



Joint Committee on Pensions, Investments and Benefits

Pension Funding Bonds

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November 20, 2024



Covering Today

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Pension Funding Bonds

Pension funding bond proceeds immediately improve funded status of the Retirement System.

Bond debt is considered “hard debt” and is one of the highest budgeting priorities for the State.

The expectation is that, over time, KPERS’ investment returns will exceed interest rate paid on the pension funding bonds for the State, which in turn will reduce required future employer contributions for the State.



History of Pension Funding Bonds

The State of Kansas has issued pension funding bonds to improve the funded status of the System on three occasions.

In 2004 the Legislature approved the sale of \$500 million, gross of fees and capitalized interest. These bonds (2004C) were sold at a 5.39% interest rate and KPERS received about \$440 million.

In 2015 the Legislature approved the sale of \$1.0 billion, net of fees. These bonds (2015H) sold at a 4.69% interest rate. KPERS received the funding August 2015.

In 2021 the Legislature approved the sale of \$500 million, net of fees. These bonds (2021K) sold at a 2.65% interest rate. KPERS received the funding in August 2021.



2004C Bond Issue

In 2004, the Legislature approved a \$500 million bond issue to be deposited in the KPERS Trust Fund.

The bonds are 30-year maturity bonds with a total interest cost of 5.39%.

The structure of the bonds included capitalized interest totaling about \$60 million.

KPERS ultimately received \$440,165,000 in net proceeds.

Approximate annual debt service is \$33 million. Funding source is the Expanded Lottery Act Revenues Fund.

The remaining principal balance as of 6/30/2023 was approximately \$292 million.



2015H Bond Issue

In 2015, the Legislature approved a \$1.0 billion bond issue, net of fees, with proceeds to be deposited in the KPERS Trust Fund.

The bonds are 30-year maturity bonds with a total interest cost of 4.68%.

The 2015H bonds sold in August 2015 and KPERS received the full \$1.0 billion in proceeds.

Approximate annual debt service is \$65 million. Funding source is the State General Fund.

The remaining principal balance as of 6/30/2023 was approximately \$857 million.



2021K Bond Issue

In 2021, the Legislature approved a \$500 million bond issue, net of fees, with proceeds to be deposited in the KPERS Trust Fund.

The bonds are 30-year maturity bonds with a total interest cost of 2.65%.

The 2021K bonds sold in August 2021 and KPERS received the full \$500 million in proceeds.

Approximate annual debt service is \$24 million. Funding source is the State General Fund.

The remaining principal balance as of 6/30/2023 was approximately \$475 million.



Investment Performance as of August 31, 2024

As of August 31, 2024, investment returns on the System's investment portfolio have exceeded the interest cost of all three bond issues.

The System's average annualized total return for the time period since the 2004C bond issue is 7.53%, compared to the bond interest cost of 5.39%. The value added since issuance, after payment of the debt service, is approximately \$658 million.

The System's average annualized total return for the time period since the 2015H bond issue is 7.84%, compared to the bond interest cost of 4.68%. The value added since issuance, after payment of the debt service, is about \$465 million.

The System's total return for the time period since the 2021K bond proceeds is 3.85% compared to the bond interest cost of 2.65%. The value added since issuance, after payment of the debt service, is about \$20 million.



Considerations

All three pension funding bond issues are 30-year maturity bonds.

The value to the State of issuing the bonds will not be fully known for many years, particularly on the 2021K bond, which was sold just three years ago.

The expectation is that KPERS will be able to invest the proceeds and realize an investment return that exceeds the bond rate. KPERS has earned 7.0% over the past 25 years.

As August 2024, the combined investment experience over the time periods since the sale of the three pension funding bond issues is a net positive to the State with \$1.1 billion in value added. This position is expected to vary over time, depending on market conditions.

