

Active Member Issue

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Your Vote, Your Voice

This April, you have the opportunity to vote in the KPERS Board of Trustees election and make your voice heard. Every four years, members elect one board trustee from each of the school and non-school groups. Each candidate is a member, just like you. Elected trustees have a vested interest and a unique perspective to bring to the board room.

Non-School Candidates

- Kenneth G. Abitz
- Jody Boeding
- Bruce Burditt
- August J. Dettbarn
- Anita M. Dickey
- Linda Finger
- Larry D. Fronce
- Ron D. Hagen
- Valerie L. Hamilton
- Lynn F. Hammes
- Ronald Montandon
- Wayne D. Nelson
- Richard Nienstedt
- Kristine A. Polian
- Richard Russell

In March, non-school members will receive a voting packet from their employer with candidate information and voting instructions. All active and retired non-school members are eligible to vote. You can vote anytime during April by calling the toll-free number in the voting instructions. Voting is easy and only takes one to two minutes. There will be information in the voting packet if you prefer to vote by paper ballot. Voting will end April 30, and we will announce the winner at the May 15 board meeting. Names of the winners also will be published in the summer KPERS Papers and at www.kpers.org.

School Candidates

Only one valid nomination petition was received for the school position. According to Kansas Administrative Regulation 80-8-2, Gary Price will be declared elected without an election at the May 2009 board meeting when the Board accepts the election results for the non-school position.

Annual Statements on the Way

Each spring the Retirement System sends you a snapshot of your account for the previous year. Your annual statement is a great tool for you to use in your financial planning. You should receive your annual statement through your employer sometime in March or April.

The Nuts and Bolts of Your Statement

- Beneficiaries for retirement and life insurance benefits
- Personal information including your membership date, vested status and final average salary
- Account balance
- Years of service
- Benefit estimates if you are a vested member

To learn more, visit www.kpers.org/annualstatement.htm for a helpful 6-minute video that explains the various sections of your annual statement. While you're there, you can estimate your retirement benefits using various scenarios with our online calculator. Your annual statement has all the information you need to calculate your own estimate.

With your benefit estimate in hand, you've taken an important step in retirement planning. You can use the American Savings Education Council's "Ballpark Estimate" worksheet at www.choosetosave.org/ballpark to get a rough estimate of how much you'll need to save for retirement. The worksheet helps you factor in Social Security, pensions, personal savings and the effects of inflation.

Benefits Remain Secure in the Face of Stormy Financial Markets

As upheaval in the financial market continues, it's only natural for you to be concerned about your benefits. Rest assured, your benefits are dependable and guaranteed by law, even during a bumpy economy. KPERS' portfolio is built to withstand the ups and downs of the market and to stand the test of time.

We're Diversified. That means we don't put all our eggs in one basket. KPERS invests in many broad investment sectors, and we intentionally limit the amount we put in any one company. This strategy can help offset some of the potential losses in the portfolio during times of negative volatility like we are experiencing now.

We're Long-Term. KPERS has a steady, long-term investment strategy. Our time horizon is longer than most investors. We have time to wait for the markets to recover. As we weather the storm, we also look for opportunities to invest while prices are low. In the meantime, the System's total assets are about \$10 billion, enough to pay benefits for years.

We're Professional. KPERS has a professional investment staff and uses 19 different investment managers with proven track records. This team carefully monitors the portfolio every step of the way.

Unlike most financial service providers, we are not in business for a profit. The fiduciary standard is our driving force. That means we put the interest of our members first.

We've Weathered Other Storms. You'll probably remember the market weakness after 9/11 in 2001. It was somewhat similar to what is going on now. KPERS' portfolio had significant losses for two years. But our investment strategy worked. We also weathered the Enron and WorldCom debacles, investment bank failures in the 1990s, the market crash of 1987, and back-to-back years of staggering inflation in the 1970s.

But This Storm Isn't Like the Others. This has been the worst year for the stock market since 1931. We can't predict how long this market decline will go on. But historically, markets have recovered, even after the Great Depression. It's important to remember that we have time. Not all benefits are due at once. Most members are still working and contributing and will not retire for years. Those in retirement are paid over a lifetime. After our country works through the financial issues facing us, we expect the stock market to eventually respond. We'll continue to carefully manage members' assets and work with the Kansas Legislature and Governor to shore up long-term funding. We are in the position to wait for the storm to pass. Until then, you can count on KPERS for dependable benefits and for us to be a trusted partner during this time of uncertainty.

Fiscal Year 2008 — A Financial Snapshot for Members

Here are a few highlights of operations and finances for fiscal year 2008. For more detail, please see our Comprehensive Annual Financial Report (CAFR) available at www.kpers.org or by calling 1-888-275-5737.

Benefits

In total, the Retirement System paid just over \$1 billion in benefits during the fiscal year.

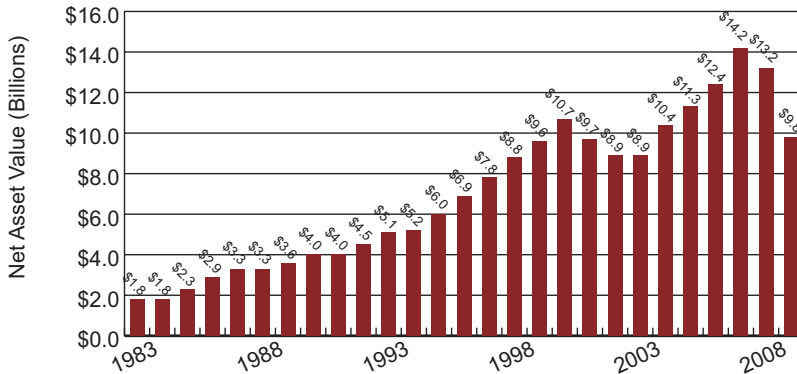
- Retirement, \$946 million
- Retiree death, \$8.3 million
- Withdrawal, \$48.5 million
- Death/disability, \$56.7 million

Investment Performance

In a difficult investment environment, KPERS' portfolio returned -4.4 percent for the fiscal year ended June 30, 2008. Since then, negative returns have been especially extreme. Equity markets have been down substantially, including the S&P 500 with a -28.5 percent return through December 2008. Reflecting market turmoil, KPERS' portfolio returned -23.5 percent during this same period. Historically, markets have recovered and this should help offset some of the current losses.

KPERS assumes a long-term investment average of 8 percent. In some years, returns will be below that rate, and in others, returns will exceed it. Even with varying rates of return over the last 25 years, System assets have continued to grow.

KPERS Net Asset Value • FY 1983 - Dec 2008



For information about KPERS' diversified and disciplined investment strategy, please see the Investment Section in our CAFR.

Finances

Net assets decreased by \$990 million or 7 percent.

Plan Net Assets	
Cash and Deposits	\$ 406,994
Receivables	73,234,185
Net Investments	13,114,564,864
Capital Assets/Supplies	6,668,232
Payables	(1,810,360)
Net Assets	\$13,193,063,915

Changes in Plan Net Assets	
Additions	
Contributions	\$ 727,755,738
Net Investment Loss	(649,102,982)
Misc Income	225,736
Total Additions	78,878,492
Subtractions	
Benefits	(1,059,284,413)
Administrative expenses	(9,603,126)
Total Subtractions	(1,068,887,539)
Net Decrease	(990,009,047)
Net Assets:	
Beginning of Year	\$14,183,072,962
End of Year	\$13,193,063,915

Funding

As of December 31, 2007, our most recent valuation, KPERS' overall **funded ratio** was 70.8 percent. The funded ratio is the ratio of actuarial assets to liabilities. The System's unfunded actuarial liability (UAL) increased from \$5.36 billion to \$5.55 billion.

The **unfunded actuarial liability** (UAL) is the gap between the actuarial value of assets and the actuarial liability for service already earned. Since that valuation, we have seen the worst year for the stock market since 1931, yielding unprecedented negative returns. Even with a strong, sustained market recovery, the UAL will significantly increase going forward and the funded ratio will fall.

As we work with the Governor and Legislature over the coming years to address this funding shortfall, members need to remember that benefits are safe and KPERS has billions of dollars to pay benefits for years.

Strategies to Help You Ride Out Uncertain Investment Times

If you're saving on your own in a 457(b) deferred compensation plan or a 403(b) annuity, it's quite likely that your year-end statement was less than encouraging. Don't lose hope!

And certainly don't lose sight of your long-term goals. Even in these uncertain economic times, sticking to your long-term retirement plan may be the right choice in the long run. Here are a few investment strategies to help keep you on the path toward your retirement goals.

Don't Put All Your Eggs in One Basket

That's the philosophy behind asset allocation, the practice of dividing your retirement savings among different types of investments, or asset classes. Stocks, bonds and cash are the three major asset classes. Asset allocation works by spreading your money around to take advantage of the potential benefits that these asset classes offer. It also helps reduce the risk that your investments will decline significantly since each asset class may perform a little differently than the others

in any given investment environment. If one asset class falls, you'll hopefully counteract losses with better investment returns in another asset class. Determining your ideal asset allocation is a very personal choice, one that depends on your time horizon and your ability to tolerate risk.



Someone in their 30's saving for retirement may feel comfortable investing a larger percentage of their portfolio in stocks. Stocks are inherently riskier investments, but also have a higher potential reward. They have time to wait out slow economic cycles and the inevitable ups and downs of the markets. On the other hand, someone in their 50's or 60's may be more likely to take on less risky investments because their time horizon to retirement is much shorter.

Diversify

It's also important to diversify your investments *within* each asset class. Think about this analogy. Apples and oranges may both be fruit, but each has a different taste. Likewise, investments in a stock asset class may all be stocks, but each can vary widely by industry, company size and even parts of the world where they are focused. Diversifying reduces risk and helps your portfolio bear fruit.

Time, Not Timing, Is Key

Predicting the stock market is not like predicting the weather. There are no high-tech gadgets or radar systems to forecast the highs and lows. Without knowing the exact moment to buy or sell, you could easily miss the mark, which could prove costly. Instead of trying to time the market, most financial advisors suggest a carefully planned investment strategy as a way to ride out the market's ups and downs. This helps you benefit from long-term market performance.

Time and compounding are your most valuable allies when it comes to saving for retirement. Compounding is when your original investments gain earnings, and then future earnings build on top of those earnings. The longer you leave your money invested, the more potential it has to grow.



Review and Rebalance

Review your asset allocation strategy regularly. As you get older and closer to retirement, it's normal to adjust your allocation strategy to less risky investments. In addition, gains or losses in one asset class may have skewed your portfolio to the point where it's more aggressive than you had originally intended, or vice versa. Periodic rebalancing of your portfolio helps keep it in check with your objectives.

For individual questions about investing your retirement savings, seek the advice of a qualified financial advisor. If you participate in the Kansas Public Employees Deferred Compensation Plan, you can call ING at 785-296-7095 or toll-free 1-800-232-0024 and press option 5 to arrange an appointment with an ING representative.



Pre-Retirement Seminars Help You Make the Jump to Retirement

As the saying goes...look before you leap.

Retirement is one of the most exciting and challenging periods in life. When you're ready to retire, we want you to land on solid ground. Every spring, KPERS has pre-retirement seminars across the state to help you understand your KPERS benefits and the steps you need to take before retirement. At each seminar, we'll explain the following topics so that you can make the best decisions about retiring.

- Planning for retirement
- Choosing your retirement date
- How your retirement benefit is calculated
- Steps in the retirement process
- Retirement benefit payment options
- Options for continuing life insurance
- State and federal income taxes
- Working after you retire

These free, one-hour seminars begin in March and run through the end of April at locations across the state. Pre-registration is required as there is limited seating at most locations. Your employer should have received a seminar schedule and registration information in February to distribute to you. You also can find the dates and locations at www.kpers.org. If you're considering retiring in the next five years, it's not too early to begin planning. Please join us at one of our pre-retirement seminars.

If You Are Unable to Attend a Seminar

Visit the "Publications" page at www.kpers.org to download a copy of our *KPERS Pre-Retirement Planning Guide*, which covers the same topics as the seminars. You also can contact the Retirement System at 1-888-275-5737 to have a printed booklet mailed to you.

Social Security Launches Online Benefit Signup

Applying for Social Security retirement benefits just got a little easier. The Social Security Administration recently launched a new online service that will allow you to apply for retirement benefits without ever going to a Social Security field office. When you're ready to retire, you can apply online in about 15 minutes.

Before you start your application, it's a good idea to get an online estimate of your benefit. It will help you to answer some of the questions on the application. You may want to print or save the estimate to refer to while you're completing your application.

To apply online, visit www.socialsecurity.gov and click "Retire Online." You will be asked a brief series of questions about you and your work.

If you need to stop to look up some information, you can return to your application without losing any of the information you entered.

For questions, click on the "more info" links. When you're done, just click the "Sign Now" button to submit the application. There are no paper forms to sign, and usually no additional documents are required. If more information is needed, Social Security will contact you.

Timely Tax Tidbits

Tax Reminder: Report Retirement System Contributions on Your Kansas Income Tax Return

The amount you contribute each year from your salary to the Retirement System is subject to Kansas income tax. Your contributions are deducted from your pay on a pre-tax basis for federal income tax purposes. Because of this, you need to make a specific entry on your Kansas income tax return. All KPERS, KP&F and Retirement System for Judges members are included.

You can calculate the amount of your contributions from your W-2 form. Some employers will provide this amount for you in Box 14 (labeled KPER). See the “Schedule S Line-by-Line Instructions” in the Kansas Income Tax Booklet for more information or contact the Kansas Department of Revenue.

- E-mail: tac@kdor.state.ks.us
- In Topeka: 785-368-8222

Get a Federal Tax Credit for Your Retirement Savings

Saving for retirement has an added bonus: it can also help you save on taxes. For low- and moderate-income taxpayers, the Savers’ Credit provides a tax credit of up to \$1,000 (\$2,000 if filing jointly) if you:

- Contributed to an eligible retirement plan such as a traditional or Roth IRA, 403(b) or governmental 457.
- Purchased service credit by making *voluntary* after-tax contributions to KPERS.

To qualify for the credit, your adjusted gross income on your 2008 federal tax return cannot be more than:

- \$53,000, if married filing jointly
- \$39,750 if head of household
- \$26,500 if single or married filing separately

To calculate the credit, download IRS Form 8880, *Credit for Qualified Retirement Savings Contributions*, at www.irs.gov. A qualified tax advisor can help you determine if you qualify for the credit.

Split Your Tax Refund to Boost IRA Contributions

Did you know that when you choose direct deposit, the IRS can split your tax refund into up to three accounts? This is a great option if you want to save all or part of your refund in a traditional or Roth IRA, among other account options. By splitting your refund, you get the convenience of directing some of your refund to your checking account for immediate needs and sending some to savings for future use. You can designate a direct deposit to one account directly

on the Form 1040 series of forms or you can use Form 8888, *Direct Deposit of Refund to More Than One Account*, to split your refund among two or three different accounts.

Tax Strategies Can Help Boost Your 457/403b Retirement Savings

If you receive a large tax refund, consider decreasing your tax withholding this year and start putting the extra into a retirement savings plan like the Kansas Public Employees’ Deferred Compensation Plan, or a 403(b) plan if you work for a school. If you’re like most people, you probably have too much withheld from your paycheck. In fact, the Internal Revenue Service estimates the average individual tax refund last year was about \$2,371. While it’s nice to get a hefty tax refund each year, your money can’t

work for you if someone else – the federal government – is holding onto it.

If you owe taxes, increasing your retirement savings (within certain limits) can reduce your taxable income. Not only will you boost your retirement savings, you may help lower your tax bill next year.

Estimate your tax withholding with the IRS withholding calculator at www.irs.gov/individuals/index.html. You’ll need a recent pay stub and your most recent tax return. Use the results to complete a new Form W-4 to submit to your employer. At the same time, be sure to start or increase your contributions to your retirement savings plan at work and watch your “tax” dollars go to work for you. Even small amounts, saved over time, can make a big difference.



Don't Let Debt Set Back Your Financial Future

Saving for retirement and financial planning go hand-in-hand, but don't forget about debt reduction as a way to strengthen your financial future. Sometimes it's tempting to focus only on immediate needs and wants, especially once you enter the workforce after college and during your prime earning years. However, this is a shortsighted view, and one that could hurt you down the road. Getting your spending on track and reducing debt is one of the first steps to getting your future in line.

Tips for Taming Debt

Getting into debt is easy; getting out takes serious work and commitment. Your best bet to get out of debt is to take a systematic approach, just like saving for retirement.

- Make a budget.
- Pay with cash. Most people tend to spend more when paying with credit.
- Make debts with higher interest rates a priority. Pay as much as you can towards these debts each month, without neglecting minimum payments on other debts.
- Contact credit card companies about lowering your interest rate. They may lower it to keep your business.



- Consider consolidating higher interest loans into one with a lower interest rate.
- Start an emergency savings fund with three to six months living expenses. This may save you from having to go into debt in case of an unplanned financial event. Not having the proper financial protection is often what leads to huge debt problems, bankruptcies and foreclosure.

Avoiding the Debt Pitfall

A surefire way to accumulate wealth for the future is to ensure you aren't building excess debt now. Debt is only money you are borrowing from the future. Your future income is obligated to pay the debt back, income you could be paying to yourself.

In order to ensure you meet your long-term retirement goals, it's important to plan ahead. Your best chance to invest for the future is to start early, even with small amounts, then save as much as you can during your prime working years. Starting early gives you the advantage of time to let your savings grow. Getting into debt early can have the opposite effect.

Topics from KPERS InfoLine

Q. Can I borrow money from my Retirement System account?

No. State law does not allow the Retirement System to administer a loan program for its members.

Q. Can I take a hardship distribution from my Retirement System account?

The Internal Revenue Code does not permit hardship distributions from defined benefit plans such as KPERS because such distributions would be "in-service" distributions.

Q. When can I withdraw my money I contributed to the Retirement System?

If you leave covered employment before retirement, you can choose to withdraw your contributions plus interest anytime 31 days after you end employment. If you withdraw, you will give up all Retirement System rights, benefits and service credit. You can receive your contributions and interest as a direct payment to you or roll over the amount into an eligible retirement plan.

