FUTURE SHOCK

Kentucky's public-pension hole: Deep and getting deeper

(An introductory policy brief)

Kentucky's public-pension hole: Deep and getting deeper

Since its inception in 2003, the Bluegrass Institute has helped Kentuckians hold government accountable by making its actions more transparent and understandable. Topics have ranged from tax hikes, an impending Medicaid financial crisis, benefits and barriers to digital learning, public charter schools and smoking bans to name a few.

Kentucky's public employee pension deficit is like no other subject covered in our prior research. The abuse of power exercised by judges and legislators is breathtaking. They have worked together to line their own pockets with taxpayer dollars through lavish pensions for part-time work.

Politicians also have solidified their power bases through the inclusion of dozens of quasi-government agencies and private-sector positions across the state. For instance, taxpayers are being forced to provide pensions to staff employees of the Kentucky Education Association (a private teachers' union) and other private companies, including a credit union, several attorneys in private practice and not-for-profit organizations.

The Bluegrass Institute will release a series of reports over the next several weeks explaining:

- how Kentucky's pension mess started and grew
- who the players are and who voted for the bills
- gross abuse of the public pension system
- solutions based on free-market principles

Today we release a condensed view of this research of Kentucky's pension situation. We will introduce a few public pension basics and identify some of the quasi-government agencies and private entities included in the taxpayer-backed employee pension plans. The Bluegrass Institute believes these groups belong exclusively in the private sector and should not be allowed to participate in our public pension and health care plans.

Taxpayers on the hook….seriously!

"Inviolable contract" is a phrase you must come to understand.

Gov. A.B. "Happy" Chandler started this pension mess in 1956. Then in 1972, Gov. Wendell Ford and the Legislature found it prudent to make pension benefits unassailable by stating the law is an "inviolable contract."

When an employee enters the pension system, the terms and conditions of their retirement are set in stone on that day. Employee contribution percentages are fixed. The required lengths of time it takes to become vested and eventually retire are set.

The benefits cannot be altered, period. Combine these facts with merit law and you have a highly protected employee, practically guaranteed a lifetime job followed by pension and healthcare benefits. The hook is set in the taxpayers' wallets for the rest of the public employee's natural life and even beyond, continuing with the employee's surviving spouse.

Passing inviolable laws is immoral and an assault on our personal liberties. We as taxpayers are enslaved with these obligations, which last for decades and will be paid by generations yet to be born.

Where do retirement benefits come from?

Keep this in mind when you read about these groups: the average employee-plus-employer contribution to the public employee pension plan covers only 5½ years of a worker's retirement.

The average public employee in a non-hazardous position can retire after 27 years of service. An employee who starts working for the state at age 23 is eligible to retire at age 50. The average American lifespan is roughly 80 years. Simple math shows 30 years of retirement for 27 years of service is a sweetheart deal … for the employee.

When you consider the employee-plus-employer contribution covers only 5½ years of their retirement, it means 24½ years of retirement must be covered by investment returns in the pension plan. If investments returns prove inadequate, taxpayers pay the difference.

Guess what? Investment returns have not met projections and Kentuckians are on the hook for $31 billion, and the number is growing daily.

Transparency….then total darkness

Public employee salaries are readily accessible via the Internet. Want to know how much your child's teacher or principal makes each year? No problem – look it up on the Net. This is how it should be in a well-run government. We deserve as taxpayers to know where our money is being spent, who's getting it and why they get it.

But the day that teacher or principal retires, forget about transparency. Their retirement pay is not public information – even though it will be predominantly funded with taxpayer dollars. Kentucky's pension systems are so secret that taxpayers are not even allowed to know who participates in the plans or how much they receive. Those who run the systems will not say who gets more than one public pension or how prolific the problems may be.

We have people in the pension systems taking home as much – and sometimes far more – than they made when they were actively employed.

Kentucky Education Association (KEA):

KEA is the largest private teachers' union in Kentucky and an affiliated chapter of the National Education Association (NEA). The NEA is one of the largest political lobbying organizations in the United States. During the 2008 presidential election cycle, combined with the American Federation of Teachers (AFT), the NEA outspent AT&T, Goldman Sachs, Wal-Mart, Microsoft, General Electric, Chevron, Pfizer, Morgan Stanley, Lockheed Martin, FedEx, Boeing, Merrill Lynch, Exxon Mobil, Lehman Brothers and the Walt Disney Corporation ***combined.*** (Education Intelligence Agency 11/30/2009)

Legislation passed in 1972 (KRS 161.220.4.f), allowed KEA staff members with prior involvement in any of Kentucky's six public employee retirement plans to join the Kentucky Teachers' Retirement System while employed by KEA. Years of employment in KEA, a private union not subject to open records requests or public disclosure requirements, are credited toward pension benefits as if the employee were still employed by the state.

Strong arguments can be made that KEA is too cozy with many powerful legislators. Its members spend millions lobbying, contributing to and volunteering for politicians who pass pro-KEA legislation.

The 1972 law does state that the commonwealth is not obligated to contribute the employer's portion into the pension system for the KEA employees, but due to the secrecy of the pension systems, there is no way to know if – or how much – the union is contributing. If KEA contributes at the same rate as state government does for the average state employee, then taxpayers are on the hook for most of the retirement benefits for KEA employees who live an average lifespan.

One must ask, "Why?" The only logical answer is that this practice allows legislators to continue currying favor with teachers' unions to keep themselves in power – power acquired at very high costs for taxpayers.

Commonwealth Credit Union:

On July 3, 2011, the Lexington Herald-Leader reported that Commonwealth Credit Union, a privately owned credit union in 1992, was allowed to join KRS because "its customers are government employees."

Currently, Commonwealth Credit Union has 365 members in Kentucky Retirement Systems (253 active employees, 83 current or former employees vested but no longer contributing to the plan, and 29 current retirees.) According to the Herald-Leader article, Commonwealth Credit Union has $890 million in assets and $58 million in annual revenue.

Why is this healthy and profitable private company getting corporate welfare at taxpayer expense?

Allowing Commonwealth to join the state pension system because "its customers are government employees" seems ridiculous. Wal-Mart in Frankfort probably has a very large group of customers who are state workers. Should they also receive state pensions?

Master Commissioners and their staffs:

Master Commissioners exist for each of Kentucky's 120 counties and are responsible for ensuring the legal liquidation of assets foreclosed on by banks and other creditors. They are contractors to our state court system. Master Commissioners' sales are regular happenings across the state.

Master Commissioners are attorneys, and most of them operate private legal practices. They and their staffs are eligible for taxpayer funded pensions. Does this mean that every employee of a private construction contracting firm should also get public pensions because they contract with the state?

Access to Justice Foundation, Inc.:

Access to Justice Foundation is based in Lexington and organized as a Kentucky Non-Profit Corporation, according to current filings in the Secretary of State's office. Contributions are tax deductible, according to www.nonprofitdata.com.

According to Legal Aid Network of Kentucky's website, Access to Justice Foundation "promotes public awareness of the need for public support of legal assistance for the poor. AJF also provides training to legal services staff and private attorneys in legal issues of concern to low-income Kentuckians, by holding seminars and coordinating the sharing of information between providers of legal assistance to the poor."

The Access to Justice Foundation may be an entirely worthy and necessary service provider, and has only seven people in the public retirement system. Still, why is it participating at all?

Housing Oriented Ministries Established for Service (HOMES):

This agency is described online as follows: "Housing Oriented Ministries Established for Service, Inc. is a private non-profit 501(c)3 corporation established to serve the housing needs of low and very low income households in our established service area. HOMES is a Certified Housing Development Organizations (CHDO) allowing access to special set-asides of federal housing funds with which additional housing challenges can be met.

"Housing Oriented Ministries Established for Service, Inc. is exactly what the name implies. It is a Christian ministry with no denominational affiliations. Although several associations have been established, no regular financial support is received."

HOMES has 16 people in the state retirement system.

Is this a violation of the required separation of church and state finances, which is strictly regulated by the Kentucky Constitution? If HOMES' employees can get public pensions, why don't all teachers in private religious schools also qualify?

These are just a few of the 1,701 agencies participating in the Kentucky Retirement Systems. Further investigation will bring more similar revelations, and worse.

Next….The Future Shock Series of Reports?

The Bluegrass Institute is dedicated to promoting free-market solutions to advance freedom defend liberty and build a more prosperous Kentucky.

Our series about Kentucky's retirement systems is intended first to inform, then to offer realistic solutions. A well-informed citizenry and electorate is the best way to bring about positive change that will improve the lives of every Kentuckian.

We are organized as a 501(c)3, funded by individual citizens just like you. We neither accept government funding nor participate in Kentucky's public employee retirement systems. We do not want to do so … just in case you are interested.

You can find out more at www.bipps.org.