

Retired Member Issue

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Making Sense of Your 1099-R Form

On January 31 each year, the Retirement System will mail 1099-R tax forms to you. These forms contain important information for your 2005 federal tax return.

In general, your retirement benefits are subject to federal taxes, but not Kansas state taxes. Listed below are explanations of the most frequently questioned areas on the 1099-R form. Information and Internal Revenue Service instructions are also printed on the back of your 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 or the amount of tax to withhold, please contact a qualified tax professional or the IRS.

How do I change my tax withholding?

Box 4 shows the amount of federal income tax withheld from your benefit in 2005. You can start, stop or change your federal withholding at any time by completing a W-4P Withholding for Pension Payments form. Download one at www.kpers.org or call our office to receive a form by mail.

What is box 5?

The title the IRS assigns to box 5, "*Employee contributions or insurance premiums,*" can be confusing. KPERS does not use this box for insurance premiums, nor is it a deduction of any kind. An amount appears in this box only if you made contributions before 1984 or purchased service credit with previously-taxed money.

Simply put, box 1 – box 2a = box 5. Box 1 shows everything we paid you in 2005. Of that amount, box 2a is the taxable portion. Box 5 is the non-taxable (previously-taxed) portion.

continued on page 2 ...

Making Sense of Your 1099-R Form (cont...)

Why is the amount in box 5 not taxable?

If you made KPERS contributions **before 1984**, you have already paid taxes on those contributions. These contributions and any service purchases you made with previously-taxed money are separated because you don't have to pay income tax on them again.

What is "IRS Net Investment"?

If box 5 shows the non-taxable portion of your benefit in the current year, "IRS Net Investment" shows the total amount of all your non-taxable (previously-taxed) contributions. The IRS allows you to recover this total amount tax-free over time. The amount you have been paid from your non-taxable contributions, up to December 31, 2005, is also listed in this section. If you have recovered all your non-taxable contributions, your benefit is fully taxable.

Why did I receive more than one 1099-R?

You'll receive more than one 1099-R if you:

- Received a PLSO payment in 2005.
- Turned age 59 1/2 in the past year. (In box 7, Code 2 = payments before age 59 1/2; Code 7 = normal distribution)
- Received benefits as a member and as a joint annuitant or beneficiary.
- Retired from more than one retirement plan (KPERS, KP&F or Retirement System for Judges).

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.

Total amount KPERS paid you last year. — — — Taxable part of the amount in Box 1. — — — Amount of federal tax withheld from amount in Box 2a.

<input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		Distributions From Pensions, Annuities, Retirement of Profit-Sharing Plans, IRA's, Insurance Contracts, etc.	
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	2005
PAYER'S Federal ID number 48-0944170	RECIPIENT'S ID number 999-99-9999	2a Taxable amount 19,461.54	4 Federal income tax withheld 552.70
RECIPIENT'S name, street address, city, state, and ZIP code I. RETIREE 1234 FIRST STREET ANYTOWN, KS 6XXXX		2b Taxable amount not determined <input type="checkbox"/>	5 Employee contributions or insurance premiums 488.96
Account number SRXXXXXXXXXXXX	RETIRED IRS NET INVESTMENT EXCLUDED TO 12/31/05	7 Distribution Code 7	6 Net unrealized appreciation in employer's securities
	07-93 10,771.25	IRA/SEP/SIMPLE <input type="checkbox"/>	8 Other
	5,572.22	9a Your percentage of total distribution	9b Total employee contributions 10,771.25

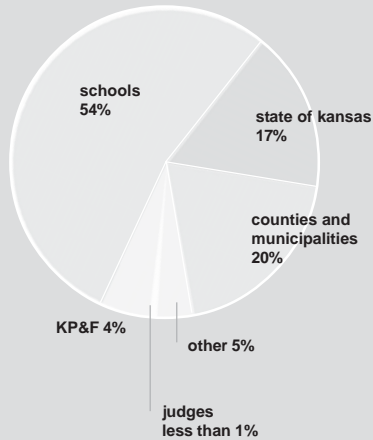
- Shows the total amount of your after-tax contributions. (Same as IRS Net Investment.) This amount only appears the first year you receive benefits.
- Box 1 - Box 2a = Box 5
- An amount appears in Box 5 if you have pre-1984 contributions or service purchases with previously-taxed money.
- Box 5 is the amount you recovered tax-free last year. It is not an insurance premium or deduction.

This is the type of benefit paid to you and its tax status. See IRS codes on the back of the form.

Total amount of your after-tax contributions you will recover tax-free over time.

Amount of after-tax contributions you have recovered to date.

Members by Employer



total membership 250,000 +

- active 147,750
- inactive 41,250
- retired 61,125

Membership Averages

Retirees

	Average	
KPERs	Benefit	\$864/mo
	Age	72.78
Police & Fire	Benefit	\$1,826/mo
	Age	61.60
Judges	Benefit	\$2,618/mo
	Age	73.70

Actives

	Average	
KPERs	Age	45.25
	Service	10.84
	Pay	\$32,937/yr
Police & Fire	Age	38.90
	Service	10.90
	Pay	\$51,014/yr
Judges	Age	55.51
	Service	11.61
	Pay	\$88,761/yr

Everything we do
is to *benefit*
our members.

Summary Annual Report*

Fiscal Year Ended June 30, 2005
Kansas Public Employees Retirement System
A component unit of the State of Kansas

*KPERs' Comprehensive Annual Financial Report available at www.kpers.org or by contacting the Retirement System, (888) 275-5737

Accomplishments for FY 2005

Most of what we do at KPERs boils down to two things, money and service. "Money" represents our fiduciary responsibilities. "Service" represents the way we honor our responsibilities. In addition to working to improve the System's financial health, this year staff has focused on integrating more technology into our everyday work to provide better service for members and employers.

- Digitally imaged more than 200,000 member records. The records are now more organized and easily accessible when employers and members call.
- Automated retiree death benefits to increase timeliness and efficiency.
- Changed the way we deliver publications and memos for employers who said they preferred electronic communications to paper.
- Expanded web-based contribution reporting to most employers.
- Began a major project to replace our grossly outdated information systems. The new system will increase data integrity, improve workflow and eventually lead to direct information access for employers and members.

While making new strides forward, we also continued with vital core functions. Here are just a few highlights.

- The Retirement System paid nearly \$800 million in benefits.
- Investment staff managed over \$11 billion in assets.
- Staff processed thousands of contribution withdrawals, with reduced turnaround time while volume increased more than 11 percent over last year.
- Member Services answered 83,000 calls in our customer call center and answered nearly 11,000 e-mails.

The Retirement System is considered hard-working and efficient among our peers. When compared with other public pension plans in the March 2005 CEM Pension Administration Benchmarking Survey, KPERs cost per member was the lowest compared to our peers. It costs KPERs approximately \$29 per member to provide service, while our peers average \$67 per member. While holding the line on costs, KPERs continues to match the median score for service.

Funding Highlights

- Retirement System net assets increased in fiscal year 2005 by \$897 million, or 8.6 percent, from \$10.4 billion to \$11.3 billion.
- Monthly benefits paid to retirees and beneficiaries increased 9 percent in fiscal year 2005, from \$677 million to \$738 million.
- As of December 31, 2004, the most recent actuarial valuation, the Retirement System's funded ratio was 70 percent, compared with a funded ratio of 75 percent for 2003.
- Between December 2003 and December 2004, KPERS' unfunded actuarial liability increased from \$3.5 billion to \$4.7 billion.

Investments

Over time, the Retirement System's long-term investment strategy has proved effective. Our well-diversified portfolio has withstood short-term volatility and profited from longer-term market returns. The fund's return rate for fiscal year 2005 was 12.1 percent and the return average over the last ten years is 9.1 percent, exceeding our 8 percent actuarial target.

Portfolio Investment Return Averages

10-yr average	9.1%
5-yr average	3.5%
3-yr average	10.4%
1-yr return	12.1%

8% assumption rate

Financial Snapshot

These summaries show the resources available to pay benefits as well as the changes in those resources during the fiscal year.

Summary Comparative Statements of Plan Net Assets

Assets	
Cash and Deposits	\$377,423
Receivables	1,116,168,461
Investments at Fair Value	11,545,296,448
Invested Securities Lending Collateral	2,225,521,793
Capital Assets and Supplies Inventory	3,778,000
Total Assets	<u>14,891,142,125</u>
Liabilities	
Administrative Costs	680,314
Benefits Payable	2,045,328
Investments Purchased	1,338,529,786
Securities Lending Collateral	2,225,521,793
Total Liabilities	<u>3,566,777,221</u>
Net Assets	<u>\$11,324,364,904</u>

Summary Comparative Statements of Changes in Plan Net Assets

Additions	
Contributions	\$527,178,455
Total Net Investment Income	1,223,096,121
Other Miscellaneous Income	178,105
Total Additions	<u>1,750,452,681</u>
Deductions	
Monthly Retirement Benefits	737,563,276
Contribution Withdrawals	46,773,933
Death Benefits	7,849,884
Death and Disability Premiums and Benefits	53,703,109
Administrative	7,340,147
Total Deductions	<u>853,230,349</u>
Net Increase	897,222,332
Net Assets Beginning of Year	<u>10,427,142,572</u>
Net Assets End of Year	<u>\$11,324,364,904</u>

System Funding and Financial Position

During the last fiscal year, KPERS' overall funded ratio was 70 percent as calculated by our actuary, Milliman USA. The funded ratio is the ratio of actuarial assets to actuarial liabilities. Unfunded actuarial liability (UAL) is the difference or gap between actuarial value of assets and actuarial liability for service already performed by public employees. This unfunded actuarial liability is being amortized over a 40-year period, which began July 1, 1993.

Over the last several years, we have focused attention on the Retirement System's ailing financial health. In recent years, the Legislature has adopted measures to improve KPERS funding with positive results, including increasing employer contribution rates and issuing \$500 million in pension obligation bonds. With recent funding improvements, KPERS is in actuarial balance,

but significant funding challenges remain. Employer contributions will rise for the next ten to 15 years. The UAL will continue to increase and the funded ratio will continue to decrease until statutory employer rates catch up with actuarially required rates. The funding status is also highly dependent on investment returns. Projections would deteriorate with a significant market downturn.

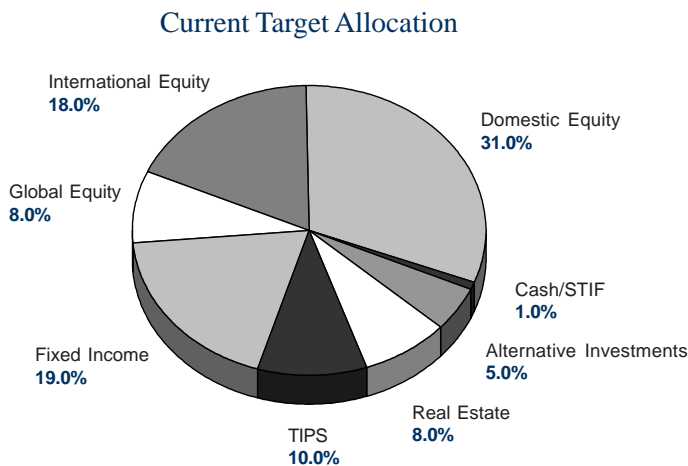
Funding is a long-term and complex issue. The System's Board of Trustees and staff continue to closely monitor KPERS's financial position and will advocate corrective action as needed to ensure the financial stability of the plan.

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

KPERS Investment Summary

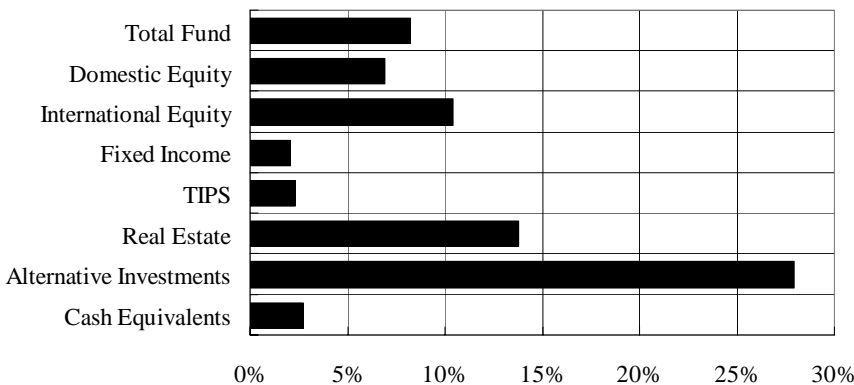
Although Kansas law guarantees your benefits, investment returns are important to the Retirement System's overall health. In order to ensure that assets are available to meet future benefit promises, it is important that KPERS invest with a long-term perspective.

Over the last year, KPERS has implemented several changes, such as adding a global equity allocation, hiring several investment managers, adopting new strategies and moving to broader benchmarks for the publicly-traded asset classes. The following chart reflects our new target asset allocation mix.



Preliminary results for November show the fund returned 8.2 percent for the first 11 months of 2005. Our estimated return average for the last ten years is 8.7 percent, above our 8 percent actuarial assumed rate.

**Investment Return by Asset Class
for the period ending November 30, 2005**



For more information on KPERS investments and other financial reports, please visit www.kpers.org/reports.htm. Finalized year-end numbers for 2005 will be available soon.

New Opportunity for Retired Teachers

It's a new time technologically for educators across the world and in Kansas. Soon retired educators will have the chance to work with kids again, but this time without leaving home.

Created by the Kansas Legislature, Kan-ed is a program that expands the collaboration of schools, libraries and hospitals through technology. Kan-ed will soon launch new projects to provide eTutors and online teaching. Through these projects, students will receive tutoring and homework assistance over the internet from certified Kansas teachers. You could be one of the educators. You can even pick the subjects and how often you tutor.

There are also opportunities to teach classes online for small groups of students in rural, small and declining enrollment schools in Kansas. As with eTutoring, you can teach classes from anywhere in the world with internet access.

If the technology feels overwhelming, don't let that stop you. Kan-ed will teach you everything you need to know. For more information, go to <http://tutors.essdack.org>.

There is great need for your expertise. Don't miss this unique opportunity to be a new and valuable part of the education community. You may even learn a thing or two yourself.

KPERS Briefs

Kansas Legislative Session Begins in January

The 2005 Kansas legislative session begins on January 9. Typically, bills that affect the Retirement System are introduced from various sources.

KPERS will provide a summary of all KPERS-related legislation throughout the session at www.kpers.org. To receive a summary by e-mail or postal mail, please call the KPERS office or e-mail CRafferty@kpers.org.

KPERS Annual Report Available

The KPERS Comprehensive Annual Financial Report for Fiscal Year 2005 is available at www.kpers.org. To receive a printed copy, please contact the InfoLine.

2006 Retirement Benefit Payments

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

Benefit payments are mailed or direct deposited on the last working day of each month. Please keep in mind that some financial institutions may not make these funds available immediately.

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* Jody Boeding, *Vice Chair* Duane Anstine
 Jarold Boettcher Bruce Burditt Lynn Jenkins
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