

State of Kansas
House of Representatives

State Capitol
Topeka, Kansas 66612
785-296-7696
steven.johnson@house.ks.gov



10197 S. Hopkins Rd.
Assaria, Kansas 67416
785-829-0319

Steven C. Johnson
Representative, 108th District

HB2503

Thank you Chairman Kelly and members of the committee.

Ten years ago, I had the privilege of working with Chairman Kelly as we considered pension reform. The payments at that time were on an ever-increasing track from under \$300 million to just over \$2 billion in the last year of our amortization. Through great effort, legislative leaders have worked to reduce the liability and those payments. While the current payment schedule remains daunting, we have made great progress.

We have heard the suggest to re-amortize before. The amortization schedule is up the KPERS Board. Both the board and the legislature have consistently rejected the idea of re-amortizing at this time.

The reason is simple. While funding our pension liability is hard, putting it off only makes it harder. The interest rate of 7.75% compounds quickly. Currently, the cost of interest, layering payments and a year of service is \$641 million. If we pay more than that, we reduce our principal which in turn reduces future interest costs. If we make a payment below that amount, the liability and future interest grows.

The KPERS actuary has explained the concept of “negative amortization”. This is where the payments made to the system are less than the increase in liability for the year. This is my primary concern.

Another concern is how long we choose to extend the payments. The interest cost works mightily against us as we extend the time. I suggest we carefully consider the long-term cost of reducing payments today.

There are different ways the KPERS board could choose to amortize the liability. Both our current and the proposed amortization schedules are based on a level percent of payroll. Negative amortization results in this method during the first years. Then the payments grow to larger numbers and the liability is extinguished in the later years.

Another method is a level dollar amortization. This is more like traditional mortgage payments where we pay the interest and a small amount of principal in the first year. This isn’t necessarily the “right” method, but I offer it to illustrate different options.

The KPERS board reviews re-amortization every three years. I believe at the appropriate time they will recommend the legislature consider such a move.

I expect there may be a year where the payment cannot be fully met, regardless of the payment method we choose. Further, should the legislature return to systematic underfunding, I would rather target a

higher payment schedule. My primary concern for KPERS is meeting the liability as efficiently as we can. If for example, a funding plan asking for \$750 million receives \$650 million, I prefer that to a funding plan for \$550 million that is met.

I would be remiss to not recognize the work presented by the budget director and how we can to work together. There are at least two points on which we agree.

- 1.) Adding a contribution to pay off the layering from earlier years is a good idea for the system. It is also a good match for some of the revenues that have come in over our projections.
- 2.) Re-amortization is appropriate at some time. I do not believe we need to pay \$1.09 billion in our last year of the current schedule and drop precipitously the next. The question for us to consider together is at what point we best level out those payments.

At this point, we have come too far to go back to the way things were. We have exhausted many tools available to address the unfunded liability. The remaining task we have is to apply the required funds. Our current ending balance allows us some flexibility to address budget issues. Reducing KPERS contributions now would compound future issues of meeting growing needs. This is particularly concerning when we review the limited annual increases in many of our revenue streams.

Thank you for your consideration and I am happy to respond to questions at the appropriate time.