

Kentucky Teachers' Retirement System

Information for

Kentucky Retired Teachers Association



Gary L. Harbin, CPA
Executive Secretary

Fall Workshops 2014



Kentucky Teachers' Retirement System



*Established in 1938, KTRS provides
“Retirement Security” for
Kentucky’s educators.*



KTRS Quick Facts ...



**Membership
of Over
141,000**



**Over 49,500
Receive a
Benefit from
KTRS**



**KTRS Distributes Over \$144 Million
Monthly in Retirement Benefits**



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



**1 in 4 Teachers
are Eligible to
Retire**

Field of Membership

as of December 2013

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

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*

Rate of Retirements

<u>YEAR</u>	<u>RETIREEES</u>
2000	1,390
2001	1,284
2002	1,443
2003	1,089
2004	1,341
2005	1,167
2006	1,099
2007	971
2008	1,348
2009	993
2010	1,189
2011	1,139
2012	1,405
2013	1,354
2014	1,269

Number of retirements in
the months of
June & July



Did you know that ...

The KTRS DB Structure

is a Win for you and for Kentucky's Taxpayers!

The KTRS Board Structure

is a Win for you and for Kentucky's Taxpayers!

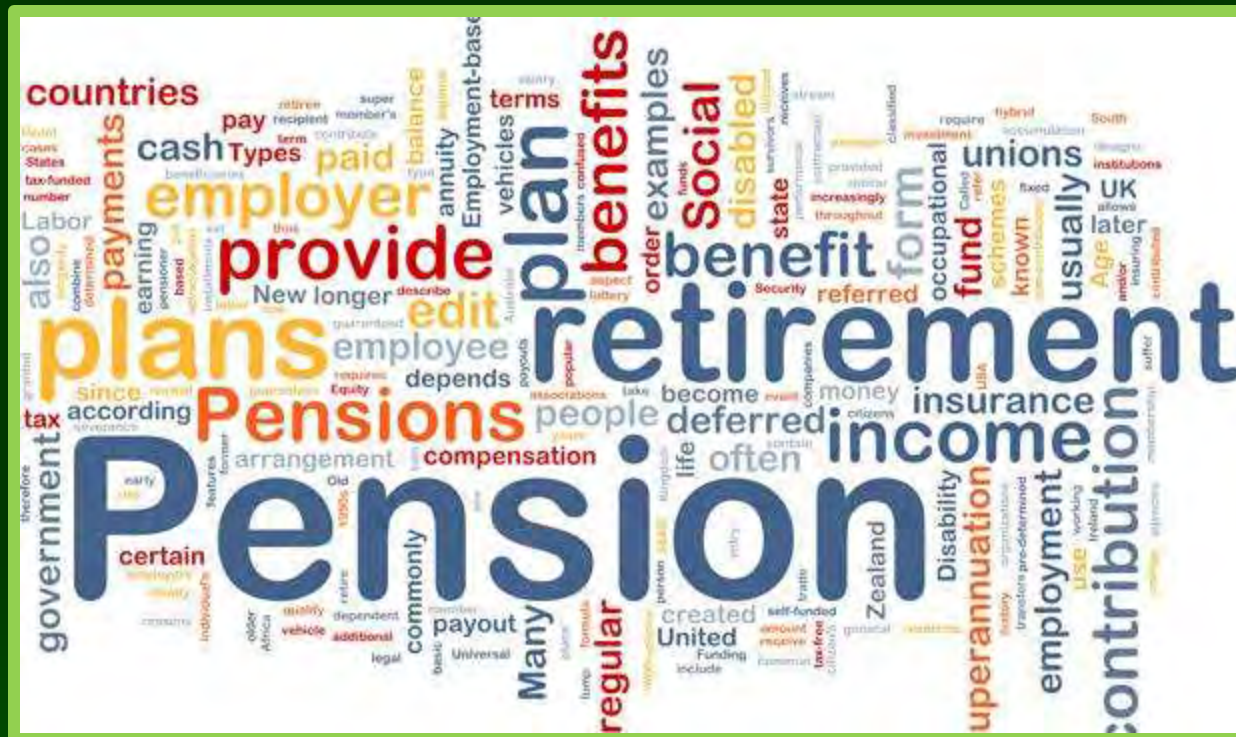
The KTRS Investment Structure

is a Win for you and for Kentucky's Taxpayers!

The KTRS Retiree's Impact on KY

is a Win for you and Kentucky's Taxpayers!

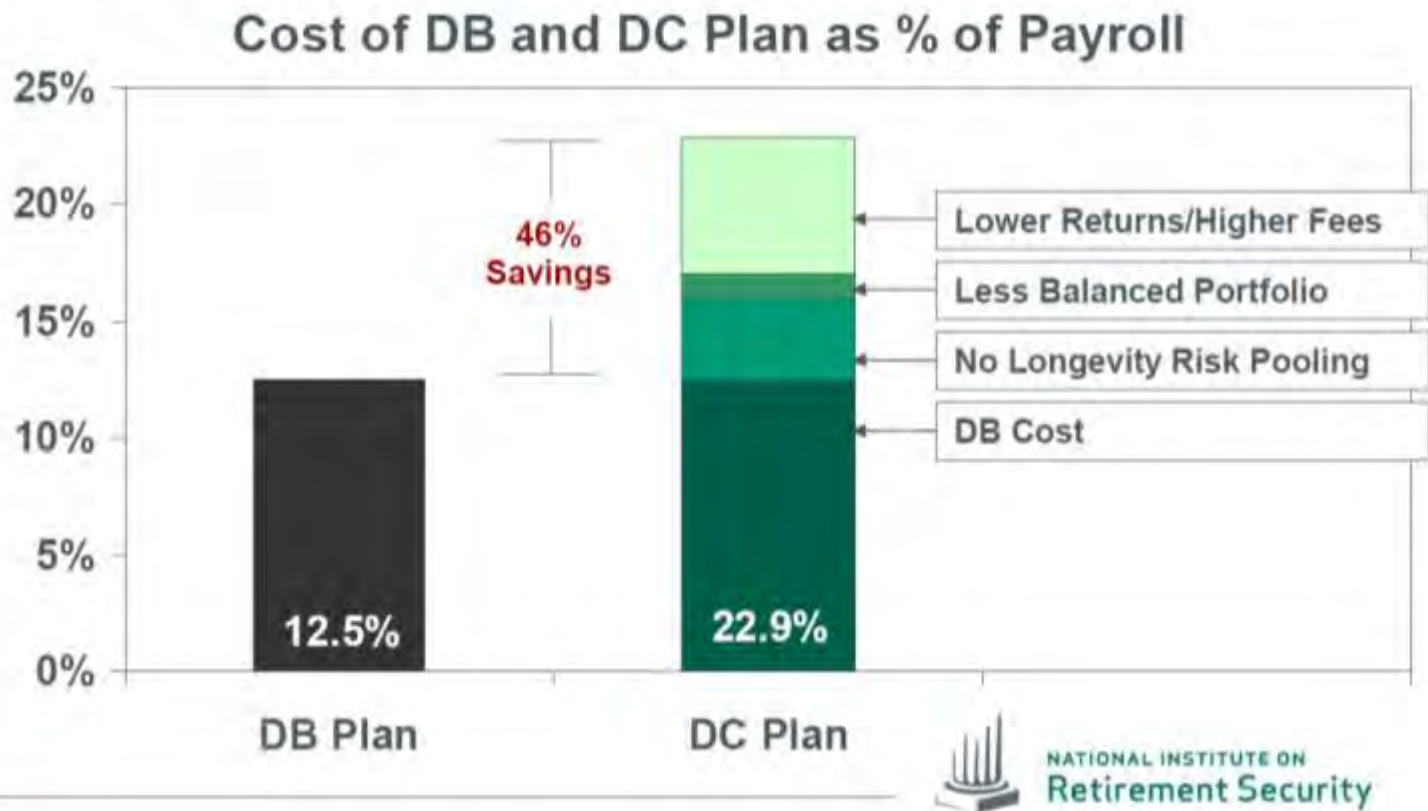
The KTRS DB Structure
*is a Win for you and for
Kentucky's Taxpayers!*



Defined Benefit Plans are
THE MOST COST EFFECTIVE
way to provide for retirement.

- Insurance against longevity risk and market timing risk.
- Low administrative costs.
- Professionally managed investments.

DB Plan Can Deliver Same Benefit at About Half the Cost of DC Plan



Kentucky Teachers' Retirement System

Retiree Analysis

Retiree AGE- *Dec 31st*

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Age 100 years old or more	37	41	38	46	56	62	50
Age 95-99 years old	266	273	278	279	276	233	220
Age 90-94 years old	758	704	710	708	705	707	743
Age 80-89 years old	3,687	3,784	3,890	4,074	4,239	4,295	4,522
TOTAL RETIREES	4,748	4,802	4,916	5,107	5,276	5,297	5,337



**KTRS investment
costs and
administrative
costs are among
the lowest in the
nation for
statewide pension
plans.**

The KTRS Board Structure

*is a Win for you and for
Kentucky's Taxpayers!*



THE BOARD OF TRUSTEES

Are the Fiduciaries of the System

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



**DR. TOM
SHELTON**
Chair, Lexington



**LAURA
ZIMMERMAN**
Vice Chair, Lexington



**ARTHUR
GREEN**
Elkton



**HOLLIS
GRITTON**
Union



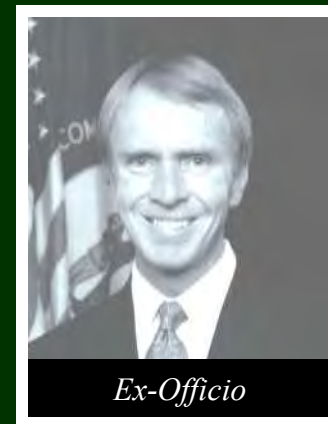
**DR. JAY
MORGAN**
Murray



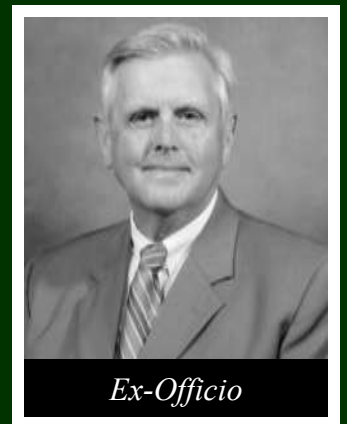
**RONALD L.
SANDERS**
Hodgenville



**RUTH ANN
SWEAZY**
Taylorsville



TODD HOLLENBACH
State Treasurer



DR. TERRY HOLLIDAY
*Commissioner of the Dept.
of Education*

Recent Board Accomplishments

- Return to work made actuarially sound.
- Air-Time costs made actuarially sound.
- COLAs are funded.
- Placement agents avoided.
- Pre-funding of medical benefits saved \$5 billion.



Recent Board Accomplishments continued ...

- Partnered with University of Kentucky & University of Louisville to purchase retiree medical prescriptions - saving \$11million annually.
- Investment Committee structure generates top investment performance.
- Low administrative & investment costs.



- For 75 years, the independent Board of Trustees has successfully upheld its obligations to members, the education community, and the taxpayers of the Commonwealth of Kentucky.
- The Board has done so in a cost effective way while avoiding pitfalls that other retirement systems have experienced.



The KTRS Investment Structure

*is a Win for you and
for Kentucky's Taxpayers!*

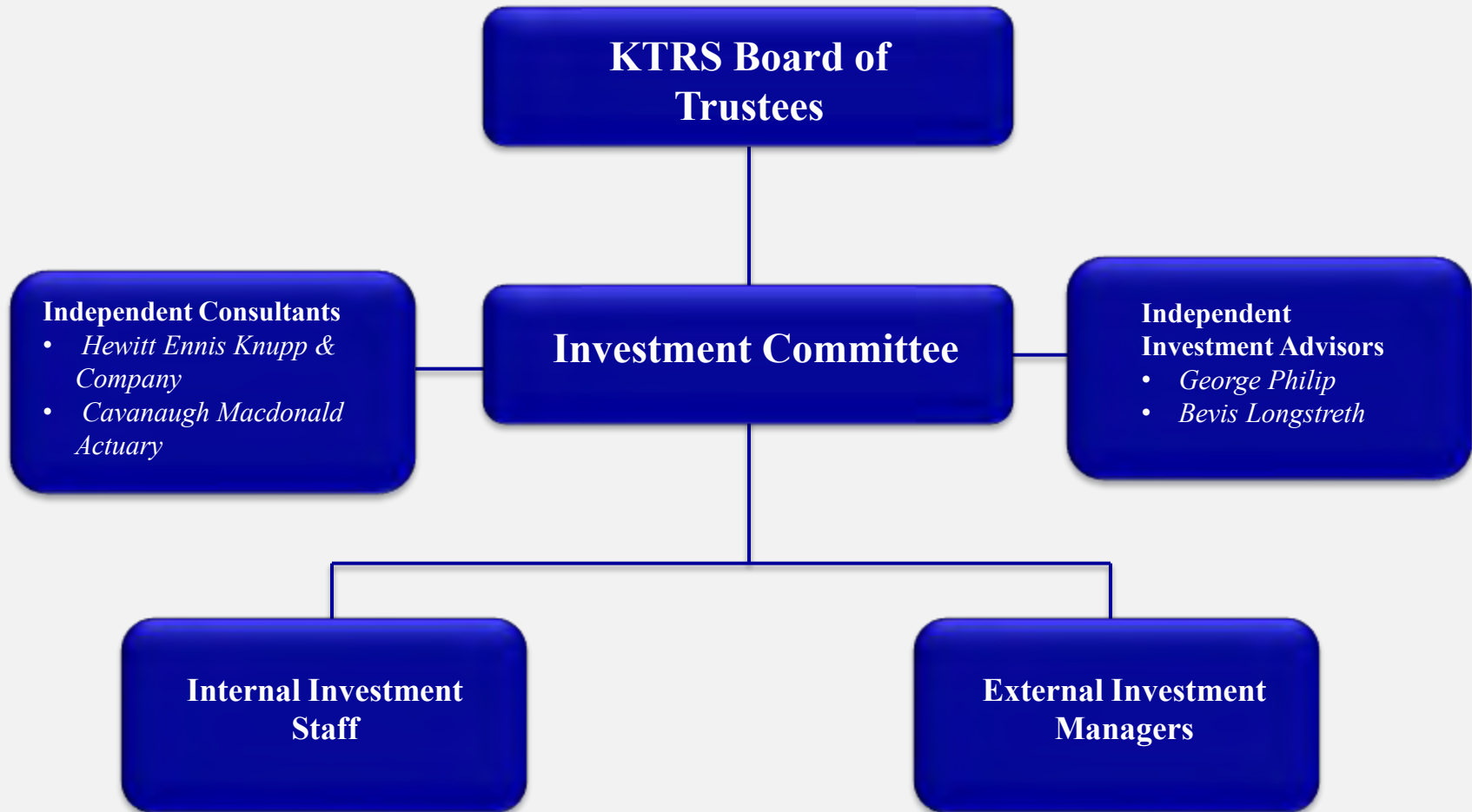


**KTRS has strong
Investment
Committee structure
with Elected Board
members working
with Outside
Investment
Professionals to guide
the investment
of teachers' assets.**



KENTUCKY TEACHERS' RETIREMENT SYSTEM

Organizational Chart for Investments



Bevis Longstreth

Professional Investment Activities



- Since 2005, Member Board of Directors of Grantham, Mayo & Van Otterloo, LLC, Chairman of the Risk Committee.
- From 1972 to 1981 and since 1984, Member, Finance Committee, Rockefeller Family Fund, responsible for investment strategy, manager selection and monitoring, Chairman from 1987 to 2004.
- Appointed Commissioner, Securities and Exchange Commission, 1981: re-appointed, 1982; resigned January 13, 1984.
- Member of the Board of Governors of American Stock Exchange from 1992 to 1998.
- Member of Board of Trustees of College Retirement Equities Fund (CREF) of TIAA-CREF from 1996 to 2006.
- Member of Board of Directors of AMVESCAP PLC (INVESCO) from 1993 to 2006.
- Member of the Pension Finance Committee of The World Bank from 1987 to 1995.
- Author of three books including, Modern Investment Management and the Prudent Man Rule.
- Author of over forty investment articles appearing in various publications including Financial Times, New York Times, Washington Post, Chicago Tribune, The Banker Magazine, The Journal of Portfolio Management.

George M. Philip

Professional Activities



- President University of New York at Albany
- From 1971 to 2007 – New York State Teachers Retirement System*
 - Chief Real Estate Investment Officer - 1988 to 1992
 - Chief Investment Officer - 1992 to 2007
 - Executive Director - 1995 to 2007

* *One of the ten largest public pension funds in the United States, \$105 billion fund with 400,000 members. Mr. Philip was instrumental in diversification of portfolio including real estate and other alternative assets.*

- Currently is Investment Advisor to New York State Teachers' Retirement System.
- Serves and has served on numerous boards and investment committees including:
 - New York Stock Exchange, Advisory Committee
 - Chair of the Council of Institutional Investors
 - Director of US Airways Group
 - Director of First Niagara Financial Group (\$15Bn Bank Group)
 - Director of the Real Estate Investment Standards Board

The Structure of the KTRS Investment Committee ...



- Exceeds current industry standards.
- Is leading “Best Practices” for Investment Committee Structure.
- Has been recommended for use in other States.
- KTRS investment costs are among the lowest in the nation.

Top-Performing Public Pension Funds

Top-performing public pension funds

Ranked by one-year return as of June 30. For the full set of data, go to Plonline.com/publicfunds13.

Rank	Pension fund	Return	Benchmark	Out-performance (basis pts.)
1	Oklahoma Teachers	17.40%	14.40%	300
2	San Bernardino County	15.05%	8.20%	685
3	Stanislaus County	14.60%	11.53%	307
4	Missouri Local Government	14.50%	9.10%	540
5	Nashville & Davidson County	14.22%	10.99%	323
6	Minnesota Board	14.20%	12.90%	130
7	Dallas Employees	14.20%	13.10%	110
8	Kentucky Teachers	14.10%	12.90%	120
9	Louisiana Schools	14.01%	13.48%	53
10	CalSTRS	13.80%	13.30%	50
Wilshire TUCS all public median		12.40%		

Source: Plan reports, Wilshire Associates' Trust Universe Comparison Service

INVESTMENT PERFORMANCE

KTRS RETURNS

FISCAL YEAR ENDED JUNE 30, 2014

1-Year	3-Year	5-Year	10-Year	20-Year
18.1%	11.3%	13.7%	7.2%	8.2%



Over the last year public pensions averaged 16.1% as reported by Callan Associates. *one of the largest independently owned investment consulting firms in the country.*

The KTRS Retiree has a Positive Impact on Kentucky

*is a Win for you and for
Kentucky's Taxpayers!*

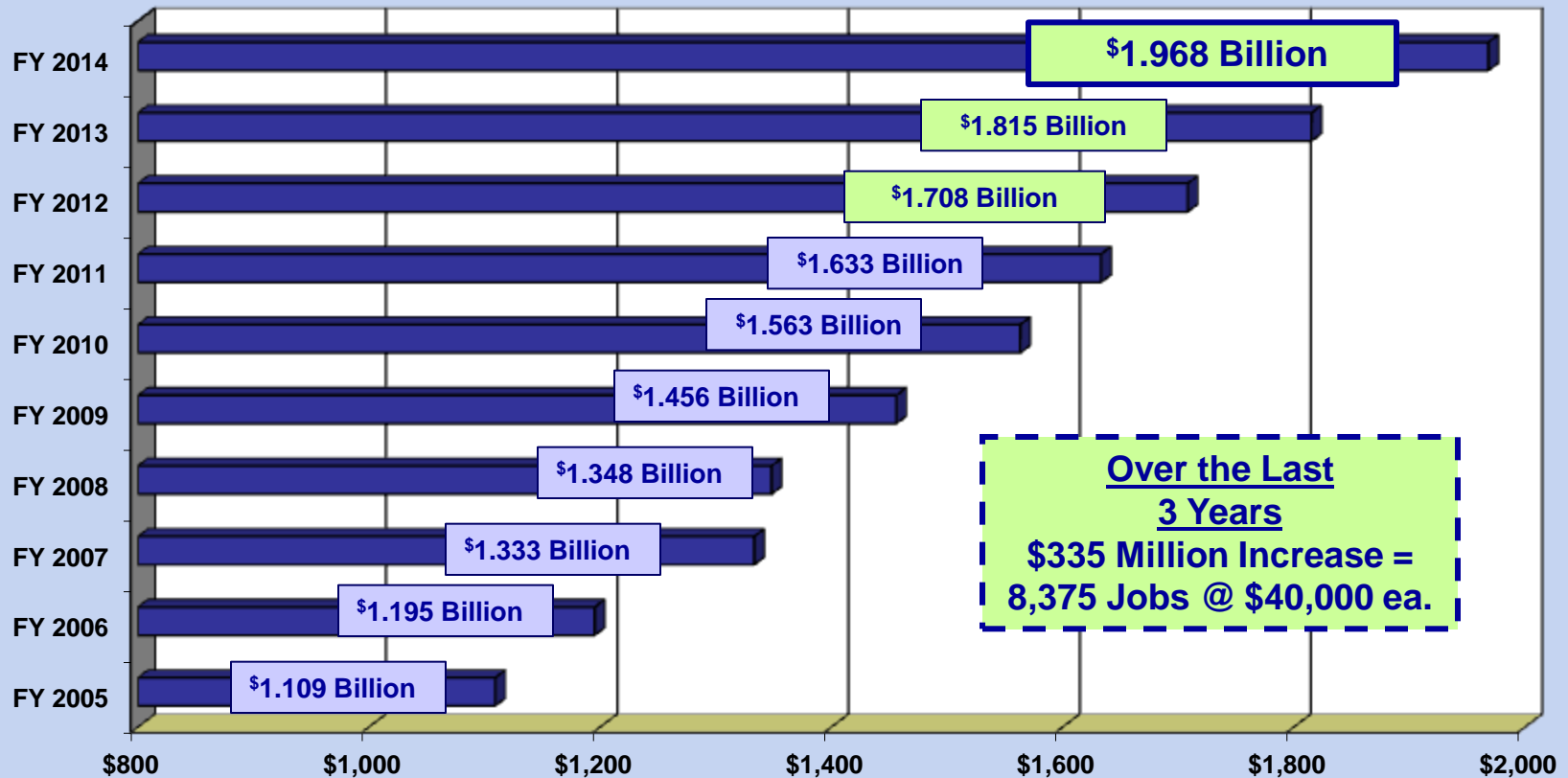




**Retired teachers have a significant economic impact
in every county in Kentucky.**

- **KTRS pays monthly (*July 2014*):**
 - \$143.9 million in retirement annuity benefits
 - \$21.5 million in medical benefits
- 49,567 retirees, beneficiaries & survivors
- 92% of KTRS retirees live
in Kentucky

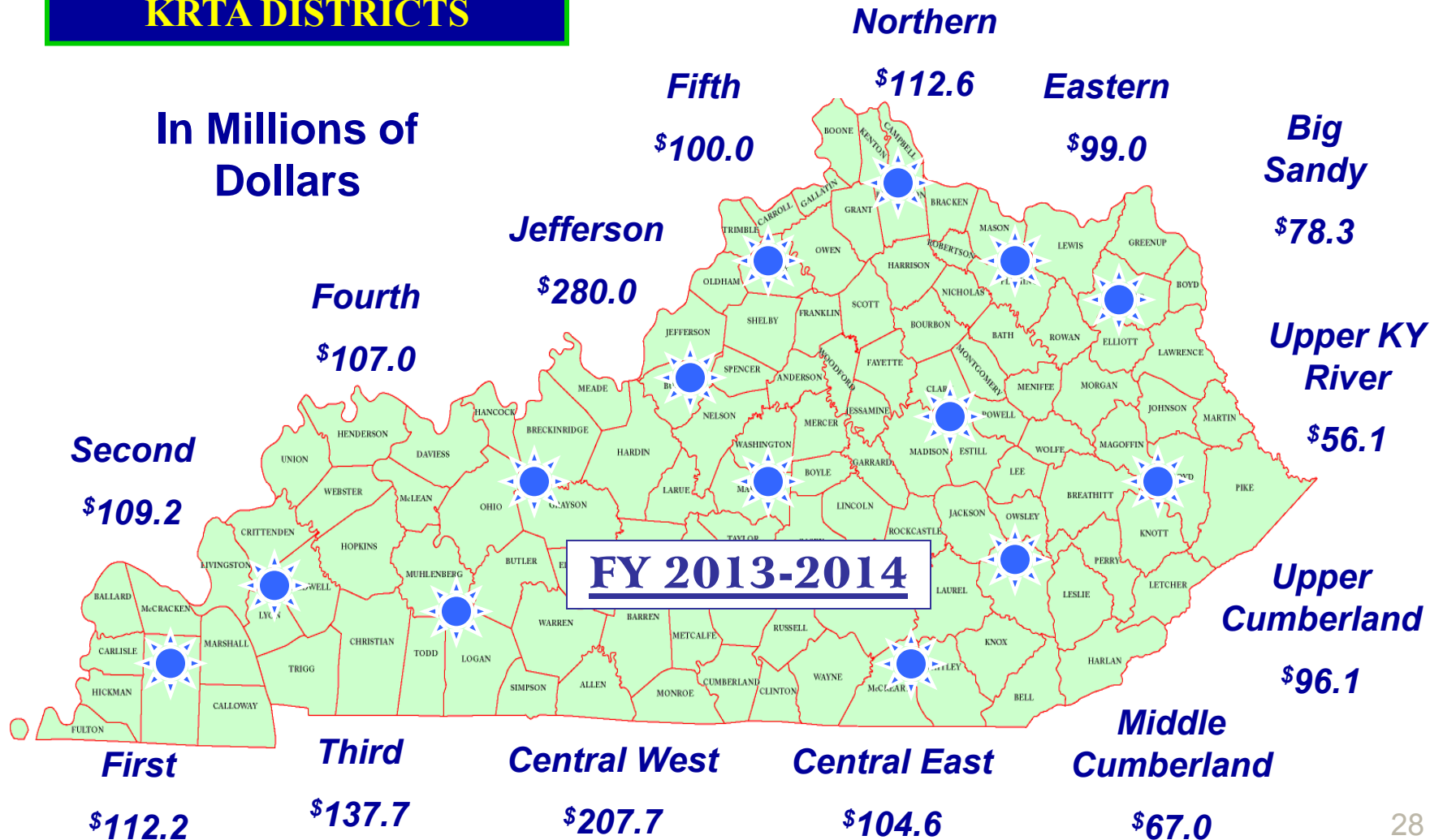
KTRS Distributes Hundreds of Millions of Dollars Annually



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 2013/2014

Congressional District 3

\$ 279,811,109

6,581 Recipients

Congressional District 4

\$ 245,131,750

6,455 Recipients

Congressional District 1

\$ 280,533,445

7,679 Recipients

02

06

04

05

01

03

Congressional District 2

\$ 262,289,259

7,027 Recipients

Congressional District 6

\$ 283,588,811

7,862 Recipients

Congressional District 5

\$ 316,306,644

8,855 Recipients



WHAT IS

Annual Required Contribution (ARC)

The amount an employer must contribute annually to a defined benefit pension fund, based on an actuarial formula, to fund current and future retirement benefits and liabilities. **It is the amount needed to pay the benefits of current and future retirees.**



Recap of Actuarial Status of the System

as of June 30, 2013

In Millions of Dollars

<u><i>Pre-funded</i></u>	Assets	Liabilities	Unfunded	Percent
RETIREMENT Benefit Fund	14,962.8	28,817.2	13,854.4	51.9%
			21,905.6*	42.4%*
<u><i>Pre-funded*</i></u>	Assets	Liabilities	Unfunded	Percent
MEDICAL Benefit Fund	412.2	3,521.1	3,108.9	11.7%

* New accounting rules, set by GASB, will require underfunded pension plans to report unfunded liability using a lower assumed rate of return, thus reducing our funding percentage from 51.9% to 42.4%.

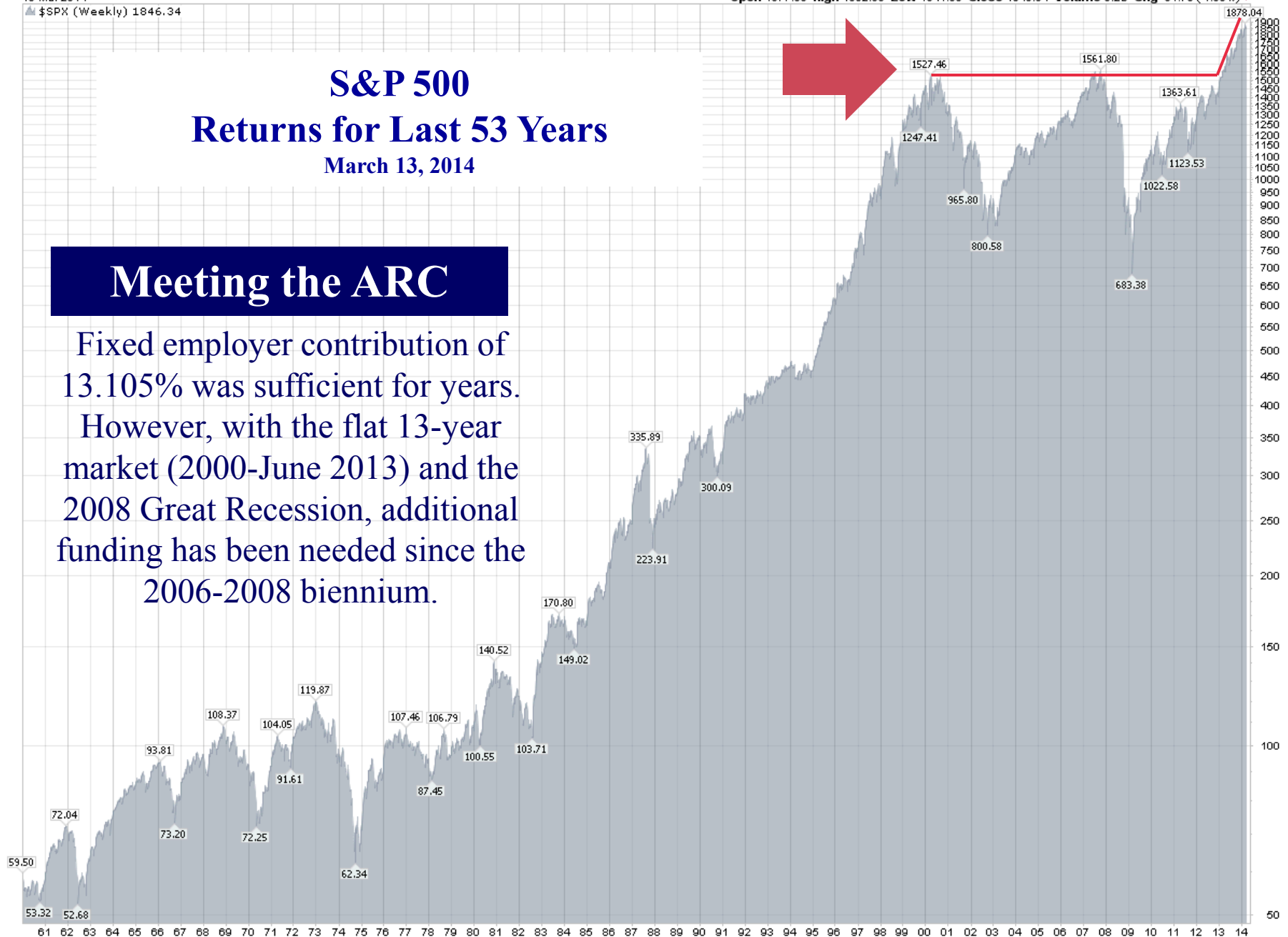
** Transitioning to Pre-funded as of July 1, 2010*

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.



FUNDING SOLUTION!

To work cooperatively with the General Assembly, to develop a long-term funding plan for the KTRS Pension Fund.



Short-Term Funding Challenges

- An economy that is improving, but still struggling.
- Finite revenue.
- Challenging budgets.



KTRS has been asked to develop a short-term funding plan given these current budgetary challenges.



**One option is to
re-purpose monies
already budgeted
to KTRS to issue
a bond.**



*This plan gives time for Kentucky's economy
to improve, revenue to grow and for the
Commonwealth to develop a long-term
funding plan.*

Benefit of Bonding ...

Teachers' pension liability grows at 7.5% per year.

- **A bond could be issued at a much lower rate with the current historically low interest rates.**

*It's like refinancing
your home!*



Additional Benefits of Bonding ...

- **A bond would pay the full ARC for several years.**
- **A bond would improve the funded ratio up to 63%.**
- **A bond would reduce the amount of funding needed in future years.**



The Importance of Funding

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

Age 80 & Above

52% of retirees younger than age 80 are single.

Total

41,956

100%

Total

6,507

100%

52% of retirees less than age 80 are single.

85% of retirees age 80 and above are single.

Key Funding Points ...

- Amount of additional funding needed from State for FY 15/16 to fund the ARC is \$386 million and \$487 million respectively.
- This additional funding was not available in the recently passed budget.
- Without a plan to fund the ARC, accounting rules for 2014 will result in an increase in the unfunded liability from \$13.9 billion to \$21.9 billion.
- This unfunded liability will be required to be reported on the Commonwealth's financial statements for 2015.
- The State is committed to meeting its obligation to teachers.

Positive News:
**States contributions – though short of amount
needed – have increased since 2008**

August 2010	\$465 million bond to repay retirement fund.
February 2011	\$268 million bond to fund state's portion of Shared Responsibility.
March 2013	\$152 million bond to fund state's portion of Shared Responsibility.
July 2013	\$38 million appropriated from general fund to fund Shared Responsibility.
Budget for FY 15/16	includes \$50 million and \$61 million to fund Shared Responsibility.

Since the 2014 General Assembly ended ...

- KTRS has been in ongoing discussions with Governor's staff, Legislators, and LRC staff, to develop the needed plan for long-term funding.
- Investment performance continues to be strong with **System assets now above \$18.5 billion.**



KTRS

+

KRTA

Working Together = Great Accomplishments!

thank
you!

