MEMORANDUM

To: Senate Ways and Means Committee

From: Alan D. Conroy, Executive Director A.D.C.

Date: March 10, 2020

Subject: Senate Bill 274

Senate Bill 274 changes working after retirement rules by eliminating employer contributions on compensation paid to retired members if the member is hired after reaching aging 65.

Current Law

When a member retires from KPERS and begins receiving benefits, they cannot return to work for a KPERS affiliated employer for 180 days if they retired before age 62 or for 60 days if they were age 62 or older.

After the waiting period, a KPERS retiree can return to work for KPERS affiliated employer as long as there was no prearranged agreement for the retiree to return. When a KPERS retiree returns to work for a KPERS affiliated employer, they continue receiving their KPERS benefit. They also have no earnings limitation and are not required to make any employee contributions to KPERS.

Statutory working after retirement rules require employer contributions on the payroll of KPERS retirees. Employers contribute the statutory employer contribution rate (14.41% in FY 2020 for State/School employers) on the first $25,000 of retiree salary and 30% for salary above $25,000. This contribution is intended to help offset the actuarial cost of a non-contributing retiree filling a position that could be filled by an active, contributing member.

Existing Exemptions

There are several existing exemptions included in statute from the employer contribution rate applied when hiring a KPERS retiree. Some of the exemptions include daily call substitute teachers, poll workers, local elected officials and Regents institutions. These exemptions are generally targeted to specific employers or positions.

Actuarial Impact

The potential actuarial cost associated with working after retirement is the loss of contributions if positions that would otherwise be filled by an active member are filled by

KPERS

retirees. Senate Bill 274 adds to the number of positions that are exempt from making working after retirement contributions.

In 2018, there were about 2,500 KPERS retirees who returned to work for a KPERS affiliated employer with reported payroll of $60.2 million. The statutory employer contributions on the working after retirement payroll in 2018 totaled $9.2 million.

The number of retirees who were hired after reaching age 65 totaled 674 retirees, 26.2% of all retirees who returned to work. The payroll for those 674 retirees was $10.7 million, which generated $1.3 million in employer contributions in 2018. $1.3 million represents 0.22% of the total State/School statutory employer contributions in 2018.

If the proportion of working after retirement contributions in the future is similar to the current proportion, we would expect the proposed change in SB 274 to reduce employer contributions by about $1.3 million each year, with the amount slowly increasing overtime as employee pay increases.

Over time these lost contributions will slow the funding progress, but the annual impact is relatively small when compared to total State/School employer contributions.

I would be pleased to answer any questions the Committee may have.