

TRUSTED PARTNER



Kansas Public Employees Retirement System
a component unit of the State of Kansas

The fiduciary standard is our driving force.

That means we put the interest of our members first.

It is the highest standard of care and accountability.

A fiduciary relationship is highlighted by good faith, loyalty and trust.

KPERS serves members as a **fiduciary** by holding assets in trust for them, growing those assets and delivering promised benefits when the time comes.

2010 Comprehensive Annual Financial Report

Kansas Public Employees Retirement System

A component unit of the State of Kansas

Fiscal year ended June 30, 2010

Prepared by KPERS staff

611 S. Kansas Ave., Ste 100

Topeka, KS 66603-3869

Glenn Deck, Executive Director

Leland Breedlove, Chief Fiscal Officer

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INTRODUCTORY SECTION





KANSAS

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

November 12, 2010

I am pleased to present the Kansas Public Employees Retirement System's Comprehensive Annual Financial Report (CAFR) for fiscal year 2010. 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. There are inherent limitations to internal controls, and

risk cannot always be foreseen or completely eliminated. KPERS' objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements, since the cost of internal control should not exceed the benefits obtained. In addition to internal controls, the independent certified public accounting firm Cochran Head Vick & Co., P.A. conducted an independent audit of the Retirement System's financial statements for 2010.

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 while employees are still working, and a dependable pension benefit when they retire.

We have three state-wide defined benefit retirement plans offered by 1,500 state and local employers. KPERS has about 277,000 members, including active, inactive and retired members. The Retirement System paid about \$1.1 billion in benefit payments for fiscal year 2010. Approximately 85 to 90 percent of those benefits remained in Kansas.

In addition to the defined benefit plans, KPERS also oversees the State's Deferred Compensation Plan. The plan is a voluntary 457(b) savings program for State of Kansas employees. In addition, 253 local public employers also participate. The plan has about 26,000 total participants with

16,000 actively contributing. Total plan assets equaled \$633 million at the end of fiscal year 2010.

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.

INVESTMENTS

KPERS' assets are invested according to the "prudent expert standard of care" for the sole purpose of providing benefits to our members. Our actuarial projections currently 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.

Fiscal year 2010 offered a significantly improved investment environment compared to the financial market crisis experienced in the first three quarters of fiscal year 2009. However, difficulties continue to exist in the global economic environment and the outlook for continued recovery is muted compared to past economic recoveries. The investment portfolio realized a return of 15 percent for fiscal year 2010 compared to the S&P 500 return of 15 percent for the same period. This year's returns put KPERS in the top quartile of return performance among pension peers.

The total portfolio outperformed the policy benchmark by approximately 240 basis points. Six of the eight sub-portfolios either met or outperformed their investment benchmarks.

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 52. This section also provides details about our asset allocation and specific yields.

FINANCIAL POSITION AND FUNDING OUTLOOK

According to the Retirement System's most recent actuarial valuation (dated December 31, 2009), the System's unfunded actuarial liability (UAL) decreased by \$600 million. The UAL went from \$8.3 billion in 2008 to \$7.7 billion as of December 31, 2009. This UAL amount is the gap between the actuarial value of assets and the actuarial liability for service already earned by public employees.

The valuation showed the System's new funded ratio was 64 percent, up somewhat from 59 percent the previous year. The funded ratio is the ratio of assets to future liabilities. For public pension plans like KPERS, funding over 80 percent and rising is good. Funding below 60 percent is poor and needs prompt attention. While the System does not have an immediate crisis, long-term funding is in jeopardy.

Strong investment performance accounts for the modest, short-term improvement in funding status. However, even with a yearly 8 percent return, the unfunded liability will continue to increase in the coming years and the funded ratio will continue to decline. For detailed information on the System's funding projections by plan and group, please see the actuarial section beginning on page 68.

While benefits are safe in the near-term, the System will not have enough assets to provide all the benefits already earned by members and to pay off the UAL in the adopted amortization period ending in 2033. The legislature and governor are ultimately responsible for benefits and funding. Legislative action is needed to begin the process of addressing the shortfall, with additional employer contributions as the basic element. Proactive steps are critical. The price of inaction will continue to grow along with the UAL.

The board is planning to take action on a proposed legislative agenda for the 2011 session. As a fiduciary devoted to the best financial interest of members, we will continue to advocate for policies that promote the long-term financial health of the Retirement System.

MAJOR INITIATIVES

SMART Implementation

KPERS participated in the implementation of the State's new financial management system (SMART). We contributed extensive staff hours on interfaces with the KITS system

for benefit payments, receipts, accounts payable, and other KPERS accounting requirements.

KPERS Tier 2

Our staff successfully implemented plan design changes for the new KPERS Tier 2, effective July 1, 2009. Implementation involved significant information system changes, new communications materials, employer training and a dedicated helpline for employers during the transition.

Long-Term Funding

Addressing KPERS' funding shortfall continues to require a heightened level of focus. In the fall of 2009, we developed a wide range of long-term funding alternatives and presented them to KPERS' Board of Trustees and to the legislature's Joint Committee on Pensions, Investments and Benefits.

We also prepared an extensive report for the Joint Committee in early 2010 documenting the long-term funding issue and alternatives. The Joint Committee introduced SB 564 to raise employer and employee contribution rates. This bill was considered in the 2010 session, but did not pass. In our effort to educate KPERS' stakeholders on the depth of the funding shortfall and respond to questions, we made numerous presentations during the fiscal year to other legislative committees and outside groups. Working on addressing the funding shortfall will continue as a major initiative throughout the next fiscal year and beyond.

Member Service and Communication

Initiatives relating to member service and communication included:

- Released the Member Web Portal to all active members, providing them with secure, online access to their account information. Currently have approximately 20,000 members (approximately 13 percent of all active members) enrolled in the MWP.
- Began offering bilingual call center service and support to members and survivors who speak Spanish only or prefer discussing benefit issues in Spanish.
- Rolled out the "My Retirement Outlook" calculator with the State's deferred compensation plan. The calculator integrates retirement income projections for KPERS, Social Security, and personal savings/assets. KPERS and Social Security information is pre-loaded.

Members do not need to be participants in the deferred compensation plan to use the calculator.

- Implemented two new career stage communications: A "new member" welcome packet and a letter notifying inactive members when they first become eligible for early and full retirement.

AWARDS & ACKNOWLEDGEMENTS

KPERS was nominated as one of three public plans for the Large Public Pension Plan of the Year award for excellence in investment management by Institutional Investor's Money Management Letter. While KPERS did not ultimately win, the nomination recognized the efforts of the Board and investment staff.

The State's deferred compensation plan received the Effective Communication Leadership Award from the National Association of Government Defined Contribution Administrators, Inc. (NAGDCA). The award honors excellence and innovation in retirement plan design, administration and effective communication methods in government defined contribution plans. The award was in recognition of the plan's innovative My Retirement Outlook calculator.

KPERS participated in a benchmarking survey conducted by CEM Benchmarking, Inc. When compared with other public pensions in the 2010 survey, KPERS earned an overall service score of 84 versus a peer median of 81. KPERS also measured very favorably with regard to cost. KPERS' cost per member is \$47, well below the peer median cost of \$77. Benchmarking results continue to show KPERS delivering better than average customer service for a low, economical cost.

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 2009 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 compre-

hensive 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 16 consecutive fiscal years. We believe our current report again conforms to the program requirements, and we will submit it to the GFOA for consideration.

This CAFR is the synthesis of work from KPERS staff and advisors under the Board's leadership. The report is an asset to our organization, providing reliable, accurate information on which we base important decisions. We thank those who contributed to this project. And more generally, thank our dedicated staff who complete the work every day that this report represents. I look forward to working in partnership with the Board and staff to continue to meet our fiduciary commitment and to provide excellent service.

Sincerely,

A handwritten signature in black ink that reads "Glenn Deck". The signature is written in a cursive, flowing style.

Glenn Deck
Executive Director

BOARD OF TRUSTEES

LON PISHNY, Chair, Garden City, Pishny Financial Services, Appointed by the President of the Senate

RACHEL LIPMAN REIBER, Vice-Chair, Olathe, of Counsel, Martin, Pringle, Oliver, Wallace & Bauer, L.L.P. , Appointed by the Governor

MICHAEL BRAUDE , Mission Woods , Retired President and CEO, the Kansas City Board of Trade, Appointed by the Governor

JOHN EDMONDS, Great Bend, Certified Public Accountant, Appointed by the Speaker of the House

TAMMY EDWARDS , Overland Park, Assistant VP and Community Affairs Officer, Federal Reserve Bank of Kansas City, Appointed by the Governor

RON HAGEN, Hutchinson, Senior Special Agent, Kansas Bureau of Investigation , Elected member - non-school

DENNIS MCKINNEY, Greensburg, Kansas State Treasurer, Statutory member

GARY PRICE, Olathe, Retired school superintendent, Elected member - school

DOUG WOLFF, Topeka, President, Retail Retirement Business, Security Benefit Group, Appointed by the Governor

OUR ORGANIZATION

Board of Trustees



Executive Director, Glenn Deck



Administration

General Counsel, Laurie McKinnon

Internal Audit

Planning and Research

Human Resources

Communications

Investments

Chief Investment Officer, Vince Smith

Equity Investments

Real Estate Investments

Fixed Income Investments

Alternative Investments

Fiscal Services

Chief Fiscal Officer, Leland Breedlove

Corporate Accounting

Employer Reporting

Investment Accounting

Member Services

Member Services Officer, Mary Beth Green

Post-Retirement

Benefits

Withdrawals

Information Resources

Chief Information Officer, John Oliver

Data Control

Operations

KPERS STAFF

Melvin Abbott	Billie-Jo Gerisch	Lisa Ngole	Cindy Timmons
Julie Baker	Kay Gleason	Shawn Nix	Carmen Unselt
Yohonna Barraud	Lisa Gonzales	John Oliver	Christina VanWinkle
Kristen Basso	Mary Beth Green	Diana Peters	Mary Walker
Dianna Berry	Earlene Hagenmaier	Linda Porter	Craig Weltman
Kathleen Billings	Lisa Hernandez	Alissa Powell	Steven Wesley
Anita Bradley	Denise Hilmes	Pamela Price	Christina Whitlow
Leland Breedlove	John Hooker	Jami Quiett	Amy Whitmer
Greg Buchanan	Ellen Hurless	Cathy Rafferty	Alice Wietharn
Jason Carreno	Melva Janke	Randy Rahberg	Max Williams
Jenne Clark	Teresa Jurgens	Kimberly Raines	Carol Wilson
Lorie Conklin	Julie Ketter	Alberta Rea	Deanna Winters
Tammy Cruz	Casey Kidder	Nancy Richardson	Cheri Woolsey
Andrea Davenport	Brian King	Megan Rogers	Pat Zimmerman
Glenn Deck	Cheryl Koch	Steven Rush	
Don Deseck	Shannon Kuehler	Teresa Ryan	
Yolanda Dickinson	Annette Kuti	MaryAnn Sachs	
Amy Dunton	Donald Lennard	Marilyn Sawyer	
Joyce Edington	Debra Lewis	Alan Schuler	
Jill Emme	Vivian Liu	Rhonda Shumway	
Heather Enos	Faith Loretto	Julie Sieve	
Yarlenis Ensley	Joyce Mark	Robert Smith	
Emily Facer	Kimberley Mason	Mickey Smith	
Daniel Fairbank	Brian McCammon	Julie Smith	
Mitchell Fick	Heather McHardie	Michelle Stottlemire	
Renae Forque	Laurie McKinnon	Jaime Sturgeon	
Elaine Gaer	Judy McNeal	Amber Tarrant	
Sue Gamblian	Noble Morrell		
Connie Gardner	Beverly Murray		

CONSULTANTS AND ADVISORS

Auditors: Cochran Head Vick & Co., P.A., Kansas City, Kansas

Actuary: Milliman, Inc., Omaha, Nebraska

Investment Consultants

Pension Consulting Alliance, Inc., Encino, California

The Townsend Group, Cleveland, Ohio

LP Capital Advisors, Sacramento, California

Investment Managers

Acadian Asset Management, Boston, Massachusetts

AEW Capital Management, LP, Boston, Massachusetts

Alliance Bernstein, New York, New York

Baillie Gifford Overseas Limited, Edinburgh Scotland

Baring Asset Management Limited, London, UK

BlackRock Institutional Trust Company, San Francisco, California

Brookfield Redding, LLC, Chicago, Illinois

Capital Guardian Trust Company, Los Angeles, California

Duff & Phelps Investment Management Company, Chicago, Illinois

ING Investment Management Company, Hartford, Connecticut

JP Morgan Investment Management Inc., New York, New York

Lazard Asset Management, LLC, New York, New York

Loomis, Sayles & Company, LP, Boston, Massachusetts

MacKay Shields, LLC, New York, New York

Mellon Capital Management Corporation, San Francisco, California

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

Principal Global Investors, Des Moines, Iowa

Quantitative Management Associates, Newark, New Jersey

Russell Investment Group, Tacoma, Washington

Security Investors, LLC, Topeka, Kansas

Systematic Financial Management, LP, Teaneck, New Jersey

TCW Asset Management Company, Los Angeles, California

T. Rowe Price Associates, Inc., Baltimore, Maryland

Templeton Investment Counsel, LLC, Ft. Lauderdale, Florida

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

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to KPERS for the 2009 annual report. KPERS has received the award for each of the last 16 consecutive fiscal years.

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, 2009

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

FINANCIAL
SECTION





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Independent Auditors' Report

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, 2010, 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 summarized comparative financial information as of June 30, 2009, was audited by other auditors whose report dated December 10, 2009, expressed an unqualified opinion on those 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.

Other Offices

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(816) 364-1118
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6700 Antioch Rd.
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Merriam, KS 66204
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In our opinion, the basic financial statements referred to above present fairly, in all material respects, the plan net assets of Kansas Public Employees Retirement System as of June 30, 2010, 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 November 12, 2010 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 *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 20 through 24 and the required supplementary information on pages 44 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory, investment, actuarial 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.

November 12, 2010

Cochran Hard Vick & Co., P.A.

MANAGEMENT'S DISCUSSION & ANALYSIS

This section presents management's discussion and analysis of the Kansas Public Employees Retirement System's financial performance during the fiscal year that ended June 30, 2010. 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 (KPERS)
- Kansas Police and Firemen's Retirement System (KP&F)
- Kansas Retirement System for Judges (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. Participation by local political subdivisions is optional but irrevocable once elected.

Financial Highlights

- The System's net assets increased by \$1.1 billion or 11 percent from \$10.3 billion to \$11.4 billion.
- As of December 31, 2009, the date of the most recent actuarial valuation, the Retirement System's funded ratio was 63.7 percent compared with a funded ratio of 58.8 percent for the prior year.
- The unfunded actuarial liability decreased from \$8.3 billion at December 31, 2008, to \$7.7 billion at December 31, 2009.
- On a market value basis, this year's investment rate of return was a positive 14.9 percent, compared with last year's return of a negative 19.6 percent.
- Retirement benefits paid to retirees and beneficiaries increased 6.0 percent from \$1.0 billion in fiscal year 2009 to \$1.06 billion in fiscal year 2010.

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, 2010, and a Statement of Changes in Plan Net Assets for the fiscal year ended June 30, 2010, 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, which was effective 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 10.9 percent funded as of June 30, 2008, 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.

Note 6 provides the dates through which subsequent events have been evaluated and when the financial statements were available to be issued.

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, 2010, amounted to \$11.4 billion, an increase of \$1.1 billion, 11.0 percent, from \$10.3 billion at June 30, 2009. Following are two summary schedules, Plan Net Assets and Changes in Plan Net Assets, comparing information from fiscal years 2009 and 2010.

Summary Comparative Statements of Plan Net Assets

	As of June 30, 2010	As of June 30, 2009
Assets		
Cash and Deposits	\$ 1,312,347	\$ 1,448,691
Receivables	3,153,674,907	1,999,250,191
Investments at Fair Value	11,231,687,935	10,405,411,440
Invested Securities Lending Collateral	1,144,214,739	597,414,351
Capital Assets and Supplies Inventory	<u>4,677,430</u>	<u>6,314,640</u>
Total Assets	<u>15,535,567,358</u>	<u>13,009,839,313</u>
Liabilities		
Administrative Costs	785,908	1,261,886
Benefits Payable	2,192,704	2,217,802
Investments Purchased	2,985,011,625	2,124,750,768
Securities Lending Collateral	<u>1,177,839,726</u>	<u>635,267,728</u>
Total Liabilities	<u>4,165,829,963</u>	<u>2,763,498,184</u>
Net Assets	<u>\$11,369,737,395</u>	<u>\$10,246,341,129</u>

Summary Comparative Statements of Changes in Plan Net Assets

	Year Ended June 30, 2010	Year Ended June 30, 2009
Additions		
Contributions	\$ 811,171,087	\$ 764,190,110
Net Investment Income (Loss)	1,481,336,044	(2,571,592,222)
Net Investment Income (Loss) from Securities Lending Activity	<u>4,631,461</u>	<u>(20,617,367)</u>
Total Net Investment Income (Loss)	<u>1,485,967,505</u>	<u>(2,592,209,589)</u>
Other Miscellaneous Income	<u>101,899</u>	<u>154,113</u>
Total Additions (Subtractions)	<u>2,297,240,491</u>	<u>(1,827,865,366)</u>
Deductions		
Monthly Retirement Benefits	1,060,205,818	999,939,614
Refunds	43,362,690	43,929,423
Death Benefits	8,959,388	9,237,740
Insurance Premiums and Disability Benefits	50,782,139	54,303,258
Administrative	<u>10,534,190</u>	<u>11,447,385</u>
Total Deductions	<u>1,173,844,225</u>	<u>1,118,857,420</u>
Net Increase (Decrease)	<u>1,123,396,266</u>	<u>(2,946,722,786)</u>
Net Assets Beginning of Year	<u>\$10,246,341,129</u>	<u>\$13,193,063,915</u>
Net Assets End of Year	<u>\$11,369,737,395</u>	<u>\$10,246,341,129</u>

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 \$764.2 million in fiscal year 2009 to \$811.2 million in fiscal year 2010.

The System recognized a net investment income of \$1.5 billion for the 2010 fiscal year, compared with a net investment loss of \$2.6 billion for the 2009 fiscal year. Total return for the portfolio was 14.9 percent, compared with the benchmark return of 12.5 percent. System net investments amounted to \$11.2 billion at June 30, 2010, which was \$1.0 billion more than the \$10.2 billion in total System investments at June 30, 2009. The Retirement System's one-, three-, five- and ten-year investment performance against the assumed rate of investment return are shown in the following table. The assumed rate of return is 8.0 percent.

One Year	Last Three Years	Last Five Years	Last Ten Years
14.9%	(4.1)%	3.2%	3.3%

At June 30, 2010, the System held \$5.5 billion in U.S. equity and international equity securities, an increase of approximately \$334.0 million from the 2009 fiscal year. U.S. equity and international equity securities earned returns of approximately 18.1 percent and 10.9 percent, respectively,

for the 2010 fiscal year. These compare with the Retirement System's benchmark returns of 15.7 and 10.5 percent, respectively.

The System held \$3.9 billion in U.S. debt and international debt securities, an increase of \$667.9 million from the 2009 fiscal year. The performance of the System's fixed income securities during fiscal year 2010 was 17.0 percent, compared with the benchmark of 10.6 percent. Real estate investments increased \$244.1 million to \$885.6 million at June 30, 2010. Real estate investments returned approximately 12.1 percent for the 2010 fiscal year, versus the benchmark real estate return of 7.4 percent. The System held \$383.6 million in alternative investments, which was an \$8.2 million increase from June 30, 2009. Alternative investments earned a return of approximately 10.3 percent for the 2010 fiscal year, compared to the benchmark alternative investment return of 18.7 percent. At June 30, 2010, the System held \$588.4 million in short-term investments, which was a decrease of \$428.1 million from June 30, 2009.

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 2010, net securities lending income amounted to \$4.6 million, compared with a loss of \$20.6 million in fiscal year 2009.

Deductions from net assets held in trust for benefits include retirement, death and survivor benefits, and administrative expenses. For the 2010 fiscal year, retirement, death and insurance benefits amounted to \$1,163 million, an increase of \$55.9 million, 5.0 percent, from the 2009 fiscal year. The increase in benefit payments was a result of an increase in the number of retirees. For the 2010 fiscal year, System administrative expenses amounted to \$10.5 million compared with \$11.5 million in fiscal year 2009. This decrease was mainly due to the completion of projects associated with developing and securing the System’s new information system. The ratio of System administrative expenses to the number of members (approximately \$47 per member) continues to be very cost-efficient compared to other statewide retirement plans.

Retirement Funding Status

Current Funding Outlook and Projections: The Retirement System’s most recent actuarial valuation shows a \$602.2 million decrease in the unfunded actuarial liability (UAL), increasing the funded ratio to 63.7 percent. Still, given the current funding structure, this means that the System does not have enough assets to provide all the benefits already earned by members and to pay off the UAL in the adopted amortization period ending in 2033.

	UAL (millions)	Funded Ratio
KPERS		
State Group	\$ 806	78%
School Group	4,999	56%
Local Group	1,315	64%
KP&F	530	76%
Judges	26	82%
Retirement System Total*	\$ 7,677	64%

*May not add due to rounding

The School group is not in actuarial balance. The actuarial required contribution (ARC) date and rate are not projected to meet using the current funding plan. Although ARC is projected to be achieved for the State and Local groups (applying the currently adopted actuarial assumptions), the dates and rates of ARC leaves these groups highly leveraged.

School Group ARC = N/A
 State Group ARC = 11.86% in 2018
 Local Group ARC = 10.64% in 2019

In spite of the funding shortfall, benefits for current retirees are safe. The Retirement System has approximately \$10 billion in assets to pay benefits for decades.

Importance of Investment Returns: Strong investment performance in 2010 accounts for this year’s modest increase in funding status. However, strong investment returns do not happen every year. Any future investment returns below the System’s assumed investment target of 8.0 percent would cause a significant, negative impact. Even with a positive financial market experience, investment returns alone cannot fix the funding shortfall. If returns over the next few years are weak or see new lows, the funding status could deteriorate further from current projections.

Every three years, KPERS conducts an asset liability study. The objective of the analysis is to determine the asset allocation that, when combined with future contributions, most effectively and efficiently supports the future payment of benefits. A new study is now in progress. As part of the study, KPERS is reviewing the validity of the 8.0 percent actuarial assumption rate. Investment returns and market behavior over the last decade are causing some pension plans to reconsider if 8.0 percent is an attainable and realistic return to expect over the long-term. Any downward departure for KPERS from the common 8.0 percent industry standard will negatively affect KPERS’ funding outlook and projections.

Next Steps: KPERS has been working with the Kansas Legislature’s Joint Committee on Pensions, Investments and Benefits and other legislative committees to develop a range of options to address the problem. During the 2010 session, the Joint Committee introduced SB 564. It would have increased employer and employee contribution rates and increased the multiplier for future service. The House Select Committee introduced House Sub for HB 2400 that would have raised employer contributions. Both bills had hearings, but neither bill passed.

The House Appropriations Committee introduced a bill to create a Tier 3 KPERS defined contribution retirement plan for new hires. No hearing was held. It was introduced only a few days before session adjournment.

The legislature and the governor are ultimately responsible for benefits and funding. Legislative action is needed to begin the process of addressing the shortfall, with additional employer contributions as the basic element. Because the 2010 Legislature did not increase KPERS' funding beyond the current 0.6 percent statutory increase, passing long-term funding legislation in the 2011 session is essential.

The longer we wait to begin to reverse the funding shortfall, the more it will cost. Our goal is for the KPERS' board to take action on a proposed legislative agenda for the 2011 session. As a fiduciary devoted to the best financial interest of members, KPERS will continue to advocate for policies that promote the long-term financial health of the Retirement System.

Statement of Plan Net Assets

As of June 30, 2010, with comparative figures for 2009

	KPERS Fund	Group Death & Disability Fund	2010 Totals	2009 Totals
Assets				
Cash and Deposits				
Cash	\$1,101,211	\$200,885	\$1,302,096	\$1,418,081
Deposits with Insurance Carrier	—	10,251	10,251	30,610
Total Cash and Deposits	<u>1,101,211</u>	<u>211,136</u>	<u>1,312,347</u>	<u>1,448,691</u>
Receivables				
Contributions	184,630,594	9,523,242	194,153,836	72,243,458
Investment Income	51,700,870	1,307	51,702,177	32,265,042
Sale of Investment Securities	<u>2,907,818,894</u>	—	<u>2,907,818,894</u>	<u>1,894,741,691</u>
Total Receivables	<u>3,144,150,358</u>	<u>9,524,549</u>	<u>3,153,674,907</u>	<u>1,999,250,191</u>
Investments at Fair Value				
Domestic Equities	2,659,705,425	—	2,659,705,425	2,879,299,769
International Equities	2,840,752,189	—	2,840,752,189	2,286,971,866
Cash and Equivalents	581,052,060	7,346,012	588,398,072	1,016,503,496
Fixed Income	3,873,630,605	—	3,873,630,605	3,205,743,248
Alternative Investments	383,617,915	—	383,617,915	375,422,698
Real Estate	<u>885,583,729</u>	—	<u>885,583,729</u>	<u>641,470,363</u>
Total Investments at Fair Value	<u>11,224,341,923</u>	<u>7,346,012</u>	<u>11,231,687,935</u>	<u>10,405,411,440</u>
Invested Securities Lending Collateral	1,144,214,739	—	1,144,214,739	597,414,351
Capital Assets and Supplies Inventory	<u>4,677,430</u>	—	<u>4,677,430</u>	<u>6,314,640</u>
Total Assets	<u>15,518,485,661</u>	<u>17,081,697</u>	<u>15,535,567,358</u>	<u>13,009,839,313</u>
Liabilities				
Administrative Costs	785,908	—	785,908	1,261,886
Benefits Payable	2,064,073	128,631	2,192,704	2,217,802
Securities Purchased	2,985,011,625	—	2,985,011,625	2,124,750,768
Securities Lending Collateral	<u>1,177,839,726</u>	—	<u>1,177,839,726</u>	<u>635,267,728</u>
Total Liabilities	<u>4,165,701,332</u>	<u>128,631</u>	<u>4,165,829,963</u>	<u>2,763,498,184</u>
Net Assets Held in Trust for Pension Benefits and Other Post Employment Benefits	<u>\$11,352,784,329</u>	<u>\$16,953,066</u>	<u>\$11,369,737,395</u>	<u>\$10,246,341,129</u>

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, 2010, with comparative figures for 2009

	KPERS Fund	Group Death & Disability Fund	2010 Totals	2009 Totals
Additions				
Contributions				
Member Contributions	\$289,616,027	\$ —	\$289,616,027	\$278,619,872
Employer Contributions	<u>492,005,566</u>	<u>29,549,494</u>	<u>521,555,060</u>	<u>485,570,238</u>
Total Contributions	<u>781,621,593</u>	<u>29,549,494</u>	<u>811,171,087</u>	<u>764,190,110</u>
Investments				
Net Appreciation (Depreciation) in Fair Value of Investments	1,221,425,633	—	1,221,425,633	(2,824,249,931)
Interest	160,050,212	36,229	160,086,441	153,248,716
Dividends	94,666,110	—	94,666,110	91,464,527
Real Estate Income, Net of Operating Expenses	37,551,411	—	37,551,411	31,062,438
Other Investment Income	<u>216,499</u>	<u>—</u>	<u>216,499</u>	<u>264,000</u>
	1,513,909,865	36,229	1,513,946,094	(2,548,210,250)
Less Investment Expense	<u>(32,606,202)</u>	<u>(3,848)</u>	<u>(32,610,050)</u>	<u>(23,381,972)</u>
Net Investment Income (Loss)	<u>1,481,303,663</u>	<u>32,381</u>	<u>1,481,336,044</u>	<u>(2,571,592,222)</u>
From Securities Lending Activities				
Securities Lending Income (Loss)	<u>5,372,538</u>	<u>—</u>	<u>5,372,538</u>	<u>(8,838,220)</u>
Securities Lending Expenses				
Borrower Rebates	(48,804)	—	(48,804)	(10,469,638)
Management Fees	<u>(692,273)</u>	<u>—</u>	<u>(692,273)</u>	<u>(1,309,509)</u>
Total Securities Lending Activities Expense	<u>(741,077)</u>	<u>—</u>	<u>(741,077)</u>	<u>(11,779,147)</u>
Net Income (Loss) from Security Lending Activities	<u>4,631,461</u>	<u>—</u>	<u>4,631,461</u>	<u>(20,617,367)</u>
Total Net Investment Income (Loss)	<u>1,485,935,124</u>	<u>32,381</u>	<u>1,485,967,505</u>	<u>(2,592,209,589)</u>
Other Miscellaneous Income	<u>74,088</u>	<u>27,811</u>	<u>101,899</u>	<u>154,113</u>
Total Additions /(Subtractions)	<u>2,267,630,805</u>	<u>29,609,686</u>	<u>2,297,240,491</u>	<u>(1,827,865,366)</u>
Deductions				
Monthly Retirement Benefits Paid	(1,060,205,818)	—	(1,060,205,818)	(999,939,614)
Refunds of Contributions	(43,362,690)	—	(43,362,690)	(43,929,423)
Death Benefits	(8,959,388)	—	(8,959,388)	(9,237,740)
Insurance Premiums and Disability Benefits	(7,035,185)	(43,746,954)	(50,782,139)	(54,303,258)
Administrative Expenses	<u>(10,158,398)</u>	<u>(375,792)</u>	<u>(10,534,190)</u>	<u>(11,447,385)</u>
Total Deductions	<u>(1,129,721,479)</u>	<u>(44,122,746)</u>	<u>(1,173,844,225)</u>	<u>(1,118,857,420)</u>
Net Increase (Decrease)	1,137,909,326	(14,513,060)	1,123,396,266	(2,946,722,786)
Net Assets Held in Trust for Pension Benefits and Other Post Employment Benefits				
Balance Beginning of Year	<u>10,214,875,003</u>	<u>31,466,126</u>	<u>10,246,341,129</u>	<u>13,193,063,915</u>
Balance End of Year	<u>\$11,352,784,329</u>	<u>\$16,953,066</u>	<u>\$11,369,737,395</u>	<u>\$10,246,341,129</u>

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 membership and employers are as follows:

Membership by Retirement Systems ⁽¹⁾

	KPERS	KP&F	Judges	Total
Retirees and beneficiaries currently receiving benefits ⁽²⁾	69,081	4,055	203	73,339
Terminated employees entitled to benefits but not yet receiving them	11,037	150	14	11,201
Inactive members, deferred disabled	2,781	181	—	2,962
Inactive members not entitled to benefits	28,175	986	—	29,161
Current employees	<u>153,386</u>	<u>7,179</u>	<u>266</u>	<u>160,831</u>
Total	<u>264,460</u>	<u>12,551</u>	<u>483</u>	<u>277,494</u>

1) Represents System membership at December 31, 2009.

2) Number of retirement payees as of December 31, 2009.

Number of Participating Employers

	KPERS	KP&F	Judges
State of Kansas	1	1	1
Counties	105	31	—
Cities	362	58	—
Townships	53	—	—
School Districts	294	—	—
Libraries	122	—	—
Conservation Districts	83	—	—
Extension Councils	73	—	—
Community Colleges	19	—	—
Educational Cooperatives	23	—	—
Recreation Commissions	43	1	—
Hospitals	29	—	—
Cemetery Districts	12	—	—
Other	<u>188</u>	<u>—</u>	<u>—</u>
Total	<u>1,407</u>	<u>91</u>	<u>1</u>

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 4.0 to 7.0 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, 2009, 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, 2010, the Retirement System's deposit with its disability administrator was \$10,251. 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 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 60.0 percent of the total book value of the fund.
- The annual allowance for new alternative (non-publicly traded) investments is limited to 1.0 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.

In fulfilling its responsibilities, the Board of Trustees has contracted with 30 investment management firms and a master global custodian. The Retirement System has six permissible investment categories. 1) Equities 2) Real estate 3) Fixed income securities 4) Derivative products 5) Cash equivalents 6) Alternative investments.

Equities are considered to be common or preferred corporate stocks; warrants or rights; corporate bonds, debentures or preferred stock which are convertible into common stock; investment trusts; or participation in commingled (equity) funds managed by a bank, insurance company or other professional equity investment manager. These stocks are listed on well recognized or principal exchanges of the United States or foreign countries.

Fixed income securities are considered to be U.S. and foreign Treasury or Government agency obligations; U.S. or foreign corporate bonds; asset backed securities such as CMOs, mortgage backed securities and segments of these types of vehicles; or participation in commingled (fixed income) funds, managed by a bank, insurance company or other professional fixed income investment manager. Subject to the Board's limitations, these investments also include the debt of emerging markets. Emerging markets are considered to be those countries that are included in the JP Morgan Emerging Markets Index Global (EMBI Global).

Cash equivalent securities are U.S. dollar denominated securities with a duration of one year or less and an investment grade rating by Moody's and Standard & Poor's. A security's duration is determined by a third-party pricing agency.

Derivative instruments are tools for use by the System's investment managers for the purposes of:

- Risk Management: Mitigating or managing portfolio risks through hedging or otherwise modifying specific risk exposure.

- Substitution: In substitution for "cash market" securities/positions, or for modifying portfolio positioning in lieu of cash market transactions.
- Derivative-based Strategies: As a structural part of an investment strategy.
- Efficiency/Cost Effectiveness: Efficiency and/or cost effectiveness in implementing: portfolio construction, trading, portfolio strategy or managing a portfolio's risk/return profile.

Alternative investments are those investments that do not trade publicly on an organized exchange. Examples include but are not limited to partnership funds that focus on private equity, venture capital, buyout, mezzanine financing or special situations, natural resources or hedge funds. Prospective investment in any alternative investments are subject to the following requirements:

- There are at least two other sophisticated investors.
- The System's portion of an investment will not be more than 20 percent of the total investment.
- Any individual investment (standing alone or within a pool) must not be more than 2.5 percent of the Fund's total alternative investment commitments.
- A favorable recommendation has been received from an independent expert.
- The investment is consistent with the Investment Policy Statement.
- The Board has received and considered the due diligence findings regarding the investment.
- Criteria have been established that will be used as a guideline to determine when no additional investments will be made and when the investment will be liquidated.

Real estate investments are investments in real property on a direct ownership basis, through a realty holding corporation, joint partnership, public or private real estate investment trusts (REITs) (contained within the real estate portfolio), participation in commingled real estate funds (managed by a bank, insurance company or other professional real estate investment manager) or through debt secured by real estate. Any real estate investment shall support the System's intent to hold a real estate portfolio which is diversified by geographic location, property type, stage of development and degree of leverage.

The Retirement System's Statement of Investment Policy authorizes participation in a securities lending program administered by the master global custodian, Bank of New York Mellon. 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 102.0 percent of fair value on domestic securities and 105.0 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, 2010, the maturities of securities in this dedicated bond portfolio are as follows: 46.3 percent of the fair value of the securities mature within 30 days; 26.2 percent mature between 31 and 180 days; and 27.5 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. The Retirement System does incur credit risk as it relates to the credit quality of the securities in the collateral pool. 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, 2010, and June 30, 2009, were \$1,327,050,007 and \$790,001,583, respectively. Collateral held by the Retirement System for June 30, 2010, and June 30, 2009, was \$1,378,967,677 and \$824,712,122, respectively. Net income produced from securities lending activities for fiscal year 2010 was \$4,631,461 and for fiscal year 2009 was negative \$20,617,367.

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 2.5 percent of the total net asset value, and U.S. Treasury securities representing 7.1 percent of net asset value. KPERS investment policy does

not prohibit holdings above 5 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 1 percent or more of System assets.

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, 2010, were distributed among currencies in the following list.

USD Equivalent	Currency	Percent
\$167,686,713	Australian Dollar	1.35%
72,251,224	Brazil Real	0.58%
565,801,314	British Pound Sterling	4.57%
169,929,642	Canadian Dollar	1.37%
771,759	Chilean Peso	0.01%
11,180,257	Chinese Yuan Renminbi	0.09%
3,446,323	Colombian Peso	0.03%
2,036,981	Czech Koruna	0.02%
30,539,641	Danish Krone	0.25%
3,794,313	Egyptian Pound	0.03%
794,567,845	Euro Currency Unit	6.42%
206,581,079	Hong Kong Dollar	1.67%
1,714,448	Hungarian Forint	0.01%
18,494,552	Indian Rupee	0.15%
48,127,919	Indonesian Rupian	0.39%
1,463,985	Israeli Shekel	0.01%
469,234,875	Japanese Yen	3.79%
6,807,423	Malaysian Ringgit	0.06%
52,076,813	Mexican New Peso	0.42%
109,618	Moroccan Dirham	—%
39,572,138	New Taiwan Dollar	0.32%
34,285,965	New Turkish Lira	0.28%
7,737,785	New Zealand Dollar	0.06%
33,246,744	Norwegian Krone	0.27%
1,384,135	Philippines Peso	0.01%
6,453,166	Polish Zloty	0.05%
4,566,530	Russian Rubel	0.04%
35,354,913	S African Comm Rand	0.29%
108,198,707	Singapore Dollar	0.87%
82,942,962	South Korean Won	0.67%
60,823,373	Swedish Krona	0.49%
156,922,632	Swiss Franc	1.27%
4,695,775	Thailand Baht	0.04%
1,370,534	Uruguayan Peso	0.01%
22,312,272	Other Currencies	0.18%
<u>9,149,418,319</u>	US Dollar*	<u>73.93%</u>
<u>\$12,375,902,674</u>		<u>100.00%</u>

* Includes securities lending collateral of \$1,144,214,739

The System's asset allocation and investment policies include active and passive investments in international securities. KPERS' target allocation is to have 22.0 percent of assets (excluding securities lending collateral) in dedicated international equities. The System also has 5.0 percent of assets targeted to global equities which are expected to be between 40.0 and 60.0 percent international. Core Plus bond managers are allowed to invest up to 20.0 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, 2010, the System's total foreign currency exposure was 16.5 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 70.0 percent of holdings in

investment grade securities. Each portfolio is required to maintain a reasonable risk level relative to its benchmark.

In the table below, 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 in this table. The Securities Lending Collateral class has the following policy requirements, at the date of purchase: 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 repurchase agreements and certificates of deposit.

System assets (in thousands) as of June 30, 2010, 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	\$ 65	\$313,387	\$78,500	\$ —	\$497,824	\$889,776
AAA	281	192,856	—	879,489	25,462	1,098,088
AA	—	157,805	437,243	11,430	258,054	864,532
A	37,347	736,715	1,689	—	361,254	1,137,005
BBB	—	639,245	—	—	—	639,245
BB	—	351,427	—	—	—	351,427
B	—	307,359	—	—	—	307,359
CCC	—	212,481	—	—	—	212,481
D	—	—	—	—	1,620	1,620
Total	<u>\$37,693</u>	<u>\$2,911,275</u>	<u>\$517,432</u>	<u>\$890,919</u>	<u>\$1,144,214</u>	<u>\$5,501,533</u>

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 20.0 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	\$37,693	\$853,058	\$274,220	\$106,435	\$1,141,355	\$2,412,761
1 - 3 yrs	—	416,952	138,548	314,206	2,859	872,565
3 - 5 yrs	—	604,790	82,830	104,199	—	791,819
5 - 10 yrs	—	830,177	1,468	305,855	—	1,137,500
10 - 20 yrs	—	<u>206,298</u>	<u>20,366</u>	<u>60,224</u>	—	<u>286,888</u>
Total	<u>\$37,693</u>	<u>\$2,911,275</u>	<u>\$517,432</u>	<u>\$890,919</u>	<u>\$1,144,214</u>	<u>\$5,501,533</u>

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.

Investment Derivatives – Futures

Futures contracts are commitments for delayed delivery (liability) or receipt (asset) 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. 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. Daily, the net change in the futures contract value is settled in cash with the exchanges, making the fair values always equal to zero after the daily margin flow. At the close of business June 30, 2010 the System had total net margins payable the next day of \$4,110,212. 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 daily margin flows effect cash assets held at broker. Realized gains/losses are recognized at contract maturity and included with underlying security type returns. Total revenues of \$100.9

million were associated with futures for the year ending June 30, 2010.

Investment Derivatives – Options

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. The option buyer has some counterparty risk in the event the seller can not deliver when exercised. This involves opportunity cost and possible loss of option fees. The option seller holds the securities and has minimal counterparty risk. Options strategies used by the Retirement System are designed to provide exposures to positive market moves and limit exposures to interest rate and currency volatility.

Investment Derivative Notional Values

	Asset Class *	June 30, 2009	June 30, 2010
Domestic Equity Futures	Domestic Equities	\$461,457,775	\$801,671,940
International Equity Futures	International Equities	439,362,482	280,809,359
Fixed Futures	Fixed	1,045,786,364	653,617,551
Options Written	Fixed	6,638	1,328,944
Receive Fixed Interest Swaps	Fixed	166,700,000	189,450,000
Credit Default Swaps	Fixed	69,145,704	80,435,461
TBA Agency Bonds	Fixed	245,601,301	78,500,358

* The Asset Class that the Fair Values and Revenues are included in other schedules. Futures and Options reflect the summed absolute values of the exposures. TBA Agency Bond notional values are equal to their fair values.

Investment Derivatives – Swaps

Interest rate swaps are agreements between two counterparties to exchange future cash flows. These are generally fixed vs. variable flows, and can be either received or paid. These swaps are used to adjust interest rate and yield curve exposure and substitute for physical securities. Long swap positions (receive fixed) increase exposure to long-term interest rates; short positions (pay fixed) decrease exposure. Counterparty risk is limited to monthly exchanged or netted cash flows. All of the System's interest rate swaps in fiscal year 2010 were receive fixed interest swaps.

Credit default swaps are used to manage credit exposure without direct purchase or sale of securities. Written credit default swaps increase credit exposure (selling protection) obligating the seller to buy the bonds from the counterparty in the event of a default. This creates credit risk, but has very little counterparty risk. Purchased credit default swaps decrease exposure (buying protection), providing the right to "put" bonds to the counterparty in the event of a default. This decreases credit risk, and has counterparty risk in the

event the seller of protection fails to cover the defaulting security. Controls are established by the investment managers to monitor the creditworthiness of the counterparties.

Investment Derivatives – TBA (To Be Announced) Agency Bonds

A TBA is a contract for the purchase or sale of agency mortgage-backed securities to be delivered at a future agreed-upon date; however, the actual pool identities or the number of pools that will be delivered to fulfill the trade obligation or terms of the contract are unknown at the time of the trade. A common practice is to buy a TBA security thirty to sixty days in advance of the issue date with the issue date as the trade settle date, then selling the security four days before issue date, with the same settle date. This allows the trader to realize a gain or loss on the security based on changes in interest rates, without taking possession of, or paying for, the security. The only cash cost is the broker cost of the trades. These have minimal credit risk, while this scenario is designed specifically to increase interest rate exposure.

Investment Derivative Fair Values

	June 30, 2009	Increases	Decreases	June 30, 2010
Options Written	\$(49)	\$1,137,638	\$(1,832,862)	\$(695,273)
Receive Fixed Interest Swaps	1,223,325	8,784,565	(8,687,871)	1,320,019
Credit Default Swaps	(8,956,358)	12,809,806	(4,633,483)	(780,035)
TBA Agency Bonds*	245,601,301	2,157,608,156	(2,324,709,099)	78,500,358
Foreign Currency Forwards	(4,874,881)	72,122,348	(71,299,443)	(4,051,976)
Total	<u>\$232,993,338</u>	<u>\$2,252,462,513</u>	<u>\$(2,411,162,758)</u>	<u>\$74,293,093</u>

*TBA Agency Bond notional values are equal to their fair values.

Investment Derivatives – Foreign Currency Forwards

The Retirement System's international investment managers use forward contracts to obtain currencies necessary for trade execution and manage 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. 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. Since the System holds the offsetting currency in the contract, and controls are established by the investment managers to monitor the creditworthiness of the counterparties, risk of actual loss are minimized. The Retirement System also contracts with a currency overlay manager to hedge the currency exposure to the System's international equity portfolio.

Investment Currency Forwards

	June 30, 2009				June 30, 2010	
	Notional \$USD	Fair Values	FV Increases	FV Decreases	Fair Values	Notional \$USD
Australian Dollar	\$128,334,465	\$1,033,792	\$26,517,748	\$(31,269,508)	\$(3,717,968)	\$118,731,694
Brazil Real	2,289,798	108,534	181,342	(349,386)	(59,510)	4,142,228
British Pound	214,379,101	(1,366,604)	16,505,152	(15,776,184)	(637,636)	186,854,146
Canadian Dollar	59,955,059	(2,126,598)	8,306,823	(6,913,559)	(733,334)	140,112,266
Chinese Yuan Ren	18,470,349	(554,212)	506,494	—	(47,718)	9,105,475
Czech Koruna	—	—	47,271	(47,271)	—	—
Danish Krone	—	—	90,054	(90,054)	—	—
Euro Currency Unit	279,113,561	364,522	70,000,090	(64,453,673)	5,910,939	546,982,174
Hong Kong Dollar	269,933	(2)	508,539	(347,326)	161,211	74,236,444
Indonesian Rupian	—	—	106,222	—	106,222	1,100,000
Israeli Shekel	—	—	43,844	(43,844)	—	—
Japanese Yen	323,030,577	(1,219,844)	38,206,068	(41,531,739)	(4,545,515)	314,417,585
Malaysian Ringgit	—	—	166,790	(115,559)	51,231	1,513,612
Mexican New Peso	101,037	106	209,558	(219,807)	(10,143)	1,967,382
New Taiwan Dollar	—	—	4,268	(14,698)	(10,430)	1,203,803
New Zealand Dollar	31,254,450	(704,790)	1,743,836	(911,106)	127,940	29,991,245
Norwegian Krone	23,853,552	58,114	2,600,199	(2,791,458)	(133,145)	8,307,995
Other Currencies	—	—	138,354	(138,354)	—	—
Polish Zloty	—	—	236,589	(236,589)	—	—
S. African Rand	216,115	(3,482)	675,816	(662,497)	9,837	1,926,495
Singapore Dollar	8,988,030	(280,436)	1,209,235	(1,265,550)	(336,751)	24,312,450
South Korean Won	—	—	275,279	(392,848)	(117,569)	6,161,052
Swedish Krona	20,917,639	(33,938)	2,221,369	(2,420,353)	(232,922)	43,582,082
Swiss Franc	36,299,208	(150,042)	1,316,733	(1,003,406)	163,285	45,999,697
New Turkish Lira	—	—	113,629	(113,629)	—	—
	<u>\$1,147,472,874</u>	<u>\$(4,874,880)</u>	<u>\$171,931,302</u>	<u>\$(171,108,398)</u>	<u>\$(4,051,976)</u>	<u>\$1,560,647,825</u>

Hedging Currency Forwards

	June 30, 2009		FV Increases	FV Decreases	June 30, 2010	
	Notional \$USD	Fair Values			Fair Values	Notional \$USD
Australian Dollar	\$41,762,700	\$(4,641,438)	\$6,066,228	\$(2,065,729)	\$(640,939)	\$242,972,197
Canadian Dollar	31,794,376	(1,150,085)	1,085,223	(1,208,111)	(1,272,973)	81,338,974
Swiss Franc	30,478,245	(1,115,201)	1,826,038	(541,437)	169,400	79,079,472
Euro Currency Unit	223,166,785	(11,451,156)	48,049,394	(11,513,307)	25,084,931	405,306,208
British Pound	33,678,773	(4,738,344)	8,937,895	(3,049,013)	1,150,538	286,230,630
Hong Kong Dollar	14,459,813	955	98,269	—	99,224	38,055,721
Japanese Yen	<u>101,962,969</u>	<u>(1,388,282)</u>	<u>2,192,800</u>	<u>(1,623,792)</u>	<u>(819,274)</u>	<u>176,616,145</u>
	<u>\$477,303,661</u>	<u>\$(24,483,551)</u>	<u>\$68,255,847</u>	<u>\$(20,001,389)</u>	<u>\$23,770,907</u>	<u>\$1,309,599,347</u>
Total Currency Forwards	<u>\$1,624,776,535</u>	<u>\$(29,358,431)</u>	<u>\$240,187,149</u>	<u>\$(191,109,787)</u>	<u>\$19,718,931</u>	<u>\$2,870,247,172</u>

Hedging Derivatives

Foreign Currency Forwards: The Retirement System utilizes a currency overlay manager to reduce, or partially hedge, the System's exposure to foreign currencies through the international equities portfolio. The overlay manager evaluates the System's international equities exposure to currencies, and (buys/sells) inverse currency forwards in relation to the overall currency exposures. The inverse relationship of these hedging forwards uses their exposure to currency risks to reduce overall System exposure. The Statement of Investment Policy stipulates that the overlay manager should: "Take forward currency exchange contract positions which will have the intent and effect of hedging the currency exposure of the underlying international equity assets." The Statement of Investment Policy further states the forward currency exchange contract positions be used to "Maintain an acceptable risk level by reducing the negative volatility of the currency component of return."

The Retirement System has ongoing foreign currency exposure through its international equities portfolio. At June 30, 2010 the market values of international equities was \$2.84 billion. The System's exposure to foreign currencies is converted into a proxy basket of seven liquid currencies that are highly correlated to the movements of the underlying currencies. The weights to be used are calculated with reference to the liquidity and risk of each currency. There is appropriate statistical evidence that the proxy basket does track the currency exposure closely (residual standard deviation of less than one percent). This proves the intent is to hedge and qualifies as a designated hedge under Generally

Accepted Accounting Principles. The forward contracts are purchased as needs are determined by the hedge manager, and mature in the nearest September or March. Gains/losses are realized during those periods and the contracts are rolled over to the next period as appropriate. Through these processes, hedging contracts can adapt to any changes to portfolio currency exposures. Since the hedging currency forwards track to the overall exposure, and they reference the same foreign exchange rates as the underlying portfolio, this hedge is known to be effective through consistent critical terms.

A portfolio hedge such as this does not match the hedging forwards to any specific hedged security. The accessibility and liquidity of the currency forwards market allows these hedging forwards to roll forward and seamlessly hedge the ongoing foreign currency exposures. Counterparties to these forwards are carefully analyzed for credit risk. The System has control of one side of the exchange at all times, thereby reducing the costs of a counterparty default to possible lost gains, and inconvenience costs required to re-establish the hedge on short notice with another counterparty.

Investment Forwards Counterparty Exposure

Counterparty Name	By Counterparty at June 30, 2010		Standard & Poor
	Notional \$USD	Fair Value	Long Term Rating
Bank of America Corp	\$117,924,382	\$(2,202,632)	A
Bank of New York Mellon	185,943,739	(2,133,124)	AA
BlackRock Inc	157,890,946	3,151,888	A
BNP Paribas	34,931,889	404,700	AA
Brown Brothers Harriman	24,311,255	346,172	not rated
Citigroup Inc Total	34,445,987	50,730	A
Credit Suisse Group AG	57,316,603	(106,975)	A
Deutsche Bank AG	54,511,591	97,496	A
Goldman Sachs Group Inc	10,459,281	(126,520)	A
HSBC Holdings PLC	132,126,120	(1,795,092)	AA
JPMorgan Chase & Co	152,441,708	(2,193,102)	A
Morgan Stanley	17,897,848	92,204	A
Northern Trust Corp	2,196,725	41,752	AA
Royal Bank of Canada	121,778,617	(1,220,447)	AA
Royal Bank of Scotland	74,728,251	309,694	AAA
SAS Rue La Boetie	28,729,932	449,223	not rated
Societe Generale	106,055,271	774,004	A
Standard Chartered PLC	812,631	(24,473)	A
State Street Corp	26,630,896	(171,338)	A
Toronto Dominion Bank	11,087,395	(505,775)	not rated
UBS AG	126,484,447	957,812	A
Westpac Banking Corp	<u>81,942,311</u>	<u>(248,170)</u>	AA
	<u>\$1,560,647,825</u>	<u>\$(4,051,976)</u>	

Hedging Forwards Counterparty Exposure

Counterparty Name	By Counterparty at June 30, 2010		Standard & Poor
	Notional \$USD	Fair Value	Long Term Rating
Citigroup Inc	\$210,108,444	\$191,415	A
Deutsche Bank AG	276,007,320	(587,411)	A
JPMorgan Chase & Co	231,103,304	12,072,806	A
Royal Bank of Canada	164,728,129	14,984,869	AA
Royal Bank of Scotland	212,410,578	1,731,107	AAA
UBS AG	<u>215,241,572</u>	<u>(4,621,879)</u>	A
	<u>\$1,309,599,347</u>	<u>\$23,770,907</u>	

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, 2010, was \$10,336,742. Office supplies inventory in the amount of \$20,448 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, 2010 was \$2,526,599. The office building and garage are being depreciated over a period of 33 years on an accelerated method. At June 30, 2010, the carrying value of the System's administrative headquarters was \$1,293,104.

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 8.0 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 4.0 percent per year. The balance at June 30, 2010, was \$5,132,772,778, 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, 2010, was \$5,417,496,698. The unfunded liability was \$7,676,985,410. 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, 2010, was \$8,459,191,163. 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, 2010, was \$20,309,100, 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. Plan members contribute 4.0 or 6.0 percent of their annual salary. In fiscal year 2010, the regular employer contribution rate was 7.57 percent of covered payroll. In addition, KPERS contributed an additional 1.0 percent of covered payroll to the group insurance fund. Total payroll was \$3,869,793, \$4,132,578 and \$4,190,789 for 2008, 2009 and 2010, respectively. KPERS contributed \$258,696, \$282,130 and \$323,173 for 2008, 2009 and 2010 respectively, to the employees pension plan and group insurance fund. All contributions required by law were made in fiscal years 2008, 2009 and 2010.

Non-Retirement Fund

Legislation passed in 2000 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 administering these funds. Invest-

ments under management for the Treasurer's Unclaimed Property Fund were \$192,763,074 at June 30, 2010.

Pending Governmental Accounting Standards Board Statements

GASB Statement No. 59, Financial Instruments Omnibus was issued June 2010. Statement 59 addresses significant practice issues that have arisen when accounting for financial instruments by increasing the consistency of measurements and providing clarification of existing standards. This guidance will improve financial reporting in ways that benefit both users and preparers of financial reports. The Statement is effective for financial statements prepared by state and local governments for periods beginning after June 15, 2010, with earlier application encouraged. Management is currently evaluating the effect of this statement on the Systems financial statements.

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 of the bond issue, \$15,350,000 of the bond proceeds were used for the purpose of financing the unfunded actuarial liability of certain Board of Regents members. In addition, the State of Kansas contributed an additional \$2.0 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 KP&F and Judges groups included an additional amount to finance the debt service payments for this portion of the bonds. In fiscal year 2010 KPERS transferred to the State of Kansas \$3,214,134 in additional contributions for the debt service payments.

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, 2008, and December 31, 2009, can be attributed to the following (\$ in millions):

Unfunded Actuarial Liability December 31, 2008	\$ 8,279.0
Effect of contribution cap/time lag	384.0
Expected increase due to amortization method	96.0
Gain from investment return	(1,011.0)
Demographic experience	(68.0)
All other experience	(3.0)
Change in actuarial assumptions	—
Change in benefit provisions	—
Final Unfunded Actuarial Liability December 31, 2009	<u>\$7,677.0</u>

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 and Correctional members, the results of December 31, 2005, and December 31, 2006, actuarial valuations provide the basis for Board certification of employer contribution rates for fiscal years 2009 and 2010. 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 are as follows:

State/School		
Fiscal Year	Actuarial Rate	Statutory Rate
2009	10.86%	6.97%
2010	10.98%	7.57%
Correctional		
2009	9.19% / 9.04%	7.44% / 7.30%
2010	9.27% / 9.22%	8.04% / 7.90%

Included in the fiscal year 2009 and 2010 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, 2006, and December 31, 2007, actuarial valuations provide the basis for Board certification of local employer contribution rates for fiscal years beginning in 2009 and 2010, respectively. The actuarially determined employer contribution rates and statutory contribution rates are as follows:

Local		
Fiscal Year	Actuarial Rate	Statutory Rate
2009	8.12%	5.54%
2010	8.52%	6.14%

KP&F. The uniform participating service rate for all KP&F employers was 13.51 percent for the fiscal year beginning in 2009 and 12.86 percent for the fiscal year beginning in 2010. 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 22.08 percent of payroll for the fiscal year ended 2009 and 20.50 percent of payroll for the fiscal year ended 2010.

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 4.0 or 6.0 percent for KPERS members, 7.0 percent for KP&F members, and 6.0 percent for Judges members as the member's employee contributions.

All required contributions have been made as follows:

Employer and Employee Contributions
(in thousands)

	Employer and Insurance Contributions	Member Contributions ⁽¹⁾	Contributions as Percent of Covered Payroll
KPERS State	\$82,247	\$44,399	12.6%
KPERS School	273,639	137,327	12.2
KPERS Local	100,577	68,951	10.4
KP&F	59,480	30,354	22.0
Judge	<u>5,612</u>	<u>1,475</u>	26.1
Subtotal	<u>\$521,555</u>	<u>\$ 282,506</u>	12.2%

An estimated \$556 million of employer and employee contributions were made to cover normal cost, an estimated \$218 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 million.

Funding Status and Funding Progress

The funding status of the plan at December 31, 2009, the most recent actuarial valuation date:

(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)
12/31/09	\$13,461,221	\$21,138,206	\$7,676,985	64%	\$6,532,496	118%

The schedule of funding progress, presented as required supplement information (RSI) following the notes to the financial statements, presents multi-year 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	KP&F	Judges
Valuation Date	12/31/2009	12/31/2009	12/31/2009
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level Percent closed	Level Percent closed	Level Dollar closed
Remaining amortization period	23 years	23 years	23 years
Asset valuation method	Difference between actual return and expected return on market value recognized evenly over five-year period. Value must be within corridor of 80 percent to 120 percent of market value.		
Actuarial assumptions:			
Investment rate of return ⁽¹⁾	8%	8%	8%
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 an inflation component of 3.5 percent.

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, 2008, the date of the last actuarial valuation:

- Active plan members, 163,912
- Number of participating employers, 1,397
- Open claims, 2,995

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. Again, legislation passed in early 2009 placed a moratorium on contributions related to the group life insurance and disability benefits effective for the period March 1, 2009, through November 30, 2009. For the period ending June 30, 2009, employers contributed over \$36 million to the Plan.

The death and disability plan assets are held in the Group Insurance Reserve fund. At June 30, 2010, this reserve held net assets totaling \$16,953,066. 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 funding status of the plan at December 31, 2008, the most recent actuarial valuation date: (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)
12/31/08	\$38,571	\$355,060	\$316,489	10.9%	\$6,409,426	4.9%

The GASB Statement No. 43 was first effective for fiscal years ending June 30, 2007. The actuarial valuation dated June 30, 2008, is the most recent actuarial valuation. 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 45) 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 45) 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, 2008, 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. 6/30/2008

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, 2010, the Retirement System was committed to additional funding of \$7,603,000 in the form of capital expenditures on separate account real estate holdings in the portfolio, \$250,278,000 for commitments on venture capital investments, and \$332,248,000 for capital calls on core and 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: SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 12, 2010, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION — RETIREMENT PLAN

Schedule of Employer Contributions*

Fiscal year ended June 30

Year	Annual Required Contribution	Percentage Contributed
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
2009	660,833,664	68.0
2010	682,062,413	72.1

*This schedule does not include Death & Disability Insurance contributions as a component of required contributions.

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 Percentage of Covered Payroll ((b - a)/c)
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	15,714,092	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
12/31/08	11,827,619	20,106,787	8,279,168	59	6,226,526	133
12/31/09	13,461,221	21,138,206	7,676,985	64	6,532,496	118

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	82.6%
2007	76,128,451	82.0
2008	75,414,841	48.2

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 Percentage of Covered Payroll ((b - a)/c)
06/30/06 ⁽¹⁾	\$18,724	\$354,150	\$335,426	5%	\$5,716,896	6%
06/30/07	25,568	355,729	330,161	7	5,981,324	6
06/30/08	38,571	355,060	316,489	11	6,409,426	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.

Schedule of Contributions

Fiscal year ended June 30, 2010

Kansas Public Employees Retirement System

State / School Contributions

Members	\$181,725,425	
Employers	<u>355,885,854</u>	
Total State / School Contributions		\$537,611,279

Local Contributions

Members	68,951,386	
Employers	<u>100,576,352</u>	
Total Local Contributions		<u>169,527,738</u>

Total Contributions KPERS \$707,139,017

Kansas Police and Firemen's System

State Contributions

Members	3,079,214	
Employers	<u>5,674,657</u>	
Total State Contributions		<u>8,753,871</u>

Local Contributions

Members	27,275,254	
Employers	<u>53,805,791</u>	
Total Local Contributions		<u>81,081,045</u>

Total Contributions KP&F 89,834,916

Kansas Retirement System for Judges

State Contributions

Members	1,474,612	
Employers	<u>5,612,406</u>	
Total State Contributions		<u>7,087,018</u>

Total Contributions - Judges 7,087,018

Optional Life Insurance

Member Contributions

State Employees	3,688,124	
Local Employees	<u>3,422,012</u>	
Total Contributions		<u>7,110,136</u>

Total Contributions - OGLI 7,110,136

Grand Total All Contributions \$811,171,087

Schedule of Administrative Expenses

Fiscal year ended June 30, 2010

Salaries and Wages		\$5,186,371
Professional Services		
Actuarial	\$295,824	
Audit	56,500	
Data Processing	113,184	
Legal	87,309	
Other Professional Services	<u>692,800</u>	1,245,617
Total Professional Services		
Communication		
Postage	232,174	
Printing	148,776	
Telephone	<u>87,356</u>	
Total Communication		468,306
Building Administration		
Building Management	102,276	
Janitorial Service	43,441	
Real Estate Taxes	86,601	
Utilities	<u>71,522</u>	
Total Building Administration		303,840
Miscellaneous		
Dues and Subscriptions	26,504	
Repair and Maintenance	424,845	
Office and Equipment Rent	17,737	
Supplies	89,412	
Temporary Services	49,418	
Travel	87,690	
Other Miscellaneous	97,919	
Depreciation	<u>2,536,531</u>	
Total Miscellaneous		<u>3,330,056</u>
Total Administrative Expenses		<u>\$10,534,190</u>

Schedule of Investment Income by Asset Class

Fiscal year ending June 30, 2010

Asset Classification	Interest, Dividends and Other Transactions	Gains and Losses	Total
Marketable Equity Securities			
Domestic Equities	\$21,656,756	\$541,302,972	\$562,959,728
International Equities	<u>67,140,364</u>	<u>287,464,042</u>	<u>354,604,406</u>
Subtotal Marketable Equities	<u>88,797,120</u>	<u>828,767,014</u>	<u>917,564,134</u>
Marketable Fixed Income Securities			
Government	31,533,017	81,939,239	113,472,256
Corporate	<u>128,050,462</u>	<u>226,032,029</u>	<u>354,082,491</u>
Subtotal Marketable Fixed	<u>159,583,479</u>	<u>307,971,268</u>	<u>467,554,747</u>
Temporary Investments	<u>502,962</u>	<u>(577,718)</u>	<u>(74,756)</u>
Total Marketable Securities	<u>248,883,561</u>	<u>1,136,160,564</u>	<u>1,385,044,125</u>
Real Estate	37,551,411	52,953,470	90,504,881
Alternative Investments	<u>5,868,990</u>	<u>32,311,599</u>	<u>38,180,589</u>
Total Real Estate and Alternative Investments	<u>43,420,401</u>	<u>85,265,069</u>	<u>128,685,470</u>
Other Investment Income			
Securities Lending	3,223,585	\$1,407,876	4,631,461
Reimbursement for Non-KPERS Costs	<u>216,499</u>		<u>216,499</u>
Total Other Investment Income	<u>3,440,084</u>	<u>1,407,876</u>	<u>4,847,960</u>
Investment Income	<u>\$295,744,046</u>	<u>\$1,222,833,509</u>	<u>1,518,577,555</u>
	Manager and Custodian Fees and Expenses		
			(29,986,629)
			(781,450)
			<u>(1,841,971)</u>
			<u>(32,610,050)</u>
			<u>\$1,485,967,505</u>

Schedule of Investment Management Fees and Expenses

Fiscal year ending June 30, 2010

Domestic Equity Managers		Foreign Currency Overlay Manager	
BlackRock	\$855,482	BlackRock	750,000
ING	1,007,428	Pareto Partners	1,246,367
Loomis, Sayles & Co.	722,276	Russell	<u>714,922</u>
Mellon CM LC Index	142,639		
Payden & Rygel Enhanced	22,706	Subtotal Foreign Currency Overlay Manager	2,711,289
Quantitative Management Associates	181,663		
Security Global Investors	748,021	Real Estate Managers	
Systematic Financial Management.	<u>663,571</u>	AEW Capital Management	2,231,032
		Brookfield Redding	783,985
Subtotal Domestic Equity Managers	4,343,786	Duff & Phelps	240,116
		Principal	<u>365,679</u>
Global Equity Managers			
Capital Guardian Trust Co.	1,808,508	Subtotal Real Estate Managers	3,620,812
Wellington Management Co.	<u>437,745</u>		
		Cash Equivalent Manager	
Subtotal Global Equity Managers	2,246,253	Payden & Rygel Investment Counsel	<u>321,897</u>
International Equity Managers		Subtotal Cash Management	<u>321,897</u>
Acadian Asset Management	863,511		
Alliance Capital Management	257,952	Total Investment Management Fees	<u>29,986,629</u>
Baillie Gifford Int'l	1,479,429		
BlackRock	1,880,924	Other Fees and Expenses	
Barings Int'l	1,137,196	Mellon Trust - Custodian Fees	781,450
JP Morgan Int'l	1,184,345	and Other Expenses	
Lazard Freres Asset Management	503,699	Consultant Fees	1,695,463
Morgan Stanley Asset Management	1,339,448	Legal Expenses	<u>146,508</u>
Nomura Capital Management	626,333		
Templeton Int'l	771,619	Subtotal Other Fees and Expenses	<u>2,623,421</u>
Wellington Int'l	<u>102,871</u>		
		Total Management Fees and Expenses	<u>\$32,610,050</u>
Subtotal International Equity Managers	10,147,327		
Fixed Income Managers			
BlackRock	132,798		
Loomis, Sayles & Co.	1,335,658		
MacKay Shields	462,382		
Pacific Investment Management Co.	2,404,754		
TCW	635,966		
T. Rowe Price	87,000		
Western Asset Management Co.	<u>1,536,707</u>		
Subtotal Fixed Income Managers	6,595,265		

INVESTMENTS 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 fiscal year 2010 were \$11.2 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

For investment allocation and performance purposes, 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.

(NOTE: For financial reporting purposes, as reported in the Financial Section and the Investment Summary in the Investment Section, investments are categorized by the underlying security.)

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 investment 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; 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 the portfolio. The real return asset category presently contains the treasury inflation protected securities (TIPS) and investment grade fixed income. Real estate investments generate returns in a different manner than equities or fixed income investments and also provide some inflation protection. KPERS' alternative investments, primarily investments in private partnerships that make venture capital investments, pursue leveraged buyout strategies or own private debt. They pursue higher growth and provide diversification of investment risk to the overall portfolio.

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). The Statement compliments KPERS statutes and documents the principles and standards that 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 is the product of the Board's careful and prudent study and is reviewed annually and updated as needed. 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 provisions of ERISA to the greatest extent practicable. 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. 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.

Fiscal Year 2010 Performance

Rebounding from a difficult environment in fiscal year 2009, the KPERS portfolio returned 14.9 percent in fiscal year 2010. The return was 2.4 percent, or 240 basis points, ahead of the KPERS' policy benchmark. This reflects the willingness and ability to take advantage of some of the dislocations in the markets during the financial crisis of the previous fiscal year and solid performance from the investment managers selected by the KPERS board.

The investment environment for the fiscal year was quite strong. Economies improved, financial conditions eased and asset values rose on a global basis. Stock markets rallied, with the U.S. equity market up more than 18 percent. Interest rates fell markedly and credit spreads tightened, producing double digit returns not commonly seen from this asset class. Even the hard-hit real estate markets stabilized and rebounded in certain sectors.

Particularly in volatile times like these, KPERS long-term approach to investing the assets entrusted becomes a significant advantage. The long-term asset allocation set by the board maintained exposure to the equity market in a manner that allowed full benefit of the recovery; opportunities afforded by the credit markets were acted upon; and the flexibility provided by the investment policy allowed a cautious approach to the underperforming real estate markets. With this long-term approach and sound investment policies, the investment portfolio weathered the storm of last fiscal year and benefitted fully from this year's recovery.

The System employs a staff of eight investment professionals to provide oversight and management of the assets and external asset managers. Under the oversight of the Chief Investment Officer, responsibility for the portfolio is assigned 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 who research and assist in managing the portfolio. Comments from the four Investment Officers on their respective areas follow.

EQUITY INVESTMENTS

As of June 30, 2010, the market value of the KPERS equity portfolio was \$6.338 billion, representing 56.8 percent of the total fund. The KPERS equity portfolio is currently slightly overweight to the 55 percent target. The return for the overall equity portfolio, including currency strategies, was 14.8 percent for the fiscal year.

Highlights

The equity portfolio experienced significant appreciation during the first and second quarter of fiscal year 2010, returning 23.3 percent. However, in early 2009, the portfolio gave up some of the positive return as equity markets retreated. The resulting fiscal year return was 14.8 percent. Throughout the fiscal year, there were changes involving the investment firms that manage money on the System's behalf. In the international portfolio, five new managers were hired, while three managers were terminated. In the domestic equity portfolio, one large cap enhanced index investment manager was terminated. Also during the fiscal year, the System's portable alpha program was expanded to include additional investment managers. We continue to search for new strategies that can consistently add value over their benchmark to utilize in our portable alpha program. Lastly, a preferred real estate investment trust (REIT) equity manager was added to the domestic equity portfolio. Due in part to these changes, there were some notable highlights that occurred during this period.

- International equity had a 10.9 percent rate of return.
- Domestic equity had an 18.1 percent rate of return.
- The allocation to publicly-traded equities increased by \$579 million, from \$5.759 billion to \$6.338 billion (which includes a notional value of \$204.6 million of international futures exposure).
- The allocation to publicly-traded equities was above target allocation at the beginning of the fiscal year and stayed at that level for the rest of the fiscal year due to the similar level of performance from most of the other asset classes. The overweight position at the beginning and end of the fiscal year contributed to the total fund outperforming its policy benchmark.

Portfolio Structure

The publicly-traded equity portfolio has a target allocation of 55 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 represents 28.4 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, the Russell Mid Cap Index representing the smallest 800 companies in the Russell 1000 Index, the Russell 2500 Index representing the smallest 2500 companies in the Russell 3000 Index and the Russell 2000 Index representing a group of the smallest capitalization stocks. Each strategy is measured against either a large cap, mid cap, small-mid 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 represents 23.4 percent of the total fund and includes a notional value of \$204.6 million of international futures exposure. Within this portion of the portfolio, seven 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 must 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, excluding the United States (ex U.S.). This index has a total of 47 countries, 23 developed countries and 24 emerging countries, weighted by market capitalization. As of June 30, 2010, countries in this index accounted for over 71 percent

of the world's equity capitalization, as reported by Morgan Stanley.

Global equities make up the final category and represent 5.0 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 up for the fiscal year ending June 30, 2010. Among the major developed markets, Greece performed the worst, returning (47.9) percent and Indonesia performed the best, returning 67.1 percent according to the MSCI All Country World Index, ex U.S.

Returns for the domestic benchmark had a positive start for the first half of the fiscal year, returning 23.2 percent by the end of December. The international benchmark also started the fiscal year in positive territory, returning 24.2 percent by the end of December. The strong domestic performance for the first half of the fiscal year was a result of a continuation of the market rebound that began in the fourth quarter of the previous fiscal year. With the help of government stimulus during the first half of the fiscal year, several economic measures were signaling that the economy may be continuing to emerge from recession. For example, the Standard & Poor's/Case-Shiller housing index posted its first increase after 34 months of decline. U.S. productivity posted its biggest gain in six years. The Institute for Supply Management (ISM) manufacturing index surpassed 50 for the first time in nine months, retail sales rose, and the International Monetary Fund (IMF) raised the forecast for global growth. However, not all the news during the first half of the fiscal year was positive. Higher-than-expected job losses were reported with the unemployment rate eventually reaching higher than 10 percent, banks continued to fail at an alarming rate with many more in danger of failure. U.S. federal budget deficit estimates through 2019 were increased by \$2 trillion. Studies showed that 23 percent of U.S. homeowners were underwater on their mortgages. By the end of December 2009, U.S. gross domestic product (GDP) growth from the third quarter was revised downward.

The international benchmark reflected the fact that the economic recovery was not contained to only the United States. The international benchmark's positive return shows that the recovery experienced by the United States continued to spread into the global industrialized world as well.

The markets began calendar year 2010 with positive returns. The U.S. GDP growth was reported at a six-year high, and manufacturing in the U.S. was reported to be expanding at the fastest rate in five years. Retail sales were reported to be up and employment was reported to be improving during the first quarter of 2010. International market returns were not as positive in the first quarter of calendar year 2010 as domestic market returns. Problems in the Euro zone, in particular the Greece debt crisis as well as problems in Spain and Portugal, contributed to lower international returns in the first half of calendar year 2010.

The markets ended the fiscal year with positive performance, after closing the fiscal year fourth quarter with weak performance in part due to expiring stimulus. For the second half of fiscal year 2010, the domestic and international benchmarks returned (6.0) percent and (11.1) percent respectively.

Performance

Overall, the publicly-traded equity portfolio, including currency strategies, returned 14.8 percent for the fiscal year. The returns for the equity components included:

Domestic	18.1 percent
International	10.9 percent
Global	12.7 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 \$3.17 billion at the end of the fiscal year. For the fiscal year, the portfolio's return was up 18.1 percent. Mid capitalization securities outperformed large and small capitalization stocks, while small capitalization stocks outperformed large capitalization stocks with the Russell 1000 returning 15.2 percent, the Russell Midcap Value returning 28.9 percent, the Russell 2500 returning 24.0 percent, and the Russell 2000 returning 21.5 percent. The portfolio outperformed the Russell 3000 Index, which returned 15.7 percent. The majority of the outperformance was attributable to the expanded portable alpha program as well as allocations to small

capitalization, small-mid capitalization and mid capitalization stocks. Taking a longer-term view, the returns for the domestic equity portfolio for the three- and ten-year periods were even with the Russell 3000 Index while the five-year period slightly underperformed the Russell 3000 Index.

The international equity portfolio performed well, ending the fiscal year with a value of \$2.61 billion, which includes a notional value of \$204.6 million of international futures exposure. This portion of the portfolio returned 10.9 percent, compared to the broad MSCI All Country World Index, ex U.S., return of 10.5 percent. As previously mentioned, the System recently hired five new investment managers and terminated three investment managers during the fiscal year. Only two of the seven managers were in place for the full fiscal year and one of the two experienced underperformance. Even though one of the two managers that were in place for the entire fiscal year experienced underperformance, the addition of the five new managers during the fiscal year helped the international equity portfolio outperform the MSCI All Country World Index, ex U.S. The returns for the three-, and five-year periods underperformed the benchmark but are improving.

The global equity strategy has been in place for a little more than five years. This component of the portfolio is staffed 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 fiscal year, the global portfolio outperformed the MSCI All Country World Index, returning 12.7 percent compared to a return of 12.3 percent, respectively. Since the inception of the global mandates, one of the managers has underperformed by various degrees, but is improving.

Equity Performance as of June 30, 2010 (gross of fees)

	1-Year	3-Year	5-Year
Domestic Equity Portfolio	18.1%	(9.5)%	(0.6)%
Russell 3000 Index	15.7%	(9.5)%	(0.5)%
International Equity Portfolio	10.9%	(11.8)%	3.0%
MSCI ACWI Ex US/EAFE Custom Benchmark	10.5%	(10.4)%	3.5%
Global Equity Portfolio	12.7%	(10.4)%	0.7%
MSCI All Country World Index	12.3%	(10.0)%	1.7%

Time-weighted total rate of return includes income and changes in market value.

Investment Advisors

As of June 30, 2010, KPERS had contracts with 19 external investment advisors for the publicly traded equity portfolio.

Domestic Equity

Mellon Capital Management
BlackRock
Brookfield Redding
ING Investment Management
Loomis Sayles & Company
Security Global Investors
Systematic Financial Management

Domestic Equity – Portable Alpha Portfolios

Russell Investments
Nomura Asset Management
Capital Guardian Trust Company
Western Asset Management
Baring International Investment
Baillie Gifford

International Equity

BlackRock
JP Morgan Asset Management
Morgan Stanley Asset Management
Baring International Investment
Baillie Gifford
Templeton Investment Counsel
Lazard Asset Management

Global Equity

Wellington Management Company
Capital Guardian Trust Company

Currency Management/Overlay

Pareto Partners
BlackRock

FIXED INCOME INVESTMENTS

As of June 30, 2010, KPERS fixed income portfolio had a market value of \$2.4 billion, representing 19.8 percent of the total fund. This is above the target allocation of 14 percent and within the 7 percent bands around the target allocation. The return for the fixed income portfolio was 17 percent for the fiscal year.

Highlights

At the January 2010 board meeting with staff recommendation, the board voted to terminate a core plus fixed income manager due to significant changes to the firm's owner-

ship structure and key personnel departures. In March, the board voted to hire a replacement manager, returning KPERS' manager total to three core plus fixed income managers.

Portfolio Structure

The fixed income portfolio contains two allocations: core plus and strategic. The "core plus" strategy offers managers broad guidelines and consists primarily of traditional investment-grade securities. The "strategic" strategy allocates to more defined strategies, allowing staff and the System's fixed income investment managers to better control and manage the risk/return profile of the portfolio. The core plus allocation uses the Barclays Capital Universal Index as the benchmark, and the strategic allocation uses a 55%/45% blend of the Barclays Capital Universal Index and the Barclays Capital U.S. High Yield 2% Issuer Cap Index as its benchmark.

Fixed Income Strategy Allocation as of June 30, 2010

	Current Position	Target Allocation
Core Plus	64.3%	70%
Strategic	35.7%	30%

Market Overview

Federal Reserve policy responses to the financial crisis and economic downturn that began in the second half of 2008 helped stabilize the global economy in calendar year 2009. Interest rates generally rose in the first half of calendar year 2010 as investors' risk appetites returned, decreasing demand for U.S. Treasuries and other sovereign bonds. The Federal Reserve's initiatives that helped to stabilize the marketplace included purchasing mortgage and Treasury securities, the commitment to holding short-term rates near zero combined with government support for consumer finance markets.

Better than expected economic data near calendar year-end 2009 put upward pressure on intermediate and longer maturity Treasury yields. The ten-year Treasury yield closed the calendar year at 3.82 percent, up 29 basis points for the second half of the calendar year. Investment grade corporate credit spreads narrowed 131 basis points during the same period. The high yield sector dramatically improved with spreads narrowing 323 basis points ending the calendar year. Signs of improved consumer spending and incomes were among the indicators pointing to the possibility of economic recovery.

During the first half of calendar year 2010, market volatility spiked across global financial markets due to a range of macroeconomic events such as signs of the U.S. and China's economies slowing and an increased sovereign debt risk in Europe that was initiated by fears of default in sovereign bonds issued by Greece, Portugal, Spain, Italy and Ireland. The ten-year Treasury yield fell 85 basis points (yielding 2.97 percent) during the second quarter of calendar year 2010 due to a flight to quality as a result of these events. Investment grade corporate credit spreads widened 18 basis points; with the high yield sector widening 78 basis points.

Performance

The overall fixed income portfolio returned 17 percent for the fiscal year, outpacing its benchmark, the Barclays Capital Universal Index, which returned 10.6 percent. The outperformance of the portfolio was primarily due to the corporate credit exposure (16 percent), high yield exposure (19 percent) and the emerging market debt exposure (4 percent) at the close of the fiscal year. These sectors underperformed most dramatically during the credit crisis but made an impressive comeback in fiscal year 2010.

Fixed Income Performance as of June 30, 2010 (gross of fees)

	1-Year	3-Year	5-Year
Fixed Income Portfolio	17.0%	8.5%	6.4%
Barclays Capital Universal Index	10.6%	7.2%	5.6%

Time-weighted total rate of return includes income and changes in market value.

Investment Advisors

As of June 30, 2010, KPERS had contracts with five external investment advisors for the publicly traded fixed income portfolio.

Core Plus

Pacific Investment Management Co.
MacKay Shields
T. Rowe Price

Strategic

Loomis, Sayles & Company, Inc.
Western Asset Management

REAL RETURN INVESTMENTS

As of June 30, 2010, KPERS real return portfolio had a market value of \$1.3 billion, representing 11.8 percent of the total fund. This allocation was below the target allocation of 14 percent and within the 4 percent bands around the

target. The portfolio had a 12.3 percent return for the fiscal year, 280 basis points above the benchmark.

The real return asset class is relatively new in the KPERS' portfolio, receiving an allocation of 14 percent in the asset/liability study concluded in January 2008. Formerly, this portfolio was a 10 percent allocation to long-dated TIPS. The real return portfolio has the similar objective of inflation protection with the context of the broader portfolio. But as compared to the previous TIPS allocation, the real return portfolio has the objective of broadening and diversifying the System's exposure to inflation-related assets. It significantly reduces the interest rate exposure imposed by the previous TIPS portfolio as well as significantly increases the yield from these investments.

Highlights

- KPERS has been invested in credit-related strategies in the real return portfolio in order to take advantage of a 5.5 percent cash yield combined with the potential for capital appreciation.
- Significant time was spent researching and completing due diligence for the infrastructure and timber areas for potential investments. Two timber managers were hired and several timber investments were evaluated.
- Returns have been very positive since inception and well ahead of the benchmark.

Portfolio Structure and Allocations

Long-term target allocations for the real return portfolio are 50 percent TIPS; 30 percent "real" assets (such as infrastructure, timber, energy investments) and 20 percent absolute return strategies. As this portfolio is newer and these types of investments take longer to research, complete due diligence and acquire, the System expects this portfolio will be constructed over the next two to five years. At fiscal year end, the portfolio was allocated roughly 40 percent TIPS and 60 percent investment grade bonds, with a very small infrastructure investment.

Market Overview

Declining interest rates and tightening credit spreads produced double-digit returns for this portfolio in the fiscal year.

Timber markets began to weaken during the fiscal year, and combined with financial distress of some holders, good prices are beginning to be seen. The System's managers and staff have evaluated several properties, but as of the end of the fiscal year, had not yet found suitable investments. We believe patience will prevail, and solid opportunities will be acted upon when they arise.

The infrastructure markets remain very slow, but KPERS believes the real return investments will provide positive returns over the long-term. Staff and the System's consultants continue to monitor these markets for sound investments to bring to the board.

Performance

The overall real return portfolio returned 12.3 percent, outperforming the benchmark of 9.5 percent. For the bulk of the fiscal year, the real return portfolio consisted of TIPS indexed to the Barclay's U.S. TIPS index through a commingled investment fund, and an investment-grade bond portfolio managed by Western Asset Management.

	1-Year	3-Year	5-Year
Real Return	12.3%	8.3%	4.2%
Barclays Capital U.S. TIPS Index	9.5%	7.7%	3.9%

Time-weighted total rate of return includes income and changes in market value.

Investment Advisors

As of June 30, 2010, KPERS had contracts with two external investment advisors for the real return portfolio.

TIPS (Index)

Barclay's Global Investors

Investment Grade Credit Securities

Western Asset Management

REAL ESTATE INVESTMENTS

For fiscal year 2010, the System targeted 10 percent of total portfolio assets to real estate. This target was unchanged from the prior fiscal year. As of June 30, 2010, the real estate portfolio had a market value of \$684.4 million, representing 6.1 percent of the total fund.

Highlights

- KPERS made one tactical investment in Core real estate specifically intended to take advantage of repricing commercial real estate markets. Additional commit-

ments were made to sector specific investments focused on student housing, senior housing, medical office and storage assets, each of which is expected to take advantage of positive demographic and/or demand trends.

- The System's passive REIT strategy shifted to an active strategy during May 2009 and was fully funded in June 2009. As of June 2010, the strategy exceeded the benchmark index by 150 basis points. Two global REIT mandates transitioned to International mandates.
- \$50 million in real estate capital was invested in a dedicated Preferred REIT strategy targeting yields in excess of 8 percent.

Portfolio Structure

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

The largest segment is "Core" real estate, which consists of a direct ownership of approximately 10 commercial properties in the United States, investment in a senior housing strategy, a direct (and fully funded) investment in one open ended commingled real estate fund, as well as the previously referenced commitment to a new open end commingled real estate fund. Core real estate investments currently comprise 53.8 percent of the System's real estate assets. This segment of the portfolio is expected to produce steady income while serving as an inflation hedge. Capital appreciation is typically not a significant portion of Core portfolio returns. The remaining 46.2 percent of the System's real estate investments are 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 domestically and internationally. While also providing inflation protection, Non-Core real estate investments are expected to produce meaningful capital appreciation. These strategies typically involve a higher element of development risk and carry higher levels of leverage (debt) than Core investments.

The publicly-traded real estate securities segment is implemented utilizing managers investing actively in domestic and international real estate investment trusts.

Real Estate Strategy Allocation as of June 30, 2010

	Current Position	Target Allocation
Core Real Estate	53.8%	50.0%
Non-Core Real Estate	22.2%	25.0%
Real Estate Securities	24.0%	25.0%

Market Overview

A year ago the commercial real estate market was very troubled. Property values had dropped by 40 percent and many prognosticators opined that commercial real estate had room to deteriorate further. Capital markets flirting with a systemic meltdown led to a sharp reduction in capital availability. This resulted in a corresponding increase in the cost of capital due to a surge in required risk premiums. In the midst of this, the most significant demand contraction in the post-war era was well under way, decimating the space market fundamentals of office, retail, industrial and multi-family real estate.

From this low point, commercial real estate began to improve, with property prices up 20 percent from their trough. The end of the fiscal year marked the first quarter of a long awaited improvement in commercial real estate markets. Additionally, for the first time in nine quarters, the National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index reflected positive appreciation. Further, investor sentiment has been one of the most pronounced changes over the past fiscal year. Some estimates currently place equity “dry powder” for U.S. real estate alone at more than \$150 billion as investors seek a re-entry point into the asset class.

Publicly traded REIT prices rebounded strongly during the fiscal year, albeit from a depressed base. Specifically, the FTSE North American REIT Index appreciated over 55 percent during the last fiscal year. Appreciation was largely driven by the reduction of solvency risk for many of the REITS via successful acquisition of capital accessed through the public markets, as well as an expectation that REITS would be able to identify and make accretive acquisitions.

Credit availability within real estate, while still constrained, showed some initial signs of improvement over the course of the fiscal year. The commercial-mortgage-backed securities (CMBS) market, which had been effectively closed since early 2008, re-opened with several high quality deals and more than \$10 billion in securitizations. In addition, balance sheet lenders have re-entered the picture over the past two quarters, thus providing additional options for investors.

With the Federal Funds rate forecast to remain close to zero, lenders are expected to be able to offer loans at attractive spreads. Lastly, the government-sponsored enterprises (GSEs - Freddie Mac and Fannie Mae) have continued to be a capital source for multi-family investments, as well as both senior and student housing.

The most important variable impacting real estate fundamentals going forward is employment growth. As unemployment rises, fewer people are working in offices, warehouses and stores, and fewer people rent apartments and hotel rooms. As the demand for goods and services decline, companies reduce space and vacancy increases. This is especially true as “office using” job losses were disproportionately higher than overall job losses. In total, over 8 million jobs were lost since December 2007. Although there continues to be debate about the timing and depth of an economic recovery, the loss of this number of jobs will continue to have an impact on commercial real estate as any recovery in demand will more than likely be gradual in nature. Given recent events, many employers are demanding evidence that a real recovery is underway before hiring additional staff and committing to additional office space.

Looking ahead, capital inflows for commercial real estate in the United States have rebounded quickly with most available capital targeting well-located, high quality core assets. As a result, bidding for these assets has often been intense with a resulting increase in prices paid. Current opportunities span property types and regions. As a result of the market upheaval, the managers anticipate opportunities to identify and invest in fund strategies that will be able to successfully acquire new assets at a favorable cost basis. This is especially true of assets like hotels and multi-family housing which have the ability to respond (and reprice) to demand much more quickly.

After a turbulent end to a decade that initially held much promise for commercial real estate, a seemingly new but actually very fundamental investing paradigm is re-emerging for this asset class. Specifically, commercial real estate has seemingly come full circle, moving beyond the financial-driven era to a “back to basics” approach with a focus on rewarding skilled operators and developers. The managers expect to orient the portfolio accordingly while reassessing the optimal mix of real estate strategies while concurrently reducing financial leverage, portfolio level risk and management fees.

Performance

The overall real estate portfolio returned 12.1 percent for the fiscal year, thus outperforming its policy benchmark. While a function of several factors, it does reflect that KPERS often took valuation write-downs more quickly than other property owners who ultimately contribute to the benchmark index. Results for both the three- and five-year periods continued to trail the custom KPERS real estate benchmark at (11.8) percent and 0.3 percent respectively. This is typical for a measurement period that does not capture a full market cycle, which is generally considered to be roughly eight years according to the Journal of Real Estate Research.

The Core portfolio, consisting of both Core properties and the Prime Property fund continued to perform as expected as the portfolio currently exhibits higher beta than the Index, primarily through the use of leverage.

The Non-Core portfolio, which consists primarily of limited partner interests in funds, is generally meeting expectations, although some partnership interests have lost considerable value as a result of the amounts of leverage employed entering the current economic downturn. Typically, leverage is accretive for commercial real estate investing during strong economic times as owners can generate returns exceeding their borrowing costs. However, when the economy slips, debt service often reduces returns.

REIT performance has been positive in the portfolio over the past fiscal year, returning 56.7 percent versus the benchmark Index return of 55.2 percent. In addition, the managers also identified an opportunity in Preferred REITS in late 2009 that has yielded more than 8 percent since inception, while also providing modest capital appreciation.

Real Estate Performance as of June 30, 2010 (gross of fees)

	1-Year	3-Year	5-Year
Real Estate Portfolio	12.1%	(11.8)%	0.3%
KPERS Real Estate Benchmark ¹	7.4%	(2.7)%	5.4%

Time-weighted total rate of return includes income and changes in market value.

¹ KPERS' current Real Estate Benchmark is a weighted average of the following indexes: Custom NCREIF-50%; NCREIF +3% -25%; and Morgan Stanley REIT-25%.

Investment Advisors

As of June 30, 2010, KPERS had a contract with one external investment advisor (AEW Capital) for the real estate portfolio. In addition, The Townsend Group remains in place as KPERS dedicated real estate consultant.

ALTERNATIVE INVESTMENTS

For fiscal year end 2010, the System's alternative investment portfolio had a fair market value of \$383.6 million, representing 3.4 percent of the total KPERS portfolio, compared to a target of 6 percent. Since the inception of the alternative investment program in 1997, the System has committed \$1.4 billion to 66 funds with 46 general partners. The long-term return objective is to achieve a rate of return that exceeds the broad public equity market returns.

Highlights

- Private equity program (PEP) portfolio's performance achieved a top-quartile ranking when compared to similar vintage year funds based on internal rate of return, net of fees and expenses.
- Three new funds were approved for investment including one middle market buyout fund and two funds focused on providing capital to companies to restructure their balance sheets or improve their capital structure.
- In September 2009, KPERS' board of trustees strengthened its policies to ensure that investment decisions are founded on independent, merit-based evaluation of investment opportunities. The policy requires private market funds to disclose placement agents' fees and services as well as political contributions to Kansas elected officials.

Portfolio Structure

The alternative investment asset class 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 73 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's fund managers are actively pursuing exit strategies for their remaining holdings. For the fiscal year, AIP's funds distributed approximately \$62.8 million of cash and securities which the System reinvested or used to pay benefits to retirees.

The next largest portfolio is the newly formed 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. Since the portfolio's inception in 2007, the System has committed \$310 million to 13 funds. Of that total, \$206 million remains to be contributed for investment. During the fiscal year, \$70 million was committed to three new funds. The market value of the PEP portfolio increased to 27 percent of the asset class at the end of the fiscal year compared to approximately 14 percent at the beginning of the fiscal year. Over the next three to five years, the market value of the PEP portfolio will increase as the System continues to make commitments 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 within the next few years.

The remaining portfolios comprise less than 1 percent of KPERS alternative asset class and represent investments made prior to 1991.

Market Overview

Even with the unprecedented monetary and fiscal stimulus that added liquidity and strength to capital markets, investors continued to be wary of and lacked confidence in the stabilization of developed economies, specifically the United States and Western Europe. In addition, many industries experienced fundamental shifts in their business models as a result of the economic crisis in 2008 and early 2009. Major companies determined it was best to accumulate cash in lieu of capital expenditures or investing in other companies through merger and acquisition activity. Similarly, global private market funds accumulated an estimate \$500 billion available for investments in companies, venture start-ups or as lending facilities to companies.

As the credit markets began to recover in the fall of 2009, investment activity began to resume. Select opportunities were available for funds to invest in companies that needed capital and experienced management teams to turnaround revenues and earnings, such as distressed companies, or companies undergoing bankruptcy or reorganization. Conversely, traditional buyout funds invested slowly and with caution. Highly levered transactions were rare, as most companies were attempting to de-lever their balance sheets. For those transactions that did occur, the post-crisis buyout model

required 50 percent to 60 percent equity compared to a low of 20 percent at the height of buyout activity. Unlike the prior fiscal year, many funds were able to take advantage of liquidity opportunities due to a revived IPO and credit market.

Performance

Private equity investments typically span ten years or more. Therefore, the returns over a longer time horizon are more relevant. As such, the System's long-term performance objective for alternative investments is to exceed the return of its benchmark. For the latest five fiscal years, the performance was 10.8 percent compared to its benchmark of 4.3 percent. In the short-term, the portfolio returned 10.3 percent for the fiscal year compared to its benchmark of 18.7 percent.

Alternative Investment Performance
as of June 30, 2010 (gross of fees)

	1-Year	3-Year	5-Year
Alternative Investment Portfolio	10.3%	2.2%	10.8%
Russell 3000 + 3%	18.7%	(6.4)%	2.6%

Time-weighted total rate of return includes income and changes in market value.

The System also compares the alternative investment portfolio to the universe of private equity investment opportunities that were available at the time KPERS made its investments. The following table provides the internal rate of return (IRR) since inception for AIP portfolio and PEP portfolio compared to Thompson Venture Economics (TVE) All Private Equity funds that raised capital over the same period.

	Since Inception	TVE Top Quartile
	IRRs	IRRs
AIP	6.2%	10.7%
PEP	5.6%	5.0%

*Using GP reported NAVs and TVE U.S. Benchmarks as of 3/31/2010.

Investment Advisors

As of June 30, 2010, KPERS had a contract with one external investment advisor (LP Capital Advisors) for the alternative investment portfolio.

As required by K.S.A 74-4904, a schedule of alternative investments initiated on or after July 1, 1991, is listed on the following two pages. Another schedule, summarizing changes in fair value of investments, is on page 66. A listing of domestic broker commissions paid for the fiscal year and the top ten equities and fixed income holdings are shown on pages 64 and 65.

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

As of June 30, 2010

Description	Cost	Market Value (c)
Advanced Technology Ventures VI, L.P.	\$10,049,988	\$1,769,575
Apax Europe IV, L.P.	1,254,309	1,583,985
Apax Europe V, L.P.	13,534,450	11,230,159
Apollo Investment Fund VII, L.P.	9,260,831	10,094,311
Ares Corporate Opportunities Fund III, L.P.	8,272,371	8,795,404
Battery Ventures V, L.P.	705,602	35,261
Battery Ventures VI, L.P.	6,996,737	3,545,729
Beacon Group Energy Fund II, L.P.	1,857,390	1,659,202
Behrman Capital II, L.P.	8,547,467	7,307,877
Behrman Capital III, L.P.	24,157,679	31,788,433
Candover 1997 US #1 Fund, L.P.	—	24,443
Capital Resource Partners IV, L.P.	7,689,813	4,051,128
Cinven Second Fund US, L.P.	888,329	683,884
Clayton Dublier & Rice VI, L.P.	4,385,571	1,076,160
Cypress Merchant Banking II, L.P.	11,595,278	3,748,494
Dominion Fund V, L.P.	4,369,110	3,603,873
El Dorado Ventures IV, L.P.	1,833,722	101,859
El Dorado Ventures V, L.P.	7,344,772	954,650
El Dorado Ventures VI, L.P.	15,091,743	10,349,165
First Reserve Fund XII, L.P.	10,153,498	7,482,565
Blackstone GSO Capital Solutions Fund, L.P.	5,472,473	5,472,473
GTCR Capital Partners, L.P.	2,484,214	88,716
GTCR Fund VII, L.P.	—	124,625
GTCR Fund VII/A, L.P.	200,174	40,535
Halpern Denny Fund III, L.P.	6,021,154	4,504,943
Harvest Partners III, L.P.	8,540,848	1,097,922
Kelso Investment Associates VI, L.P.	1,122,257	1,116,820
Littlejohn Fund II, L.P.	3,058,896	—
McCown De Leeuw & Company IV, L.P.	153,561	1,317,876
M.D. Sass Corporate Resurgence Partners, L.P.	2,622,767	1,797,434
M.D. Sass Corporate Resurgence Partners II, L.P.	4,616,331	1,953,302
M.D. Sass Corporate Resurgence Partners III, L.P.	5,535,722	1,253,012
New Enterprise Associates 13, L.P.	2,050,000	1,932,180
Oak Hill Capital Partners, L.P.	2,886,443	4,648,129
OCM Opportunities Fund II, L.P.	969,215	19,579
OCM Opportunities Fund III, L.P.	1,249,623	350,669

OCM Opportunities Fund VIIb, L.P.	22,500,000	31,251,499
OneLiberty Fund IV, L.P.	1,740,007	1,848,278
OneLiberty Ventures 2000, L.P.	17,405,629	7,942,163
Pine Brook Capital Partners, L.P.	6,650,288	5,595,868
TA IX, L.P.	11,705,215	15,137,302
TA Subordinated Debt Fund, L.P.	2,163,990	2,480,212
TCV IV, L.P.	10,229,788	7,657,000
Thomas H. Lee Equity Fund V, L.P.	14,555,858	20,627,932
TowerBrook Investors III, L.P.	6,343,245	6,501,548
TPG Partners VI, L.P.	5,085,174	3,961,235
Trinity Ventures VI, L.P.	373,519	19,448
Trinity Ventures VII, L.P.	7,626,823	2,866,622
Trinity Ventures VIII, L.P.	12,089,561	7,892,784
VantagePoint Venture Partners III, L.P.	7,771,892	4,068,882
VantagePoint Venture Partners IV, L.P.	25,209,525	22,776,000
Vestar Capital Partners IV, L.P.	11,534,475	10,744,916
VS&A Communications Partners III, L.P.	10,019,779	7,635,068
Warburg, Pincus Equity Partners, L.P.	—	3,918,010
Warburg Pincus Private Equity X, L.P.	26,116,623	21,305,701
Washington & Congress Capital Partners, L.P. (b)	2,228,783	—
Welsh, Carson, Anderson & Stowe IX, L.P.	11,637,532	17,555,756
Welsh, Carson, Anderson & Stowe VIII, L.P.	6,947,152	6,028,226
Willis Stein & Partners II, L.P.	2,056,282	352,350
Willis Stein & Partners III, L.P.	34,845,140	25,380,536
Windjammer Mezzanine & Equity Fund II, L.P.	8,759,307	12,171,217
Windward Capital Partners II, L.P.	—	38,348
	<u>\$460,567,929</u>	<u>\$381,361,277</u>

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

b) Formerly Triumph Partners III, L.P.

c) Market Value represents Fair Value as reported by the General Partner as of March 31, 2010, and adjusted for cash flows and economic conditions.

U.S. Equity Commissions

For the fiscal year ending June 30, 2010

Broker Name	Commissions Paid	Shares	Commission Per Share	Percent of Total Commissions
Goldman Sachs & Co, NY	\$746,970	5,188,709	\$0.14	23.9 %
Stifel Nicolaus	313,902	6,465,821	0.05	10.0
Morgan Stanley & Co Inc, NY	164,920	7,190,056	0.02	5.3
Liquidnet Inc, Brooklyn	133,524	7,524,851	0.02	4.3
UBS Securities LLC, Stamford	100,513	4,977,184	0.02	3.2
Credit Suisse, NY	99,999	5,687,204	0.02	3.2
Deutsche Bk Secs Inc, NY	89,306	3,858,716	0.02	2.9
Investment Technology Groups, NY	84,908	4,557,468	0.02	2.7
Merrill Lynch Pierce Fenner Smith Inc NY	78,665	3,808,371	0.02	2.5
Citigroup Gbl Mkts Inc, NY	55,558	1,488,583	0.04	1.8
JP Morgan Clearing Group, New York	51,614	7,575,739	0.01	1.6
SG Americals Securities, LLC, New York	49,016	1,347,619	0.04	1.6
Jefferies & Co Inc, NY	44,707	1,339,534	0.03	1.4
Citigroup Gbl Mkts/Salomon, NY	41,644	8,416,193	0.00	1.3
Berstein Sanford C & Co, NY	30,120	1,324,534	0.02	1.0
Knight Securities Broadcort, NY	28,924	1,641,608	0.02	0.9
Barclays Capital Inc, New Jersey	28,901	1,710,832	0.02	0.9
Weeden & Co, NY	28,005	918,000	0.03	0.9
Baird, Robert W & Co Unc, Milwaukee	26,655	877,434	0.03	0.9
Merrill Lynch Pierce Fenner Smith Inc Willmington	23,739	2,896,466	0.01	0.8
Pulse Trading LLC, Boston	23,023	838,467	0.03	0.7
Cantor Fitzgerald & Co Inc, NY	22,845	884,389	0.03	0.7
Wells Fargo Securities LLC, Charlotte, NC	22,373	637,373	0.04	0.7
UBS Securities , London	21,238	6,034,080	0.00	0.7
Baypoint Trading LLC, New York	19,561	842,783	0.02	0.6
Others	<u>799,150</u>	<u>68,816,704</u>	0.01	<u>25.5</u>
Total Broker Commissions	<u>\$3,129,780</u>	<u>156,848,718</u>	0.02	<u>100.0</u> %

List of Largest Holdings (a)

As of June 30, 2010

Equities

Shares	Security	Fair Value (\$)
635,277	Nestle	\$30,752,037
1,791,989	BG Group	26,970,807
388,375	Sanofi-Aventis	23,562,438
725,420	British American Tobacco	23,187,453
771,502	BHP Billiton	20,251,213
959,659	Vale S A	20,172,032
2,035,794	DBS	19,948,186
1,984,342	Taivan Semiconductor Mfg	19,367,178
3,256,315	Tesco	18,515,173
131,068	Roche	18,122,352

Fixed Income

Par Value	Security	Description	Fair Value (\$)
77,600,000	Greenwich Repo	.030% 07/01/2010	\$77,600,000
66,600,000	Morgan Stanley Rev Repo	.030% 07/01/2010	66,600,000
61,450,000	US Treasury Note	1.000% 08/31/2011	61,848,196
43,870,000	Federal Natl Mtg Assn Discount	Mat 12/01/2010	43,746,534
30,005,000	US Treasury Notes	2.375% 03/31/2016	30,448,174
24,700,000	GAZ Capital	8.625% 04/28/2034	28,312,375
26,600,000	Federal Natl Mtg Assn Discount	Mat 08/11/2010	26,587,388
25,000,000	Federal Natl Mtg Assn Discount	Mat 06/15/2011	24,987,917
23,460,000	US Treasury Note	3.625% 02/15/2020	24,786,898
22,230,000	US Treasury Note	3.500% 05/15/2020	24,311,589

a) A complete listing of the System's holdings is available at the Retirement System office. Does not include holdings of commingled funds .

Schedule of Investment Summary

For fiscal year ended June 30, 2010 (in thousands)⁽¹⁾

	June 30, 2009 Fair Value	Purchases and Other Increases	Sales and Other Decreases	June 30, 2010 Fair Value	Asset Mix Fair Value
Marketable Securities					
Domestic Equities	\$2,879,300	\$2,421,179	\$(2,640,774)	\$2,659,705	23.68 %
International Equities	2,286,972	4,248,569	(3,694,789)	2,840,752	25.29
Total Fixed Income	3,205,743	7,655,352	(6,987,464)	3,873,631	34.49
Temporary Investments ⁽²⁾	<u>1,016,504</u>	<u>76,131,322</u>	<u>(76,559,428)</u>	<u>588,398</u>	<u>5.24</u>
Total Marketable Securities	<u>9,388,519</u>	<u>90,456,422</u>	<u>(89,882,455)</u>	<u>9,962,486</u>	<u>88.70</u>
Real Estate and Alternative Investments					
Real Estate	641,470	441,656	(197,542)	885,584	7.89
Direct Placements and Limited Partnerships	<u>375,422</u>	<u>56,467</u>	<u>(48,271)</u>	<u>383,618</u>	<u>3.41</u>
Total Real Estate and Alternative Investments	<u>1,016,892</u>	<u>498,123</u>	<u>(245,813)</u>	<u>1,269,202</u>	<u>11.30</u>
Total	<u>\$10,405,411</u>	<u>\$90,954,545</u>	<u>\$(90,128,268)</u>	<u>\$11,231,688</u>	<u>100.00 %</u>

1) Amounts include changes in unrealized appreciation and exclude interest and dividend accruals. Amounts exclude security lending cash collateral of \$597,414,351 for FY 2009, and FY 2010 cash collateral of \$1,144,214,739.

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

ACTUARIAL
SECTION



ACTUARY'S CERTIFICATION LETTER



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August 20, 2010

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 performed an actuarial valuation of the Kansas Public Employees Retirement System as of December 31, 2009, for purposes of determining contribution rates for fiscal year 2013 for the State and 2012 for Local employers. The valuation results reflect the benefit provisions in place on December 31, 2009. There was no change in the actuarial assumptions or methods from the prior valuation.

In preparing our 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, member data and financial information. We found this information to be reasonably consistent and comparable with information used for other purposes. The valuation results depend on the integrity of this information. If any of this information is inaccurate or incomplete, our results may be different and our calculations may need to be revised.

We 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 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 our valuation report.

Future actuarial measurements may differ significantly from the current measurements presented in the valuation report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements.

The actuarial computations presented in the valuation report are for purposes of determining the recommended funding amounts for the System. Actuarial computations presented under GASB Statement No. 25 are for purposes of fulfilling financial accounting requirements. The computations prepared for these two purposes may differ as disclosed in the December 31, 2009 actuarial valuation report. The calculations have been made on a basis consistent with our understanding of the System's funding requirements and goals, and of GASB Statement No. 25. Determinations for purposes other than meeting these requirements may be significantly different from the results shown in the December 31, 2009 actuarial valuation 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.

The actuary prepared the following supporting schedules for the Comprehensive Annual Financial Report:

- Actuarial Section
- Summary of Change in Unfunded Actuarial Liability
- Summary of Changes in Actuarial Contribution Rate
- Summary of Historical Changes to Total System UAL
- Summary of Principal Results
- Summary of Actuarial Assumptions and Methods
- Summary of Membership Data

We also provided the information used in the Schedules of Funding Progress and Changes in the Unfunded Actuarial Liability in the Financial Section, and the employer contribution rates shown in the Schedule of Employer Contributions in the Financial Section.

The consultants who worked on this assignment are pension actuaries. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel.

We certify that, to the best of our knowledge and belief, the December 31, 2009, valuation is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices. We are members of the American Academy of Actuaries and meet the Qualification Standards to render the actuarial opinion contained herein.

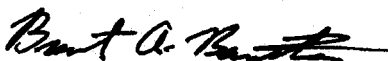
MILLIMAN, Inc.

Sincerely,



Patrice A. Beckham, FSA, MAAA

Consulting Actuary



Brent A. Banister, FSA, MAAA

Consulting Actuary

ACTUARIAL 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, 2009 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, and
- Analyze and report on trends in System contributions, assets, and liabilities over the past several years.

The valuation results provide a "snapshot" view of the System's financial condition on December 31, 2009. The unfunded actuarial liability for the System as a whole decreased by \$602 million due to various factors. A detailed analysis of the change in the unfunded actuarial liability from December 31, 2008 to December 31, 2009 is shown later in this section.

There were no changes in the actuarial assumptions or methods used in the valuation since last year. This is the first valuation to include members of KPERS Tier 2 who became members on or after July 1, 2009. There is no measurable impact on the valuation results from the Tier 2 members because they are new members and account for a small proportion of the active membership. Over time, as Tier 1 members leave covered employment and are replaced with Tier 2 members, the employer contribution rate is expected to be lower than it would otherwise have been. In addition, the impact of the change to first day coverage (employees become members of KPERS on their date of hire), effective July 1, 2009, is also reflected in this valuation. As a result, the active member count increased 6.7 percent for the State group and 14 percent for the Local group. This is a one-time increase that reflects the participation of all members who

were in their one year of service waiting period as well as new hires after July 1, 2009. The School group already had first day coverage so there was no impact on that group.

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.

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, 2009 Valuation

System	Actuarial	Statutory	Difference
State ¹	9.55%	9.37%	0.18%
School ¹	14.69%	9.37%	5.32%
Local ¹	9.44%	7.34%	2.10%
KP&F ²	16.54%	16.54%	—%
Judges	23.75%	23.75%	—%

December 31, 2008 Valuation

System	Actuarial	Statutory	Difference
State ¹	11.13%	8.77%	2.36%
School ¹	14.96%	8.77%	6.19%
Local ¹	10.42%	6.74%	3.68%
KP&F ²	17.88%	14.57% ³	3.31%
Judges	26.38%	21.28% ³	5.10%

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 16.43 percent this year, which includes a payment of 0.51 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) Contribution rates were recertified to the rates shown after the valuation report was issued.

Over the last decade, much time and effort has been devoted to improving the long-term funding outlook for KPERS. As a result of legislative changes, Board action and investment performance from 2003 to 2007, the System's long-term funding outlook improved, although the positive results for the System were highly dependent on attaining the 8 percent assumption in future years. Modeling indicated that investment returns below the 8 percent assumption could change the long-term funding outlook,

particularly for the School group. The unprecedented negative investment experience in 2008 was a significant setback in the System's long-term funding. Although the investment return in 2009 was strong (approximately 23 percent) it has not reversed the damage done by the 2008 investment experience. As of the valuation date, the State and Local groups remain in actuarial balance (the statutory contribution rate is projected to converge with the actuarial required contribution (ARC) rate before the end of the amortization period (2033) if all actuarial assumptions are met in future years). For the School group, the statutory and actuarial contribution rates are not projected to converge before 2033 even if all assumptions are met in future years. This situation should continue to be closely monitored and further analysis performed in order to determine the appropriate actions to be taken. As the deferred investment losses are recognized in the next three years, the actuarial contribution rate is expected to increase. As this occurs, the shortfall between the actuarial and statutory contribution rates will grow and will 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 actuarial value of assets is approximately 15 percent higher than the pure market value, which equates to \$1.7 billion. 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 losses, which are significant, will be reflected in the actuarial value of assets over the next three years. However, the net impact of the deferred experience on the actuarial value of assets in future years will depend on actual investment experience during that period.

EXPERIENCE - ALL SYSTEMS COMBINED

December 31, 2008 – December 31, 2009

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, 2009. 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, 2008 and December 31, 2009 actuarial valuations.

Membership

Follows is a summary of the changes in active members between the December 31, 2008 and December 31, 2009 actuarial valuations.

Change in Membership by Type

	State	School	Local
12/31/2008 (Starting count)	24,374	87,948	36,247
New actives	3,623	7,071	8,482
Nonvested Terminations	437	3,849	1,189
Elected Refund	323	1,119	586
Vested Terminations	553	1,768	941
Total Withdrawals	1,313	6,736	2,716
Deaths	32	54	45
Disabilities	89	87	75
Early Retirements	54	229	68
Unreduced Retirements	462	1,668	560
Total Retirements	516	1,897	628
Other/Transfer	(42)	(197)	68
12/31/2009 (Ending count)	26,005	86,048	41,333

Change in Membership by Type (cont.)

	KP&F	Judges	System Total
12/31/2008 (Starting count)	7,242	262	156,073
New actives	298	17	19,491
Nonvested Terminations	169	—	5,644
Elected Refund	93	—	2,121
Vested Terminations	53	4	3,319
Total Withdrawals	315	4	11,084
Deaths	8	—	139
Disabilities	34	—	285
Early Retirements	13	3	367
Unreduced Retirements	105	15	2,810
Total Retirements	118	18	3,177
Other/Transfer	114	9	(48)
12/31/2009 (Ending count)	7,179	266	160,831

Assets

As of December 31, 2009, the System had total funds when measured on a market value basis, of \$11.8 billion, excluding assets held for the Group Insurance and Optional Life

reserves. This was an increase of \$1.9 billion from the December 31, 2008 figure of \$9.9 billion.

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. The resulting value must be no less than 80 percent of market and no more than 120 percent of market.

The components of the change in the market value and actuarial value of assets for the Retirement System (in millions) are set forth below.

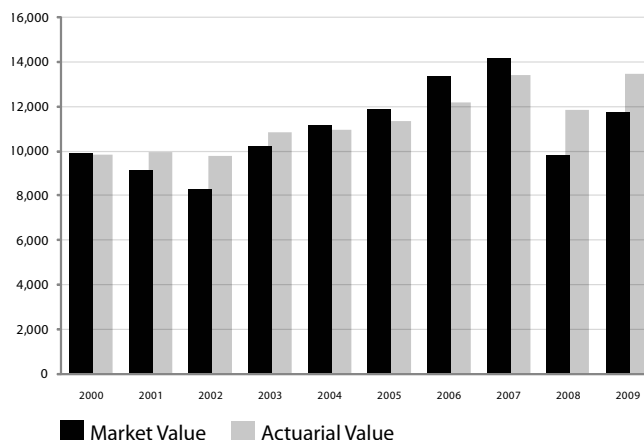
	Market Value \$ millions	Actuarial Value \$ millions
Assets, 12/31/08	\$9,856	\$11,828
• Employer and Member Contributions	747	747
• Benefit Payments and Expenses	(1,058)	(1,058)
• Investment Income	2,210	1,944
Preliminary Asset Value, 12/31/09	\$11,755	\$13,461
Application of Corridor	N/A	N/A
Final Asset Value, 12/31/09	\$11,755	\$13,461

The actuarial value of assets as of December 31, 2009, was \$13.461 billion. The annualized dollar-weighted rate of return for 2009, measured on the actuarial value of assets, was approximately 16.7 percent and measured on the market value of assets, as reported by KPERS, was 23.1 percent, net of investment and administrative expenses.

Due to the use of an asset smoothing method, there is about \$1.7 billion of net deferred investment loss experience that has not yet been recognized. This deferred investment loss will gradually be reflected in the actuarial value of assets over the next three years, but may be offset by actual investment experience if more favorable than assumed.

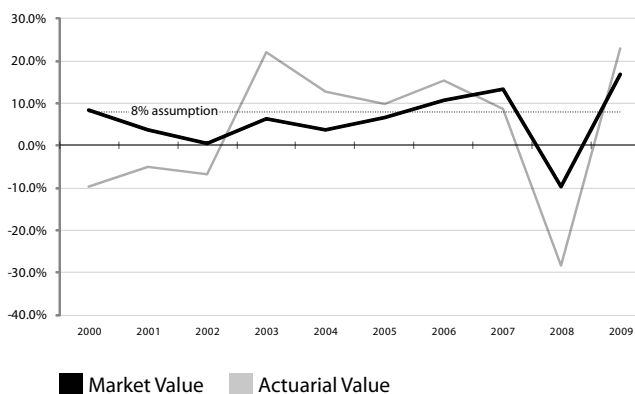
The actuarial value of assets has been both above and below the market value during the period, which is to be expected when using an asset smoothing method.

Total System Assets by Calendar Year



The rate of return on the actuarial (smoothed) value of assets has been less volatile than the market value return. Due to the magnitude of the deferred investment losses, the return on the actuarial value of assets is expected to be below 8 percent in the next few years absent favorable investment experience.

System Asset Rate of Return by Calendar Year



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 unfunded actuarial liability (\$ million) by group is summarized in the following table.

	State	School	Local	KP&F	Judges
Actuarial Liability	\$3,696	\$11,437	\$3,624	\$2,232	\$148
Actuarial Value of Assets	2,890	6,438	2,309	1,702	122
UAL	\$806	\$4,999	\$1,315	\$530	\$26

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 4 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 2009). The KPERS Local group and KP&F had a net liability loss for the year. The KPERS State and School groups and the Judges had liability gains for the 2009 year. There was an experience gain from investment return on the actuarial value of assets for all groups.

Changes in Unfunded Actuarial Liability for System as a Whole

Unfunded Actuarial Liability, 12/31/08	(millions)	\$8,279
- effect of contribution cap/time lag		384
- expected increase due to amortization method		96
- (gain) from investment return on actuarial assets		(1,011)
- demographic experience ¹		(68)
- all other experience		(3)
- change in actuarial assumptions		—
- change in benefit provisions		—
Unfunded Actuarial Liability, 12/31/09		\$7,677

1) Liability gain is approximately 0.30 percent of total actuarial liability.

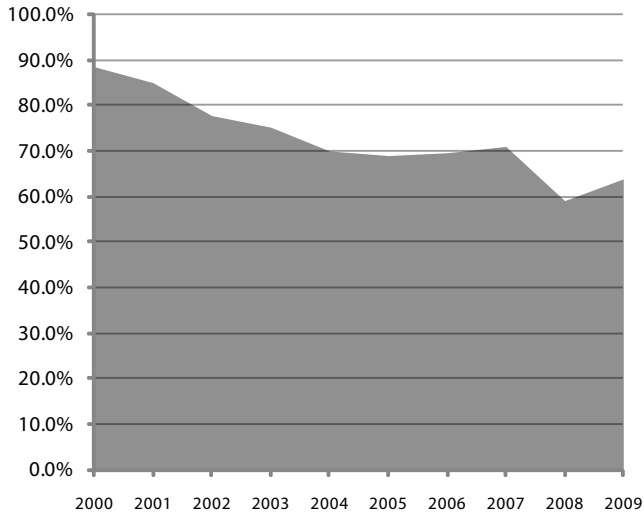
An evaluation of the UAL on a pure dollar basis may not provide a complete analysis since only the difference between the assets and liabilities is reflected. Another way to evaluate the UAL and funding progress is to track the funded status, the ratio of the actuarial value of assets to the actuarial liability. There were changes in actuarial assumptions in the 2004 and 2007 valuations, which impacted the UAL and the funded status.

Funded Ratio and Unfunded Actuarial Liability by Calendar Year

	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09
Using Actuarial Value of Assets:						
Funded Ratio (AVA/AL)	70%	69%	69%	71%	59%	64%
Unfunded Actuarial Liability (AL-AVA)	\$4,743	\$5,152	\$5,364	\$5,552	\$8,279	\$7,677
Using Market Value of Assets:						
Funded Ratio (MVA/AL)	71%	72%	76%	75%	49%	56%
Unfunded Actuarial Liability (AL-MVA)	\$4,536	\$4,583	\$4,184	\$4,817	\$10,250	\$9,384

Changes in actuarial assumptions and methods, coupled with investment returns below the assumed rate (particularly in 2008) significantly reduced the funded ratio in the latter part of the period.

Funded Ratio by Calendar Year



Given the current funded status of the System, the amount of the deferred investment loss, the amortization method, the amortization period, and the scheduled increases in employer contribution rates, the unfunded actuarial liability for the entire System is expected to grow for many years. The funded ratio is expected to decline as asset losses are recognized and then gradually improve.

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, 2009 valuation will set rates for fiscal year end 2013 for the State and 2012 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.

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

December 31, 2009 Valuation

System	Actuarial	Statutory	Difference
State ¹	9.55%	9.37%	0.18%
School ¹	14.69%	9.37%	5.32%
Local ¹	9.44%	7.34%	2.10%
Police & Fire - Uniform Rates ²	16.54%	16.54%	—%
Judges	23.75%	23.75%	—%

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 16.43 percent this year, which includes a payment of 0.51 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.

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 as follows:

Contribution Rates for Correctional Groups

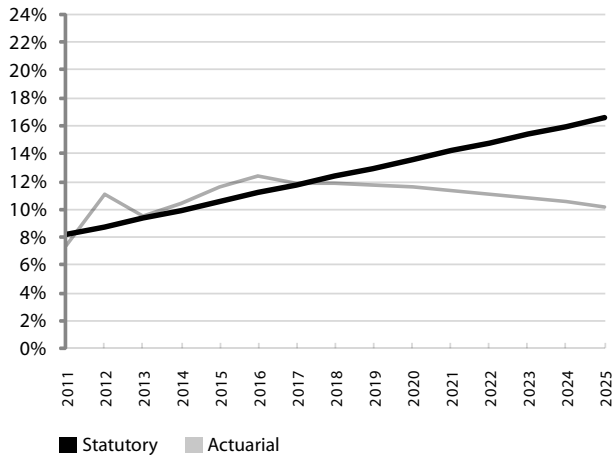
	Actuarial Rate	Statutory Rate
Retirement Age 55:	11.24%	9.84%
Retirement Age 60:	10.06%	9.70%

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 0.18 percent, 5.32 percent and 2.10 percent respectively for the State, School and Local groups. Assuming an 8 percent return on the market value of assets for 2010 and beyond, all other actuarial assumptions are met in the future, and the current level of statutory caps, the estimated ARC Date (statutory and actuarial contribution rates are equal) for the State group is 2018 and the Local group is 2019. The actuarial and statutory rates for School are not projected to converge before the end of the amortization period.

The actuarial value of assets exceeds the market value of assets by approximately 15 percent. As the remainder of the deferred investment experience is recognized in the actuarial value of assets in the next three years, the contribution rate for the UAL payment can be expected to increase significantly, absent favorable experience to offset the previously unrecognized losses.

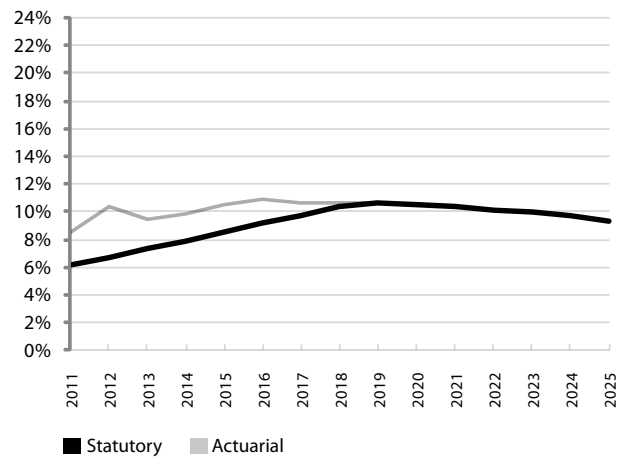
The State's actuarial rate is expected to exceed the statutory rate from 2012 until 2018.

Projected Employer Rates - State Fiscal Year End



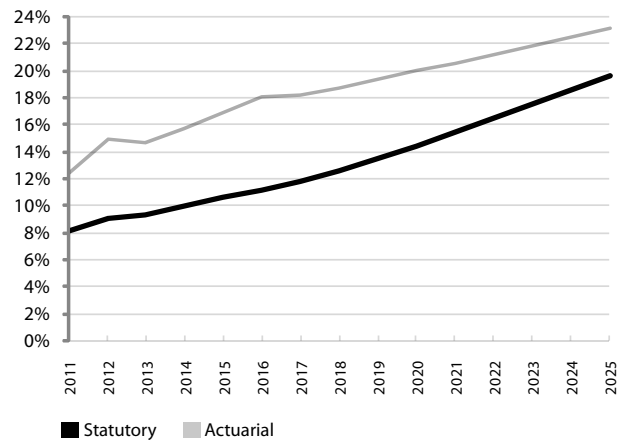
The Local ARC date is projected to occur in approximately 2019, assuming all actuarial assumptions are met in future years. Actual experience in future years will impact the ARC date.

Projected Employer Rates - Local Fiscal Year End



The School statutory rate and actuarial contribution rates are not projected to converge before the end of the amortization period. Future experience, especially investment returns, will influence the movement in the ARC date.

Projected Employer Rates - School Fiscal Year End

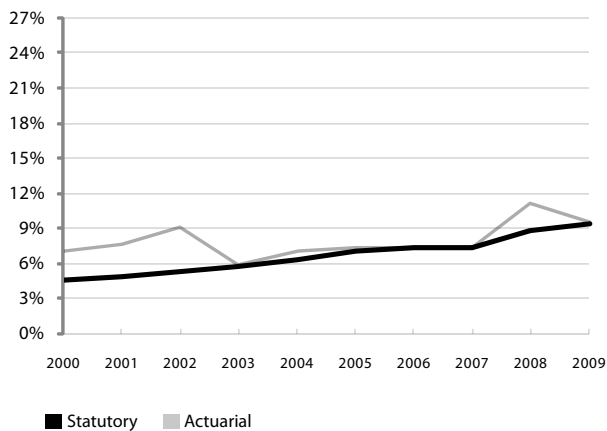


Historical contribution rates for each group are shown on the following pages. Please note that prior to the December 31, 2003 valuation, one contribution rate was developed for the State and School together as one group. Legislation passed in 2004 split the contribution rate calculations into two separate 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.

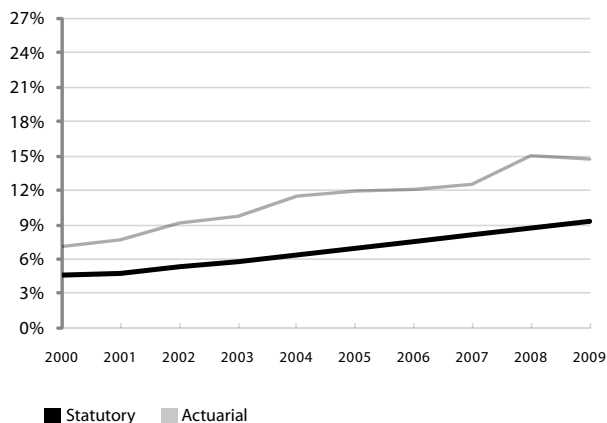
The split of the State group into a separate group with the 2003 valuation, coupled with the bond issue, lowered the actuarial contribution rate. The State's statutory contribution rate in this valuation is less than the actuarial contribution rate due to the impact of the 2008 investment experience.

Employer Contribution Rates - State Calendar Year End



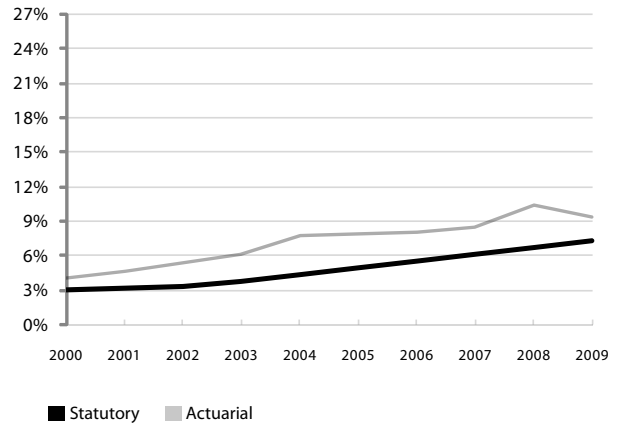
Due to investment experience, changes in actuarial methods and assumptions, and the magnitude of the difference between the actuarial and statutory contribution rates, the funded status of the School group has declined and the actuarial contribution rate has increased.

Employer Contribution Rates - School Calendar Year End



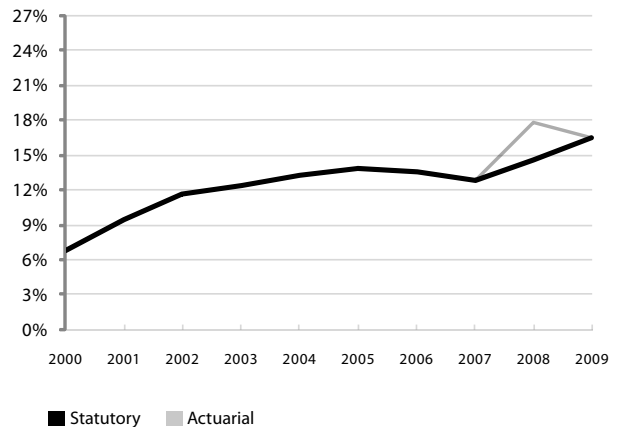
The Local contribution rate has also been impacted by changes in actuarial assumptions and methods as well as investment performance. As a result, a significant difference still exists between the statutory and actuarial contribution rate. Legislation passed in 2004 provided for increased statutory caps,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

Employer Contribution Rates - Local Calendar Year End



Investment experience, coupled with a change in actuarial methodology, dramatically increased the KP&F contribution rates in the first half of the period. Investment experience in 2008, which has still not been totally reflected, resulted in higher contribution rates in the last two valuations.

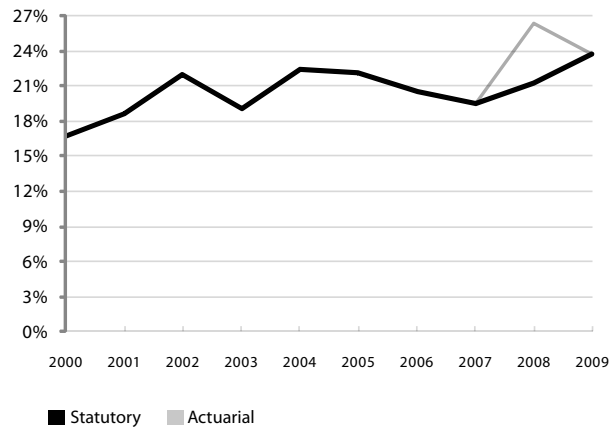
Employer Contribution Rates - KP&F Calendar Year End



Significant changes in the actuarial assumptions in the 2004 valuation and investment experience in 2008 resulted in higher contribution rates for the Judges plan.

Employer Contribution Rates - Judges

Calendar Year End



Comments

Over the last decade the development of a comprehensive plan to address the long-term funding of KPERS has been a high priority. HB 2014, 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 SB 520, 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. SB 520 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.

The 2007 Legislature passed SB 362 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.

The strong investment performance of 23 percent in calendar year 2009 was a welcome change after the severe market decline in 2008, but it represents a modest improvement in the long-term funding of KPERS. While the investment return in 2009 was well above the 8 percent assumed rate, there are still significant deferred investment losses which have not been recognized in the valuation process. As of December 31, 2009, the actuarial value of assets exceeds the market value of assets by approximately 15 percent, or \$1.7 billion. This deferred experience will flow through the asset valuation method in the next three years and be recognized in the valuation process, absent investment experience significantly above the 8 percent assumed rate of return. As the deferred losses are recognized, the funded ratio can be expected to decline and the UAL and the actuarial contribution rate to increase. KPERS continues to face a significant long-term funding challenge, particularly with the School group. Action is necessary now in order to strengthen the System's funding over the long term. Benefits are paid out of the System from two sources: contributions and investment earnings. In order to improve the System's long-term funding, contributions and/or investment earnings must increase, benefit payments must decrease, or both must occur. The options within the control of the plan sponsor include increasing contributions to the System or reducing benefits in future years. Both of these options typically take many years before an improvement in the funded ratio can be seen, particularly if the benefit reductions apply only to new hires. The other component of the long-term funding equation is investment return. If returns exceed the 8 percent assumption in future years, it will result in higher funded ratios. In fact, due to the size of the assets, higher returns have the greatest potential to impact the funded ratio in the short term - both positive and negative. There seems to be little optimism that returns will consistently exceed the 8 percent assumption in the next ten years so this option does not appear to be a viable solution to the long-term funding shortfall.

Based on the December 31, 2009 actuarial valuation results and the current statutory caps, the statutory contribution rates for the State and Local groups are projected to converge with the actuarial required contribution (ARC) rate before the end of the amortization period. As a result, those groups are in long-term actuarial balance. However, these

projections assume that all actuarial assumptions are met exactly in each future year and the statutory contributions continually increase. 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. For the School group, the unfavorable experience in 2008 has created the situation where the statutory contribution rate is not projected to reach the actuarial required contribution (ARC) rate before the end of the amortization period if assumptions are met. Future investment experience will be critical to the financial health of all groups, but particularly the School group. Additional analysis with respect to long-term funding is expected to continue later this year.

The System utilizes an asset smoothing method in the valuation process. While this is a common procedure for public retirement systems, it is important to identify the potential impact of the deferred (unrecognized) investment experience. To illustrate the impact of the deferred losses, the key valuation results are shown below for the State/School and KPF groups using both the actuarial value of assets and the pure market value. The impact would be similar for the other groups.

	State/School		KP&F	
	Actuarial	Market	Actuarial	Market
Actuarial Liability	\$15,141	\$15,141	\$2,232	\$2,232
Asset Value	9,329	8,130	1,702	1,485
UAL	5,812	7,011	530	747
Funded Ratio	62%	54%	76%	67%
Contribution Rate:				
Normal Cost Rate	8.54%	8.54%	14.71%	14.71%
UAL Payment	9.00%	10.79%	8.17%	11.61%
Total	17.54%	19.33%	22.88%	26.32%
Employee Rate	4.07%	4.07%	6.52%	6.52%
Employer Rate	13.47%	15.26%	16.36%	19.80%

The asset smoothing method impacts only the timing of when the actual market experience on the assets will be recognized. Despite a return of over 23 percent on market value, the actuarial value of assets still exceeds the pure market value by approximately 15 percent due to the deferred investment experience in 2008. If there are not significantly higher returns consistently over the next few years, the deferred investment experience will be recognized and the ultimate impact on the employer contribution rate can be expected to be similar to the column shown above based on the market value of assets. Also, see the earlier graphs of

projected contribution rates assuming an 8 percent rate of return in all future years.

Actual investment returns over the next few years will determine exactly how the System's funding will be affected and the magnitude of the increase in the unfunded actuarial liability and the actuarial contribution rate. The negative return in 2008 had a substantial impact on the System's long-term funding outlook. While investment experience was favorable in 2009 (23 percent actual versus 8 percent assumed), it has not offset the impact of the 2008 experience. While the System has sufficient assets to pay benefits for many years into the future, the long-term actuarial soundness of the System will be impacted if returns do not exceed 8 percent, contributions increase, benefits decrease, or some combination occurs. The System continues to face significant funding challenges, particularly if investment returns are below the 8 percent expected return. Studies on the long-term financial health of the System were performed last year and are continuing in the current year.

Summary of Change in UAL

12/31/09 Valuation (millions)

	State	School	Local	KP&F	Judges	Total
UAL in 12/31/2008 Valuation Report	\$1,001.7	\$5,238.5	\$1,384.7	\$618.7	\$35.5	\$8,279.2 ¹
• Effect of contribution cap/timing	42.0	258.9	76.2	5.7	0.9	383.7
• Expected increase due to method	10.9	62.5	16.1	6.8	(0.5)	95.8
• Actual vs. expected experience						
• Investment return	(232.0)	(476.2)	(162.7)	(131.1)	(9.1)	(1,011.1)
• Demographic experience	(7.1)	(90.0)	18.3	21.4	(1.1)	(58.5)
• All other experience	(9.3)	5.1	(17.1)	8.8	0.4	(12.0)
• Change in assumptions	—	—	—	—	—	—
• Change in benefit provisions	—	—	—	—	—	—
UAL in 12/31/2009 Valuation Report	\$806.2	\$4,998.8	\$1,315.5	\$530.3	\$26.1	\$7,677.0

1) May not add due to rounding.

Summary of Changes in UAL Contribution Rate by System

As of 12/31/09

Percentage of Payroll	State	School	Local	KP&F ¹	Judges
Actuarial Contribution Rate in 12/31/2008 Valuation	11.13%	14.96%	10.42%	17.88%	26.38%
Change Due to Amortization of UAL					
• effect of contribution cap/time lag	0.27	0.51	0.30	0.09	0.29
• amortization method	—	—	—	—	(0.47)
• investment experience	(1.47)	(0.94)	(0.65)	(1.97)	(2.94)
• liability experience	(0.04)	(0.18)	0.07	0.32	(0.36)
• all other experience	(0.33)	0.40	(0.62)	0.21	0.26
• change in assumptions	—	—	—	—	—
• change in benefit provisions	—	—	—	—	—
Change in Normal Cost Rate					
• change in benefit provisions	—	—	—	—	—
• change in assumptions	—	—	—	—	—
• all other experience	(0.01)	(0.06)	(0.08)	0.01	0.59 ²
Actuarial Contribution Rate in 12/31/2009 Valuation	9.55%	14.69%	9.44%	16.54%	23.75%

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 the current benefit structure.

Summary of Historical Changes in Total System UAL

(in millions)

	6/30/94	6/30/95	6/30/96	6/30/97	6/30/98	6/30/99
Actual Experience vs. Assumed						
• Investment	\$(102)	\$(143)	\$(280)	\$(323)	\$(413)	\$(360)
• Other	320	72	136	157	104	46
Assumption Changes	0	(96)	0	—	350	—
Changes in Data/Procedures	244	—	—	—	—	21
Change in Cost Method	—	—	—	—	—	—
Effect of Contribution Cap/Lag	1	95	70	63	54	78
Amortization Method	1	47	38	35	32	30
Change in Benefit Provisions	75	—	—	—	88	—
Bond Issue	—	—	—	—	—	—
Total	\$537	\$(25)	\$(36)	\$(68)	\$215	\$(194)
	6/30/00	12/31/00	12/31/01	12/31/02	12/31/03	12/31/04
Actual Experience vs. Assumed						
• Investment	\$(441)	\$(23)	\$350	\$644	\$140	\$456
• Other	99	84	(9)	68	(32)	16
Assumption Changes	(206)	—	—	—	437	—
Changes in Data/Procedures	71	145 ²	5	177 ²	(286) ³	—
Change in Cost Method	—	—	—	1,147	—	—
Effect of Contribution Cap/Lag	66	60	115	143	178	179
Amortization Method	2	12	14	21	47	68
Change in Benefit Provisions	19	—	—	37	3	1
Bond Issue	—	—	—	(41)	(440)	—
Total	\$(164)	\$72	\$475	\$1,048	\$757	\$1,157
	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09	Total
Actual Experience vs. Assumed						
• Investment	\$167	\$(293)	\$(626)	\$2,332	\$(1,011)	\$74
• Other	(84)	139	99	78	(70)	1,223
Assumption Changes	(5)	—	384	—	—	864
Changes in Data/Procedures	—	—	—	—	—	377
Change in Cost Method	—	—	—	—	—	1,147
Effect of Contribution Cap/Lag	247	258	251	246	383	2,486
Amortization Method	84	83	78	71	96	778
Change in Benefit Provisions	—	24	2	—	—	249
Bond Issue	—	—	—	—	—	(481)
Total	\$409	\$211	\$188	\$2,727	\$(602)	\$7,677

1) Not calculated for this year.

2) 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.

3) Change in asset valuation method.

Summary of Principal Results – KPERS State

	12/31/2009 Valuation	12/31/2008 Valuation	% Change
Participant Data			
Number of:			
Active Members	26,005	24,374	6.7%
Retired Members and Beneficiaries	15,936	15,621	2.0
Inactive Members	<u>5,863</u>	<u>5,712</u>	2.6
Total Members	<u>47,804</u>	<u>45,707</u>	4.6
Projected Annual Salaries of Active Members	\$1,048,674,951	\$972,080,168	7.9
Annual Retirement Payments for Retired Members and Beneficiaries	\$186,322,148	\$178,648,359	4.3
Assets and Liabilities			
a. Total Actuarial Liability	\$3,696,501,526	\$3,554,600,691	4.0
b. Assets for Valuation Purposes	2,890,275,842	2,552,895,270	13.2
c. Market Value of Assets	2,506,018,054	2,127,412,725	17.8
d. Unfunded Actuarial Liability (a) - (b)	806,225,684	1,001,705,421	(19.5)
e. Funded Ratio (b) / (a)	78.2%	71.8%	8.9
Employer Contribution Rates as Percent of Payroll			
Normal Cost	4.16%	4.17%	
Amortization of Unfunded Actuarial and Debt Service	5.39%	6.96%	
Actuarial Contribution Rate	9.55%	11.13%	
Statutory Employer Contribution Rate*	9.37%	8.77%	

Summary of Principal Results – KPERS School

	12/31/2009 Valuation	12/31/2008 Valuation	% Change
Participant Data			
Number of:			
Active Members	86,048	87,948	(2.2)%
Retired Members and Beneficiaries	38,878	37,346	4.1
Inactive Members	<u>24,958</u>	<u>24,212</u>	3.1
Total Members	<u>149,884</u>	<u>149,506</u>	0.3
Projected Annual Salaries of Active Members	\$3,352,328,403	\$3,345,545,288	0.2
Annual Retirement Payments for Retired Members and Beneficiaries	\$509,617,413	\$477,612,789	6.7
Assets and Liabilities			
a. Total Actuarial Liability	\$11,437,206,665	\$10,937,800,107	4.6
b. Assets for Valuation Purposes	6,438,367,288	5,699,278,482	13.0
c. Market Value of Assets	5,624,405,754	4,749,398,735	18.4
d. Unfunded Actuarial Liability (a) - (b)	4,998,839,377	5,238,521,625	(4.6)
e. Funded Ratio (b) / (a)	56.3%	52.1%	8.0
Employer Contribution Rates as Percent of Payroll			
Normal Cost	4.58%	4.64%	
Amortization of Unfunded Actuarial and Debt Service	10.11%	10.32%	
Actuarial Contribution Rate	14.69%	14.96%	
Statutory Employer Contribution Rate*	9.37%	8.77%	

*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 for the death and disability program.

Summary of Principal Results – KPERS State/School

	12/31/2009 Valuation	12/31/2008 Valuation	% Change
Participant Data			
Number of:			
Active Members	112,053	112,322	(0.2)
Retired Members and Beneficiaries	54,814	52,967	3.5
Inactive Members	<u>30,821</u>	<u>29,924</u>	3.0
Total Members	<u>197,688</u>	<u>195,213</u>	1.3
Projected Annual Salaries of Active Members	\$4,401,003,354	\$4,317,625,457	1.9
Annual Retirement Payments for Retired Members and Beneficiaries	\$695,939,561	\$656,261,148	6.0
Assets and Liabilities			
a. Total Actuarial Liability	\$15,133,708,191	\$14,492,400,798	4.4
b. Assets for Valuation Purposes	9,328,643,130	8,252,173,752	13.0
c. Market Value of Assets	8,130,423,808	\$6,876,811,460	18.2
d. Unfunded Actuarial Liability (a) - (b)	5,805,065,061	6,240,227,046	(7.0)
e. Funded Ratio (b) / (a)	61.6%	56.9%	8.3
Employer Contribution Rates as Percent of Payroll			
Normal Cost	4.47%	4.53%	
Amortization of Unfunded Actuarial and Debt Service	8.99%	9.56%	
Actuarial Contribution Rate	13.46%	14.09%	
Statutory Employer Contribution Rate*	9.37%	8.77%	

Summary of Principal Results – KPERS Local

	12/31/2009 Valuation	12/31/2008 Valuation	% Change
Participant Data			
Number of:			
Active Members	41,333	36,247	14.0 %
Retired Members and Beneficiaries	14,087	13,501	4.3
Inactive Members	<u>11,172</u>	<u>10,466</u>	6.7
Total Members	<u>66,592</u>	<u>60,214</u>	10.6
Projected Annual Salaries of Active Members	\$1,661,357,024	\$1,454,109,452	14.3
Annual Retirement Payments for Retired Members and Beneficiaries	\$127,657,737	\$118,235,853	8.0
Assets and Liabilities			
a. Total Actuarial Liability	\$3,624,727,632	\$3,376,131,873	7.4
b. Assets for Valuation Purposes	2,309,262,337	1,991,428,225	16.0
c. Market Value of Assets	2,033,031,884	1,659,523,521	22.5
d. Unfunded Actuarial Liability (a) - (b)	1,315,465,295	1,384,703,648	(5.0)
e. Funded Ratio (b) / (a)	63.7%	59.0%	8.0
Employer Contribution Rates as Percent of Payroll			
Normal Cost	4.07%	4.15%	
Amortization of Unfunded Actuarial and Supplemental Liability	5.37%	6.27%	
Actuarial Contribution Rate	9.44%	10.42%	
Statutory Employer Contribution Rate*	7.34%	6.74%	

* 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 for the death and disability program.

Summary of Principal Results – Kansas Police and Firemen’s Retirement System

	12/31/2009 Valuation	12/31/2008 Valuation	% Change
Participant Data			
Number of:			
Active Members	7,179	7,242	(0.9)%
Retired Members and Beneficiaries	4,060	3,909	3.9
Inactive Members	<u>1,317</u>	<u>1,348</u>	(2.3)
Total Members	<u>12,556</u>	<u>12,499</u>	0.5
Projected Annual Salaries of Active Members	\$441,454,916	\$426,955,831	3.4
Annual Retirement Payments for Retired Members and Beneficiaries	\$105,015,030	\$98,058,811	7.1
Assets and Liabilities			
a. Total Actuarial Liability	\$2,232,037,029	\$2,098,292,549	6.4
b. Assets for Valuation Purposes	1,701,719,235	1,479,595,175	15.0
c. Market Value of Assets	1,484,548,360	1,232,995,979	20.4
d. Unfunded Actuarial Liability (a) - (b)	530,317,794	618,697,374	(14.3)
e. Funded Ratio (b) / (a)	76.2%	70.5%	8.1
Employer Contribution Rates as Percent of Payroll			
Normal Cost	8.19%	8.18%	
Amortization of Unfunded Actuarial and Supplemental Liability	8.35%	9.70%	
Actuarial Contribution Rate (Local Employers)	16.54%	17.88%	
Statutory Employer Contribution Rate*	16.54%	14.57%**	

* 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 was recertified to the rate shown after the 12/31/08 valuation report was issued.

Summary of Principal Results – Retirement System for Judges

	12/31/2009 Valuation	12/31/2008 Valuation	% Change
Participant Data			
Number of:			
Active Members	266	262	1.5 %
Retired Members and Beneficiaries	203	190	6.8
Inactive Members	<u>14</u>	<u>11</u>	27.3
Total Members	<u>483</u>	<u>463</u>	4.3
Projected Annual Salaries of Active Members	\$28,681,056	\$27,835,460	3.0
Annual Retirement Payments for Retired Members and Beneficiaries	\$7,312,743	\$6,682,870	9.4
Assets and Liabilities			
a. Total Actuarial Liability	\$147,733,263	\$139,961,680	5.6
b. Assets for Valuation Purposes	121,596,003	104,421,422	16.4
c. Market Value of Assets	106,498,558	87,017,852	22.4
d. Unfunded Actuarial Liability (a) - (b)	26,137,260	35,540,258	(26.5)
e. Funded Ratio (b) / (a)	82.3%	74.6%	10.3
Employer Contribution Rates as Percent of Payroll			
Normal Cost	15.22%	14.63%	
Amortization of Unfunded Actuarial and Supplemental Liability	8.53%	11.75%	
Actuarial Contribution Rate	23.75%	26.38%	
Statutory Employer Contribution Rate*	23.75%	21.28%**	

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

** The contribution rate was recertified to the rate shown after the 12/31/08 valuation report was issued.

Summary of Principal Results – All Systems Combined

	12/31/2009 Valuation	12/31/2008 Valuation	% Change
Participant Data			
Number of:			
Active Members	160,831	156,073	3.0 %
Retired Members and Beneficiaries	73,164	70,567	3.7
Inactive Members	<u>43,324</u>	<u>41,749</u>	3.8
Total Members	<u>277,319</u>	<u>268,389</u>	3.3
Projected Annual Salaries of Active Members	\$6,532,496,350	\$6,226,526,200	4.9
Annual Retirement Payments for Retired Members and Beneficiaries	\$935,925,071	\$879,238,682	6.4
Assets and Liabilities			
a. Total Actuarial Liability	\$21,138,206,114	\$20,106,786,900	5.1
b. Assets for Valuation Purposes	13,461,220,705	11,827,618,574	13.8
c. Market Value of Assets	11,754,502,610	9,856,348,812	19.3
d. Unfunded Actuarial Liability (a) - (b)	7,676,985,409	8,279,168,326	(7.3)
e. Funded Ratio (b) / (a)	63.7%	58.8%	8.3

ACTUARIAL ASSUMPTIONS — KPERS

Every three years, KPERS' consulting actuary makes a general investigation of the actuarial experience, including mortality, retirement and employer 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 three years ending December 31, 2006.

Rate of Investment Return 8.0 percent

Implicit Inflation Rate 3.25 percent

Marriage Assumption 70 percent of all members are assumed married with male spouse assumed 3 years older than female.

Rates of Mortality: The RP-2000 Healthy Annuitant table was first adjusted
 Post-retirement 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*		
	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	Duration	School		State		Local	
		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

School	1st Year With 85 Points		After 1st Year With 85 Points	
	Age	Rate	Age	Rate
	53	20%	53	18%
	55	20%	55	18%
	57	22%	57	18%
	59	25%	59	23%
	61	30%	61	30%
	Early Retirement		Normal Retirement	
	Age	Rate	Age	Rate
	55	5%	62	30%
	56	5%	63	25%
	57	8%	64	35%
	58	8%	65	35%
	59	12%	66-71	25%
	60	15%	72-74	20%
	61	22%	75	100%
State	1st Year With 85 Points		After 1st Year With 85 Points	
	Age	Rate	Age	Rate
	53	10%	53	15%
	55	15%	55	15%
	57	15%	57	12%
	59	15%	59	12%
	61	30%	61	25%
	Early Retirement		Normal Retirement	
	Age	Rate	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	1st Year With 85 Points		After 1st Year With 85 Points	
	Age	Rate	Age	Rate
	53	11%	53	10%
	55	13%	55	10%
	57	13%	57	10%
	59	15%	59	12%
	61	25%	61	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%

Correctional	Normal Retirement at Age 55	
	Age	Rate
	55	10%
	58	10%
	60	10%
	62	45%
	65	100%

Correctional employees with an age 60 normal retirement date – Age 62.
 Inactive vested members – Age 62.
 TIAA employees – Age 66.

Rates of Disability	Age	School	State	Local
	25	0.025%	0.036%	0.030%
	30	0.028%	0.102%	0.065%
	35	0.034%	0.161%	0.097%
	40	0.058%	0.244%	0.143%
	45	0.110%	0.376%	0.209%
	50	0.213%	0.511%	0.363%
	55	0.362%	0.720%	0.600%
	60	0.680%	0.920%	0.850%

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

Probability of Vested	Age	School	State	Local
Members Leaving	25	80%	65%	60%
Contributions	30	80%	65%	60%
With System	35	80%	65%	60%
	40	80%	65%	60%
	45	82%	75%	64%
	50	87%	85%	74%
	55	100%	100%	100%

ACTUARIAL ASSUMPTIONS – KP&F

Rate of Investment Return 8.0 percent

Implicit Inflation Rate 3.25 percent

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

Rates of Mortality:

Post-retirement RP-2000 Healthy Annuitant Table

Pre-retirement 90 percent of RP-2000 Employee Table*

*70 percent of preretirement deaths assumed to be service related.

Disabled Life Mortality RP-2000 Disabled Life Table

Rates of Salary Increase	Years of Service	Rate *
	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% (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		Normal Retirement	
	Age	Rate	Age	Rate
	50	5%	55	40%
	51	5%	56	30%
	52	5%	57	25%
	53	10%	58	40%
	54	30%	59	35%
			60	55%
			61	20%
			62	100%

Retirement Rates (cont.)

Tier II:	Early Retirement		Normal Retirement	
	Age	Rate	Age	Rate
	50	10%	50	25%
	51	10%	53	25%
	52	10%	55	25%
	53	15%	58	20%
	54	25%	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	0.06%
	27	0.07%
	32	0.15%
	37	0.35%
	42	0.56%
	47	0.76%
	52	0.96%
	57	1.00%

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

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 Rates	
	Age Rate
	62 30%
	63 25%
	64 10%
	65-69 50%
	70+ 100%
Marriage Assumption	70 percent of all members are assumed married with male spouse assumed 3 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 cost-of-living adjustment 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 — KPERs (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 who work at least 630 hours per year or 3.5 hours per day for 180 days are eligible for membership. Employees become members on their first day of employment in a KPERs-covered position. KPERs retirees may not become contributing members again.

Tier 1

Members have Tier 1 coverage if they were employed before July 1, 2009, and were active, contributing members on that date.

Tier 2

Members generally have Tier 2 coverage if they were first employed on or after July 1, 2009.

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 final average salary (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

Tier 1 Correctional Members: 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."

Tier 2 Correctional Members: For groups (a) and (b) with at least ten years of service including three years in such positions immediately before retirement, normal retirement age is 55 and early retirement age is 50. For groups (c), (d), (e) and (f) with at least ten years of service including three years in such positions immediately before retirement, normal retirement age is 60 and early retirement age is 55.

Member Contributions

Tier 1 members contribute 4 percent of their gross earnings; Tier 2 members contribute 6 percent. 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 vests with five 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

Tier 1 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"

Tier 2 Eligibility

- Age 65 with five years of credited service
- Age 60 with 30 years of service

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, FAS and a statutory multiplier. 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.

Tier 1 members may elect to receive 10, 20, 30, 40, or 50 percent of lifetime benefits in a lump sum. Tier 2 members may elect to receive 10, 20 or 30 percent of lifetime benefits in a lump sum.

Final Average Salary (FAS)

Tier 1: *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.

Tier 2: FAS is an average of the five highest years of salary, excluding additional compensation, such as payments for unused sick and annual leave.

Participating service credit under both tiers is 1.75 percent of FAS. Prior service credit is 0.75 percent or 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).

Early Retirement

Eligibility is age 55 and ten years of credited service. The retirement benefit is reduced based on the member's age at retirement.

Working After Retirement

A member must wait 60 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.

For the three-year period from July 2009 through June 2012, the \$20,000 annual earnings limit has been lifted for some licensed school members who return to work for the same employer. As a general rule, members must retire with full (i.e., not early) retirement benefits and must hold a licensed position when they return to work after retirement.

Withdrawal Benefit

If members leave employment they can withdraw their account balance after 31 days. Members lose any rights and benefits when they withdraw from KPERS, such as insurance coverage. 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.

Disability Benefit

KPERS Death and Disability Program provides disability income benefits, financed by employer contributions. 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 account balance 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 — KP&F

Employee Membership

Members have Tier I coverage if they were employed before July 1, 1989, and if they did not elect coverage under 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. 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 $FAS \times 2.5 \text{ percent} \times \text{years of service}$ (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 the same state agency or the same police or fire department 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. 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. Disability benefits equal 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.

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 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 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 — 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. The State of Kansas makes employer contributions at the actuarially required rate.

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

- 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 the last ten years of service as a judge. 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.

All judges, other than Supreme Court justices, must retire at the end of the term in which they reach age 75. Supreme Court justices must retire at the end of the term in which they reach age 70.

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. 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 establish-

ment. 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

Valuation Date	Member Contributions (A)	Retirants and Beneficiaries (B)	Active Member Actuarial Employer Financed Value		Portions of Accrued Liabilities Covered by Assets		
			Portion of Assets (C)	Value	(A)	(B)	(C)
12/31/00	\$3,007,338,917	\$4,576,452,175	\$3,556,222,919	\$9,835,181,839	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	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
12/31/08	4,642,675,652	7,945,452,582	7,518,658,666	11,827,618,574	100	90	—
12/31/09	5,132,772,778	8,459,191,163	7,546,242,173	13,461,220,705	100	99	—

A short-term solvency test, which is one means of determining a system's progress under its funding program, compares the plan's present assets with (A) active member contributions on deposit, (B) the liability for future benefits to present retired lives and (C) the actuarial liability for service already rendered by active members. In a system that has been following the level percent of payroll financing discipline, the liability for active member contributions deposit

(item A) and the liabilities for future benefits to present retired lives (item B) will be fully covered by present assets. The liability for service already rendered by active members (item C) will be fully or partially covered by the remainder of present assets. If the system has been using level cost financing, the funded portion of item C usually will increase over a period of time. Item C being fully funded is rare.

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
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	—	5,599	36,246	4.4
12/31/07	153,804	1.5	1,482	0.5	5,949	37,922	4.4
12/31/08	156,073	1.5	1,492	0.6	6,227	39,113	3.1
12/31/09	160,831	3.1	1,499	0.5	6,532	39,821	1.8

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
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
2008	156,073	41,749	70,724	268,546
2009	160,831	43,324	73,339	277,494

Retirants, Beneficiaries - Changes in Rolls - All Systems

Last ten fiscal years

Fiscal Year	Number at Beginning of Year	Additions		Deletions		Number at End of Year	% Change in Number of Retirants	% Change in Additions Allowances	Average Annual Allowance	Year-End Annual Allowances
		Number Added	Annual Allowances	Number Removed	Annual Allowances					
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
2009	68,743	5,330	81,815,349	2,467	20,966,802	71,606	4.10	8.70	13,964	999,939,615
2010	71,606	5,593	88,709,733	2,332	20,528,013	74,867	4.10	8.70	14,182	1,060,205,818

Summary of Membership Data

Retiree and Beneficiary Member Valuation Data ⁽¹⁾

	12/31/2009	12/31/2008
KPERs		
Number	68,901	66,468
Average Benefit	\$11,953	\$11,652
Average Age	72.42	72.41
Police & Fire		
Number	4,060	3,909
Average Benefit	\$25,866	\$25,085
Average Age	63.70	63.50
Judges		
Number	203	190
Average Benefit	\$36,023	\$35,173
Average Age	74.00	73.70
System Total		
Number	73,164	70,567
Average Benefit	\$12,792	\$12,460
Average Age	71.94	71.92

Active Member Valuation Data ⁽¹⁾

	12/31/2009	12/31/2008
KPERs		
Number	153,386	148,569
Average Current Age	45.39	45.59
Average Service	10.71	10.86
Average Pay	\$38,749	\$38,087
Police & Fire		
Number	7,179	7,242
Tier I	500	536
Tier II	6,679	6,706
Average Current Age	39.50	39.10
Average Service	11.43	11.06
Average Pay	\$60,287	\$57,800
Judges		
Number	266	262
Average Current Age	57.06	57.09
Average Service	11.51	11.95
Average Pay	\$105,709	\$104,159
System Total		
Number	160,831	156,073
Average Current Age	45.14	45.31
Average Service	10.75	10.87
Average Pay	\$39,821	\$39,113

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			KPERs Local		
Fiscal Year	Actuarial Rate	Actual Rate	Fiscal Year	Actuarial Rate	Actual Rate
2001	6.15%	3.98% ⁽²⁾	2001	3.88%	2.77% ⁽²⁾
2002	6.00	4.78	2002	4.07	3.52
2003	6.17	4.98 ⁽³⁾	2003	4.73	3.67 ⁽³⁾
2004	7.05	4.58 ⁽³⁾	2004	4.64	3.22 ⁽³⁾
2005	8.29	5.47	2005	6.04	4.01
2006	9.94	6.07	2006	7.04	4.61
2007	9.75	6.77	2007	8.69	5.31
2008	11.37	7.37	2008	8.92	5.93
2009	11.86	7.97 ⁽⁵⁾	2009	9.12	6.54 ⁽⁵⁾
2010	11.98	8.57 ⁽⁶⁾	2010	9.52	7.14 ⁽⁶⁾

TIAA			KP&F (Uniform Rate)		
Fiscal Year	Actuarial Rate	Actual Rate	Fiscal Year	Actuarial Rate	Actual Rate
1997	1.89%	1.89%	2001	6.97%	6.97%
1998	1.66	1.66	2002	6.79	6.79
1999	1.93	1.93	2003	6.86	6.86
2000	1.82	1.82	2004	9.47	9.47
2001	1.21	1.21 ⁽²⁾	2005	11.69	11.69
2002	2.03	2.03	2006	12.39	12.39
2003	2.27	2.27 ^{(3) (4)}	2007	13.32	13.32
			2008	13.88	13.88
			2009	13.51	13.51
			2010	12.86	12.86

Judges		
Fiscal Year	Actuarial Rate	Actual Rate
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
2009	22.48	22.48 ⁽⁵⁾
2010	20.90	20.90 ⁽⁶⁾

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.

5) Per 2009 legislation, employers were not required to remit the Group Life and Disability portion of the Actual Rate from March 1, 2009 through November 30, 2009.

6) Per 2010 legislation, employers were not required to remit the Group Life and Disability portion of the Actual Rate from April 1, 2010 through June 30, 2010.

ACTUARY'S CERTIFICATION LETTER — DEATH AND DISABILITY PLAN



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March 12, 2009

Board of Trustees
Kansas Public Employees Retirement System
611 S. Kansas Ave., Suit 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, 2008 for determining contributions beginning July 1, 2008. 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, 2008.

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, ampli-

fyng 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 the valuation report.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded sta-

tus); and changes in plan provisions or applicable law. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements.

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, FSA
Consulting Actuary



Patrice A. Beckham, FSA, MAAA
Consulting Actuary

ACTUARIAL OVERVIEW — DEATH AND DISABILITY

This report contains the June 30, 2008 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 percent) 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. 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 as follows.

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 next 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 6/30/2008

	Actives	Disabled	Total
PV of Total Projected Benefits	\$489,354,057	\$231,282,196	\$720,636,254
PV of Future Normal Cost	<u>365,576,073</u>	—	<u>365,576,073</u>
Actuarial Liability	<u>\$123,777,984</u>	<u>\$231,282,196</u>	<u>\$355,060,180</u>

NOTE: Totals may not match due to rounding.

As of June 30, 2008, the KPERS Death and Disability Fund has an unfunded actuarial liability of \$316,489,213. 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 2008-2009 is \$59,758,096, representing 0.93% of estimated annual compensation.

Projected Cashflows

Five-Year Cashflow Projection – Expected Benefits and Expenses vs. Expected Contributions (millions)

Excludes Group Life Insurance for Active Members

Plan Year	Projected Benefits and Expenses	Projected Contributions
2008-2009	\$38.6	\$48.1
2009-2010	\$41.9	\$49.5
2010-2011	\$44.6	\$51.0
2011-2012	\$46.7	\$52.5
2012-2013	\$48.0	\$54.1

The table indicates that the 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 percent (which includes approximately 0.25 percent of payroll for group life insurance) remains unchanged. This pattern would result in a modest increase in plan assets over the five-year time horizon. KPERS has indicated, however, that it is likely the Legislature will implement a nine-month contribution moratorium commencing in March 2009, which would have the impact of spending down the majority of the plan's existing 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, which means 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.

GASB Statement No. 43 establishes standards for measurement, recognition, and display of the assets, liabilities and where applicable, net assets and changes in net assets of such funds. In addition, the statement requires two schedules and accompanying notes disclosing information relative to the funded status of the Plan and employer contributions to the Plan.

- The Schedule of Funding Progress provides historical information about the funded status of the plan and the progress being made in accumulating sufficient assets to pay benefits when due.
- The Schedule of Employer Contributions provides historical information about actual contributions made

to the plan by participating employers in comparison to annual required contributions (ARC).

GASB 43 was first effective for KPERS Death and Disability Program for the fiscal year ending June 30, 2007. This is the third valuation performed in connection with GASB 43 since it addresses the ARC for the fiscal year ending June 30, 2009. Only the disability benefits and waiver of premium life insurance benefits provided by KPERS Death and Disability Program are subject to GASB 43. The group and optional life insurance programs for active members are not OPEBs under GASB 43.

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 in this report. 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.

Actuarial Present Value of Total Projected Benefits

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 6/30/2008

	Actives	Disabled	Total
Disability Income	\$368,387,458	\$176,409,496	\$544,796,954
Waiver of Premium	99,222,726	44,595,948	143,818,673
Administrative Expenses	<u>21,743,874</u>	<u>10,276,753</u>	<u>32,020,627</u>
Total	<u>\$489,354,057</u>	<u>\$231,282,196</u>	<u>\$720,636,254</u>

NOTE: Totals may not match due to rounding.

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 6/30/2008

	Actives	Disabled	Total
Present Value of Total Projected Benefits	\$489,354,057	\$231,282,196	\$720,636,254
Present Value of Future Normal Cost	<u>365,576,073</u>	—	<u>365,576,073</u>
Actuarial Liability	<u>\$123,777,984</u>	<u>\$231,282,196</u>	<u>\$355,060,180</u>

Actuarial Balance Sheet

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, 2008 is shown in the following table:

Actuarial Present Value of Total Projected Benefits

Active Members	\$489,354,057
Disabled Members	<u>231,282,196</u>
Total Actuarial Present Value of Total Projected Benefits	\$720,636,254

Assets and Future Employer Contributions

Assets*	\$38,570,967
Unfunded Actuarial Liability	316,489,213
Present Value of Future Normal Costs	<u>365,576,073</u>
Total Assets and Future Employer Contributions	\$720,636,254

*Market value

Actuarial Required Contribution

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. Payroll is assumed to increase 4 percent per year.

Annual Required Contribution (ARC), Fiscal Year Ending June 30, 2009

A. Employer Normal Costs

(1) Normal Cost as of June 30, 2008	\$36,642,325
(2) Assumed interest (mid year timing assumed)	815,379
(3) Normal Cost for FY2009 [(1) + (2)]	\$37,457,704

B. Determination of Current Year Amortization Payment

(1) Unfunded Actuarial Liability	\$316,489,213
(2) Amortization Period	15 years
(3) Amortization Factor	14.5079

Amortization Amount as of June 30, 2008 [(1) / (3)]	21,814,957
Assumed interest (mid year timing assumed)	485,435
Amortization Amount for FY2009 [(4) + (5)]	\$22,300,392

C. Determination of Annual Required Contribution

(1) Normal Cost for benefits attributable to service in the current year (A.3.)	\$37,457,704
(2) Amortization of Unfunded Actuarial Liability (B.6.)	22,300,392
(3) Annual Required Contribution (ARC) [(1) + (2)]	\$59,758,096

D. Annual Required Contribution

(1) Annual Required Contribution	\$59,758,096
(2) Estimated Annual Compensation for FY09	6,409,426,283
(3) ARC as a Percentage of Payroll	0.93%

ACTUARIAL ASSUMPTIONS — DEATH AND DISABILITY

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

Implicit Inflation Rate 3.25 percent

Sample Rates	Age	School		State		Local	
		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 -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*		
		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	Duration	School		State		Local	
		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

School	1st Year With 85 Points		After 1st Year With 85 Points	
	Age	Rate	Age	Rate
	53	20%	53	18%
	55	20%	55	18%
	57	22%	57	18%
	59	25%	59	23%
	61	30%	61	30%
	Early Retirement		Normal Retirement	
	Age	Rate	Age	Rate
	55	5%	62	30%
	56	5%	63	25%
	57	8%	64	35%
	58	8%	65	35%
	59	12%	66-71	25%
	60	15%	72-74	20%
	61	22%	75	100%
State	1st Year With 85 Points		After 1st Year With 85 Points	
	Age	Rate	Age	Rate
	53	10%	53	15%
	55	15%	55	15%
	57	15%	57	12%
	59	15%	59	12%
	61	30%	61	25%
	Early Retirement		Normal Retirement	
	Age	Rate	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	1st Year With 85 Points		After 1st Year With 85 Points	
	Age	Rate	Age	Rate
	53	11%	53	10%
	55	13%	55	10%
	57	13%	57	10%
	59	15%	59	12%
	61	25%	61	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%

Correctional	Normal Retirement at Age 55	
	Age	Rate
	55	10%
	58	10%
	60	10%
	62	45%
	65	100%

Correctional employees with an age 60 normal retirement date – Age 62.

Inactive vested members – Age 62.

TIAA employees – Age 66.

LTD Claim Incidence Rates		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	Age at Disability	Claim Duration (Months)			
Claim Termination Rates as percent of 1987 Commissioners Group Disability Table (Based on Actual KPERS Experience)		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.

Projected Future Claim Cost as Percent of Payroll (used in cashflow projections): 0.47 percent in 2007-2008, 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 as percent 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% as specified by the plan.

Projected Future Claim Cost as percent of Payroll (used in cashflow projections): 0.12 percent in 2007-2008, which increases in future due to aging.

IBNR: 12.5 percent of expected claim cost for year.

EXPERIENCE — KPERS DEATH AND DISABILITY

As of June 30, 2008

Death Claims by Death Benefit Paid		2006-2007		2007-2008	
		Count	% of Claims	Count	% of Claims
Death Benefit Paid					
0-9,999		2	2%	1	1%
10,000-19,999		11	10%	6	6%
20,000-29,999		13	12%	7	7%
30,000-39,999		17	16%	29	27%
40,000-49,999		14	13%	20	19%
50,000-59,999		24	23%	16	15%
60,000-69,999		7	7%	12	11%
70,000-79,999		7	7%	12	11%
80,000-89,999		4	4%	1	1%
90,000-99,999		5	5%	1	1%
100,000+		2	2%	2	2%
Total		106	100%	107	100%

Death Claims by Age at Death		2006-2007		2007-2008	
		Count	% of Claims	Count	% of Claims
Age at Death					
20-29		1	1%	—	0%
30-39		2	2%	2	2%
40-49		19	18%	9	8%
50-59		44	42%	51	48%
60-64		34	32%	34	32%
65+		6	6%	11	10%
Total		106	100%	107	100%

Active LTD Claims by Age at Disability		2006-2007		2007-2008	
		Count	% of Claims	Count	% of Claims
Age at Disability					
<20		1	0%	1	0%
20-29		79	3%	82	3%
30-39		479	15%	485	16%
40-49		1177	38%	1137	38%
50-59		1189	38%	1126	38%
60-64		146	5%	138	5%
65+		26	1%	26	1%
Total		3097	100%	2995	100%

Active LTD Claims by Attained Age	2006-2007		2007-2008	
	Count	% of Claims	Count	% of Claims
Attained Age				
<20	—	—%	—	—%
20-29	8	—%	9	—%
30-39	99	3%	105	4%
40-49	613	20%	579	19%
50-59	1,507	49%	1,441	48%
60-64	775	25%	774	26%
65+	95	3%	87	3%
Total	3,097	100%	2,995	100%

Active LTD Claims by Net Benefit Amount	2006-2007		2007-2008	
	Count	% of Claims	Count	% of Claims
Net Monthly Benefit				
0-499	1,207	39%	1,177	39%
500-999	1,021	33%	973	32%
1,000-1,499	504	16%	496	17%
1,500-1,999	210	7%	212	7%
2,000-2,499	90	3%	75	3%
2,500-2,999	36	1%	40	1%
3,000-3,499	15	0%	10	0%
3,500-3,999	6	0%	6	0%
4,000-4,499	4	0%	3	0%
4,500-4,999	1	0%	1	0%
5,000+	3	0%	2	0%
Total	3,097	100%	2,995	100%

New LTD Claims by Age at Disability	2006-2007		2007-2008	
	Count	% of Claims	Count	% of Claims
Age at Disability				
<20	—	0%	—	0%
20-29	7	2%	5	2%
30-39	27	8%	30	10%
40-49	100	30%	64	22%
50-59	164	49%	146	51%
60-64	31	9%	38	13%
65+	5	1%	6	2%
Total	334	100%	289	100%

New LTD Claims by Attained Age	2006-2007		2007-2008	
	Count	% of Claims	Count	% of Claims
Attained Age				
<20	—	0%	—	—%
20-29	5	1%	4	1%
30-39	23	7%	26	9%
40-49	90	27%	56	19%
50-59	161	48%	140	48%
60-64	45	13%	54	19%
65+	10	3%	9	3%
Total	334	100%	289	100%

New LTD Claims by Net Benefit Amount		2006-2007		2007-2008	
		Count	% of Claims	Count	% of Claims
Net Benefit					
0-499		89	27%	92	32%
500-999		88	26%	55	19%
1,000-1,499		69	21%	67	23%
1,500-1,999		44	13%	42	15%
2,000-2,499		24	7%	19	7%
2,500-2,999		11	3%	11	4%
3,000-3,499		5	1%	—	0%
3,500-3,999		2	1%	1	0%
4,000-4,499		1	0%	2	1%
4,500-4,999		—	0%	—	0%
5,000+		1	0%	—	0%
Total		334	100%	289	100%

Terminated LTD Claims by Term Reason		2006-2007		2007-2008	
		Count	% of Claims	Count	% of Claims
Term Reason					
Death		135	31%	148	29%
Recovery		42	10%	61	12%
Retirement		205	48%	250	50%
Expiry		49	11%	46	9%
Total		431	100%	505	100%

ACTUARIAL METHODS

Funded Method

Actuarial liabilities and comparative costs shown in this Report 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.

It should be noted that GASB 43 allows a variety of cost methods to be used. This method was selected because it is consistent with the KPERS retirement system funding and because it tends to produce stable costs. Other methods used do not change the ultimate liability, but do allocate it differently between what has been earned in the past and what will be earned in the future. If a different method was used, the normal cost and unfunded actuarial liability would change. Please note that the net effect of the change may result in an increase or decrease in the annual required contribution (ARC). If desired, we can provide more details.

Asset Valuation Method

Assets are valued at market value.

PLAN PROVISIONS 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) Currently active members of KPERS;

- 2) Employees of an educational institution under the Kansas Board of Regents as defined in K.S.A. 74-4925;
- 3) 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.

KEY 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 include Social Security primary disability or retirement benefits, worker’s 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 first occurs. If the disability occurs at or after age 60, benefits are payable while disabil-

ity continues, for a period of five years or until the date of the member’s retirement, whichever first occurs.

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.

KEY 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, retirement benefits and other post employment benefits (OPEB). The schedules beginning on this page through page 122 provide revenues, expenses and funding status information for the past ten fiscal years for KPERS and Death and Disability (OPEB) plans. On page 123 a schedule is presented that allocates

the total benefits and type of refunds that were paid. On pages 126 through 128 various schedules are presented to depict the level of monthly benefits by number of retirees, retirement type and options, and years of service. On page 129, information is provided showing the top ten participating employers determined by number of covered active employees. 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

Fiscal Year	Contributions			Misc	Net Investment Income (KPERS)	Net Investment Income (OPEB)	Total
	Member	Employer	Employer Insurance (OPEB)				
2001	\$204,142,810	\$193,384,289	\$ — (1)	\$175,815	\$(783,541,397)	\$(14,585,385)	\$(400,423,869)
2002	209,624,015	207,611,045	13,862,682	137,633	(458,395,669)	(5,351,290)	(32,511,584)
2003	224,746,447	222,882,765	8,581,558	82,257	324,824,742	1,231,901	782,349,670
2004	230,349,955	714,353,221 (2)	— (1)	182,113	1,335,895,581	330,336	2,281,111,203
2005	233,226,034	261,961,687	31,990,734	178,105	1,222,707,749	388,372	1,750,452,681
2006	246,203,381	298,711,909	53,319,639	175,539	1,354,021,324	386,439	1,952,818,231
2007	256,995,275	339,509,022	59,308,991	228,986	2,161,413,409	668,063	2,818,123,746
2008	269,603,155	395,752,214	62,400,369	225,736	(650,071,204)	968,222	78,878,492
2009	278,619,872	449,235,653	36,334,585 (3)	154,113	(2,592,555,321)	345,732	(1,827,865,366)
2010	289,616,027	492,005,566	29,549,494 (4)	101,899	1,485,935,124	32,381	2,297,240,491

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.

3) Per 2009 legislation, employers were not required to remit the Group Life and Disability Insurance portion of required employer contributions.

4) Per 2010 legislation, employers were not required to remit the Group Life and Disability Insurance portion of required employer contributions from April 1, 2010 through June 30, 2010.

Benefits by Type

Last ten fiscal years

Fiscal Year	Monthly Retirement Benefits	Retirement Dividend	Death Benefits	Refunds of Contributions Separations	Refunds of Contributions Deaths	Insurance Premiums (KPERs)	Disability, Insurance Premiums (OPEB)
2001	\$542,389,577	\$8,284,487	\$8,227,488	\$39,656,724	\$4,310,899	\$7,331,729	\$39,124,874
2002	619,959,068	7,744,988	8,694,809	33,550,967	5,515,970	7,844,273	39,781,491
2003	638,498,630	7,217,449	7,826,064	34,462,966	5,145,980	8,267,916	45,561,319
2004	670,246,402	6,672,212	8,685,182	35,903,879	5,275,591	6,362,986	44,033,406
2005	731,389,840	6,173,436	7,849,884	40,395,640	6,378,293	5,997,113	47,705,996
2006	800,256,846	5,721,885	8,810,923	40,628,580	6,197,596	5,973,688	48,984,269
2007	862,894,416	5,284,613	9,153,582	40,632,701	5,496,510	6,383,962	49,201,924
2008	940,870,530	4,834,127	8,388,935	43,197,593	5,275,097	6,824,361	49,893,770
2009	995,530,221	4,409,393	9,237,740	38,156,001	5,773,422	6,946,461	47,356,797
2010	1,056,190,915	4,014,903	8,959,388	37,214,954	6,147,736	7,035,185	43,746,954

Expenses by Type

Last ten fiscal years

Fiscal Year	Benefits	Refund of Contributions		Insurance	Administration (Retirement)	Insurance (OPEB)	Administration (OPEB)*	Total
		Separations	Death					
2001	\$558,901,552	\$39,656,724	\$4,310,899	\$7,331,729	\$6,843,434	\$39,124,874	\$ —	\$656,169,212
2002	636,398,865	33,550,967	5,515,970	7,844,273	6,776,044	39,781,491	—	729,867,610
2003	653,542,143	34,462,966	5,145,980	8,267,916	7,215,024	45,561,319	—	754,195,348
2004	685,603,796	35,903,879	5,275,591	6,362,986	7,231,295	44,033,406	—	784,410,953
2005	745,413,160	40,395,640	6,378,293	5,997,113	7,340,147	47,705,996	—	853,230,349
2006	814,789,655	40,628,580	6,197,596	5,973,688	7,718,879	48,984,269	—	924,292,667
2007	877,332,611	40,632,701	5,496,510	6,383,962	8,552,925	49,201,924	340,619	987,941,252
2008	954,093,592	43,197,593	5,275,097	6,824,361	9,253,050	49,893,770	350,076	1,068,887,539
2009	1,009,177,354	38,156,001	5,773,422	6,946,461	11,085,498	47,356,797	361,887	1,118,857,420
2010	1,069,165,206	37,214,954	6,147,736	7,035,185	10,158,398	43,746,954	375,792	1,173,844,225

* Administration expenses for the Group Death and Disability Plan prior to fiscal year 2007 are included in the administrative expenses of the Retirement System.

Changes in Net Assets

Last ten fiscal years

	2010	2009	2008	2007	2006
Additions					
Contributions					
Member Contributions	\$289,616,027	\$278,619,872	\$269,603,155	\$256,995,275	\$246,203,381
Employer Contributions	<u>521,555,060</u>	<u>485,570,238</u>	<u>458,152,583</u>	<u>398,818,013</u>	<u>352,031,548</u>
Total Contributions	<u>811,171,087</u>	<u>764,190,110</u>	<u>727,755,738</u>	<u>655,813,288</u>	<u>598,234,929</u>
Investments					
Net Appreciation in Fair Value of Investments	1,221,425,633	(2,824,249,931)	(1,012,601,549)	1,816,702,680	1,046,279,084
Interest	160,086,441	153,248,716	212,695,996	195,760,216	165,466,523
Dividends	94,666,110	91,464,527	137,983,566	136,434,906	113,162,346
Real Estate Income, Net of Operating Expenses	37,551,411	31,062,438	40,288,418	39,114,763	51,835,809
Other Investment Income	<u>216,499</u>	<u>264,000</u>	<u>264,000</u>	<u>261,734</u>	<u>303,028</u>
	<u>1,513,946,094</u>	<u>(2,548,210,250)</u>	<u>(621,369,569)</u>	<u>2,188,274,299</u>	<u>1,377,046,790</u>
Less Investment Expense	<u>(32,610,050)</u>	<u>(23,381,972)</u>	<u>(31,036,451)</u>	<u>(30,249,368)</u>	<u>(27,204,510)</u>
Net Investment Income	<u>1,481,336,044</u>	<u>(2,571,592,222)</u>	<u>(652,406,020)</u>	<u>2,158,024,931</u>	<u>1,349,842,280</u>
From Securities Lending Activities					
Securities Lending Income	<u>5,372,538</u>	<u>(8,838,220)</u>	<u>95,645,344</u>	<u>125,998,402</u>	<u>87,911,153</u>
Securities Lending Expenses					
Borrower Rebates	(48,804)	(10,469,638)	(89,471,546)	(120,938,041)	(82,182,198)
Management Fees	<u>(692,273)</u>	<u>(1,309,509)</u>	<u>(2,870,760)</u>	<u>(1,003,820)</u>	<u>(1,163,472)</u>
Total Securities Lending Activities Expense	<u>(741,077)</u>	<u>(11,779,147)</u>	<u>(92,342,306)</u>	<u>(121,941,861)</u>	<u>(83,345,670)</u>
Net Income from Security Lending Activities	<u>4,631,461</u>	<u>(20,617,367)</u>	<u>3,303,038</u>	<u>4,056,541</u>	<u>4,565,483</u>
Total Net Investment Income	<u>1,485,967,505</u>	<u>(2,592,209,589)</u>	<u>(649,102,982)</u>	<u>2,162,081,472</u>	<u>1,354,407,763</u>
Other Miscellaneous Income	<u>101,899</u>	<u>154,113</u>	<u>225,736</u>	<u>228,986</u>	<u>175,539</u>
Total Additions (Net Reductions) to Plan Net Assets	<u>2,297,240,491</u>	<u>(1,827,865,366)</u>	<u>78,878,492</u>	<u>2,818,123,746</u>	<u>1,952,818,231</u>
Deductions					
Monthly Retirement Benefits Paid	(1,060,205,818)	(999,939,614)	(945,704,657)	(868,179,029)	(805,978,732)
Refunds of Contributions	(43,362,690)	(43,929,423)	(48,472,690)	(46,129,211)	(46,826,176)
Death Benefits	(8,959,388)	(9,237,740)	(8,388,935)	(9,153,582)	(8,810,923)
Insurance Premiums and Disability Benefits (OPEB)	(50,782,139)	(54,303,258)	(56,718,131)	(55,585,886)	(54,957,957)
Administrative Expenses	<u>(10,534,190)</u>	<u>(11,447,385)</u>	<u>(9,603,126)</u>	<u>(8,893,544)</u>	<u>(7,718,879)</u>
Total Deductions to Plan Net Assets	<u>(1,173,844,225)</u>	<u>(1,118,857,420)</u>	<u>(1,068,887,539)</u>	<u>(987,941,252)</u>	<u>(924,292,667)</u>
Change in Net Assets	<u>\$1,123,396,266</u>	<u>\$(2,946,722,786)</u>	<u>\$(990,009,047)</u>	<u>\$1,830,182,494</u>	<u>\$1,028,525,564</u>

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

Changes in Net Assets (cont.)

Last ten fiscal years

	2005	2004	2003	2002	2001
Additions					
Contributions					
Member Contributions	\$233,226,034	\$230,349,955	\$224,746,447	\$209,624,015	\$204,142,810
Employer Contributions	<u>293,952,421</u>	<u>714,353,221</u>	<u>231,464,323</u>	<u>221,473,727</u>	<u>193,384,289</u>
Total Contributions	<u>527,178,455</u>	<u>944,703,176</u>	<u>456,210,770</u>	<u>431,097,742</u>	<u>397,527,099</u>
Investments					
Net Appreciation in Fair Value of Investments	932,881,712	1,087,128,878	85,233,479	(676,384,745)	(1,061,275,002)
Interest	132,806,082	132,004,016	145,411,285	159,209,184	201,483,091
Dividends	130,167,483	91,477,150	76,508,361	24,416,401	37,639,689
Real Estate Income, Net of Operating Expenses	43,821,311	39,514,695	31,217,255	44,792,323	41,997,152
Other Investment Income	<u>412,211</u>	<u>565,492</u>	<u>557,611</u>	<u>667,029</u>	<u>556,969</u>
	<u>1,240,088,799</u>	<u>1,350,690,231</u>	<u>338,927,991</u>	<u>(447,299,808)</u>	<u>(779,598,101)</u>
Less Investment Expense	<u>(22,070,013)</u>	<u>(18,718,601)</u>	<u>(16,675,173)</u>	<u>(19,758,136)</u>	<u>(23,251,905)</u>
Net Investment Income	<u>1,218,018,786</u>	<u>1,331,971,630</u>	<u>322,252,818</u>	<u>(467,057,944)</u>	<u>(802,850,006)</u>
From Securities Lending Activities					
Securities Lending Income	<u>53,059,141</u>	<u>23,020,103</u>	<u>25,878,944</u>	<u>33,310,814</u>	<u>62,950,106</u>
Securities Lending Expenses					
Borrower Rebates	<u>(46,714,331)</u>	<u>(17,697,447)</u>	<u>(20,861,098)</u>	<u>(28,577,302)</u>	<u>(56,202,763)</u>
Management Fees	<u>(1,267,475)</u>	<u>(1,068,372)</u>	<u>(1,214,021)</u>	<u>(1,422,527)</u>	<u>(2,024,120)</u>
Total Securities Lending Activities Expense	<u>(47,981,806)</u>	<u>(18,765,819)</u>	<u>(22,075,119)</u>	<u>(29,999,829)</u>	<u>(58,226,883)</u>
Net Income from Security Lending Activities	<u>5,077,335</u>	<u>4,254,284</u>	<u>3,803,825</u>	<u>3,310,985</u>	<u>4,723,223</u>
Total Net Investment Income	<u>1,223,096,121</u>	<u>1,336,225,914</u>	<u>326,056,643</u>	<u>(463,746,959)</u>	<u>(798,126,783)</u>
Other Miscellaneous Income	<u>178,105</u>	<u>182,113</u>	<u>82,257</u>	<u>137,633</u>	<u>175,815</u>
Total Additions (Net Reductions) to Plan Net Assets	<u>1,750,452,681</u>	<u>2,281,111,203</u>	<u>782,349,670</u>	<u>(32,511,584)</u>	<u>(400,423,869)</u>
Deductions					
Monthly Retirement Benefits Paid	(737,563,276)	(676,918,614)	(645,716,079)	(627,704,056)	(550,674,064)
Refunds of Contributions	(46,773,933)	(41,179,470)	(39,608,946)	(39,066,937)	(43,967,623)
Death Benefits	(7,849,884)	(8,685,182)	(7,826,064)	(8,694,809)	(8,227,488)
Insurance Premiums and Disability Benefits (OPEB)	<u>(53,703,109)</u>	<u>(50,396,392)</u>	<u>(53,829,235)</u>	<u>(47,625,764)</u>	<u>(46,456,603)</u>
Administrative Expenses	<u>(7,340,147)</u>	<u>(7,231,295)</u>	<u>(7,215,024)</u>	<u>(6,776,044)</u>	<u>(6,843,434)</u>
Total Deductions to Plan Net Assets	<u>(853,230,349)</u>	<u>(784,410,953)</u>	<u>(754,195,348)</u>	<u>(729,867,610)</u>	<u>(656,169,212)</u>
Change in Net Assets	<u>\$897,222,332</u>	<u>\$1,496,700,250</u>	<u>\$28,154,322</u>	<u>\$(762,379,194)</u>	<u>\$(1,056,593,081)</u>

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

Changes in Net Assets-Death and Disability Plan

Last four fiscal years ⁽¹⁾

	2010	2009	2008	2007
Additions				
Contributions				
Employer Contributions	<u>\$29,549,494</u>	<u>\$36,334,585</u>	<u>\$62,400,370</u>	<u>\$59,308,991</u>
Total Contributions	<u>29,549,494</u>	<u>36,334,585</u>	<u>62,400,370</u>	<u>59,308,991</u>
Investments				
Interest	36,229	351,362	968,222	668,063
Less Investment Expense	<u>(3,848)</u>	<u>(5,630)</u>	<u>(6,550)</u>	<u>(6,239)</u>
Net Investment Income	<u>32,381</u>	<u>345,732</u>	<u>961,672</u>	<u>(6,239)</u>
Total Net Investment Income	<u>32,381</u>	<u>345,732</u>	<u>961,672</u>	<u>(6,239)</u>
Other Miscellaneous Income	<u>27,811</u>	<u>43,935</u>	<u>88,781</u>	<u>96,112</u>
Total Additions (Net Reductions) to Plan Net Assets	<u>29,609,686</u>	<u>36,724,252</u>	<u>63,450,823</u>	<u>59,398,864</u>
Deductions				
Insurance Premiums and Disability Benefits (OPEB)	(43,746,954)	(47,356,797)	(49,893,770)	(49,202,924)
Administrative Expenses	<u>(375,792)</u>	<u>(361,887)</u>	<u>(350,076)</u>	<u>(334,380)</u>
Total Deductions to Plan Net Assets	<u>(44,122,746)</u>	<u>(47,718,684)</u>	<u>(50,243,846)</u>	<u>(49,537,304)</u>
Change in Net Assets	<u>\$ (14,513,060)</u>	<u>\$ (10,994,432)</u>	<u>\$ 13,206,977</u>	<u>\$ 9,861,560</u>

1) Information available for current and prior three fiscal years.

Benefit and Refund Deductions from Net Assets by Type

For the fiscal year ended June 30, 2010, with comparative figures for 2009, 2008, 2007 and 2006

Type of Benefit	2010	2009	2008	2007	2006
Age and service benefits:					
Retirees	\$1,008,271,726	\$950,746,107	\$898,910,097	\$823,994,836	\$763,960,585
Survivors	51,934,092	49,193,507	46,794,560	44,184,193	42,018,147
Death in service benefits	8,959,388	9,237,740	8,388,935	9,153,582	8,810,923
Insurance Premiums	7,035,185	6,946,461	6,824,361	6,383,962	5,973,688
Insurance Premiums and Disability benefits (OPEB)	<u>43,746,954</u>	<u>47,356,797</u>	<u>49,893,770</u>	<u>49,202,924</u>	<u>48,984,269</u>
Total Benefits	<u>\$1,119,947,345</u>	<u>\$1,063,480,612</u>	<u>\$1,010,811,723</u>	<u>\$932,919,497</u>	<u>\$869,747,612</u>
Type of Refund					
Death	\$6,147,736	\$5,773,422	\$5,275,097	\$5,496,510	\$6,197,596
Separation	<u>37,214,954</u>	<u>38,156,001</u>	<u>43,197,593</u>	<u>40,632,701</u>	<u>40,628,580</u>
Total Refunds	<u>\$43,362,690</u>	<u>\$43,929,423</u>	<u>\$48,472,690</u>	<u>\$46,129,211</u>	<u>\$46,826,176</u>

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

Highlights of Operations — 10-Year Summary

	2010	2009	2008	2007	2006
Membership Composition					
Number of Retirants (a)	67,219	64,803	61,489	60,166	57,954
Number of Survivors (b)	5,945	5,764	5,613	5,599	5,394
New Retirants During the Fiscal Year	5,188	4,893	4,780	4,423	4,452
Active and Inactive Members (a)	204,155	197,822	195,187	192,307	190,305
Participating Employers	1,499	1,492	1,482	1,474	1,474
Financial Results (in millions)					
Member Contributions	\$290	\$279	\$270	\$257	\$246
Employer Contributions (c)	522	486	458	399	352
Retirement / Death Benefits	1,069	1,009	954	877	815
Investment Income (d)	1,486	(2,592)	(649)	2,162	1,354
Employer Contribution Rate (e)					
KPERS--State / School	8.57 %	7.97 %	7.37 %	6.77 %	6.07 %
KPERS--Local (f)	7.14	6.54	5.93	5.31	4.61
KP&F (Uniform Participating) (f)	12.86	13.51	13.88	13.32	12.39
Judges	20.90	22.08	22.38	19.11	21.97
TIAA	—	—	—	—	—
Unfunded Actuarial Liability (in millions)					
KPERS--State / School	\$5,805	\$6,240	\$4,312	\$4,135	\$3,926
KPERS--Local	1,315	1,385	941	893	869
KP&F	530	619	284	322	341
Judges	26	36	15	15	17
TIAA (g)	—	—	—	—	—
Funding Ratios (h)					
KPERS--State / School	61.60 %	56.90 %	68.60 %	67.50 %	67.21 %
KPERS--Local	63.70	59.00	70.10	68.80	67.38
KP&F	76.20	70.50	85.50	82.40	80.46
Judges	82.30	74.60	88.70	87.40	85.02
TIAA	—	—	—	—	—

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

b) This is the number of joint annuants 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. Per 2009 legislation, employers were not required to remit the Group Life and Disability portion of the Actual Rate from March 1, 2009 through November 30, 2009. Per 2010 legislation, employers were not required to remit the Group Life and Disability portion of the Actual Rate from April 1, 2010 through June 30, 2010.

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 — 10-Year Summary (cont.)

	2005	2004	2003	2002	2001
Membership Composition					
Number of Retirants (a)	61,125	59,124	57,597	56,115	54,396
Number of Survivors (b)	—	—	—	—	—
New Retirants During the Fiscal Year	4,141	3,612	3,585	3,689	3,112
Active and Inactive Members (a)	189,020	189,460	187,698	183,966	179,073
Participating Employers	1,461	1,454	1,442	1,435	1,423
Financial Results (in millions)					
Member Contributions	\$233	\$230	\$225	\$210	\$204
Employer Contributions (c)	294	714	231	221	193
Retirement / Death Benefits	745	686	654	636	559
Investment Income (d)	1,223	1,336	326	(464)	(798)
Employer Contribution Rate (e)					
KPERS--State / School	5.47 %	4.58 %	4.98 %	4.78 %	3.98 %
KPERS--Local (f)	4.01	3.22	3.67	3.52	2.77
KP&F (Uniform Participating) (f)	11.69	9.47	6.86	6.79	6.97
Judges	19.22	16.67	12.66	12.88	15.74
TIAA	0.60	—	2.27	2.03	1.21
Unfunded Actuarial Liability (in millions)					
KPERS--State / School	\$3,584	\$2,734	\$2,239	\$1,506	\$1,120
KPERS--Local	824	588	340	185	90
KP&F	313	249	232	59	62
Judges	22	15	17	10	10
TIAA (g)	—	—	—	20	23
Funding Ratios (h)					
KPERS--State / School	68.60 %	74.07 %	75.64 %	82.46 %	86.23 %
KPERS--Local	67.30	73.69	81.71	89.12	94.29
KP&F	81.10	84.04	84.16	95.53	95.22
Judges	80.10	84.92	82.21	88.94	88.66
TIAA	—	—	—	48.32	41.18

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

b) This is the number of joint annuants 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. Per 2009 legislation, employers were not required to remit the Group Life and Disability portion of the Actual Rate from March 1, 2009 through November 30, 2009. Per 2010 legislation, employers were not required to remit the Group Life and Disability portion of the Actual Rate from April 1, 2010 through June 30, 2010.

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.

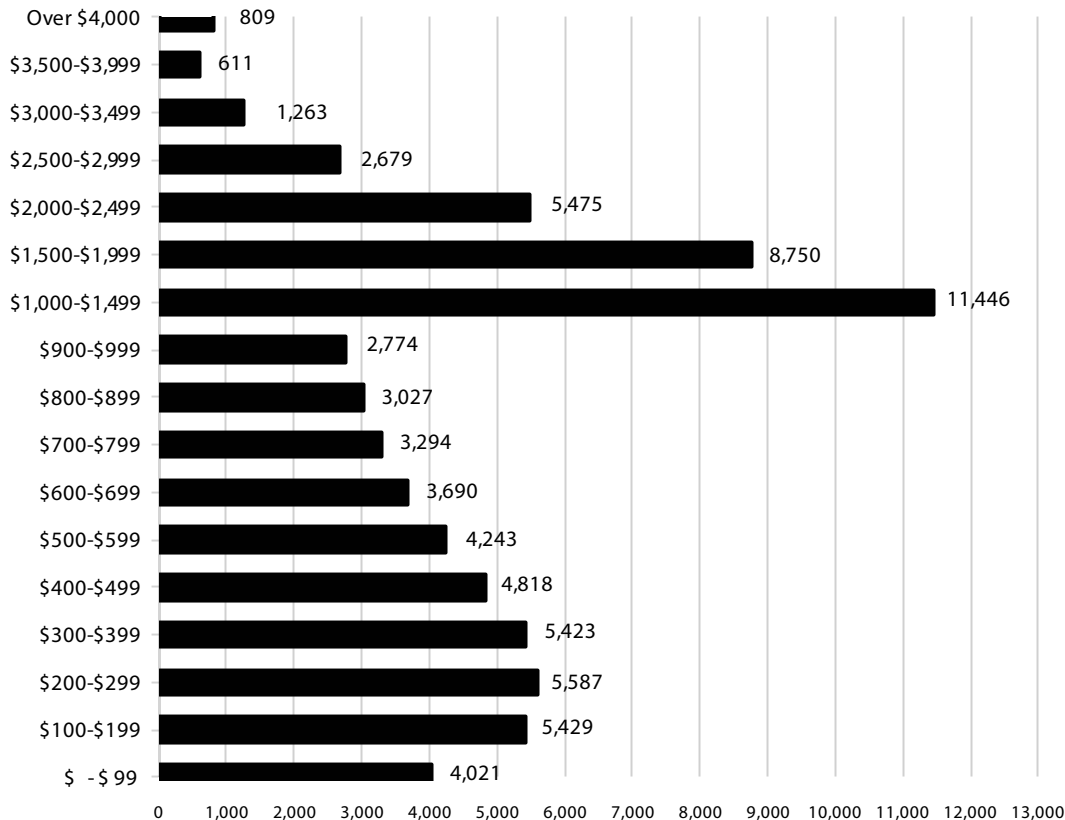
Number of Retired Members and Survivors by Type of Benefit

As of December 31, 2009

Monthly Benefit	Number of Retirees	Normal Retirement	Early Retirement	Service-Connected Death or Disability	Nonservice-Connected Death or Disability
\$ - 99	4,021	3,654	361	2	4
\$100-199	5,429	3,519	1,847	54	9
\$200-299	5,587	3,187	2,346	49	5
\$300-399	5,423	3,121	2,248	39	15
\$400-499	4,818	2,834	1,926	43	15
\$500-599	4,243	2,640	1,562	31	10
\$600-699	3,690	2,371	1,274	32	13
\$700-799	3,294	2,176	1,074	35	9
\$800-899	3,027	2,102	869	49	7
\$900-999	2,774	2,076	639	41	18
\$1,000-1,499	11,446	9,721	1,435	212	78
\$1,500-1,999	8,750	8,271	267	130	82
\$2,000-2,499	5,475	5,302	74	57	42
\$2,500-2,999	2,679	2,593	40	19	27
\$3,000-3,499	1,263	1,216	24	13	10
\$3,500-3,999	611	595	5	9	2
\$4,000 or More	<u>809</u>	<u>788</u>	<u>16</u>	<u>5</u>	<u>—</u>
Totals	<u>73,339</u>	<u>56,166</u>	<u>16,007</u>	<u>820</u>	<u>346</u>

Number of Retired Members and Survivors by Type of Benefit

As of December 31, 2009



Number of Retired Members and Survivors by Type of Payment Option

As of December 31, 2009

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	3,250	240	344	50	31	4	32	70
\$100-199	3,930	592	593	87	93	34	26	73
\$200-299	4,035	604	639	98	125	15	26	45
\$300-399	3,800	586	692	75	147	39	27	57
\$400-499	3,384	533	615	80	119	37	12	41
\$500-599	2,940	480	537	52	136	32	16	50
\$600-699	2,541	409	488	57	111	41	12	32
\$700-799	2,247	389	408	41	124	38	15	33
\$800-899	1,984	417	377	42	131	44	10	22
\$900-999	1,764	430	357	37	120	34	11	21
\$1,000-1,499	7,101	1,807	1,456	128	629	207	40	74
\$1,500-1,999	5,464	1,448	955	59	583	175	24	42
\$2,000-2,499	3,442	976	496	43	373	110	22	13
\$2,500-2,999	1,596	498	256	28	212	74	8	7
\$3,000-3,499	694	254	139	11	98	58	3	6
\$3,500-3,999	332	113	66	4	62	32		2
\$4,000 or More	<u>360</u>	<u>204</u>	<u>106</u>	<u>4</u>	<u>103</u>	<u>29</u>	<u>2</u>	<u>1</u>
Totals	<u>48,864</u>	<u>9,980</u>	<u>8,524</u>	<u>896</u>	<u>3,197</u>	<u>1,003</u>	<u>286</u>	<u>589</u>

Average Benefit by Years of Service - Five Year Summary of New Retirees

By calendar year

Service Credit	2005	2006	2007	2008	2009
Less Than 5	170	187	213	203	262
Average FAS*	\$25,256.68	\$32,969.26	\$23,028.60	\$24,286.91	\$21,194.51
Average Benefit	\$90.24	\$113.95	\$115.70	\$130.90	\$110.58
Average Years	2.45	2.37	2.75	2.67	2.56
5-9.99	256	288	369	341	347
Average FAS*	\$20,182.66	\$20,093.39	\$27,678.21	\$27,224.87	\$27,718.33
Average Benefit	\$206.62	\$205.12	\$262.41	\$277.67	\$300.13
Average Years	7.02	7.00	7.70	7.73	7.66
10-14.99	563	635	739	736	713
Average FAS*	\$24,246.67	\$24,492.77	\$30,848.84	\$32,265.54	\$32,669.13
Average Benefit	\$419.72	\$423.98	\$452.70	\$471.14	\$484.31
Average Years	11.87	11.87	12.25	12.19	12.18
15-19.99	616	675	670	765	706
Average FAS*	\$28,426.67	\$28,566.71	\$36,089.59	\$37,387.87	\$37,154.28
Average Benefit	\$704.33	\$706.55	\$782.89	\$783.99	\$800.55
Average Years	16.99	16.96	17.43	17.40	17.39
20-24.99	517	564	621	730	685
Average FAS*	\$33,270.91	\$33,508.65	\$40,199.79	\$41,860.17	\$43,734.53
Average Benefit	\$1,063.56	\$1,071.16	\$1,103.23	\$1,154.33	\$1,284.91
Average Years	21.92	21.92	22.21	22.34	22.45
25-29.99	716	755	806	754	763
Average FAS*	\$39,604.88	\$39,373.33	\$46,579.86	\$49,038.10	\$48,788.05
Average Benefit	\$1,562.33	\$1,553.77	\$1,661.34	\$1,738.41	\$1,726.15
Average Years	27.05	27.06	27.50	27.47	27.42
30-34.99	853	884	853	751	771
Average FAS*	\$44,484.18	\$44,267.48	\$52,495.79	\$54,546.48	\$55,828.21
Average Benefit	\$2,064.90	\$2,053.55	\$2,129.22	\$2,227.64	\$2,337.01
Average Years	31.83	31.81	32.03	32.06	31.94
35-39.99	283	298	295	270	316
Average FAS*	\$43,401.42	\$43,029.51	\$55,511.76	\$56,508.71	\$60,485.97
Average Benefit	\$2,322.88	\$2,301.72	\$2,457.18	\$2,541.95	\$2,763.31
Average Years	36.70	36.68	36.97	37.03	37.06
40-44.99	70	74	65	67	63
Average FAS*	\$44,380.96	\$43,857.36	\$52,419.96	\$53,281.02	\$58,960.07
Average Benefit	\$2,674.97	\$2,645.33	\$2,670.39	\$2,862.03	\$3,235.13
Average Years	41.33	41.36	41.74	41.84	41.63
45-49.99	7	7	5	6	7
Average FAS*	\$29,042.65	\$29,042.65	\$48,951.13	\$42,007.13	\$53,159.68
Average Benefit	\$1,966.49	\$1,966.49	\$2,441.43	\$2,464.83	\$2,647.02
Average Years	46.43	46.43	45.90	48.17	45.82
50 and Over	1	2	2	2	9
Average FAS*	\$61,661.49	\$40,939.59	\$46,757.32	\$37,202.08	\$47,291.16
Average Benefit	\$4,496.15	\$3,015.03	\$2,000.50	\$3,535.44	\$2,662.89
Average Years	50.00	50.50	51.13	56.50	54.06
Total Number	4,052	4,366	4,638	4,625	4,642
Average FAS*	\$38,021.36	\$37,694.15	\$40,858.89	\$41,992.17	\$42,772.08
Average Benefit	\$1,243.14	\$1,217.05	\$1,236.65	\$1,252.78	\$1,327.48
Average Years	22.42	22.14	21.86	21.57	21.62

*Average Final Average Salary

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

Principal Participating Employers*

Participating Government	2010			2009			2008		
	Covered Employees	Rank	% of Total System	Covered Employees	Rank	% of Total System	Covered Employees	Rank	% of Total System
State of Kansas	26,735	1	16.55%	25,775	1	16.41%	25,299	1	16.35%
USD 259, Wichita	6,861	2	4.25%	6,850	2	4.36%	6,748	2	4.36%
USD 233, Olathe	4,339	3	2.69%	4,625	3	2.94%	4,307	3	2.78%
USD 512, Shawnee Mission	4,005	4	2.48%	4,167	4	2.65%	4,128	4	2.67%
USD 500, Kansas City	3,178	5	1.97%	3,324	5	2.12%	3,337	5	2.16%
USD 229, Blue Valley	2,957	6	1.83%	2,983	6	1.90%	2,930	7	1.89%
Johnson County	2,706	7	1.68%	2,476	8	1.58%	3,137	6	2.03%
USD 501, Topeka Public Schools	2,466	8	1.53%	2,529	7	1.61%	2,548	8	1.65%
Sedgwick County	2,298	9	1.42%	1,847	9	1.18%	2,313	9	1.50%
USD 497, Lawrence	1,715	10	1.06%	1,766	10	1.12%	1,712	10	1.11%
All Other ^(a)	<u>104,291</u>		<u>64.56%</u>	<u>100,723</u>		<u>64.13%</u>	<u>98,231</u>		<u>63.50%</u>
Total (1,499 employers)	<u>161,551</u>		<u>100.00%</u>	<u>157,065</u>		<u>100.00%</u>	<u>154,690</u>		<u>100.00%</u>

Participating Government	2007			2006		
	Covered Employees	Rank	% of Total System	Covered Employees	Rank	% of Total System
State of Kansas	25,069	1	16.55%	25,134	1	16.86%
USD 259, Wichita	6,590	2	4.35%	6,546	2	4.39%
USD 233, Olathe	4,277	3	2.82%	4,155	3	2.79%
USD 512, Shawnee Mission	4,007	4	2.65%	3,968	4	2.66%
USD 500, Kansas City	3,334	5	2.20%	3,436	5	2.30%
USD 229, Blue Valley	2,809	7	1.85%	2,770	7	1.86%
Johnson County	3,002	6	1.98%	3,229	6	2.17%
USD 501, Topeka Public Schools	2,469	8	1.63%	2,544	8	1.71%
Sedgwick County	2,309	9	1.52%	2,434	9	1.63%
USD 497, Lawrence	1,692	10	1.12%	1,736	10	1.16%
All Other ^(a)	<u>95,891</u>		<u>63.33%</u>	<u>93,121</u>		<u>62.47%</u>
Total (1,499 employers)	<u>151,449</u>		<u>100.00%</u>	<u>149,073</u>		<u>100.00%</u>

*Information only available for current and prior four years. Source: Data provided by KPERS Information Resources and Member Services divisions.

(a) In 2010, "All Other" consisted of:

Type	Number	Employees Covered
School districts	289	26,193
Cities and Counties	538	24,725
Post-Secondary Education ^(b)	48	11,237
Other	<u>614</u>	<u>42,136</u>
	<u>1,489</u>	<u>104,291</u>

b) Not including State Board of Regents institutions.

Principal Participating Employers-Death and Disability Plan*

	2010			2009			2008		
	Covered Employees	Rank	% of Total System	Covered Employees	Rank	% of Total System	Covered Employees	Rank	% of Total System
Participating Government									
State of Kansas	37,756	1	22.79%	38,230	1	23.38%	40,431	1	24.67%
USD 259, Wichita	6,861	2	4.14%	6,850	2	4.19%	6,748	2	4.12%
USD 233, Olathe	4,339	3	2.62%	4,625	3	2.83%	4,307	3	2.63%
USD 512, Shawnee Mission	4,005	4	2.42%	4,167	4	2.55%	4,128	4	2.52%
USD 500, Kansas City	3,178	5	1.92%	3,324	5	2.03%	3,337	5	2.04%
USD 229, Blue Valley	2,957	6	1.78%	2,983	7	1.82%	2,930	7	1.79%
Johnson County	2,706	7	1.63%	2,476	6	1.51%	3,137	6	1.91%
USD 501, Topeka Public Schools	2,466	8	1.49%	2,529	8	1.55%	2,548	8	1.55%
Sedgwick County	2,298	9	1.39%	1,847	9	1.13%	2,313	9	1.41%
USD 497, Lawrence	1,715	10	1.04%	1,766	10	1.08%	1,712	10	1.04%
All Other ^(a)	<u>97,393</u>		<u>58.79%</u>	<u>94,685</u>		<u>57.92%</u>	<u>92,321</u>		<u>56.32%</u>
Total (1,492 employers)	<u>165,674</u>		<u>100.00%</u>	<u>163,482</u>		<u>100.00%</u>	<u>163,912</u>		<u>100.00%</u>

	2007		
	Covered Employees	Rank	% of Total System
Participating Government			
State of Kansas	37,871	1	23.79%
USD 259, Wichita	6,590	2	4.14%
USD 233, Olathe	4,277	3	2.69%
USD 512, Shawnee Mission	4,007	4	2.52%
USD 500, Kansas City	3,334	5	2.09%
USD 229, Blue Valley	2,809	7	1.76%
Johnson County	3,002	6	1.89%
USD 501, Topeka Public Schools	2,469	8	1.55%
Sedgwick County	2,309	9	1.45%
USD 497, Lawrence	1,692	10	1.06%
All Other ^(a)	<u>90,826</u>		<u>57.06%</u>
Total (1,492 employers)	<u>159,186</u>		<u>100.00%</u>

*Information available for years 2010 and prior three years. State of Kansas includes the Board of Regents.

(a) In 2010, "All Other" consisted of:

Type	Number	Covered Employees
School districts	289	26,193
Cities and Counties	538	18,274
Post-Secondary Education	48	11,237
Other	<u>614</u>	<u>41,689</u>
	<u>1,489</u>	<u>97,393</u>

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

