

KTRS Funding Work Group

Principles

BACKGROUND: Executive Order 2015-385 states that the work group shall

- “...make recommendations on principles that should be established to assure a sustainable high quality workforce in Kentucky’s education system”.
- “...make recommendations for improving the fiscal solvency of the KTRS, including but not limited to, increasing state appropriations for contribution rates, financing or refinancing liabilities, and adjusting components of benefits for future members of the KTRS.”

The following **principles** are offered as a starting point for work group consideration and discussion:

- The status quo is unsustainable. While the projected date may vary based upon the assumptions made and reporting models used, doing nothing leaves the Kentucky Teacher’s Retirement System on a pathway to insolvency.
- A goal of 100% funding of KTRS should be achieved within 30 years – by 2045.
- This work group recommends preservation of all benefits earned and owing to current retirees or beneficiaries of KTRS.
- This work group recommends preservation of all components of the inviolable contract between the Commonwealth of KY and current KTRS participants.
- Following the model used to address the retiree health care costs by the 2010 General Assembly in House Bill 540, a comprehensive solution to the underfunding of the pension system must include shared responsibilities between the Commonwealth, school districts, and members of the KTRS.
- The approach to improving the solvency of the KTRS system must be multi-faceted. If the only action ultimately taken is a reduction in future teacher benefits, KTRS will still run out of money. If the only action ultimately taken is an increase in employer (state) contributions, KTRS may still become insolvent. However, a combination approach of increased contributions and benefit adjustments will put KTRS on the path to financial health and stability.
- Actions taken as a result of this work group report should be long-term and phased-in over time.
- The work group has identified options and alternatives for consideration by the Governor and members of the General Assembly during the 2016 Legislative Session. They have quantified the fiscal impact of the solution components and documented the pros and cons associated with each to the extent practical and possible.
- The work group recommends that contributions consistent with the actuarially required KTRS contribution should be treated as among the highest level budget priority in all future funding periods and urge future decision-makers, including the Governor and members of the General Assembly, to fully fund the actuarially required contribution for KTRS in all future budget periods.

This report is intentionally silent on the causative factors which may have contributed to the current financial circumstances of KTRS.