

# 2012 KPERS Legislation

In answer to KPERS' long-term funding shortfall, the Legislature has passed Sub House Bill 2333, affecting new hires, current members and employers. These changes are necessary to make KPERS more sustainable and to pay promised benefits long-term.

Sub House Bill 2333:

- Increases employer contributions.
- Increases current member contributions or decreases benefits.
- Creates a new tier 3 cash balance retirement plan for new hires beginning January 2015.
- Directs some of the money from state gaming revenue toward KPERS' unfunded liability.
- Provides some of the revenue from the sale of state surplus real estate for KPERS' unfunded liability.

While not part of the funding solution, legislation also extends the working after retirement earnings limit exemption for certain school retirees and implements a moratorium on employer contributions to KPERS' death and disability fund.

## Most Significant — Increased Employer Contributions

While member contribution and benefit changes are part of a shared solution, the change that will most help the funding shortfall is higher employer contributions. Contribution rate increases are currently capped by statute. Employers (including the State) have been paying what is legally required, but contributions over the last 17+ years have been less than what is actuarially required to properly fund the system. Contributions are currently allowed to increase by only 0.6% per year.

With 2012 legislation, employer contributions will increase faster starting in fiscal year 2014 (calendar year 2014 for local employers) until they reach the actuarially required rate.

FY 2014, 0.9% cap increase	FY 2016, 1.1% cap increase
FY 2015, 1% cap increase	FY 2017+, 1.2% cap increase

These increases will mean more than \$500 million in additional funding from employers over the next 10 years, bringing the 10-year total to almost \$10 billion in employer contributions.

## Changes for Current Members (Tier 1/Tier 2)

Changes for current members depend on membership tier.

### Tier 1 (hired before July 1, 2009)

Tier 1 changes will take effect in stages and may involve members making a choice in 2013, pending IRS approval. If the IRS does not provide approval, the contribution and multiplier increases below will automatically take effect.

Tier 1 Now	Tier 1 (Change) January 2014	Tier 1 (Change) January 2015+	July 2013 Election Choice* <i>If election is held</i>
4% contributions	Increase to 5% contributions	Increase to 6% contributions	Stay at 4% contributions (No change to 5% and 6%)
1.75% multiplier	Increase to 1.85% multiplier <b>Future</b> service only	Continue with 1.85% multiplier	1.4% multiplier <b>Future</b> service only (Start July 2014, past service stays at 1.75%)

\*Without IRS approval for an election, contributions and multiplier will automatically increase.



## Tier 2 (hired July 1, 2009+)

Tier 2 members will lose their cost-of-living adjustment, but will have a higher multiplier for all their service.

Tier 2 Now	Tier 2 Change
6 % contributions	Continue with 6% contributions
1.75% multiplier	Increase to 1.85% multiplier <b>All</b> service, not just future Start January 2014
Have cost-of-living adjustment	Lose COLA Start July 2012 (Doesn't affect members retiring before July 2012)

## Cash Balance Plan for New Hires 2015+ (New Tier 3)

Beginning January 1, 2015, a new cash balance retirement plan will go into effect for new hires. A “cash balance” plan is a type of *defined benefit* plan that includes some elements of a defined contribution plan and shares risk between employer and employee.

Each member has a hypothetical account and makes 6% contributions. They also receive pay credits quarterly based on years of service. Pay credits represent dollars and are tracked in the member’s account along with their contributions. The account balance earns a guaranteed 5.25% interest annually and possibly additional interest based on KPERS’ investment returns and funding status.

At retirement, the account balance is annuitized to create a guaranteed lifetime monthly benefit. Tier 3 will have survivor and partial lump-sum payment options. Members can also use part of the account balance to fund future cost-of-living adjustments (COLAs).

## State Gaming Revenue

In fiscal year 2014, the Legislature will begin directing revenue from the Expanded Lottery Act Revenues Fund to help pay down KPERS’ unfunded liability. Expanded Lottery Funds include net gaming revenues collected from state-owned casinos and electronic gaming machines at pari-mutuel racetracks.

The latest legislative estimates project the fund to receive \$87.7 million for fiscal year 2013. Based on the formula, about \$39 million would go to KPERS. *This is just an example.* Actual funding will depend on gaming revenues in any given year. Money will not begin going to KPERS until fiscal year 2014.

## Sale of State Surplus Real Estate

If the State of Kansas sells surplus real estate, 80 percent of the proceeds will be used to pay down KPERS’ unfunded actuarial liability until the Retirement System reaches an 80 percent funded ratio.

## Moratorium on Contributions to Death and Disability Fund

Active KPERS members are covered by death and long-term disability benefits. Employers pay for the cost with contributions equal to 1% of payroll. With State budget shortfalls, the Legislature has adopted 19 quarters of moratoriums at different times on employer contributions since 2000. Employer contributions stop periodically, but benefits continue.

The 2012 Legislature passed a moratorium for the last quarter of fiscal year 2012 and another for the last quarter of fiscal year 2013.

## Working After Retirement Earnings Limit Exemption

HB 2333 extends for another three years the 2009 legislation that temporarily lifted the \$20,000 earnings limit for some licensed school members returning to work for the same employer. It also extends the required employer reporting and contributions. The new sunset date for the exemption is July 1, 2015.

# Working After Retirement and School Employer Responsibilities

## Waiting Period

All KPERS retirees must wait 60 days to go back to work for any Retirement System employer. This includes teaching summer school.

## Licensed School Professionals Can Retire Before June 30

- Do not withhold contributions from compensation that would normally have been paid in June, July or August.
- Refund employees any contributions that are withheld in error.
- Rules for when to include “add-on pay” apply.

For administrators who retire in June, and as a result, don’t complete their contract, do not include add-on pay in final KPERS contributions. Add-on pay is compensation for unused sick leave, annual leave, comp time, etc.

## Temporary Earnings Limit Change

Sub House Bill 2333 has extended for another three years the 2009 legislation that temporarily lifted the \$20,000 earnings limit for some licensed school members returning to work for the same employer. Member must retire with “full” retirement. This includes the 85 point rule, age 62 with ten years of service and age 65 with one year of service. The earnings limit goes back into effect July 1, 2015.

## Highlights

- Licensed and non-licensed positions are treated differently. If a licensed employee returns to work in a non-licensed position, he or she will be in the non-licensed category.
- Employees with early retirement and normal retirement are treated differently.
- Employers have reporting responsibilities and contributions if retirees return to work through a third-party entity.
- Compensation to any retiree returning to work in any licensed position, even those positions requiring less than 630 hours per year, are subject to the working after retirement contribution requirements. The only exceptions are substitute teachers and retirees who were first employed post-retirement by a different employer before July 1, 2006. Retirement date does not determine the exception. What matters is the date the member returned to work.

## Contact KPERS



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## Contribution Examples

**Example 1** Sue retired July 1, 2005, from USD #1. Sue returned to work for USD #2 on November 1, 2005. Employer does not make contributions.

**Example 2** Sue retired July 1, 2005, from USD #1. Sue returned to work for USD #2 on November 1, 2006. Employer makes contributions.

## Employer Requirements

**Important:** One of the table columns is labeled “Return to Work Eligibility Date.” This is the date that a retiree first returns to work after retirement and the waiting period.

### Non-Licensed Employee – Return to Work for *Same* Employer

	Return to Work Eligibility Date	Employer Reporting & Contributions	Earnings Limit
Normal Retirement & Early Retirement	On & after July 1, 1988	Report status & earnings	\$20,000

### Non-Licensed Employee – Return to Work for *Different* Employer

	Return to Work Eligibility Date	Employer Reporting & Contributions	Earnings Limit
Normal Retirement & Early Retirement	Before July 1, 2006	Report status & earnings	None
	On & after July 1, 2006	Report status & earnings	None
		7/1/12 to 6/30/13	
		7/1/13 to 6/30/14	19.12%

### Licensed Employee – Return to Work for *Same* Employer

	Return to Work Eligibility Date	When Compensation Paid	Employer Reporting & Contributions	Earnings Limit	
Normal Retirement	Anytime	July 1, 2012, through June 30, 2015	Report status & earnings	None	
			7/1/12 to 6/30/13		22.69%
			7/1/13 to 6/30/14		23.12%
Early Retirement	Before March 28, 2009	July 1, 2012, through June 30, 2015	Report status & earnings	None	
			7/1/12 to 6/30/13		22.69%
			7/1/13 to 6/30/14		23.12%
	On & after March 28, 2009	July 1, 2012, through June 30, 2015	Report status & earnings	\$20,000	

## Licensed Employee – Return to Work for *Different* Employer

	Return to Work Eligibility Date	When Compensation Paid	Employer Reporting & Contributions		Earnings Limit
Normal Retirement	Before July 1, 2006	All dates	Report status & earnings		None
	July 1, 2006 through June 30, 2009	On & after July 1, 2012	Report status & earnings		None
			7/1/12 to 6/30/13	22.69%	
			7/1/13 to 6/30/14	23.12%	
	On & after July 1, 2009	July 1, 2012, through June 30, 2015	Report status & earnings		None
			7/1/12 to 6/30/13	22.69%	
7/1/13 to 6/30/14			23.12%		
Early Retirement	Before July 1, 2006	All dates	Report status & earnings		None
	July 1, 2006 through March 28, 2009	On & after July 1, 2012	Report status & earnings		None
			7/1/12 to 6/30/13	22.69%	
			7/1/13 to 6/30/14	23.12%	
	On & after March 28, 2009	July 1, 2012, through June 30, 2015	Report status & earnings		None
			7/1/12 to 6/30/13	22.69%	
7/1/13 to 6/30/14			23.12%		

## Licensed Employee – Return to Work for *Third-Party Entity (TPE)* Employer

	Returned to Work Eligibility Date	When Compensation Paid	Employer Reporting & Contributions		Earnings Limit
Normal Retirement	USD contracts with TPE before April 1, 2009	All dates	None		None
	USD contracts with TPE on & after April 1, 2009	July 1, 2012, through June 30, 2015	Report status & earnings		None
			7/1/12 to 6/30/13	22.69%	
		7/1/13 to 6/30/14	23.12%		
Early Retirement	USD contracts with TPE before April 1, 2009	All dates	None		None
	Same USD Employer contracts with TPE on & after April 1, 2009	July 1, 2012, through June 30, 2015	Report status & earnings		\$20,000
	Different USD Employer contracts with TPE on & after April 1, 2009	July 1, 2012, through June 30, 2015	Report status & earnings		None
7/1/12 to 6/30/13			22.69%		
		7/1/13 to 6/30/14	23.12%		

# KPERS – School Working After Retirement



