

Working After Retirement Overview

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Working After Retirement

Overview

- Working after retirement provisions are set by Kansas Statute
- KPERs retirees returning to work for KPERs employers do not earn any new benefits
- KPERs retirees must comply with a 60-day minimum waiting period before returning to work for any KPERs employer
 - As part of the retirement application process the employee agrees not to return to a KPERs employer for 60-days
 - The IRS is clear that a pre-arranged return to the same employer is not allowed and KPERs understood that the employer and employee could be held accountable
 - According to a recent private letter ruling the IRS indicated that the plan sponsor could be held accountable for allowing pre-arranged return to work
- Subsequent restrictions depend in part on whether the retiree is rehired by the KPERs employer for which the retiree worked in the two years before retirement or by a different KPERs employer

Working After Retirement

Overview

- Currently, there are special rules for KPER retirees returning to work for school employers in “licensed professional” positions.
 - A special exemption for these positions was established in 2009, with a three-year sunset date.
 - The 2012 Legislature extended the exemption for an additional three years, ending June 30, 2015.
- Working-after-retirement restrictions apply to retirees who provide services to a participating employer through a third-party contractor.
 - Contracts taking effect on or after April 1, 2009, are covered by this provision.
 - Each third-party contract for a retiree’s services must require the third party to report the retiree’s compensation, so that the employer can comply with reporting and employer contribution requirements.



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Returning to a **Different Employer**

- There is no earnings limitation on the compensation from employment by a different KPERS employer or any non-KPERS employer.
- If first employed in this position before July 1, 2006, there are no employee or employer contributions to KPERS.
- If first employed in this position on or after July 1, 2006, there are no employee contributions, but the new employer must pay a contribution rate equal to the total of:
 - The actuarially required employer contribution rate
 - The statutory employee contribution rate (6% in CY 2015 and after)
 - Each school district and each local unit of government are considered to be a separate employer.

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Returning to the **Same Employer**

- There is a \$20,000 annual earnings limitation on the retiree's compensation from the employer.
- The retiree has two options when the \$20,000 limitation is reached:
 - Stop working for the remainder of the calendar year and continue to receive retirement benefits.
 - Continue working and suspend retirement benefits until the next calendar year.
- Several types of employees are exempt from the limitation, including:
 - Daily call substitute teachers
 - Legislative staff
 - Retired licensed nurses at State institutions and State juvenile justice institutions.
- A special exemption applies to licensed professional school employees.
- Retirees do not make contributions to KPEERS.
- Employers only make contributions for rehired retirees if they are:
 - Exempt retired nurses working for certain State institutions
 - Licensed professional school employees



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Licensed School Professionals

- A special exemption for licensed school professionals was created in 2009 and will expire June 30, 2015.
- Licensed School Professionals include teachers, administrators, and certain other professionals, such as social workers, speech pathologists, and dietitians.
- There is no earnings limit for retired licensed professionals returning to work for the school district from which they retired, if they retired either:
 - Under a normal retirement option (e.g., with 85 points)
 - Under an early retirement option more than 60 days before the effective date of the bill (March 28, 2009)
- Through June 30, 2015, public school employers who employ retired licensed professionals must pay a special employer contribution rate.
 - The rate is the actuarially required employer contribution plus 8 percent.

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Licensed School Professionals

- The employer rate (actuarially required contribution + 8%) applies to retirees returning to work in a position for which a professional license is required.
 - Applies whether returning to work for the same or a different school district.
 - Applies regardless of the number of hours worked.
- This employer rate does not apply to retirees employed only as substitute teachers.
- This employer rate does not apply to retirees who were first employed by a different school district before July 1, 2006.
- KPERS is required to report to the Joint Committee on Pensions, Investments, and Benefits on the results of the provisions for licensed school professionals when they expire.
- Appendix A provides a flow chart intended to assist school employers in applying working-after-retirement rules.



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Cost Implications

- Changes to working after retirement restrictions can impact KPERs' funding.
- The potential cost impact results primarily from two factors:
 - Changes in retirement patterns and behavior stemming from incentives for members to retire earlier than would be assumed in actuarial projections.
 - Reductions in employee and employer contributions occurring when positions normally filled by active, contributing members are instead filled by non-contributing retirees.
- Changes in retirement patterns.
 - Most members do not retire when they first meet the eligibility requirements. Rather, they continue working and accrue higher retirement benefits.
 - The value of their future benefit payments generally is lower than it would have been when they first became eligible because payments, while higher, begin at an older age.
 - Therefore, plan design changes that motivate members to retire earlier than retirement age assumptions underlying actuarial projections have a cost impact.

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Cost Implications

- Without an earnings limit, there are strong financial incentives for members to retire when first eligible and then return to work after the 60-day waiting period.
 - If retirees can return to work at the same salary, their income could increase by 50% or more.
 - Take-home pay may be greater because KPERS retirement benefits are not subject to Kansas income tax, social security, or KPERS contributions.
- The actuarial cost of changes to retirement patterns is difficult to assess.
 - For example, there is no practical means for determining when licensed professional school employees would have retired if they were under the \$20,000 earnings limit.



Working After Retirement

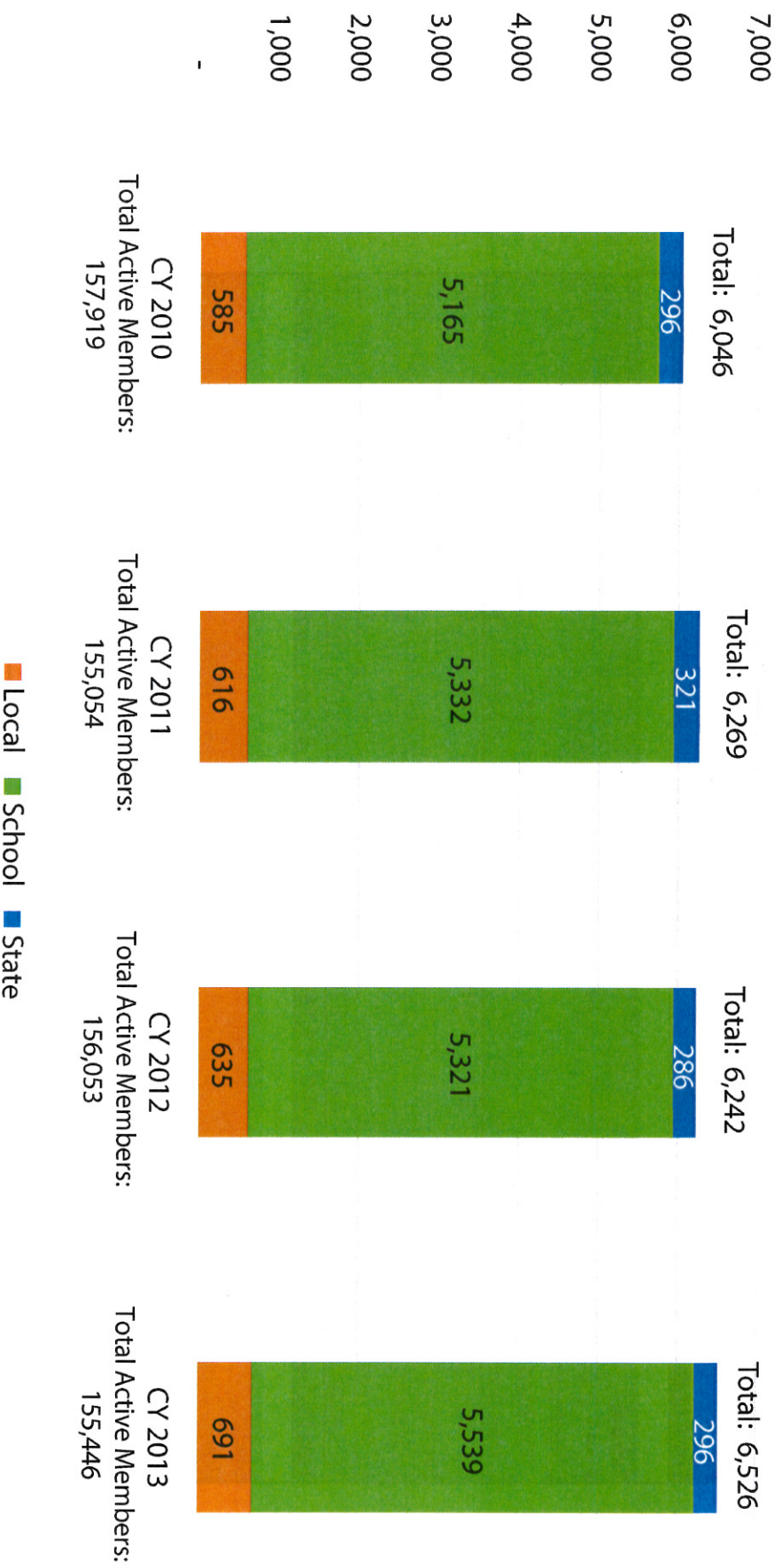
Cost Implications

- Legislation establishing employer contribution rates higher than the normal statutory employer contribution rate (e.g., the actuarial rate plus 8% for licensed professional school employees) is intended to help offset the cost impact.
- In the absence of a meaningful estimate of the impact of the exemption on KPER's liabilities, it is not possible to determine the extent to which the "actuarial rate plus 8%" employer contribution rate offsets costs to the System.
- Current working-after-retirement rates are provided in Appendix B.

Working After Retirement

Number of Rehired Retirees

Total Retirees Working for KPERS Employers





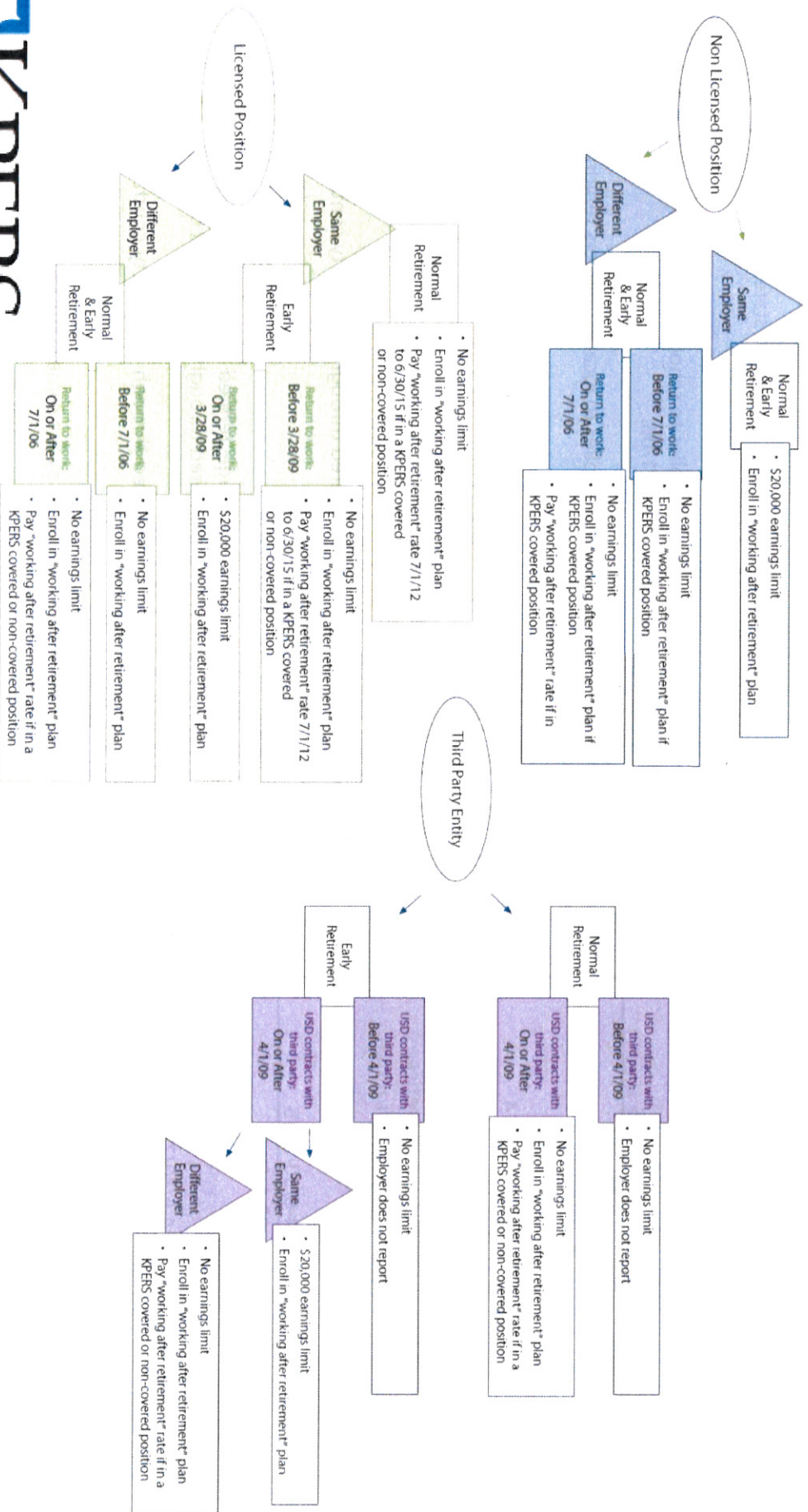
Working After Retirement

Number of Rehired Retirees

Group	2006	2007	2008	2009	2010	2011	2012	2013	Total
Local									
Pre-FY 2006	56	68	58	63	55	55	49	43	447
Different Employer	21	63	86	131	156	167	185	227	1,036
Same Employer	151	213	218	318	374	394	401	421	2,490
Total Local	228	344	362	512	585	616	635	691	3,973
School									
Pre-FY 2006	394	391	361	385	367	312	253	205	2,668
Different Employer									
Licensed				682	661	580	524	509	
Non-licensed				247	319	375	439	498	
Total Different Employer	249	549	795	929	980	955	963	1,007	6,427
Same Employer									
Licensed				416	538	594	568	587	
Non-licensed				800	881	961	1,003	1,073	
Total Same Employer	617	818	990	1,216	1,419	1,555	1,571	1,660	9,846
Total School	1,260	1,758	2,146	4,675	5,165	5,332	5,321	5,539	18,941
State									
Pre-FY 2006	3	12	11	14	6	5	4	4	59
Different Employer	-	6	6	20	22	37	46	59	196
State Nurses	3	-	12	7	16	15	11	8	72
Same Employer	69	101	108	199	252	264	225	225	1,443
Total State	75	119	137	240	296	321	286	296	1,770
Total:	1,563	2,221	2,645	5,427	6,046	6,269	6,242	6,526	24,684

Appendix A

KPERS-School Working After Retirement Flowchart



Appendix B

Working After Retirement Employer Contribution Rates

Actuarially Required Contribution (ARC) rate plus statutory employee contribution rate:	
	7/1/2014-6/30/2015
State ¹	15.80%
School ²	20.41%
	1/1/2014-12/31/2014
Local ³	13.77%
ARC rate plus 8% for certain licensed school retirees: (Without further legislative action, sunsets effective 6/30/2015)	
	7/1/2014-6/30/2015
School ⁴	23.41%
ARC rate only:	
	7/1/2014-6/30/2015
State ⁵	10.80%

¹ ARC plus statutory employee contribution rate applies to state agencies rehiring retirees from a different (school or local) employer on or after 7/1/06.

² ARC statutory employee contribution rate applies to school employers rehiring nonlicensed retirees from a different employer on or after 7/1/06.

³ ARC statutory employee contribution rate applies to local employers rehiring retirees from a different employer on or after 7/1/06.

⁴ ARC plus 8% rate applies to school employers rehiring the following retirees into positions requiring professional license:

Rehired by same school employer:

- Retired at normal retirement age
- Retired under early retirement and rehired before 3/28/09
- Retired under normal retirement, rehired through third party contractor; USD enters contract on or after 4/1/09

Rehired by different school employer:

- Retired at normal or early retirement age, rehired on or after 7/1/06
- Retired under normal retirement, rehired through third party contractor; USD enters contract on or after 4/1/09
- Retired under early retirement, rehired through third party contractor; USD enters contract on or after 4/1/09

⁵ ARC rate applies to retirees rehired as nurses by the same state agency if the retiree was:

- Retired at normal retirement age
- Retired from an eligible state hospital or institution under early retirement at least 30 days before 7/1/2005

