2008 Comprehensive Annual Financial Report

Kansas Public Employees Retirement System

A component unit of the State of Kansas

Fiscal year ended June 30, 2008

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Prepared by KPERS Staff
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Topeka, KS 66603-3869

Glenn Deck, Executive Director
Leland Breedlove, Chief Fiscal Officer

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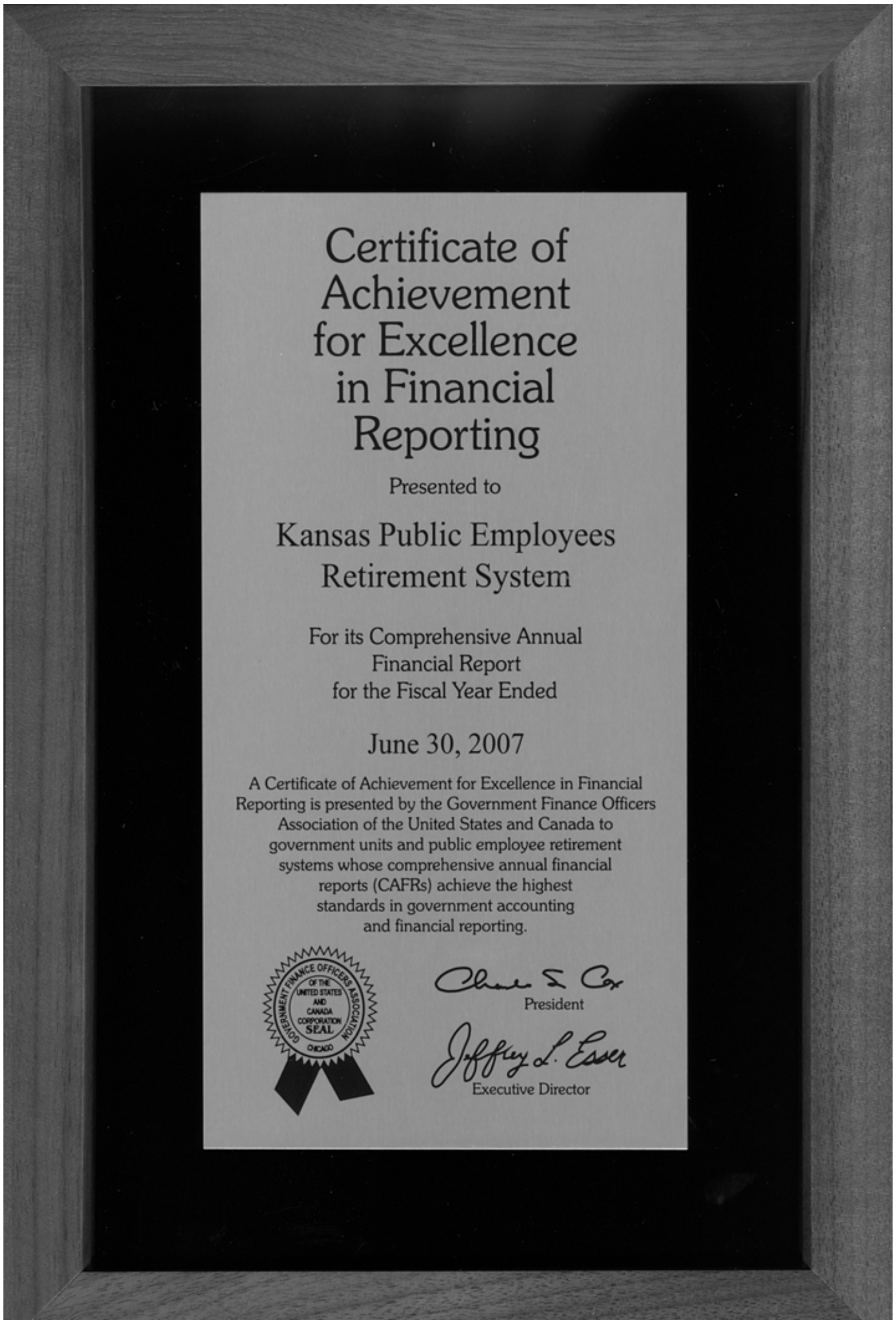

Certificate of
Achievement
for Excellence
in Financial
Reporting
Presented to
Kansas Public Employees
Retirement System
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007
A Certificate of Achievement for Excellence in Financial
Reporting is presented by the Government Finance Officers
Association of the United States and Canada to
government units and public employee retirement
systems whose comprehensive annual financial
reports (CAFRs) achieve the highest
standards in government accounting
and financial reporting.
President
Executive Director

INTRODUCTORY SECTION

December 10, 2008

Dear Board of Trustees and Members:

I am pleased to present the Kansas Public Employees Retirement System's Comprehensive Annual Financial Report (CAFR) for fiscal year 2008. The initiatives and financial information included in this report represent more than just a year of our work. They represent our commitment to our mission. We work every day to provide dependable benefits and to be a trusted financial partner for the members we serve.

In addition to informing the Board of Trustees, members and employers, our annual report fulfills KPERS' reporting responsibilities defined in Kansas statute. Printed copies are readily available to the public as well as a full version is posted on our web site, kpers.org.

As the first item in the CAFR, this transmittal letter provides a high-level overview of the Retirement System. The Management's Discussion and Analysis section provides a narrative introduction and analysis of our financial activities over the last two fiscal years. This letter is intended to complement the MD&A and they should be read together.

Ensuring accuracy

Responsibility for the preparation, accuracy and completeness of this report, including all disclosures, rests firmly with KPERS management. Information is presented in accordance with generally accepted accounting principles. To the best of our knowledge, the enclosed data is accurate in all material respects and fairly presents our financial position and operating results.

The Retirement System maintains a framework of internal controls to establish reasonable assurance that assets are safeguarded, transactions are completed accurately, and financial statements are fair and reliable. We also have an internal audit program that reports to the Board of Trustees. In addition to internal controls, the independent certified public accounting firms Allen, Gibbs & Houlik, L.C. and Berberich Trahan & Co., PA, conducted an independent audit of the Retirement System for 2008.

Our profile

The Kansas Legislature created the Kansas Public Employees Retirement System in 1962 to secure a financial foundation for those spending their careers in Kansas public service. The Retirement System provides disability and death benefits to protect employees while they are still working, and guarantees them a lifetime benefit when they retire.

We have three state-wide defined benefit retirement plans offered by about 1,450 state and local employers. Our membership totals over 260,000, including active, inactive and retired members. The Retirement System paid just over $1 billion in benefit payments for fiscal year 2008. Approximately 85 to 90 percent of those benefits remained in Kansas.

In addition to the defined benefit plans, KPERS also administers the State's Deferred Compensation Plan. The plan is a voluntary 457(b) savings program for State of Kansas employees. Many local public employers also participate.

A nine-member Board of Trustees oversees the Retirement System: four are appointed by the Governor, one is appointed by the President of the Senate, one is appointed by the Speaker of the House of Representatives, two are elected by Retirement System members, and one is the elected State Treasurer. The Board appoints an executive director who manages a staff to carry out daily operations.

The Board approves the System's annual operating budget. As a component unit of the State of Kansas, the budget is also approved by the Kansas Legislature and Governor as part of the regular legislative budgetary process.

Financial position and funding outlook

According to the Retirement System's most recent actuarial valuation (dated December 31, 2007), the System remained in actuarial balance. The overall funded ratio was 70.8 percent, increased slightly from 69 percent the year before. The System's unfunded actuarial liability (UAL) increased as expected from $5.36 billion in 2006 to $5.55 billion as of December 31, 2007. This UAL amount is the gap between the actuarial value of assets and the actuarial liability for service already earned by public employees.

Since that valuation, we have seen the worst year for the stock market since 1931, yielding unprecedented negative investment returns. Even with a strong, sustained market recovery, the UAL will significantly increase going forward and the funded ratio will decline.

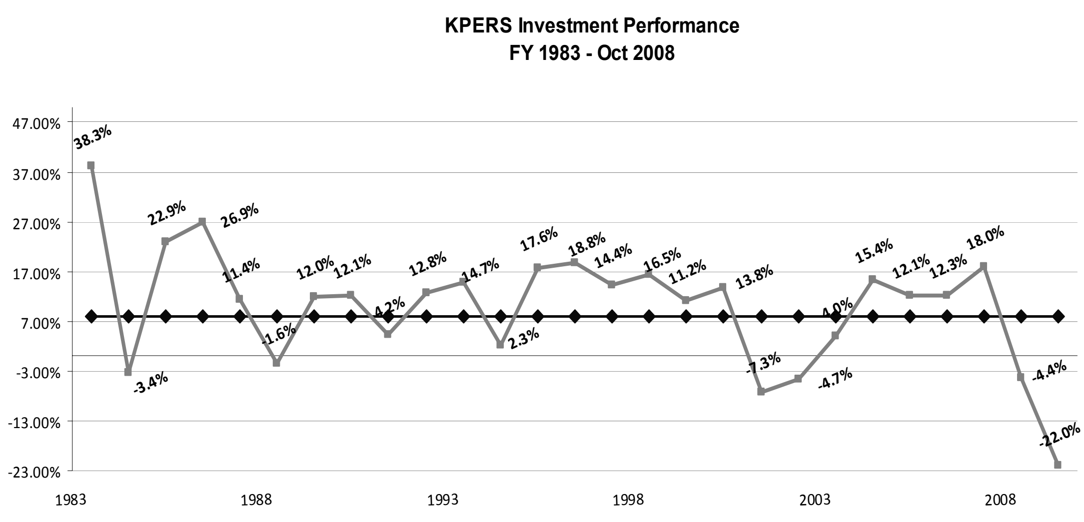
Projections indicate that the School group is not in actuarial balance. While benefits are safe in the near-term, the System will not have enough assets over the long-term to provide benefits already earned. Addressing the long-term funding shortfall is critical and will be costly. The longer we wait to act, the more it will eventually cost. In the meantime, KPERS will continue to carefully manage members' assets and to work with the Kansas Legislature and Governor to develop a plan to protect the long-term financial health of the system.

Investments

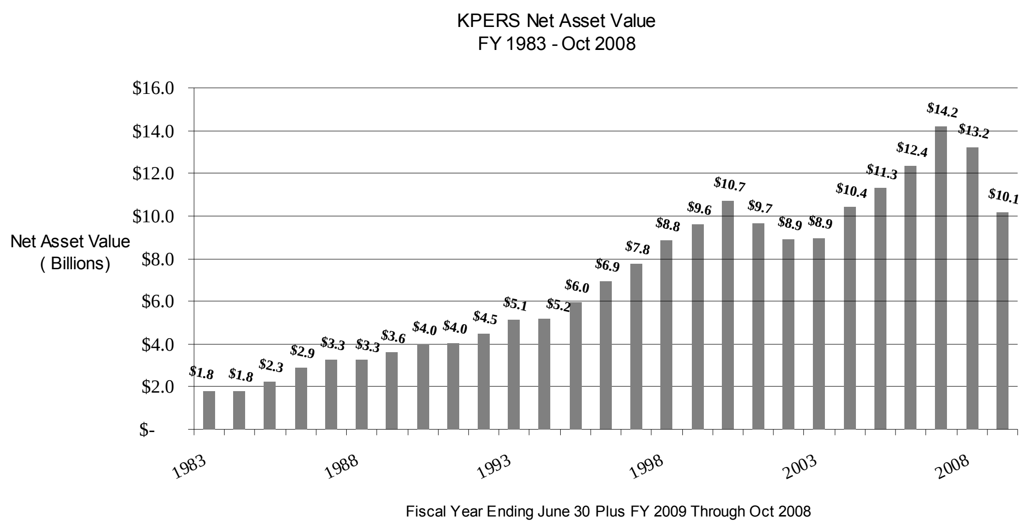
On average, investment income funds about 70 percent of Retirement System benefits. It is our goal at KPERS to invest the System's assets according to the "prudent expert standard of care" for the sole purpose of providing benefits to our members.

In a difficult investment environment, the Retirement System portfolio returned negative 4.4 for the fiscal year ended June 30, 2008, and the S&P 500 index returned a negative 13.1 percent. Since then, negative returns have been especially extreme. All equity markets have been down substantially, including the S&P 500 with a negative 23.8 percent return for the fiscal year through October 31, 2008. Reflecting this market turmoil, KPERS portfolio returned negative 22.0 during the same period. We cannot predict the length and final depth of the market decline. Historically markets have recovered and this should help offset some of the current losses.

KPERS actuarial projections assume an average, long-term investment return of 8 percent. In some years, returns will be below that rate, and in others, returns will exceed it. Healthy returns over time are essential for proper funding.



Even with varying return rates over the last 25 years, the System's assets have continued a general pattern of growth.



For more information about KPERS diversified and disciplined approach to executing our investment strategy and policies, please refer to the investment section in this report, beginning on page 45. This section also provides details about our asset allocation and specific yields.

Major initiatives

Plan Administration

- January 1, 2008, KPERS began administering the State of Kansas' Deferred Compensation Plan, previously with the Kansas Department of Administration. The plan is a voluntary 457(b) savings program for State employees and many local public employees. The integration of the Deferred Compensation Plan with KPERS provides excellent opportunities for coordinating communication materials, websites, educational presentations and retirement counseling.

- As part of our long-term funding plan, new KPERS members beginning July 1, 2009, will have a different benefit structure than current members. Staff has focused on the numerous implementation tasks for the July 1 effective date, including communication with employers on the design changes, changes to member communication materials and website information, and critical information system modifications to properly administer the new benefits.

Investments

- The triennial asset/liability study was completed. The study uses statistical and actuarial methods to project the future growth path of both assets and liabilities. These projections help determine the asset allocation that, when combined with future contributions, most effectively and efficiently supports benefit payments.

- Based on results from the triennial study, the Board of Trustees adopted a new asset allocation, a "Real Return" portfolio. The Treasury Inflation Protected Securities (TIPS) portfolio was restructured into this newly formed asset class. Ultimately, the Real Return portfolio will provide greater diversification for System assets and also provide some protection against inflation.

- KPERS restarted its private equity program. To get the program off the ground, staff hired a new consultant, developed a long-term asset class strategy and began making new investments.

Communication

- During the last year, KPERS utilized web technology to expand employer and member education and training opportunities through online web training videos and other multimedia content.

- The Member Services division increased field services staffing and reorganized this function to provide additional education for members and employers.

- Using results from a member survey, we fine tuned the member annual statement and developed additional templates with targeted messages. All first-run statements were distributed a full month ahead of last year, for one of our best years ever. KPERS also partnered with our largest employer to pilot home delivery for the first time.

Technology

- A multi-divisional team began developing a new member web portal. Members will be able to access their personal account information online. We will incrementally expand access and web-enabled transactions over the next few years. The initial rollout is scheduled for fiscal year 2009.

- Information Resources and Member Services have worked on a new project to integrate information from phone calls answered through the InfoLine (the System's customer call center) into individual member records in our information system. When implemented next fiscal year, it will improve service levels and accuracy, as well as improve our ability to focus education and communication resources.

- Staff has made significant progress on three new information technology projects: disaster recovery, information security enhancements and platform consolidation. All three are scheduled to finish in 2009.

Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Retirement System for the 2007 CAFR. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

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 must conform to program standards. The comprehensive annual financial report must satisfy both generally accepted accounting principles and applicable legal requirements. The Retirement System has received the Certificate of Achievement for each of the last 14 consecutive fiscal years. We believe our current report again conforms to the program requirements, and we will submit it to the GFOA for consideration.

Acknowledgements

This CAFR is the synthesis of work from KPERS staff and advisors under the Board's leadership. Thank you for your many efforts. The report is an asset to our organization, providing reliable, accurate information on which we base important decisions.

I believe our organization has had another successful year as the result of the teamwork and dedication from our outstanding staff. I look forward to continuing to work in partnership with the Board and staff to meet our fiduciary responsibilities and provide excellent service.

Sincerely,

Glenn Deck
Executive Director

Board of Trustees

Executive Staff

Glenn Deck
Executive Director

Leland Breedlove
Chief Fiscal Officer

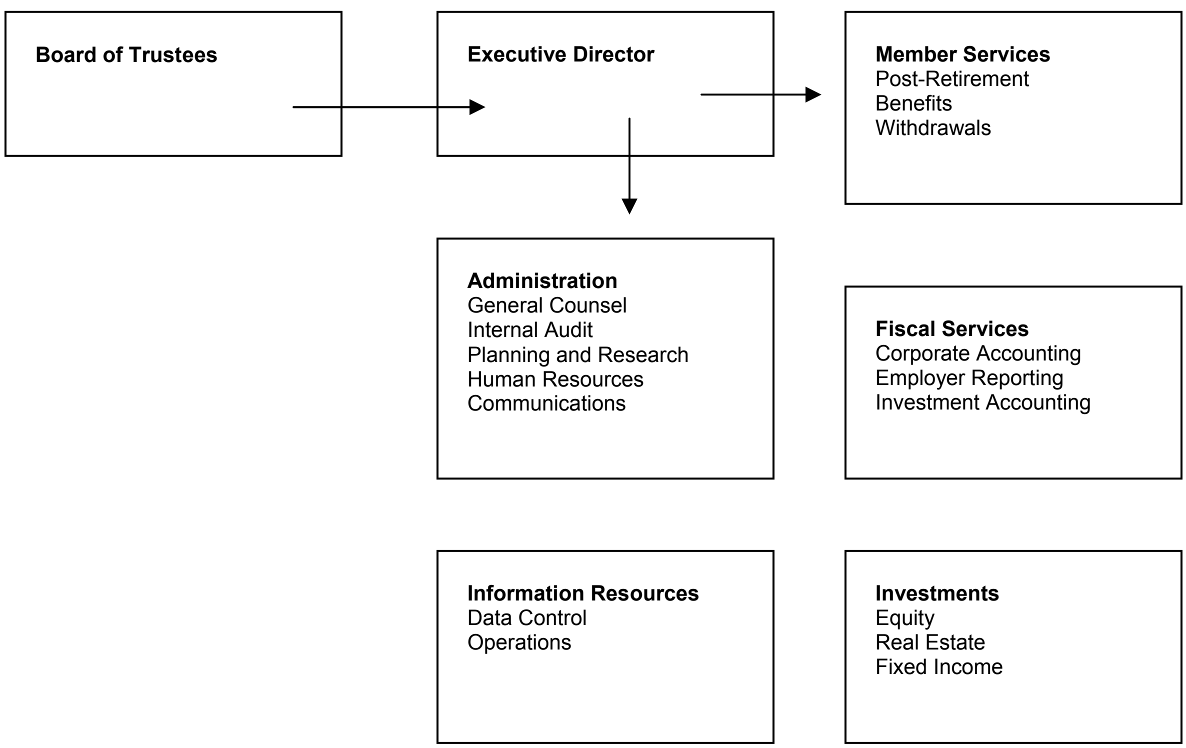
Mary Beth Green
Member Services Officer

Laurie McKinnon
General Counsel

John Oliver
Chief Information Officer

Vince Smith
Chief Investment Officer

Organization Chart



Consultants and Advisors

Auditors	A joint venture of Allen, Gibbs & Houlik, L.C., Wichita, Kansas, and Berberich Trahan & Co., P.A., Topeka, Kansas
Actuary	Milliman, Inc., Omaha, Nebraska
Investment Consultants	Pension Consulting Alliance, Inc., Encino, California PCA Real Estate Advisors, San Francisco, California Ennis Knupp, Chicago Illinois LP Capital Advisors, Sacramento, California
Investment Managers	Acadian Asset Management, Boston, Massachusetts AEW Capital Management, LP, Boston, Massachusetts Alliance Bernstein, New York, New York Barclays Global Investors, San Francisco, California Capital Guardian Trust Company, Los Angeles, California Loomis, Sayles & Company, LP, Boston, Massachusetts Morgan Stanley Asset Management Inc., New York, New York Morgan Stanley Real Estate Advisor Inc., Atlanta, Georgia Nomura Asset Management, Inc., New York, New York Pacific Investment Management Company, Newport Beach, California Pareto Partners, New York, New York Payden & Rygel Investment Counsel, Los Angeles, California Portfolio Advisors, LLC, Darien, Connecticut Quantitative Management Associates, Newark, New Jersey Wellington Management Company, LLP, Boston, Massachusetts Western Asset Management Company, Pasadena, California
Investment Custodian	Bank of New York Mellon, Everett, Massachusetts
Life Insurance	Minnesota Life Insurance Company, St. Paul, Minnesota
Long-Term Disability	Self Insured, Administered by Disability Consulting Group LLC, Portland, Maine

Staff

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Latricia Anderson
Yohonna Barraud
Kristen Basso
Steve Beck
Dianna Berry
Becky Betts
Kathleen Billings
Anita Bradley
Leland Breedlove
Greg Buchanan
Jason Carreno
Lorie Conklin
Tammy Cruz
Andrea Davenport
Oma Davis
Glenn Deck
Don Deseck
Yolanda Dickinson
Amy Dunton
Joyce Edington
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Certified Public Accountants

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 (the System), a component unit of the State of Kansas, as of June 30, 2008, and the related statement of changes in plan net assets for the year then ended. These basic financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The prior year summarized comparative information has been derived from the System's 2007 financial statements and, in our report dated December 6, 2007, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 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 basic 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, 2008, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2008, on our consideration of the System's internal control over financial reporting and on our tests on its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis included on pages 16 through 20 and the Required Supplementary Information on pages 39 through 40 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The accompanying introductory, investment, actuarial and statistical sections and supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The investment and actuarial sections and supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Allen, Gibbs & Houlik, L.C.
Berberich Trahan & Co., P.A.

December 17, 2008

Management's Discussion & Analysis

This section presents management's discussion and analysis of the Kansas Public Employees Retirement System financial performance during the fiscal year that ended June 30, 2008. It is presented as a narrative overview and analysis in conjunction with the Executive Director's letter of transmittal.

The Kansas Public Employees Retirement System (KPERS, the Retirement System, or the System) is an umbrella organization administering the following three statewide pension groups under one plan, as provided by chapter 74, article 49 of the Kansas Statutes:

- Kansas Public Employees Retirement System
- Kansas Police and Firemen's Retirement System
- Kansas Retirement System for Judges

All three systems are part of a governmental, defined benefit, contributory plan covering substantially all Kansas public employees. The Kansas Retirement System for Judges is a single employer group, while the other two are multi-employer, cost-sharing groups. The State of Kansas and Kansas school districts are required to participate, whereas participation by local political subdivisions is optional but irrevocable once elected.

Financial Highlights

- The System's net assets decreased by $990 million or 7.0 percent from $14,183,072,962 to $13,193,063,915.

- As of December 31, 2007, the date of the most recent actuarial valuation, the Retirement System's funded ratio was 70.8 percent compared with a funded ratio of 69.4 percent for the prior year.

- The unfunded actuarial liability increased from $5.364 billion at December 31, 2006, to $5.552 billion at December 31, 2007.

- On a market value basis, this year's investment return rate was negative 4.4 percent, compared with last year's return of positive 18.0 percent.

- Retirement benefits paid to retirees and beneficiaries increased 8.2 percent from $868 million in fiscal year 2007 to $946 million in fiscal year 2008.

Overview of the Financial Statements

This discussion and analysis is an introduction to the System's basic financial statements, which comprise the following components:

1) Basic financial statements
2) Notes to the financial statements
3) Required supplementary information
4) Other supplementary schedules

The information available in each of these sections is summarized as follows.

Basic Financial Statements

A Statement of Plan Net Assets as of June 30, 2008, and a Statement of Changes in Plan Net Assets for the fiscal year ended June 30, 2008, are presented with the previous year's comparative information. These financial statements reflect the resources available to pay benefits to retirees and other beneficiaries as of year end, as well as the changes in those resources during the year.

Notes to the Basic Financial Statements

The financial statement notes provide additional information that is essential to a full understanding of the data provided in the financial statements. Information available in the notes to the financial statements is described in the paragraphs to follow.

Note 1 provides a general description of the Retirement System, as well as a description of the plan benefits and overview of the contributions that are paid by employers and members. Information regarding a breakdown of the number of participating employers and members is also provided.

Note 2 provides a summary of significant accounting policies, including the basis of accounting, investments, including investing authority, investment risk categorizations, and the method used to value investments, and additional information about cash, securities lending and derivatives. Note 2 also contains information regarding the Retirement System's required reserves. The various reserves include the Members Accumulated Contribution Reserve, Retirement Benefit Accumulation Reserve, Retirement Benefit Payment Reserve, Group Insurance Reserve Fund, the Expense Reserve and the Optional Term Life Insurance Reserve.

Note 3 provides information about System funding policies and employer contributions made to the System by the three different funding groups.

Note 4 provides information about other post employment benefits that the System administers. The Governmental Accounting Standards Board issued GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and it went into effect for periods beginning after December 15, 2005. As part of the reporting requirements declared by this statement, the financial status and activity of the KPERS Death and Disability Plan are displayed separately in the Statement of Net Assets and the Statement of Changes in Plan Net Assets. Required supplemental schedules display the funded status and funding progress of the plan, and the significant methods and assumptions used. As noted in the funding status schedules, the KPERS group insurance reserve fund is 7.2 percent funded as of June 30, 2007, the last date of the actuarial valuation of the Death and Disability Plan.

Note 5 describes System capital expenditure commitments to real estate and alternative investments. This section also generally describes potential System contingencies.

Required Supplementary Information

The required supplementary information consists of schedules and related notes concerning the funded status of the pension plans administered by the Retirement System and other post employment benefits.

Other Supplementary Schedules

Other schedules include detailed information on contributions by employer coverage groups, administrative expenses, an investment income summary, and a schedule of investment fees and expenses.

Financial Analysis of the Retirement System

The System provides benefits to State of Kansas and other local and school employees. Benefits are funded by member and employer contributions and by investment earnings. Net assets held in trust for benefits at June 30, 2008, amounted to $13,193,063,915, a decrease of $990 million, 7.0 percent, from $14,183,072,962 at June 30, 2007. Following are two summary schedules, Plan Net Assets and Changes in Plan Net Assets, comparing information from fiscal years 2007 and 2008.

Summary Comparative Statements of Plan Net Assets

	As of June 30, 2008	As of June 30, 2007	Percentage Change
Assets			
Cash and Deposits	$ 406,994	$ 270,888	50.24%
Receivables 3,156,838,47	5	3,869,770,192	(18.42)
Investments at Fair Value	13,527,063,862	14,718,055,888	(8.09)
Invested Securities Lending Collateral	2,205,187,750	2,418,559,400	(8.82)
Capital assets and supplies inventory	6,668,232	5,978,120	11.54
Total Assets	18,896,165,313	21,012,634,488	(10.07)
Liabilities			
Administrative Costs	602,913	678,339	(11.12)
Benefits Payable	1,207,447	3,050,261	(60.41)
Investments Purchased	3,484,042,240	4,407,273,526	(20.95)
Securities Lending Collateral	2,217,248,798	2,418,559,400	(8.32)
Total Liabilites	5,703,101,398	6,829,561,526	(16.49)
Net Assets	**$13,193,063,915**	**$14,183,072,962**	**(6.98)%**

Summary Comparative Statements of Changes in Plan Net Assets

	Year Ended June 30, 2008	Year Ended June 30, 2007	Percentage Change
Additions			
Contributions $727,755,73	8	$655,813,288	10.97%
Net Investment Income (loss)	(652,406,020)	2,158,024,931	(130.23)
Net Investment Income from Securities Lending Activity	3,303,038	4,056,541	(18.58)
Total Net Investment Income (loss)	(649,102,982)	2,162,081,472	(130.02)
Other Miscellaneous Income	225,736	228,986	(1.42)
Total Additions	78,878,492	2,818,123,746	(97.20)
Deductions			
Monthly Retirement Benefits	945,704,657	868,179,029	8.93
Refunds 48,472,690		46,129,211	5.08
Death Benefits	8,388,935	9,153,582	(8.35)
Insurance Premiums and Disability Benefits	56,718,131	55,585,886	2.04
Administrative 9,603,126		8,893,544	7.98
Total Deductions	1,068,887,539	987,941,252	8.19
Net Increase (decrease)	(990,009,047)	1,830,182,494	(154.09)
Net Assets Beginning of Year	**$14,183,072,962**	**$12,352,890,468**	**14.82**
Net Assets End of Year	**$13,193,063,915**	**$14,183,072,962**	**(6.98)%**

Additions to the System's net assets held in trust for benefits include employer and member contributions, as well as investment income. Total contributions to the Retirement System increased from $655.8 million in fiscal year 2007 to $727.8 million in fiscal year 2008.

The System recognized a net investment loss of $649 million for the 2008 fiscal year, compared with a net investment gain of $2.162 billion for the 2007 fiscal year. Total return for the portfolio was a negative 4.4 percent, compared with the benchmark return of negative 3.3 percent. System net investments amounted to $13.127 billion at June 30, 2008, which was $981 million less than the $14.108 billion in total System investments at June 30, 2007. The Retirement System's one-, three-, five- and ten-year investment performance against the assumed rate of investment return are shown in the chart below. The assumed rate of return is 8 percent.

One Year	Latest Three Years	Latest Five Years	Latest Ten Years
(4.43%)	8.21%	10.39%	6.66%

At June 30, 2008, the System held $7.0 billion in U.S. equity and international equity securities, a decrease of approximately $1.2 billion from the 2007 fiscal year. U.S. equity and international equity securities earned returns of approximately negative 13.8 percent and negative 5.9 percent, respectively, for the 2008 fiscal year. These compare with the Retirement System's benchmark returns of negative 12.7 and negative 6.2 percent, respectively.

The System held $4.7 billion in U.S. debt and international debt securities, an increase of $137 million from the 2007 fiscal year. The TIPS portfolio return for 2008 was 15.4 percent, matching the benchmark return of 15.4 percent. The performance of the System's other fixed income securities during fiscal year 2008 was 5.1 percent, compared with the benchmark of 6.2 percent. Real estate investments decreased $66 million to $956 million at June 30, 2008. Real estate investments returned approximately negative 3.5 percent for the 2008 fiscal year, versus the benchmark real estate return of 5.3 percent. The System held $403 million in alternative investments, which was a $51 million decrease from June 30, 2007. Alternative investments earned a return of approximately 9.3 percent for the 2008 fiscal year, compared to the benchmark alternative investment return of negative 6.5 percent. At June 30, 2008, the System held $489.3 million in short-term investments, which was an increase of $45.3 million from June 30, 2007.

The Retirement System earns additional investment income by lending investment securities to brokers. The brokers provide collateral to the System and generally use the borrowed securities to cover short sales and failed trades. The Retirement System invests cash collateral received from the brokers in order to earn interest. For the fiscal year 2008, net securities lending income amounted to $3.3 million, compared with $4.1 million in fiscal year 2007.

Deductions from net assets held in trust for benefits include retirement, death and survivor benefits, and administrative expenses. For the 2008 fiscal year, retirement, death and insurance benefits amounted to $1,059.3 million, an increase of $80.3 million, 8.2 percent, from the 2007 fiscal year. The increase in benefit payments was a result of an increase in the number of retirees. For the 2008 fiscal year, System administrative expenses amounted to $9.603 million compared with $8.894 million in fiscal year 2007. This increase was mainly due to costs associated with developing and securing the System's new information system. The ratio of System administrative expenses to the number of members (approximately $43 per member) continues to be very cost-efficient compared to other statewide retirement plans.

Retirement Funding Status

The 1993 Kansas Legislature improved KPERS benefits and adopted a 40-year payment plan that gradually increased employer contributions to pay for the enhancements. By the early 2000s, it became apparent that the planned rate increases were insufficient to fund those benefits, creating a long-term funding problem. Over the last seven years, the Retirement System's Board of Trustees, staff and actuary have worked closely with the Legislature's Joint Committee on Pensions, Investments and Benefits and the Governor's office to implement a comprehensive funding plan, including:

- A series of scheduled employer contribution rate increases.
- Issuing pension obligation bonds.
- Making actuarial changes.
- Adopting plan design changes for *future* employees.

All key steps were implemented with significant success through 2007. In addition, the System's average annual investment performance for calendar years 2003 to 2007 was 11 percent. Funding improvements garnered from the plan implementation, coupled with positive investment results, brought the Retirement System into actuarial balance. However, continued positive funding projections hinged on meeting or exceeding the System's assumed investment target of 8 percent and employer contributions continuing to increase until they met the actuarially required rate.

Latest Actuarial Projections

In the Retirement System's most recent actuarial valuation, dated December 31, 2007, our consulting actuary reported that the funding condition was close to what we expected. According to that valuation, the System remained in actuarial balance and the unfunded actuarial liability (UAL) increased from $5.36 billion as of December 31, 2006, to $5.55 billion as of December 31, 2007. The UAL will continue to increase until statutory employer contribution rates catch up with the actuarially required contribution (ARC) rates. The System's overall funding ratio increased to 70.8 percent.

	UAL ($ in millions)	Funded Ratio
Kansas Public Employees Retirement System		
• KPERS State Group	$ 451	87%
• KPERS School Group	$3,862	63%
• KPERS Local Group	$ 940	70%
Kansas Police and Firemen's Retirement System	$ 284	86%
Kansas Retirement System for Judges	$ 15	89%
Retirement System Overall Total	**$5,552**	**71%**

Negative investment returns since the December 31, 2007, valuation have had a substantial impact on the Retirement System's long-term funding outlook. Unprecedented negative returns through the fourth quarter of calendar year 2008 have been especially damaging due to the ongoing global economic crisis. The funding status of all coverage groups has been affected. Management expects the School group to be out of actuarial balance within the current amortization period, given the current actuarial assumptions and scheduled rate of contributions. Options for increasing employer contributions need to be considered to bring the System back into actuarial balance.

Even with a strong, sustained market recovery, the UAL will significantly increase and the System's funded ratio will decline. This year's negative returns will be averaged in over the next five years, offsetting part of the loss. In addition, the KPERS' portfolio is carefully diversified across several asset classes and has the benefit of a steady, long-term investment strategy to help weather the ups and downs of the market over time. As an institutional investor, KPERS' time horizon is longer than most investors. Actual investment returns over the next few years will determine exactly how much funding will be affected and how much the UAL will increase. The Retirement System's Board of Trustees and staff will continue to closely monitor investment returns and funding status. In addition, they plan to work with the Legislature and Governor to recommend needed adjustments to protect the long-term financial health of the Retirement System and to secure funds for all future benefit payments.

Funding and Member Benefits

All current and future KPERS retirement benefits are dependable and guaranteed by the State of Kansas. Neither the UAL nor the funding status alters the State's obligation to pay promised benefits to current members. KPERS will continue to work on behalf of our members to advocate policies that provide for the health and stability of the Retirement System.

Statement of Plan Net Assets as of June 30, 2008

with comparative figures for 2007

	KPERS Grou Fund &	p Death Disability Fund	2008 Totals Total	2007 s
Assets				
Cash and Deposits				
Cash	$ 67,124	$ 202,660	$ 269,784	$ 270,888
Deposits with Insurance Carrier	-	137,210	137,210	-
Total Cash and Deposits	67,124	339,870	406,994	270,888
Receivables				
Contributions	63,709,150	9,525,035	73,234,185	72,712,122
Investment Income	56,270,943	59,360	56,330,303	52,665,604
Sale of Investment Securities	3,027,273,987	-	[illegible]	[illegible]
Total Receivables	3,147,254,080	9,584,395	3,156,838,475	3,869,770,192
Investments at Fair Value				
Domestic Equities	3,941,009,919	-	3,941,009,919	4,615,179,896
International Equities	3,053,973,317	-	3,053,973,317	3,636,724,650
Cash and Equivalents	456,614,796	32,655,428	489,270,224	443,921,954
Fixed Income	4,683,905,223	-	4,683,905,223	4,546,613,610
Alternative Investments	403,318,841	-	403,318,841	454,022,428
Real Estate	955,586,338	-	955,586,338	1,021,593,350
Total Investments at Fair Value	13,494,408,434	32,655,428	13,527,063,862	14,718,055,888
Invested Securities Lending Collateral	2,205,187,750	-	2,205,187,750	2,418,559,400
Capital Assets and Supplies Inventor	6,668,232	-	6,668,232	5,978,120
Total Assets	**18,853,585,620**	**42,579,693**	**18,896,165,313**	**21,012,634,488**
Liabilities				
Administrative Costs	602,913	-	602,913	678,339
Benefits Payable	1,088,312	119,135	1,207,447	3,050,261
Securities Purchased	3,484,042,240	-	3,484,042,240	4,407,273,526
Securities Lending Collateral	2,217,248,798	-	2,217,248,798	2,418,559,400
Total Liabilities	**5,702,982,263**	**119,135**	**5,703,101,398**	**6,829,561,526**
Net assets held in trust for pension benefits and other post employment benefits	**$13,150,657**	**$42,460,558**	**$13,193,063,915**	**$14,183,072,962**

A schedule of funding progress for the plan is presented on pages 39 and 40.

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

Statement of Changes in Plan Net Assets

for the fiscal year ended June 30, 2008, with comparative figures for 2007

	KPERS Fund	Group Death & Disability Fund	2008 Totals	2007 Totals
Additions				
Contributions				
Member Contributions	$269,603,155	$ -	$269,603,155	$256,995,275
Employer Contributions	395,752,213	62,400,370	458,152,583	398,818,013
Total Contributions	665,355,368	62,400,370	727,755,738	655,813,288
Investments				
Net Appreciation (Depreciation) in Fair Value of Investments	(1,012,601,549)	-	(1,012,601,549)	1,816,702,680
Interest	211,727,774	968,222	212,695,996	195,760,216
Dividends	137,983,566	-	137,983,566	136,434,906
Real Estate Income, Net of Operating Expenses	40,288,418	-	40,288,418	39,114,763
Other Investment Income	264,000	-	264,000	261,734
	(622,337,791)	968,222	(621,369,569)	2,188,274,299
Less Investment Expense	(31,029,901)	(6,550)	(31,036,451)	(30,249,368)
Net Investment Income (Loss)	(653,367,692)	961,672	(652,406,020)	2,158,024,931
From Securities Lending Activities				
Securities Lending Income	95,645,344	-	95,645,344	125,998,402
Securities Lending Expenses				
Borrower Rebates	(89,471,546)	-	(89,471,546)	(120,938,041)
Management Fees	(2,870,760)	-	(2,870,760)	(1,003,820)
Total Securities Lending Activities Expense	(92,342,306)	-	(92,342,306)	(121,941,861)
Net Income from Security Lending Activities	3,303,038	-	3,303,038	4,056,541
Total Net Investment Income (Loss)	(650,064,654)	961,672	(649,102,982)	2,162,081,472
Other Miscellaneous Income	136,955	88,781	225,736	228,986
Total Additions	15,427,669	63,450,823	78,878,492	2,818,123,746
Deductions				
Monthly Retirement Benefits Paid	(945,704,657)	-	(945,704,657)	(868,179,029)
Refunds of Contributions	(48,472,690)	-	(48,472,690)	(46,129,211)
Death Benefits	(8,388,935)	-	(8,388,935)	(9,153,582)
Insurance Premiums and Disability Benefits	(6,824,361)	(49,893,770)	(56,718,131)	(55,585,886)
Administrative Expenses	(9,253,050)	(350,076)	(9,603,126)	(8,893,544)
Total Deductions	(1,018,643,693)	(50,243,846)	(1,068,887,539)	(987,941,252)
Net Increase (Decrease)	(1,003,216,024)	13,206,977	(990,009, 047)	1,830,182,494
Net Assets held in trust for Pension Benefits and Other Post Employment Benefits				
Balance Beginning of Year	14,153,819,381	29,253,581	14,183,072,962	12,352,890,468
Balance End of Year	$13,150,603,357	$42,460,558	$13,193,063,915	$14,183,072,962

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

Note 1: Plan Description

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 pension groups under one plan, as provided by K.S.A. 74, article 49:

- Kansas Public Employees Retirement System (KPERS)
- Kansas Police and Firemen's Retirement System (KP&F)
- Kansas Retirement System for Judges (Judges)

All three systems are part of a tax-exempt, defined benefit, contributory plan covering substantially all public employees in Kansas. The Kansas Retirement System for Judges is a single employer group and the other two are multi-employer, cost-sharing groups. The State of Kansas and Kansas schools are required to participate, while participation by local political subdivisions is optional but irrevocable once elected. Participating employers and membership are as follows:

Number of Participating Employers

	KPERS	KP&F	Judges
State of Kansas	1	1	1
Counties	105	29	—
Cities	361	55	—
Townships	54	—	—
School Districts	296	—	—
Libraries	121	—	—
Conservation Districts	83	—	—
Extension Councils	74	—	—
Community Colleges	19	—	—
Educational Cooperatives	23	—	—
Recreation Commissions	42	1	—
Hospitals	29	—	—
Cemetery Districts	12	—	—
Other	176	—	—
Total	**1,396**	**86**	**1**

Membership by Retirement Systems

	KPERS	KP&F	Judges	Total
Retirees and beneficiaries currently receiving benefits	64,188	3,782	181	68,151
Terminated employees entitled to benefits but not yet receiving them	9,623	132	14	9,769
Inactive members, deferred disabled	2,911	175	0	3,086
Inactive members not entitled to benefits	27,517	1,011	0	28,528
Current employees	146,406	7,137	261	153,804
Total	**250,645**	**12,237**	**456**	**263,338**

Plan Benefits

Members (except KP&F members) with ten or more years of credited service, may retire as early as age 55 (KP&F members may be age 50 with 20 years of credited service), with an actuarially reduced monthly benefit. Normal retirement is at age 65, age 62 with ten 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 age 60 with 15 years of credited service, age 55 with 20 years, age 50 with 25 years, or any age with 32 years of service). Monthly retirement benefits are based on a statutory formula that includes final average salary and years of service. When ending employment, members may withdraw their contributions from their individual accounts, including interest. Members who withdraw their accumulated contributions lose all rights and privileges of membership. For all pension coverage groups, the accumulated contributions and interest are deposited into and disbursed from the membership accumulated reserve fund as established by K.S.A. 74-4922.

Members choose one of seven payment options for their monthly retirement benefits. At retirement a member may receive a lump-sum payment of up to 50 percent of the actuarial present value of the member's lifetime benefit. His or her monthly retirement benefit is then permanently reduced based on the amount of the lump sum. Benefit increases, including ad hoc post-retirement benefit increases, must be passed into law by the Kansas Legislature. Benefit increases are under the authority of the Legislature and the Governor of the State of Kansas. For all pension coverage groups, the retirement benefits are disbursed from the retirement benefit payment reserve fund as established by K.S.A . 74-4922.

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

Active members (except KP&F and Judges members) are also covered by the provisions of the disability income benefit plan. Since 2006, annual disability income benefits have been based on 60 percent 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 benefit. Members who were approved for disability benefits before 2006 have an annual benefit based on 66 percent of the annual compensation at the time of disability. For both groups, the minimum monthly benefit is $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 be eligible for group life insurance coverage and to accrue participating service credit.

Contributions

Member contributions (from 4 to 7 percent of gross compensation), employer contributions and net investment income fund Retirement System reserves. Member contribution rates are established by state law, and are paid by the employee according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates be determined based on the results of each annual actuarial valuation. The contributions and assets of all three systems are deposited in the Kansas Public Employees Retirement Fund established by K.S.A. 74-4921. All of the retirement systems are funded on an actuarial reserve basis (see Note 3). For fiscal years beginning in 1995, Kansas legislation placed a statutory limit of 0.1 percent of payroll on increases in contribution rates for KPERS employers. During the 1995 legislative session, the statutory limits were increased to 0.2 percent 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 limit increases to no more than 0.15 percent 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. Legislation passed in 2003 amended the annual increases in future years. The statutory cap for the State/School group increased to 0.4 percent in fiscal year 2006, with subsequent increases of 0.5 percent in fiscal year 2007 and 0.6 percent in fiscal year 2008 and beyond. Legislation passed in 2004 amended the annual increases in future years for local employers. The statutory cap for the Local group increased to 0.4 percent in calendar year 2006, with subsequent increases of 0.5 percent in fiscal year 2007 and 0.6 percent in fiscal year 2008 and beyond. The amortization period for the unfunded liability of all three systems is 40 years from July 1, 1993.

Note 2: Summary of Significant Accounting Policies

Reporting Entity

The Retirement System is a component unit of the State of Kansas. A nine-member board of trustees administers the Retirement System: four trustees are appointed by the Governor, one by the President of the Senate, one by the Speaker of the House of Representatives, two are elected by Retirement System members, and one is the elected State Treasurer. The Board of Trustees appoints the executive director, who is the Retirement System's managing officer.

Other Employee Benefit Plan

The Board of Trustees of the Retirement System has oversight responsibility, but little administrative involvement and no investment responsibility, for the Kansas Public Employees' Deferred Compensation Plan (IRC Section 457) for state employees. Because the Board of Trustees neither owns the assets nor has custody of them, and their financial transactions are not recorded in the System's accounting system, this program is not included in the System's financial statements.

Measurement Focus and Basis of Accounting

The Retirement System's financial statements are reported using the economic resource measurement focus and the accrual basis of accounting. Contributions are due to KPERS when employee services have been performed and paid. Contributions are recognized as revenues when due pursuant to statutory requirements. Benefits and refunds are recognized when due and payable and expenses are recorded when the corresponding liabilities are incurred, regardless of when contributions are received or payment is made.

Use of Estimates

The Retirement System's financial statement preparation conforms with accounting principles generally accepted in the United States. These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities. This also includes disclosing contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Comparative Financial Information

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the System's financial statements for the year ended June 30, 2007, from which the summarized information was derived.

Cash and Deposits

Custodial credit risk is when in the event a financial institution or counterparty fails, the Retirement System would not be able to recover the value of deposits that are in the possession of an outside party. The System advances cash deposits to a disability administrator for monthly disability benefits and death benefits for members who are disabled. As of June 30, 2008, the Retirement System's deposit with its disability administrator was $137,210. The Retirement System does not have a deposit policy for custodial credit risk associated with these deposits.

Method Used to Value Investments

Investments are reported at fair market 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. Fair value of other securities is determined by the mean of the most recent bid and asked prices as obtained from dealers that make markets in such securities. Fair values of the limited partnership investments are based on valuations of the underlying companies of the limited partnerships as reported by the general partner. Fair value of the commingled funds are determined based on the underlying asset values.

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 Retirement System's investment program is provided 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 Trustees' responsibilities, imposing 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.
- The annual allowance for new alternative (non-publicly traded) investments is limited to 1 percent of the market value of the total investment assets of the fund as measured from the end of the preceding calendar year.
- Establishes limits on the structure of future investments in real estate or alternative investments.
- Requires that the Board develop investment policies and objectives to invest fund assets.
- Authorizes the Board to hire qualified professionals/firms to assist in investing the fund and requires 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 annually examine the investment program, specific investments, and its policies and practices.

The Retirement System has six permissible investment categories.

1) Equities	4) Real estate
2) Fixed income securities	5) Derivative products
3) Cash equivalents	6) Alternative investments

In fulfilling its responsibilities, the Board of Trustees has contracted with 14 investment management firms and a master global custodian. 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 and 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 rate fluctuations that may result in a decrease in the fair 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, 2008, the Retirement System had futures contracts with market exposure of approximately $2,041,600,000. Cash equivalents and short-term investments in amounts necessary to settle the economic value of 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's Statement of Investment Policy authorizes participation in a securities lending program administered by the 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 securities loans are open contracts and therefore could be terminated at any time by either party. The type of securities lent include U.S. government securities, domestic and international equities, and domestic and international bonds.

The borrower collateralizes the loan with either cash or government securities of 102 percent of fair value on domestic securities and 105 percent of fair value on international securities loaned. Cash collateral is invested in the Retirement System's name in a dedicated short-term investment fund consisting of investment grade debt securities. The System does not have the ability to pledge or sell collateral securities without a borrower default. At June 30, 2008, the maturities of securities in this dedicated bond portfolio are as follows: 44 percent of the fair value of the securities mature within 30 days; 26 percent mature between 31 and 180 days; and 30 percent mature after 180 days.

The custodian provides for full indemnification to the Retirement System for any losses that might occur in the event of borrower default. Therefore, the Retirement System does not incur any credit risk as it relates to this activity. The securities on loan are marked to market daily to ensure the adequacy of the collateral. The fair value of securities on loan as of June 30, 2007, and June 30, 2008, were $2,484,327,454 and $2,771,834,583, respectively. Collateral held by the Retirement System for June 30, 2007, and June 30, 2008, was $2,582,592,116 and $2,878,507,390, respectively. Net income produced from securities lending activities for fiscal year 2007 was $4,056,541 and for fiscal year 2008 was $3,303,038.

The Retirement System's international investment managers use forward contracts to hedge the exposure of the international investments to fluctuations in foreign currency. Active international investment managers use forward contracts to enhance returns 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 the 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 fair value by the Retirement System. As of June 30, 2008, the System had sold forward currency contracts with a fair value of $2,870,951,223 and had bought forward currency contracts with a fair value of $2,870,005,069. 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. Options strategies used by the Retirement System are designed to provide exposures to positive market moves and limit exposures to interest rate and currency fluctuations.

The Retirement System internally manages a Treasury Inflation Protected Securities (TIPS) portfolio. TIPS are fixed income securities issued by the U.S. Treasury that pay a fixed coupon rate plus an adjustment for subsequent inflation. At June 30, 2008, the Retirement System had invested in TIPS with a fair value of approximately $1,265,500,000.

Custodial Credit Risk

Custodial credit risk is when in the event a financial institution or counterparty fails, the Retirement System would not be able to recover value of deposits, investments or collateral securities that are in the possession of an outside party. One hundred percent (100 percent) of the Systems investments are held in the System's name and are not subject to creditors of the custodial bank.

Concentration Risk

The System has investments in Federal National Mortgage Association issued securities that represent 5.7 percent of the total net asset value. KPERS investment policy does not prohibit holdings above five percent in the debt securities of U.S. government issuers. Government sponsored enterprises (GSEs, such as FNMA) are considered government issuers for the purpose of implementing KPERS investment policy. No other single issuer represents five percent or more of System assets other than the U.S. Government.

Currency Risk

Currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. KPERS investments at June 30, 2008, were distributed among these currencies.

USD Equivalent	Currency	Percent
$181,969,386	Australian Dollar	1.16%
90,681,401	Brazil Real	0.58%
464,942,945	British Pound Sterling	2.94%
223,224,386	Canadian Dollar	1.42%
1,824,365	Chilean Peso	0.01%
16,394,655	Chinese Yuan Renminbi	0.10%
3,199,635	Colombian Peso	0.02%
7,756,815	Czech Koruna	0.05%
17,564,556	Danish Krone	0.11%
3,924,581	Eg yptian Pound	0.02%
887,389,414	Euro Currency Unit	5.64%
76,004,188	Hong Kong Dollar	0.48%
3,153,057	Hungarian Forint	0.02%
2,730,990	Iceland Krona	0.02%
9,650,359	Indian Rupee	0.06%
14,077,718	Indonesian Rupian	0.09%
7,360,533	Israeli Shekel	0.05%
672,601,969	Japanese Yen	4.28%
12,071,507	Mala ysian Ringgit	0.08%
58,077,299	Mexican New Peso	0.37%
8,552,075	Moroccan Dirham	0.05%
43,916,170	New Taiwan Dollar	0.28%
21,765,426	New Turkish Lira	0.14%
4,007,083	New Zealand Dollar	0.03%
48,112,322	Nor wegian Krone	0.31%
1,875,050	Philippines Peso	0.01%
10,961,646	Polish Zlty	0.07%
28,122,827	Russian Rubel	0.18%
36,815,760	S African Comm Rand	0.23%
42,871,584	Singapore Dollar	0.27%
88,154,148	South Korean Won	0.56%
59,852,065	Sw edish Krona	0.38%
161,513,437	Sw iss Franc	1.03%
7,230,837	Thailand Baht	0.05%
1,434,752	Urugua yan Peso	0.01%
1,596,722	Other Currencies	0.01%
12,410,869,949	U.S. Dollar	78.89%
$15,732,251,612	Total Market Value	100.00%

* Includes securities lending collateral of $2,205,187,750

The System's asset allocation and investment policies include active and passive investments in international securities. KPERS' target allocation is to have 18 percent of assets (excluding securities lending collateral) in dedicated international equities. The System also has 8.0 percent of assets targeted to global equities which are expected to be between 40 and 60 percent international. Core Plus bond managers are allowed to invest up to 20 percent of their portfolio in non-dollar securities. The System utilizes a currency overlay manager to reduce risk by hedging up to 50 percent of the foreign currency for selected international equity portfolios. At June 30, 2008, the System's total foreign currency exposure was 22.4 percent hedged.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to a debt investment will not fulfill its obligations. The Retirement System's investment policies require Core and Core Plus managers to have at least 70 percent of holdings in investment grade securities. Each portfolio is required to maintain a reasonable risk level relative to its benchmark. System assets ($ in thousands) as of June 30, 2008, subject to credit risk are shown with current credit ratings below.

Quality Rating	Commercial Paper	Corporate	Agency	U.S. Govt	Securities Lending Collateral	Total
NR	$244,290	$200,159	—	—	$706,427	$1,150,876
AAA	1,459	469,448	54,894	1,452,410	201,784	2,179,995
AA	117,724	205,661	1,204,862	80,266	1,125,480	2,733,993
A	—	381,161	—	—	165,380	546,541
BBB	—	474,932	—	—	6,117	481,049
BB	—	108,203	—	—	—	108,203
B	—	99,498	—	—	—	99,498
CCC	—	48,736	—	—	—	48,736
Total	**$363,473**	**$1,987,798**	**$1,259,756**	**$1,532,676**	**$2,205,188**	**$7,348,891**

Commercial Paper also includes repurchase agreements and other short-term securities. Agency securities are those implicitly guaranteed by the U.S. Government. U.S. Government securities are treasury securities and agencies explicitly guaranteed. Securities Lending Collateral are securities invested using cash collateral from the securities lending program, not pooled with any other institution's funds. Securities rated A1/P1 are included in AA on this table. The Securities Lending Collateral class has the following policy requirements: to be rated A3/A- or better; Commercial paper must be A1/P1; Asset-backed securities must be AA3/AA- or better; Repurchase agreements must be 102 percent collateralized with A3/A- or A1/P/1 or better securities and held by the custodial bank or third-party custodian. Securities Lending Collateral NR (Not Rated) securities are 100 percent repurchase agreements.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investment policy requires Core and Core+ managers to be within 20 percent of their benchmark duration, and all fixed portfolios shall maintain a reasonable risk level relative to their benchmarks. The same System assets as above are also subject to interest rate risk. These are shown in the following ($ in thousands) grouped by effective duration ranges.

Effective Duration	Commercial Paper	Corporate	Agency	U.S. Govt	Securities Lending Collateral	Total
0 - 1 yr	$363,473	$722,751	$290,663	$44,407	$2,201,611	$3,622,905
1 - 3 yrs	—	455,404	88,688	5,032	3,577	552,701
3 - 5 yrs	—	252,970	581,186	43,873	—	878,029
5 - 10 yrs	—	393,596	296,421	101,891	—	791,908
10 - 20 yrs	—	163,077	2,798	1,337,473	—	1,503,348
Total	**$363,473**	**$1,987,798**	**$9,756**	**$1,532,676**	**$ 2,205,188**	**$ 7,348,891**

Treasury Inflation Protected Securities (TIPS) comprise 97.5 percent of the U.S. Government, 10-20 years group. Total TIPS for all duration ranges were valued at $1,303,485,245 at June 30, 2008. Securities Lending Collateral policy limits the maximum average portfolio maturity of 90 days and only floating rate, and fixed rate asset-backed, securities may mature beyond 13 months.

Capital Assets and Supplies Inventory

Furniture, fixtures and equipment are reported on the Statement of Plan Net Assets 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, 2008, was $6,510,617. Office supplies inventory in the amount of $20,753 is included, assuming the first-in, first-out method. In fiscal year 1999, the Retirement System purchased an office building and garage in Topeka, Kansas. Fifty percent of the floor space of the office building is used as the System's administrative headquarters and the remaining 50 percent is a real estate investment. The administrative portion of the building and garage are reported on the Statement of Plan Net Assets as a capital asset and are being depreciated. Accumulated depreciation on the administrative portion of the building and garage as of June 30, 2008 was $2,422,641. The office building and garage are being depreciated over a period of 33 years on an accelerated method. At June 30, 2008, the carrying value of the System's administrative headquarters was $1,397,062.

Compensated Accrued Absences

State employees accrue vacation leave based on the number of years employed up to a maximum rate of 6.5 hours per pay period, and may accumulate a maximum of 240 hours. Upon retirement or termination, employees are paid for accrued vacation leave up to their maximum accumulation. State employees earn sick leave at the rate of 3.7 hours per pay period. Employees who terminate are not paid for unused sick leave. Employees who retire are paid a portion of their unused sick leave based on years of service and hours accumulated. The State uses the vesting method to compute the sick leave liability. The compensated absences liability will be liquidated by the State's governmental and internal service funds.

Reserves

K.S.A. 74-4922, K.S.A. 74-4927 and K.S.A. 74-49,110 define the title and use of the required Retirement System reserves. This law requires the actuary to:

- Make an annual valuation of the Retirement System's liabilities and reserves.
- Make a determination of the contributions required to discharge the Retirement System's liabilities.
- Recommend to the Board of Trustees employer contribution rates required to maintain the System on an actuarial reserve basis.

The Members Accumulated Contribution Reserve represents the accumulation of member contributions, plus interest, credited to individual member accounts of non-retired members. At the date of retirement the individual member's account is transferred to the Retirement Benefit Payment Reserve. After ending employment and applying for withdrawal, employee contributions, plus accumulated interest, are charged to this reserve. Interest is credited to active 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, is 8 percent for those who became members prior to July 1, 1993. For those who first became members after June 30, 1993, interest on employee contributions is credited at the rate of 4 percent per year. The balance at June 30, 2008, was $4,757,361,379, and was fully funded.

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, 2008, was $6,507,952,942. The unfunded liability was $5,551,799,910. 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, 2008, was $7,417,933,822 and was fully funded. The Expense Reserve represents 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 financed from this reserve. The balance at June 30, 2008, was $19,155,125, and was fully funded. The Optional Term Life Insurance Reserve accumulates employee contributions to pay premiums for optional life insurance coverage and is charged annually with the cost of administering the program.

Budget

The Retirement System's annual operating budget 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 System has an approved budget.

Retirement System Employees' Pension Plan

As an employer, the Retirement System participates in KPERS, a cost sharing, multi-employer defined benefit pension plan. KPERS provides retirement, disability, withdrawal and death benefits to plan members and beneficiaries as authorized by Kansas law. Funding is accomplished through member and employer contributions and investment earnings, according to Kansas Law. Upon the completion of a year of service, plan members contribute 4 percent of their annual salary. In fiscal year 2008, the regular employer contribution rate was 6.37 percent of covered payroll. In addition, KPERS contributed an additional 1.0 percent of covered payroll to the group insurance fund. Total payroll was $3,733,163, $3,747,048 and $3,869,793 for 2006, 2007, 2008, respectively. KPERS contributed $212,374, $228,516 and $258,696 for 2006, 2007 and 2008, respectively, to the employees pension plan and group insurance fund. All contributions required by law were made in fiscal years 2006, 2007 and 2008.

Non-Retirement Funds

The 2000 legislative session assigned to the Retirement System the investment responsibilities of non-retirement money. The Treasurer's Unclaimed Property Fund was established to provide investment earnings available for periodic transfer to the State Treasury for the credit of the State General Fund. Legislation was also provided to defray the reasonable expenses of administrating these funds. Investments under management for the Treasurer's Unclaimed Property Fund were $198,923,182 at June 30, 2008.

New Governmental Accounting Standard

GASB Statement No. 50 *Pension Disclosures – an amendment of GASB Statements No. 25. and No. 27* was issued in May 2007. This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* This statement was implemented for the year ended June 30, 2008.

Pending Governmental Accounting Standards Board Statements

GASB Statement No. 51 *Accounting and Financial Reporting for Intangible Assets* was issued June 2007. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets by enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009.

GASB Statement No. 53 *Accounting and Financial Reporting for Derivative Instruments* was issued June 2008. Statement 53 is intended to improve how state and local governments report information about derivative instruments—financial arrangements used by governments to manage specific risks or make investments—in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements and is effective for financial statements for reporting periods beginning after June 15, 2009, with earlier application encouraged.

Note 3: Funding Policy

Funding

The law governing the Retirement System requires the actuary to make an annual valuation of the System's liabilities and reserves and determine the contribution 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, 2006. As a result of this study, the Board of Trustees adopted new assumptions in regard to retirement rates, mortality rates, termination rates and salary growth.

Pension Obligation Bonds

In September 2003, the State of Kansas issued $40,250,000 of Series 2003 H State pension funding bonds. Of the total amount the bond issue, $15,350,000 of the bond proceeds were used for the purpose of financing the unfunded actuarial liability of the TIAA group of members. In addition, the State of Kansas contributed an additional $2 million cash payment.

The remaining bond proceeds of $24,900,000 were used for the purpose of financing the unfunded actuarial liability of those members who retired prior to July 2, 1987, and are entitled to a Retirement Dividend payment pursuant to K.S.A. 74-49,109. Beginning in fiscal year 2005 state's employer contribution rates for the State KPERS, School, State KPF and Judges groups included an additional amount to finance the debt service payments for this portion of the bonds. In fiscal year 2008 KPERS collected $3,942,464 additional contributions for the debt service payments and transferred these funds to the State of Kansas.

In February, 2004, the State of Kansas issued $500 million in pension obligation bonds, and KPERS received net proceeds of $440.2 million in March 2004. The proceeds have been invested to assist with financing the State and School group's unfunded actuarial liability. The debt service on the bonds will be paid by the State of Kansas in addition to the State's regular employer contributions.

Changes in Unfunded Actuarial Liability

The actuary has estimated the change in the unfunded actuarial liability between December 31, 2006, and December 31, 2007, can be attributed to the following ($ in millions):

Unfunded Actuarial Liability, December 31, 2006	$ 5,364.0
Effect of contribution cap/time lag	$ 251.0
Expected increase due to amortization method	$ 78.0
Gain from investment return	$ (626.0)
Demographic experience	$ 144.0
All other experience	$ (45.0)
Change in actuarial assumptions	$ 384.0
Change in benefit provisions	$ 2.0
Final Unfunded Actuarial Liability, December 31, 2007	**$ 5,552.0**

Contributions Required and Contributions Made

KPERS. The actuarially determined contribution rates are computed as a level percentage of payroll by the Retirement System's actuary. For the State/School, Correctional members, the results of December 31, 2003, and December 31, 2004, actuarial valuations provide the basis for Board certification of employer contribution rates for fiscal years 2007 and 2008, respectively. As explained in Note 1, legislation has limited the amounts that employers are required to contribute for State, School, and Local employees, which has resulted in lower employer contribution rates as compared with the actuarially determined rates. The actuarially determined employer contribution rates (not including the 1.0 percent contribution rate for the Death and Disability Program) and the statutory contribution rates for fiscal years 2007 and 2008 are as follows:

	State/School		Correction Employees	
Fiscal Year	Actuarial Rate	Statutory Rate	Actuarial Rate	Statutory Rate
2007	9.75%	5.77%	9.68% / 9.53%	7.72% / 7.70%
2008	10.37%	6.37%	8.90% / 8.84%	8.90% / 8.84%

Included in the fiscal year 2007 and 2008 rates is the bond debt service rate of 0.80 percent collected by KPERS to transfer to the State general fund for the debt service payments of the 13th Check Pension Obligation Bonds.

The results of December 31, 2004, and December 31, 2005, actuarial valuations provide the basis for Board certification of local employer contribution rates for fiscal years beginning in 2007 and 2008, respectively. The actuarially determined employer contribution rates and statutory contribution rates for fiscal years 2007 and 2008 are as follows.

	Local	
Fiscal Year	Actuarial Rate	Statutory Rate
2007	7.69%	4.31%
2008	7.92%	4.93%

KP&F. The uniform participating service rate for all KP&F employers was 13.32 percent for the fiscal year beginning in 2007 and 13.88 percent for the fiscal year beginning in 2008. KP&F employers also make contributions to amortize the liability for past service costs, if any, which are determined separately for each participating employer.

Judges. The total actuarially determined employer contribution rate was 19.11 percent of payroll for the fiscal year ended 2007 and 22.38 percent of payroll for the fiscal year ended 2008.

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 an amount equal to 4 percent for KPERS members, 7 percent for KP&F members, and 6 percent for Judges members as the member's employee contributions. All required contributions have been made as follows ($ in thousands).

	Employer Contributions	Member (1) Contributions	Contributions as a Percent of Covered Payroll
KPERS- State	$ 79,477	$ 40,853	11.2%
KPERS- School	235,139	132,613	10.4
KPERS - Local	78,235	58,957	8.6
KP&F 59,303		28,804	25.2
Judges	5,998	1,481	24.3
Subtotal	$ 458,152	$ 262,708	10.9%

An estimated $528 million of employer & employee contributions were made to cover normal cost, an estimated $131 million was made for the amortization of the unfunded actuarial accrued liability.

1) Member contributions do not include Optional Life Insurance contributions of approximately $7.0 million.

Funding Status and Funding Progress

The funding status of the plan at December 31, 2007, the most recent actuarial valuation date, is as follows ($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 Percent of Covered Payroll ((b - a)/c)
12/31/2007	$13,433,115	$18,984,915	$5,551,800	70.8%	$5,949,228	93.2%

The schedule of funding progress, presented as required supplement information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the Actuarial Accrued Liability for benefits.

Additional information as of the latest actuarial valuation follows:

	KPERS System	KP&F System	Judges System
Valuation Date	12/31/07	12/31/07	12/31/07
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level Percent closed	Level Percent closed	Level Percent closed
Remaining amortization period	25 years	25 years	25 years
Asset valuation method	Difference between actual return and expected return on market value of assets calculated yearly and recognized evenly over five-year period		
Actuarial assumptions:			
Investment rate of return (1)	8.0%	8.0%	8.0%
Projected salary increases (1)	4.0%–12.0%	4.0%–12.5%	4.5%
Cost of Living Adjustment	none	none	none

1) Salary increases and investment rate of return include a 3.25 percent inflation component.

Significant Market Decreases after June 30, 2008

Negative investment returns since the December 31, 2007, valuation have had a substantial impact on the Retirement System's long-term funding outlook. Unprecedented negative returns through the fourth quarter of calendar year 2008 have been especially damaging due to the ongoing global economic crisis. The funding status of all coverage groups has been affected. Management expects the School group to be out of actuarial balance within the current amortization period, given the current actuarial assumptions and scheduled rate of contributions. Options for increasing employer contributions need to be considered to bring the System back into actuarial balance.

Note 4: Other Post Employment Benefit Plan — KPERS Death and Disability Plan

The Kansas Public Employees Retirement System administers one post employment benefit plan, KPERS Death and Disability Plan. This multiple employer, cost sharing, defined benefit plan, authorized by K.S.A. 74-4927 provides death benefits for beneficiaries of plan participants and long term disability benefits to all members in the KPERS state, school and local coverage groups. In addition, the coverage is extended to other non KPERS members employed at the Board of Regents institutions and other state officials. The plan provides death benefits to the Judges coverage group. In order to carry out legislative intent, within the funds available, the KPERS Board of Trustees may modify plan benefits from time to time.

Summary of Significant Accounting Policies

Basis of Accounting Policies. The Retirement System's financial statements are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. Employer contributions are recognized as revenues when due pursuant to statutory requirements. Benefits and refunds are recognized when due and payable and expenses are recorded when the corresponding liabilities are incurred, regardless of when contributions are received or payment is made.

Method Used to Value Investments. Investments are reported at fair market value. Securities traded on a national or international securities exchange are valued at the last reported sales price at current exchange rates.

Plan Membership and Benefits

Members in the Death and Disability Plan consisted of the following at June 30, 2007, the date of the last actuarial valuation:

Active plan members	159,186
Number of participating employers	1,391
Open claims	3,097

The Death and Disability Plan provides two primary benefits to active members:

1. Group life insurance equal to 150 percent of annual compensation, which is provided through an insurance contract with an insurance carrier.
2. Self-insured long-term disability (LTD) benefits equal to 60 percent (before January 1, 2006, 66 2/3 percent) of annual compensation, offset by other benefits. Members receiving LTD benefits also receive service credit toward their retirement benefits under KPERS and have their group life insurance coverage continued under the waiver of premium provision. The group life insurance benefit is increased annually for inflation, at a rate equal to the consumer price index less one percent, beginning five years following the date of disability.

Contributions and Funded Status

Prior to fiscal year 2000, employer contributions for group life insurance and long-term disability income benefits were set by statute at 0.6 percent of covered payroll for KPERS and Board of Regents Institutions and 0.4 percent for Judges. Legislation passed in 2000 and 2001 placed a moratorium on contributions related to the group life insurance and disability benefits effective for the period April 1, 2000, through December 31, 2001. Calendar year 2002 and 2003 legislation placed additional moratoriums on contributions. Moratoriums were in effect for the period July 1, 2002, through December 31, 2002, and the period of April 1, 2003, through June 30, 2004. Legislation passed in 2005, increased the insurance contribution rate to 0.8 percent of covered payroll effective July 1, 2005, and to 1.0 percent on July 1, 2006. The rate for Judges remained at 0.4 percent. For the period ending June 30, 2008, employers contributed over $62 million to the Plan.

The death and disability plan assets are held in the Group Insurance Reserve fund. At June 30, 2008, this reserve held net assets totaling $42,460,558. This reserve fund is funded from deposits from employer contributions and the respective investment income. Administrative expenses for the death and disability plan are funded from the accumulated investment income of the fund. The funded status as of the most recent actuarial valuation date is as follows.

Funded Status ($ in thousands)

Actuarial Valuation A Date	Actuarial Value of ssets (a)	Actuarial Accrued Liability (AAL) U (b)	Unfunded AAL AAL (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b - a)/c)
06/30/2007	$25,568	$355,729	$330,161	7.2%	$5,981,324	5.5%

The GASB Statement No. 43 was first effective for fiscal years ending June 30, 2007. The actuarial valuation dated June 30, 2007, is the most recent actuarial valuation using GASB 43 requirements. Only the disability benefits and waiver of premium life insurance provision are included in the actuarial valuation.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions of future employment, mortality, and long term disability trends. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress (on page 39) presents multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the long term disability benefits provided at the time of the valuation and the historical funding of the plan, which is funded exclusively by the employer. The projections of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the assumption of the total costs by the employer in the future.

The accompanying schedule of employer contributions (on page 40) presents the amount contributed to the plan by employers in comparison to the actuarial required contribution (ARC) as determined by the actuarial valuation dated June 30, 2007, using GASB 43 requirements. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs for each year and amortize any unfunded liabilities over 15 years.

The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculations. Additional information as of the latest valuation follows:

Actuarial Valuation Information — Death and Disability Plan

Valuation Date	6/30/2007
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent, open
Remaining amortization period	15 years
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return (1)	4.5%
Projected salary increases (1)	4.0%–9.8%
Cost of Living Adjustment	none

1) Salary increases and investment rate of return include a 3.5 percent inflation component.

Note 5: Commitments and Contingencies

As of June 30, 2008, the Retirement System was committed to additional funding of $6,678,000 in the form of capital expenditures on separate account real estate holdings in the portfolio, $197,768,000 for commitments on venture capital investments, and $114,626,000 for capital calls on non-core real estate property trusts investments.

The Retirement System is a defendant in legal proceedings and claims arising out of the ordinary course of business. The Retirement System believes 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.

Note 6: Risks and Uncertainties

The System invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Subsequent to year-end, the credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. These and other economic events have had a significant adverse impact on investment portfolios. As of November 30, 2008, net investment losses have attributed to a $3.3 billion, or a 25 percent decline in the fair value of the System's investments since June 30, 2008.

Required Supplementary Information — Retirement Plan

Schedule of Employer Contributions*

last ten fiscal years

	Annual Required Contribution	Percentage Contributed
1999	$230,742,037	76.7%
2000	217,757,975	77.2
2001	249,356,715	77.6
2002	260,482,999	79.7
2003	282,329,785	78.9
2004	338,879,960	69.4
2005	381,791,085	68.6
2006	471,424,006	63.4
2007	531,292,151	63.9
2008	607,662,300	65.1

*This schedule does not include Death and Disability Insurance contributions.

Schedules of Funding Progress*

($ 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)
06/30/99	$8,601,876	$ 9,999,246	$1,397,370	86 %	$4,480,717	31 %
06/30/00	9,568,275	10,801,397	1,233,122	89	4,684,768	26
12/31/00 (1)	9,835,182	11,140,014	1,304,832	88	4,876,555	27
12/31/01	9,962,918	11,743,052	1,780,134	85	5,116,384	35
12/31/02	9,784,862	12,613,599	2,828,736	78	4,865,903 (2)	58
12/31/03	10,853,462	14,439,546 (3)	3,586,084	75	4,978,132	72
12/31/04	10,971,427	15,714,091	4,742,666	70	5,102,016	93
12/31/05	11,339,293	16,491,762	5,152,469	69	5,270,351	98
12/31/06	12,189,197	17,552,790	5,363,593	69	5,599,193	96
12/31/07	13,433,115	18,984,915	5,551,800	71	5,949,228	93

1) The actuarial valuation date was changed to a calendar year basis.
2) Beginning with the 12/31/02 actuarial valuation, the unfunded actuarial liability of the TIAA group was eliminated. Therefore, covered payroll no longer includes the salaries of non-KPERS unclassified employees of the Board of Regents institutions previously included.
3) Beginning with the 12/31/03 actuarial valuation, the actuarial cost method was changed to the Entry Age Normal (EAN) method.

Required Supplementary Information — Death and Disability Plan

Schedule of Employer Contributions

Fiscal Year Ended June 30

Year	Annual Required Contribution	Percentage Contributed
2006	$71,763,879	82.64%
2007	76,128,451	81.97

Schedule of Funding Progress

($ 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 Percent of Covered Payroll ((b - a)/c)
06/30/2006 (1)	$18,724	$354,150	$335,426	5.3%	$5,716,896	5.9%
06/30/2007	25,568	335,729	330,161	7.2	5,981,324	5.5

1) The June 30, 2006 actuarial valuation date was the first valuation performed using actuarial requirements as required by GASB 43.
2) Actuarial Valuation assumes insurance premiums due for the Basic Life Insurance plan are paid by current contributions. The remaining contributions, cash, and investments are reserves for liabilities associated with the long term disability plan.

Other Supplementary Schedules

Schedule of Contributions

for the fiscal year ended June 30, 2008

Kansas Public Employees Retirement System			
State / School Contributions			
Members	$173,465,490		
Employers	314,616,290		
Total State / School Contributions		$488,081,780	
Local Contributions			
Members	58,956,726		
Employers	78,234,526		
Total Local Contributions		137,191,252	
Total Contributions - Kansas Public Employees Retirement System			**$625,273,032**
Kansas Police and Firemen's System			
State Contributions			
Members	3,138,081		
Employers	6,247,201		
Total State Contributions		9,385,282	
Local Contributions			
Members	25,666,138		
Employers	53,056,059		
Total Local Contributions		78,722,197	
Total Contributions - Kansas Police and Firemen's System			**88,107,479**
Kansas Retirement System for Judges			
State Contributions			
Members	1,480,720		
Employers	5,998,507		
Total State Contributions		7,479,227	
Total Contributions - Kansas Retirement System for Judges			**7,479,227**
Optional Life Insurance			
Member Contributions			
State Employees	3,609,748		
Local Employees	3,286,252		
Total Contributions		6,896,000	
Total Contributions - Optional Life Insurance			**6,896,000**
GRAND TOTAL - ALL CONTRIBUTIONS			**$ 727,755,738**

Schedule of Administrative Expenses

for the fiscal year ended June 30, 2008

Salaries and Wages		$ 4,865,063
Professional Services		
Actuarial	$281,191	
Audit	35,000	
Data Processing	121,239	
Legal	47,953	
Other Professional Services	76,929	
Total Professional Services		562,312
Communication		
Postage	225,007	
Printing	163,073	
Telephone	76,505	
Total Communication		464,585
Building Administration		
Building Management	72,738	
Janitorial Service	47,661	
Real Estate Taxes	94,156	
Utilities	63,719	
Total Building Administration		278,274
Miscellaneous		
Dues and Subscriptions	26,053	
Repair and Maintenance	744,813	
Office and Equipment Rent	17,767	
Supplies	88,244	
Temporary Services	91,002	
Travel and Training	166,291	
Other Miscellaneous	65,961	
Depreciation	2,232,761	
Total Miscellaneous		3,432,892
Total Administrative Expenses		$ 9,603,126

Schedule of Investment Income by Asset Class

for the fiscal year ended June 30, 2008

Asset Class	Interest, Dividends and Other Transactions	Gains and Losses	Total
Marketable Equity Securities			
Domestic Equities	$ 54,993,404	$ (757,006,097)	$ (702,012,693)
International Equities	79,167,357	(316,360,209)	(237,192,852)
Subtotal Marketable Equities	134,160,761	(1,073,366,306)	(939,205,545)
Marketable Fixed Income Securities			
Government	89,125,974	191,137,816	280,263,790
Corporate	94,222,748	(91,804,360)	2,418,388
Subtotal Marketable Fixed	183,348,722	99,333,456	282,682,178
Temporary Investments	29,347,274	(3,395,328)	25,951,946
Total Marketable Securities	346,856,757	(977,428,178)	(630,571,421)
Real Estate and Alternative Investments			
Real Estate	40,288,418	(75,778,668)	(35,490,250)
Alternative Investments	3,822,805	40,605,297	44,428,102
Total Real Estate and Alternative Investments	44,111,223	(35,173,371)	8,937,852
Other Investment Income			
Security Lending	3,303,038		3,303,038
Miscellaneous Income	264,000		264,000
Total Other Investment Income	3,567,038	-	3,567,038
Investment Income (Loss)	$ 394,535,018	$ (1,012,601,549)	(618,066,531)

Manager and Custodian Fees and Expenses	
Investment Manager Fees	(29,029,817)
Custodian Fees & Expenses	(723,855)
Other Investment Expenses	(1,282,779)
Total Investment Fees and Expenses	(31,036,451)
Net Investment Income (Loss)	$ (649,101,982)

Schedule of Investment Management Fees and Expenses

for the fiscal year ended June 30, 2008

Domestic Equity Managers		
Barclays Global Investors	$ 4,195,085	
Payden & Rygel Enhanced	740,508	
Quantitative Management Associates	519,922	
Subtotal Domestic Equity Managers		**$5,455,515**
Global Equity Managers		
Capital Guardian Trust Co.	1,820,781	
Wellington Management Co.	1,419,164	
Subtotal Global Equity Managers		**3,239,945**
International Equity Managers		
Acadian Asset Management	2,398,821	
Alliance Capital Management	1,356,321	
Barclays Global Investors	3,231,357	
Morgan Stanley Asset Management	1,899,452	
Nomura Capital Management	828,781	
Subtotal International Equity Managers		**9,714,732**
Fixed Income Managers		
Loomis, Sayles & Co.	948,084	
Pacifi Investment Management Co.	1,877,982	
Payden & Rygel Investment Counsel	404,090	
Western Asset Management Co.	1,723,243	
Subtotal Fixed Income Managers		**4,953,399**
Foreign Currency Overlay Manager		
Payden & Rygel - Overlay	104,869	
Barclays Global Investors	750,000	
Pareto Partners	1,495,640	
Subtotal Foreign Currency Overlay Manager		**2,350,509**
Real Estate & Alternative Investment Managers		
AEW Capital Management	2,964,449	
Portfolio Advisors	101,250	
Subtotal Real Estate & Alternative Managers		**3,065,699**
Cash Equivalent Manager		
Payden & Rygel Investment Counsel	250,018	
Subtotal Cash Management		**250,018**
Total Investment Management Fees		**29,029,817**
Other Fees and Expenses		
Mellon Trust - Custodian Fees and Other Expenses	729,922	
Consultant Fees	1,231,765	
Legal Expenses	44,947	
Subtotal Other Fees and Expenses		**2,006,634**
Total All Investment Fees and Expenses		**$ 31,036,451**

INVESTMENT SECTION

Chief Investment Officer's Review

The investment portfolio of the Kansas Public Employees Retirement System represents all contributions to the plan, from both members and their employers, as well as all net earnings on these assets. Total assets at the end of the fiscal year were $13.1 billion. KPERS' portfolio is managed for the long term in an effort to generate adequate returns to pay the benefits promised to members. To that end, the assets receive the benefit of a diversified, carefully monitored investment portfolio that includes stocks, bonds, real estate, alternative investments and cash.

Asset Allocation

Portfolio investments are diversified among seven different asset classes and eight sub-portfolios: domestic equity; international equity, global equity, fixed income, "real return" assets, real estate, alternative investments and cash.

The allocation to equity investments (primarily publicly-traded stocks) constitutes the largest portion of the KPERS portfolio. This allocation reflects KPERS' long-term investment orientation as the System expects equities to provide higher relative returns over time. Equity investments allow KPERS to participate in the investment returns produced by companies seeking to grow and profit from their economic activities. KPERS equity investments are made globally, sourcing investment return from both domestic and foreign companies and diversifying the accompanying risk across a broad spectrum of economies, currencies and economic sectors. Managing such a dynamic and diversified portfolio requires significant expertise, and the Board of Trustees has carefully selected several managers to construct and manage several sub-portfolios that blend together to provide risk-controlled exposure to equity returns on a global basis.

Fixed income investments, the next largest portion of the portfolio, are made in order to source investment returns from this large, stable, conservative asset class; to help protect the System's assets from principle loss; to help diversify total portfolio investment risk and add stability to total returns; and to provide income. The fixed income portfolios are constructed using broad mandates and with global opportunities in mind. While these portfolios principally contain U.S.-based and U.S.-dollar denominated assets, KPERS managers have significant latitude to seek out and capture fixed income returns globally, consistent with the System's belief in global sourcing of return and diversification of risk.

Investments in real return assets, real estate, alternative investments and cash complete to portfolio. The real return asset category is new for the portfolio and presently contains the TIPS assets KPERS has held for many years. TIPS are fixed income investments that have the added feature of inflation protection. Real estate investments generate returns in a different manner than equities or fixed income investments and also provide inflation protection. KPERS' alternative investments, primarily investments in private partnerships that make venture capital investments, pursue leveraged buyout strategies or own private debt, provide diversification of investment risk to the overall portfolio and pursue higher growth. The investments in this group are primarily domestic in nature but include a growing amount of foreign exposure.

During FY 2008, The Board, the Board's consultant, and staff completed the triennial asset/liability study. The Board adopted a new target allocation based upon the results of the study. A new asset category, real return, was initiated to diversify the TIPS exposure and to increase the inflation protection in the portfolio; equities were reduced modestly and shifted internationally; and private equity was marginally increased.

Investment Policy

To guide the implementation of the System's broad investment objectives, the Board of Trustees has adopted a Statement of Investment policy, Objectives and Guidelines. The Statement compliments the KPERS Statutes and documents the principles and standards which are designed to guide the management of assets of the System. It is binding upon all persons with authority over System assets, including investment managers, custodians, consultants, staff and the Board of Trustees.

The Statement of Investment Policy, Objectives and Guidelines is the product of the Board's careful and prudent study and is reviewed and updated annually. It sets forth the investment policies, objectives, and guidelines which the Board of Trustees judges to be appropriate and prudent, in consideration of the needs of the System, and to comply with K.S.A. 74-4901 et seq., to direct the System's assets. Although the System is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), the Board intends to abide by the directions of ERISA to the greatest extent desirable. As such, this Statement is written to be consistent with ERISA.

Among other things, the Statement establishes the criteria against which the investment managers retained are to be measured and communicates the investment policies, objectives, guidelines, and performance criteria to the Board, staff, investment advisors, consultants, and all other interested parties. In addition, it serves as a review document to guide ongoing oversight of the investment of the Fund as a yardstick of compliance with K.S.A 74-4901 et seq.

Recent Performance

After three very strong years of investment performance, the KPERS portfolio took a breather in FY 2008, returning negative 4.4 percent on the year. The System uses a long-run eight percent average annual return assumption for the portfolio, but fully expects year-to-year variability around that average with some years above eight percent and some years, such as this year, below the eight percent assumption.

Stock markets globally started the fiscal year in sideways fashion, but turned down shortly before mid-year as negative news developed in the U.S. housing and mortgage markets. As the housing troubles spread to the wider financial markets, equities continued their slide. The KPERS domestic equity portfolio returned negative 13.8 percent for the year. Foreign stock markets, too, had a tough year, but a weakening U.S. dollar eased the negative impact to a degree. The System's international equity portfolio returned negative 5.9 percent and the global equity portfolio came in at negative 7.2 percent for the fiscal year.

As mentioned earlier, the KPERS investment portfolio is carefully diversified, and that diversification helped the portfolio weather the turbulent stock market. The System's real return/TIPS portfolio returned a strong 15.4 percent on the year, followed by a 9.3 percent return on the alternatives investments and a positive 5.1 percent from the fixed income portfolio. The real estate portfolio struggled in sympathy with the housing difficulties, returning negative 3.5 percent, but still protecting KPERS from the more serious down draft in the equity markets. Cash assets, which provide the System with the liquidity to make benefit payments, settle investment transactions and protect capital, returned 4.5 percent for the fiscal year. A more detailed discussion of investment performance can be found in the sections that follow. Calculations for investment results were prepared using a time-weighted rate of return based on the market rate in accordance with the Global Investment Performance standards performance presentation standards.

The System employs a staff of eight investment professionals to provide oversight and management of the System's assets and external asset managers. Under the oversight of the Chief Investment Officer, responsibility for the portfolio is divided by asset class. The Equity Investment Officer is assigned to publicly-traded equity investments, the Fixed Income Investment Officer to the fixed income portfolios, the Real Estate Investment Officer to the real estate portfolios and the Alternative Investments Officer to the alternative investments. The Chief Investment Officer and the four asset class Investment Officers are supported by a team of three Investment Analysts with research and assistance in managing the portfolio. Comments from the four Investment Officers on their respective areas follow.

Equity Investments

As of June 30, 2008, the market value of the KPERS equity portfolio was $7.435 billion, representing 56.8 percent of the total fund. The return for the overall equity portfolio, including currency strategies, was negative 10.89 percent for the fiscal year.

Highlights

- The equity portfolio experienced declines during the fiscal year. Stocks in the U.S., as measured by the Russell 3000 index, declined 12.7 percent, while international stocks, measured by the Morgan Stanley Capital International All Country World ex-US index, declined 6.2 percent. The primary difference in these returns was attributable to the weakening U.S. dollar.

- The System's domestic equity managers underperformed their benchmarks in the year. In particular, those managers employing a quantitative approach to portfolio construction suffered most.

- The System's international equity managers modestly outperformed their benchmark as a group, though only one manager in the group was individually able to outperform.

- The System's global equity portfolio outperformed it's benchmark, which each manager individually outperforming in the year.

Portfolio Structure

The publicly-traded equity portfolio has a target allocation of 57 percent of the System's total fund. The securities reside in three separate categories based on geographic areas around the world.

The largest category is comprised of domestic equity securities and accounts for 29.7 percent of the total fund. The System uses several strategies within the domestic equity portfolio, most of which are designed to add a small amount of value while controlling risk relative to the benchmark. The overall portfolio is benchmarked against the Russell 3000 Index, a broad index made up of the largest 3,000 domestic stocks. The index can be broken down further by company size, with the Russell 1000 Index representing the largest 1,000 stocks and the Russell 2000 Index representing a group of small capitalization stocks. Each strategy is measured against either a large cap or small cap benchmark. While no individual strategy is benchmarked against the Russell 3000 Index, collectively the strategies are assembled in such a way to approximate the index in terms of company size and industry weight.

In terms of size, the second category is the international equity portfolio, which makes up 19.2 percent of the total fund. Within this portion of the portfolio, four separate equity strategies are used in an attempt to outperform the benchmark while keeping risk at a reasonable level. Investing in international securities brings with it another exposure that has to be considered – currency risk. Given the amount allocated to foreign markets, it is important that the System consider how currency fluctuations impact the portfolio. To manage this exposure, the System utilizes two distinct strategies, one designed to hedge currency risk and another designed to take advantage of inefficiencies with the currency markets. The benchmark used for the international equity portfolio is the Morgan Stanley Capital International (MSCI) All Country World Index (ACWI), excluding the United States. This index has a total of 47 countries, 22 developed countries and 25 emerging countries, weighted by market capitalization. As of June 30, 2008, countries in this index accounted for over 58 percent of the world's equity capitalization, as reported by MSCI's broadest benchmark, the All Country World Index.

Global equities make up the final category and account for 8.0 percent of the total fund. The global portfolio consists of both domestic and international assets. The System employs two managers, both with a fundamental bottom-up research approach, to identify and invest in the best companies, regardless of their location. The global portfolio is benchmarked against the MSCI All Country World Index.

Market Overview

Equity markets around the world were generally down for the year ending June 30, 2008. Among the major developed markets, Ireland performed the worst, returning negative 36.2 percent and Canada performed the best, returning 14.5 percent according to the Morgan Stanley Capital International (MSCI) Index Returns.

Returns for the domestic benchmark got off to a negative start and had returned negative 1.8 percent by the end of December. In contrast, the international benchmark started off the fiscal year in positive territory, returning 4.0 percent by the end of December. The weaker domestic performance was a result of the beginning cycle of a short supply of credit caused by the subprime collapse that was a result of the housing market collapse. In addition, the US experienced the softest holiday shopping season in five years as consumer confidence started to fall. Energy price increases, continuing housing price decreases as housing inventories increased, and an uncertain future faced by consumers as well as companies as credit becomes less available all helped contribute to negative domestic returns. The international benchmark was still able to produce positive returns as the problems faced by the United States are beginning to spill over into the global industrialized world.

The markets began calendar year 2008 weak with concerns regarding falling housing prices, rising foreclosures, rising energy prices, a weaker job market and a softer economic outlook. As more home owners began defaulting on their mortgages, prices for asset-backed investment vehicles started to decrease. As these investments continued to decline in value, more and more banks were beginning to write down the value of these investments to what was perceived to be fair market value. As values were being written down and losses were being recognized, banks began to tighten lending standards as their profits were decreasing, and in some cases evaporating all together. Also due to these mark to market losses, credit was becoming more difficult to obtain for not only consumers, but companies as well. As credit became less available, spending began to decrease and concerns were starting to mount as to what condition the economy was really in. The international markets started to show in the second half of fiscal year 2008 that they were not immune to the troubles being faced by the United States as a troubled housing market and decreased access to credit also began affecting international economies which trickle down through equity prices. For the second half of fiscal year 2008, the domestic and international benchmarks returned negative 11.0 percent and negative 9.8 percent, respectively.

Performance

The overall publicly-traded equity portfolio, including currency strategies, returned negative 10.89 percent for the fiscal year. The returns for the equity components included:

Domestic	-13.8 percent
International	-5.9 percent
Global	-7.2 percent

In order to evaluate the returns of each equity component, it is useful to compare returns with an appropriate benchmark. The System's domestic equity portfolio had a value of $3.90 billion at the end of the fiscal year. For the year, the portfolio's return was down negative 13.8 percent. Large capitalization securities outperformed small capitalization stocks, negative 13.3 percent to negative 18.9 percent. The portfolio underperformed the Russell 3000 Index, which returned negative 12.7 percent. The majority of the underperformance was with the enhanced index strategy used in both the large capitalization portfolio and the small growth capitalization portfolio. Taking a longer term view, the returns for the three- and five-year periods have also underperformed the Russell 3000 Index.

The international equity portfolio performed well on a relative basis, but still had negative returns for the fiscal year, ending the year with a value of $2.51 billion. This portion of the portfolio returned negative 5.9 percent, compared to the broad MSCI All Country World ex US index return of negative 6.2 percent. As previously mentioned, the System uses four distinct strategies to manage this allocation. During the year, the strategies experienced mixed results ranging from substantial outperformance to a modest degree of underperformance. The portfolio has outperformed its benchmark over the latest three years and slightly underperformed over the last five years. Over the past few years, KPERS has undergone several strategy changes to improve performance going forward. Two of the four strategies in the international equity portfolio have yet to reach a three year performance track record with the System.

The global equity strategy has been in place for a little more than three years. This component of the portfolio is managed by two active managers, both of whom have built a team of analysts to invest in the best stocks regardless of where the company is domiciled. Over the last year, the global portfolio performed well in relative terms, returning negative 7.2 percent compared to the MSCI All Country World Index's return of negative 8.8 percent. Since the inception of the global mandates, one of the managers has underperformed by various degrees. The manager involved is working to improve their results, which have been favorable on a longer-term basis.

The equity portfolio continues to be a major driver of the System's overall returns. The System reviewed its asset mix relative to a variety of factors, including its liabilities, during fiscal year 2008 and is implementing a variety of changes. As part of the process, additional strategies were considered in an effort to improve the return and risk profile of the equity components, as well as the overall portfolio.

Equity Performance as of June 30, 2008 (gross of fees)

	1-Year	3-Year	5-Year
Domestic Equity Portfolio	-13.8%	4.2%	8.2%
Russell 3000 Index	-12.7%	4.7%	8.4%
International Equity Portfolio	-5.9%	16.6%	18.3%
MSCI ACWI Ex US/EAFE Custom Benchmark	-6.2%	15.9%	18.8%
Global Equity Portfolio	-7.2%	10.2%	NA
MSCI All Country World Index	-8.8%	10.8%	NA

Investment Advisors

As of June 30, 2008, KPERS had contracts with ten external investment advisors for the publicly traded equity portfolio.

Strategy In	vestment Advisor
Domestic Equity	Barclays Global Investors
	Quantitative Management Associates
Domestic Equity -	Payden & Rygel Investment Counsel
Portable Alpha Portfolios	Nomura Asset Management
International Equity	Barclays Global Investors
	Acadian Asset Management
	Morgan Stanley Asset Management
	Alliance Capital Management
Global Equity	Wellington Management Company
	Capital Guardian Trust Company
Currency Management/Overlay	Pareto Partners
	Barclays Global Investors

Fixed Income and Treasury Inflation Protected Securities

As of June 30, 2008, KPERS fixed income portfolio had a market value of $2.8 billion, representing 21.1 percent of the total fund. The return for the fixed income portfolio was 5.1 percent for the fiscal year. The market value of KPERS Treasury Inflation Protected Securities (TIPS) portfolio was $1.3 billion, representing 9.8 percent of the total fund. The TIPS portfolio returned 15.4 percent for the fiscal year.

Highlights

- In the generally difficult investment environment of the year, the fixed income portfolio provided the diversification and capital preservation that the System expects from this asset class. The return from the fixed income portfolio was near the System's long-run average annual expectation, and the TIPS performance was well above expectation.

- The fixed income portfolio's return was near to long run expected average, but was impaired in the latter half of the year by the growing financial market difficulties. The fixed income portfolio is materially exposed to credit risk and widening credit spreads impacted returns.

- The TIPS portfolio became the Real Return portfolio and the TIPS were restructured to a lower risk portfolio designed to track the Lehman U.S. TIPS benchmark.

- The fixed income portfolio continued to be shifted toward a Core Plus strategy in order to take investment advantage of the wider array of investment opportunities in this asset class.

Portfolio Structure

The fixed income portfolio contains three strategies: core, core plus and strategic. Core is the most conservative strategy and permits only investment grade securities. It has the Lehman Aggregate Bond Index as its benchmark. The core plus strategy offers managers broad guidelines to invest in below investment grade and non-dollar securities. A strategic strategy offers managers the broad guidelines as core plus with additional flexibility to invest up to half the portfolio in below investment grade securities. Both core plus and strategic use the Lehman Universal Index as its benchmark. The TIPS portfolio is broadly spread across three-, five- and 10-year maturities.

Fixed Income Strategy Allocation as of June 30, 2008

	Current Position	Target Allocation	New Target Allocation
Core 8.1%		20%	0%
Core Plus	77.7%	70%	70%
Strategic	14.2%	10%	30%

Market Overview

Due to a year of difficult property markets and distress over the subprime assets, the yields of government bonds continued to fall worldwide. Yield curves steepened in the U.S., U.K. and Europe during the second half of 2007 and the first quarter of 2008. After the Federal Reserve cut the federal funds rate 100 basis points in 2007 and 225 basis points in the first half of 2008, movement in the yield curve during the second quarter of 2008 reflected increased nervousness about inflation.

Credit markets seized up for most of the fiscal year after a partial recovery from the initial subprime-related downturn in August and September 2007. Anxiety about credit quality was especially high in interbank lending markets, as seen in the historically wide spread between what banks pay to borrow from each other on a short term basis (Libor) and what the Treasury pays. This relationship is referred to as the TED spread, which rose five-fold during the period to peak near 220 basis points in December, with a second spike in mid-March. It had moderated to roughly 80 basis points by the end of May before widening marginally again through June 2008.

As of June 2008, home prices were still falling, consumer confidence was weak (currently at 50) and unemployment was on the rise (currently at 5.7 percent). On the other side, oil prices touched a record and other commodities prices surged as well, helping push CPI inflation above 4 percent. The price of oil increased through the psychological $100/barrel threshold to end the period at over $140. The U.S. dollar lost substantial value against a trade-weighted basket of currencies before stabilizing in the final months.

High quality bonds such as U.S. Treasuries and Treasury Inflation Protected Securities (TIPS) outperformed most other fixed income sectors during the fiscal year 2008, although some higher yielding bonds regained some ground versus U.S. Treasuries during the second quarter. Yield spreads for investment grade credits (as compared to the Treasury yield of a like maturity) increased to 290 basis points, which is considerably higher than its seven year average of 125 basis points. High yield spread increased to 700 basis points as compared to its seven year average of 525 basis points.

Performance

The overall fixed income portfolio returned 5.1 percent for the fiscal year, lagging its benchmark, the Lehman Universal Index, of 6.2 percent. The underperformance of the portfolio was due to the corporate credit exposure within a core plus strategy (earning 2.0 percent) and the strategic strategy (earning 3.0 percent). The second half of the fiscal year was particular challenging for the core plus and strategic managers due to the lack of liquidity in the market in addition to a flight to quality as a result of subprime issue which caused an unprecedented credit spread widening. The core plus manager with little exposure to non-Treasury spread product outperformed the benchmark by 450 basis points for the fiscal year.

Investment Advisors

Strategy	Investment Advisor
Fixed Income	
Core	Payden & Rygel
Core Plus	Pacific Investment Management Co.
	Western Asset Management Co.
Strategic	Loomis, Sayles & Company, Inc.

Real Estate Investments

For fiscal 2008, the System continued to target 8 percent of total portfolio assets to real estate. As of June 30, 2008, the real estate portfolio had a market value of $955.9 million representing 7.3 percent of the total fund.

Highlights

- Two Core properties were sold at prices exceeding their valuation.
- Two “follow-on” investments were made with existing managers in the Non-core portion of the portfolio. One new investment was made in a strategy focused primarily on distressed real estate debt.
- One manager (RREEF) was terminated over the past year due to excessive turnover among investment professionals.
- As a result of the System’s most recent asset liability study, the real estate allocation will be increased to 10 percent as market opportunities present themselves.

Portfolio Structure

The real estate portfolio is divided into three segments, based on investment type.

The largest segment is “Core” real estate which continues to predominately consist of a direct investment in a open ended commingled real estate fund, as well as direct ownership of “Class A” commercial properties in North America and comprises 47.3 percent of the System’s real estate assets. This segment is expected to produce steady, growing income while serving as an inflation hedge. Capital appreciation is typically not a significant portion of Core portfolio returns. The remaining 52.7 percent of the portfolio is typically divided between Non-core real estate and publicly-traded real estate securities.

The Non-core segment is implemented using investment funds with a variety of strategies and property types, both within the United States, as well as internationally. While also providing inflation protection, Non-core real estate investments are also expected to produce meaningful capital appreciation. These strategies typically involve a higher element of development risk and carry higher levels of leverage than Core real estate investing.

The publicly-traded real estate securities segment is implemented primarily with domestic and global real estate investment trusts (REITS). These securities provide liquidity while providing broad exposure to the overall real estate market.

Real Estate Strategy Allocation as of June 30, 2008

	Current Position	Target Allocation
Core Real Estate	47.3%	50.0%
Non-Core Real Estate	20.1%	25.0%
Real Estate Securities	32.6%	25.0%

Market Overview

The end of the fiscal year marked the one-year "anniversary" of the credit crisis which was triggered, transmitted and fueled not by widespread defaults on debt instruments as in past credit crises but through excessive leverage (borrowing) and widespread securitization of complex structured financial products. The leverage amplified even small changes in real (or perceived) risk associated with the underlying debt instruments which were then transmitted globally, resulting in a rapidly spreading and, at times, largely uncontained risk. Specifically, when tainted sub-prime debt (or linked securities) turned up on balance sheets of financial institutions large and small around the world, lending even in well established global credit markets began to dry up. Regulatory and accounting mechanisms for identifying, monitoring, quantifying and controlling excessive credit risk exposure were at best ineffective and at worst outright failures, raising questions regarding the current adequacy of regulation, as well as what changes need to be introduced to prevent a recurrence.

The credit crisis transformed the housing market from marginal to a somewhat weakened state. As a result, home prices in many regions of the country tumbled, foreclosures spiked and there was little consensus as to when the bottom of the market might be reached.

Although the System does not have direct exposure to non-commercial property types, a "contagion effect" was felt throughout the real estate portfolio as valuations of commercial properties were negatively impacted as a result of material changes in both the CMBS (Commerical Mortgage Backed Securities) and CDO (Collateralized Debt Obligation) marketplace and their resulting impact on liquidity. Experience with prior speculative periods suggests that the bursting of a financial bubble often results in rapid and sometimes significant asset price deflation. This is potentially the case within the System's real estate portfolio as property valuations could revert back to levels witnessed earlier this decade. One encouraging aspect noted in the current environment is the positive absorption trend in commercial real estate as developers and builders are finding it difficult to justify new construction. The managers believe this will positively impact occupancy while improving opportunities for longer-term rental growth.

Fortunately, the System was able to sell two Core properties in the fall of 2007 at attractive prices acting on advice from AEW while the credit crisis was still in its infancy. Further, the managers have taken steps to take advantage of the current market situation to include planned and anticipated investments in Senior Housing, Distressed Real Estate debt, Logistics management and sector-specific funds that are expected to position the plan well if an economic downturn were to occur. In addition, globalization will continue as a theme as the System plans to diversify its real estate exposure outside of North America.

Performance

The overall real estate portfolio returned negative 3.5 percent for the fiscal year. Underperformance versus the benchmark was primarily driven by the publicly traded REIT exposure which accounted for roughly a third of the overall Real Estate portfolio. Specifically, the passively managed U.S. component of the portfolio reflected a negative return of 14 percent while the global REIT portion was down to a lesser extent.

The Non-Core portfolio, which consists primarily of limited partner interests in funds, is generally meeting expectations. The Core portfolio, consisting of both core properties and the Prime Property fund continued to perform well and benefited from both capital appreciation and a strong income component which allowed many of the investments to ride out the first year of the credit crisis with minimal impact.

Real Estate Performance as of June 30, 2008 (gross of fees)

	1-Year	3-Year	5-Year
Real Estate Portfolio	-3.5%	12.6%	15.8%
KPERS Real Estate Benchmark	5.3%	12.0%	13.4%

Investment Advisors

As of June 30, 2008, KPERS had a contract with one external investment advisor (AEW Capital Management) for the real estate portfolio. In addition, a search was initiated during the year for a general Real Estate consultant.

Alternative Investments

For fiscal 2008, the System’s alternative investment portfolio had a market value of $404.5 million, representing 3.1 percent of the total fund. The return for the alternative investment portfolio was 9.3 percent for the fiscal year.

Highlights

KPERS re-initiated the private equity investment program in the fiscal year and several new commitments to private equity funds were approved in the year. Highlights are presented below.

- A new non-discretionary private equity consultant was hired to assist staff with the development and execution of our new private equity program.
- The private equity investment strategy was updated to better reflect our program’s goals and the opportunities in the marketplace.
- Five new commitments to private equity funds were presented to and approved by the Board of Trustees.
- The strategic allocation target to private equity was increased to 6 percent from 5 percent based on our most recent asset/liability study.

Portfolio Structure

The alternative investment portfolio consists primarily of interests in private partnerships that provide equity and debt to companies. The portfolio contains four sub-portfolios based on investment period as well as a distributed securities portfolio. Each portfolio has its own set of directives, guidelines and external consultant/manager who provided advice on investment strategy and investment selection during its investment period.

The largest portfolio is the Alternative Investment Portfolio (“AIP”) which represents approximately 95 percent of the market value of the asset class. From 1997 to 2001, AIP committed to 53 funds with 35 general partners in five styles: buyout, venture capital, mezzanine, distressed debt and natural resources. AIP continues to have modest investment activity. However, the fund managers are actively pursuing exit strategies for their remaining holdings. In the near future, AIP will decrease in market value primarily due to each fund’s distribution of cash and securities.

The next largest portfolio is the newly formed Private Equity Program ("PEP"). The PEP portfolio is actively seeking and making new commitments to private equity funds in three styles: buyout, venture capital/growth equity and special situations, including: distressed debt, mezzanine debt, natural resources and secondary private equity funds. The market value of the PEP portfolio is slightly under 4 percent of the asset class since its investment period began in the last quarter of 2007. Over the next three to five years, the market value of the PEP portfolio will increase as the System continues to commit to new private equity funds each year. The PEP portfolio is expected to surpass the legacy AIP portfolio as a percentage of the asset class during the next few years.

The remaining portfolios comprise less than one percent of KPERS alternative asset class and represent investments made prior to 1991.

Alternative Investments Strategy Allocation as of June 30, 2008

	Current Position	**Target Allocation**
Leveraged Buyout	42.1%	42.5%
Venture Capital	42.9%	27.5%
Mezzanine Debt	7.6%	12.5%
Distressed Debt	6.9%	15.0%
Natural Resources	0.5%	2.5%

Market Overview

The leveraged buyout markets reached a peak in activity during calendar year 2007 as a multi-year period of growth in leverage and risk culminated in some of the largest mergers and acquisitions to date. However, in early 2008, the private equity market was quickly reminded that it was not immune to the impact of the U.S. credit crisis and investors' renewed focus on risk. The events in the credit markets reduced the amount of available capital banks were willing and able to lend. Without the availability of debt financing from banks, the value of leverage buyouts dropped by 87 percent in the first half of 2008 from a year earlier. As a consequence of the current market environment, private equity funds have been investing at a slower pace not only due to a reduction in debt financing, but also based on sellers unrealistically high price expectations carrying over from prior years. However, as prices begin to moderate and become more lucrative, recently formed funds will have ample opportunities to invest at attractive terms that will produce higher long-term returns. Conversely, funds formed in prior years are experiencing longer holding periods on current investments resulting in lower long-term returns.

Performance

The overall alternative investment portfolio returned 9.3 percent for the fiscal year, exceeding its public markets benchmark of negative 6.5 percent. The strong portfolio return is primarily attributed to AIP and its underlying portfolio of mature funds that either increased in value or distributed gains. In the near future, returns may moderate slightly as the new PEP portfolio begins to invest. As is typical of private equity's return cycle, value creation in recent investments may take several years. However, the private equity asset class continues to produce the highest long-term returns based on a diversified portfolio of top-tier general partners.

Alternative Investments Performance as of June 30, 2008 (gross of fees)

	1-Year	**3-Year**	**5-Year**
Alternative Investments Portfolio	9.3%	19.6%	18.1%
KPERS Alternative Investments Benchmark	-6.5%	6.1%	7.2%

As required by K.S.A. 74-4904, a schedule of alternative investments initiated on or after July 1, 1991, follows.

Alternative Investments Initiated On or After July 1, 1991 (a)

as of June 30, 2008

Shares	Description	Cost	Market Value
2,568,795	Advanced Technology Ventures VI, L.P.	$ 10,049,988	$ 2,568,795
1,682,067	Apax Europe IV, L.P.	1,254,309	2,650,181
9,193,411	Apax Europe V, L.P.	13,144,177	14,484,679
1,933,754	Apollo Investment Fund VII, L.P.	1,933,754	1,933,754
962,646	Battery Ventures V, L.P.	1,079,940	962,646
7,687,903	Battery Ventures VI, L.P.	7,660,401	7,687,903
1,313,859	Beacon Group Energy Fund II, L.P.	1,748,952	1,313,859
6,704,539	Behrman Capital II, L.P.	10,014,215	6,704,539
26,009,341	Behrman Capital III, L.P.	21,729,072	26,009,341
47,000	Candover 1997 US #1 Fund, L.P.	-	93,537
5,263,666	Capital Resource Partners IV, L.P.	7,876,875	5,263,666
938,120	Cinven Second Fund US, L.P.	924,260	1,866,999
1,996,363	Clayton Dublier & Rice VI, L.P.	4,307,204	1,996,363
7,023,370	Cypress Merchant Banking II, L.P.	11,590,744	7,023,370
1,919,187	Dominion Fund V, L.P.	4,369,110	1,919,187
572,620	El Dorado Ventures IV, L.P.	1,833,722	572,620
2,108,426	El Dorado Ventures V, L.P.	7,344,772	2,108,426
14,273,296	El Dorado Ventures VI, L.P.	18,526,771	14,273,296
868,325	GTCR Capital Partners, L.P.	2,732,163	868,325
6,675,280	GTCR Fund VII, L.P.	-	6,675,280
1,157,074	GTCR Fund VII/A, L.P.	-	1,157,074
9,343,315	Halpern Denny Fund III, L.P.	7,471,714	9,343,315
775,797	Harvest Partners III, L.P.	8,993,546	775,797
1,786,696	Kelso Investment Associates VI, L.P.	1,122,257	1,786,696
4,983,674	Littlejohn Fund II, L.P.	6,781,869	4,983,674
1,848,396	McCown De Leeuw & Company IV, L.P.	509,664	1,848,396
6,427,092	M.D. Sass Corporate Resurgence Partners, L.P.	4,261,374	6,427,092
6,227,010	M.D. Sass Corporate Resurgence Partners II, L.P.	5,965,193	6,227,010
4,537,557	M.D. Sass Corporate Resurgence Partners III, L.P.	7,050,829	4,537,557
6,990,667	Oak Hill Capital Partners, L.P.	6,558,744	6,990,667
125,781	OCM Opportunities Fund II, L.P.	969,215	125,781
700,846	OCM Opportunities Fund III, L.P.	1,249,623	700,846

Alternative Investments Initiated On or After July 1, 1991 (a)

as of June 30, 2008

1,875,000	OCM Opportunities Fund VIIb, L.P.	1,875,000	1,875,000
1,518,254	OneLiberty Fund IV, L.P.	1,740,007	1,518,254
12,923,304	OneLiberty Ventures 2000, L.P.	17,405,629	12,923,304
28,858,803	TA IX, L.P.	18,618,047	28,858,803
4,121,274	TA Subordinated Debt Fund, L.P.	2,948,764	4,121,274
8,507,222	TCV IV, L.P.	10,195,683	8,507,222
423,252	Thomas H. Lee Equity Fund IV, L.P.	25,819	423,252
27,997,826	Thomas H. Lee Equity Fund V, L.P.	15,261,865	27,997,826
1,133,548	TPG Partners VI, L.P.	1,133,548	1,133,548
216,410	Trinity Ventures VI, L.P.	496,706	216,410
3,222,796	Trinity Ventures VII, L.P.	7,545,990	3,222,796
11,106,388	Trinity Ventures VIII, L.P.	12,143,210	11,106,388
1,072,359	Washington & Congress Capital Partners, L.P. (b)	3,324,857	1,072,359
4,227,322	VantagePoint Venture Partners III, L.P.	7,771,892	4,227,322
24,886,013	VantagePoint Venture Partners IV, L.P.	25,209,525	24,886,013
13,343,245	Vestar Capital Partners IV, L.P.	11,453,875	13,343,245
7,316,053	VS&A Communications Partners III, L.P.	9,968,984	7,316,053
4,304,761	Warburg, Pincus Equity Partners, L.P.	-	4,304,761
10,399,519	Warburg Pincus Private Equity X, L.P.	11,657,394	10,399,519
27,294,599	Welsh, Carson, Anderson & Stowe IX, L.P.	12,441,035	27,294,599
8,456,458	Welsh, Carson, Anderson & Stowe VIII, L.P.	7,191,392	8,456,458
704,112	Willis Stein & Partners II, L.P.	2,056,282	704,112
31,418,136	Willis Stein & Partners III, L.P.	34,107,330	31,418,136
13,659,793	Windjammer Mezzanine & Equity Fund II, L.P.	8,891,725	13,659,793
528,635	Windward Capital Partners II, L.P.	—	528,635
		$402,519,016	$401,395,753

(a) Investment values quoted without spin-offs or distributions.

(b) (b) Formerly Triumph Partners III, L.P.

U.S. Equity Commissions

for the fiscal year ended June 30, 2008

Broker Name	Commissions Paid	Shares	Commissions Per Share	Percent of Total	
Deutsche Bk Secs Inc, NY	$217,857	4,725,630	$0.05	12.3	%
Morgan Stanley & Co Inc, NY	216,626	14,248,668	0.02	12.3	
Banc Of America Secs LLC, Charlotte	200,950	3,590,325	0.06	11.4	
Investment Technology Groups, NY	137,619	7,370,620	0.02	7.8	
UBS Securities LLC, Stamford	110,348	2,182,500	0.05	6.3	
Merrill Lynch Pierce Fenner Smith Inc NY	107,805	7,418,619	0.01	6.1	
Morgan J P Secs Inc, NY	103,220	2,062,833	0.05	5.8	
Citigroup Gbl Mkts Inc, NY	84,027	4,736,127	0.02	4.8	
Goldman Sachs & Co, NY	81,774	4,661,316	0.02	4.6	
Credit Suisse, NY	77,354	5,231,357	0.01	4.4	
SG Americas Securities LLC, NY	70,770	3,235,092	0.02	4.0	
Merrill Lynch Pierce Fenner Smith Inc Willmington	31,019	6,064,255	0.01	1.8	
Lehman Bros Inc, NY	20,671	1,020,087	0.02	1.2	
Goldman Sachs Execution & Clearing, NY	20,604	2,641,117	0.01	1.2	
Bear Stearns Sec Corp, Brooklyn	19,942	559,584	0.04	1.1	
Nomura Secs Int'l Inc, NY	17,924	1,361,732	0.01	1.0	
Berstein Sanford C & Co, NY	17,591	1,488,928	0.01	1.0	
Liquidnet Inc, Brooklyn	14,428	721,394	0.02	0.8	
ABN AMRO Secs LLC, NY	14,092	212,561	0.07	0.8	
Calyon Securities Inc, NY	13,601	3,510,020	0.00	0.8	
Gadner Rich & Co, Chicago	12,836	855,700	0.02	0.7	
Thomas Weisel Partners, San Francisco	10,814	276,400	0.04	0.6	
Ridge Clearing & Outsourcing, NY	10,564	274,600	0.04	0.6	
Boenning & Scattergood Inc, W Conshohocren	9,199	408,850	0.02	0.5	
Griswold Company, NY	8,399	419,955	0.02	0.5	
Others	134,889	4,680,193	0.03	7.6	
Total Broker Commissions	$1,764,923	83,958,463	0.02	100	%

List of Largest Holdings [a]

as of June 30, 2008

Equities

Shares	Security Fair	Value ($)
849,917	Exxon Mobil Corp	$74,903,185
1,886,491	Microsoft Corp Com	51,897,367
214,089	E.ON AG NPV	43,226,010
1,608,585	General Elec Co Com	42,933,134
176,700	Potash Corp of Saskatchewan	41,202,424
987,706	Royal Dutch Shell	40,670,769
354,300	Chevron Corp Com	35,121,759
1,042,012	AT&T Inc Com	35,105,384
645,290	Nestle	29,242,673
444,615	Johnson & Johnson Com	28,606,529

Fixed Income

Par Value	Security	Description	Fair Value ($)
$571,770,128	US Treasury Inflation Index Bd	3.875% 04/15/2029	$743,123,917
302,768,040	US Treasury Inflation Index Bd	3.625% 04/15/2028	377,892,360
121,003,000	US Treasury Inflation Index Bd	3.375% 04/15/2032	152,312,526
116,190,000	Commit To Pur FNMA Sf Mtg	5.000% 07/01/2038	111,356,496
110,400,000	Commit To Pur FNMA Sf Mtg	5.500% 07/01/2038	108,810,240
102,900,000	Commit To Pur FNMA Sf Mtg	5.000% 08/01/2038	98,403,270
49,550,000	US Treasury Notes	4.750% 08/15/2017	52,508,135
30,600,000	IRS_P EUR006M	4.285% 04/11/2010	47,348,838
43,339,268	FNMA Pool#0917102	5.500% 05/01/2037	42,700,014
35,000,000	US Treasury Notes	4.500% 04/30/2009	35,630,000

(a) Does not include holdings of commingled funds or invested securities lending collateral. A complete listing of the System's holdings is available at the Retirement System office.

Investments Fair Value Summary [1] ($ in thousands)

for the fiscal year ended June 30, 2008

	June 30, 2007 Fair Value	Purchases/ Other Increases	Sales/ Other Decreases	June 30, 2008 Fair Value	Asset Mix Fair Value
Marketable Securities					
Domestic Equities	$ 4,615,180	$1,172,680	$ (1846850)	$ 3,941,010	29.13 %
International Equities	3,636,725	1,473,553	(2,056,304)	3,053,974	22.58
Total Fixed Income	4,546,614	10,184,758	(10,047,467)	4,683,905	34.63
Temporary Investments (2)	443,922	11,718,345	(11,672,997)	498,270	3.62
Total Marketable Securities	13,242,441	24,549,336	(25,623,618)	12,168,159	89.96
Real Estate and Alternative Investments					
Real Estate	1,021,593	117,687	(183,694)	955,586	7.06
Direct Placements and Limited Partnerships	454,022	54,351	(105,054)	403,319	2.98
Total Real Estate and Alternative Investments	1,475,615	172,038	(288,748)	1,358,905	10.04
Total	**$14,718,056**	**$24,721,374**	**$(25,912,366)**	**$13,527,064**	**100.00 %**

1) Amounts include changes in unrealized appreciation and exclude interest and dividend accruals. Amounts exclude security lending cash collateral of $2,418,559,400 for FY 2007, and FY 2007 cash collateral of $2,205,187,750.
2) Temporary Investments include foreign currencies, and securities maturing within 90 days of purchase date.

ACTUARIAL SECTION

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October 22, 2008

Board of Trustees
Kansas Public Employees Retirement System
611 S. Kansas Ave., Suite 100
Topeka, KS 66603

Dear Members of the Board:

At your request, we have completed the annual actuarial valuation of the Kansas Public Employees Retirement System as of December 31, 2007 for determining contributions for fiscal year 2011 for the State and 2010 for Local employers. The major findings of the valuation are contained in this report. There was no change in the actuarial methods from the prior valuation. The report reflects the new assumptions adopted by the Board in November, 2007, as a result of the Triennial Experience Study. The report also reflects the $300 one-time payment granted to certain retirees and their joint annuitants by the 2008 Legislature. There were no other changes in the benefit provisions. All the information and the supporting schedules found in the Actuarial Section have been provided by Milliman, Inc, except for pages 112-113 and 115. We also provided the information used in the supporting schedules in the *Schedule of Funding Progress* in the Financial Section as well as the employer contribution rates shown in the *Schedule of Employer Contribution Rates* in the Financial Section.

In preparing our report, we relied, without audit, on information (some oral and some written) supplied by the System's staff. This information includes, but is not limited to, statutory provisions, member data and financial information. In our examination of these data, we have found them to be reasonably consistent and comparable with data used for other purposes. Since the valuation results are dependent on the integrity of the data supplied, the results can be expected to differ if the underlying data is incomplete or missing. It should be noted that if any data or other information is inaccurate or incomplete, our calculations may need to be revised.

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 which are consistent with the Actuarial Standards of Practice promulgated by the Actuarial Standards Board (ASB) and the applicable Guides to Professional Conduct, amplifying Opinions, and supporting recommendations of the American Academy of Actuaries.

We hereby further certify that all costs, liabilities, rates of interest and other factors for the System have been determined on the basis of actuarial assumptions and methods which are internally consistent, individually reasonable (taking into account the experience of the System and reasonable expectations); and which, in combination, offer our best estimate of anticipated experience affecting the System. 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. The Board of Trustees has the final decision regarding the appropriateness of the assumptions and adopted them as indicated in this actuarial section.

Actuarial computations presented in this report are for purposes of determining the recommended funding amounts for the System. Actuarial computations under GASB Statements No. 25 and 27 are for purposes of fulfilling financial accounting requirements. The computations prepared for these two purposes may differ as disclosed in our report. The calculations in the enclosed report have been made on a basis consistent with our understanding of the System's funding requirements and goals, and of GASB Statements No. 25 and 27. Determinations for purposes other than meeting these requirements may be significantly different from the results contained in this report. Accordingly, additional determinations may be needed for other purposes.

Milliman's work product was prepared exclusively for KPERS for a specific and limited purpose. It is a complex, technical analysis that assumes a high level of knowledge concerning KPERS' operations, and uses KPERS' data, which Milliman has not audited. It is not for the use or benefit of any third party for any purpose. Any third recipient of Milliman's work product who desires professional guidance should not rely upon Milliman's work product, but should engage qualified professionals for advice appropriate to its own specific needs.

We would like to express our appreciation to Glenn Deck, Executive Director of the System, and to members of his staff, who gave substantial assistance in supplying the data on which this report is based.

I, Patrice A. Beckham F.S.A., am a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries, and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

I, Brent A. Banister F.S.A., am a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries, and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

We respectfully submit the following report and look forward to discussing it with you.

MILLIMAN, Inc.
Sincerely,

Patrice Beckham

Patrice A. Beckham, F.S.A.
Consulting Actuary

Brent A. Banister

Brent A. Banister, F.S.A.
Actuary

Overview

The Kansas Public Employees Retirement System is an umbrella organization which administers the following 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 (Judges). This report presents the results of the December 31, 2007 actuarial valuations for each of the Systems.

The primary purposes of performing actuarial valuations are to:

- Determine the employer contribution rates required to fund each System on an actuarial basis.
- Determine the statutory employer contribution rates for each System.
- Disclose asset and liability measures as of the valuation date.
- Determine the experience of the System since the last valuation date.
- Analyze and report on trends in System contributions, assets, and liabilities over the past several years.

The 2008 Legislature passed legislation (House Bill 2390) which provides a $300 one-time benefit payment to all retirees who retired on or before July 1, 1998, and have ten or more years of service credit and their joint survivors. The $300 payment is contingent on the State's receipt of adequate expanded gaming revenues. For purposes of this valuation, we have assumed that expanded gaming revenues will exist and they will be sufficient to permit the $300 one-time payment to be made, i.e. both the liability and assets reflect the payment.

There was no change in the actuarial methods used in the valuation. However, there was a change in the set of actuarial assumptions used in the December 31, 2007 actuarial valuation. The Board of Trustees adopted the new set of assumptions in November, 2007, following the completion of the Triennial Experience Study. The changes recommended by Milliman, Inc. and adopted by the Board of Trustees were:

KPERS

- Adjust the mortality rates to better fit observed patterns.
- Adjust some retirement rates.
- Change the termination of employment to be based solely on length of employment.
- Changes to the salary growth assumption (primarily for the School group).
- Minor adjustments to disability rates.
- Changes in the probability of electing a refund of contributions.

KP&F

- Adjust the mortality rates.
- Adjust some retirement rates.

Judges

- Adjust the mortality rates.
- Change the salary increase assumption from 5.5 percent to 4.5 percent.

In KPERS, State, School and Local employers do not necessarily contribute the full actuarial contribution rate. Based on legislation passed in 1993, the employer contribution rates certified by the Board may not increase by more than the statutory cap.

The statutory cap, which has been changed periodically, is currently 0.60 percent for the State, School and Local groups.

The valuation results provide a "snapshot" view of the System's financial condition on December 31, 2007. The unfunded actuarial liability for the System as a whole increased by $189 million due to various factors. A detailed analysis of the change in the unfunded actuarial liability from December 31, 2006 to December 31, 2007 is shown on page 74.

A summary of actuarial and statutory employer contribution rates for the Retirement System (excluding the statutory contribution for the Death and Disability Program) for the last two valuation dates follows:

	December 31, 2007 Valuation		
System A	**ctuarial**	**Statutory**	**Difference**
State 7.39%		7.39%[3] 0.00%	
School[1] 12.48%		8.17%	4.31%
Local[1] 8.52%		6.14%	2.38%
Police & Fire - Uniform Rates[2] 12.86%		12.86%	0.00%
Judges 19.49%		19.49%	0.00%

	December 31, 2006 Valuation		
System A	**ctuarial**	**Statutory**	**Difference**
State 7.34%		7.34%[3] 0.00%	
School 12.07%		7.57%	4.50%
Local 8.12%		5.53%[4] 2.59%	
Police & Fire - Uniform Rates	13.49%	13.49%[5] 0.00%	
Judges 20.50%		20.50%	0.00%

1) By statute, rates are allowed to increase by a maximum of 0.60 percent plus the cost of any benefit enhancements.
2) For KP&F, the statutory contribution rate is equal to the "Uniform" rate. The rate shown is for local employers. The rate for State employers is 12.72 percent this year, which includes a payment of 0.50 percent for the debt service payment on the bonds issued for the 13th check. The uniform rate does not include the payment required to amortize the unfunded past service liability or any 15 percent excess benefit liability determined separately for each employer.
3) The difference between the statutory rate and the actuarial contribution rate times actual State payroll is deposited to the School assets.
4) This rate was recertified to 5.54 percent to reflect the cost of the one-time payment for retirees of Local employers in 2008.
5) This rate was recertified to 13.51 percent to reflect the cost of the one-time payment for retirees of Local employers in 2008.

The long term funding outlook for KPERS has improved due to legislation, Board action and strong investment performance in the last few years. The statutory contribution rate is projected to converge with the actuarial required contribution (ARC) rate before the end of the amortization period (2033). Therefore the System is in actuarial balance over the long term **if all actuarial assumptions are met**. However, the shortfall between the actuarial and statutory contribution rates will continue to produce increases in the UAL. As a result, the actuarial contribution rate is expected to increase until the ARC Date (defined as the date at which the actuarial and statutory contribution rates are equal) is reached.

The market value of assets is about 5 percent higher than the actuarial value. This is due to the use of an asset smoothing method and the delayed reflection of market experience in the actuarial value of assets. These deferred gains will be reflected over the next four years. However, the net impact on the actuarial value of assets will depend on actual experience in future years.

Experience ─ All Systems Combined

December 31, 2006 – December 31, 2007

In many respects, an actuarial valuation can be thought of as an inventory process. The inventory is taken as of the actuarial valuation date, which for this valuation is December 31, 2007. On that date, the assets available for the payment of benefits are appraised. The assets are compared with the liabilities of the System, which are generally in excess of assets. The actuarial process leads to a method of determining the contributions needed by members and employers in the future to balance the System assets and liabilities.

Changes in the Systems' assets and liabilities impacted the change in the actuarial contribution rates between the December 31, 2006 and December 31, 2007 actuarial valuations. On the following pages each component is examined and quantified.

Membership

Following is a summary of the changes in active members (for KPERS) between the December 31, 2006 and December 31, 2007 actuarial valuations.

	State	School	Local	KP&F	Judges	Total
12/31/2006 (Starting count)	23,840 84,707 35,680			6,965	257	151,449
New actives	2,316	11,013	4,077	527	11	17,944
Nonvested Terminations	688	4,899	1,563	167	0	7,317
Elected Refund	409	1,212	960	95	0	2,676
Vested Terminations	395	917	539	47	2	1,900
Total Withdrawals	1,492	7,028	3,062	309	2	11,893
Deaths 22		65	35	6	0	128
Disabilities 88		99	74	15	0	276
Early Retirements	57	214	77	3	0	351
Unreduced Retirements	489	1,651	519	91	10	2,760
Total Retirements	546	1,865	596	94	10	3,111
Other/Transfer 16		(195)	(76)	69	5	(181)
12/31/2007 (Ending count)	24,024 86,468 35,914			7,137	261	153,804

Assets

As of December 31, 2007, the System had total funds when measured on a market value basis, of $14.2 billion, including the receivable of $7 million from the State for the one-time cost-of-living payment and excluding assets held for the Group Insurance and Optional Life reserves. This was an increase of $0.8 billion from the December 31, 2006 figure of $13.4 billion. The components of the change in the market value of assets for the Retirement System (in millions) are as follows.

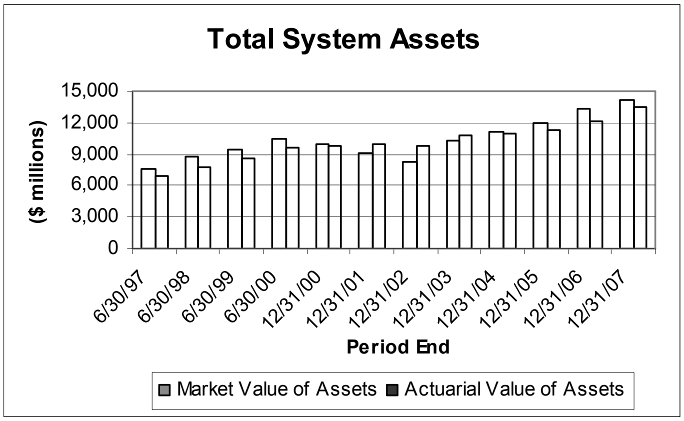
Market	Value ($ in millions)
Assets, December 31, 2006	$13,369
• Employer and Member Contributions	623
• Benefit Payments and Expenses	(974)
• Investment Income	1,143
Assets, December 31, 2007	$14,161
• Receivables	7
Adjusted Assets, December 31, 2007	$14,168

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 smoothing method calculates the difference between the actual return and the expected return (assumed rate of return) on the market value of assets each year. The difference is recognized equally over a five-year period.

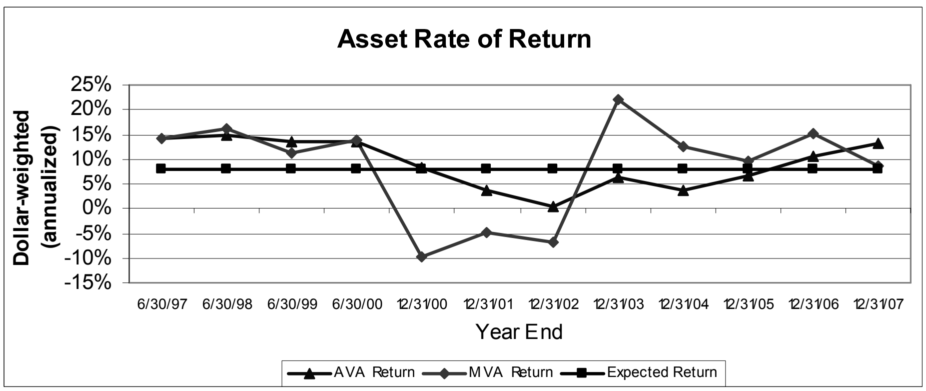
	Actuarial Value ($ in millions)
Actuarial Value of Assets 12/31/06	$12,189
• Employer and Member Contributions	623
• Receivable	7
• Benefit Payments and Expenses	(974)
• Investment Income	1,588
Actuarial Value of Assets 12/31/07	$13,433

The actuarial value of assets as of December 31, 2007, was $13.433 billion. The annualized dollar-weighted rate of return for 2007 measured on the actuarial value of assets was approximately 13.2 percent and measured on the market value of assets, as reported by KPERS, was 8.7 percent, net of investment and administrative expenses.

Due to the use of an asset smoothing method, there is $735 million of net deferred investment gain experience that has not yet been recognized. This deferred investment gain will gradually be reflected in the actuarial value of assets over the next four years, but may be offset by actual investment experience if less favorable than assumed.



The actuarial value of assets has been both above and below the market value during the period, which is to be expected when using an asset smoothing method.



The rate of return on the actuarial (smoothed) value of assets has been less volatile than the market value return. Absent losses in future years, rates of return are expected to be above 8 percent as the deferred investment gains are reflected in the actuarial value of assets.

Liabilities

The actuarial liability is that portion of the present value of future 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 (UAL). 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, experience gains and losses, and changes in actuarial assumptions and methods will also impact the total actuarial liability (AL) and the unfunded portion thereof.

The liabilities in this report reflect the increase due to the one-time payment of $300 to retirees and their joint survivors who retired on or before July 1, 1998, with ten or more years of service, that is expected to be paid in the fall of 2008.

The $300 one-time payment to retirees increased the actuarial liability in total by approximately $9 million. The lump-sum payment from the State of $7 million results in an increase of $2 million in the unfunded actuarial liability.

The unfunded actuarial liability ($ million) by group is summarized below:

	State	School	Local	KP&F	Judges
Actuarial Liability	$ 3,422	$ 10,316	$ 3,147	$1,968	$ 132
Actuarial Value of Assets	2,971	6,454	2,206	1,684	117
Unfunded Actuarial Liability	$ 451	$ 3,862	$ 941	$284	$ 15

When the actuarial cost method was changed by the Legislature in 1993, the payment methodology for the unfunded actuarial liability (UAL) for all groups except the Judges System was set in statute as a level percentage of payroll over a 40 year closed period. Payments on the UAL increase four percent each year, the same as the payroll growth assumption. For over half of the amortization period, the payment is less than the interest accruing on the UAL. As a result, the dollar amount of UAL is expected to increase for many years before it begins to decline. In addition, with the planned difference in KPERS' statutory and actuarial contribution rates prior to the ARC Date, the unfunded actuarial liability is expected to increase by an additional amount each year.

Other factors influencing the UAL from year to year include actual experience versus that expected based on the actuarial assumptions (on both assets and liabilities), changes in actuarial assumptions, procedures or methods and changes in benefit provisions. The actual experience measured in this valuation is that which occurred during the prior plan year (calendar year 2007). The State, School and Local groups all had a net liability loss for the year, largely from salary experience. KP&F and Judges also had liability gains for the 2007 year. There was an experience gain from investment return on the actuarial value of assets for all groups.

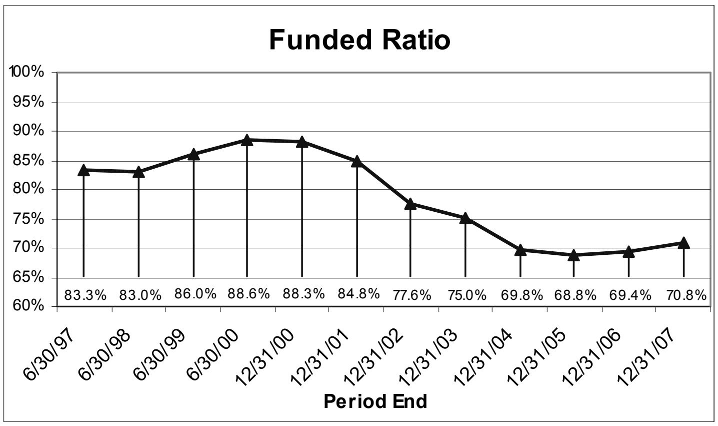
Between December 31, 2006 and December 31, 2007 the change in the unfunded actuarial liabilities for the System as a whole was as follows (in millions):

	($ in millions)
Unfunded Actuarial Liability, December 31, 2006	**$ 5,364**
• effect of contribution cap/time lag	251
• expected increase due to amortization method	78
• gain from investment return	(626)
• demographic experience[1]	144
• all other experience	(45)
• change in actuarial assumptions	384
• change in benefit provisions	2
Unfunded Actuarial Liability, December 31, 2007	**5,552**

1) Liability loss is about 0.8 percent of total actuarial liability.

An evaluation of the unfunded actuarial liability on a pure dollar basis may not provide a complete analysis since only the difference between the assets and liabilities (which are both very large numbers) is reflected. Another way to evaluate the unfunded actuarial liability and the progress made in its funding is to track the funded status, the ratio of the actuarial value of assets to the actuarial liability. The change to the Entry Age Normal actuarial cost method in the 2003 valuation and the change in actuarial assumptions in the 2004 and 2007 valuations both resulted in an increase in the UAL and a decrease in the funded status. The funded status information is shown below (in millions).

	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07
Funded Ratio	77.6%	75.2%	69.8%	68.8%	69.4%	70.8%
Unfunded Actuarial Liability (UAL)	$2,829	$3,586	$4,743	$5,152	$5,364	$5,552



Due to strong investment returns, the funded status of the System generally improved in the last half of the 1990's. Changes in actuarial assumptions and methods, coupled with investment returns below the assumed rate, significantly reduced the funded ratio in 2002 to 2005. However, the funded ratio has stabilized around 70 percent.

Given the current funded status of the System, the amortization method, the amortization period, and the scheduled increases in employer contribution rates, the unfunded actuarial liability is expected to continue to grow and the funded ratio is expected to decline for many years.

Contribution Rates

The funding objective of the System is to establish contribution rates that over time will remain relatively level, as a percentage of payroll, and to pay off the unfunded actuarial liability by the 2033 valuation.

Generally, the actuarial contribution rates to the various Systems consist of:

- a "normal cost" for the portion of projected liabilities allocated by the actuarial cost method to service of members during the year following the valuation date,
- an "unfunded actuarial liability contribution" for the excess of the portion of projected liabilities allocated to service to date over the actuarial value of assets.

There is also a statutory contribution rate that is used to finance the Death and Disability Program. Contributions for the Death and Disability Program are deposited in a separate trust fund, from which benefits are paid. A separate actuarial analysis and report is prepared for the Death and Disability Program on June 30 of each year. Therefore, the death and disability contribution rate is not reflected in this report.

The contribution rates in the December 31, 2007 valuation will set rates for fiscal year end 2011 for the State and 2010 for Local employers.

In KPERS, State, School and Local employers do not necessarily contribute the full actuarial contribution rate. Based on legislation passed in 1993, the employer contribution rates certified by the Board may not increase by more than the statutory cap. The statutory cap, which has been changed periodically, is currently 0.60 percent for all groups. The actuarial contribution rate of 7.39 percent for the State is less than the combined State/School statutory contribution rate of 8.17 percent. As a result, the difference between 8.17 percent and 7.39 percent, or 0.78 percent, of the expected State payroll for FY 2011 will be deposited into the School assets.

A summary of the actuarial and statutory employer contribution rates for the System is shown below:

December 31, 2007 Valuation

System A	**ctuarial**	**Statutory**	**Difference**
State 7.39%		7.39%[3] 0.00%	
School[1]	12.48% 8.17% 4.31%		
Local[1]	8.52% 6.14% 2.38%		
Police & Fire - Uniform Rates[2] 12.86%		12.86%	0.00%
Judges 19.49%		19.49%	0.00%

1) By statute, rates are allowed to increase by a maximum of 0.60 percent plus the cost of any benefit enhancements.

2) For KP&F, the statutory contribution rate is equal to the "Uniform" rate. The rate shown is for local employers. The rate for State employers is 12.72 percent which includes a payment of 0.50 percent for the debt service payment on the bonds issued for the 13th check. The uniform rate does not include the payment required to amortize the unfunded past service liability or any 15 percent excess benefit liability determined separately for each employer.

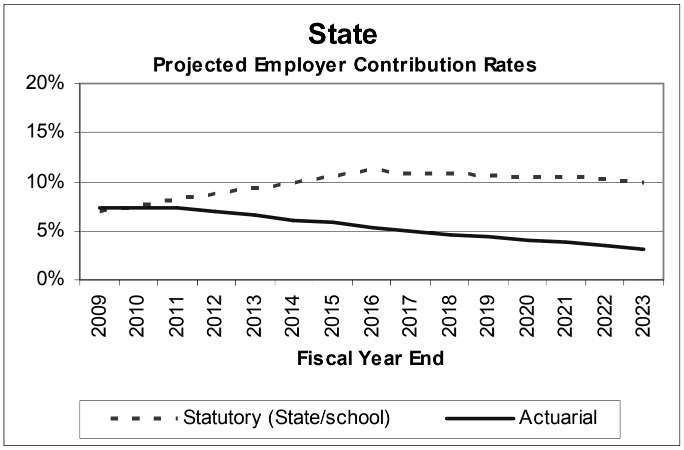
3) The difference between 8.17 percent and the actuarial contribution rate of 7.39 percent times actual State payroll for FY 2011 will be deposited to the School assets.

Separate employer contribution rates are calculated for two subgroups of the State. Two Correctional Employee Groups, one with normal retirement age 55 and the other with normal retirement age 60 have higher contribution rates to finance the earlier normal retirement age. The actuarial contribution rates for the Correctional Employee Groups are shown below:

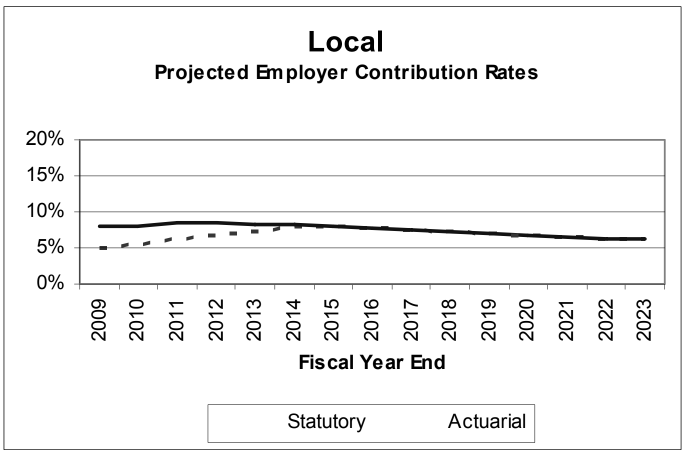
	Actuarial Rate	**Statutory Rate**
Retirement Age 55:	9.20%	8.64%
Retirement Age 60:	8.55%	8.50%

Due to statutory caps, the full actuarial contribution rate is not contributed for the School and Local groups. Based on the current valuation, there is a difference (shortfall) between the actuarial and statutory contribution rates of 4.31 percent and 2.38 percent respectively for the School and Local groups. Assuming an 8 percent return on the market value of assets for 2008 and beyond, all other actuarial assumptions are met in the future, and the current level of statutory caps, the ARC Date (statutory and actuarial contribution rates are equal) for the School group is 2016 and the Local group is 2015.

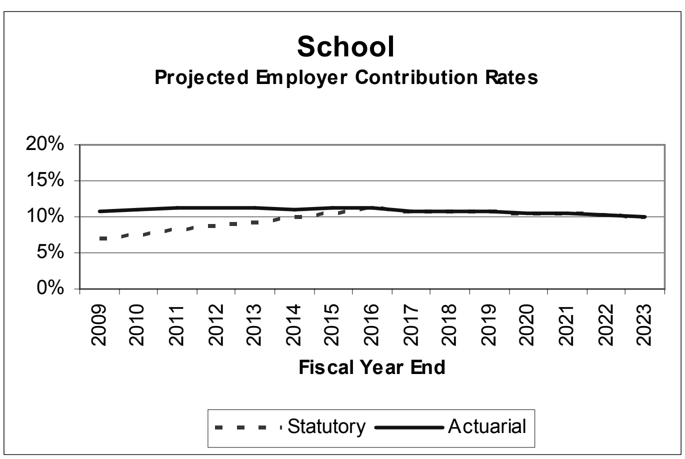
The rate of return on the market value of assets was about 8.7 percent for 2007, but the return on the actuarial value of assets was around 13.2 percent due to recognition of some of the deferred investment experience. This generated an actuarial gain that decreased the UAL. As the remainder of the deferred investment experience is recognized in the actuarial value of assets in future years, the contribution rate for the UAL payment can be expected to decrease, absent unfavorable experience to offset the previously unrecognized gains.



Although the State will be contributing the ARC rate in 2010 and later, the statutory rate will continue to increase, with the difference between the statutory and actuarial contribution rates applied to fund the School group.

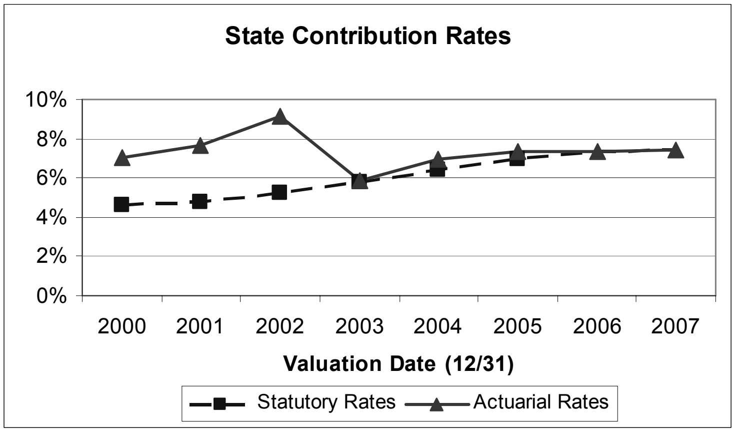


The ARC date is projected to occur in approximately 2015, assuming all actuarial assumptions are met in future years. Actual experience in future years will impact the ARC date.

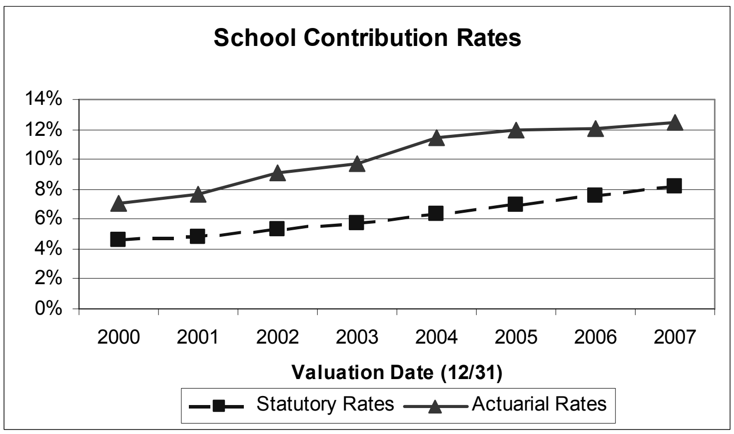


The statutory rate is expected to increase steadily before reaching the ARC Date in approximately 2016. Future experience, especially investment returns, will influence the movement in the ARC Date.

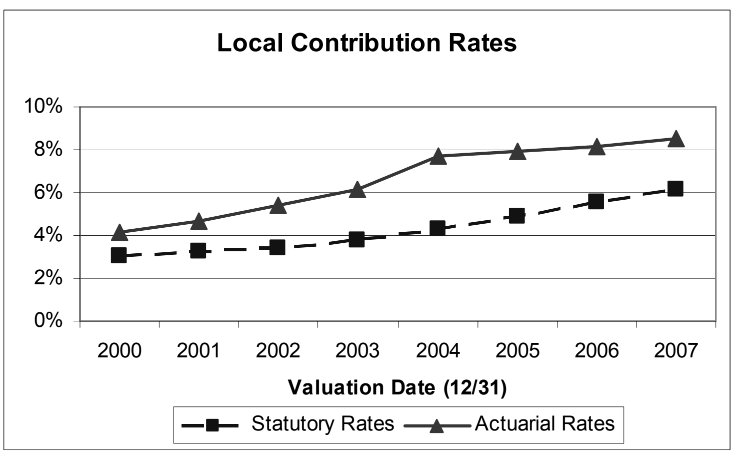
Historical contribution rates for each group are shown on the following pages. Please note that prior to the December 31, 2003 valuation, one contribution rate was developed for the State and School together as one group. Legislation passed in 2004 split the contribution rate calculations into two separate groups, although the statutory contributions are still determined on a combined basis. Significant changes in funding methods as well as a Pension Obligation Bond issue occurred in 2003 and actuarial assumptions were changed in both the 2004 and 2007 valuations. These changes impact the comparability of contribution rates between various valuation dates.



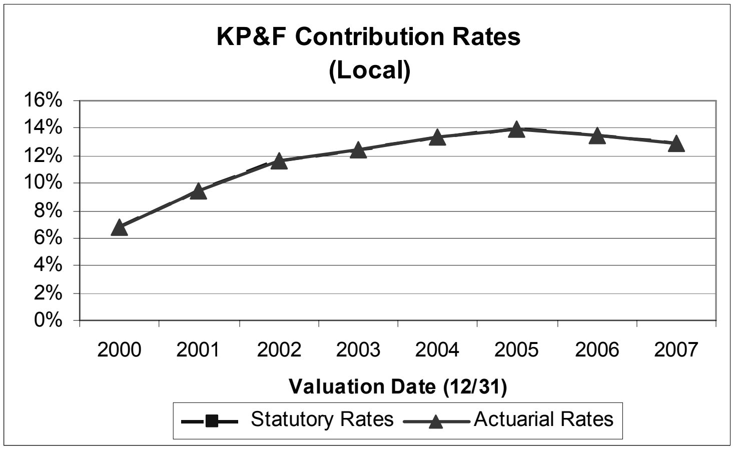
The split of the State group into a separate group with the 2003 valuation, coupled with the bond issue, lowered the actuarial contribution rate. The State's statutory contribution rate is again equal to the actuarial contribution rate in this valuation.



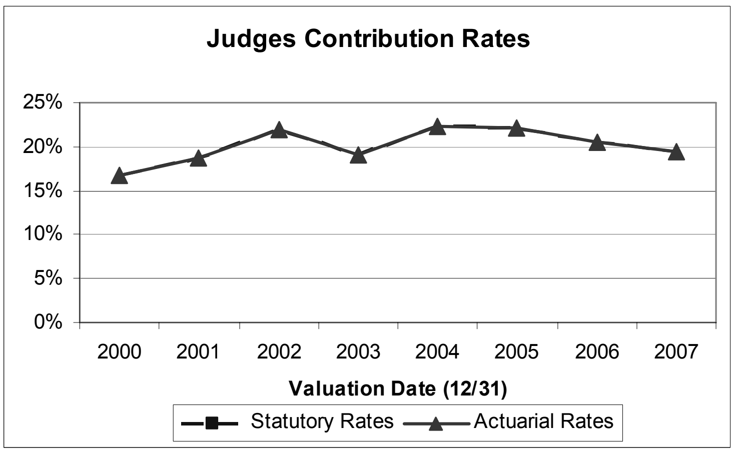
Due to investment experience, changes in actuarial methods and assumptions, and the magnitude of the difference between the actuarial and statutory contribution rates, the funded status of the School group has declined and the actuarial contribution rate has increased.



The Local contribution rate has also been impacted by changes in actuarial assumptions and methods as well as investment performance. As a result, a significant difference still exists between the statutory and actuarial contribution rate. Legislation passed in 2004 provided for increased statutory caps, under which the statutory and actuarial rates are expected to converge if all actuarial assumptions are met in future years.



Investment experience, coupled with a change in actuarial methodology, dramatically increased the contribution rates in the first half of the period. Favorable investment experience in the latter part of the period has helped to stabilize the rates.



Significant changes in the actuarial assumptions in the 2004 valuation, coupled with investment experience in recent years, have generally resulted in higher contribution rates.

Over the past few years, the Retirement System, the Governor and the Legislature have given a high priority to the development of a comprehensive plan to address the long-term funding of KPERS. HB2014, which was passed by the 2003 Legislature, increased the statutory cap on the State/School employer contribution rate from 0.20 percent to 0.40 percent in FY2006, 0.50 percent in FY2007 and 0.60 percent in FY 2008 and beyond. It also authorized the issuance of up to $500 million in pension obligation bonds (POBs). The POBs were sold and proceeds of $440.2 million were received on March 10, 2004. The debt service payments on the bonds are paid by the State in addition to the regular KPERS employer contribution rate.

The 2004 Legislature passed SB520, which continued to address issues related to the long term funding of the System. It gave the KPERS Board of Trustees the authority to establish the actuarial cost method and amortization method/period. With this authority, the Board changed both the actuarial cost method and the asset valuation method with the December 31, 2003 actuarial valuation. SB520 also increased the statutory cap for Local employers from 0.15 percent to 0.40 percent in FY2006, 0.50 percent in FY2007 and 0.60 percent in FY2008 and beyond and also split the State/School group into separate groups for purposes of determining employer contribution rates.

The 2005 Legislature clarified the determination of KPERS State Group and School Group employer contributions by specifying that, in any year in which the State employer rate is less than the combined State/School rate, the Legislature shall appropriate a supplemental amount to the School group, equal to the difference between the State's contributions using the combined rate and contributions using the State Group rate.

The 2007 Legislature passed SB362 which created a new benefit structure for members first employed on or after July 1, 2009. The change was made partially due to long term funding considerations, but also in response to demographic changes in the membership.

Based on the December 31, 2007 actuarial valuation results and the current statutory caps, the statutory contribution rates for the State, School and Local groups are projected to converge with the actuarial required contribution (ARC) rate before the end of the amortization period. As a result, the System is in long term actuarial balance. However, these projections assume that all actuarial assumptions are met exactly in each future year. To the extent that actual experience deviates from that expected, the ARC Date (date at which the statutory and actuarial rates are expected to converge), as well as the ARC rate, will vary. In particular, due to the School group's funded status, the projected ARC Date and rate are very sensitive to changes in the UAL. Unfavorable experience for this group could result in a situation where the statutory contribution rate never reaches the actuarial required contribution (ARC) rate. Key funding measurements should continue to be closely monitored in order to determine whether a change in the contribution cap is needed.

Summary of Change in Unfunded Actuarial Liability

December 31, 2007 Valuation
($ in millions)

	State	School	Local	KP&F	Judges	Total	
UAL in 12/31/2006 Valuation Report	$453.9	$3,680.7	$892.6	$321.5	$14.9	$5,363.6	(1)
Effect of contribution cap/timing	12.5	190.1	52.6	(4.8)	0.8	251.2	
Expected increase due to method	5.6	54.9	13.0	4.4	(0.2)	77.7	
Actual vs. expected experience							
Investment return	(123.4)	(324.9)	(106.7)	(66.7)	(4.3)	(626.0)	
Demographic experience	48.2	70.9	11.9	12.2	1.2	144.4	
All other experience	(10.4)	(17.9)	(8.0)	(7.2)	(1.4)	(44.9)	
Change in assumptions	64.2	207.8	83.5	24.4	3.8	383.7	
Change in benefit provisions	0.0	0.0	1.6	0.5	0.0	2.1	
UAL in 12/31/2007 Valuation Report	$450.6	$3,861.6	$940.5	$284.3	$14.8	$5,551.8	

1) May not add due to rounding.

Summary of Changes in Actuarial Contribution Rate by System

as of December 31, 2007

	State	School	Local	KP&F[1]	Judges
Actuarial Contribution Rate in 12/31/2006 Valuation	7.34%	12.07%	8.10%	13.49%	20.50%
Adjustment for 2007 COLA	0.00	0.00	0.02	0.02	0.00
Change Due to Amortization of UAL					
• effect of contribution cap/time lag	0.08	0.38	0.24	(0.07)	0.28
• amortization method	0.00	0.00	0.00	0.00	(0.21)
• investment experience	(0.81)	(0.65)	(0.48)	(1.03)	(1.43)
• liability experience	0.32	0.14	0.05	0.19	0.41
• all other experience	(0.19)	(0.20)	(0.07)	(0.22)	(0.61)
• change in assumptions	0.42	0.41	0.38	0.38	1.26
• change in benefit provisions	0.00	0.00	0.01	0.00	0.00
Change in Normal Cost Rate					
• change in benefit provisions	0.00	0.00	0.00	0.00	0.00
• change in assumptions	0.29	0.30	0.28	0.12	(0.91)
• all other experience	(0.06)	0.02	0.00	(0.02)	0.20 (2)
Actuarial Contribution Rate in 12/31/2007 Valuation	7.39%	12.48%	8.52%	12.86%	19.49%

1) Contribution rate for Local employers only.

2) A new benefit structure was established for the Judges' System in July, 1987. The normal cost rate is impacted by the change in membership as members hired before July 1, 1987 leave active employment and are replaced with new entrants, with benefits under the current benefit structure.

Summary of Historical Changes in Total System UAL

as of December 31, 2007 Valuation

($ in millions)	As Reported on Valuation Date									
	6/30/94	6/30/95	6/30/96	6/30/97	6/30/98	6/30/99	6/30/00	12/31/00	12/31/01	12/31/02
Actual Experience vs. Assumed										
• Investment	$(102)	$(143)	$(280)	$(323)	$(413)	$(360)	$(441)	$(23)	$350	$644
• Other	320	72	136	157	104	46	99	84	(9)	68
Assumption Changes	0	(96)	0	0	350	0	0	(206)	0	0
Changes in Data/Procedures	244	0	0	0	0	21	71	145**	5	177**
Change in Cost Method	0	0	0	0	0	0	0	0	0	0
Effect of Contribution Cap/Lag	*	95	70	63	54	78	66	60	115	143
Amortization Method	*	47	38	35	32	30	22	12	14	21
Change in Benefit Provisions	75	0	0	0	88	0	19	0	0	37
Bond Issue	0	0	0	0	0	0	0	0	0	(41)
Total	$537	$(25)	$(36)	$(68)	$215	$(194)	$(164)	$72	$475	$1,048

*Not calculated for this year.

Unfunded actuarial liability 6/30/93: $ 968 million
Unfunded actuarial liability 12/31/07: $ 5,552 million

Summary of Historical Changes in Total System UAL (continued)

as of December 31, 2007 Valuation

	As Reported on Valuation Date					
($ millions)	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07	Total
Actual Experience vs. Assumed						
• Investment	$140	$456	$167	$(293)	$(626)	$(1,256)
• Other	(32)	16	(84)	139	99	1,215
Assumption Changes	0	437	(5)	(0)	384	864
Changes in Data/Procedures	(286) ***		0	0	0	377
Change in Cost Method	1,147	0	0	0	0	1,147
Effect of Contribution Cap/Lag	178	179	247	258	251	1,857
Amortization Method	47	68	84	83	78	611
Change in Benefit Provisions	3	1	0	24	2	249
Bond Issue	(440)	0	0	0	0	(481)
Total	$757	$1,157	$409	$211	$188	$4,583

**Reflects the impact of re-establishing the KP&F Supplemental Actuarial Liability at December 31, 2002. The additional unfunded actuarial liability as of December 31, 2000 for the State/School and Local groups not recognized in the prior valuation due to the phase-in of the change in actuarial procedures is included.

***Change in asset valuation method.

Unfunded actuarial liability 6/30/93: $ 968 million
Unfunded actuarial liability 12/31/07: $ 5,552 million

Summary of Principal Results

KPERS — State

	12/31/2007 Valuation	12/31/2006 Valuation	% Change
1. Participa nt Data			
Number of:			
Active Members	24,024	23,840	0.8 %
Retired Members and Beneficiaries	14,994	14,937	0.4
Inactive Members	6,025	5,997	0.5
Total Members	45,043	44,774	0.6
Projected Annual Salaries of Active Members	$954,472,949	$887,116,943	7.6
Annual Retirement Payments for Retired Members and Beneficiaries	$167,939,366	$162,078,502	3.6
2. A ssets and Liabilities			
Total Actuarial Liability	$3,422,120,738	$3,184,451,649	7.5
Assets for Valuation Purposes	2,971,538,701	2,730,530,798	8.8
Unfunded Actuarial Liability	450,582,037	453,920,851	
3. Employer Contribution Rates as a Percent of Payroll			
Normal Cost	4.13%	3.90%	
Amortization of Unfunded Actuarial and Debt Service	3.26%	3.44%	
Actuarial Contribution Rate	7.39%	7.34%	
Statutory Employer Contribution Rate*	7.39%	7.34%	

* Statutory Employer Contribution Rate may not exceed last year's rate by more than rate increase limit of 0.60 percent. This rate does not include the contribution rate for the Death and Disability Program.

Summary of Principal Results

KPERS — School

	12/31/2007 Valuation	12/31/2006 Valuation	% Change
1. Participa nt Data			
Number of:			
Active Members	86,468	84,707	2.1 %
Retired Members and Beneficiaries	35,412	34,389	3.0
Inactive Members	23,653	23,225	1.8
Total Members	145,533	142,321	2.3
Projected Annual Salaries of Active Members	$ 3,172,108,563	$ 2,985,385,666	6.3
Annual Retirement Payments for Retired Members and Beneficiaries	$ 444,027,093	$ 417,087,582	6.5
2. A ssets and Liabilities			
Total Actuarial Liability	$ 10,316,004,061	$ 9,550,731,974	8.0
Assets for Valuation Purposes	6,454,380,538	5,870,070,892	10.0
Unfunded Actuarial Liability	3,861,623,523	3,680,661,082	
3. Employer Contribution Rates as a Percent of Payroll			
Normal Cost	4.61%	4.29%	
Amortization of Unfunded Actuarial and Debt Service	7.87%	7.78%	
Actuarial Contribution Rate	12.48%	12.07%	
Statutory Employer Contribution Rate*	8.17%	7.57%	

* Statutory Employer Contribution Rate may not exceed last year's rate by more than rate increase limit of 0.60 percent. This rate does not include the contribution rate for the Death and Disability Program.

Summary of Principal Results

KPERS — State/School

		12/31/2007 Valuation		12/31/2006 Valuation	% Change
1. Participa nt Data					
Number of:					
Active Members		110,492		108,547	1.8 %
Retired Members and Beneficiaries		50,406		49,326	2.2
Inactive Members		29,678		29,222	1.6
Total Members		190,576		187,095	1.9
Projected Annual Salaries of Active Members	$	4,126,581,512	$	3,872,502,609	6.6
Annual Retirement Payments for Retired Members and Beneficiaries	$	611,966,459	$	579,166,084	5.7
2. A ssets and Liabilities					
Total Actuarial Liability	$	13,738,124,799	$	12,735,183,623	7.9
Assets for Valuation Purposes		9,425,919,239		8,600,601,690	9.6
Unfunded Actuarial Liability		4,312,205,560		4,134,581,933	
3. Employer Contributions as a Percent of Payroll					
Normal Cost		4.50%		4.20%	
Amortization of Unfunded Actuarial and Debt Service		6.80%		6.78%	
Actuarial Contribution Rate		11.30%		10.98%	
Statutory Employer Contribution Rate*		8.17%		7.57%	

* Statutory Employer Contribution Rate may not exceed last year's rate by more than rate increase limit of 0.60 percent. This rate does not include the contribution rate for the Death and Disability Program.

Summary of Principal Results

KPERS — Local

		12/31/2007 Valuation		12/31/2006 Valuation	% Change
1. Participant Data					
Number of:					
Active Members		35,914		35,680	0.7 %
Retired Members and Beneficiaries		12,761		12,482	2.2
Inactive Members		10,373		10,298	0.7
Total Members		59,048		58,460	1.0
Projected Annual Salaries of Active Members	$	1,387,401,497	$	1,318,131,075	5.3
Annual Retirement Payments for Retired Members and Beneficiaries	$	108,829,381	$	102,399,977	6.3
2. Assets and Liabilities					
Total Actuarial Liability	$	3,147,020,449	$	2,862,278,719	9.9
Assets for Valuation Purposes		2,206,473,161		1,969,679,136	12.0
Unfunded Actuarial Liability		940,547,288		892,599,583	
3. Employer Contribution Rates as Percent of Payroll					
Normal Cost		4.14%		3.86%	
Amortization of Unfunded Actuarial and Supplemental Liability		4.38%		4.26%	
Actuarial Contribution Rate		8.52%		8.12%	
Statutory Employer Contribution Rate*		6.14%		5.54%	

* Statutory Employer Contribution Rate exceeds last year's rate by the statutory rate increase limit of 0.60 percent. This rate does not include the contribution rate for the Death and Disability Program. The rate for the 12/31/06 valuation was recertified to 5.54 percent to reflect the additional 0.01percent contribution to fund the 2008 one-time payment to certain retirees.

Summary of Principal Results

KP&F

		12/31/2007 Valuation		12/31/2006 Valuation	% Change
1. Participa nt Data					
Number of:					
Active Members		7,137		6,965	2.5 %
Retired Members and Beneficiaries		3,755		3,785	(0.8)
Inactive Members		1,318		1,320	(0.2)
Total Members		12,210		12,070	1.2
Projected Annual Salaries of Active Members	$	408,162,049	$	383,199,478	6.5
Annual Retirement Payments for Retired Members and Beneficiaries	$	92,223,463	$	87,418,444	5.5
2. A ssets and Liabilities					
Total Actuarial Liability	$	1,968,168,480	$	1,836,524,837	7.2
Assets for Valuation Purposes		1,683,915,313		1,514,988,606	11.2
Unfunded Actuarial Liability		284,253,167		321,536,231	
3. Employer Contribution Rates as a Percent of Payroll					
Normal Cost		8.17%		8.07%	
Amortization of Unfunded Actuarial and Supplemental Liability		4.69%		5.44%	
Actuarial Contribution Rate (Local Employers)		12.86%		13.51%	
Statutory Employer Contribution Rate*		12.86%		13.51%	

* The Statutory Employer Contribution Rate is equal to the Actuarial Rate. This is referred to as the "Uniform" rate, and varies for State and Local employers. The total contribution is equal to the appropriate uniform rate plus the payment required to amortize any unfunded past service liability or 15 percent excess benefit liability, determined separately for each employer. The contribution rate for Local employers for the 12/31/06 valuation was recertified to 13.51 percent to reflect the additional 0.02 percent contribution to fund the 2008 one-time payment to certain retirees.

Summary of Principal Results

Judges

		12/31/2007 Valuation		12/31/2006 Valuation	% Change
1. Participa nt Data					
Number of:					
Active Members		261		257	1.6 %
Retired Members and Beneficiaries		180		172	4.7
Inactive Members		14		18	(22.2)
Total Members		455		447	1.8
Projected Annual Salaries of Active Members	$	27,083,186	$	25,360,133	6.8
Annual Retirement Payments for Retired Members and Beneficiaries	$	6,092,952	$	5,546,754	9.8
2. A ssets and Liabilities					
Total Actuarial Liability	$	131,601,196	$	118,803,324	10.8
Assets for Valuation Purposes		116,807,301		103,928,012	12.4
Unfunded Actuarial Liability		14,793,895		14,875,312	
3. Employer Contribution Rates as a Percent of Payroll					
Normal Cost		14.49%		15.20%	
Amortization of Unfunded Actuarial and Supplemental Liability		5.00%		5.30%	
Actuarial Contribution Rate		19.49%		20.50%	
Statutory Employer Contribution Rate*		19.49%		20.50%	

* Statutory Employer Contribution Rate is equal to the Actuarial Rate.
This rate excludes the contribution for the Death and Disability Program.

Summary of Principal Results

All Systems Combined

	12/31/2007 Valuation	12/31/2006 Valuation	% Change
1. Participant Data			
Number of:			
Active Members	153,804	151,449	1.6 %
Retired Members and Beneficiaries	67,102	65,765	2.0
Inactive Members	41,383	40,858	1.3
Total Members	262,289	258,072	1.6
Projected Annual Salaries of Active Members	$ 5,949,228,244	$ 5,599,193,295	6.3
Annual Retirement Payments for Retired Members and Beneficiaries	$ 819,112,255	$ 774,531,259	5.8
2. Assets and Liabilities			
Total Actuarial Liability	$ 18,984,914,924	$ 17,552,790,504	8.2
Assets for Valuation Purposes	13,433,115,014	12,189,197,444	10.2
Unfunded Actuarial Liability	5,551,799,910	5,363,593,060	

Assets

Market Value of Assets

The current market value represents the "snapshot" or "cash-out" value of System assets as of the valuation date. In addition, market values of assets provide a basis for measuring investment performance from time to time. At December 31, 2007, the market value of assets (excluding receivables) for the Retirement System was $14.168 billion.

Actuarial Value of Assets

Neither the market value of assets, representing a "cash-out" value of System assets, nor the book value of assets, representing the cost of investments, may be the best measure of the System's ongoing ability to meet its obligations.

To arrive at a suitable value for the actuarial valuation, a technique for determining the actuarial value of assets is used which dampens swings in the market value while still indirectly recognizing market values. The asset smoothing method was implemented with the December 31, 2003 actuarial valuation.

Under the asset smoothing method, the difference between the actual return and the expected return (based on the actuarial assumed rate of return) on the market value of assets is calculated each year and recognized equally over a five year period.

Analysis of Net Assets at Market Value

	December 31, 2007			December 31, 2006		
	Amount ($ Millions)	% of Total		Amount ($ Millions)	% of Total	
Cash & Equivalents	$ 887	6.2	%	$ 1,117	8.3	%
Alternative Investments	421	3.0		485	3.6	
Real Estate	1,004	7.1		1,003	7.5	
Fixed Income	4,054	28.5		3,143	23.5	
Domestic Equity	4,355	30.6		4,287	32.0	
International Equity	3,490	24.6		3,367	25.1	
Subtotal	$ 14,211	100.0	%	$ 13,402	100.0	%
Administrative Reserves	(16)			(17)		
Group Insurance and Optional Life Reserves	(34)			(23)		
Net Assets	$ 14,161			$ 13,362		
Receivables	7			7		
Adjusted Net Assets	$ 14,168			$ 13,369		

Allocation of Net Assets on December 31, 2007:

State	$ 3,094	
School	6,863	
Local	2,340	
KP&F	1,750	
Judges	121	
Total Net Assets	$ 14,168	(1)

1) May not add due to rounding

Summary of Changes in KPERS Assets

during period ended December 31, 2007

(Market Value)

	State	School	Local	Total KPERS
Market Value of Assets as of January 1, 2007*	$ 2,947,274,021	$ 6,501,191,800	$ 2,176,385,696	$ 11,624,851,517
Contributions:				
Employee	37,488,895	121,495,404	53,886,505	212,870,804
Employee service purchases	3,257,597	7,079,927	4,146,605	14,484,129
Employer	56,805,240	183,751,626	58,799,246	299,356,112
Miscellaneous	42,227	33,201	0	75,428
Total Contributions	97,593,959	312,360,158	116,832,356	526,786,473
Total Investment Income	244,076,105	564,132,397	189,733,568	997,942,070
Total Income	341,670,064	876,492,555	306,565,924	1,524,728,543
Less Benefits:				
Annuity Retirement Benefits	(166,128,281)	(429,281,902)	(106,811,780)	(702,221,963)
Partial Lump Sum Benefits	(16,511,237)	(57,120,066)	(16,949,135)	(90,580,438)
Retirant Dividends	(3,113,517)	(6,224,781)	(2,024,434)	(11,362,732)
Withdrawals	(7,064,780)	(19,103,595)	(13,381,017)	(39,549,392)
Death Benefits	(3,979,141)	(7,441,499)	(4,089,454)	(15,510,094)
Total Benefits	(196,796,956)	(519,171,843)	(143,255,820)	(859,224,619)
Net Increase in Assets	144,873,108	357,320,712	163,310,104	665,503,924
Receivables	2,220,000	4,730,000	0	6,950,000
Market Value of Assets as of December 31, 2007*	$ 3,094,367,129	$ 6,863,242,512	$ 2,339,695,800	$ 12,297,305,441

* Note: Assets exclude insurance and administrative reserves.

Summary of Changes in KPERS Assets (continued)

during period ended December 31, 2007

(Market Value)

	KPERS	KP&F	Judges	Total
Market Value of Assets as of January 1, 2007*	$ 11,624,851,517	$ 1,632,582,900	$ 111,406,613	$ 13,368,841,030
Contributions:				
Employee	212,870,804	27,654,759	1,388,410	241,913,973
Employee service purchases	14,484,129	747,290	156,222	15,387,641
Employer	299,356,112	61,807,699	5,364,471	366,528,282
Miscellaneous	75,428	18,164	0	93,592
Total Contributions	526,786,473	90,227,912	6,909,103	623,923,488
Total Investment Income	997,942,070	135,408,040	9,176,922	1,142,527,032
Total Income	1,524,728,543	225,635,952	16,086,025	1,766,450,520
Less Benefits:				
Annuity Retirement Benefits	(702,221,963)	(90,341,847)	(6,072,138)	(798,635,948)
Partial Lump Sum Benefits	(90,580,438)	(11,371,878)	(525,897)	(102,478,213)
Retirant Dividends	(11,362,732)	(1,701,908)	(57,877)	(13,122,517)
Withdrawals	(39,549,392)	(4,237,170)	0	(43,786,562)
Death Benefits	(15,510,094)	(915,960)	(16,374)	(16,442,428)
Total Benefits	(859,224,619)	(108,568,763)	(6,672,286)	(974,465,668)
Receivables	6,950,000	90,000	20,000	7,060,000
Net Increase in Assets	665,503,924	117,067,189	9,413,739	791,984,852
Market Value of Assets as of December 31, 2007*	$ 12,297,305,441	$ 1,749,740,089	$ 120,840,352	$ 14,167,885,882

* Note: Assets exclude insurance and administrative reserves.

Calculation of Excess (Shortfall) Investment Income for Actuarial Value of Net Assets

State*

	Plan Year End			
	12/31/2004	**12/31/2005**	**12/31/2006**	**12/31/2007**
1. Market Value of Assets, beginning of year	$ 2,370,036,710	$ 2,553,610,968	$ 2,680,153,605	$ 2,947,274,021
2. Contributions during year		80,477,494		
3. Benefits during year	(162,256,907) 76,634,336	(172,670,110)	(184,716,537) 90,064,863	(196,796,956) 97,593,959
4. Expected net investment income	186,243,922	200,672,116	210,699,057	231,890,140
5. Transfers and receivables	0	0	2,300,000	2,220,000
6. Expected Value of Assets, end of year	2,470,658,061	2,662,090,468	2,798,500,988	3,082,181,164
7. Market Value of Assets, end of year	2,553,610,968	2,680,153,605	2,947,274,021	3,094,367,129
8. Excess (shortfall) of net investment income	$ 82,952,907	$ 18,063,137	$ 148,773,033	$ 12,185,965

* Includes asset values for the TIAA group

Calculation of Excess (Shortfall) Investment Income for Actuarial Value of Net Assets

School

	Plan Year End			
	12/31/2004	**12/31/2005**	**12/31/2006**	**12/31/2007**
1. Market Value of Assets, beginning of year	$ 4,991,542,973	$ 5,427,574,148	$ 5,773,541,598	$ 6,501,191,800
2. Contributions during year	232,136,850	247,762,716	277,813,825	312,360,158
3. Benefits during year	(401,994,358)	(442,053,181)	(473,994,469)	(519,171,843)
4. Expected net investment income	392,659,845	426,583,823	454,187,066	511,982,021
5. Transfers and receivables	0	0	4,600,000	4,730,000
6. Expected Value of Assets, end of year	5,214,345,310	5,659,867,506	6,036,148,020	6,811,092,136
7. Market Value of Assets, end of year	5,427,574,148	5,773,541,598	6,501,191,800	6,863,242,512
8. Excess (shortfall) of net investment income	$ 213,228,838	$ 113,674,092	$ 465,043,780	$ 52,150,376

Calculation of Excess (Shortfall) Investment Income for Actuarial Value of Net Assets

State/School*

	Plan Year End			
	12/31/2004	**12/31/2005**	**12/31/2006**	**12/31/2007**
1. Market Value of Assets, beginning of year	$ 7,361,579,683	$ 7,981,185,116	$ 8,453,695,203	$ 9,448,465,821
2. Contributions during year		328,240,210		
3. Benefits during year	(564,251,265)	(614,723,291)	(658,711,006)	(715,968,799)
	308,771,186		367,878,688	409,954,117
4. Expected net investment income	578,903,767	627,255,939	664,886,123	743,872,161
5. Transfers and receivables	0	0	6,900,000	6,950,000
6. Expected Value of Assets, end of year	7,685,003,371	8,321,957,974	8,834,649,008	9,893,273,300
7. Market Value of Assets, end of year	7,981,185,116	8,453,695,203	9,448,465,821	9,957,609,641
8. Excess (shortfall) of net investment income	$ 296,181,745	$ 131,737,229	$ 613,816,813	$ 64,336,341

* Includes asset values for the TIAA group

Calculation of Excess (Shortfall) Investment Income for Actuarial Value of Net Assets

Local

		Plan Year End		
	12/31/2004	12/31/2005	12/31/2006	12/31/2007
1. Market Value of Assets, beginning of year	$ 1,561,501,396	$ 1,743,287,610	$ 1,897,431,737	$ 2,176,385,696
2. Contributions during year	91,862,152	96,419,499	104,980,627	116,832,356
3. Benefits during year	(106,730,071)	(117,896,660)	(127,971,578)	(143,255,820)
4. Expected net investment income	124,336,836	138,620,449	150,892,593	173,074,250
5. Transfers and receivables	0	0	0	0
6. Expected Value of Assets, end of year	1,670,970,313	1,860,430,898	2,025,333,379	2,323,036,482
7. Market Value of Assets, end of year	1,743,287,610	1,897,431,737	2,176,385,696	2,339,695,800
8. Excess (shortfall) of net investment income	$ 72,317,297	$ 37,000,839	$ 151,052,317	$ 16,659,318

Calculation of Excess (Shortfall) Investment Income for Actuarial Value of Net Assets

KP&F

	Plan Year End			
	12/31/2004	**12/31/2005**	**12/31/2006**	**12/31/2007**
1. Market Value of Assets, beginning of year	$ 1,232,406,980	$ 1,363,065,004	$ 1,459,554,937	$ 1,632,582,900
2. Contributions during year		71,931,377		
3. Benefits during year	(87,682,550)	(93,936,263)	(102,440,958)	(108,568,763)
	75,287,870		79,129,699	90,227,912
4. Expected net investment income	98,106,309	108,181,938	115,849,883	129,887,112
5. Transfers and receivables	0	0	100,000	90,000
6. Expected Value of Assets, end of year	1,318,118,609	1,449,242,056	1,552,093,561	1,744,219,161
7. Market Value of Assets, end of year	1,363,065,004	1,459,554,937	1,632,582,900	1,749,740,089
8. Excess (shortfall) of net investment income	$ 44,946,395	$ 10,312,881	$ 80,489,339	$ 5,520,928

Calculation of Excess (Shortfall) Investment Income for Actuarial Value of Net Assets

Judges

		Plan Year End			
		12/31/2004	12/31/2005	12/31/2006	12/31/2007
1.	Market Value of Assets, beginning of year	$ 81,081,078	$ 90,483,059	$ 98,126,948	$ 111,406,613
2.	Contributions during year		5,729,305		
3.	Benefits during year	3)	(5,920,730)	4)	6)
		5,090,779		6,514,385	6,909,103
4.	Expected net investment income	6,479,256	7,231,135	7,868,516	8,921,819
		(5,275,09		(6,046,38	(6,672,28
5.	Transfers and receivables	0	0	0	20,000
6.	Expected Value of Assets, end of year	87,376,020	97,522,769	106,463,465	120,585,249
7.	Market Value of Assets, end of year	90,483,059	98,126,948	111,406,613	120,840,352
8.	Excess (shortfall) of net investment income	$ 3,107,039	$ 604,179	$ 4,943,148	$ 255,103

Development of Actuarial Value of Net Assets

	State/School	State	School	Local	Total KPERS
1. Excess (shortfall) of investment income					
Year ending 12/31/07	$ 64,336,341	$ 12,185,965	$ 52,150,376	$ 16,659,318	$ 80,995,659
a. b. Year ending 12/31/06	613,816,813	148,773,033	465,043,780	151,052,317	764,869,130
c. Year ending 12/31/05	131,737,229	18,063,137	113,674,092	37,000,839	168,738,068
d. Year ending 12/31/04	296,181,745	82,952,907	213,228,838	72,317,297	368,499,042
Total	$ 1,106,072,128	$ 261,975,042	$ 844,097,086	$ 277,029,771	$ 1,383,101,899
e.					
2. Deferral of excess (shortfall) of investment income					
a. Year ending 12/31/07 (80%)	51,469,073	9,748,772	41,720,301	13,327,454	64,796,527
b. Year ending 12/31/06 (60%)	368,290,088	89,263,820	279,026,268	90,631,390	458,921,478
c. Year ending 12/31/05 (40%)	52,694,892	7,225,255	45,469,637	14,800,336	67,495,228
d. Year ending 12/31/04 (20%)	59,236,349	16,590,581	42,645,768	14,463,459	73,699,808
Total	$ 531,690,402	$ 122,828,428	$ 408,861,974	$ 133,222,639	$ 664,913,041
e.					
3. Market Value of Assets, end of year	$ 9,957,609,641	$ 3,094,367,129	$ 6,863,242,512	$ 2,339,695,800	$ 12,297,305,441
4. Actuarial Value of Assets, end of year (3) - (2e)	$ 9,425,919,239	$ 2,971,538,701	$ 6,454,380,538	$ 2,206,473,161	$ 11,632,392,400
5. Actuarial Value divided by market value (4)/(3)	94.7%	96.0%	94.0%	94.3%	94.6%

Development of Actuarial Value of Net Assets (continued)

	Total KPERS	KP&F	Judges	Total
1. Excess (shortfall) of investment income				
a. Year ending 12/31/07	$ 80,995,659	$ 5,520,928	$ 255,103	$ 86,771,690
b. Year ending 12/31/06	764,869,130	80,489,339	4,943,148	850,301,617
c. Year ending 12/31/05	168,738,068	10,312,881	604,179	179,655,128
d. Year ending 12/31/04	368,499,042	44,946,395	3,107,039	416,552,476
e. Total	$ 1,383,101,899	$ 141,269,543	$ 8,909,469	$ 1,533,280,911
2. Deferral of excess (shortfall) of investment income				
a. Year ending 12/31/07 (80%)	64,796,527	4,416,742	204,082	69,417,351
b. Year ending 12/31/06 (60%)	458,921,478	48,293,603	2,965,889	510,180,970
c. Year ending 12/31/05 (40%)	67,495,228	4,125,152	241,672	71,862,052
d. Year ending 12/31/04 (20%)	73,699,808	8,989,279	621,408	83,310,495
e. Total	$ 664,913,041	$ 65,824,776	$ 4,033,051	$ 734,770,868
3. Market Value of Assets, end of year	$ 12,297,305,441	$ 1,749,740,089	$ 120,840,352	$ 14,167,885,882
4. Actuarial Value of Assets, end of year (3) - (2e)	$ 11,632,392,400	$ 1,683,915,313	$ 116,807,301	$ 13,433,115,014
5. Actuarial Value divided by market value (4)/(3)	94.6%	96.2%	96.7%	94.8%

Every three years, the Retirement System's consulting actuary makes a general investigation of the actuarial experience, including mortality, retirement and employment turnover. The actuary recommends actuarial tables for us in the valuation and in calculating actuarial equivalent values based on such investigation. These assumptions are based on an actuarial experience study conducted for the three years ending December 31, 2006.

Actuarial Assumptions — KPERS

Rate of Investment Return 8.0 percent

Implicit Inflation Rate 3.25 percent

Rates of Mortality

Post-retirement

The RP-2000 Healthy Annuitant table was first adjusted by an age setback or set forward. Rates were further adjusted to fit actual experience.

Starting Table

School Males: RP-2000 M Healthy -2
School Females: RP-2000 F Healthy -2
State Males: RP-2000 M Healthy +2
State Females: RP-2000 F Healthy +0
Local Males: RP-2000 M Healthy +2
Local Females: RP-2000 F Healthy -1

Sample Rates

	School		State		Local	
Age	Male	Female	Male	Female	Male	Female
50	0.513%	0.183%	0.547%	0.218%	0.587%	0.204%
55	0.549%	0.226%	0.625%	0.328%	0.670%	0.278%
60	0.662%	0.384%	0.962%	0.577%	1.031%	0.481%
65	1.051%	0.664%	1.597%	0.964%	1.712%	0.817%
70	1.747%	1.074%	2.646%	1.557%	2.837%	1.318%
75	2.917%	1.792%	4.550%	2.614%	4.878%	2.215%
80	5.278%	3.643%	7.037%	4.567%	7.545%	4.171%
85	9.331%	6.751%	11.292%	7.977%	12.108%	7.508%
90	15.661%	11.589%	17.978%	13.563%	19.278%	12.869%
95	24.301%	18.407%	24.888%	20.034%	26.687%	19.742%
100	32.791%	24.186%	30.850%	24.459%	33.080%	24.990%

Pre-retirement

School Males: 70 % of RP-2000 M Employees -2
School Females: 70% of RP-2000 F Employees -2
State Males: 70% of RP-2000 M Employees +2
State Females: 70% of RP-2000 F Employees +0
Local Males: 90% of RP-2000 M Employees +2
Local Females: 90% of RP-2000 F Employees -1

Disabled Life Mortality

RP-2000 Disabled Life Table with same age adjustments as used for Retiree Mortality.

Rates of Salary Increase

Years of Service	Rate of Increase*		
	School	State	Local
1	12.00%	10.50%	10.50%
5	6.55%	5.60%	6.20%
10	5.10%	4.90%	5.20%
15	4.60%	4.40%	4.80%
20	4.10%	4.10%	4.60%
25	4.00%	4.00%	4.10%
30	4.00%	4.00%	4.00%

*Includes general wage increase assumption of 4.0 percent
(composed of 3.25 percent inflation and 0.75 percent productivity)

Rates of Termination

	School		State		Local	
Duration	Male	Female	Male	Female	Male	Female
0	21.00%	23.00%	17.00%	19.00%	20.00%	23.00%
1	18.00%	18.00%	14.50%	15.00%	16.00%	20.00%
2	14.00%	13.00%	12.00%	11.00%	13.20%	17.00%
3	10.00%	11.00%	10.00%	10.00%	11.00%	14.00%
4	8.00%	9.00%	8.00%	9.00%	9.60%	11.50%
5	6.50%	7.25%	7.00%	8.00%	8.30%	9.00%
6	5.50%	6.25%	6.00%	7.00%	7.10%	7.50%
7	5.00%	5.50%	5.20%	6.00%	6.00%	6.50%
8	4.50%	4.90%	4.60%	5.00%	5.00%	5.75%
9	4.00%	4.30%	4.10%	4.60%	4.40%	5.00%
10	3.60%	3.90%	3.90%	4.30%	3.80%	4.25%
11	3.20%	3.50%	3.70%	4.00%	3.50%	3.75%
12	2.90%	3.10%	3.50%	3.70%	3.30%	3.40%
13	2.60%	2.80%	3.30%	3.50%	3.10%	3.20%
14	2.40%	2.50%	3.10%	3.30%	2.90%	3.00%
15	2.20%	2.30%	2.90%	3.10%	2.70%	2.80%
16	2.00%	2.10%	2.70%	2.90%	2.50%	2.60%
17	1.80%	1.90%	2.50%	2.70%	2.30%	2.40%
18	1.60%	1.70%	2.30%	2.50%	2.10%	2.20%
19	1.50%	1.50%	2.10%	2.30%	1.90%	2.00%
20	1.40%	1.30%	1.90%	2.10%	1.80%	1.80%
21	1.30%	1.20%	1.70%	1.90%	1.70%	1.60%
22	1.20%	1.10%	1.50%	1.70%	1.60%	1.40%
23	1.10%	1.00%	1.30%	1.50%	1.50%	1.20%
24	1.00%	0.90%	1.10%	1.40%	1.40%	1.00%
25	0.90%	0.80%	0.90%	1.30%	1.30%	0.90%
26	0.80%	0.70%	0.70%	1.20%	1.20%	0.70%
27	0.70%	0.60%	0.60%	1.10%	1.10%	0.60%
28	0.60%	0.50%	0.50%	1.00%	1.00%	0.50%
29	0.50%	0.50%	0.50%	0.50%	0.90%	0.50%
30	0.50%	0.50%	0.50%	0.50%	0.80%	0.50%
30+	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Retirement Rates ─ KPERS

School

Age	Rule of 85: 1st Year With 85 Points	Rule of 85: After 1st Year With 85 Points
53	20%	18%
55	20%	18%
57	22%	18%
59	25%	23%
61	30%	30%

Early Retirement

Age	Rate
55	5%
56	5%
57	8%
58	8%
59	12%
60	15%
61	22%

Normal Retirement

Age	Rate
62	30%
63	25%
64	35%
65	35%
66-71	25%
72-74	20%
75	100%

State

Age	Rule of 85: 1st Year With 85 Points	Rule of 85: After 1st Year With 85 Points
53	10%	15%
55	15%	15%
57	15%	12%
59	15%	12%
61	30%	25%

Early Retirement

Age	Rate
55	5%
56	5%
57	5%
58	5%
59	8%
60	8%
61	20%

Normal Retirement

Age	Rate
62	30%
63	20%
64	30%
65	35%
66-67	25%
68-74	20%
75	100%

Local

	Rule of 85	
Age	1st Year With 85 Points	After 1st Year With 85 Points
53	11%	10%
55	13%	10%
57	13%	10%
59	15%	12%
61	25%	25%

Early Retirement		Normal Retirement	
Age	Rate	Age	Rate
55	5%	62	25%
56	5%	63	20%
57	5%	64	30%
58	5%	65	35%
59	5%	66	25%
60	5%	67-74	20%
61	15%	75	100%

- Inactive vested members – Age 62.
- For correctional employees with an age 55 normal retirement date.

Age	Rate
55	10%
58	10%
60	10%
62	45%
65	100%

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

Rates of Disability

Age	School	State	Local
25	.025%	.036%	.030%
30	.028%	.102%	.065%
35	.034%	.161%	.097%
40	.058%	.244%	.143%
45	.110%	.376%	.209%
50	.213%	.511%	.363%
55	.362%	.720%	.600%
60	.680%	.920%	.850%

Indexation of Final Average Salary for Disabled Members: 2.5 percent per year

Probability of Vested Members Leaving Contributions With System

Age	School	State	Local
25	80%	65%	60%
30	80%	65%	60%
35	80%	65%	60%
40	80%	65%	60%
45	82%	75%	64%
50	87%	85%	74%
55	100%	100%	100%

Marriage Assumption 70 percent of all members are assumed married with male spouse assumed three years older than female.

Actuarial Assumptions — KP&F

Rate of Investment Return 8.0 percent

Implicit Inflation Assumption 3.25 percent

Rates of Mortality:

Post-retirement	RP-2000 Healthy Annuitant Table
Pre-retirement	90 percent of RP-2000 Employee Table* *70 percent retirement deaths assumed to be service related.
Disabled Life Mortality	RP-2000 Disabled Life Table

Rates of Salary Increase

Years of Service	Rate of Increase
1	12.5%
5	7.0%
10	4.9%
15	4.3%
20	4.0%
25	4.0%

*Includes general wage increase assumption of 4.0 percent (composed of 3.25 percent inflation and 0.75 percent productivity)

Rates of Termination

Tier I: 3 percent for ages less than 41; 0 percent thereafter

Tier II:

Years of Service	Rate
1	13.0%
5	6.0%
10	2.5%
15	1.0%
20	1.0%
25	0.0%

Retirement Rates

Tier I:

Early Retirement

Age	Rate
50	5%
51	5%
52	5%
53	10%
54	30%

Normal Retirement

Age	Rate
55	40%
56	30%
57	25%
58	40%
59	35%
60	55%
61	20%
62	100%

Tier II:

Early Retirement

Age	Rate
50	10%
51	10%
52	10%
53	15%
54	25%

Normal Retirement

Age	Rate
50	25%
53	25%
55	25%
58	20%
60	20%
61	40%
62	35%
63	100%

Inactive Vested: Assumed to retire at later of (i) eligibility for unreduced benefits or (ii) age 55.

Rates of Disability

Age	Rate*
22	.06%
27	.07%
32	.15%
37	.35%
42	.56%
47	.76%
52	.96%
57	1.00%

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

Marriage Assumption

80 percent of all members assumed married with male spouse assumed to be three years older than female.

Actuarial Assumptions — Judges

Rate of Investment Return	8.0 percent
Implicit Inflation Assumption	3.25 percent
Rates of Mortality:	
Post-retirement	RP-2000 Healthy Annuitant Table, set back two years
Pre-retirement	70 percent of RP-2000 Employee Table, set back two years
Rates of Salary Increase	4.5 percent
Rates of Termination	None assumed
Disabled Life Mortality	RP-2000 Disabled Life Table, set back two years
Rates of Disability	None assumed
Retirement Age	Age 64 or current age, if greater
Marriage Assumption	70 percent of all members are assumed married with male spouse assumed three years older than female.

Actuarial Methods

Funding Method

Under the EAN cost method, the actuarial present value of each member's projected benefits allocates on a level basis over the member's compensation between the entry age of the member and the assumed exit ages. The portion of the actuarial present value allocated to the valuation year is called the normal cost. The actuarial present value of benefits allocated to prior years of service is called the actuarial liability. The unfunded actuarial liability represents the difference between the actuarial liability and the actuarial value of assets as of the valuation date. The unfunded actuarial liability is calculated each year and reflects experience gains/losses.

There are several components of the unfunded actuarial liability which are amortized over different periods. The increase in the unfunded actuarial liability resulting from the 1998 COLA is amortized over 15 years. The increase in the unfunded actuarial liability for Local employers resulting from 2003 legislation which made the 13th check for pre-July 2, 1987 retirees a permanent benefit is funded over a 10 year period beginning in 2005. The remainder of the unfunded actuarial liability is amortized over a period originally set at 40 years beginning July 1, 1993.

The UAL is amortized as a level percentage of payroll for all groups except Judges, who use a level dollar payment. The payroll growth assumption is 4 percent so the annual amortization payments will increase 4 percent each year. As a result, if total payroll grows 4 percent per year, as assumed, the amortization payment will remain level as a percentage of total current payroll.

Asset Valuation Method

For actuarial purposes, assets are valued using an asset smoothing method. The difference between the actual return and the expected return (based on the actuarial assumed rate of return) on the market value of assets is calculated each year and recognized equally over a five year period.

Plan Provisions — Overview

NOTE: In the interest of simplicity, certain generalizations have been made. The law and the rules adopted by the Board of Trustees will control specific situations.

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 three statewide retirement systems:

- Kansas Public Employees Retirement System (KPERS)
- Kansas Police and Firemen's Retirement System (KP&F)
- Kansas Retirement System for Judges (Judges)

All three systems are part of a qualified governmental, defined benefit, contributory plan covering substantially all public employees in Kansas. The Kansas Retirement System for Judges is a single employer plan, while the other two are cost-sharing, multi-employer plans. The State of Kansas is required to participate, but for local political subdivisions, participation is optional but irrevocable once elected. Certain legislative employees also receive benefit payments.

Plan Provisions — Kansas Public Employees Retirement System (State, Local and School)

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 employment date. 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. State employees and non-school employees of local employers have first-day coverage for death and disability benefits if their employer elects the coverage. KPERS retirees may not become contributing members again.

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 1 percent of FAS 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
f) Correctional maintenance employees

For groups (a) and (b) with at least three consecutive years of credited service in such positions immediately before 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 before retirement, normal retirement age is 60 and early retirement requirements are age 55 with ten years of credited service. Both groups are also eligible for full benefits when age and service equal 85 “points.”

Member Contributions

Members contribute 4 percent of their gross earnings. Interest is credited to members’ contribution accounts on June 30 each year, based on account balance as of the preceding December 31. Those who became members before July 1, 1993, earn 8 percent interest per year. Those who became members on and after July 1, 1993, earn 4 percent interest.

Employer Contributions

Rates are certified by the Board of Trustees based on results of annual actuarial valuations; however, annual increases are capped by state statute.

Vesting Requirements

A member must have ten years of credited service. Should the vested member end employment, the member must leave accumulated contributions on deposit with the Retirement System to be eligible for future benefits. If a vested member ends employment and withdraws accumulated contributions, the member loses all rights and privileges under the Retirement System. If a vested member who is married ends employment and wants to withdraw accumulated contributions, the member's spouse must provide consent for the contribution withdrawal, since any benefits to which the spouse may have been entitled in the future would be lost as well. 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.

Retirement Age and Service Requirements

Eligibility

- Age 65 with one year of service
- Age 62 with ten years of credited service
- 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

Retirement Benefits

Benefits are based on the member's years of credited service, final average salary (FAS) and a statutory multiplier. Effective July 1, 2001, at retirement a member may receive a lump-sum payment of up to 50 percent of the actuarial present value of the member's lifetime benefit. His or her monthly retirement benefit is then permanently reduced.

For those hired on or after July 1, 1993, FAS is the average of their three highest years, excluding additional compensation, such as sick and annual leave.

For those who were hired before July 1, 1993, FAS is the greater of either a:

- Four-year FAS including additional compensation, such as sick and annual leave; or
- Three-year FAS excluding additional compensation, such as sick and annual leave.

Prior service credit is 0.75 percent to 1 percent of FAS per year [School employees receive 0.75 percent FAS for each year of prior service that is not credited under the former Kansas School Retirement System (KSRS)]. Participating service credit is 1.75 percent of FAS.

Early Retirement

Eligibility is age 55 and ten years of credited service. The 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.

Working After Retirement

A member must wait 30 days after his or her retirement date before working for any employer who participates in KPERS. If a retired member then goes to work for an employer he or she worked for during his or her last two years of KPERS participation, the member has a $20,000-per-year earnings limit.

Withdrawal Benefit

If members leave employment they can withdraw their contributions, plus interest, after 30 days. Members lose any rights and benefits when they withdraw from KPERS, such as insurance coverage. Former members who return to covered employment within five years will not have lost any membership rights or privileges, if they haven't withdrawn contributions. The Retirement Act does not allow members to borrow from contributions. The employer portion of contributions remains with the System when a member ends employment and withdraws contributions. The Retirement System will refund contributions only after all contributions have been reported by the member's former employer.

Disability Benefit

KPERS Death and Disability Program provides disability income benefits, financed by employer contributions of 1.0 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 when compensation from the employer ceases. The current long-term disability benefit is 60 percent of the member's annual compensation on the date disability begins, reduced by Social Security benefits (members must apply), workers' compensation benefits and any other employment-related disability benefits. Members disabled before January 1, 2006, receive a benefit based on two-thirds of their annual compensation on the date the disability began. The minimum monthly benefit is $100. Members receiving disability benefits continue to receive service credit under KPERS and basic group life insurance coverage. Members can also continue any optional insurance coverage. If a disabled member retires after receiving disability benefits for at least five years immediately before retirement, the member's FAS is adjusted by statute.

Non-Service Connected Death Benefit

The active member's designated beneficiary receives the member's accumulated contributions plus interest in a lump sum. If the member had reached age 55 with ten years of credited service and the spouse is the sole beneficiary, then the spouse may choose a lifetime benefit instead of receiving the returned contributions. If a member with ten or more years of service dies and was not of retirement age, and the spouse is the sole beneficiary, then the spouse can elect one of the survivor options at the time the member would have first been of retirement age.

Service-Connected Accidental Death Benefit

The active member's accumulated contributions plus interest, a $50,000 lump sum, and an annual benefit based on 50 percent of FAS (reduced by workers' compensation benefits and subject to a minimum benefit of $100 a month) are payable to a spouse, minor children or dependent parents for life, or until the youngest child reaches age 18 (or up to age 23 if a full-time student), in this order of preference. The monthly accidental death benefit is in lieu of any joint/survivor benefit.

Basic Group Life Insurance for Active Members

KPERS Death and Disability Program provides an insured death benefit equal to 150 percent of the active member's annual compensation on the date of death. If a disabled member dies after receiving disability benefits for at least five years immediately before death, the member's current annual rate of compensation is adjusted by statute.

Death Benefit for Retirees

The retiree's beneficiary receives a $4,000 lump sum. The beneficiary may assign this benefit to a funeral establishment. The beneficiary for the $4,000 death benefit may be, but is not always, the same person as the member's joint annuitant. A retiree may name a funeral establishment as beneficiary. If the member has selected a retirement option, benefits are paid to the joint annuitant or the designated beneficiary. Under joint and survivor retirement options, if the joint annuitant dies before the retired member, the reduced benefit payment is increased to the amount the retired member would have received if no retirement option had been selected. Benefits payable to a joint annuitant stop 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, plus interest, over total benefits paid to date of death.

Plan Provisions —
Kansas Police and Firemen's Retirement System (KP&F)

Employee Membership

Tier I
Members have Tier I coverage if they were employed before 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. This also includes members employed before July 1, 1989, who elected Tier II coverage.

Member Contributions

Members contribute 7 percent of their gross earnings. For members with 32 years service credit, the contribution rate is reduced to 2 percent of compensation. A few members employed before January 1, 1976, have contributions reduced by their Social Security contributions, not including contributions for Medicare. These members' benefits are reduced by 50 percent of original Social Security benefits accruing from employment with the participating employer.

Employer Contributions

Rates are certified by the Board of Trustees based on results of annual actuarial valuations. KP&F employers contribute at the actuarially required rate.

Retirement Age and Service Requirements

Tier I Eligibility
- Age 55 and 20 years of service
- Any age with 32 years of service

Tier II Eligibility
- Age 50 and 25 years of service
- Age 55 and 20 years of service
- Age 60 and 15 years of service

Benefits
Benefits are based on the member's Final Average Salary (FAS) and years of service. Effective July 1, 2001, at retirement a member may receive a lump-sum payment of up to 50 percent of the actuarial present value of the member's lifetime benefit. His or her monthly retirement benefit is then permanently reduced. Annual benefits at normal retirement age equal FAS x 2.5 percent x years of service (up to 32 years).

For those who were hired before July 1, 1993, FAS is the average of the highest three of the last five years of credited participating service, *including* additional compensation, such as sick and annual leave.

For those who are hired on or after July 1, 1993, FAS is the average of the highest three of the last five years of participating service, *excluding* additional compensation, such as sick and annual leave.

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.

Working After Retirement

A member must wait 30 days after his or her retirement date before working for any employer who participates in KP&F. If a retired member then goes to work for an employer he or she worked for during his or her last two years of KP&F participation, the member has a $15,000-per-year earnings limit.

Early Retirement

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

Vesting Requirements

Tier I Eligibility
The member must have 20 years of credited service; if ending employment, the member must leave contributions with the Retirement System to be eligible for future benefits.

Tier II Eligibility
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 ending employment, the member must leave contributions with the Retirement System to be eligible for future benefits.

Withdrawal Benefit

If members leave employment before retirement they can withdraw their contributions, plus interest, after 30 days. When members withdraw from KP&F they lose any rights and benefits, such as insurance coverage.

If a married vested member ends employment and wants to withdraw accumulated contributions, the member's spouse must consent to the withdrawal, since any of the spouse's future benefits will be forfeited as well. Former members who return to covered employment within five years will not lose any membership rights or privileges if they haven't withdrawn contributions. The Retirement Act does not allow members to borrow from contributions. The employer contributions remain with the System when a member ends employment and withdraws. The Retirement System will refund contributions only after all contributions have been reported by the member's former employer.

Disability Benefits for Tier I Members

Service-Connected Disability
There is no age or service requirement to be eligible for this benefit. A member receives a pension equal to the higher of 50 percent of FAS or 2.5 percent for each year, plus 10 percent of FAS for each dependent child under age 18 (or up to age 23 for full-time students), to a maximum of 75 percent of FAS. If dependent benefits aren't payable, the benefit is 2.5 percent for each year, to a maximum of 80 percent of FAS. When a member receiving service-connected disability benefits dies, 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, the spouse receives a lump-sum payment of 50 percent of the member's FAS. Also, either the spouse or the dependent children receive a pension of half of the member's benefit.

Non Service-Connected Disability
This pension is calculated at 2.5 percent of FAS per year of service, to a maximum benefit of 80 percent of FAS (minimum benefit is 25 percent of FAS). When a member receiving non-service-connected disability benefits dies, the surviving spouse receives a lump-sum payment of 50 percent of FAS. Also, either the spouse or the dependent children receive a pension of half of the member's benefit.

Disability Benefits for Tier II Members

There is no distinction between service-connected and non-service-connected disability benefits. Benefit is 50 percent of FAS. Service credit is granted during the disability period. Disability benefits convert to age and service retirement as soon as the member is eligible for full retirement benefits. If the member is disabled for at least five years immediately before retirement, the member's FAS is adjusted by statute. Disability benefits are offset $1 for each $2 earned after the first $10,000 of earnings.

Service Connected Death Benefit

There is no age or service requirement, and a pension of 50 percent of FAS goes to the spouse, plus 10 percent of FAS goes to each dependent child under age 18 [or up to age 23 if full time student(s)], to a maximum of 75 percent of FAS.

Non-Service-Connected Death

A lump sum of 100 percent of FAS goes to the spouse; and a pension of 2.5 percent of FAS 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. If there is no surviving spouse or children the lump-sum payment less refundable contributions and interest is paid to the beneficiary.

Death Benefit for Inactive Members

If an inactive member with 20 or more years of service dies and was not of retirement age, and the spouse is the sole beneficiary, then the spouse can elect one of the survivor options at the time the member would have first been of retirement age. If an inactive member is eligible to retire when he or she dies, and the spouse is the sole beneficiary, the spouse may elect to receive benefits as a joint annuitant under any option instead of receiving the member's contributions.

Death Benefit for Retirees

The retiree's beneficiary may assign this benefit to a funeral establishment. The beneficiary for the $4,000 death benefit may be, but is not always, the same person as the member's joint annuitant. A retiree may name a funeral establishment as beneficiary. If the member has selected a retirement option, benefits are paid to the joint annuitant or the designated beneficiary. Under joint and survivor retirement options, if the joint annuitant dies before the retired member, the reduced benefit payment is increased to the amount the retired member would have received if no retirement option had been selected. Benefits payable to a joint annuitant stops 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, plus interest, over total benefits paid to date of death.

The surviving spouse of a transfer member (who was covered by a 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 FAS. Also, 75 percent of the member's benefit is payable either to the spouse or to dependent children.

Plan Provisions — Kansas Retirement System for Judges (Judges)

Member Contributions

Judges contribute 6 percent of gross earnings. When an active member reaches the maximum retirement benefit level of 70 percent of FAS, the contribution rate is reduced to 2 percent.

Employer Contributions

Rates are certified by the Board of Trustees, based on results of annual actuarial valuations and statutory regulations set by the Legislature.

Vesting Requirements

Judges vest when appointed. There is no minimum service requirement. However, if ending 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 credited under KPERS have vested benefits under both KPERS and the Retirement System for Judges when the combined total credited service equals ten years.

Retirement Age and Service Requirements

Eligibility

- Age 65 with one year of service
- Age 62 with ten years of credited service
- 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.

Retirement Benefit

The benefit is based on the member’s Final Average Salary (FAS), which is the average of the three highest years of service as a judge. Effective July 1, 2001, at retirement a member may receive a lump-sum payment of up to 50 percent of the actuarial present value of the member’s lifetime benefit. His or her monthly retirement benefit is then permanently reduced.

The basic formula for those who were members before July 1, 1987, is 5 percent of FAS for each year of service up to ten years, plus 3.5 percent for each additional year, to a maximum of 70 percent of FAS. 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 FAS.

Early Retirement

A member must be age 55 and have ten years of credited service to take early retirement. The 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. 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.

Working After Retirement

Retired judges may enter into an agreement to work for up to 104 days at 25 percent of the current salary of a judge. The agreement is for two years and may be renewed for up to 12 years. Retirement benefits will be suspended in any case where a retired judge is elected or appointed to a judgeship. The judge in that case resumes active participation and will accrue additional service credit. When the judge retires again, the retirement benefit is recalculated.

Disability Benefits

These benefits are payable if a member is defined as permanently physically or mentally disabled. The disability benefit, payable until age 65, is 3.5 percent of FAS for each year of service. The minimum benefit is 50 percent of FAS. Benefits are recalculated when the member reaches retirement age. If a judge is disabled for at least five years immediately before retirement, the judge’s FAS is adjusted by statute.

Withdrawal Benefit

If members leave employment they can withdraw their contributions, plus interest, after 30 days. When members withdraw from KPERS they lose any rights and benefits, such as insurance coverage. Former members who return to covered employment within five years will not have lost any membership rights or privileges, if they haven't withdrawn contributions. The Retirement Act does not allow members to borrow from contributions. The employer portion of contributions remains with the System when a member ends employment and withdraws contributions. KPERS will refund contributions only after all contributions have been reported by the member's former employer.

Death Benefit for Active Members

A lump-sum insured death benefit equal to 150 percent of the active member's annual compensation on the date of the member's death is payable; 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 is 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 ten 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 first would have been eligible to retire.

Death Benefit for Retirees

The retiree's beneficiary receives a $4,000 lump sum. The beneficiary may assign this benefit to a funeral establishment. A retiree may also directly name a funeral establishment as beneficiary. If the member had selected an option with survivor benefits, benefits are paid to the joint annuitant or to the member's designated beneficiary. Under joint and survivor retirement options, if the joint annuitant dies before the retired member, the reduced benefit payment is increased to the amount the retired member would have received if no retirement option had been selected. Benefits payable to a joint annuitant stop when the joint annuitant dies. If the member did not select an option, the designated beneficiary receives the excess, if any, of the member's accumulated contributions, plus interest, over total benefits paid to date of death.

Short Term Solvency Test

last ten fiscal years

Valuation Date	Member Contributions (A)	Retirants and Beneficiaries (B)	Active Member Employer Financed Portion (C)	Assets Available for Benefits	Portions of Accrued Liabilities Covered by Assets (A)	(B)	(C)
06/30/99	$2,725,881,233	$4,125,714,368	$3,147,650,125	$8,601,875,670	100%	100%	56 %
06/30/00	2,934,469,051	4,454,897,319	3,412,030,704	9,568,274,828	100	100	64
12/31/00	3,007,338,917	4,576,452,175	3,556,222,919	9,835,181,839 (1)	100	100	63
12/31/01	3,330,859,571	4,903,096,418	3,509,095,766	9,962,917,897	100	100	49
12/31/02	3,353,870,165	5,247,201,306	4,012,527,155	9,784,862,188	100	100	30
12/31/03	3,595,082,177	5,558,543,751	5,285,920,342	10,853,462,178 (2)	100	100	32
12/31/04	3,817,174,808	5,994,869,531	5,902,048,137	10,971,426,577	100	100	20
12/31/05	4,006,823,805	6,413,679,842	6,071,258,736	11,339,292,965	100	100	15
12/31/06	4,209,698,437	6,872,703,437	6,470,388,630	12,189,197,444	100	100	17
12/31/07	4,423,194,339	7,417,933,822	7,143,786,763	13,433,115,014	100	100	22

1) Actuarial valuation date was changed to a calendar year.
2) Actuarial cost method was changed to the Entry Age Normal (EAN) for all three plans.

Schedule of Active Member Valuation Data (1)

Valuation Date	Number of Active Members(2)	Percentage Change in Membership	Number of Participating Employers	Percentage Increase in Number of Participating Employers	Total Annual Payroll (Millions)(2)	Average Payroll	Percentage Increase in Average Payroll
06/30/99	137,969	2.3 %	1,407	0.7 %	$4,088	$28,529	2.2 %
06/30/00	140,559	1.9	1,416	0.6	4,290	30,471	6.8
12/31/00	143,337	2.0	1,423	0.5	4,455	30,412	-0.2
12/31/01	145,666	1.6	1,435	0.8	4,675	32,094	5.5
12/31/02	147,294	1.1	1,442	0.5	4,866	32,984	2.8
12/31/03	148,145	0.6	1,454	0.8	4,978	32,944	-0.1
12/31/04	147,751	-0.3	1,461	0.5	5,102	33,854	2.7
12/31/05	149,073	0.9	1,474	0.9	5,270	34,661	2.4
12/31/06	151,449	1.6	1,474	0.0	5,599	36,246	4.4
12/31/07	153,804	1.5	1,482	0.5	5,949	37,922	4.4

1) Data provided to actuary reflects active membership information as of January 1.
2) Excludes TIAA salaries.

Membership Profile

Last Ten Years as of December 31

Valuation Date	Active	Inactive	Retirees & Beneficiaries	Total Membership
1998	138,292	25,463	51,639	215,394
1999	140,833	27,664	53,137	221,634
2000	143,591	35,482	54,396	233,469
2001	145,910	38,056	56,115	240,081
2002	147,294	40,404	57,597	245,295
2003	148,145	41,315	59,124	248,584
2004	147,751	41,269	61,125	250,145
2005	149,073	41,232	63,348	253,653
2006	151,449	40,672	65,765	257,886
2007	153,804	41,383	67,102	262,289

Retirants, Beneficiaries - Changes in Rolls - All Systems

last ten fiscal years

Year	Number at Beginning of Year	Additions: Number Added	Additions: Annual Allowances	Deletions: Number Removed	Deletions: Annual Allowances	Number at End of Year	% Change in Number of Retirants	% Change in Additions Allowances	Average Annual Allowance	Year-End Annual Allowances
1998	48,559	3,228	$40,731,685	1,716	$7,638,945	50,071	3.10%	(4.30)%	$8,449	$421,314,908
1999	50,071	3,328	41,833,222	1,756	9,151,705	51,643	3.10	2.70	$9,034	$464,709,423
2000	51,643	3,360	44,028,303	1,862	9,563,949	53,141	2.90	5.20	$9,397	$797,869,985
2001	53,141	3,112	44,919,587	1,951	10,020,387	54,302	2.20	2.00	$9,773	$550,674,064
2002	54,302	3,689	45,669,820	1,922	9,552,087	56,069	3.30	1.70	$10,101	$627,704,056
2003	56,069	3,585	48,718,476	2,116	10,942,002	57,538	2.60	6.70	$10,443	$645,716,079
2004	57,538	3,612	50,253,218	2,009	11,940,793	59,141	2.60	3.20	$10,897	$676,918,614
2005	59,141	4,141	59,096,917	2,017	12,333,238	61,265	3.60	17.60	$11,126	$737,563,276
2006	61,265	4,452	66,239,352	1,759	11,185,646	63,765	4.00	12.00	$11,498	$805,978,732
2007	63,765	4,423	67,181,677	2,125	15,218,444	66,063	3.60	1.40	$13,142	$868,179,029
2008	66,063	5,195	73,055,348	2,515	18,681,361	68,743	4.10	8.70	$13,758	$945,739,016

Summary of Membership Data

Retiree and Beneficiary Member Valuation Data (1)

	12/31/2007	12/31/2006
KPERS		
Number	63,167	61,808
Average Benefit	$11,411	$11,027
Average Age	72.31	72.59
Police & Fire		
Number	3,755	3,785
Average Benefit	$24,560	$23,096
Average Age	63.10	62.50
Judges		
Number	180	172
Average Benefit	$33,850	$32,249
Average Age	73.60	73.50
System Total		
Number	67,102	65,765
Average Benefit	$12,207	$11,777
Average Age	71.80	72.01

Active Member Valuation Data (1)

	12/31/2007	12/31/2006
KPERS		
Number	146,406	144,227
Average Current Age	45.51	45.41
Average Service	10.83	10.83
Average Pay	$36,924	$35,284
Police & Fire		
Number	7,137	6,965
Tier I	584	618
Tier II	6,553	6,347
Average Current Age	39.10	39.00
Average Service	10.96	10.92
Average Pay	$56,068	$53,939
Judges		
Number	261	257
Average Current Age	56.64	56.15
Average Service	11.85	11.94
Average Pay	$101,732	$96,743
System Total		
Number	153,804	151,449
Average Current Age	45.23	45.14
Average Service	10.83	10.84
Average Pay	$37,922	$36,246

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

Schedule of Employer Contribution Rates

last ten fiscal years (1)

KPERS State/School

Fiscal Years	Actuarial Rate	Actual Rate	
1999	5.33	3.99	
2000	5.27	4.19	
2001	6.15	3.98	(2)
2002	6.00	4.78	
2003	6.17	4.98	(3)
2004	7.05	4.58	(3)
2005	8.29	5.47	
2006	9.94	6.07	
2007	9.75	6.77	
2008	**11.37**	**7.37**	

KPERS Local

Fiscal Years	Actuarial Rate	Actual Rate	
1999	3.86	2.93	%
2000	3.89	3.22	
2001	3.88	2.77	(2)
2002	4.07	3.52	
2003	4.73	3.67	(3)
2004	4.64	3.22	(3)
2005	6.04	4.01	
2006	7.04	4.61	
2007	8.69	5.31	
2008	**8.92**	**5.93**	

TIAA

Fiscal Fiscal Years	Actuarial Rate	Actual Rate		
1997	1.89	1.89	%	
1998	1.66	1.66		
1999	1.93	1.93		
2000	1.82	1.82		
2001	1.21	1.21	(2)	
2002	2.03	2.03		
2003	2.27	2.27	(3)	(4)

KP&F (Uniform Rate)

Fiscal Fiscal Years	Actuarial Rate	Actual Rate	
1999	7.36	7.36	%
2000	7.35	7.35	
2001	6.97	6.97	
2002	6.79	6.79	
2003	6.86	6.86	
2004	9.47	9.47	
2005	11.69	11.69	
2006	12.39	12.39	
2007	13.32	13.32	
2008	**13.88**	**13.88**	

Judges

Fiscal Fiscal Years	Actuarial Rate	Actual Rate	
1999	15.67	15.67	%
2000	14.38	14.38	
2001	16.14	15.74	(2)
2002	12.88	12.88	
2003	12.66	12.66	(3)
2004	16.67	16.67	(3)
2005	19.22	19.22	
2006	22.37	22.37	
2007	19.51	19.51	
2008	**22.78**	**22.78**	

1) Rates shown for KPERS State/School, TIAA and Judges represent the rates for the fiscal years ending June 30. KPERS Local and KP&F rates are reported for the calendar years. Rates include Group Life and Disability Insurance when applicable.
2) Per 2000 and 2001 legislation, employers were not required to remit the Group Life and Disability portion of the Actual Rate from April 1, 2000 through December 31, 2001.
3) Per 2002 and 2003 legislation, employers were not required to remit the Group Life and Disability portion of the Actual Rate from July 1, 2002 through December 31, 2002 or from April 1, 2003 through June 30, 2004.
4) Per 2003 legislation, members of the TIAA group were made special members of KPERS and no longer have a separate valuation or contribution rate.

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April 30, 2008

Board of Trustees
Kansas Public Employees Retirement System
611 S. Kansas Ave., Suite 100
Topeka, KS 66603

Dear Members of the Board:

In accordance with your request, we have performed an actuarial valuation of KPERS Death and Disability Program as of June 30, 2007 for determining contributions beginning July 1, 2007. The major findings of the valuation are contained in this report. This report reflects the benefit provisions and contribution rates in effect as of June 30, 2007.

In preparing this report, we relied, without audit, on information (some oral and some in writing) supplied by the System's staff. This information includes, but is not limited to, statutory provisions, employee data, and financial information. In our examination of these data, we have found them to be reasonably consistent and comparable with data used for other purposes. Since the valuation results are dependent on the integrity of the data supplied, the results can be expected to differ if the underlying data is incomplete or missing. It should be noted that if any data or other information is inaccurate or incomplete, our calculations may need to be revised.

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 which are consistent with the Actuarial Standards of Practice promulgated by the Actuarial Standards Board and the applicable Guides to Professional Conduct, amplifying Opinions, and supporting Recommendations of the American Academy of Actuaries.

We further certify that all costs, liabilities, rates of interest, and other factors used or provided in this report have been determined on the basis of actuarial assumptions and methods which are individually reasonable (taking into account the experience of the System and reasonable expectations); and which, in combination, offer our best estimate of anticipated experience affecting the System.

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. The Board of Trustees has the final decision regarding the appropriateness of the assumptions and adopted them as indicated in this report.

Actuarial computations presented in this report are for purposes of analyzing the sufficiency of the statutory contribution rate. Actuarial computations under GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, are for purposes of fulfilling financial accounting requirements. The computations prepared for these two purposes may differ as disclosed in our report. The calculations in the enclosed report have been made on a basis consistent with our understanding of the System's funding requirements and goals, and of GASB Statement 43. Determinations for purposes other than meeting these requirements may be significantly different from the results contained in this report. Accordingly, additional determinations may be needed for other purposes.

Milliman's work product was prepared exclusively for KPERS for a specific and limited purpose. It is a complex, technical analysis that assumes a high level of knowledge concerning KPERS operations, and uses KPERS data, which Milliman has not audited. It is not for the use or benefit of any third party for any purpose. Any third party recipient of Milliman's work product who desires professional guidance should not rely upon Milliman's work product, but should engage qualified professionals for advice appropriate to its own specific needs.

We respectfully submit the following report, and we look forward to discussing it with you.

I, Daniel D. Skwire, F.S.A., am a consulting actuary for Milliman, Inc. I am a member of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

I, Patrice A. Beckham, F.S.A., am a consulting actuary for Milliman, Inc. I am a member of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Milliman, Inc.
Sincerely,

Daniel D. Skwire, F.S.A.
Consulting Actuary

Patrice A. Beckham, F.S.A.
Consulting Actuary

Executive Summary

This report contains the June 30, 2007 actuarial valuation for the KPERS Death and Disability Program. This program provides two primary benefits to active members:

Group life insurance equal to 150 percent of annual compensation, which is provided through an insurance contract with Minnesota Life.

Self-insured long term disability (LTD) benefits equal to 60 percent (prior to 1/1/2006, 66 2/3%) of annual compensation, offset by other benefits. Members receiving LTD benefits also receive service credit toward their retirement benefits under KPERS (which does not affect calculations for the Death and Disability Program) and have their group life insurance coverage continued under the waiver of premium provision. For those employees covered under the waiver of premium provision, the group life insurance benefit is increased annually for inflation, at a rate equal to the consumer price index less one percent, beginning five years following the date of disability.

The scope of the annual actuarial valuation, on both the GASB 43 and illustrative historical basis, includes the LTD and Waiver benefits described in Item 2 above. They do not include the fully-insured group life insurance benefit, which is provided only during employment and is therefore not classified as an OPEB under GASB 43.

The key results from each section of this report are summarized below.

Actuarial Valuation Under GASB 43

GASB Statement 43 contains requirements for the valuation of other post-employment benefits (OPEB) by state and local government entities. These requirements, which are analogous to pension accounting practices, attribute the cost of OPEB to the time during which the employee is actively working for the employer.

The following table summarizes the calculation of the actuarial liability for active and disabled members. This liability includes the cost of projected LTD benefits, projected waiver benefits, and projected administrative expenses:

Actuarial Liability at 6/30/2007

	Actives	Disabled	Total
PV of Total Projected Benefits	$459,308,363	$237,913,406	$697,221,769
PV of Future Normal Cost	341,493,148	0	341,493,148
Actuarial Liability	$117,815,215	$237,913,406	$355,728,621

As of June 30, 2007, the KPERS Death and Disability Fund has net assets of $25,567,653, resulting in an unfunded actuarial liability of $330,160,968. KPERS has elected to amortize this unfunded actuarial liability over 15 years as a level percent of pay, assuming a 4 percent annual payroll increase.

The annual required contribution (ARC) for the KPERS Death and Disability Program equals the current year normal cost plus the amortization of the unfunded actuarial liability, all adjusted for interest to mid-year. The ARC for 2007-2008 is $58,105,517, representing 0.97 percent of estimated annual compensation.

During 2007, Milliman performed an experience study of the KPERS retirement system and recommended changes to certain assumptions. The Board adopted these changes, which are reflected in this valuation. The change in assumptions increased the normal cost by about $1.3 million and decreased the actuarial liability by nearly $5 million. The net impact on the ARC was an increase of 0.01 percent.

Projected Cashflows

Five-Year Cashflow Projection Expected Benefits and Expenses v. Expected Contributions
($ in millions)
Excludes Group Life Insurance for Active Members

Plan Year	Projected Benefits and Expenses	Projected Contributions
2007-2008	$40.4	$44.9
2008-2009	$42.1	$46.2
2009-2010	$44.3	$47.6
2010-2011	$46.1	$49.0
2011-2012	$47.8	$50.5

Projected contributions are expected to exceed the projected benefits and expenses for each of the next five years, according to the assumptions used for the actuarial valuation, and assuming that the current contribution rate of 1.0% (which includes approximately 0.25 percent of payroll for group life insurance) remains unchanged. The excess contribution each year, however is only $2.7 million to $4.5 million, meaning that if the contribution rate remains unchanged, the plan should not be expected to generate a material increase in plan assets.

The cashflow projections include self-insured benefits only. They do not include the cost of insurance premiums for the fully-insured group life benefit or the projected contributions intended to cover those premiums. Also, the projections are on a "best-estimate" basis consistent with the liability calculations, and they do not include an explicit margin. To the extent that KPERS requires a more conservative benefit projection for the purpose of determining funding contributions, it may wish to consider adding a margin of 5-10 percent to the benefits and expenses projected.

Actuarial Valuation Under GASB 43

The Governmental Accounting Standards Board (GASB) issued Statement No. 43, *Financial Reporting For Postemployment Benefit Plans Other Than Pension Plans,* in order to establish uniform standards of financial reporting by state and local governmental entities for other postemployment benefit plans (OPEB plans). The term "other postemployment benefits (OPEB) refers to postemployment benefits other than pension benefits and includes (a) postemployment healthcare benefits and (b) other types of postemployment benefits like life insurance, disability, and long term care, if provided separately from a pension plan.

The basis for GASB 43 is to attribute the cost of postemployment benefits to the time during which the employee is actively working for the employer. OPEB arises from an exchange of salaries and benefits for employee services and it is part of the compensation that employers offer for services received. .

A number of assumptions have been made in developing the liabilities reported in this report. These assumptions, as well as the actuarial methodology, are described on pages 122 and 129. The projections in this report are estimates, and as such, KPERS' actual liability will vary from these estimates. The projections and assumptions should be updated as actual costs under this program develop. The actuarial present value of total projected benefits reflects all expected payments in the future discounted to the date of the valuation. The present value is an amount of money that, if it were set aside now and all assumptions met, would be exhausted with the ultimate payment to the last plan member's final expense.

Actuarial Present Value of Total Projected Benefits at 6/30/2007

	Actives	Disabled	Total
Disability Income	$345,778,004	$182,556,777	$528,334,781
Waiver of Premium	93,121,531	44,785,226	137,906,757
Administrative Expenses	20,408,828	10,571,403	30,980,231
Total $459,308,36	**3**	**$237,913,406**	**$697,221,769**

The Entry Age Normal Actuarial Cost Method was used to allocate the cost of benefits to years of active service. The objective under this method is to expense each participant's benefit as a level percent of pay over their active working lifetime. At the time the funding method is introduced, there will be a liability which represents the contributions which would have been accumulated if this method of funding had always been used (called the "Actuarial Liability"). The difference between this actuarial liability and the assets (if any) is the unfunded actuarial liability, which is typically amortized over a period of years. The maximum permissible years under GASB 43 is 30. KPERS has chosen to amortize the unfunded actuarial liability over 15 years, as a level percent of pay.

Actuarial Liability at 6/30/2007

	Actives	Disabled	Total
Present Value of Total Projected Benefits	$459,308,363	$237,913,406	$697,221,769
Present Value of Future Normal Cost	341,493,148	0	341,493,148
Actuarial Liability	$117,815,21 5	$237,913,40 6	$355,728,62 1

The actuarial balance sheet is a demonstration of the basic actuarial equation that the actuarial present value of future benefits to be paid to the active and retired members must equal the current assets plus the actuarial present value of future contributions to be received. Accordingly, the status of the plan in balance sheet form as of June 30, 2007 is shown below:

Actuarial Balance Sheet

Actuarial Present Value of Total Projected Benefits	
Active Members	$459,308,363
Disabled Members	237,913,406
Total Actuarial Present Value of Total Projected Benefits	$697,221,769
Assets and Future Employer Contributions	
Assets*	$ 25,567,653
Unfunded Actuarial Liability	330,160,968
Present Value of Future Normal Costs	341,493,148
Total Assets and Future Employer Contributions	$697,221,769

*Market value

Annual Required Contribution (ARC)

For Fiscal Year Ending June 30, 2008

GASB 43 defines the Annual Required Contribution (ARC) as the employer's normal cost plus amortization of any unfunded actuarial liability over a period not to exceed 30 years. KPERS has chosen to amortize the unfunded actuarial liability over 15 years as a level percentage of payroll.

A.	**Employer Normal Costs**		
	(1)	Normal Cost as of June 30, 2007	$34,083,352
	(2)	Assumed interest (mid year timing assumed)	758,437
	(3)	Normal Cost for FY2008 [(1) + (2)]	$34,841,789
B.	**Determination of Current Year Amortization Payment**		
	(1)	Unfunded Actuarial Liability	$330,160,968
(2)		Amortization Period	15 years
	(3)	Amortization Factor	14.5079
	(3)	Amortization Amount as of June 30, 2007 [(1) / (3)]	22,757,323
	(4)	Assumed interest (mid year timing assumed)	506,405
	(5)	Amortization Amount for FY2008	$23,263,728
	[(4)	+ (5)]	
C.	**Determination of Annual Required Contribution**		
	(1)	Normal Cost for benefits attributable to service in the current year (A.3.)	$34,841,789
	(2)	Amortization of Unfunded Actuarial Liability (B.5.)	23,263,728
	(3)	Annual Required Contribution (ARC) [(1) + (2)]	$58,105,517
D.	**Annual Required Contribution**		
	(1)	Annual Required Contribution	$58,105,517
	(2)	Estimated Annual Compensation for FY08	5,981,324,385
	(3)	ARC as a Percentage of Payroll	0.97%

The amortization of the Unfunded Actuarial Liability is calculated assuming amortization as a level percent of payroll over 15 years. Payroll is assumed to increase 4 percent per year.

Actuarial Assumptions — Death and Disability

Rate of Investment Return GASB 43: 4.5 percent per annum, net of expenses

Implicit Inflation Rate 3.5 percent

Mortality Rates

Post-retirement

	School		State		Local	
Age	Male	Female	Male	Female	Male	Female
50	0.513%	0.183%	0.547%	0.218%	0.587%	0.204%
55	0.549%	0.249%	0.625%	0.328%	0.670%	0.278%
60	0.662%	0.431%	0.962%	0.577%	1.031%	0.481%
65	1.051%	0.733%	1.597%	0.964%	1.712%	0.817%
70	1.747%	1.182%	2.646%	1.557%	2.837%	1.318%
75	2.917%	1.986%	4.550%	2.614%	4.878%	2.215%
80	5.278%	4.246%	7.037%	4.567%	7.545%	4.171%
85	9.331%	7.508%	11.292%	7.977%	12.108%	7.508%
90	15.661%	12.869%	17.978%	13.563%	19.278%	12.869%
95	24.301%	19.742%	24.888%	20.034%	26.687%	19.742%
100	32.791%	24.990%	30.850%	24.459%	33.080%	24.990%

Pre-retirement

School Males: 70 % of RP-2000 M Employees -1
School Females: 70% of RP-2000 F Employees -2
State Males: 70% of RP-2000 M Employees +2
State Females: 70% of RP-2000 F Employees +1
Local Males: 90% of RP-2000 M Employees +2
Local Females: 90% of RP-2000 F Employees +0

Disabled Life Mortality RP-2000 Disabled Life Table with same age adjustments as used for Retiree Mortality.

Rates of Salary Increase

Years of Service	Rate of Increase* State	School	Local
1	10.50%	12.00%	10.50%
5	5.60%	6.55%	6.20%
10	4.90%	5.10%	5.20%
15	4.40%	4.60%	4.80%
20	4.10%	4.10%	4.60%
25	4.00%	4.00%	4.10%
30	4.00%	4.00%	4.00%

*Includes general wage increase assumption of 4.0 percent
(composed of 3.25 percent inflation and 0.75 percent productivity)

Rates of Termination

Duration	State Male	State Female	School Male	School Female	Local Male	Local Female
0	21.00%	23.00%	17.00%	19.00%	20.00%	23.00%
1	18.00%	18.00%	14.50%	15.00%	16.00%	20.00%
2	14.00%	13.00%	12.00%	11.00%	13.20%	17.00%
3	10.00%	11.00%	10.00%	10.00%	11.00%	14.00%
4	8.00%	9.00%	8.00%	9.00%	9.60%	11.50%
5	6.50%	7.25%	7.00%	8.00%	8.30%	9.00%
6	5.50%	6.25%	6.00%	7.00%	7.10%	7.50%
7	5.00%	5.50%	5.20%	6.00%	6.00%	6.50%
8	4.50%	4.90%	4.60%	5.00%	5.00%	5.75%
9	4.00%	4.30%	4.10%	4.60%	4.40%	5.00%
10	3.60%	3.90%	3.90%	4.30%	3.80%	4.25%
11	3.20%	3.50%	3.70%	4.00%	3.50%	3.75%
12	2.90%	3.10%	3.50%	3.70%	3.30%	3.40%
13	2.60%	2.80%	3.30%	3.50%	3.10%	3.20%
14	2.40%	2.50%	3.10%	3.30%	2.90%	3.00%
15	2.20%	2.30%	2.90%	3.10%	2.70%	2.80%
16	2.00%	2.10%	2.70%	2.90%	2.50%	2.60%
17	1.80%	1.90%	2.50%	2.70%	2.30%	2.40%
18	1.60%	1.70%	2.30%	2.50%	2.10%	2.20%
19	1.50%	1.50%	2.10%	2.30%	1.90%	2.00%
20	1.40%	1.30%	1.90%	2.10%	1.80%	1.80%
21	1.30%	1.20%	1.70%	1.90%	1.70%	1.60%
22	1.20%	1.10%	1.50%	1.70%	1.60%	1.40%
23	1.10%	1.00%	1.30%	1.50%	1.50%	1.20%
24	1.00%	0.90%	1.10%	1.40%	1.40%	1.00%
25	0.90%	0.80%	0.90%	1.30%	1.30%	0.90%
26	0.80%	0.70%	0.70%	1.20%	1.20%	0.70%
27	0.70%	0.60%	0.60%	1.10%	1.10%	0.60%
28	0.60%	0.50%	0.50%	1.00%	1.00%	0.50%
29	0.50%	0.50%	0.50%	0.50%	0.90%	0.50%
30	0.50%	0.50%	0.50%	0.50%	0.80%	0.50%
30+	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Retirement Rates ─ KPERS

School

	Rule of 85	
Age	1st Year With 85 Points	After 1st Year With 85 Points
53	20%	18%
55	20%	18%
57	22%	18%
59	25%	23%
61	30%	30%

Early Retirement

Age	Rate
55	5%
56	5%
57	8%
58	8%
59	12%
60	15%
61	22%

Normal Retirement

Age	Rate
62	30%
63	25%
64	35%
65	35%
66-71	25%
72-74	20%
75	100%

State

	Rule of 85	
Age	1st Year With 85 Points	After 1st Year With 85 Points
53	10%	15%
55	15%	15%
57	15%	12%
59	15%	12%
61	30%	25%

Early Retirement Age	Rate	Normal Retirement Age	Rate
55	5%	62	30%
56	5%	63	20%
57	5%	64	30%
58	5%	65	35%
59	8%	66-67	25%
60	8%	68-74	20%
61	20%	75	100%

Local

	Rule of 85	
Age	1st Year With 85 Points	After 1st Year With 85 Points
53	11%	10%
55	13%	10%
57	13%	10%
59	15%	12%
61	25%	25%

Early Retirement Age	Rate	Normal Retirement Age	Rate
55	5%	62	25%
56	5%	63	20%
57	5%	64	30%
58	5%	65	35%
59	5%	66	25%
60	5%	67-74	20%
61	15%	75	100%

- Inactive vested members – Age 62.
- For correctional employees with an age 55 normal retirement date.

Age	Rate
55	10%
58	10%
60	10%
62	45%
65	100%

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

LTD Claim Incidence Rates

Attained	Male			Female		
Age	Local	School	State	Local	School	State
25	0.00077	0.00065	0.00083	0.00114	0.00096	0.00122
30	0.00080	0.00067	0.00086	0.00105	0.00089	0.00113
35	0.00103	0.00087	0.00111	0.00171	0.00144	0.00184
40	0.00149	0.00126	0.00161	0.00240	0.00203	0.00258
45	0.00258	0.00218	0.00277	0.00355	0.00300	0.00382
50	0.00375	0.00317	0.00404	0.00444	0.00375	0.00478
55	0.00567	0.00480	0.00611	0.00553	0.00468	0.00595
60	0.00766	0.00649	0.00825	0.00620	0.00525	0.00668
65	0.00773	0.00654	0.00833	0.00515	0.00436	0.00555
70	0.00865	0.00732	0.00931	0.00475	0.00402	0.00511

Claim Termination Rates

Claim Termination Rates as % of 1987 Commissioners Group Disability Table
(Based on Actual KPERS Experience)

Age at Disability	Claim Duration (Months) 1-12	13-24	25-60	61+
Under 30	50%	55%	79%	150%
30-39	50%	55%	79%	150%
40-49	50%	55%	79%	150%
50-59	76%	76%	138%	350%
60 and Over	350%	350%	350%	350%

All claim termination rates are assumed to be 350% of the table for attained ages 60 and older.

Projected Future Claim Cost as Percent of Payroll (used in cashflow projections): 0.47% in 2006-2007, which increases in future due to aging.

Incurred But Not Reported (IBNR) Reserve: 60 percent of expected claim cost for year

Overpayment Recovery: 65 percent of overpayment balance.

Future Payroll Growth: 4.0 percent long-term growth for actuarial valuation. 3.0 percent near-term growth for cashflow projections.

Administrative Expenses: 4.65 percent of claims.

Waiver of Premium

- Claim Termination Rates

Claim Termination Rates as % of 1987 Commissioners Group Disability Table
(Based on Actual KPERS Experience)

Age at Disability	Claim Duration (Months) 1-12	13-24	25-60	61+
Under 30	50%	55%	79%	150%
30-39	50%	55%	79%	150%
40-49	50%	55%	79%	150%
50-59	76%	76%	138%	350%
60 and Over	350%	350%	350%	350%

All claim termination rates are assumed to be 350 percent of the table for attained ages 60 and older.

- Mortality: 100 percent of IRS Disabled Mortality Rates from Revenue Ruling 96-7.
- Benefit Indexing: Historical indexing is based on actual retirement plan calculations. Indexing for 2006 and later uses a rate of 2.0 percent, which is equivalent to a 3 percent annual assumed increase in the consumer price index, less 1.0 percent as specified by the plan.
- Projected Future Claim Cost as percent of Payroll (used in cashflow projections): 0.12 percent in 2006-2007, which increases in future due to aging.
- IBNR: 12.5 percent of expected claim cost for year.

Experience

KPERS Death and Disability Valuation

Experience Exhibits as of 6/30/2007

Death Claims by Death Benefit Paid

	2005-2006		2006-2007	
Death Benefit Paid	Count	% of Claims	Count	% of Claims
0-9,999	2	2%	2	2%
10,000-19,999	11	10%	11	10%
20,000-29,999	16	15%	13	12%
30,000-39,999	20	19%	17	16%
40,000-49,999	16	15%	14	13%
50,000-59,999	12	11%	24	23%
60,000-69,999	11	10%	7	7%
70,000-79,999	9	9%	7	7%
80,000-89,999	3	3%	4	4%
90,000-99,999	2	2%	5	5%
100,000+	3	3%	2	2%
Total	105	100%	106	100%

Death Claims by Age at Death

	2005-2006		2006-2007	
Age at Death	Count	% of Claims	Count	% of Claims
20-29	0	0%	1	1%
30-39	3	3%	2	2%
40-49	17	16%	19	18%
50-59	41	39%	44	42%
60-64	35	33%	34	32%
65+	9	9%	6	6%
Total	105	100%	106	100%

Active LTD Claims by Age at Disability

Age at Disability	2005-2006 Count	2005-2006 % of Claims	2006-2007 Count	2006-2007 % of Claims
<20	1	0%	1	0%
20-29	75	2%	79	3%
30-39	470	15%	479	15%
40-49	1165	38%	1177	38%
50-59	1206	39%	1189	38%
60-64	158	5%	146	5%
65+	23	1%	26	1%
Total	3098	100%	3097	100%

Active LTD Claims by Attained Age

Attained Age	2005-2006 Count	2005-2006 % of Claims	2006-2007 Count	2006-2007 % of Claims
<20	0	0%	0	0%
20-29	4	0%	8	0%
30-39	95	3%	99	3%
40-49	637	21%	613	20%
50-59	1498	48%	1507	49%
60-64	767	25%	775	25%
65+	97	3%	95	3%
Total	3098	100%	3097	100%

Active LTD Claims by Net Benefit Amount

Net Monthly Benefit	2005-2006 Count	2005-2006 % of Claims	2006-2007 Count	2006-2007 % of Claims
0-499	1235	40%	1207	39%
500-999	992	32%	1021	33%
1,000-1,499	507	16%	504	16%
1,500-1,999	207	7%	210	7%
2,000-2,499	96	3%	90	3%
2,500-2,999	31	1%	36	1%
3,000-3,499	13	0%	15	0%
3,500-3,999	8	0%	6	0%
4,000-4,499	4	0%	4	0%
4,500-4,999	2	0%	1	0%
5,000+	3	0%	3	0%
Total	3098	100%	3097	100%

New LTD Claims by Age at Disability

Age at Disability	2005-2006 Count	% of Claims	2006-2007 Count	% of Claims
<20	0	0%	0	0%
20-29	4	1%	7	2%
30-39	20	6%	27	8%
40-49	91	28%	100	30%
50-59	164	51%	164	49%
60-64	31	10%	31	9%
65+	10	3%	5	1%
Total	320	100%	334	100%

New LTD Claims by Attained Age

Attained Age	2005-2006 Count	% of Claims	2006-2007 Count	% of Claims
<20	0	0%	0	0%
20-29	3	1%	5	1%
30-39	15	5%	23	7%
40-49	79	25%	90	27%
50-59	157	49%	161	48%
60-64	54	17%	45	13%
65+	12	4%	10	3%
Total	320	100%	334	100%

New LTD Claims by Net Benefit Amount

Net Benefit	2005-2006 Count	% of Claims	2006-2007 Count	% of Claims
0-499	89	28%	89	27%
500-999	71	22%	88	26%
1,000-1,499	58	18%	69	21%
1,500-1,999	50	16%	44	13%
2,000-2,499	32	10%	24	7%
2,500-2,999	12	4%	11	3%
3,000-3,499	3	1%	5	1%
3,500-3,999	2	1%	2	1%
4,000-4,499	2	1%	1	0%
4,500-4,999	0	0%	0	0%
5,000+	1	0%	1	0%
Total	320	100%	334	100%

Terminated LTD Claims by Term Reason

Term Reason	2005-2006 Count	% of Claims	2006-2007 Count	% of Claims
Death	111	32%	139	31%
Recovery	33	10%	47	11%
Retirement	164	48%	207	47%
Expiry	37	11%	49	11%
Total	345	100%	442	100%

Actuarial Methods

Funding Method

Actuarial liabilities and comparative costs were computed using the Entry Age Normal (EAN) Actuarial Cost Method, which consists of the following cost components:

Under the EAN cost method, the actuarial present value of each member's projected benefits is allocated on a level basis over the member's compensation between the entry age of the member and the assumed exit ages. The portion of the actuarial present value allocated to the valuation year is called the normal cost. The actuarial present value of benefits allocated to prior years of service is called the actuarial liability. The unfunded actuarial liability represents the difference between the actuarial liability and the actuarial value of assets as of the valuation date. The unfunded actuarial liability is calculated each year and reflects experience gains/losses.

The Unfunded Actuarial Liability (UAL) is the difference between the Actuarial Liability and the Valuation Assets. KPERS has chosen to amortize the UAL over 15 years as a level percentage of payroll.

Asset Valuation Method

Assets are valued at market value.

Plan Provisions — Plan Overview

The KPERS Death and Disability Plan is a cost-sharing multiple employer plan that provides long term disability (LTD) and life insurance benefits to eligible employees. Eligible employees consist of all individuals who are:

1) Active members of KPERS.
2) In their first year of service with a KPERS-covered employer that has affiliated for first-day coverage.
3) Employees of an educational institution under the Kansas Board of Regents as defined in K.S.A. 74-4925.
4) Elected officials.

The plan provides a group life insurance benefit for active members through a fully-insured program with Minnesota Life Insurance company. Because this benefit is fully-insured, it is not included in the scope of this actuarial valuation. The plan also provides a self-funded LTD benefit and a self-funded life insurance benefit for disabled members (referred to as "group life waiver of premium"). These items are considered "Other Post-Employment Benefits" (OPEB) under GASB accounting rules, and they are included in this actuarial valuation.

Plan Provisions — Long Term Disability

Definition of Disability

For the first 24 months following the end of the benefit waiting period, a member is totally disabled if the member is unable to perform the material and substantial duties of his or her regular occupation due to sickness or injury. Thereafter, the member is totally disabled if the member is unable to perform the material and substantial duties of any gainful occupation due to sickness or injury.

Benefit Waiting Period

For approved claims, benefits begin on the later of (a) the date the member completes 180 continuous days of total disability; or (b) the date the member ceases to draw compensation from his or her employer.

Monthly Benefit

The monthly benefit is 60 percent of the member's monthly rate of compensation, with a minimum of $100 and a maximum of $5,000. The monthly benefit is subject to reduction by deductible sources of income, which includes Social Security primary disability or retirement benefits, workers' compensation benefits, other disability benefits from any other source by reason of employment, and earnings from any form of employment.

Maximum Benefit Period

If the disability begins before age 60, benefits are payable while disability continues until the member's 65th birthday or retirement date, whichever occurs first. If the disability occurs at or after age 60, benefits are payable while disability continues, for a period of five years or until the date of the member's retirement, whichever occurs first.

Limitation for Mental Illnesses and Substance Abuse

Benefit payments for disabilities caused or contributed to by substance abuse or non-biologically-based mental illnesses are limited to the term of the disability or 24 months per lifetime, whichever is less.

Cost-of-Living Increase

There are no automatic cost-of-living increase provisions. KPERS has the authority to implement an ad hoc cost-of-living increase.

Plan Provisions — Group Life Waiver of Premium

Benefit Amount

Upon the death of a member who is receiving monthly disability benefits, the plan will pay a lump-sum benefit to eligible beneficiaries. The benefit amount will be 150 percent of the greater of (a) the member's annual rate of compensation at the time of disability, or (b) the member's previous 12 months of compensation at the time of the last date on payroll. If the member had been disabled for five or more years, the annual compensation or salary rate at the time of death will be indexed before the life insurance benefit is computed. The indexing is based on the consumer price index, less one percentage point.

Accelerated Death Benefit

If a member is diagnosed as terminally ill with a life expectancy of 12 months or less, he or she may be eligible to receive up to 100 percent of the death benefit rather than having the benefit paid to the beneficiary.

Conversion Right

If a member retires or disability benefits end, he or she may convert the group life insurance coverage to an individual life insurance policy.

STATISTICAL SECTION

The Statistical Section presents several schedules that provide financial trends analysis of the Retirement System's overall financial health and additional analytical information on employers' membership data, retirements benefits and other post employment benefits (OPEB). The schedules beginning on this page through page 135 provide revenues, expenses and funding status information for the past ten fiscal years for KPERS and Death and Disability (OPEB) plans. On page 138, information is provided showing the top ten participating employers determined by number of covered active employees. On pages 139 through 141 various schedules are presented to depict the level of monthly benefits by number of retirees, retirement type and options, and years of service. Also on page 139 a schedule is presented that allocates the total benefits and type of refunds that were paid. The source of the information in these schedules is derived from the comprehensive annual financial reports, unless otherwise noted.

Revenues by Source

last ten fiscal years

	Contributions	last ten fiscal years				
Yea	**Member**	**Employer**	**(OPEB) Employer Insurance**	**Misc**	**Net Investment Income**	**T otal**
1999	$185,180,551	$175,581,182	$26,071,503	$210,116	$953,992,725	$1,341,036,077
2000	192,776,305	168,100,637	17,164,419	245,354	1,314,770,498	1,693,057,213
2001	204,142,810	193,384,289	—	(1) 175,815	(798,126,783)	(400,423,869)
2002	209,624,015	207,611,045	13,862,682	137,633	(463,746,959)	(32,511,584)
2003	224,746,447	222,882,765	8,581,558	82,257	326,056,643	782,349,670
2004	230,349,955	714,353,221 (2)	—	(1) 182,113	1,336,225,914	2,281,111,203
2005	233,226,034	261,961,687	31,990,734	178,105	1,223,096,121	1,750,452,681
2006	246,203,381	298,711,909	53,319,639	175,539	1,354,407,763	1,952,818,231
2007	256,995,275	339,509,022	59,308,991	228,986	2,162,081,472	2,818,123,746
2008	269,603,155	395,752,214	62,400,369	225,736	(649,102,982)	78,878,492

1) Per 2000 and 2003 legislation, employers were not required to remit the Group Life and Disability Insurance portion of required employer contributions.
2) Pension obligation bonds for $440 million were issued in 2004.

Benefits by Type

last ten fiscal years

Fiscal Year	Monthly Retirement Benefits	Retirement Dividend	Death Benefits	Refunds of Contributions Separations	Refunds of Contributions Deaths	Disability, Insurance Premiums (OPEB)
1999	$455,265,89 6	$9,443,527	$7,862,525	$36,625,774	$4,235,176	$41,892,190
2000	489,058,357	8,811,628	8,071,779	39,390,011	4,241,839	42,199,878
2001	542,389,577	8,284,487	8,227,488	39,656,724	4,310,899	46,456,603
2002	619,959,068	7,744,988	8,694,809	33,550,967	5,515,970	47,625,764
2003	638,498,630	7,217,449	7,826,064	34,462,966	5,145,980	53,829,235
2004	670,246,402	6,672,212	8,685,182	35,903,879	5,275,591	50,396,392
2005	731,389,840	6,173,436	7,849,884	40,395,640	6,378,293	53,703,109
2006	800,256,846	5,721,885	8,810,923	40,628,580	6,197,596	54,957,957
2007	862,894,416	5,284,613	9,153,582	40,632,701	5,496,510	55,585,886
2008	940,870,530	4,834,127	8,388,935	43,197,593	5,275,097	56,718,131

Expenses by Type

last ten fiscal years

		Refund of Contributions				
Fiscal Year	Benefits	Separations	Death	Insurance (OPEB)	Administration	Total
1999	$472,571,948	$36,625,774	$4,235,176	$41,892,190	$5,442,410	$560,767,498
2000	505,941,764	39,390,011	4,241,839	42,199,878	5,689,571	597,463,063
2001	558,901,552	39,656,724	4,310,899	46,456,603	6,843,434	656,169,212
2002	636,398,865	33,550,967	5,515,970	47,625,764	6,776,044	729,867,610
2003	653,542,143	34,462,966	5,145,980	53,829,235	7,215,024	754,195,348
2004	685,603,796	35,903,879	5,275,591	50,396,392	7,231,295	784,410,953
2005	745,413,160	40,395,640	6,378,293	53,703,109	7,340,147	853,230,349
2006	814,789,655	40,628,580	6,197,596	54,957,957	7,718,879	924,292,667
2007	877,332,611	40,632,701	5,496,510	55,585,886	8,893,544	987,941,252
2008	954,093,592	43,197,593	5,275,097	56,718,131	9,603,126	1,068,887,539

Change in Net Assets

last ten fiscal years

	2008	2007	2006
Additions			
Contributions			
Member Contributions	$ 269,603,155	$ 256,995,275	$ 246,203,381
Employer Contributions	458,152,583	398,818,013	352,031,548
Total Contributions	727,755,738	655,813,288	598,234,929
Investments			
Net Appreciation in Fair Value of Investments	(1,012,601,549)	1,816,702,680	1,046,279,084
Interest	212,695,996	195,760,216	165,466,523
Dividends	137,983,566	136,434,906	113,162,346
Real Estate Income, Net of Operating Expenses	40,288,418	39,114,763	51,835,809
Other Investment Income	264,000	261,734	303,028
	(621,369,569)	2,188,274,299	1,377,046,790
Less Investment Expense	(31,036,451)	(30,249,368)	(27,204,510)
Net Investment Income (Loss)	(652,406,020)	2,158,024,931	1,349,842,280
From Securities Lending Activities			
Securities Lending Income	95,645,344	125,998,402	87,911,153
Securities Lending Expenses			
Borrower Rebates	(89,471,546)	(120,938,041)	(82,182,198)
Management Fees	(2,870,760)	(1,003,820)	(1,163,472)
Total Securities Lending Activities Expense	(92,342,306)	(121,941,861)	(83,345,670)
Net Income from Security Lending Activities	3,303,038	4,056,541	4,565,483
Total Net Investment Income (Loss)	(649,102,982)	2,162,081,472	1,354,407,763
Other Miscellaneous Income	225,736	228,986	175,539
Total Additions (Net Reductions) to Plan Net Assets	78,878,492	2,818,123,746	1,952,818,231
Deductions			
Monthly Retirement Benefits Paid	(945,704,657)	(868,179,029)	(805,978,732)
Refunds of Contributions	(48,472,690)	(46,129,211)	(46,826,176)
Death Benefits	(8,388,935)	(9,153,582)	(8,810,923)
Insurance Premiums and Disability Benefits (OPEB)	(56,718,131)	(55,585,886)	(54,957,957)
Administrative Expenses	(9,603,126)	(8,893,544)	(7,718,879)
Total Deductions to Plan Net Assets	(1,068,887,539)	(987,941,252)	(924,292,667)
Change in Net Assets	$ (990,009,047)	$ 1,830,182,494	$ 1,028,525,564

Change in Net Assets (continued)

last ten fiscal years

2005	2004	2003	2002	2001	2000	1999
$ 233,226,034	$ 230,349,955	$224,746,447	$ 209,624,015	$ 204,142,810	$192,777,255	$185,180,551
293,952,421	714,353,221	231,464,323	221,473,727	193,384,289	185,264,106	[illegible],685
527,178,455	944,703,176	456,210,770	431,097,742	397,527,099	378,041,361	[illegible],236
932,881,712	1,087,128,878	85,233,479	(676,384,745)	(1,061,275,002)	997,376,144	701,131,827
132,806,082	132,004,016	145,411,285	159,209,184	201,483,091	211,532,985	162,670,637
130,167,483	91,477,150	76,508,361	24,416,401	37,639,689	55,532,495	69,869,740
43,821,311	39,514,695	31,217,255	44,792,323	41,997,152	40,748,804	39,885,611
412,211	565,492	557,611	667,029	556,969	31,508,502	953,003
1,240,088,799	1,350,690,231	338,927,991	(447,299,808)	(779,598,101)	1,336,698,930	[illegible],818
(22,070,013)	(18,718,601)	(16,675,173)	(19,758,136)	(23,251,905)	(25,517,316)	(23,363,682)
1,218,018,786	1,331,971,630	322,252,818	(467,057,944)	(802,850,006)	1,311,181,614	[illegible],136
53,059,141	23,020,103	25,878,944	33,310,814	62,950,106	32,446,888	25,884,533
(46,714,331)	(17,697,447)	(20,861,098)	(28,577,302)	(56,202,763)	(27,320,030)	(21,819,685)
(1,267,475)	(1,068,372)	(1,214,021)	(1,422,527)	(2,024,120)	(1,537,974)	(1,219,259)
(47,981,806)	(18,765,819)	(22,075,119)	(29,999,829)	(58,226,883)	(28,858,004)	(23,038,944)
5,077,335	4,254,284	3,803,825	3,310,985	4,723,223	3,588,884	2,845,589
1,223,096,121	1,336,225,914	326,056,643	(463,746,959)	(798,126,783)	1,314,770,498	[illegible],725
178,105	182,113	82,257	137,633	175,815	245,354	210,116
1,750,452,681	2,281,111,203	782,349,670	(32,511,584)	(400,423,869)	1,693,057,213	1,341,036,077
(737,563,276)	(676,918,614)	(645,716,079)	(627,704,056)	(550,674,064)	(497,869,985)	(464,709,423)
(46,773,933)	(41,179,470)	(39,608,946)	(39,066,937)	(43,967,623)	(43,631,850)	(40,860,950)
(7,849,884)	(8,685,182)	(7,826,064)	(8,694,809)	(8,227,488)	(8,071,779)	(7,862,525)
(53,703,109)	(50,396,392)	(53,829,235)	(47,625,764)	(46,456,603)	(42,199,878)	(41,892,190)
(7,340,147)	(7,231,295)	(7,215,024)	(6,776,044)	(6,843,434)	(5,689,571)	(5,442,410)
(853,230,349)	(784,410,953)	(754,195,348)	(729,867,610)	(656,169,212)	(597,463,063)	(560,767,498)
$897,222,332	$1,496,700,250	$28,154,322	$(762,379,194)	$(1,056,593,081)	$1,095,594,150	$780,268,579

Change in Net Assets – Death and Disability Plan

last two fiscal years (1)

	2008	2007
Additions		
Contributions		
Employer Contributions	$ 62,400,370	$ 59,308,991
Total Contributions	62,400,370	59,308,991
Investments		
Interest	968,222	668,063
Less Investment Expense	(6,550)	(6,239)
Net Investment Income	961,672	661,824
Other Miscellaneous Income	88,781	96,112
Total Additions (Net Reductions) to Plan Net Assets	63,450,823	59,398,864
Deductions		
Insurance Premiums and Disability Benefits (OPEB)	(49,893,770)	(49,202,924)
Administrative Expenses	(350,076)	(334,380)
Total Deductions to Plan Net Assets	(50,243,846)	(49,537,304)
Change in Net Assets	$ 13,206,977	$ 9,861,560

1) Information available for current and prior fiscal year.

Highlights of Operations

ten-year summary

	2008	2007	2006	2005	2004
Membership Composition					
Number of Retirants (a)	61,489	60,166	57,954	61,125	59,124
Number of Survivors (b)	5,613	5,599	5,394	—	—
New Retirants During the Fiscal Year	4,780	4,423	4,452	4,141	3,612
Active and Inactive Members (a)	195,187	192,307	190,305	189,020	189,460
Participating Employers	1,482	1,474	1,474	1,461	1,454
Financial Results (Millions)					
Member Contributions	$ 270	$ 257	$ 246	$ 233	$ 230
Employer Contributions (c)	458	399	352	294	714
Retirement / Death Benefits	954	877	815	745	686
Investment Income (d)	(649)	2,162	1,354	1,223	1,336
Employer Contribution Rate (e)					
KPERS--State / School	7.37%	6.77%	6.07%	5.47%	4.58
KPERS--Local (f)	5.93	5.31	4.61	4.01	3.22
KP&F (Uniform Participating) (f)	13.88	13.32	12.39	11.69	9.47
Judges 22.38		19.11	21.97	19.22	16.67
TIAA	— —		—	0.60	—
Unfunded Actuarial Liability (Millions)					
KPERS--State / School	$ 4,312	$ 4,135	$ 3,926	$ 3,584	$ 2,734
KPERS--Local	941	893	869	824	588
KP&F	284	322	341	313	249
Judges	15	15	17	22	15
TIAA (g)	— —		—	—	—
Funding Ratios (h)					
KPERS--State / School	68.60%	67.50%	67.21%	68.60%	74.07
KPERS--Local 70.10		68.80	67.38	67.30	73.69
KP&F 85.50		82.40	80.46	81.10	84.04
Judges 88.70		87.40	85.02	80.10	84.92
TIAA	— —		—	—	—

a) Membership information taken from System's actuarial valuation.

b) This is the number of joint annuitants as of December 31st, per the System's records, starting December 31, 2005.

c) Pension obligation bonds for $440 million were issued in 2004.

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

e) Rates include Group Life and Disability contributions where applicable. Per 2000 and 2001 legislation, employers were not required to remit the Group Life and Disability portion of the Actual Rate from April 1, 2000 through December 31, 2001. Per 2002 and 2003 legislation, employers were not required to remit the Group Life and Disability portion of the Actual Rate from July 1, 2002 through December 31, 2002 or from April 1, 2003 through June 30, 2004.

f) KPERS Local and KP&F contribution rates are reported on a calendar year basis.

g) Legislation provided for bonds to be issued December 31, 2002 to fully fund the existing unfunded liability for the TIAA group.

h) The funding percentage indicates the actuarial soundness of the System. Generally, the greater the percentage, the stronger the System.

Highlights of Operations (continued)

ten-year summary

	2003	2002	2001	2000	1999
Membership Composition					
Number of Retirants (a)	57,597	56,115	54,396	51,639	50,058
Number of Survivors (b)	—	—	—	—	—
New Retirants During the Fiscal Year	3,585	3,689	3,112	3,360	3,328
Active and Inactive Members (a)	187,698	183,966	179,073	163,755	158,454
Participating Employers	1,442	1,435	1,423	1,415	1,407
Financial Results (Millions)					
Member Contributions	$ 225	$ 210	$ 204	$ 193	$ 185
Employer Contributions (c)	231	221	193	185	202
Retirement / Death Benefits	654	636	559	506	473
Investment Income (d)	326	(464)	(798)	1,315	954
Employer Contribution Rate (e)					
KPERS--State / School	4.98%	4.78%	3.98%	4.19%	3.99%
KPERS--Local (f)	3.67	3.52	2.77	3.22	2.93
KP&F (Uniform Participating) (f)	6.86	6.79	6.97	7.35	7.36
Judges	12.66	12.88	15.74	14.38	15.67
TIAA	2.27	2.03	1.21	1.82	1.93
Unfunded Actuarial Liability (Millions)					
KPERS--State / School	$ 2,239	$ 1,506	$ 1,120	$ 860	$ 973
KPERS--Local	340	185	90	36	76
KP&F	232	59	62	307	317
Judges	17	10	10	8	8
TIAA (g)	—	20	23	23	23
Funding Ratios (h)					
KPERS--State / School	75.64%	82.46%	86.23%	88.82%	86.36%
KPERS--Local	81.71	89.12	94.29	97.56	94.41
KP&F	84.16	95.53	95.22	79.68	77.28
Judges	82.21	88.94	88.66	90.53	89.42
TIAA	—	48.32	41.18	39.72	34.16

a) Membership information taken from System's actuarial valuation.

b) This is the number of joint annuitants as of December 31st, per the System's records, starting December 31, 2005.

c) Pension obligation bonds for $440 million were issued in 2004.

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

e) Rates include Group Life and Disability contributions where applicable. Per 2000 and 2001 legislation, employers were not required to remit the Group Life and Disability portion of the Actual Rate from April 1, 2000 through December 31, 2001. Per 2002 and 2003 legislation, employers were not required to remit the Group Life and Disability portion of the Actual Rate from July 1, 2002 through December 31, 2002 or from April 1, 2003 through June 30, 2004.

f) KPERS Local and KP&F contribution rates are reported on a calendar year basis.

g) Legislation provided for bonds to be issued December 31, 2002 to fully fund the existing unfunded liability for the TIAA group.

h) The funding percentage indicates the actuarial soundness of the System. Generally, the greater the percentage, the stronger the System.

Principal Participating Employers*

as of June 30, 2008

Participating Government	2008 Covered Employees	2008 Rank	2008 Percentage of Total System	2007 Employees	2007 Rank	2007 Percentage of Total System	2006 Employees	2006 Rank	2006 Percentage of Total System
State of Kansas	25,299	1	16.35%	25,069	1	16.55%	25,134	1	16.86%
USD 259, Wichita	6,748	2	4.36%	6,590	2	4.35%	6,546	2	4.39%
USD 233, Olathe	4,307	3	2.78%	4,277	3	2.82%	4,155	3	2.79%
USD 512, Shawnee Mission	4,128	4	2.67%	4,007	4	2.65%	3,968	4	2.66%
USD 500, Kansas City	3,337	5	2.16%	3,334	5	2.20%	3,436	5	2.30%
Johnson County	3,137	6	2.03%	3,002	6	1.98%	3,229	6	2.17%
USD 229, Blue Valley	2,930	7	1.89%	2,809	7	1.85%	2,770	7	1.86%
USD 501, Topeka Public Schools	2,548	8	1.65%	2,469	8	1.63%	2,544	8	1.71%
Sedgwick County	2,313	9	1.50%	2,309	9	1.52%	2,434	9	1.63%
USD 497, Lawrence	1,712	10	1.11%	1,692	10	1.12%	1,736	10	1.16%
All Other (a)	98,231		63.50%	95,891		63.33%	93,121		62.47%
Total (1,482 employers)	154,690		100.00%	151,449		100.00%	149,073		100.00%

*Information only available for current and prior two years.

(a) In 2008, "All Other" consisted of:

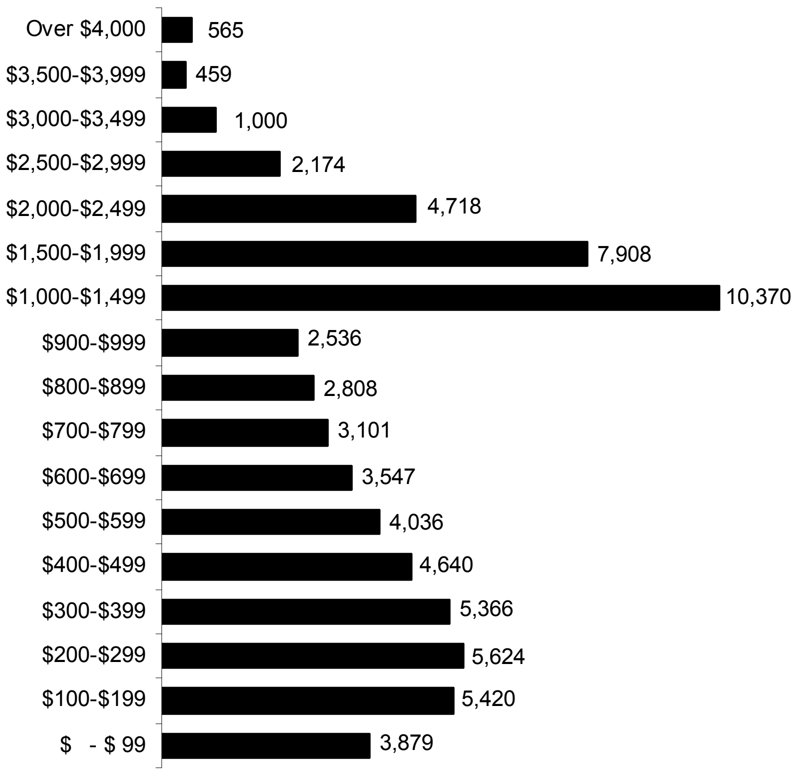
Employer Type	Number	Covered Employees
School districts	289	49,759
Cities and Counties	528	31,621
Post-Secondary Education (b)	47	11,120
Other	605	5,731
Total	1,469	98,231

(b) Not including State Board of Regents institutions.

Source: Data provided by KPERS Information Resources and Member Services divisions.

Monthly Retiree Benefit Amounts

as of December 2007



Benefit and Refund Deductions from Net Assets by Type

for the fiscal year ended June 30, 2008, with comparative figures for 2007 and 2006

Type of Benefit	**June 30, 2008**	**June 30, 2007**	**June 30, 2006**
Age and service benefits:			
Retirees	$ 898,910,097	$ 823,994,836	$ 763,960,585
Survivors 46,794,560		44,184,193	42,018,147
Death in service benefits	8,388,935	9,153,582	8,810,923
Insurance Premiums and			
Disabiltiy benefits	56,718,131	55,585,886	54,957,957
Total Benefits	$ 1,010,811,723	$ 932,918,497	$ 869,747,612
Type of Refund			
Death	$ 5,275,097	$ 5,496,510	$ 6,197,596
Separation	43,197,593	40,632,701	40,628,580
Total Refunds	$ 48,472,690	$ 46,129,211	$ 46,826,176

*Information only available for current year and prior two years.

Number of Retired Members and Survivors by Type of Benefit

as of December 31, 2007

Monthly Benefit	Number of Retirees	Normal Retirement	Early Retirement	Service-Connected Death or Disability	Nonservice-Connected Death or Disability
$ - 99	3,879	3,505	366	4	4
$100-199	5,420	3,481	1,870	58	11
$200-299	5,625	3,136	2,425	59	5
$300-399	5,365	3,023	2,283	44	15
$400-499	4,640	2,707	1,872	48	13
$500-599	4,036	2,492	1,500	35	9
$600-699	3,545	2,249	1,252	29	15
$700-799	3,100	2,016	1,041	35	8
$800-899	2,808	1,925	825	51	7
$900-999	2,535	1,878	599	43	15
$1,000-1,499	10,375	8,815	1,256	216	88
$1,500-1,999	7,907	7,498	208	125	76
$2,000-2,499	4,718	4,576	55	50	37
$2,500-2,999	2,174	2,108	35	17	14
$3,000-3499	1,000	959	22	11	8
$3,500-3,999	459	448	2	9	—
$4,000 or More	565	550	10	5	—
Totals	**68,151**	**51,366**	**15,621**	**839**	**325**

Number of Retired Members and Survivors by Type of Payment Option

as of December 31, 2007

Monthly Benefit	Maximum No Survivor	Joint 1/2 to Survivor	Joint Same to Survivor	Life Certain w/10 Yrs	Joint 3/4 to Survivor	Widowed Children Survivor	Life Certain w/5 Yrs	Life Certain w/15 Yrs
$ - 99	3,175	244	301	47	31	4	23	54
$100-199	3,953	618	552	85	87	38	28	58
$200-299	4,072	620	622	94	118	18	29	51
$300-399	3,766	584	665	84	143	38	29	57
$400-499	3,291	515	559	73	109	35	14	44
$500-599	2,817	446	494	51	130	34	16	48
$600-699	2,442	401	464	51	102	47	11	29
$700-799	2,128	351	358	49	125	41	19	30
$800-899	1,848	381	347	40	119	44	10	19
$900-999	1,617	384	325	40	110	31	10	19
$1,000-1,499	6,440	1,617	1,314	114	581	201	35	68
$1,500-1,999	4,921	1,304	845	60	540	178	23	37
$2,000-2,499	2,926	861	412	39	343	106	21	10
$2,500-2,999	1,253	425	201	22	185	75	6	7
$3,000-3499	518	221	110	7	81	57	3	3
$3,500-3,999	231	94	45	3	53	32	—	2
$4,000 or More	238	138	72	4	79	31	2	1
Totals	45,636	9,204	7,686	863	2,936	1,010	279	537

Average Benefit by Years of Service

five-year summary, new retirees by calendar year

Service Credit	2003	2004	2005	2006	2007
Less Than 5	196	238	170	187	213
Average FAS*	$ 33,823.54	$ 47,644.90	$ 25,256.68	$ 32,969.26	$ 23,028.60
Average Benefit	$ 111.97	$ 155.64	$ 90.24	$ 113.95	$ 115.70
Average Years	2.27	2.24	2.45	2.37	2.75
5-9.99	218	226	256	288	369
Average FAS*	$ 22,953.49	$ 26,505.53	$ 20,182.66	$ 20,093.39	$ 27,678.21
Average Benefit	$ 230.30	$ 262.46	$ 206.62	$ 205.12	$ 262.41
Average Years	6.88	6.79	7.02	7.00	7.70
10-14.99	556	589	563	635	739
Average FAS*	$ 24,859.74	$ 23,833.24	$ 24,246.67	$ 24,492.77	$ 30,848.84
Average Benefit	$ 429.97	$ 408.74	$ 419.72	$ 423.98	$ 452.70
Average Years	11.86	11.76	11.87	11.87	12.25
15-19.99	515	558	616	675	670
Average FAS*	$ 27,163.87	$ 29,693.54	$ 28,426.67	$ 28,566.71	$ 36,089.59
Average Benefit	$ 669.08	$ 730.09	$ 704.33	$ 706.55	$ 782.89
Average Years	16.89	16.86	16.99	16.96	17.43
20-24.99	432	498	517	564	621
Average FAS*	$ 31,708.41	$ 31,693.26	$ 33,270.91	$ 33,508.65	$ 40,199.79
Average Benefit	$ 1,011.30	$ 1,013.59	$ 1,063.56	$ 1,071.16	$ 1,103.23
Average Years	21.87	21.93	21.92	21.92	22.21
25-29.99	543	655	716	755	806
Average FAS*	$ 38,278.47	$ 38,516.02	$ 39,604.88	$ 39,373.33	$ 46,579.86
Average Benefit	$ 1,515.03	$ 1,513.76	$ 1,562.33	$ 1,553.77	$ 1,661.34
Average Years	27.14	26.95	27.05	27.06	27.50
30-34.99	667	735	853	884	853
Average FAS*	$ 43,639.99	$ 42,559.75	$ 44,484.18	$ 44,267.48	$ 52,495.79
Average Benefit	$ 2,026.35	$ 1,965.64	$ 2,064.90	$ 2,053.55	$ 2,129.22
Average Years	31.84	31.67	31.83	31.81	32.03
35-39.99	233	300	283	298	295
Average FAS*	$ 42,617.91	$ 45,085.95	$ 43,401.42	$ 43,029.51	$ 55,511.76
Average Benefit	$ 2,278.46	$ 2,391.34	$ 2,322.88	$ 2,301.72	$ 2,457.18
Average Years	36.66	36.37	36.70	36.68	36.97
40-44.99	66	61	70	74	65
Average FAS*	$ 41,560.84	$ 37,838.23	$ 44,380.96	$ 43,857.36	$ 52,419.96
Average Benefit	$ 2,511.66	$ 2,298.83	$ 2,674.97	$ 2,645.33	$ 2,670.39
Average Years	41.44	41.66	41.33	41.36	41.74
45-49.99	17	10	7	7	5
Average FAS*	$ 31,583.64	$ 34,306.67	$ 29,042.65	$ 29,042.65	$ 48,951.13
Average Benefit	$ 2,129.79	$ 2,341.43	$ 1,966.49	$ 1,966.49	$ 2,441.43
Average Years	46.24	46.80	46.43	46.43	45.90
50 and Over	4	9	1	2	2
Average FAS*	$ 41,012.00	$ 30,129.38	$ 61,661.49	$ 40,939.59	$ 46,757.32
Average Benefit	$ 3,325.39	$ 2,328.75	$ 4,496.15	$ 3,015.03	$ 2,000.50
Average Years	55.60	53.00	50.00	50.50	51.13
Total Number	**3,447**	**3,879**	**4,052**	**4,366**	**4,638**
Average FAS*	$ 36,721.36	$ 37,166.22	$ 38,021.36	$ 37,694.15	$ 40,858.89
Average Benefit	$ 1,164.22	$ 1,182.66	$ 1,243.14	$ 1,217.05	$ 1,236.65
Average Years	21.74	21.82	22.42	22.14	21.86

* Final Average Salary

Source: Data provided by KPERS Information Resources and Member Services divisions.