KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

- a component unit of the State of Kansas

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended June 30, 1996

- prepared by the Staff of the Retirement System

"Our unity as a nation is sustained by free communication of thought and by easy transportation of people and goods. The ceaseless flow of information throughout the republic is matched by individual and commercial movement over a vast system of interconnected highways crisscrossing the country and joining at our borders with friendly neighbors to the north and south. Together, the united forces of our communication and transportation systems are dynamic elements in the very name we bear - the United States. Without them, we would be a mere alliance of many parts."

- *Dwight D. Eisenhower,*
U.S. President,
calling on Congress to enact legislation that would allow construction of the new United States Interstate Highway System, 1955

Mission Statement
of the
Kansas Public Employees Retirement System

KPERS

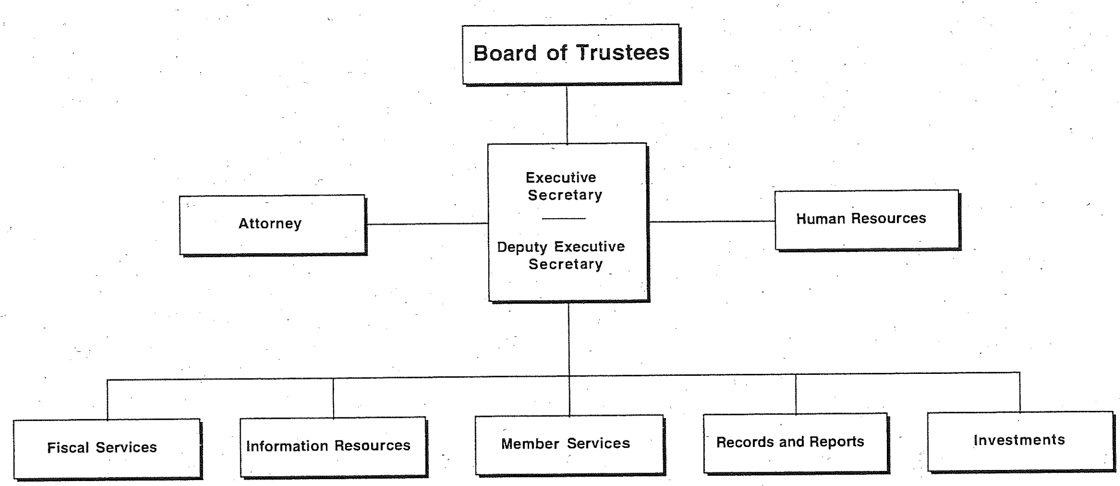
The Kansas Public Employees Retirement System is a plan of retirement, disability, and survivor benefits provided by law for Kansas public servants and their beneficiaries.

The Board of Trustees and the Staff of the Retirement System strive at all times to safeguard the System's assets by adhering to the highest standards of fiduciary and professional care, complying strictly and fairly with the law, and conducting business in a courteous, timely, and effective manner.

The Board of Trustees of the Kansas Public Employees Retirement System is a nine-member Board; four members are appointed by the Governor, two are appointed by legislative leaders, two are elected by Retirement System members, and one is the elected State Treasurer. Those currently serving on the Board are:

Michael L. Johnston, Wichita — Chair	(appointed by former Governor Joan Finney)
Vern R. Chesbro, Ottawa — Vice-Chair	(appointed by former Governor Joan Finney)
Jarold Boettcher, Beloit	(appointed by Governor Bill Graves)
Ivan Crossland, Jr., Columbus	(appointed by the Speaker of the House)
Les Meredith, Overland Park	(appointed by the President of the Senate)
Stuart Murdock, Leawood	(appointed by Governor Bill Graves)
Kathy Stover, Topeka	(elected by non-school Retirement System members)
Sally Thompson, Lawrence	(State Treasurer - Board member by statute)
Marjorie Lee Webb, Shawnee Mission	(elected by school Retirement System members)

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
Organization Chart



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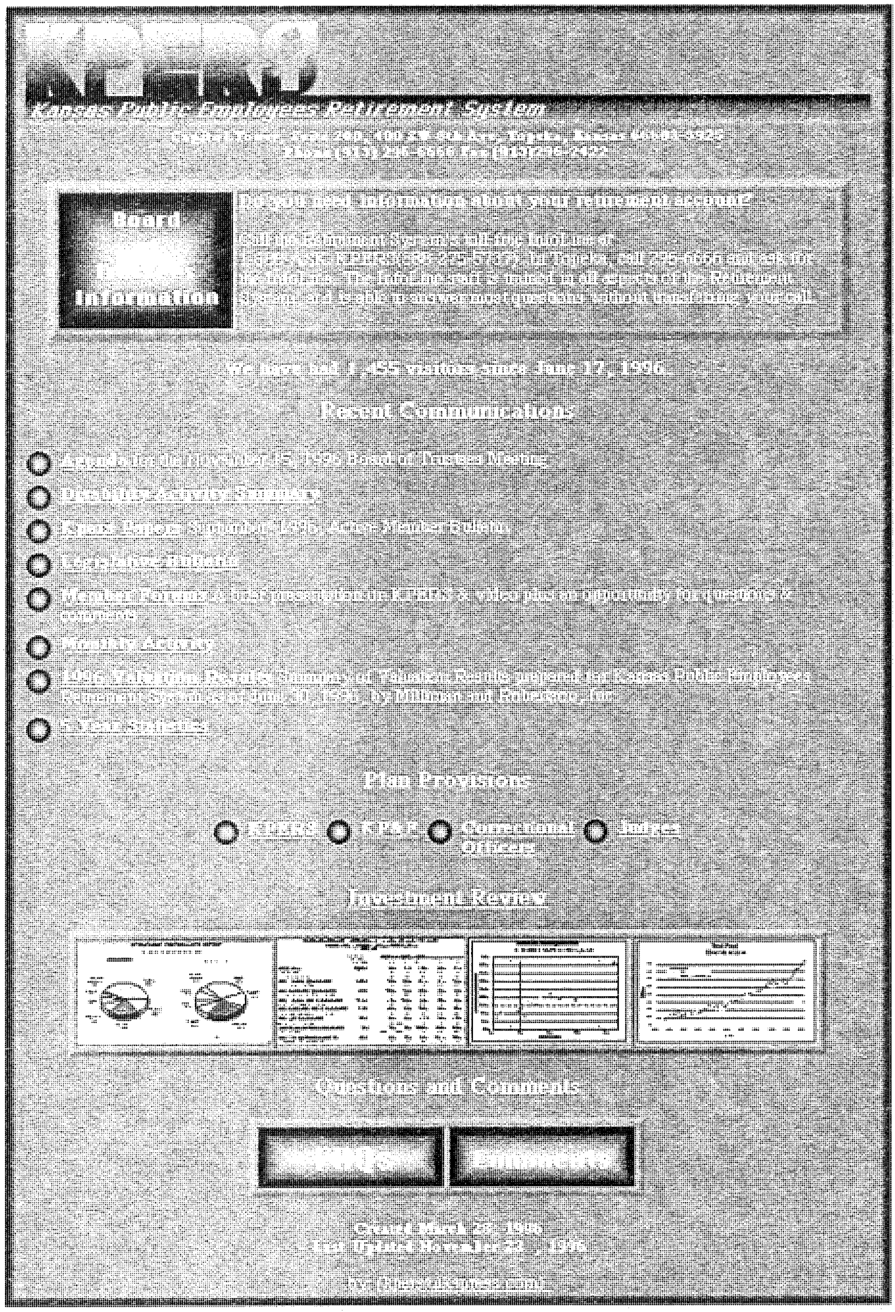
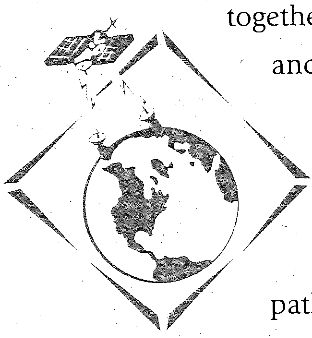

KPERS
Kansas Public Employees Retirement System
Board Information
Do you need information about your retirement account?
We have had 1,455 visitors since June 17, 1996.
Recent Communications
Agenda for the November 15, 1996 Board of Trustees Meeting
Disability Activity Summary
KPERS Reports September 1996, Active Member Bulletin
Legislative Bulletin
Member Forums A brief presentation on KPERS & video plus an opportunity for questions & comments
Monthly Activity
1996 Valuation Results Summary of Valuation Results prepared for Kansas Public Employees Retirement System as of June 30, 1996, by Milliman and Robertson, Inc.
5 Year Statistics
Plan Provisions
KPERS
KP&F
Correctional Officers
Judges
Investment Review
Questions and Comments
Comments
Created March 28, 1996

CONNECTING WITH OTHERS and staying ahead in business are just two among many increasing opportunities on the World Wide Web. This year, the Retirement System has pulled onto the Information Super Highway with its first-ever Home Page on the Internet.

The Information Super Highway is the newest "road" leading to promising destinations, its future rich with expansion afforded by sophisticated electronic technology. The phrase itself "the Information Super Highway" is a fascinating blend of concepts, neatly capturing the powerful forces on society that communication and transportation together have had. More information will become available to our members and other interested audiences as these avenues into cyberspace continue to develop. A glimpse of our Home Page is shown at the far left. Other section pages in this report show that, while quick communication and smoothly traveled roadways are luxuries we currently enjoy, the optimistic vision and pioneering effort of those who blazed the pathways toward achieving these dreams are our inherited legacies.



In the not-far-distant past, people loaded belongings into oxen-drawn or mule-drawn wagons and walked or rode hundreds of miles to reach new territory, and could spend weeks or months waiting to receive important news. Now, at the touch of a few keystrokes, people can communicate with others instantly and transact business immediately on a global scale, without ever leaving their desks at home or at work.

Retirement System staff members are dedicating their efforts to bringing tomorrow's innovations to you and to the office today. Plan to visit the Retirement System on the World Wide Web soon. The Retirement System's Home Page address on the World Wide Web, as well as the new Internet E-Mail address, appear on the back cover of this Annual Report.

KPERS
Kansas Public Employees Retirement System

November 20, 1996

Members
Kansas Public Employees Retirement System

Dear Members:

I am pleased to present, on behalf of your Board of Trustees and Staff, the 1996 Annual Report of the Kansas Public Employees Retirement System. The Annual Report covers the operations of the Retirement System for the fiscal year ended June 30, 1996. The System's fiscal year 1996 operating results and financial position are presented in conformity with generally accepted accounting principles.

To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner to present fairly the financial position and result of operations of the Retirement System. Responsibility for both the accuracy of the data, as well as the completeness and fairness of the presentation, including all disclosures, rests with the management of the System. The 1996 Annual Report was prepared through the combined efforts of the Retirement System's staff members.

The 1996 Annual Report consists of several sections. The first section is the introductory section, which includes this letter; the second is the financial section, and includes the Statement of Plan Net Assets as of June 30, 1996. An annual audit of the Retirement System was conducted by the independent certified public accounting firm Berberich Trahan & Co., P.A. The firm's report on the Retirement System's financial statements is included in the financial section.

The third section of the Annual Report is the investment section, detailing the performance of the Retirement System's investment portfolio during fiscal year 1996. The fourth and fifth sections of the Annual Report are the actuarial section, which describes the funding basis, actuarial assumptions, contributions, and funded ratios of the Retirement System; and the statistical section, which provides tables and several graphics concerning membership, benefits, and other statistical data.

The Kansas Public Employees Retirement System, serving the needs of virtually all Kansas public servants, is an umbrella organization for three pension groups: the Kansas Public Employees Retirement System (KPERS), the Kansas Police & Firemen's Retirement System (KP&F), and the Kansas Retirement System for Judges (Judges). All three systems are part of a defined benefit, contributory plan. The Kansas Retirement System for Judges is a single employer group, while the other two are multi-employer, cost-sharing groups.

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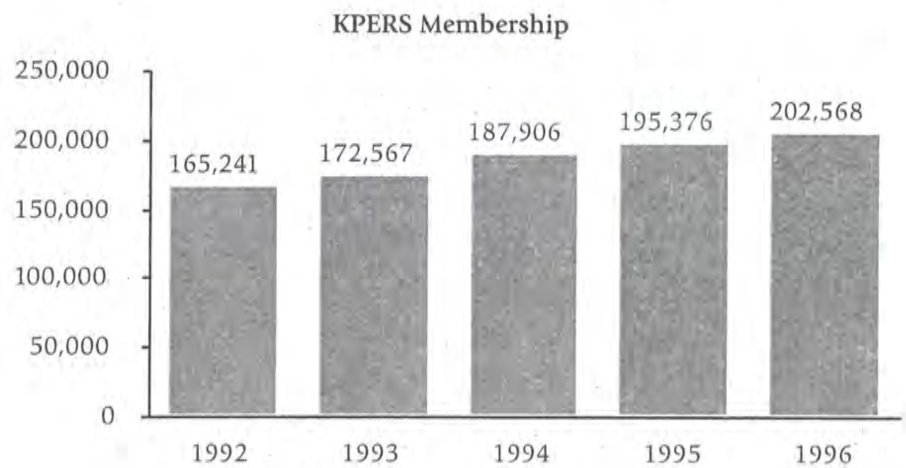
KPERS Telephone Facsimile: (913) 296-2422 KPERS E-mail: kpers@kspress.com
Call Toll Free 1-888-275-5737

Over the last five years, your Retirement System has undergone significant growth, with notable increases in membership, the amount and level of benefits paid (with a resulting impact on the Kansas economy), and member assets. The Retirement System's total membership has swelled in the last five years - to 202,568 as of June 30, 1996, from 165,241 as of June 30, 1992 - which is a 22.6% increase. Retired members grew in number from 39,552 to 46,746 over the same period, an 18.2% increase.



This table shows the growth of the System's membership, from 165,241 members in fiscal year 1992 to 202,568 in fiscal year 1996.

At June 30, 1996, the membership of the Retirement System included 140,573 active members, 15,249 former public servants, and 46,746 retired public servants and beneficiaries. Forty-five new public employers joined the Retirement System, and by the end of fiscal year 1996 the number of public employers in the Retirement System totalled 1,344.

The total benefits paid to retired members rose from $198 million in fiscal year 1992 to $357 million in fiscal year 1996. The average annual retirement benefit increased by $2,635 over the same five-year period, or 52.5%. The average annual benefit is now $7,650. The purchasing power of retired KPERS members has a tremendous economic impact on the State of Kansas. Eighty-five percent of KPERS retired members continue to live in Kansas. These members were paid more than $300 million in retirement benefits last year.

This table shows the growth of the System's investments from June 30, 1991 to June 30, 1996.

Member assets grew at an annualized rate of just over 13% in the past five years, increasing from just over $4 billion to just under $7 billion. This substantial asset foundation, invested in a prudent, productive fashion, when coupled with the statutory funding mechanism of employer and employee contributions established in Kansas law, ensures the future financial integrity of your Retirement System and your retirement benefits.

During this fiscal year, the focus of the Retirement System has been on continued improvement in our ability to deliver services to members and their beneficiaries in a timely, accurate, and cost effective manner, by enhancing communication and technology to connect with all our members and their beneficiaries in a variety of ways. This year's Annual Report features Kansas at the crossroads of a nation united and sustained by ease of communication through technology and economic transportation of people and goods over safe, modern interconnected highway systems that link our state with every other in the country.

In this report we recognize this year as the 175th anniversary of the Santa Fe Trail, the 70th anniversary of U.S. Highway Route 66, the 40th anniversary of both the U.S. Interstate Highway System and the Kansas Turnpike, and the first year you may visit the Retirement System on the "Information Super Highway" - the Internet.

The Retirement System is proud to announce that, in addition to the other, more traditional methods of communication we employ, now members can access the KPERS Home Page on the World Wide Web for more information about the Retirement System. Another new service we provide is the call-in "InfoLine," comprised of staff members experienced in answering questions from members and beneficiaries about the Retirement System, normally without having to transfer phone calls.

The upcoming member elections for the Board of Trustees in the spring of 1997 will be conducted using a new, first-ever, telephone voice-response system for members to cast their ballots. The Retirement System also plans to increase optical imaging in the near future to include all member records. In future fiscal years we expect to increase our emphasis on electronic reporting from participating employers.

The financial operations of the Retirement System remain strong. The table below presents a synopsis of the System's financial operations. The complete Statement of Changes in Plan Net Assets is on page 22. The Retirement System had net assets of $5.96 billion at June 30, 1995. During the year, active members contributed more than $173 million to the Retirement System, while employers contributed $143 million. Investments generated nearly $1.117 billion in gross income during the fiscal year, including realized gains and losses on publicly traded securities. After subtracting management fees and expenses associated with the investments, fiscal year 1996 Net Investment Income totaled $1.095 billion. Net investment income plus member and employer contributions resulted in total operating revenues of nearly $1.412 billion.

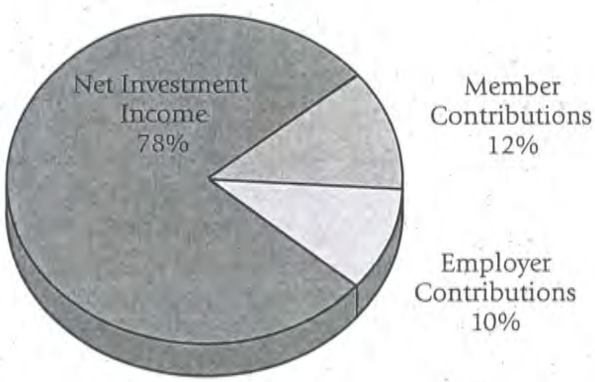
Fiscal Year 1996 Operating Results

Net Assets at July 1, 1995			$ 5,963,642,184
Additions:			
Contributions			
Member	$ 173,247,638		
Employer	143,404,285		
Total Contributions		$ 316,651,923	
Investment Income			
Gross Investment Income	$ 1,116,744,569		
Less Manager, Custodian Fees, Expenses	(21,742,893)		
Net Investment Income		1,095,001,676	
Other Miscellaneous Income		97,505	
Total Additions		1,411,751,104	
Deductions:			
Monthly Retirement Benefits Paid	357,091,763		
Refunds of Contributions	30,687,458		
Death Benefits	7,010,866		
Insurance Premiums and Benefits	34,108,251		
Administrative Expenses	4,493,293		
Total Deductions		433,391,631	
Net Increase			978,359,473
Net Assets at June 30, 1996			$ 6,942,001,657

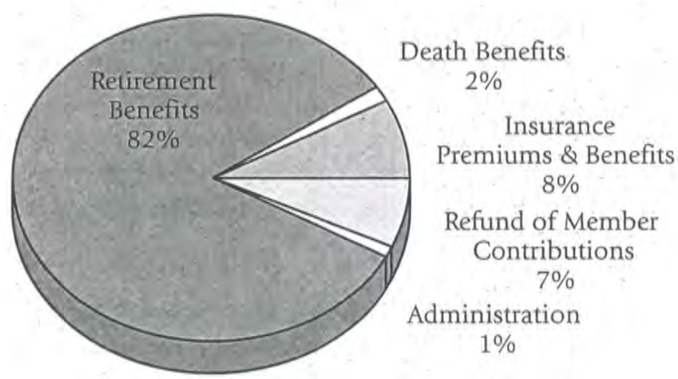
The expenses of the Retirement System totaled $433 million in fiscal year 1996. Included were $357 million in monthly benefits to retired members, $31 million paid to members who withdrew their contributions, more than $7 million in death benefits, and over $34 million in insurance premiums and benefits. The cost of maintaining the Retirement System's administrative operations totaled approximately $4.5 million.

Total revenues exceeded expenses by more than $978 million during the year, thereby increasing the System's net reserves to over $6.94 billion at June 30, 1996. These reserves represent the funds available to pay for current and future members' benefits. The following graphics depict the operating expenses and revenues of the Retirement System.

Operating Revenues



Operating Expenses



The Retirement System's investment performance for fiscal year 1996 is shown in the table on the following page. The time-weighted rate of return, which includes income and changes in investment value, was 18.8% at June 30, 1996. The Retirement System maintains a diverse investment portfolio, as described in the Investment Allocation summary beginning on page 45.

Investment Performance
Past Five Years

Fiscal Year	Time-Weighted Rate of Return	Consumer Price Index
1996	18.8 %	2.7 %
1995	17.6	3.0
1994	2.3	2.5
1993	14.7	3.0
1992	12.8	3.1

Time weighted return includes income and changes in market value. These performance results were calculated by Thomson Investment Software. Values used for non-publicly traded securities reflect estimated fair value. Values used for real estate investments reflect appraised values.

The Retirement System remains financially secure. One indication of a pension fund's strength is the funding status of its actuarial liability. At June 30, 1996, assets available for retirement benefits were 81% of the total actuarial accrued liability, as computed by the System's actuary, Milliman & Robertson, Inc. This is an increase from the June 30, 1995 level, which was 79%. The Retirement System's unfunded actuarial liability decreased 2.4% to $1.44 billion at June 30, 1996. Current Kansas law provides that this unfunded actuarial liability will be amortized over a forty-year period from July 1, 1993. Progress in reducing the unfunded actuarial liability will be accomplished over time by the System's investment performance and the receipt of adequate levels of contributions. This is in line with the legislation passed into law in 1995 that increased the cap on annual increases in employer contribution rates.

During fiscal year 1996 the Kansas economy also strengthened, with total job growth rising 2.8%, which was above the national average of 2.2%. Non-farm wage and salary employment grew by 4%, reflecting increased economic opportunities provided by technology advances, particularly in aviation-related markets. Aviation-related employment grew at an even faster rate than non-farm employment, reaching 4.5% by fiscal year's end. Kansas exports of manufactured goods increased, totalling $3.3 billion. Meanwhile, advances in agricultural technology have kept Kansas among the nation's top crop-producing states, notably in wheat and sorghum production. Kansas is also among the nation's top beef and pork producers, with a total of $2.2 billion realized in the last fiscal year for exports of all Kansas agricultural products.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Kansas Public Employees Retirement System, for the comprehensive annual financial report for the fiscal year ended June 30, 1995. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which must conform to program standards. The comprehensive annual financial report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The Kansas Public Employees Retirement System has received the Certificate of Achievement for the last two consecutive fiscal years (fiscal years ended June 30, 1994 and June 30, 1995). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we will be submitting this Annual Report to the GFOA for its consideration.

The Board of Trustees and its staff have as their highest priority delivering essential services to Kansas public servants and public employers. The Retirement System is committed to the concepts of fiduciary responsibility, prompt and courteous member service, and the complete, accurate, and timely reporting of performance results. Your questions, comments, and concerns are essential and always welcome. We appreciate the opportunity to serve you.

Sincerely,

Meredith Williams
Executive Secretary

A DYNAMIC KANSAS HIGHWAY SYSTEM built for speed, safety and convenience is celebrating a milestone birthday. It's the 236-mile Kansas Turnpike, which opened 40 years ago this autumn. Construction of the highway began after the State Legislature enacted a bill creating the Kansas Turnpike Authority (KTA).

For many reasons there was widespread support in the early 1950s for a toll road to link the metropolitan areas of Kansas City, Topeka, and Wichita. First, the state would receive a superhighway constructed by private funds, thereby freeing state and federal highway funds for other uses. Second, the toll road would route traffic away from Kansas's state highway system, which would help slow the deterioration of those roads.

Although the KTA initially contracted with a New York City engineering consulting firm, the Kansas City firm of Howard, Needles, Tammen, and Bergendorf developed more exact plans for a preliminary route and estimated costs. The firm did this by relying heavily on the State Highway Commission's expertise, using the department's photogrammetry section to lay out location, alignments, and grades, and also using the office's geological and soil survey staff to select surface types and plan design specifications. Final reports by the two consulting firms estimated that the turnpike could be constructed for $160 million.

On December 31, 1954, ground was broken for the first section of the turnpike - the approach to the future Kansas River bridge near Lawrence. The turnpike was completely constructed and opened to traffic on October 25, 1956.

"It's amazing to think the turnpike could be constructed in only 22 months," Michael L. Johnston, President and Chief Executive Officer of the Turnpike Authority, said. "The Legislature gave the KTA ample authority to manage and expedite construction without interference."

When it was complete, a ceremony was held in Wichita, and Governor Ed Hall opened the turnpike in Topeka with a formal ribbon-cutting, but it was the Kansas City ceremony that attracted the most attention when Gene Autry, astride his galloping horse Champion, burst through a huge paper map of the turnpike at the opening of the eastern terminus.

Three weeks later, Kansas passed another milestone when the first paved stretch of the new interstate, I-70, opened west of Topeka. The eight-mile project was the first paved roadway under the Federal-Aid Highway Act of 1956 that created the U.S. Interstate Highway System.

Significant improvements to the turnpike, Johnston said, have kept it a first-class facility and continually enhanced safety. This year is also the first anniversary of the initiation of the KTA's new K-Tag system. Users keep a small, high-tech K-Tag communication device in their cars. It electronically credits tolls to a preset account, saving time for toll collectors and the traveling public. Passing through dedicated K-Tag lanes at interchanges, users no longer have to stop and pay cash for tolls.

Photo: *The first cars through the new Kansas Turnpike interchange, near Lecompton at Milepost 197, as it opened to traffic November 7, 1996. The new interchange also includes dedicated K-Tag lanes.*

Photo reprinted with permission of the Kansas Turnpike Authority.

Berberich Trahan & Co., P.A.

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Kansas Public Employees Retirement System

We have audited the accompanying statement of plan net assets of the Kansas Public Employees Retirement System as of June 30, 1996, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. 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 in accordance with these standards 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 referred to above present fairly, in all material respects, the plan net assets of the Kansas Public Employees Retirement System as of June 30, 1996, and the changes in plan net assets for the year then ended, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedules of employer contributions and funding progress, included on page 34 and 35, are supplemental disclosures under Governmental Accounting Standards Board Statement No. 25, and are not a required part of the financial statements. The supplementary information included on pages 36 through 41 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information for the years ended June 30, 1992 through 1996, has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole. The supplementary information for each of the years ending June 30, 1987 through 1991 were subjected to auditing procedures by other auditors whose reports stated that such information was fairly stated in all material respects when considered in relation to the financial statements taken as a whole.

October 4, 1996

Berberich Trahan & Co., P.A.

Statement of Plan Net Assets as of June 30, 1996
With Comparative Figures for 1995

	1996 Totals	1995 Totals
Assets		
Cash and Deposits		
Cash	$ 1,357,861	$ 648,600
Advances to Custodial Bank	—	1,100,000
Deposits with Insurance Carrier	502,223	2,808,045
Total Cash and Deposits	1,860,084	4,556,645
Receivables		
Contributions	36,214,457	30,950,902
Investment Income	46,416,043	40,795,099
Sale of Investment Securities	1,198,006,616	1,066,568,287
Total Receivables	1,280,637,116	1,138,314,288
Investments at Fair Value		
Domestic Equities	2,956,606,795	2,264,559,034
Domestic Fixed Income	1,906,059,290	1,783,453,334
Cash and Equivalents	21,945,035	91,504,276
International Fixed Income	658,501,273	526,707,006
International Equities	999,761,898	840,259,783
Alternative Investments	90,485,855	110,905,184
Real Estate	308,811,746	308,641,746
Total Investments	6,942,171,892	5,926,030,363
Fixed Assets and Supplies Inventory	391,785	513,681
Total Assets	8,225,060,877	7,069,414,977
Liabilities		
Administrative Costs	443,469	413,131
Benefits Payable	781,909	498,707
Securities Purchased	1,281,833,842	1,104,860,955
Total Liabilities	1,283,059,220	1,105,772,793
Net assets held in trust for pension benefits (A schedule of funding progress for the plan is presented on page 34.)	$ 6,942,001,657	$ 5,963,642,184

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

Statement of Changes in Plan Net Assets
for the Fiscal Year Ended June 30, 1996
with Comparative Figures for 1995

	1996 Totals	1995 Totals
Additions		
Contributions		
Member Contributions	$ 173,247,638	$ 159,250,384
Employer Contributions	143,404,285	129,377,236
Total Contributions	316,651,923	288,627,620
Investments		
Net Appreciation in Fair Value of Investments	845,780,074	682,457,926
Interest	179,895,671	165,116,405
Dividends	54,639,346	52,831,253
Real Estate Income, Net of Operating Expenses	26,576,310	22,656,495
Other Investment Income	9,853,168	1,887,923
	1,116,744,569	924,950,002
Less Investment Expense	(21,742,893)	(18,718,957)
Net Investment Income	1,095,001,676	906,231,045
Other Miscellaneous Income	97,505	533,638
Transfer of Assets from Kansas City School Retirement Fund	—	6,047,503
Total Additions	1,411,751,104	1,201,439,806
Deductions		
Monthly Retirement Benefits Paid	(357,091,763)	(327,182,200)
Refunds of Contributions	(30,687,458)	(26,542,254)
Death Benefits	(7,010,866)	(6,742,192)
Insurance Premiums and Benefits	(34,108,251)	(35,873,212)
Administrative Expenses	(4,493,293)	(4,312,658)
Total Deductions	(433,391,631)	(400,652,516)
Net Increase	978,359,473	800,787,290
Net Assets held in trust for Pension Benefits		
Balance Beginning of Year	5,963,642,184	5,162,854,894
Balance End of Year	$ 6,942,001,657	$ 5,963,642,184

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

NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR 1996

NOTE 1 — Plan Description

A. Plan Membership

The Kansas Public Employees Retirement System (the Retirement System, or the System) is a body corporate and an instrumentality of the State of Kansas. The Retirement System is an umbrella organization administering the following three statewide pension groups under one plan, as provided by K.S.A. 74, article 49: the Kansas Public Employees Retirement System (KPERS), the Kansas Police and Firemen's Retirement System (KP&F), and the Kansas Retirement System for Judges (Judges). All three systems are part of a defined benefit, contributory plan covering substantially all public employees in Kansas. The Kansas Retirement System for Judges is a single employer group, while the other two are multi-employer, cost-sharing groups. Participation by the State of Kansas is mandatory, whereas participation by local political subdivisions is optional but irrevocable once elected. Participating employers and Retirement System membership are as follows:

Number of Participating Employers

	KPERS	KP&F	Judges
State of Kansas	1	1	1
Counties	105	15	—
Cities	339	38	—
Townships	48	—	—
School Districts	304	—	—
Libraries	105	—	—
Conservation Districts	78	—	—
Extension Councils	78	—	—
Community Colleges	46	—	—
Recreation Commissions	33	—	—
Hospitals	29	—	—
Cemetery Districts	13	—	—
Other	110	—	—
Total	1,289	54	1

Membership by Retirement Systems

	KPERS	KP&F	Judges	Total
Retirees and beneficiaries currently receiving benefits	44,175	2,447	124	46,746
Terminated employees entitled to benefits but not yet receiving them	6,257	59	11	6,327
Inactive members not entitled to benefits	8,725	195	2	8,922
Current employees	134,504	5,829	240	140,573
Total	193,661	8,530	377	202,568

KPERS members' benefits vest with ten years of credited service. KP&F members' benefits vest with 20 years of credited service for Tier I, and with 15 years of credited service for Tier II. Normally ten years of credited service is required for Retirement System for Judges members to become vested.

B. Plan Benefits

Members (except KP&F members), with ten or more years of credited service, may retire as early as age 55 (KP&F members may be age 50 with 20 years of credited service) with an actuarially reduced monthly benefit. Normal retirement is at age 65, age 62 with ten years of credited service, or whenever a member's combined age and years of credited service equal 85 "points" (KP&F members' normal retirement ages are age 60 with 15 years of credited service, age 55 with 20 years, or age 50 with 25 years). Monthly retirement benefits are based on a statutory formula that includes final average salary and years of service. Upon termination of employment, members may elect to withdraw the accumulated contributions from their individual accounts, including the interest that has been credited to the account. Members who withdraw their accumulated contributions forfeit all rights and privileges accrued during membership. Members choose one of seven options to receive their monthly retirement benefits. Benefit increases, including ad hoc post-retirement benefit increases, must be approved and passed into law by the Kansas legislature. Benefit increases are under the authority of the legislature and the governor of the State of Kansas.

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

Active members (except KP&F and Judges members) are also covered by the provisions of the disability income benefit contract. Annual disability income benefits are based upon two-thirds of the annual rate of compensation at the time of disability, less primary social security benefits, one-half of worker's compensation, and any other employment-related disability benefit, with a minimum monthly benefit of $100. There is a waiting period of 180 continuous days from the date of disability before benefits can be paid. During the period of approved disability, the member continues to have group life insurance coverage and to accrue participating service credit.

C. Contributions

Member contributions (from 4% to 7% of gross compensation), employer contributions and net investment income fund the reserves of the Retirement System. Member contribution rates are established by state law and are paid by the employer according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates be determined, based on the results of each annual actuarial valuation. All of the retirement systems are funded on an actuarial reserve basis (see Note 3). Contribution rates for KP&F, TIAA, and Judges are set at the actuarially determined rate; however, for fiscal years beginning in 1995, State of Kansas legislation placed statutory limitations on annual increases in the contribution rates for KPERS employers of 0.1% of payroll over the prior year. During the 1995 legislative session, the statutory limits were increased to 0.2% of payroll over the prior year for fiscal years beginning in 1996 for state and school employers. The statutory increase for local units of government was amended to increases no greater than 0.15% over the prior year for calendar years beginning in 1997. Annual increases in the employer contribution rates related to subsequent benefit enhancements are not subject to these limitations. The amortization period for the unfunded liability of all three systems is 40 years from July 1, 1993. Employer contributions for group life insurance and long-term disability income benefits are set by statute at 0.6% of covered payroll for KPERS and 0.4% for Judges.

NOTE 2 — Summary of Significant Accounting Principles

A. Reporting Entity

The Kansas Public Employees Retirement System (the Retirement System, or the System) is a component unit of the State of Kansas. A nine-member board of trustees administers the Retirement System: four trustees are appointed by the governor, two are appointed by the legislative leadership, two are elected by Retirement System members, and one is the State Treasurer. The Board of Trustees appoints the executive secretary who is the Retirement System's managing officer.

B. Basis of Accounting

The financial statements of the Retirement System are prepared on the accrual basis in accordance with Generally Accepted Accounting Principles (GAAP). Plan member and employer contributions are recognized in the period which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

C. Method Used to Value Investments

Investments are reported at fair value. Securities traded on a national or international securities exchange are valued at the last reported sales price at current exchange rates. The fair value of real estate investments is based on independent appraisals. Investments that are not publicly traded are reported at estimated fair value.

D. Change in Accounting Principle

During 1995, the Retirement System elected an early adoption of the provisions of GASB No. 25, "Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans." The provisions of this statement required restatement of prior year balances for the effect of changing from reporting certain investments at amortized cost to reporting investments at fair value. The effect of the change in accounting principle at July 1, 1994, on net assets held in trust for pension benefits for the System as previously reported was an increase of $162,846,652.

E. Cash and Deposits

Cash deposits are classified in three categories of credit risk to give an indication of the level of risk assumed by KPERS. The categories of credit risk are:

1. Insured or collateralized with securities held by the State Treasurer or its custodian in the name of the State of Kansas.
2. Collateralized with securities held by the pledging financial institution's trust department or custodian in the name of the State of Kansas.
3. Uncollateralized.

As of June 30, 1996, the cash deposits of $1,357,861 held by the State Treasurer were in credit risk category "1." The Retirement System's deposits with its insurance carrier represent a disbursement account used by the insurance company to pay disability claims to eligible members under a self-insured plan. These deposits were $502,223 at June 30, 1996, and were in credit risk category "3."

F. Investments

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

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

- Establishes the structure of the Board of Trustees and defines the Trustees' responsibilities, imposing the prudent expert standard upon their actions with respect to managing the assets of the Retirement System.
- Requires that the assets be invested to preserve capital and solely to provide benefits to members and the members' beneficiaries.

- Limits the possible allocation of common stock to 60% of the total book value of the fund. Restricts the fund from investment in the common stock of banks, savings and loans, and credit unions.
- Limits the allocation of private placements and other alternative (non-publicly traded) investments to 5% of the total investment assets of the fund, but does not require the sale of such investments held unless the sale is in the best interests of members.
- Establishes limits on the structure of future investments in real estate or alternative investments.
- Requires that the Board develop investment policies and objectives for the investment and reinvestment of the assets of the fund.
- Authorizes the Board to hire qualified professionals/firms to assist in the investing of the fund and to require that such professionals/firms obtain errors and omissions insurance coverage and fidelity bond insurance coverage.
- Authorizes the Board to pay for the services of retained professionals/firms at the rates fixed by the Board, excluding any reimbursement for expenses and subject to the provisions of the appropriations acts.
- Provides for an annual audit and requires that the Board examine the investment program, specific investments, and its policies and practices annually.

At June 30, 1996, the Retirement System did not have investments (other than those issued by the U.S. government) in any one organization representing 5% or more of the System's assets.

The Retirement System's permissible investment categories include equities, fixed income securities, cash equivalents, real estate, derivative products, and alternative investments. In fulfilling its responsibilities, the Board of Trustees has contracted with 22 investment management firms and a master global custodian located in Medford, Massachusetts.

Presently the Retirement System has investments in the financial futures market. Futures contracts are contracts for delayed delivery or receipt of securities in which the seller agrees to make delivery or the buyer agrees to take delivery at a specified future date, of a specified instrument, at a specified price. Market risk arises due to market price and interest fluctuations that may result in a decrease in the market value of futures contracts. Futures contracts are traded on organized exchanges and require initial margins in the form of cash or marketable securities. Daily, the net change in the futures contract value is settled in cash with the exchanges. Holders of futures contracts look to the exchange for performance under the contract. Accordingly, the credit risk due to nonperformance of counterparties to futures contracts is minimal. At June 30, 1996, the Retirement System had purchased Treasury note and Treasury bond futures contracts with a market value of $114,217,813. Margin deposits in the form of U.S. Treasury Notes totalling $3,748,173 were held by the Retirement System as of June 30, 1996. Cash equivalents and short-term investments in amounts necessary to settle futures contracts were held in the portfolio so that no leverage was employed, in accordance with the Statement of Investment Policy.

The Retirement System currently participates in a securities lending program administered by its master global custodian, Mellon Trust. The System receives income from the loan of the securities, in addition to the income which accrues to the System as owner of the securities. The borrower collateralizes the loan with either cash or government securities of 102% of market value on domestic securities, and 105% of market value on international securities loaned. The custodian provides for full indemnification to the Retirement System for any losses that might occur in the event of borrower default. Daily, the securities on loan are marked to market to ensure the adequacy of the collateral. Net income produced from securities lending activities for fiscal year 1996 was $2,013,053. The market value of securities on loan as of June 30, 1996 was $670,339,897.

The Retirement System's international investment managers use forward contracts in order to hedge the exposure of the international investments to fluctuations in foreign currency. Active international investment managers use forward contracts to enhance returns and/or to control volatility. The Retirement System also contracts with a currency overlay manager to manage the currency exposure to the System's passive international equity portfolio. Currency risk arises due to foreign exchange rate fluctuations. Forward foreign exchange contracts are negotiated between two counterparties. The Retirement System could incur a loss if its counterparties failed to perform pursuant to terms of their contractual obligations. Controls are established by the investment managers to monitor the credit worthiness of the counterparties.

All forward foreign currency contracts are carried at market value by the Retirement System. As of June 30, 1996, the System had sold forward currency contracts with a market value of $1,140,920,068 and had bought forward currency contracts with a market value of $1,132,338,309. Purchases of forward currency contracts are liabilities reported as Securities Purchased, and sales of forward currency contracts are receivables reported as Sale of Investment Securities.

The Retirement System also participates in option contracts. These contractual agreements give the purchaser the right, but not the obligation, to purchase or sell a financial instrument at a specified price within a specified time. Options strategies used by the Retirement System are designed to provide exposures to positive market moves and limit exposures to interest rate and currency fluctuations.

The Retirement System's investments are categorized by asset classes to give an indication of the level of risk assumed as of year-end. The categories are as follows:

1. Insured or registered and held by the System's custodial bank in the System's name.
2. Uninsured and unregistered and held by the counterparty's trust department or agent in the System's name.
3. Uninsured and unregistered and held by brokers or dealers not in the System's name.

All Retirement System investments that can be categorized within these guidelines meet the criteria of category 1. A security, for purposes of classification in the above categories, is a transferable financial instrument that evidences ownership or creditor status. "Securities" do not include investments made with another party, real estate, or direct investments in mortgages. Investments in mutual funds, limited partnerships, real estate investment trusts, and commingled trust funds also are not considered securities for purposes of credit risk classification. Such investments are shown in the schedule below as "not subject to classification." The schedule distributes by asset class the fair values of investments.

Investments:	Asset Classification 1	2	3	Fair Value
Subject to Classification				
Domestic Equities	$ 2,724,227,376	—	—	$ 2,724,227,376
Domestic Fixed Income	1,347,490,704	—	—	1,347,490,704
Cash Equivalents (1)	15,091,609	—	—	15,091,609
International Fixed Income	999,761,898	—	—	999,761,898
International Equities	658,501,273	—	—	658,501,273
Total Subject to Classification	$ 5,745,072,860	—	—	5,745,072,860
Not Subject to Classification				
Alternative Investments				90,485,855
Real Estate				308,811,746
Mutual Funds				
Cash Equivalents				6,853,426
Domestic Equities				232,379,419
Domestic Fixed Income				558,568,586
Total Not Subject to Classification				1,197,099,032
Total Investments				$ 6,942,171,892

1) Foreign currencies and fixed securities maturing within 90 days of purchase date.

G. Fixed Assets and Supplies Inventory

Furniture, fixtures, and equipment are reported on the balance sheet at historical cost, net of accumulated depreciation. These assets are depreciated on a straight-line basis over an average useful life of three to ten years with no salvage value. Accumulated depreciation on furniture, fixtures, and equipment as of June 30, 1996, was $1,927,038. Office supplies inventory in the amount of $20,025 are included, assuming the first-in, first-out method.

H. Compensated Accrued Absences

Expenses for accumulated vacation and sick leave earned by Retirement System personnel are recorded when earned by the employee. In the event of termination of employment with the State of Kansas, an employee is compensated for vacation benefits accrued in varying amounts ranging from one to 30 days. Compensation for accumulated sick leave requires three conditions to occur: (1) accumulation of 800 hours; (2) minimum of eight years of credited service; and (3) termination with the State of Kansas on or after attainment of retirement age. If all conditions are met, the employee will be compensated in accordance with applicable personnel regulations. The minimum amount of sick leave to be compensated is 30 days, maximum amount is 60 days.

I. Reserves

K.S.A. 74-4922 defines the title and use of the required reserves of the Retirement System. The composition of the reserves, credits to the reserves, and charges to the reserves are also specified in K.S.A. 74-4922. The law governing the Retirement System requires the actuary to make an annual valuation of the Retirement System's liabilities and reserves, to make a determination of the contributions required to discharge the Retirement System's liabilities, and to recommend to the Board of Trustees employer contribution rates required to maintain the System on an actuarial reserve basis. The various reserves are:

The Members Accumulated Contribution Reserve represents the accumulation of member contributions plus interest credited to individual member accounts of non-retired members. At the date of retirement the individual member's account is transferred to the Retirement Benefit Payment Reserve. Upon termination of employment and application for withdrawal, refunds of employee contributions plus accumulated interest are charged to this reserve. Interest is credited to member accounts on June 30 each year, based on the balance in the account as of the previous December 31. The interest crediting rate, defined by statute as the actuarial interest assumption rate, was 8% for fiscal years 1995 and 1996, for those who first began public service careers prior to June 30, 1993. For those who first begin public service careers after June 30, 1993, interest on employee contributions will be credited at the rate of 4% per year. The balance at June 30, 1996 was $2,159,113,770 and was fully funded.

The Retirement Benefit Accumulation Reserve represents the accumulation of employer contributions, net investment income not credited to any other reserve, and the actuarially computed prior service liability not yet funded. The balance at June 30, 1996 was $3,032,155,954 and the unfunded liability was $1,444,355,845.

The Retirement Benefit Payment Reserve represents the actuarially computed present value of future benefits for retired members plus interest credited for the current fiscal year based upon information as of the preceding January 1. The balance at June 30, 1996 was $3,027,357,222 and was fully funded.

The Group Insurance Reserve represents employer contributions, which pay 100% of the cost of group life insurance and long-term disability coverage. Insurance premiums and benefits consist of (1) claims paid under the insurance contract; and (2) deposits made by the Retirement System to pay disability benefits to eligible participants. The balance at June 30, 1996 was $148,208,364 and was fully funded.

The Expense Reserve represents an amount of investment income which is sufficient to maintain a year-end account balance at two times the most recent fiscal year's administrative expense amount. The System's administrative expenses are charged to this reserve. The balance at June 30, 1996 was $8,986,585 and was fully funded.

The Retirant Dividend Payment Reserve represents an amount which approximates the prior year's retirant dividend payment. Retirant dividend payments (the 13th check) are charged to this reserve. The balance at June 30, 1996 was $10,535,607 and was fully funded.

J. Budget

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

NOTE 3 — Funding Policy

A. Funding

The law governing the Retirement System requires the actuary to make an annual valuation of the System's liabilities and reserves, and a determination of the contributions required to discharge the System's liabilities. The actuary then recommends to the System's Board of Trustees the employer contribution rates required to maintain the Retirement System on the actuarial reserve basis.

Every three years the actuary makes a general investigation of the actuarial experience under the System including mortality, retirement, and employment turnover. The actuary recommends actuarial tables for use in valuations and in calculating actuarial equivalent values based on such investigation. An actuarial experience study was conducted for the three years ending December 31, 1994. As a result of this study, the Board of Trustees adopted new assumptions in regard to salary increases and employee turnover rates.

In fiscal year 1993, the Kansas Legislature passed into law legislation that amended the statutory funding method applicable to the Retirement System. For KPERS, the funding method was changed from the frozen initial liability method to the projected unit credit actuarial cost method. This legislation mandated this new method be used to determine KPERS employers' contribution rates commencing with the 1993 actuarial valuation, except for Board of Regents plan members (TIAA and equivalents). Under the new method, the unfunded actuarial accrued liability is recalculated each year (rather than being essentially fixed in a dollar amount as under the previous method). Actuarial gains and losses resulting from differences between actual and assumed experience are reflected in KPERS' accrued actuarial liabilities, and affect the amount of annual amortization payments required to amortize the unfunded accrued liability over the statutory 40-year period from July 1, 1993. The funding methods used by the Retirement System's actuary for the KP&F and the Judges systems remained consistent and were the aggregate cost method with supplemental liability and the frozen initial liability method, respectively. The actuary has estimated the change in the unfunded actuarial liability between June 30, 1995 and June 30, 1996 can be attributed to the following (in millions):

Unfunded Actuarial Liability, June 30, 1995	$ 1,480
Investment gain	(280)
Liability loss from actual experience	136
Effect of contribution cap/time lag	70
Expected increase due to amortization method	38
Unfunded Actuarial Liability, June 30, 1996	$ 1,444

B. Contributions Required and Contributions Made

The actuarially determined contribution rates are computed as a level percentage of salary by the Retirement System's actuary. The results of 1993 and 1994 actuarial valuations provide the basis for Board certification of employer contribution rates for fiscal years beginning in 1995 and 1996, respectively. The actuarially determined employer contribution rates derived from the actuarial valuations for fiscal years beginning in calendar years 1995 and 1996 are as follows:

KPERS Membership Groups	Calendar Year 1995	Calendar Year 1996
State/School Employees	4.11 %	5.17 %
Local Employees	3.05	3.72
Certain Correctional Employees	4.41/5.21	5.47/6.27
TIAA Employees	1.75	1.89

As explained in Note 1, legislation has limited the amounts that employers are required to contribute for State/School employees and Local employees which has resulted in lower employer contribution rates as compared to the actuarial determined rates displayed above. For fiscal years ended June 30, 1996 and 1995, the employer contribution rates for State/School employees were 3.2% and 3.3%, respectively and the employer contribution rates for Local employees were 2.3% and 2.48%, respectively.

KP&F — The uniform participating service rate for all KP&F employers was 6.9% for fiscal years beginning in 1995 and 9.65% for fiscal years beginning in 1996. KP&F employers also make contributions to amortize the liability for past service costs, if any, which is determined separately for each participating employer.

Judges — For the fiscal year beginning in 1995, the total actuarially determined employer contribution rate was 10.3% of payroll, and, for the fiscal year beginning in 1996, it was 16% of payroll .

The law specifies employee contributions as: Each participating employer, beginning with the first payroll for services performed after the entry date, shall deduct from the annual compensation of each member an amount equal to 4% for KPERS members, 7% for KP&F members, and 6% for

Judges members as the member's employee contributions. All contributions required by law have been made as follows:

	(Expressed in Thousands) Employer and Insurance Contributions	Member Contributions (1)	Contributions as a Percent of Covered Payroll
KPERS- State/School	$ 100,927	$ 122,542	7.3 %
KPERS - Local	17,415	30,586	7.2
KP&F	23,321	14,667	17.7
Judges	1,741	1,068	16.9
Total	$ 143,404	$ 168,863	7.9 %

An estimated $240 million of employer & employee contributions were made to cover normal cost, and an estimated $47 million was made for the amortization of the unfunded actuarial accrued liability.

1) Member Contributions do not include Optional Life Insurance contributions of approximately $4 million.

C. Historical Trend Information

Historical trend information, showing the System's progress in accumulating sufficient assets to pay benefits when due, is presented on page 34 and is titled **"Required Supplemental Information."**

NOTE 4 — Commitments and Contingencies

As of June 30, 1996, the Retirement System was committed for additional funding, totalling $22,243,850, in the form of capital calls on existing venture capital investments and capital expenditures on separate account real estate holdings in the portfolio.

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

The Retirement System has initiated litigation for the recovery of certain funds lost through prior imprudent investment practices. The Retirement System is vigorously pursuing this litigation. However, the ultimate outcome of the litigation cannot presently be determined. No provision for possible collection of any claims asserted in this litigation has been recorded in the Retirement System's financial statements.

Required Supplemental Information

Schedules of Employer Contributions

Year Ended June 30		Annual Required Contribution	Percentage Contributed
1996	(1)	$ 173,927,737	82.5%
1995		129,083,585	100.2
1994		117,581,812	100.0
1993		116,407,549	100.0
1992		118,116,573	94.3
1991		105,291,265	100.0
1990		100,786,386	100.0

1) For fiscal year ending June 30, 1996, the actual contributions for KPERS employers were substantially lower than the actuarially required amount due to statutory limitations on annual increases as discussed in Note 1 C.

Schedules of Funding Progress
(Dollar amounts in thousands)

Actuarial Valuation Date		Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
01/01/87		$ 2,589,488	$ 2,988,374	$ 398,886	87 %	$ 2,304,469	17 %
01/01/88		2,907,977	3,315,153	407,176	88	2,397,321	17
01/01/89		3,026,692	3,463,569	436,877	87	2,440,277	18
01/01/90		3,458,172	3,927,367	469,195	88	2,651,588	18
06/30/91		3,759,523	4,262,148	502,625	88	2,922,444	17
06/30/92		4,101,987	4,634,842	532,855	89	3,051,989	17
06/30/93	(1)	4,492,542	5,460,281	967,739	82	3,265,869	30
06/30/94	(2)	5,041,703	6,546,924	1,505,221	77	3,487,462	43
06/30/95		5,510,957	6,991,029	1,480,072	79	3,766,917	39
06/30/96		6,158,755	7,603,111	1,444,356	81	3,945,207	37

1) 1993 legislation passed substantial benefit enhancements and changed the actuarial cost method of the KPERS system from the frozen initial liability method to the projected unit cost method. The amortization period was also adjusted to a 40-year period beginning July 1, 1993.
2) Asset valuation method was changed from book value to a market-based method.

Required Supplemental Information

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

	KPERS System	KP&F System	Judges System
Valuation Date	6/30/96	6/30/96	6/30/96
Actuarial cost method	Projected Unit Credit	Aggregate Cost with Supplemental Liabilities (2)	Frozen Initial Liability
Amortization method	Level Percent closed	Level Percent closed	Level Dollar closed
Remaining amortization period	37 years	37 years	37 years
Asset valuation method	Expected value plus 1/3 of difference between market and expected	Expected value plus 1/3 of difference between market and expected	Expected value plus 1/3 of difference between market and expected
Actuarial assumptions:			
Investment rate of return	8%	8%	8%
Projected salary increases (1)	4.0% - 7.6%	5.2% - 7.6%	5.5%
Cost of Living Adjustment	none	none	none

1) Salary increases include an inflation component of 4%.
2) The aggregate cost method does not identify or separately amortize unfunded actuarial liabilities; however, a supplemental liability consisting of the additional actuarial liability for benefits provided by 1993 legislation attributable to service rendered before July 1, 1993 is being amortized over a 40-year period beginning July 1, 1993.

Schedule of Contributions
For the Fiscal Year Ended June 30, 1996

Kansas Public Employees Retirement System			
State / School Contributions			
Members	$122,542,302		
Employers	77,740,247		
Insurance	17,185,811		
Total State / School Contributions		$217,468,360	
Local Contributions			
Members	30,585,673		
Employers	12,969,538		
Insurance	4,445,077		
Total Local Contributions		48,000,288	
State Contributions - KPERS TIAA			
Employers	3,615,086		
Insurance	2,386,235		
Total TIAA Contributions		6,001,321	
Total Contributions - Kansas Public Employees Retirement System			$271,469,969
Kansas Police and Firemen's System			
State Contributions			
Members	1,549,536		
Employers	2,113,574		
Total State Contributions		3,663,110	
Local Contributions			
Members	13,117,411		
Employers	21,207,355		
Total Local Contributions		34,324,766	
Total Contributions - Kansas Police and Firemen's System			37,987,876
Kansas Retirement System for Judges			
State Contributions			
Members	1,068,032		
Employers	1,673,884		
Insurance	67,478		
Total State Contributions		2,809,394	
Total Contributions - Kansas Retirement System for Judges			2,809,394
Optional Life Insurance			
Member Contributions			
State Employees	3,178,816		
Local Employees	1,205,868		
Total Contributions		4,384,684	
Total Contributions - Optional Life Insurance			4,384,684
GRAND TOTAL - ALL CONTRIBUTIONS			$316,651,923

Schedule of Administrative Expenses
For the Fiscal Year Ended June 30, 1996

Salaries and Wages		$ 2,937,784
Professional Services		
Actuarial	$ 181,825	
Audit	34,800	
Data Processing	19,646	
Other Professional Services	6,454	
Total Professional Services		242,725
Communication		
Printing	120,818	
Telephone	132,525	
Postage	180,364	
Advertising	20,381	
Total Communication		454,088
Building Administration		
Janitorial Service	15,489	
Building Management	28,943	
Real Estate Taxes	45,621	
Utilities	31,201	
Office and Equipment Rent	3,134	
Total Building Administration		124,388
Miscellaneous		
Travel	93,894	
Dues and Subscriptions	84,046	
Repair and Service Agreements	75,309	
Supplies	60,194	
Fees-Other Services	58,975	
Freight	7,988	
Recruitment	4,303	
Bonding	2,246	
Official Hospitality	1,648	
Educational Assistance	516	
Depreciation	345,189	
Total Miscellaneous		734,308
Total Administrative Expenses		$ 4,493,293

Schedule of Investment Income by Asset Class
For the Fiscal Year Ended June 30, 1996

Asset Classification	Interest, Dividends and Other Transactions	Gains and Losses	Total
Domestic Marketable Securities			
Equities	$ 33,094,410	$ 698,967,568	$ 732,061,978
Fixed Income			
Treasury and Agency	40,904,371	(19,598,063)	21,306,308
Corporate	89,624,305	(1,901,233)	87,723,072
Temporary Investments	1,916,352	529,108	2,445,460
International Marketable Securities			
Equities (1)	20,397,102	165,776,688	186,173,790
Fixed Income (1)	42,481,772	(14,312,785)	28,168,987
Total Marketable Securities	228,418,312	829,461,283	1,057,879,595
Real Estate	26,574,944	7,721,260	34,296,204
Alternative Investments	6,121,963	8,597,531	14,719,494
Total Real Estate and Alternative Investments	32,696,907	16,318,791	49,015,698
Other Investment Income			
Securities Lending	2,013,053	—	2,013,053
Recoveries from Litigation	7,552,422	—	7,552,422
Miscellaneous	283,167	—	283,167
Total Other Investment Income	9,848,642	—	9,848,642
Investment Income	$ 270,963,861	$ 845,780,074	$ 1,116,743,935

Manager and Custodian Fees and Expenses	
Investment Manager Fees	(18,887,691)
Custodian Fees and Expenses	(993,474)
Other Investment Expenses	(1,861,728)
Total Investment Fees and Expenses	(21,742,893)
Net Investment Income	$ 1,095,001,042

1) Includes currency gains/losses associated with fluctuations in foreign exchange rates.

Schedule of Investment Management Fees
For the Fiscal Year Ended June 30, 1996

Domestic Equity Managers		
Brinson Partners, Inc.	$ 966,462	
BZW Barclays Global Investors	269,106	
Capital Guardian Trust Co.	265,526	
Pilgrim, Baxter & Associates	1,996,033	
Provident Investment Counsel	3,663,251	
Subtotal Equity Managers		$ 7,160,378
Domestic Fixed Income Managers		
The Boston Company	293,944	
BZW Barclays Global Investors	549,690	
Loomis, Sayles & Co.	828,837	
Pacific Investment Management Co.	1,460,078	
Payden & Rygel Investment Counsel (STBF)	71,862	
Subtotal Fixed Income Managers		3,204,411
International Equity Managers		
Alliance Capital Management	511,113	
Bankers Trust Company	149,467	
Lazard Freres Asset Management	497,407	
Morgan Stanley Asset Management	417,298	
Nomura Capital Management	526,810	
Subtotal International Equity Managers		2,102,095
International Fixed Income Managers		
Fiduciary Trust Company International	635,659	
Julius Baer Investment Management	636,481	
Subtotal International Fixed Managers		1,272,140
Foreign Currency Overlay Manager		
Pareto Partners	717,859	
Subtotal Foreign Currency Overlay Manager		717,859
Real Estate and Alternative Investment Managers		
Equitable Real Estate Investment Management	1,172,367	
J.W. O'Connor & Company - RPT	218,910	
L & B Core Group Trust	582,155	
Pacholder Associates/Morris Anderson	2,232,000	
Subtotal Real Estate and Alternative Managers		4,205,432
Cash Equivalent Manager		
Payden & Rygel Investment Counsel (STIF)	225,376	
Subtotal Cash Management		225,376
Total Investment Management Fees		18,887,691
Other Fees and Expenses		
Mellon Trust - Custodian Fees and Expenses	993,474	
Consultant Fees	240,122	
Litigation Expenses	1,571,135	
Other Investment Expenses (1)	50,471	
Subtotal Other Fees and Expenses		2,855,202
Total		$ 21,742,893

1) Other Investment Expenses includes direct placement manager expenses, appraisal fees on mortgage real estate investments, federal reserve wire fees, and other miscellaneous bank charges.

Investment Summary
(In Thousands) (1)
For the Fiscal Year Ended June 30, 1996

	FYE June 30, 1995		Purchases	Sales	FYE June 30, 1996		
	Adjusted Cost	Fair Value	and Other Increases	and Other Decreases	Adjusted Cost	Fair Value	Asset Mix Fair Value
Marketable Securities							
Domestic Equities	$1,584,805	$2,264,559	$1,011,176	$(754,146)	$1,841,835	$2,956,607	42.59 %
Domestic Fixed Income	1,735,810	1,783,453	3,039,682	(2,879,958)	1,895,534	1,906,059	27.45
Temporary (2) Investments	91,718	91,504	8,665,623	(8,735,974)	21,367	21,945	0.32
International Equities	795,786	840,260	353,152	(274,397)	874,541	999,762	14.40
International Fixed Income	527,026	526,707	1,616,591	(1,490,291)	653,326	658,501	9.49
Total Marketable Securities	4,735,145	5,506,483	14,686,224	(14,134,766)	5,286,603	6,542,874	94.25
Real Estate and Alternative Investments							
Real Estate	473,291	308,642	320	(15,193)	458,418	308,812	4.45
Allowance	(32,483)	—	—	6,282	(26,201)	—	—
Subtotal	440,808	308,642	320	(8,911)	432,217	308,812	4.45
Direct Placements and Limited Partnerships	136,859	110,905	534	(32,851)	104,542	90,486	1.30
Allowance	(37,410)	—	—	5,095	(32,315)	—	—
Subtotal	99,449	110,905	534	(27,756)	72,227	90,486	1.30
Total Real Estate and Alternative Investments	540,257	419,547	854	(36,667)	504,444	399,298	5.75
Total	$5,275,402	$5,926,030	$14,687,078	$(14,171,433)	$5,791,047	$6,942,172	100.00 %

1) Amounts do not include interest and dividend accruals.
2) Temporary Investments include foreign currencies and securities maturing within 90 days of purchase date.

Expenses by Type

Fiscal Year	Benefits	Withdrawals	Insurance	Administration	Total
1987	$ 118,541,073	$ 16,850,300	$ 13,519,657	$ 2,547,931	$ 151,458,961
1988	135,105,984	17,270,090	14,162,853	2,653,107	169,192,034
1989	151,532,348	19,209,745	19,809,732	3,255,155	193,806,980
1990	165,424,924	23,225,663	17,826,637	3,152,205	209,629,429
1991	184,121,534	24,568,119	23,956,850	3,309,277	235,955,780
1992	205,565,716	23,310,075	26,745,197	3,274,890	258,895,878
1993	230,677,812	20,812,351	28,353,401	3,715,294	283,558,858
1994	292,375,535	22,900,621	33,129,180	3,596,637	352,001,973
1995	333,924,392	26,542,254	35,873,212	4,312,658	400,652,516
1996	364,102,629	30,687,458	34,108,251	4,493,293	433,391,631

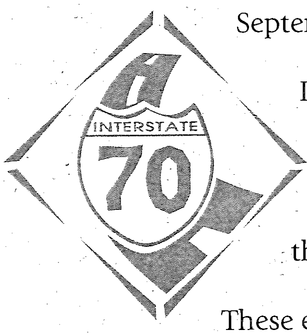
Cash Receipts and Disbursements
For the Fiscal Year Ended June 30, 1996

Opening Cash Balance		$ 648,600
Member Contributions	$ 166,143,967	
Employer Contributions	140,829,550	
System Recoveries	97,084	
Refund of Advancements	380,681,000	
Optional Life Insurance	4,414,853	
Other	1,054	
Total Cash Receipts		692,167,508
Withdrawal of Contributions	(27,223,046)	
Payments to Beneficiaries	(3,282,306)	
Retirement Benefits	(364,076,492)	
Group Life Insurance Premiums	(7,187,579)	
Optional Life Insurance Premiums	(4,213,756)	
Electronic Funds Transfer	(26,137)	
Administrative Expenses	(4,341,059)	
Deposits with Insurance Carrier	(20,300,000)	
Advancements to Investment Custodian	(242,818,000)	
Investment Manager Fees and Expenses	(17,989,872)	
Total Disbursements Made		(691,458,247)
Ending Cash Balance		$ 1,357,861

IN OCTOBER 1990, PRESIDENT GEORGE BUSH signed legislation that formally recognized the role of a former Kansan in bringing about the national highway system called the Interstate. The bill officially changed its name to the "Dwight D. Eisenhower System of Interstate and Defense Highways." This year marks the 40th anniversary of the beginning of the interstate highways.

Even prior to his first election as President, Eisenhower told Hearst Newspapers, "The obsolescence of the nation's existing highways presents an appalling problem of waste, danger, and death. A modern network of roads is as necessary to defense as it is to our national economy and personal safety." He never wavered from these views; he had recognized the importance of highways long before taking office. More than thirty years ealier, in 1919, Lieutenant Colonel Eisenhower joined the U.S. Army's first transcontinental motor convoy from Washington, D.C. to San Francisco.

The convoy experienced every woe known to motorists of the day: vehicles mired in mud or sand, trucks crashing through wooden bridges, and violent extremes of weather. After 62, mostly tortuous, days on the road, the convoy finally reached San Francisco on September 5, 1919.



Later - during World War II - General Eisenhower, the Supreme Allied Commander in Europe, saw and understood the advantages Germany enjoyed because of its extensive autobahn network. He also was acutely aware of the increased mobility the Allied troops were able to employ as they fought their way into Germany over those same autobahn routes.

These experiences proved pivotal to Eisenhower's growing philosophy concerning improving America's highways. "The old convoy," he said, "started me thinking about the need for good, two-lane highways, but Germany made me see the wisdom of broader ribbons across the land."

When he took office as President in 1953 and for the next three years, Eisenhower promoted his plan for a properly articulated national system of highways. It was important, he stressed "to protect the vital interest of every citizen in a safe and adequate highway system." On June 29, 1956, he signed a landmark bill creating U.S. interstate highways, the Federal-Aid Highway Act of 1956.

Kansas is one of three states to claim a "first" in the construction of the new interstate system. On August 31, 1956, the Kansas State Highway Commission awarded a concrete paving contract for a two-lane section of U.S. 40 (I-70) west of Topeka. This was the first paving initiated after passage of the1956 Act. When it opened to traffic, a sign identified that section of I-70 as the "first project in the United States completed under the new Federal-Aid Highway Act of 1956."

In his 1963 memoirs, Eisenhower wrote, "More than any single action by the government since the end of the war, this one would change the face of America ... Its impact - on the economy, on jobs, on ease of communication and transportation - is beyond calculation."

Photo: *Interstate 70, west of Topeka, that was the first stretch of paved interstate to be completed after passage of the Federal-Aid Highway Act of 1956. Next to the interstate is old U.S. 40.*

Photo reprinted with permission of the Kansas Department of Transportation.

FISCAL YEAR 1996 INVESTMENT REPORT

Introduction

The Board of Trustees of the Kansas Public Employees Retirement System is charged with the responsibility for investing the assets of the System in a manner consistent with the fiduciary standard of a prudent expert. The standard of a prudent expert dictates that the Board exercise the judgement, care, skill, prudence and diligence under the circumstances then prevailing, which persons of prudence, discretion and intelligence, acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims. The concept of diversification of investments among many different asset classes, with different market cycles, is central to the concept of prudent investment. All decisions regarding the investment of plan assets are made solely for the benefit of the participants and beneficiaries of the System. The Board of Trustees maintains a written Statement of Investment Policy, Objectives, and Guidelines. This document, which is reviewed annually, presents the Board's conclusions as to the most suitable combination of investments, within Statutory requirements, which will satisfy the System's ongoing obligations. In addition, it sets forth the criteria against which the System's external managers will be measured and communicates the policies, objectives, guidelines, and performance expectations to the staff, advisors, consultants, and all other interested parties.

This discussion regarding the investments of the Retirement System describes the objectives, guidelines and general policy governing the System's investment activity. In addition, it relays the return results, by asset category and in total, for the fiscal year ended on June 30, 1996. This report is presented in compliance with the reporting standards as set forth by the Association of Investment Management and Research (AIMR). The data has been gathered and compiled by the staff of the Retirement System using internal records as well as information provided by the System's custodian bank, our performance consultant and external investment managers. All the information presented has received the benefit of rigorous oversight and affirmation, custodial and consultant reviews and internal staff analysis. It represents an accurate snapshot of the System's investments as of June 30, 1996.

Kansas Public Employees Retirement System participants are provided a contractual promise of future and contingent benefits. These benefits are guaranteed, regardless of investment performance. Investment performance is critical nonetheless, as it has a direct impact on future funding costs of the System. Every effort is made to achieve the highest return possible commensurate with an acceptable level of risk. Returns are measured over market cycles of three to five years. Risk, including risk of loss of principal, is measured primarily in statistical terms that capture the volatility of potential investment outcomes over varying time periods.

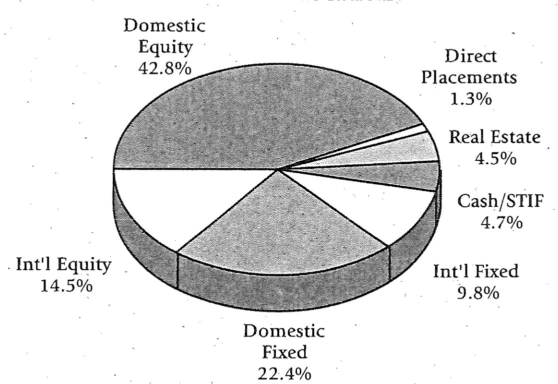
Asset Allocation

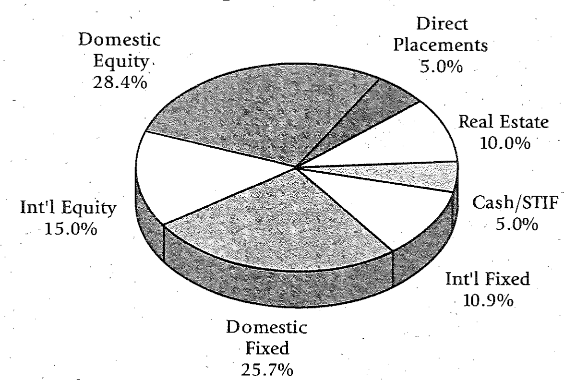
In discharging their duties as prudent experts, Board members consider investment alternatives and weightings within a total portfolio context. By diversifying the investments over several asset classes with different market cycles, risks of large loss are reduced and capital preservation is emphasized. Assets are targeted to achieve returns that, on average, are above the actuarial assumption. Alternatively, average annual total return should exceed the returns of an investment in representative indexes in the target allocation, excluding fees and expenses.

The allocation of investments among the various asset classes is the single most significant determinant of the return realized. As such, considerable time and attention are devoted to the issues surrounding the allocation decision. In 1994, a target allocation was established which is expected to yield the greatest level of total return at a risk level (defined as variability of returns) that is tolerable to the System. During fiscal year 1996, the Trustees reviewed this allocation and elected not to change the target mix.

Asset Allocation

For the Period Ending June 30, 1996





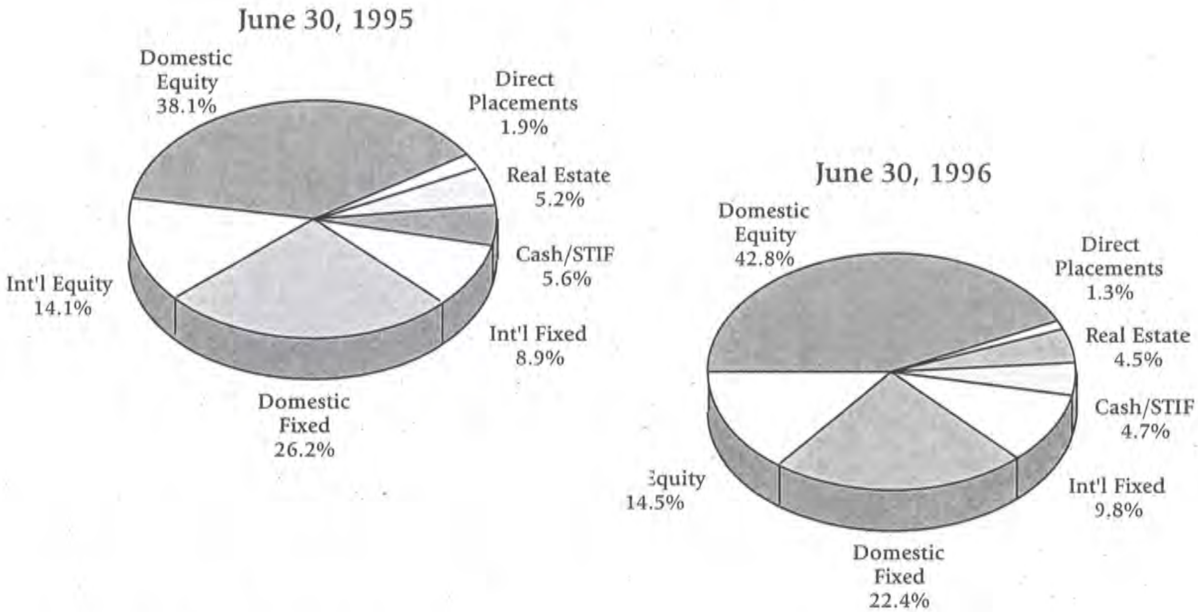
*As of January 1, 1994

The weightings in the various asset classes are subject to fluctuations, some caused by changes in market value. As the chart below illustrates, dramatic increases in market value have impacted some asset classes, most notably domestic equity, so as to cause them to increase in weighting. A periodic review of these effects is performed by the Trustees and a decision to rebalance the weighting is considered. In the fourth quarter of the fiscal year, the Trustees directed that a partial rebalancing be implemented, reducing domestic equity and increasing exposure to international fixed income. Rebalancing will continue to be reviewed on a quarterly basis. Consideration will be given to return experience, changes in fundamental expectations of return and volatility within the various classes of assets and asset weightings relative to the target allocation.

In addition to target allocation reviews and rebalancing considerations, considerable progress has been made on the development of plans for additional investments in the real estate and direct placement portions of the portfolios. As illustrated, these two asset categories are significantly underweighted relative to their target allocations. Given the illiquid and unique nature of these investments, an expanded set of policies and guidelines is being developed to guide future investments in these two categories. This extension of the guidelines will include special statutory restrictions and will reflect the emphasis on monitoring and oversight necessary to help ensure that expected portfolio benefits are realized.

Asset Allocation

Asset Mix Change 1995-1996



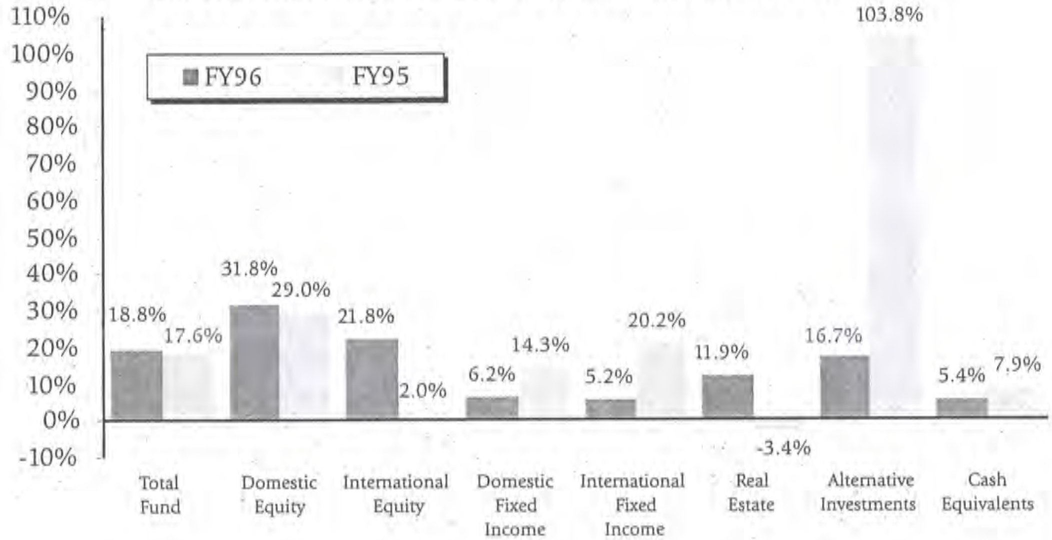
Market and Portfolio Performance

For the fiscal year ended June 30, 1996, the Retirement System's assets produced a time-weighted total return of 18.8%. As the chart on the opposite page illustrates, domestic and international equities produced the strongest returns for the year followed by real estate and alternative investments. This marks consecutive years that domestic equities have led the portfolio with extraordinary gains.

In contrast, international and domestic fixed income results were decidedly lower than in fiscal year 1995. Real estate reversed its negative performance of last year with a positive return of 11.9%, while alternative investments had a solid year, earning 16.7%. The alternative investment returns of 103.8% in fiscal year 1995 were considered somewhat of an aberration due to the realization of extraordinary gains, the recognition of unrealized gains and the recapture of previously established loss reserves.

Return Comparison by Asset Class

For The Fiscal Years Ending June 30, 1995 and June 30, 1996



Domestic and International Equities

Stocks of U.S. corporations enjoyed another exceptional year as solid earnings and benign inflation improved profitability. Prices rose steadily throughout the fiscal year led primarily by stocks in growth industries, particularly telecommunications and technology.

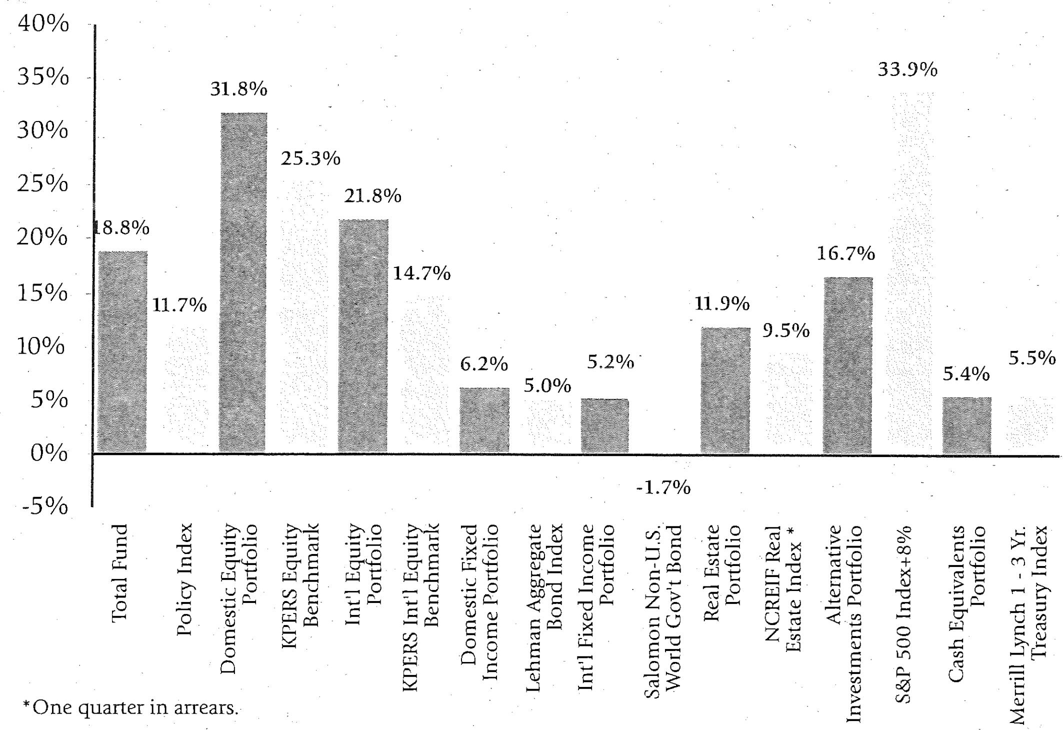
To participate in the domestic market, the System has hired five managers, each with varying and complementary disciplines and styles. All managers' returns are considered individually against appropriate benchmarks. Results are then aggregated and compared to the S&P 500, as adjusted for statutorily disallowed investments. This comparison gives some relevance to the absolute return of the portfolio. By this measure, the System's managers returned 31.8% versus the broad market's 25.3% for the fiscal year.

International equity markets also enjoyed a good year, with both European and Asian indexes posting double digit gains. The System participated through five managers, selected to invest assets overseas by using both passive and active approaches. Nearly all of these managers were able to best their respective index with double digit returns ranging from over 12% to nearly 25%. In aggregate, the international portion of the equity portfolio returned 21.8%, which includes a significant positive contribution from the System's currency overlay manager. This combination of generally improving markets, successful currency exposure management and positive investment performance allowed the System to exceed our customized international benchmark by nearly 7%.

The potential to generate positive returns while achieving global diversification in international markets will continue in fiscal year 1997. European and Asian countries and markets continue on varying levels of economic cyclicality, providing their own unique situations, circumstances and opportunities for investment.

Asset Class, Relative Return Comparison

For The Fiscal Year Ending June 30, 1996



*One quarter in arrears.

Domestic and International Fixed Income

Interest rates in the United States generally spent the first half of the fiscal year in decline which helped improve bond prices. Beginning in January, however, evidence began to mount that the economy was not as weak as was anticipated. As market participants realigned their portfolios to reflect this realization, interest rates rose across the board, depressing the prices of bonds. In the end, coupon income overcame declines in principal value and allowed the domestic fixed income portion of the portfolio to post positive returns of 6.2%. The System's five domestic bond managers' results were quite favorable relative to their benchmark, the Lehman Aggregate Index, which returned 5.0%.

International bond markets weakened at the start of the calendar year in sympathy with the U.S. market. Higher interest rates domestically also negatively impacted foreign exchange rates, causing what positive performance existed to be mitigated in dollar terms. Despite these challenges, the two international fixed managers who invest on behalf of the System each posted positive returns for the fiscal year. Combined performance was 5.2%. This is very favorable relative to the international fixed benchmark (the Salomon Non-U.S. Government Bond Index) which finished the year at -1.7%.

The outlook for European economies in fiscal year 1997 is dominated by efforts by the respective countries to meet economic conditions mandated for inclusion in the new European Union (EU). With just one and one-half years to go before the final decision on which states are eligible to join, almost every EU member state is having difficulty meeting the criteria relating to financial policy. The outlook for Asia will likely be dominated by Japan's long-anticipated cyclical rebound.

Fiscal year 1997 is likely to provide another challenging environment for both international and domestic fixed income. Longer term, the outlook for fixed income remains positive. Recognition by world government leaders of the importance of lower deficits, efficient labor markets and lower inflation should help provide a structural backdrop for improving fixed income performance.

Real Estate

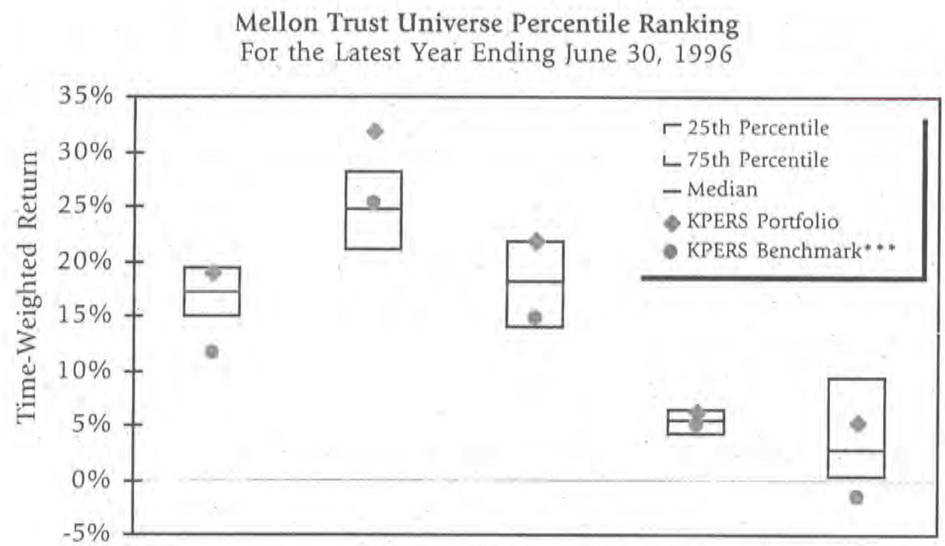
The national commercial real estate market has continued to benefit from the broad domestic economic expansion. Upward trends in occupancy and rents that began last year have continued. Apartments and industrial properties are leading the recovery, while commercial, office, and retail properties continue to lag. Unfortunately, the Midwest, the area where the majority of the System's real estate is located, registered a slight decline in valuation, under performing all other geographic regions.

In total, the System's real estate portfolio has continued to benefit from this broad recovering trend. For the fiscal year ended June 30, 1996, the real estate component of the portfolio generated a total return (property appreciation plus income) of11.9%. This exceeded the comparative NCREIF index (National Council of Real Estate Investment Fiduciaries) by nearly 2.5%. In addition, over the course of the year several assets that did not meet the System's present standards were sold or restructured. While many challenges remain, the majority of the properties in the portfolio are performing well and the overall portfolio continues to improve in quality and potential.

Relative Performance

In addition to the separate class comparisons to appropriate benchmarks, information on relative performance can be provided by comparing returns with other, similar funds. The chart below depicts this perspective of the total assets of the System relative to the Mellon Trust Universe and the separate asset classes relative to the Frank Russell Universe. The Mellon Universe is composed of all the Mellon Trust custodial clients, including both public and private funds. For the fiscal year ended June 30, 1996, the System's total asset performance ranked in the twenty-eighth percentile.

Each of the four asset class returns can be similarly compared using the Frank Russell Universe. Like the Mellon master trust, Frank Russell pools results of both public and private funds to provide performance comparatives. The size of the universe of participants varies across the asset classes and time periods. With the exception of international equity, all returns ranked above the median for the trailing fiscal year. Longer time periods yield similar comparisons, with the majority of the returns producing first or second quartile rankings over three- and five-year comparisons.



	All Master Trusts**	Domestic Equity*	International Equity*	Domestic Fixed Income*	Int'l Fixed Income*
25th Percentile	19.0%	27.7%	21.3%	5.9%	9.0%
75th Percentile	15.6%	21.5%	14.6%	4.8%	0.9%
Median	17.3%	24.7%	18.2%	5.4%	2.9%
KPERS Portfolio	18.8%	31.8%	21.8%	6.2%	5.2%
KPERS Benchmark***	11.7%	25.3%	14.7%	5.0%	-1.7%

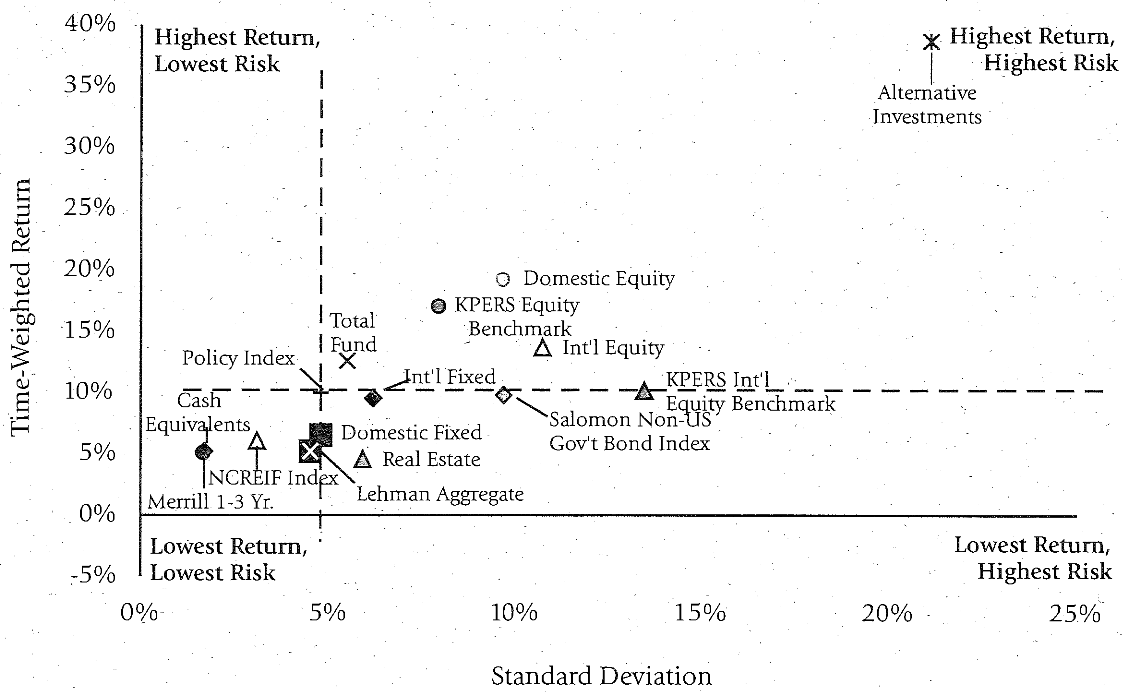
* Universe Source: Frank Russell Company
** Universe Source: Mellon Trust
*** The KPERS Benchmarks used for each portfolio are as follows: All Master Trusts, Policy Index (reflects KPERS asset allocation target); Domestic Equity, KPERS Equity Benchmark (S&P 500 Ex-Banks, S&Ls, and credit unions); International Equity, KPERS International Equity Benchmark (EAFE Ex-Banks, S&Ls, and credit unions); Domestic Fixed Income, Lehman Aggregate Bond Index; International Fixed Income, Salomon Non-U.S. Government Bond Index.

Risk and Return

Return, while important, is only one component of the ongoing evaluation of the performance of the investments of the System. Risk is the other important characteristic examined by the Board of Trustees on an ongoing basis. In determining the relationship of risk to return, the statistical measurement of standard deviation is used. Standard deviation is a measure of dispersion or distribution around an average, in this case, the average return. By measuring the standard deviation of the total portfolio (as well as its component classes) over a market cycle, conclusions can be drawn regarding risk assumed versus return earned.

In the chart on the next page, a data point is plotted for the total fund, each asset class, and each relevant market benchmark. The vertical axis represents total return, while the horizontal axis is risk, as defined by standard deviation. All comparisons are calculated using the monthly returns for the latest three years ending June 30, 1996. By developing return/risk ratios it becomes apparent which asset categories possess the most variability, where the portfolio risk originates, and whether the portfolio earned returns sufficient to justify this risk. As illustrated, on a total portfolio basis, excess risk assumed was amply rewarded through higher returns.

Asset Class, Risk Adjusted Return
For The Latest 3 Years Ending June 30, 1996



	Total Fund	Policy Index	Domestic Equity	KPERS Equity Bench-mark	International Equity	KPERS Int'l Equity Bench-mark	Domestic Fixed Income	Lehman Aggregate	Int'l Fixed Income	Salomon Non-U.S. Gov't Bond	Real Estate	NCREIF Index	Alternative Investments	Merrill 1-3 Yr.	Cash Equivalents
Return	12.6%	9.9%	19.1%	17.0%	13.6%	10.0%	6.5%	5.3%	9.6%	9.7%	4.5%	6.0%	38.6%	4.9%	5.3%
Standard Deviation	5.9%	4.8%	9.7%	8.0%	10.7%	13.5%	4.8%	4.5%	6.2%	7.6%	5.9%	3.1%	21.1%	1.7%	1.7%
Return/ Risk Ratio	2.1	2	2	2.1	1.3	0.7	1.3	1.2	1.5	1.3	0.8	1.9	1.8	2.8	3.1

1996 Investment Summary

Overall, the investment results for fiscal year 1996 were outstanding. The various capital markets provided returns that were generally positive, sometimes into double digits. The managers hired by the System captured these returns, and in almost every instance, added value above the indicated index return. Unfortunately, returns of this magnitude are not sustainable on a long-term basis. Periods of above average performance, such as fiscal year 1996, may portend below average experiences in the future. We will continue to monitor events as they unfold, striving at all times to place the investment portfolio in the most efficient and effective position for long-term total return.

MILLIONS CROSSED THE SOUTHEAST CORNER OF KANSAS on the internationally famous highway, Route 66. This year marks the 70th anniversary of the opening of Route 66. The highway, spanning two-thirds of the nation, was christened in 1926. One of the country's first continuous spans of paved highway linking East and West, Route 66 covers more than 2,400 miles, eight states, and three time zones.

By the 1920s the automobile stirred the popular imagination, and was changing the nation, including family life. It allowed workers to live outside a city and commute to their jobs. It ended the farmer's isolated life. It provided escape, and adventure as well. Because of it, roads needed improving. Congress modified the Federal Highway Act in 1921, mandating construction of a system of interconnected interstate highways. States were warned that to keep federal revenue coming in, up to 7% of their roads needed to be named national highways. This was the beginning of the federal highway system and Route 66 was one of those highways.

"Route 66 was more than simply a U.S. federal highway number," noted Arthur Krim, urban geography professor in Newport, Rhode Island. "It became the symbolic Trail to the American West in the automobile age of the 20th century, an icon of free-spirited independence."

During World War II, following the Depression of the 1930s, wheat farmers along Route 66 prospered. Businesses survived wartime gas rationing and shortages of tires. The highway suddenly turned into a convoy road, with jeeps and trucks transporting troops and arms to military bases. Uniformed hitchhikers were often seen scattered up and down its length.

After the war, Route 66 became crowded with shiny, new cars filled with ex-GIs and post-war families on the move. Jack D. Rittenhouse published, *"A Guide Book to Highway 66,"* in 1946. Travelers could buy a copy, detailing its attractions, for $1.00. Bobby Troup's 1946 bluesy pop tune, *"Get Your Kicks on Route 66"*, was the road's siren song of freedom and adventure.

Even as Route 66 enjoyed genuine celebrity into the mid-1950s, the fortune that had shone on the highway for so long was beginning to dim. With the enactment of the Federal Aid Highway Act of 1956, which called for a 42,500-mile national interstate highway system, it was clear Route 66 could no longer handle the steadily increasing volume of traffic. Yet today, though the Interstate swiftly passes it by, Route 66 lives - like an obstinate maverick - in the hearts and minds of many. Indeed, a nostalgic Route 66 revival is growing and gaining momentum. "The Mother Road" is enjoying new life. To her fans, Route 66 will always mean "going somewhere."

Photo: *The concrete Marsh "Rainbow" Arch Bridge, built in 1923, is the only bridge of its kind remaining on "America's Main Street." Located between the Kansas towns of Riverton and Baxter Springs on old Route 66, Cherokee County commissioners recently funded a refurbishing project of the unique landmark. Route 66 is 13.2 miles in Kansas, and includes the town of Galena.*

Photo reprinted with permission of the Kansas Historic Route 66 Association.

MILLIMAN & ROBERTSON, INC.
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September 16, 1996

Board of Trustees
Kansas Public Employees Retirement System
Capitol Tower, Suite 200
400 SW 8th Ave
Topeka, KS 66603-3925

Dear Members of the Board:

At your request, we have conducted our annual valuation of the Kansas Public Employees Retirement System as of June 30, 1996. The results of the valuation are contained in the following report.

There have been no changes in plan provisions or actuarial assumptions since the prior valuation.

In preparing our report, we relied, without audit, on the employee census data and financial statements provided by the Retirement System.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices that are consistent with the applicable Guides to Professional Conduct of the American Academy of Actuaries.

We hereby further certify that all costs, liabilities, rates of interest and other factors under the Plan have been determined on the basis of actuarial assumptions and methods which are in the aggregate reasonable (taking into account the experience of the Plan and reasonable expectations) and which, in combination, offer our best estimate of anticipated experience under the Plan.

Nevertheless, the emerging costs will vary from those presented in this report to the extent actual experience differs from that projected by the actuarial assumptions.

Respectfully submitted,

MILLIMAN & ROBERTSON, INC.

Eugene M. Kalwarski, F.S.A.
Principal

SECTION I
BOARD SUMMARY

Overview

This report presents the results of the June 30, 1996 actuarial valuations of the Kansas Public Employees Retirement System (KPERS), the Kansas Police and Firemen's Retirement System (KP&F) and the Kansas Retirement System for Judges (Judges). The primary purposes of performing the valuations are to:

- Determine the employer contribution rates required to fund each system on an actuarial basis,
- Disclose asset and liability measures as of June 30, 1996, and
- Analyze and report on trends in System contributions, assets, and liabilities over the past several years.

The valuation results provide a "snapshot" view of each System's financial condition on June 30, 1996. The actuarial assumptions and benefit provisions were unchanged from the 1995 valuation. The results reflect favorable experience over the past plan year. The unfunded actuarial liability decreased by $36 million, largely due to an investment return on the actuarial value of assets well in excess of the 8% assumed. However, the normal cost rate increased for the State/School and Local groups, resulting in an increase in the overall employer actuarial contribution rate.

Contribution Rates

Currently, the full actuarial contribution rate is not made by all employers. Kansas legislation with respect to KPERS provides that the employer rates of contribution for State and Local employers certified by the Board may not increase by more than 0.20% and 0.15% of payroll respectively over the prior year. The statutory limits do not apply to TIAA, KP&F and Judges. Based on the current valuation, there is a difference between the actuarial and statutory contribution rates of 1.34% and 1.08% respectively for the State/School and Local groups. This shortfall in contribution rates has the effect of increasing the unfunded actuarial liability. Based on the most recent projection study, the actuarial and statutory contribution rates are expected to converge in 2003, indicating that the long term funding of the System is actuarially sound.

A summary of actuarial and recommended employer contribution rates follows:

1996 Valuation

System	Actuarial	Recommended	Difference
State / School	5.33%	3.99% 1/	1.34%
Local	3.86	2.78 1/	1.08
TIAA	1.68	1.68	0.00
Police & Fire - Uniform Rate 2/	9.45	9.45	0.00
Judges	15.67	15.67	0.00
Weighted Average	5.20	3.93	1.27

1995 Valuation

System	Actuarial	Recommended	Difference
State / School	5.23%	3.79% 1/	1.44%
Local	3.73	2.63 1/	1.10
TIAA	1.66	1.66	0.00
Police & Fire - Uniform Rate 2/	9.73	9.73	0.00
Judges	15.67	15.67	0.00
Weighted Average	5.14	3.77	1.37

1/ Rates, by statute, are allowed to increase by a maximum of 0.2% and 0.15% per year for State and Local employers respectively.

2/ For KP&F, the recommended contribution rate is equal to the "Uniform" rate plus the payment required to amortize the unfunded past service liability determined separately for each employer.

The funding objective of the plan is to establish contribution rates which over time will remain relatively level, as a percentage of payroll, and to pay off the unfunded actuarial liability by the year 2033. There was a net decrease of $36 million in the unfunded actuarial liability from the 1995 to the 1996 valuation. Under current projections, the System's funding objective should be achieved.

Experience - All Systems Combined
July 1, 1995 - June 30, 1996

Several factors contributed to the change in the Systems' assets, liabilities, and recommended contribution rates between June 30, 1995 and June 30, 1996. On the following pages each component is examined.

Assets

As of June 30, 1996, the System had total funds, when measured on a market value basis, of $6.94 billion, including assets held for the Group Insurance and Optional Life reserves. This was an increase of $980 million from the 1995 figure of $5.96 billion. The components of this change (in millions) are set forth below:

	Market Value
Assets, June 30, 1995	$ 5,964
• Employer and Member Contributions	+ 317
• Benefit Payments	- 429
• Net Investment Income (Expected)	+ 473
• Net Investment Gain/(Loss)	+ 617
Assets, June 30, 1996	$ 6,942

The market value of assets is not used directly in the calculation of contribution rates. An asset valuation method is used to smooth the effect of market fluctuations. The actuarial value of assets is equal to the expected asset value based on the assumed interest rate plus 1/3 of the difference between the actual market value and the expected asset value. The dollar weighted rate of return measured on the actuarial value of assets was 13.8%. This figure reflects the asset valuation methodology which recognizes only one-third of the investment gain above the 8% assumed rate.

Liabilities

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

Between June 30, 1995 and June 30, 1996 the change in the unfunded actuarial liabilities for the System was as follows (in millions):

Unfunded Actuarial Liability, June 30, 1995	$ 1,480
• investment gain	(280)
• change in actuarial assumptions	0
• liability loss from actual experience	136
• effect of contribution cap/time lag	70
• expected increase due to amortization method	38
Unfunded Actuarial Liability, June 30, 1996	$ 1,444

Contributions

Generally, contributions to the System consist of:

- a "normal cost" for the portion of projected liabilities attributable to service of members during the year following the valuation date, (except TIAA),
- an "unfunded actuarial liability contribution" for the excess of the portion of projected liabilities allocated to service to date over assets on hand,
- a "group insurance" contribution which is statutory (except KP&F).

The combined Systems' contribution rate (before statutory limits) increased by .06% of pay, to 5.20% on June 30, 1996, from 5.14% on June 30, 1995. **The primary components of this change are as follows:**

Actuarial Contribution Rate, June 30, 1995	5.14%
• investment gain	(0.35)
• change in actuarial assumptions/procedures	0.00
• liability loss from actual experience and demographic changes	0.29
• effect of contribution cap/time lag	0.12
• amortization method	0.00
Actuarial Contribution Rate, June 30, 1996	5.20%

APPENDIX
ACTUARIAL ASSUMPTIONS AND METHODS

A. Actuarial Assumptions

1. Rate of Investment Return — 8.0%

2. Rate of Mortality — 1983 Group Annuity Mortality Table (without margin), except (with margin) for KPERS School.

   Under KPERS, five percent (5%) of pre-retirement deaths assumed to be service-related.

   Under KP&F, 70 percent (70%) of pre-retirement deaths assumed to be service-related.

3. Rates of Salary Increase (% at Selected Ages)

AGE	KPERS	KP&F	JUDGES
25	7.6%	7.6%	5.5%
30	6.5	6.5	5.5
35	5.9	6.4	5.5
40	5.6	6.0	5.5
45	5.3	5.7	5.5
50	4.7	5.4	5.5
55	4.2	5.3	5.5
60	4.0	5.2	5.5

A. **Actuarial Assumptions (continued)**

4. Rates of Termination at Selected Ages (number of withdrawals per 1,000 members)

AGE	KPERS	KP&F	JUDGES
22	159.6	91	54
27	129.2	79	52
32	98.4	58	49
37	71.3	37	44
42	50.0	20	28
47	42.2	6	12
52	30.7	0	1
57	18.0	0	0

5. Disabled Life Mortality

KPERS	Disabled members are assumed to exhibit age 65 mortality.
KP&F	1983 Group Annuity Table (without margin) set forward ten (10) years.
JUDGES	Healthy life mortality used.

6. Rates of Retirement Ages

KPERS

- Age 63 (except certain correctional employees and TIAA), combined with the following retirement rates for employees who accumulate 85 "points" between ages 55 and 62:

	Assumed Retirement Rates	
AGE	1st Year with 85 Points	After 1st Year with 85 Points
55-59	20%	5%
60	30	10
61	30	10
62	100	100

- For correctional employees with an age 55 normal retirement date - Age 57.
- For correctional employees with an age 60 normal retirement date - Age 62.
- For TIAA employees - Age 66.

A. **Actuarial Assumptions (continued)**

6. Rates of
Retirement Ages (continued):

<u>KP&F</u>

- Tier I: Later of age 55 or completion of 20 years of service.
- Tier II: Upon attainment of the earliest of:
  (a) age 52 and 25 years of service,
  (b) age 55 and 20 years of service, or
  (c) age 60 and 15 years of service.

<u>JUDGES</u>

- Age 63

7. Rates of Disability at Selected Ages (per 1,000 members)**

AGE	KPERS	KP&F	JUDGES
22	0.3	0.6	0.0
27	0.5	0.7	0.0
32	0.8	3.0	0.0
37	1.1	6.0	0.0
42	1.5	9.0	0.0
47	2.3	11.0	0.0
52	3.95	15.0	0.0
57	7.9	19.4	0.0

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

8. Marriage Assumptions*

	KPERS	KP&F	JUDGES
Male	70.0%	80.0%	74.0%
Female	40.0%	80.0%	49.5%

* Males are assumed to be three years older than their wives.

B. Actuarial Methods

1. Funding Method

KPERS

Under the Projected Unit Credit actuarial cost method, the normal cost for any year is equal to the actuarial present value of the benefits expected to accrue in that year. The actuarial present value of benefits which have accrued in prior years is called the actuarial liability.

The portion of the actuarial liability in excess of plan assets is funded according to a schedule which is intended to amortize such unfunded actuarial liability fully after a period of years. This is in addition to each year's employer normal cost. Under this cost method, actuarial gains and losses are directly reflected in the size of the unfunded actuarial liability.

The unfunded actuarial liability is amortized by annual payments made over a 40-year period from July 1, 1993. These annual payments will increase four percent (4%) for each year remaining in the 40-year amortization period. If total payroll grows four percent (4%) per year, the increasing dollar amortization payments should remain approximately level as a percentage of total payroll.

KP&F and Judges

Different actuarial cost methods were used for KP&F and Judges. The Aggregate Cost Method with Supplemental Liability was used for KP&F and the Frozen Initial Liability Method was used for Judges. Under these methods, gains and losses are reflected in the Normal Cost as opposed to the Unfunded Actuarial Liability.

2. Asset Valuation Method

For actuarial purposes, assets are valued at expected value at the valuation date, plus one-third of the difference between the market value and expected value.

1996 SUMMARY of PLAN PROVISIONS

Plan Membership

The Kansas Public Employees Retirement System (the Retirement System, or, the System), is a body corporate and an instrumentality of the State of Kansas. The Retirement System is an umbrella organization administering three statewide retirement systems: the Kansas Public Employees Retirement System (KPERS), the Kansas Police and Firemen's Retirement System (KP&F), and the Kansas Retirement System for Judges. All three systems are defined benefit, contributory plans that cover substantially all public employees in Kansas. The Kansas Retirement System for Judges is a single employer plan, while the other two are cost-sharing, multi-employer plans. Participation by the State of Kansas is mandatory, whereas participation by local political subdivisions is optional but irrevocable once elected. Benefit payments are also provided for a certain group of legislative employees.

Employee Membership

Membership is mandatory for all employees in covered positions, except elected officials. A covered position for non-school employees is one that is covered by Social Security, is not seasonal or temporary, and requires at least 1,000 hours of work per year. School employees become KPERS members on their date of employment. School employees who work at least 630 hours per year or 3.5 hours per day for 180 days, are eligible for membership. Non-school employees become KPERS members after one year of continuous employment. First-day coverage for death and disability benefits is provided for state employees and non-school employees of local employers that elect such coverage. Those who retire under the provisions of the Retirement System may not become contributing members again.

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
Summary of Provisions

Retirement: Age and Service Requirements

Eligibility - Eligibility is (a) Age 65, or (b) age 62 with ten years of credited service, or (c) any age when combined age and years of credited service equal 85 "points." Age is determined by the member's last birthday and is not rounded up. **Benefits** - Benefits are based on the member's years of credited service, Final Average Salary (FAS), and a statutory multiplier. For those who were hired prior to July 1, 1993, Final Average Salary equals the greater of either: a four-year Final Average Salary, including add-ons, such as sick and annual leave; or a three-year Final Average Salary, excluding add-ons, such as sick and annual leave. For those who are hired on or after July 1, 1993, Final Average Salary equals the average of the three highest years of service, excluding add-ons, such as sick and annual leave.

Prior Service Credit - Prior service credit is 0.75% to 1% of Final Average Salary per year [School employees receive 0.75% Final Average Salary for each year of prior service that is not credited under the former Kansas School Retirement System (KSRS)]. **Participating Service Credit** - Participating service credit is 1.75% of Final Average Salary.

Early Retirement

Eligibility - Eligibility is age 55 and ten years of credited service. **Benefit** - The retirement benefit is reduced 0.2% per month if the member is from age 60 to age 62, plus 0.6% per month if the member is from age 55 to age 60.

Vesting Requirements

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

Other Benefits

Withdrawal Benefit - Members who terminate employment may withdraw contributions with interest after the last day on the employer's payroll. Withdrawing contributions forfeits all membership rights and benefits, such as insurance coverage, which a member may have accrued prior to withdrawing their contributions from the Retirement System. Former members, who return to covered employment within five years after terminating employment, will not have lost any membership rights or privileges if they *haven't* withdrawn contributions. The Retirement Act provides for immediate application for withdrawal of contributions upon terminating employment, but it does not allow members to borrow from contributions. The Retirement System will refund contributions only after all contributions have been reported by the member's former employer.

Disability Benefit - Disability income benefits are provided under the KPERS Death and Disability Benefits Program, which is financed by employer contributions of 0.6% of a member's compensation. A member must be totally disabled for 180 continuous days. Benefits accrue from the later of the

181st day of continuous disability or from the first day upon which compensation from the employer ceases. The long term disability benefit is two-thirds of the member's annual compensation on the date disability commences, reduced by Social Security benefits, one-half of Workers' Compensation benefits, and any other employment-related disability benefits, but in no event will the monthly benefit be less than $100 per month. Members receiving disability benefits continue to receive service credit under KPERS, group life insurance coverage, and waiver of optional group life insurance premiums if the member is under age 65 when first disabled. If a disabled member retires after receiving disability benefits for at least five years immediately preceding retirement, the member's Final Average Salary is adjusted by the actuarial salary increase assumption rates in existence during the member's period of disability prior to July 1, 1993, and 5% per year since that date.

Death Benefits: Pre-retirement death (non-service connected) - The member's accumulated contributions plus interest are paid in a lump sum to the designated beneficiary. In lieu of receiving the member's accumulated contributions, the surviving spouse of a member who is eligible to retire at death may elect to receive benefits under any survivor option. The spouse must be the member's sole designated beneficiary to exercise this option. If the member had at least 15 years of credited service, but had not reached retirement age, the spouse may elect a monthly benefit to begin on the date the member would have been eligible to retire.

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

Insured Death Benefit - An insured death benefit is provided under the KPERS Death and Disability Program, equal to 150% of the member's annual compensation on the date of death. If a disabled member dies after receiving disability benefits for at least five years immediately preceding death, the member's current annual rate of compensation is adjusted by the actuarial salary increase assumption rates in existence during the member's period of disability prior to July 1, 1993, and 5% per year since that date.

Post-retirement death - A lump sum amount of $4,000 is payable to the member's beneficiary. The beneficiary may, in turn, assign this benefit to a funeral home. The beneficiary for the $4,000 death benefit may be, but is not always, the same person as the member's joint annuitant. If the member has selected a retirement option, benefits are paid to the joint annuitant or the designated beneficiary. Under joint and survivor retirement options, if the joint annuitant predeceases the retired member, the reduced option benefit is increased to the amount the retired member would have received if no retirement option had been elected. Benefits payable to a joint annuitant cease at the joint annuitant's death. If a member does not select an option, the designated beneficiary receives the excess, if any, of the member's accumulated contributions plus interest, over total benefits paid to date of death.

Member Contributions

Member contributions are 4% of compensation. Interest is credited to members' contribution accounts on June 30 each year, based on account balance as of the preceding December 31, at the interest rate adopted by the Board for actuarial valuations. Those who became members prior to July 1, 1993, have interest credited to their accounts at the rate of 8% per year. Those who become members on and after July 1, 1993, will have interest credited to their accounts at the rate of 4% per year.

Employer Contributions

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

Board of Regents Plan Members (TIAA and equivalents)

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

Correctional Members

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

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

KANSAS POLICE & FIREMEN'S RETIREMENT SYSTEM

Summary of Provisions

Retirement: Age and Service Requirements

TIER I * - age 55 and 20 years of service. **TIER II** ** - age 50 and 25 years of service, or age 55 and 20 years of service, or age 60 and 15 years of service. **Benefits** - Benefits are based on the member's Final Average Salary. For those who were hired prior to July 1, 1993, Final Average Salary equals the average of the highest three of the last five years of credited participating service, including add-ons, such as sick and annual leave. For those who are hired on or after July 1, 1993, Final Average Salary equals the average of the highest three of the last five years of participating service, excluding add-ons, such as sick and annual leave. Benefits are based on a member's years of service, and a multiplier of 2.5% of Final Average Salary for each year of service, to a maximum of 80% of Final Average Salary. **Local Plan** - For members covered by local plan provisions on the employer's entry date, normal retirement is at age 50 with 22 years of credited service.

Early Retirement

Eligibility - Members must be at least age 50 and have 20 years of credited service. **Benefit** - Normal retirement benefits are reduced 0.4% per month under age 55.

Vesting Requirements

Eligibility - TIER I *: The member must have 20 years of credited service; if terminating employment, the member must leave contributions on deposit with the Retirement System to be eligible for future benefits. **Eligibility - TIER II** **: The member must have 15 years of credited service to be considered vested. To draw a benefit before age 60, however, the member must have 20 years of credited service. If terminating employment, the member must leave contributions on deposit with the Retirement System to be eligible for future benefits. If a vested member (either Tier I or Tier II), who is married, terminates employment and wants to withdraw accumulated contributions, the member's spouse must provide consent for the withdrawal of contributions since any benefits to which the spouse may have been entitled in the future would be forfeited as well.

Other Benefits

Withdrawal Benefits - Members who terminate employment before retirement may withdraw contributions with interest after the last day on the employer's payroll. Withdrawal of contributions forfeits all membership rights and benefits, which a member may have accrued prior to withdrawing accumulated contributions from the Retirement System. Former members, who return to covered employment within five years after terminating employment, will not have lost any membership rights or privileges if they ***haven't*** withdrawn contributions. The Retirement Act provides for immediate application for withdrawal of contributions upon terminating employment, but it does not allow members to borrow from contributions. The Retirement System will refund contributions only after all contributions have been reported by the member's former employer.

Disability Benefits

TIER I *: Service-connected disability - There is no age or service requirement to be eligible for this benefit; there is a pension of 50% of Final Average Salary, plus 10% of Final Average Salary for each dependent child under age 18 (or up to age 23 for full-time students), to a maximum of 75% of Final Average Salary. If dependent benefits aren't payable, the benefit is 2.5% for each year, to a maximum of 80% of Final Average Salary. Upon the death of a member receiving service-connected disability benefits, the spouse and dependent children receive service-connected death benefits if the member dies within two years of retirement or after two years from the same service-connected cause; if service-connected death benefits aren't payable, spouse receives a lump sum payment of 50% of the member's Final Average Salary. Additionally, a pension of half the member's benefit is payable to either the spouse or to the dependent children.

TIER I *: Non service-connected disability - This pension is calculated at 2.5% of Final Average Salary per year of service, to a maximum benefit of 80% of Final Average Salary (minimum benefit is 25% of Final Average Salary). Upon the death of a member receiving non-service-connected disability benefits, the surviving spouse receives a lump sum payment of 50% of Final Average Salary. Additionally, a pension benefit of one-half the member's benefit is payable to either the spouse or to the dependent children.

TIER II **: There is no distinction between service-connected and non-service-connected disability benefits. Pension is 50% of Final Average Salary. Service credit is granted during the period of disability. Disability benefits convert to age and service retirement at the earliest date the member is eligible for full retirement benefits. If the member is disabled for at least five years immediately preceding retirement, the member's Final Average Salary is adjusted by the actuarial salary increase assumption rate, which currently is 5%, in effect during the period of disability. Disability benefits are offset one dollar for each two dollars earned after the first $10,000 earnings.

Death Benefits

TIER I * and TIER II **: Service Connected Death - There is no age or service requirement, and a pension of 50% of Final Average Salary goes to the spouse, plus 10% of Final Average Salary goes to each dependent child under age 18 [or up to age 23 if full time student(s)], to a maximum of 75% of

Final Average Salary. **Non-Service-connected Death** - A lump sum of 100% of Final Average Salary goes to the spouse; and a pension of 2.5% of Final Average Salary per year of service (to a maximum of 50%) is payable to the spouse. If there is no spouse, the monthly benefit is paid to the dependent children. **Inactive Member Death** - If an inactive member is eligible to retire when death occurs, and the inactive member's spouse is the sole beneficiary, the spouse may elect to receive benefits as a joint annuitant under any option in lieu of a refund of the member's accumulated contributions. **Post-Retirement Death** - A lump sum amount of $4,000, less any death benefit, is payable under local plan provisions. If the member has selected a retirement option, benefits are paid to the joint annuitant or the designated beneficiary. Under joint and survivor options, if the joint annuitant predeceases the retired member, the benefit is increased to the amount the retired member would have received if no option had been selected. Benefits payable to the joint annuitant cease when the joint annuitant dies. If no option is selected, the designated beneficiary receives the excess, if any of the member's accumulated contributions over total benefits paid to the date of death. The surviving spouse of a transfer member (who was covered by local plan on the employer's entry date, who dies after retirement, and who had not elected a retirement benefit option), receives a lump sum payment of 50% of Final Average Salary. Additionally, a pension benefit of three-fourths of the member's benefit is payable either to the spouse or to dependent children.

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

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

Member Contributions

Member contributions are 7% of compensation. For members with 32 years of credited service, the contribution rate is reduced to 2% of compensation.

A few members employed before January 1, 1976, have contributions reduced by their Social Security contributions, exclusive of contributions for Medicare. Benefits payable to these members are reduced by one-half of original Social Security benefits accruing from employment with the participating employer.

Employer Contributions

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

KANSAS RETIREMENT SYSTEM FOR JUDGES

Summary of Provisions

Retirement: Age and Service Requirements

Eligibility - Eligibility is (a) Age 65, or (b) age 62 with ten years of credited service, or (c) any age when combined age and years of credited service equal 85 "points." Age is determined by the member's last birthday and is not rounded up. **Benefit** - The benefit is based on the member's Final Average Salary, which is the average of the three highest years of service as a judge. The basic formula for those who were members prior to July 1, 1987, is 5% of Final Average Salary for each year of service up to ten years, plus 3.5% for each year, to a maximum of 70% of Final Average Salary. For those who became members on or after July 1, 1987, the formula is 3.5% for each year, to a maximum benefit of 70% of Final Average Salary.

Early Retirement

Eligibility - A member must be age 55 and have ten years of credited service to take early retirement. **Benefit** - The retirement benefit is reduced 0.2% per month if the member is from age 60 to age 62, plus 0.6% per month if the member is from age 55 to age 60.

Vesting Requirements

Eligibility - There is no minimum service requirement; however, if terminating employment, the member must leave contributions on deposit with the Retirement System in order to be eligible for future benefits. Eligible judges who have service credited under KPERS have vested benefits under both KPERS and the Retirement System for Judges when the combined total credited service equals ten years. **Benefit** - Normal benefit accrued at termination is payable at age 62 or in reduced amount at age 55, provided the member has ten years of service credit. Otherwise, benefits are not payable until age 65.

Other Benefits

Disability Benefits - These benefits are payable if a member is defined as permanently physically or mentally disabled. The disability benefit, payable until age 65, is 3.5% of Final Average Salary for each year of service (minimum of 25% of Final Average Salary). Benefits are recalculated when the member reaches retirement age. If a judge is disabled for at least five years immediately preceding retirement, the judge's Final Average Salary is adjusted by the actuarial salary increase assumption rates in existence during the period of disability. **Withdrawal Benefit** - Members who terminate employment may withdraw contributions with interest. A former member who resumes service as a judge may return the amount refunded without additional interest or penalty and regain credit for service previously credited under the Retirement System. **Pre-retirement Death** - A lump sum insured death benefit equal to 150% of the member's annual compensation on the date of the member's death is payable; plus a refund of the member's accumulated contributions. In lieu of receiving the member's accumulated contributions, the surviving spouse of a member who is eligible to retire at death, may elect to receive benefits under any survivor benefit option. The spouse must be the member's sole designated beneficiary to exercise this option. If the member had at least 15 years of credited service, but hadn't reached retirement age at the time of death, the spouse may elect a monthly benefit to begin on the date the member first would have been eligible to retire. **Post-retirement Death** - A lump sum death benefit of $4,000 is payable to the member's beneficiary. If the member had selected an option with survivor benefits, those benefits are paid to the joint annuitant or to the member's designated beneficiary. Under retirement options with survivor benefits, if the joint annuitant predeceases the retired member, the retirement benefit is increased to the amount the retired member would have received if no survivor benefits had been elected. Benefits payable to a joint annuitant cease when the joint annuitant dies. If no option was chosen by the retired member, the member's designated beneficiary receives the excess, if any, of the member's accumulated contributions over the total benefits paid to the date of the retired member's death.

Member Contributions

Judges contributions are 6% of compensation. Upon reaching the maximum retirement benefit level of 70% of Final Average Salary, the contribution rate is reduced to 2%.

Employer Contributions

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

Short Term Solvency Test
Last Ten Fiscal Years

Valuation Date	Member Contributions (A)	Retirants and Beneficiaries (B)	Active Members Employer Financed Portion (C)	Assets Available for Benefits		Portions of Accrued Liabilities Covered by Assets (A)	(B)	(C)
06/30/96	$ 2,159,113,770	$ 3,037,892,830	$ 2,406,103,997	$ 6,158,754,752		100 %	100 %	40 %
06/30/95	1,958,992,138	2,678,609,811	2,353,427,051	5,510,957,394		100	100	37
06/30/94	1,801,791,938	2,388,662,221	2,356,469,874	5,041,702,745	(1)	100	100	36
06/30/93	1,651,701,100	1,864,877,500	1,943,701,800	4,492,541,700		100	100	50 (2)
06/30/92	1,489,301,000	1,530,763,300	1,614,777,700	4,101,987,000		100	100	67
06/30/91	1,208,273,400	1,374,757,300	1,679,117,300	3,759,523,000		100	100	70
01/01/90	975,736,900	1,304,280,600	1,647,349,500	3,458,172,000		100	100	72
01/01/89	943,712,100	1,177,842,700	1,342,014,200	3,026,692,200		100	100	67
01/01/88	768,638,100	1,038,950,600	1,507,564,300	2,907,976,500		100	100	73
01/01/87	800,461,100	895,514,500	1,292,398,400	2,589,487,600		100	100	69

1) Actuarial valuation method was changed from book value to a market-based method.
2) 1993 legislation passed substantial benefit enhancements and changed the actuarial method of the KPERS system from the frozen initial liability method to the projected unit cost method. The amortization period was also adjusted to a 40 year period beginning July 1, 1993.

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

Schedule of Active Member Valuation Data (1)

Valuation Date	Number of Active Members(2)	Percentage Change in Membership	Number of Participating Employers	Percentage Increase in Number of Participating Employers	Total Annual Payroll (Millions)(2)	Average Payroll	Percentage Increase in Average Payroll
06/30/96	134,470	2.4 %	1,344	2.7 %	$ 3,464	$ 25,760	2.2 %
06/30/95	131,270	6.6	1,309	1.7	3,309	25,208	1.2
06/30/94	123,178	3.4	1,287	1.2	3,068	24,907	4.6
06/30/93	119,074	2.6	1,272	2.0	2,835	23,809	2.4
06/30/92	116,077	1.4	1,247	2.0	2,700	23,260	4.0
06/30/91	114,460	2.4	1,223	2.9	2,560	22,366	4.3
01/01/90	111,818	3.0	1,188	3.3	2,397	21,437	4.5
01/01/89	108,528	10.7	1,150	2.1	2,226	20,511	-8.6
01/01/88	98,032	1.5	1,126	1.3	2,199	22,431	3.0
01/01/87	96,556	—	1,112	—	2,102	21,769	—

1) Data provided to actuary reflects active membership information as of January 1.
2) Excludes TIAA members and salaries.

Schedule of Employer Contribution Rates

Last Six Fiscal Years (1)

KPERS STATE/SCHOOL

Fiscal Years	Actuarial Determined Rate	Actual Rate
1991	3.20 %	3.20 %
1992	3.60	3.30
1993	3.30	3.30
1994	3.10	3.10
1995	3.10	3.20
1996	4.11	3.30

KPERS LOCAL

Fiscal Years	Actuarial Determined Rate	Actual Rate
1991	2.40 %	2.40 %
1992	1.80	1.80
1993	1.90	1.90
1994	2.20	2.20
1995	3.05	2.30
1996	3.72	2.48

TIAA

Fiscal Years	Actuarial Determined Rate	Actual Rate
1991	1.50 %	1.50 %
1992	1.70	1.70
1993	1.60	1.60
1994	1.60	1.60
1995	1.70	1.70
1996	1.75	1.75

KP&F (UNIFORM RATE)

Fiscal Years	Actuarial Determined Rate	Actual Rate
1991	7.80 %	7.80 %
1992	5.70	5.70
1993	6.50	6.50
1994	6.80	6.80
1995	6.95	6.95
1996	9.65	9.65

JUDGES

Fiscal Years	Actuarial Determined Rate	Actual Rate
1991	5.40 %	5.40 %
1992	7.30	7.30
1993	7.10	7.10
1994	7.70	7.70
1995	8.00	8.00
1996	10.35	10.35

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

Retirants, Beneficiaries - Changes in Rolls - All Systems
Last Ten Fiscal Years

Fiscal Year Ended June 30	Number at Beginning of Year	Additions: Number Added	Additions: Allowances	Deletions: Number Removed	Deletions: Allowances	Number at End of Year
1987	33,598	2,345	$ 13,008,542	1,124	$ 1,777,254	34,819
1988	34,819	2,640	17,589,322	1,288	1,939,755	36,171
1989	36,171	2,323	16,483,070	1,244	1,970,461	37,250
1990	37,250	2,262	16,291,650	1,269	2,259,779	38,243
1991	38,243	2,431	17,912,703	1,412	2,639,387	39,262
1992	39,262	2,476	20,430,611	1,383	2,732,424	40,355
1993	40,355	2,492	22,391,028	1,459	2,934,542	41,388
1994	41,388	3,576	41,949,288	1,593	3,357,742	43,371
1995	43,371	3,463	41,898,882	1,530	3,696,926	45,304
1996	45,304	3,119	37,681,571	1,677	4,206,858	46,746

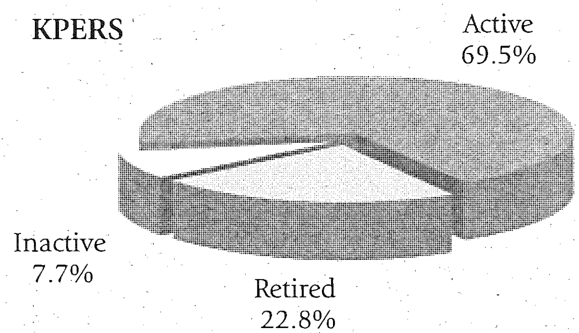
Membership Profile
Last Ten Fiscal Years (1)

Fiscal Year	Active	Inactive	Retirees & Beneficiaries	Total Membership
1987	94,369	10,322	34,819	139,510
1988	97,137	9,970	36,171	143,278
1989	103,721	10,448	37,250	151,419
1990	109,654	8,388	38,243	156,285
1991	111,818	10,368	39,262	161,448
1992	116,891	8,798	39,552	165,241
1993	121,997	9,182	41,388	172,567
1994	131,684	12,851	43,371	187,906
1995	136,710	13,362	45,304	195,376
1996	140,573	15,249	46,746	202,568

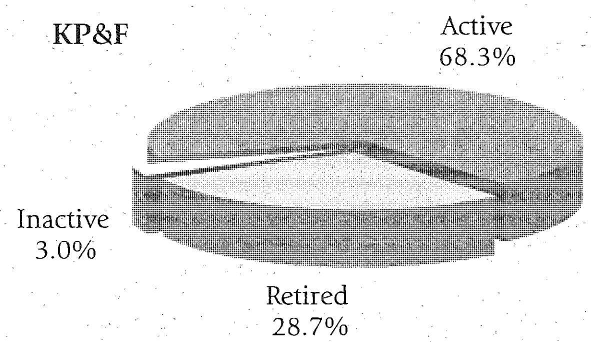
1) Membership information shown on schedule reflects June 30 data.

Membership Profile by System

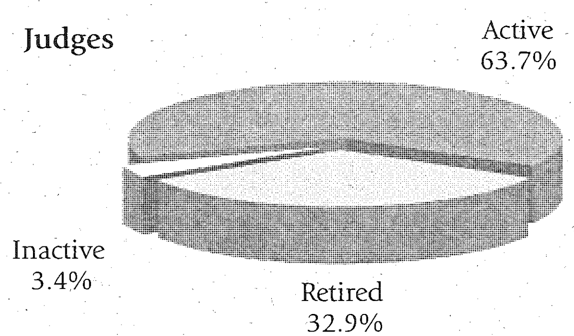
KPERS



KP&F

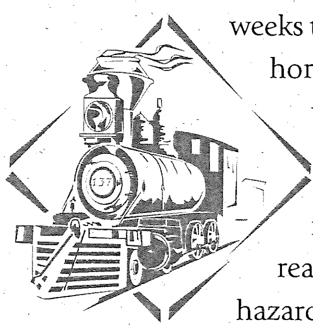


Judges



FOR MORE THAN 50 YEARS, until 1880 when the railroad reached New Mexico, the Santa Fe Trail that William Becknell established served as the main road between the Missouri Valley and the Southwest. Though the Trail made many wealthy who traded along it, no formally sanctioned project ever made it anything more elaborate than a packed dirt pathway. The federal government undertook more formal road building in Kansas in the mid-1830s when Congress authorized the construction of a military road linking forts Leavenworth and Scott to Fort Gibson, Arkansas. Military roads notwithstanding however, by the late 1880s crude dirt tracks still constituted the only public thoroughfares to be found in Kansas.

Because early settlers had little need for any but local roads, as late as 1908 Kansas had no highways that connected any one of its borders to another. Travelers took the roads only to visit the nearest market village and boarded trains to journey to bigger towns further away. Kansas farm families were therefore largely isolated. Without telephones, radios, or frequent visitors, they depended on the mail for news, which until 1861 could take several weeks to arrive - by Pony Express. Enthusiastic young men risked their lives riding horses at breakneck speed cross-country, carrying vital letters (U.S. 36 follows the old Pony Express trail in northern Kansas).



Surprisingly therefore, it was not farmers who began agitating for better roads but another group altogether - bicyclists. In the 1890s, cycling fever reached Kansas. Cyclists were fanatic devotees of their sport, but the worst hazards they faced were the roads - pocked with ruts and bogs - they pedaled. By 1896, rural mail carriers joined their call for improved roads.

That year the U.S. Post Office inaugurated free rural mail delivery, but getting it to the farmhouses was the challenge. The Post Office determined mail routes would not include unserviceable roads, so rural mail carriers could spur locals into making repairs by cancelling service on roads they judged unfit. Town civic promoters, followed by early automobile owners, grew just as adamant for change, forming the Kansas Good Roads Association in 1916 to promote improving highways with a five-year public education campaign. Railroads lent impact to the campaign through their "good roads trains." Railroads were promoting a competitive transportation system, but they wanted to ensure farmers could get their harvests to market.

A Santa Fe Railway official said, "Good roads are next to good crops in the railroad's calculations." Bad roads exacted heavy losses upon Kansas farmers and businesses dependent on their harvests. As a result, railroads propelled the good roads movement well into the 20th century.

Photo: *Steam engine and train running through Kansas wheat country. Railroads were among the biggest boosters in the drive to improve roads in the 20th century, largely to help ensure the ability of farmers to move crops quickly from field to train depot to market.*

Photo: SONJ-64481. Reprinted with permission - Eckstrom Library, Photographic Archives, the University of Louisville, Kentucky.

Highlights of Operations - 10 Year Summary

	1996	1995	1994	1993
Membership Composition				
Number of Retirants	46,746	45,304	43,371	41,388
New Retirants During the Year	3,119	3,463	3,576	2,492
Active and Inactive Members	155,822	150,072	144,535	131,179
Participating Employers	1,344	1,309	1,287	1,272
Financial Results (Millions)				
Member Contributions	$ 173	$ 159	$ 149	$ 134
Employer Contributions	143	130	118	117
Retirement / Death Benefits	364	334	292	231
Investment Income (a)	1,095	906	115	665
Employer Contribution Rate				
KPERS--State / School (b)	3.30 %	3.20 %	3.10 %	3.30 %
KPERS--Local (c)	2.3/2.48	2.2/2.3	1.9/2.2	1.8/1.9
KPERS--School (b)	—	—	—	—
KP&F (Uniform Participating)	6.95/9.65	6.8/6.95	6.5/6.8	5.7/6.5
Judges	10.35	8.00	7.70	7.10
TIAA	1.75	1.70	1.60	1.60
Special Elected Officials (d)		—	—	7.90
Unfunded Actuarial Liability (Millions)				
KPERS--State / School	$ 1,014	$ 1,051	$ 1,059	$ 573
KPERS--Local	121	123	142	94
KPERS--School	—	—	—	—
KP&F	283	279	276	272
Judges	5	5	5	5
TIAA	21	22	23	24
Special Elected Officials	—	—	—	—
Funding Ratios (e)				
KPERS--State / School	81.48 %	79.19 %	77.58 %	85.10 %
KPERS--Local	87.99	86.51	84.44	87.30
KPERS--School	—	—	—	—
KP&F	72.81	70.72	68.94	66.70
Judges	90.15	89.10	88.64	87.90
TIAA	25.38	22.62	20.39	20.00
Special Elected Officials	—	—	—	—

a) Investment income for prior years has been adjusted to reflect changes in unrealized appreciation.
b) KPERS State and KPERS School were combined commencing in fiscal year 1988.
c) KPERS was divided into sections: KPERS State/School and KPERS Local, commencing in fiscal year 1989.
d) Special Elected Officials coverage was applicable commencing in fiscal year 1989 through calendar year 1992.

1992	1991	1990	1989	1988	1987
39,552	39,262	38,243	37,250	36,171	34,819
2,476	2,431	2,262	2,323	2,640	2,345
128,689	122,186	118,042	114,169	107,107	104,691
1,247	1,223	1,188	1,150	1,126	1,112
$ 125	$ 124	$ 112	$ 97	$ 92	$ 91
112	106	101	91	92	106
206	187	168	152	135	119
486	48	393	352	(45)	331
3.30 %	3.20 %	3.10 %	3.00 %	3.00 %	3.90 %
2.4/1.8	2.6/2.4	2.0/2.6	3.0/2.0	—	—
—	—	—	—	3.00	4.10
7.8/5.7	7.4/7.8	7.3/7.4	7.0/7.3	12.0/7.0	11.1/12.0
7.30	5.40	5.90	6.55	6.55	8.70
1.70	1.50	1.50	1.60	1.40	1.50
8.30	7.90	7.80	7.70	—	—
$ 395	$ 373	$ 342	$ 316	$ 294	$ 311
47	40	34	30	26	—
—	—	—	—	—	—
67	66	69	70	68	69
4	4	4	3	3	3
20	20	19	19	16	16
—	—	2	—	—	—
88.30 %	88.00 %	88.00 %	87.30 %	87.70 %	87.90 %
92.70	93.10	93.60	93.90	94.30	—
—	—	—	—	—	—
88.10	87.30	85.90	84.10	83.20	81.00
89.80	89.10	89.10	88.90	89.30	88.30
22.60	21.10	24.20	21.60	25.50	24.10
—	—	78.50	—	—	—

e) The funding percentage indicates the actuarial soundness of the System, generally, the greater the percentage, the stronger the System. The percentage is determined by dividing accumulated assets by the sum of accumulated assets plus unfunded service liability.

Schedule of Benefits by Type

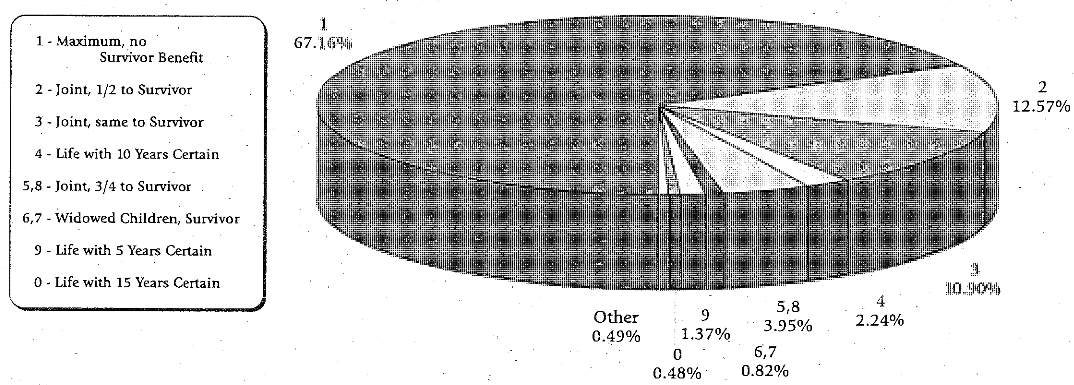
Fiscal Year	Monthly Retirement Benefits	Retirement Dividend	Death Benefits	Refunds of Contributions	Disability, Insurance Premiums/Benefits
1987	$ 104,718,593	$ 8,628,655	$ 4,753,321	$ 16,850,300	$ 13,960,161
1988	119,118,882	9,559,631	5,936,766	17,270,090	14,653,558
1989	135,123,026	9,544,087	6,357,986	19,209,745	20,316,981
1990	151,723,200	9,403,736	6,478,993	20,614,990	18,256,305
1991	169,915,990	9,755,374	6,561,432	22,086,947	24,326,760
1992	188,608,232	9,736,712	6,902,906	23,310,075	27,063,063
1993	213,080,377	9,834,057	7,499,557	20,812,351	28,617,222
1994	273,821,219	10,985,580	7,345,897	22,900,621	33,352,019
1995	315,965,280	11,019,325	6,742,192	26,542,254	36,070,807
1996	346,390,529	10,701,234	7,010,866	30,687,458	34,108,251

Revenues by Source
For the Fiscal Year Ended June 30, 1996

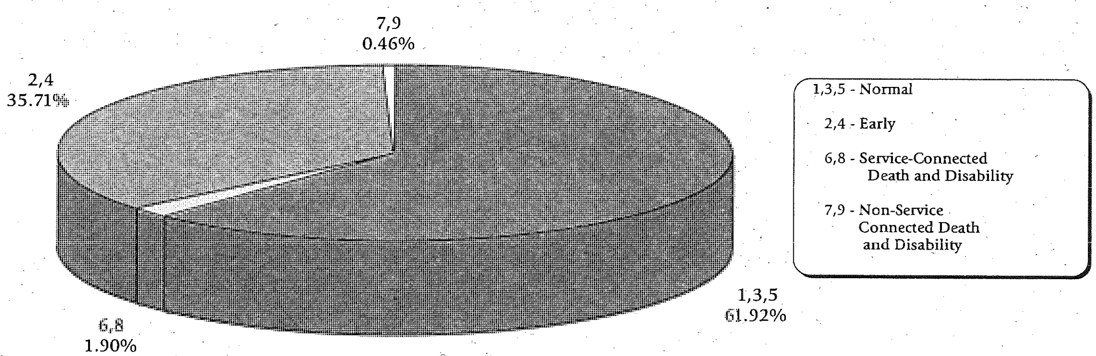
Fiscal Year	Contributions			Misc.	Net Investment Income	Total
	Member	Employer	Employer Insurance			
1987	$ 91,298,822	$ 91,646,665	$ 13,669,844	$ 111,941	$ 330,854,786	$ 527,582,058
1988	95,024,218	74,211,045	14,173,341	151,205	(45,241,460)	138,318,349
1989	37,400,647	76,503,223	14,645,898	95,688	351,981,295	480,626,751
1990	112,356,371	84,157,168	16,629,221	239,264	393,083,327	606,465,351
1991	123,608,209	86,633,756	18,657,509	385,469	48,172,791	277,457,734
1992	125,377,263	92,968,008	18,456,388	509,062	485,575,396	722,886,117
1993	133,506,738	96,292,433	20,115,114	533,403	664,759,162	915,206,850
1994	149,049,696	95,622,052	21,959,761	525,570	114,634,694	381,791,773
1995	159,250,384	106,496,039	22,881,197	533,638	906,231,045	1,195,392,303
1996	173,247,638	119,319,684	24,084,601	97,505 (1)	1,095,001,676	1,411,751,104

1) In Fiscal Year 1996, refund of current year benefit payments were accounted as a reduction to benefit expenses.

Option Taken



Retirement Type



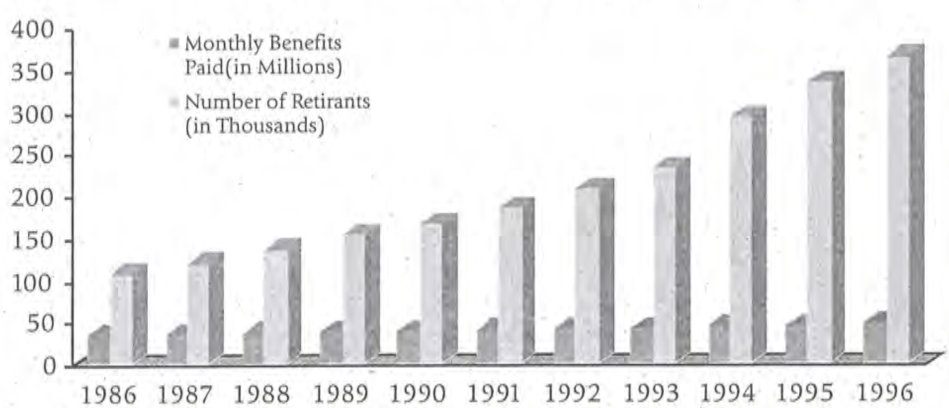
Schedule of Retired Members and Survivors by Type of Benefit
June 30 , 1996

Amount of Monthly Benefits	Number of Retirants	Type of Retirement				Option Type Selected								
		1,3,5	2,4	6,8	7,9	1	2	3	4	5,8	6,7	9	0	Other
$ - 99	2,781	2,141	638	1	1	2,274	268	113	29	25	1	31	22	18
$100-199	7,013	4,005	2,883	115	10	5,159	862	507	165	51	78	62	23	106
$200-299	6,781	3,404	3,269	101	7	4,900	691	578	166	132	83	120	32	79
$300-399	5,703	2,987	2,638	65	13	3,992	643	572	143	125	42	148	28	10
$400-499	4,153	2,207	1,891	44	11	2,944	434	449	106	92	11	95	15	7
$500-599	3,334	1,818	1,479	23	14	2,304	371	386	87	95	2	71	14	4
$600-699	2,602	1,433	1,127	33	9	1,731	296	344	73	87	7	48	13	3
$700-799	2,094	1,150	895	37	12	1,412	248	271	58	69	10	15	11	
$800-899	1,671	978	625	54	14	1,091	217	229	34	72	13	5	10	
$900-999	1,370	894	411	53	12	876	191	185	32	60	15	1	9	1
$1000-1,999	7,694	6,450	804	330	110	4,157	1,315	1,234	131	658	118	38	42	1
$2,000 or More	1,550	1,479	35	32	4	556	339	229	25	382	5	7	7	
Totals	46,746	28,946	16,695	888	217	31,396	5,875	5,097	1,049	1,848	385	641	226	229

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

Service Credit	Calendar Year 1991	1992	1993	1994	1995
Less Than 5	77	74	107	104	131
Average Benefit	$ 144.71	$ 138.72	$ 158.37	$ 97.15	$ 129.88
Average Years	2.61	2.75	2.76	2.40	2.55
5-9.99	164	156	151	171	193
Average Benefit	$ 255.02	$ 229.90	$ 257.30	$ 277.79	$ 265.98
Average Years	6.98	7.14	7.05	7.06	7.03
10-14.99	404	387	432	450	453
Average Benefit	$ 303.31	$ 275.41	$ 341.92	$ 342.10	$ 364.83
Average Years	11.84	12.10	12.09	11.86	11.79
15-19.99	388	363	437	428	456
Average Benefit	$ 464.29	$ 467.35	$ 556.51	$ 524.62	$ 566.47
Average Years	16.77	16.95	17.01	16.88	16.90
20-24.99	367	388	413	462	445
Average Benefit	$ 675.07	$ 685.45	$ 776.39	$ 795.54	$ 817.67
Average Years	21.93	21.97	21.94	21.80	21.88
25-29.99	276	285	420	475	483
Average Benefit	$ 883.60	$ 966.02	$ 1,158.77	$ 1,199.90	$ 1,349.74
Average Years	26.61	26.75	27.07	26.86	27.18
30-34.99	211	302	424	432	436
Average Benefit	$ 1,142.16	$ 1,258.07	$ 1,494.45	$ 1,598.77	$ 1,639.22
Average Years	31.81	31.78	31.96	31.97	31.86
35-39.99	270	320	392	375	324
Average Benefit	$ 1,605.48	$ 1,645.26	$ 1,693.17	$ 1,809.55	$ 1,889.67
Average Years	36.59	36.59	36.70	36.69	36.65
40-44.99	95	119	144	133	96
Average Benefit	$ 1,748.34	$ 1,724.39	$ 1,864.10	$ 1,878.56	$ 1,821.00
Average Years	41.55	41.32	41.40	41.45	41.53
45-49.99	8	11	15	11	24
Average Benefit	$ 1,516.90	$ 1,930.21	$ 1,805.79	$ 1,269.69	$ 1,995.39
Average Years	46.50	45.91	46.33	45.64	46.04
50 and Over	4	1	1	3	3
Average Benefit	$ 2,042.36	$ 1,491.86	$ 1,880.73	$ 1,744.47	$ 2,496.38
Average Years	52.75	51.00	52.00	51.33	51.33
Total Number	2,264	2,406	2,936	3,044	3,044
Average Benefit	$ 754.48	$ 830.41	$ 970.38	$ 989.45	$ 1,006.86
Average Years	21.71	22.89	23.53	23.19	22.54

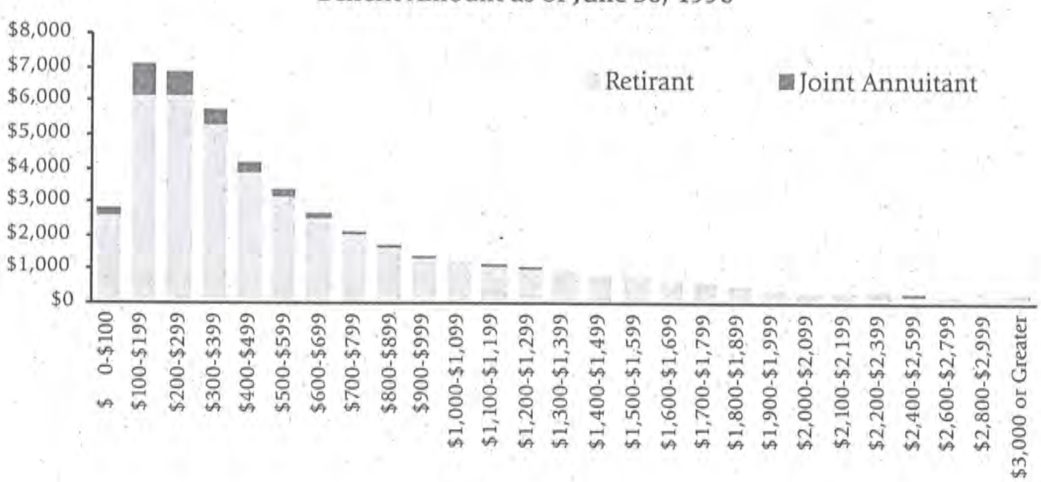
Comparison of Benefits Paid to Retired Members



Average Benefit by Years of Service - Five Year Summary
Joint Annuitant Only

Service Credit	Calendar Year 1991	1992	1993	1994	1995
Less Than 5	5	5	7	5	5
Average Benefit	$ 665.34	$ 172.53	$ 124.52	$ 124.78	$ 53.42
Average Years	2.60	3.60	2.43	2.60	2.60
5-9.99	19	14	9	13	13
Average Benefit	$ 257.66	$ 271.75	$ 152.27	$ 283.09	$ 481.28
Average Years	6.68	7.29	7.33	6.77	6.38
10-14.99	21	18	15	12	13
Average Benefit	$ 502.92	$ 274.18	$ 337.82	$ 326.36	$ 359.02
Average Years	12.23	12.06	12.20	11.33	11.77
15-19.99	20	33	20	11	16
Average Benefit	$ 441.57	$ 353.64	$ 585.35	$ 470.12	$ 540.69
Average Years	17.00	17.03	16.45	17.00	16.81
20-24.99	17	19	28	27	19
Average Benefit	$ 567.15	$ 553.70	$ 630.93	$ 504.75	$ 853.14
Average Years	22.29	21.89	22.50	22.00	21.63
25-29.99	15	16	13	8	11
Average Benefit	$ 670.12	$ 617.63	$ 712.27	$ 1,071.25	$ 928.87
Average Years	27.20	26.00	26.85	26.88	26.27
30-34.99	22	16	10	11	2
Average Benefit	$ 736.37	$ 912.96	$ 933.23	$ 1,350.03	$ 851.23
Average Years	32.00	32.25	31.40	32.55	33.00
35-39.99	16	12	13	11	8
Average Benefit	$ 1,225.45	$ 1,245.15	$ 1,306.10	$ 1,282.98	$ 1,479.57
Average Years	36.63	37.25	36.31	35.91	36.25
40-44.99	6	11	4	3	1
Average Benefit	$ 1,799.47	$ 1,308.31	$ 1,342.28	$ 1,235.10	$ 1,381.07
Average Years	41.17	41.18	42.00	41.67	40.00
45-49.99	1	2	1		2
Average Benefit	$ 1,513.34	$ 1,775.22	$ 887.78		$ 3,209.68
Average Years	45.00	45.50	47.00		45.00
50 and Over					
Average Benefit					
Average Years					
Total Number	142	146	120	101	90
Average Benefit	$ 672.01	$ 610.72	$ 654.25	$ 675.82	$ 751.21
Average Years	21.87	22.18	21.46	20.90	18.93

Benefit Amount as of June 30, 1996



THIS YEAR, 1996, IS THE 175TH ANNIVERSARY of the Santa Fe Trail. The route of the Santa Fe Trail was established in 1821 when William Becknell and a party of about 20 men led a pack train of mules loaded with merchandise out from Franklin, Missouri towards the southwest. Their purpose was to trade with the residents of the Mexican provincial capital of Santa Fe who, under Spanish rule, had been forbidden to trade with foreigners. But Mexican independence in 1821 opened the area to commerce.

Becknell and his party believed enormous profits could be made by transporting goods across the American West to the northern settlements of Mexico. Becknell's trail-blazing excursion confirmed reports that New Mexicans had plenty of cash but not many ways to spend it, since earlier traders - with the few goods to reach them - had to travel 1500 miles, from the Port of Vera Cruz. The first travelers to cross Kansas after Becknell were in search of easy money.

Following Becknell's lead, American traders immediately began hauling goods to New Mexico. So many traveled the Trail by 1824 that Congress passed legislation to establish a "highway" from Missouri's western border to Santa Fe. In 1825 federal commissioners secured the agreement of Native American tribes to allow a road, and safe passage for traders, to go through their lands. By 1842 caravans of 50-60 wagons each were hauling $130,000 in goods over the Trail each season, and were returning with boxloads of clinking silver.

From the outfitting points of Kansas City, Westport, and Independence, Missouri, drovers crossed into Kansas near the present-day city of Olathe and from there, headed southwest to Council Grove in the Kansas Flint Hills. Here, at the "Council Oak Shrine" in 1825, Osage tribe elders had agreed to the government-offered treaty assuring traders safe travel in the area. Drovers bought final supplies at the town's "Last Chance Store," then stopped by the "Post Office Oak" tree, where they would leave letters for and pick up missives from, other passing frontier travelers. Then they departed for Dodge City and Fort Larned, also on the Santa Fe Trail. Outside Dodge City, the longest continuous clearly defined wagon tracks along the Trail can still be seen.

The 900-mile Santa Fe Trail covers more ground in Kansas than in any other state. Drovers trekked 550 miles diagonally across Kansas before facing more daunting hazards in the mountains and deserts between them and Santa Fe. Though a survey party in 1825 marked out the route and located streams and springs, neither signposts nor bridges aided their passage. Crude maps and the wagon ruts left by previous caravans were all that marked the way.

Photo: 1868 photograph of drovers and Conestoga wagons ready to head west on the Santa Fe Trail.

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Investment Consultant—Mercer Investment Consulting, Inc., Dallas, Texas
Investment Performance Consultant—Thomson Investment Software, Boston, Massachusetts

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Mellon Trust, Medford, Massachusetts

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Life—Security Benefit Group, Topeka, Kansas
Disability—Self Insured, Administered by Security Benefit Group, Topeka, Kansas

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