FIDUCIARY

First and always.

2013 Comprehensive Annual Financial Report
for the fiscal year ended June 30, 2013

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

Our Mission

KPERS, in its fiduciary capacity, exists to deliver retirement, disability and survivor benefits to its members and their beneficiaries.

fi•du•cia•ry *noun* \ fi-du'-she, er-ē
: a person in a position of authority whom the law obligates to act solely on behalf of the person he or she represents

2013 Comprehensive Annual Financial Report

Kansas Public Employees Retirement System
A component unit of the State of Kansas
Fiscal year ended June 30, 2013

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

Alan D. Conroy, Executive Director
Diana Komarek, Chief Fiscal Officer

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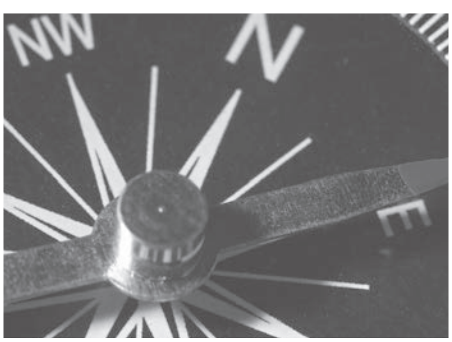
Introductory Section

FIDUCIARY

First and always.



Transmittal Letter

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

October 21, 2013

We are pleased to present the Kansas Public Employees Retirement System's Comprehensive Annual Financial Report (CAFR) for fiscal year 2013. In addition to informing the Board of Trustees, members and employers, our annual report fulfills KPERS' reporting responsibilities as defined in Kansas statute. Printed copies are readily available to the public and a full version is posted on our web site, kpers.org.

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

ENSURING ACCURACY

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

The Retirement System maintains a framework of internal controls to establish reasonable assurance that assets are safeguarded, transactions are completed accurately and financial statements are fair and reliable. We also have an internal audit program that reports to the Board of Trustees. There are inherent limitations to internal controls, and risk cannot always be foreseen or completely eliminated. KPERS' objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements, since the cost of internal control should not exceed the benefits obtained. In addition to internal controls, the independent certified public accounting firm Cochran Head Vick & Co., P.A. conducted an independent audit of the Retirement System's financial statements for 2013.

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 are a state-wide defined benefit retirement plan containing three different groups:

1. Kansas Public Employees Retirement System
2. Kansas Police and Firemen's Retirement System
3. Kansas Retirement System for Judges

Retirement System benefits are offered by about 1,500 state and local employers. KPERS has over 286,000 members, including active, inactive and retired members. The Retirement System paid about $1.4 billion in all benefit payments for fiscal year 2013. Approximately 85 to 90 percent of those benefits remained in Kansas.

Along with the defined benefit plan, KPERS also oversees the State's Deferred Compensation Plan, or Tandem. Tandem is a voluntary 457(b) savings program for State of Kansas employees. In addition, 250 local public employers also participate. The plan has over 24,500 total participants and about 13,800 actively contributing. Total plan assets equaled $873 million at the end of fiscal year 2013.

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.

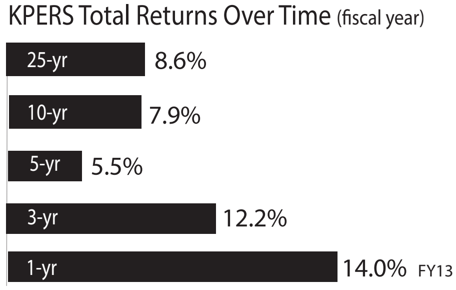
The Board approves the System's annual operating budget. As a component unit of the State of Kansas, the budget is also approved by the Kansas Legislature and Governor as part of the regular legislative budgetary process.

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 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 is 8.6 percent, exceeding the 8 percent target.

KPERS Total Returns Over Time (fiscal year)



KPERS has experienced a fairly steady recovery since the economic crisis in 2008. This year is the final year of the five-year actuarial smoothing process for the System to absorb 2008 investment losses. KPERS' well-diversified portfolio performed well in fiscal year 2013 for a total investment return of 14.0 percent. The 14.0 percent return outperformed the KPERS Policy Index by 1.2 percent for the fiscal year. Six of seven asset classes outperformed their policy benchmarks. Annual return information is not yet available for the newly created yield-driven asset class. Equity assets were the strongest contributors to the total return with both domestic and international equity portfolio returns in the double digits.

The Retirement System's investment portfolio ended the fiscal year at $14.3 billion in assets, continuing its climb from the $8.8 billion recession low in 2009.

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

FINANCIAL POSITION AND FUNDING OUTLOOK

As expected, the Retirement System's most recent actuarial valuation reflects our continuing effort to absorb losses from the 2008 recession and 18 years of underfunding in the KPERS plan.

According to the December 31, 2012, actuarial valuation, the System's unfunded actuarial liability (UAL) increased by $1,025 million to $10.3 billion. The UAL was previously $9.2 billion as of December 31, 2011. This UAL amount is the gap between the actuarial value of assets and the actuarial liability for service already earned by public employees. The UAL increased this year for a combination of reasons.

- KPERS continues to recognize investments losses from the 2008 recession. This year will be the final actuarial smoothing year.
- Employer contributions are capped by statute, meaning they are not paying the full actuarial cost of benefits.
- The amortization methodology puts more of the UAL costs toward the end of the amortization period.

The valuation also showed the System's new funded ratio was 56 percent, down from 59 percent the previous year. The funded ratio is the ratio of assets to future liabilities. For public pension plans like KPERS, funding over 80 percent and rising is good. Funding below 60 percent is poor and needs prompt attention. While the System does not have an immediate crisis, long-term funding continues to be a concern.

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

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

Sub House Bill 2333:

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

While the shortfall will continue to grow in the near-term, with continued strong investment returns and the positive effects of last year's benefit change legislation, KPERS is on a clear path to financial soundness. Projections show the unfunded actuarial liability will be paid off by 2033. While the Retirement System's unfunded liability will increase somewhat until we see the results of KPERS employer contribution rates catching up with the actuarially required rates, we are solid and headed in the right direction.

It is important to remember that 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 65.

MAJOR INITIATIVES AND ACCOMPLISHMENTS

FUSION Project Planning and Early Implementation

KPERS staff began a three-year implementation plan for 2012 legislation House Bill 2333. FUSION will have a significant effect on KPERS' information system, our business processes and on KPERS staff. FUSION has three main projects— The KPERS Tier 1 member rate change and possible benefit election, adding a new Tier 3 cash balance plan and moving employers to pay period reporting from the current annual reporting process.

Much of the fiscal year was spent in research and planning. Major Information Technology focus was on building a benefit election module and making changes to the information system to accommodate the Tier 1 member contribution rate change in January 2014, from 4 percent of pay to 5 percent of pay, along with the effects of the new 1.85 percent multiplier for both Tier 1 and Tier 2. Staff also began member and employer education about the benefit and contribution changes.

New Yield-Driven Asset Class

The Board of Trustees established a new "yield driven" asset class during the most recent asset allocation review, and it was implemented in the third quarter of the fiscal year. The primary role of the assets in the yield driven allocation is to provide current income, while also providing a degree of diversification from equity risk. Yield driven assets currently comprise 5.0 percent of the System's investment portfolio, and have a long term target allocation of 8.0 percent. The current investment strategies in the yield driven class include strategic fixed income portfolios, real estate investment trust (REIT) portfolios, and a master limited partnership portfolio (MLP).

Board of Trustees Online Election

Every four years KPERS membership elects one school and one non-school member to represent them on the KPERS Board of Trustees.

Benefits and Member Services worked along with Communications and Information Technology to hold the quadrennial election in April 2013. This was the first year KPERS utilized a newly developed secure online voting function through KPERS' member web portal.

Deferred Compensation Plan Rebranding

In 2008, KPERS began oversight for the State employee 457 deferred compensation savings plan. Since then we have continued a slow migration of plan identity to KPERS. This fiscal year we developed and launched a new brand for the plan, renaming it to Tandem and communicating it as a KPERS savings plan. Tandem's new logo coordinates with KPERS' own organizational identity, reinforcing the complementary nature of the 457 plan.

SHARP (State Payroll System) Upload Project

Fiscal Services and Information Technology staff completed a two-year initiative with the Kansas Department of Administration to implement a biweekly upload of the State of Kansas employee transactional data by payroll cycle. The resulting files are used to create the State contribution reporting for all State agencies and State Board of Regent employers. This has been done previously on an annual basis.

BY THE NUMBERS — IN FY 2013:

- About 1,000,000 retirement benefit payments totaling more than $1.2 billion
- 5,474 pension inceptions
- 42,200 beneficiary designations
- $9.5 million in active member death benefits
- 27,400 member enrollments and transfers
- 9,500 withdrawals totaling $48 million
- $24 million in benefits to 3,000 disabled employees
- 92,000 incoming calls with an average wait time of 10 seconds
- 13,300 e-mail requests

AWARDS & ACKNOWLEDGMENTS

KPERS participated in a benchmarking survey conducted by CEM Benchmarking, Inc. When compared with other public pensions in the 2012 survey, KPERS earned an overall service score of 82 versus a peer median of 83. 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 $92. Benchmarking results continue to show KPERS is delivering good customer service for a low, economical cost.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Retirement System for the 2012 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 19 consecutive fiscal years. We believe our current report again conforms to the program requirements, and we will submit it to the GFOA to determine its eligibility for another certificate.

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

Sincerely,

Alan D. Conroy
Alan D. Conroy,
Executive Director

Diana Komarek
Diana Komarek
Chief Fiscal Officer

Board of Trustees

Our Organization

BOARD OF TRUSTEES

EXECUTIVE DIRECTOR, ALAN CONROY

ADMINISTRATION

General Counsel, Laurie McKinnon
Internal Audit, Alberta Rae
Planning and Research, Faith Loretto
Human Resources, Julie Baker
Communications, Kristen Basso

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

BENEFITS AND MEMBER SERVICES

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

INFORMATION TECHNOLOGY

Chief Information Officer, Mike Branam
- Data Control
- Operations

KPERS Staff

Mel Abbott
Crystie Amaro
Michael Arvidson
Julie Baker
Yohonna Barraud
Kristen Basso
Julia Baughman
Dianna Berry
Kathleen Billings
Jenna Blood
Anita Bradley
Michael Branam
Jeanette Branam
Terry Brookhouser
Geri Brubaker
Craig Callahan
George Clark
Alan Conroy
Tammy Cruz
Andrea Davenport
Don Deseck
Yolanda Dickinson
Amy Dunton
Joyce Edington
Jill Emme
Yarlenis Ensley
Dan Fairbank
Mitchell Fick
Renae Forque
Jeffrey Franczak
Elaine Gaer
Yong (Sue) Gamblian
Connie Gardner
Nick Gawdun
Billie-Jo Gerisch
Michael Gilliland
Kay Gleason
Lisa Gonzales
Mary Beth Green
Todd Haug
Alec Hawley
Lisa Hernandez
Robert Hiebert
Denise Hilmes
John Hooker
Ellen Hurless
Emily Hurt
Reshma Jacob
Melva Janke
Clark Jennebelle
Teresa Jurgens
Melissa Keller
Casey Kidder
Brenda Kindle
Diana Komarek
Shannon Kuehler
Annette Kuti
Donald Lennard
Debra Lewis
Faith Loretto
Joyce Mark
Heather McHardie
Laurie McKinnon
Jason McKinzie
Judy McNeal
Elizabeth Miller
Stephanie Moore
Roger Moore
Noble Morrell
Lisa Ngole
Shawn Nix
Michael Ogle
Carrie Pare
Diana Peters
Alissa Powell
Jeeva Purushothama
Sarah Putman
Teresa Quick
Justin Quick
Jami Quiett
Cathy Rafferty
Kimberley Raines
Stacey Randles
Alberta Rea
Norm Remp
Dean Roney
Jamie Rose
Rika Rowe
Teresa Ryan
MaryAnn Sachs
Alan Schuler
Rhonda Shumway
Julie Smith
Zachary Smith
Terry Snook
Marsha Stafford
Jaime Sturgeon
Amber Tarrant
Carmen Torres
Jackie VandeVelde
Christina VanWinkle
Daniel Wadsworth
Jarod Waltner
Michaela Watson
Jessica Wendt
Christine Whitlow
Amy Whitmer
Alice Wietharn
Eric Wigginton
Max Williams
Carol Wilson
Deanna Winters

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 Asset Management, Coral Gables, FL
Fiduciary Asset Management Company, St. Louis, MO
Franklin Templeton Institutional, San Mateo, CA
Guggenheim Investments, Topeka, KS
ING Investment Management Company, Hartford, CT
JP Morgan Investment Management Inc., New York, NY
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
Morgan Stanley Asset Management, Inc., New York, NY
Pacific Investment Management Company, Newport Beach, CA
Pareto Partners, New York, NY
Payden & Rygel Investment Counsel, Los Angeles, CA
Russell Investment Group, Tacoma, WA
State Street Global Advisors, Boston, MA
Systematic Financial Management LP, Teaneck, NJ
T Rowe Price Associates, Inc., Baltimore, MD
Urdang Securities Management, Inc., Plymouth Meeting, PA
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, UnitedHealthcare Specialty Benefits, LLC, South Portland, ME

GFOA Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to KPERS for the 2012 annual report. KPERS has received the award for each of the last 19 consecutive fiscal years.

Government Finance Officers Association

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

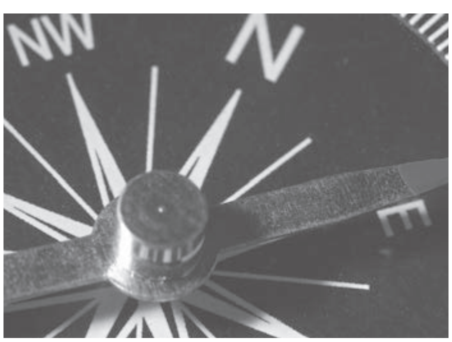
June 30, 2012

Executive Director/CEO

Financial Section

FIDUCIARY

First and always.



COCHRAN HEAD VICK & CO., P.A.

Certified Public Accountants

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Independent Auditor's Report

Board of Trustees
Kansas Public Employees Retirement System:

Report on the Financial Statements

We have audited the accompanying statement of fiduciary net position of the Kansas Public Employees Retirement System (the system), a component unit of the State of Kansas, as of June 30, 2013, and the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, which collectively comprise KPERS' basic financial statements as listed in the table of contents. The summarized comparative financial information has been derived from the System's 2012 financial statements and, in our report dated October 15, 2012 we expressed an unqualified opinion on the respective financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Kansas Public Employees Retirement System as of June 30, 2013, and the changes in fiduciary net position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

As described in note 2 to the financial statements, KPERS adopted the provisions of Governmental Accounting Standards Board Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information, schedule of employer contributions, and schedule of funding progress, which appear as listed in the accompany table of contents, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise KPERS' basic financial statements. The schedule of contributions, schedule of administrative expenses, schedule of investment income by asset class, schedule of investment management fees and expenses, introductory section, investment section, actuarial section, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of contributions, schedule of administrative expenses, schedule of investment income by asset class, and schedule of investment management fees and expenses, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of contributions, schedule of administrative expenses, schedule of investment income by asset class, and schedule of investment management fees and expenses are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory, investment, actuarial and statistical sections have not been subject to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 15, 2013, on our consideration of the System's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the System's internal control over financial reporting and compliance.

October 15, 2013 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, 2013. 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 groups are part of a governmental, defined benefit, contributory plan covering substantially all Kansas public employees. The Kansas Public Employees Retirement System is a single trust, multi-employer, cost-sharing plan. The State of Kansas and Kansas school districts are required to participate. Participation by local political subdivisions is optional but irrevocable once elected.

FINANCIAL HIGHLIGHTS

- The System's net assets increased by $1.3 billion or approximately 10.0 percent, from $13.1 billion to $14.4 billion.

- As of December 31, 2012, the date of the most recent actuarial valuation, the Retirement System's funded ratio was 56.4 percent compared with a funded ratio of 59.2 percent for the prior year.

- The unfunded actuarial liability increased from $9.2 billion at December 31, 2011, to $10.3 billion at December 31, 2012.

- On a market value basis, this year's investment rate of return was a positive 14.0 percent, compared with last year's return of a positive 1.0 percent.

- Retirement benefits paid to retirees and beneficiaries increased 4.2 percent from $1.24 billion in fiscal year 2012 to $1.29 billion in fiscal year 2013.

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 Fiduciary Net Position as of June 30, 2013, and a Statement of Changes in Fiduciary Net Position for the fiscal year ended June 30, 2013, 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, 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, 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 Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position. 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 7.1 percent funded as of June 30, 2012, 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, 2013, amounted to $14.4 billion, an increase of $1.3 billion, or 10.0 percent, from $13.1 billion at June 30, 2012. Following are two summary schedules, Fiduciary Net Position and Changes in Fiduciary Net Position, comparing information from fiscal years 2013 and 2012.

Summary Comparative Statements of Fiduciary Net Position

	As of June 30, 2013	As of June 30, 2012
Assets		
Cash and Deposits	$ 1,253,020	$ 10,899,775
Receivables	3,003,859,154	2,048,504,812
Investments at Fair Value	14,505,731,128	13,277,146,799
Invested Securities Lending Collateral	1,639,377,142	1,051,425,908
Capital Assets and Supplies Inventory	2,109,776	2,645,766
Total Assets	19,152,330,220	16,390,623,060
Liabilities		
Administrative Costs	1,057,498	975,198
Benefits Payable	5,337,106	7,036,167
Investments Purchased	3,082,762,464	2,202,250,732
Securities Lending Collateral	1,647,884,065	1,074,549,112
Total Liabilities	4,737,041,133	3,284,811,209
Net Position	$14,415,289,087	$13,105,811,851

Summary Comparative Statements of Changes in Fiduciary Net Position

	Year Ended June 30, 2013	Year Ended June 30, 2012
Additions		
Contributions	$ 973,448,423	$ 915,741,287
Net Investment Income	1,741,282,941	84,238,967
Net Investment Income from Securities Lending Activity	5,968,509	4,817,667
Total Net Investment Income	1,747,251,450	89,056,634
Other Miscellaneous Income	537,741	129,622
Total Additions	2,721,237,614	1,004,927,543
Deductions		
Monthly Retirement Benefits	1,288,986,517	1,237,559,898
Refunds	53,899,831	55,896,826
Death Benefits	9,458,321	9,414,234
Insurance Premiums and Disability Benefits	48,557,812	55,169,430
Administrative	10,857,897	9,928,110
Total Deductions	1,411,760,378	1,367,968,498
Net Increase (Decrease)	1,309,477,236	(363,040,955)
Net Position Beginning of Year	$13,105,811,851	$13,468,852,806
Net Position End of Year	$14,415,289,087	$13,105,811,851

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 $916 million in fiscal year 2012 to $973 million in fiscal year 2013.

The System recognized a net investment income of $1.7 billion for the 2013 fiscal year, compared with net income of $89.1 million for the 2012 fiscal year. Total return for the portfolio was 14.0 percent, compared with the Retirement System benchmark return of 12.8 percent. System net investments amounted to $14.4 billion at June 30, 2013, which was $1.3 billion more than the $13.1 billion in total System investments at June 30, 2012. The Retirement System's one-, three-, five- and ten-year investment performance against the assumed rate of investment return are shown in the following table. The assumed rate of return is 8.0 percent.

1 Year	Last 3 Years	Last 5 Years	Last 10 Years
14.0%	12.2%	5.5%	7.9%

At June 30, 2013, the System held $8.8 billion in U.S. equity and international equity securities, which is $1.1 billion greater than 2012 fiscal year end. U.S. equity and international equity securities earned returns of approximately 22.0 percent and 16.1 percent, respectively, for the 2013 fiscal year. These compare with the Retirement System's benchmark returns of 21.5 and 13.6 percent, respectively.

The System held $3.7 billion in U.S. debt and international debt securities, unchanged from the 2012 fiscal year. The performance of the System's fixed income securities during fiscal year 2013 was 2.7 percent, compared with the benchmark of 0.2 percent. Real estate investments increased $274.1 million to $1.4 billion by June 30, 2013. Real estate investments returned approximately 12.8 percent for the 2013 fiscal year, versus the benchmark real estate return of 12.8 percent. The System held $373.6 million in alternative investments, which was a $13.6 million decrease from June 30, 2012. Alternative investments earned a return of approximately 12.9 percent for the 2013 fiscal year, compared to the benchmark alternative investment return of 24.5 percent. At June 30, 2013, the System held $275.8 million in short-term investments, which was an increase of $70.3 million from June 30, 2012.

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 fiscal year 2013, net securities lending income amounted to $6.0 million, compared with income of $4.8 million in fiscal year 2012. Additionally for fiscal year 2013, the System received $8.9 million in gains from a collateral pool settlement.

Deductions from net assets held in trust for benefits include retirement, death and survivor benefits, and administrative expenses. Fiscal year 2013, retirement, death and insurance benefits amounted to $1.4 billion, an increase of $42.9 million, or 4.2 percent from fiscal year 2012. The increase in benefit payments was a result of an increase in the number of retirees. For 2013 fiscal year, System administrative expenses amounted to $10.9 million compared with $10.0 million in fiscal year 2012. The ratio of System administrative expenses to the number of members (approximately $45 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 $1,025 million increase in the unfunded actuarial liability (UAL), decreasing the funded ratio to 56.0 percent.

	UAL (millions)	Funded Ratio
KPERS		
State Group	$ 1,292	68%
School Group	6,366	49
Local Group	1,699	60
KP&F	866	67
Judges	29	81
Retirement System Total[1]	$ 10,253	56

1 May not add due to rounding.

As of the latest valuation date, December 31, 2012, the State group continues to contribute at the full actuarial required contribution (ARC) rate. The State and School groups are combined for purposes of determining the statutory contribution rate applicable to their combined payroll. To the extent the statutory contribution rate is higher than the ARC rate for the State, the difference, applied to the State payroll, is contributed to the School group. Consequently, the two groups are linked for purposes of determining the ARC rate and date. Furthermore, legislation passed in 2012 provided for additional contributions by the State commencing in fiscal year 2014 and continuing until the combined State/School group is at least 80.0 percent funded. The statutory contribution rate for the State/School and Local groups is projected to converge with the ARC rate before the end of the amortization period (2033), if all actuarial assumptions are met in future years. The ARC date for the State/School group is FY 2021 and for the Local group is FY 2015. Although ARC is projected to be achieved if actuarial assumptions are met, the dates and rates of ARC for these groups are highly leveraged and will vary as experience unfolds year to year.

In spite of the funding shortfall, benefits for current retirees are safe. The Retirement System has in excess of $14 billion in assets to pay benefits for decades.

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

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

STATEMENT OF FIDUCIARY NET POSITION

As of June 30, 2013, with comparative figures for 2012

	KPERS Fund	Group Death & Disability Fund	2013 Totals	2012 Totals
Assets				
Cash and Deposits				
Cash	$1,208,291	$24,328	$1,232,619	$10,899,775
Deposits with Insurance Carrier	—	20,401	20,401	—
Total Cash and Deposits	1,208,291	44,729	1,253,020	10,899,775
Receivables				
Contributions	96,385,499	8,160,998	104,546,497	98,163,596
Investment Income	32,074,983	1,184	32,076,167	34,404,394
Sale of Investment Securities	2,867,236,490	—	2,867,236,490	1,915,936,822
Total Receivables	2,995,696,972	8,162,182	3,003,859,154	2,048,504,812
Investments at Fair Value				
Domestic Equities	5,057,826,892	—	5,057,826,892	4,693,536,025
International Equities	3,700,662,364	—	3,700,662,364	3,209,202,374
Cash and Equivalents	256,598,486	19,179,570	275,778,056	205,449,688
Fixed Income	3,747,412,909	—	3,747,412,909	3,705,502,848
Alternative Investments	373,638,697	—	373,638,697	387,198,726
Real Estate	1,350,412,210	—	1,350,412,210	1,076,257,138
Total Investments at Fair Value	14,486,551,558	19,179,570	14,505,731,128	13,277,146,799
Invested Securities Lending Collateral	1,639,377,142	—	1,639,377,142	1,051,425,908
Capital Assets and Supplies Inventory	2,109,776	—	2,109,776	2,645,766
Total Assets	19,124,943,739	27,386,481	19,152,330,220	16,390,623,060
Liabilities				
Administrative Costs	1,057,498	—	1,057,498	975,198
Benefits Payable	3,004,176	2,332,930	5,337,106	7,036,167
Securities Purchased	3,082,762,464	—	3,082,762,464	2,202,250,732
Securities Lending Collateral	1,647,884,065	—	1,647,884,065	1,074,549,112
Total Liabilities	4,734,708,203	2,332,930	4,737,041,133	3,284,811,209
Net Position restricted for Pensions and Other Post Employment Benefits	$14,390,235,536	$25,053,551	$14,415,289,087	$13,105,811,851

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

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the fiscal year ended June 30, 2013, with comparative figures for 2012

	KPERS Fund	Group Death & Disability Fund	2013 Totals	2012 Totals
Additions				
Contributions				
Member Contributions	$306,631,621	$ —	$306,631,621	$298,105,053
Employer Contributions	617,925,370	48,891,432	666,816,802	617,636,234
Total Contributions	924,556,991	48,891,432	973,448,423	915,741,287
Investments				
Net Appreciation (Depreciation)in Fair Value of Investments	1,490,141,704	—	1,490,141,704	(132,729,256)
Interest	100,530,311	20,823	100,551,134	103,595,173
Dividends	153,201,135	—	153,201,135	110,902,858
Real Estate Income, Net of Operating Expenses	39,973,754	—	39,973,754	44,259,544
Other Investment Income	—	—	—	436,311
	1,783,846,904	20,823	1,783,867,727	126,464,630
Less Investment Expense	42,584,786	—	42,584,786	(42,225,663)
Net Investment Income	1,741,262,118	20,823	1,741,282,941	84,238,967
From Securities Lending Activities				
Securities Lending Income	4,827,054	—	4,827,054	4,353,102
Securities Lending Expenses				
Borrower Rebates	(2,450,894)	—	(2,450,894)	(1,769,773)
Management Fees	1,309,439	—	1,309,439	1,305,208
Total Securities Lending Activities Expense	(1,141,455)	—	(1,141,455)	(464,565)
Net Income from Security Lending Activities	5,968,509	—	5,968,509	4,817,667
Total Net Investment Income	1,747,230,627	20,823	1,747,251,450	89,056,634
Other Miscellaneous Income	534,268	3,473	537,741	129,622
Total Additions	2,672,321,886	48,915,728	2,721,237,614	1,004,927,543
Deductions				
Monthly Retirement Benefits Paid	(1,288,986,517)	—	(1,288,986,517)	(1,237,559,898)
Refunds of Contributions	(53,899,831)	—	(53,899,831)	(55,896,826)
Death Benefits	(9,458,321)	—	(9,458,321)	(9,414,234)
Insurance Premiums and Disability Benefits	(6,058,253)	(42,499,559)	(48,557,812)	(55,169,430)
Administrative Expenses	(10,426,813)	(431,084)	(10,857,897)	(9,928,110)
Total Deductions	(1,368,829,735)	(42,930,643)	(1,411,760,378)	(1,367,968,498)
Net Increase (Decrease) in Net Position	1,303,492,151	5,985,085	1,309,477,236	(363,040,955)
Net Position Restricted for Pension Benefits and Other Post Employment Benefits				
Beginning of Year	13,086,743,385	19,068,466	13,105,811,851	13,468,852,806
End of Year	$14,390,235,536	$25,053,551	$14,415,289,087	$13,105,811,851

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

Note 1: Plan Description

PLAN MEMBERSHIP

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

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

All three groups are part of a tax-exempt, defined benefit, contributory plan covering substantially all public employees in Kansas. The Kansas Public Employees Retirement System is a single trust, multi-employer, cost-sharing plan. 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 Groups[1]

	KPERS	KP&F	Judges	Total
Retirees and beneficiaries currently receiving benefits[2]	79,545	4,545	228	84,318
Terminated employees entitled to benefits but not yet receiving them	15,845	189	6	16,040
Inactive members, deferred disabled	2,575	203	—	2,778
Inactive members not entitled to benefits	26,146	1,005	—	27,151
Current employees	148,605	7,187	261	156,053
Total	272,716	13,129	495	286,340

1 Represents System membership at December 31,2012.
2 Number of retirement payees as of December 31,2012.

Number of Participating Employers

	KPERS	KP&F	Judges
State of Kansas	1	1	1
Counties	105	31	—
Cities	363	62	—
Townships	57	—	—
School Districts	286	—	—
Libraries	122	—	—
Conservation Districts	82	—	—
Extension Councils	67	—	—
Community Colleges	20	—	—
Educational Cooperatives	23	—	—
Recreation Commissions	43	1	—
Hospitals	29	—	—
Cemetery Districts	13	—	—
Other	199	—	—
Total	1,410	95	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 contribution reserve 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 50.0 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 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 150.0 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 beneficiaries 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 60.0 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 2/3 percent of the annual compensation at the time of disability. For both groups, the minimum monthly benefit is $100. There is a waiting period of 180 continuous days from the date of disability before benefits can be paid. During the period of approved disability, the member continues to be eligible for group life insurance coverage and to accrue participating service credit.

CONTRIBUTIONS

Member contributions (from 4.0 to 7.0 percent of gross compensation), employer contributions and net investment income fund Retirement System reserves. Member contribution rates are established by state law, and are paid by the employee according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates be determined based on the results of each annual actuarial valuation. The contributions and assets of all three systems are deposited in the Kansas Public Employees Retirement Fund established by K.S.A. 74-4921. All of the retirement systems are funded on an actuarial reserve basis (see Note 3). For fiscal years beginning in 1995, Kansas legislation placed a statutory limit of 0.1 percent of payroll on increases in contribution rates for KPERS employers. During the 1995 legislative session, the statutory limits were increased to 0.2 percent of payroll over the prior year for fiscal years beginning in 1996 for state and school employers. The statutory increase for local units of government was amended to limit increases to no more than 0.15 percent over the prior year for calendar years beginning in 1997. Annual increases in the employer contribution rates related to subsequent benefit enhancements are not subject to these limitations. Legislation passed in 2003 amended the annual increases in future years. The statutory cap for the State/School group increased to 0.4 percent in fiscal year 2006, with subsequent increases of 0.5 percent in fiscal year 2007 and 0.6 percent in fiscal year 2008 and beyond. Legislation passed in 2004 amended the annual increases in future years for local employers. The statutory cap for the Local group increased to 0.4 percent in calendar year 2006, with subsequent increases of 0.5 percent in fiscal year 2007 and 0.6 percent in fiscal year 2008 and beyond. Legislation passed in 2012 again amended the statutory cap on annual increases in contribution rates. Beginning in 2014, the cap on employer contributions has been increased to 0.9 percent in fiscal year 2014, 1.0 percent in fiscal year 2015, 1.1 percent in fiscal year 2016 and 1.2 percent in fiscal year 2017 and beyond. The amortization period for the unfunded liability of all three systems is 40 years from July 1, 1993.

Note 2: Summary of Significant Accounting Policies

REPORTING ENTITY

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

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

USE OF ESTIMATES

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

COMPARATIVE FINANCIAL INFORMATION

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the System's financial statements for the year ended June 30, 2012, 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, 2013, the System's deposits with its disability administrator was $20,401. 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 sale 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 value of the limited partnership investments is based on valuations of the underlying companies of the limited partnerships as reported by the general partner. Fair value of the commingled funds is 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 5.0 percent of the market value of the total investment assets of the fund as measured from the end of the preceding calendar year.
- Establishes limits on the structure of future investments in real estate or alternative investments.
- Requires that the Board develop investment policies and objectives to invest fund assets.
- Authorizes the Board to hire qualified professionals/firms to assist in investing the fund and requires that such professionals/firms obtain errors and omissions insurance coverage and fidelity bond insurance coverage.
- Authorizes the Board to pay for the services of retained professionals/firms at the rates fixed by the Board, excluding any reimbursement for expenses and subject to the provisions of the appropriations act.
- Provides for an annual audit and requires that the Board annually examine the investment program, specific investments, and its policies and practices.

In fulfilling its responsibilities, the Board of Trustees has contracted with 28 investment management firms and a master global custodian. The Retirement System has six permissible investment categories. 1) Equities 2) Fixed income securities 3) Cash equivalents 4) Derivative products 5) Alternative investments 6) Real estate.

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. Investment in any alternative investments is 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, 2013, the maturities of securities in this dedicated bond portfolio are as follows: 49.0 percent of the fair value of the securities mature within 30 days; 21.9 percent mature between 31 and 180 days; and 29.1 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, 2013, and June 30, 2012, were $2,553,553,073 and $1,673,130,416, respectively. Collateral held by the Retirement System for June 30, 2013, and June 30, 2012, was $2,691,735,936 and $1,750,761,499, respectively. Net income produced from securities lending activities for fiscal year 2013 was $5,968,509 and $4,817,667 for fiscal year 2012.

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. On occasion, cash is received by the custodial bank too late to be invested in any cash pool. Cash not invested in KPERS' name is subject to the custodian's creditors. With that exception, 100.0 percent of the Systems investments are held in the System's name and are not subject to creditors of the custodial bank. At June 30, 2013, the custodial bank held $14.4 million overnight for the System.

CONCENTRATION RISK

The System has investments in Federal National Mortgage Association issued securities that represent 2.1 percent of the total market value, other agencies sum to 1.8 percent of market value, and U.S. Treasury securities representing 8.5 percent of total market value. KPERS investment policy does not prohibit holdings above 5.0 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 1.0 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, 2013, were distributed among currencies in the following list.

USD Equivalent	Currency	Percent
$ 145,650,394	Australian Dollar	0.90%
38,959,388	Brazil Real	0.24
744,533,996	British Pound	4.62
225,381,291	Canadian Dollar	1.40
3,998,364	Chilean Peso	0.02
20,327,029	Chinese Yuan Renminbi	0.13
2,156,203	Colombian Peso	0.01
34,911,603	Danish Krone	0.22
909,811,723	Euro Currency Unit	5.63
189,733,829	Hong Kong Dollar	1.18
24,569,795	Indian Rupee	0.15
10,869,160	Indonesian Rupiah	0.07
7,740,110	Israeli Shekel	0.05
552,078,913	Japanese Yen	3.42
15,043,325	Malaysian Ringgit	0.09
51,046,257	Mexican New Peso	0.32
2,998,595	New Zealand Dollar	0.02
34,733,519	Norwegian Krone	0.22
3,674,497	Other	0.02
6,582,584	Philippines Peso	0.04
6,049,505	Polish Zloty	0.04
11,127,111	Russian Rubel (New)	0.07
47,598,027	Singapore Dollar	0.30
44,915,374	S African Comm Rand	0.28
89,766,749	South Korean Won	0.56
125,281,854	Swedish Krona	0.78
224,412,622	Swiss Franc	1.39
61,354,398	Taiwan New Dollar	0.38
11,340,618	Thailand Baht	0.07
18,116,749	Turkish New Lira	0.11
1,969,959	Uruguayan Peso	0.01
12,459,195,159	United States Dollar *	77.26
$ 16,125,928,700		100.00%

* Includes securities lending collateral of $1,639,377,142. Of the $3.67 billion in foreign currency exposure above, $0.16 billion (4.4%) is in fixed securities. The balance is in equities.

The System's asset allocation and investment policies include active and passive investments in international securities. KPERS' target allocation is to have 29.0 percent of assets (excluding securities lending collateral) in dedicated international equities. Core Plus bond managers are allowed to invest up to 20.0 percent of their portfolio in non-dollar securities. The System utilizes a currency overlay manager to reduce risk by hedging up to 50.0 percent of the foreign currency for selected international equity portfolios. At June 30, 2013, the System's total foreign currency exposure was 42.9 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, cash equivalents include commercial paper, repurchase agreements and other short-term securities. Agency securities are those implicitly guaranteed by the U.S. Government. U.S. Government securities are treasury securities and agencies explicitly guaranteed. Securities Lending Collateral are securities invested using cash collateral from the securities lending program, not pooled with any other institution's funds. Securities rated A1/P1 are included in AA in this table. The Securities Lending Collateral class has the following policy requirements, at the date of purchase: to be rated A1/A+ or better; Commercial paper must be A1/P1/F1; Asset-backed securities must be Aaa/AAA or better; Repurchase agreements must be 102.0 percent collateralized with U.S. Government or agency securities and held by the custodial bank or third-party custodian. Securities Lending Collateral NR (Not Rated) securities are repurchase agreements and certificates of deposit.

System assets (in thousands) as of June 30, 2013, subject to credit risk are shown with current credit ratings.

Quality Rating	Cash Equivalents	Corporate	Agency	U.S. Govt.	Securities Lending Collateral	Total
NR	$ 142,787	$ 31,891	$ —	$ —	$ 741,493	$ 916,171
AAA	—	110,371	—	—	84,386	194,757
AA	24,105	264,822	572,047	1,471,125	599,673	2,931,772
A	12,325	246,682	—	—	213,825	472,832
BBB	—	490,380	—	—	—	490,380
BB	—	273,290	—	—	—	273,290
B	—	239,010	—	—	—	239,010
CCC	—	45,029	—	—	—	45,029
CC	—	5,797	—	—	—	5,797
C	—	1,905	—	—	—	1,905
D	—	5,205	—	—	—	5,205
Total	$ 179,217	$ 1,714,382	$ 572,047	$ 1,471,125	$ 1,639,377	$ 5,576,148

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 Plus managers to be within 20.0 percent of their benchmark duration, and all fixed portfolios to maintain a reasonable risk level relative to their benchmarks. The same System assets as above are also subject to interest rate risk. These are shown in the following ($ in thousands) grouped by effective duration ranges.

Effective Duration	Cash Equivalents	Corporate	Agency	U.S. Govt.	Securities Lending Collateral	Total
0 - 1 Yr	$ 179,217	$ 449,081	$ 140,977	$ 113,804	$ 1,502,794	$ 2,385,873
1 - 3 Yrs	—	201,457	93,544	165,534	136,583	597,118
3 - 5 Yrs	—	336,552	192,304	114,254	—	643,110
5-10 Yrs	—	559,179	144,272	952,209	—	1,655,660
> 10 Yrs	—	168,113	950	125,324	—	294,387
Total	$ 179,217	$ 1,714,382	$ 572,047	$ 1,471,125	$ 1,639,377	$ 5,576,148

Securities Lending Collateral Policy limits the maximum average portfolio maturity to 90 days. 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, 2013, the System had total net margins payable the next day of $721,566. 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 $39.7 million were associated with futures for the year ending June 30, 2013.

INVESTMENT DERIVATIVES—OPTIONS

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

Investment Derivative Notional Values

	Asset Class[1]	June 30, 2012	June 30, 2013
Domestic Equity Futures	Domestic Equities	$ 135,844,640	$ 160,888,960
International Equity Futures	International Equities	103,933,505	151,767,040
Fixed Futures	Fixed	121,032,212	396,847,947
Options Written	Fixed	214,363	416,028
Options Purchased	Fixed	—	386,188
Pay Fixed Interest Swaps	Fixed	20,400,000	—
Receive Fixed Interest Swaps	Fixed	154,400,000	464,800,000
Credit Default Swaps	Fixed	100,975,893	48,077,399
TBA Agency Bonds[2]	Fixed	212,499,050	83,653,906

1 This asset class has Fair Values and Revenues that 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 characteristics.

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, 2012	Increases	Decreases	June 30, 2013
Options Written	$ 94,549	$ 45,539	$ (556,117)	$ (416,029)
Options Purchased	—	386,188	—	386,188
Pay Fixed Interest Swaps	(167,636)	1,145,482	(977,846)	—
Receive Fixed Int. Swaps	446,474	4,370,213	(1,409,588)	3,407,099
Credit Default Swaps	(489,094)	4,371,503	(3,626,899)	255,510
TBA Agency Bonds[1]	212,499,050	2,621,410,214	(2,750,255,358)	83,653,906
Foreign Currency Forwards	8,256,856	114,878,353	(121,880,441)	1,254,768
	$220,640,199	$2,746,607,492	$(2,878,706,249)	$ 88,541,442

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

INVESTMENT DERIVATIVES—FOREIGN CURRENCY FORWARDS

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

Investment Currency Forwards

	June 30, 2012				June 30, 2013	
	Notional $USD	Fair Values	FV Increases	FV Decreases	Fair Values	Notional $USD
Australian Dollar	$32,281,579	$ (128,733)	$3,254,964	$(5,606,784)	$ (2,480,553)	$100,906,916
Brazil Real	7,544,316	31,489	11,633	(427,491)	(384,369)	12,785,767
British Pound	67,419,737	422,040	9,193,887	(9,139,906)	476,021	173,823,620
Canadian Dollar	37,667,318	(344,799)	2,311,083	(1,364,091)	602,193	131,060,858
Chinese Yuan Ren	7,680,592	(31,865)	37,576	—	5,711	787,328
Danish Krone	4,964,720	216,497	535,268	(761,838)	(10,073)	4,010,788
Euro Currency Unit	232,856,452	1,917,964	16,964,567	(20,872,364)	(1,989,833)	288,509,866
Hong Kong Dollar	29,431,197	(3,449)	146,635	(367,342)	(224,156)	133,197,688
Hungarian Forint	—	—	—	(44,449)	(44,449)	965,435
Indonesian Rupian	6,622,148	(56,549)	142,099	(49,662)	35,888	3,502,746
Indian Ruppee	—	—	218	(137,834)	(137,616)	6,670,322
Japanese Yen	118,036,073	(295,623)	7,001,934	(7,681,851)	(975,540)	201,583,292
Malaysian Ringgit	600,000	(6,704)	8,376	(14,544)	(12,872)	2,554,739
Mexican New Peso	45,525,952	(1,447,349)	2,880,410	(1,469,745)	(36,684)	34,826,452
New Zealand Dollar	1,314,263	10,165	85,970	(170,640)	(74,505)	3,072,012
Norwegian Krone	1,634,005	36,725	160,609	(136,250)	61,084	4,154,288
Other Currencies	3,729,366	(32,609)	140,804	(159,885)	(51,690)	6,086,402
Philippines Peso	505,131	18,617	218	(53,867)	(35,032)	2,066,668
Russian Rubel	—	—	176,049	(10,916)	165,133	10,622,480
S African Rand	4,386,757	(88,483)	257,003	(6,328)	162,192	4,937,997
Singapore Dollar	11,057,213	(97,701)	420,123	(870,191)	(547,769)	50,176,892
South Korean Won	5,859,081	(64,428)	70,744	(30,383)	(24,067)	2,718,603
Swedish Krona	3,274,430	(99,248)	666,911	(286,622)	281,041	19,742,564
Swiss Franc	14,981,385	(538,935)	1,396,916	(780,581)	77,400	16,648,154
	$637,371,715	$(582,978)	$45,863,997	$ (50,443,564)	$ (5,162,545)	$1,215,411,877

Hedging Currency Forwards

	June 30, 2012				June 30, 2013	
	Notional $USD	Fair Values	FV Increases	FV Decreases	Fair Values	Notional $USD
Australian Dollar	$122,470,396	$566,222	$ 6,255,879	$(147,119)	$6,674,982	$185,507,150
Canadian Dollar	81,960,799	583,732	4,732,573	(4,512,830)	803,475	161,497,430
Swiss Franc	109,025,837	3,041,219	4,539,565	(8,143,057)	(562,273)	89,961,536
Euro Currency Unit	256,120,592	6,273,783	13,136,213	(19,612,175)	(202,179)	212,674,897
British Pound	263,994,679	(243,000)	16,385,580	(20,939,376)	(4,796,796)	542,120,889
Japanese Yen	264,399,290	(1,382,122)	23,964,546	(18,082,320)	4,500,104	379,817,714
	$ 1,097,971,593	$8,839,834	$69,014,356	$ (71,436,877)	$6,417,313	$1,571,579,616
Total Currency Forwards	$ 1,735,343,308	$ 8,256,856	$114,878,353	$(121,880,441)	$1,254,768	$2,786,991,493

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, 2013, the market values of international equities was $3.70 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 contacts 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, 2013

Counterparty Name	Notional $USD	Fair Value	Worst Long Term Rating
Bank of America	$ 12,025,742	$ (191,309)	BBB
Bank of New York Mellon	14,708,662	(323,412)	A
Barclays	161,744,461	481,828	A
BNP Paribas	32,207,137	116,522	A
Citigroup Inc	56,721,688	163,336	A
Credit Suisse Group	97,021,029	(2,679,435)	A
Deutsche Bank	128,913,295	64,055	A
Goldman Sachs Group Inc	6,009,475	83,414	A
HSBC Holdings	10,961,774	88,677	A
JPMorgan Chase & Co	26,319,022	(568,054)	A
Morgan Stanley	29,301,677	79,039	A
National Australia Bank	70,798,766	(2,611)	A
Non-Brokered Contracts	105,979,444	(456,417)	NR
Northern Trust Corp	23,993,447	(402,077)	A
Royal Bank of Canada	131,576,715	(585,569)	AA
Royal Bank of Scotland	30,358,899	94,655	AA
State Street Corp	59,803,345	104,880	A
Toronto Dominion Bank	1,137,205	6,175	NR
UBS	110,778,971	(1,408,141)	A
Westpac Banking Corp	105,051,123	171,899	AA
	$1,215,411,877	$(5,162,545)	

Hedging Forwards Counterparty Exposure at June 30, 2013

Counterparty Name	Notional $USD	Fair Value	Worst Long Term Rating
Barclays	$ 117,418,560	$ 918,490	A
Citigroup Inc	62,694,252	(868,276)	A
Deutsche Bank	405,959,446	(4,569,598)	A
Goldman Sachs Group Inc	58,112,445	1,388,421	A
HSBC Holdings	297,879,274	2,904,225	A
JPMorgan Chase & Co	315,226,488	(3,134,733)	A
Royal Bank of Canada	162,135,682	3,108,127	AA
Royal Bank of Scotland	5,542,019	(112,783)	AA
UBS	146,611,450	6,783,440	A
	$1,571,579,616	$6,417,313	

CAPITAL ASSETS AND SUPPLIES INVENTORY

Furniture, fixtures and equipment are reported on the Statement of Fiduciary Net Position 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, 2013, was $15,270,553. Office supplies inventory in the amount of $28,419 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 Fiduciary Net Position as a capital asset and are being depreciated. Accumulated depreciation on the administrative portion of the building and garage as of June 30, 2013 was $2,678,910. The office building and garage are being depreciated over a period of 33 years on an accelerated method. At June 30, 2013, the carrying value of the System's administrative headquarters was $939,247.

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, 2013, was $5,477,460,575, 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, 2013, was $8,557,765,403. The unfunded liability was $10,252,933,156. 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, 2013, was $10,585,888,424. 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, 2013, was $22,031,554, 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, 2013, was $22,736.

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 2013, the regular employer contribution rate was 9.37 percent of covered payroll. In addition, KPERS contributed an additional 1.0 percent of covered payroll to the group insurance fund. Total payroll was $3,915,928, $4,414,614 and $4,616,494 for 2011, 2012 and 2013 respectively. KPERS contributed $359,518, $379,168 and $449,640 for 2011, 2012 and 2013 respectively, to the employee' pension plan and group insurance fund. All contributions required by law were made in fiscal years 2011, 2012 and 2013.

NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENTS

KPERS adopted GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position for the fiscal year 2013. This statement supersedes several paragraphs in GASB Statements No. 25 and 27.

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

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

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

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

KPERS' management is currently evaluating the effect of these GASB statements on the Systems' financial statements.

RECLASSIFICATION

Certain amounts reported in prior years have been reclassified to conform to the presentation at June 30, 2013.

Note 3: Funding Policy

FUNDING

The law governing the Retirement System requires an actuary to make an annual valuation of the System's liabilities and reserves and to determine the contributions required to discharge the System's liabilities. The actuary then recommends to the System's Board of Trustees the employer contribution rates required to maintain the Retirement System on the actuarial reserve basis. Every three years, the actuary makes a general investigation of the actuarial experience under the System including mortality, retirement and employment turnover. The actuary recommends actuarial tables for use in valuations and in calculating actuarial equivalent values based on such investigation. An actuarial experience study was conducted for the three years ending December 31, 2009. As a result of this study, the Board of Trustees adopted new assumptions in regard to retirement rates, mortality rates, termination rates and salary growth.

PENSION OBLIGATION BONDS

In September 2003, the State of Kansas issued $40,250,000 of Series 2003 H state pension funding bonds. Of the total amount of the bond issue, $15,350,000 of the bond proceeds were used for the purpose of financing the unfunded actuarial liability of certain Board of Regents members. In addition, the State of Kansas contributed an additional $2,000,000 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 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 2013 KPERS transferred to the State of Kansas $3,208,993 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 $440,200,000 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 is 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, 2011, and December 31, 2012, can be attributed to the following ($ millions):

Unfunded Actuarial Liability, December 31, 2011	$9,228.1
Effect of contribution cap/time lag	303.4
Expected increase due to amortization method	48.8
Loss from investment return	732.1
Demographic experience	(119.8)
All other experience	41.3
Change in actuarial assumptions	—
Change in benefit provisions	18.9
Final Unfunded Actuarial Liability, December 31, 2012[1]	$10,252.9

1 May not add due to rounding.

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, 2008, and December 31, 2009, actuarial valuations provide the basis for Board certification of employer contribution rates for fiscal years 2012 and 2013. 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
2012	14.09%	8.77%
2013	13.46%	9.37%
Correctional		
2012	12.92% / 9.24%	11.86% / 9.10%
2013	11.24% / 9.84%	10.06% / 9.70%

Included in the fiscal year 2012 and 2013 rates is the bond debt service rate of 0.8 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, 2009, and December 31, 2010, actuarial valuations provide the basis for Board certification of local employer contribution rates for fiscal years beginning in 2012 and 2013, respectively. The actuarially determined employer contribution rates and statutory contribution rates are as follows.

Local

Fiscal Year	Actuarial Rate	Statutory Rate
2012	9.44%	7.34%
2013	9.43%	7.94%

KP&F. The uniform participating service rate for all KP&F employers was 16.54 percent for the fiscal year beginning in 2012 and 17.26 percent for the fiscal year beginning in 2013. KP&F employers also make contributions to amortize the liability for past service costs, if any, which are determined separately for each participating employer.

Judges. The total actuarially determined employer contribution rate was 21.28 percent of payroll for the fiscal year ended 2012 and 23.75 percent of payroll for the fiscal year ended 2013.

The law defines employee contributions such that 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	$ 105,678	$45,028	12.6%
KPERS- School	338,856	148,318	13.6
KPERS - Local	135,812	73,988	11.6
KP&F	79,664	31,673	26.1
Judges	6,807	1,465	29.8
Subtotal	$ 666,817	$300,472	13.7%

An estimated $587 million of employer and employee contributions were made to cover normal cost. An estimated $380 million was made to the amortization of the unfunded actuarial accrued liability.

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

Funding Status and Funding Progress

The funding status of the plan at December 31, 2012, 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)
12/31/12	$13,278,490	$23,531,423	$10,252,933	56%	$6,498,962	158%

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

	KPERS	KP&F	Judges
Valuation date	12/31/2012	12/31/2012	12/31/2012
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	20 years	20 years	20 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 80.0 percent to 120.0 percent of market value.		
Actuarial assumptions:			
Investment rate of return[1]	8.0%	8.0%	8.0%
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 3.0 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 revenue when due pursuant to statutory requirements. Benefits and refunds are recognized when 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 sale price at current exchange rates.

PLAN MEMBERSHIP AND BENEFITS

Members in the Death and Disability Plan consisted of the following at June 30, 2012, the date of the last actuarial valuation:

- Active plan members 159,430
- Number of participating employers, 1,410
- Open claims 2,781

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

1. Group life insurance equal to 150.0 percent of annual compensation, which is provided through contract with an insurance carrier.

2. Self-insured long-term disability (LTD) benefits equal to 60.0 percent (before January 1, 2006, 66 2/3 percent) of annual compensation, offset by other benefits. Members receiving LTD benefits also receive service credit toward their retirement benefits under KPERS and have their group life insurance coverage continued under the waiver of premium provision. The group life insurance benefit is increased annually for inflation, at a rate equal to the consumer price index less one percent, beginning five years following the date of disability.

CONTRIBUTIONS AND FUNDED STATUS

Prior to fiscal year 2000, employer contributions for group life insurance and long-term disability income benefits were set by statute at 0.6 percent of covered payroll for KPERS and Board of Regents Institutions and 0.4 percent for Judges. Legislation passed in 2000 and 2001 placed a moratorium on contributions related to the group life insurance and disability benefits effective for the period April 1, 2000, through December 31, 2001. Calendar year 2002 and 2003 legislation placed additional moratoriums on contributions. Moratoriums were in effect for the period July 1, 2002, through December 31, 2002, and the period of April 1, 2003, through June 30, 2004. Legislation passed in 2005 increased the insurance contribution rate to 0.8 percent of covered payroll effective July 1, 2005, and to 1.0 percent on July 1, 2006. The rate for Judges remained at 0.4 percent. Legislation passed in early 2009 placed a moratorium on contributions related to the group life insurance and disability benefits effective for the period March 1, 2009, through November 30, 2009. Subsequently, the Legislature passed moratoriums on contributions for each of the following periods, April 1, 2010, through June 30, 2010, April 1, 2011, through June 30, 2011, April 1, 2012 through June 30, 2012, and April 1, 2013, through June 30, 2013. For the period ending June 30, 2012, employers contributed over $49.0 million to the Plan.

The death and disability plan assets are held in the Group Insurance Reserve fund. At June 30, 2013, this reserve held net assets totaling $25,053,551. This reserve fund is funded from deposits from employer contributions and the respective investment income.

The funding status of the plan at June 30, 2012, 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)
6/30/12	$19,068	$268,597	$249,528	7.1%	$6,618,909	3.8%

The actuarial valuation dated May 9, 2013, 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 43) 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 43) 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, 2012, 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, 2012	
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.

Changes in the UAAL occur for various reasons. The net decrease in the UAAL from July 1, 2010, to July 1, 2012, was $21.5 million. The components of this net change are shown in the following table (in millions).

Unfunded Actuarial Accrued Liability, July 1, 2010	$271.0
Impact of new claim experience different from expected	(25.8)
Impact of terminated claim experience different from expected	(6.3)
Impact of change in assumptions	0.1
Impact of new entrants (active)	3.4
Other liability experience and asset experience	7.1
Unfunded Actuarial Accrued Liability, July 1, 2012	$249.5

Note 5: Commitments and Contingencies

As of June 30, 2013, the Retirement System was committed to additional funding of $8,007,000 in the form of capital expenditures on separate account real estate holdings in the portfolio; $461,717,000 for commitments on private equity investments; and $296,141,000 for capital calls on core and non-core real estate property trust investments.

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

Note 6: Subsequent Events

Subsequent events have been evaluated through October 15, 2013, 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
2004	$338,879,960	69%
2005	381,791,085	69
2006	471,424,006	63
2007	531,292,151	64
2008	607,662,300	65
2009	660,833,664	68
2010	682,062,413	72
2011	709,964,322	74
2012	843,361,835	67
2013	825,196,972	75

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

SCHEDULES OF FUNDING PROGRESS

(In thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
12/31/03	$10,853,462	$14,439,546[1]	$3,586,084	75%	$4,978,132	72%
12/31/04	10,971,427	15,714,092	4,742,666	70	5,102,016	93
12/31/05	11,339,293	16,491,762	5,152,469	69	5,270,351	98
12/31/06	12,189,197	17,552,790	5,363,593	69	5,599,193	96
12/31/07	13,433,115	18,984,915	5,551,800	71	5,949,228	93
12/31/08	11,827,619	20,106,787	8,279,168	59	6,226,526	133
12/31/09	13,461,221	21,138,206	7,676,985	64	6,532,496	118
12/31/10	13,589,658	21,853,783	8,264,125	62	6,494,048	127
12/31/11	13,379,020	22,607,170	9,228,150	59	6,401,462	144
12/31/12	13,278,490	23,531,423	10,252,933	56	6,498,962	158

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

Required Supplementary Information — Death and Disability Plan

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Last seven fiscal years

Year	Annual Required Contribution	Percentage Contributed
2007	$71,763,879	83%
2008	76,128,451	82
2009	75,414,841	48
2010	62,705,453	47
2011	57,868,502	85
2012	57,030,698	87
2013	57,369,452	86

SCHEDULE OF FUNDING PROGRESS

(In thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a)/c)
06/30/06	$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
06/30/12	19,068	268,597	249,528	7.1	6,618,909	3.8

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

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

Other Supplementary Information —

SCHEDULE OF CONTRIBUTIONS

For fiscal year ended June 30, 2013

Kansas Public Employees Retirement System			
State / School Contributions			
Members	$193,346,026		
Employers	444,533,979		
Total State / School Contributions		$637,880,005	
Local Contributions			
Members	73,987,562		
Employers	135,811,311		
Total Local Contributions		209,798,873	
Total Contributions KPERS			$847,678,878
Kansas Police and Firemen's System			
State Contributions			
Members	3,019,818		
Employers	6,579,616		
Total State Contributions		9,599,434	
Local Contributions			
Members	28,653,323		
Employers	73,084,661		
Total Local Contributions		101,737,984	
Total Contributions KP&F			111,337,418
Kansas Retirement System for Judges			
State Contributions			
Members	1,464,751		
Employers	6,807,236		
Total State Contributions		8,271,987	
Total Contributions - Judges			8,271,987
Optional Life Insurance			
Member Contributions			
State Employees	3,109,675		
Local Employees	3,050,466		
Total Contributions		6,160,141	
Total Contributions - OGLI			6,160,141
			$973,448,424
Grand Total All Contributions			

SCHEDULE OF ADMINISTRATIVE EXPENSES

For fiscal year ended June 30, 2013

Salaries and Wages		$6,165,442
Professional Services		
Actuarial	$375,302	
Audit	62,400	
Data Processing	148,190	
Legal	125,126	
Other Professional Services	895,462	1,606,480
Total Professional Services		
Communication		
Postage	265,400	
Printing	52,811	
Telephone	99,038	
Total Communication		417,249
Building Administration		
Building Management	72,658	
Janitorial Service	28,872	
Real Estate Taxes	61,522	
Utilities	50,031	
Total Building Administration		213,083
Miscellaneous		
Dues and Subscriptions	20,454	
Repair and Maintenance	924,586	
Office and Equipment Rent	20,188	
Supplies	96,341	
Temporary Services	4,618	
Travel	87,547	
Other Miscellaneous	201,685	
Depreciation	1,100,224	
Total Miscellaneous		2,455,643
Total Administrative Expenses		$10,857,897

SCHEDULE OF INVESTMENT INCOME BY ASSET CLASS

For fiscal year ending june 30, 2013

Asset Classification	Interest, Dividends and Other Transactions	Gains and Losses	Total
Marketable Equity Securities			
Domestic Equities	$66,750,014	$938,580,634	$1,005,330,648
International Equities	66,794,590	479,013,156	545,807,746
Subtotal Marketable Equities	133,544,604	1,417,593,790	1,551,138,394
Marketable Fixed Income Securities			
Government	33,654,118	(88,795,400)	(55,141,282)
Corporate	64,453,849	13,804,097	78,257,946
Subtotal Marketable Fixed	98,107,967	(74,991,303)	23,116,664
Temporary Investments	2,443,167	14,651,013	17,094,180
Total Marketable Securities	234,095,738	1,357,253,500	1,591,349,238
Real Estate	39,973,754	100,015,037	139,988,791
Alternative Investments	19,656,531	23,924,450	43,580,981
Total Real Estate and Alternative Investments	59,630,285	123,939,487	183,569,772
Other Investment Income			
Securities Lending	5,968,509	8,948,717	14,917,226
Total Other Investment Income	5,968,509	8,948,717	14,917,226
	$299,694,532	$1,490,141,704	$1,789,836,236

Manager and Custodian Fees and Expenses	
Investment Manager Fees	$ (28,241,869)
Custodian Fees & Expenses	(843,090)
Other Investment Expenses	(1,845,667)
Partnership Mgmt Fees & Expenses	(11,654,160)
Total Investment Fees and Expenses	(42,584,786)
Net Investment Income	$1,747,251,450

SCHEDULE OF INVESTMENT MANAGEMENT FEES AND EXPENSES

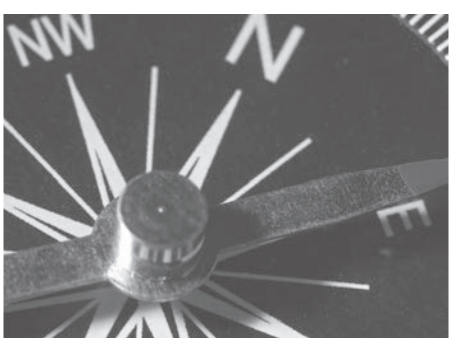
For the fiscal year ended June 30, 2013

Domestic Equity Managers	
BlackRock	$303,383
Fiduciary Asset Management	589,565
ING	1,343,164
Loomis, Sayles & Co.	1,138,578
Mellon CM LC Index	169,986
Security Global Investors	1,003,016
Systematic Financial Mgmnt.	966,054
Subtotal Domestic Equity Managers	5,513,746
International Equity Managers	
Baillie Gifford Int'l	2,372,976
Barings Int'l	1,604,199
JP Morgan Int'l	2,432,498
Lazard Freres Asset Management	1,466,654
Morgan Stanley Asset Management	1,067,180
State Street Int'l	439,426
Templeton Int'l	1,637,751
Subtotal International Equity Managers	11,020,684
Fixed Income Managers	
BlackRock	287,086
Loomis, Sayles & Co.	626,758
MacKay Shields	1,769,146
Pacific Investment Management Co.	2,641,466
T. Rowe Price	1,251,698
Western Asset Management Co.	374,646
Subtotal Fixed Income Managers	6,950,800
Foreign Currency Overlay Manager	
Pareto Partners	1,320,000
Russell Overlay	221,042
Subtotal Foreign Currency Overlay Manager	1,541,042
Real Estate & Alternative Investment Managers	
AEW Capital Management	2,233,518
Brookfield Redding	441,616
CenterSquare	84,474
Duff & Phelps	75,486
Principal	76,979
Subtotal Real Estate & Alternative Managers	2,912,073
Cash Equivalent Manager	
Payden & Rygel Investment Counsel	303,524
Subtotal Cash Management	303,524
Total Investment Management Fees	28,241,869
Other Fees and Expenses	
Mellon Trust - Custodian Fees and Other Expenses	843,090
Consultant Fees	1,654,320
Legal Expenses	191,347
Partnership Management Expenses	11,654,160
Subtotal Other Fees and Expenses	14,342,917
Total	$42,584,786

Investment Section

FIDUCIARY

First and always.



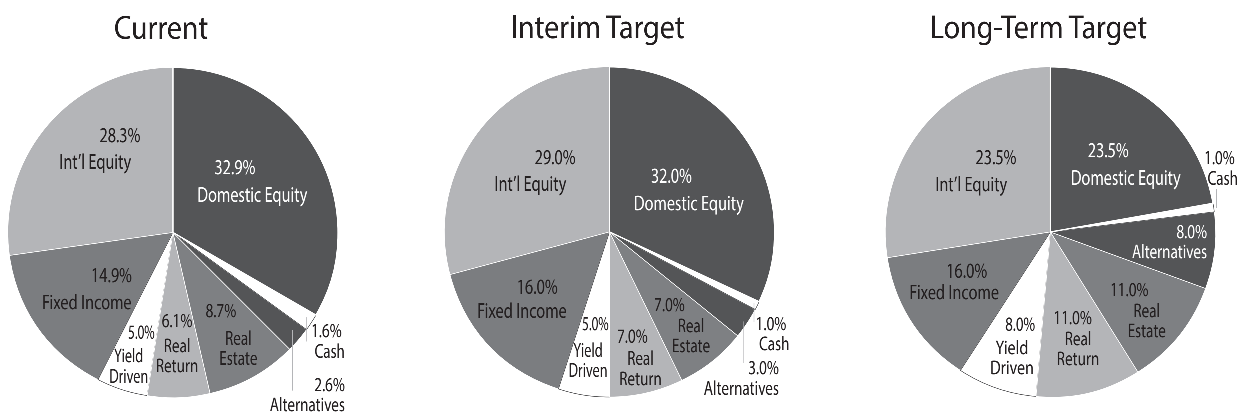
Chief Investment Officer's Review

The Kansas Public Employees Retirement System investment portfolio represents all contributions to the plan, from both members and their employers, as well as net earnings on these assets. Total assets at the end of fiscal year 2013 were $14.294 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-US stocks, bonds, real estate, alternative investments, and cash equivalents.

ASSET ALLOCATION

Portfolio investments are diversified among eight different asset classes for asset allocation and investment performance purposes, including: domestic equity; international (non-US) equity; fixed income; "yield driven" assets; "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 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.

Fixed income investments are also an important component of the System's asset mix. Due to its relatively low correlation with equities, the fixed income portfolio serves to diversify the risk of equity investing, and also provides a source of current income. The fixed income portfolios are constructed using broad mandates, with global opportunities in mind. While these portfolios principally contain US-based and US-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.

During fiscal year 2013, the System's Board, investment staff, and investment consultants completed an Asset Allocation Review process, in order to utilize the increased flexibility to invest in alternative investments resulting from 2012 legislation. The new long-term target asset mix has higher allocation targets for real return and private equity, and an allocation to a new asset class called the "yield driven" class. The yield driven asset class is designed to house those assets which derive a significant part of their expected return from income and have moderate exposure to growth risk, but also provide a degree of diversification. The yield driven asset class consists of the System's strategic fixed income portfolios, as well as investments in domestic Real Estate Investment Trusts (REITs) and Master Limited Partnerships (MLPs).

The majority of the real return asset category is made up of Treasury Inflation Protected Securities (TIPS) and investments in timber and infrastructure assets. A new investment strategy was added to the real return asset class during fiscal year 2013—Global Inflation Linked Bonds (GILBs). This fixed income strategy provides global diversification to the TIPS portfolio. We continue to evaluate potential new investment strategies for the real return asset class, as we work to build a higher degree of 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.

The System's 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.

The System also holds cash equivalents investments, primarily to facilitate investment transactions and the cash flows needed to pay benefits.

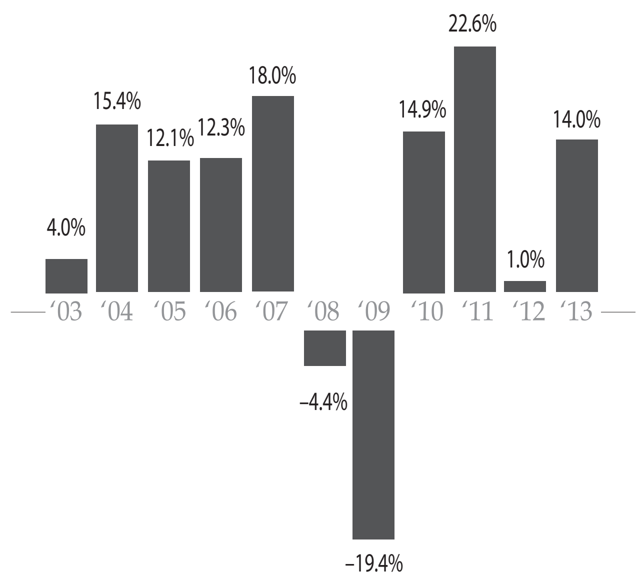
INVESTMENT POLICY

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 complements 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 members of 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 the System's 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.

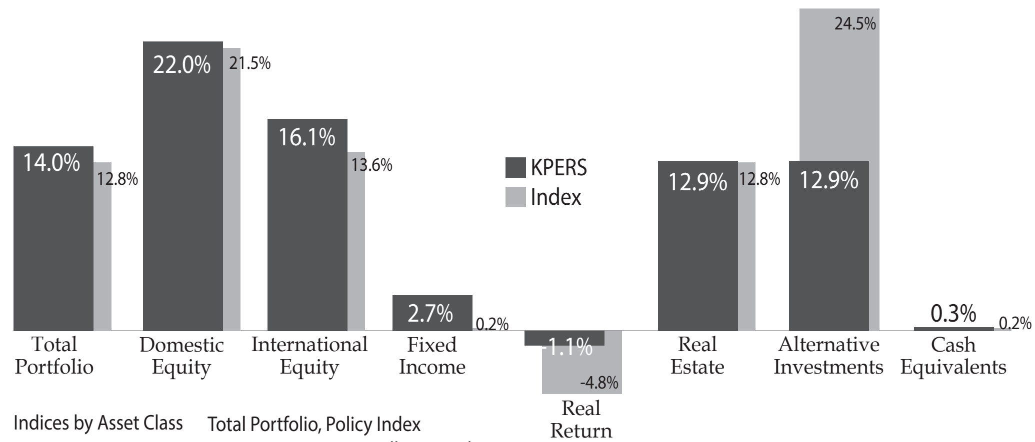
Total Returns by Fiscal Year



FISCAL YEAR 2013 INVESTMENT PERFORMANCE

The Retirement System's total investment portfolio experienced a 14.0 percent total return for the one year ending June 30, 2013. The 14.0 percent return exceeded the KPERS Policy Index by 1.2 percent for the fiscal year. For the three years ending June 30, 2013, the System's total investment portfolio has produced an average annualized return of 12.2 percent, which lagged the Policy Index by 0.30 percent, but substantially exceeded the 8 percent actuarial assumption. The System's total return ranked in the 18th percentile of the Wilshire TUCS universe for all plans for the trailing one year, and in the 21st percentile for the trailing three years ending June 30, 2013.

Time Weighted Total Return by Asset Class
Fiscal Year 2013



Indices by Asset Class
Total Portfolio, Policy Index
Domestic Equity, Russell 3000 Index
Int'l Equity, KPERS Int'l Equity Benchmark
Fixed Income, KPERS Fixed Income Benchmark
Real Return, KPERS Real Return Benchmark
Real Estate, KPERS Real Estate Benchmark
Alt Inv, KPERS Alt Inv Benchmark
Cash Equivalents, Merrill Lynch 0-1 Yr. Treasury Index

FINANCIAL MARKET AND PERFORMANCE OVERVIEW

Global macroeconomic issues and central bank policies dominated the financial markets for the entire fiscal year. Fiscal year 2013 overall, however, was a very positive one for broadly diversified institutional investors like the Retirement System.

Global equity markets were strong performers throughout fiscal year 2013. In the first quarter, international equity markets rebounded sharply, with the ACWI ex US Index producing a 7.5 percent total return and the Russell 3000 Index producing a 6.3 percent total return (returns not annualized). Equity market volatility declined from its previous high levels, despite continuing concerns about the pace of economic growth in the US, the impending "fiscal cliff," the European sovereign debt crisis, and the possibility of an economic "hard landing" in China. Global central bankers continued their programs of monetary easing at levels that encouraged risk taking in the global capital markets, led by the ECB's "Outright Monetary Transactions" (OMT) and the Federal Reserve's third quantitative easing program ("QE3"). The President of the ECB also unveiled a strong commitment to preservation of the Euro, pledging to do "whatever it takes to preserve the Euro." Fixed income markets were more volatile than equities during the first quarter of fiscal year 2013, as bond market sentiment swung between fears of financial contagion in Europe (and the resulting "flight to quality") and improved investor confidence combined with thirst for yield.

The second quarter of fiscal year 2013 was also a productive one for global "risk" assets. International equities continued to outperform domestic equities, with the ACWI ex US Index turning in a 13.7 percent total return and the MSCI Emerging Markets Index producing a 13.9 percent total return, while the Russell 3000 Index produced a 6.5 percent total return (not annualized). Fixed income markets also produced positive returns, with the Barclays US Universal Index at 2.6 percent for the quarter, while the High Yield Index produced a robust 8.0 percent total return for the quarter. Credit spread sectors outperformed as interest rates rose slightly. In the US markets, the effects of Hurricane Sandy had an adverse impact on the East Coast, and the "fiscal cliff" negotiations continued to roil the financial markets. The housing sector of the domestic economy continued to improve, and many economic indicators were mildly positive. The ECB's OMT and other programs helped to stabilize the Eurozone markets, while political changes in Japan led to major changes in governmental policy, a dramatically weakening Japanese Yen, and a sharp rally in Japanese equities.

The third quarter of fiscal year 2013 continued the trend of strong performance for global risk assets. However, in this quarter, the US equity markets produced the strongest results. The Russell 3000 Index provided a total return of 11.1 percent (not annualized). The MSCI ACWI Ex US Index lagged the US results, but produced a healthy 3.2 percent total return for the quarter. Emerging markets experienced weakness, largely driven by fears of slowing economic growth in China, and the MSCI Emerging Markets Index provided a -1.6 percent total return for the quarter. Rising interest rates in the US resulted in relatively flat performance for bond market investments, with the Barclays Aggregate Bond Index producing a -0.1 percent return and the Barclays US Universal Index producing a 0.1 percent return for the quarter. (This was the first negative quarterly return for the Barclays Aggregate Index since 2006.) The US stock market continued to climb its proverbial "wall of worry," despite some significant uncertainties around the world, as cash flows into domestic equities were strong and domestic stock market volatility remained at low levels. In Europe, the seemingly endless sovereign debt crisis continued, as Cyprus required a bailout package which resulted in a tax on uninsured deposits, and the imposition of capital controls. The ongoing recession in Europe was confirmed by the Eurozone Composite PMI, which came in at 46.5 percent for March. France, Spain, and Italy all recorded severe contractions in economic output. Fears of slowing economic growth in China led resource-heavy emerging market equities to post their worst quarterly return since 2008.

The final quarter of fiscal year 2013 was dominated by the reaction of the global financial markets to Federal Reserve Chairman Ben Bernanke's May 22nd announcement that a reduction in the pace of quantitative easing might begin in September. While domestic equity markets ended the quarter with positive returns, international equity markets experienced losses, with the worst performance coming from the emerging markets. Fixed income markets also sold off on the "tapering" news, producing negative returns for nearly all sectors of the global bond markets. This is a somewhat ironic result, as the Federal Reserve's move toward tapering is motivated by improving economic fundamentals in the US. Although signs grew that the US economy was recovering, questions remained about the economic health of both the Eurozone and the emerging markets, including China.

INVESTMENT STAFF

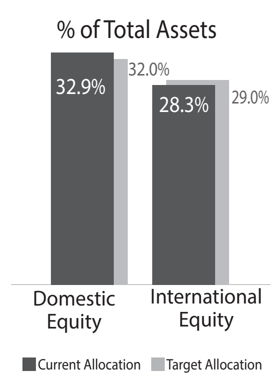
The System employs a staff of eight investment professionals to provide oversight and management of the assets and external investment managers. Under the oversight of the Chief Investment Officer (CIO), responsibility for the portfolio is assigned to the respective investment teams. The Deputy CIO has oversight responsibility for the publicly-traded asset classes, and oversees the System's active domestic and international equity investments. The Fixed Income Investment Officer is responsible for the management of the fixed income portfolios across asset classes, while the Assistant Investment Officer oversees the REIT, MLP, and passive domestic and international equity portfolios. The Investment Officer for Private Markets handles the real estate and private equity investments. The Chief Investment Officer and the four Investment Officers are supported by a team of three Investment Analysts who provide research support and assistance in managing the portfolios. Comments from the Investment Officers on their respective areas follow. Investment staff are focused on bringing a consistent, disciplined management process to all aspects of oversight of investment managers, compliance monitoring, and risk management.

Public Equity Investments

Public equity investments represent the largest strategy allocation within the System's portfolio. As of June 30, 2013, the market value of the System's equity portfolio was $8.75 billion. The strategy is executed through external managers investing domestically and internationally. Active strategies are utilized for 44.8 percent of the public equity portfolio, focusing on international equities and small and mid-cap U.S. companies. The balance of the portfolio is passively managed to replicate the return of

PORTFOLIO STRUCTURE

The following chart describes the current and target allocations at June 30, 2013.



DOMESTIC EQUITY

Domestic equities represent 53.7 percent of the total public equity portfolio and 32.9 percent of total assets. Domestic equity investments are benchmarked against the Russell 3000 index. It is the System's view that outperformance through active management is extremely difficult when investing in large cap U.S. equities. Therefore, 80 percent of the domestic equity portfolio is passively managed in an index strategy. This passive exposure is designed to replicate the return on U.S. large cap equities and is implemented through two managers.

The balance of the domestic equity portfolio is invested in the mid and small cap segments of the U.S. equity market. These investments are actively managed by four external managers.

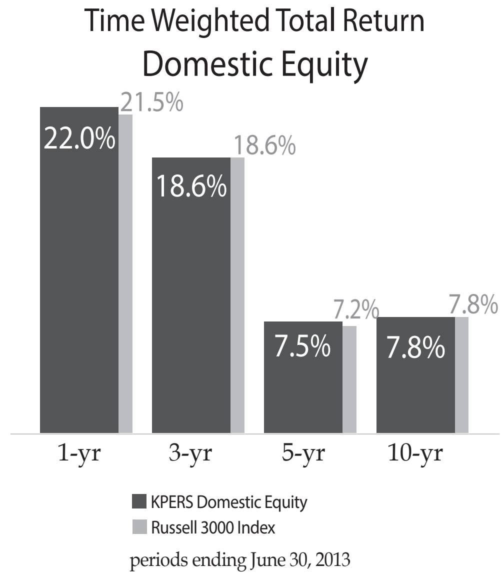
INTERNATIONAL EQUITY

International equities represent 46.3 percent of the total public equity portfolio and 28.3 percent of total assets. International equity investments are benchmarked against the MSCI All Country World – Ex US Index. Equity investments in companies domiciled outside of the United States offer the potential to add value through prudent active management. Therefore, 75 percent of this portfolio is actively managed. The System has hired six active managers to invest across developed markets outside of the U.S. who may, at times, also hold allocations to emerging markets. The balance of the international equity portfolio is invested to replicate the return on the MSCI All Country World – Ex US Index.

PERFORMANCE

The System's domestic equity portfolio performed very well in fiscal year 2013 both in absolute terms and relative to the portfolio's benchmark. Domestically, value stocks generally outperformed growth stocks while smaller capitalization stocks outperformed their larger peers. Overall, the return on the domestic equity portfolio was in line with its benchmark, as one would expect given the large passive component, with active managers providing marginal outperformance.

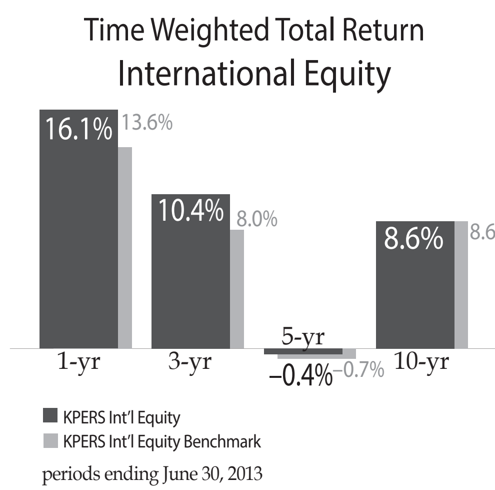
The following chart reports the performance of the domestic equity portfolio.



Over longer periods, the strategy has met or exceeded its benchmark.

The international equity portfolio also performed well on both an absolute and relative basis during fiscal year 2013. Active management in this strategy added considerable value during the year. Each of the System's six active international equity managers outperformed their respective benchmarks in fiscal year 2013.

The following chart reports the performance of the international equity portfolio.



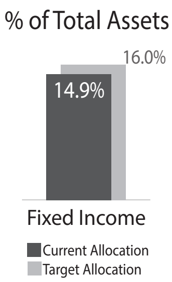
The international equity portfolio has added considerable value versus the benchmark over the past three years. Over longer time periods, the strategy has met or exceeded its benchmark.

Fixed Income Investments

As of June 30, 2013, KPERS' fixed income portfolio had a market value of $2.1 billion, representing 14.9 percent of the total assets of the System. The strategy is executed through external managers investing domestically and internationally through an active core-plus mandate. The strategy is managed by three fixed income managers.

PORTFOLIO STRUCTURE

The following chart provides details of the fixed income portfolio as of June 30, 2013.

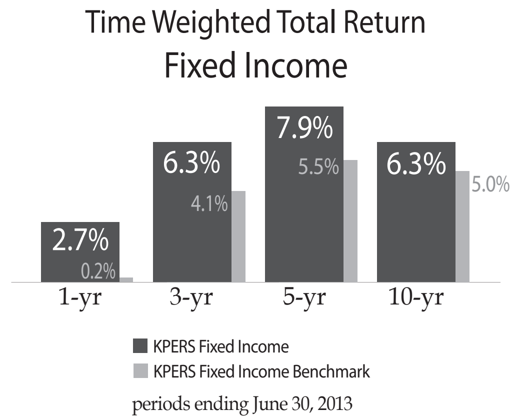


FIXED INCOME

The fixed income portfolio is invested in core plus strategies through three active managers. The portfolio's objective is to provide diversification to other assets in the System's portfolio and to preserve capital while providing current income. The core plus strategies are primarily invested in traditional investment grade securities and secondarily in non-investment grade securities. The fixed income portfolio utilizes the Barclays Capital Universal Index as the benchmark.

PERFORMANCE

Despite a rising interest rate environment late in the fiscal year, the System's fixed income portfolio produced a positive total return and strong performance relative to the portfolio's benchmark. Overall, the fixed income portfolio's duration positioning and overweight in spread sectors such as high yield and emerging markets drove performance during fiscal year 2013.



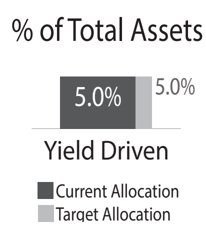
The fixed income portfolio has outperformed the benchmark for all time periods shown.

Yield Driven Investments

Yield driven investments represent one of the smaller strategy allocations within KPERS portfolio. As of June 30, 2013, the System's yield driven portfolio had a market value of $709.9 million representing 5.0 percent of total assets. The strategy is actively managed by three strategic fixed income managers, two REIT managers, and one MLP manager. The yield driven asset class is designed to produce current income and an element of diversification, while also maintaining some degree of correlation with equities.

PORTFOLIO STRUCTURE

The following chart describes the current and target allocations at June 30, 2013.



STRATEGIC FIXED INCOME

The strategic fixed income strategy represents approximately 60 percent of the total yield driven portfolio and 3.1 percent of total assets. The strategy is measured against custom benchmarks which are weighted to reflect each manager's investment style. It is the System's view that active management in extended market sectors (such as high yield and emerging markets) facilitates outperformance relative to the benchmark. While the strategic fixed income portfolio is invested in the traditional investment grade securities such as US Treasuries and investment grade corporate bonds, it will also have sizable allocations to high yield, emerging markets, currencies, and non-dollar securities.

The Systems' strategic fixed income portfolios performed very well in absolute terms and relative to the portfolios' benchmarks in fiscal year 2013. The strategic fixed income portfolios have also outperformed their benchmarks over the past three and five years.

REAL ESTATE INVESTMENT TRUSTS (REIT)

REITs represent approximately 19 percent of the yield driven asset class and 1.0 percent of the System's total assets. This strategy is benchmarked against the MSCI US REIT Index. The publicly-traded real estate securities portfolio is implemented by managers who actively invest in domestic REITs, real estate operating companies (REOCs) and related investment vehicles. During fiscal year 2013, the System's Board of Trustees approved a plan to liquidate the international and preferred REIT portfolios and transition to a domestic REIT mandate. The domestic REIT strategy is actively managed by two managers.

Performance during the fiscal year was positive overall as the System's domestic REIT portfolio outperformed its benchmark.

MASTER LIMITED PARTNERSHIPS (MLP)

MLPs represent approximately 19 percent of the yield driven asset class and 0.9 percent of the System's total assets. The strategy is benchmarked against the Alerian MLP Index. The MLP sector offers attractive yields relative to other asset classes as well as a positive correlation to inflation. The MLP portfolio is comprised of diversified energy sectors including companies focused on "midstream", gathering and processing, infrastructure, and natural gas pipelines and storage. These companies typically own the physical assets and contract with customers to transport or process natural gas or oil. The System currently has one active MLP manager.

The System's MLP portfolio returned 36.2 percent for fiscal year 2013 outpacing the benchmark Alerian MLP Index, which returned 28.4 percent.

PERFORMANCE

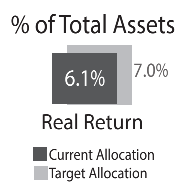
Because the yield driven asset class was implemented on January 1, 2013, fiscal year performance results for the asset class are not available.

Real Return Investments

The real return portfolio is designed to provide the System with a hedge against future inflationary episodes. This strategy utilizes both public and private market investments. Public market exposure is global and achieved primarily through inflation-linked fixed income securities issued by governments and their agencies in the U.S. as well as in developed countries around the world. Exposure in the private markets is currently achieved through investments in timber and infrastructure. The real return portfolio represents 6.1 percent of the System's total assets, and had a market value of $865.9 million as of June 30, 2013. The long term target for the real return asset class is 11 percent.

PORTFOLIO STRUCTURE

The following chart describes the current and target allocations at June 30, 2013.



US TREASURY INFLATION-PROTECTED BONDS (TIPS)

The TIPS portfolio represents 76.1 percent of the real return portfolio and is benchmarked against the Barclays US TIPS Index. This passively managed exposure is designed to replicate the return on domestic inflation linked bonds. It is the System's view that the minimal excess return available through active management of TIPS is not sufficient to compensate for the incremental costs of active management fees. The TIPS portfolio produced a negative total return during fiscal year 2013, as interest rates rose, producing a total return of -4.7 percent, slightly ahead of its benchmark.

GLOBAL INFLATION-LINKED BONDS (GILB)

The GILB portfolio represents 11.0 percent of the real return portfolio and is benchmarked against the Barclays World ILB Index (USD Hedged). The GILB portfolio provides global diversification by broadening the opportunity set to capture unexpected inflation within investment grade sovereign bonds. ILBs' sources of excess return include the identification of mispricing due to the direction of global interest rates, the shape of each country's yield curve, global break-even inflation and relative value in global nominal bonds. The GILB portfolio was implemented in January, so a fiscal year return result is not available.

TIMBER

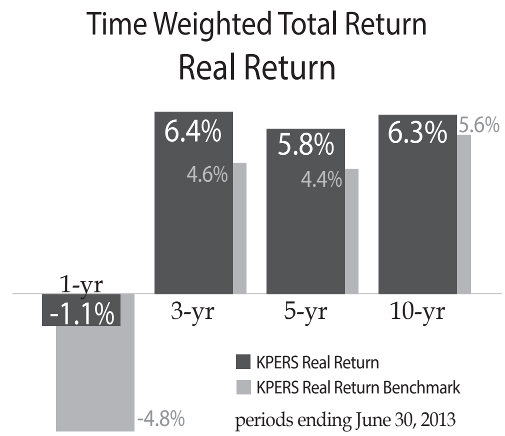
Timber investments are a component of the System's real return asset allocation due to their historically high correlation to inflation. The System is diversified within timber markets located in Texas, Louisiana and Idaho. The System continues to look for ways to diversify its timber portfolio in order to achieve the highest risk-adjusted returns while complying with the timber program's policy objectives and expected return targets. Like the housing industry, the timber market continues on its road to recovery. The National Council of Real Estate Investment Fiduciaries (NCREIF) Timberland Index finished fiscal year 2013 with its highest total return in five years. Over time, timber investments are expected to provide the System with current cash yields and modest capital appreciation. For fiscal year 2013, the System's timber investment produced a total return of 4.4 percent.

INFRASTRUCTURE

Over the past year, the search for attractive yields in a low interest rate environment has increased competition and compressed returns in the infrastructure sector. Sellers looking to take advantage of a more liquid market have led to increased volumes. However, the success rate for closing transactions remains uneven. Although widely adopted in other parts of the world, public/private partnerships and related public sector deal flow has been sluggish to materialize in the U.S. The energy sector has been a noticeable exception, as private companies seek alternative sources of funding, and a significant amount of new capital is required to meet development needs. The System's infrastructure manager has been successful in operating its infrastructure investments. The portfolio produced an attractive total return of 10.0 percent for the fiscal year. The fund's infrastructure portfolio is well diversified, with investments in Australia, the United Kingdom, and throughout North and South America, and diversified across multiple sectors, including renewable power, toll roads, electric utilities, sea ports and energy.

PERFORMANCE

The System's real return portfolio outperformed its benchmark in fiscal year 2013, producing a total return of -1.1 percent. The portfolio allocations to timber and infrastructure drove the relative outperformance.



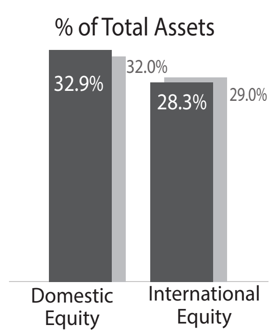
The System's real return portfolio has outperformed its benchmark for all longer-term time periods shown.

Real Estate Investments

For fiscal year 2013, the System's long-term target asset allocation for real estate was 11 percent. As of June 30, 2013, the real estate portfolio had a market value of approximately $1.24 billion, representing 8.7 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 the real estate portfolio is to pursue opportunities with a meaningful income component. Capital appreciation is a tertiary objective of current real estate investment activities.

PORTFOLIO STRUCTURE

During fiscal year 2013, the Board approved the reclassification of the publicly-traded real estate securities (REITs) to the Yield Driven asset class. Therefore, the real estate portfolio is now divided into two segments, based on investment type.



CORE REAL ESTATE

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

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

The System is pursuing the gradual liquidation of the separate account real estate portfolio and will reinvest the proceeds into pooled real estate investment funds. This strategy is expected to result in improved liquidity, enhanced portfolio diversification, lower management fees and a reduction in the single event risk associated with owning individual real estate assets.

NON-CORE REAL ESTATE

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

MARKET OVERVIEW

Commercial property market fundamentals continued to improve, driven both by favorable capital market conditions and a fairly steady improvement in demand-side fundamentals. Total returns are above the historic average and have been relatively stable during the prior fiscal year, with both income growth and capitalization rate compression driving returns. Transaction levels remained steady over the prior period as the sustained improvement in leasing fundamentals, combined with highly accommodative monetary policy, continued to bolster strong investor demand for core real estate.

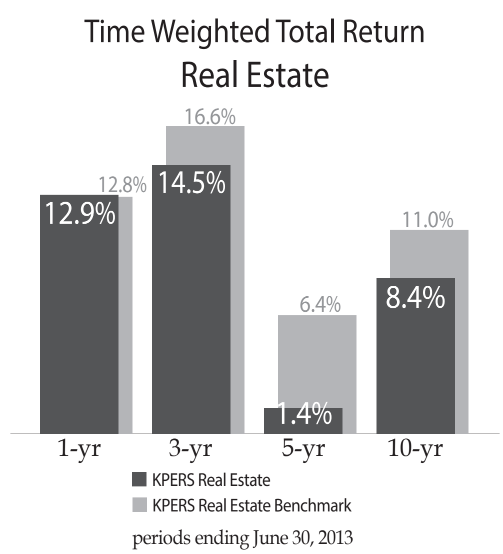
Valuations for core assets in developed markets continued to rise throughout the fiscal year. A widely-accepted index of core open-end funds in the United States delivered a 12.2 percent net return for the year ended June 30, 2013. Income returns have remained near historic levels of about 5.5 percent per year, while the remaining returns have resulted from appreciation. Overall, property prices remain well below peak values and spreads between capitalization rates and 10-year Treasury yields are well above historical norms.

Credit for quality real estate assets continues to be widely available, despite increased interest rates, and debt terms remain generally favorable by historical standards. Investors have begun to take on more risk in the interest of achieving higher yields, either by assuming more leasing risk or by buying prime assets in more secondary markets.

Over the past twelve months, completion rates of new construction have remained below net absorption which has led to reduced vacancy levels across property types. Development activity is only now beginning to ramp up in the commercial sectors of the industrial and retail sectors, with the office sector lagging a bit.

REAL ESTATE PERFORMANCE

The total real estate portfolio returned 12.9 percent for the fiscal year, outperforming its custom policy benchmark by 0.1 percent. For the year, core real estate total returns ranged from 8.6 percent to 21.7 percent, and generally exceeded the return for the broader real estate portfolio. The income portion of the total return for core was 6.2 percent. Non-core real estate delivered a total return of 11.2 percent, significantly underperforming its benchmark. Within the non-core portfolio, fiscal year total returns were widely dispersed with some funds exceeding 20 percent, while those funds hit hardest by the downturn continued to produce negative returns. The income portion of the total return for non-core was 6.1 percent. Overall, most of the real estate funds benefited from the modest improvements to the economic landscape, with the majority generating substantial positive returns.



Real estate investments typically span ten years or longer. Therefore, the longer term returns from this asset class are more relevant in assessing its success in adding value to the overall portfolio. Although the System's real estate portfolio has not met its performance objectives over the long-term, performance relative to the benchmark has improved over recent time periods.

ALTERNATIVE INVESTMENTS

At June 30, 2013, the System's alternative investment portfolio had a fair market value of $373.7 million, representing 2.6 percent of the total portfolio. The long-term allocation target is 8 percent for this asset class. Since the inception of the alternative investment program in 1997 through June 30 2013, the System has committed $1.9 billion to 82 funds with 56 general partners.

PORTFOLIO STRUCTURE

The alternative investment portfolio consists primarily of interest in private partnerships that provide equity and debt to companies. The portfolio contains two primary sub-portfolios based on investment period. Each portfolio has its own set of directives, guidelines, external fund managers and consultants who provide advice on investment strategy and investment selection during its investment period. The largest portfolio is the Private Equity Program (PEP), representing 80 percent of the market value of the asset class. The PEP portfolio actively seeks new commitments to private equity funds in three styles: buyout, venture capital/growth equity and special situations. Since the inception of PEP in 2007, the System has committed $839 million to 28 funds with 20 general partners. Over the next several years, the market value of the PEP portfolio is expected to increase as the System continues to make commitments to new private equity funds each year.

The second portfolio is the Alternative Investment Portfolio (AIP) which represents 20 percent of the market value of the asset class. From 1997 to 2001, AIP made commitments to 54 funds with 35 general partners across five styles: buyout, venture capital, mezzanine, distressed debt and natural resources. As this is a mature portfolio, the remaining funds in the AIP portfolio are currently pursuing exit strategies for their existing holdings.

MARKET OVERVIEW

Assessing conditions on a global basis across metrics such as fundraising, investment activity and exit environments provides insights on the health of the private equity industry as a whole.

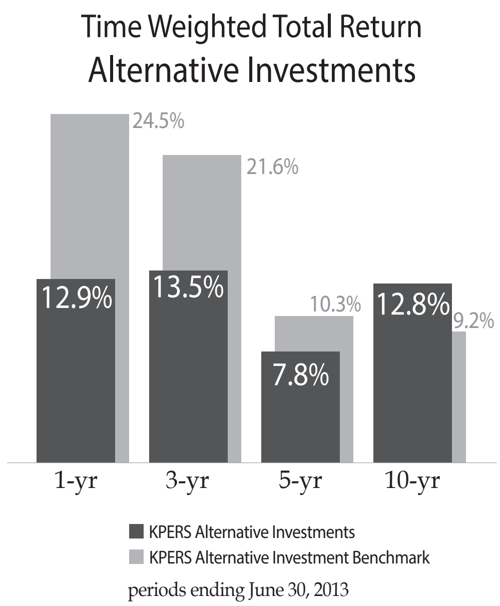
With respect to fundraising, the past fiscal year was a particularly heavy re-up year for the industry as there was a tremendous bottleneck of 2005-2007 vintage funds that otherwise would have been back in the market sooner but took longer to right their portfolios coming out of the financial crisis. The general partners with a proven strategy and track record have the ability to raise their targeted amounts of capital in three to six months, while groups on the other end of the spectrum are experiencing protracted fundraising periods of twelve to eighteen months or longer.

Global buyout investment activity, dominated by activity in North America, was fairly robust during the fiscal year, with over 2,800 private equity-backed deals announced globally with an aggregate value of roughly $300 billion, an increase of approximately $55 billion over the prior twelve month period. The venture capital segment remained steady to the prior year, announcing roughly 5,500 deals during the fiscal year, primarily in North America.

Regarding exit activity, the past fiscal year saw the highest number of global buyout exits in seven years. Activity for the overall private equity backed IPO market through the first half of 2013 is on pace to be the most active year since 2007. The total value of global mergers and acquisition (M&A) activity totaled $2.6 trillion during the calendar year of 2012, a 2 percent increase from 2011 levels. Through the second quarter of 2013, U.S. targeted M&A is up 34 percent from year-to-date 2012.

ALTERNATIVE INVESTMENTS PERFORMANCE

Private equity investments typically span ten years or longer. Therefore, the longer term returns from this asset class are more relevant in assessing its success in adding value to the overall portfolio. The System's long-term performance objective for alternative investments is to exceed the return of the Russell 3000 plus 3 percent. As the following chart shows, the alternative investments portfolio has surpassed that objective over a ten year time period.



As required by K.S.A 74-4904, a schedule of alternative investments initiated on or after July 1, 1991, is listed on the following two pages.

The top ten equities and fixed income holdings are shown on page 62. Another schedule, summarizing changes in fair value of investments, is also on page 62. A listing of domestic broker commissions paid for the fiscal year is shown on page 63.

ALTERNATIVE INVESTMENTS INITIATED ON OR AFTER JULY 1, 1991[1]

As of June 30, 2013

Description	Cost	Market Value
Advanced Technology Ventures VI, L.P.	$ 9,234,267	$ 790,622
Apax Europe IV, L.P.	1,069,198	514,394
Apax Europe V, L.P.	11,252,512	3,332,487
Apollo Investment Fund VII, L.P.	13,247,760	17,963,159
Ares Corporate Opportunities Fund III, L.P.	13,178,189	14,605,483
Ares Corporate Opportunities Fund IV, L.P.	771,277	770,870
Audax Mezzanine Fund III, L.P.	7,653,817	7,897,163
Battery Ventures V, L.P.	642,041	14,879
Battery Ventures VI, L.P.	5,675,618	1,738,839
Beacon Group Energy Fund II, L.P.	1,857,390	559,682
Behrman Capital II, L.P.	6,820,897	48,152
Capital Resource Partners IV, L.P.	5,516,766	997,305
Centerbridge Capital Partners II, L.P.	9,777,002	12,120,087
Cinven Second Fund US, L.P.	261,704	9,002
Clayton Dublier & Rice VI, L.P.	3,087,970	111,835
Cypress Merchant Banking II, L.P.	9,811,892	1,543,036
Dominion Fund V, L.P.	366,924	428,853
El Dorado Ventures VI, L.P.	6,935,852	6,109,056
Encap Energy Capital VIII, L.P.	11,140,584	12,717,089
Encap Energy Capital IX, L.P.	2,422,667	2,587,252
First Reserve Fund XII, L.P.	17,914,285	20,320,466
GSO Capital Soulutions Fund, L.P.	20,126,875	23,357,505
GTCR Fund VII, L.P.	—	121,521
GTCR Fund VII/A, L.P.	200,174	39,630

ALTERNATIVE INVESTMENTS INITIATED ON OR AFTER JULY 1, 1991[1] (CONTINUED)

As of June 30, 2013

Description	Cost	Market Value
Halpern Denny Fund III, L.P.	$ 4,329,666	$ 196,775
Hellman & Friedman VII, L.P.	3,680,015	3,737,578
JMI Equity Fund VII, L.P.	7,411,962	7,824,133
Littlejohn Fund II, L.P.	2,849,750	2,056,020
McCown De Leeuw & Company IV, L.P.	—	1
M.D. Sass Corporate Resurgence Partners, L.P.	—	7,626
M.D. Sass Corporate Resurgence Partners II, L.P.	2,279,306	7,549
Montagu IV, L.P.	7,216,313	8,326,977
New Enterprise Associates 13, L.P.	7,846,330	10,562,633
Oak Hill Capital Partners, L.P.	1,365,795	282,466
OCM Opportunities Fund II, L.P.	969,215	1,302
OCM Opportunities Fund III, L.P.	1,224,744	220,912
OCM Opportunities Fund VIIb, L.P.	—	7,260,197
OneLiberty Fund IV, L.P.	1,241,901	1,290,069
OneLiberty Ventures 2000, L.P.	16,581,399	8,828,783
Pine Brook Capital Partners, L.P.	13,029,802	14,267,865
Pine Brook Capital Partners II, L.P.	4,437,748	4,226,154
Platinum Equity Capital Partners III, L.P.	4,682,365	4,088,330
Snow Phipps II, L.P.	8,615,965	11,103,823
TA IX, L.P.	956,369	3,373,825
TA Subordinated Debt Fund, L.P.	102,366	190,749
TCV IV, L.P.	7,751,868	266,103
Thomas H. Lee Equity Fund V, L.P.	—	4,000,177
TowerBrook Investors III, L.P.	11,968,174	15,932,930
TPG Growth II, L.P.	4,082,246	4,202,167
TPG Partners VI, L.P.	16,434,647	18,878,432
Trinity Ventures VI, L.P.	373,519	22,210
Trinity Ventures VII, L.P.	7,059,087	158,397
Trinity Ventures VIII, L.P.	10,627,057	1,595,283
VantagePoint Venture Partners III, L.P.	7,533,543	1,501,058
VantagePoint Venture Partners IV, L.P.	19,357,585	12,881,877
Vestar Capital Partners IV, L.P.	4,503,553	3,836,387
Vista Equity Partners Fund IV, L.P.	12,860,203	14,050,951
VS&A Communications Partners III, L.P.	7,452,267	1,771,628
Warburg, Pincus Equity Partners, L.P.	—	733,000
Warburg Pincus Private Equity X, L.P.	37,630,687	47,969,000
Warburg Pincus Private Equity XI, L.P.	9,250,000	9,730,000
Wellspring Capital Partners V, L.P.	4,231,807	4,408,614
Welsh, Carson, Anderson & Stowe VIII, L.P.	2,403,142	73,390
Welsh, Carson, Anderson & Stowe IX, L.P.	8,179,376	8,027,027
Willis Stein & Partners III, L.P.	20,949,560	2,772,338
Windjammer Mezzanine & Equity Fund II, L.P.	1,838,696	3,629,631
	$442,273,690	$372,992,734

1 Investment values quoted without spin-offs or distributions.

LARGEST EQUITIES HOLDINGS[1]

Shares	Security	Fair Value
502,271	Exxon Mobil Corp	$45,380,185
106,032	Apple Inc	42,044,869
2,412,693	Prudential	39,337,813
347,773	SANOFI	35,992,439
700,779	British American Tobacco	35,792,198
943,425	Microsoft Corp	32,590,617
500,655	Toyota Motor Corp	30,189,997
410,035	Novartis	29,079,267
317,324	Johnson & Johnson	27,245,439
1,168,039	General Electric Co	27,086,824

LARGEST FIXED INCOME HOLDINGS[1]

Par Value	Security	Description	Fair Value
56,600,000	US Treasury Note	1.625% .008/15/2022	$53,102,120
51,500,000	US Treasury Note	.250% 04/30/2014	51,533,990
50,000,000	US Treasury Note	.250% 06/30/2014	50,029,500
50,000,000	US Treasury Note	.125% 07/31/2014	49,959,000
35,120,000	US Treasury Note	.875% 02/28/2017	35,032,200
34,890,000	US Treasury Note	.750% 02/28/2018	34,036,940
34,300,000	US Treasury Note	1.000% 06/30/2019	32,970,875
29,000,000	US Treasury Note	3.625% 02/15/2021	32,232,920
30,000,000	Federal Hm Loan Mtg Note Disc	.000% 04/21/2014	29,961,379
27,500,000	Federal Hm Loan Mtg Note Disc	Mat 04/08/2014	27,458,635

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

CHANGES IN FAIR VALUE OF INVESTMENTS

For the fiscal year ended June 30, 2013 (in thousands)

	June 30, 2012 Fair Value	Purchases and Other Increases	Sales and Other Decreases	June 30, 2013 Fair Value	Asset Mix Fair Value
Marketable Securities					
Domestic Equities [3]	$4,693,536	$1,606,027	$(1,241,736)	$5,057,827	34.87%
International Equities [3]	3,209,202	1,448,128	(956,668)	3,700,662	25.51
Total Fixed Income	3,705,503	5,317,439	(5,275,529)	3,747,413	25.83
Temporary Investments [2]	205,450	12,283,540	(12,213,212)	275,778	1.90
Total Marketable Securities	11,813,691	20,655,134	(19,687,145)	12,781,680	88.11
Real Estate and Alternative Investments					
Real Estate [3]	1,076,257	353,217	(79,062)	1,350,412	9.31
Alternatives	387,199	137,857	(151,417)	373,639	2.58
Total Real Estate and Alternative Investments	1,463,456	491,074	(230,479)	1,724,051	11.89
Total	$13,277,147	$21,146,208	$(19,917,624)	$14,505,731	100.00%

1 Amounts include changes in unrealized appreciation and exclude interest and dividend accruals. Amounts exclude security lending cash collateral of $1,051,425,908 for fiscal year 2012, and fiscal year 2013 cash collateral of $1,639,377,142.

2 Temporary Investments include foreign currencies, and securities purchased and maturing within 90 days of fiscal year end.

3 REIT securities were classified in Real Estate in the fiscal year end 6/30/2012 CAFR. They have been re-classified as Equities in this fiscal year end 06/30/2013 report. The June 30, 2012 values above have been adjusted to include REITs in Equities: 93,175,000 moved from real estate to domestic equity. $26,428,000 moved from real estate to international equity.

U.S. EQUITY COMMISSIONS

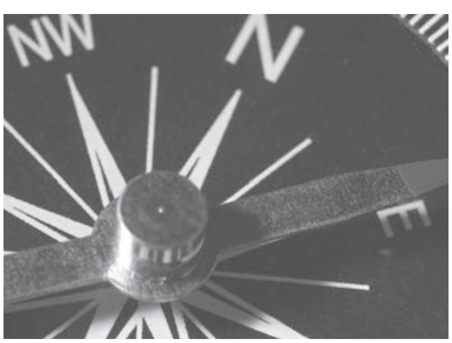
For the fiscal year ending June 30, 2013

Broker Name	Commissions Paid	Shares	Commission Per Share	Percent of Total Commissions
Investment Technology Group, NY	$137,218	9,716,694	$0.01	17.0%
Liquidnet Inc, Brooklyn	$43,823	3,269,499	0.01	5.4
Credit Suisse, NY	$37,408	3,873,865	0.01	4.6
Goldman Sachs & Co.	$36,122	2,533,482	0.01	4.5
BTIG LLC, Jersey City	$34,954	1,370,685	0.03	4.3
Jonestrading Instl Svcs LLC, Westlake	$33,075	1,659,901	0.02	4.1
Barclays Capital Inc, New Jersey	$32,587	1,141,352	0.03	4.0
UBS Securities LLC, Stamford	$27,095	522,197	0.05	3.4
Weeden & Co, NY	$23,849	1,167,663	0.02	3.0
Citigroup Gbl Mkts Salomon, NY	$21,630	1,068,561	0.02	2.4
Instinet Corp, NY	$19,659	3,955,264	0.00	2.7
Raymond James & Assoc Inc, St Petersburg	$17,870	551,063	0.03	2.2
Cantor Fitzgerald & Co. Inc, NY	$16,987	769,545	0.03	2.1
Baird, Robert W & Co. Inc, Milwaukee	$15,864	540,062	0.02	2.0
Jefferies & Co. Inc, NY	$15,604	610,685	0.03	1.9
JP Morgan Clearing Group, New York	$14,576	535,083	0.02	1.9
Pulse Trading LLC, Boston	$13,571	1,206,768	0.03	1.7
Stifel Nicholaus	$13,403	380,891	0.01	1.7
Berstein Sanford C & Co, NY	$12,319	455,495	0.03	1.5
Deutsche Bk Secs Inc, NY	$9,869	731,859	0.02	1.2
Wells Fargo Securities LLC, Charlotte, NC	$9,697	314,807	0.01	1.3
Sandler O'Neill & Partners, New York	$9,685	304,558	0.03	1.2
Morgan Stanley & Co. Inc, NY	$8,927	265,719	0.03	1.1
Janny Montgomery Scott, Philadelphia	$8,870	465,896	0.02	1.1
RBC Capital Markets LLC, NY	$8,514	273,755	0.03	1.1
Others	$184,422	7,234,557	0.03	22.8
Total Broker Commissions	$807,599	44,919,906		100.0%

Actuarial Section

FIDUCIARY

First and always.



Actuary's Certification Letter

Cavanaugh Macdonald
CONSULTING, LLC
The experience and dedication you deserve

September 26, 2013

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

Dear Members of the Board:

At your request, we have performed an actuarial valuation of the Kansas Public Employees Retirement System (KPERS) as of December 31, 2012 for purposes of determining contribution rates for fiscal year 2016 for the State and 2015 for Local employers. The major findings of the valuation are contained in this report, which reflects the benefit provisions in place on December 31, 2012, including House Bill 2213 (passed by the 2013 Legislature). There were no changes to the actuarial assumptions and methods from those used in the prior valuation. The specific impact of the legislation is discussed later in this section.

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

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

Future actuarial measurements may differ significantly from the current measurements presented in the December 31, 2012 valuation report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements.

Actuarial computations presented in this report are for purposes of determining the recommended funding amounts for the System. Actuarial computations presented in this report under GASB Statements No. 25 and 27 are for purposes of fulfilling financial accounting requirements. The computations prepared for these two purposes may differ as disclosed in the December 31, 2012 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 Statements No. 25 and 27. Determinations for purposes other than meeting these requirements may be significantly different from the results shown in the December 31, 2012 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. Cavanaugh Macdonald Consulting's (CMC) advice is not intended to be a substitute for qualified legal or accounting counsel.

We certify that, to the best of our knowledge and belief, the December 31, 2012 actuarial valuation report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices. We are members of the American Academy of Actuaries and meet the Qualification Standards to render the actuarial opinion contained herein.

Sincerely,

Patrice Beckham

Patrice A. Beckham, FSA, MAAA
Principal and Consulting Actuary

Brent A. Banister, FSA, MAAA
Chief Pension 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, 2012, actuarial valuation for each of the Systems.

The primary purposes of performing actuarial valuations are to:

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

Funding and Plan Design Legislation

The 2012 Legislature passed Sub House Bill 2333 (Sub HB 2333) which was signed into law by the Governor on June 1, 2012. Sub House Bill 2333 created a Tier 3 retirement plan for new members effective January 1, 2015, and included benefit changes for current Tier 1 and Tier 2 members. The bill also provided for increases in the statutory cap on the employer contribution rate. Sub HB 2333 was intended to improve KPERS' long term funding and increase KPERS' sustainability. The legislative changes, other than Tier 3, were reflected in the prior valuation and are also reflected in the current valuation. The second increase in the employee contribution rate for Tier 1 from 5.0 percent to 6.0 percent (effective January 1, 2015) is reflected in the current valuation and resulted in a decrease in the employer normal cost rate.

In particular, Sub HB2333 increased the cap on employer contribution rate increases from 0.6 percent per year to:

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

Sub HB 2333 also provided for the State to make additional contributions beginning in FY 2014 to fund the unfunded actuarial liability (UAL) of the State/School group until their funded ratio reaches at least 80.0 percent. The additional contribution stream, which comes from the Expanded Lottery Act Revenue Fund (ELARF), is determined as 50.0 percent of the money credited to the ELARF, after an annual reduction of $10.5 million. Since the money credited to the ELARF will vary from year to year, the specific contribution amounts to KPERS are unknown at this time. For FY 2014 and 2015 the ELARF funds are being appropriated as a partial funding source to meet the statutory contribution requirements for the School group rather than being contributed in addition to the statutory contributions. Therefore, no additional funding of the UAL is anticipated until FY 2016, at which time the contributions are expected to be around $40 million per year.

Tier 1 Members

Sub HB 2333 created a 90 day election period for Tier 1 members of the system on July 1, 2013 to permit them to choose to (1) contribute 5.0 percent of compensation as employee contributions effective January 1, 2014 and 6.0 percent effective January 1, 2015 and receive a 1.85 percent multiplier for all years of future service or (2) continue to contribute 4.0 percent of compensation as employee contributions and receive a 1.40 percent multiplier for all years of future service. Changes in the benefit multiplier are effective January 1, 2014 and impact only future years of service. The election is subject to approval by the Internal Revenue Service, and if such approval is not granted, there will be no election and the default option (option 1 above) will apply. The provisions are summarized in the following table:

Tier 1 Provisions Summary

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

As of the date of this report, IRS approval has not yet been received, and therefore, the default option has been valued for all Tier 1 members.

Tier 2 Members

Sub HB 2333 eliminated the cost of living adjustment (COLA) for Tier 2 members, effective July 1, 2012. However, Tier 2 member who retire after July 1, 2012, receive a higher multiplier of 1.85 percent for all years of service, not just future years of service (House Bill 2213 in the 2013 session changed the date from January 1, 2014 to July 1, 2012).

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

*Changed to July 1, 2012 in House Bill 2213 passed in the 2013 session.

Sub HB 2333 had no impact on current KPERS retirees or inactive members who do not return to covered employment.

Tier 3 Members (effective January 1, 2015)

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

Given the effective date of Tier 3, there are no Tier 3 members included in the December 31, 2012 valuation, and therefore, there was no cost impact on the valuation results. However, the final increase in the employee contribution rate for Tier 1 members and the increase in the statutory cap on the employer contribution rate in Sub House Bill 2333, did have an impact on the December 31, 2012 valuation results. In addition, the impact of the plan design for Tier 3 members is reflected in the projection of employer contribution rates shown later in this section.

House Bill 2213 (HB 2213), the KPERS Omnibus bill, was passed by the 2013 legislature and signed by the Governor on June 14, 2013. This bill made several technical corrections to KPERS, KP&F and Judges that did not impact the valuation results. However, HB 2213 also increased the cap on the maximum retirement benefit in KP&F from 80 percent to 90 percent of final average salary and increased the employee contribution rate from 7.0 percent of pay until the member has 32 years of service to 7.15 percent of pay for all years of service. The benefit change increased the unfunded actuarial liability and normal cost rate for the KP&F group, but the cost was offset by the increase in the employee contribution rate of 0.15 percent.

The valuation results provide a "snapshot" view of the System's financial condition on December 31, 2012. The unfunded actuarial liability (UAL), for the System as a whole, increased by $1,025 million due to multiple factors.

In KPERS, the State, School and Local employers do not necessarily contribute the full actuarial contribution rate. Based on legislation passed in 1993, the employer contribution rates certified by the Board may not increase by more than the statutory cap. The current statutory cap is 0.90 percent for fiscal year 2014, 1.0 percent for fiscal year 2015, 1.1 percent for fiscal year 2016 and 1.2 percent for fiscal year 2017 and later.

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

December 31, 2012 Valuation

System	Actuarial	Statutory	Difference
State[1]	11.44%	12.37%	(0.93%)
School[1]	16.00%	12.37%	3.63%
Local[1]	9.48%	9.48%	0.00%
Police & Fire - Uniform Rates[2]	21.36%	21.36%	0.00%
Judges	23.98%	23.98%	0.00%

December 31, 2011 Valuation

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

1 By statute, rates are allowed to increase by a maximum of 0.9 percent for FY 2014, 1.0 percent in FY 2015, 1.1 percent in FY 2016 and 1.2 percent in FY 2017 plus the cost of any benefit enhancements.

2 For KP&F, the statutory contribution rate is equal to the "Uniform" rate. The rate shown is for local employers. The rate for State employers is 21.32 percent this year. The uniform rate does not include the payment required to amortize the unfunded past service liability determined separately for each employer.

The significant changes made to the benefits and contributions for members of Tiers 1 and 2 along with increases in the employer contribution rate in Sub House Bill 2333 and the creation of a new Tier 3, improved the long term funding outlook for KPERS. In addition, the rate of return on the market value of assets in 2012 was over 14 percent, in excess of the assumed return of 8.0 percent. As a result, the State group continues to be at the actuarial required contribution rate and Local group reached the actuarial required contribution date in the current valuation (for FY 2015). In addition, the School group is in actuarial balance (the statutory contribution rate is projected to converge with the actuarial required contribution rate before the end of the amortization period (2033), **if all actuarial assumptions are met in future years.**

Experience — All Systems Combined

December 31, 2011 – December 31, 2012

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, 2012. 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, 2011 and December 31, 2012 actuarial valuations. On the following pages, each component is examined.

MEMBERSHIP

The following table contains a summary of the changes in active members between the December 31, 2011 and December 31, 2012 actuarial valuations.

	State	School	Local
12/31/2011 (Starting count)	23,917	84,183	39,547
New actives	2,472	10,298	5,090
Nonvested Terminations	777	3,152	1,952
Elected Refund	572	1,254	1,250
Vested Terminations	695	2,255	1,196
Total Withdrawals	2,044	6,661	4,398
Deaths	45	95	79
Disabilities	46	107	67
Retirements	448	2,161	751
Other/Transfer	20	-29	9
12/31/2012 (Ending count)	23,826	85,428	39,351

	KP&F	Judges	System Total
12/31/2011 (Starting count)	7,143	264	155,054
New actives	574	15	18,449
Nonvested Terminations	202	—	6,083
Elected Refund	90	1	3,167
Vested Terminations	84	1	4,231
Total Withdrawals	376	2	13,481
Deaths	9	4	232
Disabilities	19	—	239
Retirements	126	12	3,498
Other/Transfer	—	—	—
12/31/2012 (Ending count)	7,187	261	156,053

The size of active membership was up very slightly overall, although some groups saw a slight decline in employment. In the current economic environment, this pattern of low (or negative) employee growth is not surprising. Coupled with low salary increases, the total payroll did not grow as much as expected.

ASSETS

As of December 31, 2012, the System had total funds of $13.8 billion on a market value basis, excluding assets held for the Group Insurance and Optional Life reserves. This was an increase of $1.3 billion from the December 31, 2011 figure of $12.5 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 components of the change in the market value and actuarial value of assets for the Retirement System are as follows.

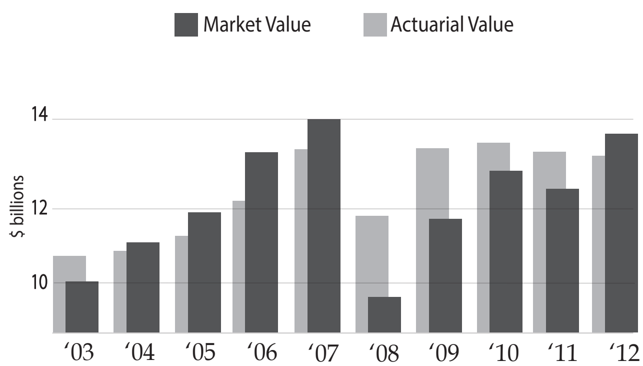
	Market Value $(millions)	Actuarial Value $(millions)
Assets, December 31, 2011	$12,477	$13,379
•Employer and Member Contributions	885	885
•Benefit Payments and Expenses	(1,307)	(1,307)
•Investment Income	1,762	321
Assets, December 31, 2012	$13,817	$13,278

The actuarial value of assets as of December 31, 2012, was $13.278 billion. The annualized dollar-weighted rate of return for 2012, measured on the actuarial value of assets, was approximately 2.4 percent and measured on the market value of assets, as reported by KPERS, was 14. 5 percent, net of investment expenses.

Due to the use of an asset smoothing method, there is $539 million of net deferred investment gain experience that has not yet been recognized, i.e. the market value of asset is higher than the actuarial value. This deferred investment gain will be reflected in the actuarial value of assets over the next four years, but may be offset by actual investment experience if it is less favorable than assumed.

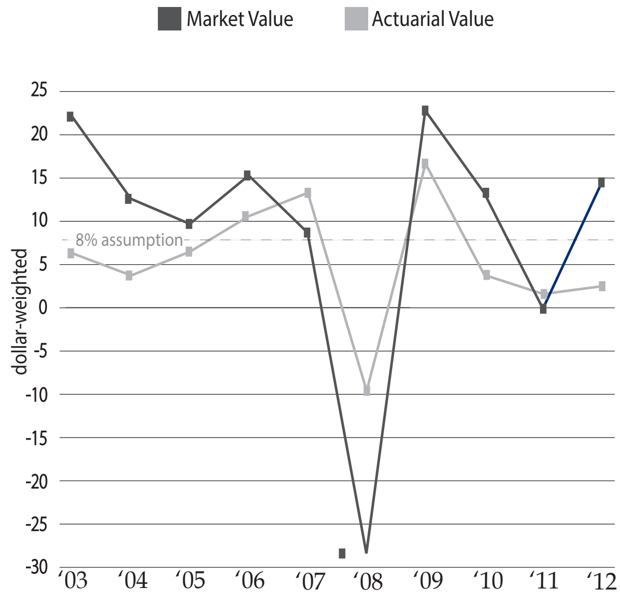
The actuarial value of assets has been both above and below the market value during the period, which is to be expected when using an asset smoothing method.

Total System Assets by Calendar Year



The rate of return on the actuarial (smoothed) value of assets has been less volatile than the market value return. The deferred investment gains will be reflected in the actuarial value of assets in the next few years, absent unfavorable investment experience.

System Asset Rate of Return by Calendar Year



LIABILITIES

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

The unfunded actuarial liability (in million) by group:

	State	School	Local	KP&F	Judges	Total*
Actuarial Liability	$4,016	$12,587	$4,190	$2,583	$156	$23,531
Actuarial Value of Assets	2,724	6,220	2,491	1,716	127	13,278
Unfunded Actuarial Liability*	$1,292	$6,366	$1,699	$866	$29	$10,253

*May not add due to rounding.

When the actuarial cost method was changed by the Legislature in 1993, the payment methodology for the unfunded actuarial liability (UAL) for all groups (except the Judges System) was set in statute as a level percentage of payroll over a 40 year closed period. Under this approach, payments on the UAL increase four percent each year, the same as the payroll growth assumption, resulting in a payment pattern that is a level percentage of pay. For over half of the amortization period, the dollar amount of the amortization payment is less than the interest on the UAL. As a result, the dollar amount of the UAL is expected to increase for many years before it eventually begins to decline. In addition, with the planned difference in KPERS' statutory and actuarial contribution rates prior to the Actuarial required contribution 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 2012). All of the KPERS groups except KP&F had a liability gain for the year, largely from lower salary increases than expected. Recognition of the remaining deferred investment loss from 2008 resulted in an experience loss on the actuarial value of assets for all groups. The large 2008 investment loss experience has now been fully recognized. The loss on actuarial assets was greater than the liability gain so there was a net actuarial loss for all groups combined.

Between December 31, 2011, and December 31, 2012, the change in the unfunded actuarial liabilities for the System as a whole was as follows.

	($ millions)
Unfunded Actuarial Liability, December 31, 2011	$9,228
effect of contribution cap/time lag	303
expected increase due to amortization method	49
loss from investment return on actuarial assets	732
demographic experience[1]	(120)
all other experience	41
change in actuarial methods	—
change in actuarial assumptions	—
change in benefit provisions (KP&F)[2]	19
Unfunded Actuarial Liability, December 31, 2012	$10,253

1 Liability gain is about 0.6 percent of total actuarial liability.

2 HB 2213 increased the KP&F maximum benefit from 8.0 percent to 9.0 percent of final average salary and the member contribution rate increased to 7.15 percent for all years of service.

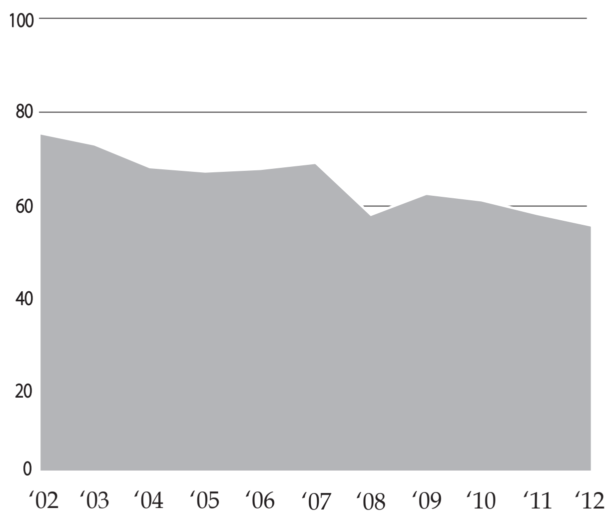
3 May not add due to rounding.

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

	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12
Using Actuarial Value of Assets:						
Funded Ratio (AVA/AL)	71%	59%	64%	62%	59%	56%
Unfunded Actuarial Liability (AL-AVA)	$5,552	$8,279	$7,677	$8,264	$9,228	$10,253
Using Market Value of Assets:						
Funded Ratio (MVA/AL)	75%	49%	56%	59%	55%	59%
Unfunded Actuarial Liability (AL-MVA)	$4,817	$10,250	$9,384	$8,936	$10,130	$9,714

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 and contributions below the actuarial rate have significantly reduced the funded ratio.

Funded Ratio by Calendar Year
as of 12/31



Given the current funded status of the System, the amount of the deferred investment gain, the amortization method, the amortization period, and the scheduled increases in employer contribution rates, the dollar amount of the unfunded actuarial liability for the entire System is expected to grow for a few more years and then start to decline. The funded ratio is expected to remain relatively stable while the unfunded actuarial liability grows, and then gradually improve. The actual funded ratio in future years is heavily dependent on the actual investment returns.

CONTRIBUTION RATES

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

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

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

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

The results of the December 31, 2012 valuation will set employer contribution rates for fiscal year 2016 for the State (July 1, 2015 to June 30, 2016) and 2015 for Local employers (calendar year 2015).

In KPERS, State, School and Local employers do not necessarily contribute the full actuarial contribution rate. Based on legislation passed in 1993, the employer contribution rates certified by the Board may not increase by more than the statutory cap. The statutory cap, which has been changed periodically (most recently in 2012), is 0.9 percent for fiscal year 2014, 1.0 percent in 2015, 1.1 percent in 2016, and 1.2 percent in 2017 and beyond for all three groups.

A summary of the actuarial and statutory employer contribution rates for the System follows:

December 31, 2012 Valuation

System	Actuarial	Statutory	Difference
State[1]	11.44%	12.37%	(0.93%)
School[1]	16.00%	12.37%	3.63%
Local1	9.48%	9.48%	0.00%
Police & Fire - Uniform Rates[2]	21.36%	21.36%	0.00%
Judges	23.98%	23.98%	0.00%

1 By statute, rates are allowed to increase by a maximum of 0.9 percent for FY 2014, 1.0 percent in FY 2015, 1.1 percent in FY 2016 and 1.2 percent in FY 2017 plus the cost of any benefit enhancements.

2 For KP&F, the statutory contribution rate is equal to the "Uniform" rate. The rate shown is for local employers. The rate for State employers is 21.32 percent this year. The uniform rate does not include the payment required to amortize the unfunded past service liability determined separately for each employer.

Separate employer contribution rates are calculated for two subgroups of the State: Correctional Employee Groups with normal retirement age 55 (C55) and the other with normal retirement age 60 (C60). The contribution rates are calculated by increasing the state actuarial rate by the difference in the normal cost rate for the C55 and C60 groups over the normal cost rate for regular state members. The higher contribution rates finance the earlier normal retirement age. The actuarial contribution rates for the Correctional Employee Groups are as follows:

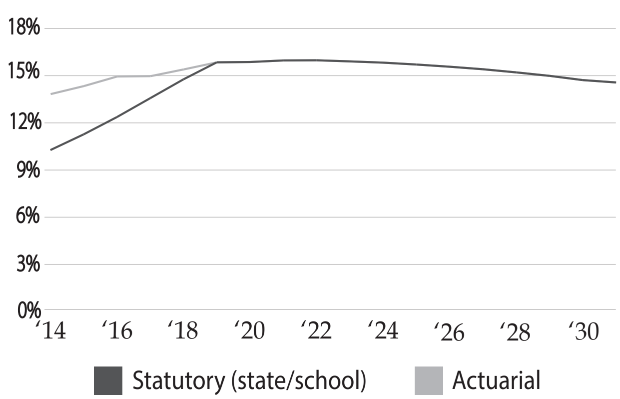
	Actuarial Rate	Statutory Rate
Retirement Age 55:	12.21%	12.76%
Retirement Age 60:	12.27%	12.50%

Due to statutory caps, the full actuarial contribution rate is not contributed for all KPERS groups. The State reached the actuarial required contribution date (statutory contribution rate is equal to or greater than the actuarial contribution rate) in the December 31, 2010 valuation and continues to be so in this valuation. The Local group reached the actuarial required contribution date in this valuation with an actuarial required contribution rate of 9.31 percent (effective FY 2015). Based on the current valuation, there is a difference (shortfall) between the actuarial and statutory contribution rates of 3.63 percent for the School group. Assuming an 8.0 percent return on the market value of assets for 2013 and beyond, all other actuarial assumptions are met in the future, and the current provision for statutory caps on the employer contribution rate, the estimated actuarial required contribution date for the combined State/School group is FY2019 at a rate of 15.85 percent. This is an improvement over last year's projections which showed a projected actuarial required contribution date of FY 2021 at a rate of 17.26 percent.

Based on preliminary modeling results, the actuarial required contribution date for the State/School group is projected to occur in 2019 with an actuarial required contribution rate of 15.85 percent, assuming all actuarial assumptions are met in future years. Last year's projected actuarial required contribution date was 2021 with a rate of 17.26 percent. Future experience, especially investment returns, will heavily influence the ultimate actuarial required contribution date and rate.

Projected Employer Contribution Rates - State/School

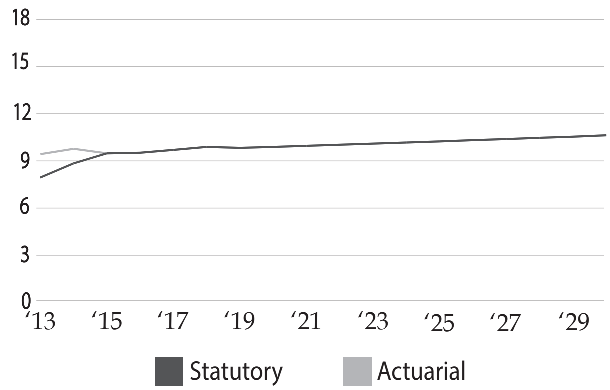
fiscal year end



The Local group reached the Actuarial required contribution date in this valuation (FY 2015) with an Actuarial required contribution rate of 9.48 percent. The projected contribution rate is expected to remain reasonably level, assuming all actuarial assumptions are met in future years. Actual experience in future years, particularly investment returns, will impact the future actuarial and statutory rates.

Projected Employer Contribution Rates - Local

fiscal year end

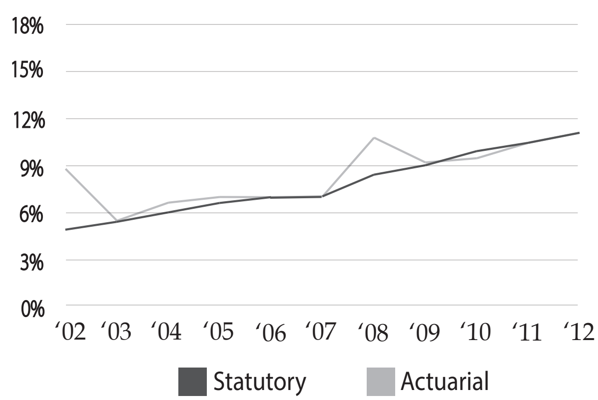


Historical contribution rates for each group are shown on the following pages. Please note that prior to the December 31, 2003 valuation, one contribution rate was developed for the State and School together as one group. Legislation passed in 2004 split the contribution rate calculations into two separate groups, although the statutory contributions are still determined on a combined basis. Significant changes in funding methods as well as a Pension Obligation Bond issue occurred in 2003 and actuarial assumptions were changed in the 2004, 2007 and 2011 valuations. These changes impact the comparability of contribution rates between various valuation dates.

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

Employer Contribution Rates - State

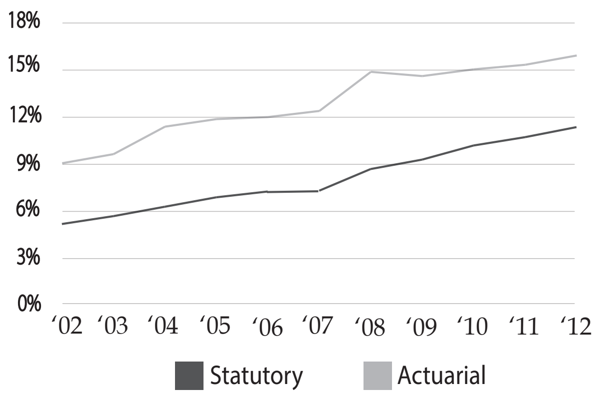
fiscal year end



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 over this period.

Employer Contribution Rates - School

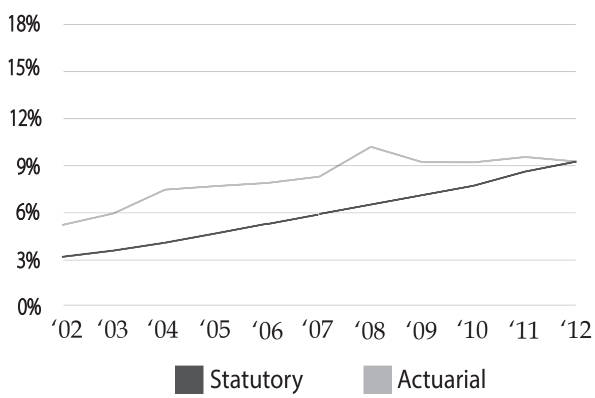
fiscal year end



The Local contribution rate has also been impacted by changes in actuarial assumptions and methods as well as investment performance. With the significant changes in Sub House Bill 2333 and an investment return of over 1 percent in 2012, the statutory contribution rate is equal to the actuarial contribution rate in the current valuation (actuarial required contribution date occurs in FY 2015).

Employer Contribution Rates - Local

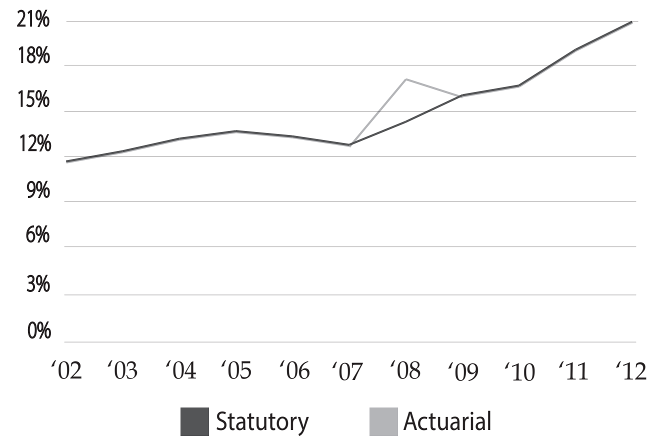
fiscal year end



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 and 2011 resulted in higher contribution rates in the latter part of the period.

Employer Contribution Rates - KP&F (local)

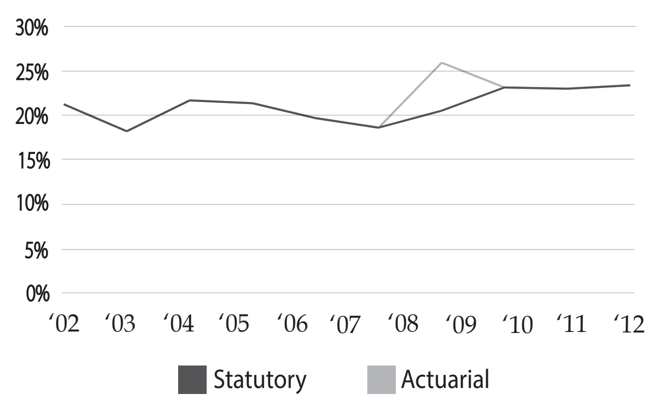
fiscal year end



Significant changes in the actuarial assumptions in the 2004 valuation and investment experience over the last decade have resulted in higher contribution rates for the Retirement System for Judges.

Employer Contribution Rates - Judges

fiscal 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 and significant changes have been made. HB 2014, which was passed by the 2003 Legislature, increased the statutory cap on the State/School employer contribution rate from

0.20 percent to 0.40 percent in FY2006, 0.50 percent in FY2007 and 0.60 percent in FY 2008 and beyond. It also authorized the issuance of up to $500 million in pension obligation bonds (POBs). The POBs were sold and proceeds of $440.2 million were received on March 10, 2004. The debt service payments on the bonds are paid by the State in addition to the regular KPERS employer contribution rate.

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

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

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

The 2012 Legislature passed Sub House Bill 2333, affecting new hires, current members and employers. The changes were made to improve KPERS' long term sustainability. The basic provisions of Sub House Bill 2333, as amended by House Bill 2213 in 2013, include:

- Increased the statutory cap on employer contribution rates to 0.9 percent in FY 2014, 1.0 percent in FY 2015, 1.1 percent in FY 2016 and 1.2 percent in FY 2017 and beyond.
- Provides for an election by Tier 1 members depending on IRS approval. Tier 1 members may elect to increase their employee contributions to 5 percent of compensation effective January 1, 2014 and 6 percent effective January 1, 2015, with an increase in the benefit multiplier to 1.85 percent for future years of service only, or remain at a 4 percent employee contribution rate and receive a benefit multiplier of 1.4 percent for future years of service. The multiplier changes are effective January 1, 2014. Without IRS approval of the election, contributions and the multiplier will automatically increase.
- For Tier 2 members retiring after July 1, 2012, the cost of living adjustment (COLA) is eliminated, but members will receive a 1.85 percent multiplier for all years of service.
- Creates a Cash Balance Plan for new hires beginning January 1, 2015. A cash balance plan is a type of defined benefit plan that includes some elements of a defined contribution plan and shares risk between the employer and employee. Each member has a hypothetical account that is credited with employee contributions, employer pay credits and interest credits. At retirement, the account balance is annuitized to create a guaranteed monthly benefit payable for the member's lifetime. Up to 30 percent of the account value at retirement may be paid as a lump sum.
- Beginning in FY 2014, provides for the state to make additional contributions to help pay down KPERS' unfunded actuarial liability until the State/School group reaches a funded ratio of at least 80 percent. The revenue will come from the Expanded Lottery Act Revenues Fund (ELARF). For FY 2014 and 2015 the ELARF funds are being used as a partial funding source to meet the statutory contribution requirements for the School group rather than being contributed in addition to the statutory contributions.

Therefore, no additional funding of the UAL is anticipated until FY 2016 at which time the contributions are expected to be around $40 million.

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

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

COMMENTS

Like most public retirement systems, KPERS uses an asset smoothing method to smooth out investment experience above and below the assumed rate of 8 percent per annum. Under the asset smoothing method, the difference between the actual and assumed investment experience is recognized equally over a five year period. As a result, the final recognition of the investment loss for the 2008 plan year is reflected in the current valuation. While the return on the market value of assets for 2012 was 14.5 percent, the return on the actuarial value of assets was about 2.5 percent. As of the valuation date, the actuarial value of assets was lower than the market value of assets, something which has not occurred since the 2007 valuation.

The deferred investment experience moved from a net deferred loss of $902 million last year to a net deferred gain of $539 million this year. This deferred experience will flow through the asset valuation method in the next four years and be recognized in the valuation process, absent investment experience below the 8 percent assumed rate of return. As the deferred investment experience is recognized, the funded ratio can be expected to hold steady in the short term and eventually increase over the long term.

While the use of an asset smoothing method is a common procedure for public retirement systems, it is important to identify the potential impact of the deferred (unrecognized) investment experience. While this is particularly important when there are deferred investment losses, it is also useful to consider the impact on the key actuarial measurements if the deferred investment gains are recognized. To illustrate the impact of the deferred investment experience, the key valuation results are shown below for the State/School and KPF groups using both the actuarial value of assets and the pure market value. The impact would be similar for the other groups.

	State/School		KP&F	
	Actuarial	Market	Actuarial	Market
Actuarial Liability	$16,603	$16,603	$2,583	$2,583
Asset Value	8,944	9,313	1,716	1,785
Unfunded Actuarial Liability	7,659	7,290	866	798
Funded Ratio	54%	56%	66%	69%
Contribution Rate:				
Normal Cost Rate	8.26%	8.26%	14.58%	14.58%
UAL Payment	12.69%	12.08%	13.93%	12.82%
Total	20.95%	20.34%	28.51%	27.40%
Employee Rate	6.00%	6.00%	7.15%	7.15%
Employer Rate	14.95%	14.34%	21.36%	20.25%

The asset smoothing method impacts only the timing of when the actual experience on the market value of assets is recognized. A return of more than 14 percent in 2012 mitigated the impact of recognizing the last portion of the deferred investment loss from 2008, but the return on the actuarial value of assets was still below 8 percent. As a result, the unfunded actuarial liability increased by $1.025 billion. Future investment experience will impact the extent to which the deferred investment experience (which is currently a net gain) will be recognized. The ultimate impact of the deferred experience on the employer contribution rate would be similar to the column shown above based on the market value of assets, if all actuarial assumptions are met including the 8 percent return in future years.

SUMMARY OF CHANGE IN UNFUNDED ACTUARIAL LIABILITY BY SYSTEM

December 31, 2012 Valuation ($ millions)

	State	School	Local	KP&F	Judges	Total
UAL in 12/31/2011 Valuation Report	$1,122.8	$5,797.6	$1,542.4	$738.6	$26.8	$9,228.1[1]
• Effect of contribution cap/timing	22.2	223.4	46.0	12.5	(0.7)	303.4
• Expected increase due to method	5.0	33.4	7.9	3.1	(0.6)	48.8
• Actual vs. expected experience						
• Investment return	160.5	355.4	119.8	90.2	6.2	732.1
• Demographic experience	(25.7)	(74.2)	(21.6)	5.1	(3.4)	(119.8)
• All other experience	7.5	30.7	4.4	(2.0)	0.7	41.3
• Change in actuarial assumptions	—	—	—	—	—	—
• Change in benefit provisions	—	—	—	—	—	18.9
UAL in 12/31/2012 Valuation Report[1]	$1,292.3	$6,366.3	$1,698.9	$866.4	$29.0	$10,252.9

1 May not add due to rounding.

SUMMARY OF CHANGES IN EMPLOYER ACTUARIAL CONTRIBUTION RATE BY SYSTEM

As of December 31, 2012

Percentage of Payroll	State	School	Local	KP&F[1]	Judges
Actuarial Contribution Rate in 12/31/2011 Valuation	10.80%	15.41%	9.77%	19.92%	22.59%
Change Due to Amortization of UAL					
• effect of contribution cap/time lag	0.16	0.48	0.20	0.20	(0.24)
• amortization method	0.00	0.00	0.00	0.00	(0.36)
• investment experience	1.17	0.76	0.53	1.46	2.16
• liability experience	(0.19)	(0.16)	(0.10)	0.08	(1.19)
• all other experience	0.05	0.09	0.04	(0.32)	0.88
• change in assumptions	0.00	0.00	0.00	0.00	0.00
• change in benefit provisions	0.00	0.00	0.00	0.21	0.00
Change in Normal Cost Rate					
• change in benefit provisions	(0.43)	(0.43)	(0.84)	(0.20)	0.00
• change in assumptions	0.00	0.00	0.00	0.00	0.00
• all other experience	(0.12)	(0.15)	(0.12)	0.01	0.14[2]
Actuarial Contribution Rate in 12/31/2012 Valuation	11.44%	16.00%	9.48%	21.36%	23.98%

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 UNFUNDED ACTUARIAL LIABILITY

($ millions)

	6/30/97	6/30/98	6/30/99	6/30/00	12/31/00	12/31/01
Actual Experience vs. Assumed						
Investment	$(323)	$(413)	$(369)	$(441)	$(23)	$350
Other	157	104	46	99	84	(9)
Assumption Changes	—	350	—	—	(206)	—
Changes in Data/Procedures	—	—	21	71	145[1]	5
Change in Cost Method	—	—	—	—	—	—
Effect of Contribution Cap/Lag	63	54	78	66	60	115
Amortization Method	35	32	30	22	12	14
Change in Benefit Provisions	—	88	—	19	—	—
Change in Actuarial Firm/Software	—	—	—	—	—	—
Bond Issue	—	—	—	—	—	—
Total	$(68)	$215	$(194)	$(164)	$72	$475

	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07
Actual Experience vs. Assumed						
Investment	$644	$140	$456	$167	$(293)	$(626)
Other	68	(32)	16	(84)	140	99
Assumption Changes	—	—	437	(5)	—	384
Changes in Data/Procedures	177[1]	(286)[2]	—	—	—	—
Change in Cost Method	—	1,147	—	—	—	—
Effect of Contribution Cap/Lag	143	178	179	247	258	251
Amortization Method	21	47	68	84	83	78
Change in Benefit Provisions	37	3	1	—	24	2
Change in Actuarial Firm/Software	—	—	—	—	—	—
Bond Issue	(41)	(440)	—	—	—	—
Total	$1,049	$757	$1,157	$409	$212	$188

	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12	Total
Actual Experience vs. Assumed						
Investment	$2,332	$(1,011)	$560	$852	732	$2,734
Other	78	(70)	(334)	(190)	(78)	94
Assumption Changes	—	—	—	(64)	—	896
Changes in Data/Procedures	—	—	—	—	—	133
Change in Cost Method	—	—	—	—	—	1,147
Effect of Contribution Cap/Lag	246	383	320	289	303	3,233
Amortization Method	71	96	68	62	49	872
Change in Benefit Provisions	—	—	—	15	19	208
Change in Actuarial Firm/Software	—	—	(27)	—	—	(27)
Bond Issue	—	—	—	—	—	(481)
Total	$2,727	$(602)	$587	$964	1,025	$8,809

Unfunded actuarial liability 6/30/96 $1,444 million

Unfunded actuarial liability 12/31/12 $10,253 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

	12/31/2012 Valuation	12/31/2011 Valuation	% Change
Participant Data			
Number of:			
Active Members	23,826	23,917	(0.4%)
Retired Members and Beneficiaries	18,098	17,801	1.7%
Inactive Members	6,935	6,668	4.0%
Total Members	48,859	48,386	1.0%
Projected Annual Salaries of Active Members	$ 999,272,591	$ 995,715,217	0.4%
Annual Retirement Payments for Retired Members and Beneficiaries	$ 234,215,221	$ 226,681,537	3.3%
Assets and Liabilities			
a. Total Actuarial Liability	$4,015,967,592	$ 3,912,831,792	2.6%
b. Assets for Valuation Purposes	2,723,694,106	2,790,034,778	(2.4%)
c. Unfunded Actuarial Liability (a) - (b)	1,292,273,486	1,122,797,014	15.1%
d. Funded Ratio (b) / (a)	67.8%	71.3%	(4.9%)
e. Market Value of Assets	2,836,628,752	2,596,503,599	9.2%
Employer Contribution Rates as a Percent of Payroll			
Normal Cost			
Total	8.05%	8.17%	
Member	6.00%	5.57%	
Employer	2.05%	2.60%	
Amortization of Unfunded Actuarial Liability	9.39%	8.20%	
Actuarial Contribution Rate	11.44%	10.80%	
Statutory Employer Contribution Rate*	12.37%	11.27%	

* The Statutory Employer Contribution Rate in this valuation may not exceed last year's rate by more than the statutory rate increase limit of 1.10% for FY 2016. This rate does not include the contribution rate for the Death and Disability Program. Any excess of the statutory over actuarial contribution rates applied to actual State payroll is deposited to the School assets.

SUMMARY OF PRINCIPAL RESULTS - KPERS SCHOOL

	12/31/2012 Valuation	12/31/2011 Valuation	% Change
Participant Data			
Number of:			
Active Members	85,428	84,183	1.5%
Retired Members and Beneficiaries	44,687	42,590	4.9%
Inactive Members	23,478	23,969	(2.0%)
Total Members	153,593	150,742	1.9%
Projected Annual Salaries of Active Members	$ 3,383,104,891	$ 3,314,667,112	2.1%
Annual Retirement Payments for Retired Members and Beneficiaries	$ 624,206,476	$ 585,039,317	6.7%
Assets and Liabilities			
a. Total Actuarial Liability	$12,586,621,940	$12,114,415,410	3.9%
b. Assets for Valuation Purposes	6,220,280,310	6,316,797,407	(1.5%)
c. Unfunded Actuarial Liability (a) - (b)	6,366,341,630	5,797,618,003	9.8%
d. Funded Ratio (b) / (a)	49.4%	52.1%	(5.2%)
e. Market Value of Assets	6,475,974,488	5,884,431,008	10.1%
Employer Contribution Rates as a Percent of Payroll			
Normal Cost			
Total	8.33%	8.45%	
Member	6.00%	5.57%	
Employer	2.33%	2.91%	
Amortization of Unfunded Actuarial Liability	13.67%	12.50%	
Actuarial Contribution Rate	16.00%	15.41%	
Statutory Employer Contribution Rate*	12.37%	11.27%	

*The Statutory Employer Contribution Rate in this valuation may not exceed last year's rate by more than the statutory rate increase limit of 1.10% for FY 2016. This rate does not include the contribution rate for the Death and Disability Program.

SUMMARY OF PRINCIPAL RESULTS - KPERS STATE/SCHOOL

	12/31/2012 Valuation	12/31/2011 Valuation	% Change
Participant Data			
Number of:			
Active Members	109,254	108,100	1.1%
Retired Members and Beneficiaries	62,785	60,391	4.0%
Inactive Members	30,413	30,637	(0.7%)
Total Members	202,452	199,128	1.7%
Projected Annual Salaries of Active Members	$ 4,382,377,482	$ 4,310,382,329	1.7%
Annual Retirement Payments for Retired Members and Beneficiaries	$ 858,421,697	$ 811,720,854	5.8%
Assets and Liabilities			
a. Total Actuarial Liability	$16,602,589,532	$16,027,247,202	3.6%
b. Assets for Valuation Purposes	8,943,974,416	9,106,832,185	(1.8%)
c. Unfunded Actuarial Liability (a) - (b)	7,658,615,116	6,920,415,017	10.7%
d. Funded Ratio (b) / (a)	53.9%	56.8%	(5.2%)
e. Market Value of Assets	9,312,603,240	8,480,934,607	9.8%
Employer Contribution Rates as a Percent of Payroll			
Normal Cost			
Total	8.26%	8.41%	
Member	6.00%	5.57%	
Employer	2.26%	2.84%	
Amortization of Unfunded Actuarial Liability	12.69%	11.50%	
Actuarial Contribution Rate	14.95%	14.34%	
Statutory Employer Contribution Rate*	12.37%	11.27%	

* The Statutory Employer Contribution Rate in this valuation may not exceed last year's rate by more than the statutory rate increase limit of 1.10% for FY 2016. This rate does not include the contribution rate for the Death and Disability Program.

SUMMARY OF PRINCIPAL RESULTS - KPERS LOCAL

	12/31/2012 Valuation	12/31/2011 Valuation	% Change
Participant Data			
Number of:			
Active Members	39,351	39,547	(0.5%)
Retired Members and Beneficiaries	16,605	15,606	6.4%
Inactive Members	14,153	13,629	3.8%
Total Members	70,109	68,782	1.9%
Projected Annual Salaries of Active Members	$1,639,398,292	$1,619,998,225	1.2%
Annual Retirement Payments for Retired Members and Beneficiaries	$ 168,001,328	$ 152,644,779	10.1%
Assets and Liabilities			
a. Total Actuarial Liability	$4,190,327,111	$3,978,621,325	5.3%
b. Assets for Valuation Purposes	2,491,443,027	2,436,265,719	2.3%
c. Unfunded Actuarial Liability (a) - (b)	1,698,884,084	1,542,355,606	10.1%
d. Funded Ratio (b) / (a)	59.5%	61.2%	(2.9%)
e. Market Value of Assets	2,587,877,272	2,280,627,100	13.5%
Employer Contribution Rates as a Percent of Payroll			
Normal Cost			
Total	7.95%	8.07%	
Member	6.00%	5.16%	
Employer	1.95%	2.91%	
Amortization of Unfunded Actuarial Liability	7.53%	6.86%	
Actuarial Contribution Rate	9.48%	9.77%	
Statutory Employer Contribution Rate*	9.48%	8.84%	

* Statutory Employer Contribution Rate exceeds last year's rate by the statutory rate increase limit of 1.00%. This rate does not include the contribution rate for the Death and Disability Program.Disability Program.

SUMMARY OF PRINCIPAL RESULTS - KANSAS POLICE & FIREMEN'S RETIREMENT SYSTEM

	12/31/2012 Valuation	12/31/2011 Valuation	% Change
Participant Data			
Number of:			
Active Members	7,187	7,143	0.6%
Retired Members and Beneficiaries	4,525	4,315	4.9%
Inactive Members	1,397	1,405	(0.6%)
Total Members	13,109	12,863	1.9%
Projected Annual Salaries of Active Members	$ 449,106,522	$ 442,203,582	1.6%
Annual Retirement Payments for Retired Members and Beneficiaries	$ 129,413,024	$ 119,510,150	8.3%
Assets and Liabilities			
a. Total Actuarial Liability	$2,582,586,035	$2,448,619,763	5.5%
b. Assets for Valuation Purposes	1,716,163,204	1,710,009,435	0.4%
c. Unfunded Actuarial Liability (a) - (b)	866,422,831	738,610,328	17.3%
d. Funded Ratio (b) / (a)	66.5%	69.8%	(4.8%)
e. Market Value of Assets	1,784,896,480	1,597,092,196	11.8%
Employer Contribution Rates as a Percent of Payroll			
Normal Cost			
Total	14.58	14.49%	
Member	7.15%	6.87%	
Employer	7.43%	7.62%	
Amortization of Unfunded Actuarial Liability	13.93%	12.30%	
Actuarial Contribution Rate	21.36%	19.92%	
Statutory Employer Contribution Rate*	21.36%	19.92%	

* 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, determined separately for each employer.

SUMMARY OF PRINCIPAL RESULTS - RETIREMENT SYSTEM FOR JUDGES

	12/31/2012 Valuation	12/31/2011 Valuation	% Change
Participant Data			
Number of:			
Active Members	261	264	(1.1%)
Retired Members and Beneficiaries	227	215	5.6%
Inactive Members	6	7	(14.3%)
Total Members	494	486	1.6%
Projected Annual Salaries of Active Members	$ 28,079,426	$ 28,878,075	(2.8%)
Annual Retirement Payments for Retired Members and Beneficiaries	$ 8,685,283	$ 8,033,939	8.1%
Assets and Liabilities			
a. Total Actuarial Liability	$155,920,773	$152,681,742	2.1%
b. Assets for Valuation Purposes	126,909,647	125,912,822	0.8%
c. Unfunded Actuarial Liability (a) - (b)	29,011,126	26,768,920	8.4%
d. Funded Ratio (b) / (a)	81.4%	82.5%	(1.3%)
e. Market Value of Assets	131,943,611	117,969,801	11.8%
Employer Contribution Rates as a Percent of Payroll			
Normal Cost			
Total	19.61%	19.46%	
Member	5.76%	5.77%	
Employer	13.85%	13.69%	
Amortization of Unfunded Actuarial Liability	10.13%	8.90%	
Actuarial Contribution Rate	23.98%	22.59%	
Statutory Employer Contribution Rate*	23.98%	22.59%	

* 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

	12/31/2012 Valuation	12/31/2011 Valuation	% Change
Participant Data			
Number of:			
Active Members	156,053	155,054	0.6%
Retired Members and Beneficiaries	84,142	80,527	4.5%
Inactive Members	45,969	45,678	0.6%
Total Members	286,164	281,259	1.7%
Projected Annual Salaries of Active Members	$ 6,498,961,722	$ 6,401,462,211	1.5%
Annual Retirement Payments for Retired Members and Beneficiaries	$ 1,164,521,332	$ 1,091,909,722	6.6%
Assets and Liabilities			
a. Total Actuarial Liability	$23,531,423,450	$22,607,170,032	4.1%
b. Assets for Valuation Purposes	13,278,490,294	13,379,020,161	(0.8)%
c. Unfunded Actuarial Liability (a) - (b)	10,252,933,156	9,228,149,871	11.1%
d. Funded Ratio (b) / (a)	56.4%	59.2%	(4.6)%
e. Market Value of Assets	13,817,320,603	12,476,623,704	10.7%

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 assumptions and tables for us in the valuation and in calculating actuarial equivalent values based on such investigation. The current actuarial assumptions are based on an actuarial experience study conducted for three years ending December 31, 2009.

Rate of Investment Return 8.0 percent

Implicit Inflation Rate 3.0 percent

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

Rates of Mortality: Post-retirement

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

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

Sample Rates

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

Pre-retirement

School Males: 70% of RP-2000 M Employees -2
School Females: 50% of RP-2000 F Employees -2
State Males: 70% of RP-2000 M Employees +2
State Females: 50% of RP-2000 F Employees +0
Local Males: 90% of RP-2000 M Employees +2
Local Females: 90% of RP-2000 F Employees -1

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

Rates of Salary Increase

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

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

Rates of Termination

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

Retirement Rates

	1st Year With 85 Points		After 1st Year With 85 Points	
School	Age	Rate	Age	Rate
	53	20%	53	18%
	55	20%	55	18%
	57	22%	57	18%
	59	25%	59	23%
	61	30%	61	30%
	Early Retirement		Normal Retirement	
	Age	Rate	Age	Rate
	55	5%	62	30%
	56	5%	63	25%
	57	8%	64	35%
	58	10%	65	35%
	59	12%	66-71	25%
	60	15%	72-74	20%
	61	24%	75	100%
State	1st Year With 85 Points		After 1st Year With 85 Points	
	Age	Rate	Age	Rate
	53	10%	53	10%
	55	15%	55	12%
	57	15%	57	12%
	59	15%	59	12%
	61	30%	61	25%
	Early Retirement		Normal Retirement	
	Age	Rate	Age	Rate
	55	5%	62	30%
	56	5%	63	20%
	57	5%	64	30%
	58	6%	65	35%
	59	10%	66-67	25%
	60	10%	68-74	20%
	61	20%	75	100%
Local	1st Year With 85 Points		After 1st Year With 85 Points	
	Age	Rate	Age	Rate
	53	11%	53	7%
	55	13%	55	10%
	57	13%	57	10%
	59	15%	59	12%
	61	25%	61	25%
	Early Retirement		Normal Retirement	
	Age	Rate	Age	Rate
	55	5%	62	25%
	56	5%	63	20%
	57	5%	64	30%
	58	5%	65	35%
	59	7%	66	25%
	60	7%	67-74	20%
	61	20%	75	100%

Correctional

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

Inactive vested members – Age 62.

TIAA employees – Age 66.

Rates of Disability

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

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

Probability of Vested Members Leaving Contributions with System

Tier 1

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

Tier 2

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

Tier 1 Election

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

Actuarial Assumptions – KP&F

Rate of Investment Return 8.0 percent

Implicit Inflation Rate 3.0 percent

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

Rates of Mortality:

Post-retirement RP-2000 Healthy Annuitant Table

Pre-retirement 90 percent of RP-2000 Employee Table[1]

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

Disabled Life Mortality RP-2000 Disabled Life Table

Rates of Salary Increase

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

2) Includes general wage increase assumption of 4.0 percent (composed of 3.0 percent inflation and 1.0 percent productivity).

Rates of Termination

Tier I: 3 percent for ages less than 41 and 0 percent thereafter

Tier II

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

Retirement Rates

Tier I

Early Retirement		Normal Retirement	
Age	Rate	Age	Rate
50	5%	55	40%
51	5%	56	40%
52	5%	57	40%
53	10%	58	35%
54	30%	59	45%
		60	50%
		61	20%
		62	100%

Retirement Rates (cont.)

Tier II:

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

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

Rates of Disability

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

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

Actuarial Assumptions - Judges

Rate of Investment Return 8.0 percent

Implicit Inflation Assumption 3.0 percent

Rates of Mortality:

Post-retirement: RP-2000 Healthy Annuitant Table, set back two years

Pre-retirement: 70 percent of RP-2000 Employee Table, set back two years

Rates of Salary Increase 4.5 percent

Rates of Termination None assumed

Disabled Life Mortality RP-2000 Disabled Life Table, set back two years

Rates of Disability None assumed

Retirement Rates

Age	Rate
60-61	10%
62-65	20%
66-69	30%
70+	100%

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

Actuarial Methods

FUNDING METHOD

Under the entry age normal 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-increase 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 unfunded acturarial liability 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.

Summary of Plan Membership

The Kansas Public Employees Retirement System (the Retirement System, or, the System), is an umbrella organization administering three statewide retirement 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. All three groups are part of a defined benefit, contributory plan that covers substantially all public employees in Kansas. The Kansas Public Employees Retirement System is a cost-sharing, multiple employer plan. Participation by the State of Kansas is mandatory, whereas participation by local political subdivisions is optional but irrevocable once elected. Benefit payments are also provided for a certain group of legislative employees.

Summary of Provisions-KPERS

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

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

Employee Membership

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

Normal Retirement

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

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

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

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

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

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

Early Retirement

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

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

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

Vesting Requirements

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

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

Other Benefits

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

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

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

Service-Connected Accidental Death – The member's accumulated contributions plus interest, plus lump sum amount of $50,000, plus annual benefit based on 50 percent of final average salary; reduced by Workers' Compensation benefits and subject to a minimum benefit of $100 a month; are payable to a spouse, minor children, or dependent parents, for life, or until the youngest child reaches age 18 (or up to age 23 if they are full-time students), in this order of preference. The monthly accidental death benefit is in lieu of any joint/survivor benefit for which the surviving spouse would have been eligible.

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

Member Contributions

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

Employer Contributions

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

Board of Regents Plan Members (TIAA and equivalents)

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

Correctional Members

Correctional employees, as certified to the Board of Trustees by the Secretary of Corrections, are defined in K.S.A. 74-4914a: (a) correctional officers, (b) certain directors and deputy directors of correctional institutions, (c) correctional power plan operators, (d) correctional industries employees, (e) correctional food service employees, and (f) correctional maintenance employees.

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

Cost of Living Adjustments (COLAs)

Tier 2 Members Who Retired Prior to July 1, 2012: 2 percent cost-of-living adjustment (COLA) each year beginning at age 65 or the second July 1 after your retirement date, whichever is later. Other Tier 2 members will not receive a COLA.

Summary of Provisions- KP&F

Normal Retirement

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

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

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

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

Early Retirement

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

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

Vesting Requirements

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

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

Other Benefits

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

Disability Benefits

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

Tier I: Non-Service-Connected Disability – An annual benefit of 2.5 percent times years of credited service times final average salary with a minimum of 25 percent of FAS and a maximum of 80 percent of FAS.

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

Death Benefits (Tier I and Tier II)

Active Member Service Connected Death – There is no age or service requirement. An annual benefit of 50 percent of final average salary is payable to the spouse, plus 10 percent of final average salary for each dependent child under age 18 (or up to age 23 for full-time students), to a maximum of 75 percent of final average salary for active member.

Active Member Non-Service Connected Death – A lump sum of 100 percent of final average salary is payable to the spouse and a pension of 2.5 percent of final average salary per year of credited service (to a maximum of 50 percent) is payable to the spouse. If there is no spouse, the monthly benefit is paid to the dependent children (age 18 or 23 if a full time student). If there is no surviving spouse or eligible children, the beneficiary will receive a lump sum payment of 100 percent of the member's current annual pay inclusive of the member's accumulated contributions.

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

Post-Retirement Death – There is a lump sum amount of $4,000 payable, less any death benefit payable under local plan provisions. If the member has selected a retirement option, benefits are paid to the joint annuitant or the designated beneficiary.

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

Classifications

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

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

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

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

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

Member Contributions

Member contributions are 7.15 percent of compensation, effective July 1, 2013.

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

Employer Contributions

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

Summary of Provisions-Judges

Normal Retirement

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

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

Early Retirement

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

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

Vesting Requirements

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

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

Other Benefits

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

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

Pre-Retirement Death – A refund of the member's accumulated contributions is payable. In lieu of receiving the member's accumulated contributions, the surviving spouse of a member who is eligible to retire at death, may elect to receive benefits under any survivor benefit option. If the member had at least 10 years of credited service, but hadn't reached retirement age at the time of death, the spouse may elect a monthly benefit to begin on the date the member first would have been eligible to retire as long as the member's contributions aren't withdrawn.

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

Member Contributions

Judges contributions are 6 percent of compensation. Upon reaching the maximum retirement benefit level of 70 percent of final average salary, the contribution rate is reduced to 2 percent.

Employer Contributions

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

SHORT TERM SOLVENCY TEST

Last ten 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)
12/31/03	$3,595,082,177	$5,558,543,751	$5,285,920,342	$10,853,462,178	100%	100%	32%
12/31/04	3,817,174,808	5,994,869,531	5,902,048,137	10,971,426,577	100	100	20
12/31/05	4,006,823,805	6,413,679,842	6,071,258,736	11,339,292,965	100	100	15
12/31/06	4,209,698,437	6,872,703,437	6,470,388,630	12,189,197,444	100	100	17
12/31/07	4,423,194,339	7,417,933,822	7,143,786,763	13,433,115,014	100	100	22
12/31/08	4,642,675,652	7,945,452,582	7,518,658,666	11,827,618,574	100	90	—
12/31/09	5,132,772,778	8,459,191,163	7,546,242,173	13,461,220,705	100	99	—
12/31/10	5,017,361,438	9,090,575,924	7,745,845,940	13,589,658,118	100	96	—
12/31/11	5,334,463,714	9,923,555,011	7,349,151,307	13,379,020,161	100	81	—
12/31/12	5,448,296,911	10,585,891,383	7,497,235,156	13,278,490,294	100	74	—

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]

Last ten years

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
12/31/03	148,145	0.6%	1,454	0.8%	$4,978	$32,944	-0.1%
12/31/04	147,751	(0.3)	1,461	0.5	5,102	33,854	2.7
12/31/05	149,073	0.9	1,474	0.9	5,270	34,661	2.4
12/31/06	151,449	1.6	1,474	0.0	5,599	36,246	4.4
12/31/07	153,804	1.5	1,482	0.5	5,949	37,922	4.4
12/31/08	156,073	1.5	1,492	0.6	6,227	39,113	3.1
12/31/09	160,831	3.0	1,499	0.5	6,532	39,821	1.8
12/31/10	157,919	(1.8)	1,511	0.8	6,494	41,123	3.2
12/31/11	155,054	(1.9)	1,504	(0.5)	6,401	41,285	0.4
12/31/12	156,053	0.6	1,506	0.1	6,499	41,646	0.9

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

2 Excludes TIAA.

MEMBERSHIP PROFILE

Last ten years

Valuation Date	Active	Inactive	Retirees & Beneficiaries	Total Membership
12/31/03	148,145	41,315	59,124	248,584
12/31/04	147,751	41,269	61,125	250,145
12/31/05	149,073	41,232	63,348	253,653
12/31/06	151,449	40,672	65,765	257,886
12/31/07	153,804	41,383	67,102	262,289
12/31/08	156,073	41,749	70,724	268,546
12/31/09	160,831	43,324	73,339	277,494
12/31/10	157,919	44,231	76,744	278,894
12/31/11	155,054	45,678	81,025	281,757
12/31/12	156,053	45,969	84,318	286,340

RETIRANTS, BENEFICIARIES - CHANGES IN ROLLS - ALL SYSTEMS

Last ten fiscal years

		Additions		Deletions						
Year	Number at Beginning of Year	Number Added	Annual Allowances	Number Removed	Annual Allowances	Number at at End of Year	% Change% in Number of Retirants	% Change in Additions Allowances	Average Annual Allowance	Year-End Annual Allowances
2004	57,538	3,612	$50,253,218	2,009	$11,940,793	59,141	2.60%	3.20%	10,897	$676,918,614
2005	59,141	4,141	59,096,917	2,017	12,333,238	61,265	3.60	17.60	11,126	737,563,276
2006	61,265	4,452	66,239,352	1,759	11,185,646	63,765	4.00	12.00	11,498	805,978,732
2007	63,765	4,423	67,181,677	2,125	15,218,444	66,063	3.60	1.40	13,142	868,179,029
2008	66,063	5,195	73,055,348	2,515	18,681,361	68,743	4.10	8.70	13,758	945,739,016
2009	68,743	5,330	81,815,349	2,467	20,966,802	71,606	4.20	12.00	13,964	999,939,615
2010	71,606	5,593	88,709,733	2,332	20,528,013	74,867	4.60	8.40	14,182	1,060,205,818
2011	74,867	6,245	99,091,348	2,698	23,230,288	78,414	4.70	11.70	14,630	1,147,209,272
2012	78,414	6,941	112,628,928	2,644	23,775,195	82,711	5.50	13.70	14,962	1,237,559,898
2013	82,711	6,071	97,203,958	2,707	24,577,721	86,075	4.10	13.70	14,975	1,288,986,517

SUMMARY OF MEMBERSHIP DATA[1]

Retiree and Beneficiary Member Valuation Data	12/31/2012	12/31/2011
KPERS		
Number	79,390	75,997
Average Benefit	$12,929	$12,690
Average Age	72.24	72.25
Police & Fire		
Number	4,525	4,315
Average Benefit	$28,600	$27,696
Average Age	65.16	65.32
Judges		
Number	227	215
Average Benefit	$38,261	$37,367
Average Age	74.07	74.50
System Total		
Number	84,142	80,527
Average Benefit	$13,840	$13,560
Average Age	71.86	71.89

Active Member Valuation Data	12/31/12	12/31/2011
KPERS		
Number	148,605	147,647
Average Current Age	45.51	45.58
Average Service	11.25	11.25
Average Pay	$40,522	$40,166
Police & Fire		
Number	7,187	7,141
Tier I	329	373
Tier II	6,858	6,770
Average Current Age	39.52	39.56
Average Service	11.68	11.66
Average Pay	$62,489	$61,907
Judges		
Number	261	264
Average Current Age	58.27	58.08
Average Service	12.26	12.57
Average Pay	$107,584	$109,387
System Total		
Number	156,053	155,054
Average Current Age	45.26	45.32
Average Service	11.27	11.27
Average Pay	$41,646	$41,285

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

EMPLOYER CONTRIBUTION RATES, INCLUDING DEATH AND DISABILTY CONTRIBUTION

Last ten fiscal years[1]

KPERS State/School

Fiscal Year	Actuarial Rate	Actual Rate
2004	7.05 %	4.58%[3]
2005	8.29	5.47
2006	9.94	6.07
2007	9.75	6.77
2008	11.37	7.37
2009	11.86	7.97[5]
2010	11.98	8.57[6]
2011	12.30	9.17[6]
2012	15.09	9.77[7]
2013	14.46	10.37[8]

KPERS Local

Fiscal Year	Actuarial Rate	Actual Rate
2004	4.64%	3.22%[3]
2005	6.04	4.01
2006	7.04	4.61
2007	8.69	5.31
2008	8.92	5.93
2009	9.12	6.54[5]
2010	9.52	7.14[6]
2011	11.42	7.74[6]
2012	10.44	8.34[7]
2013	10.43	8.94[8]

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]

Judges

Fiscal Year	Actuarial Rate	Actual Rate
2004	16.67%	16.67%[3]
2005	19.22	19.22
2006	22.37	22.37
2007	19.51	19.51
2008	22.78	22.78
2009	22.48	22.48[5]
2010	20.90	20.90[6]
2011	19.89	19.89[6]
2012	26.68	21.68[7]
2013	24.15	24.15[8]

KP&F Uniform Rate

Fiscal Year	Actuarial Rate	Actual Rate
2004	9.47%	9.47%
2005	11.69	11.69
2006	12.39	12.39
2007	13.32	13.32
2008	13.88	13.88
2009	13.51	13.51
2010	12.86	12.86
2011	17.88	14.57
2012	16.54	16.54
2013	17.26	17.26

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

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

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

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

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

6 Per 2010 legislation, employers were not required to remit the Group Life and Disability portion of Actual Rate from April 1, 2010 through June 30, 2010 and April 1, 2011 through June 30, 2011.

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

8 Per 2013 legislation, employers were not required to remit the Group Life and Disability portion of Actual Rate from April 1 2013, through June 30, 2013.

Actuary's Certification Letter — Death and Disability Plan

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May 9, 2013

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, 2012, for determining contributions beginning July 1, 2012. 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, 2012.

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

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

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

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

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by economic or demographic assumptions;

changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements.

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

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

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

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

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

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

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

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

MILLIMAN, Inc.

Sincerely,

Daniel D. Skwire, FSA
Consulting Actuary

Allan L Bittner, FSA
Consulting Actuary

Actuarial Overview – Death and Disability

This report contains the June 30, 2012, 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 two 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 6/30/2012[1]

	Actives	Disabled	Total[1]
PV of Total Projected Benefits	$318,982,099	$169,561,173	$488,543,272
PV of Future Normal Cost	219,946,549	—	219,946,549
Actuarial Liability	$99,035,550	$169,561,173	$268,596,723

1 Totals may not match due to rounding.

As of June 30, 2012, the KPERS Death and Disability Fund has an unfunded actuarial liability of $249,528,257. 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 2012-2013 is $40,871,331, representing 0.62% of estimated annual compensation.

HISTORICAL ANALYSIS

The historical analysis shows a decreasing pattern in LTD claims and LTD claim payments over the past six years. Waiver death benefits in 2010-2011 and 2011-2012 are consistent with historical patterns. These are 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 1/1/2006 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.

The total disabled life liability decreased from $171.6 million to $165.8 million from 6/30/2010 to 6/30/2011, and from $165.8 million to $162.0 million from 6/30/2011 to 6/30/2012, due primarily to a reduction in the number of open LTD claims.

Liability runoff tests performed on the illustrative liability balances for LTD and Waiver claims indicate that the 6/30/2011 balances were sufficient to fund the actual and projected future costs that emerged during the 2011-2012 fiscal year with respect to members disabled as of 6/30/2011.

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
2012-2013	$32.1	$49.6
2013-2014	$33.1	$51.1
2014-2015	$34.4	$52.7
2015-2016	$35.4	$54.2
2016-2017	$36.3	$55.9

This 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.

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, 2013. 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 6/30/2012[1]

	Actives	Disabled	Total
Disability Income	$240,664,328	$135,738,044	$376,402,372
Waiver of Premium	64,144,176	26,288,877	90,433,053
Administrative Expenses	14,173,595	7,534,252	21,707,847
Total	$318,982,099	$169,561,173	$488,543,272

1 Totals may not match due to rounding.

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

Actuarial Liability at 6/30/2012[1]

	Actives	Disabled	Total
Present Value of Total Projected Benefits	$318,982,099	$169,561,173	$488,543,272
Present Value of Future Normal Cost	219,946,549	- —	219,946,549
Actuarial Liability	$99,035,550	$169,561,173	$268,596,723

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, 2012 is shown in the following table:

Actuarial Present Value of Total Projected Benefits[1]	
Active Members	$318,982,099
Disabled Members	169,561,173
Total Actuarial Present Value of Total Projected Benefits	$488,543,272
Assets and Future Employer Contributions	
Assets[2]	$ 19,068,466
Unfunded Actuarial Liability	249,528,257
Present Value of Future Normal Costs	219,946,549
Total Assets and Future Employer Contributions	$488,543,272

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, 2013

A. Employer Normal Costs	
(1) Normal Cost as of June 30, 2012	$22,782,168
(2) Assumed interest (mid-year timing assumed)	506,958
(3) Normal Cost for FY2013 [(1) + (2)]	$23,289,126
B. Determination of Current Year Amortization Payment	
(1) Unfunded Actuarial Liability	$249,528,257
(2) Amortization Period	15 years
(3) Amortization Factor	14.5079
(4) Amortization Amount as of June 30, 2012 [(1) / (3)]	17,199,475
(5) Assumed interest (mid-year timing assumed)	382,730
(6) Amortization Amount for FY2013 [(4) + (5)]	$17,582,205
C. Determination of Annual Required Contribution	
(1) Normal Cost for benefits attributable to service in the current year (A.3)	$23,289,126
(2) Amortization of Unfunded Actuarial Liability (B.6)	17,582,205
(3) Annual Required Contribution (ARC) [(1) + (2)]	$40,871,331
D. Annual Required Contribution	
(1) Annual Required Contribution	$40,871,331
(2) Estimated Annual Compensation for FY2013	6,618,909,195
(3) ARC as a Percentage of Payroll	0.62%

Actuarial Assumptions - Death and Disability

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

Implicit Inflation Rate 3.25 percent

Mortality Rates

Post Retirement

	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%
31+	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 2012-2013, 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, 2012

Death Claims by Death Benefit Paid

	2010-2011		2011-2012	
Death Benefit Paid	Count	% of Claims	Count	% of Claims
$0-9,999	0	0%	1	1%
10,000-19,999	8	8%	6	6%
20,000-29,999	9	9%	5	5%
30,000-39,999	17	17%	26	25%
40,000-49,999	26	25%	24	23%
50,000-59,999	9	9%	19	18%
60,000-69,999	15	15%	9	9%
70,000-79,999	7	7%	7	7%
80,000-89,999	6	6%	1	1%
90,000-99,999	2	2%	1	1%
100,000+	4	4%	4	4%
$Total	103	100%	103	100%

Death Claims by Age at Death

	2010-2011		2011-2012	
Age at Death	Count	% of Claims	Count	% of Claims
20-29	0	0%	0	0%
30-39	1	1%	5	5%
40-49	11	11%	17	17%
50-59	47	46%	46	45%
60-64	36	35%	30	29%
65+	8	8%	5	5%
Total	103	100%	103	100%

Active LTD Claims by Age at Disability

	2010-2011		2011-2012	
Age at Disability	Count	% of Claims	Count	% of Claims
<20	1	0%	1	0%
20-29	88	3%	89	3%
30-39	485	17%	471	17%
40-49	1,079	38%	1,057	38%
50-59	1,036	37%	1,004	36%
60-64	127	4%	139	5%
65+	17	1%	20	1%
Total	2,833	100%	2,781	100%

Active LTD Claims by Attained Age

	2010-2011		2011-2012	
Attained Age	Count	% of Claims	Count	% of Claims
<20	0	0%	0	0%
20-29	9	0%	12	0%
30-39	90	3%	88	3%
40-49	480	17%	429	15%
50-59	1,434	51%	1,425	51%
60-64	762	27%	757	27%
65+	58	2%	70	3%
Total	2,833	100%	2,781	100%

Active LTD Claims by Net Benefit Amount

Net Monthly Benefit	2010-2011 Count	2010-2011 % of Claims	2011-2012 Count	2011-2012 % of Claims
$0-499	1218	43%	1207	43%
500-999	917	32%	915	33%
1,000-1,499	416	15%	388	14%
1,500-1,999	185	7%	174	6%
2,000-2,499	59	2%	60	2%
2,500-2,999	25	1%	24	1%
3,000-3,499	8	0%	10	0%
3,500-3,999	2	0%	2	0%
4,000-4,499	0	0%	1	0%
4,500-4,999	0	0%	0	0%
5,000+	3	0%	0	0%
$Total	2,833	100%	2,781	100%

New LTD Claims by Age at Disability

Age at Disability	2010-2011 Count	2010-2011 % of Claims	2011-2012 Count	2011-2012 % of Claims
<20	0	0%	0	0%
20-29	6	2%	8	3%
30-39	29	9%	15	5%
40-49	71	23%	64	21%
50-59	157	50%	161	53%
60-64	46	15%	50	16%
65+	4	1%	6	2%
Total	313	100%	304	100%

New LTD Claims by Attained Age

Attained Age	2010-2011 Count	2010-2011 % of Claims	2011-2012 Count	2011-2012 % of Claims
<20	0	0%	0	0%
20-29	4	1%	6	2%
30-39	25	8%	10	3%
40-49	63	20%	59	19%
50-59	157	50%	149	49%
60-64	55	18%	69	23%
65+	9	3%	11	4%
Total	313	100%	304	100%

New LTD Claims by Net Benefit Amount

	2010-2011		2011-2012	
Net Benefit	Count	% of Claims	Count	% of Claims
$0-499	121	39%	119	39%
500-999	77	25%	73	24%
1,000-1,499	53	17%	52	17%
1,500-1,999	34	11%	36	12%
2,000-2,499	16	5%	13	4%
2,500-2,999	9	3%	6	2%
3,000-3,499	3	1%	4	1%
3,500-3,999	0	0%	0	0%
4,000-4,499	0	0%	1	0%
4,500-4,999	0	0%	0	0%
5,000+	0	0%	0	0%
$Total	313	100%	304	100%

Terminated LTD Claims by Term Reason

	2010-2011		2011-2012	
Term Reason	Count	% of Claims	Count	% of Claims
Death	112	25%	146	31%
Recovery	57	13%	43	9%
Retirement	248	56%	250	53%
Expiry	25	6%	36	8%
Total	442	100%	475	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 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 normal cost 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.

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 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. 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.

Changes in the UAAL occur for various reasons. The net decrease in the UAAL from July 1, 2010 to July 1, 2012 was $21.5 million. The components of this net change are shown in the table below (in millions):

Unfunded Actuarial Accrued Liability, July 1, 2010	$271.0
• Impact of new claim experience different from expected	$ (25.8)
• Impact of terminated claim experience different from expected	$ (6.3)
• Impact of change in assumptions	$ 0.1
• Impact of new entrants (active)	$ 3.4
• Other liability experience and asset experience	$ 7.1
Unfunded Actuarial Accrued Liability, July 1, 2012	$249.5

SHORT TERM SOLVENCY TEST-DEATH AND DISABILITY PLAN

Last five fiscal years valued

	Disabled Employer Financed Portion (A)	Active Member Employer Financed Portion (B)	Actuarial Value of Assets	Portion of Accrued Liabilities Covered by Assets
06/30/06	$239,753,827	$114,396,152	$18,723,957	5.3%
06/30/07	237,913,406	117,815,215	25,567,653	7.2
06/30/08[1]	231,282,196	123,777,984	38,570,957	10.9
06/30/10	188,151,374	95,606,171	12,750,759	4.5
06/30/12	169,561,173	99,035,550	19,068,466	7.1

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

A short term solvency test, which is one means of determining a system's progress under its funding program, compares the plan's present assets with contributions on deposit, (A) the liability for future benefits to present disabled lives, and (B) the actuarial liability for service already rendered by active members. The Death and Disability Plan requires no member contributions, it is funded by employer contributions.

Statistical Section

FIDUCIARY

First and always.

Statistical Highlights of the System's Financial Trends

The Statistical Section presents several schedules that provide financial trend 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 123 provide revenues, expenses and funding status information for the past ten fiscal years for KPERS and Death and Disability (OPEB) plans. On page 121 a schedule is presented that allocates the total benefits and type of refunds that were paid. On pages 124 through 126 various schedules are presented to depict the level of monthly benefits by number of retirees, retirement type and options, and years of service. On pages 127 and 128, 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
2004	$230,349,955	$714,353,221[2]	$ —[1]	$182,113	$1,335,895,581	$330,336	$2,281,111,203
2005	233,226,034	261,961,687	31,990,734	178,105	1,222,707,749	388,372	1,750,452,681
2006	246,203,381	298,711,909	53,319,639	175,539	1,354,021,324	386,439	1,952,818,231
2007	256,995,275	339,509,022	59,308,991	228,986	2,161,413,409	668,063	2,818,123,746
2008	269,603,155	395,752,214	62,400,369	225,736	(650,071,204)	968,222	78,878,492
2009	278,619,872	449,235,653	36,334,585[3]	154,113	(2,592,555,321)	345,732	(1,827,865,369)
2010	289,616,027	492,005,566	29,549,494[4]	101,899	1,485,935,124	32,381	2,297,240,491
2011	294,314,002	525,726,734	48,911,197[4]	190,770	2,499,472,278	18,333	3,368,633,314
2012	298,105,053	568,015,364	49,620,870[5]	129,622	89,045,782	10,852	1,004,927,543
2013	306,631,621	617,925,370	48,891,432[6]	537,741	1,747,230,627	20,823	2,721,237,614

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

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

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

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

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

6 Per 2013 legislation, employers were not required to remit the Group Life and Disability Insurance portion of required employer contributions from April 1, 2013 through June 30, 2013.

BENEFITS BY TYPE

Last ten fiscal years

Fiscal Year	Monthly Retirement Benefits	Retirement Dividend	Death Benefits	Refund of Contributions Separations	Refund of Contributions Deaths	Insurance Premiums (KPERS)	Disability, Insurance Premiums (OPEB)
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	6,382,962	49,202,924
2008	940,870,530	4,834,127	8,388,935	43,197,593	5,275,097	6,824,361	49,893,770
2009	995,530,221	4,409,393	9,237,740	38,156,001	5,773,422	6,946,461	47,356,797
2010	1,056,190,915	4,014,903	8,959,388	37,214,954	6,147,736	7,035,185	43,746,954
2011	1,143,594,256	3,615,016	9,614,688	43,579,892	5,984,123	6,752,185	46,753,126
2012	1,234,350,781	3,209,118	9,414,234	49,665,542	6,231,284	6,128,984	49,040,446
2013	1,286,133,859	2,852,658	9,458,321	48,265,870	5,633,961	6,058,253	42,499,559

EXPENSES BY TYPE

Last ten fiscal years

Fiscal Year	Benefits	Refund of Contributions Separations	Refund of Contributions Death	Insurance Premiums (KPERS)	Administration (Retirement)	Disability Insurance Premium (OPEB)	Administration (OPEB)[1]	Total
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	6,382,962	8,552,925	49,202,924	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	9,261,260	46,753,126	363,357	1,269,517,903
2012	1,246,974,132	49,665,542	6,231,284	6,128,984	9,620,933	49,040,446	307,177	1,367,968,498
2013	1,298,444,838	48,265,870	5,633,961	6,058,253	10,426,813	42,499,559	431,084	1,411,760,378

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 POSITION

Last seven fiscal years[1]

	2013	2012	2011	2010	2009	2008	2007
Additions							
Contributions							
Member Contributions	$306,631,621	$298,105,053	$294,314,002	$289,616,027	$278,619,872	$269,603,155	$256,995,275
Employer Contributions	617,925,370	568,015,364	525,726,734	492,005,566	449,235,653	395,752,213	339,509,022
Total Contributions	924,556,991	866,120,417	820,040,736	781,621,593	727,855,525	665,355,368	596,504,297
Investments							
Net Appreciation in Fair Value of Investments	1,490,141,704	(132,729,256)	2,211,302,374	1,221,425,633	(2,824,249,931)	(1,012,601,549)	1,816,702,680
Interest	100,530,311	103,584,321	158,120,734	160,050,212	152,897,354	211,727,774	195,092,153
Dividends	153,201,135	110,902,858	123,098,602	105,808,081	91,464,527	137,983,566	136,434,906
Real Estate Income, Net of Operating Expenses	39,973,754	44,259,544	48,997,734	37,551,411	31,062,438	40,288,418	39,114,763
Other Investment Income	—	436,311	388,174	216,499	264,000	264,000	261,734
	1,783,846,904	126,453,778	2,541,907,618	1,525,051,836	(2,548,561,612)	(622,337,791)	2,187,606,236
Less Investment Expense	(42,584,786)	(42,225,663)	(47,586,288)	(43,748,173)	(23,376,342)	(31,029,901)	(30,249,368)
Net Investment Income	1,741,262,118	84,228,115	2,494,321,330	1,481,303,663	(2,571,937,954)	(653,367,692)	2,157,356,868
From Securities Lending Activities							
Securities Lending Income	4,827,054	4,353,102	5,431,118	5,372,538	(8,838,220)	95,645,344	125,998,402
Securities Lending Expenses							
Borrower Rebates	(2,450,894)	(1,769,773)	739,912	(48,804)	(10,469,638)	(89,471,546)	(120,938,041)
Management Fees	1,309,439	1,305,208	(1,020,082)	(692,273)	(1,309,509)	(2,870,760)	(1,003,820)
Total Securities Lending Activities Expense	1,141,455	464,565	(280,170)	(741,077)	(11,779,147)	(92,342,306)	(121,941,861)
Net Income from Security Lending Activities	5,968,509	4,817,667	5,150,948	4,631,461	(20,617,367)	3,303,038	4,056,541
Total Net Investment Income	1,747,230,627	89,045,782	2,499,472,278	1,485,935,124	(2,592,555,321)	(650,064,654)	2,161,413,409
Other Miscellaneous Income	534,268	127,708	174,430	74,088	110,178	136,955	132,874
Total Additions (Net Reductions) to Plan Net Position	2,672,321,886	955,293,907	3,319,687,444	2,267,630,805	(1,864,589,618)	15,427,669	2,758,050,580
Deductions							
Monthly Retirement Benefits	(1,288,986,517)	(1,237,559,898)	(1,147,209,272)	(1,060,205,818)	(999,939,614)	(945,704,657)	(868,179,029)
Refunds of Contributions	(53,899,831)	(55,896,826)	(49,564,015)	(43,362,690)	(43,929,423)	(48,472,690)	(46,129,211)
Death Benefits	(9,458,321)	(9,414,234)	(9,614,688)	(8,959,388)	(9,237,740)	(8,388,935)	(9,153,582)
Insurance Premiums and Disability Benefits	(6,058,253)	(6,128,984)	(6,752,185)	(7,035,185)	(6,946,461)	(6,824,361)	(6,382,962)
Administrative Expenses	(10,426,813)	(9,620,933)	(9,261,260)	(10,158,398)	(11,085,498)	(9,253,050)	(8,552,925)
Total Deductions to Plan Net Position	(1,368,829,735)	(1,318,620,875)	(1,222,401,420)	(1,129,721,480)	(1,071,138,736)	(1,018,643,693)	(938,397,709)
Change in Net Position	$1,303,492,151	$(363,326,968)	$2,097,286,025	$1,137,909,326	$(2,935,728,354)	$(1,003,216,024)	$1,819,652,871

1 Information available for current and prior six fiscal years.

CHANGES IN NET POSITION -DEATH AND DISABILITY PLAN

Last seven fiscal years[1]

	2013	2012	2011	2010	2009	2008	2007
Additions							
Contributions							
Employer Contributions	$48,891,432	$49,620,870	$48,911,197	$29,549,494	$36,334,585	$62,400,370	$59,308,991
Total Contributions	48,891,432	49,620,870	48,911,197	29,549,494	36,334,585	62,400,370	59,308,991
Investments							
Interest	20,823	10,852	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	20,823	10,852	18,219	32,381	345,732	961,672	(6,239)
Total Net Investment Income	20,823	10,852	18,219	32,381	345,732	961,672	(6,239)
Other Miscellaneous Income	3,473	1,914	16,340	27,811	43,935	88,781	96,112
Total Additions (Net Reductions) to Plan Net Position	48,915,728	49,633,636	48,945,756	29,609,686	36,724,252	63,450,823	59,398,864
Deductions							
Insurance Premiums and Disability Benefits (OPEB)	(42,499,559)	(49,040,446)	(46,753,126)	(43,746,954)	(47,356,797)	(49,893,770)	(49,202,924)
Administrative Expenses	(431,084)	(307,177)	(363,243)	(375,792)	(361,887)	(350,076)	(334,380)
Total Deductions to Plan Net Position	(42,930,643)	(49,347,623)	(47,116,369)	(44,122,746)	(47,718,684)	(50,243,846)	(49,537,304)
Change in Net Position	$5,985,085	$286,013	$1,829,387	$(14,513,060)	$(10,994,432)	$13,206,977	$9,861,560

1 Information available for current and prior six fiscal years.

BENEFIT AND REFUND DEDUCTIONS FROM NET POSITION BY TYPE

Last eight fiscal years[1]

Type of Benefit	2013	2012	2011	2010	2009	2008	2007	2006
Age and service benefits:								
Retirees	$1,228,537,001	$1,180,214,270	$1,092,518,456	$1,008,271,726	$950,746,107	$898,910,097	$823,994,836	$763,960,585
Survivors	60,449,516	57,345,628	54,690,816	51,934,092	49,193,507	46,794,560	44,184,193	42,018,147
Death in service benefits	9,458,321	9,414,234	9,614,688	8,959,388	9,237,740	8,388,935	9,153,582	8,810,923
Insurance Premiums	6,058,253	6,128,984	6,752,185	7,035,185	6,946,461	6,824,361	6,383,962	5,973,688
Insurance Premiums and Disabiltiy benefits (OPEB)	42,499,559	49,040,446	46,753,126	43,746,954	47,356,797	49,893,770	49,202,924	48,984,269
Total Benefits	$1,347,002,650	$1,302,143,562	$1,210,329,271	$1,119,947,345	$1,063,480,612	$1,010,811,723	$932,919,497	$869,747,612
Type of Refund								
Death	$5,633,961	$6,231,284	$5,984,123	$6,147,736	$5,773,422	$5,275,097	$5,496,510	$6,197,596
Separation	48,265,870	49,665,542	43,579,892	37,214,954	38,156,001	43,197,593	40,632,701	40,628,580
Total Refunds	$53,899,831	$55,896,826	$49,564,015	$43,362,690	$43,929,423	$48,472,690	$46,129,211	$46,826,176

1 Information available for current year and prior seven years.

HIGHLIGHT OF OPERATIONS — 10-YEAR SUMMARY

	2013	2012	2011	2010	2009
Membership Composition					
Number of Retirants	77,727	74,665	70,349	67,219	64,803
Number of Survivors [2]	6,591	6,360	6,149	5,945	5,764
New Retirants During the Fiscal Year	6,071	6,941	6,245	5,188	4,893
Active and Inactive Members [1]	202,022	200,732	202,150	204,155	197,822
Participating Employers	1,506	1,504	1,511	1,499	1,492
Financial Results (in millions)					
Member Contributions	$307	$298	$294	$290	$279
Employer Contributions [3]	667	618	575	522	486
Retirement / Death Benefits	1,298	1,247	1,157	1,069	1,009
Investment Income [4]	1,747	89	2,499	1,486	(2,592)
Employer Contribution Rate [5]					
KPERS--State / School	10.37%	9.77%	9.17%	8.57%	7.97%
KPERS--Local [6]	8.94	8.34	7.74	7.14	6.54
KP&F (Uniform Participating) [6]	17.26	16.54	14.57	12.86	13.51
Judges	24.15	21.68	19.89	20.90	22.08
TIAA	—	—	—	—	—
Unfunded Actuarial Liability (in millions)					
KPERS-State / School	$7,658	$6,920	$6,244	$5,805	$6,240
KPERS-Local	1,699	1,542	1,395	1,315	1,385
KP&F	866	739	598	530	619
Judges	29	27	27	26	36
TIAA [7]	—	—	—	—	—
Funding Ratios [8]					
KPERS-State / School	53.90%	56.80%	59.90%	61.60%	56.90%
KPERS-Local	59.50	61.20	63.20	63.70	59.00
KP&F	66.50	69.80	74.20	76.20	70.50
Judges	81.40	82.50	82.50	82.30	74.60
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 and from April 1, 2011 through June 30, 2011. Per 2012 legislation, employers were not required to remit the Group Life and Disability portion of the Actual Rate from April 1, 2012 through June 30, 2012. Per 2013 legislation, employers were not required to remit Group Life Insurance and Disability portion of the Actual Rate from April 1, 2013, through June 30, 2013.

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

	2008	2007	2006	2005	2004
Membership Composition					
Number of Retirants	61,489	60,166	57,954	61,125	59,124
Number of Survivors [2]	5,613	5,599	5,394	—	—
New Retirants During the Fiscal Year	4,780	4,423	4,452	4,141	3,612
Active and Inactive Members [1]	195,187	192,307	190,305	189,020	189,460
Participating Employers	1,482	1,474	1,474	1,461	1,454
Financial Results (in millions)					
Member Contributions	$270	$257	$246	$233	$230
Employer Contributions [3]	458	399	352	294	714
Retirement / Death Benefits	954	877	815	745	686
Investment Income [4]	(649)	2,162	1,354	1,223	1,336
Employer Contribution Rate [5]					
KPERS--State / School	7.37%	6.77%	6.07%	5.47%	4.58%
KPERS--Local [6]	5.93	5.31	4.61	4.01	3.22
KP&F (Uniform Participating) [6]	13.88	13.32	12.39	11.69	9.47
Judges	22.38	19.11	21.97	19.22	16.67
TIAA	—	—	—	0.60	—
Unfunded Actuarial Liability (in millions)					
KPERS--State / School	$4,312	$4,135	$3,926	$3,584	$2,734
KPERS--Local	941	893	869	824	588
KP&F	284	322	341	313	249
Judges	15	15	17	22	15
TIAA [7]	—	—	—	—	—
Funding Ratios [8]					
KPERS--State / School	68.60%	67.50%	67.21%	68.60%	74.07%
KPERS--Local	70.10	68.80	67.38	67.30	73.69
KP&F	85.50	82.40	80.46	81.10	84.04
Judges	88.70	87.40	85.02	80.10	84.92
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 and from April 1, 2011 through June 30, 2011. Per 2012 legislation, employers were not required to remit the Group Life and Disability portion of the Actual Rate from April 1, 2012 through June 30, 2012. Per 2013 legislation, employers were not required to remit Group Life Insurance and Disability portion of the Actual Rate from April 1, 2013, through June 30, 2013.

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.

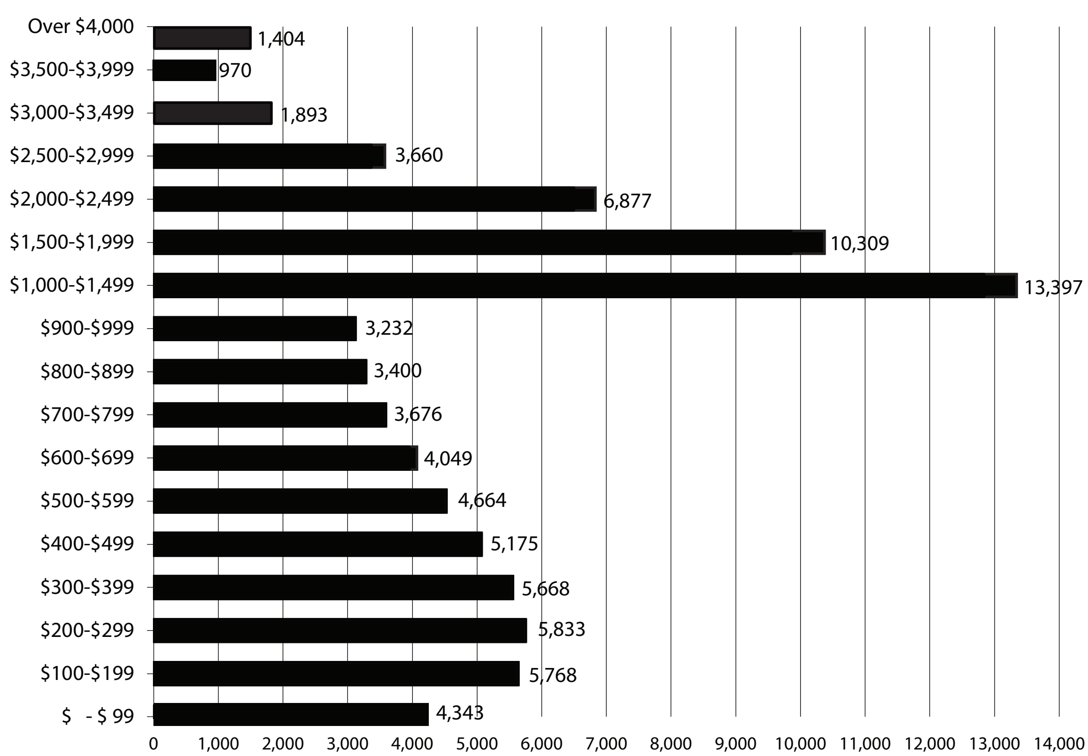
NUMBER OF RETIRED MEMBERS AND SURVIVORS BY TYPE OF BENEFIT

As of December 31, 2012

Monthly Benefit	Number of Retirees	Normal Retirement	Early Retirement	Service-Connected Death or Disability	Nonservice-Connected Death or Disability
$ - 99	4,343	3,966	369	4	4
$100-199	5,768	3,842	1,881	36	9
$200-299	5,833	3,422	2,372	35	4
$300-399	5,668	3,343	2,275	34	16
$400-499	5,175	3,114	2,002	45	14
$500-599	4,664	2,936	1,685	30	13
$600-699	4,049	2,647	1,361	26	15
$700-799	3,676	2,454	1,179	35	8
$800-899	3,400	2,395	948	49	8
$900-999	3,232	2,434	744	38	16
$1,000-1,499	13,397	11,372	1,750	200	75
$1,500-1,999	10,309	9,687	403	126	93
$2,000-2,499	6,877	6,657	120	50	50
$2,500-2,999	3,660	3,549	53	20	38
$3,000-3,499	1,893	1,827	35	16	15
$3,500-3,999	970	947	9	11	3
$4,000 or More	1,404	1,371	27	5	1
Totals	84,318	65,963	17,213	760	382

NUMBER OF RETIRED MEMBERS AND SURVIVORS BY MONTHLY BENEFIT AMOUNT

As of December 31, 2012



NUMBER OF RETIRED MEMBERS AND SURVIVORS BY TYPE OF PAYMENT OPTION

As of December 31, 2012

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	3,432	266	439	53	36	4	33	80
$100-199	4,103	583	709	110	106	29	28	100
$200-299	4,132	625	752	85	132	14	30	63
$300-399	3,899	627	761	80	157	39	26	79
$400-499	3,598	581	672	85	136	40	16	47
$500-599	3,215	540	613	49	143	30	22	52
$600-699	2,770	447	549	59	134	35	16	39
$700-799	2,470	464	477	46	135	33	16	35
$800-899	2,206	490	450	42	135	39	10	28
$900-999	2,082	501	417	37	135	32	10	18
$1,000-1,499	8,302	2,133	1,740	148	767	178	40	89
$1,500-1,999	6,538	1,733	1,134	62	648	120	26	48
$2,000-2,499	4,469	1,197	651	50	414	58	21	17
$2,500-2,999	2,330	664	336	30	257	26	8	9
$3,000-3,499	1,188	351	185	13	136	12	3	5
$3,500-3,999	578	178	112	6	84	8	1	3
$4,000 or More	707	346	199	8	140	—	1	3
Totals	56,019	11,726	10,196	963	3,695	697	307	715

AVERAGE BENEFIT BY YEARS OF SERVICE - FIVE YEAR SUMMARY

New retirees by calendar year

Service Credit		2008	2009	2010	2011	2012
Less Than 5	Retired Members	203	262	263	305	259
	Average FAS[1]	$24,286.91	$21,194.51	$23,919.51	$24,025.35	$27,378.64
	Average Benefit	$130.90	$110.58	$93.25	$104.10	$138.07
	Average Years	2.67	2.56	2.65	2.82	2.80
5-9.99	Retired Members	341	347	435	460	459
	Average FAS[1]	$27,224.87	$27,718.33	$28,869.68	$30,982.85	$32,228.24
	Average Benefit	$277.67	$300.13	$292.23	$312.36	$325.52
	Average Years	7.73	7.66	7.75	7.76	7.61
10-14.99	Retired Members	736	713	877	1,036	975
	Average FAS[1]	$32,265.54	$32,669.13	$33,333.42	$35,236.86	$33,774.49
	Average Benefit	$471.14	$484.31	$478.88	$507.92	$484.07
	Average Years	12.19	12.18	12.14	12.23	12.22
15-19.99	Retired Members	765	706	822	972	770
	Average FAS[1]	$37,387.87	$37,154.28	$39,884.61	$39,410.16	$39,659.90
	Average Benefit	$783.99	$800.55	$830.36	$837.31	$860.25
	Average Years	17.40	17.39	17.30	17.30	17.38
20-24.99	Retired Members	730	685	819	988	911
	Average FAS[1]	$41,860.17	$43,734.53	$44,677.45	$45,174.03	$45,799.95
	Average Benefit	$1,154.33	$1,284.91	$1,238.44	$1,236.79	$1,308.97
	Average Years	22.34	22.45	22.23	22.37	22.42
25-29.99	Retired Members	754	763	852	1,026	870
	Average FAS[1]	$49,038.10	$48,788.05	$50,662.87	$52,267.39	$53,691.38
	Average Benefit	$1,738.41	$1,726.15	$1,775.08	$1,839.53	$1,944.89
	Average Years	27.47	27.42	27.35	27.30	27.25
30-34.99	Retired Members	751	771	926	1,056	799
	Average FAS[1]	$54,546.48	$55,828.21	$57,899.34	$57,115.11	$57,857.40
	Average Benefit	$2,227.64	$2,337.01	$2,418.71	$2,373.81	$2,475.40
	Average Years	32.06	31.94	32.03	32.14	32.10
35-39.99	Retired Members	270	316	401	468	311
	Average FAS[1]	$56,508.71	$60,485.97	$60,225.79	$58,272.80	$61,819.37
	Average Benefit	$2,541.95	$2,763.31	$2,710.63	$2,650.18	$2,915.96
	Average Years	37.03	37.06	36.92	37.07	36.95
40-44.99	Retired Members	67	63	143	144	108
	Average FAS[1]	$53,281.02	$58,960.07	$61,221.12	$59,078.25	$65,700.90
	Average Benefit	$2,862.03	$3,235.13	$2,964.44	$3,080.72	$3,230.99
	Average Years	41.84	41.63	41.72	41.78	41.52
45-49.99	Retired Members	6	7	8	15	11
	Average FAS[1]	$42,007.13	$53,159.68	$59,155.97	$59,128.20	$56,584.64
	Average Benefit	$2,464.83	$2,647.02	$2,926.19	$2,936.16	$2,842.29
	Average Years	48.17	45.82	46.31	46.47	47.34
50 and Over	Retired Members	2	9	4	3	1
	Average FAS[1]	$37,202.08	$47,291.16	$71,532.67	$82,670.19	$79,425.94
	Average Benefit	$3,535.44	$2,662.89	$4,209.75	$4,305.29	$4,676.20
	Average Years	56.50	54.06	56.06	52.08	50.25
Total Number	Retired Members	4,625	4,642	5,550	6,473	5,474
	Average FAS[1]	$41,992.17	$42,772.08	$44,667.14	$45,091.55	$45,129.48
	Average Benefit	$1,252.78	$1,327.48	$1,364.27	$1,370.68	$1,365.30
	Average Years	21.57	21.62	21.89	21.97	21.16

[1]Average Final Average Salary

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

PRINCIPAL PARTICIPATING EMPLOYERS

Last eight fiscals years[1]

Participating Government	2013 Covered Employees	2013 Rank	2013 % of Total System	2012 Covered Employees	2012 Rank	2012 % of Total System
State of Kansas	25,293	1	16%	25,382	1	16%
USD 259, Wichita	6,709	2	4%	6,542	2	4%
USD 233, Olathe	4,274	3	3%	4,185	3	3%
USD 512, Shawnee Mission	3,678	4	2%	3,705	4	2%
USD 500, Kansas City	3,287	5	2%	3,191	5	2%
USD 229, Blue Valley	3,088	6	2%	3,014	7	2%
Johnson County	3,065	7	2%	3,098	6	2%
Sedgwick County	2,549	8	2%	2,605	9	2%
USD 501, Topeka Public Schools	2,339	9	1%	2,336	8	2%
USD 497, Lawrence	1,697	10	1%	1,627	10	1%
All Other[2]	100,074		65%	99,369		64%
Total (1,504 employers)	156,053		100%	155,054		100%

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

1 Information available for current and prior seven fiscal years. State of Kansas includes the Board of Regents

2 In 2013, "All Other" consisted of:

Type	Number	Covered Employees
School districts	272	48,839
Cities and Counties	541	27,089
Post-Secondary Education[3]	48	11,551
Other	633	12,595
	1,494	100,074

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

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

PRINCIPAL PARTICIPATING EMPLOYERS

Last eight fiscals years[1]

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

	2007			2006		
Participating Government	Covered Employees	Rank	% of Total System	Covered Employees	Rank	% of Total System
State of Kansas	25,069	1	17%	25,134	1	17%
USD 259, Wichita	6,590	2	4%	6,546	2	4%
USD 233, Olathe	4,277	3	3%	4,155	3	3%
USD 512, Shawnee Mission	4,007	4	3%	3,968	4	3%
USD 500, Kansas City	3,334	5	2%	3,436	5	2%
USD 229, Blue Valley	2,809	7	2%	2,770	7	2%
Johnson County	3,002	6	2%	3,229	6	2%
Sedgwick County	2,309	9	2%	2,434	9	2%
USD 501, Topeka Public Schools	2,469	8	2%	2,544	8	2%
USD 497, Lawrence	1,692	10	1%	1,736	10	1%
All Other[2]	95,891		63%	93,121		62%
Total (1,504 employers)	151,449		100%	149,073		100%

1 Information available for current and prior seven fiscal years. State of Kansas includes the Board of Regents

2 In 2013, "All Other" consisted of:

Type	Number	Covered Employees
School districts	272	48,839
Cities and Counties	541	27,089
Post-Secondary Education[3]	48	11,551
Other	633	12,595
	1,494	100,074

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

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

PRINCIPAL PARTICIPATING EMPLOYERS-DEATH AND DISABILITY PLAN

Last seven fiscal years[1]

Participating Government	2013 Covered Employees	2013 Rank	2013 % of Total System	2012 Covered Employees	2012 Rank	2012 % of Total System	2011 Covered Employees	2011 Rank	2011 % of Total System
State of Kansas	29,553	1	19%	32,085	1	21%	37,904	1	24%
USD 259, Wichita	6,709	2	4%	6,542	2	4%	6,749	2	4%
USD 233, Olathe	4,274	3	3%	4,185	3	3%	4,082	3	3%
USD 512, Shawnee Mission	3,678	4	2%	3,705	4	2%	3,837	4	2%
USD 500, Kansas City	3,287	5	2%	3,191	5	2%	3,165	5	2%
USD 229, Blue Valley	3,088	6	2%	3,014	6	2%	2,977	6	2%
Johnson County	2,447	7	2%	2,488	7	2%	2,633	7	2%
USD 501, Topeka Public Schools	2,339	8	2%	2,336	8	2%	2,341	8	1%
Sedgwick County	2,030	9	1%	2,082	9	1%	2,256	9	1%
USD 497, Lawrence	1,697	10	1%	1,627	10	1%	1,595	10	1%
All Other[2]	93,590		62%	94,058		61%	90,319		57%
Total (1,409 employers)	152,692		100%	155,313		100%	157,858		100%

Participating Government	2010 Covered Employees	2010 Rank	2010 % of Total System	2009 Covered Employees	2009 Rank	2009 % of Total System	2008 Covered Employees	2008 Rank	2008 % of Total System
State of Kansas	37,756	1	23%	38,230	1	23%	40,431	1	25%
USD 259, Wichita	6,861	2	4%	6,850	2	4%	6,748	2	4%
USD 233, Olathe	4,339	3	3%	4,625	3	3%	4,307	3	3%
USD 512, Shawnee Mission	4,005	4	2%	4,167	4	3%	4,128	4	3%
USD 500, Kansas City	3,178	5	2%	3,324	5	2%	3,337	5	2%
USD 229, Blue Valley	2,957	6	2%	2,983	7	2%	2,930	7	2%
Johnson County	2,706	7	2%	2,476	6	2%	3,137	6	2%
USD 501, Topeka Public Schools	2,466	8	1%	2,529	8	2%	2,548	8	2%
Sedgwick County	2,298	9	1%	1,847	9	1%	2,313	9	1%
USD 497, Lawrence	1,715	10	1%	1,766	10	1%	1,712	10	1%
All Other 2	97,393		59%	94,685		58%	92,321		56%
Total (1,409 employers)	165,674		100%	163,482		100%	163,912		100%

Participating Employer	2007 Covered Employees	2007 Rank	2007 % of Total System
State of Kansas	37,871	1	24%
USD 259, Wichita	6,590	2	4%
USD 233, Olathe	4,277	3	3%
USD 512, Shawnee Mission	4,007	4	3%
USD 500, Kansas City	3,334	5	2%
USD 229, Blue Valley	2,809	7	2%
Johnson County	3,002	6	2%
USD 501, Topeka Public Schools	2,469	8	2%
Sedgwick County	2,309	9	1%
USD 497, Lawrence	1,692	10	1%
All Other 2	90,826		57%
Total (1,409 employers)	159,186		100%

1 Information available for current and prior six fiscal years. State of Kansas includes the Board of Regents.

2 In 2013, "All Other" consisted of:

Type	Number	Covered Employees
School districts	272	48,839
Cities and Counties	476	20,605
Post-Secondary Education[3]	48	11,551
Other	613	12,595
	1,408	93,590

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

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

THE FIDUCIARY STANDARD IS OUR DRIVING FORCE.

That means we put the interest of our members first.

It is the highest standard of care and accountability.

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

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

KPERS