PEAK
Pension Equity Agenda for Kentucky
James P. Benassi

This might be called PEAL (Pension Equity for Louisville).

Unfortunately many politicians and the media (including the Louisville Courier Journal and Lexington Herald have all spread the myth/lie that the sole problem with the public pensions of the Commonwealth is under funding. We are falsely told that everything would be alright if only the General Assembly had paid the employers contribution rates (often called the ARC) set by the experts at the Kentucky Retirement Systems. The truth is that the employers' contribution rates for local governments including Metro Louisville and except for teachers are set by the Board of the Kentucky Retirement Systems and paid by the local governments. Every year in late November or early December a memo is sent out by the Kentucky Retirement Systems informing the local governments of the non-hazardous and hazardous rates for the following fiscal year. There is no discussion. If not paid, the local government will be sued in the Franklin Circuit Court. Copy is attached.

This means that ***the Kentucky Retirement Systems got every penny it said it needed for the CERS***.

Over the decades there was never a long term plan at the Kentucky Retirement Systems to pre-fund pensions. The benefits were increased about once every five years and applied retroactively. The employers' contribution rates were decreased when the market went up even in the face of large retroactive benefit increases and increased when the market went down. The Great Collapse started after FY 2000 when there was a full complement of retirees and a slow down in the market rather than the super hot returns the Kentucky Retirement Systems claimed during the last five years of the 1990s.

The funding level at the CERS went from 150% to 58% (a drop of 92 cents on the dollar in equity) in about a decade while, for example, the pension costs for Metro Louisville went up about 11% of the budget. Now the pension costs are going up about another 11% of the budget. That mens there is about 22% dead weight in the Metro Louisville budget.

Any discussion of pensions in Kentucky should include the Harry Moberly and Tim Longmeyer problem which are super sized pensions far, far more than any economical justification. Moberly is the former state representative and chair of the House A&R Committee infamously known for his $157,000 legislative pension even though his legislative salary was only about $40,000. The pension is based on his High Five salary as a VP at EKU from whom he also get a similarly large pension. Longmeyer went from deputy Jefferson County Attorney to Personnel Cabinet Secretary where his salary was doubled to about $140,000 and as such he had a seat on the Board of the Kentucky Retirement Systems. His pension was based on his High Five at the Personnel Cabinet

at will give him about $2M more than economically justified.

Any discussion of pensions in Kentucky should include should also include the two rather large public pensions which are fully funded: UK and U of L. They are straight 401k's where the contributions are 5% EE and 10% ER, each employee has a separate account with Fidelity and/or TIAA CREFF, there are no secret investments, and Harry Moberly and Tim Longmeyer cannot dip into your accout.

RECOMMENDATIONS

I. AT THE LOCAL LEVEL

A. CUTTING THE BIG SALARIES

1. ALL SALARIES OVER $100,000 ARE CUT BY 20%.

In view of the seriousness of the budget shortfall and size of the tax increase, before any tax increase is adopted, the salaries of the employees and officers in six figures should be significantly cut.

2. IF THAT DOES NOT CREATE ENOUGH SAVINGS, THEN CUTS TO THE $90 SOMETHING THOUSAND AND $80 SOMETHING THOUSAND DOLLAR SALARIES.

B. NO MORE SPIKING

If any unused leave time with pay is paid to employees, it should not be paid in a lump sum. For example, an employee with six months of unused leave time with pay will receive six months of paychecks. This will move the last day of paid employment and the beginning of the pension to a later date.

C. OUTSOURCING LIKE WKU.

WKU has outsourced its cafeterias and so its cafeteria workers. These employees can now be in a much more stable retirement program.

D. LIABILITY FOR SHORTFALL IN THE CERS IS PLACED BY STATUTE ON THE ***COMMONWEALTH***.

The local governments need to consider whether they should continue to pay The inviolable contract statute for the CERS says that the promised benefits are the obligation of "the Commonwealth." And well they should be. The CERS is the creation of the General Assembly and the mess was created by a board then without any representation of local governments. The mere entry of a local government into the CERS should make it liable for the gross mismanagement by state government.

One qualification needs to be made. The inviolable contract statutes for each of the pension systems runs contrary to the debt, appropriations, and balanced budget clauses of the Kentucky Constitution and statutes making the principles of the those clauses applicable to local governments. But that does not change the impact of the statute placing the obligation on the Commonwealth rather than local governments.

II. AT THE STATE LEVEL

Metro Louisville needs to make the following reforms part of its legislative agenda.

A. CURRENT EMPLOYEES DO NOT PAY FOR CURRENT RETIREES.

At the very minimum current employees should have the opportunity to move themselves and their accounts to a pension plan separate from current retirees. No

contributions by or for a current employee or the investment returns on the contributions should be used to pay for anyone else. In other words, for each member ***money in equals money out.*** And, the plan should be a hybrid cash balance plan already adopted or a 401k.

B. A FLAT EMPLOYERS' CONTRIBUTION.

It is in the best interest of both governments, employees, and retirees for a flat amount or rate be set.

1. CURRENT EMPLOYEES.

A flat employers' contribution rates should be set.

2. CURRENT RETIREES.

The amount owed to current retirees should be treated like a mortgage and a flat amount necessary along with reasonable investment returns should be set. As time goes by, inflation will make this flat amount in effect go down.

C. JOHNNY PAYCHECK

Members should be given the opportunity to tell the Kenucky Retirement Systems to "take your pension and show it, I ain't investing with you no more." It is called competition.