2012 Comprehensive Annual Financial Report

for the fiscal year ended June 30, 2012

Every penny counts.

KPERS

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

EVERY PENNY COUNTS.

A trustee is held to something stricter than the morals of the market place.
Not honesty alone, but the punctilio of an honor the most sensitive.*

To us, that means accountability and transparency.
Every penny counts, especially because they are not our pennies.

*Judge Benjamin Cardozo

2012 Comprehensive Annual Financial Report

Kansas Public Employees Retirement System
A component unit of the State of Kansas
Fiscal year ended June 30, 2012

Prepared by KPERS staff
611 S. Kansas Ave., Ste 100
Topeka, KS 66603-3869

Alan Conroy, Executive Director
Diana Komarek, Chief Fiscal Officer

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Transmittal Letter

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

October 15, 2012

We are pleased to present the Kansas Public Employees Retirement System's Comprehensive Annual Financial Report (CAFR) for fiscal year 2012. In addition to informing the Board of Trustees, members and employers, our annual report fulfills KPERS' reporting responsibilities as defined in Kansas statute. Printed copies are readily available to the public and 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 Management's Discussion and Analysis 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 2012.

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 about 1,500 state and local employers. KPERS has over 281,000 members, including active, inactive and retired members. The Retirement System paid about $1.36 billion in benefit payments for fiscal year 2012. Approximately 85 to 90 percent of those benefits remained in Kansas.

Along with 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, 246 local public employers also participate. The plan has about 26,000 total participants and about 15,000 actively contributing. Total plan assets equaled $794 million at the end of fiscal year 2012.

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.

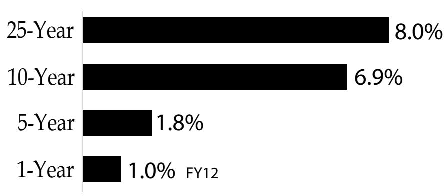
The Board approves the System's annual operating budget. As a component unit of the State of Kansas, the budget is also approved by the Kansas Legislature and Governor as part of the regular legislative budgetary process.

INVESTMENTS

KPERS assets are invested according to the "prudent expert standard of care" for the sole purpose of providing benefits to our members. Solid investment performance over the long-term is vital to sound funding. KPERS' investment strategy is designed to withstand short-term market volatility and economic downturns, as well as to benefit from strong market and economic environments.

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. KPERS' 25-year investment return average stands at 8.0 percent, matching the 8 percent target.

KPERS Total Returns Over Time



Two strong years of investment performance in 2010 and 2011 have helped regain losses suffered in 2008 and 2009 during the economic recession. However, difficulties continue to exist in the global economic environment with ongoing market volatility, and the near-term outlook continues to be muted compared to past economic recoveries. For fiscal year 2012, KPERS' total investment portfolio returned 1.0 percent.

The 1.0 percent return underperformed the KPERS Policy Index by 1.1 percent for the fiscal year. Four of the seven asset classes outperformed their policy benchmarks. Real return assets were the strongest contributors to the total return and privately held asset classes produced double-digit results.

For the three years ending June 30, 2012, the System's total investment portfolio has produced an average annualized return of 12.5 percent, which exceeded the Policy Index by 0.20 percent. The System's total return ranked in the 60th percentile of the Wilshire TUCS universe for all plans for the trailing one year, and in the 31st percentile for the trailing three years ending June 30, 2012.

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 54. This section also provides details about our asset allocation and a general overview of each asset class.

FINANCIAL POSITION AND FUNDING OUTLOOK

As we expected, KPERS' most recent valuation reflects the System's weakened financial health as we continue to absorb the losses from the 2008 recession and 18 years of underfunding.

According to the Retirement System's most recent actuarial valuation (dated December 31, 2011), the System's unfunded actuarial liability (UAL) increased by $964 million to $9.2 billion. The UAL in 2010 was $8.3 billion as of December 31, 2010. This UAL amount is the gap between the actuarial value of assets and the actuarial liability for service already earned by public employees. The UAL increased this year for a combination of reasons.

- KPERS continues to recognize investments losses from the 2008 recession. Next year will be the final actuarial smoothing year.
- 2011 investment earnings less than assumed 8 percent rate.
- Employer contributions are capped by statute, meaning they are not paying the full actuarial cost of benefits.
- The amortization methodology puts more of the UAL costs toward the end of the amortization period.

The valuation also showed the System's new funded ratio was 59 percent, down from 62 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 continues to be a concern.

Even with a yearly 8 percent investment return, the unfunded liability will continue to increase in the coming years until employer statutory contribution rates catch up with the actuarially required rates.

In answer to KPERS' long-term funding shortfall, the 2012 Legislature passed Substitute House Bill 2333, affecting new hires, current members and employers. These changes are a meaningful step toward making the Retirement System more sustainable and helping to pay promised benefits long-term.

Sub House Bill 2333:

- Increases employer contributions, the most significant part of the legislation.
- Increases current member contributions or decreases benefits.
- Creates a new tier 3 cash balance retirement plan for new hires beginning January 2015.
- Directs some of the money from state gaming revenue toward KPERS' unfunded liability.
- Provides some of the revenue from the sale of state surplus real estate for KPERS' unfunded liability.

While the shortfall will continue to grow in the near-term, KPERS' consulting actuary projects that funding will begin to improve after several years of increased contributions from the new legislation. The UAL should then decrease until it is paid in full by 2033, when projections show KPERS with a 100 percent funded ratio.

To meet these projections, long-term investment returns are crucial. Over the next decade, the System will be especially vulnerable to future economic downturns that could cause investment returns to decline.

For detailed information on the System's funding projections by plan and group, please see the actuarial section beginning on page 72.

MAJOR INITIATIVES AND ACCOMPLISHMENTS

Study Commission and Legislative Session

The 2011 Legislature created the KPERS Study Commission to study pension plan design during the interim and report to the Legislature in 2012. KPERS provided a wide range of information and alternative plan designs, from defined contribution plans, to cash balance plans, to other defined benefit plans. KPERS legislation had a high profile during the legislative session, requiring extensive information support from staff. During this time, we also completed 70 cost studies in conjunction with our consulting actuary. Staff's efforts in supporting the legislative process culminated in passage of Substitute House Bill 2333.

New Target Asset Allocation Mix

Investment staff and consultants began implementing a new target asset allocation mix, adopted by the Board of Trustees based on the asset/liability study completed the previous fiscal year. Implementing the plan has resulted in a number of changes in investment strategies, including use of passive domestic equity and international equity mandates. The fixed income portfolio was also restructured in order to reduce the investment risk and align the portfolio more closely with its investment objectives. We also continued efforts to build out strategies for the real return asset class, including hiring the System's first Master Limited Partnership manager.

Information Technology and the Web

KPERS information resources has completed a number of information system security enhancements, including a security review of the member and employer web portals and an external penetration test of the System's infrastructure. We also conducted two successful computer disaster recovery practice drills.

Member and Employer Service

In keeping with the trend toward electronic communication and service, we added two new functions to our employer web portal and helped employers learn how to use them. Employers can now certify their annual contribution rates online as well as sign up for workshops and seminars. KPERS held nearly 90 employer workshops this fiscal year.

About 200 employers elected to move to electronic member annual statements for their employees, bringing the total employer participation to 400, representing 71,000 members.

Each year KPERS processes about 10,000 withdrawals for inactive members who want to take their money out of KPERS. This year, we streamlined the withdrawal process for those with a low account balance, using member annual statements. The change was well-received and made the process easier for both members and KPERS staff.

BY THE NUMBERS — IN FY 2012:

- 972,000 retirement benefit payments totaling more than $1.2 billion
- 6,464 pension inceptions
- 41,500 beneficiary designations
- $9.4 million in active member death benefits
- 23,000 member enrollments and transfers
- 10,000 withdrawals totaling $50 million
- $24 million in benefits to 3,000 disabled employees
- 92,000 incoming calls with an average wait time of 11 seconds
- 13,000 e-mail requests

AWARDS & ACKNOWLEDGMENTS

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 2011 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 governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which must conform to program standards. The comprehensive annual financial report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The Retirement System has received the Certificate of Achievement for each of the last 18 consecutive fiscal years. We believe our current report again conforms to the program requirements, and we will submit it to the GFOA to determine its eligibility for another certificate.

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, we thank our dedicated staff whose work this report represents. We look forward to working in partnership with the Board and staff to continue to honor our fiduciary commitment and to provide members with the service they need to get the most from their benefits.

Sincerely,

Alan D. Conroy,
Executive Director

Diana Komarek
Chief Fiscal Officer

Board of Trustees

Our Organization

BOARD OF TRUSTEES

↓

EXECUTIVE DIRECTOR, ALAN CONROY

↓

ADMINISTRATION

General Counsel, Laurie McKinnon
Internal Audit
Planning and Research
Human Resources
Communications

INVESTMENTS

Chief Investment Officer, Elizabeth B.A. Miller
- Equity Investments
- Real Estate Investments
- Fixed Income Investments
- Alternative Investments

FISCAL SERVICES

Chief Fiscal Officer, Diana Komarek
- Corporate Accounting
- Employer Reporting
- Investment Accounting

MEMBER SERVICES

Member Services Officer, Mary Beth Green
- Post-Retirement
- Benefits
- Withdrawals

INFORMATION RESOURCES

Chief Information Officer, Mike Branam
- Data Control
- Operations

KPERS Staff

Melvin Abbott
Michael Arvidson Jr
Julie Baker
Yohonna Barraud
Kristen Basso
Dianna Berry
A. Kathleen Billings
Anita Bradley
Michael Branam
Terry Brookhouser
Geraldine Brubaker
George Clark
Jenne Clark
Alan Conroy
Tammy Cruz
Andrea Davenport
Don Deseck
Yolanda Dickinson
Amy Dunton
Joyce Edington
Jill Emme
Heather Enos
Yarlenis Ensley
Emily Facer
Daniel Fairbank
Mitchell Fick
Renae Forque
Elaine Gaer
Yong (Sue) Gamblian
Connie Gardner
Nicholas Gawdun
Billie-Jo Gerisch
Kay Gleason
Lisa Gonzales
Mary Beth Green
Paulette Hafenstein
Alec Hawley
Elizabeth (Lisa) Hernandez
Robert Hiebert
Denise Hilmes
John Hooker
Ellen Hurless
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Teresa Jurgens
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Casey Kidder
Brenda Kindle
Brian King
Diana Komarek
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Annette Kuti
Donald Lennard
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Kimberly Mason
Heather McHardie
Laurie McKinnon
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Judy McNeal
Elizabeth Miller
Noble Morrell
Lisa Ngole
Shawn Nix
Diana Peters
Alissa Powell
Pamela Price
Teresa Quick
Jeeva Purushothama
Jami Quiett
Cathy Rafferty
Randy Rahberg
Kimberley Raines
Alberta Rea
Norm Remp
Nancy Richardson
Jamie Rose
Steven Rush
Teresa Ryan
MaryAnn Sachs
Marilyn Sawyer
John (Alan) Schuler
Rhonda Shumway
Julie Smith
Michele Smith
Terry Snook
Jaime Sturgeon
Amber Tarrant
Carmen Torres
Jackie VandeVelde
Christina VanWinkle
Jessica Wendt
Christine Whitlow
Amy Whitmer
Alice Wietharn
Eric Wigginton
Marlin (Max) Williams
Carol Wilson
Deanna Winters
Pat Zimmerman

Consultants and Advisors

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

Actuary: Cavanaugh Macdonald, Englewood, CO

Investment Consultants,
LP Capital Advisors, Sacramento, CA
Pension Consulting Alliance, Inc., Encino, CA
The Townsend Group, Cleveland, OH

Investment Managers

AEW Capital Management, LP, Boston, MA
Baillie Gifford Overseas Limited, Edinburgh, Scotland
Barings Asset Management Limited, London, UK
Blackrock Institutional Trust Company, San Francisco, CA
Brookfield Redding LLC, Chicago, IL
Brookfield Asset Management, Coral Gables, FL
Capital Guardian Trust Company, Los Angeles, CA
Duff & Phelps Investment Management Company, Chicago, IL
FAMCO, St. Louis, MO
Franklin Templeton Institutional, San Mateo, CA
Guggenheim Investments, Topeka, KS
ING Investment Management Company, Hartford, CT
Jamestown Properties, Atlanta, GA
JP Morgan Investment Management Inc., New York, NY
LaSalle Investment Management, Chicago, IL
Lazard Asset Management, LLC, New York, NY
Loomis Sayles & Company, LP, Boston, MA
MacKay Shields LLC, New York, NY
Mellon Capital Management Corporation, San Francisco, CA
Molpus Woodlands Group, Jackson, MS
Morgan Stanley Asset Management, Inc., New York, NY
Morgan Stanley Real Estate Advisor, New York, NY
Nomura Asset Management USA Inc, New York, NY
Pacific Investment Management Company, Newport Beach, CA
Pareto Partners, New York, NY
Payden & Rygel Investment Counsel, Los Angeles, CA
Principal Global Investors, Des Moines, IA
Russell Investment Group, Tacoma, WA
State Street Global Advisors, Boston, MA
Systematic Financial Management LP, Teaneck, NJ
T Rowe Price Associates, Inc., Baltimore, MD
The Campbell Group, Portland, OR
UBS Trumball, Hartford, CT
Wellington Management Company, LLP, Boston, MA
Western Asset Management Company, Pasadena, CA

Investment Custodian: Bank of New York Mellon, Everett, MA

Life Insurance: Minnesota Life Insurance Company, St. Paul, MN

Long-Term Disability: Self Insured, Administered by Disability Consulting Group LLC, Portland, ME

GFOA Certificate of Achievement

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 2011 annual report. KPERS has received the award for each of the last 18 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, 2011

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.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

Linda C. Davidson

President

Jeffrey R. Esser

Executive Director

Financial Section

CHV & Co

COCHRAN HEAD VICK & CO., P.A.

Certified Public Accountants

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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, 2012, 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 has been derived from the System's 2011 financial statements and, in our report dated October 17, 2011, we expressed an unqualified opinion on the respective financial statements.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the plan net assets of Kansas Public Employees Retirement System as of June 30, 2012, 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 October 15, 2012 on our consideration of the System's internal control over financial reporting and on our test 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 or 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.

Other Offices

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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 46 and 47 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 other supplementary information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other 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.

October 15, 2012 Cochran Head 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, 2012. 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 decreased by $363 million or 2.7% percent from $13.47 billion to $13.1 billion.
- As of December 31, 2011, the date of the most recent actuarial valuation, the Retirement System's funded ratio was 59.2 percent compared with a funded ratio of 62.2 percent for the prior year.
- The unfunded actuarial liability increased from $8.3 billion at December 31, 2010, to $9.2 billion at December 31, 2011.
- On a market value basis, this year's investment rate of return was a positive 1.0 percent, compared with last year's return of a positive 22.6 percent.
- Retirement benefits paid to retirees and beneficiaries increased 7.9 percent from $1.15 billion in fiscal year 2011 to $1.24 billion in fiscal year 2012.

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 basic 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, 2012, and a Statement of Changes in Plan Net Assets for the fiscal year ended June 30, 2012, 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 that 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. The KPERS Death and Disability Plan covers current active members of the System and terminates at retirement. 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 4.5 percent funded as of June 30, 2010, 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, 2012, amounted to $13.1 billion, a decrease of $363 million, 2.7 percent, from $13.5 billion at June 30, 2011. Following are two summary schedules, Plan Net Assets and Changes in Plan Net Assets, comparing information from fiscal years 2012 and 2011.

Summary Comparative Statements of Plan Net Assets

Assets	As of June 30, 2012	As of June 30, 2011
Cash and Deposits	$10,899,775	$3,207,179
Receivables	2,048,504,812	3,402,041,265
Investments at Fair Value	13,277,146,799	13,236,304,711
Invested securities lending collateral	1,051,425,908	960,689,299
Capital assets and supplies inventory	2,645,766	3,604,285
Total Assets	16,390,623,060	17,605,846,739
Liabilities		
Administrative Costs	975,198	564,023
Benefits Payable	7,036,167	2,068,925
Investments Purchased	2,202,250,732	3,145,691,588
Securities Lending Collateral	1,074,549,112	988,669,397
Total Liabilities	3,284,811,209	4,136,993,933
Net Assets	$13,105,811,851	$13,468,852,806

Summary Comparative Statements of Changes in Plan Net Assets

Additions	Year Ended June 30, 2012	Year Ended June 30, 2011
Contributions	$915,741,287	$868,951,933
Net Investment Income	84,238,967	2,494,339,663
Net Investment Income from Securities Lending Activity	4,817,667	5,150,948
Total Net Investment Income	89,056,634	2,499,490,611
Other Miscellaneous Income	202,558	190,770
Total Additions	1,005,000,479	3,368,633,314
Deductions		
Monthly Retirement Benefits	1,237,559,898	1,147,209,272
Refunds	55,896,826	49,564,015
Death Benefits	9,414,234	9,614,688
Insurance Premiums and Disability Benefits	55,169,430	53,505,311
Administrative	10,001,046	9,624,617
Total Deductions	1,368,041,434	1,269,517,903
Net Increase (Decrease)	(363,040,955)	2,099,115,411
Net Assets Beginning of Year	$13,468,852,806	$11,369,737,395
Net Assets End of Year	$13,105,811,851	$13,468,852,806

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 $869 million in fiscal year 2011 to $916 million in fiscal year 2012.

The System recognized a net investment income of $89.1 million for the 2012 fiscal year, compared with net income of $2.5 billion for the 2011 fiscal year. Total return for the portfolio was 1.0 percent, compared with the benchmark return of 2.1 percent. System net investments amounted to $13.0 billion at June 30, 2012 which was $0.3 billion less than the $13.3 billion in total System investments at June 30, 2011. 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.

1 Year	Last 3 Years	Last 5 Years	Last 10 Years
1.0%	12.5%	1.8%	6.9%

At June 30, 2012, the System held $7.7 billion in U.S. equity and international equity securities, which is unchanged from the 2011 fiscal year. U.S. equity and international equity securities earned returns of approximately 4.1 percent and negative 11.2 percent, respectively, for the 2012 fiscal year. These compare with the Retirement System's benchmark returns of 3.8 and negative 14.6 percent, respectively.

The System held $3.7 billion in U.S. debt and international debt securities, compared to $3.8 billion in 2011 fiscal year. The performance of the System's fixed income securities during fiscal year 2012 was 6.4 percent, compared with the benchmark of 7.4 percent. Real estate investments increased $254.1 million to $1.3 billion at June 30, 2012. Real estate investments returned approximately 8.5 percent for the 2012 fiscal year, versus the benchmark real estate return of 14.0 percent. The System held $387.2 million in alternative investments, which was a $17.8 million increase from June 30, 2011. Alternative investments earned a return of approximately 3.6 percent for the 2012 fiscal year, compared to the benchmark alternative investment return of 6.8 percent. At June 30, 2012, the System held $205.4 million in short-term investments, which was a decrease of $160.2 million from June 30, 2011.

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 2012, net securities lending income amounted to $4.8 million, compared with income of $5.2 million in fiscal year 2011.

Deductions from net assets held in trust for benefits include retirement, death and survivor benefits, and administrative expenses. For the 2012 fiscal year, retirement, death and insurance benefits amounted to $1,358 million, an increase of $98.1 million, 7.8 percent, from the 2011 fiscal year. The increase in benefit payments was a result of an increase in the number of retirees. For the 2012 fiscal year, System administrative expenses amounted to $10.0 million compared with $9.6 million in fiscal year 2011. The ratio of System administrative expenses to the number of members (approximately $42 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 $964 million increase in the unfunded actuarial liability (UAL), decreasing the funded ratio to 59 percent.

	UAL (millions)	Funded Ratio
KPERS		
State Group	$ 1,123	71%
School Group	5,798	52%
Local Group	1,542	61%
KP&F	739	70%
Judges	27	83%
Retirement System Total[1]	$ 9,228	59%

1 May not add due to rounding.

As of the latest valuation date, December 31, 2011, the State group continues to contribute at the full actuarial required contribution (ARC) rate. The State and School groups are combined for purposes of determining the statutory contribution rate applicable to their combined payroll. To the extent the statutory contribution rate is higher than the ARC for the State, the difference, applied to the

State payroll, is contributed to the School group. Consequently, the two groups are linked for purposes of determining the ARC date and rate. Furthermore, legislation passed in 2012 provided for additional contributions by the State commencing in fiscal year 2014 and continuing until the combined State/School group is at least 80 percent funded. The statutory contribution rate for the State/School and Local groups is projected to converge with the ARC rate before the end of the amortization period (2033), if all actuarial assumptions are met in future years. The ARC Date for the State/School group is FY 2021 and for the Local group is FY 2017. Although ARC is projected to be achieved if actuarial assumptions are met, the dates and rates of ARC for these groups are highly leveraged and will vary as experience unfolds year to year.

In spite of the funding shortfall, benefits for current retirees are safe. The Retirement System has approximately $13 billion in assets to pay benefits for decades.

In response to KPERS' long-term funding shortfall, the 2012 Legislature made changes to future benefits and contributions, affecting both current members and employers, to improve KPERS long term sustainability. The Governor signed Senate Substitute for HB 2333 into law on June 1, 2012. This legislation affects new hires, current members and employers. Beginning in 2014, the cap on employer contributions has been increased from 0.6% to, 0.9% in fiscal year 2014, 1.0% in fiscal year 2015, 1.1% in fiscal year 2016 and 1.2% in fiscal year 2017 and beyond. Members (depending on tier and a possible option election), will have a contribution increase or a benefit decrease. The changes are expected to improve KPERS long term funding and help all three groups reach full funding by 2033. The actual funding progress will be heavily dependent on the actual investment experience of the System in future years.

The legislature and the governor are ultimately responsible for benefits and funding. 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, 2012, with comparative figures for 2011

	KPERS Fund	Group Death & Disability Fund	2012 Totals	2011 Totals
Assets				
Cash and Deposits				
Cash	$10,104,931	$794,844	$10,899,775	$3,207,179
Total Cash and Deposits	10,104,931	794,844	10,899,775	3,207,179
Receivables				
Contributions	88,779,493	9,384,103	98,163,596	154,799,437
Investment Income	34,403,329	1,065	34,404,394	37,387,163
Sale of Investment Securities	1,915,936,822	—	1,915,936,822	3,209,854,665
Total Receivables	2,039,119,644	9,385,168	2,048,504,812	3,402,041,265
Investments at Fair Value				
Domestic Equities	4,500,360,801	—	4,500,360,801	3,786,594,006
International Equities	3,182,774,490	—	3,182,774,490	3,871,748,944
Cash and Equivalents	193,165,823	12,283,865	205,449,688	365,568,474
Fixed Income	3,705,502,848	—	3,705,502,848	3,801,271,106
Alternative Investments	387,198,726	—	387,198,726	369,393,242
Real Estate	1,295,860,246	—	1,295,860,246	1,041,728,939
Total Investments at Fair Value	13,264,862,934	12,283,865	13,277,146,799	13,236,304,711
Invested Securities Lending Collateral	1,051,425,908	—	1,051,425,908	960,689,299
Capital Assets and Supplies Inventory	2,638,566	7,200	2,645,766	3,604,285
Total Assets	16,368,151,983	22,471,077	16,390,623,060	17,605,846,739
Liabilities				
Administrative Costs	975,198	—	975,198	564,023
Benefits Payable	3,633,556	3,402,611	7,036,167	2,068,925
Securities Purchased	2,202,250,732	—	2,202,250,732	3,145,691,588
Securities Lending Collateral	1,074,549,112	—	1,074,549,112	988,669,397
Total Liabilities	3,281,408,598	3,402,611	3,284,811,209	4,136,993,933
Net Assets held in trust for Pension Benefits and Other Post Employment Benefits Balance End of Year	$13,086,743,385	$19,068,466	$13,105,811,851	$13,468,852,806

* The accompanying notes to the financial statements are an integral part of this statement.
Schedules of Funding Progress are presented on pages 46 and 47.

Statement of Changes in Plan Net Assets

for the fiscal year ended June 30, 2012, with comparative figures for 2011

Additions	KPERS Fund	Group Death & Disability Fund	2012 Totals	2011 Totals
Contributions				
Member Contributions	$298,105,053	$ —	$298,105,053	$294,314,002
Employer Contributions	568,015,364	49,620,870	617,636,234	574,637,931
Total Contributions	866,120,417	49,620,870	915,741,287	868,951,933
Investments				
Net Appreciation (Depreciation) in Fair Value of Investments	(132,729,256)	—	(132,729,256)	2,211,302,374
Interest	103,584,321	10,852	103,595,173	158,139,067
Dividends	110,902,858	—	110,902,858	123,098,602
Real Estate Income, Net of Operating Expenses	44,259,544	—	44,259,544	48,997,734
Other Investment Income	436,311	—	436,311	388,174
	126,453,778	10,852	126,464,630	2,541,925,951
Less Investment Expense	(42,225,663)	—	(42,225,663)	(47,586,288)
Net Investment Income	84,228,115	10,852	84,238,967	2,494,339,663
From Securities Lending Activities				
Securities Lending Income	4,353,102	—	4,353,102	5,431,118
Securities Lending Expenses				
Borrower Rebates	1,769,773	—	1,769,773	739,912
Management Fees	(1,305,208)	—	(1,305,208)	(1,020,082)
Total Securities Lending Activities Expense	464,565		464,565	(280,170)
Net Income from Security Lending Activities	4,817,667	—	4,817,667	5,150,948
Total Net Investment Income	89,045,782	10,852	89,056,634	2,499,490,611
Other Miscellaneous Income	200,644	1,914	202,558	190,770
Total Additions	955,366,843	49,633,636	1,005,000,479	3,368,633,314
Deductions				
Monthly Retirement Benefits Paid	(1,237,559,898)	—	(1,237,559,898)	(1,147,209,272)
Refunds of Contributions	(55,896,826)	—	(55,896,826)	(49,564,015)
Death Benefits	(9,414,234)	—	(9,414,234)	(9,614,688)
Insurance Premiums and Disability Benefits	(6,128,984)	(49,040,446)	(55,169,430)	(53,505,311)
Administrative Expenses	(9,693,869)	(307,177)	(10,001,046)	(9,624,617)
Total Deductions	(1,318,693,811)	(49,347,623)	(1,368,041,434)	(1,269,517,903)
Net Increase (Decrease)	(363,326,968)	286,013	(363,040,955)	2,099,115,411
Net Assets held in trust for Pension Benefits and Other Post Employment Benefits				
Balance Beginning of Year	13,450,070,353	18,782,453	13,468,852,806	11,369,737,395
Balance End of Year	$13,086,743,385	$19,068,466	$13,105,811,851	$13,468,852,806

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]	76,464	4,346	215	81,025
Terminated employees entitled to benefits but not yet receiving them	14,605	199	7	14,811
Inactive members, deferred disabled	2,711	197	0	2,908
Inactive members not entitled to benefits	26,950	1,009	0	27,959
Current employees	147,647	7,143	264	155,054
Total	268,377	12,894	486	281,757

1 Represents System membership at December 31,2011.

2 Number of retirement payees as of December 31,2011.

Number of Participating Employers

	KPERS	KP&F	Judges
State of Kansas	1	1	1
Counties	105	31	—
Cities	362	61	—
Townships	56	—	—
School Districts	286	—	—
Libraries	122	—	—
Conservation Districts	84	—	—
Extension Councils	73	—	—
Community Colleges	19	—	—
Educational Cooperatives	23	—	—
Recreation Commissions	43	1	—
Hospitals	29	—	—
Cemetery Districts	12	—	—
Other	194	—	—
Total	1,409	94	1

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. Legislation passed in 2012 again amended the statutory cap on annual increases in contribution rates. Beginning in 2014, the cap on employer contributions has been increased to 0.9% in fiscal year 2014, 1.0% in fiscal year 2015, 1.1% in fiscal year 2016 and 1.2% in fiscal year 2017 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.

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, 2011, 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, 2012, the System's deposits with its disability administrator was $0. 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 act.
- 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 28 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, 2012, the maturities of securities in this dedicated bond portfolio are as follows: 35.1 percent of the fair value of the securities mature within 30 days; 34.2 percent mature between 31 and 180 days; and 30.7 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, 2012, and June 30, 2011, were $1,673,130,416 and $1,215,075,532, respectively. Collateral held by the Retirement System for June 30, 2012, and June 30, 2011, was $1,750,761,499 and $1,271,582,150, respectively. Net income produced from securities lending activities for fiscal year 2012 was $4,817,667, with $5,150,948 for fiscal year 2011.

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 3.8 percent of the total market value, other agencies sum to 2.6 percent of market value, and U.S. Treasury securities representing 8.5 percent of total market 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, 2012, were distributed among currencies in the following list.

USD Equivalent	Currency	Percent
$ 151,166,578	Australian Dollar	1.14%
56,112,356	Brazilian Real	0.42
641,080,107	British Pound	4.83
224,919,901	Canadian Dollar	1.70
4,620,447	Chilean Peso	0.03
64,847,685	Chinese Yuan Renminbi	0.49
3,047,529	Colombian Peso	0.02
31,346,907	Danish Krone	0.24
702,885,372	Euro Currency Unit	5.30
130,381,322	Hong Kong Dollar	0.98
20,300,148	Indian Rupee	0.15
13,906,434	Indonesian Rupian	0.11
8,360,378	Israeli Shekel	0.06
420,980,569	Japanese Yen	3.17
16,062,761	Malaysian Ringgit	0.12
69,234,078	Mexican New Peso	0.52
4,798,882	New Zealand Dollar	0.04
36,730,026	Norwegian Krone	0.28
6,432,954	Other	0.05
1,572,918	Peru Nuevo Sol	0.01
9,671,280	Philippines Peso	0.07
5,098,482	Polish Zloty	0.04
20,342,485	Russian Rubel	0.15
53,741,762	South African Rand	0.41
52,569,837	Singapore Dollar	0.40
94,497,592	South Korean Won	0.71
94,801,955	Swedish Krona	0.71
156,156,219	Swiss Franc	1.18
60,689,028	Taiwan New Dollar	0.46
12,175,683	Thailand Baht	0.09
15,344,978	Turkish New Lira	0.12
11,132,412,189	United States Dollar *	76.00
$ 14,316,288,842		100.00%

* Includes securities lending collateral of $1,051,425,908. Of the $3.2 million in foreign currency exposure above, $0.15 million (4.7%) is from fixed securities. The balance is in equities.

The System's asset allocation and investment policies include active and passive investments in international securities. KPERS' target allocation is to have 29.0 percent of assets (excluding securities lending collateral) in dedicated international equities. 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, 2012, the System's total foreign currency exposure was 18.8 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, cash equivalents includes commercial paper, 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 A1/A+ or better; Commercial paper must be A1/P1/F1; Asset-backed securities must be Aaa/AAA or better; Repurchase agreements must be 102 percent collateralized with U.S. government or agency 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, 2012, subject to credit risk are shown with current credit ratings.

Quality Rating	Cash Equivalents	Corporate	Agency	U.S. Govt	Securities Lending Collateral	Total
NR	$ 16,489	$ 199,488	$ —	$ —	$ 235,892	$ 451,869
AAA	—	79,924	—	—	44,418	124,342
AA	5,682	252,255	881,562	1,261,679	540,295	2,941,473
A	—	278,678	—	—	230,821	509,499
BBB	—	465,549	—	—	—	465,549
BB	—	249,189	—	—	—	249,189
B	—	155,522	—	—	—	155,522
CCC	—	34,954	—	—	—	34,954
CC	—	2,398	—	—	—	2,398
C	—	7,831	—	—	—	7,831
D	—	2,174	—	—	—	2,174
Total	$ 22,171	$ 1,727,962	$ 881,562	$1,261,679	$ 1,051,426	$ 4,944,800

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	Cash Equivalents	Corporate	Agency	U.S. Govt	Securities Lending Collateral	Total
0 - 1 yr	$ 22,171	$ 526,097	$ 298,002	$ 133,534	$ 993,919	$ 1,973,723
1 - 3 yrs	—	165,783	501,458	866,499	57,507	1,591,247
3 - 5 yrs	—	371,083	72,479	81,897	—	525,459
5-10 yrs	—	474,266	8,055	126,648	—	608,969
10-23yrs	—	190,733	1,568	53,101	—	245,402
	$ 22,171	$ 1,727,962	$ 881,562	$ 1,261,679	$ 1,051,426	$ 4,944,800

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, 2012 the System had total net margins payable the next day of $3,926,142. 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 $56.9 million were associated with futures for the year ending June 30, 2012.

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 cannot 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 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.

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 Derivative Notional Values

	Asset Class[1]	June 30, 2011	June 30, 2012
Domestic Equity Futures	Domestic Equities	$1,196,118,375	$135,844,640
International Equity Futures	International Equities	$739,787,477	$103,933,505
Fixed Futures	Fixed	$997,215,207	$121,032,212
Options Written	Fixed	$936,376	$214,363
Pay Fixed Interest Swaps	Fixed	$20,550,000	$20,400,000
Receive Fixed Interest Swaps	Fixed	$154,000,000	$154,400,000
Credit Default Swaps	Fixed	$441,320,845	$100,975,893
TBA Agency Bonds [2]	Fixed	$(112,261,173)	$212,499,050

1 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.

2 TBA Agency Bond notional values are equal to their fair values. KPERS investment policy allows managers to carry short TBA values as long as they are offsetting long holdings in similar securities with similar characteristics.

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, 2011	Increases	Decreases	June 30, 2012
Options Written	$ 104,998	$ 4,077,627	$ (4,088,076)	$ 94,549
Pay Fixed Interest Swaps	(307,205)	1,145,482	(1,005,913)	(167,636)
Receive Fixed Int. Swaps	790,147	4,370,213	(4,713,886)	446,474
Credit Default Swaps	4,071,975	240,061,265	(244,622,334)	(489,094)
TBA Agency Bonds[1]	(112,261,173)	2,824,270,018	(2,499,509,795)	212,499,050
Foreign Currency Forwards	(10,651,672)	151,658,083	(132,749,555)	8,256,856
	$ (118,252,930)	$ 3,225,582,688	$(2,886,689,559)	$220,640,199

1 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 is 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

			FV Increases	FV Decreases		
Australian Dollar			$ 11,562,586	$ (12,109,515)	(128,733)	
Brazil Real			150,975	(299,390)		
British Pound			12,900,666	(14,596,023)		
Canadian Dollar			4,919,426	(4,331,372)		
Chinese Yuan Ren			—	(108,083)		
Danish Krone			788,980	(572,483)		
Euro Currency Unit			40,727,339	(38,390,311)		
Hong Kong Dollar			370,083	(409,971)		
Hungarian Forint			176,542	—		
Indonesian Rupian			78,505	(285,877)		
Japanese Yen			6,414,191	(7,861,040)		
Malaysian Ringgit			8,376	(49,883)		
Mexican New Peso			4,526,749	(6,436,176)		
New Taiwan Dollar			5,589	(13,015)		
New Zealand Dollar			1,009,776	(547,971)		
Norwegian Krone			1,776,663	(2,274,868)		
Other Currencies			234,872	(390,756)		
Philippines Peso			34,435	(610)		
S African Rand			299,471	(444,868)		
Singapore Dollar			2,070,461	(2,318,474)		
South Korean Won			29,514	(293,480)		
Swedish Krona			1,518,498	(1,938,928)		
SwissFranc			10,891,335	(12,271,329)		
			$ 100,495,032	$ (105,944,423)		

Hedging Currency Forwards

	June 30, 2011				June 30, 2012	
	Notional $USD	Fair Values	FV Increases	FV Decreases	Fair Values	Notional $USD
Australian Dollar	$ 11,346,264	$ (136,944)	$ 3,725,248	$ (3,022,082)	$ 566,222	$ 122,470,396
Canadian Dollar	61,076,609	(860,256)	1,556,238	(112,250)	583,732	81,960,799
Swiss Franc	51,278,025	(862,793)	11,702,322	(7,798,310)	3,041,219	109,025,837
Euro Currency Unit	425,928,943	(9,984,186)	18,142,843	(1,884,874)	6,273,783	256,120,592
British Pound	276,850,988	(1,320,074)	5,392,132	(4,315,058)	(243,000)	263,994,679
Hong Kong Dollar	35,977,938	745	70,783	(71,528)	—	—
Japanese Yen	162,085,701	(2,354,577)	10,573,485	(9,601,030)	(1,382,122)	264,399,290
	$ 1,024,544,468	$ (15,518,085)	$ 51,163,051	$ (26,805,132)	$ 8,839,834	$ 1,097,971,593
Total Currency Forwards	$ 2,926,983,428	$ (10,651,672)	$ 151,658,083	$ (132,749,555)	$ 8,256,856	$ 1,735,343,308

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, 2012, the market values of international equities was $3.18 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 at June 30, 2012

Counterparty Name	Notional $USD	Fair Value	Standard & Poor's Long Term Rating
Bank of New York Mellon	$18,252,440	$ 28,426	A+
Barclays	85,244,310	(1,147,365)	A
BNP Paribas	39,040,219	70,000	A+
Citigroup Inc	35,645,547	103,094	A-
Credit Suisse Group	62,293,617	1,455,106	A
Deutsche Bank	43,643,551	(87,664)	A+
Goldman Sachs Group Inc	6,919,879	(25,376)	A-
HSBC Holdings	26,187,863	223,782	A+
JPMorgan Chase & Co	12,521,522	(96,203)	A
Morgan Stanley	16,835,146	(908,122)	A-
Royal Bank of Canada	83,108,832	958,727	AA-
Royal Bank of Scotland	18,583,504	(172,001)	AAA
Societe Generale	1,743,570	(15,216)	A
State Street Corp	20,696,571	(221,978)	A+
UBS	115,079,035	194,691	A
Westpac Banking Corp	51,576,110	(942,879)	AA-
	$ 637,371,716	$ (582,978)	

Hedging Forwards Counterparty Exposure At June 30, 2012

Counterparty Name	Notional $USD	Fair Value	Standard & Poor's Long Term Rating
Barclays	$ 196,638,147	$2,977,106	A
Citigroup Inc	116,236,891	(967,285)	A-
Deutsche Bank	72,363,951	415,017	A+
HSBC Holdings	196,172,816	5,963,452	A+
JPMorgan Chase & Co	170,461,427	(1,374,115)	A
Royal Bank of Canada	224,877,687	(1,275,626)	AA-
Royal Bank of Scotland	27,542,038	(549,160)	AAA
UBS	93,678,637	3,650,445	A
	$1,097,971,594	$8,839,834	

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, 2012, was $14,223,886. Office supplies inventory in the amount of $21,575 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, 2012 was $2,628,139. The office building and garage are being depreciated over a period of 33 years on an accelerated method. At June 30, 2012, the carrying value of the System's administrative headquarters was $990,018.

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, 2012, was $5,334,463,714, 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, 2012, was $7,036,377,742. The unfunded liability was $9,228,149,871. 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, 2012, was $9,923,525,468. 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, 2012, was $20,533,133, 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. The balance at June 30, 2012, was negative $6,800.

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 2012, the regular employer contribution rate was 8.77 percent of covered payroll. In addition, KPERS contributed an additional 1.0 percent of covered payroll to the group insurance fund. Total payroll was $4,190,789, $3,915,928 and $4,414,614 for 2010, 2011 and 2012 respectively. KPERS contributed $323,173, $359,518 and $379,168 for 2010, 2011 and 2012 respectively, to the employees pension plan and group insurance fund. All contributions required by law were made in fiscal years 2010, 2011 and 2012.

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 administrating these funds. Investments under management for the Treasurer's Unclaimed Property Fund were $231,534,281 at June 30, 2012.

NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS

GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position was issued June 2011 and is effective for fiscal years beginning after December 31, 2011. Concepts Statement No. 4, Elements of Financial Statements, introduced those concepts. This Statement supersedes several paragraphs in GASB Statements No. 25 and 27 and will be effective for the System in fiscal year 2013.

GASB Statement No. 64, Derivative Instruments: Application of Hedge Accounting Terminations Provisions-an amendment of GASB Statement No. 53, was issued in June 2011 and is effective for fiscal years beginning after June 15, 2011. Some governments have entered into interest rate swap agreements and commodity swap agreements in which a swap counterparty, or the swap counterparty's credit support provider, commits or experiences either an act of default or a termination event as both are described in the swap agreement. For fiscal year ending June 30, 2012, the System did not have any swaps used as hedges. This statement will be effective for the System in fiscal year 2013.

GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, was issued in March 2012 and is effective for fiscal years beginning after December 15, 2012. It establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. This statement will be effective for the System in fiscal year 2014.

Two new GASB Statements have been issued that will have major impacts on how the System reports. These statements are the most significant changes to the way defined benefit pension assets and liabilities are reported since the original statements were issued in 1994. Statement No. 67, Financial Reporting for Pension Plans is effective for fiscal years beginning after June 15, 2013. Statement No. 68, Accounting and Financial Reporting for Pensions is effective for fiscal years beginning after June 15, 2014. The objective of these Statements is to improve financial reporting by state and local governmental pension plans. It is the result of a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. These proposed Statements would amend the requirements of Statements No. 25, No. 27 and No. 50, Pension Disclosures, as they relate to pension plans that are administered through trusts, or equivalent arrangements, that meet certain criteria.

The GASB Board will also issue implementation guides. The implementation guide for Statement No. 67 will be issued in June 2013. The implementation guide for Statement No. 68 will be issued in January 2014.

KPERS' management is currently evaluating the effect of all of the GASB statements referenced above 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, 2009. 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 2012 KPERS transferred to the State of Kansas $3,210,092 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, 2010, and December 31, 2011, can be attributed to the following ($ millions):

Unfunded Actuarial Liability, December 31, 2010	$8,264.0
Effect of contribution cap/time lag	289.5
Expected increase due to amortization method	62.0
Loss from investment return	852.6
Demographic experience	(192.0)
All other experience	1.8
Change in actuarial assumptions	(64.4)
Change in benefit provisions	14.6
Final Unfunded Actuarial Liability, December 31, 2011	$9,228.1

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, 2007, and December 31, 2008, actuarial valuations provide the basis for Board certification of employer contribution rates for fiscal years 2011 and 2012. 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
2011	11.30%	8.17%
2012	14.09%	8.77%
Correctional		
2011	9.20% / 8.64%	8.55% / 8.50%
2012	12.92% / 9.24%	11.86% / 9.10%

Included in the fiscal year 2011 and 2012 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, 2008, and December 31, 2009, actuarial valuations provide the basis for Board certification of local employer contribution rates for fiscal years beginning in 2011 and 2012, respectively. The actuarially determined employer contribution rates and statutory contribution rates are as follows:

Local Fiscal Year	Actuarial Rate	Statutory Rate
2011	10.42%	6.74%
2012	9.44%	7.34%

KP&F. The uniform participating service rate for all KP&F employers was 14.57 percent for the fiscal year beginning in 2011 and 16.54 percent for the fiscal year beginning in 2012. KP&F employers also make contributions to amortize the liability for past service costs, if any, which are determined separately for each participating employer.

Judges. The total actuarially determined employer contribution rate was 19.49 percent of payroll for the fiscal year ended 2011 and 21.28 percent of payroll for the fiscal year ended 2012.

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 (in thousands):

	Employer and Insurance Contributions	Member Contributions[1]	Contributions as a Percent of Covered Payroll
KPERS- State	$ 100,222	$44,520	12.1%
KPERS- School	312,963	142,361	12.7
KPERS - Local	126,140	72,471	11.0
KP&F	72,384	31,073	24.2
Judges	5,927	1,469	26.7
Subtotal	$ 617,636	$291,894	12.9%

An estimated $588 million of employer & employee contributions were made to cover normal cost, an estimated $321 million was made for the amortization of the unfunded actuarial accrued liability.

1 Member contributions do not include Optional Life Insurance contributions of approximately $6.2 million.

Funding Status and Funding Progress

The funding status of the plan at December 31, 2011, 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)
12/31/11	$13,379,020	$22,607,170	$9,228,150	59%	$6,401,462	144%

The schedule of funding progress, presented as required supplementary 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	12/31/2011	12/31/2011	12/31/2011
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	21 years	21 years	21 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 active 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 KPERS Death and Disability Plan'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, 2010, the date of the last actuarial valuation:

- Active plan members, 164,835
- Number of participating employers, 1,417
- Open claims, 2,882

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. 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. Subsequently, the Legislature passed moratoriums on contributions for each of the following periods, April 1, 2010 through June 30, 2010, April 1, 2011 through June 30, 2011 and April 1, 2012 through June 30, 2012. For the period ending June 30, 2012, employers contributed over $49 million to the Plan.

The death and disability plan assets are held in the Group Insurance Reserve fund. At June 30, 2012, this reserve held net assets totaling $19,068,466. 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 June 30, 2010, 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 % of Covered Payroll ((b - a)/c)
6/30/10	$12,751	$283,758	$271,007	4.5%	$6,822,726	4.0%

The actuarial valuation dated March 1, 2011, 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 for the Death and Disability Plan (on page 47) 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 46) 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, 2010, 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 June 30, 2010	
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%–12.0%
Payroll Growth	4.0%

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

Note 5: Commitments and Contingencies

As of June 30, 2012, the Retirement System was committed to additional funding of $7,159,000 in the form of capital expenditures on separate account real estate holdings in the portfolio, $317,355,000 for commitments on private equity investments, and $261,674,000 for capital calls on core and non-core real estate property trust 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 October 15, 2012, which is the date the financial statements were available to be issued.

Required Supplementary Information - Retirement Plan

Schedule of Employer Contributions[1]

Last ten fiscal years

Year	Annual Required Contribution	Percentage Contributed
2003	$282,329,785	79%
2004	338,879,960	69
2005	381,791,085	69
2006	471,424,006	63
2007	531,292,151	64
2008	607,662,300	65
2009	660,833,664	68
2010	682,062,413	72
2011	709,964,322	74
2012	843,361,835	67

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

Schedules of Funding Progress

(in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
12/31/02	$ 9,784,862	$ 12,613,599	$2,828,736	78%	$4,865,903[1]	58%
12/31/03	10,853,462	14,439,546[2]	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
12/31/10	13,589,658	21,853,783	8,264,125	62	6,494,048	127
12/31/11	13,379,020	22,607,170	9,228,150	59	6,401,462	144

1 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.

2 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 Disabilty Plan

Schedule of Employer Contributions

Last six fiscal years

Year	Annual Required Contribution	Percentage Contributed
2007	$71,763,879	83%
2008	76,128,451	82
2009	75,414,841	48
2010	62,705,453	47
2011	57,868,502	85
2012	57,030,698	87

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 % of Covered Payroll ((b - a)/c)
06/30/06[1]	$18,724	$354,150	$335,426	5.3%	$5,716,896	5.9%
06/30/07	25,568	355,729	330,161	7.2	5,981,324	5.5
06/30/08	38,571	355,060	316,489	10.9	6,409,426	4.9
06/30/10	12,751	283,758	271,007	4.5	6,822,726	4.0

1 The June 30, 2006 actuarial valuation date was the first valuation performed using actuarial requirements as required by GASB 43.

2 Actuarial Valuation assumes insurance premiums due for the Basic Life Insurance plan are paid by current contributions. The remaining contributions,cash,and investments are reserves for liabilities associated with the long term disability plan.

Other Supplementary Information -

Schedule of Contributions

For fiscal year ended June 30, 2012

Kansas Public Employees Retirement System

State / School Contributions			
Members	$186,881,551		
Employers	413,185,313		
Total State / School Contributions		$600,066,864	
Local Contributions			
Members	72,471,313		
Employers	126,139,677		
Total Local Contributions		198,610,990	
Total Contributions KPERS			$798,677,854
Kansas Police and Firemen's System			
State Contributions			
Members	2,910,439		
Employers	5,835,093		
Total State Contributions		8,745,532	
Local Contributions			
Members	28,162,308		
Employers	66,549,183		
Total Local Contributions		94,711,491	
Total Contributions KP&F			103,457,023
Kansas Retirement System for Judges			
State Contributions			
Members	1,468,700		
Employers	5,926,968		
Total State Contributions		7,395,668	
Total Contributions - Judges			7,395,668
Optional Life Insurance			
Member Contributions			
State Employees	3,143,070		
Local Employees	3,067,672		
Total Contributions		6,210,742	
Total Contributions - OGLI			6,210,742
Grand Total All Contributions			$915,741,287

Schedule of Administrative Expenses

For fiscal year ended June 30, 2012

Salaries and Wages		$5,761,218
Professional Services		
Actuarial	$470,403	
Audit	39,400	
Data Processing	228,229	
Legal	76,462	
Other Professional Services	629,062	
Total Professional Services		1,443,556
Communication		
Postage	202,905	
Printing	57,609	
Telephone	94,281	
Total Communication		354,795
Building Administration		
Building Management	57,715	
Janitorial Service	23,050	
Real Estate Taxes	48,869	
Utilities	40,360	
Total Building Administration		169,994
Miscellaneous		
Dues and Subscriptions	20,329	
Repair and Maintenance	731,599	
Office and Equipment Rent	18,025	
Supplies	74,861	
Temporary Services	8,502	
Travel	76,537	
Other Miscellaneous	133,516	
Depreciation	1,208,114	
Total Miscellaneous		2,271,483
Total Administrative Expenses		$10,001,046

Schedule of Investment Income by Asset Class

For Fiscal Year Ending June 30, 2012

Asset Classification	Interest, Dividends and Other Transactions	Gains and Losses	Total
Marketable Equity Securities			
Domestic Equities	$30,797,600	$124,042,669	$154,840,269
International Equities	73,048,319	(496,802,945)	(423,754,626)
Subtotal Marketable Equities	103,845,919	(372,760,276)	(268,914,357)
Marketable Fixed Income Securities			
Government	33,102,258	162,031,616	195,133,874
Corporate	69,663,378	4,969,895	74,633,273
Subtotal Marketable Fixed	102,765,636	167,001,511	269,767,147
Temporary Investments	829,536	12,184,428	13,013,964
Total Marketable Securities	207,441,091	(193,574,337)	13,866,754
Real Estate	44,259,544	52,533,847	96,793,391
Alternative Investments	7,056,940	8,311,234	15,368,174
Total Real Estate and Alternative Investments	51,316,484	60,845,081	112,161,565
Other Investment Income			
Securities Lending	4,817,667	—	4,817,667
Reimbursement for Non-KPERS Costs	436,311		436,311
Total Other Investment Income	5,253,978	—	5,253,978
Investment Income	$264,011,553	$(132,729,256)	131,282,297

Manager and Custodian Fees and Expenses	
Investment Manager Fees	(29,424,955)
Custodian Fees & Expenses	(815,138)
Other Investment Expenses	(1,775,729)
Partnership Mgmt Fees & Expenses	(10,209,841)
Total Investment Fees and Expenses	(42,225,663)
Net Investment Income	$89,056,634

Schedule of Investment Management Fees and Expenses

For the Fiscal Year Ended June 30, 2012

Domestic Equity Managers	
BlackRock	$52,687
Fiduciary Asset Management Co.	357,875
ING	1,087,718
Loomis, Sayles & Co.	959,389
Mellon CM LC Index	218,147
Security Global Investors	874,656
Systematic Financial Mgmnt.	840,902
Subtotal Domestic Equity Managers	4,391,374
Global Equity Managers	
Capital Guardian Trust Co.	1,218,341
Wellington Management Co.	1,469,336
Subtotal Global Equity Managers	2,687,677
International Equity Managers	
Baillie Gifford	2,440,361
BlackRock	413,675
Barings	1,639,558
JP Morgan Int'l	2,186,003
Lazard Freres Asset Management	1,263,078
Morgan Stanley Asset Management	967,227
Nomura Capital Management	183,795
State Street	66,700
Templeton Int'l	1,487,844
Subtotal International Equity Managers	10,648,241
Fixed Income Managers	
BlackRock	232,029
Loomis, Sayles & Co.	992,981
MacKay Shields	917,994
Pacific Investment Management Co.	2,656,586
T. Rowe Price	927,750
Western Asset Management Co.	513,882
Subtotal Fixed Income Managers	6,241,222
Foreign Currency Overlay Manager	
Barclays	185,417
Pareto Partners	1,320,000
Russell	332,865
Subtotal Foreign Currency Overlay Manager	1,838,282
Real Estate & Alternative Investment Managers	
AEW Capital Management	2,426,749
Brookfield Redding	637,108
Duff & Phelps	129,285
Principal	115,472
Subtotal Real Estate & Alternative Managers	3,308,614
Cash Equivalent Manager	
Payden & Rygel Investment Counsel	309,544
Subtotal Cash Management	309,544
Total Investment Management Fees	29,424,954
Other Fees and Expenses	
Mellon Trust - Custodian Fees and Other Expenses	815,138
Consultant Fees	1,600,303
Litigation Expenses	175,426
Partnership Management Expenses	10,209,841
Subtotal Other Fees and Expenses	12,800,708
Total	$42,225,662

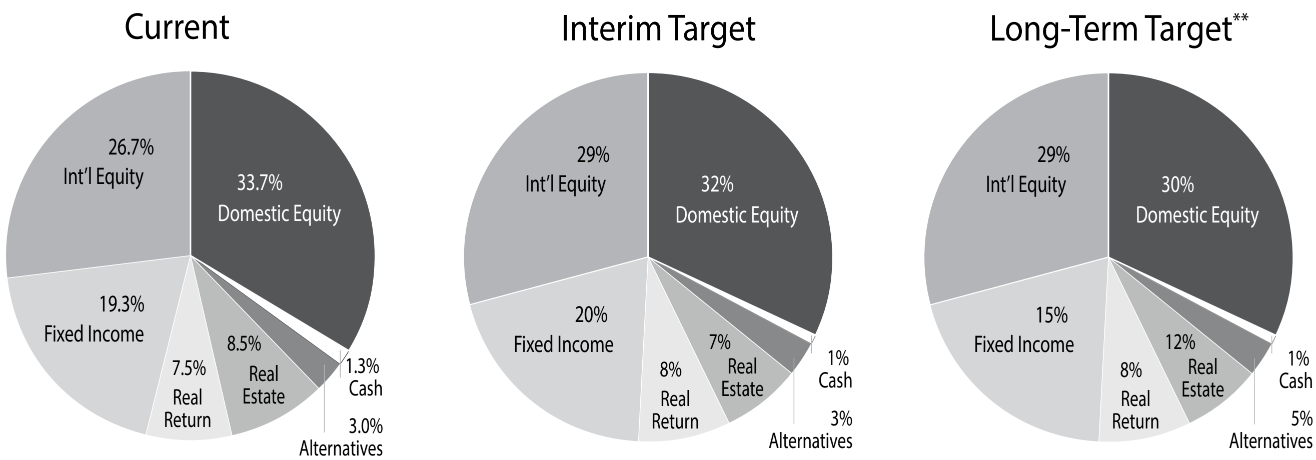
Investments Section

Chief Investment Officer's Review

The Kansas Public Employees Retirement System investment portfolio represents all contributions to the plan, from both members and their employers, as well as net earnings on these assets. Total assets at the end of fiscal year 2012 were $13.277 billion. The System's investment portfolio is managed for the long term, in an effort to generate adequate returns to pay the benefits promised to members. In order to achieve that goal, the assets receive the benefit of a broadly diversified investment portfolio which includes domestic and non-U.S. stocks, bonds, real estate, alternative investments, and cash equivalents.

ASSET ALLOCATION*

Portfolio investments are diversified among seven different asset classes for asset allocation and investment performance.



** Target allocation adopted 7/15/11

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

Fixed income investments are the next largest portion of the System's portfolio and a relatively stable asset class. The fixed income portfolio helps to protect the System's assets from downside volatility by diversifying the risk of equity investing, and providing a source of current income. The fixed income portfolios are constructed using broad mandates, with global opportunities in mind. While these portfolios principally contain U.S.-based and U.S.-dollar denominated assets, the fixed income investment 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 equivalents complete the System's investment portfolio. The real return asset category presently contains the treasury inflation protected securities (TIPS) and relatively new investments in timber and infrastructure assets. A new investment strategy was added to the real return portfolio during fiscal year 2012—an actively managed portfolio of master limited partnerships (MLPs). We continue to evaluate potential new investment strategies for the real return asset class as we work to build inflation protection into the overall investment portfolio. Real estate investments generate returns in a different manner than equities or fixed income investments because real estate follows a different (and typically longer) market cycle. Because it moves in a different market cycle than publicly-traded stocks and bonds, real estate provides diversification advantages, as well as some inflation protection, to the investment portfolio. KPERS' alternative investments consist primarily of investments in private partnerships that make venture capital investments, pursue leveraged buyout strategies or own private debt. This asset class represents the higher end of the investment risk/ return spectrum. Private equity managers seek higher growth opportunities in pursuit of higher returns, with commensurate investment risk. Finally, cash equivalents are held primarily to facilitate investment transactions and cash flows needed to pay benefits.

*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.

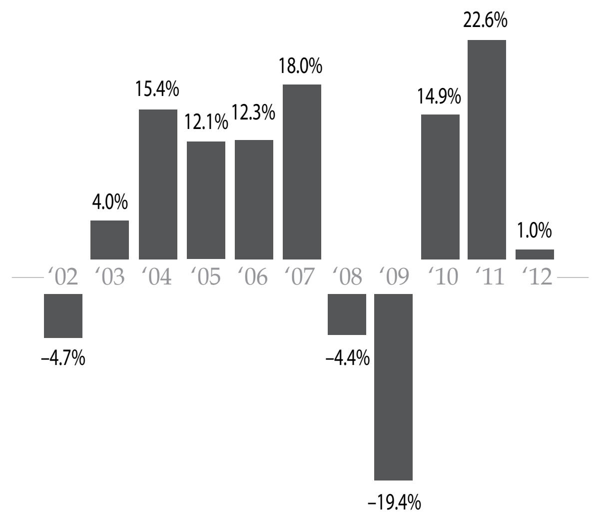
INVESTMENT POLICY

The board of trustees has adopted a Statement of Investment Policy, Objectives and Guidelines (the Statement), which serves as a guide to implement the System's broad investment objectives. The Statement compliments KPERS' statutes and documents the principles and standards that guide the management of the System's assets. It is binding for all persons with authority over the assets, including investment managers, custodians, consultants, staff and the board of trustees.

Reviewed annually and updated as needed, the Statement is the product of the board's careful and prudent study. It sets forth the investment policies, objectives, and guidelines which the board of trustees judge 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 System's external investment managers are measured. It also serves as a review document for ongoing investment oversight and as a yardstick to measure compliance with K.S.A 74-4901 et seq.

Total Returns by Fiscal Year



FISCAL YEAR 2012 INVESTMENT PERFORMANCE

The Retirement System's total investment portfolio experienced a 1.0 percent total return for the one year ending June 30, 2012. (This follows a 22.6 percent total return in fiscal year 2011 and a 14.9 percent total return in fiscal year 2010.) The 1.0 percent return trailed the KPERS Policy Index by 1.1 percent for the fiscal year. For the three years ending June 30, 2012, the System's total investment portfolio has produced an average annualized return of 12.5 percent, which exceeded the Policy Index by 0.20 percent. The System's total return ranked in the 60th percentile of the Wilshire TUCS universe for all plans for the trailing one year, and in the 31st percentile for the trailing three years ending June 30, 2012.

During fiscal year 2011, the board of trustees undertook an asset/liability study, and adopted a new target asset mix in July, 2011. The System's investment staff and consultants worked to implement the new target asset mix during fiscal year 2012. While the new asset allocation did not result in significant changes in the asset class targets, the implementation plan did result in a number of changes in investment strategies.

The System's global equity investment managers were terminated, and the assets were transitioned to a combination of active and passive international equity managers. Approximately one-quarter of the System's international equity portfolio is now managed in a low-cost strategy which is indexed to the MSCI ACWI ex U.S. benchmark.

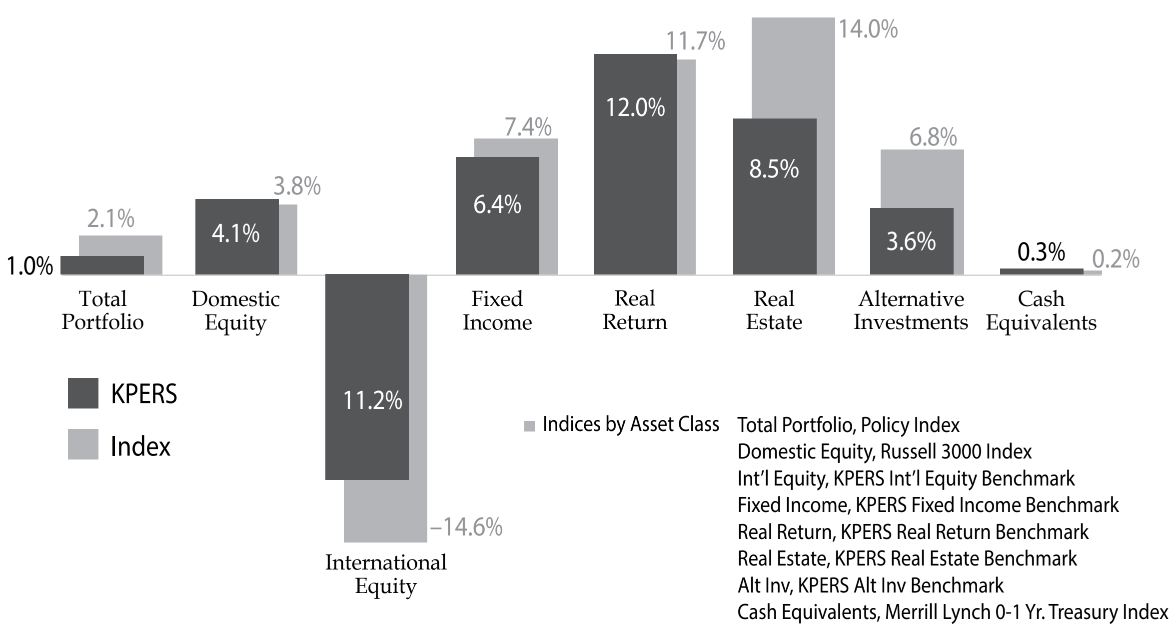
The System's "portable alpha" equity strategies were also terminated, and the assets were re-allocated to the domestic equity portfolio. Eighty percent of the domestic equity portfolio was transitioned to a low-cost strategy which is indexed to the Russell 1000 benchmark, and diversified between two index managers.

The System's fixed income portfolio was restructured in order to reduce the investment risk and align the fixed income portfolio more closely with its investment objectives: to provide diversification, principal protection and current income. Eighty-five percent of fixed income assets are now allocated to "core plus" managers, with 15 percent of the portfolio allocated to "strategic" managers with a slightly higher risk and expected return profile.

INVESTMENT STAFF

The System employs a staff of eight investment professionals to provide oversight and management of the assets and external investment managers. Under the oversight of the Chief Investment Officer, responsibility for the portfolio is assigned by asset class. The Investment Officer for Equity Strategies is assigned to publicly-traded domestic and international equity investments, the Fixed Income Investment Officer is responsible for the management of the fixed income portfolios, the Senior Investment Officer for Private Markets handles the real estate and private equity investments, and the Assistant Investment Officer works across several publicly-traded asset classes. The Chief Investment Officer and the four asset class Investment Officers are supported by a team of three Investment Analysts who provide research support and assistance in managing the portfolios. Comments from the Investment Officers on their respective areas follow.

Time Weighted Total Return by Asset Class
Fiscal Year 2012



Equity Investments

As of June 30, 2012, the market value of the KPERS equity portfolio was $7.85 billion, representing 60.4 percent of the total fund. The KPERS equity portfolio is currently slightly overweight to the 59 percent long-term target.

PORTFOLIO STRUCTURE

The largest category is comprised of domestic equity securities and accounts for 33.7 percent of the total fund versus a 32.0 percent interim target asset allocation. The System uses several strategies within the domestic equity portfolio designed to add 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 securities in the Russell 1000 Index, the Russell 2500 Index representing the smallest 2500 securities 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 makes up 26.7 percent of the total fund versus a 29.0 percent interim target asset allocation. 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 has to be considered – currency risk. Given the amount allocated to foreign markets, it is important that the System consider how currency fluctuations impact the portfolio. To manage this exposure, the System utilizes a currency hedging strategy. The benchmark used for the international equity portfolio is the Morgan Stanley Capital International (MSCI) All Country World Index (ACWI), excluding the United States. This index has a total of 44 countries, 23 developed countries and 21 emerging countries, weighted by market capitalization. As of June 30, 2012, countries in this index accounted for over 52.5 percent of the world's equity capitalization, as reported by MSCI's broadest benchmark, the All Country World Index.

MARKET OVERVIEW

Equity markets experienced a volatile environment for the year ending June 30, 2012, driven by macroeconomic and geopolitical events throughout the year. As a result, the markets were subject to periods of "risk-on" and "risk-off" at various times during the fiscal year. All major developed economies played a significant role in the volatility at some point during the fiscal year.

The U.S. led off the fiscal year with the downgrade of its sovereign debt ratings to AA+ by S&P on August 5, 2011. S&P cited that the effectiveness, stability, and predictability of American policymaking and political institutions had weakened at a time of ongoing fiscal and economic challenges. Additionally, the political brinkmanship leading up to the downgrade highlighted America's governance and policymaking becoming less stable, less effective, and less predictable than the rating agency had previously believed. Global markets were roiled as U.S. markets declined 5 to 7 percent the following day, beginning the pattern of geopolitical events impacting markets throughout the year. European markets traded off more than the U.S. given the fragility of their financial system. Domestic equity markets finished the first quarter of the fiscal year down 15.3 percent, while international equity markets were down 19.9 percent for the same time period.

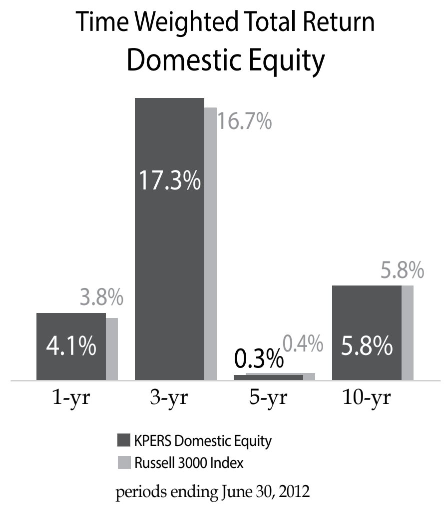
Global equity markets recovered in the second and third quarters of the fiscal year, as central bank intervention calmed the markets and led to "risk-on" market environments. The U.S. continued its quantitative easing program with Operation Twist as the Federal Reserve purchased long term Treasury securities. The European Central Bank calmed the European financial markets by introducing Long-Term Refinancing Operations (LTROs) in December 2011 and again in February 2012. This resolved the liquidity issues in the European banking system, at least temporarily. Strong results from economic indicators in the U.S. early in 2012 gave hope that the domestic economy was turning the corner to a more sustained recovery. Domestic equity markets turned in two strong quarters early in 2012, with total returns of 12.1 percent and 12.9 percent, respectively, during the second and third fiscal quarters. International equity markets, while also positive, were somewhat weaker, with total returns of 3.8 percent and 11.2 percent, respectively.

A slowdown in economic activity in the fourth quarter of the fiscal year (second quarter of calendar 2012) combined with the toxic mix of European political instability, caused a "risk-off" trade during the final quarter of the fiscal year, and produced negative equity returns for both the domestic and international equity markets. Chinese trade data also softened significantly but markets were most unsettled by Greek elections on May 6 failing to form a coalition government, raising the possibility that new leadership might formally reject the Euro. This turn of events directly impacted Greece and other peripheral nations in Europe. The combination of a socialist candidate winning the election in France added further uncertainty in the Eurozone. The final two days of the fiscal year were capped off by the 19th European Leaders Summit which provided for direct recapitalization of Spanish banks without subordination of existing lenders. Markets rallied substantially and the new policy provided a framework to get the European financial system back on its feet again.

For the entire fiscal year, the domestic equity benchmark produced a total return of 3.8 percent, while the international equity benchmark lost 14.6 percent. Highlighting the difficulty experienced by stock markets around the globe, the Greek equity market was down 68.5 percent for the year, while Spain and Italy were down 35.8 percent and 33.6 percent respectively. European bulwark Germany was down 24.1 percent, while the emerging markets of Brazil, Russia and China were down 26.6 percent, 25.7 percent and 15.9 percent respectively.

EQUITY PERFORMANCE

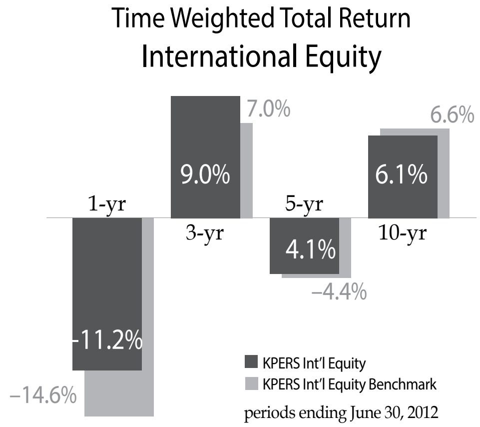
The domestic equity portfolio is managed utilizing multiple money managers across both indexed and actively managed strategies. Various strata of market capitalization within the market are targeted for active management as well as different styles such as value and core. The domestic equity portfolio had a market value of $4.38 billion as of June 30, 2012.



In stark contrast to the previous year, the current year was characterized by a "risk-on," "risk-off" environment driven by macro events. As a result, the largest capitalization stocks outperformed smaller capitalization stocks. In contrast to recent years, value stocks outperformed growth stocks, with the exception of the largest capitalization stocks as Apple Inc.

The Russell 1000 Index returned 4.4 percent, the Russell 2000 Index lost 2.1 percent, the Russell Midcap Value Index lost 0.4 percent and the Russell 2500 Index lost 2.3 percent. The domestic equity portfolio outperformed the Russell 3000 Index slightly, which returned 3.8 percent.

The System's international equity portfolio produced strong relative performance in what was an extremely difficult year for international stock markets and finished the year with a market value of $3.47 billion at fiscal year-end. The portfolio returned -11.2 percent, outperforming the MSCI All Country World Index ex U.S. return of -14.6 percent. The System has six active managers which in combination provided strong relative returns.



Fixed Income Investments

As of June 30, 2012, KPERS fixed income portfolio had a market value of $2.5 billion, representing 19.3 percent of the total fund. This is consistent with the interim target allocation of 20 percent.

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 allows the use of 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 to capture incremental return. The core plus allocation uses the Barclays Capital Universal Index as the benchmark, and the strategic allocations use custom benchmarks such as a 55%/45% blend of the Barclays Capital Universal Index and the Barclays Capital U.S. High Yield 2% Issuer Cap Index.

MARKET OVERVIEW

A global flight to quality dominated the fixed income markets during the first and second quarters of fiscal year 2012. Ironically, U.S. Treasuries rallied after Standard and Poor's downgraded the U.S. from its AAA credit rating for the first time since the Great Depression. Conversely, the flight to quality meant that credit sectors suffered as spreads (yields relative to Treasuries) widened considerably during the quarter. The Barclays U.S. Universal Index produced a total return of 2.9 percent for the first fiscal quarter, while the Barclays U.S. Corporate High Yield Index produced a loss of 6.1 percent for the quarter. In the second quarter of fiscal year 2012, the flight to quality continued, as the European debt crisis continued to unfold. The investment grade and high yield financial sector spreads widened the most, as a result of fears that the European debt crisis would wreak havoc on U.S. banks. When the European Central Bank announced its long-term refinancing operations (LTROs) program, credit spreads began to narrow again. The Barclays U.S. Universal Index produced a positive return of 1.4 percent during the second fiscal quarter, while the Barclays U.S. Corporate High Yield Index outperformed with a total return of 6.5 percent in the quarter.

The fixed income markets again benefited from the return of the "risk-on" trade in the third quarter of fiscal year 2012, as both improving U.S. economic news and easing concerns about the European debt crisis aided the fixed income markets. This positive news was slightly tempered by increasing geopolitical concerns among the OPEC nations, which caused a temporary spike in energy prices. Credit risk was rewarded in this quarter, but duration risk was not. The 30-year U.S. Treasury yield rose from 2.89 percent at the beginning of the year to a peak of 3.48 percent in March, pushed higher by concerns about the impact improving U.S. economic conditions might have on the Federal Reserve's plans to hold interest rates low through late 2014.

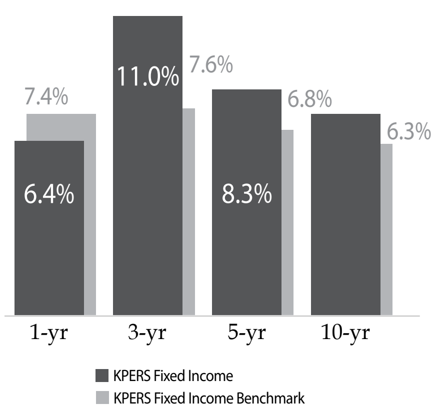
The future of the Euro, worries about the U.S. fiscal cliff, and slowing growth in China resulted in traditionally more risky assets such as high yield bonds underperforming U.S. Treasury securities in the final quarter of fiscal year 2012. U.S. yields were flat to higher, with the spread on the high yields index widening slightly. The 10-year U.S. Treasury Note provided a total return of 5.78 percent during the quarter and 17.40 percent for the year ending June 30, 2012.

This "flight to quality" was seen across the globe with nations regarded as "safer" or a "haven" from European turmoil performing well and seeing their 10-year bond yields decline by 0.25 percent to 0.50 percent in the quarter. This group included the U.S., UK, Canada, France, Germany and Switzerland. Japan's yields also fell, though by a smaller amount given the lower starting point. Short rates also declined, with German 2-year yields moving into negative territory. Struggling nations such as Greece, Italy and Spain saw poor performance and higher yields due to continuing signs of an inability to meet EU debt requirements. Yields were particularly volatile in Spain and Italy, as investors debated whether policy makers would provide sufficient and timely aid. Spanish yields increased from 5.32 percent to a peak of 7.29 percent before recovering to 6.25 percent on the last day of the final quarter of fiscal year 2012, due to progress made at the European Union summit.

FIXED INCOME PERFORMANCE

The total fixed income portfolio lagged its benchmark, the Barclays Capital Universal Index. The underperformance of the portfolio was primarily due to the portfolio's underweight in U.S. Treasuries (10% portfolio vs. 31% benchmark) during the "flight to quality" which benefited Treasury securities.

Time Weighted Total Return
Fixed Income



periods ending June 30, 2012

Real Return Investments

As of June 30, 2012, the real return portfolio had a market value of $977.4 million, representing 7.5 percent of the total fund. This allocation was in line with the long-term target allocation of 8 percent.

The real return asset class is relatively new in the KPERS' portfolio, first receiving an allocation of 14 percent in the asset/liability study concluded in January 2008. Formerly, this portfolio held a 10 percent allocation to long-dated Treasury Inflation Protected Securities (TIPS). The real return portfolio has a primary investment objective of inflation protection, with a secondary objective of the production of current income. By adding timber, infrastructure and master limited partnership (MLP) assets to the TIPS portfolio, the board hopes to broaden and diversify the System's exposure to inflation-related assets, as well as improve the current yield of the real return portfolio. Work continues to identify other investment strategies which are appropriate for the real return asset class.

PORTFOLIO STRUCTURE

Long-term target allocations for the real return portfolio are still under development. As this portfolio is relatively new, and these types of investments require a long lead time to research, perform due diligence and acquire, the System expects this portfolio to be constructed over the next three to five years. At fiscal year end, the real return portfolio was allocated roughly 80 percent to TIPS, 10 percent to MLPs and 10 percent to real assets, with small initial allocations to timber and infrastructure.

TIPS

As the fiscal year began in July 2011, global economic disruptions continued as concerns about the European debt situation created a flight to quality by global investors. This led to renewed demand for U.S. Treasury securities, both nominal and TIPS. The U.S. TIPS market outperformed nominal Treasuries (and most other asset classes) in this environment, ending the fiscal year with a total return of 12 percent versus the Barclays U.S. Aggregate Bond Index at 7.5 percent. The performance of U.S. TIPS was fairly consistent throughout the fiscal year, with quarterly returns of 4.5 percent, 3.6 percent, 1.0 percent, and 3.2 percent, respectively, for the Barclays U.S. TIPS Index.

TIMBER

Timber investments are a component of the System's real return asset allocation due to their historically high correlation to inflation. Over the past year, challenging circumstances in the housing sector provided the System with the opportunity to acquire an additional timberland investment at an attractive discount. With these investments, the System is now diversified into timber markets in Texas, Louisiana and Idaho. Additional opportunities in other timber regions in North America are being evaluated. In the latter part of fiscal year 2012, more positive news from the housing sector has started to positively impact the prices of building materials like lumber. In time, this shift in demand should translate to improved unit prices for timber. Over time, timber investments are expected to provide the System with current cash yields and modest capital appreciation.

MASTER LIMITED PARTNERSHIPS

The System made its first investment in energy-related Master Limited Partnerships during fiscal year 2012, after evaluating several investment managers as part of a competitive request for proposal process. This sector offers predictable cash flows as well as a positive correlation to inflation. The System's MLP portfolio is focused primarily on "midstream" companies. These companies own the pipelines and contract with customers to transport natural gas or oil. Therefore, they are not typically impacted by fluctuations in commodity prices. This investment strategy is a component of the real return asset class.

INFRASTRUCTURE

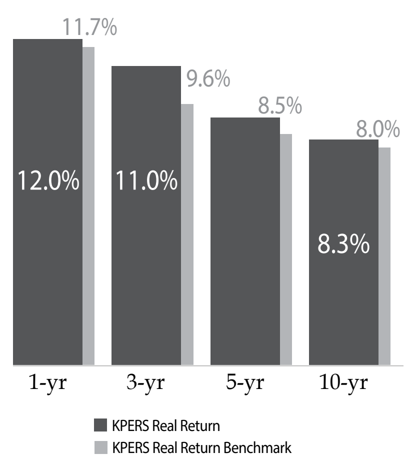
Over the past year, infrastructure pricing has continued to improve, leading to increased deal flow. The pipeline of potential asset sales continues to grow as sellers look to take advantage of a more liquid market. Despite increased volume, the success rate for closing transactions remains uneven. Although widely adopted in other parts of the world, public/private partnerships and related public sector deal flow has been sluggish to materialize in the U.S. However, the energy sector has been a noticeable exception, as private companies look for alternative sources of funding, and a significant amount of new capital is required to meet development needs.

Despite economic headwinds over the past year, the System's infrastructure manager has been successful in operating its infrastructure investments. The portfolio performed in line with expectations and produced an attractive total return of 12.4 percent for the fiscal year. The fund's infrastructure portfolio is well diversified, with investments in Australia and throughout North and South America, diversified across multiple sectors, including renewable power, toll roads, electric utilities, sea ports and energy.

REAL RETURN PERFORMANCE

Due primarily to strong returns from TIPS, the real return portfolio experienced a very robust 12.0 percent total return for the fiscal year.

Time Weighted Total Return
Real Return



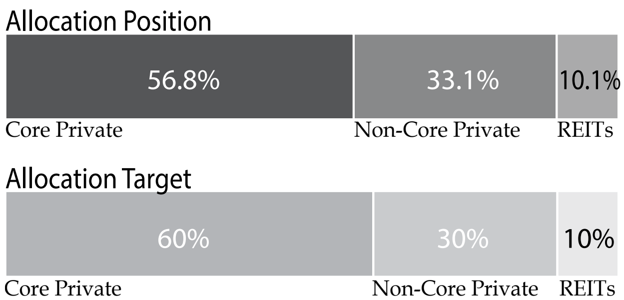
periods ending June 30, 2012

Real Estate Investments

For fiscal year 2012, the System's long-term target asset allocation for real estate was 12 percent. As of June 30, 2012, the real estate portfolio had a market value of approximately $1.1billion, representing 8.5 percent of the total fund. The real estate portfolio is primarily designed to provide diversification to the broader portfolio, while also serving as an inflation hedge. A secondary objective of the real estate portfolio is to pursue opportunities with a meaningful income component. Capital appreciation is a tertiary objective of current real estate investment activities.

PORTFOLIO STRUCTURE

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



CORE REAL ESTATE

The largest segment of the real estate portfolio is "core" real estate. This portion of the portfolio is expected to produce steady current income in the form of investment yield while providing portfolio diversification and serving as an inflation hedge. KPERS' core portfolio currently consists of:

1. A separate account containing nine directly-owned commercial properties in the U.S.
2. Partial and full commitments to five commingled funds.

During fiscal year 2012, the Board reconfirmed the desired role of real estate in the portfolio as a diversifying asset and current income producer, and increased the target weighting in the core real estate sector as a result.

NON-CORE REAL ESTATE

The "non-core" segment consists of investments that generally involve some element of property lifecycle risk (such as positioning, leasing and, in some cases, development) while also utilizing greater leverage (debt) than core strategies. While providing elements of inflation protection and a diversification benefit to the broader portfolio, the System expects non-core real estate investments to produce meaningful capital appreciation and higher overall long-term returns than core investments. The non-core portfolio consists of investment funds employing a diversity of strategies and property types, both domestically and internationally.

REAL ESTATE SECURITIES (REITs)

The publicly-traded real estate securities segment is implemented utilizing managers who invest actively in domestic and international real estate investment trusts (REITs) and similar vehicles.

MARKET OVERVIEW

As in the prior fiscal year, commercial real estate markets remain bifurcated, with the highest-quality assets in the best locations trading at substantial premiums. Many of these assets are located in so-called "gateway" or "Tier I" cities that continue to be attractive to both businesses and residents, with the latter driven by a clear trend toward continued urbanization. These markets are typically space constrained, thus limiting new development. Assets in non-gateway markets continue to trade at discounts that exceed long-term averages. This bifurcation is especially pronounced in the retail space with malls that feature top tier retailers outperforming assets that target middle market consumers.

Overall, the health of commercial property markets continued to gain momentum and gradually improve in step with the pace of the domestic economic recovery. Transaction levels for core properties are fast approaching levels experienced before the recent financial crisis. Fundamentally, population growth and employment are key drivers for commercial real estate by either creating the need for space or providing income for retail spending. One of the consequences of the recent financial crisis that relates directly to commercial real estate is the lack of new construction over the past few years. This supply constraint, combined with increasing demand, has resulted in a steady decline in vacancy rates across all property types except retail. Interest in development improved somewhat over the year as companies responded to growing tenant demand for high-quality, well-located properties, particularly in the multi-family sector. However, sponsorship and access to capital remained key constraints. In addition, a significant number of under-capitalized commercial properties in the United States still need to be addressed. Both scenarios are expected to provide investment opportunities for the Retirement System within the non-core allocation of the real estate portfolio.

Valuations for core assets in developed markets continued to rise throughout the fiscal year. A widely-accepted index of core open-end funds in the United States delivered an 11.3 percent net return for the year ended June 30, 2012. Income returns have remained near historic levels of about 5.5 percent per year, while the remaining returns resulted from appreciation. Appreciation was driven by both capital inflows into the sector and by slightly improved operating results as measured by property Net Operating Income (NOI) as the U.S. economy remained in a state of slow recovery. Cap rate compression slowed throughout the fiscal year, as fundamentals once again became a more important driver of commercial real estate values. Core real estate remains attractively priced relative to Treasuries and investment grade corporate debt. This spread difference is likely to continue to attract investors into commercial real estate.

During the fiscal year, KPERS' board of trustees approved a plan recommended by staff and the System's real estate consultant to gradually liquidate the System's separate account real estate portfolio and reinvest the proceeds into pooled real estate investment funds. This strategy change is expected to result in improved liquidity, enhanced portfolio diversification, lower management fees and a reduction in the single event risk associated with owning individual real estate assets.

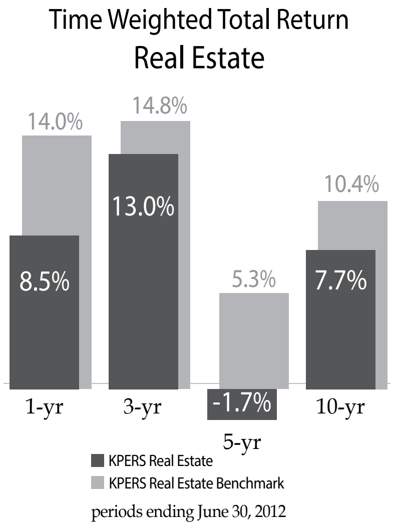
Non-core real estate valuations continued to lag during the fiscal year. In this segment, many properties remain priced 30 to 40 percent below peak values, as owners struggle with capital structure issues. Compounding this issue is the limited amount of debt capital from traditional sources that could be used to help restructure challenged balance sheets. The fundraising environment for fund managers in this space also remained challenging with several funds falling well short of their targeted capital raise. The current environment creates attractive opportunities for skilled operators to acquire high-quality real estate at attractive prices from capital constrained owners, resolve the capital structure issue and sell the asset to core buyers. The System has positioned its non-core portfolio in order to take advantage of these opportunities.

During fiscal year 2012, REIT performance was driven by a more meaningful increase in cash flow growth resulting from better than expected growth across both large property sectors (well positioned mall assets, multi-family and health care), as well as several niche property sectors including self-storage and manufactured homes. Domestic REITs posted the strongest returns of all regions. Many domestic REITs traded at substantial premiums to estimated underlying net asset value through the year, driven by capital flows in the real estate securities market, focused on the U.S.

REAL ESTATE PERFORMANCE

The total real estate portfolio returned 8.5 percent for the fiscal year, underperforming its custom policy benchmark by 5.5 percent. For the year, core real estate delivered a total return of 10.6 percent, exceeding the return for the broader real estate portfolio. This annual return reflected a 6.0 percent income return, with the remainder consisting of appreciation. Non-core real estate delivered a total return of 8.5 percent, significantly underperforming its benchmark. This return reflected a 3.1percent income return, with the remainder consisting of appreciation. Within the non-core portfolio, returns were widely dispersed. Some of the funds that were hit hardest during the downturn are now recapturing some of their losses, with high levels of leverage (resulting from write-downs) amplifying their returns. Many funds are also creating value through leasing and similar activities. All funds benefited during the year from modest improvements to the economic landscape, with the vast majority generating substantial positive returns.

The REIT portfolio delivered an annual return of 8.6 percent for fiscal year 2012, underperforming the core and non-core sectors as well as the REIT benchmark. Overall, domestic REITs outperformed the international REITs in the portfolio during the fiscal year, as the uncertain macroeconomic landscape in Europe and moderate economic slowdown in Asia adversely impacted returns from international REITs. The lowest return within the domestic REIT portfolio was delivered by a preferred REIT investment in the United States, which is designed to provide steady, lower-risk returns. That investment delivered a 7.5 percent return for the year, underperforming the Bank of America Merrill Lynch REIT Preferred Index. The structure of the System's REIT portfolio is under review at this time.



Alternative Investments

At June 30, 2012, the System's alternative investment portfolio had a fair market value of $388.5 million, representing 3.0 percent of the total KPERS portfolio. The long-term allocation target is 5 percent for this asset class. Since the inception of the alternative investment program in 1997 through June 30, 2012, the System has committed $1.6 billion to 76 funds with 52 general partners.

In 2012 the Kansas Legislature changed the statute that had previously limited the System's new investments in alternative investments from 1 percent of (gross) plan assets annually to 5 percent of (net) plan assets annually. This was consistent with a recommendation from staff, the System's private equity consultant and the board of trustees. The board and staff are currently working with the System's general investment consultant to review the System's long-term target asset allocation mix, given this new flexibility to allocate more assets to "alternative" investments.

PORTFOLIO STRUCTURE

The alternative investment portfolio consists primarily of interests in private partnerships that provide equity and debt to companies. The portfolio contains two primary sub-portfolios based on investment period. Each portfolio has its own set of directives, guidelines, external fund managers and consultants who provide advice on investment strategy and investment selection during its investment period.

The largest portfolio is the Private Equity Program (PEP), representing approximately 61 percent of the market value of the asset class. The PEP portfolio actively seeks and is making new commitments to private equity funds in three styles: buyout, venture capital/growth equity and special situations. Since the inception of PEP in 2007, the System has committed $604 million to 23 funds with 21 general partners. Over the next several years, the market value of the PEP portfolio is expected to increase as the System continues to make commitments to new private equity funds each year.

The second portfolio is the Alternative Investment Portfolio (AIP) which represents approximately 39 percent of the market value of the asset class. From 1997 to 2001, AIP made commitments to 54 funds with 35 general partners across five styles: buyout, venture capital, mezzanine, distressed debt and natural resources. As this is a mature portfolio, the remaining AIP funds are all currently pursuing exit strategies for their existing holdings. For the fiscal year, AIP funds distributed approximately $85.3 million of cash and securities.

During fiscal year 2012, funds in the AIP portfolio provided the majority of distributions, while funds in the PEP portfolio represented substantially all of the contributions, consistent with the stage of investments for each portfolio.

MARKET OVERVIEW

Uncertainty about the economic recovery slowed the pace of investment in private equity during fiscal year 2012. This was especially true at the larger end of the private equity fund market. In addition, more cautious lenders required private equity investors to increase equity contributions for almost all buyout transactions. Investors in private equity have moderated their return expectations in comparison to past market cycles.

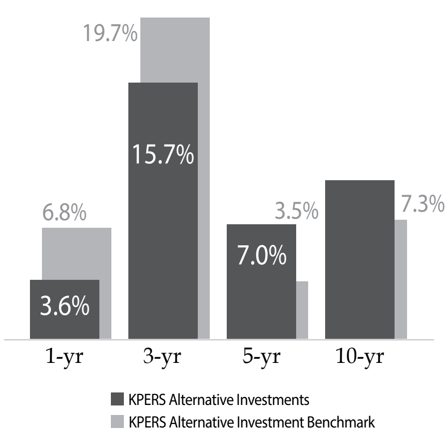
In addition to the decreased volume of private equity investments, buyout deal volume declined over the last fiscal year, according to data from Thomson Reuters. This slowdown is interesting given the amount of dry power that private equity firms have and the lower financing costs available for buyout transactions. However, given the ambiguity in the debt markets and uncertainties in the global economy, a slowdown in buyout related private equity investment activity was not totally unexpected.

Regarding exit activity, Thomson Reuters reported private equity-backed IPOs represented 37 percent of all global IPOs in the first quarter of 2012, compared to 17 percent in the fourth quarter of 2011. This trend is positive for private equity investors. In addition to a more accommodative IPO market, sales of companies to strategic buyers also showed a positive trend with first quarter of calendar year 2012 sale volume up to $13 billion from $9.5 billion for the same period a year earlier. The increase in volume is partly attributable to large cash balances on corporate balance sheets and illustrates the plans of many corporations to grow through acquisitions.

ALTERNATIVE INVESTMENTS 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 the Russell 3000 plus 3 percent.

Time Weighted Total Return
Alternative Investments



periods ending June 30, 2012

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. The top ten equities and fixed income holdings are shown on pages 67 and 68. Another schedule, summarizing changes in fair value of investments, is also on page 68. A listing of domestic broker commissions paid for the fiscal year is shown on page 69.

Alternative Investments Initiated On or After July 1, 1991[a]

as of June 30, 2012

Description	Cost	Market Value
Advanced Technology Ventures VI, L.P.	$ 9,703,017	$ 1,253,415
Apax Europe IV, L.P.	1,069,198	340,962
Apax Europe V, L.P.	11,641,742	4,825,526
Apollo Investment Fund VII, L.P.	14,647,336	20,088,370
Ares Corporate Opportunities Fund III, L.P.	11,994,006	14,628,671
Audax Mezzanine Fund III, L.P.	3,360,844	3,677,553
Battery Ventures V, L.P.	705,602	85,326
Battery Ventures VI, L.P.	5,874,935	2,219,774
Beacon Group Energy Fund II, L.P.	1,857,390	567,790
Behrman Capital II, L.P.	6,839,532	61,429
Behrman Capital III, L.P.	18,061,316	27,470,585
Capital Resource Partners IV, L.P.	5,905,610	1,259,364
Centerbridge Capital Partners II, L.P.	9,950,322	10,080,640
Cinven Second Fund US, L.P.	533,653	312,419
Clayton Dublier & Rice VI, L.P.	4,143,037	691,408
Cypress Merchant Banking II, L.P.	10,689,452	3,016,553
Dominion Fund V, L.P.	490,628	562,110
El Dorado Ventures V, L.P.	4,854,680	319,090
El Dorado Ventures VI, L.P.	6,935,852	6,028,072
Encap Energy Capital VIII, L.P.	6,748,383	8,888,702
First Reserve Fund XII, L.P.	16,964,604	18,554,230
GSO Capital Soulutions Fund, L.P.	15,097,045	16,092,359
GTCR Fund VII, L.P.	0	116,631
GTCR Fund VII/A, L.P.	200,174	40,375
Halpern Denny Fund III, L.P.	4,887,999	764,374
Hellman & Friedman VII, L.P.	3,033,505	2,914,664
JMI Equity Fund VII, L.P.	6,294,257	6,308,807
Littlejohn Fund II, L.P.	2,849,750	1,889,734
McCown De Leeuw & Company IV, L.P.	0	91,810
M.D. Sass Corporate Resurgence Partners, L.P.	0	66,581
M.D. Sass Corporate Resurgence Partners II, L.P.	2,392,040	67,282
Montagu IV, L.P.	3,142,749	3,472,894
New Enterprise Associates 13, L.P.	6,884,324	8,209,436
Oak Hill Capital Partners, L.P.	2,235,182	2,743,204
OCM Opportunities Fund II, L.P.	969,215	1,662
OCM Opportunities Fund III, L.P.	1,224,744	222,127
OCM Opportunities Fund VIIb, L.P.	1,350,000	15,333,744
OneLiberty Fund IV, L.P.	1,241,901	1,194,533
OneLiberty Ventures 2000, L.P.	16,581,399	7,860,038
Pine Brook Capital Partners, L.P.	12,274,660	12,325,837
Platinum Equity Capital Partners III, L.P.	3,253,492	3,105,994
Snow Phipps II, L.P.	5,942,354	8,110,997
TA IX, L.P.	2,296,269	4,524,576
TA Subordinated Debt Fund, L.P.	243,166	307,811

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

as of June 30, 2012

Description	Cost	Market Value
TCV IV, L.P.	8,789,423	1,298,864
Thomas H. Lee Equity Fund V, L.P.	3,920,383	12,655,822
TowerBrook Investors III, L.P.	10,800,290	15,367,236
TPG Growth II, L.P.	1,470,681	1,558,286
TPG Partners VI, L.P.	13,727,771	13,933,657
Trinity Ventures VI, L.P.	373,519	22,844
Trinity Ventures VII, L.P.	7,111,126	321,490
Trinity Ventures VIII, L.P.	10,642,295	2,353,283
VantagePoint Venture Partners III, L.P.	7,533,543	1,581,031
VantagePoint Venture Partners IV, L.P.	23,450,590	15,057,137
Vestar Capital Partners IV, L.P.	6,369,075	6,630,965
Vista Equity Partners Fund IV, L.P.	9,145,537	9,313,794
VS&A Communications Partners III, L.P.	7,452,267	1,807,912
Warburg, Pincus Equity Partners, L.P.	0	1,157,000
Warburg Pincus Private Equity X, L.P.	44,159,825	47,965,000
Wellspring Capital Partners V, L.P.	4,732,188	4,808,782
Welsh, Carson, Anderson & Stowe IX, L.P.	2,470,480	168,547
Welsh, Carson, Anderson & Stowe VIII, L.P.	9,074,775	12,408,338
Willis Stein & Partners II, L.P.	1,829,879	51,543
Willis Stein & Partners III, L.P.	30,133,310	13,500,000
Windjammer Mezzanine & Equity Fund II, L.P.	2,336,590	3,711,911
	$450,888,909	$386,370,900

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

Largest Equity Holdings

Shares	Security	Fair Value ($)
121,797	Apple Inc	$71,129,448
609,090	Exxon Mobil Corp	52,119,831
703,838	British American Tobacco	35,784,044
980,427	Microsoft Corp	29,991,262
1,380,053	General Electric Co	28,760,305
1,249,715	Glaxosmithkline	28,362,871
2,415,452	Prudential	27,959,246
141,979	International Business Machine	27,768,253
763,662	AT & T INC	27,232,187
256,943	Chevron Corp	27,107,487

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

Largest Fixed Income Holdings

Par Value	Security	Description	Fair Value ($)
136,200,000	Federal Hm Loan Bk Cons Bnd	.150% 02/06/2013	$136,142,796
107,700,000	Commit To Purch FNMA SF Mtg	3.5% 08/01/2042	112,899,756
47,730,000	US Treasury Note	.875% 02/28/2017	48,143,819
46,400,000	US Treasury Note	1.375% 12/31/2018	47,436,576
40,300,000	Commit To Purch FNMA SF Mtg	3.5% 07/01/2042	42,358,927
35,530,000	US Treasury Note	.500% 05/31/2013	35,611,719
30,000,000	US Treasury Note	.625% 04/30/2013	30,097,200
30,000,000	Federal Natl Mtg Assn Disc	MAT 09/04/2012	29,992,200
30,000,000	US Treasury Bill	0.000%01/17/2013	29,971,911
30,000,000	US Treasury Note	0.000% 02/07/2013	29,970,151

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

Changes in Fair Value of Investments (1)

for fiscal year ended June 30, 2012 (in thousands)

	June 30, 2011 Fair Value	Purchases and Other Increases	Sales and Other Decreases	June 30, 2012 Fair Value	Asset Mix Fair Value
Marketable Securities					
Domestic Equities	$3,786,594	$3,444,598	$(2,730,831)	$4,500,361	33.89
International Equities	3,871,749	4,532,974	(5,221,949)	3,182,774	23.97
Total Fixed Income	3,801,271	6,166,811	(6,262,579)	3,705,503	27.91
Temporary Investments (2)	365,569	20,376,097	(20,536,216)	205,450	1.55
Total Marketable Securities	11,825,183	34,520,480	(34,751,575)	11,594,088	87.32
Real Estate and Alternative Investments					
Real Estate	1,041,729	630,860	(376,729)	1,295,860	9.76
Alternatives	369,393	201,554	(183,748)	387,199	2.92
Total Real Estate and Alternative Investments	1,411,122	832,414	(560,477)	1,683,059	12.68
Total	$13,236,305	$35,352,894	$(35,312,052)	$13,277,147	100.00

(1) Amounts include changes in unrealized appreciation and exclude interest and dividend accruals. Amounts exclude security lending cash collateral of $960,689,299 for FY 2011,and FY 2012 cash collateral of $1,051,425,908.

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

US Equity Commissions for Fiscal Year 2012

Broker Name	Commissions Paid	Shares	Commission Per Share	% of Total Commissions
Goldman Sachs & Co, NY	$347,995	2,106,901	$0.17	18.7 %
Stifel Nicholaus	191,576	3,932,347	0.05	10.4
Liquidnet Inc, Brooklyn	139,986	9,281,303	0.02	7.5
Morgan Stanley & Co Inc, NY	98,630	6,471,934	0.02	5.3
Credit Suisse, NY	73,241	5,414,896	0.01	3.9
Investment Technology Groups, NY	64,439	22,734,300	0.00	3.5
Deutsche Bk Secs Inc, NY	44,367	7,042,137	0.01	2.4
Merrill Lynch Pierce Fenner Smith Inc NY	37,327	2,343,421	0.02	2.0
UBS Securities LLC, Stamford	33,418	2,061,349	0.02	1.8
Citigroup Gbl Mkts Salomon, NY	32,156	1,038,906	0.03	1.7
Sandler O'Neill & Partners, New York	31,763	748,089	0.04	1.7
Jefferies & Co Inc, NY	27,200	1,087,803	0.03	1.5
Citigroup Gbl Mkts Inc, NY	26,273	844,567	0.03	1.4
Wells Fargo Securities LLC, Charlotte, NC	25,631	1,082,125	0.02	1.4
Pershing LLC, Jersey City	25,009	1,383,176	0.02	1.3
Merrill Lynch Pierce Fenner Smith Inc Willmington	24,989	1,146,770	0.02	1.4
JP Morgan Clearing Group, New York	22,051	1,092,816	0.02	1.2
Liquidnet Europe Limited, London	20,375	538,678	0.04	1.1
Baird, Robert W & Co Unc, Milwaukee	20,022	1,282,497	0.02	1.1
Cantor Fitzgerald &Co Inc, NY	19,825	726,778	0.03	1.1
Berstein Sanford C & Co, NY	19,514	661,692	0.03	1.1
Pulse Trading LLC, Boston	19,102	857,231	0.02	1.0
Barclays Capital Inc, New Jersey	18,633	589,198	0.03	1.0
BTIG LLC, Jersey City	18,623	655,648	0.03	1.0
Rochdale Securities Corp	18,238	666,473	0.03	1.0
Others	460,415	47,348,867	0.01	24.7
Total Broker Commissions	**$1,860,800**	**123,139,902**	**0.02**	**100 %**

Actuarial Section

Actuary's Certification Letter

Cavanaugh Macdonald
CONSULTING, LLC
The experience and dedication you deserve

September 21, 2012

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

Dear Members of the Board:

At your request, we have performed an actuarial valuation of the Kansas Public Employees Retirement System as of December 31, 2011 for purposes of determining contribution rates for fiscal year 2015 for the State and 2014 for Local employers. In addition, this valuation certifies revised contribution rates for fiscal year 2014 for the State and School groups due to legislative changes in the statutory cap on employer contributions. The valuation results reflect the benefit provisions in place on December 31, 2011, as amended by Senate Substitute for House Bill 2333 (passed by the 2012 Legislature). Also, as a result of the last experience study, there are some changes to the actuarial assumptions and methods that are first reflected in this 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 valuation 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 Appendix C of our valuation report.

Future actuarial measurements may differ significantly from the current measurements presented in the December 31, 2011 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.

Actuarial computations presented in this report are for purposes of determining the recommended funding amounts for the System. Actuarial computations presented in this report under GASB Statements No. 25 and 27 are for purposes of fulfilling financial accounting requirements. The computations prepared for these two purposes may differ as disclosed in the December 31, 2011 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, 2011 valuation report. Accordingly, additional determinations may be needed for other purposes.

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 Schedule 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. CMC'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, 2011 actuarial valuation report 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.

Sincerely,

Patrice Beckham

Patrice A. Beckham, FSA, MAAA
Consulting Actuary

Brent A. Banister

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, 2011 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.

FUNDING AND PLAN DESIGN LEGISLATION

In response to concerns about KPERS long term funding, the 2012 Legislature passed Sub House Bill 2333 which was signed into law by the Governor on June 1, 2012. Sub House Bill 2333 creates a Tier 3 retirement plan for new members effective January 1, 2015 and includes benefit changes similar to those proposed last year in Sub House Bill 2194 for current Tier 1 and Tier 2 members. The bill also provides for increases in the employer contribution rate. These changes are intended to improve KPERS long term funding and increase KPERS' sustainability.

The substantive changes to KPERS included in Sub House Bill 2333 include:

Employer Contribution Increases

The law raises the cap on employer contribution rate increases from the current 0.60 percent per year to:

FY 2014	0.9%
FY 2015	1.0%
FY 2016	1.1%
FY 2017 and after	1.2%

The State will make additional contributions to fund the unfunded actuarial liability (UAL) of the State/School group until their funded ratio reaches at least 80 percent. The additional contribution stream, which comes from the Expanded Lottery Act Revenue Fund (ELARF), is determined as 50 percent of the money credited to the ELARF, after an annual reduction of $10.5 million. Since the money credited to the ELARF will vary from year to year, the specific contribution amounts to KPERS are unknown at this time. The expectation is that the contributions will be around $40 million per year when the first payment is made in FY 2014.

Sale of State Surplus Real Estate

Sub House Bill 2333 also provides that 80 percent of the proceeds from excess real estate property sales will be used to pay down KPERS' unfunded actuarial liability. Given the unpredictable nature of selling surplus state real estate, there is no reliable estimate available and, therefore, no proceeds have been assumed in the projections in the valuation.

Tier 1 Members

The law creates a 90 day election period for Tier 1 members of the system on July 1, 2013 to permit them to choose to (1) contribute 5 percent of compensation as employee contributions effective January 1, 2014 and 6 percent effective January 1, 2015 and receive a 1.85 percent multiplier for all years of future service or (2) continue to contribute 4 percent of compensation as employee contributions and receive a 1.40 percent multiplier for all years of future service. Changes in the benefit multiplier are effective January 1, 2014, and impact only future years of service. The election is subject to approval by the Internal Revenue Service, and if such approval is not granted, there will be no election and the default option (option 1 earlier) will apply.

Tier 1 Provisions Summary

Member Contribution Rate	Benefit Provisions
5% effective January 1, 2014 & 6% effective January 1, 2015 (default option)	Increase multiplier to 1.85% for future service only, effective January 1, 2014 (default option)
or	
4% contribution rate	Multiplier is reduced to 1.40% for future service only, effective January 1, 2014

Tier 2 Members

Effective July 1, 2012, the cost of living adjustment (COLA) will be eliminated for Tier 2 members. However, those who retire after December 31, 2013 will receive a higher multiplier of 1.85 percent for all years of service, not just future years of service.

Current Tier 2	Revised Tier 2
6% contribution	6% contributions
1.75% multiplier	1.85% multiplier for all service starting January 1, 2014
Includes cost of living increase	Eliminate COLA if retiring after June 30, 2012 (no impact for members retiring before July 1,2012)

There was no impact on current KPERS retirees or inactive members who do not return to covered employment. There also were no changes to the plan provisions for KP&F or Judges.

Tier 3 Members (effective January 1, 2015)

Sub House Bill 2333 creates a cash balance retirement plan (Tier 3) for new hires on or after January 1, 2015. Correctional officers are not included in this new tier, but will remain in KPERS Tier 2. A cash balance plan is a defined benefit plan, so the KPERS defined benefit plan remains an open plan. The projected benefits for members of all three tiers will be included in the actuarial valuations in 2015 and beyond. A single employer contribution rate, which includes the UAL payment and applies to the covered payroll of all three tiers, will be developed in the valuation.

The monthly benefit for Tier 3 members is based on the member's account value which includes the employee's contributions and an employer credit, along with interest credits.

Tier 3 Cash Balance Plan Provision Summary

Employee contributions	6%
Employer credit	Based on years of service 1-4 years: 3% of compensation 5-11 years: 4% of compensation 12-23 years: 5% of compensation 24 years+: 6% of compensation
Interest credits	Annual 5.25% guaranteed interest on employee and employer account balances. Possible additional interest credits of 0% to 4% may be granted by the KPERS Board based on KPERS' actual investment returns and funding
Normal retirement age	Age 60 with 30 years of service or age 65 with 5 years of service
Retirement benefit	Guaranteed lifetime benefit based on account balance at retirement. Partial lump sum option up to 30% at normal retirement age

Given the effective date of Tier 3, there are no Tier 3 members included in the December 31, 2011, valuation, and therefore, there was no cost impact on the valuation results in this report. However, the changes for Tiers 1 and 2, along with increase in the statutory cap on the employer contribution rate in Sub House Bill 2333, did have an impact on the December 31, 2011, valuation results, as shown in the table on the following page. Please note that the cost impact of Sub House Bill 2333 was quantified before changes to the actuarial assumptions were made.

Impact of Sub House Bill 2333 (does not include Tier 3 cash balance plan changes)

	State/School		Local	
	Baseline	Sub HB 2333*	Baseline	Sub HB 2333*
Actuarial Liability	$16,076	$16,087	$3,981	$3,984
Actuarial Assets	9,107	9,107	2,436	2,436
Unfunded Actuarial Liability	$6,969	$6,980	$1,545	$ 1,548
Funded Ratio				
Actuarial Assets	56.6%	56.6%	61.2%	61.1%
Fair Value Assets	52.8%	52.7%	57.3%	57.2%
Actuarial Contribution Rate				
Normal Cost	8.04%	8.43%	7.70%	8.05%
Member Contribution	(4.27%)	(5.57%)	(4.33%)	(5.16%)
Employer Normal Cost	3.77%	2.86%	3.37%	2.89%
UAL Contribution	11.58%	11.60%	6.86%	6.87%
Total Employer Rate	15.35%	14.46%	10.23%	9.76%
Statutory Contribution Rate for FY beginning 2014	10.57%	11.27%	8.54%	8.84%
Contribution Shortfall	4.78%	3.19%	1.69%	0.92%

*Before new assumptions reflected.

The changes in the statutory cap in Sub House Bill 2333 are first effective for fiscal year 2014. Since the December 31, 2010 actuarial valuation set the employer contribution rate for the fiscal year ending June 30, 2014 for the State and School groups using the 0.6 percent cap, the statutory employer contribution rate must be recertified to reflect the new statutory cap for the State and School groups for FY 2014 of 0.9 percent. The following employer contribution rates should apply for the fiscal year beginning July 1, 2013, and ending June 30, 2014:

FY 2014 Contribution Rates

System	Actuarial	Statutory*	Difference
State	9.82%	10.27%	(0.45%)
School	15.12%	10.27%	4.85%
Correctional Group Retirement Age 55	10.82%	10.74%	0.08%
Correctional Group Retirement Age 60	10.40%	10.40%	0.00%

*Recertified due to Sub HB 2333

ASSUMPTION CHANGES

There were changes to both the actuarial assumptions and methods used in the December 31, 2011, actuarial valuation. The Board of Trustees adopted the new set of actuarial assumptions in July, 2011, following the completion of the Triennial Experience Study. The assumption changes made were modest and had a small impact on the normal cost and actuarial liability. The assumption changes, recommended by Cavanaugh Macdonald and adopted by the Board, include:

KPERS

- Lower the pre-retirement mortality rates for females in both State and School.
- Adjust early retirement rates for State and School.
- Adjust the ultimate retirement rates under Rule of 85 for State.
- Adjust the retirement rates for the Correctional Groups (C55 and C60)
- Value the greater of the refund value or present value of accrued benefit upon termination for active Tier 2 members assumed to terminate in the future.
- Assume 12 percent of all future benefit payments will be paid as a lump sum.

KP&F

- Adjust the retirement rates for both Tier 1 and Tier 2
- Assume 12 percent of all future benefit payments will be paid as a lump sum.

Judges

- Lower retirement rates at most ages and extend rates down to ages 60.
- Assume 12 percent of all future benefit payments will be paid as a lump sum.

Overall, the assumption changes decreased the unfunded actuarial liability by $64 million. The impact on the normal cost rate for each group was minor with the exception of the Judges where the assumption change decreased the normal cost rate by 1.16 percent. The Board also adopted one change to the actuarial methods, i.e. the requirement that the actuarial value of assets fall between 80 percent to 120 percent of fair value (referred to as the "corridor") was eliminated. This had no impact on the December 31, 2011 valuation results as the corridor did not apply this year.

The valuation results provide a "snapshot" view of the System's financial condition on December 31, 2011. The unfunded actuarial liability (UAL), for the System as a whole, increased by $964 million due to multiple factors.

In KPERS, the 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, was 0.60 percent prior to the passage of Sub House Bill 2333 by the 2012 legislature. The current statutory cap, as provided by Sub House Bill 2333, is 0.90 percent for fiscal year 2014, 1.0 percent for fiscal year 2015, 1.1 percent for fiscal year 2016 and 1.2 percent for fiscal year 2017 and later.

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

December 31, 2011 Valuation

System	Actuarial	Statutory	Difference
State[1]	10.80%	11.27%	(0.47%)
School[1]	15.41%	11.27%	4.14%
Local1	9.77%	8.84%	0.93%
Police & Fire - Uniform Rates[2]	19.92%	19.92%	0.00%
Judges	22.59%	22.59%	0.00%

December 31, 2010 Valuation

System	Actuarial	Statutory	Difference
State	9.82%	10.27%*	(0.45%)
School	15.12%	10.27%*	4.85%
Local	9.43%	7.94%	1.49%
Police & Fire - Uniform Rates	17.26%	17.26%	0.00%
Judges	23.62%	23.62%	0.00%

*Recertified

1 By statute, rates are allowed to increase by a maximum of 0.9 percent for FY 2014, 1.0 percent in FY 2015, 1.1 percent in FY 2016 and 1.2 percent in FY 2017 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 19.25 percent this year. 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.

The significant changes made to the benefits and contributions for members of Tiers 1 and 2 along with increases in the employer contribution rate in Sub House Bill 2333 and the creation of a new Tier 3, has improved the long term funding outlook for KPERS. This was somewhat offset by a rate of return of 0.08 percent for calendar year 2011. However, as of this valuation date, the State group is at the ARC Date and the School and Local groups are 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.

Experience — All Systems Combined

December 31, 2010 – December 31, 2011

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, 2011. 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, 2010 and December 31, 2011 actuarial valuations. On the following pages, each component is examined.

MEMBERSHIP

The following table contains a summary of the changes in active members between the December 31, 2010 and December 31, 2011 actuarial valuations.

	State	School	Local
12/31/2010 (Starting count)	25,737	84,438	40,307
New actives	2,099	8,717	4,768
Nonvested Terminations	825	3,119	1,987
Elected Refund	688	1,277	1,300
Vested Terminations	658	2,225	1,289
Total Withdrawals	2,171	6,621	4,576
Deaths	52	101	71
Disabilities	76	108	71
Retirements	1,615	2,121	781
Other/Transfer	5	21	29
12/31/2011 (Ending count)	23,917	84,183	39,547

	KP&F	Judges	Total
12/31/2010 (Starting count)	7,173	264	157,919
New actives	535	12	16,131
Nonvested Terminations	197	0	6,128
Elected Refund	91	1	3,357
Vested Terminations	108	1	4,281
Total Withdrawals	396	2	13,766
Deaths	9	1	234
Disabilities	42	0	297
Retirements	134	9	4,660
Other/Transfer	(16)	0	39
12/31/2011 (Ending count)	7,143	264	155,054

The size of the active membership held fairly constant for all groups except the State, where the active count decreased by 7 percent. The smaller active membership negatively impacts the funding of the UAL as the total covered payroll is lower, resulting in a higher UAL contribution rate.

ASSETS

As of December 31, 2011, the System had total funds of $12.5 billion on a fair value basis, excluding assets held for the Group Insurance and Optional Life reserves. This was a decrease of $400 million from the December 31, 2010 figure of $12.9 billion.

The fair 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 fair value of assets each year. The difference is recognized equally over a five-year period.

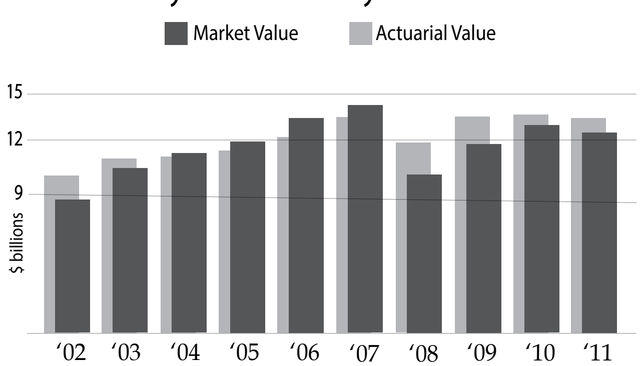
The components of the change in the fair value and actuarial value of assets for the Retirement System (in millions) are as follows.

	Fair Value $(millions)	Actuarial Value $(millions)
Assets, December 31, 2010	$12,918	$13,590
· Employer and Member Contributions	836	836
· Benefit Payments and Expenses	(1,264)	(1,264)
· Investment Income	(13)	217
Assets, December 31, 2011	$12,477	$13,379

The actuarial value of assets as of December 31, 2011, was $13.379 billion. The annualized dollar-weighted rate of return for 2011, measured on the actuarial value of assets, was approximately 1.6 percent and measured on the fair value of assets, as reported by KPERS, was 0.08 percent, net of fees.

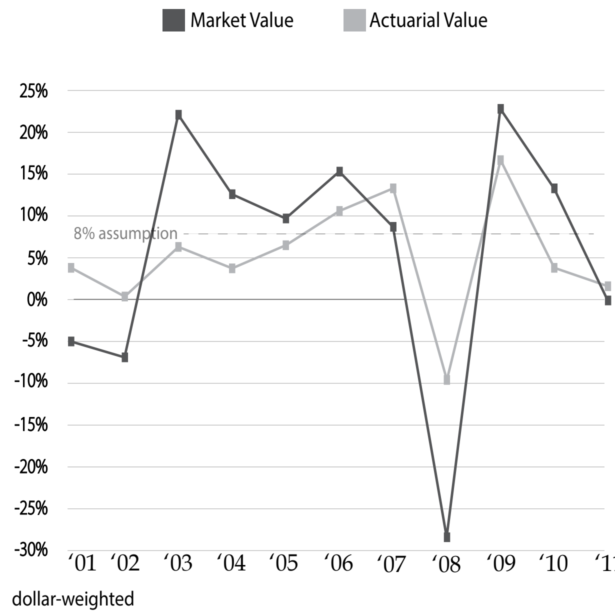
Due to the use of an asset smoothing method, there is $902 million of net deferred investment loss experience that has not yet been recognized. This deferred investment loss will be reflected in the actuarial value of assets over the next four years, but may be offset by actual investment experience if it is more favorable than assumed. The actuarial value of assets has been both above and below the fair 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 fair value return. Due to 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.

Unfunded actuarial liability ($ million) by group

	State	School	Local	KP&F	Judges	Total*
Actuarial Liability	$3,913	$12,1144	$3,978	$2,449	$153	$22,607
Actuarial Value of Assets	2,790	6,317	2,436	1,710	126	13,379
Unfunded Actuarial Liability*	$1,123	$5,798	$1,542	$739	$27	$9,228

*May not add due to rounding.

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

Other factors influencing the UAL from year to year include actual experience versus that expected based on the actuarial assumptions (on both assets and liabilities), changes in actuarial assumptions, procedures or methods and changes in benefit provisions. The actual experience measured in this valuation is that which occurred during the prior plan year (calendar year 2011). All three of the KPERS groups, KP&F, and Judges had a liability gain for the year, largely from lower salary increases than expected. There was an experience loss from the investment return on the actuarial value of assets for all groups that was higher than the liability gain. The result was an overall actuarial loss for all groups.

Changes in unfunded actuarial liability for System as a whole:

Unfunded Actuarial Liability, December 31, 2010	millions $ 8,264
effect of contribution cap/time lag	289
expected increase due to amortization method	62
loss from investment return on actuarial assets	852
demographic experience[1]	(192)
all other experience	2
change in actuarial methods	0
change in actuarial assumptions	(64)
change in benefit provisions	15
Unfunded Actuarial Liability, December 31, 2011	$ 9,228

1 Liability gain is about 0.8 percent of total actuarial liability.

An evaluation of the unfunded actuarial liability on a pure dollar basis may not provide a complete analysis since only the difference between the assets and liabilities (which are both very large numbers) is reflected. Another way to evaluate the unfunded actuarial liability and the progress made in its funding is to track the funded status, the ratio of the actuarial value of assets to the actuarial liability.

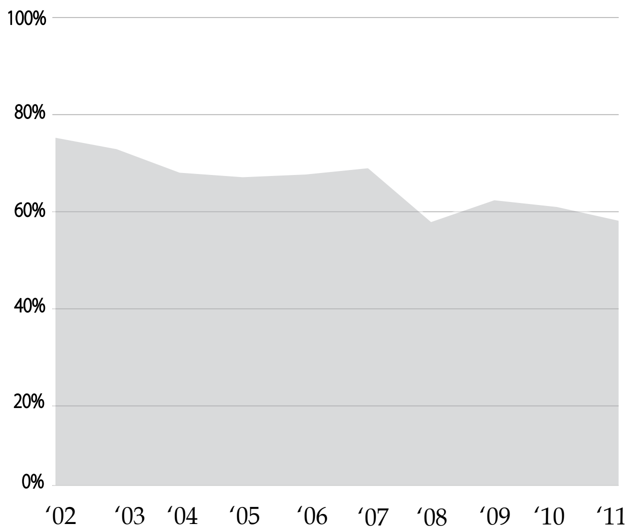
Funded Status by Calendar Year (in millions)

	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11
Using Actuarial Value of Assets:						
Funded Ratio (AVA/AL)	69%	71%	59%	64%	62%	59%
Unfunded Actuarial Liability (AL-AVA)	$5,364	$5,552	$8,279	$7,677	$8,264	$9,228
Using Fair Value of Assets:						
Funded Ratio (MVA/AL)	76%	75%	49%	56%	59%	55%
Unfunded Actuarial Liability (AL-MVA)	$4,184	$4,817	$10,250	$9,384	$8,936	$10,130

Due to strong investment returns, the funded status of the System generally improved in the latter part of the 1990's. Changes in actuarial assumptions and methods, coupled with investment returns below the assumed rate and contributions below the actuarial rate have significantly reduced the funded ratio.

Funded Ratio by Calendar Year

as of 12/31



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 results of the December 31, 2011 valuation will set employer contribution rates for fiscal year 2015 for the State and 2014 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 (most recently in 2012), is 0.9 percent for fiscal year 2014, 1.0 percent in 2015, 1.1 percent in 2016, and 1.2 percent in 2017 and beyond for all three groups.

Actuarial and statutory employer contribution rates:
December 31, 2011 Valuation

System	Actuarial	Statutory	Difference
State[1]	10.80%	11.27%	(0.47%)
School[1]	15.41%	11.27%	4.14%
Local[1]	9.77%	8.84%	0.93%
Police & Fire - Uniform Rates[2]	19.92%	19.92%	0.00%
Judges	22.59%	22.59%	0.00%

1 By statute,rates are allowed to increase by a maximum of 0.9 percent for FY 2014,1.0 percent in FY 2015,1.1 percent in FY 2016 and 1.2 percent in FY 2017 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 19.25 percent this year. 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.

Contribution rates for the Correctional Groups

	Actuarial Rate	Statutory Rate
Retirement Age 55:	11.66%	11.66%
Retirement Age 60:	11.97%	11.40%

Due to statutory caps, the full actuarial contribution rate is not contributed for the School and Local groups. The State reached the ARC date (statutory contribution rate is equal to or greater than the actuarial contribution rate) in the December 31, 2010 valuation and remains there in this valuation. Based on the current valuation, there is a difference (shortfall) between the actuarial and statutory contribution rates of 4.14% and 0.93% respectively for the School and Local groups. Assuming an 8% return on the fair value of assets for 2012 and beyond, all other actuarial assumptions are met in the future, and the current provision for statutory caps on the employer contribution rate, the estimated ARC Date for the combined State/School group is FY2021 and for the Local group is FY2017.

COMMENTS

The investment losses in 2008 are still impacting most public retirement systems. Favorable investment returns in 2009 and 2010 have helped alleviate some of the 2008 losses. However, the 2011 return of 0.08 percent has resulted in a setback to the funding improvement. Like most public retirement systems, KPERS uses an asset smoothing method to smooth out investment experience above and below the assumed rate of 8 percent per annum. Under the asset smoothing method, the difference between the actual and assumed investment experience is recognized equally over a five year period. Due to the asset smoothing method, the December 31, 2011 valuation reflected a return on the actuarial value of assets of about 2 percent

The deferred investment loss grew considerably since the last valuation, increasing from $672 million last year to $902 million this year. This deferred experience will flow through the asset valuation method in the next four years and be recognized in the valuation process, absent investment experience 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.

While the use of an asset smoothing method 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 fair value. The impact would be similar for the other groups.

	State/School		KP&F	
	Actuarial	Fair	Actuarial	Fair
Actuarial Liability	$16,027	$16,027	$2,449	$2,449
Asset Value	9,107	8,481	1,710	1,597
UAL	6,920	7,546	739	852
Funded Ratio	57%	53%	70%	65%
Contribution Rate:				
Normal Cost Rate	8.41%	8.41%	14.49%	14.49%
UAL Payment	11.50%	12.52%	12.30%	14.10%
Total	19.91%	20.93%	26.79%	28.59%
Employee Rate	5.57%	5.57%	6.87%	6.87%
Employer Rate	14.34%	15.36%	19.92%	21.75%

The asset smoothing method impacts only the timing of when the actual market experience on the assets will be recognized. Due to a return of less than 1 percent in 2011 and the deferred investment experience from 2008, the actuarial value of assets now exceeds the pure fair value by about 7 percent. If returns are not higher than the 8 percent expected 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 fair value of assets. Also, please refer to the graphs later in this section that show the projected contribution rates assuming an 8 percent rate of return in all future years.

Over the last decade the development of a comprehensive plan to address the long-term funding of KPERS has been a high priority and significant changes have been made. 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 2011 Legislature passed Senate Substitute for House Bill 2194 (Sub HB 2194). The intent of this law was to strengthen KPERS' long term funding and improve the sustainability of the system. The bill contained significant changes for both KPERS employers and current and future members. Sub HB 2194 raised the statutory cap on employer contribution rate increases from the current 0.60 percent to 0.9 percent in FY 2014, 1.0 percent in FY 2015, 1.1 percent in FY 2016 and ultimately to 1.2 percent in FY 2017. In addition, the law created an election period starting July 1, 2013 to permit Tier 1 members to choose between a 6 percent contribution rate with a 1.85 percent multiplier for all years of future service or a 4 percent contribution and a 1.40 percent multiplier for all years of future service. Changes were to be effective January 1, 2014 and impacted only future years of service. Sub HB 2194 also provided an election for Tier 2 members to choose between the 1.75 percent multiplier and losing the cost of living adjustment (COLA) for all service or a 1.40 percent multiplier for future years of service and maintaining the COLA. The multiplier change did not affect the service already earned by members, but the COLA loss was for all service credit over the member's entire career. Both the election for Tier 1 and Tier 2 were subject to approval by the Internal Revenue Service. If such approval was not granted, then no election would occur and the default option would apply. New employees automatically had a 6 percent contribution rate and the 1.75 percent multiplier with no COLA.

In addition, Sub HB 2194 established a 13 member KPERS Study Commission to study alternative plan designs during the last half of 2011 and make a recommendation for KPERS plan design that would provide for the long term sustainability of the System. The Commission report was due to the Legislature by January 6, 2012. Sub HB 2194 required that the report recommendations be voted on by the 2012 Legislature for the other provisions of Senate Substitute for HB 2194 to become effective. The 2012 Legislature did not move the Study Commission recommendation forward, but some of the other provisions were included in the bill that was ultimately passed in 2012, Senate Sub for House Bill 2333.

The 2012 Legislature passed Sub House Bill 2333, affecting new hires, current members and employers. The changes were made to improve KPERS' long term sustainability. The basic provisions of Sub House Bill 2333 include:

1) Increased the statutory cap on employer contribution rates to 0.9 percent in FY 2014, 1.0 percent in FY 2015, 1.1 percent in FY 2016 and 1.2 percent in FY 2017 and beyond.

2) Provides for an election by Tier 1 members depending on IRS approval. Tier 1 members may elect to increase their employee contributions to 5 percent of compensation effective January 1, 2014 and 6 percent effective January 1, 2015, with an increase in the benefit multiplier to 1.85 percent for future years of service only, or remain at a 4 percent employee contribution rate and receive a benefit multiplier of 1.4 percent for future years of service after January 1, 2014. Without IRS approval of the election, contributions and the multiplier will automatically increase.

3) The cost of living adjustment (COLA) for Tier 2 members is eliminated effective July 1, 2012, but members who retire after December 31, 2013 will receive a 1.85 percent multiplier for all years of service.

4) Creates a Cash Balance Plan for new hires beginning January 1, 2015. A cash balance plan is a type of defined benefit plan that includes some elements of a defined contribution plan and shares risk between the employer and employee. Each member has a hypothetical account that is credited with employee contributions, employer pay credits and interest credits. At retirement, the account balance is annuitized to create a guaranteed monthly benefit payable for the member's lifetime. Up to 30 percent of the account value at retirement may be paid as a lump sum.

5) Beginning in FY 2014, the state will make additional contributions to help pay down KPERS' unfunded actuarial liability until the State/School group reaches a funded ratio of at least 80 percent. The revenue will come from the Expanded Lottery Act Revenues Fund (ELARF). Based on the formula, the initial contribution to KPERS in FY 2014 is expected to be around $40 million.

6) If the State of Kansas sells surplus real estate, 80 percent of the proceeds will be used to pay down KPERS' unfunded actuarial liability until the System reaches an 80 percent funded ratio.

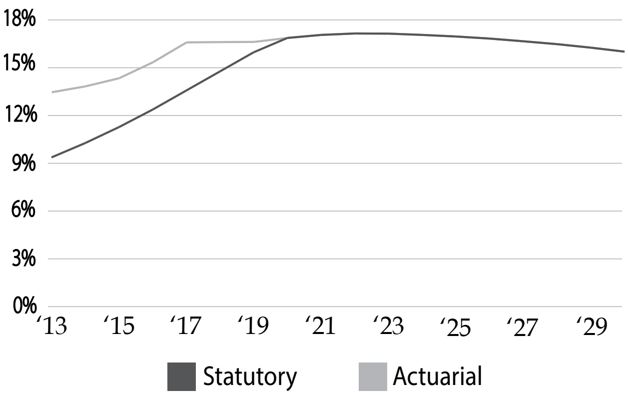
The changes in Sub House Bill 2333 are expected to improve KPERS long term funding and help all three groups attain a funded ratio of 100 percent by 2033. The actual funding progress will be heavily dependent on the actual investment experience of the System in future years.

The following graphs show the projected employer contributions assuming all actuarial assumptions are met in the future, including an 8 percent rate of return on the fair value of assets.

The ARC date for the State/School group is projected to occur in 2021 with an ARC rate of 17.26%, assuming all actuarial assumptions are met in future years. Future experience, especially investment returns, will heavily influence the ARC date and rate.

Project Employer Contribution Rates State/School

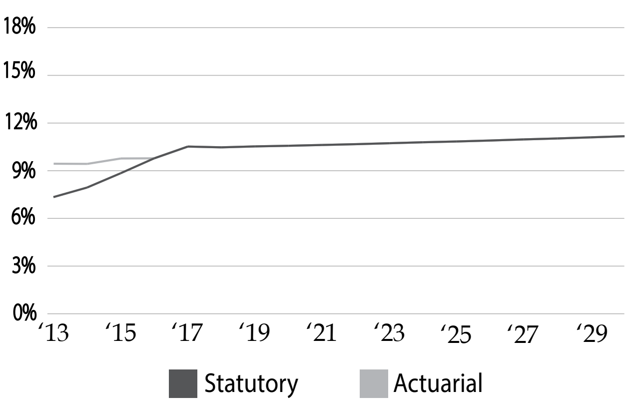
fiscal year end



The ARC date for the Local group is projected to occur in approximately 2017 with an ARC rate of 10.49%, assuming all actuarial assumptions are met in future years, and the contribution rate remains level. Actual experience in future years will impact the ARC date and rate.

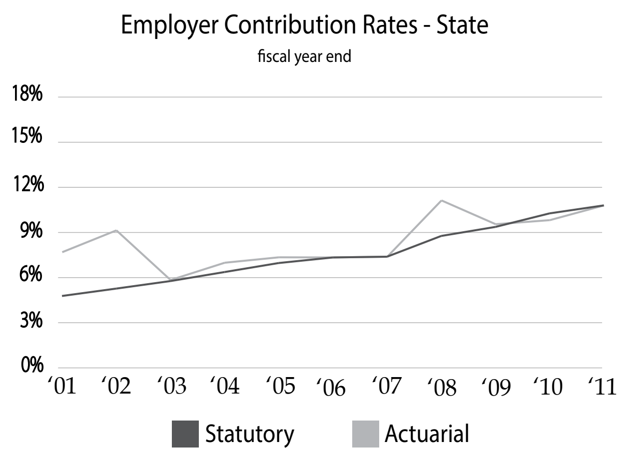
Project Employer Contribution Rates Local

fiscal year end

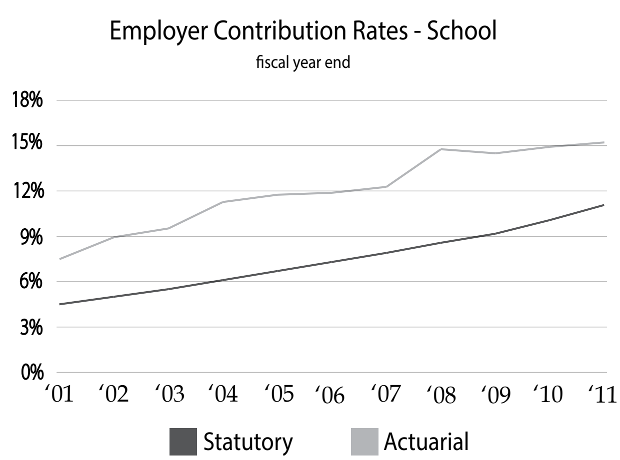


Historical contribution rates for each group are shown on the following pages. Please note that prior to the December 31, 2003 valuation, one contribution rate was developed for the State and School together as one group. Legislation passed in 2004 split the contribution rate calculations into two separate 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 the 2004, 2007 and 2011 valuations. These changes impact the comparability of contribution rates between various valuation dates.

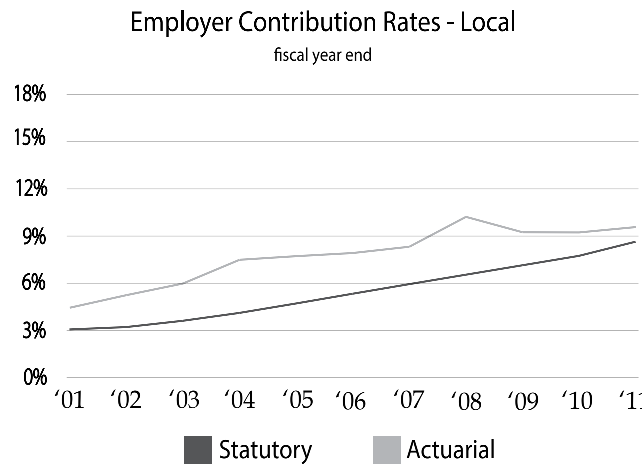
The split of the State group into a separate group with the 2003 valuation, coupled with the bond issue, lowered the actuarial contribution rate. The State's actuarial contribution rate continues to be less than the statutory contribution rate in this valuation.



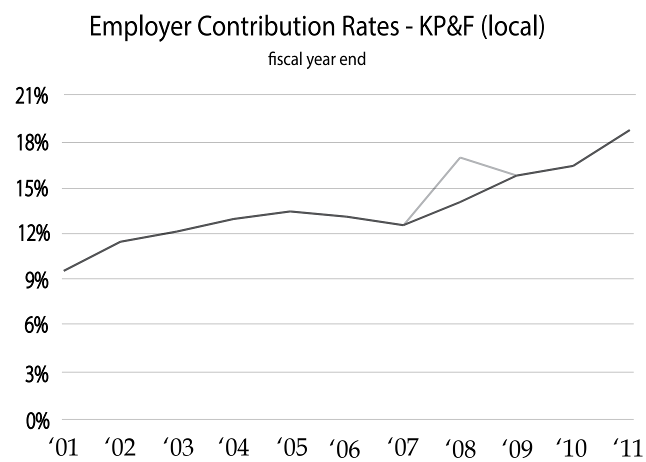
Due to investment experience, changes in actuarial methods and assumptions, and the magnitude of the difference between the actuarial and statutory contribution rates, the funded status of the School group has declined and the actuarial contribution rate has generally increased over this period.



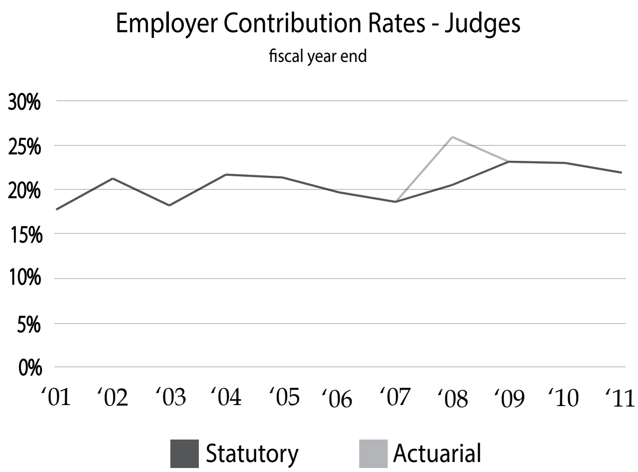
The Local contribution rate has also been impacted by changes in actuarial assumptions and methods as well as investment performance. As a result, despite the significant changes in Sub House Bill 2333, the statutory contribution rate still exceeds the actuarial contribution rate.



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 and 2011, which has still not been totally reflected, resulted in higher contribution rates in the last part of the period.



Significant changes in the actuarial assumptions in the 2004 valuation and investment experience over the last decade raised contribution rates, which have moderated somewhat in the last three years.



Summary of Change in Unfunded Actuarial Liability

12/31/11 valuation ($ millions)

	State	School	Local	KP&F	Judges	Total
UAL in 12/31/2010 Valuation Report	$931.6	$5,312.5	$1,395.0	$598.4	$26.6	$8,264.1[1]
· Effect of contribution cap/timing	16.1	218.9	44.1	10.0	0.4	289.5
· Expected increase due to method	6.0	42.3	10.3	3.9	(0.5)	62.0
· Actual vs. expected experience						
· Investment return	187.1	410.2	141.2	106.7	7.4	852.6
· Demographic experience	(8.3)	(150.7)	(43.9)	13.8	(2.9)	(192.0)
· All other experience	(1.0)	4.4	(2.2)	0.0	0.6	1.8
· Change in actuarial assumptions	(9.2)	(50.3)	(5.9)	5.8	(4.8)	(64.4)
· Change in benefit provisions	0.5	10.3	3.8	0.0	0.0	14.6
UAL in 12/31/2011 Valuation Report	$1,122.8	$5,797.6	$1,542.4	$738.6	$26.8	$9,228.1[1]

1 May not add due to rounding.

Changes in Employer Actuarial Contribution Rate by System

as of 12/31/11

Percentage of Payroll	State	School	Local	KP&F[1]	Judges
Actuarial Contribution Rate in 12/31/2010 Valuation	9.82%	15.12%	9.43%	17.26%	23.62%
Change Due to Amortization of UAL					
· effect of contribution cap/time lag	0.11	0.46	0.19	0.16	0.13
· amortization method	0.00	0.00	0.00	0.00	(0.36)
· investment experience	1.32	0.87	0.61	1.70	2.46
· liability experience	(0.06)	(0.32)	(0.19)	0.22	(0.96)
· all other experience	0.63	0.41	0.31	0.39	0.32
· change in assumptions	(0.06)	(0.11)	(0.03)	0.09	(1.60)
· change in benefit provisions	0.00	0.02	0.02	0.00	0.00
Change in Normal Cost Rate					
· change in benefit provisions	(0.90)	(0.91)	(0.48)	0.00	0.00
· change in assumptions	0.00	(0.03)	0.02	0.03	(1.16)
· all other experience	(0.06)	(0.10)	(0.11)	0.07	0.14[2]
Actuarial Contribution Rate in 12/31/2011 Valuation	10.80%	15.41%	9.77%	19.92%	22.59%

1 Contribution rate for Local employers only.

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

Summary of Historical Changes in Total System UAL

($ millions)

	6/30/96	6/30/97	6/30/98	6/30/99	6/30/00	12/31/00
Actual Experience vs. Assumed						
· Investment	$(280)	$(323)	$(413)	$(369)	$(441)	$(23)
· Other	136	157	104	46	99	84
Assumption Changes	0	0	350	0	0	(206)
Changes in Data/Procedures	0	0	0	21	71	145[1]
Change in Cost Method	0	0	0	0	0	0
Effect of Contribution Cap/Lag	70	63	54	78	66	60
Amortization Method	38	35	32	30	22	12
Change in Benefit Provisions	0	0	88	0	19	0
Change in Actuarial Firm/Software	0	0	0	0	0	0
Bond Issue	0	0	0	0	0	0
Total	$(36)	$(68)	$215	$(185)	$(194)	$72

	12/31/01	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06
Actual Experience vs. Assumed						
· Investment	$350	$644	$140	$456	$167	$(293)
· Other	(9)	68	(32)	16	(84)	140
Assumption Changes	0	0	0	437	(5)	0
Changes in Data/Procedures	5	177[1]	(286[2]	0	0	0
Change in Cost Method	0	0	1,147	0	0	0
Effect of Contribution Cap/Lag	115	143	178	179	247	258
Amortization Method	14	21	47	68	84	83
Change in Benefit Provisions	0	37	3	1	0	24
Change in Actuarial Firm/Software	0	0	0	0	0	0
Bond Issue	0	(41)	(440)	0	0	0
Total	$475	$1,049	$757	$1,157	$409	$212

	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11	Total
Actual Experience vs. Assumed						
· Investment	$(626)	$2,332	$(1,011)	$560	$852	$1,722
· Other	99	78	(70)	(334)	(190)	308
Assumption Changes	384	0	0	0	(64)	896
Changes in Data/Procedures	0	0	0	0	0	133
Change in Cost Method	0	0	0	0	0	1,147
Effect of Contribution Cap/Lag	251	246	383	320	289	3,000
Amortization Method	78	71	96	68	62	861
Change in Benefit Provisions	2	0	0	0	15	189
Change in Actuarial Firm/Software	0	0	0	(27)	0	(27)
Bond Issue	0	0	0	0	0	(481)
Total	$188	$2,727	$(602)	$587	$964	$7,748

Unfunded actuarial liability 6/30/95: $1,480 million
Unfunded actuarial liability 12/31/11: $9,228 million

1 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.

2 Change in asset valuation method.

Summary of Principal Results - KPERS State

	12/31/2011 Valuation	12/31/2010 Valuation	% Change
Participant Data			
Number of:			
Active Members	23,917	25,737	(7.1%)
Retired Members and Beneficiaries	17,801	16,375	8.7%
Inactive Members	6,668	6,363	4.8%
Total Members	48,386	48,475	(0.2%)
Projected Salaries of Active Members	$ 995,715,217	$ 1,068,931,480	(6.8%)
Annual Retirement Payments for Retired Members and Beneficiaries	$ 226,681,537	$ 196,294,538	15.5%
Assets and Liabilities			
a. Total Actuarial Liability	$ 3,912,831,792	$ 3,814,570,078	2.6%
b. Assets for Valuation Purposes	2,790,034,778	2,882,964,798	(3.2%)
c. Unfunded Actuarial Liability (a) - (b)	1,122,797,014	931,605,280	20.5%
d. Funded Ratio (b) / (a)	71.3%	75.6%	(5.7%)
e. Fair Value of Assets	2,596,503,599	2,730,474,235	(4.9%)
Employer Contribution Rates as a Percent of Payroll			
Normal Cost			
Total	8.17%	7.72%	
Member	5.57%	4.16%	
Employer	2.60%	3.56%	
Amortization of Unfunded Actuarial and Debt Service	8.20%	6.26%	
Actuarial Contribution Rate	10.80%	9.82%	
Statutory Employer Contribution Rate*	11.27%	10.27%	

* The 12/31/10 Statutory Employer Contribution Rate was originally certified at 9.97% under a 0.60% cap for FY 2014. The 12/31/10 Statutory Rate shown here reflects the higher 0.90% cap for FY 2014,established under 2012 Sub HB 2333. The Statutory Employer Contribution Rate in this valuation may not exceed last year's rate by more than the statutory rate increase limit of 1.00% for FY 2015. This rate does not include the contribution rate for the Death and Disability Program. Any excess of the statutory over actuarial contribution rates applied to actual State payroll is deposited to the School assets.

Summary of Principal Results - KPERS School

	12/31/2011 Valuation	12/31/2010 Valuation	% Change
Participant Data			
Number of:			
Active Members	84,183	84,438	(0.3%)
Retired Members and Beneficiaries	42,590	40,856	4.2%
Inactive Members	23,969	24,125	(0.6%)
Total Members	150,742	149,419	0.9%
Projected Salaries of Active Members	$ 3,314,667,112	$ 3,315,448,958	(0.0%)
Annual Retirement Payments for Retired Members and Beneficiaries	$ 585,039,317	$ 549,519,641	6.5%
Assets and Liabilities			
a. Total Actuarial Liability	$12,114,415,410	$11,774,417,007	2.9%
b. Assets for Valuation Purposes	6,316,797,407	6,461,892,562	(2.2%)
c. Unfunded Actuarial Liability (a) - (b)	5,797,618,003	5,312,524,445	9.1%
d. Funded Ratio (b) / (a)	52.1%	54.9%	(5.0%)
e. Fair Value of Assets	5,884,431,008	6,132,794,595	(4.0%)
Employer Contribution Rates as a Percent of Payroll			
Normal Cost			
Total	8.48%	7.72%	
Member	5.57%	4.16%	
Employer	2.91%	3.56%	
Amortization of Unfunded Actuarial and Debt Service	12.50%	11.17%	
Actuarial Contribution Rate	15.41%	15.12%	
Statutory Employer Contribution Rate*	11.27%	10.27%	

* The 12/31/10 Statutory Employer Contribution Rate was originally certified at 9.97% under a 0.60% cap for FY 2014. The 12/31/10 Statutory Rate shown here reflects the higher 0.90% cap for FY 2014,established under 2012 Sub HB 2333. The Statutory Employer Contribution Rate in this valuation may not exceed last year's rate by more than the statutory rate increase limit of 1.00% for FY 2015. This rate does not include the contribution rate for the Death and Disability Program.

Summary of Principal Results - KPERS State/School

	12/31/2011 Valuation	12/31/2010 Valuation	% Change
Participant Data			
Number of:			
Active Members	108,100	110,175	(1.9%)
Retired Members and Beneficiaries	60,391	57,231	5.5%
Inactive Members	30,637	30,488	0.5%
Total Members	199,128	197,894	0.6%
Projected Salaries of Active Members	$ 4,310,382,329	$ 4,384,380,438	(1.7%)
Annual Retirement Payments for Retired Members and Beneficiaries	$ 811,720,854	$ 745,814,179	8.8%
Assets and Liabilities			
a. Total Actuarial Liability	$ 16,027,247,202	$15,588,987,085	2.8%
b. Assets for Valuation Purposes	9,106,832,185	9,344,857,360	(2.5%)
c. Unfunded Actuarial Liability (a) - (b)	6,920,415,017	6,244,129,725	10.8%
d. Funded Ratio (b) / (a)	56.8%	59.9%	(5.2%)
e. Fair Value of Assets	8,480,934,607	8,863,268,830	(4.3%)
Employer Contribution Rates as a Percent of Payroll			
Normal Cost			
Total	8.41%	8.03%	
Member	5.57%	4.17%	
Employer	2.84%	3.86%	
Amortization of Unfunded Actuarial and Debt Service	11.50%	9.97%	
Actuarial Contribution Rate	14.34%	13.83%	
Statutory Employer Contribution Rate*	11.27%	10.27%	

* The 12/31/10 Statutory Employer Contribution Rate was originally certified at 9.97% under a 0.60% cap for FY 2014. The 12/31/10 Statutory Rate shown here reflects the higher 0.90% cap for FY 2014,established under 2012 Sub HB 2333. The Statutory Employer Contribution Rate in this valuation may not exceed last year's rate by more than the statutory rate increase limit of 1.00% for FY 2015. This rate does not include the contribution rate for the Death and Disability Program.

Summary of Principal Results - KPERS Local

	12/31/2011 Valuation	12/31/2010 Valuation	% Change
Participant Data			
Number of:			
Active Members	39,547	40,307	(1.9%)
Retired Members and Beneficiaries	15,606	14,893	4.8%
Inactive Members	13,629	12,383	10.1%
Total Members	68,782	67,583	1.8%
Projected Salaries of Active Members	$ 1,619,998,225	$1,638,534,481	(1.1%)
Annual Retirement Payments for Retired Members and Beneficiaries	$ 152,644,779	$ 140,605,126	8.6%
Assets and Liabilities			
a. Total Actuarial Liability	$ 3,978,621,325	$3,793,642,968	4.9%
b. Assets for Valuation Purposes	2,436,265,719	2,398,637,171	1.6%
c. Unfunded Actuarial Liability (a) - (b)	1,542,355,606	1,395,005,797	10.6%
d. Funded Ratio (b) / (a)	61.2%	63.2%	(3.2%)
e. Fair Value of Assets	2,280,627,100	2,295,447,057	(0.6%)
Employer Contribution Rates as a Percent of Payroll			
Normal Cost			
Total	8.07%	7.68%	
Member	5.16%	4.20%	
Employer	2.91%	3.48%	
Amortization of Unfunded Actuarial and Debt Service	6.86%	5.95%	
Actuarial Contribution Rate	9.77%	9.43%	
Statutory Employer Contribution Rate*	8.84%	7.94%	

* Statutory Employer Contribution Rate exceeds last year's rate by the statutory rate increase limit of 0.90%. This rate does not include the contribution rate for the Death and Disability Program.

Summary of Principal Results - Kansas Police & Firemen's Retirement System

	12/31/2011 Valuation	12/31/2010 Valuation	% Change
Participant Data			
Number of:			
Active Members	7,143	7,173	(0.4%)
Retired Members and Beneficiaries	4,315	4,168	3.5%
Inactive Members	1,405	1,350	4.1%
Total Members	12,863	12,691	1.4%
Projected Salaries of Active Members	$ 442,203,582	$ 442,880,358	(0.2%)
Annual Retirement Payments for Retired Members and Beneficiaries	$ 119,510,150	$ 111,857,782	6.8%
Assets and Liabilities			
a. Total Actuarial Liability	$ 2,448,619,763	$ 2,319,324,940	5.6%
b. Assets for Valuation Purposes	1,710,009,435	1,720,933,933	(0.6%)
c. Unfunded Actuarial Liability (a) - (b)	738,610,328	598,391,007	23.4%
d. Funded Ratio (b) / (a)	69.8%	74.2%	(5.9%)
e. Fair Value of Assets	1,597,092,196	1,639,025,889	(2.6%)
Employer Contribution Rates as a Percent of Payroll			
Normal Cost			
Total	14.49%	14.39%	
Member	6.87%	6.79%	
Employer	7.62%	7.60%	
Amortization of Unfunded Actuarial and Debt Service	12.30%	9.66%	
Actuarial Contribution Rate	19.92%	17.26%	
Statutory Employer Contribution Rate*	19.92%	17.26%	

* 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% excess benefit liability,determined separately for each employer.

Summary of Principal Results - Retirement System for Judges

	12/31/2011 Valuation	12/31/2010 Valuation	% Change
Participant Data			
Number of:			
Active Members	264	264	0.0%
Retired Members and Beneficiaries	215	206	4.4%
Inactive Members	7	10	(30.0%)
Total Members	486	480	1.3%
Projected Salaries of Active Members	$ 28,878,075	$ 28,253,001	2.2%
Annual Retirement Payments for Retired Members and Beneficiaries	$ 8,033,939	$ 7,535,849	6.6%
Assets and Liabilities			
a. Total Actuarial Liability	$152,681,742	$151,828,310	0.6%
b. Assets for Valuation Purposes	125,912,822	125,229,654	0.5%
c. Unfunded Actuarial Liability (a) - (b)	26,768,920	26,598,656	0.6%
d. Funded Ratio (b) / (a)	82.5%	82.5%	(0.0%)
e. Fair Value of Assets	117,969,801	119,835,012	(1.6%)
Employer Contribution Rates as a Percent of Payroll			
Normal Cost			
Total	19.46%	20.48%	
Member	5.77%	5.82%	
Employer	13.69%	14.66%	
Amortization of Unfunded Actuarial and Debt Service	8.90%	8.96%	
Actuarial Contribution Rate	22.59%	23.62%	
Statutory Employer Contribution Rate*	22.59%	23.62%	

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

Summary of Principal Results - All Systems Combined

	12/31/2011 Valuation	12/31/2010 Valuation	% Change
Participant Data			
Number of:			
Active Members	155,054	157,919	(1.8)
Retired Members and Beneficiaries	80,527	76,498	5.3
Inactive Members	45,678	44,231	3.3
Total Members	281,259	278,648	0.9
Projected Salaries of Active Members	$6,401,462,211	$6,494,048,278	(1.4)
Annual Retirement Payments for Retired Members and Beneficiaries	$1,091,909,722	$1,005,812,936	8.6
Assets and Liabilities			
a. Total Actuarial Liability	$22,607,170,032	$21,853,783,303	3.4
b. Assets for Valuation Purposes	13,379,020,161	13,589,658,118	(1.5)
c. Unfunded Actuarial Liability (a) - (b)	9,228,149,871	8,264,125,184	11.7
d. Funded Ratio (b) / (a)	59.2%	62.2%	(4.8)
e. Fair Value of Assets	12,476,623,704	12,917,576,788	(3.4)

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, 2009.

Rate of Investment Return 8.0 percent

Implicit Inflation Rate 3.0 percent

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

Rates of Mortality: Post-retirement

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

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

Sample Rates

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

Pre-retirement

School Males: 70 % of RP-2000 M Employees -2
School Females: 50% of RP-2000 F Employees -2
State Males: 70% of RP-2000 M Employees +2
State Females: 50% 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] 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%

1) Includes general wage increase assumption of 4.0 percent (composed of 3.0 percent inflation and 1 percent productivity).

Rates of Termination

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

Retirement Rates

	1st Year With 85 Points		After 1st Year With 85 Points	
School				
	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	10%	65	35%
	59	12%	66-71	25%
	60	15%	72-74	20%
	61	24%	75	100%
State	1st Year With 85 Points		After 1st Year With 85 Points	
	Age	Rate	Age	Rate
	53	10%	53	10%
	55	15%	55	12%
	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	6%	65	35%
	59	10%	66-67	25%
	60	10%	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	7%
	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	7%	66	25%
	60	7%	67-74	20%
	61	20%	75	100%

Correctional	Normal Retirement at Age 55		Normal Retirement at Age 60	
	Age	Rate	Age	Rate
	55	10%	60	10
	58	10%	62	25
	60	15%	63	25
	62	30%	64	35
	65	100%	65	100

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 Members Leaving Contributions with System

Tier 1	Age	School	State	Local
	25	80%	65%	60%
	30	80%	65%	60%
	35	80%	65%	60%
	40	80%	65%	60%
	45	82%	75%	64%
	50	87%	85%	74%
	55	100%	100%	100%

Tier 2

Members are assumed to elect to take a refund if it is more valuable than the deferred annuity. The comparison is based on 8 percent interest and a 50%Male/50%Female blend of the RP-2000 Combined Mortality Table, projected to 2045 (static)

Tier 1 Election

All Tier 1 members are assumed to elect the default option of the increased multiplier coupled with increased contributions.

Actuarial Assumptions – KP&F

Rate of Investment Return 8.0 percent

Implicit Inflation Rate 3.0 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[1]

1) 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]
1	12.5%
5	7.0%
10	4.9%
15	4.3%
20	4.0%
25	4.0%

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

Rates of Termination

Tier I 3 percent for ages less than 41 and 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	40%
52	5%	57	40%
53	10%	58	35%
54	30%	59	45%
		60	50%
		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	10%	58	20%
54	20%	60	25%
		61	25%
		62	25%
		63	100%

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

Rates of Disability

Age	Rate[1]
22	0.06%
27	0.07%
32	0.15%
37	0.35%
42	0.56%
47	0.76%
52	0.96%
57	1.00%

1) 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	3.0 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
60-61	10%
62-65	20%
66-69	30%
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 COLA is amortized over 15 years. The increase in the unfunded actuarial liability for Local employers resulting from 2003 legislation which made the 13th check for pre-July 2, 1987 retirees a permanent benefit is funded over a 10 year period beginning in 2005. The remainder of the unfunded actuarial liability is amortized over a period originally set at 40 years beginning July 1, 1993.

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

ASSET VALUATION METHOD

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

Plan Membership

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

Employee Membership

Membership is mandatory for all employees in covered positions, except elected officials. A covered position for non-school employees is one that is covered by Social Security, is not seasonal or temporary, and requires at least 1,000 hours of work per year. School employees who work at least 630 hours per year or 3.5 hours per day for at least 180 days are eligible for membership. Effective July 1, 2009, all employees become KPERS members on their date of employment. Prior to July 1, 2009 only School employees were covered immediately. There was a one-year service requirement for the State and Local group. Those who retire under the provisions of the Retirement System may not become contributing members again.

Summary of Provisions-KPERS

Note: Members who participate on or after July 1,2009 are referred to as Tier 2 members.

This valuation reflects the benefit structure in place as of December 31, 2011, as amended by Senate Sub House Bill 2333, passed by the 2012 Legislature. Only changes that impact Tier 1 and Tier 2 members are included in this summary of provisions. Tier 3 benefits are not included as there were no such members in the valuation.

Normal Retirement

Eligibility – Tier 1: (a) Age 65, or (b) age 62 with ten years of credited service, or (c) any age when combined age and years of credited service equal 85 "points". Age is determined by the member's last birthday and is not rounded up.

Tier 2: (a) Age 65 with 5 years of credited service or (b) age 60 with 30 years of credited service.

Benefits – Benefits are based on the member's years of credited service, Final Average Salary (FAS), and a statutory multiplier. For those who were hired prior to July 1, 1993, Final Average Salary equals the greater of either: a four-year Final Average Salary, including add-ons, such as sick and annual leave; or a three-year Final Average Salary, excluding add-ons, such as sick and annual leave. For those who are hired on or after July 1, 1993 and before July 1, 2009, Final Average Salary equals the average of the three highest years of service, excluding add-ons, such as sick and annual leave. Effective July 1, 2009 (Tier 2), Final Average Salary equals the average of the five highest years of salary, excluding additional compensation.

Prior Service Credit – Prior service credit is 0.75 percent or 1 percent of Final Average Salary per year [School employees receive 0.75 percent Final Average Salary for each year of prior service that is not credited under the former Kansas School Retirement System (KSRS)].

Participating Service Credit – Tier 1: Participating service credit is 1.75 percent of Final Average Salary for years of service prior to January 1, 2014. For members who make employee contributions at 5 percent or 6 percent, participating service credit is 1.85 percent of Final Average Salary for years of service after December 31, 2013.

Tier 2: For members retiring prior to January 1, 2014, participating service credit is 1.75 percent of Final Average Salary for all years of service. For those retiring on or after January 1, 2014, participating service credit is 1.85 percent for all years of service.

Early Retirement

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

Benefit – Tier 1: The normal retirement benefit is reduced 0.2 percent per month for each month between the ages of 60 and 62, plus 0.6 percent for each month between the ages of 55 and 60.

Tier 2: The normal retirement benefit is reduced actuarially for early commencement. The reduction factor is 35 percent at age 60 and 57.5 percent at age 55. If the member has 30 years of credited service, the early retirement reduction is less (50 percent of regular reduction).

Vesting Requirements

Eligibility – Effective July 1, 2009, a member must have five years of credited service (ten years prior to July 1, 2009). Should the vested member terminate employment, the member must leave accumulated contributions on deposit with the Retirement System to be eligible for future benefits. If a vested member terminates employment and withdraws accumulated contributions, the member forfeits all rights and privileges under the Retirement System.

Benefit – Retirement benefits are payable when the vested member reaches normal retirement age, or reduced benefits are payable when the vested member reaches a specified early retirement age.

Other Benefits

Withdrawal Benefit – Members who terminate employment may withdraw contributions with interest after the last day on the employer's payroll. Withdrawing contributions forfeits all membership rights and benefits, which a member may have accrued prior to withdrawing their contributions from the Retirement System. Former members, who return to covered employment within five years after terminating employment, will not have lost any membership rights or privileges if they haven't withdrawn contributions. The Retirement Act provides for withdrawal of contributions 31 days after employment terminates, but it does not allow members to borrow from contributions.

Disability Benefit – Members receiving disability benefits under the KPERS Death and Disability Benefits Program continue to receive service credit under KPERS. If a disabled member retires after receiving disability benefits for at least five years immediately preceding retirement, the member's Final Average Salary is adjusted by the actuarial salary increase assumption rates in existence during the member's period of disability prior to July 1, 1993, 5 percent per year to July, 1998 and the change in CPI-U less 1 percent, not to exceed 4 percent after July, 1998.

Death Benefits – Pre-retirement death (non-service connected) – The member's accumulated contributions plus interest are paid in a lump sum to the designated beneficiary. In lieu of receiving the member's accumulated contributions, the surviving spouse of a member who is eligible to retire at death may elect to receive benefits under any survivor option. The spouse must be the member's sole designated beneficiary to exercise this option. If the member had at least 10 years of credited service, but had not reached retirement age, the spouse may elect to leave the member's contributions on deposit with the System and receive a monthly benefit to begin on the date the member would have been eligible to retire.

Service-connected accidental death – The member's accumulated contributions plus interest, plus lump sum amount of $50,000, plus annual benefit based on 50 percent of Final Average Salary; 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 they are full-time students), in this order of preference. The monthly accidental death benefit is in lieu of any joint/survivor benefit for which the surviving spouse would have been eligible.

Post-retirement death – A lump sum amount of $4,000 is payable to the member's 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 predeceases the retired member, the reduced option benefit is increased to the amount the retired member would have received if no retirement option had been elected. Benefits payable to a joint annuitant cease at the joint annuitant's death. If a member does not select an option, the designated beneficiary receives the excess, if any, of the member's accumulated contributions plus interest over total benefits paid to date of death.

Member Contributions

Prior to January 1, 2014, member contributions are 4 percent of compensation for Tier 1. If the IRS approves an election for Tier 1 members, they will have a choice to elect to contribute: (1) 5 percent beginning January 1, 2014 and 6 percent effective January 1, 2015 and receive a 1.85 percent multiplier for future years of service or (2) remain at a contribution rate of 4 percent and receive a 1.40 percent multiplier for future years of service. The member contribution rate for Tier 2 is 6 percent of compensation. Interest is credited to members' contribution accounts on June 30 each year, based on the account balance as of the preceding December 31. Those who became members prior to July 1, 1993, have interest credited to their accounts at the rate of 8 percent per year. Those who become members on and after July 1, 1993, have interest credited to their accounts at the rate of 4 percent per year.

Employer Contributions

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

Board of Regents Plan Members (TIAA and equivalents)

Board of Regents plan members (TIAA and equivalents) do not make contributions to KPERS. They receive prior service benefits for service before 1962; the benefit is 1 percent of Final Average Salary for each year of credited prior service. Service after 1961 is counted for purposes of determining eligibility for vesting.

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 plan operators, (d) correctional industries employees, (e) correctional food service employees, and (f) correctional maintenance employees.

For groups (a) and (b) with at least three consecutive years of credited service, in such positions immediately preceding retirement, normal retirement age is 55 or Rule of 85 and early retirement requirements are age 50 with ten years of credited service. For groups (c), (d), (e), and (f) with at least three consecutive years of service in such positions immediately preceding retirement, normal retirement age is 60 or Rule of 85 and early retirement requirements are 55 with ten years of credited service.

Cost of Living Adjustments (COLAs)

Tier 2 Members Who Retired Prior to July 1, 2012: 2 percent cost-of-living adjustment (COLA) each year beginning at age

65 or the second July 1 after your retirement date, whichever is later. Other Tier 2 members will not receive a COLA.

Summary of Provisions- KP&F

Normal Retirement

Tier I – age 55 and 20 years of service or 32 years of service (regardless of age).

Tier II – age 50 and 25 years of service, or age 55 and 20 years of service, or age 60 and 15 years of service.

Benefits – Benefits are based on the member's Final Average Salary. For those who were hired prior to July 1, 1993, Final Average Salary equals the average of the highest three of the last five years of credited participating service, including add-ons, such as sick and annual leave. For those who are hired on or after July 1, 1993, Final Average Salary equals the average of the highest three of the last five years of participating service, excluding add-ons, such as sick and annual leave. Benefits are based on a member's years of credited service and a multiplier of 2.5 percent of Final Average Salary for each year of credited service, to a maximum of 80 percent of Final Average Salary.

Local Plan – For members covered by local plan provisions on the employer's entry date, normal retirement is at age 50 with 22 years of credited service.

Early Retirement

Eligibility – Members must be at least age 50 and have 20 years of credited service.

Benefit – Normal retirement benefits are reduced 0.4 percent per month under age 55.

Vesting Requirements

Eligibility – Tier I: The member must have 20 years of service credit; if terminating employment, the member must leave contributions on deposit with the Retirement System to be eligible for future benefits. Unreduced benefits are payable at age 55 or reduced benefits are payable as early as age 50.

Eligibility – Tier II: The member must have 15 years of service credit to be considered vested. If terminating employment, the member must leave contributions on deposit with the Retirement System to be eligible for future benefits. A vested member may draw unreduced benefits as early as age 50 with 25 years of credited service, age 55 with 20 years of credited service, or age 60 with 15 years of credited service. A reduced benefit is available at age 50 with 20 years of credited service.

Other Benefits

Withdrawal Benefits – Members who terminate employment before retirement may withdraw contributions with interest after the last day on the employer's payroll. Withdrawal of contributions forfeits all membership rights and benefits, which a member may have accrued prior to withdrawing accumulated contributions from the Retirement System. Former members, who return to covered employment within five years after terminating employment, will not have lost any membership rights or privileges if they haven't withdrawn contributions.

Disability Benefits

Tier I: Service-connected disability – There are no age or service requirements to be eligible for this benefit. There is an annual benefit of 50 percent of Final Average Salary, plus 10 percent of Final Average Salary for each dependent child under age 18 (or up to age 23 for full-time students), to a maximum of 75 percent of Final Average Salary. If dependent benefits aren't payable, the benefit is 50 percent of Final Average Salary or 2.5 percent for each year of credited service up to a maximum of 80 percent of Final Average Salary. Upon the death of a member after two years from the proximate cause of death which is the original service-connected disability, the same benefits are payable. Upon the death of a member after 2 years from a cause different than the disability for which the member is receiving service-connected disability benefits, the surviving spouse receives a lump sum payment of 50 percent of Final Average Salary. Additionally, a pension benefit of one-half the member's benefit is payable to either the spouse or to the dependent children.

Tier I: Non-Service-connected disability – An annual benefit of 2.5 percent times years of credited service times Final Average Salary with a minimum of 25 percent of FAS and a maximum of 80 percent of FAS.

Tier II: There is no distinction between service-connected and non-service-connected disability benefits. Annual benefit of 50 percent of Final Average Salary. Service Credit is granted during the period of disability. Disability benefits convert to age and service retirement at the earliest date the member is eligible for full retirement benefits. If the member is disabled for at least five years immediately preceding retirement, the member's Final Average Salary is adjusted during the period of Disability.

Death Benefits (Tier I and Tier II)

Active Member Service Connected Death – There is no age or service requirement. An annual benefit of 50 percent of Final Average Salary is payable to the spouse, plus 10 percent of Final Average Salary for each dependent child under age 18 [or up to age 23 if full time student(s)], to a maximum of 75 percent of Final Average Salary Active Member.

Active Member Non-Service Connected Death – A lump sum of 100 percent of Final Average Salary is payable to the spouse and a pension of 2.5 percent of Final Average Salary per year of credited 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 (age 18 or 23 if a full time student). If there is no surviving spouse or eligible children, the beneficiary will receive a lump sum payment of 100 percent of the member's current annual pay inclusive of the member's accumulated contributions.

Inactive Member Death – If an inactive member is eligible for retirement when death occurs, and the inactive member's spouse is the sole beneficiary, the spouse may elect to receive benefits as a joint annuitant under any option in lieu of a refund of the member's accumulated contributions.

Post-Retirement Death – There is a lump sum amount of $4,000 payable, less any death benefit payable under local plan provisions. If the member has selected a retirement option, benefits are paid to the joint annuitant or the designated beneficiary. Under joint and survivor options, if the joint annuitant predeceases the retired member, the benefit is increased to the amount the retired member would have received if no option had been selected. Benefits payable to the joint annuitant cease when the joint annuitant dies. If no option is selected, the designated beneficiary receives the excess, if any, of the member's accumulated contributions over total benefits paid to the date of death. The surviving spouse of a transfer member (who was covered by local plan on the employer's entry date, who dies after retirement, and who has not elected a retirement benefit option) receives a lump sum payment of 50 percent of Final Average Salary. Additionally, a pension benefit of three-fourths of the member's benefit is payable either to the spouse or dependent children.

Classifications

Tier I – Members have Tier I coverage if they were employed prior to July 1, 1989, and they did not elect coverage under Tier II.

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

Some KP&F members are considered either Tier I or Tier II Transfer or Brazelton members.

Transfer Member – member who is a former member of a local plan who elected to participate in KP&F. Former Kansas Highway Patrol and former Kansas Bureau of Investigation members are included in this group.

Brazelton member – member who participated in a class action lawsuit, whose contribution is lower, and whose benefits are offset by Social Security.

Member Contributions

Member contributions are 7 percent of compensation. For members with 32 years of credited service, the contribution rate is reduced to 2 percent of compensation.

Brazelton members contribute .008 percent with a Social Security offset. Benefits payable to these members are reduced by one-half of original Social Security benefits accruing from employment with the participating employer.

Employer Contributions

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

Summary of Provisions-Judges

Normal Retirement

Eligibility – (a) Age 65, or (b) age 62 with ten years of credited service, or (c) any age when combined age and years of credited service equals 85 "points". Age is determined by the member's last birthday and is not rounded up.

Benefit – the benefit is based on the member's Final Average Salary, which is the average of the three highest years of service under any retirement system administered by KPERS. The basic formula for those who were members prior to July 1, 1987, is 5 percent of Final Average Salary for each year of service up to ten years, plus 3.5 percent for each year of service greater than ten, to a maximum of 70 percent of Final Average Salary. For those who became members on or after July 1, 1987, the formula is 3.5 percent for each year, to a maximum benefit of 70 percent of Final Average Salary.

Early Retirement

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

Benefit – The retirement benefit is reduced to 0.2 percent per month for each month between the ages of 60 and 62, plus 0.6 percent per month for each month between the ages of 55 and 60.

Vesting Requirements

Eligibility – There is no minimum service requirement; however, if terminating employment, the member must leave contributions on deposit with the Retirement System in order to be eligible for future benefits. Eligible judges who have service credited under KPERS have vested benefits under both KPERS and the Retirement System for Judges when the combined total credited service equals ten years.

Benefit – Normal benefit accrued at termination is payable at age 62 or in reduced amount at age 55, provided the member has ten years of service credit. Otherwise, benefits are not payable until age 65.

Other Benefits

Disability Benefits – These benefits are payable if a member is defined as totally and permanently disabled as certified by the Supreme Court. The disability benefit, payable until age 65, is 3.5 percent of Final Average Salary for each year of service (minimum of 25 percent and maximum of 70 percent of Final Average Salary). Benefits are recalculated when the member reaches retirement age based on participating service credit for the period of disability. If a judge is disabled for at least five years immediately preceding retirement, the judge's Final Average Salary is adjusted.

Withdrawal Benefit – Members who terminate employment may withdraw contributions with interest, but forfeit any right to a future benefit.

Pre-retirement Death – A refund of the member's accumulated contributions is payable. 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. If the member had at least 10 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 as long as the member's contributions aren't withdrawn.

Post-retirement Death – A lump sum death benefit of $4,000 is payable to the member's beneficiary. If the member had selected an option with survivor benefits, those benefits are paid to the joint annuitant or to the member's designated beneficiary. Under retirement options with survivor benefits, if the joint annuitant predeceases the retired member, the retirement benefit is increased to the amount the retired member would have received if no survivor benefits had been elected. Benefits payable to a joint annuitant cease when the joint annuitant dies. If no option was chosen by the retired member, the member's designated beneficiary receives the excess, if any, of the member's accumulated contributions over the total benefits paid to the date of the retired member's death.

Member Contributions

Judges contributions are 6 percent of compensation. Upon reaching the maximum retirement benefit level of 70 percent of Final Average Salary, the contribution rate is reduced to 2 percent.

Employer Contributions

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

Short Term Solvency Test

Last ten fiscal years

Valuation Date	Member Contributions (A)	Retirants and Beneficiaries (B)	Active member Employer Financed Portion (C)	Actuarial Value of Assets	Portions of Accrued Liabilities Covered by Assets (A)	(B)	(C)
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	—
12/31/10	5,017,361,438	9,090,575,924	7,745,845,940	13,589,658,118	100	96	—
12/31/11	5,334,463,714	9,923,555,011	7,349,151,307	13,379,020,161	100	86	—

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) 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 [2] (millions)	Average Payroll	Percentage Increase in Average Payroll
12/31/02	147,294	1.1	1,442	0.5	4,866	32,984	2.8%
12/31/03	148,145	0.6	1,454	0.8	4,978	32,944	-0.1
12/31/04	147,751	(0.3)	1,461	0.5	5,102	33,854	2.7
12/31/05	149,073	0.9	1,474	0.9	5,270	34,661	2.4
12/31/06	151,449	1.6	1,474	0.0	5,599	36,246	4.4
12/31/07	153,804	1.5	1,482	0.5	5,949	37,922	4.4
12/31/08	156,073	1.5	1,492	0.6	6,227	39,113	3.1
12/31/09	160,831	3.0	1,499	0.5	6,532	39,821	1.8
12/31/10	157,919	(1.8)	1,511	0.8	6,494	41,123	3.2
12/31/11	155,054	(1.9)	1,504	-0.5	6,401	41,285	0.4

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

2 Excludes TIAA salaries.

Membership Profile

Last Ten Years As of December 31

Valuation Date	Active	Inactive	Retirees & Beneficiaries	Total Membership
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
2010	157,919	44,231	76,744	278,894
2011	155,054	45,678	81,025	281,757

Retirants, Beneficiaries - Changes in Rolls - All Systems

Last Ten Fiscal Years

		Additions		Deletions						
Year	Number at Beginning of Year	Number Added	Annual Allowances	Number Removed	Annual Allowances	Number at at End of Year	% Change in Number of Retirants	% Change in Additions Allowances	Average Annual Allowance	Year-End Annual Allowances
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	4.20	12.00	13,964	999,939,615
2010	71,606	5,593	88,709,733	2,332	20,528,013	74,867	4.60	8.40	14,182	1,060,205,818
2011	74,867	6,245	99,091,348	2,698	23,230,288	78,414	4.70	11.70	14,630	1,147,209,272
2012	78,414	6,941	112,628,928	2,644	23,775,195	82,711	5.50	13.70	14,962	1,237,559,898

Summary of Membership Data[1]

Retiree and Beneficiary Member Valuation Data	12/31/2011	12/31/2010
KPERS		
Number	75,997	72,124
Average Benefit	$12,690	$12,290
Average Age	72.25	72.46
Police & Fire		
Number	4,315	4,168
Average Benefit	$27,696	$26,837
Average Age	65.32	64.80
Judges		
Number	215	206
Average Benefit	$37,367	$36,582
Average Age	74.50	74.45
System Total		
Number	80,527	76,498
Average Benefit	$13,560	$13,148
Average Age	71.89	72.05

Active Member Valuation Data	12/31/2011	12/31/2010
KPERS		
Number	147,647	150,482
Average Current Age	45.58	45.19
Average Service	11.25	11.19
Average Pay	$40,166	$40,024
Police & Fire		
Number	7,143	7,173
Tier I	373	434
Tier II	6,770	6,739
Average Current Age	39.56	39.61
Average Service	11.66	11.65
Average Pay	$61,907	$61,743
Judges		
Number	264	264
Average Current Age	58.08	57.79
Average Service	12.57	12.31
Average Pay	$109,387	$107,019
System Total		
Number	155,054	157,919
Average Current Age	45.32	45.32
Average Service	11.27	11.21
Average Pay	$41,285	$39,821

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

Employer Contribution Rates, Including Death and Disabilty Contribution

Last ten fiscal years[1]

KPERS State/School

Fiscal Year	Actuarial Rate	Actual Rate
2003	6.17%	4.98%[3]
2004	7.05	4.58[3]
2005	8.29	5.47
2006	9.94	6.07
2007	9.75	6.77
2008	11.37	7.37
2009	11.86	7.97[5]
2010	11.98	8.57[6]
2011	12.30	9.17[6]
2012	15.09	9.77[7]

KPERS Local

Fiscal Year	Actuarial Rate	Actual Rate
2003	4.73%	3.67%[3]
2004	4.64	3.22[3]
2005	6.04	4.01
2006	7.04	4.61
2007	8.69	5.31
2008	8.92	5.93
2009	9.12	6.54[5]
2010	9.52	7.14[6]
2011	11.42	7.74[6]
2012	10.44	8.34[7]

TIAA

Fiscal Year	Actuarial Rate	Actual Rate
1997	1.89%	1.89%
1998	1.66	1.66
1999	1.93	1.93
2000	1.82	1.82
2001	1.21	1.21[2]
2002	2.03	2.03
2003	2.27	2.27[3,4]

KP&F Uniform Rate

Fiscal Year	Actuarial Rate	Actual Rate
2003	6.86%	6.86%
2004	9.47	9.47
2005	11.69	11.69
2006	12.39	12.39
2007	13.32	13.32
2008	13.88	13.88
2009	13.51	13.51
2010	12.86	12.86
2011	17.88	14.57
2012	16.54	16.54

Judges

Fiscal Year	Actuarial Rate	Actual Rate
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]
2011	19.89	19.89[6]
2012	26.78	21.68[7]

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 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 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 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 Actual Rate from April 1, 2010 through June 30, 2010 and April 1, 2011 through June 30, 2011.

7 Per 2012 legislation,employers were not required to remit the Group Life and Disability portion of Actual Rate from April 1, 2012 through June 30, 2012.

Actuary's Certification Letter — Death and Disability Plan

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March 1, 2011

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

Dear Members of the Board:

In accordance with your request, we have performed an actuarial valuation of KPERS Death and Disability Program as of June 30, 2010 for determining contributions beginning July 1, 2010. 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, 2010.

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

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Actuarial Standards of Practice promulgated by the Actuarial Standards Board and the applicable Guides to Professional Conduct, amplifying Opinions, and supporting Recommendations of the American Academy of Actuaries.

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

Nevertheless, the emerging costs will vary from those presented in this report to the extent actual experience differs from that projected by the actuarial assumptions. The Board of Trustees has the final decision regarding the appropriateness of the assumptions and adopted them as indicated in 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 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.

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.

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

- Summary of Actuarial Assumptions - Death and Disability
- Summary of Experience - Death and Disability
- Schedule of Funding Progress - Death and Disability

We also provided the information used in the Actuarial Section - Death and Disability and the Solvency Test - Death and Disability.

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, Allan L. Bittner, 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

Allan L Bittner, FSA
Consulting Actuary

Actuarial Overview – Death and Disability

This report contains the June 30, 2010 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 (for claims incurred prior to 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 (which does not affect calculations for the Death and Disability Program) and have their group life insurance coverage continued under the waiver of premium provision. For those employees covered under the waiver of premium provision, the group life insurance benefit is increased annually for inflation, at a rate equal to the consumer price index less one percent, beginning five years following the date of disability.

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

ACTUARIAL VALUATION UNDER GASB 43

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

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

Actuarial Liability at 6/30/2010(1)

	Actives	Disabled	Total[1]
PV of Total Projected Benefits	$323,725,532	$188,151,374	$511,876,906
PV of Future Normal Cost	228,119,361	—	228,119,361
Actuarial Liability	$95,606,171	$188,151,374	$283,757,545

1 Totals may not match due to rounding.

As of June 30, 2010, the KPERS Death and Disability Fund has an unfunded actuarial liability of $271,006,786. 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 2010-2011 is $43,089,790, representing 0.63 percent of estimated annual compensation.

HISTORICAL ANALYSIS

The historical analysis shows a decreasing pattern in LTD claims and LTD claim payments over the past five years. Waiver death benefits increased in 2008-2009 and decreased in 2009-2010, with the two-year average remaining in line with historical patterns. These are favorable trends that may result, at least in part, from an increasing focus on managing LTD claims and assisting claimants in rehabilitation and return to work. They may also be driven by the gradual impact on overall experience of the lower benefit percentage on new claims incurred January 1, 2006, and later. Generally, however, we expect to see a modestly increasing trend in LTD and waiver benefits due to the aging of the population and the increasing salaries of active members.

In May, 2010, the KPERS Board adopted new valuation assumptions for the death and disability program, reflecting the favorable impact of recent experience. These assumptions resulted in lower liability balances and projected cashflows, producing results that are more consistent with historical trends. The new assumptions included claim incidence rates, claim termination rates, mortality rates for waiver claims, and estimated benefit offsets for LTD claims.

Under the old valuation basis, the total disabled life liability (i.e., excluding the liabilities for active lives and administrative expenses) decreased from $221.0 million to $208.1 million from June 30, 2008 to June 30, 2009, due primarily to a reduction in the number of open LTD claims. When the June 30, 2009, liabilities were recomputed using the new valuation basis, the total disabled life liability was further reduced to $179.8 million. From June 30, 2009 to June 30, 2010, the total disabled life liability reduced from $179.8 million to $171.6 million, with both calculations performed on the new basis.

Liability runoff tests performed on the illustrative liability balances for LTD and Waiver claims indicate that the June 30, 2009, balances were sufficient to fund the actual and projected future costs that emerged during the 2009-2010 fiscal year with respect to members disabled as of June 30, 2009.

PROJECTED CASHFLOWS

The following table contains the projected cashflows for the KPERS Death and Disability Fund for the next five years:

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
2010-2011	$34.1	$51.2
2011-2012	$34.7	$52.7
2012-2013	$35.3	$54.3
2013-2014	$36.3	$55.9
2014-2015	$37.4	$57.6

The previous 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 an increase in plan assets over the five-year time horizon. Any future periodic contribution moratoriums implemented by the Legislature will have the impact of spending down any increase in the plan's 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 to 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 valuation addresses the ARC for the fiscal year ending June 30, 2011. 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 6/30/2010 (1)

	Actives	Disabled	Total
Disability Income	$242,973,432	$153,297,912	$396,271,344
Waiver of Premium	66,367,737	26,493,175	92,860,912
Administrative Expenses	14,384,364	8,360,286	22,744,650
Total	$323,725,532	$188,151,374	$511,876,906

1 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 6/30/2010[1]

	Actives	Disabled	Total
Present Value of Total Projected Benefits	$323,725,532	$188,151,374	$511,876,906
Present Value of Future Normal Cost	228,119,361	—	228,119,361
Actuarial Liability	$95,606,171	$188,151,374	$283,757,545

1 Totals may not match due to rounding.

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, 2010 is shown in the following table:

Actuarial Present Value of Total Projected Benefits[1]	
Active Members	$323,725,532
Disabled Members	188,151,374
Total Actuarial Present Value of Total Projected Benefits	$511,876,906
Assets and Future Employer Contributions	
Assets[2]	$12,750,759
Unfunded Actuarial Liability	271,006,786
Present Value of Future Normal Costs	228,119,361
Total Assets and Future Employer Contributions	$511,876,906

1 Totals may not match due to rounding.
2 Fair value.

ANNUAL REQUIRED CONTRIBUTION (ARC)

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

Annual Required Contribution for Fiscal Year Ending June 30, 2011

A.Employer Normal Costs	
(1) Normal Cost as of June 30, 2010	$23,471,864
(2) Assumed interest (mid-year timing assumed)	522,306
(3) Normal Cost for FY2011 [(1) + (2)]	$23,994,170
B. Determination of Current Year Amortization Payment	
(1) Unfunded Actuarial Liability	$271,006,786
(2) Amortization Period	15 years
(3) Amortization Factor	14.5079
(4) Amortization Amount as of June 30, 2010 [(1) / (3)]	18,679,946
(5) Assumed interest (mid-year timing assumed)	415,674
(6) Amortization Amount for FY2011 [(4) + (5)]	$19,095,620
C. Determination of Annual Required Contribution	
(1) Normal Cost for benefits attributable to service in the current year (A.3)	$23,994,170
(2) Amortization of Unfunded Actuarial Liability (B.6)	19,095,620
(3) Annual Required Contribution (ARC) [(1) + (2)]	$43,089,790
D. Annual Required Contribution	
(1) Annual Required Contribution	$43,089,790
(2) Estimated Annual Compensation for FY11	6,822,726,191
(3) ARC as a Percentage of Payroll	0.63%

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 Male	School Female	State Male	State Female	Local Male	Local 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[1] 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%

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

Rates of Termination

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

Retirement Rates

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	0.00044	0.00032	0.00078	0.00065	0.00046	0.00115
30	0.00046	0.00032	0.00081	0.00060	0.00043	0.00107
35	0.00059	0.00042	0.00104	0.00098	0.00070	0.00173
40	0.00087	0.00062	0.00153	0.00139	0.00099	0.00246
45	0.00151	0.00107	0.00266	0.00207	0.00148	0.00367
50	0.00244	0.00174	0.00432	0.00289	0.00206	0.00511
55	0.00409	0.00291	0.00723	0.00399	0.00284	0.00704
60	0.00587	0.00418	0.01038	0.00475	0.00338	0.00840
65	0.00625	0.00445	0.01104	0.00416	0.00296	0.00735
70	0.00698	0.00497	0.01234	0.00383	0.00273	0.00678

LTD 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	55%	75%	95%	145%
30-39	55%	75%	95%	145%
40-49	55%	75%	95%	145%
50-59	95%	135%	180%	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.

Other LTD Assumptions

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
Estimated Offsets:	Estimated approval rate of 55 percent to 75 percent for claims in first three years of disability that do not yet have offsets. Estimated offset amount of 60 percent of gross benefit.

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

Age at Disability	Claim Duration (Months)			
	1-12	13-24	25-60	61+
Under 30	55%	75%	95%	145%
30-39	55%	75%	95%	145%
40-49	55%	75%	95%	145%
50-59	95%	135%	180%	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.

Other Waiver Assumptions

Mortality	80 percent of 2005 Society of Actuaries Group Life Waiver Mortality Table, first 5 years of claim. 100 percent thereafter
Benefit Indexing	Historical indexing is based on actual retirement plan calculations. Indexing for 2006 and later uses a rate of 2.0 percent, which is equivalent to a 3 percent annual assumed increase in the consumer price index, less 1.0 percent as specified by the plan
Projected Future Claim Cost as percent of Payroll (used in cashflow projections)	0.09 percent in 2010-2011, which increases in future due to aging
IBNR	12.5 percent of expected claim cost for year

Experience – Death and Disability

As of June 30, 2010

Death Claims by Death Benefit Paid

	2008-2009		2009-2010	
Death Benefit Paid	Count	% of Claims	Count	% of Claims
0-9,999	0	0%	0	0%
10,000-19,999	11	9%	8	10%
20,000-29,999	14	11%	3	4%
30,000-39,999	15	12%	25	31%
40,000-49,999	26	20%	12	15%
50,000-59,999	17	13%	11	14%
60,000-69,999	7	5%	10	12%
70,000-79,999	14	11%	7	9%
80,000-89,999	12	9%	1	1%
90,000-99,999	1	1%	2	2%
100,000+	12	9%	2	2%
Total	129	100%	81	100%

Death Claims by Age at Death

	2008-2009		2009-2010	
Age at Death	Count	% of Claims	Count	% of Claims
20-29	0	0%	0	0%
30-39	1	1%	2	2%
40-49	20	16%	11	14%
50-59	58	45%	40	49%
60-64	39	30%	19	23%
65+	11	9%	9	11%
Total	129	100%	81	100%

Active LTD Claims by Age at Disability

	2008-2009		2009-2010	
Age at Disability	Count	% of Claims	Count	% of Claims
<20	1	0%	1	0%
20-29	83	3%	86	3%
30-39	476	16%	479	17%
40-49	1117	39%	1101	38%
50-59	1066	37%	1061	37%
60-64	118	4%	131	5%
65+	28	1%	23	1%
Total	2889	100%	2882	100%

Active LTD Claims by Attained Age

	2008-2009		2009-2010	
Attained Age	Count	% of Claims	Count	% of Claims
<20	0	0%	0	0%
20-29	8	0%	8	0%
30-39	94	3%	86	3%
40-49	548	19%	521	18%
50-59	1423	49%	1408	49%
60-64	739	26%	792	27%
65+	77	3%	67	2%
Total	2889	100%	2882	100%

Active LTD Claims by Net Benefit Amount

	2008-2009		2009-2010	
Net Monthly Benefit	Count	% of Claims	Count	% of Claims
0-499	1184	41%	1211	42%
500-999	940	33%	947	33%
1,000-1,499	456	16%	440	15%
1,500-1,999	181	6%	176	6%
2,000-2,499	76	3%	68	2%
2,500-2,999	30	1%	25	1%
3,000-3,499	11	0%	8	0%
3,500-3,999	6	0%	3	0%
4,000-4,499	2	0%	1	0%
4,500-4,999	1	0%	0	0%
5,000+	2	0%	3	0%
Total	2889	100%	2882	100%

New LTD Claims by Age at Disability

	2008-2009		2009-2010	
Age at Disability	Count	% of Claims	Count	% of Claims
<20	0	0%	0	0%
20-29	3	1%	6	2%
30-39	16	6%	21	7%
40-49	79	29%	70	23%
50-59	136	50%	158	52%
60-64	30	11%	44	14%
65+	8	3%	6	2%
Total	272	100%	305	100%

New LTD Claims by Attained Age

	2008-2009		2009-2010	
Attained Age	Count	% of Claims	Count	% of Claims
<20	0	0%	0	0%
20-29	1	0%	4	1%
30-39	12	4%	22	7%
40-49	73	27%	58	19%
50-59	132	49%	153	50%
60-64	44	16%	62	20%
65+	10	4%	6	2%
Total	272	100%	305	100%

New LTD Claims by Net Benefit Amount

Net Benefit	2008-2009 Count	2008-2009 % of Claims	2009-2010 Count	2009-2010 % of Claims
0-499	109	40%	115	38%
500-999	57	21%	72	24%
1,000-1,499	48	18%	63	21%
1,500-1,999	26	10%	32	10%
2,000-2,499	22	8%	15	5%
2,500-2,999	6	2%	6	2%
3,000-3,499	3	1%	0	0%
3,500-3,999	1	0%	1	0%
4,000-4,499	0	0%	0	0%
4,500-4,999	0	0%	0	0%
5,000+	0	0%	1	0%
Total	272	100%	305	100%

Terminated LTD Claims by Term Reason

Term Reason	2008-2009 Count	2008-2009 % of Claims	2009-2010 Count	2009-2010 % of Claims
Death	141	30%	101	26%
Recovery	65	14%	37	9%
Retirement	236	49%	215	55%
Expiry	35	7%	38	10%
Total	477	100%	391	100%

Actuarial Methods

ACTUARIAL COST METHOD

The actuarial cost method determines, in a systematic way, the incidence of employer contributions required to provide plan benefits. It also determines how actuarial gains and losses are recognized in Plan costs. These gains and losses result from the difference between the actual experience under the plan and the experience predicted by the actuarial assumptions.

The cost of the Plan is derived by making certain specific assumptions as to rates of interest, disability, mortality, turnover, etc. which are assumed to hold for many years into the future. Since actual experience may differ somewhat from the long term assumptions, the costs determined by the valuation must be regarded as estimates of the true costs of the Plan.

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 fair value.

Plan Provisions Overview

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:

CURRENTLY ACTIVE MEMBERS OF KPERS.

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

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 of the LTD Benefit

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 disability 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 of the Group Life Waiver of Premium Benefit

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.

Short Term Solvency Test-Death and Disability Plan

Last six fiscal years

	Disabled Employer Financed Portion (A)	Active Member Employer Financed Portion (B)	Actuarial Value of Assets	Portion of Accrued Liabilities Covered by Assets
06/30/06	$239,753,827	$114,396,152	$18,723,957	5.3%
06/30/07	237,913,406	117,815,215	25,567,653	7.2
06/30/08[1]	231,282,196	123,777,984	38,570,957	10.9
06/30/10	188,151,374	95,606,171	12,750,759	4.5

1 Starting June 30,2008 the KPERS Death and Disability Benefits Program valuation will be performed biennally.

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 member contributions on deposit, (B) the liability for future benefits to present disabled lives, and (B) the actuarial liability for service already rendered by active members. The Death and Disability Plan requires no member contributions, it is funded by employer contributions.

Statistical Section

Statistical Highlights of the System's Financial Trends

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 133 provide revenues, expenses and funding status information for the past ten fiscal years for KPERS and Death and Disability (OPEB) plans. On page 131 a schedule is presented that allocates the total benefits and type of refunds that were paid. On pages 134 through 136 various schedules are presented to depict the level of monthly benefits by number of retirees, retirement type and options, and years of service. On pages 137 and 138, 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 Member	Contributions Employer	Contributions Employer Insurance (OPEB)	Misc	Net Investment Income (KPERS)	Net Investment Income (OPEB)	Total
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	(1,827,865,369)
2010	289,616,027	492,005,566	29,549,494[4]	101,899	1,485,935,124	32,381	2,297,240,491
2011	294,314,002	525,726,734	48,911,197[4]	190,770	2,499,472,278	18,333	3,368,633,314
2012	298,105,053	568,015,364	49,620,870[5]	202,558	89,045,782	10,852	1,005,000,479

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 and April 1, 2011 through June 30, 2011.

5 Per 2012 legislation,employers were not required to remit the Group Life and Disability Insurance portion of required employer contributions from April 1, 2012 through June 30, 2012.

Schedule of 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)
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
2011	1,143,594,256	3,615,016	9,614,688	43,579,892	5,984,123	6,752,185	46,753,126
2012	1,234,350,781	3,209,117	9,414,234	49,665,542	6,231,284	6,128,984	49,040,446

Expenses by Type

Last ten fiscal years

		Refund of Contributions						
Fiscal Year	Benefits	Separations	Death	Insurance	Administration (Retirement)	Insurance (OPEB)	Administration (OPEB)[1]	Total
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
2011	1,156,823,960	43,579,892	5,984,123	6,752,185	9,261,262	46,753,126	363,357	1,269,517,905
2012	1,246,974,132	49,665,542	6,231,284	6,128,984	9,693,869	49,040,446	307,177	1,368,041,434

1 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 six fiscal years[1]

	2012	2011	2010	2009	2008	2007
Additions						
Contributions						
Member Contributions	$298,105,053	$294,314,002	$289,616,027	$278,619,872	$269,603,155	$256,995,275
Employer Contributions	568,015,364	525,726,734	492,005,566	449,235,653	395,752,213	339,509,022
Total Contributions	866,120,417	820,040,736	781,621,593	727,855,525	665,355,368	596,504,297
Investments						
Net Appreciation in Fair Value of Investments	(132,729,256)	2,211,302,374	1,221,425,633	(2,824,249,931)	(1,012,601,549)	1,816,702,680
Interest	103,584,321	158,120,734	160,050,212	152,897,354	211,727,774	195,092,153
Dividends	110,902,858	123,098,602	105,808,081	91,464,527	137,983,566	136,434,906
Real Estate Income, Net of Operating Expenses	44,259,544	48,997,734	37,551,411	31,062,438	40,288,418	39,114,763
Other Investment Income	436,311	388,174	216,499	264,000	264,000	261,734
	126,453,778	2,541,907,618	1,525,051,836	(2,548,561,612)	(622,337,791)	2,187,606,236
Less Investment Expense	(42,225,663)	(47,586,288)	(43,748,173)	(23,376,342)	(31,029,901)	(30,249,368)
Net Investment Income	84,228,115	2,494,321,330	1,481,303,663	(2,571,937,954)	(653,367,692)	2,157,356,868
From Securities Lending Activities						
Securities Lending Income	4,353,102	5,431,118	5,372,538	(8,838,220)	95,645,344	125,998,402
Securities Lending Expenses						
Borrower Rebates	1,769,773	739,912	(48,804)	(10,469,638)	(89,471,546)	(120,938,041)
Management Fees	(1,305,208)	(1,020,082)	(692,273)	(1,309,509)	(2,870,760)	(1,003,820)
Total Securities Lending Activities Expense	464,565	(280,170)	(741,077)	(11,779,147)	(92,342,306)	(121,941,861)
Net Income from Security Lending Activities	4,817,667	5,150,948	4,631,461	(20,617,367)	3,303,038	4,056,541
Total Net Investment Income	89,045,782	2,499,472,278	1,485,935,124	(2,592,555,321)	(650,064,654)	2,161,413,409
Other Miscellaneous Income	200,644	174,430	74,088	110,178	136,955	132,874
Total Additions (Net Reductions) to Plan Net Assets	955,366,843	3,319,687,444	2,267,630,805	(1,864,589,618)	15,427,669	2,758,050,580
Deductions						
Monthly Retirement Benefits Paid	(1,237,559,898)	(1,147,209,272)	(1,060,205,818)	(999,939,614)	(945,704,657)	(868,179,029)
Refunds of Contributions	(55,896,826)	(49,564,015)	(43,362,690)	(43,929,423)	(48,472,690)	(46,129,211)
Death Benefits	(9,414,234)	(9,614,688)	(8,959,388)	(9,237,740)	(8,388,935)	(9,153,582)
Insurance Premiums and Disability Benefits	(6,128,984)	(6,752,185)	(7,035,185)	(6,946,461)	(6,824,361)	(6,382,962)
Administrative Expenses	(9,693,869)	(9,261,260)	(10,158,398)	(11,085,498)	(9,253,050)	(8,552,925)
Total Deductions to Plan Net Assets	(1,318,693,811)	(1,222,401,420)	(1,129,721,480)	(1,071,138,736)	(1,018,643,693)	(938,397,709)
Change in Net Assets	$(363,326,968)	$2,097,286,025	$1,137,909,326	$(2,935,728,354)	$(1,003,216,024)	$1,819,652,871

1 Information available for current and prior five fiscal years.

Changes in Net Assets - Death and Disability Plan

Last six fiscal years[1]

Additions	2012	2011	2010	2009	2008	2007
Contributions						
Employer Contributions	$49,620,870	$48,911,197	$29,549,494	$36,334,585	$62,400,370	$59,308,991
Total Contributions	49,620,870	48,911,197	29,549,494	36,334,585	62,400,370	59,308,991
Investments						
Interest	10,852	18,333	36,229	351,362	968,222	668,063
Less Investment Expense	0	(114)	(3,848)	(5,630)	(6,550)	(6,239)
Net Investment Income	10,852	18,219	32,381	345,732	961,672	(6,239)
Total Net Investment Income	10,852	18,219	32,381	345,732	961,672	(6,239)
Other Miscellaneous Income	1,914	16,340	27,811	43,935	88,781	96,112
Total Additions (Net Reductions) to Plan Net Assets	49,633,636	48,945,756	29,609,686	36,724,252	63,450,823	59,398,864
Deductions						
Insurance Premiums and Disability Benefits (OPEB)	(49,040,446)	(46,753,126)	(43,746,954)	(47,356,797)	(49,893,770)	(49,202,924)
Administrative Expenses	(307,177)	(363,243)	(375,792)	(361,887)	(350,076)	(334,380)
Total Deductions to Plan Net Assets	(49,347,623)	(47,116,369)	(44,122,746)	(47,718,684)	(50,243,846)	(49,537,304)
Change in Net Assets	$286,013	$1,829,387	$(14,513,060)	$(10,994,432)	$13,206,977	$9,861,560

1 Information available for current and prior five fiscal years.

Benefit and Refund Deductions from Net Assets by Type

For the Fiscal Year Ended June 30, 2012 with Comparative Figures for 2011, 2010, 2009, 2008, 2007 and 2006[1]

Type of Benefit	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2009	June 30, 2008	June 30, 2007	June 30, 2006
Age and service benefits:							
Retirees	$1,180,214,270	$1,092,518,456	$1,008,271,726	$950,746,107	$898,910,097	$823,994,836	$763,960,585
Survivors	57,345,628	54,690,816	51,934,092	49,193,507	46,794,560	44,184,193	42,018,147
Death in service benefits	9,414,234	9,614,688	8,959,388	9,237,740	8,388,935	9,153,582	8,810,923
Insurance Premiums	6,128,984	6,752,185	7,035,185	6,946,461	6,824,361	6,383,962	5,973,688
Insurance Premiums and Disability benefits (OPEB)	49,040,446	46,753,126	43,746,954	47,356,797	49,893,770	49,202,924	48,984,269
Total Benefits	$1,302,143,562	$1,210,329,271	$1,119,947,345	$1,063,480,612	$1,010,811,723	$932,919,497	$869,747,612
Type of Refund							
Death	$6,231,284	$5,984,123	$6,147,736	$5,773,422	$5,275,097	$5,496,510	$6,197,596
Separation	49,665,542	43,579,892	37,214,954	38,156,001	43,197,593	40,632,701	40,628,580
Total Refunds	$55,896,826	$49,564,015	$43,362,690	$43,929,423	$48,472,690	$46,129,211	$46,826,176

1 Information only available for current year and prior six years.

Highlight of Operations - 10-Year Summary

	2012	2011	2010	2009	2008
Membership Composition					
Number of Retirants [1]	74,665	70,349	67,219	64,803	61,489
Number of Survivors [2]	6,360	6,149	5,945	5,764	5,613
New Retirants During the Fiscal Year	6,941	6,245	5,188	4,893	4,780
Active and Inactive Members [1]	200,732	202,150	204,155	197,822	195,187
Participating Employers	1,504	1,511	1,499	1,492	1,482
Financial Results (in millions)					
Member Contributions	$298	$294	$290	$279	$270
Employer Contributions [3]	618	575	522	486	458
Retirement / Death Benefits	1,247	1,157	1,069	1,009	954
Investment Income [4]	89	2,499	1,486	(2,592)	(649)
Employer Contribution Rate [5]					
KPERS--State / School	9.77%	9.17%	8.57%	7.97%	7.37%
KPERS--Local [6]	8.34	7.74	7.14	6.54	5.93
KP&F (Uniform Participating) [6]	16.54	14.57	12.86	13.51	13.88
Judges	21.68	19.89	20.90	22.08	22.38
TIAA	—	—	—	—	—
Unfunded Actuarial Liability (in millions)					
KPERS--State / School	$6,920	$6,244	$5,805	$6,240	$4,312
KPERS--Local	1,542	1,395	1,315	1,385	941
KP&F	739	598	530	619	284
Judges	27	27	26	36	15
TIAA [7]	—	—	—	—	—
Funding Ratios [8]					
KPERS--State / School	56.80%	59.90%	61.60%	57%	68.60%
KPERS--Local	61.20	63.20	63.70	59.00	70.10
KP&F	69.80	74.20	76.20	70.50	85.50
Judges	82.50	82.50	82.30	74.60	88.70
TIAA	—	—	—	—	—

1 Membership information taken from System's actuarial valuation.

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

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

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

5 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 and from April 1, 2011 through June 30, 2011. Per 2012 legislation,employers were not required to remit the Group Life and Disability portion of the Actual Rate from April 1, 2012 through June 30, 2012.

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

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

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

Highlight of Operations - 10-Year Summary

	2007	2006	2005	2004	2003
Membership Composition					
Number of Retirants [1]	60,166	57,954	61,125	59,124	57,597
Number of Survivors [2]	5,599	5,394	—	—	—
New Retirants During the Fiscal Year	4,423	4,452	4,141	3,612	3,585
Active and Inactive Members [1]	192,307	190,305	189,020	189,460	187,698
Participating Employers	1,474	1,474	1,461	1,454	1,442
Financial Results (in millions)					
Member Contributions	$257	$246	$233	$230	$225
Employer Contributions [3]	399	352	294	714	231
Retirement / Death Benefits	877	815	745	686	654
Investment Income [4]	2,162	1,354	1,223	1,336	326
Employer Contribution Rate [5]					
KPERS--State / School	6.77%	6.07%	5.47%	4.58%	4.98%
KPERS--Local [6]	5.31	4.61	4.01	3.22	3.67
KP&F (Uniform Participating) [6]	13.32	12.39	11.69	9.47	6.86
Judges	19.11	21.97	19.22	16.67	12.66
TIAA	—	—	—	—	2.27
Unfunded Actuarial Liability (in millions)					
KPERS--State / School	$4,135	$3,926	$3,584	$2,734	$2,239
KPERS--Local	893	869	824	588	340
KP&F	322	341	313	249	232
Judges	15	17	22	15	17
TIAA [7]	—	—	—	—	—
Funding Ratios [8]					
KPERS--State / School	67.50%	67.21%	68.60%	74.07%	75.64%
KPERS--Local	68.80	67.38	67.30	73.69	81.71
KP&F	82.40	80.46	81.10	84.04	84.16
Judges	87.40	85.02	80.10	84.92	82.21
TIAA	—	—	—	—	—

1 Membership information taken from System's actuarial valuation.

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

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

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

5 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 and from April 1, 2011 through June 30, 2011. Per 2012 legislation,employers were not required to remit the Group Life and Disability portion of the Actual Rate from April 1, 2012 through June 30, 2012.

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

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

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

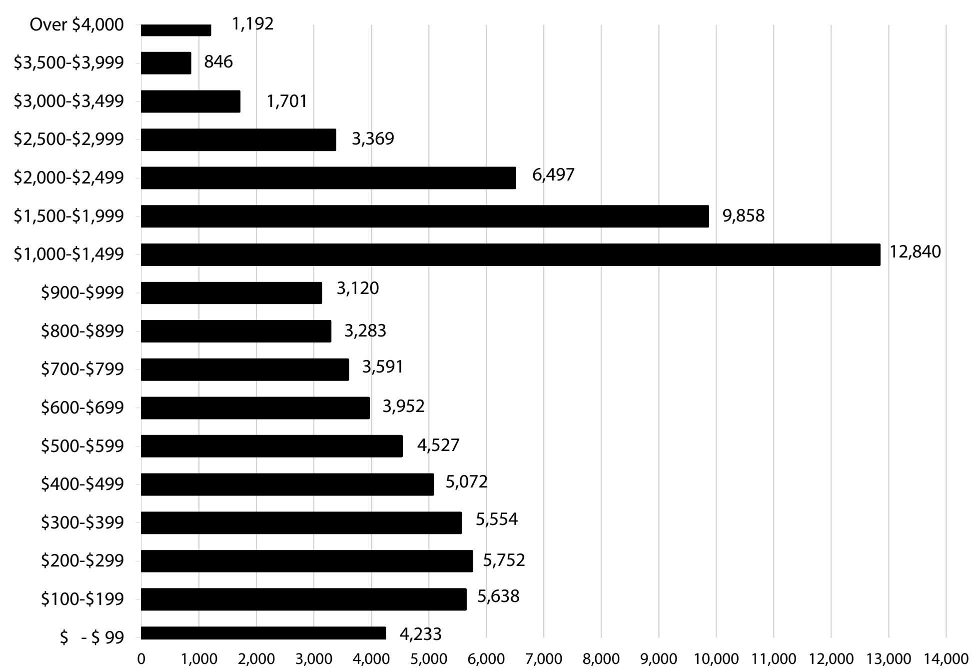
Number of Retired Members and Survivors by Type of Benefit

as of December 31, 2011

Monthly Benefit	Number of Retirees	Normal Retirement	Early Retirement	Service-Connected Death or Disability	Nonservice-Connected Death or Disability
$ - 99	4,233	3,869	354	6	4
$100-199	5,638	3,730	1,862	38	8
$200-299	5,752	3,341	2,368	39	4
$300-399	5,554	3,254	2,247	36	17
$400-499	5,072	3,033	1,986	39	14
$500-599	4,527	2,844	1,642	28	13
$600-699	3,952	2,549	1,359	28	16
$700-799	3,591	2,387	1,162	34	8
$800-899	3,283	2,305	922	49	7
$900-999	3,120	2,347	717	39	17
$1,000-1,499	12,840	10,920	1,643	204	73
$1,500-1,999	9,858	9,283	360	129	86
$2,000-2,499	6,497	6,295	101	55	46
$2,500-2,999	3,369	3,265	53	19	32
$3,000-3,499	1,701	1,642	31	14	14
$3,500-3,999	846	827	6	11	2
$4,000 or More	1,192	1,164	23	4	1
Totals	81,025	63,055	16,836	772	362

Number of Retired Members and Survivors by Monthly Benefit Amount

as of December 31, 2011



Number of Retired Members and Survivors by Type of Payment Option

as of December 31, 2011

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	3,378	267	399	48	34	4	32	71
$100-199	4,034	578	675	97	99	28	29	98
$200-299	4,095	627	715	89	130	13	26	57
$300-399	3,855	608	732	75	151	40	25	68
$400-499	3,535	569	665	78	133	34	12	46
$500-599	3,122	518	591	51	143	29	20	53
$600-699	2,705	443	528	58	128	38	14	38
$700-799	2,428	440	457	46	135	32	16	37
$800-899	2,139	463	430	44	131	38	11	27
$900-999	2,004	490	399	39	125	32	11	20
$1,000-1,499	7,977	2,033	1,660	141	719	187	40	83
$1,500-1,999	6,236	1,659	1,079	62	630	117	26	49
$2,000-2,499	4,228	1,122	609	47	400	53	21	17
$2,500-2,999	2,130	609	315	30	248	21	9	7
$3,000-3,499	1,061	319	168	12	122	10	3	6
$3,500-3,999	507	154	94	5	75	7	1	3
$4,000 or More	601	286	163	8	131	0	1	2
Totals	54,035	11,185	9,679	930	3,534	683	297	682

Average Benefit by Years of Service - Five-Year Summary[1]

New Retirees by Calendar Year

Service Credit		2007	2008	2009	2010	2011
Less Than 5	Retired Members	213	203	262	263	305
	Average FAS	$23,028.60	$24,286.91	$21,194.51	$23,919.51	$24,025.35
	Average Benefit	$115.70	$130.90	$110.58	$93.25	$104.10
	Average Years	2.75	2.67	2.56	2.65	2.82
5-9.99	Retired Members	369	341	347	435	460
	Average FAS	$27,678.21	$27,224.87	$27,718.33	$28,869.68	$30,982.85
	Average Benefit	$262.41	$277.67	$300.13	$292.23	$312.36
	Average Years	7.70	7.73	7.66	7.75	7.76
10-14.99	Retired Members	739	736	713	877	1,036
	Average FAS	$30,848.84	$32,265.54	$32,669.13	$33,333.42	$35,236.86
	Average Benefit	$452.70	$471.14	$484.31	$478.88	$507.92
	Average Years	12.25	12.19	12.18	12.14	12.23
15-19.99	Retired Members	670	765	706	822	972
	Average FAS	$36,089.59	$37,387.87	$37,154.28	$39,884.61	$39,410.16
	Average Benefit	$782.89	$783.99	$800.55	$830.36	$837.31
	Average Years	17.43	17.40	17.39	17.30	17.30
20-24.99	Retired Members	621	730	685	819	988
	Average FAS	$40,199.79	$41,860.17	$43,734.53	$44,677.45	$45,174.03
	Average Benefit	$1,103.23	$1,154.33	$1,284.91	$1,238.44	$1,236.79
	Average Years	22.21	22.34	22.45	22.23	22.37
25-29.99	Retired Members	806	754	763	852	1,026
	Average FAS	$46,579.86	$49,038.10	$48,788.05	$50,662.87	$52,267.39
	Average Benefit	$1,661.34	$1,738.41	$1,726.15	$1,775.08	$1,839.53
	Average Years	27.50	27.47	27.42	27.35	27.30
30-34.99	Retired Members	853	751	771	926	1,056
	Average FAS	$52,495.79	$54,546.48	$55,828.21	$57,899.34	$57,115.11
	Average Benefit	$2,129.22	$2,227.64	$2,337.01	$2,418.71	$2,373.81
	Average Years	32.03	32.06	31.94	32.03	32.14
35-39.99	Retired Members	295	270	316	401	468
	Average FAS	$55,511.76	$56,508.71	$60,485.97	$60,225.79	$58,272.80
	Average Benefit	$2,457.18	$2,541.95	$2,763.31	$2,710.63	$2,650.18
	Average Years	36.97	37.03	37.06	36.92	37.07
40-44.99	Retired Members	65	67	63	143	144
	Average FAS	$52,419.96	$53,281.02	$58,960.07	$61,221.12	$59,078.25
	Average Benefit	$2,670.39	$2,862.03	$3,235.13	$2,964.44	$3,080.72
	Average Years	41.74	41.84	41.63	41.72	41.78
45-49.99	Retired Members	5	6	7	8	15
	Average FAS	$48,951.13	$42,007.13	$53,159.68	$59,155.97	$59,128.20
	Average Benefit	$2,441.43	$2,464.83	$2,647.02	$2,926.19	$2,936.16
	Average Years	45.90	48.17	45.82	46.31	46.47
50 and Over	Retired Members	2	2	9	4	3
	Average FAS	$46,757.32	$37,202.08	$47,291.16	$71,532.67	$82,670.19
	Average Benefit	$2,000.50	$3,535.44	$2,662.89	$4,209.75	$4,305.29
	Average Years	51.13	56.50	54.06	56.06	52.08
Total Number	Retired Members	4,638	4,625	4,642	5,550	6,473
	Average FAS	$40,858.89	$41,992.17	$42,772.08	$44,667.14	$45,091.55
	Average Benefit	$1,236.65	$1,252.78	$1,327.48	$1,364.27	$1,370.68
	Average Years	21.86	21.57	21.62	21.89	21.97

1 Average Final Average Salary
Source: Data provided by KPERS Information Resources and Member Services divisions.

Principal Participating Employers[1]

Participating Government	2012 Covered Employees	2012 Rank	2012 % of Total System	2011 Covered Employees	2011 Rank	2011 % of Total System	2010 Covered Employees	2010 Rank	2010 % of Total System
State of Kansas	25,382	1	16%	27,066	1	17%	26,735	1	17%
USD 259, Wichita	6,542	2	4%	6,749	2	4%	6,861	2	4%
USD 233, Olathe	4,185	3	3%	4,082	3	3%	4,339	3	3%
USD 512, Shawnee Mission	3,705	4	2%	3,837	4	2%	4,005	4	2%
USD 500, Kansas City	3,191	5	2%	3,165	5	2%	3,178	5	2%
Johnson County	3,098	6	2%	2,633	7	2%	2,706	7	2%
USD 229, Blue Valley	3,014	7	2%	2,977	6	2%	2,957	6	2%
USD 501, Topeka Public Schools	2,336	8	2%	2,341	8	1%	2,466	8	2%
Sedgwick County	2,605	9	2%	2,256	9	1%	2,298	9	1%
USD 497, Lawrence	1,627	10	1%	1,595	10	1%	1,715	10	1%
All Other[2]	99,369		64%	102,004		64%	104,291		65%
Total (1,504 employers)	155,054		100%	158,705		100%	161,551		100%

Participating Government	2009 Covered Employees	2009 Rank	2009 % of Total System	2008 Covered Employees	2008 Rank	2008 % of Total System	2007 Covered Employees	2007 Rank	2007 % of Total System
State of Kansas	25,775	1	16%	25,299	1	16%	25,069	1	17%
USD 259, Wichita	6,850	2	4%	6,748	2	4%	6,590	2	4%
USD 233, Olathe	4,625	3	3%	4,307	3	3%	4,277	3	3%
USD 512, Shawnee Mission	4,167	4	3%	4,128	4	3%	4,007	4	3%
USD 500, Kansas City	3,324	5	2%	3,337	5	2%	3,334	5	2%
Johnson County	2,476	8	2%	3,137	6	2%	3,002	6	2%
USD 229, Blue Valley	2,983	6	2%	2,930	7	2%	2,809	7	2%
USD 501, Topeka Public Schools	2,529	7	2%	2,548	8	2%	2,469	8	2%
Sedgwick County	1,847	9	1%	2,313	9	1%	2,309	9	2%
USD 497, Lawrence	1,766	10	1%	1,712	10	1%	1,692	10	1%
All Other[2]	100,723		64%	98,231		64%	95,891		63%
Total (1,504 employers)	157,065		100%	154,690		100%	151,449		100%

Participating Government	2006 Covered Employees	2006 Rank	2006 % of Total System
State of Kansas	25,134	1	17%
USD 259, Wichita	6,546	2	4%
USD 233, Olathe	4,155	3	3%
USD 512, Shawnee Mission	3,968	4	3%
USD 500, Kansas City	3,436	5	2%
Johnson County	3,229	6	2%
USD 229, Blue Valley	2,770	7	2%
USD 501, Topeka Public Schools	2,544	8	2%
Sedgwick County	2,434	9	2%
USD 497, Lawrence	1,736	10	1%
All Other[2]	93,121		62%
Total (1,504 employers)	149,073		100%

1 Information only available for current and prior six years.

2 In 2012, "All Other" consisted of:

Type	Number	Covered Employees
School districts	272	48,257
Cities and Counties	541	27,839
Post-Secondary Education 3	48	11,359
Other	633	11,914
	1,494	99,369

3 Post-Secondary Education does not include State Board of Regents institutions.

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

Principal Participating Employers-Death and Disability Plan[1]

	2012			2011			2010		
Participating Government	Covered Employees	Rank	% of Total System	Covered Employees	Rank	% of Total System	Covered Employees	Rank	% of Total System
State of Kansas	32,085	1	21%	37,904	1	24%	37,756	1	23%
USD 259, Wichita	6,542	2	4%	6,749	2	4%	6,861	2	4%
USD 233, Olathe	4,185	3	3%	4,082	3	3%	4,339	3	3%
USD 512, Shawnee Mission	3,705	4	2%	3,837	4	2%	4,005	4	2%
USD 500, Kansas City	3,191	5	2%	3,165	5	2%	3,178	5	2%
USD 229, Blue Valley	3,014	6	2%	2,977	6	2%	2,957	6	2%
Johnson County	2,488	7	2%	2,633	7	2%	2,706	7	2%
USD 501, Topeka Public Schools	2,336	8	2%	2,341	8	1%	2,466	8	1%
Sedgwick County	2,082	9	1%	2,256	9	1%	2,298	9	1%
USD 497, Lawrence	1,627	10	1%	1,595	10	1%	1,715	10	1%
All Other[2] (1,409 employers)	94,058		61%	90,319		57%	97,393		59%
Total	155,313		100%	157,858		100%	165,674		100%

	2009			2008			2007		
Participating Government	Covered Employees	Rank	% of Total System	Covered Employees	Rank	% of Total System	Covered Employees	Rank	% of Total System
State of Kansas	38,230	1	23%	40,431	1	25%	37,871	1	24%
USD 259, Wichita	6,850	2	4%	6,748	2	4%	6,590	2	4%
USD 233, Olathe	4,625	3	3%	4,307	3	3%	4,277	3	3%
USD 512, Shawnee Mission	4,167	4	3%	4,128	4	3%	4,007	4	3%
USD 500, Kansas City	3,324	5	2%	3,337	5	2%	3,334	5	2%
USD 229, Blue Valley	2,983	7	2%	2,930	7	2%	2,809	7	2%
Johnson County	2,476	6	2%	3,137	6	2%	3,002	6	2%
USD 501, Topeka Public Schools	2,529	8	2%	2,548	8	2%	2,469	8	2%
Sedgwick County	1,847	9	1%	2,313	9	1%	2,309	9	1%
USD 497, Lawrence	1,766	10	1%	1,712	10	1%	1,692	10	1%
All Other	94,685		58%	92,321		56%	90,826		57%
Total	163,482		100%	163,912		100%	159,186		100%

1 Information available for years 2012 and prior five years.
State of Kansas includes Board of Regents

2 In 2012, "All Other" consisted of:

Type	Number	Covered Employees
School districts	272	48,257
Cities and Counties	448	22,528
Post-Secondary Education 3	48	11,359
Other	631	11,914
	1,399	94,058

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

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.

KPERS