Everything we do is to ***benefit*** our members.

Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2005

Kansas Public Employees Retirement System
A component unit of the State of Kansas

Comprehensive Annual Financial Report

Kansas Public Employees Retirement System
A component unit of the State of Kansas

Fiscal Year Ended June 30, 2005

Prepared by KPERS staff

611 S. Kansas Ave., Suite 100

Topeka, KS 66603-3803

Glenn Deck, Executive Director

Leland Breedlove, Chief Fiscal Officer

Table of Contents

Table of Contents

Statistical Section

Acknowledgement Section

Envision

Everything we do is to ***benefit*** our members

In the coming years, various economic, political and demographic trends will affect our ability to deliver benefits and services. Through our regular strategic planning process, we have identified these issues and are taking steps to face our challenges with a vision for the future.

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, 2004

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.

Government Finance Officers Association of the United States and Canada Corporation Seal Chicago

President

Executive Director

KANSAS

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM KATHLEEN SEBELIUS, GOVERNOR

November 14, 2005

Dear Board Trustees and Members:

It is with a commitment to openness and accountability that I am pleased to present the Kansas Public Employees Retirement System's 2005 Annual Financial Report. In addition to informing our Board of Trustees, members and employers, this presentation fulfills KPERS reporting responsibilities as defined in Kansas statute 74-4907 and 45-215 et seq. as amended. Consequently, the report has been sent to the Governor, Chairperson of the Legislative Coordinating Council, Secretary of the Senate and the Chief Clerk of the House of Representatives. Printed copies are readily available to the public as well as a full version is posted on our web site.

Responsibility for the preparation, accuracy and completeness of this report, including all disclosures, rests firmly with the Retirement System's management.

Internal Controls and Independent Audit

Our operating results and financial position are presented in accordance with accounting principles generally accepted in the United States of America. To the best of our knowledge, the enclosed data is accurate in all material respects and fairly presents our financial position and operating results.

The Retirement System's management utilizes a system of adequate internal accounting controls designed to protect assets and provide reasonable assurance regarding financial record reliability. We also have an internal audit program that reports to the Board of Trustee's Audit Committee.

In addition to internal controls, the independent certified public accounting firm Berberich Trahan & Co., PA, conducted an independent audit of the Retirement System.

Management's Discussion and Analysis

While this letter provides the big picture of the Retirement System, the Management's Discussion and Analysis beginning on page 19 and the subsequent notes provide a more detailed overview and analysis of our financial activities over the past three fiscal years. This letter is intended to complement the MD&A and they should be read together.

Who We Serve

The Kansas Legislature created the Kansas Public Employees Retirement System in 1962 to build a financial retirement foundation for those spending their careers in Kansas public service. The dedicated staff at KPERS has spent the last 40 plus years working to provide the means for public servants to retire after a lifetime of service and contribution. In addition to retirement benefits, the Retirement System also administers various disability and life insurance benefits.

Our membership includes people from all walks of life in a variety of jobs. The State of Kansas provides KPERS benefits for all state employees, all Kansas school districts, and most municipalities and counties across Kansas participate as well. Our membership totals just over 250,000, including 148,000 active members, 41,000 inactive members and more than 61,000 retirees among 1,450 participating employers. That is approximately 1 in every 12 Kansans. The estimated annual economic impact of benefit payments on the state is over $780 million.

How We Are Structured

A nine-member Board of Trustees oversees the Retirement System: four are appointed by the Governor, one is appointed by the President of the Senate, one is appointed by the Speaker of the House of Representatives, two are elected by Retirement System members, and one is the elected State Treasurer. The Board appoints an executive director who manages a staff to carry out daily operations.

KPERS Board of Trustees approves the System's annual operating budget. As a component unit of the State of Kansas, the budget is also approved by the Kansas Legislature and Governor as part of the regular legislative budgetary process.

System Funding and Financial Position

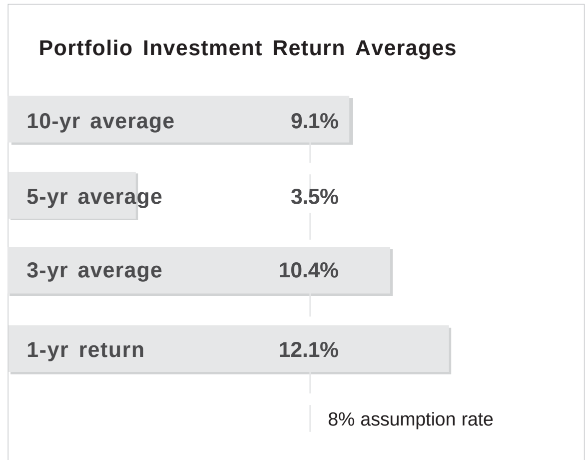
During the last fiscal year, KPERS' overall funded ratio was 70 percent as calculated by our actuary, Milliman USA. The funded ratio is the ratio of actuarial assets to actuarial liabilities. Unfunded actuarial liability (UAL) is the difference or gap between actuarial value of assets and actuarial liability for service already performed by public employees. This unfunded actuarial liability will be amortized over a 40-year period, which began July 1, 1993.

Over the last several years, we have focused attention on the Retirement System's ailing financial health. In recent years, the Legislature has adopted measures to improve KPERS funding with positive results, including increasing employer contribution rates and issuing $500 million in pension obligation bonds. With recent funding improvements, KPERS is in actuarial balance, but significant funding challenges remain. Funding projections would deteriorate further with a significant market downturn. In addition, the UAL will continue to increase until statutory employer rates catch up with actuarially-required rates. Beginning in 2006, costs for the State of Kansas will continue to rise by an additional $30 to $40 million more each year to make higher employer contributions and debt service payments. Local employers will contribute approximately $7 to $15 million more in each of the next ten years.

One important step that KPERS took over the past fiscal year was to redesign the disability plan. As always, our goal is to offer disability benefits that are affordable for employers and still protect employees and their income. The new plan design reduces some benefits, while it enhances others in order to meet this goal. The plan also expands the role of rehabilitation and allows some incidental income. Please refer to the MD&A section for specific plan changes and employer contribution information.

Investments

On average, investment income funds about 70 percent of Retirement System benefits. Positive investment returns over time are critical to solid funding. The System's investment return rate was 12.1 percent for fiscal year 2005, exceeding our long-term actuarial target of 8 percent. Over the past decade, KPERS has a ten-year annual return average of 9.1 percent.



For more information about KPERS diversified and disciplined approach to executing our investment strategy and policies, please refer to the investment section in this report beginning on page 49. This section also provides details about our asset allocation and specific yields.

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Retirement System, for the comprehensive annual financial report for the fiscal year that ended June 30, 2004. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

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. The Retirement System has received the Certificate of Achievement for each of the last 11 consecutive fiscal years. We believe our current report again conforms to the program requirements, and we will submit it to the GFOA for consideration.

Accomplishments in Fiscal Year 2005

Most of what we do at KPERS boils down to two factors, money and service. “Money” represents our fiduciary responsibility to prudently manage contributions and investments in order to pay out promised benefits. “Service” represents the way we honor our responsibilities to members and employers. In addition to diligently working to improve the System’s financial health, staff members have focused on integrating more technology into our everyday work to enable us to provide better service. Over the last fiscal year, the Retirement System:

- Digitally imaged over 200,000 member records. The records are now more organized and easily accessible when employers and members call with questions.
- Automated retiree death benefit payments to increase timeliness and efficiency.
- Continued to expand and organize our web site with valuable, up-to-date information.
- Changed the way we deliver publications and memos for employers who said they preferred electronic communications to paper.
- Expanded web-based contribution reporting to most employers.
- Began a major project to replace our grossly outdated information systems. The new system will increase data integrity, improve workflow and eventually lead to direct information access for employers and members.

We also began an increased focus on education for both members and employers and conducted customer satisfaction surveys in an effort to measure our service levels.

While making new strides forward, we continued with our vital core functions. Here are just a few highlights.

- KPERS paid $780 million in benefits.
- Investment staff managed over $11 billion in assets.
- Staff processed thousands of contribution withdrawals, with reduced turnaround time while volume increased more than 11 percent.
- Member Services answered 83,000 calls in our customer call center and answered nearly 11,000 e-mails.

When compared with other public pension plans in the March 2005 CEM Pension Administration Benchmarking Survey, KPERS cost per member was the lowest compared to our peers. KPERS $29 per member measured favorably against the median of $67 per member of the other systems. In spite of our low cost, KPERS measured well for service. KPERS service score was 75 versus the median score of 76.

Acknowledgements

I would like to take this opportunity to acknowledge the KPERS Board of Trustees for its dedication to the financial health and integrity of the System. Our trustees have a wide range of expertise and experience which uniquely qualifies them to chart our course. Their unwavering support enables staff to successfully accomplish our mission.

I would also like to recognize the contributions of our experienced and dedicated staff. Day in and day out they keep the best interest of our members front and center, while striving to provide excellent service and meet our fiduciary responsibilities.

Although they are not direct members of KPERS staff, KPERS could not work effectively without the designated agents from participating employers. They provide a vital link in communication with members. An effective designated agent is an asset both to the Retirement System and the employees he or she serves.

One of our six core values at KPERS is teamwork. Over the past year, Board members, staff and designated agents have worked together as a dedicated team to strengthen the System’s financial position and deliver benefits for those spending their careers in Kansas public service. Thank you for a successful year.

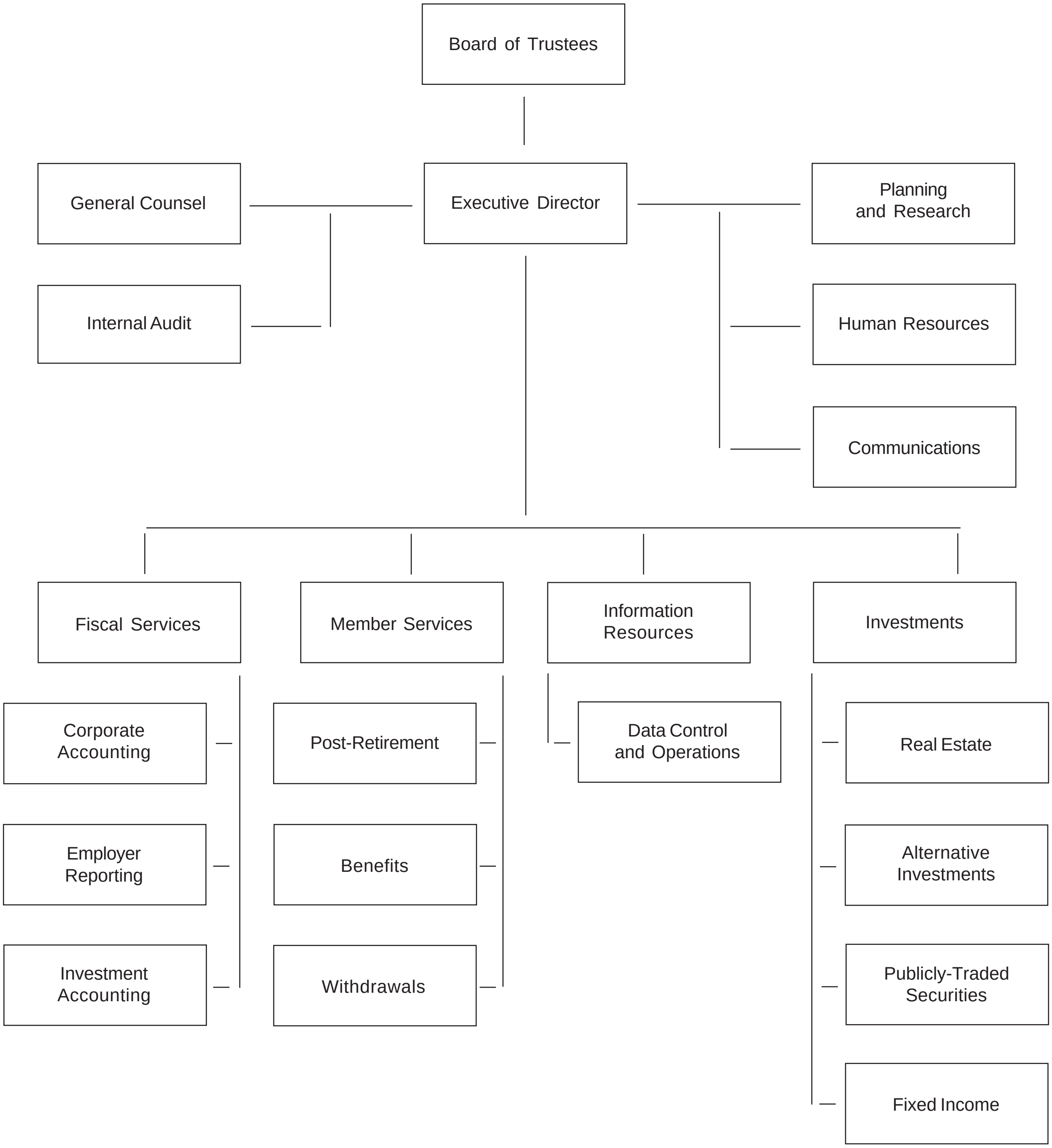
Sincerely,

Glenn Deck

Glenn Deck
Executive Director

Board of Trustees

Organization Chart



A list of KPERS consultants and investment advisors is found on page 125.

Values That Guide Us

Service

We strive to provide excellent service that is timely, accurate, thorough and accessible. Members and employers should receive the best service possible.

Integrity

We conduct business in an honest, ethical and fair environment. We adhere to the highest standards of professional and ethical conduct.

Respect

We acknowledge that our dedicated employees are essential to our success. We value the unique contributions of individuals and encourage mutual respect, civility, diversity and personal development.

Accountability

We take ownership and responsibility for our actions and their results. We are fiscally responsible and performance oriented.

Innovation

We seek creative solutions to long-range situations and everyday issues. We are willing to embrace change and consider new ideas.

Teamwork

We work together to achieve common goals. We are committed to sharing both risks and rewards; we value openness and flexibility.

Ethical

Everything we do is to ***benefit*** our members

Staff and Board members take their fiduciary responsibility very seriously. We strive to conduct business with honesty and integrity, while protecting the assets our members have entrusted us with.

Berberich Trahan & Co., P.A.

Certified Public Accountants

3630 SW Burlingame Road
Topeka, KS 66611-2050

Telephone 785 234 3427
Toll Free 1 800 530 5526
Facsimile 785 233 1768
E-mail cpa@cpakansas.com

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 (the System), a component unit of the State of Kansas, as of June 30, 2005, and the related statement of changes in plan net assets for the year then ended. These basic financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic 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, 2005, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2005 on our consideration of the System's internal control over financial reporting and on our tests on its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis included on pages 17 through 22 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The accompanying introductory, investment, actuarial and statistical sections and required supplementary and supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The investment and actuarial sections and required supplementary and supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Berberich Trahan & Co., P.A.

October 18, 2005

Management’s Discussion & Analysis

This section presents management’s discussion and analysis of the Kansas Public Employees Retirement System financial performance during the fiscal year that ended June 30, 2005. It is presented as a narrative overview and analysis in conjunction with the Executive Director’s letter of transmittal.

The Kansas Public Employees Retirement System (KPERS, the Retirement System, or the System) is an umbrella organization administering the following three statewide pension groups under one plan, as provided by chapter 74, article 49 of the Kansas Statutes:

- Kansas Public Employees Retirement System
- Kansas Police and Firemen’s Retirement System
- Kansas Retirement System for Judges

All three systems are part of a governmental, defined benefit, contributory plan covering substantially all Kansas public employees. The Kansas Retirement System for Judges is a single employer group, while the other two are multi-employer, cost-sharing groups. The State of Kansas and Kansas school districts are required to participate, whereas participation by local political subdivisions is optional but irrevocable once elected.

Financial Highlights

- The System’s net assets increased by $897 million or 8.6 percent from $10,427,142,572 to $11,324,364,904.
- As of December 31, 2004, the date of the most recent actuarial valuation, the Retirement System’s funded ratio was 69.8 percent compared with a funded ratio of 75.2 percent for the prior year.
- The unfunded actuarial liability increased from $3.586 billion at December 31, 2003, to $4.743 billion at December 31, 2004.
- On a market value basis, this year’s investment return rate was 12.1 percent, compared with last year’s return of 15.4 percent.
- Monthly benefits paid to retirees and beneficiaries increased 9 percent from $677 million in fiscal year 2004 to $738 million in fiscal year 2005.

Overview of the Financial Statements

This discussion and analysis is an introduction to the System’s basic financial statements, which comprise the following components:

1) Basic financial statements
2) Notes to the financial statements
3) Required supplementary information
4) Other supplementary schedules

The information available in each of these sections is briefly summarized as follows:

Basic Financial Statements

A Statement of Plan Net Assets as of June 30, 2005, and a Statement of Changes in Plan Net Assets for the fiscal year ended June 30, 2005, are presented with the previous year's comparative information. These financial statements reflect the resources available to pay benefits to retirees and other beneficiaries as of year end, as well as the changes in those resources during the year.

Notes to the Basic Financial Statements

The financial statement notes provide additional information that is essential to a full understanding of the data provided in the financial statements. Information available in the notes to the financial statements is described below.

- **Note 1** provides a general description of the Retirement System, as well as a description of the plan benefits and overview of the contributions that are paid by employers and members. Information regarding a breakdown of the number of participating employers and members is also provided.

- **Note 2** provides a summary of significant accounting policies, including the basis of accounting, investments, including investing authority, investment risk categorizations, and the method used to value investments, and additional information about cash, securities lending and derivatives. Note 2 also contains information regarding the Retirement System's required reserves. The various reserves include the Members Accumulated Contribution Reserve, Retirement Benefit Accumulation Reserve, Retirement Benefit Payment Reserve, Group Insurance Reserve Fund, the Expense Reserve and the Optional Term Life Insurance Reserve.

- **Note 3** provides information about System funding policies and employer contributions made to the System by the three different funding groups.

- **Note 4** describes System capital expenditure commitments to real estate and alternative investments. This section also generally describes potential System contingencies.

Required Supplementary Information

The required supplementary information consists of two schedules and related notes concerning the funded status of the pension plans administered by the Retirement System.

Other Supplementary Schedules

Other schedules include detailed information on contributions by employer coverage groups, administrative expenses, an investment income summary, and a schedule of investment fees and expenses.

Financial Analysis of the Retirement System

The System provides benefits to State of Kansas and other local and school employees. Benefits are funded by member and employer contributions and by investment earnings. Net assets held in trust for benefits at June 30, 2005, amounted to $11,324,364,904, an increase of $897 million, 8.6 percent, from $10,427,142,572 at June 30, 2004. Following are two summary schedules, Plan Net Assets and Changes in Plan Net Assets, comparing information from fiscal years 2004 and 2005.

Summary Comparative Statements of Plan Net Assets

	As of June 30, 2005	As of June 30, 2004	Percentage Change
Assets			
Cash and Deposits	$377,423	$3,611,466	(89.55)%
Receivables	1,116,168,461	1,452,424,569	(23.15)
Investments at Fair Value	11,545,296,448	10,759,162,291	7.31
Invested Securities Lending Collateral	2,225,521,793	2,078,302,191	7.08
Capital Assets and Supplies Inventory	3,778,000	2,503,441	50.91
Total Assets	14,891,142,125	14,296,003,958	4.16
Liabilities			
Administrative Costs	680,314	828,108	(17.85)
Benefits Payable	2,045,328	1,313,956	55.66
Investments Purchased	1,338,529,786	1,788,417,131	(25.16)
Securities Lending Collateral	2,225,521,793	2,078,302,191	7.08
Total Liabilities	3,566,777,221	3,868,861,386	(7.81)
Net Assets	**$11,324,364,904**	**$10,427,142,572**	**8.60%**

Summary Comparative Statements of Changes in Plan Net Assets

	Year Ended June 30, 2005	Year Ended June 30, 2004	Percentage Change
Additions			
Contributions	$527,178,455	$944,703,176	(44.20)%
Net Investment Income	1,218,018,786	1,331,971,630	(8.56)
Net Investment Income from Securities Lending Activity	5,077,335	4,254,284	19.35
Total Net Investment Income	1,223,096,121	1,336,225,914	(8.47)
Other Miscellaneous Income	178,105	182,113	(2.20)
Total Additions	1,750,452,681	2,281,111,203	(23.26)
Deductions			
Monthly Retirement Benefits	737,563,276	676,918,614	8.96
Refunds	46,773,933	41,179,470	13.59
Death Benefits	7,849,884	8,685,182	(9.62)
Insurance Premiums and Benefits	53,703,109	50,396,392	6.56
Administrative	7,340,147	7,231,295	1.51
Total Deductions	853,230,349	784,410,953	8.77
Net Increase	897,222,332	1,496,700,250	(40.05)
Net Assets Beginning of Year	**$10,427,142,572**	**$8,930,442,322**	**16.76**
Net Assets End of Year	**$11,324,364,904**	**$10,427,142,572**	**8.60%**

Additions to the System's net assets held in trust for benefits include employer and member contributions, as well as investment income. Total contributions to the Retirement System decreased from $944.7 million in fiscal year 2004 to $527.2 million in fiscal year 2005. The $417.5 million decrease in contributions is due to an extraordinary high amount in fiscal year 2004 that included pension obligation bond proceeds of $479.1 million.

The System recognized a net investment gain of $1.223 billion for the 2005 fiscal year, compared with a net investment gain of $1.336 billion for the 2004 fiscal year. Total return for the portfolio was a positive 12.1 percent. System net investments amounted to $11.285 billion at June 30, 2005, which was $902 million more than the $10.383 billion in total System investments at June 30, 2004. The Retirement System's one, three, five and ten-year investment performance against the assumed rate of investment return are shown in the chart below.

One Year	Latest Three Years	Latest Five Years	Latest Ten Years	Assumed Rate of Return
12.11%	10.41%	3.51%	9.06%	8.00%

At June 30, 2005, the System held $6.1 billion in U.S. equity and international equity securities, an increase of approximately $490 million from the 2004 fiscal year. U.S. equity and international equity securities earned returns of approximately positive 9.3 percent and 13.7 percent, respectively, for the 2005 fiscal year. These compare with the Retirement System's benchmark returns of 8.1 percent and 14.3 percent, respectively.

The System held $3.5 billion in U.S. debt and international debt securities, a decrease of $165 million from the 2004 fiscal year. The TIPS portfolio return for 2005 was positive with a return of 17.4 percent versus the benchmark return of 17.4 percent. The performance of the System's other fixed income securities during fiscal year 2005 was 9.1 percent compared with the benchmark of 8.0 percent. Real estate investments increased $135 million to $842.2 million at June 30, 2005. Real estate investments returned approximately 26.1 percent for the 2005 fiscal year, versus the benchmark real estate return of 18.9 percent. The System held $515.3 million in alternative investments, which was a $22.6 million decrease from June 30, 2004. Alternative investments earned a return of approximately 12.8 percent for the 2005 fiscal year, compared to the benchmark alternative investment return of 7.1 percent. At June 30, 2005, the System held $527.4 million in short-term investments, which was an increase of $344.9 million from June 30, 2004.

The Retirement System earns additional investment income by lending investment securities to brokers. The brokers provide collateral to the System and generally use the borrowed securities to cover short sales and failed trades. The Retirement System invests cash collateral received from the brokers in order to earn interest. For the fiscal year 2005, net securities lending income amounted to $5.1 million compared with $4.3 million in fiscal year 2004.

Deductions from net assets held in trust for benefits include retirement, death and survivor benefits, and administrative expenses. For the 2005 fiscal year, retirement, death and insurance benefits amounted to $845.9 million, an increase of $68.7 million, 8.8 percent, from the 2004 fiscal year. The increase in benefit payments was a result of an increase in the number of retirees. For the 2005 fiscal year, System administrative expenses amounted to $7.340 million compared with $7.231 million in fiscal year 2004. The ratio of System administrative expenses to the number of members (approximately $29 per member) continues to be very cost-efficient compared to other statewide retirement plans.

Funding Status

An actuarial valuation of the Retirement System's assets and benefit obligations is performed annually. At the date of the most recent actuarial valuation, December 31, 2004, the funded status decreased to 69.8 percent from 75.2 percent at December 31, 2003. The unfunded liability was $4.743 billion at December 31, 2004, compared with $3.586 billion at December 31, 2003. The increased unfunded liability can be largely attributed to new actuarial assumptions for mortality and retirement rates, and recognition of deferred investment losses in the computation of the actuarial value of assets.

In recent years, the Kansas Public Employees Retirement System's highest priority has been the development of a comprehensive plan to address the long-term retirement funding shortfall in the KPERS plan (state, school and local groups). The System's Board of Trustees, staff and actuary have worked closely with the Legislature's Joint Committee on Pensions, Investments and Benefits and the Governor's office on the development of this plan. In 2001 and 2002, actuarial projections indicated the KPERS plan was not in actuarial balance. In 2003 and 2004, the Legislature responded with several funding improvements:

- Raised statutory caps on annual employer contribution rate increases to 0.4 percent in fiscal year 2006, 0.5 percent in fiscal year 2007, and 0.6 percent in 2008 and thereafter.

- Issued $500 million in pension obligation bonds with $440.2 million in net proceeds to KPERS and debt service payments amortized in addition to employer contributions to the System.

These improvements represent major steps toward restoring the System's financial health. Significant challenges remain as participating employers begin budgeting for higher contribution rates and short-term funding projections will deteriorate until employer contributions reach the actuarially-required rates.

According to the most recent actuarial valuation report, the Retirement System's unfunded actuarial liability (UAL) increased from $3.586 billion as of December 31, 2003, to $4.743 billion as of December 31, 2004 and the funded ratio (assets to liabilities) declined from 75.2 percent to 69.8 percent. The primary reasons for the 2004 UAL increases were:

- An increase in liabilities from revising mortality assumptions to recognize that retirees are living longer.

- Continued negative impact of five-year smoothing of investment losses from 2001 and 2002.

- The System's amortization schedule (established in 1993) causes the UAL to increase substantially until the statutory employer contribution rates (actual rates paid by the employers) reach the actuarially-required rates.

The UAL will continue to increase and the funded ratio will decrease until the statutory rates catch up with the rates actuarially required to fund benefits.

The funding status of the plan is highly dependent on the achievement of the 8 percent investment return assumption. Consequently, future investment returns that are under this target will cause the funding status of the plan to deteriorate further. The System's Board of Trustees, staff and its actuary will continue to closely monitor the funding status and will propose to the Legislature and Governor future contribution rate increases and/or plan design changes as needed to ensure the financial stability of the plan.

Death & Disability Program

The Retirement System administers the group insurance reserve fund as described in Note 2 of the notes to the basic financial statements. The actuary performs an actuarial valuation of this fund on an annual basis with the last valuation completed for June 30, 2004. As of June 30, 2005, the fund had assets of $13.9 million. Employers resumed the historical contributions (0.6 percent of payroll) to this fund beginning July 1, 2004. However, funding at this level is not sufficient to keep this fund solvent after June 30, 2005.

In order to address the financial viability of the death and disability program, the 2005 Legislature passed Senate Substitute for House Bill 2037 modifying funding and benefits of the KPERS death and disability program for active employees by:

1. Expanding the KPERS Board of Trustees' authority to administer the program within available funds and to adjust the plan design as needed; increasing employer contributions from 0.6 percent to 0.8 percent of payroll on July 1, 2005, and 1.0 percent of payroll on July 1, 2006.

2. Authorizing loans from the Pooled Money Investment Board, subject to State Finance Council approval, if Death and Disability Fund balances are insufficient.

3. Adjusting the maximum duration of KPERS disability benefit payments for employees disabled after age 65 to ensure compliance with federal Age Discrimination and Employment Act (ADEA).

In May 2005, the KPERS Board of Trustees adopted plan design modifications to the disability program effective for employees becoming disabled on or after January 1, 2006. These plan design modifications, along with the increase contribution rates, are key elements that will provide financial stability to the Death and Disability Program.

Statement of Plan Net Assets

For the Fiscal Year Ended June 30, 2005, With Comparative Figures for 2004

	2005	2004
Assets		
Cash and Deposits		
Cash	$165,801	$54,643
Deposits with Insurance Carrier	211,622	3,556,823
Total Cash and Deposits	377,423	3,611,466
Receivables		
Contributions	37,970,025	40,332,275
Investment Income	40,477,200	42,778,358
Sale of Investment Securities	1,037,721,236	1,369,313,936
Total Receivables	1,116,168,461	1,452,424,569
Investments at Fair Value		
Domestic Equities	3,533,295,661	3,513,446,210
International Equities	2,611,045,616	2,136,913,681
Cash and Equivalents	527,388,132	182,506,767
Fixed Income	3,516,052,684	3,681,472,192
Alternative Investments	515,346,294	537,928,156
Real Estate	842,168,061	706,895,285
Total Investments at Fair Value	11,545,296,448	10,759,162,291
Invested Securities Lending Collateral	2,225,521,793	2,078,302,191
Capital Assets and Supplies Inventory	3,778,000	2,503,441
Total Assets	**14,891,142,125**	**14,296,003,958**
Liabilities		
Administrative Costs	680,314	828,108
Benefits Payable	2,045,328	1,313,956
Securities Purchased	1,338,529,786	1,788,417,131
Securities Lending Collateral	2,225,521,793	2,078,302,191
Total Liabilities	**3,566,777,221**	**3,868,861,386**
Net assets held in trust for pension benefits	**$11,324,364,904**	**$10,427,142,572**

A schedule of funding progress for the plan is presented on page 41.

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

Statement of Changes in Plan Net Assets

For the Fiscal Year Ended June 30, 2005 With Comparative Figures for 2004

	2005	2004
Additions		
Contributions		
Member Contributions	$233,226,034	$230,349,955
Employer Contributions	293,952,421	714,353,221
Total Contributions	527,178,455	944,703,176
Investments		
Net Appreciation in Fair Value of Investments	932,881,712	1,087,128,878
Interest	132,806,082	132,004,016
Dividends	130,167,483	91,477,150
Real Estate Income, Net of Operating Expenses	43,821,311	39,514,695
Other Investment Income	412,211	565,492
	1,240,088,799	1,350,690,231
Less Investment Expense	(22,070,013)	(18,718,601)
Net Investment Income	1,218,018,786	1,331,971,630
From Securities Lending Activities		
Securities Lending Income	53,059,141	23,020,103
Securities Lending Expenses		
– Borrower Rebates	(46,714,331)	(17,697,447)
– Management Fees	(1,267,475)	(1,068,372)
Total Securities Lending Activities Expense	(47,981,806)	(18,765,819)
Net Income from Security Lending Activities	5,077,335	4,254,284
Total Net Investment Income	1,223,096,121	1,336,225,914
Other Miscellaneous Income	178,105	182,113
Total Additions (Net Reductions)	**1,750,452,681**	**2,281,111,203**
Deductions		
Monthly Retirement Benefits Paid	(737,563,276)	(676,918,614)
Refunds of Contributions	(46,773,933)	(41,179,470)
Death Benefits	(7,849,884)	(8,685,182)
Insurance Premiums and Benefits	(53,703,109)	(50,396,392)
Administrative Expenses	(7,340,147)	(7,231,295)
Total Deductions	**(853,230,349)**	**(784,410,953)**
Net Increase	**897,222,332**	**1,496,700,250**
Net Assets held in trust for Pension Benefits		
Balance Beginning of Year	10,427,142,572	8,930,442,322
Balance End of Year	$11,324,364,904	$10,427,142,572

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

Note 1: Plan Description

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:

- Kansas Public Employees Retirement System (KPERS)
- Kansas Police and Firemen's Retirement System (KP&F)
- 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. The State of Kansas and Kansas schools are required to participate, while 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	24	—
Cities	359	50	—
Townships	53	—	—
School Districts	301	—	—
Libraries	117	—	—
Conservation Districts	82	—	—
Extension Councils	80	—	—
Community Colleges	43	—	—
Recreation Commissions	40	—	—
Hospitals	29	—	—
Cemetery Districts	13	—	—
Other	162	—	—
Total	**1,385**	**75**	**1**

Membership by Retirement Systems

	KPERS	KP&F	Judges	Total
Retirees and beneficiaries currently receiving benefits	57,401	3,558	166	61,125
Terminated employees entitled to benefits but not yet receiving them	8,871	115	14	9,000
Inactive members, deferred disabled	3,004	0	0	3,004
Inactive members not entitled to benefits	28,320	941	4	29,265
Current employees	140,779	6,721	251	147,751
Total	**238,375**	**11,335**	**435**	**250,145**

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, age 50 with 25 years, or any age with 32 years of service). Monthly retirement benefits are based on a statutory formula that includes final average salary and years of service. When ending employment, members may withdraw their contributions from their individual accounts, including interest. Members who withdraw their accumulated contributions lose all rights and privileges of membership. For all pension coverage groups, the accumulated contributions and interest are deposited into and disbursed from the membership accumulated reserve fund as established by K.S.A. 74-4922.

Members choose one of seven payment options for their monthly retirement benefits. At retirement a member may receive a lump-sum payment of up to 50 percent of the actuarial present value of the member's lifetime benefit. His or her monthly retirement benefit is then permanently reduced based on the amount of the lump sum. Benefit increases, including ad hoc post-retirement benefit increases, must be passed into law by the Kansas Legislature. Benefit increases are under the authority of the Legislature and the Governor of the State of Kansas. For all pension coverage groups, the retirement benefits are disbursed from the retirement benefit payment reserve fund as established by K.S.A . 74-4922.

Active members (except KP&F members) are covered by basic group life insurance. The life insurance benefit is 150 percent of the annual compensation rate 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 spouse, minor children or dependent parents (in this order). Service-connected accidental death benefits are in addition to any life insurance benefit. There is a $4,000 death benefit payable to the beneficiary(ies) when a retired member dies under any of the systems.

Active members (except KP&F and Judges members) are also covered by the provisions of the disability income benefit plan. Annual disability income benefits are based on 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. The minimum monthly benefit is $100. Beginning in 2006, the annual disability income benefit will be based on 60 percent of the annual rate of compensation. 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.

Contributions

Member contributions (from 4 to 7 percent of gross compensation), employer contributions and net investment income fund Retirement System reserves. Member contribution rates are established by state law, and are paid by the employee 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. The contributions and assets of all three systems are deposited in the Kansas Public Employees Retirement Fund established by K.S.A. 74-4921. All of the retirement systems are funded on an actuarial reserve basis (see Note 3). For fiscal years beginning in 1995, Kansas legislation placed a statutory limit of 0.1 percent of payroll on increases in contribution rates for KPERS employers. 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 more 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. Legislation passed in 2003 amended the annual increases in future years. The statutory cap for the State/School group will increase to 0.4 percent in fiscal year 2006, with subsequent increases of 0.5 percent in fiscal year 2007 and 0.6 percent in fiscal year 2008 and beyond. Legislation passed in 2004 amended the annual increases in future years for local employers. The statutory cap for the Local group will increase to 0.4 percent in calendar year 2006, with subsequent increases of 0.5 percent in fiscal year 2007 and 0.6 percent in fiscal year 2008 and beyond.

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.

Legislation passed in 2000 and 2001 placed a moratorium on contributions related to the group life insurance and disability benefits effective for the period April 1, 2000, through December 31, 2001. Calendar year 2002 and 2003 legislation placed additional moratoriums on contributions to this fund. Moratoriums were in effect for the period July 1, 2002, through December 31, 2002, and the period of April 1, 2003, through June 30, 2004. Legislation passed in 2005, increases the insurance contribution rate to .8 percent of covered payroll effective July 1, 2005 and to 1.0 percent on July 1, 2006.

Note 2: Summary of Significant Accounting Policies

Reporting Entity

The Retirement 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, one by the President of the Senate, one by the Speaker of the House of Representatives, two are elected by Retirement System members, and one is the elected state treasurer. The Board of Trustees appoints the executive director, who is the Retirement System's managing officer.

Basis of Accounting

The Retirement System's financial statements are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. Member and employer contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Use of Estimates

The Retirement System's financial statement preparation conforms with accounting principles generally accepted in the United States. These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities. This also includes disclosing of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Method Used to Value Investments

Investments are reported at fair market 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.

Cash and Deposits

Cash deposits are classified in three categories of credit risk to indicate the Retirement System's risk level. The three categories are:

1. Insured or collateralized with securities held by the State Treasurer or its custodian in the name of the State of Kansas.

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

3. Uncollateralized.

As of June 30, 2005, the cash deposits of $165,676 held by the State Treasurer were in credit risk category "1." The Retirement System's deposits with its insurance carrier were $211,622 at June 30, 2005, and were in credit risk category "3."

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 Retirement System's investment program is provided 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.

- The annual allowance for new alternative (non-publicly traded) investments is limited to 1 percent of the market value of the total investment assets of the fund as measured from the end of the preceding calendar year.

- Establishes limits on the structure of future investments in real estate or alternative investments.
- Requires that the Board develop investment policies and objectives to invest fund assets.
- Authorizes the Board to hire qualified professionals/firms to assist in investing the fund and requires 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 annually examine the investment program, specific investments, and its policies and practices.

The Retirement System's permissible investment categories include:
1) Equities.
2) Fixed income securities.
3) Cash equivalents.
4) Real estate.
5) Derivative products.
6) Alternative investments.

In fulfilling its responsibilities, the Board of Trustees has contracted with 14 investment management firms and a master global custodian. 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 and 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 rate fluctuations that may result in a decrease in the fair 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, 2005, the Retirement System had futures contracts with a fair value of approximately $419,400,000. 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 fair value on domestic securities and 105 percent of fair 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, 2005, the maturities of securities in this dedicated bond portfolio are as follows: 43 percent of the fair value of the securities mature within 30 days; 28 percent mature between 31 and 180 days; and 29 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. The fair value of securities on loan as of June 30, 2004, and June 30, 2005, were $2,136,687,810 and $2,372,391,980, respectively. Collateral held by the Retirement System for June 30, 2004, and June 30, 2005, was $2,173,652,076 and $2,441,833,132, respectively. Net income produced from securities lending activities for fiscal year 2004 was $4,254,284 and for fiscal year 2005 was $5,077,335.

The Retirement System's international investment managers use 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 the 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 fair value by the Retirement System. As of June 30, 2005, the System had sold forward currency contracts with a fair value of $871,474,871 and had bought forward currency contracts with a fair value of $838,073,360. 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 internally manages a Treasury Inflation Protected Securities (TIPS) portfolio. TIPS are fixed income securities issued by the U.S. Treasury that pay a fixed coupon rate plus an adjustment for subsequent inflation. At June 30, 2005, the Retirement System had invested in TIPS with a fair value of approximately $1,050,500,000.

Custodial Credit Risk

Custodial credit risk is when in the event a financial institution or counterparty fails, the Retirement System would not be able to recover value of deposits, investments or collateral securities that are in the possession of an outside party. One hundred percent (100 percent) of the Systems investments are held in the System's name and are not subject to creditors of the custodial bank.

Concentration Risk

The System has investments in Federal National Mortgage Association issued securities that represent 5.6 percent of the total net asset value. No other single issuer represents five percent or more of System assets other than the U.S. Government.

Currency Risk

Currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. KPERS investments at June 30, 2005, were distributed among the following currencies.

USD Equivalent	Currency	Percent
$111,842,897	Australian Dollar	0.81%
17,207,862	Brazil Real	0.12%
565,313,573	British Pound Sterling	4.11%
104,269,418	Canadian Dollar	0.76%
10,476,670	Danish Krone	0.08%
2,590,823	Egyptian Pound	0.02%
870,304,201	Euro Currency Unit	6.32%
47,515,537	Hong Kong Dollar	0.35%
1,237,601	Hungarian Forint	0.01%
4,482,375	Indonesian Rupian	0.03%
572,565,481	Japanese Yen	4.16%
13,916,284	Malaysian Ringgit	0.10%
19,456,163	Mexican New Peso	0.14%
5,406,637	New Taiwan Dollar	0.04%
2,102,664	New Turkish Lira	0.02%
12,725,462	New Zealand Dollar	0.09%
19,564,374	Norwegian Krone	0.14%
849,256	Philippines Peso	0.01%
4,704,271	Polish Zloty	0.03%
12,387,234	S African Comm Rand	0.09%
25,077,036	Singapore Dollar	0.18%
36,336,225	South Korean Won	0.26%
52,979,057	Swedish Krona	0.38%
196,930,196	Swiss Franc	1.43%
8,970,803	Thailand Baht	0.07%
11,051,606,141	U.S. Dollar*	80.25%
$13,770,818,241	**Total Currencies**	**100.00%**

* Includes securities lending collateral of $2,225,521,793

The System's asset allocation and investment policies include active and passive investments in international securities as shown above. KPERS' target allocation is to have 18 percent of assets (excluding securities lending collateral) in dedicated international equities. The System also has 8.0 percent of assets targeted to global equities which are expected to be between 40 and 60 percent international. Core Plus bond managers are allowed to invest up to 20 percent of their portfolio in non-dollar securities. The System utilizes a currency overlay manager to reduce risk by hedging up to 50 percent of the foreign currency for selected international equity portfolios. At June 30, 2005, the System's total foreign currency exposure was 15.3 percent hedged.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to a debt investment will not fulfill its obligations. The Retirement System's investment policies require Core and Core Plus managers to have at least 70 percent of holdings in investment grade securities. Each portfolio is required to maintain a reasonable risk level relative to its benchmark. System assets ($ in thousands) as of June 30, 2005, subject to credit risk are shown with current credit ratings below.

Quality Rating	Commercial Paper	Corporate	Agency	U.S. Govt	Securities Lending Collateral	Total
NR	$ -	$9,083	$ -	$ -	$578,245	$587,328
AAA	200,958	146,360	629,490	1,753,654	164,522	2,894,984
AA	96,794	162,290	273,521	110,366	1,270,892	1,913,863
A	17,000	129,730	-	-	211,863	358,593
BAA	-	195,394	-	-	-	195,394
BA	2,693	201,684	-	-	-	204,377
B	-	57,836	-	-	-	57,836
CAA	-	39,839	-	-	-	39,839
Total	**$317,445**	**$942,216**	**$903,011**	**$1,864,020**	**$2,225,522**	**$6,252,214**

Commercial Paper also includes repurchase agreements and other short-term securities. Agency securities are those implicitly guaranteed by the U.S. Government. U.S. Government securities are treasury securities and agencies explicitly guaranteed. Securities Lending Collateral are securities invested using cash collateral from the securities lending program, not pooled with any other institution's funds. Securities rated A1/P1 are included in AA on this table. The Securities Lending Collateral class has the following policy requirements: to be rated A3/A- or better; Commercial paper must be A1/P1; Asset-backed securities must be AA3/AA- or better; Repurchase agreements must be 102 percent collateralized with A3/A- or A1/P/1 or better securities and held by the custodial bank or third-party custodian. Securities Lending Collateral NR (Not Rated) securities are 100 percent repurchase agreements.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investment Policy requires Core and Core+ managers to be within 20 percent of their benchmark duration, and all fixed portfolios shall maintain a reasonable risk level relative to their benchmarks. The same System assets as above are also subject to interest rate risk. These are shown on the following page ($ in thousands) grouped by effective duration ranges.

Quality Rating	Commercial Paper	Corporate	Agency	U.S. Govt	Securities Lending Collateral	Total
0-1 yr	$317,273	$244,713	$317,101	$211,877	$2,225,522	$3,316,486
1-3 yrs	-	140,207	502,934	247,870	-	891,011
3-5 yrs	-	210,227	52,178	133,000	-	395,405
5-10 yrs	172	279,776	29,445	85,869	-	395,262
10-22 yrs	-	67,293	1,353	1,185,404	-	1,254,050
Total	**$317,445**	**$942,216**	**$903,011**	**$1,864,020**	**$2,225,522**	**$6,252,214**

Treasury Inflation Protected Securities (TIPS) comprise 92 percent of the US Government, 10-22 yrs group. Total TIPS for all duration ranges were valued at $1,118,968,333 at June 30, 2005. Securities Lending Collateral policy limits the maximum average portfolio maturity of 90 days and only floating rate, and fixed rate asset-backed, securities may mature beyond thirteen months.

Capital Assets and Supplies Inventory

Furniture, fixtures and equipment are reported on the Statement of Plan Net Assets 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, 2005, was $2,440,669. Office supplies inventory in the amount of $37,256 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 50 percent is a real estate investment. The administrative portion of the building and garage are reported on the Statement of Plan Net Assets as a capital asset and are being depreciated. Accumulated depreciation on the administrative portion of the building and garage as of June 30, 2005 was $1,881,707. The office building and garage are being depreciated over a period of 33 years on an accelerated method. At June 30, 2005, the carrying value of the System's administrative headquarters was $1,937,997

Compensated Accrued Absences

Expenses for accumulated vacation and sick leave earned by Retirement System personnel are recorded when earned by the employee. If employees end employment with the State of Kansas, they are compensated for vacation benefits accrued in varying amounts ranging from one to 30 days. Compensation for accumulated sick leave requires three conditions:

1) Accumulation of 800 hours.
2) Minimum of eight years of credited service.
3) Termination with the State of Kansas on or after reaching 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.

Reserves

K.S.A. 74-4922, K.S.A. 74-4927 and K.S.A. 74-49,110 define the title and use of the required Retirement System reserves. This law requires the actuary to:

- Make an annual valuation of the Retirement System's liabilities and reserves.
- Make a determination of the contributions required to discharge the Retirement System's liabilities.
- Recommend to the Board of Trustees employer contribution rates required to maintain the System on an actuarial reserve basis.

Various Reserves

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. After ending employment and applying for withdrawal, employee contributions, plus accumulated interest, are charged to this reserve.

Interest is credited to active 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, is 8 percent for those who became members prior to July 1, 1993. For those who first became members after June 30, 1993, interest on employee contributions is credited at the rate of 4 percent per year. The balance at June 30, 2005, was $4,113,529,625, and was fully funded.

The Retirement Benefit Accumulation Reserve represents the accumulation of employer contributions, net investment income not credited to any other reserve, and the actuarially computed prior service liability not yet funded. The balance at June 30, 2005, was $5,930,019,647. The unfunded liability was $4,742,665,899.

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, 2005, was $5,994,869,531, 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.
2) Deposits made by the Retirement System to pay disability benefits to eligible participants. An actuarial valuation of this fund was last completed for June 30, 2004.

The balance at June 30, 2005, was $13,931,707 and remains less than fully funded.

The Expense Reserve represents 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 financed from this reserve. The balance at June 30, 2005, was $14,680,293, and was fully funded.

The Optional Term Life Insurance Reserve accumulates employee contributions to pay premiums for optional life insurance coverage and is charged annually with the cost of administering the program.

Budget

The Retirement System's annual operating budget 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 System has an approved budget.

Retirement System Employees' Pension Plan

As an employer, the Retirement System participates in KPERS, a cost sharing, multi-employer defined benefit pension plan. KPERS provides retirement, disability, withdrawal and death benefits to plan members and beneficiaries as authorized by Kansas law. Funding is accomplished through member and employer contributions and investment earnings, according to Kansas Law. Upon the completion of a year of service, plan members contribute 4 percent of their annual salary. In Fiscal Year 2005, the regular employer retirement rate was 4.87 percent of covered payroll. In addition, KPERS contributed an additional .6 percent of covered payroll to the group insurance fund. Total payroll was $3,234,839 and $3,553,265 for 2004 and 2005, respectively. KPERS contributed $140,689 and $183,489 for 2004 and 2005, respectively, to the employees pension plan. All contributions required by law were made in Fiscal Years 2003, 2004 and 2005.

Non-Retirement Funds

The 2000 legislative session assigned to the Retirement System the investment responsibilities of non-retirement money. The Treasurer's Unclaimed Property Fund was established to provide investment earnings available for periodic transfer to the State Treasury for the credit of the State General Fund. Legislation was also provided to defray the reasonable expenses of administrating these funds. Investments under management for the Treasurer's Unclaimed Property Fund were $147,918,492 at June 30, 2005.

Pending Governmental Accounting Standards Board Statements

At June 30, 2005, the Governmental Accounting Standards Board (GASB) had issued several statements not yet implemented by the Retirement System. The statements that might impact the System are as follows:

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries*, was issued in November 2003 and it will apply to financial statements of the System for fiscal year 2006. Statement No. 42 establishes guidance for accounting and reporting for the impairment of capital assets and for insurance recoveries. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2004.

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was issued in April 2004. The objective of this statement is to establish uniform financial reporting standards for other postemployment benefit plans (OPEB plans). The term "other postemployment benefits" refers to postemployment benefits other than pension benefits and includes (a) postemployment healthcare benefits and, (b) other types of postemployment benefits (i.e., life insurance) if provided separately from a pension plan. This statement provides standards for measurement, recognition, and display of the assets, liabilities, and, where applicable, net assets and changes in net assets of such funds and for related disclosures. The provisions of this statement are effective for periods beginning after December 15, 2005.

GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*, was issued in May 2004. This statement amends the portions of NCGA Statement 1, Governmental Accounting and Financial Reporting Principles, guiding the preparation of the statistical section. Statement No. 44 establishes the objectives of the statistical section and the five categories of information it contains – financial trends information, revenue capacity information, debt capacity information, demographic and economic information, as well as operating information. The provisions of this statement are effective for periods beginning after June 15, 2005.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was issued in June 2004. This statement establishes standards for the measurement, recognition and display of other postemployment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The term "other postemployment benefits" refers to postemployment benefits other than pension benefits and includes (a) postemployment healthcare benefits and, (b) other types of postemployement benefits (i.e., life insurance) if provided separately from a pension plan. The provisions of this statement are effective for periods beginning after December 15, 2006.

GASB Statement No. 47, *Accounting for Termination Benefits*, was issued in July 2004. This statement establishes standards of accounting and financial reporting for termination benefits. Termination benefits are benefits provided by employers to employees as an inducement to hasten the termination of services or as a result of a voluntary early termination or as a consequence of the involuntary early termination of services. Termination benefits include early-retirement incentives, severance benefits and other termination-related benefits. The requirements of this Statement are effective in two parts. This statement is effective for financial statements for the periods beginning after June 15, 2005.

Note 3: Funding Policy

Funding

The law governing the Retirement System requires the actuary to make an annual valuation of the System's liabilities and reserves and determine the contribution required to discharge the System's liabilities. The actuary then recommends to the System's Board of Trustees the employer contribution rates required to maintain the Retirement System on the actuarial reserve basis. Every three years, the actuary makes a general investigation of the actuarial experience under the System including mortality, retirement and employment turnover. The actuary recommends actuarial tables for use in valuations and in calculating actuarial equivalent values based on such investigation. An actuarial experience study was conducted for the three years ending December 31, 2003. As a result of this study, the Board of Trustees adopted new assumptions in regard to retirement rates, mortality and termination rates.

Pension Obligation Bonds

In September 2003, the State of Kansas issued $40,250,000 of Series 2003 H State pension funding bonds. Of the total amount the bond issue, $15,350,000 of the bond proceeds were used for the purpose of financing the unfunded actuarial liability of the TIAA group of members. In addition, the State of Kansas contributed an additional $2 million cash payment.

The remaining bond proceeds of $24,900,000 were used for the purpose of financing the unfunded actuarial liability of those members who retired prior to July 2, 1987, and are entitled to a Retirement Dividend payment pursuant to K.S.A. 74-49,109. Beginning in fiscal year 2005 state's employer contribution rates for the State KPERS, School, State KPF and Judges groups included an additional amount to finance the debt service payments for this portion of the bonds. In fiscal year 2005 KPERS collected $3,269,389 additional contributions for the debt service payments and transferred these funds to the State of Kansas.

In February, 2004, the State of Kansas issued $500 million in pension obligation bonds, and KPERS received net proceeds of $440.2 million in March 2004. The proceeds have been invested to assist with financing the State and School group's unfunded actuarial liability. The debt service on the bonds will be paid by the State of Kansas in addition to the State's regular employer contributions.

Changes in Unfunded Actuarial Liability

The actuary has estimated the change in the unfunded actuarial liability between December 31, 2003, and December 31, 2004, can be attributed to the following ($ in millions):

Unfunded Actuarial Liability, December 31, 2003	**$3,586**
Effect of contribution cap/time lag	179
Expected increase due to amortization method	68
Loss from investment return	456
Demographic experience	20
All other experience	(4)
Change in actuarial assumptions	437
Change in benefit provisions	1
Final Unfunded Actuarial Liability, December 31, 2004	**$4,743**

Contributions Required and Contributions Made

KPERS. The actuarially determined contribution rates are computed as a level percentage of payroll by the Retirement System's actuary. For the State/School, Correctional and TIAA members, the results of December 31, 2000, and December 31, 2001, actuarial valuations provide the basis for Board certification of employer contribution rates for fiscal years 2004 and 2005, respectively. As explained in Note 1, legislation has limited the amounts that employers are required to contribute for State, School and Local employees, which has resulted in lower employer contribution rates as compared with the actuarially determined rates. The actuarially determined employer contribution rates (not including the 0.6 percent contribution rate for the Death and Disability Program) and the statutory contribution rates for fiscal years 2004 and 2005 are as follows:

	State and School		Correction Employees	
Year	**Actuarial Rate**	**Statutory Rate**	**Actuarial Rate**	**Statutory Rate**
2004	7.05%	4.58%	7.08% / 7.57%	4.61% / 5.10%
2005	7.69%	4.87%	7.82% / 8.23%	5.00% / 5.41%

Included in the fiscal year 2005 rates is the bond debt service rate of .09 percent collected by KPERS to transfer to the State general fund for the debt service payments of the 13th Check Pension Obligation Bonds.

The results of December 31, 2001, and December 31, 2002, actuarial valuations provide the basis for Board certification of local employer contribution rates for fiscal years beginning in 2004 and 2005, respectively. The actuarially determined employer contribution rates and statutory contribution rates for fiscal years 2004 and 2005 are as follows:

	Local	
Year	**Actuarial Rate**	**Statutory Rate**
2004	4.64%	3.22%
2005	5.44%	3.41%

KP&F. The uniform participating service rate for all KP&F employers was 9.47 percent for the fiscal year beginning in 2004 and 11.69 percent for the fiscal year beginning in 2005. KP&F employers also make contributions to amortize the liability for past service costs, if any, which are determined separately for each participating employer.

Judges. The total actuarially determined employer contribution rate was 16.67 percent of payroll for the fiscal year ended 2004 and 19.22 percent of payroll for the fiscal year ended 2005.

The law specifies employee contributions as: Each participating employer, beginning with the first payroll for services performed after the entry date, shall deduct from the compensation of each member an amount equal to 4 percent for KPERS members, 7 percent for KP&F members, and 6 percent for Judges members as the member's employee contributions. All required contributions have been made as follows ($ in thousands):

	Employer Contributions	Member Contributions(1)	Contributions as a Percent of Covered Payroll
KPERS- State	$50,367	$37,507	10.3 %
KPERS- School	136,326	111,811	10.0
KPERS - Local	48,324	52,247	8.4
KP&F	54,698	24,311	26.5
Judges	4,238	1,281	25.0
Total	**$293,953**	**$227,157**	**10.7 %**

An estimated $451 million of employer and employee contributions were made to cover normal cost, an estimated $38 million was made for the amortization of the unfunded actuarial accrued liability.

1) Member contributions do not include Optional Life Insurance contributions of approximately $6.0 million.

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 41 and is titled, "Required Supplementary Information."

Note 4: Commitments and Contingencies

As of June 30, 2005, the Retirement System was committed to additional funding of $13,126,000 in the form of capital expenditures on separate account real estate holdings in the portfolio, $166,303,000 for commitments on venture capital investments, and $142,212,000 for capital calls on real estate property trusts investments.

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.

Required Supplementary Information

Schedule of Employer Contributions

Fiscal Year Ended June 30

Year	Annual Required Contribution	Percentage Contributed
1996	$173,927,737	82.5 %
1997	199,521,423	74.7
1998	216,270,482	77.3
1999	256,813,541	79.0
2000	234,941,116	80.6
2001	277,096,692	77.6
2002	289,519,647	79.7
2003	311,365,296	78.9
2004	317,900,432	74.0
2005	361,792,855	72.4

Schedule of Funding Progress

($ 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 Percent of Covered Payroll ((b - a)/c)
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
06/30/00	9,568,275	10,801,397	1,233,122	89	4,684,768	26
12/31/00(1)	9,835,182	11,140,014	1,304,832	88	4,876,555	27
12/31/01	9,962,918	11,743,052	1,780,134	85	5,116,384	35
12/31/02	9,784,862	12,613,599	2,828,736	78	4,865,903(2)	58
12/31/03	10,853,462	14,439,546(3)	3,586,084	75	4,978,132	72
12/31/04	10,971,427	15,714,092	4,742,666	70	5,102,016	93

1) The actuarial valuation date was changed to a calendar year basis.

2) Beginning with the 12/31/02 actuarial valuation, the unfunded actuarial liability of the TIAA group was eliminated. Therefore, covered payroll no longer includes the salaries of non-KPERS unclassified employees of the Board of Regents institutions previously included.

3) Beginning with the 12/31/03 actuarial valuation, the actuarial cost method was changed to the Entry Age Normal (EAN) 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	12/31/04	12/31/04	12/31/04
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level Percent closed	Level Percent closed	Level Percent closed
Remaining amortization period	28 years	28 years	28 years
Asset valuation method	Difference between actual return and return and expected return on return on market value calculated early and recognized evenly over five-year period		
Actuarial assumptions:			
Investment rate of return (1)	8.0%	8.0%	8.0%
Projected salary increases (1)	4.0%–9.8%	4.0%–12.5%	5.5%
Cost of Living Adjustment	none	none	none

1) Salary increases and investment rate of return include a 3.5 percent inflation component.

Other Supplementary Schedules

Schedule of Contributions

For the Fiscal Year Ended June 30, 2005

Kansas Public Employees Retirement System	
State/School Contributions	
Members	$149,318,255
Employers	186,692,772
Total State/School Contributions	336,011,027
Local Contributions	
Members	52,247,238
Employers	48,323,915
Total Local Contributions	100,571,153
Total Contributions, KPERS	**436,582,180**
Kansas Police and Firemen's Retirement System	
State Contributions	
Members	2,644,816
Employers	4,103,765
Total State Contributions	6,748,581
Local Contributions	
Members	21,665,833
Employers	50,594,342
Total Local Contributions	72,260,175
Total Contributions, KP&F	**79,008,756**
Kansas Retirement System for Judges	
State Contributions	
Members	1,281,368
Employers	4,237,627
Total State Contributions	5,518,995
Total Contributions, Judges	**5,518,995**
Optional Group Life Insurance	
Member Contributions	
State Employees	3,145,187
Local Employees	2,923,337
Total Contributions	6,068,524
Total Contributions, Optional Group Life	**6,068,524**
Grand Total, All Contributions	**$527,178,455**

Schedule of Administrative Expenses
For the Fiscal Year Ended June 30, 2005

Salaries and Wages	**$4,536,607**
Professional Services	
Actuarial	250,132
Audit	32,500
Data Processing	407,169
Legal	43,449
Other Professional Services	89,368
Total Professional Services	**822,618**
Communication	
Advertising	7,060
Postage	225,381
Printing	105,548
Telephone	82,334
Total Communication	**420,323**
Building Administration	
Building Management	71,197
Janitorial Service	46,729
Office and Equipment Rent	20,409
Real Estate Taxes	89,019
Utilities	62,473
Total Building Administration	**289,827**
Miscellaneous	
Dues and Subscriptions	23,301
Repair and Service Agreements	129,085
Supplies	148,558
Temporary Services	104,521
Travel and Training	114,927
Other Miscellaneous	178,511
Depreciation	571,869
Total Miscellaneous	**1,270,772**
Total Administrative Expenses	**$7,340,147**

Schedule of Investment Income by Asset Class

For the Fiscal Year Ended June 30, 2005

Asset Classification	Interest, Dividends and Other Transactions	Gains and Losses	Total
Marketable Equity Securities			
Domestic Equities	$48,500,421	$272,507,741	$321,008,162
International Equities	54,964,367	241,354,541	296,318,908
Subtotal Marketable Equities	103,464,788	513,862,282	617,327,070
Marketable Fixed Income Securities			
Government	55,456,333	173,572,769	229,029,102
Corporate	68,768,902	68,645,918	137,414,820
Subtotal Marketable Fixed Income Securities	124,225,235	242,218,687	366,443,922
Temporary Investments	8,559,647	(423,198)	8,136,449
Total Marketable Securities	**236,249,670**	**755,657,771**	**991,907,441**
Real Estate	43,821,311	136,991,170	180,812,481
Alternative Investments	26,723,895	40,232,771	66,956,666
Total Real Estate and Alternative Investments	**70,545,206**	**177,223,941**	**247,769,147**
Other Investment Income			
Securities Lending	5,077,335	—	5,077,335
Recaptured Broker Commissions	161,979	—	161,979
Miscellaneous Income	250,232	—	250,232
Total Other Investment Income	**5,489,546**	**—**	**5,489,546**
Investment Income	**$312,284,422**	**$932,881,712**	**$1,245,166,134**

Manager and Custodian Fees and Expenses	
Investment Manager Fees	(20,741,568)
Custodian Fees and Expenses	(640,944)
Other Investment Expenses	(687,501)
Total Investment Fees and Expenses	(22,070,013)
Net Investment Income	**$1,223,096,121**

Schedule of Investment Fees and Expenses

For the Fiscal Year Ended June 30, 2005

Domestic Equity Managers	
Barclays Global Investors	$3,387,512
Capital Guardian Trust Co.	304,011
Wellington Management Co.	1,319,531
Subtotal Domestic Equity Managers	5,011,054
Global Equity Managers	
Capital Guardian Trust Co.	511,096
Wellington Management Co.	362,871
Subtotal Global Equity Managers	873,967
International Equity Managers	
Alliance Capital Management	1,081,407
Barclays Global Investors	1,255,205
Lazard Freres Asset Management	1,734,013
Morgan Stanley Asset Management	1,778,915
Nomura Capital Management	693,638
Subtotal International Equity Managers	6,543,178
Fixed Income Managers	
Loomis, Sayles & Co.	1,021,500
Pacific Investment Management Co.	1,242,536
Payden & Rygel Investment Counsel	715,914
Western Asset Management Co.	1,104,027
Subtotal Fixed Income Managers	4,083,977
Foreign Currency Overlay Manager	
Pareto Partners	1,111,357
Subtotal Foreign Currency Overlay Manager	1,111,357
Real Estate and Alternative Investment Managers	
AEW Capital Management	1,940,215
Portfolio Advisors	358,769
Morgan Stanley Prime Property Fund	600,625
Subtotal Real Estate and Alternative Investment Managers	2,899,609
Cash Equivalent Manager	
Payden & Rygel Investment Counsel	218,426
Subtotal Cash Equivalent Manager	218,426
Total Investment Management Fees	**20,741,568**
Other Fees and Expenses	
Mellon Trust - Custodian Fees and Expenses	640,944
Consultant Fees	653,082
Legal Expenses	34,419
Total Other Fees and Expenses	**1,328,445**
Total Investment Fees and Expenses	**$22,070,013**

Effective

Everything we do is to ***benefit*** our members

Over time, the Retirement System's long-term investment strategy has proved effective. Our well-diversified portfolio has withstood short-term volatility and profited from longer-term market returns. The fund's return average over the last ten years is 9.1 percent, exceeding our 8 percent target.

Chief Investment Officer's Review

Scott Peppard, Acting Chief Investment Officer

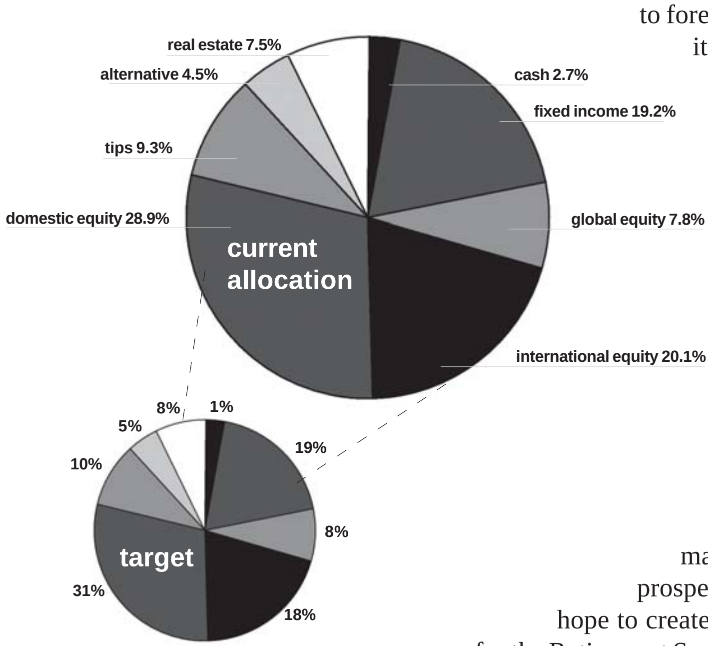
KPERS' portfolio is managed for the long term in an effort to generate adequate returns to pay promised benefits, while keeping an eye on the day-to-day needs of the Retirement System. To that end, these assets receive the benefit of a diversified, carefully monitored investment portfolio that includes stocks, bonds, real estate, alternative investments and cash.

Assets within the portfolio represents all member and employer contributions to the plan, as well as all net earnings. Total assets at the end of the fiscal year were slightly less than $11.3 billion.

Asset Allocation

As part of the Retirement System's diversification, the portfolio is invested to varying degrees in seven different asset classes within eight distinct sub-portfolios: domestic and international equities, global equity, fixed income, Treasury Inflation Protected Securities (TIPS), real estate, alternative investments, and cash equivalents.

Investments are held primarily in assets within the United States, but also include a significant exposure to those outside the U.S. By diversifying a portion of the total portfolio away from the U.S., we expect over time to realize positive returns while simultaneously reducing the risk of adverse total returns. Since the various economies of the world operate somewhat independently, an exposure to foreign markets provides less year-to year-return variability as might exist in a U.S.-only portfolio.



To expand our strategic approach of managing an increasingly global market, the System adopted a "global equity" allocation this year. This new allocation was funded with a portion of assets from domestic and international equities and fixed income. As companies and markets become more global, investment strategies have come to depend less on the country of origin and more on the economic prospects of the enterprise as a whole. For example, in a global context, it is no longer critical to discern whether Coca-Cola is a domestic company with an international presence or an international company with a domestic headquarters. By allowing managers to consider equity investments solely on their prospects, without regard to the geographic boundaries, we hope to create more consistent positive returns for the Retirement System.

The bond holdings in the portfolio have undergone a similar evolution. As described in the fixed income section, several manager mandates were expanded to provide greater latitude to seek out and capture positive returns. As with the global concept, our goal is to improve our overall experience through an increase in returns, a reduction in volatility, or some combination of the two. KPERS Board of Trustees made these changes through the existing roster of external managers.

Additional investments in real estate, alternative investments and cash complete the portfolio. Real estate and alternative investments provide return opportunities as well as portfolio diversification. This helps to further smooth the annual return variability. The attraction of holding these diversifying assets has been readily apparent over the last several years. Real estate in particular has provided significant returns to the System, having been the best performing asset class for the previous five years. Cash primarily facilitates the settlement of purchases and security sales within the portfolio. In addition, it also provides for the operational needs of the System.

Investment Policy

The Board of Trustees has adopted a Statement of Investment Policy, Objectives and Guidelines to guide the implementation of the System's broad investment objectives. The Statement complements the KPERS statutes and outlines the principles and standards that guide how System assets are managed. It is binding upon all persons with authority over System assets, including investment managers, custodians, consultants, staff and the Board of Trustees.

The Statement is the product of the Board's careful and prudent study and is reviewed and updated annually. It defines and communicates the investment policies, objectives and guidelines that the Board judges to be appropriate and prudent, when considering System needs, and complies with the K.S.A. 74-4901 *et seq.*, to direct the System's assets. The statement serves as a guide to ongoing investment oversight and as a yardstick for compliance with K.S.A. 74-4901 et seq. As part of the oversight function, the Statement establishes the criteria against which the investment managers are measured.

Although the System is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), the Board intends to abide by the directions of ERISA to the greatest extent desirable. As such, this Statement is consistent with ERISA.

Recent Performance

The System realized a 12.1 percent return for the fiscal year, well in excess of the 8 percent actuarial assumption. Total returns were led by the System's real estate portfolio, which enjoyed strong markets in both publicly traded Real Estate Investment Trust (REIT) securities and within its direct and non-core investments. Real estate returned 26.1 percent on the fiscal year. The second highest performance was generated by the System's TIPS portfolio, which returned 17.4 percent. TIPS are government securities designed to directly offset the impact of inflation. As noted earlier, the System holds a substantial portion of its equity investments within a global or international format. This proved to be especially fortuitous in fiscal year 2005. International equity markets returned a combined 13.7 percent, versus the domestic U.S. equity investment returns of 9.3 percent. Other positive contributors in the portfolio included traditional fixed income, 9.1 percent, and alternative investments, 12.8 percent.

Investment staff details additional asset class performance in the sections that follow. The Retirement System employs eight professionals to manage System assets and oversee external asset managers. Under the oversight of the Chief Investment Officer, responsibility for the portfolio is divided by asset class. The Deputy Chief Investment Officer is assigned to equity securities, the Fixed Income Investment Officer to fixed income securities, the Real Estate Investment Officer to real estate and the Alternative Investment Officer position (currently vacant), is in charge of alternative investments. In keeping with our mandate to prudently manage System assets solely for the benefit of the participants, we will continue to research new ideas in the management and makeup of the System's portfolio, while endeavoring to deliver consistent risk adjusted returns and contain overhead.

Return Comparison by Asset Class
For Fiscal Years Ending June 2004 and June 2005

Total Fu
Domestic Equ
International Equ
Fixed Incor
TI
Real Esta
Alternative Investmer
Cash Equivaler

Equity Investments

Scott Peppard, Acting Chief Investment Officer

Domestic and international equity markets experienced favorable returns during the 2005 fiscal year. The Russell 3000 Index, a broad measure of the domestic equity market, returned 8.1 percent, while the Morgan Stanley Capital International Europe, Australia and Far East Index (MSCI EAFE) returned a healthy 14.1 percent. International equity markets out performed due in part to U.S. dollar weakness that increased returns to U.S.-based investors. The world's equity market performance was somewhat surprising with the Federal Reserve raising the federal funds rate throughout the year.

Domestic and international markets experienced very positive returns during the fourth quarter of the calendar year. Without this year-end upturn, lagging fiscal year returns for both the domestic and international equity markets would have been negative. Equity prices increased as investors faced less uncertainty following President Bush's re-election. The rally was also fueled by lower oil prices and a general acceptance that interest rates would increase at a gradual pace.

The System's overall equity portfolio is divided into three categories: domestic, international and the newly-established global sector. The System's domestic equity portfolio fared well, returning 9.3 percent or 1.2 percent over the benchmark. While both the large and small capitalization components of the portfolio out performed their benchmarks, the small cap portfolio performed best returning 2.8 percent over the Russell 2000 Index. The international equity portfolio returned 13.1 percent for the fiscal year. While the return is very favorable in absolute terms, it under performed its benchmark, which earned a return of 14.1 percent. Similar to the domestic portfolio, the international allocation consists of several component portfolios each with a different mandate, and in some cases, a different benchmark. For the year, five of the six international portfolios under performed their respective benchmarks. The global equity portfolio, which began in the spring, is off to a good start. During the last quarter of the fiscal year it returned 1.8 percent compared to the benchmark return of 0.8 percent.

Several strategic changes were made to the System's publicly traded equities allocation based on the results of the triennial asset/liability study conducted during the first half of the 2005 fiscal year. After analyzing the expected risks and returns associated with various asset classes, as well as the funding needs of the System, the publicly traded equities allocation increased from 52 percent to 57 percent of the total portfolio. As previously mentioned, KPERS also implemented a global equity mandate in March 2005 and is benchmarked against the MSCI All Country World Index (ACWI), which includes 48 countries in addition to the United States. Finally, the benchmark for the international equity managers was changed to the MSCI ACWI Ex-U.S. This differs from the MSCI EAFE Index by including Canada and an emerging market component.

After the asset/liability analysis is completed, implementation decisions were made at the asset-class level. During the fiscal year several changes were made to position each equity category to maximize return given a targeted level of risk. The System added two managers to run domestic equity assets within an enhanced index mandate. These portfolios seek to out perform their benchmark within somewhat narrow risk parameters. Two of the System's current managers were selected to manage the global equity allocation. The global managers are given wider risk parameters that allow them to own a portfolio of securities, which in their opinion, have the highest return potential. The other significant change occurred in the international portfolio. For years the System has employed regional specialists to manage European and Pacific Basin assets. Given the System's move to broader, all-inclusive mandates, the regional structure was no longer appropriate. During the first few months of fiscal year 2006 the manager lineup within the international equity portfolio will be restructured so each manager will have a broad mandate to coincide with their broader benchmark.

Going forward, the System is pleased with the manager structure within each equity category. The equity portfolios are positioned to add incremental value while operating within certain risk limits relative to their respective benchmarks.

Fixed Income Investments and Treasury Inflation Protected Securities

Cheri Woolsey, Fixed Income Investment Officer

Fixed income markets achieved higher returns during Fiscal Year 2005 than predicted by general consensus at the beginning of the year. The System's fixed income portfolio returned 9.1 percent and out performed the KPERS Fixed Income Benchmark return of 8.0 percent. Overall, the System's four external managers added significant value through their management decisions. The passively managed Treasury Inflation Protected Securities (TIPS) portfolio performed exceptionally well in absolute terms with a return of 17.4 percent slightly ahead of its benchmark's return.

A confluence of factors, including rising domestic short-term interest rates, increasing inflation expectations and the purchasing of treasury securities by Asian investors, resulted in an absence of major price volatility for U.S. bond markets. Federal Reserve Chairman Alan Greenspan conveyed a clear message that rates would rise in a measured fashion based on stronger economic growth and expectations of increasing inflation. Over a one-year period the yield curve flattened as the federal funds rate was increased by one-quarter of a percent on nine occasions, resulting in a 3.25 percent rate, while long-term rates declined by approximately one percent. Rising rates and soft earnings had a modest negative impact on investment grade corporate bond prices. However, global investors continued to be enticed by the relatively high coupon rates offered by high-yield corporate securities and emerging market debt. The strong demand combined with a limited supply of new issues provided price stability for these sectors.

The System's fixed income portfolio's allocation, strategies and characteristics changed substantially in March 2005 following the triennial asset/liability study. The fixed income allocation was reduced to 19 percent from 24 percent relative to the total fund. Within the fixed income portfolio an emphasis was placed on broadening the available universe of investment instruments from which fixed income managers could select. The System also chose to materially reduce its strategic exposure to high-yield securities, a sector that appeared to be fully valued based on multiple years of double-digit performance. In order to realize the System's goal of increasing investable opportunities and minimizing constraints for its managers, a broader, more inclusive Lehman Universal Index was adopted as the asset class benchmark. The Universal Index includes all dollar denominated investment grade bonds, high yield corporate securities and emerging market debt. The previous benchmark was 80 percent Lehman Brothers Aggregate Index and 20 percent Citigroup High Yield. Corresponding changes were made to the strategies assigned to the System's portfolio managers following a comprehensive review of each manager's expertise, capacity and ability to add value to determine the most efficient blend of managers.

Looking forward, the System's fixed income returns should benefit from its managers ability to invest in a broad range of economically diversified securities. Because the new strategies were implemented within the last few months of the fiscal year, their impact should be more evident in the coming years. Although this past year's high returns were a pleasant surprise, we expect single-digit returns for fixed income and TIPS going forward. However, even in a low return environment, the System will continue to look to fixed income as an important and valuable source of income and diversification.

Real Estate Investments

Robert Schau, Real Estate Investment Officer

For fiscal year 2005, the System continued to target an eight percent exposure to real estate assets, with actual investments increasing to 7.5 percent or $843 million. This allocation is expected to provide a steady source of relatively high current income returns and enhance portfolio diversification by reducing overall return volatility.

The System's long-term investment strategy continues to focus on direct and indirect ownership of institutional quality office, industrial, retail and multifamily properties in major metropolitan areas, with a targeted weighting of one-half of the real estate portfolio. The other half includes investments in publicly traded real estate investment trusts (REITs) and participation in several non-core investment funds, consisting of pooled holdings of properties (having higher risk and return expectations).

Commercial real estate performance historically has been highly correlated to overall economic growth. We correctly anticipated that a recession of the magnitude experienced in the late 1980s would not be repeated prior to a recovery, and have steadily worked toward reaching the targeted weighting. In fact, during the recession and tepid recovery, low interest rates and lack of competitive yield vehicles drove real estate values ever higher, even as operating results declined. This past year was the first in several years during which material job creation provided for a more robust leasing environment, paving the way for earnings growth.

The System has taken advantage of this market by continuing its program of realizing profits on sales and refinancing. We harvested $23.5 million in cash proceeds from the REIT portfolios in fiscal year 2005 and another $11 million in the first month of fiscal year 2006. Diversification has continued to improve with the sale of a multifamily property in Atlanta and acquisitions of three new office properties in Washington D.C., Los Angeles, and Coral Gables (Miami).

For the fiscal year ended June 30, 2005, the real estate portfolio generated a total return (defined as value changes plus current income) of 26.1 percent (compared to 15.9 last year and 6.4 percent the year before).

This was substantially above the 18.9 percent blended benchmark (consisting of policy-weighted components for private and public equity real estate), compared to 13.3 percent last year and 4.8 percent the year before. The majority of the excess performance was driven by exposure in two REIT portfolios, which generated returns of 39.3 and 33.3 percent, respectively, and to the higher risk oriented non-core portfolio, which generated a return of 21.9 percent. Over the past five years, the total real estate portfolio has generated an average return of 14.1 percent, the highest of any asset class. The 2.7 percent return above the benchmark over this period is also the highest across asset classes.

Real estate historically has had risk and return characteristics that fall between debt and equity. Therefore, while pleased with these results, we do not expect this out performance to continue indefinitely. This is particularly likely as the returns have been generated with a moderate risk exposure - i.e., relatively low debt levels and no core purchases with development or leasing challenges. We are cognizant of the cyclicality in individual sectors, in addition to the extraordinary amount of capital flowing into real estate. Therefore, while trying to position the portfolio to maximize returns, we are equally focused on maintaining a defensive posture, in anticipation of some eventual correction.

That said, we continue to operate under the proposition that unlike past real estate boom/bust cycles, transparency in the form of information and disclosure is much better, helping to reign in developers and reducing the risk of excessive supply. Equally important, the high current income component remains virtually unmatched in the capital markets. As this corresponds well with the requirements of an aging population (both domestically and internationally), we anticipate that the flow of funds into this sector will likely be sustained for some time. Another important factor that we consider are replacement costs (i.e., land and construction), which have increased markedly over the past few years.

Thus, over the next year at least, a balanced approach to achieving and maintaining the targeted asset class weighting would appear to be a more appropriate strategy than attempting to time the market, and incur substantial transactions costs, by materially over- or under-weighting real estate.

Alternative Investments

Don Deseck, Senior Investment Accountant

Alternative investments traditionally focus on private debt and equity assets that are not traded on an organized exchange. These investments provide an opportunity for higher returns due to the inefficiencies and illiquidity inherent in this portion of the capital markets. These excess returns are expected to compensate for the greater risk of loss and the extreme return volatility. To help manage and diversify these risks, alternative investments are frequently made in a pooled format, usually as a limited partnership or limited liability corporation. Large institutional investors like KPERS seek investments with these characteristics in an effort to improve the return of the total portfolio and to diversify risk. At present, the System has investment relationships with 35 different investment managers across 53 distinct partnership funds. The portfolio is further diversified across several investment sectors including buyout, venture capital, mezzanine and distressed debt.

The System has a five-percent target allocation for alternatives and a current weighting slightly less than that amount. The System began constructing the majority of the current portfolio in 1997 with commitments made over the ensuing four years. Although recent legislation replaced the five-percent statutory limitation on total alternative investments with an annual limit on new investments, the System has made no new commitments. Staff continues to evaluate the System's future alternative investment portfolio strategy.

Alternative investment performance is highly sensitive to the general state of the economy and the health of the public equity markets. The strength of the economy, as measured by growth in Gross Domestic Product, slowed somewhat over the course of the fiscal year. In turn, the public equity market performance spent most of the fiscal year in directionless trading. Although concerns about terrorism, energy prices and inflation continue, the economy and capital markets are in a stable position this year.

KPERS' aggregate alternative investment portfolio achieved a 12.8 percent return for the fiscal year reflecting the moderating economy and public equity markets. The portfolio's performance substantially exceeded the alternative investment benchmark of 7.1 percent. Within the asset class, venture capital experienced the highest return followed by buyout. Mezzanine and distressed debt investments ended the year with modestly negative returns. KPERS' portfolio is in the middle stages of maturation and the long-term expectations for this asset class remain positive.

As required by K.S.A 74-4904, a schedule of alternative investment initiated on or after July 1, 1991, begins on page 58. Another schedule, summarizing changes in fair value of investments, is on page 57. A listing of U.S. Equity commissions paid in fiscal year 2005 and the top ten equities and fixed income holdings at fiscal year end are shown on page 61.

Investment Performance Report

For the period ending June 30, 2005

Portfolio Type/Associated Benchmark	2005	Last 3 Years	Last 5 Years
Total Portfolio	**12.1%**	**10.4%**	**3.5%**
Policy Index	10.8	10.1	3.9
Consumer Price Index	2.5	2.6	2.4
Domestic Equity	9.3	9.8	-1.2
Benchmark	8.1	9.5	-0.5
International Equity With Currency Manager	13.7	10.2	-0.5
Benchmark	14.3	11.0	-1.6
Fixed Income	9.1	8.7	7.4
Benchmark	8.0	7.9	6.9
TIPS	17.4	14.0	13.6
Benchmark	17.4	13.9	13.4
Real Estate	26.1	15.9	14.1
Benchmark	18.9	11.8	11.4
Alternative Investments	12.8	4.8	-0.6
Benchmark	7.1	7.4	6.2
Cash Equivalents	2.1	1.7	3.0
Merrill Lynch 0-1 Yr. Treasury Index	2.0	1.6	2.9

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

2) Above performance data presented in conformance with AIMR standards.

Schedule of Investment Summary

For the Fiscal Year Ended June 30, 2005 ($ in thousands) (1)

	6/30/04 Fair Value	Purchases and Other Increases	Sales and Other Decreases	6/30/05 Fair Value	Asset Mix Fair Value
Marketable Securities					
Domestic Equities	$3,513,446	$1,427,851	$(1,408,001)	$3,533,296	30.60%
International Equities	2,136,914	1,328,533	(854,402)	2,611,045	22.62
Total Fixed Income	3,681,472	10,854,762	(11,020,181)	3,516,053	30.46
Temporary Investments (2)	182,507	20,847,516	(20,502,635)	527,388	4.57
Total Marketable Securities	**9,514,339**	**34,458,662**	**(33,785,219)**	**10,187,782**	**88.25**
Real Estate and Alternative Investments					
Real Estate	706,895	203,692	(68,419)	842,168	7.29
Direct Placements and Limited Partnerships	537,928	172,225	(194,807)	515,346	4.46
Total Real Estate and Alternative Investments	**1,244,823**	**375,917**	**(263,226)**	**1,357,514**	**11.75**
Total	**$10,759,162**	**$34,834,579**	**($34,048,445)**	**$11,545,296**	**100.00%**

1) Amounts include changes in unrealized appreciation and exclude interest and dividend accruals. Amounts exclude security lending cash collateral of $2,078,302,191 for fiscal year 2004 and fiscal year 2005 cash collateral of $2,225,521,793.

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

Alternative Investments Initiated on or After July 1,1991 (1)

As of June 30,2005

Shares	Description	Cost	Market Value
	Included in Alternative Investments Portfolios:		
11,562,500	Advanced Technology VI LP	$9,112,488	$2,551,485
14,400,000	Apax Europe IV LP	4,891,780	6,798,976
25,230,000	Apax Europe V LP	17,443,181	18,864,345
5,000,000	Battery Ventures V LP	1,079,558	1,150,865
10,079,875	Battery Ventures VI LP	7,714,713	5,482,111
10,885,188	Beacon Group Energy Fund II	2,309,735	5,351,648
19,254,592	Behrman Capital II LP	12,635,801	10,693,326
28,398,114	Behrman Capital III LP	25,836,206	23,144,690
5,543,913	Candover 1997 US# 1 Fund LP	-	660,376
18,112,602	Capital Resource Partners IV	12,289,646	12,427,926
5,662,139	Cinven Second Fund US LP	4,073,612	4,998,991
14,532,024	Clayton Dubilier & Rice VI LP	5,965,714	5,847,410
17,418,243	Cypress Merchant Banking II	15,599,328	17,014,349
9,500,000	Dominion Fund V LP	6,225,904	2,272,258
4,750,000	El Dorado Ventures IV LP	1,583,722	281,357
9,000,000	El Dorado Ventures V LP	6,725,541	3,551,427
13,750,000	El Dorado Ventures VI LP	12,276,771	9,882,923
17,397,353	GTCR Capital Partners LP	9,593,257	10,732,792
28,452,662	GTCR Fund VII LP	9,394,014	19,302,115
5,675,000	GTCR Fund VII/ALP	1,924,781	3,505,226
17,600,000	Halpern Denny Fund III LP	8,074,437	7,957,418
19,185,359	Harvest Partners III LP	9,628,275	11,091,286
15,416,662	Kelso Investment Assoc VI	2,629,926	5,456,496
14,587,125	Littlejohn Fund II LP	8,023,707	6,281,624
16,999,811	McCown DeLeeuw & Co IV LP (1)	-	-
20,000,000	MD Sass Corp Resurgence	3,995,720	6,455,960
17,875,000	MD Sass Corp Resurgence II	6,310,258	7,947,976
17,301,876	MD Sass Corp Resurgence III	7,259,287	9,636,314
18,575,391	Oak Hill Capital Partners LP	9,679,960	10,724,465
13,000,000	OCM Opportunities Fund II LP	2,416,430	3,917,511
20,000,000	OCM Opportunities Fund III LP	3,555,458	3,535,180
8,000,000	OneLiberty Fund IV LP	3,267,648	2,032,432

Alternative Investments Initiated on or After July 1,1991 (1) continued

As of June 30,2005

Shares	Description	Cost	Market Value
	Included in Alternative Investments Portfolios:		
18,200,000	OneLiberty Ventures 2000 LP	15,918,309	10,435,407
29,000,000	TA IX, LP	22,581,091	26,710,885
13,400,000	TA Subordinated Debt Fund LP	9,804,514	10,112,699
16,436,000	TCV IV LP	10,418,690	9,353,415
17,131,887	Thomas H Lee Equity Fund IV LP	5,451,493	8,249,261
28,091,319	Thomas H Lee Equity Fund V	17,189,257	26,583,855
4,613,438	Trinity Ventures VI LP	919,270	633,222
13,650,000	Trinity Ventures VII LP	8,304,899	4,218,096
11,040,000	Trinity Ventures VIII LP	8,087,661	5,079,714
19,952,603	Triumph Partners III LP	6,099,212	5,635,014
13,500,000	Vantagepoint Venture III	7,647,395	3,787,020
18,600,000	Vantagepoint Venture IV LP	14,688,796	14,288,687
18,460,389	Vestar Capital Partners IV LP	11,906,742	11,813,061
18,525,110	VS & A Communications III	13,302,521	17,072,538
20,000,000	Warburg Pincus Equity (8)	-	9,959,080
33,200,000	Welsh, Carson IX LP	16,763,360	26,351,803
20,000,000	Welsh, Carson VIII LP	12,262,349	13,796,480
19,954,755	Willis Stein& Partners II LP	5,009,895	5,493,584
31,383,219	Willis Stein & Partners III	29,590,809	28,523,957
17,931,803	Windjammer Fund II LP	13,601,511	16,101,630
15,363,615	Windward Capital Partners II	2,237,126	10,434,337
Total Post 1991 Investments		**$463,301,759**	**$504,185,002**

1) Investment values quoted without spin-offs or distributions.

U.S. Equity Commissions

For the Fiscal Year Ending June 30, 2005

Commissions Broker Name	Commission Paid	Shares	Commission Per Share	Percent of Total
State Street Brokerage , Boston	$117,937	7,832,553	$0.02	12.5 %
Thomas & Weisel Inc, San Francisco	73,521	1,692,600	0.04	7.8
Morgan Stanley & Co Inc, NY	69,866	3,050,306	0.02	7.4
Goldman Sachs & Co, NY	55,656	1,736,785	0.03	5.9
UBS Securities LLC, Stamford	49,575	1,179,957	0.04	5.3
Bear Stearns Sec Corp, Brooklyn	45,955	1,019,700	0.05	4.9
Banc of America Secs LLC, Charlotte	39,386	1,035,453	0.04	4.2
Citigroup Gbl Mkts Inc, NY	37,207	1,142,200	0.03	3.9
Jefferies & Co Inc, NY	30,856	897,620	0.03	3.3
Credit Suisse, NY	30,154	921,647	0.03	3.2
Lehman Bros Inc, NY	29,960	693,600	0.04	3.2
Merrill Lynch Pierce Fenner Smith Inc, NY	29,577	854,900	0.03	3.1
Investment Technology Groups, NY	25,242	1,366,500	0.02	2.7
S G Cowen & Co LLC, NY	16,973	365,600	0.05	1.8
Terra Nova Institutional, Chicago	16,212	810,600	0.02	1.7
Bernstein Sanford C & Co, NY	14,141	735,001	0.02	1.5
Goldman Sachs Execution & Clearing, NY	13,233	1,283,438	0.01	1.4
Jones & Associates Inc, Westlake Village	12,794	348,200	0.04	1.4
Piper Jaffray & Co, Minneapolis	12,681	356,600	0.04	1.3
A G Ewards & Sons Inc, St Louis	11,341	325,700	0.03	1.2
Merrill Lynch Professional Clrg, Purchasing	10,995	391,000	0.03	1.2
Deutsche Banc Alex Brown Inc, NY	10,877	293,100	0.04	1.2
Knight Sec Broadcort, Jersey City	10,637	290,561	0.04	1.1
Morgan J P Secs Inc, NY	10,373	242,700	0.04	1.1
RBC Capital Markets Corp, NY	9,968	243,500	0.04	1.1
Others	158,063	4,917,314	0.03	16.8
Total Broker Commissions	**$943,176**	**34,027,135**	**0.03**	**100 %**

List of Largest Holdings, Equities (a)
As of June 30, 2005

Shares	Security	Fair Value ($)
1,796,144	General Elec Co Com	$62,236,390
1,050,524	Exxon Mobil Corp	60,373,614
1,071,500	Citigroup Inc Com	49,535,445
177,587	Total SA Eur10	41,773,665
1,660,762	Microsoft Corp Com	41,253,328
1,237,301	Royal Bank of Scotland	37,392,111
1,351,094	Pfizer Inc Com Stk USD 0.05	37,263,173
475,761	Simon Ppty Group Inc	34,487,915
720,221	Novartis Ag CHF0.50	34,321,671
3,088,645	BP PLC USD.25	32,165,564

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

List of Largest Holdings, Fixed Income (a)
As of June 30, 2005

Par Value	Security	Description	Fair Value ($)
551,803,467	US Treasury Inflation Index Bd	3.875% 04/15/2029	$775,802,567
119,688,550	US Treasury Inflation Index Bd	3.625% 04/15/2028	160,850,041
94,263,740	US Treasury Inflation Index Bd	3.375% 04/15/2032	128,257,601
113,200,000	Merrill Lynch Co Repo	3.200% 07/01/2005	113,200,000
68,848,688	FNMA Pool #0725946	5.500% 11/01/2034	69,834,601
56,400,000	US Treasury Notes	4.875% 02/15/2012	59,907,516
56,600,000	US Treasury Notes	3.750% 05/15/2008	56,741,500
52,500,000	US Treasury Notes	2.750% 06/30/2006	52,111,500
51,500,000	Federal Agric Mtg Corp Disc	Mat 7/1/2005	52,048,371
46,888,904	FNMA Pool #0725423	5.500% 05/01/2034	47,587,080

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

Evaluate

Everything we do is to ***benefit*** our members

Each year the Retirement System performs an actuarial valuation to measure our financial health. This annual evaluation of assets, liabilities and experience helps us determine funding needs, ensuring secure benefits for retirees in the years to come.

A MILLIMAN GLOBAL FIRM
Milliman
Consultants and Actuaries

1120 South 101st Street, Suite 400
Omaha, NE 68124-1088
Phone: (402) 393-9400
Fax: (402) 393-1037
www.milliman.com

October 13, 2005

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

Dear Members of the Board:

At your request, we have conducted our annual actuarial valuation of the Kansas Public Employees Retirement System as of December 31, 2004. The major findings of the valuation are contained in this report. The valuation reflects the impact of the changes in actuarial assumptions, as adopted by the Board in September, 2004. There was no change in the actuarial cost method and the asset valuation method from the prior valuation. There was only one minor change in the benefit provisions, which is discussed on the first page of the Board Summary. All the information and the supporting schedules found on pages 66 to 97 of the Actuarial Section have been provided by Milliman, Inc. We also provided the information used in the supporting schedules in the *Schedules of Funding Progress* in the Financial Section as well as the employer contribution rates shown in the *Schedule of Employer Contributions* in the Financial Section.

In preparing our report, we relied, without audit, on information (some oral and some written) supplied by the System's staff. This information includes, but is not limited to, statutory provisions, member data and financial information. In our examination of these data, we have found them to be reasonably consistent and comparable with data used for other purposes. It should be noted that if any data or other information is inaccurate or incomplete, our calculations may need to be revised.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted principles and practices which are consistent with the principles prescribed by the Actuarial Standards Board (ASB) and the Code of Professional Conduct and Qualification Standards for Public Statements of Actuarial Opinion of the American Academy of Actuaries.

We hereby further certify that all costs, liabilities, rates of interest and other factors for the System have been determined on the basis of actuarial assumptions and methods which are internally consistent, individually 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. The Board of Trustees has the final decision regarding the appropriateness of the assumptions and adopted them as indicated in this actuarial section. The assumptions comply with the requirements in Statement 25 of the Government Accounting Standards Board.

October 13
Page 2

Actuarial computations presented in this report are solely for purposes of determining the actuarial contribution rates for funding the System. Determinations for purposes other than this may be significantly different from the results contained in this report. Accordingly, additional determinations may be needed for other purposes. Reliance on information contained in this report by anyone for other than the intended purpose puts the relying entity at the risk of being misled.

Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. Unless required by law, this report should not be distributed to other parties without our prior consent. We do not intend this report to benefit any third party, even if we permit the release of this report to a third party. This report should only be reviewed in its entirety.

We would like to express our appreciation to Glenn Deck, Executive Director of the System, and to members of his staff, who gave substantial assistance in supplying the data on which this report is based.

I, Patrice A. Beckham F.S.A., am a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries, and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

I, Brent A. Banister F.S.A., am a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries, and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

MILLIMAN, Inc.

Sincerely,

Patrice Beckham

Patrice A. Beckham, F.S.A.
Consulting Actuary

Brent A. Banister

Brent A. Banister, F.S.A.
Actuary

Actuarial Valuation Overview

The Kansas Public Employees Retirement System is an umbrella organization which administers the following three statewide pension groups: 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). This report presents the results of the December 31, 2004, actuarial valuations for each of the Systems.

The primary purposes of performing actuarial 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 the valuation date.
- Determine the experience of the System since the last valuation date.
- Analyze and report on trends in System contributions, assets, and liabilities over the past several years.

There was no change in the actuarial methods used in the valuation. However, there was a change in the set of actuarial assumptions used in the December 31, 2004, actuarial valuation. The Board of Trustees adopted the new set of assumptions in September 2004, following the completion of the Triennial Experience Study. The changes recommended by Milliman, Inc. and adopted by the Board of Trustees were:

All Systems
- Update the mortality table to a newer table (RP-2000) and use generational projection methodology to estimate mortality improvements in future years.

KPERS
- Adjust retirement rates, with the most significant changes for the State group.
- Extend the select period for termination of employment rates from five to nine years.

KP&F
- Minor adjustments to retirement rates, generally lowering rates.
- Increase termination of employment rates for Tier II members at lower durations and decrease them at higher durations.

There was only one minor change in the benefit provisions as discussed in the second bullet point below. The 2005 Legislature passed legislation containing the following provisions:

- Clarified the determination of KPERS State Group and School Group employer contributions by specifying that, in any year in which the State employer rate is less than the combined State/School rate, the Legislature shall appropriate a supplemental amount to the School group, equal to the difference between the State's contributions using the combined rate and contributions using the State Group rate.

- Reduced the length of service required for a surviving spouse to be eligible for pre-retirement survivor death benefits from 15 to ten years of service for members of KPERS or the Retirement System for Judges.

- Allowed KP&F affiliation and membership (future service only) for certified law enforcement officers employed by the State Fire Marshal's Office.

- Lifted the $15,000 annual earnings limitation during fiscal years 2006 to 2008 for retired nurses who return to work for certain state institutions and requires employers to make the KPERS contribution on their pay. This effects a small group of members for a limited period and therefore had no measurable impact.

The valuation results provide a "snapshot" view of the System's financial condition on December 31, 2004. The unfunded actuarial liability for the System as a whole increased by $1,157 million due to various factors. The two most significant are the change in the actuarial assumptions and the actuarial loss on assets. A detailed analysis of the change in the unfunded actuarial liability from December 31, 2003, to December 31, 2004, is shown on page 75.

Contribution Rates

The System's funding objective 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 2033. Actuarial contribution rates consist of a normal cost rate and an amortization payment. The contribution rates in the December 31, 2004, valuation will set rates for fiscal year end 2008 for the State and 2007 for Local employers.

State, School and Local employers do not necessarily contribute the full actuarial contribution rate. Based on legislation passed in 1993, the employer contribution rates certified by the Board may not increase by more than the statutory cap. The statutory cap, which has been changed periodically, is currently 0.60 percent for fiscal year 2008 and later for the State and School groups and 0.50 percent in calendar year 2007 and 0.60 percent in calendar year 2008 and thereafter for the Local Group.

A summary of actuarial and statutory employer contribution rates for the Retirement System (excluding the statutory contribution for the Death and Disability Program) follows:

December 31, 2004 Valuation System	Actuarial	Statutory	Difference
State	6.99%	6.37%[1]	0.62%
School	11.47%	6.37%[1]	5.10%
Local	7.69%	4.31%[1]	3.38%
Police & Fire - Uniform Rates 2	13.32%	13.32%	0.00%
Judges	22.38%	22.38%	0.00%

December 31, 2003 Valuation System	Actuarial	Statutory	Difference
State	5.84%[3]	5.77%	0.00%
School	9.75%	5.77%	3.98%
Local	6.24%	3.81%	2.43%
Police & Fire - Uniform Rates	12.39%	12.39%	0.00%
Judges	19.11%	19.11%	0.00%

1) By statute, rates are allowed to increase by a maximum of 0.60 percent for State and School for fiscal year 2008 and 0.50 percent for Local for fiscal year 2007 plus the cost of any benefit enhancements.

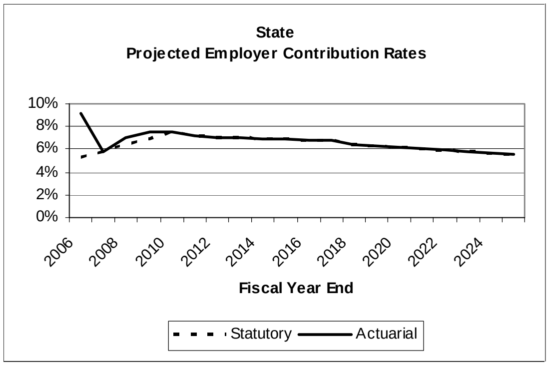
2) For KP&F, the statutory contribution rate is equal to the "Uniform" rate. The rate shown is for local employers. The rate for State employers also is 13.32 percent this year, which includes a payment of 0.63 percent for the debt service payment on the bonds issued for the 13th check. The uniform rate does not include the payment required to amortize the unfunded past service liability or any 15 percent excess benefit liability determined separately for each employer.

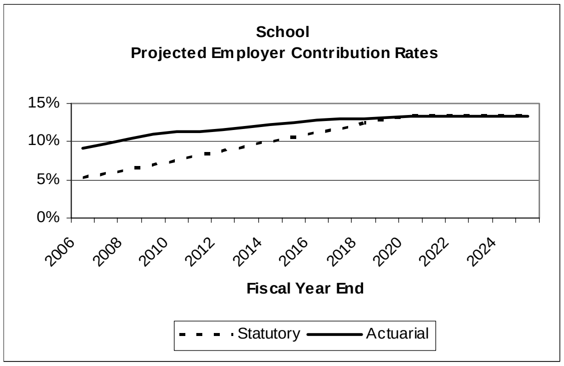
3) The actuarial contribution rate was recertified to 5.84 percent after the December 31, 2003, valuation report was issued.

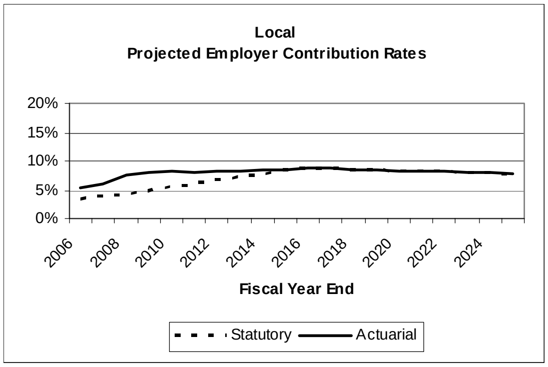
Employer Contribution Rates for the Correctional Employee Groups are shown below:

	Actuarial	Statutory
Retirement Age 55	8.90%	8.28%
Retirement Age 60	8.84%	8.22%

Due to statutory caps, the full actuarial contribution rate is not contributed for the State, School, and Local groups. Based on the current valuation, there is a difference (shortfall) between the actuarial and statutory contribution rates of 0.62 percent, 5.10 percent and 3.38 percent respectively for the State, School and Local groups. Assuming an 8 percent return on the market value of assets for 2005 and beyond, all other actuarial assumptions are met in the future, and the current level of statutory caps, the statutory and actuarial contribution rates are projected to converge for the State group in fiscal year 2010, the School group in fiscal year 2020 and the Local group in fiscal year 2015.

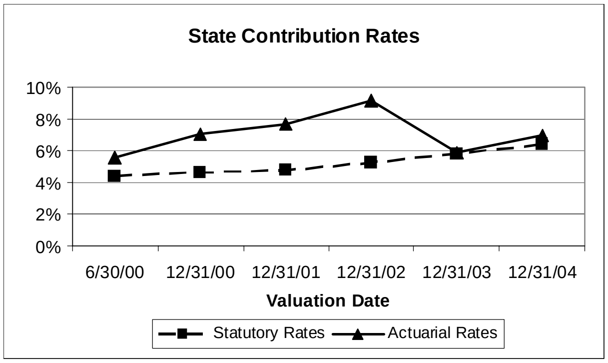




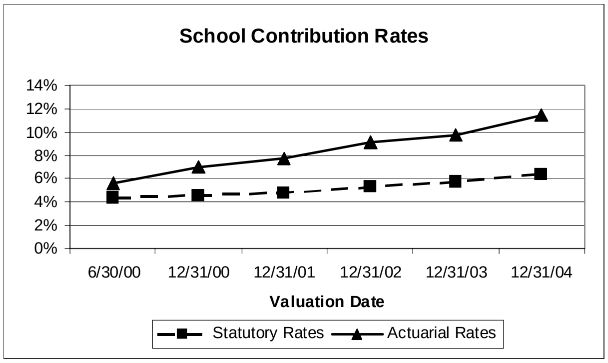


Despite a rate of return on the market value of assets of over 12 percent for 2004, there was an actuarial experience loss on the actuarial value of assets. The impact of negative experience is reflected in the unfunded actuarial liability (UAL). The result is an actuarial loss that increases the payment on the UAL. As the remainder of the net deferred investment experience is recognized in next few years, the UAL will decrease absent unfavorable experience.

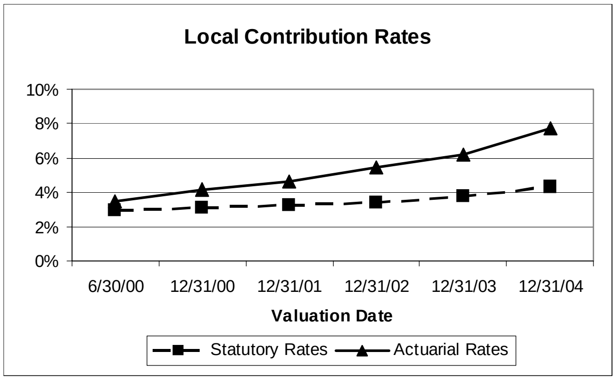
Historical contribution rates for each group are shown on the following pages. Please note that prior to the December 31, 2003, valuation, one contribution rate was developed for the State and School together as one group. Legislation passed in 2004 split the contribution rate calculations into two separate groups, although the statutory contributions are still determined on a combined basis. Significant changes in funding methods as well as a Pension Obligation Bond issue were reflected in the 2003 valuation and actuarial assumptions were changed in the 2004 valuation. These changes impact the comparability of contribution rates between various valuation dates.



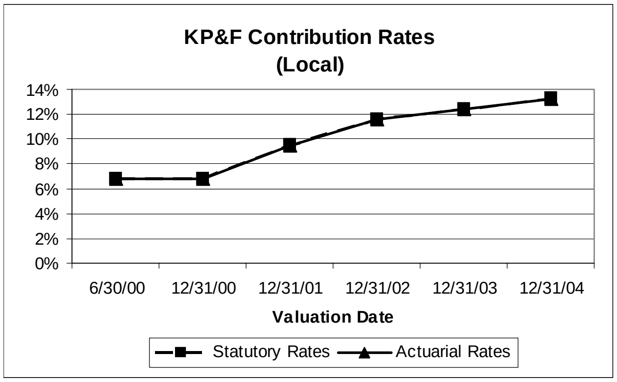
The split of the State group into a separate group with the 2003 valuation, coupled with the bond issue, significantly lowered the actuarial contribution rate in the 2003 valuation.



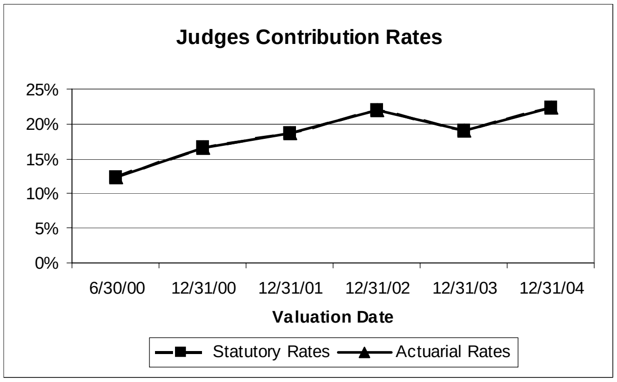
Due to investment experience, changes in actuarial methods and assumptions, and the magnitude of the difference between the actuarial and statutory contribution rates, the funded status of the School group has declined and the actuarial contribution rate has increased.



The Local contribution rate has also been impacted by investment returns on the actuarial value of assets that are below the actuarial assumption. As a result, the difference between the statutory and actuarial contribution rate has increased. Legislation passed in 2004 provided for increased statutory caps, which should allow the statutory and actuarial rates to converge, if actuarial assumptions are met in the future.



Strong investment returns before 2000 held employer contribution rates at a very low level. Investment experience since 2000, along with a change in the actuarial cost method in 2003, resulted in an increase in the contribution rates.



Significant changes in the actuarial assumptions in both the December 31, 2000, and 2004 valuations, coupled with investment experience in recent years, have generally resulted in higher contribution rates.

Experience – All Systems Combined

December 31, 2003 – December 31, 2004

In many respects, an actuarial valuation can be thought of as an inventory process. The inventory is taken as of the actuarial valuation date, which for this valuation is December 31, 2004. On that date, the assets available for the payment of benefits are appraised. The assets are compared with the liabilities of the System, which are generally in excess of assets. The actuarial process leads to a method of determining the contributions needed by members and employers in the future to balance the System assets and liabilities.

Changes in the Systems' assets and liabilities impacted the change in the actuarial contribution rates between the December 31, 2003, and December 31, 2004, actuarial valuations. On the following pages each component is examined and quantified.

Assets

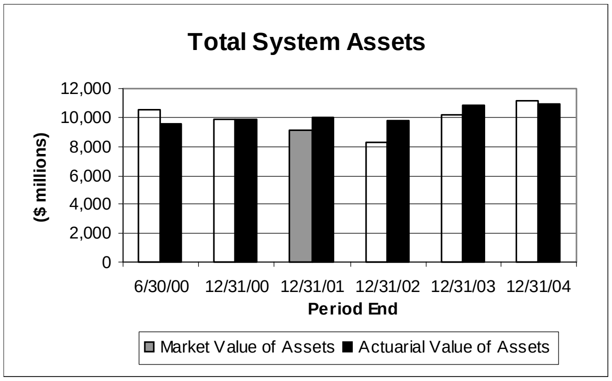
As of December 31, 2004, the System had total funds when measured on a market value basis, of $11.2 billion, excluding receivables and assets held for the Group Insurance and Optional Life reserves. This was an increase of $1.4 billion from the December 31, 2003, figure of $9.8 billion. The components of the change in the market value of assets for the Retirement System (in millions) are set forth below.

	Market Value ($ in millions)
Assets, December 31, 2003	**$9,797**
• Receivables (POB Proceeds)	440
Adjusted Assets, December 31, 2003	**10,237**
• Employer and Member Contributions	481
• Benefit Payments and Expenses	(764)
• Investment Income	1,224
Assets, December 31, 2004	**$11,178**

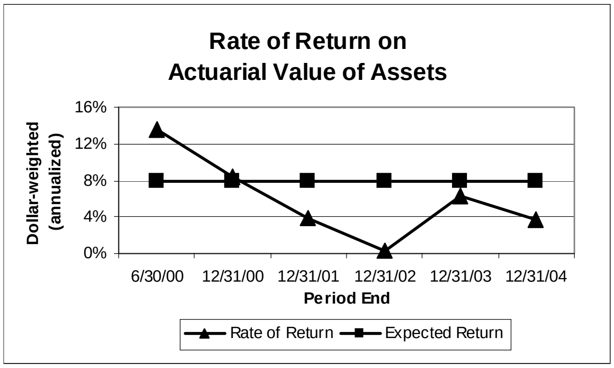
The market value of assets is not used directly in the calculation of contribution rates. An asset valuation method is used to smooth the effect of market fluctuations. The smoothing method calculates the difference between the actual return and the expected return (assumed rate of return) on the market value of assets each year. The difference is recognized equally over a five-year period.

The actuarial value of assets as of December 31, 2004, was $10.971 billion. The annualized dollar-weighted rate of return for 2004 measured on the actuarial value of assets was approximately 3.7 percent and measured on the market value of assets, as reported by KPERS, was 12.6 percent.

Due to the use of an asset smoothing method, there is $207 million of net deferred investment gain experience that has not yet been recognized. This deferred investment gain will gradually be reflected in the actuarial value of assets. If the actuarial assumed rate of 8 percent is met in the future, the smoothing method will generate an actuarial loss for 2005 and actuarial gains for the following three years.



Strong investment returns during 2003 and 2004 have eliminated the shortfall between the market value and actuarial value of assets. At the valuation date, the market value of assets is slightly larger than the actuarial value.



The rate of return on the actuarial (smoothed) value of assets exceeded the assumed rate of 8 percent until 2001. The rate is expected to remain below 8 percent for the next year as the remaining deferred investment loss is reflected in the actuarial value of assets.

Liabilities

The actuarial liability is that portion of the present value of future 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 (UAL). 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, experience gains and losses, and changes in actuarial assumptions and methods will also impact the total actuarial liability (AL) and the unfunded portion thereof.

The Board adopted a new set of actuarial assumptions effective with the December 31, 2004, actuarial valuation. As a result there was a change in the actuarial liability for all groups. The change is summarized below:

	State	School	Local	KP&F	Judges
Actuarial Liability (prior)	$2,887	$8,207	$2,409	$1,665	$109
Assumption change	65	264	113	(7)	2
Actuarial Liability (after)	2,952	8,471	2,522	1,658	111
Benefit change*	0	0	0	0	0
Final Actuarial Liability	**$2,952**	**$8,471**	**$2,522**	**$1,658**	**$111**

* Change in service requirement for preretirement survivor benefit from 15 to ten years. Cost impact rounds to $0.

When the actuarial cost method was changed by the Legislature in 1993, the payment methodology for the unfunded actuarial liability (UAL) for all groups except the Judges System was set in statute as a level percentage of payroll over a 40 year closed period. Payments on the UAL increase four percent each year, the same as the payroll growth assumption. In the early years of the period, the payment is less than the interest accruing on the UAL. As a result, the dollar amount of UAL is expected to increase for many years before it begins to decline. In addition, with the planned difference in the statutory and actuarial contribution rates prior to convergence, the unfunded actuarial liability is expected to increase by an additional amount each year.

Other factors influencing the UAL from year to year include actual experience versus that expected based on the actuarial assumptions (both asset and liability), changes in actuarial assumptions, procedures or methods and changes in benefit provisions. The actual experience measured in this valuation is that which occurred during the prior plan year (calendar year 2004). The State, School and Local groups had a small net liability loss of $20 million. Retiree mortality, retirement experience and service purchases resulted in an actuarial loss which was largely offset by a gain on salary experience. There was also an experience loss from investment return on the actuarial value of assets.

Between December 31, 2003 and December 31, 2004 the change in the unfunded actuarial liabilities for the System as a whole was as follows ($ in millions):

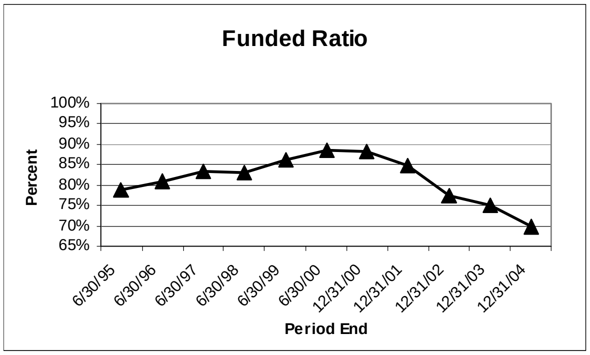
Unfunded Actuarial Liability, December 31, 2003	**$ 3,586**
• effect of contribution cap/time lag	179
• expected increase due to amortization method	68
• loss from investment return	456
• demographic experience*	20
• all other experience	(4)
• change in actuarial assumptions	437
• change in benefit provisions	1
Final Unfunded Actuarial Liability, December 31, 2004	**$ 4,743**

* Liability loss is about 0.12 percent of total actuarial liability.

A detailed summary of the change in the unfunded actuarial liability by System is shown on page 75.

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 (which are both very large numbers) is reflected. Another way to evaluate the unfunded actuarial liability and the progress made in its funding is to track the funded status, the ratio of the actuarial value of assets to the actuarial liability. The change to the Entry Age Normal actuarial cost method in the 2003 valuation and the change in actuarial assumptions in the 2004 valuation both resulted in an increase in the UAL and a decrease in the funded status. The funded status information is shown below ($ in millions):

	6/30/99	6/30/00	12/31/00	12/31/01	12/31/02	12/31/03	12/31/04
Funded Ratio	86.0%	88.6%	88.3%	84.8%	77.6%	75.2%	69.8%
Unfunded Actuarial Liability (UAL)	$1,397	$1,233	$1,305	$1,780	$2,829	$3,586	$ 4,743



Due to strong investment returns, the funded status of the System generally improved in the last half of the 1990s. Recent changes in actuarial assumptions and methods, coupled with low investment returns, have significantly reduced the funded ratio.

Given the current funded status of the System, the amortization method and period, and the scheduled increases in employer contribution rates, the unfunded actuarial liability is expected to continue to grow and the funded ratio is expected to decline for many years.

In recent years, the Retirement System and the Legislature have given a high priority to the development of a comprehensive plan to address the long-term funding KPERS. House Bill 2014, which was passed by the 2003 Legislature, increased the statutory cap on the State/School employer contribution rate from 0.20 percent to 0.40 percent in fiscal year 2006, 0.50 percent in fiscal year 2007 and 0.60 percent in fiscal year 2008 and beyond. It also authorized the issuance of up to $500 million in pension obligation bonds (POBs). The POBs were sold and proceeds of $440.2 million were received on March 10, 2004. The debt service payments on the bonds are paid by the State in addition to the regular KPERS employer contribution rate.

The 2004 Legislature passed Senate Bill 520, which continued to address issues related to the long term funding of the System. It gave the KPERS Board of Trustees the authority to establish the actuarial cost method and amortization method and period. With this authority, the Board changed both the actuarial cost method and the asset valuation method with the December 31, 2003, actuarial valuation. Senate Bill 520 also increased the statutory cap for Local employers from 0.15 percent to 0.40 percent in fiscal year 2006, 0.50 percent in fiscal year 2007 and 0.60 percent in fiscal year 2008 and beyond and also split the State/School group into separate groups for purposes of determining employer contribution rates.

The 2005 Legislature clarified the determination of KPERS State Group and School Group employer contributions by specifying that, in any year in which the State employer rate is less than the combined State/School rate, the Legislature shall appropriate a supplemental amount to the School group, equal to the difference between the State's contributions using the combined rate and contributions using the State Group rate.

With the current statutory caps, the State, School and Local groups are projected to reach equilibrium before the end of the amortization period. Since over the long term the statutory contribution rate is projected to converge with the actuarial contribution rate, the System is in actuarial balance. However, these projections assume that all actuarial assumptions are met in future years. To the extent that actual experience deviates from that expected, the date at which the rates are expected to converge, as well as the contribution rate, will vary.

Summary of Change in Unfunded Actuarial Liability

December 31, 2004 Valuation ($ in millions)

	State	School	Local	KP&F	Judges	Total
UAL in 12/31/03 Valuation Report	**$226.8**	**$2,506.8**	**$587.9**	**$249.4**	**$15.3**	**$3,586.1**(1)
Effect of contribution cap/timing	9.3	127.5	35.3	6.0	0.5	178.6
Expected increase due to method	3.3	46.8	10.8	7.3	(0.1)	68.1
Actual vs. Expected experience						
– Investment return	114.1	214.4	63.9	60.0	3.8	456.2
– Demographic experience	15.2	(11.4)	12.7	3.0	(0.0)	19.5
– All other experience	(0.7)	2.6	(0.0)	(5.5)	0.0	(3.6)
Change in assumptions	65.0	263.9	112.8	(7.5)	2.5	436.7
Change in benefit provisions	0.3	0.3	0.3	0.0	0.0	0.9
UAL in 12/31/04 Valuation Report	**$433.3**	**$3,150.9**	**$823.7**	**$312.7**	**$22.0**	**$4,742.6**

1) May not add due to rounding.

Summary of Changes in Actuarial Contribution Rate by System

December 31, 2004 Valuation

Percentage of Payroll	State	School	Local	KP&F (1)	Judges
Actuarial Contribution Rate in 12/31/03 Valuation	**5.21%** (2)	**9.75%**	**6.24%**	**12.39 %**	**19.11%**
Change Due to Amortization of UAL					
Effect of contribution cap/time lag	0.06	0.28	0.17	0.10	0.19
Amortization method	0.00	0.00	0.00	0.00	(0.76)
Investment experience	0.79	0.48	0.31	1.01	1.47
Liability experience	0.11	(0.03)	0.06	0.05	(0.03)
All other experience	0.02	0.10	0.05	0.15	(0.35)
Change in assumptions	0.45	0.59	0.54	(0.13)	0.97
Change in benefit provisions	0.00	0.00	0.00	0.00	0.00
Change in Normal Cost Rate	0.35	0.30	0.32	(0.25)	1.78
Actuarial Contribution Rate in 12/31/04 Valuation	**6.99%**	**11.47%**	**7.69%**	**13.32%**	**2.38%**

1) Contribution rate for Local employers only.
2) Actuarial contribution rate was recertified to 5.84 percent after the December 31, 2003, valuation report was issued.

Summary of Historical Changes in Total System UAL

December 31, 2004 Valuation ($ in millions)

	6/30/94	6/30/95	6/30/96	6/30/97	6/30/98	6/30/99	6/30/00	12/31/00	12/31/01	12/31/02	12/31/03	12/31/04	Total
Actual Experience vs. Assumed													
– Investment	$(102)	$(143)	$(280)	$(323)	$(413)	$(360)	$(441)	$(23)	$350	$644	$140	$456	$(504)
– Other	320	72	136	157	104	46	99	84	(9)	68	(32)	16	1,061
Assumption Changes	0	(96)	0	0	350	0	0	(206)	0	0	0	437	485
Changes in Data/Procedures	244	0	0	0	0	21	71	145**	5	177**	(286)***	0	377
Change in Cost Method	0	0	0	0	0	0	0	0	0	0	1,147	0	1,147
Effect of Contribution Cap/Lag	*	95	70	63	54	78	66	60	115	143	178	179	1,101
Amortization Method	*	47	38	35	32	30	22	12	14	21	47	68	366
Change in Benefit Provisions	75	0	0	0	88	0	19	0	0	37	3	1	223
Bond Issue	0	0	0	0	0	0	0	0	0	(41)	(440)	0	(481)
Total	**$537**	**$(25)**	**$(36)**	**$(68)**	**$215**	**$(194)**	**$(164)**	**$72**	**$475**	**$1,048**	**$757**	**$1,157**	**$3,775**

* Not calculated for this year.
** Reflects the impact of re-establishing the KP&F Supplemental Actuarial Liability at December 31, 2002. The additional unfunded actuarial liability as of December 31, 2000, for the State/School and Local groups not recognized in the prior valuation due to the phase-in of the change in actuarial procedures is included.
*** Change in asset valuation method.

Unfunded actuarial liability 6/30/93: $ 968 million
Unfunded actuarial liability 12/31/04: $ 4,743 million

Calculation of Excess (Shortfall) Investment Income for Actuarial Value of Net Assets
State Group*

	12/31/2001**	12/31/2002**	12/31/2003**	12/31/2004
Market Value of Assets, beginning of year	$2,381,631,948	$2,200,396,822	$1,983,632,519	$2,370,036,710
Contributions during year	94,862,341	95,761,919	100,195,791	76,634,336
Benefits during year	(158,748,709)	(168,745,496)	(174,607,196)	(162,256,907)
Expected net investment income	188,024,263	173,168,565	155,771,406	186,243,922
Transfers and receivables	0	12,803,341	36,515,432	0
Expected Value of Assets, end of year	$2,505,769,843	$2,313,385,151	$2,101,507,952	$2,470,658,061
Market Value of Assets, end of year	2,200,396,822	1,983,632,519	2,370,036,710	2,553,610,968
Excess (shortfall) of net investment income	($305,373,021)	($329,752,632)	$268,528,758	$82,952,907

* Includes asset values for the TIAA group

** Prior to 12/31/03, assets were combined for state and school. Numbers prior to this are based on the combined amounts, split in proportion to the 12/31/03 allocation.

Calculation of Excess (Shortfall) Investment Income for Actuarial Value of Net Assets
School Group

	12/31/2001*	12/31/2002*	12/31/2003*	12/31/2004
Market Value of Assets, beginning of year	$4,682,482,912	$4,326,159,852	$3,899,983,529	$4,991,542,973
Contributions during year	186,507,110	188,275,753	196,993,109	232,136,850
Benefits during year	(312,112,925)	(331,767,426)	(343,292,008)	(401,994,358)
Expected net investment income	369,671,056	340,463,540	306,259,306	392,659,845
Transfers and receivables	0	25,172,414	403,649,568	0
Expected Value of Assets, end of year	$4,926,548,153	$4,548,304,133	$4,463,593,504	$5,214,345,310
Market Value of Assets, end of year	4,326,159,852	3,899,983,529	4,991,542,973	5,427,574,148
Excess (shortfall) of net investment income	($600,388,301)	($648,320,604)	$527,949,469	$213,228,838

* Prior to 12/31/03, assets were combined for state and school. Numbers prior to this are based on the combined amounts, split in proportion to the 12/31/03 allocation.

Calculation of Excess (Shortfall) Investment Income for Actuarial Value of Net Assets

State/School Group*

	12/31/2001	12/31/2002	12/31/2003	12/31/2004
Market Value of Assets, beginning of year	$7,064,114,860	$6,526,556,674	$5,883,616,048	$7,361,579,683
Contributions during year	281,369,451	284,037,672	297,188,900	308,771,186
Benefits during year	(470,861,634)	(500,512,922)	(517,899,204)	(564,251,265)
Expected net investment income	557,695,319	513,632,105	462,030,712	578,903,767
Transfers and receivables	0	37,975,755	440,165,000	0
Expected Value of Assets, end of year	$7,432,317,996	$6,861,689,284	$6,565,101,456	$7,685,003,371
Market Value of Assets, end of year	6,526,556,674	5,883,616,048	7,361,579,683	7,981,185,116
Excess (shortfall) of net investment income	($905,761,322)	($978,073,236)	$796,478,227	$296,181,745

* Includes asset values for the TIAA group.

Calculation of Excess (Shortfall) Investment Income for Actuarial Value of Net Assets

Local Group

	12/31/2001	12/31/2002	12/31/2003	12/31/2004
Market Value of Assets, beginning of year	$1,498,000,095	$1,395,342,080	$1,297,926,648	$1,561,501,396
Contributions during year	71,859,932	79,874,944	86,210,953	91,862,152
Benefits during year	(100,750,022)	(91,964,349)	(99,630,311)	(106,730,071)
Expected net investment income	118,706,635	111,153,093	103,307,684	124,336,836
Transfers and receivables	0	900,320	0	0
Expected Value of Assets, end of year	$1,587,816,640	$1,495,306,088	$1,387,814,974	$1,670,970,313
Market Value of Assets, end of year	1,395,342,080	1,297,926,648	1,561,501,396	1,743,287,610
Excess (shortfall) of net investment income	($192,474,560)	($197,379,440)	$173,686,422	$72,317,297

Calculation of Excess (Shortfall) Investment Income for Actuarial Value of Net Assets

KP&F Group

	12/31/2001	12/31/2002	12/31/2003	12/31/2004
Market Value of Assets, beginning of yea	$1,232,301,955	$1,149,732,145	$1,034,446,737	$1,232,406,980
Contributions during year	48,285,229	50,858,313	51,088,147	75,287,870
Benefits during year	(70,152,742)	(76,751,521)	(79,934,661)	(87,682,550)
Expected net investment income	97,726,283	90,962,769	81,624,076	98,106,309
Transfers and receivables	0	2,707,853	0	0
Expected Value of Assets, end of year	$1,308,160,725	$1,217,509,559	$1,087,224,299	$1,318,118,609
Market Value of Assets, end of year	1,149,732,145	1,034,446,737	1,232,406,980	1,363,065,004
Excess (shortfall) of net investment income	($158,428,580)	($183,062,822)	$145,182,681	$44,946,395

Calculation of Excess (Shortfall) Investment Income for Actuarial Value of Net Assets

Judges Group

	12/31/01	12/31/02	12/31/03	12/31/04
Market Value of Assets, beginning of year	$79,533,257	$74,599,904	$67,137,447	$81,081,078
Contributions during year	3,957,838	3,716,116	4,123,659	5,090,779
Benefits during year	(4,977,864)	(5,194,517)	(5,106,275)	(5,275,093)
Expected net investment income	6,322,644	5,909,994	5,332,447	6,479,256
Transfers and receivables	0	171,353	0	0
Expected Value of Assets, end of year	$84,835,875	$79,202,850	$71,487,278	$87,376,020
Market Value of Assets, end of year	74,599,904	67,137,447	81,081,078	90,483,059
Excess (shortfall) of net investment income	($10,235,971)	($12,065,403)	$9,593,800	$3,107,039

Development of Actuarial Value of Net Assets

	State/School	State	School	Local
Excess (Shortfall) of Investment Income				
12/31/04	$296,181,745	$82,952,907	$213,228,838	$72,317,297
12/31/03	796,478,227	268,528,758	527,949,469	173,686,422
12/31/02	(978,073,236)	(329,752,632)	(648,320,604)	(197,379,440)
12/31/01	(905,761,322)	(305,373,021)	(600,388,301)	(192,474,560)
Total	$(791,174,586)	$(283,643,988)	$(507,530,598)	$(143,850,281)
Deferral of Excess (Shortfall) of Investment Income				
12/31/04 (80%)	236,945,396	66,362,326	170,583,070	57,853,838
12/31/03 (60%)	477,886,936	161,117,255	316,769,681	104,211,853
12/31/02 (40%)	(391,229,295)	(131,901,053)	(259,328,242)	(78,951,776)
12/31/01 (20%)	(181,152,264)	(61,074,604)	(120,077,660)	(38,494,912)
Total	$142,450,773	$34,503,924	$107,946,849	$44,619,003
Market Value of Assets				
12/31/04	$7,981,185,116	$2,553,610,968	$5,427,574,148	$1,743,287,610
Actuarial Value of Assets				
12/31/04	$7,838,734,343	$2,519,107,044	$5,319,627,299	$1,698,668,607
Actuarial Value Divided by Market Value				
12/31/04	98.2%	98.6%	98.0%	97.4%

Development of Actuarial Value of Net Assets

	Total KPERS	KP&F	Judges	Total
Excess (Shortfall) of Investment Income				
12/31/04	$368,499,042	$44,946,395	$3,107,039	$416,552,476
12/31/03	970,164,649	145,182,681	9,593,800	1,124,941,130
12/31/02	(1,175,452,676)	(183,062,822)	(12,065,403)	(1,370,580,901)
12/31/01	(1,098,235,882)	(158,428,580)	(10,235,971)	(1,266,900,433)
Total	$(935,024,867)	$(151,362,326)	$(9,600,535)	$(1,095,987,728)
Deferral of Excess (Shortfall) of Investment Income				
12/31/04 (80%)	294,799,234	35,957,116	2,485,631	333,241,981
12/31/03 (60%)	582,098,789	87,109,609	5,756,280	674,964,678
12/31/02 (40%)	(470,181,071)	(73,225,129)	(4,826,161)	(548,232,361)
12/31/01 (20%)	(219,647,176)	(31,685,716)	(2,047,194)	(253,380,086)
Total	$187,069,776	$18,155,880	$1,368,556	$206,594,212
Market Value of Assets				
	$9,724,472,726	$1,363,065,004	$90,483,059	$11,178,020,789
Actuarial Value of Assets				
12/31/04	$9,537,402,950	$1,344,909,124	$89,114,503	$10,971,426,577
Actuarial Value Divided by Market Value				
12/31/04	98.1%	98.7%	98.5%	98.2%

Summary of Principal Results

All Systems Combined

	12/31/04	12/31/03	% Change
Participant Data			
Number of			
Active Members	147,751	148,145	(0.3) %
Retired Members and Beneficiaries	61,125	59,124	3.4
Inactive Members	41,269	41,315	(0.1)
Total Members	250,145	248,584	0.6
Projected Annual Salaries of Active Members	$5,102,016,066	$4,978,131,785	2.5
Annual Retirement Payments for Retired Members and Beneficiaries	$678,675,133	$635,712,464	6.8
Assets and Liabilities			
Total Actuarial Liability	$15,714,092,476	$14,439,546,270	8.8
Assets for Valuation Purposes	10,971,426,577	10,853,462,178	1.1
Unfunded Actuarial Liability	$4,742,665,899	$3,586,084,091	

Summary of Principal Results

Kansas Public Employees Retirement System, State Group

	12/31/2004	12/31/2003	% Change
Participant Data			
Number of:			
Active Members	24,592	24,933	(1.4) %
Retired Members and Beneficiaries	14,410	14,137	1.9
Inactive Members	6,029	5,913	2.0
Total Members	45,031	44,983	0.1
Projected Annual Salaries of Active Members	$851,655,056	$833,252,904	2.2
Annual Retirement Payments for Retired Members and Beneficiaries	$148,286,419	$141,291,491	5.0
Assets and Liabilities			
Total Actuarial Liability	$2,952,425,476	$2,747,341,651	7.5
Assets for Valuation Purposes	2,519,107,044	2,520,572,847	(0.1)
Unfunded Actuarial Liability	433,318,432	226,768,804	
Employer Contribution Rates as a Percent of Payroll			
Normal Cost	3.72%	3.37%	
Amortization of Unfunded Actuarial and Debt Service	3.27%	1.84%	
Actuarial Contribution Rate	6.99%	5.21% **	
Statutory Employer Contribution Rate*	6.37%	5.77%	

* Statutory Employer Contribution Rate may not exceed last year's rate by more than rate increase limit of 0.60 percent. This rate does not include the contribution rate for the Death and Disability Program.

** The actuarial rate was recertified to 5.84 percent after the December 31, 2003, actuarial valuation was issued. The rate shown is the original rate.

Summary of Principal Results
Kansas Public Employees Retirement System, School Group

	12/31/2004	12/31/2003	% Change
Participant Data			
Number of:			
Active Members	80,602	80,169	0.5%
Retired Members and Beneficiaries	31,378	30,093	4.3
Inactive Members	24,148	24,999	(3.4)
Total Members	136,128	135,261	0.6
Projected Annual Salaries of Active Members	$2,641,861,863	$2,585,895,939	2.2
Annual Retirement Payments			
for Retired Members and Beneficiaries	$358,909,034	$332,917,524	7.8
Assets and Liabilities			
Total Actuarial Liability	$8,470,506,029	$7,794,261,207	8.7
Assets for Valuation Purposes	5,319,627,299	5,287,509,312	0.6
Unfunded Actuarial Liability	3,150,878,730	2,506,751,895	
Employer Contribution Rates as a Percent of Payroll			
Normal Cost	4.24%	3.95%	
Amortization of Unfunded Actuarial Debt Service	7.23%	5.80%	
Actuarial Contribution Rate	11.47%	9.75%	
Statutory Employer Contribution Rate*	6.37%	5.77%	

* Statutory Employer Contribution Rate may not exceed last year's rate by more than rate increase limit of 0.60 percent. This rate does not include the contribution rate for the Death and Disability Program.

Summary of Principal Results

Kansas Public Employees Retirement System State and School Groups Combined

	12/31/2004	12/31/2003	% Change
Participant Data			
Number of:			
Active Members	105,194	105,102	0.1%
Retired Members and Beneficiaries	45,788	44,230	3.5
Inactive Members	30,177	30,912	(2.4)
Total Members	181,159	180,244	0.5
Projected Annual Salaries of Active Members	$3,493,516,919	$3,419,148,843	2.2
Annual Retirement Payments for Retired Members and Beneficiaries	$507,195,453	$474,209,015	7.0
Assets and Liabilities			
Total Actuarial Liability	$11,422,931,505	$10,541,602,858	8.4
Assets for Valuation Purposes	7,838,734,343	7,808,082,159	0.4
Unfunded Actuarial Liability	3,584,197,162	2,733,520,699	
Employer Contribution Rates as a Percent of Payroll			
Normal Cost	4.11%	3.81%	
Amortization of Unfunded Actuarial and Debt Service	6.26%	4.83%	
Actuarial Contribution Rate	10.37%	8.64%**	
Statutory Employer Contribution Rate*	6.37%	5.77%	

* Statutory Employer Contribution Rate may not exceed last year's rate by more than rate increase limit of 0.60 percent. This rate does not include the contribution rate for the Death and Disability Program.

** The actuarial contribution rate for the State was recertified after the December 31, 2003, actuarial valuation was issued. The rate shown is the original rate.

Summary of Principal Results

Kansas Public Employees Retirement System, Local Group

	12/31/2004	12/31/2003	% Change
Participant Data			
Number of:			
Active Members	35,585	36,299	(2.0) %
Retired Members and Beneficiaries	11,613	11,279	3.0
Inactive Members	10,018	9,301	7.7
Total Members	57,216	56,879	0.6
Projected Annual Salaries of Active Members	$1,236,051,138	$1,212,174,026	2.0
Annual Retirement Payments for Retired Members and Beneficiaries	$88,302,227	$83,190,648	6.1
Assets and Liabilities			
Total Actuarial Liability	$2,522,397,478	$2,234,229,454	12.9
Assets for Valuation Purposes	1,698,668,607	1,646,342,459	3.2
Unfunded Actuarial Liability	823,728,871	587,886,995	
Employer Contribution Rates as a Percent of Payroll			
Normal Cost	3.68%	3.36%	
Amortization of Unfunded Actuarial and Supplemental Liability	4.01%	2.88%	
Actuarial Contribution Rate	7.69%	6.24%	
Statutory Employer Contribution Rate*	4.31%	3.81%	

* Statutory Employer Contribution Rate exceeds last year's rate by the statutory rate increase limit of 0.50 percent This rate does not include the contribution rate for the Death and Disability Program.

Summary of Principal Results
Kansas Police and Firemen's Retirement System

	12/31/2004	12/31/2003	% Change
Participant Data			
Number of:			
Active Members	6,721	6,494	3.5 %
Retired Members and Beneficiaries	3,558	3,456	3.0
Inactive Members	1,056	1,087	(2.9)
Total Members	11,335	11,037	2.7
Projected Annual Salaries of Active Members	$349,723,478	$324,682,693	7.7
Annual Retirement Payments for Retired Members and Beneficiaries	$77,962,447	$73,469,109	6.1
Assets and Liabilities			
Total Actuarial Liability	$1,657,628,308	$1,562,157,258	6.1
Assets for Valuation Purposes	1,344,909,124	1,312,799,683	2.4
Unfunded Actuarial Liability	312,719,184	249,357,575	
Employer Contribution Rates as a Percent of Payroll			
Normal Cost	7.98%	8.21%	
Amortization of Unfunded Actuarial and Supplemental Liability	5.34%	4.18%	
Actuarial Contribution Rate (Local Employers)	13.32%	12.39%	
Statutory Employer Contribution Rate*	13.32%	12.39%	

* The Statutory Employer Contribution Rate is equal to the Actuarial Rate. This is referred to as the "Uniform" rate, and varies for State and Local employers. The total contribution is qual to the appropriate uniform rate plus the payment required to amortize any unfunded past service liability or 15 percent excess benefit liability, determined separately for each employer.

Summary of Principal Results
Kansas Retirement System for Judges

	12/31/2004	12/31/2003	% Change
Participant Data			
Number of:			
Active Members	251	250	0.4%
Retired Members and Beneficiaries	166	159	4.4
Inactive Members	18	15	20.0
Total Members	435	424	2.6
Projected Annual Salaries of Active Members	$22,724,531	$22,126,223	2.7
Annual Retirement Payments for Retired Members and Beneficiaries	$5,215,006	$4,843,692	7.7
Assets and Liabilities			
Total Actuarial Liability	$111,135,185	$101,556,700	9.4
Assets for Valuation Purposes	89,114,503	86,237,877	3.3
Unfunded Actuarial Liability	22,020,682	15,318,823	
Employer Contribution Rates as a Percent of Payroll			
Normal Cost	13.84%	13.04%	
Amortization of Unfunded Actuarial and Supplemental Liability	8.54%	6.07%	
Actuarial Contribution Rate	22.38%	19.11%	
Statutory Employer Contribution Rate*	22.38%	19.11%	

* Statutory Employer Contribution Rate is equal to the Actuarial Rate. This rate excludes the contribution for the Death and Disability Program.

Actuarial Assumptions

Every three years KPERS consulting actuary makes a general investigation of the Retirement System's actuarial experience, including mortality, retirement and employment turnover. The actuary recommends actuarial tables for use in the valuation and in calculating actuarial equivalent values based on such investigation. An actuarial experience study was conducted for the three years ending December 31, 2004.

Kansas Public Employees Retirement System

Rate of Investment Return

8.0 percent, net of expenses

Implicit Inflation Rate

3.5 percent

Mortality Rates

Post Retirement
RP-2000 Healthy Annuitants Table (Generational) with the following adjustments:

School (Male): Male Table -1

School (Female): Female Table -2

State (Male): Male Table +2

State (Female): Female Table +1

Local (Male): Male Table +2

Local (Female): Female Table +0

Pre-Retirement
RP-2000 Employees Table (Generational) Same age adjustments as above

Disabled
RP-2000 Disableds Table (Generational) Same age adjustments as above

Marriage Assumption

70 percent of all members are assumed married with male spouse assumed to be three years older than female.

Rates of Salary Increase

	Rate of Increase*		
Years of Service	State	School	Local
1	7.8%	9.8%	7.8%
5	5.6%	6.7%	6.2%
10	4.9%	5.1%	5.2%
15	4.4%	4.6%	4.8%
20	4.1%	4.1%	4.6%
25	4.0%	4.0%	4.1%
30	4.0%	4.0%	4.0%

* Includes general wage increase assumption of 4.0 percent (composed of 3.5 percent inflation and 0.50 percent productivity)

Termination Rates

School – Male Years of Service

Age	Years of Service <2	2	3	4	5
25	23.0%	18.0%	12.0%	8.5%	8.0%
30	20.5%	16.2%	11.0%	8.5%	8.0%
35	19.7%	15.9%	10.0%	8.5%	7.5%
40	19.3%	14.6%	10.0%	8.0%	7.5%
45	18.8%	14.3%	10.0%	8.0%	7.0%
50	18.4%	13.9%	10.0%	8.0%	7.0%

Age	Years of Service 6	7	8	9	10+
25	7.5%	7.4%	7.0%	6.7%	6.0%
30	7.5%	6.9%	6.5%	5.8%	5.0%
35	7.0%	6.4%	5.8%	4.7%	3.6%
40	6.5%	5.9%	4.7%	3.8%	2.5%
45	6.0%	5.5%	4.1%	3.3%	1.9%
50	5.5%	5.5%	4.0%	2.8%	1.4%

School – Female Years of Service

Age	Years of Service <2	2	3	4	5
25	26.0%	20.7%	17.5%	11.2%	10.6%
30	23.5%	16.2%	14.4%	9.2%	8.9%
35	20.0%	13.5%	12.5%	8.0%	7.3%
40	16.5%	11.2%	9.0%	7.3%	6.5%
45	14.0%	10.2%	8.7%	7.1%	6.2%
50	13.4%	9.9%	8.5%	7.0%	6.1%

Age	Years of Service 6	7	8	9	10+
25	10.0%	9.4%	8.7%	8.1%	7.5%
30	8.6%	8.4%	8.1%	7.8%	7.5%
35	6.6%	5.9%	5.1%	4.4%	3.7%
40	5.7%	4.8%	4.0%	3.1%	2.3%
45	5.3%	4.5%	3.6%	2.7%	1.8%
50	5.2%	4.3%	3.4%	2.5%	1.6%

Termination Rates

Age

Age	Years of Service <2	2	3	4	5
25	18.0%	18.0%	15.8%	14.0%	13.3%
30	18.0%	15.0%	12.0%	11.2%	11.2%
35	15.0%	12.0%	9.6%	9.6%	9.6%
40	15.0%	10.3%	8.1%	8.1%	8.1%
45	13.0%	10.0%	7.5%	7.0%	7.0%
50	13.0%	10.0%	7.5%	7.0%	7.0%

Age	Years of Service 6	7	8	9	10+
25	10.0%	7.0%	5.0%	5.0%	5.0%
30	10.0%	7.0%	5.0%	5.0%	5.0%
35	8.0%	7.0%	5.0%	5.0%	4.8%
40	5.8%	4.5%	3.8%	3.8%	3.5%
45	4.8%	3.2%	3.0%	3.0%	2.2%
50	4.8%	3.0%	3.0%	3.0%	1.4%

State – Female Years of Service

Age	Years of Service <2	2	3	4	5
25	25.0%	13.0%	17.6%	15.0%	15.2%
30	20.5%	13.0%	14.9%	12.3%	11.9%
35	17.8%	13.0%	12.6%	10.7%	9.9%
40	16.3%	13.0%	10.6%	9.8%	8.8%
45	15.8%	13.0%	10.2%	9.5%	8.2%
50	15.5%	13.0%	10.2%	9.3%	8.0%

Age	Years of Service 6	7	8	9	10+
25	15.3%	15.5%	15.7%	15.7%	15.9%
30	11.5%	11.1%	10.4%	10.4%	9.8%
35	9.1%	8.3%	7.2%	7.2%	6.0%
40	7.8%	6.7%	5.2%	5.2%	3.7%
45	7.0%	5.7%	3.9%	3.9%	2.0%
50	6.8%	5.5%	3.6%	3.6%	1.7%

Termination Rates

Local – Male Years of Service

Age	<2	2	3	4	5
25	23.0%	19.5%	16.1%	14.9%	12.3%
30	18.0%	15.3%	12.6%	11.7%	9.4%
35	15.0%	12.0%	10.5%	9.7%	7.5%
40	12.5%	10.6%	8.7%	8.1%	5.9%
45	11.3%	10.0%	7.9%	7.3%	5.1%
50	11.0%	10.0%	7.7%	7.2%	4.9%

Age	6	7	8	9	10+
25	12.6%	11.5%	11.5%	9.0%	8.0%
30	10.1%	9.3%	9.3%	8.0%	7.0%
35	8.2%	7.4%	7.4%	6.8%	5.0%
40	6.7%	6.0%	6.0%	5.5%	3.8%
45	5.8%	5.0%	5.0%	4.3%	2.7%
50	5.6%	4.8%	4.8%	3.8%	2.5%

Local – Female Years of Service

Age	<2	2	3	4	5
25	25.0%	22.5%	18.8%	15.7%	14.1%
30	20.0%	18.0%	15.0%	12.6%	11.5%
35	17.5%	15.7%	13.1%	11.0%	10.0%
40	15.8%	14.2%	11.9%	10.0%	8.9%
45	15.3%	13.8%	11.5%	9.6%	8.6%
50	15.0%	13.5%	11.2%	9.4%	8.4%

Age	6	7	8	9	10+
25	14.5%	10.9%	9.2%	7.6%	6.0%
30	12.5%	9.3%	8.2%	7.1%	6.0%
35	10.4%	8.0%	7.0%	6.0%	5.0%
40	9.3%	6.8%	5.9%	4.8%	3.8%
45	8.0%	6.0%	5.5%	4.4%	3.4%
50	7.8%	6.0%	5.4%	4.4%	3.4%

Retirement Rates

Rule of 85 – School

Age	1st Yr w/85 Points	After 1st Year w/85 Points
53	20%	15%
55	20%	15%
57	22%	15%
59	25%	20%
61	30%	35%

Age	Early Retirement Rate	Normal Retirement Age	Rate
55	5%	62	35%
56	5%	63	25%
57	5%	64	30%
58	5%	65	35%
59	10%	66	25%
60	10%	67-74	20%
61	22%	75	100%

Rule of 85 – State

Age	1st Yr w/85 Points	After 1st Year w/85 Points
53	15%	15%
55	15%	12%
57	15%	12%
59	15%	15%
61	30%	25%

Age	Early Retirement Rate	Normal Retirement Age	Rate
55	5%	62	35%
56	5%	63	20%
57	5%	64	30%
58	5%	65	40%
59	6%	66	30%
60	7%	67-74	20%
61	20%	75	100%

Retirement Rates

Rule of 85 – Local

Age	1st Yr w/85 Points	After 1st Year w/85 Points
53	11%	10%
55	11%	10%
57	11%	10%
59	11%	12%
61	30%	25%

Age	Early Retirement Rate	Age	Normal Retirement Rate
55	5%	62	30%
56	5%	63	20%
57	5%	64	30%
58	5%	65	35%
59	5%	66-74	20%
60	5%	75	100%
61	15%		

Correctional employees with an age 55 normal retirement date

Age	Rate
55	10%
58	10%
60	10%
62	40%
65	100%

Correctional employees with an age 60 normal retirement date	Age 62
TIAA employees	Age 66
Inactive vested members	Age 62

Disability Rates

Age	School	State	Local
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%

Indexation of Final Average Salary for Disabled Members: 2.5 percent per year

Probability of Vested Members Leaving Contributions With the Retirement System

Age	School	State	Local
25	60%	51%	35%
30	60%	51%	40%
35	65%	53%	47%
40	74%	63%	61%
45	83%	69%	71%
50	88%	83%	82%
55	100%	100%	100%

Kansas Police and Firemen’s Retirement System

Rate of Investment Return

8.0 percent, net of expenses

Implicit Inflation Rate

3.5 percent

Mortality Rates

Post-Retirement
RP-2000 Healthy Annuitants Table (Generational) with the following adjustments:

Males and Females +1

Pre-Retirement
RP-2000 Employees Table (Generational) with the following adjustments:

Males and Females +1

*70% of pre-retirement deaths assumed to be service related.

Disabled
RP-2000 Disableds Table (Generational) with the following adjustments:

Males and Females +1

Marriage Assumption

80 percent of all members are assumed married with male spouse assumed to be three years older than female

Rates of Salary Increase

Years of Service	Rate of Increase*
1	12.5%
5	7.0%
10	4.9%
15	4.3%
20	4.0%
25	4.0%

* Includes general wage increase assumption of 4.0 percent (composed of 3.5 percent inflation and 0.50 percent productivity)

Termination Rates

Tier I

Age	Rate
<41	3%
after 41	0%

Tier II

Years of Service	Rate
1	13.0%
5	6.0%
10	2.5%
15	1.0%
20	1.0%
25	0.0%

Retirement Rates

Tier I

Early Retirement		Normal Retirement	
Age	Rate	Age	Rate
50	5%	55	50%
51	5%	56	30%
52	10%	57	20%
53	10%	58	40%
54	30%	59	30%
		60	50%
		61	20%
		62	100%

Tier II

Early Retirement		Normal Retirement	
Age	Rate	Age	Rate
50	10%	50	25%
51	10%	53	15%
52	10%	55	30%
53	10%	58	20%
54	25%	60	20%
		61	60%
		62	40%
		63	100%

Inactive vested members Assumed to retire at later of (i) eligibility for unreduced benefits or (ii) age 55

Disability Rates**

Age	Rate
22	.06%
27	.07%
32	.15%
37	.35%
42	.60%
47	1.00%
52	1.60%
57	2.55%

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

Retirement System for Judges

Rate of Investment Return
8.0 percent, net of expenses

Implicit Inflation Rate
3.5 percent

Mortality Rates
Post-Retired
RP-2000 Healthy Annuitants Table (Generational)

Pre-Retired
RP-2000 Employees Table (Generational)

Disabled
RP-2000 Disableds Table (Generational)

Disability Rates
None assumed

Salary Increase Rate
5.5 percent

Marriage Assumption
70 percent of all members are assumed married with male spouse assumed to be three years older than female

Termination Rates
None assumed

Retirement Age
Age 64 or current age, if greater

Actuarial Methods

Funding Method

Under the EAN cost method, the actuarial present value of each member's projected benefits allocates on a level basis over the member's compensation between the entry age of the member and the assumed exit ages. The portion of the actuarial present value allocated to the valuation year is called the normal cost. The actuarial present value of benefits allocated to prior years of service is called the actuarial liability. The unfunded actuarial liability represents the difference between the actuarial liability and the actuarial value of assets as of the valuation date. The unfunded actuarial liability is calculated each year and reflects experience gains/losses.

There are several components of the unfunded actuarial liability which are amortized over different periods. The increase in the unfunded actuarial liability resulting from the 1998 COLA is amortized over 15 years. The increase in the unfunded actuarial liability for Local employers resulting from 2003 legislation which made the 13th check for pre-July 2, 1987, retirees a permanent benefit is funded over a ten-year period beginning in 2005. The remainder of the unfunded actuarial liability is amortized over a period originally set at 40 years beginning July 1, 1993.

The UAL is amortized as a level percentage of payroll for all groups except Judges, who use a level dollar payment. The payroll growth assumption is 4 percent so the annual amortization payments will increase 4 percent each year. As a result, if total payroll grows 4 percent per year, as assumed, the amortization payment will remain level as a percentage of total current payroll.

Asset Valuation Method

For actuarial purposes, assets are valued using an asset smoothing method. The difference between the actual return and the expected return (based on the actuarial assumed rate of return) on the market value of assets is calculated each year and recognized equally over a five-year period.

Plan Provisions

NOTE: In the interest of simplicity, certain generalizations have been made. 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:

- Kansas Public Employees Retirement System (KPERS
- Kansas Police and Firemen's Retirement System (KP&F)
- 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. The State of Kansas is required to participate, but local political subdivisions participation is optional but irrevocable once elected. Certain legislative employees also receive benefit payments.

Kansas Public Employees Retirement System (State, Local and School)

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 employment date. 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. State employees and non-school employees of local employers have first-day coverage for death and disability benefits if their employer elects the coverage. KPERS retirees may not become contributing members again.

Board of Regents Plan Members (TIAA and equivalents)

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

Correctional Members

Correctional employees, as certified to the Board of Trustees by the Secretary of Corrections, are defined in K.S.A. 74 4914a:

a) Correctional officers
b) Certain directors and deputy directors of correctional institutions
c) Correctional power plant operators
d) Correctional industries employees
e) Correctional food service employees
f) Correctional maintenance employees

For groups (a) and (b) with at least three consecutive years of credited service, in such positions immediately before 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 before retirement, normal retirement age is 60 and early retirement requirements are age 55 with ten years of credited service. Both groups are also eligible for full benefits when age and service equal 85 “points.”

Member Contributions

Members contribute 4 percent of their gross earnings. Interest is credited to members’ contribution accounts on June 30 each year, based on account balance as of the preceding December 31. Those who became members before July 1, 1993, earn 8 percent interest per year. Those who became members on and after July 1, 1993, earn 4 percent interest.

Employer Contributions

Rates are certified by the Board of Trustees based on results of annual actuarial valuations; however, annual increases are capped by state statute.

Vesting Requirements

A member must have ten years of credited service. Should the vested member end employment, the member must leave accumulated contributions on deposit with the Retirement System to be eligible for future benefits. If a vested member ends employment and withdraws accumulated contributions, the member loses all rights and privileges under the Retirement System. If a vested member who is married ends employment and wants to withdraw accumulated contributions, the member's spouse must provide consent for the contribution withdrawal, since any benefits to which the spouse may have been entitled in the future would be lost as well. 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.

Retirement Age and Service Requirements

Eligibility

- Age 65 with one year of service
- Age 62 with ten years of credited service
- 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.

Retirement Benefits

Benefits are based on the member's years of credited service, final average salary (FAS) and a statutory multiplier. Effective July 1, 2001, at retirement a member may receive a lump-sum payment of up to 50 percent of the actuarial present value of the member's lifetime benefit. His or her monthly retirement benefit is then permanently reduced.

For those hired on or after July 1, 1993, FAS is the average of their three highest years, excluding additional compensation, such as sick and annual leave.

For those who were hired before July 1, 1993, FAS is the greater of either a:

- Four-year FAS including additional compensation, such as sick and annual leave; or
- Three-year FAS excluding additional compensation, such as sick and annual leave.

Prior service credit is 0.75 percent to 1 percent of FAS per year [School employees receive 0.75 percent FAS for each year of prior service that is not credited under the former Kansas School Retirement System (KSRS)]. Participating service credit is 1.75 percent of FAS.

Early Retirement

Eligibility is age 55 and ten years of credited service. 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.

Working After Retirement

A member must wait 30 days after his or her retirement date before working for any employer who participates in KPERS. If a retired member then goes to work for an employer he or she worked for during his or her last two years of KPERS participation, the member has a $15,000-per-year earnings limit.

Withdrawal Benefit

If members leave employment they can withdraw their contributions, plus interest, after 30 days. Members lose any rights and benefits when they withdraw from KPERS, such as insurance coverage. Former members who return to covered employment within five years 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 contributions remains with the System when a member ends 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

KPERS Death and Disability Program provides disability income benefits, 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 when compensation from the employer ceases. The long-term disability benefit is two-thirds of the member's annual compensation on the date disability begins, reduced by Social Security benefits (members must apply), Workers' Compensation benefits and any other employment-related disability benefits. The minimum monthly benefit is $100. 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. The waiver of optional group life insurance premiums ends January 1, 2004, for new disabled members. If a disabled member retires after receiving disability benefits for at least five years immediately before retirement, the member's FAS is adjusted by statute.

Non-Service Connected Death Benefit

The active member's designated beneficiary receives the member's accumulated contributions plus interest in a lump sum. If the member had reached age 55 with ten years of credited service, and the spouse is the sole beneficiary, then the spouse may choose a lifetime benefit instead of receiving the returned contributions. If a member with ten or more years of service dies and was not of retirement age, and the spouse is the sole beneficiary, then the spouse can elect one of the survivor options at the time the member would have first been of retirement age.

Service-Connected Accidental Death Benefit

The active member's accumulated contributions plus interest, a $50,000 lump sum, and an annual benefit based on 50 percent of FAS (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.

Basic Group Life Insurance for Active Members

KPERS Death and Disability Program provides an insured death benefit equal to 150 percent of the active member's annual compensation on the date of death. If a disabled member dies after receiving disability benefits for at least five years immediately before death, the member's current annual rate of compensation is adjusted by statute.

Death Benefit for Retirees

The retiree's beneficiary receives a $4,000 lump sum. The beneficiary may assign this benefit to a funeral establishment. The beneficiary for the $4,000 death benefit may be, but is not always, the same person as the member's joint annuitant. A retiree may name a funeral establishment as beneficiary. 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 dies before the retired member, the reduced benefit payment is increased to the amount the retired member would have received if no retirement option had been selected. Benefits payable to a joint annuitant stop 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.

Kansas Police and Firemen's Retirement System (KP&F)

* TIER I — Members have Tier I coverage if they were employed before 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

Members contribute 7 percent of their gross earnings. For members with 32 years service credit, the contribution rate is reduced to 2 percent of compensation.

A few members employed before January 1, 1976, have contributions reduced by their Social Security contributions, not including contributions for Medicare. These members' benefits are reduced by 50 percent of original Social Security benefits accruing from employment with the participating employer.

Retirement Age and Service Requirements

Eligibility — Tier I*

- Age 55 and 20 years of service
- Any age with 32 years of service

Eligibility — Tier II**

- Age 50 and 25 years of service
- Age 55 and 20 years of service
- Age 60 and 15 years of service

Benefits — Benefits are based on the member's Final Average Salary (FAS) and years of service. Effective July 1, 2001, at retirement a member may receive a lump-sum payment of up to 50 percent of the actuarial present value of the member's lifetime benefit. His or her monthly retirement benefit is then permanently reduced.

For those who were hired *before* July 1, 1993, FAS is the average of the highest three of the last five years of credited participating service, *including* additional compensation, such as sick and annual leave.

For those who are hired *on or after* July 1, 1993, FAS is the average of the highest three of the last five years of participating service, *excluding* additional compensation, such as sick and annual leave.

Annual benefits at normal retirement age equal FAS x 2.5 percent x years of service (up to 32 years).

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

A member must wait 30 days after his or her retirement date before working for any employer who participates in KP&F. If a retired member then goes to work for an employer he or she worked for during his or her last two years of KP&F participation, the member has a $15,000-per-year earnings limit.

Early Retirement

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

Vesting Requirements
Eligibility — TIER I *: The member must have 20 years of credited service; if ending employment, the member must leave contributions 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 ending employment, the member must leave contributions with the Retirement System to be eligible for future benefits.

Withdrawal Benefit
If members leave employment before retirement they can withdraw their contributions, plus interest, after 30 days. When members withdraw from KP&F they lose any rights and benefits, such as insurance coverage.

If a married vested member ends employment and wants to withdraw accumulated contributions, the member's spouse must consent to the withdrawal, since any of the spouse's future benefits will be forfeited as well. Former members who return to covered employment within five years will not lose any membership rights or privileges if they haven't withdrawn contributions. The Retirement Act does not allow members to borrow from contributions. The employer contributions remain with the System when a member ends employment and withdraws. The Retirement System will refund contributions only after all contributions have been reported by the member's former employer.

Service-Connected Disability Benefits for Tier I Members
There is no age or service requirement to be eligible for this benefit. A member receives a pension of 50 percent of FAS, plus 10 percent of FAS for each dependent child under age 18 (or up to age 23 for full-time students), to a maximum of 75 percent of FAS. If dependent benefits aren't payable, the benefit is 2.5 percent for each year, to a maximum of 80 percent of FAS. When a member receiving service-connected disability benefits dies, 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 FAS. Also, either the spouse or the dependent children receive a pension of half of the member's benefit.

Non Service-Connected Disability Benefits for Tier I Members
This pension is calculated at 2.5 percent of FAS per year of service, to a maximum benefit of 80 percent of FAS (minimum benefit is 25 percent of FAS). When a member receiving non-service-connected disability benefits dies, the surviving spouse receives a lump-sum payment of 50 percent of FAS. Also, either the spouse or the dependent children receive a pension of half of the member's benefit.

Disability Benefits for Tier II Members
There is no distinction between service-connected and non-service-connected disability benefits. Benefit is 50 percent of FAS. Service credit is granted during the disability period. Disability benefits convert to age and service retirement as soon as the member is eligible for full retirement benefits. If the member is disabled for at least five years immediately before retirement, the member's FAS is adjusted by statute. Disability benefits are offset $1 for each $2 earned after the first $10,000 of earnings.

Service Connected Death Benefit
There is no age or service requirement, and a pension of 50 percent of FAS goes to the spouse, plus 10 percent of FAS 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 FAS.

Non-Service-Connected Death
A lump sum of 100 percent of FAS goes to the spouse; and a pension of 2.5 percent of FAS 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. If there is no surviving spouse or children the lump-sum payment less refundable contributions and interest is paid to the beneficiary.

Death Benefit for Inactive Members
If an inactive member with 20 or more years of service dies and was not of retirement age, and the spouse is the sole beneficiary, then the spouse can elect one of the survivor options at the time the member would have first been of retirement age. If an inactive member is eligible to retire when he or she dies, and the spouse is the sole beneficiary, the spouse may elect to receive benefits as a joint annuitant under any option instead of receiving the member's contributions.

Death Benefit for Retirees
The retiree's beneficiary may assign this benefit to a funeral establishment. The beneficiary for the $4,000 death benefit may be, but is not always, the same person as the member's joint annuitant. A retiree may name a funeral establishment as beneficiary. 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 dies before the retired member, the reduced benefit payment is increased to the amount the retired member would have received if no retirement option had been selected. Benefits payable to a joint annuitant stops 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.

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 FAS. Also, 75 percent of the member's benefit is payable either to the spouse or to dependent children.

Kansas Retirement System for Judges (Judges)

Member Contributions
Judges contribute 6 percent of gross earnings. When an active member reaches the maximum retirement benefit level of 70 percent of FAS, the contribution rate is reduced to 2 percent.

Employer Contributions
Rates are certified by the Board of Trustees, based on results of annual actuarial valuations and statutory regulations set by the Legislature.

Vesting Requirements
Judges vest when appointed. There is no minimum service requirement. However, if ending 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.

Retirement Age and Service Requirements

Eligibility

- Age 65
- Age 62 with ten years of credited service
- 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.

Retirement Benefit

The benefit is based on the member’s Final Average Salary (FAS), which is the average of the three highest years of service as a judge. Effective July 1, 2001, at retirement a member may receive a lump-sum payment of up to 50 percent of the actuarial present value of the member’s lifetime benefit. His or her monthly retirement benefit is then permanently reduced.

The basic formula for those who were members before July 1, 1987, is 5 percent of FAS for each year of service up to ten years, plus 3.5 percent for each year, to a maximum of 70 percent of FAS. 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 FAS.

Early Retirement

A member must be age 55 and have ten years of credited service to take early retirement. 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. Normal benefit accrued at termination is payable at age 62 or in a reduced amount at age 55, provided the member has ten years of service credit. Otherwise, benefits are not payable until age 65.

Employment After Retirement

Retired judges may enter into an agreement to work for up to 104 days at 25 percent of the current salary of a judge. The agreement is for two years and may be renewed for up to 12 years. Retirement benefits will be suspended in any case where a retired judge is elected or appointed to a judgeship. The judge in that case resumes active participation and will accrue additional service credit. When the judge retires again, the retirement benefit is recalculated.

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 FAS for each year of service. The minimum benefit is 50 percent of FAS. Benefits are recalculated when the member reaches retirement age. If a judge is disabled for at least five years immediately before retirement, the judge’s FAS is adjusted by statute.

Withdrawal Benefit

If members leave employment they can withdraw their contributions, plus interest, after 30 days. When members withdraw from KPERS they lose any rights and benefits, such as insurance coverage. Former members who return to covered employment within five years 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 contributions remains with the System when a member ends employment and withdraws contributions. KPERS will refund contributions only after all contributions have been reported by the member’s former employer.

Death Benefit for Active Members
A lump sum insured death benefit equal to 150 percent of the active 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 ten 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.

Death Benefit for Retirees
The retiree's beneficiary receives a $4,000 lump sum. The beneficiary may assign this benefit to a funeral establishment. A retiree may also directly name a funeral establishment as beneficiary. If the member had selected an option with survivor benefits, benefits are paid to the joint annuitant or to the member's designated beneficiary. Under joint and survivor retirement options, if the joint annuitant dies before the retired member, the reduced benefit payment is increased to the amount the retired member would have received if no retirement option had been selected. Benefits payable to a joint annuitant stop when the joint annuitant dies. If the member did 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.

Short Term Solvency Test

Last Ten Fiscal Years

Valuation Date	Member Contributions (A)	Retirees and Beneficiaries (B)	Active Members Employer Financed Portion (C)	Assets Available for Benefits		Portions of Accrued Liabilities Covered by Assets (A)	(B)	(C)
06/30/96	$2,159,113,770	$3,037,892,830	$2,406,103,997	$6,158,754,752		100%	100 %	40%
06/30/97	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
06/30/00	2,929,469,325	4,454,897,319	3,417,030,430	9,568,274,828		100	100	64
12/31/00	3,007,338,917	4,576,452,175	3,556,222,919	9,835,181,839	(1)	100	100	63
12/31/01	3,330,859,571	4,903,096,418	3,509,095,766	9,962,917,897		100	100	49
12/31/02	3,353,870,165	5,247,201,306	4,012,527,155	9,784,862,188		100	100	30
12/31/03	3,595,082,177	5,558,543,751	5,285,920,342	10,853,462,178	(2)	100	100	32
12/31/04	3,817,174,808	5,994,869,531	5,902,048,137	10,971,426,577		100	100	20

1) Actuarial valuation date was changed to a calendar year.

2) Actuarial cost method was changed to the Entry Age Normal (EAN) for all three plans.

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 liability 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	Percentage Change in Membership	Number of Participating Employers	Percentage Increase in Number of Participating Employers	Total Annual Payroll (millions) (2)	Average Payroll	Percentage Increase in Average Payroll
06/30/96	134,470	2.4%	1,344	2.7%	$3,464	$25,760	2.2%
06/30/97	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
06/30/00	140,559	1.9	1,416	0.6	4,290	30,471	6.8
12/31/00	143,337	2.0	1,423	0.5	4,455	30,412	-0.2
12/31/01	145,666	1.6	1,435	0.8	4,675	32,094	5.5
12/31/02	147,294	1.1	1,442	0.5	4,866	32,984	2.8
12/31/03	148,145	0.6	1,454	0.8	4,978	32,944	-0.1
12/31/04	147,751	-0.3	1,461	0.5	5,102	33,854	0.3

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

2) Excludes TIAA salaries.

Schedule of Employer Contribution Rates

Last Ten Fiscal Years (1)

Year	Actuarial Rate	Actual Rate	Actuarial Rate	Actual Rate
	KPERS State/School		**KPERS Local**	
1996	4.11 %	3.30 %	3.72%	2.48 %
1997	5.17	3.59	3.73	2.63
1998	5.23	3.79	3.86	2.78
1999	5.33	3.99	3.86	2.93
2000	5.27	4.19	3.89	3.22
2001	6.15	3.98(2)	3.88	2.77(2)
2002	6.00	4.78	4.07	3.52
2003	6.17	4.98(3)	4.73	3.67(3)
2004	7.05	4.58(3)	4.64	3.22(3)
2005	**8.29**	**5.47**	**6.04**	**4.01**
	KP&F (Uniform Rate)		**Judges**	
1996	9.65%	9.65 %	10.35 %	10.35 %
1997	9.73	9.73	16.00	16.00
1998	9.45	9.45	15.67	15.67
1999	7.36	7.36	15.67	15.67
2000	7.35	7.35	14.38	14.38
2001	6.97	6.97	16.14	15.74 (2)
2002	6.79	6.79	12.88	12.88
2003	6.86	6.86	12.66	12.66 (3)
2004	9.47	9.47	16.67	16.67 (3)
2005	**11.69**	**11.69**	**19.22**	**19.22**
	TIAA			
1996	1.75%	1.75%		
1997	1.89	1.89		
1998	1.66	1.66		
1999	1.93	1.93		
2000	1.82	1.82		
2001	1.21	1.21 (2)		
2002	2.03	2.03		
2003	2.27	2.27 (3)(4)		

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. Rates include death and disability insurance when applicable

2) Per 2000 and 2001 legislation, employers were not required to remit the Group Life and Disability portion of the Actual Rate from April 1, 2000, through December 31, 2001.

3) Per 2002 and 2003 legislation, employers were not required to remit the Group Life and Disability portion of the Actual Rate from July 1, 2002, through December 31, 2002, or from April 1, 2003, through June 30, 2004.

4) Per 2003 legislation, members of the TIAA group were made special members of KPERS and no longer have a separate valuation or contribution rate.

Membership Profile
Last Ten Calendar Years

Valuation Date	Active	Inactive	Retirees & Beneficiaries	Total Membership
1995	134,565	16,397	48,572	199,534
1996	136,285	21,443	47,940	205,668
1997	134,866	23,588	50,058	208,512
1998	138,292	25,463	51,639	215,394
1999	140,833	27,664	53,137	221,634
2000	143,591	35,482	54,396	233,469
2001	145,910	38,056	56,115	240,081
2002	147,294	40,404	57,597	245,295
2003	148,145	41,315	59,124	248,584
2004	147,751	41,269	61,125	250,145

Retirees and Beneficiaries – Changes in Rolls for All Systems
Last Ten Fiscal Years

		Additions		Deletions				
Year	Number at Beginning of Year	Number Added	Annual Allowances	Number Removed	Annual Allowances	Number at End of Year	% Change in Number of Retirees	% Change in Additions Allowances
1996	45,304	3,119	$37,681,571	1,677	$7,233,445	46,746	3.20%	(10.10)%
1997	46,746	3,456	42,581,075	1,643	7,829,006	48,559	3.90	13.00
1998	48,559	3,228	40,731,685	1,716	7,638,945	50,071	3.10	(4.30)
1999	50,071	3,328	41,833,222	1,756	9,151,705	51,643	3.10	2.70
2000	51,643	3,360	44,028,303	1,862	9,563,949	53,141	2.90	5.20
2001	53,141	3,112	44,919,587	1,951	10,020,387	54,302	2.20	2.00
2002	54,302	3,689	45,669,820	1,922	9,552,087	56,069	3.30	1.70
2003	56,069	3,585	48,718,476	2,116	10,942,002	57,538	2.60	6.70
2004	57,538	3,612	50,253,218	2,009	11,940,793	59,141	2.60	3.20
2005	59,141	4,141	59,096,917	2,017	12,333,238	61,265	3.60	17.60

Summary of Membership Data

Retiree and Beneficiary Member Valuation Data (1)

KPERS	12/31/04	12/31/03
Number	57,401	55,509
Average Benefit	$10,374	$10,042
Average Age	72.78	72.91
Police & Fire		
Number	3,558	3,456
Average Benefit	$21,912	$21,258
Average Age	61.60	61.20
Judges		
Number	166	159
Average Benefit	$31,416	$30,463
Average Age	73.70	73.30
System Total		
Number	61,125	59,124
Average Benefit	$11,103	$10,752
Average Age	72.13	72.23

Active Member Valuation Data (1)

KPERS	12/31/04	12/31/03
Number	140,779	141,401
Average Current Age	45.25	44.96
Average Service	10.84	10.59
Average Pay	$32,937	$32,111
Police & Fire		
Number	6,721	6,494
– Tier I	703	744
– Tier II	6,018	5,750
Average Current Age	38.90	38.80
Average Service	10.90	10.95
Average Pay	$51,014	$49,017
Judges		
Number	251	250
Average Current Age	55.51	55.10
Average Service	11.61	11.30
Average Pay	$88,761	$86,770
System Total		
Number	147,751	148,145
Average Current Age	44.98	44.71
Average Service	10.85	10.60
Average Pay	$33,854	$32,944

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

Efficient

Everything we do is to ***benefit*** our members

The Retirement System is considered hard-working and efficient among our peers. We spend approximately $29 per member to provide benefits, while our peers average $67 per member. While holding the line on costs, KPERS still matches the median for service.

Highlights of Operations

Ten-Year Summary

	2005	2004	2003	2002	2001
Membership Composition					
Number of Retirants (a)	61,125	59,124	57,597	56,115	54,396
New Retirants During the Fiscal Year	4,141	3,612	3,585	3,689	3,112
Active and Inactive Members (a)	189,020	189,460	187,698	183,966	179,073
Participating Employers	1,461	1,454	1,442	1,435	1,423
Financial Results (millions)					
Member Contributions	$233	$230	$225	$210	$204
Employer Contributions (g)	294	714	231	221	193
Retirement / Death Benefits	745	686	654	636	559
Investment Income (b)	1,223	1,336	326	(464)	(798)
Employer Contribution Rate (c)					
KPERS—State / School	5.47%	4.58%	4.98%	4.78%	3.98%
KPERS—Local (d)	4.01	3.22	3.67	3.52	2.77
KP&F (Uniform Participating) (d)	11.69	9.47	6.86	6.79	6.97
Judges	19.22	16.67	12.66	12.88	15.74
TIAA	0.60	—	2.27	2.03	1.21
Unfunded Actuarial Liability (millions)					
KPERS—State / School	$3,584	$2,734	$2,239	$1,506	$1,120
KPERS—Local	824	588	340	185	90
KP&F	313	249	232	59	62
Judges	22	15	17	10	10
TIAA (e)	—	—	—	20	23
Funding Ratios (f)					
KPERS—State / School	68.60%	74.07 %	75.64 %	82.46%	86.23%
KPERS—Local	67.30	73.69	81.71	89.12	94.29
KP&F	81.10	84.04	84.16	95.53	95.22
Judges	80.10	84.92	82.21	88.94	88.66
TIAA	—	—	—	48.32	41.18

a) Membership information taken from System's actuarial valuation.

b) Investment income for prior years has been adjusted to reflect changes in unrealized appreciation.

c) Rates include Group Life and Disability contributions where applicable. Per 2000 and 2001 legislation, employers were not required to remit the Group Life and Disability portion of the Actual Rate from April 1, 2000, through December 31, 2001. Per 2002 and 2003 legislation, employers were not required to remit the Group Life and Disability portion of the Actual Rate from July 1, 2002, through December 31, 2002, or from April 1, 2003, through June 30, 2004.

Highlights of Operations
Ten-Year Summary

	2000	1999	1998	1997	1996
Membership Composition					
Number of Retirants (a)	51,639	50,058	47,940	48,572	44,285
New Retirants During the Fiscal Year	3,360	3,328	3,228	3,456	3,119
Active and Inactive Members (a)	163,755	158,454	157,728	150,962	147,478
Participating Employers	1,415	1,407	1,397	1,371	1,344
Financial Results (millions)					
Member Contributions	$193	$185	$174	$171	$173
Employer Contributions (g)	185	202	167	156	143
Retirement / Death Benefits	506	473	429	397	364
Investment Income (b)	1,315	954	1,247	974	1,095
Employer Contribution Rate (c)					
KPERS—State / School	4.19%	3.99%	3.79%	3.59%	3.30%
KPERS—Local (d)	3.22	2.93	2.78	2.63	2.48
KP&F (Uniform Participating) (d)	7.35	7.36	9.45	9.73	9.65
Judges	14.38	15.67	15.67	16	10.35
TIAA	1.82	1.93	1.66	1.89	1.75
Unfunded Actuarial Liability (millions)					
KPERS—State / School	$860	$973	$1,142	$933	$1,014
KPERS—Local	36	76	104	131	121
KP&F	307	317	313	288	283
Judges	8	8	8	5	5
TIAA (e)	23	23	24	19	21
Funding Ratios (f)					
KPERS—State / School	88.82%	86.36%	83.03%	84.19%	81.48%
KPERS—Local	97.56	94.41	91.47	88.34	87.99
KP&F	79.68	77.28	75.62	74.77	72.81
Judges	90.53	89.42	88.21	91.21	90.15
TIAA	39.72	34.16	28.83	31.26	25.38

d) KPERS Local and KP&F contribution rates are reported on a calendar year basis.

e) Legislation provided for bonds to be issued December 31, 2002, to fully fund the existing unfunded liability for the TIAA group.

f) The funding percentage indicates the actuarial soundness of the System, generally, the greater the percentage, the stronger the System.

g) Pension obligation bonds for $440 million were issued in 2004.

Revenues by Source

	Contributions				Net	
Year	Member	Employer	Employer Insurance	Misc.	Net Investment Income	Total
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
2000	192,776,305	168,100,637	17,164,419	245,354	1,314,770,498	1,693,057,213
2001	204,142,810	193,384,289	(2)	175,815	(798,126,783)	(400,423,869)
2002	209,624,015	207,611,045	13,862,682	137,633	(463,746,959)	(32,511,584)
2003	224,746,447	222,882,765	8,581,558	82,257	326,056,643	782,349,670
2004	230,349,955	714,353,221 (3)	(2)	182,113	1,336,225,914	2,281,111,203
2005	233,226,034	261,961,687	31,990,734	178,105	1,223,096,121	1,750,452,681

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

2) Per 2000 and 2003 legislation, employers were not required to remit the Group Life and Disability Insurance portion of required employer contributions.

3) Pension obligation bonds for $440 million were issued in 2004.

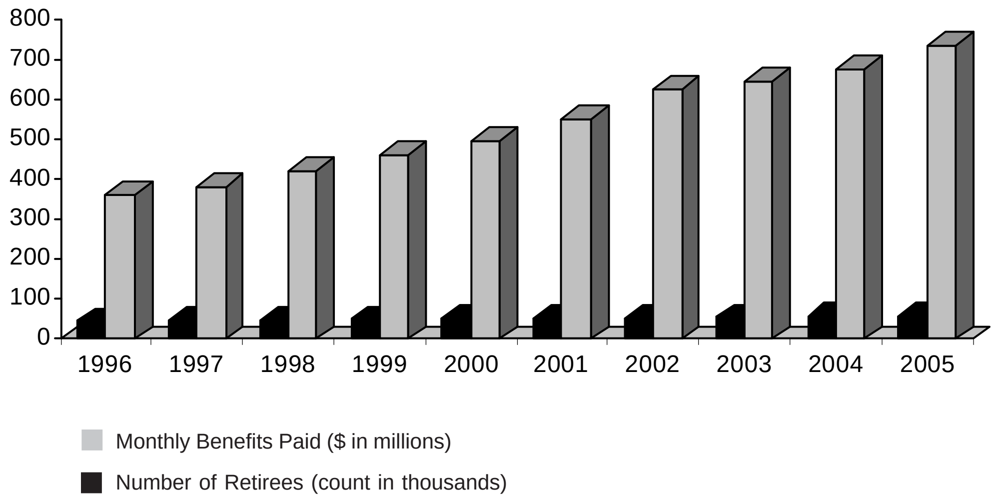
Expenses by Type

Year	Benefits	Withdrawals	Insurance	Administration	Total
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
2000	505,941,764	43,631,850	42,199,878	5,689,571	597,463,063
2001	558,901,552	43,967,623	46,456,603	6,843,434	656,169,212
2002	636,398,865	39,066,937	47,625,764	6,776,044	729,867,610
2003	653,542,143	39,608,946	53,829,235	7,215,024	754,195,348
2004	685,603,796	41,179,470	50,396,392	7,231,295	784,410,953
2005	745,413,160	46,773,933	53,703,109	7,340,147	853,230,349

Schedule of Benefits by Type

Fiscal Year	Retirement Benefits	Retirement Dividend	Death Benefits	Refunds of Contributions	Disability Insurance Premiums/ Benefits
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
2000	489,058,357	8,811,628	8,071,779	43,631,850	42,199,878
2001	542,389,577	8,284,487	8,227,488	43,967,623	46,456,603
2002	619,959,068	7,744,988	8,694,809	39,066,937	47,625,764
2003	638,498,630	7,217,449	7,826,064	39,608,946	53,829,235
2004	670,246,402	6,672,212	8,685,182	41,179,470	50,396,392
2005	731,389,840	6,173,436	7,849,884	46,773,933	53,703,109

Comparison of Benefits Paid to Retired Members



Schedule of Retired Members and Survivors by Type of Benefit

June 30, 2005

Monthly Benefit Amount	Number of Retirees	Retirement Type				Option Type Selected								
		1,3,5	2,4	6,8	7,9	1	2	3	4	5,8	6,7	9	0	Other
$ - 99	3,611	3,192	401	8	10	2,924	255	266	43	31	11	20	61	0
$100-199	5,465	3,412	1,972	62	19	3,980	660	520	96	79	55	24	51	0
$200-299	5,654	3,045	2,537	60	12	4,073	652	591	105	114	49	20	50	0
$300-399	5,371	2,993	2,299	53	26	3,756	590	660	102	138	42	26	56	1
$400-499	4,442	2,549	1,819	53	21	3,131	503	542	68	114	36	11	37	0
$500-599	3,849	2,377	1,429	32	11	2,663	436	486	55	127	8	36	38	0
$600-699	3,296	2,041	1,209	32	14	2,253	365	464	54	103	13	16	28	0
$700-799	2,874	1,822	1,002	33	17	1,939	353	370	50	119	8	13	22	0
$800-899	2,481	1,659	752	56	14	1,624	320	342	37	114	15	9	20	0
$900-999	2,181	1,578	528	54	21	1,369	327	311	35	105	9	8	17	
$1,000-1,499	8,792	7,442	1,041	213	96	5,265	1,396	1,281	103	591	72	30	54	0
$1,500-1,999	6,724	6,346	155	139	84	3,939	1,137	892	56	594	50	22	34	0
$2,000-2,499	3,593	3,469	39	52	33	2,090	688	371	29	377	13	17	8	0
$2,500-2,999	1,575	1,525	25	13	12	807	338	161	20	233	5	4	7	0
$3,000-3499	712	686	18	3	5	309	171	96	6	122	2	3	3	0
$3,500-3,999	323	320	2	1	0	142	69	35	3	73	0	0	1	0
$4,000 or More	322	315	7	0	0	119	77	42	3	80	0	0	1	0
Totals	**61,265**	**44,771**	**15,235**	**864**	**395**	**40,383**	**8,337**	**7,430**	**865**	**3,114**	**388**	**259**	**488**	**1**

Option Type Selected

Retirement Type

1 = Maximum, no survivor benefit

1, 3, 5 = Normal

2 = Joint & 1/2 to survivor

2,4 = Early

3 = Joint & same to survivor

6,8 = Service-connected death and disability

4 = Life w/ ten years certain

7,9 = Non-service connected death and disability

5, 8 = Joint & 3/4 to survivor

6,7 = Widowed, children, survivor

9 = Life w/five years certain

0 = Life w/15 years certain

Average Monthly Benefit by Years of Service
New Retirees by Calendar Year

Years of Service Credit	2000	2001	2002	2003	2004
Less than 5	150	189	191	196	238
Average Benefit	$84.08	$123.00	$178.38	$111.97	$155.64
Average Years	2.30	2.47	2.33	2.27	2.24
5-9.9	249	221	201	218	226
Average Benefit	$281.88	$222.53	$197.94	$230.30	$262.46
Average Years	7.01	7.08	7.16	6.88	6.79
10-14.99	559	521	557	556	589
Average Benefit	$423.63	$379.37	$451.20	$429.97	$408.74
Average Years	11.91	11.87	12.04	11.86	11.76
15-19.99	466	502	496	515	558
Average Benefit	$640.33	$608.25	$684.88	$669.08	$730.09
Average Years	16.87	16.96	16.93	16.89	16.86
20-24.99	431	435	454	432	498
Average Benefit	$917.57	$935.92	$952.70	$1,011.30	$1,013.59
Average Years	21.94	21.90	22.04	21.87	21.93
25-29.99	527	557	523	543	655
Average Benefit	$1,574.00	$1,478.75	$1,466.67	$1,515.03	$1,513.76
Average Years	27.08	27.18	27.05	27.14	26.95
30-34.99	633	671	703	667	735
Average Benefit	$1,960.00	$1,842.36	$1,918.15	$2,026.35	$1,965.64
Average Years	31.83	32.01	31.89	31.84	31.67
35-39.99	234	233	211	233	300
Average Benefit	$2,119.73	$2,038.41	$2,137.57	$2,278.46	$2,391.34
Average Years	36.71	36.44	36.69	36.66	36.37
40-44.99	73	75	68	66	61
Average Benefit	$2,350.35	$2,296.74	$2,221.94	$2,511.66	$2,298.83
Average Years	41.49	41.65	41.38	41.44	41.66
45-49.99	11	9	14	17	10
Average Benefit	$2,338.06	$2,103.47	$2,346.95	$2,129.79	$2,341.43
Average Years	46.18	45.67	46.21	46.24	46.80
50 and Over	—	—	7	4	9
Average Benefit	—	—	$2,805.10	$3,325.39	$2,328.75
Average Years	—	—	54.43	55.60	53.00
Total Number of Retirees	**3,333**	**3,413**	**3,425**	**3,447**	**3,879**
Average Benefit	**$1,133.32**	**$1,086.60**	**$1,129.21**	**$1,164.22**	**$1,182.66**
Average Years	**21.78**	**21.95**	**21.94**	**21.74**	**21.82**

Monthly Retiree Benefit Amounts as of June 2005

Benefit Amount	Number of Retirees
Over $4,000	322
$3,500-$3,999	323
$3,000-$3,499	712
$2,500-$2,999	1,575
$2,000-$2,499	3,593
$1,500-$1,999	6,724
$1,000-$1,499	8,792
$900-$999	2,181
$800-$899	2,481
$700-$799	2,874
$600-$699	3,296
$500-$599	3,849
$400-$499	4,442
$300-$399	5,371
$200-$299	5,654
$100-$199	5,465
$ - $ 99	3,611

Experienced

Everything we do is to ***benefit*** our members

People are a vital resource in any organization and KPERS is no exception. Our board members span the state geographically and bring with them different employment experiences, including agriculture, government, education, banking and finance, and private industry.

KPERS staff tenure averages almost ten years, demonstrating expertise in the retirement field after years of experience and commitment to the organization.

KPERS Staff

Melvin Abbott
Cathy Adams
Yohonna Barraud
Kristen Basso
Steve Beck
Dianna Berry
Harvey Best
Becky Betts
Anita Bradley
Leland Breedlove
Greg Buchanan
Kathleen Burns
Amy Cobos
Lorie Conklin
Tammy Cruz
Jim Darnall
Andrea Davenport
Oma Davis
Glenn Deck
Donald Deseck
Yolanda Dickinson
Jill Emme
Mitchell Fick
Renae Forque
Sue Gamblian
Connie Gardner
Kay Gleason
Darlene Glover
Mary Beth Green
Carolyn Haden
Earlene Hagenmeier
Kevin Hancock
Lisa Hernandez
Holly Harwood
Duane Herrmann
Arlene Hill
Denise Hilmes
John Hooker
Melva Janke
Casey Kidder
Cheryl Koch
Shannon Kuehler
Judy Lambert
Debra Lewis
Vivian Liu
Mandy Lowe
Joyce Mark
Priscilla Martinez
Laurie McKinnon
Judy McNeal
Janice Minger
Noble Morrell
Lisa Ngole
John Oliver
Scott Peppard
Diana Peters
Linda Porter
Pam Price
Joan Quattlebaum
Cathy Rafferty
Randy Rahberg
Kim Raines
Alberta Rea
Kelly Renfro
Teresa Ryan
MaryAnn Sachs
Marilyn Sawyer
Robert Schau
J. Alan Schuler
Jessica Schuman
Rhonda Shumway
Patricia Simecka
Bette Snoddy
Heidi Stepp
Kelly Szabo
Peter Szabo
Lise Ullery
Christina VanWinkle
Marsha Veal
Craig Weltman
Steven Wesley
Max Williams
Carol Wilson
Deanna Winters
Robert Woodard
Cheri Woolsey
Linda Wulfkuhle
Pat Zimmerman

Auditor	Berberich Trahan & Co., P.A., Topeka, Kansas
Actuary	Milliman USA, Omaha, Nebraska
Investment Consultants	Pension Consulting Alliance, Inc., Encino, California, Ennis Knupp, Chicago Illinois
Investment Managers	AEW Capital Management, L.P., Boston, Massachusetts Alliance Capital Management Corp., New York, New York Barclays Global Investors, San Francisco, California Capital Guardian Trust Company, Los Angeles, California Lazard Freres Asset Management, New York, New York Loomis, Sayles & Company, Inc., Boston, Massachusetts Morgan Stanley Asset Management, New York, New York Morgan Stanley Real Estate Advisor Inc., Atlanta, Georgia Nomura Capital Management, Inc., New York, New York Pacific Investment Management Company, Newport Beach, California Pareto Partners, New York, New York Payden & Rygel Investment Counsel, Los Angeles, California Portfolio Advisors, LLC, Darien, Connecticut Wellington Management Company, LLP, Boston Massachusetts Western Asset Management Company, Pasadena, California
Investment Custodian	Mellon Trust of New England, Everett, Massachusetts
Life Insurance Administrator	Minnesota Life Insurance Company, St. Paul, Minnesota
Long-Term Disability Administrator	Self Insured, Administered by Disability Consulting Group LLC, Portland, Maine

Comprehensive Annual Financial Report

Kansas Public Employees Retirement System
A component unit of the State of Kansas

Fiscal Year Ended Jun 30, 2005

Toll free (888) 275-5737

In Topeka (785) 296-6166

611 S. Kansas Ave., Suite 100

Topeka, KS 66603-3803

kpers@kpers.org

www.kpers.org