Safeguarding the financial future of our members

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

Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2006

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Kansas Public Employees Retirement System

A component unit of the State of Kansas

Fiscal Year Ended June 30, 2006

Prepared by KPERS staff

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Topeka, KS 66603-3803

Glenn Deck, Executive Director

Leland Breedlove, Chief Fiscal Officer

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

Kansas Public Employees Retirement System

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2005

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

President

Executive Director

AD ASTRA PER ASPERA

KANSAS

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM KATHLEEN SEBELIUS, GOVERNOR

December 13, 2006

Dear Board Trustees and Members:

It is with a commitment to openness and accountability that I am pleased to present the Kansas Public Employees Retirement System's 2006 Annual Financial Report. In addition to informing our Board of Trustees, members and employers, this presentation fulfills KPERS reporting responsibilities as defined in Kansas statute 74-4907 and 45-215 et seq. as amended. Consequently, the report has been sent to the Governor, Chairperson of the Legislative Coordinating Council, Secretary of the Senate and the Chief Clerk of the House of Representatives. Printed copies are readily available to the public as well as a full version is posted on our web site.

Responsibility for the preparation, accuracy and completeness of this report, including all disclosures, rests firmly with the Retirement System's management.

Internal Controls and Independent Audit

Our operating results and financial position are presented in accordance with accounting principles generally accepted in the United States of America. 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's management utilizes a system of adequate internal accounting controls designed to protect assets and provide reasonable assurance regarding financial record reliability. We also have an internal audit program that reports to the Board of Trustee's Audit Committee.

In addition to internal controls, the independent certified public accounting firm Berberich Trahan & Co., PA, conducted an independent audit of the Retirement System.

Management's Discussion and Analysis

While this letter provides the big picture of the Retirement System, the Management's Discussion and Analysis beginning on page 17 and the subsequent notes provide a more detailed overview and analysis of our financial activities over the past two fiscal years. This letter is intended to complement the MD&A and they should be read together.

Who We Serve

The Kansas Legislature created the Kansas Public Employees Retirement System in 1962 to build a financial retirement foundation for those spending their careers in Kansas public service. The dedicated staff at KPERS has spent the last 40 plus years working to provide the means for public servants to retire after a lifetime of service and contribution. In addition to retirement benefits, the Retirement System also administers various disability and life insurance benefits.

Our membership includes people from all walks of life in a variety of jobs. The State of Kansas provides KPERS benefits for all state employees, all Kansas school districts, and most municipalities and counties across Kansas participate as well. Our membership totals just over 250,000, including 148,000 active members, 41,000 inactive members and more than 61,000 retirees among 1,450 participating employers. That is approximately 1 in every 12 Kansans. The estimated annual economic impact of benefit payments on the state is over $800 million.

How We Are Structured

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.

KPERS Board of Trustees 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.

System Funding and Financial Position

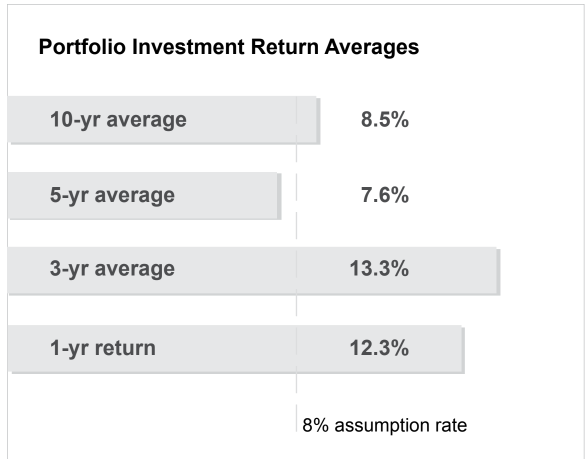
During the last fiscal year, KPERS' overall funded ratio was 69 percent as calculated by our actuary, Milliman USA. The funded ratio is the ratio of actuarial assets to actuarial liabilities. Unfunded actuarial liability (UAL) is the difference or gap between actuarial value of assets and actuarial liability for service already performed by public employees. Current Kansas law provides that this unfunded actuarial liability will be amortized over a 40-year period, which began July 1, 1993.

Over the last five years, KPERS has partnered with the Kansas Legislature and Governor to address the Retirement System's funding shortfall and to develop a comprehensive long-term funding plan. Key steps have been taken as part of this plan with positive results, including scheduling a series of employer contribution rate increases, issuing pension obligation bonds, and making actuarial changes. With recent funding improvements, KPERS is in actuarial balance, but significant challenges remain. Any future investment returns below our 8 percent investment target will significantly impact projections. In addition, the UAL will continue to increase until statutory employer rates catch up with actuarially-required contribution (ARC) rates. The State group is projected to reach the required rate in 2010, the Local group in 2014 and the School group in 2019.

In light of long-term funding issues and changing member demographics, KPERS is working with the Legislature's Joint Committee on Pensions, Investments and Benefits to examine plan design alternatives for *future* members. While plan design changes for future employees will not significantly impact reaching the ARC, a new plan design could significantly lower liabilities and contributions beginning in approximately 20 years. Legislation is needed to make any plan changes. The Joint Committee continues to study the issue and may introduce legislation in the 2007 session.

Investments

On average, investment income funds about 70 percent of Retirement System benefits. Positive investment returns over time are critical to solid funding. The System's investment return rate was 12.3 percent for fiscal year 2006, exceeding our long-term actuarial target of 8 percent. Over the past decade, KPERS has a ten-year annual return average of 8.5 percent.



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

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Retirement System, for the comprehensive annual financial report for the fiscal year that ended June 30, 2005. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

To be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which must conform to program standards. The comprehensive annual financial report must satisfy both generally accepted accounting principles and applicable legal requirements. The Retirement System has received the Certificate of Achievement for each of the last 12 consecutive fiscal years. We believe our current report again conforms to the program requirements, and we will submit it to the GFOA for consideration.

Accomplishments for Fiscal Year 2006

This brief highlight of our accomplishments illustrates how we have managed challenges and capitalized on opportunties, while focusing on our most important charge – providing benefits for those who spend their careers in Kansas public service.

Over the last fiscal year, the Retirement System:

- Distributed almost 775,000 retirement payments totaling approximately $805 million.
- Managed an 11 percent increase in retirements with 99 percent of the initial payments made on time without additional staff.
- Began a new distribution process that increased member statement confidentiality.
- Implemented the first two project phases for a new information system, on time and on budget.
- Transitioned to a new disability plan design with an increased focus on rehabilitation.
- Met or exceeded investment return benchmarks in seven of the eight portfolios.
- Held employer focus groups to gather perceptions and opinions for upcoming projects.
- Conducted 206 statewide group presentations and member education seminars.
- Answered over 90,000 calls in our customer call center and responded to nearly 11,000 e-mails.

When compared with other public pension plans in the February 2006 CEM Pension Administration Benchmarking Survey, KPERS cost per member was the lowest. KPERS $35 per member measured favorably against the median of $70 per member of the other systems. In spite of our low cost, KPERS measured well for service. KPERS service score was 78 versus the median score of 79.

During this fiscal year, we also completed a new version of KPERS' strategic business plan, outlining our strategic initiatives to meet the System's goals for the next five years. Our most important initiative is to improve the System's financial health by promoting actuarial soundness with a long-term perspective. In addition to funding challenges, our membership demographics and staffing patterns will change significantly with the impending retirements of the Baby Boom generation and overall population aging. We will need to make special efforts to maintain high standards of customer service in the face of significant membership growth. Our updated plan reflects our continuing commitment to meet the diverse and ever-changing needs of our members and employers.

Acknowledgements

I would like to take this opportunity to acknowledge the KPERS Board of Trustees for its dedication to the financial health and integrity of the System. Our trustees have a wide range of expertise and experience which uniquely qualifies them to chart our course. Their unwavering support enables staff to successfully accomplish our mission.

I would also like to recognize the contributions of our experienced and dedicated staff. Day in and day out they keep the best interest of our members front and center, while striving to provide excellent service and meet our fiduciary responsibilities.

Although they are not direct members of KPERS staff, KPERS could not work effectively without the designated agents from participating employers. They provide a vital link in communication with members. An effective designated agent is an asset both to the Retirement System and the employees he or she serves.

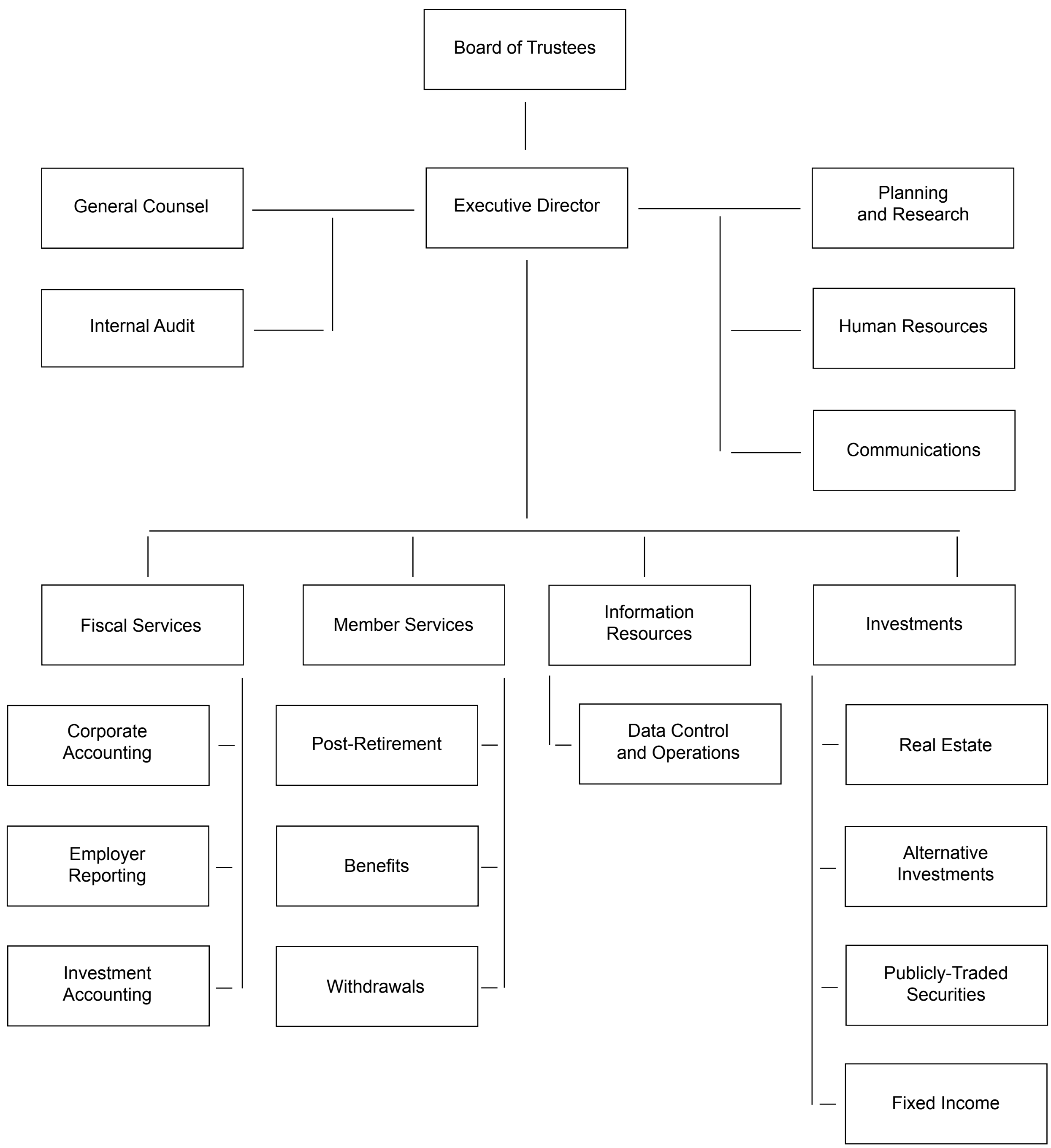
Thank you for a successful year.

Sincerely,

Glenn Deck
Executive Director

Board of Trustees

Organization Chart



A list of KPERS consultants and investment advisors is found on page 123.

Values That Guide Us

Service	We strive to provide excellent service that is timely, accurate, thorough and accessible. Members and employers should receive the best service possible.
Integrity	We conduct business in an honest, ethical and fair environment. We adhere to the highest standards of professional and ethical conduct.
Respect	We acknowledge that our dedicated employees are essential to our success. We value the unique contributions of individuals and encourage mutual respect, civility, diversity and personal development.
Accountability	We take ownership and responsibility for our actions and their results. We are fiscally responsible and performance oriented.
Innovation	We seek creative solutions to long-range situations and everyday issues. We are willing to embrace change and consider new ideas.
Teamwork	We work together to achieve common goals. We are committed to sharing both risks and rewards; we value openness and flexibility.

Financial Section

Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2006

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Safeguarding
the financial future
of our members

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Kansas Public Employees Retirement System:

We have audited the accompanying statement of plan net assets of the Kansas Public Employees Retirement System (the System), a component unit of the State of Kansas, as of June 30, 2006, 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.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the plan net assets of the Kansas Public Employees Retirement System as of June 30, 2006, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2006 on our consideration of the System's internal control over financial reporting and on our tests on its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis included on pages 17 through 22 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

November 29, 2006

Berberich Trahan & Co., P.A.

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Management's Discussion & Analysis

This section presents management's discussion and analysis of the Kansas Public Employees Retirement System financial performance during the fiscal year that ended June 30, 2006. It is presented as a narrative overview and analysis in conjunction with the Executive Director's letter of transmittal.

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

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

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

Financial Highlights

- The System's net assets increased by $1.03 billion or 9.1 percent from $11,324,364,904 to $12,352,890,468.
- As of December 31, 2005, the date of the most recent actuarial valuation, the Retirement System's funded ratio was 68.8 percent compared with a funded ratio of 69.8 percent for the prior year.
- The unfunded actuarial liability increased from $4.743 billion at December 31, 2004, to $5.152 billion at December 31, 2005.
- On a market value basis, this year's investment return rate was 12.3 percent, compared with last year's return of 12.1 percent.
- Monthly benefits paid to retirees and beneficiaries increased 9 percent from $738 million in fiscal year 2005 to $806 million in fiscal year 2006.

Overview of the Financial Statements

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

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

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

1) Basic Financial Statements

A Statement of Plan Net Assets as of June 30, 2006, and a Statement of Changes in Plan Net Assets for the fiscal year ended June 30, 2006, 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.

2) 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 below.

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

3) Required Supplementary Information

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

4) 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, 2006, amounted to $12,352,890,468, an increase of $1.03 billion, 9.1 percent, from $11,324,364,904 at June 30, 2005. Following are two summary schedules, Plan Net Assets and Changes in Plan Net Assets, comparing information from fiscal years 2005 and 2006.

Summary Comparative Statements of Plan Net Assets

	As of June 30, 2006	As of June 30, 2005	Percentage Change
Assets			
Cash and Deposits	$1,298,731	$377,423	244.10%
Receivables	3,385,597,938	1,116,168,461	203.32
Investments at Fair Value	12,750,467,453	11,545,296,448	10.44
Invested securities lending collateral	1,887,984,971	2,225,521,793	(15.17)
Capital assets and supplies inventory	5,800,249	3,778,000	53.53
Total Assets	18,031,149,342	14,891,142,125	21.09
Liabilities			
Administrative Costs	707,720	680,314	4.03
Benefits Payable	2,035,365	2,045,328	(0.49)
Investments Purchased	3,787,530,818	1,338,529,786	182.96
Securities Lending Collateral	1,887,984,971	2,225,521,793	(15.17)
Total Liabilities	5,678,258,874	3,566,777,221	59.20
Net Assets	**$12,352,890,468**	**$11,324,364,904**	**9.08%**

Summary Comparative Statements of Changes in Plan Net Assets

	Year Ended June 30, 2006	Year Ended June 30, 2005	Percentage Change
Additions			
Contributions	$598,234,929	$527,178,455	13.48%
Net Investment Income	1,349,842,280	1,218,018,786	10.82
Net Investment Income from Securities Lending Activity	4,565,483	5,077,335	(10.08)
Total Net Investment Income	1,354,407,763	1,223,096,121	10.74
Other Miscellaneous Income	175,539	178,105	(1.44)
Total Additions	1,952,818,231	1,750,452,681	11.56
Deductions			
Monthly Retirement Benefits	805,978,732	737,563,276	9.28
Refunds	46,826,176	46,773,933	0.11
Death Benefits	8,810,923	7,849,884	12.24
Insurance Premiums and Benefits	54,957,957	53,703,109	2.34
Administrative	7,718,879	7,340,147	5.16
Total Deductions	924,292,667	853,230,349	8.33
Net Increase	1,028,525,564	897,222,332	14.63
Net Assets Beginning of Year	11,324,364,904	10,427,142,572	8.60
Net Assets End of Year	**$12,352,890,468**	**$11,324,364,904**	**9.08%**

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 $527.2 million in fiscal year 2005 to $598.2 million in fiscal year 2006.

The System recognized a net investment gain of $1.354 billion for the 2006 fiscal year, compared with a net investment gain of $1.223 billion for the 2005 fiscal year. Total return for the portfolio was a positive 12.3 percent. System net investments amounted to $12.285 billion at June 30, 2006, which was $1.0 billion more than the $11.285 billion in total System investments at June 30, 2005. The Retirement System's one, three, five and ten-year investment performance against the assumed rate of investment return are shown in the chart below.

One Year	Latest Three Years	Latest Five Years	Latest Ten Years	Assumed Rate of Return
12.34%	13.28%	7.57%	8.46%	8.00%

At June 30, 2006, the System held $7.0 billion in U.S. equity and international equity securities, an increase of approximately $862 million from the 2005 fiscal year. U.S. equity and international equity securities earned returns of approximately positive 10.1 percent and 29.1 percent, respectively, for the 2006 fiscal year. These compare with the Retirement System's benchmark returns of 9.6 percent and 27.6 percent, respectively.

The System held $3.8 billion in U.S. debt and international debt securities, an increase of $235 million from the 2005 fiscal year. The TIPS portfolio return for 2006 was negative with a return of -6.1 percent versus the benchmark return of -6.2 percent. The performance of the System's other fixed income securities during fiscal year 2006 was 0.3 percent compared with the benchmark of -0.3 percent. Real estate investments increased $77 million to $919.1 million at June 30, 2006. Real estate investments returned approximately 22.3 percent for the 2006 fiscal year, versus the benchmark real estate return of 17.4 percent. The System held $541.4 million in alternative investments, which was a $26 million increase from June 30, 2005. Alternative investments earned a return of approximately 27.0 percent for the 2006 fiscal year, compared to the benchmark alternative investment return of 9.1 percent. At June 30, 2006, the System held $532.2 million in short-term investments, which was an increase of $5 million from June 30, 2005.

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 2006, net securities lending income amounted to $4.6 million compared with $5.1 million in fiscal year 2005.

Deductions from net assets held in trust for benefits include retirement, death and survivor benefits, and administrative expenses. For the 2006 fiscal year, retirement, death and insurance benefits amounted to $916.6 million, an increase of $70.7 million, 8.3 percent, from the 2005 fiscal year. The increase in benefit payments was a result of an increase in the number of retirees. For the 2006 fiscal year, System administrative expenses amounted to $7.719 million compared with $7.340 million in fiscal year 2005. The ratio of System administrative expenses to the number of members (approximately $30 per member) continues to be very cost-efficient compared to other statewide retirement plans.

Retirement Funding Status

For the last several years, the Retirement System's highest priority has been developing a comprehensive plan to address the long-term funding shortfall. Funding improvements made during the last few years represent key steps toward improving the System's financial condition and securing funds for all future benefit payments.

The 1993 Kansas Legislature improved KPERS benefits and adopted a 40-year payment plan that gradually increased employer contributions to pay for the enhancements.

By the early 2000s, it became apparent that the planned rate increases were insufficient to fund those benefits, creating a long-term funding problem. Over the last five years, the Retirement System's Board of Trustees, staff and actuary has worked closely with the Legislature's Joint Committee on Pensions, Investments and Benefits and the Governor's office to implement a comprehensive funding plan. Key steps taken to implement the plan include:

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

Latest Actuarial Projections

In the Retirement System's most recent actuarial valuation dated, December 31, 2005, our consulting actuary reported that the funding condition is close to what we expected. The System remains in actuarial balance and the unfunded actuarial liability (UAL) has increased from $4.74 billion as of December 31, 2004, to $5.15 billion as of December 31, 2005. With this increase, the System's overall funding ratio fell by 1 percent, from 70 percent to 69 percent.

	UAL	Funded Ratio
Kansas Public Employees Retirement System		
· KPERS State Group	$ 471	85%
· KPERS School Group	$3,455	61%
· KPERS Local Group	$869	67%
Kansas Police and Firemen's Retirement System	$341	80%
Kansas Retirement System for Judges	$17	85%
Retirement System Overall Total	**$5,153**	**69%**

The UAL will continue to increase until statutory employer contribution rates catch up with the actuarially required contribution (ARC) rates. With the funding plan in motion, rates are projected to meet in the next 15 years with a continued positive investment experience. The Retirement System's Board of Trustees and staff will remain vigilant, closely monitoring funding status with the commitment to recommend any needed adjustments to protect our progress while striving to move forward.

Funding and Member Benefits

All current and future KPERS retirement benefits are safe and guaranteed by the State of Kansas. Neither the unfunded actuarial liability nor the funding status alter the State's obligation to pay promised benefits to current members. The Board of Trustees and staff will continue to work on behalf of our members to advocate policies that provide for the health and stability of the Retirement System.

Retirement Plan Design Project

Over the last five years, KPERS has partnered with the Legislature and Governor to address the retirement funding shortfall and develop a comprehensive long-term funding plan. Key steps have been taken as part of this plan with positive results. Plan design is one remaining piece of the funding solution.

Generally, people are living longer in retirement. This means they will receive benefits for a longer period of time. In addition, as the Baby Boomer generation begins to retire, a larger number of members will move into retirement and collect benefits. This demographic shift, along with tenuous long-term funding projections, sets the stage for considering a plan design change.

KPERS staff has taken this opportunity to step back and complete a comprehensive, thoughtful review of the plan, with a long-term focus. Any new plan design will:

- Apply only to **future** employees.
- Improve KPERS' long-term financial soundness.
- Provide benefits that combine with Social Security and personal savings to help maintain a retiree's standard of living.
- Help attract and retain high quality employees.

Key plan issues we are studying:

- "Year of service" requirement many new employees have
- Length of time to vest
- Retirement age and eligibility
- Cost-of-living adjustments

During the 2006 Interim, KPERS is presenting a series of presentations to the Joint Committee on Pensions, Investments, and Benefits on the Plan Design Project for consideration for the 2007 Legislative Session.

Death & Disability Program

The Retirement System administers the group insurance reserve fund as described in Note 2 of the notes to the basic financial statements. The actuary performs an actuarial valuation of this fund on an annual basis with the last valuation completed for June 30, 2005. As of June 30, 2006, the fund had assets of $18.7 million.

In order to address the financial viability of the death and disability program, the 2005 Legislature passed Senate Substitute for House Bill 2037 modifying funding and benefits of the KPERS death and disability program for active employees by:

1. Expanding the KPERS Board of Trustees' authority to administer the program within available funds and to adjust the plan design as needed; increasing employer contributions from 0.6 percent to 0.8 percent of payroll on July 1, 2005, and 1.0 percent of payroll on July 1, 2006.
2. Authorizing loans from the Pooled Money Investment Board, subject to State Finance Council approval, if Death and Disability Fund balances are insufficient.
3. Adjusting the maximum duration of KPERS disability benefit payments for employees disabled after age 65 to ensure compliance with federal Age Discrimination and Employment Act (ADEA).

In May 2005, the KPERS Board of Trustees adopted plan design modifications to the disability program effective for employees becoming disabled on or after January 1, 2006. These plan design modifications, along with the increased contribution rates, are key elements that will provide financial stability to the Death and Disability Program.

Statement of Plan Net Assets

For the Fiscal Year Ended June 30, 2006, With Comparative Figures for 2005

	2006	2005
Assets		
Cash and Deposits		
Cash	$96,220	$165,801
Deposits with Insurance Carrier	1,202,511	211,622
Total Cash and Deposits	1,298,731	377,423
Receivables		
Contributions	63,999,481	37,970,025
Investment Income	37,921,711	40,477,200
Sale of Investment Securities	3,283,676,746	1,037,721,236
Total Receivables	3,385,597,938	1,116,168,461
Investments at Fair Value		
Domestic Equities	3,853,253,414	3,533,295,661
International Equities	3,153,410,705	2,611,045,616
Cash and Equivalents	532,157,694	527,388,132
Fixed Income	3,751,122,352	3,516,052,684
Alternative Investments	541,415,035	515,346,294
Real Estate	919,108,253	842,168,061
Total Investments at Fair Value	12,750,467,453	11,545,296,448
Invested Securities Lending Collateral	1,887,984,971	2,225,521,793
Capital Assets and Supplies Inventory	5,800,249	3,778,000
Total Assets	**18,031,149,342**	**14,891,142,125**
Liabilities		
Administrative Costs	707,720	680,314
Benefits Payable	2,035,365	2,045,328
Securities Purchased	3,787,530,818	1,338,529,786
Securities Lending Collateral	1,887,984,971	2,225,521,793
Total Liabilities	**5,678,258,874**	**3,566,777,221**
Net Assets held in trust for Pension Benefits	**$12,352,890,468**	**$11,324,364,904**

A schedule of funding progress for the plan is presented on page 39.

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

Statement of Changes in Plan Net Assets

For the Fiscal Year Ended June 30, 2006, With Comparative Figures for 2005

	2006	2005
Additions		
Contributions		
Member Contributions	$246,203,381	$233,226,034
Employer Contributions	352,031,548	293,952,421
Total Contributions	598,234,929	527,178,455
Investments		
Net Appreciation in Fair Value of Investments	1,046,279,084	932,881,712
Interest	165,466,523	132,806,082
Dividends	113,162,346	130,167,483
Real Estate Income, Net of Operating Expenses	51,835,809	43,821,311
Other Investment Income	303,028	412,211
	1,377,046,790	1,240,088,799
Less Investment Expense	(27,204,510)	(22,070,013)
Net Investment Income	1,349,842,280	1,218,018,786
From Securities Lending Activities		
Securities Lending Income	87,911,153	53,059,141
Securities Lending Expenses		
Borrower Rebates	(82,182,198)	(46,714,331)
Management Fees	(1,163,472)	(1,267,475)
Total Securities Lending Activities Expense	(83,345,670)	(47,981,806)
Net Income from Security Lending Activities	4,565,483	5,077,335
Total Net Investment Income	1,354,407,763	1,223,096,121
Other Miscellaneous Income	175,539	178,105
Total Additions	1,952,818,231	1,750,452,681
Deductions		
Monthly Retirement Benefits Paid	(805,978,732)	(737,563,276)
Refunds of Contributions	(46,826,176)	(46,773,933)
Death Benefits	(8,810,923)	(7,849,884)
Insurance Premiums and Benefits	(54,957,957)	(53,703,109)
Administrative Expenses	(7,718,879)	(7,340,147)
Total Deductions	**(924,292,667)**	**(853,230,349)**
Net Increase	**1,028,525,564**	**897,222,332**
Net Assets Held in Trust for Pension Benefits		
Balance Beginning of Year	11,324,364,904	10,427,142,572
Balance End of Year	$12,352,890,468	$11,324,364,904

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, while the other two are multi-employer, cost-sharing groups. The State of Kansas and Kansas schools are required to participate, while participation by local political subdivisions is optional but irrevocable once elected. Participating employers and retirement system membership are as follows:

Number of Participating Employers

	KPERS	KP&F	Judges
State of Kansas	1	1	1
Counties	105	24	—
Cities	360	51	—
Townships	54	—	—
School Districts	303	—	—
Libraries	118	—	—
Conservation Districts	84	—	—
Extension Councils	76	—	—
Community Colleges	43	—	—
Recreation Commissions	41	1	—
Hospitals	29	—	—
Cemetery Districts	13	—	—
Other	169	—	—
Total	**1,396**	**77**	**1**

Membership by Retirement Systems

	KPERS	KP&F	Judges	Total
Retirees and beneficiaries currently receiving benefits	59,523	3,654	171	63,348
Terminated employees entitled to benefits but not yet receiving them	9,368	141	14	9,523
Inactive members, deferred disabled	3,099	194	0	3,293
Inactive members not entitled to benefits	27,647	958	5	28,610
Current employees	142,047	6,772	254	149,073
Total	**241,684**	**11,719**	**444**	**253,847**

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. Annual disability income benefits are 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 disabled before January 1, 2006, receive benefits based on two-thirds of their annual rate of compensation at time of disability. 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 have group life insurance coverage and to accrue participating service credit.

Contributions

Member contributions (from 4 to 7 percent of gross compensation), employer contributions and net investment income fund Retirement System reserves. Member contribution rates are established by state law, and are paid by the employee according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates be determined based on the results of each annual actuarial valuation. The contributions and assets of all three systems are deposited in the Kansas Public Employees Retirement Fund established by K.S.A. 74-4921. All of the retirement systems are funded on an actuarial reserve basis (see Note 3). For fiscal years beginning in 1995, Kansas legislation placed a statutory limit of 0.1 percent of payroll on increases in contribution rates for KPERS employers. During the 1995 legislative session, the statutory limits were increased to 0.2 percent of payroll over the prior year for fiscal years beginning in 1996 for state and school employers. The statutory increase for local units of government was amended to limit increases to no more than 0.15 percent over the prior year for calendar years beginning in 1997. Annual increases in the employer contribution rates related to subsequent benefit enhancements are not subject to these limitations. Legislation passed in 2003 amended the annual increases in future years. The statutory cap for the State/School group increased to 0.4 percent in fiscal year 2006, with subsequent increases of 0.5 percent in fiscal year 2007 and 0.6 percent in fiscal year 2008 and beyond. Legislation passed in 2004 amended the annual increases in future years for local employers. The statutory cap for the Local group increased to 0.4 percent in calendar year 2006, with subsequent increases of 0.5 percent in fiscal year 2007 and 0.6 percent in fiscal year 2008 and beyond.

Employer contributions for group life insurance and long-term disability income benefits are set by statute for the KPERS State, School and Local group employees and the Judges group. Legislation passed in 2005 increased the insurance contribution rate for the KPERS group from 0.6 percent to 0.8 percent of covered payroll effective July 1, 2005, and to 1.0 percent effective July 1, 2006. The insurance contribution rate for Judges is set at 0.4 percent of covered payroll.

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.

Basis of Accounting

The Retirement System's financial statements are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. Member and employer contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

New Accounting Standard

During 2006, the Retirement System adopted GASB Statement No. 44, Economic Condition Reporting: The Statistical Section. This statement amends the portions of NCGA Statement 1, Governmental Accounting and Financial Reporting Principles, guiding the preparation of the statistical section. Statement No. 44 establishes the objectives of the statistical section and the five categories of information it contains – financial trends information, revenue capacity information, debt capacity information, demographic and economic information, as well as operating information.

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 of 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.

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 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, 2006, the Retirement System's deposit with its disability administrator of $1,202,511 was uninsured and uncollateralized. The Retirement System does not have a deposit policy for custodial credit risk associated with these deposits.

Method Used to Value Investments

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

Investments

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

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

- Establishes the structure of the Board of Trustees, defines the Trustees' responsibilities, imposing the prudent expert standard upon their actions with respect to managing the assets of the Retirement System.
- Requires that the assets be invested to preserve capital and solely to provide benefits to members and the members' beneficiaries.
- Limits the possible allocation of common stock to 60 percent of the total book value of the fund.
- Limits the allowance for new alternative (non-publicly traded) investments to 1 percent of market value of the total investments assets of the fund as measured from the end of the preceding calendar year.
- Establishes limits on the structure of future investments in real estate or alternative investments.
- Requires that the Board develop investment policies and objectives to invest fund assets.

- Authorizes the Board to hire qualified professionals/firms to assist in investing the fund and requires that such professionals/firms obtain errors and omissions insurance coverage and fidelity bond insurance coverage.

- Authorizes the Board to pay for the services of retained professionals/firms at the rates fixed by the Board, excluding any reimbursement for expenses and subject to the provisions of the appropriations acts.

- Provides for an annual audit and requires that the Board annually examine the investment program, specific investments, and its policies and practices.

The Retirement System's permissible investment categories include:
1) Equities.
2) Fixed income securities.
3) Cash equivalents.
4) Real estate.
5) Derivative products.
6) Alternative investments.

In fulfilling its responsibilities, the Board of Trustees has contracted with 15 investment management firms and a master global custodian. Presently, the Retirement System has investments in the financial futures market. Futures contracts are contracts for delayed delivery or receipt of securities in which the seller agrees to make delivery and the buyer agrees to take delivery at a specified future date, of a specified instrument, at a specified price. Market risk arises due to market price and interest rate fluctuations that may result in a decrease in the fair value of futures contracts. Futures contracts are traded on organized exchanges and require initial margin in the form of cash or marketable securities. Daily, the net change in the futures contract value is settled in cash with the exchanges. Holders of futures contracts look to the exchange for performance under the contract. Accordingly, the credit risk due to nonperformance of counterparties to futures contracts is minimal. At June 30, 2006, the Retirement System had futures contracts with a market exposure of approximately $1,404,300,000. Cash equivalents and short-term investments in amounts necessary to settle the economic value of the futures contracts were held in the portfolio so that no leverage was employed, in accordance with the Statement of Investment Policy.

The Retirement System's Statement of Investment Policy authorizes participation in a securities lending program administered by the master global custodian, Mellon Trust. The System receives income from the loan of the securities, in addition to the income which accrues to the System as owner of the securities. The securities loans are open contracts and therefore could be terminated at any time by either party. The type of securities lent include U.S. government securities, domestic and international equities, and domestic and international bonds.

The borrower collateralizes the loan with either cash or government securities of 102 percent of fair value on domestic securities and 105 percent of fair value on international securities loaned. Cash collateral is invested in the Retirement System's name in a dedicated short-term investment fund consisting of investment grade debt securities. The System does not have the ability to pledge or sell collateral securities without a borrower default. At June 30, 2006, the maturities of securities in this dedicated bond portfolio are as follows: 45 percent of the fair value of the securities mature within 30 days; 25 percent mature between 31 and 180 days; and 30 percent mature after 180 days.

The custodian provides for full indemnification to the Retirement System for any losses that might occur in the event of borrower default. Therefore, the Retirement System does not incur any credit risk as it relates to this activity. The securities on loan are marked to market daily to ensure the adequacy of the collateral. The fair value of securities on loan as of June 30, 2005, and June 30, 2006, were $2,372,391,980 and $2,210,991,830, respectively. Collateral held by the Retirement System for June 30, 2005, and June 30, 2006, was $2,441,833,132 and $2,264,938,273, respectively. Net income produced from securities lending activities for fiscal year 2005 was $5,077,335 and for fiscal year 2006 was $4,565,483.

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

All forward foreign currency contracts are carried at fair value by the Retirement System. As of June 30, 2006, the System had sold forward currency contracts with a fair value of $3,152,522,337 and had bought forward currency contracts with a fair value of $3,182,021,813. Purchases of forward currency contracts are liabilities reported as Securities Purchased, and sales of forward currency contracts are receivables reported as Sale of Investment Securities.

The Retirement System also participates in option contracts. These contractual agreements give the purchaser the right, but not the obligation, to purchase or sell a financial instrument at a specified price within a specified time. Options strategies used by the Retirement System are designed to provide exposures to positive market moves and limit exposures to interest rate and currency fluctuations.

The Retirement System internally manages a Treasury Inflation Protected Securities (TIPS) portfolio. TIPS are fixed income securities issued by the U.S. Treasury that pay a fixed coupon rate plus an adjustment for subsequent inflation. At June 30, 2006, the Retirement System had invested in TIPS with a fair value of approximately $1,040,100,000.

Custodial Credit Risk

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

Concentration Risk

The System has investments in Federal National Mortgage Association issued securities that represent 5.4 percent of the total net asset value. KPERS investment policy does not prohibit holdings above 5 percent in the debt securities of U.S. government issuers. Government sponsored enterprises (GSEs, such as FNMA) are considered government issuers for the purpose of implementing KPERS policy. No other single issuer represents five percent or more of System assets other than the U.S. Government.

Currency Risk

Currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. KPERS investments at June 30, 2006, were distributed among the following currencies.

USD Equivalent	Currency	Percent
$607,855	Argentina Peso	0.00%
161,933,436	Australian Dollar	1.11%
44,761,187	Brazil Real	0.31%
485,499,369	British Pound Sterling	3.32%
185,759,533	Canadian Dollar	1.27%
1,189,550	Chilean Peso	0.01%
2,102,263	Chinese Yuan Renminbi	0.01%
326,063	Colombian Peso	0.00%
882,927	Czech Republic Koruna	0.01%
7,129,134	Danish Krone	0.05%
811,000	Egyptian Pound	0.01%
931,272,212	Euro Currency Unit	6.36%
82,608,735	Hong Kong Dollar	0.56%
3,584,332	Hungarian Forint	0.02%
4,271,680	Indian Rupee	0.03%
5,465,153	Indonesian Rupian	0.04%
4,737,741	Israeli Shekel	0.03%
821,036,946	Japanese Yen	5.61%
7,491,577	Malaysian Ringgit	0.05%
31,115,575	Mexican New Peso	0.21%
4,148,226	Moroccan Dirham	0.03%
65,782,144	New Taiwan Dollar	0.45%
25,245,370	New Turkish Lira	0.17%
6,426,822	New Zealand Dollar	0.04%
21,139,924	Norwegian Krone	0.14%
450,433	Peru Nuevo Sol	0.00%
2,148,873	Philippines Peso	0.01%
13,669,609	Polish Zloty	0.09%
880,150	Russian Rubel	0.01%
21,935,072	Singapore Dollar	0.15%
46,205,576	South African Rand	0.32%
66,692,025	South Korean Won	0.46%
58,145,169	Swedish Krona	0.40%
168,353,113	Swiss Franc	1.15%
8,625,689	Thailand Baht	0.06%
856,006	Other	0.01%
11,345,161,955	U.S. Dollar *	77.50%
$14,638,452,424	**Total Currencies**	100.00%

* Includes securities lending collateral of $1,887,984,971.

The System's asset allocation and investment policies include active and passive investments in international securities as shown above. The System's target allocation is to have 18 percent of assets (excluding securities lending collateral) in dedicated international equities. The System also has 8.0 percent of assets targeted to Global Equities which are expected to be between 40 and 60 percent international. Core Plus bond managers are allowed to invest up to 20 percent of their portfolio in non-dollar securities. The System utilizes a currency overlay manager to reduce risk by hedging up to 50 percent of the foreign currency for selected international equity portfolios. At June 30, 2006, the System's total foreign currency exposure was 20.6 percent hedged.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to a debt investment will not fulfill its obligations. The Retirement System's investment policies require Core and Core Plus managers to have at least 70 percent of holdings in investment grade securities. Each portfolio is required to maintain a reasonable risk level relative to its benchmark. System assets ($ in thousands) as of June 30, 2006, subject to credit risk are shown with current credit ratings below.

Quality Rating	Commercial Paper	Corporate	Agency	U.S. Govt	Securities Lending Collateral	Total
NR	$105,267	$208,291	$ -	$ -	$516,748	$830,306
AAA	14,450	278,550	805,406	1,626,340	108,541	2,833,287
AA	211,032	168,029	304,873	-	1,146,486	1,830,420
A	8,793	169,349	-	-	116,210	294,352
BAA	-	179,882	-	-	-	179,882
BA	-	91,534	-	-	-	91,534
B	-	77,922	-	-	-	77,922
CAA	-	13,012	-	-	-	13,012
Total	**$339,542**	**$1,186,569**	**$1,110,279**	**$1,626,340**	**$1,887,985**	**$6,150,715**

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

Interest Rate Risk

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

Effective Duration	Commercial Paper	Corporate	Agency	U.S. Govt	Securities Lending Collateral	Total
0-1 yr	$339,542	$517,013	$411,955	$193,103	$1,881,628	$3,343,241
1-3 yrs	-	300,391	74,144	26,161	6,357	407,053
3-5 yrs	-	160,370	346,282	171,247	-	677,899
5-10 yrs	-	145,729	274,334	249,732	-	669,795
10-15 yrs	-	63,066	3,564	986,097	-	1,052,727
Total	**$339,542**	**$1,186,569**	**$1,110,279**	**$1,626,340**	**$1,887,985**	**$6,150,715**

Treasury Inflation Protected Securities (TIPS) comprise 96 percent of the US Government, 10-15 yrs group. Total TIPS for all duration ranges were valued at $1,090,426,973 at June 30, 2006. Securities Lending collateral policy limits the maximum average portfolio maturity of 90 days. Only floating rate and fixed rate asset-backed securities may mature beyond 13 months.

Capital Assets and Supplies Inventory

Furniture, fixtures and equipment are reported on the Statement of Plan Net Assets at historical cost, net of accumulated depreciation. These assets are depreciated on a straight-line basis over an average useful life of three to ten years with no salvage value. Accumulated depreciation on furniture, fixtures and equipment as of June 30, 2006, was $3,288,994. Office supplies inventory in the amount of $23,372 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, 2006 was $2,062,018. The office building and garage are being depreciated over a period of 33 years on an accelerated method. At June 30, 2006, the carrying value of the System's administrative headquarters was $1,757,685.

Compensated Accrued Absences

Classified 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 for employees who retire 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.

Various Reserves

The Members Accumulated Contribution Reserve represents the accumulation of member contributions, plus interest, credited to individual member accounts of non-retired members. At the date of retirement the individual member's account is transferred to the Retirement Benefit Payment Reserve. After ending employment and applying for withdrawal, employee contributions, plus accumulated interest, are charged to this reserve. Interest is credited to active member accounts on June 30 each year, based on the balance in the account as of the previous December 31. The interest crediting rate, defined by statute as the actuarial interest assumption rate, is 8 percent for those who became members prior to July 1, 1993. For those who first became members after June 30, 1993, interest on employee contributions is credited at the rate of 4 percent per year. The balance at June 30, 2006, was $4,316,965,153, 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, 2006, was $8,048,910,625. The unfunded liability was $5,152,469,418.

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, 2006, was $5,105,322,394 and was fully funded.

The Group Insurance Reserve Fund represents employer contributions, which pay 100 percent of the cost of group life insurance and long-term disability coverage. Insurance premiums and benefits consist of:

1) Claims paid under the insurance contract.
2) Deposits made by the Retirement System to pay disability benefits to eligible participants.

An actuarial valuation of this fund was last completed for June 30, 2005. At June 30, 2006, this reserve held investments and cash deposits totaling $9,841,274 and had net contribution receivables of $8,882,684. As of June 30, 2006 this fund remains less than fully funded.

The Expense Reserve represents investment income which is sufficient to maintain a year end account balance at two times the most recent fiscal year's administrative expense amount. The System's administrative expenses are financed from this reserve. The balance at June 30, 2006, was $15,437,757, and was fully funded.

The Optional Term Life Insurance Reserve accumulates employee contributions to pay premiums for optional life insurance coverage and is charged annually with the cost of administering the program.

Budget

The Retirement System's annual operating budget is developed by the staff and approved by the Board of Trustees. It is sent to the State Budget Division for analysis and policy decisions and is included in the Governor's budget message to the Legislature. The Legislature adopts appropriation and expenditure limitations. When that process is complete, the System has an approved budget.

Retirement System Employees' Pension Plan

As an employer, the Retirement System participates in KPERS, a cost sharing, multi-employer defined benefit pension plan. KPERS provides retirement, disability, withdrawal and death benefits to plan members and beneficiaries as authorized by Kansas law. Funding is accomplished through member and employer contributions and investment earnings, according to Kansas Law. Upon the completion of a year of service, plan members contribute 4 percent of their annual salary. In Fiscal Year 2006, the regular employer retirement rate was 5.27 percent of covered payroll. In addition, KPERS contributed an additional .8 percent of covered payroll to the group insurance fund. Total payroll was $3,234,839, $3,553,265, and $3,733,163 for 2004, 2005, and 2006, respectively. KPERS contributed $140,689, $183,489 and $212,374 for 2004, 2005 and 2006, respectively, to the employees pension plan. All contributions required by law were made in fiscal years 2004, 2005 and 2006.

Non-Retirement Funds

The 2000 legislative session assigned to the Retirement System the investment responsibilities of non-retirement money. The Treasurer's Unclaimed Property Fund was established to provide investment earnings available for periodic transfer to the State Treasury for the credit of the State General Fund. Legislation was also provided to defray the reasonable expenses of administrating these funds. Investments under management for the Treasurer's Unclaimed Property Fund were $169,527,856 at June 30, 2006.

Pending Governmental Accounting Standards Board Statements

At June 30, 2005, the Governmental Accounting Standards Board (GASB) had issued several statements not yet implemented by the Retirement System. The statements that might impact the System are as follows:

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was issued in April 2004. The objective of this statement is to establish uniform financial reporting standards for other postemployment benefit plans (OPEB plans). The term "other postemployment benefits" refers to postemployment benefits other than pension benefits and includes (a) postemployment health care benefits and, (b) other types of postemployment benefits (i.e., life insurance) if provided separately from a pension plan. This statement provides standards for measurement, recognition, and display of the assets, liabilities, and, where applicable, net assets and changes in net assets of such funds and for related disclosures. The provisions of this statement are effective for periods beginning after December 15, 2005.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was issued in June 2004. This statement establishes standards for the measurement, recognition and display of other postemployment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The term "other postemployment benefits" refers to postemployment benefits other than pension benefits and includes (a) postemployment health care benefits and, (b) other types of postemployement benefits (i.e., life insurance) if provided separately from a pension plan. The provisions of this statement are effective for periods beginning after December 15, 2006.

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 amortization period for the unfunded liability of all three systems is 40 years from July 1, 1993. 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, 2003. As a result of this study, the Board of Trustees adopted new assumptions in regard to retirement rates, mortality and termination rates.

Pension Obligation Bonds

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

The remaining bond proceeds of $24,900,000 were used for the purpose of financing the unfunded actuarial liability of those members who retired prior to July 2, 1987, and are entitled to a Retirement Dividend payment pursuant to K.S.A. 74-49,109. Beginning in fiscal year 2005 state's employer contribution rates for the State KPERS, School, State KPF and Judges groups included an additional amount to finance the debt service payments for this portion of the bonds. In fiscal year 2006, KPERS collected $3,607,838 additional contributions for the debt service payments and transferred these funds to the State of Kansas.

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

Changes in Unfunded Actuarial Liability

The actuary has estimated the change in the unfunded actuarial liability between December 31, 2004, and December 31, 2005, can be attributed to the following ($ in millions):

Unfunded Actuarial Liability, December 31, 2004	**$4,743**
Effect of contribution cap/time lag	247
Expected increase due to amortization method	84
Loss from investment return	167
Demographic experience	(76)
All other experience	(8)
Change in actuarial assumptions	(5)
Change in benefit provisions	0
Final Unfunded Actuarial Liability, December 31, 2005	**$5,152**

Contributions Required and Contributions Made

KPERS. The actuarially determined contribution rates are computed as a level percentage of payroll by the Retirement System's actuary. For the State/School, Correctional members, the results of December 31, 2001, and December 31, 2002, actuarial valuations provide the basis for Board certification of employer contribution rates for fiscal years 2005 and 2006, respectively. As explained in Note 1, legislation has limited the amounts that employers are required to contribute for State, School and Local employees, which has resulted in lower employer contribution rates as compared with the actuarially determined rates. The actuarially determined employer contribution rates (not including the 0.8 percent contribution rate for the Death and Disability Program) and the statutory contribution rates for fiscal years 2005 and 2006 are as follows:

	State and School		Correction Employees	
Year	**Actuarial Rate**	**Statutory Rate**	**Actuarial Rate**	**Statutory Rate**
2005	7.69%	4.87%	7.82% / 8.23%	5.00% / 5.41%
2006	9.14%	5.27%	9.61% / 9.47%	5.74% / 5.60%

Included in the fiscal year 2006 rates is the bond debt service rate of .09 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, 2002, and December 31, 2003, actuarial valuations provide the basis for Board certification of local employer contribution rates for fiscal years beginning in 2005 and 2006, respectively. The actuarially determined employer contribution rates and statutory contribution rates for fiscal years 2005 and 2006 are as follows:

	Local	
Year	**Actuarial Rate**	**Statutory Rate**
2005	5.44%	3.41%
2006	6.24%	3.81%

KP&F. The uniform participating service rate for all KP&F employers was 11.69 percent for the fiscal year beginning in 2005 and 12.39 percent for the fiscal year beginning in 2006. 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 18.82 percent of payroll for the fiscal year ended 2005 and 21.97 percent of payroll for the fiscal year ended 2006.

The law specifies employee contributions as: Each participating employer, beginning with the first payroll for services performed after the entry date, shall deduct from the compensation of each member an amount equal to 4 percent for KPERS members, 7 percent for KP&F members, and 6 percent for Judges members as the member's employee contributions. All required contributions have been made as follows ($ in thousands):

	Employer Contributions	Member Contributions (1)	Contributions as a Percent of Covered Payroll
KPERS- State	$60,091	$39,055	11.7 %
KPERS- School	179,014	118,340	12.0
KPERS - Local	56,755	54,854	9.3
KP&F	50,892	26,629	26.0
Judges	5,282	1,269	29.70
Total	**$352,034**	**$240,147**	**12.1 %**

An estimated $491 million of employer and employee contributions were made to cover normal cost, an estimated $48 million was made for the amortization of the unfunded actuarial accrued liability.

1) Member contributions do not include Optional Life Insurance contributions of approximately $6.0 million.

Historical Trend Information

Historical trend information, showing the Retirement System's progress in accumulating sufficient assets to pay benefits when due, is presented on page **41** and is titled, "Required Supplementary Information."

Note 4: Commitments and Contingencies

As of June 30, 2006, the Retirement System was committed to additional funding of $13,282,000 in the form of capital expenditures on separate account real estate holdings in the portfolio, $101,720,000 for commitments on venture capital investments, and $98,384,000 for capital calls on real estate property trusts investments.

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

Required Supplementary Information

Schedule of Employer Contributions

Fiscal Year Ended June 30

Year	Annual Required Contribution	Percentage Contributed
1997	$185,633,144	71.5 %
1998	192,096,611	74.4
1999	230,742,037	76.7
2000	217,757,975	77.2
2001	249,356,715	77.6
2002	260,482,999	79.7
2003	282,329,785	78.9
2004	338,879,960	69.4
2005	381,791,085	68.6
2006	471,424,006	63.4

*This schedule does not includeDeath & Disability Insurance contributions.

Schedule of Funding Progress

($ in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL UAAL (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b - a)/c)
06/30/97	$6,875,918	$8,251,986	$1,376,068	83%	$4,108,320	33 %
06/30/98	7,749,203	9,340,685	1,591,482	83	4,273,627	37
06/30/99	8,601,876	9,999,246	1,397,370	86	4,480,717	31
06/30/00	9,568,275	10,801,397	1,233,122	89	4,684,768	26
12/31/00 (1)	9,835,182	11,140,014	1,304,832	88	4,876,555	27
12/31/01	9,962,918	11,743,052	1,780,134	85	5,116,384	35
12/31/02	9,784,862	12,613,599	2,828,736	78	4,865,903 (2)	58
12/31/03	10,853,462	14,439,546 (3)	3,586,084	75	4,978,132	72
12/31/04	10,971,427	15,714,092	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

1) The actuarial valuation date was changed to a calendar year basis.

2) Beginning with the 12/31/02 actuarial valuation, the unfunded actuarial liability of the TIAA group was eliminated. Therefore, covered payroll no longer includes the salaries of non-KPERS unclassified employees of the Board of Regents institutions previously included.

3) Beginning with the 12/31/03 actuarial valuation, the actuarial cost method was changed to the Entry Age Normal (EAN) method.

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

	KPERS System	**KP&F System**	**Judges System**
Valuation Date	12/31/05	12/31/05	12/31/05
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level Percent closed	Level Percent closed	Level Percent closed
Remaining amortization period	27 years	27 years	27 years
Asset valuation method	Difference between actual return and expected return on market value of assets calculated yearly and recognized evenly over five-year period		
Actuarial assumptions:			
Investment rate of return (1)	8.0%	8.0%	8.0%
Projected salary increases (1)	4.0%–9.8%	4.0%–12.5%	5.5%
Cost of Living Adjustment	none	none	none

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

Other Supplementary Schedules

Schedule of Contributions

For the Fiscal Year Ended June 30, 2006

Kansas Public Employees Retirement System	
State/School Contributions	
Members	$157,395,278
Employers	239,102,825
Total State/School Contributions	396,498,103
Local Contributions	
Members	54,853,569
Employers	56,754,711
Total Local Contributions	111,608,280
Total Contributions, KPERS	**508,106,383**
Kansas Police and Firemen's Retirement System	
State Contributions	
Members	3,062,465
Employers	5,547,957
Total State Contributions	8,610,422
Local Contributions	
Members	23,567,071
Employers	45,343,907
Total Local Contributions	68,910,978
Total Contributions, KP&F	**77,521,400**
Kansas Retirement System for Judges	
State Contributions	
Members	1,269,118
Employers	5,282,148
Total State Contributions	6,551,226
Total Contributions, Judges	**6,551,226**
Optional Group Life Insurance	
Member Contributions	
State Employees	3,173,467
Local Employees	2,882,413
Total Contributions	6,055,880
Total Contributions, Optional Group Life	**6,055,880**
Grand Total, All Contributions	**$598,234,929**

Schedule of Administrative Expenses
For the Fiscal Year Ended June 30, 2006

Salaries and Wages	**$4,618,602**
Professional Services	
Actuarial	259,281
Audit	33,500
Data Processing	242,603
Legal	50,324
Other Professional Services	109,371
Total Professional Services	**695,079**
Communication	
Advertising	1,163
Postage	207,319
Printing	212,154
Telephone	75,916
Total Communication	**496,552**
Building Administration	
Building Management	77,661
Janitorial Service	47,044
Real Estate Taxes	92,315
Utilities	62,473
Total Building Administration	**279,493**
Miscellaneous	
Dues and Subscriptions	25,507
Repair and Service Agreements	163,375
Office and Equipment Rent	21,239
Supplies	108,924
Temporary Services	59,180
Travel	108,109
Other Miscellaneous	87,499
Depreciation	1,055,320
Total Miscellaneous	**1,629,153**
Total Administrative Expenses	**$7,718,879**

Schedule of Investment Income by Asset Class

For the Fiscal Year Ended June 30, 2006

Asset Classification	Interest, Dividends and Other Transactions	Gains and Losses	Total
Marketable Equity Securities			
Domestic Equities	$46,295,151	$342,725,372	$389,020,523
International Equities	53,544,626	652,739,311	706,283,937
Subtotal Marketable Equities	99,839,777	995,464,683	1,095,304,460
Marketable Fixed Income Securities			
Government	65,419,029	(153,305,922)	(87,886,893)
Corporate	69,841,235	(46,625,641)	23,215,594
Subtotal Marketable Fixed Income Securities	135,260,264	(199,931,563)	(64,671,299)
Temporary Investments	30,204,318	1,043,166	31,247,484
Total Marketable Securities	**265,304,359**	**796,576,286**	**1,061,880,645**
Real Estate	51,835,809	135,254,686	187,090,495
Alternative Investments	13,324,510	114,448,112	127,772,622
Total Real Estate and Alternative Investments	**65,160,319**	**249,702,798**	**314,863,117**
Other Investment Income			
Securities Lending	4,565,483	—	4,565,483
Miscellaneous Income	303,028	—	303,028
Total Other Investment Income	**4,868,511**	**—**	**4,868,511**
Investment Income	**$335,333,189**	**$1,046,279,084**	**$1,381,612,273**

Manager and Custodian Fees and Expenses	
Investment Manager Fees	(25,892,004)
Custodian Fees and Expenses	(776,512)
Other Investment Expenses	(535,994)
Total Investment Fees and Expenses	(27,204,510)
Net Investment Income	**$1,354,407,763**

Schedule of Investment Fees and Expenses

For the Fiscal Year Ended June 30, 2006

Domestic Equity Managers	
Barclays Global Investors	$3,713,517
Capital Guardian Trust Co.	199,228
Payden & Rygel Enhanced	647,174
Quantitative Management Associates	522,335
Subtotal Domestic Equity Managers	5,082,254
Global Equity Managers	
Capital Guardian Trust Co.	1,767,991
Wellington Management Co.	1,209,718
Subtotal Global Equity Managers	2,977,709
International Equity Managers	
Acadian Asset Management	858,327
Alliance Capital Management	2,710,983
Barclays Global Investors	2,525,026
Lazard Freres Asset Management	222,687
Morgan Stanley Asset Management	1,851,539
Nomura Capital Management	769,607
Subtotal International Equity Managers	8,938,169
Fixed Income Managers	
Loomis, Sayles & Co.	636,863
Pacific Investment Management Co.	1,581,893
Payden & Rygel Investment Counsel	564,305
Western Asset Management Co.	1,269,882
Subtotal Fixed Income Managers	4,052,943
Foreign Currency Overlay Manager	
Payden & Rygel – Overlay	78,310
Barclays Global Investors	750,000
Pareto Partners	1,252,927
Subtotal Foreign Currency Overlay Manager	2,081,237
Real Estate and Alternative Investment Managers	
AEW Capital Management	2,425,404
Portfolio Advisors	177,301
Subtotal Real Estate and Alternative Investment Managers	2,602,705
Cash Equivalent Manager	
Payden & Rygel Investment Counsel	156,987
Subtotal Cash Equivalent Manager	156,987
Total Investment Management Fees	**25,892,004**
Other Fees and Expenses	
Mellon Trust - Custodian Fees and Expenses	776,512
Consultant Fees	535,683
Legal Expenses	311
Total Other Fees and Expenses	**1,312,506**
Total Investment Fees and Expenses	**$27,204,510**

Investment Section

Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2006

3

Safeguarding
the financial future
of our members

Chief Investment Officer's Review

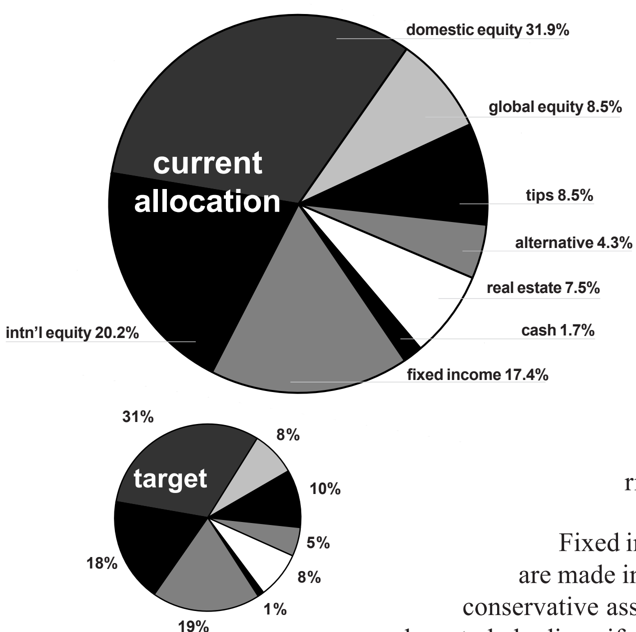
Robert V. Smith, CFA, Chief Investment Officer

The investment portfolio of the Kansas Public Employees Retirement System represents all contributions to the plan, from both members and their employers, as well as all net earnings on these assets. Total assets at the end of the fiscal year were nearly $12.3 billion. KPERS' portfolio is managed for the long term in an effort to generate adequate returns to pay the benefits promised to members. To that end, the assets receive the benefit of a diversified, carefully monitored investment portfolio that includes stocks, bonds, real estate, alternative investments and cash.

Asset Allocation

The portfolio is invested to varying degrees in seven different asset classes using eight distinct sub-portfolios: domestic equity, international equity, global equity, fixed income, inflation-linked bonds (TIPS), real estate, alternative investments and cash.

Equity investments constitute the largest portion of portfolio assets. KPERS invests in equities (primarily publicly-traded stocks) to participate in the investment returns produced by companies seeking to grow and profit from their economic activities. Equity investments are made both within the United States and overseas. The overseas component (international equity and a material part of global equity) has grown in recent years, mirroring the growth and development of the economies, financial markets and investment opportunities outside the borders of the United States. By investing a portion of equity assets in foreign markets, KPERS more directly sources return from economic activity overseas and diversifies risk across a wider range of investments. In pursuing this geographically diverse equity investment strategy, we hold the expectation of better returns with more stability of return over time than would be available from a U.S.-only portfolio. The Board of Trustees has carefully selected several managers to construct and manage several sub-portfolios that blend together to provide risk-controlled exposure to equity returns on a global basis.



Fixed income investments, the next largest portion of the portfolio, are made in order to source investment returns from this large, stable, conservative asset class; to help protect the System's assets from principal loss; to help diversify total portfolio investment risk and add stability to total returns; and to provide current income. The fixed income portfolios are constructed using broad mandates and with global opportunities in mind. While these portfolios are very strongly U.S.-oriented and primarily contain U.S. dollar denominated assets, KPERS fixed income managers have significant latitude to seek out and capture fixed income returns globally and broadly along the fixed income risk spectrum. It is our belief that over time this broad opportunity set will lead to an improved investment experience over what would be experienced with a more narrowly focused policy.

Investments in TIPS, real estate, alternative investments and cash complete the portfolio. TIPS are fixed income investments that have the added feature of inflation protection. Real estate investments generate returns in a different manner than equities or fixed income investments and also provide inflation protection. KPERS' alternative investments, primarily investments in private partnerships that make venture capital investments, pursue leveraged buyout strategies or own private debt, are a higher-risk growth vehicle for the overall portfolio. In addition to their individually unique return profiles, this group of investments provide diversification of investment risk to the overall portfolio. The investments in this group are primarily domestic but include a small amount of foreign exposure.

Investment Policy

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

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

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

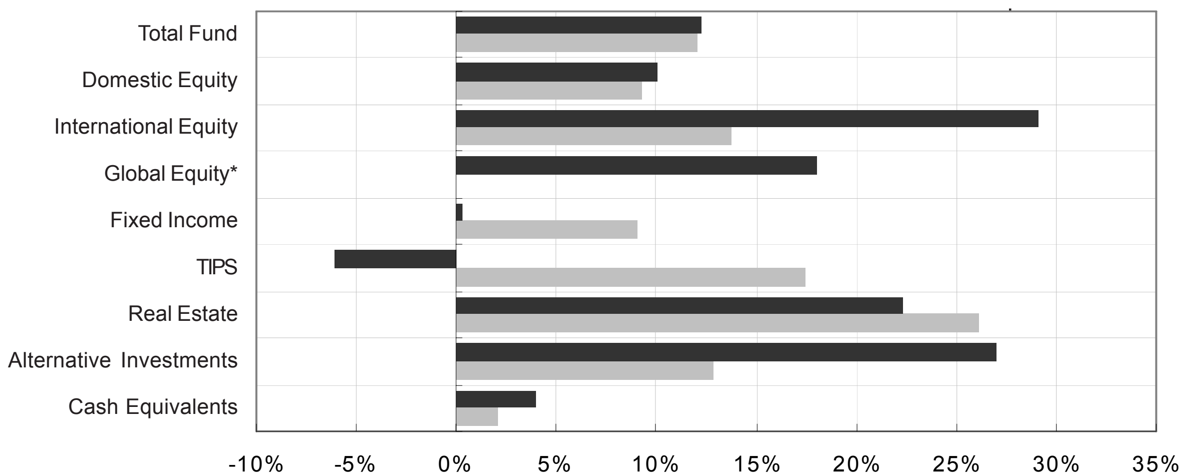
Recent Performance

The System realized a 12.3 percent return for the fiscal year, in excess of long-run average annual return assumptions and expectations held by KPERS. The System uses a return assumption of 8 percent annually when comparing the assets to the calculated value of the promised benefits which the assets support. The investment portfolio is constructed using assumptions regarding long-run average annual returns from each of the asset classes used in the portfolio. The present asset mix is expected to produce just over 8 percent on average annually over a multi-year period. KPERS fully expects year-to-year variability in return around the 8 percent average with some years below 8 percent and some years, such as this year, above the 8 percent return assumption.

Fiscal year 2006 returns were led by the KPERS' international equity investments, which returned 29.1 percent on the year. The alternative investment portfolio followed at 27.0 percent and the real estate portfolio generated a 22.3 percent return. Fixed income investments struggled in the year with the fixed income portfolio just breaking even at a 0.3 percent return and TIPS losing 6.1 percent. Additional investment performance by asset class is detailed in the comments that follow.

The Retirement System employs a staff of eight professionals to provide oversight and management of the System's assets and the System's external asset managers. Under the oversight of the Chief Investment Officer, responsibility for the portfolio is divided by asset class. The Deputy Chief Investment Officer is assigned to publicly traded equity investments, the Fixed Income Investment Officer to the fixed income portfolios, and the Private Markets Investment Officer to real estate and alternative investments. Their individual comments on these respective areas follow. In keeping with our mandate to prudently manage the assets of the System solely for the benefit of the participants, we will continue to research new ideas in the management and makeup of the System's portfolio while endeavoring to deliver consistent risk adjusted returns and to contain overhead.

Return Comparison by Asset Class
For Fiscal Years Ending June 2005 and June 2006



*Strategy implemented in March 05. No FY05 return available.

FY 05 FY 06

Equity Investments

Scott Peppard, Deputy Chief Investment Officer

Returns for the world's equity markets were quite strong during the most recent fiscal year. Equity returns, as measured by the Morgan Stanley Capital International (MSCI) All Country World Index, an index that consists of the world's developed and emerging countries, posted a return of 18.6 percent for the year. Domestic and international equity returns began the year on a good note and remained positive throughout most the year with international equities outperforming domestic securities by a wide margin.

The MSCI All Country World Index excluding the United States, an index of 47 developed and emerging market countries, was up 28.4 percent. This extremely strong performance was widespread as the major regional components of Europe and the Pacific Basin were up 25.3 percent and 31.3 percent, respectively. During the year the broad international index suffered just two months of significant negative returns. The first setback occurred in October as markets around the world responded to natural disasters in the U.S. that threatened to impact the world's flow of oil. Markets again corrected in May after several months of positive performance.

The return of the broad domestic market, while positive, was much more subdued compared to non-U.S. stocks. The Russell 3000 Index, an index made up of the largest 3000 domestic stocks, was up 9.6 percent. Broken down by company size, the Russell 1000 Index, made up of the largest 1000 stocks, returned 9.1 percent, while smaller stocks, as measured by the Russell 2000 Index, returned 14.6 percent. This performance, while not as strong as international equity securities, was favorable in light of the negative events that occurred including an extraordinary destructive hurricane season, rising energy prices and the persistence of the Federal Reserve raising the Federal Reserve funds rate.

As part of a diversified portfolio the System invests in a number of asset classes with varying return, risk and liquidity characteristics. After careful analysis the System has invested the majority of its assets in the publicly traded equity markets to take advantage of the high rates of return these securities have traditionally provided. Throughout the fiscal year the System's target allocation to these assets has been 57 percent of total assets. This allocation is made up of three sub-portfolios based on the geographic areas where the managers are allowed to invest. The largest sub-portfolio is made up of domestic equity securities and makes up 31 percent of the System's total assets. Another sub-portfolio is invested in international equities and makes up 18 percent of the total fund. Through this sub-portfolio the System gains exposure to the world's developed and emerging markets outside of the U.S. The final sub-portfolio is devoted to global equities (eight percent of the total fund) which integrates investment in both domestic and international equity securities. For the fiscal year the System's equity portfolio, which includes domestic, international and global equities, returned 17.3 percent. This number becomes more meaningful when viewed by comparing each sub-portfolio to its appropriate benchmark.

The System's domestic equity portfolio was valued at $3.84 billion at the end of the fiscal year. Over that period the portfolio returned 10.1 percent, which compares favorably to the Russell 3000 Index return of 9.6 percent. As previously mentioned the System's overall strategy is implemented through a variety of investment strategies. During this period the System used seven clearly defined strategies in an effort to outperform the overall domestic equity benchmark. The overall strategy was successful as the majority of the underlying strategies added value relative to their respective benchmarks. Specifically, the System's large cap strategies performed very well with four of the five strategies producing above benchmark performance. The System's small cap strategies were not as successful as both of the strategies underperformed by varying degrees.

The international equity portfolio performed well during the year ending with a value of $2.52 billion. This portion of the portfolio experienced extremely positive results both in absolute and relative terms. For the year the portfolio returned 29.1 percent while the benchmark, a blend of the broad MSCI All Country World Index ex U.S. and the MSCI Europe, Australia and Far East Index, returned 27.6 percent. The System employs four distinct strategies in managing this allocation, all of which outperformed their benchmarks.

The global equity strategy has been in place for a year and three months. The strategy consists of two active managers both of whom possess a framework to analyze and invest in the best stocks regardless of where the company is domiciled. Over the latest year the combined portfolios performed well in absolute terms returning 18.0 percent, but underperformed the benchmark's 18.6 percent return. The two underlying strategies, while similar in terms of relying on intensive company analysis, are different in the way the portfolio is constructed and managed. During the fiscal year one manager outperformed and one underperformed.

The equity portfolio has performed well since undergoing some changes in late fiscal year 2005 and the beginning of fiscal year 2006. While there likely won't be much change for the foreseeable future the System is continuing to review additional strategies and opportunities to improve the return and risk profile of the portfolio.

Fixed Income Investments and Treasury Inflation Protected Securities

Cheri Woolsey, Fixed Investment Officer

Forces of nature and the Federal Reserve brought economic uncertainty into the marketplace during fiscal year 2006. The impact of Hurricanes Katrina and Rita immediately affected oil prices as Gulf Coast refineries were either temporarily shut-down or severely damaged. Rising gasoline prices and a slowing housing market infringed on consumer spending habits that had fueled U.S. economic growth over the past few years. Additionally, economists predicted higher inflation in the event that soaring commodity prices would be passed on to the price of consumers goods and services. Monitoring and defining inflation became the markets favorite pastime. The new Federal Reserve Chairman Ben Bernanke spoke of targeting an inflation range of one percent to two percent, which only exacerbated market reactions to various derivations of inflation indexes.

For most of the fiscal year, headline inflation was posting numbers well above the Fed's suggested targets making it easier for the Fed to justify increasing its federal funds rate by one-quarter of a percent at each of its eight meetings. The current Federal Reserve Bank funds rate cycle reached a high of 5.25 percent in June 2006. Short-term rates had increased by two percent while rates five years and longer increased by approximately one percent over the past year, causing the yield curve to flatten and then invert. The yield curve, commonly displayed in graphical form, shows the relationship between yields and maturities for securities of similar quality. Typically, an inverted yield curve signals a potential for a recession. Interestingly, forecasters of rates were in two camps: continued rate increases to rein in a strong economy and inflation or a short pause followed by rate decreases to prevent a recession. Each group opined on the same data, yet concluded significantly different forecasts of the economy. These opposing forecasts produced significantly different structures in fixed income portfolios in regard to quality, sector and position along the yield curve.

Overall, investment grade fixed income securities had a challenging year as represented by the Lehman Aggregate Index return of negative 0.6 percent. The primary detractor that caused price deterioration was increased interest rates across all maturities. After more than a decade of back-to-back positive yearly returns, the likelihood of low or slightly negative returns was highly probable. Conversely, the more risky and volatile below investment grade securities continued to provide positive returns: 4.15 percent by CitiGroup High Yield Index and 4.62 percent by JP Morgan Emerging Market Bond Index. In order to provide the System's fixed income managers with a broader benchmark that includes high yield and emerging market securities, the Lehman Universal Index was adopted in March of 2005. The degree to which high yield and emerging market securities were included in a manager's portfolio is particularly evident in their returns over the past year.

To reduce the vulnerability of the System's assets to the uncertainty of rising interest rates throughout the year, the System's Fixed Income portfolio and Treasury Inflation Protected Securities (TIPS) portfolio as a percent of the total fund were allowed to move below their target allocations of 19 percent and 10 percent respectively. The System's Fixed Income portfolio returned a positive 0.3 percent in excess of KPERS Fixed Income Benchmark return of negative 0.3 percent. The out performance can be attributed to our external managers successful implementation of broader strategies over the past twelve months. The positive impact of increasing our managers' investment universe to include high yield, emerging market and non-dollar investment grade sovereign securities was particularly evident by the 3.7 percent return of our Medium Grade manager.

As is typically the case, one goal of the internally managed Treasury Inflation Protected Securities (TIPS) portfolio is to meet or exceed the return of its custom benchmark which is comprised of the three longest maturity TIPS, originally issued as thirty year securities. For the fiscal year 2006, the KPERS TIPS portfolio performed well in relative terms with a return of negative 6.1 compared to its benchmark's return of negative 6.2 percent. In this low rate environment, the System will continue to look to fixed income as an important and valuable source of income and diversification. Over the past ten years KPERS Fixed Income portfolio has returned 6.1 percent. KPERS TIPS portfolio has returned 10.4 percent since its inception in 1999. Looking forward, the System will continue to evaluate new fixed income strategies that will provide additional returns or reduce risk as a way to add value to the overall fund.

Real Estate Investments

Robert Schau, Private Markets Investment Officer

For fiscal year 2006 the System continued to target eight percent of the total portfolio to real estate investments. Through a broad exposure to institutional-quality real estate, this allocation is expected to provide a steady source of relatively high current income returns and enhance portfolio diversification by reducing overall return volatility. Due to continued appreciation and investing (both actual and commitments), the weighting is now approximately neutral.

The System's long-term investment strategy is focused 50 percent on direct ownership of office, industrial, retail and multifamily properties. Geographic diversification of the portfolio was further improved this year with direct investments in Houston, Northern New Jersey and Honolulu. The other 50 percent of the portfolio is focused on investments in publicly traded real estate investment trusts (REITS) and participation in over a dozen non-core investment funds. These non-core funds consist of widely-diversified pooled holdings of real estate properties with higher risk and return expectations.

Historically, the performance of commercial real estate has been highly correlated to overall economic growth. Although prices have risen substantially in recent years, so too have replacement costs. This has imposed a discipline to keeping new supply in check and allowing for growth in occupancy and rental rates. As evidence of the factor, the occupancy of the core direct investments increased from 86 to 90 percent over the past year. Although some reversion to the mean is to be expected, the System has thus far benefited greatly by anticipating that a correction of the magnitude experienced in the early 1990's will not end this cycle. Nonetheless recent direct investments remain focused on acquiring properties which include defensive characteristics. These characteristics include high and stable occupancy, strong credit tenants in supply-constrained markets with limited competitive development. We have also continued with sales efforts to take advantage of the strong pricing environment and to further enhance diversification.

For the fiscal year ended June 30, 2006, the portfolio generated a total return (net changes in value plus current income) of 22.3 percent. The total return substantially exceeded the 17.4 percent return of the blended benchmark. The benchmark is comprised of the policy-weighted components for private and public real estate and provides a comparative reference for performance. For the first time in several years the publicly traded REITs did not set the pace for performance. While generating a still-healthy 20 percent, the performance was eclipsed by both the non-core portfolio (40 percent) and core portfolio (22 percent). Due to the lag in reporting of fund information, amounting to approximately one-quarter of the total real estate portfolio, there is further imbedded appreciation that will accrue in early FY2007.

Over the past three and five years, the portfolio has generated an annual return of 21.4 percent and 15.4 percent, respectively, ranking 2nd and 1st, respectively, across all asset class performance.

Alternative Investments

Don Deseck, Senior Investment Accountant

Alternative investments are traditionally focused on private debt and equity assets that are not traded on an organized exchange. These investments provide an opportunity for higher returns due to the higher risk of principle loss, illiquidity and market inefficiencies inherent in this segment of the capital markets. Large institutional investors like KPERS seek investments with these characteristics primarily to improve return on the total portfolio. To help manage and diversify the inherent risks, alternative investments are frequently made in a pooled format, usually as a limited partnership or limited liability corporation. At present the System has investment relationships with 35 different investment managers across 53 distinct partnership funds. Risk is further diversified across several investment sectors including leveraged buyout (LBO), venture capital, mezzanine and distressed debt. This asset class has expanded and evolved in recent years with large capital inflows from institutional investors looking for higher returns.

The System has a five percent target allocation to alternative investments. The System began constructing the majority of the current portfolio in 1997 with commitments made over the ensuing four years. The System has made no new commitments in recent years and staff is in the process of developing a new alternative investment strategy and anticipates maintaining this asset class. Additions to the alternative investments are restricted by Kansas statute to an annual limit of one percent of the total fund.

Alternative investment performance is highly sensitive to the general state of the economy and the health of the public equity markets. Over the course of the fiscal year the strength of the economy, as measured by growth in Gross Domestic Product, weakened somewhat. In turn, the public equity markets spent most of the fiscal year in directionless trading. However, a robust initial public offering market, particularly in the first half of the fiscal year, provided a boost to alternative investment returns. Although concerns about terrorism, energy prices, housing and inflation continue, the economy and capital markets are in a stable position this year. KPERS' aggregate alternative investment portfolio achieved a 27.0 percent return for the fiscal year. The portfolio's performance substantially exceeded the alternative investment benchmark of 9.1 percent. Within the asset class, venture capital experienced the highest return followed by LBO and mezzanine debt. Distressed debt investments struggled, ending their second straight year of negative returns. KPERS' portfolio is mature and producing above-expected returns at this stage; the System expects more normalized performance from these investments in the future.

As required by K.S.A 74-4904, a schedule of alternative investment initiated on or after July 1, 1991, begins on page 54. Another schedule, summarizing changes in fair value of investments, is on page 53. A listing of U.S. Equity commissions paid in fiscal year 2006 and the top ten equities and fixed income holdings at fiscal year end are shown on pages 56 and 57.

Investment Performance Report

For the period ending June 30, 2006

Portfolio Type/Associated Benchmark	2006	Last 3 Years	Last 5 Years
Total Portfolio	**12.3%**	**13.3%**	**7.6%**
Policy Index	10.4	12.0	7.3
Consumer Price Index	4.3	3.3	2.6
Domestic Equity Portfolio	**10.1**	**13.0**	**4.5**
KPERS Equity Benchmark	9.6	12.6	4.3
International Equity Portfolio	**29.1**	**23.5**	**10.5**
KPERS Int'l Equity Benchmark	27.6	24.6	10.5
Global Equity Portfolio	**18.0**	**NA**	**NA**
MSCI All Country World Index	18.6	18.3	6.9
Fixed Income Portfolio	**0.3**	**4.1**	**6.2**
KPERS Fixed Income Benchmark	-0.3	3.3	5.8
TIPS Portfolio	**-6.1**	**5.2**	**9.1**
KPERS TIPS Benchmark	-6.2	**5.2**	9.0
Real Estate Portfolio	**22.3**	**21.4**	**15.4**
KPERS Real Estate Benchmark	17.4	16.2	12.0
Alternative Investment Portfolio	**27.0**	**19.4**	**6.0**
KPERS Alternative Investment Bench	9.1	8.9	6.7
Cash Equivalents Portfolio	**4.0**	**2.4**	**2.4**
Merrill Lynch 0-1 Yr. Treasury Index	3.6	2.2	2.3

1) Time weighted total return includes income and changes in market value.

Schedule of Investment Summary
For the Fiscal Year Ended June 30, 2006 ($ in thousands) (1)

	6/30/05 Fair Value	Purchases and Other Increases	Sales and Other Decreases	6/30/06 Fair Value	Asset Mix Fair Value
Marketable Securities					
Domestic Equities	$3,533,296	$2,061,213	($1,741,256)	$3,853,253	30.22%
International Equities	2,611,045	2,034,340	(1,491,974)	3,153,411	24.73
Total Fixed Income	3,516,053	9,470,499	(9,235,430)	3,751,122	29.42
Temporary Investments (2)	527,388	27,524,297	(27,519,527)	532,158	4.17
Total Marketable Securities	**10,187,782**	**41,090,349**	**(39,988,187)**	**11,289,944**	**88.54**
Real Estate and Alternative Investments					
Real Estate	842,168	283,270	(206,330)	919,108	7.21
Direct Placements and Limited Partnerships	515,346	80,045	(53,976)	541,415	4.25
Total Real Estate and Alternative Investments	**1,357,514**	**363,315**	**(260,306)**	**1,460,523**	**11.46**
Total	**$11,545,296**	**$41,453,664**	**($40,248,493)**	**$12,750,467**	**100.00%**

1) Amounts include changes in unrealized appreciation and exclude interest and dividend accruals. Amounts exclude security lending cash collateral of $2,225,521,793 for FY 2005, and FY 2006 cash collateral of $1,887,984,971.

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

Alternative Investments Initiated on or After July 1,1991 (1)
As of June 30, 2006

Shares	Description	Cost	Market Value
	Included in Alternative Investments Portfolios:		
12,187,500	Advanced Technology VI LP	$9,737,488	$2,812,071
14,850,000	Apax Europe IV LP	4,718,006	6,079,411
27,030,000	Apax Europe V LP	13,787,521	23,514,022
5,000,000	Battery Ventures V LP	1,277,802	1,136,885
10,939,500	Battery Ventures VI LP	8,532,827	6,008,717
10,943,511	Beacon Group Energy Fund II	2,028,144	2,073,511
19,486,332	Behrman Capital II LP	13,706,789	14,944,010
29,499,291	Behrman Capital III LP	20,824,306	21,297,338
5,543,913	Candover 1997 US #1 Fund LP	-	55,442
18,637,604	Capital Resource Partners IV	8,652,561	10,281,658
5,687,035	Cinven Second Fund US LP	3,304,209	3,986,158
14,532,024	Clayton Dubilier & Rice VI LP	7,789,207	5,688,285
17,879,160	Cypress Merchant Banking II	14,217,526	16,479,597
9,700,000	Dominion Fund V LP	6,425,904	2,052,598
5,000,000	El Dorado Ventures IV LP	1,833,722	498,990
10,000,000	El Dorado Ventures V LP	7,725,541	3,708,750
16,250,000	El Dorado Ventures VI LP	14,776,771	11,921,000
17,397,353	GTCR Capital Partners LP	6,162,946	5,443,353
28,752,662	GTCR Fund VII LP	9,375,090	21,462,396
5,675,000	GTCR Fund VII/A LP	1,548,123	5,917,759
18,300,000	Halpern Denny Fund III LP	8,162,201	12,783,721
19,040,115	Harvest Partners III LP	8,909,346	6,512,576
15,416,662	Kelso Investment Assoc VI	3,213,876	3,899,398
17,048,063	Littlejohn Fund II LP	9,124,827	7,511,598
16,999,811	McCown De Leeuw & Co IV LP	1,246,902	3,155,437
20,000,000	MD Sass Corp Resurgence	5,450,614	4,001,900
17,875,000	MD Sass Corp Resurgence II	6,310,258	5,249,030
17,355,187	MD Sass Corp Resurgence III	7,312,598	4,949,075
18,814,828	Oak Hill Capital Partners LP	9,418,059	10,376,886
13,000,000	OCM Opportunities Fund II LP	1,594,209	1,558,375
20,000,000	Ocm Opportunities Fund III LP	2,491,417	1,903,960

Alternative Investments Initiated on or After July 1,1991 (1) continued

As of June 30, 2006

Shares	Description	Cost	Market Value
	Included in Alternative Investments Portfolios:		
8,000,000	Oneliberty Fund IV LP	3,245,248	1,856,704
19,300,000	Oneliberty Ventures 2000 LP	17,018,309	11,049,868
38,800,000	TA IX, L. P.	25,976,144	31,807,930
20,000,000	TA Subordinated Debt Fund LP	11,934,014	13,263,320
17,676,000	TCV IV LP	11,335,154	11,675,086
17,289,262	Thomas H Lee Equity Fund IV LP	116,365	4,963,470
35,122,707	Thomas H Lee Equity Fund V	19,952,463	39,789,180
4,613,438	Trinity Ventures VI LP	775,073	375,815
14,250,000	Trinity Ventures VII LP	8,155,410	4,457,942
14,100,000	Trinity Ventures VIII LP	10,936,041	8,737,925
19,980,778	Triumph Partners III LP	5,630,799	4,553,459
15,000,000	Vantagepoint Venture III	8,931,326	4,956,630
25,500,000	Vantagepoint Venture IV LP	20,709,525	19,624,290
22,619,233	Vestar Capital Partners IV LP	13,772,772	13,528,631
18,584,953	VS & A Communications III	10,529,966	7,169,945
20,000,000	Warburg Pincus Equity (8)	-	5,148,560
36,800,000	Welsh, Carson IX LP	19,828,348	35,164,240
20,000,000	Welsh, Carson VIII LP	10,975,038	13,524,040
19,954,755	Willis Stein & Partners II LP	5,140,000	5,257,679
36,022,673	Willis Stein & Partners III	33,114,351	34,580,361
18,595,810	Windjammer Fund II LP	12,624,897	17,683,370
15,989,139	Windward Capital Partners II	1,532,350	11,104,585
Total Post 1991 Investments		**$471,892,383**	**$527,536,937**

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

U.S. Equity Commissions

For the Fiscal Year Ending June 30, 2006

Commissions Broker Name	Commission Paid	Shares	Commission Per Share	Percent of Total
Banc Of America Secs LLC, Charlotte	$437,215	11,864,073	$ 0.04	19.9 %
Goldman Sachs & Co, NY	406,874	4,354,943	0.09	18.5
Morgan J P Secs Inc, NY	308,467	6,888,837	0.04	14.1
Bear Stearns & Co Inc, NY	211,205	10,534,141	0.02	9.6
Citigroup Gbl Mkts Inc, NY	100,100	2,504,351	0.04	4.6
Deutsche Bk Secs Inc, NY	93,372	2,357,304	0.04	4.2
Morgan Stanley & Co Inc, NY	59,310	3,140,960	0.02	2.7
UBS Securities LLC, Stamford	58,364	2,563,683	0.02	2.7
Merrill Lynch Pierce Fenner Smith Inc NY	48,555	2,036,207	0.02	2.2
Investment Technology Groups, NY	39,364	2,275,037	0.02	1.8
Thomas Weisel Partners, San Francisco	36,432	922,600	0.04	1.7
Jefferies & Co Inc, NY	34,958	1,052,830	0.03	1.6
Credit Suisse, NY	33,087	1,385,418	0.02	1.5
Nomura Secs Intl Inc, NY	30,674	666,823	0.05	1.4
Piper Jaffray & Co, Minneapolis	23,604	682,587	0.03	1.1
Goldman Sachs Execution & Clearing, NY	22,174	2,103,582	0.01	1.0
Bernstein Sanford C & Co, NY	20,294	734,900	0.03	0.9
Lehman Bros Inc, NY	19,115	589,890	0.03	0.9
Unx Com, NY	18,039	1,803,900	0.01	0.8
Instinet Corp, NY	17,723	1,572,722	0.01	0.8
Weeden & Co, NY	17,461	1,412,476	0.01	0.8
HSBC Secs Inc (James Capel), NY	14,744	382,705	0.04	0.7
Pershing LLC, Jersey City	14,015	578,724	0.02	0.6
Bear Stearns Sec Corp, Brooklyn	10,444	272,800	0.04	0.5
Knight Sec Broadcort, Jersey City	7,707	228,250	0.03	0.4
Others	109,977	4,110,188	0.03	5.0
Total Broker Commissions	**$2,193,274**	**67,019,931**	**$0.03**	**100 %**

List of Largest Holdings, Equities (a)
As of June 30, 2006

Shares	Security	Fair Value ($)
1,791,929	General Elec Co Com	$59,061,980
960,741	Exxon Mobil Corp	58,941,460
1,024,698	Citigroup Inc Com	49,441,679
1,012,388	Bank of America Corp	48,695,863
1,777,881	Microsoft Corp Com	41,424,627
475,761	Simon Property Group Inc	39,459,617
891,521	ING Group N.V.	35,030,458
3,227	Sumitomo Mitsui Group	34,157,108
547,674	Chevron Corp	33,988,648
415,116	Altria Group Inc	30,481,968

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

List of Largest Holdings, Fixed Income (a)
As of June 30, 2006

Par Value	Security	Description	Fair Value ($)
553,174,906	US Treasury Inflation Index Bd	3.875% 04/15/2029	$684,553,946
161,100,000	Commit To Pur FNMA Sf Mtg	5.000% 07/01/2036	150,580,170
120,811,560	US Treasury Inflation Index Bd	3.625% 04/15/2028	143,388,220
97,600,540	US Treasury Inflation Index Bd	3.375% 04/15/2032	115,260,382
111,643,400	US Treasury-CPI Inflation Index B	2.000% 01/15/2016	106,652,940
78,800,000	Goldman Sachs Repo	5.210% 07/03/2006	78,800,000
78,890,000	US Treasury Notes	4.375% 12/15/2010	76,649,524
63,600,000	Commit To Pur FNMA Sf Mtg	5.500% 07/01/2035	61,075,080
56,276,528	FNMA Pool#0725946	5.500% 11/01/2034	54,157,716
50,835,000	Commit To Pur FNMA Sf Mtg	6.000% 07/01/2036	50,024,794

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

Actuarial Section

Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2006

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Safeguarding
the financial future
of our members

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Consultants and Actuaries

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November 14, 2006

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 completed an actuarial valuation of the Kansas Public Employees Retirement System as of December 31, 2005, for determining contributions for fiscal year 2009 for the State and 2008 for Local employers. The major findings of the valuation are contained in this report. The report reflects a change in the retirement assumption for Judges. There was no other change in the actuarial assumptions or methods from the prior valuation. There was only one minor change in the benefit provisions. Both the assumption and benefit change are discussed on page 62 of the report. All the information and the supporting schedules found on pages 62 to 93 of the Actuarial Section have been provided by Milliman, Inc. We also provided the information used in the supporting schedules in the *Schedules of Funding Progress* in the Financial Section as well as the employer contribution rates shown in the *Schedule of Employer Contributions* in the Financial Section.

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

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

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

November 14, 2006
Page 2

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

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

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

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

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

MILLIMAN, Inc.

Sincerely,

Patrice Beckham

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

Brent A. Banister

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

Actuarial Valuation 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, 2005, actuarial valuations for each of the Systems.

The primary purposes of performing actuarial valuations are to:

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

This report reflects one change in the actuarial assumptions. The retirement assumption for the Judges group was changed from a single age to a set of retirement rates.

The 2006 Legislature passed legislation containing the following provisions which impacted KPERS:

- Increases the minimum monthly retirement benefit for former members of the Kansas School Retirement System (KSRS) who retired before January 1, 1971, with at least 20 years of service, from $500 to $625 effective July 1, 2006 and to $750 effective July 1, 2007. The Legislature appropriated $300,000 to offset the increase in the unfunded actuarial liability for this benefit change.
- Increases the annual earnings limitation for KPERS retirees who return to work for their former employer from $15,000 to $20,000.
- Requires that KPERS participating employers pay the actuarial employer contribution rate and statutory employee contribution rate when hiring KPERS retirees who retired from a different KPERS employer (for retirees first employed on or after July 1, 2006).
- Establishes a statutory rate cap on annual employer contribution rate increases for the KPERS correctional officer groups.

The valuation results provide a "snapshot" view of the System's financial condition on December 31, 2005. The unfunded actuarial liability for the System as a whole increased by $409 million due to various factors. A detailed analysis of the change in the unfunded actuarial liability from December 31, 2004, to December 31, 2005, is shown on page 71.

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

The market value of assets is slightly higher than the actuarial value, and most of the previous investment losses have now been recognized. If the assumed 8 percent investment return is achieved in 2006, an actuarial gain on assets is expected in the December 31, 2006 valuation. This is due to the use of an asset smoothing method and the delayed reflection of market experience in the actuarial value of assets.

Contribution Rates

The System's funding objective 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 2033. Generally, actuarial contribution rates to the various systems consist of a "normal cost" for the portion of projeced liabilities allocated by actuarial cost method to service of members during the year following the valuation date, and an "unfunded actuarial liability contribution" for the excess of the portion of projeced liabilities allocated for service to date over the actuarial value of assets on hand.

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

The contribution rates in the December 31, 2005, valuation will set rates for fiscal year end 2009 for the State and 2008 for Local employers.

In KPERS, State, School and Local employers do not necessarily contribute the full actuarial contribution rate. Based on legislation passed in 1993, the employer contribution rates certified by the Board may not increase by more than the statutory cap. The statutory cap, which has been changed periodically, is currently 0.60 percent for the State, School and Local groups.

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

December 31, 2005 Valuation

System	Actuarial	Statutory	Difference
State	7.35%	6.97%[1]	0.38%
School	11.95%	6.97%[1]	4.98%
Local	7.92%	4.91%[1]	3.01%
Police & Fire - Uniform Rates 2	13.86%	13.86%	0.00%
Judges	22.08%	22.08%	0.00%

December 31, 2004 Valuation

System	Actuarial	Statutory	Difference
State	6.99%	6.37%[1]	0.62%
School	11.47%	6.37%[1]	5.10%
Local	7.69%	4.31%[1]	3.38%
Police & Fire - Uniform Rates 2	13.32%	13.32%	0.00%
Judges	22.38%	22.38%	0.00%

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

2) For KP&F, the statutory contribution rate is equal to the "Uniform" rate. The rate shown is for local employers. The rate for State employers is 13.80 percent this year, which includes a payment of 0.58 percent for the debt service payment on the bonds issued for the 13th check. The uniform rate does not include the payment required to amortize the unfunded past service liability or any 15 percent excess benefit liability determined separately for each employer.

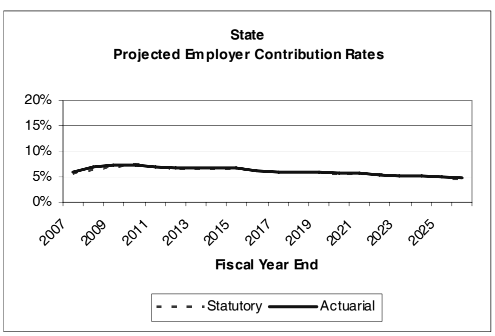
Separate employer contribution rates are calculated for two subgroups of the State. Two Correctional Employee Groups, one with normal retirement age 55 and the other with normal retirement age 60, have higher contribution rates to finance the earlier normal retirement age. Employer contribution rates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

	Actuarial	**Statutory**
Retirement Age 55	9.19%	7.44%
Retirement Age 60	9.04%	7.30%

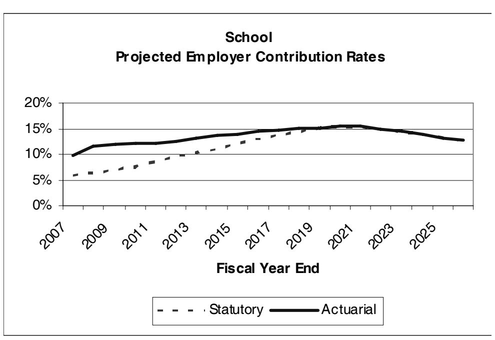
The change in the actuarial contribution rate from December 31, 2004, to December 21, 2005, and the primary components are shown in the table on page 71.

Due to statutory caps, the full actuarial contribution rate is not contributed for the State, School, and Local groups. Based on the current valuation, there is a difference (shortfall) between the actuarial and statutory contribution rates of 0.38 percent, 4.98 percent and 3.01 percent respectively for the State, School and Local groups. Assuming an 8 percent return on the market value of assets for 2006 and beyond, all other actuarial assumptions are met in the future, and the current level of statutory caps, the ARC Date (statutory and actuarial contribution rates are equal) for the State group is 2010, the School group is 2019 and the Local group is 2015.

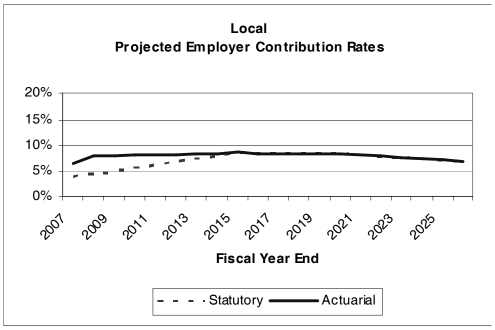
Despite a rate of return on the market value of assets of over 9 percent for 2005, there was an actuarial experience loss on the actuarial value of assets. The impact of negative experience is reflected in the unfunded actuarial liability (UAL). The result is an actuarial loss that increases the payment on the UAL. As the remainder of the net deferred investment experience is recognized in the actuarial value of assets in future years, contributions can be expected to decrease slightly, absent unfavorable experience to offset the previously unrecognized gains.



Due to the funded status of the Plan and the increase in amount of the statutory cap, the ARC Date (date at which the statutory contribution rate equals the actuarial required rate) for the State is 2010, if all actuarial assumptions are met.

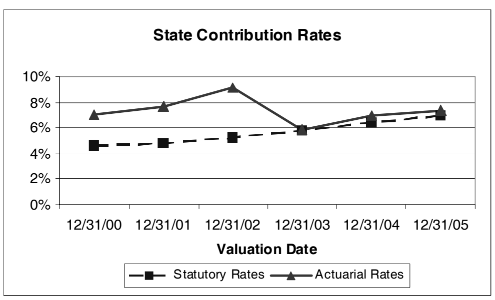


Given the significant difference between the statutory and the actuarial contribution rate, the statutory rate is expected to increase steadily before reaching the ARC Date in 2019.

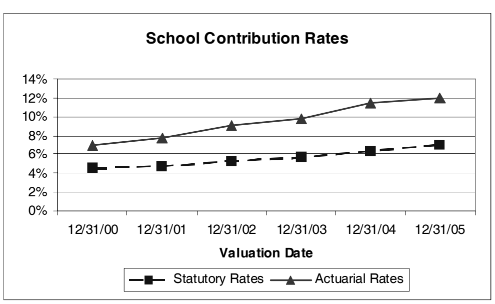


The employer contribution rate is expected to increase each year by the statutory cap for nearly a decade before it stabilizes.

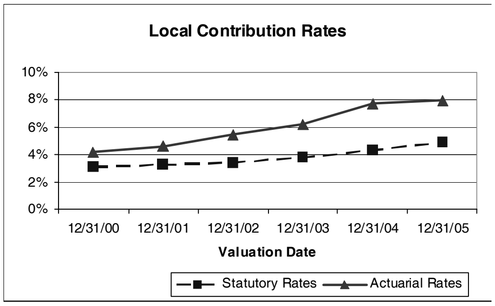
Historical contribution rates for each group are shown on the following pages. Please note that prior to the December 31, 2003, valuation, one contribution rate was developed for the State and School together as one group. Legislation passed in 2004 split the contribution rate calculations into two separate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



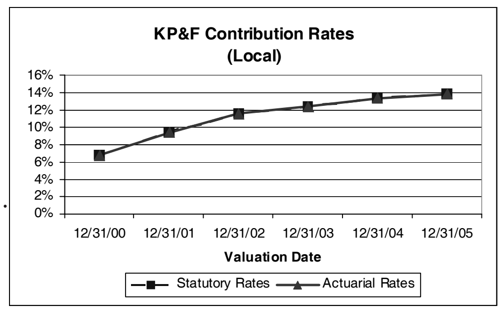
The split of the State group into a separate group with the 2003 valuation, coupled with the bond issue, lowered the actuarial contribution rate. Recognition of unfavorable investment experience in the last few years has resulted in an increase in the contribution rates.



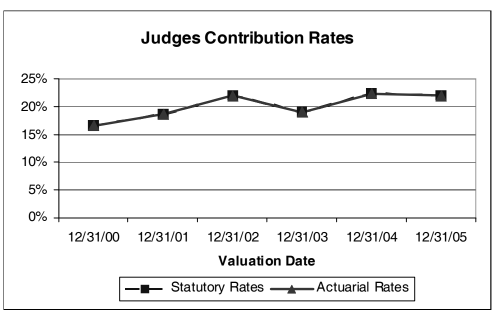
Due to investment experience, changes in actuarial methods and assumptions, and the magnitude of the difference between the actuarial and statutory contribution rates, the funded status of the School group has declined and the actuarial contribution rate has increased.



The Local contribution rate has also been impacted by investment returns on the actuarial value of assets that are below the actuarial assumption. As a result, the difference between the statutory and actuarial contribution rate has increased. Legislation passed in 2004 provided for increased statutory caps, which should allow the statutory and actuarial rates to converge, if actuarial assumptions are met in the future.



Strong investment returns before 2000 held employer contribution rates at a very low level. Investment experience since then coupled with a change in actuarial methodology has dramatically increased the contribution rates.



Significant changes in the actuarial assumptions in both the December 31, 2000 and 2004 valuations, coupled with investment experience in recent years have generally resulted in higher contribution rates.

Experience – All Systems Combined

December 31, 2004 – December 31, 2005

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, 2005. 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, 2004, and December 31, 2005, actuarial valuations. On the following pages each component is examined and quantified.

Assets

As of December 31, 2005, the System had total funds when measured on a market value basis, of $11.9 billion, excluding receivables and assets held for the Group Insurance and Optional Life reserves. This was an increase of $0.70 billion from the December 31, 2004, figure of $11.2 billion. The components of the change in the market value of assets for the Retirement System (in millions) are set forth below.

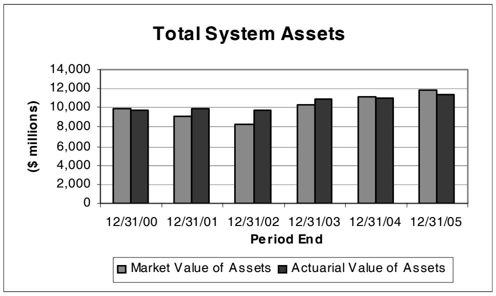
	Market Value ($ in millions)
Assets, December 31, 2004	**$11,178**
• Receivables (POB Proceeds)	0
Adjusted Assets, December 31, 2004	**11,178**
• Employer and Member Contributions	502
• Benefit Payments and Expenses	(832)
• Investment Income	1,061
Assets, December 31, 2005	**$11,909**

The market value of assets is not used directly in the calculation of contribution rates. An asset valuation method is used to smooth the effect of market fluctuations. The smoothing method calculates the difference between the actual return and the expected return (assumed rate of return) on the market value of assets each year. The difference is recognized equally over a five-year period.

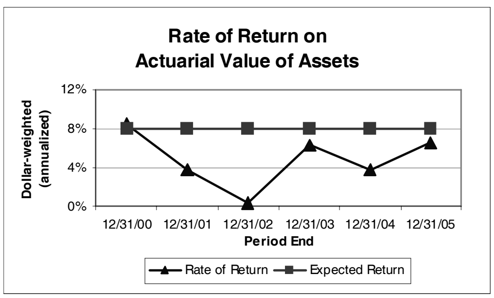
	Actuarial Value ($ in millions)
Actuarial Value of Assets, December 31, 2004	**$10,971**
• Employer and Member Contributions	502
• Benefit Payments and Expenses	(832)
• Investment Income	698
Actuarial Value of Assets, December 31, 2005	**$11,339**

The actuarial value of assets as of December 31, 2005, was $11.339 billion. The annualized dollar-weighted rate of return for 2004 measured on the actuarial value of assets was approximately 6.5 percent and measured on the market value of assets, as reported by KPERS, was 9.7 percent, net of investment and administrative expenses.

Due to the use of an asset smoothing method, there is $570 million of net deferred investment gain experience that has not yet been recognized. This deferred investment gain will gradually be reflected in the actuarial value of assets. If the actuarial assumed rate of 8 percent is met in the future, the smoothing method will generate an actuarial loss for 2005 and actuarial gains for the following four years.



Strong investment returns from 2003 to 2005 have resulted in the market value of assets exceeding the actuarial value.



The rate of return on the actuarial (smoothed) value of assets has lagged the assumed rate of 8 percent for the last five years. Absent losses in future years, rates of return are expected to be above 8 percent for the next few years as the deferred investment gains are reflected in the actuarial value of assets.

Liabilities

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

This report reflects a change in the retirement assumption for the Judges group. There are two groups of active Judges. The pre-July 1, 1987, hires (Group 1) have a higher benefit multiplier, i.e. 5 percent per year of service up to 10 and 3.5 percent thereafter with a maximum benefit of 70 percent. Those members hired after July 1, 1987, (Group 2) have a 3.5 percent per year of service multiplier with a 70 percent maximum benefit. The Judges group has historically used a single retirement age assumption (currently it is age 64). With this type of assumption, there is no dollar amount of normal cost generated in the valuation process for a member who is beyond the assumed retirement age. In the pre-1987 group, there is a large portion of this group who are now beyond age 64 and therefore have no normal cost in the valuation. In the valuation process, the dollar amount of normal cost is divided by the total expected payroll for the upcoming year to develop the normal cost rate. Since the Group 2 normal cost rate is higher than the Group 1 normal cost rate, we expect the normal cost rate for the System in total to increase as the Group 1 members retire from active employment and are replaced with members in Group 2. However, with the single retirement age assumption of age 64 and a significant portion of the group who remain employed after age 64, the calculated normal cost rate would have decreased from 18.71 percent to 18.24 percent. In order to prevent an artificial decrease in the normal cost rate in this valuation, which would negatively impact the funding of the Judges System, we recommend that the retirement assumption be changed from a single assumed retirement age to a set of retirement rates, similar to the retirement assumptions used for the other groups. Our recommended retirement assumption for the Judges is as follows:

Age	Retirement Rate
Under 62	12.5%
62	30.0%
63	25.0%
64	10.0%
65 to 69	50.0%
70 and beyond	100.0%

There was no other change in the actuarial assumptions or methods from the prior valuation. The unfunded actuarial liability by group is summarized by group below:

	State	School	Local	KP&F	Judges
Actuarial Liability	$3,045	$8,928	$2,663	$1,744	$111
Actuarial Value of Assets	2,574	5,473	1,794	1,403	94
Unfunded Actuarial Liability	$471	$3,455	$869	$341	$17

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. In the early years of the 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 the statutory and actuarial contribution rates prior to convergence, 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 (both asset and liability), 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 2005). The State and Local groups had a very small net liability gain and the School had a very small net liability loss for the year. KP&F and Judges also had liability gains for the 2005 year. There was an experience loss from investment return on the actuarial value of assets for all groups.

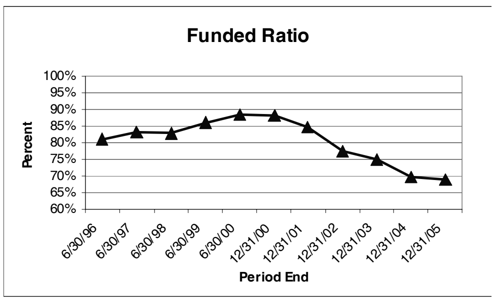
Between December 31, 2004, and December 31, 2005 the change in the unfunded actuarial liabilities for the System as a whole was as follows ($ in millions):

Unfunded Actuarial Liability, December 31, 2004	**$ 4,743**
• effect of contribution cap/time lag	247
• expected increase due to amortization method	84
• loss from investment return	167
• demographic experience*	(76)
• all other experience	(8)
• change in actuarial assumptions	(5)
• change in benefit provisions	–
Final Unfunded Actuarial Liability, December 31, 2005	**$ 5,152**

* Liability gain is about 0.46 percent of total actuarial liability.

A detailed summary of the change in the unfunded actuarial liability by System is shown on page 75. An evaluation of the unfunded actuarial liability on a pure dollar basis may not provide a complete analysis since only the difference between the assets and liabilities (which are both very large numbers) is reflected. Another way to evaluate the unfunded actuarial liability and the progress made in its funding is to track the funded status, the ratio of the actuarial value of assets to the actuarial liability. The change to the Entry Age Normal actuarial cost method in the 2003 valuation and the change in actuarial assumptions in the 2004 valuation both resulted in an increase in the UAL and a decrease in the funded status. The funded status information is shown below ($ in millions):

	6/30/00	12/31/00	12/31/01	12/31/02	12/31/03	12/31/04	12/31/05
Funded Ratio	88.6%	88.3%	84.8%	77.6%	75.2%	69.8%	68.8%
Unfunded Actuarial Liability (UAL)	$1,233	$1,305	$1,780	$2,829	$3,586	$ 4,743	$5,152



Due to strong investment returns, the funded status of the System generally improved in the last half of the 1990s. Recent changes in actuarial assumptions and methods, coupled with low investment returns, have significantly reduced the funded ratio over the past five years.

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

In recent years, the Retirement System and the Legislature have given a high priority to the development of a comprehensive plan to address the long-term funding of KPERS. House Bill 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 fiscal year 2006, 0.50 percent in fiscal year 2007 and 0.60 percent in fiscal year 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 Senate Bill 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 and period. With this authority, the Board changed both the actuarial cost method and the asset valuation method with the December 31, 2003, actuarial valuation. Senate Bill 520 also increased the statutory cap for Local employers from 0.15 percent to 0.40 percent in fiscal year 2006, 0.50 percent in fiscal year 2007 and 0.60 percent in fiscal year 2008 and beyond and also split the State/School group into separate groups for purposes of determining employer contribution rates.

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

Based on the December 31, 2005, actuarial valuation results and the current statutory caps, the statutory contribution rates for the State, School and Local groups are projected to converge with the actuarial required contribution (ARC) rate before the end of the amortization period. As a result, the System is in long term actuarial balance. However, these projections assume that all actuarial assumptions are met exactly in each future year. To the extent that actual experience deviates from that expected, the ARC Date (date at which the statutory and actuarial rates are expected to converge), as well as the ARC rate, will vary. In particular, due to the School group's funded status, the projected ARC Date and rate are very sensitive to changes in the unfunded actuarial liability (UAL). Unfavorable experience for this group could result in a situation where the statutory contribution rate never reaches the ARC rate. Key funding measurements should continue to be closely monitored in order to determine whether a change in the contribution cap is needed.

Summary of Change in Unfunded Actuarial Liability

December 31, 2005 Valuation ($ in millions)

	State	School	Local	KP&F	Judges	Total
UAL in 12/31/2004 Valuation Report	**$433.3**	**$3,150.9**	**$823.7**	**$312.7**	**$22.0**	**$4,742.7** (1)
Effect of contribution cap/timing	16.6	175.2	50.5	3.7	1.2	247.2
Expected increase due to method	6.8	55.6	14.4	7.8	0.2	84.4
Actual vs. Expected experience						
Investment return	50.4	70.1	17.8	26.8	1.7	166.8
Demographic experience	(35.2)	6.6	(41.7)	(3.3)	(2.4)	(76.0)
All other experience	(0.8)	(3.2)	4.2	(7.0)	(0.8)	(7.7)
Change in assumptions	0.0	0.0	0.0	0.0	(4.9)	(4.9)
Change in benefit provisions	0.0	0.0	0.0	0.0	0.0	0.0
UAL in 12/31/2005 Valuation Report	$471.1	$3,455.2	$868.9	$340.7	$16.6	$5,152.5

1) May not add due to rounding.

Summary of Changes in Actuarial Contribution Rate by System

December 31, 2005 Valuation

Percentage of Payroll	**State**	**School**	**Local**	**KP&F** (1)	**Judges**
Actuarial Contribution Rate in 12/31/2004 Valuation	6.99%	11.47%	7.69%	13.32 %	22.38%
Change Due to Amortization of UAL					
Effect of contribution cap/time lag	0.12	0.38	0.24	0.06	0.45
Amortization method	0.00	0.00	0.00	0.00	(0.34)
I Investment experience	0.35	0.15	0.09	0.45	0.64
Liability experience	(0.25)	0.01	(0.20)	(0.06)	(0.90)
All other experience	0.10	(0.06)	0.09	0.04	(0.23)
Change in assumptions	0.00	0.00	0.00	0.00	(1.84)
Change in benefit provisions	0.00	0.00	0.00	0.00	0.00
Change in Normal Cost Rate	0.04	(0.01)	0.01	0.05	1.92
Actuarial Contribution Rate in 12/31/2005 Valuation	7.35%	11.95%	7.92%	13.86 %	22.08%

1) Contribution rate for Local employers only.

Summary of Historical Changes in Total System UAL

December 31, 2005 Valuation ($ in millions)

	6/30/95	6/30/96	6/30/97	6/30/98	6/30/99	6/30/00	12/31/00	12/31/01	12/31/02	12/31/03	12/31/04	12/31/05	Total
Actual Experience vs. Assumed													
– Investment	$(143)	$(280)	$(323)	$(413)	$(369)	$(441)	$(23)	$350	$644	$140	$456	$167	$(235)
– Other	72	136	157	104	46	99	84	(9)	68	(32)	16	(84)	657
Assumption Changes	(96)	0	0	350	0	0	(206)	0	0	0	437	(5)	480
Changes in Data/Procedures	0	0	0	0	21	71	145**	5	177**	(286)***	0	0	133
Change in Cost Method	0	0	0	0	0	0	0	0	0	1,147	0	0	1,147
Effect of Contribution Cap/Lag	95	70	63	54	78	66	60	115	143	178	179	247	1,348
Amortization Method	47	38	35	32	30	22	12	14	21	47	68	84	450
Change in Benefit Provisions	0	0	0	88	0	19	0	0	37	3	1	0	148
Bond Issue	0	0	0	0	0	0	0	0	(41)	(440)	0	0	(481)
Total	**$(25)**	**$(36)**	**$(68)**	**$215**	**$(194)**	**$(164)**	**$72**	**$475**	**$1,048**	**$757**	**$1,157**	**$409**	**$3,646**

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

Unfunded actuarial liability 6/30/93: $ 968 million
Unfunded actuarial liability 12/31/05: $ 5,152 million

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

	12/31/2002**	12/31/2003**	12/31/2004	12/31/2005
Market Value of Assets, beginning of year	$2,200,396,822	$1,983,632,519	$2,370,036,710	$2,553,610,968
Contributions during year	95,761,919	100,195,791	76,634,336	80,477,494
Benefits during year	(168,745,496)	(174,607,196)	(162,256,907)	(172,670,110)
Expected net investment income	173,168,565	155,771,406	186,243,922	200,672,116
Transfers and receivables	12,803,341	36,515,432	0	0
Expected Value of Assets, end of year	$2,313,385,151	$2,101,507,952	$2,470,658,061	$2,662,090,468
Market Value of Assets, end of year	1,983,632,519	2,370,036,710	2,553,610,968	2,680,153,605
Excess (shortfall) of net investment income	($329,752,632)	$268,528,758	$82,952,907	$18,063,137

* Includes asset values for the TIAA group.

** Prior to 12/31/03, assets were combined for state and school. Numbers prior to this are based on the combined amounts, split in proportion to the 12/31/03 allocation.

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

	12/31/2002*	12/31/2003*	12/31/2004	12/31/2005
Market Value of Assets, beginning of year	$4,326,159,852	$3,899,983,529	$4,991,542,973	5,427,574,148
Contributions during year	188,275,753	196,993,109	232,136,850	247,762,716
Benefits during year	(331,767,426)	(343,292,008)	(401,994,358)	(442,053,181)
Expected net investment income	340,463,540	306,259,306	392,659,845	426,583,823
Transfers and receivables	25,172,414	403,649,568	0	0
Expected Value of Assets, end of year	$4,548,304,133	$4,463,593,504	$5,214,345,310	5,659,867,506
Market Value of Assets, end of year	3,899,983,529	4,991,542,973	5,427,574,148	5,773,541,598
Excess (shortfall) of net investment income	($648,320,604)	$527,949,469	$213,228,838	113,674,092

* Prior to 12/31/03, assets were combined for state and school. Numbers prior to this are based on the combined amounts, split in proportion to the 12/31/03 allocation.

Calculation of Excess (Shortfall) Investment Income for Actuarial Value of Net Assets
State/School Group*

	12/31/2002	12/31/2003	12/31/2004	12/31/2005
Market Value of Assets, beginning of year	$6,526,556,674	$5,883,616,048	$7,361,579,683	$7,981,185,116
Contributions during year	284,037,672	297,188,900	308,771,186	328,240,210
Benefits during year	(500,512,922)	(517,899,204)	(564,251,265)	(614,723,291)
Expected net investment income	513,632,105	462,030,712	578,903,767	627,255,939
Transfers and receivables	37,975,755	440,165,000	0	0
Expected Value of Assets, end of year	$6,861,689,284	$6,565,101,456	$7,685,003,371	$8,321,957,974
Market Value of Assets, end of year	5,883,616,048	7,361,579,683	7,981,185,116	8,453,695,203
Excess (shortfall) of net investment income	($978,073,236)	$796,478,227	$296,181,745	$131,737,229

* Includes asset values for the TIAA group.

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

	12/31/2002	12/31/2003	12/31/2004	12/31/2005
Market Value of Assets, beginning of year	$1,395,342,080	$1,297,926,648	$1,561,501,396	$1,743,287,610
Contributions during year	79,874,944	86,210,953	91,862,152	96,419,499
Benefits during year	(91,964,349)	(99,630,311)	(106,730,071)	(117,896,660)
Expected net investment income	111,153,093	103,307,684	124,336,836	138,620,449
Transfers and receivables	900,320	0	0	0
Expected Value of Assets, end of year	$1,495,306,088	$1,387,814,974	$1,670,970,313	$1,860,430,898
Market Value of Assets, end of year	1,297,926,648	1,561,501,396	1,743,287,610	1,897,431,737
Excess (shortfall) of net investment income	($197,379,440)	$173,686,422	$72,317,297	$37,000,839

Calculation of Excess (Shortfall) Investment Income for Actuarial Value of Net Assets
KP&F Group

	12/31/2002	12/31/2003	12/31/2004	12/31/2005
Market Value of Assets, beginning of year	$1,149,732,145	$1,034,446,737	$1,232,406,980	$1,363,065,004
Contributions during year	50,858,313	51,088,147	75,287,870	71,931,377
Benefits during year	(76,751,521)	(79,934,661)	(87,682,550)	(93,936,263)
Expected net investment income	90,962,769	81,624,076	98,106,309	108,181,938
Transfers and receivables	2,707,853	0	0	0
Expected Value of Assets, end of year	$1,217,509,559	$1,087,224,299	$1,318,118,609	$1,449,242,056
Market Value of Assets, end of year	1,034,446,737	1,232,406,980	1,363,065,004	1,459,554,937
Excess (shortfall) of net investment income	($183,062,822)	$145,182,681	$44,946,395	$10,312,881

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

	12/31/2002	12/31/2003	12/31/2004	12/31/2005
Market Value of Assets, beginning of year	$74,599,904	$67,137,447	$81,081,078	90,483,059
Contributions during year	3,716,116	4,123,659	5,090,779	5,729,305
Benefits during year	(5,194,517)	(5,106,275)	(5,275,093)	(5,920,730)
Expected net investment income	5,909,994	5,332,447	6,479,256	7,231,135
Transfers and receivables	171,353	0	0	0
Expected Value of Assets, end of year	$79,202,850	$71,487,278	$87,376,020	97,522,769
Market Value of Assets, end of year	67,137,447	81,081,078	90,483,059	98,126,948
Excess (shortfall) of net investment income	($12,065,403)	$9,593,800	$3,107,039	604,179

Development of Actuarial Value of Net Assets

	State/School	State	School	Local
Excess (Shortfall) of Investment Income				
12/31/05	$131,737,229	$18,063,137	$113,674,092	$37,000,839
12/31/04	296,181,745	82,952,907	213,228,838	72,317,297
12/31/03	796,478,227	268,528,758	527,949,469	173,686,422
12/31/02	(978,073,236)	(329,752,632)	(648,320,604)	(197,379,440)
Total	$246,323,965	$39,792,170	$206,531,795	$85,625,118
Deferral of Excess (Shortfall) of Investment Income				
12/31/05 (80%)	105,389,784	14,450,510	90,939,274	29,600,671
12/31/04 (60%)	177,709,047	49,771,744	127,937,303	43,390,378
12/31/03 (40%)	318,591,291	107,411,503	211,179,788	69,474,569
12/31/02 (20%)	(195,614,647)	(65,950,526)	(129,664,121)	(39,475,888)
Total	406,075,475	105,683,231	300,392,244	102,989,730
Market Value of Assets				
12/31/05	$8,453,695,203	$2,680,153,605	$5,773,561,598	$1,897,431,737
Actuarial Value of Assets				
12/31/05	$8,047,619,728	$2,574,470,374	$5,473,149,354	$1,794,442,007
Actuarial Value Divided by Market Value				
12/31/05	95.2%	96.1%	94.8%	94.6%

Development of Actuarial Value of Net Assets

	Total KPERS	KP&F	Judges	Total
Excess (Shortfall) of Investment Income				
12/31/05	$168,738,068	$10,312,881	$604,179	$179,655,128
12/31/04	368,499,042	44,946,395	3,107,039	416,552,476
12/31/03	970,164,649	145,182,681	9,593,800	1,124,941,130
12/31/02	(1,175,452,676)	(183,062,822)	(12,065,403)	(1,370,580,901)
Total	$331,949,083	$17,379,135	$1,239,615	$350,567,833
Deferral of Excess (Shortfall) of Investment Income				
12/31/05 (80%)	134,990,455	8,250,305	484,343	143,724,103
12/31/04 (60%)	221,099,425	26,967,837	1,864,223	249,931,485
12/31/03 (40%)	388,065,860	58,073,072	3,837,520	449,976,452
12/31/02 (20%)	(235,090,535)	(36,612,564)	(2,413,081)	(274,116,180)
Total	$509,065,205	$56,678,650	$3,772,005	$569,515,860
Market Value of Assets				
12/31/05	$10,351,126,940	$1,459,554,937	$98,126,948	$11,908,808,825
Actuarial Value of Assets				
12/31/05	$9,842,061,735	$1,402,876,287	$94,354,943	$11,339,292,965
Actuarial Value Divided by Market Value				
12/31/05	95.1%	96.1%	96.2%	95.2%

Summary of Principal Results

All Systems Combined

	12/31/05	12/31/04	% Change
Participant Data			
Number of			
Active Members	149,073	147,751	0.9 %
Retired Members and Beneficiaries	63,348	61,125	3.6
Inactive Members	41,426	41,456	(0.1)
Total Members	253,847	250,332	1.4
Projected Annual Salaries of Active Members	$5,270,350,727	$5,102,016,066	3.3
Annual Retirement Payments for Retired Members and Beneficiaries	$724,441,815	$678,675,133	6.7
Assets and Liabilities			
Total Actuarial Liability	$16,491,762,383	$14,439,546,270	4.9
Assets for Valuation Purposes	11,339,292,965	10,971,426,577	3.4
Unfunded Actuarial Liability	$5,152,469,418	$4,742,665,899	

Summary of Principal Results

Kansas Public Employees Retirement System, State Group

	12/31/2005	12/31/2004	% Change
Participant Data			
Number of:			
Number of			
Active Members	24,124	24,592	(1.9)%
Retired Members and Beneficiaries	14,642	14,410	1.6
Inactive Members	6,293	6,029	4.4
Total Members	45,059	45,031	0.1
Projected Annual Salaries of Active Members	$859,851,488	$851,655,056	1.0
Annual Retirement Payments for Retired Members and Beneficiaries	$154,694,589	$148,286,419	4.3
Assets and Liabilities			
Total Actuarial Liability	$3,045,520,267	$2,952,425,476	3.2
Assets for Valuation Purposes	2,574,470,374	2,519,107,044	2.2
Unfunded Actuarial Liability	471,049,893	433,318,432	
Employer Contribution Rates as a Percent of Payroll			
Normal Cost	3.76%	3.72%	
Amortization of Unfunded Actuarial and Debt Service	3.59%	3.27%	
Actuarial Contribution Rate	7.35%	6.99%	
Statutory Employer Contribution Rate*	6.97%	6.37%	

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

Summary of Principal Results

Kansas Public Employees Retirement System, School Group

	12/31/2005	12/31/2004	% Change
Participant Data			
Number of:			
Active Members	82,379	80,602	2.2%
Retired Members and Beneficiaries	32,875	31,378	4.8
Inactive Members	23,644	24,148	(2.1)
Total Members	138,898	136,128	2.0
Projected Annual Salaries of Active Members	$2,765,362,690	$2,641,861,863	4.7
Annual Retirement Payments			
for Retired Members and Beneficiaries	$388,120,658	$358,909,034	8.1
Assets and Liabilities			
Total Actuarial Liability	$8,928,334,248	$8,470,506,029	5.4
Assets for Valuation Purposes	5,473,149,354	5,319,627,299	2.9
Unfunded Actuarial Liability	3,455,184,894	3,150,878,730	
Employer Contribution Rates as a Percent of Payroll			
Normal Cost	4.23%	4.24%	
Amortization of Unfunded Actuarial Debt Service	7.72%	7.23%	
Actuarial Contribution Rate	11.95%	11.47%	
Statutory Employer Contribution Rate*	6.97%	6.37%	

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

Summary of Principal Results

Kansas Public Employees Retirement System State and School Groups Combined

	12/31/2005	12/31/2004	% Change
Participant Data			
Number of:			
Active Members	106,503	105,194	1.2%
Retired Members and Beneficiaries	47,517	45,788	3.8
Inactive Members	29,937	30,177	(0.8)
Total Members	183,957	181,159	1.5
Projected Annual Salaries of Active Members	$3,625,214,178	$3,493,516,919	3.8
Annual Retirement Payments7.0 for Retired Members and Beneficiaries	$542,815,247	$507,195,453	7.0
Assets and Liabilities			
Total Actuarial Liability	$11,973,854,515	$11,422,931,505	4.8
Assets for Valuation Purposes	8,047,619,728	7,838,734,343	2.7
Unfunded Actuarial Liability	3,926,234,787	3,584,197,162	
Employer Contribution Rates as a Percent of Payroll			
Normal Cost	4.12%	4.11%	
Amortization of Unfunded Actuarial and Debt Service	6.74%	6.26%	
Actuarial Contribution Rate	10.86%	10.37%	
Statutory Employer Contribution Rate*	6.97%	6.37%	

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

Summary of Principal Results

Kansas Public Employees Retirement System, Local Group

	12/31/2005	12/31/2004	% Change
Participant Data			
Number of:			
Active Members	35,544	35,585	(0.1) %
Retired Members and Beneficiaries	12,006	11,613	3.4
Inactive Members	10,177	10,018	1.6
Total Members	57,727	57,216	0.9
Projected Annual Salaries of Active Members	$1,260,949,643	$1,236,051,138	2.0
Annual Retirement Payments for Retired Members and Beneficiaries	$94,612,484	$88,302,227	7.1
Assets and Liabilities			
Total Actuarial Liability	$2,663,333,880	$2,522,397,478	5.6
Assets for Valuation Purposes	1,794,442,007	1,698,668,607	5.6
Unfunded Actuarial Liability	868,891,873	823,728,871	
Employer Contribution Rates as a Percent of Payroll			
Normal Cost	3.69%	3.68%	
Amortization of Unfunded Actuarial and Supplemental Liability	4.23%	4.01%	
Actuarial Contribution Rate	7.92%	7.69%	
Statutory Employer Contribution Rate*	4.91%	4.31%	

* Statutory Employer Contribution Rate exceeds last year's rate by the statutory rate increase limit of 0.50 percent This rate does not include the contribution rate for the Death and Disability Program.

Summary of Principal Results

Kansas Police and Firemen's Retirement System

	12/31/2005	12/31/2004	% Change
Participant Data			
Number of:			
Active Members	6,772	6,721	0.8 %
Retired Members and Beneficiaries	3,654	3,558	2.7
Inactive Members	1,293	1,056	4.0
Total Members	11,719	11,335	1.7
Projected Annual Salaries of Active Members	$360,718,148	$349,723,478	3.1
Annual Retirement Payments for Retired Members and Beneficiaries	$81,562,962	$77,962,447	4.6
Assets and Liabilities			
Total Actuarial Liability	$1,743,599,187	$1,657,628,308	5.2
Assets for Valuation Purposes	1,402,876,287	1,344,909,124	4.3
Unfunded Actuarial Liability	340,722,900	312,719,184	
Employer Contribution Rates as a Percent of Payroll			
Normal Cost	8.03%	7.98%	
Amortization of Unfunded Actuarial and Supplemental Liability	5.83%	5.34%	
Actuarial Contribution Rate (Local Employers)	13.86%	13.32%	
Statutory Employer Contribution Rate*	13.86%	13.32%	

* 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 qual to the appropriate uniform rate plus the payment required to amortize any unfunded past service liability or 15 percent excess benefit liability, determined separately for each employer.

Summary of Principal Results

Kansas Retirement System for Judges

	12/31/2004	12/31/2004	% Change
Participant Data			
Number of:			
Active Members	254	251	1.2%
Retired Members and Beneficiaries	171	166	3.0
Inactive Members	19	18	5.6
Total Members	444	435	2.1
Projected Annual Salaries of Active Members	$23,468,759	$22,724,531	3.3
Annual Retirement Payments for Retired Members and Beneficiaries	$5,451,122	$5,215,006	4.5
Assets and Liabilities			
Total Actuarial Liability	$110,974,801	$111,135,185	(0.1)
Assets for Valuation Purposes	94,354,943	89,114,503	5.9
Unfunded Actuarial Liability	16,619,858	22,020,682	
Employer Contribution Rates as a Percent of Payroll			
Normal Cost	15.76%	13.84%	
Amortization of Unfunded Actuarial and Supplemental Liability	6.32%	8.54%	
Actuarial Contribution Rate	22.08%	22.38%	
Statutory Employer Contribution Rate*	22.08%	22.38%	

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

Actuarial Assumptions

Every three years KPERS consulting actuary makes a general investigation of the Retirement System's actuarial experience, including mortality, retirement and employment turnover. The actuary recommends actuarial tables for use in the valuation and in calculating actuarial equivalent values based on such investigation. An actuarial experience study was conducted for the three years ending December 31, 2004.

Kansas Public Employees Retirement System

Rate of Investment Return

8.0 percent, net of expenses

Implicit Inflation Rate

3.5 percent

Mortality Rates

Post Retirement
RP-2000 Healthy Annuitants Table (Generational) with the following adjustments:

School (Male): Male Table -1

School (Female): Female Table -2

State (Male): Male Table +2

State (Female): Female Table +1

Local (Male): Male Table +2

Local (Female): Female Table +0

Pre-Retirement
RP-2000 Employees Table (Generational) Same age adjustments as above

Disabled
RP-2000 Disableds Table (Generational) Same age adjustments as above

Marriage Assumption

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

Rates of Salary Increase

		Rate of Increase*	
Years of Service	State	School	Local
1	7.8%	9.8%	7.8%
5	5.6%	6.7%	6.2%
10	4.9%	5.1%	5.2%
15	4.4%	4.6%	4.8%
20	4.1%	4.1%	4.6%
25	4.0%	4.0%	4.1%
30	4.0%	4.0%	4.0%

* Includes general wage increase assumption of 4.0 percent (composed of 3.5 percent inflation and 0.50 percent productivity)

Termination Rates

School – Male Years of Service

Age	Years of Service <2	2	3	4	5
25	23.0%	18.0%	12.0%	8.5%	8.0%
30	20.5%	16.2%	11.0%	8.5%	8.0%
35	19.7%	15.9%	10.0%	8.5%	7.5%
40	19.3%	14.6%	10.0%	8.0%	7.5%
45	18.8%	14.3%	10.0%	8.0%	7.0%
50	18.4%	13.9%	10.0%	8.0%	7.0%

Age	Years of Service 6	7	8	9	10+
25	7.5%	7.4%	7.0%	6.7%	6.0%
30	7.5%	6.9%	6.5%	5.8%	5.0%
35	7.0%	6.4%	5.8%	4.7%	3.6%
40	6.5%	5.9%	4.7%	3.8%	2.5%
45	6.0%	5.5%	4.1%	3.3%	1.9%
50	5.5%	5.5%	4.0%	2.8%	1.4%

School – Female Years of Service

Age	Years of Service <2	2	3	4	5
25	26.0%	20.7%	17.5%	11.2%	10.6%
30	23.5%	16.2%	14.4%	9.2%	8.9%
35	20.0%	13.5%	12.5%	8.0%	7.3%
40	16.5%	11.2%	9.0%	7.3%	6.5%
45	14.0%	10.2%	8.7%	7.1%	6.2%
50	13.4%	9.9%	8.5%	7.0%	6.1%

Age	Years of Service 6	7	8	9	10+
25	10.0%	9.4%	8.7%	8.1%	7.5%
30	8.6%	8.4%	8.1%	7.8%	7.5%
35	6.6%	5.9%	5.1%	4.4%	3.7%
40	5.7%	4.8%	4.0%	3.1%	2.3%
45	5.3%	4.5%	3.6%	2.7%	1.8%
50	5.2%	4.3%	3.4%	2.5%	1.6%

Termination Rates

State – Male Years of Service

Age	Years of Service <2	2	3	4	5
25	18.0%	18.0%	15.8%	14.0%	13.3%
30	18.0%	15.0%	12.0%	11.2%	11.2%
35	15.0%	12.0%	9.6%	9.6%	9.6%
40	15.0%	10.3%	8.1%	8.1%	8.1%
45	13.0%	10.0%	7.5%	7.0%	7.0%
50	13.0%	10.0%	7.5%	7.0%	7.0%

Age	Years of Service 6	7	8	9	10+
25	10.0%	7.0%	5.0%	5.0%	5.0%
30	10.0%	7.0%	5.0%	5.0%	5.0%
35	8.0%	7.0%	5.0%	5.0%	4.8%
40	5.8%	4.5%	3.8%	3.8%	3.5%
45	4.8%	3.2%	3.0%	3.0%	2.2%
50	4.8%	3.0%	3.0%	3.0%	1.4%

State – Female Years of Service

Age	Years of Service <2	2	3	4	5
25	25.0%	13.0%	17.6%	15.0%	15.2%
30	20.5%	13.0%	14.9%	12.3%	11.9%
35	17.8%	13.0%	12.6%	10.7%	9.9%
40	16.3%	13.0%	10.6%	9.8%	8.8%
45	15.8%	13.0%	10.2%	9.5%	8.2%
50	15.5%	13.0%	10.2%	9.3%	8.0%

Age	Years of Service 6	7	8	9	10+
25	15.3%	15.5%	15.7%	15.7%	15.9%
30	11.5%	11.1%	10.4%	10.4%	9.8%
35	9.1%	8.3%	7.2%	7.2%	6.0%
40	7.8%	6.7%	5.2%	5.2%	3.7%
45	7.0%	5.7%	3.9%	3.9%	2.0%
50	6.8%	5.5%	3.6%	3.6%	1.7%

Termination Rates

Local – Male Years of Service

Age	Years of Service <2	2	3	4	5
25	23.0%	19.5%	16.1%	14.9%	12.3%
30	18.0%	15.3%	12.6%	11.7%	9.4%
35	15.0%	12.0%	10.5%	9.7%	7.5%
40	12.5%	10.6%	8.7%	8.1%	5.9%
45	11.3%	10.0%	7.9%	7.3%	5.1%
50	11.0%	10.0%	7.7%	7.2%	4.9%

Age	Years of Service 6	7	8	9	10+
25	12.6%	11.5%	11.5%	9.0%	8.0%
30	10.1%	9.3%	9.3%	8.0%	7.0%
35	8.2%	7.4%	7.4%	6.8%	5.0%
40	6.7%	6.0%	6.0%	5.5%	3.8%
45	5.8%	5.0%	5.0%	4.3%	2.7%
50	5.6%	4.8%	4.8%	3.8%	2.5%

Local – Female Years of Service

Age	Years of Service <2	2	3	4	5
25	25.0%	22.5%	18.8%	15.7%	14.1%
30	20.0%	18.0%	15.0%	12.6%	11.5%
35	17.5%	15.7%	13.1%	11.0%	10.0%
40	15.8%	14.2%	11.9%	10.0%	8.9%
45	15.3%	13.8%	11.5%	9.6%	8.6%
50	15.0%	13.5%	11.2%	9.4%	8.4%

Age	Years of Service 6	7	8	9	10+
25	14.5%	10.9%	9.2%	7.6%	6.0%
30	12.5%	9.3%	8.2%	7.1%	6.0%
35	10.4%	8.0%	7.0%	6.0%	5.0%
40	9.3%	6.8%	5.9%	4.8%	3.8%
45	8.0%	6.0%	5.5%	4.4%	3.4%
50	7.8%	6.0%	5.4%	4.4%	3.4%

Retirement Rates

Rule of 85 – School

Age	1st Yr w/85 Points	After 1st Year w/85 Points
53	20%	15%
55	20%	15%
57	22%	15%
59	25%	20%
61	30%	35%

Early Retirement Age	Early Retirement Rate	Normal Retirement Age	Normal Retirement Rate
55	5%	62	35%
56	5%	63	25%
57	5%	64	30%
58	5%	65	35%
59	10%	66	25%
60	10%	67-74	20%
61	22%	75	100%

Rule of 85 – State

Age	1st Yr w/85 Points	After 1st Year w/85 Points
53	15%	15%
55	15%	12%
57	15%	12%
59	15%	15%
61	30%	25%

Early Retirement Age	Early Retirement Rate	Normal Retirement Age	Normal Retirement Rate
55	5%	62	35%
56	5%	63	20%
57	5%	64	30%
58	5%	65	40%
59	6%	66	30%
60	7%	67-74	20%
61	20%	75	100%

Retirement Rates

Rule of 85 – Local

Age	1st Yr w/85 Points	After 1st Year w/85 Points
53	11%	10%
55	11%	10%
57	11%	10%
59	11%	12%
61	30%	25%

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

Correctional employees with an age 55 normal retirement date

Age	Rate
55	10%
58	10%
60	10%
62	40%
65	100%

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

Disability Rates

Age	School	State	Local
25	.025%	.036%	.030%
30	.025%	.146%	.065%
35	.035%	.230%	.097%
40	.050%	.305%	.130%
45	.096%	.376%	.190%
50	.213%	.511%	.330%
55	.452%	.892%	.600%
60	.850%	1.400%	1.200%

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

Probability of Vested Members Leaving Contributions With the Retirement System

Age	School	State	Local
25	60%	51%	35%
30	60%	51%	40%
35	65%	53%	47%
40	74%	63%	61%
45	83%	69%	71%
50	88%	83%	82%
55	100%	100%	100%

Kansas Police and Firemen's Retirement System

Rate of Investment Return
8.0 percent, net of expenses

Implicit Inflation Rate
3.5 percent

Mortality Rates
Post-Retirement
RP-2000 Healthy Annuitants Table (Generational) with the following adjustments:

Males and Females +1

Pre-Retirement
RP-2000 Employees Table (Generational) with the following adjustments:

Males and Females +1

*70% of pre-retirement deaths assumed to be service related.

Disabled
RP-2000 Disableds Table (Generational) with the following adjustments:

Males and Females +1

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

Rates of Salary Increase

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

* Includes general wage increase assumption of 4.0 percent (composed of 3.5 percent inflation and 0.50 percent productivity).

Termination Rates

Tier I

Age	Rate
<41	3%
after 41	0%

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	50%
51	5%	56	30%
52	10%	57	20%
53	10%	58	40%
54	30%	59	30%
		60	50%
		61	20%
		62	100%

Tier II

Early Retirement		Normal Retirement	
Age	Rate	Age	Rate
50	10%	50	25%
51	10%	53	15%
52	10%	55	30%
53	10%	58	20%
54	25%	60	20%
		61	60%
		62	40%
		63	100%

Inactive vested members Assumed to retire at later of (i) eligibility for unreduced benefits or (ii) age 55

Disability Rates**

Age	Rate
22	.06%
27	.07%
32	.15%
37	.35%
42	.60%
47	1.00%
52	1.60%
57	2.55%

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

Retirement System for Judges

Rate of Investment Return

8.0 percent, net of expenses

Implicit Inflation Rate

3.5 percent

Mortality Rates

Post-Retired
RP-2000 Healthy Annuitants Table (Generational)

Pre-Retired
RP-2000 Employees Table (Generational)

Disabled
RP-2000 Disableds Table (Generational)

Disability Rates

None assumed

Salary Increase Rate

5.5 percent

Marriage Assumption

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

Termination Rates

None assumed

Retirement Age

Age	Retirement Rate
Under 62	12.5%
62	30.0%
63	25.0%
64	10.0%
65 to 69	50.0%
70 and beyond	100.0%

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 ten-year period beginning in 2005. The remainder of the unfunded actuarial liability is amortized over a period originally set at 40 years beginning July 1, 1993.

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

Asset Valuation Method

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

Plan Provisions

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

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 three statewide retirement systems:

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

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

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

Employee Membership

Membership is mandatory for all employees in covered positions, except elected officials. A covered position for non-school employees is one that is covered by Social Security, is not seasonal or temporary, and requires at least 1,000 hours of work per year. School employees become KPERS members on their employment date. School employees who work at least 630 hours per year or 3.5 hours per day for 180 days are eligible for membership. Non-school employees become KPERS members after one year of continuous employment. State employees and non-school employees of local employers have first-day coverage for death and disability benefits if their employer elects the coverage. KPERS retirees may not become contributing members again.

Board of Regents Plan Members (TIAA and equivalents)

Board of Regents plan members (TIAA and equivalents) do not make contributions to KPERS. They receive prior service benefits for service before 1962. The benefit is 1 percent of FAS for each year of credited prior service. Service after 1961 is counted for purposes of determining eligibility for vesting. These members are also covered by the KPERS Death and Disability Benefits Program.

Correctional Members

Correctional employees, as certified to the Board of Trustees by the Secretary of Corrections, are defined in K.S.A. 74 4914a:

a) Correctional officers
b) Certain directors and deputy directors of correctional institutions
c) Correctional power plant operators
d) Correctional industries employees
e) Correctional food service employees
f) Correctional maintenance employees

For groups (a) and (b) with at least three consecutive years of credited service, in such positions immediately before retirement, normal retirement age is 55 and early retirement requirements are age 50 with ten years of credited service. For groups (c), (d), (e) and (f) with at least three consecutive years of service in such positions immediately before retirement, normal retirement age is 60 and early retirement requirements are age 55 with ten years of credited service. Both groups are also eligible for full benefits when age and service equal 85 “points.”

Member Contributions

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

Employer Contributions

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

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

Retirement Age and Service Requirements
Eligibility
- Age 65 with one year of service
- Age 62 with ten years of credited service
- Any age when combined age and years of credited service equal 85 "points"

Age is determined by the member's last birthday and is not rounded up.

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

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

For those who were hired before July 1, 1993, FAS is the greater of either a:
- Four-year FAS including additional compensation, such as sick and annual leave; or
- Three-year FAS excluding additional compensation, such as sick and annual leave.

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

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

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

Withdrawal Benefit
If members leave employment they can withdraw their contributions, plus interest, after 30 days. Members lose any rights and benefits when they withdraw from KPERS, such as insurance coverage. Former members who return to covered employment within five years will not have lost any membership rights or privileges, if they haven't withdrawn contributions. The Retirement Act does not allow members to borrow from contributions.

The employer portion of contributions remains with the System when a member ends employment and withdraws contributions. The Retirement System will refund contributions only after all contributions have been reported by the member's former employer.

Disability Benefit
KPERS Death and Disability Program provides disability income benefits, financed by employer contributions of 0.8 percent of a member's compensation. A member must be totally disabled for 180 continuous days. Benefits accrue from the later of the 181st day of continuous disability or from the first day when compensation from the employer ceases. The long-term disability benefit is 60 percent of the member's annual compensation on the date disability begins, reduced by Social Security benefits (members must apply), Workers' Compensation benefits and any other employment-related disability benefits. Members disabled before January 1, 2006, receive a benefit based on two-thirds of their annual compensation on the date the disability began. The minimum monthly benefit is $100. Members receiving disability benefits continue to receive service credit under KPERS, group life insurance coverage and waiver of optional group life insurance premiums if the member is under age 65 when first disabled. The waiver of optional group life insurance premiums ended January 1, 2004, for new disabled members. If a disabled member retires after receiving disability benefits for at least five years immediately before retirement, the member's FAS is adjusted by statute.

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

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

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

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

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

* TIER I — Members have Tier I coverage if they were employed before July 1, 1989, and if they did not elect coverage under Tier II.

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

Member Contributions
Members contribute 7 percent of their gross earnings. For members with 32 years service credit, the contribution rate is reduced to 2 percent of compensation.

A few members employed before January 1, 1976, have contributions reduced by their Social Security contributions, not including contributions for Medicare. These members' benefits are reduced by 50 percent of original Social Security benefits accruing from employment with the participating employer.

Retirement Age and Service Requirements
Eligibility — Tier I*

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

Eligibility — Tier II**

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

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

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

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

Annual benefits at normal retirement age equal FAS x 2.5 percent x years of service (up to 32 years).

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

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

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

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

Eligibility — TIER II **: The member must have 15 years of credited service to be considered vested. To draw a benefit before age 60, however, the member must have 20 years of credited service. If ending employment, the member must leave contributions with the Retirement System to be eligible for future benefits.

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

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

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

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

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

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

Non-Service-Connected Death
A lump sum of 100 percent of FAS goes to the spouse; and a pension of 2.5 percent of FAS per year of service (to a maximum of 50 percent) is payable to the spouse. If there is no spouse, the monthly benefit is paid to the dependent children. If there is no surviving spouse or children the lump-sum payment less refundable contributions and interest is paid to the beneficiary.

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

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

The surviving spouse of a transfer member (who was covered by a local plan on the employer's entry date, who dies after retirement, and who had not elected a retirement benefit option), receives a lump-sum payment of 50 percent of FAS. Also, 75 percent of the member's benefit is payable either to the spouse or to dependent children.

Kansas Retirement System for Judges (Judges)

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

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

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

Retirement Age and Service Requirements

Eligibility

- Age 65
- Age 62 with ten years of credited service
- Any age when combined age and years of credited service equal 85 “points”

Age is determined by the member’s last birthday and is not rounded up.

Retirement Benefit

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

The basic formula for those who were members before July 1, 1987, is 5 percent of FAS for each year of service up to ten years, plus 3.5 percent for each year, to a maximum of 70 percent of FAS. For those who became members on or after July 1, 1987, the formula is 3.5 percent for each year, to a maximum benefit of 70 percent of FAS.

Early Retirement

A member must be age 55 and have ten years of credited service to take early retirement. The retirement benefit is reduced 0.2 percent per month if the member is from age 60 to age 62, plus 0.6 percent per month if the member is from age 55 to age 60. Normal benefit accrued at termination is payable at age 62 or in a reduced amount at age 55, provided the member has ten years of service credit. Otherwise, benefits are not payable until age 65.

Employment After Retirement

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

Disability Benefits

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

Withdrawal Benefit

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

Death Benefit for Active Members

A lump sum insured death benefit equal to 150 percent of the active member's annual compensation on the date of the member's death is payable; plus a refund of the member's accumulated contributions. In lieu of receiving the member's accumulated contributions, the surviving spouse of a member who is eligible to retire at death, may elect to receive benefits under any survivor benefit option. The spouse must be the member's sole designated beneficiary to exercise this option. If the member had at least ten years of credited service, but hadn't reached retirement age at the time of death, the spouse may elect a monthly benefit to begin on the date the member first would have been eligible to retire.

Death Benefit for Retirees

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

Short Term Solvency Test
Last Ten Fiscal Years

Valuation Date	Member Contributions (A)	Retirees and Beneficiaries (B)	Active Members Employer Financed Portion (C)	Assets Available for Benefits		Portions of Accrued Liabilities Covered by Assets (A)	(B)	(C)
06/30/97	$2,337,511,704	$3,232,733,926	$2,681,740,618	$6,875,918,348		100%	100%	49%
06/30/98	2,522,614,846	3,841,556,459	2,976,514,154	7,749,203,022		100	100	47
06/30/99	2,725,881,233	4,125,714,368	3,147,650,125	8,601,875,670		100	100	56
06/30/00	2,929,469,325	4,454,897,319	3,417,030,430	9,568,274,828		100	100	64
12/31/00	3,007,338,917	4,576,452,175	3,556,222,919	9,835,181,839	(1)	100	100	63
12/31/01	3,330,859,571	4,903,096,418	3,509,095,766	9,962,917,897		100	100	49
12/31/02	3,353,870,165	5,247,201,306	4,012,527,155	9,784,862,188		100	100	30
12/31/03	3,595,082,177	5,558,543,751	5,285,920,342	10,853,462,178	(2)	100	100	32
12/31/04	3,817,174,808	5,994,869,531	5,902,048,137	10,971,426,577		100	100	20
12/31/05	4,006,823,805	6,413,679,842	6,071,258,736	11,339,292,965		100	100	15

1) Actuarial valuation date was changed to a calendar year.

2) Actuarial cost method was changed to the Entry Age Normal (EAN) for all three plans.

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

Schedule of Active Member Valuation Data (1)

Valuation Date	Number of Active Members	Percentage Change in Membership	Number of Participating Employers	Percentage Increase in Number of Participating Employers	Total Annual Payroll (millions) (2)	Average Payroll	Percentage Increase in Average Payroll
06/30/97	136,241	1.3%	1,371	2.0%	$3,590	$26,350	2.3%
06/30/98	134,866	-1.0	1,397	1.9	3,765	27,915	5.9
06/30/99	137,969	2.3	1,407	0.7	4,088	28,529	2.2
06/30/00	140,559	1.9	1,416	0.6	4,290	30,471	6.8
12/31/00	143,337	2.0	1,423	0.5	4,455	30,412	-0.2
12/31/01	145,666	1.6	1,435	0.8	4,675	32,094	5.5
12/31/02	147,294	1.1	1,442	0.5	4,866	32,984	2.8
12/31/03	148,145	0.6	1,454	0.8	4,978	32,944	-0.1
12/31/04	147,751	-0.3	1,461	0.5	5,102	33,854	2.7
12/31/05	149,073	0.9	1,474	0.9	5,270	34,661	2.4

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

2) Excludes TIAA salaries.

Schedule of Employer Contribution Rates

Last Ten Fiscal Years (1)

Year	Actuarial Rate	Actual Rate	Actuarial Rate	Actual Rate
	KPERS State/School		**KPERS Local**	
1997	5.17 %	3.59 %	3.73%	2.63 %
1998	5.23	3.79	3.86	2.78
1999	5.33	3.99	3.86	2.93
2000	5.27	4.19	3.89	3.22
2001	6.15	3.98(2)	3.88	2.77(2)
2002	6.00	4.78	4.07	3.52
2003	6.17	4.98(3)	4.73	3.67(3)
2004	7.05	4.58(3)	4.64	3.22(3)
2005	8.29	5.47	6.04	4.01
2006	**9.94**	**6.07**	**7.04**	**4.61**
	KP&F (Uniform Rate)		**Judges**	
1997	9.73%	9.73 %	16.00 %	16.00 %
1998	9.45	9.45	15.67	15.67
1999	7.36	7.36	15.67	15.67
2000	7.35	7.35	14.38	14.38
2001	6.97	6.97	16.14	15.74 (2)
2002	6.79	6.79	12.88	12.88
2003	6.86	6.86	12.66	12.66 (3)
2004	9.47	9.47	16.67	16.67 (3)
2005	11.69	11.69	19.22	19.22
2006	**12.39**	**12.39**	**22.37**	**22.37**
	TIAA			
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)		

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 death and disability insurance when applicable.

2) Per 2000 and 2001 legislation, employers were not required to remit the Group Life and Disability portion of the Actual Rate from April 1, 2000, through December 31, 2001.

3) Per 2002 and 2003 legislation, employers were not required to remit the Group Life and Disability portion of the Actual Rate from July 1, 2002, through December 31, 2002, or from April 1, 2003, through June 30, 2004.

4) Per 2003 legislation, members of the TIAA group were made special members of KPERS and no longer have a separate valuation or contribution rate.

Membership Profile

Last Ten Calendar Years

Valuation Date	Active	Inactive	Retirees & Beneficiaries	Total Membership
1996	136,285	21,443	47,940	205,668
1997	134,866	23,588	50,058	208,512
1998	138,292	25,463	51,639	215,394
1999	140,833	27,664	53,137	221,634
2000	143,591	35,482	54,396	233,469
2001	145,910	38,056	56,115	240,081
2002	147,294	40,404	57,597	245,295
2003	148,145	41,315	59,124	248,584
2004	147,751	41,269	61,125	250,145
2005	149,073	41,232	63,348	253,653

Retirees and Beneficiaries – Changes in Rolls for 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
1997	46,746	3,456	$42,581,075	1,643	$7,829,006	48,559	3.90%	13.00%	$8,056	$388,830,304
1998	48,559	3,228	40,731,685	1,716	7,638,945	50,071	3.10	(4.30)	8,449	421,314,908
1999	50,071	3,328	41,833,222	1,756	9,151,705	51,643	3.10	2.70	9,034	464,709,423
2000	51,643	3,360	44,028,303	1,862	9,563,949	53,141	2.90	5.20	9,397	797,869,985
2001	53,141	3,112	44,919,587	1,951	10,020,387	54,302	2.20	2.00	9,773	550,674,064
2002	54,302	3,689	45,669,820	1,922	9,552,087	56,069	3.30	1.70	10,101	627,704,056
2003	56,069	3,585	48,718,476	2,116	10,942,002	57,538	2.60	6.70	10,443	645,716,079
2004	57,538	3,612	50,253,218	2,009	11,940,793	59,141	2.60	3.20	10,897	676,918,614
2005	59,141	4,141	59,096,917	2,017	12,333,238	61,265	3.60	17.60	11,126	737,563,276
2006	61,265	4,547	66,239,352	1,759	11,185,646	63,765	4.00	12.00	11,498	805,978,732

Summary of Membership Data

Retiree and Beneficiary Member Valuation Data (1)

	12/31/05	12/31/04
KPERS		
Number	59,523	57,401
Average Benefit	$10,709	$10,374
Average Age	72.70	72.78
Police & Fire		
Number	3,654	3,558
Average Benefit	$22,322	$21,912
Average Age	62.10	61.60
Judges		
Number	171	166
Average Benefit	$31,878	$31,416
Average Age	73.40	73.70
System Total		
Number	63,348	61,125
Average Benefit	$11,436	$11,103
Average Age	72.09	72.13

Active Member Valuation Data (1)

	12/31/05	12/31/04
KPERS		
Number	142,047	140,779
Average Current Age	45.31	45.25
Average Service	10.86	10.84
Average Pay	$33,724	$32,937
Police & Fire		
Number	6,772	6,721
– Tier I	662	703
– Tier II	6,110	6,018
Average Current Age	38.90	38.90
Average Service	10.97	10.90
Average Pay	$52,222	$51,014
Judges		
Number	254	251
Average Current Age	55.72	55.51
Average Service	11.59	11.61
Average Pay	$90,585	$88,761
System Total		
Number	149,073	147,751
Average Current Age	45.04	44.98
Average Service	10.86	10.85
Average Pay	$34,661	$33,854

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

Statistical Section

Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2006

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Safeguarding
the financial future
of our members

The Statistical Section presents several schedules that provide financial trends analysis of the Retirement System's overall financial health and additional analytical information on retirements benefits and employers' membership data. The schedules on pages 110 through 115 provide revenues, expenses, and funding status information for the past ten fiscal years. On page 116, information is provided showing the top ten participating employers determined by covered active employees. On pages 117 through 119 various schedules are presented to depict the level of monthly benefits by numbers of retirees, retirement type and options and years of service. Also on page 117 a schedule is presented that allocates the total benefits and type of refunds that were paid. The source of the information in these schedules is derived from the comprehensive annual financial reports, unless otherwise noted.

Revenues by Source

	Contributions				Net	
Year	Member	Employer	Employer Insurance	Misc.	Investment Income	Total
1997	$171,120,750	$133,053,259	$23,226,519	$92,827	$974,302,417	$1,301,795,772
1998	173,954,587	142,931,373	24,173,870	173,035	1,247,347,928	1,588,580,793
1999	185,180,551	175,581,182	26,071,503	210,116	953,992,725	1,341,036,077
2000	192,776,305	168,100,637	17,164,419	245,354	1,314,770,498	1,693,057,213
2001	204,142,810	193,384,289	——— (1)	175,815	(798,126,783)	(400,423,869)
2002	209,624,015	207,611,045	13,862,682	137,633	(463,746,959)	(32,511,584)
2003	224,746,447	222,882,765	8,581,558	82,257	326,056,643	782,349,670
2004	230,349,955	714,353,221 (2)	——— (1)	182,113	1,336,225,914	2,281,111,203
2005	233,226,034	261,961,687	31,990,734	178,105	1,223,096,121	1,750,452,681
2006	246,203,381	298,711,909	53,319,639	175,539	1,354,407,763	1,952,818,231

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 net proceeds of $479.1 million were issued in 2004.

Schedule of Benefits by Type

Fiscal Year	Retirement Benefits	Retirement Dividend	Death Benefits	Refunds of Contributions	Disability Insurance Premiums/ Benefits
1997	$378,656,752	$10,173,553	$7,830,644	$36,761,625	$36,048,625
1998	411,626,428	9,673,950	7,682,253	41,510,908	37,639,743
1999	455,265,896	9,443,527	7,862,525	40,860,950	41,892,190
2000	489,058,357	8,811,628	8,071,779	43,631,850	42,199,878
2001	542,389,577	8,284,487	8,227,488	43,967,623	46,456,603
2002	619,959,068	7,744,988	8,694,809	39,066,937	47,625,764
2003	638,498,630	7,217,449	7,826,064	39,608,946	53,829,235
2004	670,246,402	6,672,212	8,685,182	41,179,470	50,396,392
2005	731,389,840	6,173,436	7,849,884	46,773,933	53,703,109
2006	800,256,846	5,721,885	8,810,923	46,826,176	54,957,957

Expenses by Type

Year	Benefits	Withdrawals	Insurance	Administration	Total
1997	$396,660,948	$36,761,626	$36,048,625	$4,659,099	$474,130,298
1998	428,997,161	41,510,908	37,639,743	4,702,566	512,850,378
1999	472,571,948	40,860,950	41,892,190	5,442,410	560,767,498
2000	505,941,764	43,631,850	42,199,878	5,689,571	597,463,063
2001	558,901,552	43,967,623	46,456,603	6,843,434	656,169,212
2002	636,398,865	39,066,937	47,625,764	6,776,044	729,867,610
2003	653,542,143	39,608,946	53,829,235	7,215,024	754,195,348
2004	685,603,796	41,179,470	50,396,392	7,231,295	784,410,953
2005	745,413,160	46,773,933	53,703,109	7,340,147	853,230,349
2006	814,789,655	46,826,176	54,957,957	7,718,879	924,292,667

Changes in Net Assets
For the Last Ten Fiscal Years

	2006	2005	2004
Additions			
Contributions			
Member Contributions	$246,203,381	$233,226,034	$230,349,955
Employer Contributions	352,031,548	293,952,421	714,353,221(1)
Total Contributions	598,234,929	527,178,455	944,703,176
Investments			
Net Appreciation in Fair Value of Investments	1,046,279,084	932,881,712	1,087,128,878
Interest	165,466,523	132,806,082	132,004,016
Dividends	113,162,346	130,167,483	91,477,150
Real Estate Income, Net of Operating Expenses	51,835,809	43,821,311	39,514,695
Other Investment Income	303,028	412,211	565,492
	1,377,046,790	1,240,088,799	1,350,690,231
Less Investment Expense	(27,204,510)	(22,070,013)	(18,718,601)
Net Investment Income	1,349,842,280	1,218,018,786	1,331,971,630
From Securities Lending Activities			
Securities Lending Income	87,911,153	53,059,141	23,020,103
Securities Lending Expenses			
Borrower Rebates	(82,182,198)	(46,714,331)	(17,697,447)
Management Fees	(1,163,472)	(1,267,475)	(1,068,372)
Total Securities Lending Activities Expense	(83,345,670)	(47,981,806)	(18,765,819)
Net Income from Security Lending Activities	4,565,483	5,077,335	4,254,284
Total Net Investment Income	1,354,407,763	1,223,096,121	1,336,225,914
Other Miscellaneous Income	175,539	178,105	182,113
Total Additions (Net Reductions) to Plan Net Assets	1,952,818,231	1,750,452,681	2,281,111,203
Deductions			
Monthly Retirement Benefits Paid	(805,978,732)	(737,563,276)	(676,918,614)
Refunds of Contributions	(46,826,176)	(46,773,933)	(41,179,470)
Death Benefits	(8,810,923)	(7,849,884)	(8,685,182)
Insurance Premiums and Benefits	(54,957,957)	(53,703,109)	(50,396,392)
Administrative Expenses	(7,718,879)	(7,340,147)	(7,231,295)
Total Deductions from Plan Net Assets	(924,292,667)	(853,230,349)	(784,410,953)
Change in Net Assets	$1,028,525,564	$897,222,332	$1,496,700,250

1) Pension obligation bonds net proceeds of $479.1 million were issued in 2004.

2003	2002	2001	2000	1999	1998	1997
$224,746,447	$209,624,015	$204,142,810	$192,777,255	$185,180,551	$173,954,587	$171,120,750
231,464,323	221,473,727	193,384,289	185,264,106	201,652,685	167,105,243	156,279,778
456,210,770	431,097,742	397,527,099	378,041,361	386,833,236	341,059,830	327,400,528
85,233,479	(676,384,745)	(1,061,275,002)	997,376,144	701,131,827	981,923,854	707,311,840
145,411,285	159,209,184	201,483,091	211,532,985	162,670,637	178,369,148	192,130,388
76,508,361	24,416,401	37,639,689	55,532,495	69,869,740	65,588,023	59,536,776
31,217,255	44,792,323	41,997,152	40,748,804	39,885,611	35,536,987	26,607,468
557,611	667,029	556,969	31,508,502	953,003	5,353,416	5,663,700
338,927,991	(447,299,808)	(779,598,101)	1,336,698,930	974,510,818	1,266,771,428	991,250,172
(16,675,173)	(19,758,136)	(23,251,905)	(25,517,316)	(23,363,682)	(22,692,831)	(20,935,414)
322,252,818	(467,057,944)	(802,850,006)	1,311,181,614	951,147,136	1,244,078,597	970,314,758
25,878,944	33,310,814	62,950,106	32,446,888	25,884,533	41,373,775	44,881,692
(20,861,098)	(28,577,302)	(56,202,763)	(27,320,030)	(21,819,685)	(36,703,726)	(39,186,901)
(1,214,021)	(1,422,527)	(2,024,120)	(1,537,974)	(1,219,259)	(1,400,718)	(1,707,132)
(22,075,119)	(29,999,829)	(58,226,883)	(28,858,004)	(23,038,944)	(38,104,444)	(40,894,033)
3,803,825	3,310,985	4,723,223	3,588,884	2,845,589	3,269,331	3,987,659
326,056,643	(463,746,959)	(798,126,783)	1,314,770,498	953,992,725	1,247,347,928	974,302,417
82,257	137,633	175,815	245,354	210,116	173,035	92,827
782,349,670	(32,511,584)	(400,423,869)	1,693,057,213	1,341,036,077	1,588,580,793	1,301,795,772
(645,716,079)	(627,704,056)	(550,674,064)	(497,869,985)	(464,709,423)	(421,314,908)	(388,830,304)
(39,608,946)	(39,066,937)	(43,967,623)	(43,631,850)	(40,860,950)	(41,510,908)	(36,761,626)
(7,826,064)	(8,694,809)	(8,227,488)	(8,071,779)	(7,862,525)	(7,682,253)	(7,830,644)
(53,829,235)	(47,625,764)	(46,456,603)	(42,199,878)	(41,892,190)	(37,639,743)	(36,048,625)
(7,215,024)	(6,776,044)	(6,843,434)	(5,689,571)	(5,442,410)	(4,702,566)	(4,659,099)
(754,195,348)	(729,867,610)	(656,169,212)	(597,463,063)	(560,767,498)	(512,850,378)	(474,130,298)
$28,154,322	$(762,379,194)	$(1,056,593,081)	$1,095,594,150	$780,268,579	$1,075,730,415	$827,665,474

Highlights of Operations

Ten-Year Summary

	2006	2005	2004	2003	2002
Membership Composition					
Number of Retirants (a)	63,348	61,125	59,124	57,597	56,115
Number of Survivors (b)	5,394	4,141	3,612	3,585	3,689
New Retirants During the Fiscal Year	4,452	4,141	3,612	3,585	3,689
Active and Inactive Members (a)	190,305	189,020	189,460	187,698	183,966
Participating Employers	1,474	1,461	1,454	1,442	1,435
Financial Results (millions)					
Member Contributions	$246	$233	$230	$225	$210
Employer Contributions (c)	352	294	714	231	221
Retirement / Death Benefits	815	745	686	654	636
Investment Income (d)	1,354	1,223	1,336	326	(464)
Employer Contribution Rate (e)					
KPERS—State / School	6.07%	5.47%	4.58%	4.98%	4.78%
KPERS—Local (d)	4.61	4.01	3.22	3.67	3.52
KP&F (Uniform Participating) (f)	12.39	11.69	9.47	6.86	6.79
Judges	21.97	19.22	16.67	12.66	12.88
TIAA (g)	—	0.60	—	2.27	2.03
Unfunded Actuarial Liability (millions)					
KPERS—State / School	$3,926	$3,584	$2,734	$2,239	$1,506
KPERS—Local	869	824	588	340	185
KP&F	341	313	249	232	59
Judges	17	22	15	17	10
TIAA (e)	—	—	—	—	20
Funding Ratios (h)					
KPERS—State / School	67.21%	68.60 %	74.07%	75.64%	82.46%
KPERS—Local	67.38	67.30	73.69	81.71	89.12
KP&F	80.46	81.10	84.04	84.16	95.53
Judges	85.02	80.10	84.92	82.21	88.94
TIAA	—	—	—	—	48.32

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

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

c) Pension obligation bonds net proceeds of $479.1 million were issued in 2004.

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

Highlights of Operations
Ten-Year Summary

	2001	2000	1999	1998	1997
Membership Composition					
Number of Retirants (a)	54,396	51,639	50,058	47,940	48,572
Number of Survivors (b)	3,112	3,360	3,328	3,228	3,456
New Retirants During the Fiscal Year	3,112	3,360	3,328	3,228	3,456
Active and Inactive Members (a)	179,073	163,755	158,454	157,728	150,962
Participating Employers	1,423	1,415	1,407	1,397	1,371
Financial Results (millions)					
Member Contributions	$204	$193	$185	$174	$171
Employer Contributions (c)	193	185	202	167	156
Retirement / Death Benefits	559	506	473	429	397
Investment Income (d)	(798)	1,315	954	1,247	974
Employer Contribution Rate (e)					
KPERS—State / School	3.98%	4.19%	3.99%	3.79%	3.59%
KPERS—Local (d)	2.77	3.22	2.93	2.78	2.63
KP&F (Uniform Participating) (f)	6.97	7.35	7.36	9.45	9.73
Judges	15.74	14.38	15.67	15.67	16
TIAA (g)	1.21	1.82	1.93	1.66	1.89
Unfunded Actuarial Liability (millions)					
KPERS—State / School	$1,120	$860	$973	$1,142	$933
KPERS—Local	90	36	76	104	131
KP&F	62	307	317	313	288
Judges	10	8	8	8	5
TIAA (e)	23	23	23	24	19
Funding Ratios (h)					
KPERS—State / School	86.23%	88.82%	86.36%	83.03%	84.19%
KPERS—Local	94.29	97.56	94.41	91.47	88.34
KP&F	95.22	79.68	77.28	75.62	74.77
Judges	88.66	90.53	89.42	88.21	91.21
TIAA	41.18	39.72	34.16	28.83	31.26

e) Rates include Group Life and Disability contributions where applicable. Per 2000 and 2001 legislation, employerswere 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 Disabilityportion of the Actual Rate from July 1, 2002, through December 31, 2002, or from April 1, 2003, through June 30, 2004.

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

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

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

Principal Participating Employers (a)
For the Fiscal Year Ended June 30, 2006

Participating Government	Covered Active Employees	Rank	Percentage of Total System
State of Kansas	27,701	1	18.58%
USD 259, Wichita	6,546	2	4.39%
USD 233, Olathe	4,155	3	2.79%
USD 512, Shawnee Mission	3,968	4	2.66%
USD 500, Kansas City	3,436	5	2.30%
USD 229, Blue Valley	2,770	6	1.86%
USD 501, Topeka Public Schools	2,544	7	1.71%
Johnson County	2,533	8	1.70%
Sedgwick County	1,844	9	1.24%
USD 497, Lawrence	1,736	10	1.16%
All Other*	91,840		61.61%
Total (1,474 employers)	149,073		100.00%

*In 2006, "All Other" consisted of:

Type	Number	Covered Active Employees
School districts	296	48,913
Cities and Counties	538	28,419
Post-Secondary Education [b]	43	10,890
Other	587	3,618
	1,464	91,840

a) Information from prior years is not available.

b) Not including State Board of Regents Institutions.

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

Monthly Retiree Benefit Amounts
As of December 2005

Benefit Amount	Number of Retirees
Over $4,000	412
$3,500-$3,999	364
$3,000-$3,499	821
$2,500-$2,999	1,793
$2,000-$2,499	3,997
$1,500-$1,999	7,173
$1,000-$1,499	9,313
$900-$999	2,306
$800-$899	2,608
$700-$799	2,974
$600-$699	3,407
$500-$599	3,922
$400-$499	4,499
$300-$399	5,347
$200-$299	5,645
$100-$199	5,414
$ - $ 99	3,767

Benefit and Refund Deductions from Net Assets by Type (a)
For the Fiscal Year Ended June 30, 2006

Type of Benefit	Amount
Age and service benefits:	
Retirees	$763,960,585
Survivors	42,018,147
Death in service benefits	8,810,923
Insurance premiums and Disabiltiy benefits	54,957,957
Total Benefits	**$869,747,612**

Type of Refund	Amount
Death	$6,197,596
Separation	40,628,580
Total Refunds	**$46,826,176**

a) Information from prior years is not available.

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

Schedule of Retired Members and Survivors by Type of Benefit
As of December 31, 2005

Monthly Benefit Amount	Number of Retirees	Retirement Type				Option Type Selected								
		1,3,5	2,4	6,8	7,9	1	2	3	4	5,8	6,7	9	0	Other
$-99	3,767	3,360	389	8	10	3,045	254	285	52	34	11	21	64	1
$100-199	5,414	3,426	1,909	61	18	3,943	633	541	89	80	53	22	53	0
$200-299	5,645	3,084	2,488	60	13	4,071	634	601	100	118	51	22	48	0
$300-399	5,347	3,000	2,269	53	25	3,747	587	653	93	142	42	28	54	1
$400-499	4,499	2,608	1,821	51	19	3,173	508	553	67	115	30	12	41	0
$500-599	3,922	2,415	1,460	34	13	2,716	443	506	50	130	11	28	38	0
$600-699	3,407	2,131	1,228	31	17	2,338	379	473	53	108	14	13	29	0
$700-799	2,974	1,905	1,017	35	17	2,011	359	385	48	124	9	13	25	0
$800-899	2,608	1,765	775	54	14	1,707	349	355	36	117	14	10	20	0
$900-999	2,306	1,698	541	49	18	1,449	346	325	36	112	10	9	19	0
$1,000-1,499	9,313	7,916	1,090	213	94	5,615	1,475	1,352	106	606	71	33	54	1
$1,500-1,999	7,173	6,773	173	138	89	4,261	1,196	933	57	616	52	22	36	0
$2,000-2,499	3,997	3,864	45	54	34	2,369	746	406	30	400	14	22	10	0
$2,500-2,999	1,793	1,736	29	13	15	971	366	179	20	240	6	4	7	0
$3,000-3499	821	791	20	3	7	390	192	100	6	125	2	3	3	0
$3,500-3,999	364	361	2	1	0	158	80	41	4	80	0	0	1	0
$4,000 or More	412	401	10	1	0	155	105	55	4	91	0	1	1	0
Totals	63,762	47,234	15,266	859	403	42,119	8,652	7,743	851	3,238	390	263	503	3

Retirement Type

1, 3, 5 = Normal

2,4 = Early

6,8 = Service-connected death and disability

7,9 = Non-service connected death and disability

Option Type Selected

1 = Maximum, no survivor benefit

2 = Joint & 1/2 to survivor

3 = Joint & same to survivor

4 = Life w/ ten years certain

5, 8 = Joint & 3/4 to survivor

6,7 = Widowed, children, survivor

9 = Life w/five years certain

0 = Life w/15 years certain

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

Average Monthly Benefit by Years of Service

New Retirees by Calendar Year

Years of Service Credit	2001	2002	2003	2004	2005
Less than 5	189	191	196	238	170
Average Benefit	$123.00	$178.38	$111.97	$155.64	$90.24
Average Years	2.47	2.33	2.27	2.24	2.45
5-9.9	221	201	218	226	256
Average Benefit	$222.53	$197.94	$230.30	$262.46	$206.62
Average Years	7.08	7.16	6.88	6.79	7.02
10-14.99	521	557	556	589	563
Average Benefit	$379.37	$451.20	$429.97	$408.74	$419.72
Average Years	11.87	12.04	11.86	11.76	11.87
15-19.99	502	496	515	558	616
Average Benefit	$608.25	$684.88	$669.08	$730.09	$704.33
Average Years	16.96	16.93	16.89	16.86	16.99
20-24.99	435	454	432	498	517
Average Benefit	$935.92	$952.70	$1,011.30	$1,013.59	$1,063.56
Average Years	21.90	22.04	21.87	21.93	21.92
25-29.99	557	523	543	655	716
Average Benefit	$1,478.75	$1,466.67	$1,515.03	$1,513.76	$1,562.33
Average Years	27.18	27.05	27.14	26.95	27.05
30-34.99	671	703	667	735	853
Average Benefit	$1,842.36	$1,918.15	$2,026.35	$1,965.64	$2,064.90
Average Years	32.01	31.89	31.84	31.67	31.83
35-39.99	233	211	233	300	283
Average Benefit	$2,038.41	$2,137.57	$2,278.46	$2,391.34	$2,322.88
Average Years	36.44	36.69	36.66	36.37	36.70
40-44.99	75	68	66	61	70
Average Benefit	$2,296.74	$2,221.94	$2,511.66	$2,298.83	$2,674.97
Average Years	41.65	41.38	41.44	41.66	41.33
45-49.99	9	14	17	10	7
Average Benefit	$2,103.47	$2,346.95	$2,129.79	$2,341.43	$1,966.49
Average Years	45.67	46.21	46.24	46.80	46.43
50 and Over	—	7	4	9	1
Average Benefit	$—	$2,805.10	$3,325.39	$2,328.75	$4,496.15
Average Years	—	54.43	55.60	53.00	50.00
Total Number of Retirees	**3,413**	**3,425**	**3,447**	**3,879**	**4,052**
Average Benefit	**$1,086.60**	**$1,129.21**	**$1,164.22**	**$1,182.66**	**$1,243.14**
Average Years	**21.95**	**21.94**	**21.74**	**21.82**	**22.42**

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

Acknowledgement Section

Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2006

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Safeguarding
the financial future
of our members

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Actuary	Milliman USA, Omaha, Nebraska
Investment Consultants	Pension Consulting Alliance, Inc., Encino, California, Ennis Knupp, Chicago Illinois
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Investment Custodian	Mellon Trust of New England, Everett, Massachusetts
Life Insurance	Minnesota Life Insurance Company, St. Paul, Minnesota
Long-Term Disability	Self Insured, Administered by Disability Consulting Group LLC, Portland, Maine

Comprehensive Annual Financial Report

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

Fiscal Year Ended June 30, 2006

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