“What has been will be again, what has been done will done again; there is nothing new under the sun.”

* Ecclesiastes 1:9

Kentucky’s unfunded pension liability was increasing rapidly. Reform was needed. In 2008, Kentucky [“reformed”](https://kyret.ky.gov/archive/Employers/2008_session_changes_employers.pdf) their pension system. The reform said that by 2025 Kentucky should begin fully funding that year’s newly created pension liability. State legislators considered the problem solved. Their reform was to keep digging the pension hole for another 17 years. Keep digging they did.

Kentucky dug so quickly that it now has the second lowest bond rating in the country (only ahead of delinquent and incompetent Illinois). Unfunded liability piled up to [$34-$37 billion](https://blackboard.wku.edu/bbcswebdav/pid-2623340-dt-content-rid-10016653_2/courses/201310ECON42039035/widening%20gap%20factsheets_Kentucky.pdf) (most conservative estimate). By 2012, Kentucky’s pensions were [less than 50% funded](http://www.governing.com/gov-data/state-pension-funds-retirement-systems-unfunded-liabilities-obligations-data.html). Bond rating agencies made it painfully clear that Kentucky should address their pension problem.

Yesterday the state of Kentucky passed a new pension reform bill. As one Kentucky state legislator put it,

[“This is indeed one of the greatest policy achievements of this body and this General Assembly in recent memory,” said Senate Majority Leader Damon Thayer, a Georgetown Republican and sponsor of SB 2.](http://www.courier-journal.com/article/20130326/NEWS0101/303260064/Pension-reform-passes-Kentucky-legislature)

What a low bar the legislature has for success.

Kentucky needs to increase funding to its state pensions by $500 million per year just to stop adding more unfunded liability to the pension system. The new reform adds just $100 million of new revenue (partly accomplished by a $36 million reduction in money going to the state’s roads). I wasn’t a math major, but $100 million does not equal the $500 million needed to stop digging a deeper hole much less increase the solvency of state pensions.

Never mind that the state needs to increase its funding of its retiree health plan by $600 million a year to stop increasing unfunded liability in that system. To wit, the state needs an extra $1.1 billion per year to stop increasing unfunded health and pension liability in the state, and their solution was to raise $100 million a year in new revenue? So they solved less than 10% of the problem and this is the greatest piece of legislation the legislature has passed in years? It may be the case, but only because that is relative to all the other completely stupid things the legislature has done.

On the bright side, the reform said that Kentucky should stop digging unfunded liability in its state employee pension system in 2015. That is better than 2025, but it means Kentucky will continue to dig its pension hole deeper for now.

The pension reform did not even mention or change the Kentucky Teachers Retirement System. KTRS has over [$11 billion](http://www.nctq.org/p/publications/docs/nctq_pension_paper.pdf) of unfunded liability. Only California, Illinois, Ohio, Texas, Pennsylvania, Michigan, New Jersey, and Colorado have more unfunded teacher pension liability and they are all much bigger states. Kentucky’s pension plan for teachers is less than 57% funded. It is one of, if not the, worst teacher pension plans in the country in terms of unfunded liability and it didn’t even warrant a mention in the pension reform bill.

New state workers in Kentucky are moved to a hybrid retirement plan. Rather than have a defined benefit plan, they are guaranteed a 4% rate of return on their defined pension contribution. Where does one guarantee a 4% return on investments these days? Not in US government bonds.

Where will Kentucky get the revenue it needs to meet its pension liability in 2015 and beyond? Expect another large tax increase or big cuts to education spending on the horizon. Since 2008 Kentucky has [cut spending on higher education by 26%](http://www.kypolicy.org/content/kentucky%E2%80%99s-disinvestment-higher-education-part-harmful-national-trend) in real dollars. That is just a start.

Is the pension crisis in Kentucky solved? Hardly; do state politicians consider it solved? Absolutely; that’s what they also thought in 2008. There is nothing new under the sun.