Pension Blues in the Bluegrass State.

Kentucky now carries a dubious distinction: home to the worst-funded U.S. pension in at least 14 years.

On Thursday, Kentucky officials presented the dire financials of its large state-employee fund. It has just $2.4 billion in assets to cover $12.4 billion in future liabilities for the year ended June 30.

The Kentucky Employees Retirement System plan, covering the benefits of around 120,000 state workers, has a funding ratio—the basic measure of assets against liabilities—of just 19%.

That puts it in historically woeful shape versus other large state and local pension funds tracked by the Public Plans Database since 2001. A national database of pension-fund finances doesn't exist for years prior to then.

"It's very bad. I don't think (Kentucky) has a peer in terms of this low level of funding," said Jean-Pierre Aubry, an assistant director at the Center for Retirement Research at Boston College.

Kentucky's 19% is one-tenth of a percentage point lower than the 2003 status of the West Virginia Teachers plan. Other grim years at public-pension plans, according to the Public Plans Database, are: Chicago Police's 29.7% in 2013, the Illinois State Employees Retirement System's 34% in 2014; and the Chicago Municipal Employees' 37% in 2013.

A decade of Kentucky lawmakers short-changing on pension contributions, plus investing losses from the most recent financial crisis, have pummeled a state-employees plan that was close to fully funded in the early 2000s.

In the prior year, the Kentucky fund only had 23.9% of assets needed to cover future liabilities—making it the then-second lowest ever recorded by the Public Plans Database.

A spokeswoman for the Kentucky Retirement Systems, which oversees the state-employees plan, did not respond to a request for comment.

Pension experts say a funding ratio of 80% is an indicator of relative fiscal strength.

At 19%, the Kentucky state workers' plan can't easily make bets in private equity or real estate, because their finances are so tight they need assets that can be quickly converted into cash—in case those funds are needed to cut pension checks to retirees, Mr. Aubry said.

"You're getting close to a pay-as-you-go status, where the money coming in needs to paid out immediately," Mr. Aubry said.

The Public Plans Database is produced by the Center for Retirement Research and partners with the Center for State and Local Government Excellence and the National Association of State Retirement Administrators. It tracks 150 state and local plans.

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