Kentucky Association of School Superintendents, Inc.

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Shared Responsibility Plan to be presented
Plan proposes viable alternatives to Governor's pension reform proposal

Kentucky education leaders will host a joint press release at 2:00 p.m. Eastern time on Monday, November 6, 2017 at Woodford County High School, 180 Frankfort St, Versailles, KY 40383 to present alternatives to a public pension reform plan that has been presented by the office of Gov. Matt Bevin.

The Shared Responsibility Plan is designed to address challenges and financial shortcomings of the current state employee pension fund while also ensuring the long-term stability of the many areas of public service that provide the foundation for life in the Commonwealth of Kentucky. Those include the areas of public education, law enforcement and emergency response, and all aspects of city and county government, such as roads and infrastructure, municipal utilities and judicial processes.

Dr. Tom Shelton, executive director of the Kentucky Association of School Superintendents, said the Shared Responsibility Plan demonstrates the willingness of the state's education organizations and members to implement changes that will strengthen the pension program and maintain its sustainability.

"We must protect the ability of public education to recruit and retain quality educators," Shelton said. "Teachers and education professionals build the foundation upon which every other area of public life in Kentucky stands. We often hear that children are the future, and that is true, but it is also true that as leaders, we stand at a pivotal moment in time as the decisions we make today will directly impact the future of our children."

Representatives from the Boone County Education Association, the Council for Better Education, the Jefferson County Teachers Association, the Kentucky Association of School Administrators, the Kentucky Association of School Superintendents, the Kentucky Education Association, the Kentucky Retired Teachers Association, the Kentucky School Boards Association, and others will share highlights of a Shared Responsibility Plan, which has been presented to state legislative leadership in draft format for their consideration as an alternative to a plan previously released by Gov. Bevin. The Governor is expected to call a special session that will consider changes to the existing state employee pension program.

Media – For more information, contact:
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SHARED RESPONSIBILITY PLAN
TRS

Changes for Current Teachers (all else stays as is under current statute)

- Freeze sick leave as of June 30, 2018 as salary credit for retirement calculation purposes
- No future accruals of the 3.0 multiplier will occur after July 1, 2024

New Tier For Teachers

- Applies to employees who first participate in the Teacher Retirement System on or after July 1, 2018
- Will be administered by the Teachers Retirement System of Kentucky
- Mandatory defined benefit and voluntary defined contribution tier
- Limits the state's cost to a fixed contribution
- State has no obligation for any unfunded liability for the new tier but continued full funding is expected
- Employees in this new tier will participate in the 2010 Shared Responsibility (2010 RS HB 540) retiree health plan at 65

1. **Defined Benefit Component**

1.1 Employee contribution 10% of pay
1.2 State contribution is 6% of pay with expected continued full funding
1.3 Retirement Eligibility
- Normal retirement threshold will be rule of 85 (service plus age)
- Annuity and disability benefits vest with 5 years
- Eligible for retirement with reduced benefits with rule of 70 (service plus age) at age 55 and over; benefit reduced by 2% per increment between rule of 70 and rule of 85

1.4 Retirement annuity factors
- 2.0 until 20 years of service
- 2.5 for all years of service once 20 years achieved

1.5 The high-five salaries are used to determine final average salary
- Anti-spiking rules apply
- Sick leave and other lump sum payments are not included (boards of education are still permitted to pay a lump sum for accrued sick leave)

1.6 Employee contribution and accrued plan earnings (loss) are portable
1.7 Annual retiree COLA of 1.5% prefunded
1.8 Disability retirement based on accrued service
1.9 Life insurance ($10,000 active teacher; $5,000 retired teacher)

2. **Voluntary Defined Contribution Component**

2.1 Employee may elect to participate in 403(b) plan
- Employee contributions are voluntary
- School District / Local Employer contributions are voluntary
- Lump-sum payouts, such as sick leave, may be contributed to the plan pretax within the substantial catch-up guidelines
- Investment options include use of low-cost, diversified equity and bond index funds managed by TRS for self-directed investing
- TRS will offer participants financial education

3. **Risk Controls for New Tier**

3.1 An annual actuarial valuation establishes the employee contribution rate and unfunded liabilities (if any) of the annuity component
3.2 If funding is below 95%, the following adjustments are available to be utilized by the Board of Trustees to maintain the annuity trust funding generally in the following order:
- Employee contributions may increase by up to an additional 2% of pay
- Concurrently, school district (or local employer) contributions will match additional employee contributions up to 2% of pay
- Reduce or suspend the annual COLA
- Reduce future service retirement factor
- Increase retirement rule of 85

SHARED RESPONSIBILITY PLAN
CERS

Changes for Current Tier 3 Classified Employees

1. Allow Tier 3 classified employees the option of remaining in their current plan or choosing a new tier prospectively

New Tier For Classified Employees

- Applies to new hires on or after July 1, 2018
- Mandatory defined benefit and voluntary defined contribution tier
- Limits employer cost to a fixed contribution
- As with existing plan, the state has no obligation for any unfunded liability in CERS

1. **Defined Benefit Component**

1.1 Employee contribution 6% of pay
1.2 Employer contribution 19.18% of pay
1.3 Retirement Eligibility
- Normal retirement threshold will be rule of 85 (service plus age)
- Annuity and disability benefits vest with 5 years
- Eligible for retirement with reduced benefits at rule of 70 (service plus age); benefit reduced by 2% per increment between rule of 70 and rule of 85

1.4 Retirement annuity factors
- 1.5 until 20 years of service
- 2.0 for all years of service once 20 years achieved

1.5 The high-five salaries are used to determine final average salary
- Anti-spiking rules apply
- Sick leave and other lump sum payments are not included (boards of education are still permitted to pay a lump sum for accrued sick leave)

1.6 Employee contribution and accrued plan earnings (loss) are portable
1.7 Disability retirement based on accrued service
1.8 Death Benefit ($5,000 retired; $2,000 active)

2. **Voluntary Defined Contribution Component**

2.1 Employee may elect to participate in a tax deferred qualified plan
- Employee contributions are voluntary
- Employer contributions are voluntary
- Lump-sum payouts, such as sick leave, may be contributed to the plan pretax within guidelines
- Investment options include use of low-cost, diversified equity and bond index funds managed by CERS for self-directed investing
- CERS will offer participants financial education

3. **Risk Controls for a newly established separate CERS board**

3.1 An annual actuarial valuation establishes the employee contribution rate and unfunded liabilities (if any) of the annuity component
3.2 If funding is below 95%, the following adjustments are available to be utilized by the Board of Trustees to maintain the annuity trust funding generally in the following order:
- Employee contributions may increase by up to an additional 2% of pay
- Concurrent local employer/school district contributions will match additional employee contributions up to 2% of pay
- Reduce future service retirement factor
- Increase retirement rule of 85

3.3 Establish a separate CERS Board with elected representatives reflective of CERS membership.

SHARED RESPONSIBILITY PLAN (TRS and CERS Plans)

November 6, 2017

- We appreciate the recognition of the Governor and the General Assembly that the pension situation requires immediate attention. However, we do not believe a 'one-size-fits-all' proposal is the solution for all public pensions.

- We appreciate the additional investment made into the systems during the 2016-2018 biennium and the expected continuation of this funding in the 2018-2020 biennial budget.

- It is understood that the public pensions are actuarially underfunded and a variety of possible solutions must be considered. The status quo cannot be continued.

- The current bill (Governor's Plan) contains several issues that are legally questionable, including potential violations of the inviolable contract and the potential loss of benefits already earned. We cannot support breaking the law to achieve reduction of the pension liability. Examples include, but are not limited to, forcing employees with 27 or more years of service out of the defined benefit plan into a defined contribution plan, and suspending prefunded COLA payments to retirees.

- The likely potential for expensive litigation and the protracted time involved with this litigation mean the Governor's Plan brings with it unnecessary costs and risks, creating unhealthy discord in Kentucky. Our solution alleviates these issues while providing solvency in the pension funds.

- We believe there should be no changes made to the system that would negatively impact current retirees. However, we are willing to make sacrificial compromises to contribute to the strengthening of the pension plan so long as those changes fall outside the inviolable contract and do not negatively impact benefits already earned.

- We are willing to negotiate a new tier of benefits to be developed for future employees that would reduce risk for the state and achieve actuarial savings from the current pension system. However, we believe that the new tier of benefits should remain as a defined benefit plan with comparable benefits to the current system.

- The new tier of benefits should include an increased level of service required in order to qualify for an unreduced retirement benefit, such as a Rule of 85 (combination of age and years of service).

- If the new funds established to maintain the pension benefits plans become underfunded, we propose the board administering the system should be required to take action. This would include requiring an increased employee contribution and/or a contribution from the school district or local employer. The plans should be closely monitored and reviewed by the independent Public Pension Oversight Board, which is already in place.

- For teachers, the new tier of pension benefit shall be governed and administered by the same system that presently administers the existing plan (TRS). This system currently has board positions elected by the system membership rather than political appointees. TRS already has vital systems and structures in place to manage the plan, such as internal investment managers and benefit counselors.

- For CERS employees, the existing and new tier of pension benefit shall be governed and administered by a new CERS Board charged with managing CERS exclusively. The board would be represented by members reflective of CERS and elected by the system membership rather than political appointees.

- Such a “Shared Responsibility Plan” was proven to work in 2009-10 with the retired teacher health insurance fund. This solution will work in this situation if we allow those who are significantly impacted by this issue to contribute to the development and design of these plans.

- The Shared Responsibility Plan, as described, will be no costlier than the Governor's Plan, when all factors are considered. The Shared Responsibility Plan also eliminates risk from the state.

- The current unfunded pension liability must be paid regardless of the plans submitted, which include the Shared Responsibility Plan (our plan) or the Governor's Plan. This must be accomplished through new revenue, budget reductions, or some combination thereof. We are certainly willing and want to work with the General Assembly to support tax modernization and other means of funding to pay off this unfunded liability.

- Again, with the Shared Responsibility Plan, we have maintained a defined benefit structure. This allows us to recruit and retain high-quality teachers and support staff while ensuring the funds are financially and actuarially sound. We accomplish this through shared responsibility among all the affected parties, while eliminating risk and controlling the investment required of the state for these crucial systems.

- Finally – Public education is not a cost. Public education is an investment in the future of our citizenry and for the economic vitality of Kentucky. Our children are the most worthy investment of our time, talents and treasure.