Remarks to KRS administrative committee, Public Pension Oversight Board

Sept. 24, 2018

Jim Carroll, president, Kentucky Government Retirees

Thank you for the opportunity to be here today. I am Jim Carroll, president of Kentucky Government Retirees. We are a 501©5 labor organization with nearly 15,000 Kentucky Retirement Systems members.

We appreciate the oversight board's important work in examining the vital issues relating to public pensions. Matters relating to pension plan structure and funding are critically important as we chart a future course for our public pension plans. Unfortunately, we are now being sidetracked on an issue that was resolved decades ago when Kentucky Retirement Systems was consolidated.

We believe one central question needs to be answered in connection with the separation of the County Employees pension plan from the rest of KRS. That question is simply this: what tangible benefit will the taxpayer gain from such a separation?

Will a separation save taxpayer money? No. It will create a new redundant bureaucracy. Will it allow KRS to save in its investment activities? No. Fees will be higher, because KRS will be going to the marketplace with $2.8 billion to invest, instead of $11.7 billion.

Will separation benefit the administration of KRS during the transition? No, it will be a huge, new unfunded mandate that will burden an understaffed KRS.

We believe any separation must be done fairly. As we look back at Senate Bill 226 from the 2017 session, it would have required KRS to provide management services for up to four years to the new CERS. This is a huge commitment of time and resources. At the end of that transition, KRS members would have derived no benefit. We believe a transition should be time-limited, so that our staff can quickly return to serving our needs without this distraction. We would propose a one-year transition.

We also point out that SB 226 had no fiscal note. So this was a substantial bill that didn't even pretend to assess the budgetary impacts of separation. This committee should insist on a complete, thorough accounting of costs, not only in dollar terms, but also in staff time.

We also propose that a mediator be appointed to manage the transition. We believe it is likely that legal disputes will arise from the separation. For example, suppose the new CERS board decides that it wants to divest itself of jointly held investments before those investments mature, and the Kentucky Employees board objects to such a divestment? We as KERS stakeholders would expect our board to serve its fiduciary duties on our behalf, whether it is in the interest of some outside group or not. CERS should not be given unrestricted rights to do whatever it wants in managing a transition.

Regarding costs, we believe all costs should be borne entirely by the pension plan that supposedly would benefit from separation – namely, CERS.

Lastly, we believe there should be a provision so that CERS cannot poach top KRS top employees. We point out that KRS is saddled under the rules of the Merit System. This means KRS has no means of rewarding good work. I would remind this committee that the last annual increment for state employees was granted in 2015. That increment was a measly 1 percent.

The new CERS would presumably be able to provide competitive salaries and benefits for its employees, unlike KRS. It would be grossly unfair for KRS to be raided by CERS at this critical time.

To conclude, we believe CERS separation is a bad idea at exactly the wrong time. There are far more important issues that will need to be addressed to ensure that our public pensions are stabilized. Thank you.