

Benefit Wise

Kansas Public Employees Retirement System • March 2010 — VOL. 1

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Annual Statements on the Way

Each spring the Retirement System sends you a snapshot of your account. Your annual statement is a great financial planning tool. You should receive your statement through your employer sometime in March or April.

The Nuts and Bolts of Your Statement

- Retirement and life insurance beneficiaries
- Personal information including membership date, vested status and final average salary
- Account balance
- Years of service
- Benefit estimates if you are vested

Visit www.kpers.org/annualstatement.htm for a helpful video that explains your annual statement. You can also estimate your retirement benefit using various scenarios with our [online calculator](#). Your statement has all the information you need to calculate your own estimate. With your benefit estimate in hand, you've taken an important step in retirement planning.

Remember that KPERS is only one part of your retirement plan. Social Security and your personal savings also play an important role. You can use the Kansas Public Employees Deferred Compensation Plan [My Retirement Outlook](#) tool to factor in Social Security, pensions, personal savings and the effects of inflation. The tool helps you identify potential future shortfalls in your retirement savings and get a better understanding of what you need to do to meet your retirement income objectives. You can also use the paycheck tool to determine how much you can afford to contribute each paycheck.



Pre-Retirement Seminars in March & April

If you're within five years of retirement, register today for a seminar near you.

- Planning for retirement
- Choosing your retirement date
- How to calculate your retirement benefit
- Steps in the retirement process
- Retirement benefit payment options
- Options for continuing life insurance
- State and federal income taxes
- Working after you retire

Time: 6:30 p.m at 8:00 p.m.

When/Where: See schedules

- [KPERs Pre-Retirement Seminar Schedule](#) (PDF, 97KB)

- [KP&F Pre-Retirement Seminar Schedule](#) (PDF, 85KB)

Cost: Free

Pre-registration required

A registration form is included in the schedules above, or register by contacting us. Provide your name, phone number and date/location of seminar.

- E-mail: kpers@kpers.org
- Toll-free: 1-888-275-5737
- In Topeka: 785-296-6166

For more information, visit our [pre-retirement seminar](#) page.



Investments on the Uptick, Funding Still a Concern

KPERS Investments Recovering From Downturn

Economic and financial stresses over the last fiscal year rose into a global financial crisis. Unprecedented market declines affected all institutional investors, including KPERS.

However, in recent months, financial markets have stabilized and KPERS' investment returns are finally rebounding. Our long-term approach and sound investment policies have KPERS well positioned for the upturn.

Preliminary numbers show KPERS' portfolio earned 17.3 percent for the first half of fiscal year 2010 (July 1, 2009 to December 31, 2009).

As of December 31, 2009, KPERS had over \$11.7 billion in assets, an increase of \$1.5 billion since the start of the fiscal year. KPERS and the economy are in the early stages of recovery, and we are positioned to continue to take advantage of it.

Long-Term Funding Still Cause for Concern

While the asset level is returning, the portfolio is still below its high. Large investment losses from 2009 have significantly weakened KPERS' long-term financial health.

Benefit enhancements from the 1990s were funded mostly through actuarial changes that put off paying for them until later. In addition, State and local governments haven't contributed at the required rate for 15 years.

Members living longer and members retiring earlier under the 85 point rule have increased liabilities.

All of these issues have combined to create a serious funding issue.

Even in the face of the recent investment upturn, we cannot invest our way out. KPERS has a long-term funding problem that must be addressed with other tools in addition to investment recovery.

Moving Toward a New Funding Plan

The Legislature and the Governor are ultimately responsible for benefits and funding. The Legislature changed benefits for new employees beginning July 1, 2009. This will partially help with future liabilities, but it doesn't address the current shortfall.

Over the last year, we have helped the Legislature's Joint Committee on Pensions, Investments and Benefits to develop options to ensure the financial health of the System.

Types of options the Joint Committee considered:

- Increasing employer and employee contributions
- Changing the statutory multiplier
- Issuing pension obligation bonds
- Creating a new mandatory 401(k)-like plan for future employees

A bill was introduced on March 4 in the Senate as SB 564. A hearing is scheduled with the Senate Ways and Means Committee on March 10. **This bill is in the very early stages of consideration.**

In an effort to keep you informed along the way, here is a snapshot of what the bill looks like now. From this point, it could be changed, delayed, passed or dropped. It is too early to predict.

Employer Contributions. Most employers already pay almost double the employee rate. This proposed legislation would require the employer rate to increase up to 1% per year until it reaches the required rate. Current estimates show it could be over 17% of payroll for State and School employers in the coming years. This is a significant amount for employers to absorb.

Employee Contributions. If the legislation passes, employee contributions would increase 0.5% for four years beginning in 2012.

	Current	Jan 2012	Jan 2013	Jan 2014	Jan 2015 +
Tier 1	4%	4.5%	5%	5.5%	6%
Tier 2	6%	6.5%	7%	7.5%	8%

Benefit Formula. Members could also see a slight rise in their retirement benefits through an increase in the statutory multiplier for future service from 1.75% to 1.85%. The statutory multiplier is used to calculate retirement benefits.

Yearly Benefits = Final average salary X multiplier X years of service

Current example: \$30,000 (FAS) X 1.75% X 10 yrs of service = \$5,250

New legislation example: \$30,000 (FAS) X 1.85% X 10 yrs of service = \$5,550

The current multiplier would be used for service already earned. The new 1.85% multiplier would be used for any new service earned after January 1, 2012.

Bill Progress. Keep in mind that SB 564 is still in the early stages and has to make it through many steps to become law. You can get updated information at <http://www.kpers.org/legislation.htm> as the bill moves through the Legislature.

Tax Time Tips

Tax Reminder: Report KPERS Contributions on Your Kansas Income Tax Return

Your KPERS contributions are subject to Kansas income tax. Contributions are deducted on a pre-tax basis for federal income tax purposes. Because of this, you need to make a specific entry on your Kansas income tax return. All KPERS, KP&F and Retirement System for Judges members are included.

You can see the amount of your contributions on your W-2 form. Some employers will provide this amount for you in Box 14 (labeled KPER).

See the "Schedule S Line-by-Line Instructions in the [Kansas Income Tax Booklet](#) for more information or contact the Kansas Department of Revenue.

- E-mail: tac@kdor.state.us.ks
- Kansas Tax Assistance: 785-368-8222

Get a Federal Tax Credit for Your Retirement Savings

Saving for retirement has an added bonus: it can also help you save on your taxes. For low- and moderate-income taxpayers, the Savers' Credit provides a tax credit of up to \$1,000 (\$2,000 if filing jointly) if you:

- Contributed to an eligible retirement plan such as a traditional or Roth IRA, 403(b) annuity or 457(b) deferred compensation plan.
- Purchased service credit by making voluntary after-tax contributions to KPERS.

To qualify for the credit, your adjusted gross income on your 2009 federal tax return cannot be more than:

- \$55,500, if married filing jointly
- \$41,625 if head of household
- \$27,750 if single or married filing separately

To calculate the credit, download IRS Form 8880, [Credit for Qualified Retirement Savings Contributions](#), at www.irs.gov. A qualified tax preparer can help you determine if you qualify for the credit.

Helpful IRS Tips for Hiring a Tax Preparer

Your tax return is one of your most important legal documents. The IRS provides these tips to help you find a reputable tax preparer.

- Be wary of tax preparers who claim they can obtain larger refunds than others.
- Avoid preparers who base fees on a percentage of the refund.
- Use a reputable tax professional who signs the tax return and provides a copy.
- Consider whether the individual or firm will be around to answer questions months or years after your return has been filed.
- Check the person's credentials. Only attorneys, CPAs and enrolled agents (a federally licensed tax practitioner) can represent you before the IRS in all matters.
- Other return preparers may only represent you for audits of returns they actually prepared.
- Find out if the preparer is affiliated with a professional organization that provides continuing education and other resources and holds its members to a code of ethics.

Fiscal Year 2009: A Financial Snapshot for Members

Here are a few highlights of operations and finances for fiscal year 2009. For more detail, please see our [Comprehensive Annual Financial Report \(CAFR\)](#) at www.kpers.org or by calling 1-888-275-5737. The Government Finance Officers Association (GFOA) awarded KPERS a Certificate of Achievement for Excellence in Financial Reporting for our 2008 CAFR. KPERS has received the award for the last 15 consecutive fiscal years.

Benefits

The Retirement System paid just over \$1.1 billion in benefits during the fiscal year.

Retirement, \$1 billion

Retiree death, \$9.2 million

Withdrawal, \$43.9 million

Death/disability, \$54.3 million

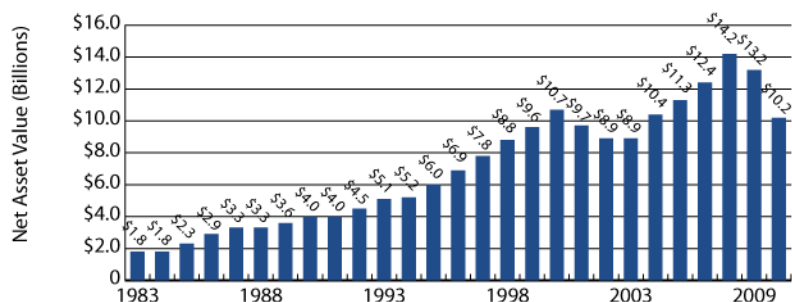
Investment Performance

For the second year in a row, KPERS experienced losses in the portfolio. All equity markets were down substantially, including the S&P with a -26.2 percent return for the fiscal year 2009. At the same time, KPERS' portfolio returned -19.6 percent.

Since then, KPERS' investments have stabilized. The portfolio had a return of 17.3 percent for the first half of fiscal year 2010. Unfortunately, earlier losses created a \$2.9 billion decrease in assets for the fiscal year and have had a significant impact on long-term funding.

For more information about KPERS' diversified and disciplined investment strategy, please see the [Investment Section](#) in our CAFR.

KPERS Net Asset Value - FY 1983 - FY 2009



Funding

Our most recent actuarial valuation, dated December 31, 2008, showed an overall funded ratio of 59 percent. The funded ratio is the ratio of actuarial assets to liabilities. The System's unfunded actuarial liability (UAL) increased from \$5.55 billion to \$8.28 billion. The unfunded actuarial liability (UAL) is the gap between the actuarial value of assets and the actuarial liability for service already earned. The last two years of investment losses have had a substantial impact on KPERS' funding status, reversing forward progress on long-term funding made in previous years.

Even with a strong, sustained market recovery, the UAL will continue to increase and the funded ratio will further decline. Investment returns alone cannot fix the funding shortfall. However, members need to remember that benefits are safe in the near-term and KPERS has billions of dollars to pay benefits for years.

We will continue to carefully manage members' assets while we work with the Governor and Legislature to develop a plan to protect the long-term financial health of the System.

Finances

Plan Net Assets	
Cash and Deposits	\$1,448,691
Receivables	\$72,243,458
Net Investments	\$10,169,814,028
Capital Assets/Supplies	\$6,314,640
Payables	(3,479,688)
Net Assets	\$10,246,341,129
Changes in Plan Net Assets	
Additions	
Contributions	\$764,190,110
Net Investment Loss	(\$2,592,209,589)
Misc Income	\$154,113
Total Additions	(\$1,827,865,366)
Subtractions	
Benefits	(\$1,107,410,035)
Admin. Expenses	(\$11,447,385)
Total Subtractions	(\$1,118,857,420)
Net Decrease	(\$2,946,722,786)
Net Assets:	
Beginning of Year	\$13,193,063,915
End of Year	\$10,246,341,129

Planning for Retirement Takes Time and Timing

It's never too early to start planning and saving for retirement. But your strategy at 25 won't be the same as when you're 60.

If You're 20 to 30 Years From Retirement

Start Saving. Now is the best time to start saving for retirement, even with a small amount. Consider saving in a tax-sheltered retirement plan like the [Kansas Public Employees Deferred Compensation plan](#), a 403(b) annuity plan or an individual retirement account (IRA). The sooner you start, the better off you'll be.

Purchase Service Credit. If you have eligible service, why not purchase service credit for your time? Because the cost is based on your age, early in your career is generally the cheapest time to purchase service credit. You can even purchase partial years. Purchasing service credit can increase your benefit and may allow you to retire earlier.

If You're 10 to 15 Years From Retirement

Consider Catch-Up Contributions. After age 50, you can make additional contributions to your tax-deferred retirement savings. For 2010, you can contribute an additional \$5,500 to the \$16,500 limit. If your retirement savings may fall short of what you need, now is the time to make up ground. Whether you got a late start saving for retirement or you want to retire early, now is the time to buckle down and build that nest egg.

Purchase Service Credit. Even if you didn't purchase eligible service early in your career, it's still a good option to consider. Although the actuarial cost increases as you get older, purchasing service can still pay off in the long run. It's important to weigh the costs and benefits.

If You're Less Than Five Years From Retirement

Attend a Pre-Retirement Seminar. Each spring, the Retirement System has informational pre-retirement seminars for members nearing retirement. You'll learn about important topics to help you get the most from your benefits.

Apply for Retirement Benefits. You'll need to apply for your Retirement System benefits at least 30 days before your retirement date. Plan ahead in case you need to track down required birth and name change documents.

For more information about retirement planning, download our [Pre-Retirement Planning Guide](#) (PDF, 661KB).

Savings Tip: Do an estimate on each calculator so you know how much to save on your own.

- [My Retirement Outlook](#)
 - [KPERs Benefit Calculator](#)
 - [Social Security Retirement Estimator](#)
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Working After Retirement Change Raises Questions

In the last issue of BenefitWise, we talked about two "working after retirement" changes resulting from 2009 legislation. With any changes, naturally, there are questions. Here are the most frequently asked.

If I return to work after retirement, do I make contributions to KPERs?

No. Retirees who return to work do not contribute to the Retirement System. However, your employer may be required to make KPERs contributions if the position you are filling would normally be a KPERs-covered position.

Note: If you return to work in a position covered by a different Retirement System such as KP&F or Judges, you will make contributions and receive service credit in that plan.

Can I return to work without an earnings limit?

It depends. If you return to work for a different employer, you don't have an earnings limit.

However, if you return to work for the same employer, you will have a \$20,000 annual earnings limit. This includes if you retire and contract with a third party to return to work for a school district. The legislature did create an exception by lifting the earnings limit until July 1, 2012, for certain **licensed** school personnel who retire with "full retirement" benefits. Those retiring with "early retirement" are not eligible.

Tips for Saving During a Tough Market

Information for Kansas Public Employees Deferred Compensation Plan Participants

When the stock market went down sharply in 2008, so did the value of many investment portfolios. It's discouraging to see losses when you work hard for your money. You might have even been tempted to stop saving and investing as the markets continued to drop. But over time and even through the dips in the stock market, consistent saving and investing can pay off.

Watching your investments decline in a down period is a helpless feeling, but remember that saving for retirement isn't a short term deal. And there are some things you can do about it.

Be Consistent

It's important to get into the habit of saving and investing consistently for retirement. If you stop whenever the stock market takes a dip, you risk spending the money instead of investing for retirement on a consistent basis. Not only that, but you could miss out on potential gains when the market eventually swings the other way.

Save Extra

Saving a little extra may help you make up for some of the recent decline in the value of your retirement account. Participants can start saving with as little as \$12 per pay period. If you're only contributing the minimum, it's a good idea to take a close look at your retirement plan and your future income needs.

You can use the [My Retirement Outlook](#) tool to see how your KPERs, Social Security and personal retirement savings work together for your retirement income. The calculator will also show any income shortfalls, and show you how much more you need to save to fill the gap.

It's easy to increase your contributions. To change the amount online, go online to www.ingretirementplans.com/custom/ks or call 1-800-232-0024, option 2.

Savings Tip: Are you currently contributing a set dollar amount per pay period?

By changing to a percentage of pay, your contributions go up automatically if your salary increases.

Rebalance Your Portfolio

Depending on your risk tolerance and time horizon before retirement, you may have your portfolio divided into different categories, or allocations. These allocations normally respond differently in different market climates. This is one way you diversify your investments and reduce risk.

Rebalancing is bringing your portfolio back to your original asset allocation. This is necessary because over time some of your investments may become out of alignment with your investment goals. Some of your investments may grow faster than others. By rebalancing, you'll ensure that your portfolio does not overemphasize one or more asset categories, and you'll return your portfolio to a comfortable level of risk.

For Help

ING's local Topeka Service Center is open from 7:30 a.m. to 5 p.m. You can call ING at 785-296-7095 or toll-free 1-800-232-0024 and press option 5.

See Your Benefits at a Glance

Our Benefits at a Glance publications provide a handy, concise reference when you need an overview of your benefits. Ask your employer for a paper copy or order one [online](#). We'll be happy to send one to you.



- [Benefits at a Glance, KPERS Tier 2](#) (PDF, 235KB)
- [Benefits at a Glance, KPERS Tier 1](#) (PDF, 235KB)
- [Benefits at a Glance, Correctional KPERS Tier 2](#) (PDF, 246KB)
- [Benefits at a Glance, Correctional KPERS Tier 1](#) (PDF, 242KB)
- [Benefits at a Glance, KP&F](#) (PDF, 181KB)
- [Benefits at a Glance, Judges](#) (PDF, 172KB)