



NEWS RELEASE

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KEA STATEMENT REGARDING FUNDING FOR TEACHERS' RETIREMENT SYSTEM OF KENTUCKY (TRS)

This morning, legislative leadership held a press conference in order to “clear up some misinformation” about the Teachers’ Retirement System of Kentucky (“TRS”). In doing so, they relied on a document that allegedly shows that only 10% of the unfunded liability is due to legislative underfunding of the system. KEA has a different point of view on that issue. Here are the most important points to remember about TRS and funding:

- The data included in the memo was based on information provided by TRS in response to a very specific, limited legislative request about the system for the period from 2007 to 2013. That six-year time frame included the period of the greatest economic downturn in U.S. history, other than the Great Depression. Any entity – not just the public pension systems – judged by economic data from that period of time will be found wanting. Because it is a very large pension system, TRS is a long-term investor. As with any long-term investor, financial success or failure of the system is appropriately measured by a much longer period of time, at least 20 to 30 years.
- The obligation to pay retiree benefits and make good the unfunded liability for TRS and all the other public pension systems ultimately falls on the Commonwealth. For TRS, the law requires the legislature to make its statutory contribution each year; that “employer” contribution is a fixed percent of payroll. However, that’s not where their legal obligation ends. KRS 161.550

requires a two-pronged funding approach: the last paragraph of the statute requires the legislature to “look back” at the end of each biennium and fund the difference between the percent of payroll and the amount necessary to fully fund retirement allowances. That difference is essentially the actuarially required contribution (“ARC”) for the system. The second part of that obligation is what the state failed to fund for an extended period beginning in 2008 and continuing through 2015.

- TRS requested, and received, additional ARC funding during the 2006-08 biennium. However, beginning with the 2008-10 biennium and continuing through 2014-16, the additional funding was requested but was not provided. Every budget request from TRS during that time included a request for the necessary additional ARC funding.
- TRS budget requests are sent directly to the legislature and the governor. Any suggestion that the legislature did not know that additional funding was needed or that funding was consistently requested is simply incorrect.
- In addition to the written budget requests, TRS also sent letters to the governor and legislature reiterating the need for additional funding for the system. TRS representatives provided requested data, appeared at countless committee meetings and talked directly with the administration and with individual legislators about the need for additional funding, all to no end. In addition to the budget requests and the letters, the legislature receives copies of the Annual Actuarial Valuation report that outlines the money needed to fully fund the system.
- Although the legislature now claims they are not responsible for the “lookback” funding, they repeatedly used their “notwithstanding” language in budget bills to avoid that statutory obligation. If they truly believed they did not have a legal obligation to provide that second prong of funding, it would never have been necessary to “notwithstanding” the obligation in the budget documents.
- Had the full actuarially required contributions been made as requested, TRS would now be 66.5% funded, and would hold an additional \$3.8 billion in assets.
- Since 2013, the stock market has rebounded strongly, and TRS has never had more assets under management than it does today. Even during the downturn, TRS consistently outperformed other similarly sized pension systems because it managed risk and did not hold questionable investments.
- Defined benefit pension plans like TRS work well when they are properly funded. Teachers have always made their own legally-required contributions in full because they have to. Although the legislature has met its minimum salary-based obligation to TRS, it has consistently avoided

dealing with the ever-mounting unfunded liability, even going so far as to relieve itself of its own legal obligations in order to avoid that responsibility.

Although it's a convenient argument to make now, TRS management and investment returns are not the issue. The retirement system has never missed a payment to a teacher in its 76 year history. KEA has full faith in the leadership of TRS and in the viability of the system.

KEA applauds Governor Bevin and legislative leadership for funding 94% of the additional ARC funding requested during the 2016-18 biennium. TRS and its participants are grateful to the administration and legislature for turning its attention, appropriately, to providing most of the necessary funding for the system during that budget period. Continued funding at required statutory levels for all public pension systems by current and future General Assemblies is absolutely necessary to assure the retirement security of teachers and school employees across Kentucky.