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Pension bill: temporary fix or final solution?

By EMILY ZANTOW ezantow@bgdailynews.com Jul 27, 2019

Was House Bill 1 just another temporary fix, or was it the final solution for Kentucky's ailing pension system?

The bill, penned by Republican Gov. Matt Bevin, delays higher pension rates for regional universities and certain quasi-governmental agencies for one year, after which they will have to choose whether to stay in the current state pension system or switch to an alternative plan.

Employers will receive financial incentives if they decide to freeze current employee pensions and switch to a 401(k)-style plan.

Several Republicans say the bill is a temporary fix that will allow legislators more time to work on the solution.

"It gives them autonomy, and gives them the ability to help us, help them," said state Rep. Steve Sheldon, R-Bowling Green. "It's not meant to be any kind of funding mechanism or major change. There's still a lot of work to be done on the pension."

But many Democrats argue the bill is meant to be a solution designed by Bevin to privatize the pension system by encouraging employers out of Kentucky Retirement Systems.

"It's a manufactured crisis designed by Bevin meant to make the (KRS) insolvent," said state Rep. Patti Minter, D-Bowling Green.

After six days, a special General Assembly session called by Bevin came to a close Wednesday when he signed the bill into law just two hours after it passed in a 27-11 vote in the Senate. At about \$65,000 a day, the special session cost taxpayers about \$396,000.

KRS is raising employee contribution rates as a way to help deal with the \$23.5 billion in unfunded pension liabilities that make it the worst-funded pension system in the nation. Regional universities and several quasi-governmental agencies were previously making a contribution equal to nearly 49 percent of their payroll. But when the new fiscal year began July 1, that rate jumped to about 84 percent.

“The state pays 84 percent, the higher cost, for their employees, so it’s not like we don’t understand what it takes to pay that,” Sheldon said.

Joe Dan Beavers, CEO of the nonprofit LifeSkills Inc. that provides mental health services, said the estimated millions it costs to freeze the rate is outweighed by the money saved.

“If we go away as an agency, the people we serve do not,” Beavers said. “They will just be served by our jail and prison systems that are already overcrowded and overpopulated. They’ll be in hospital emergency rooms, they’ll be in homeless shelters, they’ll be in psychiatric hospitals. All of that is more expensive than the work we do here.”

Without the one-year delay, some affected businesses would have been faced with tough decisions. Hope Harbor Executive Director Melissa Whitley said her nonprofit likely would have had to make cuts to its staff of 11 who serve survivors of sexual trauma.

“Because of our funding sources ... they’re very restricted to what they have to be used for ... we can’t just increase the fees for service to make up those shortfalls,” Whitley said.

Beavers says LifeSkills would have had to contribute \$3.1 million, which he calls “a significant hit.”

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“That’s not the kind of thing we could absorb long term, it would’ve absolutely reduced our services,” Beavers said.

Western Kentucky University had budgeted \$4.5 million for the potential increase, according to spokesman Bob Skipper. Skipper said the bill gives the university more time to figure out its best pension system option, which “must strike a balance” between providing desirable benefits for employees and sustainability for the university.

Beavers said he doesn't know what route LifeSkills will take, but he said switching retirement systems might complicate matters. Under the current language of the bill, businesses that choose to exit KRS would have to buy themselves out by collateralizing their assets.



“That’s a challenging system for almost everyone, in terms of grant opportunities, any type of future growth. I mean part of surviving this and moving forward is the agency growing,” Beavers said.

Whitley said Hope Harbor can't switch because it doesn't have any collateral to put up. Barren River District Health Department Director Matt Hunt said his agency's priority is to keep employees in KRS that fall under the “tier 1 and tier 2” rankings.

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Minter voted against House Bill 1 and said she supports the idea of bringing it to court because it illegally breaks the “inviolable contract.”

The bill “take(s) pension promises away from our public employees and (forces) universities and our quasi-public institutions into choices like throwing their employees off of a defined benefit pension and putting them into a 401(k)-style plan,” Minter said. “If you’re 21, that might be a good deal for you ... but it’s not a good deal for you if you’re mid-career and suddenly you get thrown into a defined contribution pension and off of the benefit that was promised to you.”

Minter said the better solution would have been Democratic-backed House Bill 2, which included a rate freeze and a 20-year pension payoff plan with “realistic” rates.

Sheldon voted for House Bill 1 and called it a creative solution with options.

“The truth is, most of these agencies, they’ve already been pulling people out of the (pension) system and using ... some type of hybrid situation or (they’re) subcontracted labor,” he said. “These are all things that they’ve done to be creative and work through the problems.”

Both Minter and Sheldon plan to meet with constituents over the next few months in preparation for the next regular legislative session that begins in January.

Emily Zantow

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