HB 2405 Opponent Testimony – Written-Only
Senate Committee on Ways and Means
Pension Obligation Bonds
James Franko - President
March 22, 2021

Chairman Billinger and Members of the Committee,

On behalf of the Kansas Policy Institute, we appreciate this opportunity to submit testimony in opposition to HB 2405. This bill issues $1 billion in obligation bonds to finance unfunded actuarial liability of KPERS. Our opposition stems from these positions.

1. HB 2405 won't solve Kansas's state pension problems
2. HB 2405 extends debt payments on top of an increasingly risky asset allocation

HB 2405 won't solve Kansas's state pension problems

Back in 2015, Moody's Analytics were critical of then Governor Brownback's administration' efforts to issue a $1 billion sale, similar to the proposal you're considering today, to provide more budgetary relief. Moody's contention was that while the bond sale may reduce the state's pension contributions, it added on more long-term risk. [1]They were quoted,

"Although the (pension obligation bonds) fit into a plan to achieve full pension funding by 2033, adding $1 billion of debt to do it represents a riskier strategy than the simpler alternative of making larger annual pension contributions."

Additionally, considering the legislature is reviewing the legislation before you today, the issuance of another billion dollars in bonds to help KPERS is a sign the first billion dollars was not effective in saving the state pension system.

HB 2405 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.[2] 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 – notwithstanding continued COVID economic problems.[3] 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.

For these reasons, we urge the committee to reject HB 2405 in its current form.

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[1] Reuters, *Kansas' $1 bln bond sale won't solve pension problems -Moody's*, https://www.reuters.com/article/usa-kansas-pensionbonds/kansas-1-bln-bond-sale-wont-solve-pension-problems-moodys-idUSL1N10M2NP20150811

[2] Kansas Public Employees Retirement System, *2018 Comprehensive Annual Financial Report,* https://www.kpers.org/annualreport2018.pdf

[3] 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