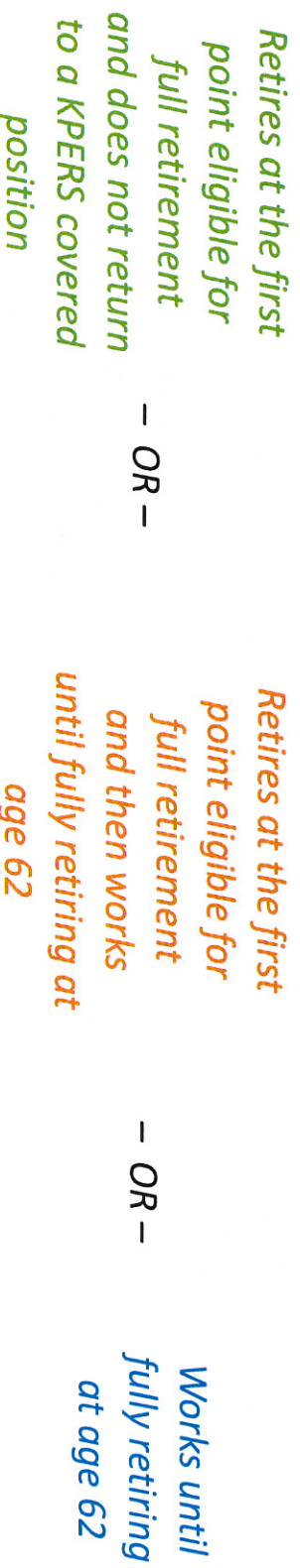


WAR Example 1

Analysis of Impact of Working After Retirement (WAR)

- This hypothetical example illustrates the potential impact of changes in behavior due to the ability to work after retirement without an earnings limitation.

- The example compares the net cost/savings to the system of a member who –



- This is a single illustration among many variations.
 - Changes in assumptions can change the net impact on KPERS.
- The illustration uses employer and employee contribution rates beginning in FY 2014.

WAR Scenario 1

Assumptions About Basic Member Data



Member retires when first eligible for full benefits: **Member retires when first eligible for full benefits:** **Member works until retirement:**

Retirement date	1/1/2014	Initial Retirement Date	1/1/2014	Retirement date	1/1/2021
Age	55	Age	55	Age	62
Service at retirement	30	Service at initial retirement	30	Service at retirement	37

...and does NOT return to work: **...and returns to work:** **...and does NOT return to work:**

Years working after retirement	0	Years working after retirement	7	Years working after retirement	0
Age at full retirement	55	Age at full retirement	62	Age at full retirement	62

WAR Example 1

Assumptions About Member's Pay

- The member's pay is assumed to –
 - Be \$46,228 in 2011
 - Increase annually according to the actuarial assumptions regarding School Group salary increases
- Member returning to work is assumed to receive same pay (and pay increases) as if not retired.



WAR Scenario 1

Calculation of Final Average Salary and Annual Benefit

Member retires when first eligible for full benefits: Member retires when first eligible for full benefits but continues working: Member works until full retirement:

Year	Salary History	Pay Used for Final Average Salary	Salary History	Pay Used for Final Average Salary	Salary History	Pay Used for Final Average Salary
2011	\$46,228	\$46,228	\$46,228	\$46,228	\$46,228	\$46,228
2012	\$48,077	\$48,077	\$48,077	\$48,077	\$48,077	\$48,077
2013	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000
2014	\$0		\$52,000		\$52,000	
2015	\$0		\$54,080		\$54,080	
2016	\$0		\$56,243		\$56,243	
2017	\$0		\$58,493		\$58,493	
2018	\$0		\$60,833		\$60,833	\$60,833
2019	\$0		\$63,266		\$63,266	\$63,266
2020	\$0		\$65,797		\$65,797	\$65,797
Final Average Salary		\$48,102	Final Average Salary		\$48,102	Final Average Salary
Annual Benefit (1.75% X \$48,102 X 30 Years)		\$25,253	Annual Benefit (1.75% X \$48,102 X 30 Years)		\$25,253	Annual Benefit (1.75% X \$63,298 X 37 Years)
						\$40,986

WAR Example 1

Post-Retirement Income Impact on Retirement Decision

- Policymakers should expect that members will make decisions based on their own financial interest, if all other factors are equal.
- The following income comparison illustrates clear financial incentives for members to retire and return to work in a covered position.
- A decision to fully retire at age 55 would either require the ability to live on significantly reduced income or other employment not covered by KPER.
- Members who retire when first eligible and return to work not only receive the additional pension income, but no longer pay employee contributions of 6%.
 - Their take-home pay would be that much greater than the member working until full retirement.

WAR Scenario 1

Income Comparison



Member retires when first eligible for full benefits:				Member retires when first eligible for full benefits but continues working:				Member works until full retirement:			
Year	Salary History	KPERS Benefit	Subtotal	Salary History	KPERS Benefit	Total Income	Subtotal	Salary History	KPERS Benefit	Total Income	Subtotal
2011	\$46,228	\$0		\$46,228	\$0	\$46,228		\$46,228	\$0	\$46,228	
2012	\$48,077	\$0		\$48,077	\$0	\$48,077		\$48,077	\$0	\$48,077	
2013	\$50,000	\$0		\$50,000	\$0	\$50,000		\$50,000	\$0	\$50,000	
2014	\$0	\$25,253		\$52,000	\$25,253	\$77,253		\$52,000	\$0	\$52,000	
2015	\$0	\$25,253		\$54,080	\$25,253	\$79,333		\$54,080	\$0	\$54,080	
2016	\$0	\$25,253		\$56,243	\$25,253	\$81,496		\$56,243	\$0	\$56,243	
2017	\$0	\$25,253		\$58,493	\$25,253	\$83,746		\$58,493	\$0	\$58,493	
2018	\$0	\$25,253		\$60,833	\$25,253	\$86,086		\$60,833	\$0	\$60,833	
2019	\$0	\$25,253		\$63,266	\$25,253	\$88,519		\$63,266	\$0	\$63,266	
2020	\$0	\$25,253	\$176,771	\$65,797	\$25,253	\$91,050	\$587,483	\$65,797	\$0	\$65,797	\$410,712
2021	\$0	\$25,253		\$0	\$25,253	\$25,253		\$0	\$40,986	\$40,986	
2022	\$0	\$25,253		\$0	\$25,253	\$25,253		\$0	\$40,986	\$40,986	
2023	\$0	\$25,253		\$0	\$25,253	\$25,253		\$0	\$40,986	\$40,986	
2024	\$0	\$25,253		\$0	\$25,253	\$25,253		\$0	\$40,986	\$40,986	
2025	\$0	\$25,253		\$0	\$25,253	\$25,253		\$0	\$40,986	\$40,986	
2026	\$0	\$25,253	\$151,518	\$0	\$25,253	\$25,253	\$151,518	\$0	\$40,986	\$40,986	\$245,914
TOTAL	\$0	\$328,289	\$328,289	\$410,712	\$328,289	\$739,001	\$739,001	\$410,712	\$245,914	\$656,626	\$656,626

WAR Example 1

Assumptions About Costs and Revenue to Plan

- **Cost to the plan** is the present value* of the future benefits at 1/1/14 if –

Retiring on that date – OR – *Retiring on that date and returning to work until 1/1/2021* – OR – *Retiring on 1/1/2021*

- **Contributions to plan** are the present value* at 1/1/14 of the –
 - Full actuarial contribution rate plus an additional 8%, if retiring and returning to work.
 - Employer funds contributions. All contributions apply to the UAL.
 - Statutory employer contribution rate and employee contributions of 6%, if working until full retirement.
 - Employer and employee contributions fund both the normal cost and the UAL

*Note: Present value determined using 8.0% investment return assumption and RP 2000 Mortality Table blended 50% male/50% female with Mortality Improvements Projected to 2025.

WAR Scenario 1

Calculation of Net Cost/Savings to System



- The present value of a member's retirement generally is highest when first eligible to retire with full benefits.

As of 1/1/2014 –	Member Retires When First Eligible for Full Benefits	Member Works Until Full Retirement	Difference
Total Present Value of Expected Retirement Benefits	\$296,835	\$251,300	\$45,535
Present Value of Future Contributions (from 1/1/2014 until full retirement on 1/1/2021)	-\$0	-\$51,969	\$51,969
Net Present Value of Expected Retirement Benefits	\$296,835	\$199,331	\$97,504
Net Cost/(Savings)			\$97,504

WAR Scenario 1

Calculation of Net Cost/Savings to System

- If a member retires when first eligible to retire with full benefits and returns to work, the additional contributions made on the working after retirement payroll may reduce the cost to the system.
 - Size of reduction depends on factors such as retiree's pay and length of working after retirement.

As of 1/1/2014 –	Member Retires When First Eligible for Full Benefits and Returns to Work	Member Works Until Full Retirement	Difference
Total Present Value of Expected Retirement Benefits	\$296,835	\$251,300	\$45,535
Present Value of Future Contributions (from 1/1/2014 until full retirement on 1/1/2021)	-\$71,931	-\$51,969	-\$19,962
Net Present Value of Expected Retirement Benefits	\$224,904	\$199,331	\$25,573
Net Cost/(Savings)			\$25,573

