MEMORANDUM

To: Senate Ways and Means Committee

From: Alan D. Conroy, Executive Director

Date: March 11, 2020

Subject: Senate Bill 368 and House Bill 2503

Senate Bill 368 transfers $268.4 million in FY 2020 to pay the remaining principal and interest on delayed State/School employer contributions from FY 2017 and FY 2019 and deletes statutory language pertaining to the repayment of the delayed contributions.

House Bill 2503 originally contained both the reamortization of the legacy State/School unfunded actuarial liability and the transfer of $268.4 million for delayed employer contributions. An amendment passed on the House floor removed the reamortization provisions.

House Bill 2503, as amended by the House Committee of the Whole, is functionally the same as Senate Bill 368. However, it should be noted that Senate Bill 368 does include a preamble for the purpose of the payment to the KPERS Trust Fund by stating:

- The State General Fund has a sufficient ending balance to pay off the layered accounts receivable early;
- The pre-payment will save the Kansas taxpayers almost a $1 million a month as compared to the current 20 year schedule of payments;
- By KPERS receiving the funds now, the resources will be able to be immediately invested;
- Once the funds are placed in the KPERS Trust Fund they cannot be removed.

House Bill 2503 does not have a similar preamble.

Impact of Paying the Remaining Balance of Delayed Contributions

The pre-payment of the $268 million will allow KPERS to immediately invest the proceeds rather than having to wait up to almost 20 years to receive the payments. As indicated in the preamble once the funds are placed in the KPERS Trust Fund they can never be removed unless utilized to pay KPERS benefits.

Paying the remaining balance on the delayed employer contributions from FY 2017 and FY 2019 lowers the total amount of interest that will be paid on the delayed contributions. **Making the full payment in FY 2020 is estimated to save $209 million in interest costs for the State**.

However, the additional funding in FY 2020 does not change the actuarial funding of the System. Because the payments are set by statute and the delayed contributions are being paid with interest, the actuarial calculations already include the contributions as though they were paid in FY 2017

KPERS

and FY 2019. The timing of the payments on the delayed employer contributions does not affect the actuarial funding projections.

The repayment schedule and calculated interest savings are summarized in the attached tables.

I would be pleased to answer any questions the Committee has.

Attachment

Remaining Payments on Delayed
FY 2017 and FY 2019 State/School Employer Contributions

	FY 2017 Delayed Contribution Payment[1] (in millions)	FY 2019 Delayed Contribution Payment[2] (in millions)	Total (in millions)
FY 2021	$6.4	$19.4	$25.8
FY 2022	$6.4	$19.4	$25.8
FY 2023	$6.4	$19.4	$25.8
FY 2024	$6.4	$19.4	$25.8
FY 2025	$6.4	$19.4	$25.8
FY 2026	$6.4	$19.4	$25.8
FY 2027	$6.4	$19.4	$25.8
FY 2028	$6.4	$19.4	$25.8
FY 2029	$6.4	$19.4	$25.8
FY 2030	$6.4	$19.4	$25.8
FY 2031	$6.4	$19.4	$25.8
FY 2032	$6.4	$19.4	$25.8
FY 2033	$6.4	$19.4	$25.8
FY 2034	$6.4	$19.4	$25.8
FY 2035	$6.4	$19.4	$25.8
FY 2036	$6.4	$19.4	$25.8
FY 2037	$6.4	$19.4	$25.8
FY 2038		$19.4	$19.4
FY 2039		$19.4	$19.4
Total	$108.8	$368.6	$477.4

[1] The first three payments of the delayed FY 2017 State/School employer contributions have been made as scheduled. There are 17 payments remaining on the current schedule.

[2] The first payment of the delayed FY 2019 State/School employer contributions was made as scheduled. There are 19 payments remaining on the current schedule.

1/6/2020

KPERS

Balance Remaining on Delayed FY 2017 and FY 2019 State/School Employer Contributions on 6/30/2020[1]	
Balance of delayed FY 2017 State/School Employer Contributions on 6/30/2020[2]	$64.073 million
Balance of delayed FY 2019 State/School Employer Contributions on 6/30/2020[3]	$204.339 million
Total Balance Remaining	$268.412 million

1 This calculation assumes that the payments scheduled for FY 2021 (July 2020) are not paid.

2 The total amount delayed in FY 2017 was $64.130 million. There was a one year period before the payments began, which increased the beginning balance due to interest accrued over that year. The remaining balance as of 6/30/2020 reflects the present value of the remaining payments discounted at KPERS investment return assumption (7.75%).

3 The total amount delayed in FY 2019 was $194.023 million. There was a one year period before the payments began, which increased the beginning balance due to interest accrued over that year. The remaining balance as of 6/30/2020 reflects the present value of the remaining payments discounted at KPERS investment return assumption (7.75%).

Total Cost Difference Between Current Repayment Schedule and Lump Sum Repayment in FY 2020	
Total Payments on Delayed FY 2017 and FY 2019 State/School Employer Contributions Over the Next 19 Years	$477.4 million
Balance Remaining on Delayed FY 2017 and FY 2019 State/School Employer Contributions on 6/30/2020	$268.4 million
Total Budgetary Savings if Delayed Contributions are Repaid in FY 2020	$209.0 million