Organization: Stable Value Consultants

Title: Consultant former Trustee

Comments: I am a public pension investment consultant and served as a Trustee of the Kentucky Retirements Systems from 2008-2012 and am the author of the book “Kentucky Fried Pensions”

Based on my experience as a trustee I think there need to be tougher standards for rationalizing assumptions to protect honest actuaries from political pressure, and punish those dishonest ones who cut deals.

While for the last 8 years Kentucky Government has shrunk in size, and is expected to not grow, the actuarial assumption of a 4.5% growth in payroll has been kept at KRS and related pensions. This has led to an overstating of funding probably in the hundreds of millions.

Kentucky (within the KRS system) has now what I think is approaching a 14% worst in nation funded pension KERS, which has had its investments commingled with the 60% funded CERS pension.
KERS 14% is mostly explained by receiving 50% ARC payments. However by law Cities and Counties pay every year 100% of the ARC payment and the actuary cannot (or will not due to political pressure) explain why the CERS plan is only 60% funded. (which is the subject of the Ft.Wright lawsuit which claims investment damages from commingling)

The KRS system combines pension and retiree health plans for both state workers (KERS) and county workers (CERS). By law counties and cities have to pay 100% of the ARC payment for both the pension and retiree health plan and get a combined rate each year. Counties and cities were threatening to join the Ft.Wright suit if their ARC payment increased. Under a backroom political deal KRS was able to get the Actuary in 2013 to increase the investment return assumption for the poorly funded retiree health plans from 4.5% to 7.75% to make the overall ARC payment go down. (this was at a time when honest actuaries were forcing investment assumptions down)

The KRS actuary has colluded with staff in the commingling. He agreed over the years that the 14% funded KERS pension and 60% CERS could have the same investment assumption. 7.75% for both, until June 2014 when they both went to 7.5%. This allowed KRS to set identical asset allocations for both plans and essentially commingle the assets. While KERS has been cash flow negative they have not carried large balances since they used the liquidity of CERS.