Kentucky Makes Changes to Free Pension from Funding ‘Death Spiral’
By Steffan Navedo-Perez
Chief Investment Officer
December 18, 2019

Kentucky’s Public Pension Oversight Board (PPOB) approved a slew of proposals intended to help the Kentucky Retirement System (KRS) recover from its perilous position, which sees the pension teetering on a roughly 33% funded ratio.

One of the most consequential proposals approved was a motion to transition the state pension systems away from a so-called “percent-pay model” to a “liability-based model.”

What this means is employers locked into the retirement system won’t have their contribution rate increase as other employers lay off employees, so they are entitled to make lower contribution payments.

“The death spiral is that the remaining employers have to pay a higher rate, which encourages more employers to cut back on their staff, that results in an even higher rate for the remaining, which results in even more cutbacks – it never ends,” a spokesperson for the retirement system told CIO.

“The solution is to take the aggregate liability and assign it to each individual employer, much like a mortgage, and they have a fixed payment over 24 years to pay it off,” the spokesperson said.

Other recommendations approved by the board include improving the pension systems’ ability to absorb “large shocks” potentially caused by volatile economic conditions or inaccuracies in the portfolio’s assumed rate of return.

The proposal would extend amortization periods for additional unexpected changes in the retirement system’s unfunded liabilities. For example, if a mortgage had two years left, and an exorbitant amount was added to the amount due, under current conditions, the KRS would still have just two years to pay that off, but under the new rule, the payment period would be extended by a reasonable timeframe.

Other proposals approved by the PPOB include the addition of representatives of the state treasurer’s office to the board.

“The treasurer is also involved in the retirement systems, so [it’s] a recommendation that the treasurer also be added,” Sen. Jimmy Higdon said in a statement.

State legislators would be admitted as non-voting members to the board as well, with the purpose of helping to educate them about the complex issues facing the retirement system.
The retirement system’s unfunded liabilities recently reportedly grew by approximately $2.2 billion over the past year as of June 30, 2019. The increase was attributed to “changes in the mortality assumption (longer life expectancy), and employee turnover (less than previously expected),” a KRS spokesperson told CIO.

Michael Golden
Director of External Affairs
Maryland State Retirement and Pension System
120 East Baltimore Street | Baltimore, MD | 21202-6700
Tel: 410-625-5603 | 1-800-492-5909| TDD/TTY 410-625-5535
sra.maryland.gov