

KENTUCKY

House Bill 258

Kentucky has made changes to retirement plan provisions for its Teachers' Retirement System (KTRS), as presented in House Bill 258, adopted by the House and Senate on March 29, 2021. The stated intent of the legislation is to reduce pension costs for the state and K-12 school districts.¹ Equable Institute has analyzed the proposed changes using [Retirement Security Report](#) methodology, and we report here how these changes to retirement benefits would influence current and/or future KTRS plan members.

RETIREMENT BENEFIT SCORE	
PRIOR PLAN ²	ADOPTED CHANGES ³
46.6% of available points	46.1% of available points

EQUABLE'S ASSESSMENT	
PRIOR PLAN	ADOPTED CHANGES
Does NOT Serve All Members Well	Does NOT Serve All Members Well

KEY POLICY CHANGES

- New K-12 teachers and university employees in Kentucky will be enrolled in a hybrid retirement plan that combines a pension and guaranteed return plan.
- The changes are effective for all hires as of January 1, 2022, but the benefit provisions are different for "nonuniversity" and "university" members.
- The pension plan has a multiplier between 1.7% and 1.9%; the guaranteed return plan provides a fixed return based on 30-year treasury bonds.

WHAT HOUSE BILL 258 MEANS FOR K-12 TEACHERS

Those hired under the new hybrid plan will have a lower valued pension benefit than the legacy pension plan, but they'll have access to a guaranteed return plan. The guaranteed return amount is very low, though, and it does not provide a substantial supplemental benefit. The net effect is teachers are just as bad off under the new plan as the legacy plan.

PERCENTAGE OF BENEFITS POINTS SCORED BY ADOPTED PLAN VS PRIOR PLAN⁴

	AVERAGE FOR ALL WORKERS	SHORT TERM WORKERS <small><10 Years of service</small>	MEDIUM TERM <small>10-20 years of service</small>	FULL CAREER <small>>20 years of service</small>
TOTAL HB258 SCORE <small>Status Quo Score</small>	46.1% <small>Prior Plan: 46.6%</small>	34.0% <small>Prior Plan: 30.2%</small>	40.9% <small>Prior Plan: 39.4%</small>	63.2% <small>Prior Plan: 70.0%</small>
BENEFIT VALUE v. INCOME ADEQUACY TARGET	40.1% of points <small>Prior Plan: 39.4%</small>	21.4% of points <small>Prior Plan: 13.8%</small> Earnings Change: +\$912/yr	35.2% of points <small>Prior Plan: 32.2%</small> Earnings Change: +\$572/yr	63.8% of points <small>Prior Plan: 72.0%</small> Earnings Change: -\$2,846/yr
COLA & INFLATION PROTECTION	60.0% of points <small>Prior Plan: 60.0</small>	N/A	60.0% of points <small>Prior Plan: 60.0</small>	60.0% of points <small>Prior Plan: 60.0</small>
FLEXIBILITY & MOBILITY	40.0% of points <small>Prior Plan: 40.0%</small>	40.0% of points <small>Prior Plan: 40.0%</small>	40.0% of points <small>Prior Plan: 40.0%</small>	N/A

This table shows the proposed plan's total Benefit Scores, e.g., the percentage of available points for a given category. We also show how proposed changes would improve or decrease the Benefits Score of the prior plan (the "score change"). And we show what the material effect would be on an average employee's annual retirement earnings, using salary assumptions used by KTRS trustees.

A full scorecard for the prior plan is available in the Retirement Security Report Index at www.RetirementSecurityReport.com.

For a breakdown of score changes by worker class, including for employees classified as elected officials and hazardous members, please visit <https://equable.org/oklahoma-house-bill-2486-retirement-security-policy-scores/>.

KENTUCKY

House Bill 258

EQUABLE INSTITUTE'S ANALYSIS

The new retirement benefit design adopted via HB258 will not serve any workers well, whether they are public school employees or university members.

- **Short-Term Workers** are slightly better off under the new plan design, but this is largely irrelevant as the hybrid plan scores just 34% of available Retirement Benefits Score points.
- **Medium-Term Workers** also are not served well by either the legacy pension plan or the new hybrid plan, the latter of which is statistically just about as bad as the former.
- **Those who work a full career covered by KTRS** will be served moderately well by the new hybrid plan (scoring 63% of available points), but this is actually worse than the legacy pension plan (scoring 70% of available points).

The legacy pension plan was not providing a path to retirement security for the vast majority of its members, so a change to the status quo was more than reasonable. However, this adopted change did not improve benefits for KTRS members.

The stated intent, though, was to reduce costs. Because the underlying design has lower pension benefit values and because the supplemental guaranteed return plan has set its rates at a very manageable level, it is likely this goal will be met.

The new hybrid plan is not using a more realistic assumed rate of return, meaning unfunded liabilities are likely to accrue on the new plan. Such costs mean it is not likely that the new plan will save as much money as forecast. But additional costs based on missing the assumed rate of return would have happened to the legacy pension plan too.

For further Retirement Security Policy Score analysis visit <https://equable.org/category/rsr-policy-scores/>.

FOOTNOTES: 1 - 5

To read more about the methodology behind our scoring system, please reference the notes section in our extended analysis of the legislation at: <https://equable.org/kentucky-house-bill-258-retirement-security-policy-scores>

ABOUT THESE SCORES

These scores are based on a 25-year-old entrant with average starting salary for members of the plan. It is not intended to comprehensively measure every aspect of a retirement plan, but instead to measure the factors that are most important for measuring retirement income adequacy. It is reasonable to compare plan changes against the status quo, but the most fundamental question is whether any retirement plan (the existing benefits or proposed adjusted benefits) is providing retirement income security to all members of the plan. These scores are based on a comparison against a standard benchmark for retirement income adequacy, but there are other reasonable benchmarks too.

ABOUT EQUABLE INSTITUTE

Equable Institute is a bipartisan non-profit that works with public retirement system stakeholders to solve complex pension funding challenges with data-driven solutions. We exist to support public sector workers in understanding how their retirement systems can be improved, and to help state and local governments find ways to both fix threats to municipal finance stability and ensure the retirement security of all public servants.

KENTUCKY TEACHERS' RETIREMENT SYSTEM

2021 AT A GLANCE

SUSTAINABILITY SCORE⁵

FOR PRIOR PLAN

37.0% of points

EQUABLE'S ASSESSMENT

FOR LEGACY PENSION PLAN

Possibly Distressed

FUNDED RATIO:	65.6%
TOTAL PROMISED BENEFITS:	\$39.5 billion
UNFUNDED LIABILITIES:	\$13.6 billion
FUNDING SHORTFALL AS A % OF STATE GDP:	6.5%
ASSUMED RATE OF RETURN:	7.1%
YEARS UNTIL ASSET SHORTFALL IS PAID OFF:	7
# YEARS ANNUAL BILL FULLY PAID:	3/10 years
#YEARS PLAN EARNED THE ASSUMED RETURN:	6/10 years
SOCIAL SECURITY	No
FY 2023 EMPLOYER CONTRIBUTION RATE:	7.305% Legacy 10.0% Hybrid
FY 2023 MEMBER CONTRIBUTION RATE:	9.105% Legacy 11.0% Hybrid
RISK-SHARING TOOLS:	Legacy: No Hybrid: Yes

KENTUCKY

House Bill 258

COMPLETE BENEFIT SCORES FOR ADOPTED PLAN — K-12 MEMBERS

Retirement Income Adequacy Score Goal = 100%

	AVERAGE FOR ALL WORKERS	SHORT TERM WORKERS <10 Years of service	MEDIUM TERM 10-20 years of service	FULL CAREER >20 years of service
TOTAL HB258 SCORE (10 to 10 Factors)	46.1% Prior Plan: 46.6%	34.0% Prior Plan: 30.2%	40.9% Prior Plan: 39.4%	63.2% Prior Plan: 70.0%
VESTING	60.0% Prior Plan: 60.0%	60.0% Prior Plan: 60.0%	N/A	N/A
BENEFIT VALUE v. INCOME ADEQUACY TARGET	40.1% of points Prior Plan: 39.4%	21.4% of points Prior Plan: 13.8% Earnings Change: +\$912/yr	35.2% of points Prior Plan: 32.2% Earnings Change: +\$572/yr	63.8% of points Prior Plan: 72.0% Earnings Change: -\$2,846/yr
COLA POLICY	60.0% of points Prior Plan: 60.0	N/A	60.0% of points Prior Plan: 60.0	60.0% of points Prior Plan: 60.0
FLEXIBILITY & MOBILITY: REFUNDING POLICY	40.0% Prior Plan: 0.0%	40.0% Prior Plan: 0.0%	40.0% Prior Plan: 0.0%	N/A
FLEXIBILITY & MOBILITY: CREDITING INTEREST RATE	40.0% Prior Plan: 40.0%	40.0% Prior Plan: 40.0%	40.0% Prior Plan: 40.0%	N/A

WHAT ARE THESE METRICS?

ELIGIBILITY: VESTING – Retirement plan members want to know when they will be vested into their benefits. There is no formal set of vesting rule guidelines for state retirement systems but there is for private sector plans. We use the federal standards for private sector retirement plans (known as ERISA), which specify that employees should be 100% vested after five years of service (though private plans could use a shorter period).

INCOME ADEQUACY: BENEFIT VALUE – Retirement plan members want to be on a path to an adequate retirement benefit. One way to assess the adequacy of benefits of a plan is to compare the value of what a plan member has earned against an adequacy target. The target used in our analysis is a 70% income replacement rate at age 67.

COLA POLICY – Inflation adjustment of benefits is important for retirement income to actually provide security in the long-run. We grade plans on whether or not they have a policy for providing cost-of-living adjustments, and what the rules are for providing that COLA.

FLEXIBILITY & MOBILITY: REFUNDING POLICY – In most retirement systems if a plan member chooses to withdraw before reaching normal retirement, they are entitled to a refund of their own contributions. Often those contributions are supplemented with some amount of interest at a rate most frequently designated by the plan's retirement board. In a few cases, the refund will may also include a portion of the contributions made by the employer toward the employee's retirement benefit. Further, in some cases the level of refund can vary according to the vesting status of the member when they leave the system. Finally, some designs provide individuals all of the employer contributions and investment returns on those contributions even if they leave the plan after vesting.

FLEXIBILITY & MOBILITY: CREDITING INTEREST RATE – The interest rate offered by a retirement system on refunded contributions in the event of a withdrawal are another key factor in determining the mobility of a plan's benefits. If the interest rate is generous, then it will ensure that the employee will at least depart the system with some moderate savings (which could then help them continue saving for retirement). However, if the system does not offer interest or offers a low interest rate, then the member will leave with minimal savings and it will be much harder to reach a secure retirement.

KENTUCKY

House Bill 258

SCORE BREAKDOWN BY ENTRY AGE — K-12 MEMBERS

PERCENTAGE OF BENEFITS POINTS SCORED BY ADOPTED PLAN VS PRIOR PLAN FOR A 25-YEAR-OLD ENTRANT

	AVERAGE FOR ALL WORKERS	SHORT TERM WORKERS <10 Years of service	MEDIUM TERM 10-20 years of service	FULL CAREER >20 years of service
TOTAL HB258 SCORE (10 to 6 Factors)	42.3% of points Prior Plan: 43.4%	32.1% of points Prior Plan: 28.6%	34.4% of points Prior Plan: 33.4%	66.0% of points Prior Plan: 71.9%
VESTING	60.0% of points Prior Plan: 60.0%	60.0% of points Prior Plan: 60.0%	N/A	N/A
BENEFIT VALUE v. INCOME ADEQUACY TARGET	33.3% of points Prior Plan: 33.5%	17.5% of points Prior Plan: 10.5% Earnings Change: +\$619/yr	22.1% of points Prior Plan: 20.1% Earnings Change: +\$62/yr	60.5% of points Prior Plan: 69.8% Earnings Change: -\$3,534/yr
COLA POLICY	60.0% of points Prior Plan: 60.0	N/A	60.0% of points Prior Plan: 60.0	60.0% of points Prior Plan: 60.0
FLEXIBILITY & MOBILITY: REFUNDING POLICY	40.0% of points Prior Plan: 0.0%	40.0% of points Prior Plan: 0.0%	40.0% of points Prior Plan: 0.0%	N/A
FLEXIBILITY & MOBILITY: CREDITING INTEREST RATE	40.0% of points Prior Plan: 40.0%	40.0% of points Prior Plan: 40.0%	40.0% of points Prior Plan: 40.0%	N/A

PERCENTAGE OF BENEFITS POINTS SCORED BY ADOPTED PLAN VS PRIOR PLAN FOR A 40-YEAR-OLD ENTRANT

	AVERAGE FOR ALL WORKERS	SHORT TERM WORKERS <10 Years of service	MEDIUM TERM 10-20 years of service	FULL CAREER >20 years of service
TOTAL HB258 SCORE (10 to 6 Factors)	49.8% of points Prior Plan: 49.8%	36.0% of points Prior Plan: 31.9%	47.5% of points Prior Plan: 45.5%	66.0% of points Prior Plan: 71.9%
VESTING	60.0% of points Prior Plan: 60.0%	60.0% of points Prior Plan: 60.0%	N/A	N/A
BENEFIT VALUE v. INCOME ADEQUACY TARGET	47.0% of points Prior Plan: 45.2%	25.4% of points Prior Plan: 17.1% Earnings Change: +\$1,206/yr	48.3% of points Prior Plan: 44.3% Earnings Change: +\$1,081/yr	67.2% of points Prior Plan: 74.3% Earnings Change: -\$2,846/yr
COLA POLICY	60.0% of points Prior Plan: 60.0	N/A	60.0% of points Prior Plan: 60.0	60.0% of points Prior Plan: 60.0
FLEXIBILITY & MOBILITY: REFUNDING POLICY	40.0% of points Prior Plan: 0.0%	40.0% of points Prior Plan: 0.0%	40.0% of points Prior Plan: 0.0%	N/A
FLEXIBILITY & MOBILITY: CREDITING INTEREST RATE	40.0% of points Prior Plan: 40.0%	40.0% of points Prior Plan: 40.0%	40.0% of points Prior Plan: 40.0%	N/A

KENTUCKY

House Bill 258

SCORE BREAKDOWN BY ENTRY AGE — UNIVERSITY MEMBERS

PERCENTAGE OF BENEFITS POINTS SCORED BY ADOPTED PLAN VS PRIOR PLAN FOR A 25-YEAR-OLD ENTRANT

	AVERAGE FOR ALL WORKERS	SHORT TERM WORKERS <10 Years of service	MEDIUM TERM 10-20 years of service	FULL CAREER >20 years of service
TOTAL HB258 SCORE (10 to 6 Factors)	33.0% of points Prior Plan: 36.1%	29.6% of points Prior Plan: 27.7%	30.2% of points Prior Plan: 31.9%	41.2% of points Prior Plan: 59.6%
VESTING	20.0% of points Prior Plan: 80.0%	20.0% of points Prior Plan: 80.0%	N/A	N/A
BENEFIT VALUE v. INCOME ADEQUACY TARGET	20.5% of points Prior Plan: 24.1%	12.5% of points Prior Plan: 8.8% Earnings Change: +\$304/yr	13.8% of points Prior Plan: 17.1% Earnings Change: -\$1,373/yr	35.2% of points Prior Plan: 46.5% Earnings Change: -\$4,309/yr
COLA POLICY	0.0% of points Prior Plan: N/A	N/A	0.0% of points Prior Plan: N/A	0.0% of points Prior Plan: N/A
FLEXIBILITY & MOBILITY: REFUNDING POLICY	0.0% of points Prior Plan: 40.0%	0.0% of points Prior Plan: 40.0%	0.0% of points Prior Plan: 40.0%	N/A
FLEXIBILITY & MOBILITY: CREDITING INTEREST RATE	0.0% of points Prior Plan: N/A	0.0% of points Prior Plan: N/A	0.0% of points Prior Plan: N/A	N/A

PERCENTAGE OF BENEFITS POINTS SCORED BY ADOPTED PLAN VS PRIOR PLAN FOR A 40-YEAR-OLD ENTRANT

	AVERAGE FOR ALL WORKERS	SHORT TERM WORKERS <10 Years of service	MEDIUM TERM 10-20 years of service	FULL CAREER >20 years of service
TOTAL HB258 SCORE (10 to 6 Factors)	36.5% of points Prior Plan: 44.1%	31.8% of points Prior Plan: 30.7%	36.4% of points Prior Plan: 42.2%	41.2% of points Prior Plan: 59.6%
VESTING	20.0% of points Prior Plan: 80.0%	20.0% of points Prior Plan: 80.0%	N/A	N/A
BENEFIT VALUE v. INCOME ADEQUACY TARGET	26.9% of points Prior Plan: 37.3%	17.0% of points Prior Plan: 14.7% Earnings Change: -\$372/yr	26.2% of points Prior Plan: 37.7% Earnings Change: -\$5,374/yr	37.5% of points Prior Plan: 59.5% Earnings Change: -\$8,773/yr
COLA POLICY	0.0% of points Prior Plan: N/A	N/A	0.0% of points Prior Plan: N/A	0.0% of points Prior Plan: N/A
FLEXIBILITY & MOBILITY: REFUNDING POLICY	0.0% of points Prior Plan: 40.0%	0.0% of points Prior Plan: 40.0%	0.0% of points Prior Plan: 40.0%	N/A
FLEXIBILITY & MOBILITY: CREDITING INTEREST RATE	0.0% of points Prior Plan: N/A	0.0% of points Prior Plan: N/A	0.0% of points Prior Plan: N/A	N/A

KENTUCKY

House Bill 258

FOOTNOTES

1. Steve Rogers, "[Teachers' retirement bill clears the house.](#)" *ABC36 WTVQ*, February 4, 2021.
2. This is the average score for the plan based on a 25-year-old entrant, averaging across all classes within the retirement system, averaging across all worker types (Short-Term, Medium-Term, and Full Career). We consider only the classes within this plan that would be influenced by the legislation.
3. As described in "[An Act relating to the Teachers' Retirement System 21 RS HB 258/VO](#)" as adopted by the Kentucky House of Representatives and Kentucky Senate.
4. The RSR's Benefit Scores consider a range of factors including eligibility, income adequacy, inflation protection, mobility, and more. Defined benefit pension plans are scored on 10 factors; defined contribution plans are scored on 6 factors. To ensure appropriate comparison between such plans we report the percentage of available points scored across these factors. For a complete list of factors that are used to measure different kinds of retirement plans visit [RetirementSecurity.Report](#) and read the methodology.
5. The RSR's Sustainability scores are an abridged assessment of the financial condition of a retirement system based on investment performance relative to assumptions, the historic consistency of state legislatures ensuring actuarially determined contributions are paid, the existence of risk-sharing tools, and whether the amortization period is projecting full funding in a reasonable period. For complete background on why we use these select factors visit [RetirementSecurity.Report](#) and read the methodology.