made comments in 1990 that the teacher pension system was unsustainable and has ever since. He said teachers hit a “sweet spot” retiring at 55 with 33 years of service getting net take home pay in the first month of retirement higher than their last month of work. People in Social Security cannot retire until 67 to receive maximum benefits. Goldberg asserted that, using an estimated salary of about $70,000 at retirement and living to 87, the teacher retiring at 55 gets a lifetime benefit of roughly $2.583 million from KTRS while the non-teacher retiring at 67 gets about $517,000. Goldberg presented other models for administrators in KTRS, concluding that current benefits can’t be sustained. Goldberg said a recent statement by asset manager BlackRock said that 85 percent of U.S. pension plans will fail over the next three decades. “What you have to do is adjust the benefits,” he said. In response to Sen. Morgan McGarvey, Goldberg said he would provide more information about the assumptions behind his analysis. In response to Sen. McGarvey asking how many KTRS members receive salaries like Goldberg used to illustrate his points, Gary Harbin said he’d have to research it, but generally salaries

are averaging between $50,000 and $60,000 for people in the system and that the $70,000 estimate used is likely on the high side even for administrators.

6. Teacher panel: A group of three current and one pre-service teachers next addressed the Funding Work Group.

   a. Andrea Higgs, a sixth grade language arts teacher and coach at Daviess County Middle said she is in her fifth year. "It's discouraging that I hear teachers all around me complaining about the profession when it's something that I'm so passionate about … It's really no wonder that the burnout rate is at 30 percent." While working on her master's degree with the accompanying debt, she said her gross paycheck is about $1,400 and her take-home is about $850 to pay expenses for her family, including one child and another on the way. She also invests in another retirement plan because of her fear that the pension funding won't be addressed and in short-term disability to allow her to get enough time for maternity leave. Higgs said her salary as a teacher and coach is about $41,000, and she has about $35,000 in student loan debt to pay. "It's sad to say that my paycheck is non-existent," she said. She attends every professional development she can for the extra income. "I have to choose between my passion and being able to take care of my family." Higgs said she expects to retire in 2043. The pension funding issue is "pushing away new teachers. It's discouraging them from joining us."
   b. Shanna Byrd said she is a seventh-year middle school science teacher in Kenton County who is married with two young children. Her husband is a mechanic with loans that won't be paid off until 2020, while hers won't be paid off until 2037. She said she'll be eligible to retire in 2040, after the date KTRS would run out of money if nothing is done. "It's a scary realization that I will be unable to retire when I would like to when I have met the requirements for full payout." She said she's contributing to a 403(b) account, both to support her family in the future and because of the money she'll have to dedicate to paying off the debt. A 15-year teacher she spoke with is considering moving to Ohio. The substitute in her classroom on this day was a retiree supplementing her income because her pension isn't enough to support her and her husband.
   c. Alan Young is in his 25th year as a public school teacher, the first 20 in Iowa and the last five in Louisville, which was closer to his parents in Columbus, Ind. He said he could have gone to other states but liked what was happening in Kentucky, and that was the only state to which he really wanted to move. Young said he was told the retirement benefit was so good he wouldn't need Social Security. He later found out he was hired after a reform, that his multiplier was smaller and that he'd have to work more years to afford retirement. Because of the reforms, of which he was unaware, he thought he "was pretty picky, I'm pretty well read in what was going on places, but

no one was really talking about this, and so I really actually don't know when I'll retire." Young also said his Social Security benefits earned in Iowa will be slashed because of moving to Kentucky and federal law. Young said a teacher shortage is on the horizon. New benefit tiers damage the collegiality of educators, he said.

d. Tyler Hartz will be graduating from the University of Kentucky in the spring with an expected retirement around 2056, "20 years after" the pension system could run out of funding. Teachers face undergraduate debt and debt for required graduate school. "All of this makes teaching sound like a terrible profession to go into right now," he said. Hartz said he wants to be an English teacher and believes in the promise of public education, but has to justify his career choice to others. He'd love to stay in Kentucky but will take a better job over location. If the KTRS funding isn't fixed by the time he's certified, he'll probably have to leave the state. "I don't want to leave my home to get a good job," he said. "I don't want to be forced to do that."

e. Sen. Damon Thayer said he is somewhat disturbed that the KTRS funding situation is being called a crisis because funding is in place for 21 years even if nothing is done now. "The likelihood of nothing being done is almost zero," he said. The General Assembly and taxpayers will make contributions for teachers to be paid "in perpetuity," and Sen. Thayer said he sympathizes with younger people at the table, but their retirement concerns are shared by people in their 20s in both the private and public sector. He urged that the tenor of the rhetoric be lowered.

f. In response to McKim, Young said that if he'd known of the benefit cuts already made in Kentucky, he probably would not have come to Kentucky. "I'm a teacher and my retirement was not going to be great, but it was going to be far better (in Iowa) than here. … I can't make it up, so I think it would have made a difference and I think it would be Kentucky's loss."

g. In response to Treasurer Todd Hollenbach, Hartz said much to his mother's chagrin he did not want to be a lawyer, but he said he took comfort hearing from people in other states that Kentucky had good retirement benefits despite the lower salary than other jobs. Referring to another member's comment, Hartz said, "I'm sorry that you don't think it's a crisis. … I didn't go to college to live in poverty."

h. In response to Jason Bailey asking about the costs of entry for teachers – including Kentucky tuition hikes, Higgs said her colleagues have student loan debt and hers is higher than others because she didn't have help from her parents. Byrd said some teachers received grants, but three-fourths have student loans. Hartz said based on his experience at an NEA student conference, only a handful of the 400 people there didn't have loan debt to pay later and the majority faced more than $20,000 in debt.

i. In response to Sen. McGarvey asking the panel if they were willing to have their retirement eligibility pushed off to make the system more solvent, Higgs said her father is a fire fighter who hasn't retired despite having 26 years and she expects she would continue, especially if it helped take care of her family. Byrd said she believes she would continue beyond 55 or whatever age the legislature chooses if it ensured "the retirement that I deserve." Allen said he's not opposed to Iowa's rule of 88 (where there are not separate tiers for newer teachers), but that there's a cost to teachers teaching because they have to and not just because they want. Hartz, 21, said his expectation is that he'll retire at age 62. He's not sure whether he would stay longer or how he'll feel at that point.

7. Melanie Wood: Following the panel, Melanie Wood, a Kentucky Retired Teachers Association member who retired in 1997 after 33 years, said the defined benefit was very important to her when she decided to stay in Kentucky. She noted most retirees are women and many are single. Many have no Social Security benefit or, like her, one that is greatly reduced because of federal law. With a defined contribution plan and without the safety net of Social Security, Wood said she believes she would have ended up on welfare with thousands of other teachers.

8. Patsy Rainey: Patsy Rainey, president of the KRTA, said her organization supports the defined benefit plan and maintaining the governance structure for KTRS. Retired teachers are not covered by Social Security. KTRS was created because teachers were not allowed in Social Security. The state must take action to improve the fiscal solvency of KTRS and find the money to fund it.

9. Bert Baldwin: Speaking from a widow's perspective, Kenton County native Bert Baldwin said she wants to see that the retirement system survives and is funded because it is her retirement income and for the benefit of retired teachers in extended care facilities who are on Medicaid.

10. Bryan Sunderland: Kentucky Chamber of Commerce Senior Vice President Bryan Sunderland said the business group supports meeting the promises made to teachers. The state's public employee benefit costs have been found to be growing faster than inflation and unfunded liabilities threaten economic development. For example, a pension-related downgrade in Illinois added $95 million in costs to a $1.3 billion bond. The chamber has supported previous pension reforms, including Senate Bill 2. The chamber supports an external performance audit for KTRS and wants structural changes to be considered because the plan must be sustainable going forward. Changes to be considered include increasing the minimum retirement age, reducing cost of living adjustments, raising employee contributions and/or instituting a hybrid/defined contribution plan. "Let the facts drive the decisions," he said. In response to McKim asking about whether the defined benefit plan acts as a buffer for the chamber's small businesses when customers in defined contribution plans typically draw and spend less from their accounts during an economic downturn, Sunderland said, more notably, defined benefit plans are "nearly

extinct in the private sector" and a guarantee that doesn't exist elsewhere. The teachers' plan needs to be self-sustaining and suggesting that the only possible solution is a defined benefit plan is short sighted. In response to McKim asking whether defined benefit pensions are extinct for larger employers, Sunderland said the merits of the question could be studied but, generally in the private sector, most companies fund retirement through 401(k) accounts with a more generous matching program and letting employees assume some risk. David Adkisson said the chamber has supported teacher salary increases. When it did so after the recession and also asked for an examination of KTRS, "Frankfort was conspicuously silent." Not finding a solution will result in education cuts. In response to Sen. McGarvey, Sunderland said benefits already promised should be paid while being aware that changes may be needed for the future "if the math doesn't simply work out," and current benefits cannot be sustained. In response to Sen. McGarvey asking about teachers not having the same career-track income-increasing opportunities as people in the private sector, Sunderland said his grandmother worked manufacturing lightbulbs all her life and that many people draw similar paychecks for 20 to 30 years at a time. Whatever system must be competitive, Sunderland said. In response to Bailey asking whether the shift from defined benefit to defined contribution plans is an increase in retirement security, Sunderland said any employees need something more than Social Security, and the chamber increased its match for employees to encourage investment beyond the federal program. In response to Bailey asking whether the chamber is concerned about the costs of other public benefits for retired teachers that could result if, for instance, educators are on a defined contribution plan, Sunderland said the question assumes the person wouldn't have an opportunity for a secure retirement under whatever is the new system. In response to a question from Roger Marcum, Sunderland said if Social Security is more economical, why not consider it? In response to Mike Armstrong, Sunderland said the chamber supports increasing revenue and supports tax reform. In response to Harbin asking whether the hybrid cash balance plan saved the state money, Sunderland said he would have to refer to the projections and that most of the savings were long-term. The long-term prospects for the state look better despite not reducing the amount the General Assembly contributes in the short run, he said. Harbin said those projections and the recent bond ratings reports indicate that, at best, no positive impact could be found from the hybrid cash balance plan. In response to that statement, Sen. Bowen said the savings to taxpayers is 22 percent of payroll within 20 years. Harbin said he was discussing immediate normal cost, not the long-term unfunded liabilities. In response to Chair Karem, Sunderland said the chamber previously led the effort for casino gambling legalization in Kentucky. In response to Rep. Derrick Graham, Sunderland said he is aware of no data suggesting that teachers are more in debt than anyone else in state government with a graduate degree. Rep. Graham added engineers working for the state get Social Security as well. Adkisson said Sunderland did not advocate any specific option, just for looking at all options. He also said that unless the

Funding Work Group can develop a consensus plan, he doesn't see much hope for a pension funding fix in the upcoming legislative session.

11. Lisa White: Following the Chamber testimony, duPont Manual High School teacher Lisa White said teaching is her second career. She said teaching is a tough profession for families − she is on her feet constantly and grades papers on weekends − but tells her family that the benefit is that she might get to retire earlier than some people. Teachers already struggle financially, she said, and, now, also could be forced to work longer or take a less attractive sick time benefit. Two of her children/stepchildren who taught briefly are doing something else because it wasn't financially feasible. As for it not being a crisis, White said Manual had to hire two new teachers who were still in school finishing their graduate degrees. "They're the brightest and best candidates we could find," she said, noting one was from Washington and the other was from Lexington. She said the wide pay disparity between teachers and administrators leads many teachers to leave the classroom.

12. Betty Hester: A retired teacher from Bullitt County, Betty Hester said she has two daughters who wanted to become teachers, the youngest of whom is a ninth grade English teacher in Bullitt County. The younger daughter asked her why she should pay into the pension system if it won't be there when she retires. Quoting her daughter, she said, "Why am I struggling every day to do a good job taking time from my family … just to retire without the pension I was promised? … Do I need to quit and do something else?" Hester asked the work group members what they would tell their children, who are teachers, asking the same question.

13. Joyce Dotson: "KTRS is the reason that retired teachers are able to sleep at night," said Joyce Dotson, the president of KEA-Retired and a veteran of Shelby County primary classrooms and who said she went without raises many years taking comfort in the promise of her pension. Despite working 12 years in Social Security, two-thirds of that benefit is lost because of federal law. Her pension is $2,676 monthly or about $32,000 a year, most of which is spent in her local community. While comfortable, "I certainly am not living high on the hog on KTRS."

14. Karen Guffey: Guffey, who retired after 31 years as a school social worker, comes from a family of educators, including her daughter and her 89-year-old mother who is a retired high school teacher, counselor and administrator. Guffey said her mother is grandfathered out of the federal law that cuts Social Security benefits for pension recipients and learned to save growing up through the Depression and World War II. Despite that saving, she's financially strapped, Guffey said. "If she's having a hard time now, what is there for me and my daughter?

15. Chair Karem expressed the appreciation of himself and his wife for the public school education that his sons received and that led one of them to Yale University and the other to completing a doctorate at the University of Louisville's Speed engineering school.

16. Aug. 28 meeting review: Chair Karem recognized consultant Flick Fornia for a review of key points from the Aug. 28 meeting. Fornia said that a teacher contribution rate slide was in error and is being corrected. A cost of living adjustment to teacher wage comparisons puts Kentucky closer, but still behind, the national average. Adkisson raised a question about that "Kentucky Teacher Wage Comparison – Adjusted by Comparable Wage Index" slide seeking clarification about Kentucky being below average compared to where it ranks among states. Secretary Tim Longmeyer asked whether the averages used are weighted for population. Fornia said it is simply a state average. Secretary Longmeyer said the disparities might be greater if weighted for population.

17. General discussion: In response to Armstrong, Fornia said the work group has two broad alternatives – putting more into the pension fund or paying less out of it, but, under that second option, the question is how much could the benefit be reduced before it impacted the quality of teaching. McKim asked whether "structural change" necessarily means plan benefit changes or could it refer to additional dedicated funding? Fornia said it "means everything," including benefits. When rating agencies talk about structural change, Fornia said, "you can bet your bottom dollar they want lower benefits." After a discussion of sick leave implications, Sen. Bowen asked if hiring a substitute teacher is the biggest cost of a sick day being used and whether there's an equivalent cost when an administrator takes a sick day. Fornia said he assumes the substitute is the biggest expense for a teacher's sick day and he doesn't believe substitutes are hired for administrators. In response to Marcum, Fornia said the inviolable contract would not permit the freezing of pensions or cost-of-living adjustments.

18. Adjournment: The meeting adjourned at 1:53 p.m. until the next meeting on Sept. 25.

Kentucky Teachers' Retirement System Funding Work Group Requests

List of Follow-up Information requested at the meeting on Sept. 11, 2015

- Sen. McGarvey asked for information showing the average student loan debt for teachers in Kentucky.
- With talk of the stock market declines hurting assets, Marcum would like to see comparisons to other pensions funds in Kentucky, including those that are better funded.
- Wayne Young asked for more information to quantify the sick leave payout and whether the impact can be quantified in terms of people accumulating sick leave or using it up.
- Mary Ann Blankenship asked for any data around total compensation, including health care contributions and possible voluntary changes.
- Adkisson said he'd like to see price tags for possible options that he would provide privately for consideration at the next meeting.
- McKim asked for information about the numbers of pension plans for the largest employers.