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February 20, 2015

Mr. Alan Conroy
Executive Director
Kansas Public Employees Retirement System
611 S. Kansas Ave., Suite 100
Topeka, KS 66603-3803

Re: Cost Study on House Bill 2250

Dear Alan:

As you requested, we have completed an actuarial cost study to estimate the cost impact of House Bill 2250 (HB 2250). This bill provides for a one time ad hoc cost of living adjustment (COLA) commencing July 1, 2015 to members who retired on or before July 1, 2009. The amount of the COLA varies depending on the date of retirement, as shown in the table below:

Amount of Ad hoc COLA	Eligibility Requirement	Retirees and Beneficiaries Count
0.0%	Retired after July 1, 2009	24,829
0.5%	Retired on or before July 1, 2009	21,195
1.0%	Retired on or before July 1, 2004	14,960
1.5%	Retired on or before July 1, 1999	12,467
2.0%	Retired on or before July 1, 1994	7,688
2.5%	Retired on or before July 1, 1989	3,792
3.0%	Retired on or before July 1, 1984	1,912
	Total	86,843

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Cost Analysis

In order to complete this cost study, we estimated the actuarial liability at July 1, 2015 for the members eligible to receive a COLA using the results of the December 31, 2013 actuarial valuation. This projected liability was used to estimate the increase in the unfunded actuarial liability (UAL) resulting from the ad hoc COLA. To the extent that actual experience is different from that assumed, the cost of the ad hoc COLAs in HB 2250 may also be different.

HB 2250 did not specify the period over which to amortize the increase in the UAL or whether payments should be determined as a level percent of covered payroll or as level dollar amounts. Therefore, our calculations show the change in the employer contribution rate under two scenarios: (1) amortizing the increase in the UAL over the remaining years of the amortization period (18 as of December 31, 2014 valuation) and (2) amortizing the increase in the UAL over 15 years. The amortization payments are determined using the same methodology as is used in the actuarial valuations, i.e. level percent of payroll for all groups other than the Judges, who use a level dollar amount.

The increase in the unfunded actuarial liability (UAL) and the corresponding increase in the contribution rate are summarized in the table below:

	<u>15-Year Amortization</u>			<u>18-Year Amortization</u>	
	<u>Estimated Increase in UAL (\$M)</u>	<u>Additional First-Year Contribution (\$M)</u>	<u>Contribution Rate Increase</u>	<u>Additional First-Year Contribution (\$M)</u>	<u>Contribution Rate Increase</u>
State	\$ 11.9	\$1.06	0.11%	\$0.93	0.09%
School	36.1	3.21	0.09%	2.82	0.08%
State/School	48.0	4.27	0.10%	3.75	0.08%
Local	7.4	0.66	0.04%	0.58	0.03%
KP&F					
State	1.5	0.13	0.31%	0.12	0.27%
Local	7.9	0.70	0.17%	0.62	0.15%
Judges	0.5	0.06	0.20%	0.05	0.18%

*For all groups except Judges, payments are a level percent of payroll so the dollar amount will increase 4% each year in the future. The amortization payment for Judges is calculated as a level dollar payment so the payment amount remains the same, but the rate decreases. The initial amortization payment is assumed to be made in FY 2016 with recertified employer contribution rates. It is also assumed that employer contributions to amortize the UAL increase are not subject to statutory caps on employer contribution increases (1.1% in FY 2016).

Data, Assumptions and Methodology

The analysis contained in this letter is based on the data and results of the December 31, 2013 actuarial valuation. To the extent that any of that data is inaccurate, our analysis may need to be revised. Unless otherwise noted, the assumptions and methods used in analyzing this proposal are the same as those used in the December 31, 2013 actuarial valuation and are shown in Appendix C of that report.



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The comments and analysis contained in this letter are not intended to give exact calculations of costs. They should be considered to be estimates. The emerging costs will vary from those presented in this letter to the extent that actual experience differs from that projected by the actuarial assumptions. This cost analysis has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the principles prescribed by the Actuarial Standards Board (ASB) and the Code of Professional Conduct and Qualification Standards for Public Statement of Actuarial Opinion of the American Academy of Actuaries.

We have not explored any legal issues with respect to the proposed plan changes. We are not attorneys and cannot give legal advice on such issues. We suggest that you review this proposal with counsel.

We, Patrice A. Beckham, FSA and Brent A. Banister, FSA, are consulting actuaries with Cavanaugh Macdonald Consulting, LLC. We are members of the American Academy of Actuaries, Fellows of the Society of Actuaries, and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. We are available to answer any questions or provide additional analysis if needed.

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

Sincerely,

A handwritten signature in cursive script, reading 'Patrice Beckham'.

Patrice A. Beckham, FSA, EA, FCA, MAAA
Principal and Consulting Actuary

A handwritten signature in cursive script, reading 'Brent A. Banister'.

Brent A. Banister, PhD, FSA, EA, FCA, MAAA
Chief Pension Actuary