The Trillion Dollar Gap

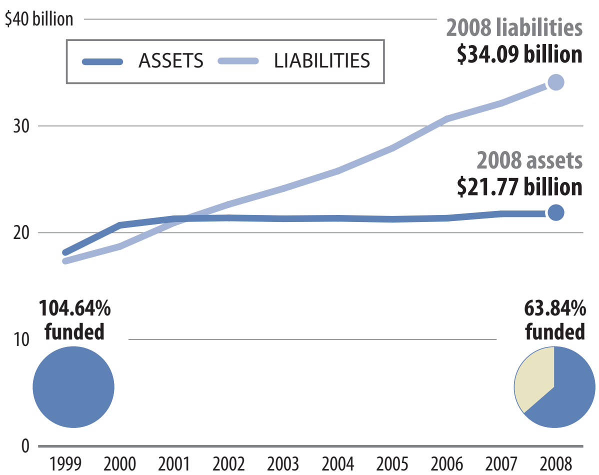
Underfunded State Retirement Systems and the Roads to Reform

Kentucky

KENTUCKY's management of its long-term pension liability is cause for serious concern, but the state is doing a relatively good job in handling the bill coming due for its retiree health care and other benefits. It has funded only 64 percent of its pension bill—well below the 80 percent benchmark that the U.S. Government Accountability Office says is preferred by experts—a result of its failure to fully pay the actuarially required contribution since 2003. The Bluegrass State's pension system had a surplus in 2001, but now faces an unfunded liability of $12.3 billion. Kentucky's legislature passed a bill in 2008 that changed the benefit calculation for new general state and county employees. Similar legislation was passed for new teachers and school employees. In addition, the retirement age was increased for new state employees. Meanwhile, Kentucky ranks seventh in the country in funding its long-term bill for retiree health care and other benefits, although only 10 percent of the cost is covered.

PENSIONS, 1999 – 2008

Kentucky's pension liabilities grew 97 percent between 1999 and 2008, outpacing assets, which grew only 20 percent in that period.



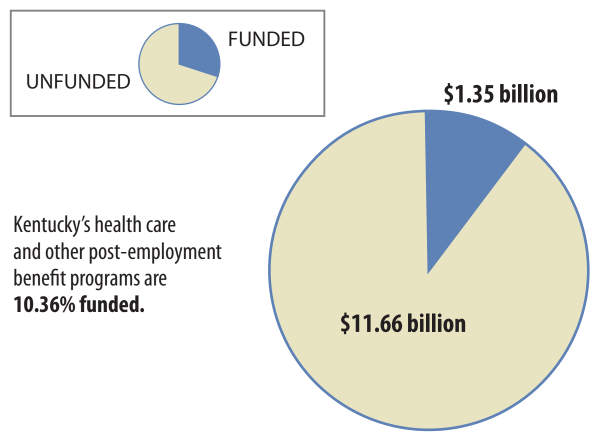
Total Bill Coming Due:	$34,094,002
Portion Unfunded:	$12,328,429
Annual Required Contribution (ARC):	$859,305
Percentage ARC Funded:	66.32%

Note: In thousands

PENSIONS: SERIOUS CONCERNS

HEALTH CARE & OTHER BENEFITS, 2008

Retiree health care and other benefit liabilities are 28 percent of Kentucky's total retirement bill but are 49 percent of the state's retirement funding shortfall.



Total Bill Coming Due:	$13,008,572
Portion Unfunded:	$11,660,245
Annual Required Contribution (ARC):	$1,051,372
Percentage ARC Funded:	24.72%

Note: In thousands

HEALTH CARE & OTHER BENEFITS: SOLID PERFORMER

Solid performer
Needs improvement
Serious concerns

Our grades assess states on how well they manage their retirement obligations. Each state can earn up to four points for its pension plans: two points for a funding ratio of at least 80 percent; one for an unfunded liability below covered payroll; and one for paying an average of at least 90 percent of the ARC during the past five years. Solid Performer = 4 points. Needs Improvement = 2–3 points. Serious Concerns = 0–1 points. Grading for health care and other benefits is simpler because most states have only recently begun to fund and collect data on these liabilities. States are solid performers if they have set aside assets equal to at least 7.1 percent of their liabilities (the 50-state average), or they need improvement if they have contributed less.
For more details, read the full report at www.pewcenteronthestates.org/TrillionDollarGap.

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