Testimony in Support of Reducing KPERS Debt

Presented to the House Committee on Insurance and Pensions
by Derek Schmidt
February 9, 2022

Chairman Johnson and Members of the Committee:

Thank you for the opportunity to submit this testimony in support of proposals to use surplus revenues to pay down our debt to the Kansas Public Employees Retirement System (KPERS).

The booming state revenue projections, fueled by reckless spending decisions made by Congress and the Biden administration, present the State with the opportunity to wisely allocate those funds in ways that shore up our state's balance sheet for years to come.

At the top of that priority list should be reducing our debt to KPERS. The state has made significant progress in recent years in shoring up KPERS, but Kansas still owes a further $5 billion in unfunded liability to the system. That is a legal debt that eventually must be paid, and aggressively prepaying at least $1 billion now will save taxpayers hundreds of millions of dollars in debt service – more than $400 million saved over the next five years, as the attached analysis from KPERS shows.

That would benefit taxpayers, current and future public retirees, and all Kansans who rely on stable state services because it would free up more than $70 million each year to help sustain public education, transportation, and social services or make future tax relief possible. It also would bring the state public pension system to more than 80 percent funded – an industry target we long have worked toward.

This fiscally responsible approach stands in stark contrast with unwise and failed proposals in recent years to *increase* debt in the KPERS system by "reamortizing" payments at a cost to taxpayers of more than $4 billion in added debt service.

Thank you for your consideration of this testimony and for your work in adopting a responsible fiscal plan for our state. I urge you to pay at least $1 billion additional this fiscal year toward the KPERS unfunded liability, in addition to any other KPERS payment or repayments you may make.

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KPERS Funding: The Impact of an Extra $1.0B

An additional one-time State appropriation by June 30, 2022, translates into improved funding immediately and reduced employer contributions in the coming years.

Unfunded Actuarial Liability (UAL) State/School	↓	Decreases by **$1.0B** $4.99B to $3.99B
Funded Ratio Assets/Liabilities State/School	↑	Improves by **4.2%** 77.4% to 81.9%
Future Monies Saved	✓	**$75*** million in State/School contributions in FY 2023 Total savings of **$403M** over first 5 years FY 2023 $75.2M FY 2024 $77.4M FY 2025 $80.9M FY 2026 $83.5M FY 2027 $86.2M State/School employer contribution rate drops from 13.11% to 11.65% in FY 2023.

**Savings for all funds, roughly 85% for State General Fund. Savings based on a payroll of $5.15 billion in FY 2023.*

Timing is everything

- Payment must be made by June 30, 2022
- Savings first reflected State/School employer contributions in FY 2023
- Payment after June 30, 2022, delays impact until FY 2024

Important to know

- Funding over 80% is the short-term goal and rising to 100% is the ultimate goal for full funding.
- Payment would be credited toward the KPERS School unfunded actuarial liability, which is reflected as part of the KPERS State/School unfunded actuarial liability.
- The State pays the entire State/School employer contribution.

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