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Guest columnist: Permanently solving pension crisis requires tough choices

By Frankfort State Journal Opinion

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Guest Columnist

Editor's note: This is the second of two columns by the author addressing Kentucky's pension crisis.

By Troy Adkins

The Kentucky public pensions crisis is the largest financial problem facing the commonwealth. Unfortunately, another legislative session has adjourned and this critical public policy issue has still not been resolved.

Given the ham-handed manner in which this vital public policy issue has been obfuscated for more than a decade, now is the time to steer the financial trajectory of the retirement systems in the right direction. With this in mind, retirees, active employees and new employees need to accept the following changes to their pension benefits in order to resolve this crippling public policy problem.

First, future cost-of-living adjustments should never be granted to any retiree of the Kentucky Retirement Systems or the Kentucky Teachers' Retirement System. COLA benefits are not affordable, particularly for people who will be receiving retirement benefits for more years than

they worked for the state. While this position may seem extreme, it will save a significant amount of money and reverse the financial trajectory retirement systems are heading. Moreover, most people in the private sector no longer have a pension benefit. Of the ones who do, they typically do not receive COLAs. Therefore, given the competitive job market in today's economy, the elimination of COLA provisions is a feasible public policy position.

Second, the eligible retirement date for all active employees must be increased by five years and the benefit multiplier used to calculate retirement benefits must be reduced to around 1.5 percent. The increased lifespan of white-collar professionals dictates that they should work additional years in order to reduce the financial burden that they are placing upon the retirement systems. This provision, in conjunction with a reduction in the retirement benefits multiplier, will save the commonwealth a significant amount of money. Yet, it will still keep in place retirement benefits that are comparable to the private sector.

Third, new employees must be placed in a defined-contribution plan — such as a matching 457 deferred compensation plan for KRS members or a matching 403(b) plan for KTRS members. The plans save the commonwealth a significant amount of money and are comparable to the types of retirement plans that most people receive while working in the private sector.

Fourth, new public employees must be enrolled in the federal Social Security system.

If the members of the retirement systems do not accept all of these proposed changes to their pension benefits, they need to realize that the remaining options for funding the pension crisis will not likely resolve the problem. This, in turn, will have a cataclysmic impact on the commonwealth.

If retirement system members simply want to receive a greater percentage of the tax revenue from the general fund, the people of the commonwealth need to determine how much of the future budgets they want to cut from police, fire, sanitation, public works and parks services. Given the money already spent on public pension benefits, it's doubtful many people outside of the retirement systems will support this type of proposal.

Ironically, some members of the retirement systems still believe that taxpayers can pay more money to fund the shortfall. However, they need to keep in mind there are fewer than 2 million workers who pay state income taxes, and the median annual per capita income in Kentucky is about $26,000. Therefore, it should be obvious there are not enough taxpayers in the commonwealth with the necessary earnings power to pay the amount of tax revenue that is required to bail out the retirement systems.

Lastly, it is a "pipe dream" to believe that legalizing and taxing casino gambling or marijuana will generate the amount of funds necessary to lift the retirement systems out of their financial peril. Clearly, such a proposal is not a valid recommendation for solving the most critical issue facing the commonwealth.

Absent a dramatic change in pension benefits, it appears that the only other feasible option for resolving the pension crisis is to establish a new type of tax revenue source that is tied to products and services that rely on corporate innovation, automation and scalability. Such enterprises will need to generate a significant amount of revenue outside of the state in order to bring in the amount of tax revenue required to fund the mammoth amount of unfunded pension liabilities.