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November 3, 2011

Ms. Elizabeth Miller
Acting Executive Director and Chief Investment Officer
Kansas Public Employees Retirement System
611 South Kansas Avenue, Suite 100
Topeka, KS 66603

Re: Follow-up Item for KPERS Study Commission

Dear Liz:

We were asked by the Study Commission to provide additional information to that previously provided in our letter dated September 21, 2011, which was presented to the Study Commission at their September meeting. The information reports on the value of KPERS liabilities if benefits were frozen (there is no change in the benefits in the future). This type of liability measurement is generally referred to as the Present Value of Accrued Benefits (PVAB). The calculation previously provided, as well as the current information requested and provided in this letter, is based on the most recent KPERS valuation (December 31, 2010). It uses the same data and actuarial assumptions as were used in that valuation. In performing these calculations, the plan benefits were assumed to be frozen as of December 31, 2010, rather than increasing with future service and salary. Furthermore, eligibility for unreduced retirement benefits under the Rule of 85 is based only on the years of service earned through December 31, 2010, rather than reflecting future anticipated service. For non-vested active and inactive members, only a return of member contributions with interest was valued.

The following table summarizes the current calculation using a 6% rate of return (new request) as well as the liability previously provided, which was based on an 8% rate of return.



\$ in Millions
Using an 8% Rate of Return Assumption

	State	School	Local	Total KPERs
Retirees and beneficiaries	1,757	5,216	1,299	8,272
All inactive members	166	309	190	665
Total Inactive	1,923	5,525	1,489	8,937
Active vested members	1,170	3,614	1,252	6,036
Active nonvested members	26	75	45	146
Total Active	1,196	3,689	1,297	6,182
Grand Total	3,119	9,214	2,786	15,119
Market Value of Assets at 12/31/10	2,730	6,133	2,296	11,159

Using a 6% Rate of Return Assumption

	State	School	Local	Total KPERs
Retirees and beneficiaries	2,034	6,105	1,507	9,646
All inactive members	213	410	247	870
Total Inactive	2,247	6,515	1,754	10,516
Active vested members	1,633	4,926	1,417	7,976
Active nonvested members	26	75	45	146
Total Active	1,659	5,001	1,462	8,122
Grand Total	3,906	11,516	3,216	18,638
Market Value of Assets at 12/31/10	2,730	6,133	2,296	11,159

In performing the calculations, we have not attempted to reflect any benefits which may have been earned from the valuation date to the current date. Other than the investment return assumption, the same actuarial assumptions were used in these computations as are used for the valuation of the on-going plan. Therefore, it is assumed that decisions by members such as to when to terminate employment or retire will be unchanged. While a change in benefits would likely influence behavior, we are unable to accurately predict the change in behavior and, therefore, cannot reasonably estimate the impact of those changes on the liability measurement. In addition, if the benefits are frozen, the investment strategy and asset allocation will likely change over time, which might require the use of an investment return assumption other than those shown here (6% or 8%). Any change in the actuarial assumptions would impact the present value of accrued benefits provided herein.

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We are not attorneys and have not considered any legal ramifications of a benefit freeze for current members. If a benefit freeze is seriously considered, we strongly recommend consultation with qualified legal counsel.

We, Patrice A. Beckham FSA and Brent A. Banister, FSA, are consulting actuaries with Cavanaugh Macdonald Consulting, LLC. We are also 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.

If you have questions, please call me to discuss this further.

Sincerely,

A handwritten signature in black ink that reads 'Patrice Beckham' in a cursive script.

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

A handwritten signature in black ink that reads 'Brent A. Banister' in a cursive script.

Brent A. Banister, PhD, FSA, EA, FCA, MAAA
Senior Actuary