



# Cavanaugh Macdonald

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December 28, 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: Estimated Transfer Amount for Legislators**

Dear Liz:

One of the recommendations of the KPERS Study Commission was to transfer all legislators to the new Tier 3 plan effective January 1, 2014. Since many of the legislators will be vested KPERS members at the time of the transfer, either the retirement benefit they have earned in the current KPERS defined benefit plan must remain in that plan or the benefit must be converted to a lump sum value and then transferred to the new Tier 3 plan. It is our understanding that the latter option is the course of action proposed by the Study Commission. However, there was no specific guidance provided by the Study Commission as to the calculation of the transfer amount.

In order to convert a monthly benefit to a lump sum or present value, several assumptions are necessary including (1) investment return, (2) mortality rates and (3) benefit commencement age. Absent guidance as to what assumptions to use, we have developed what we believe to be a reasonable set of assumptions to value these future retirement benefits, but other assumption sets exist which may be reasonable for this purpose. In calculating the transfer amount for each legislator, the accrued retirement benefit for the member was estimated as if they will cease covered employment on December 31, 2013. That benefit amount was then converted to a lump sum using the following set of assumptions:

- 8% investment return
- RP 2000 Mortality Table with a 50%/50% male/female blend
- Retirement age (benefit commencement age) is the earliest retirement age at which benefits can commence without a reduction.

If the amount of the member's employee contribution account balance was greater than the present value of the accrued retirement benefit, that was used as the transfer amount.

The data from the December 31, 2010, actuarial valuation was used to estimate the transfer amount. The calculations were based on the active legislators in the valuation database (142 in total). Ages and service were determined as of December 31, 2013, assuming continuous service and constant salary to that date. In addition, because the date at which the benefit is assumed to commence impacts the value of the lump sum,

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members were assumed to be granted four additional years of service only for purposes of satisfying the retirement eligibility requirements (age 62 with 10 years of service or age 65 for Tier 1 and age 60 with 30 years of service or age 65 with 5 years of service for Tier 2). For purposes of retirement under the Rule of 85 for Tier 1 members, they were assumed to be granted eight additional points (four years of service and four years of age). This assumption was made to estimate the impact that future years of service after January 1, 2014, would have on satisfying the retirement eligibility requirements. This is a rough estimation that will require modification before the final calculations are performed. If changes are made to any of the assumptions, the resulting lump sum values to be transferred will also change.

A summary of our findings for the legislators group of KPERS is shown below:

	<b>Estimated Transfer Amount</b>
Highest	\$660,870
Lowest	5,901
Median	112,631
Mean	151,751
Total	\$21,548,700
Count	142

The graph attached to this letter shows the distribution of the estimated transfer amounts at December 31, 2013. If additional detail is needed, please let us know.

We are not attorneys and have not considered any legal ramifications of the proposed change on which these calculations are based. We recommend you consult qualified legal counsel to obtain a legal opinion regarding this proposal.

These estimated transfer values have 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, 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.

If you have questions, please let me know.

Sincerely,

Handwritten signature of Patrice A. Beckham.

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

Handwritten signature of Brent A. Banister.

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

# Distribution of Legislator Transfer Amounts

