


MEMORANDUM

TO: The Honorable Steven Johnson
House Committee on Insurance and Pensions

FROM: Adam Proffitt, Director of the Budget 

DATE: Wednesday, February 24, 2021

SUBJECT: Testimony for HB 2399 - Proponent

Chairman Johnson and members of the committee,

I submit this testimony to you as a proponent of HB 2399, which seeks to reamortize the KPERs State/School group legacy unfunded actuarial liability (UAL), by extending the current amortization schedule by ten years. The contents of this bill were a key component in the Governor's recommended budget; implementation of this bill will lead to stability and predictability in the state's budget in the coming years.

While state revenues have improved over the past several months, the state (along with the rest of the nation) is still in a period of economic uncertainty; we must be judicious with SGF expenditures and continue to identify areas of SGF savings. Reamortizing the UAL is one tool that will provide immediate relief to the SGF. Under the current amortization schedule, the SGF obligations for the State/School groups range from \$658.6mil in FY22, all the way up to over \$800mil by FY29. Under the proposed reamortization schedule, the FY22 SGF obligation will be \$499.8mil, and will be less than \$600mil in FY29. By extending the amortization schedule for 10 additional years, the state will realize SGF savings of \$158.7mil in FY22, \$160.8mil in FY23 and \$166.9mil in FY24.

In addition to providing needed relief for the SGF, reamortizing the UAL also provides for a more manageable level of employer contribution rates to the plan. Under the current amortization schedule, the required state contribution toward the UAL is projected to be in the 14.5% - 15.1% range; under the reamortization plan, the contribution rate falls by over 3 percentage points, to the 11.3% - 11.9% range. By having a more manageable contribution rate schedule, this provides greater confidence that the state will be able to continue to meet its obligation to this fund, even in an economic downturn. We only have to look back to fiscal years 2017 and 2019 to find a time that the temptation to skip a payment was too great for the state to resist. Any time the state misses

a payment to the UAL, be it a partial skip or a fully missed payment, we will fall behind our schedule, and completely miss any benefit initially derived from maintaining the current amortization schedule.

KPERS				KPERS			
State/School SGF Contributions				State/School Contribution Rates*			
Governor's Reamortization Plan*				Governor's Reamortization Plan			
	Current	Reamort.		Current	Reamort.		
	<u>Baseline*</u>	<u>Plan.</u>	<u>Difference</u>	<u>Baseline</u>	<u>Plan</u>	<u>Difference</u>	
FY 2022	\$ 658,580,448	\$ 499,850,427	\$(158,730,021)	FY 2022	15.09%	11.92%	-3.17%
FY 2023	\$ 668,860,383	\$ 508,043,667	\$(160,816,716)	FY 2023	14.86%	11.74%	-3.12%
FY 2024	\$ 681,996,930	\$ 515,040,885	\$(166,956,045)	FY 2024	14.69%	11.53%	-3.16%
FY 2025	\$ 695,308,626	\$ 521,958,515	\$(173,350,111)	FY 2025	14.52%	11.32%	-3.20%

**Baseline includes \$25.8 million layering payments for skipped contributions in FY 2017 & FY 2019. Governor's Reamortization Plan folds the layering payments into the new contribution rate.*

While the KPERS board completed a study in 2020 and determined that it was not the time to reamortize the UAL, they are scheduled to review this plan again in the coming years. It is widely believed (though not guaranteed) that the board is likely to reamortize the UAL once we are within ten years of the original end date, as is common in many public pension plans. By pulling the timing of the reamortization up a few years, the state will be able to see immediate payoff in SGF savings over the next decade, as well as provide a greater likelihood of meeting its funding obligations on a continual and uninterrupted basis. While the reamortization plan is not without cost, it brings with it a host of benefits that the state can take advantage of over the next decade.

I appreciate the committee's attention on this matter, and I respectfully request that you pass this bill out of committee favorably, as introduced.