SB 321 Opponent Testimony – Written & Verbal
Senate Committee on Ways and Means
Re-amortization of KPERS
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Chair McGinn and Members of the Committee,

On behalf of the Kansas Policy Institute, we appreciate this opportunity to submit testimony in opposition to SB 321. This bill re-amortizes state and school KPERS liability for over 25 years. Our opposition stems from these positions.

1. SB 321's extension of debt payments would cost the state an additional $4 billion
2. SB 321 extends debt payments on top of an increasingly risky asset allocation
3. SB 321 encourages underestimating of the real costs of providing retirement benefits

SB 321's extension of debt payments would cost the state an additional $4 billion

SB 321 re-amortizes pension debt payments further into the future. While this lowers pension payments over the next few years, it balloons future payments. KPERS executive director Alan Conroy estimated SB 321 would cost the state of Kansas over $4 billion in additional contributions

SB 321 extends debt payments on top of an increasingly risky asset allocation

KPERS's asset allocation continues moving to more riskier assets to see higher returns likely. According to the KPERS 2018 annual report, less than 12% of its investment is risk-free fixed-income assets.[1] Meanwhile, KPERS's portfolio intends to invest more in riskier assets such as "Yield Driven," "Real-Estate," and "Alternative Investments." These assets, while having the potential to provide a higher rate of return, are also more negatively impacted by economic downturns.

With a yield curve inversion occurring in the summer of 2019, a national economic downturn could hit within the next two years.[2] This could lower investment returns or require contributions to exceed current limits. Either way, the current debt would compound and push KPERS's funded ration below its current 64% standing.

SB 321 encourages underestimating of the real costs of providing retirement benefits

SB 321's delay of the KPERS path to full funding put the system into a more dangerous position. The KPERS assumed rate of return of 7.75% is likely too optimistic. According to a 2019 Milliman Public Pension Study, the median expected investment return of the 100 largest U.S. public pension systems is 6.02% in 2018. Eighty percent of the 100 largest U.S. public pension systems have a rate of return below 7.5%.[3] With such relatively optimistic assumptions of returns, SB 321 reinforces these assumptions and thereby exacerbates the fiscal impact of the KPERS delay.

For these reasons, we urge the committee to reject SB 321 in its current form.

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[1] Kansas Public Employees Retirement System, *2018 Comprehensive Annual Financial Report,* https://www.kpers.org/annualreport2018.pdf
[2] MarketWatch, *U.S. Treasury yields fall sharply, 2-year/10-year yield curve inverts, triggering recession indicator,* https://www.marketwatch.com/story/2-year10-year-treasury-yield-curve-inverts-triggering-bond-market-recession-indicator-2019-08-14
[3] Milliman, *2019 Public Pension Funding Study*, https://milliman-cdn.azureedge.net/-/media/milliman/importedfiles/2019_public_pension_funding_study.ashx