



## Comprehensive Annual Financial Report

**Fiscal Year Ended June 30, 2011** Kentucky Retirement Systems is a component unit of the Commonwealth of Kentucky. This Comprehensive Annual Financial Report reports data for each of our three (3) systems.

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

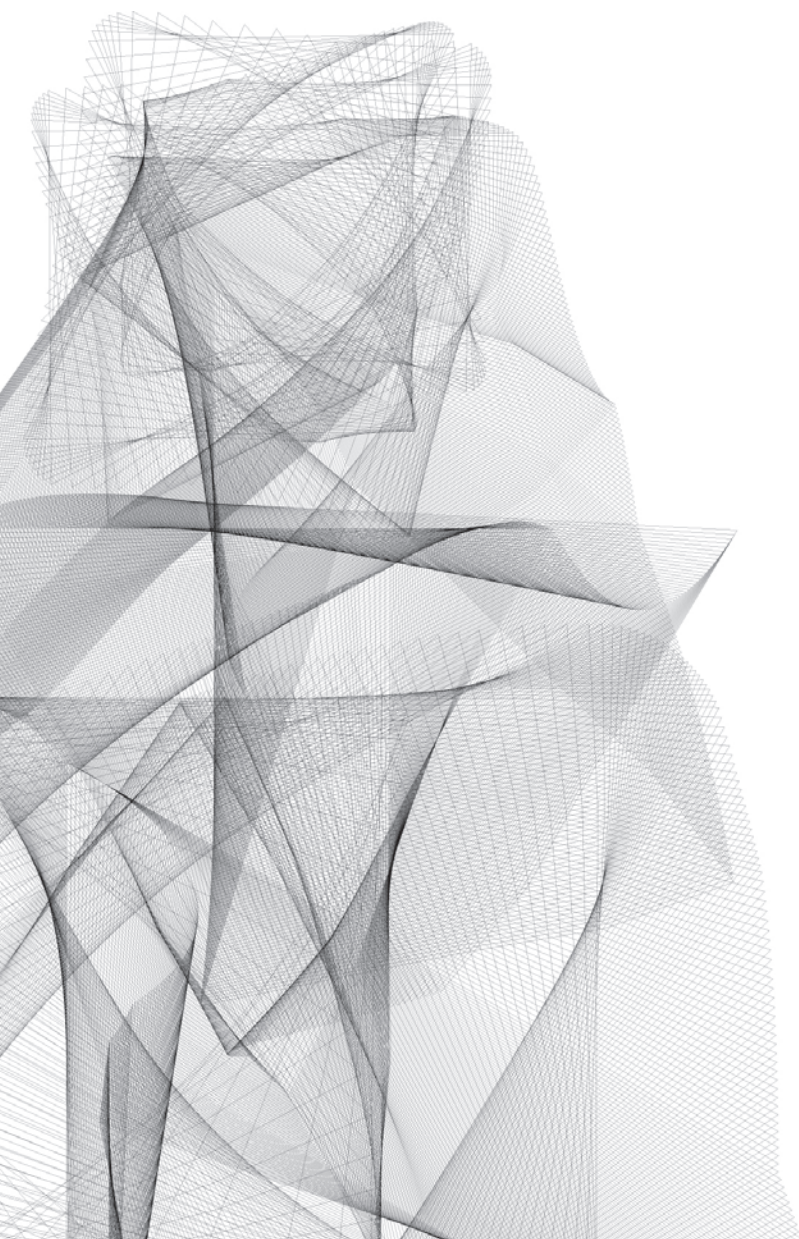


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The image features a white central area where the text is located. The top and bottom portions of the image are filled with a complex, black wireframe pattern. This pattern consists of numerous thin, intersecting lines that create a mesh-like structure. The lines are arranged in a way that suggests depth and movement, with some areas appearing more dense and others more sparse. The overall effect is that of a dynamic, three-dimensional space being explored or mapped out.

# **Introductory** Section



# Management's Responsibility for Financial Reporting

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*Management has prepared the basic financial statements of Kentucky Retirement Systems and is **responsible for the integrity and fairness of the information presented.***

**November 17, 2011** 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.

**Responsibility** Ultimate responsibility for the basic financial statements and annual report rests with the Board of Trustees. The Interim Executive Director and KRS' 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 communications 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 Allen Ford, PLLC, have conducted an independent audit of the basic financial statements in accordance with US Generally Accepted Auditing Standards. This audit is described in their Independent Auditors' Report on page 17. 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.



**William A. Thielen, Esq.** // Chief Operations Officer  
Interim Executive Director



**Todd E. Coleman, CPA** // Controller



# To the Trustees & Membership

*I am pleased to present the Comprehensive Annual Financial Report of the Kentucky Employees Retirement System, County Employees Retirement System, and State Police Retirement System for the fiscal year ended June 30, 2011.*

**November 17, 2011** 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 KERS, CERS and SPRS (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

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**KERS**  
Kentucky Employees Retirement System

**CERS**  
County Employees Retirement System

**SPRS**  
State Police Retirement System

**ARC**  
Annual Required Contribution

KRS has continued its effort to raise awareness of the impact of reductions to the actuarially recommended employer contribution rates for the KERS and SPRS plans. For 13 out of the last 18 years and for 10 years in a row, the State has appropriated less money than recommended by the KRS actuary and established by the Board of Trustees to adequately fund the annual required contribution (ARC). This underfunding, coupled with past increased benefits, unfunded annual cost of living allowances and two major economic recessions in the last decade, has resulted in funding ratios (the ratio of assets to accrued liabilities) for the KERS nonhazardous and SPRS pension trusts that have dropped to alarmingly low levels. As of June 30, 2011, the funded ratio of the KRS nonhazardous plan is 33.33% of the actuarial value of assets. The funded ratio of the SPRS plan is 45.02% of the actuarial value of assets. The Kentucky General Assembly passed a pension reform bill (House Bill 1) that included a schedule to increase employer contributions over the next several years until reaching the full ARC in 2025 for KERS non-hazardous, 2019 for KERS hazardous and 2020 for the SPRS system. For the past two fiscal years, the Governor and the Kentucky General Assembly have met the increased funding schedule set forth in House Bill 1. It is vitally important that they continue, at a minimum, to increase funding according to the House Bill 1 schedule during the next biennium. This will have a favorable effect by slowing the growth rate of the unfunded liability and the expected growth rate of employer contributions in future years. KRS will continue to monitor and ask for increased funding support from the Governor and the General Assembly in the years ahead.



**CMS**  
Centers for Medicare &  
Medicaid Services

In 2011, KRS continued to contract with the Centers for Medicare and Medicaid Services (CMS) for an Employee Group Waiver Plan for pharmacy benefits for Medicare-eligible retirees. This contract allows KRS to apply the full amount of the drug subsidy received from CMS toward its unfunded liability for medical benefits. For the first year of the EGWP contract approximately \$20 million dollars in reimbursement was received from CMS for provision of the drug benefit to retirees. KRS is in its second year under this program and the application of the subsidy to the unfunded liability for medical benefits will result in a reduction of over \$1.47 billion for the fiscal year ended



June 30, 2011. The reduced unfunded liability has a favorable impact on employers by reducing the amount of their contribution toward retiree health care. The overall trend for the Medicare eligible population medical/pharmacy benefit has remained relatively flat for the last year while the under-65 retiree population has experienced a growth of around 10%. Both groups together comprise a population of approximately 80,000 retirees.

KRS implemented the final phase of its new technology system in August 2011, which provides employer online functionality, and allows active members, as well as retirees, to access their account information and service their accounts online. In preparation for implementation of this final phase of the Project, KRS staff coordinated employer readiness beginning in March of 2010 and file certification activities beginning in March of 2011. KRS staff conducted over 100 different employer training sessions across the state in the summer of 2011 to train employers to access and use the system. The most recent release of the Strategic Technology Advancements for the Retirement of Tomorrow (START) program allows employers to submit contributions and salary information for their employees online and also adds active member functionality to the retiree self service functionality released in September 2009. Members now can perform ad hoc service purchase cost and retirement estimates as well as request services online from KRS. Constituents can keep current on future changes to START and access their account information on the KRS website at <http://kyret.ky.gov>.



#### START

Strategic Technology Advancements for the Retirement of Tomorrow

## INVESTMENTS

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*Investment performance for the year ending June 30, 2011 continued to improve again over the most recent fiscal years. In FY 2011, KRS gained 18.96% on a total portfolio basis, underperforming its benchmark return of 20.34%.*



#### FY

Fiscal Year

However, this is still a nominal improvement over FY 2010, when KRS investments gained 15.81% outperforming its benchmark of 13.16%. This performance resulted in an increase in total pension fund market value of approximately \$1.065 billion for FY 2011. As discussed last year, because funding ratios for the various trust funds managed by KRS are diverging, the Investment Committee felt it was necessary to conduct individual asset liability studies for each fund to determine if they need to be managed separately and assigned individual asset allocations. Pursuant to this objective, R.V. Kuhns, the general investment consultant for KRS, conducted individual studies and presented their recommendations during the fiscal year. Based on these analyses and a review of all the information for each pension and insurance trust, the Board voted to make changes to individual plan asset allocations, and KRS investment staff worked throughout the year to rebalance the portfolios to align with these new targets.



*Kentucky Retirement Systems administers both a pension fund and an insurance fund for each of the systems it manages. These trusts are used to fund monthly pension and health care payments to and on behalf of retirees.*

★ **Note:** Section 401(h) of the Internal Revenue Code allows KRS to provide for payment of benefits for sickness, hospitalization and medical expenses for retirees.

Non-hazardous employees are statutorily required to contribute 5% of pre-tax salary to their pension benefit, while hazardous employees contribute 8% on a pre-tax basis. All employees hired with an initial participation date on or after September 1, 2008 must contribute an additional 1% of their pre-tax compensation toward their retiree health insurance benefits. These monies are deposited in a 401(h) account within the pension trust. Employer contributions are calculated annually by the Board of Trustees and include the normal cost of pension and insurance benefits plus an amortized contribution toward the unfunded liability of the pension and insurance trusts. Employer contributions also include an administrative fee that is used to pay annual operating expenses of KRS.

Funding ratios have fallen both steadily and significantly over the last decade as a result of unfavorable market conditions, higher than anticipated retirement rates, employer underfunding in the KERS nonhazardous and SPRS plans and increased expenses for annual cost of living adjustments that are not pre-funded by the employers. While improved market conditions and the increased funding in the KERS and SPRS plans in FY 2011 have slowed the growth of the unfunded liabilities of the various systems, KRS uses a five-year smoothing method and the full effects of the market losses in 2008 and 2009 will not be realized for another three years. The funding levels of all systems as of June 30, 2011 are listed on page 56-59 in the Financial Section.

PROFESSIONAL SERVICES

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*KRS continues to engage a number of professional consultants to assist trustees and staff in key business areas such as investments, taxes, auditing services and legal representation.*

A list of the Board's contract consultants can be found in the organizational chart on page 9. A list of external investment managers can be found in the investment section of this report.

CERTIFICATE OF ACHIEVEMENT

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**GFOA**  
Government Finance Officers Association

**CAFR**  
Comprehensive Annual Financial Report

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to KRS for its CAFR for the fiscal year ended June 30, 2010. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports and is valid for a period of one year. This was the thirteenth consecutive award earned by KRS. In order to be awarded, a government unit must publish an easily readable and efficiently organized document. The report must satisfy both generally accepted accounting principles and applicable legal requirements. We believe our current CAFR continues to meet achievement requirements, and we are submitting it to the GFOA for their consideration.





The purpose of GFOA is to enhance and promote the professional management of governments for the public benefit by identifying best practices and promoting their use through education, training, facilitation of member networking, and leadership.

*The Government Finance Officers Association of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to KRS for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2010.*



**Other Information** Kentucky statutes require an annual audit by either an independent certified public accountant or the Auditor of Public Accounts. Dean Dorton Allen Ford, PLLC, Certified Public Accountants, performed the audit for the fiscal year ended June 30, 2011, and the results of that audit are contained in the Financial Section.

*William A. Thielen*

**William A. Thielen, Esq.** // Chief Operations Officer  
Interim Executive Director

# Board of Trustees

The Board of Trustees are comprised of nine members. Two elected by KERS members, two elected by CERS members, one elected by SPRS members, three appointed by Governor Steve Beshear and the Secretary of the State Personnel Cabinet.



**Jennifer Elliott, Chair**  
Governor Appointee  
Term ends March 31, 2012



**Thomas Elliott, Vice Chair**  
Governor Appointee  
Term ends March 31, 2015



**Bobby Henson**  
Elected by KERS  
Term ends March 31, 2014



**Vince Lang**  
Elected by CERS  
Term ends March 31, 2013



**Randy Overstreet**  
Elected by SPRS  
Term ends March 31, 2015



**Susan Smith**  
Elected by KERS  
Term ends March 31, 2014



**Christopher Tobe**  
Governor Appointee  
Term ends March 31, 2012



**Robert Wilcher**  
Elected by CERS  
Term ends March 31, 2013



**Tim Longmeyer**  
Personnel Secretary  
Term ends Ex-Officio



### Committee Meetings Online

Visit [kyret.ky.gov/index.php/board](http://kyret.ky.gov/index.php/board) to download materials from previous Board meetings. You may also browse a list of upcoming meetings. Click "Meet the Board" to email any Board member.



# Organizational Structure

Kentucky Retirement Systems is governed by the Board of Trustees and a structure of committees and officer oversight. Below is an outline of that structure and independent consulting agencies.

## *Board of Trustees > Administration*

**William A. Thielen** // Chief Operations Officer & Interim Executive Director

**Todd E. Coleman** // Accounting

**Scarlett Consalvi** // Communications

**Sarah Webb** // Employer Compliance & Education

**Shawn Sparks** // Planning & Constituent Services

**Mark McChesney** // Information Security

**Pam Gibbs** // Information Technology

**Joe Morris** // Procurement & Office Services

**Charlene Haydon** // Chief Benefits Officer

**Liza Welch** // Disabilities

**Rebecca Stephens** // Member Services

**Suzanne Howe** // Membership Support

**Vacant** // Retiree Health Care

**Lela Hatter** // Retiree Services

**Jennifer A. Jones** // Interim General Counsel

**Marlane Robinson** // Director of Human Resources

## *Board of Trustees > Investments Committee*

**T.J. Carlson** // Chief Investments Officer

**Brent Aldridge** // Alternative Investments

**Bo Cracraft** // Equity Assets

**David Peden** // Fixed Income

## *Board of Trustees > Audit Committee*

**Connie Davis** // Internal Auditor

**Ann Case** // Compliance Officer

## *Board of Trustees & Administration > Consultants*

**Strategic Investment Solutions, Inc.** // Asset Management

**Dean Dorton Allen Ford, PLLC** // Auditing

**Cavanaugh Macdonald Consulting, LLC** // Actuarial

**Reinhart Boerner Van Deuren** // Investment Counsel

**R.V. Kuhns, Inc.** // Investment Consultant

**ORG, Inc.** // Real Estate Consultant

**Ice Miller, LLP** // Fiduciary Review

**Stoll Keenan Ogden, PLLC** // Legal Services

# KERS Non-Hazardous

**RETIRED MEMBERS**

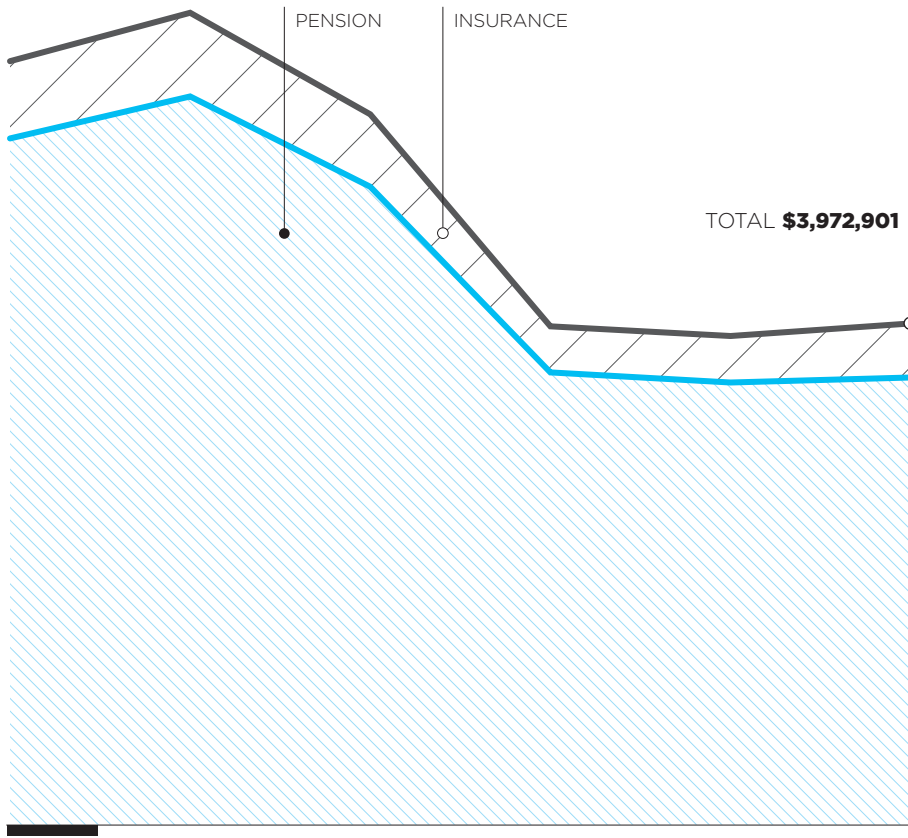
35,733

**ACTIVE MEMBERS**

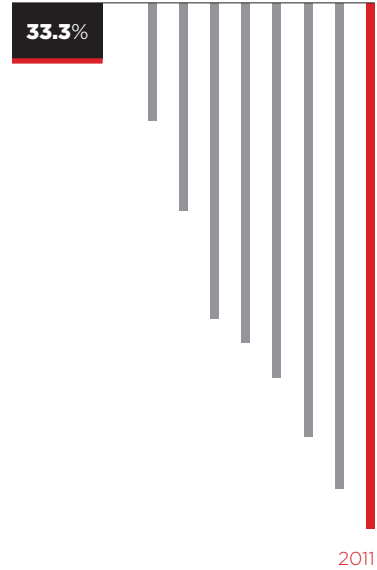
46,710

**INACTIVE MEMBERS**

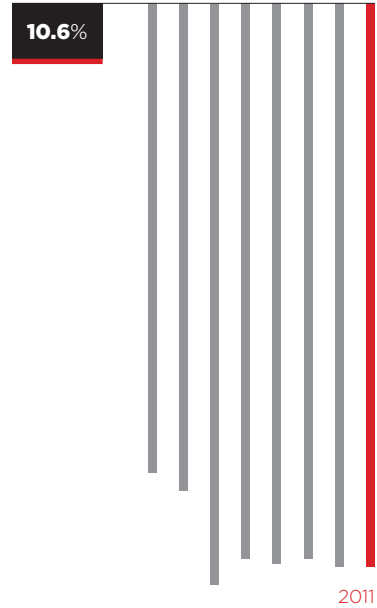
33,461



**PENSION FUNDING LEVEL**



**INSURANCE FUNDING LEVEL**



Plan Net Assets (in Thousands)

Fund	2007	2008	2009	2010	2011
Pension	\$5,773,157	\$5,056,869	\$3,584,601	\$3,504,501	\$3,544,242
Insurance	\$663,558	\$574,479	\$365,367	\$368,799	\$428,659
<b>Total</b>	<b>\$6,436,715</b>	<b>\$5,631,348</b>	<b>\$3,949,968</b>	<b>\$3,873,300</b>	<b>\$3,972,901</b>

**KERS HISTORY**

*Kentucky Employees Retirement System (KERS) was established **July 1, 1956** by the state legislature.*



# KERS Hazardous

**RETIRED** MEMBERS

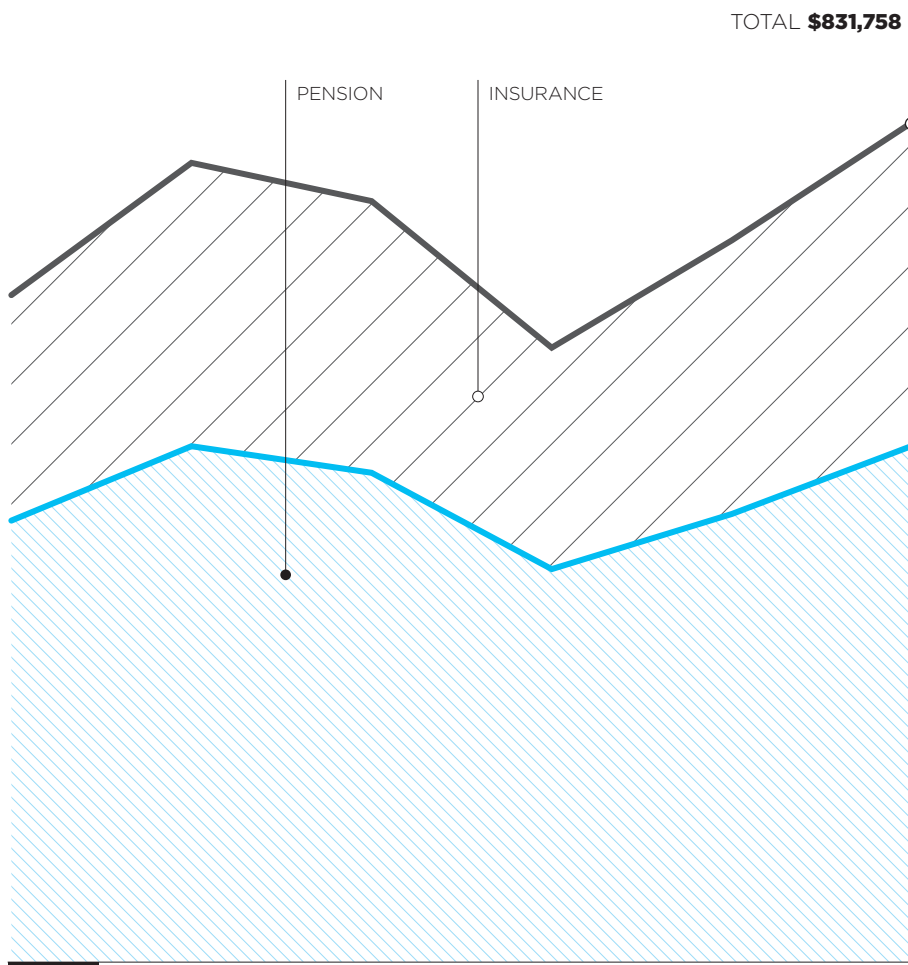
2,090

**ACTIVE** MEMBERS

4,049

**INACTIVE** MEMBERS

2,285



**PENSION** FUNDING LEVEL

70.8%

2011

**INSURANCE** FUNDING LEVEL

65.1%

2011

Plan Net Assets (in Thousands)

Fund	2007	2008	2009	2010	2011
Pension	\$510,775	\$484,438	\$388,951	\$443,606	\$3,544,242
Insurance	\$280,886	\$269,300	\$219,500	\$271,239	\$428,659
<b>Total</b>	<b>\$791,661</b>	<b>\$753,738</b>	<b>\$608,451</b>	<b>\$714,846</b>	<b>\$831,758</b>

## KERS HISTORY

*Kentucky Employees Retirement System (KERS) was established July 1, 1956 by the state legislature.*

# CERS Non-Hazardous

**RETIRED MEMBERS**

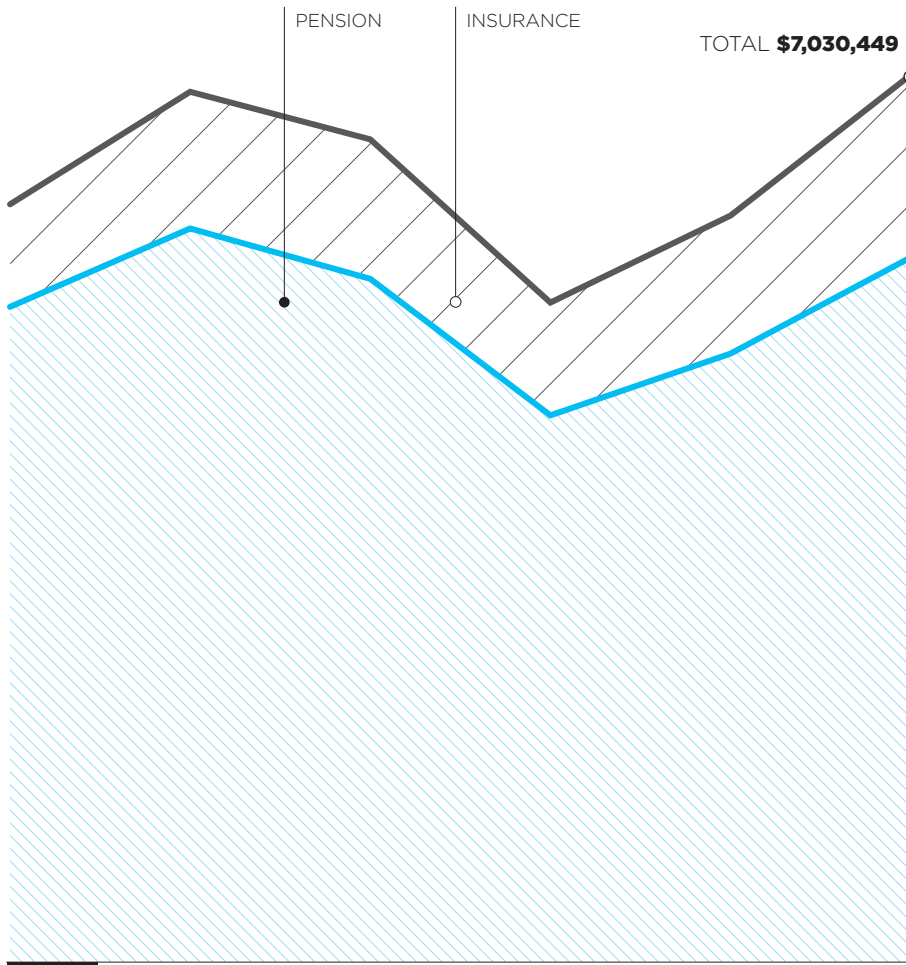
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**ACTIVE MEMBERS**

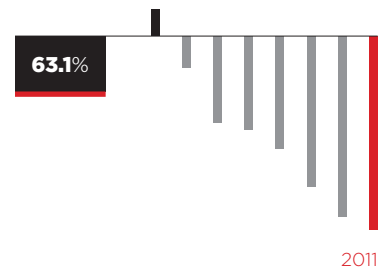
84,010

**INACTIVE MEMBERS**

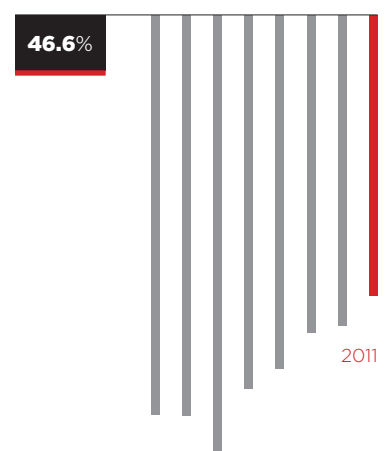
57,073



**PENSION FUNDING LEVEL**



**INSURANCE FUNDING LEVEL**



Plan Net Assets (in Thousands)

Fund	2007	2008	2009	2010	2011
Pension	\$5,812,936	\$5,431,735	\$4,331,010	\$4,820,490	\$5,583,451
Insurance	\$1,084,043	\$1,105,945	\$894,490	\$1,094,821	\$1,446,998
<b>Total</b>	<b>\$6,896,979</b>	<b>\$6,537,680</b>	<b>\$5,225,500</b>	<b>\$5,915,311</b>	<b>\$7,030,449</b>

**CERS HISTORY**

*County Employees Retirement System (CERS) was established **July 1, 1958** by the state legislature.*



# CERS Hazardous

## RETIREED MEMBERS

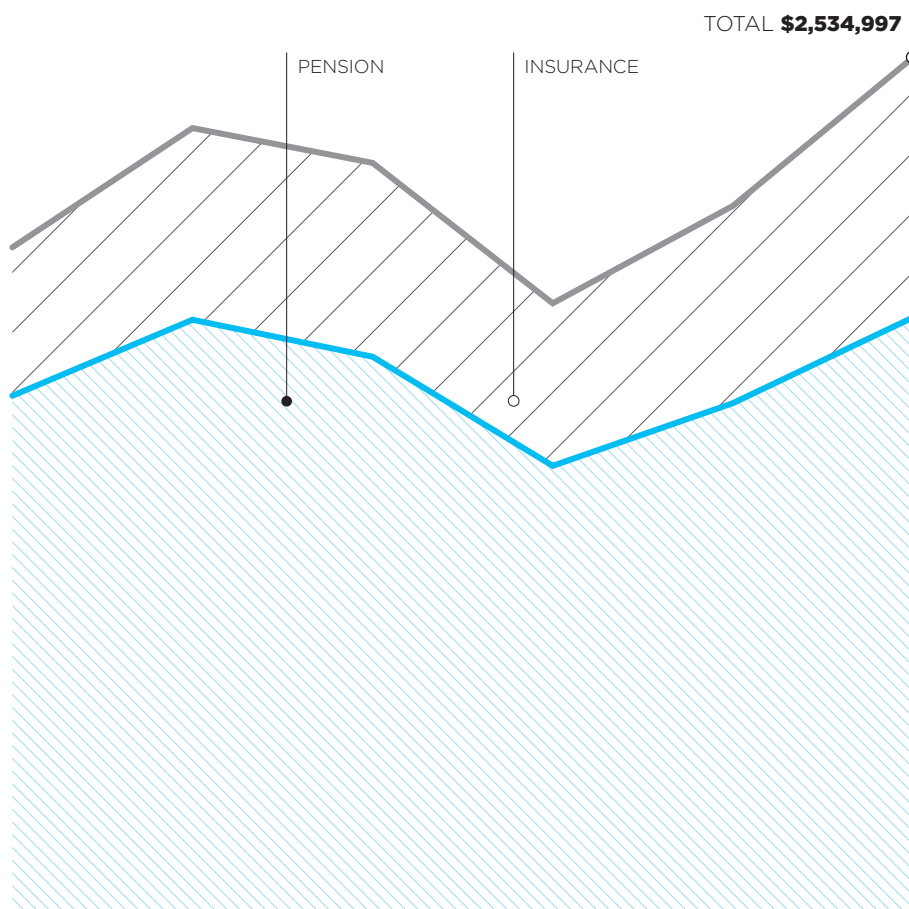
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## ACTIVE MEMBERS

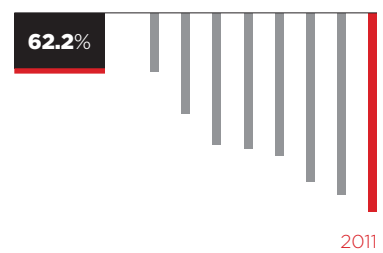
2,047

## INACTIVE MEMBERS

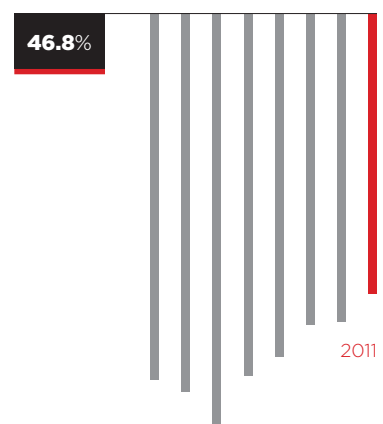
9,019



## PENSION FUNDING LEVEL



## INSURANCE FUNDING LEVEL



## Plan Net Assets (in Thousands)

Fund	2007	2008	2009	2010	2011
Pension	\$1,754,935	\$1,644,982	\$1,320,560	\$1,506,894	\$1,761,858
Insurance	\$570,156	\$576,414	\$483,233	\$586,614	\$773,139
<b>Total</b>	<b>\$2,325,091</b>	<b>\$2,221,396</b>	<b>\$1,803,793</b>	<b>\$2,093,508</b>	<b>\$2,534,997</b>

## CERS HISTORY

*County Employees Retirement System (CERS) was established July 1, 1958 by the state legislature.*

# SPRS

## RETIRED MEMBERS

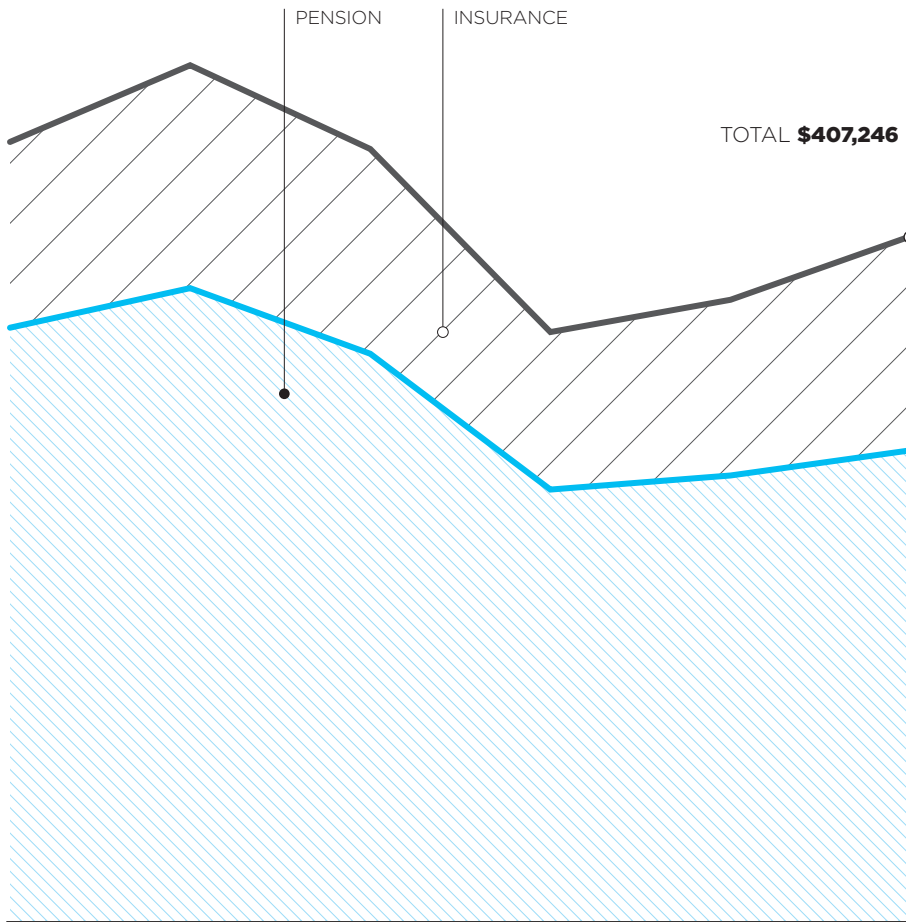
1,019

## ACTIVE MEMBERS

949

## INACTIVE MEMBERS

204



## PENSION FUNDING LEVEL

45.0%

2011

## INSURANCE FUNDING LEVEL

28.2%

2011

Plan Net Assets (in Thousands)

Fund	2007	2008	2009	2010	2011
Pension	\$376,381	\$337,359	\$256,575	\$264,949	\$279,927
Insurance	\$132,574	\$121,782	\$93,682	\$104,511	\$127,319
<b>Total</b>	<b>\$508,955</b>	<b>\$459,141</b>	<b>\$350,257</b>	<b>\$369,460</b>	<b>\$407,246</b>

## SPRS HISTORY

*State Police Retirement System (SPRS) was established July 1, 1960 by the state legislature.*



# Total System

**RETIRED MEMBERS**

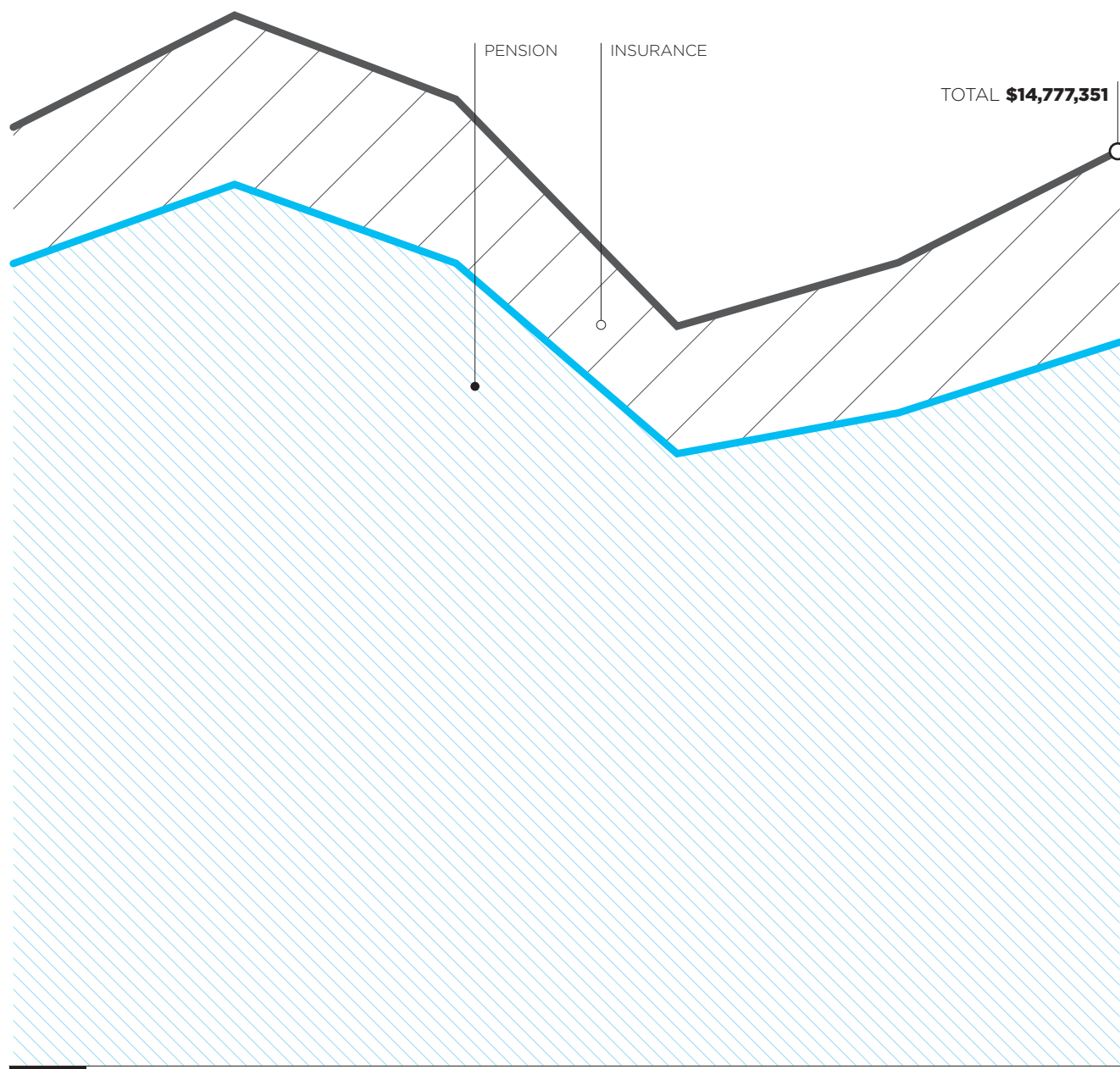
84,680

**ACTIVE MEMBERS**

144,894

**INACTIVE MEMBERS**

95,025



Plan Net Assets (in Thousands)

Fund	2007	2008	2009	2010	2011
Pension	\$14,228,184	\$12,955,383	\$9,881,697	\$10,540,440	\$11,680,563
Insurance	\$2,731,217	\$2,647,920	\$2,056,272	\$2,425,987	\$3,096,788
<b>Total</b>	<b>\$16,959,401</b>	<b>\$15,603,303</b>	<b>\$11,937,969</b>	<b>\$12,966,427</b>	<b>\$14,777,351</b>



## **Financial** Section

# Independent Auditors' Report

*A financial statement audit is one of many attestation functions provided by certified accounting firms, whereby the firm provides an independent opinion on published information. Financial audits are performed by CPAs due to the specialized financial reporting knowledge required.*

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### Dean Dorton Allen Ford, PLLC

To the Board of Trustees, Kentucky Retirement Systems in 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 year ended June 30, 2011, 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. The financial statements of Kentucky Retirement Systems as of and for the fiscal year ended June 30, 2010, were audited by Dean, Dorton & Ford, PSC, whose report dated November 18, 2010, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. In our opinion, the financial statements in the Financial Section 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, 2011 and the changes in plan net assets for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2011, 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 & Analysis (page 18) and the Schedule of Funding Progress and Schedule of Contributions from Employers and



Other Contributing Entities (pages 56-64) are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. Our audit was conducted for the purpose of forming an opinion on the 2011 financial statements taken as a whole. The additional supporting schedules (page 65) are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such 2011 information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional

procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The additional supporting schedules, as of and for the fiscal year ended June 30, 2010, audited by Dean, Dorton & Ford, PSC whose report dated November 18, 2010, expressed an opinion that the fiscal year 2010 additional supporting schedules were fairly stated in all material respects in relation to the fiscal year 2010 financial statements taken as a whole. The Introductory, Actuarial, Investments, and Statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements. These sections have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

*Dean Dorton Allen Ford, PLLC*

**Dean Dorton Allen Ford, PLLC**

November 17, 2011      Lexington, Kentucky

## Management's Discussion & Analysis

*This analysis of financial performance provides an overview of the pension and insurance fund financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with the financial statements, which begin on page 23.*

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

- The combined plan net assets of all pension funds administered by Kentucky Retirement Systems increased by \$1,140.2 million during fiscal 2011.
- Member and Employer contributions reported for fiscal 2011, totaled \$882.1 million compared to \$714.4 million in fiscal 2010. 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 required by the passage of House Bill 1, which became effective September 1, 2008.
- The net appreciation in the fair value of investments was \$1,658.5 million for the fiscal year ended June 30, 2011 compared to net appreciation of \$1,283.9 million for the

prior fiscal year. Included in this net appreciation were realized gains on sales of investments of \$951 million. The increase in realized gains experienced by the pension funds is due to favorable market conditions.

- Interest, dividend and net securities lending income was \$300.9 million compared to \$266.4 million in fiscal year 2010.
- Pension benefits paid to retirees and beneficiaries totaled \$1,591.5 million compared to \$1,516.1 million in the prior year. Refund of contributions paid to former members upon termination of employment totaled \$27.5 million compared to \$22.3 million in the prior year.
- Administrative expense totaled \$24.9 million compared to \$24.8 million in the prior fiscal year. Capital Project Expenses incurred, as a result of the START Project, totaled \$195,000. Capital Project Expenses in prior years were capitalized between fixed assets and intangible assets, as appropriate. Costs incurred in fiscal 2011 were deemed to be non-capitalizable.
- The member health insurance contribution, as a result of the passage of House Bill 1 (September 1, 2008) totaled \$7.1 million, for the fiscal year ended June 30, 2011, compared to \$3.4 million in the prior fiscal year.

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

- The combined plan net assets of the insurance fund increased by \$670.8 million during fiscal 2011.
- Premiums received from retirees who participated in the Medicare eligible self-funded plan totaled \$30.9 million, compared to \$29.1 million in the prior fiscal year.
- Employer contributions of \$435.9 million were received compared to \$371.9 million in fiscal 2010. This increase is due to an increase in the insurance contribution rate.
- Employer Group Waiver Plan receipts totaled \$22.1 million compared to \$19.8 million in fiscal 2010.
- The net appreciation in the fair value of investments was \$517.0 million compared to net appreciation of \$274.3 million for the prior fiscal year. Included in this net appreciation were realized gains on sales of investments of \$347.8 million. This increase in realized gains is due to favorable market conditions.
- Interest, dividend and net securities lending income was \$53.1 million compared to \$42.3 million in fiscal 2010.
- Premiums paid by the fund for hospital and medical insurance coverage (under age 65) totaled \$242.8 million. Payments for the self-funded healthcare reimbursements (over age 65) totaled \$130.3 million. The total of insurance premiums paid plus self-funded reimbursements was \$373.1 million for fiscal 2011. Insurance premiums paid plus self-funded healthcare reimbursements for the prior plan year totaled \$353.5 million.
- 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, Kentucky Retirement Systems 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 balance as of June 30, 2011, totaled \$101,000.
- The reimbursement of retired-reemployed health insurance, as a result of the passage of House Bill 1 (effective September 1, 2008) totaled \$4.0 million for the fiscal year ended June 30, 2011, compared to \$2.0 million in the prior fiscal year.

**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 Statement of Plan Net Assets for the Pension Funds, on page 23, and the Combined Statement of Plan Net Assets for the Insurance Fund, on page 23, provide a snapshot of the financial position of each of the three systems at June 30, 2011. The Combined Statement of Changes in Plan Net Assets for the Pension Funds, on page 24, and the Combined Statement of Changes in Plan Net Assets for the Insurance Fund, on page 26, summarize the additions and deductions that occurred for each of the three systems during fiscal 2011.

The Schedule of Funding Progress, on pages 56-59, 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 60-64, 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.

**Funds as a Whole** KRS' combined plan net assets increased, during the fiscal year ended June 30, 2011, by \$1,811 million from \$12,966.4 million to \$14,777.4 million. Plan net assets for the prior fiscal year increased by \$1,028.5 million. The increase in plan net assets for the plan year ended June 30, 2011 is primarily attributable to favorable market conditions. The analysis below focuses on plan net assets (Table 1 on page 20) and changes in plan net assets (Table 2 on page 20) of KRS' Pension and Insurance Funds.

Plan net assets of the pension funds increased by \$1,140.2 million (\$11,680.6 million compared to \$10,540.4 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 assets increase is attributable primarily to favorable market conditions. Plan net assets of the insurance fund increased by \$670.8 million (\$3,096.8 million compared to \$2,426.0 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 increase in net plan assets is primarily attributable to favorable market conditions.

**Table 1.** Plan Net Assets (in Millions)

Assets	Pension Funds			Insurance Fund			Total		
	2011	2010	2009	2011	2010	2009	2011	2010	2009
Cash & Investments	\$13,217.4	\$12,690.2	\$11,645.5	\$3,458.4	\$2,961.3	\$2,460.2	\$16,675.8	\$15,651.5	\$14,105.7
Receivables	178.1	108.6	113.9	80.8	33.6	38.7	258.9	142.2	152.6
Equip/Int Assets, net of dep/amort.	9.7	9.3	8.1	-	-	-	9.7	9.3	8.1
<b>Total Assets</b>	<b>13,405.2</b>	<b>12,808.1</b>	<b>11,767.5</b>	<b>3,539.2</b>	<b>2,994.9</b>	<b>2,498.9</b>	<b>16,944.4</b>	<b>15,803.0</b>	<b>14,266.4</b>
<b>Total Liabilities</b>	<b>(1,724.6)</b>	<b>(2,267.7)</b>	<b>(1,885.8)</b>	<b>(442.4)</b>	<b>(568.9)</b>	<b>(442.7)</b>	<b>(2,167.0)</b>	<b>(2,836.6)</b>	<b>(2,328.5)</b>
<b>Plan Net Assets</b>	<b>\$11,680.6</b>	<b>\$10,540.4</b>	<b>\$9,881.7</b>	<b>\$3,096.8</b>	<b>\$2,426.0</b>	<b>\$2,056.2</b>	<b>\$14,777.4</b>	<b>\$12,966.4</b>	<b>\$11,937.9</b>

**Table 2.** Changes in Plan Net Assets (in Millions)

Additions	Pension Funds			Insurance Fund			Total		
	2011	2010	2009	2011	2010	2009	2011	2010	2009
Member Cont.	\$326.9	\$249.8	\$290.8	-	-	-	\$326.9	\$249.8	\$290.8
Employer Cont.	548.1	461.2	393.8	436.0	371.9	297.2	984.1	833.1	691.0
Heath Ins. Cont.	7.1	3.4	0.9	-	-	-	7.1	3.4	0.9
Premiums Rec'd	-	-	-	31.0	29.1	27.1	31.0	29.1	27.1
Retired Remp Ins.	-	-	-	4.0	2.0	0.2	4.0	2.0	0.2
Medicare Subsidy	-	-	-	22.1	19.8	16.8	22.1	19.8	16.8
Invest. Inc. (net)	1,902.2	1,507.5	(2,232.9)	561.2	310.1	(611.3)	2,463.4	1,817.6	(2,844.2)
Total Additions	2,784.3	2,221.9	(1,547.4)	1,054.3	732.9	(270.0)	3,838.6	2,954.8	(1,817.4)
<b>Deductions</b>									
Benefit payments	1,591.5	1,516.1	1,478.7	-	-	-	1,591.5	1,516.1	1,478.7
Refunds	27.5	22.3	23.6	-	-	-	27.5	22.3	23.6
Administrative Ex.	24.9	24.8	24.0	10.4	9.7	8.8	35.3	34.5	32.8
Capital Projects Ex.	0.2	-	-	-	-	-	0.2	-	-
Healthcare Costs	-	-	-	373.1	353.4	312.9	373.1	353.4	312.9
Total Deductions	1,644.1	1,563.2	1,526.3	383.5	363.1	321.7	2,027.6	1,926.3	1,848.0
<b>Increase (Decrease) in Plan Net Assets</b>	<b>\$1,140.2</b>	<b>\$658.7</b>	<b>\$(3,073.7)</b>	<b>\$670.8</b>	<b>\$369.8</b>	<b>\$(591.7)</b>	<b>\$1,811.0</b>	<b>\$1,028.5</b>	<b>\$(3,665.4)</b>

**FUND ACTIVITIES****In Thousands or Millions**

Much of the data presented in this report is abbreviated "in thousands" or "in millions". For example \$1,000 represented "in millions" is really \$1,000,000,000.

**Pension Fund Activities**

Member contributions increased by \$77.1 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.

Employer contributions increased by \$86.9 million due to the increase in covered payroll reported to Kentucky Retirement Systems and the increase in the employer contribution rate applied to covered payroll. Net investment income increased by \$394.7 million (\$1,902.2 million compared to \$1,507.5 million in the prior year). The pension funds experienced an increase in income primarily due to the increase in fair value of investments. This can be illustrated in Table 3 as follows:



**Table 3.** Investment Income (or Loss) for Pension Funds (in Millions)

Asset	2011	2010	2009
Increase (decrease) in fair value of investments	\$707	\$1,066	\$(1,788)
Investment income net of investment expense	244	224	305
Gain (loss) on sale of investments	951	218	(750)
<b>Net investment income (loss)</b>	<b>\$1,902</b>	<b>\$1,508</b>	<b>\$(2,233)</b>

**Table 4.** Investment Income (or Loss) for Insurance Fund (in Millions)

Asset	2011	2010	2009
Increase (decrease) in fair value of investments	\$169	\$183	\$(451)
Investment income net of investment expense	44	35	45
Gain (loss) on sale of investments	348	92	(205)
<b>Net investment income (loss)</b>	<b>\$561</b>	<b>\$310</b>	<b>\$(611)</b>

*Kentucky Retirement Systems' combined plan net assets increased, during the fiscal year ended June 30, 2011, by \$1,811 million from \$12,966.4 million to \$14,776.4 million.*



**COLA**  
Cost of Living Adjustment

**START**  
Strategic Technology Advancements for the Retirement of Tomorrow

Pension fund deductions increased by \$80.9 million caused principally by an increase of \$73.3 million in benefit payments. Retirees received a Cost of Living Adjustment (COLA) increase of 1.5% in benefit payments as of July 1, 2010. Refunds of member contributions increased by \$5.2 million and administrative expenses increased by \$0.1 million. Capital Project Expenses, incurred as a result of the START Project, totaled \$0.2 million. These costs were capitalized in prior years, however, in fiscal 2011 these costs were deemed uncapitalizable.

**Insurance Fund Activities** Employer contributions paid into the insurance fund increased by \$64.1 million over the prior fiscal year. This increase is a result of the increase in the employer contribution rate applied to covered payroll.

Net investment income increased by \$251.1 million. This increase in net income is due primarily to the increase in the gains on sale of investments. This can be illustrated in Table 4 above. Insurance fund deductions increased by \$20.4 million due to the increase in overall healthcare costs.

## HISTORICAL TRENDS



**Haz**  
Hazardous (i.e. KERS Haz)

**Non-Haz**  
Non-Hazardous (i.e. CERS Non-Haz)

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 56-59. The asset value stated in the Schedule of Funding Progress is the actuarial value of assets. 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.

**Actuarial Accrued Liability** 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.

**Unfunded Liability** The unfunded actuarial accrued liability in the pension plans increased by \$1,259.8 million for a total unfunded amount of \$12,382.5 million for the fiscal year ended June 30, 2011, compared to an unfunded amount of \$11,122.7 million for the fiscal year ended June 30, 2010. 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, 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 plan year ended June 30, 2011, decreased to \$6,837.7 million from \$7,334.7 million for the plan year ended June 30, 2010. This is a decrease in the unfunded actuarial accrued liability of \$497 million.

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 60-64. 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.

**Financial Notes** See accompanying notes to the following financial statements on these pages.

27	Note A. Summary of Significant Accounting Policies
29	Note B. Plan Descriptions & Contribution Information
36	Note C. Cash, Short-Term Investments & Securities Lending Collateral
37	Note D. Investments
46	Note E. Securities Lending Transactions
47	Note F. Risk of Loss
48	Note G. Contingencies
48	Note H. Income Tax Status
48	Note I. Defined Benefit Pension Plan
49	Note J. Equipment
49	Note K. Intangible Assets
50	Note L. Alternative Investments
51	Note M. Actuarial Valuation
53	Note N. House Bill 1 Pension Reform
54	Note O. Medicare Prescription
54	Note P. Reimbursement of Retired-Reemployed Health Insurance
55	Note Q. Louisville/Jefferson County Metro Firefighters
55	Note R. Subsequent Events



**KERS**  
Kentucky Employees Retirement System

**CERS**  
County Employees Retirement System

**SPRS**  
State Police Retirement System

**Haz**  
Hazardous (i.e. KERS Haz)

**Non-Haz**  
Non-Hazardous (i.e. CERS Non-Haz)

Combined Statement of Plan Net Assets for Pension Funds (in Thousands)  
as of June 30, 2011 with Comparative Totals as of June 30, 2010

Assets	2011						2010
	KERS Haz	KERS Non-Haz	CERS Haz	CERS Non-Haz	SPRS	Total	Total
<b>Cash &amp; Short-Term Investments</b>							
Cash	\$240	\$957	\$464	\$787	\$292	\$2,740	\$2,035
Short-Term Investments	68,087	319,900	234,803	658,095	28,452	1,309,337	601,101
Total Cash and Short-Short Term Investments	68,327	320,857	235,267	658,882	28,744	1,312,077	603,136
<b>Receivables</b>							
Contributions	3,955	34,554	20,088	78,252	1,959	138,808	66,984
Investment Income	1,602	12,091	5,711	18,932	974	39,310	41,636
Total Receivables	5,557	46,645	25,799	97,184	2,933	178,118	108,620
<b>Investments at Fair Value</b>							
Corporate and Government Bonds	116,192	884,790	415,501	1,394,596	71,812	2,882,891	2,502,572
Equity Contracts	25,195	297,997	41,703	499,558	4,343	868,796	374,327
Interest Rate Contracts	10,690	126,431	17,693	211,947	1,843	368,604	236,424
Corporate Stocks	253,716	1,625,996	915,061	2,335,680	150,201	5,280,654	6,104,950
Mortgages	27,790	230,767	104,177	369,658	19,061	751,453	593,521
Real Estate	3,394	8,767	6,198	12,958	935	32,252	15,075
Total Investments at Fair Value	436,977	3,174,748	1,500,333	4,824,397	248,195	10,184,650	9,826,869
Securities Lending Collateral Invested	75,427	521,479	259,983	822,399	41,307	1,720,595	2,260,141
Equipment (net of accumulated depreciation)	113	1,339	202	2,304	26	3,984	3,871
Intangible Assets (net of accumulated amortization)	169	1,947	286	3,310	32	5,744	5,484
<b>Total Assets</b>	<b>\$586,570</b>	<b>\$4,067,015</b>	<b>\$2,021,870</b>	<b>\$6,408,476</b>	<b>\$321,237</b>	<b>\$13,405,168</b>	<b>\$12,808,121</b>
<b>Liabilities</b>							
Accounts Payable	58	1,294	29	2,626	3	4,010	7,541
Securities Lending Collateral Obligations	75,427	521,479	259,983	822,399	41,307	1,720,595	2,260,141
Total Liabilities	75,485	522,773	260,012	825,025	41,310	1,724,605	2,267,682
<b>Plan Net Assets Held in Trust for Pension Benefits</b>	<b>\$511,085</b>	<b>\$3,544,242</b>	<b>\$1,761,858</b>	<b>\$5,583,451</b>	<b>\$279,927</b>	<b>\$11,680,563</b>	<b>\$10,540,439</b>

See accompanying notes to the financial statements.



Combined Statement of Changes in Plan Net Assets for Pension Funds (in Thousands)  
as of June 30, 2011 with Comparative Totals as of June 30, 2010

Additions	2011						2010
	KERS Haz	KERS Non-Haz	CERS Haz	CERS Non-Haz	SPRS	Total	Total
Members' Contributions	\$12,959	\$109,879	\$53,918	\$144,861	\$5,225	\$326,842	\$249,775
Employers' Contributions	18,085	185,558	84,595	247,968	11,920	548,126	461,161
Health Insurance Contributions (HBI)	241	2,441	1,157	3,216	31	7,086	3,448
Total Contributions	31,285	297,878	139,670	396,045	17,176	882,054	714,384
<b>Investment Income</b>							
From Investing Activities							
↘ Net Appreciation in FV	73,813	521,475	252,410	772,005	38,845	1,658,548	1,283,982
↘ Interest/Dividends	11,844	97,186	49,178	128,434	9,907	296,549	260,673
↘ Total Investing Activities Income	85,657	618,661	301,588	900,439	48,752	1,955,097	1,544,655
↘ Investment Expense	2,056	17,622	14,534	11,451	3,912	49,575	35,427
↘ Commissions	300	2,551	1,026	3,562	204	7,643	7,374
Total Investing Activities Expense	2,356	20,173	15,560	15,013	4,116	57,218	42,801
Net Income from Investing Activities	83,301	598,488	286,028	885,426	44,636	1,897,879	1,501,854
From Securities Lending Activities							
↘ Securities Lending Income	342	2,344	1,180	3,731	186	7,783	8,890
From Securities Lending Expense							
↘ Security Borrower Rebates	100	690	344	1,088	55	2,277	1,755
↘ Security Lending Agent Fees	51	352	176	555	28	1,162	1,445
Net Income from Securities Lending Activities	191	1,302	660	2,088	103	4,344	5,690
Total Net Investment Income	83,492	599,790	286,688	887,514	44,739	1,902,223	1,507,544
<b>Total Additions</b>	<b>\$114,777</b>	<b>\$897,668</b>	<b>\$426,358</b>	<b>\$1,283,559</b>	<b>\$61,915</b>	<b>\$2,784,277</b>	<b>\$2,221,928</b>
<b>Deductions</b>							
Benefit Payments	44,509	838,372	167,540	494,344	46,754	1,591,519	1,516,064
Refunds	2,062	10,931	2,654	11,816	58	27,521	22,274
Administrative Expenses	721	8,558	1,191	14,324	124	24,918	24,848
Capital Project Expenses	6	67	9	112	1	195	
Total Deductions	47,298	857,928	171,394	520,596	46,937	1,644,153	1,563,186
Net Increase in Plan Assets	67,479	39,740	254,964	762,963	14,978	1,140,124	658,742
<b>Plan Net Assets Held in Trust for Pension Benefits</b>							
Beginning of Year	443,606	3,504,502	1,506,894	4,820,488	264,949	10,540,439	9,881,697
<b>End of Year</b>	<b>\$511,085</b>	<b>\$3,544,242</b>	<b>\$1,761,858</b>	<b>\$5,583,451</b>	<b>\$279,927</b>	<b>\$11,680,563</b>	<b>\$10,540,439</b>

See accompanying notes to the financial statements.

Combined Statement of Plan Net Assets for Insurance Funds (in Thousands)  
as of June 30, 2011 with Comparative Totals as of June 30, 2010

Assets	2011						2010
	KERS Haz	KERS Non-Haz	CERS Haz	CERS Non-Haz	SPRS	Total	Total
<b>Cash and Short-Term Investments</b>							
Cash	\$98	\$943	\$29	\$922	\$24	\$2,016	\$1,028
Short-Term Investments	78,770	90,548	199,213	361,230	29,132	758,893	535,637
Medicare Drug Deposit	11	20	23	42	5	101	100
Total Cash and Short- Short Term Investments	78,879	91,511	199,265	362,194	29,161	761,010	536,765
<b>Receivables</b>							
Contributions	922	9,508	17,463	43,242	591	71,726	25,655
Investment Income	961	1,283	2,234	4,200	388	9,066	7,966
Total Receivables	1,883	10,791	19,697	47,442	979	80,792	33,621
<b>Investments at Fair Value</b>							
Corporate and Government Bonds	63,286	78,502	148,241	277,636	25,924	593,589	276,627
Equity Contracts	15,291	180,855	25,309	303,183	2,636	527,274	426,809
Interest Rate Contracts	974	11,519	1,612	19,311	168	33,584	-
SWAPs	10	113	15	188	2	328	-
Corporate Stocks	147,600	41,591	349,177	382,943	63,413	984,724	1,155,445
Mortgages	12,480	14,994	29,248	54,779	4,946	116,447	-
Real Estate	272	476	579	1,080	116	2,523	615
Total Investments at Fair Value	239,913	328,050	554,181	1,039,120	97,205	2,258,469	1,859,496
Securities Lending Collateral Invested	46,353	60,889	109,577	203,681	18,377	438,877	565,007
<b>Total Assets</b>	<b>\$367,028</b>	<b>\$491,241</b>	<b>\$882,720</b>	<b>\$1,652,437</b>	<b>\$145,722</b>	<b>\$3,539,148</b>	<b>\$2,994,889</b>
<b>Liabilities</b>							
Accounts Payable	2	1,693	4	1,758	26	3,483	3,897
Securities Lending Collateral Obligations	46,353	60,889	109,577	203,681	18,377	438,877	565,007
Total Liabilities	46,355	62,582	109,581	205,439	18,403	442,360	568,904
<b>Plan Net Assets Held in Trust for Pension Benefits</b>	<b>\$320,673</b>	<b>\$428,659</b>	<b>\$773,139</b>	<b>\$1,446,998</b>	<b>\$127,319</b>	<b>\$3,096,788</b>	<b>\$2,425,985</b>

See accompanying notes to the financial statements.

Combined Statement of Changes in Plan Net Assets for Insurance Fund (in Thousands)  
as of June 30, 2011 with Comparative Totals as of June 30, 2010

Additions	2011						2010
	KERS Haz	KERS Non-Haz	CERS Haz	CERS Non-Haz	SPRS	Total	Total
Employers' Contributions	\$18,826	\$123,256	\$98,203	\$185,639	\$10,051	\$435,975	\$371,885
Employer Group Waiver Plan	365	10,025	972	10,449	318	22,129	19,794
Premiums Received from Retirees	329	13,235	317	17,060	18	30,959	29,131
Retired Reemployed Healthcare (HBI)	259	2,591	199	993	-	4,042	2,032
Total Contributions	19,779	149,107	99,691	214,141	10,387	493,105	422,842
<b>Investment Income</b>							
From Investing Activities							
↘ Net Appreciation in FV	40,316	69,615	129,003	255,384	22,724	517,042	274,316
↘ Interest/Dividends	5,729	9,092	12,501	21,577	2,909	51,808	41,076
↘ Total Investing Activities Income	46,045	78,707	141,504	276,961	25,633	568,850	315,392
↘ Investment Expense	843	1,385	2,329	2,347	848	7,752	5,365
↘ Commissions	137	280	265	487	67	1,236	1,200
Total Investing Activities Expense	980	1,665	2,594	2,834	915	8,988	6,565
Net Income from Investing Activities	45,065	77,042	138,910	274,127	24,718	559,862	308,827
From Securities Lending Activities							
↘ Securities Lending Income	199	261	473	879	79	1,891	1,622
From Securities Lending Expense							
↘ Security Borrower Rebates	25	33	60	112	10	240	71
↘ Security Lending Agent Fees	34	45	81	151	14	325	306
Net Income from Securities Lending Activities	140	183	332	616	55	1,326	1,245
Total Net Investment Income	45,205	77,225	139,242	274,743	24,773	561,188	310,072
<b>Total Additions</b>	<b>\$64,984</b>	<b>\$226,332</b>	<b>\$238,933</b>	<b>\$488,884</b>	<b>\$35,160</b>	<b>\$1,054,293</b>	<b>\$732,914</b>
<b>Deductions</b>							
Healthcare Premiums Subsidies	12,723	101,785	46,180	71,859	10,271	242,818	223,356
Administrative Fees	223	4,667	580	4,763	179	10,412	9,703
Self Funding Insurance Costs	2,604	60,019	5,651	60,085	1,901	130,260	130,142
Total Deductions	15,550	166,471	52,411	136,707	12,351	383,490	363,201
Net Increase in Plan Assets	49,434	59,861	186,522	352,177	22,809	670,803	369,713
<b>Plan Net Assets Held in Trust for Insurance Benefits</b>							
Beginning of Year	271,239	368,798	586,617	1,094,821	104,510	2,425,985	2,056,272
<b>End of Year</b>	<b>\$320,673</b>	<b>\$428,659</b>	<b>\$773,139</b>	<b>\$1,446,998</b>	<b>\$127,319</b>	<b>\$3,096,788</b>	<b>\$2,425,985</b>

See accompanying notes to the financial statements.

*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 KRS Sections 16.555, 61.570, and 78.630.*

Under the provisions of Kentucky Revised Statute Section 61.645, the Board of Trustees (the Board) of Kentucky Retirement Systems (KRS) administers the Kentucky Employees Retirement System (KERS), County Employees Retirement System (CERS), and State Police Retirement System (SPRS).

Under the provisions of Kentucky Revised Statute Section 61.701, the Board of 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 KRS: (1) KERS; (2) CERS; and (3) SPRS. The assets of the insurance fund are commingled for investment purposes. The following notes apply to the various funds administered by KRS.

NOTE A.

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## Note A. Summary of Significant Accounting Policies



**KERS**  
Kentucky Employees Retirement System

**CERS**  
County Employees Retirement System

**SPRS**  
State Police Retirement System

**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.

**Methods 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 fiscal years ended June 30, 2011 and 2010 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 fiscal years ended June 30, 2011 and 2010 was \$3,000 (see Note K for further information).

**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, respectively.

**Component Unit** KRS is a component unit of the Commonwealth of Kentucky for financial reporting purposes. KERS was created by the Kentucky General Assembly pursuant to the provisions of Kentucky Revised Statute 61.515. CERS was created by the Kentucky General Assembly pursuant to the provisions of Kentucky Revised Statute 78.520. 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 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 Pronouncements** In November 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 61, "The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34". The objective of this statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, "The Financial Reporting Entity", and the related financial reporting requirements of Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. KRS is currently evaluating the provisions of GASB No. 61.



**GASB**  
Governmental Accounting  
Standards Board



**Haz or Non-Haz**  
Hazardous or Non-Hazardous  
(i.e. KERS Haz or CERS Non-Haz)

## Note B. Plan Descriptions & Contribution Information

### KERS Employees

Members	2011			2010		
	Non-Haz	Haz	Total	Non-Haz	Haz	Total
Retirees and Beneficiaries Receiving Benefits	38,597	3,064	41,661	37,945	2,835	40,780
Inactive Vested Memberships	38,597	3,264	41,861	37,681	3,155	40,836
Active Plan Members	46,617	4,291	50,908	47,090	4,291	51,381
<b>Total</b>	<b>123,811</b>	<b>10,619</b>	<b>134,430</b>	<b>122,716</b>	<b>10,281</b>	<b>132,997</b>
Number of Participating Employers			372			372

### CERS Employees

Members	2011			2010		
	Non-Haz	Haz	Total	Non-Haz	Haz	Total
Retirees and Beneficiaries Receiving Benefits	43,211	6,468	49,679	41,038	6,068	47,106
Inactive Vested Memberships	65,914	2,774	68,688	64,004	2,631	66,635
Active Plan Members	85,285	9,407	94,692	84,681	9,562	94,243
<b>Total</b>	<b>194,410</b>	<b>18,649</b>	<b>213,059</b>	<b>189,723</b>	<b>18,261</b>	<b>207,984</b>
Number of Participating Employers			1,396			1,396

### SPRS Employees

Members	2011		2010	
Retirees and Beneficiaries Receiving Benefits		1,263		1,223
Inactive Vested Memberships		357		345
Active Plan Members		965		961
<b>Total</b>		<b>2,585</b>		<b>2,529</b>
Number of Participating Employers		1		1

2011 Hospital & Medical Contracts  
Insurance Fund

System	Single	Couple/ Family	Parent	Medicare Without Prescription	Medicare With Prescription
KERS Non-Haz	10,321	2,155	732	1,821	13,988
KERS Haz	615	21	75	60	570
CERS Non-Haz	8,013	1,552	351	3,167	15,100
CERS Haz	1,310	2,156	253	58	1,527
SPRS	278	474	52	14	499
<b>Total</b>	<b>20,537</b>	<b>6,358</b>	<b>1,463</b>	<b>5,120</b>	<b>31,684</b>

2010 Hospital & Medical Contracts  
Insurance Fund

System	Single	Couple/ Family	Parent	Medicare Without Prescription	Medicare With Prescription
KERS Non-Haz	10,420	1,971	722	1,831	13,765
KERS Haz	599	453	66	63	525
CERS Non-Haz	7,692	1,369	342	3,106	14,477
CERS Haz	1,274	2,062	239	58	1,438
SPRS	264	462	47	12	467
<b>Total</b>	<b>20,249</b>	<b>6,317</b>	<b>1,416</b>	<b>5,070</b>	<b>30,672</b>

**KERS NON-HAZ PENSION**

*For the fiscal years ended June 30, 2011 and 2010, participating employers contributed 16.98% and 11.61%, respectively, of each [KERS Non-Haz] employee's creditable compensation. The actuarially determined rates as set forth in the annual actuarial valuation for the fiscal years ended June 30, 2011 and 2010, were 38.58% and 39.45%, respectively, of each employee's creditable compensation.*



**COLA**  
Cost of Living Adjustment

**KAR**  
Kentucky Administrative Regulation

**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. Prior to July 1, 2009, cost-of-living adjustments (COLA) were 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 twelve months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than twelve months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the twelve months preceding 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, 2011 and 2010, 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, 2011 and 2010, participating employers contributed 16.98% and 11.61%, respectively, of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June

30, 2011 and 2010, were 38.58% and 39.45%, respectively, of each employee's creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

**House Bill 1** 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.

#### **KERS HAZ PENSION**

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*For the fiscal years ended June 30, 2011 and 2010, participating employers contributed 26.12% and 24.69%, respectively, of each [KERS Haz] employee's creditable compensation. The actuarially determined rates as set forth in the annual actuarial valuation for the fiscal years ended June 30, 2011 and 2010, were 34.37% and 35.54%, respectively, of each employee's creditable compensation.*

**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. Prior to July 1, 2009, cost-of-living adjustments (COLA) were 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 twelve months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than twelve months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the twelve months preceding 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, 2011 and 2010, 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, 2011 and 2010, participating employers contributed 26.12% and 24.69%, respectively, of each



employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2011 and 2010, were 34.37% and 35.54%, respectively, of each employee's creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

**House Bill 1** In accordance with HB 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. 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.

## CERS NON-HAZ PENSION

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*For the fiscal years ended June 30, 2011 and 2010, participating employers contributed 16.93% and 16.16%, respectively, of each [CERS Non-Haz.] employee's creditable compensation. The actuarially determined rates as set forth in the annual actuarial valuation for the fiscal years ended June 30, 2011 and 2010, were 19.81% and 20.91%, respectively.*

**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. 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. Prior to July 1, 2009, cost-of-living adjustments (COLA) were 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 twelve months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than twelve months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the twelve months preceding 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, 2011 and 2010, 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, 2011 and 2010, participating employers contributed 16.93% and 16.16%, respectively, of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2011 and 2010, were 19.81% and 20.91%, respectively. Administrative costs of KRS are financed through employer contributions and investment earnings.

**House Bill 1** 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. 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.

*For the fiscal years ended June 30, 2011 and 2010, participating employers contributed 33.25% and 32.97%, respectively, of each [CERS Haz] employee's creditable compensation. The actuarially determined rates as set forth in the annual actuarial valuation for the fiscal years ended June 30, 2011 and 2010, were 40.06% and 43.36%, respectively, of each employee's creditable compensation.*

**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 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. Prior to July 1, 2009, cost-of-living adjustments (COLA) were 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 twelve months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than twelve months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the twelve months preceding 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, 2011 and 2010, 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, 2011 and 2010, participating employers contributed 33.25% and 32.97%, respectively, of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2011 and 2010, were 40.06% and

43.36%, respectively, of each employee's creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

**House Bill 1** 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.

*For the fiscal years ended June 30, 2011 and 2010, the Commonwealth contributed 45.54% and 33.08%, respectively, of each [SPRS] employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2011 and 2010 were 85.63% and 92.12%, respectively, of each employee's creditable compensation.*

**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. Prior to July 1, 2009, cost-of-living adjustments (COLA) were 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 twelve months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than twelve months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the twelve months preceding 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, 2011 and 2010, 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, 2011 and 2010, the Commonwealth contributed 45.54% and 33.08%, respectively, of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2011 and 2010 were 85.63% and 92.12%, respectively, of each employee's creditable compensation. Administrative

costs of KRS are financed through employer contributions and investment earnings.

**House Bill 1** 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.

*For fiscal 2011, insurance premiums withheld from benefits for members of KERS were \$29,350,195 and \$1,225,236 for KERS non-haz and KERS haz, respectively; \$29,219,273 and \$2,017,208 for CERS non-haz and CERS haz, respectively; and, \$250,282 for SPRS.*

**Plan Description** The KRS Insurance 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, 2011, insurance premiums withheld from benefit payments for members of the systems were \$29,350,195 and \$1,225,236 for KERS non-hazardous and hazardous, respectively; \$29,219,273 and \$2,017,208 for CERS non-hazardous and hazardous, respectively; and, \$250,282 for SPRS. For fiscal 2010, insurance premiums withheld from benefit payments for members of KERS were \$29,181,932 and \$1,665,204 for KERS non-hazardous and KERS hazardous, respectively; \$29,677,911 and \$1,804,656 for CERS non-hazardous and CERS hazardous, respectively; and, \$234,577 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, 2011, the Fund had 92,989 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 as follows.

#### Portion Paid by Insurance Fund

Years of Service	Paid by Insurance Fund (%)
20+ years	100%
15-19 years	75%
10-14 years	50%
4-9 years	25%
Less than 4 years	0%

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.

**Self-Funding** KRS commenced self-funding of healthcare benefits for its Medicare eligible retirees on January 1, 2006. A self-funded plan is one in which KRS assumes the financial risk for providing healthcare benefits to its retirees. The 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. KRS funds the risk of its self-insured program directly from its insurance assets.

**Administrators** KRS selected Catalyst Rx and UMR to administer the pharmaceutical and medical benefits, respectively, for its retirees. 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' size, nature of its business, financials, and tolerance for risk. KRS continues to evaluate the use of stop-loss insurance.



## Note C. Cash, Short-Term Investments & 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

### Cash & Short-Term Investments KERS

Assets	2011	2010
Cash	\$1,197,306	\$901,440
Short-Term Investments	387,987,312	193,075,338
Securities Lending Collateral Invested	596,906,253	847,326,415
<b>KERS Total</b>	<b>\$986,090,871</b>	<b>\$1,041,303,193</b>

### CERS

Assets	2011	2010
Cash	\$1,250,932	\$984,279
Short-Term Investments	892,898,087	388,391,558
Securities Lending Collateral Invested	1,082,381,468	1,355,857,873
<b>CERS Total</b>	<b>\$1,976,530,487</b>	<b>\$1,745,233,710</b>

### SPRS

Assets	2011	2010
Cash	\$292,029	\$149,615
Short-Term Investments	28,452,304	19,635,485
Securities Lending Collateral Invested	41,306,830	56,955,523
<b>SPRS Total</b>	<b>\$70,051,163</b>	<b>\$76,740,623</b>

### KRS Insurance Fund

Assets	2011	2010
Cash	\$2,015,579	\$1,029,033
Short-Term Investments	758,893,370	535,639,023
Medicare Drug Deposit	100,620	100,466
Securities Lending Collateral Invested	438,877,452	565,007,164
<b>Insurance Fund Total</b>	<b>\$1,199,887,021</b>	<b>\$1,101,775,666</b>

## 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.

**Private Equity, Equity Real Estate, Real Return, Absolute Return Investments** 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, but not limited to and without limitation, venture capital, private equity, private placements, real assets and absolute return investments which the Investment Committee believes have 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, variable rate demand notes, government and agency bonds, mortgages, and collective STIFs, 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 at the time of purchase by at least one recognized bond rating service. In cases where the instrument has a split rating, the lower of the two ratings shall prevail. 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. Variable rate securities shall be deemed to have a maturity equal to the time left until the next interest rate reset occurs, but in no case will any security have a stated final maturity of more than three years.

**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



**CMO**  
Collateralized Mortgage Obligation

**STIF**  
Short Term Investment Fund

**IO**  
Interest Only

**PO**  
Principal Only

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 unless specifically allowed by a managers contract. In conjunction with the adoption of Governmental Accounting

Standards Board (GASB) Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", KRS provides this additional disclosure regarding its derivatives:

**Background Info** As of June 30, 2011, KRS has the following derivative instruments outstanding (see table below). All have various Effective Dates and Maturity Dates.

Item	Type	Objective	Terms	Cost	Notional Cost	Market Value	Notional Market Value
<b>Pension</b>							
A	Equity Contracts	Substitute for common stock	Various	\$460,878	-	\$68,921	\$868,796,035
B	Foreign Exchange Contracts	Hedge against the decrease of non US dollar currencies	Various	-	-	(\$29,317,818)	-
C	Interest Rate Contracts	Hedge against the risk that interest rates will move in an adverse direction	Various	-	\$367,665,325	-	\$368,603,638
D	SWAPs	Hedge against sudden or dramatic shifts in interest rates	Various	(\$677,925)	-	(\$1,982,285)	-
<b>Insurance</b>							
E	Equity Contracts	Substitute for common stock	Various	-	-	-	\$527,274,305
F	Foreign Exchange Contracts	Hedge against the decrease of non US dollar currencies	Various	-	-	(\$11,307,268)	-
G	Interest Rate Contracts	Hedge against the risk that interest rates will move in an adverse direction	Exchange occurs once maturity date reached	-	\$33,530,613	-	-
H	SWAPs	Hedge against sudden or dramatic shifts in interest rates	Various	\$100,634	-	\$296,233	\$33,584,200

**Derivative Policy** It is the policy of KRS that investment managers may invest in derivative securities, or strategies which make use of derivative investments, only if such investments do not cause the portfolio to be in any way leveraged beyond a 100% invested position. Examples of such derivatives include, but are not limited to, foreign currency forward contracts, collateralized mortgage obligations, treasury inflation protected securities, futures, options and swaps. Investments in derivative securities which are subject to large or unanticipated changes in duration or cash flows, such as interest only, principal only, inverse floater, or structured note securities are permitted only to the extent authorized in an alternative investment offering memorandum or agreement.

**CMOs** Investments in securities such as collateralized mortgage obligations and planned amortization class issues

are allowed if, in the judgment of the investment manager, they are not expected to be subject to large or unanticipated changes in duration or cash flows. Investment managers may make use of derivative securities for defensive or hedging purposes. Any derivative security shall be sufficiently liquid that it can be expected to be sold at, or near, its most recently quoted market price.

Derivative instruments A and E are substitutes for common stock with an investment that is recorded at fair value. Derivative instruments B and F hedge against the decrease of non US dollar currencies. For accounting and financial reporting purposes, all derivative instruments are considered investment derivative instruments. The derivatives have been segregated on the Combined Statement of Plan Net Assets for both Pension and Insurance.

## RISKS

**Basis Risk** Derivative instruments A and E expose KRS to basis risk in that the value of the underlying equity index future may decrease in fair value relative to the cash market. Derivative instruments B and F expose KRS to basis risk in that the value of the foreign currency futures or forwards may decrease in fair value relative to the cash market.

**Interest Rate Risk** Derivative instruments C, D, G, and H expose KRS to interest rate risk in that changes in interest rates will adversely affect the fair values of KRS' financial instruments.

**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). In 2010, the US Congress passed the Financial Crisis Bill and permanently increased the FDIC deposit insurance coverage to \$250,000. 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. These funds are cash held by KRS' Global Managers and consist of various currencies.

As of June 30, 2011 and 2010, deposits for KRS pension funds were \$4,795,307 and \$5,481,332, respectively. None of these balances were exposed to custodial credit risk as they were either insured or collateralized at required levels.

As of June 30, 2011 and 2010, deposits for KRS insurance fund were \$2,020,499 and \$1,023,289, 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 with regards to Custodial Credit Risk for investments. As of June 30, 2011 and 2010, 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. These funds are cash held by KRS' Global Managers and consist of various currencies.

### Custodial Credit Risk

Pension Fund	2011	2010
Foreign Currency	\$8,971,696	\$9,439,108
Insurance Fund		
Foreign Currency	\$3,703,274	\$3,106,813

**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 contains the specific guidelines for the investment of pension and insurance assets. Additionally, the Committee establishes specific investment guidelines in the Investment Management Agreement for each investment management firm.



Pension Fund Investments Summary  
As of June 30, 2011 & 2010

Type	2011	2010
US Gov't & Agency Fixed Income Securities	\$2,474,974,219	\$2,585,430,034
US Corporate Fixed Income Securities	1,063,223,703	689,815,783
Municipal Debt Securities	78,975,354	57,330,669
Short-Term Investments	1,677,941,341	601,104,211
Equity Securities	5,994,749,969	4,931,386,776
Private Equity Limited Partnerships	1,392,099,971	1,547,888,010
Real Estate	32,251,271	15,075,788
Other*	(1,220,227,180)	(59,897)
<b>Total</b>	<b>\$11,493,988,648</b>	<b>\$10,427,971,374</b>

\*This balance consists of the following

Type	Balances
Cash Collateral - US Dollars	\$2,570,028
Sukuk	94,750
Real Estate	16,500,000
Derivative Offsets	
↘ US Dollars	(368,603,638)
↘ Equity Futures	(868,796,035)
<b>Derivative Offsets Total</b>	<b>\$(1,237,399,673)</b>
Liabilities	
↘ Obligation to Return Cash Collateral - US Dollars	(1,992,285)
<b>Total</b>	<b>\$(1,220,227,180)</b>

Insurance Fund Investments Summary  
As of June 30, 2011 & 2010

Type	2011	2010
US Gov't & Agency Fixed Income Securities	\$537,586,644	\$276,626,088
US Corporate Fixed Income Securities	154,320,004	-
Municipal Debt Securities	14,331,627	-
Short-Term Investments	792,578,190	535,739,469
Equity Securities	1,847,247,012	1,385,112,612
Private Equity Limited Partnerships	225,938,724	197,141,097
Real Estate	2,522,855	614,468
Other**	(557,062,260)	-
<b>Total</b>	<b>\$3,017,462,796</b>	<b>\$2,395,233,734</b>

\*\*This balance consists of the following

Type	Balances
Cash Collateral - US Dollars	\$328,313
Real Estate	3,500,000
Derivative Offsets	
↘ US Dollars	(33,584,200)
↘ Equity Futures	(527,274,305)
<b>Derivative Offsets Total</b>	<b>\$(560,858,505)</b>
Liabilities	
↘ Swaps - US Dollars	(32,068)
<b>Total</b>	<b>\$(557,062,260)</b>

**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:

- ☛ Bonds, notes or other obligations issued or guaranteed by the US Government, its agencies or instrumentalities are permissible and may be held without restrictions.
- ☛ The duration of the total fixed income portfolio shall

not deviate from the KRS Fixed Income Index by more than 25%.

- ☛ 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 15% of the market value of the aggregate market value of KRS' fixed income investments.

Pension Fund Debt Securities at Fair Value  
as of June 30, 2011 & 2010

Quality Rating	2011	2010
AAA	\$91,317,082	\$1,863,001,127
AA+	34,390,755	48,288,094
AA	39,864,586	30,226,149
AA-	50,219,759	46,648,330
A+	104,187,245	59,293,411
A	146,999,473	156,019,707
A-	152,567,548	72,715,716
BBB+	64,799,988	59,200,990
BBB	112,518,837	-
BBB-	56,358,144	144,675,132
BB+	\$7,166,376	2,206,904
BB	13,417,689	10,978,677
BB-	28,485,658	2,475,945
B+	27,997,068	4,457,839
B	21,129,569	-
B-	32,172,492	15,903,098
CCC+	6,138,146	-
CCC	8,838,429	2,836,252
CCC-	1,590,633	-
CC	-	1,843,910
D	3,394,737	-
NR	138,644,843	70,462,745
<b>Total Credit Risk Debt Securities</b>	<b>\$1,142,199,057</b>	<b>\$2,591,234,026</b>
Government Bonds	508,207,024	115,820,255
Government Mortgage-Backed Securities (GNMA)	725,318,403	575,722,459
Government Issued Commercial Mortgage Backed	6,325,040	4,631,391
Government Agencies	95,545,823	6,265,527
Indexed Linked Bonds	1,139,577,929	38,894,681
<b>Total Debt Securities</b>	<b>\$3,617,173,276</b>	<b>\$3,332,568,339</b>

**Pension Fund Securities**

At both June 30, 2011 and 2010, the weighted average quality rating of the pension fund debt securities portfolio was AA+. As of June 30, 2011 and 2010, the KRS pension portfolio had \$150,330,797 and \$40,702,625, respectively, in debt securities rated below BBB-. The fair value of securities in the BBB- rating category was \$56,358,144 and \$144,675,132, respectively, as of June 30, 2011 and 2010.

Insurance Fund Debt Securities at Fair Value  
as of June 30, 2011 & 2010

Quality Rating	2011	2010
AAA	\$43,946,738	-
AA+	2,359,902	-
AA	7,044,017	-
AA-	7,138,193	-
A+	20,243,053	-
A	18,381,398	-
A-	21,875,607	-
BBB+	7,975,298	-
BBB	15,146,772	-
BBB-	7,256,147	-
BB+	202,742	-
BB	1,156,866	-
BB-	1,916,666	-
B+	3,169,797	-
B	2,226,250	-
B-	2,486,016	-
CCC+	259,375	-
NR	8,352,810	-
<b>Total Credit Risk Debt Securities</b>	<b>\$168,651,631</b>	<b>-</b>
Government Bonds	94,082,811	-
Government Mortgage-Backed Securities (GNMA)	114,153,699	-
Government Issued Commercial Mortgage Backed	761,681	-
Government Agencies	13,394,544	-
Indexed Linked Bonds	315,193,909	276,626,088
<b>Total Debt Securities</b>	<b>\$706,238,275</b>	<b>\$276,626,088</b>

**Insurance Fund Securities**

As a result of the most recently approved Asset/Liability Modeling Study, the investment staff began to diversify the insurance fixed income allocation to mirror that of the pension funds. As part of this process, the TIPS allocation (previously the only fixed income exposure within the insurance portfolio) was moved to the newly created Real Return Asset Class.

*As of June 30, 2011, the Pension Funds held \$847,510,267, or 8.3%, and the Insurance Fund held \$184,842,522, or 8.2%, of its investments in Exchange Traded Funds.*

**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% of the total portfolio at market value.

As of June 30, 2011, the Pension Funds held \$847,510,267, or 8.3%, and the Insurance Fund held \$184,842,522, or 8.2%, of its investments in Exchange Traded Funds (ETF's). 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.



**ETF**  
Exchange Traded Fund

**Fannie Mae**  
Federal National Mortgage Association

As of June 30, 2011, the Pension Fund held \$457,059,745, or 4.5%, of its investment in the Federal National Mortgage Association (Fannie Mae). 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 KRS pension fund 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. As of June 30, 2011 and 2010, the effective duration of the benchmark was 6.03 and 5.35, respectively. At the same points in time, the effective duration of the KRS pension fund debt securities portfolio was 3.83 and 4.57, respectively.

## Pension Fund Interest Rate Risk

Type	2011	Weighted Average Effective Duration	2010	Weighted Average Effective Duration
Asset Backed Securities	\$86,628,031	0.64	\$80,459,816	0.93
Bank Loans	\$41,962,680	0.35	-	-
Collateralized Bonds	\$6,325,040	-0.22	-	-
Commercial Mortgage Backed Securities	\$88,520,168	4.68	78,536,394	4.68
Corporate Bonds	\$735,281,195	4.78	513,442,002	5.53
Government Agencies	\$93,545,823	3.97	68,928,647	4.85
Government Bonds	\$508,207,024	4.73	915,274,910	5.40
Government Mortgage Backed Securities	\$707,971,763	2.91	576,152,433	2.18
Government Issued Commercial Mortgage Backed Securities	\$5,211,936	3.22	4,631,391	3.31
Guaranteed Fixed Income	\$18,882,082	1.37	45,610,184	2.01
Indexed Linked Government Bonds	\$1,139,577,929	3.68	967,658,299	4.95
Municipal Bonds	\$78,975,354	10.54	57,330,669	11.36
Non-Government Backed CMOs	\$15,576,827	1.83	17,369,425	1.45
Other Fixed Income	-	-	7,174,169	0.38
Short Term Bills/Notes	\$90,412,674	0.38	-	-
Sukuk	\$94,750	0.09	-	-
<b>Total</b>	<b>\$3,617,173,276</b>	<b>3.83</b>	<b>\$3,332,568,339</b>	<b>4.57</b>

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 a weighted average benchmark consisting of the Barclays Capital Aggregate Index and the Barclays Capital US TIPS Index (beginning April 2011). At June 30, 2011 and 2010 (the previous benchmark), the modified duration of the benchmark was 7.14 and 5.26, respectively. At the same points in time, the modified duration of the KRS insurance fund debt securities portfolio, excluding the pooled fund, was 5.83 and 7.12, respectively.

*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.*



Insurance Fund Debt Securities Investments at Fair Value as of June 30, 2011 & 2010

Investment	2011		2010	
	Fair Value	Weighted Duration	Fair Value	Weighted Duration
Asset Backed Securities	\$1,000,340	1.73	-	-
Bank Loans	\$5,808,008	3.58	-	-
Commercial Mortgage	\$11,977,676	4.42	-	-
Corporate Bonds	\$69,145,598	5.78	-	-
Government Agencies	\$13,394,544	4.34	-	-
Government Bonds	\$94,082,811	4.79	-	-
Government Mortgage Backed Securities	\$114,153,699	4.19	-	-
Government Issued Commercial Mortgages	\$534,001	3.51	-	-
Guaranteed Fixed Income	\$4,439,819	1.85	-	-
Index Linked Government Bonds	\$315,193,909	7.78	\$276,626,088	8.24
Municipal/Provincial Bonds	\$14,331,627	10.74	-	-
Non-Government Backed CMOs	\$2,293,809	3.47	-	-
Short Term Bills/Notes	\$59,882,434	0.39	-	-
<b>Total</b>	<b>\$706,238,275</b>	<b>5.83</b>	<b>\$276,626,088</b>	<b>8.24</b>

*Foreign currency risk is the risk that changes in exchange rates will adversely affect the value of a non-US dollar based investment or deposit with the KRS portfolio.*

**Foreign Currency Risk**

Foreign currency risk is the risk that changes in exchange rates will adversely affect the value of a non-US dollar based investment or deposit with the KRS portfolio. KRS' currency risk exposure, or exchange rate risk, primarily resides with KRS' international equity holdings, but also affects other asset classes. KRS does not have a formal policy to limit foreign currency risk, however, KRS employs a third party vendor to hedge major currency exposures as described below.

All foreign currency transactions are classified as Short-Term Investments. All gains and losses associated with these transactions are recorded in the Net Appreciation (Depreciation) in the Fair Value of Investments on the financial statements.

KRS transferred \$12,043,264 of the Pension Funds, and \$4,197,722 of the Insurance Fund, to the Record Currency Management Program (RCM), a total of \$16,243,160. The RCM program began in September 2009. The RCM account experienced a tremendous amount of growth through May 2011 when it peaked with a market value of \$82,001,355 in the Pension Funds, and \$30,026,900 in the Insurance Fund, a total of \$112,028,255. It began to lose ground in June 2011, which led to a loss of \$6,752,497 in the Pension Funds, and \$3,516,224 in the Insurance Fund, for a total overall RCM loss of \$10,268,721 in fiscal 2011.

KRS employs a currency manager to hedge some exchange rate risk by utilizing a trend following strategy which increases or decreases the currency hedge ratio as risk increases or decreases. The following tables present KRS' exposure to foreign currency risk as of June 30, 2011 and 2010.



**RCM**  
Record Currency  
Management Program

Pension Fund Investments at Fair Value as of June 30, 2011 & 2010

<b>Foreign Equities</b>	<b>2011</b>	<b>2010</b>
Argentine Peso	\$1,196,140	-
Australian Dollar	94,694,698	\$25,036,391
Brazilian Real	4,278,639	2,694,860
British Pound Sterling	134,777,442	16,602,057
Canadian Dollar	134,071,078	114,533,022
Chinese Yuan	521,787	-
Columbian Peso	1,222,930	-
Czech Koruna	1,658,886	157,720
Danish Krone	16,152,506	10,286,579
Euro	433,029,933	(30,181,148)
Hong Kong Dollar	68,788,630	37,363,932
Hungarian Forint	-	221,870
Indonesian Rupiah	2,243,714	303,437
Japanese Yen	265,405,175	277,826,132
Malaysian Ringgit	2,426,541	387,001
Mexican Peso	3,661,558	835,982
New Taiwan Dollar	5,254,844	7,634,477
New Zealand Dollar	1,338,143	-
Norwegian Krone	11,346,709	8,531,898
Philippine Peso	138,885	-
Polish Zloty	-	1,761,559
Russian Ruble	1,036,961	-
Singapore Dollar	22,053,536	22,180,537
South African Rand	2,758,884	3,216,614
South Korean Won	4,512,110	2,920,668
Swedish Krona	23,544,658	2,732,084
Swiss Franc	95,068,382	21,699,339
International Equity Mutual Fund (various currencies)	920,141,284	795,533,850
<b>Total Securities Subject to Foreign Currency Risk</b>	<b>\$2,274,946,954</b>	<b>\$1,322,278,861</b>
USD (securities held by International Investment Managers)	1,659,713,681	840,612,985
<b>Total International Investment Securities</b>	<b>\$3,911,037,734</b>	<b>\$2,162,891,846</b>

## Insurance Fund Investments at Fair Value as of June 30, 2011 & 2010

<b>Foreign Equities</b>	<b>2011</b>	<b>2010</b>
Australian Dollar	\$37,342,712	\$9,589,648
Brazilian Real	607,112	1,003,876
British Pound Sterling	50,278,435	8,051,772
Canadian Dollar	53,058,136	43,845,544
Czech Koruna	427,698	67,148
Danish Krone	5,937,869	4,042,009
Euro	167,585,939	(7,500,903)
Hong Kong Dollar	24,192,383	13,824,640
Hungarian Forint	71	75,604
Indonesian Rupiah	2,832	105,386
Japanese Yen	104,116,859	104,237,243
Malaysian Ringgit	-	29,102
Mexican Peso	370,341	278,282
New Taiwan Dollar	1,351,967	2,302,510
New Zealand Dollar	556,742	-
Norwegian Krone	4,589,032	3,174,376
Polish Zloty	-	684,280
Singapore Dollar	8,739,442	8,164,651
South African Rand	307,167	1,145,561
South Korean Won	1,165,059	980,970
Swedish Krona	8,758,300	1,109,872
Swiss Franc	36,824,057	8,941,929
International Equity Mutual Fund (various currencies)	199,878,520	101,560,347
<b>Total Securities subject to Foreign Currency Risk</b>	<b>\$706,090,673</b>	<b>\$305,713,847</b>
USD (securities held by International Investment Managers)	524,261,020	310,656,636
<b>Total International Investment Securities</b>	<b>\$1,230,351,693</b>	<b>\$616,370,483</b>

### NOTE E.

## 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 does not address any restrictions on the amount of loans that can be made. At June 30, 2011, 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. The custodial bank invests cash collateral in the agent's short-term investment pool as permitted by state statute and Board policy. The custodian of the Funds cannot pledge or sell collateral securities received unless the borrower defaults.

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.

NOTE F.

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## Note F. Risk 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 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 \$200,000. 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.

**Job-Related Illness** 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 (66⅔%) 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, generally, not subject to tax. KRS continues to be subject to income tax on its unrelated business income.

## Note I. Defined Benefit Pension Plan



**KERS**  
Kentucky Employees Retirement System

**CERS**  
County Employees Retirement System

**SPRS**  
State Police Retirement System

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, 2011, 2010, and 2009. KRS contributed 16.98%, 11.61%, and 10.01% of covered payroll for the periods ended June 30, 2011, 2010, and 2009, respectively. The chart below includes the covered payroll and contribution amounts for KRS for the three periods included in this discussion.

### Payroll & Contributions

	2011	2010	2009
Covered Payroll	\$13,444,315	\$13,383,859	\$12,864,700
Required Employer Contributions	\$2,282,864	\$1,553,865	\$1,287,800
Employer Percentage Contributed	100%	100%	100%

## Note J. Equipment

### Equipment Expenses as of June 30

Expense	2011	2010
Equipment At-Cost	\$6,971,185	\$6,795,760
Less Accumulated Depreciation	(2,987,098)	(2,924,895)
<b>Total</b>	<b>\$3,984,087</b>	<b>\$3,870,865</b>

Depreciation expense for the fiscal years ended June 30, 2011 and 2010 amounted to \$62,203 and \$215,200, respectively. In fiscal 2010, several fixed assets were fully depreciated (this amount totaled \$988,347), therefore, depreciation expense decreased from the prior fiscal year.

## Note K. Intangible Assets



**GASB**  
Governmental Accounting  
Standards Board

**START**  
Strategic Technology Advancements for  
the Retirement of Tomorrow

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 Strategic Technology Advancements for the Retirement of Tomorrow (START) project.

### Software Expenses as of June 30

Expense	2011	2010
Software At-Cost	\$7,424,611	\$6,478,561
Less Accumulated Amortization	(1,682,261)	(993,788)
<b>Total</b>	<b>\$5,742,350</b>	<b>\$5,484,773</b>

Amortization expense for the fiscal years ended June 30, 2011 and 2010 amounted to \$688,473 and \$647,857, respectively.

**START Project** In fiscal 2007, KRS initiated the START project. It is anticipated that START will be completed in its entirety in fiscal 2013. 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.



**EPCRS**  
Employee Plans Compliance  
Resolution System

*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.*

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 was 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 Fund 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 Forrester 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 was 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 \$52,503.

The Kentucky Finance and Administration Cabinet, Office of Policy and Audit, completed a comprehensive audit of the 1300 Louisville Road property purchased and issued a report in July 2009. KRS has fully implemented the recommendations contained in the report.

## Note M. Actuarial Valuation



### Haz

Hazardous (i.e. KERS Haz)

### Non-Haz

Non-Hazardous (i.e. CERS Non-Haz)

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 Fund Valuation

	Non-Haz	Haz
Valuation Date	June 30, 2011	June 30, 2011
Actuarial Cost Method	Entry Age	Entry Age
Amortization Method	Level Percent Closed	Level Percent Closed
Remaining Amortization Period	26 Years	26 Years
Asset Valuation Method	Five-year Smoothed Market	Five-year Smoothed Market
<b>Actuarial Assumptions</b>		
Investment Rate of Return	7.75%	7.75%
↘ Includes Price Inflation at	3.5%	3.5%
Projected Salary Increases	4.75-13.0%	4.5-20.0%
↘ Includes Wage Inflation at	4.5%	4.5%
Cost of Living Adjustment	None	None

### Insurance Fund Valuation<sup>1</sup>

	Non-Haz	Haz
Valuation Date	June 30, 2011	June 30, 2011
Actuarial Cost Method	Entry Age	Entry Age
Amortization Method	Level Percent Closed	Level Percent Closed
Remaining Amortization Period	26 Years	26 Years
Asset Valuation Method	Five-year Smoothed Market	Five-year Smoothed Market
Medical Trend Assumption (Pre-Medicare)	10.5-5.0%	10.5-5.0%
Medical Trend Assumption (Post-Medicare)	8.5-5.0%	8.5-5.0%
Year of Ultimate Trend	2019	2019
<b>Actuarial Assumptions</b>		
Investment Rate of Return	7.75% <sup>2</sup>	7.75%
↘ Includes Price Inflation at	3.5%	3.5%

<sup>1</sup>The actuarial valuation for the Insurance Fund involves estimates of the value of reported amounts and assumptions about the probability of future events. Actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Calculations are based on the benefits provided under the terms of the insurance plan in effect at the time of each valuation and on the pattern of sharing costs between the employer and plan members as of the valuation date. Actuarial calculations of the insurance plan reflect a long-term perspective.

<sup>2</sup>The actuarial investment rate of return for developing insurance liabilities and contribution rates is 4.5% for the Kentucky Employees Retirement System (non-hazardous) and the State Police Retirement System. The lower rate is required under the parameters set by the Governmental Accounting Standards Board (GASB) Statements 43 and 45 given the lack of pre-funding of insurance benefits.



**Unfunded Actuarial Accrued Liability** KRS had the following Unfunded Actuarial Accrued Liabilities as of June 30 2011 and 2010:

Unfunded Actuarial Accrued Liabilities as of June 30  
Pension Fund



**Haz**  
Hazardous (i.e. KERS Haz)

**Non-Haz**  
Non-Hazardous (i.e. CERS Non-Haz)

**AAL**  
Actuarial Accrued Liability

System	2011	2010
KERS Non-Haz	\$7,455,155,945	\$6,794,579,504
KERS Haz	210,544,939	185,420,442
CERS Non-Haz	3,288,473,842	2,912,164,989
CERS Haz	1,079,495,659	922,687,519
SPRS	348,798,770	307,867,514
<b>Total Pension Funds</b>	<b>\$12,382,469,455</b>	<b>\$11,122,719,968</b>

Unfunded Actuarial Accrued Liabilities as of June 30  
Insurance Fund

System	2011	2010
KERS Non-Haz	\$3,828,469,191	\$3,994,794,413
KERS Haz	177,097,152	178,870,233
CERS Non-Haz	1,640,522,412	1,865,301,581
CERS Haz	876,912,481	981,933,446
SPRS	314,740,474	313,785,412
<b>Total Insurance Funds</b>	<b>\$6,837,741,710</b>	<b>\$7,334,685,085</b>
<b>Total Unfunded Actuarial Accrued Liability</b>	<b>\$19,220,210,865</b>	<b>\$18,457,405,053</b>

*The Schedule of Funding Progress for Pension Funds begins on page 56. The Schedule of Funding Progress for the Insurance Fund begins on page 58.*

Pension Fund Schedule of Funding Progress

System	Actuarial Value of Assets	AAL Entry Age Normal	Funded	Covered Payroll	Unfunded as a % of Covered Payroll
KERS Non-Haz	\$3,726,986,087	\$11,182,142,032	33.3%	\$1,731,632,748	430.5%
KERS Haz	510,748,505	721,293,444	70.8	133,053,792	158.2
CERS Non-Haz	5,629,611,183	8,918,085,025	63.1	2,276,595,948	144.4
KERS Haz	1,779,545,393	2,859,041,052	62.2	466,963,860	231.2
SPRS	285,580,631	634,379,401	45.0	48,692,616	716.3
<b>Total Pension Funds</b>	<b>\$11,932,471,799</b>	<b>\$24,314,940,954</b>	<b>49.1%</b>	<b>\$4,656,938,964</b>	<b>265.9%</b>

## Insurance Fund Schedule of Funding Progress

System	Actuarial Value of Assets	AAL Entry Age Normal	Funded	Covered Payroll	Unfunded as a % of Covered Payroll
KERS Non-Haz	\$451,620,442	\$4,280,089,633	10.6%	\$1,731,632,748	221.1%
KERS Haz	329,961,615	507,058,767	65.1	133,053,792	133.1
CERS Non-Haz	1,433,450,793	3,073,973,205	46.6	2,276,595,948	72.1
CERS Haz	770,790,274	1,647,702,755	46.8	466,963,860	187.8
SPRS	123,687,289	438,427,763	28.2	48,692,616	646.4
<b>Total Pension Funds</b>	<b>\$3,109,510,413</b>	<b>\$9,947,252,123</b>	<b>31.3%</b>	<b>\$4,656,938,964</b>	<b>146.8%</b>
<b>Totals</b>	<b>\$15,041,982,212</b>	<b>\$34,262,193,077</b>	<b>43.9%</b>	<b>\$9,313,877,928</b>	<b>206.4%</b>

### NOTE N.

## 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** 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 Rates** Employer contribution rates for KERS and SPRS for fiscal 2011 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 2011 were enacted by House Bill 1 in the 2008 Special Legislative Session. The Employer contribution rates were established as follows (effective July 1, 2010):

### Employer Contribution Rates Fiscal Year 2011

System	Rate
KERS Non-Haz	16.98%
KERS Haz	26.12%
CERS Non-Haz	16.93%
KERS Haz	33.25%
SPRS	45.54%

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** 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.



**COLA**  
Cost of Living Adjustment

**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 Option 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 who is 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.

## 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 (Northern Trust). As of June 30, 2011 and 2010, the Insolvency Account amounted to \$100,620 and \$100,446, respectively.

NOTE P.

## Note P. Reimbursement of Retired-Reemployed Health Insurance

As a result of the passage of House Bill 1 on September 1, 2008, if a retiree is reemployed 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. As of June 30, 2011 and 2010, the reimbursement totaled \$4,041,974 and \$2,032,659, respectively.



**PDP**  
Prescription Drug Plan

## Note Q. Louisville/Jefferson County Metro Firefighters

Firefighter employees of Louisville/Jefferson County Metro Government were awarded a total of \$28,440,159 for back-pay. Of that total, \$28,425,232, was determined to be the amount of creditable compensation. The total contributions owed to KRS were calculated by applying the contribution rate in effect for each fiscal year awarded (fiscal 1986 to fiscal 2009) while considering the appropriate participation status, hazardous or non-hazardous, of each employee. These calculations established that the total employer contribution owed is \$5,113,511, and the total employee contribution owed is \$2,083,310, for a total of \$7,196,821. This amount was received on July 27, 2010.

KRS also calculated the impact of the increased final compensation caused by the retroactive benefits owed to those firefighters who have already initiated their retirement benefits. KRS will be required to pay retroactive benefit payments totaling \$6,221,219, reflecting additional benefits due to the increase in final compensation. This liability was properly accounted for in fiscal 2011. The liability was paid on August 22, 2010, by issuance of benefit payments to the individual firefighter members.

Kentucky Revised Statute 61.675(3)(b) requires that KRS collect interest on unmade or delinquent contributions. The interest owed by the Metro Government, as calculated by KRS' actuaries, amounted to \$12,020,731. Therefore, the total amount due KRS is \$19,217,552. As stated earlier, \$7,196,821 has been received.

## Note R. Subsequent Events



**AAL**  
Actuarial Accrued Liability

**UAAL**  
Unfunded Actuarial Accrued Liability

Management has evaluated the period from June 30, 2011, to November 17, 2011, (the date the financial statements were available to be issued) for items requiring recognition or disclosure in the financial statements. There were no events occurring during the evaluation period that require disclosure, and there were no events that require recognition in the financial statements.



# Required Supplementary Information

## Schedule of Funding Progress for KERS Pension Funds

Year Ended**	Actuarial Value of Assets (a)	AAL Entry Age Normal (b)	UAAL (b-a)	Funded (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll [(b-a)/c]
<b>Non-Hazardous</b>						
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
June 30, 2010	4,210,215,585	11,004,795,089	6,794,579,504	38.3	1,815,146,388	374.3
June 30, 2011	3,726,986,087	11,182,142,032	7,455,155,945	33.3	1,731,632,748	430.5
<b>Hazardous</b>						
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
June 30, 2010	502,729,009	688,149,451	185,420,442	73.1	143,557,944	129.2
June 30, 2011	510,748,505	721,293,444	210,544,239	70.8	133,053,792	158.2
<b>Total</b>						
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	\$3,681,411,635	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%
June 30, 2010	\$4,712,944,594	\$11,692,944,540	\$6,979,999,946	40.3%	\$1,958,704,332	356.4%
June 30, 2011	\$4,237,734,592	\$11,903,435,476	\$7,665,700,884	35.6%	\$1,864,686,540	411.1%

\*\* Covered payroll was actuarially computed

## Schedule of Funding Progress for CERS Pension Funds

Year Ended**	Actuarial Value of Assets (a)	AAL Entry Age Normal (b)	UAAL (b-a)	Funded (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll [(b-a)/c]
<b>Non-Hazardous</b>						
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
June 30, 2010	5,546,857,291	8,459,022,280	2,912,164,989	65.6	2,236,855,380	130.2
June 30, 2011	5,629,611,183	8,918,085,025	3,288,473,842	63.1	2,276,595,948	144.4
<b>Hazardous</b>						
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
June 30, 2010	1,749,464,388	2,672,151,907	922,687,519	65.5	466,548,660	197.8
June 30, 2011	1,779,545,393	2,859,041,052	1,079,495,659	62.2	466,963,860	231.2
<b>Total</b>						
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%
June 30, 2010	\$7,296,321,679	\$11,131,174,187	\$3,834,852,508	65.5%	\$2,703,404,040	141.9%
June 30, 2011	\$7,409,156,576	\$11,777,126,077	\$4,367,969,501	62.9%	\$2,743,559,808	159.2%

## Schedule of Funding Progress for SPRS Pension Funds

Year Ended**	Actuarial Value of Assets (a)	AAL Entry Age Normal (b)	UAAL (b-a)	Funded (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll [(b-a)/c]
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
June 30, 2010	304,577,292	612,444,806	307,867,514	49.7	51,506,712	597.7
June 30, 2011	285,580,631	634,379,401	348,798,770	45.0	48,692,616	716.3

\*\* Covered payroll was actuarially computed

## Schedule of Funding Progress for KERS Insurance Funds

Year Ended**	Actuarial Value of Assets (a)	AAL Entry Age Normal (b)	UAAL (b-a)	Funded (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll [(b-a)/c]
<b>Non-Hazardous</b>						
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
June 30, 2010	471,341,628	4,466,136,041	3,994,794,413	10.6	1,815,146,388	220.1
June 30, 2011	451,620,442	4,280,089,633	3,828,469,191	10.6	1,731,632,748	221.1
<b>Hazardous</b>						
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	212,833,318	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
June 30, 2010	314,427,296	493,297,529	178,870,233	63.7	143,557,944	124.6
June 30, 2011	329,961,615	507,058,767	177,097,152	65.1	133,053,792	133.1
<b>Total</b>						
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%	\$1,840,978,097	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%
June 30, 2010	\$785,768,924	\$4,959,433,570	\$4,173,664,646	15.8%	\$1,958,704,332	213.1%
June 30, 2011	\$781,582,057	\$4,787,148,400	\$4,005,566,343	16.3%	\$1,864,686,540	214.8%

\*\* Covered payroll was actuarially computed

## Schedule of Funding Progress for CERS Insurance Funds

Year Ended**	Actuarial Value of Assets (a)	AAL Entry Age Normal (b)	UAAL (b-a)	Funded (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll [(b-a)/c]
<b>Non-Hazardous</b>						
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
June 30, 2010	1,293,038,593	3,158,340,174	1,865,301,581	40.9	2,236,855,380	83.4
June 30, 2011	1,433,450,793	3,073,973,205	1,640,522,412	46.6	2,276,595,948	72.1
<b>Hazardous</b>						
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
June 30, 2010	692,769,770	1,674,703,216	981,933,446	41.4	466,548,660	210.5
June 30, 2011	770,790,274	1,647,702,755	876,912,481	46.8	466,963,860	187.8
<b>Total</b>						
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%
June 30, 2010	\$1,985,808,363	\$4,833,043,390	\$2,847,235,027	41.1%	\$2,703,404,040	105.3%
June 30, 2011	\$2,204,241,067	\$4,721,675,960	\$2,517,434,893	46.7%	\$2,743,559,808	91.8%

## Schedule of Funding Progress for SPRS Insurance Funds

Year Ended**	Actuarial Value of Assets (a)	AAL Entry Age Normal (b)	UAAL (b-a)	Funded (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll [(b-a)/c]
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
June 30, 2010	121,175,083	434,960,495	313,785,412	27.9	51,506,712	609.2
June 30, 2011	123,687,289	438,427,763	314,740,474	28.2	48,692,616	646.4

\*\* Covered payroll was actuarially computed

Schedule of Contributions from Employers & Other Contributing Entities  
KERS Non-Hazardous

Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
<b>Pension Funds</b>				
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
June 30, 2010	348,494,678	144,050,560	-	41.3
June 30, 2011	381,915,236	193,754,471	-	50.7
<b>Insurance Funds</b>				
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	219,768,964	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
June 30, 2010	376,556,187	93,976,917	8,550,914	27.2
June 30, 2011	294,897,813	129,335,552	-	43.9
<b>Total</b>				
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		32.7
June 30, 2007	396,543,070	152,263,009	10,744,049	41.1
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
June 30, 2010	725,050,865	238,027,477	8,550,914	34.0
June 30, 2011	676,813,049	323,090,023	-	47.7



Schedule of Contributions from Employers & Other Contributing Entities  
KERS Hazardous

Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
<b>Pension Funds</b>				
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
June 30, 2010	17,814,630	17,658,058	-	99.1
June 30, 2011	20,605,070	19,140,508	-	92.9
<b>Insurance Funds</b>				
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
June 30, 2010	35,045,278	21,921,535	319,059	63.5
June 30, 2011	29,585,257	19,952,580	-	67.4
<b>Total</b>				
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	75.5
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
June 30, 2010	52,859,908	39,579,593	319,059	75.5
June 30, 2011	50,190,327	39,093,088	-	77.9

Schedule of Contributions from Employers & Other Contributing Entities  
CERS Non-Hazardous

Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
<b>Pension Funds</b>				
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
June 30, 2010	186,724,383	207,075,842	-	110.9
June 30, 2011	218,984,628	248,518,574	-	113.5
<b>Insurance Funds</b>				
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	49.6
June 30, 2010	266,331,326	166,607,097	9,156,991	66.0
June 30, 2011	213,429,424	186,885,576	-	87.6
<b>Total</b>				
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	73.0
June 30, 2010	453,055,709	373,682,939	9,156,991	84.5
June 30, 2011	432,414,052	435,404,150	-	100.7

Schedule of Contributions from Employers & Other Contributing Entities  
CERS Hazardous

Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
<b>Pension Funds</b>				
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
June 30, 2010	76,390,669	82,887,128	-	108.5
June 30, 2011	78,765,602	85,078,181	-	108.0
<b>Insurance Funds</b>				
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
June 30, 2010	129,227,449	83,042,875	1,493,440	65.4
June 30, 2011	109,226,667	98,592,286	-	90.3
<b>Total</b>				
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	77.9
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
June 30, 2010	205,618,118	165,930,003	1,493,440	81.4
June 30, 2011	187,992,269	183,670,467	-	97.7

Schedule of Contributions from Employers & Other Contributing Entities  
SPRS

Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
<b>Pension Funds</b>				
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
June 30, 2010	18,764,941	9,489,399	-	50.6
June 30, 2011	18,463,372	12,657,225	-	68.6
<b>Insurance Funds</b>				
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
June 30, 2010	30,302,151	8,643,112	273,684	29.4
June 30, 2011	25,772,574	11,050,964	-	42.9
<b>Total</b>				
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	53.6
June 30, 2008	57,293,225	14,772,506	183,564	26.1
June 30, 2009	45,276,507	15,599,811	229,240	35.0
June 30, 2010	49,067,092	18,132,511	273,684	37.5
June 30, 2011	44,235,946	23,708,189	-	53.6

# Additional Supporting Schedules

## Schedule of Administrative Expenses (in Thousands)

Expense	2011	2010
<b>Personal Services</b>		
Salaries and Per Diem	\$13,889	\$13,678
Fringe Benefits	5,179	4,407
Tuition Assistance	23	27
Total Personal Services	\$19,091	\$18,112
<b>Contractual Services</b>		
Actuarial	\$270	\$251
Audit	111	58
Legal	231	308
Medical	306	273
Contractual	1,353	719
Total Contractual Services	\$2,271	\$1,609
<b>Communication</b>		
Printing	\$286	\$302
Telephone	118	143
Postage	593	577
Travel	118	163
Total Communication	\$1,115	\$1,185
<b>Rentals</b>		
Office Space	\$1,125	\$1,106
Equipment	90	91
Total Rentals	\$1,215	\$1,197
<b>Miscellaneous</b>		
Utilities	\$217	\$195
Supplies	176	156
Insurance	78	80
Maintenance	5	4
Other	-	1,447
Total Miscellaneous	\$476	\$1,882
Depreciation/Amortization	750	863
Total Pension Fund Administrative Expenses	24,918	24,848
Healthcare Administrative Fees	10,412	9,703
<b>Total Administrative Expenses</b>	<b>\$35,330</b>	<b>\$34,551</b>



## Schedule of Investment Expenses (in Thousands)

	2011	2010
<b>Pension Funds</b>		
Security Lending Fees		
↘ Broker Rebates	\$2,277	\$1,755
↘ Lending Agent Fees	1,162	1,445
Total Security Lending	3,439	3,200
Common Stock Commissions	7,643	7,374
Contractual Services		
↘ Investment Management	47,265	33,492
↘ Security Custody	203	155
↘ Investment Consultant	876	880
↘ Investment Related Travel	27	29
↘ Software	148	125
↘ Miscellaneous	113	10
↘ Legal Counsel	943	736
Total Contractual Services	49,575	35,427
<b>Insurance Funds</b>		
Security Lending Fees		
↘ Broker Rebates	240	71
↘ Lending Agent Fees	325	306
Total Security Lending	565	377
Common Stock Commissions	1,236	1,200
Contractual Services		
↘ Investment Management	7,323	5,007
↘ Security Custody	47	32
↘ Investment Consultant	293	270
↘ Investment Related Travel	6	6
↘ Software	26	2
↘ Miscellaneous	34	26
↘ Legal Counsel	23	22
Total Contractual Services	7,752	5,365
<b>Total Investment Expenses</b>	<b>\$70,210</b>	<b>\$52,943</b>

Schedule of Professional Consultant Fees (in Thousands)

Fees	2011	2010
Actuarial Services	\$270	\$251
Medical Review Services	306	273
Audit Services	111	58
Legal Counsel	231	308
Compliance	771	-
Workflow	209	392
Healthcare	113	166
Banking	55	47
Miscellaneous	205	114
<b>Total</b>	<b>\$2,271</b>	<b>\$1,609</b>

**Report on Internal Control Over Financial Reporting, Compliance & Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

To the Board of Trustees, Kentucky Retirement Systems in Frankfort, Kentucky: We have audited the financial statements of KRS as of and for the fiscal year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States and applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General.

**Internal Control Over Financial Reporting** In planning and performing our audit, we considered KRS' 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 KRS' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of KRS' 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 was not designed to identify all deficiencies in internal control over financial reporting 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 & Other Matters** As part of obtaining reasonable assurance about whether KRS' 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.

*Dean Dorton Allen Ford, PLLC*  
**Dean Dorton Allen Ford, PLLC**  
 November 17, 2011      Lexington, Kentucky

SCHEDULE OF FINDING & RESPONSE

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





**Investments** Section



# A New Horizon Coming to Fruition

*"Some argue that the experience of the last couple of years is reshaping America and creating a 'new normal'; one of diminished expectations where households, businesses, and governments must de-lever and shrink the debt on their respective balance sheets. Lower consumption rates will be born from the act of de-leveraging, and thus will result in slower economic growth, and higher structural unemployment. This appears to be taking shape as America has already shifted to be a nation of net savers. A new horizon may be emerging as the country goes back to the basics."*

*Excerpt from 2010 CAFR, **New Horizon** (page 90)*

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**One Year Later** This idea appears to still be holding true and has even begun to manifest itself into reality. In the two plus years after the initial credit crisis, the surge of debt incurred in the 10 years leading up to the meltdown has been reduced by 20%. To add some relevance, the de-levering that was required post The Great Depression lasted for 18 years. It appears the path may be shorter this time. However, slower economic growth is painfully apparent with the average expansion of gross domestic product here in the U.S. hovering around 2% annually. While economic activity continues to move forward, it is growing at an extremely sluggish pace in comparison to recoveries of the past, and most concernedly, at too slow a pace to meaningfully lower the excess capacity in the economy, in particular, the stubbornly high unemployment rate.

**De-Levering** The need to de-lever has been addressed by much of the corporate community over the last couple of years, cost-cutting at nearly every point possible. Today, corporations are the healthiest they have been in years with lean balance sheets and ample cash balances poised for growth. Consumers and governments at all levels must follow suit. As much as de-levering is needed for the long term health of our economy, growth is also needed. The problem is that growth typically requires increased spending, which runs counter to our efforts for debt reduction. The Federal Reserve has continued to hold short-term rates near zero for quite some time and has signaled this will not change for at least two years. Low rates are supposed to increase borrowing and thus lead to economic expansion and investment. Low rates also encourage investors to reach for yield, reflating asset prices and hopefully having a positive wealth effect on personal spending and increased consumer confidence.

Financing one's existence with an abundance of debt is not sustainable. This has led some to call for the need and a reemergence of production in America. Arguments have been made that conditions for such are taking shape. While emerging economies such as China (now the second largest economy) and India have experienced substantial wage growth over the past decade, the U.S.' wage rate has flat-lined. While still heavily tilted towards the U.S., the wage rate disparity has narrowed and combined with an excess supply of labor here at home, it makes this idea fairly intriguing. Many argue this is a far cry from happening yet, still others believe a renaissance of American manufacturing could be on the horizon.

## Pension Funds Respond

Lower growth rates and higher unemployment at home, a massive European sovereign debt crisis, and rising inflation threatening to slow emerging economies make for volatile global markets. Questions surrounding how pension funds will meet their expected return targets and thus fund their liabilities are valid. Many funds are faced with the need to boost returns in this environment and have turned to alternative investment markets such as private equity, real estate, real return strategies, and absolute return strategies. This change has been

accomplished most often at the expense of traditional public equities allocations. KRS has also moved in this direction. New target asset allocations were approved during this fiscal year for each plan, in response to recently completed asset liability modeling studies. These new asset allocation guidelines generally call for a decrease in U.S. public equity, a more diversified fixed income portfolio, and new allocations to the real return and absolute return buckets, so going forward, the portfolio is more diversified than ever.

## INVESTMENT SUMMARY



### Investment Policies

Visit [kyret.ky.gov/index.php/investments](http://kyret.ky.gov/index.php/investments) to read our Statement of Investment policy. Other policies include Brokerage, Securities Trading, Placement Agents, Proxy Voting, and more.

The Board of Trustees is charged with the responsibility of investing the Systems' assets to provide for the benefits of the members of the Systems. To achieve that goal the Board follows a policy of preserving capital, while seeking various 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 set forth clearly defined investment policies, objectives and strategies for both the pension and insurance portfolios.

### Investment Policy

The Board of Trustees approved the current target asset allocation beginning July 1, 2007. As of June 30, 2011, the KRS Pension fund's policy allocation invests the following. (Note: This allocation is changing as of July 1, 2011.)

#### Board Investment Policy for Fund Asset Allocation

Asset	Pension Fund	Insurance Fund
U.S. Equity	30.0%	40.0%
International Equity	20.0%	30.0%
Core Fixed	25.0%	-
TIPS	10.0%	12.0%
Alternatives	12.0%	15.0%
Cash	3.0%	3.0%



### TIPS

Treasury Inflation Protection Securities

## INVESTMENT OBJECTIVES



### Investing for Kentucky

In keeping with the Trustees' fiduciary responsibility, the Board encourages the investment of assets in securities of corporations that provide a positive contribution to Kentucky's economy.

The investment objectives of the portfolios are to produce results that exceed the stated goals over both short-term and long-term periods.

### Short-Term

The returns of the particular asset classes of the managed funds, measured on a year-to-year basis, should exceed the returns achieved by a policy benchmark portfolio composed of comparable unmanaged market indices.

### Long-Term

The total assets of the Systems should achieve a return measured over an actuarially appropriate time period (estimated to be 30 to 40 years) which exceeds the actuarially required rate of return of 7.75% while also exceeding the return achieved by its total fund benchmark.

**Diversification** Portfolios are diversified through the use of multiple asset classes. Asset allocations are revisited on a periodic basis and represent an efficient allocation to achieve overall return and risk characteristics. The individual asset classes are diversified through the use of multiple portfolios that are managed both by the Investment Division Staff and by professional external investment advisors. Finally, each of the asset classes are diversified through the selection of individual securities. Each portfolio advisor is afforded discretion to diversify within Board parameters.

★ **Note:** Due to the recently approved Asset Liability Model study, cash was raised above the normal policy limits in both the pension and insurance funds in anticipation of funding newly approved asset classes during the first quarter of the 2012 fiscal year.

**Rebalancing** Proper implementation of the investment policy requires that a periodic adjustment, or rebalancing, of assets be made to ensure conformance with KRS' Statement of Investment Policy. Such rebalancing is necessary to reflect sizeable cash flows and performance imbalances among asset classes and investment advisors. Rebalancing policies generally call for an immediate rebalancing to within its allocation ranges, if an asset class exceeds or falls below its target allocation by 10%. The Pension and Insurance (with the exception of cash) portfolios were operating within the ranges established by the investment policies.

Asset Allocation  
Board Policy vs. Actual (Rebalanced)

Asset	Policy's Pension Asset Allocation	Actual Pension Asset Allocation	Policy's Insurance Asset Allocation	Actual Insurance Asset Allocation
U.S. Equity	30.0%	23.7%	40.0%	31.0%
International Equity	20.0%	23.9%	30.0%	24.9%
Core Fixed	25.0%	18.5%	-	12.5%
Opportunistic Fixed	-	1.7%	-	1.0%
TIPS	10.0%	9.9%	12.0%	10.2%
High Yield	-	1.0%	-	0.9%
Non-U.S. Fixed Income	-	1.0%	-	0.9%
Alternatives	12.0%	12.1%	15.0%	6.9%
Absolute Return	-	0.6%	-	1.0%
Currency Overlay	-	-0.1%	-	-0.1%
Cash	3.0%	7.6%	3.0%	10.7%

*The objectives of the portfolios are to produce results that exceed the stated goals.*

**Performance Review Procedures** At least once each quarter the Investment Committee, on behalf of the Board of Trustees, reviews the performance of the portfolio for determination of compliance with the Statement of Investment Policy. On a periodic basis (daily, monthly, quarterly), the Internal Audit Department performs tests to assure compliance with the restrictions imposed by the Investment Policy. Note: This function/responsibility will remain that of the Compliance Officer; however, that position was reassigned to report to the Internal Audit Department beginning in the fall of 2009.

**Consulting** The Board employs industry-leading external consultants to assist in determining and reviewing the asset allocation guidelines and the performance of both the internally managed and externally managed assets. A letter from each consulting firm utilized follows this introduction and discusses current allocations, performance and significant changes during the fiscal year.



**ECONOMIC REVIEW**

By Rebecca A. Gratsinger  
CEO, Principal  
R.V. Kuhns & Associates

*The fiscal year began with investors ignoring dreary economic forecasts surrounding serious sovereign debt issues in Europe and fears of a double-dip recession in the U.S., embracing figures that suggested global economies were **still growing**.*



**QE2**  
Quantitative Easing

**GDP**  
Gross Domestic Product

**Fed**  
Federal Reserve

By November 2010, the Federal Reserve had formally announced that it would purchase \$600 billion of Treasuries (the second quantitative easing program nicknamed "QE2"), which lifted U.S. stocks and helped strengthen the dollar against the euro that struggled under the negative impact of the European debt crisis.

The second half of the fiscal year saw the optimism of the first six months start to fade away as several events unfolded. The social and political unrest in several Middle Eastern and North African oil-producing countries raised energy concerns and provided a headwind to the global equity rally initiated during the first half. The largest recorded earthquake to strike Japan as well as the tsunami and nuclear crisis that followed caused markets to stumble. European sovereign debt fears escalated as Portugal's government collapsed and Greece continued to teeter on the brink of default. Finally, the possibility that the U.S. would default on its debt because of a political impasse about the debt ceiling contributed to the fall of the U.S. dollar against the euro and the yen.

**Commodities** Commodity prices surged during the first nine months of the fiscal year before retreating toward then end of the fiscal year. Oil prices rose above \$100 per barrel for the first time since 2008, but settled back to \$95 per barrel by June 2011. Although rising farm food and crude oil prices pushed headline inflation higher in the U.S., core inflation (which excludes food and energy prices) hovered around 1.6% throughout the by year-end 2010.

Inflationary concerns continued to materialize in emerging markets, as evidenced by the People's Bank of China tightening monetary policy for most of the fiscal year by raising loan and deposit rates as well as increasing the reserve-requirement ratio.

In the U.S., Real Gross Domestic Product (GDP) fell from 3.3% at the end of June 2010 to an estimated 1.6% by June 2011<sup>1</sup>. The recovery of the job market looked promising with the unemployment rate falling to a low of 8.8% in March 2011 and a 4-week average of jobless claims at 389,500 — a level generally considered consistent with sustainable employment growth — before climbing back to 9.2% by the end of the fiscal year<sup>2</sup>. Despite a year-over-year increase in personal consumption expenditures, much of that growth came at the expense of consumer personal savings, which fell over the same period.

The Fed maintained a Federal Funds Target Rate range of 0% to 0.25% throughout the twelve months and stated that it intended to maintain low interest rates for an extended period of time after ending the QE2 program.

<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

## Domestic Economic Indicators as of June 30, 2011

Indicator	June 2011	June 2010	Yr/Yr	20 Year	40 Year
Capacity Utilization	76.70	74.50	▲	79.50	80.40
↘ Unemployment Rate	9.20%	9.50%	▼	5.90%	6.40%
↘ PMI - Manufacturing	55.30	55.30	-	52.10	52.40
↘ Baltic Dry Index - Shipping	1,413	2,406	▼	2,433	2,127
Real GDP Year-Over-Year	1.60%	3.30%	▼	2.50%	2.90%
Consumer Confidence	57.60	54.30	▲	93.19	92.75
Breakeven Inflation - 10 Year	2.38	1.84	▲	N/A	N/A
CPI Year-Over-Year (Headline)*	3.60%	1.10%	▲	2.60%	4.40%
CPI Year-Over-Year (Core)*	1.60%	0.90%	▲	2.40%	4.30%
PPI Year-Over-Year	7.00%	2.70%	▲	2.20%	4.00%
M2 Year-Over-Year	6.00%	1.60%	▲	5.30%	6.90%
Personal Savings	5.50%	5.80%	▼	4.30%	6.60%
Disposable Personal Income	0.20%	0.10%	▲	0.40%	0.60%
Personal Consumption Expenditures	2.60%	1.50%	▲	2.10%	3.90%
US Dollar Total Weighted Index	69.16	78.82	▼	88.56	96.21
WTI Crude Oil per Barrel	\$95.00	\$76.00	▲	\$39.00	\$35.00
Gold Spot per Oz**	\$1,500.00	\$1,242.00	▲	\$274.00	\$315.00

\* CPI figures are cyclically adjusted.

\*\* 20- and 40-year average Gold spot prices are adjusted for inflation (based on data courtesy of Bloomberg Professional Services)

## CAPITAL MARKETS REVIEW

*Global equities rallied throughout the fiscal year as investors sought riskier securities to earn higher returns.*

Despite slumps in August, May, and June, most developed and emerging countries posted double-digit returns close to or above 30% for the period ending June 30, 2011. In most cases, small and mid-sized company stocks outperformed large cap stocks and growth-oriented stocks produced better returns than value-oriented stocks. The most notable laggards were stocks within the Portugal, Italy, Ireland, Greece, and Spain markets, which continued to suffer under their significant economic woes. While economically sensitive sectors led the rally, defensive sectors, such as health care, consumer staples, and utilities, led the way toward the end of the fiscal year. As noted earlier, commodities prices provided investors with strong gains, accompanied by inflationary concerns in numerous emerging markets — notably China, India, and Brazil.

**Fixed Income**

Within the fixed income markets, Treasury yields declined to historic lows and credit spreads tightened during the first three months of the fiscal year.

One-Year Trailing Performance through June 30, 2011

Index	Description	Return
S&P 500	Large Cap U.S. Equity	30.70%
R Mid Cap	Mid Cap U.S. Equity	38.50%
R 2000	Small Cap U.S. Equity	37.40%
MSCI EAFE (Gross)	Large Cap International Equity	30.90%
MSCI EAFE SC (Gross)	Small Cap International Equity	36.80%
MSCI Emg Mkts (Gross)	Emerging Markets Equity	28.20%
BC US Agg Bond	U.S. Investment Grade Bonds	3.90%
BC US Trsy	U.S. Treasury Bonds	2.20%
BC US Trsy: US TIPS	U.S. TIPS	7.70%
BC US Corp: Hi Yld	U.S. High Yield Bonds	15.60%
Wilshire US REIT	U.S. Real Estate Investment Trusts	35.60%
BofA ML 3 Mo US T-Bill	U.S. Cash Equivalents	0.20%

**Treasuries** Investor sentiment about Treasuries shifted throughout the period as investors attempted to project how long the Fed would keep short-term interest rates low, deal with the uncertain results of expanding the Fed balance sheet, and navigate the possibility of default among certain European countries. Over the twelve-month period ending June 30, 2011, developed market and emerging high yield bonds earned the strongest returns compared to government and investment-grade credit securities.

Of note, average price on high yield debt broke the 100-cents-on-the-dollar barrier in September 2010. The table to the right summarizes returns earned by the major markets for trailing one-year period ending June 30, 2011.

**ASSET ALLOCATION REVIEW**



**RVK**  
R.V. Kuhns & Associates, Inc.

**KERS**  
Kentucky Employees Retirement System

**CERS**  
County Employees Retirement System

**SPRS**  
State Police Retirement System

Towards the end of the fiscal year 2009-10, the Board commissioned RVK to conduct asset-liability studies for the KERS, CERS, and SPRS pension and insurance plans. The asset-liability studies assisted the Board with deciding on the most effective asset allocation strategies for each pension and insurance plan under its purview in order to lower risk, control the level of illiquidity in the portfolios, and generate a return expected to exceed the actuarially assumed rate of return of 7.75%.

All of the asset-liability studies were completed by the first quarter of the fiscal year 2010-11 and the Board has been transitioning to the new plan specific target asset allocations in a prudent manner. In May 2011, the statement of investment policy issued by the Board incorporated the new plan specific target asset allocations to be effective at the beginning of the fiscal year 2011-12.

**PENSION PLAN REVIEW**



**TIPS**  
Treasury Inflation Protection Securities

The market value of the KRS Pension Plan assets increased from \$10.5 billion on June 30, 2010 to \$11.5 billion on June 30, 2011. The Fund's investments collectively returned an impressive 18.9% return for the fiscal year; however, compared to the 20.3% return earned by its target allocation benchmark, the Fund underperformed by 1.4%. The Fund's three-year annualized return of 4.5% slightly trailed its target allocation benchmark of 5.0%. The Fund's five-year annualized return of 4.7% also trailed the target allocation benchmark's return of 5.1%. The current actuarial assumed rate of return is 7.75%, which represents the Fund's long-term return goal.

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

### KERS & CERS Pension Plan Asset Allocation vs. Target Allocation

Asset	Market Value	Allocation	Current Target	New Target
Domestic Equity	\$2,669,499,143	23.7%	30.0%	20.0%
Non U.S. Equity	\$2,687,267,243	23.9%	20.0%	24.0%
Core Fixed Income	\$2,071,995,848	18.4%	25.0%	10.0%
High Yield	\$316,066,041	2.8%	-	5.0%
Global Fixed Income	\$115,819,637	1.0%	-	5.0%
Real Return	\$1,108,607,359	9.8%	10.0%	10.0%
Real Estate	\$90,740,590	0.8%	5.0%	5.0%
Absolute Return	\$71,808,225	0.6%	-	10.0%
Private Equity	\$1,271,752,639	11.3%	7.0%	10.0%
Cash Equivalent	\$851,383,165	7.6%	3.0%	1.0%
<b>Total Fund (excluding SPRS)</b>	<b>\$11,254,939,890</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Total Fund</b>	<b>\$11,532,850,302</b>			

### SPRS Pension Plan Asset Allocation vs. Target Allocation

Asset	Market Value	Allocation	Current Target	New Target
Domestic Equity	\$63,334,412	22.8%	30.0%	20.0%
Non U.S. Equity	\$66,881,172	24.1%	20.0%	24.0%
Core Fixed Income	\$59,380,684	21.4%	25.0%	10.0%
High Yield	\$2,870,902	1.0%	-	5.0%
Global Fixed Income	\$2,835,762	1.0%	-	5.0%
Real Return	\$27,431,504	9.9%	10.0%	10.0%
Real Estate	\$2,804,506	1.0%	5.0%	5.0%
Absolute Return	\$1,307,803	0.5%	-	12.0%
Private Equity	\$30,888,981	11.1%	7.0%	7.0%
Cash Equivalent	\$20,174,685	7.3%	3.0%	2.0%
<b>Total Fund</b>	<b>\$277,910,412</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

*New Non-U.S. Equity target consists of 20% dedicated Non-U.S. Equity, 4% dedicated Emerging Markets. New Target is effective July 1, 2011.*

income portfolio primarily consists of U.S. investment grade investments with small allocations to high yield and global fixed income securities. The System also invests in real return assets (currently TIPS), real estate, absolute return, and private equity. As of June 30, 2011, the portfolio's asset allocation was in transition from its current target to its new plan specific target asset allocation. As shown above, the new

target asset allocation for KRS (not including SPRS) are all the same. The new target asset allocation for the SPRS plan, as shown below, is slightly different with a smaller allocation to private equity and a greater allocation to absolute return strategies and cash equivalents. For each plan, the current deviations to the targets are being brought closer to the new target allocations in a prudent manner over time.

**INSURANCE PLAN REVIEW**



**Haz**  
Hazardous (i.e. KERS Haz)

**Non-Haz**  
Non-Hazardous (i.e. CERS Non-Haz)

The market value of the KRS Insurance Plan assets increased from \$2.4 billion on June 30, 2010 to \$3.0 billion on June 30, 2011. The Fund's investments returned 23.5% for the fiscal year; however, compared to the target allocation benchmark of 26.9%, the Fund underperformed by 3.4%. As a result of an impressive one-year return, the Fund's three-year annualized return went from a -6.5% as of June 30, 2010, to a positive 3.1%; however, still slightly lagging its target allocation benchmark of 3.3%. The Fund's five-year annualized return of 3.8% also lagged its target allocation benchmark of 3.9%. The current actuarial assumed rate of return is 7.75%, which represents the Fund's long-term return goal.

CERS & SPRS Insurance Plan  
Asset Allocation vs. Target Allocation

Asset	Market Value	Allocation	Current Target	New Target
Domestic Equity	\$764,761,605	33.5%	40.0%	20.0%
Non U.S. Equity	\$566,215,239	24.8%	30.0%	24.0%
Fixed Income	\$590,551,279	25.9%	12.0%	30.0%
Real Estate	\$7,173,050	0.3%	5.0%	5.0%
Absolute Return	\$23,233,409	1.0%	-	10.0%
Private Equity	\$133,676,804	5.9%	10.0%	10.0%
Cash Equivalent	\$198,553,344	8.7%	3.0%	1.0%
<b>Total Fund (excluding KERS)</b>	<b>\$2,284,164,730</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Total Fund</b>	<b>\$3,026,302,995</b>			

*New Fixed Income target consists of 10% Core Fixed Income, 5% High Yield, 5% Global Fixed Income, and 10% Real Return. New Non-U.S. Equity target consists of 20% dedicated Non-U.S. Equity and 4% dedicated Emerging Markets. New Target is effective July 1, 2011.*

KERS Non-Haz Pension Plan  
Asset Allocation vs. Target Allocation

Asset	Market Value	Allocation	Current Target	New Target
Domestic Equity	\$85,473,432	20.3%	40.0%	28.0%
Non U.S. Equity	\$108,752,185	25.9%	30.0%	27.0%
Fixed Income	\$100,293,225	23.9%	12.0%	35.0%
Real Estate	\$872,002	0.2%	5.0%	-
Absolute Return	\$4,686,523	1.1%	-	10.0%
Private Equity	\$43,417,019	10.3%	10.0%	-
Cash Equivalent	\$77,004,576	18.3%	3.0%	-
<b>Total Fund</b>	<b>\$420,498,961</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

*New Fixed Income target consists of 15% Core Fixed Income and 20% Real Return. New Target is effective July 1, 2011.*



The System's current insurance plan investments are diversified across all segments of the U.S. and international equity markets (both developed and emerging). The fixed income portfolio primarily consists of U.S. investment grade investments and TIPS with small allocations to high yield and global fixed income securities. KRS also invests in real estate, absolute return strategies, and private equity.

**Asset Allocation** As of June 30, 2011, the portfolio's asset allocation was in transition from its current target to its new plan specific target asset allocation. As shown at left, the new target asset allocation for CERS Non-Haz, CERS Haz, and SPRS plans are all the same. The new target asset allocation for the KERS Haz plan varies slightly from the majority of the other insurance plans with a smaller allocation to fixed income securities (7% real return assets), and a greater allocation to absolute return strategies and cash equivalents.

**Target Allocation** The new target asset allocation for the KERS Non-Haz Plan is the only plan that is significantly different than the other plans with no allocation to real estate, private equity, or cash equivalents and a greater allocation to fixed income (more specifically real return assets). For each plan, the current deviations to the targets are being brought closer to the new target allocations in a prudent manner over time.

*"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."*

*Rebecca A. Gratsinger  
CEO, Principal  
R.V. Kuhns & Associates*

#### KERS Haz Pension Plan Asset Allocation vs. Target Allocation

Asset	Market Value	Allocation	Current Target	New Target
Domestic Equity	\$87,504,205	27.2%	40.0%	20.0%
Non U.S. Equity	\$76,461,094	23.8%	30.0%	24.0%
Fixed Income	\$82,682,066	25.7%	12.0%	27.0%
Real Estate	\$1,052,526	0.3%	5.0%	5.0%
Absolute Return	\$3,138,413	1.0%	-	12.0%
Private Equity	\$21,252,995	6.6%	10.0%	10.0%
Cash Equivalent	\$49,548,006	15.4%	3.0%	2.0%
<b>Total Fund</b>	<b>\$321,639,304</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

*New Fixed Income target consists of 10% Core Fixed Income, 5% High Yield, 5% Global Fixed Income, and 7% Real Return. New Non-U.S. Equity target consists of 20% dedicated Non-U.S. Equity and 4% dedicated Emerging Markets. New Target is effective July 1, 2011.*

**MANAGER REVIEW**

*The System started to make structural shifts within the domestic equity portfolio at the end of the fiscal year. Three new all-cap managers were added to the portfolio: River Road Asset Management, Westwood Management and Westfield Capital.*



**S&P**  
Standard & Poors

**PIMCO**  
Pacific Investment  
Management Company

**TIPS**  
Treasury Inflation  
Protection Securities

**MSCI**  
Morgan Stanley Capital  
International

In addition, an internally managed Mid Cap portfolio was introduced and the current internally managed S&P 1500 Index portfolio transitioned to an S&P 500 Index mandate at the end of June. The INVESCO's Structured Core Equity portfolio posted a return of 31.2% for the fiscal year, which was strong on an absolute and relative basis exceeding the S&P 500 Index's return of 30.7%. The Northern Trust Structured Small Cap portfolio posted the best return among the three domestic equity portfolios with a return of 39.4%, which exceeded the Russell 2000 Index return of 37.4%. The internally managed S&P 1500 Index portfolio outperformed its current benchmark with a return of 32.2% vs. the S&P 1500 Comp Index return of 31.7%.

The relative performance among the international equity managers was mixed, and collectively the total international equity portfolio underperformed the Non-U.S. Equity Custom Index for the fiscal year (29.1% vs. 31.0%). The Boston Company World Ex US Equity portfolio significantly underperformed the MSCI World ex US Index (24.6% vs. 30.9%) whereas the Pyramis International Growth portfolio had the highest return within the international equity portfolio, outperforming the index (33.6% vs. 30.9%). The BlackRock ACW Ex US Index portfolio fell slightly below its benchmark, the MSCI ACW ex US Index, for the year (30.1% vs. 30.3%). BlackRock's original mandate changed from only developed non-US markets to include emerging markets in June 2009. Artio International Equity significantly underperformed the MSCI ACW Ex US Index for the year (24.6% vs. 30.3%). The international small capitalization equity fund managed by

Northern Trust ended the fiscal year below its benchmark, the MSCI ACW ex US Small Cap Index, but earned a very strong absolute return (31.1% vs. 34.3%). The Plan's two emerging market equity portfolios managed by Aberdeen Asset Management and Wellington Management generated very different and mixed returns for the year, similar to last year. Aberdeen earned 29.7% relative to the MSCI Emerging Markets Index return of 28.2%, but Wellington only earned 22.1% over the same fiscal year period, a lag of -6.1%.

The System made some enhancements to the fixed income portfolio during the fiscal year with the addition of a high yield/bank loan manager, Shenkman, and a global fixed income manager, Stone Harbor. PIMCO (4.5%) and NISA (4.0%) both exceeded the Barclays Capital US Aggregate Bond Index return of 3.9% for the fiscal year. Both the internally managed TIPS portfolio (7.7%) and the Weaver Barksdale TIPS portfolio (7.7%) performed in line with the 7.7% return for the Barclays Capital US TIPS Index for the fiscal year. The System's investment in Commerce Street Income Partners has outperformed the Opportunistic Fixed Income Custom Index, the Barclays Capital US Corporate High Yield Index and Barclays Capital ABS US Floating Rate Index, over the trailing 12-months (10.9% vs. 9.8%). The sector-specific manager, Waterfall, has significantly outperformed the Opportunistic Fixed Income Custom Index for the fiscal year (24.6% vs. 9.8%). The Plan's alternative investment portfolio consists of a developing absolute return strategies portfolio, longer term investments in real estate (still developing), and private equity (mature program). The System's

current absolute return strategies manager, Arrowhawk Durable Alpha Fund, posted a relative gain against the HFN Fund of Funds Multi-Strat Index for the fiscal year (6.4% vs. 5.7%). The fiscal year return for the real estate portfolio composite was 22.4% versus 16.0% for the one-quarter lagged NCREIF Property Index. Over the past five years ending June 30, the total private equity portfolio return of 3.2% underperformed the Venture Economics All Private Equity Index return of 5.8%.

**Insurance Plan** The Insurance Plan invests in the System's internally managed S&P 1500 Index portfolio, the recently funded River Road All Cap, Westwood All Cap, Westfield All Cap, and the internally managed Mid Cap portfolio, the international portfolios managed by The Boston Company, Artio, Pyramis, Aberdeen, and Wellington, the internally managed TIPS portfolio, and the alternative investment portfolios. 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** As part of the asset allocation studies for each plan, the Board approved an allocation of 10-12% to absolute return strategies within the Pension and Insurance Plans. The meaningful allocations are expected to provide greater diversification within the portfolios, improve long-term returns, and reduce total portfolio return volatility. The Board approved the search for well-diversified fund of hedge fund investment managers who invest in a broad spectrum of hedge fund strategies. This approach gives the Board an expedited way to gain full and immediate exposure to several different strategies at one time. The top fund of hedge fund firms have access to competitive, difficult to access hedge fund managers based on their years of experience in the industry, their reputations for being good partners with hedge funds, and their thorough investment and back office due diligence processes. The Board expects to fund the funds of hedge funds in the first half of the fiscal year 2011-12. Another initiative approved by the Board is the diversification of the real return portfolio. Currently, TIPS represent the real return allocation within the Pension and Insurance Plans. Following the asset allocation studies, the Board approved the diversification of the TIPS allocation into other inflation-sensitive strategies that tend to perform well during

rising inflationary environments (which appears likely in the near future). Like TIPS, diversified real return strategies are designed to hedge against the erosion of inflation on plan assets by targeting returns that exceed the rate of inflation. The Board expects to fund this initiative within the first half of the fiscal year 2011-12.

**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, and 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.

**Rebecca A. Gratsinger** // CEO, Principal  
R.V. Kuhns & Associates, Inc.  
November 1, 2011

*R.V. Kuhns & Associates, Inc. supports KRS' Investment Committee and Staff by providing expertise on an array of investment topics primarily focusing on the public markets. The firm is tasked with assisting KRS with asset allocation decisions, new initiative research, investment performance review, and current external manager monitoring.*

**MARKET HIGHLIGHTS**

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By Peter A. Keliuotis, CFA  
Managing Director  
Strategic Investing Solutions

*This current fiscal year has been a **tale of two markets**, from early on, one of inflation concerns and excess capital in the system as the economic recovery took hold to the more recent deflation fears (again) and market participants schizophrenically calling for monetary and fiscal policy to be more accommodative to counter growing recession fears.*

Although 2010 can be generally summarized as a year of recovery, upon deeper probing a path of divergent recoveries becomes evident. The contrast is seen in the growth rates of developed versus emerging economies, financial performance and flexibility of large versus small companies, performance of investment grade versus high yield bonds, actual and/or perceived benefits of stimulus versus austerity, and the list goes on. The cost-cutting initiatives that were first implemented in 2008 continued to bear fruit in 2010 with earnings and cash flow benefiting from cost structure resets and scaled back capital expenditure programs. Many companies have a high degree of operating leverage and are positioned well for recovery, but revenue stability and gains are elusive, depending on sector, size, geography etc.

Capital markets until recently had continued to show depth and resilience. Private equity portfolios have benefited from robust capital market activity, whether through investor interest in junk bonds, initial public offerings (IPO), and a meaningful increase in merger/acquisition activity. The debt markets continued to support the "amend and extend" phenomenon and even showed some appetite for dividend recaps. This balance sheet activity has allowed companies to lower their costs of capital, extend maturities, and help to return investor capital and protect internal rates of return, as investment holding periods have been extended.

Further, IPO demand has not only provided an exit alternative for healthy growth companies, it has also provided a lifeline and currency to companies that, up until recently, seemed to have few options. While this is all good news for private equity investors, it is important to note that this activity has almost solely benefited large-capitalization companies. There have been some knock-on effects, but small-capitalization companies continue to lack access to the liquid public markets, and the number of private market lenders has dwindled to a small fraction of its 2007 highs/levels.



**IPO**  
Initial Public Offering

## LIQUIDITY &amp; VALUATIONS

*Liquidity and valuations however improved in most private equity portfolios. According to the State Street Private Equity Index, Q1 2011 saw more distributions than has been reported **since the financial crisis**. Distributions relative to drawn down capital or "DPI", came in at 1.68 in Q1 2011, the highest number since 2008.*

As well, the first quarter of 2011 marked the eighth consecutive quarter of positive returns, prior to which the private equity asset class witnessed five consecutive quarters of a decrease in valuations.

In light of the improvement in liquidity and valuations, investors viewed it also as an opportune time to rebalance their portfolios, shedding under-performing assets and/or those relationships deemed non-core to their portfolios. The first half of 2011 saw secondary transaction volume reach roughly \$14 billion. Transaction volume for all of 2010 was only in the range of \$20-\$23 billion. Public and financial institutions selling fund interests comprised 60% of the volume — financial institutions are seeking to sell or evaluating the option as regulatory pressures, such as the Volcker Rule, severely restrict bank-owned private equity operations. The strong market rebound through 2010 and into the early part of 2011 allowed sellers to attract prices for their interests that were meaningfully higher relative to valuations at the depth of the crisis... high bids averaged 91.7% of NAV in the first half of 2011 compared to the 60% discount of NAV some well-known partnerships were attracting in 2008/2009. At the height of the crisis as some LPs, including some well-regarded endowments, were facing liquidity issues, some partnerships were being sold for pennies on the dollar to help reduce the future liability from being over-exposed to illiquid assets.

Ironically, the recent increased liquidity and the strength of the rebound has reaffirmed for some investors the ability of the asset class to generate returns in excess of the public markets. According to Global Private Equity Barometer, 25% of LPs surveyed stated they will increase their target allocations over the next twelve months. Many investors expected the recession would create abundant opportunities to buy companies "cheaply." This did not quite happen. The rebound and bottoming process in public markets occurred quickly enough that many investors did not even realize it had happened. However, the improving capital markets, the increase in availability of debt and increased confidence on behalf of buyers and sellers helped drive the rebound in buyout transaction volume. The value of deals reached \$108 billion in the first half of the year, a 10% increase compared to the same period last year and up 132% from the 46.3 billion value in the first half of 2009, according to Dealogic. However deal value is still down from peak levels, down 27% from the \$147 billion reached in the first half of 2008 and roughly 80% lower than the same period in 2007, where then deal value was \$516 billion. Although prices paid could not generally be characterized as great values, valuations were based on lower levels of EBITDA, with leverage initially more

**Volcker Rule**

Named after Paul Volcker, former Chairman of the Federal Reserve, the Volcker Rule prohibits certain institutions from owning a hedge fund or private equity fund, as well as limiting the liabilities that the largest banks could hold. [http://en.wikipedia.org/wiki/Volcker\\_Rule](http://en.wikipedia.org/wiki/Volcker_Rule)

**NAV**

Net Asset Value

**LPs**

Limited Partnerships

**EBITDA**

Earnings Before Interest, Taxes, Depreciation, and Amortization





**PE**  
Private Equity

in line with historical averages... however investor exuberance and the search for yield precipitated a rebound in the increased utilization of leverage as illustrated below. The strength of the high yield market facilitated refinance and buyout activity as PE-backed companies issued a record \$18.1 billion of high yield debt last year, through June 30, 2011, an additional \$10.5 billion

**EMERGING MARKETS**

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*We see pockets of opportunity in emerging markets as well as developed markets. Emerging market economies grew at an average real annual rate of 6.4% since the beginning of the decade, **compared to 2.2% for the developed economies.***



**GDP**  
Gross Domestic Product

With strong balance sheets and an increasing share of global GDP, emerging markets are likely to outperform the developed markets due in part to strong domestic consumption. Consumer spending in emerging markets is stronger than in more developed economies, with consumer spending in developed economies flat to negative.

The profiles for these countries have also changed and they no longer present the same risks once associated with emerging markets. In many of these countries, there is more stability and better governance helping to create a market environment where companies are able to grow their businesses. In the more mature developed markets, opportunities are available at the smaller end. Managers with strong, extensive networks that have produced quality, non-auction deal flow will be well positioned in this environment. Non-auction deals often allow managers to negotiate purchase price multiples at discounts to the market average. These managers tend to focus on adding value through operational improvements and organic growth and use little, if any, leverage. The current environment presents strong opportunities for investors to allocate a portion of their overall portfolios to buyout managers that are cycle tested.

**VENTURE CAPITAL**

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*Venture capital has witnessed a resurgence as valuation concerns are **once again at the forefront.** For some, the current valuations assigned to various social networking and gaming companies, is once again a replay of the 1990s, when investor exuberance led to "stretched" valuations.*

Bubbles in private equity are difficult to identify however one possible intimation is when venture capital gets pushed to the front page of the mainstream press. Several companies have garnered mass media interest as some recently were the subject of articles in the Wall Street Journal and Bloomberg.

Late last year, Groupon reportedly turned down a \$6 billion offer from Google in December, less than three years after receiving its first funding from a venture firm.

*The sovereign debt crisis is further compounding the difficulties of the banks, as countries grapple with high unemployment and severe austerity measures to reduce debt burdens and placate creditors.*

Goldman Sachs led a \$1.5 billion investment in Facebook at a \$50 billion valuation, which was initially ridiculed until soon thereafter the valuation in private transactions surpassed \$74 billion. Zynga, an online gaming company and creator of FarmVille among other games, is reportedly in discussions with potential investors that would value the three-year-old company between \$7 billion and \$9 billion. Google and Facebook reportedly entertained discussions with Twitter that valued the company at between \$8 billion and \$10 billion.

**Coming to Market** To be fair, these companies are (reportedly) generating revenue of \$100 million or more (in some cases several hundred million) a year, which is something few of the dot.com companies in the late 1990s ever achieved. Whether or not their current valuations are sustainable remains to be seen. The venture funds that backed them maintain ownership stakes and still need to fully exit their positions, which likely won't happen until an IPO occurs. None the less, the market has rebounded strongly as the second quarter of 2011 marked the strongest three month period, in dollars, for venture backed IPOs since the third quarter of 2000. Twenty two venture backed IPOs, valued at \$5.5 billion came to market in the second quarter of 2011 — this is more than triple the dollar value seen during the second quarter of 2010 and a 29% increase by number of offerings relative to the comparable period last year.

**Crucial Class** Venture capital is a very cyclical asset class. There will be periods of innovation where new, large, disruptive markets are discovered and investor enthusiasm will drive capital flows and valuations until such time as the growth ameliorates and investors await the next boom/innovation. As we've maintained, the one sub-asset class within private equity where GP selection is crucial, is venture. Given the difficulty in timing the next innovation cycle, it is better to emphasize committing capital to those investors that have a better relative probability of being at the forefront of the next innovation cycle.

## DEBT-RELATED



**EBITDA**  
Earnings Before Interest, Taxes,  
Depreciation, and Amortization

Within debt related, the U.S. market has been more sanguine relative to Europe. On a trailing twelve month basis, according to Fitch, revenue, EBITDA and capex increased 9.4%, 15.5% and 27.1% respectively, through June versus the prior twelve months ending June 2010. Two-thirds of companies in Fitch's sample reported higher EBITDA in the second quarter of 2011 relative to the prior year's second quarter and 72% reported higher cap-ex. The speed at which balance sheets have been repaired lowered the trailing twelve month U.S. high yield default rate to 1.2% from 1.3% in July. Conversely, the deterioration within certain European economies following the recession and near failure of the major U.S. and European banks in 2008 and 2009 led to major concerns about European sovereign credits and their financial systems. One consequence of this was a more stringent Basel III regulatory environment, requiring banks to de-lever and raise Core Tier 1 (Common Equity) capital from 2% under Basel II to 7% under Basel III. The objective is to provide greater stability to the European banking system and promote confidence in capital markets.

This will lead banks to sell performing non-core assets and non-performing and other "legacy assets" that would be assigned a higher risk weighting, and re-focus on their core markets and services. The term "legacy assets" refers to previously underwritten assets, many of which have become distressed due to economic conditions and financial turmoil and have lost a considerable amount of value. In the case of banks, the bulk of these assets are "legacy loans," primarily real estate related loans, many of which are carried on bank balance sheets above their current market value. Uncertainty about the value of these legacy loans casts doubt upon the strength of bank balance sheets, compromising the ability of banks to raise additional capital, and their ability and willingness to increase lending. PwC estimates that European banking sector non-core assets exceed €1.3 trillion, including €800 billion in NPLs.

The sovereign debt crisis is further compounding the difficulties of the banks, as countries grapple with high unemployment and severe austerity measures to reduce debt burdens and placate creditors. The problems in Europe are complex, from excessive leverage, to structural/regulatory issues, both in the private and public sector, that while opportunities seemingly abound, in reality those with patience and the resources will be rewarded given the complexity of the current crisis. Markets are difficult to time, however being early can also negatively impact returns. Investors should exercise patience, committing to those managers with the resources to understand and navigate the crisis. The headwinds that adversely affected markets in 2010 will continue to challenge them in 2011, but the key will be picking regions, sectors and funds that will help to ensure excess returns, regardless of

the macroeconomic environment. The private credit markets in the US and Western Europe will continue to provide opportunity throughout 2011. The secular void of traditional financing, muted growth environment and impending leveraged loan and high yield maturities will continue to create opportunities. Opportunities will be especially acute within the middle market (defined as companies with less than US \$100 million of EBITDA) where companies lack capital structure flexibility, asset optionality and depth of resources. Secondary debt markets will be active, but "buying the market" will be much less rewarding, and return prospects for senior debt will likely revert to historical averages.

**Private Equity** In the private equity markets of the US and the UK, France and other parts of Northern Europe, a focus on managers and funds who invest in small-and middle-market enterprise valuation companies should generate disproportionate returns. Specifically, a focus on managers who have strong operating and buy-and-build expertise will help drive growth and returns. In addition, debt-to-equity conversion strategies and operational turnarounds will also become more prevalent and generators of good risk-adjusted returns. Although investments in the regions do not come without considerable risk, the developing economies of Asia and Latin America will be a bright spot for investments. These regions continue to demonstrate the best prospects for continued and sustainable economic growth, based on strong underlying economic fundamentals; large population bases with favorable demographics; rapid urbanization and the rising affluence of a middle income class; as well as a shift from export-dependent to domestic consumption economies.

#### **PRIVATE EQUITY PERFORMANCE & ASSET ALLOCATION**

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*Given the Program's maturity, barring another recession, we anticipate the level of distributions to **continue to increase.***

For the period ending June 30, 2011, the Private Equity Program generated a return since inception of 9.19%, outperforming its benchmark, the S&P 500 + 300 basis points, which returned 5.88%. Since March 2009, during the midst of the "Great Recession", when the Program's performance bottomed at -4.93%, the Portfolio has shown a sequential improvement in performance each quarter through June 30, 2011.

During the first half of 2011, KRS completed a partial sale of its private equity portfolio, rebalancing the portfolio for non-core relationships and bringing the Program's PE exposure

*Performance continues to improve, the Program continues to out-perform its benchmark and net cash flows are turning positive.*

to within the low end of the 5-15% policy range. Post the secondary sale, the Program's exposure to private equity is 9.95% as of June 30, 2011, with a steady decline anticipated over the next several years as the level of distributions start to accelerate.

**Program Distributions** During this past fiscal year, the level of distributions, surpassed the level of contributions for the first time — the level of distributions, adjusted for the secondary sale, equated to \$302 million relative to the \$283 million in drawdowns for the same period. As mentioned, given the Program's maturity, barring another recession, we anticipate the level of distributions to continue to increase, factoring in new commitments. New commitments, given the PE portfolio is well represented within the mid-large end of the buyout segment, as well in venture, we would emphasize, should be more opportunistic, selectively seeking exposure to niche or narrow strategies within the small/mid-market buyout space, distressed strategies emphasizing Europe and direct international commitments, identifying groups/strategies that are differentiated and can generate attractive risk adjusted returns. While having exposure to different sub-assets perhaps leads to portfolio diversification, we would emphasize in private equity it is equally or perhaps more important to focus on superior risk adjusted returns. Hence the need to review a prospective commitment to an international firm relative to a domestic buyout firm or venture firm, in the context of returns relative to risk.

Current allocations, post the secondary sale are 59% Buyout, 22% Venture Capital, 18% Debt Related and 0.8% International. While the current allocation to private equity is close to 10%, above the 7% target but within the policy range of 5-15%, we would recommend a commitment pace equating to \$250 million per annum, subject to opportunities that meet the Program's return criteria.

#### Approximate Allocation (Post Secondary Sale)

Asset	Allocation Targets
Buyout	59.0%
Venture Capital	22.0%
Debt-Related	18.0%
International	0.8%

**Final Thoughts** In summary, performance continues to improve, the Program continues to out-perform its benchmark and net cash flows are turning positive. It is projected the Program will be below its 7% target by 2015, at which point new commitments should in large part become self-funding, provided the pacing of new commitments is reasonable and to investments that can continue to generate returns in line with expectations.

**Peter A. Keliuotis**, CFA // Managing Director  
Strategic Investment Solutions, Inc.  
October 3, 2011

*Strategic Investment Solutions is charged with the duty to advise KRS in its private equity investment activities. Market performance data is as of June 30, 2011.*

**MARKET OVERVIEW**

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By Jonathan Berns  
Principal  
ORG Portfolio Management

*The U.S. commercial real estate market has seen a **gradual, albeit slow, improvement in 2011. Despite the economy's painstaking lagged recovery from recession, demand for property is improving in all sectors.***

Recovery is most apparent in the apartment sector, followed by select office and retail markets across the country. The apartment sector continues to strengthen. Modest job growth in the first quarter of 2011 and minimal new supply has helped to increase demand for apartment properties and vacancy rates have fallen to 6% by the end of the second quarter 2011. Although the outlook for job growth for the second half of 2011 is negative, this is not expected to have any real impact on the fundamentals of the apartment sector. Several areas of concern include increases in construction activity and the improved housing affordability following the collapse in housing prices over the past several years.

**Office Sector** The office sector in the U.S. market is improving overall and pockets of select metro areas have shown marked growth over the first and second quarters of 2011. Recognition by investors of improved demand caused by a freeze in new construction in most markets has led to a more optimistic market outlook. Major gateway metros such as New York City, San Francisco and Washington D.C. all saw stronger office markets by the end of the second quarter. Vacancy rates are expected to decline in most markets, and the recovery rate will improve as rents stabilize and new construction remains at historically low levels. Areas of concern include anemic job growth and a potential downsize of the U.S. government employment located in Washington, D.C.

**Retail Sector** The retail sector has seen some improvement in consumer spending and the forecast for the market is cautiously optimistic. High end retailers are bouncing back more quickly than their big box counterparts. This trend is reflective of the overall economic recovery, in which those with disposable income are beginning to feel more confident in their ability to spend on luxury items and those who are still feeling the pinch of unemployment continue to only participate in necessity spending.

**ORG'S VIEW**

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*ORG has noted that commercial real estate market conditions have been continuing their **modest recovery** through the first half of 2011.*

During the second quarter of 2011, ORG was optimistic that property prices would continue to recover in a modest fashion as a result of debt becoming widely available for "core" properties and a growth in the number of lenders that were competing fiercely for the few transactions meeting their definition of "core." However, this sentiment





**CMBS**  
Commercial Mortgage-Backed Security

changed to a more cautious outlook on the recovery when the CMBS lending market shut down in the third quarter as several rating agencies abruptly pulled their ratings from several issuances that were about to enter the market. The reemergence of a difficult lending environment will likely lead to pressure on core managers who acquired properties at low capitalization rates with aggressive growth and exit assumptions. At the same time, there will likely be additional value added and opportunistic investment opportunities that capitalize on debt maturities and overleveraged properties. Commercial mortgage investment opportunities will also likely to be attractive for those lenders that are able to remain active originating new loans or acquiring loans from distressed sellers.

**REAL ESTATE INVESTMENTS**

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Kentucky Retirement Systems made \$40 million commitments each to Mesa West Real Estate Income Fund II, PRIMA Mortgage Investment Trust and Walton Street Real Estate Fund VI in December 2008.

Through September 2011, Mesa West Real Estate Income Fund II made three capital calls totaling \$7.8 million and returned \$0.6 million in adjustments and preferred return distributions. Since inception, \$21.9 million has been funded with \$18.1 million remaining capital to be called.

PRIMA Mortgage Investment Trust called Kentucky Retirement Systems' entire \$40 million commitment by the end of the 3rd quarter 2009 and the investment is fully funded. As of September 16, 2011, PRIMA Mortgage Investment Trust has distributed \$6.5 million to KRS.

Through September 2011, Walton Street Real Estate Fund VI made one capital call of \$6 million. Since inception, \$23.9 million has been funded with \$16.1 million remaining capital to be called.

**Jonathan Berns** // Principal  
ORG Portfolio Management, LLC  
September 19, 2011

*ORG Portfolio Management serves as the Real Estate Investment Consultant for KRS and makes recommendations related to the real estate portfolio.*

# Investment Results

*For the fiscal year ended June 30, 2011, the KRS pension fund returned 18.96%, while strong on a nominal basis, fell short of the return of its benchmark by 1.38%. The 18.96% return also bested the actuarially required rate of return of 7.75%.*

**Fiscal Year 2011 Results** The below benchmark performance of the pension fund was a result of the underperformance experienced in the Non-U.S. Equity and Alternatives asset classes; and the currency hedging program which deducted 84 basis points off of the fund's return at the hands of a weak U.S. Dollar. The KRS insurance fund also posted a strong positive return for the fiscal year ending

June 30, 2011. The portfolio returned 23.47% compared to the benchmark's 26.93% return and the actuarially required rate of 7.75%. Like the pension fund, the insurance fund experienced underperformance from the Non-U.S. Equity and Alternatives asset classes; and gave up 146 basis points due to poor performance experienced in the currency hedging program.

## Pension Fund Total Return<sup>1</sup>

Portfolio	Inception Date	Fiscal Year	3-Year	5-Year	10-Year	Inception
KRS Total Fund	April-84	18.96%	4.47%	4.71%	5.51%	9.72%
Performance Benchmark <sup>2</sup>	-	20.34%	5.05%	5.07%	5.52%	9.81%

## Insurance Fund Total Return<sup>1</sup>

Portfolio	Inception Date	Fiscal Year	3-Year	5-Year	10-Year	Inception
KRS Total Insurance Fund	April-87	23.47%	3.07%	3.78%	5.02%	7.93%
Performance Benchmark <sup>3</sup>	-	26.93%	3.32%	3.87%	4.57%	7.99%

<sup>1</sup>The Performance Calculations presented above were prepared by the System's custodial bank using a time-weighted rate or return methodology based upon the market value of assets.

<sup>2</sup>Current Performance Benchmark is comprised of 25% BC Aggregate, 10% BC U.S. TIPS, 12% MSCI World Ex-US, 4% MSCI AWCI Ex-US, 2% MSCI AWCI Ex-US Small Cap, 2% MSCI EM, 4% Russell 2000, 27.2% S&P 1500 Composite, 6% S&P 500, 3% 3-Month Treasury Bill, and 4.8% BC High Yield Corporate Index.

<sup>3</sup>Prior Policy Benchmark was comprised of 12% BC U.S. TIPS, 24% MSCI World Ex-US, 3% MSCI AWCI Ex-US, 3% MSCI EM, 52% S&P 1500 Composite, 3% 3-Month Treasury Bill, and 3% BC High Yield Corporate Index. (Note: Utilized 07/01/10 - 03/31/11) Current Policy Benchmark is comprised of 8.4% BC U.S. TIPS, 3.6% BC Aggregate, 24% MSCI World Ex-US, 3% MSCI AWCI Ex-US, 3% MSCI EM, 52% S&P 1500 Composite, 3% 3-Month Treasury Bill, and 3% BC High Yield Corporate Index. (Note: Utilized 04/01/11 - 06/30/11)

## BENCHMARKS

Benchmarks utilized to measure the Kentucky Retirement Systems' Pension and Insurance Funds are a weighted average composite of the various asset class indices consisting within each portfolio. The Total Fund Benchmarks are shown on page 89.

★ **Note:** At the May 2011 Investment Committee Meeting new benchmarks were adopted and ratified by the Board; however, the new benchmarks were not placed into service until July 1, 2011.

These benchmarks are intended to be objective, measurable, investable/replicable, and representative of the investment mandates. The benchmarks are developed from publicly available information, and accepted by the investment advisor and KRS as the neutral position consistent with the investment mandate and status. KRS' Investment Staff 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.

## Total Fund Benchmarks

Index	Pension Fund	Insurance Fund
Standard & Poor's 1500 Composite	27.2%	52.0%
Standard & Poor's 500 Composite	6.0%	-
Russell 2000 Index	4.0%	-
MSCI World Ex-US	12.0%	24.0%
MSCI All World Country Index Ex-US	4.0%	3.0%
MSCI AWCI Ex-US Small Cap	2.0%	-
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-Mo U.S. Treasury Bill	3.0%	3.0%

### LONG-TERM RESULTS

**Pension Fund** For the 10-years ending June 30, 2011, the KRS pension fund portfolio earned an annualized total return of 5.51%. As shown in the investment results table above, the KRS pension total fund return has trailed the benchmark somewhat over all measured time periods. The cumulative impact from performance on asset growth is illustrated below in a growth of dollar chart. The table compares the ending asset values that result from \$1,000 being invested in the KRS pension portfolio, its policy benchmark portfolio, and its actuarial objective over the past 10 years. As of June 30, 2011, the table indicates that \$1,000 invested in the fund actually grew to \$1,711, while the same \$1,000 invested in the benchmark or in the actuarial objective would have grown to \$1,711 and \$2,159, respectively.

**Insurance Fund** The insurance fund continued to outperform its benchmark, earning a 5.02% return for the 10-year period ending June 30, 2011. The table highlights the difference between \$1,000 being invested in the KRS insurance portfolio (\$1,632), the benchmark (\$1,483), and the actuarial objective (\$2,159) over the past 10 years. As the results show in the accompanying insurance table above, the KRS insurance fund's returns have been in-line with the benchmark over longer term periods.

### Total Pension Fund Growth of \$1,000

Portfolio	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Pension Fund Growth	\$1,000	\$957	\$998	\$1,134	\$1,239	\$1,358	\$1,566	\$1,500	\$1,242	\$1,438	\$1,711
Performance Benchmark	\$1,000	\$947	\$995	\$1,138	\$1,235	\$1,336	\$1,535	\$1,476	\$1,256	\$1,422	\$1,711
Actuarial Assumed Rate of Return	\$1,000	\$1,083	\$1,172	\$1,268	\$1,373	\$1,486	\$1,602	\$1,726	\$1,859	\$2,004	\$2,159

### Total Insurance Fund Growth of \$1,000

Portfolio	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Insurance Fund Growth	\$1,000	\$907	\$922	\$1,101	\$1,206	\$1,355	\$1,617	\$1,490	\$1,145	\$1,321	\$1,632
Performance Benchmark	\$1,000	\$876	\$876	\$1,038	\$1,115	\$1,227	\$1,461	\$1,345	\$1,033	\$1,168	\$1,483
Actuarial Assumed Rate of Return	\$1,000	\$1,083	\$1,172	\$1,268	\$1,373	\$1,486	\$1,602	\$1,726	\$1,859	\$2,004	\$2,159

# U.S. Equity

*For the fiscal year ending June 30, 2011, the KRS pension fund's U.S. equity portfolio posted a return of 33.03%, which outperformed the return of its benchmark by 0.77%. The KRS insurance U.S. equity portfolio posted a return of 33.05%, which also outperformed its benchmark return of 31.68%.*

★ **Note:** KRS uses the Modified Dietz Method as its basis for calculations, which is used to determine the performance of an investment portfolio based on a time-weighted cash flow.

The U.S. equity portfolio posted strong positive results during most historic periods. Since inception performance remains solid where the pension's equity portfolio has generated an annualized average return of 11.14% throughout its duration, while the insurance equity portfolio posted an average annual return of 8.82%.

**Growth of \$1,000** For the 10-year period ending June 30, 2011, the pension fund's chart on page 91 indicates that \$1,000 would have resulted in \$1,435 while the same \$1,000 invested in the benchmark would result in \$1,385. For the KRS insurance fund, ending June 30, 2011, a \$1,000 investment would be valued at \$1,419, compared to \$1,277 for the benchmark.

## Top 10 U.S. Equity Holdings Pension Fund

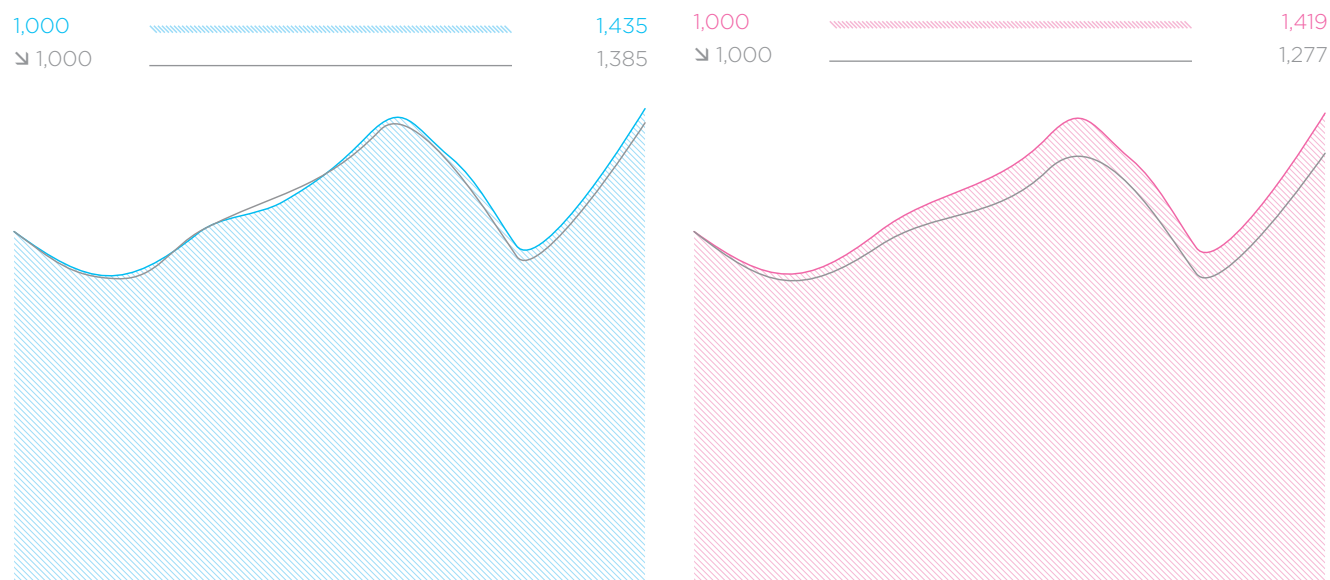
Company	Shares	Market Value
EXXON MOBIL CORP	603,297	\$49,096,310
APPLE INC	104,230	\$34,986,884
CHEVRON CORP	286,843	\$29,498,934
IBM CORP	161,661	\$27,732,945
GENERAL ELECTRIC	1,406,729	\$26,530,909
MICROSOFT CORP	957,205	\$24,887,330
PFIZER INC	1,165,889	\$24,017,313
JPMORGAN CHASE & CO	553,154	\$22,646,125
JOHNSON & JOHNSON	326,753	\$21,735,610
WELLS FARGO & CO	772,053	\$21,663,807
<b>Total</b>	<b>6,337,814</b>	<b>\$282,796,166</b>

## Top 10 U.S. Equity Holdings Insurance Fund

Company	Shares	Market Value
EXXON MOBIL CORP	121,920	\$9,921,850
APPLE INC	25,984	\$8,722,049
CHEVRON CORP	59,340	\$6,102,526
GENERAL ELECTRIC	298,986	\$5,638,876
JOHNSON & JOHNSON	80,905	\$5,381,801
IBM CORP	29,943	\$5,136,722
PFIZER INC	236,525	\$4,872,415
MICROSOFT CORP	183,013	\$4,758,338
AT&T INC	146,130	\$4,589,943
PROCTER & GAMBLE	72,122	\$4,376,404
<b>Total</b>	<b>1,254,868</b>	<b>\$59,709,315</b>

## U.S. Equity Portfolio Growth of \$1,000

Portfolio	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Pension Fund Growth	\$1,000	\$838	\$830	\$1,009	\$1,072	\$1,200	\$1,431	\$1,247	\$938	\$1,079	\$1,435
⌵ Performance Benchmark	\$1,000	\$837	\$831	\$1,008	\$1,073	\$1,173	\$1,405	\$1,220	\$901	\$1,047	\$1,385
Insurance Fund Growth	\$1,000	\$841	\$839	\$1,011	\$1,086	\$1,192	\$1,428	\$1,242	\$930	\$1,067	\$1,419
⌵ Performance Benchmark	\$1,000	\$824	\$810	\$959	\$1,011	\$1,084	\$1,304	\$1,139	\$839	\$970	\$1,277



## Return on U.S. Equity

Portfolio	Inception Date	Fiscal Year	3-Year	5-Year	10-Year	Inception
Pension Fund	Apr-84	33.03%	4.78%	3.65%	3.68%	11.14%
⌵ Performance Benchmark <sup>1</sup>	-	32.26%	4.33%	3.39%	3.74%	10.98%
Insurance Fund	Jul-92	33.05%	4.55%	3.55%	3.56%	8.82%
⌵ Performance Benchmark <sup>2</sup>	-	31.68%	3.88%	3.32%	3.33%	8.38%
<b>Market Indices</b>						
Russell 1000 (Large Cap)	-	31.93%	3.68%	3.30%	3.21%	-
Russell 2000 (Small Cap)	-	37.41%	7.77%	4.08%	6.27%	-
Russell 3000 (Total Equity)	-	32.37%	4.00%	3.35%	3.44%	-

<sup>1</sup>Pension Benchmark consists 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)



# International Equity

*For the fiscal year, ending June 30, 2011, the KRS pension fund's international equity portfolio returned 29.08%, underperforming its benchmark by 1.87%. The KRS insurance international equity portfolio also fell short of its benchmark, posting a return of 28.23% versus 30.66% during the same twelve month period.*

★ **Note:** KRS uses the Modified Dietz Method as its basis for calculations, which is used to determine the performance of an investment portfolio based on a time-weighted cash flow.

While relative returns were disappointing this year, the fund did experience strong nominal returns during the trailing year period. International equity investors have experience a volatile period of returns over the past several years. After four consecutive years of favorable results, investors then witnessed significant market losses for two fiscal years, and have now experienced a reversal of that for the past two year fiscal years. The pension fund portfolio has generated an annualized return of 2.28% over the trailing three-year period, while the insurance fund saw returns on average of 1.36% during the same period. Over the past five years, the Pension and Insurance funds have posted annualized returns of 3.76% and 3.92% respectively exceeding the return of the relative benchmarks. The Systems began their international equity program in 2000. Since inception, the pension international equity portfolio has underperformed the benchmark somewhat, while the insurance international equity portfolio has outperformed the benchmark.

**Growth of \$1,000** The chart on page 93 depicts the growth of \$1,000 invested in the KRS international equity portfolios as well as the blended benchmark since FY01. For the KRS pension fund, ending June 30, 2011, \$1,000 would have resulted in \$1,846, while the same amount invested in the benchmark would have resulted in \$1,989. For the KRS insurance fund, ending June 30, 2011, \$1,000 would have grown to \$2,020, while an investment in the index would have been valued \$1,956.

## Top 10 International Equity Holdings Pension Fund

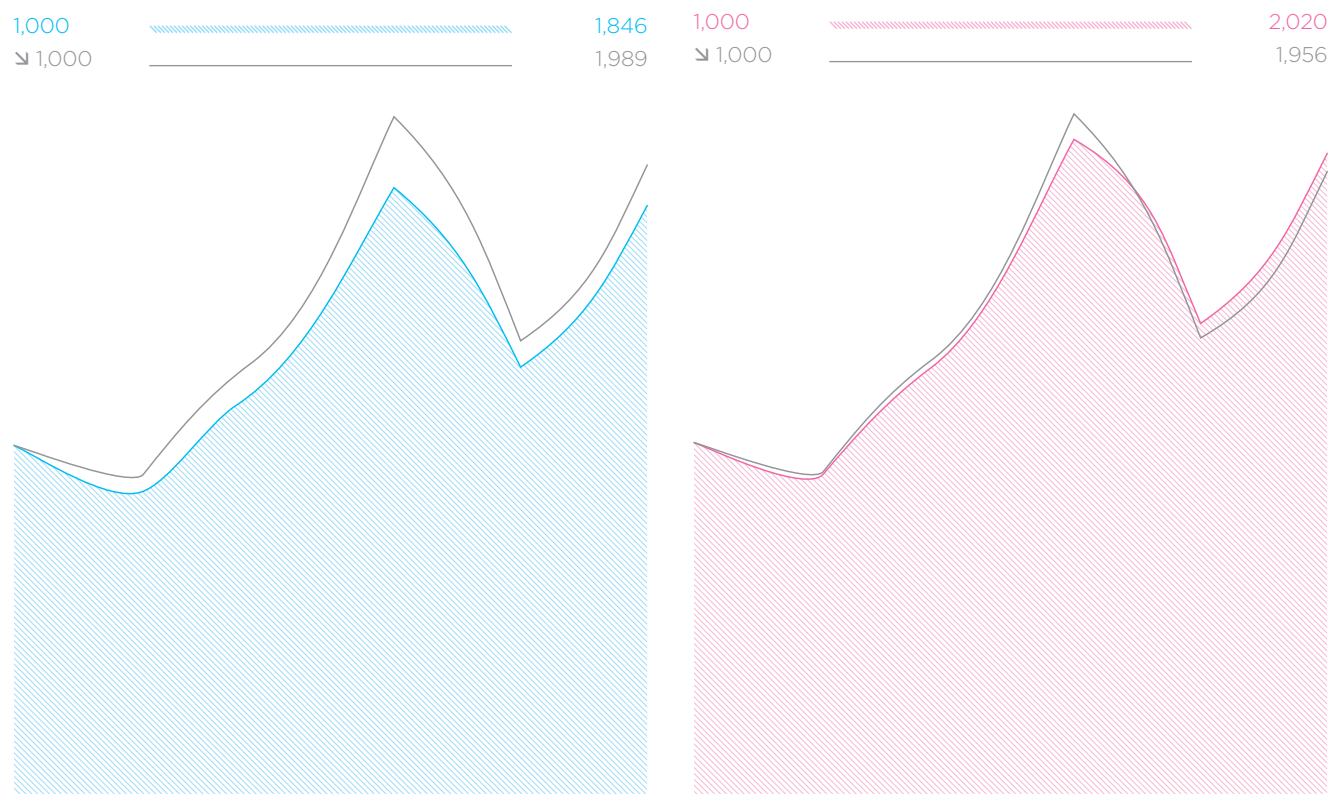
Company	Shares	Market Value
HSBC HOLDINGS	2,621,254	\$26,024,080
TOTAL	342,255	\$19,789,191
SANOFI-AVENTIS	235,963	\$18,966,632
NOVARTIS	308,249	\$18,853,710
TOYOTA MOTOR CORP	447,000	\$18,265,230
UBS	993,694	\$18,091,840
VODAFONE GROUP	6,575,386	\$17,449,818
ROCHE HOLDINGS	103,194	\$17,243,938
BP	2,327,132	\$17,135,596
GLAXOSMITHKLINE	701,424	\$15,022,190
<b>Total</b>	<b>14,655,551</b>	<b>\$186,842,225</b>

## Top 10 International Equity Holdings Insurance Fund

Company	Shares	Market Value
HSBC HOLDINGS	1,007,627	\$10,003,825
TOTAL	132,863	\$7,682,141
SANOFI-AVENTIS	93,290	\$7,498,621
NOVARTIS	119,027	\$7,280,155
UBS	391,013	\$7,119,037
TOYOTA MOTOR CORP	171,700	\$7,015,973
VODAFONE GROUP	2,557,118	\$6,786,103
BP	917,627	\$6,756,852
ROCHE HOLDINGS	39,974	\$6,679,741
GLAXOSMITHKLINE	277,403	\$5,941,058
<b>Total</b>	<b>5,707,642</b>	<b>\$72,763,505</b>

## International Equity Portfolio Growth of \$1,000

Portfolio	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Pension Fund Growth	\$1,000	\$888	\$835	\$1,067	\$1,213	\$1,534	\$1,909	\$1,725	\$1,276	\$1,430	\$1,846
↘ Performance Benchmark	\$1,000	\$933	\$886	\$1,167	\$1,332	\$1,693	\$2,159	\$1,938	\$1,369	\$1,519	\$1,989
Insurance Fund Growth	\$1,000	\$912	\$878	\$1,140	\$1,307	\$1,666	\$2,069	\$1,939	\$1,420	\$1,575	\$2,020
↘ Performance Benchmark	\$1,000	\$933	\$886	\$1,167	\$1,332	\$1,693	\$2,159	\$1,938	\$1,369	\$1,497	\$1,956



## Return on International Equity

Portfolio	Inception Date	Fiscal Year	3-Year	5-Year	10-Year	Inception
Pension Fund	Jul-00	29.08%	2.28%	3.76%	6.32%	2.61%
↘ Performance Benchmark <sup>1</sup>	-	30.95%	0.87%	3.27%	7.12%	3.05%
Insurance Fund	Apr-00	28.23%	1.36%	3.92%	7.28%	2.83%
↘ Performance Benchmark <sup>2</sup>	-	30.66%	0.31%	2.93%	6.94%	2.13%
<b>Market Indices</b>						
MSCI World Ex-US	-	30.92%	-1.07%	2.52%	6.60%	-
MSCI Emerging Markets	-	28.17%	4.53%	11.75%	16.54%	-
MSCI ACWI Ex US	-	30.27%	0.11%	4.14%	7.92%	-

<sup>1</sup>Pension Benchmark consists of 60% MSCI World Ex-US, 20.0% MSCI AWCI Ex-US, 10.0% MSCI AWCI Ex-US SC, and 10% MSCI EM.

<sup>2</sup>Insurance Benchmark consists of 80% MSCI World Ex-US, 10.0% MSCI AWCI Ex-US, and 10% MSCI EM Index.

# Fixed Income

*For the fiscal year, ending June 30, 2011, the KRS pension fund's fixed income portfolio returned 6.13%, outperforming its performance benchmark by 1.13%.*

★ **Note:** KRS uses the Modified Dietz Method as its basis for calculations, which is used to determine the performance of an investment portfolio based on a time-weighted cash flow.

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, 2011. The KRS insurance fixed income portfolio posted a 6.64% rate of return, trailing its benchmark by 0.38%. Over the past three years ending June 30, 2011, the KRS pension fund's fixed portfolio has generated an annualized average return of 5.68% versus its custom performance benchmark return of 6.17%. The insurance fund's fixed portfolio posted a 4.95% return during the same period, falling short of its benchmark return by 0.09%. Over the five year period, the pension fund has lagged the benchmark by 52 basis points, while the insurance fund essentially matched its benchmark, trailing by just 3 basis points. Over the ten year period, the pension fund has lagged the benchmark by 0.27% or 27 basis points, while the insurance fund has outperformed its benchmark by 5 basis points.

**Growth of \$1,000** The chart on page 95 shows the growth of \$1,000 invested in KRS fixed income portfolio over the past ten years. For the KRS pension fund, ending June 30, 2011, \$1,000 would have grown to \$1,774, while the same \$1,000 invested in the benchmark would have grown to \$1,820. For the KRS insurance fund, ending June 30, 2011, \$1,000 would have grown to \$2,060, which earned \$11 more than the benchmark's growth.

## Top 10 Fixed Income Holdings Pension Fund

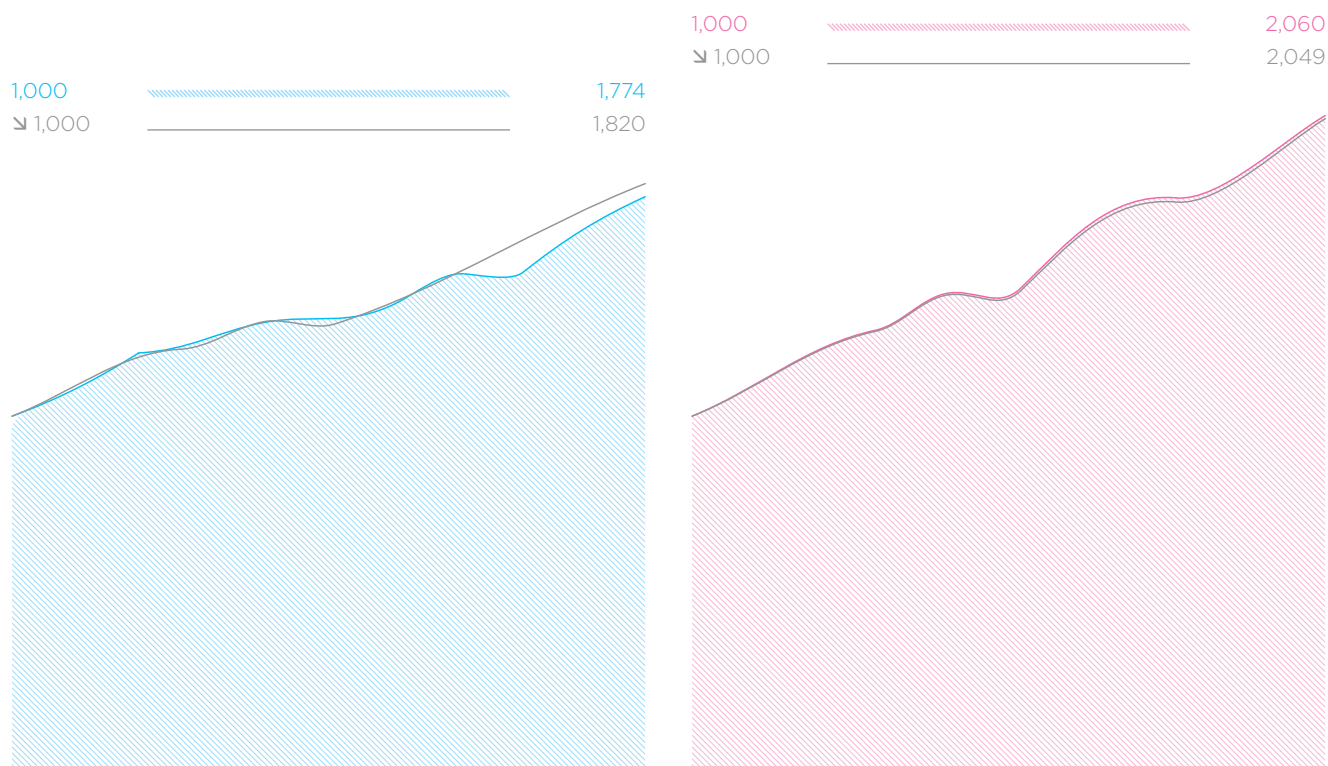
Company	Par Value	Market Value
US TSY NTS TIPS DTD 00340 DUE 04/15/16	\$91,000,000	\$94,794,718
US TSY NTS 1.125 TIPS DUE 01/15/21	\$72,000,000	\$76,854,298
US TSY NTS IND LNKD 2.000 DUE 01/15/16	\$59,390,000	\$74,779,313
US TSY NTS DTD 2.500 DUE 03/31/15	\$59,500,000	\$62,419,070
US TSY NTS 1.125 TIPS 04/15/20	\$57,000,000	\$62,168,055
FNMA 30 YEAR PASS- THRU 5.5 SET JULY	\$55,000,000	\$59,468,750
US TSY NTS IND LNKD 1.875 DUE 01/15/17	\$43,558,000	\$55,405,002
US TSY NTS IND LNKD 2.375 DUE 07/15/19	\$46,600,000	\$54,883,385
US TSY INFL LNKD BDS 2.375 DUE 01/15/25	\$39,397,000	\$54,016,810
US TSY INFL LNKD BDS 2.125 DUE 01/15/19	\$40,600,000	\$48,314,243
<b>Total</b>	<b>\$564,045,000</b>	<b>\$643,103,644</b>

## Top 10 Fixed Income Holdings Insurance Fund

Company	Par Value	Market Value
FNMA MTG PL# AH5849 4.500 DUE 02/01/41	\$24,641,695	\$25,607,896
FNMA SINGLE FAM 4.000 15YR SET JULY	\$23,200,000	\$24,164,238
US TSY NTS TIPS DTD 00347 DUE 03/31/13	\$20,000,000	\$20,117,200
US TSY INFL LNKD BDS DUE 04/15/28	\$9,890,500	\$18,106,181
US TSY NTS 1.125 TIPS DUE 01/15/21	\$15,000,000	\$16,011,312
US TSY NTS 1.250 TIPS DUE 04/15/20	\$14,000,000	\$15,269,347
US TSY INFL LNKD BDS 2.375 DUE 01/15/25	\$10,540,500	\$14,451,968
US TSY INFL LNKD BDS 3.875 DUE 04/15/29	\$7,340,500	\$13,757,710
US TSY NTS TIPS DTD 00340 DUE 04/15/16	\$13,000,000	\$13,542,103
US TSY NTS IND LNKD 2.000 DUE 01/15/16	\$10,480,500	\$13,196,238
<b>Total</b>	<b>\$148,093,695</b>	<b>\$174,224,193</b>

## Fixed Income Portfolio Growth of \$1,000

Portfolio	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Pension Fund Growth	\$1,000	\$1,082	\$1,223	\$1,234	\$1,331	\$1,316	\$1,391	\$1,503	\$1,495	\$1,672	\$1,774
▾ Performance Benchmark	\$1,000	\$1,085	\$1,228	\$1,240	\$1,334	\$1,318	\$1,390	\$1,521	\$1,583	\$1,733	\$1,820
Insurance Fund Growth	\$1,000	\$1,091	\$1,260	\$1,308	\$1,432	\$1,410	\$1,627	\$1,782	\$1,763	\$1,932	\$2,060
▾ Performance Benchmark	\$1,000	\$1,088	\$1,256	\$1,304	\$1,426	\$1,402	\$1,614	\$1,768	\$1,748	\$1,915	\$2,049



## Return on Fixed Income

Portfolio	Inception Date	Fiscal Year	3-Year	5-Year	10-Year	Inception
Pension Fund	Apr-84	6.13%	5.68%	6.16%	5.90%	8.27%
▾ Performance Benchmark <sup>1</sup>	-	5.00%	6.17%	6.68%	6.17%	8.13%
Insurance Fund	Jul-92	6.64%	4.95%	6.73%	6.93%	7.07%
▾ Performance Benchmark <sup>2</sup>	-	7.02%	5.04%	6.76%	6.88%	7.06%
<b>Market Indices</b>						
BC Aggregate	-	3.90%	6.46%	6.52%	5.74%	-
BC Corporate High Yield	-	15.09%	12.64%	9.39%	8.99%	-
BC U.S. TIPS	-	7.74%	5.28%	6.91%	6.95%	-

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

<sup>2</sup>Insurance Benchmark was the Barclays U.S. TIPS Index from July 1, 2010 through March 31, 2011. From April 1, 2011 to June 30, 2011, the benchmark consisted of 70% Barclays U.S. TIPS, and 30% Barclays Aggregate.

# Private Equity

*For the fiscal year ending June 30, 2011 the pension fund's private equity portfolio posted a return of 13.38%.*

The portfolio consists primarily of private equity limited partnerships and operating companies investments. The custom benchmark for the pension private equity portfolio returned 25.17% during this same period. The insurance alternative investment portfolio returned 20.07% versus its performance benchmark return of 28.43%. Two events weighed heavily on the private equity relative returns in the short to intermediate time periods. For fiscal year 2011, the pension fund experienced a drag on performance due to a secondary sale aimed at bolstering the funds much needed liquidity; \$426 million worth of assets were sold at 91 cents on the dollar. Also, 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 table below indicates, the market's volatility impacted the intermediate results in the private equity portfolios. For the three and five years ending June 30, 2011, the pension fund portfolio trailed its benchmark by 7.16% and 2.63%, respectively. For the three year time period, the insurance fund returned 3.80% on an annualized basis underperforming its custom benchmark by 1.96%. Since its inception in October 1990, the pension portfolio has outpaced its benchmark by 1.54% per year, while the insurance portfolio has outperformed its benchmark by 2.12% since its July 2001 inception. Benchmark misfit also contributed meaningfully to the presented underperformance.

## Return on Private Equity

Portfolio	Inception Date	Fiscal Year	3-Year	5-Year	10-Year	Inception
Pension Fund	Oct-90	13.38%	0.43%	3.22%	10.58%	10.92%
↘ Performance Benchmark <sup>1</sup>	-	25.17%	7.59%	5.85%	5.73%	9.38%
Insurance Fund	Jul-01	20.07%	3.80%	5.06%	6.67%	6.67%
↘ Performance Benchmark <sup>2</sup>	-	28.43%	5.76%	4.61%	4.55%	4.55%

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

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

# Real Estate

*The Real Estate portfolio consists primarily of private REITs, publicly traded real estate securities, and focused investments.*

## Return on Real Estate<sup>1</sup>

Portfolio	Inception Date	Fiscal Year	3-Year	5-Year	10-Year	Inception
Pension Fund	Sep-09	22.41%	-	-	-	9.87%
↘ Performance Benchmark <sup>2</sup>	-	16.03%	-	-	-	2.64%
Insurance Fund	Sep-09	27.21%	-	-	-	11.27%
↘ Performance Benchmark <sup>2</sup>	-	16.03%	-	-	-	2.64%

<sup>1</sup>Performance reported from initial investment with external management.

<sup>2</sup>Pension and Insurance Benchmark consists of 100% NCREIF Property Blended Index.

# Absolute Return

*The Absolute Return portfolio consists primarily of one direct multi-strategy hedge fund investment, which was meaningfully diversified early in fiscal year 2012.*

## Return on Absolute Return

Portfolio	Inception Date	Fiscal Year	3-Year	5-Year	10-Year	Inception
Pension Fund	Mar-10	6.36%	-	-	-	3.62%
↘ Performance Benchmark <sup>1</sup>	-	7.09%	-	-	-	6.83%
Insurance Fund	Mar-10	6.57%	-	-	-	3.35%
↘ Performance Benchmark <sup>1</sup>	-	7.09%	-	-	-	6.83%

<sup>1</sup>Pension and Insurance Benchmark consists of 100% 12 month LIBOR +500 bps

# Cash

*For the fiscal year, ending June 30, 2011, the KRS pension fund's cash portfolio returned 0.44%, outpacing its benchmark, the Citi Group 3-month Treasury by 0.32%.*

★ **Note:** KRS uses the Modified Dietz Method as its basis for calculations, which is used to determine the performance of an investment portfolio based on a time-weighted cash flow.

For the fiscal year, ending June 30, 2011, the KRS pension fund's cash portfolio returned 0.44%, outpacing its benchmark, the Citi Group 3-month Treasury by 0.32%. The KRS insurance cash portfolio also outperformed the index, posting a return of 0.29% during the same twelve month period.

As the table below indicates, the longer term results from the cash portfolios have been excellent when compared to their benchmark. For the five years ending June 30, 2011, the pension fund portfolio has outperformed its custom benchmark by 0.87% on an annualized basis. Since its inception, the portfolio has exceeded its benchmark by 0.84% 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 0.43% and 0.30%, respectively.

## Return on Cash

Portfolio	Inception Date	Fiscal Year	3-Year	5-Year	10-Year	Inception
Pension Fund	Jan-88	0.44%	1.00%	2.74%	3.31%	4.85%
↘ Performance Benchmark <sup>1</sup>	-	0.12%	0.33%	1.87%	2.01%	4.01%
Insurance Fund	Jul-92	0.29%	0.45%	2.30%	2.57%	3.63%
↘ Performance Benchmark <sup>1</sup>	-	0.12%	0.33%	1.87%	2.01%	3.33%

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



Following are additional schedules which indicated the Investment Advisors employed along with the total assets each of the firm manages for KRS, 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, 2011.

External Investment Advisors & Assets Under Management (in Thousands)

Advisor	Assets Under Management
Aberdeen Asset Management, Aberdeen, Scotland	\$356,017
Arbor Investments II, Chicago, Illinois	\$23,642
Arcano Capital, New York, New York	\$1,498
Arrowhawk Capital Partners, Darien, Connecticut	\$104,174
Artio Global Investors, New York, New York	\$289,603
Avenue Capital V, New York, New York	\$1,108
Bay Hills Emerging Partners I, San Francisco, California	\$49,127
BlackRock Global Investors, San Francisco, California	\$299,259
Blackstone Capital Partners V, New York, New York	\$50,090
Camelot Capital, New York, New York	\$18,421
Columbia Capital IV, Alexandria, Virginia	\$29,880
Commerce Street Income Partners LP, Dallas, Texas	\$61,223
Crestview Partners II, New York, New York	\$38,335
Doll Capital Management, Menlo Park, California	\$4,697
Duff, Ackerman & Goodrich Ventures II, Palo Alto, California	\$146,267
Essex Woodland VIII, Palo Alto, California	\$9,048
GTCR Golder Rauner IX, Chicago, Illinois	\$59,475
H.I.G BIO Venture II, Miami, Florida	\$375
H.I.G. Venture Partners II, Miami, Florida	\$18,906
H/2 Credit Partners, Stamford, Connecticut	\$20,000
Harvest Partners V, New York, New York	\$30,668
Hellman & Friedman VI, New York, New York	\$24,750
Horsley Bridge International V LLC, San Fransico, California	\$4,340
Institutional Venture Partners XI, Menlo Park, California	\$47,145
Invesco, Atlanta, Georgia	\$259,624
JW Childs Equity III, Boston, Massachusetts	\$19,415
Keyhaven Capital Partners, London, England	\$7,191
Leonard Green & Partners, L.P.,IV, Los Angeles, California	\$154,242
Matlin Patterson Global Opportunities I & II, New York, New York	\$43,428
Merit Capital Partners IV, Chicago, Illinois	\$21,771
Mesa West, Los Angeles, California	\$17,915
MHR Insituitional Advisors III, New York, New York	\$3,285
Mill Road Capital, Greenwich, Connecticut	\$32,978
New Mountain Partners II, New York, New York	\$46,812

NISA Investment Advisors, St. Louis, Missouri	\$1,265,204
Northern Trust Global Investors, Chicago, Illinois	\$480,269
Oak Hill Partners II, New York, New York	\$115,216
Oak Tree Opportunities VIIB, Los Angeles, California	\$7,706
PIMCO, New Port Beach, California	\$1,245,581
Prima Mortgage, New York, New York	\$47,833
Pyramis Global Advisors, Boston, Massachusetts	\$982,934
Record Currency Management, Windsor Berkshire, England	-\$10,269
River Road Asset Mgmt, Louisville, Kentucky	\$46,226
Shenkman Capital, Stamford, Connecticut	\$143,711
Stone Harbor Investments, New York, New York	\$145,310
Sun Capital Partners IV, Boca Raton, Florida	\$22,050
Technology Crossover Ventures VI, Palo Alto, California	\$10,185
Tenaska Power Fund II, Omaha, Nebraska	\$15,207
The Boston Company, Boston, Massachusetts	\$907,932
The Camelot Group, New York, New York	\$18,421
Tortoise Capital, Leawodd, Kansas	\$40,394
Vantagepoint Venture IV, San Bruno, California	\$41,416
Vista Equity Partners III, San Francisco, California	\$48,850
Walton Street Real Estate Fund, Chicago, Illinois	\$25,229
Warburg Pincus IX, New York, New York	\$97,474
Waterfall Investment, New York, New York	\$181,126
Wayzata Investment Partners I, Wayzata, Minnesota	\$180,406
Weaver Barksdale & Associates, Brentwood, Tennessee	\$415,604
Wellington Management Company, Boston, Massachusetts	\$208,779
Westfield Capital, Boston, Massachusetts	\$164,264
Westwood Management, Dallas, Texas	\$152,181
<b>Total</b>	<b>\$9,293,952</b>

## CONSULTANTS

Master Custodian is **Northern Trust Company**, from Chicago, Illinois. Investment consultants are **ORG Real Property** from Cleveland, Ohio; **R.V. Kuhns & Associates, Inc.** from Portland, Oregon; and **Strategic Investment Solutions** from San Francisco, California.

## Schedule of Commissions Paid

Asset	Total Shares	Commissions Paid	Price per Share
U.S. Equities	293,851,266	\$4,829,954	\$0.016
	Total Value of Trades	Commissions Paid	As a % of Trade
International Equities	\$3,664,170,864	\$4,051,411	0.111%
<b>Total Commissions Paid</b>		<b>\$8,881,365</b>	

External Investment Expenses (in Thousands)  
Equity & Fixed Income Portfolio

Expense	Fees Paid	Share of Assets
Pension Funds	\$47,265	0.4311%
Insurance Funds	\$7,323	0.2704%
Consulting Fees	\$1,169	0.0086%
Custody Fees	\$250	0.0018%
Other Investment-Related Fees	\$1,320	0.0097%
<b>Total Commissions Paid</b>	<b>\$57,327</b>	<b>0.4193%</b>

**PORTFOLIO** SUMMARIES

KERS Non-Haz  
Pension Fund (as of June 30, 2011)

Asset	Market Value	Share of Market Value
Bonds	\$992,119,899	28.4%
Short-Term	\$438,274,711	12.5%
Alternatives	\$491,422,712	14.1%
Domestic Equities	\$744,924,279	21.3%
International Equities	\$827,906,151	23.7%
<b>Total Portfolio</b>	<b>\$3,494,647,752</b>	<b>100.0%</b>

KERS Haz  
Pension Fund (as of June 30, 2011)

Asset	Market Value	Share of Market Value
Bonds	\$129,976,322	25.7%
Short-Term	\$81,367,727	16.1%
Alternatives	\$70,856,022	14.0%
Domestic Equities	\$101,797,011	20.2%
International Equities	\$121,067,184	24.0%
<b>Total Portfolio</b>	<b>\$505,064,266</b>	<b>100.0%</b>

CERS Non-Haz  
Pension Fund (as of June 30, 2011)

Asset	Market Value	Share of Market Value
Bonds	\$1,577,120,825	28.8%
Short-Term	\$837,394,721	15.3%
Alternatives	\$631,715,838	11.5%
Domestic Equities	\$1,129,646,095	20.6%
International Equities	\$1,306,614,801	23.8%
<b>Total Portfolio</b>	<b>\$5,482,492,281</b>	<b>100.0%</b>

KERS Non-Haz  
Insurance Fund (as of June 30, 2011)

Asset	Market Value	Share of Market Value
Bonds	\$93,006,970	22.2%
Short-Term	\$90,567,611	21.6%
Alternatives	\$47,864,562	11.4%
Domestic Equities	\$80,298,349	19.2%
International Equities	\$106,880,246	25.5%
<b>Total Portfolio</b>	<b>\$418,617,737</b>	<b>100.0%</b>

KERS Haz  
Insurance Fund (as of June 30, 2011)

Asset	Market Value	Share of Market Value
Bonds	\$71,224,539	22.3%
Short-Term	\$82,951,916	26.0%
Alternatives	\$24,714,568	7.8%
Domestic Equities	\$62,523,778	19.6%
International Equities	\$77,279,336	24.2%
<b>Total Portfolio</b>	<b>\$318,694,136</b>	<b>100.0%</b>

CERS Non-Haz  
Insurance Fund (as of June 30, 2011)

Asset	Market Value	Share of Market Value
Bonds	\$312,476,869	22.3%
Short-Term	\$379,584,531	27.1%
Alternatives	\$96,985,494	6.9%
Domestic Equities	\$272,815,803	19.5%
International Equities	\$338,529,880	24.2%
<b>Total Portfolio</b>	<b>\$1,400,392,577</b>	<b>100.0%</b>

CERS Haz  
Pension Fund (as of June 30, 2011)

Asset	Market Value	Share of Market Value
Bonds	\$466,864,529	26.9%
Short-Term	\$285,138,256	16.4%
Alternatives	\$212,775,183	12.3%
Domestic Equities	\$356,688,092	20.6%
International Equities	\$413,670,806	23.8%
<b>Total Portfolio</b>	<b>\$1,735,136,866</b>	<b>100.0%</b>

SPRS  
Pension Fund (as of June 30, 2011)

Asset	Market Value	Share of Market Value
Bonds	\$80,590,527	29.1%
Short-Term	\$38,335,954	13.9%
Alternatives	\$34,081,488	12.3%
Domestic Equities	\$56,813,715	20.5%
International Equities	\$66,825,800	24.2%
<b>Total Portfolio</b>	<b>\$276,647,484</b>	<b>100.0%</b>

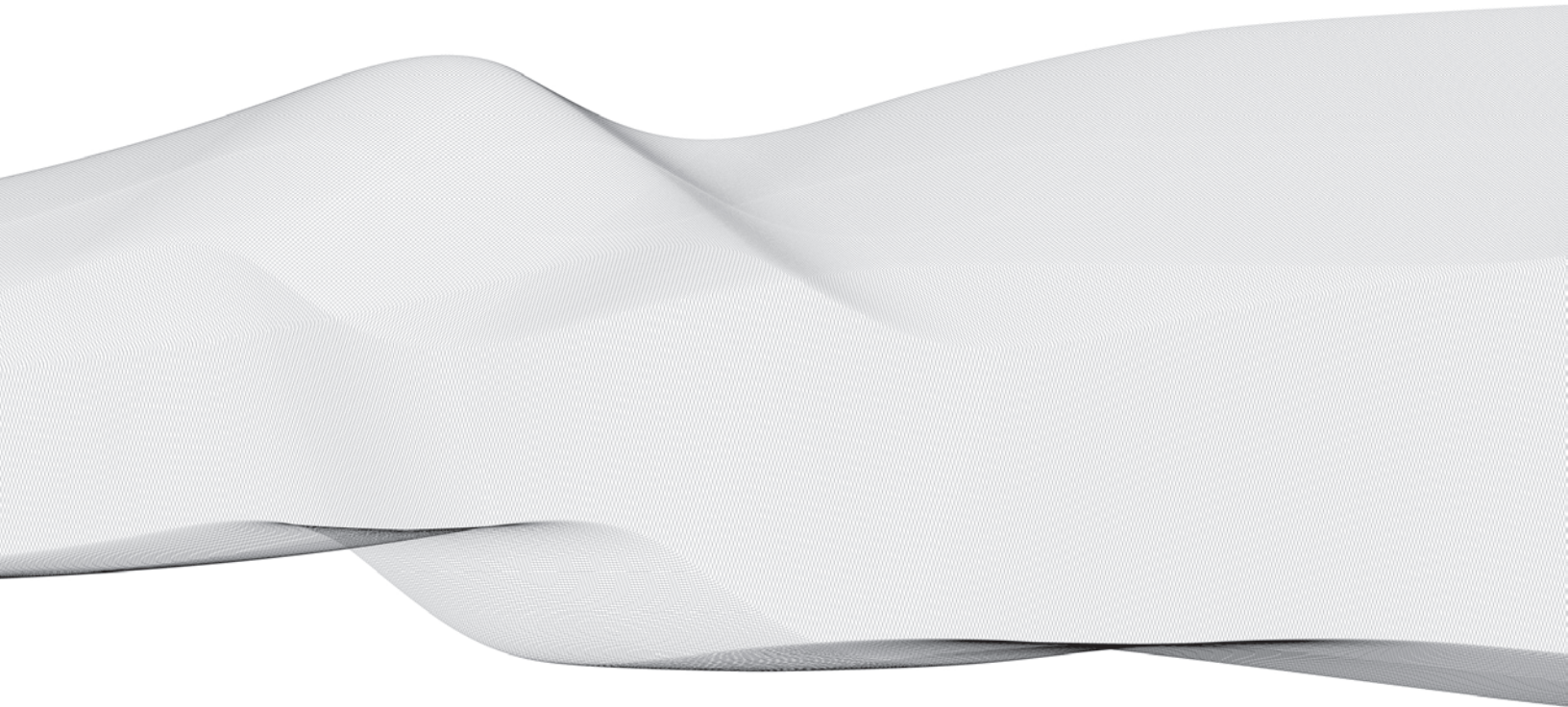
CERS Haz  
Insurance Fund (as of June 30, 2011)

Asset	Market Value	Share of Market Value
Bonds	\$166,842,521	22.1%
Short-Term	\$209,012,994	27.7%
Alternatives	\$51,628,727	6.9%
Domestic Equities	\$145,117,906	19.3%
International Equities	\$180,813,793	24.0%
<b>Total Portfolio</b>	<b>\$753,415,942</b>	<b>100.0%</b>

SPRS  
Insurance Fund (as of June 30, 2011)

Asset	Market Value	Share of Market Value
Bonds	\$29,071,108	23.0%
Short-Term	\$30,789,451	24.4%
Alternatives	\$10,768,227	8.5%
Domestic Equities	\$24,896,707	19.7%
International Equities	\$30,816,910	24.4%
<b>Total Portfolio</b>	<b>\$126,342,403</b>	<b>100.0%</b>

# **Actuarial** Section



# Certification of Actuarial Results

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*The fifty-fifth annual actuarial valuation of the Kentucky Employees Retirement System, the fifty-second annual actuarial valuation of the County Employees Retirement System, and the fifty-third 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 determined 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, 2011 actuarial valuation will be used by the Board of Trustees to certify the employer contribution rates for the fiscal year beginning July 1, 2012 and ending June 30, 2013.

**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) were 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).





**UAL**  
Unfunded Accrued Liability

**GASB**  
Governmental Accounting  
Standards Board

**HB**  
House Bill

**KERS**  
Kentucky Employees Retirement System

**CERS**  
County Employees Retirement System

**SPRS**  
State Police Retirement System

**COLA**  
Cost of Living Adjustment

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 HB1 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 for KERS Hazardous and CERS Non-Hazardous the 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, 2011 the funding levels for the pension [and insurance] funds are as follows:

Funding Level of Pension Fund		Funding Level of Insurance Fund	
System	Funding Level	System	Funding Level
KERS Non-Hazardous	33.3%	KERS Non-Hazardous	10.6%
KERS Hazardous	70.8%	KERS Hazardous	65.1%
CERS Non-Hazardous	63.1%	CERS Non-Hazardous	46.6%
CERS Hazardous	62.2%	CERS Hazardous	46.8%
SPRS	45.0%	SPRS	28.2%

**System Pension Funding Level**

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. Recent employer contribution rate reductions under KERS and SPRS have significantly limited this improvement. The recent adoption of new actuarial assumptions and the application of GASB Statement 43 requirements have further reduced the measured funding level.

*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.*

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**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. 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 schedule 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.

**Thomas J. Cavanaugh** FSA, FCA, MAAA, EA // CEO  
Cavanaugh Macdonald Consulting, LLC  
November 18, 2011

# Summary of Actuarial Assumptions

*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.*

**As of June 30, 2011** 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, 2011 actuarial valuation were based on the study performed in 2009 and in accordance with the actuary's recommendations. The next Experience Study is scheduled to be completed in January, 2014.

**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 unfunded actuarial liability (UAL) over no more than a 30-year period.

**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) were 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 June 30, 2009, and so on.)

**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 in 2006.

**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.

**Investment Return Assumption** The future investment 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 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.

**Salary Increase Assumptions** Active member salaries are assumed to increase at the rates provided in Table 1. The rates include a 4.5% percent inflationary component and an additional increase due to promotion based upon plan experience. These assumptions were adopted in 2009.

**Table 1.** Salary Increase Assumptions

Service	KERS Non-Haz	KERS Haz	CERS Non-Haz	CERS Haz	SPRS
0-1	17.00%	21.00%	13.00%	20.00%	17.00%
0-2	9.00%	9.00%	9.50%	10.50%	12.00%
0-3	6.50%	7.00%	6.00%	6.50%	10.00%
0-4	6.00%	6.50%	6.00%	5.75%	9.00%
0-5	6.00%	6.00%	5.50%	5.50%	8.00%
0-6	6.00%	5.50%	5.50%	5.00%	7.00%
0-7	5.50%	5.00%	5.25%	4.50%	6.00%
0-8	5.50%	5.00%	5.25%	4.50%	6.50%
0-9	5.50%	5.00%	5.00%	4.50%	5.50%
0-10	5.00%	5.00%	5.00%	4.50%	5.00%
0-11	5.00%	5.00%	4.75%	4.50%	4.50%

**Payroll Growth Assumption** Active member payroll is assumed to increase at a rate of 4.5% per annum. This assumption was adopted in 2006.



**COLA**  
Cost of Living Adjustment

**Retiree COLAs** State statute requires retirement allowances to be increased by 1.5 percent annually. Statute only allows 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 State Legislature has the authority to suspend or reduce cost of living adjustments.

**Medical Inflation Assumption** The costs for retiree medical premiums are assumed to increase each according to the assumptions provided in Table 2 below.

**Table 2.** Cost of Retiree Medical Premiums

Fiscal Year Ended	Trend	
	Under Age 65	Age 65 and Over
2012	10.5%	8.5%
2013	9.5%	7.5%
2014	8.5%	7.0%
2015	7.5%	6.5%
2016	6.5%	6.0%
2017	6.0%	5.5%
2018	5.5%	5.0%
2019 and beyond	5.0%	5.0%

**Retirement Rate Assumptions** The probability, or the likelihood, that a member will retire at a specified age or level of service is provided in Table 3 on page 108. These assumptions were adopted in 2009.

**Table 3.** Retirement Rate Assumptions

Age	Non-Hazardous			Service	Hazardous					
	KERS <sup>1</sup>	KERS <sup>2</sup>	CERS <sup>3</sup>		KERS <sup>4</sup>	KERS <sup>5</sup>	CERS <sup>6</sup>	CERS <sup>7</sup>	SPRS <sup>8</sup>	SPRS <sup>9</sup>
55	8.0%		8.0%	20	22.0%		20.0%		9.0%	
56	8.0%		8.0%	21	22.0%		20.0%		9.0%	
57	8.0%		8.0%	22	22.0%		20.0%		10.0%	
58	8.0%		8.0%	23	22.0%		20.0%		22.0%	
59	8.0%		8.0%	24	22.0%		30.0%		22.0%	
60	10.0%	10.0%	10.0%	25	35.0%	22.0%	33.0%	20.0%	22.0%	9.0%
61	20.0%	20.0%	20.0%	26	37.0%	22.0%	33.0%	20.0%	22.0%	9.0%
62	22.5%	22.5%	22.0%	27	37.0%	22.0%	33.0%	20.0%	25.0%	10.0%
63	22.5%	22.5%	22.0%	28	39.0%	22.0%	39.0%	20.0%	25.0%	22.0%
64	22.5%	22.5%	22.0%	29	38.0%	22.0%	33.0%	30.0%	25.0%	22.0%
65	22.5%	25.0%	22.0%	30	38.0%	35.0%	33.0%	33.0%	25.0%	22.0%
66	22.5%	25.0%	22.0%	31	38.0%	37.0%	33.0%	33.0%	33.3%	22.0%
67	22.5%	25.0%	22.0%	32	50.0%	37.0%	50.0%	33.0%	33.3%	25.0%
68	22.5%	25.0%	22.0%	33	50.0%	39.0%	40.0%	39.0%	33.3%	25.0%
69	22.5%	25.0%	22.0%	34	50.0%	38.0%	40.0%	33.0%	33.3%	25.0%
70	22.5%	25.0%	22.0%	35	60.0%	38.0%	40.0%	33.0%	33.3%	25.0%
71	22.5%	25.0%	22.0%	36	60.0%	38.0%	40.0%	33.0%	33.3%	33.3%
72	22.5%	25.0%	22.0%	37	60.0%	50.0%	40.0%	50.0%	33.3%	33.3%
73	22.5%	25.0%	22.0%	38	60.0%	50.0%	40.0%	40.0%	33.3%	33.3%
74	22.5%	25.0%	22.0%	39	60.0%	50.0%	40.0%	40.0%	33.3%	33.3%
75+	100.0%	100.0%	100.0%	40+	60.0%	60.0%	40.0%	40.0%	33.3%	33.3%

<sup>1</sup>For members participating before 9/1/2008. If service is at least 27 years, the rate is 25%.

<sup>2</sup>For members participating on or after 9/1/2008. If age plus service is at least 87, the rate is 25%.

<sup>3</sup>If service is at least 27 years, the rate is 30% for members participating before 9/1/2008. If age plus service is at least 87, the rate is 30% for members participating on or after 9/1/2008.

<sup>4</sup>For members participating before 9/1/2008. The annual rate of service retirement is 100% at age 65.

<sup>5</sup>For members participating on or after 9/1/2008. The annual rate of service retirement is 100% at age 60.

<sup>6</sup>For members participating before 9/1/2008. The annual rate of service retirement is 100% at age 62.

<sup>7</sup>For members participating on or after 9/1/2008. The annual rate of service retirement is 100% at age 60.

<sup>8</sup>For members whose participation began before 9/1/2008. The annual rate of service retirement is 100% at age 55.

<sup>9</sup>For members whose participation began on or after 9/1/2008. The annual rate of service retirement is 100% at age 60.



**GAM**  
Group Annuity Mortality

### Mortality Assumptions

The mortality table used for active members is 50% of the 1994 Group Annuity Mortality (GAM) Table. For non-disabled members retiring on or after July 1, 2006, the mortality table was changed from the 1983 GAM table to the 1994 GAM table. For disabled members retiring on or after July 1, 2006, the mortality table was changed from the 1983 GAM table set forward five years to the 1994 GAM table set forward five years. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted. The pre-retirement mortality assumption was adopted in 2009 and the post-retirement mortality assumptions were adopted in 2006.

**Table 4.** Sample Annual Rates of Mortality

Age	Active Member Mortality		Retired Member Mortality*		Disabled Member Mortality*	
	Males	Females	Males	Females	Males	Females
Under 20	0.02%	0.01%	0.04%	0.03%	-	-
22	0.03%	0.01%	0.06%	0.03%	-	-
32	0.04%	0.02%	0.08%	0.04%	-	-
42	0.06%	0.04%	0.13%	0.08%	0.19%	0.11%
52	0.16%	0.09%	0.32%	0.17%	0.56%	0.29%
62	0.51%	0.29%	1.01%	0.58%	1.80%	1.08%
72	1.42%	0.83%	2.85%	1.65%	4.52%	2.84%

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

**Withdrawal Rates** 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.

**Table 5.** Selected Rates of Termination Prior to Retirement

KERS Non-Hazardous				KERS Hazardous			
Select Rates		Ultimate Rates		Select Rates		Ultimate Rates	
Years of Service	Probability	Age	Probability	Years of Service	Probability	Age	Probability
1	19.00%	20	6.00%	1	26.00%	20	4.00%
2	13.00%	25	5.08%	2	11.50%	25	4.00%
3	10.00%	30	4.26%	3	8.25%	30	3.50%
4	9.00%	35	3.21%	4	7.50%	35	3.00%
5	6.50%	40	3.00%	5	7.00%	40	3.00%
		45	3.00%			45	3.00%
		50	3.00%			50	3.00%
		55	3.00%			55	3.00%
		60	3.00%			60	3.00%

CERS Non-Hazardous				CERS Hazardous			
Select Rates		Ultimate Rates		Select Rates		Ultimate Rates	
Years of Service	Probability	Age	Probability	Years of Service	Probability	Age	Probability
1	25.00%	20	5.75%	1	14.00%	20	3.00%
2	14.00%	25	5.75%	2	7.50%	25	2.70%
3	10.00%	30	5.30%	3	6.00%	30	2.50%
4	8.00%	35	4.40%	4	4.50%	35	2.50%
5	6.50%	40	3.70%	5	4.00%	40	2.50%
		45	3.02%			45	2.50%
		50	2.70%			50	2.50%
		55	2.20%			55	-
		60	0.75%			60	-



**Table 5 Continued.** Selected Rates of Termination Prior to Retirement

SPRS Non-Hazardous			
Select Rates		Ultimate Rates	
Years of Service	Probability	Age	Probability
1	20.00%	20	2.50%
2	7.50%	25	2.50%
3	3.00%	30	2.50%
4	3.00%	35	2.50%
5	3.00%	40	2.50%
		45	2.50%
		50	2.50%
		55	-
		60	-

**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 OASDI rates. These assumptions were adopted in 2009.



OASDI  
Old-Age Survivors & Disability Insurance

*This assumption provides the probability, or likelihood, that a member will become disabled during the course of employment for various age levels.*

Rate of Disablement

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, 2011

	KERS Non-Haz	KERS Haz	CERS Non-Haz	CERS Haz	SPRS
<b>Recommended Rate Fiscal 2012-2013</b>					
Pension Fund Contribution	28.03%	16.16%	12.62%	20.10%	47.48%
Insurance Fund Contribution	16.52%	19.73%	8.59%	21.84%	55.93%
Recommended Employer Contribution	44.55%	35.89%	21.21%	41.94%	103.41%
<b>Funded Status as of Valuation Date</b>					
Pension Fund					
↘ Actuarial Liability	\$11,182,142,032	\$721,293,444	\$8,918,085,025	\$2,859,041,052	\$634,379,401
↘ Actuarial Value of Assets	\$3,276,986,087	\$510,748,505	\$5,629,611,183	\$1,779,545,393	\$285,580,631
↘ Unfunded Liability on Actuarial Value of Assets	\$7,455,155,945	\$210,544,939	\$3,288,473,842	\$1,079,495,659	\$348,798,770
↘ Funding Ratio on Actuarial Value of Assets	33.33%	70.81%	63.13%	62.24%	45.02%
↘ Market Value of Assets	\$3,538,878,093	\$510,628,492	\$5,577,252,295	\$1,760,602,934	\$279,934,443
↘ Unfunded Liability on Market Value of Assets	\$7,643,263,939	\$210,664,952	\$3,340,832,730	\$1,098,438,118	\$354,444,958
↘ Funding Ratio on Market Value of Assets	31.65%	70.79%	62.54%	61.58%	44.13%
Insurance Fund					
↘ Actuarial Liability	\$4,280,089,633	\$507,058,767	\$3,073,973,205	\$1,647,702,255	\$438,427,763
↘ Actuarial Value of Assets	\$451,620,442	\$329,961,615	\$1,433,450,793	\$770,790,274	\$123,687,289
↘ Unfunded Liability on Actuarial Value of Assets	\$3,828,469,191	\$177,097,152	\$1,640,522,412	\$876,912,481	\$314,740,474
↘ Funding Ratio on Actuarial Value of Assets	10.55%	65.07%	46.63%	46.78%	28.21%
↘ Market Value of Assets	\$433,305,243	\$312,071,515	\$1,451,984,026	\$774,509,101	\$127,367,947
↘ Unfunded Liability on Market Value of Assets	\$3,846,784,390	\$185,987,252	\$1,621,989,179	\$873,193,654	\$311,059,816
↘ Funding Ratio on Market Value of Assets	10.12%	63.32%	47.23%	47.01%	29.05%
<b>Member Data</b>					
Number of Active Members	46,617	4,291	85,285	9,407	965
Total Annual Payroll (Active Members) <sup>1</sup>	\$1,731,632,748	\$133,053,792	\$2,276,595,948	\$466,963,860	\$48,692,616
Average Annual Pay (Active Members)	\$37,146	\$31,008	\$26,694	\$49,640	\$50,549
Number of Retired Members & Beneficiaries	38,597	3,064	43,211	6,468	1,263
Average Annual Retirement Allowance	\$21,276	\$14,886	\$11,191	\$24,777	\$37,583
Number of Vested Inactive Members	6,265	334	9,902	580	52
Number of Inactive Members Due a Refund	32,332	2,930	56,012	2,194	305

<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, 2011.

Recommended Employer Contribution Rates as of June 30, 2011  
KERS Non-Haz

Valuation Date	Fiscal Year	Pension Fund Normal Cost	Pension Fund Payment on Unfunded Liability	Pension Fund Contribution	Insurance Fund Contribution	Recommended Employer Rate
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%
6/30/10	2011-2012	4.23%	20.07%	24.30%	16.41%	40.71%
6/30/11	2012-2013	4.38%	23.65%	28.03%	16.52%	44.55%

KERS Haz

Valuation Date	Fiscal Year	Pension Fund: Normal Cost	Pension Fund: Payment on Unfunded Liability	Pension Fund Contribution	Insurance Fund Contribution	Recommended Employer Rate
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%
6/30/10	2011-2012	7.19%	6.92%	14.11%	19.73%	33.84%
6/30/11	2012-2013	7.47%	8.69%	16.16%	19.73%	35.89%

CERS Non-Haz

Valuation Date	Fiscal Year	Pension Fund: Normal Cost	Pension Fund: Payment on Unfunded Liability	Pension Fund Contribution	Insurance Fund Contribution	Recommended Employer Rate
6/30/06	2007-2008	4.69%	2.29%	6.98%	20.51%	27.49%
6/30/07	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%
6/30/10	2011-2012	4.72%	6.98%	11.70%	9.59%	21.29%
6/30/11	2012-2013	4.68%	7.94%	12.62%	8.59%	21.21%

CERS Haz

Valuation Date	Fiscal Year	Pension Fund: Normal Cost	Pension Fund: Payment on Unfunded Liability	Pension Fund Contribution	Insurance Fund Contribution	Recommended Employer Rate
6/30/06	2007-2008	8.12%	6.89%	15.01%	39.52%	54.53%
6/30/07	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%
6/30/10	2011-2012	7.31%	10.60%	17.91%	23.74%	41.65%
6/30/11	2012-2013	7.40%	12.70%	20.10%	21.84%	41.94%

**Continued.** Recommended Employer Contribution Rates as of June 30, 2011  
SPRS

Valuation Date	Fiscal Year	Pension Fund Normal Cost	Pension Fund Payment on Unfunded Liability	Pension Fund Contribution	Insurance Fund Contribution	Recommended Employer Rate
6/30/06	2007-2008	9.20%	19.75%	28.95%	91.05%	120.00%
6/30/07	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%
6/30/10	2011-2012	7.75%	32.05%	39.80%	54.83%	94.63%
6/30/11	2012-2013	8.12%	39.36%	47.48%	55.93%	103.41%



**KERS**  
Kentucky Employees Retirement System

**CERS**  
County Employees Retirement System

**SPRS**  
State Police Retirement System

**UAL**  
Unfunded Accrued Liability

**KERS Funds** The contribution rates for KERS Non-Hazardous and KERS Hazardous shown in the tables on page 112 are the full funding rates presented by the actuary in the 2006 through 2011 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 statute now calls for an employer contribution rate at an increasing percentage of the full funding rates until 100% is achieved in 2025 for KERS Non-Hazardous and 2019 for KERS Hazardous.

**CERS Funds** The insurance fund contribution rates and the employer contribution rates for CERS Non-Hazardous and CERS Hazardous shown in the above tables are the full funding rates presented by the actuary in the 2006 through 2011 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 recommendation was changed to a ten-year phase-in from the initial starting date. As a result, the CERS Non-Hazardous insurance fund contribution rate actually recommended by the actuary and adopted by the Board for 2012-2013 is 6.93% and the employer contribution rate is 19.55%. The CERS Hazardous insurance fund contribution rate actually recommended by the actuary and adopted by the Board for 2012-2013 is 17.50% and the employer contribution rate is 37.60%.

**SPRS Funds** The contribution rates for SPRS shown in the above tables are the full funding rates presented by the actuary in the 2006 through 2011 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 statute now calls for an employer contribution rate at an increasing percentage of the full funding rates until 100% is achieved in 2020 for SPRS.

Summary of Actuarially Unfunded Liabilities as of June 30, 2011  
KERS Non-Haz Pension Fund

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Liability		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
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%
6/30/10	\$11,004,795,089	\$4,210,215,585	\$3,503,007,035	\$6,794,579,504	\$7,501,788,054	38.3%	31.8%
6/30/11	\$11,182,142,032	\$3,276,986,087	\$3,538,878,093	\$7,455,155,945	\$7,643,263,939	33.3%	31.7%

KERS Non-Haz Insurance Fund

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Liability		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
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%
6/30/10	\$4,466,136,041	\$471,341,628	\$371,002,484	\$3,994,794,413	\$4,095,133,557	10.6%	8.3%
6/30/11	\$4,280,089,633	\$451,620,442	\$433,305,243	\$3,828,469,191	\$3,846,784,390	10.6%	10.1%

KERS Haz Pension Fund

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Liability		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
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%
6/30/10	\$688,149,451	\$502,729,009	\$443,511,663	\$185,420,442	\$244,637,788	73.1%	64.5%
6/30/11	\$721,293,444	\$510,748,505	\$510,628,492	\$210,544,939	\$210,664,952	70.8%	70.8%

KERS Haz Insurance Fund

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Liability		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
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%
6/30/10	\$493,297,529	\$314,427,296	\$271,395,843	\$178,870,233	\$221,901,686	63.7%	55.0%
6/30/11	\$507,058,767	\$329,961,615	\$321,071,515	\$177,097,152	\$185,987,252	65.1%	63.3%

**Continued.** Summary of Actuarially Unfunded Liabilities as of June 30, 2011  
CERS Non-Haz Pension Fund

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Liability		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
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%
6/30/10	\$8,459,022,280	\$5,546,857,291	\$4,819,933,717	\$2,912,164,989	\$3,639,088,563	65.6%	57.0%
6/30/11	\$8,918,085,025	\$5,629,611,183	\$5,577,252,295	\$3,288,473,842	\$3,340,832,730	63.1%	62.5%

CERS Non-Haz Insurance Fund

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Liability		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
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%
6/30/10	\$3,158,340,174	\$1,293,038,593	\$1,096,581,872	\$1,865,301,581	\$2,061,758,302	40.9%	34.7%
6/30/11	\$3,073,973,205	\$1,433,450,793	\$1,451,984,026	\$1,640,522,412	\$1,621,989,179	46.6%	47.2%

CERS Haz Pension Fund

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Liability		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
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%
6/30/10	\$2,672,151,907	\$1,749,464,388	\$1,506,787,429	\$922,687,519	\$1,165,364,478	65.5%	56.4%
6/30/11	\$2,859,041,052	\$1,779,545,393	\$1,760,602,934	\$1,079,495,659	\$1,098,438,118	62.2%	61.6%

CERS Haz Insurance Fund

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Liability		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
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%
6/30/10	\$1,674,703,216	\$692,769,770	\$586,826,965	\$981,933,446	\$1,087,876,251	41.4%	35.0%
6/30/11	\$1,647,702,755	\$770,790,274	\$774,509,101	\$876,912,481	\$873,193,654	46.8%	47.0%



**Continued.** Summary of Actuarially Unfunded Liabilities as of June 30, 2011  
SPRS Pension Fund

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Liability		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
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%
6/30/10	\$612,444,806	\$304,577,292	\$264,944,089	\$307,867,514	\$347,500,717	49.7%	43.3%
6/30/11	\$634,379,401	\$285,580,631	\$279,934,443	\$348,798,770	\$354,444,958	45.0%	44.1%

SPRS Insurance Fund

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Liability		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
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%
6/30/10	\$434,960,495	\$121,175,083	\$104,526,550	\$313,785,412	\$330,433,945	27.9%	24.0%
6/30/11	\$438,427,763	\$123,687,289	\$127,367,947	\$314,740,474	\$311,059,816	28.2%	29.1%

# Analysis of Financial Experience

## Gains or Losses in Accrued Liabilities Resulting from Difference Between Assumed Experience & Actual Experience (in Millions) as of June 30, 2011

Type of Activity	Retirement Gain	Insurance Gain
<b>KERS Non-Hazardous</b>		
Age & Service Retirements. If members retire at older ages, there is a gain. If younger, a loss.	\$(108.3)	\$1,265,204
Disability Retirements. If disability claims are less than assumed, there is a gain. If more claims, a loss.	(14.2)	480,269
Death-In Service Benefits. If survivor claims are less than assumed, there is a gain. If more claims, there is a loss.	(0.9)	115,216
Withdrawal From Employment. If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	42.3	7,706
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.	194.1	1,245,581
New Members. Additional unfunded accrued liability will produce a loss.	(6.2)	47,833
Investment Income. If there is a greater investment income than assumed, there is a gain. If less income, a loss.	(242.7)	982,934
Death After Retirement. If retired members live longer than assumed, there is a loss. If not as long, a gain.	22.4	41.0
Other. Miscellaneous gains and losses resulting from changes in valuation software, data adjustments, timing of financial transactions, etc.	(139.1)	(129.7)
<b>Gain (or Loss) During Year From Financial Experience</b>	<b>\$(252.6)</b>	<b>\$191.4</b>
Non-Recurring Items. Adjustments for plan amendments, assumption changes, method changes and data corrections.	-	-
<b>Composite Gain (or Loss) During Year</b>	<b>\$(252.6)</b>	<b>\$191.4</b>
<b>KERS Hazardous</b>		
Age & Service Retirements. If members retire at older ages, there is a gain. If younger, a loss.	(36.4)	(21.9)
Disability Retirements. If disability claims are less than assumed, there is a gain. If more claims, a loss.	(0.3)	0.7
Death-In Service Benefits. If survivor claims are less than assumed, there is a gain. If more claims, there is a loss.	0.1	(0.3)
Withdrawal From Employment. If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	18.5	7.8
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.	18.6	39.7
New Members. Additional unfunded accrued liability will produce a loss.	(1.2)	(0.8)
Investment Income. If there is a greater investment income than assumed, there is a gain. If less income, a loss.	(15.9)	(11.0)
Death After Retirement. If retired members live longer than assumed, there is a loss. If not as long, a gain.	2.6	10.2
Other. Miscellaneous gains and losses resulting from changes in valuation software, data adjustments, timing of financial transactions, etc.	(5.5)	(19.1)
<b>Gain (or Loss) During Year From Financial Experience</b>	<b>\$(19.5)</b>	<b>\$5.3</b>
Non-Recurring Items. Adjustments for plan amendments, assumption changes, method changes and data corrections.	0.0	0.0
<b>Composite Gain (or Loss) During Year</b>	<b>\$(19.5)</b>	<b>\$5.3</b>

**Continued.** Gains or Losses in Accrued Liabilities Resulting from Difference Between Assumed Experience & Actual Experience (in Millions) as of June 30, 2011

Type of Activity	Retirement Gain	Insurance Gain
<b>CERS Non-Hazardous</b>		
Age & Service Retirements. If members retire at older ages, there is a gain. If younger, a loss.	\$(144.9)	\$(12.1)
Disability Retirements. If disability claims are less than assumed, there is a gain. If more claims, a loss.	(23.1)	4.4
Death-In Service Benefits. If survivor claims are less than assumed, there is a gain. If more claims, there is a loss.	(1.4)	(2.6)
Withdrawal From Employment. If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	52.5	18.0
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.	74.6	243.0
New Members. Additional unfunded accrued liability will produce a loss.	(12.5)	(8.3)
Investment Income. If there is a greater investment income than assumed, there is a gain. If less income, a loss.	(230.0)	(28.6)
Death After Retirement. If retired members live longer than assumed, there is a loss. If not as long, a gain.	19.9	33.5
Other. Miscellaneous gains and losses resulting from changes in valuation software, data adjustments, timing of financial transactions, etc.	(30.0)	14.3
<b>Gain (or Loss) During Year From Financial Experience</b>	<b>\$(294.9)</b>	<b>\$261.6</b>
Non-Recurring Items. Adjustments for plan amendments, assumption changes, method changes and data corrections.	-	-
<b>Composite Gain (or Loss) During Year</b>	<b>\$(294.9)</b>	<b>\$261.6</b>
<b>CERS Hazardous</b>		
Age & Service Retirements. If members retire at older ages, there is a gain. If younger, a loss.	\$(72.2)	\$(41.2)
Disability Retirements. If disability claims are less than assumed, there is a gain. If more claims, a loss.	(2.3)	(0.1)
Death-In Service Benefits. If survivor claims are less than assumed, there is a gain. If more claims, there is a loss.	0.1	(0.6)
Withdrawal From Employment. If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	30.4	18.3
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.	17.6	130.5
New Members. Additional unfunded accrued liability will produce a loss.	(3.9)	(4.2)
Investment Income. If there is a greater investment income than assumed, there is a gain. If less income, a loss.	(73.1)	(18.0)
Death After Retirement. If retired members live longer than assumed, there is a loss. If not as long, a gain.	1.9	27.0
Other. Miscellaneous gains and losses resulting from changes in valuation software, data adjustments, timing of financial transactions, etc.	(35.4)	12.7
<b>Gain (or Loss) During Year From Financial Experience</b>	<b>\$(136.9)</b>	<b>\$124.4</b>
Non-Recurring Items. Adjustments for plan amendments, assumption changes, method changes and data corrections.	0.0	0.0
<b>Composite Gain (or Loss) During Year</b>	<b>\$(136.9)</b>	<b>\$124.4</b>

**Continued.** Gains or Losses in Accrued Liabilities Resulting from Difference Between Assumed Experience & Actual Experience (in Millions) as of June 30, 2011

Type of Activity	Retirement Gain	Insurance Gain
<b>SPRS</b>		
Age & Service Retirements. If members retire at older ages, there is a gain. If younger, a loss.	\$(14.1)	\$(12.8)
Disability Retirements. If disability claims are less than assumed, there is a gain. If more claims, a loss.	(1.0)	0.1
Death-In Service Benefits. If survivor claims are less than assumed, there is a gain. If more claims, there is a loss.	0.0	(0.1)
Withdrawal From Employment. If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	4.1	3.0
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.	7.3	33.5
New Members. Additional unfunded accrued liability will produce a loss.	0.0	(1.3)
Investment Income. If there is a greater investment income than assumed, there is a gain. If less income, a loss.	(13.2)	(1.2)
Death After Retirement. If retired members live longer than assumed, there is a loss. If not as long, a gain.	0.6	9.5
Other. Miscellaneous gains and losses resulting from changes in valuation software, data adjustments, timing of financial transactions, etc.	(9.6)	(29.6)
<b>Gain (or Loss) During Year From Financial Experience</b>	<b>\$(25.9)</b>	<b>\$1.1</b>
Non-Recurring Items. Adjustments for plan amendments, assumption changes, method changes and data corrections.	-	-
<b>Composite Gain (or Loss) During Year</b>	<b>\$(25.9)</b>	<b>\$1.1</b>

**SOLVENCY**

## Solvency Test

Solvency Test for KERS Non-Hazardous Pension Fund as of June 30, 2011

Valuation Date	Actuarial Liabilities			Actuarial Value of Assets	Liabilities Covered by Actuarial Assets		
	(1) Active Member Contributions	(2) Retirees & Beneficiaries	(3) Active Members Employer Portion		(1)	(2)	(3)
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	\$875,178,068	\$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%	-
6/30/10	\$869,484,042	\$8,329,757,802	\$1,805,553,245	\$4,210,215,585	100.0%	40.1%	-
6/30/11	\$916,568,932	\$8,482,714,356	\$1,782,858,744	\$3,726,986,087	100.0%	33.1%	-

**Continued.** Solvency Test for KERS Non-Hazardous Insurance Fund as of June 30, 2011

Valuation Date	Actuarial Liabilities			Actuarial Value of Assets	Liabilities Covered by Actuarial Assets		
	(1) Active Member Contributions	(2) Retirees & Beneficiaries	(3) Active Members Employer Portion		(1)	(2)	(3)
6/30/06	-	\$3,543,125,375	\$4,272,355,400	\$611,350,765	100.0%	17.3%	-
6/30/07	-	\$2,569,197,567	\$2,632,157,488	\$621,171,658	100.0%	24.2%	-
6/30/08	-	\$2,788,189,754	\$2,643,309,531	\$603,197,761	100.0%	21.6%	-
6/30/09	-	\$2,861,867,088	\$1,645,458,483	\$534,172,580	100.0%	18.7%	-
6/30/10	-	\$2,744,534,054	\$1,721,601,987	\$471,341,628	100.0%	17.2%	-
6/30/11	-	\$2,568,002,978	\$1,712,086,655	\$451,620,442	100.0%	17.6%	-

KERS Hazardous Pension Fund as of June 30, 2011

Valuation Date	Actuarial Liabilities			Actuarial Value of Assets	Liabilities Covered by Actuarial Assets		
	(1) Active Member Contributions	(2) Retirees & Beneficiaries	(3) Active Members Employer Portion		(1)	(2)	(3)
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	\$502,503,287	100.0%	100.0%	0.4%
6/30/10	\$88,511,283	\$441,657,241	\$157,980,927	\$502,729,009	100.0%	93.8%	-
6/30/11	\$86,614,205	\$490,395,078	\$144,284,161	\$510,748,505	100.0%	86.5%	-

KERS Hazardous Insurance Fund as of June 30, 2011

Valuation Date	Actuarial Liabilities			Actuarial Value of Assets	Liabilities Covered by Actuarial Assets		
	(1) Active Member Contributions	(2) Retirees & Beneficiaries	(3) Active Members Employer Portion		(1)	(2)	(3)
6/30/06	-	\$234,058,715	\$387,179,141	\$212,833,318	100.0%	90.9%	-
6/30/07	-	\$201,189,546	\$303,653,435	\$251,536,756	100.0%	100.0%	16.6%
6/30/08	-	\$228,834,940	\$312,822,274	\$288,161,759	100.0%	100.0%	19.0%
6/30/09	-	\$242,123,365	\$249,008,805	\$301,634,592	100.0%	100.0%	23.9%
6/30/10	-	\$268,510,709	\$224,786,820	\$314,427,296	100.0%	100.0%	20.4%
6/30/11	-	\$285,539,861	\$221,518,906	\$329,961,615	100.0%	100.0%	20.1%

CERS Non-Hazardous Pension Fund as of June 30, 2011

Valuation Date	Actuarial Liabilities			Actuarial Value of Assets	Liabilities Covered by Actuarial Assets		
	(1) Active Member Contributions	(2) Retirees & Beneficiaries	(3) Active Members Employer Portion		(1)	(2)	(3)
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%
6/30/10	\$1,063,746,826	\$4,890,659,077	\$2,504,616,377	\$5,546,857,291	100.0%	91.7%	-
6/30/11	\$1,110,967,160	\$5,209,783,924	\$2,597,333,941	\$5,629,611,183	100.0%	86.7%	-

**Continued.** Solvency Test for CERS Non-Hazardous Insurance Fund as of June 30, 2011

Valuation Date	Actuarial Liabilities			Actuarial Value of Assets	Liabilities Covered by Actuarial Assets		
	(1) Active Member Contributions	(2) Retirees & Beneficiaries	(3) Active Members Employer Portion		(1)	(2)	(3)
6/30/06	-	\$1,694,600,143	\$2,912,623,496	\$777,726,590	100.0%	45.9%	-
6/30/07	-	\$1,372,128,406	\$1,961,837,664	\$960,285,900	100.0%	70.0%	-
6/30/08	-	\$1,521,450,274	\$2,061,743,192	\$1,168,883,170	100.0%	76.8%	-
6/30/09	-	\$1,478,782,753	\$1,591,603,265	\$1,216,631,769	100.0%	82.3%	-
6/30/10	-	\$1,526,533,372	\$1,631,806,802	\$1,293,038,593	100.0%	84.7%	-
6/30/11	-	\$1,460,808,255	\$1,613,164,950	\$1,433,450,793	100.0%	98.1%	-

CERS Hazardous Pension Fund as of June 30, 2011

Valuation Date	Actuarial Liabilities			Actuarial Value of Assets	Liabilities Covered by Actuarial Assets		
	(1) Active Member Contributions	(2) Retirees & Beneficiaries	(3) Active Members Employer Portion		(1)	(2)	(3)
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%	-
6/30/10	\$369,612,720	\$1,622,684,455	\$679,854,732	\$1,749,464,388	100.0%	85.0%	-
6/30/11	\$382,072,055	\$1,768,511,545	\$708,457,452	\$1,779,545,393	100.0%	79.0%	-

CERS Hazardous Insurance Fund as of June 30, 2011

Valuation Date	Actuarial Liabilities			Actuarial Value of Assets	Liabilities Covered by Actuarial Assets		
	(1) Active Member Contributions	(2) Retirees & Beneficiaries	(3) Active Members Employer Portion		(1)	(2)	(3)
6/30/06	-	\$787,671,273	\$1,140,810,098	\$422,785,042	100.0%	53.7%	-
6/30/07	-	\$659,752,978	\$986,707,033	\$512,926,549	100.0%	77.7%	-
6/30/08	-	\$722,435,184	\$1,047,347,773	\$613,526,319	100.0%	84.9%	-
6/30/09	-	\$725,899,836	\$867,648,427	\$651,130,782	100.0%	89.7%	-
6/30/10	-	\$814,300,256	\$860,402,960	\$692,769,770	100.0%	85.1%	-
6/30/11	-	\$771,631,287	\$876,071,468	\$770,790,274	100.0%	99.9%	-

SPRS Pension Fund as of June 30, 2011

Valuation Date	Actuarial Liabilities			Actuarial Value of Assets	Liabilities Covered by Actuarial Assets		
	(1) Active Member Contributions	(2) Retirees & Beneficiaries	(3) Active Members Employer Portion		(1)	(2)	(3)
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	\$110,583,481	\$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%	-
6/30/10	\$42,011,523	\$475,892,659	\$94,540,624	\$304,577,292	100.0%	55.2%	-
6/30/11	\$43,574,097	\$499,194,229	\$91,611,075	\$285,580,631	100.0%	48.5%	-



**Continued.** Solvency Test for SPRS Insurance Fund as of June 30, 2011

Valuation Date	Actuarial Liabilities				Liabilities Covered by Actuarial Assets		
	(1) Active Member Contributions	(2) Retirees & Beneficiaries	(3) Active Members Employer Portion	Actuarial Value of Assets	(1)	(2)	(3)
6/30/06	-	\$240,913,868	\$341,666,999	\$105,580,269	100.0%	43.8%	-
6/30/07	-	\$172,291,142	\$260,472,087	\$115,215,912	100.0%	66.9%	-
6/30/08	-	\$178,655,245	\$266,452,223	\$123,961,197	100.0%	69.4%	-
6/30/09	-	\$167,091,453	\$196,939,688	\$123,526,647	100.0%	73.9%	-
6/30/10	-	\$253,580,827	\$181,379,668	\$121,175,083	100.0%	47.8%	-
6/30/11	-	\$252,439,726	\$185,988,037	\$123,687,289	100.0%	49.0%	-

**VALUATIONS**

## Active Member Valuation

**Methodology** 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 in 2006.

Summary of Active Member Valuation Data for KERS Non-Haz

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
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
6/30/10	334	47,090	\$1,815,146,388	\$38,546	1.2%	43.4	9.0
6/30/11	427	46,617	\$1,731,632,748	\$37,146	(3.6)%	43.8	9.4

KERS Haz

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
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
6/30/10	18	4,291	\$143,557,944	\$33,456	(0.7)%	41.4	7.0
6/30/11	16	4,291	\$133,053,792	\$31,008	(7.3)%	41.3	6.9

<sup>1</sup>Annual payroll included in the Schedule 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, 2011

**Continued.** Summary of Active Member Valuation Data for CERS Non-Haz

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
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
6/30/10	1,102	84,681	\$2,236,855,380	\$26,415	1.3%	46.6	8.8
6/30/11	1,102	85,285	\$2,276,595,948	\$26,694	1.1%	46.8	9.0

CERS Haz

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
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
6/30/10	282	9,562	\$466,548,660	\$48,792	1.4%	38.8	9.2
6/30/11	281	9,407	\$466,963,860	\$49,640	1.7%	39.1	9.5

SPRS

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
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
6/30/10	1	961	\$51,506,712	\$53,597	(1.9)%	37.2	10.6
6/30/11	1	965	\$48,692,616	\$50,459	(5.9)%	37.7	10.6

<sup>1</sup>Annual payroll included in the Schedule 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, 2011

# Retired Member Valuation

## Summary of Retired Member Valuation Data for KERS Non-Haz

Valuation Date	Number Added	Number Removed	Total Retirees & Beneficiaries	Annualized Retirement Allowances	% Increase in Allowances	Average Annual Allowance
6/30/06	2,481	1,111	32,140	\$566,167,003	11.31%	\$17,616
6/30/07	2,440	731	33,849	\$625,435,416	10.47%	\$18,472
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
6/30/10	1,162	1,100	37,945	\$801,881,911	(1.31%)	\$21,133
6/30/11	1,592	940	38,597	\$821,197,278	2.41%	\$21,276

## KERS Haz

Valuation Date	Number of Employers	Total Active Members	Annual Average Pay	% Increase In Average Pay	Average Age	Average Years of Service Credit
6/30/06	256	28	1,980	\$23,381,489	19.05%	\$11,809
6/30/07	241	19	2,202	\$27,528,837	17.94%	\$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
6/30/10	282	95	2,835	\$41,114,800	6.25%	\$14,503
6/30/11	288	59	3,064	\$45,609,229	10.93%	\$14,886

## CERS Non-Haz

Valuation Date	Number of Employers	Total Active Members	Annual Average Pay	% Increase In Average Pay	Average Age	Average Years of Service Credit
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
6/30/10	2,565	1,283	41,038	\$452,613,550	2.85%	\$11,029
6/30/11	3,250	1,077	43,211	\$483,594,068	6.84%	\$11,191

## CERS Haz

Valuation Date	Number of Employers	Total Active Members	Annual Average Pay	% Increase In Average Pay	Average Age	Average Years of Service Credit
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
6/30/10	423	163	6,068	\$146,916,812	5.03%	\$24,212
6/30/11	502	102	6,468	\$160,259,395	9.08%	\$24,777

*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.*

**Continued.** Summary of Retired Member Valuation Data for SPRS

Valuation Date	Number Added	Number Removed	Total Retirees & Beneficiaries	Annualized Retirement Allowances	% Increase in Allowances	Average Annual Allowance
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	\$41,293,017	10.98%	\$36,382
6/30/09	75	26	1,184	\$44,273,937	7.22%	\$37,394
6/30/10	54	15	1,223	\$45,515,797	2.80%	\$37,217
6/30/11	52	12	1,263	\$47,467,404	4.29%	\$37,583

*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



**KERS**  
Kentucky Employees Retirement System

**CERS**  
County Employees Retirement System

**CPI**  
Consumer Price Index

**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 Statutes 61.565 and Kentucky Revised Statutes 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 for Members Whose Participation Began Before 9/1/08

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

Retirement Eligibility for Members Whose Participation Began On or After 9/1/08

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

*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.*

Benefit Formula

Final Compensation	Benefit Factor	Years of Service
Average of the five highest if participation began before 9/1/2008.	KERS 1.97% if:	Member does not have 13 months credit for 1/1/1998-1/1/1999.
	KERS 2.00% if:	Member has 13 months credit from 1/1/1998-1/1/1999.
	KERS 2.20% if:	Member has 20 or more years of service, including 13 months from 1/1/1998-1/1/1999 and retires by 1/1/2009.
	CERS 2.20% if:	Member begins participating prior to 8/1/2004.
	CERS 2.00% if:	Member begins participating on or after 8/1/2004 and before 9/1/2008.
Average of the last five if participation began on or after 9/1/2008.	KERS & CERS increasing percent based on service at retirement* plus 2.00% for each year of service over 30 if:	Member begins participating on or after 9/1/2008.

Includes earned service, purchased service, prior service, and sick leave service (if the member's employer participates in an approved sick leave program).

\* **Service (and Benefit Factor): 10 years or less (1.10%); 10 - 20 years (1.30%); 20 - 26 years (1.50%); 26 - 30 years (1.75%)**

**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 8/1/2004 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 8/1/2004 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% of 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 one and one-half percent (1.5%). The Kentucky General Assembly has the authority to suspend or reduce COLAs.



**COLA**  
Cost of Living Adjustment

**CPI**  
Consumer Price Index

**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 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 by the CPI prior to July 1, 2008, and by 1.5% annually 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. For employees hired prior to September 1, 2008, the interest paid is set by the Board of Trustees and will not be less than 2.0%, for employees hired on or after September 1, 2008, interest will be credited at a rate of 2.5%.



# Summary of Benefit Provisions

## KERS, CERS & SPRS Plans



**KERS**  
Kentucky Employees Retirement System

**CERS**  
County Employees Retirement System

**SPRS**  
State Police Retirement System

**Plan Funding** State statute requires 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 Statutes 61.565 and Kentucky Revised Statutes 61.752. KERS and 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 for Members Whose Participation Began Before 9/1/08

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

### Retirement Eligibility for Members Whose Participation Began On or After 9/1/08

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

**Disability Benefits** Members hired before 8/1/2004 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 on page 129.

Members hired on or after 8/1/2004 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% of 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.

## Benefit Formula

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

\* **Service** (with Benefit Factor): **10 years or less** (1.30%); **10 - 20 years** (1.50%); **20 - 25 years** (2.50%)

**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 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.

**Cost of Living Adjustment** Monthly retirement allowances are increased July 1 each year by one and one-half percent (1.5%). The Kentucky General Assembly has the authority to suspend or reduce COLAs.

**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 by the CPI prior to July 1, 2008, and by 1.5% annually 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. For employees hired prior to September 1, 2008, the interest paid is set by the Board of Trustees and will not be less than 2.0%, for employees hired on or after September 1, 2008, interest will be credited at a rate of 2.5%.



**COLA**  
Cost of Living Adjustment

**CPI**  
Consumer Price Index



**Statistical** Section



# Fund Statistics

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**Definitions** 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.

**Member Breakdown** The data for years 2006–2009 reflects the number of accounts in each system. A single member may have multiple accounts, which contribute to one pension. Beginning in 2010: Each person is only counted once in the Membership by System report. A member who has both a membership account and a retired account is included in retired count. Members who have multiple membership accounts are included under the system where they most recently contributed. Members who have more than one retirement account are included in the system with the greatest service credit. If the retired accounts have equal service credit, they are counted first in SPRS, CERS Hazardous, KERS Hazardous, CERS Non-hazardous, then KERS Non-hazardous.

### KERS Non-Haz Membership

Fiscal Year	Active	Inactive	Retired	Total
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
2010	46,710	32,461	35,733	114,904
2011	46,044	33,350	36,239	115,633

### KERS Haz Membership

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
2010	4,049	2,285	1,900	8,234
2011	4,045	2,351	2,090	8,486

### CERS Non-Haz Membership

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
2010	84,010	55,423	38,261	177,694
2011	84,837	57,073	40,174	182,084

**Continued. CERS Haz Membership**

Fiscal Year	Active	Inactive	Retired	Total
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
2010	9,120	2,009	4,867	15,996
2011	9,019	2,047	5,158	16,224

**SPRS**

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
2010	948	201	1,004	2,153
2011	949	204	1,019	2,172

**Kentucky Retirement Systems Membership Totals**

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
2010	144,837	92,379	81,765	318,981
2011	144,894	95,025	84,680	324,599



**KERS**  
Kentucky Employees Retirement System

**CERS**  
County Employees Retirement System

**SPRS**  
State Police Retirement System

**Haz**  
Hazardous (i.e. KERS Haz)

**Non-Haz**  
Non-Hazardous (i.e. CERS Non-Haz)

**Definitions**

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.

**Member Breakdown**

The data for years 2006-2009 reflects the number of accounts in each system. A single member may have multiple accounts, which contribute to one pension. Beginning in 2010: Each person is only counted once in the Membership by System report. A member who has both a membership account and a retired account is included in retired count. Members who have multiple membership accounts are included under the system where they most recently contributed. Members who have more than one retirement account are included in the system with the greatest service credit. If the retired accounts have equal service credit, they are counted first in SPRS, CERS Hazardous, KERS Hazardous, CERS Non-hazardous, then KERS Non-hazardous.

### Average Monthly Benefit by Length of Service in KERS

Service Credit Range	KERS Non-Hazardous		KERS Hazardous	
	Number of Accounts	Average Monthly Benefit	Number of Accounts	Average Monthly Benefit
Under 5 Years	4,101	\$148.63	552	\$183.74
5 or more but less than 10	4,885	398.06	632	549.37
10 or more but less than 15	4,388	666.01	564	996.79
15 or more but less than 20	3,914	978.48	510	1,513.13
20 or more but less than 25	4,276	1,339.53	592	1,995.89
25 or more but less than 30	10,109	2,257.70	131	2,661.45
30 or more but less than 35	6,209	3,155.17	57	3,443.48
35 or more	2,600	4,420.25	10	4,551.92
<b>Total</b>	<b>40,482</b>	<b>\$1,702.99</b>	<b>3,048</b>	<b>\$1,166.18</b>

### Average Monthly Benefit by Length of Service in CERS

Service Credit Range	CERS Non-Hazardous		CERS Hazardous	
	Number of Accounts	Average Monthly Benefit	Number of Accounts	Average Monthly Benefit
Under 5 Years	5,032	140.85	568	212.53
5 or more but less than 10	8,751	316.25	778	656.73
10 or more but less than 15	8,157	500.01	572	1,204.36
15 or more but less than 20	6,333	752.69	547	1,671.10
20 or more but less than 25	6,349	975.25	2,296	2,292.75
25 or more but less than 30	7,991	1,877.96	1,061	3,251.52
30 or more but less than 35	2,060	2,648.59	389	4,016.19
35 or more	573	3,514.36	91	4,915.72
<b>Total</b>	<b>45,246</b>	<b>\$905.94</b>	<b>6,302</b>	<b>\$2,056.22</b>

### Average Monthly Benefit by Length of Service in SPRS

Under 5 Years	61	323.48
5 or more but less than 10	39	874.58
10 or more but less than 15	41	1,267.45
15 or more but less than 20	75	1,967.10
20 or more but less than 25	362	2,440.55
25 or more but less than 30	400	3,422.54
30 or more but less than 35	224	4,605.43
35 or more	62	5,531.56
<b>Total</b>	<b>1,264</b>	<b>\$3,069.94</b>



## Schedule of Participating Employers in KERS

Agency Classification	Number of Agencies	Number of Employees
Agencies Reporting Through State Payroll	163	34,008
Other Agencies (universities, mental health boards, health departments)	148	16,662
Special Districts and Boards	4	314
Child Support Offices (county attorneys)	61	329
Other State-Administered Retirement Systems	3	290
<b>Total</b>	<b>379</b>	<b>51,603</b>

## Schedule of Participating Employers in SPRS

Kentucky State Police - Uniformed Officers	1	949
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## Schedule of Participating Employers in CERS

Area Development Districts	13	702
Boards of Education	174	49,605
Cities	218	6,399
County Attorneys	71	652
County and Circuit Clerks	15	2,302
County Government Agencies	259	20,465
Fire Departments	69	890
Hospitals	3	391
Jailers	9	380
Libraries	83	1,121
Planning Commissions	11	186
Police Departments	89	688
Police & Fire Departments (combined)	61	3,461
Sanitation Districts	6	61
Sheriff Departments	53	1,060
Special Districts and Boards	160	3,002
Utility boards	104	3,527
Urban County Government Agencies	4	1,898
<b>Total</b>	<b>1,402</b>	<b>96,790</b>

## Principal Participating Employers in KERS

Participating Employer	Rank	Covered Employees	% of Total System
Health & Family Services Cabinet: Department for Community Based Services	1	4,396	8.52%
Transportation: Department of Highways	2	4,104	7.95%
Justice and Public Safety: Department of Corrections	3	3,522	6.83%
Bluegrass Regional Mental Health/Mental Retardation Board	4	2,181	4.23%
Department of Juvenile Justice	5	1,442	2.79%
Administrative Office of the Court	6	1,368	2.65%
Seven Company Services	7	1,228	2.38%
Department for Mental Health & Mental Retardation	8	1,136	2.20%
Department Workforce Investment	9	1,041	2.02%
Eastern Kentucky University	10	1,035	2.01%
All Others		30,150	58.43%
<b>Total</b>		<b>51,603</b>	<b>100.00%</b>

## Principal Participating Employers in CERS

Jefferson County Board of Education	1	6,784	7.01%
Louisville/Jefferson County Metro (C256)	2	3,057	3.16%
Louisville/Jefferson County Metro (CA56)	3	2,247	2.32%
Fayette County Board of Education	4	1,969	2.03%
Circuit Clerks	5	1,732	1.79%
Lexington Fayette Urban County Government	6	1,484	1.53%
Boone County Board of Education	7	1,179	1.22%
Hardin County Board of Education	8	1,137	1.17%
Warren County Board of Education	9	1,012	1.05%
Bullitt County Board of Education	10	949	0.98%
All Others		75,240	77.74%
<b>Total</b>		<b>96,790</b>	<b>100.00%</b>

Plan Net Assets Dollars (in Thousands) for KERS

Fiscal Year	Non-Hazardous			Hazardous		
	Pension	Insurance	Total	Pension	Insurance	Total
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
June 30 2010	3,504,501	368,799	3,873,300	443,606	271,240	714,846
June 30, 2011	\$3,544,242	\$428,659	\$3,972,901	\$511,085	\$320,673	\$831,758

CERS

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
June 30 2010	4,820,490	1,094,821	5,915,311	1,506,894	586,614	2,093,508
June 30, 2011	\$5,583,451	\$1,446,998	\$7,030,449	\$1,761,858	\$773,139	\$2,534,997

SPRS

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
June 30 2010	264,949	104,511	369,460
June 30, 2011	\$279,927	\$127,319	\$407,246

Kentucky Retirement Systems Total

Fiscal Year	Pension	Insurance	Total
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
June 30 2010	10,540,440	2,425,987	12,966,427
June 30, 2011	\$11,680,563	\$3,096,788	\$14,777,351

## Changes in Plan Net Assets (in Thousands) for KERS Non-Haz Pension Fund

<b>Additions</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Members' Contributions	\$107,607	\$116,254	\$116,487	\$108,362	\$90,780	\$109,879
Employers' Contributions	60,681	88,249	104,655	112,383	144,051	185,558
Health Insurance Contributions (HB1)	-	-	-	404	1,799	2,441
Net Investment Income	504,361	784,652	(221,578)	(867,675)	526,209	599,790
<b>Total Additions</b>	<b>672,649</b>	<b>989,155</b>	<b>(436)</b>	<b>(646,526)</b>	<b>762,839</b>	<b>\$897,668</b>
<b>Deductions</b>						
Benefit Payments	577,947	640,201	699,052	808,513	825,627	838,372
Refunds	9,632	9,489	9,076	9,127	8,887	10,931
Administrative Expenses	7,568	7,070	7,724	8,102	8,424	8,558
Capital Project Expenses	-	-	-	-	-	67
Other Expenses	-	-	-	-	-	-
<b>Total Deductions</b>	<b>595,147</b>	<b>656,773</b>	<b>715,852</b>	<b>825,742</b>	<b>842,938</b>	<b>857,928</b>
<b>Total Changes in Plan Net Assets</b>	<b>\$77,502</b>	<b>\$332,382</b>	<b>\$(716,288)</b>	<b>\$(1,472,268)</b>	<b>\$(80,099)</b>	<b>\$39,740</b>

## KERS Non-Haz Insurance Fund

<b>Additions</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Employers' Contributions	\$47,635	\$64,014	\$56,745	\$74,434	\$92,679	\$123,256
Net Investment Income	65,839	78,877	(38,965)	(154,894)	50,765	77,225
Member Drug Reimbursement	-	10,744	6,634	8,168	8,551	10,025
Insurance Appropriation	11,852	-	-	-	-	-
Premiums Rec'd from Retirees	5,770	12,196	12,940	12,320	13,588	15,826
<b>Total Additions</b>	<b>131,096</b>	<b>165,831</b>	<b>37,354</b>	<b>(59,972)</b>	<b>165,583</b>	<b>\$226,332</b>
<b>Deductions</b>						
Benefit Payments	95,823	111,659	122,946	145,036	157,819	161,804
Administrative Expenses	1,679	3,199	3,487	4,104	4,333	4,667
Insurance Appropriation	20,000	-	-	-	-	-
<b>Total Deductions</b>	<b>117,502</b>	<b>114,858</b>	<b>126,433</b>	<b>149,140</b>	<b>162,152</b>	<b>166,471</b>
<b>Total Changes in Plan Net Assets</b>	<b>\$1,742</b>	<b>\$50,973</b>	<b>\$(89,079)</b>	<b>\$(209,112)</b>	<b>\$3,431</b>	<b>\$59,861</b>

## KERS Haz Pension Fund

<b>Additions</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Member Contributions	\$12,056	\$13,245	\$13,091	\$12,442	\$11,110	\$12,959
Employer Contributions	10,803	13,237	15,257	15,843	17,658	18,085
Health Insurance Contribution (HB1)	-	-	-	38	118	241
Net Investment Income	41,680	77,996	(20,673)	(84,262)	65,588	83,492
<b>Total Additions</b>	<b>64,539</b>	<b>104,478</b>	<b>7,675</b>	<b>(55,939)</b>	<b>94,474</b>	<b>\$114,777</b>
<b>Deductions</b>						
Benefit Payments	23,736	28,514	31,606	37,556	37,796	44,509
Refunds	1,436	1,662	1,742	1,277	1,286	2,062
Administrative Expenses	645	611	664	715	737	721
Other Expenses	-	1	-	-	-	-

**Continued.** Changes in Plan Net Assets (in Thousands) for KERS Haz Pension Fund

<b>Continued. Deductions</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Capital Project Expenses	-	-	-	-	-	6
Total Deductions	25,817	38,788	34,012	39,548	39,819	47,298
<b>Total Changes in Plan Net Assets</b>	<b>\$38,722</b>	<b>\$73,690</b>	<b>\$(26,337)</b>	<b>\$(95,487)</b>	<b>\$54,655</b>	<b>\$67,479</b>

## KERS Haz Insurance Fund

<b>Additions</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Employers' Contributions	\$17,012	\$19,535	\$21,997	\$20,803	\$21,835	\$18,826
Net Investment Income	24,128	44,541	(25,740)	(60,641)	42,406	45,205
Member Drug Reimbursement	-	105	74	186	319	365
Insurance Appropriation	88	-	-	-	-	-
Premiums Rec'd from Retirees	-	204	247	300	835	588
Total Additions	41,228	64,385	(3,422)	(39,352)	65,395	\$64,984
<b>Deductions</b>						
Benefit Payments	6,513	6,874	8,069	10,304	13,456	15,327
Administrative Expenses	63	83	95	144	200	223
Total Deductions	6,576	6,957	8,164	10,448	13,656	15,550
<b>Total Changes in Plan Net Assets</b>	<b>\$34,652</b>	<b>\$57,428</b>	<b>\$(11,586)</b>	<b>\$(49,800)</b>	<b>\$51,739</b>	<b>\$49,434</b>

## CERS Non-Haz Pension Fund

<b>Additions</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Members' Contributions	\$112,372	\$121,979	\$125,014	\$122,518	\$106,558	\$144,861
Employers' Contributions	90,834	124,261	150,925	179,286	207,076	247,968
Health Insurance Contribution (HB1)	-	-	-	415	1,345	3,216
Net Investment Income	444,092	760,541	(228,020)	(927,090)	669,072	887,514
Total Additions	647,298	1,009,736	47,919	(624,871)	984,051	\$1,283,559
<b>Deductions</b>						
Benefit Payments	325,135	356,648	403,958	451,304	470,249	494,344
Refunds	11,589	11,396	11,924	10,719	10,001	11,816
Administrative Expenses	12,797	12,197	13,238	13,831	14,323	14,324
Capital Project Expenses	-	-	-	-	-	112
Other Expenses	-	22	-	-	-	0
Total Deductions	349,521	389,263	429,120	475,854	494,571	520,596
<b>Total Changes in Plan Net Assets</b>	<b>\$297,777</b>	<b>\$620,473</b>	<b>\$(381,201)</b>	<b>\$(1,100,725)</b>	<b>\$489,478</b>	<b>\$762,963</b>

## CERS Non-Haz Insurance Fund

<b>Additions</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Employer Contributions	\$128,868	\$147,609	\$196,110	\$123,761	\$166,032	\$185,639
Net Investment Income	83,991	188,055	(95,924)	(244,148)	136,528	274,743
Member Drug Reimbursement	-	9,623	6,003	7,624	9,157	10,449
Insurance Appropriation	6,365	-	-	-	-	-
Premiums Rec'd from Retirees	-	13,997	15,104	14,356	16,216	18,053
Total Additions	219,224	359,284	121,293	(98,407)	327,933	\$488,884

**Continued.** Changes in Plan Net Assets (in Thousands) for CERS Non-Haz Insurance Fund

<b>Deductions</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Benefit Payments	72,919	85,199	95,966	108,995	123,133	131,945
Administrative Expenses	1,539	3,040	3,425	4,053	4,469	4,763
Total Deductions	74,458	88,239	99,391	113,048	127,602	136,708
Benefit Payments	72,919	85,199	95,966	108,995	123,133	131,945
Administrative Expenses	1,539	3,040	3,425	4,053	4,469	4,763
Total Deductions	74,458	88,239	99,391	113,048	127,602	136,708
<b>Total Changes in Plan Net Assets</b>	<b>\$144,766</b>	<b>\$271,045</b>	<b>\$21,902</b>	<b>\$(211,455)</b>	<b>\$200,331</b>	<b>\$352,176</b>

## CERS Haz Pension Fund

<b>Additions</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Members' Contributions	\$39,055	\$43,650	\$44,260	\$42,582	\$37,200	\$53,918
Employers' Contributions	49,976	61,553	72,155	78,151	82,887	84,595
Health Insurance Contribution (HB1)	-	-	-	37	174	1,157
Net Investment Income	132,915	240,035	(97,393)	(302,748)	206,073	286,688
Total Additions	221,946	345,238	19,022	(181,978)	326,334	\$426,358
<b>Deductions</b>						
Benefit Payments	101,087	115,604	125,191	138,810	136,810	167,540
Refunds	2,147	2,563	2,641	2,436	1,956	2,654
Administrative Expenses	1,113	1,073	1,143	1,198	1,234	1,191
Capital Project Expenses	-	-	-	-	-	9
Other Expenses	-	2	-	-	-	-
Total Deductions	104,347	119,242	128,975	142,444	140,000	171,394
<b>Total Changes in Plan Net Assets</b>	<b>\$117,599</b>	<b>\$225,996</b>	<b>\$(109,953)</b>	<b>\$(324,422)</b>	<b>\$186,334</b>	<b>\$254,964</b>

## CERS Haz Insurance Fund

<b>Additions</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Employers' Contributions	\$64,854	\$70,073	\$90,113	\$70,783	\$82,970	\$98,203
Net Investment Income	98	90,041	(48,529)	(123,461)	67,288	139,242
Member Drug Reimbursement	-	657	420	628	1,493	972
Insurance Appropriation	45,317	-	-	-	-	-
Premiums Rec'd from Retirees	-	191	222	330	508	516
Total Additions	110,269	160,962	42,226	(51,720)	152,259	\$238,933
<b>Deductions</b>						
Benefit Payments	29,717	31,607	35,604	41,017	48,321	51,831
Administrative Expenses	213	320	364	444	554	580
Total Deductions	29,930	31,927	35,968	41,461	48,875	52,411
<b>Total Changes in Plan Net Assets</b>	<b>\$80,339</b>	<b>\$129,035</b>	<b>\$6,258</b>	<b>\$(93,181)</b>	<b>\$103,384</b>	<b>\$186,522</b>

**Continued.** Changes in Plan Net Assets (in Thousands) for SPRS Pension Fund

<b>Additions</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Members' Contributions	\$4,814	\$5,152	\$5,407	\$4,938	\$4,127	\$5,225
Employers' Contributions	4,244	6,142	7,443	8,186	9,489	11,920
Health Insurance Contribution (HB1)	-	-	-	5	12	31
Net Investment Income	39,347	49,595	(12,283)	(51,175)	40,602	44,739
Total Additions	48,405	60,889	567	(38,046)	54,230	\$61,915
<b>Deductions</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Benefit Payments	34,703	37,187	39,367	42,547	45,582	46,754
Refunds	133	47	85	69	144	58
Administrative Expenses	134	126	137	122	130	124
Capital Project Expenses	-	-	-	-	-	1
Other Expenses	-	-	-	-	-	-
Total Deductions	34,970	37,360	39,589	42,738	45,856	46,937
<b>Total Changes in Plan Net Assets</b>	<b>\$13,435</b>	<b>\$23,529</b>	<b>\$(39,022)</b>	<b>\$(80,784)</b>	<b>\$8,374</b>	<b>\$14,978</b>

SPRS Insurance Fund

<b>Additions</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Employer Contributions	\$6,880	\$6,489	\$7,329	\$7,414	\$8,369	\$10,051
Net Investment Income	12,082	21,876	(11,440)	(28,166)	13,085	24,773
Member Drug Reimbursement	-	361	184	229	274	318
Insurance Appropriation	5	-	-	-	-	-
Premiums Rec'd from Retirees	-	8	9	23	16	18
Total Additions	18,967	28,734	(3,918)	(20,500)	21,744	\$35,160
<b>Deductions</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Benefit Payments	7,816	6,515	6,768	7,476	10,769	12,172
Administrative Expenses	68	105	106	124	147	179
Total Deductions	7,884	6,620	6,874	7,600	10,916	12,351
<b>Total Changes in Plan Net Assets</b>	<b>\$11,083</b>	<b>\$22,114</b>	<b>\$(10,792)</b>	<b>\$28,100</b>	<b>\$10,828</b>	<b>\$22,809</b>



## Schedule of Benefit Expenses for KERS Non-Haz

	Normal Retirement	Early Retirement	Disability Retirement	Beneficiary Payments	Total
<b>FY 2005-06</b>					
Average Benefit	\$888	\$1,670	\$834	\$868	\$1,469
Number of Accounts	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 of Accounts	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 of Accounts	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 of Accounts	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%
<b>FY 2009-10</b>					
Average Benefit	\$1,009	\$1,912	\$936	\$963	\$1,692
Number of Accounts	5,991	30,303	2,625	813	39,732
Total Monthly Benefits	\$6,046,047	\$57,939,304	\$2,457,461	\$782,980	\$67,225,791
% of Total Monthly Benefits	9.00%	86.20%	3.60%	1.20%	100.00%
<b>FY 2010-11</b>					
Average Benefit	\$1,008	\$1,920	\$974	\$1,071	\$1,703
Number of Accounts	6,118	30,900	2,629	835	40,482
Total Monthly Benefits	\$6,166,372	\$59,318,561	\$2,561,377	\$894,077	\$68,940,387
% of Total Monthly Benefits	8.94%	86.04%	3.72%	1.30%	100.00%
<b>KERS Haz</b>					
<b>FY 2005-06</b>					
Average Benefit	\$802	\$1,333	\$521	\$749	\$980
Number of Accounts	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%

**Continued.** Schedule of Benefit Expenses for KERS Haz

	Normal Retirement	Early Retirement	Disability Retirement	Beneficiary Payments	Total
<b>FY 2006-07</b>					
Average Benefit	\$862	\$1,391	\$540	\$731	\$1,038
Number of Accounts	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 of Accounts	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 of Accounts	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%
<b>FY 2009-10</b>					
Average Benefit	\$933	\$1,489	\$593	843	\$1,137
Number of Accounts	1,446	1,146	157	75	2,824
Total Monthly Benefits	\$1,348,511	\$1,706,876	\$93,064	\$63,194	\$3,211,645
% of Total Monthly Benefits	42.00%	53.10%	2.90%	2.00%	100.00%
<b>FY 2010-11</b>					
Average Benefit	\$957	\$1,526	\$600	\$814	\$1,166
Number of Accounts	1,571	1,240	158	79	3,048
Total Monthly Benefits	\$1,503,160	\$1,892,300	\$94,766	\$64,299	\$3,554,525
% of Total Monthly Benefits	42.29%	53.24%	2.66%	1.81%	100.00%

## CERS Non-Haz

<b>FY 2005-06</b>					
Average Benefit	\$484	\$889	\$715	\$534	\$774
Number of Accounts	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 of Accounts	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%

*These tables (pages 140-141) include individuals receiving a monthly benefit as of June 30 in the indicated fiscal year. Retired reemployed members and individuals deceased prior to June 2011 are not included; therefore, the numbers in this section may differ slightly from the numbers in the Financial and Actuarial Sections. The information for the current year will differ from the benefit payment totals listed in the Deduction by Source. A single member may have multiple accounts, which contribute to one pension.*

**Continued.** Schedule of Benefit Expenses for CERS Non-Haz

	<b>Normal Retirement</b>	<b>Early Retirement</b>	<b>Disability Retirement</b>	<b>Beneficiary Payments</b>	<b>Total</b>
<b>FY 2007-08</b>					
Average Benefit	\$523	\$978	\$776	\$582	\$852
Number of Accounts	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 of Accounts	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%
<b>FY 2009-10</b>					
Average Benefit	\$570	\$1,022	\$835	\$623	\$898
Number of Accounts	9,418	28,747	3,951	836	42,952
Total Monthly Benefits	\$5,372,501	\$29,377,417	\$3,298,478	\$520,995	\$38,569,391
% of Total Monthly Benefits	13.90%	76.20%	8.60%	1.30%	100.00%
<b>FY 2010-11</b>					
Average Benefit	\$577	\$1,031	\$847	\$651	\$906
Number of Accounts	10,054	30,224	4,095	873	45,246
Total Monthly Benefits	\$5,802,568	\$31,149,398	\$3,469,974	\$568,188	\$40,990,128
% of Total Monthly Benefits	14.16%	75.99%	8.47%	1.38%	100.00%
<b>CERS Haz</b>					
<b>FY 2005-06</b>					
Average Benefit	\$1,369	\$2,059	\$899	\$974	\$1,743
Number of Accounts	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 of Accounts	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 of Accounts	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%

**Continued.** Schedule of Benefit Expenses for CERS Haz

	Normal Retirement	Early Retirement	Disability Retirement	Beneficiary Payments	Total
<b>FY 2008-09</b>					
Average Benefit	\$1,452	\$2,299	\$1,014	\$1,020	\$1,934
Number of Accounts	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%
<b>FY 2009-10</b>					
Average Benefit	\$1,427	\$2,362	\$1,261	\$1,130	\$2,019
Number of Accounts	1,495	3,856	468	89	5,908
Total Monthly Benefits	\$2,133,697	\$9,106,888	\$590,020	\$100,562	\$1,931,167
% of Total Monthly Benefits	17.90%	76.30%	5.00%	0.80%	100.00%
<b>FY 2010-11</b>					
Average Benefit	\$1,432	\$2,410	\$1,362	\$1,153	\$2,056
Number of Accounts	1,643	4,082	487	90	6,302
Total Monthly Benefits	\$2,352,710	\$9,838,311	\$663,455	\$103,808	\$12,958,284
% of Total Monthly Benefits	18.16%	75.92%	5.12%	0.80%	100.00%

SPRS

<b>FY 2005-06</b>					
Average Benefit	\$3,109	\$2,698	\$1,213	\$1,643	\$2,650
Number of Accounts	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 of Accounts	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 of Accounts	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 of Accounts	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%

*These tables (pages 142-143) include individuals receiving a monthly benefit as of June 30 in the indicated fiscal year. Retired reemployed members and individuals deceased prior to June 2011 are not included; therefore, the numbers in this section may differ slightly from the numbers in the Financial and Actuarial Sections. The information for the current year will differ from the benefit payment totals listed in the Deduction by Source. A single member may have multiple accounts, which contribute to one pension.*

**Continued.** Schedule of Benefit Expenses for CERS Haz

	Normal Retirement	Early Retirement	Disability Retirement	Beneficiary Payments	Total
<b>FY 2009-10</b>					
Average Benefit	\$3,492	\$3,066	\$1,467	\$2,130	\$3,032
Number of Accounts	147	1,004	50	26	1,227
Total Monthly Benefits	\$513,322	\$3,078,221	\$73,354	\$55,379	\$3,720,275
% of Total Monthly Benefits	13.80%	82.70%	2.00%	1.50%	100.00%
<b>FY 2010-11</b>					
Average Benefit	\$3,529	\$3,112	\$1,494	\$2,162	\$3,070
Number of Accounts	146	1,037	55	26	1,264
Total Monthly Benefits	\$515,270	\$3,226,744	\$82,184	\$56,210	\$3,880,408
% of Total Monthly Benefits	13.28%	83.15%	2.12%	1.45%	100.00%

*This table includes individuals receiving a monthly benefit as of June 30 in the indicated fiscal year. Retired reemployed members and individuals deceased prior to June 2011 are not included; therefore, the numbers in this section may differ slightly from the numbers in the Financial and Actuarial Sections. The information for the current year will differ from the benefit payment totals listed in the Deduction by Source. A single member may have multiple accounts, which contribute to one pension.*

Analysis of Initial Retirees

	KERS Non-Haz	KERS Haz	CERS Non-Haz	CERS Haz	SPRS
<b>FY 2005-06</b>					
Number of Accounts	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
<b>FY 2006-07</b>					
Number of Accounts	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 of Accounts	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

**Continued.** Analysis of Initial Retirees

	KERS Non-Haz	KERS Haz	CERS Non-Haz	CERS Haz	SPRS
<b>FY 2008-09</b>					
Number of Accounts	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
<b>FY 2009-10</b>					
Number of Accounts	1,007	212	2,252	329	54
Average Service Credit (months)	153	194	186	224	276
Average Final Compensation	\$41,811	\$45,499	\$30,203	\$56,408	\$70,704
Average Monthly Benefit	\$802	\$1,494	\$760	\$2,127	\$3,323
Average System Payment for Health Insurance	\$202	\$572	\$239	\$766	\$894
<b>FY 2010-11</b>					
Number of Accounts	1,486	247	3,045	415	46
Average Service Credit (months)	174	184	182	204	260
Average Final Compensation	\$44,341	\$44,821	\$32,359	\$58,814	\$71,501
Average Monthly Benefit	\$1,047	\$1,379	\$824	\$2,114	\$3,296
Average System Payment for Health Insurance	\$264	\$516	\$284	\$777	\$874

*The information in these tables (Analysis, pages 144-145) represent accounts administered by KRS. A single member may have multiple accounts, which contribute to one pension.*

Payment Options Selected by Retired Members

	Basic	Social Security Adjustment	Period Certain	Suvivorship	Pop Up	Lump Sum
<b>KERS Non-Haz</b>						
Number of Accounts	13,027	3,322	5,254	9,169	7,596	2,292
Monthly Benefits	\$20,478,285	\$5,996,961	\$8,269,178	\$15,643,778	\$16,080,012	\$2,593,728
<b>KERS Haz</b>						
Number of Accounts	720	259	368	641	823	269
Monthly Benefits	\$763,259	\$318,020	\$374,052	\$732,152	\$1,112,134	\$265,566
<b>CERS Non-Haz</b>						
Number of Accounts	17,168	1,846	6,867	8,968	7,126	3,510
Monthly Benefits	\$13,034,846	\$2,488,332	\$5,677,137	\$8,806,495	\$8,781,886	\$2,302,947
<b>CERS Haz</b>						
Number of Accounts	997	491	590	1,487	2,467	493
Monthly Benefits	\$1,824,090	\$778,392	\$906,571	\$2,923,815	\$5,875,929	\$770,458



**Continued.** Payment Options Selected by Retired Members

	Basic	Social Security Adjustment	Period Certain	Suvivorship	Pop Up	Lump Sum
<b>SPRS</b>						
Number of Accounts	114	206	118	367	463	22
Monthly Benefits	\$353,438	\$443,474	\$272,660	\$1,175,563	\$1,609,372	\$50,704
<b>KRS Total</b>						
Number of Accounts	32,026	6,124	13,197	20,632	18,475	6,586
Monthly Benefits	\$36,453,918	\$10,025,179	\$15,499,598	\$29,281,803	\$33,459,333	\$5,983,403

*The information in these tables (Payment Options, pages 145-146) represents accounts administered by KRS. A single member may have multiple accounts, which contribute to one pension.*

**EMPLOYER RATES**

## Employer Contribution Rates



**KERS**  
Kentucky Employees Retirement System

**CERS**  
County Employees Retirement System

**SPRS**  
State Police Retirement System

**HB**  
House Bill

*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.

Under Kentucky Revised Statutes 61.565, KERS and SPRS employer contribution rates are set by the KRS Board of Trustees based on an annual actuarial valuation. However, 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 Kentucky Revised Statutes 61.565 in the budget in order to provide an employer contribution rate that is less than the amount recommended by the Board's consulting actuary. The table on page 147 shows the KERS and SPRS employer contribution rates that were actuarially recommended in the annual valuation without any adjustments and the rate specified by the Executive Branch budget bill for each fiscal year.

The CERS employer contribution rates are also set by the Systems' Board under Kentucky Revised Statutes 61.565 based on an annual actuarial valuation, unless altered by legislation enacted by the Kentucky General Assembly. The CERS employer contribution rates for fiscal year 2008-2009 were reduced from the actuarially recommended rate as a result of the passage of House Bill (HB) 1 during the 2008 Extraordinary Session of the Kentucky General Assembly. Also, during its 2009 Regular Session, the Kentucky General Assembly enacted HB 117, which mandated an extension of the phase-in of insurance contribution rates that had been previously approved by the KRS Board in 2006 from five years to ten years to further mitigate the impact of the application of Governmental Accounting Standards Board Statements 43 and 45 on CERS

employer contribution rates for health insurance. The "Recommended Rate" shown for CERS non-hazardous and hazardous plans are the actuarially recommended rates as set forth in the annual valuation. The "Budgeted Rate" shown for the two plans is the rate required by the ten year phase-in mandated in KRS 61.565(6).

### Employer Contribution Rates

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
<b>KERS Non-Haz</b>						
Budgeted Rate	7.75	8.50	10.01	11.61	16.98	19.82
Recommended Rate	17.13	48.37	36.92	39.45	38.58	40.71
<b>KERS Haz</b>						
Budgeted Rate	22.00	24.25	24.35	24.69	26.12	28.98
Recommended Rate	23.32	47.11	34.78	35.54	34.37	33.84
<b>CERS Non-Haz</b>						
Budgeted Rate	13.19	16.17	13.50	16.16	16.93	18.96
Recommended Rate	13.19	27.49	20.51	20.91	19.81	21.29
<b>CERS Haz</b>						
Budgeted Rate	28.21	33.87	29.50	32.97	33.25	35.76
Recommended Rate	28.21	54.53	42.66	43.36	40.06	41.65
<b>SPRS</b>						
Budgeted Rate	25.50	28.00	30.07	33.08	45.54	52.13
Recommended Rate	42.30	120.00	91.93	92.12	85.63	94.63

# 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.



**KEHP**  
Kentucky Employees Group Health Plan

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

	KERS Non-Haz	KERS Haz	CERS Non-Haz	CERS Haz	SPRS
Number	27,118	26,235	1,612	4,640	1098
Average Service Credit (Months)	311	254	266	284	332
Avg Monthly System Payment for Health Insurance	\$439	\$375	\$725	\$942	\$902
Avg Monthly Member Payment for Health Insurance	\$90	\$94	\$60	\$36	\$20
Total Monthly Payment for Health Insurance	\$14,367,630	\$12,287,877	\$1,266,284	\$4,535,504	\$1,011,415

## Insurance Contracts by Type for KERS Non-Haz

	2006	2007	2008	2009	2010	2011
KEHP Parent Plus	490	525	568	762	722	732
KEHP Couple/Family	1,826	2,131	2,187	2,621	1,971	2,155
KEHP Single	8,393	8,996	9,383	10,635	10,420	10,321
Medicare without Prescription	1,672	2,056	1,969	1,920	1,831	1,821
Medicare with Prescription	12,000	12,007	12,636	13,231	13,765	13,988

## KERS Haz

KEHP Parent Plus	58	70	69	74	66	75
KEHP Couple/Family	378	398	443	502	453	521
KEHP Single	656	686	741	823	599	615
Medicare without Prescription	74	82	91	88	63	60
Medicare with Prescription	603	606	687	763	525	570

**Continued.** Insurance Contracts by Type for CERS Non-Haz

KEHP Parent Plus	249	284	292	335	342	351
KEHP Couple/Family	1,058	1,274	1,320	1,456	1,369	1,552
KEHP Single	6,298	6,767	7,126	7,609	7,692	8,013
Medicare without Prescription	2,502	3,134	3,105	3,110	3,106	3,167
Medicare with Prescription	11,803	11,908	12,684	13,583	14,477	15,100

## CERS Haz

KEHP Parent Plus	198	210	226	245	239	253
KEHP Couple/Family	1,739	1,836	1,947	2,041	2,062	2,156
KEHP Single	1,275	1,363	1,394	1,404	1,274	1,310
Medicare without Prescription	52	64	73	80	58	58
Medicare with Prescription	1,105	1,197	1,367	1,518	1,438	1,527

## SPRS

KEHP Parent Plus	29	19	17	22	47	52
KEHP Couple/Family	406	297	305	311	462	474
KEHP Single	260	254	240	221	264	278
Medicare without Prescription	9	9	7	9	12	14
Medicare with Prescription	368	384	410	418	467	499

## KRS Total

KEHP Parent Plus	1,024	1,108	1,172	1,438	1,416	1,463
KEHP Couple/Family	5,407	5,936	6,202	6,931	6,317	6,858
KEHP Single	16,882	18,066	18,884	20,692	20,249	20,537
Medicare without Prescription	4,309	5,345	5,245	5,207	5,070	5,120
Medicare with Prescription	25,879	26,102	27,784	29,513	30,672	31,684

## Total Fiscal Year Retirement Payments by County

County	Payees	Total	County	Payees	Total	County	Payees	Total
Adair	359	\$5,851,052.76	Grant	452	\$7,958,507.52	Mclean	247	\$2,993,881.19
Allen	302	\$3,663,352.73	Graves	728	\$10,083,261.13	Meade	341	\$4,485,937.73
Anderson	1,111	\$26,765,344.36	Grayson	513	\$7,502,481.33	Menifee	167	\$2,186,899.23
Ballard	177	\$2,019,606.85	Green	236	\$3,220,789.84	Mercer	618	\$10,620,401.80
Barren	784	\$11,851,931.51	Greenup	511	\$6,247,135.81	Metcalfe	243	\$2,677,347.60
Bath	306	\$4,592,095.16	Hancock	182	\$2,084,642.77	Monroe	184	\$2,070,167.26
Bell	569	\$8,206,533.41	Hardin	1,599	\$24,219,362.14	Montgomery	484	\$6,933,269.54
Boone	1,235	\$23,006,746.61	Harlan	514	\$7,266,727.36	Morgan	439	\$6,886,473.65
Bourbon	444	\$6,432,678.87	Harrison	372	\$5,125,835.75	Muhlenberg	519	\$5,520,014.39
Boyd	856	\$12,996,871.10	Hart	275	\$3,865,002.62	Nelson	725	\$11,826,775.58
Boyle	729	\$12,584,693.19	Henderson	843	\$13,083,834.89	Nicholas	167	\$2,120,227.98
Bracken	189	\$2,220,992.48	Henry	795	\$16,350,181.41	Ohio	457	\$4,950,266.11
Breathitt	398	\$5,817,799.37	Hickman	89	\$1,320,259.19	Oldham	1,032	\$19,843,453.98
Breckinridge	365	\$5,011,879.63	Hopkins	1,002	\$13,385,820.89	Owen	445	\$9,724,749.69
Bullitt	1,031	\$17,905,196.31	Jackson	234	\$2,992,937.21	Owsley	162	\$2,141,820.70
Butler	282	\$3,448,976.38	Jefferson	13,806	\$276,899,744.79	Pendleton	294	\$4,379,891.93
Caldwell	444	\$6,120,096.59	Jessamine	756	\$11,843,878.11	Perry	642	\$8,585,349.61
Calloway	903	\$11,389,424.72	Johnson	534	\$7,295,071.64	Pike	1,014	\$13,459,953.42
Campbell	1,194	\$19,891,535.85	Kenton	1,792	\$33,836,303.91	Powell	309	\$3,936,007.77
Carlisle	116	\$1,467,335.31	Knott	340	\$5,194,037.23	Pulaski	1,867	\$30,073,300.91
Carroll	275	\$4,001,413.05	Knox	456	\$6,533,053.96	Robertson	64	\$852,497.39
Carter	626	\$7,824,441.37	Larue	293	\$4,117,265.77	Rockcastle	314	\$3,867,508.42
Casey	290	\$3,816,186.24	Laurel	969	\$15,312,778.18	Rowan	701	\$11,564,223.84
Christian	1,371	\$22,311,731.31	Lawrence	254	\$3,022,913.33	Russell	414	\$5,876,994.56
Clark	714	\$10,943,805.82	Lee	219	\$3,212,104.59	Scott	927	\$17,779,446.52
Clay	468	\$6,433,796.43	Leslie	230	\$2,956,746.04	Shelby	1364	\$31,957,739.48
Clinton	195	\$2,448,061.48	Letcher	481	\$5,915,687.01	Simpson	224	\$2,407,502.02
Crittenden	193	\$2,371,857.38	Lewis	265	\$3,006,442.99	Spencer	380	\$7,106,404.70
Cumberland	167	\$2,256,801.68	Lincoln	517	\$5,964,795.66	Taylor	497	\$6,786,025.74
Daviess	1,959	\$32,386,115.50	Livingston	227	\$3,486,458.96	Todd	242	\$2,865,624.13
Edmonson	171	\$2,125,889.93	Logan	499	\$6,197,862.93	Trigg	427	\$6,180,165.78
Elliott	158	\$1,846,993.70	Lyon	300	\$5,065,539.75	Trimble	237	\$3,281,675.43
Estill	308	\$4,045,035.90	Madison	1,829	\$27,415,760.74	Union	296	\$3,387,057.98
Fayette	4,408	\$91,714,968.15	Magoffin	275	\$3,363,739.30	Warren	2,194	\$36,201,083.02
Fleming	382	\$6,406,761.14	Marion	435	\$5,601,687.18	Washington	266	\$3,990,975.40
Floyd	758	\$11,258,699.23	Marshall	696	\$9,447,163.88	Wayne	430	\$5,720,624.43
Franklin	6,025	\$182,078,902.71	Martin	196	\$2,070,969.37	Webster	281	\$3,461,769.46
Fulton	173	\$1,941,224.68	Mason	322	\$5,177,153.65	Whitley	834	\$11,351,792.64
Gallatin	86	\$1,411,673.21	Mccracken	1,325	\$22,952,441.71	Wolfe	277	\$4,055,102.95
Garrard	356	\$4,886,273.68	Mccreary	342	\$3,024,684.22	Woodford	736	\$18,160,735.59

## Total Fiscal Year Retirement Payments

	Payees	Payments
Kentucky Total	88,041	\$1,539,646,980.09
Out of State	5,381	\$76,054,005.71
<b>Grand Total</b>	<b>93,422</b>	<b>\$1,615,700,985.80</b>

## 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.

### Reemployed Retirees in Full-Time Positions Covered by Same System & Contributing to a New Account

Reemployed Retirees in KRS	KERS			CERS			SPRS
	Non-Haz	Haz	Total	Non-Haz	Haz	Total	Total
Total Active Employees	46,044	4,045	50,089	84,837	9,019	93,856	949
Total Retirees	36,239	2,090	38,329	40,174	5,158	45,332	1,019
Reemployed Retirees	868	71	939	1,017	639	1,656	139
% of Reemployed Retirees to Total Actives	1.89%	1.76%	1.87%	1.20%	7.09%	1.76%	14.65%
% of Reemployed Retirees to Total Retirees	2.40%	3.40%	2.45%	2.53%	12.39%	3.65%	13.64%
Average Age at Initial Retirement	50	48	49	53	46	50	46
Months of Service Credit at Initial Retirement	342	290	338	301	290	297	334
Final Compensation At Initial Retirement	\$52,030.32	\$43,878.38	\$51,413.93	\$36,584.67	\$53,488.46	\$43,107.33	\$57,359.40
Reemployed Retirees Avg. Annualized Salary Earned in Fiscal Year 2009-2010 (Second Retirement Account)	\$41,516.52	\$35,553.60	\$41,065.65	\$47,747.16	\$47,119.08	\$47,504.80	\$34,554.72
Retirees Returning to Work for the Same Employer	226	0	226	446	26	472	1
% Retirees Returning to Work For Same Employer	26.04%	0.00%	24.07%	43.85%	4.07%	28.50%	0.72%

*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 239 retirees have returned to work after the implementation of House Bill 1 in the 2008 Special Legislative Session. These retirees are not eligible to contribute to a new account.*



**Kentucky Retirement Systems**

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