STATEMENT OF JIM CARROLL, PRESIDENT, KENTUCKY GOVERNMENT RETIREES

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

Thank you for giving me the opportunity to appear before this board once again to discuss an issue that is critically important to KPPA retirees. I'm speaking, of course, of the continued erosion in the real income of KPPA retirees because of inflation.

This will be the third straight year that I have appeared before this body to discuss cost-of-living adjustments. We have seen positive changes in the fiscal status of the pension plans. The General Assembly has devoted substantially more employer contributions. These additional funds made a dramatic difference in the State Police fund, increasing its funding ratio by more than 20 percentage points. The General Assembly also earmarked $240 million a year for the current biennium toward the KERS non-hazardous fund. Thank you for this commitment to our pensions.

Meanwhile, the past two years have seen the cost of living soar for KPPA retirees. The most recent cost-of-living adjustment was granted on July 1, 2011. Over that long decade, real income has declined by one-third.

I'm sure all of you can appreciate the pain that this erosion in income has caused to KPPA directly and, of course, to Kentucky's economy where our dollars are spent.

One of our KGR members wrote to me about her situation. She said:

"I have been retired for 11 years. In the beginning, I was able to live frugally on my pension. Every year it became harder. I started working part time in 2014 to make ends meet. Then I began receiving social security and was hopeful I could survive on the combination, but the cost of food, gas, and housing has way surpassed my fixed income. I will probably work part time until I am no longer physically able and then I have no idea what will happen. Our pensions need to keep up with inflation or we will all be poverty stricken."

Some legislators have taken the view that additional employer contributions should continue for the foreseeable future to keep rebuilding the solvency of the state pension plan. This is a laudable goal. KERS non-haz continues to be woefully underfunded, even though its funding ratio has rebounded in recent years and its cash flow is vastly improved.

We need to remind ourselves of one simple fact. For most Tier I retirees, the state pension plan will reach full funding after we are no longer drawing benefits. The actuary says if all assumptions are met, full funding will take place around 2049. The plan will be well funded a few years before then, say around 2045.

If the legislature takes the position that there will be no COLA until the state pension plan is well funded, it is saying that there will be no COLA ever for most current Tier 1 retirees.

This is a real problem, but it has a solution. We learned last week that the employer contribution for the state pension plan is calculated at $939 million for each of the next two years. The General Assembly contributed nearly $1.4 billion in each year of the current biennium. If the budget allocation remained the same, there would be sufficient funds to provide a one-time COLA and to provide additional funds for excess employer contributions.

Kentucky Government Retirees will ask the General Assembly for a one-time extra monthly pension check for all KPPA retirees, paid in July 2024. We believe a COLA should be guided by two basic principles. First, the benefit must be impactful. Second, it should be cost effective.

As we know, the traditional means of granting a COLA was a small percentage increase in the pension benefit, typically 1.5 percent. We see two problems with that approach. First, it's not impactful. An additional $20 or $30 a month is a weak response to a decade's loss of real income. Second, it is not cost effective. It would cost $352 million to underwrite an ongoing COLA for all KPPA retirees. It is a permanent benefit, therefore it has to be amortized over decades.

We believe a one-time benefit check would be impactful and it would cost less than $200 million.

As we noted before, the legislature could provide a COLA and still overcontribute to the pension fund. Then, in future biennial budgets, it could increase its overcontribution as it sees fits.

We see this as a win-win-win situation. The retiree wins, the state's economy that receives most of the economic benefit of pension income wins, and the solvency of the state pension fund wins.

We hope you will consider this critical need in the coming months as you prepare for the 2024 session. Thank you.