

STATEMENT OF JIM CARROLL, PRESIDENT, KENTUCKY GOVERNMENT RETIREES

My name is Jim Carroll. I am president of Kentucky Government Retirees, an organization representing 15,000 retired and active members of the Kentucky Public Pensions Authority. I am here today to discuss retiree cost-of-living adjustments.

My organization was founded 10 years ago at the height of the pension crisis. We have never advocated for a COLA. We have been far more concerned about efforts to strengthen the fiscal status of the KPPA funds. It has been pointed out many times that the key to restoring the funds to solvency is consistent full actuarial contributions from employers. We look forward to the day when contribution rate phase ins and freezes have ended, and every employer is contributing what the actuaries say is necessary to sustain the funds.

Coincidentally, just as it has been a decade since my organization was founded, it has been about 10 years since the last retiree cost-of-living adjustment was granted. As we all know, COLAs contributed to the steady rise in liabilities because they were permanent, incremental benefit enhancements. COLAs were granted even during years of disastrous investment losses and in years when employers failed to provide full contributions.

Over the past decade, the inflation rate has been relatively low. Nonetheless, the cost of living has risen by about 14 percent since 2012. Most public pension plans around the country provide a COLA for its members as a hedge against inflation.

We are here today to ask the oversight board to consider ways that a COLA might be granted for current KPPA retirees.

The pension reform bill Senate Bill 2 provides for a pre-funded cost-of-living adjustment underwritten by a General Fund allocation. We would certainly support such a measure. However, we recognize that the demand for General Fund dollars will always exceed the supply.

We would like to propose an alternative funding method. We believe that the extraordinary investment returns experienced by all the KPPA funds in the past fiscal year presents an opportunity. As you are aware, KPPA experienced the highest returns in its history last year. We appreciate the outstanding work of the KPPA in managing our investments.

The pension fund portfolios altogether gained \$3.15 billion during the fiscal year. The rates of return exceeded 20 percent across the board, which is 3 to 4 times the anticipated rates.

In view of this unprecedented windfall, we propose a time-limited COLA financed from a small portion of that gain.

KPPA pays out about \$2.2 billion in benefits a year. A 1.5 percent COLA would therefore cost roughly \$33 million annually. What we propose is a cost-of-living adjustment that would be paid for about five years. At the end of that period, the adjustment would end, and benefits would revert to their original amounts.

The cost would represent a fraction of a percent of the asset increase experienced by the KPPA pension funds last year.

We have engaged with KPPA management on this proposal. We know that the actuary will weigh in on it and we recognize that the actuary's analysis is important.

We believe a cost-of-living adjustment would be an investment in Kentucky's economy. According to the National Institute on Retirement Security, every dollar spent to support public pensions in Kentucky produces \$1.35 in spending in our state.

We hope the oversight board decides to look further into this topic in anticipation of the upcoming session. We would be happy to provide our feedback. Thank you.