

## Retired Member Issue

### *Inside This Issue*

Investment Summary

Elected Position Opens on Retirement System Board of Trustees

Long-Term Funding: *Where Are We Now?*

Federal Tax Withholding Notice

2004 Benefit Payment Schedule

## KPERS Mails 1099-R Tax Forms January 31

On January 31, the Retirement System will mail each benefit recipient an envelope marked “*Important Tax Return Document Enclosed.*” Inside are 1099-R forms with information for your 2003 federal tax returns.

In general, your retirement benefits are subject to federal taxes, but not Kansas state taxes. Information and Internal Revenue Service instructions are printed on the back of the 1099-R form. If you have questions about your taxes, please contact a tax professional or the IRS.

### **Box 5**

Our InfoLine receives the most questions about Box 5 on the 1099-R form. Part of the confusion is the title the IRS assigned to the box, “Employee contributions or insurance premiums.” KPERS does not use this box for insurance premiums, nor is it a deduction of any kind.

To put it simply, Box 1 shows everything we paid you in 2003. Of that amount, Box 2a is the taxable portion. Box 5 is the portion that is not taxable.

### **Why is the amount in Box 5 not taxable?**

Before 1984, members paid income tax on their contributions. These contributions and any service purchases you made with after-tax dollars are separated because you don’t have to pay income tax on them again.

### **Other boxes on the form**

**Box 2b:** If you retired *before July 1986*, KPERS doesn’t calculate your taxable amount.

**Box 4:** Total amount of federal income tax withheld from your retirement benefit payments.

*continued on page 2...*

Service

Integrity

Respect

Accountability

Innovation

Teamwork

## KPERS Mails 1099-R Tax Forms January 31 (cont.)

**Box 7:** Type of benefit paid to you and its tax status.

**Box 9:** This amount will only appear the first year you receive benefits.

**In the lower right corner** is your retirement date. If you made KPERS contributions *before 1984*, you have already paid taxes on those contributions. Their total is shown by IRS net investment in the same box, along with the amount you have been paid from your pre-1984 contributions, up to December 31, 2003. If you have been paid all your previously-taxed contributions, your benefit is fully taxable. Some retired State employees also have a health insurance premium total in this box.

### Beneficiaries and Joint Annuitants

If you are a deceased member's beneficiary or joint annuitant, your benefit has the same income tax status as the deceased member's benefit.

### If you retired after June 1986

You were notified at retirement about the amount that KPERS calculated as nontaxable. If you chose a different method to figure your taxes, attach a note

to your tax return showing that you are using a different method.

### If you received a partial lump-sum option payment in 2003

You will receive an additional 1099-R for that payment. If your PLSO was directed to more than one account, you will receive a separate 1099-R for each account.

### PLSO payment made by direct rollover

**Box 1:** Amount of rollover distribution.

**Box 7:** IRS code for a rollover (G for direct rollover)

### PLSO payments made directly to you

**Box 1:** Amount of the PLSO paid directly to you.

**Box 2a:** Taxable amount of the PLSO payment.

**Box 4:** Federal tax withheld from your PLSO payment (20 percent of the amount in Box 2a).

**Box 5:** Amount of the PLSO that is not taxable.

**Box 7:** Type of benefit paid to you and its tax status.

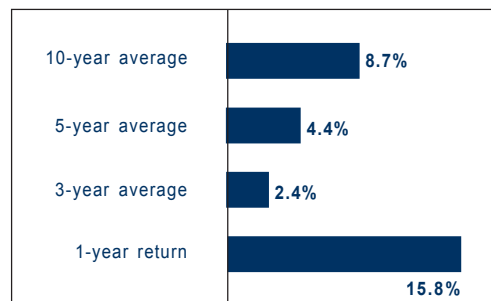
## Investment Returns Regaining Positive Ground

After two years of negative returns, the System returned to positive territory earlier this year and has continued on the upward climb. Positive returns have created a one-year return rate of 15.8 percent and total assets of over \$9.4 billion. Recent growth was mainly due to positive returns in equity markets and real estate.

Although your benefits are safe regardless of economic conditions, investment returns are important to the System's overall health. Over the long-term, our goal is to earn an 8 percent investment return. During the last ten years, the portfolio exceeded this target by delivering 8.7 percent.

The Retirement System is willing to accept some short-term volatility to gain the long-term 8 percent return.

Investment Performance  
for the period ending November 30, 2003



Sometimes short-term risk works in the System's favor and sometimes it works against the System. Returns for the first part of fiscal year 2004 are a good example of these risks working in our favor. They have also worked against the System in the short-term as evidenced by the negative returns over the last two years. By accepting these ups and downs, the Retirement System was able to meet the longer-term goal.

Our Board of Trustees is committed to a well-diversified, long-term portfolio. This allows us to navigate short-term uncertainty and profit from longer-term market returns. For more detailed

information on investment performance, see our web site at [www.kpers.org/reports.htm](http://www.kpers.org/reports.htm)

## Elected Position Open on Retirement System Board of Trustees

The Kansas Public Employees Retirement System has a vacant position on its Board of Trustees. This vacancy is for the **“non-school” elected position** and the term expires June 30, 2005. All *non-school* active and retired members are eligible, including KPERS and KP&F.

Elections are normally held in the spring every four years. Due to this mid-term vacancy, the Board is asking *non-school* members who are interested in becoming a trustee to send a letter of interest and a completed application form *by February 20, 2004*, to the Retirement System. Kansas law provides for the Board to directly fill the position when a vacancy occurs during a term. The Board will review the applications and select a candidate.

### Some Trustee Responsibilities

- Review and accept actuarial assumptions
- Recommend employer contribution rates
- Establish investment policies and guidelines
- Determine appropriate investment asset allocation mix
- Hire and monitor the executive director’s performance

- Hire and monitor the performance of other service providers, including actuaries, consultants, advisors and custodians

The Board usually meets seven times a year in Topeka. Board members also serve on committees, which require additional meetings. For a complete list of board responsibilities and more detailed information about the position, please visit [www.kpers.org](http://www.kpers.org) or contact the Retirement System at (888) 275-5737.

### To Apply

Send an application and a letter of interest to:

Attn: Board Vacancy  
 Kansas Public Employees Retirement System  
 611 S. Kansas Ave., Suite 100  
 Topeka, KS 66603-3803

You can download an application form at on our web site, [www.kpers.org](http://www.kpers.org), or contact the Retirement System at (888) 275-3757 to receive one in the mail.

## Long-Term Funding: *Where Are We Now?*

Over the last two years we have communicated that the Kansas Public Employees Retirement System’s financial condition has declined and the System is facing a long-term funding shortfall. Low employer contributions and a weak economy have helped create this funding problem.

Currently, the Kansas Police and Firemen’s Retirement System and the Retirement System for Judges do not have a funding shortfall.

### Working on a solution

In 2003, the Legislature took a significant step by authorizing a series of future increases in the state/school group’s employer contribution rate. The Legislature also authorized the State to issue pension obligation bonds of up to \$500 million. The bonds were still pending approval by the State Finance Council when we went to print.

These steps focus on funding for the *state/school group* of KPERS, which includes all State employees and anyone who works for a Kansas school district. Funding for the *local group*, employees from Kansas counties and

municipalities, was not affected. KPERS is working with state and local leaders to address the growing gap on the local side.

### Future plans

The Legislature’s Joint Committee on Pensions, Investments and Benefits was charged with developing a funding plan during the 2003 interim. KPERS has been working closely with the Joint Committee on this plan. It is our objective that the KPERS Board, Legislature and Governor will develop a consensus on the funding issues and agree on a comprehensive long-term funding plan bill that would be introduced for consideration in the next legislative session.

### Your benefits are safe

During this time of solving funding issues, remember that your benefits are safe. The Retirement System operates on a time horizon of 30 to 40 years for its funding and has over \$9 billion in assets to pay benefits for decades. Also, the State of Kansas is legally obligated to pay retirement benefits to Retirement System members.

## Federal Tax Withholding Notice

Each year KPERS is required to remind benefit recipients of their ongoing right to start, stop or change federal withholding tax.

Withholding federal tax from benefit checks is not required, but retirees may need to file quarterly estimated tax returns to cover annual tax liabilities. If estimated payments or withheld amounts don't meet the tax obligation, recipients may owe the Internal Revenue Service interest or penalty charges in addition to the taxes owed.

To make a federal withholding tax change, file an IRS W-4P form with KPERS. To receive a form, contact us at (888) 275-5737, (785) 296-6166 or [kpers@kpers.org](mailto:kpers@kpers.org).

### 2004 Retirement Benefit Payments

January 30	July 30
February 27	August 31
March 31	September 30
April 30	October 29
May 28	November 30
June 30	December 28

The Retirement System makes direct deposits and mails checks 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.

**KPERS Board of Trustees:** Michael Braude, *Chair*      Liz Miller, *Vice-Chair*      Jarold Boettcher  
Bruce Burditt      Lynn Jenkins      Don Steffes  
Marjorie Lee Webb      Doug Wolff

**KPERS Papers** is published by the Kansas Public Employees Retirement System.  
611 S. Kansas Ave., Suite 100, Topeka, KS 66603-3803  
E-Mail: [kpers@kpers.org](mailto:kpers@kpers.org)  
Home Page: [www.kpers.org](http://www.kpers.org)  
Phone: (785) 296-6166  
Toll-Free: 1 (888) ASK-KPERS (275-5737)  
Fax: (785) 296-6638

PRSR1 STD  
US POSTAGE  
PAID  
TOPEKA KS  
PERMIT NO 157

**KPERS**  
611 S. Kansas Avenue, Suite 100  
Topeka, KS 66603-3803