TRS Hybrid Plan

BLUEGRASS INSTITUTE

Changes for Current Teachers

- Freeze the accrual of sick leave as salary credit for retirement calculation purposes
- Exclude members hired prior to July 1, 2008 to avoid conflict with the inviolable contract
- Create separate legislation for this provision and the hybrid-DB plan for new teachers

Hybrid-DB Tier for New Teachers

- Mandatory participation defined benefit/defined contribution hybrid plan
- Limits the state's total obligation to a defined 6% payroll contribution rate
- Prevents accrual of unfunded liabilities by actively managing benefits and retirement eligibility
- New hires will participate in the shared responsibility retiree health plan at age 65
- New hires will not be eligible for retiree health insurance benefits prior to age 65

1. **Defined Benefit Component**

1.1 Payroll contribution rates: 9% for employees, 6% for employers
1.2 Retirement Eligibility
- Normal retirement at age 60 or upon completion of 32 years of service
- Early retirement with reduced benefits at age 55 with a .4% reduction per month
- Annuity and disability benefits become fully vested at 5 years of service

1.3 Initial retirement annuity factor 2.5%
1.4 High-five salaries will be used to determine final average salary
- Anti-spiking rules apply
- Sick leave and other lump sum payments not included in benefit calculation

1.5 Employee contributions and accrued plan earnings are portable
1.6 Actuarially pre-funded 1.5% retiree COLA
1.7 Disability retirement based upon accrued service
1.8 Life insurance ($5,000 active teacher, $10,000 retired teacher)
1.9 **Initial normal cost must be less than or equal to 15% of payroll**

2. **Defined Contribution Component**

2.1 Payroll contribution rates: 1.5% for employees, 1.5% for local school boards (3% total)
2.2 Investment options include self-directed low-cost diversified index funds managed by TRS
2.3 Lump-sum payouts may be contributed pre-tax within catch-up guidelines
2.4 TRS will offer participants financial education

3. **Funding Strategy for Defined Benefit Component**

3.1 An annual actuarial valuation will establish the actuarially determined contribution rate (ADC/ARC)
3.2 ADC < = 15%: no change in payroll contributions, annuity factors may be increased/restored
3.3 ADC 15-18%: divert up to 3% of DC contributions to fund ARC, annuity factors may be reduced
3.4 Retirement eligibility may be modified if ADC approaches 18% or consistently exceeds 15%
3.5 Goal is to keep ADC = 15% or less, unfunded liability 0%, and payroll contribution rates stable
3.6 All changes to annuity factors and payroll contribution rates are prospective
3.7 Changes will be implemented by October 1st of the corresponding fiscal year
3.8 Retroactive benefit improvements or reductions for the new tier are prohibited
3.9 Gains will be used to create a reserve account to offset unfunded liabilities for the new tier

Funding Algorithm

ACTUARIALLY DETERMINED CONTRIBUTION	EMPLOYEE PAYROLL CONTRIBUTION	EMPLOYER PAYROLL CONTRIBUTION	SYSTEM GAIN/LOSS	ANNUITY FACTORS	RETIREMENT ELIGIITY
12%	9%	6%	+3%	INCREASE	N/C
13%	9%	6%	+2%	INCREASE	N/C
14%	9%	6%	+1%	N/C	N/C
15%	9%	6%	0%	N/C	N/C
16%	10%*	6%	0%	N/C	N/C
17%	11%*	6%	0%	REDUCE	N/C
18%	12%*	6%	0%	REDUCE	ADJUST

* Divert up to 3% of the DC payroll contribution to the DB plan pro rata to fully fund the ADC