TO: Kentucky Policy Makers
FROM: Pension Reform Team A
RE: Mandating ADC Funding and Raising Revenue
DATE: 18 October 2019

While there are multiple issues that led to our current pension crisis, from poor investment practices and poor actuarial assumptions to increased benefits, the primary cause of the crisis was the failure of the legislature and governor to fully fund the actuarially determined contributions (ADCs) of the systems. This proposal would make the ADCs mandatory spending for the state.

In addition, this proposal offers options for raising revenue to help ease the pressure on the budget to meet the ADCs and to stop other state programs from suffering from funding cuts.

Component 1:
Main Component: Amendment to the Kentucky Constitution which mandates the state to fund the ADC fully

- Upholds fiscal responsibility
- Anticipates strong public support for this amendment
- Will reduce volatility in year-to-year funding
- It is a long term commitment

Component 2: Raising Revenue

1. Reforming our tax brackets to a progressive income tax and limit itemized deductions
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Income	<$37,500 single or <$75,000 married	<$75,000 single or <$150,000 married	>$75,000 single or >$150,000 married
Tax Rate	5%	6%	7%

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    - Would raise $700-800 million
    - Wouldn’t impact the bottom 60% of Kentuckians and would raise an average of $68 for the next 20% of Kentuckians
2. Legalization of Marijuana
    - Would generate $80-200 million yearly with a 25% retail tax
    - Kentucky TRS has invested in the legalization of recreational marijuana for the purpose of funding the pension in other states
3. Taxing CBD & Hemp Products
    - In 2018, Kentucky farmers were paid $17.75 million for harvested hemp, up from $7.5 million in 2017.
    - In Kentucky alone, it is estimated that Hemp will generate $813.2 million in 2019. This proposal would levy a 20% tax on the sale of Hemp. The revenue estimated

would be $40,660,000.