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February 7, 2013

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

Re: Cost Study for HB 2213

Dear Alan:

Sub HB 2333, as passed by the 2012 Legislature, changed the benefit structure for Tier 2 members by eliminating the 2% cost of living adjustment (COLA) and increasing the benefit multiplier from 1.75% to 1.85% for all years of service. Under Sub HB 2333 the COLA was eliminated for retirements after July 1, 2012 and the benefit multiplier was increased for retirements effective on and after January 1, 2014. As a result, there is a small window from July 1, 2012 to January 1, 2014 in which Tier 2 members who retire would receive neither the COLA nor the 1.85% benefit multiplier. This was not the intent of the original legislation, and HB 2213 has been introduced in the 2013 session to provide the higher benefit multiplier of 1.85% for all years of service to those Tier 2 members whose retirement date falls within the eighteen month window from July 1, 2012 to January 1, 2014. You have asked Cavanaugh Macdonald to discuss the potential cost implication of HB 2213.

First, it should be noted how the formal cost study prepared for Sub HB 2333 in June 2012 valued the Tier 2 provisions. With the creation of Tier 3 in Sub HB 2333, the Tier 2 group is very small since it represents members hired after July 1, 2009 and before January 1, 2015. In the context of the fifty year projections prepared for Sub HB 2333, the cost impact of the entire Tier 2 group, given its size, is small. Furthermore, the number of Tier 2 members expected to retire during the window from July 1, 2012 to July 1, 2014 has no material impact on the projection results because there are so few who will be eligible to retire during that window. Even those members who are eligible to retire during the window will typically have no more than five years of service, resulting in small benefit amounts. As a result, to simplify the coding for Tier 2 members in the projections, it was assumed that all future Tier 2 retirees would receive the 1.85% multiplier instead of the 2% COLA. Therefore, Tier 2 members who retire between July 1, 2012 and January 1, 2014 were valued with the 1.85% benefit multiplier even though Sub HB 2333 did not make that change until January 1, 2014. As a result, last year's cost study for Sub HB 2333 included the cost of the higher multiplier for the subset of Tier 2 members who retire between July 1, 2012 and January 1, 2014 and HB 2213 does not create any additional costs.

We are available to answer any questions on the material contained in this study or to provide explanations or further details upon request. We, Patrice A. Beckham F.S.A. and Brent A. Banister, F.S.A., are consulting actuaries with Cavanaugh Macdonald Consulting, LLC. We are also members of the American Academy of Actuaries and 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 or need additional analysis, please let us know.

Sincerely,

Patrice Beckham

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

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