9-7-2017

UA3/10/2 Kentucky Public Pension Status

WKU President's Office - Caboni

Office of the President

PRESIDENT'S MESSAGE

Dear Fellow Faculty and Staff:

The state's pension consultant presented their report on recommendations for solving the state's pension crisis to the Kentucky Public Pension Oversight Board last week. The recommendations were covered broadly in the media, sparking debate on all sides. Our Human Resources team is studying carefully the full report and its potential implications for our current and future WKU employees. We also are working to understand the financial effects on the University.

Three points are critical for WKU in this discussion as we work to ensure that our people and programs thrive.

First, our highest priority is protecting those employees who are close to retirement from changes for which they have insufficient time to plan. While we will have to evaluate each proposed change on its overall effect, we will be steadfast in this position on behalf of our employees.

Second, the current situation with the KERS and KTRS pension systems is unsustainable, both for the Commonwealth and for WKU. Employer contribution rates have risen dramatically in recent years, and the decisions about these increases are out of our institutional control. For example, the current KERS portion of an employee's salary paid by the University is 49.47%, and that amount is proposed to increase to 84.06% next year. Retirement costs along with other university-sponsored benefits currently result in total fringe benefit expenses approaching 100% of pay, meaning that an employee with a $35,000 salary in reality equates to nearly $70,000 in total compensation. The net result of this unfunded mandate is that we allocate tuition revenue and state appropriations to pension contributions rather than to salary increases and other strategic priorities. Without substantive reform, we soon may find ourselves in the untenable position of cutting campus budgets to cover our pension obligations. Further, we should not balance the state pension systems on the backs of parents and students who already are shouldering the majority of the burden of their public higher education costs.

Finally, we must recognize that some change is likely inevitable, and it is better for us to engage proactively in a conversation with policy-makers as they wrestle with these very complex issues rather than waiting for them to make their decisions. To that end, representatives from the six public universities and the KCTCS system whose employees are impacted by changes to the pension systems have been working on a set of principles that we agree are in the best interests of our institutions and our employees. The collective position advocates for no change for current employees. However, for new hires, we believe we can best manage with a 403(b) type defined contribution plan, which is consistent with what many public universities, including UK and UofL, currently offer.

It's important to remember that the consultant's recommendations are just that – recommendations. Ultimately, any changes made to the existing pension systems will be decided in the legislative process. This important conversation will be ongoing, and our collective cooperation and communication will be important as we work toward an outcome that ensures a sustainable path forward for all.

Thank you.

Timothy C. Caboni