

## Active Member Issue

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## New Law Is Good News for Members

Recent federal legislation, the Economic Growth and Tax Relief Reconciliation Act of 2001, gives Americans more flexibility in retirement planning by decreasing restrictions and greatly improving portability among different types of retirement plans.

The new law is good news for KPERS members who have eligible service credit that they can purchase in KPERS. Kansas law now allows KPERS members to take advantage of EGTRRA by purchasing service credit through a direct trustee-to-trustee transfer or via rollover from their 457(b) governmental or 403(b) plans.

Moving money from your *current* employer's 457(b) governmental or 403(b) plan to KPERS is called an "in-service trustee-to-trustee transfer."

If you have money in a *former* employer's 457(b), 403(b) or 401(k) plan you may move the money via a rollover to KPERS. This is a different, but similar process.

### **Trustee-to-Trustee Transfer Requirements**

There are three requirements for an in-service trustee-to-trustee transfer to purchase KPERS service credit:

**First**, your 457(b) governmental or 403(b) plan must allow an in-service trustee-to-trustee transfer. The State of Kansas deferred compensation plan permits them. If you participate in another plan you should contact your plan administrator. It is also important to ask if your plan charges any fees in connection with the transfer.

**Second**, the amount of money transferred to KPERS can be no more than the service purchase cost.

**Third**, your 457(b) governmental plan must be located in Kansas. There is no similar requirement for 403(b) plans.

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## New Law Is Good News for Members *cont.*

### Trustee-to-Trustee Transfer Q & A

**Q.** If I use my funds to purchase service in KPERS, can I still participate in my employer's deferred compensation plan or tax-sheltered annuity?

**A.** Yes.

**Q.** What if there isn't enough money in my plan account to purchase the service?

**A.** If KPERS does not receive enough money from your plan to cover the service purchase, we will send a letter telling you of the additional amount needed. You have 30 days from the date of the letter to pay the amount in a lump sum. If we do not receive the additional payment, we will return the money to your plan and cancel your service purchase.

**Q.** What if there is an overpayment?

**A.** Money above the amount needed for your service purchase is returned to your plan to be credited to your account there.

**Q.** If I purchase service but take a refund before reaching retirement age, what are the tax consequences?

**A.** Money transferred into KPERS retains its tax-deferred status. It is subject to the same tax rules as your other KPERS funds. If you withdraw (or retire and take a partial lump-sum), you must rollover your lump sum directly to avoid the 20 percent federal tax with-

holding. You may owe a 10 percent early withdrawal penalty if you take the money out before age 55.

**Q.** How long will it take to process my request?

**A.** Trustee-to-trustee transfers require certification by an administrator and transfer of funds from a service provider, neither directly associated with KPERS.

Please allow six to eight weeks from the time you submit your request to purchase service credit to complete the transfer process. If you are planning to retire soon it is important that you initiate the process as soon as possible. The transfer must be completed before your retirement date.

### For more information about purchasing service credit via transfer:

- Visit our web site, [www.kpers.org](http://www.kpers.org), to review our trustee-to-trustee transfers fact sheet at [www.kpers.org/trustee-to-trustee transfers.htm](http://www.kpers.org/trustee-to-trustee%20transfers.htm).
- Contact the KPERS InfoLine.  
*toll-free:* (888) 275-5737  
*in Topeka:* (785) 296-6166
- E-mail [kpers@kpers.org](mailto:kpers@kpers.org).
- Talk to your designated agent about any questions.

**To begin a trustee-to-trustee transfer**, complete and send a Service Credit Purchase Application form (KPERS-67) to the KPERS office. You can download a form at [www.kpers.org/FORMS.htm](http://www.kpers.org/FORMS.htm) or get one from your designated agent.

## KPERS Web Site and E-mail Provide Member Convenience

Fast, easy, convenient. The KPERS web site is an excellent resource to help you get the KPERS information you need.

Within seconds you can find KPERS forms, publications and loads of other information about KPERS membership and benefits. Our web site allows you to get immediate, up-to-date information when you want it, 24 hours a day, seven days a week.

At KPERS we want to make it as easy as possible for you to communicate with us. One vital element in that

process is electronic communication. You can e-mail us at [kpers@kpers.org](mailto:kpers@kpers.org) with questions and requests instead of calling. No waiting. On your own time schedule. KPERS staff is committed to a 24-hour turnaround for responses.

You can also calculate your estimated retirement benefits or a partial lump-sum payment online at the site using a variety of scenarios.

Take some time this week and browse [www.kpers.org](http://www.kpers.org). We have a gold mine of information just waiting for you.

## Federal Tax Credit Helps You Save for Retirement

Last year President Bush signed into law the Economic Growth and Tax Relief Reconciliation Act of 2001, creating the largest federal tax relief measure in more than 20 years.

This legislation provides many tax savings opportunities, including a saver's tax credit for *voluntary* additional retirement contributions in an effort to encourage you to save. For now, the tax years affected are 2002 through 2006.

*Some plans included are:*

- Individual retirement accounts
- 401(k) profit-sharing plans
- 403(b) tax-sheltered annuities
- 457 deferred compensation plans
- 401(a) defined benefit plans (like KPERS)
- 401 (a) defined contribution plans
- Other employer-sponsored retirement plans

You may be able to receive the tax credit when you purchase KPERS service credit. This is a tax benefit related to *after-tax* contributions. Service purchases by rollover, trustee-to-trustee transfer or payroll deduction are not eligible. The tax credit is in *addition* to any other tax benefit that you would normally receive for making a retirement contribution. The maximum contribution is \$2,000 per person or \$4,000 for a married couple filing jointly.

### What are the requirements?

- You must be at least 18 years old.
- You cannot be claimed as a dependent by another taxpayer for the year.
- You cannot be a full-time student.
- You cannot have taken a retirement payment in the year you are filing for the credit, the two years before that, or anytime between January 1 and April 15 of the next year before you file your taxes.

### Example:

You claim the tax credit on your 2002 federal income tax form.

You cannot have taken a retirement payment in 2000, 2001, 2002 or between January 1 and April 15, 2003.

*Note:* if your retirement payment was less than \$2,000, you may still qualify for a partial tax credit.

- The amount of tax you owe in a given year must be more than the credit you are claiming for that year.
- Your adjusted gross income, the amount you are taxed on, must be less than certain levels based on filing status. See table below.

AGI Filing Jointly	AGI Head of Household	AGI All Others	Your Tax Credit
\$0 - \$30,000	\$0 - \$22,500	\$0 - \$15,000	50% of contribution
\$30,001 - \$32,500	\$22,501 - \$24,375	\$15,001 - \$16,250	20% of contribution
\$32,501 - \$50,000	\$24,376 - \$37,500	\$16,251 - \$25,000	10% of contribution
Over \$50,000	Over \$37,500	Over \$25,000	Credit not available

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## Federal Tax Credit Helps You Save for Retirement *cont.*

### How does the credit help?

Please refer to the following examples to see how the Saver's Tax Credit may help you save on taxes.

#### Example #1

Joe is a KPERS member who files a tax return as head of household. In 2002, his AGI is \$22,500. He contributes \$2,000 of *after-tax* money to KPERS to purchase service. Joe can take a \$1,000 credit on his 2002 federal income tax. Joe purchased a \$2,000 benefit that only cost him \$1,000. It is essentially the same thing as having the federal government pay for half of his service purchase.

#### Example #2

Susan and John are married and file a joint federal income tax return for 2002. Their original AGI was \$34,000. John made a deductible \$2,000 contribution to an IRA for 2002, and Susan voluntarily contributed \$2,000 to her 403(b) plan.

These contributions reduced their AGI to \$30,000. Without this contribution, their tax bracket would probably have been 10 to 15 percent. The contribution should reduce their taxes to approximately 9 percent of AGI.

Using a 9 percent net tax rate for the couple, here are the effects using the saver's tax credit:

	<u>No Contrib.</u>	<u>\$4,000 Contrib.</u>
Susan and John's AGI:	\$34,000	\$30,000
Taxes Due (9% of AGI):	\$3,060	\$2,700
Saver's Tax Credit:	\$0	\$2,000
Net Taxes Due:	\$3,060	\$700
Take Home Pay:	\$30,940	\$29,300

To summarize, Susan and John only had to pay \$1,640 to save \$4,000 for retirement. The federal government, through the tax savings on the contribution and the saver's tax credit, covered 59 percent of the cost of the couple's contributions.

It's not every day that the federal government gives middle-class Americans legal ways to pay less tax while encouraging them to save for retirement. That is what's happened with the saver's tax credit. For more information on the saver's tax credit, check with your accountant or tax advisor or do a search on the IRS's web site, [www.irs.gov](http://www.irs.gov), for "saver's credit."

## Tax-Deferred Retirement Savings

KPERS and social security are important, but alone they may not provide the income you'll need to fund your retirement. That's why it's important to begin participating as early as you can in a deferred compensation 457(b) plan or a tax deferred annuities 403(b) plan.

These plans are voluntary defined contribution retirement plans. They reduce your income taxes while helping your retirement savings grow.

### This is how it works:

- You decide, within certain legal limits, how much income you want to defer.
- The amount is automatically set aside from your pay before taxes by your employer who then sends it to the plan you selected.
- The plan invests your money in the investment options you chose.
- Your contributions and earnings accumulate over the years and are not taxed until you receive them. That's usually at retirement when you may be in a lower tax bracket.

Contact your designated agent for information on the deferred compensation 457(b) plans or a tax deferred annuities 403(b) plans available to you.

**State of Kansas Employees**  
 ING Financial Advisers, LLC  
 toll-free: (800) 232-0024  
 in Topeka: (785) 296-7095  
 web site: [www.da.state.ks.us/aksess/default.htm](http://www.da.state.ks.us/aksess/default.htm)

## Quick Facts on Buying Service Credit

- Buying service credit allows you to **retire earlier** and **increases your retirement benefit** payment.
- It's generally **less expensive** before age 42.
- **Payment options** include:
  - personal check or money order
  - payroll deduction
  - transfer or rollover from eligible retirement plans like 457(b), 403(b) or 401(k)
- Some **types** of service credit **you can purchase**:
  - year you worked prior to becoming a member
  - out-of-state teaching
  - Peace Corps
  - elected official service
  - non-federal public service
  - military service
  - forfeited KPERS service
- **Get started** by completing a Service Credit Purchase Application form (KPERS-67). You can download one at [www.kpers.org/FORMS.htm](http://www.kpers.org/FORMS.htm) or get one from your designated agent.
- Call or e-mail the InfoLine for **more information**:
  - [kpers@kpers.org](mailto:kpers@kpers.org)
  - toll-free (888) 275-5737, in Topeka 296-6166

## 2002 Kansas Legislation Affecting KPERS Active Members

Following is a highlight of some legislation from the 2002 Kansas Legislature affecting KPERS members.

### Trustee-to-Trustee Transfer

See cover article.

### Multi-Employer Legislation

New legislation allows employers the option to offer KPERS benefits to an employee who works for more than one employer in a similar position. The employee's combined hours must total at least 1,000 hours per year, and both employers must agree to provide KPERS benefits for the employee.

An example might be an appraiser who does work on a part-time basis for more than one county. The hours for each county alone would not make the employee KPERS-eligible, but added together, the employee's combined hours total at least 1,000 hours annually. The employers together could offer KPERS membership to the appraiser if both employers agreed to provide the benefits.

### Compensation Protection for State Employees

This bill protects a state employee's salary for benefits purposes if an employee loses compensation because of a furlough. If you are placed on furlough without pay,

your retirement and death and disability benefits will be computed as if you continued on the payroll.

For more information about these and other bills, visit [www.kslegislature.org](http://www.kslegislature.org).

## Year-to-Date Investment Report

Fiscal year 2002 returns (July 2001 through June 2002) for the KPERS investment portfolio were negative 4.7 percent. Negative volatility from market weaknesses and the effects of September 11 caused poor performance in the first quarter. Although some areas of the market have recovered since that time, significant volatility continued throughout the balance of the fiscal year. Investments in the fixed income portfolio and the real estate portfolio have helped to offset some of the weakness in the equity markets.

Over the longer term, KPERS has a trailing ten-year average annual return of 9.4 percent. A well-diversified investment strategy allows us to weather short-term weakness and profit from longer-term market returns. More importantly, trends in financial markets do not affect retirement benefits because the state guarantees them.

## Working Toward Our Future to Serve You Better

In recent months KPERS staff has taken a step back from day-to-day operations to get a clearer picture on where we are as a system, and even more importantly, where we are headed. The bottom line is we're working together to help you get the most from your retirement benefits.

### Core Values

As part of this process, we have identified six core values that guide us in all we do:

- service
- accountability
- integrity
- innovation
- respect
- teamwork

### Goals

We have also identified three major goals, each a critical factor for our overall success.

KPERS' first goal is to **invest assets according to the prudent expert standard of care** to provide benefits for our members and their beneficiaries. This goal emphasizes our fiduciary responsibility. A fiduciary is someone who holds assets in trust for another. Our trustees and staff are fiduciaries because they manage the System's assets for you, our members.

To fulfill our responsibility, we manage a carefully diversified and monitored portfolio designed for long-term gains. We invest that portfolio in a variety of assets to maximize returns while limiting risk.

Some of the ways we'll work to achieve this goal is through updating our asset allocation and implementing a new risk management/internal audit program.

As our second goal, everyone on the KPERS team strives to **provide excellent customer service**. Often, members

need our help when they are experiencing a significant life event like retirement, a new job, divorce or a death. We want to respond to those needs promptly and professionally, with personal service and care.

Upcoming strategies to meet this goal include improving employer reporting and annual statements and providing more member education.

Our third goal recognizes it is important to **provide open and clear communication**. People can't take advantage of a benefit they don't know about. KPERS has recently included communications as a distinct organizational goal.

With this effort, we are hoping to create consistency in our communications that will in turn make it easier for members and employers to get what they need. Some of our main focus will be on web site enhancement and overall publications improvement.

### What's Next?

KPERS staff divisions are developing and implementing operating plans to meet our goals. Staff will continue to be involved on a basic level, contributing to our successes. At least once a year, we plan to review our successes and opportunities for improvement across the entire organization. It is our intent to create a strategic planning process that is results-oriented and encourages accountability and improvement.

### We Need You

As members, this is where you come in. You can help us gauge our progress with your feedback. We welcome any comments you have as well as ideas on ways we can improve and continue to serve you better. Serving you is the reason we are here.

**Mission Statement of the Retirement System:** The Kansas Public Employees Retirement System, in its fiduciary capacity, exists to deliver retirement, disability and survivor benefits to its members and their beneficiaries.

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**KPERS Papers** is published by the Kansas Public Employees Retirement System.

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