

## Retired Member Issue

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## New State Laws May Cut Your Taxes

Many Kansas retirees may pay less for state taxes thanks to tax cuts passed earlier this year. During the 2007 session, the Kansas Legislature passed two tax laws related to Social Security and KPERS benefits.

### **Social Security Exemption**

A new Kansas law may allow you to exempt Social Security benefits from your state income taxes. If you are eligible, you will be able to subtract Social Security benefits that are included in your federal adjusted gross income when you file your Kansas income tax return. Your federal adjusted gross income is calculated when you complete your federal tax return.

Social Security benefits can be subtracted to obtain Kansas taxable income only if your federal adjusted gross income falls below certain levels. These levels, which are listed below, are the same regardless of filing status; for example, single, married filing jointly, head of household, etc.

Tax Year	You Are Eligible If ...
2007	Your federal adjusted gross income is \$50,000 or less.
2008	Your federal adjusted gross income is \$75,000 or less.

Instructions for calculating the Social Security exemption will be provided in the 2007 Kansas Individual Income Tax booklet. If you have questions, please contact the Kansas Department of Revenue's Taxpayer Assistance Center at (785) 368-8222.

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Service

Integrity

Respect

Accountability

Innovation

Teamwork

## New State Laws May Cut Your Taxes ... (continued from page 1)

### KPERS Lump-Sum Benefits Stay Tax-Exempt

Another new Kansas law will ensure that KPERS partial lump-sum option (PLSO) payments and investment earnings on the funds keep their state tax-exempt status, even when rolled over to a qualified retirement plan.

#### The Issue

In general, KPERS benefits are exempt from Kansas income taxes. However, the Kansas Department of Revenue ruled on May 20, 2005 (Tax Notice 05-04) that payments to KPERS members had to meet two requirements to be exempt from state taxes.

- The payment must be received directly from KPERS.
- The payment must be included in the member's federal adjusted gross income in the year that it was received.

The result of this ruling was that PLSO payments that were rolled over at retirement lost their characterization as KPERS benefits. Instead, the funds adopted the tax characteristics of the rollover plan that received them, and later payments from the rollover plan were subject to state taxes.

### Who Is Affected?

The new law ensures that KPERS payments that are rolled over will keep their state tax-exempt status. Because the law is also retroactive to tax year 2001, current retirees who paid state tax on benefits that would be exempt under the new law can recover what they previously paid in tax years 2001 and after. You may be affected if you rolled over a PLSO payment to a qualified retirement plan and paid Kansas state tax on later payments you received from the plan. To recover these taxes, you will need to file an amended state tax return for previous tax years (2001 and after).

For information on correcting your previous tax returns, please contact the Kansas Department of Revenue or a qualified tax preparer.

### If You Need Tax Help

For questions about state income tax, please contact the Kansas Department of Revenue's Taxpayer Assistance Center.

- **Telephone:** (785) 368-8222
- **E-mail:** [tac@kdor.state.ks.us](mailto:tac@kdor.state.ks.us)

## New Plan Design to Improve System's Long-Term Funding Outlook

In April 2007, a new retirement plan design was signed into law, providing modified benefits for KPERS members *first employed on or after July 1, 2009*. These plan design modifications for future members are the final part in a comprehensive plan to address KPERS' long-term funding shortfall. **This new plan design in no way affects benefits for current retirees or actively-employed members.**

### Current Funding Status

As of December 31, 2006, KPERS' overall funded ratio was 69 percent. Over the long term, this means that the Retirement System has the assets to provide 69 percent of the benefits already earned by existing members.

For the last five years, KPERS has worked closely with the Legislature and the Governor's office to address this

long-term funding shortfall and implement a comprehensive long-term funding plan. Key steps have been taken as part of this plan with positive results, including a series of employer contribution rate increases, issuing pension obligation bonds, and making actuarial changes. Plan design modifications for future members was the final step toward improving the System's financial condition and securing funds for all future benefit payments. Though the new plan is not an immediate solution, it is projected to lower liabilities and employer contributions beginning in the next 20 years.

### Your Benefits Are Safe

As we address these funding issues, remember that benefits for retirees and current employees are safe and guaranteed by the State of Kansas. The Retirement System operates on a time horizon of 30 to 40 years for its funding and has approximately \$14 billion in assets to pay benefits for decades.

## Extra One-Time Payment Scheduled for Some Retirees

As part of Senate Bill 362, some Retirement System benefit recipients will receive a *one-time* cost-of-living payment later this year.

### Who's Included?

- Retirees who retired before July 1, 1997, with ten or more years of service and their joint survivors
- KPERS disability recipients who began receiving benefits before July 1, 1997

### When and How Much?

Members will receive the \$300 lump-sum payment by October 1, 2007, as a separate direct deposit or check from their regular monthly benefit payment. We will withhold taxes from this special payment like we do with regular monthly benefit payments.

### Why Only a Select Group?

With limited budget resources, it was the Legislature's intent to target those who have been retired the longest.

## Financial Planning *After* Retirement

Financial planning doesn't end on the day you retire. In fact, the need for careful financial planning is becoming increasingly important throughout your retirement years.

One of the top reasons is simply people are living longer and healthier lives. The average life expectancy of Americans at birth has risen 30 years in the last century. If you retired at age 55 and are in good health, you might reasonably expect to spend 25 to 30 years in retirement. Your retirement savings will have to last for that same period of time. A structured financial plan is important to maintain the lifestyle you want amid rising health care costs, inflation and other challenges.

### Tackling Health Care Costs

The rising cost of health care, including medical care, prescription drugs, health insurance and long-term care, is possibly the single most important issue for retirees today. These costs are rising at a much faster rate than inflation. For your financial security, you need to consider whether to set aside savings for future costs or to purchase insurance policies that provide the coverage you need.

### Taking the Bite Out of Inflation

Although you have the peace of mind knowing that your KPERS benefit is guaranteed for the rest of your life, increases in everyday living costs can erode your purchasing

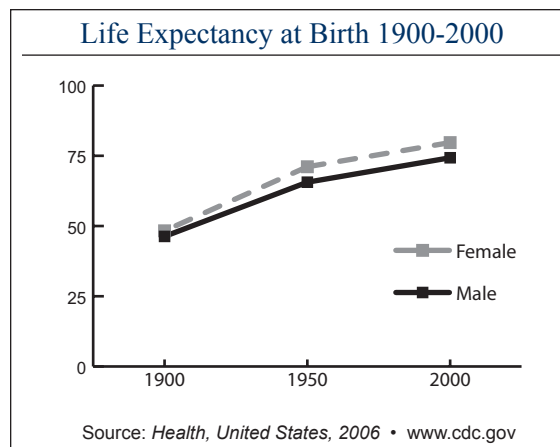
power over time. To offset inflation, your retirement income must increase, too. With no permanent KPERS cost-of-living adjustment (COLA) in place, this additional income must come from your personal savings and investments.

### Making Your Savings Last

Financial advisors say that investing too conservatively during retirement is one of the most common pitfalls. In an ultraconservative portfolio, inflation can eat away at your nest egg over time. Most financial planners suggest a diversified, well-balanced portfolio that includes stable investments as well as stocks. This approach generally provides growth and inflation protection while keeping risk at a manageable level.

### Time for Action

It's important to remember that your financial planning days are not over, just because you retired. And, while a very conservative portfolio might feel safer, it may not have the staying power you need. Take time to review your financial plan or get started on a new one. For information on financial planning basics or to locate a certified financial planner, visit the Certified Financial Planner Board of Standards' web site at [www.cfp.net](http://www.cfp.net).



## KPERS Briefs

### KPERS to Divest From Companies Doing Business in Sudan

Kansas has joined a growing number of states whose pension plans will not invest in companies doing business in Sudan. The recent legislation is part of a combined effort to pressure the Sudanese government into ending the violence in its Darfur region.

Although KPERS does not invest directly in Sudan or Sudanese companies, the System does invest in companies that have some type of business connection to Sudan. These investments account for about 0.29 percent or \$38.1 million of the System's total portfolio. The divestment is expected to have minimal effect on the System's investment returns.

### 2007 Retirement Benefit Schedule

January 31	July 31
February 28	August 31
March 30	September 28
April 30	October 31
May 31	November 30
June 29	December 31

Benefit payments are mailed or paid by direct-deposit on the last working day of each month.

**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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