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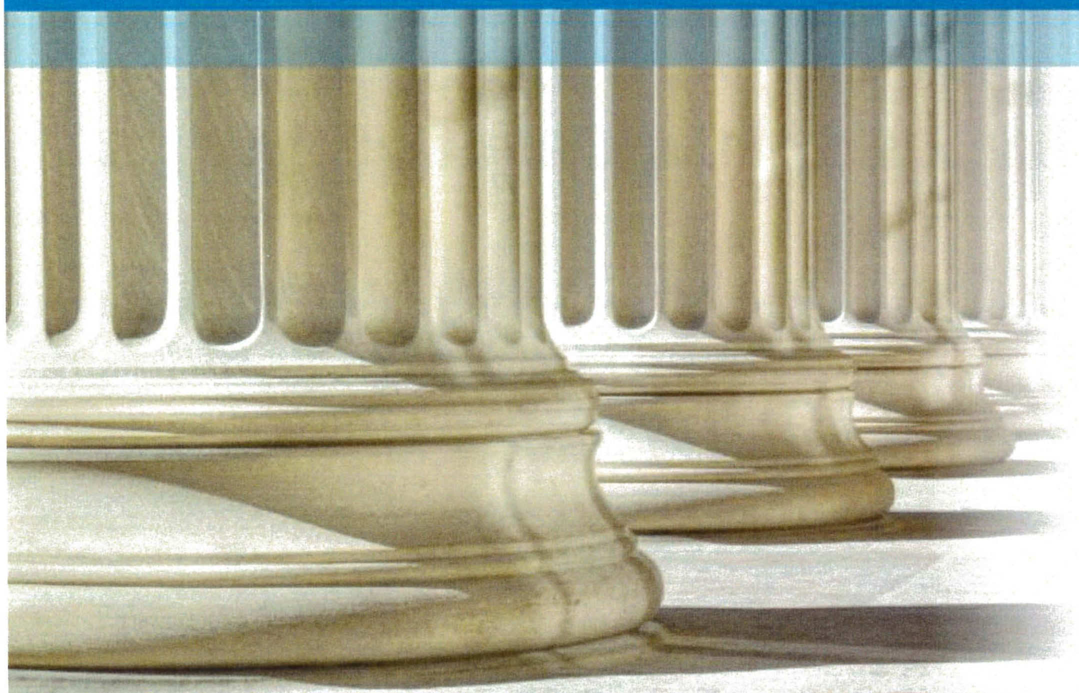
Working After Retirement 2015 Policy Changes



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Joint Committee on Pensions, Investments, & Benefits

KPERS

November 4, 2015

Working After Retirement

Why were changes made

- The current "temporary" rules for licensed school professionals were scheduled to sunset on June 30, 2015, but now have been extended to June 30, 2016
- The Legislature wanted to find a more permanent plan, rather than extend the sunset on the current rules
- The focus was on addressing fiscal and legal issues
- Employer flexibility was recognized as a concern, specifically as it pertains to certain teaching positions

Working After Retirement

Legal Implications

- KPERS is a qualified 401(a) retirement plan as defined by the Internal Revenue Service, and our members receive all of the tax advantages that come with being a qualified plan
- The IRS requires a bona fide retirement take place before distributions can occur
- If an employer pre-arranges with an active member to retire and return to work as a retiree, this is not a bona fide retirement in the eyes of the IRS
- The IRS has indicated through a private letter ruling that pre-arrangements could not only create tax implications for the employer and employee but ultimately jeopardize the qualified status of the plan

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What are the costs

- KPERS is a pre-funded defined benefit plan
  - Employer and employee contributions are based on premise that members' retirement benefits are funded during their working career
  - Contribution calculations require use of actuarial assumptions, including assumptions about how long members work and how soon they retire after becoming eligible.
- Working after retirement rules permitting employees to simultaneously work and receive benefits encourage earlier retirements
  - No earnings limit (or a high limit relative to pay during active membership) provides a clear financial incentive to apply for benefits and continue working
  - Members can be expected to make decisions based on their own financial interests

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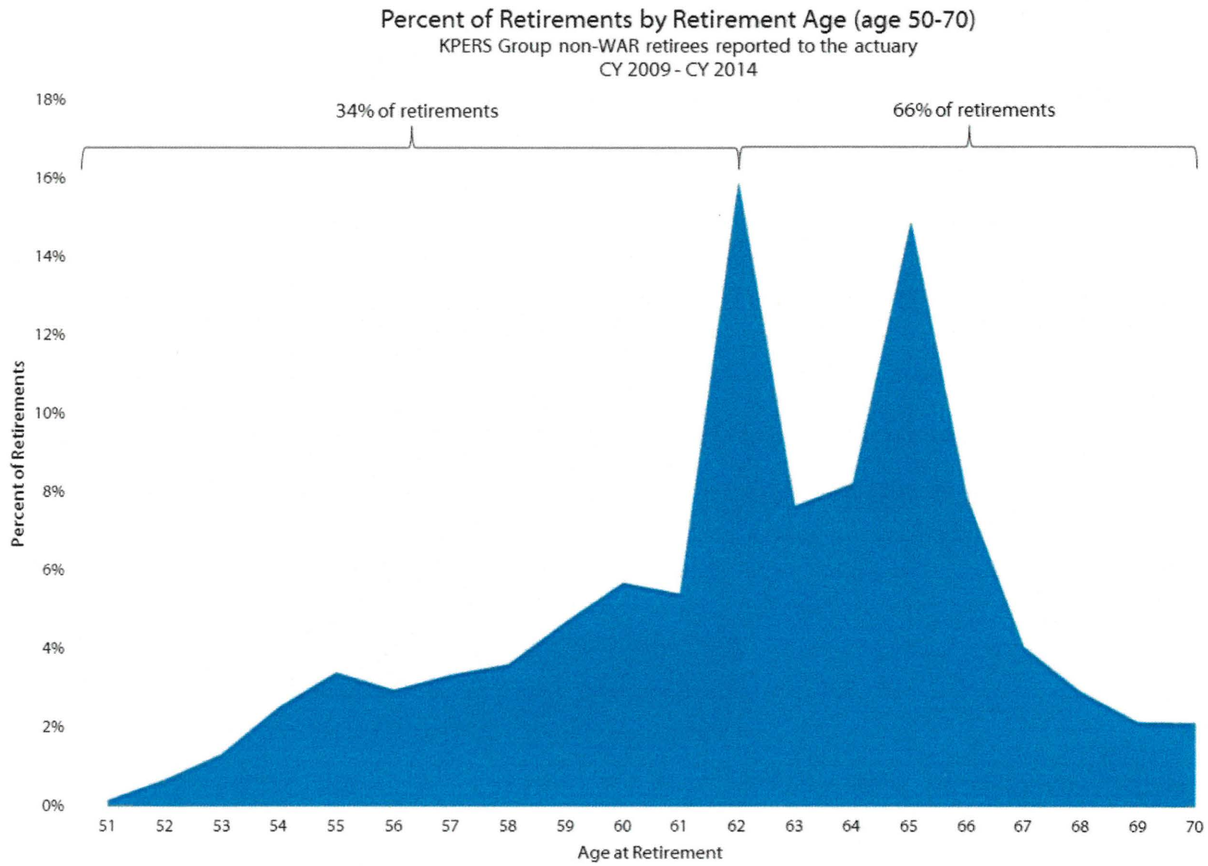
What are the costs

- Earlier retirements have a cost to the system
  - **Shorter period for contributions.** Contributions are received for a shorter period than assumed, so their retirement benefit may not be fully funded during their working career
  - **Longer period of benefit payouts.** In general, there is a higher actuarial liability for retirements at or soon after initial eligibility (even when considering potential for benefit increases with additional years of service)
- Filling a position that is normally an active, contributing employee with a non-contributing retiree results in a cost to the System
- The exact cost to the System varies by individual and is due in part to behavioral choices that cannot be quantified

Working After Retirement

What are the trends that indicate a cost to the System

- Based on data from 2009 (when the current working after retirement rules took effect) through 2014, most KPERS members retire at age 62 or later



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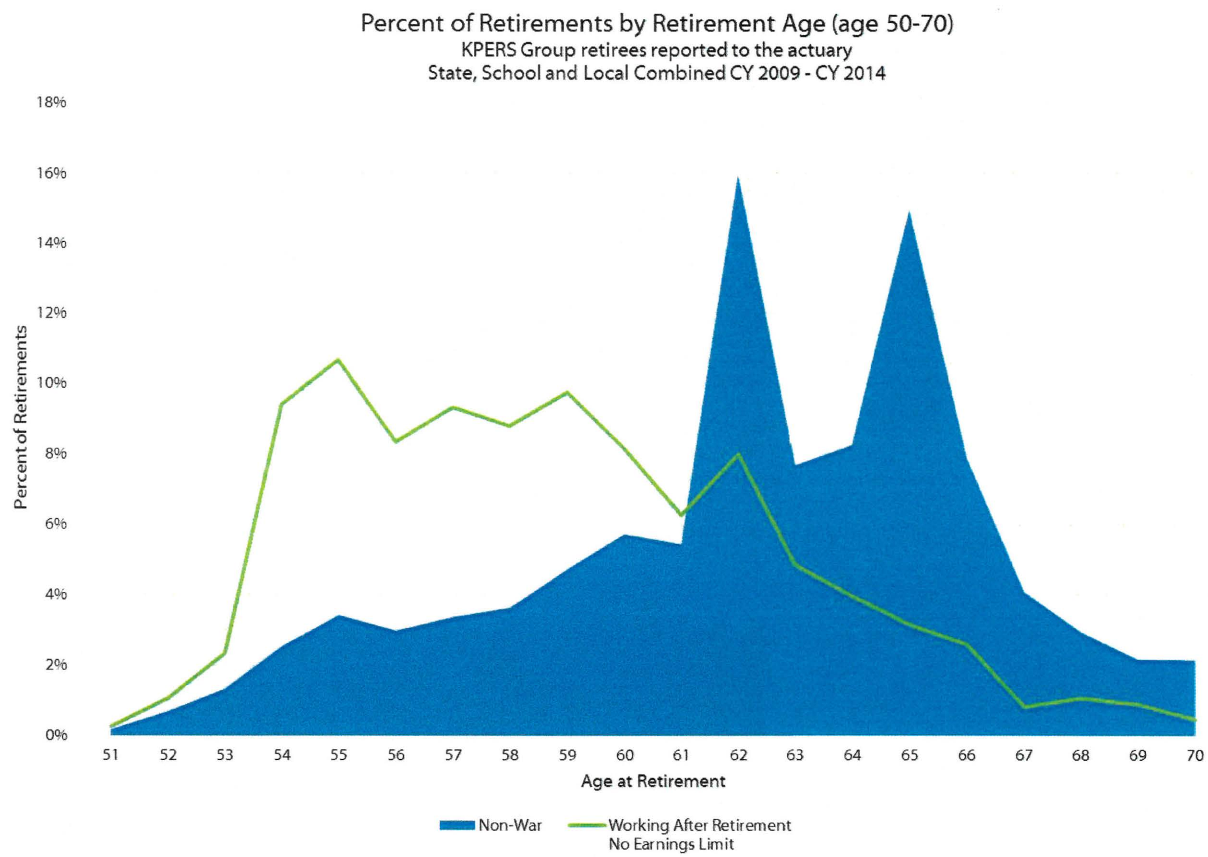
Working After Retirement

What are the trends that indicate a cost to the System

- Retirees returning to work without an earnings limitation began benefits at younger ages than retirees not returning to work during that period

- Employees without an earnings limitation have a financial incentive to begin receiving benefits at younger ages



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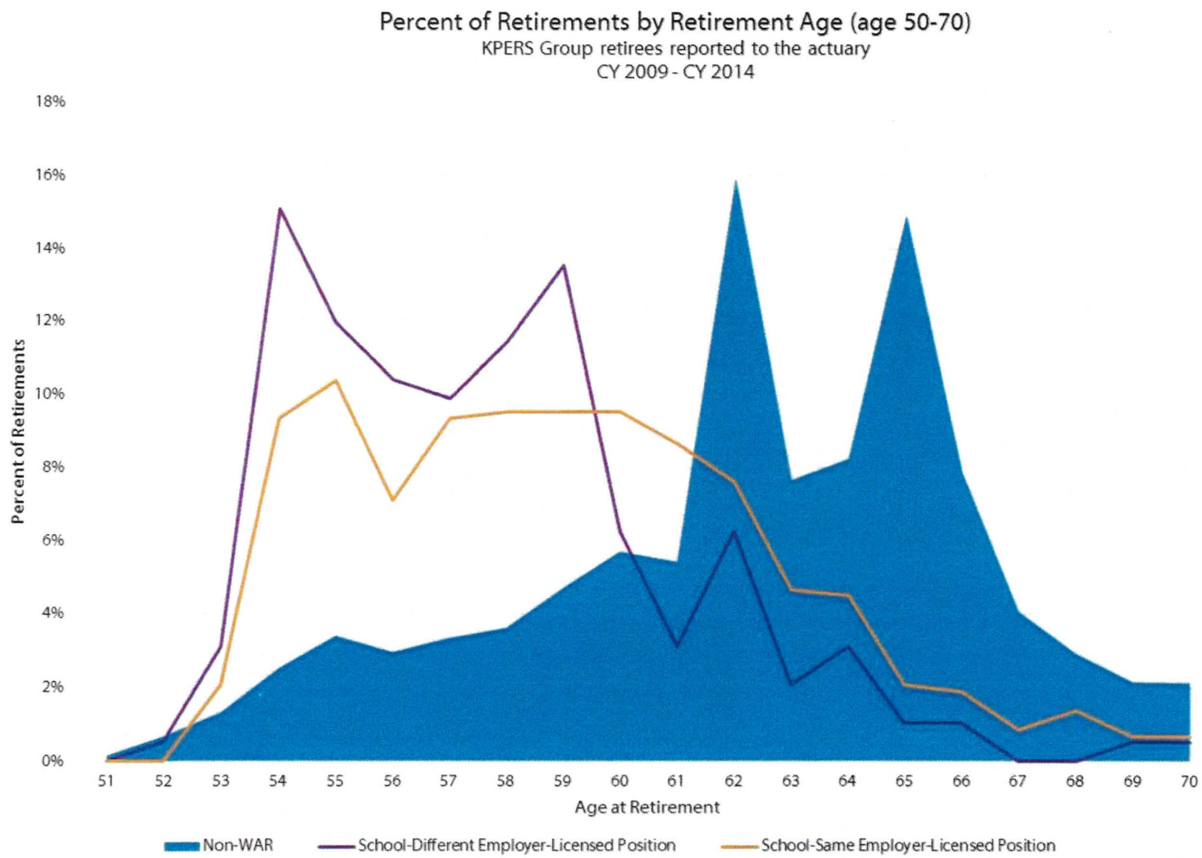
Working After Retirement

What are the trends that indicate a cost to the System

- The financial incentive's impact is even more clearly illustrated by the age when benefits began for retirees in licensed school positions.
- Since 2009, licensed school professionals have no earnings limit whether returning to the same or different employer



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Working After Retirement

How does the new policy address these issues

Cost considerations

- The new policy reduces the financial incentive for members to begin benefits and return to work
- Contributions on retiree earnings offset some of the cost to the System

Staffing considerations

- Hard to fill licensed positions can still be filled with a retiree when recruitment efforts fail
- Emergency vacancies can be filled with retirees
- Daily call substitutes, KLETC instructors, state hospital nurses and local elected officials are not subject to the working after retirement policy

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What is the new policy

What has changed?

- No difference between same employer or different employer
- Employers report all rehired retirees to KPERS
- Employer contributions on all compensation paid and on additional groups of retirees
- Earnings limitation raised to $25,000
- New exemptions for certain school positions
- Employer explicitly required to continue seeking permanent employees for positions filled by retirees under new exemptions
- Joint Committee on Pensions & Benefits may review exceptions

What has stayed the same?

- 60-day waiting period
- No pre-arrangements

Working After Retirement

Most retirees returning to work

- Beginning 6/30/2016, retirees hired in most positions will be subject to a $25,000 earnings limit each calendar year, whether returning to the same employer or to a different employer
- Retirees hired by a 3rd party contractor, but working for a KPERS-affiliated employer, are subject to the earnings limitation
- If a retiree reaches the earnings limit, they must choose to stop working and keep their benefit or suspend their benefit and continue working
- Retirees make no employee contribution
- Employers hiring retirees report each one to KPERS and pay **statutory** employer contribution rate (10.91% in FY 2016 for State/School, 9.18% in CY 2016 for local) on all compensation paid to the retiree

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Working After Retirement

Special education exemption

- Retirees in licensed special education positions are not subject to the earnings limitation for up to 3 school years
- Retirees who have worked under the exemption for the 3-year maximum are then subject to the earnings limitation, unless a one-year extension is granted by the Joint Committee on Pensions and Benefits
- Retirees make no employee contributions
- Employers report each retiree to KPERS and contribute the **actuarial required contribution rate** (14.95% for FY 2016) **plus 8%** on all compensation
- Employers must maintain documentation of efforts to fill the position with non-retiree throughout the exemption

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Hard-to-fill exemption

- Retirees hired in one of the top 5 hard-to-fill licensed positions (as designated by the state Department of Education each year) are not subject to the earnings limitation for up to 3 school years
- Retirees who have worked under the exemption for the 3-year maximum are then subject to the earnings limitation, unless a one-year extension is granted by the Joint Committee on Pensions and Benefits
- Retirees make no employee contributions
- Employers report each retiree to KPERS and contribute the **actuarial required contribution rate** (14.95% for FY 2016) **plus 8%** on all compensation
- Employers must maintain documentation of efforts to fill the position with non-retiree throughout the exemption

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Hardship exemption

- Retirees hired in a hardship positions (as designated by the local governing authority) are not subject to the earnings limitation for 1 year
- Retirees who have worked under the exemption for the 1-year maximum are then subject to the earnings limitation, unless a one-year extension is granted by the Joint Committee on Pensions and Benefits
- Retirees make no employee contributions
- Employers report each retiree to KPERS and contribute the **actuarial required contribution rate** (14.95% for State/School in FY 2016, 9.18% in CY 2016 for Local) **plus 8%** on all compensation
- Employers must maintain documentation of reason for hardship and efforts to fill the position with non-retiree

Working After Retirement

Grandfathered Positions

- Licensed school positions
  - Member retired before 5/1/2015
  - Remain under current working after retirement rules until 7/1/2017
  - Employer contributes actuarial required contribution (14.95% for State/School in FY 2016) plus 8%
- Non-licensed positions
  - Retiree had returned to work or accepted employment before 5/1/2015
  - Remain under current working after retirement rules indefinitely
  - Any break-in-service change in employer or position places retiree under new rules
  - Employer contributes actuarial required contribution (14.95% for State/School in FY 2016, 9.18% in CY 2016 for Local) plus 6%

Working After Retirement Flowchart

Based on New Legislation in 2015

all KPERS retirees (starts 7/1/16)

same & different employer

hardship positions

- school and non-school
- no earnings limit for *1 year*
- enroll in "working after retirement" plan
- no employee contributions
- employer pays "working after retirement" rate (ARC+8%)
- ongoing, documented recruitment efforts

most all positions

- $25,000 earnings limit
- enroll in "working after retirement" plan
- no employee contributions
- employer pays statutory employer rate on *all pay*, including the first $25,000
- Reach limit: choose keep working/stop benefit *or* stop working/continue benefit

special ed & certified hard-to-fill school positions

- no earnings limit for *3 years*
- enroll in "working after retirement" plan
- no employee contributions
- employer pays "working after retirement" rate (ARC+8%)
- ongoing, documented recruitment efforts

grandfathered retirees

same or different employer

other retirees

- accepted position before 5/1/15
- grandfathered indefinitely until change jobs/employer/service break
- employer contribution rules grandfathered
- includes covered and non-covered positions
- mainly affects retirees who return to a different employer, employer pays ARC+employee rate (6%)

licensed school professionals

Effective 5/1/15 to 7/1/17

- retired before May 1, 2015
- grandfathered until 7/1/17 or change jobs/employer/service break
- 7/1/17 all new rules apply to everyone
- employer contribution rules grandfathered (ARC+8%)

Good to Know

1. Licensed school professionals retiring after 4/1/15 are not grandfathered. No exemptions available until new rules begin 7/1/16.
2. No earnings limit for state hospital nurses, local elected officials, legislative staff and emergency substitute teachers.
3. No earnings limit for law enforcement officers employed by the Law Enforcement Training Center.
4. ARC means actuarially required contribution.
5. With new rules, employers can appeal for a one-year exemption extension.
6. Does not affect KP&F and Judges.

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6/26/15