

Teachers' Retirement System

of the State of Kentucky



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TRS Early History

1935: Social Security created, but teachers are among those not covered because of constitutional concerns about federal government taxing state and local governments.

1936: University of Kentucky study finds state's teachers couldn't afford to retire, and that Kentucky had trouble attracting and retaining teachers.

1938: General Assembly establishes TRS, which opens in 1940 after initial funding is received.

1950s: Social Security expands, but some states and groups – including Kentucky teachers – do not enter because of added cost of Social Security.

Whom TRS Serves



Teachers and other education professionals as a public pension plan providing retirement and medical benefits



173 school districts



17 Department of Education agencies



KCTCS



Five regional universities

TRS Population

Member Recipients

Females

72%

Males

28%

Recap of teachers' pensions

1. Past unfunded liability (\$14.3 billion)
 - Payments currently being made
 - 26 years remaining on debt
2. Current cost (15% of payroll)
 - Teachers contribute 9%
 - State contributes 6%
3. Future cost (Depends on future benefit structure)

Funds of TRS

- Teachers' Savings Fund
- State Accumulation Fund
- Allowance Reserve Fund
- Guarantee Fund
- Medical Insurance Fund
- Life Insurance Fund
- Administrative Expense Fund

Teachers' savings and state match

- Each teacher has an individual account with TRS that is credited with their retirement contributions and interest throughout their career and held in the Teachers' Savings Fund.
- Each teacher's contribution is matched by the state and held in the State Accumulation Fund.
- Upon retirement ...

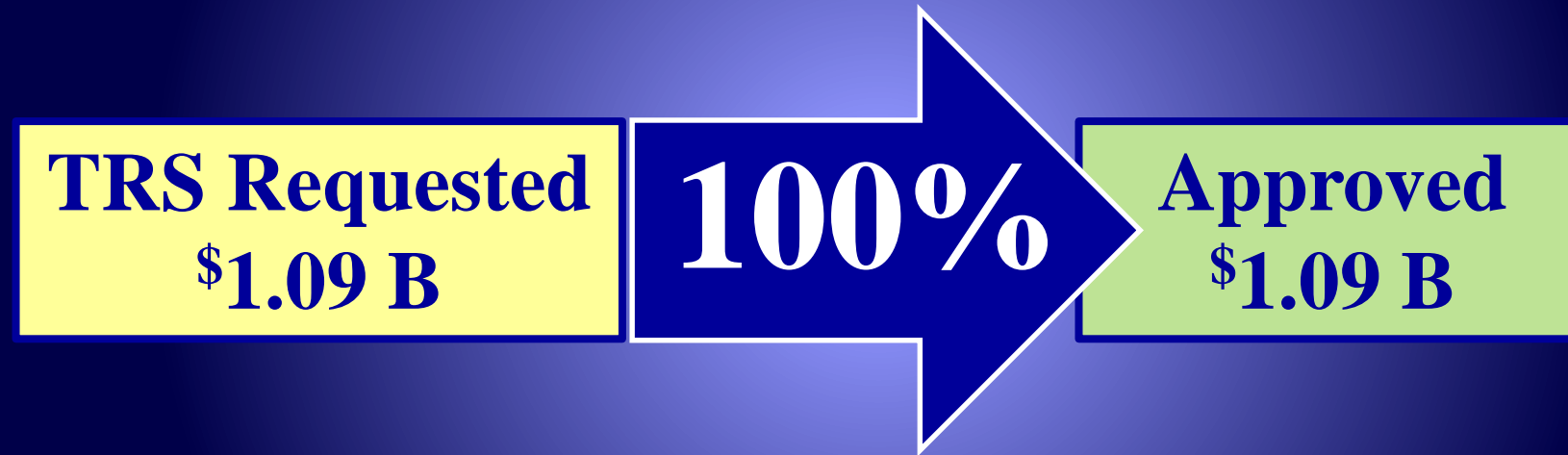
Allowance Reserve Fund

- ... Upon retirement
- The teacher's individual account held in the Teachers' Savings Fund is transferred to the Allowance Reserve Fund.
- The state matching contribution held in the SAF is transferred to the Allowance Reserve Fund.
- Benefits are then paid from the Allowance Reserve Fund.
 - First from the teacher's account balance (\$320 million)
 - Next from the state matching account balance (\$260 million)
 - Lastly, investment earnings and other funds in the GF (\$1.5 billion)

Guarantee Fund

- Investment earnings
- State matching from refunded teacher accounts due to withdrawal or death
- Any other monies, including payments toward the unfunded liability, whose disposition is not otherwise specified

2018-20 Additional Funding Summary



State also paid nearly all contributions recommended by the actuary for fiscal years 2017 & 2018.

Schedule of Funds Available for Retirement Benefits

	<i>in billions</i>
Beginning Balance as of July 1, 1985	\$ 1.8
Member & Other Contributions	7.3
Employer Contributions	13.4
Investment Income	26.5
Benefit Payments & Refunds	(28.7)
Administrative Expenses	(0.2)
Ending Balance as of June 30, 2018	\$20.1

Recap of teachers' medical

1. Past unfunded liability (\$2.1 billion)
 - Payments currently being made
 - 22 years remaining on debt
2. Current costs for over-65 coverage
 - Teachers contribute 3.75%
 - School districts 3%
 - State contributes 0.75%
3. Under-65 coverage pay-go
 - Retired teachers pay \$190/month (\$30 million)
 - State pays balance \$510/month (\$60 million)

TRS MEDICAL INSURANCE

Funded Status

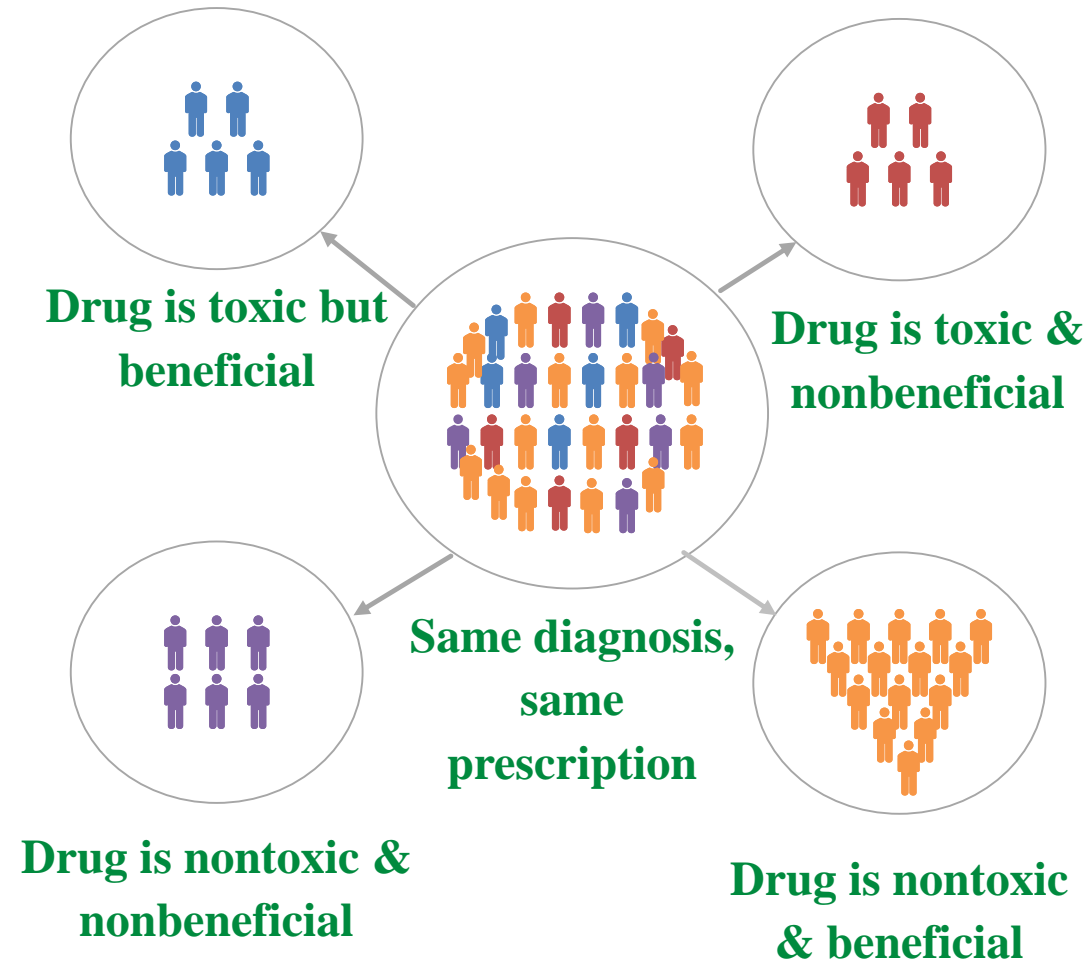


TRS MEHP Premiums



Still Bending the Trend

Personalized Medicine = Your DNA Matters



Pharmacogenomics

Using DNA to see what drugs will be safe and effective



Solution: TRS Personalized Medicine Partnership

Patient improvement
and cost reduction
using pharmacogenomics
and expert pharmacy
review



You



Your Doctor



Your Pharmacist



Lucy B. Wells, RPh,
Clinical Director

Toll free: 855-218-5979



TRS Retirement Eligibility

- 27 years of service at any age
- Age 60 with 5 years of service
- No penalty in either case

Normal

- Entry date prior to July 1, 2008: age 55 with 5 years of service
- Entry date on or after July 1, 2008: age 55 with 10 years of service
- Penalties reduce annuity

Early

Retirement calculation

$$\frac{\text{Total Service Credit} \times \text{Multiplier} \times \text{Final Average Salary}}{\text{Final Average Salary}} = \text{ANNUAL BENEFIT}$$

Service Credit

is the total number of years you contribute into TRS

Multiplier

is the value for each year of TRS service

Final Average Salary

High **FIVE** salaries with 27 years of service or at age 55

High **Three** salaries with 27 years of service and age 55

Multipliers for Non-University

by Entry Date

Before July 2002

Service Years	Multiplier
Over 30	3%
0 to 30	2.5%
Prior to 1983-84	2%

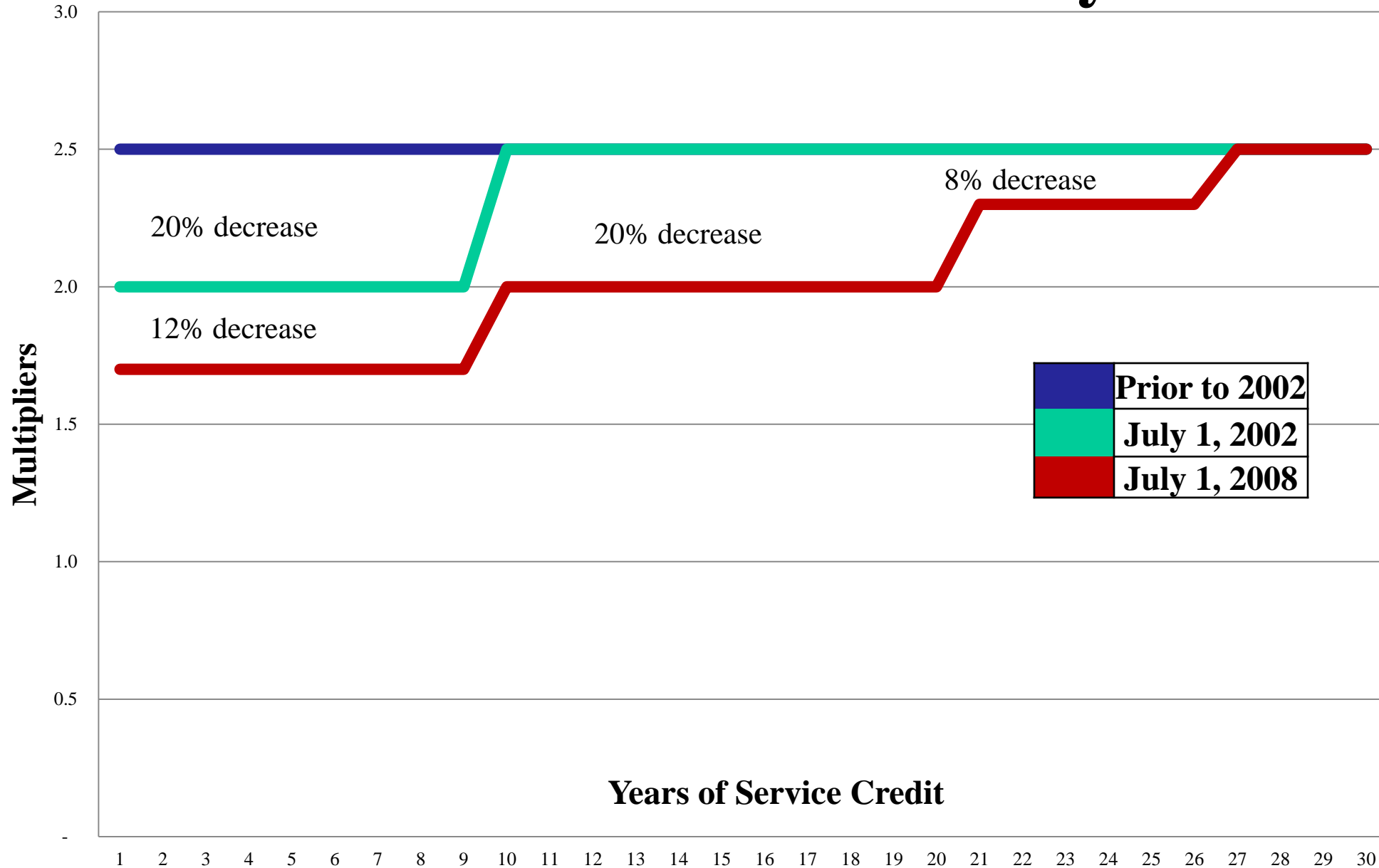
July 1, 2002 to June 30, 2008

Service Years	Multiplier
Over 30	3%
10 to 30	2.5%
0 to 9.99	2%

After July 2008

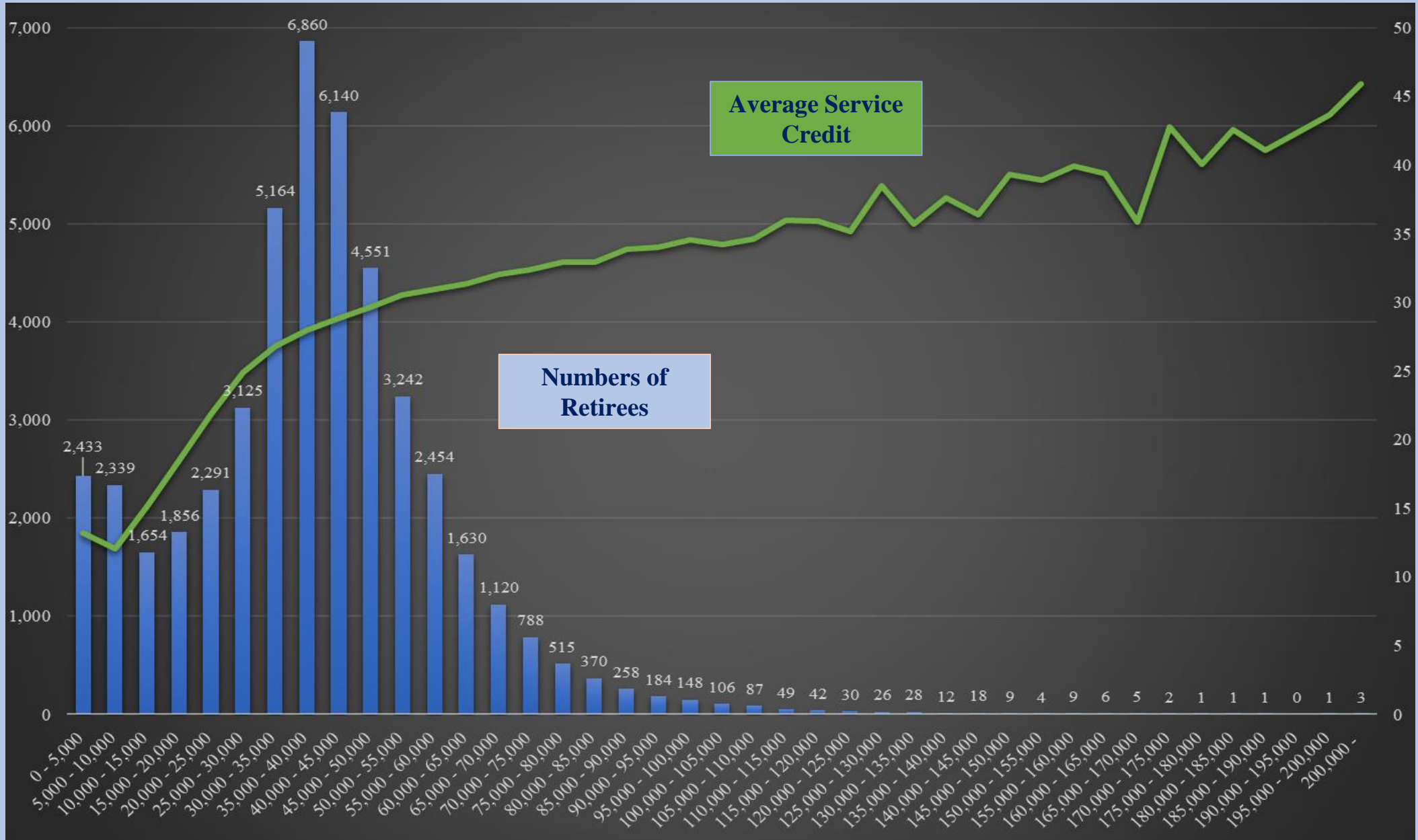
Service Years	Multiplier
Over 30	3%
26.01 to 30	2.5%
20.01 to 26	2.3%
10.01 to 20	2%
0 to 10	1.7%

Pension Reform since July 2002

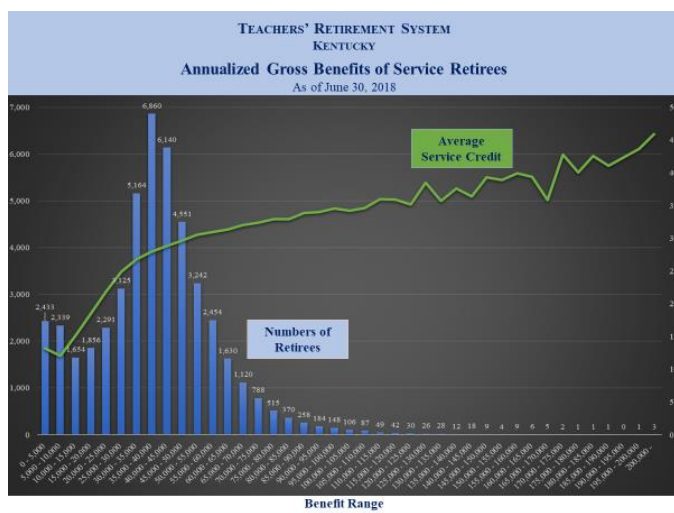


Annualized Gross Benefits of Service Retirees

As of June 30, 2018



Benefit Range



What the chart shows

- 54% of retirees received \$40,000 or less in Fiscal Year '18
- 89% of retired teachers receive \$60,000 or less
- Less than 1% of retirees (0.9%) receive more than \$100,000
- Careers of retirees receiving \$20,000 to \$40,000 averaged 26 years
- People receiving higher pensions also worked longer

Remember: TRS replaces Social Security

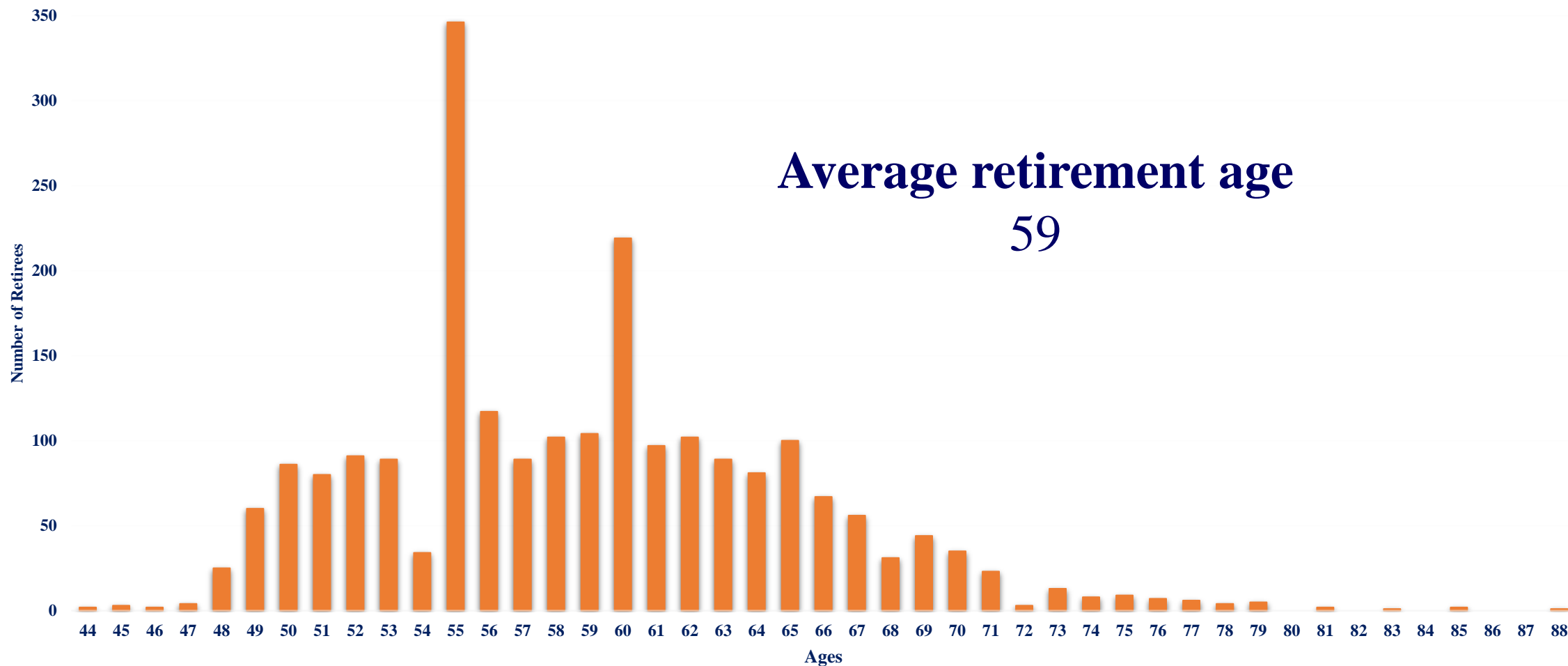
Note: Excludes disability retirement payments

Cost Control Efforts

- Funding plan established for medical insurance.
- Average service retirement age increased from 54 to 59.
 - Return-to-work rules improved.
 - Medical insurance eligibility pushed later into careers.
 - High 3 salaries used at age 55 and 27 years of service.
 - 3% factor on the years beyond 30.

Number of Retirees by Age at Retirement

Fiscal Year 2018: 2,239 Service Retirements



- Only 8% retire before age 50
- More than 4 times as many people retire at 65 & over than under age 50
- Average career teacher retiring in FY 2018 worked more than 29 years

THE INVIOABLE CONTRACT

As set forth by Kentucky law (KRS 161.714), certain benefits for teachers are a contractual right. Under the inviolable contract, changes in benefits for retirees and current employees are limited.

Benefits included:

- Lifetime monthly annuity
- 1.5% COLA
- Access to health insurance

Examples of benefits NOT included:

- 3% multiplier
- Average high three salaries
- Use of sick leave payout as salary credit toward pension
- Health insurance specifics (such as cost, any subsidy and level of coverage)



The Long-Run Financial Outlook

Social Security is not sustainable over the long term at current benefit and tax rates. In 2010, the program paid more in benefits and expenses than it collected in taxes and other noninterest income, and the 2017 Trustees Report projects this pattern to continue for the next 75 years. The Trustees estimate that the combined OASI and DI trust fund reserves will be depleted by 2034. At that point, payroll taxes and other income will flow into the fund but will be sufficient to pay only about 77% of program costs. As reported in the 2017 Trustees Report, the projected shortfall over the next 75 years is 2.83% of taxable payroll.

2018 Pension Legislation

- Social Security discussion
- SB 151
- HB 539

2018 Pension Legislation

- SB 151
 - Level dollar funding
 - Rule of 87 at age 57
 - Cash balance benefit

2018 Pension Legislation

- HB 539
 - Hybrid retirement plan
 - Rule of 85
 - State contribution fixed at 6%
 - Risk shifted from state to teachers and school districts
 - If funding falls below 95%, risk controls implemented



Teachers' Retirement System

of the State of Kentucky

*Our Members
Come First!*

800-618-1687

502-848-8500

<https://trs.ky.gov>

Protecting & Preserving Teachers' Retirement Benefits