

Vested Interest

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

Time to Think About 1099-Rs

Each year, KPERS calculates the total benefits you have received and provides this and other information to you on your 1099-R form. This form contains important information for your federal tax return. We mail 1099-R forms to you by the end of each January.

In general, your retirement benefits are subject to federal taxes, but not Kansas state taxes. If you live in another state, your benefit may be taxed in your state of residence. Check with your state's department of taxation to be sure.

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

- Received a lump-sum payment in 2009.
- 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).

For more information about how your benefits are taxed, visit the "State and Federal Taxes" section at www.kpers.org/taxinformation.htm. You'll find helpful information, including a sample 1099-R diagram that highlights frequently questioned areas of the form.

If you don't receive a 1099-R by mid-February, please contact the Retirement System. For questions about your individual tax situation, you'll need to consult a qualified tax professional or the Internal Revenue Service.

Withholding Reminder

You can change the amount of tax taken out of your monthly benefit payment anytime. To make a withholding change, complete a Withholding Election form and send it to KPERS. You can download an IRS W-4P form or KPERS' Substitute W-4P, a simplified version of the IRS form, from our web site at www.kpers.org. You can also call the InfoLine, 1-888-275-5737, or e-mail kpers@kpers.org to have a form mailed to you.

A tax advisor can help you see whether you need to adjust your withholding to better reflect the amount of taxes you likely will owe. You can also use the IRS' withholding calculator at www.IRS.gov in the "Individuals" section.

Benefit Payment Dates

January 29	February 26
March 31	April 30
May 28	June 30
July 30	August 31
September 30	October 29
November 30	December 31

Benefit payments are mailed or paid by direct deposit on the last working day of each month.

Download a KPERS benefit payment date calendar at www.kpers.org or contact us to receive one by mail.

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Your tax return is one of the most important legal documents that you complete each year. 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, including audits, collection and appeals. Other return preparers may only represent you for audits of returns they actually prepared.
- Find out if the return preparer is affiliated with a professional organization that provides continuing education and other resources and holds its members to a code of ethics.



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Benefits Safe, Investments on the Uptick

Your benefits are safe. We continue to hear from retirees who want to know whether their benefits are secure. Even in light of the economic crisis over the last year and discussions about long-term funding, your benefits are safe and dependable.

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 two quarters 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 have also increased the System's liabilities. In addition, State and local govern-

ments have contributed less than the actuarial rate for 15 years. Both have had a lasting negative effect on funding.

Members are living longer and retiring earlier than previously projected. That means KPERS is paying benefits to individual members over a longer period of time than we expected.

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 Plan

We have presented a range of funding options to the Legislature's Joint Committee on Pensions, Investments and Benefits and other legislative committees. In developing ideas, we looked at factors like:

- What are the legal issues?
- What is sustainable?
- Is it consistent with actuarial standards?
- Does it include shared responsibility?
- Does it support an adequate retirement?

Based on Joint Committee requests, possible options include:

- Increasing employer contributions.

KPERS Nominated For Award of Excellence

KPERS is a finalist for the *Money Management Letter* "Large Public Fund of the Year" award.

Nominees are exemplars of the best-run funds in performance and investment decisions. The winners will be announced February 28.

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

With feedback and analysis from each committee meeting, we continue to shape option details. At this point, we need more direction from the Joint Committee. Committee leadership has indicated interest in finalizing options early in the legislative session and introducing legislation. KPERS board of trustees has not yet recommended a specific option. You can get updated information throughout the legislative session at www.kpers.org/legislation.htm.

FY 2009 was a difficult year for KPERS and for the economy in general. The upturn in the recent months of FY 2010 is promising and has had a positive impact on KPERS. As a fiduciary committed to the best financial interest of members, we will continue to invest prudently and advocate for policies that promote the long-term financial health of the Retirement System.

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) available 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 Withdrawal, \$43.9 million
 Retiree death, \$9.2 million Death/disability, \$54.3 million

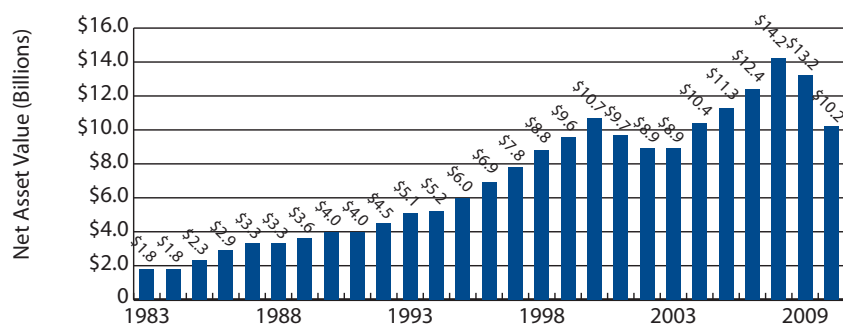
Investment Performance

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 13 percent for the first quarter 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

Questions?



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Our Mission: In our fiduciary capacity, we exist to deliver retirement, disability and survivor benefits to our members and their beneficiaries.

The fiduciary standard is our driving force. That means we put the interest of our members first. It is the highest standard of care and accountability. A fiduciary relationship is highlighted by good faith, loyalty and trust.

Board of Trustees:

Lon Pishny, <i>Chair</i>	John Edmonds	Dennis McKinney
Rachel Lipman Reiber, <i>Vice Chair</i>	Tammy Edwards	Gary Price
Michael Braude	Ron Hagen	Doug Wolff

Estate Planning: Comparing a Will and a Trust

Most people know that a will and a living trust are documents that determine how their estate will be handled after they die. Fewer people know the differences between the two. If you haven't already documented your last wishes, investigate your options so that you can choose the best document for your needs.

A **will** distributes your property to those you choose. An executor is a person you name in the will to carry out your wishes. A will goes into effect only after you die.

A **living trust** is a popular alternative to a will because it takes effect as soon as you create it. Essentially, you transfer your property to the trust, and the trust manages your assets before and

after your death. As the trustee, you remain in control of your assets. If you become incapacitated, the trust is in place to manage your financial affairs.

Be sure to weigh the pros and cons before deciding on one or the other. For questions, consult an attorney who specializes in estate planning.

	Pros	Cons
Will	<ul style="list-style-type: none"> Easier to create Costs less to prepare Provides court supervision for handling beneficiary challenges and creditor disputes 	<ul style="list-style-type: none"> Becomes public record after your death Must use a Power of Attorney or conservatorship to manage assets Probate proceedings can be costly and time-consuming
Trust	<ul style="list-style-type: none"> Avoids probate if all assets are held by the trust Remains private Allows you to manage estate as long as you are able 	<ul style="list-style-type: none"> No automatic court supervision to deal with disputes Requires more time to manage Costs more to prepare