

Retired Member Issue

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Service

Integrity

Respect

Accountability

Innovation

Teamwork

Tax Time: 1099-R Forms On the Way

On January 31, the Retirement System will mail an envelope to you marked “*Important Tax Return Document Enclosed.*” Inside are 1099-R forms with information for your 2004 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 2004. Of that amount, Box 2a is the taxable portion. Box 5 is the non-taxable portion.

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: Taxable amount not determined. 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.

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

Box 9b: This amount only appears the first year you receive benefits.

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Tax Time *(cont. from page 1)*

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, 2004. 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 beneficiary or joint annuitant, your benefit generally has the same income tax status as the deceased member’s benefit. However, special rules may apply. See IRS Publication 575 on Pension and Annuity Income.

If you retired June 1986 through October 1996

You were notified at retirement of the amount that KPERS calculated as nontaxable. If you chose a different method to figure your nontaxable amount, attach a note to your tax return showing that you are using a different method.

If you received a PLSO payment in 2004

You will receive an additional 1099-R for your Partial Lump Sum Option 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.

Financial Affairs: Organizing For the Unexpected

John and Dianne spend their winters in Arizona after retiring. John lost his wallet one day while golfing. He thought the phone numbers to cancel his credit cards were in a desk drawer at their Kansas residence. A phone call to his son initiated an hour-long search before the documents were finally located in a closet.

After her husband died of a heart attack, Ann was overwhelmed with the sudden responsibility of managing the family’s money and household business. Jim had always taken care of the mortgage, life and medical insurance, and his pension. On top of her grieving and the funeral arrangements, she simply didn’t know where he kept important documents, what bills needed to be paid, or how to receive survivor benefits from Jim’s retirement.

An important part of planning for future events is coordinating your financial affairs with a trusted loved one. Conducting normal business or handling unexpected situations can be much simpler if you plan ahead. Organizing your personal and financial records is the first step. This can also be useful for budgeting and making investment decisions during retirement and later, in planning your estate.

Make a list of important documents and valuables

Develop your own personal record that lists the locations of your important documents, policies, contacts and property. This can be an important tool to you, your family or power of attorney, and eventually, the executor of your estate. For a helpful form to get you started, visit www.kpers.org for a printable document locator.

Educate your spouse or beneficiary about KPERS

Your spouse or beneficiary should know your retirement benefits as well as you do. They need to know what survivor and death benefits they are entitled to receive. The Retirement System does not know you’ve had a major life event unless you tell us. Beneficiary and survivor benefits must be applied for. Read the membership guide together or browse the KPERS website and make a list of steps to take in case of an unexpected life event.

Consider a power of attorney

If you become incapacitated, a power of attorney can help you with important business, including your retirement. For more information, see the sidebar on page 3.

April Board Election: Your Vote Counts

This April you have an important job to do. It's your turn to vote in the Retirement System board of trustees election. This is your opportunity to have some say in the Retirement System leadership.

Every four years, members elect one board trustee from both the School and Non-School groups. All active and retired KPERS and KP&F members are eligible to vote in the election.

In late March, you will receive a voting packet in the mail, which will include candidate information and voting instructions. You can vote anytime during April by calling the toll-free number and following the simple instructions. There will also be information in the voting packet if you would prefer to vote by paper ballot. Voting will end April 30, and we will announce the winners at the May 20 board meeting. Winners will also be published in the summer KPERS Papers.

Board of Trustees candidates

School

- L. Duane Anstine
- Janet E. Christian-LeDuc
- Thomas V. Dolenz
- George C. Knox
- Kenneth C. Tarrant
- David L. Torbett

Non-School

- Jody Boeding
- Keith D. Haxton
- Deborah M. Kelly
- Thomas L. Kohmetscher
- Dennis Shell
- Elizabeth A. Spiess

KPERS 2005 COLA Legislation

With the 2005 Kansas legislative session beginning in January, retirees often ask about a cost of living adjustment (COLA). Retirees receive COLAs on an ad hoc basis when the Kansas Legislature passes legislation granting and funding one. The last COLAs granted to all retirees were one-half of a monthly benefit in 2000 and a 3 percent ad hoc COLA in 1998.

There has been considerable interest in COLA legislation from retiree organizations. For this reason, a bill likely will be introduced for retirees to receive an increase. However, the State of Kansas continues to face considerable budget challenges, including the major issue of K-12 education finance. When making a decision about passing any COLA legislation, legislators will balance COLA funding needs against the other costs of the State's entire budget.

Throughout the legislative session, the Retirement System will provide a legislative summary on our web site, www.kpers.org, for all bills affecting KPERS. We can also add you to our mailing list to receive a summary by e-mail or postal mail. Call the Retirement System office or e-mail CRafferty@kpers.org to be added to the list.

KPERS and Your Power of Attorney

Regrettably, few people can avoid the loss of mental clarity that comes with age. Unexpected health problems are another reality that many people face in their golden years.

A power of attorney document granted to a trusted friend or family member is a legal tool that many retirees use to make important financial decisions when they are unable to.

For KPERS purposes, a power of attorney is a legal document granting an individual the ability to make decisions for the retiree, joint annuitant, a minor or beneficiary.

If the person with your power of attorney will be handling your KPERS business, there are a few things you need to know.

Someone with your power of attorney can make address changes, bank changes or discuss KPERS business on your behalf. However, they do not have the authority to change or designate a beneficiary. A member's signature is always required on a beneficiary form.

If you have given someone your power of attorney, please make sure we have a certified copy of the document. Without it, KPERS cannot conduct or discuss your retirement business, even with your family members.

Fine-Tuning Your Federal Tax Withholdings

This is our annual reminder that you can start, stop or change your federal withholding amount anytime.

You can fine-tune your current withholding, either to reduce your tax refund and take advantage of a higher take-home benefit, or reduce the amount you owe when you file taxes. The IRS withholding calculator at www.irs.gov/individuals/index.html is a great aid to estimate your withholding allowances.

Withholding tax from benefit payments is not required, but you 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, you could owe the Internal Revenue Service interest or penalty charges in addition to the taxes owed.

You can change your withholding at any time by completing a W-4P Withholding for Pension Payments form. Download one at www.kpers.org/forms.htm or call our office to receive a form by mail.

2005 Retirement Benefit Payments

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

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* Jody Boeding
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