

Teachers' Retirement System Fact Sheet

The Kentucky Teacher's Retirement System (TRS) is independent from the Kentucky Retirement System (KRS) and the other state retirement systems.

TRS is not associated with Kentucky's other retirement systems. TRS has its own investment and administrative management structure and an independent board of directors. Many politicians and critics often confuse the problems with other pensions systems – such as KRS – with TRS. Here are the facts:

- TRS has maintained a well-balanced, conservative investment portfolio.
- TRS has never invested in hedge funds or subprime mortgages.
- TRS never allowed or used placement agents.
- Private equity, which is 4.7 percent of portfolio, had a net return of 19 percent for the year ending June 30, 2018.
- The TRS actuary has stated that as long as full funding continues, sufficient money will be available to pay promised benefits. Full ARC (actuarial required contributions) payments made will result in a fully-funded, healthy retirement system.
- TRS is receiving full funding – which is about \$1 billion this fiscal year – to help ensure that teachers can be confident their pension will be there when they retire.
- Due to strong investment performance and full funding, TRS's unfunded liability ratio has improved to 56.4 percent as of June 30, 2017. (The 2018 ratio is will be released in December).

TRS is nationally recognized for its investment performance and administrative management.

TRS ranks in the top five percent in the country for state pension investment returns and is nationally recognized for administrative and risk management. As the following chart details, TRS has averaged a 30-year compounded gross return of 8.39 percent.

Its 10-year investment return, which includes the great recession, ranks in the top two percent of state pensions nationwide.



To put this in perspective, if you contributed \$1 million in the pension fund today, that capital would double in approximately 10 years based upon historical returns.

The proposal pushed by our governor and house and senate leadership called for the phasing out and “elimination” of the Defined Benefit plan.

The “Keeping the Promise” plan introduced by Gov. Bevin called for all new teacher hires to be converted to a 401(k)-style defined contribution system – phasing out the defined benefit plan entirely. Non-partisan analysis of this plan estimated it would cost taxpayers an additional \$4.4 billion.

The core issue is funding – it’s that simple.

Funding, or lack thereof, is the root cause of our pension crisis.

Politicians claim that aggressive investment assumptions combined with actuarial backloading is the biggest contributor to the pension crisis. They further claim that Defined Benefit systems like TRS are structurally unsustainable.

Investment assumptions by TRS were actually less than the national average for state pension systems. During the great recession of 2008, nearly every investment assumption throughout the United States was shattered. Private 401(k) accounts were not spared either. In the span of a few months, private investors saw \$2.4 trillion of wealth evaporate. Compounding matters, Frankfort politicians didn't adequately fund the ARC during a period when the market was at its lowest point.

Actuarial backloading is simply a method of calculating "catch up" payments on the plan's unfunded liability.

This logic suggests that if TRS would have used more conservative investment assumptions and different method of calculating "catch up" payments to address the unfunded liability, the pension would be in a better condition. But the fact is that Frankfort essentially ignored its obligations to public pensions for other priorities.

Investment income, not taxpayer dollars, funds a majority of pension benefits to our retired teachers. The National Institute of Retirement Security and AARP estimated that between 1993 and 2014, investment earnings accounted for 56 percent of the pension benefits paid. Taxpayers (employer contributions) paid only 26.6 percent of total pension benefits to retired teachers.

Based on historical performance, for every \$1 million contributed to TRS, nearly another \$1 million in investment income would be generated over the next decade.