KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

- a component unit of the State of Kansas

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended June 30, 1997

- prepared by the Staff of the Retirement System

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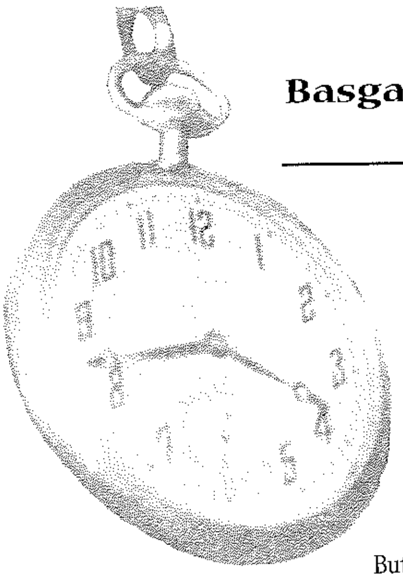

Basgall, Mosher reflect on Retirement System's start

Two people instrumental in the creation of the Kansas Public Employees Retirement System met again 35 years later to look back on its founding. Virgil Basgall and Ernie Mosher were well-acquainted even before they began working together to make secure pensions for public employees a reality.

Ernie was the Executive Director of the Kansas League of Municipalities and Virgil was one of the League's members. At the time, he worked as city manager for the City of Emporia.

"Originally," recalled Basgall, "we were simply a loosely formed committee of people who wanted to get this done. I guess we started that back in 1957 or 1958. First, we went to towns all over the state in the evenings after work-hours to try to raise $1.00 per employee in each agency. But, you know, in those days, $1.00 was a lot of money. It was a difficult job to get people to agree to contribute that much."

"It was a hard sell," agreed Mosher. "We needed the money to do the first actuarial study. We raised $12,000 from that first effort and hired Leroy MacWinnie, of Kansas City, as the actuary. He was also involved in drafting the original legislation that created KPERS."

"The most spectacular thing about those early days," Mosher continued, "was that it all started with a truly grass roots movement. In 1959, a bill was passed establishing a formal committee, the Joint Committee for Kansas Public Employee Retirement Systems. That committee was made up of state and local government officials and employees. There were 15-20 people on the Joint Committee, including Dick Payton and John Higgins, who were both really active in the effort."

The League of Municipalities was appointed the Secretariat. Mosher was appointed the official lobbyist. Basgall and Mosher recalled that the work of the Joint Committee was extremely popular during the elections of 1960. Many candidates running that year included their endorsements for a retirement system in their campaigns for office. Additionally, the major public employee associations in Kansas, including the Counties, the Mayors, and the League of Municipalities had all taken official positions in support of the retirement system legislation. The two concurred the effort they initiated came at just the right time socially as well as politically.

"For such a major piece of legislation it was remarkable the amount of support it had," said Basgall and Mosher.

The Kansas Statehouse is a fitting background for retired members Virgil Basgall and Ernie Mosher, who were two of those most instrumental in the creation of the Kansas Public Employees Retirement System. Basgall was the city manager of the City of Emporia and served on the KPERS Board from the beginning, for a total of 25 years. Mosher was the Executive Director of the Kansas League of Municipalities and was the principal lobbyist in the effort to establish a state-wide pension fund for Kansas public employees, which was started in 1962.

However, there wasn't 100 percent support in the Statehouse when the formal bill to establish the Retirement System was put before the Kansas Legislature in 1961.

"There were a few who thought public employees were doing fine without pension benefits," Mosher said. "But remember, Virgil, when we went over to the State Motor Vehicle Division? There we saw an office filled with a huge secretarial pool - almost all of them elderly women. They were still working because they couldn't afford to retire. Social Security didn't pay enough for them to live, so they had to work. Just six months after KPERS started, they all finally could retire because they were assured at last of having enough income to get by on without working. That one example proved to me the need for pension benefits was more than justified."

Still, the bill was passed into law with the only significant change being the reduction in the prior service rate from one percent to one-half percent. Both men see the only remaining issue as that of employer/employee contribution rates.

"Employer and employee contribution rates should have been matching," Mosher declared. Nodding assent, Basgall added, "I still think they should be."

"The intent of the formulators of the original legislation," continued Mosher, "was matching contributions - four percent for employees and four percent for employers, with a benefit level public employees could buy with contributions at that matching level. That has never been reviewed as a matter of state policy except by Wendall Lady in the 1970s."

"Governor Carlin even recommended dropping employee contributions altogether," Basgall said, "which some states have implemented. In Kansas, however, that didn't win a lot of support because state employees, quite rightly, worried that if they didn't contribute to the Retirement System at all, they wouldn't have any input into it either."

Once the formal legislation establishing the Retirement System became law, Basgall and Mosher, along with the others on the committee, redoubled their efforts.

"Our first organizational meeting was in August 1961," said Basgall. "The Retirement System had to be ready to go within four months - no later than January 1, 1962. We met at least 3-4 times per week and sometimes we had several meetings in a day. We had a lot of meetings at night."

"I remember," he chuckled, "I would drive in from Emporia in the morning, work all day, stay until 10:00 or 11:00 p.m., drive back home to Emporia that night, then turn around and come right back the next day to do it all over again."

Mosher added, "In those first months, the Retirement System had nothing. The League of Municipalities printed the first brochures KPERS published. The Retirement System paid for them, but the League printed them. When it started, there wasn't even a place to meet."

"That's right," Basgall said. "Jim Bibb, the State Budget Director, would let us meet in his office. We didn't even have pencils or paper, except what he gave us. It was at one of our first meetings that Fred Gulick, the State Assistant Revisor of Statutes, was elected the first Board Chairman."

Basgall was also elected to the Board, serving for a total of 25 years. Basgall is the longest-serving Board member in the history of the Retirement System. He said, "Initially we borrowed $75,000 from the State General Fund. We had that paid back by July 1, 1962. During its first year, KPERS grew to 24,000 members, and more than 2,500 people retired after the first six months. No one could retire before the first six months, but when six months passed, a lot of people retired right away."

"We also hired KPERS' first Executive Secretary, John Corkhill. We interviewed a total of four people. I remember one was from South Dakota. Frank Sullivan, the State Insurance Commissioner at the time, told us we didn't have to hire outside Kansas, that we had the talent we were looking for right here in the state. So, we hired Corkhill away from him," Basgall laughed, "that made Sullivan mad, too. But we offered Corkhill a $10,000 salary to start, which was more than he had made before. That was a substantial salary in those days."

The efforts of Executive Secretary John Corkhill and the Board of Trustees led to Security Benefit Life being hired as the carrier of the contractor for the KPERS Death and Disability Benefits in 1966, he said. Security Benefit Life continues to carry the contract today. And what do the two see as the most significant event in KPERS history during that time?

"The most significant thing was getting it started," Basgall said, "and the second most significant thing was when the System reached $1 billion in assets - that meant we really had some money to pay benefits. One billion dollars was a sum of money that no one could have possibly envisioned at the beginning."

Virgil Basgall and Ernie Mosher hold the 1961 Kansas Statute book, open to the page with the first Retirement Legislation that became law, providing a comprehensive pension system for Kansas public employees.

"Yes, I remember the Board Chairman marveling 'We're a billion dollars!' It was just mind-boggling," said Mosher, shaking his head. "Today assets are over $8 billion dollars."

Another significant event for the Retirement System, Basgall said, was the effort to keep KPERS running smoothly even as the former Kansas School Retirement System (KSRS) merged with it in 1971.

"Well, the teachers wanted in, because at the time, the only retirement benefit they could receive was $3.50 per month each year of service they had as teachers. That was all they could get and that wasn't enough," he said.

KPERS continues to pay benefits to at least 1,700 retired members from the old KSRS system. With more than $8 billion in assets today, KPERS is able to pay benefits even to former teachers who never contributed to the retirement system, but who were brought into the system during the merger.

What do Basgall and Mosher see as concerns for the Retirement System today?

"It seems to me that now the legislature should consider increasing the participating service rate, to perhaps two percent," Mosher said, "then look at a cost of living adjustment, or COLA. But it should not look to the employee to fund those enhancements. Employees are already paying their fair share of four percent."

"That's right," said Basgall, "the employer is on the gravy train right now. Inflation is not growing and interest rates are low. It seems more fair to me, though, to increase benefits first. The purpose of the investments, after all, was always to pay and enhance benefits. Today the investment return is great enough to allow for that, in my view. Any kind of regular increase that would be great. But three years without anything is too long."

Overshadowing those concerns, however, each man said, is the great amount of good the Retirement System has done for the people of Kansas in its 35-year history.

"No one could ever have envisioned how it would grow or that it would provide the kind of benefits it does to Kansas public employees. Today people can retire comfortably, secure that they will be able to live in retirement," concluded Basgall. He and Mosher can now reflect with justifiable pride on a firmly established legacy that each played a role in creating for the greater good of their fellow Kansans and for all Retirement System members who have followed them into public service careers.

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.

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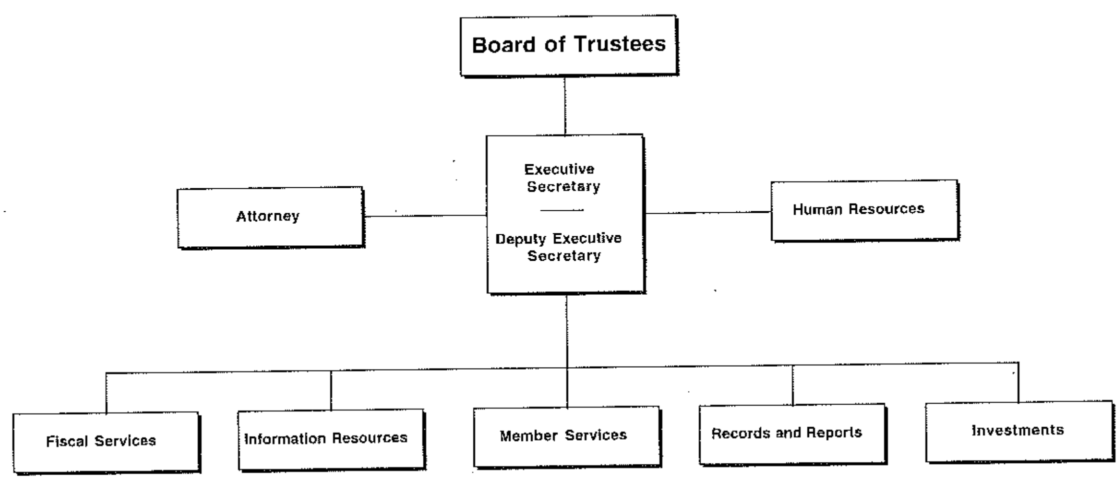
The Board of Trustees of the Kansas Public Employees Retirement System is a nine-member Board; four members are appointed by the Governor, two are appointed by legislative leaders, two are elected by Retirement System members, and one is the elected State Treasurer. Those currently serving on the Board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

Michael L. Johnston, Wichita — Chair	(appointed by Governor)
Vern R. Chesbro, Ottawa — Vice-Chair	(appointed by Governor)
Jarold Boettcher, Beloit	(appointed by Governor)
Bruce Burditt, Topeka	(elected by non-school Retirement System members)
Ivan Crossland, Jr., Columbus	(appointed by the Speaker of the House)
Regenia Moore-Lee, Topeka	(appointed by Governor)
Patrick R. Smith, Overland Park	(appointed by the President of the Senate)
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



A list of the Retirement System's consultants and investment advisors is found on page 88.

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Curves in the road through retirement offer Rita Wolf new ventures, unexpected vistas

Rita L. Wolf modestly calls herself a "Jill of all trades and master of none." Others who know her well would likely describe her as a master of many trades, and one with boundless energy to boot. This petite woman with the expansive mind has given her all to the many endeavors she has undertaken since first arriving in Kansas 26 years ago.

As supervisor of microbiology in the Department of Laboratory Medicine at Stormont-Vail Medical Center in Topeka for 12 years, she was on call 24 hours a day, often working 12-hour shifts. Then, in 1985, her career took a new, 10-year turn. She went to work for successive governors John Carlin, Mike Hayden, Joau Fiuney, and Bill Graves, directing divisions in the departments of Health and Environment, Human Resources, and Social and Rehabilitation Services. Among her goals was to help these agencies become more effective by increasing their flexibility to serve individual people, each of whom had unique situations and needs they presented.

"State agencies are driven by efficiency, so rules are often applied indiscriminately. There must be a balance between the need for efficiency and the need to be effective," Wolf declared. "Agencies need to be efficient because of the great fiscal responsibility to taxpayers, yet taxpayers also want to know their dollars are being used effectively. One question that continually needs to be asked is, 'How do we improve the lot of people we are put in place to serve?' There must be room to look at individual cases, to help people with their individual needs, so that ultimately people maintain the power to direct their own courses."

Still, by early 1995, Wolf was looking forward to retirement, to filling her days with gardening and travel. With her wealth of experience volunteering for community boards and nonprofit organizations, it wasn't a big surprise however, when only one week after she retired from public service, she was asked to recruit the number of volunteers needed so Topeka would shine brightly as host city of the five-month international art exhibit, Treasures of the Czars, in late 1995.

"I said OK, thinking it would be just a once-a-week thiug," she laughed. "Little did I kuow it was really a 24-hour-a-day, 7-day-a-week commitment. Only after I accepted the job did I realize what I had done. We had just three months to pull it all together before the exhibit opened. That was just one-sixth the time St. Petersburg, Florida, had to organize the same exhibit. A core group of about 10 of us, hired by the Kausas International Museum Board, bonded immediately around our desire to make it a success for Topeka. Without that glue, the success we enjoyed would never have happened."

Rita L. Wolf, co-chair of the first Governor's Symposium on African-American Adoption, leads a planning committee meeting recently. The Symposium, which will be held at the Hyatt Regency hotel in Wichita from May 14-16, 1998, is sponsored by Kansas Families for Kids and the Kellogg Foundation. Retired member Wolf previously was the interim Executive Director of Kansas Families for Kids. Formerly, she also directed divisions for the Kansas Departments of Health and Environment, Human Resources, and Social and Rehabilitation Services, serving the State 10 years in four successive administrations.

"I think I must be pathologically iuto 'growth experiences'," Rita said ruefully. She threw herself so wholeheartedly into the task she regularly worked 18-20 hours a day, even sleeping overnight in her office occasionally during the months before the exhibit opened.

"There was no other choice," she said simply. "I had to find enough other people willing to give of their time, too. The result was that by the time the exhibit closed December 31, 1995, more than 2,500 volunteers had joined with us to make the Treasures of the Czars a huge success."

To Rita, the strength of her volunteer force was the linchpin of the show's success. "When the thousands of people who visited Treasures of the Czars left Topeka, I was certain that they would remember not only what they saw displayed, but that they wonld also remember how they were treated by our volunteers, all of whom worked long hours and mauy of whom worked double shifts, accepting them both routinely and cheerfully."

Rita believed her professional reputation was as much on the line in that unfamiliar new role as it ever was during her previous career roles. "This was absolutely a once-in-a-lifetime opportunity," she noted emphatically. "When it ended, Treasures of the Czars was hailed as the best exhibit that year, world-wide. How could that happen, here in Topeka? All of us involved in making it a go had reputations for working hard and for getting the job done. Each of us had experience in managing fiscal and human resources, and we had a common vision around which we bonded tightly. But none of us ever took for granted that it could happen without teamwork."

Rita said coming from the public sector where change can occur slowly, it was exhilarating not only to see that accomplished, but also to participate in it from start to finish.

"To be able to give and receive such immediate feedback was so exciting," she recalled, eyes alight. "People came from all over the world and they regularly expressed their delight at how wonderful it was. People were absolutely effusive in their praise."

"I also remember the fear and trepidation I felt when a group from the Nelson-Atkins Art Mnseum in Kansas City came to tour our exhibit," she said. "These were highly influential financial supporters of a prestigious institution that exhibited major shows regularly. I knew these people would have a very critical eye when looking at our show. I was greatly concerned about what their response would be. So, when they expressed their overwhelming praise for how well-managed our show was, we were so relieved."

"But more than that," she continued delightedly, "they were most ecstatic about our volunteer force. So much so, in fact, they asked me to share my 'secrets' with them about how to recruit, train, and retain such wonderful people. I tell you, we were higher than kites!"

"I told them," she divulged, "that tantamount to our success recruiting volunteers was that we went to them, rather than expecting them to come to us. We wanted volunteers from every community in Topeka, so we went into all the community centers in the city to recruit them. We went directly to the people and told them, right there where they lived, that we wanted them and needed their help to make the show a success. They responded enthusiastically by signing up and staying on for the duration. That's why it was one of the most exciting, wonderful experiences of my whole life."

Wolf's seeming "no fear" approach stems from a cultural background where barriers were never presented to her. In Jamaica where she was born, grew up, and still retains citizenship, "my family has always been involved in public service," she said. "The women in my family are all independent, well-respected professionals in the community. No one ever told me there was anything I couldn't do. Here, women like these are called feminists. I never knew a real, American feminist until I met Dr. Harriet Lerner. She was so astonished to discover I didn't know anything about this country's feminist movement that she has made it her mission to educate me about it."

Wolf said she originally came to the U.S. to attend Barnard College, then went to Howard University, and ultimately finished her undergraduate degree in biology at Wayne State University in Detroit. She was working on her master's degree in microbiology there, when she met and married her husband Tom, who was completing his Ph.D. in human genetics. They moved to Topeka when he accepted a position at Washburn University, where he is a professor in the biology department.

"I had no idea what I was coming to," she said, "and yet, I have made wonderful friends here. One of my first friends was Joan Wagnon, then the Executive Director of the Topeka YWCA. She first led me into public service. I had earned a master's degree in public administration at the Capitol Complex Center, while continuing to work in microbiology for Stormont-Vail Medical Center and raising my daughters, Karla and Kimberly. Twenty-six years later, I cannot think of anywhere better to raise a family than Topeka, Kansas. I am so grateful for that."

Topeka, obviously, has been just as grateful for Rita. After receiving the "Spirit of Topeka" Award for her work for Treasures of the Czars, she was named the 1996 Woman of the Year by the Topeka Career chapter of the American Business Women's Association. It was the most significant award she ever received, she said.

"To be counted among the previous honorees, all of them magnificent women, including former U.S. Senator Nancy Landon Kassebaum, was a truly humbling experience," Rita related. "Besides being named Woman of the Year and becoming one of that prestigious group, I witnessed 13 other women - all of them nontraditional students - receive scholarships that night to enable them to continue their educations at Washburn University. It made me very proud to be a Topekan."

Rita then determined these accolades were no longer going to keep her from returning to her original goal of gardening and traveling in retirement. Something else did, though. A phone call this past spring led her to agree to become the interim Executive Director of Kansas Families for Kids, after former Executive Director, Joan Wagnon, was elected Mayor of Topeka. The job lasted four months before a permanent Executive Director was hired, but led her down a new path.

"There I found myself getting more and more interested in adoption," continued Rita. "Now I have a bigger agenda. One area that desperately needs attention is African-American adoption. The Kellogg Foundation, which provides funding to Kansas Families for Kids, called upon Kansas and other states it funded to begin addressing this issue in new and meaningful ways."

"Children of color comprise 60 percent of the nearly 500,000 in foster care nationally. African-American children are 47 percent of that total. Three times more African-American children are in foster care than are represented in the general population, since only 15 percent of children under age 18 in the U.S. are African-American," she said.

"In Kansas, 13 percent of the population under age 18 is African-American, but over 40 percent of children who need care and are caught in the system are African-American. Significantly more of these children go into the system and they stay in it longer. Many ultimately become adults without ever having had a stable, much less permanent, home. This 'Foster Care Gap,' as it is called, was absolutely appalling to me," she said emphatically. "So, when the Kellogg Foundation urged the states to address this concern, I volunteered to co-chair the first Governor's Symposium on African-American adoption in Kansas, which will be from May 14-16, 1998, at the Hyatt Regency hotel in Wichita."

Rita sees privatization of adoption services in Kansas as one good change. She said, "Due to recent privatization by the current state administration, more adoptions are taking place. Statistics so far have been very positive. After one year, 25 percent more children have homes than before. Kansas was the first state in the nation to privatize adoption services. These results are encouraging, and the upcoming Governor's Symposium will keep that momentum going."

But, what about that gardening and traveling in retirement? "Oh, I still intend to travel and garden. It will just have to be in my spare time," she said, adding that she and her husband Tom have an understanding about her on-going commitments in retirement. "We both agree my projects from now on will only be short-term. Still, Tom has always respected my need to pursue these altruistic endeavors. Regardless of their success or failure, he's always been there - to pick up the pieces, if need be, and lovingly at that."

"Although philosophically and politically we may be as far apart as two people could be," she laughed, "after almost 30 years of marriage our similarities and our inherent respect for each other's views is what works for us. Tom is a wonderful father to our daughters and we enjoy seeing them come into their own careers - Karla in banking and Kimberly in clinical psychology."

"I'm more content than ever and I'm lucky to have complete autonomy at this stage. Now, besides my interest in adoption, I also want to learn more about computers, and I recently had a small part in the Topeka Civic Theater production of the play, 'To Kill a Mockingbird.' I have since taken some acting classes," she remarked, then smiled knowingly, adding conspiratorially, "I'm afraid I've been bitten by the acting bug."

As she cheerfully waved farewell on her way to another appointment, it wasn't hard to guess where this 'pathological interest in growth experiences' might take her. But what Rita Wolf accomplishes on the journey, well, that is likely to be another whole story.

KPERS

Kansas Public Employees Retirement System

November 20, 1997

Members
Kansas Public Employees Retirement System

Dear Members:

I am pleased to present, on behalf of your Board of Trustees and Staff, the 1997 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, 1997. The System's fiscal year 1997 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 results 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 1997 Annual Report was prepared through the combined efforts of the Retirement System's staff members.

The 1997 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, 1997. 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.

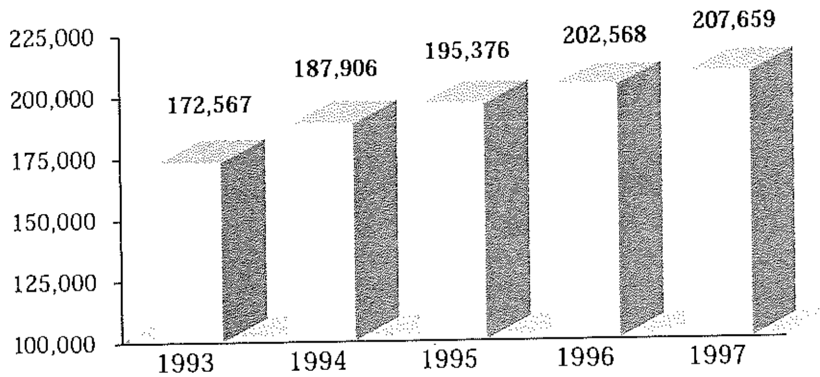
The third section of the annual report is the investment section, detailing the performance of the Retirement System's investment portfolio during fiscal year 1997. The fourth and fifth sections of the annual report are the actuarial section, which describes the funding basis, actuarial assumptions, 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.

Capitol Tower ■ Suite 200 ■ 400 SW 8th Ave. ■ Topeka, Kansas 66603-3925 ■ Phone (785) 296-6666
Facsimile: (785) 296-2422 ■ E-mail: kpers@kspress.com ■ Home Page: www.kspress.com/kpers
Toll Free 1-888-275-5737

Over the last five years, your Retirement System has undergone significant growth, with notable increases in membership, 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 207,659 as of June 30, 1997, from 172,567 as of June 30, 1993 - which is a 20.3% increase. Retired members grew in number from 41,388 to 48,559 over the same period, a 17.3% increase.

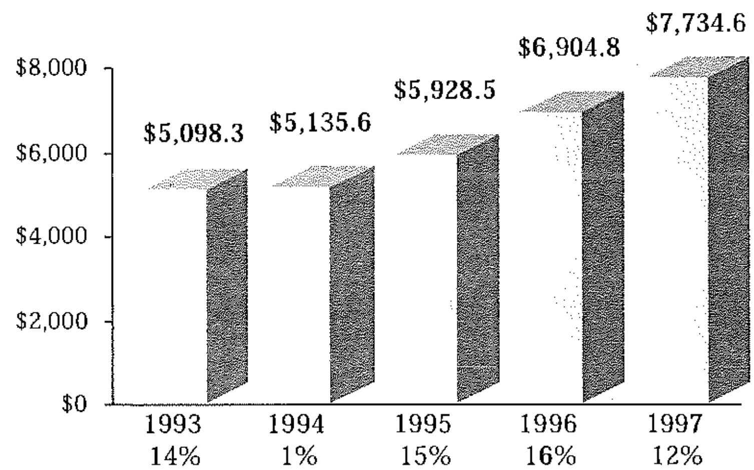
KPERS Membership



At June 30, 1997, the membership of the Retirement System included 141,127 active members, 17,973 former public servants, and 48,559 retired public servants and beneficiaries. Twenty-seven new public employers joined the Retirement System, and by the end of fiscal year 1997 the number of public employers in the Retirement System totalled 1,371.

The total benefits paid to retired members rose to $389 million in fiscal year 1997 from $223 million in fiscal year 1993. The average annual retirement benefit increased by $2,621 over the same five-year period, or 48.7%. The average annual benefit is now $8,007. 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 today. These members were paid more than $330 million in retirement benefits last year.

Net Asset Value of Investments at June 30, 1997
(in Millions)



The table above shows the growth of the System's investments from June 30, 1993 to June 30, 1997.

Member net assets grew at an annualized rate of just over 13% in the past five years, increasing from over $4 billion to well over $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.

Fiscal Year 1997 marks the 35th anniversary of the Retirement System's well-established tradition of service to its members. Your Retirement System is proud of its history. It is our members who are the foundation of that history. In this Annual Report we present profiles of several of our retired members. Featured retired members in this Annual Report include two who were instrumental in the founding of the Retirement System. Also included is a profile of retired member Myrtle L. Bivin, our eldest member living in Kansas, who is 106 years old.

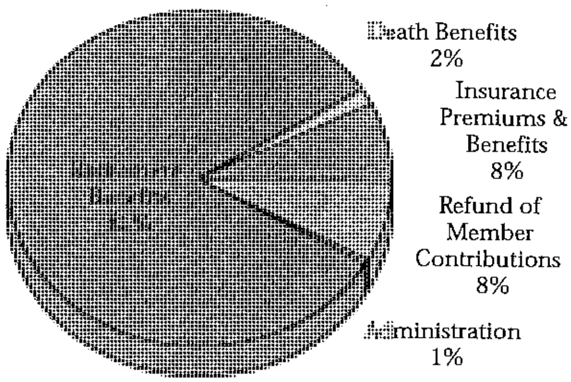
The financial operations of the Retirement System remain strong. The table below presents a synopsis of the System's financial operations. The complete Statement of Changes in Plan Net Assets is on page 22. The Retirement System had net assets of $6.94 billion at June 30, 1996. During the year, active members contributed more than $171 million to the Retirement System, while employers contributed $156 million. Investments generated over $995.2 million 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 1997 net investment income totalled $974.3 million. Net investment income plus member and employer contributions resulted in total operating revenues of nearly $1.302 billion.

Fiscal Year 1997 Operating Results

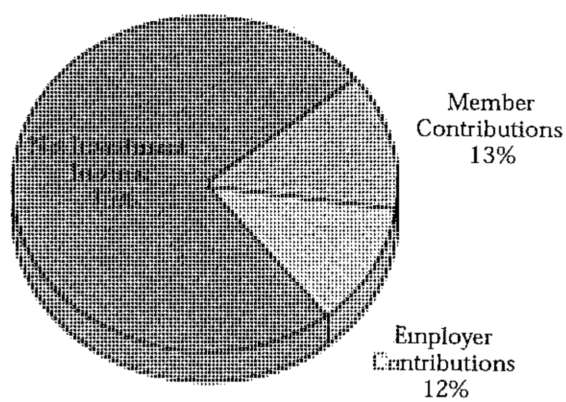
Net Assets at July 1, 1996			$6,942,001,657
Additions:			
Contributions			
Member	$ 171,120,750		
Employer	156,279,778		
Total Contributions		$ 327,400,528	
Investment Income			
Gross Investment Income	995,237,831		
Less Manager, Custodian Fees, Expenses	(20,935,414)		
Net Investment Income		974,302,417	
Other Miscellaneous Income		92,827	
Total Additions		1,301,795,772	
Deductions:			
Monthly Retirement Benefits Paid	388,830,304		
Refunds of Contributions	36,761,626		
Death Benefits	7,830,644		
Insurance Premiums and Benefits	36,048,625		
Administrative Expenses	4,659,099		
Total Deductions		474,130,298	
Net Increase			827,665,474
Net Assets at June 30, 1997			$7,769,667,131

The expenses of the Retirement System totalled $474 million in fiscal year 1997. Included were $389 million in monthly benefits to retired members, $37 million paid to members who withdrew their contributions, more than $7 million in death benefits, and over $36 million in insurance premiums and benefits. The cost of maintaining the Retirement System's administrative operations totaled approximately $4.7 million.

Operating Expenses



Operating Revenues



Total revenues exceeded expenses by more than $827 million during the year, thereby increasing the System's net reserves to over $7.76 billion at June 30, 1997. These reserves represent the funds available to pay for current and future members' benefits. The above graphics depict the operating expenses and revenues of the Retirement System.

Investment Performance
Past Five Years

Fiscal Year	Time-Weighted Rate of Return	Consumer Price Index
1997	14.4 %	2.3 %
1996	18.8	2.7
1995	17.6	3.0
1994	2.3	2.5
1993	14.7	3.0

Time weighted return includes income and changes in market value. These investment 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's investment performance for fiscal year 1997 is shown in the table above. The time-weighted rate of return, which includes income and changes in investment value, was 14.4% for the fiscal year ended June 30, 1997. The Retirement System maintains a diverse investment portfolio, as described in the Investment Allocation summary, beginning on page 45.

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, 1997, assets available for retirement benefits were 83% of the total actuarial accrued liability, as computed by the System's actuary, Milliman & Robertson, Inc. This is an increase from the June 30, 1996 level, which was 81%. The Retirement System's unfunded actuarial liability decreased 4.7% to $1.376 billion at June 30, 1997. 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 the last fiscal year the Kansas economy also strengthened, with total job growth rising 2.7%. This included strong growth in aircraft manufacturing of 14.7%, growth of 9.4% for personal services, 6.5% growth in apparel and accessories stores, a 5.9% increase in food retailers, and a 5.6% growth in construction businesses. Additionally, growth in farming and agricultural services totaled 5.3%.

Job growth in Kansas pushed unemployment lower in the last fiscal year. Average monthly unemployment fell from 59,000 in fiscal year 1996 to 58,291 in fiscal year 1997. Likewise, the average monthly unemployment rate fell slightly, from 4.4% to 4.2% in the same period. Employment growth in the goods-producing industries exceeded that of the services-producing industries in Kansas. Employment in the goods-producing industries increased by 2.9%, compared to 1.2% for the services-producing industries in the State.

Led by the strong growth in aircraft manufacturing, overall manufacturing employment in Kansas increased 2.3% in fiscal year 1997. Durable goods manufacturing employment increased by 4.3% in Kansas, while overall non-durable goods manufacturing decreased slightly, by just 0.4%.

Strong economic growth and low interest rates stimulated additional housing starts and commercial construction around the state last year. Construction work on the $30 million Hyatt Regency Hotel in downtown Wichita, the Raytheon facility in Wichita, the Cessna facility in Independence, as well as continuation of the Kansas Department of Transportation's Comprehensive Highway Program sustained the growth in the heavy construction sector of the overall construction industry.

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, 1996. 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 three consecutive fiscal years. 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

"For retired member Joe Snell, history and family have always gone hand-in-hand"

"I earned 25 cents an hour in my first job working for the State," Joe Snell said, with a smile. "I was 16 years old and I rode my bike to work from North Topeka to the Statehouse. I worked from 3-5 p.m. every day and my average paycheck was about $18."

Forty-four years later, with 41 years of credited service, Snell retired as the Executive Director of the Kansas State Historical Society, which he described as, "just the best job in the world."

For Snell, family and history have always gone hand-in-hand. He and his wife Ruth "have always been a team," he asserted, "and we worked to make it a family-oriented historical society. After all, the historical society is a family place, it's a place where families can come together and learn about their shared history."

Joe earned his master's degree in history from the University of Kansas. He researched five Kansas cow towns and published a story about each one in the Historical Society's quarterly magazine. He then put the stories together and published a book, "Why the West was Wild."

"There were only 1355 copies printed," he said, "and now it's out of print and a rare book. It was republished under the title, 'Great Gunfighters,' by the University of Nebraska, which is still in print."

While working toward his master's degree at KU, he and Ruth visited every fort in Kansas over spring break. His favorite place on that trip, he said, was the cemetery at Old Fort Wallace. "There's a wonderful monument to the 7th Cavalry that I like."

Joe and Ruth were married five years before they had their two sons, Bruce and Mike. It was during that period their strong team spirit was formed. "Joe had tuberculosis, with Asian Flu, and pneumonia," said Ruth. "He had to go to the sanitorium in Norton for nine months. He had a wonderful doctor, Andre Bode, from France who was a lung specialist. He prescribed an experimental drug for Joe, who had to take a total of 45 pills a day. But within three weeks of starting the drug, he was so much better."

Joe improved so much, he said, "they would let me play golf on the doctors' three-hole golf course and I could use the dark room and the ceramics room whenever I wanted. Ruth could come visit me every other weekend, but she had to stay in a room on the 3rd floor of the administration building. I would watch her from my window to make sure she got to her room alright. When I saw the light go on in the room where she was staying, I knew she got there OK. We also learned a lot about proper eating and nutrition there, and we still practice those principles."

It shows in the aura of good health, sense of adventure, and the sunny dispositions they exude. Once Joe could go home and pick up his career as Assistant Curator of Manuscripts for the Historical Society, he and Ruth decided whatever he did, they would continue to work together.

When Joe's boss retired, he was promoted to Curator of Manuscripts, then became the Assistant Director of the Historical Society from January - March, 1977. On April Fool's Day, 1977, he was named the Historical Society's Executive Director. He served in that position for 11 years, 1 month, and 17 days, he said. "I was age 60 when I retired in 1988. There was a window to retire early with full benefits that year, so I took advantage of it."

One event Snell will always remember was the construction of the new Kansas History Museum in west Topeka. "I loved being involved in the design and the building of the museum," he enthused. "We wouldn't have the Kansas History Museum without the efforts of former Senator Ross O. Doyen, though. I kept a diary throughout my career and one night I wrote in it, 'Senator Doyen wants a new museum.' The night we got the museum bill passed, we had been at the Legislature all day and at 8 o'clock that night they passed the bill."

Ruth added, "We were so happy and so tired, we went to Robie's restaurant to eat. Robie asked us how we were doing and when we told him what happened, he went to every table in the place to tell the other customers about the bill being passed."

"Once the construction took place, we had to move the Cyrus K. Holliday engine to the new museum as the final act," Joe continued. "People came and stood all along the route the engine traveled. They cheered and waved at the train as it passed. It was something to see and that night, when Channel 27 aired a story about it, they played the song, 'On the Road Again' as a tribute, which was just wonderful. When the engine stopped inside the museum, construction workers finished putting up the last wall, boxing it inside for good."

When the Kansas History Museum was complete, Joe said they asked other state historical societies to rate their museum against others in the country. "Most of the state historical society administrators had been here to see our operation, so they were familiar with what we were doing. They rated our museum #4 in the U.S. and #1 west of the Mississippi River. We were extremely proud of that recognition."

Before he retired, Snell made sure the monies were appropriated for construction of the new Research Center, which has since been built, next to the Kansas History Museum. In addition to being responsible for constructing monuments to Kansas history, he has also been privileged to see a lot of Kansas history in the making, he said.

"When former Governor Alf Landon turned 100, President Ronald Reagan came to Kansas for Landon's birthday celebration. It was puzzling at the time, because although Alf Landon was 100 years old, it seemed like it was actually the President who was the 100-year-old. Inside Landon's house, he appeared to be asleep most of the time, but then a phenomenal thing happened. When it was time to meet the press outside on the portico, the doors opened and Reagan stepped out, totally 'on' for about five minutes, reading the prepared speech in front of him. The rest of the time, he was a different person. Looking back on it, I wonder if the Alzheimer's it was later revealed he had was already affecting him. But no one said anything about it then," said Joe.

Working in Manuscripts, Snell said, allowed him to meet well-known writers. "I got to know William Inge when he was writing a play about a woman from Dodge City named Dora Hand. Inge collected antique postcards on his travels and from time to time, I would receive an antique postcard in the mail from Inge, wherever he happened to be at the time. I met many interesting writers that way."

Another writer he knew was Alf Landon's biographer, the late KU history professor Donald McCoy. Snell said McCoy would research Landon history in Manuscripts, which is how they came to know each other.

"Don invited me to go along on a visit to see Alf on occasion. One time we went, Nancy (Landon's daughter, former United States Senator Nancy Landon Kassebaum) was there, too," recalled Snell. "We sat in Alf's study by the fireplace. McCoy and Landon would drink Irish whiskey and Landon would always bum cigarettes from McCoy. He never asked him for one, he would just hold out his hand, Don would put a cigarette between Landon's fingers and then light the cigarette while Landon just kept on talking, never missing a beat. That struck me as so funny whenever I saw him do that. Don said Landon always did that, because if he bummed a cigarette from you, then that meant you and he were the same."

Enjoying a game of Monopoly at home with his wife Ruth and their three grandsons is Joe Snell, center, retired Executive Director of the Kansas State Historical Society. The Snell's grandsons are from left, Austin, Tyler, and Cody Snell. When he retired in 1988, Snell had 41 years of credited service with the State of Kansas.

Joe remembers being asked to lunch by former Governor Landon one day. "We met at the restaurant at the top of Merchants National Bank in downtown Topeka - that's where the governor always went. He talked to me for two straight hours, and I couldn't figure out why he had asked me to lunch. I just sat and listened to him talk, wondering why I was there. At the end of the two hours, he stood up to go and then said, 'Oh, by the way, I'm going to send the Historical Society a check for $1,000.' That was the easiest $1,000 I ever raised for the Historical Society," he joked.

Joe had planned to spend his retirement writing the western history books he never had the time to write dnring his career. More important matters have come between him and his writing, however.

"I'm having so much fun with my grandsons that the writing has been put aside," he said, not at all unhappily. "They will call us up to tell us about some exciting discovery and they ask us to come over to see whatever it is. We ask them when and they always say, 'Oh, now would be just fine, Grandpa.' And we always go right then. Grandchildren just won't wait, you know."

Joe and Ruth still make time for their on-going partnership, too. "Sometimes when we get up in the morning we declare it a 'vacation day,'" said Joe. "We get in the car and go for a drive without any destination in mind. We enjoy going into towns we've never visited and talk to the residents, or find a good local restaurant where we eat and meet some of the townspeople who are also eating there."

"We've been married 42 years," said Ruth, "and we're planning an Alaskan cruise now. We have a big map of the United States and everywhere we've traveled is marked on it. There are only three states we have yet to see - Alaska, Hawaii, and North Dakota."

Joe and Ruth agree they are enjoying a wonderful retirement. They continue to remember the early days of their marriage and the dreams they had then. "We always dreamed that someday we'd make $10,000 a year," Ruth said, smiling. "We thought if we just made $10,000 a year, we'd have everything we ever wanted. Well, we have more than we ever dreamed we would, with our family and our life together."

Berberich Trahan & Co., P.A.

Certified Public Accountants

800 SW Jackson Street, Suite 1300
Topeka, KS 66612-1268

Telephone 785 234 3427
Toll Free 1 800 530 5526
Facsimile 785 233 1768

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, 1997, 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, 1997, 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 pages 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 1997, 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, 1988 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.

Berberich Trahan & Co., P.A.

October 17, 1997

Statement of Plan Net Assets as of June 30, 1997
With Comparative Figures for 1996

	1997 Totals	1996 Totals
Assets		
Cash and Deposits		
Cash	$ 1,069,409	$ 1,357,861
Deposits with Insurance Carrier	—	502,223
Total Cash and Deposits	1,069,409	1,860,084
Receivables		
Contributions	35,400,169	36,214,457
Investment Income	49,845,291	46,416,043
Sale of Investment Securities	1,699,651,896	1,201,298,692
Total Receivables	1,784,897,356	1,283,929,192
Investments at Fair Value		
Domestic Equities	3,263,903,398	2,956,606,795
Domestic Fixed Income	2,125,357,729	1,906,059,290
Cash and Equivalents	47,651,937	21,945,035
International Equities	1,154,706,226	999,761,898
International Fixed Income	699,451,758	658,501,273
Alternative Investments	67,564,509	90,485,855
Real Estate	445,534,498	308,811,746
Total Investments	7,804,170,055	6,942,171,892
Invested Securities Lending Collateral	731,854,626	692,543,688
Fixed Assets and Supplies Inventory	233,000	391,785
Total Assets	10,322,224,446	8,920,896,641
Liabilities		
Administrative Costs	478,379	443,469
Benefits Payable	1,173,302	781,909
Securities Purchased	1,819,051,008	1,285,125,918
Securities Lending Collateral	731,854,626	692,543,688
Total Liabilities	2,552,557,315	1,978,894,984
Net assets held in trust for pension benefits (A schedule of funding progress for the plan is presented on page 34.)	$ 7,769,667,131	$ 6,942,001,657

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

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Statement of Changes in Plan Net Assets
for the Fiscal Year Ended June 30, 1997
with Comparative Figures for 1996

	1997 Totals	1996 Totals
Additions		
Contributions		
Member Contributions	$ 171,120,750	$ 173,247,638
Employer Contributions	156,279,778	143,404,285
Total Contributions	327,400,528	316,651,923
Investments		
Net Appreciation in Fair Value of Investments	707,311,840	845,780,074
Interest	192,130,388	179,895,671
Dividends	59,536,776	54,639,346
Real Estate Income, Net of Operating Expenses	26,607,468	26,576,310
Other Investment Income	5,663,700	7,840,115
	991,250,172	1,114,731,516
Less Investment Expense	(20,935,414)	(21,742,893)
Net Investment Income	970,314,758	1,092,988,623
From Securities Lending Activities		
Securities Lending Income	44,881,692	36,446,681
Securities Lending Expenses		
Borrower Rebates	(39,186,901)	(33,541,743)
Management Fees	(1,707,132)	(891,885)
Total Securities Lending Activities Expense	(40,894,033)	(34,433,628)
Net Income from Security Lending Activities	3,987,659	2,013,053
Total Net Investment Income	974,302,417	1,095,001,676
Other Miscellaneous Income	92,827	97,505
Total Additions	1,301,795,772	1,411,751,104
Deductions		
Monthly Retirement Benefits Paid	(388,830,304)	(357,091,763)
Refunds of Contributions	(36,761,626)	(30,687,458)
Death Benefits	(7,830,644)	(7,010,866)
Insurance Premiums and Benefits	(36,048,625)	(34,108,251)
Administrative Expenses	(4,659,099)	(4,493,293)
Total Deductions	(474,130,298)	(433,391,631)
Net Increase	827,665,474	978,359,473
Net Assets held in trust for Pension Benefits		
Balance Beginning of Year	6,942,001,657	5,963,642,184
Balance End of Year	$ 7,769,667,131	$ 6,942,001,657

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

NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR 1997

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	16	—
Cities	342	38	—
Townships	49	—	—
School Districts	304	—	—
Libraries	107	—	—
Conservation Districts	80	—	—
Extension Councils	80	—	—
Community Colleges	46	—	—
Recreation Commissions	33	—	—
Hospitals	30	—	—
Cemetery Districts	13	—	—
Other	125	—	—
Total	1,315	55	1

Membership by Retirement Systems

	KPERS	KP&F	Judges	Total
Retirees and beneficiaries currently receiving benefits	45,800	2,619	140	48,559
Terminated employees entitled to benefits but not yet receiving them	6,754	81	9	6,844
Inactive members not entitled to benefits	10,908	220	1	11,129
Current employees	134,890	5,988	249	141,127
Total	198,352	8,908	399	207,659

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 a 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). 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 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. Adoption of GASB No. 28

During 1997, the Retirement System adopted Statement No. 28 of the Governmental Accounting Standards Board (GASB No. 28), "Accounting and Financial Reporting for Securities Lending Transactions." Comparative amounts for Fiscal Year 1996 have been restated to reflect this change. The effect of this change has increased the total assets and total liabilities of the System as of June 30, 1996, and June 30, 1997, by $692,543,688 and $731,854,626, respectively.

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 three categories of credit risk are:

1. Insured or collaterized with securities held by the State Treasurer or its custodian in the name of the State of Kansas;
2. Collaterized with securities held by the pledging financial institution's trust department or custodian in the name of the State of Kansas; and,
3. Uncollaterized.

As of June 30, 1997, the cash deposits of $1,069,409 held by the State Treasurer were in credit risk category "1."

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, 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 percent 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 five percent (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, 1997, 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 margin 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, 1997, the Retirement System had purchased Treasury note and Treasury bond futures contracts with a market value of $140,790,375. Margin deposits in the form of U.S. Treasury Notes totalling $4,213,652 were held by the Retirement System as of June 30, 1997. Cash equivalents and short-term investments in amounts necessary to settle the futures contracts were held in the portfolio so that no leverage was employed, in accordance with the Statement of Investment Policy.

The Retirement System's Statement of Investment Policy authorizes participation in a securities lending program administered by the 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 securities loans are open contracts and therefore could be terminated at any time by either party. The borrower collaterizes 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. Cash collateral is invested in the Retirement System's name in a dedicated short term investment fund consisting of investment grade debt securities. At June 30, 1997, the maturities of securities in this dedicated bond portfolio are as follows: 64% of the market value of the securities mature within 30 days; 20% mature between 31 and 180 days; and 16% mature after 180 days. The custodian provides for full indemnification to the Retirement System for any losses that might occur in the event of borrower default. Therefore, the Retirement System does not incur any credit risk as it relates to this activity. The securities on loan are marked to market daily to ensure the adequacy of the collateral. Net income produced from securities lending activities for fiscal year 1997 was $3,987,659. The market value of securities on loan as of June 30, 1997, was $774,892,934.

The Retirement System's international investment managers utilize 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 creditworthiness of the counterparties.

All forward foreign currency contracts are carried at market value by the Retirement System. As of June 30, 1997, the System had sold forward currency contracts with a market value of $1,498,487,167 and had bought forward currency contracts with a market value of $1,507,666,918. 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, with the exception of investments made with securities lending cash collateral, which meet the criteria of category 3. 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 on the following page 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	$3,177,033,681	—	$ —	$3,177,033,681
Domestic Fixed Income	1,204,183,446	—	179,124,209	1,383,307,655
Cash Equivalents (1)	29,589,262	—	(2) 552,730,417	582,319,679
International Equities	945,566,248	—	—	945,566,248
International Fixed Income	603,436,848	—	—	603,436,848
Total Subject to Classification	$5,959,809,485	—	$ 731,854,626	6,691,664,111
Not Subject to Classification				
Alternative Investments				67,564,509
Real Estate				445,534,498
Mutual Funds				
Cash Equivalents				18,062,675
Domestic Fixed				605,694,275
Securities on Loan (3)				707,504,613
Total Not Subject to Classification				1,844,360,570
Total Investments and Invested Securities Lending Collateral				$8,536,024,681

1) Foreign currencies and fixed securities maturing within 90 days of purchase date.
2) Securities Lending cash collateral invested with maturities within 90 days of fiscal year end.
3) Represents underlying securities on loans of which the cash collateral is reported in the Statement of Plan Net Assets.

G. Fixed Assets and Supplies Inventory

Furniture, fixtures, and equipment are reported at historical cost, net of accumulated depreciation. These assets are depreciated on a straight line basis over an average useful life of one to three years with no salvage value. Accumulated depreciation on furniture, fixtures, and equipment as of June 30, 1997, was $2,099,114. Office supplies inventory in the amount of $15,557 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 1996 and 1997, for those who first became members prior to June 30, 1993. For those who first became members after June 30, 1993, interest on employee contributions will be credited at the rate of 4% per year. The balance at June 30, 1997, was $2,337,511,704, 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, 1997, was $3,403,260,433. The unfunded liability was $1,376,067,899.

The **Retirement Beuefit 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, 1997, was $3,222,686,322, and was fully funded.

The **Group Insurance Reserve** represents employer contributions, which pay 100 percent 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, 1997, was $162,927,627, and was fully funded.

The **Expeuse 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, 1997, was $9,301,340, 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, 1997, was $10,047,604, 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

Costs of administering the plan are financed through investment earnings. 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 contribution required to discharge the System's liabilities. The actuary then recommends to the System's Board of Trustees the employer contribution rates required to maintain the Retirement System on the actuarial reserve basis.

Every three years the actuary makes a general investigation of the actuarial experience under the System including mortality, retirement, and employment turnover. The actuary recommends actuarial tables for use in valuations and in calculating actuarial equivalent values based on such investigation. An actuarial experience study was conducted for the three years ending December 31, 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, and provided that this method be used to determine KPERS employer 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 dollar amounts 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, 1996 and June 30, 1997, can be attributed to the following (in millions):

Unfunded Actuarial Liability, June 30, 1996	$ 1,444
Investment gain	(323)
Liability loss from actual experience	157
Effect of contribution cap/time lag	63
Expected increase due to amortization method	35
Unfunded Actuarial Liability, June 30, 1997	$ 1,376

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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 1994 and 1995 actuarial valuations provide the basis for Board certification of employer contribution rates for fiscal years beginning in 1996 and 1997, respectively. The actuarially determined employer contribution rates derived from the actuarial valuations for fiscal years beginning in calendar years 1996 and 1997 are as follows:

KPERS Membership Groups	Calendar Year 1996	Calendar Year 1997
State/School Employees	5.17%	5.23%
Local Employees	3.72	3.73
Certain Correctional Employees	5.47/6.27	5.75/6.22
TIAA Employees	1.89	1.66

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 shown above. For fiscal years ended June 30, 1996 and June 30, 1997, the employer contribution rates for State/School employees were 3.3% and 3.59%, respectively, and the employer contribution rates for Local employees were 2.48% and 2.63%, respectively.

KP&F. The uniform participating service rate for all KP&F employers was 9.65% for fiscal years beginning in 1996 and 9.73% for fiscal years beginning in 1997. 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 1996, the total actuarially determined employer contribution rate was 16.0% of payroll, and for the fiscal year beginning in 1997, it is 15.7% 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 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 to be made 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	$ 108,156	$ 116,687	7.2 %
KPERS - Local	19,094	32,636	7.0
KP&F	26,037	15,889	18.9
Judges	2,647	910	21.0
Total	$ 155,934	$ 166,122	7.8 %

An estimated $252 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 $5 million.

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C. Historical Trend Information

Historical trend information, which shows the Retirement System's progress in accumulating sufficient assets to pay benefits when due, is presented on page 34 and page 35, and is titled, **"Required Supplemental Information."**

NOTE 4 - Commitments and Contingencies

As of June 30, 1997, the Retirement System was committed for additional funding, totalling $12,099,850, 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 intends to vigorously pursue this litigation. However, the nltimate 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
1997 (1)	$ 199,521,423	74.7 %
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 years ending June 30, 1996, and June 30, 1997, 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 1C.

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)
01/01/88	$ 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
06/30/97	6,875,918	8,251,986	1,376,068	83	4,108,320	33

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	6/30/97	6/30/97	6/30/97
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	36 years	36 years	36 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.

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Schedule of Contributions
For the Fiscal Year Ended June 30, 1997

Kansas Public Employees Retirement System			
State / School Contributions			
Members	$116,687,076		
Employers	85,570,561		
Insurance	16,379,226		
Total State / School Contributions		$218,636,863	
Local Contributions			
Members	32,635,658		
Employers	14,635,653		
Insurance	4,458,002		
Total Local Contributions		51,729,313	
State Contributions - KPERS TIAA			
Employers	3,955,795		
Insurance	2,250,731		
Total KPERS TIAA Contributions		6,206,526	
Total Contributions - Kansas Public Employees Retirement System			$276,572,702
Kansas Police and Firemen's System			
State Contributions			
Members	1,559,308		
Employers	2,631,235		
Total State Contributions		4,190,543	
Local Contributions			
Members	14,329,405		
Employers	23,406,139		
Total Local Contributions		37,735,544	
Total Contributions - Kansas Police and Firemen's System			41,926,087
Kansas Retirement System for Judges			
State Contributions			
Members	909,668		
Employers	2,578,556		
Insurance	68,269		
Total State Contributions		3,556,493	
Total Contributions - Kansas Retirement System for Judges			3,556,493
Optional Life Insurance			
Member Contributions			
State Employees	3,606,785		
Local Employees	1,738,461		
Total Contributions		5,345,246	
Total Contributions - Optional Life Insurance			5,345,246
GRAND TOTAL - ALL CONTRIBUTIONS			$327,400,528

Schedule of Administrative Expenses
For the Fiscal Year Ended June 30, 1997

Salaries and Wages		$ 3,006,875
Professional Services		
Actuarial	$ 214,857	
Audit	34,800	
Data Processing	16,325	
Legal Services	106,426	
Other Professional Services	4,324	
Total Professional Services		376,732
Communication		
Printing	69,617	
Telephone	100,820	
Postage	223,449	
Advertising	2,859	
Total Communication		396,745
Building Administration		
Janitorial Service	12,245	
Building Management	44,746	
Real Estate Taxes	52,644	
Utilities	34,030	
Office and Equipment Rent	9,767	
Total Building Administration		153,432
Miscellaneous		
Travel	92,456	
Dues and Subscriptions	9,868	
Repair and Service Agreements	76,030	
Supplies	59,623	
Temporary Services	60,105	
Fees-Other Services	18,550	
Freight	5,968	
Bonding	6,011	
Educational Assistance	1,796	
Other Miscellaneous	154	
Depreciation	394,754	
Total Miscellaneous		725,315
Total Administrative Expenses		$ 4,659,099

Schedule of Investment Income by Asset Class
For the Fiscal Year Ended June 30, 1997

Asset Classification	Interest, Dividends and Other Transactions	Gains and Losses	Total
Domestic Marketable Securities			
Equities	$ 35,771,430	$ 535,269,608	$ 571,041,038
Fixed Income			
Treasury and Agency	44,708,649	14,698,201	59,406,850
Corporate	85,759,338	33,535,522	119,294,860
Temporary Investments	8,287,032	644,785	8,931,817
International Marketable Securities			
Equities (1)	20,935,023	156,904,705	177,839,728
Fixed Income (1)	49,099,402	(23,933,425)	25,165,977
Total Marketable Secnrities	244,560,874	717,119,396	961,680,270
Real Estate	26,607,468	(9,495,266)	17,112,202
Alternative Investments	7,106,290	(312,291)	6,793,999
Total Real Estate and Alternative Investments	33,713,758	(9,807,557)	23,906,201
Other Investment Income			
Securities Lending	3,987,659	—	3,987,659
Recoveries from Litigation	5,393,635	—	5,393,635
Miscellaneous	270,066	—	270,066
Total Other Investment Income	9,651,360	—	9,651,360
Investment Income	$ 287,925,992	$ 707,311,839	995,237,831

Manager and Cnstodian Fees and Expenses	
Investment Manager Fees	(18,863,199)
Custodian Fees and Expenses	(890,492)
Other Investment Expenses	(1,181,723)
Total Investment Fees and Expenses	(20,935,414)
Net Investment Income	$ 974,302,417

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

Schedule of Investment Management Fees
For the Fiscal Year Ended June 30, 1997

Domestic Equity Managers		
Brinson Partners, Inc.	$ 1,130,600	
Barclays Global Investors	431,498	
Capital Guardian Trust Co.	320,460	
Pilgrim, Baxter & Associates	2,164,402	
Provident Investment Counsel	3,062,150	
Subtotal Domestic Equity Managers		$ 7,109,110
Domestic Fixed Income Managers		
The Boston Company	311,350	
Barclays Global Investors	579,941	
Loomis, Sayles & Co.	891,635	
Pacific Investment Management Co.	1,545,466	
Payden & Rygel Investment Counsel (STBF)	69,274	
Subtotal Domestic Fixed Income Managers		3,397,666
International Equity Managers		
Alliance Capital Management	562,735	
Bankers Trust Company	166,504	
Lazard Freres Asset Management	561,415	
Morgan Stanley Asset Management	457,350	
Nomura Capital Management	524,029	
Subtotal International Equity Managers		2,272,033
International Fixed Income Managers		
Fiduciary Trust Company International	771,089	
Julius Baer Investment Management	671,407	
Subtotal International Fixed Managers		1,442,496
Foreign Currency Overlay Manager		
Pareto Partners	785,844	
Subtotal Foreign Currency Overlay Manager		785,844
Real Estate and Alternative Investment Managers		
ERE Yarmouth	1,345,805	
J.W. O'Connor & Company - RPT	216,390	
L & B Core Group Trust	583,130	
Pacholder Associates	716,161	
Portfolio Advisors/Morris Anderson	716,161	
Subtotal Real Estate and Alternative Managers		3,577,647
Cash Equivalent Manager		
Payden & Rygel Investment Counsel (STIF)	278,403	
Subtotal Cash Management		278,403
Total Investment Management Fees		18,863,199
Other Fees and Expenses		
Mellon Trust - Custodian Fees and Expenses	890,492	
Consultant Fees	180,382	
Litigation Expenses	997,615	
Other Investment Expenses (1)	3,726	
Subtotal Other Fees and Expenses		2,072,215
Total		$ 20,935,414

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.

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Investment Summary
(In Thousands) (1)
For the Fiscal Year Ended June 30, 1997

	June 30, 1996 Fair Value	Purchases and Other Increases	Sales and Other Decreases	June 30, 1997 Fair Value	Asset Mix Fair Value
Marketable Securities					
Domestic Equities	$2,956,607	$1,527,626	$(1,220,330)	$3,263,903	41.83 %
Domestic Fixed Income	1,906,059	4,039,765	(3,820,466)	2,125,358	27.22
Temporary (2) Investments	21,945	9,979,842	(9,954,135)	47,652	0.61
International Equities	999,762	556,302	(401,358)	1,154,706	14.80
International Fixed Income	658,501	1,477,197	(1,436,246)	699,452	8.96
Total Marketable Securities	6,542,874	17,580,732	(16,832,535)	7,291,071	93.42
Real Estate and Alternative Investments					
Real Estate	308,812	155,594	(18,872)	445,534	5.71
Direct Placements and Limited Partnerships	90,486	150	(23,071)	67,565	0.87
Total Real Estate and Alternative Investments	399,298	155,744	(41,943)	513,099	6.58
Total	$6,942,172	$17,736,476	($16,874,478)	$7,804,170	100.00 %

1) Amounts include changes in unrealized appreciation and exclude interest and dividend accruals. Amounts do not include securities lending cash collateral of $692,543,688 for FY 1996, or FY 1997 cash collateral of $731,354,626.

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

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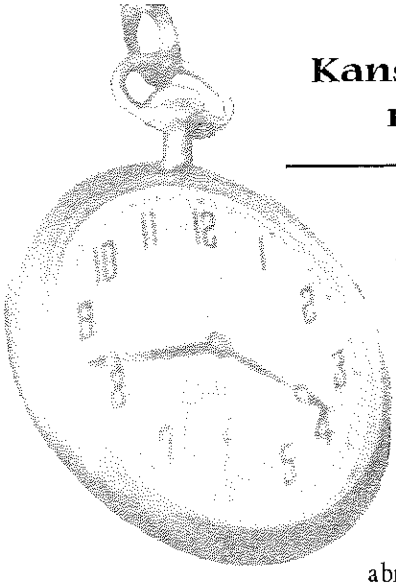
Cash Receipts and Disbursements
For the Fiscal Year Ended June 30, 1997

Opening Cash Balance		$ 1,357,861
Member Contributions	$167,833,278	
Employer Contributions	155,066,826	
System Recoveries	89,163	
Refund of Advancements	416,528,000	
Optional Life Insurance	5,314,711	
Other	3,677	
Total Cash Receipts		744,835,655
Withdrawal of Contributions	(33,504,566)	
Payments to Beneficiaries	(3,022,671)	
Retirement Benefits	(396,636,765)	
Group Life Insnrance Premiums	(6,296,975)	
Optional Life Insurance Premiums	(6,392,794)	
Electronic Funds Transfer	(23,825)	
Administrative Expenses	(4,465,403)	
Deposits with Insurance Carrier	(22,700,000)	
Advancements to Investment Custodian	(253,364,000)	
Investment Manager Fees and Expenses	(18,717,108)	
Total Disbursements Made		(745,124,107)
Ending Cash Balance		$ 1,069,409

Kansas Senior Olympics stirs competitive spirits of many retired members, including Maxine King's



Maxine King, of Kansas City, is an energetic woman who seems to know life is a game to be played. And play she has, from her stint as a semipro softball player in the late 1940s and early 1950s with the Kansas City Dons, to her years teaching blind and visually handicapped students such life skills as dancing and how to camp, and now competing in the annual Kansas Senior Olympics.

In May, she and 200+ other Kansans traveled to Tucson, Arizona, to participate in the National Senior Olympics. Maxine brought home a bronze medal in horseshoes for the women's 75-79 age group. In October, Maxine competed in five events at the Kansas Senior Olympics in Topeka - basketball free throw, softball throw, horseshoes, bowling, and discus throw, winning medals in each of the five events.

"It's time for me to do more things I enjoy," she declared. Maxine retired in 1981 at age 62 with 20 years of service credit, but she worked a total of 42 years as a school teacher before her retirement. At her 60-year High School class reunion, Maxine was honored for having the most years of service as a teacher.

Maxine's career began in a rural school in Oto, Iowa, where she said she did a little bit of everything, including teaching. "I'm remembered as much for what I've done outside the classroom as for what I did in it," she declared.

Maxine came to Kansas City with her husband and began working for the Kansas School for the Blind and the Visnally Handicapped. After their arrival, Maxine became acquainted with a neighbor who was connected with a softball team. Maxine's interest was piqued and she became a player on the team from 1949-1950. The next two years she played semipro ball for the Kansas City "Dons" as a pitcher and/or shortstop.

"We won two city championships, plus the Midwest Regional Championship," said Maxine. "In the final game of the Midwest Regional Championship, through the sixth inning neither team had scored. I led off the 7th inning with a single. Later in the inning, two other players were able to connect hits, enabling me to run home. As it turned out, I scored the winning run. At the end of the game the score was 1-0 in our favor. After winning the Midwest Regional Championship, we then qualified to go to the national tournament."

This page, above - Maxine King displays four of the five medals she won this year competing in the Kansas Senior Olympics. Opposite page, above - Maxine warms up for her discus throw.

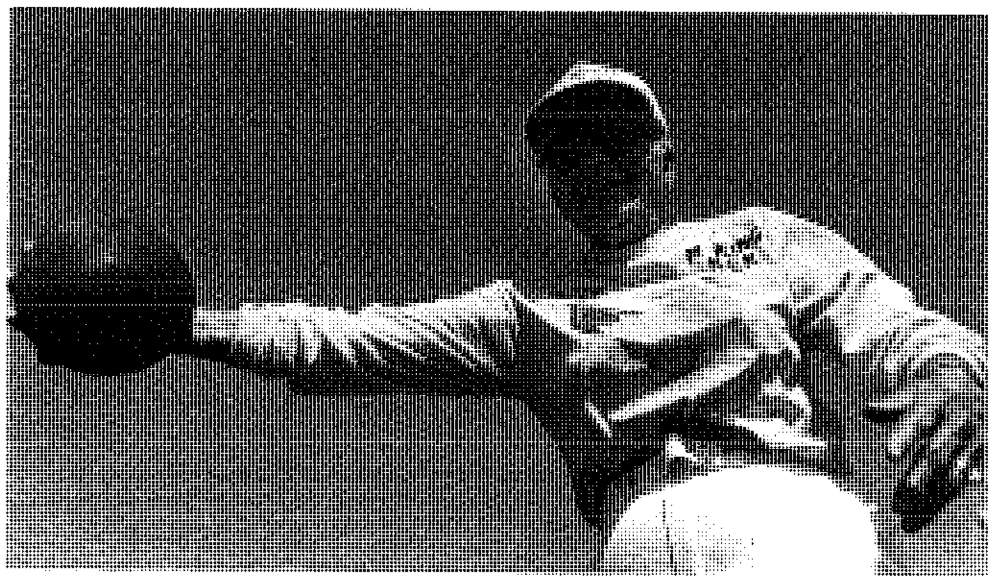
A different hurdle faced her at that point. "The school year had begnn," Maxine recalled. "My wonderful co-workers came to my rescue in that instance by offering to fill in for me so I could go to the National Tournament in San Antonio, Texas. Unfortunately, we did not win the tournament. It was insufferably hot - we played in 110 degree heat - but I was named to the All-Tournament team. During the tournament, I successfully handled 18 assists as a shortstop without ever making an error. That was quite an honor for me."

"My co-workers were marvelous to pitch in like that. My students were great, too. One of my proudest accomplishments was teaching my fifth and sixth graders at the School for the Blind and Visually Handicapped to square dance," she said. "I also chaperoned field trips, taught physical education to 3rd - 8th grades, was timekeeper for boys wrestling and sponsored the school's Campfire Unit. We hosted many a camp-out on our 20-acre spread. It was educational and fun."

She said some of her former students call her even today. She told about one, who phoned her recently after finding out an aging neighbor was losing sight and was naturally distraught. Combining their knowledge and experience, together Maxine and her former student counseled and comforted the neighbor during that difficult transition, while also teaching her skills to help her cope with the loss of her vision.

Before she retired, Maxine had also spent three years teaching at Basehor Elementary School and another 16 years teaching at Washington School. She earned a Master's degree in those years, plus an additional 45 hours beyond the Master's.

"My class at Basehor Elementary was fantastic," said Maxine, warmly. "There were 18 students in my class and they all went on to become successful, including one who is now a pediatrician and one who is a microbiologist. It's very satisfying to see your children turn out well."



Since 1974, Maxine has owned and operated her own lawn care business. "I started the lawn care business with a $2.20 ad in the Wyandotte County Shopper," she said. "My first customer was a lady who was over 80 and who needed someone to do that work since she no longer could."

"I have to take time off from my work in lawn care to compete in Senior Olympics," she grinned, "and it's worth it because I want to do some things I like while I can still enjoy doing them."

Maxine and a friend, Maxine Anderson from Leonardsville, went together to this year's National Senior Olympics in May. Anderson's husband stayed busy taking pictures of the women in their individual events, compiling keepsake photo albums for both of them.

"The National Senior Olympics had to be one of the most positive experiences I've had. The Kansas contingent all wore jade green shirts with the Senior Olympics logo, white shorts or slacks, and straw hats with sunflowers," she recalled, smiling brightly. "People were in such high spirits! I remember getting ready to compete early one morning, when another competitor rode up on her bike. She told us she had just completed a 15-mile bike ride and was on her way to another event. It wasn't yet 6 o'clock in the morning! My friends and I looked at each other and we all chuckled. Everyone was like that - up and at 'em, rarin' to go - the whole time we were there."

Maxine also said the Kansas contingent was honored at the National Senior Olympics, receiving the first-ever "Reach Award." The award honors the state that has had the highest percentage growth in number of participants. Through 1996, Kansas, since its first Senior Olympics in 1984, has experienced a 720% growth in participation.

"I expect the number of participants will only continue to increase as the years go by," Maxine predicted. For the fall Kansas Senior Olympics in October, a friend of Maxine's silkscreened a bright yellow t-shirt with her name, a sunflower, and her age group - "75 to 79" - across the front.

"That's on there because no one believes I'm old enough to be in that age group. When they start questioning me, I just whip out my driver's license to prove it," she said. "Then they go ahead and let me enter in my age group."

Although it is hard to believe, Maxine can be counted among the many KPERS retired members who strive to do everything they can, no matter what age their driver's licenses say they are.

FISCAL YEAR 1997 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 judgment, 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.

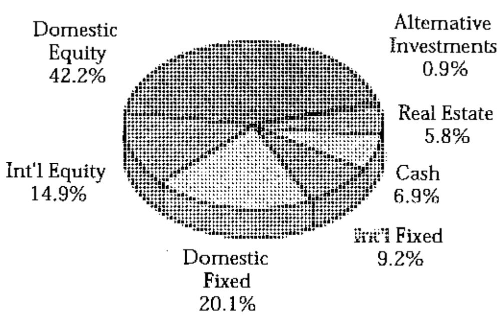
This discussion regarding the investments of the Retirement System describes the objectives, guidelines and general policy governing the System's investment activity. In addition, it provides the return results, by asset category and in total, for the fiscal year ended on June 30, 1997. This report is 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, 1997.

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.

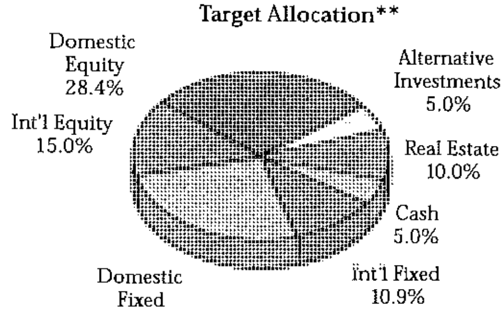
Chief Investment Officer's Review
- Rob Woodard

The investment portfolio of the Kansas Public Employees Retirement System represents all contributions to the plan, from both members and their employers, as well as all net earnings on these assets. These reserves are held in support of both current and future benefits. Total assets at the end of the year grew to nearly eight billion dollars. This money receives the benefit of a well diversified, carefully monitored investment portfolio that includes stocks, bonds, real estate, alternative investments and cash.

Current Allocation



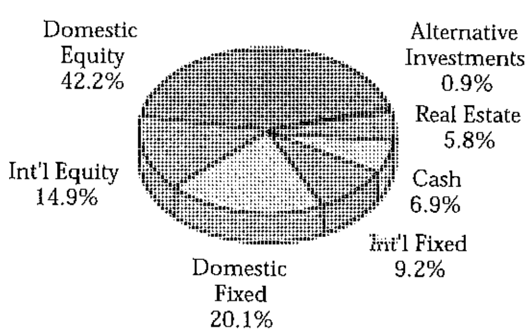
Target Allocation**



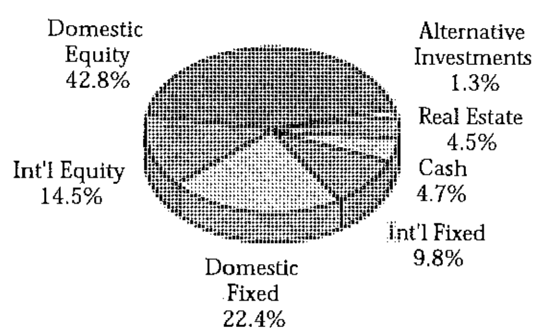
**As of January 1, 1994

Stock holdings are invested primarily in companies doing business in the United States, but also include an exposure to stocks of companies operating outside the U.S. By diversifying a portion of the total stock portfolio away from the U.S., we expect over time to realize additional returns while simultaneously reducing the risk of adverse total returns. Since global economies operate independently, an exposure to foreign markets provides a higher probability of realizing positive results, on average, without as much year to year variability as might exist in a U.S. only portfolio. The Board of Trustees have carefully selected several domestic and international managers to supervise a total of twelve portfolios that make up this portion of the portfolio. By utilizing several managers, the fund enjoys further diversification among manager styles and is less reliant on any one manager's performance.

June 30, 1997



June 30, 1996



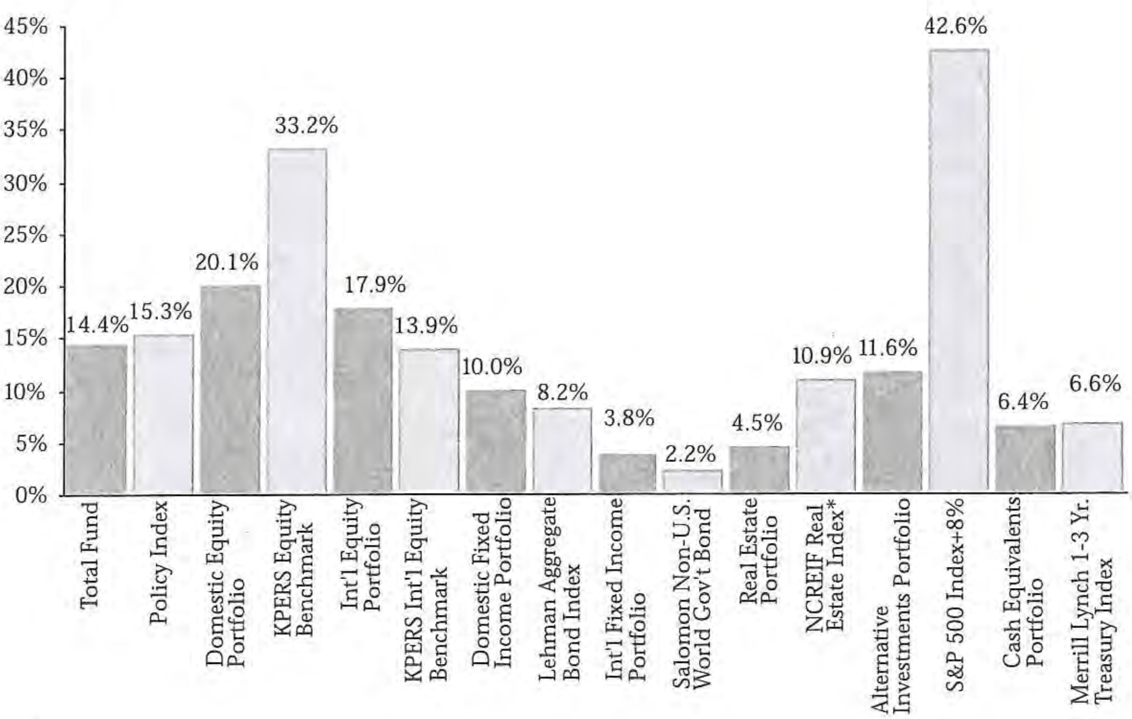
The bond holdings in the portfolio are similarly diversified, as are the managers. The Board has chosen five domestic and two international managers to supervise these pools.

Investments in real estate, alternative investments, and cash round out the total portfolio. Real estate and alternative investments provide return opportunities as well as diversification to the portfolio. This helps to further smooth the variability of the annual returns of the System. Cash is held primarily to facilitate the settlement of purchases and sales of securities within the portfolio and also provides for the operational needs of the System.

Thanks largely to the strong returns posted in the domestic and international stock markets the total portfolio returned 14.4%, growing nearly one billion dollars, net of fees, for the year. While an extraordinary number, it is important to consider this return within the context of what the markets did generally. To do so, we create an index of the various components of the portfolio that represents what the average returns should have been, given our exposures. We regret to report that the total portfolio trailed, by a significant margin, the expected returns had we been invested in the averages or the indexes of the various asset classes.

Asset Class, Relative Return Comparison

For The Fiscal Year Ending June 30, 1997



*One quarter in arrears.

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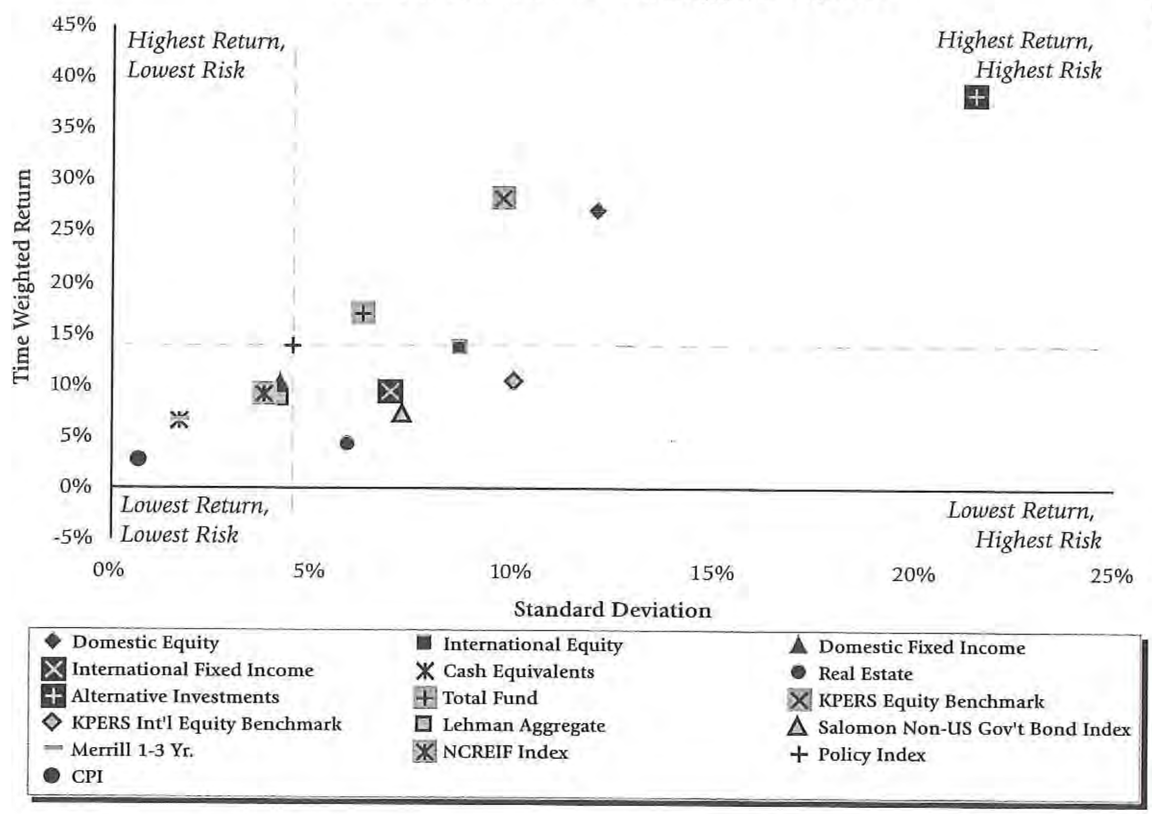
The largest part of this under performance can be traced to our domestic equity managers who trailed the broad market almost the entire year. This is in contrast to fiscal year 1996, when the System's equity portfolio managers outperformed their benchmarks by an equally significant margin, and the System subsequently outperformed the policy index. While we fully expect our managers to outperform the averages, we recognize that this outperformance will move in cycles. We are cognizant of the need to balance our expectations with a reasonable amount of patience, and will continue to monitor these efforts carefully in fiscal year 1998.

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.

Asset Class, Risk Adjusted Returns
For The Latest 3 Years Ending June 30, 1997



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In the chart titled "Asset Class, Risk Adjusted Returns," 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, 1997. 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.

The Retirement System employs a staff of eight professionals to provide oversight and management of the System's assets and the System's external asset managers. Within the oversight of the Chief Investment Officer, responsibility for the portfolio is allocated by asset class. The Assistant Investment Officer is assigned to publicly traded securities, the Real Estate Investment Officer to real estate and the Alternative Investment Analyst is in charge of alternative investments. These individual's comments on their respective areas of focus follow. In keeping with our mandate to prudently manage the assets of the System solely for the benefit of the participants, we will continue to seek out opportunities to deliver consistent risk adjusted returns and to contain overhead. Although we do not expect the extraordinary returns we've recently experienced to continue indefinitely, we do anticipate a continuation of the growth in the size and health of the System through investments in the capital markets.

Publicly Traded Securities
- Scott Peppard, Assistant Investment Officer

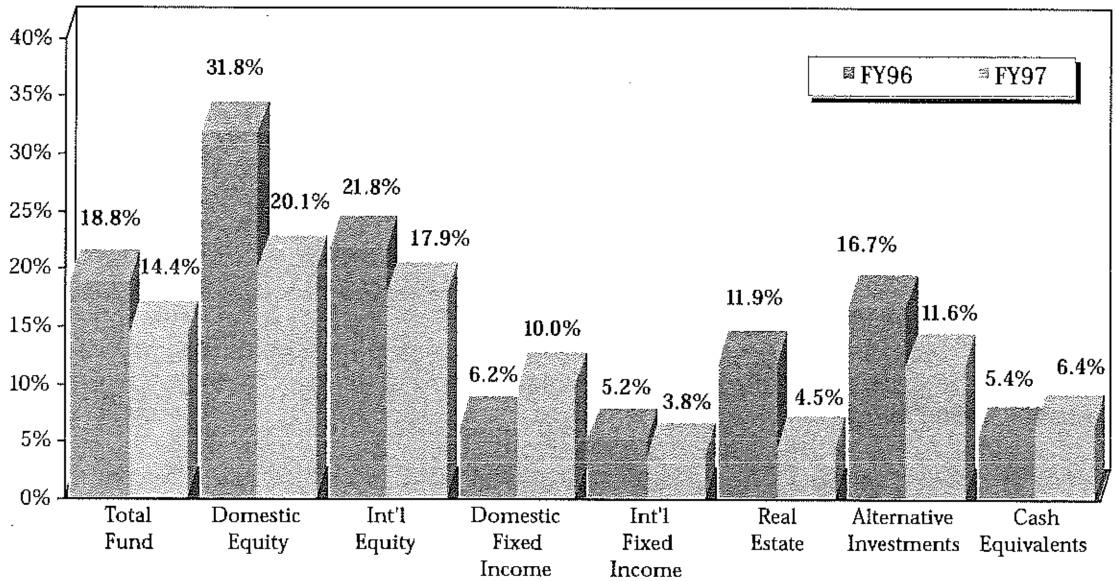
Domestic Equities

The U.S. equity markets, as measured by the Standard and Poor's 500 (S&P 500) Index, logged another year of extraordinary returns. In fact, the performance of the most recent fiscal year was the strongest of the last decade. The stock of larger companies, which the S&P 500 Index measures, performed the best overall at 34.6%, followed by the shares of medium sized companies at 23.3% and small companies at 16.3%.

The System has exposure to the stocks of large, medium, and small sized companies. This is accomplished through five investment advisors who manage seven portfolios for the System. The domestic equity assets are allocated in a complementary fashion in order to gain broad diversification to various investment styles. Overall, the System's domestic equity portfolio returned 20.1%, which under performed the System's benchmark, of the S&P 500 Index adjusted for statutorily restricted investments, which returned 33.2%. The under performance can be attributed to two areas, manager under performance relative to their benchmark and an allocation to medium and smaller sized companies not included in the index.

Return Comparison by Asset Class

For The Fiscal Years Ending June 30, 1996 and June 30, 1997



International Equities

Overall, the international equity markets had a good year. The return for the Europe Australia and Far East (EAFE) Index, adjusted for statutorily restricted investments, was 13.9%. European markets performed much better than those of Japan as the Japanese continue their struggle to mount an economic recovery.

The System employs six investment advisors to manage five international portfolios. For the year the total international equity portfolio returned a very favorable 17.9%, relative to the benchmark return of 13.9%. With one exception, all of the advisors posted returns that were favorable relative to their respective benchmarks. In addition, the System's currency overlay manager was able to add value through the active management of the currency exposure in the passive index portfolio.

Domestic Fixed Income

Interest rates moved within a relatively narrow range throughout the fiscal year. Longer term rates declined to below 6.5% in the fall and then changed course and rose to just over 7.25% by mid April. The rate on the 30 year Treasury ended the fiscal year at 6.8%, down slightly for the year. A decline in interest rates increases the value of the bonds held by the System. Our total return is thus a combination of this price appreciation plus interest received.

The System's four domestic bond managers each outperformed their benchmark for the year. The overall domestic fixed income portfolio produced a return of 10.0% which is very positive when compared to the Lehman Aggregate Bond Index which returned 8.2%. The System's exposure to the high yield bond market contributed to the out performance by turning in a return of 14.1%. High yield bonds tend to perform well during periods of economic strength, such as the environment experienced during the 1997 fiscal year.

International Fixed Income

During the latest fiscal year international bond markets were a difficult place to make money from the standpoint of a U.S. investor. For the year, interest rates declined in the world's major bond markets, which resulted in positive price appreciation. However, the U.S. dollar strengthened significantly against most of the world's major currencies. A strong U.S. dollar detracts from the return of a U.S. based investor because the international securities are denominated in a currency that weakened. This combination of events produced a 2.2% total return for the Salomon Non-U.S. Government Bond Index.

The two investment advisors that manage international fixed income securities for the System combined to produce a 3.8% return for the year. This compares favorably to the 2.2% return of the benchmark. The out performance can be attributed to favorable country selection and currency management.

Investment Performance Report

For the Period Ending June 30, 1997

Time-Weighted Return	Last Year	Latest 3 Years	Latest 5 Years
Total Portfolio	14.4%	16.9%	13.4%
Domestic Equity Portfolio	20.1%	26.9%	19.1%
Int'l Equity Portfolio	17.9%	13.6%	12.9%
Domestic Fixed Portfolio	10.0%	10.1%	9.0%
Int'l Fixed Portfolio	3.8%	9.5%	9.3%
Real Estate Portfolio	4.5%	4.1%	3.9%
Alternative Investment Portfolio	11.6%	38.5%	28.9%
Cash Equivalents Portfolio	6.4%	6.5%	5.8%

Real Estate
- Robert Schau, Real Estate Investment Officer

Within the System's investment portfolio we have a 10% target allocation to real estate. Due to the unique nature of real estate, and the real estate market, we believe that its addition as an asset class provides a positive diversification impact, as well as providing a reasonably steady source of returns. To facilitate our plans to invest in real estate, we are requesting the State legislature to change existing restrictions on the types of real estate investments the System is allowed to make. Pending the outcome of this effort, we will develop the balance of our strategic plan to invest up to our target of 10%.

We began implementing a portion of the strategic plan with the acquisition of an index-based portfolio of Real Estate Investment Trusts or REITS. REITS are publicly traded trusts whose investments are in various types of real estate. We believe the addition of the REIT portfolio will compliment existing and future real estate investments by contributing liquidity, control, and a stable source of dividend income.

Over the course of the year, several properties that did not meet the System's present investment standards were sold or offered for sale. While challenges continue, the majority of the investments are performing well and are projected to continue improving in quality and potential.

For the fiscal year ended June 30, 1997, the portfolio generated a total return (defined as appreciation plus current income) of 4.5%. This under performed the comparative NCREIF index (provided by the National Council of Real Estate Investment Fiduciaries) return of 10.9% by 6.4%. The primary cause of this under performance was a material write-down of the System's only regional mall. Current income on the portfolio was a solid 8.4%. Over the past five years, the portfolio has generated a return of 3.9% compared to the index return of 5.0%, and has demonstrated the second-lowest risk profile, in terms of variability of returns, relative to other asset classes.

Alternative Investments
- Janet Kruzel, Alternative Investment Analyst

Alternative investments are traditionally those investments that do not trade publicly on an organized exchange. They may include private equity, venture capital, leveraged buyout funds, mezzanine financing, distressed debt and natural resources, like timberland or oil and gas. These investments are typically made in some pooled format, usually a limited partnership or limited liability corporation.

Due to their volatile returns and illiquid nature, alternative investments are appropriate for only a small portion of the System's assets. Kansas Statutes limit our investments in alternatives to 5% of the total fund. While arguably more risky as stand alone investments, when a small part of a larger portfolio alternative investments provide an opportunity to earn higher levels of return while diversifying total portfolio risk. This risk reduction is a function of the historically low correlation of returns with the System's other asset classes. Thus, the volatility of returns associated with the higher expected returns is dampened by this lack of correlation.

Plans were completed this year to resume making alternative investments, with an eye toward reaching the target asset allocation of 5%. Due to the unique and illiquid nature of these investments, expanded policies and guidelines have been developed to ensure that statutory restrictions are satisfied and that special attention is paid to the disciplined monitoring and oversight necessary to produce expected portfolio benefits. The few remaining alternative investments made prior to this new program continue to be liquidated in an orderly fashion.

The Board of Trustees selected a professional analyst, or gatekeeper, to contribute to the development of our long term strategy, to add consistent professional oversight to the selection process and to assist with the thorough due diligence performed prior to any investment. Appropriate investments are being identified and return expectations determined for each, including the timing of gradually assembling additional holdings. Our focus includes fund manager selection and diversification in the portfolio composition. The first investments of the new program will be made in fiscal year 1998.

For fiscal year 1997, the alternative investment portfolio returned 11.6%. Since there is no obvious benchmark to compare to these investments, we use the domestic equity market (S&P 500) plus 8%, to gauge our relative performance. Although the extraordinary returns in domestic equity make this comparison particularly difficult, we are pleased with the absolute returns achieved within this category.

List of Largest Holdings (a)
as of June 30, 1997

EQUITIES

Shares	Security	Market Value ($)
640,304	Microsoft Corporation	$80,918,418
433,794	Pfizer Inc	51,838,383
491,519	Merck & Co. Inc.	50,288,783
720,754	General Electric	46,849,010
1,020,007	Philip Morris Co. Inc.	45,135,310
663,000	Exxon	40,608,750
353,352	Eli Lilly & Co.	38,625,967
854,655	Federal Natl Mtg Assoc	37,284,324
470,845	Xerox Corp.	37,137,899
498,770	Coca Cola	33,916,360

BONDS

Par Value(b)	Security	Description		Market Value ($)
60,000,000	U.S. Treasury Notes	5.875%	01/31/1999	$59,878,200
45,000,000	Commit to Purchase FHLMC	6.500%	08/15/2027	43,101,450
68,590,000	Germany Fed Republic	5.875%	05/15/2000	41,413,572
24,225,000	United Kingdom Treasury Stk	7.500%	12/07/2006	41,380,978
40,000,000	U.S. Treasury Notes	6.375%	04/30/1999	40,212,400
40,000,000	U.S. Treasury Notes	6.125%	03/31/1998	40,124,800
40,000,000	U.S. Treasury Notes	6.000%	08/15/1999	39,900,000
67,420,000	Germany Fed Republic	Var. Rate	04/06/2000	38,534,550
30,000,000	U.S. Treasury Notes	6.250%	06/30/1998	30,131,100
49,310,000,000	Italy (Republic of) Bonds	10.500%	07/15/1998	30,097,809

(a) Does not include holdings of commingled funds.
(b) In Local Currency

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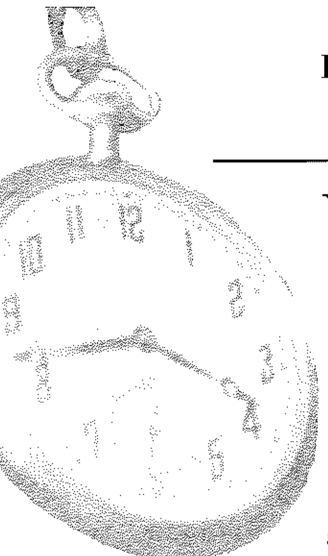
Broker Commissions Paid - Domestic
For the Fiscal Year Ending June 30, 1997

Broker Name		Commissions Paid
Legg Mason Wood Walker Inc	$	248,220
Capital Institutional Investors		194,466
Instinet Corporation		177,126
Investment Technology Groups		168,276
Lynch Jones & Ryan		156,338
Lehman Brothers Inc		120,095
Frank Russell Securities Inc		103,588
Salomon Brothers Inc		86,571
Morgan Stanley & Co Inc		75,059
Goldman Sachs & Co		71,198
Merrill Lynch Fenner Smith Inc		65,083
Sanford C Bernstein & Co		57,031
Alex Brown & Sons Inc		55,631
Donaldson Lufkin & Jenrette		55,398
Neuberger & Berman		51,393
Bear Stearns & Co Inc		43,592
First Boston Corp		39,860
Paine Webber Inc		34,366
Jefferies & Co Inc		33,362
J P Morgan Securities Inc		32,771
Other		422,074
Total Broker Commissions	$	2,291,498



Life has been about trying to change things for the better for retired Fire Chief Joe Douglas

With a strong, intelligent man for a father, who was also a "tremendous role model," it is little wonder that retired Fire Chief Joe Douglas spent his adult life in public and community service, or that helping youth is one of his special interests. What is remarkable is that obstacles on his path to adulthood looked like obstacles only to others, never to Douglas himself. He learned early how to rise above any obstacles in his path rather than succumb to them.

To hear only the easy laugh or to see only the bright smile he shares with friends and acquaintances is to miss completely this thoughtful man's strongly held convictions, which were forged long ago under the iron hammer of racial prejudices personally experienced, on the unforgiving anvil of the strictly segregated society in which he grew up. He reflected on a boyhood spent amid marked contrasts. On the one hand, he lived with his family in a neighborhood filled with both black and white families. Yet, he wasn't allowed to attend school with white children until be was in junior high.

"In kindergarten my father walked me to the bus stop one morning, which was away from the white kids. We had to walk several blocks further across a viaduct to catch the bus, which would then return over that same viaduct and pass a white school, that we could not attend, on the way to our school, which was Monroe Elementary. My father had not realized this before, but when he did, he was so upset - for me," said Joe. "He rode the bus with me that morning to school, where he insisted this travesty end. As a result, the practice was stopped and we began catching the bus directly across from the white school. This saved us many unneccessary steps. My father raised me to think of myself as being as good as anyone else. Not better than anyone else, but just as good as anyone else. I always looked up to my father and found reinforcement for my own self-esteem while growing up. Although my father is now deceased, his influence in my life is still strong. I often find myself thinking 'what would my father want me to do?' That's something I like very much."

Joe said his father was particularly important to him because his mother died when he was just five years old. He said, "When my mother died, my father couldn't take care of all three of us children alone. Until they became school aged, my three-year-old brother lived with my aunt in Hutchinson, and my six-month-old sister lived with my aunt and grandmother in California."

Reaching high school, however, proved to be the nadir for Joe. An excellent athlete, well-known for his adult accomplishments in fast-pitch softball, Joe is also an avid golfer. In high school, though, as a black student he found himself excluded, by school policy, from many of the sports he loved.

"It was depressing," he recalled, "because the segregation in high school was even worse than what I had experienced in earlier school years. At Topeka High (which was the only public high school then), we couldn't play football, or tennis. Wrestling was my best sport, but body contact sports were not allowed between black and white students. Topeka High even had two basketball teams - one for the white students and one for the black students. There is also a swimming pool at Topeka High, but I never saw that pool until years later when I was serving on the Board of Education and we were taken on a tour of the school."

Athletic pursuits continue to capture the interest of Joe Douglas, retired Fire Chief for the City of Topeka, shown here sizing up a putt on the golf course.

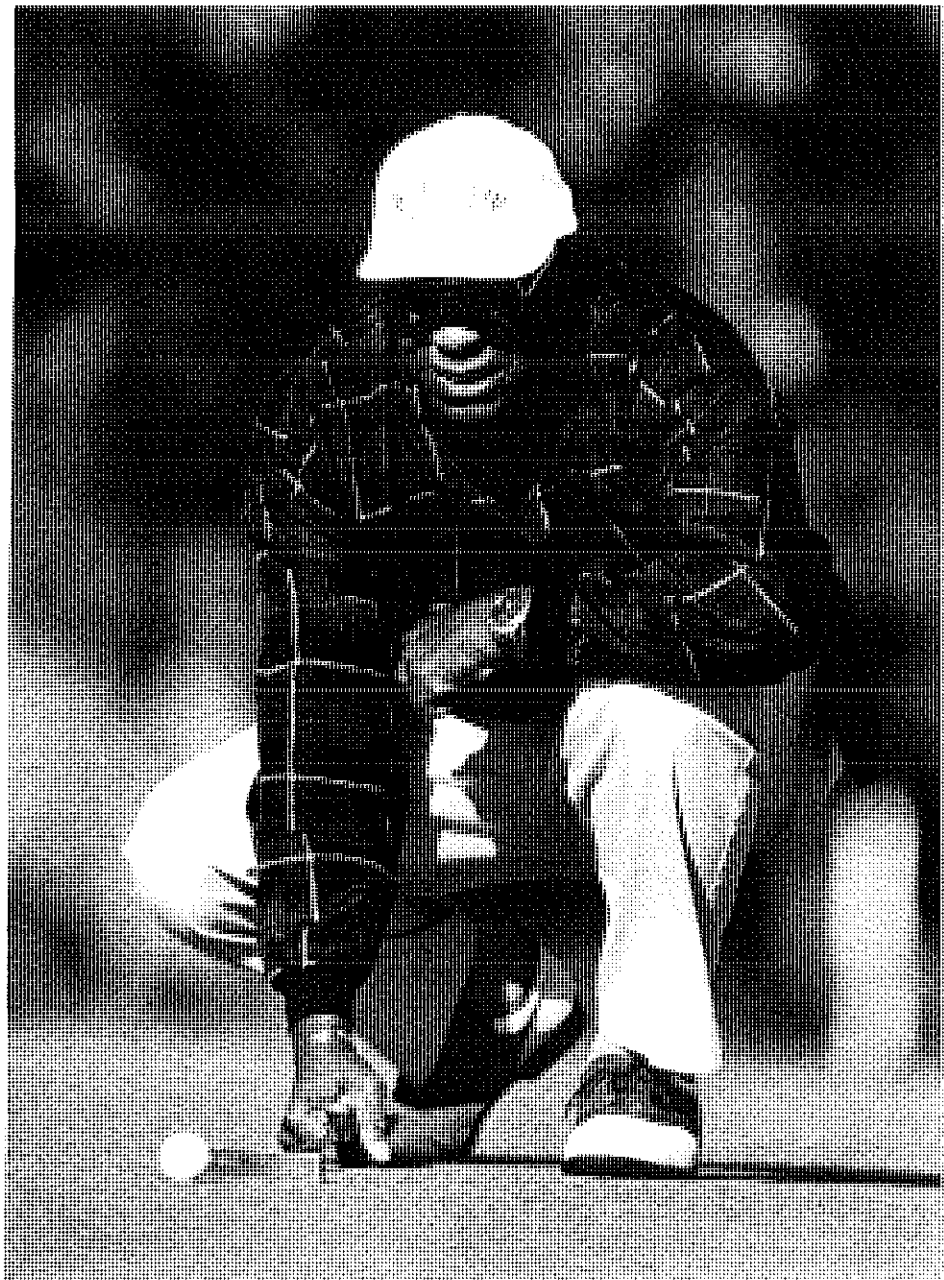
"Some of the black students began to organize rather loosely against the segregated policies of the school," he continued. "We started to ask questions about the inequities we saw. One day all the black students were called to the auditorium. On the stage was the superintendent of colored schools, who admonished us for not appreciating everything we had, and told us we should stop asking questions about what we saw as unfair. It was crushing. Then I began to realize I was probably not going to get an equal educational opportunity in school at all. I let a white friend of mine copy my answers on a math test. When the test was returned to us, I got a C, but he got a B. We took the same test and we turned in the same answers, but he was graded higher."

"I decided then and there to quit high school. Three other black friends quit at the same time I did. We joined the army," Joe said. "My father didn't really want me to go, but he understood why it was best for me. In October of 1946, I entered the military - which was also totally segregated at the time. I completed my GED while serving at Fort Sam Houston in San Antonio, Texas, testing high enough to enter Washburn University as a sophomore upon my honorable discharge from military service."

Joe began working in 1950 for the Topeka Fire Department, another organization totally segregated at the time. He spent the next 40 years in public service, ultimately rising to the position of Fire Chief for the City of Topeka. He attributes his success there to several important things.

"I had had some administrative training, but I also developed a good understanding of people, undergirded by my Christian background," he explained. "One of my abiding interests is in what I call 'the human ecology.' I learned how to communicate with people and just how difficult that can be. I learned some of it working at Menninger's as a psychiatric aide in the early 1950s. It was a great experience working with some of the best doctors in the world. The doctors valued what I observed in the patients and reported to them."

"Although I personally suffered mistreatment growing up in a segregated society," Douglas went on, "I was determined to leave that behind, to rise above it, and to work with whatever opportunity I had before me. I have always sought to leave things a little better than the way I found them, because I know how hard it is and how long it takes to change things. One of the most important things to me is to keep trying to make positive changes, to keep trying to make things better."



He smiled as he said, "When I became Fire Chief, there were those who said they wouldn't work for me because I was black. But, not one person actually quit. One thing I'm most proud of is that while I was Fire Chief, the department changed its hiring practices to increase minority hiring. This had not been a departmental objective for at least 15 years previonsly, and it included a directive to begin hiring women, which had not been done before. The lack of such a policy has resulted in a serious seniority gap of blacks and other minorities, which will be a severe problem for years to come.

"However," Douglas noted, "these policy changes could never have come to fruition had it not been for the strong support afforded me in this area by former mayor Douglas Wright, who appointed me as the first black to serve in the position of Fire Chief for the City of Topeka.

"As we began to change the department's hiring policies," he continued, "some firefighters also said they wouldn't work with women, bnt that didn't stop us from changing the policy. The exclusion of women from fire service was so similar to the exclusion I had experienced growing up, it was an issue I just conldn't overlook. In the end, none of the firefighters qnit when we began hiring women, either."

Douglas's willingness to extend a hand to women in partnership professionally may well stem from the supportive partnership he enjoys with his wife, Nathalia. They have been married nearly 48 years. He credits her for much of his development into a confident, capable man who has been able to meet the complex challenges of life. "I would be much less a man," he remarked, "had I not met and married this wonderfully loving and supportive woman who is everything to me."

Following his retirement in December of 1989, Douglas has continued helping others, particularly young people, an interest that stems directly from the family he and Nathalia have raised together. Joe readily shared the importance of family in his own life. The couple have a daughter, Shelley Wilder. Their infant son, Trevor, died only a few days after birth. They also stepped in to help raise children from other families who were neglected or abandoned. Today, the Douglases enjoy the accomplishments of their granddaughter who attends law school at Louisiana State University and of their grandson who is a senior at Highland Park High School. He beamed when speaking of the love that bonds his family together. A brand-new great-grandfather himself, Joe said he wants to pass his legacy on to future youths.

"To paraphrase an old Boy's Club slogan, 'They're the only next generation we've got,'" he declared. "It's vital that we make a better world for them. I truly believe that, fundamentally, they are precisely why we are here."

MILLIMAN & ROBERTSON, INC.
Actuaries & Consultants

Internationally WOODROW MILLIMAN

Suite 1000, 8000 Towers Crescent Drive, Vienna, VA 22182-2700
Telephone: 703/917-0143
Fax: 703/827-9266

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YEARS OF EXCELLENCE

September 10, 1997

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 Systems as of June 30, 1997. 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

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SECTION I
BOARD SUMMARY

Overview

This report presents the results of the June 30, 1997 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, 1997, 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, 1997. The actuarial assumptions and benefit provisions were unchanged from the 1996 valuation. The results reflect favorable experience over the past plan year. The unfunded actuarial liability decreased by $69 million, largely due to an investment return on the actuarial value of assets well in excess of the 8% assumed. Even though the normal cost rate increased for the State/School and Local groups, theres was still a decrease 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 1.08% and 0.93%, 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 (1996), 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:

1997 Valuation

System	Actuarial	Recommended	Difference
State / School	5.27%	4.19% 1/	1.08%
Local	3.86	2.93 1/	0.93
TIAA	1.59	1.59	0.00
Police & Fire - Uniform Rate 2/	7.36	7.36	0.00
Judges	14.38	14.38	0.00
Weighted Average	4.83	3.94	0.89

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	5.03	3.93	1.10

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. It does not include the payment required to amortize the unfunded past service liability determined separately for each employer.

Contribution rates for Correctional Employees are:

Retirement Age 60	5.82%
Retirement Age 55	6.28%

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 $69 million in the unfunded actuarial liability from the 1996 to the 1997 valuation. Under current projections, the System's funding objective are expected to be achieved.

Experience - All Systems Combined
July 1, 1996 - June 30, 1997

Several factors contributed to the change in the Systems' assets, liabilities, and recommended contribution rates between June 30, 1996 and June 30, 1997. On the following pages each component is examined.

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Assets

As of June 30, 1997, the System had total funds of $7.77 billion, when measured on a market value basis, including assets held for the Group Insurance and Optional Life reserves. This was an increase of $980 million from the 1996 figure of $6.94 billion. The components of this change (in millions) are set forth below:

	Market Value
Assets, June 30, 1996	$ 6,942
• Employer and Member Contributions	+ 327
• Benefit Payments	- 469
• Net Investment Income (Expected)	+ 550
• Net Investment Gain/(Loss)	+ 420
Assets, June 30, 1997	$ 7,770

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 14.1%. 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, 1996 and June 30, 1997 the change in the unfunded actuarial liabilities for the System was as follows (in millions):

Unfunded Actuarial Liability, June 30, 1996	$ 1,444
• investment gain	(323)
• change in actuarial assumptions	0
• liability loss from actual experience	157
• effect of contribution cap/time lag	63
• expected increase due to amortization method	35
Unfunded Actuarial Liability, June 30, 1997	$ 1,376

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) decreased by .20% of pay, to 4.83% on June 30, 1997, from 5.03% on June 30, 1996. The primary components of this change are as follows:

Actuarial Contribution Rate, June 30, 1996	5.03%
• investment gain	(0.39)
• change in actuarial assumptions/procedures	0.00
• liability loss from actual experience and demographic changes	0.11
• effect of contribution cap/time lag	0.08
• amortization method	0.00
Actuarial Contribution Rate, June 30, 1997	4.83%

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. 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:

AGE	Assumed Retirement Rates 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)

KP&F

- 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.

JUDGES

- Age 65

7. Rates of Disability at Selected Ages (members who become disabled 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%

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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 actnarial 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 per-cent (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.

1997 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

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
Summary of Provisions

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 refuud 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

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
Summary of Provisions

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

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
Summary of Provisions

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

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
Summary of Provisions

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%

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
Summary of Provisions

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 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. **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

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
Summary of Provisions

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. Uuder 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)
06/30/97	$ 2,337,511,704	$ 3,232,733,926	$ 2,681,740,618	$ 6,875,918,348	100 %	100 %	49 %
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

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
6/30/97	136,241	1.3 %	1,371	2.0 %	$ 3,590	$ 26,350	2.3 %
6/30/96	134,470	2.4	1,344	2.7	3,464	25,760	2.2
6/30/95	131,270	6.6	1,309	1.7	3,309	25,208	1.2
6/30/94	123,178	3.4	1,287	1.2	3,068	24,907	4.6
6/30/93	119,074	2.6	1,272	2.0	2,835	23,809	2.4
6/30/92	116,077	1.4	1,247	2.0	2,700	23,260	4.0
6/30/91	114,460	2.4	1,223	2.9	2,560	22,366	4.3
1/01/90	111,818	3.0	1,188	3.3	2,397	21,437	4.5
1/01/89	108,528	10.7	1,150	2.1	2,226	20,511	-8.6
1/01/88	98,032	1.5	1,126	1.3	2,199	22,431	3.0

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 Seven Fiscal Years (1)

KPERS STATE/SCHOOL

Fiscal Years	Actuarial Determined Rate	Actual Rate
1991	3.20 %	3.20 %
1992	3.30	3.30
1993	3.30	3.30
1994	3.10	3.10
1995	3.10	3.20
1996	4.11	3.30
1997	5.17	3.59

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
1997	3.73	2.63

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
1997	1.89	1.89

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
1997	9.73	9.73

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
1997	16.00	16.00

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 year.

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

		Additions		Deletions		
Fiscal Year Ended June 30	Number at Beginning of Year	Number Added	Annual Allowances	Number Removed	Annual Allowances (1)	Number at End of Year
1988	34,819	2,640	$ 17,589,322	1,288	$ 2,998,859	36,171
1989	36,171	2,323	16,483,070	1,244	3,011,565	37,250
1990	37,250	2,262	16,291,650	1,269	3,451,066	38,243
1991	38,243	2,431	17,912,703	1,412	3,996,293	39,262
1992	39,262	2,476	20,430,611	1,383	4,268,325	40,355
1993	40,355	2,492	22,391,028	1,459	4,632,807	41,388
1994	41,388	3,576	41,949,288	1,593	6,120,175	43,371
1995	43,371	3,463	41,898,882	1,530	6,690,418	45,304
1996	45,304	3,119	37,681,571	1,677	7,233,445	46,746
1997	46,746	3,456	42,581,075	1,643	7,829,006	48,559

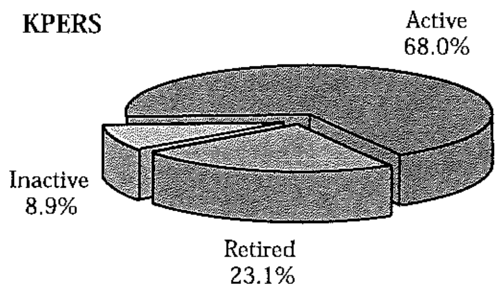
Membership Profile
Last Ten Fiscal Years (1)

Fiscal Year	Active	Inactive	Retirees & Beneficiaries	Total Membership
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
1997	141,127	17,973	48,559	207,659

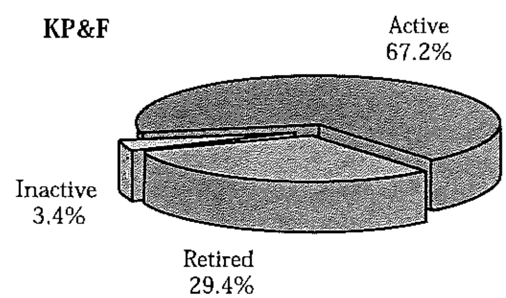
1) Membership information shown on schedule reflects June 30 data.

Membership Profile by System

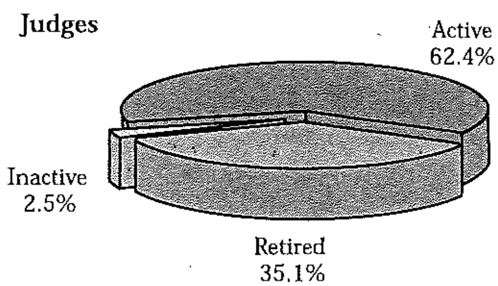
KPERS



KP&F



Judges



Myrtle L. Bivin, System's eldest member in Kansas, reflects easily on more than 100 years of memories

"1876. That was the year my parents came to Kansas from Iowa, with a team of horses pulling a covered wagon," Myrtle L. Bivin, Concordia resident, reminisced recently. Her father emigrated from Sweden to the United States. In Iowa, he met and married her mother.

"Kansas is just 30 years older than I am," she went on. "I was born January 29, 1891. Benjamin Harrison was the President of the United States when I was born. I will be 107 years old on Kansas Day in 1998 - if I live that long."

Mrs. Bivin smiled then, somewhat mischievously. She was just teasing when she said if she lives that long, of course. Appearing much younger than her 106 years, she looked wonderful in her lovely dress set off by a long gold necklace, her white hair softly curling around her face, making her bright blue eyes sparkle.

She sat comfortably ensconced in a wheelchair, which she has used since she broke her hip, asking to have only a word or phrase repeated from time to time. She cheerfully adjusted her hearing aids, so background noises wouldn't bother her while she discussed her long life with visitors. She freely shared information about everyone pictured in a large photo album that was lying open across her lap. In the album were photographs of her great nieces and great nephews, along with their grandchildren.

They are scattered all over the country and only one nephew remains in Kansas. Her nephew, 90-year-old Manuel Gomer, sat beside her and reminded her of a story or two as she talked. He drives himself 18 miles to Concordia from Belleville to visit his Aunt Myrtle at least once a week, at the Sunset Home retirement community where she has lived the past 11 years.

"I used to live with my other nephew, Otto," said Myrtle. "When he died 11 years ago, I moved here." She turned to look at a painting on the wall of her room.

"That's a picture of Otto," she said. In the picture, Otto sat on the buckboard of a long green wagon, holding the reins of a team of beautiful, cream-colored draft horses hitched to the front. "Otto loved the horses he raised on his farm," she said, affectionately. "Those two horses in the picture and several others he owned were direct descendants of the horses my parents brought with when they came to Kansas in 1876."

Manuel agreed, adding, "That's right. Otto took such good care of them. One look at the picture and anyone can see they never missed a meal. He was so proud of his horses."

Myrtle easily recalled and recounted more of her story. "When we got our first telephone, that was a big deal!" she exclaimed. "It was a wall phone with a hand crank you had to wind. There weren't any telephone poles in those days - telephone lines ran along fence posts. When my sister and I discovered we had a party line, we would get on and listen to people talking. Boy, when our Dad found out, he put a stop to that - quick! He made us realize we were intruding on others and we ended up feeling so bad about what we had done."

Myrtle said her father learned to speak and to read English, but never learned to write English. She recalled that her mother would write letters in English that he dictated. He would write letters himself in Swedish to his two sisters and his brother who remained in Europe. When his mother came from Sweden to live with them in Kansas until her death at 90 years of age, Myrtle said her father would speak Swedish with her grandmother, but none of the children could understand it. Although they heard Swedish spoken at home, they learned only English in school.

"That's what our parents wanted," Myrtle said, matter-of-factly. "Everyone who came to America wanted their children to speak and write English. So we never learned Swedish, because it was discouraged at that time. Later in life, I began to regret that was the way things were. I would have liked to learn my father's native language."

"Life was different then in other ways, too. We never had store-bought toys. Our papa made our toys for us," said Myrtle. "We were given a toy only on Christmas or birthdays. Now children have so many toys they don't know which one to play with. I think things were a lot simpler when I was a child."

In 1908, at the age of 17, Myrtle became a teacher. She taught in the area's rural schools for 12 terms. "There were only one-room schools in the country," she said. "I had from as few as 10 pupils my first year, to as many as 30 students my last year. Every year, though, I had all eight grades."

"One of the best things about teaching all eight grades in one room was that the little ones learned a lot about how to act in class from the older pupils. It gave the older ones the chance to be responsible for and to look after the smaller ones, too," she continued. "I had a recitation bench where they would do their lessons out loud. I would always call the little ones up first. Then they could learn even more by listening to the lessons the older pupils would recite. I never had to punish my students, I just made them stay in from recess or do extra work if they got into trouble. I remember really enjoying teaching."

Just 30 years younger than the State of Kansas, Myrtle L. Bivin of Concordia, who is 106 years old, is proud she was born on Kansas Day - January 29, 1891. Mrs. Bivin is the Retirement System's oldest retired member living in Kansas.

Myrtle said when she started teaching at 17, she earned $40 a month. When she quit teaching in 1921, she was earning $100 a month. Although she earned a living and supported herself, Myrtle said she never voted until 1920. She couldn't vote before, because until 1920, women didn't have the right to vote.

"I voted first for William Jennings Bryan. He lost," she said. "I had a bet with a boy from school about who would win. If he won, which he did, I had to give him a slate pencil. He came to get it from me the day after the election. For years afterwards, when I saw him on the street, he would remind me of that bet."

Myrtle and Manuel remember when airplanes and automobiles were first introduced to the country. "I remember Charles Lindbergh's historic flights," said Myrtle. Manuel recalled his utter astonishment when he first saw a "flying machine." He remarked, with wonder still, "I was just amazed at the way they could stay up in the air."

"The first car I ever rode in was a white Stanley Steamer that belonged to my Uncle," recalled Myrtle. The first car Manuel ever owned was a Ford Model T, while the first car Myrtle owned was an Allen. But, she said, "Not many of them were ever manufactured."

After teaching, Myrtle went on to work as the Cloud County clerk for 18 years, from 1923-1941. During that time, she met and married her husband, Warren Bivin. Warren had a son, Dale Bivin, who became Myrtle's stepson when she married. They never had children of their own.

In recent years, Myrtle has found herself surrounded again by children on many occasions. A year ago when she was just 105 years old, 150 first- and second-graders came to visit her.

"They asked the best questions," Myrtle chuckled. "I showed them an antique flat iron and told them how we had to heat them up on the stove to iron our clothes."

She has received other recognitions, too. Right after she turned 105, she was named an honorary member of the Kansas Centenarian Society by the Kansas Department on Aging. And, in her photo album, is a letter from the White House, dated February 1, 1996. It reads, in part: "Hillary and I wish to congratulate you on the occasion of your 105 birthday ... Very truly yours, Bill Clinton, President of the United States."

Myrtle waved her hand nonchalantly. "Oh, I have letters from all the presidents - Bush, Reagan, Carter," she said brightly, "and Bob Dole has written to me, too."

Wrapping up her interview succinctly, Mrs. Myrtle Bivin, the Retirement System's oldest living member in Kansas, attributed her secret for a long life simply to "good genes, good living, and caring for other people."

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Highlights of Operations - 10 Year Summary

	1997	1996	1995	1994
Membership Composition				
Number of Retirants	48,559	46,746	45,304	43,371
New Retirants During the Year	3,456	3,119	3,463	3,576
Active and Inactive Members	159,100	155,822	150,072	144,535
Participating Employers	1,371	1,344	1,309	1,287
Financial Results (Millions)				
Member Contributions	$ 171	$ 173	$ 159	$ 149
Employer Contributions	156	143	130	118
Retirement / Death Benefits	397	364	334	292
Investment Income (a)	974	1,095	906	115
Employer Contribution Rate				
KPERS--State / School	3.59 %	3.30 %	3.20 %	3.10 %
KPERS--Local (b) (c)	2.63	2.48	2.30	2.20
KP&F (Uniform Participating) (b)	9.73	9.65	6.95	6.80
Judges	16.00	10.35	8.00	7.70
TIAA	1.89	1.75	1.70	1.60
Special Elected Officials (d)	—	—	—	—
Unfunded Actuarial Liability (Millions)				
KPERS--State / School	$ 933	$ 1,014	$ 1,051	$ 1,059
KPERS--Local	131	121	123	142
KP&F	288	283	279	276
Judges	5	5	5	5
TIAA	19	21	22	23
Special Elected Officials	—	—	—	—
Funding Ratios (e)				
KPERS--State / School	84.19 %	81.48 %	79.19 %	77.58 %
KPERS--Local	88.34	87.99	86.51	84.44
KP&F	74.77	72.81	70.72	68.94
Judges	91.21	90.15	89.10	88.64
TIAA	31.26	25.38	22.62	20.39
Special Elected Officials	—	—	—	—

a) Investment income for prior years has been adjusted to reflect changes in unrealized appreciation.
b) KPERS Local and KP&F contribution rates are reported on a calendar year basis.
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.

1993	1992	1991	1990	1989	1988
41,388	39,552	39,262	38,243	37,250	36,171
2,492	2,476	2,431	2,262	2,323	2,640
131,179	128,689	122,186	118,042	114,169	107,107
1,272	1,247	1,223	1,188	1,150	1,126
$ 134	$ 125	$ 124	$ 112	$ 97	$ 92
117	112	106	101	91	92
231	206	187	168	152	135
665	486	48	393	352	(45)
3.30 %	3.30 %	3.20 %	3.10 %	3.00 %	3.00 %
1.90	1.80	2.40	2.60	2.00	—
6.50	5.70	7.80	7.40	7.30	7.00
7.10	7.30	5.40	5.90	6.55	6.55
1.60	1.70	1.50	1.50	1.60	1.40
7.90	8.30	7.90	7.80	7.70	—
$ 573	$ 395	$ 373	$ 342	$ 316	$ 294
94	47	40	34	30	26
272	67	66	69	70	68
5	4	4	4	3	3
24	20	20	19	19	16
—	—	—	2	—	—
85.10 %	88.30 %	88.00 %	88.00 %	87.30 %	87.70 %
87.30	92.70	93.10	93.60	93.90	94.30
66.70	88.10	87.30	85.90	84.10	83.20
87.90	89.80	89.10	89.10	88.90	89.30
20.00	22.60	21.10	24.20	21.60	25.50
—	—	—	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.

Expenses by Type

Fiscal Year	Benefits	Withdrawals	Insurance	Administration	Total
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
1997	396,660,948	36,761,626	36,048,625	4,659,099	474,130,298

Schedule of Benefits by Type

Fiscal Year	Monthly Retirement Benefits	Retirement Dividend	Death Benefits	Refunds of Contributions	Disability, Insurance Premiums/ Benefits
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
1997	378,656,752	10,173,553	7,830,644	36,761,625	36,048,625

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Statistical Section

Revenues by Source
For the Fiscal Year Ended June 30, 1997

Fiscal Year	Contributions			Misc.	Net Investment Income	Total
	Member	Employer	Employer Insurance			
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
1997	171,120,750	133,053,259	23,226,519	92,827	974,302,417	1,301,795,772

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

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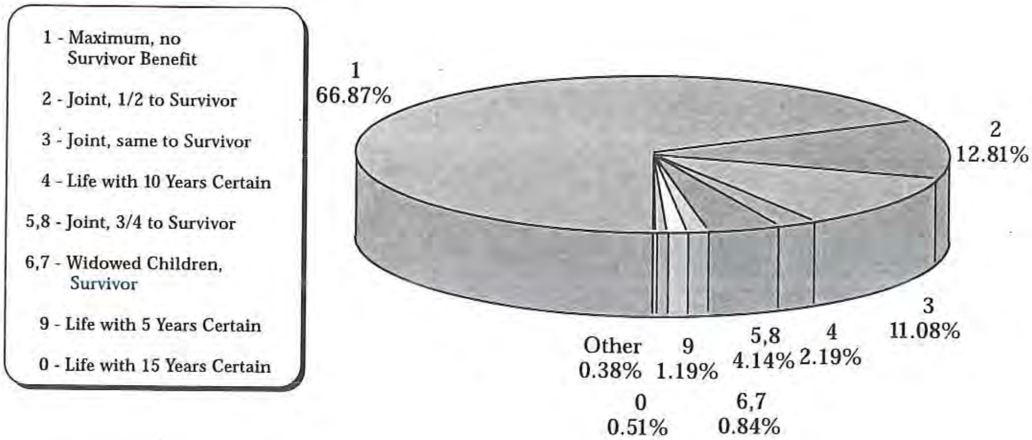
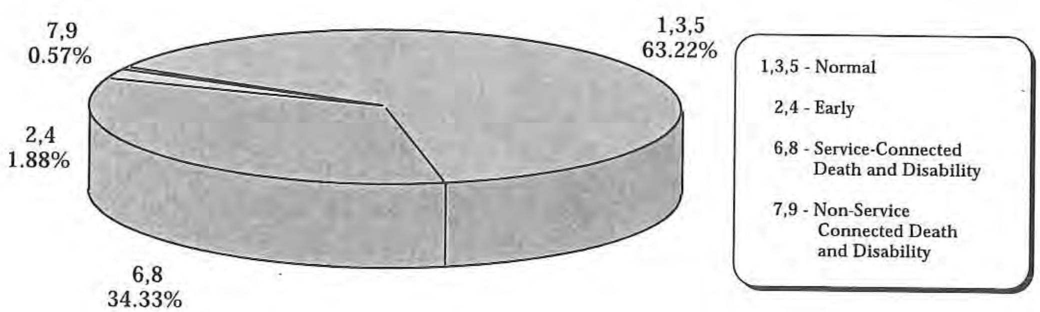
Option Taken



Retirement Type



Schedule of Retired Members and Survivors by Type of Benefit
June 30, 1997

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	2,863	2,240	613	1	9	2,335	276	126	31	26	2	29	22	16
$100-199	6,868	3,922	2,808	125	13	5,025	851	527	155	54	89	56	26	85
$200-299	6,690	3,355	3,225	96	14	4,858	679	586	168	127	78	99	33	62
$300-399	5,752	3,043	2,614	73	22	4,010	647	598	143	130	55	128	33	8
$400-499	4,246	2,272	1,915	43	16	3,016	447	469	105	91	12	86	15	5
$500-599	3,413	1,878	1,494	28	13	2,369	389	389	90	93	4	61	14	4
$600-699	2,683	1,491	1,143	38	11	1,795	302	357	74	85	9	44	14	3
$700-799	2,192	1,222	913	41	16	1,479	259	283	58	77	11	14	11	
$800-899	1,748	1,043	637	54	14	1,135	230	240	37	81	10	5	10	
$900-999	1,468	964	434	55	15	926	213	201	31	68	15	3	10	1
$1,000-1,999	8,685	7,394	833	335	123	4,765	1,488	1,340	140	738	119	44	50	1
$2,000 or More	1,951	1,873	43	25	10	759	438	262	31	439	5	7	10	
Totals	48,559	30,697	16,672	914	276	32,472	6,219	5,378	1,063	2,009	409	576	248	185

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

Service Credit	1992	1993	1994	1995	1996
	Calendar Year				
Less Than 5	84	120	117	143	147
Average Benefit	$ 128.01	$ 187.14	$ 107.34	$ 144.96	$ 100.65
Average Years	2.78	2.72	2.46	2.52	2.49
5-9.99	180	165	187	208	196
Average Benefit	$ 217.91	$ 241.56	$ 287.09	$ 298.27	$ 249.47
Average Years	7.15	7.09	7.05	6.97	7.06
10-14.99	423	470	477	474	500
Average Benefit	$ 272.39	$ 338.48	$ 352.24	$ 373.08	$ 359.97
Average Years	12.11	12.10	11.86	11.79	11.85
15-19.99	412	473	442	476	494
Average Benefit	$ 457.65	$ 559.42	$ 524.38	$ 562.36	$ 591.87
Average Years	16.93	16.98	16.88	16.90	16.97
20-24.99	428	452	502	469	464
Average Benefit	$ 673.10	$ 757.17	$ 795.51	$ 809.95	$ 851.83
Average Years	21.97	22.00	21.81	21.87	21.96
25-29.99	307	443	490	500	510
Average Benefit	$ 935.12	$ 1,143.23	$ 1,192.68	$ 1,331.94	$ 1,396.09
Average Years	26.68	27.04	26.85	27.17	27.10
30-34.99	332	440	449	441	509
Average Benefit	$ 1,224.72	$ 1,477.22	$ 1,589.41	$ 1,631.57	$ 1,729.45
Average Years	31.77	31.95	31.99	31.86	31.85
35-39.99	338	410	390	334	268
Average Benefit	$ 1,636.85	$ 1,682.77	$ 1,789.89	$ 1,878.19	$ 1,874.62
Average Years	36.61	36.68	36.67	36.63	36.84
40-44.99	135	150	137	97	113
Average Benefit	$ 1,693.15	$ 1,851.34	$ 1,873.86	$ 1,817.06	$ 1,925.92
Average Years	41.32	41.41	41.47	41.52	41.54
45-49.99	13	16	11	26	14
Average Benefit	$ 1,886.94	$ 1,748.42	$ 1,269.69	$ 2,088.80	$ 2,050.13
Average Years	45.85	46.38	45.64	45.96	46.00
50 and Over	1	1	3	3	1
Average Benefit	$ 1,491.86	$ 1,880.73	$ 1,744.47	$ 2,496.38	$ 1,921.82
Average Years	51.00	52.00	51.33	51.33	54.00
Total Number	2,653	3,140	3,205	3,171	3,216
Average Benefit	$ 807.91	$ 949.74	$ 978.91	$ 995.91	$ 1,018.11
Average Years	22.75	23.32	23.04	22.37	22.25

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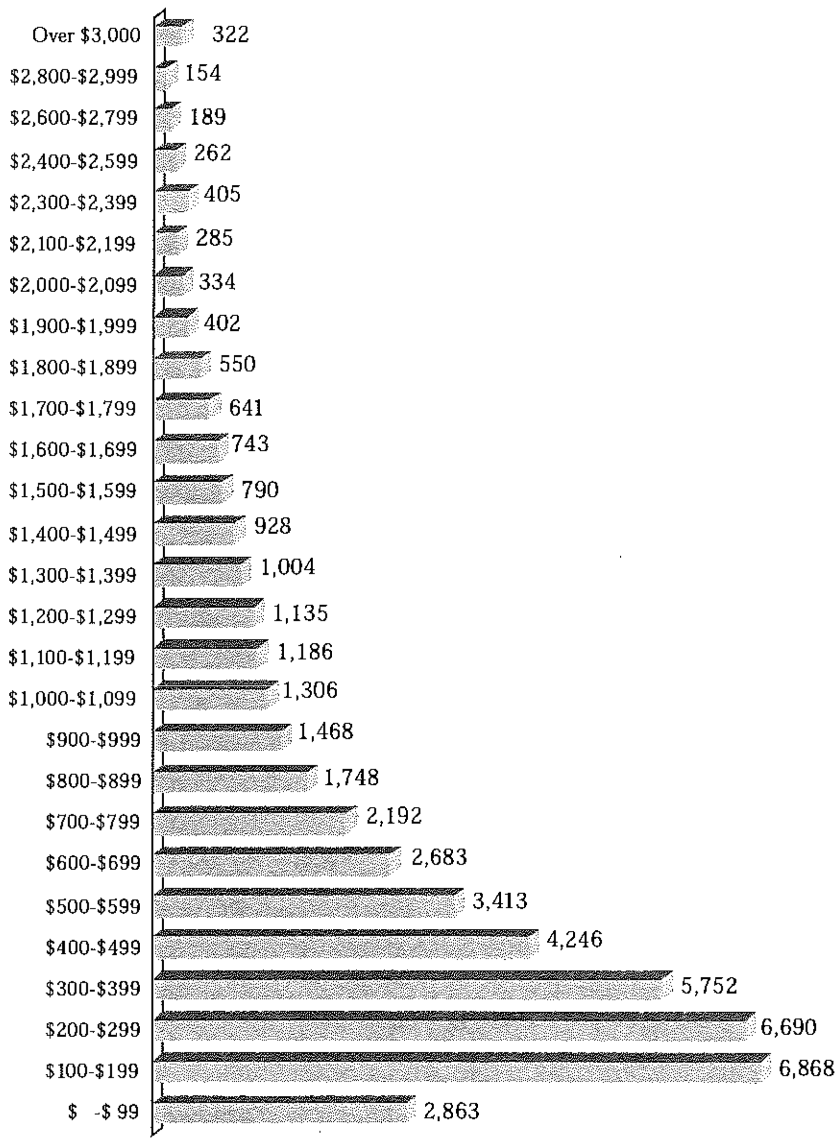
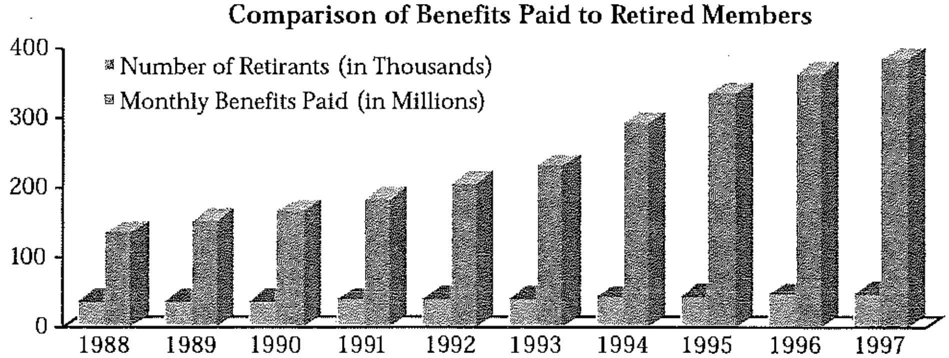
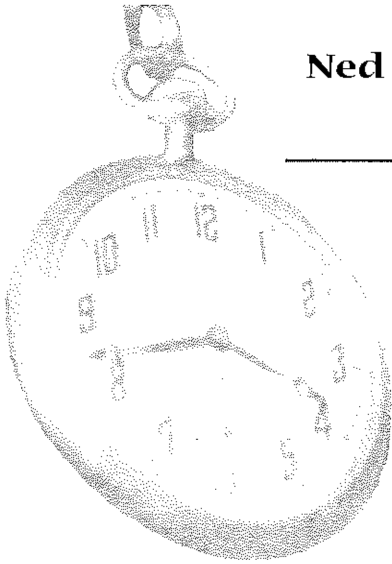
Benefit Amount as of June 1997



Comparison of Benefits Paid to Retired Members





Ned Sortor, Clay Center, recalls 43-year career on the road with Ks. Department of Transportation

Looking back on 43 years of service with the Department of Transportation, retired member Ned Sortor of Clay Center remains acutely aware of how much things have changed since he first began working for the State.

"October 6, 1944 was the anniversary of my start date with the State. We worked strictly by the hour, and did not accrue either sick or annual leave in those days," Sortor recalled. "We had all pull-style plows, too. In the summer, we would manually take out the heaters and then before winter we would manually put the heaters back in them."

"Each and every year," he continued, "we had to put up 125 miles of snow fence along both sides of the highway. That work was every day for a whole month in the fall. Then we would spend another month in the spring taking down and putting away the entire 125-mile section again."

Sortor said he vividly remembers working straight three-day stretches removing snow as late as 1952, and sanding snowy roads by hand, including the hills and curves of the highway.

"No one could go home, even at night," he said. "We took turns taking naps in the truck, but even then we had to nap sitting up because there were usually two of us napping at a time."

"I really dreaded snow removal," Ned continued. "We had to be on call all the time, so we were required to have a phone. When that phone would ring at 3 o'clock in the morning, I remember the guts would just about go right out of me. I don't miss that part of the job at all."

Ned's wife Dixie concurred, adding, "I remember times he would come home and he would lay right down on the floor and go to sleep, with his coveralls and boots still on. Since he was on call all the time, he just stayed dressed so he could get back up and go right out whenever the phone rang."

"Now guys work 12-hour shifts - at the most - for snow removal, and they earn time off and get overtime, too," Ned said, contrasting the present with the past.

"As things improved, we all appreciated it when we received the newest equipment," said Sortor. "We even used to mix right on the road. All we had was a 'Loose Gravel' sign we put up and we would have to get silt and put that down. So we would haul it out from the sand pit. We would just pull the winrow off to one side of the road for the night and start there the next morning."

Sortor said he was a maintenance and section man from 1952-1963. "In 1963, I got the foreman's job and ten years later, in 1973, I became a supervisor."

He said he most appreciated the people he worked with. "There were so many good people I worked with. Harold May was one - he went from working maintenance to mechanic work, which meant he was in the shop all day. He started in June, 1944 and I started in October, 1944. We had gone from grade school through high school together, too. He was always dependable, from the day I began. Even now, every morning I go over and have some of his wife's tomato juice with him and we sit together and reminisce."

In 1987, Sortor retired, and so did several of the other men he worked with. "It was interesting that we all retired about the same time. Harold May, Clayton Colson, Don Smith and George Novak - they all quit when I did. We all got along really well," he said.

"When you work so closely with a man, he becomes like a brother or a father to you," Ned explained. "You worked in the truck together all day long and there we would discuss our lives and our struggles and we would work out solutions together over time. You could confide things to one another and it all stayed right there in the truck between the two of you."

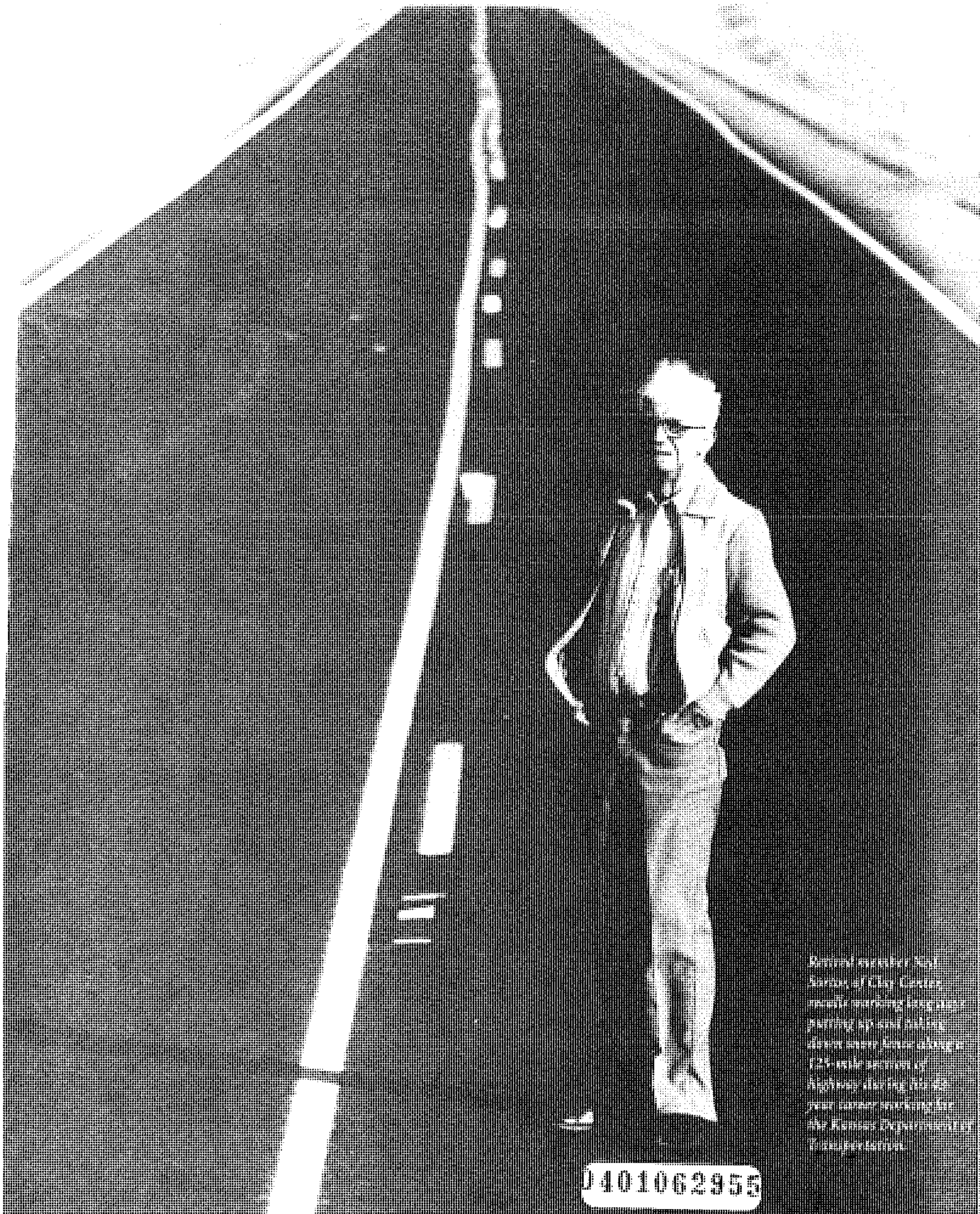
"There were other things, as well," Ned said. "Working together with the other men allowed us all to help each other learn things about the job and what we needed to know to get the job done the best way possible. Those were the things I really liked about my job."

Sortor said he was at first worried about retiring. "I thought, 'How can I afford to retire?' but when I sat down and looked at all my service, it really added up. I even got credit for all my prior service, too. My retirement has just gone beautifully and the day I left, they had a fantastic party for me. I've been very happy since then, too."

Ned said he does not have his retirement benefit check directly deposited; he prefers to have it delivered to him at home and enjoys going to the bank to put it in his account himself. "It's one of the only two pieces of mail I get each month - all the rest comes to Dixie - and I just like to get it, open it up and look it over before I take it to the bank and deposit it," he said.

He and Dixie also relish visits from their grown daughters Ruth Ann and Brenda, and their grandchildren. Additionally, retirement affords Ned the time to pursue his hobbies, which include collecting coins, antique bottles, and pocket watches.

"I have my Uncle's pocket watch he carried when he worked for the railroad," Ned said as he displayed the prized possession. "My aunt bought it for him in 1934 for Christmas. I was with her the day she bought it for him, so there are wonderful memories attached to it for me."



Retired member Neil Sutton, of Clay Center, recalls working long days putting up and taking down snow fence along a 125-mile section of highway during his 42-year career working for the Kansas Department of Transportation.

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Auditors—Berberich Trahan & Co., P.A., Topeka, Kansas
Investment Consultant—Mercer Investment Consulting, Inc., Chicago, Illinois
Investment Performance Consultant—Thomson Investment Software, Boston, Massachusetts

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Mellon Trust, Medford, Massachusetts

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

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The Retirement System acknowledges the invaluable assistance of the Kansas State Historical Society. We recognize John Masson, graphic designer, the staff of Capital Graphics, Inc., Jeff Taylor, Monty Davis, and Bruce Snell, freelance photographers, and the staff of the Division of Printing, State of Kansas for their professional contributions. Most of all, we thank our members who graciously agreed to be featured in this Annual Report.

Americans with Disabilities Act information - The Retirement System staff will make every effort to accommodate persons with disabilities. Please let us know about specific needs in advance, particularly if large-print materials or tape-recorded information is needed. The Kansas Relay Center can also help those who need to communicate via a Telecommunications Device for the Deaf (TDD). Both speech/hearing disabled and hearing Kansans can access the Kansas Relay Center by calling toll-free: 1-800-766-3777.

Retired teacher Edith Cottle retains charm, cheer about life in spite of more limited mobility today

Despite being homebound for the most part, retired school teacher Edith Cottle, of Nickerson, retains an active interest in everything around her. She enjoys visiting with the people who bring her meals and with the beautician who comes to her home to style her hair regularly.

"I have weekly visitors from my church," she said. "I belong to the First Christian Church in Hutchinson."

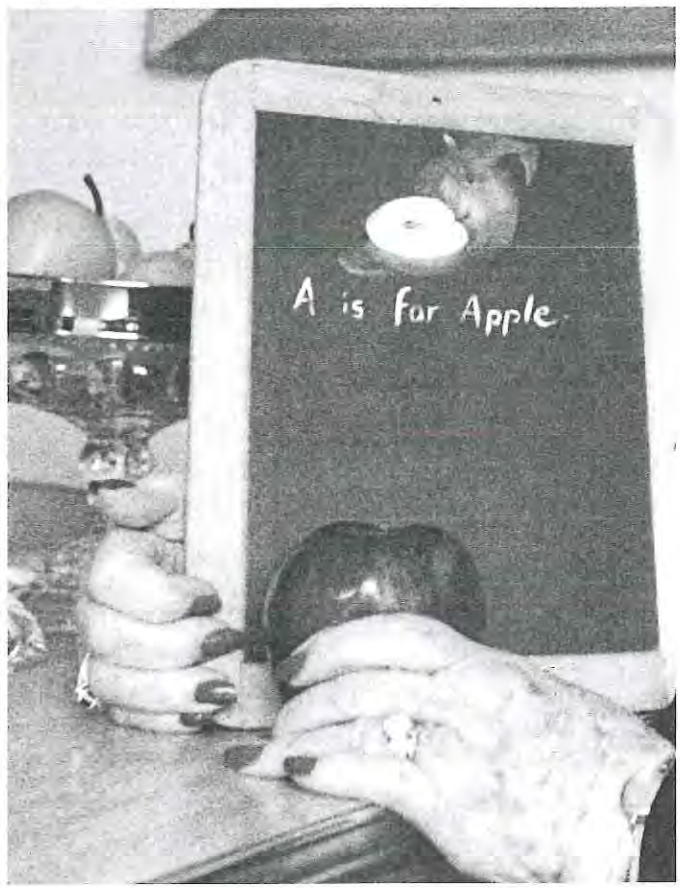
"Because I can't get out," she continued, "I now attend church by watching it on TV. The First Methodist Church in Wichita has a broadcast every Sunday. I especially enjoy hearing Joe Cobb, who is the singer. He has a wonderful voice."

"I like it because that way I'm still there, still participating every Sunday morning," declared Edith.

She taught a total of 47 years in Reno County. Edith began teaching in 1929, in the rural schools where she was responsible for teaching all eight grades at once.

"I taught in Haven, Castleton, and North Reno," she recounted. "I taught in North Reno for 29 of those years."

"Since 1976, I've been retired," Edith related. "My last year I taught the first grade. I had 39 first graders in my class that year. That was a lot of students in one class, too many probably."



Edith said she decided not to substitute teach after her retirement, however, "I was a mother substitute, though, to one of my students. Her name is Laurie Gully and she still calls me," said Edith.

Edith is proud of her former students' accomplishments, marveling at the differences among them.

"My students have grown up to become doctors, lawyers, and teachers," she said, "and one young man unfortunately is in prison."

She didn't seem inordinately disappointed or upset by this turn of events. "You see, we have a little bit of everything in our students, just as we do in life, too."

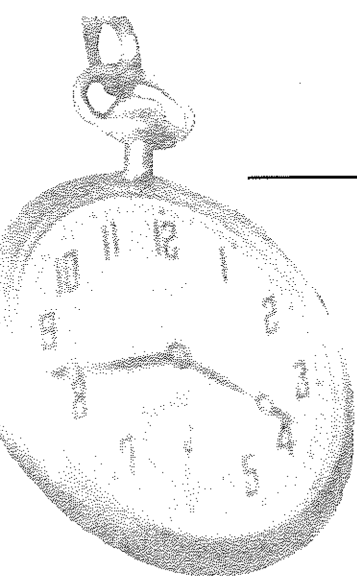
Edith's pragmatism extends to her own limitations. "I do what I can," she said, "and I don't worry about the rest. I can go out to my mailbox in good weather, but in bad weather it's just too far. So, either the postman or a neighbor will bring it to me when I can't make it out there."

Because of her limited mobility, Edith decided to have her retirement benefit checks electronically deposited into her account.

"It makes sense for me in my present situation. It's just easier and handier. I never have to worry about not getting my benefit check," said Edith.

Edith still has great anticipation for the future as well. "I'm looking forward to my birthday and a visit from my son, Roy Young, who lives in Wichita," she said. "I'll be 87 next February 14. It's always fun to celebrate my birthday on Valentine's Day."

Edith Cottle, Nickerson, gained a pragmatic optimism about life from 47 years of teaching in rural schools.



Senior Judge's status keeps retired Judge E. Newton Vickers busy for benefit of Kansas

Retirement has not kept Judge E. Newton Vickers on the sidelines. Senior Judge's status allows him to work up to 104 days per year, at 25 percent of an active District Judge's salary. Catching up with him is never easy, as he is busy doing mediation work, conducting preliminary hearings and limited actions for Shawnee County. He travels even further in his work, going to other counties to fill in for judges or when a judge in another district must recuse himself or herself from a case.

"It's a great system that allows retired judges to continue to work under Senior Judge's status," he said. "The courts get the benefit of our experience without having to create a new judgeship, which would be very expensive to taxpayers."

Judge Vickers also serves on the Supreme Court Judicial Ethics Advisory Panel. He said it allowed him to "serve in an advisory capacity to other judges, who bring ethical issues to the Panel to consider. We operate under the Canons of Judicial Ethics, which sets the parameters for what judges may or may not do in certain circumstances. Fundraising is an example of an issue we might consider. Judges are very limited to the kinds of fundraising activities they may participate in; political fund-raising is not allowed at all."

Vickers had the longest continuous service of any judge in Shawnee County - 35 years. "When I was first elected, there were only four district judges in the county. Now there are 14," he said.

He was elected to serve as the Probate Juvenile Judge in 1956, first taking office in January, 1957. Vickers served in that capacity for six years, then was elected District Judge in 1963, serving there until he retired on January 10, 1992. Today, in his honor, one of the Shawnee County courtrooms bears his name.

Judge Vickers has seen many changes in the courts and in the practice of law over the years. He recounted some of those changes, saying, "We enjoyed a lot of diversity, but now there is much more specialization because cases are more complicated. We used to see a lot of two-party actions, such as automobile accidents, whereas now there are many more multiple party as well as complicated malpractice, product liability and other tort actions."

Referring to changes in pension law, Vickers added, "In the old days, judges never worried about how pensions could affect cases they heard, but now, even divorce cases are complicated by such things as Qualified Domestic Relations Orders (QDROs), which divide pension benefits between divorcing spouses."

Judge Vickers also remembers when the first woman was elected Probate Judge, then District Court Judge.

"That was Kay McFarland, who is now the Chief Justice of the Kansas Supreme Court," he said. "We have known each other a long time. Her father was the school superintendent and my father was one of his principals."

He said his father, Frank Vickers, was principal at Lafayette and Potwin elementary schools, and was also principal at Holliday and Boswell junior high schools. "One of the reasons I got elected in the first place," Judge Vickers recalled, "was everybody knew my father. People seemed to want to help Frank's boy do well."

Vickers had done well already, serving in World War II on Okinawa before returning home to attend law school at Washburn University, then joining a law office after graduation, several years before his first election.

"I was 17 years old when I went into the Marines in July of 1944," he recalled. "My mother signed the papers allowing me to enlist. My friend, Richard Wright, and I enlisted together, went to boot camp at Paris Island together, then on to Camp LeJeune, ending up in the same machine gun squad in the 4th Regiment of the 6th Marine Division on Okinawa. We were there to support one another from the start."

Less than one year later, in April of 1945, then-president Franklin D. Roosevelt, died. "That just broke our hearts," said Judge Vickers. "We felt like he was one of us. Anything the troops needed, President Roosevelt wonld see we got. That's how much support there was by the administration for the troops durimg World War II."

Vickers was wounded in action in May, 1945. He recalled the events surrounding it. "Maurice Copp was another friend who was drafted into the Army. He went into the 77th Army Division. Maurice's older brother was in I Company of the 3rd Battalion, 4th Marine Division, and somehow we all ended up on Okinawa. Maurice's brother found us and told us he was going over to have a reunion with Maurice. We went along with him and the four of us were thrilled to be together," he said. "Just a few days after that, heavy fighting occurred. I was wounded in the battle, but Maurice was killed."

His voice lowering, Judge Vickers added, "It's so interesting how life is essentially a circle. I haven't thought about this in a long time, but many years later, my administrative assistant, Arlene Jordan, came into my chambers to tell me a young law student was in her office, wanting to know if I would perform his upcoming marriage ceremony. I asked what the student's name was. My mouth must have dropped open when she said, 'Maurice Copp,' because she asked me if I was going to able to handle meeting him. I told her I would be. When I went out to greet him, though, tears were rolling down my cheeks. I was so touched to see this tall young man, named by his father for the brother his father had lost in the war. I was very happy to be asked to marry him and his fiancee."

On Okinawa, heavy losses were sustained in the fierce fighting. Vickers said, "Only 38 of the original 240 men in my company were left when I was wounded. Richard Wright wouldn't leave me. He followed me as I was transported out and he luckily never got a scratch. I went to the hospital on Guam, where I recovered until August 15, then I rejoined my outfit. The first atomic bomb had been dropped on August 6. When the Japanese surrendered on August 30, my unit was among the first Marines to land on Japanese soil."

"I could see Mount Fuji in the distance as I went up on the deck of the ship," he recalled. "I thought, 'We did it, we won.' The Japanese, who previously had fought with a ferocity rarely seen in a people, had completely given up. When their Emperor told them there would be no more fighting, they quit just like that. After General Douglas MacArthur took over, we even heard the Emperor tell the people he wasn't the Sun God, after all. It was the most amazing time."

"For all the hatred that was espoused in propaganda on both sides, it didn't take long to meet individual Japanese when we began standing guard duty," remembered Judge Vickers. "Before, it was easy to believe the propaganda, but when we actually met the Japanese we were treated wonderfully and we made friends. I realized that it is not just a certain race or people that is capable of great barbarism, it's inside each of us. Today we know that any man, just as any race or people, is capable of horrible crimes against humanity - especially if it is sanctioned."

Retired Shawnee County District Court Judge E. Newton Vickers

If winning the war was enlightening, homecoming was heartwarming for Vickers. "I will never forget our ship sailing under Golden Gate Bridge, when we arrived back in the States," Vickers said. "On the hillside across from the bay in giant letters, were the words 'Welcome Home! Well Done!' It gave us the feeling we were part of something really big, even though our individual roles may have seemed insignificant."

Judge Vickers appreciates the discipline he learned and the training he received in the Marines. "They took all the civilian out of us," he said about boot camp, "and when that was accomplished, they gave us back something more - pride. We gained a feeling of worth about ourselves individually, and about ourselves as a team. Some people are for the idea of prison boot camps, but prison boot camps can't accomplish what military boot camp does, because being sent to prison isn't about instilling self-worth in people - it's about punishment."

Judge Vickers even knows something first-hand about the experience of being imprisoned. As a participant in the National College of State Trial Judges in Nevada one year, the judges themselves voluntarily spent a night in solitary confinement in the Nevada State Penitentiary. He said that once confined, he began to feel extremely hostile toward the guards, even though they treated him kindly.

"I realized that prison, generally, isn't a place where you're going to come out better than you went in," he said. "Yet, we can never give up on trying to rehabilitate offenders. Unfortunately, now there are sentencing guidelines in place, which try to fit the concept that everyone is equal. However, that concept doesn't fit reality always. One of the things I most liked when I was active was that judges had more discretion as to what to do with an individual offender - much more so than they do today."

He contrasts his days as the Juvenile Judge with those of current Juvenile Judge Dan Mitchell, saying, "Judge Mitchell sees more cases in a month than I would see in a year. Then, though, we spent all our time on what we were going to do to get a kid straightened out before he or she became a repeat offender. We were very focused on what was best for the child. SRS didn't run things the way it does now. We could get very involved and focus on long-term solutions, involving parents in the solution."

Being a life-long Topekan has enabled Judge Vickers to focus on long-term solutions. He has always known he would be around to see the result.

"I love this place," he declared, "and it's been wonderful to me. I will never leave. My wife Arlene and I met at Topeka High School. We celebrated our 50th wedding anniversary this year."

They celebrated with a trip to Egypt and Israel. Retirement now affords the judge and his wife the time to travel. "This was a really special trip, though, not just another vacation," said Judge Vickers. "We traveled to Jerusalem and into the wilderness of Judea in Israel. One of the highlights was seeing the opera, Aida, performed in Egypt over four nights outdoors in front of Queen Hatshepsut's tomb, the temple in the background. The performance marked the 125th anniversary of Verdi writing the opera for the city of Cairo, as well as the 75th anniversary of the discovery of King Tut's tomb. Egyptian President Hosni Mubarak was there the first night, along with many other well-known dignitaries."

Those who know Judge Vickers believe he is a dignitary in his own right. What is it that others admire about him? "He embodies everything you hope to find in a judge," said one man, who gained joint custody of his children following a hearing by Judge Vickers. "He is the archetype of a wise judge. He really listens, then applies his empathy accurately and ethically. In my own case, I was able to actively take part in raising my children because of his judgment. I have always been thankful to him for that."

Vickers is modestly appreciative when others come back to thank him. "When you're a judge, you don't often hear the good news, so it's always satisfying to know when a decision you've made has had a positive effect on someone's life."

The thanks he receives for his work and the esteem in which he is held by others is the result of his focus on the long-term outcome of his decisions, including the one decision he made early in life. "I always knew I wanted to be a lawyer. I even had a role as a trial lawyer in a play at a friend's party when I was a child. My friend's mother told me I did such a good job that I should consider being a lawyer when I grew up," said Judge Vickers. "But I never dreamed I would become a judge. That is something that happens, because you can't aspire to be a judge. For me, it has been an interesting and sometimes, exciting, life."

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Capitol Tower, Suite 200
400 SW 8th Avenue
Topeka, Kansas 66603-3925
FAX: (785) 296-2422
Phone: (785) 296-6666, or
Call Toll-Free: 1-888-ASK-KPERS (1-888-275-5737)
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