FACT SHEET

On the Kentucky Employee Retirement System Pension Reform Proposal

In the last two weeks of the 2007 Kentucky General Assembly, the State Senate rushed legislation through that would make major changes to the Kentucky Employees Retirement System. The Senate scheme lowers the employer contribution rate and creates a two tiered system that includes a diminished pension system and implements a risky employee investment system. So far, the State House of Representatives refused to agree with the Senate scheme. Below are some FACTS on this proposal. The Senate proposal could end up in a special legislative session. Know the facts about this important issue that will affect you!

MYTH:

The changes being proposed by the Senate will have no effect on current active or retired employees.

FACT:

The Senate scheme does not change the basic benefits for current active or retired employees, however it will impact these employees:

- The new scheme allows active employees with 10 years or less to cash in their retirement funds and transfer them into the new defined contribution system with no employer matching funds. Many low paid employees may choose more money on their paycheck over a sound secure retirement. In addition the volatility of the stock market may place the financial security of many current active employees who change plans in jeopardy.
- We believe that moving from a guaranteed benefit plan to a defined contribution scheme will cause an increase in turnover in state offices due to the lack of any incentive for employees to stay with the state for more than a few years. An increase in turnover in state government will increase the work loads and responsibilities for current employees, and employer training costs.

MYTH:

The Senate leadership says their scheme was well thought , publicly debated out and supported by the retirement system's own actuarial analyses.

FACT:

- The Senate scheme was developed without public hearings in less than two weeks. Other bills of this magnitude must go through numerous public committee hearings that allow for testimony from all the affected stakeholders.
- The Senate hijacked an existing house bill in order to avoid the normal committee process then passed it without meaningful public debate.
- The actuary, cited by the Senate, has publicly stated that their report was limited in scope and, *"The results are best utilized to show differences and trends, and **not** as an indication of specific expected results."*
- In response to the Senate's attempt to circumvent the legislative process, and in order to promote public debate on the issue, the House State Government Committee convened a special public meeting on Monday, March 26, 2007. At this meeting, the actuary, Mr. Tom Cavanaugh testified that, *"It looks like we're doing an awful lot to gain very little."* and in reference to the new system being proposed by the Senate, *"There's really very little savings that is being generated by that change."*
- The actuary admitted that its' report, cited by the Senate, is not an in -depth analysis of the proposal. This report was put together in less than a week. The actuary stated that a more definitive, comprehensive report would require at least three weeks.

MYTH:
Schemes like this have succeeded in other states and it more closely resembles private sector plans.

FACT:
- There is NO plan anywhere in the country exactly like the Senate scheme.
- Many states like West Virginia, Florida and Nebraska have tried similar plans and found them to be more costly and provide less benefits to the employees. The West Virginia plan was such a disaster that, after just a few years, their legislature was forced to return to a traditional pension system.
- The retirement system's actuary testified that, contrary to public perception, most major corporations continue to provide full pension plan like the current KERS system and/or provide a real hybrid plan with matching contribution to any 401K plan.

MYTH:
If we don't fix this problem now it will result in a $2.2 billion liability next year.

FACT:
- The retirement system actuary testified that they could not validate this figure.
- The actuary testified that the cost of implementing and maintaining the Senate scheme negates any purported benefit of this massive change.
- This problem has been around since 1994. It is important that we do it right the first time rather than doing serious and irrevocable harm to the retirement system.
- The real cost driving liability for the state retirement plan is health care costs which the Senate scheme does not make any attempt to address.

MYTH:
This Senate scheme has bi-partisan support.

FACT:
- There is also bi-partisan opposition to the scheme. Republican U.S. Senator Jim Bunning has publicly stated his opposition to the scheme as has former democratic governor Paul Patton. House Speaker Jodi Richards and the House Democratic Leadership have expressed opposition to the Senate scheme. Democratic State Senators Mongiardo and Scorsone were the ONLY senators to vote against the scheme.

The Senate scheme, if passed, could have a devastating long term impact on the employee retirement fund. In addition there is no doubt that, if this scheme is passed, the teacher retirement plan will be targeted next. KASE & TFSA are working with the Kentucky State AFL-CIO, KEA, AFSCME and other organizations to protect the state pension fund. WE NEED YOUR HELP!

What YOU can do:
- Call, write or e-mail your State Senator and State Representative ask them NOT to pass the Senate Pension scheme and to allow the Governor's Blue Ribbon Commission on Pensions a chance to do its' job.
- Share this flyer with your co-workers.
- Ask your friends and family to also contact their State Senator and State Representatives.

For More Information, Call KASE/AFT at 800-248-5273.
www.aftky.org