

Statement on Behalf of Kentucky Public Retirees
Larry P. Totten, President
September 24, 2018

Senator Schroder, Representative Webber, and Members of this Subcommittee:

My name is Larry Totten and, for the record, I am a retiree in the KERS Non-Hazardous plan, having spent over 35 years with Kentucky State Parks. I am here today as President of Kentucky Public Retirees, a group of about 4,000 retirees across the state who draw their pension benefits from KERS, CERS, or SPRS. The subject of the presentations being made today is the proposal to separate the CERS pension and insurance trust funds from under the umbrella of the Kentucky Retirement Systems.

I have one core concept for this Subcommittee, as well as for the entire Legislature, to keep in mind as they consider this change. That concept is, "First, Do No Harm". Any idea to reform public pensions must always have as its first priority the public employees and retirees for whom these pension systems exist. As recent pension debates show, this is no small thing. However the conversation about enacting this particular proposal ends, everyone in the legislative process, from members of this Subcommittee to the Governor, must answer the question: "Will the action I take – or don't take – harm those for whom these pensions were created?"

Today, KPR is not offering a final opinion as to this proposal and there are some serious issues that we believe must first be addressed before one could be.

First and foremost, there must be a complete analysis on the effects of CERS separation to the KRS pension plans as a whole in terms of its actuarial, administrative, and financial impacts. The questions of "Who? What? Where? When? Why? and How?" need answers. To put it colloquially, this would be the "mother of all divorces" and it is incumbent upon the Legislature to investigate the potential post-separation landscape. Our main concern with SB 226 while it was still pending legislation was that these analyses had not been done, or at least not publicly released if they had. The analysis attached to that bill from KRS stated that separation would not change the actuarial liabilities of any of the plans nor the benefits of any member but there could be "potential administrative costs." An evaluation for such a dramatic change needs to go much further and should begin as soon as possible so that there is time for a thorough review.

As you know, the specific creation of this Subcommittee was done with Section 86 of SB 151. Should the forthcoming Supreme Court decision negate SB 151, we would encourage the Public Pension Oversight Board to re-establish this Subcommittee under its own authority so that your work could continue. I bring this up because in a few moments you are likely to hear that CERS separation is a top legislative priority for some during the 2019 General Assembly. This Subcommittee, as well as the PPOB, must be allowed to complete the responsibilities as first laid out in SB 151 for the PPOB to present its recommendations by the original December 1, 2019, due date and to not have that responsibility undercut by someone's legislative priorities or separation legislation introduced in the next Session. This is a highly consequential decision that requires its due diligence.

Finally, we have concerns about potential conflicts of interest and the effect they may have on the pension plans on which CERS employees and retirees rely. Applying the SB 226 model here, you are being asked to create a new pension system in which six of its nine Board members would be appointed by the three advocacy groups pushing hardest for this change.

Those same advocacy groups have as their constituents, for whom they lobby before the Legislature, the employers of these same CERS employees and retirees. (Full disclosure here – KPR has lobbying before the Legislature as one of its functions and we have a registered lobbyist.) What happens should a situation arise, similar to the recent one involving a change in actuarial assumptions, in which a CERS Pension Board recommends something that the CERS employers say they can't afford? That Board then becomes at odds with these employers. The former deserves fiduciary independence while the latter will demand intercession on their behalf. And both parties will be looking at the same three groups to support their position. To further illustrate this point, just two days ago a mayor was quoted in a newspaper article saying, "CERS would be its own standalone thing and cities, through a board, would be able to control how the money is being invested and so forth because at this point we don't have control* ..." So, will this be what happens?

In closing, I want to go back to my original comment, i.e., "First, Do No Harm." The argument will be made here today that, essentially, the biggest kid in the KRS sandbox would be better off taking its toys, in this case almost \$13 billion in pension and insurance assets, and going off to play by itself. But what of the other kids in that sandbox – KERS and SPRS? Would they also be better off? Maybe, maybe not. But we won't know unless the idea is studied by someone without a vested interest in the outcome. In the end, this conversation should only be about the best way to put all of the KRS pension plans on a path to solid and, eventually, full funding for the benefit of those employees and retirees within its systems. I don't believe a compelling argument has yet been made showing that CERS separation accomplishes this, at least not one based on careful evaluation and study.

Please. Do. No. Harm.

Thank you.

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Like many cities, Ft. Wright leaders want to see a complete separation of CERS from KRS, "and have a separate board and hold the investments of CERS to a high fiduciary standard where they're not making investments in these hedge funds and not having fees on cities," Hatter said.

"CERS would be its own standalone thing and cities, through a board, would be able to control how the money is being invested and so forth because at this point we don't have control, we just get a bill and send the money in," Mayor Dave Hatter said.