AARP in the STATES

SNAPSHOT: Kentucky Retirement Systems

Overview

Kentucky Retirement Systems (KRS) consists of the Kentucky Employees Retirement System (KERS), the County Employees Retirement System (CERS), and State Police Retirement System (SPRS). The system provides both a defined benefit (DB) pension and a health insurance program for its 144,894 active state employees and 84,680 retirees and beneficiaries.

A defined benefit (DB) pension is a retirement plan that typically offers a modest but stable monthly retirement income that lasts the remainder of the retiree's life. Public sector pensions usually employ a shared financing model whereby both employees and employers contribute to the pension fund over time to manage costs. In contrast, private sector pensions almost always are funded solely by the employer.

Defined benefit (DB) pension benefits often are a function of an employee's years of service and salary at the end of one's career. The benefits are financed by a combination of employer contributions, employee contributions, and investment earnings. Contributions typically are pooled among all employees and invested, with investment decisions made by professional asset managers overseen by trustees.

Research shows that Americans who have the three-legged retirement stool of a defined benefit (DB) pension, Social Security, and individual savings, such as a 401(k), generally have greatest opportunity to achieve financial security in retirement.

Key Facts

- Non-hazardous employees contribute 5% of salary, and hazardous employees contribute 8% of salary to KRS.
- Employers contribute between 16.93% to 45.54% to the fund.
- Between 1993 and 2009, 52.48% of Kentucky's pension fund receipts came from investment earnings. Earnings on investments and employee contributions have historically made up the bulk of pension fund receipts.
- Each dollar invested by Kentucky taxpayers in KRS supported $5.94 in total economic activity in the state.

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Key KRS Data[1]

The chart below summarizes the key KRS data, as of June 30, 2011:

Total active employees	144,894
Total retired members and survivor beneficiaries	84,680
Average annual retirement allowance	KERS nonhazardous \$21,276 KERS hazardous \$14,886 CERS nonhazardous \$11,191 KERS hazardous \$24,777 SPRS \$37,583
Employer contribution rates	KERS nonhazardous 16.98% KERS hazardous 26.12% CERS nonhazardous 16.93% KERS hazardous 33.25% SPRS 45.54%
Employee contribution rates	5% for non-hazardous employees 8% for hazardous employees
Actuarial value of assets	\$11.9 billion
Funded ratio	49.1%
Unfunded actuarial accrued liability	\$12.4 billion

The Economic Impact of Kentucky Pensions[2]

Expenditures made by retirees of state and local government provide a steady economic stimulus to Kentucky communities and the state economy. Within the state of Kentucky, 2012 expenditures stemming from state and local pensions supported:

- 41,641 jobs that paid $1.6 billion in wages and salaries
- $5.5 billion in total economic output
- $720.1 million in federal, state, and local tax revenues

Each dollar paid out in pension benefits supported $1.67 in total economic activity in Kentucky.

Each dollar "invested" by Kentucky taxpayers in these plans supported $5.94 in total economic activity in the state.

[1] All data, unless otherwise noted, as of June 30, 2011.

[2] Rhee, N. 2014. *Pensionomics 2014 Measuring the Economic Impacts of DB Pension Expenditures.* Washington, DC: National Institute on Retirement Security.

Kentucky Retirement Systems By the Numbers

The following provides a snapshot of key data relative to the **Kentucky Retirement Systems (KRS)**. KRS provides retirement and health benefits for state employees. The system provides a defined benefit (DB) pension, a retirement plan that typically offers a modest but stable monthly retirement income that lasts the remainder of a retiree's life.

$5.94 Total economic activity in Kentucky for each dollar invested by Kentucky taxpayers in KRS.

$5.5 billion Total economic output in Kentucky created in 2012 when public sector retirees spent their pension income.

$720.1 million Federal, state and local tax revenues generated by spending of Kentucky public pension income.

41,641 Jobs created from pension income spending by Kentucky state and local government retirees.

144,894 Total active members of the Kentucky Retirement Systems.

$21,276 Average annual retirement pension income for a nonhazardous member of the Kentucky Employees Retirement System (KERS).

5 Percentage of salary that non-hazardous KRS employees contribute from every paycheck to their pension benefit to share the funding responsibility. The median employee contribution rate is 5% nationally.

$12.4 billion Unfunded actuarial accrued liability.

40.25 Percentage of pre-retirement income replaced by the defined benefit (DB) plan for a new employee with 30 years of service.

80 Percentage of pre-retirement income from all income sources that is considered adequate for a secure retirement.

All data comes from either KRS or the National Institute on Retirement Security.

SNAPSHOT: Kentucky Teachers' Retirement System

Overview

Kentucky Teachers' Retirement System (KTRS) was established in 1938. The system provides defined benefit (DB) pension benefits for its 76,349 active public school employees and 44,419 retirees and beneficiaries.

A defined benefit (DB) pension is a retirement plan that typically offers a modest but stable monthly retirement income that lasts the remainder of the retiree's life. Public sector pensions usually employ a shared financing model whereby **both employees and employers contribute to the pension** fund over time to manage costs. In contrast, private sector pensions almost always are funded solely by the employer.

Defined benefit (DB) pension benefits often are a function of an employee's years of service and salary at the end of one's career. The benefits are financed by a combination of employer contributions, employee contributions, and investment earnings. Contributions typically are pooled among all employees and invested, with investment decisions made by professional asset managers overseen by trustees.

Research shows that Americans who have the three-legged retirement stool of a defined benefit (DB) pension, Social Security, and individual savings, such as a 401(k)-type plan, generally have greatest opportunity to achieve financial security in retirement. **KTRS members do not participate in Social Security.**

Key Facts

- Non-university employees contribute 10% of salary, and university employees contribute 8.5% of salary to KTRS.
- Employers contribute between 13.1% and 14.1% of salary to the fund.
- Between 1993 and 2009, 52.48% of Kentucky's pension fund receipts came from investment earnings. Earnings on investments and employee contributions have historically made up the bulk of pension fund receipts.
- Each dollar invested by Kentucky taxpayers in KTRS supported $5.94 in total economic activity in the state.

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Key KTRS Data[1]

The chart below summarizes the key data for KTRS, as of June 30, 2011:

Total active employees	76,349
Total retired members and survivor beneficiaries	44,419
Average annual retirement income*	$43,452
Employer contribution rate	13.105% for employees hired before July 1, 2008; 14.105% for those hired after
Employee contribution rate	10.105% for non-university 8.545% for university
Actuarial value of assets	$14.9 billion
Funded ratio	57.4%
Unfunded actuarial accrued liability	$11.1 billion
* Among 2011 retirees with 25-29 years of service.	

The Economic Impact of Kentucky Pensions[2]

Expenditures made by retirees of state and local government provide a steady economic stimulus to Kentucky communities and the state economy. Within the state of Kentucky, 2012 expenditures stemming from state and local pensions supported:

- 41,641 jobs that paid $1.6 billion in wages and salaries
- $5.5 billion in total economic output
- $720.1 million in federal, state, and local tax revenues

Each dollar paid out in pension benefits supported $1.67 in total economic activity in Kentucky.

Each dollar "invested" by Kentucky taxpayers in these plans supported $5.94 in total economic activity in the state.

[1] All data, unless otherwise noted, as of fiscal year ended June 30, 2011.

[2] Rhee, N. 2014. *Pensionomics 2014 Measuring the Economic Impacts of DB Pension Expenditures.* Washington, DC: National Institute on Retirement Security.

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Kentucky Teachers' Retirement System By the Numbers

The following provides a snapshot of key data relative to the **Kentucky Teachers' Retirement Systems (KTRS)**. KTRS provides retirement benefits for public school employees in Kentucky. The system provides a defined benefit (DB) pension, a retirement plan that typically offers a modest but stable monthly retirement income that lasts the remainder of a retiree's life.

$5.94 The total economic activity in Kentucky for each dollar invested by Kentucky taxpayers in KTRS.

$5.5 billion Total economic output in Kentucky created in 2009 when public sector retirees spent their pension income.

$720.1 million Federal, state and local tax revenues generated by spending of Kentucky public pension income.

41,641 Jobs created from pension income spending by Kentucky state and local government retirees.

76,349 Total active members of the Kentucky Teachers' Retirement System.

$43,452 Average annual retirement pension income.

10.1 Percentage of salary that non-university employees currently contribute from every paycheck to their pension benefit to share the funding responsibility. Nationally, the median employee contribution rate is 5%.

75 Percentage of pre-retirement income replaced by the defined benefit (DB) plan for an employee with 30 years of service. A replacement ratio of 80% from all income sources is considered adequate for a secure retirement. **KTRS members do not participate in Social Security.**

209 Number of teachers retained each year solely due to the defined benefit (DB) plan.

$2.3 million Teacher turnover cost savings generated by the retention affect of the defined benefit (DB) pension.

All data comes from either KTRS or the National Institute on Retirement Security.

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SNAPSHOT: Pensions for Kentucky Teachers

Overview

As early as the turn of the 20th century, American legislators seemed to understand the importance of teacher quality to students' education. A 1917 report on public education noted that, "A school teacher's work is personal, direct, and positive. It works for the good or the ill of each pupil."[1]

Key Facts

- Non-university employees contribute 10.1% of salary out of each paycheck to the pension fund.
- The average retirement benefit across all retirees and beneficiaries is $32,270 per year, or $2,689 per month.
- KTRS covers 76,349 active school employees and 44,419 retired school employees and beneficiaries.
- Teachers are paid 14.3% less than comparable private sector workers.
- The KTRS pension replaces 75% of pre-retirement income for a teacher with 30 years of service.
- Most experts find that a replacement ratio of 80% or more, from all income sources, is adequate for a secure retirement. KTRS members do not participate in Social Security.

Defined benefit (DB) pension plans were first introduced for teachers in the United States to help with the recruitment of high quality educators, and as an incentive to keep those educators in the teaching profession. By 1916, some form of retirement plan was available to public schoolteachers in 33 states. It was thought that such a retirement system might serve two purposes: 1) bringing more diverse, and highly qualified teachers into the profession; and 2) creating a more productive workforce that actually saves public employers money, as one dollar in pension benefits was seen as worth more than a dollar in salary.[2]

All public school teachers in Kentucky have pension coverage through the Kentucky Teachers' Retirement System (KTRS). **KTRS members do not participate in Social Security.**

KTRS covers 76,349 active employees of public educational institutions, and 44,419 retired school employees and beneficiaries. Non-university employees contribute 10.105% out of each of their paycheck to the pension fund, and university employees contribute 8.545%. Among all 2011 retirees and beneficiaries, the average retirement benefit was $32,270 per year, or $2,689 per month.

The KTRS pension replaces 75% of pre-retirement income for a teacher with 30 years of service. Most experts find that a replacement ratio of 80% or more, from all income sources, is adequate for a secure retirement.

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Teachers Receive Lower Compensation

Public employees receive lower wages than their private sector counterparts. Even after accounting for pensions and other benefits, on average, state and local workers receive 7% less than those in the private sector.[3] More specifically, teachers are paid 14.3% less than comparable private sector workers—and this pay gap has increased in the last decade.[4] Teacher pensions play an important role in offsetting the financial impact of lower salaries.

Research shows that pensions are reliable and relieve retirement anxiety. Some 83% of Americans indicated that those with pensions are more likely to have a secure retirement, and 81% believe all workers should have access to a pension plan.[5]

Pensions Help Retain Quality Teachers in Kentucky[6]

Better teachers are experienced teachers. DB pensions help to retain highly productive teachers longer, as compared with individual defined contribution (DC) accounts. Moreover, the cost of teacher turnover is quite high, both in terms of financial cost and loss of productivity to the school district.
In Kentucky:

- The cost of turnover in Kentucky is $10,915 per teacher.
- 209 teachers are retained each year due to the defined benefit (DB) plan.
- The defined benefit (DB) pension system saved $2.3 million in teacher turnover costs in 2003 in school districts across the state.

About NRTA

NRTA: *AARP's Educator Community* is a national umbrella organization for the nation's largest network of retired educators. For nearly 65 years, NRTA has worked with state and local Retired Educators Associations (REAs) across the country on areas of mutual interest in advocacy and community outreach.

Collectively, NRTA and REAs engage and advocate on behalf of nearly one-million retired educators. Our shared priorities are to protect earned pension benefits and to assure access to affordable retiree healthcare. Additionally, NRTA helps inspire and honor the work of REA volunteers through NRTA's With our Youth! national recognition program.

[1, 2] Graebner, W. 1978. Retirement in education: The economic and social functions of the teachers' pension. *History of Education Quarterly*, 18(4), 397-417.

[3] Heywood, J., and K. Bender. 2010. *Out of Balance: Comparing Public and Private Sector Pay over Twenty Years*. Washington, DC: National Institute on Retirement Security.

[4] Allegretto, S., S. Corcoran, and L. Mishel. 2008. *Teachers' Pay Continues to Slide.* Washington, DC: Economic Policy Institute.

[5] Perlman, B., K. Kenneally, and I. Boivie. 2011. *Pensions and Retirement Security 2011: A Roadmap for Policy Makers.* Washington, DC: National Institute on Retirement Security.

[6] Boivie, I. 2011. *The Three Rs of Teacher Pension Plans: Recruitment, Retention, and Retirement*. Washington, DC: National Institute on Retirement Security.