REMARKS TO PUBLIC PENSIONS WORKING GROUP

FEB. 5, 2019

Thank you for giving me the opportunity to testify. My name is Jim Carroll. I am president of Kentucky Government Retirees. We are a KRS retiree advocacy group with 15,000 members.

I'd like to make a couple of observations, and then give you our positions on several pension issues.

First, your job is being made more difficult by pension hysteria. We keep hearing the assertion that if a bill like SB 151 is not passed, then K-non will become insolvent in five years, and benefits will stop being paid. This is nonsense.

SB 151 changed the High 3 and High 5 calculations, and five years from now, it disallowed sick time credit. The KRS actuaries examined SB 151 and determined that it provided minimal savings. We know this is true because active employee liabilities are a small fraction of the total pension debt. You do not save money by reducing future pension benefits for active employees.

It is also nonsense to suggest that if K-non assets are exhausted, that benefits will stop coming. Pension payments are backed by the full faith and credit of the commonwealth. Benefits shall be paid.

We had a fake credit ratings crisis in December before the special session. If there was threat of default on this obligation, there would be a real credit ratings crisis.

Your job is also being made more difficult because fake liability numbers are being used. We've heard that pensions have $60 billion in liabilities. We've heard $80 billion. These are bogus numbers. The system actuaries establish the liabilities so that contributions can be set. The actual number is $42.696 billion.

The legislature did not establish contributions based on $60 billion or $80 billion.

We can all agree that even $42 billion is a big number. It is NOT a debt owed tomorrow, or next week, or 10 years from now. Instead, it is a debt to be paid over decades.

Second, I believe it is important to acknowledge that KRS was comprehensively reformed in 2013. SB 2 was hailed as model legislation. At the time, nobody said that it would be an instant fix. The actuaries said that funding ratios would continue to decline for several years, and they have. But the experts also said that if you fund the system, eventually the system would regain solvency.

SB 2 eliminated one driver of liabilities, namely cost of living adjustments for retirees. This was an important benefit, but it was not prefunded. COLAs were outside the inviolable contract, so retirees knew we could not count on new COLAs every year. I'd like to point out that nobody sued over COLAs, because it says clearly in the statute that they are not part of the inviolable contract.

It's worth noting that this committee asked twice last week whether any Tier I or Tier II benefits are outside the inviolable contract. The answer was "no."

The General Assembly already has done the most important thing it could do to address the KERS solvency crisis. It passed a budget bill that provides the full employer contribution. This is the third biennium of full contributions, and we've learned that for the first time in many years, we may have positive cash flow in K-non. We appear to be on the road to a slow recovery.

That leads us to our recommendations:

First, we strongly recommend level-dollar funding for K-non and state police. It is clear that payroll growth will not produce an employer contribution that pays down the liabilities in a timely manner.

Of course, level-dollar comes at a price. It means a high employer contribution. This raises the obvious question: we have a public pension working group. When are we going to have a tax reform working group? Does anybody believe that our tax system meets our current needs?

Second, we are opposed to a defined contribution plan. The current hybrid plan is simply a benefit tier under KRS. A DC plan would lead to the termination of the existing DB plan. This will drive up employer costs as KRS is forced to take measures to preserve assets. You can expect a lower amortization and a lower assumed interest rate.

We don't know exactly what the impact would be. As you know, in October 2017, a draft pension bill was presented. TRS produced an actuarial analysis that was routinely made public. To this day, the KRS actuarial analysis for that bill is being suppressed. This shows an appalling lack of transparency. I would like to request that this committee consider asking Gov. Bevin to make that document public.

Third, we are opposed to CERS separation. We believe it is a solution in search of a problem. It creates a new, duplicate bureaucracy. It would be an administrative burden for an understaffed KRS. And it would lead to higher investment fees, since KRS would be going to the marketplace with far fewer assets to invest. We have yet to hear its proponents identify one measurable advantage to CERS separation.

We have heard several intriguing ideas during these hearings. We believe that a unified investment agency is well worth considering. It would be more cost efficient and should drive down investment costs. We've also heard the suggestion that a CERS board be established within KRS to make important policy decisions such as setting actuarial assumptions. This idea merits consideration.

Thank you for the opportunity to speak. We look forward to continuing to work with you.