

AARP IN THE STATES

OVERVIEW: Kentucky Retirement Systems



The **Kentucky Retirement Systems (KRS)** provides a cash balance plan for public employees. It offers a portable but modest and stable monthly income over a retiree's life.

Key facts about the plan and its benefits:



35,269

Total active members of Kentucky Retirement Systems.



40.3%

After a 30-year career, a retirement benefit from the cash balance plan will replace 40.3% of an employee's pre-retirement income.



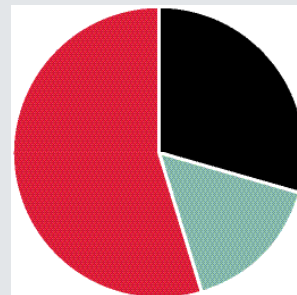
\$1,656

Average plan benefit paid to retired KRS members each month.

Public plans are a good deal for taxpayers:

Funding of public employee pensions is shared by employees and employers. New KRS employees contribute 5% or 8% of pay into the plan. Over time, investment income earned by the plan does most of the work. In fact, between 1993 and 2022, taxpayers (via employer contributions) paid only 35.7% of the cost of the pension benefits in Kentucky.

48.4%
Investment Earnings



35.7%
Employer Contributions

15.9%
Employee Contributions

The spending from the retirement checks of the 185,571 retired public employees helps support:



\$6.0 billion

in economic output in Kentucky.



33,556 jobs

paying \$1.8 billion in wages supported by retirees' spending from public pensions in Kentucky.



\$797 million

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

Pension benefits are a good deal for the economy too:

Each dollar "invested" by Kentucky taxpayers (employers) in these DB plans supported **\$3.53** in total economic activity in the state.



\$1.00



\$3.53

All data come from retirement system financial reports, Public Plans Database, or the National Institute on Retirement Security.



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PRIMER: Kentucky Retirement Systems

The Kentucky Retirement Systems (KRS) provides a defined benefit (DB) pension for qualified state employees hired prior to 2014. New employees have a cash balance (CB) plan. Kentucky's public employees are covered by Social Security.

The 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.



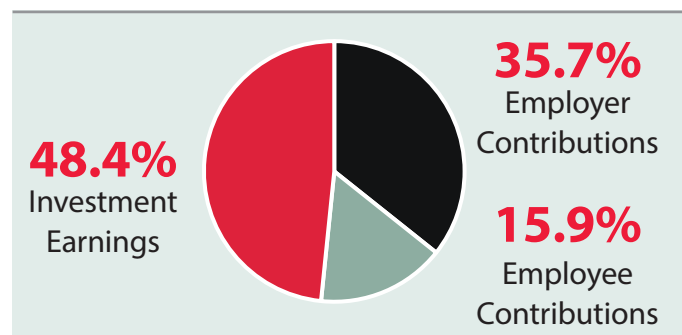
The spending by retired public employees from pension checks supports jobs, greater tax revenues and economic growth in our communities.



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. New KRS employees contribute 5% or 8% of pay into the plan. Over time, investment income earned by the fund does most of the work. In fact, between 1993 and 2022, taxpayers paid only 35.7% of the cost of benefits in Kentucky.



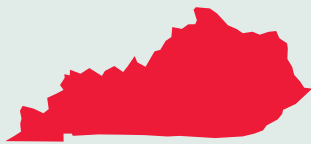
Pensions Cost Half as Much as a 401(k) Plan

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



Pensions Disproportionately Benefit Rural Areas

Rural counties have the largest percentage of their population receiving a public pension benefit, as 3% of residents in rural areas received benefits in 2018. Excluding counties that are home to a state capitol, public pension benefits in rural and small town counties accounted for a larger share of total personal income than in denser metropolitan counties.



KRS Key Facts



KRS serves 35,269 active employees and 53,296 retired members and survivor beneficiaries.



New employees contribute 5% or 8% of pay to KRS.



Employers contribute 8.4% plus employer-specific amounts for legacy costs.



The average monthly retirement benefit for members is \$1,656.



After a 30-year career, a retirement benefit from KRS would replace 40.3% of an employee's pre-retirement income.

Historical KRS Funding Experience

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 2023 year, KRS had \$3.9 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 is financially sound over time.

Kentucky Paid 76.25% of Weighted Average Percent of ADC from FY2001-FY2022 for KRS



Kentucky Plan Changes and KRS in Recent Years

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

- As of 2012, the retiree cost of living adjustment is suspended and will remain so until the plan reaches 100% funding.
- Having made plan changes in 2008 that reduced benefits by raising retirement ages, limiting COLAs and lowering multipliers, new employees were moved into a cash balance plan with specified employer and employee contributions and a guaranteed 4% return.

The Economic Impact of Kentucky Pensions:



\$6.0 billion

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



33,556 jobs

paying \$1.8 billion in wages supported by retirees' spending from public pensions in Kentucky.



\$797.1 million

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

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OVERVIEW: Kentucky Teachers' Retirement System



The **Kentucky Teachers' Retirement System (TRS)** provides a defined benefit (DB) pension fund for teachers. It offers a modest but stable monthly income over a retiree's life. DB pensions help to recruit and retain experienced employees.

Key facts about the plan and its benefits:

 **75,644**

Total active members of Kentucky Teachers' Retirement System.

 **60.8%**

After a 30-year career, a pension benefit from TRS will replace 60.8% of an employee's pre-retirement income for workers hired before 12/31/2021 and will vary for those hired after.

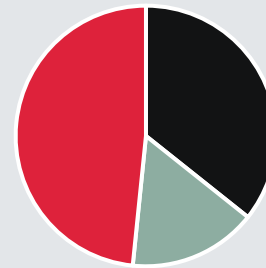
 **\$3,391**

Average plan 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 14.75% of their pay into the fund. Over time, investment income earned by the fund does most of the work. In fact, between 1993 and 2022, taxpayers (via employer contributions) paid only 35.7% of the cost of pension benefits in Kentucky.

48.4%
Investment Earnings



35.7%
Employer Contributions

15.9%
Employee Contributions

The spending from the retirement checks of the 59,559 retired public employees helps support:

 **\$6.0 billion**

in economic output in Kentucky.

 **33,556 jobs**

paying \$1.8 billion in wages supported by retirees' spending from public pensions in Kentucky.

 **\$797.1 million**

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

Pension benefits are a good deal for the economy too:

Each dollar "invested" by Kentucky taxpayers (employers) in these DB plans supported **\$3.53** in total economic activity in the state.



\$1.00

\$3.53

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PRIMER: Kentucky Teachers' Retirement System

The Kentucky Teachers' Retirement System (TRS) provides benefits to qualified public school educators. Kentucky's 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.



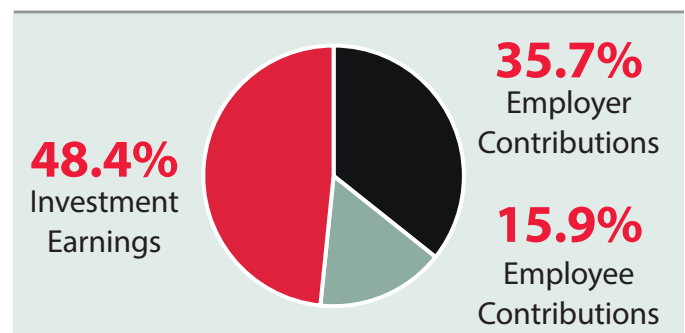
Retaining experienced midcareer teachers boosts student performance. Pensions help keep effective midcareer teachers in the classroom, increasing education quality.



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

Taxpayers Only Pay a Small Part of Pension Costs

The funding of public employee pensions is shared by employees and employers. New TRS employees contribute 14.75% of their pay into the fund. Over time, investment income earned by the fund does most of the work. In fact, between 1993 and 2022, taxpayers paid only 35.7% of the cost of benefits in Kentucky.



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:



Pensions Disproportionately Benefit Rural Areas

Rural counties have the largest percentage of their population receiving a public pension benefit, as 3% of residents in rural areas received benefits in 2018. Excluding counties that are home to a state capitol, public pension benefits in rural and small town counties accounted for a larger share of total personal income than in denser metropolitan counties.



TRS Key Facts



TRS serves 75,644 active employees and 59,559 retired members and survivor beneficiaries.



New employees contribute 14.75% to TRS.



Employers contribute 40.3% to the fund for employees.



The average monthly retirement benefit for members is \$3,391.



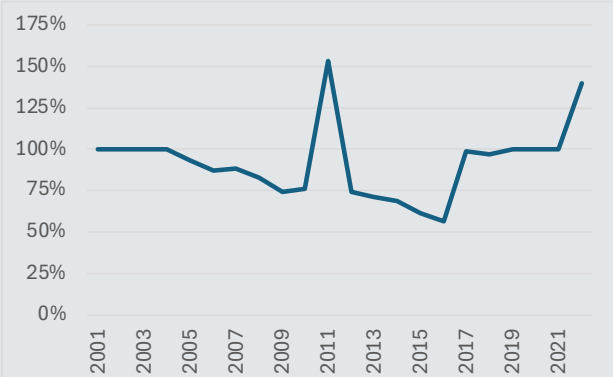
After a 30-year career, a pension benefit from TRS will replace 60.8% of an employee's final average salary.

Historical TRS Funding Experience

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 2022 year, TRS had \$24.7 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 is financially sound over time.

Kentucky Paid 92% of Weighted Average Percent of ADC from FY2001-FY2022 for TRS



Kentucky Plan Changes and TRS in Recent Years

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

- Anyone hired after 12/31/2021 will be in a new hybrid plan composed of a "foundational" DB formula that uses a multiplier of 1.7-1.95%, plus a "supplemental" cash balance benefit. The pay replacement ratio will vary based on age at retirement, years of service and the accumulation of the supplemental benefit.
- Employee contributions for those in the new tier were increased to 14.75%.

The Economic Impact of Kentucky Pensions:



\$6.0 billion

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



33,556 jobs

paying \$1.8 billion in wages supported by retirees spending from public pensions in Kentucky.



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Pensions Help Deliver Quality Education in Kentucky

There are important policy reasons to continue offering teachers defined benefit (DB) pensions. DB pensions give schools an effective tool to retain high-quality, experienced teachers. These teachers are the most important school-based element that provides positive educational outcomes for our children.

Pension benefits provide teachers an incentive to continue delivering quality education to K-12 students. 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.¹

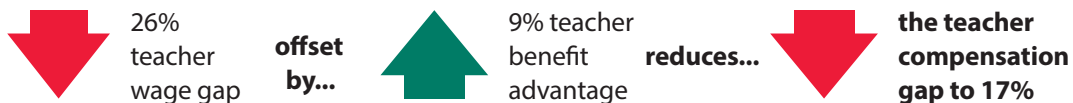
Because pensions help attract and retain workers, Kentucky can keep skilled teachers in the classroom and empower students to achieve their highest potential. The nationwide teacher shortage is impacting Kentucky, as enrollment in traditional teacher preparation programs has *declined by 32%* between 2009-2010 and 2021-2022.

Pensions Disproportionately Benefit Rural Areas

Rural counties have the largest percentage of their population receiving a public pension benefit, as 3% of residents in rural areas received benefits in 2018. Excluding counties that are home to a state capitol, public pension benefits in rural and small town counties accounted for a larger share of total personal income than in denser metropolitan counties.

Pensions Help to Bridge the Teacher Wage Gap

A national study of K-12 public school teachers' wages identified a 26 percent pay gap relative to comparable private sector workers in 2019. 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 17 percent. In Kentucky, teachers experience a 23.6% wage gap when compared to other college graduates in the workforce.²



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



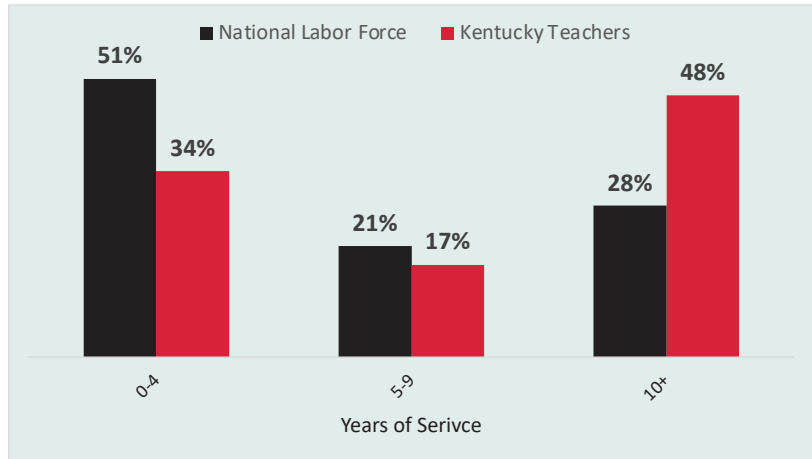
82 percent of Americans say pensions are a good way to recruit and retain qualified teachers.



78 percent of Americans agree that teachers deserve pensions to compensate for lower pay.³

Pensions Reduce Teacher Turnover and Save Money

Experienced teachers are more effective teachers. DB pensions help to retain highly productive teachers longer, as compared with individual 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



TRS
Key
Facts

- TRS serves 75,644 active employees and 59,559 retired members and survivor beneficiaries.
- New employees contribute 14.75% to the fund.
- Employers contribute 40.3% to the fund.
- The average monthly retirement benefit for members is \$3,391.
- TRS has \$24.7 billion in assets and \$17.5 billion in unfunded actuarial accrued liability.⁵

The Economic Impact of Kentucky Pensions

\$6.0 billion



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

33,556 jobs



paying \$1.8 billion in wages supported by retirees' spending from public pensions in Kentucky.

\$797.1 million



in federal, state, and local tax revenues based on spending of pension benefits 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. 2023. "Teacher pay penalty still looms large." Washington, DC. Economic Policy Institute.

³ Doonan, D. and Kenneally, K. 2024. "Retirement Insecurity 2024: Americans' Views of Retirement." Washington, DC. NIRS.

⁴ Copeland, C. 2023. "Trends in Employee Tenure, 1983–2022." Washington, DC. Employee Benefit Research Institute.

⁵ All data, unless otherwise noted, as of fiscal year ended 2023.

⁶ Boivie, I. 2025. "Pensionomics 2025: Measuring the Economic Impact of DB Pension Expenditures." Washington, DC. NIRS.