MEMORANDUM

To: House Pensions and Benefits Committee

From: Alan D. Conroy, Executive Director

Date: February 15, 2016

Subject: HB 2654: Health Care Professional Exemption

The Pensions and Benefits Committee has been assigned several bills regarding working after retirement. Several questions have been raised regarding the policy decisions contained in the bills and their cost implications. This memorandum reviews HB 2654, which establishes a new working after retirement exemption for licensed public health retirees.

Current statute stipulates that, effective July 1, 2016, the basic rule for retirees returning to work for a KPERS-affiliated employer is that the retirees are subject to a $25,000 per year earnings limitation, and employer contributions at the statutorily prescribed employer contribution rate are to be made on their compensation. HB 2654 would add a group of public health employees to an exemption from the earnings limitation.

KPERS does not have data to identify how many positions are affected by the changes proposed in HB 2654 or any estimate additional revenue due to the changes. Current law provides a similar exemption from the earnings limitation for KPERS retirees rehired as licensed professional nurses and licensed practical nurses employees by the following State institutions:

- Osawatomie state hospital, Larned state hospital, Parsons state hospital and training center
- Kansas neurological institute
- the Larned juvenile correctional facility and the Kansas juvenile correctional complex; and
- Kansas Soldiers' Home and Kansas Veterans' Home.

HB 2654 would expand the affiliated employers eligible for the exemption to include all KPERS-affiliated hospitals (including the University of Kansas Medical Center) and all county health departments. HB 2654 would also expand the types of positions that would be covered by the exemption -- a KPERS retiree could be employed by a KPERS-affiliated hospital or county health department without an earnings limit in any position for which a license is required from the Board of Healing Arts or the Board of Nursing. In addition to registered nurses and licensed practical nurses, eligibility would be expanded to include such professions as licensed mental health technicians, doctors of

medicine and surgery, osteopathic physicians, chiropractors, podiatrists, physical therapists, physical therapist assistants, occupational therapists, occupational therapist assistants, respiratory therapists, physician assistants, naturopaths, athletic trainers, radiological technologist and contact lens distributors.

However, KPERS has only limited data available about the number of active employees hired by state hospitals in these types of professions and no data about the number of licensed health professionals employed by county health departments. Moreover, that type of data does not provide any indications about the extent to which the proposed exemption would be used by eligible employees and retirees.

Impact of Removing the Earnings Limit on Actuarial Liabilities

Exemptions from the earnings limitation for retirees returning to work can impact the cost of retirement benefits, with the degree of the impact dependent on the number of retirees affected and the demographic characteristics of the employees (e.g., age, earnings, gender, and years of service). The potential for an impact results primarily from two factors:

(1) **Changes in retirement patterns and behavior** stemming from incentives for members to retire earlier than they would have absent the exemption. Members who can continue receiving pension benefits while earning all or a significant portion of their pre-retirement salary through employment with a KPERS-affiliated employer are incented to retire earlier than they might otherwise, due the material increase in their income. This, in turn, increases the liability for their benefits above that anticipated under current actuarial assumptions, which reflect historical retirement patterns where an earnings limit applies to working after retirement.

It is not possible to determine when a member would have retired had the incentives created by working after retirement opportunities been different. For these reasons, it is not possible to project what additional actuarial liabilities may result from changing working after retirement rules

(2) **Reductions in employee and employer contributions** that occur when positions historically filled by active, contributing members are instead filled by noncontributing retirees.

Because the affected employers are paying contributions on the compensation of retired licensed professionals at the actuarial rate plus 6%, KPERS is continuing to receive contributions on the position filled by a retiree. However, it is not possible to project the extent or impact of changes in retirement patterns among the group of employees eligible for reemployment by hospitals or county health departments under HB 2654. Therefore, a precise cost cannot be calculated, and it is unclear whether the actuarial rate plus 6% is sufficient to cover the increased liability of any change in retirement patterns. Therefore,

there is also likely to be a long-term cost associated with changes in retirement patterns and behaviors.

Administrative Cost Implications

Establishing a new working after retirement exemption for licensed health professionals will require modifications to the KPERS informational technology system and data base. However, KPERS anticipates that the costs could be absorbed within its existing expenditure limit.

On its own, removal of the earnings limit for licensed health professional retirees returning to work for a hospital or county health department does not create any staffing issues that would require a request for increased staffing. However, with implementation of 2015 HB 2095 and the potential passage of some combination of the additional amendments to working after retirement rules, the administration of these rules is growing in complexity. While KPERS anticipates absorbing the additional workload, further consideration of appropriate staffing levels may be required in the future as KPERS gains experience with the administrative impact of the new rules.

I hope this information is helpful, I would be happy to answer any questions the Committee may have.