MEMORANDUM

To: Joint Committee on Pensions, Investments, and Benefits

From: Alan D. Conroy, Executive Director

Date: December 19, 2014

Subject: KPERS Correctional Cost Study

At the November meeting, the Joint Committee received a cost study that calculated the cost of moving juvenile correctional and parole positions from regular KPERS to the KPERS Correctional group. The Committee requested a cost study to calculate the cost of moving only the juvenile corrections officers to KPERS Correctional. The requested cost study is attached.

KPERS

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December 16, 2014

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

Re: Cost Study on Certain Department of Corrections Employees Moving to Correctional Officers Groups A (C55) and B (C60)

Dear Alan:

As requested, we have prepared an actuarial study to determine the cost impact of employees in certain job classifications in the Department of Corrections (DOC) moving from regular KPERS membership into the KPERS Correctional Officer Groups A (referred to as the C55 group, due to their normal retirement age of 55) or B (referred to as the C60 group due to their normal retirement age of 60). For purposes of this study, it was assumed that all years of service - both past and future - would be recognized under the C55 or C60 provisions for vesting, retirement eligibility, and benefit determination. The same benefit multiplier is applicable for Correctional Groups A and B as for regular State members. The difference in the benefit structures is the availability of unreduced benefits at an earlier age (age 55 for Group A and age 60 for Group B).

KPERS was provided with a list of employees to be included in the study from the Department of Corrections, which was then forwarded to Cavanaugh Macdonald to be used for this study. The job classifications identified by the Secretary of Corrections that were used in this study, along with an indication of their placement in Group A or B, are shown in Exhibit A. There were a total of 246 employees moved to Group A and 18 moved to Group B.

Our study combined these DOC employees with the existing C55 and C60 members to determine the impact on the contribution rate, based on the same procedures used in the December 31, 2013 actuarial valuation for existing members. The employer contribution rate for the C55 and C60 group is the regular state statutory employer contribution rate, increased by the excess of the normal cost rate for the C55 or C60 group over the normal cost rate for regular state members, but not more than the prior statutory contribution rate increased with the statutory cap (currently 1.20%). However, KSA 74-4920, paragraph (8) states *"Except as otherwise provided by law, the actuarial cost of any legislation enacted by the Kansas legislature, except the actuarial cost of K.S.A. 2000 Supp. 74-49,114a and amendments thereto, shall be in addition to the employer contribution rates certified for the employer contribution rate in the fiscal year immediately following such enactment. Such actuarial cost shall be determined by the qualified actuary employed or retained by the system pursuant to K.S.A. 74-4908, and amendments thereto, and reported to the system and the joint committee on pensions, investments and benefits."* Therefore, the statutory

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contribution rates for FY 2016 for Group A and B would be increased by the actuarial cost identified in this letter as resulting from the movement these 264 DOC members to Group A and B.

The results of our study are shown in the following table:

Correctional Group A (C55)

Fiscal Year End 2016	Existing C55 Group	C55 Group With DOC Employees	Difference
Regular State Statutory Contribution Rate	12.37%	12.37%	0.00%
Difference in Normal Cost Rate	0.77%	0.82%	0.05%
C55 Uncapped Statutory Contribution Rate	13.14%	13.19%	0.05%
Statutory Contribution Rate with Cap*	12.76%	12.81%	0.05%
Estimated Payroll for FY 2016	$85.06M	$93.42M	$8.36M
Total Employer Contributions ($)	$10.85M	$11.97M	$1.12M

*Based on the statutory cap of 1.20% and the increase of 0.05% due to the additional DOC members inclusion in Group A.

Correctional Group B (C60)

Fiscal Year End 2016	Existing C60 Group	C60 Group With DOC Employees	Difference
Regular State Statutory Contribution Rate	12.37%	12.37%	0.00%
Difference in Normal Cost Rate	0.83%	0.87%	0.04%
C60 Uncapped Statutory Contribution Rate	13.40%	13.44%	0.04%
Statutory Contribution Rate with Cap*	12.50%	12.54%	0.04%
Estimated Payroll for FY 2016	$8.39M	$9.19M	$0.80M
Total Employer Contributions ($)	$1.05M	$1.15M	$0.10M

*Based on the statutory cap of 1.20% and the increase of 0.04% due to the additional DOC members inclusion in Group B.

Transferring those DOC employees identified in the study to the C55 or C60 group would also increase KPERS' unfunded actuarial liability (UAL) by $887,000. The UAL for the C55 and C60 groups is not separately determined in the actuarial valuation and does not impact the C55 and C60 contribution rate so the resulting increase in the UAL would appear in the overall UAL for the KPERS State group. The estimated increase in the employer contribution rate for the KPERS State Group due to the increase in the UAL is only 0.01%. It would have no impact on the State/School rate which sets the statutory contribution rate.

Data, Assumptions and Methodology

KPERS provided Cavanaugh Macdonald with a list of 394 employees. This list was used to identify the DOC member records in the December 31, 2013 actuarial valuation data to be used in the cost study. Out of the original 394 records, 129 were removed because they were strictly parole employees. One other record was removed because it was a duplicate of another record. The remaining 264 records were included in the study and placed into the groups A (C55) and B (C60). Of the 264 records used in the study, 233 were present in the actuarial valuation data and 31 records were not yet members as of the valuation date due to their date of hire. When it was possible, we used the December 31, 2013 actuarial valuation data in this study. The 31 records that were not in the valuation data were included in the study by populating their information with the data that was submitted for this study and using a date of entry of January 1, 2014. To the extent that any of the data used is inaccurate or incomplete, our calculations may need to be revised.

Unless otherwise noted, the assumptions and methods used in analyzing this proposal are the same as those used in the December 31, 2013 actuarial valuation and are shown in Appendix C of that report.

The comments and analysis contained in this letter are not intended to give exact calculations of costs. They should be considered estimates. The emerging costs will vary from those presented in this letter to the extent that actual experience differs from that projected by the actuarial assumptions. This cost analysis has 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 have not explored any legal issues with respect to the proposed plan changes. We are not attorneys and cannot give legal advice on such issues. We suggest that you review this proposal with counsel.

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 any questions or additional information is needed, please let us know.

Sincerely,

Patrice Beckham

Brent A Banister

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

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

Exhibit A

Job Description	Group
Appointive State Agency Head	A*
Automotive Driver	B
Corrections Counselor II	A
Corrections Manager I	A
Corrections Manager II	A*
Facilities Maintenance Super	B
Facilities Specialist	B
Gen Maintenance And Repair Tech	B
Grounds Maintenance Super II	B
Head Of Division Of State Agency	A*
Juvenile Corrections Officer I	A
Juvenile Corrections Officer II	A
Juvenile Corrections Officer III	A
Laundry Manager	B
Lock System Specialist Sr	B
Mechanic Senior	B
Physical Plant Supervisor	B
Physical Plant Supervisor Spec	B
Program Director	B
Public Service Administrator	B
Public Service Executive	B
Public Service Executive III	B

*Requires 3 consecutive years of service in Group A position immediately preceding their current position.

Group A can receive unreduced benefits at age 55 (referred to as C55 group).
Group B can receive unreduced benefits at age 60 (referred to as C60 group).