AARP IN THE STATES

SNAPSHOT: Kentucky Retirement System

The Kentucky Retirement System (KRS) provides a defined benefit (DB) pension for public employees hired prior to 2014. New public employees have a cash balance (CB) plan.

KRS Pension Works for Kentucky Stakeholders

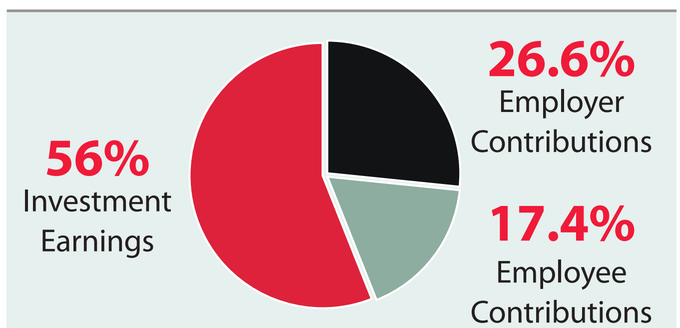
Defined benefit (DB) pensions help recruit and retain effective and experienced public employees, which is essential to delivering high quality service to citizens.

The spending by retired public employees from pension checks supports jobs, greater tax revenues and economic growth in our communities.

Pensions offer employees the best path to retirement security. They are cost-effective and provide modest lifetime income that will not run out.

Taxpayers Only Pay a Small Part of Pension Costs

The funding of public employee pensions is shared by employees and employers. Over time, investment income earned by the fund does most of the work. In fact, between 1993 and 2014, taxpayers (employer contributions) paid only 26.6% of the cost of benefits. New KRS non-hazardous employees contribute 5% of salary to the cash balance plan and employers contribute 4.25%.



Pensions Cost Half as Much as a 401(k) Plan

Pensions can provide the same benefit as a 401(k) retirement account at about half the cost because of the following key factors:

10% cost savings by pooling longevity risk

\+

11% cost savings from optimal asset allocation

\+

27% cost savings due to higher returns and lower fees

=

48% **total cost savings**

AARP® Real Possibilities

NRTA AARP's Educator Community

NATIONAL INSTITUTE ON Retirement Security
Reliable Research. Sensible Solutions.

KRS Key Facts

Kentucky KRS serves41,738 active employees and 47,970 retired members and survivor beneficiaries.

Non-hazardous employees contribute 5% to the KRS cash balance account.

Employers contribute 4.25% to the cash balance plan fund for non-hazardous employees.

The average monthly retirement benefit for KRS members is $1,707.

After 30 years the CB account would replace 24% of pre-retirement income at age 62, based on the 4% guaranteed interest rate.

Historical KRS Funding Experience

Kentucky establishes long-term funding policies to provide for the cost of public pension benefits. The employee contribution is set by law and the actuary calculates the employers' contributions each year. As of the end of its 2016 year, KRS had $2.1 billion in assets in the fund.

The Actuarially Determined Contribution (ADC) is the amount needed to fund benefits earned in the year and to pay down the plans' unfunded actuarial accrued liability. Paying the full ADC each year is important to ensure that the fund becomes financially sound over time.

Kentucky Paid 60.1% of Weighted Average Percent of ADC from FY2001-FY2015 for KRS

Kentucky Made Plan Changes to KRS in Recent Years

Following the global stock market crash in 2008-2009, Kentucky policymakers proactively made changes to KRS to ensure long-term sustainability. These include:

- Reducing benefits by lowering the multiplier, increasing requirements for normal retirement age.
- Suspending and then eliminating the cost of living adjustment unless funding ratio equals 100%.
- Creating a CB plan for new employees.

The Economic Impact of Kentucky Pensions

$4.9 billion

in economic output generated by retirees' spending from public pensions in Kentucky.

33,748 jobs

paying $1.5 billion supported by retirees spending from public pensions in Kentucky.

$751.2 million

in federal, state, and local tax revenues generated by retiree benefits and spending in Kentucky.

All data come from Kentucky, Public Plans Data, or the National Institute on Retirement Security.

AARP IN THE STATES

BY THE NUMBERS: Kentucky Retirement System

The **Kentucky Retirement System (KRS)** provides a defined benefit (DB) pension to employees hired before 2014. New public employees have a cash balance (CB) plan. It includes employee contributions and employer credit based on service compounded with a 4% guaranteed return.

Key facts about the plan and its benefits:

41,738

Total active members of Kentucky Retirement System.

24%

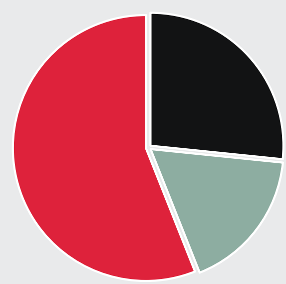
After 30 years in the cash balance plan, a member will replace about 24% of an employee's pre-retirement income, based on the 4% guaranteed return.

$1,727

Typical retirement benefit paid to retired KRS members each month.

Pensions are a good deal for taxpayers:

Funding of public employee plans is shared by employees and employers. Over time, investment income earned by the plan does most of the work. In fact, between 1993 and 2014, taxpayers (employer contributions) paid 26.6% of the cost of plan benefits. New nonhazardous employees contribute 5% of pay and employers contribute 4.25% into the plan.



The spending from the pension checks of the 47,970 retired public employees supports:

$4.9 billion

in economic output in Kentucky.

33,748 jobs

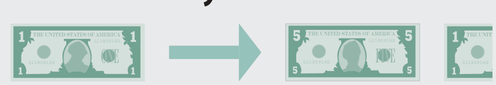
paying those workers in Kentucky $1.5 billion in income.

$751.2 million

in federal, state, and local tax revenues based on benefits and spending in Kentucky.

Pension benefits are a good deal for the economy too:

Each dollar "invested" by Kentucky taxpayers (employers) in these pension plans supported $5.36 in total economic activity in the state.



$1.00 **$5.36**

All data come from Kentucky, Public Plans Data, or the National Institute on Retirement Security.

AARP Real Possibilities

NRTA AARP's Educator Community

NATIONAL INSTITUTE ON Retirement Security
Reliable Research. Sensible Solutions.

AARP IN THE STATES

SNAPSHOT: Kentucky Teachers' Retirement System

The Kentucky Teachers' Retirement System (TRS) is provides benefits to qualified public school educators. Teachers are not covered by Social Security.

The TRS Pension Works for Kentucky Stakeholders

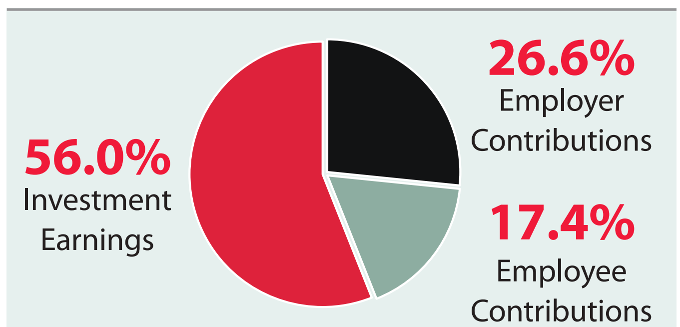
Effective teachers are the cornerstone of education quality, but teachers are underpaid. Pensions help schools keep teachers and compensate for low pay.

Retaining experienced midcareer teachers boosts student performance. Pensions help keep effective midcareer teachers in the classroom, increasing education quality.

Pensions offer teachers the best path to retirement security. They are cost-effective and provide modest lifetime income that will not run out.

Shared Funding of TRS is a Good Deal for Taxpayers

The funding of public employee pensions is shared by employees and employers. New TRS employees contribute 12.9% of their pay into the fund. Over time, investment income earned by the fund does most of the work. In fact, between 1993 and 2014, taxpayers paid only 26.6% of the cost of benefits.



Pensions Cost Half as Much as a 401(k) Plan

Pensions can provide the same benefit as a 401(k) retirement account at about half the cost because of the following key factors:

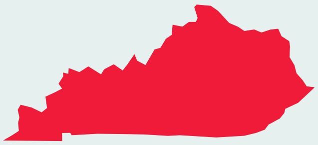
10% cost savings from pooling longevity risk + **11%** cost savings from optimal asset allocation + **27%** cost savings due to higher returns and lower fees = **48%** **total cost savings**

AARP® Real Possibilities

NRTA AARP's Educator Community

NATIONAL INSTITUTE ON Retirement Security

Reliable Research. Sensible Solutions.



TRS Key Facts

Kentucky TRS serves 71,848 active employees and 51,563 retired members and survivor beneficiaries.

New employees contribute 12.9% to TRS.

Employers contribute 14.1% to the fund for employees.

The average monthly retirement benefit for members is $2,963.

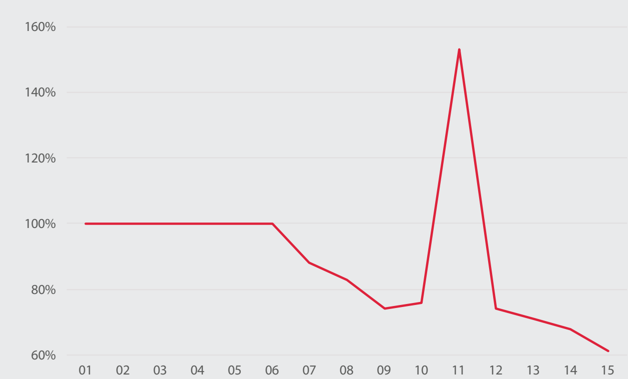
After a 30-year career, TRS will replace 60.8% of final average salary.

Historical TRS Funding Data

Kentucky established long-term funding policies to provide for the cost of public pension benefits. The employee contribution is set by law and the actuary calculates the employers' contributions each year. As of the end of its 2016 year, TRS had $17.5 billion in assets in the fund.

The Actuarially Determined Contribution (ADC) is the amount needed to fund benefits earned in the year and to pay down the plans' unfunded actuarial accrued liability. Paying the full ADC each year is important to ensure that the fund becomes financially sound over time.

Kentucky TRS Paid 86.1% Weighted Average Percent of ADC from FY2001-FY2015



Kentucky Made Plan Changes to TRS in 2008

Even before the global stock market crash in 2008-2009, Kentucky policymakers proactively made changes to TRS to ensure the long-term stability. These include:

- Increasing employee contribution rate for teachers hired after 7/1/08.
- Reducing the benefits for new teachers by lowering the multiplier and changing the calculation of final average salary.
- Reducing the cost of living adjustment for retirees.

The Economic Impact of Kentucky Pensions

$4.9 billion

in economic output generated by retirees' spending from public pensions in Kentucky.

33,748 jobs

paying $1.5 billion in wages supported by retirees spending from public pensions in Kentucky.

$751.2 million

in federal, state, and local tax revenues generated by retiree benefits and spending in Kentucky.

All data come from Kentucky, Public Plans Data, or the National Institute on Retirement Security.

AARP IN THE STATES

BY THE NUMBERS: Kentucky Teachers' Retirement System

The **Kentucky Teachers' Retirement System (TRS)** provides a defined benefit (DB) pension for teachers who are not covered by Social Security. It offers a modest but stable monthly income over a retiree's life. DB pensions help to recruit and retain experienced teachers, who provide quality education for our children. DB pension payments also support the state's economy.

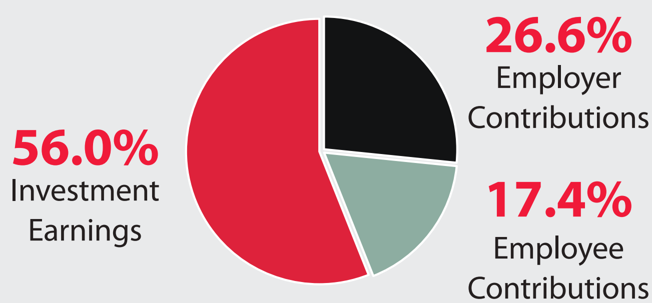
Key facts about the plan and its benefits:

71,848
Total active members of the Kentucky Teachers' Retirement System.

75%
After a 30-year career, TRS will replace 75% of an employee's pre-retirement income — and no Social Security benefits.

$2,963
Typical pension benefit paid to retired TRS members each month.

Pensions are a good deal for taxpayers: Funding of teacher pensions is shared by employees and employers. New TRS employees contribute 12.9% of their pay into the fund. Over time, investment income earned by the fund does most of the work. In fact, between 1993 and 2014, taxpayers (employer contributions) paid only 26.6% of the cost of pension benefits.



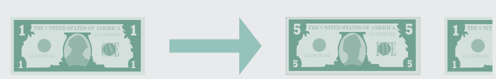
The spending from the pension checks of the 51,563 retired TRS members supports:

$4.9 billion
in economic output in Kentucky.

33,748 jobs
that pay those Kentucky workers $1.5 billion in income.

$751.2 million
in federal, state, and local tax revenues based on benefits and spending in Kentucky.

Each dollar "invested" by Kentucky taxpayers in these pension plans supported $5.36 in total economic activity in the state.



$1.00 **$5.36**

All data come from Kentucky, Public Plans Data, or the National Institute on Retirement Security.

AARP® Real Possibilities

NRTA AARP's Educator Community

NATIONAL INSTITUTE ON Retirement Security
Reliable Research. Sensible Solutions.

AARP IN THE STATES

SNAPSHOT: Pensions for Kentucky Teachers

Pensions Help Deliver Quality Education in Kentucky

Defined benefit (DB) pensions play a fundamental role in retaining high-quality, experienced teachers in the classroom. These effective, experienced teachers are the most important school-based element that provides quality educational outcomes for our children.

A wide body of academic research on teacher productivity finds that teachers become more effective with experience. These studies demonstrate that experienced teachers have students who achieve at higher levels. In contrast, when experienced, mid-career teachers are replaced by inexperienced teachers, other studies show productivity drops across the school.

DB pensions give schools an effective tool to retain experienced teachers. These benefits provide teachers an incentive to continue delivering quality education to K-12 students.[1] This incentive becomes all the more important over a teaching career as the erosion of teachers' wages, when compared to the wages of similar college educated workers, widens for more experienced teachers.

There are important policy reasons to continue offering teachers DB pensions. Because pensions help attract and retain workers, Kentucky can keep teachers in the classrooms and empower students to achieve their highest potential.

Pensions Help to Bridge the Teacher Wage Gap

A national study of K-12 public school teachers' wages identified a 17 percent pay gap relative to comparable private sector workers in 2015. At the same time, teachers' benefits, including pensions, help bridge that gap and allow states to attract and retain highly qualified educators by reducing that overall gap in compensation to 11 percent. In Kentucky, teachers experience a 21% wage gap when compared to other college graduates in the workforce.[2]

17% teacher wage gap **offset by...** 6% teacher benefit advantage **reduces...** **the teacher compensation gap to 11%**

Americans understand that teacher pensions play an important role retaining quality teachers and in offsetting the impact of lower salaries.

92% 92 percent of Americans say pensions are a good way to recruit and retain qualified teachers.

81% 81 percent of Americans agree that teachers deserve pensions to compensate for lower pay.[3]

AARP® Real Possibilities

NRTA AARP's Educator Community

NATIONAL INSTITUTE ON Retirement Security
Reliable Research. Sensible Solutions.

Pensions Reduce Teacher Turnover and Save Money

Experienced teachers are better 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.[4]

7.3%

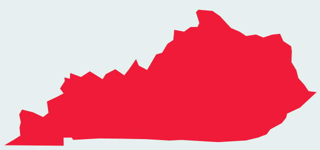
Percentage of teachers who leave education.

422

The number of Kentucky teachers retained each year due to the DB pension.

$1.8B to $4.0B

The DB system savings in teacher turnover costs in school districts across Kentucky.



TRS Key Facts

- Kentucky TRS serves 71,848 active employees and 51,563 retired members and survivor beneficiaries.
- New employees contribute 12.9% to the fund.
- Employers contribute 14.1% to the fund.
- The average monthly retirement benefit for members is $2,963.
- TRS has $17.5 billion in actuarial value of assets and $14.5 billion in unfunded actuarial accrued liability.[5]

The Economic Impact of Kentucky Pensions

$4.9 billion

in economic output generated by retirees' spending from public pensions in Kentucky.

33,748 jobs

paying $1.5 billion supported by retirees spending from public pensions in Kentucky.

$751.2 million

in federal, state, and local tax revenues generated by retiree benefits and spending in Kentucky.[6]

---

[1] Weller, C. 2017. "Win-Win: Pensions Effectively Serve American Schools and Teachers." Washington, DC. National Institute of Retirement Security (NIRS).
[2] Allegretto, S. A. and Mishel, L. 2016. "The Teacher Pay Gap Is Wider than Ever." Washington, DC. Economic Policy Institute.
[3] Oakley, D. and Kenneally, K. 2017, Pensions and Retirement Security 2017: A Roadmap for Policy Makers. Washington, DC. NIRS.
[4] Boivie, I. 2017. "Revisiting the Three Rs of Teacher Retirement Systems: Recruitment, Retention, and Retirement."
[5] All data, unless otherwise noted, as of fiscal year ended 2016.
[6] Brown, J. 2016. "Pensionomics 2016: Measuring the Economic Impact of DB Pension Expenditures." Washington, DC. NIRS.