The State Journal
Frankfort, Kentucky

IN A RETIREES' UTOPIA…

Uncle Sam would come to rescue of insolvent states

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October 15, 2012

Could it be that one of the reasons Kentucky's political leaders continue to kick the commonwealth's can of unfunded pension-liabilities down the road is because they are counting on a bailout from the federal government?

Why not?

If private companies like General Motors are too big to fail, then what's to keep states like Kentucky that face huge pension liabilities from seeking their own bowl of Washington-made green gravy?

It must have made the hearts of Gov. Steve Beshear and his political pals controlling the House in Frankfort leap with relief when they heard fellow Dem and Illinois Gov. Pat Quinn recently run the idea of a federal bailout for his state's $167 billion pension liability up the political flagpole.

For years – particularly when economic times were good – Kentucky's politicians padded pension and health-care benefits as a way of currying political favor, even bringing private entities into the take. The bloated system now has 1,701 different entities, along with their thousands of employees, connected to our state government's pension teat.

The story of states' failing pension funds has been repeated nationwide. States now face a combined total of $2.5 trillion in unfunded pension costs, including Kentucky's $34 billion liability.

Giving such funding power to cowardly politicians in the first place was like giving car keys and whiskey to teenage boys. An ensuing crash is inevitable, and a bailout would only acquiesce to their disastrous behavior.

In the same way, bailing out these states would be like repeating that process all over again – even after experiencing such disastrous consequence. Besides, do we really want the federal government adding to its already mountainous debt with such bailouts?

As the Wall Street Journal noted while referencing a report by the Illinois Policy Institute, federal bailouts of state pension funds "end up pitting states against each other."

Why should hardworking taxpayers in Washington state – whose pension system at 95 percent funded is the nation's healthiest – be forced to subsidize the abuse of Kentucky's pension system by politicians in the form of overspending and benefit creep during the past several decades, which has left the commonwealth's workers' retirement funding level at barely 30 percent?

This becomes an even more pertinent question when you realize that there has been little interest in ramping down spending by Gov. Beshear's administration. A new Cato Institute report ranking America's governors gives Beshear a "D" for his economic performance, citing "his proposed substantial spending increases in recent years."

To continue proposing "substantial spending increases" even as the state's pension hole sinks deeper and deeper is the height of fiscal irresponsibility.

What's worse, politically cozy retirement-board members have hastened the inevitable wreck by using elaborate accounting maneuvers to offer a much-rosier picture of Kentucky's public pension situation than reality dictates.

By guaranteeing the retirement plans a fantasy-driven 7.75 percent return on investment, the state makes the unfunded liability less than it would be with more reasonable assumptions. It's like deciding that your bank account will reap a 6 percent return, writing checks on those expected funds, and then wanting the bank to cover the difference when the yields are only half that much.

The bank will do something all right – but it won't be covering the difference.

The Wall Street Journal compared the federal-bailout idea to "the GM strategy" employed by labor unions during the automaker's near-demise: "Never make a concession at the state level, figuring that if things get really bad the federal government will have no political choice but to bail out the pensions if not the entire state."

As long as Frankfort's politicians can continue to enjoy the political benefits of protecting the status quo by treating their bloated pension benefits as an "inviolable contract," little incentive will exist to change, and the current administration will drag the commonwealth ever closer to insolvency.