

Retired Member Issue

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Your \$4,000 Death Benefit Provides Option for Paying Funeral Expenses

Dealing with financial issues related to funeral arrangements can be difficult. KPERS can help make it a little easier. The Retirement System provides a \$4,000 lump-sum death benefit that can be used to pay for funeral expenses. This benefit can be paid to a funeral establishment or another beneficiary, depending on your needs.

Using the beneficiary designation form, you can directly designate a funeral establishment to receive the death benefit.

If you name another beneficiary instead, the beneficiary can assign the benefit to a funeral establishment after your death. If more than one beneficiary receives a share of the benefit, the assignment is voluntary for each beneficiary.

Who Pays the Taxes?

The \$4,000 death benefit is taxable income for a beneficiary. The benefit is exempt from Kansas income tax, but is included in income for federal taxes. If you decide to use the benefit for funeral expenses, how a funeral establishment receives the benefit determines who is responsible for the taxes.

- If you **directly designate** a funeral establishment, the establishment receives \$4,000 from KPERS and pays any taxes.
- If your beneficiary **assigns** the benefit to a funeral establishment, the beneficiary is responsible for the taxes. KPERS sends \$3,200 to the funeral establishment and \$800 to the Internal Revenue Service as withholding on behalf of the beneficiary. KPERS will send the beneficiary a 1099-R form the following January for his or her federal tax return.

Designation of Beneficiary – Retired forms (KPERS-7/99R) are available at www.kpers.org or by contacting the InfoLine.

Service

Integrity

Respect

Accountability

Innovation

Teamwork

Understanding Your 1099-R Form

At the end of each January, the Retirement System mails 1099-R tax forms to you. These forms contain important information for your federal tax return. In general, your retirement benefits are subject to federal taxes, but not Kansas state taxes.

If you prepare your own return, it may help to review the diagram below. The diagram highlights frequently

questioned areas of the form. Visit www.kpers.org/taxinformation.htm for more information. Complete Internal Revenue Service instructions are on the back of the form.

If you don't receive a form by mid-February, please contact the Retirement System. If you have questions about your individual tax situation, please consult a qualified tax professional or the IRS.

Sample 1099-R Form

PAYER'S name, street address, city, state and ZIP code Ks Public Employees Ret Sys 611 S. Kansas Ave, suite 100 TOPEKA, KANSAS 66603-3803 1-888-275-5737 W-004000		1 Gross distribution 19,950.50	2007 Distributions From Pensions, Annuities, Retirement of Profit-Sharing Plans, IRA's, Insurance Contracts, etc.
PAYER'S Federal ID number 48-0944170		2a Taxable amount 19,461.54	
RECIPIENT'S name, street address, city, state, and ZIP code A. RETIREE 1234 FIRST STREET ANYTOWN, USA 6XXXX		2b Taxable amount not determined <input type="checkbox"/> Total Distribution <input type="checkbox"/>	Copy B For Recipients Federal Return If this form shows Federal Income tax withheld in Box 4 attach this copy to your return
RECIPIENT'S ID number 999-99-9999	3 Capital gain (included in box 2a)	4 Federal income tax withheld 552.70	
5 Employee contributions or insurance premiums 488.96	6 Net unrealized appreciation in employer's securities	7 Distribution Code 7	
9a Your percentage of total distribution	8 Other <input type="checkbox"/>	9b Total employee contributions	
Account number	RETIRED 07-93 IRS NET INVESTMENT 10,771.25 EXCLUDED TO 12/31/07 5,572.22		

Form 1099-R

- 1 Gross Distribution**
This is the total amount KPERS paid to you in 2007.
 - 2a Taxable Amount**
Shows the **taxable** portion of the benefits you received in 2007.
 - 4 Federal Income Tax Withheld**
Amount of federal income tax withheld from taxable amount in box 2a.
 - 5 Employee Contributions**
Shows the **nontaxable** portion of the benefits you received in 2007.
 - 7 Distribution Code**
Identifies the type of benefit you received. See back of 1099-R.
- IRS Net Investment**
Total amount of your nontaxable contributions. These contributions are reported in box 5 as they are recovered through your monthly benefits.

Turning Your Retirement Savings Into Income

Saving for retirement was half the battle. Now that you're retired, have you figured out the best way to turn that savings into income?

If you participated in the Kansas Deferred Compensation Plan, ING can help. ING's retirement income specialists can meet with you to discuss your specific situation and options for turning your retirement savings into income. These specialists will help you understand each payout option and find the solution that makes the most sense for you.

ING offers a variety of payout options ranging from immediate lump-sum withdrawals to periodic pay-

ments and lifetime annuities. Each is designed to meet different needs, and you can also choose a combination of options to best fit your situation. Be sure to consider factors such as your current and future income needs, your health and life expectancy, and whether you wish to provide for survivors or heirs.

If you later decide your payout option is not right for you, ING can help you make adjustments or select a different option. (Note: You cannot change an annuity option.)

To schedule a visit with your local ING representative, contact the ING Service Center at 785-296-7095 or toll-free, 1-800-232-0024.

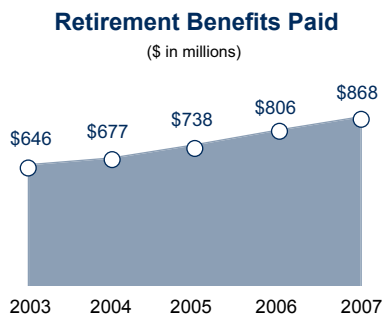
Fiscal Year 2007 — A Snapshot for Members

This information provides a few highlights on Retirement System operations and finances for fiscal year 2007. For a more detailed overview, please see our Summary Annual Report or the full Comprehensive Annual Financial Report. Both are available at www.kpers.org or by calling 1-888-275-5737.

Benefits

The amount of **retirement benefits paid** to retirees and beneficiaries increased by 7.6 percent to \$868 million. In total, the Retirement System paid out nearly \$1 billion in benefits during the fiscal year.

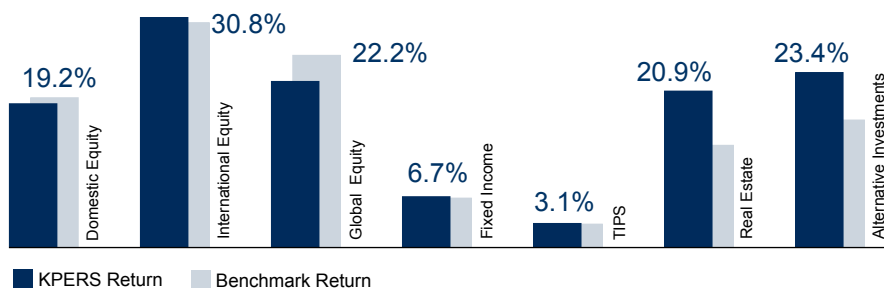
- Retirement, \$868 million
- Retiree death, \$9.1 million
- Death/disability, \$55.5 million
- Withdrawal, \$46.1 million



Investment Performance

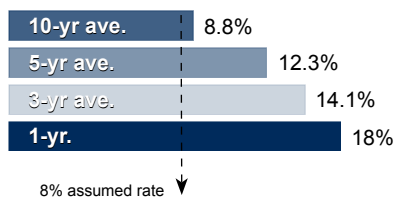
KPERS overall **investment return rate** for fiscal year 2007 was 18.0 percent, compared to the 17.0 percent returned by the benchmark. Our benchmark is the standard used to measure performance. It is a weighted average of market indexes from each asset class. The System's assets are spread across asset classes that react differently in different economic periods. This diversification helps us withstand short-term volatility and profit from long-term market returns.

FY 2007 Investment Returns by Asset Class



While individual returns each year are important, positive returns over time are critical to solid funding. For the last decade, KPERS has a ten-year annual return average of 8.8 percent, exceeding our assumed rate of 8.0 percent.

KPERS Return Rates Over Time



For more information about KPERS' diversified and disciplined approach to executing our investment strategy and policies, please see the Investment Section in our Comprehensive Financial Annual Report.

Finances and Funding

Net assets increased by \$1.83 billion or 14.8 percent.

Plan Net Assets

Cash and Deposits	\$ 270,888
Receivables	72,712,123
Net Investments	14,107,840,432
Capital Assets/Supplies	5,978,120
Payables	(3,728,601)
Net Assets	\$14,183,072,962

Changes in Plan Net Assets

Additions

Contributions	\$ 655,813,288
Net Investment Income	2,162,081,472
Misc Income	228,986
Total Additions	2,818,123,746

Subtractions

Benefits	(979,047,708)
Administrative expenses	(8,893,544)
Total Subtractions	(987,941,252)
Net Increase	1,830,182,494

Net Assets:

Beginning of Year	\$12,352,890,468
End of Year	\$14,183,072,962

During the last fiscal year, KPERS' overall **funded ratio** was 69 percent. The funded ratio is the ratio of actuarial assets to actuarial liabilities.

The **unfunded actuarial liability** (UAL) is the gap between the actuarial value of assets and the actuarial liability for the service already earned by members. The UAL increased, as expected, from \$5.152 billion to \$5.364 billion. The UAL will continue to increase for the next ten to 15 years until employer contributions reach the actuarially-required rates.

Regardless of funding status, retirees and current members need to remember that their benefits are safe and guaranteed by the State of Kansas.

Check Your Federal Tax Withholding

This is our annual reminder that you can start, stop or change your federal tax withholding at any time.

If you are satisfied with your current withholding, no action is required. To change your withholding, complete a Withholding Certificate for Pension Benefit Payments form (Substitute W-4P).

You must indicate the number of withholding allowances and your marital status. Under current law, you cannot designate a specific dollar amount to be withheld without first indicating the number of allowances and your marital status. For additional tax information or a withholding form, visit the “Retired Member” section at www.kpers.org or contact the InfoLine.

Need Help Estimating Your Tax Withholding?

Try the Internal Revenue Service’s withholding calculator at www.irs.gov/individuals/index.html.

2008 Retirement Benefit Schedule

January 31	July 31
February 29	August 29
March 31	September 30
April 30	October 31
May 30	November 28
June 30	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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KPERS Papers is published by the Kansas Public Employees Retirement System.
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