

# Comprehensive Annual Financial Report

## FISCAL YEAR ENDED JUNE 30, 2009



### **Kentucky Retirement Systems**

A component unit of the Commonwealth of Kentucky

Kentucky Employees Retirement System (KERS)  
County Employees Retirement System (CERS)  
State Police Retirement System (SPRS)

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# Dear Board of Trustees & Membership

November 19, 2009  
Perimeter Park West  
1260 Louisville Road  
Frankfort, Kentucky

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the Kentucky Employees Retirement System (KERS), County Employees Retirement System (CERS) and State Police Retirement System (SPRS) for the fiscal year ended June 30, 2009. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the management of the Kentucky Retirement Systems. We present this information to assist the Board and members of Kentucky Employees Retirement System, County Employees Retirement System, and State Police Retirement System (collectively referred to as KRS) in understanding KRS' financial and actuarial status. This CAFR conforms to the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board. KRS' financial transactions are reported on the accrual basis of accounting. Additionally, internal accounting controls provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules. Please refer to Management's Discussion and Analysis in the Financial Section.

## Major Initiatives

An ongoing priority for KRS is to raise awareness of the continued reductions to the KERS and SPRS employer contribution rates in the biennial budget process. These rates have been less than the amount recommended by the KRS Board of Trustees and its consulting actuary for 11 of the last 17 years. Through educational initiatives with our membership and with policymakers, KRS received an increase in the employer contribution rate for fiscals 2009 and 2010.

Additionally, in June 2008 the General Assembly passed major pension reform legislation during the 2008 Extraordinary Session. The legislation reduced benefits for all employees hired after September 1, 2008 and established a schedule to increase employer funding until they attain the full actuarial contribution rate by 2020 for the SPRS and 2025 for KERS Non-Hazardous systems. While the combination of reduced benefits and increased funding will have a positive impact over time, funding levels will continue to drop for many years. This is due to the impact of the economic recession and the rate of increase in the number of participants receiving benefit payments. It is critical that all employers honor the funding schedules set forth in the pension reform legislation. Without that commitment, it will be extremely difficult to maintain viable funding for the various trusts managed.

In 2009, KRS received approval from the Centers for Medicare and Medicaid Services (CMS) to pursue a direct contract with CMS utilizing the Employer Group Waiver program (EGWP). The EGWP utilizes Medication Therapy Management programs that identify members with high drug spend and chronic diseases and provides education and counseling by pharmacists that will improve long term management. The EGWP also allows KRS to improve benefit coverage for retirees, increase drug subsidy dollars to approximately \$20 million and reduce Other Post Employment Benefit (OPEB) liabilities. Combined with utilization rates that are lower than projected over the last three years, the EGWP has reduced the OPEB unfunded liability by over \$1.7 billion for the fiscal year ending June 30, 2009.

KRS has made major progress in implementing a technology upgrade that will enhance the quality and efficiency of services to our retirees. The START (Strategic Technology Advancements for the Retirement of Tomorrow) program is changing the way that KRS conducts business by replacing the technology tools that have been in use for almost thirty years. KRS is on schedule to complete implementation of the project during the second quarter of 2010-2011. Constituents can keep current via the KRS newsletter and on our website at <http://kyret.ky.gov>.

## Investments

In September and October 2008, the national economy experienced a rapid decline in financial markets and a recession that has not been experienced since the stock market crash of 1929. Accelerated by the collapse of Lehman Brothers and numerous other financial institutions, the recession resulted in financial losses for all major institutional

investors. However, because of the positioning of its portfolio, KRS performed in the top quartile of all pension funds nationwide, experiencing a loss of 17.21% of the market value of its portfolio, while other major funds declined by 25-30%. As markets have improved in the third and fourth quarters of the fiscal year just ended, KRS is rebalancing its portfolios to take advantage of market opportunities in several economic sectors. The Board has made strategic decisions over the last half of the fiscal year to diversify the portfolio to improve returns while reducing risk. Toward this end, the Board approved a new allocation to absolute return strategies and global fixed income investments, and approved a strategy to allocate up to 5% of the System's assets to investments that are uniquely positioned to take advantage of dislocated markets.

The Board also made strategic decisions in revising securities litigation policies, hiring a securities litigation consultant and retaining the services of a new general consultant for investment matters. As financial markets continue to be uncertain, KRS staff and the Board of Trustees continue to seek ways to protect assets while maximizing growth potential.

## Actuarial Funding

KRS administers both a pension and an insurance fund for each of the systems it manages to provide monthly retirement and insurance benefits for retirees. Employee contributions are defined in statute, with non-hazardous employees contributing 5% of their salary toward their pension benefits. Hazardous employees contribute 8%, and all employees hired on or after September 1, 2008, contribute an additional, non-refundable 1% of their salary toward their retiree health insurance benefits. The total employer contribution rate is comprised of a contribution to both the pension and insurance funds. Employer contributions for pension benefits include calculations for the normal cost of benefits plus an amortized payment on the unfunded liability of the system. Insurance payments are calculated in much the same manner, with both a normal cost and an unfunded liability component. Employer contribution rates are calculated annually by the Board's actuary and then approved by the Board of Trustees.

In recent years, funding levels for pension funds have fallen dramatically in response to investment returns less than the actuarially assumed rate, higher than anticipated retirement rates, increasing expenditures for an unfunded Retiree Cost of Living Adjustment, and, in the case of the KERS nonhazardous and SPRS plans, shortfalls in the

### Our History

KERS was created in 1956 by the Kentucky General Assembly in order to supplement the benefits provided by Social Security.

SPRS and CERS were established in 1958. When the first actuarial valuation of KERS was completed as of June 30, 1957, there were 16,000 employees participating in KERS and the plan had assets of \$2.8 million. The first actuarial valuation of SPRS was conducted June 30, 1959. No actuarial valuation of CERS was conducted until June 30, 1960 because the statutes did not authorize retirements from the system prior to July 1, 1960.

As of June 30, 2009, there were more than 332,000 active, inactive and retired members in the combined systems and approximately \$11.8 billion in assets.

employer contribution rate. For KERS and SPRS, employer contributions are set by the General Assembly in the biennial budget process. For a number of years, approved employer contribution rates have been well below the actuarially recommended rate, limiting the ability of KRS to correct declining funding levels. The funding levels of all systems as of June 30, 2009 are listed on pages 4 and 5 of the Actuarial Section.

## Professional Services

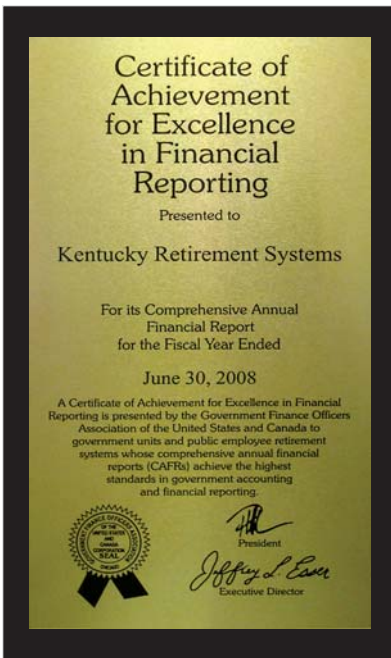
Similar to other defined benefit plans, KRS engages a number of professional consultants to assist the trustees and staff in key business areas. These areas include complex tax and securities legal questions, accounting, auditing, and specialized investment strategies. A listing of the Board's contract consultants can be found in the organizational chart on page 9. A listing of the external investment managers can be found in the Investment Section.

## Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Kentucky Retirement Systems for its Consolidated Annual Financial Report for the fiscal year ended June 30, 2008. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports. This was the eleventh consecutive year that KRS has achieved this award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of 1 year. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

## Other Information

Kentucky Statutes require an annual audit by an independent certified public accountant or the Auditor of Public Accounts. Dean, Dorton & Ford, PSC, Certified Public Accountants, performed the audit for the fiscal year ended June 30, 2009, and the results of that audit are



### Certificate of Achievement for Excellence in Financial Reporting

KRS was awarded the Government Finance Officers Association's Certificate of Achievement, our eleventh consecutive year.

contained in the Financial Section. The firm gave KRS an unqualified opinion and also indicated that the financial statements present fairly, in all material respects, the plan net assets of KRS. This report reflects the combined efforts of the KRS administrative staff under the leadership of the Board of Trustees. We believe it provides complete and reliable information as a basis for making management decisions, as a means of determining compliance with statutory provisions, and as a means of determining responsible stewardship of KRS funds. The report is available to all employers participating in the Kentucky Retirement Systems. They form the link between KRS and its membership, and their cooperation contributes significantly to the success of the Kentucky Retirement Systems. We hope the employers and their employees find this report informative. On behalf of the Board of Trustees, I would like to take this opportunity to express my gratitude to the staff, the advisors and the many people who have worked so diligently to assure the successful operation of KRS.



Respectfully,

A handwritten signature in black ink that reads 'Robert M. Burnside'.

Robert M. Burnside  
Executive Director  
Kentucky Retirement Systems

# Board of Trustees



The Kentucky Retirement Systems (KRS) Board of Trustees is comprised of 9 members.

Two elected by KERS members, two elected by CERS members, one elected by SPRS members, three appointed by Governor Steve Beshear and Secretary of the State Personnel Cabinet.



**Jennifer Elliott**  
Governor Appointment



**Bobby D. Henson**  
Elected by KERS



**Nikki R. Jackson**  
Personnel Secretary



**Vince Lang**  
Elected by CERS



**Randy Overstreet**  
Elected by SPRS



**W. Lewis Reynolds III**  
Governor Appointment



**Christopher Tobe**  
Governor Appointment



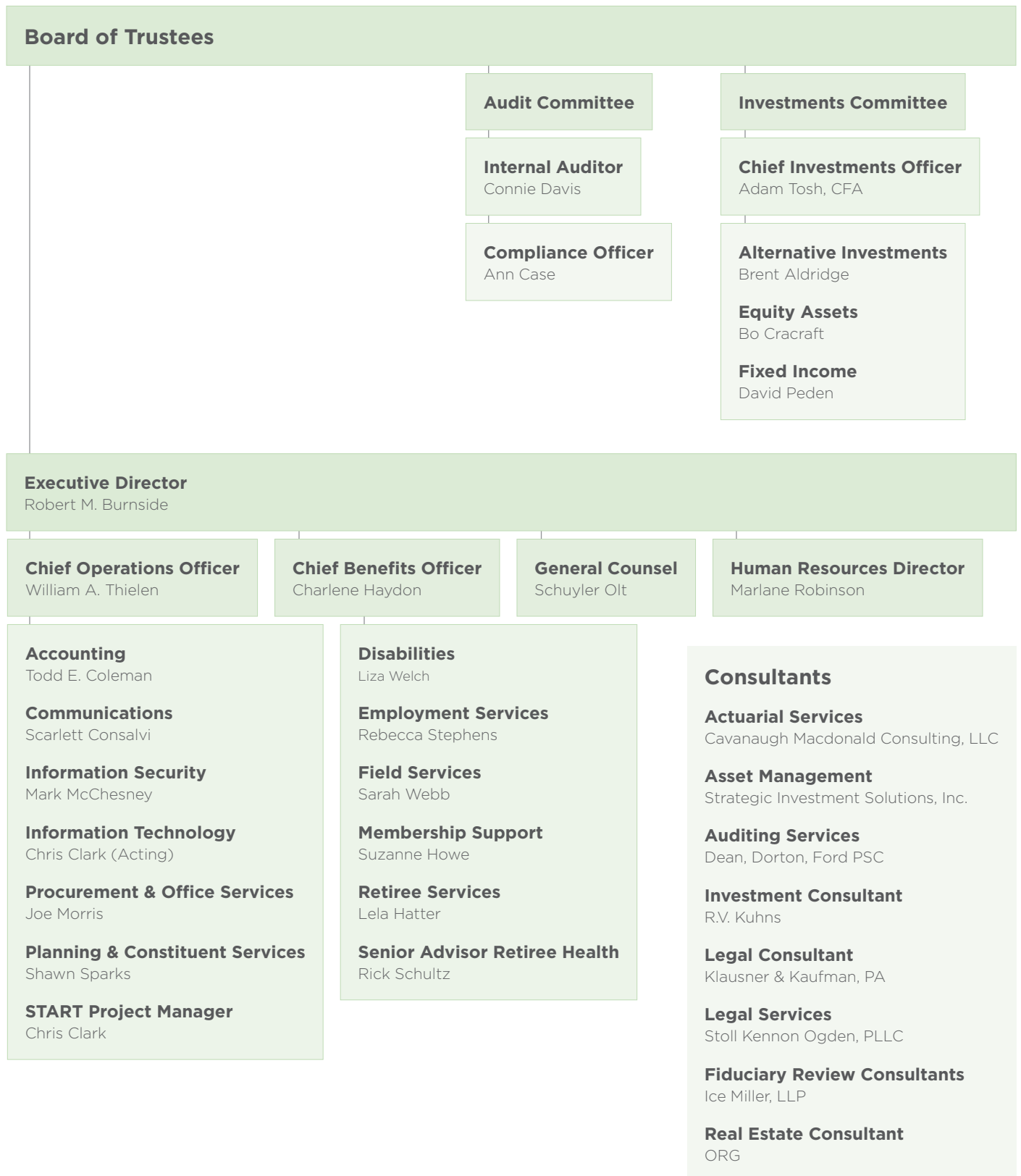
**Robert Wilcher**  
Elected by CERS



**Vacant Position**  
Elected by KERS

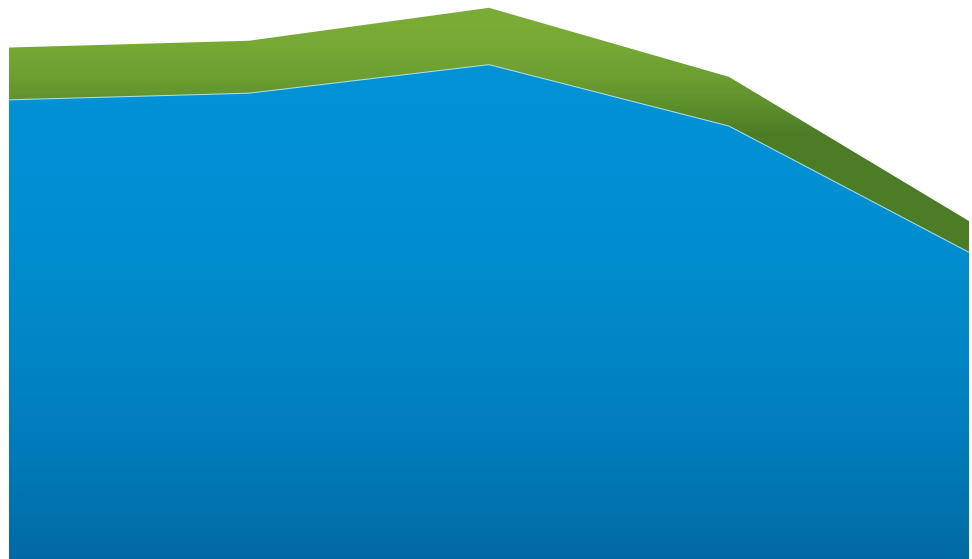


# Agency Structure



# KERS Non-Hazardous

Kentucky Employees Retirement System was established July 1, 1956 by the state legislature.



## Net Assets Expressed in Thousands (\$)

Fund	2005	2006	2007	2008	2009
Pension	\$5,362,631	\$5,440,133	\$5,773,157	\$5,056,869	\$3,584,601
Insurance	610,901	612,585	663,558	574,479	365,367
					<b>\$3,949,968</b>

## Funding Level (% Pension)

44.98



## Funding Level (% Insurance)

11.85



## Membership Totals

**37,883**

Retired

**46,060**

Active

**34,515**

Inactive

## Additions & Deductions in Millions (\$)

Additions	2005	2006	2007	2008	2009
Income & Assets	\$740.00	\$791.80	\$1,154.90	\$37.00	(\$706.50)
Deductions					
Benefits, Refunds & Expenses	\$613.10	\$712.60	\$770.90	\$842.30	\$974.88

Expanded data on pages 27-33 of the Financial Section.



**Net Assets Expressed in Thousands (\$)**

Fund	2005	2006	2007	2008	2009
Pension	\$398,308	\$437,030	\$510,775	\$484,438	\$388,951
Insurance	188,871	223,523	280,886	269,300	219,500
					<b>\$608,451</b>

**Membership Totals**

**2,648**  
Retired

**4,334**  
Active

**3,056**  
Inactive

**Additions & Deductions in Millions (\$)**

Additions	2005	2006	2007	2008	2009
Income & Assets	\$86.20	\$105.69	\$168.70	\$30.00	(\$95.29)
Deductions					
Benefits, Refunds & Expenses	\$27.70	\$32.30	\$37.80	\$42.20	\$39.55

*Expanded data on pages 27-33 of the Financial Section.*

**KERS  
Hazardous**

Kentucky Employees Retirement System was established July 1, 1956 by the state legislature.

**Funding Level (% Pension)**

74.51



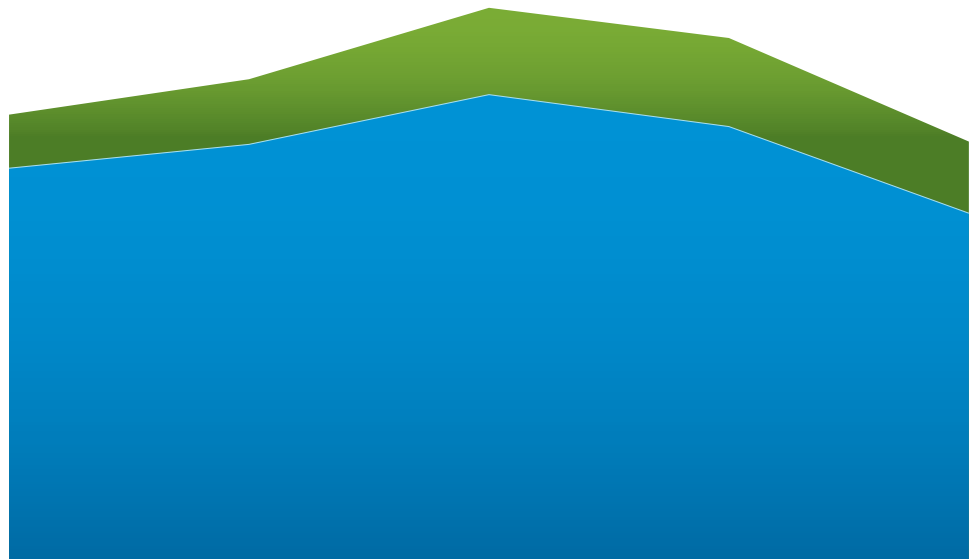
**Funding Level (% Insurance)**

61.42



# CERS Non-Hazardous

County Employees Retirement System was established July 1, 1958 by the state legislature.



## Net Assets Expressed in Thousands (\$)

Fund	2005	2006	2007	2008	2009
Pension	\$4,893,600	\$5,191,377	\$5,812,936	\$5,413,735	\$4,331,010
Insurance	668,485	813,251	1,084,043	1,105,945	894,490
					<b>\$5,225,500</b>

## Funding Level (% Pension)

71.41

## Membership Totals

**39,756**

Retired

**83,724**

Active

**60,275**

Inactive

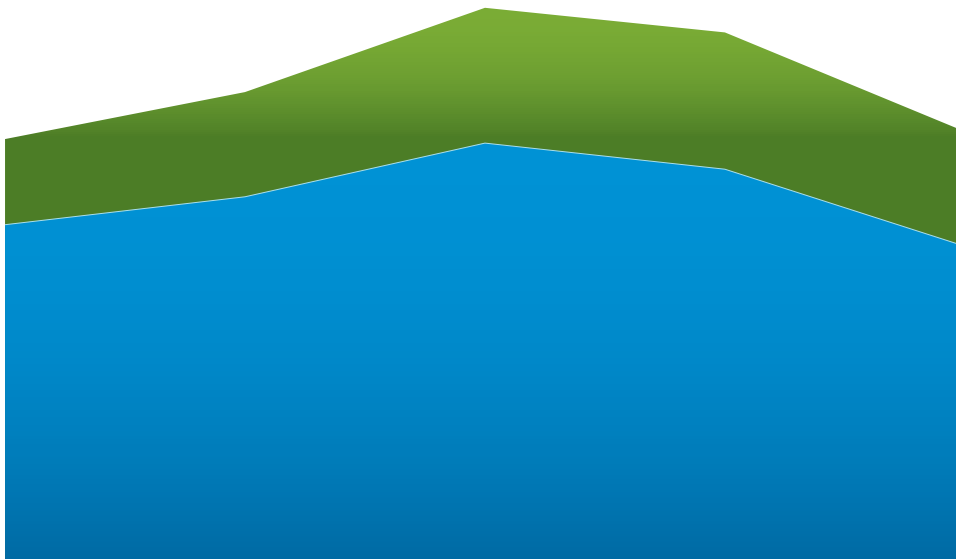
## Funding Level (% Insurance)

39.62

## Additions & Deductions in Millions (\$)

Additions	2005	2006	2007	2008	2009
Income & Assets	\$759.20	\$866.30	\$1,366.50	\$265.10	(\$723.28)
Deductions					
Benefits, Refunds & Expenses	\$374.30	\$424.00	\$468.40	\$528.60	\$588.90

Expanded data on pages 27-33 of the Financial Section.



**Net Assets Expressed in Thousands (\$)**

Fund	2005	2006	2007	2008	2009
Pension	\$1,411,246	\$1,528,845	1,754,935	\$1,644,982	\$1,320,560
Insurance	360,940	441,279	570,156	576,414	483,233
					<b>\$1,803,793</b>

**Membership Totals**

**5,808**  
Retired

**9,757**  
Active

**2,522**  
Inactive

**Additions & Deductions in Millions (\$)**

Additions	2005	2006	2007	2008	2009
Income & Assets	\$283.70	\$333.10	\$506.30	\$109.80	(\$233.70)
<b>Deductions</b>					
Benefits, Refunds & Expenses	\$115.30	\$134.20	\$151.20	\$164.90	\$183.91

*Expanded data on pages 27-33 of the Financial Section.*

**CERS  
Hazardous**

County Employees Retirement System was established July 1, 1958 by the state legislature.

**Funding Level (% Pension)**

67.93

**Funding Level (% Insurance)**

40.86

# SPRS Hazardous

State Police Retirement System was established July 1, 1960 by the state legislature.



## Net Assets Expressed in Thousands (\$)

Fund	2005	2006	2007	2008	2009
Pension	\$339,406	\$352,841	376,381	\$337,359	\$256,575
Insurance	99,408	110,491	132,574	121,782	93,682
					<b>\$350,257</b>

## Funding Level (% Pension)

54.78

## Membership Totals

**1,184**  
Retired

**946**  
Active

**332**  
Inactive

## Funding Level (% Insurance)

33.93

## Additions & Deductions in Millions (\$)

Additions	2005	2006	2007	2008	2009
Income & Assets	\$52.10	\$67.30	\$89.60	\$8.00	(\$58.55)
Deductions					
Benefits, Refunds & Expenses	\$39.40	\$42.80	\$43.95	\$46.48	\$50.34

Expanded data on pages 27-33 of the Financial Section.



# Financial

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# Management's Responsibility for Financial Reporting

November 19, 2009

Management has prepared the basic financial statements of Kentucky Retirement Systems (KRS) and is responsible for the integrity and fairness of the information presented. Some amounts included in the financial statements may be based on estimates and judgments. These estimates and judgments were made utilizing the best business practices available. The accounting policies followed in the preparation of these basic financial statements conform with US Generally Accepted Accounting Principles. Financial information presented throughout the annual report is consistent with the basic financial statements.

Ultimate responsibility for the basic financial statements and annual report rests with the Board of Trustees. The Executive Director and staff assist the Board in its responsibilities. Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets safeguarded, and proper records maintained. These controls include standards in hiring and training of employees, the establishment of an organizational structure, and the communication of policies and guidelines throughout the organization. These internal controls are reviewed by internal audit programs. All internal audit reports are submitted to the Audit Committee and the Board of Trustees. Kentucky Retirement Systems' external auditors, Dean, Dorton & Ford, PSC, Certified Public Accountants, have conducted an independent audit of the basic financial statements in accordance



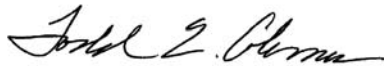
with US Generally Accepted Auditing Standards and Generally Accepted Government Auditing Standards, issued by the Comptroller General of the United States. This audit is described in their Independent Auditors' Report on page 18. Management has provided the external auditors with full and unrestricted access to KRS' staff to discuss their audit and related findings as to the integrity of the plan's financial reporting and the adequacy of internal controls for the preparation of financial statements.



Robert M. Burnside, MS  
Executive Director



William A. Thielen, Esq.  
Chief Operations Officer



Todd E. Coleman, CPA  
Controller

# Independent Auditors’ Report

## FYI

The Financial Audit is one of many assurance or attestation functions provided by accounting firms, whereby the firm provides an independent opinion on published information. Financial Audits are performed by firms of practicing Certified Public Accountants due to the specialized financial reporting knowledge they require.

Board of Trustees  
Kentucky Retirement Systems  
Frankfort, Kentucky

We have audited the financial statements of the Kentucky Retirement Systems, a component unit of the Commonwealth of Kentucky, as of and for the fiscal years ended June 30, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the Kentucky Retirement Systems’ management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Kentucky Retirement Systems, a component unit of the Commonwealth of Kentucky, as of June 30, 2009 and 2008, and the changes in plan net assets for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2009, on our consideration of the Kentucky Retirement Systems’ internal control over financial reporting and on our tests 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* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis (pages 20 through 26) and the Schedule of Funding Progress and Schedule of Contributions from Employers and Other Contributing Entities (pages 72 through 75) are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional supporting schedules (pages 81 through 84) are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The *Introductory, Actuarial, Investment, and Statistical* sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. These sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on them.



November 19, 2009  
Lexington, Kentucky

## Financial Highlights-Pension Funds

This discussion and analysis of Kentucky Retirement Systems' financial performance provides an overview of the pension and insurance fund financial activities for the fiscal year ended June 30, 2009. Please read it in conjunction with the financial statements, which begin on page 27. The following highlights are explained in more detail later in this discussion.

### FYI

The Securities and Exchange Commission adopted requirements for Management Discussion and Analysis in 1974 to have management provide a narrative explanation of the financial statements. The idea was to allow the user to see the entity's financial position and operating results through management's eyes.

- The combined plan net assets of all pension funds administered by Kentucky Retirement Systems decreased by \$3,073,688,450 during fiscal 2009.
- Member and Employer contributions reported for fiscal 2009, totaled \$685,589,301 compared to \$654,695,129 in fiscal 2008. This increase is due to an increase in the covered payroll reported (in the case of the CERS Non-Hazardous plan), an increase in the employer contribution rates, and the collection of additional health insurance contributions passed by House Bill 1 in September 2008. Member contributions decreased \$13,417,992 due to a decrease in service purchases which have become more expensive as a result of the passage of House Bill 1.
- The net depreciation in the fair value of investments was \$2,538,596,591 for the fiscal year ended June 30, 2009 compared to net depreciation of \$997,367,356 for the prior fiscal year. Included in this net depreciation were realized losses on sales of investments of \$750,132,021. In comparison, the pension funds realized gains of \$360,063,389 for the fiscal year ended June 30, 2008. The decrease in realized gains experienced by the pension funds is due to unfavorable market conditions.
- Interest, dividend and securities lending income was \$350,470,742 compared to \$558,997,536 in last fiscal year.
- Pension benefits paid to retirees and beneficiaries totaled \$1,478,730,332. Refund of contributions paid to former members upon termination of employment totaled \$23,627,909.
- Administrative expense totaled \$23,970,064 compared to \$22,907,272 in the prior fiscal year.
- The member health insurance contribution, as a result of the passage of House Bill 1 (effective September 1, 2008), totaled \$898,946 for the ten months ended June 30, 2009.
- An impairment totaling \$39,279,421 was incurred during fiscal 2009. This was for unrealized losses associated with KRS' participation in the securities lending program at Northern Trust (the custodial bank of KRS).

## Financial Highlights-Insurance Funds

The following highlights are explained in more detail later in this discussion.

- The combined plan net assets of the insurance fund administered by Kentucky Retirement Systems decreased by \$591,649,232 during fiscal 2009.
- Premiums received from retirees who participated in the Medicare eligible self-funded plan totaled \$27,121,929.
- Employer contributions of \$297,194,679 were received compared to \$372,294,824 in fiscal 2008. This decrease is due to a decrease in the insurance contribution rate.
- Retiree drug subsidies totaled \$16,834,869 compared to \$13,313,947 in fiscal 2008.
- The net depreciation in the fair value of investments was \$656,699,368 compared to net depreciation of \$282,385,971 for the prior fiscal year. Included in this net depreciation were realized losses on sales of investments of \$205,178,412. In comparison, the insurance funds realized gains on investments of \$104,964,501 in the prior fiscal year. This decrease in realized gains is due to unfavorable market conditions.
- Interest, dividend and securities lending income was \$52,228,249 compared to income of \$93,315,951 in fiscal 2008. This decrease was due to unfavorable market conditions.
- Premiums paid by the fund for hospital and medical insurance coverage (under age 65) totaled \$198,272,571. Payments for the self-funded healthcare reimbursements (over age 65) totaled \$114,554,929. The total of insurance premiums paid plus self-funded reimbursements was \$312,827,500 for fiscal 2009. Insurance premiums paid plus self-funded healthcare reimbursements for the prior fiscal year totaled \$269,351,915.
- As part of the application process to the Centers for Medicare & Medicaid Services to enter into a contract to offer a Medicare Prescription Drug Plan, KRS was required to establish a segregated Insolvency Account in the amount of \$100,000; this account must retain a minimum balance of \$100,000. The account consists of cash and/or cash equivalents, and is invested on a daily basis.
- The reimbursement of retired-reemployed health insurance, as a result of the passage of House Bill 1 (effective September 1, 2008), totaled \$206,859 for the ten months ended June 30, 2009.
- An impairment totaling \$8,984,210 was incurred in fiscal 2009. This was for unrealized losses associated with KRS' participation in the securities lending program at Northern Trust (the custodial bank of KRS).

## Using This Financial Report

Because of the long-term nature of a defined benefit pension plan and post-employment healthcare benefit plan, the financial statements alone cannot provide sufficient information to properly reflect the plan's ongoing plan perspective. This financial report consists of two financial statements and two required schedules of historical trend information. The Combined Statements of Plan Net Assets for the Pension Funds, on page 27, and the Combined Statement of Plan Net Assets for the Insurance Funds, on pages 30 and 31, provide a snapshot of the financial position of each of the three systems at June 30, 2009. The Combined Statement of Changes in Plan Net Assets for the Pension Funds, on pages 28 and 29, and the Combined Statement of Changes in Plan Net Assets for the Insurance Funds, on pages 32 and 33, summarize the additions and deductions that occurred for each of the 3 systems during fiscal 2009.

The Schedule of Funding Progress, on pages 71 through 75, includes historical trend information about the actuarially funded status of each plan from a long-term, ongoing plan perspective and the progress made in accumulating sufficient assets to pay benefits and insurance premiums when due. The Schedule of Contributions from Employers and Other Contributing Entities, on pages 76 through 80, presents historical trend information about the annual required contributions and the contributions made in relation to the requirement. These schedules provide information that contributes to understanding the changes over time in the funded status of the plans.

## Kentucky Retirement Systems As A Whole

Kentucky Retirement Systems' combined plan net assets decreased, during the fiscal year ended June 30, 2009, by \$3,665.4 million from \$15,603.3 million to \$11,937.9 million. Plan net assets for the prior fiscal year decreased by \$1,356.1 million. The decrease in plan net assets for the fiscal year ended June 30, 2009 is primarily attributable to overall losses in the stock market. The resultant decrease in net plan assets is particularly significant in the KERS Non-Hazardous and State Police (SPRS) plans, which show a negative cash flow where \$1,025 million in benefits, refunds, and expenses were paid out and contributions and net investment earnings showed a loss of \$765 million. The analysis on the following page focuses on plan net assets (Table 1) and changes in plan net assets (Table 2) of Kentucky Retirement Systems' Pension and Insurance Funds.

**Table 1: Plan Net Assets** (\$) in Millions

	Pension			Insurance			Total		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
Cash & Investments	\$11,645.5	\$15,768.8	\$17,245.3	\$2,460.2	\$3,379.9	\$3,441.6	\$14,105.7	\$19,148.7	\$20,686.9
Receivables	113.9	122.4	125.2	38.7	45.5	41.4	152.6	167.9	166.6
Equip./Int. Assets Net of Dep./Amort.	8.1	8.5	1.9	--	--	--	8.1	8.5	1.9
Total Assets	11,767.5	15,899.7	17,372.4	2,498.9	3,425.4	3,483.0	14,266.4	19,325.1	20,855.4
Total Liabilities	(1,885.8)	(2,944.3)	(3,144.2)	(442.7)	(777.5)	(751.8)	(2,328.5)	(3,721.8)	(3,896.0)
Plan Net Assets	\$9,881.7	\$12,955.4	\$14,228.2	\$2,056.2	\$2,647.9	\$2,731.2	\$11,937.9	\$15,603.3	\$16,959.4

**Table 2: Changes in Plan Net Assets** (\$) in Millions

	Pension			Insurance			Total		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
<b>Additions</b>									
Member Cont.	\$290.8	\$ 304.3	\$ 300.3	\$	\$	\$	\$290.8	\$ 304.3	\$ 300.3
Employer Cont.	393.8	350.4	293.4	297.2	372.3	307.7	691.0	722.7	601.1
Health Ins. Cont.	0.9	--	--	--	--	--	0.9	--	--
Premiums Rcvd	--	--	--	27.1	28.5	26.6	27.1	28.5	26.6
Ret. Reemp. Insurance	--	--	--	0.2	--	--	0.2	--	--
Medicare Subsidy	--	--	--	16.8	13.3	21.5	16.8	13.3	21.5
Invest. Inc. (net)	(2,232.0)	(579.9)	1,915.8	(611.3)	(220.6)	423.4	(2,843.3)	(800.5)	2,339.2
Total Additions	(1,547.4)	74.8	2,509.5	(270.0)	193.5	779.2	(1,817.4)	268.3	3,288.7
<b>Deductions</b>									
Ben. Payments	1,478.7	1,299.2	1,187.1	--	--	--	1,478.7	1,299.2	1,187.1
Refunds	23.6	25.5	25.2	--	--	--	23.6	25.5	25.2
Admin. Expenses	24.0	22.9	21.1	8.8	7.5	6.7	32.8	30.4	27.8
Healthcare Costs	--	--	--	312.9	269.3	241.1	312.9	269.3	241.1
Demut. Refund	--	--	--	--	--	0.8	--	--	0.8
Total Deductions	1,526.3	1,347.6	1,233.4	321.7	276.8	248.6	1,848.0	1,624.4	1,482.0
Increase (Decrease) in Plan Net Assets									
	\$(3,073.7)	\$(1,272.8)	\$1,276.1	\$(591.7)	\$(83.3)	\$530.6	\$(3,665.4)	\$(1,356.1)	\$1,806.7

## Kentucky Retirement Systems As A Whole, continued

Plan net assets of the pension funds decreased by \$3,073.7 million (\$9,881.7 million compared to \$12,955.4 million). All of these assets are restricted in use to provide monthly retirement allowances to members who contributed to the pension funds as employees and their beneficiaries. This plan net asset decrease is attributable primarily to the overall losses in the fair value of investments due to adverse market conditions.

Plan net assets of the insurance fund decreased by approximately \$591.7 million (\$2,056.2 million compared to \$2,647.9 million). All of these assets are restricted in use to provide hospital and medical insurance benefits to members of the pension funds who receive a monthly retirement allowance. This decrease in net plan assets is primarily attributable to the overall losses in the fair value of investments, which is due to adverse market conditions.

### Pension Fund Activities

Member contributions decreased by \$13.5 million. Retirement contributions are calculated by applying a percentage factor to salary and are remitted by each employer on behalf of the member. Members may also pay contributions to repurchase previously refunded service credit or to purchase various types of elective service credit. The decrease in member contributions is a result of a decrease in elective service purchases by Kentucky Retirement Systems' members over the prior period.

Employer contributions increased by \$43.5 million due to the increase in covered payroll reported to Kentucky Retirement Systems (in the case of the CERS Non-Hazardous plan) and the increase in the employer contribution rate applied to covered payroll.

Net investment income decreased by \$1,653 million (net investment loss of \$2,232.9 million compared to net investment loss of \$579.9 million in the prior year). The pension funds experienced a decrease in income primarily due to the decrease in gains on sale of investments. This is illustrated in Table 3 to the left.

Pension fund deductions increased by \$178.8 million, caused principally by an increase of \$179.6 million in benefit payments. Retirees received a Cost of Living Adjustment (COLA) increase of 2.8% in benefit payments as of July 1, 2008. Refunds of member contributions decreased by \$1.8 million and administrative expenses increased by \$1.1 million.

**Table 3: Investment Income (Loss)**

**Pension**

(\$ in Millions)

Investment Income (Loss)	2009	2008	2007
(Decrease) Increase in fair value of investments	\$(1,788)	\$(1,357)	\$638
Investment Income net of Investment Expense	305	417	408
(Loss) gain on sale of investments	(750)	360	870
Net investment (loss) income	\$(2,233)	\$(580)	\$1,916



## Insurance Fund Activities

Employer contributions paid into the insurance fund decreased by \$75.1 million over the prior fiscal year. This decrease is a result of the decrease in the employer contribution rate applied to covered payroll.

Net investment income decreased by \$390.9 million. This decrease in net income is due primarily to the decrease in the gains on sale of investments. This is illustrated in Table 4 to the right.

Insurance fund deductions increased by \$44.9 million due to the increase in overall healthcare costs.

## Historical Trends

Accounting standards require that the Statement of Plan Net Assets state asset value at fair value and include only benefits and refunds due plan members and beneficiaries and accrued investment and administrative expense as of the reporting date. Information regarding the actuarial funding status of the Pension and Insurance Funds is provided in the Schedule of Funding Progress on pages 71 through 75. The asset value stated in the Schedule of Funding Progress is the actuarial value of assets determined by calculating the difference between the expected valuation assets and the actual market value of assets adjusted for any unrecognized gains or losses and amortized over a five-year period. The actuarial accrued liability is calculated using the entry age normal cost funding method. This actuarial accrued liability is the measure of the cost of benefits that have been earned to date by Kentucky Retirement Systems' members, but not yet paid. The difference in value between the actuarial accrued liability and the actuarial value of assets is defined as the unfunded actuarial accrued liability.

The unfunded actuarial accrued liability in the pension plans increased by \$2,009.3 million for a total unfunded amount of \$9,397.2 million for the fiscal year ended June 30, 2009, compared to an unfunded amount of \$7,387.9 million for the fiscal year ended June 30, 2008. In recent years, funding levels for the pension funds have fallen dramatically in response to investment returns less

**Table 4: Investment Income (Loss)**

**Insurance**

*(\$ in Millions)*

Investment Income (Loss)	2009	2008	2007
(Decrease) Increase in fair value of investments	\$(451)	\$(387)	\$237
Investment Income net of Investment Expense	45	62	56
(Loss) gain on sale of investments	(205)	105	130
Net investment income (loss)	\$(611)	\$(220)	\$423

than the actuarially assumed rate, higher than anticipated retirement rates and expenditures for unfunded retiree Cost of Living Adjustments. Within the KERS and SPRS plans, employer contribution rate reductions enacted by the Kentucky General Assembly have limited the plans ability to correct the declining funding levels.

The insurance plan's unfunded actuarial accrued liability for the fiscal year ended June 30, 2009, decreased to \$7,199.3 million from \$8,973.5 million for the fiscal year ended June 30, 2008. This is a decrease in the unfunded actuarial accrued liability of \$1,774.2 million. This reduction is the result of the recent adoption of new actuarial assumptions and KRS' adoption of an Employer Group Waiver Plan (EGWP) in connection with its Medicare eligible drug program, which allows KRS to apply monetary reimbursements from the Centers for Medicare and Medicaid Services to reduce unfunded actuarial liabilities.

Annual required contributions of the employers as actuarially determined and actual contributions made by employers and other contributing entities in relation to the required contributions are provided in the Schedule of Contributions from Employers and Other Contributing Entities on pages 76 through 80. The difference in the annual required contributions and actual contributions made by employers and other contributing entities in the KERS and SPRS funds is attributable to the statutory employer contribution rate set by the Kentucky General Assembly being less than the rate computed by the actuary.

**Combined Statement of Plan Net Assets-Pension Funds** (\$ in Thousands)

As of June 20, 2009 (with comparative totals as of June 30, 2008)

	2009						2008
	KERS Hazardous	KERS Non-Hazardous	CERS Hazardous	CERS Non-Hazardous	SPRS	Total	Total
<b>Assets</b>							
<b>Cash &amp; Short Term Investments</b>							
Cash	\$106	\$264	\$111	\$268	\$103	\$852	\$969
Short Term Investments	86,443	199,920	203,131	495,768	32,171	1,017,433	199,793
Total Cash & Short Term Investments	86,549	200,184	203,242	496,036	32,274	1,018,285	200,762
<b>Receivables</b>							
Contributions	1,494	20,802	11,880	35,939	1,040	71,155	68,160
Investment Income	1,415	16,690	5,207	18,383	1,147	42,842	54,249
Total Receivables	2,909	37,492	17,087	54,322	2,187	113,997	122,409
<b>Investments, at fair value</b>							
Corporate and Gov't Bonds	75,234	895,494	282,141	1,011,886	64,905	2,329,660	3,284,259
Corporate Stocks	194,094	2,119,414	711,815	2,387,299	133,347	5,545,969	7,995,916
Mortgages	31,063	331,383	112,451	398,781	24,739	898,417	1,343,960
Real Estate	2,150	4,349	3,121	4,703	623	14,946	9,545
Total Invest., at fmv	302,541	3,350,640	1,109,528	3,802,669	223,614	8,788,992	12,633,680
Securities Lending Collateral Invested	72,600	667,843	245,246	804,609	47,879	1,838,177	2,934,343
Equipment (net of accumulated depreciation)	178	2,075	309	3,556	37	6,155	6,398
Int. Assets (net of accumulated amort.)	54	648	96	1,104	11	1,913	2,139
Total Assets	464,831	4,258,882	1,575,508	5,162,296	306,002	11,767,519	15,899,731
<b>Liabilities</b>							
Accounts Payable	334	3,335	668	3,895	134	8,366	10,005
Securities Lending Collateral	72,600	667,843	245,246	804,609	47,879	1,838,177	2,934,343
Impairment-Securities Lending	2,946	3,103	9,034	22,782	1,414	39,279	--
Total Liabilities	75,880	674,281	254,948	831,286	49,427	1,885,822	2,944,348
<b>Plan Net Assets Held in Trust for Pension Benefits</b>							
	\$388,951	\$3,584,601	\$1,320,560	\$4,331,010	\$256,575	\$9,881,697	\$12,955,383

See accompanying notes to the Financial Statements.

## Combined Statement of Changes in Plan Net Assets-Pension Funds (\$ in Thousands)

For the Fiscal Year Ended June 20, 2009 (with comparative totals for the Fiscal Year Ended June 30, 2008)

	2009						2008
	KERS Hazardous	KERS Non-Hazardous	CERS Hazardous	CERS Non-Hazardous	SPRS	Total	Total
<b>Additions</b>							
Members' Contributions	\$12,442	\$108,362	\$42,582	\$122,518	\$4,938	\$290,842	\$304,259
Employers' Contributions	15,843	112,383	78,151	179,286	8,186	393,849	350,435
Health Insurance Contributions (HBI)	38	404	37	415	5	899	--
<b>Total Contributions</b>	<b>28,323</b>	<b>221,149</b>	<b>120,770</b>	<b>302,219</b>	<b>13,129</b>	<b>685,590</b>	<b>654,694</b>
<b>Investment Income</b>							
From Investing Activities:							
Net Depreciation in Fair Value of Investments	(95,459)	(981,576)	(342,163)	(1,060,080)	(59,319)	(2,538,597)	(997,369)
Interest/Dividends	11,334	116,332	39,736	134,548	8,290	310,240	418,802
Total Investing Activities Loss	(84,125)	(865,244)	(302,427)	(925,532)	(51,029)	(2,228,357)	(578,567)
Investment Expense	468	5,332	1,540	5,616	345	13,301	12,750
Commissions	337	3,156	1,039	3,572	238	8,342	7,915
Total Investing Activities Expense	805	8,488	2,579	9,188	583	21,643	20,665
Net Loss from Investing Activities	(84,930)	(873,732)	(305,006)	(934,720)	(51,612)	(2,250,000)	(599,232)

**Combined Statement of Changes in Plan Net Assets-Pension Funds** (\$ in Thousands)

For the Fiscal Year Ended June 20, 2009 (with comparative totals for the Fiscal Year Ended June 30, 2008)

	2009						2008
	KERS Hazardous	KERS Non-Hazardous	CERS Hazardous	CERS Non-Hazardous	SPRS	Total	Total
From Securities Lending Activities:							
Securities Lending Income	1,583	14,479	5,350	17,778	1,041	40,231	140,195
Securities Lending Expense:							
Security Borrower Rebates	770	7,084	2,601	8,535	508	19,498	115,960
Security Lending Agent Fees	145	1,338	491	1,613	96	3,683	4,950
Net Income from Securities Lending Activities	668	6,057	2,258	7,630	437	17,050	19,285
Total Net Investment Loss	(84,262)	(867,675)	(302,748)	(927,090)	(51,175)	(2,232,950)	(579,947)
Total (Loss) Additions	(55,939)	(646,526)	(181,978)	(624,871)	(38,046)	(1,547,360)	74,747
<b>Deductions</b>							
Benefit Payments	37,556	808,513	138,810	451,304	42,547	1,478,730	1,299,174
Refunds	1,277	9,127	2,436	10,719	69	23,628	25,468
Administrative Exp.	715	8,102	1,198	13,831	122	23,968	22,906
Total Deductions	39,548	825,742	142,444	475,854	42,738	1,526,326	1,347,548
Net Decrease in Plan Assets	(95,487)	(1,472,268)	(324,422)	(1,100,725)	(80,784)	(3,073,686)	(1,272,801)
<b>Plan Net Assets Held in Trust for Pension Benefits</b>							
Beginning of Year	484,438	5,056,869	1,644,982	5,431,735	337,359	12,955,383	14,228,184
End of Year	388,951	3,584,601	1,320,560	4,331,010	256,575	9,881,697	12,955,383

See accompanying notes to the Financial Statements.

**Combined Statement of Plan Net Assets-Insurance Funds** (\$ in Thousands)

As of June 20, 2009 (with comparative totals as of June 30, 2008)

	2009						2008
	KERS Hazardous	KERS Non-Hazardous	CERS Hazardous	CERS Non-Hazardous	SPRS	Total	Total
<b>Assets</b>							
<b>Cash &amp; Short Term Investments</b>							
Cash	23	57	17	79	4	180	221
Short Term Investments	47,414	85,346	131,383	213,453	17,526	495,122	306,845
Medicare Drug Deposit	11	20	23	41	5	100	--
Total Cash & Short Term Investments	47,448	85,423	131,423	213,573	17,535	495,402	307,066
<b>Receivables</b>							
Contributions	1,059	7,778	6,126	16,346	454	31,763	37,263
Investment Income	753	1,317	1,549	2,936	338	6,893	8,252
Loan Interest Receivable (Holly Hill)	13	13	33	54	6	119	--
Total Receivables	1,825	9,108	7,708	19,336	798	38,775	45,515

**Combined Statement of Plan Net Assets-Insurance Funds** (\$ in Thousands)

As of June 20, 2009 (with comparative totals as of June 30, 2008)

	2009						2008
	KERS Hazardous	KERS Non-Hazardous	CERS Hazardous	CERS Non-Hazardous	SPRS	Total	Total
<b>Investments, at fair value</b>							
Corporate and Gov't Bonds	19,688	34,291	48,985	90,515	9,825	203,304	330,535
Corporate Stocks	151,587	240,585	297,692	576,137	65,960	1,331,961	1,968,330
Alternative Investment	15	15	37	61	7	135	135
Real Estate	64	113	139	256	28	600	--
Total Investments, at fair value	171,354	275,004	346,853	666,969	75,820	1,536,000	2,299,000
Securities Lending Collateral Invested	46,177	76,048	100,868	186,022	19,716	428,831	773,837
Total Assets	266,804	445,583	586,852	1,085,900	113,869	2,499,008	3,425,418
<b>Liabilities</b>							
Accounts Payable	94	2,326	227	2,198	76	4,921	3,661
Securities Lending Collateral Obligations	46,177	76,048	100,868	186,022	19,716	428,831	773,837
Impairment- Securities Lending	1,033	1,842	2,524	3,190	395	8,984	--
Total Liabilities	47,304	80,216	103,619	191,410	20,187	442,736	777,498
<b>Plan Net Assets Held in Trust for Insurance Benefits</b>							
	\$219,500	\$365,367	\$483,233	\$894,490	\$93,682	\$2,056,272	\$2,647,920

See accompanying notes to the Financial Statements.

## Combined Statement of Changes in Plan Net Assets-Insurance Funds (\$) in Thousands

For the Fiscal Year Ended June 20, 2009 (with comparative totals for the Fiscal Year Ended June 30, 2008)

	2009						2008
	KERS Hazardous	KERS Non-Hazardous	CERS Hazardous	CERS Non-Hazardous	SPRS	Total	Total
<b>Additions</b>							
Employers' Contributions	\$20,803	\$74,434	\$70,783	\$123,761	\$7,414	\$297,195	\$372,294
Retiree Drug Subsidy	186	8,168	628	7,624	229	16,835	13,315
Premiums Received from Retirees	296	12,211	328	14,264	23	27,122	28,522
Retired Reemployed Healthcare (HB1)	4	109	2	92	--	207	--
<b>Total Contributions</b>	<b>21,289</b>	<b>94,922</b>	<b>71,741</b>	<b>145,741</b>	<b>7,666</b>	<b>341,359</b>	<b>414,131</b>
<b>Investment Income</b>							
From Investing Activities:							
Net Depreciation in Fair Value of Investments	(65,502)	(163,532)	(133,716)	(263,645)	(30,304)	(656,699)	(282,385)
Interest/Dividends	4,722	8,651	9,937	18,883	2,090	44,283	60,962
Interest Income (Holly Hill)	13	13	33	54	6	119	--
<b>Total Investing Activities Loss</b>	<b>(60,767)</b>	<b>(154,868)</b>	<b>(123,746)</b>	<b>(244,708)</b>	<b>(28,208)</b>	<b>(612,297)</b>	<b>(221,423)</b>
Investment Activities Expense	120	371	278	555	59	1,383	1,796
Commissions	103	204	201	375	46	929	1,249
<b>Total Investing Activities Expense</b>	<b>223</b>	<b>575</b>	<b>479</b>	<b>930</b>	<b>105</b>	<b>2,312</b>	<b>3,045</b>
<b>Net Loss from Investing Activities</b>	<b>(60,990)</b>	<b>(155,443)</b>	<b>(124,225)</b>	<b>(245,638)</b>	<b>(28,313)</b>	<b>(614,609)</b>	<b>(224,468)</b>
From Securities Lending Activities:							
Securities Lending Income	849	1,373	1,857	3,506	360	7,945	32,354



**Combined Statement of Changes in Plan Net Assets-Insurance Funds (\$ in Thousands**

*For the Fiscal Year Ended June 20, 2009 (with comparative totals for the Fiscal Year Ended June 30, 2008)*

	2009						2008
	KERS Hazardous	KERS Non-Hazardous	CERS Hazardous	CERS Non-Hazardous	SPRS	Total	Total
<b>Securities Lending Expense</b>							
Security Borrower Rebates	425	701	929	1,715	181	3,951	27,476
Security Lending Agent Fees	75	123	164	301	32	695	1,008
Net Income from Securities Lending Activities	349	549	764	1,490	147	3,299	3,870
Total Net Investment Loss	(60,641)	(154,894)	(123,461)	(244,148)	(28,166)	(611,310)	(220,598)
Total (Loss) Additions	(39,352)	(59,972)	(51,720)	(98,407)	(20,500)	(269,951)	193,533
<b>Deductions</b>							
Healthcare Premiums Subsidies	9,187	89,542	37,184	56,355	6,005	198,273	167,748
Administrative Fees	144	4,104	444	4,053	124	8,869	7,477
Self Funding Insurance Costs	1,117	55,494	3,833	52,640	1,471	114,555	101,605
Total Deductions	10,448	149,140	41,461	113,048	7,600	321,697	276,830
Net Decrease in Plan Assets	(49,800)	(209,112)	(93,181)	(211,455)	(28,100)	(591,648)	(83,297)
<b>Plan Net Assets Held in Trust for Insurance Benefits</b>							
Beginning of Year	269,300	574,479	576,414	1,105,945	121,782	2,647,920	2,731,217
End of Year	219,500	365,367	483,233	894,490	93,682	2,056,272	2,647,920

See accompanying notes to the Financial Statements.

# Notes to the Financial Statements

## FYI

Notes to the Financial Statements are designed to provide the reader with specific information about estimates, accounting, and other material information found in the financial statements.

## General

Under the provisions of Kentucky Revised Statute Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KRS) administers the Kentucky Employees Retirement System (KERS), County Employees Retirement System (CERS), and State Police Retirement System (SPRS). Although the assets of the plans are commingled for investment purposes, each plan's assets may be used only for the payment of benefits to the members of that plan, in accordance with the provisions of Kentucky Revised Statute Sections 16.555, 61.570, and 78.630.

Under the provisions of Kentucky Revised Statute Section 61.701, the Board of Trustees of Kentucky Retirement Systems (KRS) administers the Kentucky Retirement Systems Insurance Fund. The statutes provide for a single insurance fund to provide group hospital and medical benefits to retirees drawing a benefit from the three pension funds administered by Kentucky Retirement Systems: (1) Kentucky Employees Retirement System (KERS); (2) County Employees Retirement System (CERS); and (3) State Police Retirement System (SPRS). The assets of the insurance fund are commingled for investment purposes. The following notes apply to the various funds administered by Kentucky Retirement Systems:

## Note A-Summary of Significant Accounting Policies

**Basis of Accounting** KRS financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the plan. Premium payments are recognized when due and payable in accordance with terms of the plan. Administrative and investment expenses are recognized when incurred.

**Method Used to Value Investments** Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price at current exchange rates. The fair value of real estate is based on appraisals. Investments that do not have an established market are reported at estimated fair value.

**Estimates** The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Equipment** Equipment is valued at historical cost and depreciation is computed utilizing the straight-line method over the estimated useful lives of the assets ranging from three to ten years. Improvements, which increase the useful life of the equipment, are capitalized. Maintenance and repairs are charged to expense as incurred. The capitalization threshold used in fiscals 2009 and 2008, was \$3,000 (see Note J for further information).

**Intangible Assets** Intangible assets, currently computer software, are valued at historical cost and amortization is computed utilizing the straight-line method over the estimated useful lives of the assets which is ten years. The capitalization threshold used in fiscals 2009 and 2008, was \$3,000 (see Note K for further information).

**Reclassification** Certain 2008 amounts have been reclassified to conform with 2009 presentation with no effect on net assets or changes in net assets.

**Expense Allocation** Administrative and investment expenses of KRS are allocated in proportion to the number of active members participating in each plan and the carrying value of plan investments.

**Component Unit** KRS is a component unit of the Commonwealth of Kentucky for financial reporting purposes.

The Kentucky Employees Retirement System (KERS) was created by the Kentucky General Assembly pursuant to the provisions of Kentucky Revised Statute 61.515. The County Employees Retirement System (CERS) was created by the Kentucky General Assembly pursuant to the provisions of Kentucky Revised Statute 78.520. The State Police Retirement System (SPRS) was created by the Kentucky General Assembly pursuant to the provisions of Kentucky Revised Statute 16.510.

The Kentucky Retirement Systems Insurance Fund was created by the Kentucky General Assembly pursuant to the provisions of Kentucky Revised Statute 61.701. KRS' administrative budget is subject to approval by the Kentucky General Assembly. Employer contribution rates for KERS and SPRS are also subject to legislative approval. Employer contribution rates for CERS are determined by the KRS Board of Trustees without further legislative review. The methods used to determine the employer rates for all Retirement Systems are specified in Kentucky Revised Statute 61.565. Employee contribution rates are set by statute and may be changed only by the Kentucky General Assembly.

**Recent Accounting Pronouncement** In June 2008, the Governmental Accounting Standards Board (GASB) issued Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", effective for financial statements issued for periods beginning after June 15, 2009. The objective of this Statement is to enhance the usefulness and comparability of derivative instrument information reported by state and local governments. It also provides a comprehensive framework for the measurement, recognition, and disclosure of derivative instrument transactions. KRS is currently evaluating the provisions of GASB No. 53.

## Note B-Plan Descriptions And Contribution Information

Membership of each Retirement Plan consisted of the following at June 30, 2009 and 2008:

### KERS Membership

	2009			2008		
	Non-Hazardous Employees	Hazardous Employees	Total	Non-Hazardous Employees	Hazardous Employees	Total
Retirees and beneficiaries receiving benefits	37,883	2,648	40,531	35,307	2,404	37,711
Inactive vested members	34,515	3,056	37,571	33,202	2,927	36,129
Active plan members	46,060	4,334	50,394	48,085	4,393	52,478
Total	118,458	10,038	128,496	116,594	9,724	126,318
Number of participating employers			386			317

## CERS Membership

	2009			2008		
	Non-Hazardous Employees	Hazardous Employees	Total	Non-Hazardous Employees	Hazardous Employees	Total
Retirees and beneficiaries receiving benefits	39,756	5,808	45,564	37,579	5,422	43,001
Inactive vested members	60,275	2,522	62,797	57,755	2,376	60,131
Active plan members	83,724	9,757	93,481	85,221	10,173	95,394
Total	183,755	18,087	201,842	180,555	17,971	198,526
Number of participating employers			1,398			1,468

## SPRS Membership

	2009	2008
	Hazardous Employees	Hazardous Employees
Retirees and beneficiaries receiving benefits	1,184	1,135
Inactive vested members	332	301
Active plan members	946	993
Total	2,462	2,429
Number of participating employers	1	1

## Hospital and Medical Contracts Issued *(As of June 30 2009, and 2008)*

	2009					2008				
	A	B	C	D	E	A	B	C	D	E
KERS Non-Hazardous	10,536	2,417	739	1,904	13,189	9,631	2,099	584	1,960	12,653
KERS Hazardous	866	690	95	93	832	795	618	93	96	749
CERS Non-Hazardous	7,503	1,364	326	3,099	13,607	7,306	1,278	291	3,112	12,829
CERS Hazardous	1,438	2,108	254	82	1,558	1,411	2,017	232	77	1,396
SPRS	221	311	20	9	419	241	302	17	7	407
Total	20,564	6,890	1,434	5,187	29,605	19,384	6,314	1,217	5,252	28,034

A= Single, B=Couple/Family, C=Parent Plus, D= Medicare Without Prescription, E=Medicare With Prescription

## KENTUCKY EMPLOYEES RETIREMENT SYSTEM Non-Hazardous Employees Pension Plan

### Plan Description

KERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous duty positions of any state department, board, or agency directed by Executive Order to participate in KERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if in its judgment the welfare of the Commonwealth so demands.

### Contributions

For the fiscal years ended June 30, 2009 and 2008, plan members were required to contribute 5% of their annual creditable compensation. The Commonwealth was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget. For the fiscal years ended June 30, 2009 and 2008, participating employers contributed 10.01% and 8.5%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the fiscal years ended June 30, 2009 and 2008 was 28.6% and 48.37%, respectively, of each employee's creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

In accordance with House Bill 1, signed by the Governor on June 27, 2008, plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while the 1% was deposited to an account created under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 5% of their annual creditable compensation.

## KENTUCKY EMPLOYEES RETIREMENT SYSTEM Hazardous Employees Pension Plan

### Plan Description

KERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in hazardous duty positions of any state department, board, or agency directed by Executive Order to participate in KERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if in its judgment the welfare of the Commonwealth so demands.

### Contributions

For the fiscal years ended June 30, 2009 and 2008, plan members were required to contribute 8% of their annual creditable compensation. The Commonwealth was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal

contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget. For the fiscal years ended June 30, 2009 and 2008, participating employers contributed 24.35% and 24.25%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the fiscal years ended June 30, 2009 and 2008 was 34.78% and 47.11%, respectively, of each employee's creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

In accordance with House Bill 1, signed by the Governor on June 27, 2008, plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 9% of their annual creditable compensation. Eight percent of the contribution was deposited to the member's account while the 1% was deposited to an account created under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 8% of their annual creditable compensation.

## COUNTY EMPLOYEES RETIREMENT SYSTEM Non-Hazardous Employees Pension Plan

### Plan Description

CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous duty positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided annually equal to the percentage



increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if in its judgment the welfare of the Commonwealth so demands.

## Contributions

For the fiscal years ended June 30, 2009 and 2008, plan members were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board.

For the fiscal years ended June 30, 2009 and 2008, participating employers contributed 13.5% and 16.17%, respectively, of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2009 and 2008 were 15.58% and 16.17%, respectively. Administrative costs of KRS are financed through employer contributions and investment earnings.

In accordance with House Bill 1, signed by the Governor on June 27, 2008, plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while the 1% was deposited to an account created under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 5% of their annual creditable compensation.

## COUNTY EMPLOYEES RETIREMENT SYSTEM Hazardous Employees Pension Plan

### Plan Description

CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in CERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if in its judgment the welfare of the Commonwealth so demands.

### Contributions

For the fiscal years ended June 30, 2009 and 2008, plan members were required to contribute 8% of their annual creditable compensation. The participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the fiscal years ended June 30, 2009 and 2008, participating employers contributed 29.5% and 33.87%, respectively, of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2009 and 2008 were 31.99% and 33.87%, respectively, of each employee's creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

In accordance with House Bill 1, signed by the Governor on June 27, 2008, plan members who began participating on, or after,

September 1, 2008, were required to contribute a total of 9% of their annual creditable compensation. Eight percent of the contribution was deposited to the member's account while the 1% was deposited to an account created under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 8% of their annual creditable compensation.

## STATE POLICE RETIREMENT SYSTEM

### Plan Description

SPRS is a single-employer defined benefit pension plan that covers all full-time state troopers employed in a hazardous duty position by the Kentucky State Police. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if in its judgment the welfare of the Commonwealth so demands.

### Contributions

For the fiscal years ended June 30, 2009 and 2008 plan members were required to contribute 8% of their annual creditable compensation. The Commonwealth was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined

in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget. For the fiscal years ended June 30, 2009 and 2008, the Commonwealth contributed 30.07% and 28%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the fiscal years ended June 30, 2009 and 2008 was 60.14% and 120%, respectively, of each employee's creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

In accordance with House Bill 1, signed by the Governor on June 27, 2008, plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 9% of their annual creditable compensation. Eight percent of the contribution was deposited to the member's account while the 1% was deposited to an account created under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 8% of their annual creditable compensation.

## KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

### Plan Description

The Kentucky Retirement Systems Insurance Fund (Fund) was established to provide hospital and medical insurance for members receiving benefits from KERS, CERS, and SPRS. The Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. For the fiscal year ended June 30, 2009, insurance premiums withheld from benefit payments for members of the systems were \$28,345,215 and \$973,502 for KERS non-hazardous and hazardous, respectively; \$27,593,841 and \$1,634,508 for CERS non-hazardous and hazardous, respectively; and, \$160,190 for SPRS. For fiscal 2008, insurance premiums withheld from benefit payments for members of KERS were \$25,897,389 and \$861,730 for KERS non-hazardous and KERS hazardous, respectively; \$25,809,726 and \$1,571,639 for CERS non-hazardous and CERS hazardous, respectively; and, \$167,965 for SPRS. The Fund pays the same proportion of hospital and medical insurance premiums for the

spouse and dependents of retired hazardous members killed in the line of duty. As of June 30, 2009, the Fund had 87,279 retirees and beneficiaries for whom benefits were available.

The amount of contribution paid by the Funds is based on years of service. For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are shown at the right.

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on, or after, July 1, 2003 earn ten dollars (\$10) per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on, or after, July 1, 2003 earn fifteen dollars (\$15) per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon death of a hazardous employee, the employee's spouse receives ten dollars (\$10) per month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment (COLA), which is updated annually due to changes in the Consumer Price Index for all urban consumers. This benefit is not protected under the inviolable contract provisions of Kentucky Revised Statute 16.652, 61.692 and 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if in its judgment the welfare of the Commonwealth so demands.

In prior years, the employers' required medical insurance contribution rate was being increased annually by a percentage that would result in advance-funding the medical liability on an actuarially determined basis using the entry age normal cost method within a 20-year period measured from 1987. In November 1992, the Board of Trustees adopted a fixed percentage contribution rate and suspended future increases under the current medical premium funding policy until the next experience study could be performed. In May 1996, the Board of Trustees adopted a policy to increase the insurance contribution rate by the amount needed to achieve the target rate for full entry age normal funding within twenty years.

KRS commenced self-funding of healthcare benefits for its Medicare eligible retirees on January 1, 2006. A self-funded plan pays for claims out-of-pocket as they are presented instead of paying a pre-determined premium to an insurance carrier for a fully-insured plan.

**Insurance Contribution By Years Of Service**

*For members participating prior to July 1, 2003*

Years of Service	% Paid by Insurance Fund
20 or More	100%
15-19	75%
10-14	50%
4-9	25%
Less than 4	0%

KRS selected Walgreens Health Initiatives and UMR to administer the pharmaceutical and medical benefits, respectively, for its retirees.

KRS funds the risk for its self-insured program directly from its insurance assets. Stop-loss insurance can be arranged to limit KRS' loss to a specified amount to ensure that catastrophic claims do not upset the financial integrity of the self funded plan. The amount of stop-loss insurance is a function of KRS's size, nature of its business, financials and tolerance for risk. KRS continues to evaluate the use of stop-loss insurance.

## NOTE C-CASH AND SHORT-TERM INVESTMENTS AND SECURITIES LENDING COLLATERAL

The provisions of Governmental Accounting Standards Board (GASB) Statement No. 28, "Accounting and Financial Reporting for Securities Lending Transactions" require that cash received as collateral on securities lending transactions and investments made with that cash be reported as assets on the financial statements. In conjunction with the adoption of GASB No. 28, KRS has reclassified certain other investments, not related to the securities lending program, as short-term. Cash and short-term investments consist of the following:

### Kentucky Employees Retirement System

	2009	2008
Cash	\$369,675	\$321,001
Short Term Investments	286,363,442	83,942,355
Securities Lending Collateral Invested	740,443,331	1,256,541,062
Total	\$1,027,176,448	\$1,340,804,418

### County Employees Retirement System

	2009	2008
Cash	\$379,842	\$561,437
Short Term Investments	698,898,569	114,249,050
Securities Lending Collateral Invested	1,049,855,428	1,601,257,307
Total	\$1,749,133,839	\$1,716,067,794

### State Police Retirement System

	2009	2008
Cash	\$102,694	\$86,526
Short Term Investments	32,170,928	1,601,088
Securities Lending Collateral Invested	47,878,450	76,543,782
Total	\$80,152,072	\$78,231,396

### Kentucky Retirement Systems Insurance Funds

	2009	2008
Cash	\$179,764	\$220,702
Short Term Investments	495,121,909	306,845,068
Medicare Drug Deposit	100,000	--
Securities Lending Collateral Invested	428,831,036	773,837,984
Total	\$924,232,709	\$1,080,903,754

## NOTE D-INVESTMENTS

The Board of Trustees of KRS recognizes its duty to invest funds in accordance with the “Prudent Person Rule” and manage those funds consistent with the long-term nature of KRS. The Board enters into contracts with investment managers who use the following guidelines and restrictions in the selection and timing of transactions as long as the security is not prohibited by the Kentucky Revised Statutes.

### Equity Investments

Investments may be made in domestic and international common stock, securities convertible into common stock and in preferred stock of publicly traded corporations.

### Fixed Income Investments

Publicly traded corporate bonds are to be selected and managed to assure an appropriate balance in quality and maturities consistent with the current market and economic conditions. Investment may also be made in any debt instrument issued or guaranteed in whole or in part by the US Government or any agency or instrumentality of the US Government.

## Mortgages

Investment may be made in real estate mortgages on a direct basis or in the form of mortgage pool instruments guaranteed by an agency of the US Government or the Commonwealth of Kentucky.

## Alternative Investments/Equity Real Estate

Subject to the specific approval of the Investment Committee of the Board of Trustees, investments may be made for the purpose of creating a diversified portfolio of alternative investments. The Board may invest in real estate or alternative investments including, without limitation, venture capital, private equity and private placements which the Investment Committee believes has excellent potential to generate income and which may have a higher degree of risk.

## Cash Equivalent Securities

The following short-term investment vehicles are considered acceptable:

Publicly traded investment grade corporate bonds, government and agency bonds, mortgages, and collective Short Term Investment Funds (STIF's), money market funds or instruments (including, but not limited to, certificates of deposit, bank notes, deposit notes, bankers' acceptances and commercial paper) and repurchase agreements relating to the above instruments. Instruments may be selected from among those having an investment grade rating by at least one recognized bond rating service. All instruments shall have a maturity at the time of purchase that does not exceed two years. Repurchase agreements shall be deemed to have a maturity equal to the period remaining until the date on which the repurchase of the underlying securities is scheduled to occur.

## Derivatives

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indices. Investments may be made in derivative securities, or strategies which make use of derivative instruments, only if such investments do not cause the portfolio to be in any way leveraged beyond a 100% invested position. Investments in derivative securities which are subject to large or unanticipated changes in duration or cash flow, such as interest only (IO), principal only (PO), inverse floater, or structured note securities are expressly prohibited.



The Pension and Insurance Funds invest in collateralized mortgage obligations (CMOs) and other asset-backed securities to increase return and adjust duration of the portfolio. The Pension and Insurance Funds invest in exchange-traded funds to convert cash held in index funds to short-term equity investments. This practice is intended to make the performance of the index funds more closely track the performance of the index that the funds are intended to replicate.

Collateralized mortgage obligations, asset-backed securities, and exchange-traded funds pose no greater risk than other similar investment grade holdings in KRS' and the Fund's portfolios. The fair value of CMOs at June 30, 2009 and 2008, was approximately \$266 million and \$282 million, respectively; the fair value of asset-backed securities at June 30, 2009 and 2008, was approximately \$102 million and \$219 million, respectively; and, the fair value of exchange-traded funds at June 30, 2009 and 2008, was approximately \$196 million and \$451 million, respectively.

### Custodial Credit Risk for Deposits

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, KRS' deposits may not be returned. All non-investment related bank balances are held locally by Farmer's Bank & Capital Trust Company. All non-investment related bank balances are held in KRS' name and each individual account is insured by the Federal Deposit Insurance Corporation (FDIC). Effective October 3, 2008, FDIC deposit insurance temporarily increased from \$100,000 to \$250,000 for each individual account through December 31, 2009. On May 20, 2009, the temporary inclusion in FDIC deposit insurance coverage from \$100,000 to \$250,000 for each depositor was extended through December 13, 2013. These cash balances are invested daily by the local institution in overnight repurchase agreements which are required by Kentucky Administrative Regulations (200 KAR 14:081) to be collateralized at 102% of the principal amount.

At June 30, 2009 and 2008, deposits for KRS pension funds were \$3,568,343 and \$7,685,550, respectively. None of these balances were exposed to custodial credit risk as they were either insured or collateralized at required levels.

At June 30, 2009 and 2008, deposits for KRS insurance fund were \$289,006 and \$204,343, respectively. None of these balances were exposed to custodial credit risk as they were either insured or collateralized at required levels.

## Custodial Credit Risk for Investments

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, KRS will not be able to recover the value of investments or collateral securities that are in the possession of an outside third party. KRS does not have an explicit policy regarding Custodial Credit Risk for investments.

At June 30, 2009 and 2008, the following investments were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in KRS' name.

Pension Fund	2008	2009
Foreign Currency Investments	\$5,064,552	\$3,486,140
Insurance Fund		
Foreign Currency Investments	\$2,550,222	\$1,103,211

## Investment Policies

Kentucky Revised Statute 61.650 grants the responsibility for the investment of plan assets to the Board of Trustees of KRS. The Board of Trustees has established an Investment Committee which is specifically charged with the oversight and investment of plan assets. The Investment Committee recognizes their duty to invest the funds in accordance with the "Prudent Person Rule" set forth in Kentucky Revised Statute 61.650 and manage those funds consistent with the long-term nature of the Systems. The Committee has adopted a *Statement of Investment Policy* that contains guidelines and restrictions for deposits and investments. By statute, all investments are to be registered and held in the name of KRS. The *Statement of Investment Policy - Pension* contains the specific guidelines for the investment of pension assets. The *Statement of Investment Policy - Insurance* contains the specific guidelines for the investment of insurance assets. Additionally, the Committee establishes specific investment guidelines in the Investment Management Agreement for each investment management firm.

## Investment Summary

The following tables present a summary of the investments by type as of June 30, 2009 and 2008:

### **Pension Funds**

*As of June 30, 2009 and 2008*

Investment Summary	2009	2008
US Gov't & Agency Fixed Income Securities	\$2,301,499,200	\$3,167,327,985
US Corporate Fixed Income Securities	906,485,006	1,457,701,305
Municipal Debt Securities	20,093,413	3,189,898
Short-term Investments	1,017,432,938	199,792,495
Equity Securities	4,567,119,849	7,093,291,910
Private Equity Limited Partnerships	978,848,929	902,624,336
Real Estate	14,945,575	9,545,575
Impairment-Securities Lending*	(39,279,421)	--
	\$9,767,145,489	\$12,833,473,504

### **Insurance Funds**

*As of June 30, 2009 and 2008*

Investment Summary	2009	2008
US Gov't & Agency Fixed Income Securities	\$203,303,796	\$330,535,852
Short-term Investments	495,221,921	306,845,080
Equity Securities	1,222,700,032	1,868,037,394
Private Equity Limited Partnerships	109,261,059	100,291,617
Alternative Investment	135,000	135,000
Real Estate	600,000	--
Impairment-Securities Lending*	(8,984,210)	--
	\$2,022,237,598	\$2,605,844,943

*\*See Note E for detailed information.*

## Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The debt security portfolios are managed by the Investment Division staff and by external professional investment management firms. All portfolio managers are required by the *Statement of Investment Policy* to maintain diversified portfolios. Each portfolio is also required to be in compliance with risk management guidelines that are assigned to them based upon the portfolio's specific mandate. In total, the pension fund debt securities portfolio is managed using the following guidelines adopted by the KRS Board of Trustees:

- Bonds, notes or other obligations issued or guaranteed by the US Government, its agencies or instrumentalities are permissible investments and may be held without restrictions.
- The duration of the total fixed income portfolio shall not deviate from the blended Barclays Capital Aggregate Index/KRS High Yield Index by more than 10%.
- The duration of the TIPS portfolio shall not deviate from the Barclays Capital TIPS Index by more than 10%.
- The amount invested in the debt of a single corporation shall not exceed 5% of the total market value of KRS' assets.
- No public fixed income manager shall invest more than 5% of the market value of assets held in any single issue short term instrument, with the exception of US Government issued, guaranteed or agency obligations.
- The amount invested in SEC Rule 144a securities shall not exceed 7.5% of the market value of the aggregate market value of KRS' fixed income investments.

The table on the following page presents the KRS pension fund debt ratings at June 30, 2009 and 2008.

## Pension Funds Debt Securities Investments at Fair Value

As of June 30, 2009 and 2008

	2009	2008
AAA	\$443,511,715	\$1,852,092,028
AA+	16,824,633	3,146,943
AA	29,223,881	55,711,654
AA-	14,112,366	69,155,369
A+	64,261,249	64,663,074
A	156,858,363	94,408,564
A-	60,256,001	74,151,200
BBB+	81,424,712	107,130,804
BBB	107,077,314	106,177,690
BBB-	62,510,693	74,797,060
BB+	6,241,124	2,156,766
BB	13,693,541	8,702,285
BB-	2,212,888	--
B+	3,389,891	--
B	4,189,229	--
B-	923,953	3,403,560
CCC	7,319,295	--
CC	278,130	--
NR	46,927,613	166,287,656
Total Credit Risk Debt Securities	1,121,236,591	2,681,984,653
Government Bonds	394,575,945	267,456,013
Government Mortgage-Backed Securities (GNMA)	736,182,469	48,454,865
Indexed Linked Bonds	976,082,613	1,630,323,657
Total Debt Securities	\$3,228,077,618	\$4,628,219,188

At both June 30, 2009 and 2008, the weighted average quality rating of the pension fund debt securities portfolio was AA+. As of June 30, 2009 and 2008, the KRS pension portfolio had \$38,248,051 and \$14,262,611, respectively, in debt securities rated below BBB-. The fair value of securities in the BBB- rating category was \$62,510,693 and \$74,797,060, respectively, as of June 30, 2009 and 2008.

The insurance fund debt securities portfolio, by guidelines, is to be invested in US Government securities. As shown below, as of June 30, 2009 and 2008, the entire insurance fund was invested in Treasury Inflation Protected Securities (TIPS) which carry a US Government treasury rating.

### **Insurance Fund Credit Risk of Debt Securities**

*As of June 30, 2009 and 2008*

	2009	2008
Treasury Inflation Protected Securities	\$203,303,796	\$330,535,852

### Concentration of Credit Risk Debt Securities

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's exposure in a single issuer.

The total debt securities portfolio is managed using the following general guidelines adopted by the KRS Board of Trustees:

- Bonds, notes or other obligations issued or guaranteed by the US Government, its agencies or instrumentalities are permissible investments and may be held without restrictions.
- Debt obligations of any single US Corporation shall be limited to a maximum of 5 percent of the total portfolio at market value.

As of June 30, 2009, the Insurance Fund held 6% of its investments in Exchange Traded Funds (ETF's). The amount totaled \$131,013,116 as of June 30, 2009. ETF's are securities that represent ownership in a long term unit investment trust that holds a portfolio of common stocks designed to track the performance of a designated index. Similar to a stock, ETF's can be traded continuously throughout the trading day, or can be held for the long term.

As of June 30, 2009, the Pension Fund held 5.18% of its investment in the Federal National Mortgage Association (Fannie Mae). The amount totaled \$508,465,653 as of June 30, 2009. Historically, Fannie Mae has been a publicly owned government corporation, recently entering conservatorship by the US Government, to purchase mortgages from lenders and resell them to investors; shares of Fannie Mae are traded on the New York Stock Exchange. Fannie Mae's debt has been perceived to be nearly as safe as US Treasury debt, given the US Government's implicit guarantee which has allowed it to pay lower interest rates to its debt holders.

## Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The risk is managed by using the effective duration or option adjusted methodology. It is widely used in the management of fixed income portfolios by quantifying the risk of inherent rate changes. Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. The effective duration measures the sensitivity of the market price to changes in the yield curve. Effective duration is the most accurate duration measure when a significant portion of the securities are callable (redeemable) prior to maturity. The pension fund portfolio contains a number of securities that are callable and therefore interest rate risk is most appropriately measured by effective duration. KRS does not have a formal policy that constrains the duration of its fixed income portfolio.

The KRS pension fund debt securities portfolio benchmarks its debt securities portfolio to a weighted average benchmark consisting of the Barclays Capital Aggregate Index and the Barclays Capital US TIPS Index. At June 30, 2009 and 2008, the effective duration of the benchmark was 4.196 and 5.34, respectively. At the same points in time, the effective duration of the KRS pension fund debt securities portfolio was 4.45 and 5.25, respectively.

### **KRS Pension Funds Interest Rate Risk**

	2009	Weighted Average Effective Duration	2008	Weighted Average Effective Duration
Asset Backed Securities	\$101,699,907	0.36	\$219,570,012	0.65
Commercial Mortgage Backed Securities	106,131,129	4.40	284,582,636	4.69
Corporate Bonds	538,973,533	6.01	676,082,460	6.36
Government Agencies	131,949,021	3.70	156,429,791	3.75
Government Bonds	1,370,658,558	5.22	1,938,543,143	6.84
Government Mortgage Backed Securities	736,182,469	3.36	1,063,447,866	3.92
Municipal Bonds	20,093,413	7.48	3,189,898	8.20
Non-Government Backed Collateralized Mortgage Obligations	162,234,869	1.38	280,513,429	1.66
Other Fixed Income	60,154,719	2.45	5,859,953	--
Total	\$3,228,077,618	4.45	\$4,628,219,188	5.25

The KRS insurance fund long-term debt securities portfolio consists entirely of US Government issued bonds which are not callable (redeemable) prior to maturity. The modified duration, similar to effective duration, measures the sensitivity of the market prices to changes in the yield curve but does not assume that securities will be called prior to maturity. Since the modified duration measure most accurately reflects the interest rate sensitivity of the insurance fund portfolio, this measure is used for comparative purposes. The KRS insurance fund debt securities portfolio benchmarks its debt securities portfolio to the Barclays Capital US TIPS Index. At June 30, 2009 and 2008, the modified duration of the benchmark was 4.21 and 7.00, respectively. At the same points in time, the modified duration of the KRS insurance fund debt securities portfolio, excluding the pooled fund, was 7.46 and 7.8, respectively.

### **Insurance Fund Debt Securities Investments at Fair Value**

*As of June 30, 2009 and 2008*

Investment	2009		2008	
	Fair Value	Weighted Duration	Fair Value	Weighted Duration
Index Linked Government Bonds	\$203,303,796	7.46	\$330,535,852	7.80

### Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. KRS' currency risk exposure, or exchange rate risk, primarily resides within KRS' international equity holdings. KRS does not have a formal policy to limit foreign currency risk. The tables on the following pages present KRS' exposure to foreign currency risk at June 30, 2009 and 2008.



## Pension Funds Investments at Fair Value

As of June 30, 2009 and 2008

Foreign Equities	2009	2008
Australian Dollar	\$52,486,171	\$108,703,282
British Pound Sterling	224,888,843	347,502,090
Canadian Dollar	50,996,657	--
Danish Krone	2,837,998	10,215,805
Euro	321,770,916	602,712,262
Hong Kong Dollar	30,196,000	42,788,359
Japanese Yen	247,828,407	360,039,117
Malaysian Ringgit	5,471,194	4,822,484
New Taiwan Dollar	3,081,020	--
Norwegian Krone	6,671,898	8,462,661
Singapore Dollar	22,514,427	33,380,301
South African Rand	3,065,838	2,724,924
South Korean Won	7,575,310	8,878,461
Swedish Krona	12,083,380	22,736,416
Swiss Franc	87,953,959	132,737,018
International Equity Mutual Fund (various currencies)	484,383,452	3,375,984
<b>Total Securities Subject To:</b>		
Foreign Currency Risk	1,563, 805,470	1,689,079,164
USD (securities held by International Investment Managers)	507,357,622	899,009,887
Total International Investment Securities	\$2,071,163,092	\$2,588,089,051

## Insurance Funds Investments at Fair Value

As of June 30, 2009 and 2008

Foreign Equities	2009	2008
Australian Dollar	\$21,131,446	\$35,134,773
Brazilian Real	360,704	--
British Pound Sterling	83,508,340	109,029,509
Canadian Dollar	28,155,840	--
Danish Krone	1,352,355	3,306,933
Euro	123,126,478	189,066,281
Hong Kong Dollar	13,879,837	13,504,229
Japanese Yen	92,771,022	112,165,271
Malaysian Ringgit	1,576,196	1,373,536
Mexican Peso	58,868	--
New Taiwan Dollar	1,846,498	1,278,371
Norwegian Krone	3,071,113	2,758,439
Singapore Dollar	7,427,113	10,752,813
South African Rand	1,104,155	825,396
South Korean Won	3,859,160	2,678,342
Swedish Krona	4,425,313	7,113,693
Swiss Franc	32,594,627	41,108,670
International Equity Mutual Fund (various currencies)	80,975,131	102,752,830
<b>Total Securities Subject To:</b>		
Foreign Currency Risk	501,224,196	632,849,086
USD (securities held by International Investment Managers)	20,578,322	58,451,156
<b>Total International Investment Securities</b>	<b>521,802,518</b>	<b>\$691,300,242</b>

## NOTE E-SECURITIES LENDING TRANSACTIONS

Kentucky Revised Statutes Sections 61.650 and 386.020(2) permit the Pension and Insurance Funds to lend their securities to broker-dealers and other entities. The borrowers of the securities agree to transfer to the Funds' custodial banks either cash collateral or other securities with a fair value of 102 percent of the value of the borrowed securities. The borrowers of the securities simultaneously agree to return the borrowed securities in exchange for the collateral at a later date. Securities lent for cash collateral are presented as unclassified above in the schedule of custodial credit risk; securities lent for securities collateral are classified according to the category for the securities loaned. The types of securities lent include US Treasuries, US Agencies, US Corporate Bonds, US Equities, Global Fixed Income Securities, and Global Equities Securities. The *Statement of Investment Policy - Pension* and the *Statement of Investment Policy - Insurance* do not address any restrictions on the amount of loans that can be made. At June 30, 2009, KRS had no credit risk exposure to borrowers because the collateral amounts received exceeded the amounts out on loan. The contracts with the custodial banks require them to indemnify KRS if the borrowers fail to return the securities and one or both of the custodial banks have failed to live up to their contractual responsibilities relating to the lending of securities.

All securities loans can be terminated on demand by either party to the transaction, although the average term of the loans was 6 days, 10 days, and 24 days for the three investment portfolios subject to security lending agreements. One custodial bank invests cash collateral in securities that are permitted for investment by state statute and Board policy, which at year-end has a weighted-average maturity of 3 days for KRS. The other custodial bank invests cash collateral in the agent's short-term investment pool as permitted by state statute and Board policy, which at year-end has a weighted-average maturity of 24 days for the Pension Fund only. Neither of the Funds can pledge or sell collateral securities received unless the borrower defaults.

In September 2008, the ongoing financial market crisis took an adverse turn. Securities issued by many financial institutions and other entities experienced significant financial distress as a result of the financial market turmoil. Several government sponsored entities were put under the conservatorship of the US Government, and other foreign and domestic financial institutions received capital infusions or other types of capital support from their respective governments' central banks. The US Federal Reserve and US Treasury initiated various actions to enhance liquidity to stabilize the financial markets.

Following the cumulative effect of these factors, Northern Trust (the custodial bank for KRS) determined that certain securities held within the collateral pools had experienced impairment in value. Accordingly, Northern Trust determined in September 2008 a “Collateral Deficiency” assessment (in broad terms, the shortfall between the market NAV and the \$1 NAV) in its collateral pools under the terms of its Securities Lending Authorization Agreement.

Per the Agreement, each participant (including KRS) in the collateral pool was allocated their share of the Collateral Deficiency which comprised both unrealized (primarily) and realized losses. Northern Trust elected to book this obligation as a receivable to each collateral pool, avoiding any immediate cash outflows by participants. Northern Trust determined that the receivable could be removed or reduced through a variety of mechanisms such as potential future “reversal” of the unrealized Collateral Deficiency loss. In addition, the affected collateral pools were closed to new investors (ensuring that any “reversal” would not be shared with new investors which is disadvantageous to KRS). The ultimate value of these impaired assets will be driven by a variety of factors including market and regulatory forces, as well as the outcome of bankruptcy proceedings.

Subsequent to the Collateral Deficiency, Northern Trust made a direct cash contribution of approximately \$5.7 million to KRS whose cash collateral was invested in the Core and Global Collateral Pools. Northern Trust also reduced its portion of the fee split relating to revenues generated in the affected collateral pools by 20% (effective October 1, 2008 and continuing for the next 12 months).

KRS maintains a conservative approach to investing the cash collateral with Northern Trust for its securities lending collateral pools, emphasizing capital preservation, liquidity, and credit quality.

As of June 30, 2009, the impairment in the pension funds totaled \$39,279,421 and the impairment in the insurance fund totaled \$8,984,210, for a total impairment of \$48,263,631. This is an unrealized loss and may decrease with time if market values of assets increase.

## NOTE F-RISKS OF LOSS

KRS is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and, natural disasters. Under the provisions of the Kentucky Revised Statutes, the Kentucky Board of Claims is vested with full power and authority to investigate, hear proof, and to compensate persons for damages sustained to either person or property as a result of

negligence of the agency or any of its employees. Awards are limited to \$200,000 for a single claim and \$350,000 in aggregate per occurrence. Awards and a pro rata share of the operating cost of the Board of Claims are paid from the fund of the agency having a claim or claims before the Board.

Claims against the Board of Trustees of KRS, or any of its staff as a result of an actual or alleged breach of fiduciary duty, are insured with a commercial insurance policy. Coverage provided is limited to \$5,000,000 with a deductible amount of \$100,000. Defense costs incurred in defending such claims will be paid by the insurance company. However, the total defense cost and claims paid shall not exceed the total aggregate coverage of the policy.

Claims for job-related illnesses or injuries to employees are insured by the state's self-insured workers' compensation program. Payments approved by the program are not subject to maximum limitations. A claimant may receive reimbursement for all medical expenses related to the illness or injury and up to sixty-six and two-thirds percent (66 2/3%) of wages for temporary disability. Each agency pays premiums based on fund reserves and payroll.

Only claims pertaining to workers' compensation have been filed during the past three fiscal years. Settlements did not exceed insurance coverage in any of the past three fiscal years. There were no claims which were appealed to the Kentucky Workers' Compensation Board.

## NOTE G-CONTINGENCIES

In the normal course of business, KRS is involved in litigation concerning the right of participants, or their beneficiaries, to receive benefits. KRS does not anticipate any material losses as a result of the contingent liabilities.

## NOTE H-INCOME TAX STATUS

The Internal Revenue Service has ruled that KRS qualifies under Section 401(a) of the Internal Revenue Code and is, therefore, not subject to tax.

## NOTE I-DEFINED BENEFIT PENSION PLAN

All eligible employees of KRS participate in KERS (non-hazardous), a cost-sharing, multiple-employer defined pension plan that covers substantially all regular full-time employees in non-hazardous positions of any Kentucky State Department, Board or Agency directed by Executive Order to participate in the system. The plan provides for retirement, disability and death benefits to plan members. Plan benefits are extended to beneficiaries of plan members under certain circumstances. Plan members contributed 5% of creditable compensation for the periods ended June 30, 2009, 2008, and 2007. The Commonwealth contributed 10.01%, 8.5%, and 7.75% of covered payroll for the periods ended June 30, 2009, 2008, and 2007, respectively. The chart below includes the covered payroll and contribution amounts for KRS for the three periods included in this discussion.

	2009	2008	2007
Covered Payroll	\$12,864,700	\$11,846,700	\$11,269,800
Employer Contributions	\$1,287,800	\$1,007,000	\$873,400

## NOTE J-EQUIPMENT

### Equipment consists of the following:

*As of June 30, 2009 and 2008*

	2009	2008
Equipment, at cost	\$8,870,569	\$9,151,744
Less Accumulated Depreciation	(2,715,603)	(2,753,294)
	\$6,154,966	\$6,398,450

Depreciation expense for the fiscal years ended June 30, 2009 and 2008, amounted to \$299,578 and \$378,887, respectively.

As of June 30, 2009, KRS had approximately \$4.8 million in assets yet to be depreciated in relation to the Strategic Technology Advancements for the Retirement of Tomorrow (START) project. See Note K for further information regarding the START project.

## NOTE K-INTANGIBLE ASSETS

The provisions of Governmental Accounting Standards Board (GASB) Statement No. 51, "Accounting and Financial Reporting for Intangible Assets" require that intangible assets be recognized in the Statement of Plan Net Assets only if they are considered identifiable. In conjunction with the adoption of GASB No. 51, KRS has capitalized software costs as indicated below for the START project.

**Software consists of the following:**

*As of June 30, 2009 and 2008*

	2009	2008
Software, at cost	\$2,259,480	\$2,259,480
Less Accumulated Amortization	(345,931)	(119,983)
	\$1,913,549	\$2,139,497

Amortization expense for the fiscal years ended June 30, 2009 and 2008, amounted to \$225,948 and \$119,983, respectively.

In fiscal 2007, KRS initiated the START project. It is anticipated that START will be completed in its entirety in fiscal 2011. The objectives of the project are to provide employees with a technology solution that will enable them to serve more customers more quickly while providing continued superior service; to enhance business services and improve operational efficiency; to improve the accuracy of the information collected, maintained, and provided; to improve the timeliness and accuracy of responses to members' inquiries; to provide internet based, self-service capabilities to members, retirees, and employers; and, to ensure that retirees receive monthly benefits without error or disruption.

## NOTE L-ALTERNATIVE INVESTMENTS

On February 6, 2006, the health insurance fund of KRS loaned to KRS Perimeter Park West, Inc., a related party, \$700,000 for the purchase of real property at 1300 Louisville Road, Frankfort, Kentucky. The loan was not documented by a note, mortgage contract, or security interest in the property. The transfer of funds involved a commingling with the pension fund which was in violation of Internal Revenue Code Sections 401 and 420. However, KRS voluntarily self-corrected the violation in accordance with Revenue Procedure 2006-27 of the Internal Revenue Bulletin 2006-22, page 945, “*Employee Plans Compliance Resolution System (EPCRS)*”, and Section 1101 of the Pension Protection Act of 2006. The self-correction process involved a Letter of Direction sent to Northern Trust (the custodial bank of KRS) to reverse (and to correct the commingling of funds) the loan in the investment accounts.

Subsequent to the loan and purchase, the real property was valued by appraisal from \$135,000 to \$290,000. The range of appraisal values was based upon considerations of zoning classifications, site preparations and improvements, and other matters. KRS decided to reflect the alternative investment at the lowest appraisal value for the property in accordance with Governmental Accounting Standards Board (GASB) Statement No. 43 “*Financial Reporting for Postemployment Benefit Plans other than Pension Plans*”, paragraphs 22 and 92, and in accordance with the Principle of Conservatism of Generally Accepted Accounting Principles. Because of the significant difference in the appraised value of the property and the loan amount, and also because the loan was not documented by a note, mortgage contract, or security interest in the property, KRS was uncertain whether it would collect any principal (or interest) in excess of the minimum appraised property value. Therefore, as of June 30, 2006, KRS management elected to write-down the value of the Alternative Investment to an estimated collectible value of \$135,000, which has been the investment’s carrying value since the date of the loan. As a result, the unrealized loss amounted to \$565,000 (\$700,000 - \$135,000), which was included in the Combined Statement of Changes in Plan Net Assets – Insurance Funds for the 2006 fiscal year.

On June 11, 2009, the property at 1300 Louisville Road, along with Building B (a part of the Perimeter Park Complex purchased in 1998) was sold for a combined sale price of \$3,200,000 to the Commonwealth of Kentucky. The two properties were appraised individually on December 15, 2008, by the Forrestal Group, Inc., of Evansville, Indiana. The property at 1300 Louisville Road appraised for \$295,000, and Building B appraised for \$2,725,000.



On September 15, 2009, the management of KRS Perimeter Park West, Inc. repaid \$700,000 out of the proceeds from the sale of these two properties to the health insurance fund of KRS to repay the aforementioned loan. In addition to the repayment of the principal, interest in the amount of \$127,298 was paid. The simple interest was computed at 5.04% and the period of 1,317 days outstanding (February 6, 2006, to September 15, 2009) was used for the calculation. Interest in the amount of \$119,855 has been accrued as a receivable as of June 30, 2009. In addition, KRS reimbursed KRS Perimeter Park West, Inc. for expenses it incurred as part of the purchase of the real property at 1300 Louisville Road; the amount reimbursed totaled \$52,502. The Kentucky Finance and Administration Cabinet, Office of Policy and Audit, completed a comprehensive audit of the 1300 Louisville Road property purchase and issued a report in July 2009. KRS has fully implemented the four recommendations contained in the report.

## NOTE M-ACTUARIAL VALUATION

The provisions of Governmental Accounting Standards Board (GASB) Statement No. 50, "Pension Disclosures, an Amendment of GASB No. 25 and No. 27", require that actuarial information included in the Notes to the Required Supplementary Information be moved to the Notes to the Financial Statements. In conjunction with the adoption of GASB No. 50, KRS has moved the following information from the Notes to the Required Supplementary Information to the Notes to the Financial Statements:

### Pension Funds

	Non-Hazardous	Hazardous
Valuation Date	6/30/2009	6/30/2009
Actuarial Cost Method	Entry Age	Entry Age
Amortization Method	Level Percent Closed	Level Percent Closed
Remaining Amortization Period	28 Years	28 Years
Asset Valuation Method	5-year Smoothed Market	5-year Smoothed Market
Actuarial Assumptions:		
Investment Return*	7.75%	7.75%
*Includes Inflation Rate	4.5%	4.5%
Projected Salary Increases	4.75% - 17.0%	4.5% - 21.0%
Cost of Living Adjustment	None	None

### Insurance Funds

	Non-Hazardous	Hazardous
Valuation Date	6/30/2009	6/30/2009
Actuarial Cost Method	Entry Age	Entry Age
Amortization Method	Level Percent Closed	Level Percent Closed
Remaining Amortization Period	28 Years	28 Years
Asset Valuation Method	5-year Smoothed Market	5-year Smoothed Market
Medical Trend Assumption	10.5% - 5.0%	10.5% - 5.0%
Year of Ultimate Trend	2017	2017
Actuarial Assumptions:		
Investment Return*	7.75%**	7.75%
*Includes Inflation Rate	4.5%	4.5%

\*\*The actuarial investment rate of return for developing insurance liabilities and contribution rates is 4.5% for KERS non-hazardous and SPRS. The lower rate is required under the parameters set by the Governmental Accounting Standards Board Statement No. 43 and No. 45 given the lack of pre-funding of insurance benefits.

KRS had the following Unfunded Actuarial Accrued Liabilities as of June 30, 2009 and 2008:

Pension Funds	2009	2008
Kentucky Employees Retirement System Non-Hazardous	\$5,863,938,167	\$4,810,897,092
Kentucky Employees Retirement System Hazardous	171,908,494	115,878,613
County Employees Retirement System Non-Hazardous	2,262,123,521	1,572,715,253
County Employees Retirement System Hazardous	826,957,060	652,254,722
State Police Retirement System	272,361,879	236,237,806
Total Pension Funds	\$9,397,289,121	\$7,387,923,486
Insurance Funds	2009	2008
Kentucky Employees Retirement System Non-Hazardous	\$3,973,152,991	\$4,828,301,524
Kentucky Employees Retirement System Hazardous	189,497,578	253,495,455
County Employees Retirement System Non-Hazardous	1,853,754,249	2,414,310,296
County Employees Retirement System Hazardous	942,417,481	1,156,256,638
State Police Retirement System	240,504,494	321,146,271
Total Insurance Funds	7,199,326,793	8,973,510,184
Total Unfunded Actuarial Accrued Liability	\$16,596,615,914	\$16,361,493,670

The Schedule of Funding Progress for the Pension Funds is on pages 71 through 73. The Schedule of Funding Progress for the Insurance Funds is on pages 73 through 75.

# NOTE N-HOUSE BILL 1 PENSION REFORM

House Bill 1 was signed by the Governor of the Commonwealth on June 27, 2008. It contained a number of changes that KRS implemented effective September 1, 2008. House Bill 1 also contained statutory changes to Kentucky Revised Statute 61.637, the law governing members who become reemployed following retirement.

Employee contributions for non-hazardous employees who began participating with KRS on, or after, September 1, 2008, contributed a total of 6% of all their creditable compensation to KRS. Five percent of this contribution was deposited to the individual employee's account, while the other 1% was deposited to an account created under 26 USC Section 401(h) in the KRS Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). Hazardous employees who began participating with KRS on, or after, September 1, 2008, contributed a total of 9% of all their creditable compensation, with 8% credited to the member's account, and 1% deposited to the KRS Pension Fund 401(h) account. Interest paid each June on these members' accounts is set at a rate of 2.5%. If a member terminates his/her employment and applies to take a refund, the member is entitled to a full refund of contributions and interest in his/her account; however, the 1% contributed to the 401(h) account in the KRS Pension Fund is non-refundable and is forfeited.

Employer contribution rates for KERS and SPRS for fiscal 2009 were established in the 2008-2010 Executive Branch Budget (House Bill 460) during the 2008 session of the Kentucky General Assembly. Employer contribution rates for CERS for fiscal 2009 were enacted by House Bill 1 in the 2008 Special Legislative Session. The Employer contribution rates were established as follows (effective July 1, 2008):

KERS-Non Hazardous	10.01%
KERS-Hazardous	24.35%
CERS-Non Hazardous	13.50%
CERS-Hazardous	29.50%
SPRS	30.07%

Although the majority of changes in this legislation only impacted new hires on, or after, September 1, 2008, there were some changes that affected all members and retirees of KRS:

- **Cost of Living Adjustment (COLA):** Beginning July 1, 2009, COLA for retirees will now be set at 1.5% each July 1. The Kentucky General Assembly may increase this percentage at any time, but only if appropriate funding is allocated. The General Assembly may also reduce or suspend the annual COLA.
- **Service Purchase Costs:** The actuarial factors used to determine the cost to purchase a service will now assume the earliest date a member can retire with an unreduced benefit, and will also include a COLA. This change will result in an increased service purchase cost for any purchase calculated on, or after, September 1, 2008. This change will also affect the cost billed to employers for sick leave when an employee retires.
- **Payment Options:** The Partial Lump Sum Payment Options was only available for those employees who retired on, or before, January 1, 2009.

Kentucky Revised Statute 61.637 was modified significantly by House Bill 1. Specifically, a retiree reemployed on, or after, September 1, 2008, cannot accrue additional service credit in KRS, even if employed in a position that would otherwise be required to participate in KRS. However, if a retiree is reemployed in a regular full time position, his/her employer is required to pay contributions on all creditable compensation earned during the period of reemployment. These contributions are used to reduce the unfunded actuarial liability.

## NOTE O—MEDICARE PRESCRIPTION DRUG PLAN

In fiscal 2009, Kentucky Retirement Systems submitted an application to the Centers for Medicare & Medicaid Services, of the Department of Health & Human Services, to enter into a contract to offer a Medicare Prescription Drug Plan (PDP), as described in the Medicare Prescription Drug Benefit Final Rule published in the Federal Register on January 28, 2005 (70 Fed. Reg. 4194). As part of the application process, KRS was required to establish a segregated Insolvency Account in the amount of \$100,000; this account must retain a minimum balance of \$100,000. The account consists of cash and/or cash equivalents and is invested on a daily basis. On February 19, 2009, KRS established the KRS Insurance Prescription Drug Fund at its custodial bank.

## NOTE P – REIMBURSEMENT OF RETIRED – REEMPLOYED HEALTH INSURANCE

As a result of the passage of House Bill 1, if a retiree is reemployed on or after September 1, 2008 in a regular full time position and has chosen health insurance coverage through KRS, the employer is required to reimburse KRS for the health insurance premium paid on the retiree's behalf, not to exceed the cost of the single premium rate. KRS has begun collecting these reimbursement payments. As of June 30, 2009, the reimbursement totaled \$206,859.

# REQUIRED SUPPLEMENTARY INFORMATION

## Schedule of Funding Progress

### Kentucky Employees Retirement System (KERS) - Pension Fund

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal (b)	Unfunded AAL (UAAL) (b-a)	Percent Funded (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
<b>Non-Hazardous</b>						
June 30, 2002*	\$6,654,084,196	\$6,026,094,764	\$(627,989,432)	110.4%	\$1,595,809,458	(39.3)%
June 30, 2003**	6,351,318,832	6,520,463,188	169,144,356	97.4	1,658,604,696	10.2
June 30, 2004**	6,000,513,743	7,049,613,171	1,049,099,428	85.1	1,645,412,496	63.8
June 30, 2005**	5,578,685,746	7,579,074,839	2,000,389,093	73.6	1,655,907,288	120.8
June 30, 2006**	5,394,086,323	8,994,826,247	3,600,739,924	60.0	1,702,230,777	211.5
June 30, 2007**	5,396,782,459	9,485,939,277	4,089,156,818	56.9	1,780,223,493	229.7
June 30, 2008**	5,318,792,893	10,129,689,985	4,810,897,092	52.5	1,837,873,488	261.8
June 30, 2009**	4,794,611,365	10,658,549,532	5,863,938,167	45.0	1,754,412,912	334.2
<b>Hazardous</b>						
June 30, 2002*	\$376,384,302	\$322,069,164	\$(54,315,138)	116.9%	\$125,275,925	(43.4)%
June 30, 2003**	385,925,722	356,879,133	(29,046,589)	108.1	129,088,956	(22.5)
June 30, 2004**	397,212,763	403,578,036	6,365,273	98.4	126,664,812	5.0
June 30, 2005**	405,288,662	438,994,257	33,705,595	92.3	131,687,088	25.6
June 30, 2006**	427,984,192	508,655,903	80,671,711	84.1	138,747,320	58.1
June 30, 2007**	467,287,809	558,992,329	91,704,520	83.6	144,838,020	63.3
June 30, 2008**	502,132,214	618,010,827	115,878,613	81.2	148,710,060	77.9
June 30, 2009**	502,503,287	674,411,781	171,908,494	74.5	146,043,576	117.7
<b>Total</b>						
June 30, 2002*	\$7,030,468,498	\$6,348,163,928	\$(682,304,570)	110.7%	\$1,721,085,383	(39.6)%
June 30, 2003**	6,737,244,554	6,877,342,321	140,097,767	98.0	1,787,693,652	7.8
June 30, 2004**	6,397,726,506	7,453,191,207	1,055,464,701	85.8	1,772,077,308	59.6
June 30, 2005**	5,983,974,408	8,018,069,096	2,034,094,688	74.6	1,787,594,376	113.8
June 30, 2006**	5,822,070,515	9,503,482,150	3,681,411,634	61.3	1,840,978,097	200.0
June 30, 2007**	5,864,070,268	10,044,931,606	4,180,861,338	58.4	1,925,061,513	217.2
June 30, 2008**	5,820,925,107	10,747,700,812	4,926,775,705	54.2	1,986,583,548	248.0
June 30, 2009**	5,297,114,652	11,332,961,313	6,035,846,661	46.7	1,900,456,488	317.6

\* Asset valuation method was changed to reflect the amount of investment gain/loss for the current year equally over the current year and following four years

\*\*Covered payroll was actuarially computed as opposed to estimated in prior years

## Schedule of Funding Progress

### County Employees Retirement System (CERS) - Pension Fund

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal (b)	Unfunded AAL (UAAL) (b-a)	Percent Funded (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
<b>Non-Hazardous</b>						
June 30, 2002*	\$5,397,787,158	\$4,165,355,149	\$(1,232,432,009)	129.6%	\$1,663,183,629	(74.1)%
June 30, 2003**	5,286,580,047	4,417,597,802	(868,982,245)	119.7	1,796,451,180	(48.4)
June 30, 2004**	5,187,851,530	4,936,459,488	(251,392,042)	105.1	1,826,870,880	(13.8)
June 30, 2005**	5,059,208,687	5,385,156,690	325,948,003	94.0	1,885,275,000	17.3
June 30, 2006**	5,162,894,136	6,179,569,267	1,016,675,131	83.5	1,982,437,473	51.3
June 30, 2007**	5,467,824,480	6,659,446,126	1,191,621,646	82.1	2,076,848,328	57.4
June 30, 2008**	5,731,502,438	7,304,217,691	1,572,715,253	78.5	2,166,612,648	72.6
June 30, 2009**	5,650,789,991	7,912,913,512	2,262,123,521	71.4	2,183,611,848	103.6
<b>Hazardous</b>						
June 30, 2002*	\$1,485,511,793	\$1,327,291,273	\$(158,220,520)	111.9%	\$345,849,277	(45.7)%
June 30, 2003**	1,467,004,856	1,499,628,782	32,623,926	97.8	374,700,732	8.7
June 30, 2004**	1,457,612,042	1,640,830,120	183,218,078	88.8	392,562,624	46.7
June 30, 2005**	1,452,353,023	1,795,617,335	343,264,312	80.9	411,121,728	83.5
June 30, 2006**	1,515,075,017	2,020,142,770	505,067,753	75.0	426,927,550	118.3
June 30, 2007**	1,639,288,924	2,208,736,179	569,447,255	74.2	458,998,956	124.1
June 30, 2008**	1,750,867,373	2,403,122,095	652,254,722	72.9	474,241,332	137.5
June 30, 2009**	1,751,487,540	2,578,444,600	826,957,060	67.9	469,315,464	176.2
<b>Total</b>						
June 30, 2002*	\$6,883,298,951	\$5,492,646,422	\$(1,390,652,529)	125.3%	\$2,009,032,906	(69.2)%
June 30, 2003**	6,753,584,903	5,917,226,584	(836,358,319)	114.1	2,171,151,912	(38.5)
June 30, 2004**	6,645,463,572	6,577,289,608	(68,173,964)	101.0	2,219,433,504	(3.1)
June 30, 2005**	6,511,561,710	7,180,774,025	669,212,315	90.7	2,296,396,728	29.2
June 30, 2006**	6,677,969,153	8,199,712,037	1,521,742,884	81.4	2,409,365,023	63.2
June 30, 2007**	7,107,113,404	8,868,182,305	1,761,068,901	80.1	2,535,847,284	69.4
June 30, 2008**	7,482,369,811	9,707,339,786	2,224,969,975	77.1	2,640,853,980	84.3
June 30, 2009**	7,402,277,531	10,491,358,112	3,089,080,581	70.6	2,652,927,312	116.4

\* Asset valuation method was changed to reflect the amount of investment gain/loss for the current year equally over the current year and following four years

\*\*Covered payroll was actuarially computed as opposed to estimated in prior years



## Schedule of Funding Progress

### State Police Retirement System (SPRS) - Pension Fund

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal (b)	Unfunded AAL (UAAL) (b-a)	Percent Funded (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
June 30, 2002*	\$438,955,465	\$380,790,346	\$(58,165,119)	115.3%	%44,314,696	(131.2)%
June 30, 2003**	413,063,576	414,881,459	1,817,883	99.6	43,760,832	4.2
June 30, 2004**	385,077,195	437,482,425	52,405,230	88.0	43,835,208	119.6
June 30, 2005**	353,511,622	458,593,576	105,081,954	77.1	43,720,092	240.4
June 30, 2006**	344,016,197	516,482,298	172,466,101	66.6	47,743,865	361.2
June 30, 2007**	348,806,508	547,955,286	199,148,778	63.7	49,247,580	404.4
June 30, 2008**	350,891,451	587,129,257	236,237,806	59.8	53,269,080	443.5
June 30, 2009**	329,966,989	602,328,868	272,361,879	54.8	51,660,396	527.2

\* Asset valuation method was changed to reflect the amount of investment gain/loss for the current year equally over the current year and following four years

\*\*Covered payroll was actuarially computed as opposed to estimated in prior years

## Schedule of Funding Progress

### State Police Retirement System (SPRS) - Insurance Fund

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal (b)	Unfunded AAL (UAAL) (b-a)	Percent Funded (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
June 30, 2002*	\$86,867,391	\$165,445,412	\$78,578,021	52.5%	\$44,314,696	177.3%
June 30, 2003**	90,747,967	184,501,205	93,753,238	49.2	43,760,832	214.2
June 30, 2004**	96,622,908	197,604,301	100,981,393	48.9	43,835,208	230.4
June 30, 2005**	100,207,082	234,159,510	133,952,428	42.8	43,720,092	306.4
June 30, 2006**	105,580,269	582,580,867	477,000,598	18.1	47,743,865	999.1
June 30, 2007**	115,215,912	432,763,229	317,547,317	26.6	49,247,580	644.8
June 30, 2008**	123,961,197	445,107,468	321,146,271	27.8	53,269,080	602.9
June 30, 2009**	123,526,647	364,031,141	240,504,494	33.9	51,660,396	465.5

\* Asset valuation method was changed to reflect the amount of investment gain/loss for the current year equally over the current year and following four years

\*\*Covered payroll was actuarially computed as opposed to estimated in prior years

## Schedule of Funding Progress

### Kentucky Employees Retirement System (KERS) - Insurance Fund

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal (b)	Unfunded AAL (UAAL) (b-a)	Percent Funded (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
<b>Non-Hazardous</b>						
June 30, 2002*	\$521,250,455	\$1,907,683,881	\$1,386,433,426	27.3%	\$1,595,809,458	86.9%
June 30, 2003**	553,885,082	2,093,210,321	1,539,325,239	26.5	1,658,604,696	92.8
June 30, 2004**	600,586,961	2,335,905,365	1,735,318,404	25.7	1,645,412,496	105.5
June 30, 2005**	607,068,351	2,680,559,188	2,073,490,837	22.7	1,655,907,288	125.2
June 30, 2006**	611,350,765	7,815,480,774	7,204,130,009	7.8	1,702,230,777	423.2
June 30, 2007**	621,171,658	5,201,355,055	4,580,183,397	11.9	1,780,223,493	257.3
June 30, 2008**	603,197,761	5,431,499,285	4,828,301,524	11.1	1,837,873,488	262.7
June 30, 2009**	534,172,580	4,507,325,571	3,973,152,991	11.9	1,754,412,912	226.5
<b>Hazardous</b>						
June 30, 2002*	\$135,874,582	\$236,819,050	\$100,944,468	57.4%	\$125,275,925	80.6%
June 30, 2003**	151,459,500	283,178,335	131,718,835	53.5	129,088,956	102.0
June 30, 2004**	169,158,879	323,503,563	154,344,684	52.3	126,664,812	121.9
June 30, 2005**	187,947,644	386,844,695	198,897,051	48.6	131,687,088	151.0
June 30, 2006**	212,833,818	621,237,856	408,404,538	34.3	138,747,320	294.4
June 30, 2007**	251,536,756	504,842,981	253,306,225	49.8	144,838,020	174.9
June 30, 2008**	288,161,759	541,657,214	253,495,455	53.2	148,710,060	170.5
June 30, 2009**	301,634,592	491,132,170	189,497,578	61.4	146,043,576	129.8
<b>Total</b>						
June 30, 2002*	\$657,125,037	\$2,144,502,931	\$1,487,377,894	30.6%	\$1,721,085,383	86.4%
June 30, 2003**	705,344,582	2,376,388,656	1,671,044,074	29.7	1,787,693,652	93.5
June 30, 2004**	769,745,840	2,659,408,928	1,889,663,088	28.9	1,772,077,308	106.6
June 30, 2005**	795,015,995	3,067,403,883	2,272,387,888	25.9	1,787,594,376	127.1
June 30, 2006**	824,184,083	8,436,718,630	7,612,534,547	9.8	1,840,178,097	413.5
June 30, 2007**	872,708,414	5,706,198,036	4,833,489,622	15.3	1,925,061,513	251.1
June 30, 2008**	891,359,520	5,973,156,499	5,081,796,979	14.9	1,986,583,548	255.8
June 30, 2009**	835,807,172	4,998,457,741	4,162,650,569	16.7	1,900,456,488	219.0

\* Asset valuation method was changed to reflect the amount of investment gain/loss for the current year equally over the current year and following four years

\*\*Covered payroll was actuarially computed as opposed to estimated in prior years

**Schedule of Funding Progress**

**County Employees Retirement System (CERS) - Insurance Fund**

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal (b)	Unfunded AAL (UAAL) (b-a)	Percent Funded (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
<b>Non-Hazardous</b>						
June 30, 2002*	\$450,497,307	\$1,977,577,038	\$1,527,079,731	22.8%	\$1,663,183,629	91.8%
June 30, 2003**	520,060,105	2,176,963,259	1,656,903,154	23.9	1,796,451,180	92.2
June 30, 2004**	585,399,072	2,438,734,696	1,853,335,624	24.0	1,826,870,880	101.5
June 30, 2005**	663,941,949	2,788,754,654	2,124,812,705	23.8	1,885,275,000	112.7
June 30, 2006**	777,726,590	4,607,223,639	3,829,497,049	16.9	1,982,437,473	193.2
June 30, 2007**	960,285,900	3,333,966,070	2,373,680,170	28.8	2,076,848,328	114.3
June 30, 2008**	1,168,883,170	3,583,193,466	2,414,310,296	32.6	2,166,612,648	111.4
June 30, 2009**	1,216,631,769	3,070,386,018	1,853,754,249	39.6	2,183,611,848	84.9
<b>Hazardous</b>						
June 30, 2002*	\$234,683,878	\$781,184,974	\$546,501,096	30.1%	\$345,849,279	158.0%
June 30, 2003**	269,190,080	935,650,662	666,460,582	28.8	374,700,732	177.9
June 30, 2004**	310,578,162	1,025,684,477	715,106,315	30.3	392,562,624	182.2
June 30, 2005**	359,180,461	1,283,299,092	924,118,631	28.0	411,121,728	224.8
June 30, 2006**	422,785,042	1,928,481,371	1,505,696,329	21.9	426,927,550	352.7
June 30, 2007**	512,926,549	1,646,460,011	1,133,533,462	31.2	458,998,956	247.0
June 30, 2008**	613,526,319	1,769,782,957	1,156,256,638	34.7	474,241,332	243.8
June 30, 2009**	651,130,782	1,593,548,263	942,417,481	40.9	469,315,464	200.8
<b>Total</b>						
June 30, 2002*	\$685,181,185	\$2,758,762,012	\$2,073,580,827	24.8%	\$2,009,032,908	103.2%
June 30, 2003**	789,250,185	3,112,613,921	2,323,363,736	25.4	2,171,151,912	107.0
June 30, 2004**	895,977,234	3,464,419,173	2,568,441,939	25.9	2,219,433,504	115.7
June 30, 2005**	1,023,122,410	4,072,053,746	3,048,931,336	25.1	2,296,396,728	132.8
June 30, 2006**	1,200,511,632	6,535,705,010	5,335,193,378	18.4	2,409,365,023	221.4
June 30, 2007**	1,473,212,449	4,980,426,081	3,507,213,632	29.6	2,535,847,284	138.3
June 30, 2008**	1,782,409,489	5,352,976,423	3,570,566,934	33.3	2,640,853,980	135.2
June 30, 2009**	1,867,762,551	4,663,934,281	2,796,171,730	40.0	2,652,927,312	105.4

\* Asset valuation method was changed to reflect the amount of investment gain/loss for the current year equally over the current year and following four years

\*\*Covered payroll was actuarially computed as opposed to estimated in prior years

**Schedule of Contributions From Employers and Other Contributing Entities**  
**Kentucky Employees Retirement System (KERS) Non-Hazardous**

Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
<b>Pension</b>				
June 30, 2002	--	\$1,760,328	--	--
June 30, 2003	\$4,905,399	7,597,450	--	154.9%
June 30, 2004	47,739,067	21,696,543	--	45.4
June 30, 2005	85,798,943	50,332,750	--	58.7
June 30, 2006	129,125,800	60,680,607	--	47.0
June 30, 2007	176,774,106	88,248,677	--	49.9
June 30, 2008	264,742,985	104,655,217	--	39.5
June 30, 2009	294,495,010	112,383,083	--	38.2
<b>Insurance</b>				
June 30, 2002	\$93,993,177	\$93,912,017	--	99.9%
June 30, 2003	92,052,561	65,335,219	--	71.0
June 30, 2004	77,951,553	78,016,737	--	100.1
June 30, 2005	86,974,271	49,909,228	--	57.4
June 30, 2006	202,498,302	47,634,639	--	23.5
June 30, 2007	217,268,964	64,014,332	\$10,744,049	34.0
June 30, 2008	558,745,820	56,744,942	6,633,538	11.3
June 30, 2009	362,707,378	74,542,932	8,167,982	22.8
<b>Total</b>				
June 30, 2002	\$93,993,177	\$95,672,345	--	101.8%
June 30, 2003	96,957,960	72,932,669	--	75.2
June 30, 2004	125,690,620	99,713,280	--	79.3
June 30, 2005	172,773,214	100,241,978	--	58.0
June 30, 2006	331,624,102	108,315,246	--	43.8
June 30, 2007	396,543,070	152,263,009	\$10,744,049	39.8
June 30, 2008	823,488,805	161,400,159	6,633,538	20.4
June 30, 2009	657,202,388	186,926,015	8,167,982	29.7

**Schedule of Contributions From Employers and Other Contributing Entities  
Kentucky Employees Retirement System (KERS) Hazardous**

Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
<b>Pension</b>				
June 30, 2002	\$7,742,052	\$7,933,817	--	102.5%
June 30, 2003	8,511,402	7,322,607	--	86.0
June 30, 2004	9,600,978	9,769,580	--	101.8
June 30, 2005	9,449,878	9,758,547	--	103.3
June 30, 2006	10,787,472	10,803,206	--	100.1
June 30, 2007	12,219,689	13,237,321	--	108.3
June 30, 2008	14,147,341	15,257,079	--	107.8
June 30, 2009	15,708,254	15,843,289	--	100.9
<b>Insurance</b>				
June 30, 2002	\$15,859,932	\$15,887,399	--	100.2%
June 30, 2003	15,839,215	15,883,263	--	100.3
June 30, 2004	14,942,092	14,959,617	--	100.1
June 30, 2005	15,892,977	15,395,977	--	96.9
June 30, 2006	28,517,563	17,011,745	--	59.7
June 30, 2007	31,304,778	19,534,819	\$104,669	62.7
June 30, 2008	51,214,929	21,997,341	73,891	43.1
June 30, 2009	34,670,467	20,807,204	186,081	60.6
<b>Total</b>				
June 30, 2002	\$23,601,984	\$23,821,216	--	100.9%
June 30, 2003	24,350,617	23,205,870	--	95.3
June 30, 2004	24,543,070	24,729,197	--	100.8
June 30, 2005	25,342,855	25,154,524	--	99.3
June 30, 2006	39,305,035	27,814,951	--	70.8
June 30, 2007	43,524,467	32,772,140	\$104,669	75.3
June 30, 2008	65,362,270	37,254,420	73,891	57.1
June 30, 2009	50,378,721	36,650,493	186,081	73.1

**Schedule of Contributions From Employers and Other Contributing Entities  
County Employees Retirement System (CERS) Non-Hazardous**

Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
<b>Pension</b>				
June 30, 2002	\$3,326,367	\$5,528,348	--	166.2%
June 30, 2003	8,682,257	11,855,694	--	136.6
June 30, 2004	43,111,505	44,028,465	--	102.1
June 30, 2005	53,117,955	54,616,800	--	102.8
June 30, 2006	83,123,669	90,834,052	--	109.3
June 30, 2007	112,508,305	124,260,850	--	110.4
June 30, 2008	138,311,398	150,925,334	--	109.1
June 30, 2009	161,097,151	179,284,551	--	111.3
<b>Insurance</b>				
June 30, 2002	\$102,119,475	\$102,150,543	--	100.0%
June 30, 2003	102,038,427	99,234,843	--	97.3
June 30, 2004	89,289,520	89,344,241	--	100.1
June 30, 2005	106,612,633	106,638,253	--	100.0
June 30, 2006	272,942,757	128,867,817	--	47.2
June 30, 2007	285,600,490	147,608,801	\$9,623,431	55.1
June 30, 2008	406,541,729	196,110,111	6,003,181	49.7
June 30, 2009	264,733,532	123,761,611	7,623,628	49.7
<b>Total</b>				
June 30, 2002	\$105,445,842	\$107,678,891	--	102.1%
June 30, 2003	110,720,684	111,090,537	--	100.3
June 30, 2004	132,401,025	133,372,706	--	100.7
June 30, 2005	159,730,588	161,255,053	--	101.0
June 30, 2006	356,066,426	219,701,869	--	61.7
June 30, 2007	398,108,795	271,869,651	\$9,623,431	70.7
June 30, 2008	544,853,127	347,035,445	6,003,181	64.8
June 30, 2009	425,830,683	303,046,162	7,623,628	72.9

**Schedule of Contributions From Employers and Other Contributing Entities  
County Employees Retirement System (CERS) Hazardous**

Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
<b>Pension</b>				
June 30, 2002	\$10,582,988	\$11,054,949	--	104.5%
June 30, 2003	19,920,223	16,905,556	--	84.9
June 30, 2004	27,050,382	27,640,775	--	102.2
June 30, 2005	39,437,725	39,947,747	--	101.3
June 30, 2006	44,059,404	49,976,485	--	113.4
June 30, 2007	53,889,838	61,553,118	--	114.2
June 30, 2008	64,082,063	72,154,734	--	112.6
June 30, 2009	69,056,365	78,151,677	--	113.2
<b>Insurance</b>				
June 30, 2002	\$45,721,274	\$45,730,333	--	100.0%
June 30, 2003	43,502,755	45,243,950	--	104.0
June 30, 2004	47,018,046	47,036,777	--	100.0
June 30, 2005	54,094,495	54,106,577	--	100.0
June 30, 2006	98,297,535	64,853,778	--	66.0
June 30, 2007	115,938,899	70,072,785	\$656,523	61.0
June 30, 2008	168,723,639	90,113,200	419,774	53.7
June 30, 2009	126,757,348	70,785,241	627,938	56.3
<b>Total</b>				
June 30, 2002	\$56,304,262	\$56,785,282	--	100.9%
June 30, 2003	63,422,978	62,149,506	--	98.0
June 30, 2004	74,068,428	74,677,552	--	100.8
June 30, 2005	93,532,220	94,054,324	--	100.6
June 30, 2006	142,356,939	114,830,263	--	80.7
June 30, 2007	169,828,737	131,625,903	\$656,523	101.6
June 30, 2008	232,805,702	162,267,934	419,774	70.0
June 30, 2009	195,813,713	148,936,918	627,938	76.4

**Schedule of Contributions From Employers and Other Contributing Entities**  
**State Police Retirement System (SPRS)**

Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
<b>Pension</b>				
June 30, 2002	--	\$(17,643)	--	--
June 30, 2003	--	(20,061)	--	--
June 30, 2004	\$1,175,711	1,152,752	--	98.0%
June 30, 2005	3,730,805	2,851,461	--	76.4
June 30, 2006	6,352,777	4,244,445	--	66.8
June 30, 2007	9,023,665	6,142,326	--	68.1
June 30, 2008	13,823,490	7,443,277	--	53.8
June 30, 2009	15,951,841	8,186,259	--	51.3
<b>Insurance</b>				
June 30, 2002	\$9,563,111	\$9,579,899	--	100.1%
June 30, 2003	9,443,588	9,654,313	--	102.2
June 30, 2004	8,434,834	8,455,498	--	100.2
June 30, 2005	8,608,536	6,631,031	--	77.0
June 30, 2006	12,554,648	6,880,517	--	54.8
June 30, 2007	15,233,320	6,488,600	\$361,942	45.0
June 30, 2008	43,469,735	7,329,229	183,564	17.3
June 30, 2009	29,324,666	7,413,552	229,240	26.1
<b>Total</b>				
June 30, 2002	\$9,563,111	\$9,562,256	--	100.0%
June 30, 2003	9,443,588	7,634,252	--	102.0
June 30, 2004	9,610,545	9,608,250	--	100.0
June 30, 2005	12,339,341	9,482,492	--	76.8
June 30, 2006	18,907,425	11,124,962	--	58.8
June 30, 2007	24,256,985	12,630,926	\$361,942	54.0
June 30, 2008	57,293,225	14,772,506	183,564	26.0
June 30, 2009	45,276,507	15,599,811	229,240	34.9



# ADDITIONAL SUPPORTING SCHEDULES

## Schedule of Administrative Expenses

For the Fiscal Years Ended June 30, 2009, and 2008

(Dollars in Thousands)	2009	2008
<b>Personal Services</b>		
Salaries and Per Diem	\$13,323	\$12,339
Fringe Benefits	3,964	3,445
Tuition Assistance	62	56
Total Personal Services	17,349	15,840
<b>Contractual Services</b>		
Actuarial	263	474
Audit	49	49
Legal	231	843
Medical	298	222
Contractual	755	774
Total Contractual Services	1,596	2,362
<b>Communication</b>		
Printing	433	325
Telephone	170	138
Postage	655	634
Travel	166	205
Total Communication	1,424	1,302
<b>Rentals</b>		
Office Space	1,057	1,056
Equipment	97	86
Total Rentals	1,154	1,142
<b>Miscellaneous</b>		
Utilities	191	258
Supplies	220	230
Insurance	80	64
Maintenance	11	642
Other	1,418	569
Total Miscellaneous	1,920	1,763
Depreciation/Amortization	525	498
Total Pension Fund Administrative Expense	23,968	22,907
Healthcare Administrative Expenses	8,869	7,477
Total Administrative Expenses	\$32,837	\$30,384

## Schedule of Investment Expenses

For the Fiscal Years Ended June 30, 2009 and 2008

(Dollars in Thousands)	2009	2008
<b>Pension Funds</b>		
<b>Security Lending Fees</b>		
Broker Rebates	\$19,498	\$115,960
Lending Agent Fees	3,683	4,950
Total Security Lending	23,181	120,910
Common Stock Commissions	8,342	7,915
<b>Contractual Services</b>		
Investment Management	12,440	12,273
Security Custody	208	209
Investment Consultant	621	231
Investment Related Travel	32	37
Total Contractual Services	13,301	12,750
<b>Insurance Funds</b>		
<b>Security Lending Fees</b>		
Broker Rebates	3,951	27,476
Lending Agent Fees	695	1,008
Total Security Lending	4,646	28,484
Common Stock Commissions	929	1,249
<b>Contractual Services</b>		
Investment Management	1,214	1,702
Security Custody	42	41
Investment Consultant	120	46
Investment Related Travel	7	7
Total Contractual Services	1,383	1,796
Total Investment Expenses	\$51,782	\$173,104

**Schedule of Professional Consultant Fees  
For the Fiscal Years Ended June 30, 2009 and 2008**

(Dollars in Thousands)	2009	2008
Actuarial Services	\$263	\$474
Medical Review Services	298	221
Audit Services	49	49
Legal Counsel	231	843
Compliance	105	120
Workflow	433	424
Healthcare	82	17
Banking	51	48
Human Resource	26	104
Miscellaneous	58	62
Total	\$1,596	\$2,362

Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Trustees  
Kentucky Retirement Systems  
Frankfort, Kentucky

We have audited the financial statements of Kentucky Retirement Systems, a component unit of the Commonwealth of Kentucky, as of and for the fiscal year ended June 30, 2009, and have issued our report thereon dated November 19, 2009. 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.

## Internal Control over Financial Reporting

In planning and performing our audit, we considered Kentucky Retirement Systems' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Kentucky Retirement Systems' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Kentucky Retirement Systems' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kentucky Retirement Systems' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the audit committee, management, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



November 19, 2009  
Lexington, Kentucky

# Schedule of Finding and Response

## CURRENT YEAR

Our audit disclosed no findings which are required to be reported in accordance with *Government Auditing Standards*.







# Investments

- 2 Investment Summary
- 6 Consultant's Letter
- 17 Investment Results
- 32 Schedule of Fees & Commissions

# INVESTMENT SUMMARY

## The Investment Landscape Has Changed

The past fiscal year has been full of challenges...with no shortage of ups and downs. The global financial crisis has been a real shock to the financial system and to global investors. At its worst point, following the collapse of US investment bank Lehman Brothers in September 2008, it became a crisis of confidence that affected every part of the global financial system. The crisis has caused the greatest credit contraction since the Great Depression as corporations and investors, for a period, could not secure financing. The collapse wiped out some of the oldest Wall Street investment banks and caused the whole or partial nationalization of some of the world's largest financial institutions both here and abroad. The near melt-down forced governments to underpin financial markets with guarantees and print unprecedented amounts of money to keep credit flowing and fund economic stimulus programs.

After the third worst stock market performance in nearly a century, pension funds around the country closed their books on a year that saw the stock market decline to levels below those of 10 years ago. The 2008 stock market tumble marked the worst year for the Dow since 1931. The volatility during the latter part of 2008 and early part of 2009 was simply stunning; with many trading days experiencing 400 and 500 point swings. Much of the market's intraday movement occurred during the last hour (or less) of trading.

The collapse during 2008 of some of Wall Streets' most venerable financial institutions, along with banks such as Washington Mutual and Wachovia and mortgage giants Fannie Mae and Freddie Mac, have changed the look of both Wall Street and Main Street. The resulting fallout reverberated around the globe, and the losses for the world's major indices were almost surreal in their magnitude.

Commodity prices experienced wild gyrations in 2008-2009, with oil prices peaking at \$145.29 per barrel in late summer, they then dropped to \$33.87 while finishing the fiscal year at \$72.20. Gold held its ground during the fiscal year, but also saw significant fluctuations, logging a high of \$1,019.60 and a low of \$715.20 over the time period.

Bonds also experienced an extremely high level of pain during this period, initiated by Lehman Brothers filing for bankruptcy. That event essentially triggered an ensuing barrage of default concerns, and without government intervention, AIG and Citigroup may well have also gone under. Bond holdings across the board came under pressure and declined in value, with the exception of Cash and U.S. Treasury positions, 2008-2009 can only be described as a horrific year for the fixed income markets.

## KRS Investment Summary

The Board of Trustees is charged with the responsibility of investing the Systems' assets to provide for the benefits of the members of several pension and insurance trusts managed by KRS. To achieve that goal the Board follows a policy of preserving capital, while seeking means of enhancing revenues and protecting against undue losses in any particular investment area. The Board recognizes its fiduciary duty not only to invest the funds in formal compliance with the Prudent Person Rule, but also to manage the funds in continued recognition of the basic long term nature of the Systems. In carrying out their fiduciary duties, the Trustees have established clearly defined investment policies, objectives and strategies for both the pension and insurance portfolios.

## Short-Term & Long-Term

Short-term investment objectives stipulate that annual returns of managed funds should exceed returns achieved by a policy benchmark portfolio, composed of comparable unmanaged market indices (Ex. S&P 500, Russell 1000, MSCI EAFE, etcetera).

Long-term investment objectives stipulate that returns measured over two market cycles (estimated as six to ten years) should exceed the 7.75% Actuarially Required Rate of Return, as well as surpass returns achieved by the fund benchmark.

Additionally, the Board encourages investment in securities of corporations that provide a positive economic contribution to the Commonwealth of Kentucky.

**What are Alternative investments?**

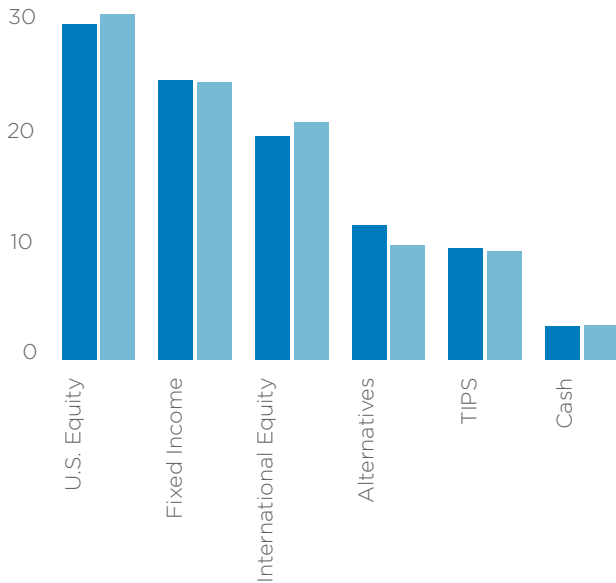
Assets like Private Equity and Real Estate

**What does TIPS stand for?**

Treasury Inflation Protected Securities

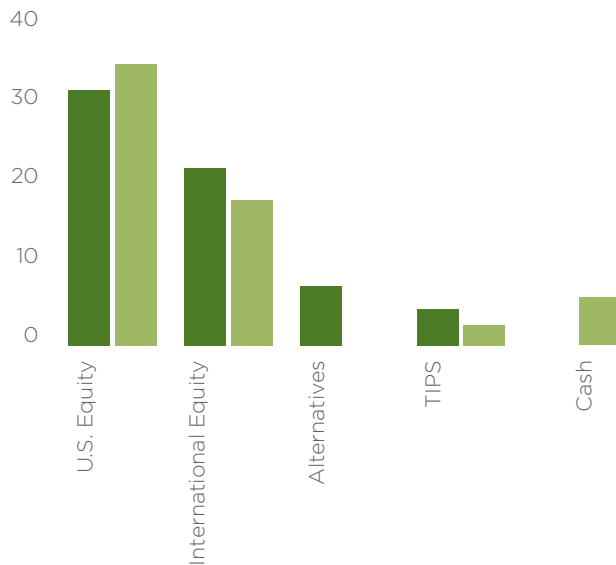
# Target Allocations (%) for Pension & Insurance Funds

The Board approved a new target asset allocation, beginning July 1, 2007. The following graphs depict the Board’s investment policy as of June 30, 2009.



**Pension Fund Allocations**

Asset Class	Target	Actual
U.S. Equity	30.0%	30.9%
Fixed Income	25.0	24.8
International Equity	20.0	21.2
Alternatives	12.0	10.2
TIPS	10.0	9.7
Cash	3.0	3.1



**Insurance Fund Allocations**

Asset Class	Target	Actual
U.S. Equity	40.0%	43.3%
International Equity	30.0	25.9
Alternatives	15.0	7.3
TIPS	12.0	10.0
Cash	3.0	13.5

# Diversifying Assets & Rebalancing Allocations

Portfolios are diversified through the use of multiple asset classes. Within each asset class portfolios are diversified through the selection of individual securities. Each asset class is diversified through the use of multiple portfolios that are managed by KRS staff, professional consultants, external money managers and advisors. Advisors are afforded discretion to diversify within the parameters established by the Board. Both the Pension and Insurance (with the exception of cash) portfolios remained within this established range in fiscal 2009.

Proper implementation of the investment policy requires that a periodic adjustment of assets be made. Such rebalancing is necessary to ensure conformance with the Statement of Investment Policy target levels, which also calls for an immediate rebalancing to allocation ranges if an asset class is within one percentage point of the allowable range boundary.

## Performance Review Procedures

At least once each quarter the Investment Committee, on behalf of the Board of Trustees, reviews portfolio performances to ensure compliance with the Statement of Investment Policy. Additionally, the KRS Investment Division performs daily tests to assure compliance with the investment policy.

## Investment Consulting

The Board employs industry-leading consultants to independently assist in reviewing asset allocation guidelines, as well as the performance of internally managed and externally managed assets. KRS' investment consultants are R.V. Kuhns & Associates, Strategic Investment Solutions and ORG Portfolio Management.

### Portfolios

Due to the downturn in the financial markets, the Insurance Fund's cash portfolio was held above range as a means of downside protection because the fund has no dedicated allocation to the core fixed income space. This action was approved by the Investment Committee of the KRS Board of Trustees.

### Statement of Investment Policies

View the Pension Fund policy by visiting [www.kyret.ky.gov/investments/policies/pension\\_fund\\_investment\\_policy.pdf](http://www.kyret.ky.gov/investments/policies/pension_fund_investment_policy.pdf)

View the Insurance Fund policy by visiting [www.kyret.com/investments/policies/insurance\\_fund\\_investment\\_policy.pdf](http://www.kyret.com/investments/policies/insurance_fund_investment_policy.pdf)

October 12, 2009

Board of Trustees  
Kentucky Retirement System  
c/o Robert M. Burnside, MS  
Executive Director  
Perimeter Park West  
1260 Louisville Road  
Frankfort, KY 40601

Dear Board Members:

## Economic Review

The twelve months in the fiscal year ended June 30, 2009 were marked by extreme market conditions in the U.S. and Global economy, with turbulent investment markets, extraordinary government intervention through monetary and financial stimulus, and large swings in inflation expectations.

U.S. Gross Domestic Product (“GDP”) declined in every quarter of the fiscal year beginning July 1, 2008 as the country experienced one of the worst recessions in history. The economy as measured by GDP contracted by -3.8% during fiscal year end June 30, 2009.<sup>1</sup> U.S. companies shed nearly 6 million jobs from nonfarm payrolls as the unemployment rate rose from 5.6% to 9.5% during the fiscal year.<sup>2</sup> Inflation, as measured by the Consumer Price Index, was 0.7 at the end of the fiscal year. The U.S. Federal Reserve continued to lower short-term interest rates from a target rate of 2.00% set before the start of the fiscal year to historic lows of maintaining a range between 0.00% and 0.25% through the second half of the fiscal year.

## Capital Markets Review

The fiscal year is a tale of two markets: a weak first half and a recovering second half. The first half of the fiscal year 2008/09 was favorable for only Treasury securities and the highest quality cash and bond instruments. Almost all other risk-oriented market segments posted the worst performance in decades, including both traditional and alternative investment sectors.

Massive and simultaneous efforts by market participants to decrease risks in their holdings led to great illiquidity in the markets and significantly wide spreads. Treasury yields significantly declined across their range of maturities leading into December 2008 during a time when liquidity disappeared in most global markets causing investors to bid up Treasury prices during their flight to safety.

Although markets remained weak in the beginning of 2009, Treasury yields began rising toward fiscal year end when investors resumed buying riskier assets.

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<sup>1</sup> Based on data provided by the U.S. Department of Commerce, Bureau of Economic Analysis

<sup>2</sup> Based on data provided by the U.S. Department of Labor

In the U.S., the S&P 500 Index returned -28.5% from July 1, 2008 through December 31, 2008. International markets fared worse, with developed countries losing -36.3% (as measured by the MSCI EAFE Index) and developing countries returning -47.0% (as measured by the MSCI Emerging Markets Index). Investment grade fixed income securities earned 4.1% (Barclays Capital Aggregate Bond Index) while below investment grade returned -25.2% (Barclays US Corporate High Yield Index).

During the period from January 1, 2009 through June 30, 2009, specifically starting in mid-March 2009, most major markets reversed course as U.S. and international government recovery and stimulus programs bolstered investor confidence in riskier assets. The U.S. stock market rose 3.9%, the developed international equity markets were up 6.7%, and the developing equity markets were up 36.2%. The investment grade fixed income market returned 1.9% while the riskier non-investment grade market returned 30.4%.

Despite the rebound, most equity and non-government fixed income markets posted negative returns for the twelve months ending June 30, 2009.

## Pension Plan Review

The market value of the Kentucky Retirement System (System) Pension Plan assets decreased from \$12.9 billion on June 30, 2008 to \$9.8 billion on June 30, 2009. The Fund's investments collectively returned -17.22% during the same period compared to the -14.91% return earned by its target allocation benchmark. The Fund's three-year annualized return of -2.95% trailed slightly its target allocation benchmark of -2.04%. The Fund's five-year annualized return of 1.84% trailed its target allocation benchmark of 1.98%. The current actuarial assumed rate of return is 7.75%, which represents the Fund's long-term return goal.

### Kentucky Retirement Systems-Pension Plan

#### *Asset Allocation vs. Target Allocation*

Asset Class	Market Value (\$)	Allocation (%)	Target (%)
Domestic Equity	3,031,977,096	30.9	30.0
International Equity	2,082,070,820	21.2	20.0
Fixed Income	2,428,988,792	24.8	25.0
Real Return	953,600,460	9.7	10.0
Real Estate	30,149,944	0.3	5.0
Private Equity	969,352,386	9.9	7.0
Cash Equivalent	312,975,044	3.2	3.0
Total	9,809,114,543	100.0	100.0

The System's current pension plan investments are diversified across all segments of the U.S. and international equity markets (both developed and emerging). The fixed income portfolio is primarily comprised of U.S. investment grade investments. The System also invests in real return assets (currently U.S. Treasury Inflation Protection Securities or TIPS), real estate and private equity. As of June 30, 2009, the portfolio's asset allocation was within an acceptable range compared to the target allocation. The allocation to real estate will continue to increase toward its target in a methodical manner over time.

## Insurance Plan Review

The market value of the Kentucky Insurance Plan assets decreased from \$2.6 billion on June 30, 2008 to \$2.0 billion on June 30, 2009. The Fund's investments returned -23.18% during the same period compared to -22.94% for its target allocation benchmark. The Fund's three-year annualized return of -5.47% narrowly exceeded its target allocation benchmark of -5.48%. The Fund's five-year annualized return of 0.77% exceeded its target allocation benchmark of 0.40%. The current actuarial assumed rate of return is 7.75%, which represent the long-term return goals.

### Kentucky Retirement Systems-Pension Plan

*Asset Allocation vs. Target Allocation*

Asset Class	Market Value (\$)	Allocation (%)	Target (%)
Domestic Equity	878,398,037	43.3	40.0
International Equity	525,164,839	25.9	30.0
Fixed Income	203,721,107	10.0	12.0
Real Estate	2,080,836	0.1	5.0
Private Equity	146,288,504	7.2	10.0
Cash Equivalent	273,204,113	13.5	3.0
Total	2,028,857,436	100.0	100.0

The System's insurance plan investments are diversified across global equity markets, U.S. fixed income, private equity, and a small initial allocation to real estate. As of June 30, 2009, the portfolio was overweight domestic equity and cash equivalents and underweight all other asset classes. In particular, the Plan's underweight position in fixed income approached the lower boundary for that asset class while cash temporarily exceeded its target allocation by a wide margin.

## Investment Manager Review

### Pension Plan

INVESCO's Structured Core Equity portfolio posted a negative return of -23.8% for the fiscal year, which outperformed the S&P 500 Index's return of -26.2% and was the best return among the three domestic equity managers. The Northern Trust Structured Small Cap portfolio returned -24.0%,



which beat the Russell 2000 Index return of -25.0%. The internally managed S&P 1500 Index portfolio outperformed its benchmark by returning -25.4% vs. -26.3%.

The international equity portfolio is allocated across value, growth and core investment styles. Both style-specific managers did well during the fiscal year relative to their respective benchmarks. The Boston Company Non-US Value Equity portfolio outperformed the MSCI EAFE Value Index by a wide margin (-21.2% vs. -28.4%) and The Pyramis International Growth portfolio beat the MSCI EAFE Growth Index, -32.7% vs. -33.4%. The core portfolio managed by Barclays Global Investors, returned -32.8% and lagged the MSCI EAFE Index's return of -31.0%. The Board recently added an international small capitalization equity fund managed by Northern Trust that performed relatively well. The Plan's two emerging market equity portfolios managed by Aberdeen Asset Management and Wellington Management beat the -27.8% fiscal year return of MSCI Emerging Markets Index (-15.0% and -25.4%, respectively).

The Plan had three investment grade fixed income portfolios managed by Pyramis, RW Baird, and NISA (added mid-fiscal year). Both Pyramis and RW Baird underperformed the Barclays Capital US Aggregate Bond Index twelve-month return of 6.1% (4.1% and -0.7%, respectively). Although the internally managed TIPS portfolio's return of -1.3% fell slightly below the -1.1% return for the Barclays Capital US TIPS Index, the Weaver Barksdale TIPS portfolio outperformed for the fiscal year with a return of -0.7%.

The Plan's alternative investment portfolio consists of private equity and the beginning of a diversified real estate allocation, which are long-term investments. Over the past five years, the total private equity portfolio beat its public market equivalent benchmark, the MSCI Broad US Market Index + 5% (4.8% vs. 3.4%). The real estate program has not had significant assets historically, but the small allocation provided a lesser though positive return of 3.6% vs. the stronger 7.6% return of the NCREIF Property Index.

## Insurance Plan

The Insurance Plan invests in the System's internally managed S&P 1500 Index portfolio, the international portfolios managed by the Boston Company, Pyramis, Aberdeen, and Wellington, the internally managed TIPS portfolio, and the alternative investment portfolios. The Board added a core international mandate managed by Artio Global Investors late in fiscal year. Although the insurance plan returns slightly differ from the returns earned in the pension plan because of investment restrictions, the relative under/outperformance was similar for the fiscal year.

## Board Initiatives

During the last half of the fiscal year, the Board made strategic decisions to further diversify the portfolio to improve returns while reducing risk. The market downturn during the first half of the fiscal year created investment opportunities that could benefit the System during a market recovery. The Board approved a new allocation to diversified absolute return strategies and to global non-investment grade fixed income investments. The Board also approved an ability to allocate up to 5% of the System's assets to investments that are uniquely positioned to take advantage of dislocated markets. The Board may make these opportunistic investments within any of the existing asset classes. We believe that the recent actions taken by the Board offer opportunities to enhance future portfolio returns with a commensurate, yet moderate, increase in risk.

## Oversight

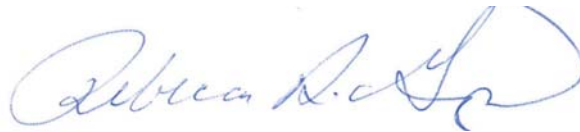
The System's investment policies, goals, and objectives, as well as the performance of its assets are regularly monitored by KRS staff, the Board, Strategic Investment Solutions, Inc., and by R.V. Kuhns & Associates, Inc. These evaluations include reviews of the investment management firms and the custodial bank that serve the System.

The System's assets are held in custody at Northern Trust. Market values and investment performance returns referenced above are based upon financial statements prepared by Northern Trust. We rely on their data and have not independently audited it. However, their financial statements are, to the best of our knowledge, believed to be reliable.

## Summary

An uncertain market environment demands careful attention and thoughtful treatment of the assets entrusted to the Board's care by the System's employee participants. We expect the Board's continued high standard of care for these assets and commitment to diversification to allow the System to meet its long-term goals and objectives.

Most sincerely,



Rebecca A. Gratsinger  
CEO, Principal

# STRATEGIC INVESTMENT SOLUTIONS, INC.

333 BUSH STREET, STE 2000, SAN FRANCISCO, CALIFORNIA 94104  
TEL 415/362-3484 ■ FAX 415/362-2752

DATE: OCTOBER 13, 2009  
SUBJECT: ANNUAL PRIVATE  
EQUITY REVIEW

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The Board of Trustees of the Kentucky Retirement Systems  
Perimeter Park West  
1260 Louisville Road  
Frankfort, KY 40601

Dear Trustees:

Strategic Investment Solutions is charged with the duty to advise the Kentucky Retirement Systems (KRS) Board of Trustees and Staff in its private equity investment activities. This is our annual review of the KRS private equity investment program. Note that, due to delays in reporting by private equity managers, KRS market values are reported as of December 31, 2008 while the market overview is as of June 30, 2009. The investment program is managed in accordance with the KRS Investment Policies and Procedures.

## Market Highlights

No doubt many investors, GPs and LPs, had long anticipated looking beyond 2008 and setting their sights on a more benign, settled private equity environment for 2009. Certainly the public markets, equity and debt, will be crucial to how this scenario plays out but equally important, if not more so, is the funding/liquidity status of the LP base and their ability to continue to commit capital at a pace witnessed over the past several years. While the “denominator effect” has been widely discussed, we believe a more pertinent issue is the \$470 billion “overhang” of uncalled capital, largely within the buyout space, and its impact on the ability of limited partners to commit new capital.

Total buyout fund raising, in dollars, declined 73% in Q4 on a year-over-year basis and 64% sequentially. In Q1 2009, the GPs fared no better. M & A activity, not coincidentally, has also dropped precipitously. Much of the transaction activity, on a dollars basis, has emanated from the large LBO side of the buyout ledger. GPs, in particular the very large (“mega”) funds, were increasingly looking to the public markets as a source of deal flow as reflected below. Given the current state of the debt markets and an environment moving forward where it will be difficult to finance larger transactions, buyout volume on a dollar basis will be much lower to the extent large LBOs are drivers of deal activity. The combination of a decrease in deal activity, the limited availability of leverage, and the near-term inability of limited partners to make commitments, should theoretically result in reduced fund sizes (as LPs make smaller commitments) and/or fewer general partners over the long term. The LP/GP issues reviewed above are, as one would expect, creating opportunities on several fronts for those investors that are not capital constrained.

As one might expect, debt-related opportunities abound. Investors are seeking to capitalize on the distressed marketplace and huge dislocations in the credit markets. Also, no longer seeing a market for buyouts, a slew of private equity funds are offering new debt strategies. Annex funds are the current fad, though some observers believe certain GPs were too early during the initial commitment phase of their most recent funds and now are looking to average down as prices have fallen. In addition, U.S. Treasury and Federal Reserve have implemented a series of initiatives as part of the Financial Stability Plan, to revitalize the flow of capital and increase liquidity in the credit markets. The two primary initiatives that have been introduced are the Public-Private Investment Program (“PPIP”) and the Term Asset-Backed Securities Loan Facility (“TALF”). Overall, the opportunities in debt-related strategies are very attractive; investors should take particular note of manager selection, fees and investment period.

The good news continued within the VC space in 2009 in the sense that capital is not being thrown at VCs as it had been in the 1996-2000 period. Just 40 funds raised \$4.3 b in capital during the first quarter of 2009; the amount of capital raised declined by 39% YOY. We believe the venture model is evolving and the emphasis has shifted to building companies for long-term wealth creation and not to sell for a quick short-term return. Additionally, we are seeing a closer alignment of interests between GPs and LPs. The landscape is changing as the traditional suppliers of capital to the VC space, foundations/endowments and high-net-worth investors, are under liquidity pressures. This should allow long-term investors with available capital to pursue attractive opportunities in this space.

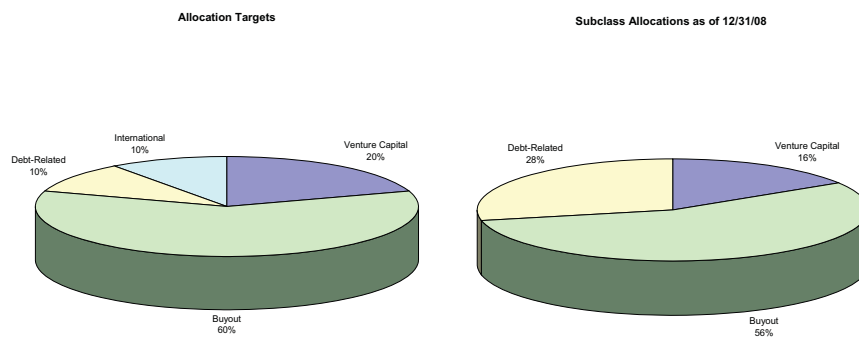
## Private Equity Performance and Asset Allocation Highlights

- 2008 was another year of significant contributions relative to distributions with capital drawdown totaling \$407.8 mm and distributions, the return of capital (gains and losses), equating to \$27.9mm. The capital draw-downs were relatively on par with 2007 outflows of \$402 million however the return of capital was substantially less relative to 2007 distributions of \$126mm. The portfolio had been moving towards the more mature phase of the private equity Program as the gap between contributions and distributions was starting to narrow in 2007 – the impact of the J-Curve was starting to become less pronounced. However the stresses within the credit markets and the current global recession have limited general private equity activity, particularly in the way of distributions. The driver behind the capital draw-downs has been to a large degree the Program’s commitments to distressed strategies which theoretically stand to benefit during times of market dislocation and economic stress. Just over 40% of the capital called during 2008 was driven by strategies that invest in the debt securities of companies that are having operating and/or financial issues or those that are perceived in the Markets to have such issues.
- OCM Opportunities Fund VIIb (\$52.5mm), Wayzata Opportunities Fund II (\$51.75mm), Avenue Special Situations Fund V(\$26.8mm), Vista Equity Partners III (\$24.5mm) and Hellman & Friedman VI (\$19.6mm) led the investment pace in 2008 as these five partnerships accounted for a combined \$175.3mm or 43% of the total capital called in 2008. Distributions as mentioned

were fairly sparse however the top five leaders in distributions for the year were: Green Equity IV (\$4.7mm), Warburg Pincus Private Equity IX (\$4mm), Merit Mezzanine IV (\$3.8mm), Harvest Partners V (\$3.5mm) and Institutional Venture Partners XI (\$2.9MM). In aggregate, these partnerships comprised 68% of the total capital received in 2008. Of the 41 partnerships in the Program, 18 returned capital during 2008.

- As of December 31, 2008, the KRS Private Equity portfolio had committed to 41 different partnerships with 29 managers. Relative to 2007, the number of new relationships with managers increased by five and the number of new commitments increased by seven to 41. The new relationships introduced in 2008 were Crestview Partners (focus on middle-market buyouts), Essex Woodlands (multi-stage venture fund focused on Healthcare), Millroad Capital (microcap buyouts), Tenaska Power Fund (buyout focused on the Energy & Power industries) and Vista Equity Partners III (buyout fund focused primarily on the software segment of the Information Technology sector). These commitments were driven by the general partners demonstrating the acumen and foresight in their respective sectors, which fundamentally also present an attractive investment opportunity set, that we believe most generalist funds do not possess to generate sufficient risk-adjusted returns.
- As of December 31, 2008, the KRS Private Equity Program had made total commitments of \$2.35 billion to 41 different partnerships. The percent funded or invested of the committed amount at year-end was \$1.3 billion or 55.4% of committed capital.

**KRS**  
Subclass Target Allocation vs. Actual as of 12/31/08



- As of December 31, 2008, Private Markets as a percentage of the total fund was 8.7% of the total KRS portfolio (this total includes the Insurance Fund) compared to the target level of 7%. This level compares with 5.1% as of 12/31/07. The dramatic increase in the private equity allocation is largely a function of the drop in the Plan's value to \$11.9 B at the end of 2008 from \$16.8 B at the end of 2007. Roughly 70% of the increase from 2009 to 2008 in the Plan's allocation to PE can be attributed to the drop in value of the Plan. The balance, 30%, is largely a function of the level of contributions remaining on par with 2007 contributions and distributions decreasing 76% relative to 2007 as the credit crisis negatively impacted liquidity in the financial markets - financing options such as IPOs, expansion capital, M&A and working capital funding were non-existent for even for the most credit-worthy borrowers. The increase in contributions was largely driven by the Program's commitment to debt related strategies which generally tend to benefit during times of stress.

## Summary

As KRS enters the seventh year of the private equity implementation, we believe the portfolio has now taken considerable shape as the "core" managers appear to be identified and accessed. Mindful of the current over-allocation to Private Equity, we envision future emphasis on filling around the periphery and vetting the existing Portfolio, assessing the Portfolio's liquidity profile. As such, it is anticipated that in 2009 and 2010, the Plan will assess the viability of committing to partnerships that focus on the international markets and a co-investment vehicle to further diversify the portfolio and increase the return profile of the plan. The current targeted private markets international allocation is 5%-15%. Any commitment to a co-investment vehicle would fall under the purview of the Plan's buyout allocation.

We are optimistic that the capital markets will continue to show improvement; private equity commitments made during the 2008-2010 vintage years should provide superior long-term returns and contribute to the success of the KRS private equity investment program.

Sincerely,



Peter A. Keliuotis, CFA  
Managing Director



September 23, 2009

ORG Portfolio Management serves as the Real Estate Investment Consultant for Kentucky Retirement Systems. It is ORG's responsibility to present potential investment opportunities to the Investment Staff and Board and to make recommendations related to KRS' real estate portfolio. It is ORG's commitment to assist KRS in building a successful long term real estate investment portfolio for the KRS pension fund members.

## U.S. Market Overview

U.S. commercial real estate debt and equity valuations have materially decreased since the bankruptcy of Lehman Brothers in September 2008, and the real estate market in general has declined with the economy. Property fundamentals and values are deteriorating, and the delinquency rates of underlying mortgages have increased with the slowdown of the economy. Real estate strategies with short-term (2009-2011) debt maturities will face significant refinancing challenges, and investors should be prepared for three to five years of market and manager instability.

The retail sector of the market continues to be challenged as property values have dropped an estimated 30-40%. Grocery-anchored retail centers are the only sector that has held up reasonably well in this group, and most grocers have reported positive same-store sales growth in 2009.

The U.S. office sector is in the early stage of a protracted downturn in occupancy and rents due to the most pronounced reduction in white-collar employment in more than a decade. It appears that the employment decline is a sizable driver of the office market downturn, as demand for office space and market rents is forecast to continue to decline nationally.

Apartment fundamentals continue to be negatively impacted by the U.S. employment market. Historically, changes in apartment demand have lagged employment growth/losses by three to six months, which means that the current downturn is expected to exert pressure on rental rates and occupancy for apartment owners well into 2010 or 2011.

Global industrial production, inventories and the flow of goods have all declined at an unprecedented pace resulting in sizable negative net industrial absorption in the U.S., and the warehouse industry is forecast to endure several years of declining occupancies and market rents as real estate decisions lag economic reality.

## ORG's View

Although the current real estate market is facing many challenges in the current economic climate, there are emerging opportunities in the secondary market, with numerous investors seeking to liquidate private market real estate holdings and looking for relief from remaining capital commitments. The best opportunities in this market are likely to come from small institutional, individual and distressed foreign investors. Direct secondary trades provide the buyer with the opportunity to strategically, opportunistically and selectively average down existing positions, gain access to complementary strategies and eliminate the J-curve associated with a new fund commitment. Investors taking advantage of primary market opportunities should invest with managers who have the ability to access opportunities at distressed prices, and to manage the assets through recovery without a lot of distractions from legacy issues. Investors should focus on complementing existing funds with niche managers with favorable alignment of interest.

## Kentucky Retirement Systems Real Estate Investments

Kentucky Retirement Systems invested in Walton Street Real Estate Fund VI in fourth quarter 2008, and in Mesa West Real Estate Income Fund II and PRIMA Mortgage Investment Trust in 2009. As of September 30, 2009, Walton Street Real Estate Fund VI has called \$10.4 million of Kentucky Retirement Systems' \$40 commitment of capital to the Fund; PRIMA Mortgage Investment Trust called Kentucky Retirement Systems' entire \$40 million commitment, and Mesa West Real Estate Income Fund II has not yet made a capital call. Total Commitment for Mesa West II is \$40 million.



# Investment Results as of June 30, 2009

The Pension Fund returned -17.21%, which trailed the return of its benchmark by 2.33% and also fell short of the actuarially required rate of return of 7.75%. The below benchmark performance of the Pension Fund was due, in large part, to an above benchmark weighting to international equities (the worst performing asset class for the period) and below benchmark performance from the core fixed income and alternative asset class.

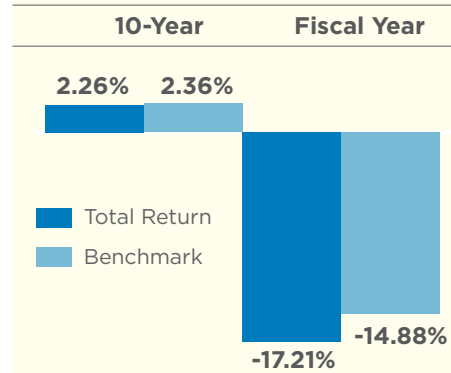
The Insurance Fund also posted a negative return of -23.18% compared to the benchmark's -23.15% and the actuarially required rate of 7.75%. The fund remained in line with its benchmark due in part to the outperformance of both the U.S. and Non-U.S. Equity portfolios, and an overweight to cash, which were offset by the below benchmark performance of the alternative asset portfolio.

## Benchmarks

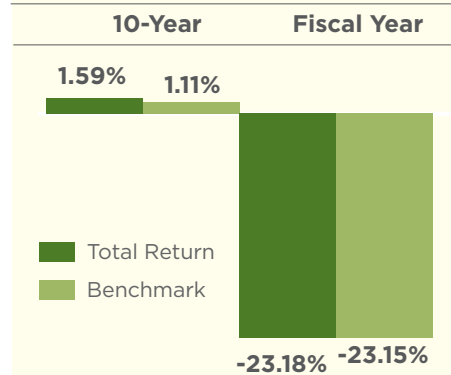
Benchmarks utilized to measure the Pension and Insurance Funds are a weighted average composite of the various asset class indices existing within each KRS investment portfolio.

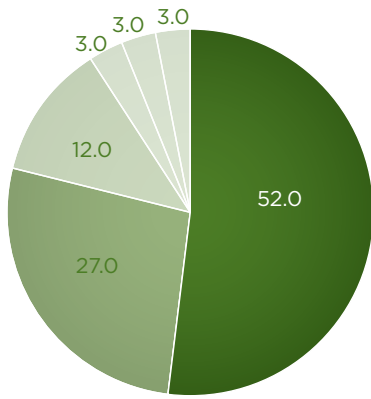
These benchmarks are intended to be objective, measurable, investable/replicable, and representative of the investment mandates. They are developed from publicly available information, and accepted by the investment advisor and KRS as the neutral position consistent with the investment mandate. KRS' Investment Division and consultant recommend the indices and benchmarks, which are reviewed and approved by the Investment Committee and ratified by the Board of Trustees. It is anticipated that as KRS continues to diversify through other markets and asset classes, both the Pension and Insurance Fund Total Benchmarks will evolve to reflect these exposures.

### Pension Fund & Benchmark Returns (%)



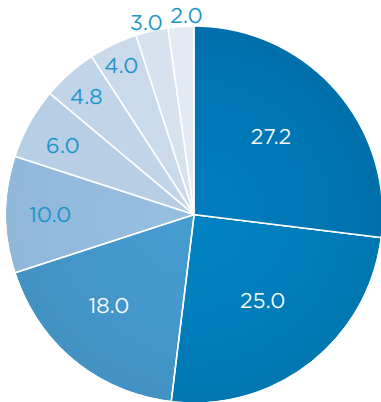
### Insurance Fund & Benchmark Returns (%)





## Pension & Insurance Funds Benchmark Allocations (%)

Benchmarks are a weighted average composite of the various asset class indices consisting within each KRS investment portfolio. Following is the Pension and Insurance Total Fund Benchmark composition.

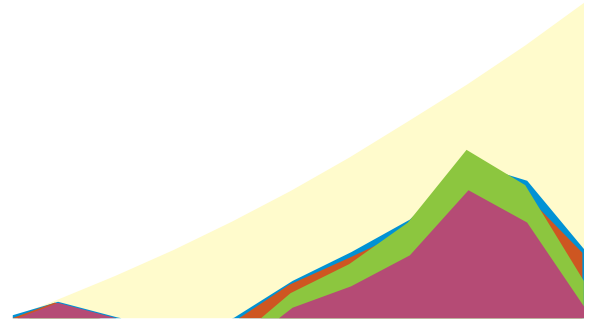


Index	Pension Fund	Insurance Fund
S&P 1500 Composite	27.2%	52.0%
S&P 500 Composite	6.0	-
Russell 2000 Index	4.0	-
MSCI Europe, Australia and Far East	18.0	27.0
MSCI Emerging Markets	2.0	3.0
Barclays Capital High Yield Corporate*	4.8	3.0
Barclays Capital TIPS*	10.0	12.0
Barclays Capital Aggregate*	25.0	-
3-Month U.S. Treasury Bill	3.0	3.0

\* Formerly Lehman Brothers

## Long-Term Results:

The 10-years ending June 30, 2009, the Pension Fund earned an annualized total return of 2.26% and has fallen behind the benchmark in the shorter time periods, yet remains in line during the longer measurement period. The Insurance Fund continued to outperform its benchmark, earning a 1.59% return for the same period. Insurance returns have been above, or in line with, the benchmark.



### Growth of Dollars:

This chart compares the performance of \$1,000 invested in the Pension and Insurance Funds with their respective policy benchmark portfolios and actuarial rate of return.

### Growth of A Dollar-Total Fund

Investment	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<span style="color: blue;">■</span> Pension Fund	\$1,000	\$1,064	\$1,007	\$963	\$1,005	\$1,141	\$1,247	\$1,367	\$1,576	\$1,510	\$1,250
<span style="color: orange;">■</span> Pension Fund Benchmark	1,000	1,079	1,006	953	1,001	1,145	1,242	1,343	1,543	1,484	1,263
<span style="color: green;">■</span> Insurance Fund	1,000	1,064	1,024	929	944	1,127	1,234	1,387	1,655	1,525	1,172
<span style="color: red;">■</span> Insurance Fund Benchmark	1,000	1,082	1,025	898	897	1,064	1,143	1,257	1,497	1,378	1,059
<span style="color: yellow;">■</span> Actuarial Assumed ROR	1,000	1,083	1,172	1,268	1,373	1,486	1,609	1,742	1,877	2,022	2,179

## U.S. Equity

For the fiscal year, ending June 30, 2009, the Pension Fund's U.S. equity portfolio posted a return of -24.78%, which outperformed the return of its benchmark by 1.31%. The Insurance Fund's U.S. equity portfolio posted a return of -25.1%, which also outperformed the benchmark return of -26.34%. All segments of the U.S. equity markets posted sharply negative results during the 12-month period.

### U.S. Equity

	Inception Date	Fiscal Year	3-Year	5-Year	10-Year	Inception
KRS Pension	Apr-84	-24.78%	-7.86%	-1.45%	-0.70%	10.20%
Performance Benchmark <sup>1</sup>		-26.09%	-8.39%	-1.81%	-1.04%	10.01%
KRS Insurance	Jul-92	-25.10%	-7.93%	-1.65%	-0.68%	7.21%
Performance Benchmark <sup>2</sup>		-26.34%	-8.20%	-1.94%	-1.47%	6.75%
Market Indices						
Russell 1000 (Large Cap)		-26.69%	-8.20%	-1.85%	-1.75%	
Russell 2000 (Small Cap)		-25.01%	-9.89%	-1.71%	2.38%	
Russell 3000 (Total Equity)		-26.56%	-8.35%	-1.84%	-1.46%	

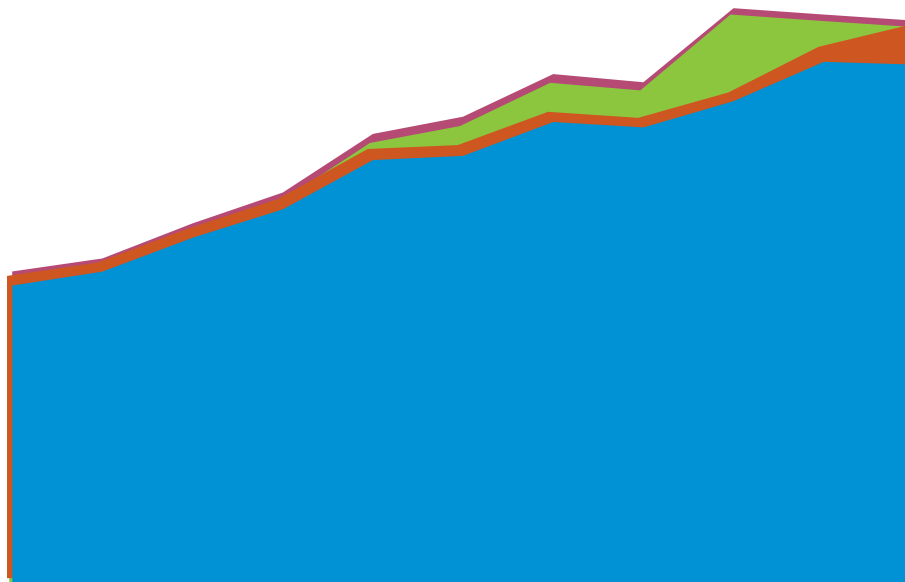
<sup>1</sup> Pension Benchmark consist of 13% Russell 2000, 67% S&P 1500 Composite (Total), and 20% S&P 500

<sup>2</sup> Insurance benchmark is S&P 1500 Composite (Total)

#### Basis for Calculations

KRS uses the Modified Dietz Method as its basis for calculations. This method is used to determine the performance of an investment portfolio based on a time-weighted cash flow. In the absence of daily portfolio valuations, the Modified Dietz Method weights individual cash flows by the amount of time these cash flows are held (or absent) from the portfolio. The result is an approximation of a time-weighted return.

The market volatility experienced over the past two years has led U.S. equity investors to experience negative returns over the past three years. According to the above table, the KRS pension fund portfolio has generated an annualized return of -7.86% over this period, which has exceeded its benchmark by 0.53%. Over the same time period, the insurance fund has produced an annualized return of -7.93%, outperforming its benchmark return of -8.20%. While both funds have experience negative absolute returns over the long term, both have produced positive relative returns when viewed over a five and ten-year time horizon. The pension's equity portfolio has generated an annualized average return of -0.70% over ten years, while the insurance equity portfolio posted an average annual return of -0.68%.



### Growth of Dollars:

This chart compares the performance of \$1,000 invested in the Pension and Insurance Funds with their respective policy benchmark portfolios.

### Growth of A Dollar-US Equity Fund

Investment	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<span style="color: blue;">■</span> Pension Fund	\$1,000	\$1,124	\$993	\$832	\$824	\$1,002	\$1,065	\$1,191	\$1,422	\$1,239	\$932
<span style="color: orange;">■</span> Pension Fund Benchmark	1,000	1,088	958	802	796	966	1,028	1,124	1,347	1,169	864
<span style="color: green;">■</span> Insurance Fund	1,000	1,080	1,004	844	842	1,015	1,090	1,196	1,434	1,247	934
<span style="color: purple;">■</span> Insurance Fund Benchmark	1,000	1,068	921	759	746	883	931	999	1,202	1,049	773

### Top 10 U.S. Equity Holdings

Pension Fund			Insurance Fund		
Company	Shares	Market Value	Company	Shares	Market Value
EXXON MOBIL CORP	1,437,900	100,523,589	EXXON MOBIL CORP	282,100	19,721,611
MICROSOFT CORP	2,329,200	55,365,084	MICROSOFT CORP	493,300	11,725,741
JOHNSON & JOHNSON	910,534	51,718,331	WAL-MART STORES INC	219,100	10,613,204
WAL-MART STORES INC	1,030,700	49,927,108	JOHNSON & JOHNSON	154,988	8,803,318
PROCTER & GAMBLE CO	966,572	49,391,829	PROCTER & GAMBLE CO	164,275	8,394,453
CHEVRON CORP	665,159	44,066,784	AT&T INC	329,521	8,185,302
APPLE INC	304,300	43,341,449	IBM CORP	75,100	7,841,942
IBM CORP	403,400	42,123,028	CHEVRON CORP	112,716	7,467,435
AT&T INC	1,494,564	37,124,970	GOOGLE INC	17,200	7,251,348
GENERAL ELECTRIC CO	2,553,400	29,925,848	JPMORGAN CHASE & CO	206,975	7,059,917
Total	12,095,729	503,508,020	Total	2,055,275	97,064,271

## International Equities

For the fiscal year, ending June 30, 2009, the KRS pension fund's international equity portfolio returned -26.05%, substantially outperforming its benchmark by 3.31%. The KRS insurance international equity portfolio also greatly outperformed its benchmark, posting a return of -26.78% during the same twelve month period. As the accompanying table indicates, both developed and emerging international equity markets experienced strong negative returns during the trailing year period.

### International Equity

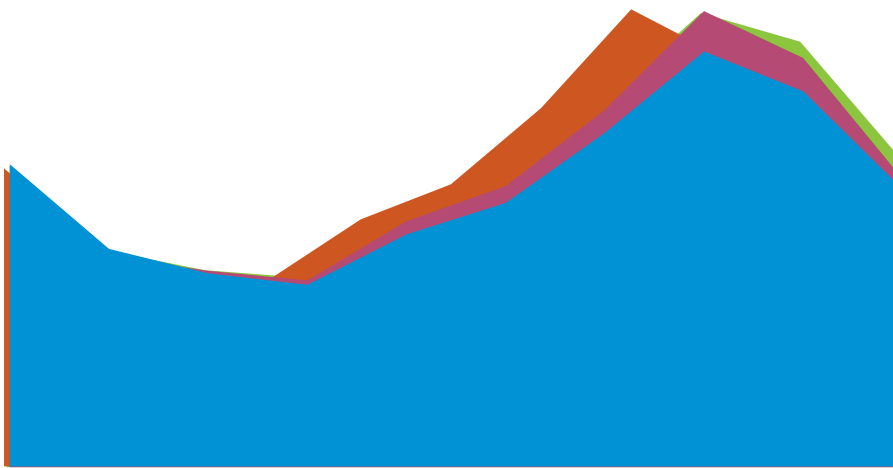
	Inception Date	Fiscal Year	3-Year	5-Year	Inception
KRS Pension	Jul-00	-26.05%	-5.97%	3.64%	-0.95%
Performance Benchmark <sup>1</sup>		-29.36%	-6.84%	3.23%	-0.47%
KRS Insurance	Apr-00	-26.78%	-5.19%	4.49%	-0.41%
Performance Benchmark <sup>1</sup>		-29.36%	-6.84%	3.23%	-1.24%
Market Indices					
MSCI EAFE		-30.96%	-7.51%	2.79%	
MSCI Emerging Markets		-27.82%	3.27%	15.09%	
MSCI ACWI Ex US		-30.54%	-5.35%	4.95%	

<sup>1</sup> Pension and Insurance benchmarks consist of 90% MSCI EAFE Index, and 10% MSCI EM Index.

#### Basis for Calculations

KRS uses the Modified Dietz Method as its basis for calculations. This method is used to determine the performance of an investment portfolio based on a time-weighted cash flow. In the absence of daily portfolio valuations, the Modified Dietz Method weights individual cash flows by the amount of time these cash flows are held (or absent) from the portfolio. The result is an approximation of a time-weighted return.

International equity investors have experienced a volatile period of returns over the past five years. After four consecutive years of favorable results, investors witnessed significant market losses over the past two fiscal years. The KRS pension fund portfolio has generated an annualized return of -5.97% over the trailing three-year period, while the insurance fund saw returns fall by an average of -5.19% during the same period. Over the past five years, both funds have added value, while also exceeding the return of its performance benchmark. The KRS Pension and Insurance funds have posted annualized returns of 3.64% and 4.49% annually. The Systems began their international equity program in 2000. Since inception, the pension international equity portfolio has underperformed the benchmark, while the insurance international equity portfolio has outperformed the benchmark.



### Growth of Dollars:

This chart compares the performance of \$1,000 invested in the Pension and Insurance Funds with their respective policy benchmark portfolios.

### Growth of A Dollar-International Equity Fund

Investment	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<span style="color: blue;">■</span> Pension Fund	\$1,000	\$720	\$639	\$601	\$768	\$872	\$1,104	\$1,373	\$1,241	\$918
<span style="color: orange;">■</span> Pension Fund Benchmark	1,000	700	653	621	817	933	1,185	1,512	1,357	958
<span style="color: green;">■</span> Insurance Fund	1,000	735	670	645	838	961	1,225	1,521	1,426	1,044
<span style="color: purple;">■</span> Insurance Fund Benchmark	1,000	700	653	621	817	933	1,185	1,512	1,357	958

### Top 10 International Equity Holdings

Pension Fund			Insurance Fund		
Company	Shares	Market Value	Company	Shares	Market Value
HSBC HLDGS ORD	3,020,997	25,000,025	VODAFONE GROUP ORD	3,000,043	5,790,408
VODAFONE GROUP ORD	12,482,500	24,092,577	BP ORD	732,625	5,764,770
BP ORD	3,008,041	23,669,221	NOVARTIS AG	130,247	5,274,312
NESTLE SA	528,837	19,897,945	TOTAL	97,267	5,249,887
NOVARTIS AG	475,473	19,254,132	HSBC HLDGS ORD	570,351	4,719,895
TOTAL	347,154	18,737,281	UNILEVER PLC ORD	188,934	4,430,719
GLAXOSMITHKLINE ORD	987,923	17,384,079	SANOFI-AVENTIS	69,983	4,110,029
UNILEVER PLC ORD	718,967	16,860,600	GLAXOSMITHKLINE ORD	223,671	3,935,848
SANOFI-AVENTIS	261,480	15,356,448	NESTLE SA	97,709	3,676,385
ROCHE HLDGS AG	109,937	14,930,527	ANGLO AMERICAN	117,237	3,404,821
Total	21,941,309	195,182,836	Total	5,228,067	46,357,072

## Fixed Income

For the fiscal year, ending June 30, 2009, the KRS pension fund's fixed income portfolio returned - 0.53%, underperforming its performance benchmark by 4.59%. As the accompanying table indicates, both of the broad market indices, the Barclays Aggregate Index and the Barclays Intermediate Government Credit Index, posted positive returns for the twelve month period ending June 30, 2009. The KRS insurance TIPS portfolio posted a -1.08% rate of return, which edged its benchmark, the Barclays U.S. TIPS Index, by 0.03%.

### Fixed Income

	Inception Date	Fiscal Year	3-Year	5-Year	10-Year	Inception
KRS Pension	Apr-84	-0.53%	4.35%	3.91%	5.64%	8.22%
Performance Benchmark <sup>1</sup>		4.06%	6.30%	5.00%	6.23%	8.20%
KRS Insurance	Jul-92	-1.08%	5.83%	5.02%	6.84%	6.95%
Performance Benchmark <sup>2</sup>		-1.11%	5.77%	4.94%	6.76%	6.92%
Market Indices						
BC Aggregate		6.06%	6.43%	5.02%	5.98%	
BC Government/Credit		-1.11%	5.77%	4.94%	7.24%	

<sup>1</sup> Pension Benchmark consists of 71.43% Barclays Aggregate, and 28.57% Barclays U.S. TIPS

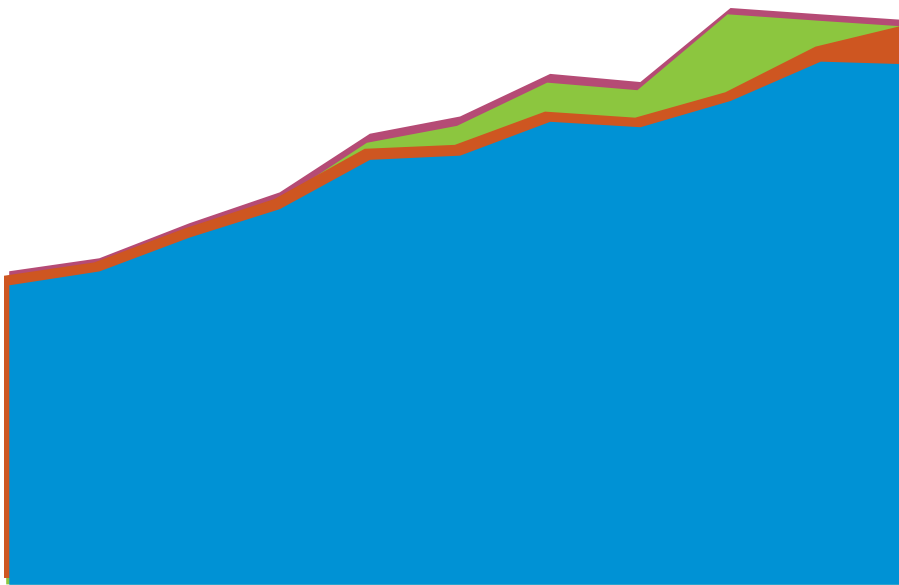
<sup>2</sup> Insurance Benchmark is the Barclays U.S. TIPS Index

#### Basis for Calculations

KRS uses the Modified Dietz Method as its basis for calculations. This method is used to determine the performance of an investment portfolio based on a time-weighted cash flow. In the absence of daily portfolio valuations, the Modified Dietz Method weights individual cash flows by the amount of time these cash flows are held (or absent) from the portfolio. The result is an approximation of a time-weighted return.

Over the past three years ending June 30, 2009, the KRS pension fund's portfolio has generated an annualized average return of 4.35% versus its custom performance benchmark return of 6.30%. The insurance fund's portfolio posted a 5.83% return during the same period, exceeding its benchmark return by 0.06%. Over the five year period, the pension fund has lagged the benchmark, while the insurance fund outperformed its benchmark. Over the ten year period, the pension fund has lagged the benchmark by 0.59%, while the insurance fund has slightly outperformed the benchmark by 8 basis points.





### Growth of Dollars:

This chart compares the performance of \$1,000 invested in the Pension and Insurance Funds with their respective policy benchmark portfolios.

### Growth of A Dollar- Fixed Income

Investment	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<span style="color: blue;">■</span> Pension Fund	\$1,000	\$1,046	\$1,158	\$1,252	\$1,415	\$1,429	\$1,541	\$1,523	\$1,610	\$1,740	\$1,731
<span style="color: orange;">■</span> Pension Fund Benchmark	1,000	1,044	1,156	1,254	1,420	1,433	1,543	1,523	1,607	1,758	1,830
<span style="color: green;">■</span> Insurance Fund	1,000	1,044	1,159	1,265	1,461	1,517	1,660	1,635	1,886	1,865	1,845
<span style="color: purple;">■</span> Insurance Fund Benchmark	1,000	1,043	1,159	1,261	1,455	1,512	1,653	1,626	1,871	1,850	1,830

### Top 10 Fixed Income Holding & Market Value (\$)

Pension Fund			Insurance Fund		
Company	Par Value	Market Value	Company	Par Value	Market Value
US TSY NT INFL Index 2.375 DUE 01/15/17	95,893,000	105,792,747	US TSY NT INFL Index 0.875 DUE 04/15/10	11,081,000	12,471,776
US TSY BD INFL Index 6.250 DUE 08/15/23	54,760,000	66,704,525	US TSY BD INFL Index 2.000 DUE 01/15/14	10,395,500	12,269,644
US TSY NT INFL Index 2.000 DUE 07/15/14	53,458,000	61,887,384	US TSY BD INFL Index 3.000 DUE 07/15/12	9,718,000	12,208,745
US TSY BD INFL Index 2.375 DUE 01/15/25	49,397,000	57,430,439	US TSY BD INFL Index 2.375 DUE 01/15/25	10,040,500	11,673,388
US TSY NT INFL Index 0.875 DUE 04/15/10	46,602,000	52,451,017	US TSY BD INFL Index 1.875 DUE 07/15/13	9,583,000	11,410,275
US TSY BD INFL Index 3.875 DUE 04/15/29	31,549,000	51,917,249	US TSY NT INFL Index 1.625 DUE 01/15/15	9,740,500	10,825,933
US TSY NT INFL Index 2.500 DUE 07/15/16	43,822,000	48,566,655	US TSY BD INFL Index 3.625 DUE 04/15/28	6,390,500	10,251,680
US TSY BD INFL Index 3.000 DUE 07/15/12	37,608,000	47,247,014	US TSY NT INFL Index 2.000 DUE 07/15/14	8,708,000	10,081,098
US TSY BD INFL Index 3.625 DUE 04/15/28	29,004,000	46,528,400	US TSY BD INFL Index 2.000 DUE 01/15/26	8,415,500	8,851,394
US TSY BD INFL Index 1.875 DUE 07/15/13	38,458,000	45,791,126	US TSY NT INFL Index 2.375 DUE 04/15/11	7,758,000	8,581,372
Total	480,551,000	584,316,556	Total	91,830,500	108,625,305

## Alternative Investments

For the fiscal year, ending June 30, 2009, the KRS pension fund's alternative investments portfolio posted a return of -29.51%. The portfolio consists primarily of private equity limited partnerships and real estate investment trusts ("REITs"), publicly traded real estate securities, operating companies, and focused real estate investments. The custom benchmark for the pension alternative investment portfolio returned -17.20% during this same period. The insurance alternative investment portfolio returned -26.07% versus its performance benchmark return of -21.86%.

Private equity returns saw their steepest declines in 2008 as the value of firms' investment portfolios tumbled in the wake of the credit crisis. As the accompanying table indicates, the market's volatility impacted longer term results in the alternative investment portfolios. For the three years ending June 30, 2009, the pension fund portfolio has generated an annualized average return of -6.58% versus its custom performance benchmark of -4.04%. Over this same time period, the insurance fund returned -5.43% on an annualized basis outperforming its custom benchmark by 0.69%. While both funds have experienced negative returns over the short term, both have produced positive returns when viewed over a five-year, ten-year, and since inception time horizon. Since its inception in October 1990, the pension portfolio has outpaced its benchmark by 3.22% per year, while the insurance portfolio has outperformed its benchmark by 2.65% since its July 2001 inception.

### Basis for Calculations

KRS uses the Modified Dietz Method as its basis for calculations. This method is used to determine the performance of an investment portfolio based on a time-weighted cash flow. In the absence of daily portfolio valuations, the Modified Dietz Method weights individual cash flows by the amount of time these cash flows are held (or absent) from the portfolio. The result is an approximation of a time-weighted return.

### Alternative Equity

	Inception Date	Fiscal Year	3-Year	5-Year	10-Year	Inception
KRS Pension	Oct-90	-29.51%	-6.58%	4.79%	9.21%	10.01%
Performance Benchmark <sup>1</sup>		-17.20%	-4.04%	.65%	4.37%	6.79%
KRS Insurance	Jul-01	-26.07%	-5.43%	.73%		2.93%
Performance Benchmark <sup>2</sup>		-21.86%	-6.12%	-.64%		.28%

<sup>1</sup> Pension Benchmark consists of 60% S&P 1500 (Total), and 40% LB High Yield Corporate.

<sup>2</sup> Insurance Benchmark consists of 80% S&P 1500 (Total), and 20% LB High Yield Corporate.

# Cash

For the fiscal year, ending June 30, 2009, the KRS pension fund's cash portfolio returned 1.25%, outpacing its benchmark, the Citi Group 3-month Treasury by 0.47%. The KRS insurance cash portfolio also outperformed the index, posting a return of 0.80% during the same twelve month period.

The longer term results from the cash portfolios have also been excellent with comparison to their benchmark. For the five years ending June 30, 2009, the pension fund portfolio has outperformed its custom benchmark by 0.98% on an annualized basis. Since its inception, the portfolio has exceeded its benchmark by 0.42% per year. The insurance portfolio has also done very well exceeding its benchmark return over the five-year period as well as since its inception by 0.69% and 0.31%, respectively.

## Cash Returns

	Inception Date	Fiscal Year	3-Year	5-Year	10-Year	Inception
KRS Pension	Jan-88	1.25%	4.00%	4.01%	4.39%	5.23%
Performance Benchmark <sup>1</sup>		0.78%	3.05%	3.03%	3.09%	4.81%
KRS Insurance	Jul-92	0.80%	3.67%	3.71%	3.61%	4.03%
Performance Benchmark <sup>1</sup>		0.78%	3.05%	3.02%	3.09%	3.72%

<sup>1</sup> Pension and Insurance benchmark is the Citi Group 3-month Treasury

## Additional Schedules & Required Supplemental Information

Following are additional schedules which identify the Investment Advisors employed along with the total assets each firm manages for the Systems, external investment-related expenses incurred, portfolio summaries for each of the five pension and insurance plans, and commissions paid by the Systems as of or for the year ended June 30, 2009.

### External Investment Advisors

	Assets Under Management (in thousands)
Aberdeen Asset Management, Aberdeen, Scotland	175,626
Arbor Investments II, Chicago, Illinois	11,096
Artio Global Investors, New York, NY	65,474
Avenue Capital V, New York, New York	42,188
Barclays Global Investors, San Francisco, California	347,016
Bay Hills Emerging Partners I, San Francisco, California	22,807
Blackstone Capital Partners V, New York, New York	66,767
Columbia Capital IV, Alexandria, Virginia	24,993
Commerce Street Income Partners LP, Dallas, Texas	8,749
Crestview Partners II, New York, New York	547
Duff, Ackerman & Goodrich Ventures II, Palo Alto, California	63,264
Essex Woodland VIII, Palo Alto, California	3,850
GTCR Golder Rauner IX, Chicago, Illinois	17,519
H.I.G. Venture Partners II, Miami, Florida	10,351
Harvest Partners V, New York, New York	1,482
Hellman & Friedman VI, New York, New York	40,010
Horsley Bridge International V LLC, San Francisco, California	791
Institutional Venture Partners XI, Menlo Park, California	26,950
Invesco, Atlanta, Georgia	612,687
JW Childs Equity III, Boston, Massachusetts	25,882
Leonard Green & Partners, L.P., IV, Los Angeles, California	74,100

## External Investment Advisors

	Assets Under Management (in thousands)
Matlin Patterson Global Opportunities I & II, New York, New York	43,358
Merit Capital Partners IV, Chicago, Illinois	22,057
MHR Institutional Advisors III, New York, New York	18,503
Mill Road Capital, Greenwich, Connecticut	6,729
Neuberger Berman, Chicago, Illinois (formerly Lehman Brothers)	280,779
New Mountain Partners II, New York, New York	60,297
NISA Investment Advisors, St. Louis, Missouri	1,214,262
Northern Trust Quantitative Advisors, Chicago, Illinois	699,547
Oak Hill Partners II, New York, New York	98,135
Oak Tree Opportunities VII B, Los Angeles, California	49,918
Prima Mortgage, New York, New York	16,271
Pyramis Global Advisors, Boston, Massachusetts	1,379,108
Robert W. Baird & Co., Milwaukee, Wisconsin	435,506
Sun Capital Partners IV, Boca Raton, Florida	16,896
Technology Crossover Ventures VI, Palo Alto, California	13,249
Tenaska Power Fund II, Omaha, Nebraska	11,410
The Boston Company, Boston, Massachusetts	769,065
Tortoise Capital, Leawood, Kansas	2,718
Vantagepoint Venture IV, San Bruno, California	39,993
Vista Equity Partners III, San Francisco, California	26,364
Walton Street Real Estate Fund, Chicago, Illinois	6,000
Warburg Pincus IX, New York, New York	104,155
Wayzata Investment Partners I, Wayzata, Minnesota	125,685
Weaver Barksdale & Associates, Brentwood, Tennessee	471,812
Wellington Management Company, Boston, Massachusetts	153,461
Total	\$ 7,707,431

*Master Custodian & Performance Measurement  
The Northern Trust Company, Chicago, Illinois*

*Investment Consultants  
ORG Real Property, Cleveland, Ohio  
R.V. Kuhns & Associates, Portland, Oregon  
Strategic Investment Solutions, San Francisco, California*

## KERS - Pension

% of Market Value as of June 30, 2009

Asset Class	Non Hazardous		Hazardous	
	Market value	Allocation (%)	Market value	Allocation (%)
Bonds	1,226,888,707	34.6%	106,311,983	27.5%
Short-Term	196,805,524	5.5%	83,481,858	21.6%
Alternatives	377,560,336	10.6%	42,995,401	11.1%
Domestic Equities	555,889,420	15.7%	52,509,296	13.6%
International Equities	1,190,312,861	33.6%	100,739,350	26.1%
Total Portfolio	3,547,456,847	100.0%	386,037,888	100.0%

## CERS - Pension

% of Market Value as of June 30, 2009

Asset Class	Non Hazardous		Hazardous	
	Market value	Allocation (%)	Market value	Allocation (%)
Bonds	1,410,667,855	33.0%	394,574,686	30.3%
Short-Term	472,985,438	11.1%	194,113,758	14.9%
Alternatives	421,860,143	9.9%	126,496,195	9.7%
Domestic Equities	793,279,609	18.6%	248,394,685	19.1%
International Equities	1,176,862,257	27.5%	340,044,964	26.1%
Total Portfolio	4,275,655,301	100.0%	1,303,624,288	100.0%

## SPRS - Pension

% of Market Value as of June 30, 2009

Asset Class		
	Market value	Allocation (%)
Bonds	89,634,388	35.2%
Short-Term	30,766,940	12.1%
Alternatives	24,882,430	9.8%
Domestic Equities	29,465,153	11.6%
International Equities	79,622,253	31.3%
Total Portfolio	254,371,164	100.0%

## KERS - Insurance

% of Market Value as of June 30, 2009

Asset Class	Non Hazardous		Hazardous	
	Market value	Allocation (%)	Market value	Allocation (%)
Bonds	34,286,453	9.6%	19,691,574	9.0%
Short-Term	83,527,259	23.3%	46,388,549	21.3%
Alternatives	26,287,438	7.3%	11,777,288	5.4%
Domestic Equities	92,448,852	25.8%	78,640,634	36.1%
International Equities	121,977,350	34.0%	61,247,736	28.1%
Total Portfolio	358,527,352	100.0%	217,745,781	100.0%

## CERS - Insurance

% of Market Value as of June 30, 2009

Asset Class	Non Hazardous		Hazardous	
	Market value	Allocation (%)	Market value	Allocation (%)
Bonds	90,518,238	10.3%	48,986,427	10.3%
Short-Term	210,302,909	24.0%	128,879,448	27.1%
Alternatives	43,393,361	4.9%	23,135,593	4.9%
Domestic Equities	312,246,462	35.6%	155,023,587	32.6%
International Equities	220,813,632	25.2%	119,709,311	25.2%
Total Portfolio	877,274,602	100.0%	475,734,365	100.0%

## SPRS - Insurance

% of Market Value as of June 30, 2009

Asset Class		
	Market value	Allocation (%)
Bonds	9,821,117	10.6%
Short-Term	17,139,534	18.4%
Alternatives	5,402,378	5.8%
Domestic Equities	33,287,044	35.8%
International Equities	27,305,425	29.4%
Total Portfolio	92,955,497	100.0%

## External Investment Expenses

Expense	Fees Paid (in thousands)	Expense as a % of Assets
Equity & Fixed Income Portfolio		
Pension Funds	\$ 11,313	0.0999%
Insurance Funds	1,140	0.0436%
Consulting Fees	741	0.0053%
Custody Fees	250	0.0018%
Other Investment-Related Fees	1,240	0.0089%
Total Expenses	14,684	0.1054%

## Schedule of Commissions Paid

	Total Shares	Commissions Paid	\$ per share
U.S. Equities	114,656,319	\$6,331,970	\$0.055

	Total Value of Trades	Commissions Paid	As a % of Trade
Non-U.S. Equities	\$5,377,475,231	\$2,939,260	0.055%

Total Commissions Paid	\$9,271,230
------------------------	-------------

The Performance Calculations presented above were prepared by the System's custodial bank using a time-weighted rate of return methodology based upon the market value of assets.



# Actuarial

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The following is a certification  
of actuarial results by Cavanaugh  
Macdonald Consulting, LLC.

## Cavanaugh Macdonald CONSULTING, LLC.

November 20, 2009

Board of Trustees  
Kentucky Retirement Systems  
Perimeter Park West  
1260 Louisville Road  
Frankfort, Kentucky 40601

**Subject: Certification of Actuarial Results**

Dear Members of the Board:

The fifty-third annual actuarial valuation of the Kentucky Employees Retirement System, the fiftieth annual actuarial valuation of the County Employees Retirement System, and the fifty-first annual actuarial valuation of the State Police Retirement System have been completed and the reports prepared. These reports describe the current actuarial condition of the Kentucky Retirement Systems (KRS), determine the calculated employer contribution rates, and analyze fluctuations in these contribution rates.

Under state statute, the Board of Trustees must approve the employer contribution rate for the upcoming fiscal year based upon the results of the most recent annual valuation. These rates are actuarially based upon current membership data, plan provisions, and the assumptions and funding policies adopted by the KRS Board. Employer contribution rates become effective one year after the valuation date. The recently completed June 30, 2009 actuarial valuation will be used by the Board of Trustees to certify the employer contribution rates for the fiscal year beginning July 1, 2010 and ending June 30, 2011.

## Funding Objectives & Policies

For each retirement system, KRS administers both a pension and insurance fund to provide for monthly retirement allowances and retiree insurance benefits respectively. The total employer contribution rate is comprised of a contribution to each respective fund.

Relative to the pension fund, a contribution rate has been established which consists of the normal cost and an amortization payment on the unfunded accrued liability (UAL). The normal cost is expected to remain level as a percent of payroll in future years. The amortization of any UAL is made over 30 years from the establishment of the amortization base using a level percent of payroll amortization method. Prior to the June 30, 2007 actuarial valuation, each year any actuarial gains or losses, along with any other changes in the actuarial liability (such as the retiree COLA or other benefit improvements) are established as a new amortization base to be amortized over the following 30 years. Effective with the June 30, 2007 actuarial valuation, all amortization bases have been combined and amortized over a single 30-year period beginning June 30, 2007. The amortization period will decrease by one each year going forward (i.e. 29-year amortization June 30, 2008, 28-year amortization June 30, 2009, and so on).

Overall, the total contribution for the pension fund is expected to remain stable as a percentage of payroll over future years in the absence of benefit improvements and material experience gains or losses. However, the current valuation contribution rate does not anticipate any future cost of living increases to benefit recipients as required by statute. Should these cost of living increases occur in the future, the contribution rate for the pension fund will be expected to increase as a percentage of payroll in the absence of material aggregate experience gains.

Relative to the insurance fund, the Board's funding objective is to establish a contribution rate which consists of the normal cost and an amortization payment on the UAL over a 30 year period. Beginning with the June 30, 2006 valuation, the assumptions and methods used are to meet the requirements of GASB Statement No. 43. As with the pension fund, going forward, the combined UAL bases will be amortized over a 30 year period beginning June 30, 2007. The amortization period will decrease by one each year in the future.

Administrative expenses of the plans are also included as part of the total pension fund contribution. This portion of the funding is expected to remain stable as a percentage of payroll over future years.

The impact of House Bill 1 passed into law in 2008 will be to eventually reduce the contribution rates otherwise required as more

active members are covered under the lower benefit structure effective for those hired after August 31, 2008.

### Progress towards Realization of Funding Objectives

The progress towards achieving the intended funding objectives, both relative to the pension and insurance funds, can be measured by the relationship of actuarial assets of each fund to the actuarial accrued liabilities. This relationship is known as the funding level and in the absence of benefit improvements, should increase over time until it reaches 100%.

In recent years, funding levels for the pension funds have fallen dramatically in response to investment returns less than the actuarially assumed rate, higher than anticipated retirement rates, the 2006 and 2009 assumption changes, and increasing expenditures for retiree Cost of Living Adjustments (COLA). Within the KERS and SPRS plans, employer contribution rate reductions enacted by the State Legislature have limited the plans ability to correct the declining funding levels. As of June 30, 2009 the funding levels for the pension funds are as follows:

System	Pension Funding Level
KERS Non-Hazardous Pension Fund	45.0%
KERS Hazardous Pension Fund	74.5%
CERS Non-Hazardous Pension Fund	71.4%
CERS Hazardous Pension Fund	67.9%
SPRS Pension Fund	54.8%

The funding level for the insurance funds is not anywhere near 100% at this time, and the Board's funding objective is to increase this funded level consistently over time. Medical inflation rates in excess of the assumed rates, as well as recent employer contribution rate reductions under KERS and SPRS, have significantly limited this improvement. As of June 30, 2009 the funding level for the insurance funds are as follows:

System	Insurance Funding Level
KERS Non-Hazardous Insurance Fund	11.9%
KERS Hazardous Insurance Fund	61.4%
CERS Non-Hazardous Insurance Fund	39.6%
CERS Hazardous Insurance Fund	40.9%
SPRS Insurance Fund	33.9%

## Data

In completing the valuation of these systems, we have relied on data provided by Kentucky Retirement Systems, as well as financial data provided by the plan's external auditor. We have reviewed this data for reasonableness, and made some general edit checks to impute certain information that may not have been provided with the original employee data. However, we have not audited this data. Any schedules of trend data over the past ten years or less contained in the Actuarial Section, as well as the Schedule of Funding Progress and Schedule of Employer Contributions in the Financial Section, have been based on valuation reports fully prepared by the actuary for the plan at the time of each valuation.

## Assumptions & Methods

The Board of Trustees, in consultation with the actuary, sets the actuarial assumptions and methods used in the valuation. At least once every five years the actuary conducts a thorough review of plan experience for the preceding five years, and then makes recommendations to the Board. The actuarial assumptions and methods used for the funding calculations of the valuation, as adopted by the Board on August 20, 2009 based on the experience investigation report dated August 17, 2009, meet the parameters set for disclosure under GASB Statements No. 25 and 43. The health care cost trend assumptions were updated for the June 30, 2007 valuation adopted by the Board November 15, 2007. These assumptions have been adopted by the Board of Trustees of the Kentucky Retirement Systems in accordance with the recommendation of the actuary. The next experience study is scheduled to be completed in January 2014 and any adjustments will be reflected in the June 30, 2014 actuarial valuation.

## Closing

The information presented in this letter describes the pertinent issues relative to the valuation. There are no other specific issues that need to be raised beyond these items in order to fairly assess the funded position of the plan as presented in the current valuation.

Based on the continuation of current funding policies adopted by the Board, adequate provision is being determined for the funding of the actuarial liabilities of the Kentucky Employees Retirement System, the County Employees Retirement System, and the State Police Retirement System as required by the Kentucky Revised Statutes. The funding rates established by the Board are appropriate for this purpose.

Sincerely,

Thomas J. Cavanaugh FSA, FCA, MAAA, EA  
Chief Executive Officer

# Summary of Actuarial Assumptions and Methods

(As of June 30, 2009)

The results of the actuarial valuation are based upon the assumptions and funding policies adopted by the Board and statutory funding requirements. Assumptions and funding policies are reviewed against actual plan experience at least once every five years through the completion of the Actuarial Experience Study. The most recent study was completed in August 2009 and reviewed plan experience for the period from July 1, 2005 through June 30, 2008. All assumptions, with the exception of health care trend rates, used in the June 30, 2009 actuarial valuation were based on the study performed in 2009 and in accordance with the actuary's recommendations. The health care trend rates used in the June 30, 2008 valuation are those adopted by the Board on November 15, 2007. The next Experience Study is scheduled to be completed in January 2014.

1. **Actuarial Cost Method:** The actuarial valuation was prepared using the entry age normal cost (EANC) method as required by state statute. Under this method, the present value of future benefits is determined for each member and allocated equitably as a level percentage of payroll from the member's entry age into the plan to the assumed age of exit from the plan. The portion of the present value of future benefits allocated to the current valuation year is called the normal cost. The portion of the present value of future benefits allocated to prior years of service that has accrued to date is called the actuarial liability. The unfunded actuarial liability (UAL) represents the difference between the actuarial liability and the actuarial value of assets as of the valuation date. Relative to the pension fund and the insurance fund, an employer contribution rate has been established to be equal to the sum of the normal cost and the amount needed to amortize the UAL over no more than a 30-year period.
2. **UAL Amortization Method:** The amortization of any UAL is made over 30 years from the establishment of the amortization base

using a level percent of payroll amortization method. Prior to the June 30, 2007 actuarial valuation, each year any actuarial gains or losses, along with any other changes in the actuarial liability (such as the retiree COLA or other benefit improvements) are established as a new amortization base to be amortized over the following 30 years. Effective with the June 30, 2007 actuarial valuation, all amortization bases have been combined and amortized over a single 30-year period beginning June 30, 2007. The amortization period will decrease by one each year going forward (i.e. 29-year amortization June 30, 2008, 28-year amortization June 30, 2009, and so on).

3. **Asset Valuation Method:** The actuarial value of assets recognizes a portion of the difference between the market value of assets and the expected market value of assets, based on the investment return assumption. The amount recognized each year is 20% of the difference between market value and expected market value. The Asset Valuation Method was adopted by the Board in 2006.
4. **Retiree Insurance Funding Policy:** The assumptions, methods, and funding requirements used in the valuation are to meet the requirements of GASB Statement No. 43. As with the pension fund, going forward, the combined UAL bases will be amortized over a 30 year period beginning June 30, 2007. The amortization period will decrease by one each year in the future.
5. **Investment Return Assumption:** The future investments earnings of plan assets are assumed to accumulate at a rate of 7.75% per annum. This rate consists of a 3.5% inflationary component and a 4.25% real rate of return component. In accordance with GASB Statement No. 43, the investment return assumption has been reduced to a blended rate of 4.5% for KERS and SPRS insurance funds due to a lack of pre-funding benefits. This assumption was adopted in 2006.
6. **Salary Increase Assumption:** Active member salaries are assumed to increase at the rates provided in Table 1 on the following page. The rates include a 4.5% percent inflationary component and an additional increase due to promotion based upon plan experience. This assumption was adopted in 2009.



**Table 1: Salary Increase Assumptions**

Service	KERS Non-Hazardous	KERS Hazardous	CERS Non-Hazardous	CERS Hazardous	SPRS
0-1	17.00%	21.00%	13.00%	20.00%	17.00%
1-2	9.00%	9.00%	9.50%	10.50%	12.00%
2-3	6.50%	7.00%	6.00%	6.50%	10.00%
3-4	6.00%	6.50%	6.00%	5.75%	9.00%
4-5	6.00%	6.00%	5.50%	5.50%	8.00%
5-6	6.00%	5.50%	5.50%	5.00%	7.00%
6-7	5.50%	5.00%	5.25%	4.50%	6.00%
7-8	5.50%	5.00%	5.25%	4.50%	6.50%
8-9	5.50%	5.00%	5.00%	4.50%	5.50%
9-10	5.00%	5.00%	5.00%	4.50%	5.00%
10+	5.00%	5.00%	4.75%	4.50%	4.50%

7. Payroll Growth Assumption: Active member payroll is assumed to increase at a rate of 4.5% per annum. This assumption was adopted in 2009.
8. Retiree Cost of Living Adjustments (COLA): State statutes require retirement allowances to be increased by the percentage increase in the annual average of the consumer price index for all urban consumers (CPI-U) for the most recent calendar year, not to exceed five percent. The statutes only allow the Cost of Living Adjustments (COLAs) awarded as of the valuation date to be recognized for funding purposes and for determining employer contribution rates. The Kentucky General Assembly has the authority to suspend or reduce cost of living adjustments.

**Age (Years) &  
Non-Hazardous Retirement  
Probability (%)**

Age	KERS	CERS
55 - 59	8.0%	8.0%
60	10.0	10.0
61	20.0	10.0
62 - 70	22.5	22.0

*If service credit is at least 27 years, the rate is 25%. 100% are anticipated to retire at age 75.*

**Hazardous Service (Years) &  
Retirement Probability (%)**

Service	KERS	CERS	SPRS
20	22.0%	20.0%	9.0%
21	22.0	20.0	10.0
22 - 24	22.0	20.0	22.0
25	35.0	33.0	22.0
26 - 27	37.0	33.0	25.0
28	39.0	39.0	25.0
29	38.0	33.0	25.0
30 - 31	38.0	33.0	33.3
32	50.0	50.0	33.3
33 - 34	50.0	40.0	33.3
35+	60.0	40.0	33.3

*For KERS, 100% are anticipated to retire at age 65.  
For CERS, 100% are anticipated to retire at age 62.  
For SPRS, 100% are anticipated to retire at age 55.*

- Medical Inflation Rate Assumption: The costs for retiree medical premiums are assumed to increase each year by 11% for 2009, by 10% for 2010, by 9% for 2011, by 8% for 2012, by 7% for 2013, by 6% for 2014, and by 5% thereafter. This assumption was adopted in 2007.
- Retirement Rate Assumption: The probability, or the likelihood, that a member will retire at a specified age or level of service is provided in the tables to the left. This assumption was adopted in 2009.
- Mortality Assumptions: The mortality table used for active members is the 1994 Group Annuity Mortality (GAM) Table. For members retiring on or after July 1, 2006, the mortality table was changed from the 1983 GAM table to the 1994 GAM table. Mortality assumptions for disabled lives are set using the 1994 GAM table set forward five years. These assumptions were adopted in 2006.

**Sample Annual Rates of Mortality: Active & Retired Members\***

Age (Years)	Males	Females
< 20	0.04%	0.03%
22	0.06	0.03
32	0.08	0.04
42	0.13	0.08
52	0.32	0.17
62	1.01	0.58
72	2.85	1.65

**Sample Annual Rates of Mortality: Disabled Member Mortality**

< 20, 22, 32	-	-
42	0.19%	0.11%
52	0.56	0.29
62	1.80	1.08
72	4.52	2.84

*\*For members retiring on or after July 1, 2006.*

- Withdrawal Rates: The probability, or likelihood, of active members terminating employment prior to retirement is provided in the table on the following page. The withdrawal rate is a function of both age and service. This type of structure is known as “select and ultimate rates”. This structure reflects the fact that both service and age affect the likelihood of a member staying in active employment. The ultimate period for these systems covers a member’s withdrawal rate after the first five years of service. These assumptions were adopted in 2009.

## Selected Rates of Termination Prior to Retirement

Select Rates		Ultimate Rates		Select Rates		Ultimate Rates	
Service	Probability	Age	Probability	Service	Probability	Age	Probability

### KERS Non-Hazardous

### CERS Non-Hazardous

1st Year of Service	19.00%	20	6.00%	1st Year of Service	25.00%	20	5.75%
2nd Year of Service	13.00	25	5.08	2nd Year of Service	14.00	25	5.75%
3rd Year of Service	10.00	30	4.26	3rd Year of Service	10.00	30	5.30
4th Year of Service	9.00	35	3.21	4th Year of Service	8.00	35	4.40
5th Year of Service	6.50	40	3.0	5th Year of Service	6.50	40	3.70
		45	3.0			45	3.02
		50	3.0			50	2.70
		55	3.0			55	2.20
		60	3.0			60	0.75

### KERS Hazardous

### CERS Hazardous

1st Year of Service	15.00%	20	4.0%	1st Year of Service	14.00%	20	3.0%
2nd Year of Service	14.00	25	4.0	2nd Year of Service	7.5	25	2.7
3rd Year of Service	10.00	30	3.5	3rd Year of Service	6.0	30	2.5
4th Year of Service	8.00	35	3.0	4th Year of Service	4.5	35	2.5
5th Year of Service	6.00	40	3.0	5th Year of Service	4.0	40	2.5
		45	3.0			45	2.5
		50	3.0			50	2.5
		55	3.0			55	2.5
		60	3.0			60	2.5

### SPRS

1st Year of Service	20.0%	20	2.5%
2nd Year of Service	7.5	25	2.5%
3rd Year of Service	3.0	30	2.5%
4th Year of Service	3.0	35	2.5%
5th Year of Service	3.0	40	2.5%
		45	2.5%
		50	2.5%
		55	-
		60	-

13. Rates of Disablement: KRS provides disability benefits for those individuals meeting specific qualifications established by state law. This assumption provides the probability, or likelihood, that a member will become disabled during the course of employment for various age levels. For non-hazardous members, the assumptions are set using three quarters of the Old-Age Survivors and Disability Insurance (OASDI) rates. For hazardous members, the assumptions are set using one times the Old-Age Survivors and Disability Insurance (OASDI) rates. These assumptions were adopted in 2009.

**Probability of Becoming Disabled During Employment**

Non-Hazardous		Hazardous	
Age	Probability	Age	Probability
20 - 24	0.0354%	20 - 24	0.0531%
25 - 29	0.0474%	25 - 29	0.0711%
30 - 34	0.0612%	30 - 34	0.0918%
35 - 39	0.0853%	35 - 39	0.1280%
40 - 44	0.1329%	40 - 44	0.1994%
45 - 49	0.2213%	45 - 49	0.3320%
50 - 54	0.3727%	50 - 54	0.5590%
55 - 59	0.6133%	55 - 59	0.9200%
60 - 64	0.9745%	60 - 64	1.4618%

# Summary of Actuarial Valuation Results

(As of June 30, 2009)

	<b>KERS Non- Hazardous</b>	<b>KERS Hazardous</b>	<b>CERS Non- Hazardous</b>	<b>CERS Hazardous</b>	<b>SPRS</b>
Recommended Contribution Rate (Fiscal Year 2010-2011)					
Pension Fund Contribution	21.77%	14.11%	10.03%	16.79%	35.74%
Insurance Fund Contribution	16.81	20.26	9.78	23.27	49.89
Recommended Employer Contribution	38.58	34.37	19.81	40.06	85.63
<b>Funded Status as of Valuation Date</b>					
<b>Pension Fund</b>					
Actuarial Liability	\$10,658,549,532	\$674,411,781	\$7,912,913,512	\$2,578,444,600	\$602,328,868
Actuarial Value of Assets	4,794,611,365	50,503,287	5,650,789,991	1,751,487,540	329,966,989
Unfunded Liability on Actuarial Value of Assets	5,863,938,167	171,908,494	2,262,123,521	826,957,060	272,361,879
Funding Ratio on Actuarial Value of Assets	44.98%	74.51%	71.41%	67.93%	54.78%
Market Value of Assets	3,584,196,429	388,913,374	4,330,593,934	1,320,522,868	256,571,073
Unfunded Liability on Market Value of Assets	7,074,353,103	285,498,407	3,582,319,578	1,257,921,732	345,757,795
Funding Ratio on Market Value of Assets	33.63%	57.67%	54.73%	51.21%	42.60%
<b>Insurance Fund</b>					
Actuarial Liability	\$4,507,325,571	\$491,132,170	\$3,070,386,018	\$1,593,548,263	\$364,031,141
Actuarial Value of Assets	534,172,580	301,634,592	1,216,631,769	651,130,782	123,526,647
Unfunded Liability on Actuarial Value of Assets	3,973,152,991	189,497,578	1,853,754,249	942,417,481	240,504,494
Funding Ratio on Actuarial Value of Assets	11.85%	61.42%	39.62%	40.86%	33.93%
Market Value of Assets	365,771,088	219,537,255	894,905,841	483,269,862	93,686,940
Unfunded Liability on Market Value of Assets	4,141,554,483	271,594,915	2,175,480,177	1,110,278,401	270,344,201
Funding Ratio on Market Value of Assets	8.12%	44.70%	29.15%	30.33%	25.74%

# Summary of Actuarial Valuation Results

(As of June 30, 2009)

	<b>KERS Non- Hazardous</b>	<b>KERS Hazardous</b>	<b>CERS Non- Hazardous</b>	<b>CERS Hazardous</b>	<b>SPRS</b>
<b>Member Data</b>					
Number of Active Members	46,060	4,334	83,724	9,757	946
Total Annual Payroll (Active Members) <sup>1</sup>	\$1,754,412,912	\$146,043,576	\$2,183,611,848	\$469,315,464	\$51,660,396
Average Annual Pay (Active Members)	\$38,090	\$33,697	\$26,081	\$48,100	\$54,609
Number of Retired Members & Beneficiaries	37,883	2,648	39,756	5,808	1,184
Average Annual Retirement Allowance	\$21,449	\$14,613	\$11,069	\$24,085	\$37,394
Number of Vested Inactive Members	5,745	303	9,182	549	58
Number of Inactive Members Due a Refund	28,770	2,753	51,093	1,973	274

<sup>1</sup> Annual payroll included in the Summary of Actuarial Valuation Results is based upon the annualized monthly payroll for active members as of the valuation date. The annual payroll recorded in the financial section is based upon the sum of the monthly payroll for active members recorded for each month of fiscal year ending June 30, 2009.

# Recommended Employer Contribution Rates

(As of June 30, 2009)

## Kentucky Employees Retirement System (Non-Hazardous Employers)

Valuation Date	Applicable Fiscal Year	Pension Fund: Normal Cost	Pension Fund: Payment on Unfunded Liability	Pension Fund Contribution	Insurance Fund Contribution	Recommended Employer Contribution
6/30/04	2005-2006	4.89%	2.96%	7.85%	5.77%	13.62%
6/30/05	2006-2007	4.81%	5.87%	10.68%	6.45%	17.13%
6/30/06	2007-2008	3.72%	11.83%	15.55%	32.82%	48.37%
6/30/07	2008-2009	3.62%	12.92%	16.54%	20.38%	36.92%
6/30/08	2009-2010	3.97%	14.99%	18.96%	20.49%	39.45%
6/30/09	2010-2011	4.26%	17.51%	21.77%	16.81%	38.58%

## Kentucky Employees Retirement System (Hazardous Employers)

6/30/04	2005-2006	8.62%	(0.10%)	8.52%	13.07%	21.59%
6/30/05	2006-2007	8.37%	0.91%	9.28%	14.04%	23.32%
6/30/06	2007-2008	7.27%	2.93%	10.20%	36.91%	47.11%
6/30/07	2008-2009	7.28%	3.56%	10.84%	23.94%	34.78%
6/30/08	2009-2010	7.52%	4.46%	11.98%	23.56%	35.54%
6/30/09	2010-2011	7.94%	6.17%	14.11%	20.26%	34.37%

The contribution rates for KERS Non-Hazardous and KERS Hazardous shown in the above tables are the actuarially required contribution (ARC) rates presented by the actuary in the 2006 through 2009 annual valuations. However, the actual employer contribution rates have been less than those shown above. As a result of HB 1 passed in 2008 the applicable statute now calls for an employer contribution rate at an increasing percentage of the ARC rates until 100% is achieved in 2025 for KERS Non-Hazardous and 2019 for KERS Hazardous.

# Recommended Employer Contribution Rates

(As of June 30, 2009)

## County Employees Retirement System

### (Non-Hazardous Employers)

Valuation Date	Applicable Fiscal Year	Pension Fund: Normal Cost	Pension Fund: Payment on Unfunded Liability	Pension Fund Contribution	Insurance Fund Contribution	Recommended Employer Contribution
6/30/2004	2005-2006	5.80%	(1.25%)	4.55%	6.43%	10.98%
6/30/2005	2006-2007	5.72	0.25	5.97	7.22	13.19
6/30/2006	2007-2008	4.69	2.29	6.98	20.51	27.49
6/30/2007	2008-2009	4.53	3.23	7.76	12.75	20.51
6/30/08	2009-2010	4.46	4.16	8.62	12.29	20.91
6/30/09	2010-2011	4.60	5.43	10.03	9.78	19.81

## County Employees Retirement System

### (Hazardous Employers)

6/30/2004	2005-2006	8.80%	2.42%	11.22%	13.79%	25.01%
6/30/2005	2006-2007	8.79	4.32	13.11	15.10	28.21
6/30/2006	2007-2008	8.12	6.89	15.01	39.52	54.53
6/30/2007	2008-2009	8.06	6.98	15.04	27.62	42.66
6/30/08	2009-2010	8.23	7.88	16.11	27.25	43.36
6/30/09	2010-2011	7.56	9.23	16.79	23.27	40.06

*The insurance fund contribution rates and the employer contribution rates for CERS Non-Hazardous and CERS Hazardous shown in the above tables are the actuarially required contribution (ARC) rates presented by the actuary in the 2006 through 2009 annual valuations. However, in the case of CERS Non-Hazardous and CERS Hazardous, in 2006 the actuary recommended a five-year phase-in of the rate which requires the payment of the insurance benefit normal cost with a five-year phase-in of the unfunded accrued liability (UAL) associated with the insurance funds. In 2008 this was changed to a ten-year phase-in from the initial starting date due to legislation enacted by the Kentucky General Assembly. As a result, the CERS Non-Hazardous insurance fund contribution rate actually recommended by the actuary and adopted by the Board for 2010-2011 is 6.90% and the employer contribution rate is 16.93%. The CERS Hazardous insurance fund contribution rate actually recommended by the actuary and adopted by the Board for 2010-2011 is 16.46% and the employer contribution rate is 33.25%.*



# Recommended Employer Contribution Rates

(As of June 30, 2009)

## State Police Retirement System

Valuation Date	Applicable Fiscal Year	Pension Fund: Normal Cost	Pension Fund: Payment on Unfunded Liability	Pension Fund Contribution	Insurance Fund Contribution	Recommended Employer Contribution
6/30/2004	2005-2006	9.37%	5.12%	14.49%	20.34%	34.83%
6/30/2005	2006-2007	9.43	11.21	20.64	21.66	42.30
6/30/2006	2007-2008	9.20	19.75	28.95	91.05	120.00
6/30/2007	2008-2009	9.64	22.75	32.39	59.54	91.93
6/30/08	2009-2010	9.83	25.40	35.23	56.89	92.12
6/30/09	2010-2011	8.12	27.62	35.74	49.89	85.63

*The contribution rates for SPRS shown in the above tables are the actuarially required contribution (ARC) rates presented by the actuary in the 2006 through 2009 annual valuations. However, the actual employer contribution rates have been less than those shown above. As a result of House Bill 1 passed in 2008 the applicable statute now calls for an employer contribution rate at an increasing percentage of the ARC rates until 100% is achieved in 2020 for SPRS.*

# Summary of Actuarial Unfunded Liabilities

(As of June 30, 2009)

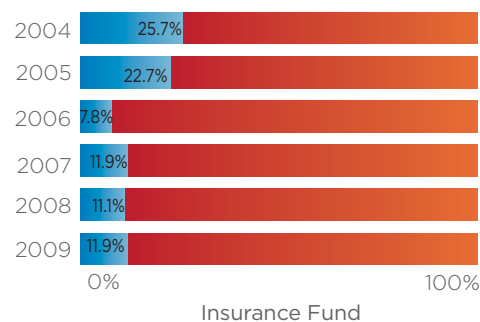
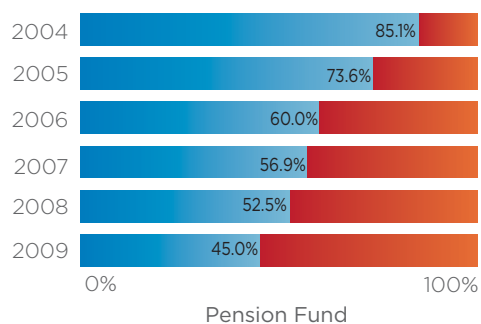
## Kentucky Employees Retirement System (Non-Hazardous Pension Fund)

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Actuarial Liabilities		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/03	\$6,520,463,188	\$6,351,318,832	\$4,929,443,185	\$169,144,356	\$1,591,020,003	97.4%	75.6%
6/30/04	\$7,049,613,171	\$6,000,513,743	\$5,258,994,145	\$1,049,099,428	\$1,790,619,026	85.1%	74.6%
6/30/05	\$7,579,074,839	\$5,578,685,746	\$5,362,630,697	\$2,000,389,093	\$2,216,444,142	73.6%	70.8%
6/30/06	\$8,994,826,247	\$5,394,086,323	\$5,440,132,708	\$3,600,739,924	\$3,554,693,539	60.0%	60.5%
6/30/07	\$9,485,939,277	\$5,396,782,459	\$5,773,156,838	\$4,089,156,818	\$3,712,782,439	56.9%	60.9%
6/30/08	\$10,129,689,985	\$5,318,792,893	\$5,056,867,294	\$4,810,897,092	\$5,072,822,691	52.5%	49.9%
6/30/09	\$10,658,549,532	\$4,794,611,365	\$3,584,196,429	\$5,863,938,167	\$7,074,353,103	45.0%	33.6%

## Kentucky Employees Retirement System (Non-Hazardous Insurance Fund)

6/30/03	\$2,093,210,321	\$553,885,082	\$487,274,973	\$1,539,325,239	\$1,605,935,348	26.5%	23.3%
6/30/04	\$2,335,905,365	\$600,586,961	\$587,680,647	\$1,735,318,404	\$1,748,224,718	25.7%	25.2%
6/30/05	\$2,680,559,188	\$607,068,351	\$610,901,623	\$2,073,490,837	\$2,069,657,565	22.7%	22.8%
6/30/06	\$7,815,480,774	\$611,350,765	\$632,642,846	\$7,204,130,009	\$7,182,837,928	7.8%	8.1%
6/30/07	\$5,201,355,055	\$621,171,658	\$663,558,360	\$4,580,183,397	\$4,537,796,695	11.9%	12.8%
6/30/08	\$5,431,499,285	\$603,197,761	\$574,480,809	\$4,828,301,524	\$4,857,018,476	11.1%	10.6%
6/30/09	\$4,507,325,571	\$534,172,580	\$365,771,088	\$3,973,152,991	\$4,141,554,483	11.9%	8.1%

The funding level is the percentage of actuarial liabilities, or benefits earned to date, covered by the current assets. The value provides a measure of the plan's financial soundness. An increasing (decreasing) trend in the funding level indicates the system is becoming financially stronger (weaker).



# Summary of Actuarial Unfunded Liabilities

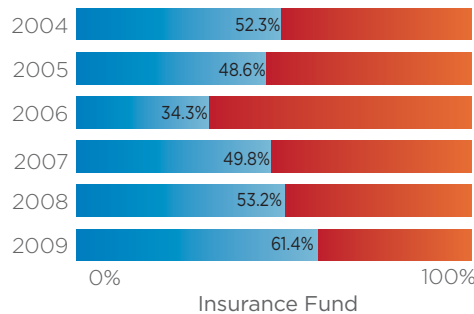
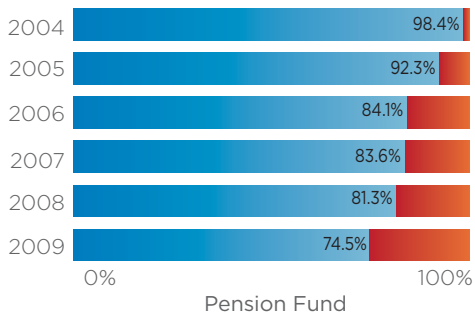
(As of June 30, 2009)

## Kentucky Employees Retirement System (Hazardous Pension Fund)

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Actuarial Liabilities		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/03	\$356,879,133	\$385,925,722	\$320,524,691	(\$29,046,589)	\$36,354,442	108.1%	89.8%
6/30/04	\$403,578,036	\$397,212,763	\$366,569,507	\$6,365,273	\$37,008,529	98.4%	90.8%
6/30/05	\$438,994,257	\$405,288,662	\$398,308,897	\$33,705,595	\$40,685,360	92.3%	90.7%
6/30/06	\$508,655,903	\$427,984,192	\$437,029,583	\$80,671,711	\$71,626,320	84.1%	85.9%
6/30/07	\$558,992,329	\$467,287,809	\$510,775,499	\$91,704,520	\$48,216,830	83.6%	91.4%
6/30/08	\$618,010,827	\$502,132,214	\$484,440,015	\$115,878,613	\$133,570,812	81.3%	78.4%
6/30/09	\$674,411,781	\$502,503,287	\$388,913,374	\$171,908,494	\$285,498,406	74.5%	57.7%

## Kentucky Employees Retirement System (Hazardous Insurance Fund)

6/30/03	\$283,178,335	\$151,459,500	\$125,533,413	\$131,718,835	\$157,644,922	53.5%	44.3%
6/30/04	\$323,503,563	\$169,158,879	\$162,127,373	\$154,344,684	\$161,376,190	52.3%	50.1%
6/30/05	\$386,844,695	\$187,947,644	\$188,871,226	\$198,897,051	\$197,973,469	48.6%	48.8%
6/30/06	\$621,237,856	\$212,833,318	\$223,523,081	\$408,404,538	\$397,714,775	34.3%	36.0%
6/30/07	\$504,842,981	\$251,536,756	\$280,885,910	\$253,306,225	\$223,957,071	49.8%	55.6%
6/30/08	\$541,657,214	\$288,161,759	\$269,299,859	\$253,495,455	\$272,357,355	53.2%	49.7%
6/30/09	\$491,132,170	\$301,634,592	\$219,537,255	\$189,497,578	\$271,594,915	61.4%	44.7%



The funding level is the percentage of actuarial liabilities, or benefits earned to date, covered by the current assets. The value provides a measure of the plan's financial soundness. An increasing (decreasing) trend in the funding level indicates the system is becoming financially stronger (weaker).

# Summary of Actuarial Unfunded Liabilities

(As of June 30, 2009)

## County Employees Retirement System

### (Non-Hazardous Pension Fund)

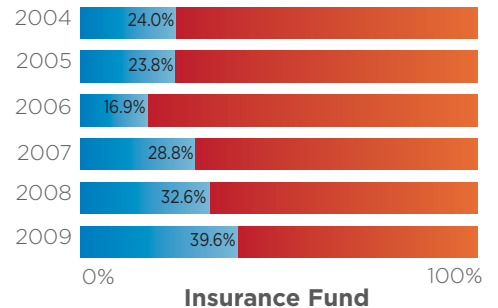
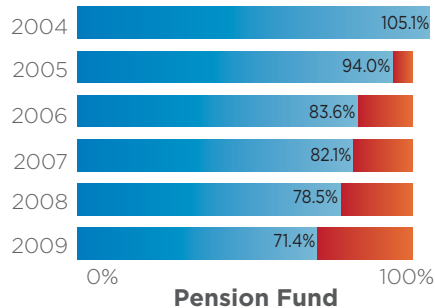
Valuation Date	Actuarial Liability	Value of Assets		Unfunded Actuarial Liabilities		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/03	\$4,417,597,802	\$5,286,580,047	\$4,174,881,117	(\$868,982,245)	\$242,716,685	119.7%	94.5%
6/30/04	\$4,936,459,488	\$5,187,851,530	\$4,613,335,957	(\$251,392,042)	\$323,123,531	105.1%	93.5%
6/30/05	\$5,385,156,690	\$5,059,208,687	\$4,893,599,997	\$325,948,003	\$491,556,693	94.0%	90.9%
6/30/06	\$6,179,569,267	\$5,162,894,136	\$5,191,376,948	\$1,016,675,131	\$988,192,319	83.6%	84.0%
6/30/07	\$6,659,446,126	\$5,467,824,480	\$5,812,935,251	\$1,191,621,646	\$846,510,875	82.1%	87.3%
6/30/08	\$7,304,217,691	\$5,731,502,438	\$5,431,735,605	\$1,572,715,253	\$1,872,482,086	78.5%	74.4%
6/30/09	\$7,912,913,512	\$5,650,789,991	\$4,330,593,934	\$2,262,123,521	\$3,582,319,578	71.4%	54.7%

## County Employees Retirement System

### (Non-Hazardous Insurance Fund)

6/30/03	\$2,176,963,259	\$520,060,105	\$435,667,125	\$1,656,903,154	\$1,741,296,134	23.9%	20.0%
6/30/04	\$2,438,734,696	\$585,399,072	\$563,877,594	\$1,853,335,624	\$1,874,857,102	24.0%	23.1%
6/30/05	\$2,788,754,654	\$663,941,949	\$668,485,367	\$2,124,812,705	\$2,120,269,287	23.8%	24.0%
6/30/06	\$4,607,223,639	\$777,726,590	\$813,250,744	\$3,829,497,049	\$3,793,972,895	16.9%	17.7%
6/30/07	\$3,333,966,070	\$960,285,900	\$1,084,042,781	\$2,373,680,170	\$2,249,923,289	28.8%	32.5%
6/30/08	\$3,583,193,466	\$1,168,883,170	\$1,105,944,178	\$2,414,310,296	\$2,477,249,288	32.6%	30.9%
6/30/09	\$3,070,386,018	\$1,216,631,769	\$894,905,841	\$1,853,754,249	\$2,175,480,177	39.6%	29.2%

The funding level is the percentage of actuarial liabilities, or benefits earned to date, covered by the current assets. The value provides a measure of the plan's financial soundness. An increasing (decreasing) trend in the funding level indicates the system is becoming financially stronger (weaker).



# Summary of Actuarial Unfunded Liabilities

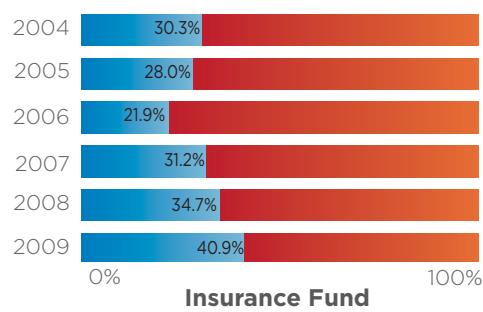
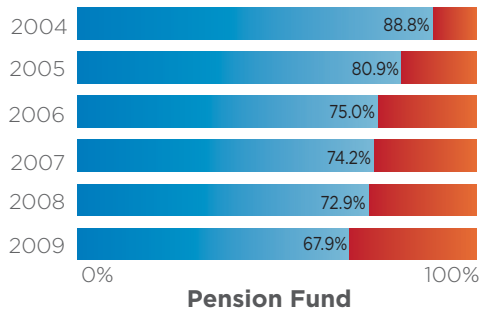
(As of June 30, 2009)

## County Employees Retirement System (Hazardous Pension Fund)

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Actuarial Liabilities		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/03	\$1,499,628,782	\$1,467,004,856	\$1,168,794,472	\$32,623,926	\$330,834,310	97.8%	77.9%
6/30/04	\$1,640,830,120	\$1,457,612,042	\$1,305,011,472	\$183,218,078	\$335,818,648	88.8%	79.5%
6/30/05	\$1,795,617,335	\$1,452,353,023	\$1,411,245,719	\$343,264,312	\$384,371,616	80.9%	78.6%
6/30/06	\$2,020,142,770	\$1,515,075,017	\$1,528,845,357	\$505,067,753	\$491,297,413	75.0%	75.7%
6/30/07	\$2,208,736,179	\$1,639,288,924	\$1,754,934,764	\$569,447,255	\$453,801,415	74.2%	79.5%
6/30/08	\$2,403,122,095	\$1,750,867,373	\$1,644,983,243	\$652,254,722	\$758,138,852	72.9%	68.5%
6/30/09	\$2,578,444,600	\$1,751,487,540	\$1,320,522,868	\$826,957,060	\$1,257,921,732	67.9%	51.2%

## County Employees Retirement System (Hazardous Insurance Fund)

6/30/03	\$935,650,662	\$269,190,080	\$223,212,339	\$666,460,582	\$712,438,323	28.8%	23.9%
6/30/04	\$1,025,684,477	\$310,578,162	\$297,734,286	\$715,106,315	\$727,950,191	30.3%	29.0%
6/30/05	\$1,283,299,092	\$359,180,461	\$360,938,669	\$924,118,631	\$922,360,423	28.0%	28.1%
6/30/06	\$1,928,481,371	\$422,785,042	\$441,278,796	\$1,505,696,329	\$1,487,202,575	21.9%	22.9%
6/30/07	\$1,646,460,011	\$512,926,549	\$570,155,702	\$1,133,533,462	\$1,076,304,309	31.2%	34.6%
6/30/08	\$1,769,782,957	\$613,526,319	\$576,414,457	\$1,156,256,638	\$1,193,368,500	34.7%	32.6%
6/30/09	\$1,593,548,263	\$651,130,782	\$483,269,862	\$942,417,481	\$1,110,278,401	40.9%	30.3%



The funding level is the percentage of actuarial liabilities, or benefits earned to date, covered by the current assets. The value provides a measure of the plan's financial soundness. An increasing (decreasing) trend in the funding level indicates the system is becoming financially stronger (weaker).

# Summary of Actuarial Unfunded Liabilities

(As of June 30, 2009)

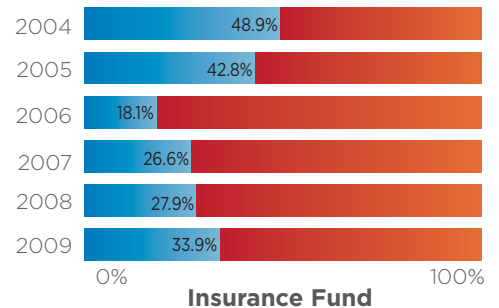
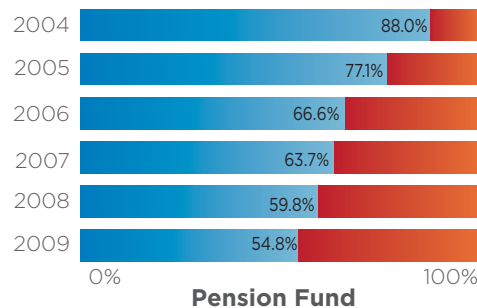
## State Police Retirement System (Pension Fund)

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Actuarial Liabilities		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/03	\$414,881,459	\$413,063,576	\$319,116,232	\$1,817,883	\$95,765,227	99.6%	76.9%
6/30/04	\$437,482,425	\$385,077,195	\$335,720,408	\$52,405,230	\$101,762,017	88.0%	76.7%
6/30/05	\$458,593,576	\$353,511,622	\$339,405,873	\$105,081,954	\$119,187,703	77.1%	74.0%
6/30/06	\$516,482,298	\$344,016,197	\$352,841,486	\$172,466,101	\$163,640,812	66.6%	68.3%
6/30/07	\$547,955,286	\$348,806,508	\$376,381,488	\$199,148,778	\$171,573,798	63.7%	68.7%
6/30/08	\$587,129,257	\$350,891,451	\$337,358,918	\$236,237,806	\$249,770,339	59.8%	57.5%
6/30/09	\$602,328,868	\$329,966,989	\$256,571,073	\$272,361,879	\$345,757,795	54.8%	42.6%

## State Police Retirement System (Insurance Fund)

6/30/03	\$184,501,205	\$90,747,967	\$72,533,617	\$93,753,238	\$111,967,588	49.2%	39.3%
6/30/04	\$197,604,301	\$96,622,908	\$90,422,080	\$100,981,393	\$107,182,221	48.9%	45.8%
6/30/05	\$234,159,510	\$100,207,082	\$99,408,106	\$133,952,428	\$134,751,404	42.8%	42.5%
6/30/06	\$582,580,867	\$105,580,269	\$110,491,075	\$477,000,598	\$472,089,792	18.1%	19.0%
6/30/07	\$432,763,229	\$115,215,912	\$132,573,898	\$317,547,317	\$300,189,331	26.6%	30.6%
6/30/08	\$445,107,468	\$123,961,197	\$121,781,967	\$321,146,271	\$323,325,501	27.9%	27.4%
6/30/09	\$364,031,141	\$123,526,647	\$93,686,940	\$240,504,494	\$270,344,201	33.9%	25.7%

The funding level is the percentage of actuarial liabilities, or benefits earned to date, covered by the current assets. The value provides a measure of the plan's financial soundness. An increasing (decreasing) trend in the funding level indicates the system is becoming financially stronger (weaker).



# Analysis of Financial Experience

(As of June 30, 2009)

## Kentucky Employees Retirement System Non-Hazardous Gains & Losses in Accrued Liabilities Resulting from Difference Between Assumed Experience & Actual Experience (\$ Millions)

Type of Activity	Retirement \$ Gain (or Loss)	Insurance \$ Gain (or Loss)
Age & Service Retirements. If members retire at older ages, there is a gain. If younger ages, a loss.	(312.8)	(167.6)
Disability Retirements. If disability claims are less than assumed, there is a gain. If more claims, a loss.	0.2	5.4
Death-In Service Benefits. If survivor claims are less than assumed, there is a gain. If more claims, there is a loss.	(1.3)	(5.7)
Withdrawal From Employment. If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	169.9	38.7
Pay or Claims Increases. If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss. For insurance, smaller claims increases than assumed generates a gain; larger, a loss.	17.0	260.3
New Members. Additional unfunded accrued liability will produce a loss.	(9.0)	(15.9)
Investment Income. If there is a greater investment income than assumed, there is a gain. If less income, a loss.	(307.9)	(39.8)
Death After Retirement. If retired members live longer than assumed, there is a loss. If not as long, a gain.	5.2	44.4
Other. Miscellaneous gains and losses resulting from changes in valuation software, data adjustments, timing of financial transactions, etc.	(344.9)	(524.3)
Gain (or Loss) During Year From Financial Experience	(783.6)	(404.5)
Non-Recurring Items. Adjustments for plan amendments, assumption changes, method changes or contribution timing.	56.9	1,278.4
Composite Gain (or Loss) During Year	(726.7)	873.9

# Analysis of Financial Experience

(As of June 30, 2009)

## Kentucky Employees Retirement System Hazardous Gains & Losses in Accrued Liabilities Resulting from Difference Between Assumed Experience & Actual Experience (\$ Millions)

Type of Activity	Retirement \$ Gain (or Loss)	Insurance \$ Gain (or Loss)
Age & Service Retirements. If members retire at older ages, there is a gain. If younger ages, a loss.	(20.4)	(10.6)
Disability Retirements. If disability claims are less than assumed, there is a gain. If more claims, a loss.	0.9	1.0
Death-In Service Benefits. If survivor claims are less than assumed, there is a gain. If more claims, there is a loss.	0.2	0.2
Withdrawal From Employment. If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	14.9	9.1
Pay or Claims Increases. If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss. For insurance, smaller claims increases than assumed generates a gain; larger, a loss.	4.0	25.4
New Members. Additional unfunded accrued liability will produce a loss.	(1.1)	(1.0)
Investment Income. If there is a greater investment income than assumed, there is a gain. If less income, a loss.	(26.8)	(18.7)
Death After Retirement. If retired members live longer than assumed, there is a loss. If not as long, a gain.	1.4	6.7
Other. Miscellaneous gains and losses resulting from changes in valuation software, data adjustments, timing of financial transactions, etc.	(20.9)	(30.2)
Gain (or Loss) During Year From Financial Experience	(47.8)	(18.1)
Non-Recurring Items. Adjustments for plan amendments, assumption changes, method changes or contribution timing.	(4.3)	86.1
Composite Gain (or Loss) During Year	(52.1)	68.0



# Analysis of Financial Experience

(As of June 30, 2009)

## County Employees Retirement System Non-Hazardous Gains & Losses in Accrued Liabilities Resulting from Difference Between Assumed Experience & Actual Experience (\$ Millions)

Type of Activity	Retirement \$ Gain (or Loss)	Insurance \$ Gain (or Loss)
Age & Service Retirements. If members retire at older ages, there is a gain. If younger ages, a loss.	(117.8)	(55.5)
Disability Retirements. If disability claims are less than assumed, there is a gain. If more claims, a loss.	(3.0)	9.4
Death-In Service Benefits. If survivor claims are less than assumed, there is a gain. If more claims, there is a loss.	(2.7)	(6.3)
Withdrawal From Employment. If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	85.4	24.6
Pay or Claims Increases. If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss. For insurance, smaller claims increases than assumed generates a gain; larger, a loss.	11.1	166.0
New Members. Additional unfunded accrued liability will produce a loss.	(12.3)	(12.4)
Investment Income. If there is a greater investment income than assumed, there is a gain. If less income, a loss.	(344.1)	(72.4)
Death After Retirement. If retired members live longer than assumed, there is a loss. If not as long, a gain.	3.6	31.8
Other. Miscellaneous gains and losses resulting from changes in valuation software, data adjustments, timing of financial transactions, etc.	(240.6)	(266.0)
Gain (or Loss) During Year From Financial Experience	(620.4)	(180.8)
Non-Recurring Items. Adjustments for plan amendments, assumption changes, method changes or contribution timing.	(43.5)	779.4
Composite Gain (or Loss) During Year	(663.9)	598.6

# Analysis of Financial Experience

(As of June 30, 2009)

## County Employees Retirement System Hazardous Gains & Losses in Accrued Liabilities Resulting from Difference Between Assumed Experience & Actual Experience (\$ Millions)

Type of Activity	Retirement \$ Gain (or Loss)	Insurance \$ Gain (or Loss)
Age & Service Retirements. If members retire at older ages, there is a gain. If younger ages, a loss.	(23.3)	(1.9)
Disability Retirements. If disability claims are less than assumed, there is a gain. If more claims, a loss.	(0.8)	0.8
Death-In Service Benefits. If survivor claims are less than assumed, there is a gain. If more claims, there is a loss.	0.4	0.3
Withdrawal From Employment. If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	42.5	29.6
Pay or Claims Increases. If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss. For insurance, smaller claims increases than assumed generates a gain; larger, a loss.	(3.7)	77.0
New Members. Additional unfunded accrued liability will produce a loss.	(5.0)	(7.1)
Investment Income. If there is a greater investment income than assumed, there is a gain. If less income, a loss.	(112.5)	(38.6)
Death After Retirement. If retired members live longer than assumed, there is a loss. If not as long, a gain.	(3.5)	13.4
Other. Miscellaneous gains and losses resulting from changes in valuation software, data adjustments, timing of financial transactions, etc.	(62.3)	(125.5)
Gain (or Loss) During Year From Financial Experience	(168.2)	(52.0)
Non-Recurring Items. Adjustments for plan amendments, assumption changes, method changes or contribution timing.	3.7	284.2
Composite Gain (or Loss) During Year	(164.5)	232.2

# Analysis of Financial Experience

(As of June 30, 2009)

## State Police Retirement System

### Gains & Losses in Accrued Liabilities Resulting from Difference Between Assumed Experience & Actual Experience (\$ Millions)

Type of Activity	Retirement \$ Gain (or Loss)	Insurance \$ Gain (or Loss)
Age & Service Retirements. If members retire at older ages, there is a gain. If younger ages, a loss.	(4.8)	8.1
Disability Retirements. If disability claims are less than assumed, there is a gain. If more claims, a loss.	(0.2)	0.5
Death-In Service Benefits. If survivor claims are less than assumed, there is a gain. If more claims, there is a loss.	0.0	0.0
Withdrawal From Employment. If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	1.6	5.1
Pay or Claims Increases. If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss. For insurance, smaller claims increases than assumed generates a gain; larger, a loss.	2.1	20.9
New Members. Additional unfunded accrued liability will produce a loss.	(0.1)	(0.7)
Investment Income. If there is a greater investment income than assumed, there is a gain. If less income, a loss.	(17.4)	(6.0)
Death After Retirement. If retired members live longer than assumed, there is a loss. If not as long, a gain.	0.0	0.0
Other. Miscellaneous gains and losses resulting from changes in valuation software, data adjustments, timing of financial transactions, etc.	(15.7)	(40.3)
Gain (or Loss) During Year From Financial Experience	(34.5)	(6.2)
Non-Recurring Items. Adjustments for plan amendments, assumption changes, method changes or contribution timing.	13.6	88.1
Composite Gain (or Loss) During Year	(20.9)	81.9

# Solvency Test

(As of June 30, 2009)

## Kentucky Employees Retirement System (Non-Hazardous Pension Fund)

Valuation Date	Actuarial Liabilities				% of Actuarial Liabilities Covered by Actuarial Assets for		
	(1) Active Member Contributions	(2) Retired Members & Beneficiaries	(3) Active Members (Employer Portion)	Actuarial Value of Assets	(1)	(2)	(3)
	6/30/04	\$915,105,103	\$4,452,864,748				
6/30/05	866,044,474	5,056,247,608	1,656,782,757	5,578,685,746	100.0	93.2	--
6/30/06	866,050,799	5,881,990,853	2,246,784,595	5,394,086,323	100.0	77.0	--
6/30/07	878,842,180	6,437,235,593	2,169,861,504	5,396,782,459	100.0	70.2	--
6/30/08	875,178,069	7,162,496,700	2,092,015,217	5,318,792,893	100.0	62.0	--
6/30/09	793,574,765	8,205,155,691	1,659,819,076	4,794,611,365	100.0	48.8	--

## Kentucky Employees Retirement System (Non-Hazardous Insurance Fund)

Valuation Date	Actuarial Liabilities				% of Actuarial Liabilities Covered by Actuarial Assets for		
	(1) Active Member Contributions	(2) Retired Members & Beneficiaries	(3) Active Members (Employer Portion)	Actuarial Value of Assets	(1)	(2)	(3)
	6/30/04	\$0	\$1,282,214,660				
6/30/05	0	1,550,619,458	1,129,939,730	607,068,351	100.0	39.2	--
6/30/06	0	3,543,125,375	4,272,355,400	611,350,765	100.0	17.3	--
6/30/07	0	2,569,197,567	2,632,157,488	621,171,658	100.0	24.2	--
6/30/08	0	2,788,189,754	2,643,309,531	603,197,761	100.0	21.6	--
6/30/09	0	2,861,867,088	1,645,458,483	534,172,580	100.0	18.7	--

A solvency test provides measures of the plan's ability to pay all promised benefits (actuarial liabilities) when due. Column 1 represents the value of active member contributions. Column 2 represents the amount necessary to pay retired member and beneficiary benefits. Column 3 represents the employer's portion of active member benefits accrued to date that will be paid in the future. In a system receiving the actuarially recommended employer contribution, the total actuarial liabilities in Column 1 and 2 should be fully covered by actuarial assets, and the portion of the actuarial liabilities in Column 3 should be covered by actuarial assets over time.

# Solvency Test

(As of June 30, 2009)

## Kentucky Employees Retirement System (Hazardous Pension Fund)

Valuation Date	Actuarial Liabilities				% of Actuarial Liabilities Covered by Actuarial Assets for		
	(1) Active Member Contributions	(2) Retired Members & Beneficiaries	(3) Active Members (Employer Portion)	Actuarial Value of Assets	(1)	(2)	(3)
	6/30/04	\$78,817,575	\$175,102,848				
6/30/05	75,098,321	213,310,550	150,585,386	405,288,662	100.0	100.0	77.6
6/30/06	87,092,538	262,446,606	159,116,759	427,984,192	100.0	100.0	49.3
6/30/07	88,670,847	306,492,350	163,829,132	467,287,809	100.0	100.0	44.0
6/30/08	89,590,638	355,771,877	172,648,312	502,132,214	100.0	100.0	32.9
6/30/09	87,779,938	413,972,356	172,659,487	502,503,288	100.0	100.0	0.4

## Kentucky Employees Retirement System (Hazardous Insurance Fund)

Valuation Date	Actuarial Liabilities				% of Actuarial Liabilities Covered by Actuarial Assets for		
	(1) Active Member Contributions	(2) Retired Members & Beneficiaries	(3) Active Members (Employer Portion)	Actuarial Value of Assets	(1)	(2)	(3)
	6/30/04	\$0	\$142,872,557				
6/30/05	0	187,883,650	198,961,045	187,947,644	100.0	100.0	--
6/30/06	0	234,058,715	387,179,141	212,833,318	100.0	90.9	--
6/30/07	0	201,189,546	303,653,435	251,536,756	100.0	100.0	16.6
6/30/08	0	228,834,940	312,822,274	288,161,759	100.0	100.0	19.0
6/30/09	0	242,123,365	249,008,805	301,634,592	100.0	100.0	23.9

A solvency test provides measures of the plan's ability to pay all promised benefits (actuarial liabilities) when due. Column 1 represents the value of active member contributions. Column 2 represents the amount necessary to pay retired member and beneficiary benefits. Column 3 represents the employer's portion of active member benefits accrued to date that will be paid in the future. In a system receiving the actuarially recommended employer contribution, the total actuarial liabilities in Column 1 and 2 should be fully covered by actuarial assets, and the portion of the actuarial liabilities in Column 3 should be covered by actuarial assets over time.

# Solvency Test

(As of June 30, 2009)

## County Employees Retirement System (Non-Hazardous Pension Fund)

Valuation Date	Actuarial Liabilities				% of Actuarial Liabilities Covered by Actuarial Assets for		
	(1) Active Member Contributions	(2) Retired Members & Beneficiaries	(3) Active Members (Employer Portion)	Actuarial Value of Assets	(1)	(2)	(3)
	6/30/04	\$814,908,627	\$2,478,195,080		\$1,643,355,781	\$5,187,851,530	100.0%
6/30/05	837,513,907	2,814,210,355	1,733,432,428	5,059,208,687	100.0	100.0	81.2
6/30/06	883,946,564	3,210,095,023	2,085,527,680	5,162,894,136	100.0	100.0	51.3
6/30/07	920,126,096	3,589,512,063	2,149,807,967	5,467,824,480	100.0	100.0	44.6
6/30/08	963,213,677	4,058,767,419	2,282,236,595	5,731,502,438	100.0	100.0	31.1
6/30/09	991,628,551	4,542,483,102	2,378,801,859	5,650,789,991	100.0	100.0	4.9

## County Employees Retirement System (Non-Hazardous Insurance Fund)

Valuation Date	Actuarial Liabilities				% of Actuarial Liabilities Covered by Actuarial Assets for		
	(1) Active Member Contributions	(2) Retired Members & Beneficiaries	(3) Active Members (Employer Portion)	Actuarial Value of Assets	(1)	(2)	(3)
	6/30/04	\$0	\$955,930,091		\$1,482,804,605	\$585,399,072	100.0%
6/30/05	0	1,144,219,107	1,644,535,547	663,941,949	100.0	58.0	--
6/30/06	0	1,694,600,143	2,912,623,496	777,726,590	100.0	45.9	--
6/30/07	0	1,372,128,406	1,961,837,664	960,285,900	100.0	70.0	--
6/30/08	0	1,521,450,274	2,061,743,192	1,168,883,170	100.0	76.8	--
6/30/09	0	1,478,782,753	1,591,603,265	1,216,631,769	100.0	82.3	--

A solvency test provides measures of the plan's ability to pay all promised benefits (actuarial liabilities) when due. Column 1 represents the value of active member contributions. Column 2 represents the amount necessary to pay retired member and beneficiary benefits. Column 3 represents the employer's portion of active member benefits accrued to date that will be paid in the future. In a system receiving the actuarially recommended employer contribution, the total actuarial liabilities in Column 1 and 2 should be fully covered by actuarial assets, and the portion of the actuarial liabilities in Column 3 should be covered by actuarial assets over time.

# Solvency Test

(As of June 30, 2009)

## County Employees Retirement System (Hazardous Pension Fund)

Valuation Date	Actuarial Liabilities				% of Actuarial Liabilities Covered by Actuarial Assets for		
	(1) Active Member Contributions	(2) Retired Members & Beneficiaries	(3) Active Members (Employer Portion)	Actuarial Value of Assets	(1)	(2)	(3)
	6/30/04	\$256,366,204	\$851,354,443				
6/30/05	264,913,465	960,052,305	570,651,565	1,452,353,023	100.0	100.0	39.8
6/30/06	300,200,800	1,128,164,618	591,777,352	1,515,075,017	100.0	100.0	14.7
6/30/07	317,007,367	1,275,221,775	616,507,037	1,639,288,924	100.0	100.0	7.6
6/30/08	338,324,362	1,406,982,409	657,815,324	1,750,867,373	100.0	100.0	0.8
6/30/09	350,308,879	1,540,262,587	687,873,134	1,751,487,540	100.0	91.0	--

## County Employees Retirement System (Hazardous Insurance Fund)

Valuation Date	Actuarial Liabilities				% of Actuarial Liabilities Covered by Actuarial Assets for		
	(1) Active Member Contributions	(2) Retired Members & Beneficiaries	(3) Active Members (Employer Portion)	Actuarial Value of Assets	(1)	(2)	(3)
	6/30/04	\$0	\$450,288,687				
6/30/05	0	586,104,126	697,194,966	359,180,461	100.0	61.3	--
6/30/06	0	787,671,273	1,140,810,098	422,785,042	100.0	53.7	--
6/30/07	0	659,752,978	986,707,033	512,926,549	100.0	77.7	--
6/30/08	0	722,435,184	1,047,347,773	613,526,319	100.0	84.9	--
6/30/09	0	725,899,836	867,648,427	651,130,782	100.0	89.7	--

A solvency test provides measures of the plan's ability to pay all promised benefits (actuarial liabilities) when due. Column 1 represents the value of active member contributions. Column 2 represents the amount necessary to pay retired member and beneficiary benefits. Column 3 represents the employer's portion of active member benefits accrued to date that will be paid in the future. In a system receiving the actuarially recommended employer contribution, the total actuarial liabilities in Column 1 and 2 should be fully covered by actuarial assets, and the portion of the actuarial liabilities in Column 3 should be covered by actuarial assets over time.

# Solvency Test

(As of June 30, 2009)

## State Police Retirement System (Pension Fund)

Valuation Date	Actuarial Liabilities				% of Actuarial Liabilities Covered by Actuarial Assets for		
	(1) Active Member Contributions	(2) Retired Members & Beneficiaries	(3) Active Members (Employer Portion)	Actuarial Value of Assets	(1)	(2)	(3)
	6/30/04	\$37,658,106	\$318,664,694		\$81,159,625	\$385,077,195	100.0%
6/30/05	35,670,717	341,398,363	81,524,496	353,511,622	100.0	93.1	--
6/30/06	37,866,774	373,588,145	105,027,379	344,016,197	100.0	81.9	--
6/30/07	39,505,285	397,863,520	110,586,481	348,806,508	100.0	77.7	--
6/30/08	41,391,416	426,311,368	119,426,473	350,891,451	100.0	72.6	--
6/30/09	\$41,664,469	\$459,585,353	\$101,079,046	\$329,966,989	100.0%	62.7%	--

## State Police Retirement System (Insurance Fund)

Valuation Date	Actuarial Liabilities				% of Actuarial Liabilities Covered by Actuarial Assets for		
	(1) Active Member Contributions	(2) Retired Members & Beneficiaries	(3) Active Members (Employer Portion)	Actuarial Value of Assets	(1)	(2)	(3)
	6/30/04	\$0	\$119,104,851		\$78,499,450	\$96,622,908	100.0%
6/30/05	0	141,585,694	92,573,816	100,207,082	100.0	70.8	--
6/30/06	0	240,913,868	341,666,999	105,580,269	100.0	43.8	--
6/30/07	0	172,291,142	260,472,087	115,215,912	100.0	66.9	--
6/30/08	0	178,655,245	266,452,223	123,961,197	100.0	69.4	--
6/30/09	\$0	\$167,091,453	\$196,939,688	\$123,526,647	100.0%	73.9%	--

A solvency test provides measures of the plan's ability to pay all promised benefits (actuarial liabilities) when due. Column 1 represents the value of active member contributions. Column 2 represents the amount necessary to pay retired member and beneficiary benefits. Column 3 represents the employer's portion of active member benefits accrued to date that will be paid in the future. In a system receiving the actuarially recommended employer contribution, the total actuarial liabilities in Column 1 and 2 should be fully covered by actuarial assets, and the portion of the actuarial liabilities in Column 3 should be covered by actuarial assets over time.



## Summary of Active Member Valuation Data as of June 30, 2009

	Valuation Date	Number of Employers	Total Active Members	Annual Payroll <sup>1</sup>	Annual Average Pay	% Increase In Average Pay	Average Age	Average Years of Service Credit
<b>Kentucky Employees Retirement System Non-Hazardous</b>	6/30/04	N/A	47,599	\$1,645,412,496	\$34,568	2.5	42.9	10.0
	6/30/05	324	47,118	1,655,907,288	35,144	1.7	42.9	9.8
	6/30/06	338	46,707	1,702,230,777	36,445	3.7	43.0	9.7
	6/30/07	317	47,913	1,780,223,493	37,155	1.9	43.3	9.3
	6/30/08	414	48,085	1,837,873,488	38,221	2.9	43.2	9.1
	6/30/09	334	46,060	1,754,412,912	38,090	(0.3)	43.0	8.7
<b>Kentucky Employees Retirement System Hazardous</b>	6/30/04	N/A	4,014	126,664,812	\$31,556	2.4	42.7	7.6
	6/30/05	26	4,274	131,687,088	30,811	(2.4)	41.9	7.1
	6/30/06	15	4,320	138,747,320	32,117	4.2	41.6	7.0
	6/30/07	15	4,349	144,838,020	33,304	3.7	41.7	7.0
	6/30/08	16	4,393	148,710,060	33,852	1.6	41.4	6.9
	6/30/09	20	4,334	146,043,576	33,697	(0.5)	41.4	7.0
<b>County Employees Retirement System Non-Hazardous</b>	6/30/04	N/A	80,922	1,826,870,880	22,576	3.4	44.8	7.9
	6/30/05	1,116	81,240	1,885,275,000	23,206	2.8	45.0	8.1
	6/30/06	1,099	83,694	1,982,437,473	23,687	2.1	45.1	8.1
	6/30/07	1,112	84,920	2,076,848,328	24,457	3.3	45.9	8.1
	6/30/08	1,110	85,221	2,166,612,648	25,423	3.9	45.9	8.3
	6/30/09	1,108	83,724	2,183,611,848	26,081	2.6	46.2	8.6
<b>County Employees Retirement System Hazardous</b>	6/30/04	N/A	9,349	392,562,624	41,990	4.1	38.1	8.1
	6/30/05	284	9,464	411,121,728	43,441	3.5	38.0	8.2
	6/30/06	292	9,635	426,927,550	44,310	2.0	37.8	8.3
	6/30/07	294	10,063	458,998,956	45,613	2.9	38.6	8.1
	6/30/08	299	10,173	474,241,332	46,618	2.2	38.7	8.3
	6/30/09	290	9,757	469,315,464	48,100	3.2	38.4	8.8
<b>State Police Retirement System</b>	6/30/04	1	999	43,835,208	43,879	2.2	36.4	10.7
	6/30/05	1	987	43,720,092	44,296	1.0	36.5	10.6
	6/30/06	1	1,028	47,743,865	46,443	4.8	36.5	10.5
	6/30/07	1	957	49,247,580	51,460	10.8	37.3	11.1
	6/30/08	1	993	53,269,080	53,645	4.2	36.9	10.8
	6/30/09	1	946	\$51,660,396	\$54,609	1.8	37.3	11.0

<sup>1</sup> Annual payroll included in the Summary of Active Member Valuation Data is based upon the annualized monthly payroll for active members as of the valuation date. The annual payroll recorded in the financial section is based upon the sum of the monthly payroll for active members recorded for each month of fiscal year ending June 30, 2009.

**Schedule of Retirees & Beneficiaries Added to and Removed from Rolls as of June 30, 2009**

	Valuation Date	Number Added	Number Removed	Total Retirees & Beneficiaries	Annualized Retirement Allowances <sup>1</sup>	% Increase in Allowances	Average Annual Allowance
<b>Kentucky Employees Retirement System Non-Hazardous</b>	6/30/04	2,473	814	28,892	\$449,410,400	14.34	\$15,555
	6/30/05	2,481	603	30,770	509,347,800	13.34	16,553
	6/30/06	2,481	1,111	32,140	566,167,003	11.31	17,611
	6/30/07	2,440	731	33,849	625,435,416	10.47	18,477
	6/30/08	2,573	1,115	35,307	710,505,270	13.60	20,124
	6/30/09	3,465	889	37,883	812,559,070	14.36	21,449
<b>Kentucky Employees Retirement System Hazardous</b>	6/30/04	227	35	1,549	16,099,000	24.08	10,393
	6/30/05	234	31	1,752	19,640,700	22.00	11,210
	6/30/06	256	28	1,980	23,381,537	19.25	11,809
	6/30/07	241	19	2,202	27,528,789	17.74	12,502
	6/30/08	261	59	2,404	33,588,993	22.01	13,972
	6/30/09	339	95	2,648	38,695,501	15.20	14,613
<b>County Employees Retirement System Non-Hazardous</b>	6/30/04	2,805	768	29,129	247,534,300	12.59	8,498
	6/30/05	2,808	590	31,347	279,590,300	12.95	8,919
	6/30/06	2,782	1,027	33,102	308,269,651	10.26	9,313
	6/30/07	3,244	782	35,564	348,712,020	13.12	9,805
	6/30/08	3,366	1,351	37,759	393,757,510	12.92	10,478
	6/30/09	3,060	883	39,756	440,061,418	11.76	11,069
<b>County Employees Retirement System Hazardous</b>	6/30/04	343	75	4,005	79,559,200	10.01	19,865
	6/30/05	403	47	4,361	89,224,700	12.15	20,460
	6/30/06	427	76	4,712	100,290,052	12.40	21,284
	6/30/07	500	53	5,159	113,735,850	13.41	22,046
	6/30/08	469	206	5,422	127,477,109	12.08	23,511
	6/30/09	650	264	5,808	139,886,751	9.73	24,085
<b>State Police Retirement System</b>	6/30/04	62	11	992	30,805,600	9.57	31,054
	6/30/05	50	6	1,036	32,983,900	7.07	31,838
	6/30/06	43	10	1,067	34,651,251	5.06	32,475
	6/30/07	49	11	1,105	37,208,377	7.38	33,673
	6/30/08	42	12	1,135	41,293,016	10.98	36,382
	6/30/09	75	26	1,184	\$44,273,937	7.22	\$37,394

<sup>1</sup> The Annualized Retirement Allowance is the annualized value of the monthly retirement allowance for retired members and beneficiaries as of the valuation date. Consequently, the values will not match the fiscal year total benefit payments recorded in the financial section.

# Summary of Benefit Provisions

## KERS & CERS Non Hazardous Plans

### Plan Funding

State statute requires active members to contribute 5% of creditable compensation. For members participating on or after September 1, 2008 an additional 1% of creditable compensation is required. This amount is credited to the Insurance Fund and is non-refundable to the member. Employers contribute at the rate determined by the Board to be necessary for the actuarial soundness of the systems, as required by Kentucky Revised Statute 61.565 and Kentucky Revised Statute 61.752. KERS rates are subject to state budget approval.

### Membership Eligibility

For non-school board employers, all regular full-time positions that average 100 or more hours of work per month over a fiscal or calendar year. For school board employers, all regular full-time positions that average 80 hours of work per month over the actual days worked during the school year.

### Retirement Eligibility

#### Members whose participation began before 9/1/2008

Age	Years of Service	Allowance Reduction
65	4	None
Any	27	None
55	5	5% per year for five years before age 65 or 27 years of service. 4% for each year thereafter.
Any	25	5% each year for five years before age 65 or 27 years of service.

## Retirement Eligibility

### Members whose participation began on or after 9/1/2008

Age	Years of Service	Allowance Reduction
65	5	None
57	Rule of 87	None
60	10	5% per year for five years before age 65 or Rule of 87 (age plus years of service). 4% for each year thereafter.

## Benefit Formula

Final Compensation	X	Benefit Factor	X	Years of Service
		KERS 1.97% if: Member does not have 13 months credit from 1/98 - 1/99.		
		KERS 2.00% if: Member has 13 months credit from 1/98 - 1/99.		
		KERS 2.20% if: 20 or more years of service, and retires by 1/09.		Includes earned service, purchased service, prior service, and sick leave service (if the member's employer participates in an approved sick leave program).
		CERS 2.20% if: Member begins participating prior to 8/1/04.		
		CERS 2.00% if: Member begins participating on or after 8/1/04 and before 9/1/08.		
		KERS and CERS increasing percent based on service at retirement (see <i>chart to left</i> ) plus 2.00% for each year of service over 30 if: Member begins participating on or after 9/1/08.		

Average of the five highest, or if participation began on or after 9/1/2008 average of the last five.

### Benefit Factors for members with a participation date on or after 9/1/08

Service	Benefit Factor
10 years or less	1.10%
10+ to 20 years	1.30%
20+ to 26 years	1.50%
26+ to 30 years	1.75%
Additional years over 30	2.00%

## Post-Retirement Death Benefits

If the member is receiving a monthly benefit based on at least four (4) years of creditable service, the retirement system will pay a \$5,000 death benefit payment to the beneficiary named by the member specifically for this benefit.

## Disability Benefits

Members participating before August 1, 2004 may retire on account of disability provided the member has at least 60 months of service credit and is not eligible for an unreduced benefit. Additional service credit may be added for computation of benefits under the benefit formula.

Members participating on or after August 1, 2004 may retire on account of disability provided the member has at least 60 months of service credit. Benefits are computed as the higher of 20% Final Rate of Pay or the amount calculated under the Benefit Formula based upon actual service.

Members disabled as a result of a single duty-related injury or act of violence related to their job may be eligible for special benefits.

## Pre-Retirement Death Benefits

The beneficiary of a deceased active member will be eligible for a monthly benefit if the member was: (1) eligible for retirement at the time of death or, (2) under the age of 55 with at least 60 months of service credit and currently working for a participating agency at the time of death or, (3) no longer working for a participating agency but at the time of death had at least 144 months of service credit. If the beneficiary of a deceased active member is not eligible for a monthly benefit, the beneficiary will receive a lump sum payment of the member's contributions and any accumulated interest.

## Cost of Living Adjustment

Monthly retirement allowances are increased July 1 each year by the percentage increase in the annual average of the CPI-U for the most recent calendar year, not to exceed 5%. The Kentucky General Assembly has the authority to suspend or reduce Cost of Living Adjustments.

## Insurance Benefits

For members participating prior to July 1, 2003, KRS pays a percentage of the monthly premium for single coverage based upon the service credit accrued at retirement. Members participating on or after July 1, 2003 and before September 1, 2008 are required to earn at least 10 years of service credit in order to be eligible for insurance benefits at retirement. Members participating on or after September 1, 2008 are required to earn at least 15 years of service credit and be age 60 or meet the rule of 87 (age plus years of service) in order to be eligible for insurance benefits at retirement. The monthly health insurance contribution will be \$10 for each year of earned service increased annually by 1.5% from July 1, 2008.

## Refunds

Upon termination of employment, a refund of member contributions and accumulated interest is available to the member.

## Interest on Accounts

Active member accounts have been credited with interest on July 1 of each year at 3% compounded annually through June 30, 1980; 6% thereafter through June 30, 1986; 4% thereafter through June 30, 2003, and 2.5% thereafter.

# KERS & CERS Hazardous Plans & SPRS

## Plan Funding

State statutes require active members to contribute 8% of creditable compensation. For members participating on or after September 1, 2008 an additional 1% of creditable compensation is required. This amount is credited to the Insurance Fund and is non-refundable to the member. Employers contribute at the rate determined by the Board to be necessary for the actuarial soundness of the systems, as required by Kentucky Revised Statute 61.565 and Kentucky Revised Statute 61.752. KERS & SPRS rates are subject to state budget approval.

## Membership Eligibility

All regular full-time hazardous duty positions approved by the Board that average 100 or more hours of work per month over a fiscal or calendar year.

### Retirement Eligibility

#### Members whose participation began before 9/1/2008

Age	Years of Service	Allowance Reduction
55	5	None
Any	20	None
50	15	6.5% per year for five years after 4.5% for remaining years before age 55 or 20 years of service.

### Retirement Eligibility

#### Members whose participation began on or after 9/1/2008

Age	Years of Service	Allowance Reduction
60	5	None
Any	25	None
50	15	6.5% per year for five years and 4.5% for remaining years before age 55 or 20 years of service.

**Benefit Factors for members with a participation date on or after 9/1/08**

Service	Benefit Factor
10 years or less	1.30%
10+ to 20 years	1.50%
20+ to 25 years	2.25%
25+ Years	2.50%

**Benefit Formula**

Final Compensation	X	Benefit Factor	X	Years of Service
Average of the three highest, or if participation began on or after 9/1/2008 average of the last three.		KERS 2.49% CERS 2.50% SPRS 2.50%, if:		Member begins participating before 9/1/08.
		KERS, CERS and SPRS increasing percent based on service at retirement (see chart to left) if:		Member begins participating on or after 9/1/08.
				Includes earned service, purchased service, prior service, and sick leave service (if the member's employer participates in an approved sick leave program).

**Disability Benefits**

Members hired before August 1, 2004 may retire on account of disability provided the member has at least 60 months of service credit and is not eligible for an unreduced benefit. Additional service credit may be added for computation of benefits under the formula noted above.

Members hired on or after August 1, 2004 may retire on account of disability provided the member has at least 60 months of service credit. Benefits are computed as the higher of 25% Final Rate of Pay or the amount calculated under the Benefit Formula noted above based upon actual service.

Members disabled as a result of a single duty-related injury or act of violence related to their job may be eligible for special benefits.

**Pre-Retirement Death Benefits**

The beneficiary of a deceased active member will be eligible for a monthly benefit if the member was: (1) eligible for retirement at the time of death or, (2) under the age of 55 with at least 60 months of service credit and currently working for a participating agency at the time of death or, (3) no longer working for a participating agency but at the time of death had at least 144 months of service credit. If the beneficiary of a deceased active member is not eligible for a monthly benefit, the beneficiary will receive a lump sum payment of the member's contributions and any accumulated interest.



## Post-Retirement Death Benefits

If the member is receiving a monthly benefit based on at least 4 years of creditable service, the retirement system will pay a \$5,000 death benefit payment to the beneficiary named by the member specifically for this benefit.

## Cost of Living Adjustment

Monthly retirement allowances are increased July 1 each year by the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5%. The Kentucky General Assembly has the authority to suspend or reduce Cost of Living Adjustments.

## Insurance Benefits

For members participating prior to July 1, 2003, KRS pays a percentage of the monthly premium for single coverage based upon the service credit accrued at retirement. Hazardous duty members are also eligible for an additional contribution for dependents based upon hazardous service only. Members participating on or after July 1, 2003 and before September 1, 2008 are required to earn at least 10 years of service credit in order to be eligible for insurance benefits at retirement. Members participating on or after September 1, 2008 are required to earn at least 15 years of service credit in order to be eligible for insurance benefits at retirement. The monthly health insurance contribution will be \$15 for each year of earned service increased annually by 1.5% after July 1, 2008.


## Refunds

Upon termination of employment, a refund of member contributions and accumulated interest is available to the member.

## Interest on Accounts

Active member accounts have been credited with interest on July 1 of each year at 3% compounded annually through June 30, 1980; 6% thereafter through June 30, 1986; 4% thereafter through June 30, 2003, and 2.5% thereafter.





Data provided in the Statistical Section is calculated using different methodologies and may differ slightly from data found in the Actuarial and Financial Sections.

# Statistical

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## Membership by System

	Fiscal Year	Active	Inactive	Retired	Total
<b>Kentucky Employees Retirement System Non-Hazardous</b>	2004	47,599	25,775	28,892	102,266
	2005	47,118	28,345	30,770	106,233
	2006	46,707	29,143	32,140	107,990
	2007	47,913	30,904	33,849	112,666
	2008	48,202	32,717	35,286	116,205
	2009	46,060	34,515	37,883	118,458
<b>Kentucky Employees Retirement System Hazardous</b>	2004	4,014	2,032	1,549	7,595
	2005	4,274	2,304	1,752	8,330
	2006	4,320	2,501	1,981	8,802
	2007	4,349	2,738	2,202	9,289
	2008	4,397	3,534	2,402	10,333
	2009	4,334	3,056	2,648	10,038
<b>County Employees Retirement System Non-Hazardous</b>	2004	80,922	44,419	29,129	154,470
	2005	81,240	48,869	31,347	161,456
	2006	83,694	50,046	33,102	166,842
	2007	84,920	53,901	35,564	174,385
	2008	85,803	55,279	37,558	178,640
	2009	83,724	60,275	39,756	183,755

Active members are those members who are currently employed by a participating agency and contributing to the Systems as a condition of employment. Inactive members are those members who are no longer employed with a participating agency but have not yet retired or taken a refund of contributions. Retired members include both members and beneficiaries who are receiving a monthly benefit from the Systems.

## Membership by System

	Fiscal Year	Active	Inactive	Retired	Total
<b>County Employees Retirement System Hazardous</b>	2004	9,349	1,648	4,005	15,002
	2005	9,464	1,971	4,361	15,796
	2006	9,635	1,955	4,712	16,302
	2007	10,063	2,197	5,159	17,419
	2008	10,185	4,815	5,314	20,314
	2009	9,757	2,522	5,808	18,087
<b>State Police Retirement System</b>	2004	999	243	992	2,234
	2005	987	252	1,036	2,275
	2006	1,028	266	1,067	2,361
	2007	957	286	1,105	2,348
	2008	995	302	1,136	2,433
	2009	946	332	1,184	2,462
<b>Kentucky Retirement Systems Total</b>	2004	142,883	74,117	64,567	281,567
	2005	143,083	81,741	69,266	294,090
	2006	145,384	83,911	73,002	302,297
	2007	148,202	90,026	77,879	316,107
	2008	149,582	96,647	81,696	327,925
	2009	144,821	101,552	87,279	333,652

Active members are those members who are currently employed by a participating agency and contributing to the Systems as a condition of employment. Inactive members are those members who are no longer employed with a participating agency but have not yet retired or taken a refund of contributions. Retired members include both members and beneficiaries who are receiving a monthly benefit from the Systems.

## Average Monthly Benefit by Length of Service

Service Credit Range	KERS Non-Hazardous		KERS Hazardous	
	Number	Average Monthly Benefit	Number	Average Monthly Benefit
Under 5 Years	3,249	152.48	140	207.57
5 or more but less than 10	4,208	360.84	298	430.69
10 or more but less than 15	3,926	595.33	324	633.54
15 or more but less than 20	3,681	898.87	334	916.76
20 or more but less than 25	4,041	1,226.80	673	1,353.25
25 or more but less than 30	9,804	2,202.79	575	1,412.80
30 or more but less than 35	6,296	3,080.52	253	1,894.72
35 or more	2,649	4,300.04	69	2,552.66
Total	37,854	1,717.10	2,666	1,143.08

Service Credit Range	CERS Non-Hazardous		CERS Hazardous	
	Number	Average Monthly Benefit	Number	Average Monthly Benefit
Under 5 Years	3,876	135.54	436	386.84
5 or more but less than 10	7,591	270.92	374	569.49
10 or more but less than 15	7,353	461.47	361	962.74
15 or more but less than 20	5,625	696.70	422	1,150.57
20 or more but less than 25	5,558	930.21	2,212	1,896.52
25 or more but less than 30	7,290	1,832.98	1,434	2,527.18
30 or more but less than 35	1,976	2,591.53	523	3,474.51
35 or more	567	3,388.07	122	4,353.60
Total	39,836	890.24	5,884	1,934.42

Service Credit Range	SPRS	
	Number	Average Monthly Benefit
Under 5 Years	82	495.18
5 or more but less than 10	36	825.2
10 or more but less than 15	37	1,135.60
15 or more but less than 20	69	1,876.48
20 or more but less than 25	324	2,339.12
25 or more but less than 30	381	3,309.35
30 or more but less than 35	217	4,395.95
35 or more	62	5,311.23
Total	1,208	2,933.57

The information in the above table includes only individuals receiving a monthly benefit as of June 30, 2009.

Retired reemployed members and individuals deceased prior to June are not included; therefore, the numbers in this section may differ from the numbers in the Financial and Actuarial Sections.

## Schedule of Participating Employers

Agency Classification	Number of Agencies	Number of Employees
<b>Kentucky Employees Retirement System</b>		
Agencies Reporting Through State Payroll	170	33,425
Other Agencies (universities, mental health boards, health departments)	144	16,754
Special Districts and Boards	4	407
Child Support Offices (county attorneys)	62	216
Other State-Administered Retirement Systems	3	294
<b>Total</b>	<b>383</b>	<b>51,096</b>
<b>State Police Retirement System</b>		
Kentucky State Police-Uniformed Officers	1	946
<b>County Employees Retirement System</b>		
Area Development Districts	13	666
Boards of Education	174	48,946
Cities	216	6,427
County Attorneys	64	588
County Clerks	14	583
County Government Agencies	261	21,848
Fire Departments	67	910
Hospitals	3	346
Jailers	9	427
Libraries	83	1,096
Planning Commissions	11	189
Police Departments	92	704
Police & Fire Departments (combined)	61	3,482
Sanitation Districts	5	58
Sheriff Departments	53	1,152
Special Districts and Boards	165	3,021
Utility boards	104	3,465
Urban County Government Agencies	4	2,088
<b>Total</b>	<b>1,399</b>	<b>95,996</b>

## Principal Participating Employers- KERS and CERS

Participating Employer	Rank	Covered Employees	% of Total System
<b>Kentucky Employees Retirement System</b>			
Health & Family Services Cabinet: Department for Community Based Services	1	4243	8.30%
Transportation: Department of Highways	2	3874	7.58%
Justice & Public Safety Cabinet: Department of Corrections	3	3638	7.12%
Bluegrass Regional Mental Health/Mental Retardation Board	4	2421	4.74%
Administrative Office of the Courts	5	1525	2.98%
Justice & Public Safety Cabinet: Department of Juvenile Justice	6	1504	2.94%
Seven County Services Inc.	7	1119	2.19%
Unified Prosecutorial System (Child Support Offices)	8	1054	2.06%
Eastern Kentucky University	9	1037	2.03%
Kentucky Department of Parks	10	1017	1.99%
All Others		29,664	58.06%
Total		51,096	100.00%
<b>County Employees Retirement System</b>			
Jefferson County Board of Education	1	6642	6.92%
Louisville/Jefferson County Metro	2	3137	3.27%
Louisville/Jefferson County Metro (Police, Fire, EMS)	3	2301	2.40%
Fayette County Board of Education	4	1892	1.97%
Circuit Clerks	5	1856	1.93%
Lexington/Fayette Urban County Government	6	1582	1.65%
Boone County Board of Education	7	1112	1.16%
Hardin County Board of Education	8	1086	1.13%
Warren County Board of Education	9	926	0.96%
Bullitt County Board of Education	10	909	0.95%
All Others		74,553	77.66%
Total		95,996	100.00%



**Plan Net Assets** Dollars in Thousands (\$)

	Non-Hazardous			Hazardous			
	Pension	Insurance	Total	Pension	Insurance	Total	
<b>Kentucky Employees Retirement System</b>	June 30 2004	5,258,995	587,681	5,846,676	366,568	162,127	528,695
	June 30 2005	5,362,631	610,901	5,973,532	398,308	188,871	587,179
	June 30 2006	5,440,133	612,643	6,052,776	437,030	223,523	660,553
	June 30 2007	5,773,157	663,558	6,436,715	510,775	280,886	791,661
	June 30 2008	5,056,869	574,479	5,631,348	484,438	269,300	753,738
	June 30 2009	3,584,601	365,367	3,949,968	388,951	219,500	608,451
<b>County Employees Retirement System</b>	June 30 2004	4,613,335	563,877	5,177,212	1,305,012	297,737	1,602,749
	June 30 2005	4,893,600	668,485	5,562,085	1,411,246	360,940	1,772,186
	June 30 2006	5,191,377	813,251	6,004,628	1,528,845	441,279	1,970,124
	June 30 2007	5,812,936	1,084,043	6,896,979	1,754,935	570,156	2,325,091
	June 30 2008	5,431,735	1,105,945	6,537,680	1,644,982	576,414	2,221,396
	June 30 2009	4,331,010	894,490	5,225,500	1,320,560	483,233	1,803,793
<b>State Police Retirement System</b>	June 30 2004	335,721	90,420	426,141			
	June 30 2005	339,406	99,408	438,814			
	June 30 2006	352,841	110,491	463,332			
	June 30 2007	376,381	132,574	508,955			
	June 30 2008	337,359	121,782	459,141			
	June 30 2009	256,575	93,682	350,257			
<b>Kentucky Retirement Systems Total</b>	June 30 2004	11,879,631	1,701,842	13,581,473			
	June 30 2005	12,405,191	1,928,605	14,333,796			
	June 30 2006	12,950,226	2,201,187	15,151,413			
	June 30 2007	14,228,184	2,731,217	16,959,401			
	June 30 2008	12,955,383	2,647,920	15,603,303			
	June 30 2009	9,881,697	2,056,272	11,937,969			

**Changes in Plan Net Assets Dollars in Thousands (\$)**

	2004	2005	2006	2007	2008	2009
<b>Additions</b>						
Member Contributions	\$129,077	\$127,801	\$107,607	\$116,254	\$116,487	\$108,362
Employer Contributions	21,697	50,333	60,681	88,249	104,655	112,383
Health Insurance Contribution (HBI)	0	0	0	0	0	404
Net Investment Income	651,532	462,638	504,361	784,652	(221,578)	(867,675)
<b>Total Additions</b>	<b>802,306</b>	<b>640,772</b>	<b>672,649</b>	<b>989,155</b>	<b>(436)</b>	<b>(646,526)</b>
<b>Deductions</b>						
Benefit Payments	459,367	522,396	577,947	640,201	699,052	808,513
Refunds	8,001	8,824	9,632	9,489	9,076	9,127
Administrative Expenses	5,262	5,916	7,568	7,070	7,724	8,102
Other Expenses	0	0	0	13	0	0
<b>Total Deductions</b>	<b>472,630</b>	<b>537,136</b>	<b>595,147</b>	<b>656,773</b>	<b>715,852</b>	<b>825,742</b>
<b>Change in Plan Net Assets</b> (Difference between Additions and Deductions)	<b>\$329,676</b>	<b>\$103,636</b>	<b>\$77,502</b>	<b>\$332,382</b>	<b>(716,288)</b>	<b>(1,472,268)</b>

**Kentucky  
Employees  
Retirement System  
Non-Hazardous  
Pension Fund**

	2004	2005	2006	2007	2008	2009
<b>Additions</b>						
Employer Contributions	\$78,017	\$51,432	\$47,635	\$64,014	\$56,745	\$74,434
Net Investment Income	83,064	47,823	65,839	78,877	(38,965)	(154,894)
Member Drug Reimbursement	0	0	0	10,744	6,634	8,168
Insurance Appropriation	0	0	11,852	0	0	0
Premiums Rec'd from Retirees	0	0	5,770	12,196	12,940	12,230
<b>Total Additions</b>	<b>161,081</b>	<b>99,255</b>	<b>131,096</b>	<b>165,831</b>	<b>37,354</b>	<b>(59,972)</b>
<b>Deductions</b>						
Benefit Payments	59,987	75,571	95,823	111,659	122,946	145,036
Administrative Expenses	484	464	1,679	3,199	3,487	4,104
Insurance Appropriation	0	0	20,000	0	0	0
<b>Total Deductions</b>	<b>60,471</b>	<b>76,035</b>	<b>117,502</b>	<b>114,858</b>	<b>126,433</b>	<b>149,140</b>
<b>Change in Plan Net Assets</b> (Difference between Additions and Deductions)	<b>\$100,610</b>	<b>\$23,220</b>	<b>\$1,742</b>	<b>\$50,973</b>	<b>(89,079)</b>	<b>(209,112)</b>

**Kentucky  
Employees  
Retirement System  
Non-Hazardous  
Insurance Fund**

**Changes in Plan Net Assets Dollars in Thousands (\$)**

	2004	2005	2006	2007	2008	2009
<b>Additions</b>						
Member Contributions	\$11,548	\$11,625	\$12,056	\$13,245	\$13,091	12,442
Employer Contributions	9,769	9,758	10,803	13,237	15,257	15,843
Health Insurance Contribution (HBI)	0	0	0	0	0	38
Net Investment Income	43,403	33,123	41,680	77,996	(20,673)	(84,262)
<b>Total Additions</b>	<b>64,720</b>	<b>54,506</b>	<b>64,539</b>	<b>104,478</b>	<b>7,675</b>	<b>(55,939)</b>
<b>Deductions</b>						
Benefit Payments	16,863	20,495	23,736	28,514	31,606	37,556
Refunds	1,410	1,760	1,436	1,662	1,742	1,277
Administrative Expenses	392	511	645	611	664	715
Other Expenses	0	0	0	1	0	0
<b>Total Deductions</b>	<b>18,665</b>	<b>22,766</b>	<b>25,817</b>	<b>38,788</b>	<b>34,012</b>	<b>39,548</b>
<b>Change in Plan Net Assets</b> (Difference between Additions and Deductions)	<b>\$46,055</b>	<b>\$31,740</b>	<b>\$38,722</b>	<b>\$73,690</b>	<b>(26,337)</b>	<b>(95,487)</b>

**Kentucky  
Employees  
Retirement System  
Hazardous  
Pension Fund**

	2004	2005	2006	2007	2008	2009
<b>Additions</b>						
Employer Contributions	\$14,959	\$15,653	\$17,012	\$19,535	\$21,997	20,803
Net Investment Income	25,206	15,999	24,128	44,541	(25,740)	(60,641)
Member Drug Reimbursement	0	0	0	105	74	186
Insurance Appropriation	0	0	88	0	0	0
Premiums Rec'd from Retirees	0	0	0	204	247	300
<b>Total Additions</b>	<b>40,165</b>	<b>31,652</b>	<b>41,228</b>	<b>64,385</b>	<b>(3,422)</b>	<b>(39,352)</b>
<b>Deductions</b>						
Benefit Payments	3,539	4,853	6,513	6,874	8,069	10,304
Administrative Expenses	21	55	63	83	95	144
<b>Total Deductions</b>	<b>3,560</b>	<b>4,908</b>	<b>6,576</b>	<b>6,957</b>	<b>8,164</b>	<b>10,448</b>
<b>Change in Plan Net Assets</b> (Difference between Additions and Deductions)	<b>\$36,605</b>	<b>\$26,744</b>	<b>\$34,652</b>	<b>\$57,428</b>	<b>(11,586)</b>	<b>(49,800)</b>

**Kentucky  
Employees  
Retirement System  
Hazardous  
Insurance Fund**

**Changes in Plan Net Assets Dollars in Thousands (\$)**

	2004	2005	2006	2007	2008	2009
<b>Additions</b>						
Member Contributions	\$122,484	\$127,637	\$112,372	\$121,979	\$125,014	\$122,518
Employer Contributions	44,028	54,617	90,834	124,261	150,925	179,286
Health Insurance Contribution (HBI)	0	0	0	0	0	415
Net Investment Income	551,669	413,672	444,092	760,541	(228,020)	(927,090)
<b>Total Additions</b>	<b>718,181</b>	<b>595,926</b>	<b>647,298</b>	<b>1,009,736</b>	<b>47,919</b>	<b>(624,871)</b>
<b>Deductions</b>						
Benefit Payments	260,643	294,590	325,135	356,648	403,958	451,304
Refunds	11,334	11,042	11,589	11,396	11,924	10,719
Administrative Expenses	8,694	10,029	12,797	12,197	13,238	13,831
Other Expenses	0	0	0	22	0	0
<b>Total Deductions</b>	<b>280,671</b>	<b>315,661</b>	<b>349,521</b>	<b>389,263</b>	<b>429,120</b>	<b>475,854</b>
<b>Change in Net Assets</b> (Difference between Additions and Deductions)	<b>\$437,510</b>	<b>\$280,265</b>	<b>\$297,777</b>	<b>\$620,473</b>	<b>(381,201)</b>	<b>(1,100,725)</b>

**County Employees Retirement System Non-Hazardous Pension Fund**

<b>Additions</b>						
Employer Contributions	\$89,344	\$107,632	\$128,868	\$147,609	\$196,110	123,761
Net Investment Income	86,080	55,723	83,991	188,055	(95,924)	(244,148)
Member Drug Reimbursement	0	0	0	9,623	6,003	7,624
Insurance Appropriation	0	0	6,365	0	0	0
Premiums Rec'd from Retirees	0	0	0	13,997	15,104	14,356
<b>Total Additions</b>	<b>175,424</b>	<b>163,355</b>	<b>219,224</b>	<b>359,284</b>	<b>121,293</b>	<b>(98,407)</b>
<b>Deductions</b>						
Benefit Payments	46,654	58,262	72,919	85,199	95,966	108,995
Administrative Expenses	393	485	1,539	3,040	3,425	4,053
<b>Total Deductions</b>	<b>47,047</b>	<b>58,747</b>	<b>74,458</b>	<b>88,239</b>	<b>99,391</b>	<b>113,048</b>
<b>Change in Net Assets</b> (Difference between Additions and Deductions)	<b>\$128,377</b>	<b>\$104,608</b>	<b>\$144,766</b>	<b>\$271,045</b>	<b>\$21,902</b>	<b>(211,455)</b>

**County Employees Retirement System Non-Hazardous Insurance Fund**

**Changes in Plan Net Assets Dollars in Thousands (\$)**

	2004	2005	2006	2007	2008	2009	
<b>County Employees Retirement System Hazardous Pension Fund</b>	<b>Additions</b>						
	Member Contributions	\$38,668	\$39,515	\$39,055	\$43,650	\$44,260	\$42,582
	Employer Contributions	27,641	39,948	49,976	61,553	72,155	78,151
	Health Insurance Contribution (HBI)	0	0	0	0	0	37
	Net Investment Income	154,628	119,901	132,915	240,035	(97,393)	(302,748)
	Total Additions	220,937	199,364	221,946	345,238	19,022	(181,978)
	<b>Deductions</b>						
	Benefit Payments	81,422	90,119	101,087	115,604	125,191	138,810
	Refunds	2,520	2,139	2,147	2,563	2,641	2,436
	Administrative Expenses	759	872	1,113	1,073	1,143	1,198
Other Expenses	0	0	0	2	0	0	
Total Deductions	84,701	93,130	104,347	119,242	128,975	142,444	
<b>Change in Net Assets</b> (Difference between Additions and Deductions)	<b>\$136,236</b>	<b>\$106,234</b>	<b>\$117,599</b>	<b>\$225,996</b>	<b>(109,953)</b>	<b>(324,422)</b>	
<b>County Employees Retirement System Hazardous Insurance Fund</b>	<b>Additions</b>						
	Employer Contributions	\$47,037	\$55,552	\$64,854	\$70,073	\$90,113	70,783
	Net Investment Income	44,337	29,819	98	90,041	(48,529)	(123,461)
	Member Drug Reimbursement	0	0	0	657	420	628
	Insurance Appropriation	0	0	45,317	0	0	0
	Premiums Rec'd from Retirees	0	0	0	191	222	330
	Total Additions	91,374	85,371	110,269	160,962	42,226	(51,720)
	<b>Deductions</b>						
	Benefit Payments	16,700	21,985	29,717	31,607	35,604	41,017
	Administrative Expenses	105	183	213	320	364	444
Total Deductions	16,805	22,168	29,930	31,927	35,968	41,461	
<b>Change in Net Assets</b> (Difference between Additions and Deductions)	<b>\$74,569</b>	<b>\$63,203</b>	<b>\$80,339</b>	<b>\$129,035</b>	<b>\$6,258</b>	<b>(93,181)</b>	

**Changes in Plan Net Assets Dollars in Thousands (\$)**

	2004	2005	2006	2007	2008	2009
<b>Additions</b>						
Member Contributions	\$4,875	\$4,228	\$4,814	\$5,152	\$5,407	\$4,938
Employer Contributions	1,153	2,852	4,244	6,142	7,443	8,186
Health Insurance Contribution (HBI)	0	0	0	0	0	5
Net Investment Income	41,642	29,761	39,347	49,595	(12,283)	(51,175)
<b>Total Additions</b>	<b>47,670</b>	<b>36,841</b>	<b>48,405</b>	<b>60,889</b>	<b>567</b>	<b>(38,046)</b>
<b>Deductions</b>						
Benefit Payments	30,877	32,921	34,703	37,187	39,367	42,547
Refunds	96	131	133	47	85	69
Administrative Expenses	91	104	134	126	137	122
Other Expenses	0	0	0	0	0	0
<b>Total Deductions</b>	<b>31,064</b>	<b>33,156</b>	<b>34,970</b>	<b>37,360</b>	<b>39,589</b>	<b>42,738</b>
<b>Change in Net Assets</b> (Difference between Additions and Deductions)	<b>\$16,606</b>	<b>\$3,685</b>	<b>\$13,435</b>	<b>\$23,529</b>	<b>(39,022)</b>	<b>(80,784)</b>

**State Police  
Retirement System  
Hazardous  
Pension Fund**

<b>Additions</b>						
Employer Contributions	\$8,456	\$6,974	\$6,880	\$6,489	\$7,329	7,414
Net Investment Income	14,449	8,279	12,082	21,876	(11,440)	(28,166)
Member Drug Reimbursement	0	0	0	361	184	229
Insurance Appropriation	0	0	5	0	0	0
Premiums Rec'd from Retirees	0	0	0	8	9	23
<b>Total Additions</b>	<b>22,905</b>	<b>15,253</b>	<b>18,967</b>	<b>28,734</b>	<b>(3,918)</b>	<b>(20,500)</b>
<b>Deductions</b>						
Benefit Payments	4,992	6,221	7,816	6,515	6,768	7,476
Administrative Expenses	31	44	68	105	106	124
<b>Total Deductions</b>	<b>5,023</b>	<b>6,265</b>	<b>7,884</b>	<b>6,620</b>	<b>6,874</b>	<b>7,600</b>
<b>Change in Net Assets</b> (Difference between Additions and Deductions)	<b>\$17,882</b>	<b>\$8,988</b>	<b>\$11,083</b>	<b>\$22,114</b>	<b>(10,792)</b>	<b>28,100</b>

**State Police  
Retirement System  
Hazardous  
Insurance Fund**

**Schedule of Benefit Expenses by Type**  
**Kentucky Employees Retirement System Non-Hazardous**

	Normal Retirement	Early Retirement	Disability Retirement	Beneficiary Payments	Total
<b>FY 2003-04</b>					
Average Benefit	\$859	\$1,537	\$825	\$721	\$1,296
Number	3,768	19,477	1,925	3,740	28,910
Total Monthly Benefits	\$3,237,300	\$29,941,376	\$1,587,565	\$2,697,409	\$37,463,650
% of Total Monthly Benefits	8.6%	79.9%	4.2%	7.2%	100.0%
<b>FY 2004-05</b>					
Average Benefit	\$910	\$1,632	\$850	\$739	\$1,379
Number	3,866	21,092	1,910	3,902	30,770
Total Monthly Benefits	\$3,516,148	\$34,423,089	\$1,623,500	\$2,882,916	\$42,445,653
% of Total Monthly Benefits	8.3%	81.1%	3.8%	6.8%	100.0%
<b>FY 2005-06</b>					
Average Benefit	\$888	\$1,670	\$834	\$868	\$1,469
Number	4,616	24,056	2,628	849	32,149
Total Monthly Benefits	\$4,099,896	\$40,184,892	\$2,190,812	\$737,173	\$47,212,773
% of Total Monthly Benefits	8.7%	85.1%	4.6%	1.6%	100.0%
<b>FY 2006-07</b>					
Average Benefit	\$936	\$1,745	\$865	\$869	\$1,541
Number	4,767	25,605	2,597	843	33,812
Total Monthly Benefits	\$4,463,823	\$44,672,320	\$2,245,823	\$732,470	\$52,114,436
% of Total Monthly Benefits	8.6%	85.7%	4.3%	1.4%	100.0%
<b>FY 2007-08</b>					
Average Benefit	\$980	\$1,831	\$897	\$906	\$1,624
Number	4,845	27,080	2,579	839	35,343
Total Monthly Benefits	\$4,747,523	\$49,585,033	\$2,313,860	\$760,088	\$57,406,504
% of Total Monthly Benefits	8.3%	86.4%	4.0%	1.3%	100.0%
<b>FY 2008-09</b>					
Average Benefit	\$1,036	\$1,926	\$927	\$931	\$1,717
Number	5,041	29,386	2,566	861	37,854
Total Monthly Benefits	\$5,223,184	\$56,596,178	\$2,377,856	\$801,966	\$64,999,184
% of Total Monthly Benefits	8.0%	87.1%	3.7%	1.2%	100.0%

**Note:**

The information in these tables include only individuals receiving a monthly benefit as of June 30 in the indicated fiscal year. Retired reemployed members and individuals deceased prior to June are not included; therefore, the numbers in this section may differ slightly from the numbers in the Financial and Actuarial Sections. Also, the information for the current year will differ from the benefit payment totals listed in the Deduction by Source.

**Schedule of Benefit Expenses by Type**  
**Kentucky Employees Retirement System Hazardous**

	Normal Retirement	Early Retirement	Disability Retirement	Beneficiary Payments	Total
<b>FY 2003-04</b>					
Average Benefit	\$711	\$1,221	\$481	\$613	\$864
Number	718	554	129	157	1,558
Total Monthly Benefits	\$510,827	\$676,463	\$62,112	\$96,194	\$1,345,596
% of Total Monthly Benefits	38.0%	50.3%	4.6%	7.1%	100.0%
<b>FY 2004-05</b>					
Average Benefit	\$775	\$1,292	\$568	\$600	\$934
Number	808	647	117	180	1,752
Total Monthly Benefits	\$626,082	\$836,193	\$66,456	\$107,998	\$1,636,729
% of Total Monthly Benefits	38.3%	51.1%	4.1%	6.6%	100.0%
<b>FY 2005-06</b>					
Average Benefit	\$802	\$1,333	\$521	\$749	\$980
Number	1,002	760	163	67	1,992
Total Monthly Benefits	\$803,581	\$1,013,373	\$84,975	\$50,201	\$1,952,130
% of Total Monthly Benefits	41.1%	51.9%	4.4%	2.6%	100.0%
<b>FY 2006-07</b>					
Average Benefit	\$862	\$1,391	\$540	\$731	\$1,038
Number	1,116	854	167	76	2,213
Total Monthly Benefits	\$962,085	\$1,188,289	\$90,109	\$55,536	\$2,296,019
% of Total Monthly Benefits	41.9%	51.8%	3.9%	2.4%	100.0%
<b>FY 2007-08</b>					
Average Benefit	\$912	\$1,455	\$549	\$751	\$1,094
Number	1,231	952	173	78	2,434
Total Monthly Benefits	\$1,123,281	\$1,384,856	\$94,999	\$58,567	\$2,661,703
% of Total Monthly Benefits	42.2%	52.0%	3.6%	2.2%	100.0%
<b>FY 2008-09</b>					
Average Benefit	941	1,517	576	778	1,143
Number	1,353	1,066	173	74	2,666
Total Monthly Benefits	1,272,796	1,617,453	99,607	57,607	3,047,462
% of Total Monthly Benefits	41.8%	53.1%	3.3%	1.8%	100.0%

**Note:**

The information in these tables include only individuals receiving a monthly benefit as of June 30 in the indicated fiscal year. Retired reemployed members and individuals deceased prior to June are not included; therefore, the numbers in this section may differ slightly from the numbers in the Financial and Actuarial Sections. Also, the information for the current year will differ from the benefit payment totals listed in the Deduction by Source.



**Schedule of Benefit Expenses by Type**  
**County Employees Retirement System Non-Hazardous**

	Normal Retirement	Early Retirement	Disability Retirement	Beneficiary Payments	Total
<b>FY 2003-04</b>					
Average Benefit	\$463	\$829	\$697	\$491	\$708
Number	5,848	17,463	2,814	3,025	29,150
Total Monthly Benefits	\$2,708,649	\$14,483,996	\$1,961,590	\$1,486,749	\$20,640,984
% of Total Monthly Benefits	13.1%	70.2%	9.5%	7.2%	100.0%
<b>FY 2004-05</b>					
Average Benefit	\$475	\$873	\$720	\$512	\$743
Number	6,131	19,075	2,854	3,287	31,347
Total Monthly Benefits	\$2,915,109	\$16,644,747	\$2,054,880	1,684,459	\$23,299,195
% of Total Monthly Benefits	12.5%	71.4%	8.8%	7.2%	100.0%
<b>FY 2005-06</b>					
Average Benefit	\$484	\$889	\$715	\$534	\$774
Number	7,207	21,655	3,582	861	33,305
Total Monthly Benefits	\$3,487,493	\$19,256,550	\$2,560,722	\$460,095	\$25,764,859
% of Total Monthly Benefits	13.6%	74.7%	9.9%	1.8%	100.0%
<b>FY 2006-07</b>					
Average Benefit	\$509	\$938	\$747	\$540	\$817
Number	7,694	23,460	3,612	864	35,630
Total Monthly Benefits	\$3,919,356	\$21,999,359	\$2,696,721	\$484,037	\$29,099,472
% of Total Monthly Benefits	13.5%	75.6%	9.2%	1.7%	100.0%
<b>FY 2007-08</b>					
Average Benefit	\$523	\$978	\$776	\$582	\$852
Number	8,109	25,070	3,679	876	37,734
Total Monthly Benefits	\$4,241,906	24,530,372	2,856,173	510,523	32,138,704
% of Total Monthly Benefits	13.2%	76.3%	8.9%	1.6%	100.0%
<b>FY 2008-09</b>					
Average Benefit	547	1,021	804	613	890
Number	8,471	26,720	3,728	917	39,836
Total Monthly Benefits	4,634,447	27,268,861	2,998,565	561,804	35,463,676
% of Total Monthly Benefits	13.1%	76.9%	8.5%	1.5%	100.0%

**Note:**

The information in these tables include only individuals receiving a monthly benefit as of June 30 in the indicated fiscal year. Retired reemployed members and individuals deceased prior to June are not included; therefore, the numbers in this section may differ slightly from the numbers in the Financial and Actuarial Sections. Also, the information for the current year will differ from the benefit payment totals listed in the Deduction by Source.

**Schedule of Benefit Expenses by Type**  
**County Employees Retirement System Hazardous**

	Normal Retirement	Early Retirement	Disability Retirement	Beneficiary Payments	Total
<b>FY 2003-04</b>					
Average Benefit	\$1,371	\$1,942	\$824	\$1,177	\$1,643
Number	785	2,489	481	299	4,054
Total Monthly Benefits	\$1,076,329	\$4,834,845	\$396,302	\$351,804	\$6,659,280
% of Total Monthly Benefits	16.2%	72.6%	6.0%	5.3%	100.0%
<b>FY 2004-05</b>					
Average Benefit	\$1,399	\$2,031	\$1,159	\$910	\$1,705
Number	865	2,642	332	522	4,361
Total Monthly Benefits	\$1,209,803	\$5,365,822	\$384,788	\$474,975	\$7,435,388
% of Total Monthly Benefits	16.3%	72.2%	5.2%	6.4%	100.0%
<b>FY 2005-06</b>					
Average Benefit	\$1,369	\$2,059	\$899	\$974	\$1,743
Number	1,079	3,062	580	96	4,817
Total Monthly Benefits	\$1,477,504	\$6,304,523	\$521,285	\$93,535	\$8,396,847
% of Total Monthly Benefits	17.6%	75.1%	6.2%	1.1%	100.0%
<b>FY 2006-07</b>					
Average Benefit	\$1,398	\$2,147	\$937	\$944	\$1,815
Number	1,212	3,329	592	95	5,228
Total Monthly Benefits	\$1,693,771	\$7,148,184	\$554,911	\$89,712	\$7,486,579
% of Total Monthly Benefits	17.8%	75.3%	5.9%	1.0%	100.0%
<b>FY 2007-08</b>					
Average Benefit	\$1,424	\$2,228	\$986	\$1,021	\$1,882
Number	1,307	3,555	610	101	5,573
Total Monthly Benefits	\$1,861,441	7,922,072	601,207	103,077	10,487,797
% of Total Monthly Benefits	17.8%	75.5%	5.7%	1.0%	100.0%
<b>FY 2008-09</b>					
Average Benefit	1,452	2,299	1,014	1,020	1,934
Number	1,413	3,733	634	104	5,884
Total Monthly Benefits	2,052,162	8,581,241	642,604	106,103	11,382,110
% of Total Monthly Benefits	18.0%	75.4%	5.7%	0.9%	100.0%

**Note:**

The information in these tables include only individuals receiving a monthly benefit as of June 30 in the indicated fiscal year. Retired reemployed members and individuals deceased prior to June are not included; therefore, the numbers in this section may differ slightly from the numbers in the Financial and Actuarial Sections. Also, the information for the current year will differ from the benefit payment totals listed in the Deduction by Source.

**Schedule of Benefit Expenses by Type**  
**State Police Retirement System**

	Normal Retirement	Early Retirement	Disability Retirement	Beneficiary Payments	Total
<b>FY 2003-04</b>					
Average Benefit	\$3,199	\$2,637	\$1,067	\$2,108	\$2,576
Number	112	748	49	88	997
Total Monthly Benefits	\$358,290	\$1,972,675	\$52,259	\$185,517	\$2,568,741
% of Total Monthly Benefits	13.9%	76.8%	2.0%	7.2%	100.0%
<b>FY 2004-05</b>					
Average Benefit	\$3,321	\$2,741	\$1,364	\$1,862	\$2,653
Number	107	775	35	119	1,036
Total Monthly Benefits	\$355,361	\$2,123,941	\$47,740	\$221,615	\$2,748,657
% of Total Monthly Benefits	12.9%	77.3%	1.7%	8.1%	100.0%
<b>FY 2005-06</b>					
Average Benefit	\$3,109	\$2,698	\$1,213	\$1,643	\$2,650
Number	145	864	56	28	1,093
Total Monthly Benefits	\$450,794	\$2,331,404	\$67,950	\$45,997	\$2,896,146
% of Total Monthly Benefits	15.5%	80.4%	2.2%	1.9%	100.0%
<b>FY 2006-07</b>					
Average Benefit	\$3,178	\$2,797	\$1,258	\$1,761	\$2,743
Number	146	900	57	27	1,130
Total Monthly Benefits	\$464,053	\$2,517,382	\$71,724	\$47,540	\$3,100,699
% of Total Monthly Benefits	15.0%	81.2%	2.3%	1.5%	100.0%
<b>FY 2007-08</b>					
Average Benefit	\$3,281	\$2,892	\$1,265	\$1,970	\$2,843
Number	150	931	56	26	1,163
Total Monthly Benefits	\$492,198	\$2,692,030	\$70,822	\$51,215	\$3,306,265
% of Total Monthly Benefits	14.9%	81.4%	2.1%	1.6%	100.0%
<b>FY 2008-09</b>					
Average Benefit	3,400	2,985	1,293	2,025	2,934
Number	146	978	58	26	1,208
Total Monthly Benefits	496,355	2,919,782	74,971	52,649	3,543,757
% of Total Monthly Benefits	14.0%	82.4%	2.1%	1.5%	100.0%

**Note:**

The information in these tables include only individuals receiving a monthly benefit as of June 30 in the indicated fiscal year. Retired reemployed members and individuals deceased prior to June are not included; therefore, the numbers in this section may differ slightly from the numbers in the Financial and Actuarial Sections. Also, the information for the current year will differ from the benefit payment totals listed in the Deduction by Source.

## Analysis of Initial Retirees

	KERS Non- Hazardous	KERS Hazardous	CERS Non- Hazardous	CERS Hazardous	SPRS
<b>FY 2003-04</b>					
Number	2,473	227	2,805	343	53
Average Service Credit (months)	280	255	209	262	320
Average Final Compensation	\$47,872	\$43,778	\$29,172	\$48,607	\$68,533
Average Monthly Benefit	\$1,932	\$1,127	\$837	\$1,631	\$3,468
<b>FY 2004-05</b>					
Number	2,481	234	2,808	403	50
Average Service Credit (months)	276	257	210	248	290
Average Final Compensation	\$46,452	\$45,654	\$29,784	\$49,920	\$62,395
Average Monthly Benefit	\$1,897	\$1,216	\$902	\$1,765	\$3,022
<b>FY 2005-06</b>					
Number	2,295	236	2,543	377	39
Average Service Credit (months)	267	239	197	260	259
Average Final Compensation	\$46,746	\$43,845	\$29,794	\$54,358	\$62,049
Average Monthly Benefit	\$1,885	\$1,185	\$851	\$2,047	\$2,614
Average System Payment for Health Insurance	\$246	\$381	\$180	\$543	\$407

## Analysis of Initial Retirees

	KERS Non- Hazardous	KERS Hazardous	CERS Non- Hazardous	CERS Hazardous	SPRS
<b>FY 2006-07</b>					
Number	2,284	228	2,902	433	48
Average Service Credit (months)	246	238	206	255	274
Average Final Compensation	\$46,800	\$45,142	\$32,183	\$55,038	\$65,826
Average Monthly Benefit	\$1,713	\$1,289	\$962	\$1,987	\$2,962
Average System Payment for Health Insurance	\$225	\$342	\$194	\$599	\$ 497
<b>FY 2007-08</b>					
Number	2,219	243	2,736	355	40
Average Service Credit (months)	261	233	204	240	275
Average Final Compensation	\$49,414	\$44,992	\$31,447	\$54,223	\$67,775
Average Monthly Benefit	\$1,929	\$1,289	\$917	\$2,014	\$3,239
Average System Payment for Health Insurance	\$221	\$381	\$181	\$625	\$501
<b>FY 2008-09</b>					
Number	3,229	257	2,761	322	59
Average Service Credit (months)	277	241	205	242	269
Average Final Compensation	51,617	48,542	34,940	57,016	69,388
Average Monthly Benefit	2,105	1,387	1,029	2,005	3,146
Average System Payment for Health Insurance	396	520	274	715	461

## Pension Benefits Paid to Retirees and Beneficiaries Participating in a KRS Health Insurance Plan

		Under 5 Years	5-10 Years	10-15 Years	15-20 Years	More than 20 Years	Total
<b>Kentucky Employees Retirement System Non-Hazardous</b>	Number	327	1,262	2,111	2,620	20,832	27,152
	Average Monthly Benefit	174.80	371.60	585.47	905.93	2,568.41	2,122.89
<b>Kentucky Employees Retirement System Hazardous</b>	Number	22	76	201	233	1,474	2,006
	Average Monthly Benefit	413.87	572.99	827.05	1,224.94	2,439.09	2,043.63
<b>County Employees Retirement System Non-Hazardous</b>	Number	310	2,072	3,881	4,043	13,853	24,159
	Average Monthly Benefit	140.64	271.45	457.86	698.41	1,673.45	1,175.09
<b>County Employees Retirement System Hazardous</b>	Number	44	122	200	315	3,964	4,645
	Average Monthly Benefit	454.08	809.45	1,176.96	1,424.86	2,620.18	2,408.90
<b>State Police Retirement System</b>	Number	0	10	16	26	766	820
	Average Monthly Benefit	313.74	1,031.86	1,224.20	1,736.03	3,393.44	3,262.25

## Insurance Benefits Paid to Retirees and Beneficiaries Participating in a KRS Health Insurance Plan

	KERS Non-Hazardous	CERS Non-Hazardous	KERS Hazardous	CERS Hazardous	SPRS
Number	27,152	24,159	2,006	4,645	820
Average Service Credit	304	246	272	281	323
Avg Monthly System Payment for Health Insurance	\$400	\$338	\$580	\$809	\$807
Avg Monthly Member Payment for Health Insurance	\$92	\$107	\$64	\$38	\$15
Total Monthly Payment for Health Insurance	\$ 13,366,415.68	\$ 10,753,018.14	\$ 1,292,496.31	\$ 3,932,475.79	\$ 674,144.44

**Payment Options Selected by Retired Members**

		Basic	Social Security Adjustment	Period Certain	Suvivorship	Pop Up	Lump Sum
<b>Kentucky Employees Retirement System Non-Hazardous</b>	Number	12,105	2,890	4,522	6,050	6,290	2,099
	Monthly Benefits	\$19,262,373	\$8,162,731	\$7,323,519	\$12,532,065	\$14,286,730	\$2,416,976
<b>Kentucky Employees Retirement System Hazardous</b>	Number	596	214	271	433	615	264
	Monthly Benefits	\$633,452	\$451,084	\$296,501	\$552,775	\$849,894	\$273,397
<b>County Employees Retirement System Non-Hazardous</b>	Number	15,020	1,502	5,525	5,608	5,204	3,270
	Monthly Benefits	\$11,183,716	\$3,331,334	\$4,470,127	\$6,400,952	\$6,885,208	\$2,081,786
<b>County Employees Retirement System Hazardous</b>	Number	824	392	418	1,097	1,964	458
	Monthly Benefits	\$1,525,205	\$878,131	\$760,995	\$2,336,137	\$4,723,176	\$745,306
<b>State Police Retirement System</b>	Number	95	185	77	271	398	22
	Monthly Benefits	\$296,484	\$558,964	\$231,906	\$905,646	\$1,372,788	\$49,248
<b>Kentucky Retirement System Total</b>	Number	28,640	5,183	10,813	13,459	14,471	6,113
	Monthly Benefits	\$32,901,230	\$13,382,244	\$13,083,040	\$22,727,575	\$28,117,786	\$5,566,713

## Retired Reemployed

From August 1, 1998 through August 31, 2008, state law allowed retired members to return to work in the same system from which they retired and contribute to a new account provided the appropriate separation of service was observed. The following table provides information on the number of retired members currently drawing a monthly benefit who have subsequently returned to work and are contributing to a new account in the same retirement system.

### Retirees Who Have Been Reemployed In Full-time Positions Covered By The Same Retirement System and Are Contributing to a New Account

Reemployed Retirees In KRS	KERS			CERS			SPRS
	Non-Haz	Haz	Total	Non-Haz	Haz	Total	Total
Total Active Employees	46,060	4,334	50,394	83,724	9,757	93,481	946
Total Retirees	37,883	2,648	40,531	39,756	5,808	45,564	1,184
Reemployed Retirees	761	66	827	1461	779	2240	0
% of Reemployed Retirees to Total Actives	1.65%	1.52%	1.64%	1.75%	7.98%	2.40%	0.00%
% of Reemployed Retirees to Total Retirees	2.01%	2.49%	2.04%	3.67%	13.41%	4.92%	0.00%
Average Age at Initial Retirement	52	50	52	57	48	54	0
Months of Service Credit at Initial Retirement	318	271	314	260	281	267	0
Final Compensation At Initial Retirement	\$54,687	\$52,458	\$54,509	\$32,798	\$52,505	\$39,651	\$0
Reemployed Retirees Avg. Annualized Salary Earned in Fiscal Year 2008-2009 (Second Retirement Account)	\$47,304	\$44,520	\$47,082	\$32,196	\$44,796	\$36,578	\$0
Retirees Returning to Work for the Same Employer	298	25	323	1156	170	1326	0
% Retirees Returning to Work For Same Employer	39%	38%	39%	79%	22%	59%	0%

*Analysis of age at retirement, service credit, final compensation, etc. only includes those retirees who have returned to work with a participating agency.*

*An additional 1,156 retirees have been reemployed in full-time positions covered by a different retirement system. Of this total, 616 KERS retirees have returned to work with an agency participating in CERS, 316 CERS retirees have returned to work with an agency participating in KERS, 99 SPRS retirees have returned to work with an agency participating in KERS, and 125 SPRS retirees have returned to work with an agency participating in CERS.*



# Employer Contribution Rates

In KERS, CERS, and SPRS both the employee and the employer contribute a percent of creditable compensation to the Systems. The employee contribution rate is set by state statute. Non-hazardous employees contribute 5% while hazardous duty members contribute 8%. Employees hired on or after September 1, 2008 contribute an additional 1% to health insurance. KERS and SPRS employer rates are subject to approval by the Kentucky General Assembly through the adoption of the biennial Executive Branch Budget. In recent years, the Kentucky General Assembly has routinely suspended KRS 61.565 in the budget in order to provide an employer contribution rate that is less than the amount recommended by the KRS Board of Trustees and its' consulting actuary. CERS employer rates for fiscal year 2008-2009 were enacted by House Bill 1 in the 2008 Special Legislative Session and were reduced from the rate recommended by the KRS Board of Trustees and its' consulting actuary. The following tables provide the employer contribution rate recommended by the Board and its' consulting actuary and the rate specified by the Executive Branch budget.

		2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
<b>Kentucky Employees Retirement System Non-Hazardous</b>	Budgeted Rate	5.89	5.89	7.75	8.50	10.01	11.61
	Recommended Rate	10.29	13.62	17.13	48.37	28.60	31.29
<b>Kentucky Employees Retirement System Hazardous</b>	Budgeted Rate	18.84	18.84	22.00	24.25	24.35	24.69
	Recommended Rate	19.47	21.50	23.32	47.11	34.78	35.54
<b>County Employees Retirement System Non-Hazardous</b>	Budgeted Rate	8.48	10.98	13.19	16.17	13.50	16.16
	Recommended Rate	8.48	10.98	13.19	16.17	15.58	20.19
<b>County Employees Retirement System Hazardous</b>	Budgeted Rate	22.08	25.01	28.21	33.87	29.50	33.08
	Recommended Rate	22.08	25.01	28.21	33.87	31.91	61.87
<b>State Police Retirement System</b>	Budgeted Rate	21.58	21.58	25.50	28.00	30.07	32.97
	Recommended Rate	28.08	34.83	42.30	120.00	60.14	43.36

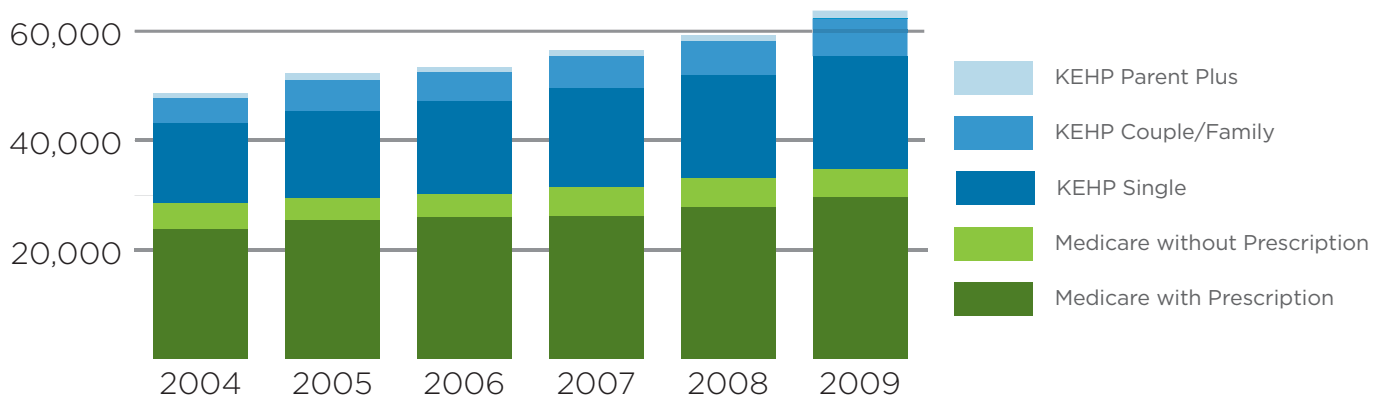
## Insurance Contracts by Type

		2004	2005	2006	2007	2008	2009
<b>Kentucky Employees Retirement System Non Hazardous</b>	KEHP Parent Plus	443	461	490	525	568	762
	KEHP Couple/Family	1,462	1,679	1,826	2,131	2,187	2,621
	KEHP Single	7,313	7,928	8,393	8,996	9,383	10,635
	Medicare without Prescription	1,932	1,915	1,672	2,056	1,969	1,920
	Medicare with Prescription	11,437	11,764	12,000	12,007	12,636	13,231
<b>Kentucky Employees Retirement System Hazardous</b>	KEHP Parent Plus	65	65	58	70	69	74
	KEHP Couple/Family	276	319	378	398	443	502
	KEHP Single	502	570	656	686	741	823
	Medicare without Prescription	65	61	74	82	91	88
	Medicare with Prescription	531	567	603	606	687	763
<b>County Employees Retirement System Non Hazardous</b>	KEHP Parent Plus	246	255	249	284	292	335
	KEHP Couple/Family	946	1,022	1,058	1,274	1,320	1,456
	KEHP Single	5,598	6,014	6,298	6,767	7,126	7,609
	Medicare without Prescription	2,756	2,853	2,502	3,134	3,105	3,110
	Medicare with Prescription	10,424	11,005	11,803	11,908	12,684	13,583
<b>County Employees Retirement System Hazardous</b>	KEHP Parent Plus	223	195	198	210	226	245
	KEHP Couple/Family	1,463	1,579	1,739	1,836	1,947	2,041
	KEHP Single	1,087	1,220	1,275	1,363	1,394	1,404
	Medicare without Prescription	45	55	52	64	73	80
	Medicare with Prescription	913	1,004	1,105	1,197	1,367	1,518
<b>State Police Retirement System Non Hazardous</b>	KEHP Parent Plus	45	34	29	19	17	22
	KEHP Couple/Family	400	388	406	297	305	311
	KEHP Single	226	257	260	254	240	221
	Medicare without Prescription	13	10	9	9	7	9
	Medicare with Prescription	326	348	368	384	410	418

## Insurance Contracts by Type

	2004	2005	2006	2007	2008	2009	
<b>Kentucky Retirement Systems Total</b>	KEHP Parent Plus	1,022	1,010	1,024	1,108	1,172	1,438
	KEHP Couple/Family	4,547	4,987	5,407	5,936	6,202	6,931
	KEHP Single	14,726	15,989	16,882	18,066	18,884	20,692
	Medicare without Prescription	4,811	4,894	4,309	5,345	5,245	5,207
	Medicare with Prescription	23,631	24,688	25,879	26,102	27,784	29,513

## Insurance Contracts by Type – KRS Total



### Kentucky Retirement Systems Insurance Contracts

The Systems provides group rates on medical insurance and other managed care coverage for retired members. Participation in the insurance program is optional and requires the completion of the proper forms at the time of retirement in order to obtain the insurance coverage. The Systems provides access to health insurance coverage through the Kentucky Employees Group Health Plan (KEHP) for recipients until they reach age 65 and/or become Medicare eligible. After a retired member becomes eligible for Medicare, coverage is available through a Medicare eligible plan offered by the Systems. A retired member's spouse and/or dependents may also be covered on health insurance through the Systems.

## Total Fiscal Year Retirement Payments by County

Adair	\$5,050,049	Grant	\$7,172,712	Mason	\$4,741,600
Allen	\$3,512,207	Graves	\$9,412,375	Meade	\$4,170,243
Anderson	\$24,750,230	Grayson	\$6,924,363	Menifee	\$1,921,368
Ballard	\$1,836,646	Green	\$3,019,288	Mercer	\$9,645,832
Barren	\$10,957,361	Greenup	\$5,671,504	Metcalfe	\$2,522,621
Bath	\$4,255,464	Hancock	\$1,944,689	Monroe	\$1,967,697
Bell	\$7,640,732	Hardin	\$22,682,375	Montgomery	\$5,975,998
Boone	\$19,787,319	Harlan	\$7,189,530	Morgan	\$5,954,532
Bourbon	\$6,087,974	Harrison	\$4,772,145	Muhlenberg	\$4,786,881
Boyd	\$12,245,787	Hart	\$3,507,348	Nelson	\$10,618,868
Boyle	\$11,440,137	Henderson	\$12,316,006	Nicholas	\$1,946,003
Bracken	\$2,089,936	Henry	\$15,540,097	Ohio	\$4,417,609
Breathitt	\$5,880,090	Hickman	\$1,205,099	Oldham	\$17,890,838
Breckinridge	\$4,541,461	Hopkins	\$12,501,206	Owen	\$9,304,824
Bullitt	\$15,626,483	Jackson	\$2,770,838	Owsley	\$2,044,641
Butler	\$2,984,324	Jefferson	\$248,491,659	Pendleton	\$4,011,850
Caldwell	\$5,372,658	Jessamine	\$11,062,643	Perry	\$7,543,050
Calloway	\$10,570,448	Johnson	\$6,435,665	Pike	\$12,128,614
Campbell	\$17,495,850	Kenton	\$29,469,154	Powell	\$3,625,695
Carlisle	\$1,362,695	Knott	\$4,835,477	Pulaski	\$27,296,955

## Total Fiscal Year Retirement Payments by County

Carroll	\$3,532,231	Knox	\$5,764,505	Robertson	\$788,392
Carter	\$7,574,564	Larue	\$3,675,756	Rockcastle	\$3,577,106
Casey	\$3,626,805	Laurel	\$14,052,399	Rowan	\$10,658,490
Christian	\$20,935,650	Lawrence	\$2,743,507	Russell	\$5,358,997
Clark	\$9,143,301	Lee	\$2,669,096	Scott	\$16,016,595
Clay	\$5,873,737	Leslie	\$2,480,082	Shelby	\$29,746,273
Clinton	\$2,337,043	Letcher	\$5,512,897	Simpson	\$1,876,215
Crittenden	\$2,002,998	Lewis	\$2,533,719	Spencer	\$6,231,639
Cumberland	\$1,947,954	Lincoln	\$5,346,549	Taylor	\$5,948,473
Daviess	\$30,049,515	Livingston	\$3,090,235	Todd	\$2,640,885
Edmonson	\$1,878,550	Logan	\$5,576,441	Trigg	\$5,894,511
Elliott	\$1,608,200	Lyon	\$4,368,440	Trimble	\$3,225,601
Estill	\$3,760,036	McCracken	\$21,772,554	Union	\$2,756,641
Fayette	\$84,478,934	McCreary	\$2,960,742	Warren	\$33,616,504
Fleming	\$7,093,524	McClean	\$2,671,488	Washington	\$3,380,470
Floyd	\$10,501,487	Madison	\$24,428,936	Wayne	\$5,268,473
Franklin	\$177,035,593	Magoffin	\$3,016,429	Webster	\$3,243,682
Fulton	\$1,879,230	Marion	\$4,802,064	Whitley	\$10,214,010
Gallatin	\$1,308,442	Marshall	\$9,227,854	Wolfe	\$3,524,787
Garrard	\$4,379,341	Martin	\$1,741,448	Woodford	\$17,022,870