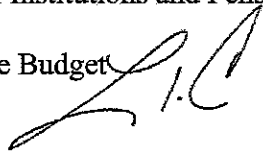


MEMORANDUM

TO: The Honorable Jim Kelly
House Committee on Financial Institutions and Pensions

FROM: Larry Campbell, Director of the Budget 

DATE: Monday, February 3, 2020

SUBJECT: Testimony for HB 2503

Thank you for the opportunity to speak as a proponent of the Governor's reamortization proposal. As you all are aware, reamortization does not harm state employees or retirees. The proposal to re-amortize KPERS for 25 years does not add to the existing balance we now owe. The plan does not take money out of KPERS; rather, it takes a portion of the entire existing obligation, the State/School group portion, and extends the payback period by 10 years. It does not reduce, diminish, jeopardize, threaten, or weaken employee retirement benefits nor the state's obligation in anyway. Nor does it change the KPERS board authority for future reamortization decisions.

Yes, it comes with a cost and it pushes back hitting the projected 80.0 percent funded ratio target from 2029 to 2036. Those are not necessarily negative points; those are just the facts. The Governor clearly recognizes the cost of reamortization. But the cost of not doing it is much greater. By reamortizing KPERS, the state frees up State General Fund (SGF) resources to invest now and rectify the budget devastation of the past decade caused by the great recession and failed tax policy. The Governor believes this is a reasonable cost to achieve not only KPERS payment sustainability, but improves SGF sustainability to fund our commitment to education, provide more resources to KDOT, and provide resources to the critical need's areas of the state. In fact, reamortization should stabilize the state's commitment to our most valued treasures, our State employees.

As KPERS obligations continue to increase, downturns in the economy will make it tempting to delay payments to KPERS, as has been done 11 times since 2010 and as recently as FY 2017 and FY 2019. Restructuring would provide SGF budget sustainability by lowering employer contribution rates. The estimates provided in this testimony came from the KPERS actuary and assumes paying off layered payments of \$268.4 million in FY 2020 and includes only the State/School Group Legacy Unfunded Actuarial Liability.

Reamortization also provides budget sustainability with SGF savings in FY 2021 of \$130.9 million, \$132.4 million in FY 2022, \$157.9 million in FY 2023 and \$162.9 million in FY 2024. Reamortization is a frequently used tool to manage pension systems in other states. Reamortizing KPERS for 25 years simply takes the original 40-year KPERS amortization enacted in 1993, which has about 15 years left on the original term and extends that by 10 more years. Yes, it's a 25-year reamortization, but it only extends it 10 years beyond the existing 15 years remaining on the original plan. And there's a very big "IF" to what I just said. The 15 years remaining assumes that all payments from here on are made perfectly on time, which has simply not been the case in the past. I see several fellow bankers on the committee. Any bond & credit underwriter or banker will tell you... "don't tell me how you hope to make your payments on time in the future, let's see how you've actually made your payments in the past."

Restructuring also provides KPERS payment sustainability by lowering the temptation and risk of skipping payments and then trying to catch up by layering those payments on top of an already escalating obligation.

Restructuring avoids the cliff in 2035. The KPERS annual payments will significantly increase over the next 15 years. The projected payment starting in 2033 is over \$1.0 billion. Just as recently as FY 2019, KPERS payments were delayed and the obligation at that time was only about half of the \$1.0 billion that's coming in 13 years.

I would ask your support in passing HB 2503 from your committee.

Exhibit A-7

COMPARISON OF CURRENT AMORTIZATION SCHEDULE (BASELINE) VERSUS EXTENDING AMORTIZATION OF UNFUNDED ACTUARIAL LIABILITY TO 25 YEARS AT 12/31/17 AND \$268 MILLION PAYMENT OF MISSED CONTRIBUTIONS ON JUNE 30, 2020

Fiscal Year	Rates Set In 12/31 Val In Year	Payroll (\$M)	Baseline: Current Amortization				\$268 Million on 6/30/2020 and Extend Amortization to 25 Years at 12/31/17				Change (Final minus Baseline) Total Contribs (\$M)		
			Actual Rate	Statutory Rate	State/School Group Combined Contribution Amount (\$M)	FY17/FY19 Repayment (\$M)	Total (\$M)	Actual Rate	Statutory Rate	State/School Group Combined Contribution Amount (\$M)		FY17/FY19 Repayment (\$M)	Total (\$M)
2020	2016	4,694.92	14.74%	14.41%	676.54	25.80	702.54	14.74%	14.41%	676.54	294.22	970.75	288.41
2021	2017	4,755.43	14.23%	14.23%	676.70	25.80	702.50	10.85%	10.85%	515.96	-	515.96	(185.54)
2022	2018	4,894.07	14.09%	14.09%	681.12	25.80	706.92	10.80%	10.80%	522.08	-	522.08	(184.84)
2023	2019	4,928.53	14.85%	14.85%	731.97	25.80	757.77	11.49%	11.49%	566.37	-	566.37	(191.40)
2024	2020	5,031.62	15.23%	15.21%	765.44	25.80	791.25	11.81%	11.81%	594.37	-	594.37	(196.88)
2025	2021	5,143.46	15.54%	15.54%	799.18	25.80	824.98	12.09%	12.09%	621.73	-	621.73	(203.25)
2026	2022	5,262.51	16.07%	16.07%	845.44	25.80	871.24	12.59%	12.59%	662.30	-	662.30	(208.94)
2027	2023	5,388.55	16.07%	16.07%	866.11	25.80	891.91	12.56%	12.56%	676.97	-	676.97	(214.94)
2028	2024	5,521.85	16.09%	16.09%	888.31	25.80	914.11	12.55%	12.55%	692.84	-	692.84	(221.26)
2029	2025	5,662.55	16.09%	16.09%	911.00	25.80	936.80	12.52%	12.52%	708.85	-	708.85	(227.96)
2030	2026	5,809.80	16.09%	16.09%	934.63	25.80	960.43	12.50%	12.50%	726.06	-	726.06	(234.88)
2031	2027	5,962.79	16.08%	16.08%	959.07	25.80	984.67	12.47%	12.47%	743.81	-	743.81	(241.06)
2032	2028	6,122.63	16.08%	16.08%	984.39	25.80	1,010.19	12.45%	12.45%	762.14	-	762.14	(248.06)
2033	2029	6,289.08	16.07%	16.07%	1,010.50	25.80	1,036.39	12.43%	12.43%	781.67	-	781.67	(254.73)
2034	2030	6,462.07	16.05%	16.05%	1,036.92	25.80	1,062.72	12.40%	12.40%	801.05	-	801.05	(261.67)
2035	2031	6,642.08	16.03%	16.03%	1,064.90	25.80	1,090.71	12.37%	12.37%	821.80	-	821.80	(268.90)
2036	2032	6,829.69	2.76%	2.76%	188.51	25.80	214.31	12.35%	12.35%	843.48	-	843.48	(276.16)
2037	2033	7,024.85	2.71%	2.71%	190.65	25.80	216.47	12.32%	12.32%	855.75	-	855.75	(283.28)
2038	2034	7,227.99	2.67%	2.67%	193.01	19.39	212.40	12.30%	12.30%	869.01	-	869.01	(290.60)
2039	2035	7,439.46	2.63%	2.63%	195.63	19.39	215.03	12.27%	12.27%	883.01	-	883.01	(297.77)
2040	2036	7,661.81	2.78%	2.78%	212.89	-	212.89	12.42%	12.42%	951.49	-	951.49	(305.00)
2041	2037	7,893.88	3.46%	3.46%	274.97	-	274.97	13.13%	13.13%	1,036.73	-	1,036.73	(312.23)
2042	2038	8,138.97	3.16%	3.16%	256.96	-	256.96	12.81%	12.81%	1,042.37	-	1,042.37	(319.40)
2043	2039	8,397.58	2.38%	2.38%	200.25	-	200.25	12.04%	12.04%	1,011.45	-	1,011.45	(326.57)
2044	2040	8,668.03	2.03%	2.03%	176.19	-	176.19	11.68%	11.68%	1,012.65	-	1,012.65	(333.74)
2045	2041	8,949.95	0.98%	0.98%	88.06	-	88.06	10.62%	10.62%	950.84	-	950.84	(340.91)
2046	2042	9,242.58	0.44%	0.44%	41.07	-	41.07	0.39%	0.39%	36.45	-	36.45	(4.62)
2047	2043	9,545.14	0.42%	0.42%	39.88	-	39.88	0.38%	0.38%	36.06	-	36.06	(3.82)
2048	2044	9,856.33	0.40%	0.40%	39.48	-	39.48	0.37%	0.37%	36.52	-	36.52	(2.96)
2049	2045	10,176.64	0.39%	0.39%	40.18	-	40.18	0.37%	0.37%	38.14	-	38.14	(2.04)
2050	2046	10,506.84	0.38%	0.38%	39.92	-	39.92	0.36%	0.36%	37.81	-	37.81	(1.10)
					16,009.95	503.26	16,513.20			20,576.08	294.22	20,870.29	4,357.09

The baseline scenario reflects repayment of the reduction to the FY 2017 State/School contributions of \$64 million, as a level dollar amount over 20 years beginning FY 2018, and a reduction of the FY 2019 contribution of \$194 million, with repayment as a level dollar amount over 20 years beginning in FY 2020.

The alternate scenario reflects repayment of the reduction to the FY 2017 State/School contributions of \$64 million and the reduction of the FY 2019 contribution of \$194 million, with a one-time payment of \$268 million on June 30, 2020. In addition, the amortization period for the Legacy Unfunded Actuarial Liability (UAL) base is extended from 15 years to 25 years in the December 31, 2017 valuation. Note that layered amortization is used for all future changes to the UAL and all other existing layers continue to be amortized using the existing amortization periods and method.

Contribution rates that are bolded represent the Actuarial Required Contribution date and rate. Note numbers may not add due to rounding.

Projections are based on the December 31, 2018 actuarial valuation and assume that all assumptions are met in the future, including the 7.75% assumed rate of return. To the extent actual experience differs from that assumed, the actual valuation results in future years will also differ from the projections shown here. Please see the December 31, 2018 valuation report for details on the actuarial methods and assumptions used in this study.

Exhibit B-7

COMPARISON OF CURRENT AMORTIZATION SCHEDULE (BASELINE) VERSUS EXTENDING AMORTIZATION OF UNFUNDED ACTUARIAL LIABILITY TO 25 YEARS AT 12/31/17 AND \$268 MILLION PAYMENT OF MISSED CONTRIBUTIONS ON JUNE 30, 2020

Dec 31 Year	Baseline: Current Amortization					\$268 Million on 6/30/2020 and Extend Amortization to 25 Years at 12/31/17				
	Unfunded Actuarial Liability (\$M)	Actuarial Liability (\$M)	Actuarial Assets (\$M)	Funded Ratio	Unfunded Actuarial Liability (\$M)	Actuarial Liability (\$M)	Actuarial Assets (\$M)	Funded Ratio		
2018	6,756.33	19,958.81	13,202.48	66.1%	6,756.33	19,958.81	13,202.48	66.1%		
2019	6,887.71	20,555.98	13,668.27	66.5%	6,887.71	20,555.98	13,668.27	66.5%		
2020	6,968.95	21,121.02	14,152.07	67.0%	7,052.38	21,121.02	14,068.64	66.6%		
2021	7,045.55	21,655.37	14,609.82	67.5%	7,302.78	21,655.37	14,352.58	66.3%		
2022	7,226.10	22,161.27	14,935.17	67.4%	7,673.38	22,161.27	14,487.89	65.4%		
2023	7,077.02	22,645.29	15,568.27	68.7%	7,735.49	22,645.29	14,909.79	65.8%		
2024	6,877.11	23,126.18	16,249.07	70.3%	7,769.48	23,126.18	15,356.70	66.4%		
2025	6,615.40	23,593.57	16,978.18	72.0%	7,766.21	23,593.57	15,827.37	67.1%		
2026	6,294.19	24,050.52	17,756.33	73.8%	7,729.68	24,050.52	16,320.85	67.9%		
2027	5,922.13	24,502.21	18,580.07	75.8%	7,670.92	24,502.21	16,831.29	68.7%		
2028	5,494.59	24,950.78	19,456.18	78.0%	7,587.87	24,950.78	17,362.91	69.6%		
2029	5,006.92	25,398.12	20,391.20	80.3%	7,478.33	25,398.12	17,919.79	70.6%		
2030	4,453.98	25,847.33	21,303.34	82.8%	7,339.75	25,847.33	18,507.58	71.6%		
2031	3,829.97	26,293.43	22,469.45	85.4%	7,169.45	26,293.43	19,129.98	72.7%		
2032	3,128.69	26,754.92	23,626.23	88.3%	6,964.28	26,754.92	19,790.65	74.0%		
2033	2,343.92	27,216.70	24,872.78	91.4%	6,721.27	27,216.70	20,495.43	75.3%		
2034	1,468.54	27,688.27	26,219.73	94.7%	6,437.13	27,688.27	21,251.14	76.8%		
2035	964.19	28,170.33	27,206.14	96.6%	6,107.64	28,170.33	22,062.69	78.3%		
2036	886.63	28,664.22	27,777.60	96.9%	5,728.66	28,664.22	22,935.56	80.0%		
2037	800.39	29,175.91	28,375.53	97.3%	5,295.97	29,175.91	23,879.94	81.8%		
2038	704.85	29,710.99	29,006.14	97.6%	4,804.79	29,710.99	24,906.20	83.8%		
2039	591.66	30,269.97	29,678.31	98.0%	4,242.66	30,269.97	25,027.31	86.0%		
2040	428.90	30,862.96	30,434.06	98.6%	3,572.53	30,862.96	27,290.42	88.4%		
2041	230.64	31,496.58	31,265.94	99.3%	2,802.63	31,496.58	28,693.95	91.1%		
2042	57.07	32,171.87	32,114.80	99.8%	1,986.77	32,171.87	30,185.10	93.8%		
2043	(85.80)	32,894.78	32,980.58	100.3%	1,124.73	32,894.78	31,770.05	96.6%		
2044	(179.69)	33,669.46	33,849.12	100.5%	228.63	33,669.46	33,440.82	99.3%		
2045	(207.82)	34,494.19	34,702.01	100.6%	(227.91)	34,494.19	34,722.10	100.7%		
2046	(211.04)	35,368.56	35,579.61	100.6%	(228.24)	35,368.56	35,596.80	100.6%		
2047	(212.35)	36,291.93	36,504.28	100.6%	(227.30)	36,291.93	36,519.22	100.6%		
2048	(212.57)	37,263.85	37,476.41	100.6%	(225.03)	37,263.85	37,489.87	100.6%		

Projections are based on the December 31, 2018 actuarial valuation and assume that all assumptions are met in the future, including the 7.75% assumed rate of return. To the extent actual experience differs from that assumed, the actual valuation results in future years will also differ from the projections shown here. Please see the December 31, 2018 valuation report for details on the actuarial methods and assumptions used in this study.

The baseline scenario reflects repayment of the reduction to the FY 2017 State/School contributions of \$64 million, as a level dollar amount over 20 years beginning FY 2018, and a reduction of the FY 2019 contribution of \$194 million, with repayment as a level dollar amount over 20 years beginning in FY 2020.

The alternate scenario reflects repayment of the reduction to the FY 2017 State/School contributions of \$64 million and the reduction of the FY 2019 contribution of \$194 million, with a one-time payment of \$268 million on June 30, 2020. In addition, the amortization period for the Legacy Unfunded Actuarial Liability (UAL) base is extended from 15 years to 25 years in the December 31, 2017 valuation. Note that layered amortization is used for all future changes to the UAL and all other existing layers continue to be amortized using the existing amortization periods and method.

Numbers may not add or subtract due to rounding.