



The adages, like the pension deficit, really add up

By Jim Waters

Let's tell the story of Kentucky's state pensions with often-used and well-known adages.

- "What's done is done."

Plenty has— and has not — been done concerning Kentucky's six public-pension funds.

What hasn't been done: facing the problems instead of pushing them aside. Kentuckians heard a lot during this year's regular legislative session about gambling and texting, and heard a lot during the special session about bourbon and drinking.

But Kentuckians have heard nothing about how to pay \$34 billion coming due on [state pension](#) obligations. Yet, this problem dwarfs all these other trivial issues. That's much more difficult for some of the economic illiterates in Frankfort to grasp.

A recent report from the Pew Research Center called "[The trillion dollar gap: Underfunded state retirement systems and the roads to reform](#)" shows Kentucky is one of a handful of states that is not paying a full one-third of its pension liability.

The report assigns one of three grades to states: "Solid performer," "Needs improvement" or "Serious Concerns." Guess which category Kentucky fell in?

Here is how "serious" the state's problem is: Kentucky went from fully funded plans in 2000 — plans that were paid for at 110 percent — to a payment level of only 64 percent in 2008 and an unpaid liability that is 234 percent of the state's payroll.

What happened? Pew researchers concluded that years of "substantially underfunding" plans and "significant benefit increases" brought the state to the economic precipice.

"The problem was compounded by unfunded automatic cost-of-living adjustments for retirees' pensions and incentives that were offered for early retirement," the Kentucky part of the report concluded.

Perhaps the worst offense occurred decades ago when Kentucky lawmakers enacted a policy that stipulated that once enacted, state workers' benefits could never be reduced or eliminated. This leads to the next adage:

- "That's not the way it works in the real world."

Let's hear it from all who want a job that ensures gold-plated retirement and healthcare benefits without any regard to an employer's ability to pay for them. Only those with no remaining brain cells (lawmakers) would deny how good that kind of plan sounds.

But reality shows that those who think such plans can be sustained, especially in economically choppy waters when revenues and investment returns decline, live in a dream world (Frankfort).

Private-sector employers have already discovered that making such promises can threaten a company's existence. Companies such as General Motors Co., which for years tried to sustain such an indefensible benefits plan, has been reduced to a government-owned shell of its previously proud, independent self.

Of course, employers can't shuck and jive with the figures like government can. (Bonus adage: "Figures lie and liars figure.")

If the money to pay benefits doesn't exist, private employers can't do what state government does. The bureaucrats kick in an accounting trick called "smoothing," which spreads out the revenue declines during several years. Such tricks mean that the current crop of legislators can enjoy the perks (re-election) of granting state workers increased benefits and be long gone from office when the negative impact of their dastardly deeds finally comes to fruition.

And private employers cannot hit the ATM (Automated Taxpayer Machine) such as the one found under the dome in Frankfort (the Legislature). This leads to our final adage.

- "Payday someday" is not far off.

When it arrives, will politicians side with a slightly altered version of the state Lottery's pitch: "Someone's going to pay, might as well be you?"

Or will they offer wiser advice: "There's no such thing as a free lunch?"

Or how about: "Where there's a will, there's a way?"

I could go on, but I think you get the point.

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