The Kentucky Government Pension Crisis

Activist's Handbook

Information compiled
by Kentucky Government Retirees
May 5, 2015

Kentucky Government Retirees (KGR) is a Facebook community established in June 2011 and administered by Jim Carroll and Eva Smith-Carroll. Jim and Eva are both former reporters and retired government communications officers. KGR does not collect dues and all expenses are covered by the administrators. Kentucky Government Retirees is a place to access state and national news about pensions and reports on meetings of the General Assembly and the Kentucky Retirement Systems Board of Trustees. It is also a place to discuss pension issues with other interested parties and learn about what you can do to protect our pensions. Currently KGR has 5,224 active and engaged friends.

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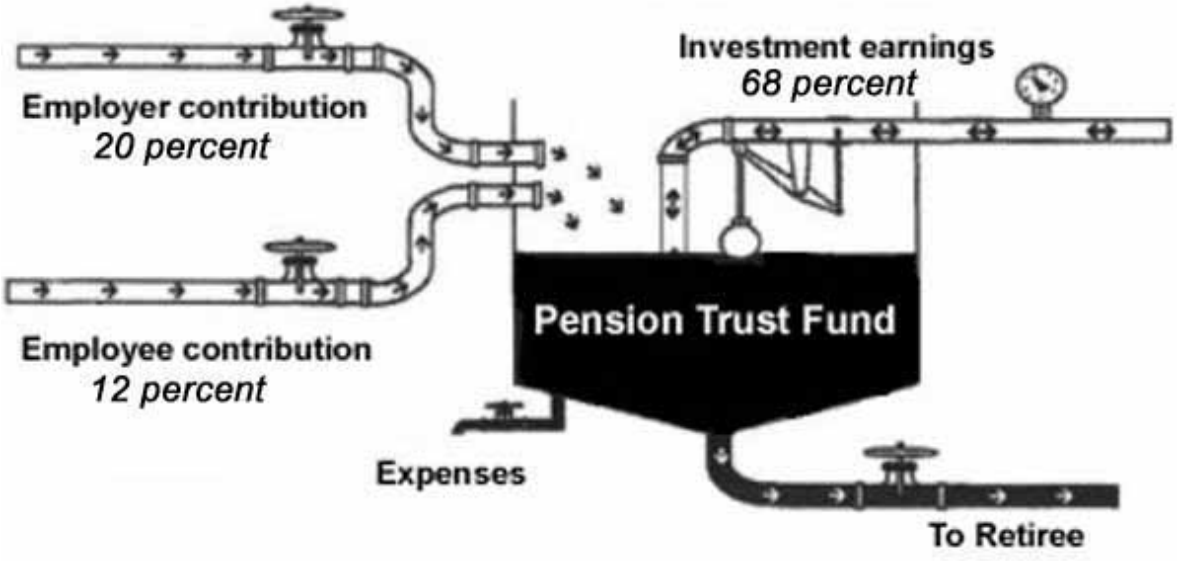
"At least we get decent pensions."



Original illustration drawn by David P. Hayes of Omaha, Neb.

Pension 101: Questions & Answers

How are Kentucky Retirement Systems pensions funded?

Kentucky Retirement Systems (KRS) pensions are funded by deductions from employee paychecks, contributions from employers (state, city or county government) and investment income. If the system is working as it should, 80 percent of pension benefits come from employee contributions and investments and only 20 percent from the employer.

Who is covered by the Kentucky Retirement Systems?

Kentucky Retirement Systems administers retirement benefits for 348,123 state and local government employees under five systems: the Kentucky Employees Retirement System (KERS) nonhazardous and hazardous; County Employees Retirement System (CERS) hazardous and nonhazardous; and the State Police Retirement System (SPRS). **Note:** Government retirement systems *outside* the KRS umbrella are the Teachers' Retirement System, the Judicial Retirement Plan and the Legislators' Retirement Plan.

Who manages our pensions?

KRS, based in Frankfort, is a quasi-government agency administered by a 13-member Board of Trustees. (See Page 11.) The board was expanded by four members as a result of Senate Bill 2 passed in 2013. With the expansion, six trustees are appointed by the governor, including one each nominated by the Kentucky Association of Counties, the Kentucky League of Cities and the Kentucky School Boards Association. Three board members are elected by CERS members; two are elected by KERS members; one is elected by SPRS; and the state Personnel Cabinet secretary is an ex-officio member with voting privileges. Appointed board members outnumber elected members chosen by stakeholders by a 7-6 margin. This represents a shift from past board composition, when elected members outnumbered appointees.

What kind of pensions do KRS retirees receive?

Because of changes in the law, the kind of pension plan you have depends on when you were hired:

- ***Defined benefit plan.*** KRS pensions for participants hired before Jan. 1, 2014, are under a defined benefit plan that is protected by an inviolable (unbreakable) contract. A defined benefit plan, also known as a traditional pension plan, promises the participant a specified monthly benefit at retirement.
- ***Hybrid cash balance plan.*** Because of so-called pension reform passed during the 2013 legislative session, state employees who started work on or after Jan. 1, 2014, are enrolled in a hybrid cash balance plan that resembles a 401(k) plan. The important difference is a hybrid cash balance plan abandons the concept of guaranteed future benefits. Participants are no longer under the inviolable contract.

What is the pension crisis?

All of the systems under KRS are, to a greater or lesser degree, facing unfunded liabilities. "A funding gap (or 'unfunded liability') occurs when the benefits owed to current and future retirees exceed the amount of money the plan has socked away to meet these obligations." (AARP definition.) The funding gap can be expressed as a dollar figure or as a percentage or ratio.

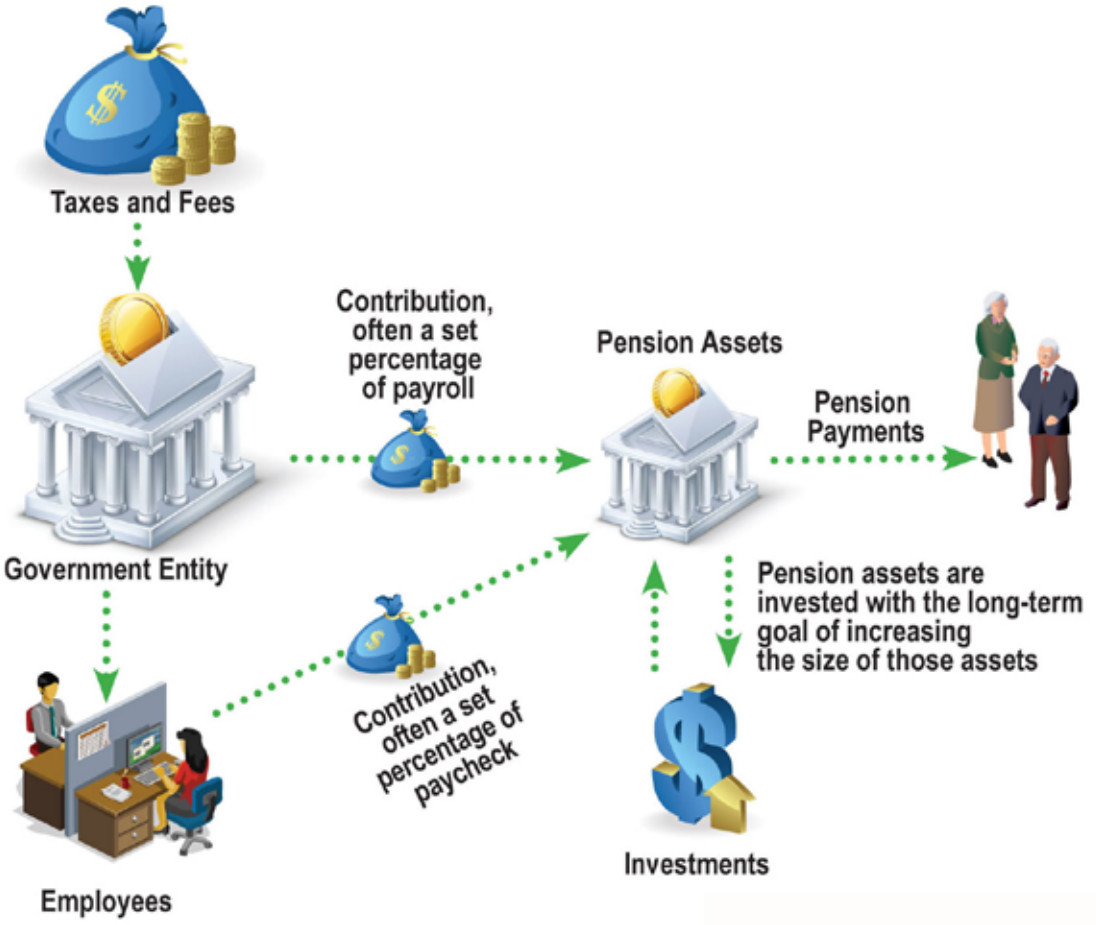
Of all of the systems under the KRS umbrella, the Kentucky Employees Retirement System nonhazardous (KERS-nonhaz) is the hardest hit. It is one of the worst funded government pension plans in the nation. The system had a funding ratio of 21 percent at the end of fiscal year 2014. That means for every $1 in obligations – money owed to current and future retirees – KERS-nonhaz has 21 cents in assets. The funding ratio – assets to liabilities – dropped like a stone from 125.7 percent in 2001 to the current 21 percent ratio.

State employees contributed through payroll deductions but legislators failed to pay the state's full employer contribution – the *actuarially required contribution (ARC)* – into KERS-nonhaz for 15 out of 22 years. There are other reasons. But underfunding is at the top of the list.

Kentucky lawmakers ignore the law

Most states have been fully funding their pension plans or making a "good faith effort" (95 percent), according to a National Association of State Retirement Administrators report by Keith Brainard and Alex Brown (March 2015). Kentucky is one of the states that has failed to pay the full ARC or make a good faith effort. The contradiction is that "...despite the fact that Kentucky has long had a statute that required payment of the ARC, state policymakers also were able and willing to find reasons to not fund their pensions."

HOW PUBLIC PENSIONS WORK



TYPES OF RETIREMENT BENEFIT

Defined Benefit (DB) plans invest employer and/or employee contributions and provide regular post-retirement payments for life typically based on a formula calculated using years of service, salary and a multiplier.

Defined Contribution (DC) plan members contribute to an individual investment account, sometimes matched by employers. The retirement account balances are based on those contributions and investment earnings. Employees can take distributions on those balances at retirement.

Cash Balance plans provide benefits at retirement, based on individual account balances generated by employee and employer contributions and guaranteed compound interest accrued over the employee's years of service. These are considered a hybrid of DB and DC plans.

Source: Texas Comptroller of Public Accounts

	Pension Fund *Unfunded Accrued Liabilities (UAL) as of June 30*		Insurance Fund *Unfunded Accrued Liabilities (UAL) as of June 30*	
System	2014 UAL	Funded Ratio	2014 UAL	Funded Ratio
KERS Non Haz	$9,126,153,508	21.0%	$1,605,523,279	27.9%
KERS Haz	288,952,802	64.6%	(22,409,047)	105.6%
CERS Non Haz	3,655,388,924	62.6%	785,715,135	70.0%
CERS Haz	1,321,185,726	59.8%	496,131,142	66.8%
SPRS	438,376,677	35.6%	78,676,367	66.4%
Total	**$14,830,057,627**		**$2,943,636,876**	
Total Unfunded Actuarial Accrued Liability			**$17,773,694,503**	

KRS Summary Annual Financial Report, fiscal year ending June 30, 2014. Page 12.

Why do the pension systems under KRS have different funding ratios?
All government workers across the board have *employee* contributions deducted from their paychecks. All *employer* contribution rates are set each year by the Kentucky Retirement Systems Board of Trustees based on the actuarial valuations and recommendations. The difference in funding ratios for the systems is a reflection of whether or not the employer – county and local governments or state government – actually paid the full actuarially required contribution.

County and local government employers *had* to pay the ARC into the County Employees Retirement System (CERS). The state government employer rates for KERS and SPRS were subject to final adoption by the General Assembly in the biennial budget. Unlike city and county governments, the state legislators had flexibility regarding paying or not paying the full employer's contribution.

But what about the 2008-09 economic downturn?
There have been six reasons cited for the pension crisis. But any way you look at it, the legislators' failure to fully fund KERS and SPRS is at the top of the list. Another impor-

What Caused the Increase in Unfunded Liabilities?

1. **Reductions to Employer Contribution Rates in KERS and SPRS**
   - $2.86 billion contribution shortfall over the past 20 years
2. **Cost Inflation for Retiree Insurance**
3. **GASB 43/45**
4. **Benefit Enhancements**
5. **Retiree COLA increases not pre-funded**
6. **2000-2002 and 2008-2009 Market Losses**

Source: Kentucky Retirement Systems presentation to the legislature's Task Force on Public Pensions, July 14, 2012. GASB 43/45 refers to new standards adopted by the national Governmental Accounting Standards Board.

tant factor was the legislature's decision in the mid-1990s to provide for cost-of-living adjustments (COLAs) on pension benefits, while failing to allocate the money for those raises. The legislature stuck KRS with the bill. Some politicians like to deflect attention from their own financial neglect by pointing to stock market losses. It's true that this has contributed to the KRS unfunded liability. But the simple fact is that other states' pension funds also suffered market losses, but most are financially stable because their legislatures were more responsible with money. The average nationwide funding ratio (assets to long-term liabilities) is 75.3 percent. The KERS non-hazardous fund is a dangerously low 21 percent.

What has been done to address the pension crisis?

In 2008, a bill passed to make changes in the pension plan for new hires. While the changes have helped slow the decline, they weren't enough.

In 2012, the legislature's Task Force on Public Pensions produced several recommendations for addressing the pension crisis. The most important was to recommend that the state begin paying the full actuarially required contribution to the KERS non-hazardous fund in 2014-16. Unfortunately, while ways to raise necessary revenue were discussed, none was adopted. The Task Force was advised by two Pew-Arnold consultants who have been active around the country in advising states and cities to move away from defined benefit plans. Consequently, these consultants recommended and the Task Force adopted a proposal for a hybrid cash balance plan starting for new hires.

Adopting an inferior pension plan for new hires does nothing to address the existing funding crisis. The Task Force also proposed removing COLAs from state law.

Didn't the General Assembly fix the pension problem in 2013?

Short answer, no, the KERS nonhazardous pension fund is still in serious condition despite legislation passed in 2013. Under the guise of "pension reform," the General Assembly passed Senate Bill 2 and made substantial changes to the pension systems. Senate Bill 2:

- Created a new less-generous cash balance pension plan for people who contribute to the plan on or after Jan. 1, 2014, that does nothing to address the unfunded liability and removed inviolable contract protection from these new hires. This change, along with benefit changes for new hires in 2008, made KRS a three-tiered program.
- Eliminated the Cost-of-Living Adjustment (COLA) provision for retirees except under extraordinary financial circumstances. Stakeholders should not count on COLAs in the near future.
- Packed the Kentucky Retirement Systems Board of Trustees with three special-interest appointees. (A third elected CERS position also was created.) Appointees, accountable to the governor, now outnumber trustees elected by and accountable to retirees.
- Stated that all agencies will begin paying the full employer contribution. (This requirement can of course be ignored in the future, just as the legislature ignored this obligation in the past.)

Who are Pew-Arnold and why are they 'helping' us?

Cecile Richards, daughter of ex-Texas Gov. Ann Richards, quoted her grandmother as saying, "If I get any more help, I'll have to take in laundry." Kentucky legislators have received a lot of help concerning what to do about the pension crisis. Unfortunately, it's the retirees who may have to take in laundry.

The "helpers" were representatives of Pew-Arnold who testified during hearings held by the legislature's Task Force on Public Pensions in 2012. Who are these guys? Pew-Arnold is a partnership between Pew Charitable Trusts' Public Sector Retirement Systems Project and the Laura and John Arnold Foundation. The Pew founding father was the late J. Howard Pew, president of Sun Oil. John Arnold is an Enron billionaire.

Another "helper" is ALEC – the American Legislative Exchange Council. ALEC offers a "toolkit" that includes information on how to "Restructure State Health Care Plans" and "Reform State Pensions." In other words, how to take a ballpeen hammer to our benefits. Several Kentucky legislators are either members or former members of ALEC.

In a last-minute deal regarding a bill that had little examination, the 2013 legislature passed House Bill 440, which made tax changes that will create about $110 million for the General Fund. The biennium that started July 1, 2014, contains the full ARC (actuarially recommended contribution) for the first time in more than a decade.

What about the cash position of KERS nonhazardous?

This plan that covers most state employees is in terrible shape. In 2008, the fund held assets totaling $5 billion. As of the end of calendar year 2014, that balance had plummeted to about $2.4 billion. It paid out $915 million in benefits/expenses during the fiscal year ending June 30, 2014. We know of no state pension plan anywhere in this position. Over the past three years, KERS non-hazardous has lost more than $950 million in assets even though it exceeded its assumed rate of investment return.

Does the full ARC help?

The full employer contribution included in the 2014-16 biennial budget adds about $210 million in new dollars per year to the fund. But it appears unlikely that the full ARC is sufficient in the next several years to reverse the losses. After all, the fund lost $183 million in FY 14 alone even as it DOUBLED its projected investment rate of 7.75 percent. If the full ARC had been paid last year, the fund would have gained about $50 million. But that amount doesn't materially improve the situation. And, keep in mind that a 15.5 percent rate of return is unsustainable over time. For the first six months of the fiscal year that began July 1, 2014, investment performance was about -1.0 percent.

What happens now?

What KERS-nonhaz members want to know is, how will this affect their benefits? There are a lot of factors involved and obviously no one can foretell the future. But several scenarios – what might happen – have been presented.

The Pottery Barn rule

The Pottery Barn rule is "you broke it, you bought it." New York Times columnist Thomas L. Friedman claims to have coined the term, having used the phrase "the pottery store rule" in a 2003 column. He later referred specifically to Pottery Barn. (Pottery Barn doesn't actually have that rule, but you get the idea.)

Most legislators don't admit they broke the KRS pensions. The economy broke it. Rich benefits broke it. Poor investments broke it. Placement agents broke it. And finally, there's no point in playing the blame game and talking about who broke it. That's in the past. And, anyway, the ARC fixed it.

BEST CASE SCENARIO. The General Assembly did start paying the full ARC in 2014. It is possible that if the legislature continues to pay the ARC and if the economy is good, assets could begin to rise and would continue to do so over time. Eventually, the asset base would be sufficient to withstand a market downturn without being jeopardized. However, paying the ARC isn't a magic bullet. There are issues:

- Paying the actuarially required contribution every year may be a challenge. William Thielen, executive director of Kentucky Retirement Systems (KRS), the agency that administers the fund, says the full ARC payment will go up because of assumption changes and investment returns below the assumed 7.5 percent. Translation: the state will have to come up with more money to pay the ARC.
- Even with full ARC payments KERS-nonhaz remains in a weakened condition from years of underfunding. An economic downturn like 2008-09 would be disastrous.

BEST BEST CASE SCENARIO. What most of us want to happen is that the legislature continues to pay the ARC and also finds a way to put additional money into KERS-nonhaz to repair the damage done. Additional money would strengthen the fund, reduce recovery time and make it better able to weather future economic storms. This sounds like a simple solution but, in reality, it is not. The issue is finding a source of additional funding that the legislators can agree on and pass into law. Some suggestions have been pension obligation bonds and/or a dedicated revenue stream.

WORST CASE SCENARIO. Which brings us to the "worst case scenario," a topic of discussion at the April 16, 2015, KRS Board of Trustees meeting. KRS Executive Director Thielen said KERS-nonhaz currently has $2.5 billion in assets. If that drops to $1.5 billion, which could happen, all investments will be converted into cash to pay current benefits.

From that point on, we would have no investment income and would be, as the farmers say, eating our seed corn.

Mr. Thielen said KRS could still pay KERS-nonhaz benefits – $900 million a year – for nine years. The $900 million in benefits would come from $700 million in contributions ($600 million in state employer contributions and $100 million from current employees) with the $200 million shortfall coming out of remaining $1.5 billion in cashed-out investments. He said it's not like we are going to "fall off the cliff tomorrow."

Which is all puppies and rainbows for current employees and retirees only planning to live for nine more years. Also, those nine years would give the legislators a chance to fix what they broke. Right? But, wait, there's more.

WORST WORST CASE SCENARIO. KRS executive director Thielen said the "real worst case scenario," is this: if we have another economic downturn, KRS might have less than

$1.5 billion in the cookie jar to make up the $200 million shortfall every year. So under that scenario, we would run out of money a whole lot sooner than nine years from the point when all of the investments are cashed out. Either way, running a pension fund without investments is problematic. When the system is properly funded, benefits are paid by investment income (68 percent); employee contributions (12 percent); and state employer contributions (20 percent). Taking investment income out of the pie leaves a big hole and, in the long-run, is unsustainable.

Why should active employees care about pensions?
It's obvious that public employees in Kentucky aren't paying much attention to what's going on in Frankfort regarding pension reform. We can relate to that. When we were active employees, we were far more interested in family matters and our jobs than our pension plan. But if you're an active employee, you SHOULD pay attention to your pension. Why? Because your pension benefits may be forever changed by what is happening now.

The unfunded liability grows year by year because of past legislative neglect. The KERS non-hazardous fund has one of the lowest funding ratios in the country. We as stakeholders need to seek some sort of funding solution ***over and above*** the full ARC to stabilize the KERS non-hazardous fund. During the 2015 legislative session, Kentucky Government Retirees relentlessly messaged on the need for additional funding, through direct contact with legislators, letters to the editor and appearances on public affairs TV shows. Unfortunately, additional KERS non-hazardous funding was not seriously considered by the legislature. In November 2015, a new governor will be elected, and the 2016 legislature will consider a new biennial budget. This will be a critical time for KRS stakeholders to seek additional funding to stabilize the KERS non-hazardous fund. As always, we must "pay attention to our pension."

Why should the public care about the KERS-nonhaz pension crisis?
By state law, Kentucky Retirement Systems pension benefits for participants hired before Jan. 1, 2014, "shall not…be subject to reduction or impairment by alteration, amendment or repeal." This is commonly known as the "inviolable contract." The inviolable contract was upheld in a Kentucky Supreme Court case decision handed down in 1995. Since these earned benefits are guaranteed, the public could be directly impacted if the usual pension funding mechanisms fail to produce sufficient revenue to pay pension benefits. In other words, through the systematic neglect by governors and legislators in paying the full employer contribution, the public may, as a last resort, be on the hook through the imposition of higher taxes or cuts elsewhere in state government. The public interest is also served by keeping our pension systems healthy because of the positive economic impact of retirees' money. Most KRS retirees spend their money here in Kentucky.

Who manages government pensions in Kentucky?

Even a casual observer would notice that the Kentucky Teachers' Retirement Systems trustees have been active in defending pension funding. Here is information about the composition of the teachers' board; the board that administers plans for legislators and judges; and "our" board that manages plans for state employees, state police, and city and county employees. Draw your own conclusions.

Kentucky Teachers' Retirement System

"KTRS administration is the responsibility of a Board of Trustees consisting of nine members. Two of these, the Chief State School Officer and the State Treasurer, are ex-officio, serving by reason of their office. The remaining [seven] trustees are elected to four-year staggered terms by KTRS members. Kentucky law requires that four trustees be active members, one trustee be a retired member, and two trustees be persons from outside the teaching profession." (From the KTRS Web site.) Summing up: seven of nine KTRS trustees are elected by KTRS members.

Judicial Form Retirement System

This system administers the Legislators' Retirement Plan and the Judicial Retirement Plan, but the plans remain separate entities. (Staff with the Legislative Research Commission are under KRS.) The Judicial Form Board of Trustees has eight members:

- Two members are appointed by the governor. These appointees can't be in the plan or draw benefits from the plan.
- Three members are appointed by the state Supreme Court.
- One is appointed by the President of the Senate.
- One is appointed by the Speaker of the House.
- One is appointed by both the President and the Speaker.

Kentucky Retirement Systems

Kentucky Retirement Systems is administered by a 13-member Board of Trustees. Under Senate Bill 2 passed in 2013, the board was expanded from nine to 13 members. Appointed trustees outnumber elected trustees 7-6. With the expansion:

- Six trustees are appointed by the governor, including one each nominated by the Kentucky Association of Counties, the Kentucky League of Cities and the Kentucky School Boards Association.
- One is the state Personnel Cabinet secretary (a member of the governor's cabinet) who is an ex-officio member with voting privileges.
- Three board members are elected by members of the County Employees Retirement System (CERS).
- Two are elected by members of the Kentucky Employees Retirement System (KERS).
- One is elected by members of the State Police Retirement System (SPRS).

Kentucky Retirement Systems Board of Trustees 2015

Edwin Davis
Elected by County Employees
Retirement System (CERS)

David Rich
Elected by County Employees
Retirement System (CERS)

William Summers
Elected by KRS Board
to fill CERS vacancy

Keith Peercy
Elected by State Police
Retirement System (SPRS)

Vince Lang
Elected by Kentucky Employees
Retirement System (KERS)

Mary Helen Peter
Elected by Kentucky Employees
Retirement System (KERS)

Thomas K. Elliott
Governor's appointee

Dr. Daniel Bauer
Governor's appointee

Mike Cherry
Governor's appointee

J.T. Fulkerson
Governor's appointee
Kentucky League of Cities

Joseph Hardesty
Governor's appointee
Ky. School Boards Association

Tim Longmeyer
Personnel Cabinet secretary
Ex-officio member

Randy K. Stevens
Governor's appointee
Ky. Association of Counties

Kentucky's government pension fund gaps

Understanding Pension Funding Gaps

A funding gap occurs when there is a mismatch between a plan's obligations and its assets.

A pension plan's obligations are the dollar value of the benefits that have been promised by the plan, and earned by employees and retirees.

A pension plan's assets consist of financial holdings—cash, stocks, bonds, and other securities—that have been accumulated by the plan over the years.

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AARP's Educator Community

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Retirement Security
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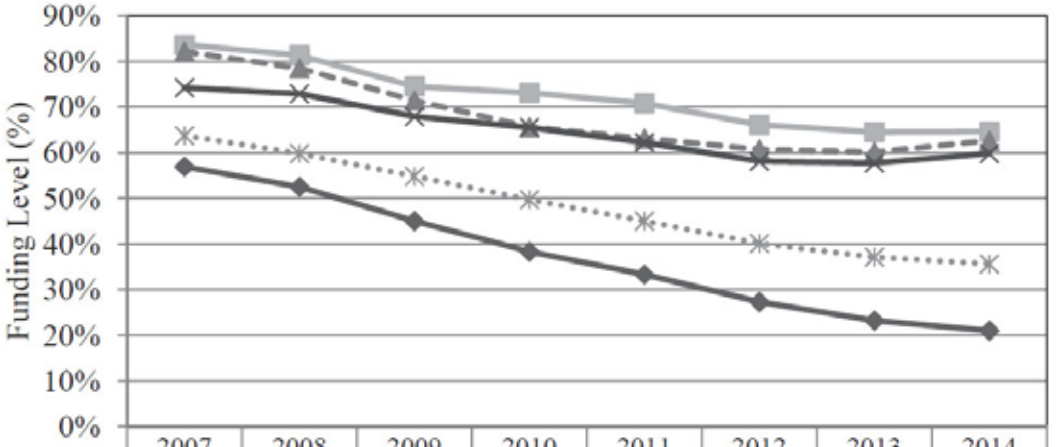
Eight-Year Historical Funding Levels KRS Pension Funds



	2007	2008	2009	2010	2011	2012	2013	2014
KERS NH	56.9%	52.5%	45.0%	38.3%	33.3%	27.3%	23.2%	21.0%
KERS H	83.6%	81.3%	74.5%	73.1%	70.8%	66.1%	64.5%	64.6%
CERS NH	82.1%	78.5%	71.4%	65.6%	63.1%	60.7%	60.1%	62.6%
CERS H	74.2%	72.9%	67.9%	65.5%	62.2%	58.1%	57.7%	59.8%
SPRS	63.7%	59.8%	54.8%	49.7%	45.0%	40.1%	37.1%	35.6%

Source: Kentucky Retirement System. Public Pension Oversight Board 2014 Report, Page 27.

The unfunded liability or funding gap can be expressed in a dollar figure or as a funding ratio, assets to liabilities. For example, the KERS-nonhaz funding ratio of 21 percent in 2014 means for every $1 in liabilities the system has 21 cents in assets.

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"Funded ratios are a point-in-time measurement. The movement or trend of the funded ratio is as important as the absolute level…Actuarial funding methods generally are designed with a target of 100% funding—not 80%. If the funded ratio is less than 100%, contribution patterns are structured with the objective of attaining a funded ratio of 100% over a reasonable period of time…The consequences of becoming underfunded include larger future contribution requirements, less security for participant/member benefits, and [emphasis added] ***the potential that the current cost of pension benefits may need to be paid by future stakeholders (e.g., shareholders or taxpayers).*** All of these risks can be managed through appropriate benefit, funding, and investment policies." *The 80% Pension Funding Standard Myth*, fact sheet, The American Academy of Actuaries, July 2012.

KERS-NONHAZARDOUS FUNDING RATIOS

125.7 percent	2001
110.4 percent	2002
97.4 percent	2003
85.1 percent	2004
73.6 percent	2005
60 percent	2006
56.9 percent	2007
52.5 percent	2008
45.0 percent	2009
38.3 percent	2010
33.3 percent	2011
27.3 percent	2012
23.2 percent	2013
21 percent	2014

2008-09 economic downturn

All pensions under Kentucky Retirement Systems took a hit during the 2008-09 economic downturn. But KERS non-haz, weaked by underfunding, has sunk the lowest.

Frankfort decision makers discuss the pension crisis. (Graphic rights acquired by Kentucky Government Retirees.)

There is more than one reason for the pension crisis (See Page 5). But underfunding tops the list. The following three charts showing how General Assembly cut employer (state government) contribution rates recommended by the Kentucky Retirement Systems actuary for state employee systems from 1992 on.

Kentucky Employees Retirement System (KERS): Non-Hazardous Employees							
Fiscal Year	Covered Payroll	KRS Board Adopted Employer Rate	Recommended Dollar Contribution	Budgeted Employer Rate	Budgeted Dollar Contribution	Difference (%)	Difference ($)
1992-1993	$1,079,322,020	8.66%	$93,469,287	7.65%	$82,568,135	1.01%	$10,901,152
1993-1994	$1,121,481,440	8.66%	$97,120,293	7.65%	$85,793,330	1.01%	$11,326,963
1995-1996	$1,232,974,460	8.75%	$107,885,265	8.56%	$105,542,614	0.19%	$2,342,651
2002-2003	$1,658,604,696	5.89%	$97,691,817	3.76%	$62,363,537	2.13%	$35,328,280
2003-2004	$1,645,412,496	7.53%	$123,899,561	5.89%	$96,914,796	1.64%	$26,984,765
2004-2005	$1,655,907,288	10.29%	$170,392,860	5.89%	$97,532,939	4.40%	$72,859,921
2005-2006	$1,702,230,777	13.62%	$231,843,832	5.89%	$100,261,393	7.73%	$131,582,439
2006-2007	$1,780,223,493	17.13%	$304,952,284	7.75%	$137,967,321	9.38%	$166,984,964
2007-2008	$1,837,873,488	48.37%	$888,979,406	8.50%	$156,219,246	39.87%	$732,760,160
2008-2009	$1,754,412,912	28.60%	$501,762,093	10.01%	$175,616,732	18.59%	$326,145,360
2009-2010	$1,815,146,388	31.29%	$567,959,305	11.61%	$210,738,496	19.68%	$357,220,809
2010-2011	$1,731,632,748	38.58%	$668,063,914	16.98%	$294,031,241	21.60%	$374,032,674
2011-2012*	$1,815,146,388	40.71%	$738,946,095	19.82%	$359,762,014	20.89%	$379,184,080
*Projected payroll						Total KERS Non-Hazardous:	$2,627,654,218

Source: KRS presentation, legislature's Task Force on Public Pensions, July 24, 2012.

"...Some people say the General Assembly created the problem. The legislature, ever since I have been in the Senate and in its leadership, has funded to the recommended or greater amount than the Kentucky Retirement System stipulated to the Senate as being the appropriate contribution – each and every budget cycle. A lot of people don't realize that the Senate relies on the retirement system's independent actuaries and has funded to that recommended amount or greater. It is not a problem that is irreversible. Over a period of time, the pension system will correct itself provided there is a legitimate plan that accomplishes that goal and is passable by the legislature."

State Senate President Robert Stivers. He has served in the Senate since 1997. *One-On-One: Newly elected Senate president says state pensions system shortfall is correctable over time*, Ed Lane, The Lane Report, Feb. 6, 2013, http://www.lanereport.com/18307/2013/02/sen-robert-stivers-one-on-one/

Kentucky Employees Retirement System (KERS): Hazardous Employees							
Fiscal Year	Covered Payroll	KRS Board Adopted Employer Rate	Recommended Dollar Contribution	Budgeted Employer Rate	Budgeted Dollar Contribution	Difference (%)	Difference ($)
1992-1993	$68,456,508	17.55%	$12,014,117	15.05%	$10,302,704	2.50%	$1,711,413
1993-1994	$69,357,624	17.86%	$12,387,272	15.05%	$10,438,322	2.81%	$1,948,949
1995-1996	$79,514,184	18.05%	$14,352,310	17.97%	$14,288,699	0.08%	$63,611
1999-2000	$115,639,439	18.91%	$21,867,418	18.66%	$21,578,319	0.25%	$289,099
2002-2003	$129,088,956	18.84%	$24,320,359	17.60%	$22,719,656	1.24%	$1,600,703
2004-2005	$131,687,088	19.47%	$25,639,476	18.84%	$24,809,847	0.63%	$829,629
2005-2006	$138,747,320	21.59%	$29,955,546	18.84%	$26,139,995	2.75%	$3,815,551
2006-2007	$144,838,020	23.32%	$33,776,226	22.00%	$31,864,364	1.32%	$1,911,862
2007-2008	$148,710,060	47.11%	$70,057,309	24.25%	$36,062,190	22.86%	$33,995,120
2008-2009	$146,043,576	34.78%	$50,793,956	24.35%	$35,561,611	10.43%	$15,232,345
2009-2010	$143,557,944	35.54%	$51,020,493	24.69%	$35,444,456	10.85%	$15,576,037
2010-2011	$133,053,792	34.37%	$45,730,588	26.12%	$34,753,650	8.25%	$10,976,938
2011-2012*	$143,557,944	33.84%	$48,580,008	28.98%	$41,603,092	4.86%	$6,976,916
						Total KERS Hazardous:	$94,928,172

* Projected payroll

State Police Retirement System (SPRS)							
Fiscal Year	Covered Payroll	KRS Board Adopted Employer Rate	Recommended Dollar Contribution	Budgeted Employer Rate	Budgeted Dollar Contribution	Difference (%)	Difference ($)
1992-1993	$36,369,643	21.84%	$7,943,130	19.57%	$7,117,539	2.27%	$825,591
1993-1994	$36,783,743	21.84%	$8,033,569	19.57%	$7,198,579	2.27%	$834,991
1995-1996	$34,698,957	23.05%	$7,998,110	21.78%	$7,557,433	1.27%	$440,677
1999-2000	$43,619,383	25.26%	$11,018,256	23.41%	$10,211,298	1.85%	$806,959
2002-2003	$43,760,832	21.58%	$9,443,588	17.37%	$7,601,257	4.21%	$1,842,331
2004-2005	$43,720,092	28.08%	$12,276,602	21.58%	$9,434,796	6.50%	$2,841,806
2005-2006	$47,743,865	34.83%	$16,629,188	21.58%	$10,303,126	13.25%	$6,326,062
2006-2007	$49,247,580	42.30%	$20,831,726	25.50%	$12,558,133	16.80%	$8,273,593
2007-2008	$53,269,080	120.00%	$63,922,896	28.00%	$14,915,342	92.00%	$49,007,554
2008-2009	$51,660,396	60.14%	$31,068,562	30.07%	$15,534,281	30.07%	$15,534,281
2009-2010	$51,506,712	61.87%	$31,867,203	33.08%	$17,038,420	28.79%	$14,828,782
2010-2011	$48,692,616	85.63%	$41,695,487	45.54%	$22,174,617	40.09%	$19,520,870
2011-2012*	$51,506,712	94.63%	$48,740,802	52.13%	$26,850,449	42.50%	$21,890,353
						Total SPRS:	$142,973,849

* Projected payroll

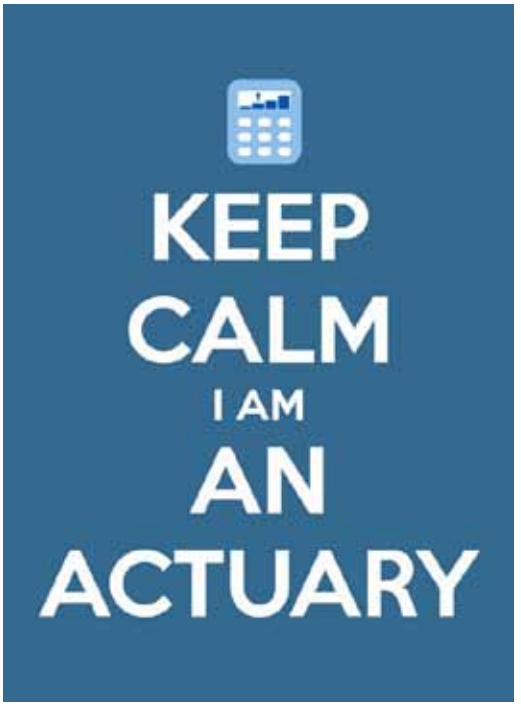
KRS presentation, legislature's Task Force on Public Pensions, July 24, 2012.

"Sponsors of seriously underfunded plans, such as those in Illinois, Kentucky, Louisiana, New Jersey and Pennsylvania, have behaved badly. They have either failed to make their required contributions or used inaccurate assumptions so that their contribution requirements are not meaningful." Alicia H. Hunnell, *State and Local Pensions: What Now?*, Brookings Institution Press, 2012. Quoted by Jason Bailey, Kentucky Center for Economic Policy, during a 2013 briefing.

	Employer Contribution Rates		Actuarially Recommended Rates	
	2014	2013	2014	2013
KERS Nonhazardous	17.29%	14.86%	32.57%	28.03%
KERS Hazardous	14.89%	13.41%	17.00%	16.16%
CERS Nonhazardous	13.74%	12.62%	13.74%	12.62%
CERS Hazardous	21.77%	20.10%	21.77%	20.10%
SPRS	39.50%	33.24%	53.35%	47.48%

Comprehensive Annual Financial Report, KRS, Page 39.

One provision in Senate Bill 2 adopted in 2013 stated that all state agencies will begin paying the full employer contribution – the *actuarially required contribution (ARC)* – into the systems covering state workers. The full employer contribution included in the 2014-16 biennial budget adds about $210 million in new dollars per year to the fund. But it appears unlikely that the full ARC is sufficient in the next several years to reverse the damage done by decades of underfunding.



"Actuaries analyze the financial costs of risk and uncertainty. They use mathematics, statistics, and financial theory to assess the risk that an event will occur and they help businesses and clients develop policies that minimize the cost of that risk." (*Occupational Outreach Handbook*, U.S. Bureau of Labor Statistics) Pension actuaries "use elaborate data about life expectancy, retirement age, health care costs and other information to quantify pension obligations." (*e-How*) All of this to say that actuaries do not pull the *"actuarially required contribution"* out of the air. Ignoring or reducing the ARC has dire consequences as evidenced by the charts showing the KERS-nonhaz funding ratio in freefall.

KRS stakeholders by the numbers

Kentucky Retirement Systems
Membership Totals

Fiscal Year	Active	Inactive	Retired	Total
2009	144,821	101,552	87,279	333,652
2010	144,837	92,379	81,765	318,981
2011	144,894	95,025	84,680	324,599
2012	139,352	107,353	87,472	334,177
2013	137,368	112,462	90,796	340,626
2014	137,138	117,039	93,946	348,123

Comprehensive Annual Financial Report, KRS, Page 158.

Membership Statistics	ACTIVE MEMBERSHIP		RETIRED MEMBERSHIP	
	Average Age	Average Salary	Average Age	Average Annual Benefit Payment
KERS Nonhazardous	44.8	$39,081	67.7	$22,404
KERS Hazardous	40.6	$32,077	63.1	$15,952
CERS Nonhazardous	48.1	$28,013	69.5	$11,569
CERS Hazardous	39.2	$52,117	61.0	$27,135
SPRS	37.8	$52,182	61.8	$40,330

Comprehensive Annual Financial Report, KRS, Page 39.

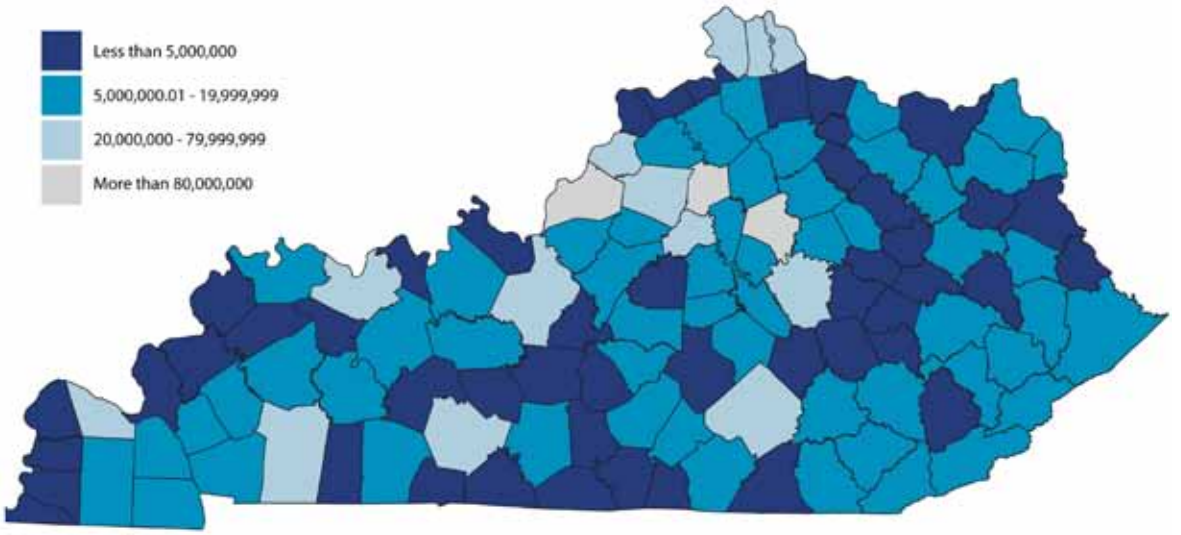
	ACTIVE	INACTIVE	RETIRED	TOTAL
Tier 1	90,705	93,255	93,943	277,903
Tier 2	41, 507	23,333	3	64,843
Tier 3	4,926	451	0	5,377
TOTAL	137,138	117,039	93,946	348,123

With the changes in 2008 and 2013, KRS now has three benefit tiers based on when an employee began contributing. Chart from the 2014 Comprehensive Annual Financial Report, KRS, Page 19.

2014 Total Fiscal Year Pension Benefits by County

County	Payees	Total	County	Payees	Total	County	Payees	Total
Adair	423	$6,336,619	Grant	537	$8,965,710	Mclean	270	$3,465,659
Allen	357	$4,045,686	Graves	764	$10,799,675	Meade	367	$4,750,731
Anderson	1,246	$27,686,314	Grayson	628	$8,481,884	Menifee	211	$2,620,734
Ballard	201	$2,507,023	Green	240	$3,247,260	Mercer	663	$10,848,997
Barren	919	$13,154,068	Greenup	549	$6,618,197	Metcalfe	291	$3,083,648
Bath	330	$4,636,960	Hancock	203	$2,296,719	Monroe	213	$2,341,876
Bell	639	$8,993,313	Hardin	1,797	$26,819,314	Montgomery	556	$7,672,319
Boone	1,453	$25,847,617	Harlan	545	$7,812,839	Morgan	547	$8,038,987
Bourbon	475	$6,880,493	Harrison	416	$5,442,298	Muhlenberg	590	$6,332,076
Boyd	884	$13,695,210	Hart	290	$3,789,252	Nelson	858	$13,530,208
Boyle	813	$12,967,586	Henderson	930	$14,095,405	Nicholas	188	$2,207,406
Bracken	204	$2,384,571	Henry	881	$17,313,215	Ohio	550	$5,389,372
Breathitt	429	$5,943,594	Hickman	108	$1,539,428	Oldham	1,171	$21,409,387
Breckinridge	387	$5,108,502	Hopkins	1,053	$14,330,819	Owen	517	$10,638,775
Bullitt	1,210	$19,328,202	Jackson	277	$3,378,655	Owsley	189	$2,466,067
Butler	295	$3,544,952	Jefferson	15,149	$289,349,458	Pendleton	290	$4,369,395
Caldwell	480	$6,389,368	Jessamine	860	$13,688,422	Perry	680	$9,171,323
Calloway	961	$11,812,240	Johnson	570	$7,959,191	Pike	1,086	$14,611,096
Campbell	1,327	$22,575,080	Kenton	1,964	$36,510,327	Powell	336	$4,178,531
Carlisle	116	$1,454,260	Knott	383	$5,393,684	Pulaski	2,055	$31,214,491
Carroll	300	$4,081,928	Knox	499	$7,024,233	Robertson	75	$934,124
Carter	727	$8,323,028	Larue	327	$4,583,868	Rockcastle	349	$4,416,080
Casey	316	$3,831,313	Laurel	1,078	$16,552,519	Rowan	832	$12,120,411
Christian	1,463	$22,870,547	Lawrence	285	$3,286,371	Russell	508	$6,441,461
Clark	714	$10,856,694	Lee	208	$2,775,831	Scott	1,065	$19,221,376
Clay	518	$6,736,063	Leslie	220	$3,020,281	Shelby	1,556	$33,310,768
Clinton	230	$2,576,757	Letcher	527	$6,416,789	Simpson	246	$2,503,716
Crittenden	215	$2,487,272	Lewis	296	$3,250,524	Spencer	437	$7,894,291
Cumberland	175	$2,266,364	Lincoln	595	$6,829,983	Taylor	567	$7,425,990
Daviess	2,245	$35,883,786	Livingston	229	$3,389,426	Todd	253	$2,916,042
Edmonson	193	$2,433,737	Logan	543	$6,663,545	Trigg	495	$6,830,812
Elliott	167	$1,912,389	Lyon	331	$5,427,703	Trimble	250	$3,297,339
Estill	337	$4,142,489	Madison	2,095	$30,596,360	Union	318	$3,356,923
Fayette	4,858	$97,289,271	Magoffin	325	$4,074,854	Warren	2,500	$39,141,909
Fleming	403	$6,594,171	Marion	489	$6,016,392	Washington	298	$4,276,041
Floyd	792	$11,576,658	Marshall	766	$10,041,357	Wayne	473	$6,133,691
Franklin	6,630	$180,723,291	Martin	224	$2,265,171	Webster	317	$3,747,086
Fulton	159	$1,676,279	Mason	359	$5,374,167	Whitley	920	$12,053,387
Gallatin	118	$1,837,012	Mccracken	1,408	$23,339,196	Wolfe	304	$4,370,368
Garrard	385	$5,393,728	Mccreary	349	$3,327,965	Woodford	871	$19,215,071

2014 Comprehensive Annual Financial Report, KRS, Page 180.



Total Fiscal Year
Retirement Payments

	Payees	%	Payments
Kentucky Total	97,653	94.46%	$1,628,820,682
Out of State	6,249	5.54%	$95,499,855
Grand Total	**103,902**	**100.00%**	**$1,724,320,537***

* This table represents all payees receiving a monthly payment during the fiscal year.

Pension Benefits paid to retirees and beneficiaries of Kentucky Retirement Systems have a wide ranging impact on the state's economic health. In fiscal year 2014, KRS paid ***more than $1.7 billion*** *to its recipients. More than 94 percent of these recipients live in Kentucky. Not only do these dollars impact those receiving a benefit, but according to the National Institute of Retirement Security (NIRS),* ***each $1.00 paid out in pension benefits supported $1.67 in total economic activity in Kentucky****. As you can see in the chart, each county in the Commonwealth is impacted by pension benefits, and in an unsteady economy, the consistent addition of pension funds into the economy is a stabilizing element.*

2014 Comprehensive Annual Financial Report, KRS, Page 181.

The Positive Impact of Government Retiree Dollars

KENTUCKY

NATIONAL INSTITUTE ON Retirement Security

Pensionomics 2014:

Measuring the Economic Impact of DB Pension Expenditures

Key Findings

Benefits paid by state and local pension plans support a significant amount of economic activity in the state of Kentucky.

Pension benefits received by retirees are spent in the local community. This spending ripples through the economy, as one person's spending becomes another person's income, creating a multiplier effect.

In 2012, expenditures stemming from state and local pensions supported...

- 41,641 jobs that paid $1.6 billion in wages and salaries
- $5.4 billion in total economic output
- $720.1 million in federal, state, and local tax revenues

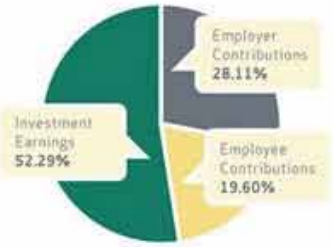
... in the state of Kentucky.

Each dollar paid out in pension benefits supported $1.67 in total economic activity in Kentucky.

Each dollar "invested" by Kentucky taxpayers in these plans supported $5.94 in total economic activity in the state.

Overview

Expenditures made by retirees of state and local government provide a steady economic contribution to Kentucky communities and the state economy. In 2012, 141,312 residents of Kentucky received a total of $3.3 billion in pension benefits from state and local pension plans.



The average pension benefit received was $1,920 per month or $23,038 per year. These modest benefits provide retired teachers, public safety personnel, and others who served the public during their working careers income to meet basic needs in retirement.

Between 1993 and 2012, 28.11% of Kentucky's pension fund receipts came from employer contributions, 19.60% from employee contributions, and 52.29% from investment earnings. Earnings on investments and employee contributions—not taxpayer contributions—have historically made up the bulk of pension fund receipts.

Impact on Jobs and Incomes

Retiree expenditures stemming from state and local pension plan benefits supported 41,641 jobs in the state. The total income to state residents supported by pension expenditures was $1.6 billion.

To put these employment impacts in perspective, in 2012 Kentucky's unemployment rate was 8.3%. The fact that DB pension expenditures supported 41,641 jobs is significant, as it represents 2.0 percentage points in Kentucky's labor force.

Economic Impact

State and local pension funds in Kentucky and other states paid a total of $3.3 billion in benefits to Kentucky residents in 2012. Retirees' expenditures from these benefits supported a total of $5.4 billion in total economic output in the state, and $3.0 billion in value added in the state.

$2.9 billion in direct economic impacts were supported by retirees' initial expenditures. An additional $1.5 billion in indirect impact resulted when these businesses purchased additional goods and services. $1.0 billion in induced impacts occurred when workers employed by businesses as a result of the direct and indirect impacts made expenditures.

Total Economic Impact **$5.4 billion**

DIRECT IMPACT	INDIRECT IMPACT	INDUCED IMPACT
$2.9 billion	$1.5 billion	$1.0 billion

Totals may not add up due to rounding. For data and methodology, see Rhee, N., 2014, *Pensionomics 2014: Measuring the Economic Impact of DB Pension Expenditures*, National Institute on Retirement Security, Washington, DC, www.nirsonline.org. Results not directly comparable to previous *Pensionomics* due to methodological refinements.

Used with permission.

Economic Multipliers

Taxpayer Contribution Factor*

$1.00
contributed by taxpayers to Kentucky pensions over 30 years

$5.94
total output

Each $1 in taxpayer contributions to Kentucky's state and local pension plans supported $5.94 in total output in the state. This reflects the fact that taxpayer contributions are a minor source of financing for retirement benefits—investment earnings and employee contributions finance the lion's share.

Pension Benefit Multiplier

$1.00
pension benefits paid to retirees in Kentucky

$1.67
total output

Each $1 in state and local pension benefits paid to Kentucky residents ultimately supported $1.67 in total output in the state. This "multiplier" incorporates the direct, indirect, and induced impacts of retiree spending, as it ripples through the state economy.

*Caution should be used in interpreting these numbers. See the Technical Appendix of the full *Pensionomics* report for details.

Impact on Tax Revenues

State and local pension payments made to Kentucky residents supported a total of $720.1 million in revenue to federal, state, and local governments. Taxes paid by retirees and beneficiaries directly out of pension payments totaled $32.5 million. Taxes attributable to direct, indirect and induced impacts accounted for $687.6 million in tax revenue.

Federal Tax	$396.6 million
State/Local Tax	$323.5 million
Total	**$720.1 million**

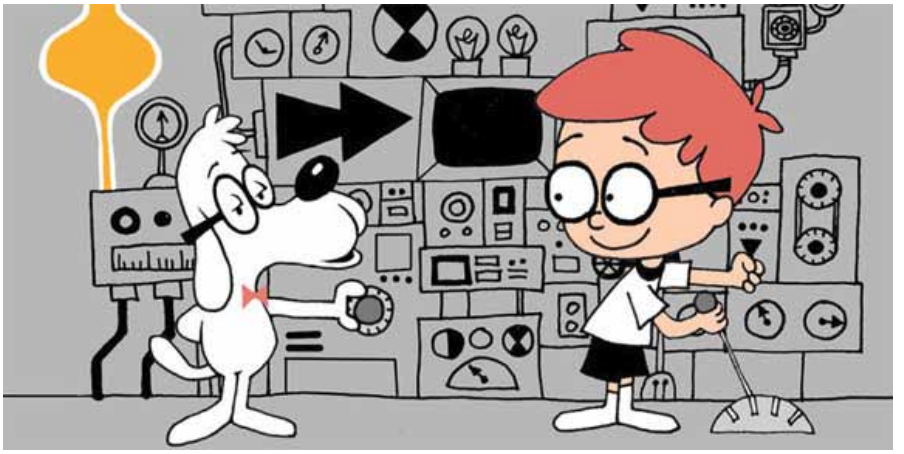
Economic Impacts by Industry Sector

The economic impact of state and local pension benefits was broadly felt across various industry sectors in Kentucky. The ten industry sectors with the largest employment impacts are presented in the table below.

Industry	Employment Impact (# Jobs)	Labor Income Impact	Value Added Impact	Output Impact
Food Services and Drinking Places	3,650	$73,960,131	$108,541,527	$199,385,490
Real Estate Establishments	2,311	$27,091,616	$225,616,755	$290,176,493
Private Hospitals	2,056	$128,559,511	$145,372,395	$264,887,431
Physicians, Dentists, and other Health Practitioners	1,930	$153,257,168	$157,413,319	$235,984,984
Nursing and Residential Care Facilities	1,228	$45,608,763	$55,164,183	$77,751,328
Wholesale Trade Businesses	1,185	$81,781,012	$162,774,718	$248,089,844
Retail Stores - General Merchandise	1,121	$30,766,283	$48,579,356	$61,315,877
Retail Stores - Food and Beverage	1,060	$31,017,934	$40,369,375	$57,876,534
Employment Services	900	$21,248,715	$24,075,166	$29,761,728
Private Household Operations	879	$4,781,546	$4,781,546	$4,781,546

Industry totals include the first round of impacts from pension payments to state residents, and do not account for recaptured "leakage" to or from other states.

The Wayback Machine



*Underfunding our pensions systems is a bipartisan effort that began decades ago. With help from documents shared by Kentucky Government Retirees friends, Kentucky Retirement System publications, and a news article summary compiled in 2012 by journalist Ryan Alessi, (*Where were the outcries over Ky. pension contribution shortages? They were there, just ignored*) here is a pension crisis timeline:*

1956. The Kentucky Employees Retirement System (KERS) was created by the Kentucky General Assembly in order to supplement the benefits provided by Social Security.

1958. The State Police Retirement System (SPRS) and County Employees Retirement System (CERS) were established.

1992. The General Assembly "set rates for state agency contributions rather than using the rates set by the board of the retirement systems…[Gov. Brereton] Jones, who recommended the lower rates, said they wouldn't affect benefits or jeopardize the retirement fund." *State to appeal ruling on pension funds*, Associated Press, April 26, 1994.

1993. The KRS Board of Trustees sues the state. (AP)

1994. Franklin Circuit Judge Bill Graham rules in favor of KRS - the state must put another $25 million plus interest in the pension fund. *State to appeal ruling on pension funds*, Associated Press, April 26, 1994.

State Sen. Joe Meyer writes an opinion piece in response to a State Journal editorial that, in his words, used "the inflammatory phrase 'raiding the retirement systems' to describe a bill I'm sponsoring to restructure the way decisions are made about funding the three retirement systems…" His bill would have appointed an auditor independent of the Kentucky Retirement Systems. Sen. Meyer wrote, "Nothing could be further from the truth.

No 'raid' of the system is envisioned or even possible..." *SB 64 no 'raid' on retirement system*, The State Journal, Frankfort, Ky., Jan. 16, 1994.

1995. Gov. Jones wins the appeal -- Jones v. Board of Trustees of Kentucky Retirement Systems. The ruling says, in part, "While we recognize that the retirement savings system has created an inviolable contract between KERS members and the Commonwealth, and acknowledge that the General Assembly can take no action to reduce the benefits promised to participants, we must nevertheless reverse the trial court. Contrary to the approach it took, the focus of the litigation should be upon what, if any, substantive contractual infringement occurred by virtue of the actions of the Governor and General Assembly in rejecting the recommendations of the Board. We conclude that since there was no showing that any benefit commitment made to KERS members was infringed, or threatened, the Board had no power to mandate rates of contribution and require their adoption."

2002. "The nine-member board of the Kentucky Retirement Systems voted unanimously Thursday to "steadfastly oppose" [Gov. Paul] Patton's plan. The retirement system 'should not be used as a tool to solve short-term budget shortfall,' the board said." *Panel opposes retirement proposal*, Jack Brammer, The Herald-Leader, Jan. 9, 2002. Alessi timeline.

Charles B. Wells, then-executive director of the Kentucky Association of State Employees (KASE) said, "The [Patton] administration should deliver the money the program says is needed to remain solvent. It should not deviate by one penny." *Governor would trim funding for retirement; State employees group opposing 1-year cutback* by Jack Brammer, The Herald-Leader, Jan. 15, 2002. Alessi timeline.

2003. "Preventing Kentucky's government employee retirement systems from running out of money may require hundreds of millions of dollars from tax increases, cuts in other state programs or some economic miracle within 10 years. 'If we just leave it alone, we're going to have ourselves a huge mess,' said Michael Childress, executive director of the Kentucky Long-Term Policy Research Center." Lead and quote from an article by Karla Ward, The Herald-Leader, Dec. 15, 2003. Alessi timeline.

2004. Then-executive director of KRS William P. Hanes and then-KASE executive director Charles B. Wells, both speak out strongly and criticize pension underfunding. Gov. Ernie Fletcher said, "in the future we are going to have to increase that contribution but during tough times we felt like it was not in our ability to meet all of our retirement obligations." *Retirement panel criticizes contribution in Fletcher's budget: amount is far less than actuary calls for*, Jack Brammer, Herald-Leader, February 2004. Alessi timeline.

KRS Member News, January 2004. "The Board of Trustees has the unique responsibility of insuring that sufficient assets are available to fund your benefits during your retirement years. To help fulfill this responsibility, the Board hires an independent actuary to conduct an annual valuation of the retirement systems…As recently as November 2003, the retirement systems were required to invade the principal balance of the KERS trust assets just to pay current benefits and health insurance costs for retirees…"

Over the next two years, KRS executive director Hanes said, Gov. Fletcher's budget would provide $201 million less than what the agency's consulting actuary says will maintain the systems' financial integrity. "This will not affect benefits of current state retirees, but retirees down the road will be affected," Hanes said. *Retirement panel criticizes contribution in Fletcher's budget; Amount is far less than actuary calls for*, Jack Brammer, the Herald-Leader, Feb. 5, 2004. Alessi timeline.

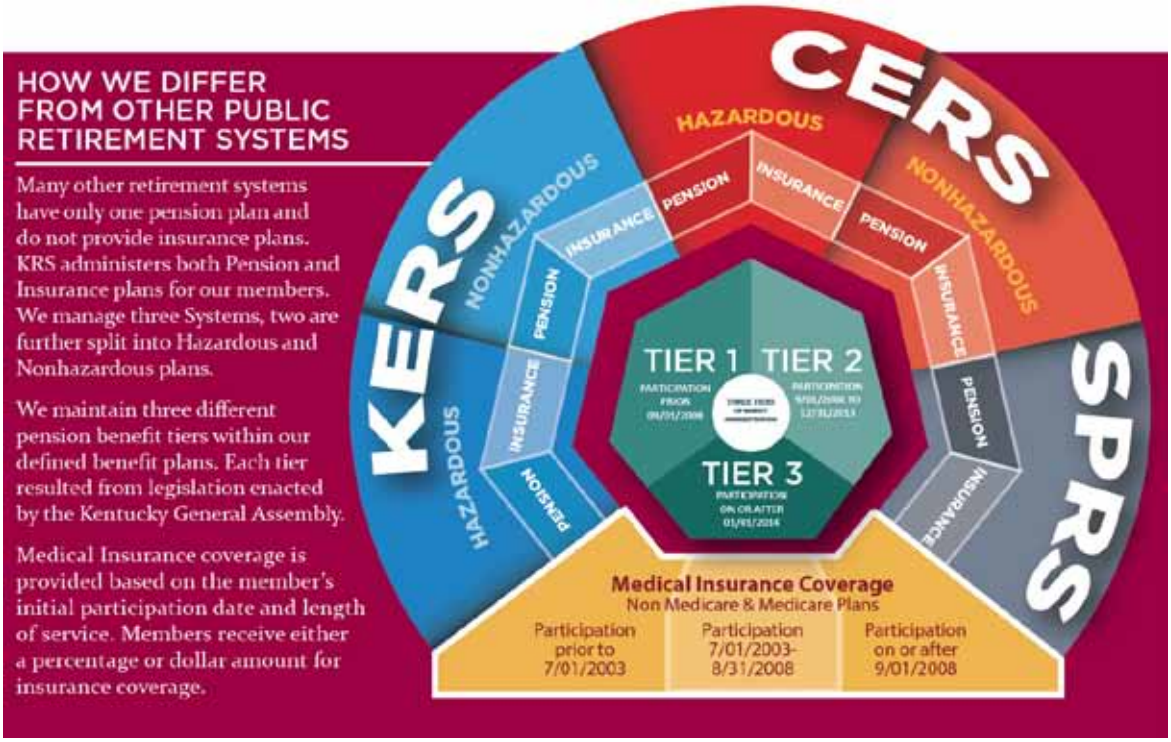
2005. KRS Member News, September 2005. A column compares the three funding sources – contributions from employees, the employer contribution and investment – to a three-legged stool and says, "Instead of having a very stable stool that requires little or no effort to use, it becomes a never ending battle to stay on the stool. That is exactly what has happened to the Retirement Systems. Two of the three legs are just fine. The second leg [the employer contribution], however, has been cut off or shortened to the point where the financial health of the Retirement Systems has become unstable."

2006. In seven of the last 13 years, the system's plans have received less than they were required to receive under current law, including a shortfall of $213 million in the current 2006-08 biennium, according to KRS executive director Hanes. *Retirement System Chief keeps pushing for more funding*, Tedra DeSue, The Bond Buyer, March 30, 2006. Alessi timeline.

2007. Lawmakers must focus on pensions, Owensboro Messenger-Inquirer editorial, Jan. 6, 2007. Alessi timeline.

Calling the spiraling cost of providing health insurance and pensions to retirees a "train wreck waiting to happen," leaders of three prominent advocacy groups urged Fletcher to quickly appoint a task force to recommend solutions and called on lawmakers to spend the state's projected surplus shoring up the systems. *Groups warn of retirement system crisis; Urge broadening of task force promised by Fletcher*, John Stamper, The Herald-Leader, Feb. 2, 2007. Alessi timeline.

2008. Gov. Steve Beshear's proposed two-year budget would increase the roughly $20 billion shortfall in funding for public retirement systems by nearly $800 million. For the next two years, Beshear is proposing the same level of funding that is in place now, which is substantially less than the recommendation of pension experts. *The governor's*



Legislation in 2008 and 2013 created three benefit tiers based on when a member begins contributing. Graphic from the 2014 Comprehensive Annual Financial Report, KRS, Page 7.

budget: Retiree systems' shortfall to grow, Stephanie Steitzer, The Courier Journal, Jan. 30, 2008. Alessi timeline.

There was a benefit change for new employees in 2008. In accordance with House Bill 1, plan members who began participating on, or after, Sept. 1, 2008, were required to contribute a total of 6 percent for nonhazardous and 9 for hazardous of their annual creditable compensation. Five percent for nonhazardous and 8 percent for hazardous of the contribution was deposited to the member's account while the 1 percent was deposited to an account created for the payment of health insurance benefits. Interest is paid each June 30 on members' accounts at a rate of 2.5 percent.

If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1 percent contribution to the 401(h) account is non-refundable and is forfeited.

For plan members who began participating prior to Sept. 1, 2008, their contributions remained at 5 percent for nonhazardous and 8 percent for hazardous of their annual creditable compensation. *2014 Comprehensive Annual Financial Report*, KRS, Page 39.

2009. Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5 percent in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter through June 30, 2014, the COLA was limited to 1.5 percent provided the recipient had been receiving a benefit for at least 12 months prior to the effective date of the COLA. The legislature reserved the right to suspend or reduce the COLA if, in its judgment, the welfare of the Commonwealth so demands. On July 1, 2013, the COLA was not granted. *2014 Comprehensive Annual Financial Report*, KRS, Page 38.

An AP story about the collective hit to state pension plans across the country quoted the KRS then-executive director Mike Burnside: "What you hear concern about out there right now is, 'We the taxpayers are going to be stuck with a bill paying for public pensions. And we don't want taxes raised to pay for public pensions.' And that is understandable," says Burnside. *$1 trillion hit to pensions could cost taxpayers, workers*, Barry Massey, AP, April 6, 2009.

Facing a bleak budget situation, the 2010 legislature will nevertheless be asked to increase the General Fund contribution to the public employee retirement plans by at least $74 million in the next two-year budget period, according to early Legislative Research Commission estimates. That's on top of the more than $177 million allocated in the last biennium for pension and health care costs for non-hazardous-duty personnel. "(The retirement fund) is in a critical funding situation, and we need to get on track," KRS executive director Mike Burnside said. *Public pension plans need $74 million increase*, Stephanie Steitzer, The Courier Journal, Oct. 26, 2009. Alessi timeline.

2010. Kentucky's state pension fund could run out of money in 2019 if contributions remain inadequate and market investments sag, under a worst-case scenario presented to lawmakers Thursday. More likely, by 2018, the fund will pay out nearly half of its assets every year for retiree benefits, making it difficult to get the high returns it needs from large, long-term investments, pension officials said. *Adviser: State pension fund sinking fast*, John Cheves, The Herald-Leader, July 8, 2010. Alessi timeline.

2012. House Concurrent Resolution 162 creates the Task Force on Kentucky Public Pensions. The Task Force issued a report with recommendations in December 2012. The report gave special thanks by name to the "Pew Center on the States and the Laura and John Arnold Foundation," foes of the traditional defined benefit plan.

2013. Senate Bill 2 changes benefits for new employees, yet again, placing new employees under a cash balance plan and ending inviolable contract protections. Plan members who began participating on, or after, Jan. 1, 2014, were placed under a *cash balance plan* – not a defined benefit plan. Members in the cash balance plan contribute a set per-

centage of their salary each month to their own account. Members contribute 5 percent (nonhazardous) and 8 percent (hazardous) of their annual creditable compensation and 1 percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the KRS Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a 4 percent (nonhazardous) and 7.5 percent (hazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution. Information from the *2014 Comprehensive Annual Financial Report, KRS*, Page 38.

2014. Seven Counties Services, a participating employer in KERS, filed for Chapter 11 bankruptcy protection in 2013. In 2014, the U.S. Bankruptcy Court for the Western District of Kentucky held that Seven Counties was entitled to seek relief and rejected its contract with KERS. Seven Counties Services has ceased making contributions on behalf of all its employees.

In June 2014, the city of Fort Wright, a participating employer in CERS, filed a lawsuit against KRS alleging that the Board invested CERS funds in investments that were prohibited by both statutory and common law. In addition, the city alleged that the Board paid substantial asset management fees, which the suit alleges were improper. The case is pending. Information from the *2014 Comprehensive Annual Financial Report, KRS*, Page 65.

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