Can Marijuana Help Solve Kentucky’s Pension Woes?
By Steffan Navedo-Perez
Chief Investment Officer
December 19, 2019

An eastern Kentucky lawmaker has introduced legislation that would legalize the use of recreational marijuana to help stymie the unfunded liability facing the state’s retirement system.

“Other states have shown that legalizing cannabis for adult use is a win-win situation for everyone involved,” said Rep. Cluster Howard. “It’s a major revenue generator.”

The legislation would legalize recreational cannabis for adults in Kentucky, allocating 25% of tax and license revenue from sales to the Kentucky Teachers’ Retirement System, and 75% to the Kentucky Employees Retirement System (KERS).

KERS is about 33% funded, and its level sank by a few points recently due to updates in the assumptions of mortality rates for the pension’s beneficiaries.

“Putting that money toward public pensions would free up other state revenues for things like our public schools and universities, and we would see even more money from related economic development and reduced prison, court, and drug-treatment costs,” said Howard.

Michigan, according to Howard, has generated millions in recreational cannabis sales since the state legalized the drug.

Former Chicago mayoral candidate Gery Chico pitched a similar plan to help fund the state pension’s unfunded liabilities, proposing that revenues from casinos and legalized marijuana could help partially mitigate the city’s blooming $28 billion pension deficit. He alleged that the idea could reduce up to $1 billion in unfunded liabilities.

Howard said that Kentucky could reap close to $800 million from recreational cannabis sales, “which is not pocket change,” he said.

“All I hear is you’re not going to raise that much,” Howard said. “Well, it’s a hell of a lot more than what we’re raising now, which is zero. Obviously, this is not going to correct the pension fund crisis, but it’s a step forward, and it’s a positive step.”

Under the law, the state’s alcoholic beverage control board would oversee four types of licensing related to the sale and distribution of recreational cannabis – cultivator, processor, tester, and retailer. Each license would have to be renewed annually.