

State of Kansas



Jim Denning
Senate Majority Leader

February 12, 2019

Re: Proponent on Senate Bill 9

Dear Chairman Waymaster, Vice Chairman Hoffman, and committee members:

Thank you for allowing me to testify in support of SB-9. Eighteen (18) senators are sponsors on the bill.

SB-9 would make the KPERS payment in the amount of \$115M scheduled in the FY18-FY19 budget cycle. The reason the budget negotiators hesitated on making payment was that they wanted to take the conservative approach to see if tax receipts came in as projected. It was the right decision at the time as they had to make their decision at the end of April with (3) months remaining the fiscal year. The year closed out with the last quarter of FY-18 bringing in \$317M more than estimated. FY-19 is \$13M ahead of estimates as well. As a result, the \$115M is sitting in the approved FY-19 ending balance of \$905M.

The entire \$115M KPERS payment will be credited to the school group. The school group has the lowest funded ratio at 61.6%. Well below the total KPERS funded ratio of 68.4%. A 60% or less funded ratio is considered critical code red status by pension standards. See the table attached.

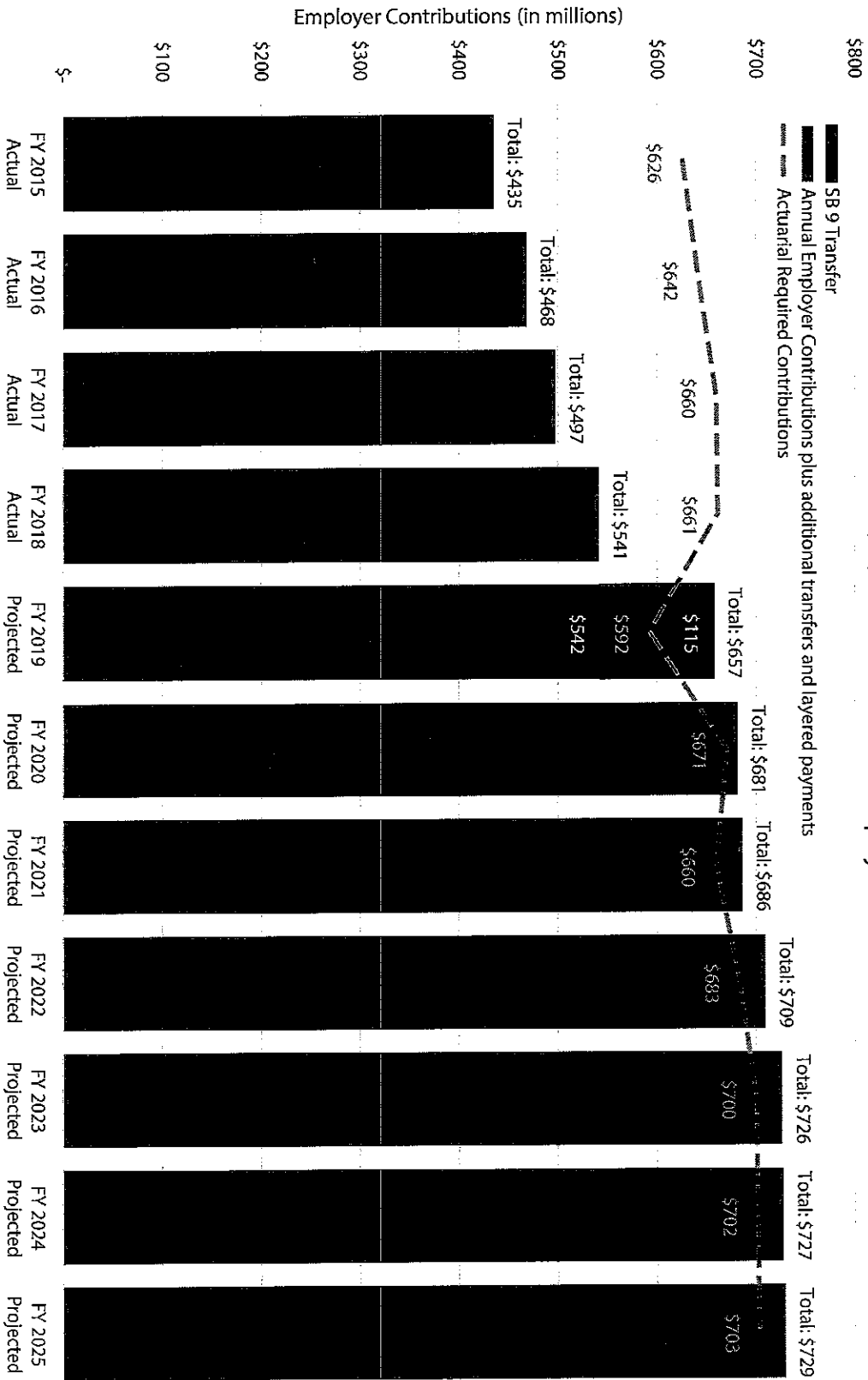
Making the payment will result in FY-19 payments meeting the actuarial required contribution. It will be the first time this has occurred in 25 years. Making this payment sets the course for all future payments to be at the actuarial rate. KPERS states that postponing the payment costs \$630K monthly or approximately \$20K per day.

Making this payment is important and historic. The actuarial rate is met, the funded ratio could increase to 70%, another milestone accomplishment, and future payments beginning in FY-20 will only incrementally increase while significantly reducing the unfunded liability on an annual basis. It is like the last 10 years of a 30-year mortgage where the majority of the payment goes towards reducing principle rather than just paying interest.

Please review the graphic attached.

I'm ready to take questions at the appropriate time.

Senate Bill 9 Actual and Projected State/School Employer Contributions 12/31/2017 Actuarial Valuation projections



Notes:
 1. KPERs received the first \$56 million contingent payment in full on 6/30/2018. The second contingent payment of up to \$56 million will be made if actual receipts in FY 2019 exceed the April 2019 consensus revenue estimates. **This funding projection assumes both \$56 million payments are made in full.**
 2. The delayed payments of \$64 million in FY 2017 and \$194 million in FY 2019 are scheduled to be paid over 20 years on a level dollar amortization.



KPERS Funding

Unfunded Liability and Funded Ratio

| Group | 12/31/2017 Unfunded Liability | 12/31/2017 Funded Ratio |
|---------------------|----------------------------------|----------------------------|
| KPERS-State | \$ 868,776,048 | 80.5% |
| KPERS-School | \$ 5,713,483,520 | 61.6% |
| KPERS-State/School | \$ 6,581,259,568 | 66.0% |
| KPERS-Local | \$ 1,458,333,453 | 72.5% |
| Total KPERS | \$ 8,039,593,021 | 67.4% |
| KP&F | \$ 859,907,027 | 74.1% |
| Judges | \$ 7,713,669 | 95.9% |
| System Total | \$ 8,907,213,717 | 68.4% |