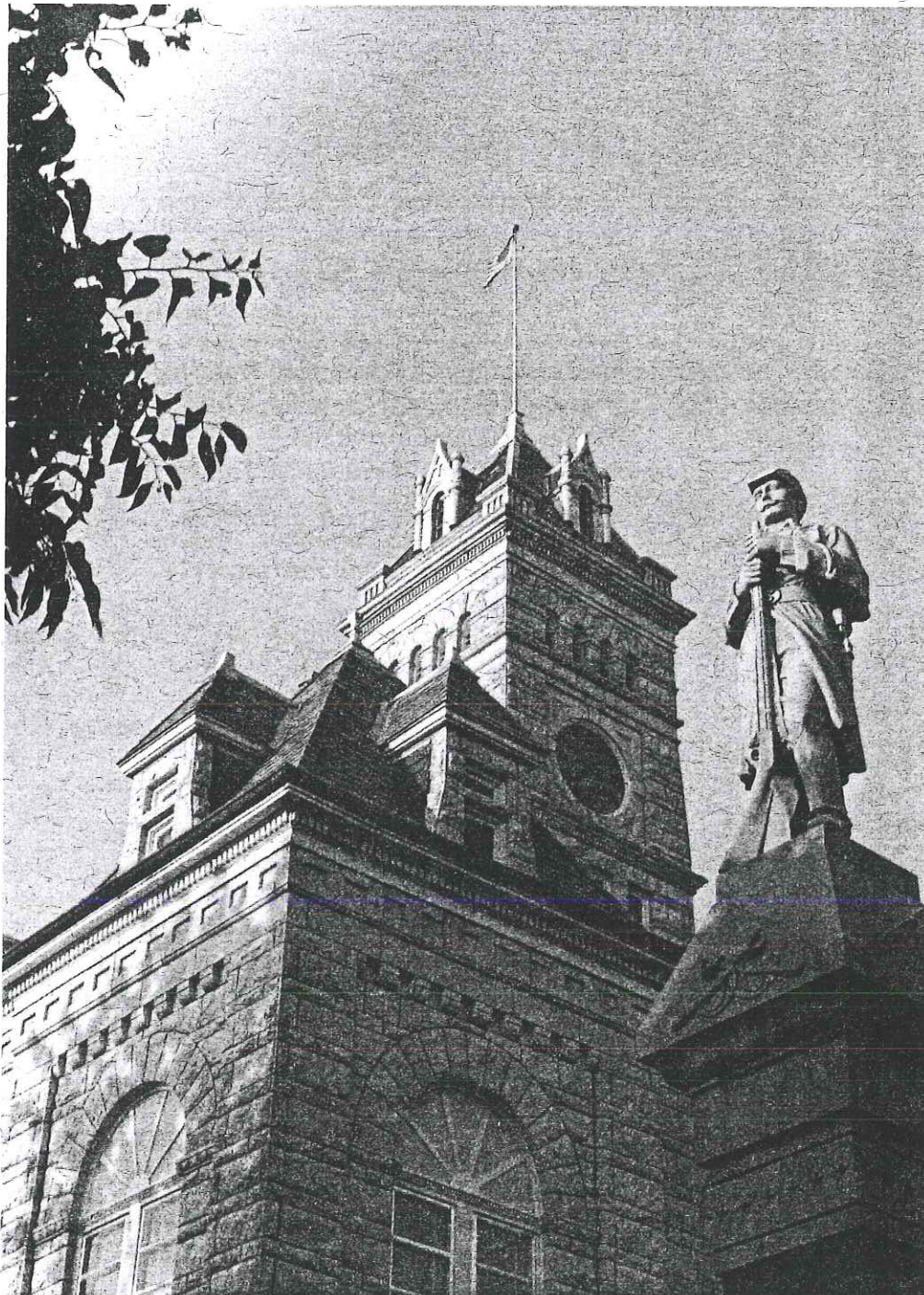


KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

- a component unit of the State of Kansas



Clay County Courthouse, Clay Center

COMPREHENSIVE ANNUAL FINANCIAL REPORT Fiscal Year Ended June 30, 1995

- Prepared by the Staff of the Retirement System

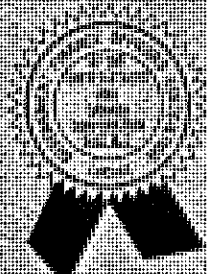
Certificate of Achievement for Excellence in Financial Reporting

Presented to

Kansas Public Employees Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 1994

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to governmental units of public employees retirement systems whose financial statements and financial reports (CAFR) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in black ink, likely belonging to the President of the Government Finance Officers Association of the United States and Canada.

A handwritten signature in black ink, reading "Jeffrey L. Eselle". Below the signature is the text "Executive Director" in a smaller font.

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Logan County courthouse	Inside Cover

The Board of Trustees of the Kansas Public Employees Retirement System is a nine-member Board; four members are appointed by the Governor, two are appointed by legislative leaders, two are elected by Retirement System members, and one is the elected State Treasurer. Those currently serving on the Board are:

Jarold Boettcher, Beloit — Chair
(appointed by Governor Bill Graves)

Michael L. Johnston, Wichita — Vice-Chair
(appointed by former Governor Joan Finney)

Vern R. Chesbro, Ottawa
(appointed by former Governor Joan Finney)

Ivan Crossland, Jr., Columbus
(appointed by the Speaker of the House)

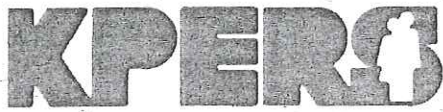
Les Meredith, Overland Park
(appointed by the President of the Senate)

Stuart Murdock, Leawood
(appointed by Governor Bill Graves)

Kathy Stover, Topeka
(elected by non-school Retirement
System members)

Sally Thompson, Topeka
(State Treasurer - Board member by statute)

Marjorie Lee Webb, Shawnee Mission
(elected by school Retirement
System members)



Kansas Public Employees Retirement System

November 7, 1995

Members
Kansas Public Employees Retirement System

Dear Members:

I am pleased to submit, on behalf of your Board of Trustees and Staff, the 1995 Annual Report of the Kansas Public Employees Retirement System. The annual report covers the operations of the Retirement System for the fiscal year ended June 30, 1995. The System's fiscal year 1995 operating results and financial position are presented in conformity with generally accepted accounting principles.

To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and result of operations of the Retirement System. Responsibility for both the accuracy of the data, as well as the completeness and fairness of the presentation, including all disclosures, rests with the management of the System. The 1995 annual report was prepared through the combined efforts of the Retirement System's staff members.

The 1995 annual report consists of five sections. The first two sections are the introductory section, which includes this letter; and a financial section, including the Statement of Plan Net Assets as of June 30, 1995. An annual audit of the Retirement System was conducted by the independent certified public accounting firm Berberich Trahan & Co., P.A. The firm's report on the Retirement System's financial statements is included in the financial section.

The third section of the annual report is the investment section, providing details of the performance of the Retirement System's investment portfolio during fiscal year 1995. The fourth and fifth sections of the annual report are the actuarial section, which describes the funding basis, actuarial assumptions, contributions, and funded ratios of the Retirement System; and the statistical section, which provides tables and several graphics concerning membership, benefits, and other statistical data.

The Kansas Public Employees Retirement System, serving the needs of virtually all Kansas public servants, is an umbrella organization for three pension groups: the Kansas Public Employees Retirement System (KPERS), the Kansas Police & Firemen's Retirement System (KP&F), and the Kansas Retirement System for Judges (Judges). All three systems are part of a defined benefit, contributory plan. The Kansas Retirement System for Judges is a single employer group, while the other two are multi-employer, cost-sharing groups.

At June 30, 1995, the collective membership of the three systems was 195,376. The membership included nearly 137,000 active members, approximately 13,500 former public servants, and 45,304 retired public servants and beneficiaries. During this fiscal year the focus of the Retirement System has been on continued improvement in our ability to deliver services to our members and their beneficiaries in a timely, accurate, and cost effective manner.

Twenty-two new public employers joined the Retirement System, and by the end of fiscal year 1995, there were a total of 1,309 public employers in the Retirement System. All of the State's 105 counties are included in the roster of participating employers. Kansas counties have a significant impact on the citizens of Kansas. This year's annual report focuses on Kansas counties by featuring several of Kansas's older county courthouses, their architectural styles and histories, and several county staff members who contribute to the well-being of their counties and the State.

The economy in Kansas generally strengthened in fiscal year 1995, with total job growth in Kansas rising 3.2 percent, and non-farm wage and salary employment rising 2.8 percent. Kansas is among the nation's top agricultural states, particularly in wheat and sorghum production. Total Kansas exports of manufactured goods increased 12 percent over the last year, while agricultural exports increased 18 percent for the same period.

Presented in the table below is a synopsis of the Retirement System's financial operations. The complete Statement of Changes in Plan Net Assets is on page 14. The Retirement System had net reserves of \$5.16 billion at June 30, 1994. During the year, active members contributed more than \$159 million to the Retirement System, while employers contributed \$129 million. Investments generated nearly \$925 million in gross income during the fiscal year, including realized gains and losses on publicly traded securities. After subtracting management fees and expenses associated with the investments, fiscal year 1995 Net Investment Income totaled \$906 million. Net investment income plus member and employer contributions resulted in total operating revenues of more than \$1.2 billion.

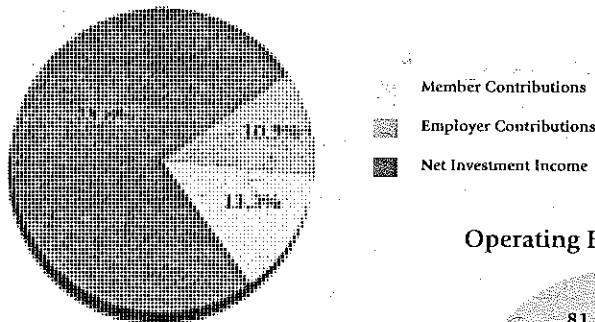
Fiscal Year 1995 Operating Results

Reserves - Balance at July 1, 1994 (as restated)		\$ 5,162,854,894
Additions:		
Contributions		
Member	\$ 159,250,384	
Employer	<u>129,377,236</u>	
Total Contributions		288,627,620
Investment Income		
Gross Investment Income	\$ 924,950,002	
Less:		
Manager - Custodian Fees, Expenses	<u>(18,718,957)</u>	
Net Investment Income		906,231,045
Transfer of Assets from Kansas City School Retirement Fund		6,047,503
Other Miscellaneous Income		<u>533,638</u>
Total Additions		<u>1,201,439,806</u>
Deductions:		
Monthly Retirement Benefits Paid	327,182,200	
Refunds of Contributions to Members	26,542,254	
Death Benefits	6,742,192	
Insurance Premiums and Benefits	35,873,212	
Administrative Expenses	<u>4,312,658</u>	
Total Deductions		<u>400,652,516</u>
Revenue in Excess of Expenses		800,787,290
Reserves - Balance at June 30, 1995		<u>\$ 5,963,642,184</u>

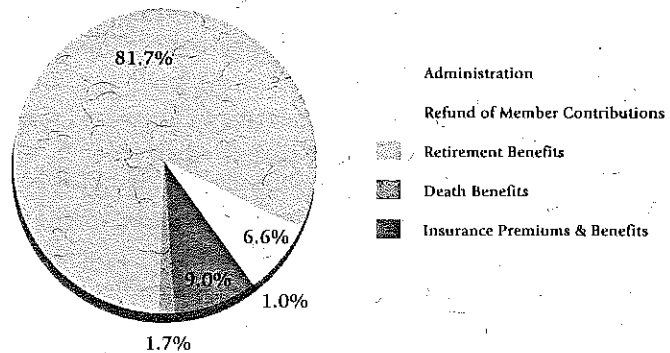
The expenses of the Retirement System totaled \$401 million in fiscal year 1995. Included were \$327 million in monthly benefits to retired members, \$27 million paid to members who withdrew their contributions, more than \$6 million in death benefits, and over \$35 million in insurance premiums and benefits. The cost of maintaining the Retirement System's administrative operations totaled approximately \$4.3 million.

Total revenues exceeded expenses by more than \$800 million during the year, thereby increasing the System's net reserves to almost \$6 billion at June 30, 1995. These reserves represent the funds available to pay for current and future members' benefits. The following graphics depict the operating expenses and revenues of the Retirement System.

Operating Revenues



Operating Expenses



The Retirement System's investment performance for fiscal year 1995 is shown in the following table. The time-weighted rate of return, which includes income and changes in investment value, was 17.6 percent at June 30, 1995. The Retirement System maintains a diverse investment portfolio, as described in the Investment Asset Allocation summary on page 44.

Investment Performance Past Five Years

Fiscal Year	Time-Weighted Rate of Return	Consumer Price Index
1995	17.6%	3.0%
1994	2.3%	2.5%
1993	14.7%	3.0%
1992	12.8%	3.1%
1991	0.3%	4.5%

Time weighted return includes income and changes in market value. These performance results were calculated by Thomson Investment Software. For the period before fiscal year 1992, Thomson's calculations are based on information provided by Callan Associates, for all asset classes except alternative investments. Values used for non-publicly traded securities reflect adjusted cost basis. Values used for real estate investments before June 30, 1992, reflect adjusted cost. The real estate values on and after June 30, 1992, reflect appraised values.

The Retirement System remains financially secure. One indication of a pension fund's strength is the funding status of its actuarial accrued liability. At June 30, 1995, assets available for retirement benefits were 79 percent of the total actuarial accrued liability, as computed by the System's actuary, Milliman & Robertson, Inc. This is an increase from the June 30, 1994 level, which was 77 percent. The Retirement System's unfunded actuarial liability decreased two percent to \$1.48 billion at June 30, 1995. Current Kansas law provides that this unfunded actuarial liability will be amortized over a forty-year period from July 1, 1993. Progress in reducing the unfunded actuarial liability will be accomplished over time by the System's investment performance and the receipt of adequate levels of contributions. To that end, 1995 legislation increased the cap on annual increases in employer contribution rates.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Kansas Public Employees Retirement System, for the comprehensive annual financial report for the fiscal year ended June 30, 1994. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which conform to program standards. The comprehensive annual financial report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we will be submitting this annual report to the GFOA for its consideration.

The Board of Trustees and its staff have as their highest priority delivering essential services to Kansas public servants and public employers. The Retirement System is committed to the concepts of fiduciary responsibility, prompt and courteous member service, and the complete, accurate and timely reporting of performance results. Your questions, comments, and concerns are essential and always welcome. We appreciate the opportunity to serve you.

Sincerely,



Meredith Williams
Executive Secretary



Berberich Trahan & Co., P.A.

Certified Public Accountants

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Topeka, KS 66612-1268

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Telecopier 913 233 1768

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Kansas Public Employees Retirement System

We have audited the accompanying statement of plan net assets of the Kansas Public Employees Retirement System as of June 30, 1995, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit in accordance with these standards includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Kansas Public Employees Retirement System as of June 30, 1995, and the changes in plan net assets for the year then ended, in conformity with generally accepted accounting principles.

As discussed in Note 2 to the financial statements, in 1995 the System adopted Statement No. 25 of the Governmental Accounting Standards Board, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans."

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedules of employee contributions and funding progress, included on pages 26 and 27, are supplemental disclosures under Governmental Accounting Standards Board Statement No. 25, and are not a required part of the financial statements. The supplementary information included on pages 28 through 33 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information for the years ended June 30, 1992 through 1995, has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole. The supplementary information for each of the years ending June 30, 1986 through 1991 were subjected to auditing procedures by other auditors whose reports stated that such information was fairly stated in all material respects when considered in relation to the financial statements taken as a whole.

October 30, 1995

Berberich Trahan & Co., P.A.





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Kansas Public Employees Retirement System Statement of Plan Net Assets as of June 30, 1995 With Comparative Figures for 1994

	1995 Total	1994 Total
Assets		
Cash and Deposits		
Cash	\$ 648,600	\$ 731,435
Advances to Custodial Bank	1,100,000	—
Deposits with Insurance Carrier	2,808,045	1,201,162
Total Cash and Deposits	4,556,645	1,932,597
Receivables		
Contributions	30,950,902	26,180,195
Investment Income	40,795,099	34,930,729
Sale of Investment Securities	1,066,568,287	513,004,417
Total receivables	1,138,314,288	574,115,341
Investments at Fair Value		
Domestic Equities	2,264,559,034	1,787,852,122
Domestic Fixed Income	1,783,453,334	1,814,363,773
Cash and Equivalents	91,504,276	70,048,684
International Fixed	526,707,006	248,275,845
International Equities	840,259,783	818,955,144
Alternative Investments	110,905,184	112,094,828
Real Estate	308,641,746	335,873,833
Total Investments	5,926,030,363	5,187,464,229
Fixed Assets and Supplies Inventory	513,681	491,515
Total assets	7,069,414,977	5,764,003,682
Liabilities		
Administrative Costs	413,131	344,281
Benefits Payable	498,707	1,012,785
Securities Purchased	1,104,860,955	599,791,722
Total Liabilities	1,105,772,793	601,148,788
Net assets held in trust for pension benefits (A schedule of funding progress for the plan is presented on page 27.)	\$ 5,963,642,184	\$ 5,162,854,894

The accompanying notes to the financial statements are an integral part of this statement.

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

**Kansas Public Employees Retirement System
Statement of Changes in Plan Net Assets
For the Fiscal Year Ended June 30, 1995
With Comparative Figures for 1994**

Description	1995 TOTALS	1994 TOTALS
Additions		
Contributions		
Member Contributions	\$ 159,250,384	\$ 149,049,696
Employer Contributions	129,377,236	117,581,813
Total Contributions	<u>288,627,620</u>	<u>266,631,509</u>
Investments		
Net Appreciation (Depreciation) in Fair Value of Investments	682,457,926	(117,217,972)
Interest	165,116,405	168,407,657
Dividends	52,831,253	46,054,017
Real Estate Income, Net of Operating Expenses	22,656,495	30,613,744
Other Investment Income	1,887,923	3,685,091
	<u>924,950,002</u>	<u>131,542,537</u>
Less Investment Expense	(18,718,957)	(16,907,843)
Net Investment Income	<u>906,231,045</u>	<u>114,634,694</u>
Other Miscellaneous Income	<u>533,638</u>	<u>525,570</u>
Transfer of Assets from Kansas City School Retirement Fund	<u>6,047,503</u>	<u> </u>
Total Additions	<u>1,201,439,806</u>	<u>381,791,773</u>
Deductions		
Monthly Retirement Benefits Paid	(327,182,200)	(285,029,638)
Refunds of Contributions to Members	(26,542,254)	(22,900,621)
Death Benefits	(6,742,192)	(7,345,897)
Insurance Premiums and Benefits	(35,873,212)	(33,129,180)
Administrative Expenses	(4,312,658)	(3,596,637)
Total Deductions	<u>(400,652,516)</u>	<u>(352,001,973)</u>
Net Increase	<u>800,787,290</u>	<u>29,789,800</u>
Net Assets held in trust for Pension Benefits		
Balance Beginning of Year (as restated)	5,162,854,894	5,133,065,094
Balance End of Year	<u>\$ 5,963,642,184</u>	<u>\$ 5,162,854,894</u>

The accompanying notes to the financial statements are an integral part of this statement.

1995 ANNUAL REPORT

**FISCAL YEAR 1995 NOTES TO
FINANCIAL STATEMENTS**

NOTE 1: Plan Description

A. Plan Membership


The Kansas Public Employees Retirement System (the Retirement System or, the System) is a body corporate and an instrumentality of the State of Kansas. The Retirement System is an umbrella organization administering the following three statewide retirement systems under one plan, as provided by K.S.A. 74, article 49: the Kansas Public Employees Retirement System (KPERS), the Kansas Police and Firemen's Retirement System (KP&F), and the Kansas Retirement System for Judges (Judges). All three systems are part of a defined benefit, contributory plan that covers substantially all public employees in Kansas. The Kansas Retirement System for Judges is a single employer group, while the other two are cost sharing, multi-employer groups. Participation by the State of Kansas is mandatory, whereas participation by local political subdivisions is optional but irrevocable if elected. Participating employers and retirement system membership are as follows:

Number of Participating Employers

	KPERS	KP&F	Judges
State of Kansas	1	1	1
Counties	105	16	—
Cities	335	38	—
Townships	45	—	—
School Districts	307	—	—
Libraries	101	—	—
Conservation Districts	80	—	—
Extension Councils	71	—	—
Community Colleges	47	—	—
Recreation Commissions	32	—	—
Hospitals	29	—	—
Cemetery Districts	13	—	—
Other	87	—	—
	<u>1,253</u>	<u>55</u>	<u>1</u>

Membership by Retirement Systems

	KPERS	KP&F	Judges	Total
Retirees and beneficiaries currently receiving benefits	42,850	2,335	119	45,304
Terminated employees entitled to benefits but not yet receiving them	5,784	40	8	5,832
Inactive members not entitled to benefits	7,377	148	5	7,530
Current employees	<u>130,763</u>	<u>5,712</u>	<u>235</u>	<u>136,710</u>
Total	<u>186,774</u>	<u>8,235</u>	<u>367</u>	<u>195,376</u>



KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

KPERS members' benefits vest with ten years of credited service. KP&F members' benefits vest with 20 years of credited service for Tier I, and 15 years of credited service for Tier II. Normally ten years of credited service is required for Retirement System for Judges members to become vested.

B. Plan Benefits


Members (except KP&F members) with 10 or more years of credited service may retire as early as age 55 (KP&F members may be age 50 with 20 years) with an actuarially reduced monthly benefit. Normal retirement is at age 65, age 62 with 10 years of credited service, or whenever a member's combined age and years of credited service equal 85 "points" (KP&F members' normal retirement ages are at age 60 with 15 years of credited service, age 55 with 20 years, or age 50 with 25 years). Monthly retirement benefits are based on a statutory formula that includes final average salary and years of service. Upon termination of employment a member may elect to withdraw accumulated employee contributions, including interest credited to the member's account. A member who withdraws contributions forfeits all rights and privileges accrued during membership. Members choose one of seven options to receive their monthly retirement benefits. Benefit increases, including ad hoc post-retirement benefit increases, must be approved and passed into law by the Kansas legislature. Benefit increases are under the authority of the legislature and the governor of the State of Kansas.

All active members (except KP&F members) are covered by the group life insurance contract. The life insurance benefit is 150 percent of the annual rate of compensation at the time of death. Generally, in cases of death (KPERS members) as a result of an on-the-job accident, there is a \$50,000 lump sum benefit and a monthly benefit payable to a surviving spouse, minor children, or dependent parents (in this order of preference). Statutory service-connected accidental death benefits are in addition to any life insurance benefit payable to the designated beneficiary(ies). There is a \$4,000 death benefit payable, to the designated beneficiary(ies) upon the death of a retired member, under any of the three systems.

Active members (except KP&F and Judges members) are also covered by the provisions of the disability income benefit contract. Annual disability income benefits are based upon two-thirds of the annual rate of compensation at the time of disability, less primary social security benefits, one-half of worker's compensation, and any other employment-related disability benefits, with a minimum monthly benefit of \$100. There is a waiting period of 180 continuous days from the date of disability before benefits can be paid. During the period of approved disability, the member continues to have group life insurance coverage and to accrue participating service credit.

C. Contributions

Member contributions (from four percent to seven percent of compensation), employer contributions and net investment income fund the reserves of the Retirement System. Member contribution rates are established by state law, and are paid by the employer according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates be determined annually based on the results of an annual actuarial valuation. All of the retirement systems are funded on an actuarial reserve basis (see Note 3). For fiscal years beginning in 1995,



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State of Kansas legislation placed statutory limitations on annual increases in the contribution rates for KPERS employers of 0.1% of payroll over the prior year. During the 1995 legislative session, the statutory limits were increased to 0.2% of payroll over the prior year for fiscal years beginning in 1996 for state and school employers. The statutory increase for local units of government was amended to increases no greater than 0.15% over the prior year for calendar years beginning in 1997. Annual increases in the employer contribution rates related to subsequent benefit enhancements are not subject to these limitations. The amortization period for the unfunded liability of all three systems is 40 years from July 1, 1993. Employer contributions for group life insurance and long-term disability income benefits are set by statute at 0.6% of covered payroll for KPERS and 0.4% for Judges.

NOTE 2: Summary of Significant Accounting Principles

A. Reporting Entity

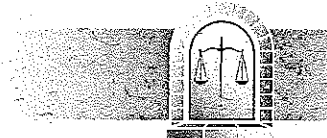
The Kansas Public Employees Retirement System is a component unit of the reporting entity of the State of Kansas. A nine-member board of trustees administers the Retirement System: four trustees are appointed by the governor, two by the legislative leadership, two are elected by Retirement System members, and one is the State Treasurer. The Board of Trustees appoints the executive secretary, who is the Retirement System's managing officer.

B. Basis of Accounting

The financial statements of the Retirement System are prepared on the accrual basis in accordance with Generally Accepted Accounting Principles (GAAP). Plan member and employer contributions are recognized in the period which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

C. Method Used to Value Investments

Investments are reported at fair value. Securities traded on a national or international securities exchange are valued at the last reported sales price at current exchange rates. The fair value of real estate investments is based on independent appraisals. Investments that are not publicly traded are reported at estimated fair value.



KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

D. Change in Accounting Principle

During 1995, the Retirement System elected an early adoption of the provisions of GASB No. 25, "Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans." The provisions of this statement require restatement of prior year balances for the effect of changing from reporting certain investments at amortized cost to reporting investments at fair value. The effect of the change in accounting principle on the beginning net assets held in trust for pension benefits for the System as previously reported was an increase of \$162,846,652.

E. Cash and Deposits

Cash deposits of the Retirement System at June 30, 1995, of \$648,600, are maintained by the State Treasurer of Kansas. Deposits were fully secured, as required by statute, through a combination of FDIC insurance and collateral, which is held either by the State Treasurer or in joint custody by approved Kansas banks, the Federal Reserve Bank, or the Federal Home Loan Bank of Topeka. Advances to Custodial Bank are a result of timing differences between voucher preparation and wire transfer. The Retirement System's deposits with its insurance carrier represent a disbursement account used by the insurance company to pay disability claims to eligible members under a self-insured plan. These deposits were uncollateralized and were \$2,808,045 at June 30, 1995.

F. Investments

Investments and the investment process are governed by K.S.A. 74-4921. The Board of Trustees maintains a formal Statement of Investment Policy, which addresses the governing provisions of the law, as well as specifying additional guidelines for the investment process.

Statutory authority for the investment program of the Kansas Public Employees Retirement System is provided for in K.S.A. 74-4901, et. seq., effective July 1, 1993. The Retirement Act addresses the following areas:

- Establishes the structure of the Board of Trustees, defines the responsibilities of the Board and imposes the prudent expert standard upon their actions with respect to managing the assets of the Retirement System.
- Requires that the assets be invested to preserve capital and solely to provide benefits to members and the members' beneficiaries.
- Limits the possible allocation of common stock to 60 percent of the total book value of the fund. Restricts the fund from investment in the common stock of banks, savings and loans, and credit unions.
- Limits the allocation of private placements and other alternative (non-publicly traded) investments to five percent (5%) of the total investment assets of the fund, but does not require the sale of such investments held unless the sale is in the best interests of members.
- Establishes limits on the structure of future investments in real estate or alternative investments.



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- Requires that the Board develop investment policies and objectives for the investment and reinvestment of the assets of the fund.
- Authorizes the Board to hire qualified professionals/firms to assist in the investing of the fund and to require that such professionals/firms obtain errors and omissions insurance coverage and fidelity bond insurance coverage.
- Authorizes the Board to pay for the services of retained professionals/firms at the rates fixed by the Board, excluding any reimbursement for expenses and subject to the provisions of the appropriations acts.
- Provides for an annual audit and requires that the Board examine the investment program, specific investments, and its policies and practices annually.

At June 30, 1995, the Retirement System did not have investments (other than those issued by the U.S. government) in any one organization representing 5% or more of the System's assets.

The Retirement System's permissible investment categories include equities, fixed income securities, cash equivalents, real estate, derivative products, and alternative investments. In fulfilling its responsibilities, the Board of Trustees has contracted with 22 investment management firms and a master global custodian located in Medford, Massachusetts.

Presently the Retirement System has investments in the financial futures market. Futures contracts are contracts for delayed delivery or receipt of securities in which the seller agrees to make delivery or the buyer agrees to take delivery at a specified future date, of a specified instrument, at a specified price. Market risk arises due to market price and interest fluctuations that may result in a decrease in the market value of futures contracts. Futures contracts are traded on organized exchanges and require initial margin in the form of cash or marketable securities. Daily, the net change in the futures contract value is settled in cash with the exchanges. Holders of futures contracts look to the exchange for performance under the contract. Accordingly, the credit risk due to nonperformance of counterparties to futures contracts is minimal. At June 30, 1995, the Retirement System had purchased Treasury note and Treasury bond future contracts with a market value of \$134,238,687. Margin deposits in the form of U.S. Treasury Notes totalling \$4,011,911 were held by the Retirement System as of June 30, 1995. Cash equivalents and short-term investments in amounts necessary to settle the futures contracts were held in the portfolio so that no leverage was employed, in accordance with the Statement of Investment Policy.

The Retirement System currently participates in a securities lending program administered by its master global custodian, Mellon Trust. The System receives income from the loan of the securities, in addition to the income which accrues to the System as owner of the securities. The borrower collateralizes the loan with either cash or government securities of 102 percent of market value on domestic securities, and 105 percent of market value on international securities loaned. The custodian



KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

provides for full indemnification to the Retirement System for any losses that might occur in the event of borrower default. Daily, the securities on loan are marked to market to ensure the adequacy of the collateral. Net income produced from securities lending activities for fiscal year 1995 was \$1,624,326. The market value of securities on loan as of June 30, 1995 was \$487,492,388.

The Retirement System's international investment managers utilize forward contracts in order to hedge the exposure of the international investments to fluctuations in foreign currency. Active international investment managers use forward contracts to enhance returns and/or to control volatility. The Retirement System also contracts with a currency overlay manager to manage the currency exposure to the System's passive international equity portfolio. Currency risk arises due to foreign exchange rate fluctuations. Forward foreign exchange contracts are negotiated between two counterparties. The Retirement System could incur a loss if its counterparties failed to perform pursuant to terms of their contractual obligations. Controls are established by the investment managers to monitor the creditworthiness of the counterparties.

All forward foreign currency contracts are carried at market value by the Retirement System. As of June 30, 1995, the System had sold forward currency contracts with a market value of \$1,046,377,951 and had bought forward currency contracts with a market value of \$1,053,073,201. Purchases of forward currency contracts are liabilities reported as Securities Purchased, and sales of forward currency contracts are receivables reported as Sale of Investment Securities.

The Retirement System also participates in option contracts. These contractual agreements give the purchaser the right, but not the obligation, to purchase or sell a financial instrument at a specified price within a specified time. At June 30, 1995, the Retirement System had received a premium as the writer of an option, which is reflected as a liability on the Statement of Plan Net Assets.

The Retirement System's investments are categorized by asset classes to give an indication of the level of risk assumed as of year-end. The categories are as follows:

- 1) Insured or registered and held by the System's custodial bank in the System's name.
- 2) Uninsured and unregistered and held by the counterparty's trust department or agent in the System's name.
- 3) Uninsured and unregistered and held by brokers or dealers not in the System's name.

All Retirement System investments that can be categorized within these guidelines meet the criteria of category 1. A security, for purposes of classification in the above categories, is a transferable financial instrument that evidences ownership or creditor status. "Securities" do not include investments made with another party, real estate or direct investments in mortgages. Investments in



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mutual funds, limited partnerships, real estate investment trusts, and commingled trust funds also are not considered securities for purposes of credit risk classification. Such investments are shown in the schedule below as "not subject to classification." The schedule distributes by asset class the fair values of investments.

Investments:	Asset Classification			Fair Value
	1	2	3	
Subject to Classification:				
Domestic Equities	\$ 2,119,834,651	—	—	\$ 2,119,834,651
Domestic Fixed Income	1,251,471,082	—	—	1,251,471,082
Cash Equivalents (1)	91,437,770	—	—	91,437,770
International Fixed	526,707,006	—	—	526,707,006
International Equities	840,259,783	—	—	840,259,783
Total Subject to Classification	<u>\$ 4,829,710,292</u>	<u>—</u>	<u>—</u>	<u>\$ 4,829,710,292</u>
Not Subject to Classification				
Alternative Investments				110,905,184
Real Estate				308,641,746
Mutual Funds				
Cash Equivalents				66,506
Domestic Equities				144,724,383
Domestic Fixed				531,982,252
Total Not Subject to Classification				<u>1,096,320,071</u>
Total Investments				<u>\$ 5,926,030,363</u>

(1) Foreign currencies and fixed securities maturing within 90 days of purchase date.

G. Fixed Assets and Supplies Inventory

Furniture, fixtures, and equipment are reported on the balance sheet at historical cost, net of accumulated depreciation. These assets are depreciated on a straight line basis over an average useful life of three to ten years with no salvage value. Accumulated depreciation on furniture, fixtures, and equipment as of June 30, 1995, was \$1,613,362. Office supplies inventory in the amount of \$11,908 are included, assuming the first-in, first-out method.



KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

H. Compensated Accrued Absences

Expenses for accumulated vacation and sick leave earned by Retirement System personnel are recorded when earned by the employee. In the event of termination of employment with the State of Kansas, an employee is compensated for vacation benefits accrued in varying amounts ranging from one to 30 days. Compensation for accumulated sick leave requires three conditions to occur: (1) accumulation of 800 hours; (2) minimum of eight years of service; and (3) termination with the State of Kansas on or after attainment of retirement age. If all conditions are met, the employee will be compensated in accordance with applicable personnel regulations. The minimum amount of sick leave to be compensated is 30 days, maximum amount is 60 days.

I. Reserves

K.S.A. 74-4922 defines the title and use of the required reserves of the Retirement System. The composition of the reserves, credits to the reserves and charges to the reserves are also specified in K.S.A. 74-4922. The law governing the Retirement System requires the actuary to make an annual valuation of the Retirement System's liabilities and reserves, to make a determination of the contributions required to discharge the Retirement System's liabilities, and to recommend to the Board of Trustees employer contribution rates required to maintain the System on an actuarial reserve basis. The various reserves are:

The Member's Accumulated Contribution Reserve represents the accumulation of member contributions plus interest credited to individual members' accounts of non-retired members. At the date of retirement the individual member's account is transferred to the Retirement Benefit Payment Reserve. Upon termination of employment and application for withdrawal, refunds of employee contributions plus accumulated interest are charged to this reserve. Interest is credited to member accounts on June 30 each year, based on the balance in the account as of the previous December 31. The interest crediting rate, defined by statute as the actuarial interest assumption rate, was eight percent (8%) for fiscal years 1995 and 1994, for those who first begin public service careers prior to June 30, 1993. For those who first begin public service careers after June 30, 1993, interest on employee contributions will be credited at the rate of four percent (4%) per year. The balance at June 30, 1995, was \$1,958,992,138.

The Retirement Benefit Accumulation Reserve represents the accumulation of employer contributions, net investment income not credited to any other reserve, and the actuarially computed prior service liability not yet funded. The balance at June 30, 1995 was \$2,667,789,704.

The Retirement Benefit Payment Reserve represents the actuarially computed present value of future benefits for retired members plus interest credited for the current fiscal year based upon information as of the preceding January 1. The balance at June 30, 1995 was \$2,667,590,482.

The Group Insurance Reserve represents employer contributions, which pay 100 percent of the cost of group life insurance and long-term disability coverage. Insurance premiums and benefits consist of: (1) claims paid under the insurance contract; and, (2) deposits made by the Retirement System to pay disability benefits to eligible participants. The balance at June 30, 1995 was \$129,698,984.



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The Expense Reserve represents an amount of investment income which is sufficient to maintain a year-end account balance at two times the most recent fiscal year's administrative expense amount. The System's administrative expenses are charged to this reserve. The balance at June 30, 1995 was \$8,625,316.

The Retirant Dividend Payment Reserve represents an amount which approximates the prior year's retirant dividend payment. Retirant dividend payments (the 13th check) are charged to this reserve. The balance at June 30, 1995 was \$11,017,614.

J. Budget

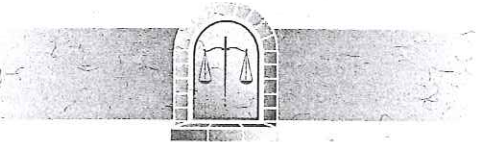
The annual budget of the operations of the Retirement System is developed by the staff and approved by the Board of Trustees. It is sent to the State Budget Division for analysis and policy decisions and is included in the governor's budget message to the legislature. The legislature adopts appropriation and expenditure limitations. When that process is complete, the Retirement System has an approved budget. The budgetary basis for reporting administrative expenditures is on a modified accrual basis and differs from the basis for financial reporting (GAAP basis). A reconciliation of the difference between the GAAP and Budgeted Basis is represented on the Schedule of Administrative Expenses-Budget and Actual, which is shown on page 29.

NOTE 3: Funding Policy

A: Funding

The law governing the Retirement System requires the actuary to make an annual valuation of the System's liabilities and reserves, and a determination of the contributions required to discharge the System's liabilities. The actuary then recommends to the System's Board of Trustees the employer contribution rates required to maintain the Retirement System on the actuarial reserve basis.

Every three years the actuary makes a general investigation of the actuarial experience under the System including mortality, retirement, and employment turnover. The actuary recommends actuarial tables for use in valuations and in calculating actuarial equivalent values based on such investigation. An actuarial experience study was conducted for the three years ending December 31, 1994. As a result of this study, the Board of Trustees adopted new assumptions in regard to salary increases and employee turnover rates.



KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

In fiscal year 1993, the Kansas Legislature passed into law legislation that amended the statutory funding method applicable to the Retirement System. For KPERS, the funding method was changed from the frozen initial liability method to the projected unit credit actuarial cost method, and provided that this method be used to determine KPERS employer contribution rates commencing with the 1993 actuarial valuation, except for Board of Regents plan members (TIAA and equivalents). Under the new method, the unfunded actuarial accrued liability is recalculated each year (rather than being essentially fixed in dollar amount as under the previous method). Actuarial gains and losses resulting from differences between actual and assumed experience are reflected in KPERS' accrued actuarial liabilities, and affect the amount of annual amortization payments required to amortize the unfunded accrued liability over the statutory 40-year period from July 1, 1993. The funding methods used by the Retirement System's actuary for KP&F and Judges systems remained consistent and were the aggregate cost method with supplemental liability and the frozen initial liability method, respectively. The actuary has estimated the change in the unfunded actuarial liability between June 30, 1994 and June 30, 1995, can be attributed to the following (in millions):

Unfunded Actuarial Liability, June 30, 1994	\$ 1,505
Investment gain	(143)
Change in salary assumptions	(198)
Change in other actuarial assumptions/procedures	102
Liability loss from actual experience	72
Effect of contribution cap/time lag	95
Expected increase due to amortization method	47
Unfunded Actuarial Liability, June 30, 1995	<u>\$ 1,480</u>

B. Contributions Required and Contributions Made

The actuarially determined contribution rates are computed as a level percentage of salary by the Retirement System's actuary. The results of 1992 and 1993 actuarial valuations provide the basis for Board certification of employer contribution rates for fiscal years beginning in 1994 and 1995, respectively. The actuarially determined employer contribution rates derived from the actuarial valuations for fiscal years beginning in calendar years 1994 and 1995 are as follows:

KPERS Membership Groups	Calendar Year 1994	Calendar Year 1995
State/School Employees	3.1%	4.1%
Local Employees	2.2	3.0
Certain Correctional Employees	4.0/4.7	4.4/5.2
TIAA Employees	1.7	1.7



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The statutory State/School and Local employer contribution rates were fixed by 1993 legislation as follows: the State/School rate at 3.2% for fiscal year 1994-1995, and the Local rate at 2.2% of payroll for calendar year 1994. As shown in the table on the previous page, the actuarially determined employer rate for Local employers, beginning in calendar year 1995, was 3.0% of covered payroll. However, the Local rate fixed by legislation for calendar year 1995 was only 2.3%, which represents a contribution rate increase of 0.1% of payroll over the prior year, which is the maximum increase allowed, based on statutory limitations (see Note 1C). This statutory cap will impact State/School contribution rates for the fiscal year beginning July 1, 1995. The total contribution rate will be capped at 3.3% versus the actuarially determined rate of 4.1%.

KP&F. The uniform participating service rate for all employers participating in KP&F is 6.8% for fiscal years beginning in 1994 and 6.9% for fiscal years beginning in 1995. Employers participating in KP&F also make contributions to amortize the liability for past service costs, if any, which is determined separately for each participating employer.

Judges. The total actuarially determined employer contribution rate is 8.1% of payroll for the fiscal year beginning in 1994 and 10.3% for the fiscal year beginning in 1995.

The law specifies employee contributions as: Each participating employer, beginning with the first payroll for services performed after the entry date, shall deduct from the compensation of each member four percent (seven percent for KP&F, six percent for Judges) of such member's compensation as employee contributions. All contributions required to be made have been made as follows:

(Expressed in Thousands)

	Employer and Insurance Contributions	Member Contributions (1)	Contributions as a Percent of Covered Payroll
KPERS- State/School	\$ 91,504	\$ 112,150	7.0%
KPERS - Local	14,764	28,703	7.0
KP&F	21,870	13,572	17.6
Judges	1,239	879	13.4
Total	\$ 129,377	\$ 155,304	7.6%

An estimated \$191 million of employer & employee contributions was made to cover normal cost, and an estimated \$71 million was made for the amortization of the unfunded actuarial accrued liability.

(1) Member Contributions do not include Optional Life Insurance contributions of approximately \$4 million.



KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

C. Historical Trend Information

Historical trend information, showing the System's progress in accumulating sufficient assets to pay benefits when due, is presented on this page and on page 27, and is titled "Required Supplemental Information."

NOTE 4: Commitments and Contingencies

As of June 30, 1995, the Retirement System was committed for additional funding, totalling \$12,274,520, in the form of capital calls on existing venture capital investments and capital expenditures on separate account real estate holdings in the portfolio.

The Retirement System is a defendant in legal proceedings and claims arising out of the ordinary course of business. The Retirement System believes that it has adequate legal defenses and that the ultimate outcome of these actions will not have a material adverse effect on the Retirement System's financial position.

The Retirement System has initiated litigation for the recovery of certain funds lost through prior imprudent investment practices. The Retirement System intends to vigorously pursue this litigation. However, the ultimate outcome of the litigation cannot be presently determined. No provision for possible collection of any claims asserted in this litigation has been recorded in the Retirement System's financial statements.

Required Supplemental Information

Schedules of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed
1995	\$ 129,083,585	100.2%
1994	117,581,812	100.0
1993	116,407,549	100.0
1992	118,116,573	94.3
1991	105,291,265	100.0
1990	100,786,386	100.0

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Required Supplemental Information

Schedules of Funding Progress

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
1/1/86	\$ 2,448,146	\$ 2,838,793	\$ 390,647	86%	\$ 2,160,356	18%
1/1/87	2,589,488	2,988,374	398,886	87	2,304,469	17
1/1/88	2,907,977	3,315,153	407,176	88	2,397,321	17
1/1/89	3,026,692	3,463,569	436,877	87	2,440,277	18
1/1/90	3,458,172	3,927,367	469,195	88	2,651,588	18
6/30/91	3,759,523	4,262,148	502,625	88	2,922,444	17
6/30/92	4,101,987	4,634,842	532,855	89	3,051,989	17
6/30/93 (1)	4,492,542	5,460,281	967,739	82	3,265,869	30
6/30/94 (2)	5,041,703	6,546,924	1,505,221	77	3,487,462	43
6/30/95	5,510,957	6,991,029	1,480,072	79	3,766,917	39

- (1) 1993 legislation passed substantial benefit enhancements and changed the actuarial cost method of the KPERS system from the frozen initial liability method to the projected unit cost method. The amortization period was also adjusted to a 40-year period beginning July 1, 1993.
- (2) Asset valuation method was changed from book value to a market-based method.

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

	KPERS System	KP&F System	Judges System
Valuation Date	6/30/95	6/30/95	6/30/95
Actuarial cost method	Projected Unit Credit	Aggregate Cost with Supplemental Liabilities (2)	Frozen Initial Liability
Amortization method	Level Percent closed	Level Percent closed	Level Dollar closed
Remaining amortization period	38 years	38 years	38 years
Asset valuation method	Expected value plus 1/3 of difference between market and expected.	Expected value plus 1/3 of difference between market and expected.	Expected value plus 1/3 of difference between market and expected.
Actuarial assumptions:			
Investment rate of return	8%	8%	8%
Projected salary increases (1)	4.0% - 7.6%	5.2% - 7.6%	5.5%

- (1) Salary increases include an inflation component of 4%.
- (2) The aggregate cost method does not identify or separately amortize unfunded actuarial liabilities, however, a supplemental liability consisting of the additional actuarial liability for benefits provided by 1993 legislation attributable to service rendered before July 1, 1993 is being amortized over a 40-year period beginning July 1, 1993.



KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

Kansas Public Employees Retirement System Schedule of Contributions For the Fiscal Year Ended June 30, 1995

Kansas Public Employees Retirement System

State / School Contributions		
Members	\$ 112,150,178	
Employers	69,447,716	
Insurance	16,709,880	
Total State / School Contributions		\$ 198,307,774
Local Contributions		
Members	28,703,163	
Employers	10,777,615	
Insurance	3,986,621	
Total Local Contributions		43,467,399
State Contributions - KPERS TIAA		
Employers	3,223,092	
Insurance	2,123,413	
Total TIAA Contributions		5,346,505
Total Contributions - Kansas Public Employees Retirement System		\$ 247,121,678
Kansas Police and Firemen's System		
State Contributions		
Members	1,437,215	
Employers	1,963,089	
Total State Contributions		3,400,304
Local Contributions		
Members	12,135,102	
Employers	19,906,792	
Total Local Contributions		32,041,894
Total Contributions - Kansas Police and Firemen's System		35,442,198
Kansas Retirement System for Judges		
State Contributions		
Members	878,681	
Employers	1,177,735	
Insurance	61,283	
Total State Contributions		2,117,699
Total Contributions - Kansas Retirement System for Judges		2,117,699
Member Contributions - Optional Life		
State	2,799,308	
Local	1,146,737	
Total Contributions		3,946,045
Total Contributions - Optional Life Insurance		3,946,045
GRAND TOTAL - ALL CONTRIBUTIONS		\$ 288,627,620



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Kansas Public Employees Retirement System Schedule of Administrative Expenses - Budget and Actual For the Fiscal Year Ended June 30, 1995

	1995 BUDGETED	1995 ACTUAL
Salaries and Wages	\$ 2,855,120	\$ 2,938,547
Communications		
Postage	166,155	164,086
Telephone	172,044	143,333
Freight	9,395	8,468
Printing	90,124	80,402
Office and Equipment Rent	5,660	1,597
Repair and Service Agreements		
Equipment	102,918	72,745
Vehicles	541	2
Other	-	-
Travel	116,692	71,748
Fees - Other Services	123,766	70,663
Fees - Professional Services		
Actuary	161,120	197,211
Other Professional Fees	79,500	37,651
Building Administration		
Janitorial Service	11,220	13,009
Building Management	43,342	33,070
Real Estate Taxes	40,000	43,954
Building Improvements	11,331	440
Utilities	27,743	29,355
Contractual Services		
Dues and Subscriptions	44,399	56,193
Official Hospitality	3,000	106
Other Contractual Services	249	-
Professional Supplies	10,838	11,360
Office and Equipment Supplies	52,941	51,871
Capital Outlay	38,500	122,773
Total Administrative Expenses (Budgetary Basis)	4,166,598	4,148,584
Adjustments necessary to convert administrative expenses on the budgetary basis to the GAAP basis		164,074
Total Administrative Expenses (GAAP Basis)	\$ 4,166,598	\$ 4,312,658



KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

Kansas Public Employees Retirement System
 Schedule of Investment Income by Asset Class
 For the Fiscal Year Ended June 30, 1995

Asset Classification	Interest, Dividends, and Other Transactions	Gains and Losses	Total
Domestic Marketable Securities			
Equities	\$ 33,268,912	\$ 500,838,788	\$ 534,107,700
Fixed Income			
Treasury and Agency	36,285,557	38,621,715	74,907,272
Corporate	101,069,275	57,655,933	158,725,208
Temporary Investments	960,324	(2,991)	957,333
International Marketable Securities			
Equities (1)	16,630,806	(3,212,302)	13,418,504
Fixed Income ⁽¹⁾	20,923,642	57,621,591	78,545,233
Total Marketable Securities	209,138,516	651,522,734	860,661,250
Real Estate	22,656,494	(32,392,365)	(9,735,871)
Alternative Investments	8,834,636	63,327,557	72,162,193
Total Real Estate and Alternative Investments	31,491,130	30,935,192	62,426,322
Other Investment Income			
Securities Lending	1,624,326	—	1,624,326
Miscellaneous	238,104	—	238,104
Total Other Investment Income	1,862,430	—	1,862,430
Investment Income	\$ 242,492,076	\$ 682,457,926	\$ 924,950,002
Manager and Custodian Fees and Expenses			
Investment Manager Fees		(15,901,016)	(15,901,016)
Custodian Fees and Expenses		(924,792)	(924,792)
Other Investment Expenses		(1,893,149)	(1,893,149)
Total Investment Fees and Expenses		(18,718,957)	(18,718,957)
Net Investment Income		\$ 906,231,045	\$ 906,231,045

(1) Includes currency gains/losses associated with fluctuations in foreign exchange rates.




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**Kansas Public Employees Retirement System
Schedule of Investment Management Fees
For the Fiscal Year Ended June 30, 1995**

Domestic Equity Managers		
Brinson Partners, Inc.	\$ 779,068	
Capital Guardian Trust Co.	228,012	
Pilgrim, Baxter & Associates	1,472,290	
Provident Investment Counsel	2,568,455	
Wells Fargo Nikko Investment Advisors	224,899	
Subtotal Equity Managers		\$ 5,272,724
Domestic Fixed Income Managers		
The Boston Company	249,328	
Pacific Investment Management Co.	1,288,762	
Wells Fargo Nikko Investment Advisors	497,951	
Loomis, Sayles & Co.	881,694	
Payden & Rygel Investment Counsel (STBF)	65,497	
Subtotal Fixed Income Managers		2,983,232
International Equity Managers		
Nomura Capital Management	514,990	
Alliance Capital Management	438,156	
Bankers Trust Company	135,110	
Morgan Stanley Asset Management	379,987	
Lazard Freres Asset Management	439,565	
Subtotal International Equity Managers		1,907,808
International Fixed Income Managers		
Fiduciary Trust Company International	212,919	
Julius Baer Investment Management	580,063	
Subtotal International Fixed Managers		792,982
Foreign Currency Overlay Manager		
Pareto Partners	493,893	
Subtotal Foreign Currency Overlay Manager		493,893
Real Estate and Alternative Investment Managers		
Equitable Real Estate Investment Management	1,071,249	
J.W. O'Connor & Company - RPT	221,660	
L & B Core Group Trust	578,979	
Pacholder Associates/Morris Anderson	2,376,662	
Subtotal Real Estate and Alternative Managers		4,248,550
Cash Equivalent Manager		
Payden & Rygel Investment Counsel (STIF)	201,827	
Subtotal Cash Management		201,827
Total Investment Management Fees		15,901,016
Mellon Trust - Custodian Fees and Expenses	924,792	
Consultant Fees	145,000	
Litigation Expenses	1,613,620	
Other Investment Expenses (1)	134,529	
Subtotal Custodial, Consultant and Litigation		2,817,941
Total		\$ 18,718,957

(1) Other Investment Expenses includes direct placement manager expenses, appraisal fees on mortgage real estate investments, federal reserve wire fees, and other miscellaneous bank charges.




KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

Kansas Public Employees Retirement System
Investment Summary
(in Thousands)(1)
For the Fiscal Year Ended June 30, 1995

	FYE June 30, 1994		Purchases and Other Increases	Sales and Other Decreases	FYE June 30, 1995		Asset Mix Fair Value %
	Adjusted Cost	Fair Value			Adjusted Cost	Fair Value	
Marketable Securities							
Domestic Equities	\$ 1,501,137	\$ 1,787,851	\$ 724,721	\$ (641,053)	\$ 1,584,805	\$ 2,264,559	38.21%
International Equities	770,125	818,955	316,091	(290,430)	795,786	840,260	14.18
Domestic Fixed Income	1,884,458	1,814,364	1,969,136	(2,117,784)	1,735,810	1,783,453	30.10
International Fixed Income	248,689	248,276	1,769,565	(1,491,228)	527,026	526,707	8.89
Temporary (2) Investments	69,605	70,049	7,833,853	(7,811,740)	91,718	91,504	1.54
Total Marketable Securities	4,474,014	4,739,495	12,613,366	(12,352,235)	4,735,145	5,506,483	92.92
Real Estate and Alternative Investments							
Real Estate Allowance Subtotal	485,638 (50,030)	335,874 —	9,780 —	(22,127) 17,547	473,291 (32,483)	308,642 —	5.21
Direct Placements and Limited Partnerships Allowance Subtotal	163,288 (48,293)	112,095 —	582 —	(27,011) 10,883	136,859 (37,410)	110,905 —	1.87
Total Real Estate and Alternative Investments	550,603	447,969	10,362	(20,708)	540,257	419,547	7.08
Total	\$ 5,024,617	\$ 5,187,464	\$12,623,728	\$(12,372,943)	\$ 5,275,402	\$ 5,926,030	100.00%

(1) Amounts do not include interest and dividend accruals.

(2) Temporary Investments include foreign currencies and securities maturing within 90 days of purchase date.



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**Kansas Public Employees Retirement System
Expenses by Type
For the Fiscal Year Ended June 30, 1995**

Fiscal Year	Benefits	Withdrawals	Insurance	Administration	Total
1986	\$ 106,394,070	\$ 17,718,546	\$ 11,371,587	\$ 2,094,299	\$ 137,578,502
1987	118,541,073	16,850,300	13,519,657	2,547,931	151,458,961
1988	135,105,984	17,270,090	14,162,853	2,653,107	169,192,034
1989	151,532,348	19,209,745	19,809,732	3,255,155	193,806,980
1990	165,424,924	23,225,663	17,826,637	3,152,205	209,629,429
1991	184,121,534	24,568,119	23,956,850	3,309,277	235,955,780
1992	205,565,716	23,310,075	26,745,197	3,274,890	258,895,878
1993	230,677,812	20,812,351	28,353,401	3,715,294	283,558,858
1994	292,375,535	22,900,621	33,129,180	3,596,637	352,001,973
1995	333,924,392	26,542,254	35,873,212	4,312,658	400,652,516

**Cash Receipts and Disbursements
For the Fiscal Year Ended June 30, 1995**

Opening Cash Balance		\$ 731,435
Member Contributions	\$ 153,240,582	
Employer Contributions	126,866,094	
System Recoveries	571,438	
Refund of Advancements	364,375,100	
Optional Life Insurance	3,901,555	
Other	1,821	
Total Cash Receipts		648,956,590
Withdrawal of Contributions	(23,829,107)	
Paid to Beneficiary	(3,026,254)	
Retirement Benefits	(333,898,261)	
Group Life Insurance Premiums	(11,325,417)	
Optional Life Insurance Premiums	(4,086,239)	
Electronic Funds Transfer	(26,131)	
Administrative Expenses	(4,261,241)	
Deposited with Insurance Carrier	(22,340,109)	
Advanced to Investment Custodian	(229,712,000)	
Investment Manager Fees and Expenses	(16,534,666)	
Total Disbursements Made		(649,039,425)
Ending Cash Balance		\$ 648,600



KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

FISCAL YEAR 1995 INVESTMENT REPORT

Introduction

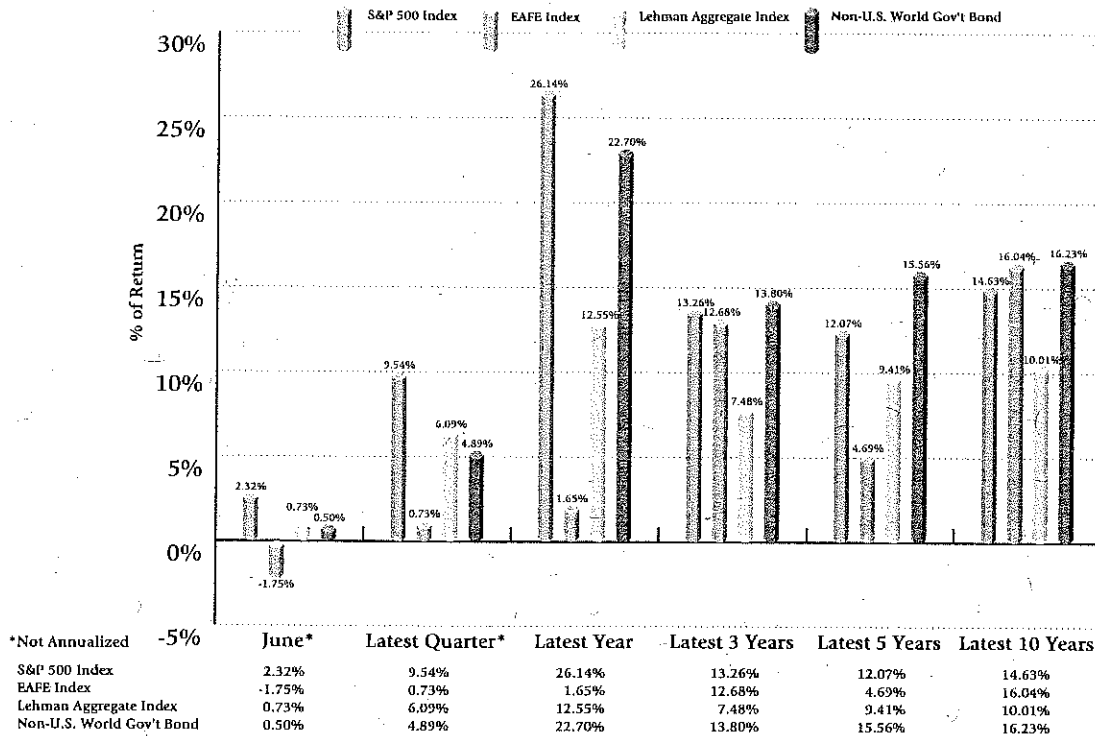
The Board of Trustees of the Kansas Public Employees Retirement System is charged with the responsibility for investing the assets of the System in a manner consistent with the fiduciary standard of a prudent expert, for the sole benefit of the participants and beneficiaries of the System. The standard of a prudent expert dictates that the Board exercise the judgment, care, skill, prudence and diligence under the circumstances then prevailing, which persons of prudence, discretion and intelligence, acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims. The concept of diversification of investments among many different asset classes, with different market cycles, is central to the concept of prudent investment. The Board of Trustees maintains a written Statement of Investment Policy, Objectives, and Guidelines which presents the Board's conclusions as to the most suitable combination of investments, within the Statutory requirements, which will satisfy the System's ongoing obligations for participating employees and beneficiaries. The Investment Policy is used to establish the objective criteria against which the System's external investment managers are going to be measured, and to communicate the investment policies, objectives, guidelines, and performance criteria to the Board, staff, investment advisors, consultants, and all other interested parties. The Investment Policy also serves as a review document to guide the ongoing oversight of the investments.

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Financial Market Review

The advantage of an investment portfolio diversified among many different asset classes was once again clearly demonstrated over the fiscal year ending June 30, 1995. The graph below illustrates the performance of the four publicly traded asset classes for various time periods ending June 30, 1995.

Recent Market Performance
Total Returns
For The Periods Ending June 30, 1995



The strongest performance in the publicly traded asset classes in the Retirement System's portfolio came from domestic (U.S. based) stocks, with the Standard & Poor's 500 Index producing a phenomenal 26.14% return for the year. The majority of this performance occurred in the first six months of calendar year 1995, as interest rates began to decline, inflation appeared to be under control, and a fairly robust domestic economy produced strong earnings gains for domestic operations, while a weak U.S. dollar assisted the overseas earnings of U.S. multinationals. The technology sector, in particular, produced very strong performance results in the latter months of the fiscal year.

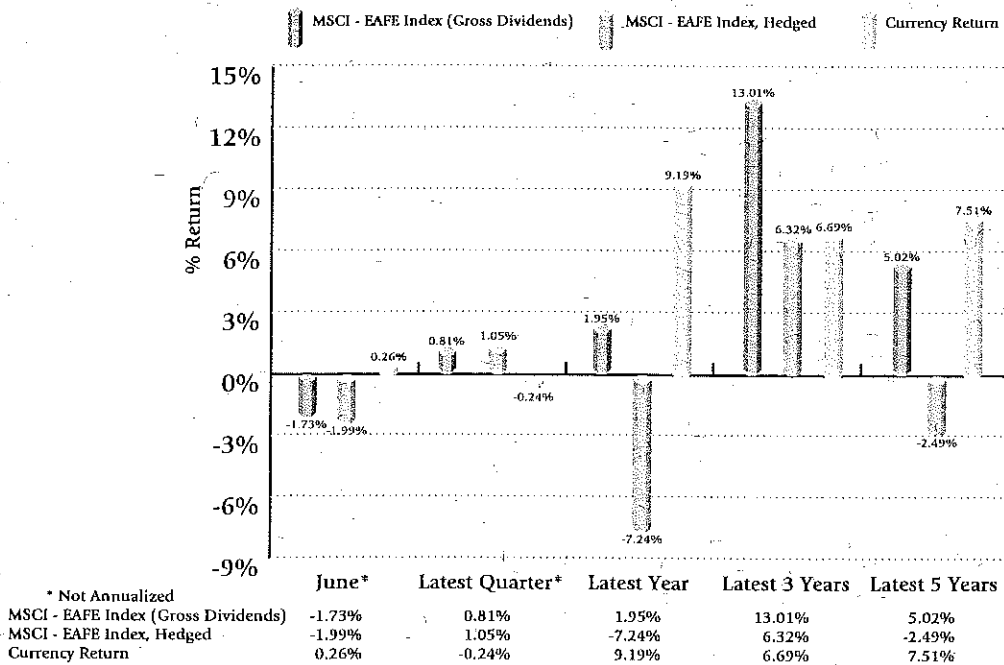
International (non-U.S. based) stocks, on the other hand, barely squeezed out a positive return, with the MSCI Europe, Australia, and Far East (EAFE) Index producing a mere 1.65% return for the year. The positive impact of a weak U.S. dollar was nearly totally offset by declining local market returns. The Far East sector was the source of the majority of the negative returns, with Japan leading the way. The MSCI Japan Index produced a loss of 14.4% for the year, while the MSCI Pacific Index lost 10.8% for the year. The European markets fared much better, with the MSCI Europe Index returning

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

18.8% for the year. The divergence in performance between the European and Far East sectors can largely be attributed to the different points in the economic cycle being experienced in each geographic sector. In Japan, interest rates were declining. However, the economy was extremely weak, the Yen was extremely strong, and there were serious concerns about the financial strength of the commercial banking sector, due to the weak stock market and to weak real estate investments. European countries, in contrast, were experiencing declining interest rates and increasing economic strength, which produced positive local market returns. International equity investment returns were assisted by the declining value of the U.S. Dollar (particularly versus the Japanese Yen and German Deutschemark) throughout most of the fiscal year.

As the graph below shows, the impact of currency movements on international equity returns varies considerably over time. For the latest three years, for example, approximately one-half of the total return has been derived from the currency impact of a weak U.S. Dollar, while the other half has resulted from positive local market returns.

International Equity Indexes
Unhedged, Hedged, & Currency Returns
For The Periods Ending June 30, 1995



The performance of the fixed income (bond) markets around the world was positive for fiscal year 1995. After experiencing rising interest rates due to Federal Reserve policy moves in the second half of calendar year 1994, the U.S. bond market benefitted from a decline in interest rates in early

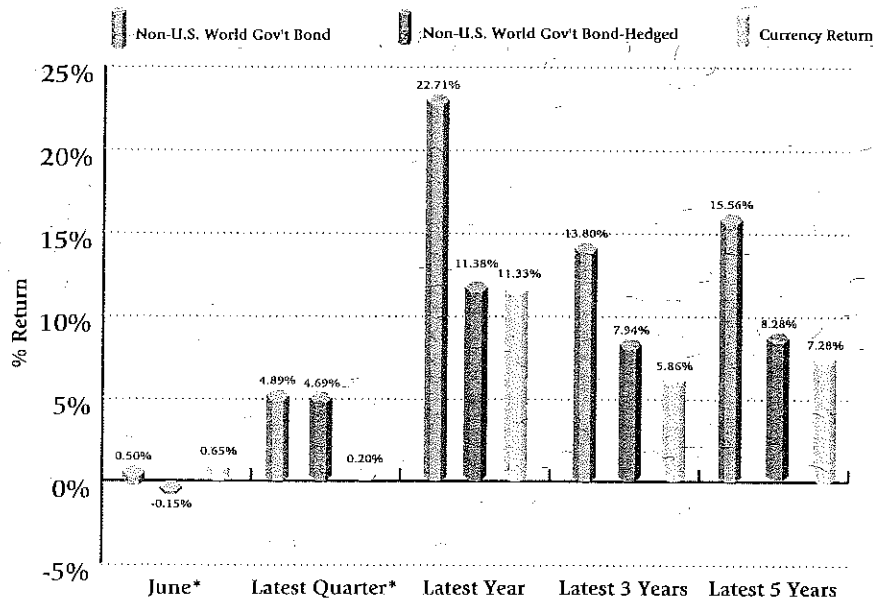


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1995. The Lehman Aggregate Bond Index produced a total return of 12.55% for the year ended June 30, 1995, with over 11% of the return coming in the first half of calendar year 1995. Interest rates declined more at the longer maturities than the shorter maturities, producing a flattening of the yield curve.

The international fixed income markets continued to experience volatility in fiscal year 1995, although the degree of volatility was reduced relative to that experienced in the previous year. Declining interest rates worldwide, coupled with a weak U.S. Dollar relative to foreign currencies, led the Salomon World Government Bond Index (excluding the U.S.) to produce a total return of 22.71% for the year ending June 30, 1995. Similar to the U.S. fixed income market, the majority of that return occurred in the first half of calendar year 1995, with the Salomon Index returning 20% for that six month time period. As the graph below shows, the total return for the international bond index was more evenly split between currency impact and local market return for the time periods shown than that of the international equity index.

International Fixed Income Indexes
 Unhedged, Hedged, & Currency Returns
 For The Periods Ending June 30, 1995



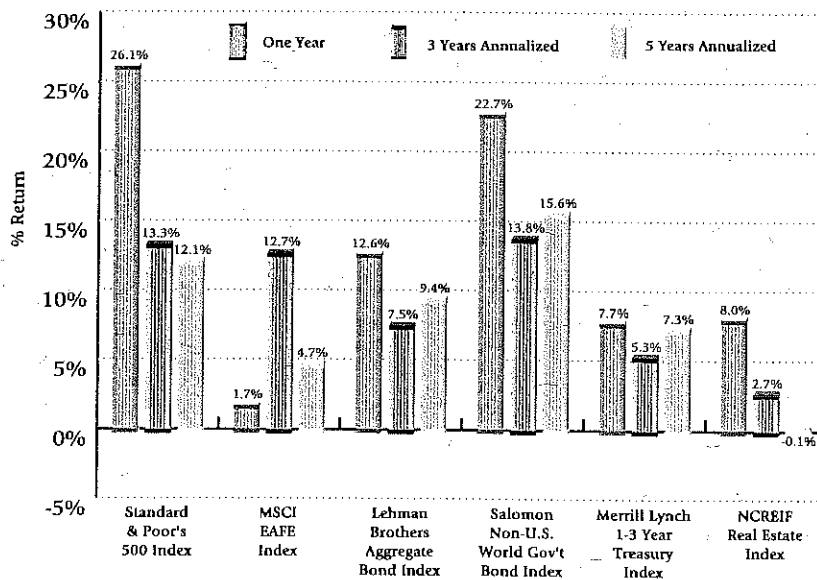
	June*	Latest Quarter*	Latest Year	Latest 3 Years	Latest 5 Years
* Not Annualized					
Non-U.S. World Gov't Bond	0.50%	4.89%	22.71%	13.80%	15.56%
Non-U.S. World Gov't Bond-Hedged	-0.15%	4.69%	11.38%	7.94%	8.28%
Currency Return	0.65%	0.20%	11.33%	5.86%	7.28%

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

The national commercial real estate market continued to recover on a modest basis in fiscal year 1995, with the NCREIF (National Council of Real Estate Investment Fiduciaries) Index posting a total return of 7.95%. The income component of the index was 9.34%, which was partially offset by a decline in the principal component (valuations) of 1.3%. Commercial office properties lagged the general real estate market recovery, registering a decline in valuation of 3.72% during fiscal year 1995. Retail properties also lagged the recovery, declining by 2.05% over the same time period. Apartments and industrial properties led the recovery, registering appreciation of 2.88% and 2.36% respectively, during the fiscal year. The Midwest sector of the NCREIF Index, which contains the majority of the System's real estate assets, registered a valuation decline of 1.57%, outperforming the East coast markets, but underperforming the real estate markets of the South and West geographic sectors of the U.S.

As the graph below illustrates, the financial market environment for Fiscal Year 1995 was the most positive one experienced in the past three years, for all asset classes except the international equity asset class, which is represented by the EAFE Index.

**Kansas Public Employees Retirement System
Comparative Index Returns
For The Periods Ending June 30, 1995**



Investment Performance Review

The Retirement System's assets produced a time-weighted total return of 17.6% for the fiscal year ending June 30, 1995. As the chart, opposite, illustrates, the System's domestic equity and international fixed income portfolios produced the strongest returns from the publicly-traded asset

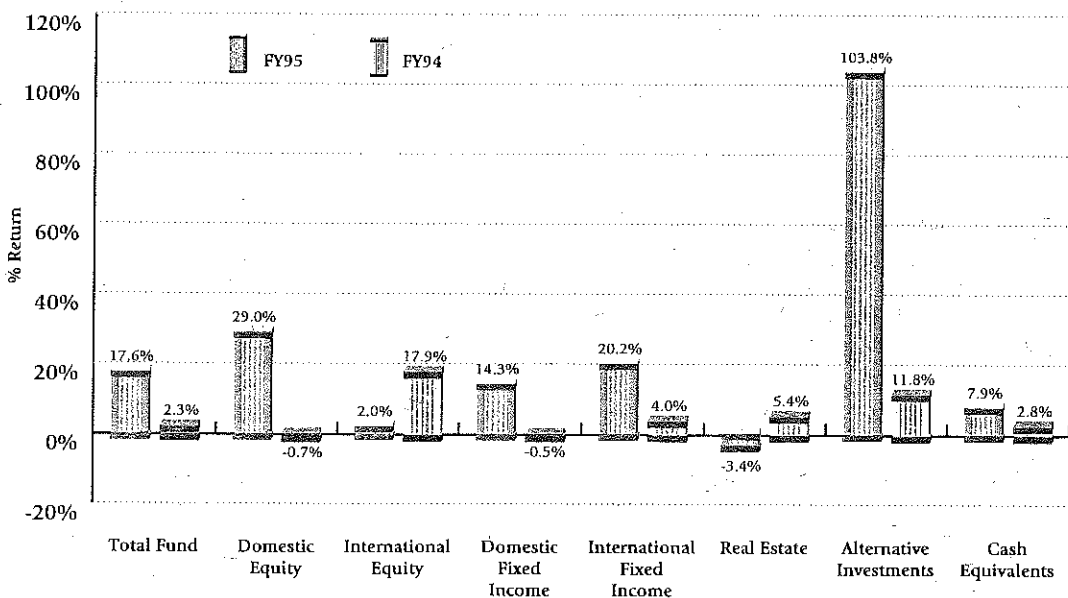
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classes for the fiscal year. The alternative investments portfolio produced an exceptionally strong return, which was the result of several asset sales which generated large gains in the portfolio, the recapture of a small portion of the previously-established reserve for losses, and the recognition of unrealized gains in the few publicly-traded investments in the portfolio. This was the result of a change in the accounting methodology used by the Retirement System at June 30, 1995. Alternative investments are generally regarded as fairly illiquid and long-term in nature. Therefore, performance results should be evaluated over the complete cycle of the investment, from the initial investment to the final disposition.

The real estate portfolio, in contrast, experienced a decline in the appraised value of the separate account properties. Much of this decline was due to pending lease rollovers, and the resulting uncertainties associated with releasing the space. These uncertainties are expected to be resolved favorably over the next several years. Therefore, much of the decline in value is expected to be recovered over the next several years. In the interim, the real estate portfolio is expected to continue to generate an income return of approximately 7.0%.

The fiscal year 1995 performance results for the total assets of the System provide dramatic contrast to those of fiscal year 1994, when the total return was 2.3%, and the international equity portfolio was the standout performer, with a 17.9% rate of return. A comparison of fiscal year 1994 and fiscal year 1995 performance results for the various asset classes quickly reveals the value of diversifying the portfolio among many different asset classes. The graph below reveals the dramatic reversal of fortunes experienced by the domestic equity, international equity, domestic fixed income, and international fixed income portfolios over the past two years.

Kansas Public Employees Retirement System
Return Comparison by Asset Class
For The Fiscal Years Ending June 30, 1994 and June 30, 1995



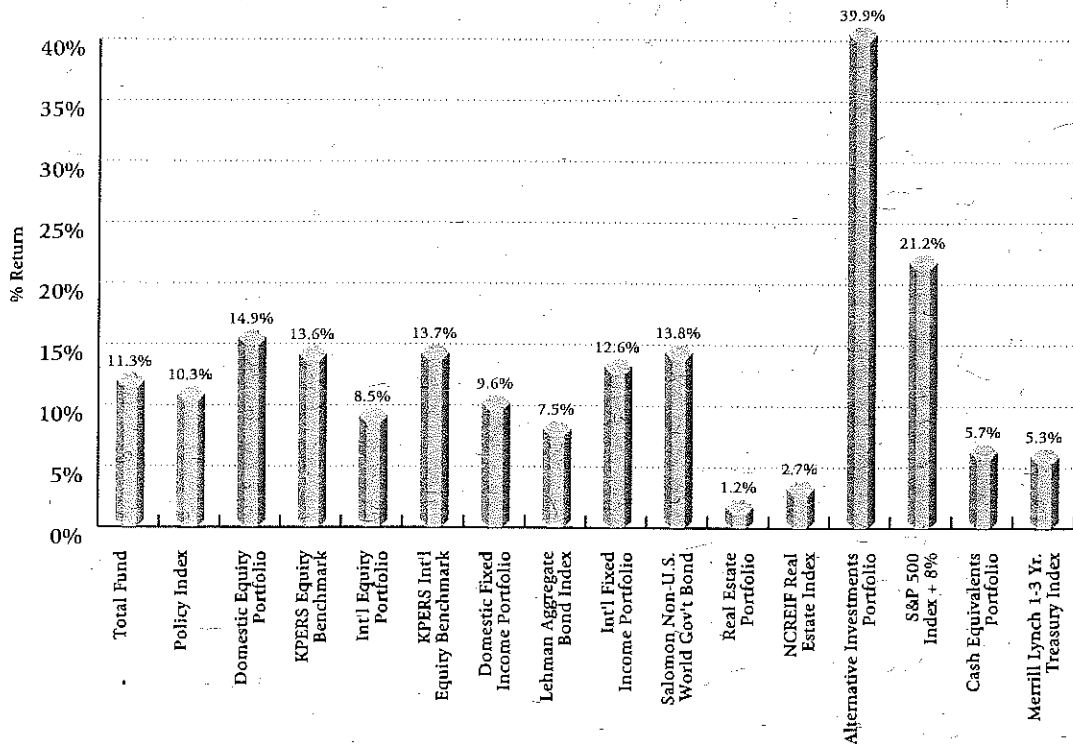


KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

The Retirement System experienced improved investment performance relative to the market index performance benchmarks which have been established for each portfolio and the total fund. The performance results of the total fund eclipsed the results of the "Policy Index," which reflects the performance of each of the asset class index benchmarks, combined in the same proportion as the target asset mix. (For the 1995 fiscal year, the asset allocation policy mix was: 28.4% - KPERS Equity Benchmark; 15% - KPERS International Equity Benchmark; 25.7% - Lehman Aggregate Bond Index; 10.9% - Salomon Non-U.S. World Government Bond Index; 10% - NCREIF Real Estate Index; and 10% - U.S. Treasury Bills Index.) Four of the Retirement System's asset classes outperformed their respective market index benchmarks, including domestic equities, domestic fixed income, alternative investments, and cash equivalents. The domestic equity and domestic fixed income portfolios, which together comprised approximately 64% of the System's total assets at fiscal year end, both produced performance results above the market index benchmark for the fiscal year, the latest three years, and the latest five years.

It is important to note that the performance of the Retirement System's assets has exceeded the 8% actuarial return assumption used by the Board of Trustees and the System's actuary. For the three years ending June 30, 1995, the System's assets produced an average annualized return of 11.3%, and for the five years ending June 30, 1995, the average annualized return was 9.3%. With inflation remaining fairly subdued, the real (inflation-adjusted) returns from the Retirement System's investments have been very attractive, over these time periods.

Kansas Public Employees Retirement System
Asset Class, Relative Return Comparison
For The Latest Three Years (Annualized) Ending June 30, 1995

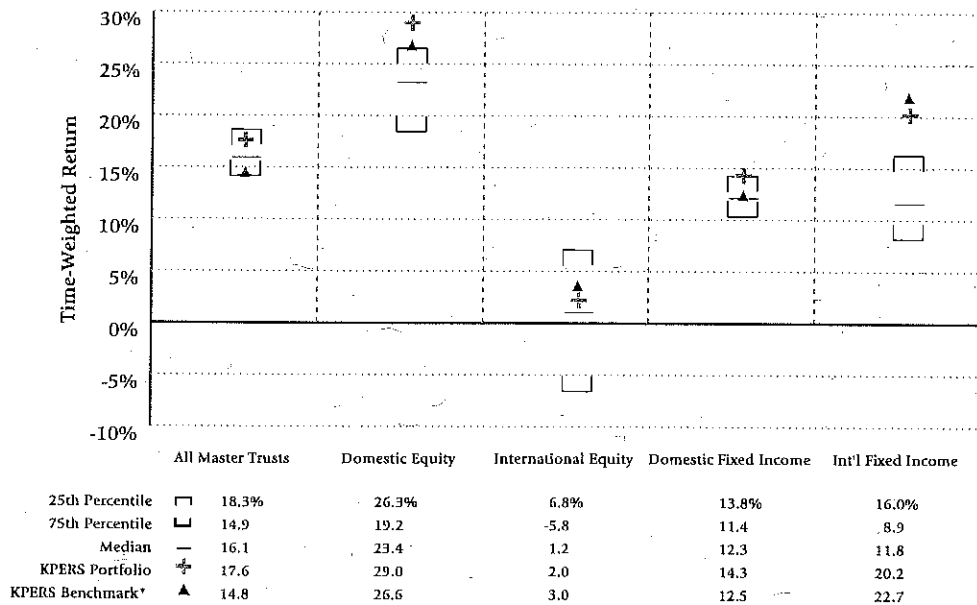


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The graph on the previous page illustrates the performance of the Retirement System's investments over the past three years, on an average annualized return basis. For the latest three years, the total assets of the System, as well as the domestic equity, domestic fixed income, alternative investments, and cash equivalents portfolios, produced returns in excess of the market index benchmarks.

There are many ways to evaluate investment performance results. In addition to reviewing the absolute returns from each asset class and portfolio over various time periods, the Board of Trustees compares the performance of each portfolio and asset class to the market index benchmark, which is established by the Statement of Investment Policy. Another perspective on the performance of the System's investments is provided by comparing the performance results with the results of other, similar funds. The chart below provides a perspective on this aspect of investment performance for fiscal year 1995. The chart plots the performance of the total assets of the System, as well as each of the four publicly-traded asset classes, relative to the performance of the Mellon Trust Universe for the fiscal year. The universe is comprised of all the Mellon Trust custodial clients, including both public and private funds. The size of the universe of participants varies across the asset classes and the time periods. For the fiscal year ending June 30, 1995, the System's total-asset performance ranked in the second quartile in the Mellon Trust Universe. All four asset class returns ranked above the median, with the domestic equity, domestic fixed income, and international fixed income portfolios ranking in the first quartile. Longer time periods yield similar comparisons, with the majority of the returns producing first or second quartile rankings over three and five year comparisons.

**Kansas Public Employees Retirement System
Mellon Trust Universe Percentile Ranking
For The Latest Year Ending June 30, 1995**



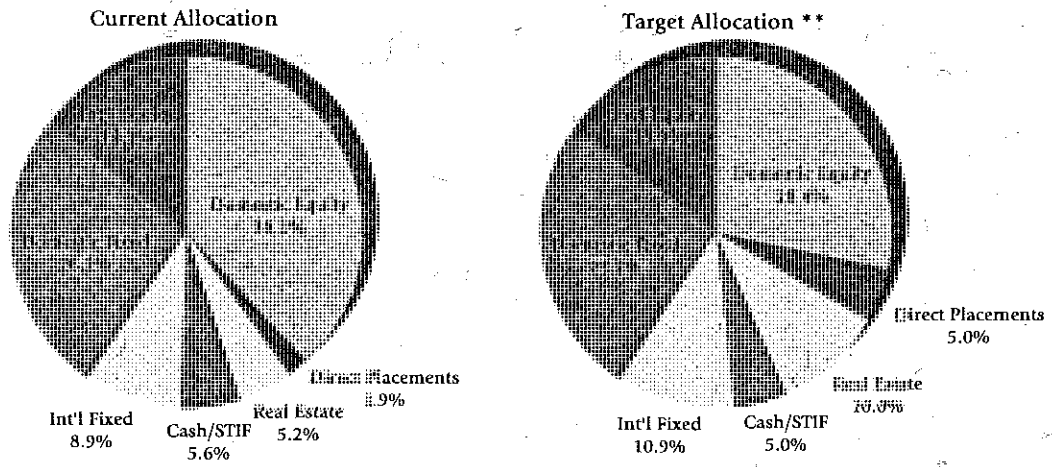


KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

Investment Asset Allocation

Decisions concerning how to allocate investments between the asset classes are very important ones in determining the ultimate performance of the System's assets. Therefore, the Board of Trustees of the Retirement System, working with its investment consultant, Mercer Investment Consulting, Inc., devotes many hours to consideration of the issues surrounding the asset allocation decision. In fiscal year 1995, the Trustees reviewed the target asset allocation mix, and elected not to make any changes in the target mix which was established in early 1994. The pie charts below illustrate the current mix of assets, and the target asset mix, as of June 30, 1995. The target asset mix is the one chosen by the Board of Trustees, which is expected to produce the greatest total return at a level of risk (defined as volatility of return) that the members of the Board believe is tolerable.

ASSET ALLOCATION For the Period Ending June 30, 1995

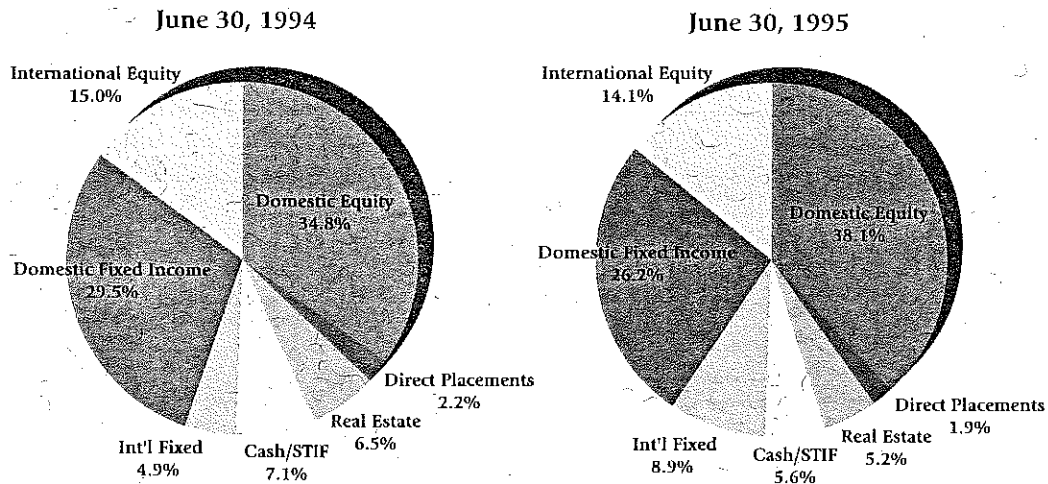


One of the primary strategic goals of the Investment Department is to complete the implementation of the target asset mix established by the Board of Trustees. During fiscal year 1995, this gradual, incremental process continued. The two pie charts on the next page illustrate how the System's asset mix changed during the fiscal year. During the year, the Board of Trustees completed a search and retained a new international fixed income manager, Fiduciary Trust. The new fixed income portfolio was completely funded on May 1, 1995, bringing the international fixed income asset class very close to the target allocation. This activity also reduced the domestic fixed income portfolio as a portion of the System's total assets. (The international fixed income asset class remains under the

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target allocation at June 30, 1995, due to cash equivalents remaining in the portfolio, as the new manager gradually invests the portfolio.) The other changes in the asset mix during the fiscal year occurred primarily as a result of fluctuating market values, with domestic equities appreciating, and real estate values declining, for example.

ASSET ALLOCATION
Asset Mix Change 1994-1995

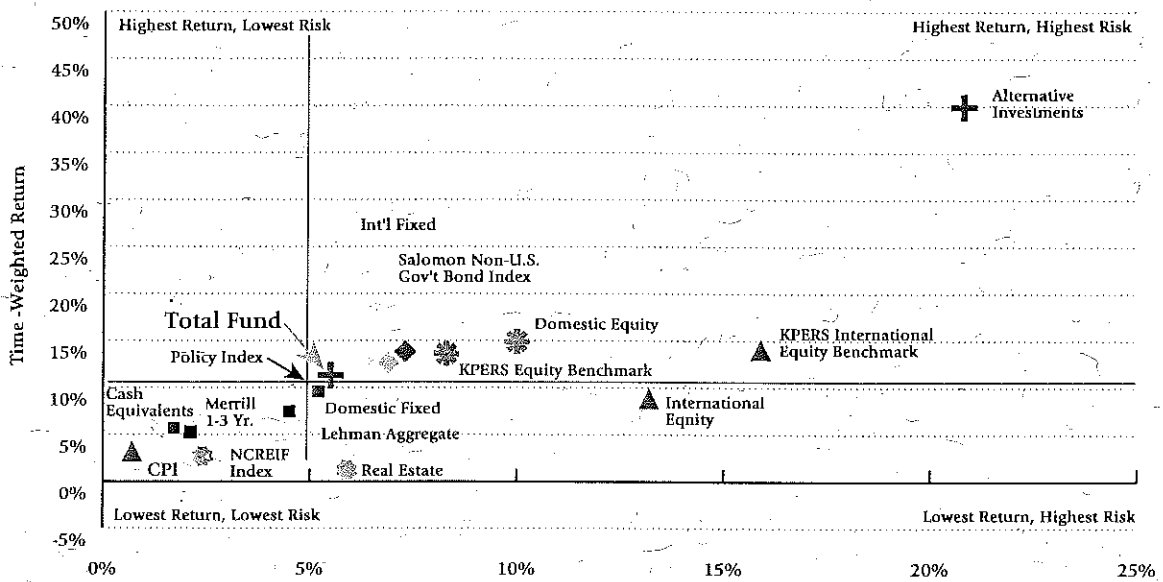


Return, while important, is only one component of the ongoing evaluation of the performance of the Retirement System's assets. Risk is the other important characteristic which is examined by the System's Board of Trustees on an ongoing basis. For the purpose of asset allocation, risk is defined as volatility of return. (Risk is statistically defined as the standard deviation of return.) The Statement of Investment Policy delineates investment performance standards which include benchmarks for both the expected return and risk level of the portfolio. Return and risk expectations are established in the context of a "full market cycle," typically understood to encompass both appreciating and declining market environments, over a time period of multiple years (three to five, on average). The chart on the next page illustrates the return and risk, or standard deviation, of each asset class, and

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM


the Retirement System's total assets, over the three years ending June 30, 1995. A data point is plotted for each asset class, and the total fund, as well as for each relevant market index benchmark, at the intersection point of the return (vertical axis) and risk, or standard deviation of return (horizontal axis). In addition, the return and risk numbers are given in the table below the chart, along with a "Return/Risk Ratio."

**Kansas Public Employees Retirement System
Asset Class, Risk Adjusted Return
For The Latest 3 Years Ending June 30, 1995**



	Total Fund	Policy Index	CPI	Domestic Equity	KPERs Equity Benchmark	International Equity	KPERs Int'l Equity Benchmark	Domestic Fixed Income	Lehman Aggregate	Int'l Fixed Income	Salomon Non-U.S. Gov't Bond	Real Estate	NCREIF Index	Alternative Investments	Cash Equivalents	Merrill 1-3 Yr.
Return %	11.4	10.3	2.8	14.9	13.6	8.5	13.7	9.6	7.5	12.6	13.8	1.2	2.7	39.9	5.7	5.3
Standard Deviation %	5.5	4.8	0.7	10	8.3	13.2	15.9	5.2	4.5	6.9	7.3	5.9	2.4	20.8	1.7	2.1
Return/ Risk Ratio %	2.1	2.1	4	1.5	1.6	0.6	0.9	1.8	1.7	1.8	1.9	0.2	1.1	1.9	3.3	2.5

The Return/Risk Ratio is a tool which allows comparison of the units of return achieved for each unit of risk assumed. For example, the Retirement System's total assets produced a return of 11.3% for the three years ending June 30, 1995. The standard deviation, or risk, of the portfolio was 5.5% for the same time period. This yields a simple return/risk ratio of 2.1. Comparing that result to the Policy Index result, with a return of 10.3%, a standard deviation of 4.8%, and a resulting return/risk ratio of 2.1, allows for analysis. The Retirement System's assets, while outperforming the return of the Policy Index, also assumed somewhat more risk than the Policy Index. The resulting return/risk ratios are the same, however, indicating that the System was well compensated for the additional



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risk assumed. (This can also be seen by comparing the "Total Fund" data point on the chart to the Policy Index data point. Since the Total Fund data point is above the Policy Index data point, and also slightly to its right, this indicates that more risk was assumed, but more return was also produced by the Retirement System's assets than the Policy Index.)

Other similar comparisons for each asset class relative to the market index benchmark will indicate that the Retirement System has experienced very favorable return/risk tradeoffs from the domestic fixed income and cash equivalents asset classes. In addition, although the international equity and international fixed income asset classes have underperformed their market index benchmarks for this time period, they have done so with less risk. The least desired result is to have an asset class produce less return than the benchmark, with more risk.

Unfortunately, this is the case for the Retirement System's real estate portfolio for this particular time period. The majority of the underperformance can be attributed to the Retirement System's separate account portfolio of real estate investments. As noted earlier, this portfolio currently suffers from valuation declines resulting from significant lease rollovers occurring over the next several years. These declines are expected to be temporary in nature, with the valuation of the properties recovering as the space is released over the next several years.

1995 Investment Performance Summary

Overall, the System's investment performance for fiscal year 1995 was outstanding. The majority of the Retirement System's assets produced double-digit returns that were in excess of the market index benchmarks, at a level of risk that was reasonable. It is important to note, however, that returns of this magnitude are not sustainable on a long-term basis. Over time, we would expect investment performance results to trend toward long-term capital market experience, which means lower returns on average than those experienced over the most recent fiscal year.



MILLIMAN & ROBERTSON, INC.
Actuaries & Consultants

Internationally WOODROW MILLIMAN

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Telephone: 703/917-0143
Fax: 703/827-9266

October 16, 1995

Board of Trustees
Kansas Public Employees Retirement Systems
Capitol Tower - Suite 200
400 S. W. 8th Avenue
Topeka, KS 66063-3925

Dear Members of the Board:

At your request, we have conducted our annual valuation of the Kansas Public Employees Retirement Systems as of June 30, 1995. The results of the valuation are contained in the following report.

The valuation report reflects the changes in the actuarial assumptions adopted by the Board at its September meeting. The change in the unfunded actuarial liability due to the change in actuarial assumptions is set out separately on pages 52-55.

There have been no changes in plan provisions since the prior valuation.

In preparing our report, we relied, without audit, on the employee census data and financial statements provided by the Retirement System.

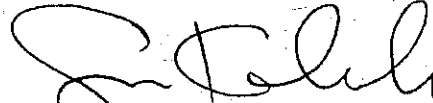
On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices that are consistent with the applicable Guides to Professional Conduct of the American Academy of Actuaries.

We hereby further certify that all costs, liabilities, rates of interest and other factors under the Plan have been determined on the basis of actuarial assumptions and methods which are in the aggregate reasonable (taking into account the experience of the Plan and reasonable expectations) and which, in combination, offer our best estimate of anticipated experience under the Plan.

Nevertheless, the emerging costs will vary from those presented in this report to the extent actual experience differs from that projected by the actuarial assumptions.

Respectfully submitted,

MILLIMAN & ROBERTSON, INC.

A handwritten signature in black ink, appearing to read "E. Kalwarski", written in a cursive style.

Eugene M. Kalwarski, F.S.A.
Principal



KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

SECTION I BOARD SUMMARY

OVERVIEW

This report presents the results of the June 30, 1995 actuarial valuations of the Kansas Public Employees' Retirement System (KPERS), the Kansas Police and Firemen's Retirement System (KP&F) and the Kansas Retirement System for Judges (Judges). The primary purposes of performing the valuations are to:

- determine the employer contribution rates required to fund each System on an actuarial basis,
- disclose asset and liability measures as of June 30, 1995, and
- analyze and report on trends in System contributions, assets, and liabilities over the past several years.

The valuation results provide a "snapshot" view of each System's financial condition on June 30, 1995. The results reflect the change in the actuarial assumptions adopted by the Board as a result of the triennial experience study. All benefit provisions were unchanged from the 1994 valuation.

A triennial experience study covering calendar years 1992, 1993, and 1994 was completed in September, 1995. Changes in several actuarial assumptions were adopted by the Board as a result of the experience study. Specifically, the female termination rates were lowered, the disability rates were increased and the salary scale was lowered at most ages for KPERS. The salary scale was modestly increased only at the very young ages for KP&F. The net effect of the change in actuarial assumptions on the unfunded actuarial liability was a decrease of \$96 million. The net impact of the change on the combined contribution rate for the System was a decrease of 0.02 percent.

CONTRIBUTION RATES

Kansas legislation with respect to KPERS provides that the employer rates of contribution for State and Local employers certified by the Board may not increase by more than 0.20% and .15% of payroll respectively over the prior year. The statutory limits do not apply to TIAA, KP&F and Judges.

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A summary of actuarial and recommended employer contribution rates follows:

1995 Valuation			
System	Actuarial	Recommended	Difference
State / School	5.23%	3.79% 1)	1.44%
Local	3.73	2.63 1)	1.10
TIAA	1.66	1.66	0.00
Police & Fire - Uniform Rate (2)	9.73	9.73	0.00
Judges	15.67	15.67	0.00
Weighted Average	5.14	3.78	1.36

1994 Valuation			
System	Actuarial	Recommended	Difference
State / School	5.17%	3.59% 1)	1.58%
Local	3.72	2.48 1)	1.24
TIAA	1.89	1.89	0.00
Police & Fire - Uniform Rate (2)	9.65	9.65	0.00
Judges	16.00	16.00	0.00
Weighted Average	5.15	3.64	1.51

- 1) Rates, by statute, are allowed to increase by a maximum of 0.2% and 0.15% per year for State and Local employers respectively.
- 2) For KP&F, the recommended contribution rate is equal to the "Uniform" rate plus the payment required to amortize the unfunded past service liability determined separately for each employer.

The funding objective of the plan is to establish contribution rates which over time will remain relatively level, as a percentage of payroll, and to pay off the unfunded actuarial liability by the year 2033. There was a net decrease of \$25 million in the unfunded actuarial liability from the 1994 to the 1995 valuation. The Kansas Legislature increased the statutory limitations on the annual increase in the contribution rates. With this action, the System's funding objective should be achieved.

EXPERIENCE - ALL SYSTEMS COMBINED
July 1, 1994 - June 30, 1995

Several factors contributed to the change in the Systems' assets, liabilities, and recommended contribution rates between June 30, 1994 and June 30, 1995. Below each component is examined.

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KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

ASSETS

As of June 30, 1995, the System had total funds, when measured on a market value basis, of \$5.96 billion, including assets held for the Group Insurance and Optional Life reserves. This was an increase of \$800 million from the 1994 figure of \$5.16 billion. The components of this change (in millions) are set forth below:

	Market Value
Assets, as of June 30, 1994	\$ 5,163
• Employer and Member Contributions	295
• Benefit Payments and Expenses	(396)
• Investment Income (Expected)	409
• Investment Gain/(Loss)	493
Assets, as of June 30, 1995	\$ 5,964

The market value of assets is not used directly in the calculation of contribution rates. An asset valuation method is used to smooth the effect of market fluctuations. The actuarial value of assets is equal to the expected asset value based on the assumed interest rate plus 1/3 of the difference between the actual market value and the expected asset value. The dollar weighted rate of return measured on the actuarial value of assets was 11.2%. This figure reflects the asset valuation methodology which recognizes only one-third of the investment gain above the 8% assumed rate.

LIABILITIES

The actuarial liability is that portion of the present value of projected benefits that will not be paid by future employer normal costs or member contributions. The difference between this liability and asset values at the same date is referred to as the unfunded actuarial liability. The unfunded actuarial liability will be reduced if the employer's contributions exceed the employer's normal cost for the year, after allowing for interest earned on the previous balance of the unfunded actuarial liability. Benefit improvements, actuarial gains and losses, and changes in actuarial assumptions and procedures will also impact the total actuarial liability and the unfunded portion thereof.



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Between June 30, 1994 and June 30, 1995 the change in the unfunded actuarial liabilities for the System was as follows (in millions):

Unfunded Actuarial Liability, June 30, 1994	\$ 1,505
• investment gain	(143)
• change in salary assumptions	(198)
• change in other actuarial assumptions/procedures	102
• liability loss from actual experience	72
• effect of contribution cap/time lag	95
• expected increase due to amortization method	47
Unfunded Actuarial Liability, June 30, 1995	\$ 1,480

CONTRIBUTIONS

Generally, contributions to the System consist of:

- a "normal cost" for the portion of projected liabilities attributable to service of members during the year following the valuation date, (except TIAA)
- an "unfunded actuarial liability contribution" for the excess of the portion of projected liabilities allocated to service to date over assets on hand,
- a "group insurance" contribution which is statutory (except KP&F).

The combined Systems' contribution rate (before statutory limits) decreased by .01% of pay, to 5.14% on June 30, 1995, from 5.15% on June 30, 1994. The primary components of this change are as follows:

Actuarial Contribution Rate, June 30, 1994	5.15 %
• investment gain	(0.24)
• change in salary assumption	(0.56)
• change in other actuarial assumptions/procedures	0.54
• liability loss from actual experience	0.13
• effect of contribution cap/time lag	0.12
• amortization method	0.00
Actuarial Contribution Rate, June 30, 1995	5.14 %



**APPENDIX
ACTUARIAL ASSUMPTIONS AND METHODS**

A. Actuarial Assumptions

1. Rate of Investment Return 8%

2. Rate of Mortality 1983 Group Annuity Mortality Table (without margin) except (with margin) for KPERS School.

Under KPERS, 5% of pre-retirement deaths are assumed to be service related
Under KP&F, 70% of pre-retirement deaths are assumed to be service related.

3. Rates of Salary Increase (% at Selected Ages)	Age	KPERS	KP&F	Judges
	25	7.6%	7.6 %	5.5 %
	30	6.5	6.5	5.5
	35	5.9	6.4	5.5
	40	5.6	6.0	5.5
	45	5.3	5.7	5.5
	50	4.7	5.4	5.5
	55	4.2	5.3	5.5
	60	4.0	5.2	5.5

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A. Actuarial Assumptions (Cont'd)

4. Rates of Termination at Selected Ages (number of withdrawals per 1,000 members)	Age	KPERS	KP&F	Judges
	22	159.6	91	54
	27	129.2	79	52
	32	98.4	58	49
	37	71.3	37	44
	42	50.0	20	28
	47	42.2	6	12
	52	30.7	0	1
	57	18.0	0	0

5. Disabled Life Mortality	KPERS	Disabled members assumed to exhibit age 65 mortality
	KP&F	1983 Group Annuity Table (without margin) set forward 10 years
	Judges	Healthy life mortality used

6. Rates of Retirement Ages

KPERS

- Age 63 (except certain correctional employees and TIAA) combined with the following retirement rates for employees who accumulate 85 points between ages 55 and 62:

Age	Assumed Retirement Rates	
	1st Year With 85 Points	After 1st Year With 85 Points
55-59	20 %	5 %
60	30	10
61	30	10
62	100	100



KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

A. Actuarial Assumptions (Cont'd)

- For correctional employees with an age 55 normal retirement date -Age 57
- For correctional employees with an age 60 normal retirement date -Age 62
- For TIAA employees - Age 66.

KP&F

Tier I: Later of age 55 or completion of 20 years of service
 Tier II: Upon attainment of earliest of (a) age 52 and 25 years of service,
 (b) age 55 and 20 years of service, or (c) age 60 and 15 years of service.

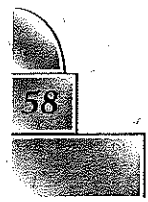
Judges Age 65

7. Rates of Disability at Selected Ages (members becoming disabled per 1,000 members)**	Age	KPERS	KP&F	Judges
	22	0.3	0.6	0.0
	27	0.5	0.7	0.0
	32	0.8	3.0	0.0
	37	1.1	6.0	0.0
	42	1.5	9.0	0.0
	47	2.3	11.0	0.0
	52	3.95	15.0	0.0
	57	7.9	19.4	0.0

** 90% assumed to be service-connected under KP&F Tier I.

8. Marriage Assumption*		KPERS	KP&F	Judges
	Male	70 %	80 %	74 %
	Female	40 %	80 %	49.5 %

* Males are assumed to be three years older than their wives.



B. Actuarial Methods

1. Funding Method

KPERS

Under the Projected Unit Credit actuarial cost method, the normal cost for any year is equal to the actuarial present value of the benefits expected to accrue in that year. The actuarial present value of benefits which have accrued in prior years is called the actuarial liability.

The portion of the actuarial liability in excess of plan assets is funded according to a schedule which is intended to amortize such unfunded actuarial liability fully after a period of years. This is in addition to each year's employer normal cost. Under this cost method, actuarial gains and losses are directly reflected in the size of the unfunded actuarial liability.

The unfunded actuarial liability is amortized by annual payments over a 40 year period from July 1, 1993. These annual payments will increase 4% for each year remaining in the 40-year amortization period. If total payroll grows 4% per year, the increasing dollar amortization payments should remain approximately level as a percentage of total payroll.

KP&F & Judges

Different actuarial cost methods were used for KP&F and Judges. The Aggregate Cost Method With Supplemental Liability was used for KP&F and the Frozen Initial Liability Method was used for Judges. Under these methods, gains and losses are reflected in the Normal Cost as opposed to the Unfunded Actuarial Liability.

2. Asset Valuation Method

For actuarial purposes, assets are valued at expected value at the valuation date, plus one-third of the difference between the market value and expected value.



KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

1995 SUMMARY OF PLAN PROVISIONS

Plan Membership

The Kansas Public Employees Retirement System (the Retirement System), is a body corporate and an instrumentality of the State of Kansas. The Retirement System is an umbrella organization administering three statewide pension groups: the Kansas Public Employees Retirement System (KPERs), the Kansas Police and Firemen's Retirement System (KP&F), and the Kansas Retirement System for Judges. All three systems are part of a defined benefit, contributory plan covering substantially all public employees in Kansas. The Kansas Retirement System for Judges is a single employer group, while the other two are multi-employer, cost-sharing groups. Participation by the State of Kansas is mandatory, whereas participation by local political subdivisions is optional but irrevocable once elected. Benefit payments are also provided for a certain group of legislative employees.

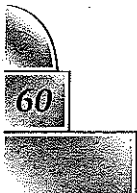
Employee Membership

Membership is mandatory for all employees in covered positions, except elected officials. A covered position for non-school employees is one that is covered by Social Security, is not seasonal or temporary, and requires at least 1,000 hours of work per year. School employees become KPERs members on their date of employment. School employees who work at least 630 hours per year or 3.5 hours per day for 180 days, are eligible for membership. Non-school employees become KPERs members after one year of continuous employment. First-day coverage for death and disability benefits is provided for state employees and non-school employees of local employers that elect such coverage. Those who retire under the provisions of the Retirement System may not become contributing members again.

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM SUMMARY OF PROVISIONS

Retirement: Age and Service Requirements

Eligibility - (a) Age 65, or (b) age 62 with 10 years of credited service, or (c) any age when combined age and years of credited service equal 85 "points." Age is determined by the member's last birthday and is not rounded up. **Benefits** - are based on the member's years of credited service, Final Average Salary (FAS), and a statutory multiplier. For those who were hired prior to July 1, 1993, Final Average Salary equals the greater of either: a four-year Final Average Salary, including add-ons, such as sick and annual leave; or a three-year Final Average Salary, excluding add-ons, such as sick and annual leave. For those who are hired on or after July 1, 1993, Final Average Salary equals the average of the three highest years of service, excluding add-ons, such as sick and annual leave. Prior





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Service Credit - 0.75 percent to one percent Final Average Salary per year. [School employees receive 0.75 percent Final Average Salary for each year of prior service that is not credited under the former Kansas School Retirement System (KSRS).] **Participating Service Credit** - 1.75 percent Final Average Salary.

Early Retirement

Eligibility - Age 55 and ten years of credited service. **Benefit** - retirement benefit is reduced 0.2 percent per month if the member is from age 60 to age 62, plus 0.6 percent per month if the member is from age 55 to age 60.

Vesting Requirements

Eligibility - A member must have ten years of credited service. Should the vested member terminate employment, the member must leave accumulated contributions on deposit with the Retirement System to be eligible for future benefits. If a vested member terminates employment and withdraws accumulated contributions, the member forfeits all rights and privileges under the Retirement System. If a vested member who is married terminates employment and wants to withdraw accumulated contributions, the member's spouse must provide consent for the withdrawal of contributions since any benefits to which the spouse may have been entitled in the future would be forfeited as well. **Benefit** - Retirement benefits are payable when the vested member reaches normal retirement age, or reduced benefits are payable when the vested member reaches a specified early retirement age.

Other Benefits

Withdrawal Benefit - Members who terminate employment, may withdraw contributions with interest after the last day on the employer's payroll. Withdrawing contributions forfeits all membership rights and benefits, such as insurance coverage, which a member may have accrued prior to withdrawing contributions from the Retirement System. (Former members, who return to employment within five years after terminating employment, don't incur a break in continuous service if they *haven't* withdrawn contributions.) The Retirement Act provides for immediate application for withdrawal of contributions upon terminating employment, but it does not allow members to borrow from contributions. The Retirement System will refund contributions only after all contributions have been reported by the member's former employer.

Disability Benefit - Disability income benefits are provided under the KPERS Death and Disability Benefits Program, which is financed by employer contributions of 0.6 percent of a member's compensation. A member must be totally disabled for 180 continuous days. Benefits accrue from the later of the 181st day of continuous disability, or from the first day upon which compensation from the employer ceases. The long-term disability benefit is two-thirds of the member's annual compensation on the date disability commences, reduced by Social Security benefits, one-half of



KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

Workers' Compensation benefits, and any other employment-related disability benefits, but in no event will the monthly benefit be less than \$100 per month. Members receiving disability benefits continue to receive service credit under KPERS, group life insurance coverage, and waiver of optional group life insurance premiums if the member is under age 65 when first disabled. If a disabled member retires after receiving disability benefits for at least five years immediately preceding retirement, the member's Final Average Salary is adjusted by the actuarial salary increase assumption rates in existence during the member's period of disability prior to July 1, 1993, and five percent per year since that date.

Death Benefits: Pre-retirement death (non-service connected) - Member's accumulated contributions plus interest are paid in a lump sum to the designated beneficiary. In lieu of receiving the member's accumulated contributions the surviving spouse, of a member who was eligible to retire at death, may elect to receive benefits under any survivor option. The spouse must be the member's sole designated beneficiary to exercise this option. If the member had at least 15 years of credited service, but had not reached retirement age, the spouse may elect a monthly benefit to begin on the date the member would have been eligible to retire.

Service-connected accidental death - Member's accumulated contributions plus interest, plus a lump sum payment in the amount of \$50,000, plus an annual benefit based on 50 percent of Final Average Salary; reduced by Workers' Compensation benefits, but subject to a minimum benefit of \$100 a month; are payable to spouse, minor children, or dependent parents, for life, or until the youngest child reaches age 18 (or up to age 23 if full-time students), in this order of preference. The monthly accidental death benefit is in lieu of any joint/survivor benefit for which the member would have been eligible.

Insured Death Benefit - an insured death benefit is provided under the KPERS Death and Disability Program, equal to 150 percent of the member's annual compensation on the date of death. (If a disabled member dies after receiving disability benefits for at least five years immediately preceding death, the member's current annual rate of compensation is adjusted by the actuarial salary increase assumption rates in existence during the member's period of disability prior to July 1, 1993, and five percent per year since that date.)

Post-retirement death - Lump sum amount of \$4,000, payable to the member's beneficiary. The beneficiary may, in turn, assign this benefit to a funeral home. The beneficiary for the \$4,000 death benefit may be, but is not always, the same person as the member's joint annuitant. If the member has selected a retirement option, benefits are paid to the joint annuitant or to the designated beneficiary. Under joint and survivor retirement options, if the joint annuitant predeceases the retired member, the reduced option benefit is increased to the amount the retired member would have received if no retirement option had been elected. Benefits payable to a joint annuitant cease at the joint annuitant's death. If a member does not select an option, the designated beneficiary receives the excess, if any, of the member's accumulated contributions over total benefits paid to date of death.



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Member Contributions

Member contributions are four percent of compensation. Interest is credited to members' contribution accounts on June 30 each year, based on the account balance as of the preceding December 31, at the interest rate adopted by the Board for actuarial valuations. Those who became members prior to July 1, 1993, have interest credited to their accounts at the rate of eight percent per year. Those who become members on and after July 1, 1993, will have interest credited to their accounts at the rate of four percent per year.

Employer Contributions

Rates are certified by the Board of Trustees, based on results of annual actuarial valuations.

Board of Regents Plan Members (TIAA and equivalents)

Board of Regents plan members (TIAA and equivalents) do not make contributions to KPERS. They receive prior service benefits for service before 1962; the benefit is one percent of Final Average Salary for each year of credited prior service. Service after 1961 is counted for purposes of determining eligibility for vesting. These members are also covered by the KPERS Death and Disability Benefits Program.

Correctional Members

Correctional employees, as certified to the Board of Trustees by the Secretary of Corrections, are defined in K.S.A. 74-4914a: (a) correctional officers, (b) certain directors and deputy directors of correctional institutions, (c) correctional power plant operators, (d) correctional industries employees, (e) correctional food service employees, and (f) correctional maintenance employees.

For groups (a) and (b) with at least three consecutive years of credited service, in such positions immediately preceding retirement, normal retirement age is 55 and early retirement requirements are age 50 with ten years of credited service. For groups (c), (d), (e), and (f) with at least three consecutive years of service in such positions immediately preceding retirement, normal retirement age is 60 and early retirement requirements are age 55 with ten years of credited service.



KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

Other Benefits - Correctional Members

Eligibility for the following benefits ended June 30, 1995, when coverage was returned to the regular KPERS system. For disabilities commencing after July 1, 1995, coverage is provided under the KPERS long-term disability benefit provisions.

Service-connected disability - No age or service requirement; benefit of 50 percent Final Average Salary, plus ten percent Final Average Salary for each dependent child under age 18 (or up to age 23 if full-time students), to a maximum of 75 percent of Final Average Salary; reduced by Social Security and Workers' Compensation benefits, but in no case is the benefit less than \$100 a month.

Non-service-connected disability - Pension of two percent of Final Average Salary per year of service, with a minimum of 25 percent to a maximum of 50 percent of Final Average Salary; reduced by Social Security and Workers' Compensation benefits, but in no case is the benefit less than \$100 a month. Employees are not eligible for disability benefits under the KPERS Death and Disability Benefits Program, except during the year of service prior to membership.

KANSAS POLICE & FIREMEN'S RETIREMENT SYSTEM SUMMARY OF PROVISIONS

Retirement: Age and Service Requirements

TIER I * - age 55 and 20 years of service. TIER II ** - age 50 and 25 years of service, or age 55 and 20 years of service, or age 60 and 15 years of service. **Benefits** - are based on the member's Final Average Salary. For those who were hired prior to July 1, 1993, Final Average Salary equals the average of the highest three of the last five years of credited participating service, including add-ons, such as sick and annual leave. For those who are hired on or after July 1, 1993, Final Average Salary equals the average of the highest three of the last five years of participating service, excluding add-ons, such as sick and annual leave. Benefits are based on a member's years of service, and a multiplier of 2.5 percent of Final Average Salary for each year of service, to a maximum of 80 percent of Final Average Salary. **Local Plan** - for members covered by local plan provisions on the employer's entry date, normal retirement is at age 50 with 22 years of credited service.

Early Retirement

Eligibility - Members must be at least age 50 and have 20 years of credited service. **Benefit** - Normal retirement benefits are reduced 0.4 percent per month under age 55.

Vesting Requirements

Eligibility - TIER I *: The member must have 20 years of credited service; if terminating employment, the member must leave contributions on deposit with the Retirement System to be eligible for future benefits. **Eligibility** - TIER II **: The member must have 15 years of credited service to be considered vested. To draw a benefit before age 60, however, the member must have 20 years of credited service. If terminating employment, the member must leave contributions on deposit with the Retirement System to be eligible for future benefits. If a vested member (either Tier I or Tier II), who is married, terminates employment and wants to withdraw accumulated contributions, the member's spouse must provide consent for the withdrawal of contributions since any benefits to which the spouse may have been entitled in the future would be forfeited as well.

Other Benefits

Withdrawal Benefits - Members who terminate employment before retirement may withdraw contributions with interest after the last day on the employer's payroll. Withdrawal of contributions forfeits all membership rights and benefits, which a member may have accrued prior to withdrawing



KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

accumulated contributions from the Retirement System. (Former members who return to covered employment within two years after termination, don't incur a break in employment if such members *haven't* withdrawn their accumulated contributions.) The Retirement Act provides for immediate application for withdrawal of contributions upon terminating employment, but it does not allow members to borrow from contributions. The Retirement System will refund contributions only after all contributions have been reported by the member's former employer.

Disability Benefits - TIER I *: **Service-Connected Disability** - There is no age or service requirement to be eligible for this benefit; there is a pension of 50 percent of Final Average Salary, plus 10 percent of Final Average Salary for each dependent child under age 18 [or up to age 23 for full-time student(s)], to a maximum of 75 percent of Final Average Salary. If dependent benefits aren't payable, the benefit is 2.5 percent for each year, to a maximum of 80 percent of Final Average Salary. (Upon the death of a member receiving service-connected disability benefits, the spouse and dependent children receive service-connected death benefits if the member dies within two years of retirement or after two years from the same service-connected cause; if service-connected death benefits aren't payable, spouse receives a lump sum payment of 50 percent of the member's Final Average Salary. Additionally, a pension of half the member's benefit is payable either to the spouse or to the dependent children.) **Non-Service-Connected Disability** - Pension of 2.5 percent of Final Average Salary per year of service, to a maximum benefit of 80 percent of Final Average Salary (minimum benefit is 25 percent of Final Average Salary). (Upon the death of a member receiving non-service-connected disability benefits, the surviving spouse receives a lump sum payment of 50 percent of Final Average Salary. Additionally, a pension benefit of one-half the member's benefit is payable either to the spouse or to the dependent children.) **TIER II **:** There is no distinction between service-connected and non-service-connected disability benefits. Pension is 50 percent of Final Average Salary. Service credit is granted during the period of disability. Disability benefits convert to age and service retirement at the earliest date the member is eligible for full retirement benefits. If the member is disabled for at least five years immediately preceding retirement, the member's Final Average Salary is adjusted by the actuarial salary increase assumption rate, which currently is five percent, in effect during the period of disability. Disability benefits are offset one dollar for each two dollars earned after the first \$10,000 earnings.

TIER I * & TIER II ** Death Benefits (Service-Connected Death) - No age or service requirement, pension of 50 percent of Final Average Salary to spouse, plus 10 percent of Final Average Salary to each dependent child under age 18 [or up to age 23 if full-time student(s)], to a maximum of 75 percent of Final Average Salary. **Non-Service-Connected Death** - Lump sum of 100 percent of Final Average Salary to spouse; pension of 2.5 percent of Final Average Salary per year of service (to a maximum of 50 percent) is payable to the spouse. If there is no spouse, the monthly benefit is paid to the dependent children. **Inactive Member Death** - If an inactive member is eligible to retire when death occurs, and the inactive member's spouse is the sole beneficiary, the spouse may elect to receive benefits as a joint annuitant under any option, in lieu of a refund of the member's accumulated contributions. **Post-Retirement Death** - Lump sum amount of \$4,000, less any death benefit, payable



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under local plan provisions. If the member has selected a retirement option, benefits are paid to the joint annuitant or the designated beneficiary. Under joint and survivor options, if the joint annuitant predeceases the retired member, the benefit is increased to the amount the retired member would have received if no option had been selected. Benefits payable to the joint annuitant cease when the joint annuitant dies. If no option is selected, the designated beneficiary receives the excess, if any, of the member's accumulated contributions over total benefits paid to the date of death. [The surviving spouse of a transfer member (who was covered by local plan on the employer's entry date, who dies after retirement, and who had not elected a retirement benefit option), receives a lump sum payment of 50 percent of Final Average Salary. Additionally, a pension benefit of three-fourths of the member's benefit is payable either to the spouse or to dependent children.]

- * TIER I - Members have Tier I coverage if they were employed prior to July 1, 1989, and if they did not elect coverage under Tier II.
- ** TIER II - Members have Tier II coverage if they were employed July 1, 1989, or later. Also includes members employed before July 1, 1989, who elected Tier II coverage.


Member Contributions

Member contributions are seven percent of compensation. Contribution rate reduced to two percent of compensation for members with 32 years of credited service.

A few members employed before January 1, 1976, have contributions reduced by their Social Security contributions, exclusive of contributions for Medicare. Benefits payable to these members are reduced by one-half of original Social Security benefits accruing from employment with the participating employer.

Employer Contributions

Individual rates are certified by the Board of Trustees for each participating employer, based on the results of annual actuarial valuations.



KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

**KANSAS RETIREMENT SYSTEM FOR JUDGES
SUMMARY OF PROVISIONS**

Retirement: Age and Service Requirements

Eligibility - (a) Age 65, or (b) age 62 with 10 years of credited service, or (c) any age when combined age and years of credited service equal 85 "points." Age is determined by the member's last birthday and is not rounded up. **Benefit** - Based on member's Final Average Salary, which is the average of the three highest years of service as a judge. Basic formula, for those who were members prior to July 1, 1987, is five percent of Final Average Salary for each year of service up to ten years, plus 3.5 percent for each year, to a maximum of 70 percent of Final Average Salary. For those who became members on or after July 1, 1987, the formula is 3.5 percent for each year, to a maximum benefit of 70 percent of Final Average Salary.

Early Retirement

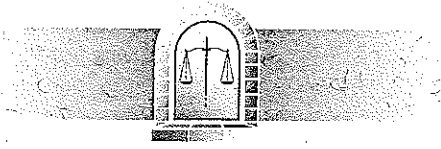
Eligibility - Age 55 and ten years of credited service. **Benefit** - Retirement benefit is reduced 0.2 percent per month if the member is from age 60 to age 62, plus 0.6 percent per month if the member is from age 55 to age 60.

Vesting Requirements

Eligibility - There is no minimum service requirement, however, if terminating employment, the member must leave contributions on deposit with the Retirement System in order to be eligible for future benefits. (Eligible judges who have service credit under KPERS have vested benefits under both KPERS and the Retirement System for Judges, when the combined total credited service equals ten years.) Judges who are defeated in an election may continue participation at their own cost until they have ten years of service credit. **Benefit** - Normal benefit accrued at termination is payable at age 62 or in a reduced amount at age 55, provided the member has ten years of service credit. Otherwise, benefits are not payable until age 65.

Other Benefits

Disability Benefits - Defined as permanently physically or mentally disabled. The disability benefit, payable until age 65, is 3.5 percent of Final Average Salary for each year of service (minimum of 25 percent of Final Average Salary). Benefits are recalculated when the member reaches retirement age. If a judge is disabled for at least five years immediately preceding retirement, the judge's Final Average Salary is adjusted by the actuarial salary increase assumption rates in existence during the period of disability. **Withdrawal Benefit** - Members who terminate employment may withdraw contributions with interest. (A former member who resumes service as a judge may return the amount



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refunded without interest or penalty and regain credit for service previously credited under the Retirement System.) **Pre-Retirement Death** - Lump sum insured death benefit equal to 150 percent of the member's annual compensation on the date of the member's death; plus a refund of the member's accumulated contributions. In lieu of receiving the member's accumulated contributions, the surviving spouse, of a member who was eligible to retire at death, may elect to receive benefits under any survivor benefit option. The spouse must be the member's sole designated beneficiary to exercise this option. If the member had at least 15 years of credited service, but hadn't reached retirement age at the time of death, the spouse may elect a monthly benefit to begin on the date the member would have been eligible to retire. **Post-Retirement Death** - Lump sum death benefit of \$4,000. If the member had selected an option with survivor benefits, those benefits are paid to the joint annuitant or to the member's designated beneficiary. Under retirement options with survivor benefits, if the joint annuitant predeceases the retired member, the retirement benefit is increased to the amount the retired member would have received if no survivor benefits had been elected. Benefits payable to a joint annuitant cease when the joint annuitant dies. If no option was chosen by the retired member, the member's designated beneficiary receives the excess, if any, of the member's accumulated contributions over the total benefits paid to the date of the retired member's death.

Member Contributions

Judges contributions are six percent of compensation. Upon reaching maximum retirement benefit level of 70 percent of Final Average Salary, the contribution rate is reduced to four percent. Upon reaching age 65 and completing 20 years of service, the contribution rate is reduced to two percent of compensation. As of July 1, 1995, judges' contribution rates will drop from six percent to two percent when a judge reaches the maximum benefit level of 70 percent of Final Average Salary.

Employer Contributions

Rates are certified by the Board of Trustees, based on the results of annual actuarial valuations.

Membership Extended to District Magistrate Judges

All district magistrate judges who take office after June 18, 1993, automatically become members of the Retirement System for Judges. Previously, district magistrate judges could become members of the Retirement System for Judges for future service only if they elected membership in that system by June 18, 1993. Those who elected membership in the Retirement System for Judges by that date had the option of bringing all participating service into the plan by paying the full cost of transferring participating service from KPERS to the Retirement System for Judges.

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

Short Term Solvency Test
Last Ten Fiscal Years

Member Valuation Date	Retirants and Contributions (A)	Active Members Employer Financed Beneficiaries (B)	Assets Portion (C)	Available for Benefits	Portions of Accrued Liabilities Covered by Assets		
					(A)	(B)	(C)
6/30/95	\$ 1,958,992,138	\$ 2,678,609,811	\$ 2,353,427,051	\$ 5,510,957,394	100%	100%	37%
6/30/94	1,801,791,938	2,388,662,221	2,356,469,874	5,041,702,745	(1) 100	100	36
6/30/93	1,651,701,100	1,864,877,500	1,943,701,800	4,492,541,700	100	100	50 (2)
6/30/92	1,489,301,000	1,530,763,300	1,614,777,700	4,101,987,000	100	100	67
6/30/91	1,208,273,400	1,374,757,300	1,679,117,300	3,759,523,000	100	100	70
1/1/90	975,736,900	1,304,280,600	1,647,349,500	3,458,172,000	100	100	72
1/1/89	943,712,100	1,177,842,700	1,342,014,200	3,026,692,200	100	100	67
1/1/88	768,638,100	1,038,950,600	1,507,564,300	2,907,976,500	100	100	73
1/1/87	800,461,100	895,514,500	1,292,398,400	2,589,487,600	100	100	69
1/1/86	752,313,100	899,405,800	1,187,074,100	2,448,146,300	100	100	67

(1) 1993 legislation passed substantial benefit enhancements and changed the actuarial method of the KPERS system from the frozen initial liability method to the projected unit cost method. The amortization period was also adjusted to a 40 year period beginning July 1, 1993.

(2) Actuarial valuation method was changed from book value to a market-based method.


A short term solvency test, which is one means of determining a system's progress under its funding program, compares the plan's present assets with (1) active member contributions on deposit, (2) the liabilities for future benefits to present retired lives, and (3) the actuarial liability for service already rendered by active members. In a system that has been following the level percent of payroll financing discipline, the liability for active member contributions on deposit (Item A), and the liabilities for future benefits to present retired lives (Item B), will be fully covered by present assets with the exception of rare circumstances. The liability for service already rendered by active members (Item C), will be fully or partially covered by the remainder of present assets. If the system has been using level cost financing, the funded portion of Item C usually will increase over a period of time. It is rare for Item C to be fully funded.

Schedule of Active Member Valuation Data (1)

Valuation Date	Number of Active Members	Percentage Change in Membership	Number of Participating Employers	Percentage Increase in Number of Participating Employers	Total Annual Payroll (Millions)	Average Payroll	Percentage Increase in Average Payroll
6/30/95	131,387	6.6%	1,309	1.7%	\$ 3,767	\$ 28,671	1.4%
6/30/94	123,296	3.4	1,287	1.2	3,487	28,285	3.3
6/30/93	119,275	2.6	1,272	2.0	3,266	27,382	4.3
6/30/92	116,292	1.4	1,247	2.0	3,052	26,244	3.0
6/30/91	114,708	2.2	1,223	2.9	2,922	25,473	7.8
1/1/90	112,265	3.1	1,188	3.3	2,652	23,623	5.4
1/1/89	108,862	10.6	1,150	2.1	2,440	22,414	8.0
1/1/88	98,389	1.3	1,126	1.3	2,397	24,362	2.7
1/1/87	97,137	—	1,112	—	2,305	23,729	—

Not available prior to January 1, 1987.

(1) Data provided to actuary reflects active membership information as of January 1.



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Retirants, Beneficiaries - Changes in Rolls - All Systems Last Ten Fiscal Years

Fiscal Year Ended June 30	Number at Beginning of Year	Additions During Year	Deletions During Year	Number at End of Year
1986	32,675	2,148	1,225	33,598
1987	33,598	2,345	1,124	34,819
1988	34,819	2,640	1,288	36,171
1989	36,171	2,323	1,244	37,250
1990	37,250	2,262	1,269	38,243
1991	38,243	2,431	1,412	39,262
1992	39,262	2,476	1,383	40,355
1993	40,355	2,492	1,459	41,388
1994	41,388	3,576	1,593	43,371
1995	43,371	3,723	1,790	45,304

Membership Profile Last Ten Fiscal Years (1)

Fiscal Year	Active	Inactive	Retirees & Beneficiaries	Total Membership
1986	91,939	10,754	33,598	136,291
1987	94,369	10,322	34,819	139,510
1988	97,137	9,970	36,171	143,278
1989	103,721	10,448	37,250	151,419
1990	109,654	8,388	38,243	156,285
1991	111,818	10,368	39,262	161,448
1992	116,891	8,798	39,552	165,241
1993	121,997	9,182	41,388	172,567
1994	131,684	12,851	43,371	187,906
1995	136,710	13,362	45,304	195,376

(1) Membership information shown on schedule reflects June 30 data.



KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

Highlights of Operations - 10 Year Summary

	1995	1994	1993	1992
Membership Composition				
Number of Retirants	45,304	43,371	41,388	39,552
New Retirants During the Year	3,463	3,576	2,492	2,476
Active and Inactive Members	150,072	144,535	131,179	128,689
Participating Employers	1,309	1,287	1,272	1,247
Financial Results (Millions)				
Member Contributions	\$ 159	\$ 149	\$ 134	\$ 125
Employer Contributions	130	118	117	112
Retirement / Death Benefits	334	292	231	206
Investment Income (a)	906	115	665	486
Employer Contribution Rate				
KPERS—State / School (b)	3.20%	3.10%	3.30%	3.30%
KPERS—Local (c)	2.20	1.90	1.80	2.40
KPERS—School (b)	—	—	—	—
KP&F (Average)	9.83	9.60	9.10	9.30
Judges	8.10	7.80	7.10	7.30
TIAA	1.70	1.60	1.60	1.70
Special Elected Officials (d)	—	—	7.90	8.30
Unfunded Actuarial Liability (Millions)				
KPERS—State / School	\$ 1,051	\$ 1,059	\$ 573	\$ 395
KPERS—Local	123	142	94	47
KPERS—School	—	—	—	—
KP&F	279	276	272	67
Judges	5	5	5	4
TIAA	22	23	24	20
Special Elected Officials	—	—	—	—
Funding Ratios (e)				
KPERS—State / School	79.19%	77.58%	85.10%	88.30%
KPERS—Local	86.51	84.44	87.30	92.70
KPERS—School	—	—	—	—
KP&F	70.72	68.94	66.70	88.10
Judges	89.10	88.64	87.90	89.80
TIAA	22.62	20.39	20.00	22.60
Special Elected Officials	—	—	—	—

(a) Investment income for prior years has been adjusted to reflect changes in unrealized appreciation.

(b) KPERS State and KPERS School were combined commencing in fiscal year 1988.

(c) KPERS was divided into sections: KPERS State/School and KPERS Local, commencing in fiscal year 1989.

(d) Special Elected Officials coverage was applicable commencing in fiscal year 1989 through calendar year 1992.



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1991	1990	1989	1988	1987	1986
39,262	38,243	37,250	36,171	34,819	33,598
2,431	2,262	2,323	2,640	2,345	2,148
122,186	118,042	114,169	107,107	104,691	102,693
1,223	1,188	1,150	1,126	1,112	1,100
\$ 124	\$ 112	\$ 97	\$ 92	\$ 91	\$ 83
106	101	91	92	106	100
187	168	152	135	119	106
48	393	352	(45)	331	606
3.20%	3.10%	3.00%	3.00%	3.90%	4.30%
2.60	2.00	3.00	—	—	—
—	—	—	3.00	4.10	4.00
9.10	13.10	11.10	19.00	18.70	18.90
5.40	5.90	6.55	6.55	8.70	8.70
1.50	1.50	1.60	1.40	1.50	1.30
7.90	7.80	7.70	—	—	—
\$ 373	\$ 342	\$ 316	\$ 294	\$ 311	\$ 72
40	34	30	26	—	—
—	—	—	—	—	231
66	69	70	68	69	70
4	4	3	3	3	3
20	19	19	16	16	15
—	2	—	—	—	—
88.00%	88.00%	87.30%	87.70%	87.90%	93.30%
93.10	93.60	93.90	94.30	—	—
—	—	—	—	—	83.10
87.30	85.90	84.10	83.20	81.00	79.80
89.10	89.10	88.90	89.30	88.30	89.20
21.10	24.20	21.60	25.50	24.10	27.10
—	78.50	—	—	—	—

(e) The funding percentage indicates the actuarial soundness of the System, generally, the greater the percentage, the stronger the System. The percentage is determined by dividing accumulated assets by the sum of accumulated assets plus unfunded service liability.



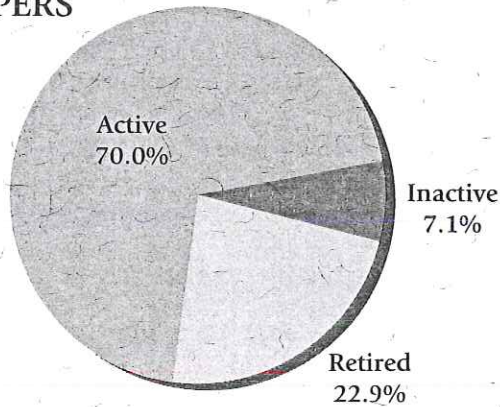
KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

Schedule of Benefits by Type

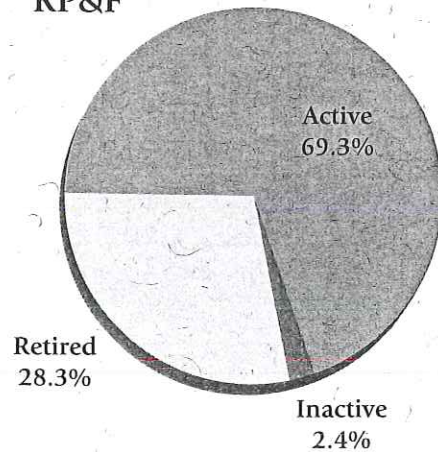
Fiscal Year	Monthly Retirement Benefits	Retirement Dividend	Death Benefits	Refunds of Contributions	Disability, Insurance Premiums/Benefits
1986	\$ 93,877,946	\$ 7,745,838	\$ 4,403,497	\$ 17,718,546	\$ 11,738,376
1987	104,718,593	8,628,655	4,753,321	16,850,300	13,960,161
1988	119,118,882	9,559,631	5,936,766	17,270,090	14,653,558
1989	135,123,026	9,544,087	6,357,986	19,209,745	20,316,981
1990	151,723,200	9,403,736	6,478,993	20,614,990	18,256,305
1991	169,915,990	9,755,374	6,561,432	22,086,947	24,326,760
1992	188,608,232	9,736,712	6,902,906	23,310,075	27,063,063
1993	213,080,377	9,834,057	7,499,557	20,812,351	28,617,222
1994	273,821,219	10,985,580	7,345,897	22,900,621	33,352,019
1995	315,965,280	11,019,325	6,742,192	26,542,254	36,070,807

Membership Profile by System

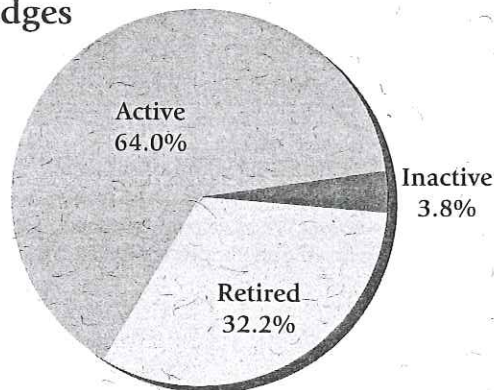
KPERS



KP&F



Judges

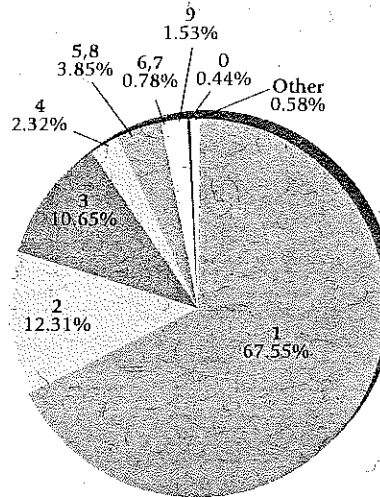




1995 ANNUAL REPORT

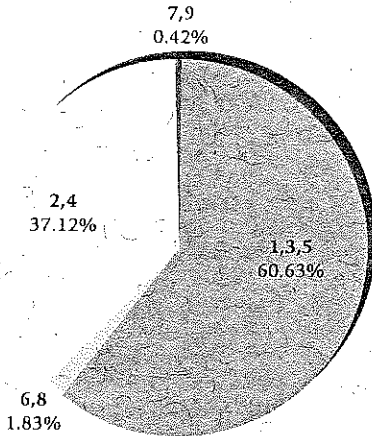
Option Taken

- 1-Maximum, no survivor Benefit
- 2-Joint 1/2 to Survivor
- 3-Joint, same to Survivor
- 4-Life with 10 Years Certain
- 5,8-Joint, 3/4 to Survivor
- 6,7-Widowed Children, Survivor
- 9-Life with 5 Years Certain
- 0-Life with 15 Years Certain



Retirement Type

- 1,3,5-Normal
- 2,4-Early
- 6,8-Service-Connected Death and Disability
- 7,9-Non-Service Connected Death and Disability



Schedule of Retired Members and Survivors by Type of Benefit

Amount of Monthly Benefits	Number of Retirants	Type of Retirement				Option Type Selected									
		1,3,5	2,4	6,8	7,9	1	2	3	4	5,8	6,7	9	0	Other	
\$*- 99	2,746	2,088	658	0	0	2,248	264	100	32	27	0	32	21	22	
\$100-199	7,161	4,095	2,960	99	7	5,304	873	500	165	52	61	64	19	123	
\$200-299	6,888	3,452	3,337	93	6	4,981	712	561	170	131	76	136	28	93	
\$300-399	5,682	2,947	2,658	64	13	3,981	640	554	146	125	40	162	24	10	
\$400-499	4,118	2,168	1,894	45	11	2,910	425	439	117	91	11	106	12	7	
\$500-599	3,262	1,768	1,463	20	11	2,238	361	377	91	97	2	78	13	5	
\$600-699	2,523	1,372	1,112	29	10	1,666	286	327	67	99	7	56	12	3	
\$700-799	2,021	1,099	877	33	12	1,370	233	264	58	63	10	13	10	0	
\$800-899	1,586	903	625	45	13	1,037	211	216	33	64	11	4	10	0	
\$900-999	1,270	796	410	51	13	818	170	171	30	55	15	1	9	1	
\$1000-1,999	6,767	5,571	785	320	91	3,604	1,130	1,125	124	599	115	33	36	1	
\$2,000 or More	1,280	1,209	37	31	3	444	270	190	20	340	4	6	6	0	
Totals	45,304	27,468	16,816	830	190	30,601	5,575	4,824	1,053	1,743	352	691	200	265	

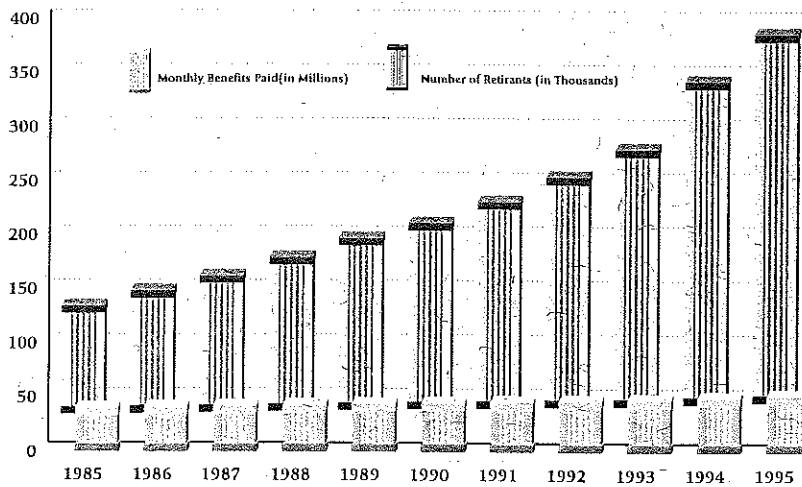


KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

Kansas Public Employees Retirement System Average Benefit by Years of Service - Five Year Summary New Retirees

Service Credit	1990	1991	1992	1993	1994
Less Than 5	60	81	77	107	103
Average Benefit	\$ 196.33	\$ 140.85	\$ 138.65	\$ 139.48	\$ 89.02
Average Years	2.78	2.64	2.74	2.75	2.40
5 - 9.99	159	170	156	151	172
Average Benefit	\$ 242.13	\$ 263.20	\$ 235.15	\$ 250.22	\$ 262.83
Average Years	7.00	6.96	7.13	7.05	7.08
10 - 14.99	427	416	395	437	455
Average Benefit	\$ 294.88	\$ 315.74	\$ 274.35	\$ 342.30	\$ 340.06
Average Years	11.94	11.85	12.11	12.08	11.87
15 - 19.99	352	396	368	445	430
Average Benefit	\$ 457.73	\$ 464.57	\$ 468.14	\$ 557.77	\$ 520.69
Average Years	17.05	16.78	16.94	17.02	16.88
20 - 24.99	374	376	394	419	472
Average Benefit	\$ 655.49	\$ 677.01	\$ 682.49	\$ 776.96	\$ 797.32
Average Years	21.95	21.94	21.96	21.96	21.79
25 - 29.99	286	278	287	425	481
Average Benefit	\$ 873.90	\$ 882.29	\$ 963.46	\$ 1,159.05	\$ 1,196.15
Average Years	26.69	26.61	26.74	27.07	26.84
30 - 34.99	210	214	305	426	438
Average Benefit	\$ 1,057.26	\$ 1,140.71	\$ 1,252.95	\$ 1,497.14	\$ 1,602.85
Average Years	31.78	31.82	31.77	31.96	31.98
35 - 39.99	207	274	324	394	375
Average Benefit	\$ 1,464.42	\$ 1,597.04	\$ 1,641.95	\$ 1,691.49	\$ 1,809.30
Average Years	36.66	36.60	36.60	36.69	36.69
40 - 44.99	74	97	121	147	135
Average Benefit	\$ 1,678.20	\$ 1,746.92	\$ 1,731.54	\$ 1,858.96	\$ 1,876.52
Average Years	41.20	41.53	41.33	41.41	41.48
45 - 49.99	6	8	11	15	11
Average Benefit	\$ 1,850.40	\$ 1,516.90	\$ 1,930.21	\$ 1,805.79	\$ 1,266.45
Average Years	46.67	46.50	45.91	46.33	45.64
50 and Over	2	4	1	1	3
Average Benefit	\$ 1,782.61	\$ 2,042.36	\$ 1,491.86	\$ 1,880.73	\$ 1,744.47
Average Years	52.00	52.75	51.00	52.00	51.33
Total Number	2,157	2,314	2,439	2,967	3,075
Average Benefit	\$ 693.75	\$ 753.14	\$ 828.13	\$ 969.03	\$ 987.87
Average Years	21.29	21.63	22.87	23.53	23.20

Comparison of Benefits Paid to Retired Members

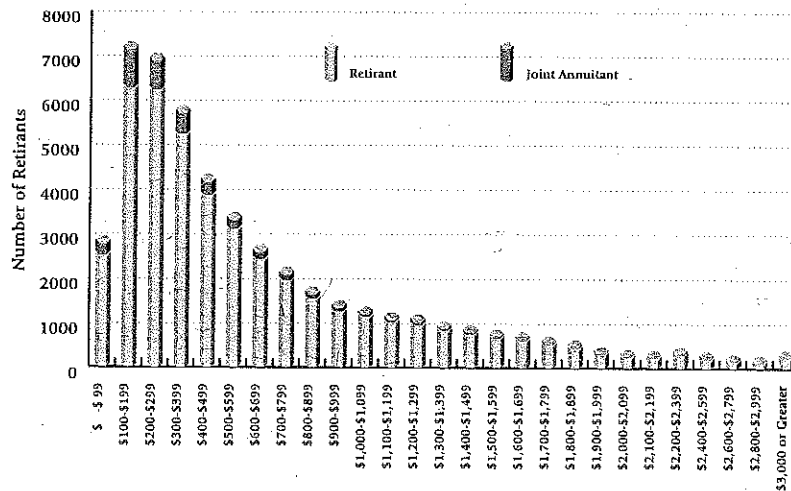


1995 ANNUAL REPORT

Kansas Public Employees Retirement System Average Benefit by Years of Service - Five Year Summary Joint Annuitant Only

Service Credit	1990	1991	1992	1993	1994
Less Than 5	6	6	5	4	5
Average Benefit	\$ 272.34	\$ 569.56	\$ 172.53	\$ 102.06	\$ 124.78
Average Years	2.83	2.67	3.60	2.25	2.60
5 - 9.99	12	6	14	9	11
Average Benefit	\$ 231.70	\$ 367.47	\$ 271.75	\$ 152.27	\$ 226.15
Average Years	7.25	7.33	7.29	7.33	6.64
10 - 14.99	20	18	16	13	10
Average Benefit	\$ 228.52	\$ 329.29	\$ 286.50	\$ 320.72	\$ 330.55
Average Years	12.50	11.72	12.06	12.38	11.20
15 - 19.99	15	15	31	17	10
Average Benefit	\$ 566.43	\$ 480.77	\$ 356.63	\$ 594.06	\$ 486.67
Average Years	17.00	16.93	17.03	16.53	17.00
20 - 24.99	16	16	19	27	17
Average Benefit	\$ 643.37	\$ 580.40	\$ 553.70	\$ 586.68	\$ 520.23
Average Years	21.81	22.31	21.89	22.48	22.12
25 - 29.99	10	13	15	12	7
Average Benefit	\$ 564.77	\$ 744.39	\$ 600.42	\$ 736.10	\$ 1,111.76
Average Years	26.60	27.23	26.00	26.67	26.71
30 - 34.99	13	20	15	9	9
Average Benefit	\$ 487.88	\$ 753.04	\$ 875.78	\$ 853.76	\$ 1,274.69
Average Years	32.38	32.00	32.27	31.56	32.22
35 - 39.99	15	14	11	11	10
Average Benefit	\$ 889.57	\$ 1,330.01	\$ 1,284.67	\$ 1,329.20	\$ 1,401.27
Average Years	36.27	36.50	37.09	36.45	36.00
40 - 44.99	4	5	10	3	2
Average Benefit	\$ 1,453.69	\$ 1,652.41	\$ 1,304.86	\$ 1,510.98	\$ 1,479.75
Average Years	41.00	41.20	41.20	41.67	40.50
45 - 49.99		1	2	1	
Average Benefit		\$ 1,513.34	\$ 1,775.22	\$ 887.78	
Average Years		45.00	45.50	47.00	
50 and Over					
Average Benefit					
Average Years					
Total Number	111	114	138	106	81
Average Benefit	\$ 530.84	\$ 712.11	\$ 606.52	\$ 645.72	\$ 695.73
Average Years	21.20	23.14	22.04	21.71	20.52

Benefit Amount as of June 30, 1995



CONSULTANTS

Actuary—Milliman & Robertson, Inc., Vienna, Virginia
Auditors—Berberich Trahan & Co., P.A., Topeka, Kansas
Investment Consultant—Mercer Investment Consulting, Inc., Dallas, Texas
Investment Performance Consultant—Thomson Investment Software,
Boston, Massachusetts

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Julius Baer Investment Management, Inc., New York, New York
Bankers Trust Company, New York, New York
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Wells Fargo Nikko Investment Advisors, San Francisco, California

INVESTMENT CUSTODIAN

Mellon Trust, Medford, Massachusetts

LIFE INSURANCE AND LONG TERM DISABILITY BENEFITS

Life—Security Benefit Group, Topeka, Kansas
Disability—Self Insured, Administered by Security Benefit Group,
Topeka, Kansas

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