

Additional Facts Relating to the Teacher's Retirement System (TRS):

Defined Benefit Retirement Plan vs Defined Contribution Retirement Plan

The Teachers' Retirement System is a **defined benefit retirement plan** that pays a defined amount upon retirement based on length of service and final average salary of the employee, along with a retirement multiplier. TRS retirement eligibility is determined by the employee's age and years of service. The service retirement annuity is a guaranteed lifetime benefit. *As per TRS website <https://trs.ky.gov/> Some persons have suggested changing the current system to a defined contribution system. This would fix the amount contributed by the employee, the employer, the Commonwealth but would not guarantee a constant pension amount or a lifetime benefit.*

TRS provides a monthly benefit defined by a set formula. Its investments are managed professionally for you. As most investments are managed inhouse by a respected team the fees are very low. The system provides a life insurance benefit, a disability benefit, retiree medical insurance benefit, and a lifetime monthly benefit. *401(k) plans have no guarantee of lifetime benefits. Benefits are dependent on investment performance. The owner of the account is responsible for managing the investments. This usually results in higher fees and produces returns at 1-2% less than pension funds.*

TRS Governance

An eleven-member Board of Trustees serves as the fiduciary for the Teacher Retirement System. Seven are elected by members of the system (4 active educators, 1 retired educator, and 2 lay persons)-2 are appointed by the Governor and must have financial experience-the Commissioner of Education-and the KY Treasurer. It is their responsibility to provide services at the most cost-effective measures possible.

Retirement Eligibility

If enter TRS prior to July 1, 2008

- No penalty if retire with at least 27 years of service
- No penalty if retiree is at least 60 with at least 5 years of service
- Penalty if retire at age 55 with at least 5 years of service

If you are under 60 with less than 27 years of service, you lose 5% of each year below age 60 or each year of service under 27---whichever is less.

If enter TRS on or after July 1, 2008

- No penalty if retire with at least 27 years of service
- No penalty if retiree is at least 60 with at least 5 years of service
- Penalty if retire at age 55 with at least 10 years of service

If you are under 60 with less than 27 years of service, you lose 5% of each year below age 60 or each year of service under 27---whichever is less.

TRS is more than pension trust fund

TRS is composed of 3 trusts: pension benefit, medical insurance, and life insurance.

1. Funding for the pension benefit comes from active teachers (9.105% of salary) and state budget. TRS requests that the Actuarially Determined Employer Contribution (ADEC) be incorporated in the state biannual budget. (Currently funded at 58%)
2. Funding for the medical insurance comes from the following sources: Active members pay 3.75% of salary, Districts pay 3% of salaries, State pays .75% of salaries. In addition, Retirees under 65 pay an amount equivalent to Medicare Part A. This funding pattern was created with

involvement of all stake holders in 2010. It is commonly referred to as Shared Responsibility. This trust was opened July, 2010 and has continued to receive income from the stated sources and interest while paying out medical benefits. The trust is currently funded at 36.3% This has allowed a reduction of health care paid by the state from \$170 million in 2008 to \$70 million in fiscal year 2019.

Investment Strategy

- TRS investment portfolio is very diverse.
- TRS does not invest in hedge funds.
- Most investments are brokered in house by employees who are familiar with investing/trading. This along with the magnitude of the trust funds keeps the cost of investing below what an independent investor could achieve.

Other Facts

- Administrative expenses are among the lowest in the nation when compared to other state pension plans. (The next lowest is Teachers Retirement System of Louisiana which spends 28% more on administration than does KY TRS.)
- From 2002 to 2019, the cost of medical coverage per person for 65 and older retirees has remained approximately the same with benefit structure remaining essentially the same.
- Since 2008, TRS has generated \$2.9 billion more investment returns than the average public pension plan and ranked in the top 1% nationally over that decade.

The Inviolable Contract

KRS 161.714 Inviolable contract exceptions

It is hereby declared that in consideration of the contributions by members and in further consideration of benefits received by the state from the member's employment (KRS 161.220 to 161.710) shall constitute, except as provided in KRS 6.696, an inviolable contract of the Commonwealth, and the benefits provided herein shall, except as provided in KRS 6.696, not be subject to reduction of impairment by alteration, amendment, or repeal.

The report from the Blue-Ribbon Commission on Public Retirement Systems, delivered December, 2007, made a distinction between pension benefits and medical benefits. They found the inviolable contract held for pension benefits but only guaranteed access to group insurance coverage.

This information primarily came from Gary Harbin's presentation, TRS Facts 2008-20018, presented September 16, 2019.