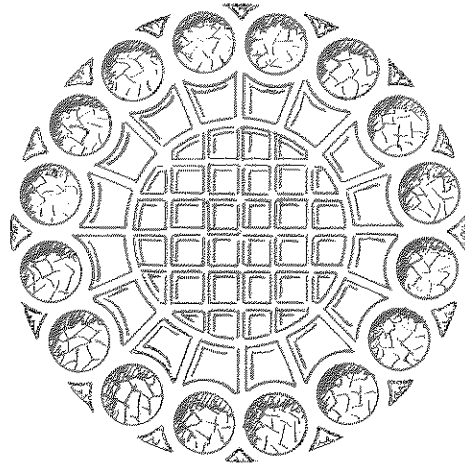


KANSAS PUBLIC EMPLOYEES
RETIREMENT SYSTEM

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1999

- a component unit of the state of Kansas
- prepared by the Staff of the Retirement System

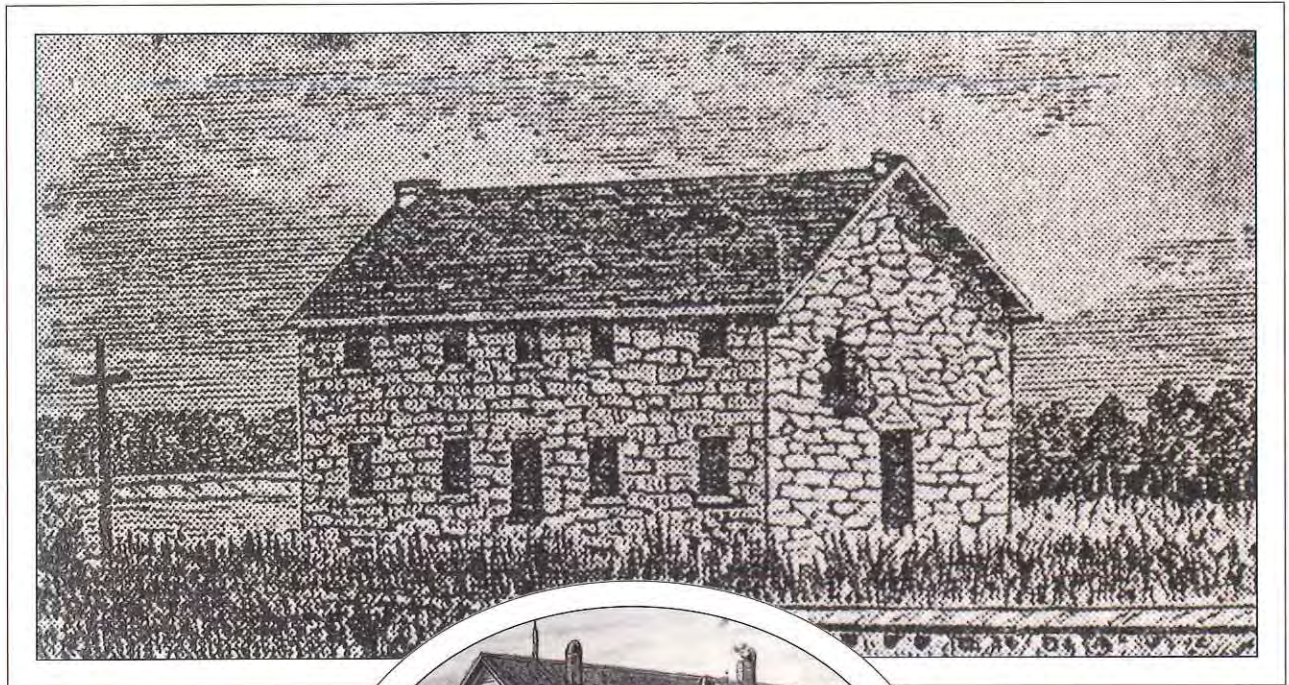


Return to Splendor!

"Celebrating the history of the Kansas State Capitol!"



INTRODUCTORY SECTION



On November 5, 1861, the voters of Kansas selected Topeka as their choice for the state capitol.

Certificate of Achievement for Excellence in Financial Reporting

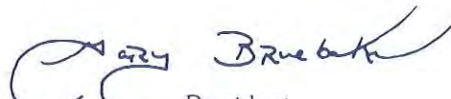
Presented to

Kansas Public Employees Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 1998

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.




Cary Brubaker
President


Jeffrey L. Essler
Executive Director



Public Pension Coordinating Council
Public Pension Principles
1998 Achievement Award

Presented to

Kansas Public Employees Retirement System

In recognition of instituting professional standards for public employee retirement systems as established by the Public Pension Principles.

Presented by the Public Pension Coordinating Council, a confederation of
Government Finance Officers Association (GFOA)
National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

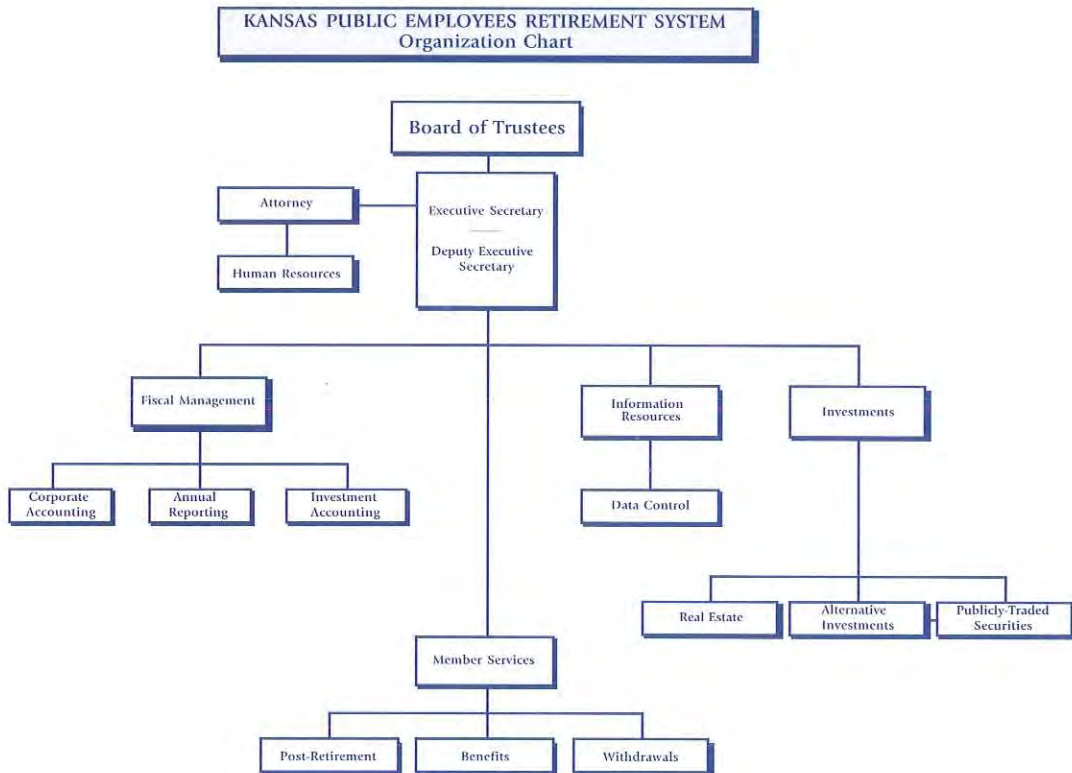
A handwritten signature in blue ink, appearing to read 'Scott Engmann'.

Scott Engmann
Chairman

FINANCIAL SECTION

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:

- Vern R. Chesbro, Ottawa — Chair (appointed by the Governor)
- Jarold Boettcher, Beloit — Vice-Chair (appointed by the Governor)
- Bruce Burditt, Topeka (elected by non-school Retirement System members)
- Frank D. Gaines, Hamilton (appointed by the Governor)
- Tim Shallenburger, Topeka (State Treasurer - Board member by statute)
- Lon Pishny, Garden City (appointed by the Speaker of the House)
- Regenia Moore-Lee, Topeka (appointed by the Governor)
- Patrick R. Smith, Overland Park (appointed by the President of the Senate)
- Marjorie Lee Webb, Shawnee Mission (elected by school Retirement System members)



A list of the Retirement System's consultants and investment advisors is found on page 90.

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
1999 ANNUAL REPORT

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DESIGN AND CONSTRUCTION OF THE EAST AND WEST WINGS

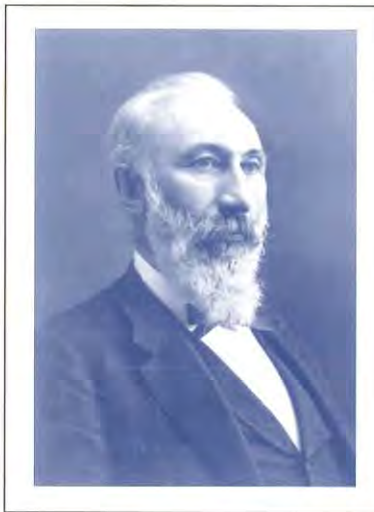
Although Topeka was the state capital, when the Civil War ended in 1865, it remained a frontier town with unpaved streets, few sidewalks, and mostly wooden buildings. But the return of war-weary soldiers and the arrival of the first passenger train on January 1, 1866, signaled the start of a new era of population and construction booms. Sentiment was concurrently rising for construction of a capitol building to reflect the growing prosperity and dignity of Kansas.

On March 26, 1866, the Board of Statehouse Commissioners approved a resolution which provided that the "wings of said building project east and west from the central building and that the construction of the east wing be commenced . . . immediately . . ."

The design of the Capitol is attributed to John G. Haskell (1832-1907) of Lawrence. Haskell was one of Kansas' foremost architects and was the first state architect selected by the statehouse building commission to work on the structure (a total of eight state architects served during the capitol's construction). On February 1, the *Topeka Weekly Leader* said, Haskell . . . "has presented a plan and specifications for a capitol building, which to our mind presents advantages which should be considered." One such consideration was an acknowledged style, so that the building would be "beautiful in design and not tending to extravagance of exterior finish."

The cornerstone was laid October 17, 1866. It was yellow limestone placed in the northeast

corner of the building (now the east wing). The *Topeka Weekly Leader* described the ceremony as a "day to be long remembered for the pleasing associations which cluster around it, for it marks another milestone in Kansas history which passersby will read years hence . . ." The east wing set the style for the rest of the building, except for the central tower and dome. State officers moved into the completed wing in December, 1869.



Work on the west wing began in 1879, after the legislature made an appropriation of \$60,000 and provided a one-half mill levy for the construction. The west wing is architecturally similar to the east wing, except it is four feet wider and six feet longer. The limestone used was from Cottonwood Falls, Kansas. By 1880, this wing was enclosed. The House of Representatives met in the new hall, although

it was unplastered and had a temporary roof.

In the open space between the Senate and the House, a covered board walkway, referred to as the "Cave of the Winds," was built so messages could be taken from one wing to the other while providing protection from the weather for the messengers. The cost of the west wing was about \$300,000 compared with \$500,000 for the east wing. The difference in the cost of the two wings, which were essentially the same size and design, was attributed to the depreciation of currency after the Civil War.



MEMBER LETTER SECTION



The east wing exhibited "... such a stately elegance as to impress every lover of architectural grandeur."

*Mission Statement
of the
Kansas Public Employees Retirement System*



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.



Kansas Public Employees Retirement System

November 5, 1999

Board of Trustees and Members
Kansas Public Employees Retirement System

Dear Board of Trustees and Members:

I am pleased to present the 1999 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, 1999. The System's fiscal year 1999 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 1999 Annual Report was prepared through the combined efforts of the Retirement System's staff members.

The 1999 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, 1999. 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 1999. 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.

Each year, the Retirement System features a unique theme in its Annual Report. This year's Annual Report theme focuses on the Statehouse of Kansas and its evolution from the original architectural concept and construction phases to the present and the current restoration project. In addition, some important Kansas history involving the Statehouse is also featured as part of the theme.

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

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Facsimile: (785) 296-2422 ■ E-mail: kpers@kpers.org ■ Home Page: www.kpers.org
Toll Free 1-888-275-5737

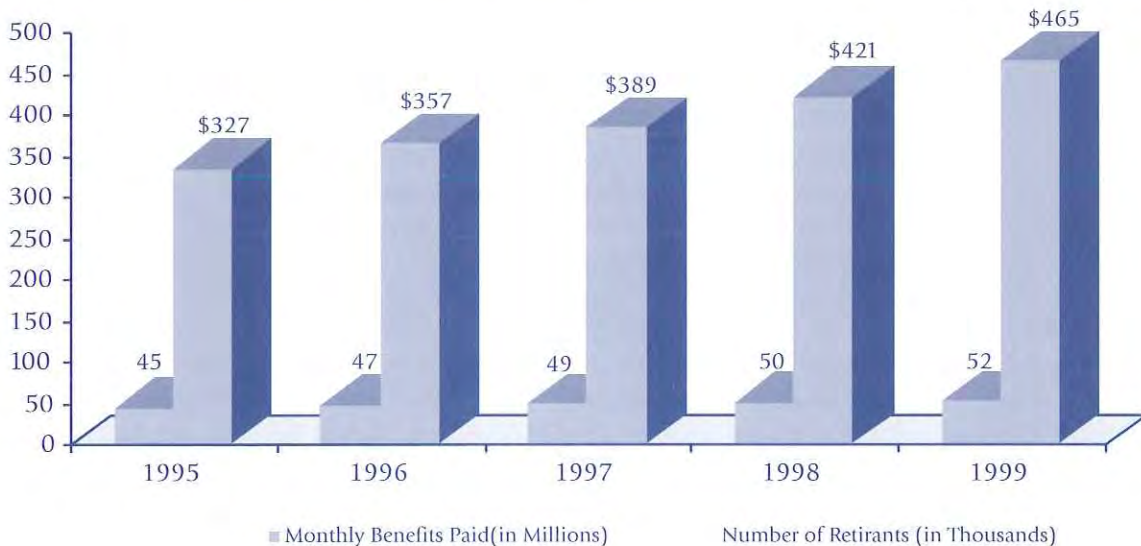
MEMBER LETTER SECTION

During the last five years, the 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 221,628 as of June 30, 1999, from 195,376 as of June 30, 1995 - which is a 13.4 percent increase. Retired members grew in number from 45,304 to 51,643 over the same period, a 14 percent increase.



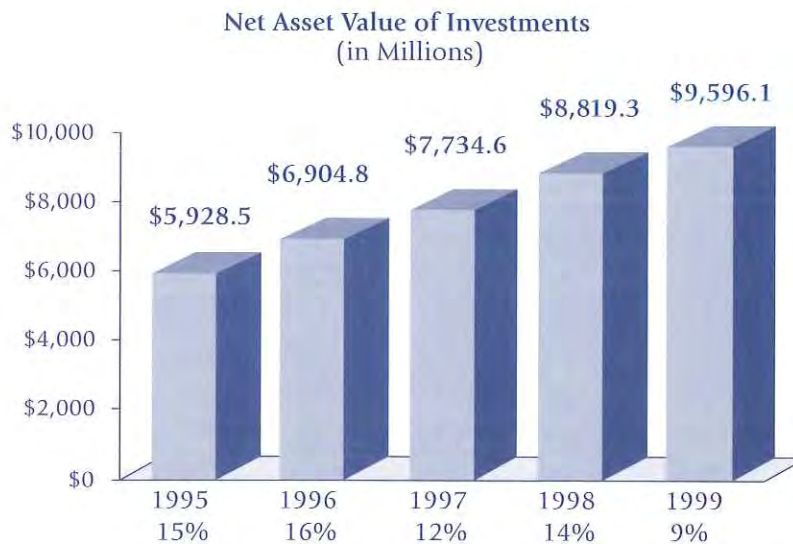
At June 30, 1999, the membership of the Retirement System included 147,985 active members, 22,000 former public servants, and 51,643 retired public servants and beneficiaries. Ten new public employers joined the Retirement System, and by the end of fiscal year 1999 the number of public employers in the Retirement System totalled 1,407.

Comparison of Benefits Paid to Retired Members



KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
1999 ANNUAL REPORT

The total benefits paid to retired members rose to \$465 million in fiscal year 1999 from \$327 million in fiscal year 1995. The average annual retirement benefit increased by \$1,780 over the same five-year period, or twenty percent. At June 30, 1999, the average annual benefit was \$8,998. 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 \$395 million in retirement benefits last year.



The net asset value of investments grew at an annualized rate of 13.2 percent in the past five years, increasing from almost \$6 billion to well over \$9 billion. This substantial asset foundation, invested in a prudent, productive fashion, when coupled with the statutory funding mechanism of employer and employee contributions established by 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.

In 1999 the Retirement System staff completed testing of all computer systems and, as a result, believes the Retirement System is fully year 2000 compliant. The System hired an outside consulting firm to evaluate and verify its existing business systems to assure they will function properly in the future. It has also requested and received documentation from its third party providers and vendors ensuring that they are year 2000 compliant or expect to achieve compliance before December 31, 1999. This, in combination with the System's own testing of its computer systems, is the basis for its belief that the System is fully year 2000 compliant.

MEMBER LETTER SECTION

The financial operations of the Retirement System remain strong. The table below presents a synopsis of the System's financial operations for fiscal year 1999. The complete Statement of Changes in Plan Net Assets is on page 22. The Retirement System had net assets of \$8.845 billion at June 30, 1998. During the year, active members contributed over \$185 million to the Retirement System, while employers contributed \$202 million. Investments generated over \$977 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 1999 net investment income totalled \$954 million. Net investment income plus member and employer contributions resulted in total operating revenues of more than \$1.34 billion.

Fiscal Year 1999 Operating Results

Net Assets at July 1, 1998		\$8,845,397,546
Additions:		
Contributions		
Member	\$ 185,180,551	
Employer	<u>201,652,685</u>	
Total Contributions		\$ 386,833,236
Investment Income		
Gross Investment Income	\$ 977,356,407	
Less Manager, Custodian Fees, Expenses	<u>(23,363,682)</u>	
Net Investment Income		953,992,725
Other Miscellaneous Income		<u>210,116</u>
Total Additions		1,341,036,077
Deductions:		
Monthly Retirement Benefits Paid	464,709,423	
Refunds of Contributions	40,860,950	
Death Benefits	7,862,525	
Insurance Premiums and Benefits	41,892,190	
Administrative Expenses	<u>5,442,410</u>	
Total Deductions		<u>560,767,498</u>
Net Increase		<u>780,268,579</u>
Net Assets at June 30, 1999		<u><u>\$9,625,666,125</u></u>

The expenses of the Retirement System totalled nearly \$561 million in fiscal year 1999. Included were \$465 million in monthly benefits to retired members, \$40.9 million paid to members who withdrew their contributions, almost \$8 million in death benefits and \$42 million in insurance premiums and benefits. The cost of maintaining the Retirement System's administrative operations totalled \$5.4 million.

.....
KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
1999 ANNUAL REPORT

Total revenues exceeded expenses by more than \$780 million during the year, thereby increasing the System's net reserves to over \$9.6 billion at June 30, 1999. These reserves represent the funds available to pay for current and future members' benefits. The graphics below depict the operating expenses and revenues of the Retirement System.



The Retirement System's investment performance for fiscal year 1999 is shown in the table on the following page. The time-weighted rate of return, which includes income and changes in investment value, was 11.2 percent for the fiscal year ended June 30, 1999. The Retirement System maintains a diverse investment portfolio, as described in the Chief Investment Officer's Review, beginning on page 42.

MEMBER LETTER SECTION

Investment Performance
Past Five Years

Fiscal Year	Time-Weighted Rate of Return	Consumer Price Index
1999	11.2%	2.0%
1998	16.5	1.7
1997	14.4	2.3
1996	18.8	2.7
1995	17.6	3.0

Time weighted return includes income and changes in market value. Values used for non-publicly traded securities reflect estimated fair value. Values used for real estate investments reflect appraised values.

The Retirement System remains financially secure. One indication of a pension fund's strength is the funding status of its actuarial liability. At June 30, 1999, assets available for retirement benefits were 86 percent of the total actuarial accrued liability, as computed by the System's actuary, Milliman & Robertson, Inc. 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 enacted in 1995 that increased the cap on annual increases in employer contribution rates.

The Kansas economy has benefited from the robust economic activity of the past four years. In 1998, the Kansas economy completed its fourth consecutive year of 2.5% or better non-farm job growth. This level of growth exceeded the U.S. average of 1.4% growth per year over the same period. The overall projection for 1999 shows employment growth of 2.0%, an increase of approximately 27,000 new jobs in the state. Another important measure of a state's economic well-being is per capita income. In Kansas, per capita income for 1999 is projected to grow by 4.0% in current dollars, and unemployment is expected to remain at historically low levels.

During the prior fiscal year, the Retirement System received the 1998 Achievement Award from the Public Pension Coordinating Council. This biennial award recognizes and promotes high professional standards in public employee retirement systems. This award is based on compliance with 19 specific principles in the areas of benefits, actuarial valuations, financial reporting, investing and disclosure to members. Extensively reviewed by prominent members of public retirement systems, the principles are acknowledged marks of excellence for retirement systems. The award commends those systems that take extraordinary steps to ensure exemplary management of their systems. The Retirement System was pleased to receive the award for the first time in fiscal year 1998.

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, 1998. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for

.....
KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
1999 ANNUAL REPORT

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 each of the last five 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 Kansas Public Employees Retirement System has as its 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

DESIGN AND CONSTRUCTION OF CENTER SECTION

In 1884, construction began on the central portion of the Capitol, comprised of the north and south wings and the central rotunda and dome. Funding for the project came from an annual tax of 5 mills, levied upon all property in Kansas. The excavations for the foundations which support the dome extend more than 25 feet into the ground, and rest on a level of natural bedrock.



The construction of the main building involved a great deal of controversy. There were numerous changes in architects, as well as the final design of the capitol dome. Members of the 1887 legislature approved the plans of Louisville, Kentucky, architect Kenneth McDonald. The original blueprints and architectural drawings of the Capitol show that the second floor was designed as the executive floor, and included the constitutional offices of the State Auditor, Superintendent of Public Instruction, Secretary of State, Governor, Attorney General, and State Treasurer. Offices of the Governor, Lieutenant Governor, and Secretary of State still occupy the second floor.



By 1903--more than 37 years after construction began--the Statehouse was complete.

The Capitol is 399 feet north to south, 386 feet east to west, and 304 feet from the ground to the top of the cupola. The dome is 66 1/2 feet in diameter at the bottom of the copper dome and 54 1/2 feet from the beginning of the copper dome to the cupola floor. The cupola height is 23 1/2 feet. Five floors and a basement are in the interior of

the central portion of the building, while four floors and a basement are in both wings.

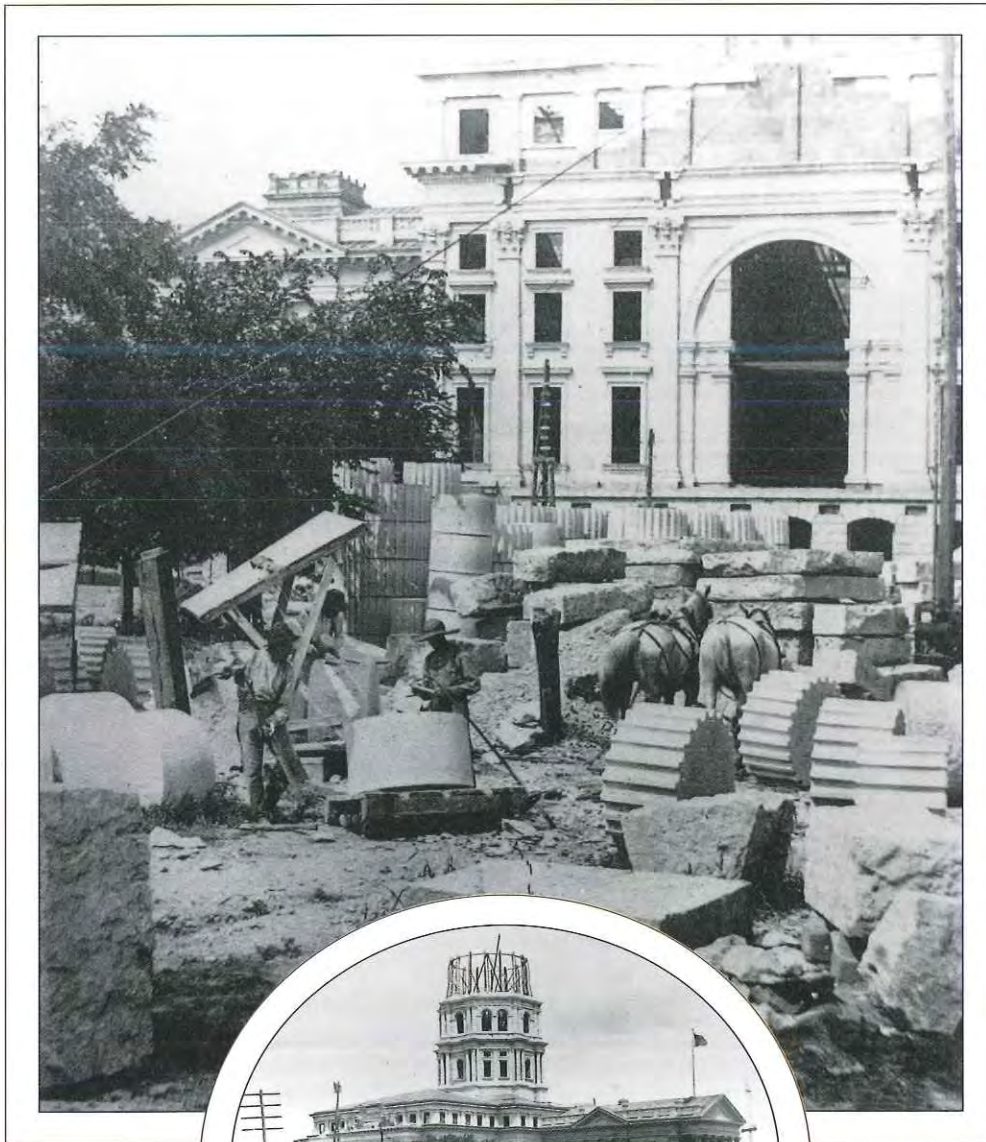
Parts of the Capitol, however, have never been finished. Original plans called for an ornamental statue of Ceres, the Roman goddess of agriculture, to top the dome. This plan was scrapped when it was later decided that the cost

to cast the statue and the questionable morals of the mythical lady were not a good combination. In the north and south gable ends of the main porches, rough stones still remain because high relief sculptures were intended to adorn the

building. To date, the completion of the sculptures has not been authorized.



FINANCIAL SECTION



"A Kansan need not blush for his Statehouse."



Berberich Trahan & Co., P. A.

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Kansas Public Employees Retirement System:

We have audited the accompanying statement of plan net assets of the Kansas Public Employees Retirement System as of June 30, 1999, 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 and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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, 1999, and the changes in plan net assets for the year then ended, in conformity with generally accepted accounting principles.

The year 2000 supplementary information on page 35 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the System is or will become year 2000 compliant, that the System's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the System does business are or will become year 2000 compliant.

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, funding progress, and actuarial valuation included on pages 33 and 34, 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 39 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 1999, 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, 1990 and 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 29, 1999 on our consideration of the System's internal control structure over financial reporting and our tests on its compliance with certain provisions of laws and regulations.

Berberich Trahan & Co., P.A.

October 29, 1999

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
1999 ANNUAL REPORT

Statement of Plan Net Assets as of June 30, 1999
With Comparative Figures for 1998

	<u>1999</u> <u>Totals</u>	<u>1998</u> <u>Totals</u>
Assets		
Cash and Deposits		
Cash	\$ 54,166	\$ 1,034,595
Deposits with Insurance Carrier	<u>2,069,016</u>	<u>2,965,558</u>
Total Cash and Deposits	<u>2,123,182</u>	<u>4,000,153</u>
Receivables		
Contributions	25,330,580	24,380,626
Investment Income	56,074,813	59,030,645
Sale of Investment Securities	<u>1,580,844,479</u>	<u>2,083,083,518</u>
Total Receivables	<u>1,662,249,872</u>	<u>2,166,494,789</u>
Investments at Fair Value		
Domestic Large Cap. Equities	3,115,131,941	3,228,963,860
Domestic Small Cap. Equities	1,149,687,476	424,230,725
International Equities	1,471,961,073	1,329,489,541
Cash and Equivalents	212,958,637	32,500,527
Fixed Income	3,058,253,387	3,300,509,728
Alternative Investments	173,405,018	177,052,769
Real Estate	<u>525,952,258</u>	<u>538,333,090</u>
Total Investments	<u>9,707,349,790</u>	<u>9,031,080,240</u>
Invested Securities Lending Collateral	<u>507,876,140</u>	<u>568,245,311</u>
Fixed Assets and Supplies Inventory	<u>3,806,223</u>	<u>190,019</u>
Total Assets	<u>11,883,405,207</u>	<u>11,770,010,512</u>
Liabilities		
Administrative Costs	547,678	501,808
Benefits Payable	1,120,276	2,017,039
Securities Purchased	1,748,194,988	2,353,848,808
Securities Lending Collateral	<u>507,876,140</u>	<u>568,245,311</u>
Total Liabilities	<u>2,257,739,082</u>	<u>2,924,612,966</u>
Net assets held in trust for pension benefits (A schedule of funding progress for the plan is presented on page 34.)	<u>\$ 9,625,666,125</u>	<u>\$ 8,845,397,546</u>

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

FINANCIAL SECTION

Statement of Changes in Plan Net Assets
for the Fiscal Year Ended June 30, 1999
with Comparative Figures for 1998

	<u>1999</u> <u>Totals</u>	<u>1998</u> <u>Totals</u>
Additions		
Contributions		
Member Contributions	\$ 185,180,551	\$ 173,954,587
Employer Contributions	201,652,685	167,105,243
Total Contributions	<u>386,833,236</u>	<u>341,059,830</u>
Investments		
Net Appreciation in Fair Value of Investments	701,131,827	981,923,854
Interest	162,670,637	178,369,148
Dividends	69,869,740	65,588,023
Real Estate Income, Net of Operating Expenses	39,885,611	35,536,987
Other Investment Income	953,003	5,353,416
	<u>974,510,818</u>	<u>1,266,771,428</u>
Less Investment Expense	<u>(23,363,682)</u>	<u>(22,692,831)</u>
Net Investment Income	<u>951,147,136</u>	<u>1,244,078,597</u>
From Securities Lending Activities		
Securities Lending Income	<u>25,884,533</u>	<u>41,373,775</u>
Securities Lending Expenses		
Borrower Rebates	(21,819,685)	(36,703,726)
Management Fees	(1,219,259)	(1,400,718)
Total Securities Lending Activities Expense	<u>(23,038,944)</u>	<u>(38,104,444)</u>
Net Income from Security Lending Activities	<u>2,845,589</u>	<u>3,269,331</u>
Total Net Investment Income	<u>953,992,725</u>	<u>1,247,347,928</u>
Other Miscellaneous Income	<u>210,116</u>	<u>173,035</u>
Total Additions	<u>1,341,036,077</u>	<u>1,588,580,793</u>
Deductions		
Monthly Retirement Benefits Paid	(464,709,423)	(421,314,908)
Refunds of Contributions	(40,860,950)	(41,510,908)
Death Benefits	(7,862,525)	(7,682,253)
Insurance Premiums and Benefits	(41,892,190)	(37,639,743)
Administrative Expenses	(5,442,410)	(4,702,566)
Total Deductions	<u>(560,767,498)</u>	<u>(512,850,378)</u>
Net Increase	780,268,579	1,075,730,415
Net Assets held in trust for Pension Benefits		
Balance Beginning of Year	<u>8,845,397,546</u>	<u>7,769,667,131</u>
Balance End of Year	<u>\$ 9,625,666,125</u>	<u>\$ 8,845,397,546</u>

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

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NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR 1999

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 tax-exempt, 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	349	39	—
Townships	54	—	—
School Districts	304	—	—
Libraries	111	—	—
Conservation Districts	81	—	—
Extension Councils	78	—	—
Community Colleges	46	—	—
Recreation Commissions	35	—	—
Hospitals	32	—	—
Cemetery Districts	13	—	—
Other	141	—	—
Total	1,350	56	1

Membership by Retirement Systems

	KPERS	KP&F	Judges	Total
Retirees and beneficiaries currently receiving benefits	48,646	2,856	141	51,643
Terminated employees entitled to benefits but not yet receiving them	6,501	66	11	6,578
Inactive members not entitled to benefits	15,034	386	2	15,422
Current employees	141,355	6,387	243	147,985
Total	211,536	9,695	397	221,628

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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 percent 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 four percent to seven percent 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 percent of payroll over the prior year. During the 1995 legislative session, the statutory limits were increased to 0.2 percent of payroll over the prior year for fiscal years beginning in 1996 for state and school employers. The statutory increase for local units of government was amended to limit increases to no greater than 0.15 percent over the prior year for calendar years beginning in 1997. Annual increases in the employer contribution rates related to subsequent benefit enhancements are not subject to these limitations. 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 percent of covered payroll for KPERS and 0.4 percent 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. 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 collateralized with securities held by the State Treasurer or its custodian in the name of the State of Kansas;

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2. Collateralized with securities held by the pledging financial institution's trust department or custodian in the name of the State of Kansas; and,
3. Uncollateralized.

As of June 30, 1999, the cash deposits of \$54,166 held by the State Treasurer were in credit risk category "1." The Retirement System's deposits with its insurance carrier were \$2,069,016 at June 30, 1999, and were in credit risk category "3."

E. 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, 1999, the Retirement System did not have investments (other than those issued by the U.S. government) in any one organization representing five percent (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

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responsibilities, the Board of Trustees has contracted with 21 investment management firms, and a master global custodian that is located in Everett, 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, 1999, the Retirement System had futures contracts with a market value of approximately \$362,000,000. 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 type of securities lent include U.S. Government securities, domestic and international equities, and domestic and international bonds. The borrower collateralizes the loan with either cash or government securities of 102 percent of market value on domestic securities, and 105 percent 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. The System does not have the ability to pledge or sell collateral securities without a borrower default. At June 30, 1999, the maturities of securities in this dedicated bond portfolio are as follows: 71 percent of the market value of the securities mature within 30 days; 10 percent mature between 31 and 180 days; and 19 percent mature after 180 days. The custodian provides for full indemnification to the Retirement System for any losses that might occur in the event of borrower default. 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 1998 was \$3,269,331 and for fiscal year 1999 was \$2,845,588. The market value of securities on loan as of June 30, 1998 and June 30, 1999 were \$579,158,015 and \$519,343,683, respectively.

The Retirement System's international investment managers utilize forward contracts to hedge the exposure of the international investments to fluctuations in foreign currency. Active international investment managers use forward contracts to enhance returns or to control volatility. 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, 1999, the System had sold forward currency contracts with a market value of \$1,301,851,096



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and had bought forward currency contracts with a market value of \$1,284,895,217. 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 below as "not subject to classification." The schedule distributes by asset class the fair values of investments.

Investments:	Asset Classification			Fair Value
	1	2	3	
Subject to Classification				
Domestic Large Cap. Equities	\$3,090,960,877	—	—	\$3,090,960,877
Domestic Small Cap. Equities	1,118,628,505	—	—	1,118,628,505
International Equities	1,272,852,639	—	—	1,272,852,639
Fixed Income	2,138,104,569	—	126,696,972	2,264,801,541
Cash Equivalents	211,884,914 ⁽¹⁾	—	381,179,168 ⁽²⁾	593,064,082
Total Subject to Classification	\$7,832,431,504	—	\$507,876,140	8,340,307,644
Not Subject to Classification				
Alternative Investments				173,405,018
Real Estate				522,696,002
Mutual Funds				
Cash Equivalents				1,073,723
Domestic Fixed				690,723,243
Securities on Loan ⁽³⁾				487,020,300
Total Not Subject to Classification				1,874,918,286
Total Investments				\$10,215,225,930

- 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) Market value of securities loaned, with cash collateral.

F. Fixed Assets and Supplies Inventory

Furniture, fixtures, and equipment are reported on the balance sheet at historical cost, net of accumulated depreciation. These assets are depreciated on a straight line basis over an average useful life of three to ten years with no salvage value. Accumulated depreciation on furniture, fixtures, and equipment as of June 30, 1999, was \$2,106,737. Office supplies inventory in the amount of \$15,422 is included, assuming the first-in, first-out method.

In fiscal year 1999, the Retirement System purchased an office building and garage in Topeka, Kansas. Fifty percent of the floor space of the office building is used as the System's administrative headquarters and the remaining fifty percent is a real estate investment. The administrative portion of the building and garage are reported on the Statement of Plan Assets as a fixed asset and are subject to depreciation. At June 30, 1999 the carrying value of the System's administrative headquarters was \$3,639,391.

G. 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; the maximum amount is 60 days.

H. Reserves

K.S.A. 74-4922 and K.S.A. 74-4927 defines the title and use of the required reserves of the Retirement System. 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 eight percent (8%) for those who became members prior to July 1, 1993. For those who first became members after June 30, 1993, interest on employee contributions will be credited at the rate of four percent (4%) per year. The balance at June 30, 1999, was \$2,725,881,233, and was fully funded.

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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, 1999, was \$3,970,967,809. The unfunded liability was \$1,397,370,056.

The Retirement Benefit Payment Reserve represents the actuarially computed present value of future benefits for retired members plus interest credited for the current fiscal year, based upon information as of the preceding January 1. The balance at June 30, 1999, was \$4,116,369,164, and was fully funded.

The Group Insurance Reserve Fund 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, 1999, was \$189,586,717, and was fully funded.

The Expense Reserve represents an amount of investment income which is sufficient to maintain a year end account balance at two times the most recent fiscal year's administrative expense amount. The System's administrative expenses are charged to this reserve. The balance at June 30, 1999, was \$10,885,933, 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, 1999, was \$9,345,325, and was fully funded.

I. Budget

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

NOTE 3 - Funding Policy

A. Funding

The law governing the Retirement System requires the actuary to make an annual valuation of the System's liabilities and reserves, and a determination of the 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.

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An actuarial experience study was conducted for the three years ending December 31, 1997, effective June 30, 1998. As a result of this study, the Board of Trustees adopted new assumptions in regard to retirement rates, mortality, and withdrawal 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. The law further 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 were not changed; they 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, 1998 and June 30, 1999, can be attributed to the following (in millions):

Unfunded Actuarial Liability, June 30, 1998	\$1,591
Investment gain	(369)
Liability loss from actual experience	46
Effect of contribution cap/time lag	78
Expected increase due to amortization method	30
Refinement in Data / Procedures	<u>21</u>
Unfunded Actuarial Liability, June 30, 1999	<u>\$1,397</u>

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 1996 and 1997 actuarial valuations provide the basis for Board certification of employer contribution rates for fiscal years beginning in 1998 and 1999, respectively. The actuarially determined employer contribution rates derived from the actuarial valuations for fiscal years beginning in calendar years 1998 and 1999 are as follows:

<u>KPERS Membership Groups</u>	<u>Calendar Year 1998</u>	<u>Calendar Year 1999</u>
State/School Employees	5.33%	5.27%
Local Employees	3.86	3.86
Certain Correctional Employees	5.92/6.41	5.82/5.28
TIAA Employees	1.93	1.82

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, 1998 and June 30, 1999, the employer contribution rates for State/School employees were 3.79

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percent and 3.99 percent, respectively, and the employer contribution rates for Local employees were 2.78 percent and 2.93 percent, respectively.

KP&F. The uniform participating service rate for all KP&F employers was 9.45 percent for the fiscal year beginning in 1998 and 7.36 percent for the fiscal year beginning in 1999. 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. The total actuarially determined employer contribution rate was 15.67% of payroll for the fiscal years ended in 1998 and 1999.

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 four percent (4%) for KPERS members, seven percent (7%) for KP&F members, and six percent (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,TIAA	\$143,282	\$125,001	8.1%
KPERS - Local	25,642	37,578	7.1
KP&F	28,865	16,534	18.3
Judges	3,864	1,016	25.9
Total	\$201,653	\$180,129	8.9%

An estimated \$299 million of employer and employee contributions were made to cover normal cost, and an estimated \$55 million was made for the amortization of the unfunded actuarial accrued liability.

1) Member contributions do not include Optional Life Insurance contributions of approximately \$5.1 million.

C. Historical Trend Information

Historical trend information, showing the Retirement System's progress in accumulating sufficient assets to pay benefits when due, is presented on page 33 and is titled, "Required Supplemental Information."

NOTE 4 - Commitments and Contingencies

As of June 30, 1999, the Retirement System was committed for additional funding of \$2,508,629 in the form of capital expenditures on separate account real estate holdings in the portfolio and \$316,760,000 for capital calls on venture capital investments.

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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 ultimate outcome of the litigation cannot presently be determined. No provision for possible collection of any claims asserted in this litigation has been recorded in the Retirement System's financial statements.

Required Supplemental Information

Schedules of Employer Contributions

Year Ended <u>June 30</u>	Annual Required <u>Contribution</u>	Percentage <u>Contributed</u>
1990	\$ 100,786,386	100.0%
1991	105,291,265	100.0
1992	118,116,573	94.3
1993	116,407,549	100.0
1994	117,581,812	100.0
1995	129,083,585	100.2
1996(1)	173,927,737	82.5
1997	199,521,423	74.7
1998	216,270,482	77.3
1999	256,813,541	79.0

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

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Required Supplemental Information

**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)
01/01/90	\$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
06/30/98	7,749,203	9,340,685	1,591,482	83	4,273,627	37
06/30/99	8,601,876	9,999,246	1,397,370	86	4,480,717	31

- 1) 1993 legislation provided 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.

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	6/30/99	6/30/99	6/30/99
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	34 years	34 years	34 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 (1)	8%	8%	8%
Projected salary increases (1)	4.0% - 7.6%	6.0% - 7.6%	5.5%
Cost of Living Adjustment	none	none	none

- 1) Salary increases and investment rate of return include an inflation component of 3.5%.
- 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.

Required Supplemental Information

Year 2000 (unaudited)

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect certain types of business activity in the year 1999 and beyond. The usage of two digits to represent the year may cause data to be misinterpreted when the year 2000 arrives.

The following stages have been identified as necessary to address the year 2000 issue:

- Awareness Stage – In this stage, an organization establishes a budget and project plan for dealing with the year 2000.
- Assessment Stage – During this stage, an organization begins the actual process of identifying all of its systems and individual components that will be reviewed for the year 2000 readiness.
- Remediation Stage – The organization makes changes to systems and equipment.
- Validation /Testing Stage – In this final stage, the organization validates and tests the changes that have been made.

As of June 30, 1999, KPERS had completed the awareness and assessment stages for its computer systems, equipment, third party administrators, and vendors. The Retirement System hired an outside consulting firm to evaluate and verify our existing business systems to assure they will function properly in the future.

Subsequent to June 30, 1999, KPERS completed the remediation and validation /testing stages. The Retirement System established contingency plans in case we experience any problem with our computer hardware or software.

KPERS' master computer system processes benefit calculations, members and employers contribution records, and retirees benefit data. It was developed during the 1980's and has always used dates with the century and year together. Limited remediation was necessary to ensure compliance.

The System uses the State of Kansas' computer systems for processing actual payments of all benefits and expenditures. The State is responsible for the remediation of these systems and all state agencies are mandated by Executive Order No. 99- 2, issued in February 1999, to repair their information technology systems for year 2000 compliance. KPERS has also received documentation from third party providers and vendors ensuring that they are year 2000 compliant or expect to achieve compliance before December 31, 1999.

The above description of the stages of work completed to address year 2000 issues is not a guarantee all systems and equipment will be year 2000 compliant.

FINANCIAL SECTION

Schedule of Contributions
For the Fiscal Year Ended June 30, 1999

Kansas Public Employees Retirement System		
State / School Contributions		
Members	\$122,868,244	
Employers	118,088,757	
Insurance	<u>17,907,195</u>	
Total State / School Contributions		\$258,864,196
Local Contributions		
Members	37,578,390	
Employers	20,117,884	
Insurance	<u>5,522,667</u>	
Total Local Contributions		63,218,941
State Contributions - KPERS TIAA		
Employers	4,717,973	
Insurance	<u>2,568,529</u>	
Total KPERS TIAA State Contributions		<u>7,286,502</u>
Total Contributions -		
Kansas Public Employees Retirement System		\$329,369,639
Kansas Police and Firemen's System		
State Contributions		
Members	1,832,212	
Employers	<u>4,528,163</u>	
Total State Contributions		6,360,375
Local Contributions		
Members	15,484,511	
Employers	<u>25,686,851</u>	
Total Local Contributions		<u>41,171,362</u>
Total Contributions -		
Kansas Police and Firemen's System		47,531,737
Kansas Retirement System for Judges		
State Contributions		
Members	1,016,229	
Employers	3,791,115	
Insurance	<u>73,113</u>	
Total State Contributions		<u>4,880,457</u>
Total Contributions -		
Kansas Retirement System for Judges		4,880,457
Optional Life Insurance		
Member Contributions		
State Employees	3,120,276	
Local Employees	<u>1,931,127</u>	
Total Contributions		<u>5,051,403</u>
Total Contributions -		
Optional Life Insurance		<u>5,051,403</u>
GRAND TOTAL - ALL CONTRIBUTIONS		<u><u>\$386,833,236</u></u>

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KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
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Schedule of Administrative Expenses
For the Fiscal Year Ended June 30, 1999

Salaries and Wages		\$ 3,482,940
Professional Services		
Actuarial	\$ 188,872	
Legal	54,942	
Other Professional Services	46,459	
Data Processing	40,290	
Audit	32,500	
Total Professional Services	<u>363,063</u>	363,063
Communication		
Postage	212,121	
Telephone	96,759	
Printing	88,793	
Advertising	3,545	
Total Communication	<u>401,218</u>	401,218
Building Administration		
Real Estate Taxes	65,152	
Building Management	50,331	
Utilities	44,091	
Janitorial Service	34,130	
Total Building Administration	<u>193,704</u>	193,704
Miscellaneous		
Travel	106,019	
Temporary Services	100,259	
Supplies	85,114	
Repair and Service Agreements	51,352	
Dues and Subscriptions	43,604	
Fees-Other Services	32,249	
Office and Equipment Rent	15,377	
Depreciation	567,511	
Total Miscellaneous	<u>1,001,485</u>	1,001,485
Total Administrative Expenses		<u><u>\$ 5,442,410</u></u>

FINANCIAL SECTION

Schedule of Investment Income by Asset Class

For the Fiscal Year Ended June 30, 1999

Asset Classification	Interest, Dividends and Other Transactions	Gains and Losses	Total
Marketable Equity Securities			
Domestic Large Capitalization	\$35,868,511	\$514,754,628	\$550,623,139
Domestic Small Capitalization	5,652,628	134,110,794	139,763,422
International Equities	24,403,727	115,476,620	139,880,347
Subtotal Marketable Equities	65,924,866	764,342,042	830,266,908
Marketable Fixed Income Securities			
Domestic Fixed Income			
Treasury and Agency	39,762,470	(35,193,058)	4,569,412
Corporate	69,135,203	(24,202,131)	44,933,072
International Fixed Income	41,192,755	16,383,747	57,576,502
Subtotal Marketable Fixed	150,090,428	(43,011,442)	107,078,986
Temporary Investments	9,355,434	5,559,273	14,914,707
Total Marketable Securities	225,370,728	726,889,873	952,260,601
Real Estate	39,885,611	(18,539,894)	21,345,717
Alternative Investments	7,169,648	(7,218,152)	(48,504)
Total Real Estate and Alternative Investments	47,055,259	(25,758,046)	21,297,213
Other Investment Income			
Securities Lending	2,845,589	—	2,845,589
Recoveries from Litigation	390,692	—	390,692
Recaptured Broker Commissions	562,312	—	562,312
Total Other Investment Income	3,798,593	—	3,798,593
Investment Income	\$276,224,580	\$701,131,827	\$977,356,407
			Manager and Custodian Fees and Expenses
			Investment Manager Fees (20,272,208)
			Custodian Fees and Expenses (1,143,463)
			Other Investment Expenses (1,948,011)
			Total Investment Fees and Expenses (23,363,682)
			Net Investment Income \$953,992,725

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
1999 ANNUAL REPORT

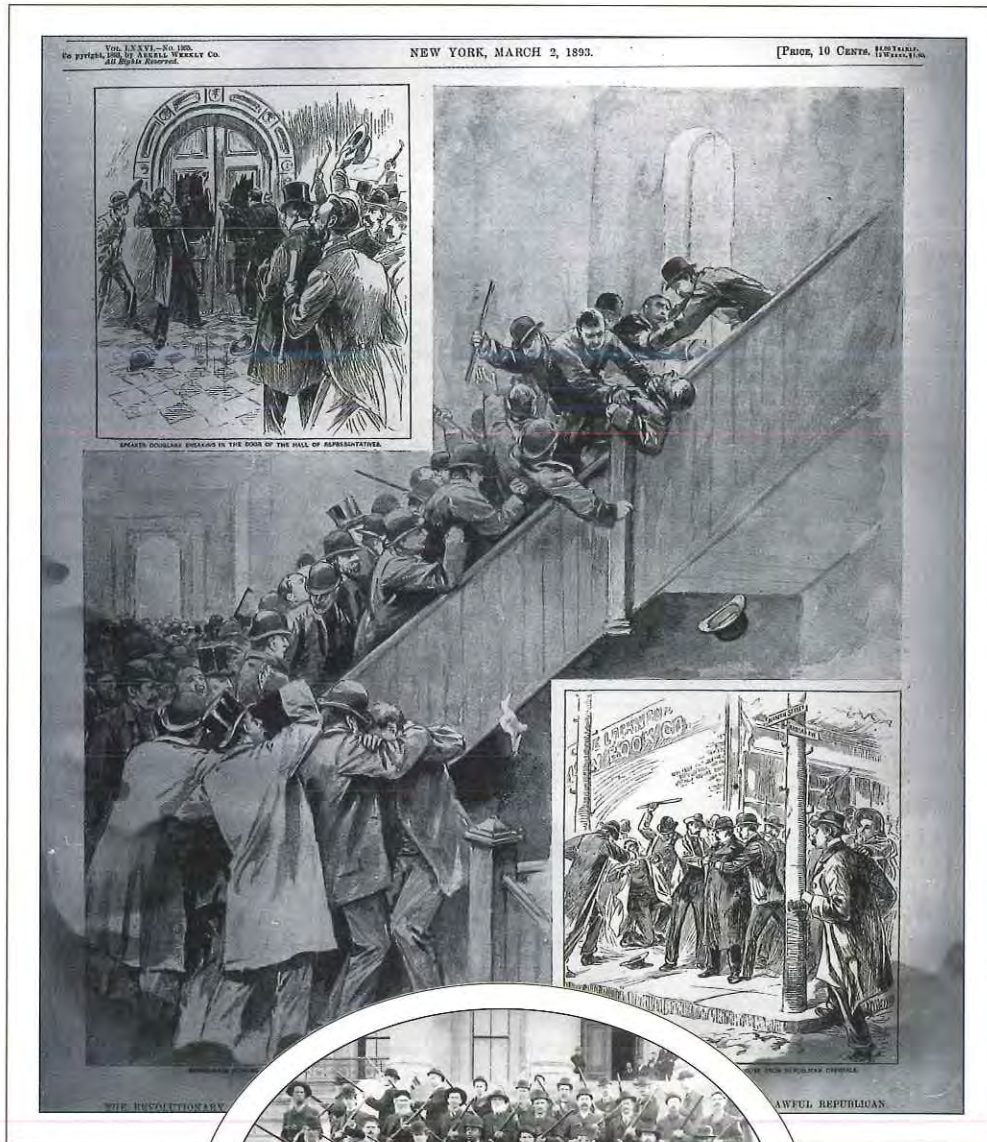
Schedule of Investment Fees and Expenses

For the Fiscal Year Ended June 30, 1999

Domestic Equity Large Capitalization Managers		
Barclays Global Investors	\$1,730,244	
Brinson Partners, Inc.	1,181,506	
Pilgrim, Baxter & Associates	288,650	
Provident Investment Counsel	<u>1,296,579</u>	
Subtotal Equity Large Capitalization Managers		\$4,496,979
Domestic Equity Small Capitalization Managers		
Barclays Global Investors	180,127	
Capital Guardian Trust Co.	652,926	
Pilgrim, Baxter & Associates	<u>1,371,651</u>	
Subtotal Equity Small Capitalization Managers		2,204,704
International Equity Managers		
Alliance Capital Management	634,591	
Bankers Trust Company	200,260	
Lazard Freres Asset Management	861,348	
Morgan Stanley Asset Management	776,292	
Nomura Capital Management	<u>624,848</u>	
Subtotal International Equity Managers		3,097,339
Fixed Income Managers		
Barclays Global Investors	649,782	
The Boston Company	699,349	
Fiduciary Trust Company International	410,089	
Julius Baer Investment Management	733,603	
Loomis, Sayles & Co.	1,050,552	
Pacific Investment Management Co.	<u>1,919,858</u>	
Subtotal Fixed Income Managers		5,463,233
Foreign Currency Overlay Manager		
Pareto Partners	<u>1,101,354</u>	
Subtotal Foreign Currency Overlay Manager		1,101,354
Real Estate and Alternative Investment Managers		
Lend Lease	1,274,723	
L & B Core Group Trust	672,022	
Pacholder Associates	60,000	
Portfolio Advisors	<u>1,700,227</u>	
Subtotal Real Estate and Alternative Managers		3,706,972
Cash Equivalent Manager		
Payden & Rygel Investment Counsel	<u>201,627</u>	
Subtotal Cash Management		<u>201,627</u>
Total Investment Management Fees		20,272,208
Other Fees and Expenses		
Mellon Trust - Custodian Fees and Expenses	1,143,463	
Consultant Fees	365,458	
Litigation Expenses	<u>1,582,553</u>	
Subtotal Other Fees and Expenses		<u>3,091,474</u>
Total		<u><u>\$23,363,682</u></u>



INVESTMENT SECTION



The Republicans, infuriated at being locked out of the House by the Populists, hacked through the tall wooden doors with axes . . .

FISCAL YEAR 1999 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 returns, by asset category and in total, for the fiscal year ended on June 30, 1999. 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 and the external investment managers. All the information presented has received the benefit of rigorous oversight and affirmation, custodial review and internal staff analysis. It represents an accurate snapshot of the System's investments as of June 30, 1999.

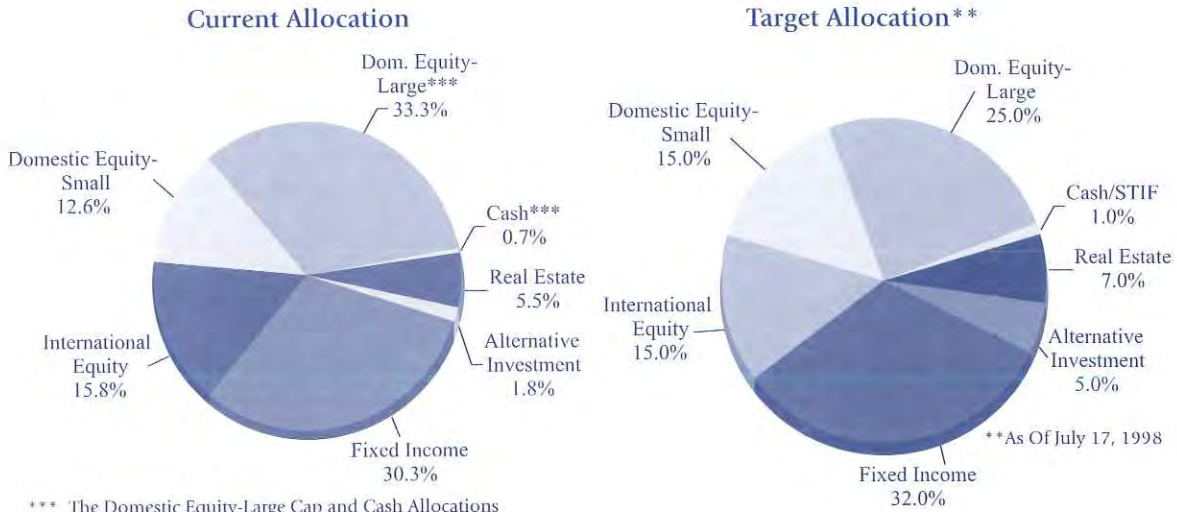
Kansas Public Employees Retirement System participants are provided a contractual promise of future and contingent benefits. These benefits are guaranteed, regardless of investment performance. Investment performance is critical nonetheless, as it has direct impact on future funding costs of the System. 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

- Robert 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 \$9.6 billion. This money receives the benefit of a diversified, carefully monitored investment portfolio that includes stocks, bonds, real estate, alternative investments and cash.

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
1999 ANNUAL REPORT



*** The Domestic Equity-Large Cap and Cash Allocations reflect the impact of the Cash Securitization Portfolio.

**As Of July 17, 1998

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 has carefully selected several domestic and international managers to supervise a total of 12 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.

The bond holdings in the portfolio are similarly diversified, as are the managers. As with the equity investments, the portfolio is diversified across both domestic and international opportunities. The Board has chosen four domestic managers and one international manager 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. During fiscal year 1999, \$465 million in retirement benefits were distributed to members and their families.

Thanks largely to the strong returns posted in the domestic and international stock markets the total portfolio returned 11.2 percent, 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 are pleased to report that the total portfolio exceeded, by .60 percent, what the expected returns would have been had we been invested in the averages or the indexes of the various asset classes.

While out performing in total, the performance by asset class was mixed. Most disappointing was the domestic equity portfolio, which, at nearly 44 percent of the total, represents the largest single

INVESTMENT SECTION

asset class. As detailed later in this commentary, the largest part of this under performance can be traced to our domestic equity strategy, which provides for investments in large and small companies. Whereas the largest companies in the U.S. typically provided the best performance, smaller companies trailed. By owning the broader spectrum, overall performance suffered. We recognize that this relative performance tends to move in cycles, however, and intend to maintain a disciplined exposure to both large and small companies.

Investment Performance Report For the Period Ending June 30, 1999

Time-Weighted Return (1)	Last Year	Latest 3 Years	Latest 5 Years
Total Portfolio	11.2%	14.0%	15.7%
Policy Index	10.6%	13.4%	13.3%
Consumer Price Index	2.0%	2.0%	2.3%
Domestic Equity Large Cap Portfolio	20.5%	23.6%	25.4%
KPERS Equity Benchmark	24.4%	29.0%	27.8%
Domestic Equity Small Cap Portfolio	5.7%	6.9%	20.5%
KPERS Small Cap Equity Benchmark	2.8%	11.7%	15.7%
International Equity Portfolio	10.3%	12.9%	12.3%
KPERS Int'l Equity Benchmark	9.0%	9.8%	9.4%
Fixed Income Portfolio	3.4%	6.9%	8.4%
Lehman Brothers Long Gov't/Corp Index	-0.6%	8.6%	9.7%
Real Estate Portfolio	4.2%	7.9%	6.3%
NCREIF Real Estate Index	15.6%	14.3%	11.9%
Alternative Investment Portfolio	-1.9%	22.8%	34.1%
S&P 500 Index + 4%	26.8%	33.1%	31.9%
Cash Equivalents Portfolio	5.9%	6.1%	6.4%
Merrill Lynch 0-1 Yr. Treasury Index	5.1%	5.5%	5.7%

1) Time weighted total return includes income and changes in market value.

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, we are able to monitor the risk being assumed versus the return earned.

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 divided by asset class. The Deputy Chief Investment Officer is assigned to publicly traded securities, the Real Estate Investment Officer to real estate and the Alternative Investment Officer is in charge of alternative investments. These individuals' 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 the extraordinary returns we've recently experienced have begun to moderate somewhat, 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, Deputy Chief Investment Officer

Fiscal year 1999 was very active in terms of positioning assets to comply with the asset allocation adopted by the Board of Trustees during the summer of 1998. The asset allocation set forth the strategic mix of asset classes including equity, fixed income, real estate and alternative investments. The mix of portfolios within each asset class was also analyzed and several changes were made in an effort to control risk at both the asset class and total fund levels. The performance of each publicly traded asset class, as well as the performance of the System, are summarized in the following paragraphs. The summaries incorporate two changes modeled in the recent asset/liability study. One change deals with separating the domestic stock market into two segments, by capitalization. Capitalization refers to the size of company, and is determined by multiplying the company's outstanding shares by its share price. The second change combines domestic and international fixed income securities into a single asset class.

Large-Capitalization Domestic Equities. During the 12 month period ending June 30, 1999, the performance of large-capitalization stocks, as measured by the return of the S&P 500 Index, was an extraordinary 22.8 percent. This was very impressive considering that during the first two months of the period the index declined by 15.4 percent.

After analyzing the manager structure of the asset class additional assets were dedicated to index or near-index strategies. This reallocation was done to limit the System's risk relative to the portfolio's benchmark.

The System's managers combined to produce a one-year return of 20.5 percent, versus 24.4 percent for the customized benchmark. The large-cap customized benchmark is the Standard & Poor's 500 Index excluding the stocks of banks, savings and loans and credit unions. These exclusions are necessary because the System is prohibited by the State Constitution from investing in the common stock of banks, and by State statutes which prohibit investing in bank, savings and loan and credit union equity securities.

Small-Capitalization Domestic Equities. During the most recent fiscal year the performance of small-capitalization stocks was far less spectacular than the return of their large-cap counterparts. Small stocks, as measured by the Russell 2000 Index, struggled to return 1.5 percent for the year, after having suffered a loss of 25.9 percent during the first two months of the period.

Fiscal year 1999 saw a significant change in the System's allocation to small cap stocks as well as a change in how the strategy is implemented. The allocation to small-cap equities was increased after the asset/liability study suggested that the efficiency of the overall portfolio would be enhanced. After beginning the year with two actively managed portfolios, two portfolios were added to enhance the risk/return characteristics of the overall asset class. The new portfolios employ an index strategy and a near-index strategy.

For the year the System's managers produced a return of 5.7 percent. This return outperformed the small-cap benchmark, the Russell 2000 less prohibited securities, which returned 2.8 percent.

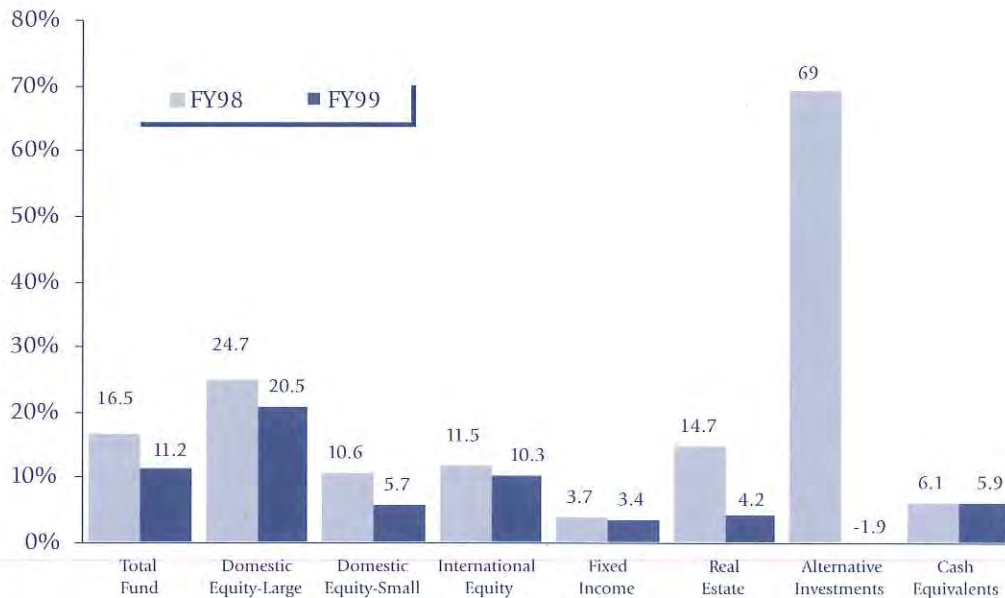
INVESTMENT SECTION

International Equities. Overall, shares of stocks trading overseas ended the fiscal year with positive returns. The Morgan Stanley Europe Australia and Far East (EAFE) Index returned 7.9 percent after suffering a 14.2 percent decline during the first quarter. The return of the EAFE Index hides the great disparity of returns experienced between the European and Pacific Basin regions. After an extended period of poor performance, Pacific Basin markets returned 32.6 percent for the year while the European markets returned a negative 0.8 percent (as measured by the Morgan Stanley Pacific and Europe Indexes).

After analyzing the manager allocations minor changes were made that shifted a portion of the index portfolio to two managers with active management mandates.

The System experienced returns from their managers in excess of the benchmark. The international equity portfolio returned 10.3 percent for the fiscal year versus 9.0 percent for the Morgan Stanley EAFE Index excluding the stocks of banks, savings and loans and credit unions.

Return Comparison by Asset Class
For The Fiscal Years Ending June 30, 1998 and June 30, 1999



Growth in Net Asset Value

Fixed Income. The fixed income asset class was another area that experienced a significant change in the amount allocated as well as a change in how the strategy is implemented. The previous allocation targets called for almost 37 percent of the System's assets to be invested in a combination of two asset classes, domestic fixed income and international fixed income. After thoroughly analyzing the System's liabilities it was determined that a smaller allocation of longer maturity fixed income securities, when combined with the other asset classes, would be a more appropriate fit. Implementing the new strategy required several changes. The amount of the portfolio devoted to international securities was reduced, the duration (a time-weighted measure of cash flows) of a core portfolio was increased and plans were finalized to further increase the portfolio's duration through an internally managed portfolio.

For the year, the overall fixed income portfolio returned 3.4 percent. This compared favorably with the Lehman Long Government/Corporate Bond Index that returned a negative 0.6 percent. Most of the outperformance can be attributed to the relatively shorter maturity and duration of the System's portfolio during a period of rising long-term interest rates.

Real Estate

- Robert Schau, Real Estate Investment Officer

For the fiscal year ended June 30, 1999, the real estate portfolio generated a total return of 4.2 percent. This return includes appreciation or depreciation of real estate assets and all income received. This significantly underperformed the benchmark NCREIF index, which generated a return of 15.6 percent. The NCREIF index consists of a broad collection of properties that are intended to represent the domestic institutional real estate market.

The primary cause of this year's under performance was exposure to public real estate equity in the form of real estate investment trusts, or REITs. The System's REIT portfolios outperformed their benchmark, the Morgan Stanley REIT index, by 100 basis points, returning -7.4 percent compared to -8.4 percent for the index. This relative performance was overshadowed, however, by the negative comparative performance of the public versus the private market. Given that private real estate, as measured by the NCREIF index, returned 15.6 percent, the public real estate market underperformed by an unprecedented 24.0 percent. Part of the logic in adopting the REITs as a part of the overall real estate strategy included the expectation that REITs would behave more like real estate than either cash or domestic equity investments. An unusual confluence of capital market events, few of which had to do with the actual real estate within the REIT portfolios, created what we believe to be a performance aberration for REITs. Valuations have declined to a point where many companies are priced at less than the value of their underlying assets, a situation that we do not expect will remain indefinitely.

The overall fundamentals of the national property market remain good, with occupancy rates in most locations and property types exceeding 90 percent. A short contraction in the third quarter quickly ended what appeared to be a sharp upswing in speculative development. This was significant in that it marked the first time that institutional investors reacted to potential over development in a pro-active manner.

The most important return component within the KPERS real estate strategy is current income, which exceeded 11 percent in fiscal year 1999. Current income provides a consistent source of returns and helps dampen overall volatility as measured by variability of returns. Over the past three years, the portfolio has generated an average return of 7.9 percent with volatility of 5.7 percent. This results in a return/risk ratio of 1.4, the third highest ratio for any non-cash asset class and exactly matching the aggregate portfolio. As intended, Real Estate is providing moderate returns, at moderate to low risk levels, that are largely uncorrelated with returns elsewhere in the portfolio.

The target allocation to real estate remains at seven percent. We have continued to explore and implement strategic dispositions, as appropriate. The current holdings represent approximately 5.5 percent of the aggregate portfolio and are about evenly divided between public and private equity. The long-term target to REITs is substantially lower, but the System re-invested the proceeds from several property sales into REITs to avoid diluting the asset class' weighting. Following modi-

fications to the state laws governing direct private investments, the System has been making preparations to make additional private real estate investments. The Board is considering a diversified strategy within a stringent set of investment parameters. In addition, an independent third-party expert has been retained to review every investment considered. As a consequence, for fiscal year 2000 we expect to see growth in the private real estate investments and a corresponding reduction in public REITs.

Alternative Investments

- Janet Kruzel, Alternative Investment Officer

Alternative investments are traditionally those investments that do not trade publicly on an organized exchange. They may include private equity, venture capital, buyout, mezzanine financing, distressed securities and natural resources. These investments are frequently made in a 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 investment in alternatives to five percent of the total fund. While arguably more risky as stand alone investments, when taken as 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.

The current KPERS alternative investment program was launched in fiscal year 1997. At that time the Board of Trustees selected a professional, non-discretionary consultant to assist with the development and execution of a long-term strategy of alternative investments. Expanded policies and guidelines were developed and put in place to ensure that special attention would be paid to the disciplined monitoring and oversight necessary to produce the expected portfolio benefits and the prudent management of risk. This strategy was initiated at the beginning of fiscal year 1998, and its implementation continued throughout fiscal year 1999. The target asset allocation for this program is five percent of System assets. The objective is to create investment returns that exceed, over a market cycle, public equity returns by an average of four percent per year.

The Retirement System has utilized the limited partnership form of investment in its current alternative investment program. Limited partnerships are formed by a general partner who selects and manages the investments of the partnership, and limited partners who invest their capital in the partnership. The life of the partnership is typically ten to twelve years. As a limited partner, the System participates along with other institutional investors (which may be public or private funds, banks, insurance companies or endowment funds), high net worth individuals and/or other entities. The general partner usually invests its capital alongside the limited partners and thus shares in any positive or negative returns.

In building the program, general partner selection is a most critical factor. During fiscal years 1998 and 1999, a rigorous process of due diligence resulted in the selection and recommendation of 27 partnerships to the KPERS Board. The Board reviewed each opportunity prior to committing the System as a partner. The portfolio is thus diversified among many different managers, as well as several styles of investment. The KPERS portfolio includes strategies focused on venture capital, buyout, mezzanine, distressed securities and natural resources.

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
1999 ANNUAL REPORT

At the end of fiscal year 1999, alternative investments represented 1.8 percent of the total fund. Commitments to invest in partnerships are actually drawn down over several years as the underlying investments are made. Those underlying investments may be held by the partnership two to seven years before exits are achieved. Distributions of cash or in-kind securities result from successful investment exits and are expected to begin approximately midway through the partnership's life. For these reasons, it will likely be several years before the System actually reaches the five percent target allocation.

Additional Investment Schedules

As required by K.S.A. 79-4904, a schedule of alternative investments initiated on or after July 1, 1991, is listed below. Another schedule, summarizing changes in the fair value of investments, is on page 50. A listing of domestic broker commissions paid in fiscal year 1999 and the top ten equities and fixed income holdings at fiscal year end are shown on page 51.

Alternative Investments Initiated On or After July 1, 1991

Shares	Description	As of June 30, 1999	
		Cost	Market Value
Included in Alternative Investments Portfolios:			
900,000	Apax Europe IV LP	\$ 944,490	\$ 944,490
500,000	Battery Ventures V LP	500,000	500,000
2,951,037	Beacon Group Energy Fund II	2,534,956	2,535,360
5,717,772	Behrman Capital II LP	4,981,520	4,981,517
1,542,550	Candover 1997 US #1 Fund LP	2,281,551	2,281,551
1,112,294	Capital Resource Partners IV	999,404	999,404
201,576	Clayton Dubilier & Rice VI LP	80,350	80,350
7,804	Cypress Merchant Banking II	—	—
2,250,000	El Dorado Ventures IV LP	2,132,865	2,140,353
9,012,000	Harvest Partners III LP	8,574,361	8,574,359
2,498,114	Kelso Investment Assoc VI	2,116,552	2,115,286
10,600,000	McCown De Leeuw & Co IV LP	10,023,239	10,772,748
15,609,912	MD Sass Corp Resurgence	11,061,738	11,669,845
506,250	Oak Hill Capital Partners LP	506,250	506,250
13,000,000	OCM Opportunities Fund II LP	13,477,783	12,247,001
3,600,000	OneLiberty Fund IV LP	3,387,044	3,282,318
7,000,000	Pacholder Value Opportunity	7,215,882	5,412,288
2,087,478	The Second Cinven Fund US LP	3,278,302	3,279,262
7,258,945	Thomas H Lee Equity Fund IV LP	7,232,371	7,374,260
1,573,438	Trinity Ventures VI LP	1,508,688	1,508,688
7,995,468	Triumph Partners III LP	7,302,950	7,322,505
399,863	VS & A Communications III	650,192	650,192
4,200,000	Warburg Pincus Equity	3,995,981	3,985,552
5,600,000	Welsh Carson VIII LP	5,392,761	5,617,713
5,368,016	Willis Stein & Partners II LP	4,981,923	4,981,921
7,294,374	Winward Capital Partners II	6,775,388	6,775,387
	Subtotal	\$ 111,936,541	\$ 110,538,600
Included in Fixed Income Portfolios:			
1,510,000	Coral Group PLC Notes 144A 10% 2/15/2009	2,456,375	2,348,958
2,250,000	Lithuania Rep Notes 144A 8% 3/29/20004	2,436,552	2,289,375
3,950,000	Federal Mogul Co Notes 144A 7.5% 1/15/2009	3,932,857	3,645,218
4,450,000	Fruit of the Loom Inc 144A 8.875% 4/15/2006	4,370,000	3,827,000
2,150,000	Lyondell Chemicals Co 144A 9.625% 5/1/2007	2,150,000	2,201,063
900,000	Telecorp PCS Inc Sr Sub 144A 0.0% 4/15/2004	496,750	497,250
1,250,000	United Rentals Inc Notes 144A 9% 4/1/2009	1,250,000	1,225,000
	Subtotal	\$ 17,092,534	\$ 16,033,864
	Total	\$ 129,029,075	\$ 126,572,464

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INVESTMENT SECTION

Investment Summary

(In Thousands) (1)

For the Fiscal Year Ended June 30, 1999

	June 30, 1998 Fair Value	Purchases and Other Increases	Sales and Other Decreases	June 30, 1999 Fair Value	Asset Mix Fair Value
Marketable Securities					
Domestic Equities					
Large Capitalization	\$3,228,964	\$1,033,407	(\$1,147,239)	\$3,115,132	32.09%
Small Capitalization	424,231	1,313,070	(587,613)	1,149,688	11.84
International					
Equities	1,329,489	559,238	(416,766)	1,471,961	15.17
Total					
Fixed Income	3,300,510	6,977,684	(7,219,941)	3,058,253	31.50
Temporary (2)					
Investments	<u>32,500</u>	<u>24,273,373</u>	<u>(24,092,914)</u>	<u>212,959</u>	<u>2.20</u>
Total Marketable Securities	<u>8,315,694</u>	<u>34,156,772</u>	<u>(33,464,473)</u>	<u>9,007,993</u>	<u>92.80</u>
Real Estate and Alternative (3)					
Investments					
Real Estate	538,333	107,821	(120,202)	525,952	5.42
Direct Placements and Limited Partnerships	<u>177,053</u>	<u>158,009</u>	<u>(161,657)</u>	<u>173,405</u>	<u>1.78</u>
Total Real Estate and Alternative Investments	<u>715,386</u>	<u>265,830</u>	<u>(281,859)</u>	<u>699,357</u>	<u>7.20</u>
Total	<u><u>\$9,031,080</u></u>	<u><u>\$34,422,602</u></u>	<u><u>(\$33,746,332)</u></u>	<u><u>\$9,707,350</u></u>	<u><u>100.00%</u></u>

1) Amounts include changes in unrealized appreciation and exclude interest and dividend accruals. Amounts do not include security lending cash collateral of \$568,245,311 for FY 1998, or FY 1999 cash collateral of \$507,876,140.

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

3) Alternative investments initiated prior to July 1, 1991 are reported with a cost basis of \$39,566,984 and a fair value of \$46,832,554.



KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
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**Broker Commissions Paid - Domestic
For the Fiscal Year Ending June 30, 1999**

Broker Name	Commissions Paid	Shares	Commission Per Share	Percent of Total Commissions
Investment Technology Groups	\$ 625,452	25,530,047	\$ 0.02	16.9%
Lynch Jones & Ryan Inc	435,978	7,789,266	0.06	11.8
Merrill Lynch Pierce Fenner Smith Inc	284,429	16,621,165	0.02	7.7
Capital Institutional Investors	231,702	4,353,604	0.05	6.3
Instinet Corporation	169,421	9,114,514	0.02	4.6
Frank Russell Securities Inc	148,796	2,721,900	0.05	4.0
Legg Mason Wood Walker Inc	148,412	3,415,721	0.04	4.0
Morgan Stanley & Co Inc	143,301	4,453,637	0.03	3.9
DB Clearing Services	116,667	1,638,028	0.07	3.1
Smith Barney Inc	110,377	5,742,326	0.02	3.0
Goldman Sachs & Co	92,681	10,773,519	0.01	2.5
Donaldson Lufkin & Jenrette	90,687	3,469,306	0.03	2.4
J P Morgan Securities Inc	86,235	2,227,784	0.04	2.3
Lehman Bros Inc	65,662	3,100,153	0.02	1.8
Credit Suisse First Boston Corp	61,203	2,738,820	0.02	1.7
Cantor Fitzgerald & Co Inc	59,296	2,291,660	0.03	1.6
Jefferies & Co Inc	58,534	1,915,650	0.03	1.6
Paine Webber Inc	47,522	1,387,450	0.03	1.3
Oppenheimer & Co Inc	42,145	1,461,855	0.03	1.1
Ernst & Co	38,287	852,509	0.04	1.0
Alex Brown Inc	38,226	7,174,949	0.01	1.0
Sanford Bernstein & Co	38,050	747,800	0.05	1.0
Weeden & Co	33,523	849,957	0.04	0.9
Abn Amro Chicago Corp	33,405	832,863	0.04	0.9
Montgomery Securities	30,495	2,923,184	0.01	0.8
Other	475,792	23,781,586	0.02	12.8
Total Broker Commissions	\$ 3,706,278	147,909,253	0.03	100.0%

**List of Largest Holdings ^(a)
as of June 30, 1999**

EQUITIES			FIXED INCOME			
Shares	Security	Market Value (\$)	Par Value ^(b)	Security	Description	Market Value (\$)
1,419,336	Microsoft Corporation	\$ 128,006,366	\$ 72,337,000	U.S. Treasury Bonds	7.25% 08/15/2022	\$ 89,995,016
798,566	General Electric	90,237,958	46,000,000	Germany Fed Republic Bonds	6.25% 04/26/2006	52,857,806
897,415	Lucent Technologies	60,519,424	52,825,000	Niagara Mowhawk Power	6.50% 07/01/1999	52,825,000
936,480	Cisco Systems Inc	60,344,437	50,000,000	Heller Financial Mtn	Fltg Rate 04/28/2003	50,179,000
1,032,426	Wal Mart Stores Inc	49,814,555	45,900,000	Commit to Purchase FHLMC	6.00% 07/15/2029	43,289,667
577,034	MCI Worldcom Inc	49,660,989	43,500,000	Commit to Purchase GNMA	6.50% 08/15/2029	42,011,865
413,682	American Intl Group Inc	48,504,215	42,000,000	Commit to Purchase FHLMC	6.50% 07/15/2029	40,648,020
619,310	Exxon Corp	47,764,284	35,875,000	FHLMC Group	7.00% 08/01/2029	35,437,773
365,870	IBM Corp	47,288,698	34,000,000	Germany Fed Republic Bonds	3.75% 01/04/2009	33,072,254
758,012	Intel Corp	45,101,714	27,666,000	Germany Fed Republic Bonds	5.00% 08/20/2001	29,541,988

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

(b) In Local Currency

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JOHN STEUART CURRY PAINTINGS

One of the most interesting subjects of 20th century art history is housed on the second floor of the Statehouse. In 1937, native Kansan, John Steuart Curry, from Dunavent, Kansas, was commissioned to paint a series of murals depicting Kansas history. Curry had left his native state for the Chicago Art Institute, and then an art colony in Connecticut. He gained national recognition for his paintings of Midwest pioneer life, along with contemporaries, Thomas Hart Benton of Missouri and Gene Grant of Iowa.

Curry's return to Kansas brought out an enormous amount of criticism that eventually led him to abandon his work before completion. His art showed a raw and rough Kansas. Some critics preferred that the murals be more serene, with depictions of waving wheat and sunflowers. Controversy followed some of the most trivial aspects of his paintings. One was that the Hereford bull was too red. Another was that pigs' tails don't curl when they eat. And there was even disagreement over the pioneer woman's skirt length, because it "stopped at the knees."

Curry planned to tell the Kansas story in three acts: (1) The settlement of Kansas, including

the conquistadors, the plainsmen, and John Brown, (2) the life of the homesteader, and (3) pastoral prosperity. He asked that the Italian marble panels on the second floor be moved to the third floor so he could paint the life of the homesteader. However, the Kansas Council of Women opposed the removal of the marble, saying the murals did not portray "the true Kansas. Rather than revealing a law-abiding, progressive state, the artist has emphasized the freaks in its history..." Attempts made to persuade the council to let Curry finish his work were unsuccessful. Curry abandoned his project without signing his two completed murals.

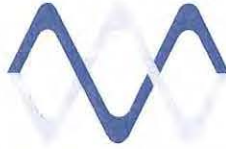
The two completed works are larger than life. One includes the well-known figure of abolitionist John Brown, whose outstretched arms and hands hold the Holy Bible and a "Beecher" Bible (rifle). At his feet lie two fallen figures symbolizing the 1.5 million men who died in the Civil War, while behind him a fierce tornado surges and a prairie fire rages, fitting symbols of the destruction of the Civil War. The mural was Curry's most famous work and continues to be photographed and reproduced for textbooks and other works around the world.

ACTUARIAL SECTION



"The theme I have chosen is historical in more than one sense . . . it is my family's tradition and the tradition of a great majority of Kansas people."

JOHN STEUART CURRY



MILLIMAN & ROBERTSON, INC.

Actuaries & Consultants

Internationally WOODROW MILLIMAN

Suite 500, 10050 Regency Circle, Omaha, Nebraska 68114-3720

Telephone: 402/393-9400

Fax: 402/393-1037

October 22, 1999

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

Dear Members of Board:

We have conducted our annual valuation of the Kansas Public Employees Retirement Systems as of June 30, 1999. The results of the valuation are contained in the following "Board Summary" and include schedules summarizing contribution rates, changes in System's assets, and unfunded actuarial liabilities. We also provided the information for the years 1994 through 1999 that was used in the Schedule of Funding Progress located in the financial section.

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 principles of practice prescribed by the Actuarial Standards Board. The assumptions comply with the requirements of Statement 25 of the Government Accounting Standards Board.

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 internally consistent, reasonable (taking into account the experience of the Plan and reasonable expectations of future experience) 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.

Patrice A. Beckham, FSA
Principal

David P. Hayes, FSA
Principal

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KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
1999 ANNUAL REPORT

SECTION I

BOARD SUMMARY

OVERVIEW

This report presents the results of the June 30, 1999 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 valuations are to:

- determine the employer contribution rates required to fund each System on an actuarial basis,
- determine the statutory employer contribution rates for each System,
- disclose asset and liability measures as of June 30, 1999,
- determine the experience of the System over the past year, 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, 1999. The unfunded actuarial liability decreased by \$194 million, largely due to investment return on the actuarial value of assets in excess of the 8% assumed. A detailed analysis of the change in the unfunded actuarial liability from June 30, 1998 to June 30, 1999 is shown on page 58.

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 plus the cost of any benefit enhancements granted by the Legislature. 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 1.22% and 0.51% respectively for the State/School and Local groups. This shortfall in contribution rates is reflected in an increase in the unfunded actuarial liability from year to year, which would otherwise not occur.

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ACTUARIAL SECTION

A summary of actuarial and recommended employer contribution rates follows:

System	1999 Valuation		Difference
	Actuarial	Recommended	
State/School	6.00%	4.78% ¹	1.22%
Local	3.88%	3.37% ¹	0.51%
TIAA	2.03%	2.03%	0.00%
Police & Fire -Uniform Rates ²	6.89%	6.89%	0.00%
Judges	15.68%	15.68%	0.00%
Weighted Average	5.33%	4.42%	0.91%

System	1998 Valuation		Difference
	Actuarial	Recommended	
State/School	6.15%	4.58% ¹	1.57%
Local	3.89%	3.22% ¹	0.67%
TIAA	1.81%	1.81%	0.00%
Police & Fire -Uniform Rates ²	7.35%	7.35%	0.00%
Judges	16.14%	16.14%	0.00%
Weighted Average	5.45%	4.28%	1.17%

¹ Rates, by statute, are allowed to increase by a maximum of 0.20% and 0.15% per year plus the cost of any benefit enhancements for State and Local employers respectively.

² For KP&F, the recommended contribution rate is equal to the "Uniform" rate. The rate shown is for local employers. The rate for State employers is 6.57%. The uniform rate does not include the payment required to amortize the unfunded past service liability or any 15% excess benefit liability determined separately for each employer.

Employer Contribution Rates for Correctional Employee Groups are:

- Retirement Age 60: 6.81%
- Retirement Age 55: 7.39%

The funding objective of the plan is to establish contribution rates that over time will remain relatively level, as a percentage of payroll, and to pay off the unfunded actuarial liability by the year 2033. There was a net decrease of \$194 million in the unfunded actuarial liability from the 1998 to the 1999 valuation. Under current projections, the actuarial and statutory rates are expected to converge, indicating the System's funding objective should be achieved.

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
1999 ANNUAL REPORT

EXPERIENCE - ALL SYSTEMS COMBINED
July 1, 1998 - June 30, 1999

Several factors contributed to the change in the Systems' assets, liabilities, and recommended contribution rates between June 30, 1998 and June 30, 1999. On the following pages each component is examined.

ASSETS

As of June 30, 1999, the System had total funds, when measured on a market value basis, of \$9.436 billion, excluding assets held for the Group Insurance and Optional Life reserves. This was an increase of \$0.752 billion from the 1998 figure of \$8.684 billion. The components of the change in the market value of assets for the Retirement System (in millions) are set forth below:

	Market Value
Assets, June 30, 1998	\$8,684
• Employer and Member Contributions	336
• Benefit Payments and Expenses	(516)
• Investment Income (Expected)	689
• Investment Gain/(Loss)	243
Assets, June 30, 1999	\$9,436

The market value of assets is not used directly in the calculation of contribution rates. An asset valuation method is used to smooth the effect of market fluctuations. The actuarial value of assets is equal to the expected asset value based on the assumed interest rate plus 1/3 of the difference between the actual market value and the expected asset value. The dollar-weighted rate of return, measured on the actuarial value of assets, was 13.4% and, measured on the market value of assets, was 11.2%. The actuarial value of assets as of June 30, 1999 was \$8.602 billion.

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, 1998 and June 30, 1999 the change in the unfunded actuarial liabilities for the System as a whole was as follows (in millions):

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ACTUARIAL SECTION

(Unfunded) Actuarial Liability, June 30, 1998	(1,591)
• effect of contribution cap/time lag	(78)
• expected increase due to amortization method	(30)
• investment gain	369
• refinement in data/procedures	(21)
• change in benefit provisions/assumptions	0
• liability loss from actual experience	(46)
(Unfunded) Actuarial Liability, June 30, 1999	(1,397)

From a historical perspective, the unfunded actuarial liability has decreased over the past five years due to significant gains on the actuarial value of assets. The increase in 1998 was the net result of the changes in the actuarial assumptions and the 1998 COLA, which were larger than the gain from favorable experience. The unfunded actuarial liability as of June 30, 1999 is \$326 million less than would have been expected based on 1994 projections (assuming the actuarial contribution rate was made in all years).

An evaluation of the unfunded actuarial liability on a pure dollar basis may not provide a complete analysis since only the difference between the assets and liabilities are reflected. Another way to evaluate the unfunded actuarial liability and the progress made in funding it is to 1) track the funded status, the ratio of the actuarial value of assets to the actuarial liability, and 2) evaluate the UAL as a percentage of covered payroll. This information is shown below (in millions).

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Funded Ratio	77.0%	78.8%	81.0%	83.3%	83.0%	86.0%
Unfunded Actuarial Liability (UAL)	1,505	1,481	1,444	1,376	1,591	1,397
UAL as % of Payroll	43.2%	39.3%	36.6%	33.5%	37.2%	31.2%

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 the actuarial value of assets on hand,
- a "group insurance" contribution which is statutory (except KP&F).

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KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
1999 ANNUAL REPORT

The combined Systems' employer actuarial contribution rate (before statutory limits) decreased by 0.12% of pay, to 5.33% on June 30, 1999, from 5.45% on June 30, 1998. The primary components of this change are as follows:

Actuarial Contribution Rate, June 30, 1998	5.45%
Change in amortization of UAL	
• effect of contribution cap/time lag	0.09
• amortization method	0.00
• investment gain	(0.42)
• change in data/procedures	0.05
• changes in benefit provisions/assumptions	0.00
• liability loss from actual experience	0.06
Change in normal cost rate	0.07
Change in payroll demographics	0.03
Actuarial Contribution Rate, June 30, 1999	5.33%

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ACTUARIAL SECTION

ACTUARIAL ASSUMPTIONS AND METHODS

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, 1997. As a result of this study, the Board of Trustees adopted the assumptions to be used for the valuations effective June 30, 1998.

A. Actuarial Assumptions (As of June 30, 1998)

KPERS

Rate of Investment Return	8.0%																		
Rates of Mortality	School (Male): 1994 GAM Male Table School (Female): 1994 GAM Female Table -1 NonSchool (Male): 1994 GAM Male Table +2 NonSchool (Female): 1994 GAM Female Table +1																		
Disabled Life Mortality	1994 GAM Table Set forward 12 years																		
Rates of Salary Increase	<table border="0" style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: center;"><u>Age</u></td> <td style="text-align: center;"><u>Rate</u></td> </tr> <tr> <td style="text-align: center;">25</td> <td style="text-align: center;">7.6%</td> </tr> <tr> <td style="text-align: center;">30</td> <td style="text-align: center;">6.5%</td> </tr> <tr> <td style="text-align: center;">35</td> <td style="text-align: center;">5.9%</td> </tr> <tr> <td style="text-align: center;">40</td> <td style="text-align: center;">5.6%</td> </tr> <tr> <td style="text-align: center;">45</td> <td style="text-align: center;">5.3%</td> </tr> <tr> <td style="text-align: center;">50</td> <td style="text-align: center;">4.7%</td> </tr> <tr> <td style="text-align: center;">55</td> <td style="text-align: center;">4.2%</td> </tr> <tr> <td style="text-align: center;">60</td> <td style="text-align: center;">4.0%</td> </tr> </table>	<u>Age</u>	<u>Rate</u>	25	7.6%	30	6.5%	35	5.9%	40	5.6%	45	5.3%	50	4.7%	55	4.2%	60	4.0%
<u>Age</u>	<u>Rate</u>																		
25	7.6%																		
30	6.5%																		
35	5.9%																		
40	5.6%																		
45	5.3%																		
50	4.7%																		
55	4.2%																		
60	4.0%																		
Rates of Termination (Service Based)																			

Age	School – Male Years of Service				
	1	2	3	4	5 or more
25	26.0%	19.0%	15.6%	13.0%	9.0%
30	23.5%	17.2%	14.1%	11.8%	6.0%
35	21.9%	16.0%	13.1%	11.0%	4.5%
40	21.4%	15.6%	12.8%	10.7%	4.0%
45	20.9%	15.3%	12.5%	10.5%	3.2%
50	20.4%	14.9%	12.2%	10.2%	2.4%

Age	School - Female Years of Service				
	1	2	3	4	5 or more
25	26.0%	20.7%	17.5%	11.3%	12.0%
30	23.5%	16.2%	14.4%	9.2%	8.0%
35	20.0%	13.5%	12.5%	8.0%	5.7%
40	16.5%	11.3%	9.0%	7.3%	3.5%
45	14.0%	10.2%	8.7%	7.1%	2.1%
50	13.4%	9.9%	8.5%	7.0%	2.0%

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
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Age	State - Male Years of Service				
	1	2	3	4	5 or more
25	25.0%	20.5%	17.5%	15.0%	15.0%
30	20.0%	16.4%	14.0%	12.0%	9.0%
35	17.5%	14.4%	12.3%	10.5%	6.0%
40	15.8%	13.0%	11.1%	9.5%	4.8%
45	15.3%	12.5%	10.7%	9.2%	4.0%
50	15.0%	12.3%	10.5%	9.0%	3.0%

Age	State - Female Years of Service				
	1	2	3	4	5 or more
25	25.0%	23.0%	21.3%	15.0%	18.8%
30	20.5%	18.9%	17.4%	12.3%	12.0%
35	17.8%	16.4%	15.1%	10.7%	8.5%
40	16.3%	15.0%	13.9%	9.8%	5.9%
45	15.8%	14.5%	13.4%	9.5%	5.0%
50	15.5%	14.3%	13.2%	9.3%	4.5%

Age	Local - Male Years of Service				
	1	2	3	4	5 or more
25	23.0%	18.4%	16.1%	15.0%	7.0%
30	18.0%	14.4%	12.6%	11.7%	8.0%
35	15.0%	12.0%	10.5%	9.8%	5.7%
40	12.5%	10.0%	8.8%	8.1%	4.5%
45	11.3%	9.0%	7.9%	7.3%	3.9%
50	11.0%	8.8%	7.7%	7.2%	3.5%

Age	Local - Female Years of Service				
	1	2	3	4	5 or more
25	25.0%	22.5%	18.8%	15.8%	10.0%
30	20.0%	18.0%	15.0%	12.6%	10.0%
35	17.5%	15.8%	13.1%	11.0%	8.3%
40	15.8%	14.2%	11.9%	10.0%	6.5%
45	15.3%	13.8%	11.5%	9.6%	5.0%
50	15.0%	13.5%	11.3%	9.5%	5.0%

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ACTUARIAL SECTION

Retirement Ages

School

Rule of 85

<u>Age</u>	<u>1st Year With 85 Points</u>	<u>After 1st Year With 85 Points</u>
53	20%	10%
55	20%	15%
57	20%	15%
59	25%	25%
61	30%	35%

Early and Normal Retirement

<u>Age</u>	<u>Rate</u>
55	3%
57	3%
59	10%
61	15%
63	30%
65	40%
67	20%
69	20%

State

Rule of 85

<u>Age</u>	<u>1st Year With 85 Points</u>	<u>After 1st Year With 85 Points</u>
53	20%	20%
55	20%	15%
57	20%	15%
59	15%	15%
61	25%	25%

Early and Normal Retirement

<u>Age</u>	<u>Rate</u>
55	3%
57	3%
59	5%
61	15%
63	30%
65	50%
67	30%
69	20%

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
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Local

Rule of 85

<u>Age</u>	<u>1st Year With 85 Points</u>	<u>After 1st Year With 85 Points</u>
53	10%	5%
55	10%	5%
57	10%	10%
59	10%	10%
61	25%	20%

Early and Normal Retirement

<u>Age</u>	<u>Rate</u>
55	3%
57	3%
59	5%
61	15%
63	25%
65	40%
67	20%

- 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.

Rates of Disability:

<u>Age</u>	<u>School</u>	<u>State</u>	<u>Local</u>
25	.025%	.036%	.030%
30	.025%	.146%	.065%
35	.035%	.230%	.097%
40	.050%	.305%	.130%
45	.096%	.376%	.190%
50	.213%	.511%	.330%
55	.452%	.892%	.600%
60	.850%	1.400%	1.200%

Probability of Vested Members Leaving Contributions With System:

<u>Age</u>	<u>School</u>	<u>State</u>	<u>Local</u>
25	60%	50%	35%
30	60%	50%	35%
35	75%	60%	50%
40	80%	70%	65%
45	85%	75%	75%
50	100%	100%	100%

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



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ACTUARIAL SECTION

A. Actuarial Assumptions

KP&F

Rate of Investment Return 8.0%
 Rates of Mortality 1994 GAM Male Table*
 *70% of preretirement deaths assumed to be service related

Disabled Life Mortality 1994 GAM Table Set forward 12 years

Rates of Salary Increase	<u>Age</u>	<u>Rate</u>
	25	7.6%
	30	6.5%
	35	6.4
	40	6.0
	45	5.7
	50	6.0
	55	7.0
	60	6.0

Rates of Termination	<u>Age</u>	<u>Rate</u>
	25	9.6%
	30	7.0%
	35	5.0%
	40	3.7%
	45	2.5%
	50	1.8%
	55	1.5%
	60	1.5%

Retirement Ages

- Tier I: Later of age 55 or completion of 20 years of service
- Tier II:
 - (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.

Rates of Disability	<u>Age</u>	<u>Rate</u>
	22	.06%
	27	.07%
	32	.30%
	37	.60%
	42	.90%
	47	1.10%
	52	1.50%
	57	1.94%

**90% assumed to be service-connected under KP & F Tier I.

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

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
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A. Actuarial Assumptions

Judges

Rate of Investment Return	8.0%	
Rates of Mortality	1994 GAM Table	
Rates of Salary Increase	5.5%	
Rates of Termination	<u>Age</u>	<u>Rate</u>
	22	5.4%
	27	5.2%
	32	4.9%
	37	4.4%
	42	2.8%
	47	1.2%
	52	1.0%
	57	0.0%
Disabled Life Mortality	Same as Healthy Lives	
Rates of Disability	None assumed	
Marriage Assumption: 70% of all members are assumed married with male spouse assumed 3 years older than female.		

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 allocated to that year. The actuarial present value of benefits that are allocated to prior years is called the actuarial liability.

The portion of the actuarial liability in excess of plan assets is funded according to a schedule that 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 over a 40-year period from July 1, 1993. These annual payments will increase 4% for each year remaining in the 40-year amortization period. If total payroll grows 4% per year, the increasing dollar amortization payments should remain approximately level as a percentage of total payroll.

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.

1999 SUMMARY of PLAN PROVISIONS

NOTE: *In the interest of simplicity, certain generalizations have been made. The text of the law and the rules adopted by the Board of Trustees will control specific situations.*

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 (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 percent to one percent (1%) of Final Average Salary per year [School employees receive 0.75 percent Final Average Salary for each year of prior service that is not credited under the former Kansas School Retirement System (KSRS)]. **Participating Service Credit** — Participating service credit is 1.75 percent of Final Average Salary. **Working after Retirement** — Effective July 1, 1998, there is a 30-day waiting period during which a retiring member may not return to work in any capacity for any participating employer.

Early Retirement

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

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ACTUARIAL SECTION

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM *Summary of Provisions*

Other Benefits

Withdrawal Benefit — Members who terminate employment may withdraw contributions, with interest, after the last day on the employer's payroll. Members must wait 30 days after their last day on the payroll before applying to withdraw contributions. Withdrawing contributions forfeits all membership rights and benefits, such as insurance coverage, which a member may have accrued prior to withdrawing 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 does not allow members to borrow from contributions. The employer portion of a member's contributions remains with the System when a member terminates employment and withdraws contributions. The Retirement System will refund contributions only after all contributions have been reported by the member's former employer.

Disability Benefit — Disability income benefits are provided under the KPERS Death and Disability Benefits Program, which is financed by employer contributions of 0.6 percent of a member's compensation. A member must be totally disabled for 180 continuous days. Benefits accrue from the later of the 181st day of continuous disability or from the first day upon which compensation from the employer ceases. The long term disability benefit is two-thirds of the member's annual compensation on the date disability commences, reduced by Social Security benefits, Workers' Compensation benefits (members must apply), 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 statutorily adjusted.

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, a lump sum amount of \$50,000, and an annual benefit based on 50 percent of Final Average Salary (reduced by Workers' Compensation benefits and subject to a minimum benefit of \$100 a month), are payable to a spouse, minor children, or dependent parents, for life, or until the youngest child reaches age 18 (or up to age 23 if a full-time student), 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.

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
Summary of Provisions

Insured Death Benefit — An insured death benefit is provided under the KPERS Death and Disability Program, equal to 150 percent 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 statutorily adjusted.

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

Member Contributions

Member contributions are four percent (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 eight percent (8%) per year. Those who become members on and after July 1, 1993, will have interest credited to their accounts at the rate of four percent (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 one percent (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.

ACTUARIAL SECTION

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
Summary of Provisions

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

Eligibility — TIER I *: age 55 and 20 years of service.

Eligibility — 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 percent of Final Average Salary for each year of service, to a maximum of 80 percent of Final Average Salary. **Local Plan** — For members covered by local plan provisions on the employer's entry date, normal retirement is at age 50 with 22 years of credited service. **Working after Retirement** — Effective July 1, 1998, there is a 30-day waiting period in which a retiring member may not return to work in any capacity for any participating employer.

Early Retirement

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

KANSAS POLICE & FIREMEN'S RETIREMENT SYSTEM
Summary of Provisions

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.

Other Benefits

Withdrawal Benefits — Members who terminate employment before retirement may withdraw contributions with interest after the last day on the employer's payroll. Effective July 1, 1998, members must wait 30 days after their last day on the payroll before applying to withdraw contributions. Withdrawal of contributions forfeits all membership rights and benefits, which a member may have accrued prior to withdrawing accumulated contributions from the Retirement System. 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. 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 does not allow members to borrow from contributions. The employer portion of a member's contributions remain with the System when a member terminates employment and withdraws 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 percent of Final Average Salary, plus 10 percent of Final Average Salary for each dependent child under age 18 (or up to age 23 for full-time students), to a maximum of 75 percent of Final Average Salary. If dependent benefits aren't payable, the benefit is 2.5 percent for each year, to a maximum of 80 percent 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, the spouse receives a lump sum payment of 50 percent 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.

ACTUARIAL SECTION

KANSAS POLICE & FIREMEN'S RETIREMENT SYSTEM
Summary of Provisions

TIER I: Non service-connected disability — This pension is calculated at 2.5 percent of Final Average Salary per year of service, to a maximum benefit of 80 percent of Final Average Salary (minimum benefit is 25 percent 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 percent of Final Average Salary. Additionally, a pension benefit of one-half the member's benefit is payable to either the spouse or to the dependent children.

TIER II **: There is no distinction between service-connected and non-service-connected disability benefits. Benefit is 50 percent of Final Average Salary. Service credit is granted during the period of disability. Disability benefits convert to age and service retirement at the earliest date the member is eligible for full retirement benefits. If the member is disabled for at least five years immediately preceding retirement, the member's Final Average Salary is statutorily adjusted. 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 percent of Final Average Salary goes to the spouse, plus 10 percent 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 percent of Final Average Salary. **Non-Service-connected Death** — A lump sum of 100 percent of Final Average Salary goes to the spouse; and a pension of 2.5 percent of Final Average Salary per year of service (to a maximum of 50 percent) is payable to the spouse. If there is no spouse, the monthly benefit is paid to the dependent children. **Inactive Member Death** — If a member had at least 20 years of credited service, but had not reached retirement age, the surviving spouse (if the spouse is the sole beneficiary) may elect a monthly benefit to begin on the date the member would have been eligible to retire, in lieu of a refund of the member's contributions. 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 a 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 percent 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.

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KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
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KANSAS POLICE & FIREMEN'S RETIREMENT SYSTEM
Summary of Provisions

- * **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 seven percent (7%) of compensation. For members with 32 years of credited service, the contribution rate is reduced to two percent (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.

KANSAS RETIREMENT SYSTEM for JUDGES
Summary of Provisions

Employer Contributions

The employer rates are certified by the Board of Trustees based on the results of annual actuarial valuations.

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 five percent (5%) of Final Average Salary for each year of service up to ten years, plus 3.5 percent for each year, to a maximum of 70 percent of Final Average Salary. For those who became members on or after July 1, 1987, the formula is 3.5 percent for each year, to a maximum benefit of 70 percent of Final Average Salary.

KANSAS RETIREMENT SYSTEM for JUDGES
Summary of Provisions

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 percent per month if the member is from age 60 to age 62, plus 0.6 percent 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 percent of Final Average Salary for each year of service (minimum of 25 percent 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 statutorily adjusted. **Withdrawal Benefit** — Members who terminate employment may withdraw contributions with interest. Effective July 1, 1998, members must wait 30 days after their last day on the payroll before applying to withdraw contributions. The employer portion of a member's contributions remain with the System when a member terminates employment and withdraws contributions. The Retirement Act does not allow members to borrow from contributions. A former member who resumes service as a judge may return the amount refunded without additional interest or penalty and regain credit for service previously credited under the Retirement System. **Pre-retirement Death** — A lump sum insured death benefit equal to 150 percent 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

KANSAS RETIREMENT SYSTEM for JUDGES
Summary of Provisions

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

Member Contributions

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

Employer Contributions

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

ACTUARIAL SECTION

**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)
01/01/90	\$ 975,736,900	\$ 1,304,280,600	\$ 1,647,349,500	\$ 3,458,172,000	100%	100%	72%
06/30/91	1,208,273,400	1,374,757,300	1,679,117,300	3,759,523,000	100	100	70
06/30/92	1,489,301,000	1,530,763,300	1,614,777,700	4,101,987,000	100	100	67
06/30/93	1,651,701,100	1,864,877,500	1,943,701,800	4,492,541,700	100	100	50 (2)
06/30/94	1,801,791,938	2,388,662,221	2,356,469,874	5,041,702,745 (1)	100	100	36
06/30/95	1,958,992,138	2,678,609,811	2,353,427,051	5,510,957,394	100	100	37
06/30/96	2,159,113,770	3,037,892,830	2,406,103,997	6,158,754,752	100	100	40
06/30/97	2,337,511,704	3,232,733,926	2,681,740,618	6,875,918,348	100	100	49
06/30/98	2,522,614,846	3,841,556,459	2,976,514,154	7,749,203,022	100	100	47
06/30/99	2,725,881,233	4,125,714,368	3,147,650,125	8,601,875,670	100	100	56

- 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 KIPERS 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
01/01/90	111,818	3.0%	1,188	3.3%	\$2,397	\$ 21,437	4.5%
06/30/91	114,460	2.4	1,223	2.9	2,560	22,366	4.3
06/30/92	116,077	1.4	1,247	2.0	2,700	23,260	4.0
06/30/93	119,074	2.6	1,272	2.0	2,835	23,809	2.4
06/30/94	123,178	3.4	1,287	1.2	3,068	24,907	4.6
06/30/95	131,270	6.6	1,309	1.7	3,309	25,208	1.2
06/30/96	134,470	2.4	1,344	2.7	3,464	25,760	2.2
06/30/97	136,241	1.3	1,371	2.0	3,590	26,350	2.3
06/30/98	134,866	- 1.0	1,397	1.9	3,765	27,915	5.9
06/30/99	137,969	2.3	1,407	0.7	4,088	28,529	2.2

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

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
1999 ANNUAL REPORT

Schedule of Employer Contribution Rates
Last Nine 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
1998	5.23	3.79
1999	5.33	3.99

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
1998	3.86	2.78
1999	3.86	2.93

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
1998	1.93	1.93
1999	1.82	1.82

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
1998	9.45	9.45
1999	7.36	7.36

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
1998	15.67	15.67
1999	15.67	15.67

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

ACTUARIAL SECTION

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

Fiscal Year Ended June 30	Number at Beginning of Year	Additions		Deletions		Number at End of Year
		Number Added	Annual Allowances	Number Removed	Annual Allowances	
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
1998	48,559	3,228	40,731,685	1,716	7,638,945	50,071
1999	50,071	3,328	41,833,222	1,756	9,151,705	51,643

Membership Profile Last Ten Fiscal Years

Fiscal Year	Active	Inactive	Retirees and Beneficiaries	Total Membership
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
1998	143,080	21,080	50,071	214,231
1999	147,985	22,000	51,643	221,628

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
1999 ANNUAL REPORT

Summary of Membership Data

Retiree and Beneficiary Member Valuation Data (1)

	<u>1999</u>	<u>1998</u>
KPERS		
Number	48,643	47,179
Average Benefit	\$7,909	\$7,399
Average Age	73.85	73.85
KP&F		
Number	2,855	2,741
Average Benefit	\$18,818	\$17,508
Average Age	67.30	64.10
Judges		
Number	141	138
Average Benefit	\$26,612	\$26,137
Average Age	74.70	74.70
System Total		
Number	51,639	50,058
Average Benefit	\$8,563	\$8,004
Average Age	73.49	73.32

Active Member Valuation Data (1)

	<u>1999</u>	<u>1998</u>
KPERS		
Number	132,192	128,889
Average Current Age	44.17	44.05
Average Service	10.30	10.35
Average Pay	\$27,882	\$27,325
KP&F		
Number	5,864	5,734
Average Current Age	38.50	38.50
Average Service	10.88	10.99
Average Pay	\$41,116	\$39,241
Judges		
Number	236	243
Average Current Age	53.40	53.00
Average Service	10.30	9.46
Average Pay	\$77,719	\$73,923
System Total		
Number	138,292	134,866
Average Current Age	43.94	43.83
Average Service	10.32	10.37
Average Pay	\$28,529	\$27,915

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

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OTHER HISTORICAL STORIES

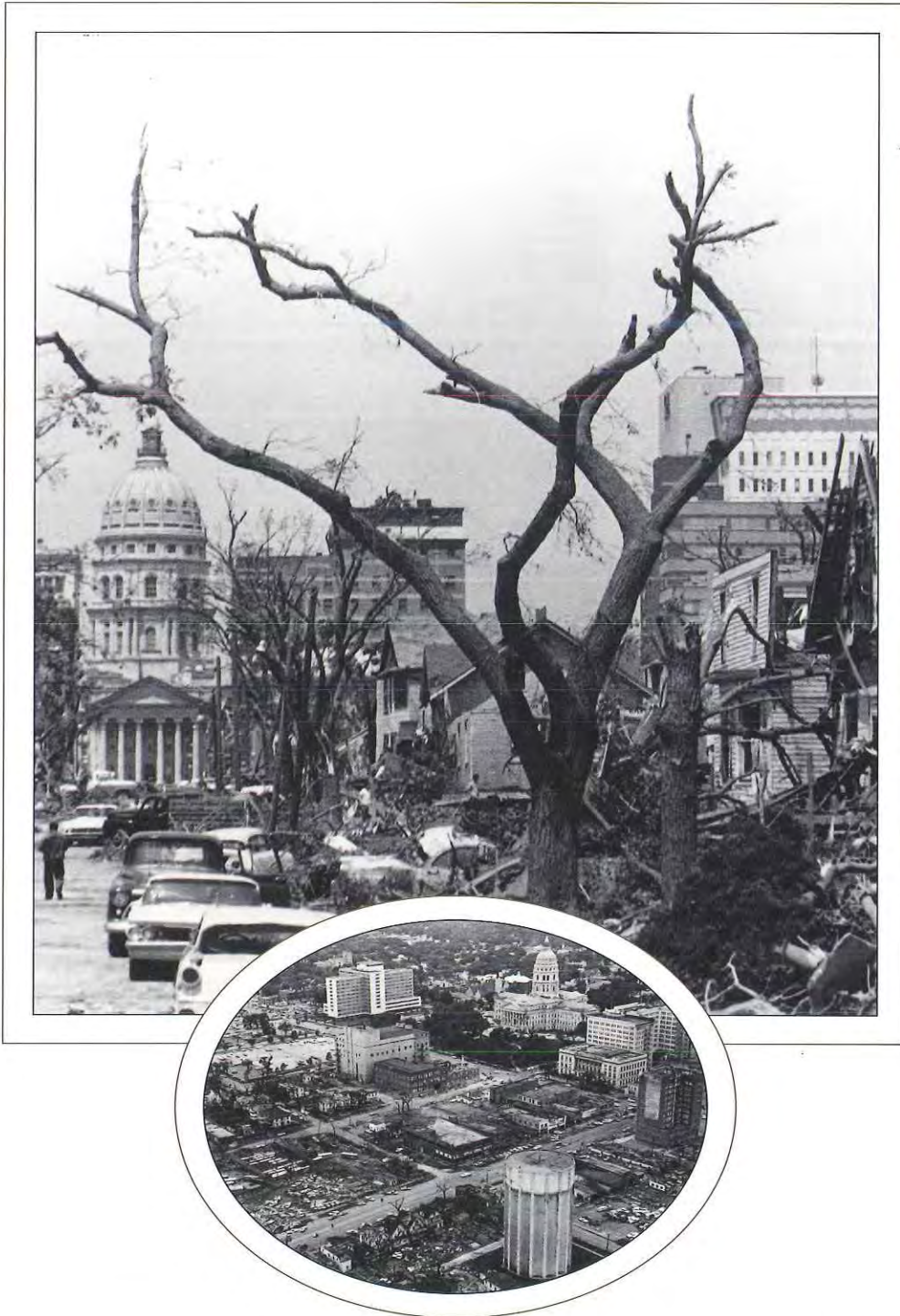
Since the first cornerstone was placed in 1866, the Statehouse has had its fair share of unusual stories. One of the most bizarre events took place in 1887 and concerned one of the legislative doorkeepers, Boston Corbett. He was the reputed killer of John Wilkes Booth, the assassin of President Lincoln. Some felt that he was worthy of some type of honor for his patriotic deed and thus, was appointed to this position. An eccentric who adorned frontier apparel, he was notorious for carrying his revolver while performing his duties. Things got out of hand, though, in February 1887, when he decided to unofficially adjourn the legislature as he brandished his gun. He was dismissed by local policemen and later committed to the state insane asylum.

A very peculiar legend of the Statehouse centers on the marble and porcelain bathrooms placed in the offices of some elected officials in the 1890's. Gone now except for one marble sink left in the Secretary of State's ceremonial office, they once graced the chambers of the Governor, Secretary of State, State Treasurer, and perhaps others. When John W. Leedy was the Populist

candidate for governor, he is said to have promised voters that they could use the bathtub should he be elected. Leedy was elected and during the early days of his administration, a dusty Kansas voter walked into his office and demanded bathing privileges in return for having given his election support. The governor agreed and for the next several minutes the sound of splashing water and a singing bather floated through the executive office.

What may have been the most terrifying moment of State Capitol history occurred on June 8, 1966. The date is remembered as Black Wednesday as a monstrous tornado ripped through the heart of the city. Serving up more than \$100 million in property damage, the storm left 17 people dead and nearly 600 injured. Over 3000 homes were damaged, with nearly 1000 completely destroyed. Some 250 business buildings were demolished. As the twister tore through downtown, not even the State Capitol building was spared the fury of the funnel. One witness stationed across the street recounted seeing a house, in two or three pieces, circling near the dome.

STATISTICAL SECTION



June 8, 1966 is remembered as Black Wednesday in the capital city of Topeka . . . not even the State Capitol building was spared the fury of the funnel.

STATISTICAL SECTION

Highlights of Operations - 10 Year Summary

	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
Membership Composition				
Number of Retirants	51,643	50,071	48,559	46,746
New Retirants During the Year	3,328	3,228	3,456	3,119
Active and Inactive Members	169,985	164,160	159,100	155,822
Participating Employers	1,407	1,397	1,371	1,344
Financial Results (Millions)				
Member Contributions	\$ 185	\$ 174	\$ 171	\$ 173
Employer Contributions	202	167	156	143
Retirement / Death Benefits	473	429	397	364
Investment Income (a)	954	1,247	974	1,095
Employer Contribution Rate				
KPERS—State / School	3.99%	3.79%	3.59%	3.30%
KPERS—Local (b) (c)	2.93	2.78	2.63	2.48
KP&F (Uniform Participating) (b)	7.36	9.45	9.73	9.65
Judges	15.67	15.67	16.00	10.35
TIAA	1.82	1.93	1.89	1.75
Special Elected Officials (d)	—	—	—	—
Unfunded Actuarial Liability (Millions)				
KPERS—State / School	\$ 973	\$ 1,142	\$ 933	\$ 1,014
KPERS—Local	76	104	131	121
KP&F	317	313	288	283
Judges	8	8	5	5
TIAA	23	24	19	21
Special Elected Officials (d)	—	—	—	—
Funding Ratios (e)				
KPERS—State / School	86.36%	83.03%	84.19%	81.48%
KPERS—Local	94.41	91.47	88.34	87.99
KP&F	77.28	75.62	74.77	72.81
Judges	89.42	88.21	91.21	90.15
TIAA	34.16	28.83	31.26	25.38
Special Elected Officials (d)	—	—	—	—

- 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.

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
1999 ANNUAL REPORT

<u>1995</u>	<u>1994</u>	<u>1993</u>	<u>1992</u>	<u>1991</u>	<u>1990</u>
45,304	43,371	41,388	39,552	39,262	38,243
3,463	3,576	2,492	2,476	2,431	2,262
150,072	144,535	131,179	128,689	122,186	118,042
1,309	1,287	1,272	1,247	1,223	1,188
\$ 159	\$ 149	\$ 134	\$ 125	\$ 124	\$ 112
130	118	117	112	106	101
334	292	231	206	187	168
906	115	665	486	48	393
3.20%	3.10%	3.30%	3.30%	3.20%	3.10%
2.30	2.20	1.90	1.80	2.40	2.60
6.95	6.80	6.50	5.70	7.80	7.40
8.00	7.70	7.10	7.30	5.40	5.90
1.70	1.60	1.60	1.70	1.50	1.50
—	—	7.90	8.30	7.90	7.80
\$ 1,051	\$ 1,059	\$ 573	\$ 395	\$ 373	\$ 342
123	142	94	47	40	34
279	276	272	67	66	69
5	5	5	4	4	4
22	23	24	20	20	19
—	—	—	—	—	2
79.19%	77.58%	85.10%	88.30%	88.00%	88.00%
86.51	84.44	87.30	92.70	93.10	93.60
70.72	68.94	66.70	88.10	87.30	85.90
89.10	88.64	87.90	89.80	89.10	89.10
22.62	20.39	20.00	22.60	21.10	24.20
—	—	—	—	—	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.

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STATISTICAL SECTION
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Expenses by Type

Fiscal Year	Benefits	Withdrawals	Insurance	Administration	Total
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
1998	428,997,161	41,510,908	37,639,743	4,702,566	512,850,378
1999	472,571,948	40,860,950	41,892,190	5,442,410	560,767,498

Revenues by Source

Fiscal Year	Contributions				Net Investment Income	Total
	Member	Employer	Employer Insurance	Misc.		
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
1998	173,954,587	142,931,373	24,173,870	173,035	1,247,347,928	1,588,580,793
1999	185,180,551	175,581,182	26,071,503	210,116	953,992,725	1,341,036,077

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

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
1999 ANNUAL REPORT

Schedule of Benefits by Type

Fiscal Year	Monthly Retirement Benefits	Retirement Dividend	Death Benefits	Refunds of Contributions	Disability, Insurance Premiums/ Benefits
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
1998	411,626,428	9,673,950	7,682,253	41,510,908	37,639,743
1999	455,265,896	9,443,527	7,862,525	40,860,950	41,892,190

Schedule of Retired Members and Survivors by Type of Benefit
June 30, 1999

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	2,950	2,422	518		10	2,415	264	142	30	28	2	25	29	15
\$100-199	6,259	3,634	2,508	100	17	4,591	797	492	119	61	70	42	33	54
\$200-299	6,295	3,167	3,024	94	10	4,579	668	585	142	106	79	62	35	39
\$300-399	5,663	2,975	2,599	66	23	3,988	625	618	142	133	49	65	34	9
\$400-499	4,374	2,347	1,965	46	16	3,101	476	508	93	100	20	47	25	4
\$500-599	3,537	2,019	1,479	28	11	2,456	405	410	75	96	3	64	25	3
\$600-699	2,894	1,636	1,210	32	16	1,987	317	377	69	77	10	36	19	2
\$700-799	2,478	1,434	995	35	14	1,645	296	306	59	109	9	38	15	1
\$800-899	1,930	1,145	711	58	16	1,248	244	259	46	96	15	9	13	—
\$900-999	1,672	1,105	492	56	19	1,042	248	248	31	75	11	4	12	1
\$1,000-1,999	10,581	9,110	982	354	135	5,974	1,795	1,579	148	860	121	41	62	1
\$2,000 or More	3,010	2,895	54	44	17	1,286	685	373	39	587	10	18	12	—
Totals	51,643	33,889	16,537	913	304	34,312	6,820	5,897	993	2,328	399	451	314	129

Option Type Selected

- 1 - Maximum, No Survivor Benefit
- 2 - Joint, 1/2 to Survivor
- 3 - Joint, Same to Survivor
- 4 - Life w/10 Yrs Certain
- 5, 8 - Joint, 3/4 to Survivor
- 6, 7 - Widowed, Children, Survivor
- 9 - Life w/ 5 Yrs Certain
- 0 - Life w/ 15 Yrs Certain

Type of Retirement

- 1, 3, 5 - Normal
- 2, 4 - Early
- 6, 8 - Service-Connected Death and Disability
- 7, 9 - Non-Service Connected Death and Disability



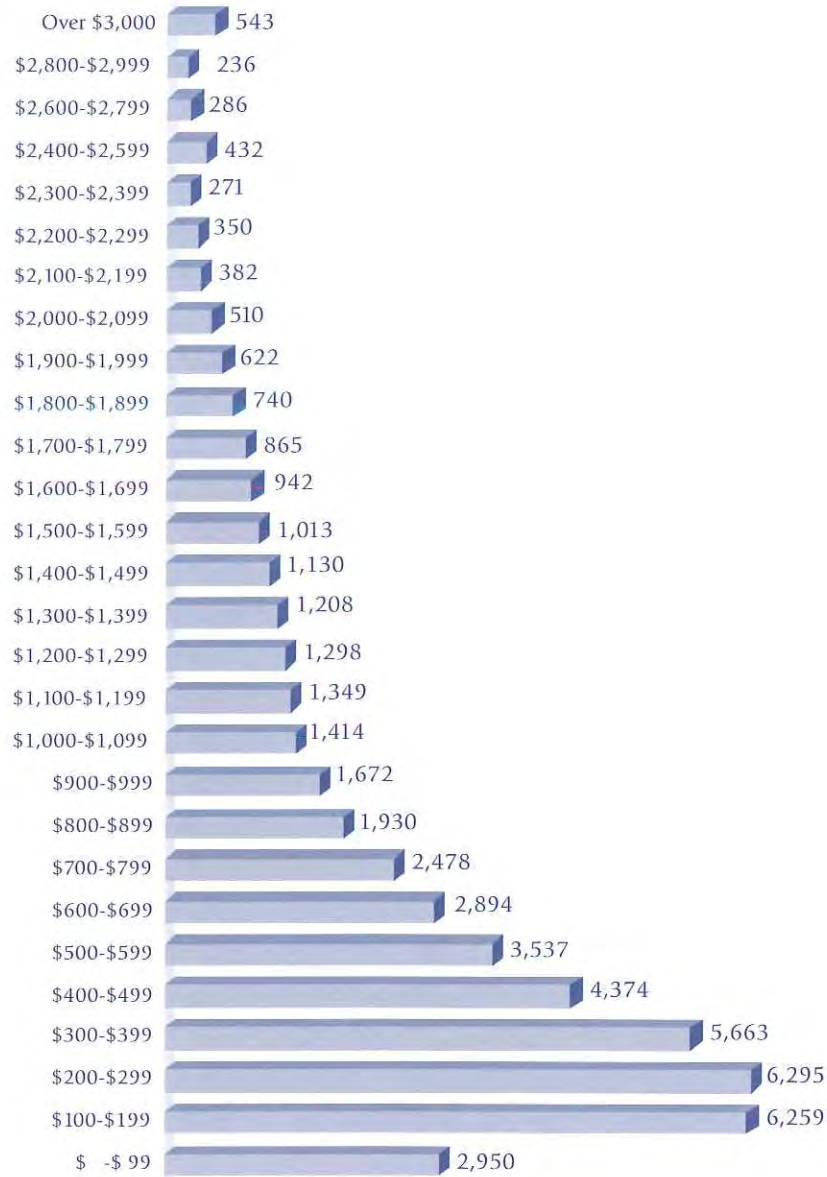
STATISTICAL SECTION

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

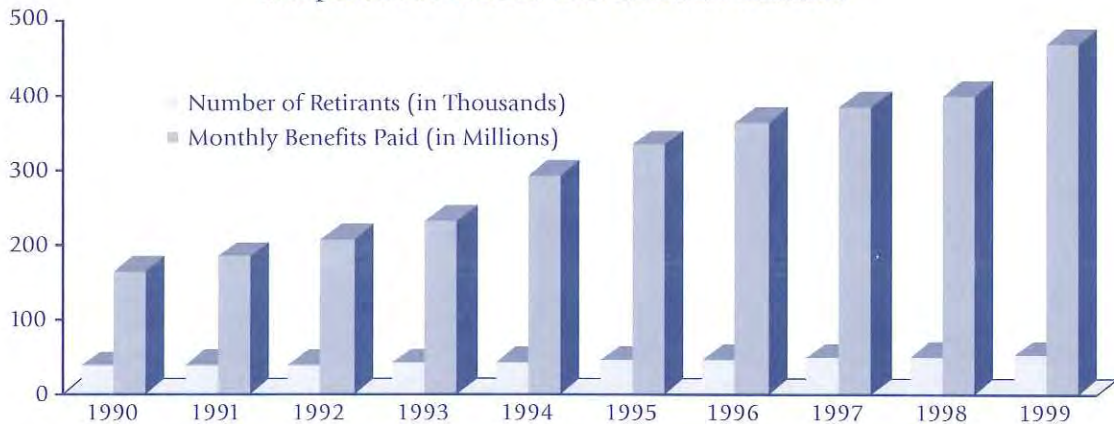
Service Credit	Calendar Year				
	1994	1995	1996	1997	1998
Less Than 5	117	143	147	160	182
Average Benefit	\$ 107.34	\$ 144.96	\$ 100.65	\$ 117.53	\$ 50.16
Average Years	2.46	2.52	2.49	2.88	2.63
5-9.99	187	208	196	215	244
Average Benefit	\$ 287.09	\$ 298.27	\$ 249.47	\$ 246.81	\$ 229.48
Average Years	7.05	6.97	7.06	7.21	6.74
10-14.99	477	474	500	553	527
Average Benefit	\$ 352.24	\$ 373.08	\$ 359.97	\$ 401.78	\$ 398.61
Average Years	11.86	11.79	11.85	11.80	11.81
15-19.99	442	476	494	515	486
Average Benefit	\$ 524.38	\$ 562.36	\$ 591.87	\$ 617.75	\$ 605.01
Average Years	16.88	16.90	16.97	17.05	17.00
20-24.99	502	469	464	502	476
Average Benefit	\$ 795.51	\$ 809.95	\$ 851.83	\$ 872.38	\$ 869.81
Average Years	21.81	21.87	21.96	21.95	21.90
25-29.99	490	500	510	500	496
Average Benefit	\$ 1,192.68	\$ 1,331.94	\$ 1,396.09	\$ 1,471.01	\$ 1,443.16
Average Years	26.85	27.17	27.10	26.99	27.04
30-34.99	449	441	509	575	564
Average Benefit	\$ 1,589.41	\$ 1,631.57	\$ 1,729.45	\$ 1,798.24	\$ 1,801.47
Average Years	31.99	31.86	31.85	31.91	31.91
35-39.99	390	334	268	273	260
Average Benefit	\$ 1,789.89	\$ 1,878.19	\$ 1,874.62	\$ 1,946.01	\$ 1,991.97
Average Years	36.67	36.63	36.84	36.81	36.64
40-44.99	137	97	113	113	81
Average Benefit	\$ 1,873.86	\$ 1,817.06	\$ 1,925.92	\$ 2,172.84	\$ 2,064.07
Average Years	41.47	41.52	41.54	41.37	41.32
45-49.99	11	26	14	13	8
Average Benefit	\$ 1,269.69	\$ 2,088.80	\$ 2,050.13	\$ 2,111.18	\$ 2,067.15
Average Years	45.64	45.96	46.00	46.08	46.00
50 and Over	3	3	1	1	3
Average Benefit	\$ 1,744.47	\$ 2,496.38	\$ 1,921.82	\$ 2,161.62	\$ 2,513.91
Average Years	51.33	51.33	54.00	50.00	52.00
Total Number	3,205	3,171	3,216	3,420	3,327
Average Benefit	\$ 978.91	\$ 995.91	\$ 1,018.11	\$ 1,060.24	\$ 1,029.24
Average Years	23.04	22.37	22.25	22.09	21.59

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
1999 ANNUAL REPORT

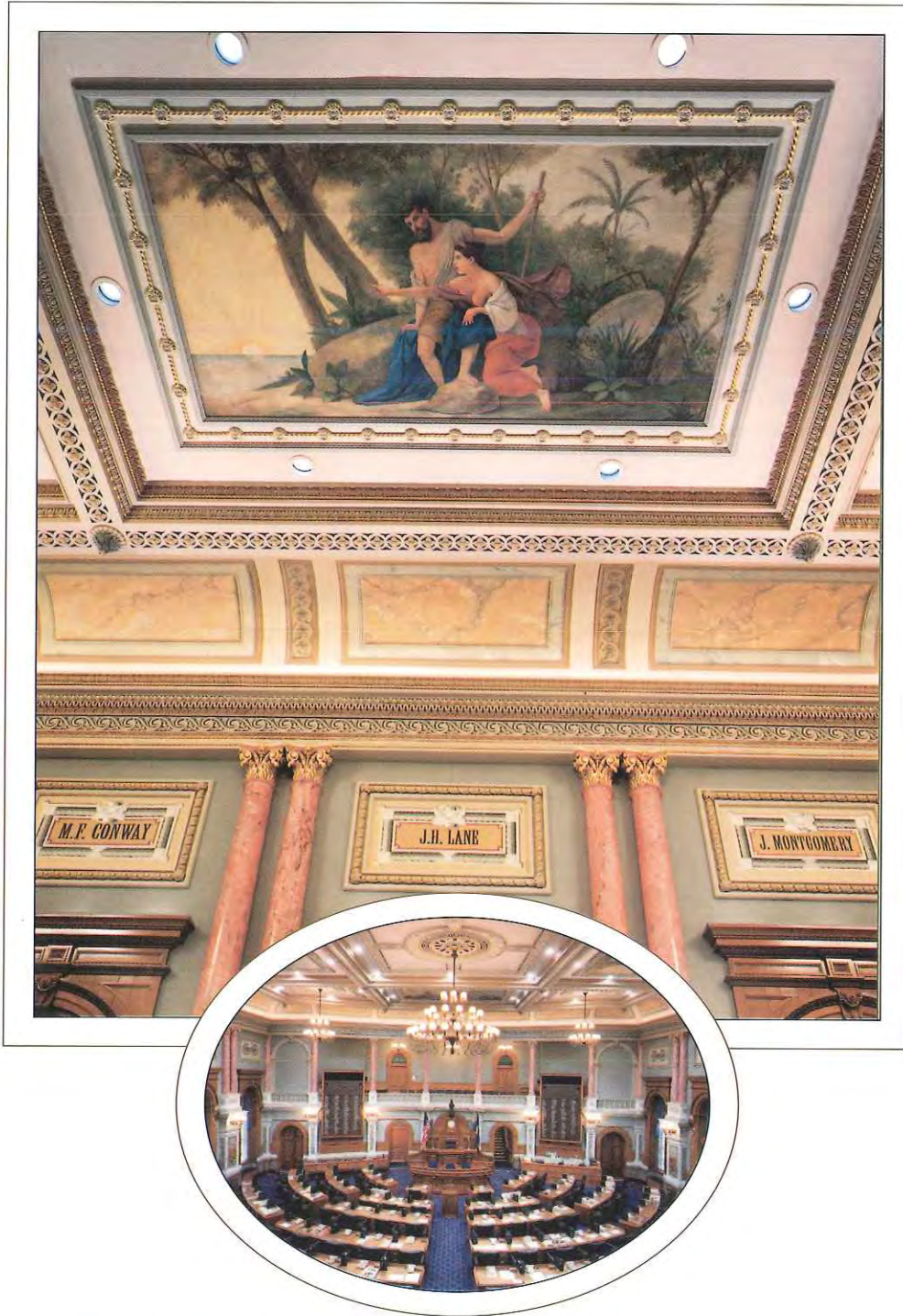
Benefit Amount as of June 1999



Comparison of Benefits Paid to Retired Members



CONSULTANTS & STAFF



"It's a balance of history with the . . . need to be a 21st century lawmaking building."

JEFF RUSSELL, LEGISLATIVE SERVICES DIRECTOR

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CONSULTANTS & STAFF

CONSULTANTS

Actuary—Milliman & Robertson, Inc., Omaha, Nebraska
Auditors—Berberich & Trahan & Co., P.A., Topeka, Kansas
Investment Consultant—William M. Mercer Investment Consulting, Inc., Chicago, Illinois
Investment Consultant—Pension Consulting Alliance, Inc., Encino, California

INVESTMENT MANAGERS

Alliance Capital Management Corp., New York, New York
Julius Baer Investment Management, Inc., New York, New York
Bankers Trust Company, New York, New York
Barclays Global Investors, San Francisco, California
The Boston Company, Boston, Massachusetts
Brinson Partners, Inc., Chicago, Illinois
Capital Guardian Trust Company, Los Angeles, California
Fiduciary Trust Company International, New York, New York
L & B Real Estate Counsel, Dallas, Texas
Lazard Freres Asset Management, New York, New York
Lend Lease, Atlanta, Georgia
Loomis, Sayles & Company, Inc., Boston, Massachusetts
Morgan Stanley Asset Management, New York, New York
Nomura Capital Management, Inc., New York, New York
Pacholder Associates, Inc., Cincinnati, Ohio
Pacific Investment Management Company, Newport Beach, California
Pareto Partners, New York, New York
Payden & Rygel Investment Counsel, Los Angeles, California
Pilgrim, Baxter & Associates, Wayne, Pennsylvania
Portfolio Advisors, LLC, Darien, Connecticut
Provident Investment Counsel, Inc., Pasadena, California

INVESTMENT CUSTODIAN

Mellon Trust, Everett, Massachusetts

LIFE INSURANCE AND LONG TERM DISABILITY BENEFITS

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



Kansas Public Employees Retirement System
Staff Members

Mel Abbott
Cathy A. Adams
Barbara Appleford
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RESTORATION OF THE SENATE CHAMBER

The Kansas Senate Chamber was originally decorated at a cost of nearly \$141,000 in 1885, and is seen as one of the finest in the United States. The round windows, imported from France, on each side are a combination of faceted stained glass. Costly marbles and woods were used throughout the Chamber: the lower wall, just above the baseboards, is a very unusual gray blue marble from Belgium; above this, running horizontally around the room, is a panel of onyx from Old Mexico; white marble above the onyx is Italian Carrara; while the marble of the door is from Tennessee and is very ornate. The senator's desks and chairs are handmade from native Kansas woods and stained dark oak. The president's rostrum is made of Honduras Mahogany, as are the double doors at the entrance of the chamber.

There are twenty-eight bronze columns in the Senate Chamber. All are hand-cast with designs of morning glories and roses, while the bases are black cast iron grillwork. Restoration work on these columns, pilasters and their metal trim began in August, 1999. The work being done includes cleaning, stripping and polishing various ornate features of these columns and pilasters. In some cases, the entire columns will have to be re-plated where they have been corroded or damaged through the years. The work is being done by Evergreene Studios from New York and Conservation Solutions of Virginia, and is expected to be completed during December, 1999.

The current restoration project in the Senate is an example of the ongoing interest and commitment among the leadership of the legislature to restore the Statehouse to its original splendor and also upgrade it to accommodate today's needs and technology. "Since the first cornerstone was laid on October 17, 1866, the Capitol building was intended to be a symbol of our tenacity, pride, vision and courage," Jim Reardon, director of facilities management, told

lawmakers in the Capitol Restoration Commission and the Joint Committee on State Building Construction. "In this competitive world, the image of our state and the symbols of our Statehouse continue to be as important as our reputation for friendliness and the outstanding work ethic of our people" he said. Reardon said the Statehouse "was built stone by stone, year by year, wing by wing, phase by phase. Restoration and renovation can occur in the same manner."

Capitol architect Bill Groth, is currently directing a study of the Statehouse called the Historical Structures Report. This study, which is being accomplished with the help of experienced preservation architects and engineers, will analyze the original construction and subsequent alterations and assess the structural stability of key building components. It consists of four major parts:

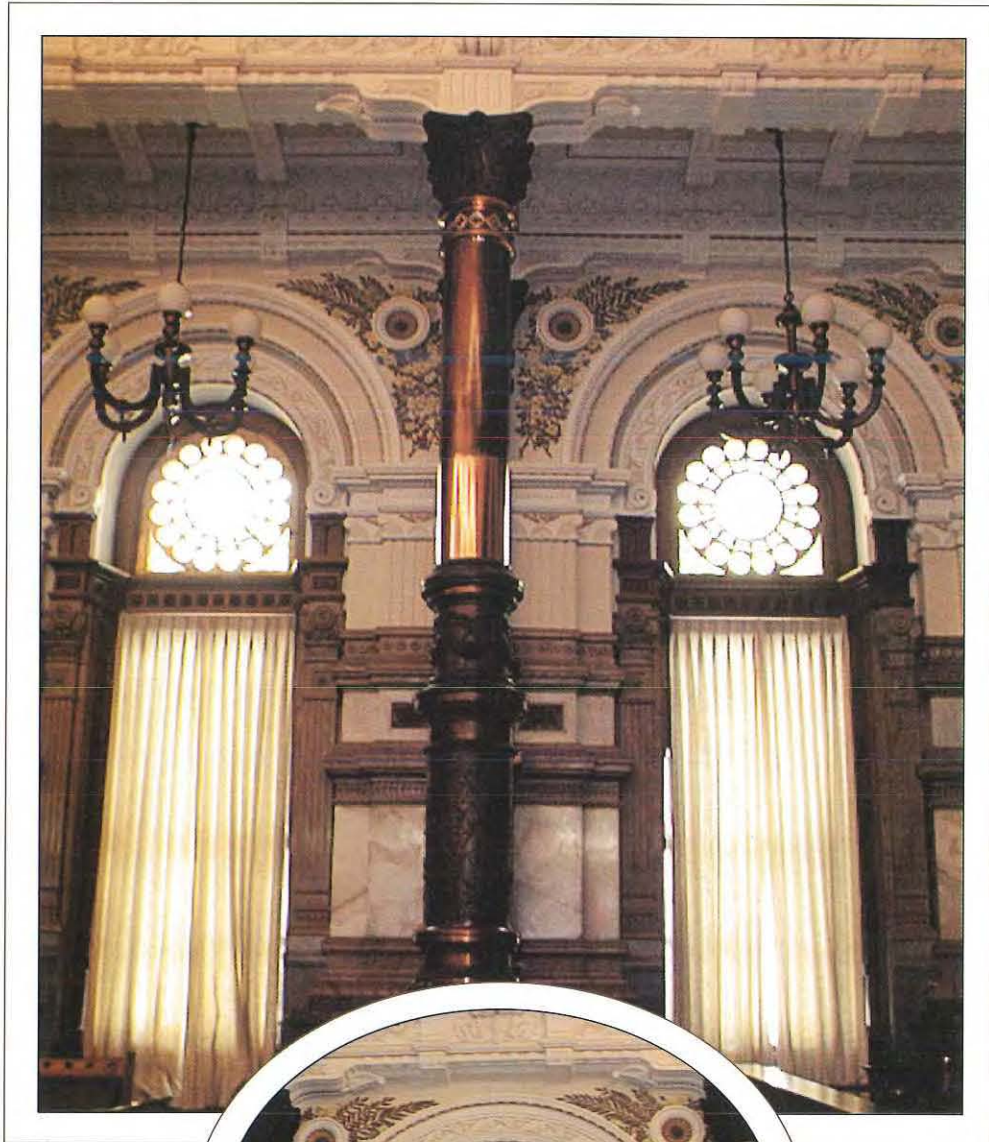
- **Historic Documentation:** Purpose is to identify and document all historical spaces and components of the building.
- **Condition Analysis:** Purpose is to identify and assess the condition of all the components of the building including the finishes, structural elements and the mechanical, electrical, lighting, and telecommunications systems.
- **Preservation Plan:** Purpose is to identify appropriate levels of restoration for different areas and significant features of the building.
- **Master Plan:** Purpose is to develop a comprehensive master plan.

The Report is scheduled to be completed by April of 2000.

Economically and historically, Reardon said, the time for renovating the building has never been better. "As we journey into the next millennium, it is our responsibility as trustees of this 100-year-old monumental structure to rededicate ourselves to preserving and restoring its proud heritage and character for generations to come."



ACKNOWLEDGMENTS



"Since the first cornerstone was laid on October 17, 1866, the Capitol building was intended to be a symbol of our tenacity, pride, vision and courage."

JIM REARDON, DIRECTOR OF FACILITIES MANAGEMENT

ACKNOWLEDGMENTS

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Sources for the historical information in this Report include: *Kansas Capital Square* published by Secretary of State Ron Thornburgh in collaboration with the Kansas State Historical Society; *The Topeka Capital Journal*, March 15, 1999; *The Lawrence Journal World*, November 22, 1998; and the *Kansas Historical Quarterly*, Autumn, 1972.

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