



# Cavanaugh Macdonald

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September 21, 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:

At their last meeting the Study Commission asked that we report back to them on the value of KPERS liabilities if benefits were frozen (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, shown below, is based on the most recent KPERS valuation (December 31, 2010) and, therefore, uses the same data and actuarial assumptions as were used in that valuation. In making this calculation, 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 nonvested active and inactive members, only a return of member contributions with interest was valued.

	<b>\$ in Millions</b>			
	<b>State</b>	<b>School</b>	<b>Local</b>	<b>Total KPERS</b>
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

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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. In addition, by using the same actuarial assumptions for this purpose as are used for the valuation of the on-going plan, 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 a different investment return assumption. Any change in the actuarial assumptions would impact the present value of accrued benefits provided herein.

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 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, 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,

Handwritten signature of Patrice Beckham in cursive.

Patrice A. Beckham, F.S.A.  
Consulting Actuary

Handwritten signature of Brent A. Banister in cursive.

Brent A. Banister  
Senior Actuary