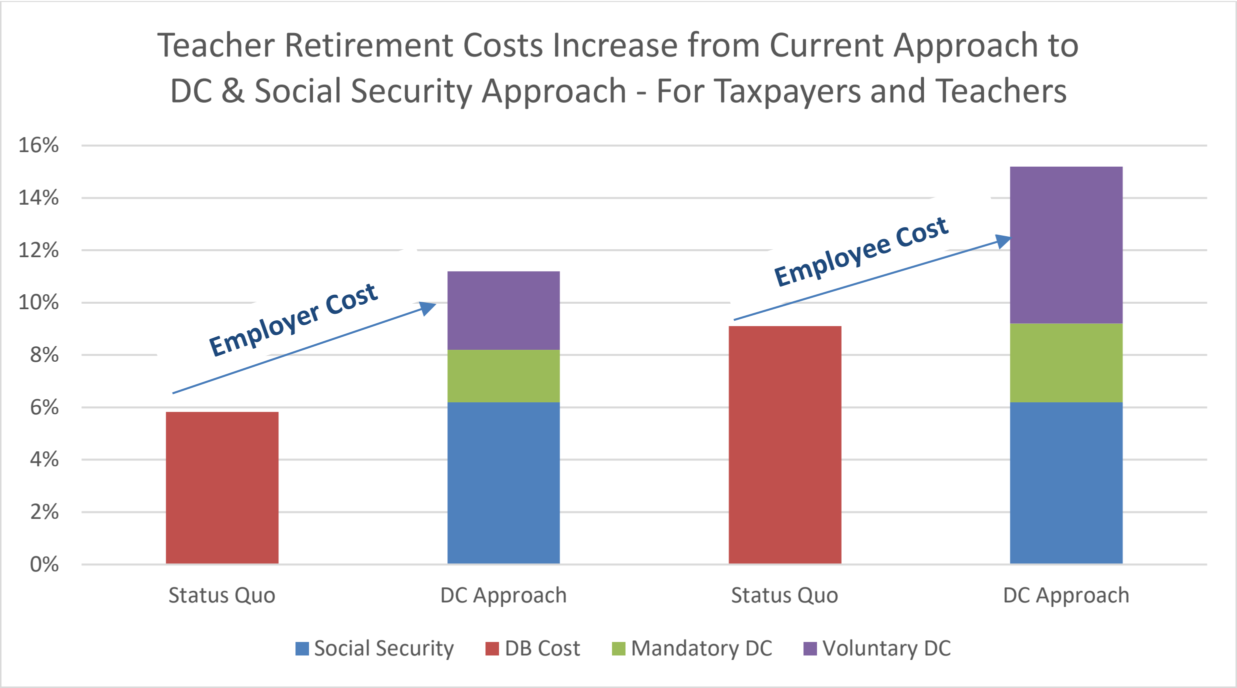
Review of Proposed Kentucky Pension Reform – Summary of Findings

Pension Trustee Advisors (PTA) have conducted a thorough review of PFM's Report #3 and recommendations for changes to the pension and retiree healthcare benefits for current and future Kentucky public employees. The recommendations reflect the inadequate funded status of the numerous plans covering public employees in Kentucky and the need for substantive and immediate corrective actions to address the actuarial requirements of the plans.

We have concerns with some of the recommendations and their characterizations in the very public debate that has occurred since the August 28 release of the report. Our major finding is that the proposals will <u>cost more to Kentucky's taxpayers and its employees</u> while providing <u>lower benefits</u>. The increased taxpayer costs are from Social Security participation as well as replacing current programs with more expensive Defined Contribution plans. Increased worker costs are also due to Social Security and additional DC contributions necessary to get close to an adequate retirement income. Our complete report provides detail for each system; teachers are shown below.



The retirement income that can be expected from the new proposed program would likely not be as high as those estimated in the recent PFM analysis due to lower investment returns, longer life expectancies and inflation that were not considered in that analysis. The proposed program would not produce adequate retirement benefits for any of the key groups analyzed. These are illustrated in our complete report.

These illustrations were calculated based on the methodology utilized by PFM, but with more realistic investment returns and life expectancies and consideration of inflation. Complete detail is discussed in our full report.

Furthermore, the proposed program would leave many disabled workers and survivors without meaningful protection.

Additionally, PTA estimates that while such a change would be an added cost to Kentucky taxpayers and a cut in living standards for future retired Kentucky public workers, it would result in substantial income to Wall Street and private investment managers who would earn much more than under the current program.

Finally, PTA reiterates that the current poor funding status is due to years of government pension contributions below those required for actuarial soundness. Other states have sound financial position because they have prudently funded their defined benefit plans based on sound actuarial projections, despite similar demographics of an aging population.

PTA has extensive experience with pension reform, including serving the Kentucky Teachers Retirement Funding Work Group in 2015, creditors in the Detroit and Stockton bankruptcies, the Federal Oversight Board for Puerto Rico, and other groups for governments as well as labor organizations.

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