Your Future, Your Choice

Kansas Board of Regents Mandatory Retirement Plan

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KBOR
KANSAS BOARD OF REGENTS
MANDATORY RETIREMENT PLAN

Saving for retirement is one of the biggest challenges you will face during your working years. You'll want to take full advantage of the savings opportunities offered through your employer to help you successfully prepare for a smooth transition into retirement. The Kansas Board of Regents (KBOR) provides its Mandatory Retirement Plan (Plan) to help you meet your long-term needs. The Plan is designed to complement Social Security, voluntary retirement plans, other investments and personal savings, to provide you with income after retirement. Through the Plan, you accumulate funds through your own tax-deferred savings as well as contributions from your employer. Contributions and any earnings are tax-deferred: distributions will be taxed as ordinary income when distributed and are subject to any tax penalties that may apply. This brochure explains the available retirement investment options to help you make an informed decision that is best for your situation.

ADDITIONAL SUPPORTING MATERIAL, PROSPECTUSES AND ENROLLMENT FORMS ARE AVAILABLE FROM YOUR CAMPUS BENEFITS/HR OFFICE OR THE FOLLOWING DESIGNATED INVESTMENT PROVIDERS:

ING – **www.ingretirementplans.com/custom/KansasBOR**

TIAA-CREF –**www.tiaa-cref.org/kbor**

Additional information about the Plan can be found under the KBOR Retirement Plan icon at **http://www.kansasregents.org/regent_retirement_plans**

KBOR Mandatory Retirement Plan Eligibility And Contributions

All faculty and unclassified professional staff working half-time or more in a benefits-eligible position at the Kansas Board of Regents Office or at a state university governed by the Board are required to participate in the KBOR Mandatory Retirement Plan after completing one year of service. New employees may, under certain circumstances, be qualified to participate immediately.

As a participant in this defined contribution plan, you contribute 5.5% of your annual gross salary through pre-tax contributions. Your employer also contributes 8.5% of your annual gross salary. These amounts are remitted to your selected Investment Provider each pay period.

All the money in your retirement account is vested immediately; that is, the entire accumulation belongs to you the first day the money is credited to your account. You cannot access your funds while you are employed with a KBOR state university or the Board Office in any capacity. Individuals who execute phased retirement agreements are permitted to access a portion of the accumulated funds in their KBOR Mandatory Retirement Plan.

Retirement Age

You are not eligible for statutory retirement benefits before your fifty-fifth birthday. Please note that individuals between the ages of 55 and 59 must have ten years of service in a benefits-eligible position at a state university or with the Board Office to retire.

Tax Considerations

Your contributions are made on a pre-tax basis, which reduces your taxable income. Thus, the amount of federal and state income taxes you have to pay will be reduced by the amount you contribute to the Plan each year. Additionally, you benefit from the tax-deferred growth on any earnings from your contributions and your employer's contributions until you withdraw funds from your account. Therefore, you have the advantage of reducing your taxable income now, delaying payment of taxes on earnings, along with tax-deferred growth of any potential earnings.

Upon withdrawing funds from the Plan, your withdrawals will be subject to ordinary income tax on the amount withdrawn. When withdrawn, contributions and earnings are generally subject to federal income tax and may also be subject to state income taxes depending on your state of residence when you receive retirement income.

All the money in your retirement account is vested immediately.

One of the most expensive financial goals you will save for will probably be retirement.

Early Withdrawals

Before age 59½, any benefits you receive that are not in the form of a lifetime annuity may be subject to an additional 10% early withdrawal penalty tax unless:

- You have unreimbursed medical expenses that exceed 7½% of your adjusted gross income;
- You become disabled or die; or
- You retire as a result of a written early retirement plan/agreement, during or after the year you reach age 55.

Before you take a cash withdrawal from any investment fund, you should consult a tax advisor who is familiar with the applicable tax laws and your personal financial situation.

Investment Options Under The KBOR Mandatory Retirement Plan

You may invest your retirement contributions among a variety of investment options offered by or through either of the companies designated as Investment Providers for the Plan. These companies have been selected by the Board of Regents to give you flexibility in your retirement planning. Your employer will remit your funds to your selected Investment Provider with each payroll deduction. Once each calendar year, you can elect to have future contributions deposited with the other Investment Provider. Subject to the Investment Providers' policies, accumulated funds may be transferred between the Investment Providers at any time. For more information about the Mandatory Plan and Providers, log on to http://www.kansasregents.org/regent_retirement_plans and click on "Mandatory Retirement Plan."

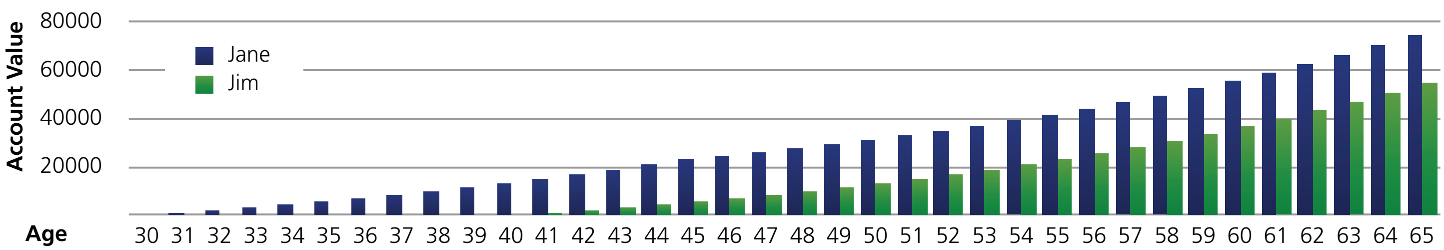
The Importance Of Starting A Retirement Savings Plan

We all hope for a comfortable retirement, free to pursue interests, travel, and spend time with family and friends. Unfortunately, many Americans have underestimated the amount they will need to save for retirement and maintain their current standard of living. Thanks to today's medical advances and healthier lifestyles, people are living longer than ever before – you may need to live without a paycheck almost as long as you lived with one.

In addition to the KBOR Mandatory Retirement Plan, you may want to take advantage of other retirement savings plan options, such as the KBOR 403(b) voluntary retirement plan and/or the State of Kansas 457 deferred compensation plan. Effective January 1, 2011, a Roth after-tax option will be available within the KBOR Voluntary Retirement Plan. For more information about these voluntary retirement plans, contact your Benefits/HR Office.

When you invest in a retirement plan, any interest you earn can also earn interest – it's called compounding interest. The earlier you start to invest, the greater amount of time you have for compounding. As a hypothetical example, let's compare how much two different investors could accumulate in their retirement plans if they began saving at different ages.

Example of Compounding Interest



This illustration assumes a 6.0% annual rate of return. It does not reflect the performance of any specific investment. The returns are hypothetical and do not reflect the past or future performance of any specific investment option. No fees, charges or taxes have been reflected. Payment of income taxes is not reflected. Systematic investing does not ensure a profit or guarantee against loss. You should consider your financial ability to continue purchases through periods of low price levels.

Example

Jane starts contributing to her employer's plan at age 30, contributing a total of $1,000 each year for 15 years. After 15 years, she stops contributing to the plan (but leaves the money in the account).

Jim waits until he is age 40 to contribute to his employer's plan, but when he does he contributes a total of $1,000 each year until he retires at age 65. That's 25 years of investing, and $25,000, versus Jane's 15 years and $15,000.

Both Jane and Jim earn an assumed 6% rate of return on their investment. By the time they both reach age 65, Jane comes out ahead, even though she contributed for less time and with fewer dollars. That's an example of the power of compounding interest.

Managing Inflation And Investment Risk

A major challenge you will face in saving for retirement is keeping up with the erosive nature of inflation. Price increases are likely, so you'll probably want to include investments in your portfolio that are designed to keep up with or outpace inflation over the long term. A conservative inflation rate of 3.5% will reduce your purchasing power by 50% over 20 years. In other words, $100 today would be worth $50 in 20 years. Therefore, it is important to utilize investments that offer the potential to outpace inflation so your retirement savings will stand a better chance of providing the necessary income when it is needed. Investments in stocks, bonds and real estate have historically helped hedge against inflation and produced long-term returns that have outpaced price increases.

What is diversification?

Diversification is a risk-management technique for investing. It involves spreading your dollars within a portfolio among different asset classes, depending on your personal risk tolerance, time horizon, and goals. By diversifying, an investor could be less affected by losses in any one investment. However, diversification does not guarantee against loss nor does it ensure better performance.

Managing Expenses

There are two things to remember about expenses charged by investment companies. First, they are calculated on the basis of your assets – not your investment earnings. Expense fees apply whether you realize a gain or a loss for the year. The expenses will reduce your gain and add to your loss. More importantly, even modest differences in expenses can be very costly in the long run.

For example, let's assume that $50,000 is invested for 25 years and earns an average annual return of 6%. An investment that charges an annual expense of 0.4% will grow to $195,240, while an investment that charges an annual expense of 1.4% will grow to only $156,908 – a difference of over $38,000. Although financial decisions entail risk and uncertainty, you can determine the investment expenses.

Building A Retirement Portfolio

One of the most important decisions you will have to make is how to allocate your contribution dollars among the different investment options available through the Plan. Your choices will depend greatly on the type of investor you are, including how long you have until you'll need your money, how well you react to market swings (your risk tolerance) and other factors. Each of the Investment Providers offers educational materials and tools to assist you in determining your risk tolerance and investment mix.

Investment Provider Services

Representatives from each Investment Provider are available to meet with you to discuss your retirement plan goals and needs. Contact your Benefits/HR Office for contact information for the campus representatives.

In addition, the websites for each Investment Provider offer calculators and planning tools that may help you determine whether you are on track to meet your retirement savings goals. We encourage you to take advantage of the various calculators that may help you refine your retirement planning and assist you with developing an appropriate investment strategy based on your needs and personal situation.

ING –
www.ingretirementplans.com/custom/KansasBOR

TIAA-CREF –
www.tiaa-cref.org/kbor

QUESTIONS AND ANSWERS

Why is fund diversification important?
It is important to diversify your fund choices across asset classes. This means keeping the investment spectrum: capitalization (large, mid, small); style (value/blend/growth); and asset type (fixed income, domestic equity, international equity) in mind. Diversification can help to lower the variability of your portfolio's returns over time. While using diversification as part of your investment strategy neither assures nor guarantees better performance and cannot protect against loss in declining markets, it is a well-recognized risk management strategy. The first step in this process is to determine your tolerance to risk using the tools provided by the Investment Providers, either online or with your representative. Your tolerance to risk will determine the asset allocation across the investment spectrum that is right for you.

What is an equity investment?
These represent shares of stock in public companies that offer potential earnings in the form of rising share values and dividends. Historically, equities have provided higher long-term returns than bonds or money market investments. However, they are also more volatile and tend to have greater fluctuations in value.

What is a fixed income investment?
Fixed income investments, such as bonds and money market instruments, pay set rates of interest with a promise to return the principal at maturity. Bond values generally rise when interest rates fall (and vice versa), and are useful to balance risk and the values generally fluctuate less than stocks.

What is a guaranteed investment?
This is an investment in which your principal balance is guaranteed. Additionally, the issuing company generally guarantees to credit a minimum rate of interest to your principal balance. The guarantees are based on the claims-paying ability of the issuing company.

What is market capitalization?
Market capitalization is an estimation of the value of a business (giving a picture of the company's size) that is obtained by multiplying the number of shares outstanding by the current price of a share.

What are large-cap stocks?
Stocks in the top 70% of the capitalization of the U.S. equity market (above $8 billion) are defined as large-cap. Historically, large caps have experienced slower growth with lower risk. Many well-established companies fall in this category.

What are mid-cap stocks?
The U.S. mid-cap range for market capitalization typically falls between $1 billion-$8 billion and represents 20% of the total capitalization of the U.S. equity market. In general, mid-cap stocks offer growth potential with medium risk.

What are small-cap stocks?
Stocks in the bottom 10% of the capitalization of the U.S. equity market (under $1 billion) are defined as small-cap. This category typically represents new or relatively young companies. Small caps can offer growth potential, but may have higher risk.

What is the difference between active and passive portfolio management?
Active investing is a management approach that actively selects investments for a portfolio based on independent research. Typically the manager is attempting to outperform the market or benchmark. Index (passive) investing is a management strategy that attempts to match the return and risk of a market segment by investing in its composition. This management approach keeps expenses low while attempting to mirror the performance of the benchmark.

What are investment styles and how are they defined?
- Value investing – An investment strategy that seeks to purchase great stocks at low prices in comparison to the market place or peer stocks.
- Growth investing – A strategy based on investing in companies and industries that are poised for growth and will continue to increase in value – producing large capital appreciations and earnings.
- Blend [Core] Investing – Selecting investments based on both a growth and value strategy. The investment portfolio will combine the two investment styles to take full advantage of the potential from each approach.

What happens to my retirement account when I leave the University?
If you leave KBOR/State of Kansas employment, you can roll over your account balances into the retirement plan of another employer or you can roll over the funds to an IRA. Additionally, you are welcome to leave the funds in the KBOR Plan. Cash distributions and rollovers are subject to the policies of the Investment Provider.

What other options are available for retirement savings?
Benefits-eligible employees can begin making voluntary tax-deferred contributions into the Board's 403(b) voluntary plan and/or the state of Kansas 457 Deferred Compensation Plan immediately upon employment. These plans accept employee contributions; there is no employer contribution. You can set aside additional pretax contributions that are made above and beyond KBOR's Mandatory Plan. These voluntary retirement plans offer a great opportunity to set aside additional pretax savings to help you meet your goals and income needs in retirement. For more information, please contact your Benefits/HR Office.

Are there limits to the amount I may contribute to the voluntary retirement plans?
The Board's 403(b) mandatory and voluntary retirement plans and the state of Kansas 457 Deferred Compensation Plan offer significant tax benefits. In fact, they're so attractive the Internal Revenue Service limits the amounts that can be contributed. Your personal limit is affected by a variety of factors. For more information about contribution limits, please contact your Benefits/HR Office.

May I borrow from either my mandatory or voluntary retirement plans?
Loans are not permitted from the KBOR Mandatory Retirement Plan. The voluntary 403(b) plans and the State of Kansas 457 deferred compensation plan have loan provisions.

A FINAL WORD

This information is provided for your education by the Kansas Board of Regents. Full details about the investment options in the KBOR Mandatory Retirement Plan are available from ING and/or TIAA-CREF. Before making decisions, you should consider not only the investment performance and risks associated with the various funds but also the investment fees and expenses, the services offered, and how well suited the range of income options are to provide your retirement income benefit.

Your Benefits/HR Office can provide you general information about the Plan. ING and TIAA-CREF will answer your questions and provide sufficient information for you to make sound investment decisions. However, neither the Board of Regents nor your employer may offer you investment advice. If you need more assistance to make an informed decision, consult with your Investment Provider and see your financial advisor or accountant.