UPDATE TO "KEEPING THE PROMISE" STATEMENT
October 25, 2017

Governor Bevin and legislative leadership released the framework of their proposed changes to Kentucky public employee pension plans on Wednesday, October 18. They call that plan "Keeping the Promise." Changes continue to be made to that plan, and **no bill has yet been released.** As the plan continues to evolve, we will provide updated information as it becomes available.

As we stated before, although we are relieved about some of what is not in the proposal, we are extremely concerned about much of what is in the proposal. We are pleased to see that teachers and other public employees that currently don't participate in Social Security will not be forced to do so in the future. Because of the constraints of federal law, KEA always believed it was better to leave current and future teachers out of that system, and we are glad to see that the administration and leadership took those concerns seriously.

The most significant change/clarification that has been made to the framework since Wednesday morning allows a 3 year window of continued eligibility for teachers already eligible to retire. That means teachers who will have 27 years or more by July 1, 2018 can stay in the classroom and in TRS for up to another 3 years before choosing between retirement and participation in the 401(a) plan. If those teachers will also turn 55 within that timeframe, their retirement will be calculated using the "high 3" formula. The Governor's summary documents do not reveal whether teachers who might accumulate more than 30 years in the system during the next 3 years will also be able to use the enhanced 3% multiplier for their years in excess of 30.

However, much of what is included in the framework significantly undermines the current and future financial security of all school employees, retirees and local school districts:

- All new teachers and education support professionals, and all current Tier 3 CERS participants will participate in the 401(a) plan. We have no details about that plan, how it will be structured, who will administer it, what the eligibility parameters for vesting, retirement or payout might be, etc. **Those details will be in the bill, which we have not yet seen.**

- Current Tier 1 and Tier 2 CERS employees who are eligible to retire on July 1, 2018 but who want to keep working after that date will be pushed to a defined contribution plan for the remainder of their careers. If they choose to keep working, when they do retire, they will receive a defined benefit pension payment for life from CERS and will also receive whatever financial benefit they have accumulated in the 401(a) plan after July 1, 2018.

- Current Tier 1 and Tier 2 CERS employees who are <u>not</u> eligible to retire on July 1, 2018 can continue to contribute to CERS, but only until they attain eligibility for an unreduced benefit in their respective tier. If they want to keep working after they become eligible for an unreduced benefit, they will participate in the 401(a) plan for all subsequent years of public employment.

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- Teachers who will <u>not</u> be eligible to retire (based on years of service) by July 1, 2018, can continue to participate in TRS until they reach 27 years of service, regardless of age. Once a current teacher hits 27 years of service in TRS, if that person chooses to keep working, he or she will begin participating in the 401(a) plan in year 28 and will continue to participate in that plan until they retire. Upon retirement, that person will receive a defined benefit pension payment from TRS for life based on 27 years of service and will also receive whatever financial benefit has accumulated in the 401(a) plan for those years after 27.

- If a current teacher is not eligible to retire by July 1, 2018 but will become eligible to retire based on 27 years of service before June 30, 2023, the "high 3" option will remain available if they also meet the age requirement (55 years) before that date; however, if a teacher currently employed does not meet both those eligibility requirements (years of service and age) by June 30, 2023, the high 3 calculation will not be available when they retire.

- Teachers can continue to accumulate unused sick leave and can be paid by their local school districts for accumulated sick leave upon retirement. However, the amount of that payout will only be included in retirement calculations if the teacher retires on or before June 30, 2023. After that date, sick leave payouts from the district will not be included in retirement calculations.

- Although the Governor's documents include "3% of employee's salary as additional contribution to fund retiree healthcare program," those retiree healthcare programs are currently provided through the retirement systems. Since employees who will be participating in the 401(a) plan will not be contributing to the retirement systems, it's not clear whether they will accrue any healthcare benefit while they participate in the 401(a) plan or who might administer that plan, if one is available.

- Local school districts will have to directly contribute 2% toward TRS new hire and future eligible employee defined contribution plans. The local school districts currently don't directly contribute to TRS for their certified employees; the legislature is the employer for that purpose and makes the employer contributions. If this plan gets passed, it will impose a new, additional 2% expense on local school districts.

- Current CERS retirees are already not receiving cost of living retirements (COLAs), because those COLAs were frozen by the legislature a few years ago; this plan asserts that there will be "no reduction in COLAs for current retirees." It's impossible to reduce nothing. For the plan to include that statement is disingenuous and offensive.

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- Current teacher retirees will not receive any cost of living adjustment (COLA) for the next 5 years. Future retirees will not receive any COLA for their first 5 years of retirement. It’s unclear what will happen after those time periods expire.

There is much, much more to this plan than what is outlined above. **And we have not yet seen a bill.** But just these few points should make it clear that current and future employees and retirees will not fare well under this proposal. Current employees will pay more for a less secure retirement. Current retirees will be on truly fixed incomes for the next 5 years. Future employees will lose the guarantee of retirement income for life. Local school districts will suffer financially and will have no choice but to pass those increased costs along to local taxpayers, which includes the public employees who will be affected by these changes. Students will suffer as experienced teachers, administrators and education support professionals leave the public education and talented college students never enter the teaching profession at all.

Based on what we’ve seen so far, KEA doesn’t believe that this plan will benefit Kentucky’s public school students, Kentucky’s public employees, Kentucky’s local school districts or the taxpayers who live in those districts. Instead of shifting a new tax burden to local taxpayers – who will bear that burden unequally – the General Assembly should do what is necessary find more state funding first.