# TRUSTED PARTNER

KPERS

Kansas Public Employees Retirement System

*a component unit of the State of Kansas*

The fiduciary standard is our driving force.

That means we put the interest of our members first.

It is the highest standard of care and accountability.

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

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

# 2010 Comprehensive Annual Financial Report

Kansas Public Employees Retirement System
A component unit of the State of Kansas
Fiscal year ended June 30, 2010

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

Glenn Deck, Executive Director
Leland Breedlove, Chief Fiscal Officer

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KANSAS

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

November 12, 2010

I am pleased to present the Kansas Public Employees Retirement System's Comprehensive Annual Financial Report (CAFR) for fiscal year 2010. In addition to informing the Board of Trustees, members and employers, our annual report fulfills KPERS' reporting responsibilities defined in Kansas statute. Printed copies are readily available to the public as well as a full version is posted on our web site, kpers.org.

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

## ENSURING ACCURACY

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

The Retirement System maintains a framework of internal controls to establish reasonable assurance that assets are safeguarded, transactions are completed accurately and financial statements are fair and reliable. We also have an internal audit program that reports to the Board of Trustees. There are inherent limitations to internal controls, and risk cannot always be foreseen or completely eliminated. KPERS' objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements, since the cost of internal control should not exceed the benefits obtained. In addition to internal controls, the independent certified public accounting firm Cochran Head Vick & Co., P.A. conducted an independent audit of the Retirement System's financial statements for 2010.

## OUR PROFILE

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

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

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

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

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

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

## INVESTMENTS

KPERS' assets are invested according to the "prudent expert standard of care" for the sole purpose of providing benefits to our members. Our actuarial projections currently assume an average, long-term investment return of 8 percent. In some years, returns will be below that rate, and in others, returns will exceed it. Healthy returns over time are essential for proper funding.

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

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

For more information about KPERS diversified and disciplined approach to executing our investment strategy and policies, please refer to the investment section in this report, beginning on page 52. This section also provides details about our asset allocation and specific yields.

## FINANCIAL POSITION AND FUNDING OUTLOOK

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

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

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

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

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

## MAJOR INITIATIVES

**SMART Implementation**

KPERS participated in the implementation of the State's new financial management system (SMART). We contributed extensive staff hours on interfaces with the KITS system for benefit payments, receipts, accounts payable, and other KPERS accounting requirements.

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

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

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

**Member Service and Communication**
Initiatives relating to member service and communication included:

- Released the Member Web Portal to all active members, providing them with secure, online access to their account information. Currently have approximately 20,000 members (approximately 13 percent of all active members) enrolled in the MWP.

- Began offering bilingual call center service and support to members and survivors who speak Spanish only or prefer discussing benefit issues in Spanish.

- Rolled out the "My Retirement Outlook" calculator with the State's deferred compensation plan. The calculator integrates retirement income projections for KPERS, Social Security, and personal savings/assets. KPERS and Social Security information is pre-loaded. Members do not need to be participants in the deferred compensation plan to use the calculator.

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

## AWARDS & ACKNOWLEDGEMENTS

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

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

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

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Retirement System for the 2009 CAFR. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

To be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which must conform to program standards. The 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 16 consecutive fiscal years. We believe our current report again conforms to the program requirements, and we will submit it to the GFOA for consideration.

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

Sincerely,

Glenn Deck
Executive Director

## BOARD OF TRUSTEES



## OUR ORGANIZATION

**Board of Trustees**

**Executive Director**, Glenn Deck

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

**Investments**
Chief Investment Officer, Vince Smith
- Equity Investments
- Real Estate Investments
- Fixed Income Investments
- Alternative Investments

**Fiscal Services**
Chief Fiscal Officer, Leland Breedlove
- Corporate Accounting
- Employer Reporting
- Investment Accounting

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

**Information Resources**
Chief Information Officer, John Oliver
- Data Control
- Operations

## KPERS STAFF

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

## CONSULTANTS AND ADVISORS

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

**Actuary:** Milliman, Inc., Omaha, Nebraska

**Investment Consultants**
Pension Consulting Alliance, Inc., Encino, California
The Townsend Group, Cleveland, Ohio
LP Capital Advisors, Sacramento, California

**Investment Managers**
Acadian Asset Management, Boston, Massachusetts
AEW Capital Management, LP, Boston, Massachusetts
Alliance Bernstein, New York, New York
Baillie Gifford Overseas Limited, Edinburgh Scotland
Baring Asset Management Limited, London, UK
BlackRock Institutional Trust Company, San Francisco, California
Brookfield Redding, LLC, Chicago, Illinois
Capital Guardian Trust Company, Los Angeles, California
Duff & Phelps Investment Management Company, Chicago, Illinois
ING Investment Management Company, Hartford, Connecticut
JP Morgan Investment Management Inc., New York, New York
Lazard Asset Management, LLC, New York, New York
Loomis, Sayles & Company, LP, Boston, Massachusetts
MacKay Shields, LLC, New York, New York
Mellon Capital Management Corporation, San Francisco, California
Morgan Stanley Asset Management Inc., New York, New York
Morgan Stanley Real Estate Advisor Inc., Atlanta, Georgia
Nomura Asset Management, Inc., New York, New York
Pacific Investment Management Company, Newport Beach, California
Pareto Partners, New York, New York
Payden & Rygel Investment Counsel, Los Angeles, California
Principal Global Investors, Des Moines, Iowa
Quantitative Management Associates, Newark, New Jersey
Russell Investment Group, Tacoma, Washington
Security Investors, LLC, Topeka, Kansas
Systematic Financial Management, LP, Teaneck, New Jersey
TCW Asset Management Company, Los Angeles, California
T. Rowe Price Associates, Inc., Baltimore, Maryland
Templeton Investment Counsel, LLC, Ft. Lauderdale, Florida
Wellington Management Company, LLP, Boston, Massachusetts
Western Asset Management Company, Pasadena, California

**Investment Custodian**: Bank of New York Mellon, Everett, Massachusetts

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

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

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

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Kansas Public Employees Retirement System

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

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

President

Jeffrey R. Emer

Executive Director

# FINANCIAL SECTION

KPERS

CHV & Co

COCHRAN HEAD VICK & CO., P.A.

*Certified Public Accountants*

1333 Meadowlark Lane
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## Independent Auditors' Report

Board of Trustees
Kansas Public Employees Retirement System:

We have audited the accompanying statement of plan net assets of the Kansas Public Employees Retirement System (the System), a component unit of the State of Kansas, as of June 30, 2010, and the related statement of changes in plan net assets for the year then ended. These basic financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The summarized comparative financial information as of June 30, 2009, was audited by other auditors whose report dated December 10, 2009, expressed an unqualified opinion on those statements.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the plan net assets of Kansas Public Employees Retirement System as of June 30, 2010, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2010 on our consideration of the System's internal control over financial reporting and on our tests on its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

**Other Offices**

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

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

November 12, 2010 Cochran Hord Vick & Co, P.A.

## MANAGEMENT'S DISCUSSION & ANALYSIS

This section presents management's discussion and analysis of the Kansas Public Employees Retirement System's financial performance during the fiscal year that ended June 30, 2010. It is presented as a narrative overview and analysis in conjunction with the Executive Director's letter of transmittal.

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

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

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

**Financial Highlights**

- The System's net assets increased by $1.1 billion or 11 percent from $10.3 billion to $11.4 billion.

- As of December 31, 2009, the date of the most recent actuarial valuation, the Retirement System's funded ratio was 63.7 percent compared with a funded ratio of 58.8 percent for the prior year.

- The unfunded actuarial liability decreased from $8.3 billion at December 31, 2008, to $7.7 billion at December 31, 2009.

- On a market value basis, this year's investment rate of return was a positive 14.9 percent, compared with last year's return of a negative 19.6 percent.

- Retirement benefits paid to retirees and beneficiaries increased 6.0 percent from $1.0 billion in fiscal year 2009 to $1.06 billion in fiscal year 2010.

**Overview of the Financial Statements**

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

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

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

**Basic Financial Statements**

A Statement of Plan Net Assets as of June 30, 2010, and a Statement of Changes in Plan Net Assets for the fiscal year ended June 30, 2010, are presented with the previous year's comparative information. These financial statements reflect the resources available to pay benefits to retirees and other beneficiaries as of year end, as well as the changes in those resources during the year.

**Notes to the Basic Financial Statements**

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

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

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

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

Note 4 provides information about other post employment benefits that the System administers. The Governmental Accounting Standards Board issued GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, which was effective for periods beginning after December 15, 2005. As part of the reporting requirements declared by this statement, the financial status and activity of the KPERS Death and Disability Plan are displayed separately in the Statement of Net Assets and the Statement of Changes in Plan Net Assets. Required supplemental schedules display the funded status and funding progress of the plan, and the significant methods and assumptions used. As noted in the funding status schedules, the KPERS group insurance reserve fund is 10.9 percent funded as of June 30, 2008, the last date of the actuarial valuation of the Death and Disability Plan.

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

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

**Required Supplementary Information**

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

**Other Supplementary Schedules**

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

**Financial Analysis of the Retirement System**

The System provides benefits to State of Kansas and other local and school employees. Benefits are funded by member and employer contributions and by investment earnings. Net assets held in trust for benefits at June 30, 2010, amounted to $11.4 billion, an increase of $1.1 billion, 11.0 percent, from $10.3 billion at June 30, 2009. Following are two summary schedules, Plan Net Assets and Changes in Plan Net Assets, comparing information from fiscal years 2009 and 2010.

Summary Comparative Statements of Plan Net Assets

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

Summary Comparative Statements of Changes in Plan Net Assets

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

Additions to the System's net assets held in trust for benefits include employer and member contributions, as well as investment income. Total contributions to the Retirement System increased from $764.2 million in fiscal year 2009 to $811.2 million in fiscal year 2010.

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

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

At June 30, 2010, the System held $5.5 billion in U.S. equity and international equity securities, an increase of approximately $334.0 million from the 2009 fiscal year. U.S. equity and international equity securities earned returns of approximately 18.1 percent and 10.9 percent, respectively, for the 2010 fiscal year. These compare with the Retirement System's benchmark returns of 15.7 and 10.5 percent, respectively.

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

The Retirement System earns additional investment income by lending investment securities to brokers. The brokers provide collateral to the System and generally use the borrowed securities to cover short sales and failed trades. The

Retirement System invests cash collateral received from the brokers in order to earn interest. For the fiscal year 2010, net securities lending income amounted to $4.6 million, compared with a loss of $20.6 million in fiscal year 2009.

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

**Retirement Funding Status**

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

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

*May not add due to rounding

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

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

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

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

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

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

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

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

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

## Statement of Plan Net Assets

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

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

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

## Statement of Changes in Plan Net Assets

For the fiscal year ended June 30, 2010, with comparative figures for 2009

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

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

## NOTE 1: PLAN DESCRIPTION

**Plan Membership**

The Kansas Public Employees Retirement System (the Retirement System, or the System) is a body corporate and an instrumentality of the State of Kansas. The Retirement System is an umbrella organization administering the following three statewide pension groups under one plan, as provided by K.S.A. 74, article 49:

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

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

Membership by Retirement Systems (1)

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

1) Represents System membership at December 31, 2009.

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

Number of Participating Employers

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

**Plan Benefits**

Members (except KP&F members) with ten or more years of credited service, may retire as early as age 55 (KP&F members may be age 50 with 20 years of credited service), with an actuarially reduced monthly benefit. Normal retirement is at age 65, age 62 with ten years of credited service, or whenever a member's combined age and years of credited service equal 85 "points" (KP&F members' normal retirement ages are age 60 with 15 years of credited service, age 55 with 20 years, age 50 with 25 years, or any age with 32 years of service). Monthly retirement benefits are based on a statutory formula that includes final average salary and years of service. When ending employment, members may withdraw their contributions from their individual accounts, including interest. Members who withdraw their accumulated contributions lose all rights and privileges of membership. For all pension coverage groups, the accumulated contributions and interest are deposited into and disbursed from the membership accumulated reserve fund as established by K.S.A. 74-4922.

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

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

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

**Contributions**

Member contributions (from 4.0 to 7.0 percent of gross compensation), employer contributions and net investment income fund Retirement System reserves. Member contribution rates are established by state law, and are paid by the employee according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates be determined based on the results of each annual actuarial valuation. The contributions and assets of all three systems are deposited in the Kansas Public Employees Retirement Fund established by K.S.A. 74-4921. All of the retirement systems are funded on an actuarial reserve basis (see Note 3). For fiscal years beginning in 1995, Kansas legislation placed a statutory limit of 0.1 percent of payroll on increases in contribution rates for KPERS employers. During the 1995 legislative session, the statutory limits were increased to 0.2 percent of payroll over the prior year for fiscal years beginning in 1996 for state and school employers. The statutory increase for local units of government was amended to limit increases to no more than 0.15 percent over the prior year for calendar years beginning in 1997. Annual increases in the employer contribution rates related to subsequent benefit enhancements are not subject to these limitations. Legislation passed in 2003 amended the annual increases in future years. The statutory cap for the State/School group increased to 0.4 percent in fiscal year 2006, with subsequent increases of 0.5 percent in fiscal year 2007 and 0.6 percent in fiscal year 2008 and beyond. Legislation passed in 2004 amended the annual increases in future years for local employers. The statutory cap for the Local group increased to 0.4 percent in calendar year 2006, with subsequent increases of 0.5 percent in fiscal year 2007 and 0.6 percent in fiscal year 2008 and beyond. The amortization period for the unfunded liability of all three systems is 40 years from July 1, 1993.

## NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Reporting Entity**

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

**Other Employee Benefit Plan**

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

**Measurement Focus and Basis of Accounting**

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

**Use of Estimates**

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

**Comparative Financial Information**

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the System's financial statements for the year ended June 30, 2009, from which the summarized information was derived.

**Cash and Deposits**

Custodial credit risk is when in the event a financial institution or counterparty fails, the Retirement System would not be able to recover the value of deposits that are in the possession of an outside party. The System advances cash deposits to a disability administrator for monthly disability benefits and death benefits for members who are disabled. As of June 30, 2010, the Retirement System's deposit with its disability administrator was $10,251. The Retirement System does not have a deposit policy for custodial credit risk associated with these deposits.

**Method Used to Value Investments**

Investments are reported at fair value. Securities traded on a national or international securities exchange are valued at the last reported sales price at current exchange rates. The fair value of real estate investments is based on independent appraisals. Fair value of other securities is determined by the mean of the most recent bid and asked prices as obtained from dealers that make markets in such securities. Fair values of the limited partnership investments are based on valuations of the underlying companies of the limited partnerships as reported by the general partner. Fair value of the commingled funds are determined based on the underlying asset values.

**Investments**

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

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

- Establishes the structure of the Board of Trustees, defines the Trustees' responsibilities, imposing the prudent expert standard upon their actions with respect to managing the assets of the Retirement System.

- Requires that the assets be invested to preserve capital and solely to provide benefits to members and the members' beneficiaries.

- Limits the possible allocation of common stock to 60.0 percent of the total book value of the fund.

- The annual allowance for new alternative (non-publicly traded) investments is limited to 1.0 percent of the market value of the total investment assets of the fund as measured from the end of the preceding calendar year.

- Establishes limits on the structure of future investments in real estate or alternative investments.

- Requires that the Board develop investment policies and objectives to invest fund assets.

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

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

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

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

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

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

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

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

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

- Substitution: In substitution for "cash market" securities/positions, or for modifying portfolio positioning in lieu of cash market transactions.

- Derivative-based Strategies: As a structural part of an investment strategy.

- Efficiency/Cost Effectiveness: Efficiency and/or cost effectiveness in implementing: portfolio construction, trading, portfolio strategy or managing a portfolio's risk/return profile.

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

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

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

The Retirement System's Statement of Investment Policy authorizes participation in a securities lending program administered by the master global custodian, Bank of New York Mellon. The System receives income from the loan of the securities, in addition to the income which accrues to the System as owner of the securities. The securities loans are open contracts and therefore could be terminated at any time by either party. The type of securities lent include U.S. government securities, domestic and international equities, and domestic and international bonds. The borrower collateralizes the loan with either cash or government securities of 102.0 percent of fair value on domestic securities and 105.0 percent of fair value on international securities loaned. Cash collateral is invested in the Retirement System's name in a dedicated short-term investment fund consisting of investment grade debt securities. The System does not have the ability to pledge or sell collateral securities without a borrower default. At June 30, 2010, the maturities of securities in this dedicated bond portfolio are as follows: 46.3 percent of the fair value of the securities mature within 30 days; 26.2 percent mature between 31 and 180 days; and 27.5 percent mature after 180 days. The custodian provides for full indemnification to the Retirement System for any losses that might occur in the event of borrower default. The Retirement System does incur credit risk as it relates to the credit quality of the securities in the collateral pool. The securities on loan are marked to market daily to ensure the adequacy of the collateral. The fair value of securities on loan as of June 30, 2010, and June 30, 2009, were $1,327,050,007 and $790,001,583, respectively. Collateral held by the Retirement System for June 30, 2010, and June 30, 2009, was $1,378,967,677 and $824,712,122, respectively. Net income produced from securities lending activities for fiscal year 2010 was $4,631,461 and for fiscal year 2009 was negative $20,617,367.

**Custodial Credit Risk.**

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

**Concentration Risk**

The System has investments in Federal National Mortgage Association issued securities that represent 2.5 percent of the total net asset value, and U.S. Treasury securities representing 7.1 percent of net asset value. KPERS investment policy does not prohibit holdings above 5 percent in the debt securities of U.S. government issuers. Government sponsored enterprises (GSEs, such as FNMA) are considered government issuers for the purpose of implementing KPERS investment policy. No other single issuer represents 1 percent or more of System assets.

**Currency Risk**

Currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. KPERS investments at June 30, 2010, were distributed among currencies in the following list.

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

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

The System's asset allocation and investment policies include active and passive investments in international securities. KPERS' target allocation is to have 22.0 percent of assets (excluding securities lending collateral) in dedicated international equities. The System also has 5.0 percent of assets targeted to global equities which are expected to be between 40.0 and 60.0 percent international. Core Plus bond managers are allowed to invest up to 20.0 percent of their portfolio in non-dollar securities. The System utilizes a currency overlay manager to reduce risk by hedging up to 50 percent of the foreign currency for selected international equity portfolios. At June 30, 2010, the System's total foreign currency exposure was 16.5 percent hedged.

**Credit Risk**

Credit risk is the risk that an issuer or other counterparty to a debt investment will not fulfill its obligations. The Retirement System's investment policies require Core and Core Plus managers to have at least 70.0 percent of holdings in investment grade securities. Each portfolio is required to maintain a reasonable risk level relative to its benchmark.

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

System assets (in thousands) as of June 30, 2010, subject to credit risk are shown with current credit ratings below.

| Quality Rating | Commercial Paper | Corporate | Agency | U.S. Govt | Securities Lending Collateral | Total |
|---|---|---|---|---|---|---|
| NR | $ 65 | $313,387 | $78,500 | $ — | $497,824 | $889,776 |
| AAA | 281 | 192,856 | — | 879,489 | 25,462 | 1,098,088 |
| AA | — | 157,805 | 437,243 | 11,430 | 258,054 | 864,532 |
| A | 37,347 | 736,715 | 1,689 | — | 361,254 | 1,137,005 |
| BBB | — | 639,245 | — | — | — | 639,245 |
| BB | — | 351,427 | — | — | — | 351,427 |
| B | — | 307,359 | — | — | — | 307,359 |
| CCC | — | 212,481 | — | — | — | 212,481 |
| D | — | — | — | — | 1,620 | 1,620 |
| Total | $37,693 | $2,911,275 | $517,432 | $890,919 | $1,144,214 | $5,501,533 |

### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investment policy requires Core and Core+ managers to be within 20.0 percent of their benchmark duration, and all fixed portfolios shall maintain a reasonable risk level relative to their benchmarks. The same System assets as above are also subject to interest rate risk. These are shown in the following ($ in thousands) grouped by effective duration ranges.

| Effective Duration | Commercial Paper | Corporate | Agency | U.S. Govt | Securities Lending Collateral | Total |
|---|---|---|---|---|---|---|
| 0 - 1 yr | $37,693 | $853,058 | $274,220 | $106,435 | $1,141,355 | $2,412,761 |
| 1 - 3 yrs | — | 416,952 | 138,548 | 314,206 | 2,859 | 872,565 |
| 3 - 5 yrs | — | 604,790 | 82,830 | 104,199 | — | 791,819 |
| 5 - 10 yrs | — | 830,177 | 1,468 | 305,855 | — | 1,137,500 |
| 10 - 20 yrs | — | 206,298 | 20,366 | 60,224 | — | 286,888 |
| Total | $37,693 | $2,911,275 | $517,432 | $890,919 | $1,144,214 | $5,501,533 |

Securities Lending Collateral policy limits the maximum average portfolio maturity of 90 days and only floating rate, and fixed rate asset-backed, securities may mature beyond 13 months.

### Investment Derivatives—Futures

Futures contracts are commitments for delayed delivery (liability) or receipt (asset) of securities in which the seller agrees to make delivery and the buyer agrees to take delivery at a specified future date, of a specified instrument, at a specified price. Market risk arises due to market price and interest rate fluctuations that may result in a decrease in the fair value of futures contracts. Futures contracts are traded on organized exchanges and require initial margin in the form of cash or marketable securities. Holders of futures contracts look to the exchange for performance under the contract. Accordingly, the credit risk due to nonperformance of counterparties to futures contracts is minimal. Daily, the net change in the futures contract value is settled in cash with the exchanges, making the fair values always equal to zero after the daily margin flow. At the close of business June 30, 2010 the System had total net margins payable the next day of $4,110,212. Cash equivalents and short-term investments in amounts necessary to settle the economic value of the futures contracts were held in the portfolio so that no leverage was employed in accordance with the Statement of Investment Policy. The daily margin flows effect cash assets held at broker. Realized gains/losses are recognized at contract maturity and included with underlying security type returns. Total revenues of $100.9 million were associated with futures for the year ending June 30, 2010.

### Investment Derivatives—Options

The Retirement System also participates in option contracts. These contractual agreements give the purchaser the right, but not the obligation, to purchase or sell a financial instrument at a specified price within a specified time. The option buyer has some counterparty risk in the event the seller can not deliver when exercised. This involves opportunity cost and possible loss of option fees. The option seller holds the securities and has minimal counterparty risk. Options strategies used by the Retirement System are designed to provide exposures to positive market moves and limit exposures to interest rate and currency volatility.

Investment Derivative Notional Values

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

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

**Investment Derivatives—Swaps**

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

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

**Investment Derivatives—TBA (To Be Announced) Agency Bonds**

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

Investment Derivative Fair Values

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

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

**Investment Derivatives—Foreign Currency Forwards**
The Retirement System's international investment managers use forward contracts to obtain currencies necessary for trade execution and manage the exposure of the international investments to fluctuations in foreign currency. Active international investment managers use forward contracts to enhance returns or to control volatility. Currency risk arises due to foreign exchange rate fluctuations. Forward foreign exchange contracts are negotiated between two counterparties. The Retirement System could incur a loss if its counterparties failed to perform pursuant to the terms of their contractual obligations. Since the System holds the offsetting currency in the contract, and controls are established by the investment managers to monitor the creditworthiness of the counterparties, risk of actual loss are minimized. The Retirement System also contracts with a currency overlay manager to hedge the currency exposure to the System's international equity portfolio.

Investment Currency Forwards

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

Hedging Currency Forwards

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

**Hedging Derivatives**

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

The Retirement System has ongoing foreign currency exposure through its international equities portfolio. At June 30, 2010 the market values of international equities was $2.84 billion. The System's exposure to foreign currencies is converted into a proxy basket of seven liquid currencies that are highly correlated to the movements of the underlying currencies. The weights to be used are calculated with reference to the liquidity and risk of each currency. There is appropriate statistical evidence that the proxy basket does track the currency exposure closely (residual standard deviation of less than one percent). This proves the intent is to hedge and qualifies as a designated hedge under Generally Accepted Accounting Principles. The forward contracts are purchased as needs are determined by the hedge manager, and mature in the nearest September or March. Gains/losses are realized during those periods and the contracts are rolled over to the next period as appropriate. Through these processes, hedging contracts can adapt to any changes to portfolio currency exposures. Since the hedging currency forwards track to the overall exposure, and they reference the same foreign exchange rates as the underlying portfolio, this hedge is known to be effective through consistent critical terms.

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

Investment Forwards Counterparty Exposure

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

Hedging Forwards Counterparty Exposure

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

**Capital Assets and Supplies Inventory**

Furniture, fixtures and equipment are reported on the Statement of Plan Net Assets at historical cost, net of accumulated depreciation. These assets are depreciated on a straight-line basis over an average useful life of three to ten years with no salvage value. Accumulated depreciation on furniture, fixtures and equipment as of June 30, 2010, was $10,336,742. Office supplies inventory in the amount of $20,448 is included, assuming the first-in, first-out method. In fiscal year 1999, the Retirement System purchased an office building and garage in Topeka, Kansas. Fifty percent of the floor space of the office building is used as the System's administrative headquarters and the remaining 50 percent is a real estate investment. The administrative portion of the building and garage are reported on the Statement of Plan Net Assets as a capital asset and are being depreciated. Accumulated depreciation on the administrative portion of the building and garage as of June 30, 2010 was $2,526,599. The office building and garage are being depreciated over a period of 33 years on an accelerated method. At June 30, 2010, the carrying value of the System's administrative headquarters was $1,293,104.

**Compensated Accrued Absences**

State employees accrue vacation leave based on the number of years employed up to a maximum rate of 6.5 hours per pay period, and may accumulate a maximum of 240 hours. Upon retirement or termination, employees are paid for accrued vacation leave up to their maximum accumulation.

State employees earn sick leave at the rate of 3.7 hours per pay period. Employees who terminate are not paid for unused sick leave. Employees who retire are paid a portion of their unused sick leave based on years of service and hours accumulated. The State uses the vesting method to compute the sick leave liability. The compensated absences liability will be liquidated by the State's governmental and internal service funds.

**Reserves**

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

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

The Members Accumulated Contribution Reserve represents the accumulation of member contributions, plus interest, credited to individual member accounts of non-retired members. At the date of retirement the individual member's account is transferred to the Retirement Benefit Payment Reserve. After ending employment and applying for withdrawal, employee contributions, plus accumulated interest, are charged to this reserve. Interest is credited to active member accounts on June 30 each year, based on the balance in the account as of the previous December 31. The interest crediting rate, defined by statute as the actuarial interest assumption rate, is 8.0 percent for those who became members prior to July 1, 1993. For those who first became members after June 30, 1993, interest on employee contributions is credited at the rate of 4.0 percent per year. The balance at June 30, 2010, was $5,132,772,778, and was fully funded.

The Retirement Benefit Accumulation Reserve represents the accumulation of employer contributions, net investment income not credited to any other reserve, and the actuarially computed prior service liability not yet funded. The balance at June 30, 2010, was $5,417,496,698. The unfunded liability was $7,676,985,410. The Retirement Benefit Payment Reserve represents the actuarially computed present value of future benefits for retired members plus interest credited for the current fiscal year, based upon information as of the preceding January 1. The balance at June 30, 2010, was $8,459,191,163. The Expense Reserve represents investment income which is sufficient to maintain a year end account balance at two times the most recent fiscal year's administrative expense amount. The System's administrative expenses are financed from this reserve. The balance at June 30, 2010, was $20,309,100, and was fully funded. The Optional Term Life Insurance Reserve accumulates employee contributions to pay premiums for optional life insurance coverage and is charged annually with the cost of administering the program.

**Budget**

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

**Retirement System Employees' Pension Plan**

As an employer, the Retirement System participates in KPERS, a cost sharing, multi-employer defined benefit pension plan. KPERS provides retirement, disability, withdrawal and death benefits to plan members and beneficiaries as authorized by Kansas law. Funding is accomplished through member and employer contributions and investment earnings, according to Kansas Law. Plan members contribute 4.0 or 6.0 percent of their annual salary. In fiscal year 2010, the regular employer contribution rate was 7.57 percent of covered payroll. In addition, KPERS contributed an additional 1.0 percent of covered payroll to the group insurance fund. Total payroll was $3,869,793, $4,132,578 and $4,190,789 for 2008, 2009 and 2010, respectively. KPERS contributed $258,696, $282,130 and $323,173 for 2008, 2009 and 2010 respectively, to the employees pension plan and group insurance fund. All contributions required by law were made in fiscal years 2008, 2009 and 2010.

**Non-Retirement Fund**

Legislation passed in 2000 assigned to the Retirement System the investment responsibilities of non-retirement money. The Treasurer's Unclaimed Property Fund was established to provide investment earnings available for periodic transfer to the State Treasury for the credit of the State General Fund. Legislation was also provided to defray the reasonable expenses of administrating these funds. Investments under management for the Treasurer's Unclaimed Property Fund were $192,763,074 at June 30, 2010.

**Pending Governmental Accounting Standards Board Statements**

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

## NOTE 3: FUNDING POLICY

**Funding**

The law governing the Retirement System requires the actuary to make an annual valuation of the System's liabilities and reserves and determine the contribution required to discharge the System's liabilities. The actuary then recommends to the System's Board of Trustees the employer contribution rates required to maintain the Retirement System on the actuarial reserve basis. Every three years, the actuary makes a general investigation of the actuarial experience under the System including mortality, retirement and employment turnover. The actuary recommends actuarial tables for use in valuations and in calculating actuarial equivalent values based on such investigation. An actuarial experience study was conducted for the three years ending December 31, 2006. As a result of this study, the Board of Trustees adopted new assumptions in regard to retirement rates, mortality rates, termination rates and salary growth.

**Pension Obligation Bonds**

In September 2003, the State of Kansas issued $40,250,000 of Series 2003 H State pension funding bonds. Of the total amount of the bond issue, $15,350,000 of the bond proceeds were used for the purpose of financing the unfunded actuarial liability of certain Board of Regents members. In addition, the State of Kansas contributed an additional $2.0 million cash payment.

The remaining bond proceeds of $24,900,000 were used for the purpose of financing the unfunded actuarial liability of those members who retired prior to July 2, 1987, and are entitled to a Retirement Dividend payment pursuant to K.S.A. 74-49,109. Beginning in fiscal year 2005 state's employer contribution rates for the State KPERS, School, State KP&F and Judges groups included an additional amount to finance the debt service payments for this portion of the bonds. In fiscal year 2010 KPERS transferred to the State of Kansas $3,214,134 in additional contributions for the debt service payments.

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

**Changes in Unfunded Actuarial Liability**

The actuary has estimated the change in the unfunded actuarial liability between December 31, 2008, and December 31, 2009, can be attributed to the following ($ in millions):

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

**Contributions Required and Contributions Made**

KPERS. The actuarially determined contribution rates are computed as a level percentage of payroll by the Retirement System's actuary. For the State/School and Correctional members, the results of December 31, 2005, and December 31, 2006, actuarial valuations provide the basis for Board certification of employer contribution rates for fiscal years 2009 and 2010. As explained in Note 1, legislation has limited the amounts that employers are required to contribute for State, School, and Local employees, which has resulted in lower employer contribution rates as compared with the actuarially determined rates. The actuarially determined employer contribution rates (not including the 1.0 percent contribution rate for the Death and Disability Program) and the statutory contribution rates are as follows:

State/School

| Fiscal Year | Actuarial Rate | Statutory Rate |
|---|---|---|
| 2009 | 10.86% | 6.97% |
| 2010 | 10.98% | 7.57% |

Correctional

| | | |
|---|---|---|
| 2009 | 9.19% / 9.04% | 7.44% / 7.30% |
| 2010 | 9.27% / 9.22% | 8.04% / 7.90% |

Included in the fiscal year 2009 and 2010 rates is the bond debt service rate of 0.80 percent collected by KPERS to transfer to the State general fund for the debt service payments of the 13th Check Pension Obligation Bonds.

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

Local

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

KP&F. The uniform participating service rate for all KP&F employers was 13.51 percent for the fiscal year beginning in 2009 and 12.86 percent for the fiscal year beginning in 2010. KP&F employers also make contributions to amortize the liability for past service costs, if any, which are determined separately for each participating employer.

Judges. The total actuarially determined employer contribution rate was 22.08 percent of payroll for the fiscal year ended 2009 and 20.50 percent of payroll for the fiscal year ended 2010.

The law specifies employee contributions as: Each participating employer, beginning with the first payroll for services performed after the entry date, shall deduct from the compensation of each member an amount equal to 4.0 or 6.0 percent for KPERS members, 7.0 percent for KP&F members, and 6.0 percent for Judges members as the member's employee contributions.

All required contributions have been made as follows:

Employer and Employee Contributions
(in thousands)

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

An estimated $556 million of employer and employee contributions were made to cover normal cost, an estimated $218 million was made for the amortization of the unfunded actuarial accrued liability.

1) Member contributions do not include Optional Life Insurance contributions of approximately $7 million.

**Funding Status and Funding Progress**

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

(in thousands)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b - a)/c) |
|---|---|---|---|---|---|---|
| 12/31/09 | $13,461,221 | $21,138,206 | $7,676,985 | 64% | $6,532,496 | 118% |

The schedule of funding progress, presented as required supplement information (RSI) following the notes to the financial statements, presents multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the Actuarial Accrued Liability for benefits. Additional information as of the latest actuarial valuation follows:

| | KPERS | KP&F | Judges |
|---|---|---|---|
| Valuation Date | 12/31/2009 | 12/31/2009 | 12/31/2009 |
| Actuarial cost method | Entry Age Normal | Entry Age Normal | Entry Age Normal |
| Amortization method | Level Percent closed | Level Percent closed | Level Dollar closed |
| Remaining amortization period | 23 years | 23 years | 23 years |
| Asset valuation method | Difference between actual return and expected return on market value recognized evenly over five-year period. Value must be within corridor of 80 percent to 120 percent of market value. | | |
| Actuarial assumptions: | | | |
| Investment rate of return [1] | 8% | 8% | 8% |
| Projected salary increases [1] | 4.0% - 12.0% | 4.0% - 12.5% | 4.5% |
| Cost of Living Adjustment | none | none | none |

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

## NOTE 4: OTHER POST EMPLOYMENT BENEFIT PLAN — KPERS DEATH AND DISABILITY PLAN

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

**Summary of Significant Accounting Policies**

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

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

**Plan Membership and Benefits**

Members in the Death and Disability Plan consisted of the following at June 30, 2008, the date of the last actuarial valuation:

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

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

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

**Contributions and Funded Status**

Prior to fiscal year 2000, employer contributions for group life insurance and long-term disability income benefits were set by statute at 0.6 percent of covered payroll for KPERS and Board of Regents Institutions and 0.4 percent for Judges. Legislation passed in 2000 and 2001 placed a moratorium on contributions related to the group life insurance and disability benefits effective for the period April 1, 2000, through December 31, 2001. Calendar year 2002 and 2003 legislation placed additional moratoriums on contributions. Moratoriums were in effect for the period July 1, 2002, through December 31, 2002, and the period of April 1, 2003, through June 30, 2004. Legislation passed in 2005 increased the insurance contribution rate to 0.8 percent of covered payroll effective July 1, 2005, and to 1.0 percent on July 1, 2006. The rate for Judges remained at 0.4 percent. Again, legislation passed in early 2009 placed a moratorium on contributions related to the group life insurance and disability benefits effective for the period March 1, 2009, through November 30, 2009. For the period ending June 30, 2009, employers contributed over $36 million to the Plan.

The death and disability plan assets are held in the Group Insurance Reserve fund. At June 30, 2010, this reserve held net assets totaling $16,953,066. This reserve fund is funded from deposits from employer contributions and the respective investment income. Administrative expenses for the death and disability plan are funded from the accumulated investment income of the fund.

The funding status of the plan at December 31, 2008, the most recent actuarial valuation date: (in thousands)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b - a)/c) |
|---|---|---|---|---|---|---|
| 12/31/08 | $38,571 | $355,060 | $316,489 | 10.9% | $6,409,426 | 4.9% |

The GASB Statement No. 43 was first effective for fiscal years ending June 30, 2007. The actuarial valuation dated June 30, 2008, is the most recent actuarial valuation. Only the disability benefits and waiver of premium life insurance provision are included in the actuarial valuation.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions of future employment, mortality, and long term disability trends. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress (on page 45) presents multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

The accompanying schedule of employer contributions (on page 45) presents the amount contributed to the plan by employers in comparison to the actuarial required contribution (ARC) as determined by the actuarial valuation dated June 30, 2008, using GASB 43 requirements. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs for each year and amortize any unfunded liabilities over 15 years.

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

Actuarial Valuation Information — Death and Disability Plan

| | |
|---|---|
| Valuation Date. 6/30/2008 | |
| Actuarial cost method | Entry Age Normal |
| Amortization method | Level Percent, open |
| Remaining amortization period | 15 years |
| Asset valuation method | Market Value |
| Actuarial assumptions | |
| Investment rate of return (1) | 4.5% |
| Projected salary increases (1) | 4.0%–9.8% |
| Cost of Living Adjustment | none |

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

## NOTE 5: COMMITMENTS AND CONTINGENCIES

As of June 30, 2010, the Retirement System was committed to additional funding of $7,603,000 in the form of capital expenditures on separate account real estate holdings in the portfolio, $250,278,000 for commitments on venture capital investments, and $332,248,000 for capital calls on core and non-core real estate property trusts investments.

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

## NOTE 6: SUBSEQUENT EVENTS

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

REQUIRED SUPPLEMENTARY INFORMATION — RETIREMENT PLAN

## Schedule of Employer Contributions*

Fiscal year ended June 30

| Year | Annual Required Contribution | Percentage Contributed |
|---|---|---|
| 2001 | $249,356,715 | 77.6% |
| 2002 | 260,482,999 | 79.7 |
| 2003 | 282,329,785 | 78.9 |
| 2004 | 338,879,960 | 69.4 |
| 2005 | 381,791,085 | 68.6 |
| 2006 | 471,424,006 | 63.4 |
| 2007 | 531,292,151 | 63.9 |
| 2008 | 607,662,300 | 65.1 |
| 2009 | 660,833,664 | 68.0 |
| 2010 | 682,062,413 | 72.1 |

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

## Schedule of Funding Progress

(in thousands)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b - a)/c) |
|---|---|---|---|---|---|---|
| 12/31/00 (1) | $9,835,182 | $11,140,014 | $1,304,832 | 88% | $4,876,555 | 27% |
| 12/31/01 | 9,962,918 | 11,743,052 | 1,780,134 | 85 | 5,116,384 | 35 |
| 12/31/02 | 9,784,862 | 12,613,599 | 2,828,736 | 78 | 4,865,903 (2) | 58 |
| 12/31/03 | 10,853,462 | 14,439,546 (3) | 3,586,084 | 75 | 4,978,132 | 72 |
| 12/31/04 | 10,971,427 | 15,714,092 | 4,742,666 | 70 | 5,102,016 | 93 |
| 12/31/05 | 11,339,293 | 16,491,762 | 5,152,469 | 69 | 5,270,351 | 98 |
| 12/31/06 | 12,189,197 | 17,552,790 | 5,363,593 | 69 | 5,599,193 | 96 |
| 12/31/07 | 13,433,115 | 18,984,915 | 5,551,800 | 71 | 5,949,228 | 93 |
| 12/31/08 | 11,827,619 | 20,106,787 | 8,279,168 | 59 | 6,226,526 | 133 |
| 12/31/09 | 13,461,221 | 21,138,206 | 7,676,985 | 64 | 6,532,496 | 118 |

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

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

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

# REQUIRED SUPPLEMENTARY INFORMATION — DEATH AND DISABILITY PLAN

## Schedule of Employer Contributions

Fiscal year ended June 30

| Year | Annual Required Contribution | Percentage Contributed |
|---|---|---|
| 2006 | $71,763,879 | 82.6% |
| 2007 | 76,128,451 | 82.0 |
| 2008 | 75,414,841 | 48.2 |

## Schedule of Funding Progress

(in thousands)

| Actuarial Valuation Date | | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b - a)/c) |
|---|---|---|---|---|---|---|---|
| 06/30/06 | (1) | $18,724 | $354,150 | $335,426 | 5% | $5,716,896 | 6% |
| 06/30/07 | | 25,568 | 355,729 | 330,161 | 7 | 5,981,324 | 6 |
| 06/30/08 | | 38,571 | 355,060 | 316,489 | 11 | 6,409,426 | 5 |

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

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

## Schedule of Contributions

Fiscal year ended June 30, 2010

| | | | |
|---|---|---|---|
| Kansas Public Employees Retirement System | | | |
| State / School Contributions | | | |
| Members | $181,725,425 | | |
| Employers | 355,885,854 | | |
| Total State / School Contributions | | $537,611,279 | |
| | | | |
| Local Contributions | | | |
| Members | 68,951,386 | | |
| Employers | 100,576,352 | | |
| Total Local Contributions | | 169,527,738 | |
| | | | |
| Total Contributions KPERS | | | $707,139,017 |
| | | | |
| Kansas Police and Firemen's System | | | |
| State Contributions | | | |
| Members | 3,079,214 | | |
| Employers | 5,674,657 | | |
| Total State Contributions | | 8,753,871 | |
| | | | |
| Local Contributions | | | |
| Members | 27,275,254 | | |
| Employers | 53,805,791 | | |
| Total Local Contributions | | 81,081,045 | |
| | | | |
| Total Contributions KP&F | | | 89,834,916 |
| | | | |
| Kansas Retirement System for Judges | | | |
| State Contributions | | | |
| Members | 1,474,612 | | |
| Employers | 5,612,406 | | |
| Total State Contributions | | 7,087,018 | |
| | | | |
| Total Contributions - Judges | | | 7,087,018 |
| | | | |
| Optional Life Insurance | | | |
| Member Contributions | | | |
| State Employees | 3,688,124 | | |
| Local Employees | 3,422,012 | | |
| Total Contributions | | 7,110,136 | |
| | | | |
| Total Contributions - OGLI | | | 7,110,136 |
| | | | |
| Grand Total All Contributions | | | $811,171,087 |

## Schedule of Administrative Expenses

Fiscal year ended June 30, 2010

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

## Schedule of Investment Income by Asset Class

Fiscal year ending June 30, 2010

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

| **Manager and Custodian Fees and Expenses** | |
|---|---|
| Investment Manager Fees | (29,986,629) |
| Custodian Fees & Expenses | (781,450) |
| Other Investment Expenses | (1,841,971) |
| Total Investment Fees and Expenses | (32,610,050) |
| **Net Investment Income** | $1,485,967,505 |

## Schedule of Investment Management Fees and Expenses

Fiscal year ending June 30, 2010

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

# INVESTMENTS SECTION

KPERS

## CHIEF INVESTMENT OFFICER'S REVIEW

The investment portfolio of the Kansas Public Employees Retirement System represents all contributions to the plan, from both members and their employers, as well as all net earnings on these assets. Total assets at the end of fiscal year 2010 were $11.2 billion. KPERS' portfolio is managed for the long term in an effort to generate adequate returns to pay the benefits promised to members. To that end, the assets receive the benefit of a diversified, carefully monitored investment portfolio that includes stocks, bonds, real estate, alternative investments and cash.

**Asset Allocation**

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

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

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

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

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

**Investment Policy**

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

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

Among other things, the Statement establishes the criteria against which the investment managers retained are to be measured. In addition, it serves as a review document to guide ongoing oversight of the investment of the Fund as a yardstick of compliance with K.S.A 74-4901 et seq.

**Fiscal Year 2010 Performance**

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

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

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

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

## EQUITY INVESTMENTS

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

**Highlights**

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

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

**Portfolio Structure**

The publicly-traded equity portfolio has a target allocation of 55 percent of the System's total fund. The securities reside in three separate categories based on geographic areas around the world.

The largest category is comprised of domestic equity securities and represents 28.4 percent of the total fund. The System uses several strategies within the domestic equity portfolio, most of which are designed to add a small amount of value while controlling risk relative to the benchmark. The overall portfolio is benchmarked against the Russell 3000 Index, a broad index made up of the largest 3,000 domestic stocks. The index can be broken down further by company size, with the Russell 1000 Index representing the largest 1,000 stocks, the Russell Mid Cap Index representing the smallest 800 companies in the Russell 1000 Index, the Russell 2500 Index representing the smallest 2500 companies in the Russell 3000 Index and the Russell 2000 Index representing a group of the smallest capitalization stocks. Each strategy is measured against either a large cap, mid cap, small-mid cap or small cap benchmark. While no individual strategy is benchmarked against the Russell 3000 Index, collectively the strategies are assembled in such a way to approximate the index in terms of company size and industry weight.

In terms of size, the second category is the international equity portfolio, which represents 23.4 percent of the total fund and includes a notional value of $204.6 million of international futures exposure. Within this portion of the portfolio, seven separate equity strategies are used in an attempt to outperform the benchmark while keeping risk at a reasonable level. Investing in international securities brings with it another exposure that must be considered – currency risk. Given the amount allocated to foreign markets, it is important that the System consider how currency fluctuations impact the portfolio. To manage this exposure, the System utilizes two distinct strategies, one designed to hedge currency risk and another designed to take advantage of inefficiencies with the currency markets. The benchmark used for the international equity portfolio is the Morgan Stanley Capital International (MSCI) All Country World Index, excluding the United States (ex U.S.). This index has a total of 47 countries, 23 developed countries and 24 emerging countries, weighted by market capitalization. As of June 30, 2010, countries in this index accounted for over 71 percent of the world's equity capitalization, as reported by Morgan Stanley.

Global equities make up the final category and represent 5.0 percent of the total fund. The global portfolio consists of both domestic and international assets. The System employs two managers, both with a fundamental bottom-up research approach, to identify and invest in the best companies, regardless of their location. The global portfolio is benchmarked against the MSCI All Country World Index.

**Market Overview**

Equity markets around the world were generally up for the fiscal year ending June 30, 2010. Among the major developed markets, Greece performed the worst, returning (47.9) percent and Indonesia performed the best, returning 67.1 percent according to the MSCI All Country World Index, ex U.S.

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

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

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

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

**Performance**

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

| | |
|---|---|
| Domestic | 18.1 percent |
| International | 10.9 percent |
| Global | 12.7 percent |

In order to evaluate the returns of each equity component, it is useful to compare returns with an appropriate benchmark. The System's domestic equity portfolio had a value of $3.17 billion at the end of the fiscal year. For the fiscal year, the portfolio's return was up 18.1 percent. Mid capitalization securities outperformed large and small capitalization stocks, while small capitalization stocks outperformed large capitalization stocks with the Russell 1000 returning 15.2 percent, the Russell Midcap Value returning 28.9 percent, the Russell 2500 returning 24.0 percent, and the Russell 2000 returning 21.5 percent. The portfolio outperformed the Russell 3000 Index, which returned 15.7 percent. The majority of the outperformance was attributable to the expanded portable alpha program as well as allocations to small capitalization, small-mid capitalization and mid capitalization stocks. Taking a longer-term view, the returns for the domestic equity portfolio for the three- and ten-year periods were even with the Russell 3000 Index while the five-year period slightly underperformed the Russell 3000 Index.

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

The global equity strategy has been in place for a little more than five years. This component of the portfolio is staffed by two active managers, both of whom have built a team of analysts to invest in the best stocks regardless of where the company is domiciled. Over the last fiscal year, the global portfolio outperformed the MSCI All Country World Index, returning 12.7 percent compared to a return of 12.3 percent, respectively. Since the inception of the global mandates, one of the managers has underperformed by various degrees, but is improving.

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

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

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

**Investment Advisors**

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

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

Domestic Equity – Portable Alpha Portfolios
- Russell Investments
- Nomura Asset Management
- Capital Guardian Trust Company
- Western Asset Management
- Baring International Investment
- Baillie Gifford

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

Global Equity
- Wellington Management Company
- Capital Guardian Trust Company

Currency Management/Overlay
- Pareto Partners
- BlackRock

## FIXED INCOME INVESTMENTS

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

**Highlights**

At the January 2010 board meeting with staff recommendation, the board voted to terminate a core plus fixed income manager due to significant changes to the firm's ownership structure and key personnel departures. In March, the board voted to hire a replacement manager, returning KPERS' manager total to three core plus fixed income managers.

**Portfolio Structure**

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

Fixed Income Strategy Allocation as of June 30, 2010

| | Current Position | Target Aocation |
|---|---|---|
| Core Plus | 64.3% | 70% |
| Strategic | 35.7% | 30% |

**Market Overview**

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

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

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

**Performance**

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

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

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

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

**Investment Advisors**

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

Core Plus

- Pacific Investment Management Co.
- MacKay Shields
- T. Rowe Price

Strategic

- Loomis, Sayles & Company, Inc.
- Western Asset Management

## REAL RETURN INVESTMENTS

As of June 30, 2010, KPERS real return portfolio had a market value of $1.3 billion, representing 11.8 percent of the total fund. This allocation was below the target allocation of 14 percent and within the 4 percent bands around the target. The portfolio had a 12.3 percent return for the fiscal year, 280 basis points above the benchmark.

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

**Highlights**

- KPERS has been invested in credit-related strategies in the real return portfolio in order to take advantage of a 5.5 percent cash yield combined with the potential for capital appreciation.

- Significant time was spent researching and completing due diligence for the infrastructure and timber areas for potential investments. Two timber managers were hired and several timber investments were evaluated.

- Returns have been very positive since inception and well ahead of the benchmark.

**Portfolio Structure and Allocations**

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

**Market Overview**

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

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

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

**Performance**

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

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

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

**Investment Advisors**

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

TIPS (Index)
    Barclay's Global Investors
Investment Grade Credit Securities
    Western Asset Management

## REAL ESTATE INVESTMENTS

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

**Highlights**

- KPERS made one tactical investment in Core real estate specifically intended to take advantage of repricing commercial real estate markets. Additional commitments were made to sector specific investments focused on student housing, senior housing, medical office and storage assets, each of which is expected to take advantage of positive demographic and/or demand trends.

- The System's passive REIT strategy shifted to an active strategy during May 2009 and was fully funded in June 2009. As of June 2010, the strategy exceeded the benchmark index by 150 basis points. Two global REIT mandates transitioned to International mandates.

- $50 million in real estate capital was invested in a dedicated Preferred REIT strategy targeting yields in excess of 8 percent.

**Portfolio Structure**

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

The largest segment is "Core" real estate, which consists of a direct ownership of approximately 10 commercial properties in the United States, investment in a senior housing strategy, a direct (and fully funded) investment in one open ended commingled real estate fund, as well as the previously referenced commitment to a new open end commingled real estate fund. Core real estate investments currently comprise 53.8 percent of the System's real estate assets. This segment of the portfolio is expected to produce steady income while serving as an inflation hedge. Capital appreciation is typically not a significant portion of Core portfolio returns. The remaining 46.2 percent of the System's real estate investments are divided between "Non-Core" real estate and publicly-traded real estate securities.

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

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

Real Estate Strategy Allocation as of June 30, 2010

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

**Market Overview**

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

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

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

Credit availability within real estate, while still constrained, showed some initial signs of improvement over the course of the fiscal year. The commercial-mortgage-backed securities (CMBS) market, which had been effectively closed since early 2008, re-opened with several high quality deals and more than $10 billion in securitizations. In addition, balance sheet lenders have re-entered the picture over the past two quarters, thus providing additional options for investors. With the Federal Funds rate forecast to remain close to zero, lenders are expected to be able to offer loans at attractive spreads. Lastly, the government-sponsored enterprises (GSEs - Freddie Mac and Fannie Mae) have continued to be a capital source for multi-family investments, as well as both senior and student housing.

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

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

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

**Performance**

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

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

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

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

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

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

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

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

**Investment Advisors**

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

## ALTERNATIVE INVESTMENTS

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

**Highlights**

- Private equity program (PEP) portfolio's performance achieved a top-quartile ranking when compared to similar vintage year funds based on internal rate of return, net of fees and expenses.

- Three new funds were approved for investment including one middle market buyout fund and two funds focused on providing capital to companies to restructure their balance sheets or improve their capital structure.

- In September 2009, KPERS' board of trustees strengthened its policies to ensure that investment decisions are founded on independent, merit-based evaluation of investment opportunities. The policy requires private market funds to disclose placement agents' fees and services as well as political contributions to Kansas elected officials.

**Portfolio Structure**

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

The largest portfolio is the alternative investment portfolio (AIP) which represents approximately 73 percent of the market value of the asset class. From 1997 to 2001, AIP committed to 53 funds with 35 general partners in five styles: buyout, venture capital, mezzanine, distressed debt and natural resources. AIP's fund managers are actively pursuing exit strategies for their remaining holdings. For the fiscal year, AIP's funds distributed approximately $62.8 million of cash and securities which the System reinvested or used to pay benefits to retirees.

The next largest portfolio is the newly formed PEP. The PEP portfolio is actively seeking and making new commitments to private equity funds in three styles: buyout, venture capital/growth equity and special situations, including: distressed debt, mezzanine debt, natural resources and secondary private equity funds. Since the portfolio's inception in 2007, the System has committed $310 million to 13 funds. Of that total, $206 million remains to be contributed for investment. During the fiscal year, $70 million was committed to three new funds. The market value of the PEP portfolio increased to 27 percent of the asset class at the end of the fiscal year compared to approximately 14 percent at the beginning of the fiscal year. Over the next three to five years, the market value of the PEP portfolio will increase as the System continues to make commitments to new private equity funds each year. The PEP portfolio is expected to surpass the legacy AIP portfolio as a percentage of the asset class within the next few years.

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

**Market Overview**

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

As the credit markets began to recover in the fall of 2009, investment activity began to resume. Select opportunities were available for funds to invest in companies that needed capital and experienced management teams to turnaround revenues and earnings, such as distressed companies, or companies undergoing bankruptcy or reorganization. Conversely, traditional buyout funds invested slowly and with caution. Highly levered transactions were rare, as most companies were attempting to de-lever their balance sheets. For those transactions that did occur, the post-crisis buyout model required 50 percent to 60 percent equity compared to a low of 20 percent at the height of buyout activity. Unlike the prior fiscal year, many funds were able to take advantage of liquidity opportunities due to a revived IPO and credit market.

**Performance**

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

Alternative Investment Performance
as of June 30, 20010 (gross of fees)

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

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

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

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

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

**Investment Advisors**

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

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

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

As of June 30, 2010

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

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

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

b) Formerly Triumph Partners III, L.P.

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

## U.S. Equity Commissions

For the fiscal year ending June 30, 2010

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

## List of Largest Holdings (a)

As of June 30, 2010

Equities

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

Fixed Income

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

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

## Schedule of Investment Summary

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

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

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

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

# ACTUARIAL SECTION

KPERS

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August 20, 2010

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

Dear Members of the Board:

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

In preparing our report, we relied, without audit, on information (some oral and some in writing) supplied by the System's staff. This information includes, but is not limited to, statutory provisions, member data and financial information. We found this information to be reasonably consistent and comparable with information used for other purposes. The valuation results depend on the integrity of this information. If any of this information is inaccurate or incomplete, our results may be different and our calculations may need to be revised.

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

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

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

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

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

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

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

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

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

MILLIMAN, Inc.
Sincerely,

Patrice Beckham

Patrice A. Beckham, FSA, MAAA
Consulting Actuary

Brent A. Banister

Brent A. Banister, FSA, MAAA
Consulting Actuary

## ACTUARIAL OVERVIEW

The Kansas Public Employees Retirement System is an umbrella organization which administers the following three statewide pension groups: the Kansas Public Employees Retirement System (KPERS), the Kansas Police and Firemen's Retirement System (KP&F) and the Kansas Retirement System for Judges (Judges). This report presents the results of the December 31, 2009 actuarial valuations for each of the Systems.

The primary purposes of performing actuarial valuations are to:

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

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

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

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

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

December 31, 2009 Valuation

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

December 31, 2008 Valuation

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

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

2) For KP&F, the statutory contribution rate is equal to the "Uniform" rate. The rate shown is for local employers. The rate for State employers is 16.43 percent this year, which includes a payment of 0.51 percent for the debt service payment on the bonds issued for the 13th check. The uniform rate does not include the payment required to amortize the unfunded past service liability or any 15 percent excess benefit liability determined separately for each employer.

3) Contribution rates were recertified to the rates shown after the valuation report was issued.

Over the last decade, much time and effort has been devoted to improving the long-term funding outlook for KPERS. As a result of legislative changes, Board action and investment performance from 2003 to 2007, the System's long-term funding outlook improved, although the positive results for the System were highly dependent on attaining the 8 percent assumption in future years. Modeling indicated that investment returns below the 8 percent assumption could change the long-term funding outlook, particularly for the School group. The unprecedented negative investment experience in 2008 was a significant setback in the System's long-term funding. Although the investment return in 2009 was strong (approximately 23 percent) it has not reversed the damage done by the 2008 investment experience. As of the valuation date, the State and Local groups remain in actuarial balance (the statutory contribution rate is projected to converge with the actuarial required contribution (ARC) rate before the end of the amortization period (2033) if all actuarial assumptions are met in future years). For the School group, the statutory and actuarial contribution rates are not projected to converge before 2033 even if all assumptions are met in future years. This situation should continue to be closely monitored and further analysis performed in order to determine the appropriate actions to be taken. As the deferred investment losses are recognized in the next three years, the actuarial contribution rate is expected to increase. As this occurs, the shortfall between the actuarial and statutory contribution rates will grow and will produce increases in the UAL. As a result, the actuarial contribution rate is expected to increase until the ARC Date (defined as the date at which the actuarial and statutory contribution rates are equal) is reached.

The actuarial value of assets is approximately 15 percent higher than the pure market value, which equates to $1.7 billion. This is due to the use of an asset smoothing method and the delayed reflection of market experience in the actuarial value of assets. These deferred losses, which are significant, will be reflected in the actuarial value of assets over the next three years. However, the net impact of the deferred experience on the actuarial value of assets in future years will depend on actual investment experience during that period.

## EXPERIENCE - ALL SYSTEMS COMBINED

December 31, 2008 – December 31, 2009

In many respects, an actuarial valuation can be thought of as an inventory process. The inventory is taken as of the actuarial valuation date, which for this valuation is December 31, 2009. On that date, the assets available for the payment of benefits are appraised. The assets are compared with the liabilities of the System, which are generally in excess of assets. The actuarial process leads to a method of determining the contributions needed by members and employers in the future to balance the System assets and liabilities.

Changes in the Systems' assets and liabilities impacted the change in the actuarial contribution rates between the December 31, 2008 and December 31, 2009 actuarial valuations.

**Membership**

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

Change in Membership by Type

| | State | School | Local |
|---|---|---|---|
| 12/31/2008 (Starting count) | 24,374 | 87,948 | 36,247 |
| New actives | 3,623 | 7,071 | 8,482 |
| Nonvested Terminations | 437 | 3,849 | 1,189 |
| Elected Refund | 323 | 1,119 | 586 |
| Vested Terminations | 553 | 1768 | 941 |
| Total Withdrawals | 1,313 | 6,736 | 2,716 |
| Deaths | 32 | 54 | 45 |
| Disabilities | 89 | 87 | 75 |
| Early Retirements | 54 | 229 | 68 |
| Unreduced Retirements | 462 | 1,668 | 560 |
| Total Retirements | 516 | 1,897 | 628 |
| Other/Transfer | (42) | (197) | 68 |
| 12/31/2009 (Ending count) | 26,005 | 86,048 | 41,333 |

Change in Membership by Type (cont.)

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

**Assets**

As of December 31, 2009, the System had total funds when measured on a market value basis, of $11.8 billion, excluding assets held for the Group Insurance and Optional Life reserves. This was an increase of $1.9 billion from the December 31, 2008 figure of $9.9 billion.

The market value of assets is not used directly in the calculation of contribution rates. An asset valuation method is used to smooth the effect of market fluctuations. The smoothing method calculates the difference between the actual return and the expected return (assumed rate of return) on the market value of assets each year. The difference is recognized equally over a five-year period. The resulting value must be no less than 80 percent of market and no more than 120 percent of market.

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

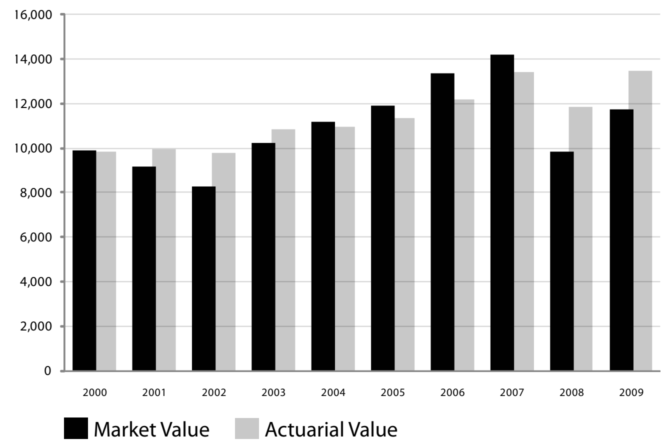
| | Market Value<br>$ millions | Actuarial Value<br>$millions |
|---|---|---|
| Assets, 12/31/08 | $9,856 | $11,828 |
| • Employer and Member Contributions | 747 | 747 |
| • Benefit Payments and Expenses | (1,058) | (1,058) |
| • Investment Income | 2,210 | 1,944 |
| Preliminary Asset Value, 12/31/09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

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

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

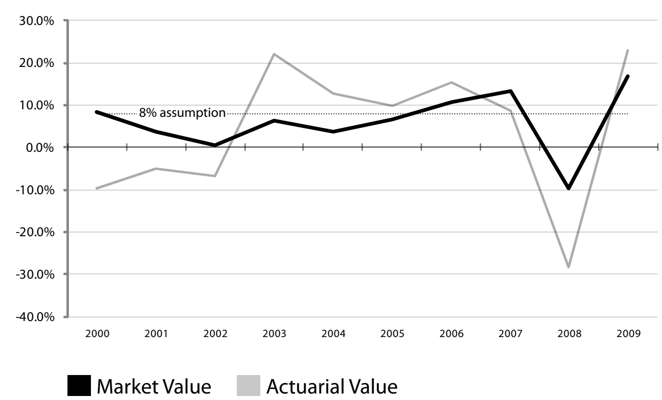
The actuarial value of assets has been both above and below the market value during the period, which is to be expected when using an asset smoothing method.

Total System Assets
by Calendar Year




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

System Asset Rate of Return
by Calendar Year




**Liabilities**

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

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

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

When the actuarial cost method was changed by the Legislature in 1993, the payment methodology for the unfunded actuarial liability (UAL) for all groups except the Judges System was set in statute as a level percentage of payroll over a 40-year closed period. Payments on the UAL increase 4 percent each year, the same as the payroll growth assumption. For over half of the amortization period, the payment is less than the interest accruing on the UAL. As a result, the dollar amount of UAL is expected to increase for many years before it begins to decline. In addition, with the planned difference in KPERS' statutory and actuarial contribution rates prior to the ARC Date, the unfunded actuarial liability is expected to increase by an additional amount each year.

Other factors influencing the UAL from year to year include actual experience versus that expected based on the actuarial assumptions (on both assets and liabilities), changes in actuarial assumptions, procedures or methods and changes in benefit provisions. The actual experience measured in this valuation is that which occurred during the prior plan year (calendar year 2009). The KPERS Local group and KP&F had a net liability loss for the year. The KPERS State and School groups and the Judges had liability gains for the 2009 year. There was an experience gain from investment return on the actuarial value of assets for all groups.

Changes in Unfunded Actuarial Liability for System as a Whole

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

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

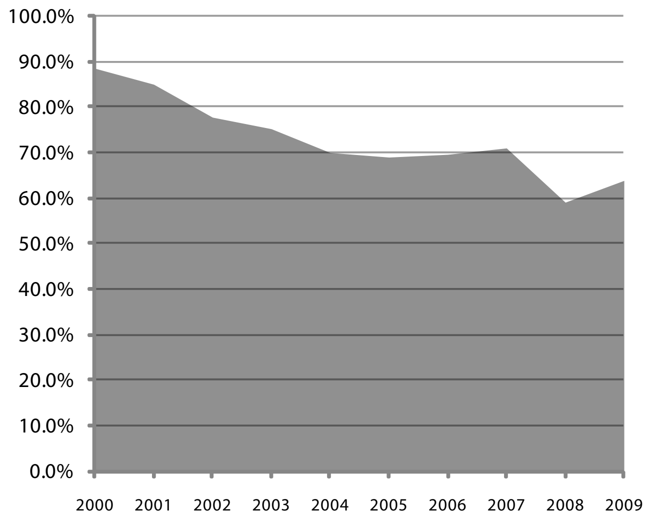
An evaluation of the UAL on a pure dollar basis may not provide a complete analysis since only the difference between the assets and liabilities is reflected. Another way to evaluate the UAL and funding progress is to track the funded status, the ratio of the actuarial value of assets to the actuarial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

Funded Ratio and Unfunded Actuarial Liability by Calendar Year

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

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

## Funded Ratio
by Calendar Year




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

**Contribution Rates**

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

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

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

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

The contribution rates in the December 31, 2009 valuation will set rates for fiscal year end 2013 for the State and 2012 for Local employers.

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

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

December 31, 2009 Valuation

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

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

2) For KP&F, the statutory contribution rate is equal to the "Uniform" rate. The rate shown is for local employers. The rate for State employers is 16.43 percent this year, which includes a payment of 0.51 percent for the debt service payment on the bonds issued for the 13th check. The uniform rate does not include the payment required to amortize the unfunded past service liability or any 15 percent excess benefit liability determined separately for each employer.

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

Contribution Rates for Correctional Groups

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

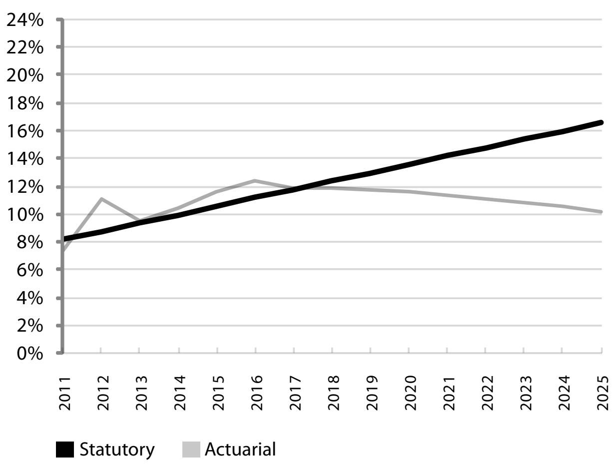
Due to statutory caps, the full actuarial contribution rate is not contributed for the School and Local groups. Based on the current valuation, there is a difference (shortfall) between the actuarial and statutory contribution rates of 0.18 percent, 5.32 percent and 2.10 percent respectively for the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

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

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

## Projected Employer Rates - State

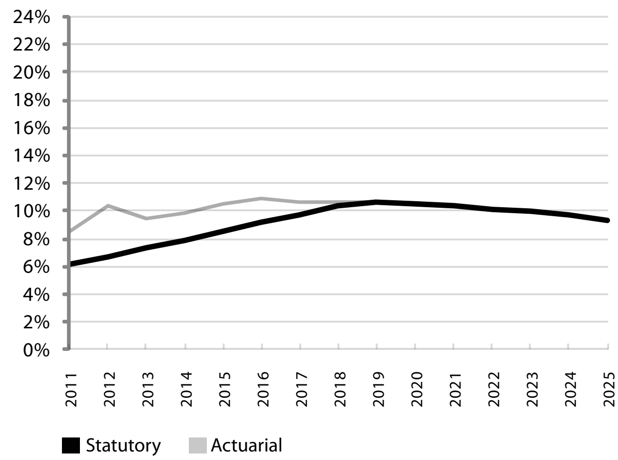
### Fiscal Year End




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

## Projected Employer Rates - Local

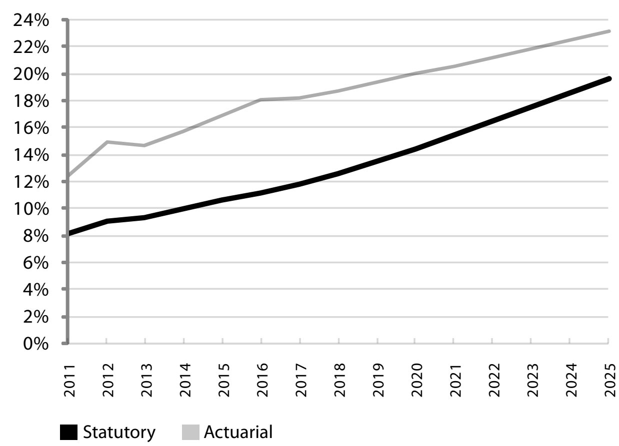
### Fiscal Year End




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

## Projected Employer Rates - School

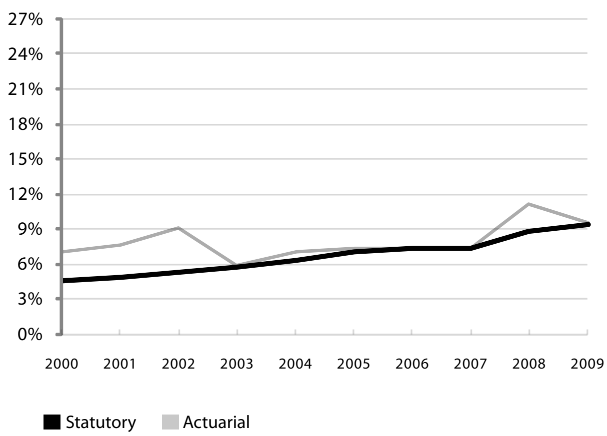
### Fiscal Year End




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

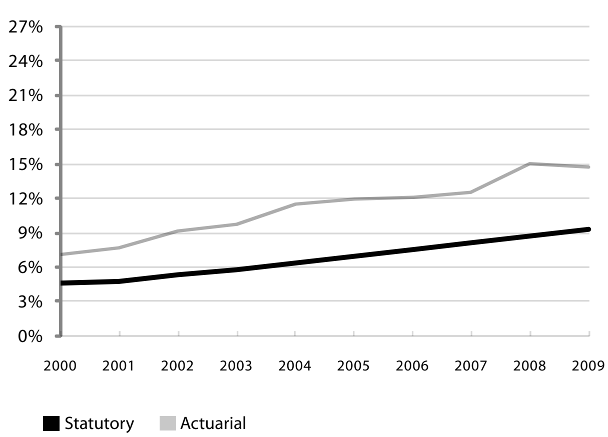
The split of the State group into a separate group with the 2003 valuation, coupled with the bond issue, lowered the actuarial contribution rate. The State's statutory contribution rate in this valuation is less than the actuarial contribution rate due to the impact of the 2008 investment experience.

### Employer Contribution Rates - State
Calendar Year End



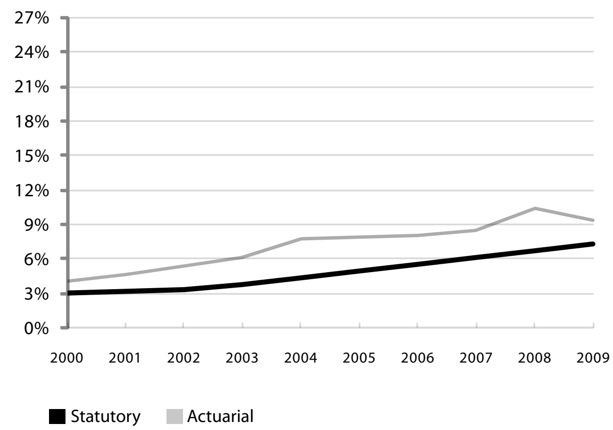

Due to investment experience, changes in actuarial methods and assumptions, and the magnitude of the difference between the actuarial and statutory contribution rates, the funded status of the School group has declined and the actuarial contribution rate has increased.

### Employer Contribution Rates - School
Calendar Year End



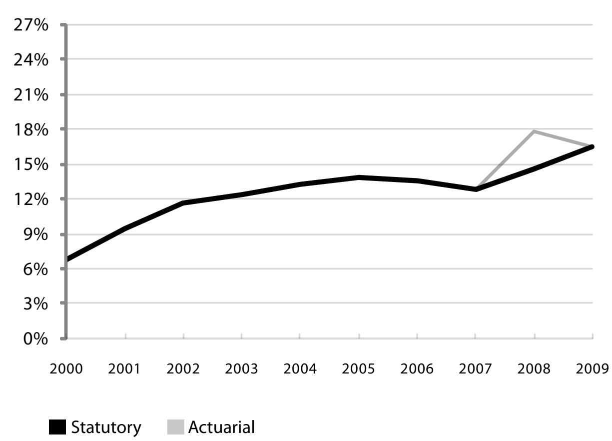

The Local contribution rate has also been impacted by changes in actuarial assumptions and methods as well as investment performance. As a result, a significant difference still exists between the statutory and actuarial contribution rate. Legislation passed in 2004 provided for increased statutory caps,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

### Employer Contribution Rates - Local
Calendar Year End




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

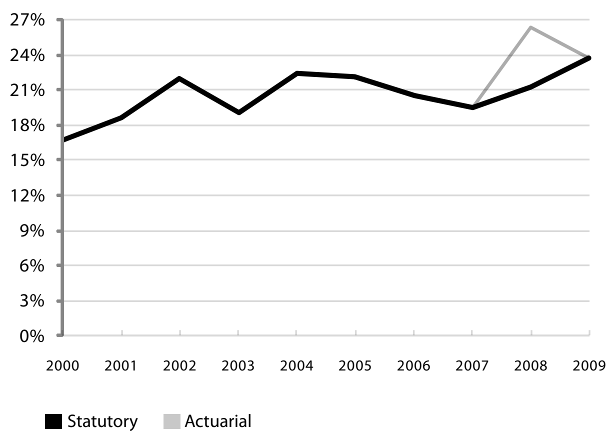
### Employer Contribution Rates - KP&F
Calendar Year End



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

## Employer Contribution Rates - Judges

Calendar Year End




**Comments**

Over the last decade the development of a comprehensive plan to address the long-term funding of KPERS has been a high priority. HB 2014, which was passed by the 2003 Legislature, increased the statutory cap on the State/School employer contribution rate from 0.20 percent to 0.40 percent in FY2006, 0.50 percent in FY2007 and 0.60 percent in FY 2008 and beyond. It also authorized the issuance of up to $500 million in pension obligation bonds (POBs). The POBs were sold and proceeds of $440.2 million were received on March 10, 2004. The debt service payments on the bonds are paid by the State in addition to the regular KPERS employer contribution rate.

The 2004 Legislature passed SB 520, which continued to address issues related to the long term funding of the System. It gave the KPERS Board of Trustees the authority to establish the actuarial cost method and amortization method/period. With this authority, the Board changed both the actuarial cost method and the asset valuation method with the December 31, 2003 actuarial valuation. SB 520 also increased the statutory cap for Local employers from 0.15 percent to 0.40 percent in FY2006, 0.50 percent in FY2007 and 0.60 percent in FY2008 and beyond.

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

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

Based on the December 31, 2009 actuarial valuation results and the current statutory caps, the statutory contribution rates for the State and Local groups are projected to converge with the actuarial required contribution (ARC) rate before the end of the amortization period. As a result, those groups are in long-term actuarial balance. However, these projections assume that all actuarial assumptions are met exactly in each future year and the statutory contributions continually increase. To the extent that actual experience deviates from that expected, the ARC Date (date at which the statutory and actuarial rates are expected to converge), as well as the ARC rate, will vary. For the School group, the unfavorable experience in 2008 has created the situation where the statutory contribution rate is not projected to reach the actuarial required contribution (ARC) rate before the end of the amortization period if assumptions are met. Future investment experience will be critical to the financial health of all groups, but particularly the School group. Additional analysis with respect to long-term funding is expected to continue later this year.

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

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

The asset smoothing method impacts only the timing of when the actual market experience on the assets will be recognized. Despite a return of over 23 percent on market value, the actuarial value of assets still exceeds the pure market value by approximately 15 percent due to the deferred investment experience in 2008. If there are not significantly higher returns consistently over the next few years, the deferred investment experience will be recognized and the ultimate impact on the employer contribution rate can be expected to be similar to the column shown above based on the market value of assets. Also, see the earlier graphs of projected contribution rates assuming an 8 percent rate of return in all future years.

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

## Summary of Change in UAL

12/31/09 Valuation (millions)

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

1) May not add due to rounding.

## Summary of Changes in UAL Contribution Rate by System

As of 12/31/09

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

1) Contribution rate for Local employers only.

2) A new benefit structure was established for the Judges' System in July, 1987. The normal cost rate is impacted by the change in the current benefit structure.

## Summary of Historical Changes in Total System UAL

(in millions)

| | 6/30/94 | 6/30/95 | 6/30/96 | 6/30/97 | 6/30/98 | 6/30/99 |
|---|---|---|---|---|---|---|
| Actual Experience vs. Assumed | | | | | | |
| • Investment | $(102) | $(143) | $(280) | $(323) | $(413) | $(360) |
| • Other | 320 | 72 | 136 | 157 | 104 | 46 |
| Assumption Changes | 0 | (96) | 0 | — | 350 | — |
| Changes in Data/Procedures | 244 | — | — | — | — | 21 |
| Change in Cost Method | — | — | — | — | — | — |
| Effect of Contribution Cap/Lag | [1] | 95 | 70 | 63 | 54 | 78 |
| Amortization Method | [1] | 47 | 38 | 35 | 32 | 30 |
| Change in Benefit Provisions | 75 | — | — | — | 88 | — |
| Bond Issue | — | — | — | — | — | — |
| Total | $537 | $(25) | $(36) | $(68) | $215 | $(194) |

| | 6/30/00 | 12/31/00 | 12/31/01 | 12/31/02 | 12/31/03 | 12/31/04 |
|---|---|---|---|---|---|---|
| Actual Experience vs. Assumed | | | | | | |
| • Investment | $(441) | $(23) | $350 | $644 | $140 | $456 |
| • Other | 99 | 84 | (9) | 68 | (32) | 16 |
| Assumption Changes | (206) | — | — | — | 437 | |
| Changes in Data/Procedures | 71 | 145[2] | 5 | 177[2] | (286)[3] | — |
| Change in Cost Method | — | — | — | 1,147 | — | |
| Effect of Contribution Cap/Lag | 66 | 60 | 115 | 143 | 178 | 179 |
| Amortization Method | 2 | 12 | 14 | 21 | 47 | 68 |
| Change in Benefit Provisions | 19 | — | — | 37 | 3 | 1 |
| Bond Issue | — | — | — | (41) | (440) | — |
| Total | $(164) | $72 | $475 | $1,048 | $757 | $1,157 |

| | 12/31/05 | 12/31/06 | 12/31/07 | 12/31/08 | 12/31/09 | Total |
|---|---|---|---|---|---|---|
| Actual Experience vs. Assumed | | | | | | |
| • Investment | $167 | $(293) | $(626) | $2,332 | $(1,011) | $74 |
| • Other | (84) | 139 | 99 | 78 | (70) | 1,223 |
| Assumption Changes | (5) | — | 384 | — | — | 864 |
| Changes in Data/Procedures | — | — | — | — | — | 377 |
| Change in Cost Method | — | — | — | — | — | 1,147 |
| Effect of Contribution Cap/Lag | 247 | 258 | 251 | 246 | 383 | 2,486 |
| Amortization Method | 84 | 83 | 78 | 71 | 96 | 778 |
| Change in Benefit Provisions | — | 24 | 2 | — | — | 249 |
| Bond Issue | — | — | — | — | — | (481) |
| Total | $409 | $211 | $188 | $2,727 | $(602) | $7,677 |

1) Not calculated for this year.

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

3) Change in asset valuation method.

## Summary of Principal Results – KPERS State

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

## Summary of Principal Results – KPERS School

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

*Statutory employer contribution rate may not exceed last year's rate by more than rate increase limit of 0.60 percent. This rate does not include the contribution for the death and disability program.

## Summary of Principal Results – KPERS State/School

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

## Summary of Principal Results – KPERS Local

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

* Statutory employer contribution rate may not exceed last year's rate by more than rate increase limit of 0.60 percent. This rate does not include the contribution for the death and disability program.

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

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

* The statutory employer contribution rate is equal to the actuarial rate. This is referred to as the "Uniform" rate, and varies for State and Local employers. The total contribution is equal to the appropriate uniform rate plus the payment required to amortize any unfunded past service liability or 15 percent excess benefit liability, determined separately for each employer.

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

## Summary of Principal Results – Retirement System for Judges

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

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

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

## Summary of Principal Results – All Systems Combined

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

## ACTUARIAL ASSUMPTIONS — KPERS

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

Rate of Investment Return 8.0 percent

Implicit Inflation Rate 3.25 percent

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

Rates of Mortality:
Post-retirement

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

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

Sample Rates

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

Pre-retirement

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

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

Rates of Salary Increase

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

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

Rates of Termination

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

Retirement Rates

School

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

| Early Retirement | | Normal Retirement | |
|---|---|---|---|
| Age | Rate | Age | Rate |
| 55 | 5% | 62 | 30% |
| 56 | 5% | 63 | 25% |
| 57 | 8% | 64 | 35% |
| 58 | 8% | 65 | 35% |
| 59 | 12% | 66-71 | 25% |
| 60 | 15% | 72-74 | 20% |
| 61 | 22% | 75 | 100% |

State

| 1st Year With 85 Points | | After 1st Year With 85 Points | |
|---|---|---|---|
| Age | Rate | Age | Rate |
| 53 | 10% | 53 | 15% |
| 55 | 15% | 55 | 15% |
| 57 | 15% | 57 | 12% |
| 59 | 15% | 59 | 12% |
| 61 | 30% | 61 | 25% |

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

Local

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

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

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

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

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

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

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

# ACTUARIAL ASSUMPTIONS – KP&F

| | |
|---|---|
| Rate of Investment Return | 8.0 percent |
| Implicit Inflation Rate | 3.25 percent |
| Marriage Assumption | 80 percent of all members assumed married with male spouse assumed to be three years older than female |

Rates of Mortality:

| | |
|---|---|
| Post-retirement | RP-2000 Healthy Annuitant Table |
| Pre-retirement | 90 percent of RP-2000 Employee Table* |

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

| | |
|---|---|
| Disabled Life Mortality | RP-2000 Disabled Life Table |

Rates of Salary Increase

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

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

Rates of Termination

Tier I

3 percent for ages less than 41

0 percent thereafter

Tier II

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

Retirement Rates

Tier I

| Early Retirement | | Normal Retirement | |
|---|---|---|---|
| Age | Rate | Age | Rate |
| 50 | 5% | 55 | 40% |
| 51 | 5% | 56 | 30% |
| 52 | 5% | 57 | 25% |
| 53 | 10% | 58 | 40% |
| 54 | 30% | 59 | 35% |
| | | 60 | 55% |
| | | 61 | 20% |
| | | 62 | 100% |

Retirement Rates (cont.)

Tier II:

| Early Retirement | | Normal Retirement | |
|---|---|---|---|
| Age | Rate | Age | Rate |
| 50 | 10% | 50 | 25% |
| 51 | 10% | 53 | 25% |
| 52 | 10% | 55 | 25% |
| 53 | 15% | 58 | 20% |
| 54 | 25% | 60 | 20% |
| | | 61 | 40% |
| | | 62 | 35% |
| | | 63 | 100% |

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

Rates of Disability

| Age | Rate* |
|---|---|
| 22 | 0.06% |
| 27 | 0.07% |
| 32 | 0.15% |
| 37 | 0.35% |
| 42 | 0.56% |
| 47 | 0.76% |
| 52 | 0.96% |
| 57 | 1.00% |

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

## ACTUARIAL ASSUMPTIONS - JUDGES

| | |
|---|---|
| Rate of Investment Return | 8.0 percent |
| Implicit Inflation Assumption | 3.25 percent |
| Rates of Mortality: | |
| Post-retirement | RP-2000 Healthy Annuitant Table, set back two years |
| Pre-retirement | 70 percent of RP-2000 Employee Table, set back two years |
| Rates of Salary Increase | 4.5 percent |
| Rates of Termination | None assumed |
| Disabled Life Mortality | RP-2000 Disabled Life Table, set back two years |
| Rates of Disability | None assumed |

Retirement Rates

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

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

## ACTUARIAL METHODS

**Funding Method**

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

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

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

**Asset Valuation Method**

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

## PLAN PROVISIONS — OVERVIEW

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

**Membership**

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

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

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

## PLAN PROVISIONS — KPERS (STATE, LOCAL AND SCHOOL)

**Employee Membership**

Membership is mandatory for all employees in covered positions, except elected officials. A covered position for non-school employees is one that is covered by Social Security, is not seasonal or temporary, and requires at least 1,000 hours of work per year. School employees who work at least 630 hours per year or 3.5 hours per day for 180 days are eligible for membership. Employees become members on their first day of employment in a KPERS-covered position. KPERS retirees may not become contributing members again.

**Tier 1**

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

**Tier 2**

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

**Board of Regents Plan Members (TIAA and equivalents)**

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

**Correctional Members**

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

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

Tier 1 Correctional Members: For groups (a) and (b) with at least three consecutive years of credited service in such positions immediately before retirement, normal retirement age is 55 and early retirement requirements are age 50 with ten years of credited service. For groups (c), (d), (e) and (f) with at least three consecutive years of service in such positions immediately before retirement, normal retirement age is 60 and early retirement requirements are age 55 with ten years of credited service. Both groups are also eligible for full benefits when age and service equal 85 "points."

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

**Member Contributions**

Tier 1 members contribute 4 percent of their gross earnings; Tier 2 members contribute 6 percent. Interest is credited to members' contribution accounts on June 30 each year, based on account balance as of the preceding December 31. Those who became members before July 1, 1993, earn 8 percent interest per year. Those who became members on and after July 1, 1993, earn 4 percent interest.

**Employer Contributions**

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

**Vesting Requirements**

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

**Retirement Age and Service Requirements**

Tier 1 Eligibility

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

Tier 2 Eligibility

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

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

**Retirement Benefits**

Benefits are based on the member's years of credited service, FAS and a statutory multiplier. At retirement a member may receive a lump-sum payment of up to 50 percent of the actuarial present value of the member's lifetime benefit. His or her monthly retirement benefit is then permanently reduced.

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

**Final Average Salary (FAS)**
Tier 1: *For those hired on or after July 1, 1993*, FAS is the average of their three highest years, excluding additional compensation, such as sick and annual leave.

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

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

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

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

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

**Working After Retirement**
A member must wait 60 days after his or her retirement date before working for any employer who participates in KPERS. If a retired member then goes to work for an employer he or she worked for during his or her last two years of KPERS participation, the member has a $20,000-per-year earnings limit.

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

**Withdrawal Benefit**
If members leave employment they can withdraw their account balance after 31 days. Members lose any rights and benefits when they withdraw from KPERS, such as insurance coverage. Members who return to covered employment within five years will not have lost any membership rights or privileges, if they haven't withdrawn contributions. The Retirement Act does not allow members to borrow from contributions. The employer portion of contributions remains with the System when a member ends employment and withdraws contributions.

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

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

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

The monthly accidental death benefit is in lieu of any joint/survivor benefit.

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

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

## PLAN PROVISIONS — KP&F

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

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

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

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

**Retirement Age and Service Requirements**
Tier I Eligibility
- Age 55 and 20 years of service
- Any age with 32 years of service

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

**Benefits**
Benefits are based on the member's Final Average Salary (FAS) and years of service. At retirement a member may receive a lump-sum payment of up to 50 percent of the actuarial present value of the member's lifetime benefit. His or her monthly retirement benefit is then permanently reduced. Annual benefits at normal retirement age equal FAS 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 the same state agency or the same police or fire department he or she worked for during his or her last two years of KP&F participation, the member has a $15,000-per-year earnings limit.

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

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

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

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

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

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

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

**Disability Benefits for Tier II Members**
There is no distinction between service-connected and non-service-connected disability benefits. Disability benefits equal 50 percent of FAS. Service credit is granted during the disability period. Disability benefits convert to age and service retirement as soon as the member is eligible for full retirement benefits. If the member is disabled for at least five years immediately before retirement, the member's FAS is adjusted by statute.

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

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

**Death Benefit for Inactive Members**
If an inactive member with 20 or more years of service dies and was not of retirement age, and the spouse is the sole beneficiary, then the spouse can elect one of the survivor options at the time the member would have first been of retirement age. If an inactive member is eligible to retire

when he or she dies, and the spouse is the sole beneficiary, the spouse may elect to receive benefits as a joint annuitant under any option instead of receiving the member's contributions.

**Death Benefit for Retirees**

The retiree's beneficiary receives a $4,000 lump sum. The beneficiary may assign this benefit to a funeral establishment. A retiree may also directly name a funeral establishment as beneficiary. If the member had selected an option with survivor benefits, benefits are paid to the joint annuitant or to the member's designated beneficiary.

Under joint and survivor retirement options, if the joint annuitant dies before the retired member, the reduced benefit payment is increased to the amount the retired member would have received if no retirement option had been selected. Benefits payable to a joint annuitant stops at the joint annuitant's death. If a member does not select an option, the designated beneficiary receives the excess, if any, of the member's accumulated contributions, plus interest, over total benefits paid to date of death.

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

## PLAN PROVISIONS — JUDGES

**Member Contributions**

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

**Employer Contributions**

Rates are certified by the Board of Trustees, based on results of annual actuarial valuations. The State of Kansas makes employer contributions at the actuarially required rate.

**Vesting Requirements**

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

**Retirement Age and Service Requirements**

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

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

**Retirement Benefit**

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

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

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

**Early Retirement**

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

**Working After Retirement**

Retired judges may enter into an agreement to work for up to 104 days at 25 percent of the current salary of a judge.

The agreement is for two years and may be renewed for up to 12 years. Retirement benefits will be suspended in any case where a retired judge is elected or appointed to a judgeship. The judge in that case resumes active participation and will accrue additional service credit. When the judge retires again, the retirement benefit is recalculated.

**Disability Benefits**

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

**Withdrawal Benefit**

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

**Death Benefit for Active Members**

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

**Death Benefit for Retirees**

The retiree's beneficiary receives a $4,000 lump sum. The beneficiary may assign this benefit to a funeral 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

| Valuation Date | Member Contributions (A) | Retirants and Beneficiaries (B) | Active Member Employer Financed Portion (C) | Actuarial Value of Assets | Portions of Accrued Liabilities Covered by Assets (A) | (B) | (C) |
|---|---|---|---|---|---|---|---|
| 12/31/00 | $3,007,338,917 | $4,576,452,175 | $3,556,222,919 | $9,835,181,839 | 100% | 100 % | 63 % |
| 12/31/01 | 3,330,859,571 | 4,903,096,418 | 3,509,095,766 | 9,962,917,897 | 100 | 100 | 49 |
| 12/31/02 | 3,353,870,165 | 5,247,201,306 | 4,012,527,155 | 9,784,862,188 | 100 | 100 | 30 |
| 12/31/03 | 3,595,082,177 | 5,558,543,751 | 5,285,920,342 | 10,853,462,178 | 100 | 100 | 32 |
| 12/31/04 | 3,817,174,808 | 5,994,869,531 | 5,902,048,137 | 10,971,426,577 | 100 | 100 | 20 |
| 12/31/05 | 4,006,823,805 | 6,413,679,842 | 6,071,258,736 | 11,339,292,965 | 100 | 100 | 15 |
| 12/31/06 | 4,209,698,437 | 6,872,703,437 | 6,470,388,630 | 12,189,197,444 | 100 | 100 | 17 |
| 12/31/07 | 4,423,194,339 | 7,417,933,822 | 7,143,786,763 | 13,433,115,014 | 100 | 100 | 22 |
| 12/31/08 | 4,642,675,652 | 7,945,452,582 | 7,518,658,666 | 11,827,618,574 | 100 | 90 | — |
| 12/31/09 | 5,132,772,778 | 8,459,191,163 | 7,546,242,173 | 13,461,220,705 | 100 | 99 | — |

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

## Schedule of Active Member Valuation Data [1]

| Valuation Date | Number of Active Members[2] | Percentage Change in Membership | Number of Participating Employers | Percentage Increase in Number of Participating Employers | Total Annual Payroll (Millions)[2] | Average Payroll | Percentage Increase in Average Payroll |
|---|---|---|---|---|---|---|---|
| 12/31/00 | 143,337 | 2.0 | 1,423 | 0.5% | $4,455 | $30,412 | (0.2)% |
| 12/31/01 | 145,666 | 1.6 | 1,435 | 0.8 | 4,675 | 32,094 | 5.5 |
| 12/31/02 | 147,294 | 1.1 | 1,442 | 0.5 | 4,866 | 32,984 | 2.8 |
| 12/31/03 | 148,145 | 0.6 | 1,454 | 0.8 | 4,978 | 32,944 | (0.1) |
| 12/31/04 | 147,751 | (0.3) | 1,461 | 0.5 | 5,102 | 33,854 | 2.7 |
| 12/31/05 | 149,073 | 0.9 | 1,474 | 0.9 | 5,270 | 34,661 | 2.4 |
| 12/31/06 | 151,449 | 1.6 | 1,474 | — | 5,599 | 36,246 | 4.4 |
| 12/31/07 | 153,804 | 1.5 | 1,482 | 0.5 | 5,949 | 37,922 | 4.4 |
| 12/31/08 | 156,073 | 1.5 | 1,492 | 0.6 | 6,227 | 39,113 | 3.1 |
| 12/31/09 | 160,831 | 3.1 | 1,499 | 0.5 | 6,532 | 39,821 | 1.8 |

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

2) Excludes TIAA salaries.

## Membership Profile

Last ten years as of December 31

| Valuation Date | Active | Inactive | Retirees & Beneficiaries | Total Membership |
|---|---|---|---|---|
| 2000 | 143,591 | 35,482 | 54,396 | 233,469 |
| 2001 | 145,910 | 38,056 | 56,115 | 240,081 |
| 2002 | 147,294 | 40,404 | 57,597 | 245,295 |
| 2003 | 148,145 | 41,315 | 59,124 | 248,584 |
| 2004 | 147,751 | 41,269 | 61,125 | 250,145 |
| 2005 | 149,073 | 41,232 | 63,348 | 253,653 |
| 2006 | 151,449 | 40,672 | 65,765 | 257,886 |
| 2007 | 153,804 | 41,383 | 67,102 | 262,289 |
| 2008 | 156,073 | 41,749 | 70,724 | 268,546 |
| 2009 | 160,831 | 43,324 | 73,339 | 277,494 |

## Retirants, Beneficiaries - Changes in Rolls - All Systems

Last ten fiscal years

| | | Additions | | Deletions | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Fiscal 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 |
| 2000 | 51,643 | 3,360 | $44,028,303 | 1,862 | $9,563,949 | 53,141 | 2.90% | 5.20% | $9,397 | $797,869,985 |
| 2001 | 53,141 | 3,112 | 44,919,587 | 1,951 | 10,020,387 | 54,302 | 2.20 | 2.00 | 9,773 | 550,674,064 |
| 2002 | 54,302 | 3,689 | 45,669,820 | 1,922 | 9,552,087 | 56,069 | 3.30 | 1.70 | 10,101 | 627,704,056 |
| 2003 | 56,069 | 3,585 | 48,718,476 | 2,116 | 10,942,002 | 57,538 | 2.60 | 6.70 | 10,443 | 645,716,079 |
| 2004 | 57,538 | 3,612 | 50,253,218 | 2,009 | 11,940,793 | 59,141 | 2.60 | 3.20 | 10,897 | 676,918,614 |
| 2005 | 59,141 | 4,141 | 59,096,917 | 2,017 | 12,333,238 | 61,265 | 3.60 | 17.60 | 11,126 | 737,563,276 |
| 2006 | 61,265 | 4,452 | 66,239,352 | 1,759 | 11,185,646 | 63,765 | 4.00 | 12.00 | 11,498 | 805,978,732 |
| 2007 | 63,765 | 4,423 | 67,181,677 | 2,125 | 15,218,444 | 66,063 | 3.60 | 1.40 | 13,142 | 868,179,029 |
| 2008 | 66,063 | 5,195 | 73,055,348 | 2,515 | 18,681,361 | 68,743 | 4.10 | 8.70 | 13,758 | 945,739,016 |
| 2009 | 68,743 | 5,330 | 81,815,349 | 2,467 | 20,966,802 | 71,606 | 4.10 | 8.70 | 13,964 | 999,939,615 |
| 2010 | 71,606 | 5,593 | 88,709,733 | 2,332 | 20,528,013 | 74,867 | 4.10 | 8.70 | 14,182 | 1,060,205,818 |

## Summary of Membership Data

Retiree and Beneficiary Member Valuation Data [1]

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

Active Member Valuation Data [1]

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

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

## Schedule of Employer Contribution Rates

Last ten fiscal years[1]

### KPERS State/School

| Fiscal Year | Actuarial Rate | Actual Rate |
|---|---|---|
| 2001 | 6.15% | 3.98% [2] |
| 2002 | 6.00 | 4.78 |
| 2003 | 6.17 | 4.98 [3] |
| 2004 | 7.05 | 4.58 [3] |
| 2005 | 8.29 | 5.47 |
| 2006 | 9.94 | 6.07 |
| 2007 | 9.75 | 6.77 |
| 2008 | 11.37 | 7.37 |
| 2009 | 11.86 | 7.97 [5] |
| 2010 | 11.98 | 8.57 [6] |

### KPERS Local

| Fiscal Year | Actuarial Rate | Actual Rate |
|---|---|---|
| 2001 | 3.88% | 2.77% [2] |
| 2002 | 4.07 | 3.52 |
| 2003 | 4.73 | 3.67 [3] |
| 2004 | 4.64 | 3.22 [3] |
| 2005 | 6.04 | 4.01 |
| 2006 | 7.04 | 4.61 |
| 2007 | 8.69 | 5.31 |
| 2008 | 8.92 | 5.93 |
| 2009 | 9.12 | 6.54 [5] |
| 2010 | 9.52 | 7.14 [6] |

### TIAA

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

### KP&F (Uniform Rate)

| Fiscal Year | Actuarial Rate | Actual Rate |
|---|---|---|
| 2001 | 6.97% | 6.97% |
| 2002 | 6.79 | 6.79 |
| 2003 | 6.86 | 6.86 |
| 2004 | 9.47 | 9.47 |
| 2005 | 11.69 | 11.69 |
| 2006 | 12.39 | 12.39 |
| 2007 | 13.32 | 13.32 |
| 2008 | 13.88 | 13.88 |
| 2009 | 13.51 | 13.51 |
| 2010 | 12.86 | 12.86 |

### Judges

| Fiscal Year | Actuarial Rate | Actual Rate |
|---|---|---|
| 2001 | 16.14% | 15.74% [2] |
| 2002 | 12.88 | 12.88 |
| 2003 | 12.66 | 12.66 [3] |
| 2004 | 16.67 | 16.67 [3] |
| 2005 | 19.22 | 19.22 |
| 2006 | 22.37 | 22.37 |
| 2007 | 19.51 | 19.51 |
| 2008 | 22.78 | 22.78 |
| 2009 | 22.48 | 22.48 [5] |
| 2010 | 20.90 | 20.90 [6] |

1) Rates shown for KPERS State/School, TIAA and Judges represent the rates for the fiscal years ending June 30. KPERS Local and KP&F rates are reported for the calendar years. Rates include Group Life and Disability insurance when applicable.

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

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

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

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

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

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March 12, 2009

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

Dear Members of the Board:

In accordance with your request, we have performed an actuarial valuation of KPERS Death and Disability Program as of June 30, 2008 for determining contributions beginning July 1, 2008. The major findings of the valuation are contained in this report. This report reflects the benefit provisions and contribution rates in effect as of June 30, 2008.

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

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

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

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

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

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

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

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

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

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

MILLIMAN, Inc.

Sincerely,

Daniel D. Skwire, FSA
Consulting Actuary

Patrice Beckham

Patrice A. Beckham, FSA, MAAA
Consulting Actuary

## ACTUARIAL OVERVIEW — DEATH AND DISABILITY

This report contains the June 30, 2008 actuarial valuation for the KPERS Death and Disability Program. This program provides two primary benefits to active members:

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

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

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

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

**Actuarial Valuation Under GASB 43**

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

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

Actuarial Liability at 6/30/2008

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

NOTE: Totals may not match due to rounding.

As of June 30, 2008, the KPERS Death and Disability Fund has an unfunded actuarial liability of $316,489,213. KPERS has elected to amortize this unfunded actuarial liability over 15 years as a level percent of pay, assuming a 4 percent annual payroll increase.

The annual required contribution (ARC) for the KPERS Death and Disability Program equals the current year normal cost plus the amortization of the unfunded actuarial liability, all adjusted for interest to mid-year. The ARC for 2008-2009 is $59,758,096, representing 0.93% of estimated annual compensation.

**Projected Cashflows**

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

Excludes Group Life Insurance for Active Members

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

The table indicates that the projected contributions are expected to exceed the projected benefits and expenses for each of the next five years, according to the assumptions used for the actuarial valuation, and assuming that the current contribution rate of 1.0 percent (which includes approximately 0.25 percent of payroll for group life insurance) remains unchanged. This pattern would result in a modest increase in plan assets over the five-year time horizon. KPERS has indicated, however, that it is likely the Legislature will implement a nine-month contribution moratorium commencing in March 2009, which would have the impact of spending down the majority of the plan's existing assets.

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

## ACTUARIAL VALUATION UNDER GASB 43

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

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

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

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

- The Schedule of Employer Contributions provides historical information about actual contributions made to the plan by participating employers in comparison to annual required contributions (ARC).

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

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

**Actuarial Present Value of Total Projected Benefits**

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

Actuarial Present Value of Total Projected Benefits at 6/30/2008

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

NOTE: Totals may not match due to rounding.

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

Actuarial Liability at 6/30/2008

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

**Actuarial Balance Sheet**

The actuarial balance sheet is a demonstration of the basic actuarial equation that the actuarial present value of future benefits to be paid to the active and retired members must equal the current assets plus the actuarial present value of future contributions to be received. Accordingly, the status of the plan in balance sheet form as of June 30, 2008 is shown in the following table:

| | |
|---|---|
| Actuarial Present Value of Total Projected Benefits | |
| Active Members | $489,354,057 |
| Disabled Members | 231,282,196 |
| Total Actuarial Present Value of Total Projected Benefits | $720,636,254 |
| Assets and Future Employer Contributions | |
| Assets* | $38,570,967 |
| Unfunded Actuarial Liability | 316,489,213 |
| Present Value of Future Normal Costs | 365,576,073 |
| Total Assets and Future Employer Contributions | $720,636,254 |

*Market value

**Actuarial Required Contribution**

GASB 43 defines the Annual Required Contribution (ARC) as the employer's normal cost plus amortization of any unfunded actuarial liability over a period not to exceed 30 years. KPERS has chosen to amortize the unfunded actuarial liability over 15 years as a level percentage of payroll. Payroll is assumed to increase 4 percent per year.

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

| | |
|---|---|
| A. Employer Normal Costs | |
| (1) Normal Cost as of June 30, 2008 | $36,642,325 |
| (2) Assumed interest (mid year timing assumed) | 815,379 |
| (3) Normal Cost for FY2009 [(1) + (2)] | $37,457,704 |
| B. Determination of Current Year Amortization Payment | |
| (1) Unfunded Actuarial Liability | $316,489,213 |
| (2) Amortization Period | 15 years |
| (3) Amortization Factor | 14.5079 |
| Amortization Amount as of June 30, 2008 [(1) / (3)] | 21,814,957 |
| Assumed interest (mid year timing assumed) | 485,435 |
| Amortization Amount for FY2009 [(4) + (5)] | $22,300,392 |
| C. Determination of Annual Required Contribution | |
| (1) Normal Cost for benefits attributable to service in the current year (A.3.) | $37,457,704 |
| (2) Amortization of Unfunded Actuarial Liability (B.6.) | 22,300,392 |
| (3) Annual Required Contribution (ARC) [(1) + (2)] | $59,758,096 |
| D. Annual Required Contribution | |
| (1) Annual Required Contribution | $59,758,096 |
| (2) Estimated Annual Compensation for FY09 | 6,409,426,283 |
| (3) ARC as a Percentage of Payroll | 0.93% |

# ACTUARIAL ASSUMPTIONS — DEATH AND DISABILITY

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

Implicit Inflation Rate 3.25 percent

Sample Rates

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

Pre-retirement

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

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

Rates of Salary Increase

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

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

Rates of Termination

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

Retirement Rates

School

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

| | Early Retirement | | Normal Retirement | |
|---|---|---|---|---|
| | Age | Rate | Age | Rate |
| | 55 | 5% | 62 | 30% |
| | 56 | 5% | 63 | 25% |
| | 57 | 8% | 64 | 35% |
| | 58 | 8% | 65 | 35% |
| | 59 | 12% | 66-71 | 25% |
| | 60 | 15% | 72-74 | 20% |
| | 61 | 22% | 75 | 100% |

State

| | 1st Year With 85 Points | | After 1st Year With 85 Points | |
|---|---|---|---|---|
| | Age | Rate | Age | Rate |
| | 53 | 10% | 53 | 15% |
| | 55 | 15% | 55 | 15% |
| | 57 | 15% | 57 | 12% |
| | 59 | 15% | 59 | 12% |
| | 61 | 30% | 61 | 25% |

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

Local

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

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

Correctional — Normal Retirement at Age 55

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

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

Inactive vested members – Age 62.

TIAA employees – Age 66.

LTD Claim Incidence Rates

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

Claim Termination Rates

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

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

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

Projected Future Claim Cost as Percent of Payroll (used in cashflow projections): 0.47 percent in 2007-2008, which increases in future due to aging.

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

Overpayment Recovery: 65 percent of overpayment balance.

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

Administrative Expenses: 4.65 percent of claims.

Waiver of Premium

| Claim Termination Rates | Age at Disability | Claim Duration (Months) | | | |
|---|---|---|---|---|---|
| Claim Termination Rates as percent of 1987 Commissioners Group Disability Table (Based on Actual KPERS Experience) | | 1-12 | 13-24 | 25-60 | 61+ |
| | Under 30 | 50% | 55% | 79% | 150% |
| | 30-39 | 50% | 55% | 79% | 150% |
| | 40-49 | 50% | 55% | 79% | 150% |
| | 50-59 | 76% | 76% | 138% | 350% |
| | 60 and Over | 350% | 350% | 350% | 350% |

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

Mortality: 100 percent of IRS Disabled Mortality Rates from Revenue Ruling 96-7.

Benefit Indexing: Historical indexing is based on actual retirement plan calculations. Indexing for 2006 and later uses a rate of 2.0 percent, which is equivalent to a 3 percent annual assumed increase in the consumer price index, less 1.0% as specified by the plan.

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

IBNR: 12.5 percent of expected claim cost for year.

## EXPERIENCE — KPERS DEATH AND DISABILITY

As of June 30, 2008

### Death Claims by Death Benefit Paid

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

### Death Claims by Age at Death

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

### Active LTD Claims by Age at Disability

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

Active LTD Claims by Attained Age

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

Active LTD Claims by Net Benefit Amount

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

New LTD Claims by Age at Disability

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

New LTD Claims by Attained Age

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

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

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

## ACTUARIAL METHODS

**Funded Method**

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

Under the EAN cost method, the actuarial present value of each member's projected benefits is allocated on a level basis over the member's compensation between the entry age of the member and the assumed exit ages. The portion of the actuarial present value allocated to the valuation year is called the normal cost. The actuarial present value of benefits allocated to prior years of service is called the actuarial liability. The unfunded actuarial liability represents the difference between the actuarial liability and the actuarial value of assets as of the valuation date. The unfunded actuarial liability is calculated each year and reflects experience gains/losses. The Unfunded Actuarial Liability (UAL) is the difference between the Actuarial Liability and the Valuation Assets. KPERS has chosen to amortize the UAL over 15 years as a level percentage of payroll.

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

**Asset Valuation Method**

Assets are valued at market value.

## PLAN PROVISIONS OVERVIEW

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

1) Currently active members of KPERS;

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

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

## KEY PROVISIONS —LONG-TERM DISABILITY

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

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

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

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

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

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

## KEY PROVISIONS — GROUP LIFE WAIVER OF PREMIUM

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

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

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

# STATISTICAL SECTION

KPERS

The Statistical Section presents several schedules that provide financial trends analysis of the Retirement System's overall financial health and additional analytical information on employers' membership data, retirement benefits and other post employment benefits (OPEB). The schedules beginning on this page through page 122 provide revenues, expenses and funding status information for the past ten fiscal years for KPERS and Death and Disability (OPEB) plans. On page 123 a schedule is presented that allocates the total benefits and type of refunds that were paid. On pages 126 through 128 various schedules are presented to depict the level of monthly benefits by number of retirees, retirement type and options, and years of service. On page 129, information is provided showing the top ten participating employers determined by number of covered active employees. The source of the information in these schedules is derived from the comprehensive annual financial reports, unless otherwise noted.

## Revenues by Source

Last ten fiscal years

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

1) Per 2000 and 2003 legislation, employers were not required to remit the Group Life and Disability Insurance portion of required employer contributions.

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

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

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

## Benefits by Type

Last ten fiscal years

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

## Expenses by Type

Last ten fiscal years

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

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

## Changes in Net Assets

Last ten fiscal years

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

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

## Changes in Net Assets (cont.)

Last ten fiscal years

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

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

## Changes in Net Assets-Death and Disability Plan

Last four fiscal years [1]

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

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

## Benefit and Refund Deductions from Net Assets by Type

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

| Type of Benefit | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Age and service benefits: | | | | | |
| Retirees | $1,008,271,726 | $950,746,107 | $898,910,097 | $823,994,836 | $763,960,585 |
| Survivors | 51,934,092 | 49,193,507 | 46,794,560 | 44,184,193 | 42,018,147 |
| Death in service benefits | 8,959,388 | 9,237,740 | 8,388,935 | 9,153,582 | 8,810,923 |
| Insurance Premiums | 7,035,185 | 6,946,461 | 6,824,361 | 6,383,962 | 5,973,688 |
| Insurance Premiums and | | | | | |
| Disabiltiy benefits (OPEB) | 43,746,954 | 47,356,797 | 49,893,770 | 49,202,924 | 48,984,269 |
| Total Benefits | $1,119,947,345 | $1,063,480,612 | $1,010,811,723 | $932,919,497 | $869,747,612 |

| Type of Refund | | | | | |
|---|---|---|---|---|---|
| Death | $6,147,736 | $5,773,422 | $5,275,097 | $5,496,510 | $6,197,596 |
| Separation | 37,214,954 | 38,156,001 | 43,197,593 | 40,632,701 | 40,628,580 |
| Total Refunds | $43,362,690 | $43,929,423 | $48,472,690 | $46,129,211 | $46,826,176 |

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

## Highlights of Operations — 10-Year Summary

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

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

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

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

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

e) Rates include Group Life and Disability contributions where applicable. Per 2000 and 2001 legislation, employers were not required to remit the Group Life and Disability portion of the Actual Rate from April 1, 2000 through December 31, 2001. Per 2002 and 2003 legislation, employers were not required to remit the Group Life and Disability portion of the Actual Rate from July 1, 2002 through December 31, 2002 or from April 1, 2003 through June 30, 2004. Per 2009 legislation, employers were not required to remit the Group Life and Disability portion of the Actual Rate from March 1, 2009 through November 30, 2009. Per 2010 legislation, employers were not required to remit the Group Life and Disability portion of the Actual Rate from April 1, 2010 through June 30, 2010.

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

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

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

## Highlights of Operations — 10-Year Summary (cont.)

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

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

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

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

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

e) Rates include Group Life and Disability contributions where applicable. Per 2000 and 2001 legislation, employers were not required to remit the Group Life and Disability portion of the Actual Rate from April 1, 2000 through December 31, 2001. Per 2002 and 2003 legislation, employers were not required to remit the Group Life and Disability portion of the Actual Rate from July 1, 2002 through December 31, 2002 or from April 1, 2003 through June 30, 2004. Per 2009 legislation, employers were not required to remit the Group Life and Disability portion of the Actual Rate from March 1, 2009 through November 30, 2009. Per 2010 legislation, employers were not required to remit the Group Life and Disability portion of the Actual Rate from April 1, 2010 through June 30, 2010.

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

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

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

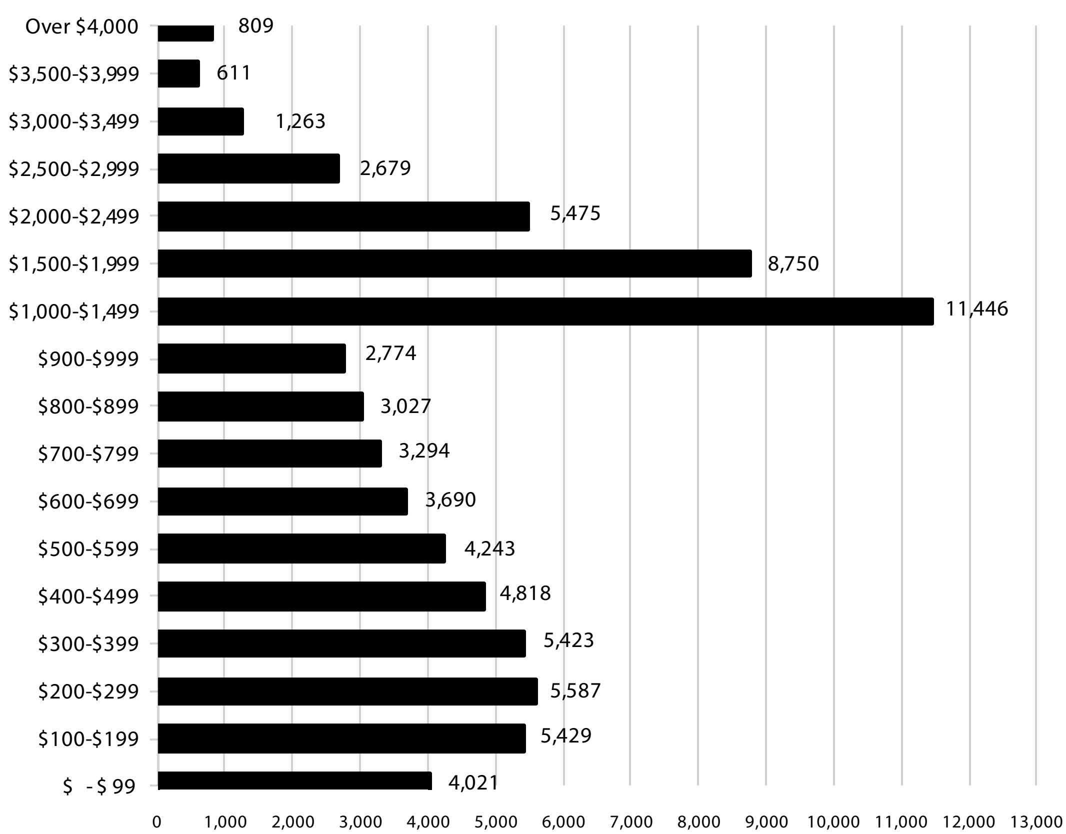
## Number of Retired Members and Survivors by Type of Benefit

As of December 31, 2009

| Monthly Benefit | Number of Retirees | Normal Retirement | Early Retirement | Service-Connected Death or Disability | Nonservice-Connected Death or Disability |
|---|---|---|---|---|---|
| $ - 99 | 4,021 | 3,654 | 361 | 2 | 4 |
| $100-199 | 5,429 | 3,519 | 1,847 | 54 | 9 |
| $200-299 | 5,587 | 3,187 | 2,346 | 49 | 5 |
| $300-399 | 5,423 | 3,121 | 2,248 | 39 | 15 |
| $400-499 | 4,818 | 2,834 | 1,926 | 43 | 15 |
| $500-599 | 4,243 | 2,640 | 1,562 | 31 | 10 |
| $600-699 | 3,690 | 2,371 | 1,274 | 32 | 13 |
| $700-799 | 3,294 | 2,176 | 1,074 | 35 | 9 |
| $800-899 | 3,027 | 2,102 | 869 | 49 | 7 |
| $900-999 | 2,774 | 2,076 | 639 | 41 | 18 |
| $1,000-1,499 | 11,446 | 9,721 | 1,435 | 212 | 78 |
| $1,500-1,999 | 8,750 | 8,271 | 267 | 130 | 82 |
| $2,000-2,499 | 5,475 | 5,302 | 74 | 57 | 42 |
| $2,500-2,999 | 2,679 | 2,593 | 40 | 19 | 27 |
| $3,000-3499 | 1,263 | 1,216 | 24 | 13 | 10 |
| $3,500-3,999 | 611 | 595 | 5 | 9 | 2 |
| $4,000 or More | 809 | 788 | 16 | 5 | — |
| Totals | 73,339 | 56,166 | 16,007 | 820 | 346 |

## Number of Retired Members and Survivors by Type of Benefit

As of December 31, 2009



## Number of Retired Members and Survivors by Type of Payment Option

As of December 31, 2009

| Monthly Benefit | Maximum No Survivor | Joint 1/2 to Survivor | Joint Same to Survivor | Life Certain w/10 Yrs | Joint 3/4 to Survivor | Widowed Children Survivor | Life Certain w/5 Yrs | Life Certain w/15 Yrs |
|---|---|---|---|---|---|---|---|---|
| $ - 99 | 3,250 | 240 | 344 | 50 | 31 | 4 | 32 | 70 |
| $100-199 | 3,930 | 592 | 593 | 87 | 93 | 34 | 26 | 73 |
| $200-299 | 4,035 | 604 | 639 | 98 | 125 | 15 | 26 | 45 |
| $300-399 | 3,800 | 586 | 692 | 75 | 147 | 39 | 27 | 57 |
| $400-499 | 3,384 | 533 | 615 | 80 | 119 | 37 | 12 | 41 |
| $500-599 | 2,940 | 480 | 537 | 52 | 136 | 32 | 16 | 50 |
| $600-699 | 2,541 | 409 | 488 | 57 | 111 | 41 | 12 | 32 |
| $700-799 | 2,247 | 389 | 408 | 41 | 124 | 38 | 15 | 33 |
| $800-899 | 1,984 | 417 | 377 | 42 | 131 | 44 | 10 | 22 |
| $900-999 | 1,764 | 430 | 357 | 37 | 120 | 34 | 11 | 21 |
| $1,000-1,499 | 7,101 | 1,807 | 1,456 | 128 | 629 | 207 | 40 | 74 |
| $1,500-1,999 | 5,464 | 1,448 | 955 | 59 | 583 | 175 | 24 | 42 |
| $2,000-2,499 | 3,442 | 976 | 496 | 43 | 373 | 110 | 22 | 13 |
| $2,500-2,999 | 1,596 | 498 | 256 | 28 | 212 | 74 | 8 | 7 |
| $3,000-3499 | 694 | 254 | 139 | 11 | 98 | 58 | 3 | 6 |
| $3,500-3,999 | 332 | 113 | 66 | 4 | 62 | 32 | | 2 |
| $4,000 or More | 360 | 204 | 106 | 4 | 103 | 29 | 2 | 1 |
| Totals | 48,864 | 9,980 | 8,524 | 896 | 3,197 | 1,003 | 286 | 589 |

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

By calendar year

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

*Average Final Average Salary

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

## Principal Participating Employers*

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

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

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

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

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

b) Not including State Board of Regents institutions.

## Principal Participating Employers-Death and Disability Plan*

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

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

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

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

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

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