

KANSAS BOARD OF REGENTS
IMPORTANT INFORMATION ABOUT
VOLUNTARY 403(b) RETIREMENT PLAN CHANGES

The Kansas Board of Regents (KBOR) has made changes to the KBOR Voluntary 403(b) Retirement Plan ("Plan") which will take effect on January 1, 2011, or as soon thereafter as they can be administratively implemented. This notice is intended to help you understand how these changes impact your participation in this Plan.

SUMMARY OF CHANGES

The Plan has been amended to permit you to make Roth contributions to your account. Unlike traditional pre-tax contributions, *Roth contributions are taxable at the time of the contribution*. This means that if you elect to make Roth contributions to the Plan, your take home pay will be less than if you made an equivalent pre-tax contribution. Although you will not realize any current tax savings by making Roth contributions, you will not have to pay tax on these contributions when they are distributed to you in later years. In addition, you will not be taxed on any of the earnings on your Roth contributions, as long as the distribution of your Roth contributions occurs at least five years after the date which you begin making Roth contributions and you have reached age 59 ½, become disabled, or die. While you may take a distribution from your Roth account for other reasons permitted under the Plan (such as severance from employment or hardship), if you do not meet the above rules, you will be taxed on any earnings on your Roth contributions that are included in the distribution.

You can elect to make pre-tax contributions, Roth contributions, or a combination of both types of contributions, to the Plan. Roth contributions, like pre-tax contributions, are irrevocable once made. Your total contributions (pre-tax and Roth contributions added together) cannot exceed the IRS limits, which is \$16,500 for 2011 (plus an age 50 catch-up and a 15 years of service catch-up, if applicable). You may always change your elections going forward, but you will not be permitted to retroactively re-characterize a Roth contribution as a pre-tax contribution.

Why Would I Want to Make Roth Contributions?

Roth contributions are taxed when you make the contribution to the Plan, not when you later take a Plan distribution. The earnings on Roth contributions are never taxed if certain IRS rules are satisfied. These features may make Roth contributions an attractive option to the following participants:

- Participants who expect to be in a higher tax bracket at the time of retirement and, therefore, prefer to pay a lower tax on their contribution today than a higher tax on the distribution in the future.
- Younger participants who have a longer retirement horizon and, therefore, have more time to accumulate tax-free earnings.
- Participants who earn too much to be eligible to contribute to a Roth IRA, but who want to be able to draw on tax-free money at retirement.
- Participants who want to pass on tax-free income to their heirs.
- Participants who want to hedge against the uncertainty of future tax rates by electing to split their contributions between pre-tax contributions and Roth contributions.

You should talk to your tax or financial advisor as to whether Roth contributions make sense for you.

How Do I Begin Making Roth Contributions to the Plan?

If you wish to make Roth contributions to the Plan, you must select an investment provider to receive the Roth contributions by completing an Investment Agreement. You do not have to select the same investment provider that receives your KBOR voluntary 403(b) pre-tax contributions. A complete list of the investment providers that have been approved by the Plan can be found at the following website: <http://kansasregents.org/vtsa>. The current list of

approved investment providers for new participants and for anyone electing the new Roth after-tax option is as follows:

- #321 Ameriprise Financial Services, Inc.
- #009 ING Financial Services
- #413 Lincoln Investment Planning
- #416 Lincoln National Life Insurance Company
- #655 Security Benefit Life Insurance Company
- #695 TIAA-CREF
- #769 VALIC
- #785 Waddell & Reed Financial Services – **NOT a Roth provider**

You are permitted to change the investment provider for your Roth contributions (and the investment provider for your pre-tax contributions, if different) once each year with respect to your future contributions. Once you have designated an investment provider to receive your Roth contributions, you will be able to direct the investment of these contributions among the funds available from the provider.

Are Roth Contributions Treated Differently From Pre-Tax Contributions?

All distributions, including hardship withdrawals and loans, will be subject to both the terms of the Plan and the rules of your designated investment provider. Therefore, it is important to note that some investment providers treat Roth contributions differently from pre-tax contributions with respect to investments, loans, hardships and distributions. You should carefully review each investment provider's agreement in order to understand these differences. Two examples of differences among the investment providers that may impact your selection include:

- **Loans from Roth.** Due to the significant tax consequences associated with loan defaults related to Roth contributions, not every investment provider will permit a participant to take a loan from his or her Roth account. For example, TIAA-CREF, ING, Lincoln Financial Group and Ameriprise will calculate the maximum loan amount available based on your total contributions to the Plan (Roth and pre-tax added together), but they will only permit the loan to be drawn from your pre-tax contributions. Other investment providers, such as Security Benefit, permit loans to be made from both pre-tax and Roth accounts.
- **Investment Allocations.** Some providers, including ING, Lincoln Investment Planning, and VALIC, permit participants to elect different investment strategies for their pre-tax and Roth contributions. Other providers, including TIAA-CREF, Lincoln Financial Group, and Security Benefit, will invest your pre-tax and Roth contributions pro rata among the investment options you elect.

FOR MORE INFORMATION

If you have questions about the KBOR 403(b) Voluntary Retirement Plan or wish to participate by completing an Investment Agreement Form, please do not hesitate to contact the HR/Benefits Office at your university or the Board Office.