Kentucky's Pension Crisis – Frequently Asked Questions

1. What is the inviolable contract and what does the Chamber recommend doing about it?

The inviolable contract is a state law (KRS 61.692) that that prohibits state employees' retirement benefits from being reduced, altered, amended or repealed. The retirement benefits that teachers and local government employees receive have similar protection, although certain benefits for retired teachers (such as health insurance and use of sick leave in calculating benefits) are not covered. The Chamber does not recommend changing the inviolable contract for current public employees or retirees.

2. Why don't teachers receive Social Security benefits?

When Social Security was enacted in 1935, it covered only private-sector workers – no public employees. In the 1950s, however, Congress acted to extend Social Security to state and local government employees. States were given the choice of opting out of the system, and Kentucky chose to do that for participation by teachers while including other public employees in the Social Security system. Kentucky was not alone in making this decision; teachers in 14 other states and the District of Columbia (about 40% of all public K-12 teachers in the nation) also do not pay into or receive benefits from Social Security, according to TeacherPensions.org. (Apparently there was some thought at the time that states could provide better coverage through state pension plans alone.) To compensate for the lack of Social Security coverage, retirement benefits for Kentucky teachers are higher than benefits for other public employees who are paid a similar salary.

3. How many people are in Kentucky's retirement system (both active and retired) and what do the numbers mean for Kentucky's future?

There are currently 213,564 active public employees (including teachers and state and local government employees) participating in Kentucky's retirement systems and 147,452 retirees. These 361,016 Kentuckians, who represent more than 8% of the Commonwealth's population, are counting on these benefits for their future financial security. It is important that Kentucky ensure the financial soundness of the pension systems to honor the promises made to these public workers that the benefits will be there when they need them.

4. People are living longer. Is this one of the contributors to the pension crisis?

Yes, the fact that life expectancy has grown from 62.9 years in 1940 to 78.8 years today contributes to pension debt since many retirees will draw retirement benefits longer than they actually worked. However, other factors play a larger role in the pension problem, such as underfunding of the pension system by the General Assembly over the years and investment losses experienced by the pension systems.

5. Why are Kentucky's pension systems exempt from transparency?

There are no state laws that require Kentucky's pension systems to fully report how much money they spend on investment fees or the amount of pension benefits paid to individuals. The Kentucky Chamber favors full transparency for the systems.

6. Why does the Kentucky Chamber say it would cost more than $8,000 per Kentuckian to fix the pension crisis?

Kentucky's total current unfunded pension liability, the amount it would take to pay all current and future benefits over a 30-year period, was more than $36 billion in fiscal year 2015. Divided among all 4.3 million Kentuckians, this would amount to $8,268 per person.

7. Why has the Chamber taken an interest in this state issue? What does it have to do with the businesses that the Chamber advocates for?

The Chamber is particularly concerned that Kentucky's pension debt has been cited as a key factor in multiple downgradings of Kentucky's bond rating in recent years. The lower ratings increase the state's cost to borrow money and that, in turn, limits public building projects that create jobs and grow our economy. In addition, Kentucky businesses generate approximately 40% of all state tax revenue, and taxes could go up if the finances of our pension systems are not stabilized.

8. Which states also have poorly funded systems? How does Kentucky compare?

A 2015 review of state pension funding by the Pew Charitable Trusts found the 10 worst funded state pension programs were as follows (the worst is number one):

1. Illinois
2. Kentucky
3. Connecticut
4. Alaska
5. New Hampshire
6. Mississippi
7. Louisiana
8. Rhode Island
9. Kansas
10. Michigan

9. What has been done so far to address the pension crisis?

A number of changes have been made to Kentucky pension benefits over the last 10 years. These include limits on health insurance benefits for retirees and requirements that teachers contribute more for retirement and health insurance benefits. The most significant changes were made in 2013 for state and local government employees (but not teachers). The changes placed new employees in a modified 401K-style plan with a guaranteed 4% rate of return; suspended cost of living adjustments for current retirees; and excluded employees hired after January 1, 2014 from the inviolable contract.

10. What is the 2016 Kentucky General Assembly doing to address the crisis?

Legislation is currently pending that would improve transparency in the pension system. Also, Governor Bevin has proposed reducing state spending in some areas and using the savings to put an additional $1 billion, approximately, into the pension systems.