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October 24, 2011

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

RE: Cost Study for the "Stacked Hybrid" Plan

Dear Liz:

As one of the follow-up items from the September meeting of the Study Commission, we were asked to provide information related to the cost impact of changing to a Stacked Hybrid plan design for new hires. Due to time constraints and technical challenges related to modeling this type of plan design in future years, we agreed to provide the cost impact on a "snapshot" basis for the State/School group. Using this approach, the coding of the December 31, 2010 actuarial valuation was modified to reflect the proposed plan design (stacked hybrid in this case) as if it had always been in place. The cost impact is determined using the current active members and measuring the change in the December 31, 2010 valuation results. Comparing the normal cost rate under this type of snapshot measurement provides a reasonable estimate of the long term cost impact of the proposed design versus the current design.

Stacked Hybrid Plan Design

The stacked hybrid plan design consists of both a defined benefit plan and a defined contribution plan. The defined benefit plan provides benefits on wages up to the covered wage base (the amount is set as part of the plan design). Contributions (both employee and employer) on wages above the covered wage base are made to the defined contribution plan.

Typically the covered wage base is set fairly high because the concept behind this plan design is that higher paid employees are in a better position to manage the various risks that reside with the employee in a defined contribution plan. For purposes of this initial cost study for KPERS, the covered wage base was set to $50,000 and indexed at 4% in future years (to maintain the relative value of the wages in future years). The covered wage base could be set at a different level and if it is, the allocation of contributions between the defined benefit and defined contribution plan would be affected.

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Results of Cost Study

Using the December 31, 2010 actuarial valuation for the State/School group as the baseline for comparative purposes, we modified the benefit coding of our valuation software to reflect the cap on wages of $50,000 for purposes of benefits in the defined benefit plan. It was assumed that all employee contributions on wages above $50,000 (indexed in future years) would be deposited to the defined contribution plan and that an employer contribution of 4% on pay above $50,000 would also be made to the defined contribution plan. The pertinent measurement when analyzing this plan design for new hires is the normal cost rate (the ongoing cost of the benefit structure for active members). A summary of the costs of the plan is shown in the following table:

State/School Group:

	Baseline: December 31, 2010 Valuation	**Stacked Hybrid Plan with Pay Cap at $50,000**	**Difference**
1. Normal Cost (DB plan only)	$352.1M	$306.9M	$(45.2M)
2. Member Contributions	$182.8M	$164.7	$(18.1M)
3. Employer Normal Cost (1) – (2)	$169.3M	$142.2M	$(27.1M)
4. DB Capped Payroll	N/A	$3,949.5M	
5. DC Contribution (Employer)	$0	$17.6	$17.6M
6. Total Employer Contribution (3)+(5)	$169.3M	$159.8M	$(9.5M)
7. Total Payroll	$4,384.4M	$4,384.4M	$0
8. Total Employer Contribution as % of Total Payroll (6)/(7)	3.86%	3.64%	(0.22%)

These results were prepared using the same data, methods, assumptions, and provisions as were used in the December 31, 2010 valuation, except as noted. Depending upon how the provisions were actually implemented, it is possible that such assumptions as retirement rates might ultimately change, possibly changing these results.

I, Patrice A. Beckham, am a member of the American Academy of Actuaries and meet the qualification standards to issue this opinion.

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

Sincerely,

Patrice Beckham

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