Frequently Asked Questions

Kentucky Public Employees' Deferred Compensation Authority

This Frequently Asked Questions (FAQ) document reflects those questions posed most frequently by participants to our Frankfort-based staff and to our representatives in the field. Whether you are considering enrollment in one or both of our Plans, or have been a Deferred Comp Program participant for years, this piece highlights who we are, what we offer, and provides basic answers to the questions you may want to pose or wish you had posed long ago. We trust this FAQ will help you along the way. Keep it in your “Planning for Retirement” file and always feel free to contact us with additional questions or for clarification.

GENERAL

Q: What is Kentucky Deferred Comp?
A: Kentucky Deferred Comp is an agency of Kentucky State Government that offers pre-tax (tax-deferred) and after-tax supplemental retirement plans designed to be additions to your pension. It is State-sponsored, and managed by State Government employees. While we're known as Kentucky Deferred Comp, you may also see references to “The Authority”, KDC, and KPEDCA.

Q: What is a supplemental retirement plan and why is it important?
A: A supplemental retirement plan provides you opportunities to set aside additional retirement assets on a tax-deferred basis. It provides a simple approach to the benefits of long-term investing. You're always in control of how to use Kentucky Deferred Comp to help achieve your goals.

Investing involves risk including possible loss of principal.
The amount of money needed in retirement is different for everyone. But industry professionals say you generally need at least 70–90 percent of your current income to maintain your current standard of living. When you factor in potential health care costs, other financial professionals say you might need more than 125% of your current salary. In any case, it’s important to know the difference between what you’ll have from Social Security, your pension, and personal savings versus what you’ll need in retirement. Contributing to a Kentucky Deferred Comp can help bridge that gap.

Q: What are the types of supplemental retirement plans that I can choose from with Kentucky Deferred Comp?
A: These are the supplemental retirement plan opportunities:

- 457(b) Plan (tax-deferred)
- 401(k) Plan (tax-deferred), including an after-tax Roth 401(k) option, and after-tax Deemed IRAs — both Traditional and Roth IRA options

Note: withdrawals are taxed as ordinary income.

Q: What are the main differences between the 457 Plan and the 401(k) Plan?
A: Each plan has a few distinct features, but the main difference pertains to when you can access your money (called “taking a distribution”). With the 457 Plan, you can take a distribution from your account only when you are separated from service or have an unforeseeable emergency. Benefits must begin by April 1 of the year following the year in which you reach age 70½.* Note: Normal distributions from the 457 plan are tax-penalty free.

With the 401(k), you can only take a distribution without penalty once you have reached age 59½ (working or not), or if you separate from service in the year you attain age 55, or later. Benefits must begin by April 1 following the year in which you reach age 70½.*

* Required Minimum Distributions (RMD)

Q: Do I need to invest in a tax deferred account, or an after-tax account, or both?
A: It depends on your individual circumstances, but you may well need both to achieve a degree of tax diversification. The main point to consider is whether you feel you need the tax advantage now (pre-retirement) or later (in retirement). If you think you’ll be in a lower tax bracket when you retire, you may want to consider tax-deferred plans now. Kentucky Deferred Comp Local Plan Service Representatives can explain the characteristics of each Plan option, so you can make the decision that is right for you.

Just remember that neither Nationwide nor the plan offer tax, legal or investment advice.
CONTRIBUTIONS / DEFERRALS

Q. Will you accept a faxed copy of my signed Participation Agreement?
A. Yes, a faxed copy is perfectly acceptable as long as it is legible. You do not need to mail us the original.

Q: How much should I be deferring into my Kentucky Deferred Comp account?
A: The best answer is to put in as much as you can afford. The more you put in now, the more years there are for those dollars to potentially grow. You may want to consider deferring at least as much as you’re putting into your State or Teacher’s retirement. If you’re not sure what that is, just check your pay stub and see if that figure makes sense to also put into your Deferred Comp account. If not, select a dollar amount of your pay that is reasonable to you. Note: certain employers allow percentage deferrals.

Investing involves risk including possible loss of principal.

Q: What’s the minimum I can defer and are there certain increments I have to use if I want to increase my deferrals?
A: The minimum contribution that can be made is $30 per month, and you can increase dollar amounts by portions of dollars (e.g., you can increase from $30 to $35.50). If your employer allows percentage deferrals, the minimum is 1% of pay, and increases must be made in half or whole percentage points (e.g., from 2% to 4.5%).

Q: Can I switch money from my 401K plan to my 457 plan, or 457 plan to my 401K plan?
A: No. Money that you defer has to stay with the Plan where you initially invest it. That’s the IRS regulation. You can, however, invest future contributions in another Plan or invest simultaneously in both plans.

Q: Does money in the Fixed Contract Fund compound daily, weekly, or monthly?
A: Daily.

Q: How long does it take for the deferral to come out of my paycheck after I enroll?
A: About two weeks. This allows your employer’s payroll system to make the appropriate changes to your payroll information and confirm that information with us. Generally, you’ll see your first reduction on the second paycheck after you enroll.

Q: How soon does Kentucky Deferred Comp invest my money after receiving it?
A: Usually within 2 days after receipt from your employer.

Q. If I change my deferral amount, how soon can I expect the change to show up on my paycheck?
A. Because time must be allowed for us to notify your employer well in advance of the effective date so they can update their payroll system, it takes approximately 4 weeks for a deferral change to impact your paycheck.

Q: What if I wish to stop making deferrals?
A: You may stop your contributions at any time by completing a Participation Agreement and submitting it to the Authority for processing. The entire procedure takes about four (4) weeks. Please be advised that if your account balance is below $5,000 and your account remains inactive for a period of 6 consecutive months, you will be assessed a $6.00 per month inactive low balance fee.

INVESTMENT OPTIONS

Q: What is the best way to allocate my deferrals?
A: First, contact your Local Plan Service Representative. Now, because these reps are licensed through Nationwide Investment Services Corporation (NISC), they can only offer educational information, not investment, tax or legal advice. (You’ll see that disclaimer on all of our materials.) However, they are available to provide you investment information and education so that you understand your options. From there, you make the decision regarding how you want to invest your contributions.

It is important to note that Kentucky Deferred Comp provides you two ways to pick the funds you want in your account. The first is a professionally managed approach where you pick a target date retirement fund that has a name containing the year closest to your anticipated retirement — e.g., a 2020 Retirement Fund. This fund is made up of a variety of underlying funds, and a professional money manager selects these funds for you, monitors them, and periodically rebalances the investment. You make one decision and the rest is done for you.

If you want to select the funds yourself, Kentucky Deferred Comp has two communications pieces that you can walk through on your own or with a representative. The first is the Interactive Guide to Asset Allocation brochure that helps you identify what kind of investor you are — conservative, aggressive, or somewhere in the middle. The second is our Spectrum of Investment Options, a listing of all funds which Kentucky Deferred Comp makes available (including the Target Date Funds mentioned above). These funds are presented according to conservative to aggressive investment approaches.
Q: What if I want to change to different funds, or change the amount I initially put in the funds?
A: You can change your funds, the amount of your deferral, and how you allocate your money at any time. For existing funds, you can generally move on a daily basis from one fund to one or more other funds. However, some fund houses do impose trading restrictions so that inappropriate and illegal “market timing” practices are not permitted — this is when a participant might trade out of a fund, then want to trade back into that same fund within a short period of time. These trading restrictions are detailed on our website.

Q: What exactly is the Fixed Contract Fund?
A: The Fixed Contract Fund is a conservative option designed to carry relatively low risk and produce a relatively stable return. The fund is also supported by book value wrap contracts and is managed by Invesco.

A wrap contract helps to protect the Fund’s principal by offsetting the price fluctuations in the bonds that the Fund covers. They obligate the issuer to maintain the book value (principal plus interest) of the Fund’s fixed income securities and other instruments covered by the contract, up to specified amounts and subject to certain limitations.

Under certain adverse market conditions, and if the conditions in the contract are satisfied, the wrap issuer may be required to make payments to the Fund if the Fund’s assets are insufficient to satisfy (at book value) participant-initiated redemptions. Invesco selects only wrap contract issuers that are rated A or better, and buys only securities that are rated investment grade and above by national rating agencies such as Moody’s or Standard & Poor’s.

The Fixed Contract Fund also contains an Equity Wash provision that specifies that any fixed funds cannot be transferred to the following directly competing income funds:
- Federated Prime Obligations Money Market Fund
- Federated U.S. Government Securities Fund: 2-5 Years

Rather, these dollars must be directed to a non-competing fund in the Plan (e.g., any of the mutual funds) for a period of 90 days before they can be moved to the directly competing funds noted above.

Note: Neither the Fund’s investment contracts nor the underlying bonds are guaranteed by the U.S. Government, Kentucky Deferred Comp, or Invesco (the Fund’s discretionary manager).

Q: If I go on line and move money from one fund to another, will that change take place immediately?
A: Exchanges of money from one fund to another take place at close of the market (4:00 p.m. Eastern Time Monday – Friday), provided the market is open. All exchanges must be finalized (entered) prior to 4:00 in order for the money to move that day. Exchanges made after that time will be effective at close of business on the next business day the market is open.

Q: What is dollar cost averaging?
A: This is when you buy shares of funds at regular intervals with a fixed dollar amount. Under this system, you periodically purchase a fixed dollar amount of a security rather than a fixed number of shares. If each investment contains the same number of dollars, payments buy more shares when the price is low and fewer when it rises. Over time, dollar cost averaging generally results in a lower average share cost than the average share price of the mutual fund during the same period.

Investment strategies such as dollar cost averaging do not assure a profit or protect against loss in a declining market.

QUARTERLY STATEMENTS

Q: Where can I get a copy of my statement?
A: Simply go to www.kentuckydcp.com and log into your account information page. Then click on “Statements” along the left side of the page. You can view and/or print key statement information beginning with the 1st quarter of 2006.

Q: What should I do if I find an error on my statement?
A: If you believe there is an error on your statement, you should contact the Authority office no later than 45 days following the closing date of the statement. After that time, all statements are final.

OTHER

Q: Who are the Local Plan Service Representatives?
A: Kentucky Deferred Comp contracts with Nationwide Retirement Solutions (NRS) to provide record-keeping, administrative, marketing and communications services. The Local Plan Service Representatives are employees of NRS and provide our educational services to participants across the Commonwealth. More than a dozen properly licensed representatives are assigned to various regions in Kentucky and the Frankfort office. They can speak with you at any time, make periodic visits to your worksite, and assist you in other ways.

Q: Does having a deferred compensation account affect my Social Security benefits?
A: No. However, if you have questions about your Social Security benefits, call 1.800.772.1213.
Q: Are there ways to obtain money from my account before I retire?
A: Yes, a loan provision is available through both the 457 and 401(k) Plans, a hardship provision is available through the 401(k), and an unforeseen emergency provision is available through the 457 Plan. Distributions from the 401(k) Plan are also available when you attain age 59½, and from both Plans at age 70½. For details, call our Customer Service Center at 1.800.542.2667.

Q: Is there a disadvantage in taking a hardship or unforeseen emergency withdrawal, or taking a loan?
A: The key disadvantage is the loss of earning power on the money you are putting away for longer-term needs. Whether or not you take an unforeseen emergency, hardship withdrawal, or a loan, the bottom line is the money you withdrew from your Deferred Comp account isn’t working for you anymore. Remember, the time this money is not in the market could work against you in the long run.

Terms and conditions for taking an unforeseen emergency or hardship withdrawal vary; please call our office to discuss your options. If you take a loan, you are required to pay yourself back with interest. The longer your contributions are out of your account the less time they have to work for you.

Q: Who receives my deferred compensation benefits when I die?
A: You designate a beneficiary by completing and submitting a Beneficiary Designation Form when you enroll. Review it periodically to make sure it is as you want it to be. If you do not designate a beneficiary, payment is made according to the Plan Document.

Q: What’s the best way to get account information?
A: A variety of options are available to you. You choose the one(s) that best suit your information needs and learning style:

1) Call your Local Plan Service Representative — he/she can pull up your account and have a phone conversation with you and/or schedule an appointment.

2) Go online at www.kentuckydcp.com to access your account. You’ll need to set up a UserID and password*, and enter an email address. After that, you can access your account at any time, make changes like transfers of funds and allocation (deferral) changes.

*You can establish a password by going to our home page and clicking on “New User” located in the secure log-in box. Follow the instructions to establish a password. When you are ready to log in, you will use your Social Security number (no spaces or dashes) for the username and establish your password.

Q: Is there a place on the website to view dividends that have been paid to my account?
A: Detailed information regarding your account such as dividends, deposits, exchanges and fees can be viewed on the Transaction History screen. This is accessed by scrolling down along the left side of your account information page and clicking on “Transaction History.” A link is also provided so you may download these transactions directly to Quicken or Money.

Q: What happens to my account when I retire?
A: You do not have to move your money from Deferred Comp when you retire. While you are not eligible to make further contributions to your account after you leave employment, your money can stay with us. No withdrawals are required until you reach age 70½ when a Required Minimum Distribution (RMD) becomes mandatory (unless suspended by Federal law).

Q: I have an IRA at my local bank; can I roll that into Kentucky Deferred Comp?
A: Yes, actively employed participants can roll an IRA from another financial institution into Kentucky Deferred Comp. Participants who are retired or have terminated employment may also roll in an IRA as long as their account balance with the Authority is at least $5,000. Qualified retirement plans, deferred compensation plans and individual retirement accounts are all different, including fees and when you can access funds. Assets rolled over from your account(s) may be subject to surrender charges, other fees and/or a 10% tax penalty if withdrawn before age 59½. Neither Nationwide nor any of its representatives give legal or tax advice. Please contact your legal or tax advisor for such advice.