MEMORANDUM

To: Senate Financial Institutions and Insurance

From: Alan D. Conroy, Executive Committee

Date: March 12, 2019

Subject: Senate Bill 202; Working After Retirement

Current working after retirement statutes contain a penalty for retirees who return to work before the end of the statutory waiting period. SB 202 removes the penalty KPERS retirees if they retire on and after January 1, 2018.

Current Law

When a KPERS member retires, there is a statutory waiting period that the retiree must complete before they are allowed to return to work for a KPERS affiliated employer. The current waiting period, which has been in place since July 1, 2017, is set at 60 days for members who retire at age 62 or older and 180 days for members who retire before age 62.

The Internal Revenue Service (IRS) requires a "bona fide" retirement in order for a person to begin received benefits from a pension plan. The statutory waiting period serves as the test for a bona fide retirement from KPERS.

If a retiree returns to work for a KPERS affiliated employer before the completion of the statutory waiting period they must repay an benefits they received while working and their benefit is suspended until they terminate employment and for an additional six months after they terminate employment.

If SB 202 is passed, if a retiree returns to work before the end of their waiting period, they would not receive their monthly benefits while they were working, but they would not have an additional six months of benefits suspended after they quit working.

If a retiree has completed their waiting period, the member can receive both their monthly benefit and receive compensation from a KPERS affiliated employer. In most cases the KPERS employer is required to make contributions to KPERS on the retiree salary. Employers pay the statutory employer contribution rate on the first $25,000 in retiree salary and 30% for all retiree salary above $25,000. There are limited statutory exceptions to the required employer contributions.

By and large, the new working retirement rules are working as intended. Each year, KPERS has about 4,000 KPERS retirees who return to work for a KPERS affiliated employer. KPERS is aware of fewer than 10 retirees, about 0.25% of all the retirees who returned to work, who have not met the new statutory requirements before returning to work.

Cost Impact

SB 202 is not expected to have any actuarial cost impact on KPERS. SB 202 would require minor administrative changes for KPERS, but any changes can be accomplished within existing resources.

I would be pleased to respond to any questions the Committee has regarding SB 202.

KPERS