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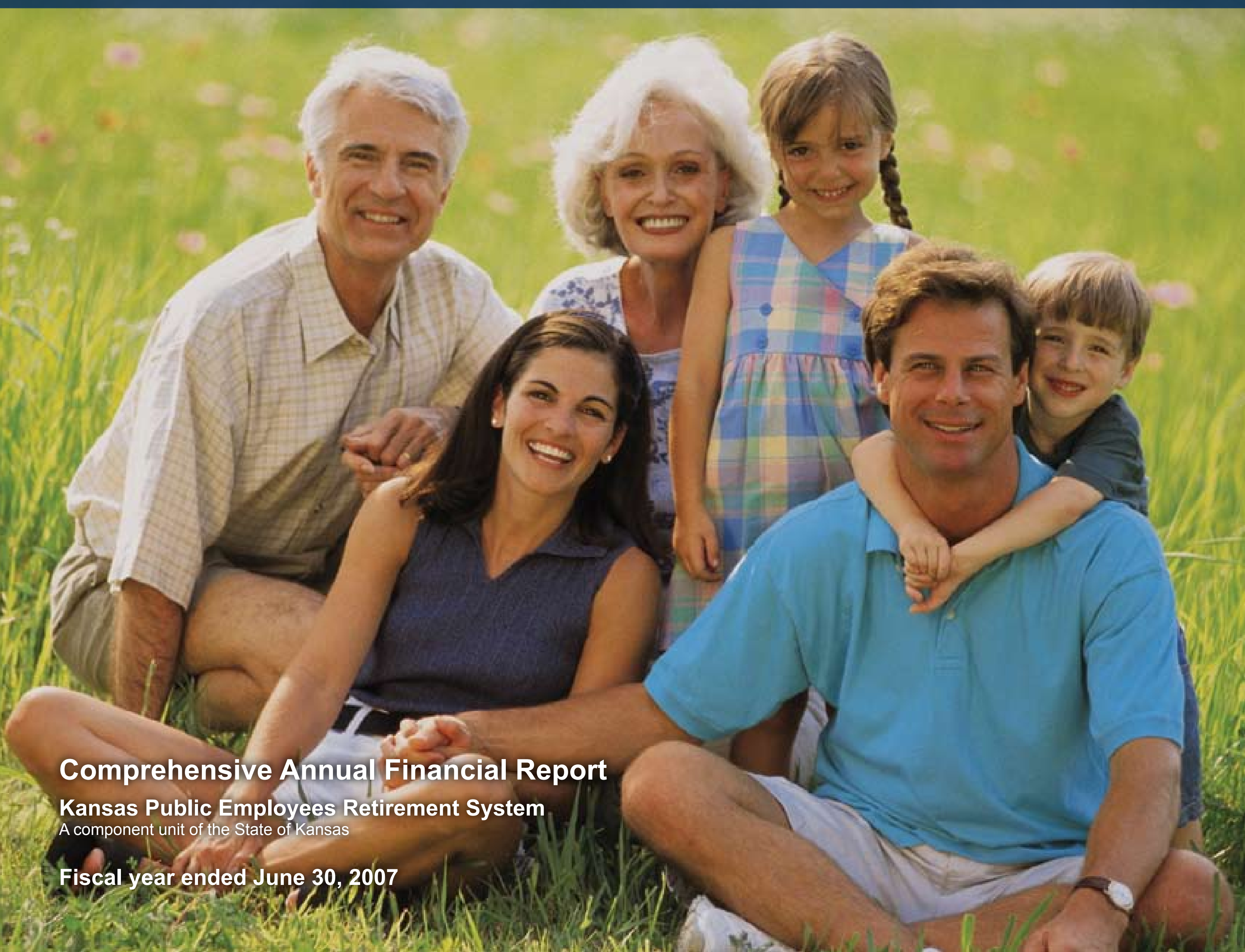

Comprehensive Annual Financial Report

Kansas Public Employees Retirement System

A component unit of the State of Kansas

Fiscal year ended June 30, 2007

2007 Comprehensive Annual Financial Report

Kansas Public Employees Retirement System

A component unit of the State of Kansas

Fiscal year ended June 30, 2007

Prepared by KPERS Staff
611 S. Kansas Ave., Suite 100
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, 2006

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

Working **today** for a secure **tomorrow**

Introductory Section

Comprehensive Annual Financial Report

Fiscal year ended June 30, 2007

KANSAS

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM KATHLEEN SEBELIUS, GOVERNOR

December 17, 2007

Dear Board of Trustees and Members:

I am pleased to present the Kansas Public Employees Retirement System's Comprehensive Annual Financial Report (CAFR) for fiscal year 2007. The initiatives and financial information included in this report represent more than just a year of our work. They represent our commitment to our mission … providing benefits. We work every day to secure tomorrow for the members we serve.

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

As the first item in the CAFR, this transmittal letter provides a high-level overview of the Retirement System. The Management's Discussion and Analysis section, beginning on page 17, provides a narrative introduction and analysis of our financial activities over the last two fiscal years. This letter is intended to complement the MD&A and they should be read together.

Ensuring accuracy

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

The Retirement System maintains a framework of internal controls to establish reasonable assurance that assets are safeguarded, transactions are completed accurately, and financial statements are fair and reliable. We also have an internal audit program that reports to the Board of Trustees. In addition to internal controls, the independent certified public accounting firms Allen, Gibbs & Houlik, L.C. and Berberich Trahan & Co., PA, conducted an independent audit of the Retirement System for 2007.

Our profile

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

We have three state-wide defined benefit retirement plans offered by about 1,450 state and local employers. Our membership totals over 250,000, including active, inactive and retired members. Retirement System total revenues were over $2.8 billion with benefit payments approaching $1 billion for fiscal year 2007. Approximately 85 to 90 percent of those benefits remained in Kansas.

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

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

Financial position and funding outlook

According to the Retirement System's most recent actuarial valuation (dated December 31, 2006), the System remains in actuarial balance. The overall funded ratio is 69 percent, the same as the funded ratio for the year before. The System's unfunded actuarial liability (UAL) increased as expected from $5.15 billion in 2005 to $5.36 billion as of December 31, 2006. This UAL amount is the gap between the actuarial value of assets and the actuarial liability for service already earned by public employees.

Over the last six years, we have partnered with the Legislature and Governor on a long-term plan to address the funding shortfall. Key steps have been taken to implement this plan.

- A series of employer contribution rate increases
- Pension obligation bonds
- Actuarial changes
- Plan design changes for future employees

Although recent employer rate increases and pension obligation bonds have improved KPERS' funding projections, significant challenges remain. The System's funding will remain leveraged for the next ten to 15 years until future employer contributions reach the actuarially-required contribution rates. During this time, the UAL will continue to rise.

In addition, any investment returns below the System's assumed investment target of 8 percent would negatively impact funding projections. Long-term positive investment returns are critical to solid funding. In the coming years, KPERS' funding status needs to be closely monitored to ensure continued progress.

Investments

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

Fiscal year 2007 was somewhat of a retooling year in the Investments division. We made a few staffing changes and reviewed policies, guidelines and strategies. The domestic REITs portion of the real estate portfolio was restructured and two new funds were added to the non-core portion. Staff efforts this year have set the stage for next year's triennial asset liability study.

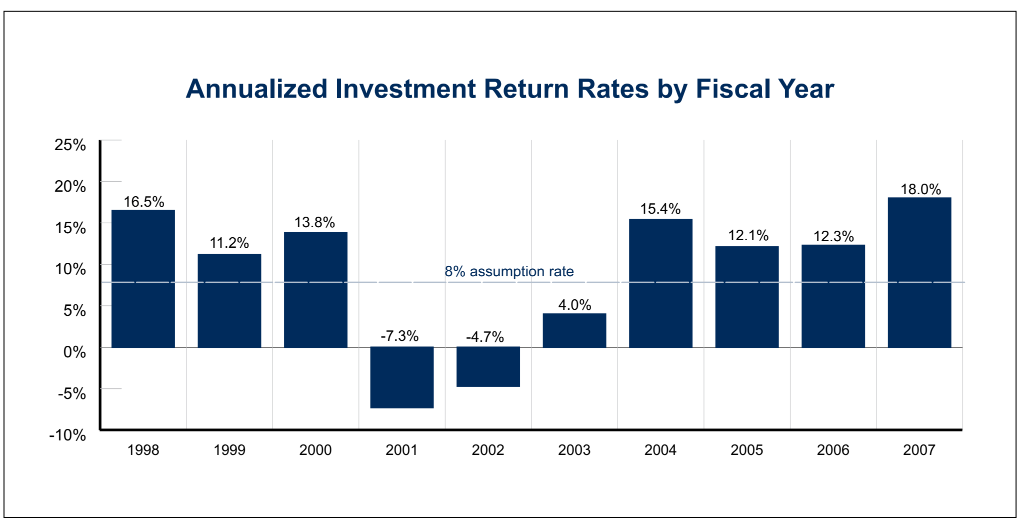
The System's portfolio as a whole outperformed the Policy Index by 100 basis points, led by strong performance from the real estate and alternatives areas. Several asset classes had solid returns, but slightly lagged their benchmarks. The System's return rate was 18.0 percent for the fiscal year, exceeding our long-term actuarial target of 8 percent.

While individual returns each year are important, healthy returns over time are essential for proper funding. For the last decade, KPERS has a ten-year annual return average of 8.8 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 47. This section also provides details about our asset allocation and specific yields.

Major initiatives

Funding Standards. Retirement System funding is complex and may be affected by various economic and demographic conditions. To consistently evaluate our financial position over time, the Board of Trustees established funding standards. These standards will help the Board consider a range of factors and conditions when evaluating funding results and projections. Adverse performance or warning indicators according to the standards will automatically cause the Board, staff and consulting actuary to analyze the Retirement System's funding status, projections and options.

Plan Design. As the final component of KPERS' long-term funding plan, the Kansas Legislature passed legislation modifying benefits for future KPERS members after July 1, 2009. These design changes will significantly lower liabilities and employer contributions beginning in approximately 20 years. In addition, these changes will help secure funding for the future, protecting everyone's benefits in the years to come.



Technology. In a continuing effort to take full advantage of technology to complete our mission and provide customer service, KPERS implemented, on time and on budget, phase II of our core information system replacement project (KITS). Added functions included retirement calculations, benefit payments and annual statement production. We also launched a new employer web portal to allow employers to do business with us online with the goal of improving how we receive and distribute information, its accuracy and its security. Looking forward, KPERS received funding this year for three new information technology projects: disaster recovery, security enhancements and platform consolidation.

Deferred Compensation Plan. During the 2007 session, the Kansas Legislature transferred administration of the State's Deferred Compensation Plan to KPERS, beginning January 1, 2008. The Plan is a voluntary 457(b) savings program for State of Kansas employees. Many local public employers also provide the plan. It is currently administered by the Kansas Department of Administration and the Deferred Compensation Oversight Committee.

Key reasons for the transfer include:

- Using KPERS resources in investments, retirement administration and related fiduciary issues.
- Providing opportunities for expanding outreach and service.
- Maximizing and integrating education and planning.
- Increasing the emphasis on personal savings.

Communication. Information is a vital tool in helping members secure their retirement. In 2007, we developed a new member annual statement concept to provide members with important information about their membership. We combined statement and guide information into one publication and customized messages by vesting status, membership status and retirement plan. This project affected most of the divisions at the Retirement System and many staff members worked together to make it a success.

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 2006 CAFR. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

To be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which must conform to program standards. The comprehensive annual financial report must satisfy both generally accepted accounting principles and applicable legal requirements. The Retirement System has received the Certificate of Achievement for each of the last 13 consecutive fiscal years. We believe our current report again conforms to the program requirements, and we will submit it to the GFOA for consideration.

Acknowledgements

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

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

Lastly, I would like to specifically acknowledge the Board of Trustees for its dedication to the financial health and integrity of the Retirement System. Over the last several years, we have made much progress in shoring up the foundation on which Kansas public employees build their financial tomorrow.

Sincerely,

Glenn Deck

Glenn Deck
Executive Director

Our Accomplishments

The Retirement System has three main goals when going about the business of securing our members' financial tomorrow.

Goal #1 **Invest** the System's assets according to the "prudent expert" standard of care for the sole purpose of providing benefits to our members and their beneficiaries.

Goal #2 **Serve** members and employers in a professional, timely, accurate and cost-effective way.

Goal #3 **Communicate** effectively with our members, employers, public officials and other stakeholders.

These goals helped us stay focused on accomplishing daily operations and taking care of members. Even in the face of demanding new initiatives, staff had a successful year doing what needed to be done in the everyday.

- Distributed nearly 800,000 monthly retirement benefit payments totalling approximately $868 million.
- Helped 4,423 members retire and 99 percent of them received a finalized, accurate payment the very first month of their retirement.
- More than two-thirds of new retirees responding to our survey indicated they were "very satisfied" with the retirement process. The remaining one-third said they were "satisfied."

- Paid death benefits totaling $7 million.
- Paid almost 7,000 withdrawing members a total of $35 million and maintained an average processing time of ten working days.
- Processed 3,000 service purchase requests.
- Answered more than 91,000 calls to the InfoLine and over 97 percent were handled by the initial staff person answering the call.
- Averaged a ten-second wait time for InfoLine callers.
- Earned an "excellent" or "good" rating for overall service on 98.1 percent of InfoLine satisfaction surveys.

- Responded to over 13,000 e-mails to the InfoLine.
- Accumulated over 3.8 million web site hits, a 20 percent increase.
- Held 175 presentations and member education seminars across the State. Pre-Retirement seminars received a 98 percent satisfaction rating.
- Conducted 54 workshops and training sessions for employers. Annual designated agent workshop surveys reported a 98 percent satisfaction rating.
- Maintained a 99.9 percent availability of all information systems.
- Saved well over $1 million in fees by internally managing certain investment portfolios.

The 2007 CEM Pension Administration Benchmarking Survey calculated KPERS administrative cost at $37 per active member. This is the second lowest cost among our peers and practically half the median of $72. While keeping costs down, we earned a customer service score of 79, just above the peer median score of 78.

Our Mission

The Kansas Public Employees Retirement System, in its **fiduciary** capacity, exists to deliver retirement, disability and survivor **benefits** to its **members** and their beneficiaries.

Our Values

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.

Board of Trustees*

* For fiscal year 2007

Executive Staff

Organization Chart

Board of Trustees → **Executive Director** → **Fiscal Services**

Fiscal Services
Corporate Accounting
Employer Reporting
Investment Accounting

Member Services
Post-Retirement
Benefits
Withdrawals

Investments
Equity Investments
Real Estate Investments
Fixed Income Investments
Alternative Investments

Administration
General Counsel
Internal Audit
Planning and Research
Human Resources
Communications

Information Resources
Data Control
Operations

Consultants and Advisors

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

KPERS Staff

Melvin Abbott
Yohonna Barraud
Kristen Basso
Steve Beck
Dianna Berry
Becky Betts
Kathleen Billings
Anita Bradley
Leland Breedlove
Greg Buchanan
Amy Cobos
Lorie Conklin
Tammy Cruz
Andrea Davenport
Oma Davis
Glenn Deck
Don Deseck
Yolanda Dickinson
Jill Emme
Daniel Fairbank
Mitchell Fick
Renae Forque
Sue Gamblian
Connie Gardner
David Gerisch
Kay Gleason
Mary Beth Green
Carolyn Haden
Earlene Hagenmaier
Lisa Hernandez
Duane Herrmann
Denise Hilmes
John Hooker
Melva Janke
Casey Kidder
Brian King
Cheryl Koch
Shannon Kuehler
Debra Lewis
Vivian Liu
Mandy Lowe
Joyce Mark
Brian McCammon
Heather McHardie
Laurie McKinnon
Judy McNeal
Noble Morrell
Beverly Murray
Lisa Ngole
John Oliver
Nancy Ott
Scott Peppard
Diana Peters
Demetrius Peterson
Linda Porter
Allie Powell
Pam Price
Cathy Rafferty
Randy Rahberg
Kim Raines
Alberta Rea
Megan Rogers
Teresa Ryan
MaryAnn Sachs
Marilyn Sawyer
J. Alan Schuler
Rhonda Shumway
Mickey Smith
Vince Smith
Nici Soria
Amber Tarrant
Lise Ullery
Christina VanWinkle
Marsha Veal
Craig Weltman
Steven Wesley
Amy Whitmer
Alice Wietharn
Max Williams
Carol Wilson
Deanna Winters
Cheri Woolsey
Pat Zimmerman

Working **today** for a secure **tomorrow**

Financial Section

Comprehensive Annual Financial Report

Fiscal year ended June 30, 2007

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E-mail cpa@cpakansas.com

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, 2007, 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, 2007, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 6, 2007 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 and the Required Supplementary Information on pages 40 thorugh 42 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The accompanying introductory, investment, actuarial and statistical sections and 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.

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

December 6, 2007

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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, 2007. 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.

Overview of the Financial Statements

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

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

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

Basic Financial Statements

A Statement of Plan Net Assets as of June 30, 2007, and a Statement of Changes in Plan Net Assets for the fiscal year ended June 30, 2007, are presented with the previous year's comparative information. These financial statements reflect the resources available to pay benefits to retirees and other beneficiaries as of year end, as well as the changes in those resources during the year.

Notes to the Basic Financial Statements

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

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

Financial Highlights

The System's **net assets** increased by $1.83 billion or 14.8 percent from $12,352,890,468 to $14,183,072,962.

As of December 31, 2006, the date of the most recent actuarial valuation, the Retirement System's **funded ratio** was 69.4 percent compared with a funded ratio of 68.8 percent for the prior year.

The **unfunded actuarial liability** increased from $5.152 billion at December 31, 2005, to $5.364 billion at December 31, 2006.

On a market value basis, this year's investment **return rate** was 18.0 percent, compared with last year's return of 12.3 percent.

Retirement benefits paid to retirees and beneficiaries increased 7.6 percent from $806 million in fiscal year 2006 to $868 million in fiscal year 2007.

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

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

Note 4 provides information about other post employment benefits that the System administers. The Governmental Accounting Standards Board issued GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* and it went into effect for periods beginning after December 15, 2005. As part of the reporting requirements declared by this statement, the financial status and activity of the KPERS Death and Disability Plan are displayed separately in the Statement of Net Assets and the Statement of Changes in Plan Net Assets. Required supplemental schedules display the funded status and funding progress of the plan, and the significant methods and assumptions used. As noted in the funding status schedules, the KPERS group insurance reserve fund is 5 percent funded as of June 30, 2006, the last date of the actuarial valuation of the Death and Disability Plan.

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

Required Supplementary Information

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

Other Supplementary Schedules

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

Financial Analysis of the Retirement System

The System provides benefits to State of Kansas and other local and school employees. Benefits are funded by member and employer contributions and by investment earnings. Net assets held in trust for benefits at June 30, 2007, amounted to $14,183,072,962, an increase of $1.83 billion, 14.8 percent, from $12,352,890,468 at June 30, 2006. Following are two summary schedules, Plan Net Assets and Changes in Plan Net Assets, comparing information from fiscal years 2006 and 2007.

Summary Comparative Statements of Plan Net Assets

	As of June 30, 2007	As of June 30, 2006	Percentage Change
Assets			
Cash and Deposits	$ 270,888	$ 1,298,731	(79.14)%
Receivables	3,869,770,192	3,385,597,938	14.30
Investments at Fair Value	14,718,055,888	12,750,467,453	15.43
Invested Securities Lending Collateral	2,418,559,400	1,887,984,971	28.10
Capital Assets and Supplies Inventory	5,978,120	5,800,249	3.07
Total Assets	21,012,634,488	18,031,149,342	16.54
Liabilities			
Administrative Costs	678,339	707,720	(4.15)
Benefits Payable	3,050,261	2,035,365	49.86
Investments Purchased	4,407,273,526	3,787,530,818	16.36
Securities Lending Collateral	2,418,559,400	1,887,984,971	28.10
Total Liabilities	6,829,561,526	5,678,258,874	20.28
Net Assets	**$14,183,072,962**	**$12,352,890,468**	**14.82%**

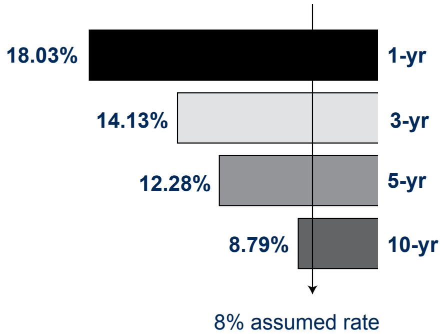
Summary Comparative Statements of Changes in Plan Net Assets

	Year Ended June 30, 2007	Year Ended June 30, 2006	Percentage Change
Additions			
Contributions	$ 655,813,288	$ 598,234,929	9.62%
Net Investment Income	2,158,024,931	1,349,842,280	59.87
Net Investment Income from Securities Lending Activity	4,056,541	4,565,483	(11.15)
Total Net Investment Income	2,162,081,472	1,354,407,763	59.63
Other Miscellaneous Income	228,986	175,539	30.45
Total Additions	2,818,123,746	1,952,818,231	44.31
Deductions			
Retirement Benefits	868,179,029	805,978,732	7.72
Refunds	46,129,211	46,826,176	(1.49)
Death Benefits	9,153,582	8,810,923	3.89
Insurance Premiums and Disability Benefits	55,585,886	54,957,957	1.14
Administrative	8,893,544	7,718,879	15.22
Total Deductions	987,941,252	924,292,667	6.89
Net Increase	1,830,182,494	1,028,525,564	77.94
Net Assets Beginning of Year	**$12,352,890,468**	**$11,324,364,904**	**9.08**
Net Assets End of Year	**$14,183,072,962**	**$12,352,890,468**	**14.82%**

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 $598.2 million in fiscal year 2006 to $655.9 million in fiscal year 2007.

The System recognized a net investment gain of $2.162 billion for the 2007 fiscal year, compared with a net investment gain of $1.354 billion for the 2006 fiscal year. Total return for the portfolio was a positive 18.0 percent, compared with the benchmark return of 17.0 percent. System net investments amounted to $14.108 billion at June 30, 2007, which was $1.8 billion more than the $12.285 billion in total System investments at June 30, 2006. The Retirement System's one-, three-, five- and ten-year investment performance against the assumed rate of investment return are shown in the chart below. The assumed rate of return is 8 percent.

KPERS Returns Over Time



One Year	Latest Three Years	Latest Five Years	Latest Ten Years
18.03%	14.13%	12.28%	8.79%

At June 30, 2007, the System held $8.2 billion in U.S. equity and international equity securities, an increase of approximately $1.2 billion from the 2006 fiscal year. U.S. equity and international equity securities earned returns of approximately 19.2 percent and 30.7 percent, respectively, for the 2007 fiscal year. These compare with the Retirement System's benchmark returns of 20.1 percent and 30.2 percent, respectively.

The System held $4.5 billion in U.S. debt and international debt securities, an increase of $796 million from the 2006 fiscal year. The TIPS portfolio return for 2007 was 3.1 percent, matching the benchmark return of 3.1 percent. The performance of the System's other fixed income securities during fiscal year 2007 was 6.7 percent, compared with the benchmark of 6.6 percent. Real estate investments increased $102 million to $1,021 million at June 30, 2007. Real estate investments returned approximately 20.9 percent for the 2007 fiscal year, versus the benchmark real estate return of 13.7 percent. The System held $454.0 million in alternative investments, which was an $87 million increase from June 30, 2006. Alternative investments earned a return of approximately 23.4 percent for the 2007 fiscal year, compared to the benchmark alternative investment return of 17.1 percent. At June 30, 2007, the System held $443.9 million in short-term investments, which was a decrease of $88.2 million from June 30, 2006.

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 2007, net securities lending income amounted to $4.1 million, compared with $4.6 million in fiscal year 2006.

Deductions from net assets held in trust for benefits include retirement, death and survivor benefits, and administrative expenses. For the 2007 fiscal year, retirement, death and insurance benefits amounted to $979.0 million, an increase of $62.5 million, 6.8 percent, from the 2006 fiscal year. The increase in benefit payments was a result of an increase in the number of retirees. For the 2007 fiscal year, System administrative expenses amounted to $8.894 million compared with $7.718 million in fiscal year 2006. This increase was mainly due to costs associated with the development of the System's new information system. The ratio of System administrative expenses to the number of members (approximately $37 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 six years, the Retirement System's Board of Trustees, staff and actuary have worked closely with the Legislature's Joint Committee on Pensions, Investments and Benefits and the Governor's office to implement a comprehensive funding plan. Key steps taken to implement the plan include:

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

Latest Actuarial Projections

In the Retirement System's most recent actuarial valuation dated, December 31, 2006, 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 $5.15 billion as of December 31, 2005, to $5.36 billion as of December 31, 2006. The System's overall funding ratio remained at 69 percent.

	UAL	Funded Ratio
Kansas Public Employees Retirement System		
• KPERS State Group	$ 453	86%
• KPERS School Group	$3,681	61%
• KPERS Local Group	$ 893	69%
Kansas Police and Firemen's Retirement System	$ 322	82%
Kansas Retirement System for Judges	$ 15	87%
Retirement System Overall Total	**$5,364**	**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 ten to 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 alters 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.

Legislation Passes for New Plan Design
In fiscal year 2007, plan design was the one remaining piece of the funding solution for long-term financial health.

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.

In April 2007, the Kansas Legislature passed and the Governor signed into law a new retirement plan, changing benefits for future KPERS employees. While the new plan will not directly affect current members and retirees, it will help secure funding for the future, protecting everyone's benefits in the years to come.

New Plan Design Highlights:

- Effective July 1, 2009, for new hires
- First day membership in KPERS
- Five-year vesting
- Normal retirement at age 65 with five years of service, or at age 60 with 30 years of service
- Early retirement at age 55 with ten years of service and an increased benefit reduction
- Automatic annual 2 percent cost-of-living adjustments beginning at age 65
- Employee contribution rate of 6 percent

In addition to the new plan design, legislation also provided for two enhancements for current employees, effective July 1, 2009.

1. Eliminates the "year of service" for all non-school members
2. Decreases vesting to five years

Statement of Plan Net Assets as of June 30, 2007

with Comparative Figures for 2006

	KPERS Plan	Group Death & Disability Plan	Total 2007	Total 2006
Assets				
Cash and Deposits				
Cash	$ 257,781	$ 13,107	$ 270,888	$ 96,220
Deposits with Insurance Carrier	-	-	-	1,202,511
Total Cash and Deposits	257,781	13,107	270,888	1,298,731
Receivables				
Contributions	62,921,562	9,790,560	72,712,122	63,999,481
Investment Income	52,589,735	75,869	52,665,604	37,921,711
Sale of Investment Securities	3,744,392,466	-	3,744,392,466	3,283,676,746
Total Receivables	3,859,903,763	9,866,429	3,869,770,192	3,385,597,938
Investments at Fair Value				
Domestic Equities	4,615,179,896	-	4,615,179,896	3,853,253,414
International Equities	3,636,724,650	-	3,636,724,650	3,153,410,705
Cash and Equivalents	424,136,126	19,785,828	443,921,954	532,157,694
Fixed Income	4,546,613,610	-	4,546,613,610	3,751,122,352
Alternative Investments	454,022,428	-	454,022,428	541,415,035
Real Estate	1,021,593,350	-	1,021,593,350	919,108,253
Total Investments at Fair Value	14,698,270,060	19,785,828	14,718,055,888	12,750,467,453
Invested Securities Lending Collateral	2,418,559,400	-	2,418,559,400	1,887,984,971
Capital Assets and Supplies Inventory	5,978,120	-	5,978,120	5,800,249
Total Assets	**20,982,969,124**	**29,665,364**	**21,012,634,488**	**18,031,149,342**
Liabilities				
Administrative Costs	678,339	-	678,339	707,720
Benefits Payable	2,638,478	411,783	3,050,261	2,035,365
Securities Purchased	4,407,273,526	-	4,407,273,526	3,787,530,818
Securities Lending Collateral	2,418,559,400	-	2,418,559,400	1,887,984,971
Total Liabilities	**6,829,149,743**	**411,783**	**6,829,561,526**	**5,678,258,874**
Net Assets Held in Trust for Pension Benefits and Other Post Employment Benefits	**$14,153,819,381**	**$29,253,581**	**$14,183,072,962**	**$12,352,890,468**

A schedule of funding progress for the plan is presented on pages 41 and 42.

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, 2007, with Comparative Figures for 2006

	KPERS Plan	Group Death & Disability Plan	Total 2007	Total 2006
Additions				
Contributions				
Member Contributions	$ 256,995,275	$ -	$ 256,995,275	$ 246,203,381
Employer Contributions	339,509,022	59,308,991	398,818,013	352,031,548
Total Contributions	596,504,297	59,308,991	655,813,288	598,234,929
Investments				
Net Appreciation in Fair Value of Investments	1,816,702,680	-	1,816,702,680	1,046,279,084
Interest	195,092,153	668,063	195,760,216	165,466,523
Dividends	136,434,906	-	136,434,906	113,162,346
Real Estate Income, Net of Operating Expenses	39,114,763	-	39,114,763	51,835,809
Other Investment Income	261,734	-	261,734	303,028
	2,187,606,236	668,063	2,188,274,299	1,377,046,790
Less Investment Expense	(30,243,129)	(6,239)	(30,249,368)	(27,204,510)
Net Investment Income	2,157,363,107	661,824	2,158,024,931	1,349,842,280
From Securities Lending Activities				
Securities Lending Income	125,998,402	-	125,998,402	87,911,153
Securities Lending Expenses				
Borrower Rebates	(120,938,041)	-	(120,938,041)	(82,182,198)
Management Fees	(1,003,820)	-	(1,003,820)	(1,163,472)
Total Securities Lending Activities Expense	(121,941,861)		(121,941,861)	(83,345,670)
Net Income from Security Lending Activities	4,056,541	-	4,056,541	4,565,483
Total Net Investment Income	2,161,419,648	661,824	2,162,081,472	1,354,407,763
Other Miscellaneous Income	132,874	96,112	228,986	175,539
Total Additions (Net Reductions)	2,758,056,819	60,066,927	2,818,123,746	1,952,818,231
Deductions				
Monthly Retirement Benefits Paid	(868,179,029)	-	(868,179,029)	(805,978,732)
Refunds of Contributions	(46,129,211)	-	(46,129,211)	(46,826,176)
Death Benefit	(9,153,582)	-	(9,153,582)	(8,810,923)
Insurance Premiums and Disability Benefits	(6,382,962)	(49,202,924)	(55,585,886)	(54,957,957)
Administrative Expenses	(8,559,164)	(334,380)	(8,893,544)	(7,718,879)
Total Deductions	(938,403,948)	(49,537,304)	(987,941,252)	(924,292,667)
Net Increase	1,819,652,871	10,529,623	1,830,182,494	1,028,525,564
Net Assets Held in Trust for Pension Benefits and Other Post Employment Benefits				
Balance Beginning of Year	12,334,166,510	18,723,958	12,352,890,468	11,324,364,904
Balance End of Year	**$14,153,819,381**	**$29,253,581**	**$14,183,072,962**	**$12,352,890,468**

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	26	—
Cities	360	54	—
Townships	54	—	—
School Districts	296	—	—
Libraries	119	—	—
Conservation Districts	83	—	—
Extension Councils	75	—	—
Community Colleges	42	—	—
Recreation Commissions	42	1	—
Hospitals	29	—	—
Cemetery Districts	12	—	—
Other	172	—	—
Total	**1,390**	**82**	**1**

Membership by Retirement Systems

	KPERS	KP&F	Judges	Total
Retirees and beneficiaries currently receiving benefits	61,808	3,785	172	65,765
Terminated employees entitled to benefits but not yet receiving them	9,429	139	18	9,586
Inactive members, deferred disabled	3,007	186	0	3,193
Inactive members not entitled to benefits	27,084	995	0	28,079
Current employees	144,227	6,965	257	151,449
Total	**245,555**	**12,070**	**447**	**258,072**

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.

Member Contributions 2007

Plan	% of pay
KPERS	4%
KP&F	7%
Judges	6%

Active members (except KP&F and Judges members) are also covered by the provisions of the disability income benefit plan. Since 2006, annual disability income benefits have been based on 60 percent of the annual rate of compensation at the time of disability, less primary social security benefits, one-half of worker's compensation, and any other employment-related disability benefit. Members who were approved for disability benefits before 2006 have an annual benefit based on 66 percent of the annual compensation at the time of disability. For both groups, the minimum monthly benefit is $100. There is a waiting period of 180 continuous days from the date of disability before benefits can be paid. During the period of approved disability, the member continues to be eligible for group life insurance coverage and to accrue participating service credit.

Contributions

Member contributions (from 4 to 7 percent of gross compensation), employer contributions and net investment income fund Retirement System reserves. Member contribution rates are established by state law, and are paid by the employee according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates be determined based on the results of each annual actuarial valuation. The contributions and assets of all three systems are deposited in the Kansas Public Employees Retirement Fund established by K.S.A. 74-4921. All of the retirement systems are funded on an actuarial reserve basis (see Note 3). For fiscal years beginning in 1995, Kansas legislation placed a statutory limit of 0.1 percent of payroll on increases in contribution rates for KPERS employers. During the 1995 legislative session, the statutory limits were increased to 0.2 percent of payroll over the prior year for fiscal years beginning in 1996 for state and school employers. The statutory increase for local units of government was amended to limit increases to no more than 0.15 percent over the prior year for calendar years beginning in 1997. Annual increases in the employer contribution rates related to subsequent benefit enhancements are not subject to these limitations. Legislation passed in 2003 amended the annual increases in future years. The statutory cap for the State/School group increased to 0.4 percent in fiscal year 2006, with subsequent increases of 0.5 percent in fiscal year 2007 and 0.6 percent in fiscal year 2008 and beyond. Legislation passed in 2004 amended the annual increases in future years for local employers. The statutory cap for the Local group increased to 0.4 percent in calendar year 2006, with subsequent increases of 0.5 percent in fiscal year 2007 and 0.6 percent in fiscal year 2008 and beyond. The amortization period for the unfunded liability of all three systems is 40 years from July 1, 1993.

Note 2: Summary of Significant Accounting Policies

Reporting Entity

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

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 same period of the members' payroll on which the members and employers contributions are based. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Use of Estimates

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

Cash and Deposits

Custodial credit risk is when in the event a financial institution or counterparty fails, the Retirement System would not be able to recover the value of deposits that are in the possession of an outside party. The System advances cash deposits to a disability administrator for monthly disability benefits and death benefits for members who are disabled. As of June 30, 2007, the Retirement System's deposit with its disability administrator was zero. 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.
- The annual allowance for new alternative (non-publicly traded) investments is limited to 1 percent of the market value of the total investment assets of the fund as measured from the end of the preceding calendar year.
- Establishes limits on the structure of future investments in real estate or alternative investments.
- Requires that the Board develop investment policies and objectives to invest fund assets.
- Authorizes the Board to hire qualified professionals/firms to assist in investing the fund and requires that such professionals/firms obtain errors and omissions insurance coverage and fidelity bond insurance coverage.
- Authorizes the Board to pay for the services of retained professionals/firms at the rates fixed by the Board, excluding any reimbursement for expenses and subject to the provisions of the appropriations acts.
- Provides for an annual audit and requires that the Board annually examine the investment program, specific investments, and its policies and practices.

The Retirement System has six permissible investment categories.

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

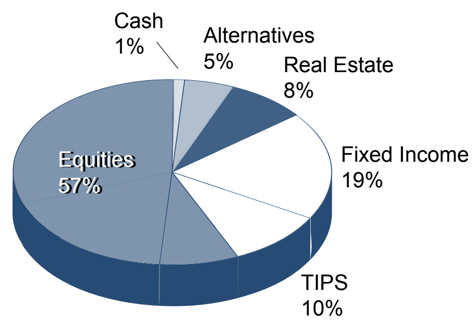
In fulfilling its responsibilities, the Board of Trustees has contracted with 15 investment management firms and a master global custodian. Presently, the Retirement System has investments in the financial futures market. Futures contracts are contracts for delayed delivery or receipt of securities in 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, 2007, the Retirement System had futures contracts with market exposure of approximately $1,975,400,000. 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, 2007, the maturities of securities in this dedicated bond portfolio are as follows: 47 percent of the fair value of the securities mature within 30 days; 16 percent mature between 31 and 180 days; and 37 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, 2006, and June 30, 2007, were $2,210,991,830 and $2,484,327,454, respectively. Collateral held by the Retirement System for June 30, 2006, and June 30, 2007, was $2,264,938,273 and $2,582,592,116, respectively. Net income produced from securities lending activities for fiscal year 2006 was $4,565,483 and for fiscal year 2007 was $4,056,541.

Target Asset Allocation



Futures & Derivatives

*Fair value fluxuations of futures and all derivatives are reported on these financial statements in asset values and gains/losses.

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, 2007, the System had sold forward currency contracts with a fair value of $3,432,135,174 and had bought forward currency contracts with a fair value of $3,431,715,598. 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, 2007, the Retirement System had invested in TIPS with a fair value of approximately $1,170,800,000.

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

Currency Risk

Currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. KPERS investments at June 30, 2007, were distributed among these currencies.

USD Equivalent	Currency	Percent
$ 194,587,289	Australian Dollar	1.14%
5,764,229	Bermudian Dollar	0.03%
56,385,734	Brazil Real	0.33%
535,252,004	British Pound Sterling	3.12%
177,698,862	Canadian Dollar	1.04%
1,890,923	Chilean Peso	0.01%
6,056,947	Chinese Yuan Renminbi	0.04%
4,094,601	Colombian Peso	0.02%
2,652,914	Czech Koruna	0.02%
13,546,859	Danish Krone	0.08%
1,758,364	Egyptian Pound	0.01%
1,370,441,794	Euro Currency Unit	8.00%
118,795,769	Hong Kong Dollar	0.69%
4,738,587	Hungarian Forint	0.03%
3,105,874	Iceland Krona	0.02%
8,549,504	Indian Rupee	0.05%
15,073,709	Indonesian Rupian	0.09%
5,669,734	Israeli Shekel	0.03%
820,668,328	Japanese Yen	4.79%
14,291,282	Malaysian Ringgit	0.08%
53,244,878	Mexican New Peso	0.31%
6,263,810	Moroccan Dirham	0.04%
4,429,849	New Zealand Dollar	0.03%
28,237,362	Norwegian Krone	0.16%
8,876,164	Philippines Peso	0.05%
15,401,135	Polish Zloty	0.09%
25,188,896	Russian Rubel	0.15%
39,762,535	S African Comm Rand	0.23%
39,213,928	Singapore Dollar	0.23%
106,260,324	South Korean Won	0.62%
87,404,106	Swedish Krona	0.51%
218,444,646	Swiss Franc	1.27%
80,093,173	New Taiwan Dollar	0.47%
6,008,686	Thailand Baht	0.04%
31,717,294	New Turkish Lira	0.19%
1,043,518	Uruguayan Peso	0.01%
4,154,310	Other Currencies	0.01%
13,019,847,367	U.S. Dollar*	75.97%
$17,136,615,288	**Total Market Value**	**100.00%**

* Includes securities lending collateral of $2,418,559,400

The System's asset allocation and investment policies include active and passive investments in international securities as shown to the left. KPERS' **target allocation** is to have 18 percent of assets (excluding securities lending collateral) in dedicated international equities.

The System also has 8.0 percent of assets targeted to **global equities** which are expected to be between 40 and 60 percent international. Core Plus bond managers are allowed to invest up to 20 percent of their portfolio in non-dollar securities.

The System utilizes a **currency overlay** manager to reduce risk by hedging up to 50 percent of the foreign currency for selected international equity portfolios. At June 30, 2007, the System's **total foreign currency exposure** was 20.4 percent hedged.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to a debt investment will not fulfill its obligations. The Retirement System's investment policies require Core and Core Plus managers to have at least 70 percent of holdings in investment grade securities. Each portfolio is required to maintain a reasonable risk level relative to its benchmark. System assets ($ in thousands) as of June 30, 2007, 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	$267,259	$ 233,489	$ -	$ -	$ 476,199	$ 976,947
AAA	-	655,621	1,121,757	1,449,033	257,000	3,483,411
AA	288,779	164,598	-	-	1,525,976	1,979,353
A	833	244,362	-	-	159,384	404,579
BAA	-	355,395	-	-	-	355,395
BA	-	81,446	-	-	-	81,446
B	-	77,194	-	-	-	77,194
CAA	-	30,879	-	-	-	30,879
CA	-	652	-	-	-	652
Total	**$556,871**	**$1,843,636**	**$1,121,757**	**$1,449,033**	**$2,418,559**	**$7,389,856**

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	$556,871	$ 905,279	$ 218,274	$ 55,431	$2,358,273	$4,094,128
1-3 yrs	-	482,946	63,506	52,044	60,286	658,782
3-5 yrs	-	139,952	399,458	70,674	-	610,084
5-10 yrs	-	187,626	440,519	75,241	-	703,386
10-16 yrs	-	127,833	-	1,195,643	-	1,323,476
Total	**$556,871**	**$1,843,636**	**$1,121,757**	**$1,449,033**	**$2,418,559**	**$7,389,856**

Treasury Inflation Protected Securities (TIPS) comprise 95 percent of the U.S. Government, 10-16 years group. Total TIPS for all duration ranges were valued at $1,170,787,253 at June 30, 2007. Securities Lending Collateral policy limits the maximum average portfolio maturity of 90 days and only floating rate, and fixed rate asset-backed, securities may mature beyond 13 months.

Capital Assets and Supplies Inventory

Furniture, fixtures and equipment are reported on the Statement of Plan Net Assets at historical cost, net of accumulated depreciation. These assets are depreciated on a straight-line basis over an average useful life of three to ten years with no salvage value. Accumulated depreciation on furniture, fixtures and equipment as of June 30, 2007, was $4,754,605. Office supplies inventory in the amount of $21,001 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, 2007 was $2,242,329. The office building and garage are being depreciated over a period of 33 years on an accelerated method. At June 30, 2007, the carrying value of the System's administrative headquarters was $1,577,373.

Compensated Accrued Absences

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

Reserves

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

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

The Members Accumulated Contribution Reserve represents the accumulation of member contributions, plus interest, credited to individual member accounts of non-retired members. At the date of retirement the individual member's account is transferred to the Retirement Benefit Payment Reserve. After ending employment and applying for withdrawal, employee contributions, plus accumulated interest, are charged to this reserve. Interest is credited to active member accounts on June 30 each year, based on the balance in the account as of the previous December 31. The interest crediting rate, defined by statute as the actuarial interest assumption rate, is 8 percent for those who became members prior to July 1, 1993. For those who first became members after June 30, 1993, interest on employee contributions is credited at the rate of 4 percent per year. The balance at June 30, 2007, was $4,535,907,660, 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, 2007, was $8,091,014,258. The unfunded liability was $5,363,593,060. 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, 2007, was $6,872,703,437 and was fully funded. The Expense Reserve represents investment income which is sufficient to maintain a year end account balance at two times the most recent fiscal year's administrative expense amount. The System's administrative expenses are financed from this reserve. The balance at June 30, 2007, was $17,787,086, 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 2007, the regular employer contribution rate was 5.77 percent of covered payroll. In addition, KPERS contributed an additional 1.0 percent of covered payroll to the group insurance fund. Total payroll was $3,553,265, $3,733,163 and $3,747,048 for 2005, 2006, 2007, respectively. KPERS contributed $183,489, $212,374 and $228,516 for 2005, 2006 and 2007, respectively, to the employees pension plan and group insurance fund. All contributions required by law were made in fiscal years 2005, 2006 and 2007.

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 $206,862,678 at June 30, 2007.

New Governmental Accounting Standards

In an effort to establish uniform financial reporting standards for other postemployment benefit plans (OPEB plans), the Governmental Accounting Standards Board (GASB) published GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The term "other postemployment benefits" refers to postemployment benefits other than pension benefits and includes (a) postemployment healthcare 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 Retirement System adopted GASB No. 43 during the fiscal year ended June 30, 2007. This change resulted in the activity of KPERS Death and Disability Plan being presented in a separate column and the presentation of additional disclocures and required supplementary information related to the Death and Disability Plan.

Pending Governmental Accounting Standards Board Statements

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 healthcare 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.

GASB Statement No. 50 *Pension Disclosures – an amendment of GASB Statements No. 25. and No. 27* was issued in May 2007. This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The provisions of this statement are effective for periods beginning after June 15, 2007.

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

Note 3: Funding Policy

Funding

The law governing the Retirement System requires the actuary to make an annual valuation of the System's liabilities and reserves and determine the contribution required to discharge the System's liabilities. The actuary then recommends to the System's Board of Trustees the employer contribution rates required to maintain the Retirement System on the actuarial reserve basis. Every three years, the actuary makes a general investigation of the actuarial experience under the System including mortality, retirement and employment turnover. The actuary recommends actuarial tables for use in valuations and in calculating actuarial equivalent values based on such investigation. An actuarial experience study was conducted for the three years ending December 31, 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 2007 KPERS collected $3,712,110 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, 2005, and December 31, 2006, can be attributed to the following ($ in millions):

Unfunded Actuarial Liability, December 31, 2005	**$5,152.5**
Effect of contribution cap/time lag	258.1
Expected increase due to amortization method	82.7
Gain from investment return	(292.6)
Demographic experience	164.7
All other experience	(26.2)
Change in actuarial assumptions	0
Change in benefit provisions	24.4
Final Unfunded Actuarial Liability, December 31, 2006	**$5,363.6**

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, 2002, and December 31, 2003, actuarial valuations provide the basis for Board certification of employer contribution rates for fiscal years 2006 and 2007, respectively. As explained in Note 1, legislation has limited the amounts that employers are required to contribute for State, School and Local employees, which has resulted in lower employer contribution rates as compared with the actuarially determined rates. The actuarially determined employer contribution rates (not including the 1.0 percent contribution rate for the Death and Disability Program) and the statutory contribution rates for fiscal years 2006 and 2007 are as follows:

	State and School		Correctional	
Year	**Actuarial Rate**	**Statutory Rate**	**Actuarial Rate**	**Statutory Rate**
2006	9.14%	5.27%	9.61% / 9.47%	5.74% / 5.60%
2007	9.75%	5.77%	9.68% / 9.53%	7.72% / 7.70%

Included in the fiscal year 2006 and 2007 rates is the bond debt service rate of 0.80 percent collected by KPERS to transfer to the State general fund for the debt service payments of the 13th Check Pension Obligation Bonds.

The results of December 31, 2003, and December 31, 2004, actuarial valuations provide the basis for Board certification of local employer contribution rates for fiscal years beginning in 2006 and 2007, respectively. The actuarially determined employer contribution rates and statutory contribution rates for fiscal years 2006 and 2007 are as follows.

	Local	
Year	**Actuarial Rate**	**Statutory Rate**
2006	6.24%	3.81%
2007	7.69%	4.31%

KP&F. The uniform participating service rate for all KP&F employers was 12.39 percent for the fiscal year beginning in 2006 and 13.32 percent for the fiscal year beginning in 2007. 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 21.97 percent of payroll for the fiscal year ended 2006 and 19.11 percent of payroll for the fiscal year ended 2007.

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 % of Covered Payroll
KPERS- State	$67,921	$39,177	12.0 %
KPERS- School	200,184	125,361	11.0
KPERS - Local	67,470	57,112	9.3
KP&F	58,308	27,422	26.4
Judges	4,935	1,474	25.3
Total	**$398,818**	**$250,546**	**11.7 %**

An estimated $459 million of employer and employee contributions were made to cover normal cost, an estimated $131 million was made for the amortization of the unfunded actuarial accrued liability.

(1) Member contributions do not include Optional Life Insurance contributions of approximately $6.5 million.

2007 Regular Contributions

Total = $649.3 million (1)

Historical Trend Information

Historical trend information, showing the Retirement System's progress in accumulating sufficient assets to pay benefits when due, is presented on pages 40 and 41 under Required Supplementary Information.

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

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

Summary of Significant Accounting Policies

Basis of Accounting Policies. The Retirement System's financial statements are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. Employer contributions are recognized in the same period of the respective salaries that the employer contributions are based. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

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

Plan Membership and Benefits

Members in the Death and Disability Plan consisted of the following at June 30, 2006, the date of the latest actuarial valuation:

Active plan members	156,219
Number of participating employers	1,396
Open claims	3,163

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

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

Contributions and Funded Status

Prior to fiscal year 2000, employer contributions for group life insurance and long-term disability income benefits were set by statute at 0.6 percent of covered payroll for KPERS and Board of Regents Institutions and 0.4 percent for Judges. Legislation passed in 2000 and 2001 placed a moratorium on contributions related to the group life insurance and disability benefits effective for the period April 1, 2000, through December 31, 2001. Calendar year 2002 and 2003 legislation placed additional moratoriums on contributions to this fund. Moratoriums were in effect for the period July 1, 2002, through December 31, 2002, and the period of April 1, 2003, through June 30, 2004. Legislation passed in 2005, increased the insurance contribution rate to 0.8 percent of covered payroll effective July 1, 2005, and to 1.0 percent on July 1, 2006. The rate for Judges remained at 0.4 percent. For the period ending June 30, 2007, employers contributed over $59 million to the Plan

The death and disability plan assets are held in the Group Insurance Reserve fund. At June 30, 2007, this reserve held net assets totaling $29,253,581. This reserve fund is funded from deposits from employer contributions and the respective investment income. Administrative expenses for the death and disability plan are funded from the accumulated investment income of the fund. The funded status as of the most recent actuarial valuation date is as follows.

Funded Status ($ in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)(2) (b)	Unfunded AAL UAAL (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b - a)/c)
06/30/2006	18,724	354,150	335,426	5.3%	$5,716,896	5.9%

The GASB Statement No. 43 is first effective for fiscal year ending June 30, 2007. The actuarial valuation dated June 30, 2006, is the first and only actuarial valuation using GASB 43 requirements. Only the disability benefits and waiver of premium life insurance provision are included in the actuarial valuation.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions of future employment, mortality, and long term disability trends. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress (on page 42) presents information comparing the actuarial values of plan assets to the actuarial liability, unfunded actuarial liability and covered payroll.

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

The accompanying schedule of employer contributions (on page 42) presents the amount contributed to the plan by employers in comparison to the actuarial required contribution (ARC) as determined by the actuarial valuation dated June 30, 2006, using GASB 43 requirements. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs for each year and amortize any unfunded liabilities over 15 years.

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

Actuarial Valuation Information — Death and Disability Plan

Valuation Date	6/30/2006
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent, open
Remaining amortization period	15 years
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return (1)	4.5%
Projected salary increases (1)	4.0%–9.8%
Cost of Living Adjustment	none

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

Note 5: Commitments and Contingencies

As of June 30, 2007, the Retirement System was committed to additional funding of $9,251,000 in the form of capital expenditures on separate account real estate holdings in the portfolio, $81,262,000 for commitments on venture capital investments, and $129,079,000 for capital calls on non-core real estate property trusts investments.

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

Required Supplementary Information — Retirement Plan

Schedule of Employer Contributions*

Last Ten Fiscal Years

Year	Annual Required Contribution	Percentage Contributed
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
2007	531,292,151	63.9

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

Schedules of Funding Progress ($ in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL UAAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAL as a Percent of Covered Payroll ((b-a)/c)
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	15,714,091	4,742,666	70	5,102,016	93
12/31/05	11,339,293	16,491,762	5,152,469	69	5,270,351	98
12/31/06	12,189,197	17,552,790	5,363,593	69	5,599,193	96

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.

Actuarial Valuation Information — Retirement Plan

	KPERS System	KP&F System	Judges System
Valuation Date	12/31/06	12/31/06	12/31/06
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	26 years	26 years	26 years
Asset valuation method	Difference between actual return and expected return on asset market value calculated yearly and recognized evenly over 5-yr 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.

Required Supplementary Information — Death and Disability Plan

Schedule of Employer Contributions – Death and Disability by Fiscal Year

Year	Annual Required Contribution	Percentage Contributed
6/30/2007	$71,763,879	82.64%

Schedule of Funding Progress ($ in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a) (2)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL UAAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAL as a Percent of Covered Payroll ((b-a)/c)
06/30/06 (1)	$18,724	$354,150	$335,426	5.3%	$5,716,896	5.9%

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

Other Supplementary Schedules

Schedule of Contributions

for the Fiscal Year Ended June 30, 2007

Kansas Public Employees Retirement System	
State / School Contributions	
Members	$164,538,395
Employers	268,104,672
Total State / School Contributions	$432,643,067
Local Contributions	
Members	57,111,532
Employers	67,469,642
Total Local Contributions	124,581,174
Total Contributions - KPERS	**$557,224,241**
Kansas Police and Firemen's System	
State Contributions	
Members	2,977,493
Employers	5,647,402
Total State Contributions	8,624,895
Local Contributions	
Members	24,444,616
Employers	52,660,798
Total Local Contributions	77,105,414
Total Contributions - KP&F	**85,730,309**
Kansas Retirement System for Judges	
State Contributions	
Members	1,473,887
Employers	4,935,500
Total State Contributions	6,409,387
Total Contributions - Judges	**6,409,387**
Optional Group Life Insurance	
Member Contributions	
State Employees	3,402,681
Local Employees	3,046,670
Total Contributions	6,449,351
Total Contributions - OGLI	**6,449,351**
Grand Total - All Contributions	**$655,813,288**

Schedule of Administrative Expenses

for the Fiscal Year Ended June 30, 2007

Salaries and Wages	**$4,750,232**
Professional Services	
Actuarial	298,566
Audit	48,500
Data Processing	212,843
Legal	37,776
Other Professional Services	139,633
Total Professional Services	**737,318**
Communication	
Postage	206,617
Printing	151,487
Telephone	86,442
Total Communication	**444,546**
Building Administration	
Building Management	77,095
Janitorial Service	50,660
Real Estate Taxes	99,893
Utilities	67,664
Total Building Administration	**295,312**
Miscellaneous	
Dues and Subscriptions	23,585
Repair and Service Agreements	451,021
Office and Equipment Rent	17,713
Supplies	87,672
Temporary Services	80,643
Travel and Training	114,675
Other Miscellaneous	239,516
Depreciation	1,651,311
Total Miscellaneous	**2,666,135**
Total Administrative Expenses	**$8,893,544**

Schedule of Investment Income by Asset Class

for Fiscal Year Ended June 30, 2007

	Interest, Dividends & Other Transactions	Gains and Losses	Total
Asset Class			
Marketable Equity Securities			
Domestic Equities	$ 54,240,316	$ 786,014,286	$ 840,254,602
International Equities	63,090,798	779,967,938	843,058,736
Subtotal Marketable Equities	117,331,114	1,565,982,224	1,683,313,338
Marketable Fixed Income Securities			
Government	74,828,830	13,292,502	88,121,332
Corporate	81,740,058	329,246	82,069,304
Subtotal Marketable Fixed	156,568,888	13,621,748	170,190,636
Temporary Investments	39,188,599	(141,707)	39,046,892
Total Marketable Securities	313,088,601	1,579,462,265	1,892,550,866
Real Estate and Alternatives			
Real Estate	39,114,763	150,952,155	190,066,918
Alternative Investments	19,106,521	86,288,260	105,394,781
Total Real Estate and Alternative Investments	58,221,284	237,240,415	295,461,699
Other Investment Income			
Securities Lending	4,056,541	-	4,056,541
Miscellaneous Income	261,734	-	261,734
Total Other Investment Income	4,318,275	-	4,318,275
Investment Income	$375,628,160	$1,816,702,680	2,192,330,840
Manager and Custodian Fees and Expenses			
Investment Manager Fees			(28,890,295)
Custodian Fees & Expenses			(799,425)
Other Investment Expenses			(559,648)
Total Investment Fees and Expenses			(30,249,368)
Net Investment Income			**$2,162,081,472**

Schedule of Investment Management Fees and Expenses

for the Fiscal Year Ended June 30, 2007

Domestic Equity Managers	
Barclays Global Investors	$ 4,301,870
Payden & Rygel Enhanced	741,480
Quantitative Management Associates	1,299,460
Subtotal Domestic Equity Managers	6,342,810
Global Equity Managers	
Capital Guardian Trust Co.	2,126,090
Wellington Management Co.	1,418,705
Subtotal Global Equity Managers	3,544,795
International Equity Managers	
Acadian Asset Management	1,336,257
Alliance Capital Management	1,949,956
Barclays Global Investors	3,140,777
Morgan Stanley Asset Management	1,769,857
Nomura Capital Management	815,897
Subtotal International Equity Managers	9,012,744
Fixed Income Managers	
Loomis, Sayles & Co.	718,248
Pacific Investment Management Co.	1,652,329
Payden & Rygel Investment Counsel	544,617
Western Asset Management Co.	1,314,926
Subtotal Fixed Income Managers	4,230,120
Foreign Currency Overlay Manager	
Payden & Rygel - Overlay	105,000
Barclays Global Investors	750,000
Pareto Partners	1,447,024
Subtotal Foreign Currency Overlay Manager	2,302,024
Real Estate & Alternative Investment Managers	
AEW Capital Management	3,067,134
Portfolio Advisors	135,000
Subtotal Real Estate & Alternative Managers	3,202,134
Cash Equivalent Manager	
Payden & Rygel Investment Counsel	255,668
Subtotal Cash Management	255,668
Total Investment Management Fees	28,890,295
Other Fees and Expenses	
Mellon Trust - Custodian Fees and Other Expenses	799,425
Consultant Fees	546,153
Legal Expenses	13,495
Subtotal Other Fees and Expenses	1,359,073
Total All Investment Fees and Expenses	$30,249,368

Working **today** for a secure **tomorrow**

Investment Section

Comprehensive Annual Financial Report

Fiscal year ended June 30, 2007

Chief Investment Officer's Review

Total Assets = $14.1 Billion
Fiscal Year End 2007

The Kansas Public Employees Retirement System portfolio 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 $14.1 billion. KPERS' portfolio is managed for the long term in an effort to generate adequate returns to pay the benefits promised to members. 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 diversified among seven asset classes and eight sub-portfolios: domestic equity, international equity, global equity, fixed income, treasury inflation protected securities (TIPS), real estate, alternative investments and cash.

KPERS Sub Portfolios

Domestic Equity

International Equity

Global Equity

Fixed Income

TIPS

Real Estate

Alternative Investments

Cash

Equity investments (primarily publicly-traded stocks) constitute the largest portion of the KPERS portfolio. This allocation reflects KPERS' long-term investment orientation, as the System expects equities to provide higher relative returns over time. Equity investments allow KPERS to profit from the economic activity produced by companies seeking to grow. These investments are made globally, sourcing investment return from both domestic and foreign companies, and diversifying the risk across a broad spectrum of economies, currencies and economic sectors. A list of our top ten equities holdings is on page 61. Managing such a dynamic and diversified equities portfolio requires significant expertise. The KPERS Board of Trustees has carefully selected managers to construct and manage several sub-portfolios that blend together to provide risk-controlled exposure to equity returns on a global basis. A list of equities commissions paid during the fiscal year is on page 60.

Fixed income investments are the next largest portion of the portfolio. These investments are made to source returns from this large, stable, conservative asset class. They help protect the System's assets from principal loss, help diversify total portfolio investment risk, add stability to total returns, and provide income. Fixed income portfolios are constructed using broad mandates with global opportunities in mind. While these portfolios mainly contain U.S.-based and U.S.-dollar denominated assets, KPERS managers have significant latitude to seek out fixed income returns globally, consistent with the System's belief in global sourcing of return and diversification of risk. A list of our top ten fixed income holdings is on page 61.

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, and also provide inflation protection. KPERS alternative investments are primarily in private partnerships that make venture capital investments, pursue leveraged buyout strategies or own private debt. Alternative investments are a higher-risk growth vehicle for the overall portfolio. In addition to their individually unique return profiles, these investments provides risk diversification to the overall portfolio. They are primarily domestic in nature, but include a small amount of foreign exposure.

Investment Policy

The Board of Trustees has adopted a Statement of Investment Policy, Objectives and Guidelines to direct the implementation of the System's broad investment objectives. The Statement reflects what the Board judges to be appropriate and prudent when considering the needs of the System. It documents the principles, standards and policies that guide asset management. The Statement is reviewed annually and is binding for anyone with authority over System assets, including investment managers, custodians, consultants, staff and the Board of Trustees.

In addition, the Statement establishes investment performance criteria and the criteria against which managers are measured. It complements KPERS statutes and serves as a review document to measure compliance with K.S.A 74-4901 et seq. Although the System is not subject to the federal law in the Employee Retirement Income Security Act of 1974 (ERISA), the Board intends to abide by the directions of ERISA to the greatest extent desirable. As such, the Statement is also written to be consistent with ERISA.

Recent Performance

The System realized an 18.0 percent return for the 2007 fiscal year, in excess of the Retirement System's 17.0 percent portfolio benchmark. Over the long term, the System uses an 8 percent return assumption when comparing the assets to the calculated value of the promised benefits that the assets support. The investment portfolio is constructed using assumptions regarding long-run returns from each of the asset classes used in the portfolio. The preset asset mix is expected to produce just over an 8 percent return, compounded annually over multi-year periods. KPERS fully expects year-to-year variability in returns around the 8 percent target. Some years are below 8 percent and some years, such as this year, are above the 8 percent assumption.

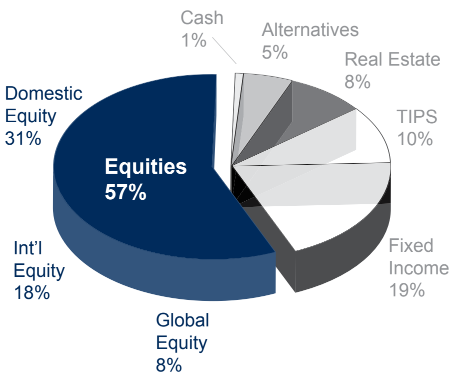
Another year of strong global economic growth, low interest rates and ample financial liquidity favored equity investments, which constitute the majority of the System's portfolio. The combined equity portfolio returned 23.3 percent on the year. The alternative investments portfolio performed just as well with a 23.4 percent return. The real estate portfolio posted a very favorable 20.9 percent return. Fixed income investments fared better this year than last year, though in this environment continued to lag, with the fixed income portfolio returning 6.7 percent and TIPS making 3.1 percent. A more detailed discussion of investment performance can be found in the sections that follow and a schedule summarizing changes in the fair value of investments is on page 62.

The System employs a staff of eight investment professionals to oversee asset management and 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 Officer to the fixed income portfolios, the Real Estate Officer to the real estate portfolios and the Alternative Investments Officer to the alternative investments. Their 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 contain overhead.

Equity Investments

As of June 30, 2007, the market value of the KPERS equity portfolio was $8.76 billion, representing 62.3 percent of the total fund. This is a 5.3 percentage point overweight relative to the 57 percent target. The return for the overall equity portfolio, including currency strategies, was 23.3 percent for the fiscal year.

Target Allocation — Equities



Highlights

The equity portfolio experienced a great deal of growth during the fiscal year. The group of investment firms that manage money on the System's behalf were stable throughout the year, which means there was no disruption or costs associated with transitioning assets. Nevertheless, there were some notable highlights that occurred during this period.

- The international equity component of the equity portfolio had a return rate of 30.8 percent.
- The portfolio's publicly-traded equities grew by over $1.75 billion, from $7.01 billion to $8.76 billion.
- The allocation to publicly-traded equities was above target allocation throughout the fiscal year. This overweight position contributed to the total fund outperforming its policy benchmark.

Portfolio Structure

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

The largest category comprises domestic equity securities and accounts for 32.9 percent of the total fund. The System uses several strategies within the domestic equity portfolio, most of which are designed to add a small amount of value while controlling risk relative to the benchmark. The overall portfolio is benchmarked against the Russell 3000 Index, a broad index made up of the largest 3,000 domestic stocks. The index can be broken down further by company size, with the Russell 1000 Index representing the largest 1,000 stocks and the Russell 2000 Index representing a group of small capitalization stocks. Each strategy is measured against either a large cap or small cap benchmark. While no individual strategy is benchmarked against the Russell 3000 Index, collectively the strategies are assembled in such a way as to approximate the index in terms of company size and industry weight.

In terms of size, the second category is the international equity portfolio, which makes up 20.1 percent of the total fund. Within this portion of the portfolio, four separate equity strategies are used in an attempt to outperform the benchmark while keeping risk at a reasonable level. Investing in international securities brings with it another exposure that has to be considered–currency risk. Given the amount allocated to foreign markets, it is important that the System consider how currency fluctuations impact the portfolio. To manage this exposure, the System utilizes two distinct strategies, one designed to hedge currency risk and another designed to take advantage of inefficiencies within the currency markets. The benchmark used for the international equity portfolio is the Morgan Stanley

Capital International (MSCI) All Country World Index (ACWI), excluding the United States. This index has a total of 47 countries, 22 developed countries and 25 emerging countries, weighted by market capitalization. As of June 30, 2007, countries in this index accounted for almost 57 percent of the world's equity capitalization, as reported by MSCI's broadest benchmark, the All Country World Index.

Global equities make up the final category and account for 9.0 percent of the total fund. The global portfolio consists of both domestic and international assets. The System employs two managers, both with a fundamental bottom-up research approach, to identify and invest in the best companies, regardless of their location. The global portfolio is benchmarked against the MSCI All Country World Index.

Market Overview

Equity markets around the world performed very well for the year ending June 30, 2007. Among the major developed markets, Japan's performance lagged while still turning in a respectable return.

Returns for both the domestic and international benchmarks got off to a great start and had returned over 12 percent and 15 percent, respectively, by the end of December. The strong performance occurred during a period of stable interest rate policy, declining fuel prices and an environment of reduced inflation concerns. Share prices were able to advance as domestic and international companies reported solid earnings. This, along with the availability of cash at favorable interest rates, contributed to an increase of mergers and acquisitions. The majority of the M&A activity originated from the private buyout market that had large amounts of cash ready to invest.

The markets began calendar year 2007 strong despite concerns with the United States subprime mortgage markets and fears that various stock markets around the world had risen to unsustainable levels. The markets were characterized by low volatility and a willingness of investors to accept a low risk premium for risky assets. At the end of February, the Chinese market experienced a sharp decline that lead to a global sell-off. However, the markets quickly recovered and resumed their climb, disregarding concerns of a weak housing market and slower U.S. growth.

Performance

The overall publicly-traded equity portfolio, including currency strategies, returned 23.3 percent for the fiscal year. The returns for the equity components included:

- Domestic 19.2 percent
- International 30.8 percent
- Global 22.2 percent

It order to evaluate the returns of each equity component, it is useful to compare returns with an appropriate benchmark. The System's domestic equity portfolio had a value of $4.56 billion at the end of the fiscal year. For the year, the portfolio's return was very strong at 19.2 percent. Large capitalization securities outperformed small capitalization stocks, 19.8 percent to 12.7 percent. The portfolio underperformed the Russell 3000 Index, which returned 20.1 percent. The majority of the underperformance was with an enhanced index strategy used in both the large and small capitalizations portfolios. Taking a longer term view, the returns for the three- and five-year periods have outperformed the Russell 3000 Index.

The international equity portfolio performed well, ending the year with a value of $2.94 billion. This portion of the portfolio was the System's best performing asset class, returning 30.8 percent, compared to the broad MSCI All Country World Index ex U.S. return of 30.2 percent. As previously mentioned, the System uses four distinct strategies to manage this allocation. During the year, the strategies experienced mixed results ranging from substantial out performance to a modest degree of underperformance. The portfolio has outperformed its benchmark over the latest three years and slightly underperformed over the last five years. Over the past few years, KPERS has undergone several strategy changes to improve performance going forward.

The global equity strategy has been in place for a little more than two years. This component of the portfolio is staffed by two active managers, both of whom have built a team of analysts to invest in the best stocks regardless of where the company is domiciled. Over the last year, the global portfolio performed well in absolute terms, returning 22.2 percent, but underperformed the MSCI All Country World Index's return of 25.8 percent. Since the inception of the global mandates, both managers have underperformed by various degrees. The bulk of the poor returns occurred over the past six to nine months. The managers involved are working to improve their results, which have been favorable on a longer-term basis.

The equity portfolio continues to be a major contributor to the Fund's returns. The System will review its asset mix relative to its liabilities during fiscal year 2008. As part of the process, additional strategies will be considered in an effort to improve the return and risk profile of the equity components, as well as the overall portfolio.

Equity Performance as of June 30, 2007 (gross of fees)

	1-Year	3-Year	5-Year
Domestic Equity Portfolio	19.2%	12.8%	11.7%
Russell 3000 Index	20.1%	12.4%	11.5%
International Equity Portfolio	30.8%	24.0%	18.4%
MSCI ACWI Ex US/EAFE Custom Benchmark	30.2%	23.8%	18.8%
Global Equity Portfolio	22.2%	NA	NA
MSCI All Country World Index	25.8%	18.6%	15.4%

Investment Advisors

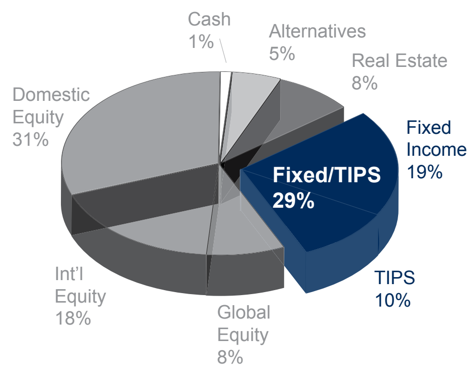
As of June 30, 2007, KPERS had contracts with ten external investment advisors for the equity portfolio.

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

Fixed Income and Treasury Inflation Protected Securities

As of June 30, 2007, KPERS fixed income portfolio had a market value of $2.4 billion, representing 16.8 percent of the total fund. This is below the target allocation of 19 percent. The return for the fixed income portfolio was 6.7 percent for the fiscal year. The market value of KPERS Treasury Inflation Protected Securities (TIPS) portfolio was $1.1 billion, representing 7.9 percent of the total fund. The TIPS portfolio returned 3.1 percent for the fiscal year.

Target Allocation — Fixed Income and TIPS



Highlights

Two tactical decisions were employed by staff during the fiscal year.
1) An underweight allocation to fixed income and TIPS as asset classes
2) An overweight allocation to fixed income managers with broad mandates that included below investment grade and non-dollar strategies and sectors.

- For most of the fiscal year, the fixed income portfolio's actual allocation was slightly above 16.8 percent, the minimum threshold at which rebalancing is required.
- Although the fixed income portfolio increased $210 million in market value, it decreased slightly as percent of the total fund. The decrease was caused by strong equity market returns that outpaced fixed income returns.
- The TIPS portfolio actual allocation fell below the minimum threshold of 8.3 percent for rebalancing. Additional investments in TIPS were purchased on several occasions during the second half of the fiscal year. The portfolio's market value trended down as its underlying assets incurred price deterioration.
- A shift in fixed income assets from core to core plus and medium grade strategies occurred during the last quarter of the fiscal year. Staff believed that broader strategies with opportunities in below investment grade and non-dollar sectors would produce higher returns compared to investment grade sectors.

Portfolio Structure

The fixed income portfolio contains three strategies: core, core plus and medium grade. Core is the most conservative strategy and permits only investment grade securities. It has the Lehman Aggregate Bond Index as its benchmark. The core plus strategy offers managers broad guidelines to invest in below investment grade and non-dollar securities. Medium grade invests in corporate and sovereign securities with a maximum exposure of half the portfolio to below investment grade securities. Both core plus and medium grade use the Lehman Universal Index as a benchmark. The TIPS portfolio has the three longest maturity TIPS, originally issued as 30-year securities.

Fixed Income Strategy Allocation as of June 30, 2007

	Current Position	Target Allocation
Core	8.9%	20.0%
Core-Plus	78.6%	70.0%
Medium Grade	12.5%	10.0%

Market Overview

The fixed income markets performed consistent with market expectations of earning a security's coupon, the interest rate paid to bondholders. The Lehman Aggregate Bond Index, which represents investment grade securities, returned 6.1 percent, while the Lehman Universal Index returned 6.6 percent. The Lehman Universal Index includes all assets in the Aggregate and approximately 8 percent exposure to dollar-denominated, below investment grade assets. Below investment grade assets, which are riskier and more volatile, outperformed investment grade assets significantly. The high yield returned 11.6 percent, as represented by the CitiGroup High Yield Index, and emerging markets returned 11.7 percent, as represented by the JP Morgan Emerging Market Index.

The fixed income markets experienced two distinct market cycles during fiscal year 2007. The first cycle was very positive for fixed income returns. From July until February, interest rates moved lower and bond prices increased based on signs of a slowing economy. Low price volatility and ample liquidity encouraged investor-demand for riskier assets such as high yield and emerging market bonds. The only fragile economic segment was the housing sector, which continued to slow down. By the final quarter of fiscal year 2007, the groundwork for the second cycle of negative returns had been laid. Weakness in the subprime mortgage sector began to spill over into other credit markets. Investors quickly responded by increasing their risk tolerance by requiring higher returns, causing asset prices to deteriorate. A sudden increase in price volatility and a lack of liquidity caused credit spreads to widen, not only for risky assets, but also for investment grade assets during May and June 2007.

Historically, the Federal Reserve adjusts its funds rate throughout a year based on economic data and inflation expectations. However, during the past 12 months, the new Fed Chairman Bernanke maintained the federal funds rate at 5.25 percent. Inflation continued to drive his monetary policy decision to maintain and even hint at a potential increase in its target rate. The treasury security markets and TIPS markets became extremely volatile in reaction to both increased interest rates and inflationary projections during the second half of the fiscal year.

Performance

The overall fixed income portfolio returned 6.7 percent for the fiscal year, exceeding its benchmark, the Lehman Universal Index, of 6.6 percent. The modest outperformance of the portfolio was due to our medium grade manager's strong return of 10.6 percent. The second half of the fiscal year was very challenging for our core and core plus managers. They were unable to maintain their mid-year outperformance against their benchmarks. By year-end, returns were below their respective benchmarks to varying degrees.

For the fiscal year 2007, the KPERS TIPS portfolio returned 3.1 percent and matched the return of its custom benchmark. As is typically the case, one goal of the internally managed TIPS portfolio is to meet or exceed the return of its benchmark. Staff took advantage of rebalancing as an opportunity to better align the portfolio's percent of holdings in each of the three securities represented in its custom benchmark.

Fixed Income and TIPS Performance as of June 30, 2007 (gross of fees)

	1-Year	3-Year	5-Year
Fixed Income Portfolio	6.7%	5.3%	6.5%
Lehman Universal/KPERS Custom Index	6.6%	4.7%	5.9%
KPERS TIPS Portfolio	3.1%	4.4%	7.5%
KPERS TIPS Custom Benchmark	3.1%	4.3%	7.4%

Investment Advisors

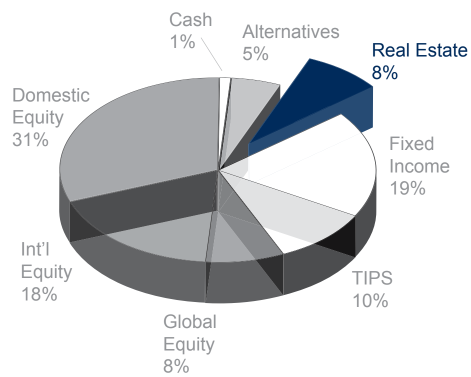
As of June 30, 2007, KPERS had contracts with four external investment advisors for the fixed income portfolio.

Strategy	Investment Advisor
Core	Payden & Rygel Investment Counsel
Core plus	PIMCO
	Western Asset Management Co.
Medium grade	Loomis, Sayles & Co., L.P.

Real Estate Investments

For fiscal 2007, the System continued to target 8 percent of total portfolio assets to real estate. As of June 30, 2007, the real estate portfolio had a market value of $1,021.6 million, or 7.3 percent of the total fund.

Target Allocation — Real Estate



Highlights

- Very strong real estate markets provided the opportunity to sell three core properties at premium pricing. Managers further diversified the core portfolio's property type and geographic locations with the acquisition of a retail center in Raleigh, North Carolina.
- Two new investments were made in the Non-Core portion of the portfolio, both with international real estate exposure.
- Global real estate securities were introduced into the publicly-traded real estate securities portion of the portfolio, diversifying and adding active management in this area.

Portfolio Structure

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

The largest segment is Core real estate and predominately consists of direct ownership of high-quality commercial properties and comprises 50 percent of the System's real estate assets. This segment produces steady, growing income and adds a measure of inflation protection. The remaining 50 percent is evenly allocated between Non-Core real estate and publicly-traded real estate securities.

The Non-Core segment is implemented with investment funds that own and transact in varying types of properties, both within the U.S. and internationally. This segment adds income, a measure of growth, and some inflation protection.

The publicly-traded real estate securities segment is primarily implemented with domestic real estate investment trusts (REITs). These securities add liquidity to the overall real estate portfolio and provide a very diversified way to invest in the broad real estate and real estate-related market. Global real estate securities were introduced into the portfolio during the year to diversify the domestic REIT exposure and to add active management in an area that appeared attractive to do so.

Real Estate Strategy Allocation as of June 30, 2007

	Current Position	Target Allocation
Core Real Estate	48.0%	50.0%
Non-Core Real Estate	14.3%	25.0%
Real Estate Securities	37.7%	25.0%

Market Overview

The real estate markets were again very strong during fiscal 2007. The asset class continued to attract capital as the growth and development of the global real estate capital markets provided access to a broader and more diverse capital base. The significant inflow of capital to the sector continued to have a favorable impact on property values. In some cases the increase in property values far outpaced supporting market fundamentals The System took advantage of the strong investor demand by selling three Core properties at premium pricing. Toward the very end of the year, concerns regarding the U.S. sub-prime mortgage market and potential follow on impacts forced investors to re-evaluate risk assumptions and return expectations. Consequently, the market began to cool. Fundamental supply and demand factors continue to be favorable in the real estate area, but perceptions of risk and expectations for return are changing. As we move into fiscal year 2008, pricing may continue to adjust while investors assess the consequences of the sub-prime mortgage issuance and the general U.S. housing market difficulties.

Performance

The overall real estate portfolio returned 20.9 percent for the fiscal year. This return, like the returns of the past few years, exceeded the System's expectations for this asset class by a substantial measure. As mentioned above, the development of the capital markets associated with real estate, combined with greater investor interest in the asset class, helped fuel these higher than expected returns.

Real Estate Performance as of June 30, 2007 (gross of fees)

	1-Year	3-Year	5-Year
Real Estate Portfolio	20.9%	23.1%	18.1%
KPERS Real Estate Benchmark	13.7%	16.6%	13.2%

Investment Advisors

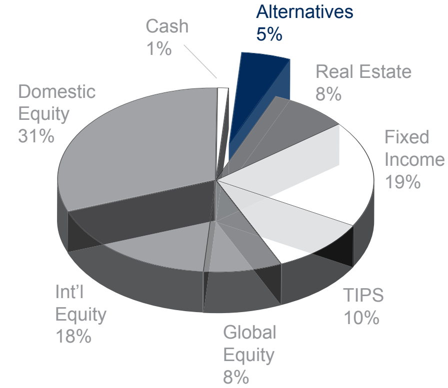
As of June 30, 2007, KPERS had contracts with two external investment advisors for the real estate portfolio. In addition, the System contracts with PCA Real Estate Advisors for general real estate and program management consulting.

Strategy	Investment Advisor
Core Real Estate	AEW Capital Management Morgan Stanley
Global Real Estate Securities	AEW Capital Management Morgan Stanley

Alternative Investments

For Fiscal year 2007, the System targeted 5 percent of total portfolio assets to alternative investments. As of June 30, 2007, the alternative investments portfolio had a market value of $455.9 million, or 3.1 percent of the total fund.

Target Allocation — Alternatives



Portfolio Structure

KPERS alternative investments consist primarily of interests in private partnerships which focus on private debt and equity assets that are not traded on an organized exchange. These partnership investments are divided into five different groups, according to the focus or strategy of each partnership: leveraged buyout strategies (LBOs), venture capital, mezzanine debt, distressed debt investments and natural resources. The System has relationships with 35 general partners and interest in 53 funds which collectively hold more than 700 individual investments among them.

Alternative Investments Strategy Allocation as of June 30, 2007

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

Performance

The overall alternative investments asset class returned 23.4 percent for the fiscal year, exceeding its benchmark of 17.1 percent. This return, like the returns of the past few years, well exceeded the System's expectations for this asset class by a substantial measure. Investor interest in this asset class is very high, and with a strong global economy, opportunity to make these types of investments has been very good.

Alternative Investments Performance as of June 30, 2007 (gross of fees)

	1-Year	3-Year	5-Year
Alternative Investments Portfolio	23.4%	20.9%	12.5%
KPERS Alternative Investments Benchmark	17.1%	11.0%	9.6%

As required by K.S.A. 74-4904, a schedule of alternative investments initiated on or after July 1, 1991, begins on page 58.

Alternative Investments Initiated On or After July 1, 1991[a]
as of June 30, 2007

Shares	Description	Cost	Market Value
12,187,500	Advanced Technology VI LP	$ 9,737,488	$ 2,457,634
14,850,000	Apax Europe IV LP	2,270,890	7,123,954
28,230,000	Apax Europe V LP	11,793,189	17,641,370
5,000,000	Battery Ventures V LP	1,079,940	928,590
10,939,500	Battery Ventures VI LP	8,303,639	7,572,409
10,943,511	Beacon Group Energy Fund II	2,001,698	2,113,269
19,486,332	Behrman Capital II LP	10,726,749	8,410,184
33,089,287	Behrman Capital III LP	21,633,002	$26,987,755
5,543,913	Candover 1997 US #1 Fund LP	0	252,471
18,748,833	Capital Resource Partners IV	7,586,236	6,966,954
5,710,662	Cinven Second Fund US LP	2,012,950	3,673,165
14,637,459	Clayton Dubilier & Rice VI LP	5,658,827	6,011,604
18,148,251	Cypress Merchant Banking II	12,534,622	12,762,068
9,700,000	Dominion Fund V LP	6,316,702	1,837,219
5,000,000	El Dorado Ventures IV LP	1,833,722	635,165
10,000,000	El Dorado Ventures V LP	7,344,772	3,660,570
18,750,000	El Dorado Ventures VI LP	17,276,771	13,104,038
17,397,353	GTCR Capital Partners LP	3,373,528	1,962,508
29,427,662	GTCR Fund VII LP	6,053,227	13,096,457
5,675,000	GTCR Fund VII/A LP	100,842	2,329,111
18,700,000	Halpern Denny Fund III LP	7,707,950	9,743,280
19,272,367	Harvest Partners III LP	8,993,546	1,680,011
15,416,662	Kelso Investment Assoc VI	2,724,832	3,518,283
17,104,442	Littlejohn Fund II LP	6,642,020	5,042,868
16,999,811	McCown De Leeuw & Co IV LP	1,097,762	2,346,569
20,000,000	MD Sass Corp Resurgence	5,450,614	4,966,580
17,875,000	MD Sass Corp Resurgence II	6,310,258	5,803,780
17,355,187	MD Sass Corp Resurgence III	7,312,598	5,094,112
19,385,362	Oak Hill Capital Partners LP	6,830,756	7,863,207
13,000,000	OCM Opportunities Fund II LP	1,055,879	135,317

(continued next page)

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

as of June 30, 2007 (continued)

Shares	Description	Cost	Market Value
20,000,000	OCM Opportunities Fund III LP	1,944,969	1,394,120
8,000,000	Oneliberty Fund IV LP	2,393,888	1,928,296
20,000,000	Oneliberty Ventures 2000 LP	17,718,309	11,215,080
38,800,000	TA IX, L. P.	21,867,647	29,165,533
20,000,000	TA Subordinated Debt Fund LP	6,487,414	6,721,440
18,222,000	TCV IV LP	9,568,744	7,050,857
17,289,262	Thomas H Lee Equity Fund IV LP	0	2,967,339
36,630,416	Thomas H Lee Equity Fund V	16,328,459	31,609,412
4,613,438	Trinity Ventures VI LP	487,258	54,960
14,550,000	Trinity Ventures VII LP	8,130,315	5,541,746
15,540,000	Trinity Ventures VIII LP	11,957,019	12,256,010
19,803,841	Triumph Partners III LP	5,208,839	2,346,834
15,000,000	Vantagepoint Venture III	8,502,647	5,397,690
28,500,000	Vantagepoint Venture IV LP	23,709,525	23,644,398
23,683,923	Vestar Capital Partners IV LP	11,654,107	9,690,395
19,891,247	VS & A Communications III	10,150,615	6,970,112
20,000,000	Warburg Pincus Equity (8)	0	5,726,040
37,200,000	Welsh, Carson IX LP	15,259,483	31,407,179
20,000,000	Welsh, Carson VIII LP	8,523,380	12,923,860
19,954,755	Willis Stein & Partners II LP	2,396,862	2,678,986
36,454,305	Willis Stein & Partners III	31,756,705	29,863,695
18,706,483	Windjammer Fund II LP	9,034,418	14,741,420
15,989,139	Windward Capital Partners II	0	2,254,533
	Total Post 1991 Investments	**$414,845,611**	**$443,270,432**

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

U.S. Equity Commissions

for the Fiscal Year Ended June 30, 2007

Commissions Broker Name	Commission Paid	Shares	Commission Per Share	Percent of Total
Deutsche Bk Secs Inc, NY	$ 204,481	5,118,745	$0.04	13.9 %
Morgan Stanley & Co Inc, NY	$191,068	4,555,205	0.04	13.0
Banc Of America Secs LLC, Charlotte	$160,937	3,314,220	0.05	10.9
Morgan J P Secs Inc, NY	$152,590	3,352,145	0.05	10.3
Credit Suisse, NY	$138,169	3,333,665	0.04	9.4
Citigroup Gbl Mkts Inc, NY	$111,505	3,357,704	0.03	7.6
Nomura Secs Intl Inc, NY	$110,843	3,100,482	0.04	7.5
Merrill Lynch Pierce Fenner Smith Inc NY	$84,588	1,958,852	0.04	5.7
Goldman Sachs & Co, NY	$26,626	689,069	0.04	1.8
UBS Securities LLC, Stamford	$25,090	717,560	0.03	1.7
Terra Nova Institutional, Chicago	$23,003	1,150,147	0.02	1.6
Liquidnet Inc, Brooklyn	$20,586	1,029,281	0.02	1.4
Lehman Bros Inc, NY	$20,410	962,974	0.02	1.4
Ridge Clearing & Outsourcing, NY	$18,080	1,090,300	0.02	1.2
Investment Technology Groups, NY	$16,048	1,305,400	0.01	1.1
Bernstein Sanford C & Co, NY	$15,727	1,439,400	0.01	1.1
Penson Financial Svcs Inc, Dallas	$12,546	313,650	0.04	0.9
Thomas Weisel Partners, San Francisco	$11,996	314,000	0.04	0.8
Bear Stearns Sec Corp, Brooklyn	$9,572	241,700	0.04	0.6
S G Cowen & Co LLC, NY	$7,551	193,600	0.04	0.5
Wachovia Capital Markets LLC, Charlotte	$6,660	168,900	0.04	0.5
Jefferies & Co Inc, NY	$5,951	165,103	0.04	0.4
National Financial Svcs Corp, NY	$5,797	579,662	0.01	0.4
CIBC World Markets Corp, NY	$5,356	134,700	0.04	0.4
Merrill Lynch Intl London Equities	$5,186	154,650	0.03	0.4
Others	$83,970	3,477,604	0.02	5.7
Total Broker Commissions	$1,474,336	42,218,718	0.03	100 %

List of Largest Holdings[a]
as of June 30, 2007

Equities

Shares	Security	Fair Value ($)
898,741	Exxon Mobil Corp	$75,386,395
1,698,229	General Elec Co Com	65,008,206
1,053,688	Bank of America Corp	51,514,806
960,498	Citigroup Inc Com	49,263,942
1,630,681	Microsoft Corp Com	48,056,169
1,033,610	AT&T Inc Com	42,894,815
859,594	ING Group N.V.	38,066,720
930,812	Royal Dutch Shell	37,952,095
206,243	E.ON AG NPV	34,619,921
1,216,669	Cisco Sys Inc Com	33,884,232

Fixed Income

Fair Value	Security	Description	Fair Value ($)
565,186,699	US Treasury Inflation Index Bd	3.875% 04/15/2029	$682,462,939
261,912,100	US Treasury Inflation Index Bd	3.625% 04/15/2028	303,490,646
169,590,000	Commit To Pur FNMA Sf Mtg	5.000% 07/01/2037	158,888,871
114,089,640	US Treasury Inflation Index Bd	3.375% 04/15/2032	131,345,698
105,800,000	Commit To Pur FNMA Sf Mtg	5.500% 08/01/2037	101,970,040
92,500,000	Commit To Pur FNMA Sf Mtg	5.500% 07/01/2037	89,207,000
64,100,000	Commit To Pur FNMA Sf Mtg	6.000% 08/01/2037	63,356,440
53,100,000	Commit To Pur FNMA Sf Mtg	6.000% 07/01/2037	52,521,210
48,764,291	FNMA Pool # 0725946	5.500% 11/01/2034	47,127,762
38,435,706	FNMA Pool # 0735972	5.500% 10/01/2035	37,116,977

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

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

for the Fiscal Year Ended June 30, 2007

	Jun 30, 2006 Fair Value	Purchases/ Other Increases	Sales/ Other Decreases	June 30, 2007 Fair Value	Asset Mix Fair Value
Marketable Securities					
Domestic Equities	$ 3,853,253	$ 951,560	$ (189,633)	$ 4,615,180	31.36 %
International Equities	3,153,411	1,209,077	(725,763)	3,636,725	24.71
Total Fixed Income	3,751,122	9,727,901	(8,932,409)	4,546,614	30.89
Temporary Investments (2)	532,158	10,684,599	(10,772,835)	443,922	3.02
Total Marketable Securities	**11,289,944**	**22,573,137**	**(20,620,640)**	**13,242,441**	**89.98**
Real Estate and Alternative Investments					
Real Estate	919,108	492,805	(390,320)	1,021,593	6.94
Direct Placements and Limited Partnerships	541,415	38,227	(125,620)	454,022	3.08
Total Real Estate and Alternative Investments	**1,460,523**	**531,032**	**(515,940)**	**1,475,615**	**10.02**
Total	**$12,750,467**	**$23,104,169**	**$(21,136,580)**	**$14,718,056**	**100.00 %**

1) Amounts include changes in unrealized appreciation and exclude interest and dividend accruals. Amounts exclude security lending cash collateral of $1,887,984,971 for FY 2006, and FY 2007 cash collateral of $2,418,559,400.
2) Temporary Investments include foreign currencies, and securities maturing within 90 days of purchase date.

Working **today** for a secure **tomorrow**

Actuarial Section

Comprehensive Annual Financial Report

Fiscal year ended June 30, 2007

A MILLIMAN GLOBAL FIRM

Milliman
Consultants and Actuaries

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Fax: (402) 393-1037
www.milliman.com

October 10, 2007

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

Dear Members of Board:

At your request, we have completed an actuarial valuation of the Kansas Public Employees Retirement System as of December 31, 2006, for determining contributions for fiscal year 2010 for the State and 2009 for Local employers. The major findings of the valuation are contained in this report. There was no change in the actuarial assumptions or methods from the prior valuation. There were two changes in the benefit provisions, which are discussed on page 66.

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

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

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

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

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

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

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

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

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

MILLIMAN, Inc.

Sincerely,

Patrice Beckham

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

Brent A. Banister

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

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, 2006, actuarial valuations for each of the Systems.

The primary purposes of performing actuarial valuations are to:

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

The 2007 Legislature passed legislation (Senate Bill 362) which contained the following provisions which impacted KPERS:

All retirees who retired before July 1, 1997, with ten or more years of service and their joint survivors will receive a $300 one-time cost-of-living payment.

A new plan design will apply for KPERS members first employed on or after July 1, 2009. The key provisions of the plan design are:

- First day membership for all groups (no waiting period)
- Five-year vesting
- Benefit formula equal to 1.75 percent x Years of Service x Final Average Salary (averaged over five highest years)
- Normal retirement at age 65 with five years of service, or age 60 with 30 years of service.
- Early retirement at age 55 and ten years of service with higher reductions for early commencement.
- Automatic annual 2 percent cost-of-living adjustments beginning at age 65.
- Employee contribution rate of 6 percent.

Two enhancements will apply to current employees:

- Non-school members hired between July 1, 2008, and June 30, 2009, will become members of the current tier on July 1, 2009 (this has no impact on the current valuation results).
- Five year vesting, effective July 1, 2009.

The impact of the one-time cost-of-living payment and five year vesting for current employees are reflected in this valuation. Since this valuation only covers current members, the changes for future members do not have an impact on this valuation.

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

The valuation results provide a “snapshot” view of the System’s financial condition on December 31, 2006. The unfunded actuarial liability for the System as a whole increased by $212 million due to various factors. A detailed analysis of the change in the unfunded actuarial liability from December 31, 2005, to December 31, 2006, is shown on page 76.

The long term funding outlook for KPERS has improved due to legislation, Board action and strong investment performance in the last few years. The statutory contribution rate is projected to converge with the actuarial required contribution (ARC) rate before the end of the amortization period (2033). Therefore, the System is in actuarial balance over the long term *if all actuarial assumptions are met*. However, the shortfall between the actuarial and statutory contribution rates will 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 nearly 10 percent higher than the actuarial value. If the assumed 8 percent investment return is achieved in 2007, an actuarial gain on assets is expected in the December 31, 2007 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 projected 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, 2006, valuation will set rates for fiscal year end 2010 for the State and 2009 for Local employers.

In KPERS, State, School and Local employers do not necessarily contribute the full actuarial contribution rate. Based on legislation passed in 1993, the employer contribution rates certified by the Board may not increase by more than the statutory cap. The statutory cap, which has been changed periodically, is currently 0.60 percent for all groups. The actuarial contribution rate for the State is less than last year’s statutory contribution rate plus the cap of 0.60 percent. As a result, the difference between 7.57 percent and 7.34 percent, or 0.23 percent, of the expected State payroll for FY 2010 will be deposited into the School assets.

A summary of actuarial and statutory employer contribution rates for the Retirement System 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, 2006 Valuation

System	Actuarial	Statutory	Difference
State	7.34%	7.34%	0.00%
School	12.07%	7.57% (1)	4.50%
Local	8.12%	5.53% (1)	2.59%
Police & Fire -Uniform Rates (2)	13.49%	13.49%	0.00%
Judges	20.50%	20.50%	0.00%

1) By statute, rates are allowed to increase by a maximum of 0.60 percent plus the cost of any benefit enhancements.
2) For KP&F, the statutory contribution rate is equal to the "Uniform" rate. The rate shown is for local employers. The rate for State employers is 13.38 percent which includes a payment of 0.53 percent for the debt service payment on the bonds issued for the 13th check. The uniform rate does not include the payment required to amortize the unfunded past service liability or any 15 percent excess benefit liability determined separately for each employer.
3) The difference between 7.57 percent and the actuarial contribution rate of 7.34 percent times actual State payroll for FY 2010 will be deposited to the School assets.

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

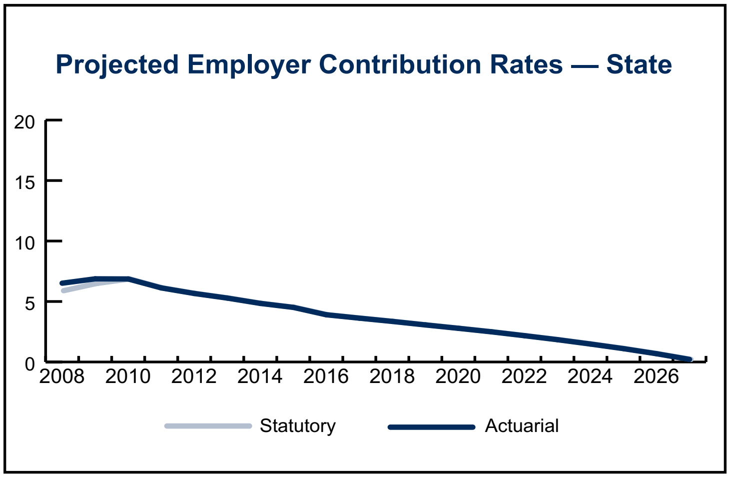
Employer Contribution Rates for the Correctional Employee Groups

	Actuarial	Statutory
Retirement Age 55	9.27%	8.04%
Retirement Age 60	9.22%	7.90%

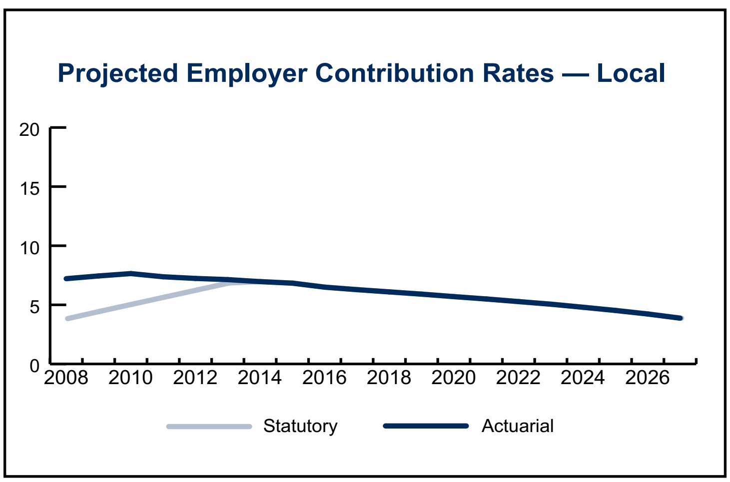
The change in the actuarial contribution rate from December 31, 2005, to December 31, 2006, and the primary components are shown in the table on page 78.

Due to statutory caps, the full actuarial contribution rate is not contributed for the School and Local groups. Based on the current valuation, there is a difference (shortfall) between the actuarial and statutory contribution rates of 4.50 percent and 2.59 percent respectively for the School and Local groups. Assuming an 8 percent return on the market value of assets for 2007 and beyond, all other actuarial assumptions are met in the future, and the current level of statutory caps, the ARC Date (statutory and actuarial contribution rates are equal) for the School group is 2015 and the Local group is 2014.

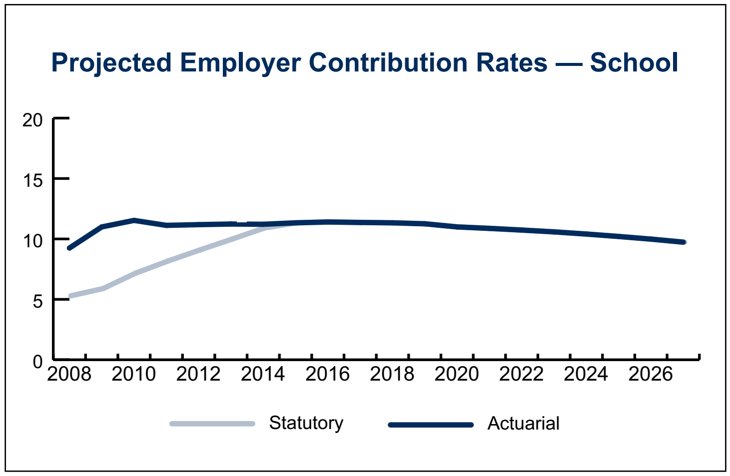
The rate of return on the market value of assets was over 15 percent for 2006, but the return on the actuarial value of assets was around 10 percent. This generated an actuarial gain that decreased the UAL. As the remainder of the deferred investment experience is recognized in the actuarial value of assets in future years, the contribution rate for the UAL payment can be expected to decrease, absent unfavorable experience to offset the previously unrecognized gains.



The ARC date (date at which the statutory contribution rate equals the actuarial required rate) for the State is 2010, based on this year's valuation results.

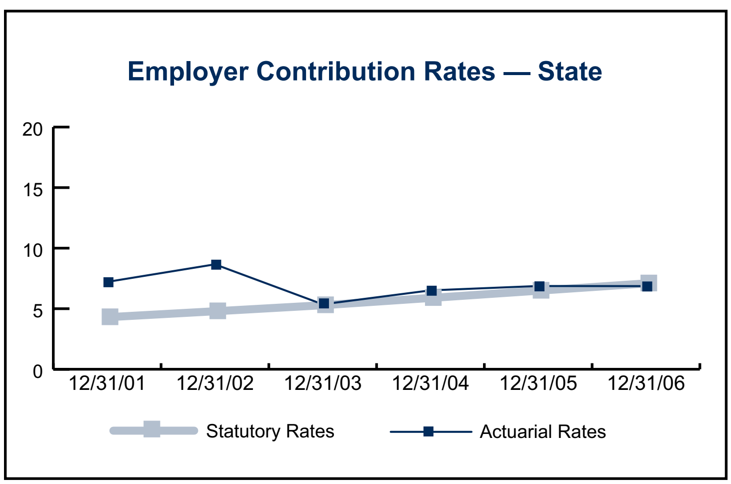


Due to favorable investment experience in the last few years, the ARC date is projected to occur in 2014, assuming all actuarial assumptions are met.

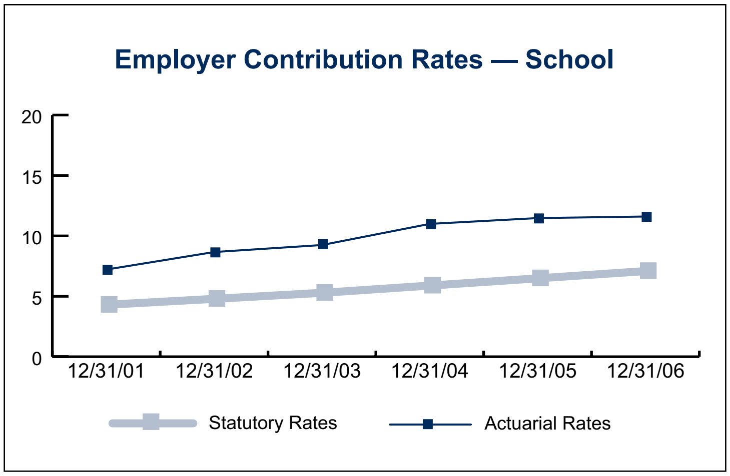


The statutory rate is expected to increase steadily before reaching the ARC date in 2015. Future experience, especially investment returns, will influence the movement in the ARC date.

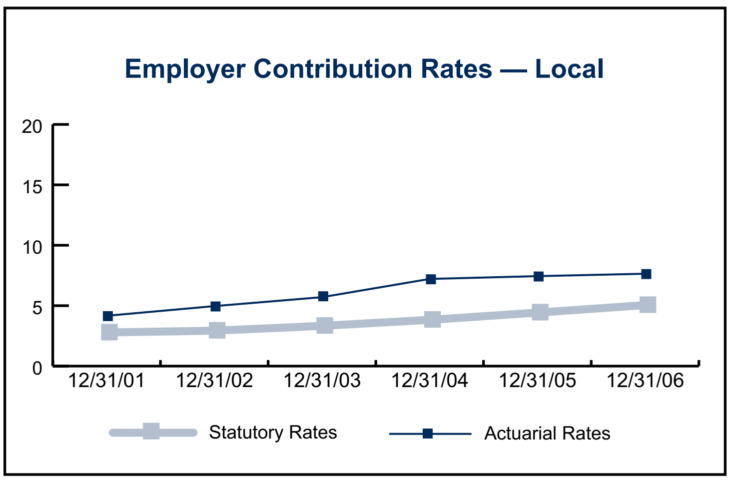
Historical contribution rates for each group are shown on the following pages. Please note that prior to the December 31, 2003, valuation, one contribution rate was developed for the State and School together as one group. Legislation passed in 2004 split the contribution rate calculations into two separate groups, although the statutory contributions are still determined on a combined basis. Significant changes in funding methods as well as a Pension Obligation Bond issue 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.



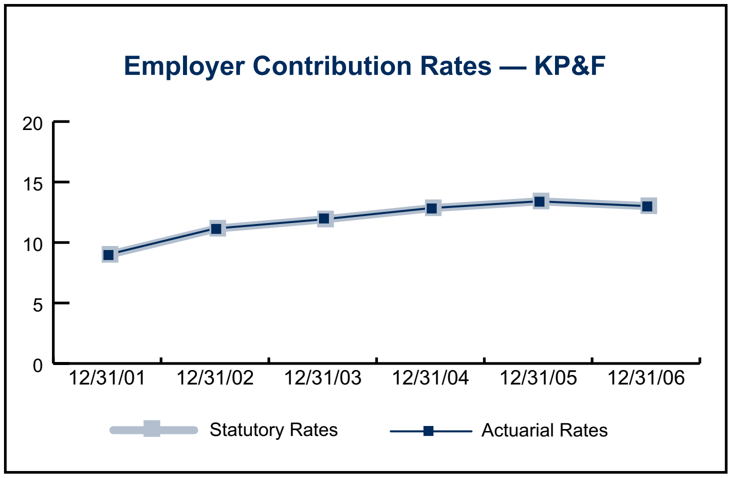
The split of the State group into a separate group with the 2003 valuation, coupled with the bond issue, lowered the actuarial contribution rate. With this valuation, the State's statutory contribution rate is equal to the actuarial contribution rate.



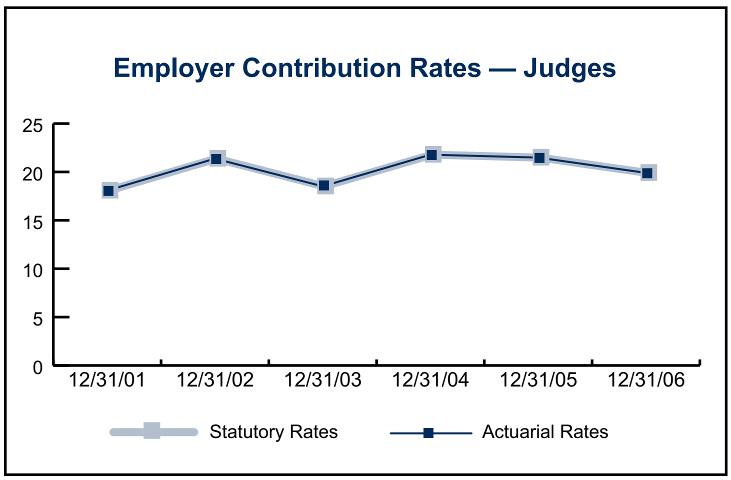
Due to investment experience, changes in actuarial methods and assumptions, and the magnitude of the difference between the actuarial and statutory contribution rates, the funded status of the School group has declined and the actuarial contribution rate has increased.



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



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



Significant changes in the actuarial assumptions in 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, 2005 – December 31, 2006

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, 2006. 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, 2005, and December 31, 2006, actuarial valuations. On the following pages each component is examined and quantified.

Assets

As of December 31, 2006, the System had total funds when measured on a market value basis, of $13.4 billion, including the receivable of $7 million from the State for the one-time cost-of-living payment and excluding assets held for the Group Insurance and Optional Life reserves. This was an increase of $1.5 billion from the December 31, 2005, figure of $11.9 billion. The components of the change in the market value of assets for the Retirement System (in millions) are set forth below.

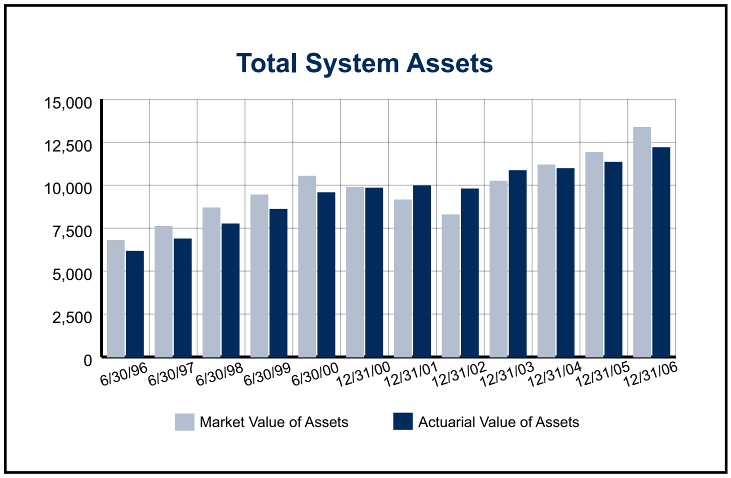
	Market Value ($ in millions)
Assets, December 31, 2005	$11,909
• Employer and Member Contributions	558
• Benefit Payments and Expenses	(895)
• Investment Income	1,790
Assets, December 31, 2006	$13,362
• Receivables	7
Adjusted Assets, December 31, 2006	$13,369

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

	Actuarial Value ($ in millions)
Actuarial Value of Assets 12/31/05	$11,339
• Employer and Member Contributions	558
• Receivable	7
• Benefit Payments and Expenses	(895)
• Investment Income	1,180
Actuarial Value of Assets 12/31/06	$12,189

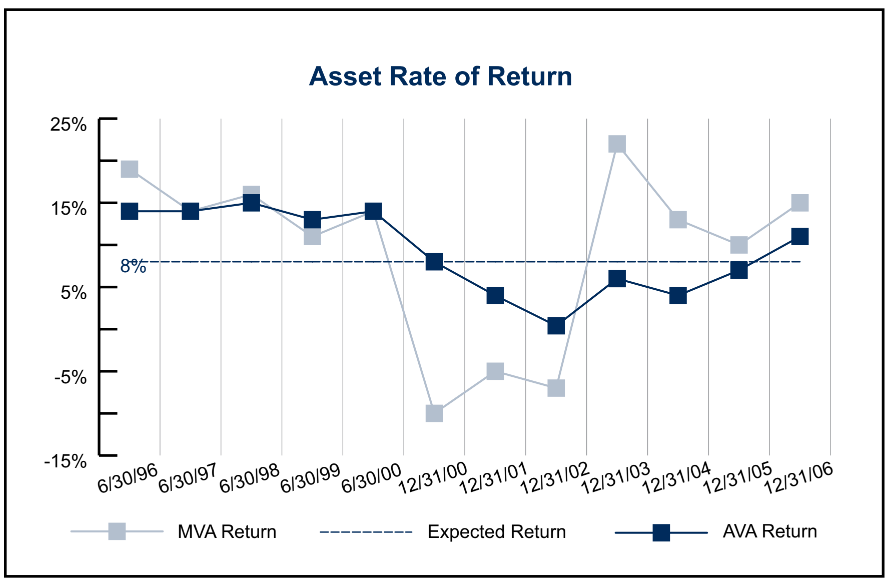
The actuarial value of assets as of December 31, 2006, was $12.189 billion. The annualized dollar-weighted rate of return for 2006 measured on the actuarial value of assets was approximately 10.6 percent and measured on the market value of assets, as reported by KPERS, was 15.5 percent net of investment and administrative expenses.

Due to the use of an asset smoothing method, there is $1.2 billion 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 each year in the future, the smoothing method will generate actuarial gains in the next four years.



($ in millions)

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



(dollar-weighted, annualized)

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

Liabilities

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

The liabilities in this report reflect an increase due to two changes in the benefit provisions:

1. A one-time payment of $300 to retirees and their joint survivors who retired before July 1, 1997, with ten or more years of service;
2. Effective July 1, 2009, members will be 100 percent vested after five years of service.

The one-time payment to retirees increased the unfunded actuarial liability by approximately $7 million. The change to full vesting after five years increased the unfunded actuarial liability by $17 million and also increased the normal cost rate for the State/School group by 0.07 percent and for the Local group by 0.17 percent.

Unfunded Actuarial Liability by Group ($ million)

	State	School	Local	KP&F	Judges
Actuarial Liability	$3,184	$9,551	$2,862	$1,836	$119
Actuarial Value of Assets	2,730	5,870	1,969	1,515	104
Unfunded Actuarial Liability	$454	$3,681	$893	$321	$15

When the actuarial cost method was changed by the Legislature in 1993, the payment methodology for the unfunded actuarial liability 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 2006). The State and Local groups had a very small net liability gain and the School had a net liability gain for the year, largely from salary experience. KP&F and Judges also had liability gains for the 2006 year. There was an experience gain from investment return on the actuarial value of assets for all groups.

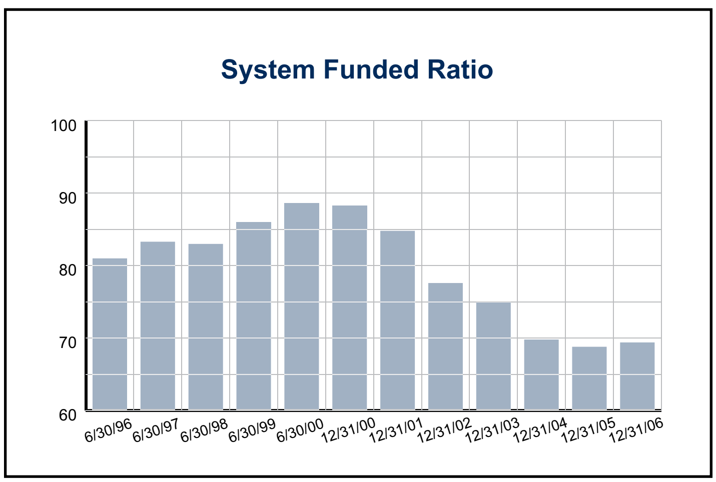
Between December 31, 2005 and December 31, 2006 the change in the unfunded actuarial liabilities for the System as a whole was as follows (in millions):

Unfunded Actuarial Liability, December 31, 2005	**$5,152**
Effect of contribution cap/time lag	258
Expected increase due to amortization method	83
Gain from investment return	(293)
Demographic experience (1)	165
All other experience	(25)
Change in actuarial assumptions	0
Change in benefit provisions	24
Unfunded Actuarial Liability, December 31, 2006	**$5,364**

1) Liability loss is about 0.94 percent of total actuarial liability.

A detailed summary of the change in the unfunded actuarial liability by System is shown on page 78. 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):

	12/31/01	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06
Funded Ratio	84.8%	77.6%	75.2%	69.8%	68.8%	69.4%
Unfunded Actuarial Liability (UAL)	$1,780	$2,829	$3,586	$4,743	$5,152	$5,364



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

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, the Governor and the Legislature have given a high priority to the development of a comprehensive plan to address the long-term funding of KPERS. 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.

The 2007 Legislature passed Senate Bill 362 which created a new benefit structure for members first employed on or after July 1, 2009. The change was made partially due to long term funding considerations, but also in response to demographic changes in the membership.

Based on the December 31, 2006, actuarial valuation results and the current statutory caps, the statutory contribution rates for the State, School and Local groups are projected to converge with the actuarial required contribution (ARC) rate before the end of the amortization period. As a result, the System is in long term actuarial balance. However, these projections assume that all actuarial assumptions are met exactly in each future year. To the extent that actual experience deviates from that expected, the ARC date (date at which the statutory and actuarial rates are expected to converge), as well as the ARC rate, will vary. In particular, due to the School group's funded status, the projected ARC date and rate are very sensitive to changes in the UAL. Unfavorable experience for this group could result in a situation where the statutory contribution rate never reaches the actuarial required contribution (ARC) rate. Key funding measurements should continue to be closely monitored in order to determine whether a change in the contribution cap is needed.

Summary of Change in Unfunded Actuarial Liability

December 31, 2006, Valuation ($ in millions)

	State	School	Local	KP&F	Judges	Total
UAL in 12/31/2005 Valuation Report	**$471.0**	**$3,455.2**	**$868.9**	**$340.7**	**$16.6**	**$5,152.5** (1)
Effect of contribution cap/timing	16.9	185.5	51.9	2.6	1.2	258.1
Expected increase due to method	6.7	56.5	14.0	5.7	(0.2)	82.7
Actual vs. expected experience						
Investment return	(48.5)	(162.9)	(55.6)	(24.1)	(1.5)	(292.6)
Demographic experience	10.4	143.5	7.6	3.0	0.2	164.7
All other experience	(6.8)	(10.8)	(0.1)	(7.0)	(1.5)	(26.2)
Change in assumptions	0.0	0.0	0.0	0.0	0.0	0.0
Change in benefit provisions	4.2	13.7	5.9	0.5	0.0	24.4
UAL in 12/31/2006 Valuation Report	**$453.9**	**$3,680.7**	**$892.6**	**$321.5**	**$14.9**	**$5,363.6**

1) May not add due to rounding.

Summary of Changes in Actuarial Contribution Rate(1) by System

December 31, 2006, Valuation

	State	School	Local	KP&F(1)	Judges
Actuarial Contribution Rate in 12/31/2005 Valuation	**7.35 %**	**11.95 %**	**7.90 %**	**13.86%**	**22.08%**
Adjustment for 2007 COLA	0.00	0.00	0.02	0.02	0.00
Change Due to Amortization of UAL					
Effect of contribution cap/time lag	0.12	0.38	0.24	0.04	0.42
Amortization method	0.00	0.00	0.00	0.00	(0.25)
Investment experience	(0.34)	(0.34)	(0.26)	(0.39)	(0.53)
Liability experience	0.07	0.30	0.04	0.05	0.09
All other experience	(0.03)	(0.31)	(0.02)	(0.13)	(0.75)
Change in assumptions	0.00	0.00	0.00	0.00	0.00
Change in benefit provisions	0.03	0.03	0.03	0.00	0.00
Change in Normal Cost Rate					
Change in benefit provisions	0.13	0.06	0.17	0.00	0.00
All other experience	0.01	0.00	0.00	0.04	(0.56) (2)
Actuarial Contribution Rate in 12/31/2006 Valuation	**7.34 %**	**12.07 %**	**8.12 %**	**13.49%**	**20.50 %**

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

Summary of Historical Changes in Total System UAL ($ in millions)

	6/30/1994	6/30/1995	6/30/1996	6/30/1997	6/30/1998	6/30/1999	6/30/2000	12/31/2000
Actual Experience vs. Assumed								
· Investment	($102)	($143)	($280)	($323)	($413)	($360)	($441)	($23)
· Other	320	72	136	157	104	46	99	84
Assumption Changes	0	(96)	0	0	350	0	0	(206)
Changes in Data/Procedures	244	0	0	0	0	21	71	145
Change in Cost Method	0	0	0	0	0	0	0	0
Effect of Contribution Cap/Lag	*	95	70	63	54	78	66	60
Amortization Method	*	47	38	35	32	30	22	12
Change in Benefit Provisions	75	0	0	0	88	0	19	0
Bond Issue	0	0	0	0	0	0	0	0
Total	**$537**	**($25)**	**($36)**	**($68)**	**$215**	**($194)**	**($164)**	**$72**

	12/31/2001	12/31/2002	12/31/2003	12/31/2004	12/31/2005	12/31/2006	Total
Actual Experience vs. Assumed							
· Investment	$350	$644	$140	$ 456	$167	($293)	($630)
· Other	(9)	68	(32)	16	(84)	139	1,116
Assumption Changes	0	0	0	437	(5)	0	480
Changes in Data/Procedures	5	177	(286)	0	0	0	377
Change in Cost Method	0	0	1,147	0	0	0	1,147
Effect of Contribution Cap/Lag	115	143	178	179	247	258	1,606
Amortization Method	14	21	47	68	84	83	533
Change in Benefit Provisions	0	37	3	1	0	24	247
Bond Issue	0	(41)	(440)	0	0	0	(481)
Total	**$475**	**$1,048**	**$757**	**$1,157**	**$409**	**$211**	**$4,395**

* 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 12/31/06: $ 5,364 million

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

KPERS — State*

	12/31/2003 **	12/31/2004	12/31/2005	12/31/2006
Market value of assets, beginning of year	$1,983,632,519	$2,370,036,710	$2,553,610,968	$2,680,153,605
Contributions during year	100,195,791	76,634,336	80,477,494	90,064,863
Benefits during year	(174,607,196)	(162,256,907)	(172,670,110)	(184,716,537)
Expected net investment income	155,771,406	186,243,922	200,672,116	210,699,057
Transfers and receivables	36,515,432	0	0	2,300,000
Expected value of assets, end of year	2,101,507,952	2,470,658,061	2,662,090,468	2,798,500,988
Market value of assets, end of year	2,370,036,710	2,553,610,968	2,680,153,605	2,947,274,021
Excess (shortfall) of net investment income	$ 268,528,758	$ 82,952,907	$ 18,063,137	$ 148,773,033

* 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

KPERS — School

	12/31/2003 *	12/31/2004	12/31/2005	12/31/2006
Market value of assets, beginning of year	$3,899,983,529	$4,991,542,973	$5,427,574,148	$5,773,541,598
Contributions during year	196,993,109	232,136,850	247,762,716	277,813,825
Benefits during year	(343,292,008)	(401,994,358)	(442,053,181)	(473,994,469)
Expected net investment income	306,259,306	392,659,845	426,583,823	454,187,066
Transfers and receivables	403,649,568	0	0	4,600,000
Expected value of assets, end of year	4,463,593,504	5,214,345,310	5,659,867,506	6,036,148,020
Market value of assets, end of year	4,991,542,973	5,427,574,148	5,773,541,598	6,501,191,800
Excess (shortfall) of net investment income	$ 527,949,469	$ 213,228,838	$ 113,674,092	$ 465,043,780

* 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

KPERS — State/School* Combined

	12/31/2003	12/31/2004	12/31/2005	12/31/2006
Market value of assets, beginning of year	$5,883,616,048	$7,361,579,683	$7,981,185,116	$8,453,695,203
Contributions during year	297,188,900	308,771,186	328,240,210	367,878,688
Benefits during year	(517,899,204)	(564,251,265)	(614,723,291)	(658,711,006)
Expected net investment income	462,030,712	578,903,767	627,255,939	664,886,123
Transfers and receivables	440,165,000	0	0	6,900,000
Expected value of assets, end of year	6,565,101,456	7,685,003,371	8,321,957,974	8,834,649,008
Market value of assets, end of year	7,361,579,683	7,981,185,116	8,453,695,203	9,448,465,821
Excess (shortfall) of net investment income	$ 796,478,227	$ 296,181,745	$ 131,737,229	$ 613,816,813

* Includes asset values for the TIAA group

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

KPERS — Local

	2/31/2003	12/31/2004	12/31/2005	12/31/2006
Market value of assets, beginning of year	$1,297,926,648	$1,561,501,396	$1,743,287,610	$1,897,431,737
Contributions during year	86,210,953	91,862,152	96,419,499	104,980,627
Benefits during year	(99,630,311)	(106,730,071)	(117,896,660)	(127,971,578)
Expected net investment income	103,307,684	124,336,836	138,620,449	150,892,593
Transfers and receivables	0	0	0	0
Expected value of assets, end of year	1,387,814,974	1,670,970,313	1,860,430,898	2,025,333,379
Market value of assets, end of year	1,561,501,396	1,743,287,610	1,897,431,737	2,176,385,696
Excess (shortfall) of net investment income	$ 173,686,422	$ 72,317,297	$ 37,000,839	$ 151,052,317

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

	12/31/2003	12/31/2004	12/31/2005	12/31/2006
Market value of assets, beginning of year	$1,034,446,737	$1,232,406,980	$1,363,065,004	$1,459,554,937
Contributions during year	51,088,147	75,287,870	71,931,377	79,129,699
Benefits during year	(79,934,661)	(87,682,550)	(93,936,263)	(102,440,958)
Expected net investment income	81,624,076	98,106,309	108,181,938	115,849,883
Transfers and receivables	0	0	0	100,000
Expected value of assets, end of year	1,087,224,299	1,318,118,609	1,449,242,056	1,552,093,561
Market value of assets, end of year	1,232,406,980	1,363,065,004	1,459,554,937	1,632,582,900
Excess (shortfall) of net investment income	$ 145,182,681	$ 44,946,395	$ 10,312,881	$ 80,489,339

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

	12/31/2003	12/31/2004	12/31/2005	12/31/2006
Market value of assets, beginning of year	$67,137,447	$81,081,078	$90,483,059	$98,126,948
Contributions during year	4,123,659	5,090,779	5,729,305	6,514,385
Benefits during year	(5,106,275)	(5,275,093)	(5,920,730)	(6,046,384)
Expected net investment income	5,332,447	6,479,256	7,231,135	7,868,516
Transfers and receivables	0	0	0	0
Expected value of assets, end of year	71,487,278	87,376,020	97,522,769	106,463,465
Market value of assets, end of year	81,081,078	90,483,059	98,126,948	111,406,613
Excess (shortfall) of net investment income	$ 9,593,800	$ 3,107,039	$ 604,179	$ 4,943,148

Development of Actuarial Value of Net Assets — KPERS

	State/School	State	School	Local	Total KPERS
Excess (shortfall) of investment income					
12/31/06	$ 613,816,813	$ 148,773,033	$ 465,043,780	$ 151,052,317	$ 764,869,130
12/31/05	131,737,229	18,063,137	113,674,092	37,000,839	168,738,068
12/31/04	296,181,745	82,952,907	213,228,838	72,317,297	368,499,042
12/31/03	796,478,227	268,528,758	527,949,469	173,686,422	970,164,649
Total	**$1,838,214,014**	**$ 518,317,835**	**$1,319,896,179**	**$ 434,056,875**	**$ 2,272,270,889**
Deferral of excess (shortfall) of investment income					
12/31/06 (80%)	491,053,450	119,018,426	372,035,024	120,841,854	611,895,304
12/31/05 (60%)	79,042,337	10,837,882	68,204,455	22,200,503	101,242,840
12/31/04 (40%)	118,472,698	33,181,163	85,291,535	28,926,919	147,399,617
12/31/03 (20%)	159,295,646	53,705,752	105,589,894	34,737,284	194,032,930
Total	**$ 847,864,131**	**$ 216,743,223**	**$631,120,908**	**$ 206,706,560**	**$ 1,054,570,691**
Market Value of Assets, 12/31/06	$9,448,465,821	$2,947,274,021	$6,501,191,800	$2,176,385,696	$11,624,851,517
Actuarial Value of Assets, 12/31/06	$8,600,601,690	$2,730,530,798	$5,870,070,892	$1,969,679,136	$10,570,280,826
Actuarial Value divided by market value	91.0%	92.6%	90.3%	90.5%	90.9%

Development of Actuarial Value of Net Assets — All Systems

	Total KPERS	KP&F	Judges	Total
Excess (shortfall) of investment income				
12/31/06	$ 764,869,130	$ 80,489,339	$ 4,943,148	$ 850,301,617
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
Total	**$ 2,272,270,889**	**$ 280,931,296**	**$ 18,248,166**	**$ 2,571,450,351**
Deferral of excess (shortfall) of investment income				
12/31/06 (80%)	611,895,304	64,391,471	3,954,518	680,241,293
12/31/05 (60%)	101,242,840	6,187,729	362,507	107,793,076
12/31/04 (40%)	147,399,617	17,978,558	1,242,816	166,620,991
12/31/03 (20%)	194,032,930	29,036,536	1,918,760	224,988,226
Total	**$ 1,054,570,691**	**$ 117,594,294**	**$ 7,478,601**	**$ 1,179,643,586**
Market value of assets, 12/31/06	$11,624,851,517	$1,632,582,900	$111,406,613	$13,368,841,030
Actuarial value of assets, 12/31/06	$10,570,280,826	$1,514,988,606	$103,928,012	$12,189,197,444
Actuarial value divided by market value	90.9%	92.8%	93.3%	91.2%

Summary of Principal Results

All Systems Combined

	12/31/2006	12/31/2005	% Change
Participant Data			
Number of:			
Active Members	151,449	149,073	1.6 %
Retired Members and Beneficiaries	65,765	63,348	3.8
Inactive Members	40,858	41,426	(1.4)
Total Members	258,072	253,847	1.7
Projected Annual Salaries of Active Members	$ 5,599,193,295	$ 5,270,350,727	6.2
Annual Retirement Payments for Retired Members and Beneficiaries	$ 774,531,259	$ 724,441,815	6.9
Assets and Liabilities			
Total Actuarial Liability	$17,552,790,504	$16,491,762,383	6.4
Assets for Valuation Purposes	12,189,197,444	11,339,292,965	7.5
Unfunded Actuarial Liability	5,363,593,060	5,152,469,418	

Summary of Principal Results

KPERS — State

	12/31/2006	12/31/2005	% Change
Participant Data			
Number of:			
Active Members	23,840	24,124	(1.2)%
Retired Members and Beneficiaries	14,937	14,642	2.0
Inactive Members	5,997	6,293	(4.7)
Total Members	44,774	45,059	(0.6)
Projected Annual Salaries of Active Members	$ 887,116,943	$ 859,851,488	3.2
Annual Retirement Payments for Retired Members and Beneficiaries	$ 162,078,502	$ 154,694,589	4.8
Assets and Libilities			
Total Actuarial Liability	$3,184,451,649	$3,045,520,267	4.6
Assets for Valuation Purposes	2,730,530,798	2,574,470,374	6.1
Unfunded Actuarial Liability	453,920,851	471,049,893	
Employer Contribution Rates as a Percent of Payroll			
Normal Cost	3.90%	3.76%	
Amortization of Unfunded Actuarial and Debt Service	3.44%	3.59%	
Actuarial Contribution Rate	7.34%	7.35%	
Statutory Employer Contribution Rate*	7.34%	6.97%	

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

Summary of Principal Results

KPERS — School

	12/31/2006	12/31/2005	% Change
Particpant Data			
Number of:			
Active Members	84,707	82,379	2.8 %
Retired Members and Beneficiaries	34,389	32,875	4.6
Inactive Members	23,225	23,644	(1.8)
Total Members	142,321	138,898	2.5
Projected Annual Salaries of Active Members	$2,985,385,666	$2,765,362,690	8.0
Annual Retirement Payments for Retired Members and Beneficiaries	$ 417,087,582	$ 388,120,658	7.5
Assets and Liabilities			
Total Actuarial Liability	$9,550,731,974	$8,928,334,248	7.0
Assets for Valuation Purposes	5,870,070,892	5,473,149,354	7.3
Unfunded Actuarial Liability	3,680,661,082	3,455,184,894	
Employer Contribution Rates as a Percent of Payroll			
Normal Cost	4.29%	4.23%	
Amortization of Unfunded Actuarial and Debt Service	7.78%	7.72%	
Actuarial Contribution Rate	12.07%	11.95%	
Statutory Employer Contribution Rate*	7.57%	6.97%	

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

Summary of Principal Results

KPERS — State/School Combined

	12/31/2006	12/31/2005	% Change
Participant Data			
Number of:			
Active Members	108,547	106,503	1.9 %
Retired Members and Beneficiaries	49,326	47,517	3.8
Inactive Members	29,222	29,937	(2.4)
Total Members	187,095	183,957	1.7
Projected Annual Salaries of Active Members	$ 3,872,502,609	$ 3,625,214,178	6.8
Annual Retirement Payments for Retired Members and Beneficiaries	$579,166,084	$542,815,247	6.7
Assets and Liabilities			
Total Actuarial Liability	$12,735,183,623	$11,973,854,515	6.4
Assets for Valuation Purposes	8,600,601,690	8,047,619,728	6.9
Unfunded Actuarial Liability	4,134,581,933	3,926,234,787	
Employer Contribution Rates as a Percent of Payroll			
Normal Cost	4.20%	4.12%	
Amortization of Unfunded Actuarial and Debt Service	6.78%	6.74%	
Actuarial Contribution Rate	10.98%	10.86%	
Statutory Employer Contribution Rate*	7.57%	6.97%	

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

Summary of Principal Results

KPERS — Local

	12/31/2006	12/31/2005	% Change
Participant Data			
Number of:			
Active Members	35,680	35,544	0.4 %
Retired Members and Beneficiaries	12,482	12,006	4.0
Inactive Members	10,298	10,177	1.2
Total Members	58,460	57,727	1.3
Projected Annual Salaries of Active Members	$1,318,131,075	$1,260,949,643	4.5
Annual Retirement Payments for Retired Members and Beneficiaries	$ 102,399,977	$ 94,612,484	8.2
Assets and Liabilities			
Total Actuarial Liability	$2,862,278,719	$2,663,333,880	7.5
Assets for Valuation Purposes	1,969,679,136	1,794,442,007	9.8
Unfunded Actuarial Liability	892,599,583	868,891,873	
Employer Contribution Rates as a Percent of Payroll			
Normal Cost	3.86%	3.69%	
Amortization of Unfunded Actuarialand Supplemental Liability	4.26%	4.23%	
Actuarial Contribution Rate	8.12%	7.92%	
Statutory Employer Contribution Rate*	5.53%	4.93%	

* Statutory Employer Contribution Rate exceeds last year’s rate by the statutory rate increase limit of 0.60 percent. This rate does not include the contribution rate for the Death and Disability Program. The rate for the 12/31/05 valuation was recertified to reflect the additional 0.02 percent contribution to fund the 2007 COLA.

Summary of Principal Results

KP&F

	12/31/2006	12/31/2005	% Change
Participant Data			
Number of:			
Active Members	6,965	6,772	2.8 %
Retired Members and Beneficiaries	3,785	3,654	3.6
Inactive Members	1,320	1,293	2.1
Total Members	12,070	11,719	3.0
Projected Annual Salaries of Active Members	$ 383,199,478	$ 360,718,148	6.2
Annual Retirement Payments for Retired Members and Beneficiaries	$87,418,444	$ 81,562,962	7.2
Assets and Liabilities			
Total Actuarial Liability	$1,836,524,837	$1,743,599,187	5.3
Assets for Valuation Purposes	1,514,988,606	1,402,876,287	8.0
Unfunded Actuarial Liability	321,536,231	340,722,900	
Employer Contribution Rates as a Percent of Payroll			
Normal Cost	8.07%	8.03%	
Amortization of Unfunded Actuarial and Supplemental Liability	5.42%	5.85%	
Actuarial Contribution Rate (Local Employers)	13.49%	13.88%	
Statutory Employer Contribution Rate*	13.49%	13.88%	

* The Statutory Employer Contribution Rate is equal to the Actuarial Rate. This is referred to as the “Uniform” rate, and varies for State and Local employers. The total contribution is equal to the appropriate uniform rate plus the payment required to amortize any unfunded past service liability or 15 percent excess benefit liability, determined separately for each employer. The contribution rate for Local employers for the 12/31/05 valuation was recertified to reflect the additional 0.02 percent contribution to fund the 2007 COLA.

Summary of Principal Results

Judges

	12/31/2006	12/31/2005	% Change
Participant Data			
Number of:			
Active Members	257	254	1.2 %
Retired Members and Beneficiaries	172	171	0.6
Inactive Members	18	19	(5.3)
Total Members	447	444	0.7
Projected Annual Salaries of Active Members	$ 25,360,133	$ 23,468,759	8.1
Annual Retirement Payments for Retired Members and Beneficiaries	$ 5,546,754	$ 5,451,122	1.8
Assets and Liabilities			
Total Actuarial Liability	$118,803,324	$110,974,801	7.1
Assets for Valuation Purposes	103,928,012	94,354,943	10.1
Unfunded Actuarial Liability	14,875,312	16,619,858	
Employer Contribution Rates as a Percent of Payroll			
Normal Cost	15.20%	15.76%	
Amortization of Unfunded Actuarial and Supplemental Liability	5.30%	6.32%	
Actuarial Contribution Rate	20.50%	22.08%	
Statutory Employer Contribution Rate*	20.50%	22.08%	

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

Every three years the Retirement System's consulting actuary makes a general investigation of the actuarial experience, including mortality, retirement and employment turnover. The actuary recommends actuarial tables for use in the valuation and in calculating actuarial equivalent values based on such investigation. These assumptions are based on an actuarial experience study conducted for the three years ending December 31, 2003.

Actuarial Assumptions — KPERS

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) w/ these 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

Years of Service	Rate of Increase*		
	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 0.5 percent productivity)

Termination Rates

KPERS — School, Male

Age	Years of Service				
	<2 yrs	**2 yrs**	**3 yrs**	**4 yrs**	**5 yrs**
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 yrs	**7 yrs**	**8 yrs**	**9 yrs**	**10+ yrs**
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%

Termination Rates

KPERS — School, Female

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

KPERS — State, Male

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%

Termination Rates

KPERS — State, Female

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

KPERS — Local, Male

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%

Termination Rates

KPERS — Local, Female

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

KPERS — School, Rule of 85

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		Normal Retirement	
Age	**Rate**	**Age**	**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%

Retirement Rates

KPERS — State, Rule of 85

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		Normal Retirement	
Age	**Rate**	**Age**	**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

KPERS — Local, Rule of 85

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%

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

Retirement Rates

KPERS — Correctional

Age 55 normal retirement date	
Age	Rate
55	10%
58	10%
60	10%
62	40%
65	100%
Age 60 normal retirement date	
Age	
62	

Retirement Rates

Other

Inactive Members	Age 62
TIAA Employees	Age 66

Disability Rates

KPERS — School, State and Local

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 in KPERS

KPERS — School, State and Local

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%

Actuarial Assumptions — KP&F

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) w/ these adjustments:

Male: Table +1

Female: Table +1

Pre-Retirement*

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

*70 of deaths assumed service related.

Disabled

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

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 0.5 percent productivity).

Termination Rates

KP&F — Tier I and Tier II

Tier I		Tier II	
Age	**Rate**	**Years of Service**	**Rate**
55	5%	1	13%
56	5%	5	6.0%
		10	2.5%
		15	1.3%
		20	0.5%
		25	0.0%

Retirement Rates

KP&F — 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%

Retirement Rates

KP&F — 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%

Tier I and Tier II Inactive vested members ssumed to retire at later of:
(i) eligibility for unreduced benefits.
(ii) age 55.

Disability Rates*

KP&F — Tier I and Tier II

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.

Actuarial Assumptions — Judges

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)
- Pre-Retirement: RP-2000 Employees Table (Generational)
- Disabled: RP-2000 Disableds Table (Generational)

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

Disability Rate None assumed

Rate of Salary Increase 5.5 percent

Termination Rates Non assumed

Retirement Rates

Age	Rate
<62	12.5%
62	30%
63	25%
64	10.%
65-69	50%
70+	100%

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 — Overview

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

Membership

The Kansas Public Employees Retirement System (the Retirement System, or the System), is a body corporate and an instrumentality of the State of Kansas. The Retirement System is an umbrella organization administering three statewide retirement systems:

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

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

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

Employee Membership

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

Board of Regents Plan Members (TIAA and equivalents)

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

Correctional Members

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

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

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

Member Contributions

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

Employer Contributions

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

Vesting Requirements

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

Retirement Age and Service Requirements

Eligibility

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

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

Retirement Benefits

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

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

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

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

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

Early Retirement

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

Working After Retirement

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

Withdrawal Benefit

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

Disability Benefit

KPERS Death and Disability Program provides disability income benefits, financed by employer contributions of 1.0 percent of a member's compensation. A member must be totally disabled for 180 continuous days. Benefits accrue from the later of the 181st day of continuous disability or from the first day when compensation from the employer ceases. The current long-term disability benefit is 60 percent of the member's annual compensation on the date disability begins, reduced by Social Security benefits (members must apply), workers' compensation benefits and any other employment-related disability benefits. Members disabled before January 1, 2006, receive a benefit based on two-thirds of their annual compensation on the date the disability began. The minimum monthly benefit is $100. Members receiving disability benefits continue to receive service credit under KPERS and basic group life insurance coverage. Members can also continue any optional insurance coverage. If a disabled member retires after receiving disability benefits for at least five years immediately before retirement, the member's FAS is adjusted by statute.

Non-Service Connected Death Benefit

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

Service-Connected Accidental Death Benefit

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

Basic Group Life Insurance for Active Members

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

Death Benefit for Retirees

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

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

Employee Membership

Tier I

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

Tier II

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

Member Contributions

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

Employer Contributions

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

Retirement Age and Service Requirements

Tier I Eligibility

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

Tier II Eligibility

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

Benefits

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

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

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

Local Plan

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

Working After Retirement

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

Early Retirement

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

Vesting Requirements

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

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

Withdrawal Benefit

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

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

Disability Benefits for Tier I Members

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

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

Disability Benefits for Tier II Members

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

Service Connected Death Benefit

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

Non-Service-Connected Death

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

Death Benefit for Inactive Members

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

Death Benefit for Retirees

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

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

Plan Provisions — Kansas Retirement System for Judges (Judges)

Member Contributions

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

Employer Contributions

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

Vesting Requirements

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

Retirement Age and Service Requirements

Eligibility

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

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

Retirement Benefit

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

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

Early Retirement

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

Working After Retirement

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

Disability Benefits

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

Withdrawal Benefit

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

Death Benefit for Active Members

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

Death Benefit for Retirees

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

Short Term Solvency Test

Last Ten Fiscal Years

Valuation Date	Member Contributions (A)	Retirees and Beneficiaries (B)	Active Members Employer Financed Portion (C)	Assets Available for Benefits		Portions of Accrued Liabilities Covered by Assets (A)	(B)	(C)
06/30/98	$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	2,934,469,051	4,454,897,319	3,412,030,704	9,568,274,828		100	100	64
12/31/00	3,007,338,917	4,576,452,175	3,556,222,919	9,835,181,839	(1)	100	100	63
12/31/01	3,330,859,571	4,903,096,418	3,509,095,766	9,962,917,897		100	100	49
12/31/02	3,353,870,165	5,247,201,306	4,012,527,155	9,784,862,188		100	100	30
12/31/03	3,595,082,177	5,558,543,751	5,285,920,342	10,853,462,178	(2)	100	100	32
12/31/04	3,817,174,808	5,994,869,531	5,902,048,137	10,971,426,577		100	100	20
12/31/05	4,006,823,805	6,413,679,842	6,071,258,736	11,339,292,965		100	100	15
12/31/06	4,209,698,437	6,872,703,437	6,470,388,630	12,189,197,444		100	100	17

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 fully funded is rare.

Schedule of Active Member Valuation Data [1]

Valuation Date	Number of of Active Members	Percentage Change in Membership	Number of Participating Employers	Percentage Increase in Number of Participating Employers	Total Annual Payroll ($ in millions) (2)	Average Payroll	Percentage Increase in Average Payroll
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
12/31/06	151,449	1.6	1,474	0.0	5,599	36,246	4.6

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

Membership Profile

Last Ten Calendar Years

Valuation Date	Active	Inactive	Retirees & Beneficiaries	Total Membership
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
2006	151,449	40,672	65,765	257,886

Retirants, Beneficiaries — Changes in Rolls, All Systems

Last Ten Fiscal Years

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

Summary of Membership Data

Retiree and Beneficiary Member Valuation Data (1)

	12/31/2006	12/31/2005
KPERS		
Number	61,808	59,523
Average Benefit	$11,027	$10,709
Average Age	72.59	72.70
KP&F		
Number	3,785	3,654
Average Benefit	$23,096	$22,322
Average Age	62.50	62.10
Judges		
Number	172	171
Average Benefit	$32,249	$31,878
Average Age	73.50	73.40
System Total		
Number	65,765	63,348
Average Benefit	$11,777	$11,436
Average Age	72.01	72.09

Active Member Valuation Data (1)

	12/31/2006	12/31/2005
KPERS		
Number	144,227	142,047
Average Current Age	45.41	45.31
Average Service	10.83	10.86
Average Pay	$35,284	$33,724
KP&F		
Number	6,965	6,772
Tier I	618	662
Tier II	6,347	6,110
Average Current Age	39.00	38.90
Average Service	10.92	10.97
Average Pay	$53,939	$52,222
Judges		
Number	257	254
Average Current Age	56.15	55.72
Average Service	11.94	11.59
Average Pay	$96,743	$90,585
System Total		
Number	151,449	149,073
Average Current Age	45.14	45.04
Average Service	10.84	10.86
Average Pay	$36,246	$34,661

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

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October 10, 2007

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

Dear Board of Trustees:

In accordance with your request, we have performed an actuarial valuation of KPERS Death and Disability Program as of June 30, 2006, for determining contributions beginning July 1, 2006. The major findings of the valuation are contained in this report. This report reflects the benefit provisions and contribution rates in effect as of June 30, 2006.

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

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

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

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

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

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

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

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

MILLIMAN, Inc.

Sincerely,

Patrice Beckham

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

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

Executive Summary

This report contains the June 30, 2006, actuarial valuation for the KPERS Death and Disability Program. This program provides two primary benefits to active members:

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

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

This is the first valuation that has been performed for the Death and Disability Program under GASB Statement No. 43, effective for the fiscal year ending June 30, 2007.

The scope of the annual valuation includes the LTD and Waiver benefits described earlier. The key valuation results for each benefit are summarized in this report. The valuation does not include the group and optional life insurance programs for active members. These benefits are fully insured and not subject to GASB 43.

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

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

Actuarial Liability at June 30, 2006

	Actives	Disabled	Total
PV of Total Projected Benefits	$414,640,341	$239,753,827	$654,394,168
PV of Future Normal Cost	300,244,189	0	300,244,189
Actuarial Liability	$114,396,152	$239,753,827	$354,149,979

As of June 30, 2006, the KPERS Death and Disability Fund has net assets of $18,723,957, resulting in an unfunded actuarial liability of $335,426,022. KPERS has elected to amortize this unfunded actuarial liability over 15 years as a level percent of pay, assuming a 4 percent annual payroll increase.

The annual required contribution for the KPERS Death and Disability Program equals the current year normal cost plus the amortization of the unfunded actuarial liability, all adjusted for interest to mid-year. The annual required contribution for fiscal year 2007 is $55,092,548, representing 0.96 percent of estimated annual compensation.

Projected Cashflow

Projected contributions are expected to exceed the projected benefits and expenses for each of the next five years, according to the assumptions used for the actuarial valuation, and assuming that the current contribution rate of 1.0 percent (which includes approximately 0.25 percent of payroll for group life insurance) remains unchanged. The excess contribution each year, however is only $2.0 million to $2.5 million, meaning that if the contribution rate remains unchanged, the plan should not be expected to generate a material increase in plan assets.

Five-Year Cashflow Projection*
Expected Benefits and Expenses v. Expected Contributions (in millions)

Plan Year	Projected Benefits and Expenses	Projected Contributions
2006-2007	$40.6	$42.9
2007-2008	$41.8	$44.2
2008-2009	$43.3	$44.5
2009-2010	$44.6	$46.9
2010-2011	$46.0	$48.3

*Excludes Group Life Insurance for Active Members

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

Actuarial Valuation Under GASB 43

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

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

A number of assumptions have been made in developing the liabilities reported in this report. These assumptions, as well as the actuarial methodology, are described beginning on page 122. The projections are estimates and KPERS’ actual liability will vary from these estimates. The projections and assumptions should be updated as actual costs under this program develop.

The actuarial present value of total projected benefits reflects all expected payments in the future discounted to the date of the valuation. The present value is an amount of money that, if it were set aside now and all assumptions met, would be exhausted with the ultimate payment to the last plan member's final expense.

Actuarial Present Value of Total Projected Benefits

	Actives	Disabled	Total
Disability Income	$310,654,386	$183,867,774	$494,522,160
Waiver of Premium	85,561,898	45,232,873	130,794,771
Administrative Expenses	18,424,057	10,653,180	29,077,237
Total	$414,640,341	$239,753,827	$654,394,168

The Entry Age Normal Actuarial Cost Method was used to allocate the cost of benefits to years of active service. The objective under this method is to expense each participant's benefit as a level percent of pay over their active working lifetime. At the time the funding method is introduced, there will be a liability which represents the contributions that would have been accumulated if this method of funding had always been used (called the "Actuarial Liability"). The difference between this actuarial liability and the assets (if any) is the unfunded actuarial liability, which is typically amortized over a period of years. The maximum permissible years under GASB 43 is 30. KPERS has chosen to amortize the unfunded actuarial liability over 15 years, as a level percent of pay. Payroll is assumed to increase 4 percent per year.

Actuarial Liability as of June 30, 2006

	Actives	Disabled	Total
Present Value of Total Projected Benefits	$414,640,341	$239,753,827	$654,394,168
Present Value of Future Normal Cost	300,244,189	0	300,244,189
Actuarial Liability	$114,396,152	$239,753,827	$354,149,979

The actuarial balance sheet is a demonstration of the basic actuarial equation that the actuarial present value of future benefits to be paid to the active and retired members must equal the current assets plus the actuarial present value of future contributions to be received.

Actuarial Balance Sheet as of June 30, 2006

Actuarial Present Value of Total Projected Benefits	
• Active Members	$414,640,341
• Disabled Members	239,753,827
Total Actuarial Present Value of Total Projected Benefits	$654,394,168
Assets and Future Employer Contributions	
• Assets*	$18,723,957
• Unfunded Actuarial Liability	335,426,022
• Present Value of Future Normal Costs	300,244,189
Total Assets and Future Employer Contributions	$654,394,168

*Market value

Annual Required Contribution (ARC)

A. Employer Normal Costs		
(1) Current Year Normal Cost as of June 30, 2006	$	30,773,060
(2) Assumed interest to the middle of the year		684,775
(3) Current Year Normal Cost as of June 30, 2007 [(1) + (2)]	$	31,457,835
B. Determination of Current Year Amortization Payment		
(1) Unfunded Actuarial Liability	$	335,426,022
(2) Amortization Period		15 years
(3) Amortization Factor		14.5079
(4) Amortization Amount as of June 30, 2006 [(1) / (3)]		23,120,232
(5) Assumed interest to the middle of the year		514,481
(6) Amortization Amount as of June 30, 2007 [(4) + (5)]	$	23,634,713
C. Determination of Annual Required Contribution		
(1) Normal Cost for benefits attributable to service in the current year (A.3.)	$	31,457,835
(2) Amortization of Unfunded Actuarial Liability (B.6.)		23,634,713
(3) Annual Required Contribution (ARC) [(1) + (2)]		$55,092,548
D. Annual Required Contribution		
(1) Annual Required Contribution	$	55,092,548
(2) Estimated Annual Compensation for FY07		5,716,896,046
(3) Annual Required Contribution as a Percentage of Payroll		0.96%

Experience

Active LTD Claims

by Age at Disability

	2004-2005		2005-2006	
Age at Disability	Count	% of Claims	Count	% of Claims
<20	1	0%	1	0%
20-29	76	2%	92	3%
30-39	476	15%	508	16%
40-49	1,160	37%	1,175	37%
50-59	1,216	39%	1,206	38%
60-64	171	5%	158	5%
65+	16	1%	23	1%
Total	3,116	100%	3,163	100%

Active LTD Claims

by Attained Age

	2004-2005		2005-2006	
Attained Age	Count	% of Claims	Count	% of Claims
<20	0	0%	0	0%
20-29	2	0%	4	0%
30-39	110	4%	95	3%
40-49	666	21%	646	20%
50-59	1,486	48%	1,535	49%
60-64	768	25%	786	25%
65+	84	3%	97	3%
Total	3,116	100%	3,163	100%

Active LTD Claims

by Net Benefit Amount

	2004-2005		2005-2006	
Net Monthly Benefit	Count	% of Claims	Count	% of Claims
0-499	1,274	41%	1,269	40%
500-999	992	32%	1,016	32%
1,000-1,499	526	17%	514	16%
1,500-1,999	188	6%	207	7%
2,000-2,499	88	3%	96	3%
2,500-2,999	23	1%	31	1%
3,000-3,499	13	0%	13	0%
3,500-3,999	7	0%	8	0%
4,000-4,499	1	0%	4	0%
4,500-4,999	2	0%	2	0%
5,000+	2	0%	3	0%
Total	3,116	100%	3,163	100%

	2004-2005		2005-2006	
Age at Disability	**Count**	**% of Claims**	**Count**	**% of Claims**
<20	0	0%	0	0%
20-29	4	1%	4	1%
30-39	27	7%	20	6%
40-49	120	31%	91	28%
50-59	184	47%	164	51%
60-64	47	12%	31	10%
65+	8	2%	10	3%
Total	390	100%	320	100%

New LTD Claims

by Age at Disability

	2004-2005		2005-2006	
Attained Age	**Count**	**% of Claims**	**Count**	**% of Claims**
<20	0	0%	0	0%
20-29	1	0%	3	1%
30-39	19	5%	15	5%
40-49	107	27%	79	25%
50-59	188	48%	157	49%
60-64	59	15%	54	17%
65+	16	4%	12	4%
Total	390	100%	320	100%

New LTD Claims

by Attained Age

	2004-2005		2005-2006	
Net Benefit	**Count**	**% of Claims**	**Count**	**% of Claims**
0-499	132	34%	89	28%
500-999	86	22%	71	22%
1,000-1,499	72	18%	58	18%
1,500-1,999	53	14%	50	16%
2,000-2,499	31	8%	32	10%
2,500-2,999	7	2%	12	4%
3,000-3,499	7	2%	3	1%
3,500-3,999	1	0%	2	1%
4,000-4,499	0	0%	2	1%
4,500-4,999	0	0%	0	0%
5,000+	1	0%	1	0%
Total	390	100%	320	100%

New LTD Claims

by Net Benefit Amount

Terminated LTD Claims

by Term Reason

	2004-2005		2005-2006	
Term Reason	**Count**	**% of Claims**	**Count**	**% of Claims**
Death	109	30%	117	33%
Recovery	55	15%	38	11%
Retirement	141	39%	168	47%
Expiry	58	16%	37	10%
Total	363	100%	360	100%

Actuarial Assumptions

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

Implicit Inflation Rate 3.5 percent

Mortality Rates

Post Retirement

RP-2000 Healthy Annuitants Table (Generational) w/ these 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

Rates of Salary Increase

Years of Service	Rate of Increase*		
	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 0.5 percent productivity)

LTD Claim Incidence Rates

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

Claim Termination Rates

Long-Term Disability

Claim termination rates are expressed as a percent of the 1987 Commissioners Group Disability and are based on actual KPERS experience. All claim termination rates are assumed to be 350 percent of the table for attained ages 60 and older.

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

Projected Future Claim Cost as Percent of Payroll (used in cashflow projections)	0.47 percent in 2006-2007, increases in future due to aging
Incurred But Not Reported Reserve	60 percent of expected claim cost for year
Overpayment Recovery	65 percent of overpayment balance
Future Payroll Growth	4.0 percent long-term growth for actuarial valuation, 3.0 percent near-term growth for cashflow projections
Administrative Expenses	4.65 percent of claims.

Claim Termination Rates

Waiver of Premium

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

Projected Future Claim Cost as Percent of Payroll (used in cashflow projections)	0.12 percent in 2006-2007, increases in future due to aging
Incurred But Not Reported Reserve	12.5 percent of expected claim cost for year
Mortality	100 percent of IRS Disabled Mortality Rates from Revenue Ruling 96-7
Benefit Indexing	Historical indexing is based on actual retirement plan calculations. Indexing for 2006 and later uses a rate of 2.0 percent, which is equivalent to a 3 percent annual assumed increase in the consumer price index, less 1.0 percent as specified by the plan.

Actuarial Methods

Funding Method

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

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

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

Asset Valuation Method

Assets are valued at market value.

Plan Provisions — Overview

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

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

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

Plan Provisions — Long Term Disability

Definition of Disability

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

Benefit Waiting Period

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

Monthly Benefit

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

Maximum Benefit Period

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

Limitation for Mental Illnesses and Substance Abuse

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

Cost-of-Living Increase

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

Plan Provisions — Group Life Waiver of Premium

Benefit Amount

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

Accelerated Death Benefit

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

Conversion Right

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

Schedule of Combined Employer Contribution Rates

Last Ten Fiscal Years (1)

KPERS State/School

Year	Actuarial Rate	Actual Rate
1998	5.23 %	3.79 %
1999	5.33	3.99
2000	5.27	4.19
2001	6.15	3.98(2)
2002	6.00	4.78
2003	6.17	4.98(3)
2004	7.05	4.58(3)
2005	8.29	5.47
2006	9.94	6.07
2007	9.64	6.77

KPERS Local

Year	Actuarial Rate	Actual Rate
1998	3.86 %	2.78 %
1999	3.86	2.93
2000	3.89	3.22
2001	3.88	2.77 (2)
2002	4.07	3.52
2003	4.73	3.67 (3)
2004	4.64	3.22(3)
2005	6.04	4.01
2006	7.04	4.61
2007	8.69	5.31

TIAA

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

KP&F (UNIFORM RATE)

Year	Actuarial Rate	Actual Rate
1998	9.45 %	9.45 %
1999	7.36	7.36
2000	7.35	7.35
2001	6.97	6.97
2002	6.79	6.79
2003	6.86	6.86
2004	9.47	9.47
2005	11.69	11.69
2006	12.39	12.39
2007	13.32	13.32

JUDGES

Year	Actuarial Rate	Actual Rate
1998	15.67 %	15.67 %
1999	15.67	15.67
2000	14.38	14.38
2001	16.14	15.74(2)
2002	12.88	12.88
2003	12.66	12.66(3)
2004	16.67	16.67(3)
2005	19.22	19.22
2006	22.37	22.37
2007	19.11	19.11

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

Working **today** for a secure **tomorrow**

Statistical Section

Comprehensive Annual Financial Report

Fiscal year ended June 30, 2007

Statistical Section

The Statistical Section presents several schedules that provide financial trends analysis of the Retirement System's overall financial health and additional analytical information on employers' membership data, retirements benefits and other post employment benefits (OPEB). The schedules beginning on this page through page 133 provide revenues, expenses and funding status information for the past ten fiscal years for KPERS and Death and Disability (OPEB) plans. On page 136, information is provided showing the top ten participating employers determined by number of covered active employees. On pages 137 through 140 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 137 a schedule is presented that allocates the total benefits and type of refunds that were paid. The source of the information in these schedules is derived from the comprehensive annual financial reports, unless otherwise noted.

Revenues by Source

Last Ten Fiscal Years

	Contributions					
Year	Member	Employer	(OPEB) Employer Insurance	Misc.	Net Investment Income	Total
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
2007	256,995,275	339,509,022	59,308,991	228,986	2,162,081,472	2,818,123,746

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

Benefits by Type

Last Ten Fiscal Years

Year	Retirement Benefits	Retirement Dividend	Death Benefits	Refunds of Contributions	Disability Insurance Premiums (OPEB)
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
2007	862,894,416	5,284,613	9,153,582	46,129,211	55,585,886

Expenses by Type

Last Ten Fiscal Years

Year	Benefits	Withdrawals	Insurance (OPEB)	Administration	Total
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
2007	877,332,611	46,129,211	55,585,886	8,893,544	987,941,252

Changes in Net Assets

Last Ten Fiscal Years

	2007	2006	2005
Additions			
Contributions			
Member Contributions	$ 256,995,275	$ 246,203,381	$233,226,034
Employer Contributions	398,818,013	352,031,548	293,952,421
Total Contributions	655,813,288	598,234,929	527,178,455
Investments			
Net Appreciation in Fair Value of Investments	1,816,702,680	1,046,279,084	932,881,712
Interest	195,760,216	165,466,523	132,806,082
Dividends	136,434,906	113,162,346	130,167,483
Real Estate Income, Net of Operating Expenses	39,114,763	51,835,809	43,821,311
Other Investment Income	261,734	303,028	412,211
Total	2,188,274,299	1,377,046,790	1,240,088,799
Less Investment Expense	(30,249,368)	(27,204,510)	(22,070,013)
Net Investment Income	2,158,024,931	1,349,842,280	1,218,018,786
From Securities Lending Activities			
Securities Lending Income	125,998,402	87,911,153	53,059,141
Securities Lending Expenses			
Borrower Rebates	(120,938,041)	(82,182,198)	(46,714,331)
Management Fees	(1,003,820)	(1,163,472)	(1,267,475)
Total Securities Lending Activities Expense	(121,941,861)	(83,345,670)	(47,981,806)
Net Income from Security Lending Activities	4,056,541	4,565,483	5,077,335
Total Net Investment Income	2,162,081,472	1,354,407,763	1,223,096,121
Total Other Miscellaneous Income	228,986	175,539	178,105
Total Additions (Net Reductions) to Plan Net Assets	2,818,123,746	1,952,818,231	1,750,452,681
Deductions			
Monthly Retirement Benefits Paid	(868,179,029)	(805,978,732)	(737,563,276)
Refunds of Contributions	(46,129,211)	(46,826,176)	(46,773,933)
Death Benefits	(9,153,582)	(8,810,923)	(7,849,884)
Insurance Premiums and Disability Benefits (OPEB)	(55,585,886)	(54,957,957)	(53,703,109)
Administrative Expenses	(8,893,544)	(7,718,879)	(7,340,147)
Total Deductions to Plan Net Assets	(987,941,252)	(924,292,667)	(853,230,349)
Change in Net Assets	**$1,830,182,494**	**$1,028,525,564**	**$897,222,332**

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

Changes in Net Assets
Last Ten Fiscal Years

2004	2003	2002	2001	2000	1999	1998
$ 230,349,955	$224,746,447	$ 209,624,015	$ 204,142,810	$ 192,777,255	$185,180,551	$ 173,954,587
714,353,221	231,464,323	221,473,727	193,384,289	185,264,106	201,652,685	167,105,243
944,703,176	456,210,770	431,097,742	397,527,099	378,041,361	386,833,236	341,059,830
1,087,128,878	85,233,479	(676,384,745)	(1,061,275,002)	997,376,144	701,131,827	981,923,854
132,004,016	145,411,285	159,209,184	201,483,091	211,532,985	162,670,637	178,369,148
91,477,150	76,508,361	24,416,401	37,639,689	55,532,495	69,869,740	65,588,023
39,514,695	31,217,255	44,792,323	41,997,152	40,748,804	39,885,611	35,536,987
565,492	557,611	667,029	556,969	31,508,502	953,003	5,353,416
1,350,690,231	338,927,991	(447,299,808)	(779,598,101)	1,336,698,930	974,510,818	1,266,771,428
(18,718,601)	(16,675,173)	(19,758,136)	(23,251,905)	(25,517,316)	(23,363,682)	(22,692,831)
1,331,971,630	322,252,818	(467,057,944)	(802,850,006)	1,311,181,614	951,147,136	1,244,078,597
23,020,103	25,878,944	33,310,814	62,950,106	32,446,888	25,884,533	41,373,775
(17,697,447)	(20,861,098)	(28,577,302)	(56,202,763)	(27,320,030)	(21,819,685)	(36,703,726)
(1,068,372)	(1,214,021)	(1,422,527)	(2,024,120)	(1,537,974)	(1,219,259)	(1,400,718)
(18,765,819)	(22,075,119)	(29,999,829)	(58,226,883)	(28,858,004)	(23,038,944)	(38,104,444)
4,254,284	3,803,825	3,310,985	4,723,223	3,588,884	2,845,589	3,269,331
1,336,225,914	326,056,643	(463,746,959)	(798,126,783)	1,314,770,498	953,992,725	1,247,347,928
182,113	82,257	137,633	175,815	245,354	210,116	173,035
2,281,111,203	782,349,670	(32,511,584)	(400,423,869)	1,693,057,213	1,341,036,077	1,588,580,793
(676,918,614)	(645,716,079)	(627,704,056)	(550,674,064)	(497,869,985)	(464,709,423)	(421,314,908)
(41,179,470)	(39,608,946)	(39,066,937)	(43,967,623)	(43,631,850)	(40,860,950)	(41,510,908)
(8,685,182)	(7,826,064)	(8,694,809)	(8,227,488)	(8,071,779)	(7,862,525)	(7,682,253)
(50,396,392)	(53,829,235)	(47,625,764)	(46,456,603)	(42,199,878)	(41,892,190)	(37,639,743)
(7,231,295)	(7,215,024)	(6,776,044)	(6,843,434)	(5,689,571)	(5,442,410)	(4,702,566)
(784,410,953)	(754,195,348)	(729,867,610)	(656,169,212)	(597,463,063)	(560,767,498)	(512,850,378)
$1,496,700,250	**$ 28,154,322**	**$(762,379,194)**	**$(1,056,593,081)**	**$1,095,594,150**	**$780,268,579**	**$1,075,730,415**

Highlights of Operations — Ten-Year Summary

	2007	2006	2005	2004	2003
Membership Composition					
Number of Retirants (a)	60,166	57,954	61,125	59,124	57,597
Number of Survivors (b)	5,599	5,394	—	—	—
New Retirants During the Fiscal Year	4,423	4,452	4,141	3,612	3,585
Active and Inactive Members (a)	192,307	190,305	189,020	189,460	187,698
Participating Employers	1,474	1,474	1,461	1,454	1,442
Financial Results (millions)					
Member Contributions	$257	$246	$233	$230	$225
Employer Contributions (c)	399	352	294	714	231
Retirement / Death Benefits	877	815	745	686	654
Investment Income (d)	2,162	1,354	1,223	1,336	326
Employer Contribution Rate (e)					
KPERS--State / School	6.77 %	6.07 %	5.47 %	4.58 %	4.98%
KPERS--Local (f)	5.31	4.61	4.01	3.22	3.67
KP&F (Uniform Participating) (f)	13.32	12.39	11.69	9.47	6.86
Judges	19.11	21.97	19.22	16.67	12.66
TIAA	—	—	0.60	—	2.27
Unfunded Actuarial Liability (millions)					
KPERS--State / School	$4,135	$3,926	$3,584	$2,734	$2,239
KPERS--Local	893	869	824	588	340
KP&F	322	341	313	249	232
Judges	15	17	22	15	17
TIAA (g)	—	—	—	—	—
Funding Ratios (h)					
KPERS--State / School	67.50 %	67.21 %	68.60 %	74.07 %	75.64
KPERS--Local	68.80	67.38	67.30	73.69	81.71
KP&F	82.40	80.46	81.10	84.04	84.16
Judges	87.40	85.02	80.10	84.92	82.21
TIAA	—	—	—	—	—

a) Membership information taken from System's actuarial valuation.
b) This is the number of joint annuiants as of December 31, per the System's records, starting December 31, 2005.
c) Pension obligation bonds for $440 million were issued in 2004.
d) Investment income for prior years has been adjusted to reflect changes in unrealized appreciation.
e) Rates include Group Life and Disability contributions where applicable. Per 2000 and 2001 legislation, employers were not required to remit the Group Life and Disability portion of the Actual Rate from April 1, 2000 through December 31, 2001. Per 2002 and 2003 legislation, employers were not required to remit the Group Life and Disability portion of the Actual Rate from July 1, 2002 through December 31, 2002 or from April 1, 2003 through June 30, 2004.
f) KPERS Local and KP&F contribution rates are reported on a calendar year basis.
g) Legislation provided for bonds to be issued December 31, 2002 to fully fund the existing unfunded liability for the TIAA group.
h) The funding percentage indicates the actuarial soundness of the System. Generally, the greater the percentage, the stronger the System.

Highlights of Operations — Ten-Year Summary

	2002	2001	2000	1999	1998
Membership Composition					
Number of Retirants (a)	56,115	54,396	51,639	50,058	47,940
Number of Survivors (b)	—	—	—	—	—
New Retirants During the Fiscal Year	3,689	3,112	3,360	3,328	3,228
Active and Inactive Members (a)	183,966	179,073	163,755	158,454	157,728
Participating Employers	1,435	1,423	1,415	1,407	1,397
Financial Results (millions)					
Member Contributions	$210	$204	$193	$185	$174
Employer Contributions (c)	221	193	185	202	167
Retirement / Death Benefits	636	559	506	473	429
Investment Income (d)	(464)	(798)	1,315	954	1,247
Employer Contribution Rate (e)					
KPERS--State / School	4.78 %	3.98 %	4.19 %	3.99 %	3.79%
KPERS--Local (f)	3.52	2.77	3.22	2.93	2.78
KP&F (Uniform Participating) (f)	6.79	6.97	7.35	7.36	9.45
Judges	12.88	15.74	14.38	15.67	15.67
TIAA	2.03	1.21	1.82	1.93	1.66
Unfunded Actuarial Liability (millions)					
KPERS--State / School	$1,506	$1,120	$860	$973	$1,142
KPERS--Local	185	90	36	76	104
KP&F	59	62	307	317	313
Judges	10	10	8	8	8
TIAA (g)	20	23	23	23	24
Funding Ratios (h)					
KPERS--State / School	82.46 %	86.23 %	88.82 %	86.36 %	83.03
KPERS--Local	89.12	94.29	97.56	94.41	91.47
KP&F	95.53	95.22	79.68	77.28	75.62
Judges	88.94	88.66	90.53	89.42	88.21
TIAA	48.32	41.18	39.72	34.16	28.83

Principal Participating Employers *

as of June 30, 2006

Participating Government	2007 Covered Employees	2007 Rank	2007 Percentage of Sytem Total	2006 Covered Employees	2006 Rank	2006 Pecentage of System Total
State of Kansas	25,069	1	16.55%	25,134	1	16.86%
USD 259, Wichita	6,590	2	4.35%	6,546	2	4.39%
USD 233, Olathe	4,277	3	2.82%	4,155	3	2.79%
USD 512, Shawnee Mission	4,007	4	2.65%	3,968	4	2.66%
USD 500, Kansas City	3,334	5	2.20%	3,436	5	2.30%
Johnson County	3,002	6	1.98%	3,229	6	2.17%
USD 229, Blue Valley	2,809	7	1.85%	2,770	7	1.86%
USD 501, Topeka Public Schools	2,469	8	1.63%	2,544	8	1.71%
Sedgwick County	2,309	9	1.52%	2,434	9	1.63%
USD 497, Lawrence	1,692	10	1.12%	1,736	10	1.16%
All Other (a)	95,891		63.33%	93,121		62.47%
Total (1,474 employers)	151,449		00.00%	149,073		100.00%

* Information only available for prior and current year.

a) In 2007, “All Other” consisted of:

Employer Type	Number of Employers	Covered Employees
School districts	289	48,850
Cities and Counties	541	25,891
Post-Secondary Education (b)	43	10,953
Other	590	10,197
Total	1,463	95,891

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 2006

Benefit Amount	Number of Retirees
Over $4,000	465
$3,500-$3,999	396
$3,000-$3,499	890
$2,500-$2,999	1,951
$2,000-$2,499	4,304
$1,500-$1,999	7,519
$1,000-$1,499	9,737
$900-$999	2,391
$800-$899	2,699
$700-$799	3,010
$600-$699	3,503
$500-$599	3,957
$400-$499	4,555
$300-$399	5,348
$200-$299	5,637
$100-$199	5,395
$ - $ 99	3,809

Benefit and Refund Deductions from Net Assets by Type

for the Fiscal Year Ended June 30, 2007 With Comparative Figures for 2006

Type of Benefit	2007	2006
Age and service benefits:		
Retirees	$830,825,654	$763,960,585
Survivors	37,353,375	42,018,147
Death in service benefits	9,153,582	8,810,923
Insurance premiums and		
Disabiltiy benefits	55,585,886	54,957,957
Total Benefits	$932,918,497	$869,747,612
Type of Refund		
Death	$ 5,496,510	$ 6,197,596
Separation	40,632,701	40,628,580
Total Refunds	$46,129,211	$46,826,176

b) Information only available for prior and current year.

Number of Retired Members and Survivors by Type of Benefit

as of December 31, 2006

Monthly Benefit	Number of Retirees	Normal Retirement	Early Retirement	Service-Connected Death or Disability	Nonservice-Connected Death or Disability
$ - 99	3,809	3,413	378	8	10
$100-199	5,395	3,428	1,889	60	18
$200-299	5,637	3,123	2,441	60	13
$300-399	5,348	3,003	2,270	48	27
$400-499	4,555	2,639	1,843	52	21
$500-599	3,957	2,428	1,481	37	11
$600-699	3,503	2,212	1,243	32	16
$700-799	3,010	1,939	1,018	36	17
$800-899	2,699	1,838	795	53	13
$900-999	2,391	1,765	564	46	16
$1,000-1,499	9,737	8,259	1,170	214	94
$1,500-1,999	7,519	7,110	187	137	85
$2,000-2,499	4,304	4,161	49	56	38
$2,500-2,999	1,951	1,893	30	13	15
$3,000-3499	890	857	21	4	8
$3,500-3,999	396	392	2	2	0
$4,000 or More	465	454	10	1	0
Totals	**65,566**	**48,914**	**15,391**	**859**	**402**

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

Number of Retired Members and Survivors by Type of Payment Option

as of December 31, 2006

Monthly Benefit	Maximum No Surivor	Joint 1/2 to Surivor	Joint Same to Surivor	Life Certain w/10 Yrs	Joint 3/4 to Survivor	Widowed Children Surivor	Life Certain w/5 Yrs	Life Certain w/15 Yrs	Other
$ - 99	3,099	249	291	45	33	10	21	60	1
100-199	3,919	625	533	90	84	63	21	60	
200-299	4,054	631	603	103	119	56	23	48	
300-399	3,757	588	644	91	139	47	28	54	
400-499	3,229	513	540	67	112	38	13	43	
500-599	2,763	447	486	50	129	22	15	45	
600-699	2,428	393	447	53	107	20	24	31	
700-799	2,090	352	349	46	125	11	10	27	
800-899	1,799	361	334	39	124	12	10	20	
900-999	1,543	354	306	38	115	6	9	20	
1,000-1,499	6,098	1,543	1,236	106	618	46	33	56	1
1,500-1,999	4,696	1,239	801	61	631	34	22	35	
2,000-2,499	2,655	786	377	33	407	13	22	11	
2,500-2,999	1,102	381	184	21	245	6	5	7	
3,000-3499	447	204	97	6	128	2	3	3	
3,500-3,999	185	84	42	4	78	1	2		
$4,000 +	183	118	62	4	96	1	1		
Totals	**44,047**	**8,868**	**7,332**	**857**	**3,290**	**387**	**260**	**523**	**2**

Average Monthly Benefit by Years of Service – New Retirees by Calendar Year

Service Credit	2002	2003	2004	2005	2006
Less Than 5	191	196	238	170	187
Average FAS*	$52,496.87	$33,823.54	$47,644.90	$25,256.68	$32,969.26
Average Benefit	$178.38	$111.97	$155.64	$90.24	$113.95
Average Years	2.33	2.27	2.24	2.45	2.37
5-9.99	201	218	226	256	288
Average FAS*	$18,956.74	$22,953.49	$26,505.53	$20,182.66	$20,093.39
Average Benefit	$197.94	$230.30	$262.46	$206.62	$205.12
Average Years	7.16	6.88	6.79	7.02	7.00
10-14.99	557	556	589	563	635
Average FAS*	$25,697.20	$24,859.74	$23,833.24	$24,246.67	$24,492.77
Average Benefit	$451.20	$429.97	$408.74	$419.72	$423.98
Average Years	12.04	11.86	11.76	11.87	11.87
15-19.99	496	515	558	616	675
Average FAS*	$27,739.63	$27,163.87	$29,693.54	$28,426.67	$28,566.71
Average Benefit	$684.88	$669.08	$730.09	$704.33	$706.55
Average Years	16.93	16.89	16.86	16.99	16.96
20-24.99	454	432	498	517	564
Average FAS*	$29,640.65	$31,708.41	$31,693.26	$33,270.91	$33,508.65
Average Benefit	$952.70	$1,011.30	$1,013.59	$1,063.56	$1,071.16
Average Years	22.04	21.87	21.93	21.92	21.92
25-29.99	523	543	655	716	755
Average FAS*	$37,179.91	$38,278.47	$38,516.02	$39,604.88	$39,373.33
Average Benefit	$1,466.67	$1,515.03	$1,513.76	$1,562.33	$1,553.77
Average Years	27.05	27.14	26.95	27.05	27.06
30-34.99	703	667	735	853	884
Average FAS*	$41,244.99	$43,639.99	$42,559.75	$44,484.18	$44,267.48
Average Benefit	$1,918.15	$2,026.35	$1,965.64	$2,064.90	$2,053.55
Average Years	31.89	31.84	31.67	31.83	31.81
35-39.99	211	233	300	283	298
Average FAS*	$39,949.91	$42,617.91	$45,085.95	$43,401.42	$43,029.51
Average Benefit	$2,137.57	$2,278.46	$2,391.34	$2,322.88	$2,301.72
Average Years	36.69	36.66	36.37	36.70	36.68
40-44.99	68	66	61	70	74
Average FAS*	$36,820.11	$41,560.84	$37,838.23	$44,380.96	$43,857.36
Average Benefit	$2,221.94	$2,511.66	$2,298.83	$2,674.97	$2,645.33
Average Years	41.38	41.44	41.66	41.33	41.36
45-49.99	14	17	10	7	7
Average FAS*	$34,826.60	$31,583.64	$34,306.67	$29,042.65	$29,042.65
Average Benefit	$2,346.95	$2,129.79	$2,341.43	$1,966.49	$1,966.49
Average Years	46.21	46.24	46.80	46.43	46.43
50 and Over	7	4	9	1	2
Average FAS*	$35,338.91	$41,012.00	$30,129.38	$61,661.49	$40,939.59
Average Benefit	$2,805.10	$3,325.39	$2,328.75	$4,496.15	$3,015.03
Average Years	54.43	55.60	53.00	50.00	50.50
Total Number	**3,425**	**3,447**	**3,879**	**4,052**	**4,366**
Average FAS*	$35,292.41	$36,721.36	$37,166.22	$38,021.36	$37,694.15
Average Benefit	$1,129.21	$1,164.22	$1,182.66	$1,243.14	$1,217.05
Average Years	21.94	21.74	21.82	22.42	22.14

**Average Final Average Salary*

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

2007 Comprehensive Annual Financial Report

Kansas Public Employees Retirement System

A component unit of the State of Kansas

Fiscal year ended June 30, 2007

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