

MEMORANDUM

To: Senate Ways and Means Committee

From: Alan D. Conroy, Executive Director ^{A.D.C.}

Date: March 14, 2018

Subject: Proponent testimony on HB 2419; Transfers to the KPERS Trust Fund for payment of the unfunded actuarial liability

HB 2419, as amended by the House Committee of the Whole, creates a mechanism for transferring funds to the Budget Stabilization Fund and to the KPERS Trust Fund when the actual estimated tax revenue receipts exceed the average estimated tax revenue receipts for the preceding three fiscal years.

While it is not possible to estimate how much would be transferred to the KPERS Trust Fund under HB 2419, **KPERS is supportive of efforts to improve the overall funded status of the System.** Specially, any transfers to the KPERS Trust Fund would be utilized to lower the State/School unfunded actuarial liability.

The State pays the entire KPERS employer contribution for all local school employees as a part of state aid to local school districts. The entire State/School unfunded actuarial liability is obligation or debt of the State. KPERS is tolling interest on the unfunded actuarial liability at the current actuarial assumed investment rate of 7.75%. The latest estimate of the State/School unfunded actuarial liability is \$6.7 billion.

Any contributions made in addition to the annual employer contributions will improve the funded status in the short term by increasing total assets. Those assets will be invested in the KPERS Trust Fund and will grow over time and **reduce the amount of State employer contributions that will be required in the future.**

As the bill is currently written, the transfer to the budget stabilization fund is not required if the fund balance exceeds 8% of the preceding fiscal year's state tax receipts. However, there is nothing to stop the transfer of additional contributions to the KPERS Trust Fund, even if the unfunded actuarial liability is fully funded. The Committee may want to consider adding language that would stop the transfer to the KPERS Trust Fund when the unfunded actuarial liability is full funded.

I would be pleased to answer any questions the Committee may have regarding HB 2419.

