

Active Member Issue

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“Portability” Adds Value to Your Life Insurance Benefit

Group life insurance is one of those benefits that many active members rarely think about – until they no longer have it. If you retire, end employment or move to a position not covered by KPERS, your basic and any optional group life insurance will end. You can continue your coverage by converting to an individual whole life policy, but the cost of whole life insurance keeps many members from using this option. The addition of a “portability” feature this coming January will give you a more affordable option for keeping your life insurance protection if your current coverage ends.

What Portability Means for You

Portability means that if your coverage ends, you can continue all or a portion of your current group life insurance coverage. Although portable group term life insurance provides a more limited benefit than whole life insurance, the cost is generally less expensive than converting to an individual whole life policy.

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Optional Group Life Insurance Rates to Increase January 2007

KPERS selected Minnesota Life as its active member life insurance provider three years ago. The change provided many advantages, including a significant reduction for optional group life insurance (OGLI) premiums from the previous provider.

Due to negative claims experience in the past two fiscal years, Minnesota Life will need to increase OGLI premiums by ten percent. This increase becomes effective January 1, 2007.

With the increase, a member who is age 47 with \$75,000 of optional life insurance coverage can expect to pay an additional 75 cents per month (from \$9.95 to \$10.70) or \$9.00 per year.

Service

Integrity

Respect

Accountability

Innovation

Teamwork

Portability Adds Value to Your Life Insurance Benefit (cont...)

Portable term life insurance can provide affordable short-term protection if you change jobs or retire. Regardless of your reason for leaving employment, you do not have to provide proof of good health to port your current coverage. If, due to sickness or injury, you are not actively at work on the date your coverage ends, you are not eligible to port your coverage.

Term life insurance is not intended to provide level lifetime coverage. The benefit decreases according to a specified schedule and coverage ends at age 70. Your premiums also will increase as you get older.

Your Conversion Option

Kansas law requires that group term life insurance policies provide a conversion option. Conversion means you continue your current coverage by convert-

ing from a group policy to an individual policy. Your life insurance then changes from *term* insurance to *whole life* insurance. Whole life insurance builds cash value and premiums do not increase as you get older. For these reasons, rates for whole life insurance are generally much more expensive than term life insurance rates. Whole life insurance is generally considered a long-term financial planning tool.

The different features between individual whole life insurance and portable group term life insurance create a pair of options that should satisfy the needs of a broad range of members who are no longer eligible under the KPERS group life insurance plan. If your coverage ends, you will need to weigh the costs and benefits of your options and decide which is better for you.

Portability vs. Conversion – Which Is Right For You?

	Portability	Conversion
• Type of Coverage	All basic and optional life insurance	All basic and optional life insurance
• Your new insurance will be ...	Term insurance under the group plan	Individual whole life insurance
• Port/convert deadline	Within 31 days of ending employment	Within 31 days of ending employment
• Maximum age to port/convert	Age 69	No maximum age
• Minimum amount	\$5,000	No minimum
• Maximum amount	All current coverage up to \$500,000 (\$325,000 if age 65 or older)	All current coverage (limits apply if conversion is due to class or policy termination)
• Cost	Generally less expensive Premiums increase as you get older	Generally more expensive Premiums stay the same
• Value	No cash value Benefit decreases according to specified schedule (65 percent at age 65)	Builds cash value Face amount of insurance payable at death
• When coverage ends	Age 70	Age 100
Example	<p><i>\$75,000 ported as term life insurance</i></p> <p>*Annual premium: \$225.00 *Annual premium at age 65: \$1,863.00 Coverage at age 65: \$48,750</p> <p><small>*Does not include administrative fees</small></p>	<p><i>\$75,000 converted to whole life insurance</i></p> <p>**Annual premium: \$2,102.25 **Annual premium at age 65: \$2,102.25 Coverage at age 65: \$75,000</p> <p><small>**Does not include annual policy charge</small></p>

Five Factors to Consider Before Retiring Early

Early retirement is an appealing thought for many workers, but it can present additional challenges. Take a closer look at these five factors, and then decide whether early retirement is for you.

Social Security

If you're hoping to retire early, keep in mind that you can't count on income from Social Security until you reach age 62. If you want full benefits, you'll have to wait until age 65, or older for most. In the meantime, your own savings will need to make up the income shortfall.

Health Care

Like Social Security, you'll have a window of time before you are eligible for Medicare coverage. In addition, health care costs are rising and health insurance premiums are reflecting this increase.

KPERs Benefit Reduction

You can receive *reduced* KPERs benefits at age 55 with at least ten years of service. But, the earlier you retire, the more your benefits are permanently reduced. At age 55, your benefit is reduced by nearly half.

Earnings Limit May Affect Your Plans to Work After Retirement

If you return to work after retirement for the *same* KPERs employer, you have a \$20,000 earnings limit. If you reach the earnings limit, your retirement benefit will be suspended for the rest of the calendar year.

Increased Life Expectancy and the Effects of Inflation

People are living longer and healthier lives. You could spend 30 years or more in retirement. KPERs retirement benefits are guaranteed for the rest of your life, but your savings will need to last, too. Inflation can also have an effect on your financial security over time, reducing the purchasing power of a once-comfortable retirement income. Your personal savings provides your best protection against inflation.

Plan Design Could Change for *Future* Members

In light of long-term funding issues and changing member demographics, the Legislature is working with KPERs Board of Trustees and staff to study retirement benefits for **future** KPERs members.

All current member benefits are safe and guaranteed by the State of Kansas. You will receive benefits from the current plan design.

Over the last five years, KPERs has partnered with the Legislature to address a funding shortfall. Key steps have been taken with success, and plan design is the remaining piece of the funding solution. To make any benefit changes, legislation is needed. For future updates, visit www.kpers.org.

Retirement Trend: Returning to Work

An increasing number of today's retirees are discovering that a satisfying retirement lifestyle includes an unlikely ally – work.

The Bureau of Labor Statistics estimates that the number of workers age 55 and older will grow at four times the rate of the overall labor force through 2014.

Retirees are easing out of full-time careers and into part-time, flexible jobs that help fill both their lifestyles and their wallets.

According to a national AARP survey, nearly 70 percent of pre-retirees plan to work at least part-time after they retire.

Consider some of the factors driving this trend.

- Social Security no longer penalizes workers after full retirement age.
- Mandatory retirement in the workplace has declined.
- Health care costs continue to rise.
- Many occupations are less physically demanding.
- People are living longer and healthier lives.

Ironically, some experts predict that the traditional definition of retirement will soon be retired.

Assess Your Life Insurance Needs

Life insurance can provide financial security for your loved ones at a time when they need it most.

As a KPERS member, you have basic group life insurance equal to 150 percent of your annual salary. Your employer pays for this benefit. Many employers, including the State of Kansas, also offer optional group life insurance, providing an affordable way to build on this foundation.

The amount of life insurance you need greatly depends on your own personal situation. You need to consider both immediate and long-term financial obligations such as:

- Outstanding debts and mortgage balances
- Funeral expenses
- Estate settlement costs
- Uncovered medical bills
- Everyday living expenses
- Children's education needs
- Spouse's retirement

For starters, you can use an online life insurance needs calculator, such as the one on Minnesota Life's web site, to get a general sense of your insurance needs.

- **Minnesota Life**
www.minnesotalife.com

For a detailed needs analysis, you may wish to talk to a trusted insurance agent or a qualified financial advisor.

Long-Term Disability Benefits Provide Support When You Need It Most

Disability benefits can be just as important to your family's future as life insurance. Both help provide financial security if your income is lost.

As an active member, you are covered by KPERS long-term disability benefits that provide income protection if you cannot work because of an illness or injury. Best of all, these benefits are provided at no cost to you because your employer pays for them.

KPERS' long-term disability benefits provide:

- 60 percent of your monthly rate of compensation (offset by certain income like Social Security or workers' compensation)

While you are disabled, you will continue receiving:

- Participating service credit.
- Basic life insurance coverage.
- Optional life insurance at group rates (if under age 65 when disabled).

Applying for Disability

If you become disabled, you should first contact your designated agent or personnel office. Your designated agent will report your disability to KPERS. Once KPERS verifies your eligibility to *apply* for benefits, your information will be sent to DCG Resource Options, KPERS' disability administrator.

If your claim is approved, benefits will begin the **later** of:

- the date you complete 180 continuous days of disability, or
- the date you stop receiving compensation from your employer.

This 180-day period is called the "waiting period." If you have not returned to work, you will receive a claim packet in the mail from DCG toward the end of your waiting period. The claim packet includes everything you will need to apply for monthly benefits, along with complete instructions on how to complete and submit the required forms.

It is important that you submit your claim forms as quickly as possible to ensure DCG has time to review your claim and obtain any additional information before the date your benefits are scheduled to begin.

Helping You Get Back to Work

The first 24 months of your approved disability covers you for your own occupation. After that, you must be unable to work in any "gainful" position. DCG will review your case to see if vocational or rehabilitative services might help you return to work.

For a complete description of your long-term disability benefits, please refer to your Summary Plan Description. If you haven't received one at work, contact our office or download one at www.kpers.org.

How Much Money Do You Need to Retire?

Stop for a moment and think about the amount of money you may need to retire. How much money will that be? And where will that money come from?

Figuring out how much money you'll need can be overwhelming. Most financial planners recommend at least 80 percent of your working salary. That means if you are making \$40,000, you'll need *at least* \$32,000 a year during retirement.

Factors like inflation, health care and longevity can push your needs toward 100 percent income replacement. For example, State retirees pay the full cost for their health insurance and KPERS does not provide regular cost-of-living (COLA) increases.

Where Will Your Money Come From?

- Social Security
 - KPERS
 - Personal savings and investments
- These three sources together will help you replace the income you now earn from working.

How the Pieces Fit Together

Social Security benefits vary greatly depending on your birth date, your salary and how early you retire. The earlier you retire, the lower your benefit. Reduced benefits can begin at age 62, but many people need to work until age 66 or 67 for full Social Security benefits.

Your pension is the second piece of your income replacement. KPERS' benefits depend on how many years you contribute to the Retirement System and your salary history. The longer you work, the higher your benefit will be. As your KPERS' benefit amount increases, you'll need less savings to cover your income replacement needs.

Earlier Retirement Means More Savings

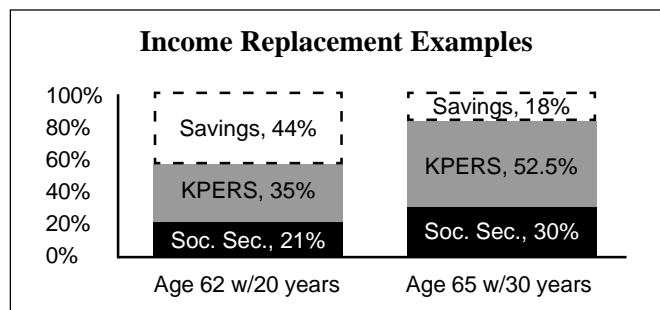
Take a look at the average KPERS member who retires at age 62 with 20 years of service. At age 62 with a final salary of \$40,000, he will receive full KPERS benefits and a reduced benefit for early retirement from Social Security. He will need significant annual income from his savings.

- For 80 to 100% income replacement
- Annual Social Security = \$8,400

- Annual KPERS = \$14,000
- Annual income from savings = \$9,600 to \$17,600
- Total annual income = \$32,000 to \$40,000, depending on personal savings

Another member who earns the same \$40,000 final salary, but has 30 years of KPERS service and waits until full Social Security retirement at age 65, will receive both more Social Security and more KPERS benefits each year. With full KPERS and Social Security benefits, his personal savings becomes less of a factor.

- For 80 to 100% income replacement
- Annual Social Security = \$12,000
- Annual KPERS = \$21,000
- Annual income from savings = \$0 to \$7,000
- Total annual income = \$32,000 to \$40,000, depending on personal savings



When looking at how much income you'll need from personal savings each year, also keep in mind that people are living longer. You'll probably need that annual savings income each year for 20 years or more. While \$7,000 may not sound like so much at first, that's \$140,000 over 20 years.

Don't Put Your Head in the Sand

Retirement is getting closer all the time and it won't take care of itself. The Ballpark Estimate calculator at www.choosetosave.org can help you get ready. The online worksheet will calculate your income replacement based on the pension and savings you already have. The site also has over 100 calculators for other financial issues, like auto loans, credit cards and college savings. Take 15 minutes and check it out. What's 15 minutes for your financial future?

Buying Service Credit: *Do the Dollars Really Add Up?*

In a nutshell, the amount of service credit you have affects when you can retire and how much your benefit will be.

Buying service credit might be a way for you to retire earlier or have a larger benefit. Only you can decide if it is worth the cost to you.

How much does it cost?

Cost is based on either your current gross annual salary or your final average salary (from your annual statement), whichever is *higher*. Until age 42, a year of service will cost about 4 percent of your salary for a KPERS member. After age 42, the cost begins to climb because of actuarial factors.

KPERS Example

$$\$30,000 \text{ (salary)} \times 4\% = \$1,200$$

The price for KP&F service is higher because they contribute more and have a larger benefit. Their cost is about 7 percent of their salary until age 37, when actuarial factors begin to affect the price.

KP&F Example

$$\$45,000 \text{ (salary)} \times 7\% = \$3,150$$

How does buying service affect your benefit?

The more years of service you have at retirement, the higher your benefit will be each month. That adds up to more money over your retirement years.

KPERS Example

Sue retired from the Kansas Department of Revenue at age 62 with 20 years of service and a final average salary of \$37,000.

Her annual benefit is \$12,950 or \$1,079 a month. Assuming she lives to age 82, she will spend 20 years in retirement. Over those years, she will collect \$259,000 in retirement benefits.

Earlier in Sue's career with the State of Kansas, she could have purchased her "year of service." If her salary was \$30,000 at the time, her service purchase would have cost \$1,200.

She then would have retired at age 62 with 21 years of service. Her annual benefit would be \$13,598 or \$1,133 a month. Living the same 20 years in retirement, she would have collected \$271,950 in retirement benefits over her lifetime.

The difference	\$ 271,950	(21 years of service)
	<u>259,000</u>	(20 years of service)
	\$ 12,950	more in benefit payments

Purchase cost	\$ <u>-1,200</u>
	\$ 11,750 = <i>total value added</i>

At Sue's benefit level, it would take her 23 months to recoup her \$1,200 service purchase. Any money after that would be value added to her lifetime benefit.

Additional Examples

Example Assumptions

Service purchase salary: \$30,000

Final average salary at retirement: \$37,000

Purchase price for one year: \$1,200

Retiree lives to 82.

Ret Age	Service	Annual Benefit	Mo Benefit	Yrs in Ret	Life Benefit
55	31	\$20,076	\$1,673	27	\$542,052
55	30	\$19,428	\$1,619	27	\$524,556
			\$54		\$17,496 difference in lifetime benefits
			(extra per mo)		\$1,200 service purchase
					\$16,296 value over purchase
65	21	\$13,596	\$1,133	17	\$231,132
65	20	\$12,948	\$1,079	17	\$220,116
			\$54		\$11,016 difference in lifetime benefits
			(extra per mo)		\$1,200 service purchase
					\$9,816 value over purchase

2006 Kansas Legislative Session KPERs Summary

The 2006 Legislative session was fairly quiet for KPERs. Here are a few changes that may affect some members.

Earnings Limit Increase

One change is good news for KPERs members planning to return to work for the *same* employer they retire from. The \$15,000 earnings limit was increased to \$20,000.

Working for a Different KPERs Employer

If you return to work after retirement for a different employer – one you didn't work for during the last two years of your KPERs participation – you will not have an earnings limit. You will not make any contributions and your employment will not affect your retirement benefits. However, your employer needs to make KPERs contributions for the position you fill if:

- You were first employed on or after July 1, 2006.
- The position would otherwise be a KPERs-covered position.

For more information about working after retirement, visit www.kpers.org or call the InfoLine.

Technical Changes

Other legislation affecting KPERs involved technical amendments and employer funding. These amendments clarified vague or ambiguous language in the laws that govern the Retirement System.

A small change may benefit some members:

- New language for naming a beneficiary allows you to choose a living person, a trust, your estate, or a *combination of these options*. Previously, members could not name another primary beneficiary to share their benefits if they named a trust or their estate as primary beneficiary.

For more information about naming a beneficiary, visit www.kpers.org.

A change in language may affect the cost to purchase service credit:

- New language for purchasing service credit states that service purchase costs will now be based on current annual salary or current final average salary, whichever is higher. Previously, service purchase costs were based solely on current earnings. Members are changing jobs and employers more frequently, creating some situations where the purchase payment is much less than the actuarial value of the benefit being purchased. The language was changed to more accurately reflect the actual cost of the benefit.

You can download a summary of all 2006 KPERs legislative activity at www.kpers.org. If you prefer to have a printed copy mailed to you, please call the Retirement System or e-mail CRafferty@kpers.org.

Private Companies Advertise KPERs “Information”

As you near retirement, you may be invited to attend seminars that advertise information about your KPERs benefits. Be aware that these presentations are not endorsed by KPERs and may be designed to get you to attend a sales presentation about life insurance and investments.

For accurate benefit information, we encourage you to talk with a KPERs representative about your valuable benefits, and not rely on information from a private company. Call the InfoLine toll-free at (888) 275-5737 to speak with a KPERs representative or schedule a visit to our office.

We also recommend attending one of our pre-retirement seminars, which are held each spring at locations across the state for members nearing retirement. These free seminars present objective information about your benefits with no hidden sales agenda. Each is designed to help you navigate the last steps to retirement.

For more information about pre-retirement seminars, visit www.kpers.org. While you're there, you can also estimate your benefit using our online benefit calculators or download any of our informational publications.

Our Core Values – Are We Measuring Up?

The reason we are here is to provide the benefits you have been promised. Plain and simple. While that is always foremost in our minds, we also care about *how* we get the job done.

About four years ago, we outlined our core values. These values provide us with a sense of organizational character. They guide how we think, what we do, and how we do it. They are what we stand for.

All of our core values are important. But the one that directly affects you in a real way is our core value of excellent service.

Strive to provide excellent service that is timely, accurate, thorough and accessible.

As much as we try to meet your expectations, sometimes we hit the mark and sometimes we don't. In an effort to find out how we can improve our service, we surveyed two different groups this summer.

We mailed surveys for members who have called the InfoLine this spring. We asked about their satisfaction with the service they received during their call. More specifically, were they satisfied with the length of time it took to get through to someone who could answer their questions, was staff professional, was the information timely, etc.?

Survey Results

- 21 percent response rate
- 98 percent rated the overall service received during the phone call as “good” or “excellent.”

Overall Satisfaction with InfoLine Service



In August, we sent satisfaction surveys to a random sample of members who retired this July. It included questions about how well the retirement process was explained, whether they understood the forms, and if they received their first benefit payment as expected. The results from this survey will be posted on our web site.

Hearing from members lets us know how we are doing. There is no need to wait for a survey. We welcome your comments anytime about how we can serve you better. Let us know how we are measuring up to our core values. If you have a comment or suggestion, please contact us.

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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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