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January 31, 2012

Ms. Elizabeth Miller
Acting Executive Director and Chief Financial Officer
Kansas Public Employees Retirement System
611 S. Kansas Ave., Suite 100
Topeka, KS 66603-3803

Re: Cost Study on Removing 80% Maximum Benefit for KP&F

Dear Liz:

This letter is intended to provide further explanation of the results of the cost study prepared by Cavanaugh Macdonald on January 27, 2012 regarding the cost impact of removing the 80% maximum benefit limitation for the Kansas Police and Firemen's Retirement System (KP&F) and providing for a level contribution rate of 7% of pay for the member's entire career.

Removing the 80% maximum benefit level is a benefit enhancement which will result in some KP&F members receiving higher benefits than they would have under the current benefit provisions. The higher benefits impact the System's funding in two ways: (1) increases the normal cost rate, which is the cost of benefits allocated to the current year of service for active members and (2) increases the unfunded actuarial liability, which is the costs allocated to past years of service that should have been funded at a higher level to provide for the increased benefit. The increase in the normal cost rate, as shown in our letter, was 0.10% and the increase in the UAL payment to finance the higher UAL created by the benefit change was 0.28% for a total cost of 0.38%. In other words, if the additional contributions to be made to KP&F were at least 0.38% of the total payroll of all members, the removal of the 80% maximum benefit could be considered "cost neutral". As explained below, this is not the case so there is a cost to the System that would result in an increase in the employer contribution rate.

A review of the December 31, 2010 actuarial valuation report indicates that the effective employee contribution rate for future years for the current members was 6.79%, which reflects the impact of employee contributions dropping to 2% once the member reaches 32 years of service. Moving to an employee contribution rate that is 7% of pay for all years of service only increases the effective member contribution rate by 0.21% (7.00% - 6.79%). While the increase in expected employee contributions is more than sufficient to cover the increase in the normal cost rate, it is not sufficient to also cover the amortization of the increase in the UAL. As a result, the proposed change is not cost neutral.

House Pensions & Benefits
Date: 2-1-12
Attachment # 3

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We recognize that the results of the cost study prepared for HB 2263 may not be the same as the studies previously performed. However, there are reasons that the results may differ. A different actuarial valuation is being used as the baseline measurement (December 31, 2010 valuation). As a result, the membership data has changed which would include changes in the number of Tier I and II members as well as the general demographics of active members. In addition, the December 31, 2010 valuation was prepared by a different actuarial firm and, therefore, was based on results from different actuarial software. As a result, the valuation measurements, including the normal cost rate, effective member contribution rate, and unfunded actuarial liability, have changed slightly, which is not uncommon in a transition situation. It should be noted that any differences in the December 31, 2010 valuation results due only to the change in the valuation software were quantified and were relatively small. However, because the cost of the proposed benefit change is so small, these small differences due to different valuation software and changes in the active member demographics may be enough to change the findings of the cost study from that performed several years ago.

If you have any questions or additional information is needed, please let us know.

Sincerely,

Patrice Beckham

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Principal and Consulting Actuary

Brent A. Banister

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