

National Public Pension Coalition: Bevin plan would further endanger state pensions

BY BAILEY CHILDERS

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Republican candidate Matt Bevin has made public-pension reform a centerpiece of his gubernatorial bid, promising to dismantle Kentucky's pension systems in a misguided attempt to cure the state's financial ills.

Bevin says that as governor he would improve the state's financial outlook by replacing state employees' defined-benefit pension plans with risky 401(k)-style accounts. But that move would rob thousands of Kentuckians of their hard-earned retirement security and could actually prove disastrous to Kentucky's financial health.

For generations, defined benefit plans have afforded public workers the ability to retire with dignity. After dedicating their working lives to serving their communities and paying 5 percent or more of their paychecks into their retirement, police officers, teachers, nurses, firefighters and others can retire with some peace of mind knowing they can count on a modest but stable monthly benefit to cover their basic needs.

The 401(k)-style accounts don't offer the same guarantee and they are also a bad deal for taxpayers.

Like many retirement systems across the country, Kentucky's public pensions took a hard hit during the Great Recession. While other systems have nearly or fully recovered, Kentucky's are still in the midst of recovery. Despite a low unemployment rate and strong growth in state revenue, Standard & Poor's Rating Services this month lowered the state's credit rating, citing the state of public pension systems.

That's a real problem that requires solutions, but what Bevin and a few other lawmakers on the right are suggesting would take us further in the wrong direction.

A switch to 401(k)-style accounts comes with a huge up-front cost. That's because with fewer new workers entering a group retirement system, such as Kentucky's existing defined-benefit plans, there are fewer people in the plan to cover the costs of those who retire.

A rapid change in the demographic makeup of a plan means taxpayers are left to pay for a much larger portion of the retirement benefits owed to retirees.

That's a lesson other states that experimented with 401(k)-style accounts learned the hard way. After closing its defined benefit pension plan in 1997, Michigan's plan went from being 109 percent funded to just 60 percent in 15 years. In Alaska, a similar switch in 2006 more than doubled the state's pension debt by 2014. West Virginia also swapped its teacher retirement system for 401(k)-style accounts in 1991.

The state later passed legislation to move back to a defined benefit after studies showed they offer comparable benefits at a lower cost.



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The fact of the matter is that defined-benefit plans, which pool risks and yield the best returns, continue to be the best option when it comes to providing a large group of workers with a financially stable retirement. In contrast, 401(k)-style plans leave taxpayers on the hook while siphoning money away from workers and into the pockets of Wall Street bankers.

While we look at ways to better Kentucky's financial outlook, we cannot renege on our promise to provide a secure retirement to those who keep us safe, who educate our youth, and who ensure we all have access to the services that make our communities function.

Instead of Bevin's backwards plan, we should focus on immediately fixing obvious problems in the way Kentucky's pensions are managed and looking for real long-term solutions that will get Kentucky's retirement plans back on the right track.

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