

STATE OF KANSAS  
HOUSE OF REPRESENTATIVES

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**JOHN T. EDMONDS**  
112TH DISTRICT

Testimony concerning KPERS bonding  
Submitted to the  
House Standing Committee on Pensions and Investments  
March 18, 2013

Greetings Chairman Johnson and members of the committee. My purpose in coming before you today is to share my recollections of the previous KPERS bond issue which was completed in 2004. At that time I was serving as Chairman of the Joint Committee on Pensions, Investments and Benefits and as such came to be involved with the investigation and execution of the bond issue after the enabling legislation passed during the 2003 session.

My best recollection is that the bond issue was part of a 2003 long-term funding initiative by the Joint Committee on Pensions, Investments and Benefits, then under Senator Kerr's chairmanship. House Bill 2014, the omnibus KPERS bill for 2003 contained the enabling language authorizing the issuance of a maximum of \$500 million of bonds specifically for the purpose of reducing the unfunded actuarial liability of the KPERS state and school groups. The Joint Committee was tasked with investigating the issue and making a recommendation, which was done in 2004. Final approval by the State Finance Council was also required.

After fees and prepaid interest were deducted approximately \$440 million was deposited in the KPERS trust fund and duly invested. According to Alan Conroy, Executive Director of KPERS, that investment has earned an additional amount of approximately \$320 million resulting in an annualized rate of return of 6.4%, exceeding the bond interest cost of 5.4% by approximately 100 basis points.

Although KPERS has certainly encountered significant funding difficulties in the last decade, ranging from stock market collapse to ill-advised decisions made by previous Legislatures, it is clear that the UAL would be three quarters of a billion dollars higher if the 2004 bond issue had not been done.

You have before you a better opportunity with regard to interest rates than was true "back in the day." At the time 5.4% was a very attractive rate, but now you may very well be able to float a bond issue that saves a further 150 to 200 basis points beyond what was obtained in 2004. I would encourage you to take advantage of that situation by authorizing the issuance of pension obligation bonds in the amount of \$1 to \$2 billion for a period of twenty to thirty years.

Thank you for the opportunity to opine on this proposed legislation. I will be happy to stand for questions at the appropriate time.

**House Pensions & Benefits**

Date: 3-18-13 5:00 PM

Attachment # 6

A handwritten signature in black ink, appearing to read "John T. Edmonds".

**MEMORANDUM**

To: Representative Marc Rhoades, Chairperson  
House Appropriations Committee

From: Alan D. Conroy, Executive Director

Date: February 4, 2013

Subject: Information Requests

During the House Appropriations Committee meeting on January 29, members of the Committee requested the following additional information.

- **2004 Pension Obligation Bonds.** Representative Suellentrop requested information regarding the earnings history of the \$500 million bonds issued in 2004 for reduction of the KPERS State/School Group's unfunded actuarial liability. The bonds were authorized by the 2003 Legislature contingent up approval of the State Finance Council. The Finance Council approved the bonds later that year. KPERS ultimately received \$440 million in net bond proceeds on March 10, 2004. As of December, 31, 2012 the system has earned a 6.4 percent annualized rate of return or approximately \$320 million of growth on the original \$440 million assets. This exceeds the approximately 5.4 percent rate of interest paid on the bonds. The bonds were amortized over a 30-year period with an annual cost of approximately \$36.0 million in debt service. The final debt service payment is scheduled for May 2034.
- **Death Benefit.** Representative Peck inquired about the history of the \$4,000 death benefit that is paid to beneficiaries of KPERS retiree. The death benefit has been in statute since the 1982 Legislature created a \$750 death benefit for KPERS members. That amount has been adjusted several times over the last 30 years. Those changes are reflected in the following table:

<b>Historical Adjustments to KPERS Death Benefit</b>		
<u>Year</u>	<u>Death Benefit</u>	<u>Effective Date</u>
1982	\$ 750	July 1, 1982
1983	\$ 1,000	July 1, 1983
1985	\$ 1,500	July 1, 1985
1986	\$ 2,000	July 1, 1986
1987	\$ 2,500	July 1, 1987
1993	\$ 4,000	July 1, 1993

I would be glad to respond to any other questions you may have regarding KPERS.