

Active Member Issue

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KPERS Selects New Provider for Active Member Life Insurance

After an extensive competitive process, which included a request for proposals, KPERS has selected a new life insurance provider for active member coverage. This change will provide many advantages and the transition from one carrier to the other will not require any action from you.

As an active member, you have basic life insurance coverage equal to 150 percent of your annual salary, paid for by your employer. In addition, you can also purchase optional group life insurance, if your employer has affiliated for that option.

Last fall, KPERS sent out a request for proposals for these life insurance services. After a thorough evaluation process, KPERS selected Minnesota Life Insurance Company to provide basic and optional group life insurance coverage for its active members. Security Benefit Life will continue to administer KPERS' long-term disability insurance program.

Minnesota Life is a solid, stable company and had the highest rating from insurance-industry rating agencies.

How The Change Affects You

As a member, you do not need to do anything during the transition. All basic and optional life insurance coverage will automatically transfer to the new company. Open enrollment for optional group life insurance changed from February 2003 to October 2003 for local employers (cities, counties and schools). While State employers are currently scheduled for open enrollment in October 2004, that date may change. KPERS will provide State employees with plenty of notice for any changes to their enrollment period.

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Buying Service Credit Could Improve Your Retirement Benefits

You may be able to increase your retirement benefits and possibly retire earlier by purchasing additional public service credit for past employment or the first year you worked to become eligible for KPERS membership. Even if you only worked for an employer part of a year, you can still buy that time.

I'll check into it later.

Don't wait to investigate your options. Purchase costs are based on your current salary and age. In most cases, your salary will increase in the years to come and you'll never be younger than you are right now. That means now is probably the most inexpensive time for you to buy. Also, you can only purchase credit while an active member. You cannot buy credit once you leave covered employment.

I don't have the cash to pay for it.

For many purchases, you don't need "up-front" cash.

Generally, service can be purchased with:

- pre-tax payroll deduction over a period of time
- money from governmental 457(b) plans, 403(b) annuities, individual retirement accounts and other eligible retirement plans
- lump sum (personal check or money order)

I don't know how much will it cost.

If you are under age 42, a year of service generally costs about 4 percent of your gross annual salary. Each year after age 42, the actuarial cost continues to increase significantly. That is why it is best to buy service early in your career.

If you are under age 42 and make \$30,000, it will cost you about \$1,200 to purchase a year of service.

It won't really make a difference in my benefit payments after I retire.

If your final average salary is \$30,000 and you are vested with ten years in KPERS when you retire, your monthly benefit will be \$438 a month. You can increase your monthly benefit by \$44 a month if you purchase an additional year of service credit. If you live another 20 years after retirement, that equals \$10,560 more in benefits. It will only take you slightly more than two years to recover your original \$1,200 purchase cost.

I don't know if my past employment qualifies.

You can purchase many types of past service:

- first year you worked to become eligible for KPERS (non-school employees)
- years you "withdrew" from KPERS if you left the System for a while
- military service
- out-of-state teaching
- elected official service
- out-of-state, non-federal public service
- in-state, non-federal public service
- forfeited TIAA-CREFF
- VISTA and Peace Corps

Check with your designated agent to see if your past public service qualifies. He or she also will be able to help you start the purchase process.

How does the process work?

1. Employee contacts DA or KPERS to see if past service is eligible.
2. If service is eligible, DA or KPERS will tell employee which form to complete.
3. Employee completes an application to purchase service credit and gives it to his or her DA.
4. DA completes the rest of the form and sends it to KPERS.
5. KPERS calculates the final cost and sends a letter to the DA to deliver to the employee.
6. The employee signs the necessary paperwork, arranges for payment and returns both to KPERS.
7. KPERS receives the money or payroll deduction commitment.
8. KPERS adds service credit to the employee's record after the purchase is completed.

Pre-Retirement SEMINAR

Are you within five years of retirement?

Mark your calendar to attend one of KPERS' pre-retirement seminars held across the state this spring.

Each seminar will cover the steps KPERS members need to take to receive retirement benefits. Attendees will receive a booklet with detailed information they can take home for reference. If you cannot attend a seminar, but would like to receive a booklet, contact the KPERS office or check our web site, www.kpers.org.

All seminars will be held from 6:30 p.m. to 7:30 p.m. Attendance is free and **pre-registration is required**.

Register with one of the following:

- complete and return the registration form to KPERS
- call (877) 205-4916 or (785) 296-6166
- e-mail kpers@kpers.org

Pre-Retirement Seminar Schedule

March 11: McPherson McPherson High School • 801 E First St	March 27: Leavenworth, KPERS and KP&F Warren Middle School 3501 New Lawrence Rd
March 12: El Dorado Civic Centre • 201 E Central	April 1: Fort Scott, KPERS and KP&F Scott High School • 1005 S Main
March 13: Newton, KPERS and KP&F McKinley Admin Cntr • 308 E First	April 1: Ulysses Kepley Middle School • 113 N Colorado
March 18: Great Bend Great Bend High School • 2027 Morton	April 2: Liberal Liberal High School • 1622 W 2nd
March 19: Hays Hays High School • 2300 E 13th	April 2: Independence Montgomery County Judicial Center 300 E Main
March 20: WaKeeney Public Library • 610 Russell Ave	April 3: Pittsburg Memorial Auditorium • 503 N Pine
March 25: Sabetha Sabetha Middle School • 751 Bluejay Blvd	April 3: Scott City Scott City High School • 712 Main
March 25: Norton Norton High School • 600 N State St	April 7: Winfield, KPERS and KP&F Winfield High School • 300 Viking Blvd
March 26: Hiawatha Fisher Community Center • 201 E Iowa	
March 26: Colby Community Bldg • 285 E 5th	

schedule continued on page 4 ...

Pre-Retirement Seminar Schedule *cont.*

- | | | | |
|-----------|--|---------|--|
| April 8: | Wichita, KPERS and KP&F
Eugene Hughes Metropolitan Complex
29 th & Oliver | May 1: | Manhattan , KPERS and KP&F
Headquarter Fire Station • 2000 Denison |
| April 9: | Hutchinson, KPERS and KP&F
Hutchinson High School
1401 N Severence | May 6: | Overland Park, KPERS and KP&F
Johnson Co Community College
General Education Bldg • 12345 College |
| April 15: | Garden City, KPERS and KP&F
Abe Hubert Middle School • 1205 'A' Street | May 7: | Lawrence, KPERS and KP&F
Free State High School • 4700 Overland Dr |
| April 16: | Dodge City
Middle School • 2006 Sixth | May 8: | Olathe, KPERS and KP&F
Pioneer Trail Jr High • 15100 W 127th |
| April 17: | Pratt
Community Center • 619 N Main | May 13: | Beloit
Municipal Bldg • 119 N Hersey |
| April 22: | Ottawa
Ottawa High School • 11 th & Ash | May 14: | Concordia
Cook Theater • Cloud Co Comm College |
| April 23: | Chanute
Chanute High School • 400 S Highland | May 15: | Marysville
City Hall • 209 N 8th |
| April 24: | Emporia, KPERS and KP&F
Emporia High School • 3302 W 18 th Ave
parking on north side of building | May 12: | Topeka, KPERS and KP&F
KPERS, Kaw Area Technical School
5724 SW Huntoon
KP&F, KPERS office • 611 S Kansas Ave |
| April 29: | Salina , KPERS and KP&F
Bicentennial Center • 800 The Midway | May 20: | Topeka, KPERS and KP&F
KPERS, Washburn Univ • Henderson 100
parking SW of university on MacVicar
KP&F, KPERS office • 611 S Kansas Ave |
| April 30: | Junction City
Municipal Bldg • 700 N Jefferson | | |

Pre-Retirement Seminar Registration

Name: _____

attending: _____ Seminar location/date: _____

Daytime phone number: _____ Email: _____

Please return form to:
KPERS, Member Services, Pre-retirement seminar registration
611 S. Kansas Ave., Suite 100
Topeka, KS 66603-3803

I am attending:
 KPERS pre-retirement seminar
 KP&F pre-retirement seminar

System Needs New Long-Term Funding Plan to Address Shortfall

The Retirement System's most recent actuarial valuation showed that its total unfunded actuarial liability had grown to \$1.8 billion as of December 31, 2001. Over the long-term, this means that the System has not accumulated enough assets to provide the benefits already earned by existing members.

As with other retirement systems, the existence of an unfunded actuarial liability is not in itself harmful or unusual. But the rate at which KPERS' liability is increasing and projections of significantly higher employer contribution rates are cause for concern. It is crucial that a new funding plan be put in place over the next few years.

This funding shortfall is critical to the System's long-term financial health and is the most important issue facing the Retirement System. A sound funding plan that incorporates higher contributions must be developed to ensure the System's long-term financial health.

In spite of future funding concerns, benefits for retirees and current employees are safe and guaranteed by law. The System operates on a time horizon of 30 to 40 years for its funding and has approximately \$8 billion in assets available to pay benefits for decades.

Background

In 1993, the Kansas Legislature significantly increased benefits for KPERS members and set up a 40-year plan to pay for it. To reduce the budget impact, the Legislature planned to gradually increase employer contribution rates until the rates reached the recommended actuarial contribution rate. This benefit increase and its funding were a turning point. It was the first time that the System delayed using the full actuarial contribution rate to pay for benefit improvements, and instead, set up a gradual payment schedule with statutory limits on increases in employer contribution rates.

These increases were designed so that the statutory employer contribution rates would meet the actuarial rates required to fully fund benefits. Under current state law,

employer contributions may increase annually by 0.2 percent for State/school members and by 0.15 percent for local members.

Where We Are Now

By fiscal year 2005, State and school employers should contribute 7.69 percent of payroll to pay for promised benefits. The employer rate, capped by statute, is scheduled to be 4.78 percent, or 62 percent of the amount actually necessary to fund current obligations. If the State were to contribute at the full actuarial rate in fiscal year

2005, its annual contribution to the System needs to increase by approximately \$100 million.

In 2004, local employers should contribute 4.64 percent of payroll. The statutory local rate is scheduled to be 3.22 percent. Local employers will only be contributing about 69 percent of what is necessary to fund current obligations. This payment approach creates a

long-term funding situation similar to making partial payments on a home mortgage and adding the unpaid amount to the mortgage principal.

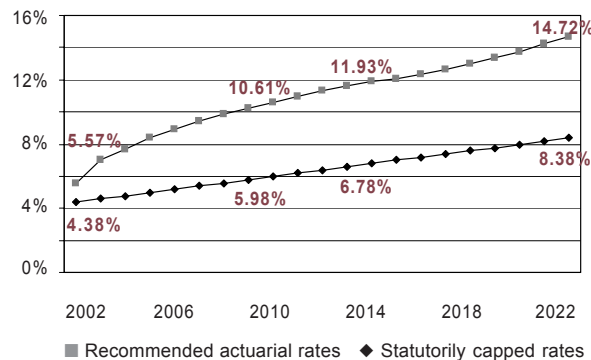
Working for a Solution

Without changes in future contributions, the System's unfunded actuarial liability will continue to grow. The longer we wait, the greater the cost to future generations of taxpayers.

The Retirement System's objective is to help develop a consensus among the Board of Trustees, the Legislature, the Governor, and other state and local officials on a responsible long-term funding plan. The plan will need to increase employer contributions to a level that will restore the System to actuarial balance and ensure its long-term financial health. Ideally, such a plan will be developed during 2003 with authorizing legislation introduced during the 2004 legislative session.

For more detailed information see www.kpers.org for the Long-Term Funding Outlook Report, Parts I and II.

Projected KPERS State/School Contribution Rates



Make It Easier to Reach For Your Retirement Goals

During retirement you are going to need more than just your KPERS and Social Security benefits. You also will need to rely on personal savings and investments for a stable retirement income.

One of the easiest ways for you to save for retirement is through tax-sheltered plans like 457 deferred compensation plans, 403(b) annuity plans or individual retirement accounts. State of Kansas employees can participate in the State's 457 plan administered by ING-Aetna Financial Services. Many local government employers offer similar 457 plans. Also, most school districts offer 403(b) annuities.

Benefits

- Automatic, pre-tax payroll deductions make it simple.
- Saving this way, your income taxes will be lower.
- Your earnings are also tax-deferred.
- Employees 50 and older can save additional money with catch-up provisions.
- In most cases, you can use money saved this way to buy additional KPERS service credit.

If your employer doesn't participate in a 457(b) or 403(b) plan, you can still save on your own with an individual retirement account set-up directly through a financial institution. While the contributions probably won't be automatically deducted from your pay, you can still take advantage of tax savings through new tax laws and let the federal government help you save for retirement.

It's easy to get started. Call or e-mail one of the contacts below. Make saving a high priority. Retirement will get here faster than you think.

Contact Information

- State employees: ING-Aetna
In Topeka, 296-7095
Toll-free, (800) 814-1643
- Local employees: contact
your designated agent

KPERS Selects New Provider for Active Member Life Insurance *cont.*

KPERS will provide more information on the move to Minnesota Life as we make the transition. In the meantime, we are confident you will be served exceptionally well by Minnesota Life, a proven leader in the insurance industry.

Why Minnesota Life

- experience
- service and efficiency
- competitive fees
- will open a Topeka office devoted 100 percent to servicing the KPERS program
- customized web-based transactions, including online open enrollment and access to claims status and forms
- variety of claim settlement options

- accelerated benefits for terminally ill members
- guaranteed timely reporting and customer satisfaction (placing their income at risk)
- financial stability and size

Expected Positive Results

- cut basic plan costs by 14 percent, for \$1.5 million savings annually
- cut optional plan costs by 9 percent, for \$700,000 savings annually
- additional future savings for KPERS and covered employees
- enhanced benefit products
- superior administrative efficiencies

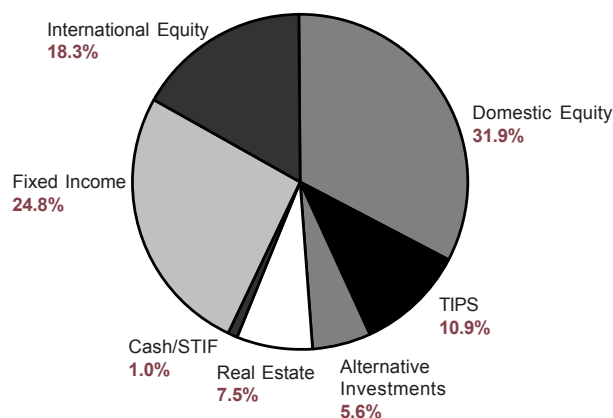
KPERS Investment Summary – The Big Picture

With the recent market volatility, some members may be concerned about their retirement benefits. As an active member, you accumulate a retirement benefit throughout your career. It is important to understand that the State of Kansas guarantees your benefit, even during bumpy economic times.

Although Kansas law guarantees your future benefits, investment returns are important to the System’s overall health. Asset allocation has been an important tool in helping the KPERS fund weather weak equity markets during the last two years. KPERS invests in many broad investment sectors:

- domestic equity
- international equity
- fixed income
- treasury inflation protected securities (TIPS)
- real estate
- alternative investments
- cash

Portfolio Asset Allocation as of December 31, 2002

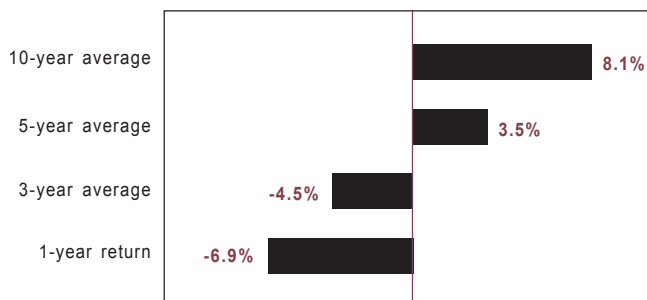


By investing in these sectors, other types of investments can help offset some of the potential losses in the portfolio during times of negative volatility in equities. For example, through the first six months of this fiscal year, the Dow Jones Industrial Average lost 8.7 percent and the S&P 500 lost 10.3 percent* while the KPERS fund was down 4.4 percent. Our investments in fixed income securities helped offset some of the losses in the equity markets.

Most member benefits will not be paid until well into the future. The KPERS investment fund focuses on this longer-term horizon, helping to ensure that the assets nec-

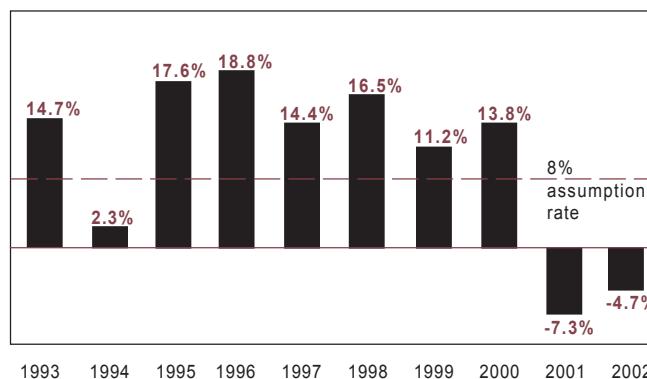
essary to meet these obligations are available when they are needed. KPERS assumes that over the long term our investments will earn 8 percent. During the last ten years, the KPERS plan has matched this return by delivering 8.1 percent.

Investment Performance for the period ending December 31, 2002



KPERS must be willing to accept some short-term risk in the portfolio to gain the long-term 8 percent return. Sometimes, this short-term risk works in the System’s favor and sometimes it works against the System. For example, from 1995 to 2000 the System averaged a 15.4 percent return rate. But, during fiscal years 2001 and 2002, the fund was down 7.3 percent and 4.7 percent, respectively. By accepting these short-term ups and downs, the System has been able to meet its longer-term goals.

10-Year Investment Return Rates (fiscal year)



For more detailed information on investment performance see our web site at www.kpers.org/INVperf.html.

*These index returns may not reflect the effects of dividend reinvestment.

Retirement System's 2003 Legislative Agenda

Proposed Bills

This year's KPERS legislative package includes two bills: one bill with three technical amendments and a second bill that relates to the Board's authority to select staff.

If passed, the bills should make the law clearer and improve our ability to provide member benefits and manage the agency.

Other Bills Affecting KPERS

Generally, about 25 bills that affect KPERS are introduced from various sources during the legislative session. KPERS will provide a legislative summary throughout the session on our web site, www.kpers.org. We can also add you to our mailing list to receive a summary by

e-mail or postal mail. Please call the KPERS office or send an e-mail to CRafferty@kpers.org.

All KPERS legislation that is passed this session will be summarized in the next *KPERS Papers* issue.

For information about other bills introduced in the Kansas Legislature, call the Legislative Reference Section of the Kansas State Library at 296-2149 or (800) 432-3924, or see the web at www.kslegislature.org/cgi-bin/index.cgi.

Ensure the Right Person Receives Your Life Insurance

As a KPERS member, you are covered by life insurance equal to 150 percent of your annual salary, paid for by your employer. It is important that you keep your beneficiary information up-to-date.

You may change beneficiaries any time by completing a Designation of Beneficiary form (KPERS-7/99). Each time KPERS receives a new form from you, it cancels all those you have previously completed and returned to the Retirement System.

If you name a contingent beneficiary, be sure to fill in *both* the primary and contingent beneficiary sections. If you only complete the contingent section and leave the primary blank, you will have no primary beneficiary, even if a past form names one. Your contingent beneficiary will automatically receive the benefit.

You can download a Designation of Beneficiary form at www.kpers.org/FORMS.htm or call the InfoLine, (888) 275-5737 or (785) 296-6166, to receive one by mail.

New Tax Credit for Saving

Don't forget with new tax laws this year, you could earn an additional tax credit while saving for retirement.

The saver's tax credit may benefit you if your household adjusted gross income is less than \$50,000 and you made contributions to KPERS or another eligible retirement plan with after-tax dollars.

Do a search on the Internal Revenue Service web site, www.irs.gov, for "saver's credit" or contact a tax advisor for more information.

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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