



Taking a 'commission' on selling bad ideas

By Jim Waters

Just like the administration that created it, the blue-ribbon commission studying Kentucky's public-pension crisis showed no courage in its final report issued two weeks ago.

Then-Gov. Ernie Fletcher appointed the commission in April to determine how the state should deal with a \$28-billion shortfall in the state-worker retirement accounts.

But Kentuckians didn't need a commission to tell them the system remains in dire straits. Solutions abound. The political will to enact them does not.

Irresponsible governance created the under-funded crisis in the first place. The system paid the price for self-serving politicians to fund local pork and win the next election instead of properly funding the retirement accounts.

Now lawmakers – particularly House and Senate leaders – must think beyond short-term political gains that come from doing nothing. If they don't, we're looking at either a massive tax increase or a bankrupt commonwealth.

The commission offered some worn ideas on how to shore up the under-funded accounts, including the credit-card approach of borrowing money. But it mentioned nothing about lengthening the time state employees must work before drawing cushy benefits or changing the benefits structure for future hires – two areas that legislators absolutely must address.

We didn't need a commission to recommend a rope-a-dope approach – including more study, yes, more study! – in order to conclude that requiring employees to work only 27 years before they draw a Cadillac benefits package for life creates a bottomless pit of spending.

You do the math. Someone who begins working at age 25 can retire at 52 with a full package of benefits guaranteed for a lifetime. This is a foolish way to spend taxpayers' dollars, especially in a day when people can work well into their 60s and live until near 80.

State employees and their labor bosses howl and jeer while defending the flush benefits by saying the retirement package makes up for relatively low salaries. Without the bennies, they say, skilled workers would avoid Frankfort like blue-ribbon commissioners avoiding reality.

That's not how the private sector operates, though. For example, the Bowling Green-based Houchens Industries Inc. has grown to become the country's largest employee-owned company. It attracts quality employees – some 11,000 of them – with its innovative retirement-benefit package.

I've talked to some of these employees. The way the company operates drew these highly capable workers to Houchens. Many even take a more modest salary now in order to enjoy Houchens' generous

retirement package later – some in the hundreds of thousands of dollars.

The Associated Press recently reported that Houchens increased revenue from \$200 million in 1994 to nearly \$2 billion in 2006. It can offer the benefits package by contributing “money that the plan uses to pay down debt and buy stock in the company.

“As the debt is paid down, employees receive shares in the company,” the AP reported. “They don't pay taxes on those shares until cashing them out when retiring or leaving the company. That stock reverts to the company once the employee leaves.”

Unlike government's primary source of income – your wallet – Houchens expanded its holdings into the insurance, construction and manufacturing sectors. In fact, the more diversified the company became, the more it and its employees prospered.

If someone forced state government to innovate, cut nonessential spending and find the best deals for taxpayers – just like Houchens does for its customers – government would find a way to attract the best workers while still providing them an adequate retirement plan.

State employee union reps show little interest in contributing to their own retirement or in real solutions. They simply want to remain at the buffet after closing time.

State workers erupt whenever lawmakers broach the idea of them moving from the current defined-benefit system – where taxpayers pay the tab – to a defined-contribution plan, which requires workers to help fund their own retirements through 401(k)-type policies.

After all, it's not like the private sector. If the Houchens' of Kentucky don't change their free-spending ways, they go bankrupt. State government? It uses the ATM – Automated Taxpayers Machine – located in the lobby of the Capitol. And when they get the “insufficient funds” message, they just borrow some more.

Jim Waters is the director of policy and communications for the Bluegrass Institute, Kentucky's free-market think tank. You can reach him at jwaters@bipps.org. You can read previously published columns at www.bipps.org.