Business Monday **Pride of Louisa a shrine to commerce, country music**

LEXINGTON HERALD-LEADER

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Jake had little to do but "supervise" things yesterday as his owner, Will Pettit of Mercer County, unloaded tobacco in Lexington at Big Burley No. 2 on South Broadway.

Future is foggy for state pensions

Benefits are improving, but with unknown effects

By Jack Brammer and Bill Estep
HERALD-LEADER STAFF WRITERS

FRANKFORT — The potential cost of state-employee pensions is raising questions in the Patton administration as the governor looks for money for new programs.

Some officials are concerned that lawmakers have approved a number of pension improvements in recent years without studying the long-term financial impact.

"If we continue to piecemeal these kinds of changes in benefits that impact the financial condition of these funds without looking seriously at what the long-term impacts are of those changes, we could really be impacting the long-term financial health of the system," said Crit Luallen, Patton's cabinet secretary.

Patton wants to fund new, long-term programs in the 2000-2002 budget he will propose in January, and wants a better handle on how recent retirement changes will figure into the financial outlook for the state.

The administration plans to hire an outside consultant for comprehensive study of Kentucky's state-employee retirement system, Luallen said.

State-employee pension programs are in good financial shape now because of successful investments in the booming stock market. In fact, the retirement

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Foster care

center

RETIRE: Healthy stocks decreasing state's costs

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contribution by taxpayers is scheduled to go down substantially in the next two-year budget.

However, state employees will likely ask for more improvements next year.

The Kentucky Education Association wants to double the annual cost-of-living increases for retired teachers. State employees are interested in upping the multiplier used to figure benefits, and also in having their highest three years of salary used to calculate monthly pension checks, rather than the highest five years, which would mean a higher average.

Last summer, Patton had an in-house group try to determine the impact of four pension changes the legislature approved in 1996 and 1998.

The bills:

- Set an annual cost-of-living increase for retired state employees based on inflation, with a cap of 5 percent. Before, there was no guideline for cost-of-living allowances; retirees got raises that varied from good to nothing.
- Allowed longtime state employees to buy five years of service time toward their retirement. That could allow many to retire and begin drawing a pension at a younger age.

That bill kicked in Aug. 1, 1998. In the budget year that ended June 30, 1999, a total of 2,950 state workers purchased the extra years, but not all of them retired.

The state had expected a flood of retirements in the last year, as many as 5,900 — or 17 percent — of the state's 35,500 workers. But only about 2,500 actually retired.

- Increased the number used to determine monthly benefits. The bill set a 10-year window to take advantage of one new rate.
- Allowed hazardous-duty employees to figure their monthly benefits based on the average of their highest three years of salary, instead of five years.

The measures did not apply to teachers and retired teachers, who have a separate pension plan.

A matter of determining costs

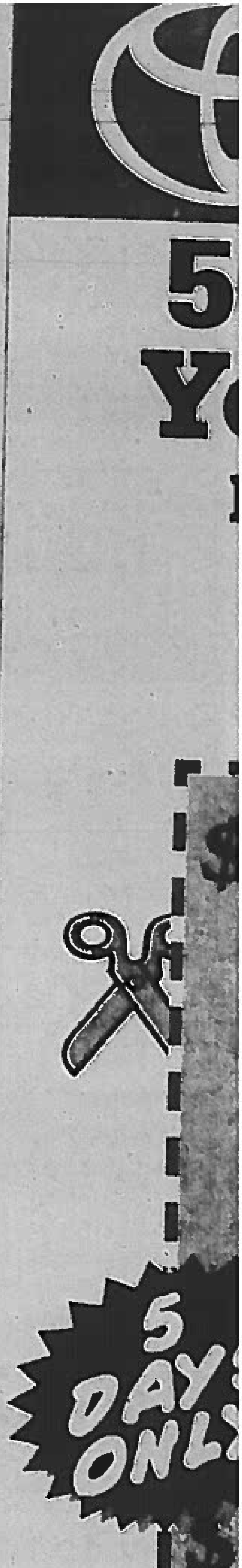
Patton's study group noted a particular concern about how costs are figured under the 1996 cost-of-living bill.

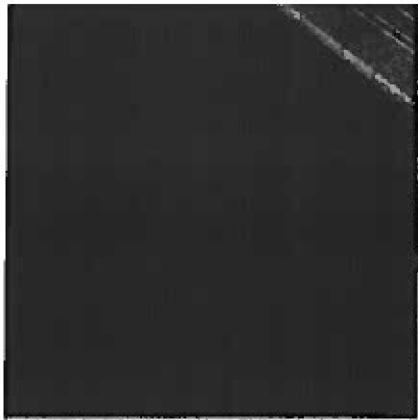
Under that measure, the retirement system can use costs from only the most recent year to calculate how much the state must pay to fund the raises in the next two-year budget.

> *"On the retirement side we're well-funded."*
>
> **Bill Hanes**
> Deputy commission-

That does not allow the board to increase the rate a little more than necessary in the early years to pay for projected higher costs down the road.

Stephen A. Gagel, the actuary who advises Kentucky Retire-





JANET WORNE/STAFF

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ldren's neglect cases

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What review boards do

The stateis 146 foster care review boards make recommendations to the courts and to social workers about what should happen to a child in state custody, based on what they read in case files. Sometimes, they agree with the decision made by judges or state officials. When they don't, their recommendations are considered.

This budget year, the state's foster care review board volunteers:

- Had 1,006 meetings.
- Reviewed 7,221 cases.
- Conducted 17,298 total reviews.

Board members needed

New foster care review board volunteers are needed to review cases of children placed in foster care because of abuse or neglect. Across the state, boards meet at least once a month for about two hours, depending on the number of cases to be reviewed. To volunteer, call (800) 928-2350.

"On the retirement side we're well-funded."

Bill Hanes
Deputy commissioner of Kentucky Retirement Systems

That does not allow the board to increase the rate a little more than necessary in the early years to pay for projected higher costs down the road.

Stephen A. Gagel, the actuary who advises Kentucky Retirement Systems, cautioned it against the short-term accounting method specified in the bill.

"This makes the current cost lower, but at the expense of costs to be passed on to future generations of taxpayers," he wrote in an analysis available to legislators.

If future cost-of-living raises are not recognized as a liability, it ensures the state's payments "will steadily increase over time," Gagel wrote.

Gagel projected that 3 percent annual inflation allowances would add more than $50 million a year to the state's pension cost for non-hazardous employees by 2006.

In explaining the bill before a House committee in 1996, former Sen. Fred Bradley, a Frankfort Democrat who sponsored the measure, said the legislature wonit have to fund the raises if the state doesn't have the money.

That's because the bill exempts the raises from the non-voidable contract between employees and the state.

"I'm hoping that our economy will cover this," Bradley said in 1996.

So far, it has.

The assets of Kentucky Retirement Systems, buoyed by strong investment gains, grew from $3.2 billion in fiscal year 1988-89 to $12.8 billion 10 years later, said Bill Hanes, deputy commissioner of the system.

The system, which administers plans for state and county employees and state police, is more than 115 percent funded, Hanes said.

"On the retirement side we're well-funded," Hanes said.

As a result, the board of the retirement system recently recommended a cut in taxpayers' contribution rate for employee pensions, from 8.03 percent of payroll to 5.89 percent.

That will reduce state General Fund payments to the retirement system for state employees by an estimated $50 million over the next two-year budget, Hanes said.

The state's cost for the raises could someday go back up, however, if the stock market takes a downturn, Hanes said.

Lawmakers also made a change in 1998 — increasing the multiplier used to figure monthly retirement benefits — without putting in money to pay for it right away.

Gagel projected at the time that would result in a $19.9 million shortfall at the end of the biennium, but again, investment gains have covered that.

The bigger concern is the medical-insurance benefit for retired state employees, which is only about 20 percent funded, Hanes said.

The retirement system's actuary said in 1998 that boosting retirement benefits could add to health-insurance costs if it leads significant numbers of employees to retire younger.

Health-care costs have created concerns for state retirement systems nationwide, financial advisors told Patton's study group last summer.

The board of the retirement system has scheduled an increase over 20 years in the state's contribution to fully fund the health-insurance benefit, Hanes said.

The in-house group that looked at the retirement systems last summer concluded that they are financially sound and that pension benefits for state employees are "relatively generous" compared with those of other states.

The group recommended that if the state adds or increases benefits in the future, the true costs should be covered by the state at the time the benefit starts.