



STEVEN L. BESHEAR
GOVERNOR

EXECUTIVE ORDER

Secretary of State
Frankfort
Kentucky

2015-385
June 16, 2015

**RELATING TO THE ESTABLISHMENT
OF THE KENTUCKY TEACHERS' RETIREMENT
SYSTEM FUNDING WORK GROUP**

WHEREAS, the world class education of Kentucky's children is among the highest priorities for the Commonwealth, and the success of our educational system is critically dependent upon the recruitment and retention of outstanding education professionals; and

WHEREAS, I am dedicated to reaffirming the Commonwealth's commitment to teachers and retirees in Kentucky to honor the pension benefit commitments previously made through the KTRS; and providing for a financially solvent and sustainable public pension plan for teachers and retirees; and

WHEREAS, teachers in Kentucky do not have the opportunity, by law, to participate in the Social Security program to supplement their retirement income, and therefore are significantly more dependent on the pension benefits they have earned in the Kentucky Teachers' Retirement System (KTRS); and

WHEREAS, there exists a fiscal crisis in the KTRS as evidenced by its 2014 actuarial valuation that reflects a \$14 billion unfunded liability and 53.6 percent funding status as compared to \$571 million unfunded liability and 95.7 percent funding status in 2000; and

WHEREAS, changes in required accounting methods by the Governmental Accounting Standards Board will result in significantly larger unfunded liabilities for the KTRS pension fund upon the next actuarial valuation; and



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WHEREAS, this fiscal crisis has financial implications beyond the administration of the KTRS as evidenced by recent bond rating warnings issued by national credit rating agencies; and

WHEREAS, multiple prior studies and reviews of fiscal, governance, investment policy, and benefits issues of the KTRS have been conducted over the past several years, including a Blue Ribbon Commission on Public Employees Retirement Systems, created by Governor Ernie Fletcher in 2007; a Public Pension Working Group created by Governor Steven L. Beshear in 2008; a Kentucky Pensions Task Force created by the 2012 General Assembly; an audit by the Auditor of Public Accounts in 2014; and

WHEREAS, since the issuance of the reports by these study groups, a number of changes and improvements have been made by the KTRS, including: reducing retirement factors for members retiring with less than 26 years of service, expanding investment expertise on the Board's investment committee, developing and implementing a phased in "shared responsibility" approach to stabilizing the cost of retiree health care, requiring additional years of service for full participation in healthcare, tightening retire and return to work provisions, implementing pharmacy cost savings initiatives and other retiree health plan amendments that have helped to control costs; and

WHEREAS, the 2015 General Assembly enacted HB 47 to expand the scope of the Public Pension Oversight Board of the Legislative Research Commission to include oversight of the KTRS; and

WHEREAS, estimates from actuaries for KTRS reflect that employer contributions from the Commonwealth would need to increase by \$487 million in Fiscal Year 2016 to meet the actuarially required contribution rate; and



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WHEREAS, in recognition of the significant funding shortfall of the KTRS, the Kentucky House of Representatives passed House Bill 4 in the 2015 General Assembly authorizing the issuance of \$3.3 billion in bonds to reduce the unfunded liability of the KTRS and phase into full funding of the Actuarially Required Contribution (ARC) over eight years; and

WHEREAS, no final action was taken by the 2015 General Assembly addressing how to resolve the funding shortfall of the KTRS and action is required to stabilize and secure funding for the system to ensure it can honor its obligations to teachers and retirees;

NOW, THEREFORE, I, Steven L. Beshear, Governor of the Commonwealth of Kentucky, by virtue of the authority vested in me by the Kentucky Constitution and in particular Sections 69 and 81, and Kentucky Revised Statutes Chapter 12.029, and as further invested in me by the laws of the Commonwealth, do hereby FIND, DECLARE, ORDER and DIRECT the following:

1. There is hereby established the Kentucky Teachers' Retirement System Funding Work Group, (the "Work Group") which shall be composed of the following members, or their designees:
 - a. David Karem, former State Senator and former Chairman, Kentucky Board of Education, 2439 Ransdell Avenue, Louisville, KY 40204, who shall serve as chair;
 - b. David Adkisson, CEO, Kentucky Chamber of Commerce, 464 Chenault Road, Frankfort, KY 40601;
 - c. Mike Armstrong, Executive Director, Kentucky School Boards Association, 260 Democrat Drive, Frankfort, KY 40601;
 - d. Jason Bailey, Research and Policy Director, Mountain Association for Community Economic Development, 433 Chestnut Street, Berea, KY 40403;
 - e. Mary Ann Blankenship, Executive Director, Kentucky Education Association, 401 Capital Avenue, Frankfort, KY 40601;
 - f. Jane Driskell, State Budget Director, 702 Capitol Avenue, Room 284, Frankfort, KY 40601;
 - g. Adam Edelen, Auditor of Public Accounts, 209 St. Clair Street, Frankfort, KY 40601, who shall serve as a non-voting member;



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- h. Amanda Ellis, Associate Commissioner of Next Generation Learners, Kentucky Department of Education, Capital Plaza Tower, 19th Floor, Frankfort, KY 40601;
 - i. Lori Flanery, Secretary, Finance and Administration Cabinet, 702 Capitol Avenue, Room 383, Frankfort, KY 40601;
 - j. Gary Harbin, Executive Secretary, Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601;
 - k. Todd Hollenbach, State Treasurer and board member of Kentucky Teachers' Retirement System, 702 Capital Avenue, Suite 183, Frankfort, KY 40601;
 - l. Mary Lassiter, Secretary, Governor's Executive Cabinet, 700 Capitol Avenue, Frankfort, KY 40601;
 - m. Timothy Longmeyer, Secretary, Personnel Cabinet, State Office Building, 3rd Floor, Frankfort, KY 40601;
 - n. Roger Marcum, Chair, Kentucky Board of Education, Capital Plaza Tower, 500 Mero Street, Frankfort, KY 40601;
 - o. Brent McKim, President, Jefferson County Teachers' Association, 1941 Bishop Lane, Suite 300, Louisville, KY 40218;
 - p. Brigitte Blom Ramsey, Executive Director, Prichard Committee for Academic Excellence, Security Trust Building, 271 West Short Street, Suite 202, Lexington, KY 40507;
 - q. Dr. Tom Shelton, Executive Director, Kentucky Association of School Superintendents, 260 Democrat Drive, Frankfort, KY 40601;
 - r. Dr. Bob Wagoner, Executive Director, Kentucky Retired Teachers Association, 7505 Bardstown Road, Louisville, KY 40291;
 - s. Wayne Young, Executive Director, Kentucky Association of School Administrators, 87 C. Michael Davenport Blvd., Frankfort, KY 40601;
 - t. Two (2) members of the Kentucky State Senate designated by the President of the Senate; and
 - u. Two (2) members of the Kentucky House of Representatives designated by the Speaker of the House.
2. The chair of the Work Group shall have full authority to establish any subcommittees, including the membership, purpose and composition thereof, as deemed necessary to successfully carry out the mission of this Work Group.
 3. Professional, clerical, and other administrative staffing needs shall be provided by the Finance and Administration Cabinet.
 4. The Work Group shall:
 - a. Review best practices in other states regarding pension benefits as part of total compensation to attract and retain high quality teachers and make recommendations on principles that should be established to assure a sustainable high quality workforce in Kentucky's education system; and
 - b. Conduct a comprehensive review of funding options and make recommendations for improving the fiscal solvency of the KTRS, including but not limited to, increasing state appropriations for contribution rates,



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financing or refinancing liabilities, and adjusting components of benefits for future members of the KTRS.

5. In order to carry out its mission, the Work Group may contract for consulting services, including but not limited to, nationally recognized independent pension system advisors with extensive experience advising public pension plans on issues including benefits, actuarial analysis, investment policies, and governance of state-administered retirement systems.
6. The Work Group may request any and all information or data and any actuarial analysis or projections from KTRS it deems necessary.
7. Non-state employee members of the Work Group may be reimbursed for actual and necessary expenses incurred in performing the duties of the Work Group.
8. The Work Group shall complete its work and submit a report to the Governor on or before December 1, 2015.
9. The Finance and Administration Cabinet, in conjunction with the Office of the State Budget Director, and other state agencies, shall take all necessary action to effectuate this Order.


STEVEN L. BESHEAR, GOVERNOR
Commonwealth of Kentucky


ALISON LUNDERGAN GRIMES
Secretary of State

RECEIVED AND FILED

DATE 6/16/15

ALISON LUNDERGAN GRIMES

SECRETARY OF STATE

COMMONWEALTH OF KENTUCKY

BY 
