2011 Comprehensive Annual Financial Report

fiscal year ended June 30, 2011

Kansas
Public Employees
Retirement System

a component unit
of the State of Kansas

KPERS

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.

2011 Comprehensive Annual Financial Report

Kansas Public Employees Retirement System

A component unit of the State of Kansas

Fiscal year ended June 30, 2011

Prepared by KPERS staff

611 S. Kansas Ave., Ste 100

Topeka, KS 66603-3869

Elizabeth B.A. Miller, Acting Executive Director

Diana Komarek, Chief Fiscal Officer

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Kansas Public Employees Retirement System

KANSAS

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

October 17, 2011

I am pleased to present the Kansas Public Employees Retirement System's Comprehensive Annual Financial Report (CAFR) for fiscal year 2011. In addition to informing the Board of Trustees, members and employers, our annual report fulfills KPERS' reporting responsibilities as defined in Kansas statute. Printed copies are readily available to the public and a full version is posted on our web site, kpers.org.

As the first item in the CAFR, this transmittal letter provides a high-level overview of the Retirement System. The Management's Discussion and Analysis section provides a narrative introduction and analysis of our financial activities over the last two fiscal years. This letter is intended to complement the 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 2011.

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 279,000 members, including active, inactive and retired members. The Retirement System paid about $1.3 billion in benefit payments for fiscal year 2011. Approximately 85 to 90 percent of those benefits remained in Kansas.

Along with the defined benefit plans, KPERS also oversees the State's Deferred Compensation Plan. The plan is a voluntary 457(b) savings program for State of Kansas employees. In addition, 246 local public employers also participate. The plan has about 26,000 total participants and about

16,500 actively contributing. Total plan assets equaled $770 million at the end of fiscal year 2011.

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

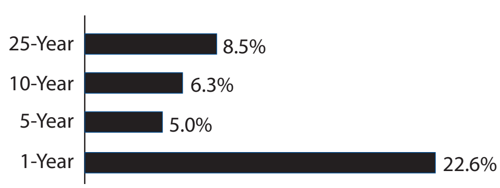
The Board approves the System's annual operating budget. As a component unit of the State of Kansas, the budget is also approved by the Kansas Legislature and Governor as part of the regular legislative budgetary process.

INVESTMENTS

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

Our actuarial projections currently assume an average, long-term investment return of 8 percent. In some years, returns will be below that rate, and in others, returns will exceed it. KPERS' 25-year investment return average stands at 8.5 percent, exceeding the 8 percent target.

KPERS Return Rates Over Time



Strong investment performance in 2010 and 2011 has helped regain losses suffered in 2008 and 2009 during the economic recession. However, difficulties continue to exist in the global economic environment with ongoing market volatility, and the near-term outlook is muted compared to past economic recoveries. KPERS' portfolio returned 14.9 percent for fiscal year 2010 and 22.6 percent for fiscal year 2011. This year, the total portfolio underperformed the policy benchmark by 60 basis points. Five of the eight sub-portfolios outperformed their investment benchmarks. Publicly traded equity assets were the strongest contributors to the total return and privately held asset classes produced double-digit results. As with last year, 2011 fiscal year returns put KPERS in the top quartile of return performance among pension peers.

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 a general overview of each asset class.

FINANCIAL POSITION AND FUNDING OUTLOOK

According to the Retirement System's most recent actuarial valuation (dated December 31, 2010), the System's unfunded actuarial liability (UAL) increased by $590 million to $8.3 billion, essentially returning it to the same level as in 2008. The UAL in 2009 was $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 62 percent, down somewhat from 64 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 a serious concern.

The modest decline in funding is in spite of strong investment performance during the last two years. This decline demonstrates KPERS' fundamental, long-term shortfall. Even with a yearly 8 percent return, the unfunded liability will continue to increase in the coming years.

- KPERS will continue to absorb significant 2008 losses over the next two years.
- Employers are not contributing at the actuarially required rate.

In response to the shortfall, the 2011 Legislature made plan design changes to the KPERS plan for future service. These changes are a major step toward making the Retirement

System more sustainable and helping to pay promised benefits long-term.

The Governor signed Senate Substitute for HB 2194 into law, but there are still steps to complete before the changes can take effect in 2014, including a KPERS study commission during the legislative interim and legislation for consideration during the 2012 session. Without completing these steps, the law will not take effect.

If the 2011 legislation is fully implemented, the KPERS consulting actuary estimates that the funded ratio will begin to improve in the coming years. The School group will reach actuarial balance more quickly. Employer contribution rates will eventually be lower than they would have been otherwise, providing significant savings over the UAL amortization period.

The cumulative effect of higher employer and employee contribution rates, along with lower liabilities from benefit decreases, are projected to begin lowering the UAL in the next several years. It will then continue to decrease until it is paid in full by 2033, when actuarial projections show KPERS with a 100 percent funded ratio. The new legislation will not affect the length of the UAL's amortization period, but it does lower the long-term cost of employer contributions.

- State/School group saves $2.9 billion
- Local group saves $636 million

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

For detailed information on the System's funding projections by plan and group, please see the actuarial section beginning on page 68.

MAJOR INITIATIVES AND ACCOMPLISHMENTS

Long-Term Funding and New Legislation
Addressing KPERS' funding shortfall continues to require a heightened level of focus. During the legislative interim earlier in the fiscal year, we worked with the Legislature's Joint Committee on Pensions, Investments and Benefits on a range of long-term funding alternatives based on legislation from the previous session.

After many meetings and negotiations in different legislative committees during the 2011 session, the Legislature made changes to future benefits and contributions, affecting both working members and employers. Beginning in 2014, employers will have a series of contribution increases until they reach the actuarially required rate. Members (depending on tier and a possible option election), will have contribution increases or benefit decreases.

KPERS has begun the extensive task of planning for implementation and will continue to do so over the coming three years.

Asset Liability Study
KPERS completed its triennial asset liability study, along with the actuarial experience study, also completed every three years. As result, the Board of Trustees adopted a new investment target asset allocation mix, based on a "Funding Oriented" risk philosophy and a more global approach.

This risk philosophy focuses on three aspects of the Plans' risks that were of concern to the Board: 1) the levels of costs and funding associated with managing the Plans, 2) the volatilities of the Plans' cost and funding, and 3) the prospective investment return outcomes of the Plan's investment portfolio. In the next fiscal year, staff and consultants will lay the groundwork for long-term implementation.

Information Resources
KPERS information resources staff has completed a number of information system security enhancement projects, desktop and network support projects, and application support projects that improved systems security and benefit administration.

Member Service and Communication

- Each January, KPERS produces approximately 95,000 1099R tax forms for retirees, beneficiaries and withdrawn members. As a result of this year's interdepartmental efforts, tax forms had the earliest distribution date in KPERS history.

- KPERS staff completed the rollout of the member web portal with the release to retired members. Now all members have secure, online access to their account information, allowing us to deliver benefits and service more efficiently. We currently have approximately

48,000 members enrolled in the MWP (20 percent participation rate).

- A significant upgrade to the Deferred Compensation Plan's participant website was completed – including integration of My Retirement Outlook and targeted messaging by distinct participant groups. Additional enhancements are anticipated in the coming months. Our Plan consistently has one of the highest utilization rates for My Retirement Outlook among other deferred compensation plans with the service provider.

- A "welcome letter" and FAQ from KPERS for local employers eligible to join the State's Deferred Compensation Plan was developed. The material explains the relationship of KPERS to the plan and its benefits to local employers. It also is intended to strengthen the identification of the Plan with KPERS.

- Electronic-only delivery of member annual statements was added more than 200 employers representing 50,000 members, about one quarter of the total 200,000 distributed.

BY THE NUMBERS — IN FY 2011:

- 925,000 retirement benefit payments totaling more than $1 billion
- 5,760 pension inceptions
- 40,000 beneficiary designations
- $9.6 million in active member death benefits
- 23,700 member enrollments and transfers
- 10,500 withdraws totalling $41 million
- $25 million in benefits to 3,000 disabled employees
- 93,000 incoming calls with an average wait time of ten seconds
- 14,500 e-mail requests

AWARDS & ACKNOWLEDGEMENTS

KPERS participated in a benchmarking survey conducted by CEM Benchmarking, Inc. When compared with other public pensions in the 2011 survey, KPERS earned an overall service score of 81 versus a peer median of 82. In addition, we measured very favorably with regard to cost. KPERS' administrative cost per member is $44, less than half the peer median cost of $90. Benchmarking results continue to show KPERS delivering good customer service for a low, economical cost.

As part of the State's Deferred Compensation Plan, KPERS works with ING to provide service to participants. Based on its ongoing communication and education partnership with us, ING received Pension and Investments' Second Place Eddy Award for Public Plans (Service Provider), which recognizes excellence in investment education to defined contribution participants.

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 2010 CAFR. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

To be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which must conform to program standards. The comprehensive annual financial report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The Retirement System has received the Certificate of Achievement for each of the last 17 consecutive fiscal years. We believe our current report again conforms to the program requirements, and we will submit it to the GFOA to determine its eligibility for another certificate.

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

Sincerely,

Elizabeth B.A. Miller

Elizabeth B.A. Miller, CFA
Acting Executive Director

BOARD OF TRUSTEES

OUR ORGANIZATION

Board of Trustees

Executive Director (acting), Elizabeth B.A. Miller

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

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

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

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

Information Resources
Chief Information Officer, Mike Branam
- Data Control
- Operations

KPERS STAFF

Melvin Abbott
Julie Baker
Yohonna Barraud
Kristen Basso
Dianna Berry
Kathleen Billings
Anita Bradley
Mike Branam
Leland Breedlove
Terry Brookhouser
Geraldine Brubaker
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Jenne Clark
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Joyce Edington
Jill Emme
Heather Enos
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Alec Hawley
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Melva Janke
Teresa Jurgens
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Brenda Kindle
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Cheryl Koch
Diana Komarek
Shannon Kuehler
Annette Kuti
Donald Lennard
Debra Lewis
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Teresa Ryan
MaryAnn Sachs
Marilyn Sawyer
Alan Schuler
Rhonda Shumway
Julie Sieve
Mickey Smith
Julie Smith
VinceSmith
Terry Snook
David Streeter
Jaime Sturgeon
Amber Tarrant
Carmen Torres
Lise Ullery
Jackie VandeVelde
Chris VanWinkle
Mary Walker
Craig Weltman
Steve Wesley
Christine 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, KS

Actuary: Cavanaugh Macdonald, Englewood, CO

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

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

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

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

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

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, 2010

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

President

Executive Director

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 2010 annual report. KPERS has received the award for each of the last 17 consecutive fiscal years.

2011 Comprehensive Annual Financial Report

Financial

Kansas Public Employees Retirement System

CHV & Co

COCHRAN HEAD VICK & CO., P.A.

Certified Public Accountants

1333 Meadowlark Lane
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(913) 287-4433
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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, 2011, and the related statement of changes in plan net assets for the year then ended. These basic financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The summarized comparative financial information has been derived from the System's 2010 financial statements and, in our report dated November 12, 2010, we expressed an unqualified opinion on the respective financial statements.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the plan net assets of Kansas Public Employees Retirement System as of June 30, 2011, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2011 on our consideration of the System's internal control over financial reporting and on our test on its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope or our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

Other Offices

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 20 through 24 and the required supplementary information on pages 45 through 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

October 17, 2011 Cochran Head Vick & Co P.C.

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, 2011. 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 $2.1 billion or 18 percent from $11.4 billion to $13.5 billion.
- As of December 31, 2010, the date of the most recent actuarial valuation, the Retirement System's funded ratio was 62.2 percent compared with a funded ratio of 63.7 percent for the prior year.
- The unfunded actuarial liability increased from $7.7 billion at December 31, 2009, to $8.3 billion at December 31, 2010.
- On a market value basis, this year's investment rate of return was a positive 22.6 percent, compared with last year's return of a positive 14.9 percent.
- Retirement benefits paid to retirees and beneficiaries increased 8.0 percent from $1.06 billion in fiscal year 2010 to $1.15 billion in fiscal year 2011.

Overview of the Financial Statements

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

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

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

Basic Financial Statements

A Statement of Plan Net Assets as of June 30, 2011, and a Statement of Changes in Plan Net Assets for the fiscal year ended June 30, 2011, are presented with the previous year's comparative information. These financial statements reflect the resources available to pay benefits to retirees and other beneficiaries as of year end, as well as the changes in those resources during the year.

Notes to the Basic Financial Statements

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

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

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

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

Note 4 provides information about other post employment benefits that the System administers. The Governmental Accounting Standards Board issued GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, which was effective for periods beginning after December 15, 2005. The KPERS Death and Disability Plan covers current active members of the System and terminates at retirement. As part of the reporting requirements declared by this statement, the financial status and activity of the KPERS Death and Disability Plan are displayed separately in the Statement of Net Assets and the Statement of Changes in Plan Net Assets. Required supplemental schedules display the funded status and funding progress of the plan, and the significant methods and assumptions used. As noted in the funding status schedules, the KPERS group insurance reserve fund is 4.5 percent funded as of June 30, 2010, the last date of the actuarial valuation of the Death and Disability Plan.

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

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

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

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

Financial Analysis of the Retirement System
The System provides benefits to State of Kansas and other local and school employees. Benefits are funded by member and employer contributions and by investment earnings. Net assets held in trust for benefits at June 30, 2011, amounted to $13.5 billion, an increase of $2.1 billion, 18.0 percent, from $11.4 billion at June 30, 2010. Following are two summary schedules, Plan Net Assets and Changes in Plan Net Assets, comparing information from fiscal years 2010 and 2011.

Summary Comparative Statements of Plan Net Assets

	As of June 30, 2011	As of June 30, 2010
Assets		
Cash and Deposits	$ 3,207,179	$1,312,347
Receivables	3,402,041,265	3,153,674,907
Investments at Fair Value	13,236,304,711	11,231,687,935
Invested Securities Lending Collateral	960,689,299	1,144,214,739
Capital Assets and Supplies Inventory	3,604,285	4,677,430
Total Assets	17,605,846,739	15,535,567,358
Liabilities		
Administrative Costs	564,023	785,908
Benefits Payable	2,068,925	2,192,704
Investments Purchased	3,145,691,588	2,985,011,625
Securities Lending Collateral	988,669,397	1,177,839,726
Total Liabilities	4,136,993,933	4,165,829,963
Net Assets	$13,468,852,806	$11,369,737,395

Summary Comparative Statements of Changes in Plan Net Assets

	Year Ended June 30, 2011	Year Ended June 30, 2010
Additions		
Contributions	$ 868,951,933	$811,171,087
Net Investment Income (Loss)	2,494,339,663	1,481,336,044
Net Investment Income (Loss) from Securities Lending Activity	5,150,948	4,631,461
Total Net Investment Income (Loss)	2,499,490,611	1,485,967,505
Other Miscellaneous Income	190,770	101,899
Total Additions (Subtractions)	3,368,633,314	2,297,240,491
Deductions		
Monthly Retirement Benefits	1,147,209,272	1,060,205,818
Refunds	49,564,015	43,362,690
Death Benefits	9,614,688	8,959,388
Insurance Premiums and Disability Benefits	53,505,311	50,782,139
Administrative	9,624,617	10,534,190
Total Deductions	1,269,517,903	1,173,844,225
Net Increase (Decrease)	2,099,115,411	1,123,396,266
Net Assets Beginning of Year	$11,369,737,395	$10,246,341,129
Net Assets End of Year	$13,468,852,806	$11,369,737,395

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 $811.2 million in fiscal year 2010 to $869 million in fiscal year 2011.

The System recognized a net investment income of $2.5 billion for the 2011 fiscal year, compared with net income of $1.5 billion for the 2010 fiscal year. Total return for the portfolio was 22.6 percent, compared with the benchmark return of 23.2 percent. System net investments amounted to $13.3 billion at June 30, 2011 which was $2.1 billion more than the $11.2 billion in total System investments at June 30, 2010. 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
22.6%	4.3%	5.0%	6.3%

At June 30, 2011, the System held $7.7 billion in U.S. equity and international equity securities, an increase of approximately $2.2 billion from the 2010 fiscal year. U.S. equity and international equity securities earned returns of approximately 31.4 percent and 31.4 percent, respectively, for the 2011 fiscal year. These compare with the Retirement System's benchmark returns of 32.4 and 29.7 percent, respectively.

The System held $3.8 billion in U.S. debt and international debt securities, compared to $3.9 billion in 2010 fiscal year. The performance of the System's fixed income securities during fiscal year 2011 was 9.9 percent, compared with the benchmark of 4.8 percent. Real estate investments increased $156.1 million to $1.0 billion at June 30, 2011. Real estate investments returned approximately 22.7 percent for the 2011 fiscal year, versus the benchmark real estate return of 23.7 percent. The System held $369.4 million in alternative investments, which was a $14.2 million decrease from June 30, 2010. Alternative investments earned a return of approximately 24.9 percent for the 2011 fiscal year, compared to the benchmark alternative investment return of 35.4 percent. At June 30, 2011, the System held $365.6 million in short-term investments, which was a decrease of $222.8 million from June 30, 2010.

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 2011, net securities lending income amounted to $5.2 million, compared with income of $4.6 million in fiscal year 2010.

Deductions from net assets held in trust for benefits include retirement, death and survivor benefits, and administrative expenses. For the 2011 fiscal year, retirement, death and insurance benefits amounted to $1,260 million, an increase of $96.7 million, 8.3 percent, from the 2010 fiscal year. The increase in benefit payments was a result of an increase in the number of retirees. For the 2011 fiscal year, System administrative expenses amounted to $9.6 million compared with $10.5 million in fiscal year 2010. The ratio of System administrative expenses to the number of members (approximately $44 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 $587 million increase in the unfunded actuarial liability (UAL), decreasing the funded ratio to 62.2 percent.

KPERS	UAL (millions)	Funded Ratio
State Group	$ 932	76%
School Group	5,313	55%
Local Group	1,395	63%
KP&F	598	74%
Judges	27	83%
Retirement System Total[1]	$ 8,264	62%

1) May not add due to rounding.

As of the latest valuation date, the State group is at the actuarial required contribution (ARC) Date. The School and Local groups are in actuarial balance. The statutory contribution rate is projected to converge with the ARC rate before the end of the amortization period (2033), if all actuarial assumptions are met in future years. Although ARC is projected to be achieved for the School and Local groups (applying the currently adopted actuarial assumptions), the dates and rates of ARC leaves these groups highly leveraged.

Assuming no change in the current actuarial assumptions, the ARC Date for the State Group was met with the valuation of December 31, 2010. The estimated ARC Date for the following groups are as follows. School Group ARC date is FY 2031 and the Local Group is FY 2018.

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

Importance of Investment Returns: Strong investment performance in 2011 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 was completed in fiscal year 2011. As part of the study, KPERS reviewed 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. KPERS chose to retain the 8.0 actuarial assumption rate, but may revisit the issue in the future.

Next Steps: In response to KPERS' long-term funding shortfall, the Legislature has made changes to future benefits and contributions, affecting both working members and employers. Beginning in 2014, employers will have a series of contribution increases until they reach the actuarially required rate. Members (depending on tier and a possible option election), will have contribution increases or benefit decreases. Changes were necessary to make KPERS more sustainable and to pay promised benefits long-term.

The Governor has signed Senate Substitute for HB 2194 into law, but there are still steps to complete before the changes can take effect in 2014. These steps include a KPERS study commission during the legislative interim and legislation for consideration during the 2012 session. Without these steps completed, the law will not take effect.

The legislature and the governor are ultimately responsible for benefits and funding. As a fiduciary devoted to the best financial interest of members, KPERS will continue to advocate for policies that promote the long-term financial health of the Retirement System.

Statement of Plan Net Assets[1]

As of June 30, 2011, with comparative figures for 2010

	KPERS Fund	Group Death & Disability Fund	2011 Totals	2010 Totals
Assets				
Cash and Deposits				
Cash	$2,368,208	$838,971	$3,207,179	$1,302,096
Deposits with Insurance Carrier	—	—	—	10,251
Total Cash and Deposits	2,368,208	838,971	3,207,179	1,312,347
Receivables				
Contributions	145,370,181	9,429,256	154,799,437	194,153,836
Investment Income	37,386,636	527	37,387,163	51,702,177
Sale of Investment Securities	3,209,854,665	—	3,209,854,665	2,907,818,894
Total Receivables	3,392,611,482	9,429,783	3,402,041,265	3,153,674,907
Investments at Fair Value				
Domestic Equities	3,786,594,006	—	3,786,594,006	2,659,705,425
International Equities	3,871,748,944	—	3,871,748,944	2,840,752,189
Cash and Equivalents	357,203,349	8,365,125	365,568,474	588,398,072
Fixed Income	3,801,271,106	—	3,801,271,106	3,873,630,605
Alternative Investments	369,393,242	—	369,393,242	383,617,915
Real Estate	1,041,728,939	—	1,041,728,939	885,583,729
Total Investments at Fair Value	13,227,939,586	8,365,125	13,236,304,711	11,231,687,935
Invested Securities Lending Collateral	960,689,299	—	960,689,299	1,144,214,739
Capital Assets and Supplies Inventory	3,597,085	7,200	3,604,285	4,677,430
Total Assets	17,587,205,660	18,641,079	17,605,846,739	15,535,567,358
Liabilities				
Administrative Costs	564,023	—	564,023	785,908
Benefits Payable	2,517,414	(448,489)	2,068,925	2,192,704
Securities Purchased	3,145,384,473	307,115	3,145,691,588	2,985,011,625
Securities Lending Collateral	988,669,397	—	988,669,397	1,177,839,726
Total Liabilities	4,137,135,307	(141,374)	4,136,993,933	4,165,829,963
Net Assets held in trust for Pension Benefits and Other Post Employment Benefits Balance End of Year	$13,450,070,353	$18,782,453	$13,468,852,806	$11,369,737,395

1) The accompanying notes to the basic financial statements are an integral part of this statement. Schedules of funding progress are presented on pages 45 and 46.

Statement of Changes in Plan Net Assets[1]

For the fiscal year ended June 30, 2011, with comparative figures for 2010

	KPERS Fund	Group Death & Disability Fund	2011 Totals	2010 Totals
Additions				
Contributions				
Member Contributions	$294,314,002	$ —	$294,314,002	$289,616,027
Employer Contributions	525,726,734	48,911,197	574,637,931	521,555,060
Total Contributions	820,040,736	48,911,197	868,951,933	811,171,087
Investments				
Net Appreciation (Depreciation) in Fair Value of Investments	2,211,302,374	—	2,211,302,374	1,221,425,633
Interest	158,120,734	18,333	158,139,067	160,086,441
Dividends	123,098,602	—	123,098,602	105,808,081
Real Estate Income, Net of Operating Expenses	48,997,734	—	48,997,734	37,551,411
Other Investment Income	388,174	—	388,174	216,499
	2,541,907,618	18,333	2,541,925,951	1,525,088,065
Less Investment Expense	(47,586,288)	—	(47,586,288)	(43,752,021)
Net Investment Income (Loss)	2,494,321,330	18,333	2,494,339,663	1,481,336,044
From Securities Lending Activities				
Securities Lending Income	5,431,118	—	5,431,118	5,372,538
Securities Lending Expenses				
Borrower Rebates	739,912	—	739,912	(48,804)
Management Fees	(1,020,082)	—	(1,020,082)	(692,273)
Total Securities Lending Activities Expense	(280,170)		(280,170)	(741,077)
Net Income from Security Lending Activities	5,150,948	—	5,150,948	4,631,461
Total Net Investment Income (Loss)	2,499,472,278	18,333	2,499,490,611	1,485,967,505
Other Miscellaneous Income	174,430	16,340	190,770	101,899
Total Additions /(Subtractions)	3,319,687,444	48,945,870	3,368,633,314	2,297,240,491
Deductions				
Monthly Retirement Benefits Paid	(1,147,209,272)	—	(1,147,209,272)	(1,060,205,818)
Refunds of Contributions	(49,564,015)	—	(49,564,015)	(43,362,690)
Death Benefits	(9,614,688)	—	(9,614,688)	(8,959,388)
Insurance Premiums and Disability Benefits	(6,752,185)	(46,753,126)	(53,505,311)	(50,782,139)
Administrative Expenses	(9,261,260)	(363,357)	(9,624,617)	(10,534,190)
Total Deductions	(1,222,401,420)	(47,116,483)	(1,269,517,903)	(1,173,844,225)
Net Increase (Decrease)	2,097,286,024	1,829,387	2,099,115,411	1,123,396,266
Net Assets held in trust for Pension Benefits and Other Post Employment Benefits				
Balance Beginning of Year	11,352,784,329	16,953,066	11,369,737,395	10,246,341,129
Balance End of Year	$13,450,070,353	$18,782,453	$13,468,852,806	$11,369,737,395

1) The accompanying notes to the basic 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]	72,354	4,184	206	76,744
Terminated employees entitled to benefits but not yet receiving them	12,826	174	10	13,010
Inactive members, deferred disabled	2,749	181	0	2,930
Inactive members not entitled to benefits	27,296	995	0	28,291
Current employees	150,482	7,173	264	157,919
Total	265,707	12,707	480	278,894

1) Represents System membership at December 31, 2010.

2) Number of retirement payees as of December 31, 2010.

Number of Participating Employers

	KPERS	KP&F	Judges
State of Kansas	1	1	1
Counties	105	31	—
Cities	362	61	—
Townships	56	—	—
School Districts	293	—	—
Libraries	122	—	—
Conservation Districts	83	—	—
Extension Councils	76	—	—
Community Colleges	19	—	—
Educational Cooperatives	23	—	—
Recreation Commissions	43	1	—
Hospitals	29	—	—
Cemetery Districts	12	—	—
Other	192	—	—
Total	1,416	94	1

Plan Benefits

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

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

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

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

Contributions

Member contributions (from 4.0 to 7.0 percent of gross compensation), employer contributions and net investment income fund Retirement System reserves. Member contribution rates are established by state law, and are paid by the employee according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates be determined based on the results of each annual actuarial valuation. The contributions and assets of all three systems are deposited in the Kansas Public Employees Retirement Fund established by K.S.A. 74-4921. All of the retirement systems are funded on an actuarial reserve basis (see Note 3). For fiscal years beginning in 1995, Kansas legislation placed a statutory limit of 0.1 percent of payroll on increases in contribution rates for KPERS employers. During the 1995 legislative session, the statutory limits were increased to 0.2 percent of payroll over the prior year for fiscal years beginning in 1996 for state and school employers. The statutory increase for local units of government was amended to limit increases to no more than 0.15 percent over the prior year for calendar years beginning in 1997. Annual increases in the employer contribution rates related to subsequent benefit enhancements are not subject to these limitations. Legislation passed in 2003 amended the annual increases in future years. The statutory cap for the State/School group increased to 0.4 percent in fiscal year 2006, with subsequent increases of 0.5 percent in fiscal year 2007 and 0.6 percent in fiscal year 2008 and beyond. Legislation passed in 2004 amended the annual increases in future years for local employers. The statutory cap for the Local group increased to 0.4 percent in calendar year 2006, with subsequent increases of 0.5 percent in fiscal year 2007 and 0.6 percent in fiscal year 2008 and beyond. 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, 2010, 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, 2011, the Retirement System's deposit with its disability administrator was $-0-. The Retirement System does not have a deposit policy for custodial credit risk associated with these deposits.

Method Used to Value Investments

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

Investments

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

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

- Establishes the structure of the Board of Trustees, defines the Trustees' responsibilities, imposing the prudent expert standard upon their actions with respect to managing the assets of the Retirement System.
- Requires that the assets be invested to preserve capital and solely to provide benefits to members and the members' beneficiaries.
- Limits the possible allocation of common stock to 60.0 percent of the total book value of the fund.
- The annual allowance for new alternative (non-publicly traded) investments is limited to 1.0 percent of the market value of the total investment assets of the fund as measured from the end of the preceding calendar year.
- Establishes limits on the structure of future investments in real estate or alternative investments.
- Requires that the Board develop investment policies and objectives to invest fund assets.
- Authorizes the Board to hire qualified professionals/firms to assist in investing the fund and requires that such professionals/firms obtain errors and omissions insurance coverage and fidelity bond insurance coverage.
- Authorizes the Board to pay for the services of retained professionals/firms at the rates fixed by the Board, excluding any reimbursement for expenses and subject to the provisions of the appropriations 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, 2011, the maturities of securities in this dedicated bond portfolio are as follows: 45.7 percent of the fair value of the securities mature within 30 days; 21.0 percent mature between 31 and 180 days; and 33.3 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, 2011, and June 30, 2010, were $1,215,075,532 and $1,327,050,007, respectively. Collateral held by the Retirement System for June 30, 2011, and June 30, 2010, was $1,271,582,150 and $1,378,967,677, respectively. Net income produced from securities lending activities for fiscal year 2011 was $5,150,948, with $4,631,461 for fiscal year 2010.

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 2.7 percent of the total market value, and U.S. Treasury securities representing 11.2 percent of total market value. KPERS investment policy does not prohibit holdings above 5 percent in the debt securities of U.S. government issuers. Government sponsored enterprises (GSEs, such as FNMA) are considered government issuers for the purpose of implementing KPERS investment policy. No other single issuer represents 1 percent or more of System assets.

Currency Risk

Currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. KPERS investments at June 30, 2011, were distributed among currencies in the following list.

USD Equivalent	Currency	Percent
$233,600,934	Australian Dollar	1.65%
91,288,944	Brazil Real	0.64%
839,982,592	British Pound Sterling	5.92%
300,554,890	Canadian Dollar	2.12%
2,287,240	Chilean Peso	0.02%
53,008,223	Chinese Yuan Renminbi	0.37%
3,825,233	Colombian Peso	0.03%
1,692,743	Czech Koruna	0.01%
38,945,445	Danish Krone	0.27%
802,238	Egyptian Pound	0.01%
1,203,950,783	Euro Currency Unit	8.48%
256,041,376	Hong Kong Dollar	1.80%
2,098,451	Hungarian Forint	0.01%
31,263,330	Indian Rupee	0.22%
35,418,722	Indonesian Rupian	0.25%
20,958,399	Israeli Shekel	0.15%
656,296,107	Japanese Yen	4.62%
20,035,060	Malaysian Ringgit	0.14%
63,287,988	Mexican New Peso	0.45%
41,620,782	New Taiwan Dollar	0.29%
21,829,126	New Turkish Lira	0.15%
9,169,772	New Zealand Dollar	0.06%
68,031,441	Norwegian Krone	0.48%
14,270,951	Philippines Peso	0.10%
12,526,757	Polish Zloty	0.09%
19,295,137	Russian Rubel	0.14%
33,707,120	S African Comm Rand	0.24%
123,748,184	Singapore Dollar	0.87%
129,827,875	South Korean Won	0.91%
91,765,188	Swedish Krona	0.65%
237,052,452	Swiss Franc	1.67%
11,061,514	Thailand Baht	0.08%
1,719,079	Uruguayan Peso	0.01%
22,728,272	Other Currencies	0.16%
9,503,301,662	U.S. Dollar(1)	66.94%
$14,196,994,010		100.00%

1) Includes securities lending collateral of $960,689,299.

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, 2011, the System's total foreign currency exposure was 6.9 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, 2011, subject to credit risk are shown with current credit ratings.

Quality Rating	Commercial Paper	Corporate	Agency	U.S. Govt	Securities Lending Collateral	Total
NR	$84,319	$287,566	$ —	$ —	$505,599	$877,484
AAA	—	202,825	—	1,573,888	23,974	1,800,687
AA	—	181,227	345,363	18,168	124,073	668,831
A	—	392,947	91	—	307,044	700,082
BBB	—	373,485	367	—	—	373,852
BB	—	278,541	—	—	—	278,541
B	—	234,492	—	—	—	234,492
CCC	—	105,267	—	—	—	105,267
Total	$84,319	$2,056,350	$345,821	$1,592,056	$960,690	$5,039,236

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	$84,319	$846,601	$119,800	$232,092	$873,169	$2,155,981
1 - 3 yrs	—	198,602	57,091	609,450	87,521	952,664
3 - 5 yrs	—	297,028	157,245	316,086	—	770,359
5 - 10 yrs	—	491,935	10,750	355,030	—	857,715
10 - 20 yrs	—	222,184	935	79,398	—	302,517
Total	$84,319	$2,056,350	$345,821	$1,592,056	$960,690	$5,039,236

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, 2011 the System had total net margins payable the next day of $1,202,929. 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 $181.8 million were associated with futures for the year ending June 30, 2011.

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[1]	June 30, 2010	June 30, 2011
Domestic Equity Futures	Domestic Equities	$801,671,940	$1,196,118,375
International Equity Futures	International Equities	280,809,359	739,787,477
Fixed Futures	Fixed	653,617,551	997,215,207
Options Written	Fixed	1,328,944	936,376
Pay Fixed Interest Swaps	Fixed	—	20,550,000
Receive Fixed Interest Swaps	Fixed	189,450,000	154,000,000
Credit Default Swaps	Fixed	80,435,461	441,320,845
TBA Agency Bonds[2]	Fixed	78,500,358	(112,261,173)

1) The Asset Class that the Fair Values and Revenues are included in other schedules. Futures and Options reflect the summed absolute values of the exposures.

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

Investment Derivatives—Swaps

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

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

Investment 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, 2010	Increases	Decreases	June 30, 2011
Options Written	$(695,273)	$1,322,963	$(522,692)	$104,998
Pay Fixed Interest Swaps	—	292,960	(600,165)	(307,205)
Receive Fixed Int. Swaps	1,320,019	1,105,950	(1,635,822)	790,147
Credit Default Swaps	(780,035)	252,337,969	(247,485,959)	4,071,975
TBA Agency Bonds[1]	78,500,358	1,772,786,113	(1,963,547,644)	(112,261,173)
Foreign Currency Forwards	(4,051,976)	107,063,279	(113,662,975)	(10,651,672)
	$74,293,093	$2,134,909,234	$(2,327,455,257)	$(118,252,930)

1) TBA Agency Bond notional values are equal to their fair values.

Investment Derivatives—Foreign Currency Forwards

The Retirement System's international investment managers use forward contracts to obtain currencies necessary for trade execution and manage the exposure of the international investments to fluctuations in foreign currency. Active international investment managers use forward contracts to enhance returns or to control volatility. Currency risk arises due to foreign exchange rate fluctuations. Forward foreign exchange contracts are negotiated between two counterparties. The Retirement System could incur a loss if its counterparties failed to perform pursuant to the terms of their contractual obligations. Since the System holds the offsetting currency in the contract, and controls are established by the investment managers to monitor the creditworthiness of the counterparties, risk of actual loss 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, 2010				June 30, 2011	
	Notional $USD	Fair Values	FV Increases	FV Decreases	Fair Values	Notional $USD
Australian Dollar	$118,731,694	$(3,717,968)	$17,072,049	$(12,935,885)	$418,196	$183,400,821
Brazil Real	4,142,228	(59,510)	345,740	(106,326)	179,904	40,766,316
British Pound	186,854,146	(637,636)	11,588,679	(8,833,646)	2,117,397	221,092,354
Canadian Dollar	140,112,266	(733,334)	8,170,297	(8,369,816)	(932,853)	114,398,747
Chinese Yuan Ren	9,105,475	(47,718)	123,936	—	76,218	18,823,310
Euro Currency Unit	546,982,174	5,910,939	44,791,787	(51,121,790)	(419,064)	475,501,707
Hong Kong Dollar	74,236,444	161,211	1,076,150	(1,200,922)	36,439	99,691,366
Hungarian Forint	—	—	15,416	(191,958)	(176,542)	4,456,321
Indonesian Rupian	1,100,000	106,222	62,457	(17,856)	150,823	5,352,001
Japanese Yen	314,417,585	(4,545,515)	23,406,300	(17,709,559)	1,151,226	385,814,416
Malaysian Ringgit	1,513,612	51,231	18,374	(34,802)	34,803	4,270,424
Mexican New Peso	1,967,382	(10,143)	744,705	(272,484)	462,078	26,003,462
New Taiwan Dollar	1,203,803	(10,430)	26,947	(9,091)	7,426	597,861
New Zealand Dollar	29,991,245	127,940	3,072,889	(3,652,469)	(451,640)	35,058,302
Norwegian Krone	8,307,995	(133,145)	2,494,647	(1,826,572)	534,930	57,516,995
Other Currencies	—	—	335,565	(212,290)	123,275	13,660,534
Philippines Peso	—	—	12,085	(27,293)	(15,208)	6,784,703
S African Rand	1,926,495	9,837	656,389	(609,312)	56,914	7,348,173
Singapore Dollar	24,312,450	(336,751)	1,057,764	(570,701)	150,312	37,853,284
South Korean Won	6,161,052	(117,569)	115,518	201,589	199,538	8,078,451
Swedish Krona	43,582,082	(232,922)	8,404,227	(7,850,123)	321,182	62,655,125
Swiss Franc	45,999,697	163,285	8,178,964	(7,501,190)	841,059	93,314,287
	$1,560,647,825	$(4,051,976)	$131,770,885	$(122,852,496)	$4,866,413	$1,902,438,960

Hedging Currency Forwards

	June 30, 2010				June 30, 2011	
	Notional $USD	Fair Values	FV Increases	FV Decreases	Fair Values	Notional $USD
Australian Dollar	$242,972,197	$(640,939)	$11,591,995	$(11,088,000)	$(136,944)	$11,346,264
Canadian Dollar	81,338,974	(1,272,973)	1,803,895	(1,391,178)	(860,256)	61,076,609
Swiss Franc	79,079,472	169,400	4,697,028	(5,729,221)	(862,793)	51,278,025
Euro Currency Unit	405,306,208	25,084,931	27,192,386	(62,261,503)	(9,984,186)	425,928,943
British Pound	286,230,630	1,150,538	4,341,665	(6,812,277)	(1,320,074)	276,850,988
Hong Kong Dollar	38,055,721	99,224	195,293	(293,772)	745	35,977,938
Japanese Yen	176,616,145	(819,274)	5,711,021	(7,246,324)	(2,354,577)	162,085,701
	$1,309,599,347	$23,770,907	$55,533,283	$(94,822,275)	$(15,518,085)	$1,024,544,468
Total Currency Forwards	$2,870,247,172	$19,718,931	$187,304,168	$(217,674,771)	$(10,651,672)	$2,926,983,428

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, 2011, the market values of international equities was $3.87 billion. The System's exposure to foreign currencies is converted into a proxy basket of seven liquid currencies that are highly correlated to the movements of the underlying currencies. The weights to be used are calculated with reference to the liquidity and risk of each currency. There is appropriate statistical evidence that the proxy basket does track the currency exposure closely (residual standard deviation of less than one percent). This proves the intent is to hedge and qualifies as a designated hedge under Generally Accepted Accounting Principles. The forward contracts are purchased as needs are determined by the hedge manager, and mature in the nearest September or March. Gains/losses are realized during those periods and the contracts are rolled over to the next period as appropriate. Through these processes, hedging contracts can adapt to any changes to portfolio currency exposures. Since the hedging currency forwards track to the overall exposure, and they reference the same foreign exchange rates as the underlying portfolio, this hedge is known to be effective through consistent critical terms.

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

Investment Forwards Counterparty Exposure at June 30, 2011

Counterparty Name	Notional $USD	Fair Value	Standard & Poor's Long Term Rating
Bank of America Corp	$23,036,118	$(110,608)	A
Bank of New York Mellon	42,305,033	(210,780)	AA-
Barclays	56,086,502	23,674	A+
BNP Paribas	103,709,808	(235,472)	AA
Citigroup Inc	76,129,090	311,703	A
Credit Suisse Group	117,546,939	(1,083,045)	A
Deutsche Bank	226,558,330	1,800,358	A+
Goldman Sachs Group Inc	10,818,684	90,023	A
HSBC Holdings	149,706,746	929,525	AA-
JPMorgan Chase & Co	196,651,197	476,834	A+
Morgan Stanley	15,534,137	79,637	A
Northern Trust Corp	2,203,311	(5,113)	AA-
Royal Bank of Canada	135,609,301	739,206	AA-
Royal Bank of Scotland	126,563,387	(922,401)	AAA
Societe Generale	132,964,910	391,505	A+
Standard Chartered PLC	928,926	2,467	A
State Street Corp	182,461,082	2,319,573	A+
Toronto Dominion Bank	18,381,286	(244,394)	not rated
UBS	93,849,037	406,285	A+
Westpac Banking Corp	191,395,136	107,436	AA
	$1,902,438,960	$4,866,413	

Hedging Forwards Counterparty Exposure at June 30, 2011

Counterparty Name	Notional $USD	Fair Value	Standard & Poor's Long Term Rating
Barclays	$96,309,352	$(2,161,359)	A+
Citigroup Inc	163,156,953	(2,147,169)	A
Deutsche Bank	148,591,841	5,296	A+
JPMorgan Chase & Co	255,056,656	(2,836,397)	A+
Royal Bank of Canada	115,874,876	(1,141,659)	AA-
Royal Bank of Scotland	106,907,242	(975,713)	AAA
UBS	138,647,548	(6,261,084)	A+
	$1,024,544,468	$(15,518,085)	

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, 2011, was $14,151,999. Office supplies inventory in the amount of $18,288 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, 2011 was $2,577,369. The office building and garage are being depreciated over a period of 33 years on an accelerated method. At June 30, 2011, the carrying value of the System's administrative headquarters was $1,040,788.

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, 2011, was $5,267,908,484, 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, 2011, was $7,336,609,891. The unfunded liability was $8,264,125,185. 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, 2011, was $9,090,575,924. 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, 2011, was $19,136,754, and was fully funded. The Optional Term Life Insurance Reserve accumulates employee contributions to pay premiums for optional life insurance coverage and is charged annually with the cost of administering the program. The balance at June 30, 2011, was negative $35,516.

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 2011, the regular employer contribution rate was 8.17 percent of covered payroll. In addition, KPERS contributed an additional 1.0 percent of covered payroll to the group insurance fund. Total payroll was $4,132,578, $4,190,789 and $3,915,928 for 2009, 2010 and 2011 respectively. KPERS contributed $282,130, $323,173 and $359,518 for 2009, 2010 and 2011 respectively, to the employees pension plan and group insurance fund. All contributions required by law were made in fiscal years 2009, 2010 and 2011.

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 $223,343,494 at June 30, 2011.

Pending Governmental Accounting Standards Board Statements

The GASB exposure drafts (*Financial Reporting for Pension Plans – An amendment of GASB Statement No. 25 and Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*) are the most significant changes to the way defined benefit pension assets and liabilities are reported since the original statements were issued in 1994. The objective of these proposed Statements is to improve financial reporting by state and local governmental pension plans. It is the result of a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. These proposed Statements would amend the requirements of Statements No. 25, No. 27 and No. 50, Pension Disclosures, as they relate to pension plans that are administered through trusts, or equivalent arrangements, that meet certain criteria.

The Statements are effective for financial statements prepared by state and local governments for periods beginning after June 15, 2013, with earlier application encouraged. Management is currently evaluating the effect of these statements on the Systems financial statements.

Certain amounts in the summarized comparative financial information for the prior year have been reclassified to conform to the current year presentation.

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 2011 KPERS transferred to the State of Kansas $3,213,748 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, 2009, and December 31, 2010, can be attributed to the following ($ millions):

Unfunded Actuarial Liability 12/31/09	$ 7,677.0
Effect of contribution cap/time lag	320.0
Expected increase due to amortization method	68.0
Loss from investment return	560.0
Demographic experience	(375.0)
All other experience	41.0
Change in actuarial firm/valuation software	(27.0)
Change in actuarial assumptions	—
Change in benefit provisions	—
Final Unfunded Actuarial Liability 12/31/10	$8,264.0

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, 2006, and December 31, 2007, actuarial valuations provide the basis for Board certification of employer contribution rates for fiscal years 2010 and 2011. 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
2010	10.98%	7.57%
2011	11.30%	8.17%
Correctional		
2010	9.27% / 9.22%	8.04% / 7.90%
2011	9.20% / 8.64%	8.55% / 8.50%

Included in the fiscal year 2010 and 2011 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, 2007, and December 31, 2008, actuarial valuations provide the basis for Board certification of local employer contribution rates for fiscal years beginning in 2010 and 2011, respectively. The actuarially determined employer contribution rates and statutory contribution rates are as follows:

Local Fiscal Year	Actuarial Rate	Statutory Rate
2010	8.52%	6.14%
2011	10.42%	6.74%

KP&F. The uniform participating service rate for all KP&F employers was 12.86 percent for the fiscal year beginning in 2010 and 14.57 percent for the fiscal year beginning in 2011. 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 20.50 percent of payroll for the fiscal year ended 2010 and 19.49 percent of payroll for the fiscal year ended 2011.

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

All required contributions have been made as follows (in thousands):

	Employer and Insurance Contributions	Member Contributions[1]	Contributions as a Percent of Covered Payroll
KPERS- State	$97,759	$45,709	12.0%
KPERS- School	292,772	139,914	12.1
KPERS - Local	116,348	69,721	10.3
KP&F	62,356	30,786	21.8
Judges	5,402	1,471	24.8
Subtotal	$574,637	$287,601	12.2%

An estimated $603 million of employer & employee contributions were made to cover normal cost, an estimated $259 million was made for the amortization of the unfunded actuarial accrued liability.

1) Member contributions do not include Optional Life Insurance contributions of approximately $6.7 million.

Funding Status and Funding Progress

The funding status of the plan at December 31, 2010, the most recent actuarial valuation date (in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
12/31/10	$13,589,658	$21,853,783	$8,264,125	62%	$6,494,048	127%

The schedule of funding progress, presented as required supplementarty 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	12/31/2010	12/31/2010	12/31/2010
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	22 years	22 years	22 years
Asset valuation method	Difference between actual return and expected return on market value recognized evenly over five-year period. Value must be within corridor of 80 percent to 120 percent of market value.		
Actuarial assumptions:			
Investment rate of return[1]	8%	8%	8%
Projected salary increases[1]	4.0% - 12.0%	4.0% - 12.5%	4.5%
Cost of Living Adjustment	none	none	none

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

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

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

Summary of Significant Accounting Policies

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

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

Plan Membership and Benefits

Members in the Death and Disability Plan consisted of the following at June 30, 2010, the date of the last actuarial valuation:

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

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

2) Group life insurance equal to 150 percent of annual compensation, which is provided through an insurance contract with an insurance carrier.

3) 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, 2011, this reserve held net assets totaling $18,782,453. This reserve fund is funded from deposits from employer contributions and the respective investment income. Administrative expenses for the death and disability plan are funded from the accumulated investment income of the fund.

The funding status of the plan at June 30, 2010, the most recent actuarial valuation date: (in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a)/c)
6/30/10	$12,751	$283,758	$271,007	4.5%	$6,822,726	4.0%

The actuarial valuation dated March 1, 2011, is the most recent actuarial valuation. Only the disability benefits and waiver of premium life insurance provision are included in the actuarial valuation.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions of future employment, mortality, and long term disability trends. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress for the Death and Disability Plan (on page 46) 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 47) presents the amount contributed to the plan by employers in comparison to the actuarial required contribution (ARC) as determined by the actuarial valuation dated June 30, 2010, using GASB 43 requirements. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs for each year and amortize any unfunded liabilities over 15 years.

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

Actuarial Valuation Information — Death and Disability Plan	
Valuation Date June 30, 2010	
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent, open
Remaining amortization period	15 years
Asset valuation method	Market Value
Actuarial assumptions	
Investment rate of return[1]	4.5%
Projected salary increases[1]	4.0%–12.0%
Payroll Growth	4.0%

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

NOTE 5: COMMITMENTS AND CONTINGENCIES

As of June 30, 2011, the Retirement System was committed to additional funding of $6,341,000 in the form of capital expenditures on separate account real estate holdings in the portfolio, $324,098,000 for commitments on venture capital investments, and $287,538,000 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 October 17, 2011, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION — RETIREMENT PLAN

Schedule of Employer Contributions[1]
Last ten fiscal years

Year	Annual Required Contribution	Percentage Contributed
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
2011	709,964,322	74.0

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)
12/31/01[1]	$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
12/31/10	13,589,658	21,853,783	8,264,125	62	6,494,048	127

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.

Schedule of Employer Contributions

Last five fiscal years

Year	Annual Required Contribution	Percentage Contributed
2007	$71,763,879	82.6%
2008	76,128,451	82 .0
2009	75,414,841	48 .2
2010	62,705,453	47 .1
2011	57,868,502	84.5

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

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

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

Schedule of Contributions

For fiscal year ended June 30, 2011

Kansas Public Employees Retirement System			
State / School Contributions			
Members	$185,622,946		
Employers	390,531,212		
Total State / School Contributions		$576,154,158	
Local Contributions			
Members	69,720,644		
Employers	116,347,871		
Total Local Contributions		186,068,515	
Total Contributions KPERS			$762,222,673
Kansas Police and Firemen's System			
State Contributions			
Members	3,025,190		
Employers	5,334,291		
Total State Contributions		8,359,481	
Local Contributions			
Members	27,761,126		
Employers	57,022,125		
Total Local Contributions		84,783,251	
Total Contributions KP&F			93,142,732
Kansas Retirement System for Judges			
State Contributions			
Members	1,470,997		
Employers	5,402,431		
Total State Contributions		6,873,428	
Total Contributions - Judges			6,873,428
Optional Life Insurance			
Member Contributions			
State Employees	3,484,424		
Local Employees	3,228,676		
Total Contributions		6,713,100	
Total Contributions - OGLI			6,713,100
Grand Total All Contributions			$868,951,933

Schedule of Administrative Expenses

For fiscal year ended June 30, 2011

Salaries and Wages		$5,159,132
Professional Services		
Actuarial	$201,388	
Audit	39,400	
Data Processing	353,520	
Legal	78,653	
Other Professional Services	670,343	
Total Professional Services		1,343,304
Communication		
Postage	234,842	
Printing	113,815	
Telephone	89,752	
Total Communication		438,409
Building Administration		
Building Management	102,458	
Janitorial Service	40,713	
Real Estate Taxes	86,755	
Utilities	71,649	
Total Building Administration		301,575
Miscellaneous		
Dues and Subscriptions	25,206	
Repair and Maintenance	597,133	
Office and Equipment Rent	16,726	
Supplies	72,766	
Temporary Services	9,149	
Travel	77,541	
Other Miscellaneous	188,214	
Depreciation	1,395,462	
Total Miscellaneous		2,382,197
Total Administrative Expenses		$9,624,617

Schedule of Investment Income by Asset Class

For fiscal year ending June 30, 2011

Asset Classification	Interest, Dividends and Other Transactions	Gains and Losses	Total
Marketable Equity Securities			
Domestic Equities	$27,170,743	$1,127,888,300	$1,155,059,043
International Equities	84,047,201	646,487,345	730,534,546
Subtotal Marketable Equities	111,217,944	1,774,375,645	1,885,593,589
Marketable Fixed Income Securities			
Government	30,198,360	62,463,134	92,661,494
Corporate	122,773,656	140,470,108	263,243,764
Subtotal Marketable Fixed	152,972,016	202,933,242	355,905,258
Temporary Investments	5,167,051	(995,656)	4,171,395
Total Marketable Securities	269,357,011	1,976,313,231	2,245,670,242
Real Estate	48,997,734	149,209,985	198,207,719
Alternative Investments	11,880,658	85,779,158	97,659,816
Total Real Estate and Alternative Investments	60,878,392	234,989,143	295,867,535
Other Investment Income			
Securities Lending	4,850,057	300,891	5,150,948
Reimbursement for Non-KPERS Costs	388,174		388,174
Total Other Investment Income	5,238,231	300,891	5,539,122
Investment Income	$335,473,634	$2,211,603,265	2,547,076,899

Manager and Custodian Fees and Expenses	
Investment Manager Fees	(36,315,675)
Custodian Fees & Expenses	(996,101)
Other Investment Expenses	(1,907,633)
Partnership Mgmt Fees & Expenses	(8,366,879)
Total Investment Fees and Expenses	(47,586,288)
Net Investment Income	$2,499,490,611

Schedule of Investment Management Fees and Expenses

For the fiscal year ended June 30, 2011

Domestic Equity Managers	
BlackRock	$716,862
ING	1,266,465
Loomis, Sayles & Co.	836,021
Mellon CM LC Index	165,210
Security Global Investors	878,121
Systematic Financial Management	824,567
Subtotal Domestic Equity Managers	4,687,246
Global Equity Managers	
Capital Guardian Trust Co.	1,905,044
Wellington Management Co.	1,097,488
Subtotal Global Equity Managers	3,002,532
International Equity Managers	
Baillie Gifford Int'l	2,905,829
BlackRock	1,251,649
Barings Int'l	2,237,710
JP Morgan Int'l	2,306,540
Lazard Freres Asset Management	1,188,919
Morgan Stanley Asset Management	1,050,489
Nomura Capital Management	697,727
Templeton Int'l	1,549,166
Subtotal International Equity Managers	13,188,029
Fixed Income Managers	
BlackRock	149,236
Loomis, Sayles & Co.	2,427,087
MacKay Shields	503,069
Pacific Investment Management Co.	2,507,429
T. Rowe Price	735,176
Western Asset Management Co.	1,539,458
Subtotal Fixed Income Managers	7,861,455
Foreign Currency Overlay Manager	
BlackRock	750,000
Pareto Partners	1,320,000
Russell Overlay	862,911
Subtotal Foreign Currency Overlay Manager	2,932,911
Real Estate & Alternative Investment Managers	
AEW Capital Management	2,229,190
Brookfield Redding	1,509,720
Duff & Phelps	212,373
Principal	377,418
Subtotal Real Estate & Alternative Managers	4,328,701
Cash Equivalent Manager	
Payden & Rygel Investment Counsel	314,801
Subtotal Cash Management	314,801
Total Investment Management Fees	36,315,675
Other Fees and Expenses	
Mellon Trust - Custodian Fees and Other Expenses	996,101
Consultant Fees	1,709,066
Legal Expenses	198,567
Partnership Management Expenses[1]	8,366,879
Subtotal Other Fees and Expenses	11,270,613
Total	$47,586,288

1) FY2010 Partners Exp were included in revenues.

2011 Comprehensive Annual Financial Report

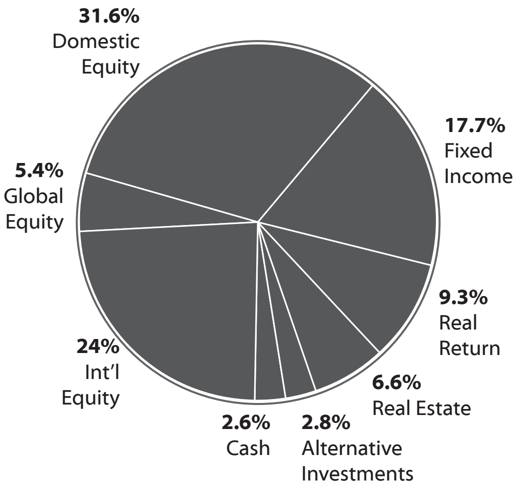
Investments

Kansas Public Employees Retirement System

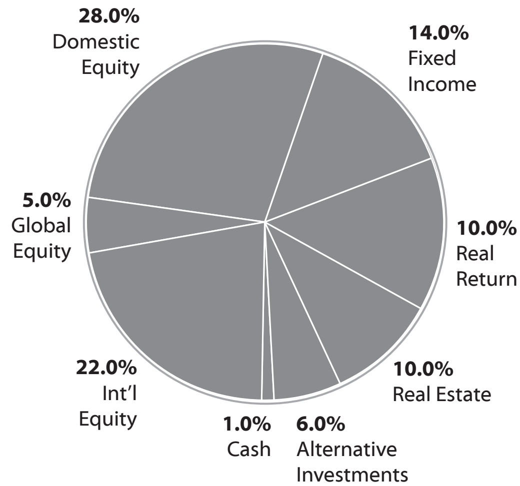
CHIEF INVESTMENT OFFICER'S REVIEW

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 net earnings on these assets. Total investment assets at the end of fiscal year 2011 were $13.236 billion. The System's investment portfolio is managed for the long term, in an effort to generate adequate returns to pay the benefits promised to members. In order to achieve that goal, the assets receive the benefit of a broadly diversified investment portfolio which includes domestic and non-U.S. stocks, bonds, real estate, alternative investments, and cash equivalents.

Asset Allocation, Current (6/30/11)



Asset Allocation, Target



Asset Allocation

Portfolio investments are diversified among seven different asset classes and eight sub-portfolios for asset allocation and investment performance purposes, including: domestic equity; international (non-U.S.) equity; global equity; fixed income; "real return" assets; real estate; alternative investments; and cash equivalents. (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 Retirement System's investment portfolio. This allocation reflects the System's long-term investment orientation and the expectation that equities will provide high relative returns over time. Equity investments allow the System's investment portfolio to participate in the investment returns produced by companies seeking to grow and profit from their business activities. Equity investments are made globally, sourcing investment return from both domestic and foreign companies, and diversifying the accompanying investment risk across a broad spectrum of economies, currencies and economic sectors. Managing such a dynamic and diversified portfolio requires significant expertise, and the board of trustees has carefully selected several investment managers to construct and manage equity portfolios that work together to provide risk-controlled exposure to equity returns on a global basis.

Fixed income investments, the next largest portion of the portfolio, exist to source investment returns from this large, relatively stable asset class. The fixed income portfolio helps to protect the System's assets from downside volatility by diversifying the risk of equity investing, and providing a source of income. The fixed income portfolios are constructed using broad mandates, with global opportunities in mind. While these portfolios principally contain U.S.-based and U.S.-dollar denominated assets, the fixed income investment managers have significant latitude to seek out and capture fixed income returns globally, consistent with the System's belief in global sourcing of return and diversification of risk.

Investments in real return assets, real estate, alternative investments and cash equivalents complete the portfolio. The real return asset category presently contains Treasury inflation protected securities (TIPS) and relatively new investments in timber and infrastructure assets. New strategies for this asset class are under review, as we work to build inflation protection into the overall investment portfolio. Real estate investments generate returns in a different manner than equities or fixed income investments, since real estate follows a different (and, typically, longer) market cycle. Because it moves in a different market cycle than publicly-traded stocks and bonds, real estate provides diversification advantages, as well as some inflation protection, to the investment portfolio. KPERS' alternative investments, which consist primarily of investments in private partnerships that make venture capital investments, pursue leveraged buyout strategies or own private debt, represent the higher end of the investment risk/return spectrum. Private equity managers pursue higher growth opportunities in pursuit of higher returns, with commensurate investment risk. Finally, cash equivalents are held primarily to facilitate investment transactions and cash flows needed to pay benefits.

During fiscal year 2011, the board of trustees undertook an asset/liability study. With the guidance of the System's investment consultant, Pension Consulting Alliance, the board reviewed projections of liabilities (pension benefits), return assumptions for different asset classes, and assessed the System's risk tolerance level. The result of the study was the adoption of a new target asset mix in July 2011.

Investment Policy

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

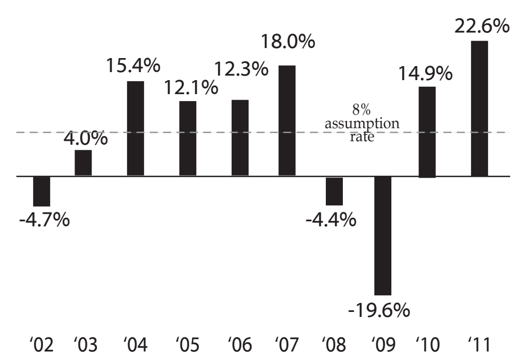
The Statement is the product of the board's careful and prudent study and is reviewed annually and updated as needed. It sets forth the investment policies, objectives, and guidelines which the board of trustees judge to be appropriate and prudent, in consideration of the needs of the System, and to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

Among other things, the Statement establishes the criteria against which retained investment managers 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 2011 Investment Performance

KPERS' total investment portfolio experienced a 22.6 percent total return for the one year ending June 30, 2011. This follows a 14.9 percent total return in fiscal year 2010. The 22.6 percent return represents the fourth highest fiscal year return since 1986 and highest in the last ten fiscal years.

Return Rates By Fiscal Year



The 2011 results trailed the KPERS Policy Index by 0.60 percent for the fiscal year. The System's total return ranked in the 21st percentile of the Wilshire TUCS universe for all plans. A schedule of return rates and net asset value by asset class is on page 62, followed by a schedule of changes in the fair value of investments.

The System's investment portfolio benefitted from historically strong equity markets around the world, with the domestic, international, and global equity portfolios all producing returns above 30 percent. For most of the fiscal year, the global economic and market environment experienced gradual improvement, with low and declining interest rates, and rising stock markets. As the Federal Reserve implemented a second round of quantitative easing in the U.S. and corporate earnings growth accelerated, equity market valuations expanded. Declines in the value of the U.S. dollar relative to other currencies added to total returns from international stocks for U.S. based investors. In the fixed income markets, credit spreads (yields on credit sectors like investment grade corporate debt, high yield debt, and emerging market debt) tightened, and those sectors outperformed U.S. Treasury and agency securities. The year was not without volatility, however, particularly in early 2011, when the "Arab Spring" political uprisings in the Middle East/North African nations, followed by the earthquake and tsunami in Japan in March, coupled with the European sovereign debt crisis, caused global financial markets to react quickly to a rapidly changing environment.

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

EQUITY INVESTMENTS

As of June 30, 2011, the market value of the KPERS equity portfolio was $8.12 billion, (which includes a notional value of $55.0 million of domestic equity futures exposure), representing 61.0 percent of the total fund. The KPERS equity portfolio is currently overweight to the 55 percent target. A list of KPERS' ten largest equity holdings is on page 64 and a list of U.S. equity commissions paid by KPERS for the fiscal year is on page 63.

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 accounts for 31.6 percent of the total fund versus a 28.0 percent target asset allocation. The System uses several strategies within the domestic equity portfolio, which are designed to add value while controlling risk relative to the benchmark. During the fiscal year, the System terminated the BlackRock Domestic Alpha Tilts Enhanced Index Strategy. Also during the fiscal year, a liquidation plan was put in place for the Brookfield Preferred REITs account due to the low level of liquidity in the preferred REIT market. (The target liquidation completion date is December 31, 2011.) Lastly, Western Asset Management was removed from the Portable Alpha program and those assets were reallocated to other strategies.

The overall portfolio is benchmarked against the Russell 3000 Index, a broad index made up of the largest 3,000 domestic stocks. The index can be broken down further by company size, with the Russell 1000 Index representing the largest 1,000 stocks, the Russell Mid Cap Index representing the smallest 800 securities in the Russell 1000 Index, the Russell 2500 Index representing the smallest 2500 securities in the Russell 3000 Index and the Russell 2000 Index representing a group of the smallest capitalization stocks. Each strategy is measured against either a large cap, mid cap, small-mid cap or small cap benchmark. While no individual strategy is benchmarked against the Russell 3000 Index, collectively the strategies are assembled in such a way to approximate the index in terms of company size and industry weight.

In terms of size, the second category is the international equity portfolio, which makes up 24.0 percent of the total fund versus a 22.0 percent target asset allocation. Within this portion of the portfolio, seven separate equity strategies are used in an attempt to outperform the benchmark while keeping risk at a reasonable level. Investing in international securities brings with it another exposure that has to be considered – currency risk. Given the amount allocated to foreign markets, it is important that the System consider how currency fluctuations impact the portfolio. To manage this exposure, the System utilizes two distinct strategies. One strategy is designed to hedge currency risk and the second is designed to take advantage of inefficiencies within the currency markets. The benchmark used for the international equity portfolio is the Morgan Stanley Capital International (MSCI) All Country World Index (ACWI), excluding the United States. This index has a total of 44 countries, 23 developed countries and 21 emerging countries, weighted by market capitalization. As of June 30, 2011, countries in this index accounted for over 57.2 percent of the world's equity capitalization, as reported by MSCI's broadest benchmark, the All Country World Index.

Global equities make up the final category and account for 5.4 percent of the total fund versus a 5.0 percent target asset allocation. 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 strong for the year ending June 30, 2011. Among the major developed markets, Egypt performed the worst (returning -17.9 percent) and Poland performed the best (returning 57.8 percent) according to the Morgan Stanley Capital International (MSCI) All Country World Index, excluding the United States.

Returns for the domestic benchmark got off to a positive start for the first half of the fiscal year, returning 24.5 percent by the end of December. The international benchmark also started off the fiscal year in positive territory, returning 25.0 percent by the end of December. The strong domestic performance for the first half of the fiscal year was partially a result of a continuation of the market rebound that began in the third quarter of the 2009 fiscal year. A number of U.S. economic indicators, including payroll, manufacturing, GDP and corporate profits, surprised to the upside during the first half of fiscal year 2011. Unemployment started the fiscal year at 9.5 percent and by the end of the first half fiscal year 2011, unemployment had decreased to 9.4 percent. In November, the Federal Reserve initiated Quantitative Easing part II (QE2) by injecting another $600 billion into the financial system via the practice of buying Treasury bonds. Initial reaction to QE2 was increased buying in the equity markets which helped to support returns for the first half of fiscal year 2011. Gold also hit all-time highs during the year. Not all news during the first half of the fiscal year was positive, however. Oil prices continued to increase, rising 18.0 percent by December 31. Home prices continued to put pressure on the economy, decreasing -3.8 percent by the end of the first half of the fiscal year. Many countries in the Euro zone, including Greece, Ireland, Portugal, and Spain, were experiencing serious problems funding their governments. Drastic budget shortfalls and the need to implement fiscal austerity plans caused social unrest in some cases and the need for coordinated bailouts across the Eurozone.

The financial markets began calendar year 2011 with strong positive returns during the fiscal third quarter. The U.S. GDP growth was revised up, manufacturing in the U.S. was reported to be expanding and the unemployment rate decreased even further to 8.8 percent by March 31. Oil prices rose above $100/barrel during the fiscal third quarter, but this was not enough to put significant downward pressure on equity prices. International market returns lagged domestic market returns in the fiscal third quarter. An earthquake off the coast of Japan triggered a devastating tsunami and a nuclear catastrophe which caused severe supply chain problems for Japan and other international markets. The continuation of the European debt crisis also contributed to lower international returns.

The equity markets ended the fiscal year with positive performance, despite closing the fiscal year fourth quarter with weak performance after a round of negative economic data and events. U.S. manufacturing decreased -9.6 percent (-33.4 percent annualized) while industrial production strengthened during the fiscal fourth quarter. Unemployment rose to 9.2 percent and retail sales decreased during the fiscal fourth quarter while inflation, as measured by both CPI and CPI core, increased. The Japan earthquake and tsunami, the European debt crisis, and rising inflation with lower growth forecasts in emerging markets continued to put downward pressure on global equity markets. For the second half of fiscal year 2011, the domestic and international benchmarks returned 6.4 percent and 3.8 percent, respectively. For the entire fiscal year 2011, the domestic equity benchmark returned 32.4 percent and the international equity benchmark returned 29.7 percent.

Performance

Performance for the fiscal year for the publicly-traded equity portfolios are as follows:

- Domestic 31.4 percent
- International 31.4 percent
- Global 31.1 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 $4.21 billion at the end of the fiscal year, which includes $55.0 million of domestic equity futures exposure. For the year, the portfolio's return was up 31.4 percent. Small and small-mid capitalization securities outperformed large and mid capitalization stocks, while mid capitalization stocks outperformed large capitalization stocks, with the Russell 1000 returning 31.9 percent, the Russell Midcap Value returning 34.3 percent, the Russell 2500 returning 39.3 percent, and the Russell 2000 returning 37.4 percent. The portfolio underperformed the Russell 3000 Index, which returned 32.4 percent. The majority of the underperformance was attributable to the underperformance of a small-mid cap value manager and an allocation to Preferred REITs.

The international equity portfolio produced a strong absolute and relative performance, ending the fiscal year with a value of $3.19 billion. This portion of the portfolio returned 31.4 percent, compared to the broad MSCI All Country World Index ex U.S. return of 29.7 percent. The System hired five new investment managers in late 2009. (At the end of the current fiscal year, only two of the seven strategies have been in place longer than three years.) For the fiscal year, six of the seven international strategies outperformed their benchmark.

The global equity strategy has been in place for a little more than six years. This component of the portfolio is staffed by two active managers, both of whom have built a team of analysts to invest in the best stocks regardless of where the company is domiciled. Over the last year, the global portfolio outperformed the benchmark slightly, returning 31.1 percent compared to the MSCI All Country World Index's return of 30.8 percent.

FIXED INCOME INVESTMENTS

As of June 30, 2011, KPERS fixed income portfolio had a market value of $2.35 billion, representing 17.7 percent of the total fund. This is above the target allocation of 15 percent and within the 4 percent bands around the target allocation. The return for the fixed income portfolio was 9.9 percent for the fiscal year. A list of KPERS' ten largest fixed income holdings is on page 64.

Highlights

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

Portfolio Structure

The fixed income portfolio contains two allocations: core plus and strategic. The "core plus" strategy offers managers broad guidelines and consists primarily of traditional investment-grade securities. The "strategic" strategy allows the use of more defined strategies, allowing staff and the System's fixed income investment managers to better control and manage the risk/return profile of the portfolio to capture incremental return. The core plus allocation uses the Barclays Capital Universal Index as the benchmark, and the strategic 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.

Market Overview

The Federal Reserve's stimulative monetary policy started to show signs of stalling out toward the end of calendar 2010. U.S. GDP had been growing at 2.5 percent in the third quarter of 2010, but declined to growth of 2.3 percent in the fourth quarter and then to 0.4 percent in the first quarter of 2011, before improving slightly to a 1.0 percent rate of growth in the second quarter of 2011. The weak employment situation negatively affected consumer confidence (as measured by the Conference Board) which started the fiscal year at 54, rising to 60.6 by January 2011 but then declined to 57.6 by June 2011.

The softening of economic growth tempered investors' appetite for spread (credit related issues) product somewhat. However, credit sectors still outperformed similar duration U.S. Treasuries for the fiscal year. The ten-year U.S. Treasury started the fiscal year yielding 2.93 percent and ended the year at 3.16 percent. Investment grade credit spreads narrowed from 193 basis points in June 2010 to 157 in June 2011, high yield spreads narrowed from 700 basis points in June 2010 to 550 basis points in June 2011 and emerging market debt spreads narrowed from 364 basis points to 310 basis points in June 2011. The first half of the fiscal year saw strong credit performance, with the investment grade corporates +2.70 percent, high yield corporate +11.34 percent, and emerging market debt +6.33 percent. The second half of the fiscal year produced a different rate environment, with the ten-year U.S. Treasury +3.10 percent, investment grade corporates +3.41 percent, high yield corporates +6.10 percent, and emerging market debt +5.09 percent.

Performance

The total fixed income portfolio returned 9.9 percent for the fiscal year, outpacing its benchmark, the Barclays Capital Universal Index, which returned 4.8 percent. The outperformance of the portfolio was primarily due to the corporate credit exposure (18 percent), high yield exposure (17 percent) and the emerging market debt exposure (8 percent) and non-dollar debt exposure (9 percent) at the close of the fiscal year. These sectors outperformed during the first three quarters of the fiscal year as signs of improving economic growth, reduced unemployment, and increased consumer confidence fostered narrowing credit spreads. This trend was somewhat muted in the end of the second quarter as economic growth began to falter.

REAL RETURN INVESTMENTS

As of June 30, 2011, the real return portfolio had a market value of $1.236 billion, representing 9.3 percent of the total fund. This allocation was below the target allocation of 14 percent. The portfolio had an 8.7 percent total return for the fiscal year.

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 held a 10 percent allocation to long-dated Treasury Inflation Protected Securities (TIPS). The real return portfolio has a primary investment objective of inflation protection, with a secondary objective of the production of current income. By adding timber and infrastructure assets to the TIPS portfolio, the board hopes to broaden and diversify the System's exposure to inflation-related assets, as well as improve the current yield of the real return portfolio.

Portfolio Structure

Long-term target allocations for the real return portfolio are 50 percent TIPS, 30 percent "real" assets (including timber, infrastructure and other investments), and 20 percent absolute return strategies. As this portfolio is relatively new, and these types of investments require a long lead time for research, due diligence, and acquisition, the System expects this portfolio to be constructed over the next three to five years. At fiscal year end, the portfolio was allocated roughly 97 percent to TIPS and 3 percent to real assets, with small initial allocations to timber and infrastructure.

TIPS

As the fiscal year began in July, 2010, the financial markets were concerned about the slowdown in economic growth, combined with fears of deflation. As a result, the TIPS market underperformed nominal U.S. Treasury securities early in the fiscal year. Following the Federal Reserve's Open Market Committee statement in September, 2011, which showed the Federal Reserve's conviction in reenergizing the domestic economy with additional quantitative easing, the TIPS market outperformed nominal U.S. Treasury securities, with break even spreads (the difference between the nominal yield and the real yield) widening by 30 basis points. In October, 2010, after the Federal Reserve announced the second round of quantitative easing (dubbed "QE2"), the TIPS market continued to outperform. For the first time in the history of TIPS, a TIPS auction offered a negative yield on the five-year TIPS. The global economic disruptions that occurred in the second half of the fiscal year (including the "Arab Spring" uprising and the earthquake and tsunami in Japan), followed by concerns about the European debt situation, created a flight to quality by global investors, with renewed interest in U.S. Treasury securities, both nominal and TIPS. The U.S. TIPS market again outperformed nominal Treasuries in this environment.

Timber

Timber investments are a subcomponent of the System's real return asset allocation due to their historically high correlation to inflation. The latest fiscal year reflects a milestone of sorts, as the System made its first direct investment in a Southern Pine plantation timber property located in east Texas. The transaction was completed during the second quarter of the fiscal year and is still in the "J-curve" as a result of investment and management related costs. Over time, timber investments are expected to provide the system with current cash yields and modest capital appreciation.

The System has allocated a total of $100 million to two different timber investment management organizations (TIMOs) and expects that capital to be called over the course of the next one to three years, as attractive investment opportunities arise. The primary geographic focus areas for the current timber manager line-up are the Southeastern and

Western timber regions in the United States. Additional timber investments are currently being considered for the Alleghany and Great Lakes timber regions, as the System looks to continue to diversify across multiple regions, tree species and end product markets.

The broad timber market is currently experiencing weak demand as a result of economic headwinds, most of which are associated with existing housing demand in the United States. Current market weakness may represent opportunities to acquire timber holdings at attractive pricing, as the System patiently builds out the timber allocation over a period of several years.

Infrastructure

The System's initial investment in the Brookfield Americas Investment Fund performed very positively during the past year. To date, the strategy has invested on a value basis in the transportation, renewable power generation and electricity transmission sectors. The fund has generated a gross return well in excess of its target of 15 percent, largely as a result of a solid cash distribution generated from stable, cash producing assets. The transaction environment remains favorable for the fund as it continues to seek additional investments that generate attractive risk adjusted returns.

REAL ESTATE

For fiscal year 2011, the System's target asset allocation for real estate was 10 percent. As of June 30, 2011, the real estate portfolio had a market value of approximately $883 million, representing 7 percent of the total fund. The real estate portfolio is primarily designed to provide diversification to the broader portfolio, while also serving as an inflation hedge. A secondary objective of KPERS' real estate portfolio is to pursue opportunities with a meaningful income component. Capital appreciation is a tertiary objective of current real estate investment activities.

Portfolio Structure

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

Segment	Allocation Position 6/30/11	Allocation Target 6/30/11
Core Private Real Estate	46.9%	50%
Non-Core Private Real Estate	29.4%	25%
Real Estate Securities	23.7%	25%

Core Real Estate

The largest segment of the real estate portfolio is "Core" real estate. This portion of the portfolio is expected to produce steady current income in the form of investment yield while providing portfolio diversification and serving as an inflation hedge. KPERS' Core portfolio currently consists of (i) a separate account that contains nine directly-owned commercial properties in the United States, as well as (ii) partial and full commitments to four commingled funds.

Non-Core Real Estate

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

Real Estate Securities

The publicly-traded Real Estate Securities segment is implemented utilizing managers who invest actively in domestic and international real estate investment trusts and similar vehicles.

Market Overview

Real estate markets remain bifurcated, with the highest-quality assets in the best locations trading at substantial premiums, while other assets continue to trade at discounts that exceed long-term averages.

Core Real Estate

Throughout fiscal year 2011, valuations for Core assets in the developed markets continued to rise. A widely-accepted index of Core open-end funds in the United States delivered a 19.3 percent net return for the year ended June 30, 2011, and a 4.4 percent net return for the quarter (18.8 percent annualized). Income returns have increased to historical levels of about 6 percent per year, while the rest of these returns were driven by appreciation. This is atypical for Core real estate investments, and reflects somewhat of a rebound off the troughs experienced in 2008 and 2009.

Appreciation was driven by both capital inflows into the sector and by slightly improved operating assumptions as the economy remained in a state of slow recovery. To date, appreciation has been focused primarily on the strongest assets in select gateway markets. Further market uncertainty could result in an additional flight to quality, causing valuations for these types of assets to continue to increase. The Retirement System has been, and remains, positioned to benefit from rising values through its existing Core positions.

Non-Core

With a slow and uncertain economic recovery, many investors have been wary of Non-Core assets (i.e., those assets that have significant vacancy, are in need of capital improvements or that carry other risks). The wave of capital that has washed over the asset class has not yet caused valuations for Non-Core assets to rise as much as those of Core assets. As a result, risk premiums in this space remain well above historical averages for even moderate levels of risk. In this environment, opportunities exist for investors that can partner with strong operators with both requiring a long-term investment horizon.

To pursue these Non-Core opportunities during fiscal year 2011, KPERS committed to two multifamily operators, an East Coast office operator, a national operator of industrial warehouse assets and a manager of a diversified portfolio. In each case, the manager has specific operating advantages and expertise which is expected to improve returns and reduce risk. The System's current focus on Non-Core managers with established platforms and significant alignment of interests, combined with strong track records in spaces that are expected to be positively impacted by demographic changes, are expected to position this component of the portfolio well going forward.

Real Estate Investment Trusts (REITs)

REITs exhibited above-trend performance in fiscal year 2011, following a strong recovery in fiscal year 2010. European REITs posted the strongest returns, following a relatively moderate rebound in fiscal year 2010. Many REITs traded at substantial premiums to estimated underlying net asset value through the year.

Performance

The total real estate portfolio returned 22.7 percent for the fiscal year, underforming its custom policy benchmark by 100 basis points.

For the year, Core real estate delivered an overall gross return of 21.2 percent, slightly below the average for the broader real estate portfolio. This annual return reflected a 7.2 percent income return, with the remainder consisting of appreciation.

Non-Core real estate delivered an annual gross return of 22.1 percent, also slightly below the average for the broader real estate program. This return reflected a 3.6 percent income return, with the remainder consisting of appreciation. Within the Non-Core portfolio, returns were widely dispersed. Some of the funds that were hit hardest during the downturn are now recapturing some of their losses, with high levels of leverage (resulting from write-downs) amplifying their returns. Many funds are also creating value through leasing and similar activities. All funds benefitted during the year from modest improvements to the economic landscape, with the vast majority generating substantial positive returns.

The REIT portfolio delivered an annual return of 29.9 percent for fiscal year 2011, exceeding the average for the broader real estate portfolio. All three of the System's domestic REIT managers outperformed the MSCI U.S. REIT Index during the fiscal year. Overall, domestic REITs outperformed the international REITs in the portfolio during the fiscal year. The lowest return within the REIT portfolio was delivered by a preferred REIT investment in the United States, which is designed to provide steady, lower-risk returns. That investment delivered a 17.2 percent return for the year which represented 420 basis points of outperformance versus the BofA Merrill Lynch REIT Preferred Index.

ALTERNATIVE INVESTMENTS

For fiscal year end 2011, the System's alternative investment portfolio had a fair market value of $369.4 million, representing 2.8 percent of the total KPERS portfolio, compared to an asset allocation target of 6 percent. Since the inception of the alternative investment program in 1997, the System has committed $1.5 billion to 72 funds with 52 general partners. The long-term return objective is to achieve a rate of return that exceeds the broad public equity market returns.

Highlights

The 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.

Five new funds totaling approximately $120 million of commitments were approved for investment including two middle market buyout funds, one European buyout fund, one growth equity fund and one energy focused fund.

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 57 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 $130.6 million of cash and securities which the System reinvested or used to pay benefits to retirees.

The next largest portfolio is the newly formed Private Equity Program. 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 $429 million to 18 funds. Of that total, $292 million remains to be contributed for investment. During the fiscal year, approximately $120 million was committed to three new funds. The market value of the PEP portfolio increased to 43 percent of the asset class at the end of the fiscal year compared to approximately 27 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. As required by K.S.A 74-4904, a schedule of alternative investments initiated on or after July 1, 1991, is listed on pages 65 and 66.

Market Overview

The global private equity market, along with global capital markets, continued to show strong improvement through 2010 and the first half of 2011. While economic growth remained modest, the improved visibility and capital markets enabled companies to more accurately forecast future results and improve their balance sheets. As a result, private equity investment increased substantially over the low levels of activity seen in 2009 as buyer and seller expectations aligned. Exit activity also increased as investors moved back into riskier assets driving demand for IPOs and corporations began investing again driving strategic acquisitions. Both of these factors led to substantial increases in the realizations from private equity investments, along with increases in the carrying values of current holdings. However, there remain a number of substantial risk factors particularly in the large developed economies of the U.S. and Europe related to weak economic growth and sovereign debt concerns which could impact private equity as uncertainty creeps back into the 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 10.9 percent compared to its benchmark of 6.4 percent. In the short-term, the portfolio returned 24.9 percent for the fiscal year compared to its benchmark of 35.4 percent.

Asset Class Relative Return Comparison

As of June 30, 2011, annualized time weighted total return

Asset Class	1-Year	3-Year	5-Year
Total Portfolio	22.6%	4.3%	5.0%
Policy Index	23.2%	4.3%	5.3%
Consumer Price Index	3.4%	1.0%	2.1%
Domestic Equity Portfolio	31.4%	4.2%	3.0%
Russell 3000 Index	32.4%	4.0%	3.4%
International Equity Portfolio	31.4%	-1.4%	3.3%
KPERS Int'l Equity Benchmark	29.7%	-0.2%	4.0%
Global Equity Portfolio	31.1%	0.6%	2.9%
MSCI All Country World Index	30.8%	1.5%	3.7%
Fixed Income Portfolio	9.9%	10.1%	8.4%
KPERS Fixed Income Benchmark	4.8%	6.7%	6.6%
Real Return Portfolio	8.7%	6.2%	7.3%
KPERS Real Return Benchmark	7.7%	5.3%	6.8%
Real Estate Portfolio	22.7%	-4.4%	0.4%
KPERS Real Estate Benchmark	23.7%	2.0%	5.8%
Alternative Investment Portfolio	24.9%	7.5%	10.9%
KPERS Alt Inv Benchmark	35.4%	7.1%	6.4%
Cash Equivalents Portfolio	0.6%	1.1%	2.6%
Merrill Lynch 0-1 Yr. Treasury Index	0.4%	0.9%	2.5%

Note: Manager Active Reserves, which are managed by Payden & Rygel, are included in the manager's asset class Net Asset Values.

Changes in Fair Value of Investments[1]

For fiscal year ended June 30, 2011 (in thousands)

	June 30, 2010 Fair Value	Purchases and Other Increases	Sales and Other Decreases	June 30, 2011 Fair Value	Asset Mix Fair Value
Marketable Securities					
Domestic Equities	$2,659,705	$1,718,910	$(592,021)	$3,786,594	28.61%
International Equtites	2,840,752	1,648,080	(617,083)	3,871,749	29.25
Total Fixed Income	3,873,631	5,601,320	(5,673,680)	3,801,271	28.72
Temporary Investments[2]	588,398	20,890,954	(21,113,783)	365,569	2.76
Total Marketable Securities	9,962,486	29,859,264	(27,996,567)	11,825,183	89.34
Real Estate and Alternative Investments					
Real Estate	885,584	432,922	(276,777)	1,041,729	7.87
Direct Placements and Limited Partnerships	383,618	109,531	(123,756)	369,393	2.79
Total Real Estate and Alternative Investments	1,269,202	542,453	(400,533)	1,411,122	10.66
Total	$11,231,688	$30,401,717	$(28,397,100)	$13,236,305	100.00%

1) Amounts include changes in unrealized appreciation and exclude interest and dividend accruals. Amounts exclude security lending cash collateral of $1,144,214,739 for FY 2010, and FY 2011 cash collateral of $960,689,299.

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

U.S. Equity Commissions
For the fiscal year ended June 30, 2011

Broker Name	Commissions Paid	Shares	Commission Per Share	Percent of Total Commissions
Goldman Sachs & Co, NY	$872,068	5,647,466	$0.15	29.8%
Stifel Nicholaus	230,463	4,773,837	0.05	8.0
Liquidnet Inc, Brooklyn	129,005	8,453,937	0.02	4.4
Morgan Stanley & Co Inc, NY	109,956	15,120,258	0.01	3.8
Credit Suisse, NY	101,615	4,537,432	0.02	3.5
Investment Technology Groups, NY	75,994	5,461,744	0.01	2.6
Deutsche Bk Secs Inc, NY	71,436	5,777,235	0.01	2.4
Merrill Lynch Pierce Fenner Smith Inc, NY	68,907	2,524,082	0.03	2.4
UBS Securities LLC, Stamford	60,476	2,020,823	0.03	2.1
Citigroup Gbl Mkts Salomon, NY	56,937	5,893,116	0.01	1.9
Sandler O'Neill & Partners, NY	56,614	1,290,938	0.04	1.9
Jefferies & Co Inc, NY	44,543	1,369,698	0.03	1.5
Citigroup Gbl Mkts Inc, NY	43,806	1,365,856	0.03	1.5
Wells Fargo Securities LLC, Charlotte, NC	32,935	960,672	0.03	1.1
Pershing LLC, Jersey City	31,724	1,186,554	0.03	1.1
Merrill Lynch Pierce Fenner Smith Inc, Willmington	30,259	22,784,423	0.00	1.1
JP Morgan Clearing Group, NY	28,203	1,253,169	0.02	1.0
Liquidnet Europe Limited, London	27,577	1,473,941	0.02	0.9
Baird, Robert W & Co Unc, Milwaukee	27,270	954,438	0.03	0.9
Cantor Fitzgerald & Co Inc, NY	25,893	850,964	0.03	0.9
Berstein Sanford C & Co, NY	22,631	889,046	0.03	0.9
Pulse Trading LLC, Boston	21,351	791,449	0.03	0.7
Barclays Capital Inc, New Jersey	20,407	800,783	0.03	0.7
BTIG LLC, Jersey City	18,972	804,835	0.02	0.6
Rochdale Securities Corp	17,725	590,833	0.03	0.6
Others	697,080	48,537,119	0.01	23.8
Total Broker Commissions	$2,923,847	146,114,648	$0.02	100%

List of Largest Holdings[1]
As of June 30, 2011

Equities

Shares	Security	Fair Value ($)
1,910,180	BG Group	$43,363,117
963,180	British American Tobacco	42,230,473
620,716	Nestle	38,518,303
477,682	Rio Tinto	34,437,400
407,851	Sanofi	32,782,934
996,825	Vale S A	28,868,052
1,086,472	Standard Chartered	28,571,249
436,653	Novartis	26,707,398
2,261,574	Prudential	26,142,077
32,833	Samsung Electronics	25,401,650

Fixed Income

Par Value	Security	Description	Fair Value ($)
50,000,000	US Treasury Note	.625% 07/31/2012	$50,205,100
50,000,000	US Treasury Note	.375% 08/31/2012	50,066,500
40,000,000	US Treasury Note	1.000% 04/30/2012	40,265,600
39,875,499	FNMA Pool #0AE0949	4.000% 02/01/2041	39,931,724
35,000,000	US Treasury Note	.750% 05/31/2012	35,169,400
30,800,000	Barclays CP Repo	.050% 07/01/2011	30,800,000
30,800,000	Barclays CP Repo	.060% 07/05/2011	30,800,000
29,500,000	US Treasury Note	3.50% 05/15/2020	30,797,410
30,000,000	Federal Natl Mtg Assn Discount	Mat 06/01/2012	29,940,450
21,150,000[2]	Government of Canada	3.50% 01/06/2020	22,733,973

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

2) In local currency.

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

As of June 30, 2011

Description	Cost	Market Value
Advanced Technology Ventures VI, L.P.	$9,708,575	$1,479,761
Apax Europe IV, L.P.	1,087,477	1,200,068
Apax Europe V, L.P.	11,962,178	7,483,049
Apollo Investment Fund VII, L.P.	10,181,924	15,001,802
Ares Corporate Opportunities Fund III, L.P.	8,598,183	11,417,716
Audax Mezzanine Fund III, L.P.	964,953	1,008,792
Battery Ventures V, L.P.	705,602	98,304
Battery Ventures VI, L.P.	6,175,661	2,662,315
Beacon Group Energy Fund II, L.P.	1,857,390	808,724
Behrman Capital II, L.P.	6,839,532	240,000
Behrman Capital III, L.P.	18,061,316	28,802,102
Capital Resource Partners IV, L.P.	7,689,813	3,939,996
Centerbridge Capital Partners II, L.P.	2,119,712	2,119,712
Cinven Second Fund US, L.P.	676,355	506,853
Clayton Dublier & Rice VI, L.P.	4,385,571	993,276
Cypress Merchant Banking II, L.P.	10,896,163	3,232,345
Dominion Fund V, L.P.	1,296,160	1,400,545
El Dorado Ventures IV, L.P.	1,833,722	153,676
El Dorado Ventures V, L.P.	4,854,680	268,350
El Dorado Ventures VI, L.P.	9,014,852	8,400,851
Encap Energy Capital VIII, L.P.	1,056,805	1,250,700
First Reserve Fund XII, L.P.	13,153,256	11,480,642
GSO Capital Soulutions Fund, L.P.	6,683,197	8,080,881
GTCR Fund VII, L.P.	—	139,476
GTCR Fund VII/A, L.P.	200,174	40,915
Halpern Denny Fund III, L.P.	5,112,428	1,263,344
Harvest Partners III, L.P.	3,663,388	545,355
JMI Equity Fund VII, L.P.	1,327,714	1,253,644
Kelso Investment Associates VI, L.P.	114,300	—
Littlejohn Fund II, L.P.	2,971,697	2,483,241
McCown De Leeuw & Company IV, L.P.	—	91,810
M.D. Sass Corporate Resurgence Partners, L.P.	2,618,659	1,894,043
M.D. Sass Corporate Resurgence Partners II, L.P.	4,459,237	1,819,090
M.D. Sass Corporate Resurgence Partners III, L.P.	5,234,970	1,090,990
Montagu IV, L.P.	1,717,540	1,683,579
New Enterprise Associates 13, L.P.	3,834,324	4,086,783
Oak Hill Capital Partners, L.P.	2,388,502	5,063,684
OCM Opportunities Fund II, L.P.	969,215	2,887
OCM Opportunities Fund III, L.P.	1,224,744	287,393
OCM Opportunities Fund VIIb, L.P.	12,375,000	29,380,221
OneLiberty Fund IV, L.P.	1,241,901	1,099,990
OneLiberty Ventures 2000, L.P.	16,581,399	7,358,727
Pine Brook Capital Partners, L.P.	8,300,288	7,667,513
Snow Phipps II, L.P.	2,683,538	2,679,882
TA IX, L.P.	6,211,969	9,338,219
TA Subordinated Debt Fund, L.P.	1,078,966	1,219,780
TCV IV, L.P.	9,683,105	2,557,942
Thomas H. Lee Equity Fund V, L.P.	8,583,215	16,787,521

Alternative Investments Initiated On or After July 1, 1991[1] (continuted)
As of June 30, 2011

TowerBrook Investors III, L.P.	7,385,093	9,756,891
TPG Partners VI, L.P.	11,313,585	10,887,291
Trinity Ventures VI, L.P.	373,519	21,842
Trinity Ventures VII, L.P.	7,352,157	2,356,750
Trinity Ventures VIII, L.P.	11,986,903	7,152,722
Washington & Congress Capital Partners, L.P.[2]	2,228,783	—
VantagePoint Venture Partners III, L.P.	7,533,543	2,938,570
VantagePoint Venture Partners IV, L.P.	23,450,590	18,056,068
Vestar Capital Partners IV, L.P.	10,226,640	12,836,954
VS&A Communications Partners III, L.P.	8,945,427	5,882,646
Warburg, Pincus Equity Partners, L.P.	81,099	1,046,396
Warburg Pincus Private Equity X, L.P.	36,593,479	39,598,956
Welsh, Carson, Anderson & Stowe IX, L.P.	8,801,274	11,523,742
Welsh, Carson, Anderson & Stowe VIII, L.P.	3,573,430	2,946,973
Willis Stein & Partners II, L.P.	1,829,879	52,879
Willis Stein & Partners III, L.P.	34,718,114	27,858,455
Windjammer Mezzanine & Equity Fund II, L.P.	2,343,472	3,781,775
	$421,116,337	$368,565,400

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

2) Formerly Triumph Partners III, L.P.

2011 Comprehensive Annual Financial Report

Actuarial

Kansas Public Employees Retirement System

Cavanaugh Macdonald
CONSULTING, LLC
The experience and dedication you deserve

August 25, 2011

Board of Trustees
Kansas Public Employees Retirement System
611 S. Kansas Ave., Suite 100
Topeka, K. 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, 2010, for purposes of determining contribution rates for fiscal year 2014 for the State and 2013 for Local employers. The valuation results reflect the benefit provisions in place on December 31, 2010. There was no change to the actuarial assumptions or methods from the prior valuation.

This is the first actuarial valuation prepared by Cavanaugh Macdonald Consulting, LLC (CMC). As part of our transition work, we replicated the December 31, 2009, actuarial valuation. Results were well within acceptable limits, but as is typical in a takeover situation, there were differences in the key valuation results. CMC's calculation of the total System actuarial liability was $21.112 billion compared to $21.138 billion in the December 31, 2009, valuation. There was more variance in the normal cost rates, which is quite typical. Based on our experience of replicating valuation results from other software programs, these differences are neither unusual nor significant. It is very common for differences in valuation results to occur due to the use of different pension valuation software.

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 this 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 this report are for purposes of determining the recommended funding amounts for the System. Actuarial computations presented in this report 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, 2010, 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, 2010 actuarial valuation report. Accordingly, additional determinations may be needed for other purposes.

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

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

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

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

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

We certify that, to the best of our knowledge and belief, the December 31, 2010, 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.

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, 2010 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.

This is the first actuarial valuation prepared by Cavanaugh Macdonald Consulting, LLC (CMC). As part of our transition work, we replicated the December 31, 2009, actuarial valuation. Results were well within acceptable limits, but as is typical in a takeover situation, there were differences in the key valuation results. Our results for the present value of future benefits (PVFB) and actuarial liability (AL) were very close. There was more variance in the normal cost rates, which is common. Based on our experience of replicating valuation results from other software programs, these differences are neither unusual nor significant. It is very common for differences in valuation results to occur simply due to the use of different pension valuation software. A summary of the replication results follow. All dollar amounts are shown in millions.

	PVFB	Actuarial Liability	Normal Cost
State			
Milliman	$4,301	$3,697	8.20%
CMC	4,285	3,681	7.73%
% Change	-0.38%	-0.41%	-5.78%
School			
Milliman	$13,686	$11,437	8.65%
CMC	13,637	11,408	8.10%
% Change	-0.36%	-0.25%	-6.28%

	PVFB	Actuarial Liability	Normal Cost
Local			
Milliman	$4,650	$3,625	8.14%
CMC	4,643	3,626	7.65%
% Change	-0.15%	0.03%	-6.01%

	PVFB	Actuarial Liability	Normal Cost
KP&F			
Milliman	$2,812	$2,232	14.71%
CMC	2,824	2,249	14.33%
% Change	0.41%	0.74%	-2.61%
Judges			
Milliman	$188	$148	19.97%
CMC	186	148	20.32%
% Change	-1.01%	0.06%	1.76%

Senate Substitute for HB 2194 was passed by the 2011 Legislature and signed by the Governor. The intent of this law was to strengthen KPERS' long term funding and improve the sustainability of the system. This bill contained significant changes for both KPERS employers and current and future members. The bill established a 13-member KPERS Study Commission to study alternative plan designs during the remainder of 2011 and make a recommendation for plan design that will provide for the long term sustainability of the System. The Commission report is due to the Legislature by January 6, 2012. Report recommendations must be voted on in the 2012 Legislature for the other parts of the bill to become effective. Because of this contingency, the benefit and contribution changes included in Senate Substitute for HB 2194 are not reflected in the formal valuation results included in this report. However, due to the importance of this legislation and the dramatic impact it has on the long term funding of KPERS, key valuation results that reflect the impact of Senate Substitute for HB 2194 are included in this report. Due to the uncertainty related to whether the election option will be available to members and how members will make such an election if available, the results of the impact of Senate Substitute for HB 2194 are shown using the default options for both Tier 1 and Tier 2 members.

The substantive changes to KPERS included in Senate Substitute for HB 2194 include:

Employer Contribution Increases

Raises the cap on employer contribution rate increases from the current 0.60 percent to:

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

Tier 1 Members

The law creates a 90-day election period starting July 1, 2013, to permit Tier 1 members to choose between a 6 percent contribution rate with a 1.85 percent multiplier for all years of future service or a 4 percent contribution and a 1.40 percent multiplier for all years of future service. Changes are effective January 1, 2014, and impact only future service. The election is subject to approval by the Internal Revenue Service. If such approval is not granted, there will be no election and the default option will apply.

Tier 1 Member Contribution Rate	Benefit Provisions	
6% contribution	1.85% multiplier	Default option
or		
4% contribution	1.4% multiplier	

Tier 2 Members

The law also provides for a 90 day election period starting July 1, 2013, to permit Tier 2 members at that time to choose between the 1.75 percent multiplier and losing the cost of living adjustment (COLA) for all service or a 1.40 percent multiplier for future years of service and keeping the COLA. The multiplier change does not affect the service already earned by the members, but the COLA loss is for all service credit over the member's entire career. Changes are effective January 1, 2014. Similar to Tier 1, the election is subject to approval by the Internal Revenue Service. If such approval is not granted, there will be no election and the default option will apply. New employees will automatically have a 6 percent contribution rate and the 1.75 percent multiplier with no COLA.

Tier 2 Member Contribution Rate	Benefit Provisions	
6% contribution	1.75% multiplier Lose COLA (for all service)	Default option
or		
6% contribution	1.40% multiplier Keep COLA	

Inactive members returning to KPERS covered employment after July 2013 will receive the default option. Senate Substitute for HB 2194 also provides that 80 percent of the proceeds from excess real estate property sales will be used to pay down KPERS' unfunded actuarial liability.

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

The following table illustrates the impact of Senate Substitute for HB 2194 on the results of the December 31, 2010, actuarial valuation:

	State/School		Local	
	Baseline	HB 2194	Baseline	HB 2194
Actuarial Liability	$15,589	$15,581	$3,794	$3,790
Actuarial Assets	9,345	9,345	2,399	2,399
Unfunded Actuarial Liability	$6,244	$6,236	$1,395	$ 1,391
Funded Ratio				
Actuarial Assets	59.9%	60.0%	63.2%	63.2%
Market Value Assets	56.9%	56.9%	60.5%	60.5%
Actuarial Contribution Rate				
Normal Cost	8.03%	8.43%	7.68%	8.05%
Member Contribution	(4.17%)	(6.00%)	(4.20%)	(6.00%)
Employer Normal Cost	3.86%	2.43%	3.48%	2.05%
UAL Contribution	9.97%	9.98%	5.95%	5.94%
Total Employer Rate	13.83%	12.41%	9.43%	7.99%
Statutory Contribution Rate for FY beginning 2013	9.97%	10.27%	7.94%	7.94%
Contribution Shortfall	3.86%	2.14%	1.49%	0.05%

There were no changes in the actuarial assumptions or methods used in the valuation since last year. The valuation results provide a "snapshot" view of the System's financial condition on December 31, 2010. The unfunded actuarial liability, for the System as a whole, increased by $587 million due to various factors. In KPERS, the State, School and Local employers do not necessarily contribute the full actuarial contribution rate. Based on legislation passed in 1993, the employer contribution rates certified by the Board may not increase by more than the statutory cap. The statutory cap, which has been changed periodically, 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, 2010, Valuation[3]

System	Actuarial	Statutory	Difference
State[1]	9.82%	9.97%	(0.15%)
School[1]	15.12%	9.97%	5.15%
Local[1]	9.43%	7.94%	1.49%
Police & Fire - Uniform Rates[2]	17.26%	17.26%	0.00%
Judges	23.62%	23.62%	0.00%

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%	0.00%
Judges	23.75%	23.75%	0.00%

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

2) For KP&F, the statutory contribution rate is equal to the "Uniform" rate. The rate shown is for local employers. The rate for State employers is 17.12 percent this year, which includes a payment of 0.52 percent for the debt service payment on the bonds issued for the 13th check. The uniform rate does not include the payment required to amortize the unfunded past service liability or any 15 percent excess benefit liability determined separately for each employer.

3) The provisions of Senate Substitute for HB 2194, including changes to the statutory cap, are not reflected in this valuation.

Over the last decade, a significant amount of 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 negative investment experience in 2008 was a significant setback in the System's long-term funding. Although the investment returns in 2009 and 2010 were very strong (about 23 percent in 2009 and 13 percent in 2010) it has not fully reversed the damage done by the 2008 investment experience. As of this valuation date, the State group is at the ARC Date and the School and Local groups are in actuarial balance (the statutory contribution rate is projected to converge with the actuarial required contribution (ARC) rate before the end of the amortization period (2033), if all actuarial assumptions are met in future years.

The actuarial value of assets is about 5 percent higher than the pure market value or $672 million, down significantly from $1.7 billion last year. This is due not only to the strong returns in 2010, but also to the use of an asset smoothing method and the delayed reflection of market experience in the actuarial value of assets. The deferred losses from 2008 will be reflected in the actuarial value of assets over the next two 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, 2009 – December 31, 2010

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, 2010. 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, 2009, and December 31, 2010, actuarial valuations. On the following pages each component is examined and quantified.

Membership

The following table contains a summary of the changes in active members between the December 31, 2009, and December 31, 2010, actuarial valuations.

	State	School	Local
12/31/2009 (Starting count)	26,005	86,048	41,333
New actives	2,478	7,974	4,530
Nonvested Terminations	707	3,445	2,118
Elected Refund	742	1,591	1,486
Vested Terminations	529	2,055	1,072
Total Withdrawals	1,978	7,091	4,676
Deaths	67	119	61
Disabilities	91	113	71
Retirements	698	2,296	774
Other/Transfer	88	35	26
12/31/2010 (Ending count)	25,737	84,438	40,307

	KP&F	Judges	Total
12/31/2009 (Starting count)	7,179	266	160,831
New actives	514	3	15,499
Nonvested Terminations	184	0	6,454
Elected Refund	98	2	3,919
Vested Terminations	74	1	3,731
Total Withdrawals	356	3	14,104
Deaths	6	0	253
Disabilities	14	0	289
Retirements	141	2	3,911
Other/Transfer	(3)	0	146
12/31/2010 (Ending count)	7,173	264	157,919

Assets

As of December 31, 2010, the System had total funds when measured on a market value basis, of $12.9 billion, excluding assets held for the Group Insurance and Optional Life reserves. This was an increase of $1.1 billion from the December 31, 2009, figure of $11.8 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.

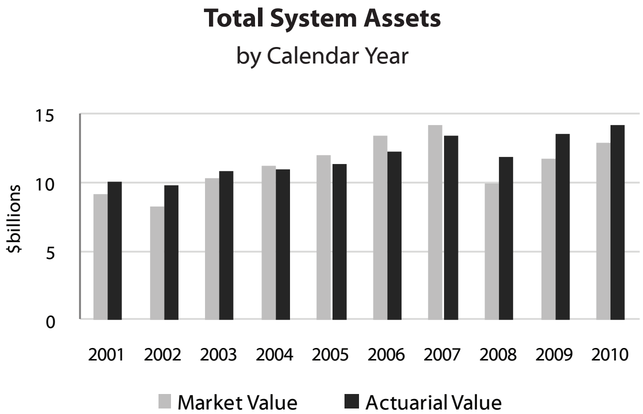
The components of the change in the market value and actuarial value of assets for the Retirement System (in millions):

	Market Value $ millions	Actuarial Value $ millions
Assets, 12/31/09	$11,755	$13,461
• Employer and Member Contributions	790	790
• Benefit Payments and Expenses	(1,165)	(1,165)
• Investment Income	1,538	504
Preliminary Asset Value, 12/31/10	$12,918	$13,590
Application of Corridor	N/A	N/A
Final Asset Value, 12/31/10	$12,918	$13,590

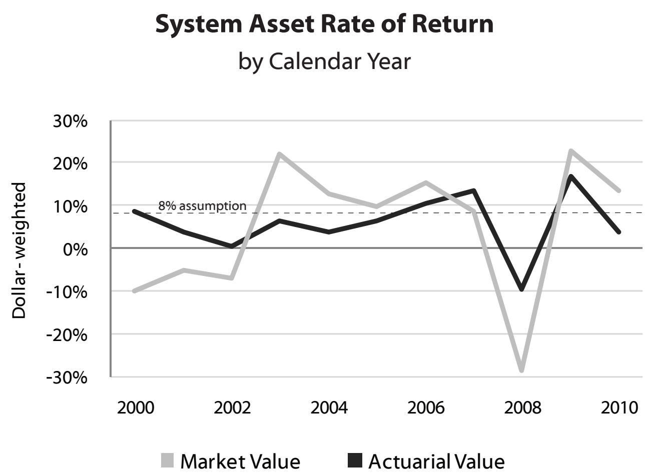
The actuarial value of assets as of December 31, 2010, was $13.590 billion. The annualized dollar-weighted rate of return for 2010, measured on the actuarial value of assets, was approximately 3.9 percent and measured on the market value of assets, as reported by KPERS, was 13.4 percent, net of investment and administrative expenses.

Due to the use of an asset smoothing method, there is about $672 million 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 two 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.



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



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	Total
Actuarial Liability	$3,815	$11,774	$3,794	$2,319	$152	$21,854
Actuarial Value of Assets	2,883	6,462	2,399	1,721	125	13,590
UAL	$932	$5,313	$1,395	$598	$27	$8,264

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

Other factors influencing the UAL from year to year include actual experience versus that expected based on the actuarial assumptions (on both assets and liabilities), changes in actuarial assumptions, procedures or methods and changes in benefit provisions. The actual experience measured in this valuation is that which occurred during the prior plan year (calendar year 2010). All three of the KPERS groups, KP&F, and Judges had a liability gain for the year, largely from lower salary increases than expected. There was an experience loss from the investment return on the actuarial value of assets for all groups.

Changes in Unfunded Actuarial Liability for System as a Whole

Unfunded Actuarial Liability, 12/31/09 (millions)	$7,677
– effect of contribution cap/time lag	320
– expected increase due to amortization method	68
– investment return on actuarial assets	560
– demographic experience[1]	(375)
– all other experience	41
– change in actuarial firm/valuation software	(27)
– change in actuarial assumptions	0
– change in benefit provisions	0
Unfunded Actuarial Liability, 12/31/10	$8,264

1) Liability gain is approximately 1.7 percent of total actuarial liability.

An evaluation of the unfunded actuarial liability on a pure dollar basis may not provide a complete analysis since only the difference between the assets and liabilities (which are both very large numbers) is reflected. Another way to evaluate the unfunded actuarial liability and the progress made in its funding is to track the funded status, the ratio of the actuarial value of assets to the actuarial liability. There was a change in actuarial assumptions in the 2004 and 2007 valuations, which impacted the UAL and the funded status.

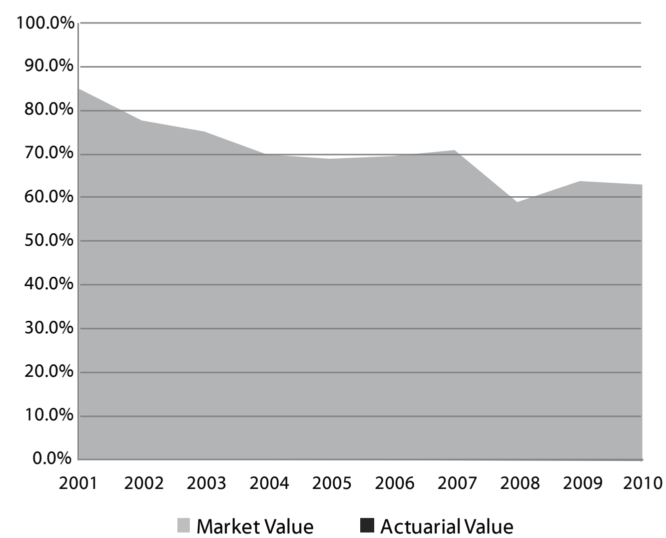
Funded Ratio and Unfunded Actuarial Liability by Calendar Year

	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10
Using Actuarial Value of Assets:						
Funded Ratio (AVA/AL)	69%	69%	71%	59%	64%	62%
Unfunded Actuarial Liability (AL-AVA)	$5,152	$5,364	$5,552	$8,279	$7,677	$8,264
Using Market Value of Assets:						
Funded Ratio (MVA/AL)	72%	76%	75%	49%	56%	59%
Unfunded Actuarial Liability (AL-MVA)	$4,583	$4,184	$4,817	$10,250	$9,384	$8,936

Due to strong investment returns, the funded status of the System generally improved in the latter part of the 1990s. Changes in actuarial assumptions and methods, coupled with investment returns below the assumed rate (particularly in 2008) significantly reduced the funded ratio. Strong investment performance in the last two years has increased the funded ratio.

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.

Funded Ratio
by Calendar Year



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, 2010, valuation will set rates for fiscal year end 2014 for the State and 2013 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:

December 31, 2010 Valuation(3)

System	Actuarial	Statutory	Difference
State(1)	9.82%	9.97%	(0.15%)
School(1)	15.12%	9.97%	5.15%
Local(1)	9.43%	7.94%	1.49%
Police & Fire - Uniform Rates(2)	17.26%	17.26%	0.00%
Judges	23.62%	23.62%	0.00%

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

2) For KP&F, the statutory contribution rate is equal to the "Uniform" rate. The rate shown is for local employers. The rate for State employers is 17.12 percent this year, which includes a payment of 0.52 percent for the debt service payment on the bonds issued for the 13th check. The uniform rate does not include the payment required to amortize the unfunded past service liability or any 15 percent excess benefit liability determined separately for each employer.)

3) The provisions of Senate Substitute for HB 2194, including changes to the statutory cap, are not reflected in this valuation.

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

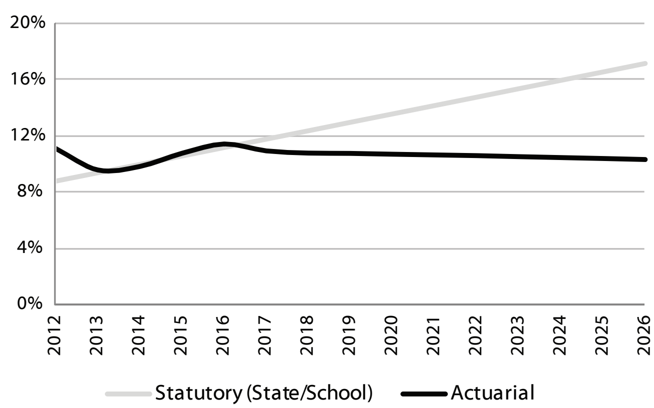
	Actuarial Rate	Statutory Rate
Retirement Age 55:	10.82%	10.44%
Retirement Age 60:	10.40%	10.30%

Due to statutory caps, the full actuarial contribution rate is not contributed for the School and Local groups. The State reached the ARC date (statutory contribution rate is equal to the actuarial contribution rate) with this valuation. Based on the current valuation, there is a difference (shortfall) between the actuarial and statutory contribution rates of 5.15 percent and 1.49 percent respectively for the School and Local groups. Assuming an 8 percent return on the market value of assets for 2011 and beyond, all other actuarial assumptions are met in the future, and the current level of statutory caps on the employer contribution rate, the estimated ARC date for the School group is FY 2031 and for the Local group is FY 2018.

The State group is at the ARC date with this valuation (contribution rate for FY 2014). The actuarial contribution rate is expected to be less than the statutory rate for the combined State/School group for the remainder of the amortization period.

Projected Employer Contribution Rates - State

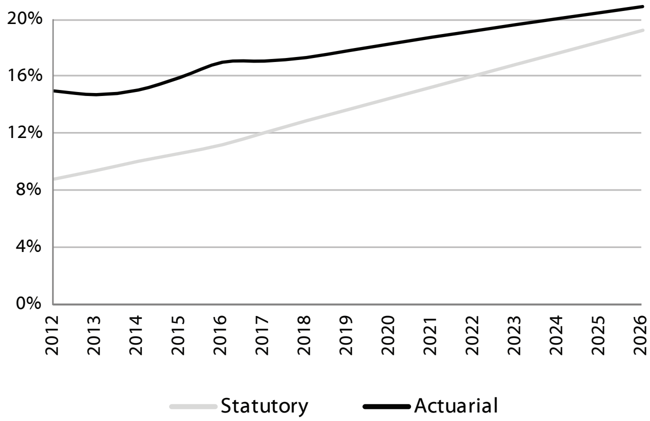
Fiscal Year End



The School ARC date is projected to occur in approximately 2031 at a rate of 20.02 percent. Future experience, especially investment returns, will heavily influence the ARC date and rate.

Projected Employer Contribution Rates - School

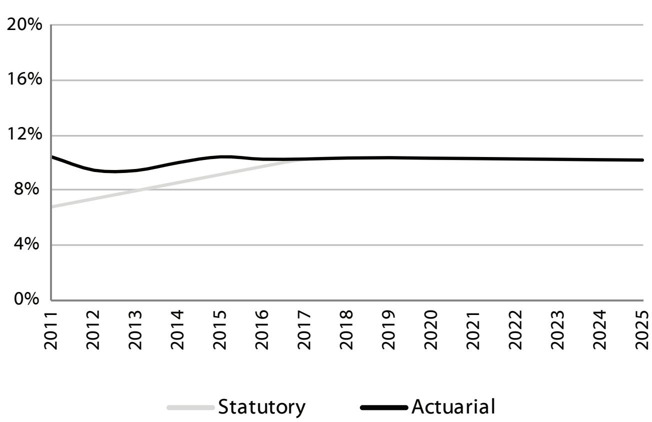
Fiscal Year End



The Local ARC date is projected to occur in approximately 2017 with an ARC rate of 10.27 percent, assuming all actuarial assumptions are met in future years, and the contribution rate remains level. Actual experience in future years will impact the ARC date and rate..

Projected Employer Contribution Rates - Local

Fiscal Year End

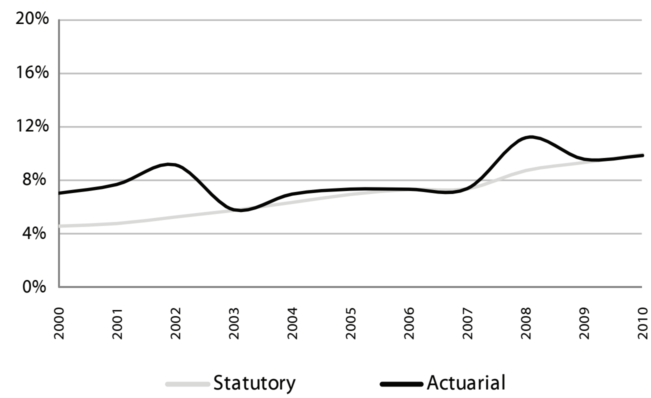


Historical contribution rates for each group follow. Please note that prior to the December 31, 2003, valuation, one contribution rate was developed for the State and School together as one group. Legislation passed in 2004 split the contribution rate calculations into two separate groups, although the 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 actuarial contribution rate is less than the statutory contribution rate in this valuation due to another year of strong investment performance in 2010.

Employer Contribution Rates – State

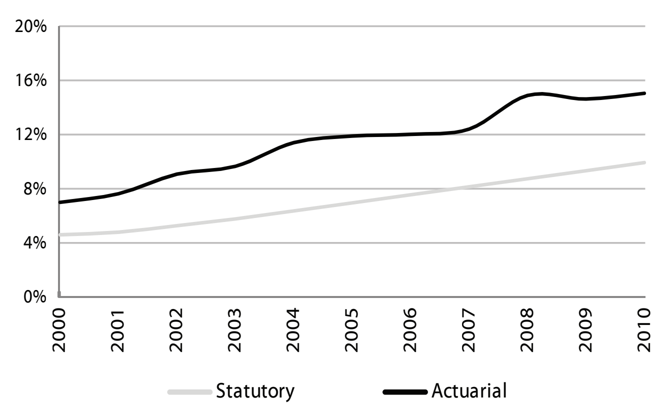
Calendar Year End



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 generally increased.

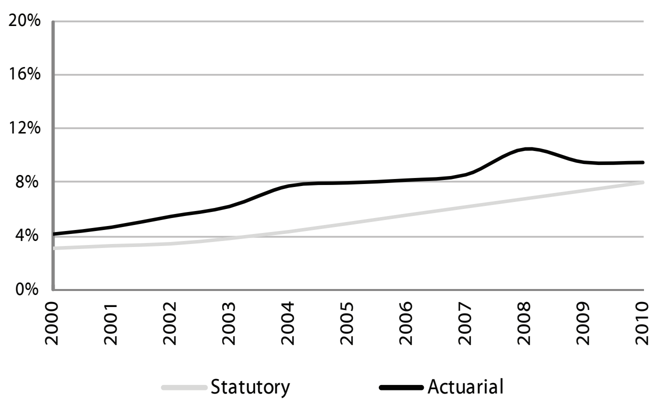
Employer Contribution Rates - School

Calendar Year End



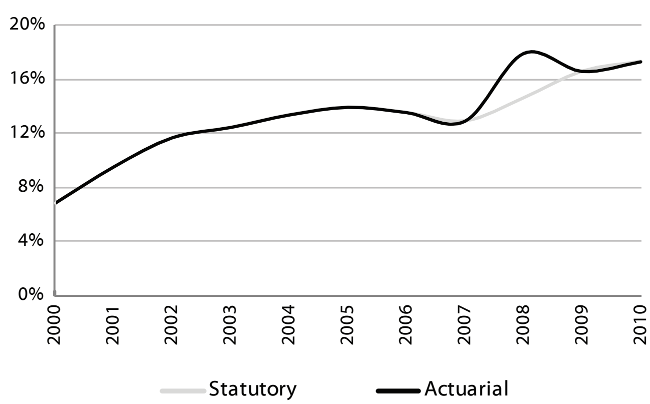
The Local contribution rate has also been impacted by changes in actuarial assumptions and methods as well as investment performance. As a result, the actuarial contribution rate still exceeds the statutory contribution rate. Legislation passed in 2004 provided for increased statutory caps, under which 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



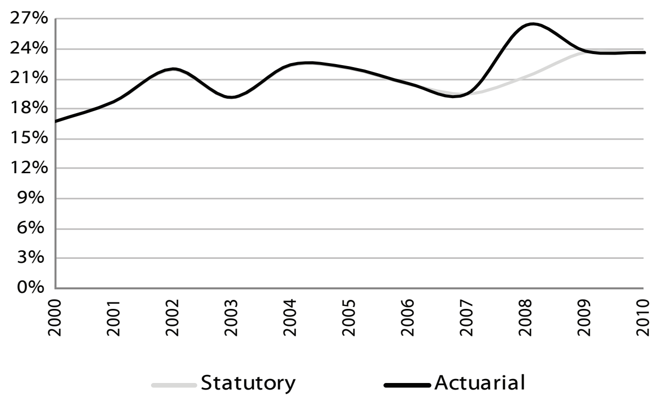
Investment experience, coupled with a change in actuarial methodology, dramatically increased the KP&F contribution rates in the first half of the period. Investment experience in 2008, which has still not been totally reflected, resulted in higher contribution rates in the last three valuations

Employer Contribution Rates - KP&F (Local)
Calendar Year End



Significant changes in the actuarial assumptions in the 2004 valuation and investment experience in 2008 resulted in higher contribution rates in the last three years for the Judges Retirement System.

Employer Contribution Rates - Judges
Calendar Year End



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 FY 2006, 0.50 percent in FY 2007 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 FY 2006, 0.50 percent in FY 2007 and 0.60 percent in FY 2008 and beyond.

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

The 2011 Legislature passed Senate Substitute for HB 2194. The intent of this law was to strengthen KPERS' long term funding and improve the sustainability of the system. This bill contained significant changes for both KPERS employers and current and future members. In addition, the bill established a 13-member KPERS Study Commission to study alternative plan designs during the remainder of 2011 and make a recommendation for KPERS plan design that will provide for the long term sustainability of the System. The Commission report is due to the Legislature by January 6, 2012. Report recommendations must be voted on in the 2012 Legislature for the other provisions of Senate Substitute for HB 2194 to become effective. Therefore, the benefit and contribution changes included in Senate Substitute for HB 2194 are not reflected in the formal valuation results included in this report.

Senate Substitute for HB 2194 raises the statutory cap on employer contribution rate increases from the current 0.60 percent. The first increase is to 0.9 percent in FY 2014, 1.0 percent in FY 2015, 1.1 percent in FY 2016 and ultimately to 1.2 percent in FY 2017.

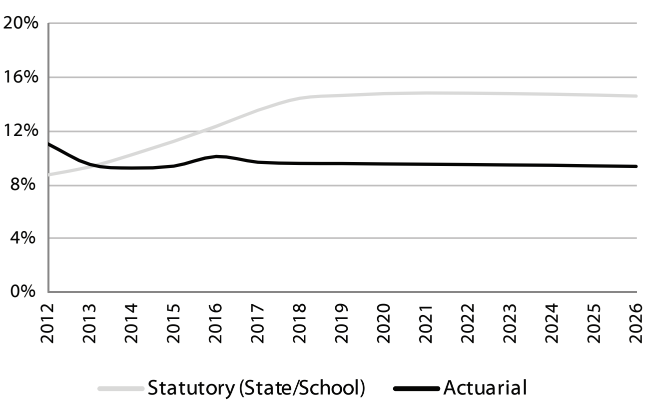
In addition, the law creates a 90-day election period starting July 1, 2013 to permit Tier 1 members to choose between a 6 percent contribution rate with a 1.85 percent multiplier for all years of future service or a 4 percent contribution and a 1.40 percent multiplier for all years of future service. Changes are effective January 1, 2014 and impact only future service. The law also provides for a 90-day election period starting July 1, 2013 to permit Tier 2 members at that time to choose between the 1.75 percent multiplier and losing the cost of living adjustment (COLA) for all service or a 1.40 percent multiplier for future years of service and keeping the COLA. The multiplier change does not affect the service already earned by the members, but the COLA loss is for all service credit over the member's entire career. Changes are effective January 1, 2014. Both the election for Tier 1 and Tier 2 are subject to approval by the Internal Revenue Service. If such approval is not granted, there will be no election and the default option will apply. New employees will automatically have a 6 percent contribution rate and the 1.75 percent multiplier with no COLA.

Inactive members returning to KPERS covered employment after July 2013 will receive the default option. Senate Substitute for HB 2194 also provides that 80 percent of the proceeds from excess real estate property sales will be used to pay down KPERS' unfunded actuarial liability

We performed long term funding projections using the December 31, 2010, valuation, but reflecting the provisions of Senate Substitute for HB 2194. The impact of Senate Substitute for HB 2194, assuming all members elect the default provisions, is shown on the following graphs:

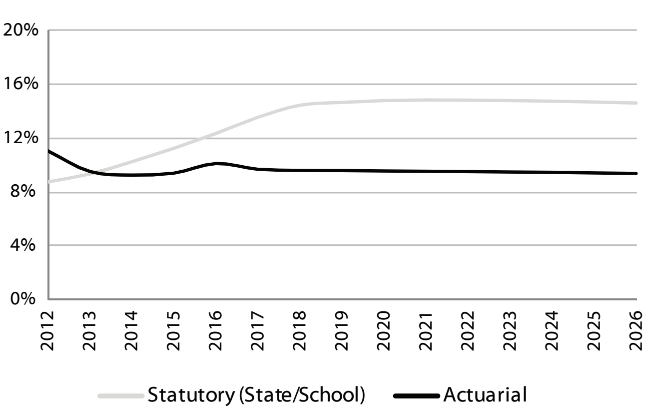
The contribution rate for the State is projected to be about 1 percent lower than under current plan provisions if Senate Substitute for HB 2194 becomes effective. The difference in the statutory contribution rate (grey line) and State actuarial contribution rate (black line) times State payroll will be paid to the School group. This will improve the School group's funding more quickly.

Projected Employer Contribution Rates
State (HB 2194) Fiscal Year End



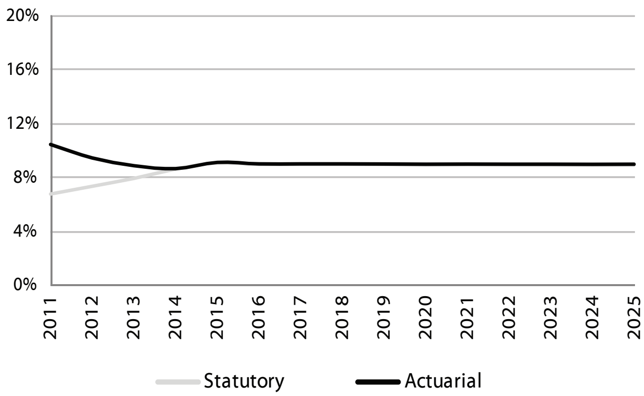
Under Senate Substitute for HB 2194 the School ARC date is much earlier (FY 2018) than the baseline projection (FY 2031). The projected ARC rate in FY 2018 is 14.46 percent. Future experience, especially investment returns, will influence the movement in the ARC date and rate.

Projected Employer Contribution Rates
State (HB 2194) Fiscal Year End



Under Senate Substitute for HB 2194, the Local ARC date is projected to occur in approximately 2014 at a rate of 8.65 percent. This assumes that all actuarial assumptions are met in future years. Actual experience in future years, particularly investment returns, will impact the ARC date and rate.

Projected Employer Contribution Rates
Local (HB 2194) Fiscal Year End



Comments

The investment return for 2010 was 13 percent, which helped to offset part of the impact of the deferred investment loss. This contributes to a modest improvement in the long-term funding of KPERS. While the investment return in 2010 was well above the 8 percent assumed rate, there are still some deferred investment losses which have not been recognized in the valuation process. As of December 31, 2010, the actuarial value of assets exceeds the market value of assets by about 5 percent, or $672 million. This deferred experience will flow through the asset valuation method in the next two years and be recognized in the valuation process, absent investment experience above the 8 percent assumed rate of return. As the deferred losses are recognized, the funded ratio can be expected to decline slightly and the UAL and the actuarial contribution rate to increase. Despite strong investment returns in 2009 and 2010, KPERS continues to face a significant long-term-funding challenge, particularly with the School group. The changes incorporated into Senate Substitute for HB 2194 will make significant changes to improve the long-term funding and sustainability of KPERS. These provisions, however, do not become effective unless the 2012 Legislature takes certain required actions.

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 follow 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	$15,589	$15,589	$2,319	$2,319
Asset Value	9,345	8,863	1,702	1,639
UAL	6,244	6,726	617	680
Funded Ratio	60%	57%	74%	71%
Contribution Rate:				
Normal Cost Rate	8.03%	8.03%	14.39%	14.39%
UAL Payment	9.97%	10.72%	9.66%	10.92%
Total	18.00%	18.75%	24.05%	25.31%
Employee Rate	(4.17)%	(4.17)%	(6.79)%	(6.79)%
Employer Rate	13.83%	14.58%	17.26%	18.52%

The asset smoothing method impacts only the timing of when the actual market experience on the assets will be recognized. Due to a return of over 13 percent in 2010, the actuarial value of assets now only exceeds the pure market value by about 5 percent (due to the remaining deferred investment experience from 2008). If there are not higher returns than expected over the next few years, the deferred investment experience will be recognized and the ultimate impact on the employer contribution rate can be expected to be similar to the column shown earlier based on the market value of assets. Also, please refer to the earlier graphs that show 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, negative impact on the System's long-term funding. Investment experience was favorable in 2009 and 2010 (23 percent and 13 percent respectively versus 8 percent assumed), which has mitigated the impact of the 2008 investment loss. However, the System is not yet in the same position it would have been if the 8 percent assumption had been earned in 2008, 2009 and 2010. 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 contribution and benefit changes included in Senate Substitute for HB 2194 help to address the long term funding of the KPERS group. If these changes are adopted by the 2012 Legislature or other comparable measures, KPERS funding will improve over the next twenty years. However, the System's funding, particularly the School group, is heavily dependent on actual investment returns in future years.

Summary of Change in UAL

12/31/10 valuation ($ millions)

	State	School	Local	KP&F	Judges	Total
UAL in 12/31/2009 Valuation Report	$806.2	$4,998.8	$1,315.5	$530.3	$26.1	$7,677.0 (1)
• Effect of contribution cap/timing	21.0	222.6	56.1	18.3	2.0	320.0
• Expected increase due to method	6.7	49.9	12.5	(0.3)	(0.4)	68.4
• Actual vs. expected experience						
• Investment return	132.7	258.5	87.8	75.2	5.3	559.5
• Demographic experience	(32.0)	(230.8)	(79.3)	(27.5)	(5.7)	(375.3)
• All other experience	12.0	42.6	1.5	(14.2)	(0.8)	41.1
• Change in actuarial firm/valuation software	(15.0)	(29.1)	0.9	16.6	0.1	(26.5)
• Change in benefit provisions	0.0	0.0	0.0	0.0	0.0	0.0
UAL in 12/31/2010 Valuation Report	$931.6	$5,312.5	$1,395.0	$598.4	$26.6	$8,264.1 (1)

1) May not add due to rounding.

Summary of Change in Employer Actuarial Contribution Rate by System

As of 12/31/10

Percentage of Payroll	State	School	Local	KP&F (1)	Judges
Actuarial Contribution Rate in 12/31/2009 Valuation	9.55%	14.69%	9.44%	16.54%	23.75%
Change Due to Amortization of UAL					
• Effect of contribution cap/time lag	0.13	0.46	0.23	0.28	0.67
• Amortization method	0.00	0.00	0.00	0.00	(0.34)
• Investment experience	0.85	0.53	0.37	1.16	1.77
• Liability experience	(0.20)	(0.48)	(0.33)	(0.42)	(1.90)
• All other experience	0.07	0.51	0.18	(0.24)	(0.88)
• Change in actuarial firm/valuation software	(0.10)	(0.06)	0.00	0.26	0.03
• Change in benefit provisions	0.00	0.00	0.00	0.00	0.00
Change in Normal Cost Rate					
• Change in benefit provisions	0.00	0.00	0.00	0.00	0.00
• Change in actuarial firm/valuation software	(0.47)	(0.55)	(0.49)	(0.38)	0.35
• All other experience	(0.01)	0.02	0.03	0.06	0.16 (2)
Actuarial Contribution Rate in 12/31/2010 Valuation	9.82%	15.12%	9.43%	17.26%	23.62%

1) Contribution rate for Local employers only.

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

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

	6/30/95	6/30/96	6/30/97	6/30/98	6/30/99	6/30/00
Actual Experience vs. Assumed						
• Investment	$(143)	$(280)	$(323)	$(413)	$(369)	$(441)
• Other	72	136	157	104	46	99
Assumption Changes	(96)	0	0	350	0	0
Changes in Data/Procedures	0	0	0	0	21	71
Change in Cost Method	0	0	0	0	0	0
Effect of Contribution Cap/Lag	95	70	63	54	78	66
Amortization Method	47	38	35	32	30	22
Change in Benefit Provisions	0	0	0	88	0	19
Change in Actuarial Firm/Software	0	0	0	0	0	0
Bond Issue	0	0	0	0	0	0
Total	$(25)	$(36)	$(68)	$215	$(194)	$(164)

	12/31/00	12/31/01	12/31/02	12/31/03	12/31/04	12/31/05
Actual Experience vs. Assumed						
• Investment	$(23)	$350	$644	$140	$456	$167
• Other	84	(9)	68	(32)	16	(84)
Assumption Changes	(206)	0	0	0	437	(5)
Changes in Data/Procedures	145[1]	5	177[1]	(286)[2]	0	0
Change in Cost Method	0	0	0	1,147	0	0
Effect of Contribution Cap/Lag	60	115	143	178	179	247
Amortization Method	12	14	21	47	68	84
Change in Benefit Provisions	0	0	37	3	1	0
Change in Actuarial Firm/Software	0	0	0	0	0	0
Bond Issue	0	0	(41)	(440)	0	0
Total	$72	$475	$1,049	$757	$1,157	$409

	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10	Total
Actual Experience vs. Assumed						
• Investment	$(293)	$(626)	$2,332	$(1,011)	$560	$727
• Other	140	99	78	(71)	(334)	569
Assumption Changes	0	384	0	0	0	864
Changes in Data/Procedures	0	0	0	0	0	133
Change in Cost Method	0	0	0	0	0	1,147
Effect of Contribution Cap/Lag	258	251	246	384	320	2,807
Amortization Method	83	78	71	96	68	846
Change in Benefit Provisions	24	2	0	0	0	174
Change in Actuarial Firm/Software	0	0	0	0	(27)	(27)
Bond Issue	0	0	0	0	0	(481)
Total	$212	$188	$2,727	$(602)	$587	$6,759

Unfunded actuarial liability 6/30/94: $1,497 million

Unfunded actuarial liability 12/31/10: $8,264 million

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

2) Change in asset valuation method.

Summary of Principal Results – KPERS State

	12/31/2010 Valuation	12/31/2009 Valuation	% Change
Participant Data			
Number of:			
Active Members	25,737	26,005	(1.0%)
Retired Members and Beneficiaries	16,375	15,936	2.8%
Inactive Members	6,363	5,863	8.5%
Total Members	48,475	47,804	1.4%
Projected Annual Salaries of Active Members	$1,068,931,480	$1,048,674,951	1.9%
Annual Retirement Payments for Retired Members and Beneficiaries	$196,294,538	$186,322,148	5.4%
Assets and Liabilities			
a. Total Actuarial Liability	$3,814,570,078	$3,696,501,526	3.2%
b. Assets for Valuation Purposes	2,882,964,798	2,890,275,842	(0.3%)
c. Unfunded Actuarial Liability (a) - (b)	931,605,280	806,225,684	15.6%
d. Funded Ratio (b) / (a)	75.6%	78.2%	(3.3%)
e. Market Value of Assets	2,730,474,235	2,506,018,054	9.0%
Employer Contribution Rates as a Percent of Payroll			
Normal Cost			
Total	7.72%	8.20%	
Employee	(4.16)%	(4.04)%	
Employer	3.56%	4.16%	
Amortization of Unfunded Actuarial Liability	6.26%	5.39%	
Actuarial Contribution Rate	9.82%	9.55%	
Statutory Employer Contribution Rate(1)	9.97%	9.37%	

1) Statutory Employer Contribution Rate may not exceed last year's rate by more than rate increase limit of 0.60 percent. This rate does not include the contribution rate for the Death and Disability Program. Any excess of the statutory over actuarial contribution rates times actual State payroll is deposited to the School assets.

Summary of Principal Results – KPERS School

	12/31/2010 Valuation	12/31/2009 Valuation	% Change
Participant Data			
Number of:			
Active Members	84,438	86,048	(1.9%)
Retired Members and Beneficiaries	40,856	38,878	5.1%
Inactive Members	24,125	24,958	(3.3%)
Total Members	149,419	149,884	(0.3%)
Projected Annual Salaries of Active Members	$3,315,448,958	$3,352,328,403	(1.1%)
Annual Retirement Payments for Retired Members and Beneficiaries	$549,519,641	$509,617,413	7.8%
Assets and Liabilities			
a. Total Actuarial Liability	$11,774,417,007	$11,437,206,665	2.9%
b. Assets for Valuation Purposes	6,461,892,562	6,438,367,288	0.4%
c. Unfunded Actuarial Liability (a) - (b)	5,312,524,445	4,998,839,377	6.3%
d. Funded Ratio (b) / (a)	54.9%	56.3%	(2.5%)
e. Market Value of Assets	6,132,794,595	5,624,405,754	9.0%
Normal Cost			
Total	8.12%	8.65%	
Employee	(4.17)%	(4.07)%	
Employer	3.95%	4.58%	
Amortization of Unfunded Actuarial Liability	11.17%	10.11%	
Actuarial Contribution Rate	15.12%	14.69%	
Statutory Employer Contribution Rate(1)	9.97%	9.37%	

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

Summary of Principal Results – KPERS State/School

	12/31/2010 Valuation	12/31/2009 Valuation	% Change
Participant Data			
Number of:			
Active Members	110,175	112,053	(1.7%)
Retired Members and Beneficiaries	57,231	54,814	4.4%
Inactive Members	30,488	30,821	(1.1%)
Total Members	197,894	197,688	0.1%
Projected Annual Salaries of Active Members	$4,384,380,438	$4,401,003,354	(0.4%)
Annual Retirement Payments for Retired Members and Beneficiaries	$745,814,179	$695,939,561	7.2%
Assets and Liabilities			
a. Total Actuarial Liability	$15,588,987,085	$15,133,708,191	3.0%
b. Assets for Valuation Purposes	9,344,857,360	9,328,643,130	0.2%
c. Unfunded Actuarial Liability (a) - (b)	6,244,129,725	5,805,065,061	7.6%
d. Funded Ratio (b) / (a)	59.9%	61.6%	(2.8%)
e. Market Value of Assets	8,863,268,830	8,130,423,808	9.0%
Employer Contribution Rates as Percent of Payroll			
Normal Cost			
Total	8.03%	8.54%	
Employee	(4.17)%	(4.07)%	
Employer	3.86%	4.47%	
Amortization of Unfunded Actuarial Liability	9.97%	8.99%	
Actuarial Contribution Rate	13.83%	13.46%	
Statutory Employer Contribution Rate[(1)]	9.97%	9.37%	

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

Summary of Principal Results – KPERS Local

	12/31/2010 Valuation	12/31/2009 Valuation	% Change
Participant Data			
Number of:			
Active Members	40,307	41,333	(2.5%)
Retired Members and Beneficiaries	14,893	14,087	5.7%
Inactive Members	12,383	11,172	10.8%
Total Members	67,583	66,592	1.5%
Projected Annual Salaries of Active Members	$1,638,534,481	$1,661,357,024	(1.4%)
Annual Retirement Payments for Retired Members and Beneficiaries	$140,605,126	$127,657,737	10.1%
Assets and Liabilities			
a. Total Actuarial Liability	$3,793,642,968	$3,624,727,632	4.7%
b. Assets for Valuation Purposes	2,398,637,171	2,309,262,337	3.9%
c. Unfunded Actuarial Liability (a) - (b)	1,395,005,797	1,315,465,295	6.0%
d. Funded Ratio (b) / (a)	63.2%	63.7%	(0.8%)
e. Market Value of Assets	2,295,447,057	2,033,031,884	12.9%
Employer Contribution Rates as Percent of Payroll			
Normal Cost			
Total	7.68%	8.14%	
Employee	(4.20)%	(4.07)%	
Employer	3.48%	4.07%	
Amortization of Unfunded Actuarial Liability	5.95%	5.37%	
Actuarial Contribution Rate	9.43%	9.44%	
Statutory Employer Contribution Rate[(1)]	7.94%	7.34%	

1) Statutory Employer Contribution Rate exceeds last year's rate by the statutory rate increase limit of 0.60 percent.This rate does not include the contribution rate for the Death and Disability Program.

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

	12/31/2010 Valuation	12/31/2009 Valuation	% Change
Data Participation			
Number of:			
Active Members	7,173	7,179	(0.1%)
Retired Members and Beneficiaries	4,168	4,060	2.7%
Inactive Members	1,350	1,317	2.5%
Total Members	12,691	12,556	1.1%
Projected Annual Salaries of Active Members	$442,880,358	$441,454,916	0.3%
Annual Retirement Payments for Retired Members and Beneficiaries	$111,857,782	$105,015,030	6.5%
Assets and Liabilities			
a. Total Actuarial Liability	$2,319,324,940	$2,232,037,029	3.9%
b. Assets for Valuation Purposes	1,720,933,933	1,701,719,235	1.1%
c. Unfunded Actuarial Liability (a) - (b)	598,391,007	530,317,794	12.8%
d. Funded Ratio (b) / (a)	74.2%	76.2%	(2.7%)
e. Market Value of Assets	1,639,025,889	1,484,548,360	10.4%
Employer Contribution Rates as Percent of Payroll			
Normal Cost			
Total	14.39%	14.71%	
Employee	(6.79)%	(6.52)%	
Employer	7.60%	8.19%	
Amortization of Unfunded Actuarial Liability	9.66%	8.35%	
Actuarial Contribution Rate (Local Employers)	17.26%	16.54%	
Statutory Employer Contribution Rate[1]	17.26%	16.54%	

1) 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.

Summary of Principal Results – Retirement System for Judges

	12/31/2010 Valuation	12/31/2009 Valuation	% Change
Participant Data			
Number of:			
Active Members	264	266	(0.8%)
Retired Members and Beneficiaries	206	203	1.5%
Inactive Members	10	14	(28.6%)
Total Members	480	483	(0.6%)
Projected Annual Salaries of Active Members	$28,253,001	$28,681,056	(1.5%)
Annual Retirement Payments for Retired Members and Beneficiaries	$7,535,849	$7,312,743	3.1%
Assets and Liabilities			
a. Total Actuarial Liability	$151,828,310	$147,733,263	2.8%
b. Assets for Valuation Purposes	125,229,654	121,596,003	3.0%
c. Unfunded Actuarial Liability (a) - (b)	26,598,656	26,137,260	1.8%
d. Funded Ratio (b) / (a)	82.5%	82.3%	0.2%
e. Market Value of Assets	119,835,012	106,498,558	12.5%
Normal Cost			
Total	20.48%	19.97%	
Employee	(5.82)%	(4.75)%	
Employer	14.66%	15.22%	
Amortization of Unfunded Actuarial Liability	8.96%	8.53%	
Actuarial Contribution Rate	23.62%	23.75%	
Statutory Employer Contribution Rate[1]	23.62%	23.75%	

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

Summary of Principal Results – All Systems Combined

	12/31/2010 Valuation	12/31/2009 Valuation	% Change
Participant Data			
Number of:			
Active Members	157,919	160,831	(1.8)
Retired Members and Beneficiaries	76,498	73,164	4.6
Inactive Members	44,231	43,324	2.1
Total Members	278,648	277,319	0.5
Projected Annual Salaries of Active Members	$6,494,048,278	$6,532,496,350	(0.6)
Annual Retirement Payments for Retired Members and Beneficiaries	$1,005,812,936	$935,925,071	7.5
Assets and Labilties			
a. Total Actuarial Liability	$21,853,783,303	$21,138,206,114	3.4
b. Assets for Valuation Purposes	13,589,658,118	13,461,220,705	1.0
c. Unfunded Actuarial Liability (a) - (b)	8,264,125,184	7,676,985,409	7.6
d. Funded Ratio (b) / (a)	62.2%	63.7%	(2.4)
e. Market Value of Assets	12,917,576,788	11,754,502,610	9.9

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]		
	School	State	Local
1	12.00%	10.50%	10.50%
5	6.55%	5.60%	6.20%
10	5.10%	4.90%	5.20%
15	4.60%	4.40%	4.80%
20	4.10%	4.10%	4.60%
25	4.00%	4.00%	4.10%
30	4.00%	4.00%	4.00%

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

Rates of Termination

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

Retirement Rates

School

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

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

State

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

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

Local

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

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

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

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

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

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

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

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[1]

1) 70 percent of preretirement deaths assumed to be service related.

Disabled Life Mortality: RP-2000 Disabled Life Table

Rates of Salary Increase

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

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

Rates of Termination

Tier I: 3 percent for ages less than 41
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[1]
22	0.06%
27	0.07%
32	0.15%
37	0.35%
42	0.56%
47	0.76%
52	0.96%
57	1.00%

1) 90 percent assumed to be service-connected under KP & F Tier I.

ACTUARIAL ASSUMPTIONS - JUDGES

Rate of Investment Return: 8.0 percent

Implicit Inflation Assumption: 3.25 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. The resulting value must fall within a corridor of 80 percent to 120 percent of market value. If the preliminary value is outside the corridor, the actuarial value is set equal to the corridor limit.

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 and certain state officers. 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. Tier 1 members who were not vested and left employent will be Tier 2 members should they return to covered employment

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:

b) Correctional officers
c) Certain directors and deputy directors of correctional institutions
d) Correctional power plant operators
e) Correctional industries employees
f) Correctional food service employees
g) 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. One half of a year of service is rounded up. One quarter of a year of service 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 partial lump-sum 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 payments for sick and annual leave; or
- Three-year FAS excluding additional compensation, such as payments 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 equal to 150 percent of the member's annual compensation on the date of disability. 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.

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 of 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

Age is determined by the member's last birthday and is not rounded up. One half of a year of service credit is rounded up. One quarter of a year of service is not rounded up.

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. One half of a year of service credit is rounded up. One quarter of a year of service 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

Last ten fiscal years

Valuation Date	Member Contributions (A)	Retirants and Beneficiaries (B)	Active Member Employer Financed Portion (C)	Actuarial Value of Assets	Portions of Accrued Liabilities Covered by Assets (A)	(B)	(C)
12/31/01	$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	—
12/31/10	5,017,361,438	9,090,575,924	7,745,845,940	13,589,658,118	100	96	—

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

Schedule of Active Member Valuation Data[1]

Valuation Date	Number of Active Members[2]	Percentage Change in Membership	Number of Participating Employers	Percentage Increase in Number of Participating Employers	Total Annual Payroll[2] (millions)	Average Payroll	Percentage Increase in Average Payroll
12/31/01	145,666	1.6%	1,435	0.8%	$4,675	$32,094	5.5%
12/31/02	147,294	1.1	1,442	0.5	4,866	32,984	2.8
12/31/03	148,145	0.6	1,454	0.8	4,978	32,944	(0.1)
12/31/04	147,751	(0.3)	1,461	0.5	5,102	33,854	2.7
12/31/05	149,073	0.9	1,474	0.9	5,270	34,661	2.4
12/31/06	151,449	1.6	1,474	0.0	5,599	36,246	4.4
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
12/31/10	157,919	(1.8)	1,511	0.8	6,494	41,123	3.3

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
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
2010	157,919	44,231	76,744	278,894

Retirants, Beneficiaries - Changes in Rolls — All Systems

Last ten fiscal years as of June 30

		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
2002	54,302	3,689	$45,669,820	1,922	$9,552,087	56,069	3.30%	1.70%	$10,101	$ 627,704,056
2003	56,069	3,585	48,718,476	2,116	10,942,002	57,538	2.60	6.70	10,443	645,716,079
2004	57,538	3,612	50,253,218	2,009	11,940,793	59,141	2.60	3.20	10,897	676,918,614
2005	59,141	4,141	59,096,917	2,017	12,333,238	61,265	3.60	17.60	11,126	737,563,276
2006	61,265	4,452	66,239,352	1,759	11,185,646	63,765	4.00	12.00	11,498	805,978,732
2007	63,765	4,423	67,181,677	2,125	15,218,444	66,063	3.60	1.40	13,142	868,179,029
2008	66,063	5,195	73,055,348	2,515	18,681,361	68,743	4.10	8.70	13,758	945,739,016
2009	68,743	5,330	81,815,349	2,467	20,966,802	71,606	4.20	12.00	13,964	999,939,615
2010	71,606	5,593	88,709,733	2,332	20,528,013	74,867	4.60	8.40	14,182	1,060,205,818
2011	74,867	6,245	99,091,348	2,698	23,230,288	78,414	4.70	11.70	14,630	1,147,209,272

Summary of Membership Data[1]

Retiree and Beneficiary Member Valuation Data	12/31/2010	12/31/2009
KPERS		
Number	72,124	68,901
Average Benefit	$12,290	$11,953
Average Age	72.46	72.42
Police & Fire		
Number	4,168	4,060
Average Benefit	$26,837	$25,866
Average Age	64.80	63.70
Judges		
Number	206	203
Average Benefit	$36,582	$36,023
Average Age	74.45	74.00
System Total		
Number	76,498	73,164
Average Benefit	$13,148	$12,792
Average Age	72.05	71.94

Active Member Valuation Data	12/31/2010	12/31/2009
KPERS		
Number	150,482	153,386
Average Current Age	45.57	45.39
Average Service	11.19	10.71
Average Pay	$40,024	$38,749
Police & Fire		
Number	7,173	7,179
Tier I	434	500
Tier II	6,739	6,679
Average Current Age	39.61	39.50
Average Service	11.65	11.43
Average Pay	$61,743	$60,287
Judges		
Number	264	266
Average Current Age	57.79	57.06
Average Service	12.31	11.51
Average Pay	$107,019	$105,709
System Total		
Number	157,919	160,831
Average Current Age	45.32	45.14
Average Service	11.21	10.75
Average Pay	$41,123	$39,821

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

Schedule of Employer Contribution Rates, Including Death and Disability Contributions

Last ten fiscal years[1]

KPERS State/School

Fiscal Year	Actuarial Rate	Actual Rate
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]
2011	12.30	9.17[6]

KPERS Local

Fiscal Year	Actuarial Rate	Actual Rate
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]
2011	11.42	7.74[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
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
2011	17.88	14.57

Judges

Fiscal Year	Actuarial Rate	Actual Rate
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]
2011	19.89	19.89[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 and April 1, 2011 through June 30, 2011.

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March 1, 2011

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

Dear Members of the Board:

In accordance with your request, we have performed an actuarial valuation of KPERS Death and Disability Program as of June 30, 2010 for determining contributions beginning July 1, 2010. The major findings of the valuation are contained in this report. This report reflects the benefit provisions and contribution rates in effect as of June 30, 2010.

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

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

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

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

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

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

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

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

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

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

MILLIMAN, Inc.

Sincerely,

Daniel D. Skwire, FSA
Consulting Actuary

Allan L Bittner, FSA
Consulting Actuary

ACTUARIAL OVERVIEW – DEATH AND DISABILITY

This report contains the June 30, 2010 actuarial valuation for the KPERS Death and Disability Program. This program provides two primary benefits to active members:

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

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

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

Actuarial Valuation Under GASB 43

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

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

Actuarial Liability at 6/30/2010(1)

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

1) Totals may not match due to rounding.

As of June 30, 2010, the KPERS Death and Disability Fund has an unfunded actuarial liability of $271,006,786. KPERS has elected to amortize this unfunded actuarial liability over 15 years as a level percent of pay, assuming a 4 percent annual payroll increase.

The annual required contribution (ARC) for the KPERS Death and Disability Program equals the current year normal cost plus the amortization of the unfunded actuarial liability, all adjusted for interest to mid-year. The ARC for 2010-2011 is $43,089,790, representing 0.63 percent of estimated annual compensation.

Historical Analysis

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

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

Under the old valuation basis, the total disabled life liability (i.e., excluding the liabilities for active lives and administrative expenses) decreased from $221.0 million to $208.1

million from June 30, 2008 to June 30, 2009, due primarily to a reduction in the number of open LTD claims. When the June 30, 2009, liabilities were recomputed using the new valuation basis, the total disabled life liability was further reduced to $179.8 million. From June 30, 2009 to June 30, 2010, the total disabled life liability reduced from $179.8 million to $171.6 million, with both calculations performed on the new basis.

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

Projected Cashflows

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

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

Excludes Group Life Insurance for Active Members

Plan Year	Projected Benefits and Expenses	Projected Contributions
2010-2011	$34.1	$51.2
2011-2012	$34.7	$52.7
2012-2013	$35.3	$54.3
2013-2014	$36.3	$55.9
2014-2015	$37.4	$57.6

The previous table indicates that the projected contributions are expected to exceed the projected benefits and expenses for each of the next five years, according to the assumptions used for the actuarial valuation, and assuming that the current contribution rate of 1.0 percent (which includes approximately 0.25 percent of payroll for group life insurance) remains unchanged. This pattern would result in an increase in plan assets over the five-year time horizon. Any future periodic contribution moratoriums implemented by the Legislature will have the impact of spending down any increase in the plan's assets.

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

ACTUARIAL VALUATION UNDER GASB 43

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

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

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

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

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

GASB 43 was first effective for KPERS Death and Disability Program for the fiscal year ending June 30, 2007. This valuation addresses the ARC for the fiscal year ending June 30, 2011. Only the disability benefits and waiver of premium life insurance benefits provided by KPERS Death and Disability Program are subject to GASB 43. The group and optional life insurance programs for active members are not OPEBs under GASB 43.

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

Actuarial Present Value of Total Projected Benefits

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

Actuarial Present Value of Total Projected Benefits at 6/30/2010 (1)

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

2) Totals may not match due to rounding.

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

Actuarial Liability at 6/30/2010[1]

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

1) Totals may not match due to rounding.

Actuarial Balance Sheet

The actuarial balance sheet is a demonstration of the basic actuarial equation that the actuarial present value of future benefits to be paid to the active and retired members must equal the current assets plus the actuarial present value of future contributions to be received. Accordingly, the status of the plan in balance sheet form as of June 30, 2010 is shown in the following table:

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

1) Totals may not match due to rounding.

2) Market value.

Annual Required Contribution (ARC)

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

Annual Required Contribution for Fiscal Year Ending June 30, 2011

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

ACTUARIAL ASSUMPTIONS — DEATH AND DISABILITY

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

Implicit Inflation Rate 3.25 percent

Sample Rates

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

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

Rates of Salary Increase

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

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

Rates of Termination

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

Retirement Rates

School

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

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

State

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

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

Local

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

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

Correctional

Normal Retirement at Age 55

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

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

LTD Claim Incidence Rates

	Male			Female		
Age	Local	School	State	Local	School	State
25	0.00044	0.00032	0.00078	0.00065	0.00046	0.00115
30	0.00046	0.00032	0.00081	0.00060	0.00043	0.00107
35	0.00059	0.00042	0.00104	0.00098	0.00070	0.00173
40	0.00087	0.00062	0.00153	0.00139	0.00099	0.00246
45	0.00151	0.00107	0.00266	0.00207	0.00148	0.00367
50	0.00244	0.00174	0.00432	0.00289	0.00206	0.00511
55	0.00409	0.00291	0.00723	0.00399	0.00284	0.00704
60	0.00587	0.00418	0.01038	0.00475	0.00338	0.00840
65	0.00625	0.00445	0.01104	0.00416	0.00296	0.00735
70	0.00698	0.00497	0.01234	0.00383	0.00273	0.00678

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

Age at Disability	Claim Duration (Months)			
	1-12	13-24	25-60	61+
Under 30	55%	75%	95%	145%
30-39	55%	75%	95%	145%
40-49	55%	75%	95%	145%
50-59	95%	135%	180%	350%
60 and Over	350%	350%	350%	350%

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

Other LTD Assumptions

IBNR Reserve:	60 percent of expected claim cost for year
Overpayment Recovery:	65 percent of overpayment balance
Future Payroll Growth:	4.0 percent long-term growth for actuarial valuation. 3.0 percent near-term growth for cashflow projections
Administrative Expenses:	4.65 percent of claims
Estimated Offsets:	Estimated approval rate of 55 percent to 75 percent for claims in first three years of disability that do not yet have offsets. Estimated offset amount of 60 percent of gross benefit.

Waiver Claim Termination Rates as percent of 1987 Commissioners Group Disability (Based on Actual KPERS Experience)	Age at Disability	Claim Duration (Months)			
		1-12	13-24	25-60	61+
	Under 30	55%	75%	95%	145%
	30-39	55%	75%	95%	145%
	40-49	55%	75%	95%	145%
	50-59	95%	135%	180%	350%
	60 and Over	350%	350%	350%	350%

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

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

EXPERIENCE – DEATH AND DISABILITY

As of June 30, 2010

Death Claims by Death Benefit Paid

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

Death Claims by Age at Death

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

Active LTD Claims by Age at Disability

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

Active LTD Claims by Attained Age

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

Active LTD Claims by Net Benefit Amount

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

New LTD Claims by Age at Disability

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

New LTD Claims by Attained Age

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

New LTD Claims by Net Benefit Amount

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

Terminated LTD Claims by Term Reason

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

ACTUARIAL METHODS

Actuarial Cost Method

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

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

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

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

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

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

Asset Valuation Method

Assets are valued at market value.

PLAN PROVISIONS OVERVIEW

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

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 OF THE LTD BENEFIT

Definition of Disability

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

Benefit Waiting Period

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

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

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

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

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

KEY PROVISIONS OF THE GROUP LIFE WAIVER OF PREMIUM BENEFIT

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

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

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

2011 Comprehensive Annual Financial Report

Statistical

Kansas Public Employees Retirement System

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 128 provide revenues, expenses and funding status information for the past ten fiscal years for KPERS and Death and Disability (OPEB) plans. On page 129 a schedule is presented that allocates the total benefits and type of refunds that were paid. On pages 132 through 134 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 135, 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

	Contributions						
Fiscal Year	Member	Employer	Employer Insurance (OPEB)	Misc	Net Investment Income (KPERS)	Net Investment Income (OPEB)	Total
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
2011	294,314,002	525,726,734	48,911,197(4)	190,770	2,499,472,278	18,333	3,368,633,314

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

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

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

4) Per 2010 legislation, employers were not required to remit the Group Life and Disability Insurance portion of required employer contributions from April 1, 2010, through June 30, 2010, and April 1, 2011, through June 30, 2011.

Schedule of Benefits by Type
Last ten fiscal years

Fiscal Year	Monthly Retirement Benefits	Retirement Dividend	Death Benefits	Refunds of Contributions Separations	Refunds of Contributions Deaths	Insurance Premiums (KPERS)	Disability, Insurance Premiums (OPEB)
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
2011	1,143,594,256	3,615,016	9,614,688	43,579,892	5,984,123	6,752,185	46,753,126

Expenses by Type
Last ten fiscal years

		Refund of Contributions						
Fiscal Year	Benefits	Separations	Death	Insurance	Administration (Retirement)	Insurance (OPEB)	Administration (OPEB)[1]	**Total**
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
2011	1,156,823,960	43,579,892	5,984,123	6,752,185	9,261,2610	46,753,126	363,357	1,269,517,903

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

Changes in Net Assets
Last ten fiscal years

	2011	2010	2009	2008
Additions				
Contributions				
Member Contributions	$294,314,002	$289,616,027	$278,619,872	$269,603,155
Employer Contributions[1]	574,637,931	521,555,060	485,570,238	458,152,583
Total Contributions	868,951,933	811,171,087	764,190,110	727,755,738
Investments				
Net Appreciation in Fair Value of Investments	2,211,302,374	1,221,425,633	(2,824,249,931)	(1,012,601,549)
Interest	158,139,067	160,086,441	153,248,716	212,695,996
Dividends	123,098,602	105,808,081	91,464,527	137,983,566
Real Estate Income, Net of Operating Expenses	48,997,734	37,551,411	31,062,438	40,288,418
Other Investment Income	388,174	216,499	264,000	264,000
	2,541,925,951	1,525,088,065	(2,548,210,250)	(621,369,569)
Less Investment Expense	(47,586,288)	(43,752,021)	(23,381,972)	(31,036,451)
Net Investment Income	2,494,339,663	1,481,336,044	(2,571,592,222)	(652,406,020)
From Securities Lending Activities				
Securities Lending Income	5,431,118	5,372,538	(8,838,220)	95,645,344
Securities Lending Expenses				
Borrower Rebates	739,912	(48,804)	(10,469,638)	(89,471,546)
Management Fees	(1,020,082)	(692,273)	(1,309,509)	(2,870,760)
Total Securities Lending Activities Expense	(280,170)	(741,077)	(11,779,147)	(92,342,306)
Net Income from Security Lending Activities	5,150,948	4,631,461	(20,617,367)	3,303,038
Total Net Investment Income	2,499,490,611	1,485,967,505	(2,592,209,589)	(649,102,982)
Other Miscellaneous Income	190,770	101,899	154,113	225,736
Total Additions (Net Reductions) to Plan Net Assets	3,368,633,314	2,297,240,491	(1,827,865,366)	78,878,492
Deductions				
Monthly Retirement Benefits Paid	(1,147,209,272)	(1,060,205,818)	(999,939,614)	(945,704,657)
Refunds of Contributions	(49,564,015)	(43,362,690)	(43,929,423)	(48,472,690)
Death Benefits	(9,614,688)	(8,959,388)	(9,237,740)	(8,388,935)
Insurance Premiums and Disability Benefits (OPEB)	(53,505,311)	(50,782,139)	(54,303,258)	(56,718,131)
Administrative Expenses	(9,624,617)	(10,534,190)	(11,447,385)	(9,603,126)
Total Deductions to Plan Net Assets	(1,269,517,903)	(1,173,844,225)	(1,118,857,420)	(1,068,887,539)
Change in Net Assets	$2,099,115,411	$1,123,396,266	$(2,946,722,786)	$(990,009,047)

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

2007	2006	2005	2004	2003	2002
$256,995,275	$246,203,381	$233,226,034	$230,349,955	$224,746,447	$209,624,015
398,818,013	352,031,548	293,952,421	714,353,221	231,464,323	221,473,727
655,813,288	598,234,929	527,178,455	944,703,176	456,210,770	431,097,742
1,816,702,680	1,046,279,084	932,881,712	1,087,128,878	85,233,479	(676,384,745)
195,760,216	165,466,523	132,806,082	132,004,016	145,411,285	159,209,184
136,434,906	113,162,346	130,167,483	91,477,150	76,508,361	24,416,401
39,114,763	51,835,809	43,821,311	39,514,695	31,217,255	44,792,323
261,734	303,028	412,211	565,492	557,611	667,029
2,188,274,299	1,377,046,790	1,240,088,799	1,350,690,231	338,927,991	(447,299,808)
(30,249,368)	(27,204,510)	(22,070,013)	(18,718,601)	(16,675,173)	(19,758,136)
2,158,024,931	1,349,842,280	1,218,018,786	1,331,971,630	322,252,818	(467,057,944)
125,998,402	87,911,153	53,059,141	23,020,103	25,878,944	33,310,814
(120,938,041)	(82,182,198)	(46,714,331)	(17,697,447)	(20,861,098)	(28,577,302)
(1,003,820)	(1,163,472)	(1,267,475)	(1,068,372)	(1,214,021)	(1,422,527)
(121,941,861)	(83,345,670)	(47,981,806)	(18,765,819)	(22,075,119)	(29,999,829)
4,056,541	4,565,483	5,077,335	4,254,284	3,803,825	3,310,985
2,162,081,472	1,354,407,763	1,223,096,121	1,336,225,914	326,056,643	(463,746,959)
228,986	175,539	178,105	182,113	82,257	137,633
2,818,123,746	1,952,818,231	1,750,452,681	2,281,111,203	782,349,670	(32,511,584)
(868,179,029)	(805,978,732)	(737,563,276)	(676,918,614)	(645,716,079)	(627,704,056)
(46,129,211)	(46,826,176)	(46,773,933)	(41,179,470)	(39,608,946)	(39,066,937)
(9,153,582)	(8,810,923)	(7,849,884)	(8,685,182)	(7,826,064)	(8,694,809)
(55,585,886)	(54,957,957)	(53,703,109)	(50,396,392)	(53,829,235)	(47,625,764)
(8,893,544)	(7,718,879)	(7,340,147)	(7,231,295)	(7,215,024)	(6,776,044)
(987,941,252)	(924,292,667)	(853,230,349)	(784,410,953)	(754,195,348)	(729,867,610)
$1,830,182,494	$1,028,525,564	$897,222,332	$1,496,700,250	$28,154,322	$(762,379,194)

Changes in Net Assets-Death and Disability Plan

Last five fiscal years[1]

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

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

Benefit and Refund Deductions from Net Assets by Type

For the fiscal year ended June 30, 2011, with comparative figures for 2010, 2009, 2008, 2007 and 2006[1]

Type of Benefit	June 30, 2011	June 30, 2010	June 30, 2009	June 30, 2008	June 30, 2007	June 30, 2006
Age and service benefits:						
Retirees	$1,092,518,456	$1,008,271,726	$950,746,107	$898,910,097	$823,994,836	$763,960,585
Survivors	54,690,816	51,934,092	49,193,507	46,794,560	44,184,193	42,018,147
Death in service benefits	9,614,688	8,959,388	9,237,740	8,388,935	9,153,582	8,810,923
Insurance Premiums	6,752,185	7,035,185	6,946,461	6,824,361	6,383,962	5,973,688
Insurance Premiums and Disabiltiy benefits (OPEB)	46,753,126	43,746,954	47,356,797	49,893,770	49,202,924	48,984,269
Total Benefits	$1,210,329,271	$1,119,947,345	$1,063,480,612	$1,010,811,723	$932,919,497	$869,747,612

Type of Refund						
Death	$5,984,123	$6,147,736	$5,773,422	$5,275,097	$5,496,510	$6,197,596
Separation	43,579,892	37,214,954	38,156,001	43,197,593	40,632,701	40,628,580
Total Refunds	$49,564,015	$43,362,690	$43,929,423	$48,472,690	$46,129,211	$46,826,176

1) Information only available for current year and prior five years.

Highlight of Operations — 10-Year Summary

	2011	2010	2009	2008	2007
Membership Composition					
Number of Retirants(1)	70,349	67,219	64,803	61,489	60,166
Number of Survivors(2)	6,149	5,945	5,764	5,613	5,599
New Retirants During the Fiscal Year	6,245	5,188	4,893	4,780	4,423
Active and Inactive Members(1)	202,150	204,155	197,822	195,187	192,307
Participating Employers	1,511	1,499	1,492	1,482	1,474
Financial Results (in millions)					
Member Contributions	$294	$290	$279	$270	$257
Employer Contributions(3)	575	522	486	458	399
Retirement / Death Benefits	1,157	1,069	1,009	954	877
Investment Income(4)	2,499	1,486	(2,592)	(649)	2,162
Employer Contribution Rate(5)					
KPERS--State / School	9.7%	8.57%	7.97%	7.37%	6.77%
KPERS--Local(6)	7.74	7.14	6.54	5.93	5.31
KP&F (Uniform Participating)(6)	14.57	12.86	13.51	13.88	13.32
Judges	19.89	20.90	22.08	22.38	19.11
TIAA	—	—	—	—	—
Unfunded Actuarial Liability (in millions)					
KPERS--State / School	$6,244	$5,805	$6,240	$4,312	$4,135
KPERS--Local	1,395	1,315	1,385	941	893
KP&F	598	530	619	284	322
Judges	27	26	36	15	15
TIAA(7)	—	—	—	—	—
Funding Ratios(8)					
KPERS--State / School	59.90%	61.60%	56.90%	68.60%	67.50%
KPERS--Local	63.20	63.70	59.00	70.10	68.80
KP&F	74.20	76.20	70.50	85.50	82.40
Judges	82.50	82.30	74.60	88.70	87.40
TIAA	—	—	—	—	—

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

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

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

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

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

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

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

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

Highlight of Operations — 10-Year Summary

	2006	2005	2004	2003	2002
Membership Composition					
Number of Retirants[1]	57,954	61,125	59,124	57,597	56,115
Number of Survivors[2]	5,394	—	—	—	—
New Retirants During the Fiscal Year	4,452	4,141	3,612	3,585	3,689
Active and Inactive Members[1]	190,305	189,020	189,460	187,698	183,966
Participating Employers	1,474	1,461	1,454	1,442	1,435
Financial Results (in millions)					
Member Contributions	$246	$233	$230	$225	$210
Employer Contributions[3]	352	294	714	231	221
Retirement / Death Benefits	815	745	686	654	636
Investment Income[4]	1,354	1,223	1,336	326	(464)
Employer Contribution Rate[5]					
KPERS--State / School	6.07%	5.47%	4.58%	4.98	4.78%
KPERS--Local[6]	4.61	4.01	3.22	3.67	3.52
KP&F (Uniform Participating)[6]	12.39	11.69	9.47	6.86	6.79
Judges	21.97	19.22	16.67	12.66	12.88
TIAA	—	.06	—	2.27	2.03
Unfunded Actuarial Liability (in millions)					
KPERS--State / School	$3,926	$3,584	$2,734	$2,239	$1,506
KPERS--Local	869	824	588	340	185
KP&F	341	313	249	232	59
Judges	17	22	15	17	10
TIAA[7]	—	—	—	—	20
Funding Ratios[8]					
KPERS--State / School	67.21%	68.60%	74.07%	75.64%	82.46%
KPERS--Local	67.38	67.30	73.69	81.71	89.12
KP&F	80.46	81.10	84.04	84.16	95.53
Judges	85.02	80.10	84.92	82.21	88.94
TIAA	—	—	—	—	48.32

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

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

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

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

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

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

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

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

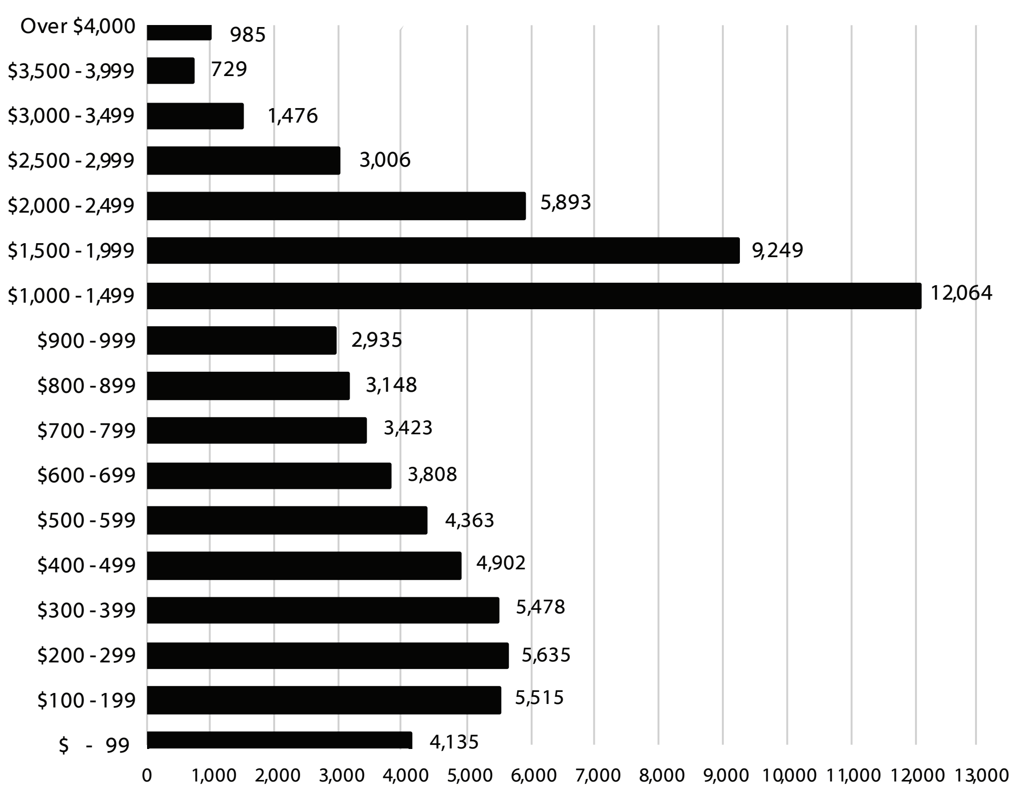
Number of Retired Members and Survivors by Type of Benefit

As of December 31, 2010

Monthly Benefit	Number of Retirees	Normal Retirement	Early Retirement	Service-Connected Death or Disability	Nonservice-Connected Death or Disability
$ - 99	4,135	3,779	350	2	4
$100-199	5,516	3,620	1,842	46	8
$200-299	5,635	3,244	2,342	45	4
$300-399	5,481	3,183	2,245	37	16
$400-499	4,898	2,896	1,949	40	13
$500-599	4,364	2,734	1,587	30	13
$600-699	3,806	2,463	1,301	29	13
$700-799	3,422	2,283	1,096	35	8
$800-899	3,149	2,196	897	50	6
$900-999	2,934	2,208	673	39	14
$1,000-1,499	12,065	10,258	1,520	209	78
$1,500-1,999	9,250	8,729	304	130	87
$2,000-2,499	5,893	5,711	83	58	41
$2,500-2,999	3,006	2,910	45	20	31
$3,000-3,499	1,476	1,426	26	13	11
$3,500-3,999	729	711	6	10	2
$4,000 or More	985	963	18	4	
Totals	76,744	59,314	16,284	797	349

Number of Retired Members and Survivors by Monthly Benefit Amount

As of December 31, 2010



Number of Retired Members and Survivors by Type of Payment Option

As of December 31, 2010

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	3,328	253	369	45	34	4	34	68
$100-199	3,986	577	626	86	98	31	25	86
$200-299	4,033	615	668	95	131	14	27	52
$300-399	3,826	594	710	73	148	39	25	63
$400-499	3,424	534	646	77	126	36	13	46
$500-599	3,013	495	571	49	136	30	16	53
$600-699	2,604	437	501	60	121	40	12	33
$700-799	2,329	411	429	43	126	35	16	34
$800-899	2,056	439	403	42	133	38	11	26
$900-999	1,890	448	375	36	124	31	11	20
$1,000-1,499	7,514	1,896	1,562	133	664	180	40	75
$1,500-1,999	5,826	1,555	1,013	62	612	108	25	48
$2,000-2,499	3,817	1,022	544	43	378	54	21	14
$2,500-2,999	1,880	555	276	30	229	19	9	8
$3,000-3,499	900	284	156	11	107	9	3	6
$3,500-3,999	429	138	84	4	68	4	0	2
$4,000 or More	483	247	128	7	117	0	1	2
Totals	51,338	10,500	9,061	896	3,352	672	289	636

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

New Retirees by Calendar Year

Service Credit		2006	2007	2008	2009	2010
Less Than 5	Retired Members	187	213	203	262	263
	Average FAS[2]	$32,969.26	$23,028.60	$24,286.91	$21,194.51	$23,919.51
	Average Benefit	$113.95	$115.70	$130.90	$110.58	$93.25
	Average Years	2.37	2.75	2.67	2.56	2.65
5-9.99	Retired Members	288	369	341	347	435
	Average FAS	$20,093.39	$27,678.21	$27,224.87	$27,718.33	$28,869.68
	Average Benefit	$205.12	$262.41	$277.67	$300.13	$292.23
	Average Years	7.00	7.70	7.73	7.66	7.75
10-14.99	Retired Members	635	739	736	713	877
	Average FAS	$24,492.77	$30,848.84	$32,265.54	$32,669.13	$33,333.42
	Average Benefit	$423.98	$452.70	$471.14	$484.31	$478.88
	Average Years	11.87	12.25	12.19	12.18	12.14
15-19.99	Retired Members	675	670	765	706	822
	Average FAS	$28,566.71	$36,089.59	$37,387.87	$37,154.28	$39,884.61
	Average Benefit	$706.55	$782.89	$783.99	$800.55	$830.36
	Average Years	16.96	17.43	17.40	17.39	17.30
20-24.99	Retired Members	564	621	730	685	819
	Average FAS	$33,508.65	$40,199.79	$41,860.17	$43,734.53	$44,677.45
	Average Benefit	$1,071.16	$1,103.23	$1,154.33	$1,284.91	$1,238.44
	Average Years	21.92	22.21	22.34	22.45	22.23
25-29.99	Retired Members	755	806	754	763	852
	Average FAS	$39,373.33	$46,579.86	$49,038.10	$48,788.05	$50,662.87
	Average Benefit	$1,553.77	$1,661.34	$1,738.41	$1,726.15	$1,775.08
	Average Years	27.06	27.50	27.47	27.42	27.35
30-34.99	Retired Members	884	853	751	771	926
	Average FAS	$44,267.48	$52,495.79	$54,546.48	$55,828.21	$57,899.34
	Average Benefit	$2,053.55	$2,129.22	$2,227.64	$2,337.01	$2,418.71
	Average Years	31.81	32.03	32.06	31.94	32.03
35-39.99	Retired Members	298	295	270	316	401
	Average FAS	$43,029.51	$55,511.76	$56,508.71	$60,485.97	$60,225.79
	Average Benefit	$2,301.72	$2,457.18	$2,541.95	$2,763.31	$2,710.63
	Average Years	36.68	36.97	37.03	37.06	36.92
40-44.99	Retired Members	74	65	67	63	143
	Average FAS	$43,857.36	$52,419.96	$53,281.02	$58,960.07	$61,221.12
	Average Benefit	$2,645.33	$2,670.39	$2,862.03	$3,235.13	$2,964.44
	Average Years	41.36	41.74	41.84	41.63	41.72
45-49.99	Retired Members	7	5	6	7	8
	Average FAS	$29,042.65	$48,951.13	$42,007.13	$53,159.68	$59,155.97
	Average Benefit	$1,966.49	$2,441.43	$2,464.83	$2,647.02	$2,926.19
	Average Years	46.43	45.90	48.17	45.82	46.31
50 and Over	Retired Members	2	2	2	9	4
	Average FAS	$40,939.59	$46,757.32	$37,202.08	$47,291.16	$71,532.67
	Average Benefit	$3,015.03	$2,000.50	$3,535.44	$2,662.89	$4,209.75
	Average Years	50.50	51.13	56.50	54.06	56.06
Total Number	Retired Members	4,366	4,638	4,625	4,642	5,550
	Average FAS	$37,694.15	$40,858.89	$41,992.17	$42,772.08	$44,667.14
	Average Benefit	$1,217.05	$1,236.65	$1,252.78	$1,327.48	$1,364.27
	Average Years	22.14	21.86	21.57	21.62	21.89

1) Data provided by KPERS Information Resources and Member Services divisions.

2) Average Final Average Salary

Principal Participating Employers[1]

Participating Government	2011 Covered Employees	2011 Rank	2011 % of Total System	2010 Covered Employees	2010 Rank	2010 % of Total System	2009 Covered Employees	2009 Rank	2009 % of Total System
State of Kansas	27,066	1	17.05%	26,735	1	16.55%	25,775	1	16.41%
USD 259, Wichita	6,749	2	4.25%	6,861	2	4.25%	6,850	2	4.36%
USD 233, Olathe	4,082	3	2.57%	4,339	3	2.69%	4,625	3	2.94%
USD 512, Shawnee Mission	3,837	4	2.42%	4,005	4	2.48%	4,167	4	2.65%
USD 500, Kansas City	3,165	5	1.99%	3,178	5	1.97%	3,324	5	2.12%
USD 229, Blue Valley	2,977	6	1.88%	2,957	6	1.83%	2,983	6	1.90%
Johnson County	2,633	7	1.66%	2,706	7	1.68%	2,476	8	1.58%
USD 501, Topeka Public Schools	2,341	8	1.48%	2,466	8	1.53%	2,529	7	1.61%
Sedgwick County	2,256	9	1.42%	2,298	9	1.42%	1,847	9	1.18%
USD 497, Lawrence	1,595	10	1.01%	1,715	10	1.06%	1,766	10	1.12%
All Other[2]	102,004		64.27%	104,291		64.56%	100,723		64.13%
Total (1,499 employers)	158,705		100.00%	161,551		100.00%	157,065		100.00%

Participating Government	2008 Covered Employees	2008 Rank	2008 % of Total System	2007 Covered Employees	2007 Rank	2007 % of Total System	2006 Covered Employees	2006 Rank	2006 % of Total System
State of Kansas	25,299	1	16.35%	25,069	1	16.55%	25,134	1	16.86%
USD 259, Wichita	6,748	2	4.36%	6,590	2	4.35%	6,546	2	4.39%
USD 233, Olathe	4,307	3	2.78%	4,277	3	2.82%	4,155	3	2.79%
USD 512, Shawnee Mission	4,128	4	2.67%	4,007	4	2.65%	3,968	4	2.66%
USD 500, Kansas City	3,337	5	2.16%	3,334	5	2.20%	3,436	5	2.30%
USD 229, Blue Valley	2,930	7	1.89%	2,809	7	1.85%	2,770	7	1.86%
Johnson County	3,137	6	2.03%	3,002	6	1.98%	3,229	6	2.17%
USD 501, Topeka Public Schools	2,548	8	1.65%	2,469	8	1.63%	2,544	8	1.71%
Sedgwick County	2,313	9	1.50%	2,309	9	1.52%	2,434	9	1.63%
USD 497, Lawrence	1,712	10	1.11%	1,692	10	1.12%	1,736	10	1.16%
All Other[2]	98,231		63.50%	95,891		63.33%	93,121		62.47%
Total (1,499 employers)	154,690		100.00%	151,449		100.00%	149,073		100.00%

1) Information only available for current and prior five years.
Data provided by KPERS Information Resources and Member Services divisions.

2) In 2011, "All Other" consisted of:

Type	Number	Covered Employees
School districts	282	23,802
Cities and Counties	542	29,300
Post-Secondary Education(3)	48	11,204
Other	629	37,698
	1,501	102,004

3) Not including State Board of Regents institutions.

Principal Participating Employers-Death and Disability Plan[1]

Participating Government	2011 Covered Employees	2011 Rank	2011 % of Total System	2010 Covered Employees	2010 Rank	2010 % of Total System	2009 Covered Employees	2009 Rank	2009 % of Total System
State of Kansas	37,904	1	22.98%	37,756	1	22.79%	38,230	1	23.38%
USD 259, Wichita	6,749	2	4.09%	6,861	2	4.14%	6,850	2	4.19%
USD 233, Olathe	4,082	3	2.47%	4,339	3	2.62%	4,625	3	2.83%
USD 512, Shawnee Mission	3,837	4	2.33%	4,005	4	2.42%	4,167	4	2.55%
USD 500, Kansas City	3,165	5	1.92%	3,178	5	1.92%	3,324	5	2.03%
USD 229, Blue Valley	2,977	6	1.80%	2,957	6	1.78%	2,983	7	1.82%
Johnson County	2,633	7	1.60%	2,706	7	1.63%	2,476	6	1.51%
USD 501, Topeka Public Schools	2,341	8	1.42%	2,466	8	1.49%	2,529	8	1.55%
Sedgwick County	2,256	9	1.37%	2,298	9	1.39%	1,847	9	1.13%
USD 497, Lawrence	1,595	10	0.97%	1,715	10	1.04%	1,766	10	1.08%
All Other (a)	97,393		59.05%	97,393		58.79%	94,685		57.92%
Total (1,492 employers)	164,932		100.00%	165,674		100.00%	163,482		100.00%

Participating Government	2008 Covered Employees	2008 Rank	2008 % of Total System	2007 Covered Employees	2007 Rank	2007 % of Total System
State of Kansas[2]	40,431	1	24.67%	37,871	1	23.79%
USD 259, Wichita	6,748	2	4.12%	6,590	2	4.14%
USD 233, Olathe	4,307	3	2.63%	4,277	3	2.69%
USD 512, Shawnee Mission	4,128	4	2.52%	4,007	4	2.52%
USD 500, Kansas City	3,337	5	2.04%	3,334	5	2.09%
USD 229, Blue Valley	2,930	7	1.79%	2,809	7	1.76%
Johnson County	3,137	6	1.91%	3,002	6	1.89%
USD 501, Topeka Public Schools	2,548	8	1.55%	2,469	8	1.55%
Sedgwick County	2,313	9	1.41%	2,309	9	1.45%
USD 497, Lawrence	1,712	10	1.04%	1,692	10	1.06%
All Other[3]	92,321		56.32%	90,826		57.06%
Total (1,492 employers)	163,912		100.00%	159,186		100.00%

1) Information available for years 2010 and prior four years. Data provided by KPERS Information Resources and Member Services divisions.

2) State of Kansas includes the Board of Regents.

3) In 2010, "All Other" consisted of:

Type	Number	Covered Employees
School districts	282	23,802
Cities and Counties	449	17,615
Post-Secondary Education	48	11,204
Other	628	37,698
	1,407	90,319

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.

2011 Comprehensive Annual Financial Report
Kansas Public Employees Retirement System
A component unit of the State of Kansas
Fiscal year ended June 30, 2011