STATEMENT OF JIM CARROLL, PRESIDENT, KENTUCKY GOVERNMENT RETIREES

My name is Jim Carroll. I am president of Kentucky Government Retirees, an organization representing nearly 16,000 members of the Kentucky Public Pensions Authority.

I want to thank this board for its leadership in addressing critical issues facing public pensions. I also want to take this opportunity to thank David Eager for his strong leadership of the KPPA.

As you may recall, I appeared before this board last September to discuss retiree cost-of-living adjustments. A lot has happened in the intervening time.

As retirees, we were pleased that the General Assembly allocated substantial additional employer contributions to the state pension plan. This additional funding will have a dramatic impact on the State Police fund and a substantial impact on the KERS non-hazardous fund. As we all know, the central issue facing the state pension plan is solvency, and the key to addressing this issue is a consistent record of providing the actuarially determined employer contribution.

The 2022 session also saw a welcome increase in state employee salaries. This was a long overdue investment in a talented, motivated and stable state work force. We hope that further progress will be made in future sessions in addressing long-standing compensation issues.

We also received welcome news recently when we learned that state General Fund receipts grew at the highest rate in three decades during the past fiscal year. The General Fund took in $945 million more than had been projected.

Along with this positive news came negative news. Unfortunately, KPPA retirees, like everyone else, are facing sky-high costs for essential goods and services. As you are aware, the most recent cost-of-living adjustment was granted a decade ago, on July 1, 2011.

According to an inflation calculator, an item that cost one dollar in 2012 now costs $1.29. The current annualized inflation rate is more than 9 percent. This high cost of living is a relatively recent development. For the first eight years of the past 10 years, inflation was modest. But it has skyrocketed over the past two years. Therefore, even folks who recently retired are suffering.

One of our members wrote this: "I retired in 2019. Before retirement I had been working for 10-11 years without a cost of living raise at work also. I retired from a local health department and we had received no raises and even went through a lot of furlough time. As you can imagine a COLA would help so much. I'm struggling daily."

Another retiree wrote: "I was forced to retire on disability in 2004. Although my income was cut in half, and my life changed dramatically, I adjusted my lifestyle. For a few years I got cost of living raises, and that kept my head above water. Then we stopped getting small raises. For a while I was able to manage. But in the last several years, it's become more and more unmanageable."

When we appeared before this board last September, there was concern. With the unrelenting increase in the cost of living since then, that concern has only grown.

As this board reviews its recommendations for the 2023 legislative session, we hope that you will recommend a prefunded COLA for KPPA retirees. The goal would be to provide an amount that would help defray some portion of the loss of real income over the past decade. We call it a “catch-up COLA.”

We believe the most impactful way of providing this benefit would be a one-time lump sum amount to each retiree. As you know, in the past, a COLA was provided as a small percentage increase to a pension. This approach made sense when it was anticipated that a COLA would be an on-going feature, like a Social Security inflation adjustment. It seems less effective now. A percentage COLA would be a permanent benefit, so it would have to be amortized over decades, making it an expensive proposition to underwrite. And a typical COLA would add only 20 or 30 dollars a month to a pension check. There is also an actuarial risk for an on-going benefit. Would the amount of money set aside at the front end be sufficient to provide the benefit in the long run?

We believe the simpler, less expensive and more impactful approach would be a lump sum amount. One idea that was discussed last year was simply one extra monthly pension check. Many retirees receive modest pension amounts. In our largest fund, the CERS non-hazardous, the monthly pension payment is $1,000. A 13th check would be a welcome additional benefit to help cope with higher costs.

Another idea would be a lump sum payment determined by benefit. Someone who has a more modest benefit would receive a higher payment. We have seen this stratified approach used to provide annual increments to state employees.

A General Fund investment in a COLA is an investment in Kentucky's economy. Now more than ever, we as retirees are spending more in our local economies on goods and services. KPPA distributes $2 billion in annual benefits, and 93 percent of recipients live right here in Kentucky.

We hope you will consider this critical need in the coming months as you prepare for the 2023 session. Thank you.