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House Committee on Pensions and Benefits
House Bill 2095 Testimony

Mr. Chairman and members of the committee, I thank you for the opportunity to present testimony on H.B. 2095. I support the state issuing Pension Obligation Bonds to partially fill the unfunded actuarial liability (UAL) for KPERS. As you know the UAL for State/School group is $7.35 Billion as of the 12/31/13 valuation.

The first reaction to issuing debt normally is that we are increasing our spending on some new initiative. But the KPERS unfunded actuarial liability (UAL) that has built up over the last 20 plus years is an existing obligation for the years of service for many employees. It is not new debt.

Actually, Pension Obligation Bonds are more like refinancing the mortgage on your home. The state's current payment schedule to KPERS is increasing over the next several years. Issuing bonds levels out part of that increase in payment and locks in today's lower interest rate. And as long as we earn anywhere close to our expected rate of return of 8%, we will more than pay for the bonds which are expected to require something in the neighborhood of 4.25% - 4.75%.

The state's previous experience at bonding is a successful example. Even though interest rate on the $0.5 Billion bonds issued in 2004 is over 5%, the KPERS return has exceeded that. And this is during a 10 year period when the stock market has had volatile returns.

Even though there is a small risk to this approach, it is a great way to reduce the state's obligation to a lower cost overall to the state general fund budget.

Thank you for your time.