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W I C H I T A

**WICHITA EMPLOYEES'
RETIREMENT SYSTEM
PLAN NO. 3**

A benefits guide booklet

**MAY
2011**

WICHITA EMPLOYEES' RETIREMENT SYSTEM PLAN NO. 3

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*Issued 1994
Revised 2000
Revised 2011*

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INTRODUCTION

The purpose of the Wichita Employees' Retirement Plans is to establish an orderly means whereby noncommissioned personnel employed by the City of Wichita, who have attained retirement age or who have become disabled, may be retired from active service; and to enable employees to accumulate reserves for themselves and their dependents to provide for old age, disability, death and termination of employment.

This publication has been prepared to explain the benefits and other provisions of the Wichita Employees' Retirement System (WER) – Plan No. 3. In the interest of simplicity, certain generalizations have been made. In specific situations, the text of the law and the rules adopted by the Board of Trustees will control.

The information contained in this booklet pertains ONLY to the provisions of Plan No. 3 of the WER System. Plan No. 3 applies to all

employees hired or rehired on or after January 1, 1994 who have not become members of Plan No. 2.

MANAGEMENT OF THE WICHITA EMPLOYEES' RETIREMENT SYSTEM

A 16-member Board of Trustees administers the Wichita Employees' Retirement System (Plans 1, 2, and 3).

Trustees:

City Manager or the City Manager's designee;

One (1) employee member appointed by the City Manager;

Seven (7) members appointed by the City Council (who need not be City employees); and

Seven (7) employee members elected by participants in WER.

Ex-officio, Non-Voting Members:

Pension Manager, Executive Secretary;

City Treasurer, Treasurer of the Fund;

City Controller; and

Dept. of Law staff member, Legal Advisor.

Joint Investment Committee

An 11-member committee comprised of Presidents of the Wichita Employees' Retirement Board and the Police & Fire Retirement Board, two (2) elected members from each Board, two (2) City Council appointees from each Board, and the City Manager's designee, is responsible for development and implementation of the Strategic Plan and Investment Policies for the Wichita Retirement System Fund comprised of assets of the Wichita Employees' and Police & Fire Retirement Systems.

The WER Board and Joint Investment Committee employs the following professional services in its efforts to ensure sound management of the System:

1. Asset managers to invest and reinvest monies from the Fund, and who operate under what is commonly known as the "prudent man rule" in that they are expected to manage the Fund in the same manner they would manage

their own affairs, and in conjunction with the Investment Guidelines set forth in the provisions of the Retirement Ordinance;

2. An investment consultant who monitors and evaluates the investment performance of the asset managers; and advises the Board on matters dealing with asset allocation, alternative investments, and long-range investment planning;
3. A consulting actuary who serves in the capacity of "technical advisor" to the Board in all matters relating to the Retirement Plan, provides an annual valuation of the liabilities and reserves, provides an annual determination of the contributions needed to meet the requirements for payment of annuities and benefits, and certifies the results of this valuation to the Board;
4. Such other consultants and/or advisors as may be necessary to conduct the business of the Board;
5. A third party account administrator who administers individual accounts including the preparation of quarterly statements for each employee's account.

PENSION PLAN DEFINITIONS

Plan No. 3—Defined Contribution Plan

An individualized plan allowing employees to save for retirement and to shelter those savings and their earnings from current income taxes. It is one of the most tax-efficient retirement savings plans allowed by law because contributions and earnings accumulate and grow tax-free until they are withdrawn, usually at retirement.

The retirement benefit from a defined contribution plan is determined by a number of factors, including how much was contributed to your account, how long the funds were invested, rate of return, and years of life expectancy beyond retirement.

Plan No. 1 and Plan No. 2 Defined Benefit Plans

Guarantees a pension benefit for vested employees based on a calculation that includes years of service, percent of benefit earned, and final average salary. Eligibility for retirement benefits is based on age and number of years worked.

Converting from Defined Contribution to Defined Benefit

When vested with seven (7) years of service, Plan No. 3 membership automatically converts to Plan No. 2 membership. With this transition to a defined benefit plan, the employee's contributions, City's matching contributions and their earnings become a part of the Retirement Fund and the employee is eligible for all Plan No. 2 benefits. Please see "Wichita Employees' Retirement System Plan No. 2" booklet for a detailed description of benefits.

To remain in Plan No. 3, an irrevocable decision must be made within ninety (90) days of becoming vested and submitted in writing to the Pension Management Office.

PLAN NO. 3 MEMBERSHIP AND PROVISIONS

Eligibility

WER System Plan No. 3 membership covers all civilian (noncommissioned) full-time employees of the City of Wichita hired on or after January 1, 1994.

Employees are Plan No. 3 members until becoming vested after completing seven (7) years of service. Their membership then automatically converts to Plan No. 2. To remain a member of Plan No. 3, the employee must make an irrevocable election within ninety (90) days of becoming vested.

Employees excluded from WER Plan No. 3 membership:

1. Commissioned police and fire officers;
2. Seasonal, temporary, limited, or part-time employees;
3. Employees who are covered under the retirement system as active members of Plan No. 1 or Plan No. 2;
4. Employees who have retired under any retirement plan or program of the City of Wichita and who are receiving a benefit from such program;

5. Employees in the Management Pay Plan of the City of Wichita, Pay Range 000 – 006, who's employment offer provided the option of membership in the International City Management Association Retirement Corporation (ICMA-RC) unless the employee files in writing a selection of membership in WER Plan No. 3;
6. Public Safety Officers employed by the Wichita Airport.

Contributions

At the inception of Plan No. 3 (January 1, 1994), each employee contributed 4.1% of his compensation to the Fund. Compensation includes ONLY base rate of pay plus longevity pay. It does NOT include overtime pay, lump sum vacation pay, or reimbursement for automobile use, mileage, or other similar expenses. Effective February 18, 2000, the employees' contribution increased by 0.6% for a total of 4.7%. This increase was approved by Plan No. 3 members. The City's contribution matches the contribution of the employee at 4.7%.

Vesting

"Vesting" is the earned right of the employee to retirement contributions, subject to requirements set forth in the Ordinance. Employee contributions and their earnings are always one hundred percent (100%) vested. An employee becomes vested in City contributions and their earnings according to the number of years of actual service:

Years of Service	% City Contributions Vested
3	25%
5	50%
7	100%

Figure 1

Ima Worker is terminating her service with the City after 5 years and 4 months of service. Her Plan 3 contributions and gains/(losses) total \$8,090. The City's matching contributions and gains/(losses) also total \$8,090. She is eligible to receive 100% of her contributions and gains/(losses) and 50% of the City's contributions and gains/(losses) as follows:

\$ 8,090—	Ima's contributions and gains/(losses)
<u>+ 4,045</u> —	50% of the City's contributions and gains/(losses)
\$12,135	

Figure 2

Fully vested employees, who elect to continue participation in Plan No. 3 after seven years of service, may contribute additional amounts into the Plan as permitted by the rules of the Internal Revenue Service at the time of contribution. The City's contribution will not increase to match optional employee contributions, but will continue to match the required contribution.

INVESTMENT OF CONTRIBUTIONS

Pooled investments

During the first seven (7) years of employment, employee contributions and the City's matching contributions are managed as individual accounts, with funds invested by the Wichita Employee's Retirement Board in accordance with approved Investment and Asset Allocation Policies and any existing agreement with a third-party administrator. This enables Plan No. 3 accounts to accrue earnings at approximately the same rate of return experienced by the Fund. There is no guarantee of future returns; however, the Board's investment policies have provided for fund growth in the past, while minimizing risk through diversification and portfolio re-balancing.

Historical Rates of Return

Year	Return ¹
2010	13.64%
2009	21.96
2008	-28.05
2007	11.06
2006	15.33

Figure 3

¹ More detailed investment information is available in the Comprehensive Annual Financial Report available at:

<http://wichita.gov/CityOffices/Finance/Treasury/Pension/Publications/CAFR.htm>

Directed Investments

When vested at the end of seven (7) years, employees who opt to remain in Plan No. 3 will direct the investment of their individual accounts as provided by the defined contribution plan provider. At that time, employees may elect to contribute additional amounts to their account (without a matching contribution from the City) as permitted by the rules of the Internal Revenue Service (IRS) in effect at the time.

GROWTH OF SAVINGS

Plan No. 3 offers an opportunity to save for the future and reduce the amount of current taxes. The 4.7% of employees' salary contributed to the Plan is not taxed in the current year; reducing taxable salary which may increase take-home pay. Contributions and their accrued earnings continue to grow tax-free until they are withdrawn, normally at retirement.

Tax-deferred investments grow at a significantly faster rate than taxable investments. Since retirement benefits from a defined contribution plan depend on the amount of money available, this is a very valuable defined contribution plan feature.

The following graph illustrates the projected investment growth for a participant earning \$25,000 per year and making a pre-tax contribution of 4.7% plus a 100% matching contribution from the City. This projection assumes annual salary increases of 4% and

growth of 7.75% (a reasonable assumption when compared to the historical rates illustrated in Figure 4).

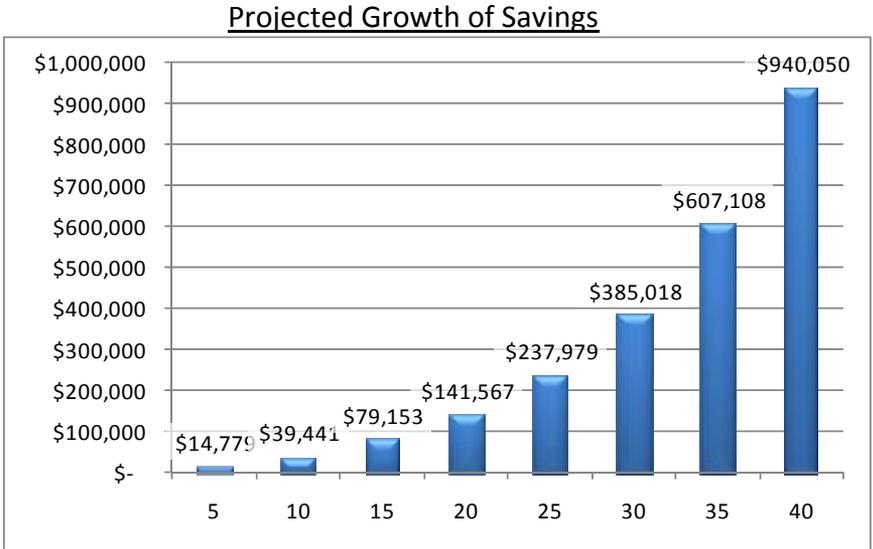


Figure 4

DISTRIBUTION OF VESTED ACCOUNTS

Prior to Retirement Eligibility

The vested portion of Plan No. 3 accounts, including earnings, is refundable upon termination of employment. An application for refund, available in the Pension Management Office, must be submitted within ninety (90) days of termination. There are three (3) options for directing Plan No. 3 refunds:

1. If a refund is issued to an employee, twenty percent (20%) federal income tax will be withheld. If the employee is under the age of 59 1/2 when receiving the refund, an additional 10% excise tax may apply in accordance with IRS rules;

\$12,135 refund of Plan No. 3 account
- 2,427 (20% income tax withholding)
\$ 9,708 refund to employee

Note: an additional 10% excise tax (\$1,213.50) may be assessed by the IRS

Figure 5

2. A refund that is rolled into a qualified pension plan or IRA is not subject to income or additional taxes; retirement funds continue to grow tax-free without penalty until withdrawn;

\$12,135 refund of Plan No. 3 account is deposited into qualified plan with no excise tax or income tax withholding.

Figure 6

3. A refund may be split between the above options with a portion of the refund issued to the employee (subject to income tax withholding and excises taxes) and the remainder to a qualified retirement plan.

The purpose of Plan No. 3 is to provide for financial security at retirement. Fund withdrawals, including loans, are not permitted by the Wichita Retirement System. Withdrawals at termination, but prior to age 59 1/2, are regulated by the IRS.

Figure 7

RETIREMENT PLANNING

A financially secure retirement with adequate income to pay for necessities such as housing, food, and health care in addition to leisure activities like travel or hobbies requires a plan to save aggressively and invest those savings wisely. Conviction to stick to the plan through your working years will help provide a retirement nest-egg.

The amount of income during retirement will determine your future lifestyle. Will it be filet mignon or hot dogs? Where will you live? Can you afford to do things you want, now that you have the time? No one source is likely to provide adequate income in retirement. Pension plan benefits, personal savings and Social Security benefits will provide critical components of post-retirement income.

Your Plan No. 3 retirement benefit is dependent upon several factors, including: the amount of contributions; the rate of return; and (most importantly) how long investments have to grow. Time and return on investments are crucial to grow an adequate

retirement nest-egg.

It may require an income close to your working income to maintain your present lifestyle in retirement. Many retirees find that some expenses actually increase, such as health insurance premiums, which were wholly or partially paid when they were still employed. Some have also found that participating in leisure activities adds more expense than anticipated. The financial ability to participate in leisure activities will have a dramatic impact on your quality of life in retirement.

Finally, early retirement and living longer may increase the number of years your nest-egg must last. Under-estimating the length of your retirement could result in the early depletion of your funds.

Retirement saving and planning should span your entire career. Plan No. 3 allows retirement savings to move with you in the event you change employers. The ability to roll your Plan No. 3 savings to a qualified retirement plan or IRA allows your pension nest-egg to remain with you throughout your career and continue to grow.

RETIREMENT BASED ON DISABILITY

Disability is defined as the total inability to perform permanently any duties for the City which the employee might reasonably be expected to perform in view of the employee's training, experience, and education.

Service-Connected (S/C) Disability

Any employee who becomes permanently and totally disabled due to causes which have arisen out of and in the course of his employment with the City, as defined in the State Worker's Compensation Act, shall:

1. Be eligible for a disability retirement benefit equal to fifty percent (50%) of the salary in effect when payments ceased; or
2. Receive a refund of the employee's Plan No. 3 vested

account balance.

Based on supporting medical evidence, Allen Doe was granted a S/C disability retirement. He must choose to receive:

50.0% X \$2,750 (final salary) = \$1,375 monthly disability benefit;
OR

A one-time refund of his Plan No. 3 vested account balance.

Figure 8

Non-Service Connected (N/S/C) Disability

Any employee who has seven (7) years of actual service with the City, is under age 62, and becomes permanently and totally disabled as the result of illness, disease, or non-job related injury, shall be entitled to a N/S/C disability benefit and shall:

1. Be eligible for a disability retirement benefit equal to twenty five percent (25%) of the salary in effect when payments ceased, or;
2. Receive a refund of the employee's Plan No. 3 account balance.

Based upon supporting medical evidence, Sue Smith (54 yrs. old with 6 years of actual service) was granted a N/S/C disability retirement. She must choose to receive:

25.0% X \$3,950 (final salary) = \$987.50 monthly disability benefit;
OR

A one-time refund of her Plan No. 3 account balance

Figure 9

Any amount received under the State Worker's Compensation Act (except medical expenses) shall be deducted from the disability retirement allowance.

To obtain a disability retirement, the employee must apply in writing within sixty (60) days of incurring the disability. The determination of disability from any cause shall be made upon the basis of medical examination by at least two (2) physicians who may

or may not be the claimant's physician or physicians. The retirement benefit may be made retroactive to the date when salary or wages of the disabled employee ceased. No disability retirement will be allowed if the disability was caused by willful misconduct or intoxication of the disabled employee.

Once a disability retirement is approved by the WER Board, periodic medical examinations may be required during the period of disability until attainment of age 62. The frequency and scope of examinations are to be governed by individual circumstances and specific conditions as determined by the Board. The Board shall pay the expense of the examinations it requires. The Board may terminate a disability retirement upon evidence that the member is no longer disabled.

An employee who believes they may be eligible for disability retirement should contact the Pension Management Office, 268-4544, to obtain application forms and information regarding required documentation of the disability claim.

REDUCTION OR TERMINATION OF RETIREMENT BENEFITS

Disability Retiree with Outside Employment

A disability retiree employed for compensation other than by the City (see following paragraph), shall have the monthly disability allowance reduced to an amount which, when added to income from gainful occupation, does not exceed the rate of salary currently being paid for the position classification (i.e. salary range and step) similar to that held by the member at commencement of disability retirement.

While under the age of 62, disability retirees are required to annually submit to the Board an authenticated copy of their Federal Income Tax Return (accompanied by related W-2 Forms), reflecting income from gainful employment for the preceding 12-month period. Any disability benefit adjustment shall be based upon such statement of income.

Disability Retiree Re-Entering City Employment

When a disability retiree re-enters City service, the disability retirement benefit shall be immediately cancelled and the employee restored to membership in Plan No. 3 with the same service credit for vesting purposes as when the disability was incurred.

Retiree Re-Entering City Employment

Any retired employee (other than those who may have been elected to the office of City Council), having retired based upon age and length of service, who re-enters the service of the City shall have his retirement benefits immediately suspended, and no payments shall be made during the entire period of such re-employment. Upon termination of such service, payment of the retirement benefit at the previously established rate shall be resumed. Retired employees are not prohibited from serving the City as an advisory, consultant, or independent contractor.

RE-EMPLOYMENT

All former employees re-entering service on or after January 1, 1994 shall be members of Plan No. 3. Prior defined benefit service credit may be purchased after completing seven (7) years of service by paying the Retirement Fund an amount equal to 4.7% of the salary previously earned plus seven percent (7%) annual interest.

MANDATORY RETIREMENT

There is NO mandatory retirement age under the WERS.

NOMINATION OF BENEFICIARY(IES)

At the time of employment, all employees are required to complete the retirement membership record form designating a specific beneficiary or beneficiaries. IT IS OF THE UTMOST IMPORTANCE that all employees keep their designated beneficiary(ies) current. If

you need to change your beneficiary(ies) due to death, change in marital status, or for any other reason, you should contact Human Resources, 2nd Floor, City Hall, to make this change.

ASSIGNMENT OF BENEFITS QUALIFIED DOMESTIC RELATIONS ORDERS

Except as otherwise provided by law, your interest under the Plan cannot, prior to distribution to you, be sold, assigned, or transferred and is not subject to any debts or claims against you. However, a Qualified Domestic Relations Order (QDRO) arising from a divorce or similar proceeding may affect your received pension benefits.

DEFERRED COMPENSATION PLAN

The Deferred Compensation Plan is a tax-deferred savings program available to active employees. This is an IRC §457 plan allowing pre-tax contributions to grow until funds are withdrawn when employment is terminated, usually at retirement. The investment of individual accounts is employee-directed utilizing investment options available from the Deferred Compensation provider. The annual contribution limits are governed by the Internal Revenue Code. For more information or to enroll, call 268-4551.

SOCIAL SECURITY BENEFITS

If you have questions regarding your benefits under the Social Security Program, you may contact that office at 3216 N. Cypress St, Wichita, KS 67226, 1-800-772-1213.

DISCLAIMER

The information contained in this booklet is intended only as a summary description of the provisions of the Wichita Employees'

Retirement System Plan No. 3. The actual provisions, as set forth in Chapter 2.28 of the City Code, will govern the rights of all system members, their spouses, and minor children. No statement in this booklet is considered a legally binding interpretation, enlargement, or amendment to the provisions contained in Chapter 2.28 of the City Code. Those provisions control all rights to benefits provided for you and your qualified beneficiaries.

NOTES:

NOTES:



Department of Finance

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