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Guest columnist: Benefit reductions necessary to save pension system

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Guest columnist

The premise of Jason Bailey's column published July 2 ("Take sensible approach on pensions") is that a new tax revenue source needs to be earmarked for Kentucky's outstanding public pension debt. However, it is easy to determine that the pension debt cannot be paid for by raising individual income, property or sales taxes because the earnings power of the people in the commonwealth is not at the necessary level.

And dedicating tax revenue from endeavors such as gaming are only going to have a nominal impact. This means that an increase in corporate income taxes is the only viable funding option. But such taxes would have to be assessed on products sold and services provided to people outside of the commonwealth in order to generate enough tax revenue to materially reduce the debt obligations.

Mr. Bailey also proposes lowering the pension plans' target funding status and lengthening the time horizon for paying off their unfunded liabilities. Unfortunately, such proposals are very costly because the state relies on debt financing for many capital projects. Remember it was only about a year ago when Moody's downgraded the debt issued by Kentucky's state government, warning that the state does not collect enough tax revenue to resolve its $37 billion public pension shortfall.

Indeed, Mr. Bailey's policy proposals would affect the state's ability to borrow money at an attractive rate in the future, which would ultimately foster a lower standard of living throughout the commonwealth.

His proposals would also raise many legal, long-term, inter-generational inequity issues. Given this conundrum, it is becoming more likely that the global capital markets will resolve the pension crisis in Kentucky.

In the not-so-distant future, capital markets are going to decline, the value of the assets in the pension plans are going to follow suit and a greater percentage of assets will have to be held in liquid investments in order to be available to pay retirement benefits. Eventually, the asset base will not be at the level that is required to provide retirement benefits.

Once this occurs, retirement systems will be forced to use active employee contributions to pay retiree benefit obligations.

This is where the inflection point in the pension crisis is going to come to fruition. Retirement system members will see the inevitable insolvency of their pension system and, subsequently, sue in order to protect their contributions from paying for retiree benefits.

Ultimately, active employee members will simply receive a return of their retirement contributions. This will bring an end to the pension crisis and the beginning of a financial hardship for many retirees.

It should be evident that the only solution to the pension crisis is a dramatic cut in pension benefits.
