

December 18, 2014

The Honorable Jeff King  
Senator, District 15  
1212 N. 2nd Street  
Independence, KS 67301

Dear Senator King:

As you know, great strides have been made in the last few years to structurally reform and better fund our KPERS system. As part of the fiscal year 2015 allotment plan announced last week, the KPERS employer contribution rate was rolled back to the fiscal year 2012 level. This is a short-term move and one that we will not be carried forward into the Governor's fiscal year 2016 and 2017 budget proposals that he will outline in January. The employer contribution rate will be restored to its statutory level.

While the Governor's budget proposal will reset the employer contribution rate to its statutorily set level, we do believe that additional reform options need to be studied. In the short-term, we would respectfully request that the Joint Committee study and/or update modeling, or commission the KPERS Board of Trustees, to show the fiscal impact of the revision of actuarial methods by moving to a market value of assets for the purposes of valuations and also the impact of re-amortization of actuarial liability by extending the amortization period. In the long-term, we would request that the following options be studied:

1. Issuing bonds to reduce the unfunded actuarial liability with net proceeds in the amount of \$1.0 billion and \$1.5 billion with debt service from a source other than employer contributions.
2. Revision of the plan design for new hires and non-vested members of KPERS
  - a. Member election of cash balance or defined contribution plan
  - b. Hybrid cash balance/defined contribution plan
3. Emerging trends in the private sector such as annuitization.

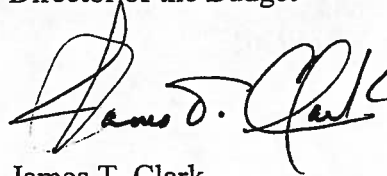
These are options that we believe have been studied in the past and need to be updated, or are suggestions that have been brought to us over the last few months. We do believe that

further reforms do need to be made to the KPERS system and look forward to working with the Legislature to ensure that possible changes create the proper balance between a competitive and sustainable pension system for State employees and Kansas taxpayers.

Sincerely,

A handwritten signature in black ink, appearing to read "Shawn Sullivan", with a long horizontal line extending to the right.

Shawn Sullivan  
Director of the Budget

A handwritten signature in black ink, appearing to read "James T. Clark", with a long horizontal line extending to the right.

James T. Clark  
Secretary of Administration