

KPERS Papers

Kansas Public Employees Retirement System

Serving public employees since 1962

August 2001

Active Member Issue

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Members Elect Two Trustees to Board

Members of the Kansas Public Employees Retirement System have elected two of their fellow members to serve as trustees on the KPERS Board for the next four years.

The Retirement System is pleased to announce the newly-elected trustees are: Marjorie Lee Webb/school trustee position; and Bruce Burditt/non-school trustee position.

Marjorie Lee Webb is a retired high school teacher from the Shawnee Mission School District. She is currently teaching part-time in the Shawnee Mission Alternative Education Horizons High School. She won re-election to a third four-year term in the school trustee position. Bruce Burditt is Financial Reporting and Investments Manager with the Kansas Department of Transportation. He won re-election to a

second four-year term in the non-school position. Bruce was also recently appointed to serve as Board Vice-Chair. Your new trustees began their Board service on July 1, 2001.

The KPERS Board is comprised of nine trustees. Four are appointed by the Governor, one is appointed by the President of the Senate, one by the Speaker of the House, two are elected by Retirement System members and one is the State Treasurer. Each trustee serves a four-year term on the Board. The gubernatorial appointees are: Jarold W. Boettcher, Board Chair; Vern R. Chesbro; Liz Miller; and Michael Braude.

Jarold W. Boettcher, from Beloit, is President and CEO of Boettcher Enterprises, Inc. and Boettcher Supply, Inc. Vern R. Chesbro, of Ottawa, is President of Vern R. Chesbro Consulting, Inc. Liz Miller, of Lawrence, is Senior Vice-President of UMB Bank. Michael Braude, of Mission Woods, is past President and CEO of the Kansas City Board of Trade.

The appointee of the President of the Senate is Don Steffes from McPherson. He is a retired banker and former Senator who served on the Joint Committee on Pensions, Investments and Benefits.

The appointee of the Speaker of the House is Lon Pishny of Garden City, owner of Pishny Financial Services.

State Treasurer, Tim Shallenburger from Topeka, is a member of the Board of Trustees *ex officio*.

What's New on the Web Site?

Be sure to check out the following items at www.kpers.org:

- For your convenience, a new format has been applied to KPERS web forms which allows for on-screen completion.
- Interested in a career with KPERS? Review the latest "Employment Opportunities."

KPERs Recipient of 2000 Award

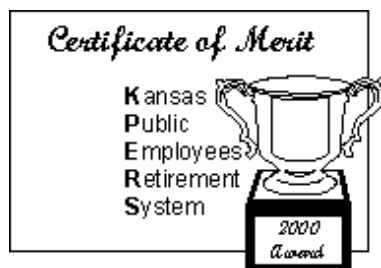
KPERs is proud to be the recipient of the 2000 Public Pension Coordinating Council's Achievement Award and Certificate of Merit.

This award was presented to KPERs for the high professional standards of the Retirement System.

The Achievement Award is based on compliance with specific principles that underlie retirement system achievements in the areas of benefits, actuarial valuations, financial reporting, investments, and disclosure to members. In summary, the principles are as follows:

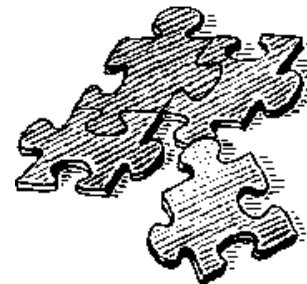
- Courteous Service
- Member Statements
- Information
- Annual Reports
- Financial Audits
- Actuarial Studies
- Adequate Funding
- Operated for Exclusive Benefit of Members
- Prudent Investments
- Ethical Conduct

The principles are adopted by prominent members of the public retirement system community and are widely acknowledged to be marks of excellence for retirement systems. Systems that adhere to these standards lead the way in their service to system members, public officials, and citizens alike.



Connect With Your Retirement System

Do you have questions about your benefits, need to know your account balance, or wish to change your beneficiary? If so, here are some tips to help you get “connected” with your Retirement System.



KPERs offers various publications and other helpful information through our web site at www.kpers.org. In addition, staff members are always happy to assist you in obtaining answers to your retirement questions.

- **Contact Information:** You may contact the Retirement System's Infoline toll-free at 1-888-ASK-KPERs (1-888-275-5737). In Topeka, call 296-6166. The Infoline is available Monday through Friday from 9:00 a.m. to 5:00 p.m. Our Infoline staff is trained in all aspects of the Retirement System and are able to answer most questions without having to transfer your call.

The Retirement System office is open weekdays from 8:30 a.m. to 5:00 p.m. Should you need to visit the office, please call to arrange an appointment first so that we can assist you more effectively when you arrive.

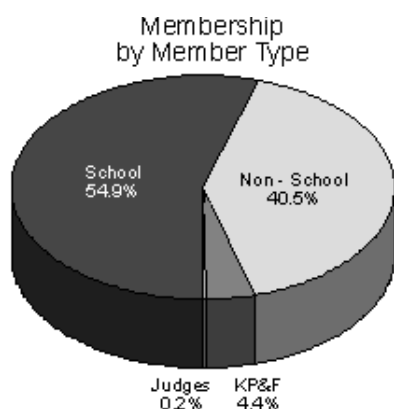
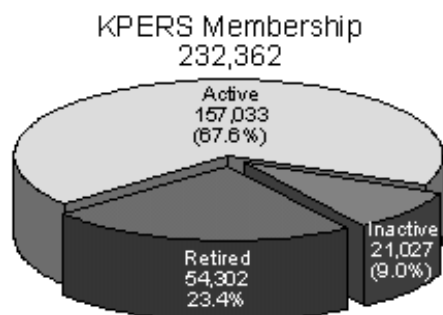
If you need to submit information to KPERs in a hurry, you may fax documents and forms to KPERs at 785-368-7105. If you're faxing a death certificate or court order, it will be necessary to send the original document by mail to: Kansas Public Employees Retirement System (KPERs), 611 S. Kansas Avenue, Suite 100, Topeka, Kansas 66603-3803. You may also send any questions or concerns to KPERs by contacting us through our e-mail address at kpers@kpers.org.

(Continued on Page 3)

Connect With Your Retirement System (Continued)

- **Confidentiality:** Unless you authorize it, the Retirement System is bound by law not to release information from your file to anyone other than you, except to a person who holds your power of attorney. Therefore, no one may obtain information about your records, including your current spouse, former spouse, friends or relatives. You may ask for information about your records only. This is to ensure your privacy as well as the privacy of all other members of the Retirement System.
- **Statistics:** KPERS received nearly 125,000 calls from our members in the year 2000. We continually strive to improve the quality of our customer service to better meet the needs of more than 200,000 active and retired members. Your comments and suggestions are valuable and always welcome.

Membership Statistics (7/1/01)



Planning a Visit to Our Office?

The KPERS office is located at 611 South Kansas Avenue in Topeka, Kansas. For those of you planning to visit our office, the following tips are suggested to assist in making your visit a pleasant one:

1. *Make an appointment to visit with a KPERS representative.* By scheduling an appointment, KPERS can be better prepared for your visit by having your account information available when you arrive. You can make an appointment by calling the Infoline at 785-296-6166 or by calling our toll-free number at 1-888-275-5737. If you decide to cancel your appointment for any reason, please call to reschedule your appointment for another time.
2. *Write your questions down and bring them with you at the time of your appointment.* Taking this step will help to ensure that all of your questions and concerns are addressed at the time of your visit.
3. *Bring all applicable documentation with you.* If you have questions about your Annual Statement or other information that you have received from KPERS, having them readily available will assist our representative in explaining them to you in a convenient, timely manner.

Following these simple steps will help to ensure that your visit is a helpful and satisfying one.

Each one of us will one day be judged by our standard of life, not by our standard of living; by our measure of giving, not by our measure of wealth; by our simple goodness, not by our seeming greatness.

- William Arthur Ward

Long-Term Gains Through Short-Term Losses

The decline in the world's stock markets has continued over the course of the fiscal year. Over the last 12 months ending June 30, 2001, the Dow Jones Industrial Average has lost .55 percent, the Standard & Poor's 500 lost 16.7 percent, and the technology-laden NASDAQ lost 45.86 percent. With the stock market in the red and the Retirement System invested in the stock market, the System has suffered reductions in value as well. The System's investment portfolio declined by 7.3 percent for the fiscal year ending June 30, 2001. Naturally many participants in KPERs may have concerns about the System's investment fund and how losses may impact KPERs' benefits.

KPERs is a defined benefit plan. As such, your benefits are defined by formula within the state statutes. Investment returns (either positive or negative) have no impact upon the definition of the benefits that have been promised by the employers participating in KPERs.

Although periods of poor investment returns do not impact the benefits promised to KPERs' members, the overall long-term returns on the fund are still very important. When KPERs' investments perform better than expected, the System grows stronger financially, providing greater assets and flexibility. As a large portion of the benefit obligations will not become payable until well into the future, it is important that the fund sustain a long-term, total return perspective. By investing the funds over the long term, the fund will weather both good economic periods (mid to late 90's) and weak economic periods (the last 12 months).

During difficult times, the System's investments are aided by diversification. The System's assets are spread across a broad spectrum of assets and asset categories that react differently in different economic periods. During the previous 12 months, this diversification has helped limit the total losses of

the fund. Over the longer term, diversification helps provide average returns that are more consistent and that support the long-range funding of future benefits. For example, the five-year period ending in June 2001 saw the fund realize an average annual return of 9.4 percent. This was significantly higher than the 8.0 percent return that had originally been assumed and provides some cushion for more difficult return periods, such as the last year.

As we seek long term gains, history demonstrates that we will sometimes experience short term losses. The Board of Trustees will continue to invest the assets of the fund with an eye for the long term, seeking at all times to generate consistent levels of investment return to support the payment of benefits. During difficult periods in the stock market, or in any asset class, it is encouraging to remember these facts.

Converting KPERs Group Insurance

Upon retirement or termination of employment, KPERs members may be eligible to convert their Group Term Life Insurance Policy and any optional insurance they have purchased. Once the policy is converted, however, it no longer is a term life policy. It then becomes an "individual permanent plan of insurance." Most group policies follow this industry standard of changing the policy into an individual policy after termination or retirement.

In order for a member's conversion from the group policy to the individual policy to take effect, all the corresponding paperwork must be completed within 31 days from the member's final date on the payroll. One of the main benefits of the conversion is that it does not require the member's proof of insurability in order for the conversion to take effect. If you would like more information, please see your Designated Agent or contact the Retirement System.

Why Service Credit Counts

S*ervice credit.* It's a term indicated on your KPERs Annual Statement of Member's Account, but do you know why it's important?

The answer is twofold. First, service credit establishes your eligibility for benefits, and second, it is a factor used to calculate the benefits you are due. In a nutshell, the amount of service credit you have affects your eligibility to retire and the monthly dollar amount you will receive at that time.

Some of you may wonder what significance service credit has to you at this point in your career; but understanding what it is all about can greatly assist you in planning for your future.

Eligibility. Throughout your career, there will be milestones in establishing your eligibility for benefits. As a member of KPERs, you become vested after ten years of service. This means that you will receive a retirement benefit in the future - even if you decide to stop working. KP&F members become vested at fifteen years of service (for Tier II members) and twenty years of service (for Tier I members). *Should you choose to stop working and decide to withdraw your contributions, you will lose your eligibility for future benefits.*

After attaining 15 years of service credit, another benefit becomes available for KPERs members. If you have named your spouse as your sole primary beneficiary and you should die before reaching retirement age, your surviving spouse can elect to wait until the date you first would have been eligible to draw a monthly benefit rather than withdrawing your accumulated contributions.

Eligibility for *normal* retirement is based upon your age and years of service credit. The sum of these two numbers is referred to as "points."

For KPERs and Judges members normal retirement is:

- age 65,
- age 62 with 10 years of service credit, or
- any age when the sum of your age and service credit years equals 85 points.

You may retire with reduced benefits as early as age

55, if you have at least 10 years of credited service. A reduction factor of 0.2% is applied for each month you are between the ages of 60 and 62, plus 0.6% for each month you are between the ages of 55 and 60.

For Tier I KP&F members, normal retirement is:

- age 55 with 20 years of service.

For Tier II KP&F members, normal retirement is:

- age 50 with 25 years of service,
- age 55 with 20 years of service, or
- age 60 with 15 years of service.

Benefit Calculations. The formula used to calculate retirement benefits is based upon final average salary, a percentage multiplier established by state statute, and years of service credit. After you have become vested, each additional year of service will increase your retirement benefit. Review your annual statement for an estimate of what each additional year will add to *your* benefit.

Purchasing Service Credit. Service credit is issued during the time you are working, through a payroll contribution process. In addition, numerous types of service credit can be purchased through payroll deduction or by lump-sum payment while you are actively employed in a covered position. If you withdrew your retirement account in the past, you can purchase the service you forfeited at that time. Various types of public service (both in state non-federal public service and out of state non-federal public service) can be purchased, as well as military service. (See your Designated Agent for details.) If you *are* considering the purchase of service credit, keep in mind that the cost of purchasing service will increase as you become older and your salary increases.

Reviewing Your Annual Statement. Annual statements are usually distributed to members in the month of May. It is important to review your statement carefully and ensure the service credit information on your statement is correct. If you should have any questions regarding your service credit or any other questions about your annual statement, please feel free to contact KPERs at the address or telephone number listed on the last page of this newsletter.

Ultimately, the years of service you earn directly affects the benefit you will one day receive. Having a clear understanding of "why service credit counts" can assist *you* in planning wisely for *your* future.

New Service Purchase Options

Some Retirement System members may be eligible to increase their retirement benefits by purchasing additional service credit.

KP&F: Effective July 1, 2001, members of the Kansas Police & Firemen's Retirement System (KP&F) may now purchase forfeited KP&F service by lump sum or payroll reduction. Members choosing to purchase such service by lump sum shall pay an amount equal to the then present value of the benefits being purchased determined by a number of factors including the member's age, annual compensation at the time of purchase, and the actuarial assumptions and tables then in use by the System. KP&F members may now also purchase their forfeited KP&F service by an additional actuarially-determined payroll reduction. Such reductions shall commence at the beginning of the quarter following such election and shall remain in effect until all quarters of service have been purchased.

JUDGES: Members who have retired under the Retirement System for Judges and who later earned service as a senior judge, in agreement with the Kansas Supreme Court, may purchase this senior judge service by means of a single lump sum payment. The cost of the senior judge service is determined by the judge's current age, final average salary at the time of retirement, the form of payment and retirement options selected by the judge, as well as the actuarial assumptions and tables then in use by the System.

BOARD OF REGENTS: Members of KPERS who at one time had the Board of Regents assist them in the purchase of retirement annuities, and who

withdrew such member's accumulated contributions upon termination, may now purchase participating service credit for any waiting period which was required by the Board of Regents plan.

Members who believe they may be eligible to purchase past service should consult with their Designated Agent or contact the Retirement System directly. Members should also be aware that the cost of service purchases increases with the member's age and salary.

Spousal Consent Required for PLSO

Retiring KPERS members are required to complete an Application for Retirement Benefit form (KPERS-15) to provide KPERS with the information necessary for processing the member's eventual retirement benefit. All members must complete the "Retirement Benefit Option" portion whether or not they choose to select the Partial Lump Sum Option (PLSO). Married retiring members who elect to receive a maximum monthly benefit or a life certain option are further required to have such

member's spouse complete the "Spousal Consent of Member's Retirement Benefit Selection" portion of the retirement application. The spouse's signature must be notarized.

In addition, married retiring members who are selecting the PLSO are required to have their spouse sign along with

the member within the portion of the application which applies specifically to the PLSO. This signature is necessary regardless of whether the member chooses the maximum benefit or a life certain option. The spouse's signature under the PLSO portion does not need to be notarized.



New Tax Law Affects Retirement Plans

Almost everyone knows that in June of this year the President signed a tax-reduction bill into law. Most of the media attention has been focused on how the bill affects individual income taxes. But there are other aspects to this law, which is formally known as the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA).

Some important features of EGTRRA will affect Retirement System operations and provide you as members with additional retirement savings and planning opportunities. None of these will be effective before January 1, 2002, and some won't go into effect until years farther out.

After reading this article you may have additional questions about how the new law affects your retirement planning. As the opportunities provided by EGTRRA get closer to reality, KPERs staff will have more information on specific provisions. As always, though, KPERs suggests that you consult a financial-planning or tax professional for advice on individual decisions. If you think any of these changes may affect your future plans, it is important for you to receive accurate and up-to-date information from a qualified professional.

Below is a brief summary of some of EGTRRA's provisions that will change things at retirement plans around the country and possibly for you individually. This summary is not exhaustive, and there may be additional detail in the actual law that would modify the general summary in individual cases.

HIGHER CONTRIBUTION LIMITS: Elective deferral limits to a 457 plan are raised to \$11,000 in 2002, and increase in \$1,000 increments each year after that until reaching \$15,000 in 2006 (indexed in \$500 increments thereafter).

Catch-up contributions will be permitted for

participants over age 50, beginning in 2002, into 401(k), 403(b), and 457 plans. Generally, the additional catch-up contribution limit will be \$1,000 in 2002, increasing annually in \$1,000 increments up to \$5,000 in 2006 (indexed in \$500 increments thereafter). These extra amounts may be contributed on top of the elective deferral limits stated above.

MORE PORTABILITY: Service Purchases. Certain changes to state law may be necessary to implement some of these opportunities. Our tax counsel advises that the new legislation adds "design opportunities" for direct transfers from 403(b) and 457 plans to governmental defined benefit plans such as KPERs, for the purchase of service credit. "Design opportunities" means that while federal law says this is allowed, our plan document, containing Kansas statutory restrictions, may need to be amended first. Therefore KPERs may need to seek legislation to facilitate the option for members to purchase KPERs service credit using their 403(b) or 457 plan funds. We will be providing more information on this aspect of the new tax bill after further study.

Rollovers. New portability provisions will become effective in 2002. These permit rollovers among 401(k), 403(b), and 457 plans. Also allowed will be rollovers from an IRA (not limited to a "conduit" IRA, containing only distributions from another employee plan, as is now the case) to an employer sponsored plan such as KPERs.

Rollover of after-tax contributions. Another change provides that if you withdraw your accumulated contributions from KPERs, you will be allowed to roll over not only the taxable portion, as is now the case, but also the amounts that are not subject to tax (that is, any post-tax contributions such as those made prior to 1984, or made via lump sum to purchase service). Rolling over a distribution that would not be subject to tax anyway might be done in order to continue accumulating earnings on a tax-deferred basis.

New Tax Law Affects Retirement Plans (Continued)

Rollovers in connection with KPERS' new Partial Lump Sum Option. If you elect to take a partial lump sum distribution from KPERS when you retire, you currently have certain rollover opportunities. There will be expanded rollover options after January 1, 2002, under the new federal law. You will be able to roll the PLSO distribution over to a 403(b) or 457 plan, in addition to the currently allowed IRA, 401(k) or 401(a) rollover options.

TAX TREATMENT OF QDROS IN 457 PLANS: Current law provides that if a governmental employee's 457 plan assets are divided between the participant and his or her spouse as marital property in a divorce, then upon distribution the participant pays tax on the entire amount. Under the new law, distribution of 457 plan benefits pursuant to a Qualified Domestic Relations Order will be taxed under the same rules that apply to qualified plan distributions (such as KPERS or a 401(k) for example). That is, taxable income will be attributed to the one who gets the money.

SUNSET PROVISION: The law provides that all of the tax relief legislation, including these and other pension reform provisions, will "sunset" on December 31, 2010. This means that these provisions will cease to be effective unless Congress acts affirmatively to extend them.



Are there items of interest that you would like to see included in an upcoming issue of the KPERS Papers? Send your suggestions to the address below or e-mail us at kpers@kpers.org.

Name: _____

Date: _____

Suggestion/Comment: _____

Signature: _____

Mission Statement of the Retirement System: The Kansas Public Employees Retirement System is a plan of retirement, disability, and survivor benefits provided by law for Kansas public servants and their beneficiaries.

The Board of Trustees and the Staff of the Retirement System strive at all times to safeguard the System's assets by adhering to the highest standards of fiduciary and professional care, complying strictly and fairly with the law, and conducting business in a courteous, timely and effective manner.

- KPERS Board of Trustees:**
- | | | |
|-------------------------|---------------------------|-------------------|
| Jarold Boettcher, Chair | Bruce Burditt, Vice-Chair | |
| Michael Braude | Vern Chesbro | Liz Miller |
| Lon Pishny | Tim Shallenburger | Don Steffes |
| | | Marjorie Lee Webb |

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 FAX: (785) 296-6638, or call Toll-Free: 1-888-ASK-KPERS (1-888-275-5737)