# **FOCUS** ON THE FUTURE

2014 Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2014

KPERS

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

# 2014 COMPREHENSIVE ANNUAL FINANCIAL REPORT

Kansas Public Employees Retirement System
A component unit of the State of Kansas
Fiscal year ended June 30, 2014

Prepared by KPERS staff
611 S. Kansas Ave., Ste 100
Topeka, KS 66603-3869

Alan D. Conroy, Executive Director
Judy McNeal, Acting Chief Fiscal Officer

KPERS, in its fiduciary capacity, exists to deliver retirement, disability and survivor benefits to its members and their beneficiaries.

# **our** mission

# TABLE OF CONTENTS

**Death and Disability Plan**



## STATISTICAL SECTION

# **introductory** section

# TRANSMITTAL LETTER

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

December 5, 2014

We are pleased to present the Kansas Public Employees Retirement System's (KPERS) Comprehensive Annual Financial Report (CAFR) for Fiscal Year 2014. In addition to informing the Board of Trustees, members and employers, our annual report fulfills KPERS' reporting responsibilities as defined in Kansas statute. Printed copies are readily available to the public and a full version is posted on our web site, www.kpers.org.

As the first item in the CAFR, this transmittal letter provides a high-level overview of the Retirement System. The Management's Discussion and Analysis section provides a narrative introduction and analysis of our financial activities over the past fiscal year. This letter is intended to complement the Management's Discussion and Analysis, and they should be read together.

**ENSURING ACCURACY**

Responsibility for the preparation, accuracy and completeness of this report, including all disclosures, rests firmly with KPERS' management. Information is presented in accordance with generally accepted accounting principles. To the best of our knowledge, the included data is accurate in all material respects and fairly presents our financial position and operating results.

The Retirement System maintains a framework of internal controls to establish reasonable assurance that assets are safeguarded, transactions are completed accurately and financial statements are fair and reliable. We also have an internal audit program that reports to the Board of Trustees. There are inherent limitations to internal controls, and risk cannot always be foreseen or completely eliminated. KPERS' objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements, since the cost of internal control should not exceed the benefits obtained. In addition to internal controls, the independent certified public accounting firm CliftonLarsenAllen LLP conducted an independent audit of the Retirement System's financial statements for 2014.

**OUR PROFILE**

The Kansas Legislature created the Kansas Public Employees Retirement System in 1962 to secure a financial foundation for those spending their careers in Kansas public service. The Retirement System provides disability and death benefits while employees are still working, and a dependable pension benefit when they retire.

We are a state-wide defined benefit retirement plan containing three different groups:

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

Retirement System benefits are offered by about 1,500 state and local employers. KPERS has almost 290,000 members, including active, inactive and retired members. The Retirement System paid over $1.4 billion in all benefit payments for Fiscal Year 2014. Approximately 85 to 90 percent of those benefits remained in Kansas.

Along with the defined benefit plan, KPERS also oversees Tandem, a voluntary 457(b) deferred compensation plan for State of Kansas employees. In addition, 256 local public employers also participate. The plan has over 24,600 total and about 13,700 actively contributing participants. Total Tandem plan assets equaled almost $1 billion at the end of Fiscal Year 2014.

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.

The Board 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.

**INVESTMENTS**

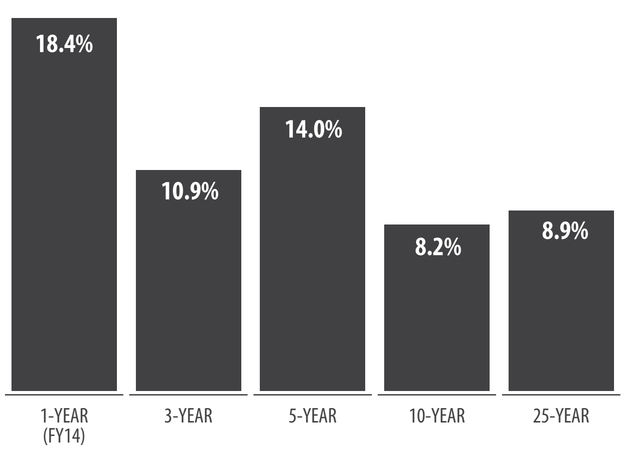
KPERS assets are invested according to the "prudent expert standard of care" for the sole purpose of providing benefits to members and beneficiaries. We have designed our investment strategy to withstand short-term market volatility and economic downturns, as well as to benefit from strong market and economic environments.

Over time, solid investment performance is an important component to sound funding. Our actuarial projections assume an average, long-term net investment return of 8 percent. In some years returns will be below that rate, and in other years returns will exceed it. As of June 30, 2014, KPERS' 25-year investment return average was 8.9 percent, exceeding the 8 percent target.

KPERS' well-diversified portfolio produced a very strong total return of 18.4 percent in Fiscal Year 2014, as the System's investments in both public and private equity assets produced returns above 20 percent. The 18.4 percent return outperformed the KPERS Policy Index by 0.6 percent for the Fiscal Year. While the strongest returns were contributed by domestic equity, international equity, and private equity, the System's yield driven and real estate assets also produced double digit returns for the Fiscal Year.

KPERS TOTAL RETURNS OVER TIME

*Fiscal Year as of 6/30/14*




The Retirement System's investment portfolio ended the Fiscal Year at $16.4 billion in assets.

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 54. This section also provides details about our asset allocation and a general overview of each asset class.

**FINANCIAL POSITION AND FUNDING OUTLOOK**

For more than a decade, KPERS has been facing a long-term funding shortfall, significantly affected by inadequate employer contribution rates and two significant recessions.

However, the Retirement System's most recent actuarial valuation reflects funding improvement for all membership groups. While the improvement is somewhat modest, the System's long-term funding is headed in the right direction.

According to the December 31, 2013, actuarial valuation, the System's unfunded actuarial liability (UAL) decreased by nearly $500 million to $9.77 billion. This UAL amount is the gap between the actuarial value of assets and the actuarial liability for service already earned by public employees. The UAL was previously $10.25 billion as of December 31, 2012. The Retirement System's UAL is projected to hold fairly steady for several years until we see the results of KPERS employer contribution rates catching up with the actuarially required rates. The UAL decreased this year due in large part to positive investment returns, but also increased employer and employee contributions. There are $1.2 billion in net deferred investment gains still to be recognized over the next five years due to the actuarial smoothing methodology.

The valuation also showed the System's new funded ratio was 60 percent, up from 56 percent the previous year. The funded ratio is the ratio of assets to future liabilities. For public pension plans like KPERS, funding over 80 percent and rising is good. Funding below 60 percent is poor and needs prompt attention. While the System does not have an immediate crisis, long-term funding requires ongoing, careful oversight. Continued funding improvement hinges on meeting our 8 percent investment target over time, continuing with critical employer contribution increases and implementing the new KPERS 3 cash balance plan.

Employer contribution increases were just one part of long-term funding legislation passed in 2012 and further refined in 2013 by the Kansas Legislature.

- Employer contribution increases, the most significant part of the legislation
- Current member contribution increases
- A new KPERS 3 cash balance retirement plan for new hires beginning January 2015.

These changes are a meaningful step toward making the Retirement System more sustainable and helping to pay promised benefits long-term. With continued strong investment returns and the positive effects of legislation, KPERS is on a path to financial soundness. Projections show the unfunded actuarial liability will be paid off in 2033 as scheduled.

It is important to remember that to meet these projections, long-term investment returns are crucial. Over the next decade, strong market environments can continue to help with positive investment returns. However, the System may also be vulnerable to any future economic downturns that could cause returns to decline.

For detailed information on the System's funding projections by plan and group, please see the actuarial section beginning on page 68.

**MAJOR INITIATIVES AND ACCOMPLISHMENTS**

### FUSION

KPERS staff continued with the three-year implementation plan for 2012 legislation House Bill 2333. FUSION is having a significant effect on KPERS' information system, our business processes and staff, and on employers. FUSION includes three main projects—KPERS 1 and KPERS 2 member benefit changes, adding a new KPERS 3 cash balance plan and moving employers to pay period reporting from the current annual reporting process. We successfully implemented KPERS 1 and KPERS 2 contribution and benefit changes January 2014. KPERS 3 and employer pay period reporting are on target to implement January 2015.

### Upgraded Security for Employer and Member Web Portals

Members and employers can login to access account information and complete KPERS business online. In the continuing effort to protect member information, KPERS further strengthened security for both the member and employer web portals with a new enrollment and login security package. The implementation required a reset of all portal access accounts and users reenrolled using the upgraded process. KPERS also launched a redesign of our public website, www.kpers.org.

### Optional Group Life Insurance Spousal Coverage

Beyond retirement benefits, KPERS also provides life insurance to help members protect their income while they are still working. Members have Basic Life Insurance paid for by their employer and some employers offer Optional Life Insurance as an additional benefit. Members pay the cost of this optional coverage. During Fiscal Year 2014, KPERS added spousal coverage as part of the optional insurance. We added a new open enrollment period and will continue to hold one annually.

### Tandem Service Provider Request for Proposal

After an extensive RFP process, KPERS selected Great-West Financial to become the new service provider for Tandem, the State's 457(b) deferred compensation plan administered by KPERS. Great-West will provide plan administration, record keeping, education and communication beginning January 2015.

### Governmental Accounting Standards Board

In June 2012, the Governmental Accounting Standards Board (GASB) approved Statement No. 67, Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25. This statement is effective for fiscal years beginning after June 15, 2013. The provisions of this statement were implemented by the System for fiscal year 2014. This Statement replaces Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans (implemented in fiscal year 1997) and Statement No. 50, Pension Disclosures – An Amendment of GASB Statements No. 25 and No. 27 (implemented fiscal year 2008).

**BY THE NUMBERS—IN FY 2014:**

- About 1,000,000 retirement benefit payments totaling more than $1.4 billion
- 5,510 pension inceptions
- 44,400 beneficiary designations
- $19.3 million in life insurance benefits
- 27,800 member enrollments and transfers
- 9,000 withdrawals totaling $48 million
- $23 million in benefits to 2,700 disabled employees
- 97,000 incoming calls with an average wait time of 9 seconds
- 16,700 e-mail requests

**AWARDS & ACKNOWLEDGMENTS**

KPERS participated in a benchmarking survey conducted by CEM Benchmarking, Inc. When compared with other public pensions in the 2013 survey, KPERS earned an overall service score of 81, the same score as the peer median. In addition, we measured very favorably with regard to cost. KPERS' administrative cost per member is $39, less than half the peer median cost of $80. Benchmarking results continue to show KPERS is delivering good customer service for a low, economical cost.

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 2013 CAFR. 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 governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which must conform to program standards. The comprehensive annual financial report must satisfy both generally accepted accounting principles and applicable legal requirements. A

Certificate of Achievement is valid for a period of one year only. The Retirement System has received the Certificate of Achievement for each of the last 20 consecutive fiscal years. We believe our current report again conforms to the program requirements, and we will submit it to the GFOA to determine its eligibility for another certificate.

In addition to the GFOA certificate, KPERS also earned the Public Pension Standards Award for Funding and Administration in 2014 from the Public Pension Coordinating Council (PPCC). The standards serve as a benchmark by which to measure public defined benefit plans in the areas of benefits, actuarial valuation, independent audit, investments, communications and long-term funding.

As in years past, this CAFR is the synthesis of work from KPERS staff and advisors under the Board's leadership. The report is an asset to our organization, providing reliable, accurate information on which we base important decisions. We thank those who contributed to this project. And more generally, we thank our dedicated staff whose work this report represents. We look forward to working in partnership with the Board and staff to continue to honor our fiduciary commitment and to provide members with the service they need to get the most from their benefits.

Sincerely,

Alan D. Conroy

Alan D. Conroy,
Executive Director

Judy McNeal

Judy McNeal
Acting Chief Fiscal Officer

# BOARD OF TRUSTEES



# OUR ORGANIZATION

**BOARD OF TRUSTEES**

**EXECUTIVE DIRECTOR, ALAN CONROY**

**ADMINISTRATION**
General Counsel, Laurie McKinnon
Internal Audit, Alberta Rae
Planning and Research, Faith Loretto
Human Resources, Julie Baker
Communications, Kristen Basso

**INVESTMENTS**
Chief Investment Officer, Elizabeth B.A. Miller
- Public Markets: Equity; Fixed Income
- Private Markets: Private Equity; Real Estate

**FISCAL SERVICES**
Acting Chief Fiscal Officer, Judy McNeal
- Corporate Accounting
- Employer Reporting
- Investment Accounting
- Employer Auditing

**BENEFITS AND MEMBER SERVICES**
Member Services Officer, Mary Beth Green
- Post-Retirement
- Benefits
- Withdrawals

**INFORMATION TECHNOLOGY**
Chief Information Officer, Mike Branam
- Data Control
- Operations

# KPERS STAFF

Melvin Abbott
Mitchell Allen
Crystie Amaro
Michael Arvidson Jr
Julie Baker
Matthew Ball
Yohonna Barraud
Jeremy Barton
Kristen Basso
Julia Baughman
Tyler Bean
Dianna Berry
A. Kathleen Billings
Jenna Blood
Anita Bradley
Michael Branam
Jeanette Branam
Sarah Branam
Terry Brookhouser
Craig Callahan
Russell Canaday
George Clark
Alan Conroy
Tammy Cruz
Andrea Davenport
Don Deseck
Yolanda Dickinson
Amy Dunton
Joyce Edington
Jill Emme
Yarlenis Ensley
Daniel Fairbank
Katrina Fama
Mitchell Fick
Bruce Fink
Renae Forque
Jeff Franczak
Elaine Gaer
Yong (Sue) Gamblian
Connie Gardner
Nicholas Gawdun
Billie-Jo Gerisch
Michael Gilliland
Kay Gleason
Lisa Gonzales
Mary Beth Green
Alec Hawley
Joseph Haverkamp
Elizabeth (Lisa) Hernandez
Rachel Hmamouch
John Hooker
Mirel Howard
Ellen Hurless
Emily Hurt
Reshma Jacob
Melva Janke
Teresa Jurgens
Melissa Keller
Casey Kidder
Brenda Kindle
Diana Komarek
Shannon Kuehler
Annette Kuti
Debra Lewis
Faith Loretto
Joyce Mark
Heather McHardie
Laurie McKinnon
Jason McKinzie
Jessica Wendt
Judy McNeal
Elizabeth Miller
Stephanie Moore
Noble Morrell
Lisa Ngole
Shawn Nix
Michael Ogle
Carollyne (Carrie) Pare
Diana Peters
Alissa Powell
Sarah Putman
Teresa Quick
Justin Quick
Jami Quiett
Cathy Rafferty
Kimberley Raines
Stacey Randles
Alberta Rea
Norm Remp
Dean Roney
Jamie Rose
Rika Rowe
Teresa Ryan
Sogand Sabahfar
MaryAnn Sachs
John (Alan) Schuler
Rhonda Shumway
Julie Smith
Zachary Smith
Marsha Stafford
Jaime Sturgeon
Raquel Talavera
Amber Tarrant
Carmen Torres
Jessica Tufts
Jackie VandeVelde
Christina VanWinkle
Daniel Wadsworth
Jarod Waltner
Michaela Watson
Christine Whitlow
Amy Whitmer
Alice Wietharn
Eric Wigginton
Marlin (Max) Williams
Carol Wilson
Deanna Winters

# CONSULTANTS AND ADVISORS

**Auditors:** CliftonLarsenAllen LLP, Greenwood Village, CO

**Actuary:** Cavanaugh Macdonald, Englewood, CO

**Accounting:** KPMG LLP, Chicago, IL

# INVESTMENT CONSULTANTS

LP Capital Advisors, Sacramento, CA
Pension Consulting Alliance, Inc., Encino, CA
The Townsend Group, Cleveland, OH

# INVESTMENT MANAGERS

AEW Capital Management, LP, Boston, MA
Advisory Research Inc., St. Louis, MO
Baillie Gifford Overseas Limited, Edinburgh, Scotland
Barings Asset Management Limited, London, UK
Blackrock Institutional Trust Company, San Francisco, CA
Brookfield Asset Management, Coral Gables, FL
CenterSquare Investment Management, Plymouth Meeting, PA
Franklin Templeton Institutional, San Mateo, CA
Guggenheim Investments, Topeka, KS
JP Morgan Investment Management Inc., New York, NY
Lazard Asset Management, LLC, New York, NY
Loomis Sayles & Company, LP, Boston, MA
MacKay Shields LLC, New York, NY
Mellon Capital Management Corporation, San Francisco, CA
Molpus Timber Investment, Jackson, MS
Morgan Stanley Asset Management, Inc., New York, NY
Pacific Investment Management Company, Newport Beach, CA
Pareto Partners, New York, NY
Payden & Rygel Investment Counsel, Los Angeles, CA
Russell Investment Group, Tacoma, WA
State Street Global Advisors, Boston, MA
Systematic Financial Management LP, Teaneck, NJ
T Rowe Price Associates, Inc., Baltimore, MD
Voya Investment Management, New York, NY
Western Asset Management Company, Pasadena, CA

**Investment Custodian:** Bank of New York Mellon, Everett, MA

**Life Insurance:** Minnesota Life Insurance Company, St. Paul, MN

**Long-Term Disability:** Self Insured, United HealthCare Specialty Benefits, LLC, South Portland, ME

# GFOA CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to KPERS for the 2013 annual report. KPERS has received the award for each of the last 20 consecutive fiscal years.

Government Finance Officers Association

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, 2013**

Executive Director/CEO

# PPCC PUBLIC PENSIONS STANDARDS AWARD

The Public Pension Coordinting Council (PPCC) awarded the Public Pension Standards Award for Funding and Adminstration to KPERS for 2014.

PPCC

Public Pension Coordinating Council

## *Public Pension Standards Award For Funding and Administration 2014*

Presented to

## *Kansas Public Employees Retirement System*

In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.

*Presented by the Public Pension Coordinating Council, a confederation of*

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle
Program Administrator

# financial section

CliftonLarsonAllen

## INDEPENDENT AUDITORS' REPORT

Board of Trustees
Kansas Public Employees Retirement System
Topeka, Kansas

**Report on the Financial Statements**
We have audited the accompanying financial statements of the Kansas Public Employees Retirement System (the System) which comprise the statements of fiduciary net position and changes in fiduciary net position, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***
Our responsibility is to express an opinion on these 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of changes in the retirement system's net pension liability, the schedule of the retirement system's net pension liability, the schedule of retirement system's contributions, the schedule of investment returns, the schedule of employer contributions death and disability, the schedule of funding progress death and disability as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Introductory, Investment, Actuarial and Statistical sections, as listed in the table of contents, have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2014, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering System's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

Denver, Colorado
December 5, 2014

# MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's discussion and analysis of the Kansas Public Employees Retirement System's financial performance during the fiscal year that ended June 30, 2014. 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 (KPERS)
- Kansas Police and Firemen's Retirement System (KP&F)
- Kansas Retirement System for Judges (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. Participation by local political subdivisions is optional but irrevocable once elected.

**FINANCIAL HIGHLIGHTS**

- The System's net position increased by $2.2 billion or approximately 8.3 percent to $16.6 billion as of June 30, 2014, compared to an increase of $1.3 billion or approximately 10.0 percent, from $13.1 billion to $14.4 billion as of June 30, 2013.

- The June 30, 2014 financial actuarial valuation calculated a total pension liability at June 30, 2014, of $24.8 billion and the net pension liability at June 30, 2014, of $8.3 billion.

- As of December 31, 2013, the most recent funding actuarial valuation, the unfunded actuarial liability decreased to $9.8 billion from $10.3 billion from the prior year.

- As of December 31, 2013, the most recent funding actuarial valuation, the Retirement System's funded ratio was 59.9 percent compared with a funded ratio of 56.4 percent for the prior year.

- On a market value basis, this year's money weighted net investment rate of return was a positive 18.1 percent, compared with last year's return of a positive 13.9 percent.

- Retirement benefits paid to retirees and beneficiaries increased 6.7 percent to approximately $1.37 billion for fiscal year 2014, compared to an increase of 4.2 percent from $1.24 billion in fiscal year 2012 to $1.29 billion in fiscal year 2013.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

- Basic financial statements
- Notes to the basic financial statements
- Required supplementary information
- Other supplementary schedules

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

**BASIC FINANCIAL STATEMENTS**

A Statement of Fiduciary Net Position as of June 30, 2014, and a Statement of Changes in Fiduciary Net Position for the fiscal year ended June 30, 2014, are presented in this report. These financial statements reflect the resources available to pay benefits to retirees and other beneficiaries.

**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 in the paragraphs that follow.

**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, and the method used to value investments. It also provides summary information on receivables, capital assets, use of estimates and new accounting pronouncements.

**Note 3** provides a summary of cash and investments and investment risk categorizations.

**Note 4** provides information about investment derivatives, futures, options, swaps, TBA agency bonds, and foreign currency forwards.

**Note 5** describes the System's securities lending program.

**Note 6** provides 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 7** provides information on the net pension liability of participating employers, including the actuarial assumptions and discount rate used to determine the liability.

**Note 8** provides historical information on the pension obligation bonds issued by the system.

**Note 9** provides information about other post-employment benefits that the System administers. The Governmental Accounting Standards Board issued GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, which was effective for periods beginning after December 15, 2005. The KPERS Death and Disability Plan covers current active members of the System and terminates at retirement. As part of the reporting requirements declared by this statement, the financial status and activity of the KPERS Death and Disability Plan are displayed separately in the Statement of Net Assets and the Statement of Changes in Plan Net Assets. Required supplemental schedules display the funded status and funding progress of the plan, and the significant methods and assumptions used. As noted in the funding status schedules, the KPERS group insurance reserve fund is 7.1 percent funded as of June 30, 2012, the last date of the actuarial valuation of the Death and Disability Plan.

**Note 10** describes System capital expenditure commitments to real estate and alternative investments. This section also generally describes potential System contingencies.

**Note 11** provides the dates through which subsequent events have been evaluated and when the financial statements were available to be issued.

### REQUIRED SUPPLEMENTARY INFORMATION

The required supplementary information consists of schedules and related notes concerning the financial status of the Retirement System (Pension Plan) and other post-employment benefits (Death and Disability).

### 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, 2014, amounted to $16.6 billion. Following are two summary schedules, Fiduciary Net Position and Changes in Fiduciary Net Position, showing information for fiscal years 2014 and 2013.

## SUMMARY STATEMENT OF FIDUCIARY NET POSITION

| | As of June 30, 2014 | As of June 30, 2013 |
|---|---|---|
| **Assets** | | |
| Cash and Deposits | $ 1,665,324 | $ 1,253,020 |
| Receivables | 2,400,706,779 | 3,003,859,154 |
| Investments at Fair Value | 16,532,360,254 | 14,505,731,128 |
| Invested Securities Lending Collateral | 1,794,435,246 | 1,639,377,142 |
| Capital Assets and Supplies Inventory | 2,286,058 | 2,109,776 |
| Total Assets | 20,731,453,661 | 19,152,330,220 |
| **Liabilities** | | |
| Administrative Costs | 1,387,667 | 1,057,498 |
| Benefits Payable | 6,252,579 | 5,337,106 |
| Investments Purchased | 2,351,183,713 | 3,082,762,464 |
| Securities Lending Collateral | 1,796,968,793 | 1,647,884,065 |
| Total Liabilites | 4,155,792,752 | 4,737,041,133 |
| **Net Position** | $ 16,575,660,909 | $ 14,415,289,087 |

## SUMMARY STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

| | Year Ended June 30, 2014 | Year Ended June 30, 2013 |
|---|---|---|
| **Additions** | | |
| Contributions | $ 1,098,071,693 | $ 973,448,423 |
| Net Investment Income Other than Securities Lending | 2,548,244,327 | 1,741,282,941 |
| Net Investment Income from Securities Lending Activity | 5,609,581 | 5,968,509 |
| Total Net Investment Income | 2,553,853,908 | 1,747,251,450 |
| Other Miscellaneous Income | 244,459 | 537,741 |
| Total Additions | 3,652,170,060 | 2,721,237,614 |
| **Deductions** | | |
| Monthly Retirement Benefits | 1,366,173,782 | 1,288,986,517 |
| Refunds | 56,970,769 | 53,899,831 |
| Death Benefits | 9,702,485 | 9,458,321 |
| Insurance Premiums and Disability Benefits | 48,865,630 | 48,557,812 |
| Administrative | 10,085,572 | 10,857,897 |
| Total Deductions | 1,491,798,238 | 1,411,760,378 |
| Net Increase | 2,160,371,822 | 1,309,477,236 |
| Net Position Beginning of Year | 14,415,289,087 | 13,105,811,851 |
| Net Position End of Year | $ 16,575,660,909 | $ 14,415,289,087 |

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 were approximately $1.1 billion in fiscal year 2014, compared to $973 million in fiscal year 2013.

The System recognized a net investment income (excluding securities lending) of $2.6 billion for fiscal year 2014. Total time weighted return for the portfolio net of fees, was 18.1 percent, compared with the benchmark return of 17.5. System net investments amounted to $16.5 billion at June 30, 2014. The Retirement System's time-weighted one-, three-, five-, ten-, and estimated 25-year investment performance return net of fees are shown in the following table. The actuarial assumed rate of return is 8.0 percent.

2014

| 1 Year | Last 3 Years | Last 5 Years | Last 10 Years | Last 25 Years* |
|---|---|---|---|---|
| 18.1% | 10.7% | 13.7% | 7.9% | 8.6% |

*estimated

The System recognized a net investment income of $1.7 billion for the 2013 fiscal year, compared with net income of $89.1 million for the 2012 fiscal year. System net investments amounted to $14.4 billion at June 30, 2013, which was $1.3 billion more than the $13.1 billion in total System investments at June 30, 2012.

At June 30, 2014, the System held $9.8 billion in U.S. equity and international equity securities. U.S. equity and international equity securities earned returns of approximately 25.0 percent and 21.7 percent, respectively, for the 2014 fiscal year. These compare with the RetirementSystem's benchmark returns of 25.2 and 21.8 percent, respectively.

At June 30, 2013, the System held $8.8 billion in U.S. equity and international equity securities, which is $1.1 billion greater than 2012 fiscal year-end. U.S. equity and international equity securities earned returns of approximately 22.0 percent and 16.1 percent, respectively, for the 2013 fiscal year. These compare with the Retirement System's benchmark returns of 21.5 and 13.6 percent, respectively.

The System held $4.5 billion in U.S. debt and international debt securities at June 30, 2014. The performance of the System's fixed income securities during fiscal year 2014 was 5.6 percent, compared with the benchmark of 5.2 percent. Real estate investments were unchanged at $1.4 billion at June 30, 2014 and returned approximately 14.9 percent for the 2014 fiscal year, versus the benchmark real estate return of 10.6 percent. The System held $478.3 million in alternative investments which earned a return of approximately 22.6 percent for the 2014 fiscal year, compared to the benchmark alternative investment return of 28.2 percent. At June 30, 2014, the System held $343.3 million in short-term investments.

The System held $3.7 billion in U.S. debt and international debt securities at June 30, 2013. The performance of the System's fixed income securities during fiscal year 2013 was 2.7 percent, compared with the benchmark of 0.2 percent. Real estate investments increased $274.1 million to $1.4 billion by June 30, 2013. Real estate investments returned approximately 12.8 percent for the 2013 fiscal year, versus the benchmark real estate return of 12.8 percent. The System held $373.6 million in alternative investments. Alternative investments earned a return of approximately 12.9 percent for the 2013 fiscal year, compared to the benchmark alternative investment return of 24.5 percent. At June 30, 2013, the System held $275.8 million in short- term investments.

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 2014, net securities lending income amounted to $5.6 million, compared with income of $6.0 million for fiscal year 2013.

Deductions from net assets held in trust for benefits include retirement, death and insurance and survivor benefits, and administrative expenses. For the 2014 fiscal year, retirement, death and insurance benefits amounted to approximately $1.5 billion, an increase of $0.1 billion or 7.1 percent from fiscal year 2013. For the 2014 fiscal year, System administrative expenses amounted to $10.0 million, a decrease of $0.9 million from fiscal year 2013. The ratio of System administrative expenses to the number of members continues to be very cost-efficient compared to other statewide retirement plans.

**PENSION VALUATION**

Due to the requirements of Governmental Accounting Standards Board (GASB) Statements 67 and 68, KPERS had separate actuarial valuations performed for funding purposes and financial reporting.

The financial actuarial valuation for the System, required by GASB 67, as of June 30, 2014, emphasizes the obligation an employer incurs to employees through the employment-exchange process. The objective of this statement is to improve the decision-usefulness of reported pension information and to increase the transparency, consistency, and comparability of pension information across governments. GASB Statement 67 established the definitions of Total Pension Liability and Net Pension Liability. Total Pension Liability (TPL) is the portion of the actuarial present value of projected benefit payments that is attributed to past periods of plan member service. Net Pension Liability (NPL) is the Total Pension Liability, net of the pension plan's fiduciary net position.

The funding actuarial valuation performed as of December 31, 2013, is for purposes of providing information to guide the decisions made by the legislature and the governor concerning the funding of the System, establishing contribution rates, and analyzing the System's long-term viability. Under the new pension standards, the System's funded status from this valuation is no longer presented in the footnotes or required supplementary information. This information is presented in the Actuarial section of this report.

**RETIREMENT FUNDING STATUS**

In response to KPERS' long-term funding shortfall, the 2012 Legislature made changes to future benefits and contributions, affecting both current members and employers, to improve KPERS long-term sustainability. The Governor signed Senate Substitute for HB 2333 into law on June 1, 2012. This legislation affects new hires, current members and employers. Beginning in 2014, the cap on employer contributions has been increased from 0.6% to 0.9% in fiscal year 2014, 1.0% in fiscal year 2015, 1.1% in fiscal year 2016 and 1.2% in fiscal year 2017 and beyond. The changes are expected to improve KPERS long-term funding and help all three groups reach full funding by 2033. The actual funding progress will be heavily dependent on the actual investment experience of the System in future years.

The legislature and the governor are ultimately responsible for benefits and funding. As a fiduciary devoted to the best financial interest of members, KPERS will continue to advocate for policies that promote the long-term financial health of the Retirement System.

This financial report is designed to provide a general overview of the Kansas Public Employees Retirement Systems' finances for all interested parties. An electronic copy of this report is available at the System's website www.kpers.org. Requests for a printed copy of this report should be directed to the System as follows:

Kansas Public Employees Retirement System
611 S. Kansas Ave., Suite 100
Topeka, KS 66603-3869
1-888-275-5737

# STATEMENT OF FIDUCIARY NET POSITION

*As of June 30, 2014*

| | Pension Plan | Group Death & Disability Benefits | Total |
|---|---|---|---|
| **Assets** | | | |
| Cash | $ 662,631 | $ 1,002,693 | $ 1,665,324 |
| Receivables | | | |
| Contributions | 118,141,957 | 8,521,323 | 126,663,280 |
| Investment Income | 39,013,168 | 1,373 | 39,014,541 |
| Sale of Investment Securities | 2,235,028,958 | — | 2,235,028,958 |
| Total Receivables | 2,392,184,083 | 8,522,696 | 2,400,706,779 |
| Investments at Fair Value: | | | |
| Domestic Equities | 5,542,137,715 | — | 5,542,137,715 |
| International Equities | 4,236,268,494 | — | 4,236,268,494 |
| Short-Term Investments | 308,600,540 | 34,690,657 | 343,291,197 |
| Fixed Income | 4,506,405,305 | — | 4,506,405,305 |
| Alternative Investments | 478,289,054 | — | 478,289,054 |
| Real Estate | 1,425,968,489 | — | 1,425,968,489 |
| Total Investments | 16,497,669,597 | 34,690,657 | 16,532,360,254 |
| Invested Securities Lending Collateral | 1,794,435,246 | — | 1,794,435,246 |
| Capital Assets (Net of Accumulated Depreciation) and Supplies Inventory | 2,286,058 | — | 2,286,058 |
| **Total Assets** | 20,687,237,615 | 44,216,046 | 20,731,453,661 |
| **Liabilities** | | | |
| Administrative Costs Payable | 1,387,667 | — | 1,387,667 |
| Benefits Payable | 1,835,812 | 4,416,767 | 6,252,579 |
| Securities Purchased | 2,351,183,713 | — | 2,351,183,713 |
| Securities Lending Collateral | 1,796,968,793 | — | 1,796,968,793 |
| **Total Liabilities** | 4,151,375,985 | 4,416,767 | 4,155,792,752 |
| **Net Position Restricted For Pension Benefits** | $16,535,861,630 | $39,799,279 | $16,575,660,909 |

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

## STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

*For Year Ended June 30, 2014*

| | Pension Plan | Group Death & Disability Benefits | Total |
|---|---|---|---|
| **Additions** | | | |
| Contributions: | | | |
| Member Contributions | $ 338,498,638 | $ — | $ 338,498,638 |
| Employer Contributions | 701,818,160 | 57,754,895 | 759,573,055 |
| Total Contributions | 1,040,316,798 | 57,754,895 | 1,098,071,693 |
| **Investments/Income:** | | | |
| Net Appreciation in Fair Value of Investments | 2,267,287,461 | — | 2,267,287,461 |
| Interest | 104,382,643 | 11,276 | 104,393,919 |
| Dividends | 165,226,153 | — | 165,226,153 |
| Real Estate Income, Net of Operating Expenses | 62,989,928 | — | 62,989,928 |
| | 2,599,886,185 | 11,276 | 2,599,897,461 |
| Less Investment Expense | (51,653,134) | — | (51,653,134) |
| **Net Investment Income,Other Than From Securities Lending** | 2,548,233,051 | 11,276 | 2,548,244,327 |
| From Securities Lending Activities: | | | |
| Securities Lending Income | 5,255,071 | — | 5,255,071 |
| Securities Lending Rebate Income Net of Expense | 354,510 | — | 354,510 |
| Net Income from Securities Lending Activities | 5,609,581 | — | 5,609,581 |
| Net Investment Income | 2,553,842,632 | 11,276 | 2,553,853,908 |
| **Other Miscellaneous Income** | 241,743 | 2,716 | 244,459 |
| **Total Additions** | 3,594,401,173 | 57,768,887 | 3,652,170,060 |
| **Deductions** | | | |
| Monthly Retirement Benefits Paid | 1,366,173,782 | — | 1,366,173,782 |
| Refunds of Contributions | 56,970,769 | — | 56,970,769 |
| Death Benefits | 9,702,485 | — | 9,702,485 |
| Insurance Premiums and Disability Benefits | 6,224,235 | 42,641,395 | 48,865,630 |
| Administrative Expenses | 9,703,808 | 381,764 | 10,085,572 |
| Total Deductions | 1,448,775,079 | 43,023,159 | 1,491,798,238 |
| **Net Increase in Net Position** | 2,145,626,094 | 14,745,728 | 2,160,371,822 |
| **Net Position Restricted for Pension Benefits** | | | |
| **Beginning of Year** | 14,390,235,536 | 25,053,551 | 14,415,289,087 |
| **End of Year** | $ 16,535,861,630 | $ 39,799,279 | $ 16,575,660,909 |

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

# NOTE 1 – ORGANIZATION AND PLAN DESCRIPTION

The Kansas Public Employees Retirement System (KPERS, or the System) is a body corporate and an instrumentality of the State of Kansas. KPERS is governed by a nine-member board of trustees of which: 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 System's managing officer. KPERS is a component unit of the State of Kansas.

KPERS is the administrator of a cost-sharing defined-benefit pension plan (Pension Plan) for the State of Kansas providing pension benefits to the following three statewide pension groups under one plan, as provided by K.S.A. 74, article 49:

- Public Employees
- Police and Firemen
- Judges

Substantially all public employees in Kansas are covered by the plan. The State of Kansas and Kansas schools are required to participate, while participation by local political subdivisions is optional but irrevocable once elected.

KPERS is also the administrator of a cost-sharing defined-benefit multiple-employer post-employment benefit plan as discussed in note (9).

#### PLAN MEMBERSHIP BY EMPLOYEE GROUP

Participating membership by statewide pension group as of December 31, 2013, (most recent actuarial valuation date) is as follows:

### MEMBERSHIP BY RETIREMENT SYSTEMS[1]

| | KPERS | KP&F | Judges | Total |
|---|---|---|---|---|
| Retirees and beneficiaries currently receiving benefits[2] | 82,742 | 4,680 | 248 | 87,670 |
| Terminated employees entitled to benefits but not yet receiving them | 16,964 | 140 | 6 | 17,110 |
| Inactive members, deferred disabled | 2,436 | 208 | 0 | 2,644 |
| Inactive members not entitled to benefits | 26,696 | 1,034 | 0 | 27,730 |
| Current employees | 147,957 | 7,224 | 265 | 155,446 |
| Total | 276,795 | 13,286 | 519 | 290,600 |

*1) Represents System membership at December 31, 2013.*
*2) Number of retirement payees as of December 31, 2013.*

#### NUMBER OF PARTICIPATING EMPLOYERS

Participating employers by statewide pension group as of June 30, 2014 are as follows:

### NUMBER OF PARTICIPATING EMPLOYERS

| | KPERS | KP&F | Judges |
|---|---|---|---|
| State of Kansas | 1 | 1 | 1 |
| Counties | 105 | 1 | — |
| Cities | 363 | 62 | — |
| Townships | 58 | — | — |
| School Districts | 286 | — | — |
| Libraries | 122 | — | — |
| Conservation Districts | 82 | — | — |
| Extension Councils | 68 | — | — |
| Community Colleges | 19 | — | — |
| Educational Cooperatives | 23 | — | — |
| Recreation Commissions | 43 | 1 | — |
| Hospitals | 29 | — | — |
| Cemetery Districts | 13 | — | — |
| Other | 200 | — | — |
| Total | 1,412 | 95 | 1 |

#### PLAN BENEFITS

Benefits are established by statute and may only be changed by the General Assembly. Members (except Police and Firemen) with ten or more years of credited service, may retire as early as age 55 (Police and Firemen 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" (Police and Firemen' 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 36 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% 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 Police and Firemen) are covered by basic group life insurance. The life insurance benefit is 150% 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 Public Employees 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. Since 2006, annual disability income benefits have been based on 60% 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. Members who were approved for disability benefits before 2006 have an annual benefit based on 66% of the annual compensation at the time of disability. For both groups, the minimum monthly benefit is $100. There is a waiting period of 180 continuous days from the date of disability before benefits can be paid. During the period of approved disability, the member continues to be eligible for group life insurance coverage and to accrue participating service credit.

**CONTRIBUTIONS**

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 for each of the three state-wide pension groups. The contributions and assets of all three groups are deposited in the Kansas Public Employees Retirement Fund established by K.S.A. 74-4921. All of the retirement groups are funded on an actuarial reserve basis.

For fiscal years beginning in 1995, Kansas legislation established statutory limits on increases in contribution rates for KPERS employers, which includes the state and the school employers. Annual increases in the employer contribution rates related to subsequent benefit enhancements are not subject to these limitations. The statutory cap increase over the prior year contribution rate is 0.9% of total payroll for the fiscal year ended June 30, 2014.

The actuarially determined employer contribution rates (not including the .85% contribution rate for the Death and Disability Program) and the statutory contribution rates are as follows:

| | Actuarial Employer Rate | Statutory Cap Rate |
|---|---|---|
| State Employee | 9.82% | 10.27% |
| School Employee | 15.12 | 10.27 |
| Judges | 23.62 | 23.62 |
| Local Government Employee | 9.77 | 8.84 |
| Police and Firemen | 19.92 | 19.92 |

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

Included in the fiscal year 2014 employer rate is the bond debt service rate of .08% collected by KPERS to transfer to the State general fund for the debt service payments of the 13th Check Pension Obligation Bonds.

Employee contribution rates as a percentage of eligible compensation in fiscal year 2014 are 4.0%, 5.0% or 6.0% for Public Employees, 7.15% for Police and Firemen, and 2% or 6.0% for Judges.

# NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**BASIS OF ACCOUNTING**

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). Contributions are due to KPERS when employee services have been performed and paid. Contributions are recognized as revenues when due pursuant to statutory requirements. Benefits and refunds are recognized when due and payable and expenses are recorded when the corresponding liabilities are incurred, regardless of when contributions are received or payment is made.

**SHORT-TERM INVESTMENTS**

The Retirement System considers investments purchased within 90 days or maturity to be short-term investments.

**METHOD USED TO VALUE INVESTMENTS**

Investments are reported at fair value. Securities traded on a national or international securities exchange are valued at the last reported sales price at current exchange rates. The fair value of real estate investments is based on independent appraisals. Fair value of other securities is determined by the mean of the most recent bid and asked prices as obtained from dealers that make markets in such securities. Fair values of the limited partnership investments are based on valuations of the underlying companies of the limited partnerships as reported by the general partner. Fair value of the commingled funds are determined based on the underlying asset values. Dividends are recorded on the ex-dividend date.

**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 60.0% of the total book value of the fund.
- Limits the possible allocation of total alternative investments to 15% of the total book value of the fund.
- The annual allowance for new alternative (non-publicly traded) investments is limited to 5.0% 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 act.
- Provides for an annual audit and requires that the Board annually examine the investment program, specific investments, and its policies and practices.

In fulfilling its responsibilities, the Board of Trustees has contracted with 25 investment management firms and a master global custodian. The Retirement System has six permissible investment categories. 1) Equities 2) real estate 3) fixed-income securities 4) derivative products 5) cash equivalents 6) alternative investments.

The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the Board of Trustees. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan. The following was Board of Trustee's adopted asset allocation policy as of June 30, 2014:

| Asset Class | Interim Target Allocation |
|---|---|
| Domestic Equities | 29% |
| International Equities | 27 |
| Yield Driven | 6 |
| Real Return | 9 |
| Fixed | 15 |
| Short-term Investments | 1 |
| Real Estate | 9 |
| Alternatives | 4 |
| | 100% |

The System's asset allocation and investment policies include active and passive investments in international securities. KPERS' target allocation is to have 27.0% of assets (excluding securities lending collateral) in dedicated international equities. Core Plus bond managers are allowed to invest up to 20.0% of their portfolio in non-dollar securities. The System utilizes a currency overlay manager to reduce risk by hedging up to 50% of the developed foreign currency market for selected international equity portfolios. At June 30, 2014, the System's total foreign currency exposure was 10.7% hedged.

Equities are considered to be common or preferred corporate stocks; warrants or rights; corporate bonds, debentures or preferred stock which are convertible into common stock; investment trusts; or participation in commingled (equity) funds managed by a bank, insurance company or other professional equity investment manager. These stocks are listed on well recognized or principal exchanges of the United States or foreign countries.

Fixed income securities are considered to be U.S. and foreign Treasury or Government agency obligations; U.S. or foreign corporate bonds; asset backed securities such as CMOs, mortgage backed securities and segments of these types of vehicles; or participation in commingled (fixed income) funds, managed by a bank, insurance company or other professional fixed income investment manager. Subject to the Board's limitations, these investments also include the debt of emerging markets. Emerging markets are considered to be those countries that are included in the JP Morgan Emerging Markets Index Global (EMBI Global).

#### INVESTMENTS

Cash equivalent securities are those purchased within 90 days of maturity. A security's duration is determined by a third-party pricing agency. Real estate investments are investments in real property on a direct ownership basis, through a realty holding corporation, joint partnership, private real estate investment trusts (REITs) (contained within the real estate portfolio), participation in commingled real estate funds (managed by a bank, insurance company or other professional real estate investment manager) or through debt secured by real estate. Any real estate investment shall support the System's intent to hold a real estate portfolio which is diversified by geographic location, property type, stage of development and degree of leverage.

#### RECEIVABLES

In addition to statutorily determined contractually required contributions, certain agencies also make payments through an additional component of their required employer contribution rate or annual installment payments, both options include interest at 8 percent per year, for the cost of service credits granted retroactively when the agency initially joined the Retirement System. As of June 30, 2014, the outstanding balance was $11,399,250. These payments are due over various time periods up through December 31, 2032.

#### CAPITAL ASSETS

Furniture, fixtures and equipment are reported on the Statement of Fiduciary Net Position 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 all System assets as of June 30, 2014, was $15,984,710. 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% is a real estate investment. The administrative portion of the building and garage are reported on the Statement of Fiduciary Net Position as a capital asset and are being depreciated. Accumulated depreciation on the administrative portion of the building and garage as of June 30, 2014 was $2,729,680. The office building and garage are being depreciated over a period of 33 years on an accelerated method. At June 30, 2014, the carrying value of the System's administrative headquarters was $888,477.

#### USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires KPERS' management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein, disclosure of contingent assets and liabilities, and the total pension liability at the date of the financial statements. Actual results could differ from those estimates.

#### RISKS AND UNCERTAINTIES

KPERS invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of fiduciary net position.

#### NEW ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 67, Financial Reporting for Pension Plans, (GASB 67), is effective for fiscal years beginning after June 15, 2013. GASB 67 amended the measurement requirements of the Retirement System's fiduciary net position, total pension liability, and net pension liability. GASB 67 requires, among other things, the notes to the financial statements include descriptive information about the investments, the types of benefits provided, the classes of plan members covered, and the composition of the Retirement System's board. GASB 67 also revises the required supplementary information to include the sources of changes in the net pension liability, information about the components of the net pension liability, the fiduciary net position as a percentage of the total pension liability, and the net pension liability as a percentage of covered-employee payroll. The Retirement System implemented the provisions of GASB 67 during the year ended June 30, 2014.

GASB Statement No. 68, Accounting and Financial Reporting for Pensions, (GASB 68) is effective for fiscal years beginning after June 15, 2014. This Statement provides accounting and reporting guidance for employers participating in pension plans falling under the guidance of GASB 67. Participating employers will recognize their proportionate share of the collective pension amounts as of a measurement date no earlier than the end of the employer's prior fiscal year. These pension amounts include net pension liability, pension expense, pension deferred outflows of resources and deferred inflows of resources.

GASB Statement No. 69, Government Combinations and Disposals of Government Operations, (GASB 69) is effective for fiscal years beginning after December 15, 2013. The provisions of this statement are effective for government combinations and disposals of government operations. KPERS' management has evaluated GASB Statement No. 69 and determined this statement does not have an impact on the System's financial reporting.

GASB Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees, (GASB 70), is effective for fiscal years beginning after June 15, 2013. This Statement improves accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. KPERS' management has evaluated GASB Statement No. 70 and determined the amendments made through this statement do not have an impact on the System's financial reporting.

GASB Statement No. 71, Pension Transition for Contributions made Subsequent to the Measure Date-an Amendment of GASB Statement No. 68, (GASB 71), is to be applied simultaneously with the provisions of Statement 68. This Statement is to address an issue regarding application of the transition provisions of Statement 68, regarding amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan. This statement will be effective for the System in fiscal year 2015.

# NOTE 3 – CASH AND INVESTMENTS

### CASH

The System advances cash deposits to a disability administrator for monthly disability benefits and death benefits for members who are disabled. As of June 30, 2014, the Retirement System's deposits with its disability administrator was zero. The Retirement System does not have a deposit policy for custodial credit risk associated with these deposits.

### INVESTMENTS

The following table presents a summary of the Retirement System's investments by type as of June 30, 2014, at fair value:

| Investment Type | Fair Value |
|---|---|
| Domestic Equities | $ 5,542,137,715 |
| International Equities | 4,236,268,494 |
| Fixed Income: | |
| U.S. Treasuries | 1,767,023,267 |
| U.S. Agencies | 485,699,586 |
| U.S. Corporate | 1,801,587,977 |
| Foreign Fixed Income | 452,094,475 |
| Short-term Investments | 343,291,197 |
| Real Estate: | |
| Partnerships | 548,539,228 |
| Commingled Funds | 659,686,321 |
| Separate Accounts | 217,742,940 |
| Alternatives/Private Equities | 478,289,054 |
| Total | $16,532,360,254 |

### CUSTODIAL CREDIT RISK

The custodial credit risk for investments is the risk that, in the event of the failure of the custodial counterparty to a transaction, the System will not be able to recover the value of investments or collateral securities that are in the possession of the custodial bank. At June 30, 2014 the custodian bank held $4,100 overnight for the System which was FDIC insured. With that exception, one hundred percent (100%) of the Systems investments are held in the System's name and are not subject to creditors of the custodial bank.

### CONCENTRATION RISK

No single issuer represents 1% or more of System assets other than U.S. Government (5.2%) and Agencies (2.1%). KPERS' investment policy does not prohibit holdings above 5% in the debt securities of U.S. government issuers. Government sponsored enterprises (GSEs, such as FNMA) are considered government issuers for the purpose of implementing KPERS investment policy.

### FOREIGN CURRENCY RISK

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The System does not have a formal investment policy which limits its exposure to foreign currency risk. The following table presents the foreign currency risk by type of investment as of June 30, 2014.

| USD Equivalent | | | |
|---|---|---|---|
| Equity | Fixed | Currency | Percent |
| $ 180,190,946 | $ 9,652,232 | Australian Dollar | 1.04% |
| 41,160,983 | 10,667,656 | Brazil Real | 0.28 |
| 777,262,689 | 135,652,808 | British Pound | 4.99 |
| 213,473,375 | 25,440,037 | Canadian Dollar | 1.31 |
| 3,572,490 | 807,176 | Chilean Peso | 0.02 |
| 19,585,436 | - | Chinese Yuan Renminbi | 0.11 |
| 2,267,755 | - | Colombian Peso | 0.01 |
| 53,332,230 | 946,985 | Danish Krone | 0.30 |
| 1,007,617,875 | 174,754,054 | Euro Currency Unit | 6.46 |
| 188,746,981 | - | Hong Kong Dollar | 1.03 |
| 939,630 | - | Hungarian Forint | 0.01 |
| 23,121,325 | 1,472,915 | Indian Rupee | 0.13 |
| 9,522,852 | 1,856,796 | Indonesian Rupiah | 0.00 |
| 9,123,290 | 1,621,713 | Israeli Shekel | 0.06 |
| 635,344,172 | 8,591,185 | Japanese Yen | 3.52 |
| 14,291,806 | 2,936,914 | Malaysian Ringgit | 0.09 |
| 23,242,189 | 12,961,711 | Mexican New Peso | 0.20 |
| 12,393,485 | 2,790,352 | New Zealand Dollar | 0.08 |
| 44,555,950 | 109 | Norwegian Krone | 0.24 |
| 3,195,072 | - | Other | 0.02 |
| 5,678,955 | 2,389,000 | Philippines Peso | 0.04 |
| 10,224,043 | 25,786 | Polish Zloty | 0.06 |
| 8,946,586 | - | Russian Rubel (New) | 0.05 |
| 54,773,347 | - | Singapore Dollar | 0.30 |
| 45,286,127 | 6,108,430 | S African Comm Rand | 0.28 |
| 121,470,699 | - | South Korean Won | 0.66 |
| 115,412,896 | 6,191,699 | Swedish Krona | 0.67 |
| 267,094,837 | - | Swiss Franc | 1.46 |
| 59,216,269 | - | Taiwan New Dollar | 0.32 |
| 9,034,159 | - | Thailand Baht | 0.05 |
| 13,450,510 | 329,341 | Turkish New Lira | 0.08 |
| 955,526 | - | United Arab Emirates Dirham | 0.01 |
| 9,811,215,053 | 4,101,208,406 | United States Dollar * | 76.06 |
| $13,785,699,538 | $4,506,405,305 | | 100.00% |

* Includes securities lending collateral of $1,794,435,246. Real estate and alternative assets are in equities

### 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 70.0% of holdings in investment grade securities. Each portfolio is required to maintain a reasonable risk level relative to its benchmark.

In the table below, cash equivalents includes commercial paper, 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 in this table. The Securities Lending Collateral class has the following policy requirements, at the date of purchase: to be rated A1/A+ or better; Commercial paper must be A1/P1/F1; Asset-backed securities must be Aaa/AAA or better; Repurchase agreements must be 102% collateralized with U.S. government or agency securities and held by the custodial bank or third-party custodian. Securities Lending Collateral NR (Not Rated) securities are repurchase agreements and certificates of deposit.

System assets (in thousands) as of June 30, 2014, subject to credit risk are shown with current credit ratings.

| Quality Rating | Cash Equivalents | Corporate | U.S. Government | Agency | Securities Lending Collateral | Total |
|---|---|---|---|---|---|---|
| Not Rated | $ 94,181 | $ 65,394 | $ 2,083 | $ 101,448 | $ 682,873 | $ 945,979 |
| AAA | — | 151,153 | — | 388 | 109,521 | 261,062 |
| AA | 7,998 | 356,377 | 1,764,240 | 467,561 | 526,158 | 3,122,334 |
| A | 17,656 | 292,941 | — | — | 476,601 | 787,198 |
| BBB | — | 780,963 | — | — | — | 780,963 |
| BB | — | 336,331 | — | — | — | 336,331 |
| B | — | 252,860 | — | — | — | 252,860 |
| CCC | — | 69,566 | — | — | — | 69,566 |
| CC | — | 5,545 | — | — | — | 5,545 |
| C | — | 1,278 | — | — | — | 1,278 |
| D | — | 5,577 | — | — | — | 5,577 |
| Total | $119,835 | $ 2,317,985 | $ 1,766,323 | $ 569,397 | $ 1,795,153 | $ 6,568,693 |

**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 20.0% 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 in the following grouped by effective duration ranges. The weighted effective durations shown in the following table are grouped by asset category.

| Investments | Market Value | Weighted Effective Duration |
|---|---|---|
| Asset Backed Securities | $212,217,781 | 0.35 |
| CD | 440,215,549 | 0.29 |
| CMBS | 112,007,165 | 2.47 |
| CMO's | 69,110,382 | 0.49 |
| Collateral Held Elsewhere | (290,000) | 0.00 |
| Commercial Paper | 19,986,626 | 0.10 |
| Convertible Bonds | 9,944,088 | 4.06 |
| Convertible Preferred Stock | 4,386,554 | 31.92 |
| Corporate | 949,878,914 | 3.87 |
| Discount Notes | 236,047,244 | 1.17 |
| Duration not available | 223,054,193 | NA |
| Mortgage Backed Securities | 429,508,078 | 4.36 |
| Non-US Asset Backed Securities | 15,015,100 | 0.38 |
| Non-US CD's | 107,459,251 | 0.58 |
| Non-US Corporate | 336,664,247 | 3.16 |
| Non-US Discount Notes | 11,030,774 | 8.36 |
| Non-US Government | 384,721,321 | 7.75 |
| Non-US Mortgage Backed Securities | 122,031,067 | 4.05 |
| Non-US Preferred Stock | 11,272,537 | 3.16 |
| Non-US Swap Liabilities | 696,262 | 1.17 |
| Preferred Stock | 28,103,380 | 4.92 |
| REPO's | 511,307,930 | 0.00 |
| Swap Liabilities | 3,161,471 | 13.28 |
| US Government | 1,754,884,428 | 6.18 |
| US Government Agencies | 576,278,479 | 2.63 |
| Total | $6,568,692,821 | 3.75 |

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 13 months.

**RATE OF RETURN**

For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 18.10%. This return was 13.87% for fiscal year 2013. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

# NOTE 4 – INVESTMENT DERIVATIVES

Derivative instruments are tools for use by the System's investment managers for the purposes of:

- Risk Management: Mitigating or managing portfolio risks through hedging or otherwise modifying specific risk exposure.

- Substitution: In substitution for "cash market" securities/ positions, or for modifying portfolio positioning in lieu of cash market transactions.

- Derivative-based Strategies: As a structural part of an investment strategy.

- Efficiency/Cost Effectiveness: Efficiency and/or cost effectiveness in implementing: portfolio construction, trading, portfolio strategy or managing a portfolio's risk/ return profile.

Alternative investments are those investments that do not trade publicly on an organized exchange. Examples include but are not limited to partnership funds that focus on private equity, venture capital, buyout, mezzanine financing or special situations, natural resources or hedge funds. Prospective investment in any alternative investments are subject to the following requirements:

- There are at least two other sophisticated investors.

- The System's portion of an investment will not be more than 20% of the total investment.

- Any individual investment (standing alone or within a pool) must not be more than 2.5% of the Fund's total alternative investment commitments.

- A favorable recommendation has been received from an independent expert.

- The investment is consistent with the Investment Policy Statement.

- The Board has received and considered the due diligence findings regarding the investment.

- Criteria have been established that will be used as a guideline to determine when no additional investments will be made and when the investment will be liquidated.

The following table summarizes the derivatives held by the Retirement system as of June 30, 2014.

INVESTMENT DERIVATIVE SUMMARY AT JUNE 30, 2014

| | Asset Class(1) | Notional Value | Fair Value |
|---|---|---|---|
| Domestic Equity Futures | Domestic Equities | $ 225,515,820 | $ 1,830,969 |
| International Equity Futures | International Equities | 175,107,388 | (604,457) |
| Fixed Futures | Fixed | 985,230,928 | (11,178) |
| Pay Fixed Interest Swaps | Fixed | 20,300,000 | 2,307,371 |
| Receive Fixed Interest Swaps | Fixed | 414,800,000 | 1,214,012 |
| Credit Default Swaps | Fixed | 84,501,799 | 1,661,040 |
| TBA Agency Bonds(2) | Fixed | 103,530,784 | 103,530,784 |
| Foreign Currency Forwards | Fixed | 2,070,993,040 | (6,240,870) |

1) The Asset Class that the Fair Values and Revenues are included in other schedules. Futures and Options reflect the summed absolute values of the exposures.
2) TBA Agency Bond notional values are equal to their fair values. KPERS investment policy allows managers to carry short TBA values as long as they have offsetting long holdings in similar securities with similar characteristics.

The following table summarizes the activity of the derivatives held by the Retirement System during the year ended June 30, 2014, at fair value:

INVESTMENT DERIVATIVE FAIR VALUES

| | June 30, 2013 | Increases | Decreases | June 30, 2014 |
|---|---|---|---|---|
| Options Written | $ (416,029) | $ 416,029 | $ — | $ — |
| Options Purchased | 386,188 | 670,322 | (1,056,510) | — |
| Pay Fixed Interest Swaps | 2,656,872 | — | (349,501) | 2,307,371 |
| Receive Fixed Int. Swaps | 750,228 | 1,334,711 | (870,927) | 1,214,012 |
| Credit Default Swaps | 255,510 | 3,061,255 | (1,655,725) | 1,661,040 |
| TBA Agency Bonds | 83,653,906 | 3,149,925,301 | (3,130,048,423) | 103,530,784 |
| Foreign Currency Forwards | 1,254,768 | 3,143,196,832 | (3,150,692,471) | (6,240,870) |
| | $ 88,541,443 | $ 6,298,604,450 | $(6,284,673,556) | $ 102,472,336 |

**FUTURES**

Futures contracts are commitments for delayed delivery (liability) or receipt (asset) 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. 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. Daily, the net change in the futures contract value is settled in cash with the exchanges, making the fair values always equal to zero after the daily margin flow. At the close of business June 30, 2014, the System had total net margins receivable the next day of $155,300. Cash equivalents and short-term investments in amounts necessary to settle the economic value of the futures contracts were held in the portfolio so that no leverage was employed in accordance with the Statement of Investment Policy. The daily margin flows effect cash assets held at broker. Realized gains/losses are recognized at contract maturity and included with underlying security type returns. Total revenues of $66.8 million were associated with futures for the year ending June 30, 2014.

**OPTIONS**

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. The option buyer has some counterparty risk in the event the seller cannot deliver when exercised. This involves opportunity cost and possible loss of option fees. The option seller holds the securities and has minimal counterparty risk. Options strategies used by the Retirement System are designed to provide exposures to positive market moves and limit exposures to interest rate and currency volatility.

**SWAPS**

Interest rate swaps are agreements between two counterparties to exchange future cash flows. These are generally fixed vs. variable flows, and can be either received or paid. These swaps are used to adjust interest rate and yield curve exposure and substitute for physical securities. Long swap positions (receive fixed) increase exposure to long-term interest rates; short positions (pay fixed) decrease exposure. Counterparty risk is limited to monthly exchanged or netted cash flows.

Credit default swaps are used to manage credit exposure without direct purchase or sale of securities. Written credit default swaps increase credit exposure (selling protection) obligating the seller to buy the bonds from the counterparty in the event of a default. This creates credit risk, but has very little counterparty risk. Purchased credit default swaps decrease exposure (buying protection), providing the right to "put" bonds to the counterparty in the event of a default. This decreases credit risk, and has counterparty risk in the event the seller of protection fails to cover the defaulting security. Controls are established by the investment managers to monitor the creditworthiness of the counterparties.

**TBA AGENCY BONDS**

A TBA is a contract for the purchase or sale of agency mortgage-backed securities to be delivered at a future agreed-upon date; however, the actual pool identities or the number of pools that will be delivered to fulfill the trade obligation or terms of the contract are unknown at the time of the trade. A common practice is to buy a TBA security thirty to sixty days in advance of the issue date with the issue date as the trade settle date, then selling the security four days before issue date, with the same settle date. This allows the trader to realize a gain or loss on the security based on changes in interest rates, without taking possession of, or paying for, the security. The only cash cost is the broker cost of the trades. These have minimal credit risk, while this scenario is designed specifically to increase interest rate exposure.

**FOREIGN CURRENCY FORWARDS**

The Retirement System's international investment managers use forward contracts to obtain currencies necessary for trade execution and manage 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. 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. Since the System holds the offsetting currency in the contract, and controls are established by the investment managers to monitor the creditworthiness of the counterparties, risk of actual loss is minimized. The Retirement System also contracts with a currency overlay manager to hedge the currency exposure to the System's international equity portfolio. The Retirement System utilizes a currency overlay manager to reduce, or partially hedge, the System's exposure to foreign currencies through the international equities portfolio. The overlay manager evaluates the System's international equities exposure to currencies, and buys/sells inverse currency forwards in relation to the overall currency exposures. The inverse relationship of these hedging forwards uses their exposure to currency risks to reduce overall System exposure. The Statement of Investment Policy stipulates that the overlay manager should: "Take forward currency exchange contract positions which will have the intent and effect of hedging the currency exposure of the underlying international equity assets." The Statement of Investment Policy further states the forward currency exchange contract positions be used to "Maintain an acceptable risk level by reducing the negative volatility of the currency component of return."

The Retirement System has ongoing foreign currency exposure through its international equities portfolio. At June 30, 2014, the market value of international equities was $4.2 billion. The Retirement System's exposure to foreign currencies is converted into a proxy basket of seven liquid currencies that are highly correlated to the movements of the underlying currencies. The weights to be used are calculated with reference to the liquidity and risk of each currency. There is appropriate statistical evidence that the proxy basket does track the currency exposure closely (residual standard deviation of less than one percent). This proves the intent is to hedge and qualifies as a designated hedge under Generally Accepted Accounting Principles. The forward contracts are purchased as needs are determined by the hedge manager, and mature in the nearest September, December, March or June. Gains/losses are realized during those periods and the contracts are rolled over to the next period as appropriate. Through these processes, hedging contracts can adapt to any changes to portfolio currency exposures. Since the hedging currency forwards track to the overall exposure, and they reference the same foreign exchange rates as the underlying portfolio, this hedge is known to be effective through consistent critical terms.

A portfolio hedge such as this does not match the hedging forwards to any specific hedged security. The accessibility and liquidity of the currency forwards market allows these hedging forwards to roll forward and seamlessly hedge the ongoing foreign currency exposures. Counterparties to these forwards are carefully analyzed for credit risk. The System has control of one side of the exchange at all times, thereby reducing the costs of a counterparty default to possible lost gains, and inconvenience costs required to re-establish the hedge on short notice with another counterparty.

**FOREIGN CURRENCY FORWARDS**

Following is a summary of the foreign currency forwards activity during the fiscal year ended June 30, 2014:

INVESTMENT CURRENCY FORWARDS

| | Notional Cost (USD) | Pending Foreign Exchange Receivables | Pending Foreign Exchange Payables | Fair Value June 30, 2014 |
|---|---|---|---|---|
| Australian Dollar | $100,196,260 | $101,021,030 | $(100,559,532) | $461,498 |
| Brazil Real | 20,265,181 | 20,312,798 | (20,459,899) | (147,101) |
| British Pound | 215,911,442 | 216,059,926 | (217,332,212) | (1,272,286) |
| Canadian Dollar | 107,757,804 | 108,926,973 | (108,641,791) | 285,182 |
| Danish Krone | 16,037,579 | 16,054,120 | (16,006,690) | 47,430 |
| Euro Currency Unit | 591,668,577 | 592,502,078 | (592,541,051) | (38,973) |
| Hong Kong Dollar | 131,954,150 | 131,960,295 | (131,971,648) | (11,353) |
| Polish Zloty | 1,940,587 | 1,947,298 | (1,940,587) | 6,711 |
| Japanese Yen | 219,760,612 | 219,944,333 | (220,366,082) | (421,749) |
| Malaysian Ringgit | 2,177,759 | 2,180,265 | (2,201,263) | (20,998) |
| Mexican New Peso | 19,281,987 | 19,290,764 | (19,390,591) | (99,827) |
| New Zealand Dollar | 6,054,946 | 6,075,681 | (6,119,022) | (43,341) |
| Norwegian Krone | 39,334,686 | 39,342,288 | (39,050,831) | 291,457 |
| Israili Shekel | 1,544,737 | 1,544,736 | (1,556,812) | (12,076) |
| Philippines Peso | 1,608,291 | 1,637,934 | (1,608,291) | 29,643 |
| Russian Ruble | 4,327,629 | 4,463,989 | (4,497,018) | (33,029) |
| S African Rand | 6,217,038 | 6,217,038 | (6,209,856) | 7,182 |
| Singapore Dollar | 18,224,887 | 18,295,139 | (18,309,229) | (14,090) |
| Swedish Krona | 16,315,694 | 16,206,700 | (16,224,273) | (17,573) |
| Swiss Franc | 15,243,272 | 15,225,934 | (15,326,684) | (100,750) |
| Turkish Lira | 1,928,768 | 1,938,391 | (1,926,402) | 11,989 |
| | $1,537,751,886 | $1,541,147,710 | $(1,542,239,764) | $(1,092,054) |
| **Hedging Currency Forwards** | | | | |
| Australian Dollar | $8,835,527 | $8,835,527 | $(9,010,185) | $(174,658) |
| Canadian Dollar | 112,083,420 | 112,398,219 | (113,896,966) | (1,498,747) |
| Euro Currency Unit | 281,140,761 | 281,140,761 | (283,211,947) | (2,071,186) |
| Japanese Yen | 78,947,701 | 78,947,701 | (79,699,669) | (751,968) |
| Swiss Franc | 52,433,745 | 52,433,74 | (53,086,002) | (652,257) |
| | $ 533,441,154 | $533,755,953 | $(538,904,769) | $ (5,148,816) |
| Total Currency Forwards | $2,071,193,040 | $2,074,903,663 | $(2,081,144,533) | $(6,240,870) |

Investment Forwards Counterparty Exposure at June 30, 2014, is as follows:

## INVESTMENT FORWARDS COUNTERPARTY EXPOSURE

*At June 30, 2014*

| Counterparty Name | Notional $USD | Fair Value | Worst Long Term Rating |
|---|---|---|---|
| Australia & New Zealand Banking Group | $ 138,750 | $ (930) | A |
| Bank of America | 47,308,608 | (347,249) | A |
| Bank of New York Mellon | 11,826,318 | (1,744) | A |
| Barclays | 313,914,877 | (369,984) | A |
| BNP Paribas | 30,086,085 | (84,992) | A |
| Citibank | 110,491,642 | (294,469) | A |
| Commonwealth Bank of Australia | 38,345,968 | 286,070 | A |
| Credit Suisse | 159,338,698 | (125,619) | A |
| Deutsche Bank | 141,253,235 | 54,049 | A |
| Goldman Sachs Bank | 63,599,314 | (113,201) | A |
| Goldman Sachs International | 30,999,505 | (223,778) | A |
| HSBC Securities | 8,856,940 | 876 | NR |
| JPMorgan Chase Bank | 38,177,406 | (142,166) | A |
| Merrill Lynch & Co | 7,746,226 | (116,796) | NR |
| Morgan Stanley Capital Services | 74,880,927 | 286,334 | NR |
| National Australia Bank | 7,422,466 | 846 | A |
| Non-Brokered Contracts | 23,086,780 | (39,433) | NR |
| Northern Trust Corp | 11,424,170 | 94,219 | A |
| Royal Bank of Canada | 80,870,182 | 247,969 | A |
| Societe Generale | 16,525,670 | (73,702) | A |
| State Street Corp | 48,316,688 | 562,099 | A |
| Toronto-Dominion Bank | 3,323,241 | 11,758 | A |
| UBS | 257,292,457 | (704,568) | NR |
| Westpac Banking Corp | 12,525,735 | 2,358 | A |
| | $ 1,537,751,886 | $ (1,092,055) | |

## HEDGING FORWARDS COUNTERPARTY EXPOSURE

*At June 30, 2014*

| Counterparty Name | Notional $USD | Fair Value | Worst Long Term Rating |
|---|---|---|---|
| Barclays | $ 72,731,576 | $ (752,394) | A |
| Citibank | 133,755,483 | (1,084,392) | A |
| Deutsche Bank | 124,870,825 | (1,060,859) | A |
| Goldman Sachs International | 22,087,628 | 147,992 | A |
| HSBC Securities | 83,273,473 | (1,894,859) | NR |
| JPMorgan Chase & Co | 86,013,879 | (447,440) | A |
| Royal Bank of Scotland | 10,708,289 | (56,864) | A |
| | $ 533,441,154 | $ (5,148,816) | |
| | $ 2,071,193,040 | $ (6,240,870) | |

# NOTE 5 – SECURITIES LENDING

KPERS' investment policy authorizes participation in a securities lending program administered by the master global custodian, Bank of New York Mellon. 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 102.0% of fair value on domestic securities and 105.0% 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, 2014, the maturities of securities in this dedicated bond portfolio are as follows: 39.6% of the fair value of the securities mature within 30 days; 27.1% mature between 31 and 180 days; and 33.3% 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. The Retirement System does incur credit risk as it relates to the credit quality of the securities in the collateral pool. 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, 2014, was $2,821,145,517. Collateral held by the Retirement System as of June 30, 2014, was $2,974,595,885. Expenses to the System normally include fees to the administrator, Bank of New York Mellon, and interest rebates to the borrowing brokers. In the current low interest environment, those interest rebate expenses turn to additional payments from the brokers to the lender (KPERS) to encourage the loan. For the fiscal year ending June 30, 2014, fees to the agent bank cost $1,147,400, while broker 'rebate' income added $1,501,910 to the net income produced from securities lending activities, totaling $5,609,581.

# NOTE 6 – 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.

The Members Accumulated Contribution Reserve represents the accumulation of member contributions, plus interest, credited to individual member accounts of nonretired 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 8.0% 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 4.0% per year.

The Retirement Benefit Accumulation Reserve represents the accumulation of employer contributions, net investment income not credited to any other reserve, and the actuarially computed net pension liability not yet funded.

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 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 expenses amount. The System's administrative expenses are financed from this reserve.

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. The balance as of June 30, 2014, was $65,072.

The balance of the System's pension reserves and the net pension liability at June 30, 2014, were as follows:

| Reserves [1] | Balance | Net Pension Liability |
|---|---|---|
| Members Accumulated Contribution Reserve | $ 5,636,937,795 | $ — |
| Retirement Benefit Accumulation Reserve | 7,767,642,729 | (8,291,794,910) |
| Retirement Benefit Payment Reserve | 11,403,603,328 | — |
| Expense Reserve | 19,407,616 | — |
| | 24,827,591,468 | (8,291,794,910) |
| Total Pension Reserves | | $ 16,535,796,558 |

*1) Optional Group Life Reserve balance of $65,072 is not included in this schedule.*

# NOTE 7 – NET PENSION LIABILITY OF PARTICIPATING EMPLOYERS

The components of the net pension liability of the participating employers at June 30, 2014, were as follows:

| | KPERS |
|---|---|
| State | $ 4,151,485,723 |
| School | 13,259,837,215 |
| Local | 4,485,119,406 |
| KP&F | 2,764,723,716 |
| Judges | 166,425,408 |
| Total Pension Liability | 24,827,591,468 |
| Fiduciary Net Position | 16,535,796,558 (1) |
| Retirement System's Net Pension Liability | $ 8,291,794,910 |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 66.60% |

*1) Optional Group Life balance of $65,072 not included in Fiduciary Net Position.*

### ACTUARIAL ASSUMPTIONS

The total pension liability was determined by an actuarial valuation as of December 31, 2013, which was rolled forward to June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Actuarial cost method | Entry Age |
| Amortization method | Level percentage of payroll, closed (Level dollar for Judges) |
| Remaining amortization period | 19 years |
| Asset valuation method | 5-year smoothed value |
| Inflation | 3.00 percent |
| Salary increase | 4.00 to 12.50 percent, including inflation |
| Investment rate of return | 8.00 percent compounded annually, net of investment expense, and including inflation |

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the December 31, 2013, valuation were based on the results of an actuarial experience study conducted for three years ending December 31, 2009.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014, (see the discussion of the pension plan's investment policy) are summarized in the following table:

| Asset Class | Long-Term Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Global Equity | 47.00% | 6.00% |
| Fixed Income | 14.00 | 0.85 |
| Yield Driven | 8.00 | 5.50 |
| Real Return | 11.00 | 3.75 |
| Real Estate | 11.00 | 6.65 |
| Alternatives | 8.00 | 9.50 |
| Short-term Investments | 1.00 | — |
| Total | 100.00% | |

### DISCOUNT RATE

The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from school districts will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**SENSITIVITY OF THE NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE**

The following presents the net pension liability of the Retirement System calculated using the discount rate of 8.0%, as well as what the Retirement Systems' net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower 7.0% or 1-percentage- point higher 9.0% than the current rate:

| | 1% Decrease (7.00%) | Current Discount Rate (8.00%) | 1% Increase (9.00%) |
|---|---|---|---|
| Net Pension Liability | $11,115,064,658 | $8,291,794,910 | $5,896,814,715 |

# NOTE 8 – 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 of the bond issue, $15,350,000 of the bond proceeds were used for the purpose of financing the unfunded actuarial liability of certain Board of Regents members. In addition, the State of Kansas contributed an additional $2.0 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 KP&F and Judge's groups included an additional amount to finance the debt service payments for this portion of the bonds. In fiscal year 2014, KPERS transferred to the State of Kansas $3,206,406 in additional contributions for the debt service payments. This was the final payment on these bonds.

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 to KPERS.

# NOTE 9 – OTHER POST EMPLOYMENT BENEFIT PLAN – KPERS DEATH AND DISABILITY PLAN

The Kansas Public Employees Retirement System administers one post employment benefit plan, KPERS Death and Disability Plan. This multiple employer, cost sharing, defined benefit plan, authorized by K.S.A. 74-04927 provides death benefits for beneficiaries of plan participants and long-term disability benefits to all active members in the KPERS state, school and local coverage groups. In addition, the coverage is extended to other non Public Employees employed at the Board of Regents institutions and other state officials. The plan provides death benefits to the Judges coverage group. In order to carry out legislative intent, within the funds available, the KPERS Board of Trustees may modify plan benefits from time to time.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Accounting Policies. The KPERS Death and Disability Plan's financial statements are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. Employer contributions are recognized as revenues when due pursuant to statutory requirements. Benefits and refunds are recognized when due and payable and expenses are recorded when the corresponding liabilities are incurred, regardless of when contributions are received or payment is made.

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.

**PLAN MEMBERSHIP AND BENEFITS**

Members in the Death and Disability Plan consisted of the following at June 30, 2012, the date of the last actuarial valuation:

- Active plan members, 159,430
- Number of participating employers, 1,410
- Open claims, 2,781

The Death and Disability Plan provides two primary benefits to active members:

1. Group life insurance equal to 150% of annual compensation, which is provided through an insurance contract with an insurance carrier.

2. Self-insured long-term disability (LTD) benefits equal to 60% (before January 1, 2006, 66 2/3%) of annual compensation, offset by other benefits. Members receiving LTD benefits also receive service credit toward their retirement benefits under KPERS and have their group life insurance coverage continued under the waiver of premium provision. The group life insurance benefit is increased annually for inflation, at a rate equal to the consumer price index less one percent, beginning five years following the date of disability.

**CONTRIBUTIONS AND FUNDED STATUS**

Prior to fiscal year 2000, employer contributions for group life insurance and long-term disability income benefits were set by statute at 0.6% of covered payroll for KPERS and Board of Regents Institutions and 0.4% 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. 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 increased the insurance contribution rate to 0.8% of covered payroll effective July 1, 2005, and to 1.0% on July 1, 2006. The rate for Judges remained at 0.4%. Legislation passed in early 2009 placed a moratorium on contributions related to the group life insurance and disability benefits effective for the period March 1, 2009, through November 30, 2009. Subsequently, the Legislature passed moratoriums on contributions for each of the following periods, April 1, 2010 through June 30, 2010, April 1, 2011 through June 30, 2011 and April 1, 2012 through June 30, 2012. For the period ending June 30, 2014, employers contributed over $57,754,895 million to the Plan.

The death and disability plan assets are held in the Group Insurance Reserve fund. At June 30, 2014, this reserve held net assets totaling $39,799,279. This reserve fund is funded from deposits from employer contributions and the respective investment income. Administrative expenses for the death and disability plan are funded from the accumulated investment income of the fund.

The funding status of the plan at June 30, 2012, the most recent actuarial valuation date:

## 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 % of Covered Payroll ((b - a)/c) |
|---|---|---|---|---|---|---|
| 06/30/12 | $19,068 | $268,597 | $249,528 | 7.1% | $6,618,909 | 3.8% |

The actuarial valuation dated May 9, 2013, is the most recent actuarial valuation. Only the disability benefits and waiver of premium life insurance provision are included in the actuarial valuation.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions of future employment, mortality, and long-term disability trends. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress for the Death and Disability Plan (on page 45) presents multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the long-term disability benefits provided at the time of the valuation and the historical funding of the plan, which is funded exclusively by the employer. The projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations on the assumption of the total costs by the employer in the future.

The accompanying schedule of employer contributions (on page 45) presents the amount contributed to the plan by employers in comparison to the actuarial required contribution (ARC) as determined by the actuarial valuation dated June 30, 2012, using GASB 43 requirements. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs for each year and amortize any unfunded liabilities over 15 years.

The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculations. Additional information as of the latest valuation follows:

ACTUARIAL VALUATION INFORMATION - DEATH AND DISABIITY PLAN

*Valuation Date June 30, 2012*

| | |
|---|---|
| Actuarial Cost Method | Entry Age Normal |
| Amortization Method | Level Percent, Open |
| Remaining Amortization Period | 15 years |
| Asset Valuation Method | Market Value |
| **Actuarial Assumptions:** | |
| Investment Rate of Return (1) | 4.5% |
| Projected Salary Increases (1) | 4.0% - 12.0% |
| Payroll Growth | 4.0% |

1)Salary increases and investment rate of return include a 3.25% inflation component.

Changes in the UAAL occur for various reasons. The net decrease in the UAAL from July 1, 2010, to July 1, 2012, was $21.5 million. The components of this net change are shown in the following table (in millions).

| | |
|---|---|
| Unfunded Actuarial Accrued Liability, July 1, 2010 | $271.0 |
| Impact of New Claim Experience different from expected | (25.8) |
| Impact of terminated claim experience different from expected | (6.3) |
| Impact of change in assumptions | 0.1 |
| Impact of new entrants (active) | 3.4 |
| Other liability experience and asset experience | 7.1 |
| Unfunded Actuarial Accrued Liability, July 1, 2012 | $249.5 |

# NOTE 10 – COMMITMENTS AND CONTINGENCIES

As of June 30, 2014, the Retirement System was committed to additional funding of $6,210,478 in the form of capital expenditures on separate account real estate holdings in the portfolio, $682,594,435 for commitments on private equity investments, and $368,944,500 for capital calls on core and noncore real estate property trust 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.

# NOTE 11 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 5, 2014, which is the date the financial statements were available to be issued.

# REQUIRED SUPPLEMENTARY INFORMATION–RETIREMENT PLAN

## SCHEDULE OF CHANGES IN THE RETIREMENT SYSTEM'S NET PENSION LIABILITY

*For Year Ended June 30, 2014 [1] ($ in Thousands)*

| | 2014 |
|---|---|
| **Total Pension Liability:** | |
| Service Cost | $ 572,291 |
| Interest | 1,866,797 |
| Changes of Benefit Terms | — |
| Differences Between Expected and Actual Experience | (216,248) |
| Changes of Assumptions | — |
| Benefit Payments, Including Refunds of Member Contributions | (1,432,846) |
| Net Change in Total Pension Liability | 789,994 |
| Total Pension Liability – Beginning | 24,037,597 |
| Total Pension Liability – Ending (a) | 24,827,591 |
| **Plan Fiduciary Net Position:** | |
| Contributions – Employer | 701,818 |
| Contributions – Member | 332,163 |
| Total Net Investment Income | 2,553,843 |
| Other Miscellaneous Income | 242 |
| Benefit Payments, Including Refunds of Member Contributions | (1,432,846) |
| Administrative Expenses | (9,636) |
| Net Change in Plan Fiduciary Net Position | 2,145,584 |
| Plan Fiduciary Net Position – Beginning | 14,390,213 |
| Plan Fiduciary Net Position – Ending (b) | 16,535,797 [2] |
| Retirement System's Net Pension Liability (a) - (b) | $ 8,291,794 |

See Accompanying Independent Auditors' Report.

*1) Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*
*2) Optional Group Life Reserve balance as of June 30, 2014 of $65,072 not included in Plan fiduciary net position.*

## SCHEDULE OF THE RETIREMENT SYSTEMS' NET PENSION LIABILITY

*For Year Ended June 30, 2014 [1] ($ in Thousands)*

| | 2014 |
|---|---|
| Total Pension Liability | $ 24,827,591 |
| Plan Fiduciary Net Position | 16,535,797 [2] |
| Retirement System's Net Pension Liability | $ 8,291,794 |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 66.60% |
| Covered-Employee Payroll | $ 6,424,739 |
| Retirement System's Net Pension Liability as a Percentage of Covered-Employee Payroll | 129.06% |

See Accompanying Independent Auditors' Report.

*1) Schedule is intended to show information for 10 years. Additional years will be displayed as they are available.*
*2) Optional Group Life reserve balance of $65,072 not included in Fiduciary Net Position.*

## SCHEDULE OF RETIREMENT SYSTEM'S CONTRIBUTIONS

*Last 10 Fiscal Years ($ in Thousands)*

| | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Actuarially Determined Contribution | $ 842,286 | $ 825,197 | $ 843,362 | $ 709,964 | $ 682,062 |
| Contributions In Relation to the Actuarially Determined Contribution | 668,811 | 617,925 | 568,015 | 525,727 | 492,006 |
| Contribution Deficiency (Excess) | $ 173,475 | $ 207,272 | $ 275,347 | $ 184,237 | $ 190,056 |
| Covered-Employee Payroll | $6,424,739 | $ 6,523,850 | $6,541,464 | $6,483,143 | $6,527,400 |
| Contributions as a Percentage of Covered-Employee Payroll | 10.41% | 9.47% | 8.68% | 8.11% | 7.54% |

| | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Actuarially Determined Contribution | $ 660,834 | $ 607,662 | $ 531,292 | $ 471,424 | $ 381,791 |
| Contributions in Relation to the Actuarially Determined Contribution | 449,236 | 395,752 | 339,509 | 298,712 | 261,962 |
| Contribution Deficiency (Excess) | $ 211,598 | $ 211,910 | $ 191,783 | $ 172,712 | $ 119,829 |
| Covered-Employee Payroll | $6,403,432 | $ 6,226,754 | $6,032,223 | $5,714,315 | $5,413,662 |
| Contributions as a Percentage of Covered-Employee Payroll | 7.02% | 6.36% | 5.63% | 5.23% | 4.84% |

## SCHEDULE OF INVESTMENT RETURNS

*Last 10 Fiscal Years*

| | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Annual Money-Weighted Rate of Return, Net of Investment Expense | 18.10% | 13.87% | 0.67% | 22.56% | 14.96% |

| | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Annual Money-Weighted Rate of Return, Net of Investment Expense | (20.08)% | (4.58)% | 17.82% | 12.15% | 11.90% |

# REQUIRED SUPPLEMENTARY INFORMATION – DEATH AND DISABILITY

## SCHEDULE OF EMPLOYER CONTRIBUTIONS

*Last Eight Fiscal Years*

| Year | Annual Required Contribution | Percentage Contributed |
|---|---|---|
| 2007 | $71,763,879 | 83% |
| 2008 | 76,128,451 | 82 |
| 2009 | 75,414,841 | 48 |
| 2010 | 62,705,453 | 47 |
| 2011 | 57,868,502 | 85 |
| 2012 | 57,030,698 | 87 |
| 2013 | 57,369,452 | 86 |
| 2014 | 58,363,306 | 99 |

## 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 Percentage of Covered Payroll ((b - a)/c) |
|---|---|---|---|---|---|---|
| 06/30/06 (1) | $18,724 | $354,150 | $335,426 | 5.3% | $5,716,896 | 5.9% |
| 06/30/07 | 25,568 | 355,729 | 330,161 | 7.2 | 5,981,324 | 5.5 |
| 06/30/08 | 38,571 | 355,060 | 316,489 | 10.9 | 6,409,426 | 4.9 |
| 06/30/10 | 12,751 | 283,758 | 271,007 | 4.5 | 6,822,726 | 4.0 |
| 06/30/12 | 19,068 | 268,597 | 249,528 | 7.1 | 6,618,909 | 3.8 |

*1) The June 30, 2006 actuarial valuation date was the first valuation performed using actuarial requirements as required by GASB 43*

*2) Actuarial Valuation assumes insurance premiums due for the Basic Life Insurance plan are paid by current contributions. The remaining contributions, cash, and investments are reserves for liabilities associated with the long term disability plan.*

# NOTES TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2014

## NOTE 1 – CHANGES OF BENEFIT TERMS

In fiscal year 2014, the Kansas Police & Firemen group had a change in benefit terms. The Legislature increased this group's employee contributions to 7.15% and eliminated the reduction of employee contributions to 2.0% after 32 years of service. In addition, the maximum retirement benefit increased to 90 percent of final average salary (reached at 36 years of service). Before this change the maximum retirement benefit was limited to 80 percent of final average salary (reached at 32 years of service).

Effective January 1, 2014, KPERS Tier I member's employee contribution rate increased to 5.0% and then on January 1, 2015, will increase to 6.0%, with an increase in benefit multiplier to 1.85% for future years of service. For Tier II members retiring after July 1, 2012, the cost of living adjustment (COLA) is eliminated, but members will receive a 1.85 percent multiplier for all years of service.

## NOTE 2 – METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

The actuarially determined contribution rates in the schedule of the Retirement System's contributions are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

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 | KP&F | Judges |
|---|---|---|---|
| Valuation Date | 12/31/2013 | 12/31/2013 | 12/31/2013 |
| Actuarial Cost Method | Entry Age Normal | Entry Age Normal | Entry Age Normal |
| Amortization Method | Level Percent Closed | Level Percent Closed | Level Dollar Closed |
| Remaining Amortization Period | 19 years | 19 years | 19 years |
| Asset Valuation Method | Difference between actual return and expected return on market value recognized evenly over five-year period. | | |
| Actuarial Assumptions: | | | |
| Investment Rate of Return (1) | 8% | 8% | 8% |
| Projected Salary Increases (1) | 4.0% - 12.0% | 4.0% - 12.5% | 4.5% |
| Cost of Living Adjustment | none | none | none |

*1) Salary increases and investment rate of return include an inflation component of 3.0 percent.*

# OTHER SUPPLEMENTARY INFORMATION

## SCHEDULE OF CONTRIBUTIONS

*For Year Ended June 30, 2014*

| | | | |
|---|---|---|---|
| **Kansas Public Employees Retirement System** | | | |
| State / School Contributions | | | |
| Members | $214,628,682 | | |
| Employers | 498,153,724 | | |
| Total State/School Contributions | | $712,782,406 | |
| Local Contributions | | | |
| Members | 82,069,486 | | |
| Employers | 155,165,964 | | |
| Total Local Contributions | | 237,235,450 | |
| **Total Contributions KPERS** | | | **$ 950,017,856** |
| **Kansas Police and Firemen's System** | | | |
| State Contributions | | | |
| Members | 3,156,035 | | |
| Employers | 7,426,171 | | |
| Total State Contributions | | 10,582,206 | |
| Local Contributions | | | |
| Members | 30,847,072 | | |
| Employers | 92,456,347 | | |
| Total Local Contributions | | 123,303,419 | |
| **Total Contributions KP&F** | | | **133,885,625** |
| **Kansas Retirement System for Judges** | | | |
| State Contributions | | | |
| Members | 1,462,164 | | |
| Employers | 6,370,849 | | |
| Total State Contributions | | 7,833,013 | |
| **Total Contributions - Judges** | | | **7,833,013** |
| **Optional Life Insurance** | | | |
| Member Contributions | | | |
| State Employees | 3,104,712 | | |
| Local Employees | 3,230,487 | | |
| Total Contributions | | 6,335,199 | |
| **Total Contributions - OGLI** | | | **6,335,199** |
| **Grand Total All Contributions** | | | **$1,098,071,693** |

## SCHEDULE OF ADMINISTRATIVE EXPENSES

*For Year Ended June 30, 2014*

| | | |
|---|---|---|
| **Salaries and Wages** | | $ 5,404,067 |
| **Professional Services** | | |
| Actuarial | $ 295,516 | |
| Audit | 39,400 | |
| Data Processing | 540,900 | |
| Legal | 157,913 | |
| Other Professional Services | 1,448,819 | |
| Total Professional Services | | 2,482,548 |
| **Communication** | | |
| Postage | 245,328 | |
| Printing | 90,514 | |
| Telephone | 106,148 | |
| Total Communication | | 441,990 |
| **Building Administration** | | |
| Building Management | 83,986 | |
| Janitorial Service | 33,270 | |
| Real Estate Taxes | 70,889 | |
| Utilities | 58,840 | |
| Total Building Administration | | 246,985 |
| **Miscellaneous** | | |
| Dues and Subscriptions | 24,382 | |
| Repair and Maintenance | 733,582 | |
| Office and Equipment Rent | 25,083 | |
| Supplies | 82,624 | |
| Temporary Services | 3,013 | |
| Travel | 75,471 | |
| Other Miscellaneous | 134,133 | |
| Depreciation | 431,694 | |
| Total Miscellaneous | | 1,509,982 |
| **Total Administrative Expenses** | | $ 10,085,572 |

## SCHEDULE OF INVESTMENT INCOME BY ASSET CLASS

*For Year Ended June 30, 2014*

| Asset Classification | Interest, Dividends and Other Transactions | Gains and Losses | Total |
|---|---|---|---|
| Marketable Equity Securities | | | |
| Domestic Equities | $ 79,116,868 | $1,202,701,774 | $1,281,818,642 |
| International Equities | 76,973,514 | 742,544,055 | 819,517,569 |
| Subtotal Marketable Equities | 156,090,382 | 1,945,245,829 | 2,101,336,211 |
| Marketable Fixed Income Securities | | | |
| Government | 34,577,012 | 63,545,831 | 98,122,843 |
| Corporate | 69,266,352 | 55,768,292 | 125,034,644 |
| Subtotal Marketable Fixed | 103,843,364 | 119,314,123 | 223,157,487 |
| Short-term investments | 550,555 | 711,645 | 1,262,200 |
| Total Marketable Securities | 260,484,301 | 2,065,271,597 | 2,325,755,898 |
| Real Estate | 62,989,928 | 122,867,251 | 185,857,179 |
| Alternative Investments | 9,135,771 | 78,809,174 | 87,944,945 |
| Total Real Estate and Alternative Investments | 72,125,699 | 201,676,425 | 273,802,124 |
| Other Investment Income | | | |
| Securities Lending | 5,609,581 | 339,439 | 5,949,020 |
| Total Other Investment Income | 5,609,581 | 339,439 | 5,949,020 |
| | $338,219,581 | $2,267,287,461 | $2,605,507,042 |
| **Manager and Custodian Fees and Expenses** | | | |
| Investment Manager Fees | | | (30,856,302) |
| Custodian Fees and Expenses | | | (848,094) |
| Investment Legal and Consulting Expenses | | | (1,907,318) |
| Partnership Mgmt Fees and Expenses | | | (16,528,453) |
| Investment Operations Expenses | | | (1,512,967) |
| Total Investment Fees and Expenses | | | (51,653,134) |
| **Net Investment Income** | | | $2,553,853,908 |

## SCHEDULE OF INVESTMENT MANAGEMENT FEES AND EXPENSES

*For Year Ended June 30, 2014*

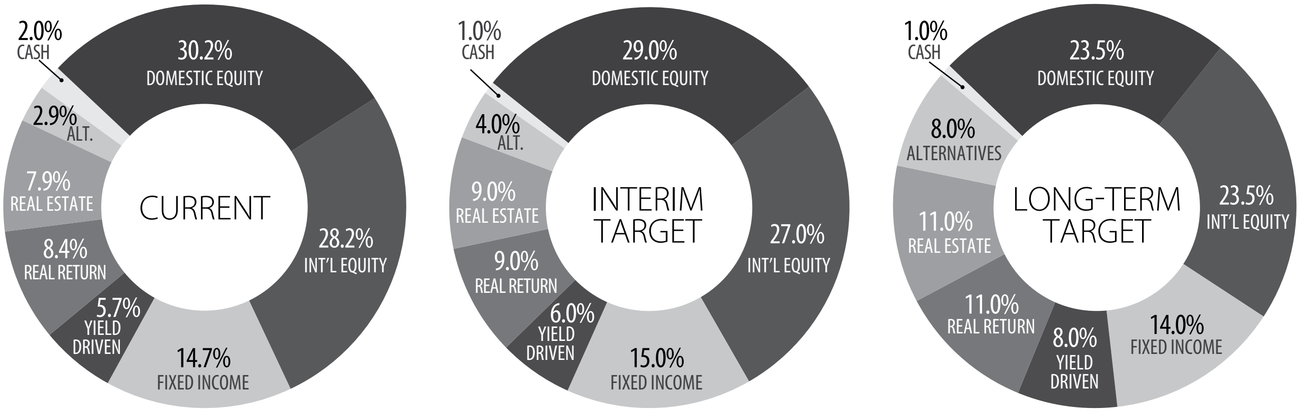
| | |
|---|---|
| **Domestic Equity Managers** | |
| BlackRock | $ 299,233 |
| Advisory Research | 847,302 |
| Voya | 1,663,147 |
| Loomis, Sayles & Co. | 1,401,143 |
| Mellon Capital Management | 175,945 |
| Guggenheim | 1,229,988 |
| Systematic Financial Management | 1,168,925 |
| Subtotal Domestic Equity Managers | 6,785,683 |
| **International Equity Managers** | |
| Baillie Gifford Int'l | 2,629,539 |
| Barings Int'l | 1,770,123 |
| JP Morgan Int'l | 2,845,339 |
| Lazard Freres Asset Management | 1,855,199 |
| Morgan Stanley Asset Management | 1,446,878 |
| State Street Int'l | 449,077 |
| Templeton Int'l | 1,970,636 |
| Subtotal International Equity Managers | 12,966,791 |
| **Fixed Income Managers** | |
| BlackRock | 468,976 |
| Loomis, Sayles & Co. | 321,550 |
| MacKay Shields | 1,890,071 |
| Pacific Investment Management Co. | 2,489,734 |
| T. Rowe Price | 1,336,799 |
| Western Asset Management Co. | 385,200 |
| Subtotal Fixed Income Managers | 6,892,330 |
| **Currency Overlay Managers** | |
| Pareto Partners | 1,320,000 |
| Russell Overlay | 232,425 |
| Subtotal Foreign Currency Overlay Manager | 1,552,425 |
| **Real Estate and REIT Investment Managers** | |
| AEW Capital Management | 1,480,846 |
| Brookfield Redding | 465,517 |
| Morgan Stanley Prime Property Fund | — |
| CenterSquare | 382,804 |
| Subtotal Real Estate & Alternative Managers | 2,329,167 |
| **Cash Equivalent Manager** | |
| Payden & Rygel Investment Counsel | 329,906 |
| Subtotal Cash Management | 329,906 |
| Total Investment Management Fees | 30,856,302 |
| **Other Fees and Expenses** | |
| Mellon Trust - Custodian Fees and Other Expenses | 848,094 |
| Consultant Fees | 1,784,343 |
| Legal Expenses | 122,975 |
| Investment Operations | 1,512,967 |
| Partnership Management Expenses | 16,528,453 |
| Subtotal Other Fees and Expenses | 20,796,832 |
| Total | $51,653,134 |

# **investments** section

# CHIEF INVESTMENT OFFICER'S REVIEW

The Kansas Public Employees Retirement System investment portfolio represents all contributions to the plan, from both members and their employers, as well as net earnings on these assets. Total assets at the end of fiscal year 2014 were $16.418 billion. The System's investment portfolio is managed for the long term, in an effort to generate adequate returns to pay the benefits promised to members. In order to achieve that goal, the assets receive the benefit of a broadly diversified investment portfolio which includes domestic and non-U.S. stocks, bonds, real estate, alternative investments and cash equivalents.

**ASSET ALLOCATION**




Portfolio investments are diversified among eight different asset classes for asset allocation and investment performance purposes, including: domestic equity; international (non-U.S.) equity; fixed income; "yield driven" assets; "real return" assets; real estate; alternative investments; and cash equivalents. *(NOTE: For financial reporting purposes, as reported in the Financial Section and the Investment Summary in the Investment Section, investments are categorized by the underlying security.)*

During Fiscal Year 2014, The System's Board, investment staff, and investment consultants continued to implement the asset allocation targets which were approved by the Board in late 2012, moving gradually toward the long term target asset allocation mix in order to diversify market timing risk.

The allocation to equity investments (primarily publicly-traded stocks) constitutes the largest portion of the Retirement System's investment portfolio. This allocation reflects the System's long-term investment orientation and the expectation that equities will provide high relative returns over time. Equity investments allow the investment portfolio to participate in the investment returns produced by companies seeking to grow and profit from their business activities. Equity investments are made globally, sourcing investment return from both domestic and foreign companies, and diversifying the accompanying investment risk across a broad spectrum of economies, currencies and economic sectors.

Fixed income investments are also an important component of the System's asset mix. Due to its relatively low correlation with equities, the fixed income portfolio serves to diversify the risk of equity investing, and also provides a source of current income. The fixed income portfolios are constructed using broad mandates, with global opportunities in mind. While these portfolios principally contain U.S.-based and U.S.-dollar denominated assets, the fixed income investment managers have significant latitude to seek out and capture fixed income returns globally, consistent with the System's belief in global sourcing of return and diversification of risk.

The yield driven asset class is designed to house those assets which derive a significant part of their expected return from income and have moderate exposure to growth risk, but also provide a degree of diversification. The yield driven asset class consists of the System's strategic fixed income portfolios, as well as investments in domestic Real Estate Investment Trusts (REITs) and Master Limited Partnerships (MLPs). The Board approved the addition of a short duration high yield and bank loan portfolio to the yield driven asset class at the end of Fiscal Year 2014. The goal of the new portfolio is to produce current income, and to reduce the duration of the System's fixed income assets in anticipation of a period of rising interest rates in the future.

The majority of the real return asset category is made up of Treasury Inflation Protected Securities (TIPS), global inflation linked bonds (GILBs), and investments in timber and infrastructure assets. We continue to evaluate potential new investment strategies for the real return asset class, as we work to build a higher degree of inflation protection into the System's total investment portfolio.

Real estate investments generate returns in a different manner than equities or fixed income investments, since real estate follows a different (and, typically, longer) market cycle. Because it moves in a different market cycle than publicly-traded stocks and bonds, real estate provides diversification advantages, as well as some inflation protection, to the investment portfolio. The System's real estate portfolio is heavily weighted to "core" real estate, which means that it also produces an attractive income yield.

The System's alternative investments, which consist primarily of investments in private partnerships that make venture capital investments, pursue leveraged buyout strategies or own private debt, represent the higher end of the investment risk/return spectrum. Private equity managers pursue higher growth opportunities in pursuit of higher returns, with commensurate investment risk.

The System also holds cash equivalents investments, primarily to facilitate investment transactions and the cash flows needed to pay benefits.

**INVESTMENT POLICY**

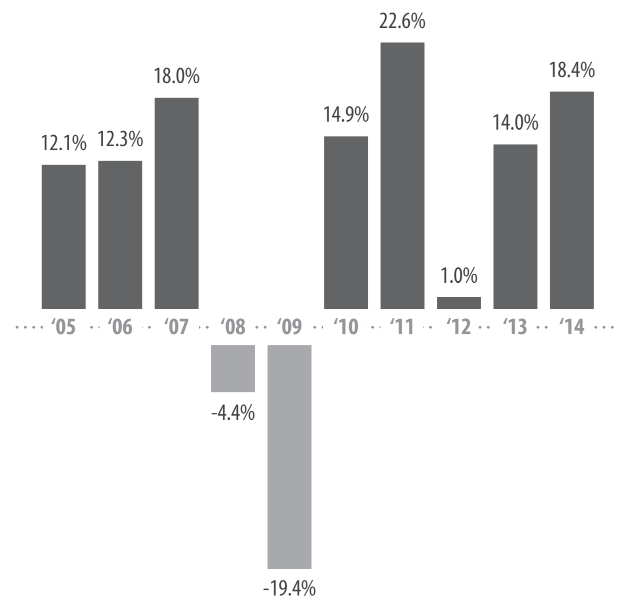
The Board of Trustees has adopted a Statement of Investment Policy, Objectives and Guidelines (the Statement), which serves as a guide to the implementation of the System's broad investment objectives. The Statement complements KPERS' statutes and documents the principles and standards that guide the management of the System's assets. It is binding upon all persons with authority over the assets, including investment managers, custodians, consultants, staff and the members of the Board of Trustees.

The Statement is the product of the Board's careful and prudent study and is reviewed annually and updated as needed. It sets forth the investment policies, objectives, and guidelines which the board of trustees judge to be appropriate and prudent, in consideration of the needs of the System, and to comply with K.S.A. 74-4901 et seq., to direct the System's assets. 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 provisions of ERISA to the greatest extent practicable. As such, this Statement is written to be consistent with ERISA.

Among other things, the Statement establishes the criteria against which the System's investment managers are to be measured. In addition, it serves as a review document to guide ongoing oversight of the investment of the Fund as a yardstick of compliance with K.S.A 74-4901 et seq.

TOTAL RETURNS BY FISCAL YEAR

*Fiscal Year through June 30, 2014*

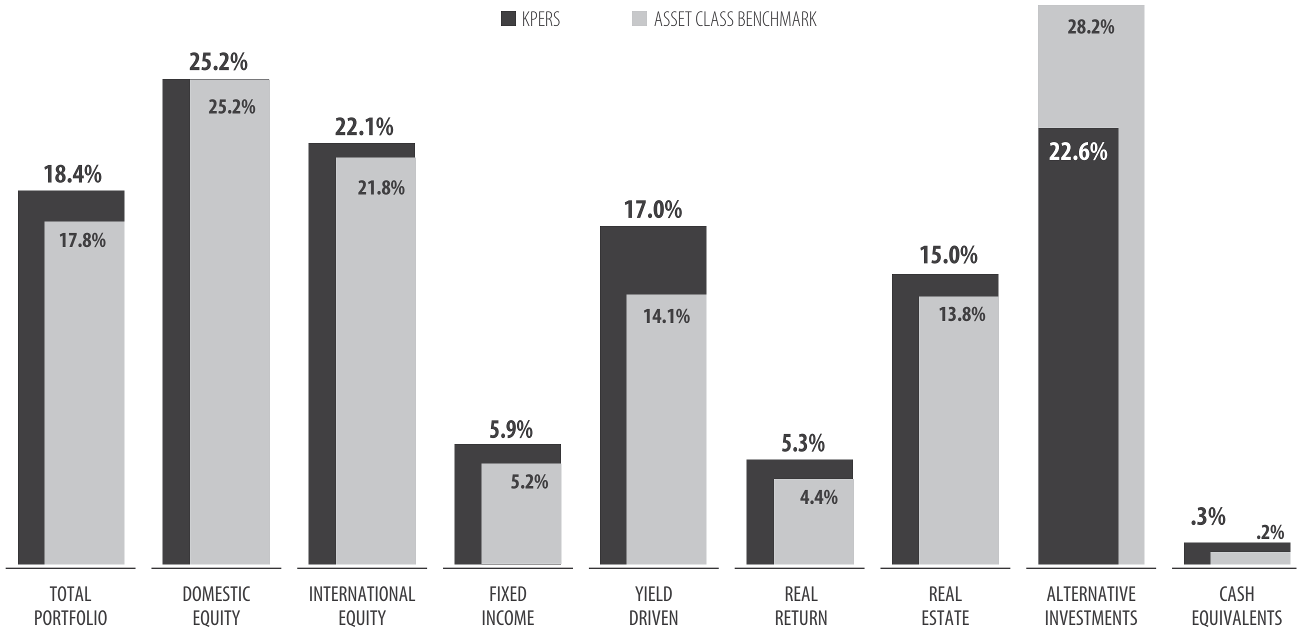



**FISCAL YEAR 2014 INVESTMENT PERFORMANCE**

The Retirement System's total investment portfolio experienced an 18.4 percent total return for the one year ending June 30, 2014. The 18.4 percent return exceeded the KPERS Policy Index by 0.6 percent for the fiscal year. For the three years ending June 30, 2014, the System's total investment portfolio has produced an average annualized return of 10.9 percent, which outperformed the Policy Index by 0.10 percent, and exceeded the 8 percent actuarial assumption. The trailing five year and ten year results are also robust, with average annualized total returns of 14.0 percent and 8.2 percent, respectively. As of June 30, 2014, the System's total return on total assets ranked in the top quartile of the Wilshire TUCS universe for all pension plans for all time periods, except the trailing seven year time period, when the ranking was above the median. For the fiscal year time period, the System's total return ranked in the 16th percentile in the TUCS universe for all plans.

TIME WEIGHTED TOTAL RETURN BY ASSET CLASS

*Fiscal Year 2014*




**FINANCIAL MARKET AND PERFORMANCE OVERVIEW**

Fiscal Year 2014, like Fiscal Year 2013, was a very positive year for broadly diversified institutional investors like the Retirement System. The fiscal year began with strong returns from domestic and international equities in the first two quarters, as risk assets continued to be supported by global central bank monetary policy. Global equity returns moderated in the third quarter, as stock markets were buffeted by concerns regarding the deteriorating economic growth outlook for China and the emerging markets, as well as escalating geopolitical tensions related to Russia and the Ukraine. However, the fixed income markets rallied in the third quarter, as interest rates declined, courtesy of both a flight to quality in U.S. Treasuries and a continued search for yield in the spread sectors. During the final quarter of the fiscal year, the System again benefited from its global equity investments, as the U.S. stock market reached new highs, developed non-U.S. stock markets like Japan and the UK posted strong returns, and the emerging equity markets continued their rebound. Following a 14.0 percent total return for Fiscal Year 2013, the System's assets produced a total return of 18.4 percent for Fiscal Year 2014.

**INVESTMENT STAFF**

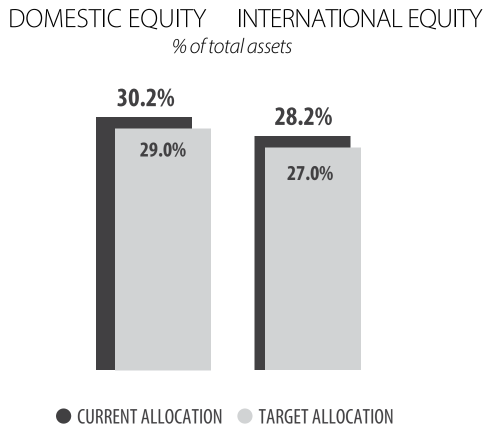
The System employs a staff of eight investment professionals to provide oversight and management of the assets and external investment managers. Under the oversight of the Chief Investment Officer (CIO), responsibility for the portfolio is assigned to the respective investment teams. The Deputy CIO for Public Markets has oversight responsibility for the publicly-traded asset classes, and oversees the System's active domestic and international equity investments. The Fixed Income Investment Officer is responsible for the management of the fixed income portfolios across asset classes, while the Assistant Investment Officer oversees the REIT, MLP, and passive domestic and international equity portfolios. The Senior Investment Officer for Private Markets handles the real estate and private equity investments. The Chief Investment Officer and the four Investment Officers are supported by a team of three Investment Analysts who provide research support and assistance in managing the portfolios. Investment staff are focused on bringing a consistent, disciplined management process to all aspects of oversight of investment managers, compliance monitoring, and risk management.

# PUBLIC EQUITY INVESTMENTS

Public equity investments represent the largest strategy allocation within the System's portfolio. As of June 30, 2014, the market value of the System's global equity portfolio was $9.59 billion. The strategy is executed through external managers investing domestically and internationally. Active strategies are utilized for approximately 47.0 percent of the public equity portfolio, focusing on international equities and small and mid-cap U.S. companies. The balance of the global equity portfolio is passively managed to replicate the return of broad market indices.

**PORTFOLIO STRUCTURE**

The following graph describes the current and target allocations at June 30, 2014:




**DOMESTIC EQUITY**

Domestic equities represent 51.7 percent of the total public equity portfolio and 30.2 percent of total assets. Domestic equity investments are benchmarked against the Russell 3000 index. It is the System's view that outperformance through active management is extremely difficult when investing in large cap U.S. equities. Therefore, 80 percent of the domestic equity portfolio is passively managed in an index strategy. This passive exposure is designed to replicate the return on U.S. large cap equities and is implemented through two investment managers.

The balance of the domestic equity portfolio is invested in the mid and small cap segments of the U.S. equity market. These investments are actively managed by four external managers.

**INTERNATIONAL EQUITY**

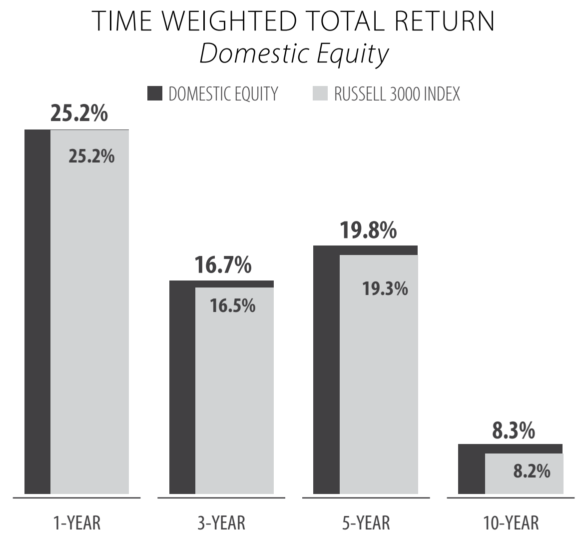
International equities represent 48.3 percent of the total public equity portfolio and 28.2 percent of total assets. International equity investments are benchmarked against the MSCI All Country World—Ex U.S. Index. Equity investments in companies domiciled outside of the United States offer the potential to add value through prudent active management. Therefore, 75 percent of this portfolio is actively managed. The System has retained six active managers to invest across the developed and emerging markets outside of the U.S. The balance of the international equity portfolio is invested to replicate the return on the MSCI All Country World—Ex U.S. Index.

**PERFORMANCE**

The System's domestic equity portfolio performed very well in FY 2014 both in absolute terms and relative to the portfolio's benchmark. Domestically, stocks with large market capitalizations outperformed those with the smallest, while those in the midcap range outperformed both large and small capitalization stocks.

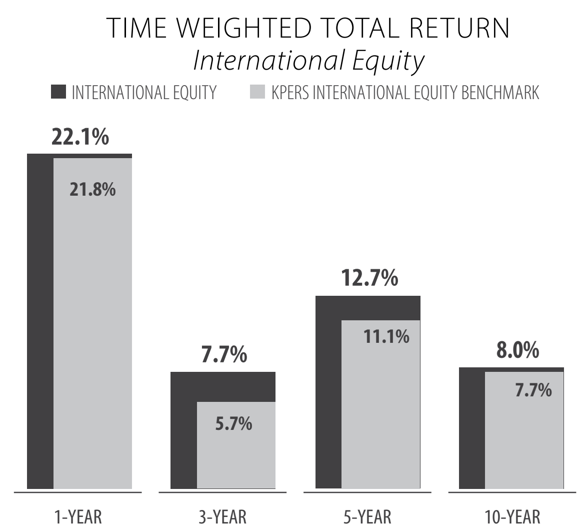
Overall, the return on the domestic equity portfolio was in line with its benchmark, as expected, given the large passive component. Over longer time periods, the domestic equity portfolio has met or exceeded its benchmark.

The following graph reports the performance of the domestic equity portfolio:




The international equity portfolio also performed well on both an absolute and relative basis during Fiscal Year 2014. Active management in this strategy added value during the fiscal year, and the portfolio has outperformed its benchmark over longer time periods.

The following graph reports the performance of the international equity portfolio:

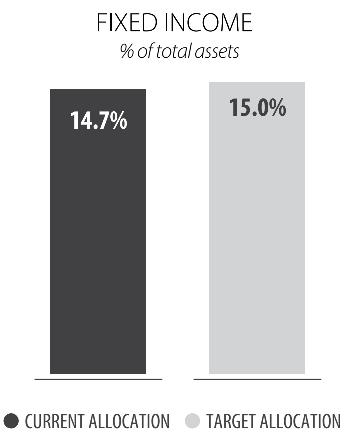


# FIXED INCOME

As of June 30, 2014, KPERS' fixed income portfolio had a market value of $2.4 billion, representing 14.7 percent of the total assets of the System. The portfolio is structured with external managers investing domestically and internationally through an active core-plus mandate. The strategy is managed by three investment managers.

**PORTFOLIO STRUCTURE**

The following graph provides details of the fixed income portfolio as of June 30, 2014:



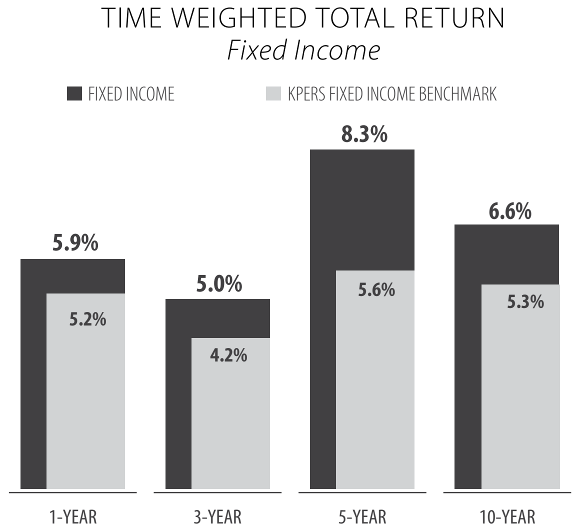

**CORE-PLUS FIXED INCOME**

The fixed income portfolio is invested in core plus strategies through three active investment managers. The portfolio's objective is to provide diversification to other assets in the System's portfolio and to preserve capital while providing current income. The core plus strategies are primarily invested in traditional investment grade securities and secondarily in non-investment grade securities. The fixed income portfolio utilizes the Barclays Capital Universal Index as the benchmark.

**PERFORMANCE**

The core plus fixed income portfolio outperformed its benchmark during Fiscal Year 2014, and has done so across all longer term time periods. Overall, the fixed income portfolio's duration and yield curve positioning and overweight in spread sectors such as high yield and emerging markets drove performance during Fiscal Year 2014.

The following graph reports the performance of the fixed income portfolio:

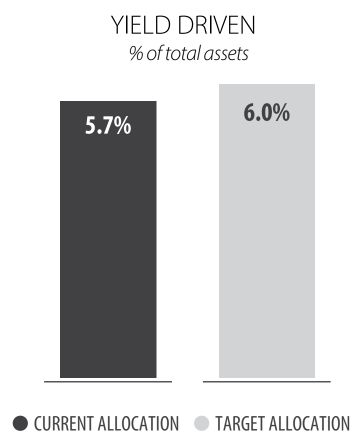



# YIELD DRIVEN

Yield driven investments represent one of the smaller strategy allocations within KPERS portfolio. As of June 30, 2014, the System's yield driven portfolio had a market value of $929.9 million representing 5.7 percent of total assets. The strategy is actively managed by three strategic fixed income managers, two REIT managers, and one MLP manager. The yield driven asset class is designed to produce current income and an element of diversification away from equity risk, while also maintaining some degree of correlation with equities.

**PORTFOLIO STRUCTURE**

The following graph describes the current and target allocations at June 30, 2014:




**STRATEGIC FIXED INCOME**

The strategic fixed income strategy represents approximately 52 percent of the total yield driven portfolio and 2.9 percent of total assets. The strategy is measured against custom benchmarks which are weighted to reflect each manager's investment style. It is the System's view that active management in extended market sectors (such as high yield and emerging markets) facilitates outperformance relative to the benchmark. While the strategic fixed income portfolio is invested in the traditional investment grade securities such as U.S. Treasuries and investment grade corporate bonds, it will also have sizeable allocations to high yield, emerging markets, currencies, and non-dollar securities.

Although the Systems' strategic fixed income portfolios performed very well in absolute terms during Fiscal Year 2014, as a group they struggled somewhat versus their benchmarks. Two of the three strategic fixed income portfolios have outperformed their benchmarks over the past three and five year time periods.

### REAL ESTATE INVESTMENT TRUSTS (REITS)

REITs represent 22.7 percent of the yield driven asset class and 1.3 percent of the System's total assets. This strategy is benchmarked against the MSCI US REIT Index. The publicly-traded real estate securities portfolio is implemented by managers who actively invest in domestic REITs, real estate operating companies (REOCs) and related investment vehicles. The domestic REIT strategy is actively managed by two investment managers. Performance of the REIT portfolio during Fiscal Year 2014 was very strong in both relative and absolute terms. Both investment managers have outperformed their benchmarks for all time periods under management.

### MASTER LIMITED PARTNERSHIPS (MLPS)

MLPs represent 25.0 percent of the yield driven asset class and 1.4 percent of the System's total assets. The strategy is benchmarked against the Alerian MLP Index. The MLP sector offers attractive yields relative to other asset classes, as well as attractive growth prospects. The MLP portfolio is comprised of diversified energy sectors including companies focused on "midstream," gathering and processing, infrastructure, and natural gas pipelines and storage. The System currently has one active MLP investment manager, which has outperformed its benchmark for all time periods under management.

### PERFORMANCE

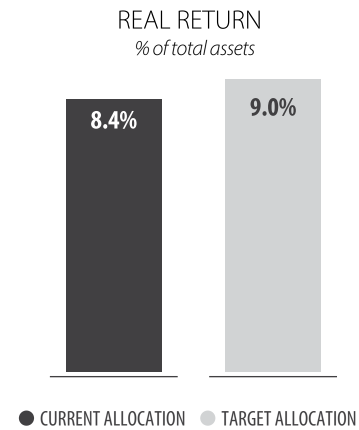
The yield driven portfolio produced a total return of 17.0 percent in Fiscal Year 2014, producing strong absolute performance, and beating the benchmark return of 14.1 percent. Since the yield driven portfolio was implemented on January 1, 2013, longer term performance results are not available.

## REAL RETURN INVESTMENTS

The real return portfolio is designed to provide the System with a hedge against future inflationary episodes. This strategy utilizes both public and private market investments. Public market exposure is global and achieved primarily through inflation linked fixed income securities issued by governments and their agencies in the U.S. as well as in developed countries around the world. Exposure in the private markets is currently achieved through investments in timber and infrastructure. The real return portfolio represents 8.4 percent of the System's total assets, and had a market value of $1.3 billion as of June 30, 2014.

### PORTFOLIO STRUCTURE

The following graph describes the current and target allocations at June 30, 2014:




### U.S. TREASURY INFLATION LINKED BONDS (TIPS)

The TIPS portfolio represents 62.4 percent of the real return portfolio and is benchmarked against the Barclays U.S. TIPS Index. This passively managed exposure is designed to replicate the return on domestic inflation linked bonds. It is the System's view that the minimal excess return available through active management of TIPS is not sufficient to compensate for the incremental costs of active management fees. The TIPS portfolio outperformed its benchmark during Fiscal Year 2014.

### GLOBAL INFLATION LINKED BONDS (GILBS)

The GILB portfolio represents 28.8 percent of the real return portfolio and is benchmarked against the Barclays World ILB Index (USD Hedged). The GILB portfolio provides global diversification by broadening the opportunity set to capture unexpected inflation within investment grade sovereign bonds. ILBs' sources of excess return include the identification of mispricing due to the direction of global interest rates, the shape of each country's yield curve, global breakeven inflation and relative value in global nominal bonds. The GILB portfolio performed in line with its benchmark in Fiscal Year 2014.

### TIMBER

Timber investments are a component of the System's real return asset allocation due to their historically high correlation to inflation. The System is diversified within timber markets located in Texas, Louisiana and Idaho. The System continues to look for ways to diversify its timber portfolio in order to achieve the highest risk-adjusted returns while complying with the timber program's policy objectives and expected return targets. Over time, timber investments are expected to provide the System with current cash yields and modest capital appreciation. For Fiscal Year 2014, the System's timber investment produced a robust total return.

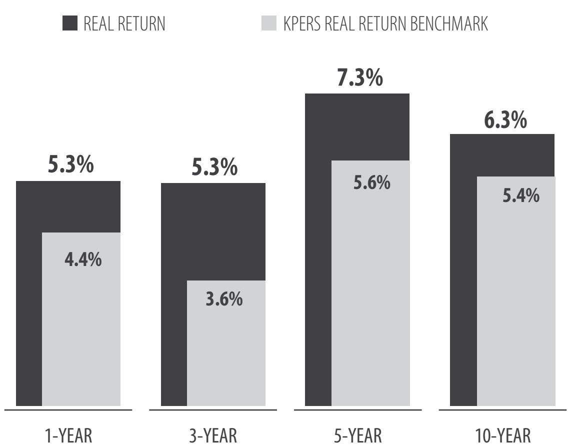
**INFRASTRUCTURE**

The System's infrastructure manager has been successful in operating its infrastructure investments. The portfolio produced a very robust total return for the fiscal year. The fund's infrastructure portfolio is well diversified, with investments in Australia, the United Kingdom, and throughout North and South America, and diversified across multiple sectors, including renewable power, toll roads, electric utilities, sea ports and energy.

**PERFORMANCE**

The System's real return portfolio outperformed its benchmark in Fiscal Year 2014. The portfolio allocations to timber and infrastructure drove the relative outperformance during Fiscal Year 2014. The real return portfolio has also outperformed its benchmark over the longer term time periods.

TIME WEIGHTED TOTAL RETURN
*Real Return*




# REAL ESTATE INVESTMENTS

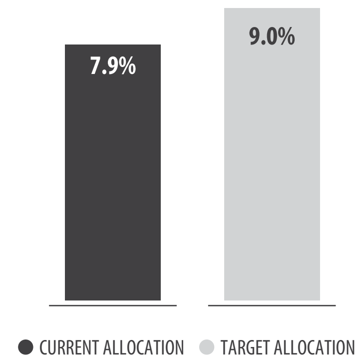
As of June 30, 2014, the real estate portfolio had a market value of $1.3 billion, representing 7.9 percent of the total fund. The real estate portfolio is primarily designed to provide diversification to the broader portfolio, while also providing a meaningful current income. Capital appreciation is a tertiary objective of current real estate investment activities.

**PORTFOLIO STRUCTURE**

The System's real estate portfolio is classified into two categories: "core" and "noncore." The "core" portion of the portfolio is targeted at a 65 percent allocation, while the "noncore" segment is targeted at a 35 percent allocation.

The following graph describes the current and target allocations as of June 30, 2014:

REAL ESTATE
*% of total assets*




**CORE REAL ESTATE**

The largest segment of the real estate portfolio is "core" real estate. This portion of the portfolio is expected to produce steady current income in the form of investment yield while also providing portfolio diversification, and serving as an inflation hedge. KPERS' core portfolio currently consists of:

- A separate account containing six directly-owned commercial properties in the U.S.
- Partial and full commitments to six commingled funds.

The System continues to pursue the gradual liquidation of the separate account real estate portfolio and reinvestment of the proceeds into pooled real estate investment funds. This strategy is expected to result in improved liquidity, enhanced portfolio diversification, lower management fees and a reduction in the single event risk associated with owning individual real estate assets.

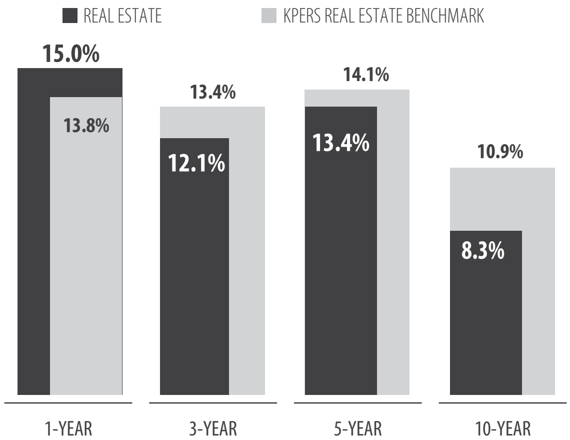
**NON-CORE REAL ESTATE**

The "non-core" segment consists of investments that generally involve some element of property lifecycle risk (such as positioning, leasing and development) while also utilizing greater leverage (debt) than core strategies. While providing elements of inflation protection and a diversification benefit to the broader portfolio, the System expects non-core real estate investments to produce meaningful capital appreciation and higher overall long-term returns than core investments. The non-core portfolio consists of investment funds employing a diversity of strategies and property types, both domestically and internationally.

**PERFORMANCE**

The System's real estate portfolio outperformed its benchmark in Fiscal Year 2014. The core real estate portfolio produced a total return of 13.6 percent, beating its benchmark by 0.9 percent, while the non-core real estate portfolio outperformed its benchmark by 1.2 percent with a total return of 16.9 percent. Overall, most of the System's real estate fund investments continued to benefit from the modest improvements to the economic landscape, with the majority generating substantial positive returns

TIME WEIGHTED TOTAL RETURN
*Real Estate*



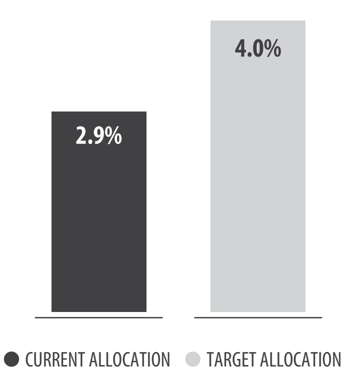

# ALTERNATIVE INVESTMENTS

At June 30, 2014, the System's alternative investment portfolio had a fair market value of $478.3 million, representing 2.9 percent of the total portfolio.  Since the inception of the alternative investment program in 1997 through June 30 2014, the System has committed $1.9 billion to 82 funds with 56 general partners.

**PORTFOLIO STRUCTURE**

The folowing graph describes the current and target allocations as of June 30, 2014:

ALTERNATE INVESTMENTS
*% of total assets*




The alternative investment portfolio consists primarily of interest in private partnerships that provide equity and debt to companies. The portfolio contains two primary sub-portfolios based on investment period. Each portfolio has its own set of directives, guidelines, external fund managers and consultants who provide advice on investment strategy and investment selection during its investment period. The largest portfolio is the Private Equity Program (PEP), representing 87.6 percent of the market value of the asset class. The PEP portfolio actively seeks new commitments to private equity funds in three styles: buyout, venture capital/growth equity and special situations. Since the inception of PEP in 2007, the System has committed $1.064 billion to 32 funds with 23 general partners.

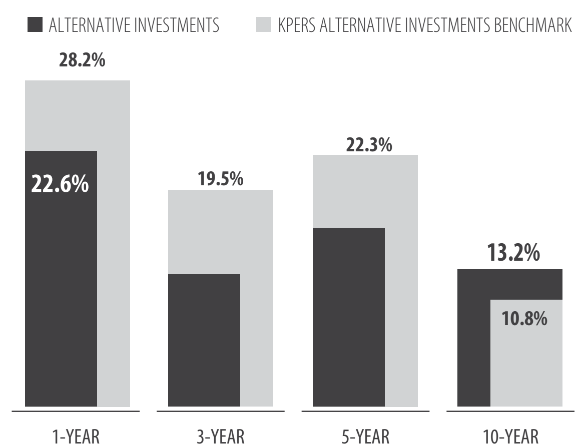
The second portfolio is the Alternative Investment Portfolio (AIP) which represents 12.4 percent of the market value of the asset class. From 1997 to 2001, AIP made commitments to 54 funds with 35 general partners across five styles: buyout, venture capital, mezzanine, distressed debt and natural resources. As this is a mature portfolio, the remaining funds in the AIP portfolio are currently pursuing exit strategies for their existing holdings.

**PERFORMANCE**

Private equity investments typically span ten years or longer. Therefore, the longer term returns from this asset class are more relevant in assessing its success in adding value to the overall portfolio. The System's long-term performance objective for alternative investments is to exceed the return of the Russell 3000 plus 3 percent. As the chart below shows, the alternative investments portfolio has surpassed that objective over the ten year time period, with a total return of 13.2 percent

As required by K.S.A 74-4904, a schedule of alternative investments initiated on or after July 1, 1991, is listed on the following two pages.

TIME WEIGHTED TOTAL RETURN
*Alternative Investments*



## ALTERNATIVE INVESTMENTS INITIATED ON OR AFTER JULY 1, 1991[a]

*As of June 30, 2014*

| Description | Cost | Market Value |
|---|---|---|
| Advanced Technology Ventures VI, L.P. | $ 9,234,267 | $ 1,004,700 |
| Apax Europe IV, L.P. | 778,519 | 361,342 |
| Apax Europe V, L.P. | 9,999,780 | 2,435,515 |
| Apollo Investment Fund VII, L.P. | 10,755,988 | 15,645,972 |
| Apollo Investment Fund VIII, L.P. | 1,836,097 | 2,104,174 |
| Ares Corporate Opportunities Fund III, L.P. | 12,984,967 | 16,766,134 |
| Ares Corporate Opportunities Fund IV, L.P. | 5,309,561 | 5,756,050 |
| Audax Mezzanine Fund III, L.P. | 8,997,232 | 9,032,386 |
| Battery Ventures VI, L.P. | 4,709,933 | 1,383,267 |
| Beacon Group Energy Fund II, L.P. | 1,857,390 | 827,795 |
| Capital Resource Partners IV, L.P. | 5,516,766 | 1,154,563 |
| CCMP Capital Investors III, L.P. | 10,993,188 | 10,865,019 |
| Centerbridge Capital Partners II, L.P. | 14,617,193 | 17,954,374 |
| Cinven Second Fund US, L.P. | 261,704 | 9,708 |
| Clayton Dublier & Rice VI, L.P. | 3,032,896 | 54,503 |
| Cypress Merchant Banking II, L.P. | 9,698,825 | 2,439,008 |
| Dominion Fund V, L.P. | 221,389 | 201,794 |
| El Dorado Ventures VI, L.P. | 6,935,852 | 5,862,000 |
| Encap Energy Capital VIII, L.P. | 15,850,626 | 23,943,266 |
| Encap Energy Capital IX, L.P. | 6,872,789 | 10,543,223 |
| First Reserve Fund XII, L.P. | 18,166,976 | 19,560,777 |
| GSO Capital Soulutions Fund, L.P. | 16,321,370 | 19,481,043 |
| GSO Capital Soulutions Fund II, L.P. | 1,058,894 | 1,458,933 |
| GTCR Fund VII, L.P. | — | 105,938 |
| Halpern Denny Fund III, L.P. | 4,323,178 | 230,901 |
| Hellman & Friedman VII, L.P. | 8,176,488 | 9,746,285 |
| JMI Equity Fund VII, L.P. | 9,780,715 | 9,847,096 |
| Littlejohn Fund II, L.P. | 2,849,750 | 2,482,037 |
| McCown De Leeuw & Company IV, L.P. | — | 947,880 |
| Montagu IV, L.P. | 9,709,261 | 12,026,295 |
| New Enterprise Associates 13, L.P. | 7,822,301 | 10,276,713 |
| Oak Hill Capital Partners, L.P. | 1,287,832 | 212,459 |
| OCM Opportunities Fund II, L.P. | 969,215 | 12,005 |
| OCM Opportunities Fund III, L.P. | 1,224,744 | 175,872 |
| OCM Opportunities Fund VIIb, L.P. | — | 5,840,026 |
| OneLiberty Fund IV, L.P. | 1,241,901 | 1,378,075 |
| OneLiberty Ventures 2000, L.P. | 16,581,399 | 9,819,455 |
| Pine Brook Capital Partners, L.P. | 14,534,497 | 17,289,391 |
| Pine Brook Capital Partners II, L.P. | 8,595,466 | 10,148,418 |
| Platinum Equity Capital Partners III, L.P. | 6,404,021 | 10,341,999 |
| Snow Phipps II, L.P. | 9,779,476 | 14,941,210 |
| TA IX, L.P. | 92,369 | 2,335,173 |

## ALTERNATIVE INVESTMENTS INITIATED ON OR AFTER JULY 1, 1991[(a)] (CONTINUED)

*As of June 30, 2014*

| Description | Cost | Market Value |
|---|---|---|
| TCV IV, L.P. | 6,987,412 | 76,105 |
| Thomas H. Lee Equity Fund V, L.P. | — | 4,732,574 |
| TowerBrook Investors III, L.P. | 14,171,389 | 20,463,745 |
| TPG Growth II, L.P. | 10,627,387 | 13,474,316 |
| TPG Partners VI, L.P. | 18,173,147 | 21,799,391 |
| Trinity Ventures VI, L.P. | 373,519 | 23,948 |
| Trinity Ventures VII, L.P. | 7,014,721 | 149,589 |
| Trinity Ventures VIII, L.P. | 9,493,314 | 318,567 |
| VantagePoint Venture Partners III, L.P. | 7,533,543 | 1,035,669 |
| VantagePoint Venture Partners IV, L.P. | 13,937,654 | 8,160,081 |
| Vestar Capital Partners IV, L.P. | 3,246,838 | 3,268,466 |
| Vista Equity Partners Fund IV, L.P. | 24,589,783 | 29,080,116 |
| Vista Equity Partners Fund V, L.P. | 2,663,993 | 2,663,993 |
| VS&A Communications Partners III, L.P. | 6,175,202 | 617,785 |
| Warburg, Pincus Equity Partners, L.P. | — | 779,466 |
| Warburg Pincus Private Equity X, L.P. | 25,923,410 | 46,524,959 |
| Warburg Pincus Private Equity XI, L.P. | 20,424,202 | 23,568,787 |
| Wellspring Capital Partners V, L.P. | 7,826,866 | 7,856,805 |
| Welsh, Carson, Anderson & Stowe VIII, L.P. | 2,369,487 | 24,599 |
| Welsh, Carson, Anderson & Stowe IX, L.P. | 5,946,041 | 4,581,102 |
| Willis Stein & Partners III, L.P. | 19,613,513 | 1,020,432 |
| Windjammer Mezzanine & Equity Fund II, L.P. | 60,764 | 744,152 |
| | $486,536,998 | $477,967,421 |

*(a) Investment values quoted without spin-offs or distributions.*

## LIST OF LARGEST HOLDINGS[a]

*As of June 30, 2014*

| EQUITIES | | | | FIXED INCOME | | |
|---|---|---|---|---|---|---|
| Shares | Security | Fair Value | Par Value | Security | Description | Fair Value |
| 586,252 | Apple Inc | $54,480,398 | $100,000,000 | US Treasury Note | .250% 08/15/2015 | $100,094,000 |
| 482,715 | Novartis | 43,709,985 | 60,020,000 | US Treasury Note | 2.500% 05/15/2024 | 59,935,372 |
| 417,533 | Exxon Mobil Corp | 42,037,222 | 50,000,000 | US Treasury Note | .375% 06/15/2015 | 50,113,500 |
| 291,660 | Bayer AG Ord NPV | 41,190,507 | 50,000,000 | US Treasury Note | .250% 07/31/2015 | 50,052,500 |
| 136,357 | Roche Hldg AG | 40,670,305 | 50,000,000 | US Treasury Note | .250% 07/15/2015 | 50,049,000 |
| 622,503 | British American Tobacco | 37,019,371 | 50,000,000 | Federal Hm Loan Mtg Note Disc | Mat 07/25/2014 | 49,999,222 |
| 803,143 | Microsoft Corp | 33,491,063 | 49,400,000 | US Treasury Note | Var Rate 04/30/2016 | 49,412,844 |
| 595,277 | Sampo OYJ Ser'A'NPV | 30,115,118 | 40,700,000 | Commit to Purch FNMA SF Mtg | 3.500% 07/01/2044 | 41,895,766 |
| 275,076 | Johnson & Johnson | 28,778,451 | 34,712,970 | US Treasury -CPI | .625% 01/15/2024 | 35,971,316 |
| 20,888,178 | Lloyds Banking Group PLC | 26,518,871 | 28,358,295 | US Treasury -CPI Infla | 2.500% 01/15/2029 | 35,780,228 |

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

## CHANGES IN FAIR VALUE OF INVESTMENTS

*(In Thousands)[1]*

*For the Fiscal Year Ended June 30, 2014*

| | June 30, 2013 Fair Value | Purchases and Other Increases | Sales and Other Decreases | June 30, 2014 Fair Value | Asset Mix Fair Value |
|---|---|---|---|---|---|
| **Market Securities** | | | | | |
| Domestic Equities[3] | $ 5,057,827 | $ 1,882,460 | $ (1,398,149) | $ 5,542,138 | 33.52% |
| International Equities[3] | 3,700,662 | 1,842,156 | (1,306,549) | 4,236,269 | 25.62 |
| Total Fixed | 3,747,413 | 6,778,432 | (6,019,440) | 4,506,405 | 27.26 |
| Temporary[2] Investments | 275,778 | 23,829,766 | (23,762,253) | 343,291 | 2.08 |
| Total Marketable Securities | 12,781,680 | 34,332,814 | (32,486,391) | 14,628,103 | 88.48 |
| **Real Estate and Alternative Investments** | | | | | |
| Real Estate[3] | 1,350,412 | 411,187 | (335,631) | 1,425,968 | 8.63 |
| Alternatives | 373,639 | 196,051 | (91,401) | 478,289 | 2.89 |
| Total Real Estate and Alternative Investments | 1,724,051 | 607,238 | (427,032) | 1,904,257 | 11.52 |
| Total | $14,505,731 | $34,940,052 | $(32,913,423) | $16,532,360 | 100.00% |

*1)Amounts Include changes in unrealized appreciation and exclude interest and dividend accruals. Amounts exclude security lending cash collateral of $1,639,377,142 fFor FY 2013, And FY 2014 cash collateral of $1,794,435,246.*

*2)Temporary investments include currencies, short term pools, and securities maturing within 90 days of purchase.*

## U.S. EQUITY COMMISSIONS

*For the Fiscal Year Ending June 30, 2014*

| Commissions | | Commission | Percent of Total | |
|---|---|---|---|---|
| Broker Name | Paid | Shares | Per Share | Commissions |
| Investment Technology Group, NY | $ 133,338 | 11,130,167 | $0.01 | 12.8% |
| Liquidnet Inc, Brooklyn | 121,074 | 9,270,355 | 0.01 | 11.6 |
| Merrill Lynch Pierce Fenner Smith Inc, NY | 89,174 | 2,999,966 | 0.03 | 8.5 |
| Credit Suisse, NY | 38,268 | 2,267,470 | 0.02 | 3.7 |
| UBS Securities LLC, Stamford | 37,663 | 990,033 | 0.04 | 3.6 |
| Instinet Corp, NY | 37,027 | 4,632,827 | 0.01 | 3.5 |
| JP Morgan Clearing Group, New York | 35,368 | 1,589,009 | 0.02 | 3.4 |
| Goldman Sachs & Co. | 33,090 | 3,256,771 | 0.01 | 3.2 |
| Barclays Capital Inc, New Jersey | 30,768 | 1,464,890 | 0.02 | 2.9 |
| BTIG LLC, San Francisco | 28,761 | 1,208,357 | 0.02 | 2.6 |
| Morgan Stanley & Co. Inc, NY | 26,779 | 3,992,042 | 0.01 | 2.8 |
| Deutsche Bk Secs Inc, NY | 21,809 | 667,024 | 0.03 | 2.1 |
| RBC Capital Markets LLC, NY | 21,769 | 683,149 | 0.03 | 2.1 |
| Citigroup Gbl Mkts Salomon, NY | 21,634 | 697,901 | 0.03 | 2.1 |
| Stifel Nicholaus | 21,560 | 697,389 | 0.03 | 2.1 |
| Raymond James & Assoc Inc, St Petersburg | 20,846 | 691,392 | 0.03 | 2.1 |
| Pulse Trading LLC, Boston | 20,093 | 1,904,792 | 0.01 | 1.9 |
| Wells Fargo Securities LLC, Charlotte, NC | 16,985 | 566,215 | 0.03 | 1.6 |
| Jonestrading Instl Svcs LLC, Westlake | 15,997 | 733,875 | 0.02 | 1.5 |
| Cantor Fitzgerald & Co. Inc, NY | 14,841 | 662,972 | 0.02 | 1.4 |
| FBR Capital Markets & Co, Arlington | 14,114 | 472,900 | 0.03 | 1.5 |
| Baird, Robert W & Co. Inc, Milwaukee | 14,072 | 487,941 | 0.03 | 1.3 |
| Jefferies & Co. Inc, NY | 13,695 | 458,037 | 0.03 | 1.3 |
| Sandler O'Neill & Partners, New York | 12,179 | 405,954 | 0.03 | 1.2 |
| Weeden & Co, NY | 12,101 | 566,003 | 0.02 | 1.2 |
| Others | 190,612 | 7,334,810 | 0.03 | 18.3 |
| **Total Broker Commissions** | **$1,043,619** | **59,832,241** | | **100.0%** |

# **actuarial** section

# ACTUARIAL CERTIFICATION LETTER

Cavanaugh Macdonald
CONSULTING, LLC
*The experience and dedication you deserve*

November 6, 2014

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 performed an actuarial valuation of the Kansas Public Employees Retirement System (KPERS) as of December 31, 2013 for purposes of determining contribution rates for fiscal year 2017 for the State and 2016 for Local employers. Actuarial valuations are prepared annually for the System. The Board of Trustees is responsible for establishing and maintaining the funding policy but must comply with the statutory requirement that the employer statutory contribution rate for KPERS cannot increase by more than the statutory cap each year. The major findings of the valuation are contained in this report, which reflects the benefit provisions in place on December 31, 2013, including House Bill 2533 (passed by the 2014 Legislature) which modified the Cash Balance plan design for KPERS 3 members. There were no changes to the actuarial assumptions and methods from those used in the prior valuation.

In preparing our report, we relied, without audit, on information (some oral and some in writing) supplied by the System's staff. This information includes, but is not limited to, statutory provisions, member data and financial information. We found this information to be reasonably consistent and comparable with information used for other purposes. The valuation results depend on the integrity of this information. If any of this information is inaccurate or incomplete, our results may be different and our calculations may need to be revised.

We 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 individually reasonable (taking into account the experience of the System and reasonable expectations); and which, in combination, offer our best estimate of anticipated experience affecting the System. Nevertheless, the emerging costs will vary from those presented in this valuation 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 Appendix C of our valuation report.

Future actuarial measurements may differ significantly from the current measurements presented in the December 31, 2013 valuation report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements.

Actuarial computations presented in this section are for purposes of determining the recommended and statutory funding amounts for the System. The calculations have been made on a basis consistent with our understanding of the System's funding requirements and goals. Determinations for purposes other than meeting these requirements may be significantly different from the results shown in the December 31, 2013 valuation report. Accordingly, additional determinations may be needed for other purposes.

The actuary prepared the following supporting schedules for the Comprehensive Annual Financial Report:

**ACTUARIAL SECTION**

Schedule of Funding Progress
Summary of Change in Unfunded Actuarial Liability
Summary of Changes in Actuarial Contribution Rate
Summary of Historical Changes to Total System UAL
Summary of Principal Results
Summary of Actuarial Assumptions and Methods
Summary of Membership Data

Actuarial computations, based on the actuarial valuation performed as of December 31, 2013, were also prepared as of June 30, 2014 for purposes of fulfilling financial accounting requirements for the System under Governmental Accounting Standard Number 67 (GASB 67). The assumptions used in the funding valuation were also used for GASB 67 reporting, including the use of an 8% discount rate for GASB 67 calculations (8% is the assumed rate of return used in the funding valuation). In addition, the entry age normal actuarial cost method, which is required to be used under GASB 67, is also used in the funding valuation. The actuarial assumptions and methods meet the parameters set by Actuarial Standards of Practice (ASOPs), as issued by the Actuarial Standards Board, and generally accepted accounting principles (GAAP) applicable in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB). The Total Pension Liability was rolled forward to June 30, 2014 based on standard actuarial formulae. Additional information related to GASB 67 can be found in the Financial Section of this report.

Cavanaugh Macdonald Consulting, LLC provided the following supporting schedules:

**FINANCIAL SECTION**

Calculation of the Total Pension Liability and Net Pension Liability
Schedule of the Net Pension Liability
Sensitivity Analysis of the Net Pension Liability
Schedule of Changes in the Net Pension Liability

In addition, the Schedule of Employer Contributions which compares the actuarially determined employer contribution amounts and the actual contribution amounts is included in the Required Supplementary Information (RSI).

The consultants who worked on this assignment are pension actuaries. Cavanaugh Macdonald Consulting's (CMC) advice is not intended to be a substitute for qualified legal or accounting counsel.

We certify that, to the best of our knowledge and belief, the December 31, 2013 actuarial valuation report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices. We are members of the American Academy of Actuaries and meet the Qualification Standards to render the actuarial opinion contained herein.

Sincerely,

Patrice Beckham

Patrice A. Beckham, FSA, EA, FCA, MAAA
Principal and Consulting Actuary

Brent A. Banister

Brent A. Banister, FSA, EA, FCA, MAAA
Chief Pension Actuary

# SECTION I BOARD SUMMARY 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). The results of the December 31, 2013 actuarial valuations for each of the Systems is discussed below.

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, and
- analyze and report on trends in System contributions, assets, and liabilities over the past several years.

The 2014 Legislature passed House Bill 2533 (HB 2533) which was signed into law by the Governor on April 18, 2014. HB 2533 modified the Cash Balance plan design for future tier 3 members of the Kansas Public Employees Retirement System (KPERS 3 members) which is effective for members hired on or after January 1, 2015. The changes were:

- Reduce the minimum guaranteed interest crediting rate from 5.25 percent to 4.00 percent.
- Revise the criteria for determining the additional interest credits, moving to a more formula driven basis: 75% of rate of return over 6% using a five year rolling average
- Revise the annuity interest rate of 6.0 percent to an interest rate equal to 2.0 percent less than the actuarial assumed investment rate of return, as established by the KPERS Board of Trustees in effect on the member's annuity start date. The current earnings assumption is 8.0 percent, as adopted by the KPERS Board of Trustees in 1987.

Given the effective date of KPER 3, there are no KPERS 3 members included in the December 31, 2013 valuation, and therefore, these changes had no cost impact on the valuation results. However, the impact of the changes in the plan design for KPERS 3 members is reflected in the projection of future employer contribution rates shown later.

The valuation results provide a "snapshot" view of the System's financial condition on December 31, 2013. The unfunded actuarial liability (UAL), for the System as a whole, decreased by $487 million due to multiple factors.

In KPERS, the 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 current statutory cap is 0.90% for fiscal year 2014, 1.0% for fiscal year 2015, 1.1% for fiscal year 2016 and 1.2% for fiscal year 2017 and later.

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

## DECEMBER 31, 2013 VALUATION

| System | Actuarial | Statutory | Difference |
|---|---|---|---|
| State[1] | 10.77% | 13.57% | (2.80%) |
| School[1] | 16.03% | 13.57% | 2.46% |
| State/School[1] | 14.85% | 13.57% | 1.28% |
| Local[1] | 9.18% | 9.18% | 0.00% |
| Police & Fire - Uniform Rates[2] | 20.42% | 20.42% | 0.00% |
| Judges | 21.36% | 21.36% | 0.00% |

## DECEMBER 31, 2012 VALUATION

| System | Actuarial | Statutory | Difference |
|---|---|---|---|
| State | 11.44% | 12.37% | (0.93%) |
| School | 16.00% | 12.37% | 3.63% |
| State/School | 14.95% | 12.37% | 2.58% |
| Local | 9.48% | 9.48% | 0.00% |
| Police & Fire - Uniform Rates | 21.36% | 21.36% | 0.00% |
| Judges | 23.98% | 23.98% | 0.00% |

*1 By statute, rates are allowed to increase by a maximum of 0.9% for FY 2014, 1.0% in FY 2015, 1.1% in FY 2016 and 1.2% in FY 2017 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 is 20.38% this year. The uniform rate does not include the payment required to amortize the unfunded past service liability determined separately for each employer.*

The rate of return on the market value of assets in 2013 was over 17%, in excess of the assumed rate of return of 8%. As a result, as of this valuation date, the State and Local groups continue to be at the ARC rate. In addition, the School group is in actuarial balance (the statutory contribution rate is projected to converge with the actuarial required contribution (ARC) rate before the end of the amortization period (2033), if all actuarial assumptions are met in future years.

# EXPERIENCE—ALL SYSTEMS COMBINED

December 31, 2012 – December 31, 2013

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, 2013. 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, 2012 and December 31, 2013 actuarial valuations. On the following pages, each component is examined.

**MEMBERSHIP**

The following table contains a summary of the changes in active members between the December 31, 2012 and December 31, 2013 actuarial valuations.

| | State | School | Local | KP&F | Judges | Total |
|---|---|---|---|---|---|---|
| 12/31/2012 (Starting count) | 23,826 | 85,428 | 39,351 | 7,187 | 261 | 156,053 |
| New actives | 2,273 | 9,895 | 5,224 | 564 | 24 | 17,980 |
| Nonvested Terminations | 767 | 3,476 | 1,904 | 185 | 0 | 6,332 |
| Elected Refund | 694 | 1,305 | 1,407 | 111 | 0 | 3,517 |
| Vested Terminations | 646 | 2,194 | 1,140 | 21 | 1 | 4,002 |
| Total Withdrawals | 2,107 | 6,975 | 4,451 | 317 | 1 | 13,851 |
| Deaths | 47 | 79 | 78 | 1 | 2 | 207 |
| Disabilities | 40 | 88 | 47 | 25 | 0 | 200 |
| Retirements | 770 | 2,403 | 968 | 168 | 17 | 4,326 |
| Other/Transfer | -18 | -26 | 57 | -13 | 0 | 0 |
| 12/31/2013 (Ending count) | 23,117 | 85,752 | 39,088 | 7,224 | 265 | 155,446 |

In aggregate, the number of active members decreased although the School and KPF saw a slight increase in the number of active members. In the current economic environment, this pattern of low (or negative) employee growth is not surprising. Coupled with low salary increases, the total payroll did not grow as much as expected, so there were fewer contributions to help pay down the System's UAL.

**ASSETS**

As of December 31, 2013, the System had total funds of $15.7 billion on a market value basis, excluding assets held for the Group Insurance and Optional Life reserves. This was an increase of $1.9 billion from the December 31, 2012 figure of $13.8 billion.

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 components of the change in the market value and actuarial value of assets for the Retirement System (in millions) are set forth below.

| | Market Value $(millions) | Actuarial Value $(millions) |
|---|---|---|
| Assets, December 31, 2012 | $13,817 | $13,278 |
| • Employer and Member Contributions | 959 | 959 |
| • Benefit Payments | (1,397) | (1,397) |
| • Allocation of Administrative Reserve* | 24 | 24 |
| • Investment Income | 2,341 | 1,699 |
| Assets, December 31, 2013 | $15,745 | $14,563 |

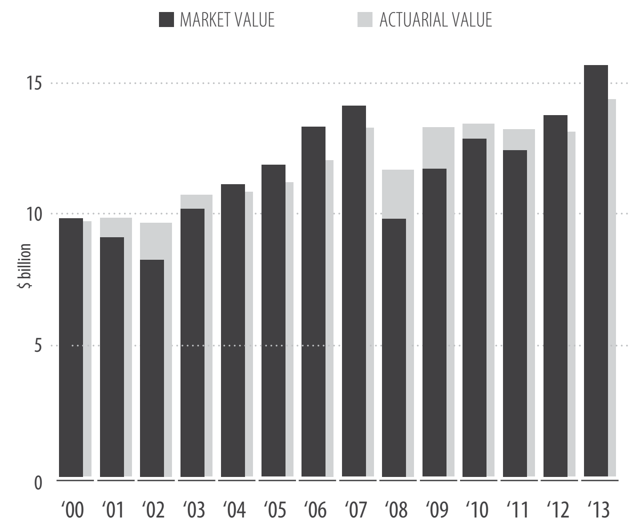
**During 2013, the System's accounting practices were modified to allocate the administrative reserve balance back into the System assets.*

The actuarial value of assets as of December 31, 2013, was $14.563 billion. The annualized dollar-weighted net rate of return for 2013, measured on the actuarial value of assets, was approximately 13.0% and measured on the market value of assets, as reported by KPERS, was 17.2%, net of investment expenses.

Due to the use of an asset smoothing method, there is $1,182 million of net deferred investment gain experience that has not yet been recognized, i.e. the market value of asset is higher than the actuarial value. This deferred investment gain will be reflected in the actuarial value of assets over the next four years, but may be offset by actual investment experience if it is less favorable than assumed.

TOTAL SYSTEM ASSETS

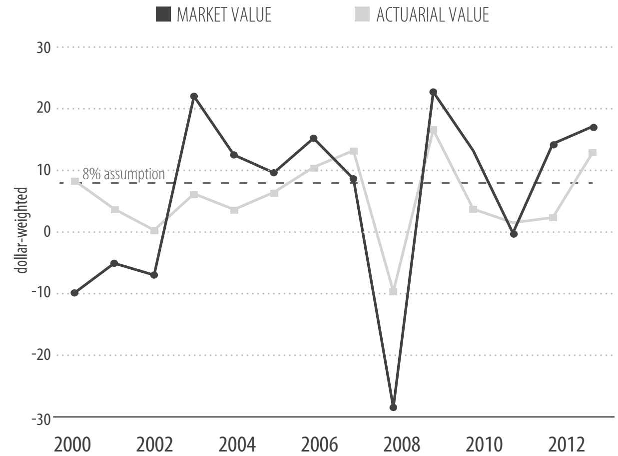
*By Calendar Year*




The actuarial value of assets has been both above and below the market value during the period, which is to be expected when using an asset smoothing method.

ASSETS RATE OF RETURN

*By Calendar Year*




The rate of return on the actuarial (smoothed) value of assets has been less volatile than the market value return. The deferred investment gains will be reflected in the actuarial value of assets in the next few years, absent unfavorable investment experience.

**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 unfunded actuarial liability ($ million) by group is summarized below:

| | State | School | Local | KP&F | Judges | Total* |
|---|---|---|---|---|---|---|
| Actuarial Liability | $4,076 | $13,002 | $4,382 | $2,707 | $162 | $24,329 |
| Actuarial Value of Assets | 2,947 | 6,780 | 2,792 | 1,903 | 141 | 14,563 |
| Unfunded Actuarial Liability* | $1,129 | $6,222 | $1,590 | $803 | $ 21 | $9,766 |

**May not add due to rounding.*

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. Under this approach, payments on the

UAL increase four percent each year, the same as the payroll growth assumption, resulting in a payment pattern that is a level percentage of pay. For over half of the amortization period, the dollar amount of the amortization payment is less than the interest on the UAL. As a result, the dollar amount of the UAL is expected to increase for many years before it eventually begins to decline. In addition, with the planned difference in KPERS' statutory and actuarial contribution rates prior to the ARC Date, 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 (on both assets and liabilities), 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 2013). All of the groups, except KP&F, had a liability gain for the year, largely from smaller salary increases than expected. Strong returns on the System assets in the last two years have resulted in an experience gain on the actuarial value of assets for all groups. The experience gain on liabilities and assets resulted in a total experience gain for the System in 2013 of $838 million.

Between December 31, 2012 and December 31, 2013 the change in the unfunded actuarial liabilities for the System as a whole was as follows (in millions):

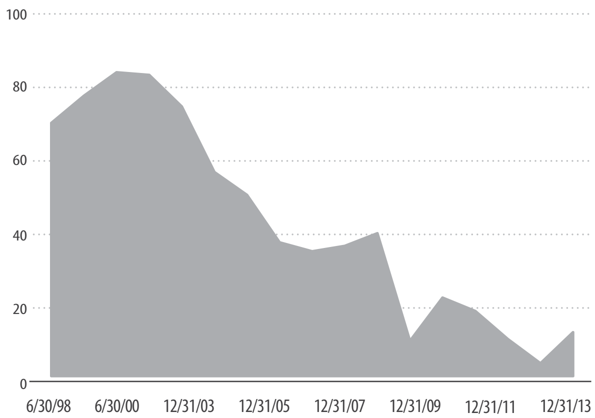
| | $ millions |
|---|---|
| Unfunded Actuarial Liability, December 31, 2012 | $10,253 |
| • effect of contribution cap/time lag | 246 |
| • expected increase due to amortization method | 46 |
| • gain/loss from investment return on actuarial assets | (653) |
| • demographic experience(1) | (184) |
| • all other experience | 59 |
| • change in actuarial methods | 0 |
| • change in actuarial assumptions | 0 |
| • change in benefit provisions | 0 |
| Unfunded Actuarial Liability, December 31, 2013(2) | $ 9,766 |

*1)Liability gain is about 0.86% of total actuarial liability.*
*2)May not add due to rounding.*

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 funded status information is shown below (in millions).

| | 12/31/07 | 12/31/08 | 12/31/09 | 12/31/10 | 12/31/11 | 12/31/12 | 12/31/13 |
|---|---|---|---|---|---|---|---|
| *Using Actuarial Value of Assets:* | | | | | | | |
| Funded Ratio (AVA/AL) | 71% | 59% | 64% | 62% | 59% | 56% | 60% |
| Unfunded Actuarial Liability (AL-AVA) | $5,552 | $8,279 | $7,677 | $8,264 | $9,228 | $10,253 | $9,766 |
| *Using Market Value of Assets:* | | | | | | | |
| Funded Ratio (MVA/AL) | 75% | 49% | 56% | 59% | 55% | 59% | 65% |
| Unfunded Actuarial Liability (AL-MVA) | $4,817 | $10,250 | $9,384 | $8,936 | $10,130 | $9,714 | $8,584 |

## FUNDED RATIO – ACTUARIAL VALUE




Changes in actuarial assumptions and methods, coupled with investment returns below the assumed rate and contributions below the actuarial rate significantly reduced the funded ratio over this period. However, the funded ratio improved in the current valuation due to strong investment experience in 2013. The funded ratio is expected to increase modestly in the future assuming all actuarial assumptions are met.

Given the current funded status of the System, the amount of the deferred investment gain, the amortization method, the amortization period, and the scheduled increases in employer contribution rates, the dollar amount of the unfunded actuarial liability for the entire System is expected to remain at the current level for a few more years and then start to decline. The funded ratio is expected to improve absent gains or losses in the future, but will continue to be heavily dependent on the actual investment returns.

**CONTRIBUTION RATES**

The funding objective of the System is to establish contribution rates that over time will remain relatively level, as a percentage of payroll, and to pay off the unfunded actuarial liability by the 2033 valuation.

Generally, the actuarial contribution rates to the various Systems consist of:

- a "normal cost" for the portion of projected liabilities allocated by the actuarial cost method to service of members during the year following the valuation date,
- an "unfunded actuarial liability contribution" for the excess of the portion of projected liabilities allocated to service to date over the actuarial value of assets.

There is also a statutory contribution rate that is used to finance the Death and Disability Program. Contributions for the Death and Disability Program are deposited in a separate trust fund, from which benefits are paid. A separate actuarial analysis and report is prepared for the Death and Disability Program on June 30 of each year. Therefore, the death and disability contribution rate is not reflected in this report.

The results of the December 31, 2013 valuation will set employer contribution rates for fiscal year 2017 for the State (July 1, 2016 to June 30, 2017) and 2016 for Local employers (calendar year 2016).

In KPERS, 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 (most recently in 2012), is 0.9% for fiscal year 2014, 1.0% in 2015, 1.1% in 2016, and 1.2% in 2017 and beyond for all three groups.

A summary of the actuarial and statutory employer contribution rates for the System is shown below:

## DECEMBER 31, 2013 VALUATION

| System | Actuarial | Statutory | Difference |
|---|---|---|---|
| State(1) | 10.77% | 13.57% | (2.80%) |
| School(1) | 16.03% | 13.57% | 2.46% |
| State/School(1) | 14.85% | 13.57% | 1.28% |
| Local(1) | 9.18% | 9.18% | 0.00% |
| Police & Fire - Uniform Rates(2) | 20.42% | 20.42% | 0.00% |
| Judges | 21.36% | 21.36% | 0.00% |

*1)By statute, rates are allowed to increase by a maximum of 0.9% for FY 2014, 1.0% in FY 2015, 1.1% in FY 2016 and 1.2% in FY 2017 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 is 20.38% this year. The uniform rate does not include the payment required to amortize the unfunded past service liability determined separately for each employer.*

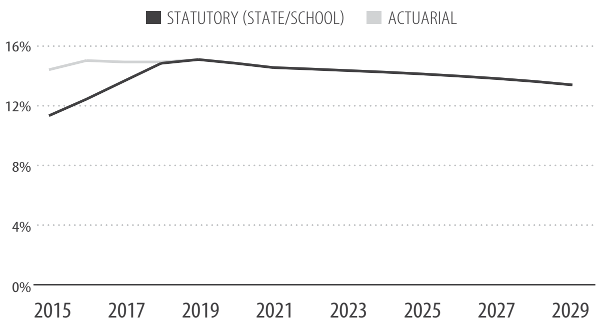
Separate employer contribution rates are calculated for two subgroups of the State: Correctional Employee Groups with normal retirement age 55 (C55) and normal retirement age 60 (C60). The contribution rates are calculated by increasing the state statutory contribution rate by the difference in the normal cost rate for the C55 and C60 groups over the normal cost rate for regular state members, but not to exceed the statutory cap on contribution increases. The higher contribution rates finance the earlier normal retirement age. The contribution rates for the Correctional Employee Groups are shown below:

| | Statutory Rate |
|---|---|
| Retirement Age 55: | 13.96% |
| Retirement Age 60: | 13.70% |

Due to statutory caps, the full actuarial contribution rate is not contributed for all KPERS groups. The State and Local groups reached the ARC date (statutory contribution rate is equal to or greater than the actuarial required contribution rate) in 2010 and 2012, respectively, and remain so in this valuation. Based on the current valuation, there is a difference (shortfall) between the actuarial and statutory contribution rates of 2.46% for the School group. Assuming an 8% return on the market value of assets for 2014 and beyond, all other actuarial assumptions are met in the future, and the current provision for statutory caps on the employer contribution rate, the estimated ARC Date for the combined State/School group is FY 2019 at a rate of 15.01%. This is an improvement over last year's projections which showed a projected ARC Date of FY 2019 at a rate of 15.85%.

## PROJECTED EMPLOYER CONTRIBUTION RATES – STATE/SCHOOL

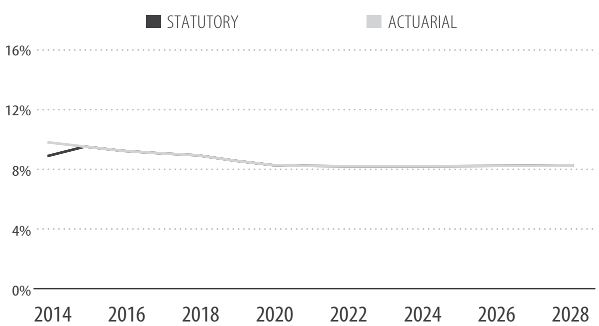
*Fiscal Year End*




Based on preliminary modeling results, the ARC date for the State/School group is projected to occur in 2019 with an ARC rate of 15.01%, assuming all actuarial assumptions are met in future years. Last year's projected ARC Date was 2019 with a rate of 15.85%. Future experience, especially investment returns, will heavily influence the ultimate ARC date and rate.

## PROJECTED EMPLOYER CONTRIBUTION RATES – LOCAL

*Fiscal Year End*

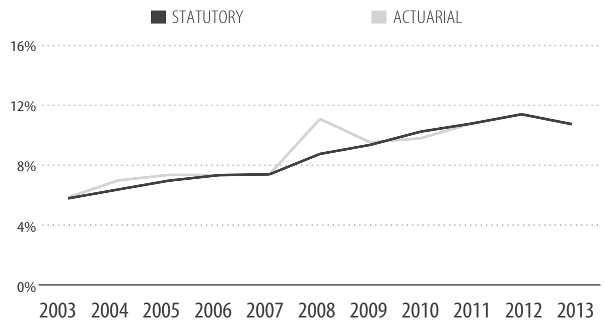



The Local group reached the ARC date in the 2012 valuation (FY 2015) with an ARC rate of 9.48%, which decreased further in the 2013 valuation to 9.18%. The projected contribution rate is expected to remain reasonably level, assuming all actuarial assumptions are met in future years. Actual experience in future years, particularly investment returns, will impact the future actuarial and statutory rates.

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 occurred in 2003 and actuarial assumptions were changed in the 2004, 2007 and 2011 valuations. These changes impact the comparability of contribution rates between various valuation dates.

## STATE CONTRIBUTION RATES

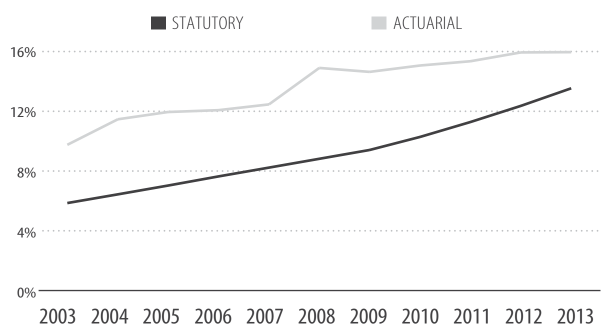
*Fiscal Year End*




The split of the State group into a separate group with the 2003 valuation, coupled with the bond issue, lowered the actuarial contribution rate. The State reached the full actuarial required contribution rate in the 2010 valuation. In this valuation, the State's actuarial required contribution rate decreased by 0.67% and continues to be less than the statutory contribution rate.

## SCHOOL CONTRIBUTION RATES

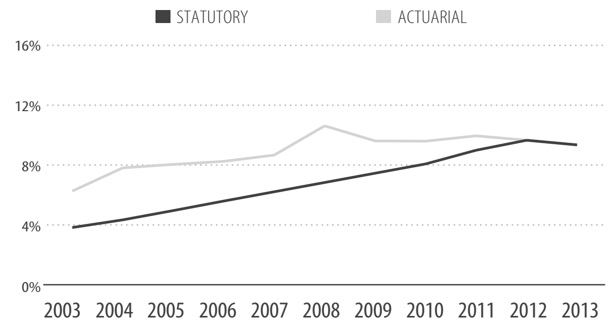
*Fiscal Year End*




Due to investment experience, changes in actuarial 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 generally increased over this period. However, the actuarial required contribution rate leveled out and the funded ratio improved in the 2013 valuation.

## LOCAL CONTRIBUTION RATES

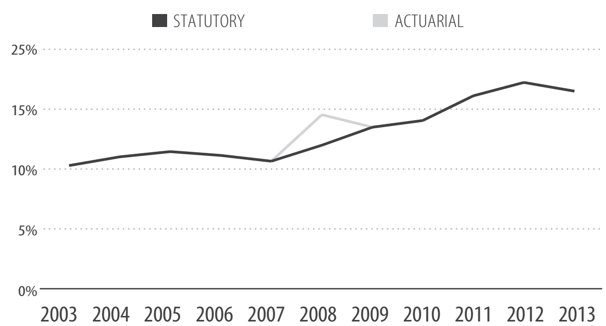
*Fiscal Year End*




The Local contribution rate has also been impacted by changes in actuarial assumptions and methods, as well as investment performance. With the significant changes in Sub House Bill 2333 and favorable investment returns, the statutory contribution rate was equal to the actuarial required contribution (ARC) rate in the 2012 valuation. The ARC decreased modestly by 0.30% in the 2013 valuation so the statutory rate remains equal to the ARC.

## KP&F CONTRIBUTION RATES (LOCAL)

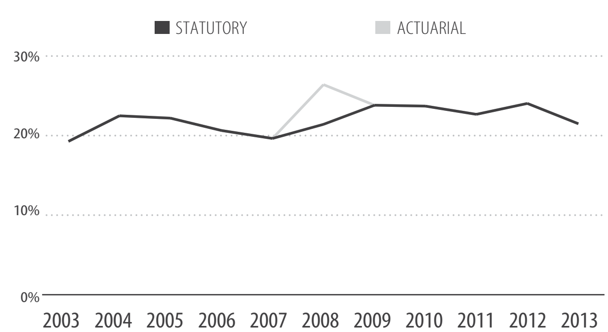
*Fiscal Year End*




Investment experience in 2008 and 2011 resulted in higher contribution rates in the latter part of the period. However, an improvement in the funded status in the 2013 valuation resulted in a decrease in the actuarial required contribution rate.

## JUDGES CONTRIBUTION RATES

*fiscal year end*




Investment experience in 2008 and 2011 resulted in higher contribution rates in the latter part of the period. However, an improvement in the funded status in the 2013 valuation resulted in a decrease in the actuarial required contribution rate.

Over the last decade, the development of a comprehensive plan to address the long-term funding of KPERS has been a high priority and significant changes have been made. HB 2014, which was passed by the 2003 Legislature, increased the statutory cap on the State/School employer contribution rate from 0.20% to 0.40% in FY2006, 0.50% in FY2007 and 0.60% in FY 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 SB 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/period. With this authority, the Board changed both the actuarial cost method and the asset valuation method with the December 31, 2003 actuarial valuation. SB 520 also increased the statutory cap for Local employers from 0.15% to 0.40% in FY2006, 0.50% in FY2007 and 0.60% in FY2008 and beyond.

The 2007 Legislature passed SB 362 which created a new benefit structure for members first employed on or after July 1, 2009. The change was made partially due to long term funding considerations, but also in response to demographic changes in the membership.

The 2011 Legislature passed Senate Substitute for House Bill 2194 (Sub HB 2194). The intent of this law was to strengthen KPERS' long term funding and improve the sustainability of the system. The bill contained significant changes for both KPERS employers and current and future members. In addition, Sub HB 2194 established a 13 member KPERS Study Commission to study alternative plan designs during the last half of 2011 and make a recommendation for KPERS plan design that would provide for the long term sustainability of the System. The Commission report was due to the Legislature by January 6, 2012. Sub HB 2194 required that the report recommendations be voted on by the 2012 Legislature for the other provisions of Senate Substitute for HB 2194 to become effective. The 2012 Legislature did not move the Study Commission recommendation forward, but some of the other provisions were included in the bill that was ultimately passed in 2012, Senate Sub for House Bill 2333.

The 2012 Legislature passed Sub House Bill 2333, affecting new hires, current members and employers. The changes were made to improve KPERS' long term sustainability. The basic provisions of Sub House Bill 2333, as amended by House Bill 2213 in 2013, include:

- Increased the statutory cap on employer contribution rates to 0.9% in FY 2014, 1.0% in FY 2015, 1.1% in FY 2016 and 1.2% in FY 2017 and beyond.

- Contingent upon IRS approval, established an election by Tier 1 members, between different contribution rate and benefit levels. The legislation provided that, if the IRS rejected or did not take action to approve the election, Tier 1 members would default to an increase in their employee contributions to 5% of compensation effective January 1, 2014, and 6% effective January 1, 2015, with an increase in the benefit multiplier to 1.85% beginning January 1, 2014, for future years of service only. The IRS did not take action on KPERS' request to approve the election, and therefore, the default was implemented on January 1, 2014.

- For Tier 2 members retiring after July 1, 2012, the cost of living adjustment (COLA) is eliminated, but members will receive a 1.85% multiplier for all years of service.

- Creates a Cash Balance Plan for new hires beginning January 1, 2015. A cash balance plan is a type of defined benefit plan that includes some elements of a defined contribution plan and shares risk between the employer and employee. Each member has a hypothetical account that is credited with employee contributions, employer pay credits and interest credits. At retirement, the account balance is annuitized to create a guaranteed monthly benefit payable for the member's lifetime. Up to 30% of the account value at retirement may be paid as a lump sum.

- Beginning in FY 2014, provides for the state to make additional contributions to help pay down KPERS' unfunded actuarial liability until the State/School group reaches a funded ratio of at least 80%. The revenue will come from the Expanded Lottery Act Revenues Fund (ELARF). For FY 2014 and 2015, the ELARF funds are being used as a partial funding source to meet the statutory contribution requirements for the School group rather than being contributed in addition to the statutory contributions. Therefore, no additional funding of the UAL is anticipated until FY 2016, at which time the contributions are expected to be around $40 million.

- If the State of Kansas sells surplus real estate, 80% of the proceeds will be used to pay down KPERS' unfunded actuarial liability until the System reaches an 80% funded ratio.

The 2014 Legislature passed HB 2533 which made changes to the Tier 3 benefit structure, generally decreasing the portion of the benefit that is guaranteed. The guaranteed interest crediting rate was reduced from 5.25 percent to 4.00 percent. The dividend changed to a formulaic approach with the dividend in each year equal to 75% of the rate of return, on a rolling five year average, over 6%. In addition, the annuity interest rate was changed from 6% to the assumed investment return less 2%. The changes in House Bill 2533 are expected to further improve KPERS long term funding and better manage the investment risk of the plan. While all three groups are projected to reach a funded ratio of 100% by 2033, the actual funding progress will be heavily dependent on the actual investment experience of the System in future years.

**COMMENTS**

Like most public retirement systems, KPERS uses an asset smoothing method to smooth out investment experience above and below the assumed rate of 8% per annum. Under the asset smoothing method, the difference between the actual and assumed investment experience is recognized equally over a five year period. With a 17.2% return on the market value of assets in 2013 and net favorable experience in the prior four years, the return on the actuarial value of assets was about 13.0%. As of the valuation date, the market value of assets exceeded the actuarial value of assets by more than 8%.

The deferred investment experience increased from a net deferred gain of $539 million last year to a net deferred gain of $1,182 million this year. This deferred experience will flow through the asset valuation method in the next four years and be recognized in the valuation process, unless offset by investment experience below the 8% assumed rate of return. As the deferred investment experience is recognized, the funded ratio can be expected to increase.

While the use of an asset smoothing method is a common procedure for public retirement systems, it is important to identify the potential impact of the deferred (unrecognized) investment experience. This is particularly important when there are deferred investment losses, but it is also useful to consider the impact on the key actuarial measurements if the deferred investment gains are recognized. To illustrate the impact of the deferred investment experience, the key valuation results are shown below for the State/School and KPF groups using both the actuarial value of assets and the pure market value. The impact would be similar for the other groups.

| | State/School | | KP&F | |
|---|---|---|---|---|
| | Actuarial | Market | Actuarial | Market |
| Actuarial Liability | $17,078 | $17,078 | $2,707 | $2,707 |
| Asset Value | 9,726 | 10,519 | 1,903 | 2,057 |
| Unfunded Actuarial Liability | 7,352 | 6,559 | 804 | 650 |
| Funded Ratio | 57% | 62% | 70% | 76% |
| Contribution Rate: | | | | |
| Normal Cost Rate | 8.22% | 8.22% | 14.55% | 14.55% |
| UAL Payment | 12.63% | 11.22% | 13.02% | 10.52% |
| Total | 20.85% | 19.49% | 27.57% | 25.07% |
| Employee Rate | 6.00% | 6.00% | 7.15% | 7.15% |
| Employer Rate | 14.85% | 13.49% | 20.42% | 17.92% |

The asset smoothing method impacts only the timing of when the actual experience on the market value of assets is recognized. A return of more than 17% in 2013, combined with favorable investment performance in recent years, resulted in a return of 13% on the actuarial value of assets. As a result, the unfunded actuarial liability decreased by $487 million. Future investment experience will impact the extent to which the deferred investment experience (which is currently a net gain) will be recognized. The ultimate impact of the deferred experience on the employer contribution rate would be similar to the column shown above based on the market value of assets, if all actuarial assumptions are met including the 8% return in future years.

## SUMMARY OF CHANGE IN UNFUNDED ACTUARIAL LIABILITY BY SYSTEM

*December 31, 2013 Valuation ($ millions)*

| | State | School | Local | KP&F | Judges | Total |
|---|---|---|---|---|---|---|
| **UAL in 12/31/2012 Valuation Report** | $1,292.3 | $6,366.3 | $1,698.9 | $866.4 | $29.0 | $10,252.9 |
| · Effect of contribution cap/timing | 16.1 | 200.1 | 23.5 | 7.3 | (1.1) | 245.9 |
| · Expected increase due to method | 5.8 | 28.8 | 7.6 | 4.3 | (0.6) | 45.9 |
| · Actual vs. expected experience | | | | | | |
| · Investment return | (136.6) | (309.4) | (117.5) | (83.5) | (6.1) | (653.1) |
| · Demographic experience | (53.7) | (104.8) | (36.0) | 10.5 | (0.4) | (184.5) |
| · All other experience | 5.4 | 41.5 | 13.3 | (1.9) | 0.5 | 58.7 |
| · Change in actuarial assumptions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| · Change in benefit provisions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **UAL in 12/31/2013 Valuation Report** | $1,129.3 | $6,222.5 | $1,589.8 | $803.1 | $21.3 | $9,765.9 |

*Totals may not add due to rounding.*

## SUMMARY OF CHANGES IN EMPLOYER ACTUARIAL CONTRIBUTION RATE BY SYSTEM

*As of December 31, 2013*

| Percentage of Payroll | State | School | Local | KP&F[1] | Judges |
|---|---|---|---|---|---|
| **Actuarial Contribution Rate in 12/31/2012 Valuation** | 11.44% | 16.00% | 9.48% | 21.36% | 23.98% |
| **Change Due to Amortization of UAL** | | | | | |
| · effect of contribution cap/time lag | 0.12 | 0.44 | 0.11 | 0.12 | (0.39) |
| · amortization method | 0.00 | 0.00 | 0.00 | 0.00 | (0.41) |
| · investment experience | (1.06) | (0.68) | (0.54) | (1.36) | (2.15) |
| · liability experience | (0.42) | (0.23) | (0.16) | 0.17 | (0.14) |
| · all other experience | 0.70 | 0.55 | 0.34 | 0.16 | 0.47 |
| · change in assumptions | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| · change in benefit provisions | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Change in Employer Normal Cost Rate** | | | | | |
| · change in benefit provisions | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| · change in assumptions | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| · all other experience | (0.01) | (0.05) | (0.05) | (0.03) | 0.00[2] |
| **Actuarial Contribution Rate in 12/31/2013 Valuation** | 10.77% | 16.03% | 9.18% | 20.42% | 21.36% |

*1) Contribution rate for Local employers only.*

*2) A new benefit structure was established for the Judges' System in July, 1987. The normal cost rate may be impacted by the change in membership as members hired before July 1, 1987 leave active employment and are replaced with new entrants, with benefits under the current benefit structure.*

# SUMMARY OF HISTORICAL CHANGES IN TOTAL SYSTEM UAL

*As of December 31, 2013 Valuation*

| | As Reported on Valuation Date | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| $(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 |
| Actual Experience vs. Assumed | | | | | | | | |
| • Investment | $(102) | $(143) | $(280) | $(323) | $(413) | $(369) | $(441) | $(23) |
| • Other | 320 | 72 | 136 | 157 | 104 | 46 | 99 | 84 |
| Assumption Changes | 0 | (96) | 0 | 0 | 350 | 0 | 0 | (206) |
| Changes in Data/Procedures | 244 | 0 | 0 | 0 | 0 | 21 | 71 | 145** |
| Change in Cost Method | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Effect of Contribution Cap/Lag | * | 95 | 70 | 63 | 54 | 78 | 66 | 60 |
| Amortization Method | * | 47 | 38 | 35 | 32 | 30 | 22 | 12 |
| Change in Benefit Provisions | 75 | 0 | 0 | 0 | 88 | 0 | 19 | 0 |
| Change in Actuarial Firm/Software | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Bond Issue | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | $537 | $(25) | $(36) | $(68) | $215 | $(194) | $(164) | $72 |

| $(millions) | 12/31/01 | 12/31/02 | 12/31/03 | 12/31/04 | 12/31/05 | 12/31/06 | 12/31/07 | 12/31/08 |
|---|---|---|---|---|---|---|---|---|
| Actual Experience vs. Assumed | | | | | | | | |
| • Investment | $350 | $644 | $140 | $456 | $167 | $(293) | $(626) | $2,332 |
| • Other | (9) | 68 | (32) | 16 | (84) | 140 | 99 | 78 |
| Assumption Changes | 0 | 0 | 0 | 437 | (5) | 0 | 384 | 0 |
| Changes in Data/Procedures | 5 | 177** | (286)*** | 0 | 0 | 0 | 0 | 0 |
| Change in Cost Method | 0 | 0 | 1,147 | 0 | 0 | 0 | 0 | 0 |
| Effect of Contribution Cap/Lag | 115 | 143 | 178 | 179 | 247 | 258 | 251 | 246 |
| Amortization Method | 14 | 21 | 47 | 68 | 84 | 83 | 78 | 71 |
| Change in Benefit Provisions | 0 | 37 | 3 | 1 | 0 | 24 | 2 | 0 |
| Change in Actuarial Firm/Software | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Bond Issue | 0 | (41) | (440) | 0 | 0 | 0 | 0 | 0 |
| Total | $475 | $1,049 | $757 | $1,157 | $409 | $212 | $188 | $2,727 |

| $(millions) | 12/31/09 | 12/31/10 | 12/31/11 | 12/31/12 | 12/31/13 | Total |
|---|---|---|---|---|---|---|
| Actual Experience vs. Assumed | | | | | | |
| • Investment | $(1,011) | $560 | $852 | $732 | $(653) | $1,556 |
| • Other | (70) | (334) | (190) | (78) | (126) | 496 |
| Assumption Changes | 0 | 0 | (64) | 0 | 0 | 800 |
| Changes in Data/Procedures | 0 | 0 | 0 | 0 | 0 | 377 |
| Change in Cost Method | 0 | 0 | 0 | 0 | 0 | 1,147 |
| Effect of Contribution Cap/Lag | 383 | 320 | 289 | 303 | 246 | 3,644 |
| Amortization Method | 96 | 68 | 62 | 49 | 46 | 1,003 |
| Change in Benefit Provisions | 0 | 0 | 15 | 19 | 0 | 283 |
| Change in Actuarial Firm/Software | 0 | (27) | 0 | 0 | 0 | (27) |
| Bond Issue | 0 | 0 | 0 | (481) | 0 | (481) |
| Total | $(602) | $587 | $964 | $1,025 | $(487) | $8,798 |

Unfunded actuarial liability 6/30/93: $968 million

Unfunded actuarial liability 12/31/13: $9,766 million

** 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.*

## SUMMARY OF PRINCIPAL RESULTS –KPERS STATE

| | 12/31/2013 Valuation | 12/31/2012 Valuation | % Change |
|---|---|---|---|
| **1. PARTICIPANT DATA** | | | |
| Number of: | | | |
| Active Members | 23,117 | 23,826 | (3.0%) |
| Retired Members and Beneficiaries | 18,413 | 18,098 | 1.7% |
| Inactive Members | 7,180 | 6,935 | 3.5% |
| Total Members | 48,710 | 48,859 | (0.3%) |
| Projected Annual Salaries of Active Members | $ 973,074,168 | $ 999,272,591 | (2.6%) |
| Annual Retirement Payments for Retired Members and Beneficiaries | $ 244,916,527 | $ 234,215,221 | 4.6% |
| **2. ASSETS AND LIABILITIES** | | | |
| a. Total Actuarial Liability | $4,075,977,044 | $4,015,967,592 | 1.5% |
| b. Assets for Valuation Purposes | 2,946,723,045 | 2,723,694,106 | 8.2% |
| c. Unfunded Actuarial Liability (a) - (b) | 1,129,253,999 | 1,292,273,486 | (12.6%) |
| d. Funded Ratio (b) / (a) | 72.3% | 67.8% | 6.6% |
| e. Market Value of Assets | 3,187,375,166 | 2,836,628,752 | 12.4% |
| f. Funded Ratio on Market Value (e) / (a) | 78.2% | 70.6% | 10.7% |
| **3. EMPLOYER CONTRIBUTION RATES AS A PERCENT OF PAYROLL** | | | |
| Normal Cost | | | |
| Total | 8.04% | 8.05% | |
| Member | 6.00% | 6.00% | |
| Employer | 2.04% | 2.05% | |
| Amortization of Unfunded Actuarial Liability | 8.73% | 9.39% | |
| Actuarial Contribution Rate | 10.77% | 11.44% | |
| Statutory Employer Contribution Rate* | 13.57% | 12.37% | |

**The Statutory Employer Contribution Rate in this valuation may not exceed last year's rate by more than the statutory rate increase limit of 1.20% for FY 2017. This rate does not include the contribution rate for the Death and Disability Program. Any excess of the statutory over actuarial contribution rates applied to actual State payroll is deposited to the School assets.*

## SUMMARY OF PRINCIPAL RESULTS– KPERS SCHOOL

| | 12/31/2013 Valuation | 12/31/2012 Valuation | % Change |
|---|---|---|---|
| **1. PARTICIPANT DATA** | | | |
| Number of: | | | |
| Active Members | 85,752 | 85,428 | 0.4% |
| Retired Members and Beneficiaries | 46,191 | 44,687 | 3.4% |
| Inactive Members | 24,038 | 23,478 | 2.4% |
| Total Members | 155,981 | 153,593 | 1.6% |
| Projected Annual Salaries of Active Members | $3,402,845,557 | $3,383,104,891 | 0.6% |
| Annual Retirement Payments for Retired Members and Beneficiaries | $662,838,025 | $624,206,476 | 6.2% |
| **2. ASSETS AND LIABILITIES** | | | |
| a. Total Actuarial Liability | $13,002,145,953 | $12,586,621,940 | 3.3% |
| b. Assets for Valuation Purposes | 6,779,677,943 | 6,220,280,310 | 9.0% |
| c. Unfunded Actuarial Liability (a) - (b) | 6,222,468,010 | 6,366,341,630 | (2.3%) |
| d. Funded Ratio (b) / (a) | 52.1% | 49.4% | 5.5% |
| e. Market Value of Assets | 7,331,598,583 | 6,475,974,488 | 13.2% |
| f. Funded Ratio on Market Value (e) / (a) | 56.4% | 51.5% | 9.6% |
| **3. EMPLOYER CONTRIBUTION RATES AS A PERCENT OF PAYROLL** | | | |
| Normal Cost | | | |
| Total | 8.28% | 8.33% | |
| Member | 6.00% | 6.00% | |
| Employer | 2.28% | 2.33% | |
| Amortization of Unfunded Actuarial Liability | 13.75% | 13.67% | |
| Actuarial Contribution Rate | 16.03% | 16.00% | |
| Statutory Employer Contribution Rate* | 13.57% | 12.37% | |

**The Statutory Employer Contribution Rate in this valuation may not exceed last year's rate by more than the statutory rate increase limit of 1.20% for FY 2017. This rate does not include the contribution rate for the Death and Disability Program.*

## SUMMARY OF PRINCIPAL RESULTS – KPERS STATE/SCHOOL

| | 12/31/2013 Valuation | 12/31/2012 Valuation | % Change |
|---|---|---|---|
| **1. PARTICIPANT DATA** | | | |
| Number of: | | | |
| Active Members | 108,869 | 109,254 | (0.4%) |
| Retired Members and Beneficiaries | 64,604 | 62,785 | 2.9% |
| Inactive Members | 31,218 | 30,413 | 2.6% |
| Total Members | 204,691 | 202,452 | 1.1% |
| Projected Annual Salaries of Active Members | $4,375,919,725 | $4,382,377,482 | (0.1%) |
| Annual Retirement Payments for Retired Members and Beneficiaries | $907,754,552 | $858,421,697 | 5.7% |
| **2. ASSETS AND LIABILITIES** | | | |
| a. Total Actuarial Liability | $17,078,122,997 | $16,602,589,532 | 2.9% |
| b. Assets for Valuation Purposes | 9,726,400,988 | 8,943,974,416 | 8.7% |
| c. Unfunded Actuarial Liability (a) - (b) | 7,351,722,009 | 7,658,615,116 | (4.0%) |
| d. Funded Ratio (b) / (a) | 57.0% | 53.9% | 5.7% |
| e. Market Value of Assets | 10,518,973,749 | $9,312,603,240 | 13.0% |
| f. Funded Ratio on Market Value (e) / (a) | 61.6% | 56.1% | 9.8% |
| **3. EMPLOYER CONTRIBUTION RATES AS A PERCENT OF PAYROLL** | | | |
| Normal Cost | | | |
| Total | 8.22% | 8.26% | |
| Member | 6.00% | 6.00% | |
| Employer | 2.22% | 2.26% | |
| Amortization of Unfunded Actuarial Liability | 12.63% | 12.69% | |
| Actuarial Contribution Rate | 14.85% | 14.95% | |
| Statutory Employer Contribution Rate* | 13.57% | 12.37% | |

**The Statutory Employer Contribution Rate in this valuation may not exceed last year's rate by more than the statutory rate increase limit of 1.20% for FY 2017. This rate does not include the contribution rate for the Death and Disability Program.*

## SUMMARY OF PRINCIPAL RESULTS – KPERS LOCAL

| | 12/31/2013 Valuation | 12/31/2012 Valuation | % Change |
|---|---|---|---|
| **1. PARTICIPANT DATA** | | | |
| Number of: | | | |
| Active Members | 39,088 | 39,351 | (0.7%) |
| Retired Members and Beneficiaries | 17,326 | 16,605 | 4.3% |
| Inactive Members | 14,878 | 14,153 | 5.1% |
| Total Members | 71,292 | 70,109 | 1.7% |
| Projected Annual Salaries of Active Members | $1,643,623,267 | $1,639,398,292 | 0.3% |
| Annual Retirement Payments for Retired Members and Beneficiaries | $183,922,144 | $168,001,328 | 9.5% |
| **2. ASSETS AND LIABILITIES** | | | |
| a. Total Actuarial Liability | $4,381,654,475 | $4,190,327,111 | 4.6% |
| b. Assets for Valuation Purposes | 2,791,897,450 | 2,491,443,027 | 12.1% |
| c. Unfunded Actuarial Liability (a) - (b) | 1,589,757,025 | 1,698,884,084 | (6.4%) |
| d. Funded Ratio (b) / (a) | 63.7% | 59.5% | 7.2% |
| e. Market Value of Assets | 3,016,067,035 | 2,587,877,272 | 16.5% |
| f. Funded Ratio on Market Value (e) / (a) | 68.8% | 61.8% | 11.5% |
| **3. EMPLOYER CONTRIBUTION RATES AS A PERCENT OF PAYROLL** | | | |
| Normal Cost | | | |
| Total | 7.90% | 7.95% | |
| Member | 6.00% | 6.00% | |
| Employer | 1.90% | 1.95% | |
| Amortization of Unfunded Actuarial Liability | 7.28% | 7.53% | |
| Actuarial Contribution Rate | 9.18% | 9.48% | |
| Statutory Employer Contribution Rate* | 9.18% | 9.48% | |

**The Statutory Employer Contribution Rate is equal to the Actuarial Rate. This rate does not include the contribution rate for the Death and Disability Program.*

## SUMMARY OF PRINCIPAL RESULTS – KANSAS POLICE & FIREMEN'S RETIREMENT SYSTEM

| | 12/31/2013 Valuation | 12/31/2012 Valuation | % Change |
|---|---|---|---|
| **1. PARTICIPANT DATA** | | | |
| Number of: | | | |
| Active Members | 7,224 | 7,187 | 0.5% |
| Retired Members and Beneficiaries | 4,670 | 4,525 | 3.2% |
| Inactive Members | 1,382 | 1,397 | (1.1%) |
| Total Members | 13,276 | 13,109 | 1.3% |
| Projected Annual Salariesof Active Members | $461,814,718 | $449,106,522 | 2.8% |
| Annual Retirement Payments for Retired Members and Beneficiaries | $138,798,969 | $129,413,024 | 7.3% |
| **2. ASSETS AND LIABILITIES** | | | |
| a. Total Actuarial Liability | $2,706,558,019 | $2,582,586,035 | 4.8% |
| b. Assets for Valuation Purposes | 1,903,444,252 | 1,716,163,204 | 10.9% |
| c. Unfunded Actuarial Liability (a) - (b) | 803,113,767 | 866,422,831 | (7.3%) |
| d. Funded Ratio (b) / (a) | 70.3% | 66.5% | 5.8% |
| e. Market Value of Assets | 2,057,050,931 | 1,784,896,480 | 15.2% |
| f. Funded Ratio on Market Value (e) / (a) | 76.0% | 69.1% | 10.0% |
| **3. EMPLOYER CONTRIBUTION RATES AS A PERCENT OF PAYROLL** | | | |
| Normal Cost | | | |
| Total | 14.55% | 14.58% | |
| Member | 7.15% | 7.15% | |
| Employer | 7.40% | 7.43% | |
| Amortization of Unfunded Actuarial and Supplemental Liability | 13.02% | 13.93% | |
| Actuarial Contribution Rate (Local Employers) | 20.42% | 21.36% | |
| Statutory Employer Contribution Rate* | 20.42% | 21.36% | |

**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 equal to the appropriate uniform rate plus the payment required to amortize any unfunded past service liability, determined separately for each employer.*

## SUMMARY OF PRINCIPAL RESULTS – KANSAS RETIREMENT SYSTEM FOR JUDGES

| | 12/31/2013 Valuation | 12/31/2012 Valuation | % Change |
|---|---|---|---|
| **1. PARTICIPANT DATA** | | | |
| Number of: | | | |
| Active Members | 265 | 261 | 1.5% |
| Retired Members and Beneficiaries | 243 | 227 | 7.0% |
| Inactive Members | 6 | 6 | 0.0% |
| Total Members | 514 | 494 | 4.0% |
| Projected Annual Salaries of Active Members | $ 28,451,524 | $ 28,079,426 | 1.3% |
| Annual Retirement Payments for Retired Members and Beneficiaries | $ 9,673,544 | $ 8,685,283 | 11.4% |
| **2. ASSETS AND LIABILITIES** | | | |
| a. Total Actuarial Liability | $162,334,647 | $155,920,773 | 4.1% |
| b. Assets for Valuation Purposes | 141,021,935 | 126,909,647 | 11.1% |
| c. Unfunded Actuarial Liability (a) - (b) | 21,312,712 | 29,011,126 | (26.5%) |
| d. Funded Ratio (b) / (a) | 86.9% | 81.4% | 6.7% |
| e. Market Value of Assets | 152,430,594 | 131,943,611 | 15.5% |
| f. Funded Ratio on Market Value (e) / (a) | 93.9% | 84.6% | 11.0% |
| **3. EMPLOYER CONTRIBUTION RATES AS A PERCENT OF PAYROLL** | | | |
| Normal Cost | | | |
| Total | 19.62% | 19.61% | |
| Member | 5.77% | 5.76% | |
| Employer | 13.85% | 13.85% | |
| Amortization of Unfunded Actuarial and Supplemental Liability | 7.51% | 10.13% | |
| Actuarial Contribution Rate | 21.36% | 23.98% | |
| Statutory Employer Contribution Rate* | 21.36% | 23.98% | |

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

## SUMMARY OF PRINCIPAL RESULTS – ALL SYSTEMS COMBINED

| | 12/31/2013 Valuation | 12/31/2012 Valuation | % Change |
|---|---|---|---|
| **1.PARTICIPANT DATA** | | | |
| Number of: | | | |
| Active Members | 155,446 | 156,053 | (0.4)% |
| Retired Members and Beneficiaries | 86,843 | 84,142 | 3.2% |
| Inactive Members | 47,484 | 45,969 | 3.3% |
| Total Members | 289,773 | 286,164 | 1.3% |
| Projected Annual Salaries of Active Members | $ 6,509,809,234 | $ 6,498,961,722 | 0.2% |
| Annual Retirement Payments for Retired Members and Beneficiaries | $ 1,240,149,209 | $ 1,164,521,332 | 6.5% |
| **2. ASSETS AND LIABILITIES** | | | |
| a. Total Actuarial Liability | $24,328,670,138 | $23,531,423,450 | 3.4% |
| b. Assets for Valuation Purposes | 14,562,764,625 | 13,278,490,294 | 9.7% |
| c. Unfunded Actuarial Liability (a) - (b) | 9,765,905,513 | 10,252,933,156 | (4.8%) |
| d. Funded Ratio (b) / (a) | 59.9% | 56.4% | 6.1% |
| e. Market Value of Assets | 15,744,522,309 | 13,817,320,603 | 13.9% |
| f. Funded Ratio on Market Value (e) / (a) | 64.7% | 58.7% | 10.2% |

# SUMMARY OF PLAN PROVISIONS

**PLAN MEMBERSHIP**

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 Emplyees 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 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. Participation by local political subdivisions is optional but irrevocable once elected. Benefit payments are also provided for a certain group of legislative employees.

**EMPLOYEE MEMBERSHIP**

Membership is mandatory for all employees in covered positions, except elected officials. A covered position for non-school employees is one that is covered by Social Security, is not seasonal or temporary, and requires at least 1,000 hours of work per year. School employees who work at least 630 hours per year or 3.5 hours per day for at least 180 days are eligible for membership. Effective July 1, 2009, all employees become KPERS members on their date of employment. Prior to July 1, 2009 only School employees were covered immediately. There was a one-year service requirement for the State and Local group. Those who retire under the provisions of the Retirement System may not become contributing members again.

# KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

**SUMMARY OF PROVISIONS ***

* Members who participate on or after July 1, 2009 are referred to as Tier 2 members.

This valuation reflects the benefit structure in place as of December 31, 2013, as amended by House Bill 2533, passed by the 2014 Legislature. Tier 3 benefits are not included as there were no such members in the valuation.

**NORMAL RETIREMENT**

**Eligibility – Tier 1:** (a) Age 65, or (b) age 62 with ten years of credited service, or (c) any age when combined age and years of credited service equal 85 "points". Age is determined by the member's last birthday and is not rounded up.
**Tier 2:** (a) Age 65 with 5 years of credited service or (b) age 60 with 30 years of credited service.

**Benefits –** Benefits are based on the member's years of credited service, Final Average Salary (FAS), and a statutory multiplier. For those who were hired prior to July 1, 1993, Final Average Salary equals the greater of either: a four-year Final Average Salary, including add-ons, such as sick and annual leave; or a three-year Final Average Salary, excluding add-ons, such as sick and annual leave. For those who are hired on or after July 1, 1993 and before July 1, 2009, Final Average Salary equals the average of the three highest years of service, excluding add-ons, such as sick and annual leave. Effective July 1, 2009, (Tier 2), Final Average Salary equals the average of the five highest years of salary, excluding additional compensation.

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

**PARTICIPATING SERVICE CREDIT –**

**Tier 1:** Participating service credit is 1.75% of Final Average Salary for years of service prior to January 1, 2014. Participating service credit is 1.85% of Final Average Salary for years of service after December 31, 2013.

**Tier 2:** For those retiring on or after January 1, 2012, participating service credit is 1.85% for all years of service.

**EARLY RETIREMENT**

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

**Benefit – Tier 1:** The normal retirement benefit is reduced 0.2% per month for each month between the ages of 60 and 62, plus 0.6% for each month between the ages of 55 and 60.
**Tier 2:** The normal retirement benefit is reduced actuarially for early commencement. The reduction factor is 35% at age 60 and 57.5% at age 55. If the member has 30 years of credited service, the early retirement reduction is less (50% of regular reduction).

### VESTING REQUIREMENTS

**Eligibility –** Effective July 1, 2009, a member must have five years of credited service (ten years prior to July 1, 2009). Should the vested member terminate employment, the member must leave accumulated contributions on deposit with the Retirement System to be eligible for future benefits. If a vested member terminates employment and withdraws accumulated contributions, the member forfeits all rights and privileges under the Retirement System.

**Benefit –** Retirement benefits are payable when the vested member reaches normal retirement age, or reduced benefits are payable when the vested member reaches a specified early retirement age.

### OTHER BENEFITS

**Withdrawal Benefit –** Members who terminate employment may withdraw contributions with interest after the last day on the employer's payroll. Withdrawing contributions forfeits all membership rights and benefits, which a member may have accrued prior to withdrawing their contributions from the Retirement System. Inactive, nonvested members, who return to covered employment within five years after terminating employment, will not have lost any membership rights or privileges if they haven't withdrawn contributions. The Retirement Act provides for withdrawal of contributions 31 days after employment terminates, but it does not allow members to borrow from contributions.

**Disability Benefit –** Members receiving disability benefits under the KPERS Death and Disability Benefits Program continue to receive service credit under KPERS. If a disabled member retires after receiving disability benefits for at least five years immediately preceding retirement, the member's Final Average Salary is adjusted by the actuarial salary increase assumption rates in existence during the member's period of disability prior to July 1, 1993, 5% per year to July, 1998 and the change in CPI-U less 1%, not to exceed 4% after July, 1998.

**Death Benefits – Pre-retirement death (non-service connected) –** The member's accumulated contributions plus interest are paid in a lump sum to the designated beneficiary. In lieu of receiving the member's accumulated contributions, the surviving spouse of a member who is eligible to retire at death may elect to receive benefits under any survivor option. The spouse must be the member's sole designated beneficiary to exercise this option. If the member had at least 10 years of credited service, but had not reached retirement age, the spouse may elect to leave the member's contributions on deposit with the System and receive a monthly benefit to begin on the date the member would have been eligible to retire.

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

**Post-retirement death –** A lump sum amount of $4,000 is payable to the member's 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 predeceases the retired member, the reduced option benefit is increased to the amount the retired member would have received if no retirement option had been elected. Benefits payable to a joint annuitant cease at the joint annuitant's death. If a member does not select an option, the designated beneficiary receives the excess, if any, of the member's accumulated contributions plus interest over total benefits paid to date of death.

### MEMBER CONTRIBUTIONS

Prior to January 1, 2014, member contributions were 4% of compensation for Tier 1. 2012 HB 2333 established an election by Tier 1 members, contingent upon IRS approval, between different contribution rate and benefit levels. The legislation provided that, if the IRS rejected or did not take action to approve the election, Tier 1 members would default to an increase in their employee contributions to 5% of compensation effective January 1, 2014, and 6% effective January 1, 2015, with an increase in the benefit multiplier to 1.85% beginning January 1, 2014, for future years of service only. The IRS did not take action on KPERS' request to approve the election, and therefore, the default was implemented on January 1, 2014.

The member contribution rate for Tier 2 is 6% of compensation. Interest is credited to members' contribution accounts on June 30 each year, based on the account balance as of the preceding December 31. Those who became members prior to July 1, 1993, have interest credited to their accounts at the rate of 8% per year. Those who become members on and after July 1, 1993, have interest credited to their accounts at the rate of 4% per year.

### EMPLOYER CONTRIBUTIONS

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

**BOARD OF REGENTS PLAN MEMBERS (TIAA AND EQUIVALENTS)**

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

**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 plan operators, (d) correctional industries employees, (e) correctional food service employees, and (f) correctional maintenance employees.

For groups (a) and (b) with at least three consecutive years of credited service, in such positions immediately preceding retirement, normal retirement age is 55 or Rule of 85 and early retirement requirements are age 50 with ten years of credited service. For groups (c), (d), (e), and (f) with at least three consecutive years of service in such positions immediately preceding retirement, normal retirement age is 60 or Rule of 85 and early retirement requirements are 55 with ten years of credited service.

**COST OF LIVING ADJUSTMENTS (COLAS)**

Tier 2 Members Who Retired Prior to July 1, 2012: 2% cost-of-living adjustment (COLA) each year beginning at age 65 or the second July 1 after your retirement date, whichever is later. Other Tier 2 members will not receive a COLA.

# KANSAS POLICE & FIREMEN'S RETIREMENT SYSTEM

**NORMAL RETIREMENT**

**Tier I –** age 55 and 20 years of service or 32 years of service (regardless of age).

**Tier II –** age 50 and 25 years of service, or age 55 and 20 years of service, or age 60 and 15 years of service.

**Benefits –** Benefits are based on the member's Final Average Salary. For those who were hired prior to July 1, 1993, Final Average Salary equals the average of the highest three of the last five years of credited participating service, including add-ons, such as sick and annual leave. For those who are hired on or after July 1, 1993, Final Average Salary equals the average of the highest three of the last five years of participating service, excluding add-ons, such as sick and annual leave. Benefits are based on a member's years of credited service and a multiplier of 2.5% of Final Average Salary for each year of credited service, to a maximum of 90% of Final Average Salary (first effective July 1, 2013).

**Local Plan –** For members covered by local plan provisions on the employer's entry date, normal retirement is at age 50 with 22 years of credited service.

**EARLY RETIREMENT**

**Eligibility –** Members must be at least age 50 and have 20 years of credited service.

**Benefit –** Normal retirement benefits are reduced 0.4% per month under age 55.

**VESTING REQUIREMENTS**

**Eligibility – Tier I:** The member must have 20 years of service credit; if terminating employment, the member must leave contributions on deposit with the Retirement System to be eligible for future benefits. Unreduced benefits are payable at age 55 or reduced benefits are payable as early as age 50.

**Eligibility – Tier II:** The member must have 15 years of service credit to be considered vested. If terminating employment, the member must leave contributions on deposit with the Retirement System to be eligible for future benefits. A vested member may draw unreduced benefits as early as age 50 with 25 years of credited service, age 55 with 20 years of credited service, or age 60 with 15 years of credited service. A reduced benefit is available at age 50 with 20 years of credited service.

**OTHER BENEFITS**

**Withdrawal Benefits –** Members who terminate employment before retirement may withdraw contributions with interest after the last day on the employer's payroll. Withdrawal of contributions forfeits all membership rights and benefits, which a member may have accrued prior to withdrawing accumulated contributions from the Retirement System. Inactive, nonvested members, who return to covered employment within five years after terminating employment, will not have lost any membership rights or privileges if they haven't withdrawn contributions.

**DISABILITY BENEFITS**

**Tier I: Service-connected disability –** There are no age or service requirements to be eligible for this benefit. There is an annual benefit of 50% of Final Average Salary, plus 10% of Final Average Salary for each dependent child under age 18 (or up to age 23 for full-time students), to a maximum of 75% of Final Average Salary. If dependent benefits aren't payable, the benefit is 50% of Final Average Salary or 2.5% for each year of credited service up to a maximum of 80% of Final Average Salary. Upon the death of a member after two years from the proximate cause of death which is the original service-connected disability, the same benefits are payable. Upon the death of a member after 2 years from a cause different than the disability for which the member is receiving service-connected disability benefits, the surviving spouse receives a lump sum payment of 50% of Final Average Salary. Additionally, a pension benefit of one-half the member's benefit is payable to either the spouse or to the dependent children.

**Tier I: Non-Service-connected disability –** An annual benefit of 2.5% times years of credited service times Final Average Salary with a minimum of 25% of FAS and a maximum of 80% of FAS.

**Tier II:** There is no distinction between service-connected and non-service-connected disability benefits. Annual benefit of 50% of Final Average Salary. Service Credit is granted during the period of disability. Disability benefits convert to age and service retirement at the earliest date the member is eligible for full retirement benefits. If the member is disabled for at least five years immediately preceding retirement, the member's Final Average Salary is adjusted during the period of Disability.

### DEATH BENEFITS (TIER I AND TIER II)

**Active Member Service Connected Death –** There is no age or service requirement. An annual benefit of 50% of Final Average Salary is payable to the spouse, plus 10% of Final Average Salary for each dependent child under age 18 [or up to age 23 if full time student(s)], to a maximum of 75% of Final Average Salary Active Member.

**Active Member Non-Service Connected Death –** A lump sum of 100% of Final Average Salary is payable to the spouse and a pension of 2.5% of Final Average Salary per year of credited service (to a maximum of 50%) is payable to the spouse. If there is no spouse, the monthly benefit is paid to the dependent children (age 18 or 23 if a full time student). If there is no surviving spouse or eligible children, the beneficiary will receive a lump sum payment of 100% of the member's current annual pay inclusive of the member's accumulated contributions.

**Inactive Member Death –** If an inactive member is eligible for retirement when death occurs, and the inactive member's spouse is the sole beneficiary, the spouse may elect to receive benefits as a joint annuitant under any option in lieu of a refund of the member's accumulated contributions.

**Post-Retirement Death –** There is a lump sum amount of $4,000 payable, less any death benefit payable under local plan provisions. If the member has selected a retirement option, benefits are paid to the joint annuitant or the designated beneficiary. Under joint and survivor options, if the joint annuitant predeceases the retired member, the benefit is increased to the amount the retired member would have received if no option had been selected. Benefits payable to the joint annuitant cease when the joint annuitant dies. If no option is selected, the designated beneficiary receives the excess, if any, of the member's accumulated contributions over total benefits paid to the date of death. The surviving spouse of a transfer member (who was covered by local plan on the employer's entry date, who dies after retirement, and who has not elected a retirement benefit option) receives a lump sum payment of 50% of Final Average Salary. Additionally, a pension benefit of three-fourths of the member's benefit is payable either to the spouse or dependent children.

### CLASSIFICATIONS

**Tier I –** Members have Tier I coverage if they were employed prior to July 1, 1989, and 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.

Some KP&F members are considered either Tier I or Tier II Transfer or Brazelton members.

**Transfer Member –** member who is a former member of a local plan who elected to participate in KP&F. Former Kansas Highway Patrol and former Kansas Bureau of Investigation members are included in this group.

**Brazelton member –** member who participated in a class action lawsuit, whose contribution is lower, and whose benefits are offset by Social Security.

### MEMBER CONTRIBUTIONS

Member contributions are 7.15% of compensation, effective July 1, 2013.

Brazelton members contribute .008% with a Social Security offset. Benefits payable to these members are reduced by one-half of original Social Security benefits accruing from employment with the participating employer.

### EMPLOYER CONTRIBUTIONS

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

# KANSAS JUDGES RETIREMENT SYSTEM

### NORMAL RETIREMENT

**Eligibility –** (a) Age 65, or (b) age 62 with ten years of credited service, or (c) any age when combined age and years of credited service equals 85 "points". Age is determined by the member's last birthday and is not rounded up.

**Benefit –** the benefit is based on the member's Final Average Salary, which is the average of the three highest years of service under any retirement system administered by KPERS. The basic formula for those who were members prior to July 1, 1987, is 5% of Final Average Salary for each year of service up to ten years, plus 3.5% for each year of service greater than ten, to a maximum of 70% of Final Average Salary. For those who became members on or after July 1, 1987, the formula is 3.5% for each year, to a maximum benefit of 70% of Final Average Salary.

### EARLY RETIREMENT

**Eligibility –** A member must be age 55 and have ten years of credited service to take early retirement.

**Benefit –** The retirement benefit is reduced to 0.2% per month for each month between the ages of 60 and 62, plus 0.6% per month for each month between the ages of 55 and 60.

### VESTING REQUIREMENTS

**Eligibility –** There is no minimum service requirement; however, if terminating employment, the member must leave contributions on deposit with the Retirement System in order to be eligible for future benefits. Eligible judges who have service credited under KPERS have vested benefits under both KPERS and the Retirement System for Judges when the combined total credited service equals ten years.

**Benefit –** Normal benefit accrued at termination is payable at age 62 or in reduced amount at age 55, provided the member has ten years of service credit. Otherwise, benefits are not payable until age 65.

### OTHER BENEFITS

**Disability Benefits –** These benefits are payable if a member is defined as totally and permanently disabled as certified by the Supreme Court. The disability benefit, payable until age 65, is 3.5% of Final Average Salary for each year of service (minimum of 25% and maximum of 70% of Final Average Salary). Benefits are recalculated when the member reaches retirement age based on participating service credit for the period of disability. If a judge is disabled for at least five years immediately preceding retirement, the judge's Final Average Salary is adjusted.

**Withdrawal Benefit –** Members who terminate employment may withdraw contributions with interest, but forfeit any right to a future benefit.

**Pre-retirement Death –** A refund of the member's accumulated contributions is payable. 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. If the member had at least 10 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 as long as the member's contributions aren't withdrawn.

**Post-retirement Death –** A lump sum death benefit of $4,000 is payable to the member's beneficiary. If the member had selected an option with survivor benefits, those benefits are paid to the joint annuitant or to the member's designated beneficiary. Under retirement options with survivor benefits, if the joint annuitant predeceases the retired member, the retirement benefit is increased to the amount the retired member would have received if no survivor benefits had been elected. Benefits payable to a joint annuitant cease when the joint annuitant dies. If no option was chosen by the retired member, the member's designated beneficiary receives the excess, if any, of the member's accumulated contributions over the total benefits paid to the date of the retired member's death.

### MEMBER CONTRIBUTIONS

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

### EMPLOYER CONTRIBUTIONS

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

# ASSUMPTIONS AND METHODS—KPERS

**Rate of Investment Return** 8.0%

**Price Inflation** 3.0%

**Rates of Mortality:**
**Post-retirement**

The RP-2000 Healthy Annuitant table was first adjusted by an age setback or set forward. Rates were further adjusted to fit actual experience.

Starting Table

School Males: RP-2000 M Healthy -2
School Females: RP-2000 F Healthy -2
State Males: RP-2000 M Healthy +2
State Females: RP-2000 F Healthy +0
Local Males: RP-2000 M Healthy +2
Local Females: RP-2000 F Healthy -1

**Sample Rates (2000)**

| | School | | State | | Local | |
|---|---|---|---|---|---|---|
| Age | Male | Female | Male | Female | Male | Female |
| 50 | 0.513% | 0.183% | 0.547% | 0.218% | 0.587% | 0.204% |
| 55 | 0.549% | 0.226% | 0.625% | 0.328% | 0.670% | 0.278% |
| 60 | 0.662% | 0.384% | 0.962% | 0.577% | 1.031% | 0.481% |
| 65 | 1.051% | 0.664% | 1.597% | 0.964% | 1.712% | 0.817% |
| 70 | 1.747% | 1.074% | 2.646% | 1.557% | 2.837% | 1.318% |
| 75 | 2.917% | 1.792% | 4.550% | 2.614% | 4.878% | 2.215% |
| 80 | 5.278% | 3.643% | 7.037% | 4.567% | 7.545% | 4.171% |
| 85 | 9.331% | 6.751% | 11.292% | 7.977% | 12.108% | 7.508% |
| 90 | 15.661% | 11.589% | 17.978% | 13.563% | 19.278% | 12.869% |
| 95 | 24.301% | 18.407% | 24.888% | 20.034% | 26.687% | 19.742% |
| 100 | 32.791% | 24.186% | 30.850% | 24.459% | 33.080% | 24.990% |

**Pre-retirement**

School Males: 70% of RP-2000 M Employees -2
School Females: 50% of RP-2000 F Employees -2
State Males: 70% of RP-2000 M Employees +2
State Females: 50% of RP-2000 F Employees +0
Local Males: 90% of RP-2000 M Employees +2
Local Females: 90% of RP-2000 F Employees -1

**Disabled Life Mortality** RP-2000 Disabled Life Table with same age adjustments as used for Retiree Mortality.

**Rates of Salary Increase**

| Years of | | Rate of Increase* | |
|---|---|---|---|
| Service | School | State | Local |
| 1 | 12.00% | 10.50% | 10.50% |
| 5 | 6.55% | 5.60% | 6.20% |
| 10 | 5.10% | 4.90% | 5.20% |
| 15 | 4.60% | 4.40% | 4.80% |
| 20 | 4.10% | 4.10% | 4.60% |
| 25 | 4.00% | 4.00% | 4.10% |
| 30 | 4.00% | 4.00% | 4.00% |

**Includes general wage increase assumption of 4.0% (composed of 3.0% inflation and 1.0% productivity)*

**Rates of Termination**

| | School | | State | | Local | |
|---|---|---|---|---|---|---|
| Duration | Male | Female | Male | Female | Male | Female |
| 0 | 21.00% | 23.00% | 17.00% | 19.00% | 20.00% | 23.00% |
| 1 | 18.00% | 18.00% | 14.50% | 15.00% | 16.00% | 20.00% |
| 2 | 14.00% | 13.00% | 12.00% | 11.00% | 13.20% | 17.00% |
| 3 | 10.00% | 11.00% | 10.00% | 10.00% | 11.00% | 14.00% |
| 4 | 8.00% | 9.00% | 8.00% | 9.00% | 9.60% | 11.50% |
| 5 | 6.50% | 7.25% | 7.00% | 8.00% | 8.30% | 9.00% |
| 6 | 5.50% | 6.25% | 6.00% | 7.00% | 7.10% | 7.50% |
| 7 | 5.00% | 5.50% | 5.20% | 6.00% | 6.00% | 6.50% |
| 8 | 4.50% | 4.90% | 4.60% | 5.00% | 5.00% | 5.75% |
| 9 | 4.00% | 4.30% | 4.10% | 4.60% | 4.40% | 5.00% |
| 10 | 3.60% | 3.90% | 3.90% | 4.30% | 3.80% | 4.25% |
| 11 | 3.20% | 3.50% | 3.70% | 4.00% | 3.50% | 3.75% |
| 12 | 2.90% | 3.10% | 3.50% | 3.70% | 3.30% | 3.40% |
| 13 | 2.60% | 2.80% | 3.30% | 3.50% | 3.10% | 3.20% |
| 14 | 2.40% | 2.50% | 3.10% | 3.30% | 2.90% | 3.00% |
| 15 | 2.20% | 2.30% | 2.90% | 3.10% | 2.70% | 2.80% |
| 16 | 2.00% | 2.10% | 2.70% | 2.90% | 2.50% | 2.60% |
| 17 | 1.80% | 1.90% | 2.50% | 2.70% | 2.30% | 2.40% |
| 18 | 1.60% | 1.70% | 2.30% | 2.50% | 2.10% | 2.20% |
| 19 | 1.50% | 1.50% | 2.10% | 2.30% | 1.90% | 2.00% |
| 20 | 1.40% | 1.30% | 1.90% | 2.10% | 1.80% | 1.80% |
| 21 | 1.30% | 1.20% | 1.70% | 1.90% | 1.70% | 1.60% |
| 22 | 1.20% | 1.10% | 1.50% | 1.70% | 1.60% | 1.40% |
| 23 | 1.10% | 1.00% | 1.30% | 1.50% | 1.50% | 1.20% |
| 24 | 1.00% | 0.90% | 1.10% | 1.40% | 1.40% | 1.00% |
| 25 | 0.90% | 0.80% | 0.90% | 1.30% | 1.30% | 0.90% |
| 26 | 0.80% | 0.70% | 0.70% | 1.20% | 1.20% | 0.70% |
| 27 | 0.70% | 0.60% | 0.60% | 1.10% | 1.10% | 0.60% |
| 28 | 0.60% | 0.50% | 0.50% | 1.00% | 1.00% | 0.50% |
| 29 | 0.50% | 0.50% | 0.50% | 0.50% | 0.90% | 0.50% |
| 30 | 0.50% | 0.50% | 0.50% | 0.50% | 0.80% | 0.50% |
| 30+ | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |

**Retirement Rates**

**School**

| | Rule of 85 | | Early Retirement | | Normal Retirement | |
|---|---|---|---|---|---|---|
| Age | 1st Year With 85 Points | After 1st Year With 85 Points | Age | Rate | Age | Rate |
| 53 | 20% | 18% | 55 | 5% | 62 | 30% |
| 55 | 20% | 18% | 56 | 5% | 63 | 25% |
| 57 | 22% | 18% | 57 | 8% | 64 | 35% |
| 59 | 25% | 23% | 58 | 10% | 65 | 35% |
| 61 | 30% | 30% | 59 | 12% | 66-71 | 25% |
| | | | 60 | 15% | 72-74 | 20% |
| | | | 61 | 24% | 75 | 100% |

**State**

| | Rule of 85 | | Early Retirement | | Normal Retirement | |
|---|---|---|---|---|---|---|
| Age | 1st Year With 85 Points | After 1st Year With 85 Points | Age | Rate | Age | Rate |
| 53 | 10% | 10% | 55 | 5% | 62 | 30% |
| 55 | 15% | 12% | 56 | 5% | 63 | 20% |
| 57 | 15% | 12% | 57 | 5% | 64 | 30% |
| 59 | 15% | 12% | 58 | 6% | 65 | 35% |
| 61 | 30% | 25% | 59 | 10% | 66-67 | 25% |
| | | | 60 | 10% | 68-74 | 20% |
| | | | 61 | 20% | 75 | 100% |

**Local**

| | Rule of 85 | | Early Retirement | | Normal Retirement | |
|---|---|---|---|---|---|---|
| Age | 1st Year With 85 Points | After 1st Year With 85 Points | Age | Rate | Age | Rate |
| 53 | 11% | 7% | 55 | 5% | 62 | 25% |
| 55 | 13% | 10% | 56 | 5% | 63 | 20% |
| 57 | 13% | 10% | 57 | 5% | 64 | 30% |
| 59 | 15% | 12% | 58 | 5% | 65 | 35% |
| 61 | 25% | 25% | 59 | 7% | 66 | 25% |
| | | | 60 | 7% | 67-74 | 20% |
| | | | 61 | 20% | 75 | 100% |

- Inactive vested members – Age 62.
- For correctional employees with an age 55 normal retirement date -

| Age | Rate |
|---|---|
| 55 | 10% |
| 58 | 10% |
| 60 | 15% |
| 62 | 35% |
| 65 | 100% |

• For correctional employees with an age 60 normal retirement date -

| Age | Rate |
|---|---|
| 60 | 10% |
| 61 | 25% |
| 62 | 45% |
| 63 | 25% |
| 64 | 35% |
| 65 | 100% |

• For TIAA employees – Age 66.

**Rates of Disability**

| Age | School | State | Local |
|---|---|---|---|
| 25 | .025% | .036% | .030% |
| 30 | .028% | .102% | .065% |
| 35 | .034% | .161% | .097% |
| 40 | .058% | .244% | .143% |
| 45 | .110% | .376% | .209% |
| 50 | .213% | .511% | .363% |
| 55 | .362% | .720% | .600% |
| 60 | .680% | .920% | .850% |

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

**Probability of Vested Members Leaving Contributions With System**

Tier 1:

| Age | School | State | Local |
|---|---|---|---|
| 25 | 80% | 65% | 60% |
| 30 | 80% | 65% | 60% |
| 35 | 80% | 65% | 60% |
| 40 | 80% | 65% | 60% |
| 45 | 82% | 75% | 64% |
| 50 | 87% | 85% | 74% |
| 55 | 100% | 100% | 100% |

Tier 2: Members are assumed to elect to take a refund if it is more valuable than the deferred annuity. The comparison is based on 8% interest and a 50% Male/50% Female blend of the RP-2000 Combined Mortality Table, projected to 2045 (static).

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

# ASSUMPTIONS AND METHODS—KP&F

**Rate of Investment Return** 8.0%

**Price Inflation** 3.0%

**Rates of Mortality:**

**Post-retirement** RP-2000 Healthy Annuitant Table

**Pre-retirement** 90% of RP-2000 Employee Table*

*70% of preretirement deaths assumed to be service related.

**Disabled Life Mortality** RP-2000 Disabled Life Table

**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% (composed of 3.0% inflation and 1.0% productivity)*

**Rates of Termination**

Tier 1: 3% for ages less than 41; 0% thereafter

Tier 2:

| 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 1:

| Early Retirement | | Normal Retirement | |
|---|---|---|---|
| Age | Rate | Age | Rate |
| 50 | 5% | 55 | 40% |
| 51 | 5% | 56 | 40% |
| 52 | 5% | 57 | 40% |
| 53 | 10% | 58 | 35% |
| 54 | 30% | 59 | 45% |
| | | 60 | 50% |
| | | 61 | 20% |
| | | 62 | 100% |

**Retirement Rates Continued**

Tier 2:

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

Inactive Vested: Assumed to retire at later of (i) eligibility for unreduced benefits or (ii) age 55.

**Rates of Disability**

| Age | Rate* |
|---|---|
| 22 | .06% |
| 27 | .07% |
| 32 | .15% |
| 37 | .35% |
| 42 | .56% |
| 47 | .76% |
| 52 | .96% |
| 57 | 1.00% |

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

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

# ASSUMPTIONS AND METHODS—JUDGES

**Rate of Investment Return** 8.0%

**Price Inflation** 3.0%

**Rates of Mortality:**

**Post-retirement** RP-2000 Healthy Annuitant Table, set back two years

**Pre-retirement** 70% of RP-2000 Employee Table, set back two years

**Rates of Salary Increase** 4.5%

**Rates of Termination** None assumed

**Disabled Life Mortality** RP-2000 Disabled Life Table, set back two years

**Rates of Disability** None assumed

**Retirement Rates**

| Age | Rate |
|---|---|
| 60-61 | 10% |
| 62-65 | 20% |
| 66-69 | 30% |
| 70+ | 100% |

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

# TECHNICAL VALUATION PROCEDURES

### DATA PROCEDURES

*In-pay members:* If a birth date is not available, the member is assumed to have retired at 62. If a retirement date is also not available, the member is assumed to be 75.

If a beneficiary birth date is needed but not supplied, males are assumed to be 3 years older than females.

*Not in-pay members:* If a birth date is not available, it is assigned according to the following schedule:

| System | Active member age at hire | Inactive member age at valuation |
|---|---|---|
| KPERS | 34.7 | 50 |
| KP&F | 27.5 | 49 |
| Judges | 43.4 | 54 |

If gender is not provided, it is assigned randomly with a 40% probability of being male and 60% probability of being female.

If salary information is not available for an active record, it is assigned according to the following schedule:

| System | Salary |
|---|---|
| KPERS | $24,662 |
| KP&F | $36,046 |
| Judges | N/A |

Salaries for first year members are annualized.

### OTHER VALUATION PROCEDURES

No actuarial accrued liability in excess of the unclaimed member contribution balance is held for nonvested, inactive members. A reserve is also held for accounts that have been forfeited but could be reclaimed in the future.

Benefits above the projected IRC Section 415 limit for active participants are assumed to be immaterial for the valuation.

The compensation limitation under IRC Section 401(a) (17) is considered in this valuation. On a projected basis, the impact of this limitation is insignificant.

Salary increases are assumed to apply to annual amounts.

Decrements are assumed to occur mid-year, except that immediate retirement is assumed for those who are at or above the age at which retirement rates are 100%. Standard adjustments are made for multiple decrements. Withdrawal does not operate once early or unreduced retirement eligibility is met.

### ACTUARIAL METHODS

1. **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 10 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% so the annual amortization payments will increase 4% each year. As a result, if total payroll grows 4% per year, as assumed, the amortization payment will remain level as a percentage of total current payroll.

2. **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.

## SCHEDULES 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 Percentage of Covered Payroll ((b - a)/c) |
|---|---|---|---|---|---|---|
| 12/31/04 | $10,971,427 | $15,714,092 | $4,742,666 | 70% | $5,102,016 | 93% |
| 12/31/05 | 11,339,293 | 16,491,762 | 5,152,469 | 69 | 5,270,351 | 98 |
| 12/31/06 | 12,189,197 | 17,552,790 | 5,363,593 | 69 | 5,599,193 | 98 |
| 12/31/07 | 13,433,115 | 18,984,915 | 5,551,800 | 71 | 5,949,228 | 93 |
| 12/31/08 | 11,827,619 | 20,106,787 | 8,279,168 | 59 | 6,226,526 | 133 |
| 12/31/09 | 13,461,221 | 21,138,206 | 7,676,985 | 64 | 6,532,496 | 118 |
| 12/31/10 | 13,589,658 | 21,853,783 | 8,264,125 | 62 | 6,494,048 | 127 |
| 12/31/11 | 13,379,020 | 22,607,170 | 9,228,150 | 59 | 6,401,462 | 144 |
| 12/31/12 | 13,278,490 | 23,531,423 | 10,252,933 | 56 | 6,498,962 | 158 |
| 12/31/13 | 14,562,765 | 24,328,670 | 9,765,906 | 60 | 6,509,809 | 150 |

*1) Beginning with the 12/31/03 actuarial valuation, the actuarial cost method was changed to the Entry Age Normal (EAN) method.*

## SHORT TERM SOLVENCY TEST

*Last Ten Fiscal Years*

| Valuation Date | Member Contributions (A) | Retirants and Beneficiaries (B) | Active Member Employer Financed Portion (C) | Actuarial Value of Assets | Portions of Accrued Liabilities Covered by Assets (A) | (B) | (C) |
|---|---|---|---|---|---|---|---|
| 12/31/04 | $3,817,174,808 | $5,994,869,531 | $5,902,048,137 | $10,971,426,577 | 100% | 100% | 20% |
| 12/31/05 | 4,006,823,805 | 6,413,679,842 | 6,071,258,736 | 11,339,292,965 | 100 | 100 | 15 |
| 12/31/06 | 4,209,698,437 | 6,872,703,437 | 6,470,388,630 | 12,189,197,444 | 100 | 100 | 17 |
| 12/31/07 | 4,423,194,339 | 7,417,933,822 | 7,143,786,763 | 13,433,115,014 | 100 | 100 | 22 |
| 12/31/08 | 4,642,675,652 | 7,945,452,582 | 7,518,658,666 | 11,827,618,574 | 100 | 90 | — |
| 12/31/09 | 5,132,772,778 | 8,459,191,163 | 7,546,242,173 | 13,461,220,705 | 100 | 99 | — |
| 12/31/10 | 5,017,361,438 | 9,090,575,924 | 7,745,845,940 | 13,589,658,118 | 100 | 96 | — |
| 12/31/11 | 5,334,463,714 | 9,923,555,011 | 7,349,151,307 | 13,379,020,161 | 100 | 81 | — |
| 12/31/12 | 5,448,296,911 | 10,585,891,383 | 7,497,235,156 | 13,278,490,294 | 100 | 74 | — |
| 12/31/13 | 5,636,937,795 | 11,298,180,557 | 7,393,551,786 | 14,562,764,625 | 100 | 79 | — |

## SCHEDULE OF ACTIVE MEMBER VALUATION DATA[1]

*Last Ten Years as of December 31*

| Valuation Date | Number of Active Members[2] | Percentage Change in Membership | Number of Participating Employers | Percentage Increase in Number of Participating Employers | Total Annual Payroll (in millions)[2] | Average Payroll | Percentage Increase in Average Payroll |
|---|---|---|---|---|---|---|---|
| 12/31/04 | 147,751 | (0.3)% | 1,461 | 0.5% | $5,102 | $33,854 | 2.7% |
| 12/31/05 | 149,073 | 0.9 | 1,474 | 0.9 | 5,270 | 34,661 | 2.4 |
| 12/31/06 | 151,449 | 1.6 | 1,474 | 0.0 | 5,599 | 36,246 | 4.4 |
| 12/31/07 | 153,804 | 1.5 | 1,482 | 0.5 | 5,949 | 37,922 | 4.4 |
| 12/31/08 | 156,073 | 1.5 | 1,492 | 0.6 | 6,227 | 39,113 | 3.1 |
| 12/31/09 | 160,831 | 3.0 | 1,499 | 0.5 | 6,532 | 39,821 | 1.8 |
| 12/31/10 | 157,919 | (1.8) | 1,511 | 0.8 | 6,494 | 41,123 | 3.2 |
| 12/31/11 | 155,054 | (1.9) | 1,504 | -0.5 | 6,401 | 41,285 | 0.4 |
| 12/31/12 | 156,053 | 0.6 | 1,506 | 0.1 | 6,499 | 41,646 | 0.9 |
| 12/31/13 | 155,446 | (0.4) | 1,508 | 0.1 | 6,510 | 41,878 | 0.6 |

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

## MEMBERSHIP PROFILE

*Last Ten Years as of December 31*

| Valuation Date | Active | Inactive | Retirees & Beneficiaries | Total Membership |
|---|---|---|---|---|
| 12/31/04 | 147,751 | 41,269 | 61,125 | 250,145 |
| 12/31/05 | 149,073 | 41,232 | 63,348 | 253,653 |
| 12/31/06 | 151,449 | 40,672 | 65,765 | 257,886 |
| 12/31/07 | 153,804 | 41,383 | 67,102 | 262,289 |
| 12/31/08 | 156,073 | 41,749 | 70,724 | 268,546 |
| 12/31/09 | 160,831 | 43,324 | 73,339 | 277,494 |
| 12/31/10 | 157,919 | 44,231 | 76,744 | 278,894 |
| 12/31/11 | 155,054 | 45,678 | 81,025 | 281,757 |
| 12/31/12 | 156,053 | 45,969 | 84,318 | 286,340 |
| 12/31/13 | 155,446 | 47,484 | 87,670 | 290,600 |

## RETIRANTS, BENEFICIARIES - CHANGES IN ROLLS – 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 Retirants | % Change in Additions Allowances | Average Annual Allowance | Year-End Annual Allowances |
| 6/30/05 | 59,141 | 4,141 | $59,096,917 | 2,017 | $12,333,238 | 61,265 | 3.60% | 17.60% | 11,126 | $737,563,276 |
| 6/30/06 | 61,265 | 4,452 | 66,239,352 | 1,759 | 11,185,646 | 63,765 | 4.00 | 12.00 | 11,498 | 805,978,732 |
| 6/30/07 | 63,765 | 4,423 | 67,181,677 | 2,125 | 15,218,444 | 66,063 | 3.60 | 1.40 | 13,142 | 868,179,029 |
| 6/30/08 | 66,063 | 5,195 | 73,055,348 | 2,515 | 18,681,361 | 68,743 | 4.10 | 8.70 | 13,758 | 945,739,016 |
| 6/30/09 | 68,743 | 5,330 | 81,815,349 | 2,467 | 20,966,802 | 71,606 | 4.20 | 12.00 | 13,964 | 999,939,615 |
| 6/30/10 | 71,606 | 5,593 | 88,709,733 | 2,332 | 20,528,013 | 74,867 | 4.60 | 8.40 | 14,182 | 1,060,205,818 |
| 6/30/11 | 74,867 | 6,245 | 99,091,348 | 2,698 | 23,230,288 | 78,414 | 4.70 | 11.70 | 14,630 | 1,147,209,272 |
| 6/30/12 | 78,414 | 6,941 | 112,628,928 | 2,644 | 23,775,195 | 82,711 | 5.50 | 13.70 | 14,962 | 1,237,559,898 |
| 6/30/13 | 82,711 | 6,071 | 97,203,958 | 2,707 | 24,577,721 | 86,075 | 4.10 | (15.90) | 14,975 | 1,288,986,517 |
| 6/30/14 | 86,075 | 6,022 | 99,401,460 | 2,793 | 26,057,706 | 89,304 | 3.80 | 2.50 | 15,298 | 1,366,173,782 |

## SUMMARY OF MEMBERSHIP DATA

| Retiree and Beneficiary Member Valuation Data[1] | 12/31/13 | 12/31/12 |
|---|---|---|
| **KPERS** | | |
| Number | 81,930 | 79,390 |
| Average Benefit | $ 13,325 | $ 12,929 |
| Average Age | 72.02 | 72.24 |
| **Police & Fire** | | |
| Number | 4,670 | 4,525 |
| Average Benefit | $ 29,721 | $ 28,600 |
| Average Age | 66.33 | 65.16 |
| **Judges** | | |
| Number | 243 | 227 |
| Average Benefit | $ 39,809 | $ 38,261 |
| Average Age | 74.20 | 74.07 |
| **System Total** | | |
| Number | 86,843 | 84,142 |
| Average Benefit | $ 14,280 | $ 13,840 |
| Average Age | 71.72 | 71.86 |

| Active Member Valuation Data[1] | 12/31/13 | 12/31/12 |
|---|---|---|
| **KPERS** | | |
| Number | 147,957 | 148,605 |
| Average Current Age | 45.46 | 45.51 |
| Average Service | 11.26 | 11.25 |
| Average Pay | $ 40,684 | $ 40,522 |
| **Police & Fire** | | |
| Number | 7,224 | 7,187 |
| Tier I | 294 | 329 |
| Tier II | 6,930 | 6,858 |
| Average Current Age | 39.61 | 39.52 |
| Average Service | 11.80 | 11.68 |
| Average Pay | $ 63,928 | $ 62,489 |
| **Judges** | | |
| Number | 265 | 261 |
| Average Current Age | 57.81 | 58.27 |
| Average Service | 11.68 | 12.26 |
| Average Pay | $107,364 | $107,584 |
| **System Total** | | |
| Number | 155,446 | 156,053 |
| Average Current Age | 45.21 | 45.26 |
| Average Service | 11.28 | 11.27 |
| Average Pay | $ 41,878 | $ 41,646 |

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

## SCHEDULE OF EMPLOYER CONTRIBUTION RATES

*Last Ten Fiscal Years[1]*

### KPERS State/School

| Fiscal Year | Actuarial Rate | Actual Rate |
|---|---|---|
| 2005 | 8.29% | 5.47% |
| 2006 | 9.94 | 6.07 |
| 2007 | 9.75 | 6.77 |
| 2008 | 11.37 | 7.37 |
| 2009 | 11.86 | 7.97[5] |
| 2010 | 11.98 | 8.57[6] |
| 2011 | 12.30 | 9.17[6] |
| 2012 | 15.09 | 9.77[7] |
| 2013 | 14.46 | 10.37[8] |
| 2014 | 14.68 | 10.82 |

### KPERS LOCAL

| Fiscal Year | Actuarial Rate | Actual Rate |
|---|---|---|
| 2005 | 6.04% | 4.01% |
| 2006 | 7.04 | 4.61 |
| 2007 | 8.69 | 5.31 |
| 2008 | 8.92 | 5.93 |
| 2009 | 9.12 | 6.54[5] |
| 2010 | 9.52 | 7.14[6] |
| 2011 | 11.42 | 7.74[6] |
| 2012 | 10.44 | 8.34[7] |
| 2013 | 10.43 | 8.94[8] |
| 2014 | 10.62 | 9.69 |

### TIAA

| Fiscal Year | Actuarial Rate | Actual Rate |
|---|---|---|
| 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] |

### KP&F Uniform Rate

| Fiscal Year | Actuarial Rate | Actual Rate |
|---|---|---|
| 2005 | 11.69% | 11.69% |
| 2006 | 12.39 | 12.39 |
| 2007 | 13.32 | 13.32 |
| 2008 | 13.88 | 13.88 |
| 2009 | 13.51 | 13.51 |
| 2010 | 12.86 | 12.86 |
| 2011 | 17.88 | 14.57 |
| 2012 | 16.54 | 16.54 |
| 2013 | 17.26 | 17.26 |
| 2014 | 19.92 | 19.92 |

### Judges

| Fiscal Year | Actuarial Rate | Actual Rate |
|---|---|---|
| 2005 | 19.22% | 19.22% |
| 2006 | 22.37 | 22.37 |
| 2007 | 19.51 | 19.51 |
| 2008 | 22.78 | 22.78 |
| 2009 | 22.48 | 22.48[5] |
| 2010 | 20.90 | 20.90[6] |
| 2011 | 19.89 | 19.89[6] |
| 2012 | 21.68 | 21.68[7] |
| 2013 | 24.15 | 24.15[8] |
| 2014 | 24.02 | 24.02 |

*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 Group Life 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, 2003through 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.*
*5) Per 2009 legislation, employers were not required to remit the Group Life and Disability portion of the Actual Rate from March 1, 2009 through November 30, 2009.*
*6) Per 2010 legislation, employers were not required to remit the Group Life and Disability portion of the Actual Rate from April 1, 2010 through June 30, 2010 and April 1, 2011 through June 30, 2011.*
*7) Per 2012 legislation, employers were not required to remit the Group Life and Disability portion of the Actual Rate from April 1, 2012 through June 30, 2012.*
*8) Per 2013 legislation, employers were not required to remit the Group Life and Disability portion of the Actual Rate from April 1, 2013 through June 30, 2013.*

# ACTUARIAL CERTIFICATION LETTER—DEATH AND DISABILITY PLAN

Milliman

121 Middle Street, Suite 401
Portland, ME 04101
USA

Tel +1 207 771 1203
Fax +1 207 772 7512

May 9, 2013

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

Dear Members of the Board:

In accordance with your request, we have performed an actuarial valuation of KPERS Death and Disability Program as of June 30, 2012 for determining contributions beginning July 1, 2012. The major findings of the valuation are contained in this report. This report reflects the benefit provisions and contribution rates in effect as of June 30, 2012.

In preparing this report, we relied, without audit, on information (some oral and some in writing) supplied by the System's staff. This information includes, but is not limited to, statutory provisions, employee 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. Since the valuation results are dependent on the integrity of the data supplied, the results can be expected to differ if the underlying data is incomplete or missing. 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 actuarial principles and practices which are consistent with the Actuarial Standards of Practice promulgated by the Actuarial Standards Board and the applicable Guides to Professional Conduct, amplifying Opinions, and supporting Recommendations of the American Academy of Actuaries.

We further certify that all costs, liabilities, rates of interest, and other factors used or provided in this report have been determined on the basis of actuarial assumptions and methods which are individually reasonable (taking into account the experience of the System and reasonable expectations); and which, in combination, offer our best estimate of anticipated experience affecting the System.

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 Appendix C.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements.

Actuarial computations presented in this report are for purposes of analyzing the sufficiency of the statutory contribution rate.

Actuarial computations under GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, are for purposes of fulfilling financial accounting requirements. The computations prepared for these two purposes may differ as disclosed in our report. The calculations in the enclosed report have been made on a basis consistent with our understanding of the System's funding requirements and goals, and of GASB Statement 43. Determinations for purposes other than meeting these requirements may be significantly different from the results contained in this report. Accordingly, additional determinations may be needed for other purposes.

Milliman's work product was prepared exclusively for KPERS for a specific and limited purpose. It is a complex, technical analysis that assumes a high level of knowledge concerning KPERS operations, and uses KPERS data, which Milliman has not audited. It is not for the use or benefit of any third party for any purpose. Any third party recipient of Milliman's work product who desires professional guidance should not rely upon Milliman's work product, but should engage qualified professionals for advice appropriate to its own specific needs.

We respectfully submit the following report, and we look forward to discussing it with you.

I, Daniel D. Skwire, F.S.A., am a consulting actuary for Milliman, Inc. I am a member of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

I, Allan L. Bittner, F.S.A., am a consulting actuary for Milliman, Inc. I am a member of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Milliman, Inc.

Sincerely,

Daniel D. Skwire, F.S.A.
Consulting Actuary

Allan L. Bittner, F.S.A.
Consulting Actuary

# INTRODUCTION AND EXECUTIVE SUMMARY

This report contains the June 30, 2012 actuarial valuation for the KPERS Death and Disability Program. This program provides two primary benefits to active members:

1. Group life insurance equal to 150% of annual compensation, which is provided through an insurance contract with Minnesota Life.

2. Self-insured long term disability (LTD) benefits equal to 60% (for claims incurred prior to 1/1/2006, 66 2/3%) of annual compensation, offset by other benefits. Members receiving LTD benefits also receive service credit toward their retirement benefits under KPERS (which does not affect calculations for the Death and Disability Program) and have their group life insurance coverage continued under the waiver of premium provision. For those employees covered under the waiver of premium provision, the group life insurance benefit is increased annually for inflation, at a rate equal to the consumer price index less one percent, beginning five years following the date of disability.

The scope of the annual actuarial valuation, on both the GASB 43 and illustrative historical basis, includes the LTD and waiver benefits described in Item 2 above. They do not include the fully-insured group life insurance benefit, which is provided only during employment and is therefore not classified as an other post-employment benefit (OPEB) under GASB 43.

The key results from each section of this report are summarized below.

### ACTUARIAL VALUATION UNDER GASB 43

- GASB Statement 43 contains requirements for the valuation of OPEBs by state and local government entities. These requirements, which are analogous to pension accounting practices, attribute the cost of OPEB to the time during which the employee is actively working for the employer.

- Table 1.1 summarizes the calculation of the actuarial liability for active and disabled members. This liability includes the cost of projected LTD benefits, projected waiver benefits, and projected administrative expenses:

#### TABLE 1.1 KPERS DEATH AND DISABILITY PROGRAM

*Actuarial Liability at 6/30/2012*

| | Actives | Disabled | Total |
|---|---|---|---|
| PV of Total Projected Benefits | $318,982,099 | $169,561,173 | $488,543,272 |
| PV of Future Normal Cost | 219,946,549 | 0 | 219,946,549 |
| Actuarial Liability | $99,035,550 | $169,561,173 | $268,596,723 |

*NOTE: Totals may not match due to rounding.*

- As of June 30, 2012, the KPERS Death and Disability Fund has an unfunded actuarial liability of $249,528,257. KPERS has elected to amortize this unfunded actuarial liability over 15 years as a level percent of pay, assuming a 4% annual payroll increase.

- The annual required contribution (ARC) for the KPERS Death and Disability Program equals the current year normal cost plus the amortization of the unfunded actuarial liability, all adjusted for interest to mid-year. The ARC for 2012-2013 is $40,871,331, representing 0.62% of estimated annual compensation.

### HISTORICAL ANALYSIS

- The historical analysis shows a decreasing pattern in LTD claims and LTD claim payments over the past six years. Waiver death benefits in 2010-2011 and 2011-2012 are consistent with historical patterns. These are trends that may result, at least in part, from an increasing focus on managing LTD claims and assisting claimants in rehabilitation and return to work. They may also be driven by the gradual impact on overall experience of the lower benefit percentage on new claims incurred 1/1/2006 and later. Generally, however, we expect to see a modestly increasing trend in LTD and waiver benefits due to the aging of the population and the increasing salaries of active members.

- The total disabled life liability decreased from $171.6 million to $165.8 million from 6/30/2010 to 6/30/2011, and from $165.8 million to $162.0 million from 6/30/2011 to 6/30/2012, due primarily to a reduction in the number of open LTD claims.

- Liability runoff tests performed on the illustrative liability balances for LTD and Waiver claims indicate that the 6/30/2011 balances were sufficient to fund the actual and projected future costs that emerged during the 2011-2012 fiscal year with respect to members disabled as of 6/30/2011.

### PROJECTED CASHFLOWS

Table 1.2 contains the projected cashflows for the KPERS Death and Disability Fund for the next five years:

#### TABLE 1.2 FIVE-YEAR CASHFLOW PROJECTION

*Expected Benefits and Expenses v. Expected Contributions (millions)*

*Excludes Group Life Insurance for Active Members*

| Plan Year | Projected Benefits and Expenses | Projected Contributions |
|---|---|---|
| 2012-2013 | $32.1 | $49.6 |
| 2013-2014 | $33.1 | $51.1 |
| 2014-2015 | $34.4 | $52.7 |
| 2015-2016 | $35.4 | $54.2 |
| 2016-2017 | $36.3 | $55.9 |

Table 1.2 indicates that the projected contributions are expected to exceed the projected benefits and expenses for each of the next five years, according to the assumptions used for the

actuarial valuation, and assuming that the current contribution rate of 1.0% (which includes approximately 0.25% of payroll for group life insurance) remains unchanged. This pattern would result in an increase in plan assets over the 5-year time horizon. Any future periodic contribution moratoriums implemented by the Legislature will have the impact of spending down any increase in the plan's assets.

The cashflow projections include self-insured benefits only. They do not include the cost of insurance premiums for the fully-insured group life benefit or the projected contributions intended to cover those premiums. Also, the projections are on a "best-estimate" basis consistent with the liability calculations, which means they do not include an explicit margin. To the extent that KPERS requires a more conservative benefit projection for the purpose of determining funding contributions, it may wish to consider adding a margin of 5-10% to the benefits and expenses projected.

**GASB 43**

The Governmental Accounting Standards Board (GASB) issued Statement No. 43, Financial Reporting For Postemployment Benefit Plans Other Than Pension Plans, in order to establish uniform standards of financial reporting by state and local governmental entities for other postemployment benefit plans (OPEB plans). The term "other postemployment benefits (OPEB) refers to postemployment benefits other than pension benefits and includes (a) postemployment healthcare benefits and (b) other types of postemployment benefits like life insurance, disability, and long term care, if provided separately from a pension plan.

The basis for GASB 43 is to attribute the cost of postemployment benefits to the time during which the employee is actively working for the employer. OPEB arises from an exchange of salaries and benefits for employee services and it is part of the compensation that employers offer for services received.

GASB Statement No. 43 establishes standards for measurement, recognition, and display of the assets, liabilities and where applicable, net assets and changes in net assets of such funds. In addition, the statement requires two schedules and accompanying notes disclosing information relative to the funded status of the Plan and employer contributions to the Plan.

- The Schedule of Funding Progress provides historical information about the funded status of the plan and the progress being made in accumulating sufficient assets to pay benefits when due.

- The Schedule of Employer Contributions provides historical information about actual contributions made to the plan by participating employers in comparison to annual required contributions (ARC).

GASB 43 was first effective for KPERS Death and Disability Program for the fiscal year ending June 30, 2007. This valuation addresses the ARC for the fiscal year ending June 30, 2013. Only the disability benefits and waiver of premium life insurance benefits provided by KPERS Death and Disability Program are subject to GASB 43. The group and optional life insurance programs for active members are not OPEBs under GASB 43.

A number of assumptions have been made in developing the liabilities reported in this report. These assumptions, as well as the actuarial methodology, are described in Appendix C of this report. The projections in this report are estimates, and as such, KPERS' actual liability will vary from these estimates. The projections and assumptions should be updated as actual costs under this program develop.

**ACTUARIAL PRESENT VALUE OF TOTAL PROJECTED BENEFITS**

The actuarial present value of total projected benefits reflects all expected payments in the future discounted to the date of the valuation. The present value is an amount of money that, if it were set aside now and all assumptions met, would be exhausted with the ultimate payment to the last plan member's final expense.

## TABLE 3.1 ACTUARIAL PRESENT VALUE OF TOTAL PROJECTED BENEFITS

*at 6/30/2012*

| | Actives | Disabled | Total |
|---|---|---|---|
| Disability Income | $240,664,328 | $135,738,044 | $376,402,372 |
| Waiver of Premium | 64,144,176 | 26,288,877 | 90,433,053 |
| Administrative Expenses | 14,173,595 | 7,534,252 | 21,707,847 |
| Total | $318,982,099 | $169,561,173 | $488,543,272 |

*NOTE: Totals may not match due to rounding.*

The Entry Age Normal Actuarial Cost Method was used to allocate the cost of benefits to years of active service. The objective under this method is to expense each participant's benefit as a level percent of pay over their active working lifetime. At the time the funding method is introduced, there will be a liability which represents the contributions which would have been accumulated if this method of funding had always been used (called the "Actuarial Liability"). The difference between this actuarial liability and the assets (if any) is the unfunded actuarial liability, which is typically amortized over a period of years. The maximum permissible years under GASB 43 is 30. KPERS has chosen to amortize the unfunded actuarial liability over 15 years, as a level percent of pay.

## TABLE 3.2 ACTUARIAL LIABILITY

*at 6/30/2012*

| | Actives | Disabled | Total |
|---|---|---|---|
| Present Value of Total Projected Benefits | $318,982,099 | $169,561,173 | $488,543,272 |
| Present Value of Future Normal Cost | 219,946,549 | 0 | 219,946,549 |
| Actuarial Liability | $ 99,035,550 | $169,561,173 | $268,596,723 |

*NOTE: Totals may not match due to rounding.*

### ACTUARIAL BALANCE SHEET

The actuarial balance sheet is a demonstration of the basic actuarial equation that the actuarial present value of future benefits to be paid to the active and retired members must equal the current assets plus the actuarial present value of future contributions to be received. Accordingly, the status of the plan in balance sheet form as of June 30, 2012 is shown below:

| | |
|---|---|
| **Actuarial Present Value of Total Projected Benefits** | |
| Active Members | $318,982,099 |
| Disabled Members | 169,561,173 |
| Total Actuarial Present Value of Total Projected Benefits | $488,543,272 |
| **Assets and Future Employer Contributions** | |
| Assets* | $ 19,068,466 |
| Unfunded Actuarial Liability | 249,528,257 |
| Present Value of Future Normal Costs | 219,946,549 |
| Total Assets and Future Employer Contributions | $488,543,272 |

**Market value*
*NOTE: Totals may not match due to rounding.*

### ANNUAL REQUIRED CONTRIBUTION (ARC)

GASB 43 defines the Annual Required Contribution (ARC) as the employer's normal cost plus amortization of any unfunded actuarial liability over a period not to exceed 30 years. KPERS has chosen to amortize the unfunded actuarial liability over 15 years as a level percentage of payroll.

## ANNUAL REQUIRED CONTRIBUTIONS FOR FISCAL YEAR ENDING JUNE 30, 2013

| | |
|---|---|
| **A. Employer Normal Costs** | |
| (1) Normal Cost as of June 30, 2012 | $ 22,782,168 |
| (2) Assumed interest (mid year timing assumed) | 506,958 |
| (3) Normal Cost for FY2013 [(1) + (2)] | $ 23,289,126 |
| **B. Determination of Current Year Amortization Payment** | |
| (1) Unfunded Actuarial Liability (see Table 3.3 Item II) | $ 249,528,257 |
| (2) Amortization Period | 15 years |
| (3) Amortization Factor | 14.5079 |
| (4) Amortization Amount as of June 30, 2012 [(1) / (3)] | $ 17,199,475 |
| (5) Assumed interest (mid year timing assumed) | 382,730 |
| (6) Amortization Amount for FY2013 [(4) + (5)] | 17,582,205 |
| **C. Determination of Annual Required Contribution** | |
| (1) Normal Cost for benefits attributable to service in the current year (A.3) | $ 23,289,126 |
| (2) Amortization of Unfunded Actuarial Liability (B.6) | 17,582,205 |
| (3) Annual Required Contribution (ARC) [(1) + (2)] | 40,871,331 |
| **D. Annual Required Contribution** | |
| (1) Annual Required Contribution | $ 40,871,331 |
| (2) Estimated Annual Compensation for FY2013 | 6,618,909,195 |
| (3) ARC as a Percentage of Payroll | 0.62% |

The amortization of the Unfunded Actuarial Liability is calculated assuming amortization as a level percent of payroll over 15 years. Payroll is assumed to increase 4% per year.

Changes in the UAAL occur for various reasons. The net decrease i the UAAL from July 1, 2010 to July 1, 2012 was $21.5 million. The components of this net change are shown in the table below (in millions):

| | |
|---|---|
| **Unfunded Actuarial Accrued Liability, July 2010** | **$271.0** |
| • Impact of new claim experience different from expected | (25.8) |
| • Impact of terminated claim experience different from expected | (6.3) |
| • Impact of change in assumptions | 0.1 |
| • Impact of new entrants (active) | 3.4 |
| • Other liability experience and asset experience | 7.1 |
| Unfunded Actuarial Accrued Liability, July 1, 2012 | $249.5 |

## SHORT TERM SOLVENCY TEST-DEATH AND DISABILITY PLAN

*Last Five Fiscal Years Valued*

| | Disabled Emplyer Financed Portion (A) | Active Member Employer Financec Portion (B) | Actuarial Value of Assets | Portion of Accrued Liabiities Covered by Assets |
|---|---|---|---|---|
| 06/30/06 | $239,753,827 | 4114,396,152 | $18,723,957 | 5.3% |
| 06/30/07 | 237,913,406 | 117,815,215 | 25,567,653 | 7.2 |
| 06/30/08(1) | 231,282,196 | 123,777,984 | 38,570,957 | 10.9 |
| 06/30/10 | 188,151,374 | 95,606,171 | 12,750,759 | 4.5 |
| 06/30/12 | 169,561,173 | 99,035,550 | 19,068,466 | 7.1 |

*1) Starting June 30, 2008 the KPERS Death and Disability Benefits Program valuation will be performed biennally.*

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 contributions on deposit, (A) the liability for benefits to present disabled lives, and (B) the actuarial liability for service already rendered by active members. The Death and Disability Plan requires no member contributions, it is funded by employer contributions.

# SUMMARY OF PLAN PROVISIONS

The KPERS Death and Disability Plan is a cost-sharing multiple employer plan that provides long term disability (LTD) and life insurance benefits to eligible employees. Eligible employees consist of all individuals who are:

1. Currently active members of KPERS;
2. In their first year of service with a KPERS-covered employer that has affiliated for first-day coverage;
3. Employees of an educational institution under the Kansas Board of Regents as defined in K.S.A. 74-4925;
4. Elected officials.

The plan provides a group life insurance benefit for active members through a fully-insured program with Minnesota Life Insurance Company. Because this benefit is fully-insured, it is not included in the scope of this actuarial valuation. The plan also provides a self-funded LTD benefit and a self-funded life insurance benefit for disabled members (referred to as "group life waiver of premium"). These items are considered "Other Post-Employment Benefits" (OPEB) under GASB accounting rules, and they are included in this actuarial valuation.

The key provisions of the LTD benefit include the following:

- **Definition of Disability:** For the first 24 months following the end of the benefit waiting period, a member is totally disabled if the member is unable to perform the material and substantial duties of his or her regular occupation due to sickness or injury. Thereafter, the member is totally disabled if the member is unable to perform the material and substantial duties of any gainful occupation due to sickness or injury.

- **Benefit Waiting Period:** For approved claims, benefits begin on the later of (a) the date the member completes 180 continuous days of total disability; or (b) the date the member ceases to draw compensation from his or her employer.

- **Monthly Benefit:** The monthly benefit is 60% of the member's monthly rate of compensation, with a minimum of $100 and a maximum of $5,000. The monthly benefit is subject to reduction by deductible sources of income, which include Social Security primary disability or retirement benefits, worker's compensation benefits, other disability benefits from any other source by reason of employment, and earnings from any form of employment.

- **Maximum Benefit Period:** If the disability begins before age 60, benefits are payable while disability continues until the member's 65th birthday or retirement date, whichever first occurs. If the disability occurs at or after age 60, benefits are payable while disability continues, for a period of five years or until the date of the member's retirement, whichever first occurs.

- **Limitation for Mental Illnesses and Substance Abuse:** Benefit payments for disabilities caused or contributed to by substance abuse or non-biologically-based mental illnesses are limited to the term of the disability or 24 months per lifetime, whichever is less.

- **There are no automatic cost-of-living increase provisions.** KPERS has the authority to implement an ad hoc cost-of-living increase.

The key provisions of the group life waiver of premium benefit include the following:

- **Benefit Amount:** Upon the death of a member who is receiving monthly disability benefits, the plan will pay a lump-sum benefit to eligible beneficiaries. The benefit amount will be 150% of the greater of (a) the member's annual rate of compensation at the time of disability, or (b) the member's previous 12 months of compensation at the time of the last date on payroll. If the member had been disabled for five or more years, the annual compensation or salary rate at the time of death will be indexed before the life insurance benefit is computed. The indexing is based on the consumer price index, less one percentage point.

- **Accelerated Death Benefit:** If a member is diagnosed as terminally ill with a life expectancy of 12 months or less, he or she may be eligible to receive up to 100% of the death benefit rather than having the benefit paid to the beneficiary.

- **Conversion Right:** If a member retires or disability benefits end, he or she may convert the group life insurance coverage to an individual life insurance policy.

# ACTUARIAL METHODS

### ACTUARIAL COST METHOD

The actuarial cost method determines, in a systematic way, the incidence of employer contributions required to provide plan benefits. It also determines how actuarial gains and losses are recognized in Plan costs. These gains and losses result from the difference between the actual experience under the plan and the experience predicted by the actuarial assumptions.

The cost of the Plan is derived by making certain specific assumptions as to rates of interest, disability, mortality, turnover, etc. which are assumed to hold for many years into the future. Since actual experience may differ somewhat from the long term assumptions, the costs determined by the valuation must be regarded as estimates of the true costs of the Plan.

Actuarial liabilities and comparative costs shown in this Report were computed using the Entry Age Normal (EAN) Actuarial Cost Method, which consists of the following cost components:

Under the EAN cost method, the actuarial present value of each member's projected benefits is allocated 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.

The Unfunded Actuarial Liability (UAL) is the difference between the Actuarial Liability and the Valuation Assets. KPERS has chosen to amortize the UAL over 15 years as a level percentage of payroll.

It should be noted that GASB 43 allows a variety of cost methods to be used. This method was selected because it is consistent with the KPERS retirement system funding and because it tends to produce stable costs. Other methods used do not change the ultimate liability, but do allocate it differently between what has been earned in the past and what will be earned in the future. If a different method was used, the normal cost and unfunded actuarial liability would change. Please note that the net effect of the change may result in an increase or decrease in the annual required contribution (ARC). If desired, we can provide more details.

**ASSET VALUATION METHOD**

Assets are valued at market value.

# ACTUARIAL ASSUMPTIONS

**Rate of Investment Return** GASB 43: 4.5% per annum, net of expenses

**Implicit Inflation Rate** 3.25%

**Mortality Rates**

**Post-retirement**

**Sample Rates**

| | School | | State | | Local | |
|---|---|---|---|---|---|---|
| Age | Male | Female | Male | Female | Male | Female |
| 50 | 0.513% | 0.183% | 0.547% | 0.218% | 0.587% | 0.204% |
| 55 | 0.549% | 0.226% | 0.625% | 0.328% | 0.670% | 0.278% |
| 60 | 0.662% | 0.384% | 0.962% | 0.577% | 1.031% | 0.481% |
| 65 | 1.051% | 0.664% | 1.597% | 0.964% | 1.712% | 0.817% |
| 70 | 1.747% | 1.074% | 2.646% | 1.557% | 2.837% | 1.318% |
| 75 | 2.917% | 1.792% | 4.550% | 2.614% | 4.878% | 2.215% |
| 80 | 5.278% | 3.643% | 7.037% | 4.567% | 7.545% | 4.171% |
| 85 | 9.331% | 6.751% | 11.292% | 7.977% | 12.108% | 7.508% |
| 90 | 15.661% | 11.589% | 17.978% | 13.563% | 19.278% | 12.869% |
| 95 | 24.301% | 18.407% | 24.888% | 20.034% | 26.687% | 19.742% |
| 100 | 32.791% | 24.186% | 30.850% | 24.459% | 33.080% | 24.990% |

**Pre-retirement**

School Males: 70% of RP-2000 M Employees -2
School Females: 70% of RP-2000 F Employees -2
State Males: 70% of RP-2000 M Employees +2
State Females: 70% of RP-2000 F Employees +0
Local Males: 90% of RP-2000 M Employees +2
Local Females: 90% of RP-2000 F Employees -1

**Disabled Life Mortality** RP-2000 Disabled Life Table with same age adjustments as used for Retiree Mortality.

**Rates of Salary Increase**

| Years of | Rate of Increase* | | |
|---|---|---|---|
| Service | State | School | Local |
| 1 | 10.50% | 12.00% | 10.50% |
| 5 | 5.60% | 6.55% | 6.20% |
| 10 | 4.90% | 5.10% | 5.20% |
| 15 | 4.40% | 4.60% | 4.80% |
| 20 | 4.10% | 4.10% | 4.60% |
| 25 | 4.00% | 4.00% | 4.10% |
| 30 | 4.00% | 4.00% | 4.00% |

**Includes general wage increase assumption of 4.0% (composed of 3.25% inflation and 0.75% productivity)*

**Rates of Termination**

| | School | | State | | Local | |
|---|---|---|---|---|---|---|
| Duration | Male | Female | Male | Female | Male | Female |
| 0 | 21.00% | 23.00% | 17.00% | 19.00% | 20.00% | 23.00% |
| 1 | 18.00% | 18.00% | 14.50% | 15.00% | 16.00% | 20.00% |
| 2 | 14.00% | 13.00% | 12.00% | 11.00% | 13.20% | 17.00% |
| 3 | 10.00% | 11.00% | 10.00% | 10.00% | 11.00% | 14.00% |
| 4 | 8.00% | 9.00% | 8.00% | 9.00% | 9.60% | 11.50% |
| 5 | 6.50% | 7.25% | 7.00% | 8.00% | 8.30% | 9.00% |
| 6 | 5.50% | 6.25% | 6.00% | 7.00% | 7.10% | 7.50% |
| 7 | 5.00% | 5.50% | 5.20% | 6.00% | 6.00% | 6.50% |
| 8 | 4.50% | 4.90% | 4.60% | 5.00% | 5.00% | 5.75% |
| 9 | 4.00% | 4.30% | 4.10% | 4.60% | 4.40% | 5.00% |
| 10 | 3.60% | 3.90% | 3.90% | 4.30% | 3.80% | 4.25% |
| 11 | 3.20% | 3.50% | 3.70% | 4.00% | 3.50% | 3.75% |
| 12 | 2.90% | 3.10% | 3.50% | 3.70% | 3.30% | 3.40% |
| 13 | 2.60% | 2.80% | 3.30% | 3.50% | 3.10% | 3.20% |
| 14 | 2.40% | 2.50% | 3.10% | 3.30% | 2.90% | 3.00% |
| 15 | 2.20% | 2.30% | 2.90% | 3.10% | 2.70% | 2.80% |
| 16 | 2.00% | 2.10% | 2.70% | 2.90% | 2.50% | 2.60% |
| 17 | 1.80% | 1.90% | 2.50% | 2.70% | 2.30% | 2.40% |
| 18 | 1.60% | 1.70% | 2.30% | 2.50% | 2.10% | 2.20% |
| 19 | 1.50% | 1.50% | 2.10% | 2.30% | 1.90% | 2.00% |
| 20 | 1.40% | 1.30% | 1.90% | 2.10% | 1.80% | 1.80% |
| 21 | 1.30% | 1.20% | 1.70% | 1.90% | 1.70% | 1.60% |
| 22 | 1.20% | 1.10% | 1.50% | 1.70% | 1.60% | 1.40% |
| 23 | 1.10% | 1.00% | 1.30% | 1.50% | 1.50% | 1.20% |
| 24 | 1.00% | 0.90% | 1.10% | 1.40% | 1.40% | 1.00% |
| 25 | 0.90% | 0.80% | 0.90% | 1.30% | 1.30% | 0.90% |
| 26 | 0.80% | 0.70% | 0.70% | 1.20% | 1.20% | 0.70% |
| 27 | 0.70% | 0.60% | 0.60% | 1.10% | 1.10% | 0.60% |
| 28 | 0.60% | 0.50% | 0.50% | 1.00% | 1.00% | 0.50% |
| 29 | 0.50% | 0.50% | 0.50% | 0.50% | 0.90% | 0.50% |
| 30 | 0.50% | 0.50% | 0.50% | 0.50% | 0.80% | 0.50% |
| 31+ | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |

**Retirement Rates**

**School**

| | Rule of 85 | | | | | |
|---|---|---|---|---|---|---|
| Age | 1st Year With 85 Points | After 1st Year With 85 Points | Early Retirement Age | Early Retirement Rate | Normal Retirement Age | Normal Retirement Rate |
| 53 | 20% | 18% | 55 | 5% | 62 | 30% |
| 55 | 20% | 18% | 56 | 5% | 63 | 25% |
| 57 | 22% | 18% | 57 | 8% | 64 | 35% |
| 59 | 25% | 23% | 58 | 8% | 65 | 35% |
| 61 | 30% | 30% | 59 | 12% | 66 – 71 | 25% |
| | | | 60 | 15% | 72 – 74 | 20% |
| | | | 61 | 22% | 75 | 100% |

**State**

| | Rule of 85 | | | | | |
|---|---|---|---|---|---|---|
| Age | 1st Year With 85 Points | After 1st Year With 85 Points | Early Retirement Age | Early Retirement Rate | Normal Retirement Age | Normal Retirement Rate |
| 53 | 10% | 15% | 55 | 5% | 62 | 30% |
| 55 | 15% | 15% | 56 | 5% | 63 | 20% |
| 57 | 15% | 12% | 57 | 5% | 64 | 30% |
| 59 | 15% | 12% | 58 | 5% | 65 | 35% |
| 61 | 30% | 25% | 59 | 8% | 66-67 | 25% |
| | | | 60 | 8% | 68-74 | 20% |
| | | | 61 | 20% | 75 | 100% |

**Local**

| | Rule of 85 | | | | | |
|---|---|---|---|---|---|---|
| Age | 1st Year With 85 Points | After 1st Year With 85 Points | Early Retirement Age | Early Retirement Rate | Normal Retirement Age | Normal Retirement Rate |
| 53 | 11% | 10% | 55 | 5% | 62 | 25% |
| 55 | 13% | 10% | 56 | 5% | 63 | 20% |
| 57 | 13% | 10% | 57 | 5% | 64 | 30% |
| 59 | 15% | 12% | 58 | 5% | 65 | 35% |
| 61 | 25% | 25% | 59 | 5% | 66 | 25% |
| | | | 60 | 5% | 67-74 | 20% |
| | | | 61 | 15% | 75 | 100% |

- Inactive vested members – Age 62.
- For correctional employees with an age 55 normal retirement date -

| Age | Rate |
|---|---|
| 55 | 10% |
| 58 | 10% |
| 60 | 10% |
| 62 | 45% |
| 65 | 100% |

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

**LTD Claim Incidence Rates**

| Attained Age | Male Local | Male School | Male State | Female Local | Female School | Female State |
|---|---|---|---|---|---|---|
| 25 | 0.00044 | 0.00032 | 0.00078 | 0.00065 | 0.00046 | 0.00115 |
| 30 | 0.00046 | 0.00032 | 0.00081 | 0.00060 | 0.00043 | 0.00107 |
| 35 | 0.00059 | 0.00042 | 0.00104 | 0.00098 | 0.00070 | 0.00173 |
| 40 | 0.00087 | 0.00062 | 0.00153 | 0.00139 | 0.00099 | 0.00246 |
| 45 | 0.00151 | 0.00107 | 0.00266 | 0.00207 | 0.00148 | 0.00367 |
| 50 | 0.00244 | 0.00174 | 0.00432 | 0.00289 | 0.00206 | 0.00511 |
| 55 | 0.00409 | 0.00291 | 0.00723 | 0.00399 | 0.00284 | 0.00704 |
| 60 | 0.00587 | 0.00418 | 0.01038 | 0.00475 | 0.00338 | 0.00840 |
| 65 | 0.00625 | 0.00445 | 0.01104 | 0.00416 | 0.00296 | 0.00735 |
| 70 | 0.00698 | 0.00497 | 0.01234 | 0.00383 | 0.00273 | 0.00678 |

**LTD Claim Termination Rates**
As % of 1987 Commissioners Group Disability Table (Based on Actual KPERS Experience)

| Age at Disability | Claim Duration (Months) 1 – 12 | 13 – 24 | 25 – 60 | 61+ |
|---|---|---|---|---|
| Under 30 | 55% | 75% | 95% | 145% |
| 30 – 39 | 55% | 75% | 95% | 145% |
| 40 – 49 | 55% | 75% | 95% | 145% |
| 50 – 59 | 95% | 135% | 180% | 350% |
| 60 and Over | 350% | 350% | 350% | 350% |

All claim termination rates are assumed to be 350% of the table for attained ages 60 and older.

**Other LTD Assumptions**

| | |
|---|---|
| IBNR Reserve: | 60% of expected claim cost for year |
| Overpayment Recovery: | 65% of overpayment balance |
| Future Payroll Growth: | 4.0% long-term growth for actuarial valuation. 3.0% near-term growth for cashflow projections. |
| Administrative Expenses: | 4.65% of claims |
| Estimated Offsets: | Estimated approval rate of 55% to 75% for claims in first three years of disability that do not yet have offsets. Estimated offset amount of 60% of gross benefit. |

**Waiver Claim Termination Rates**
As % of 1987 Commissioners Group Disability Table (Based on Actual KPERS Experience)

| Age at Disability | Claim Duration (Months) 1 – 12 | 13 – 24 | 25 – 60 | 61+ |
|---|---|---|---|---|
| Under 30 | 55% | 75% | 95% | 145% |
| 30 – 39 | 55% | 75% | 95% | 145% |
| 40 – 49 | 55% | 75% | 95% | 145% |
| 50 – 59 | 95% | 135% | 180% | 350% |
| 60 and Over | 350% | 350% | 350% | 350% |

All claim termination rates are assumed to be 350% of the table for attained ages 60 and older.

**Other Waiver Assumptions**

| | |
|---|---|
| Mortality: | 80% of 2005 Society of Actuaries Group Life Waiver Mortality Table, first 5 years of claim. 100% thereafter. |
| Benefit Indexing: | Historical indexing is based on actual retirement plan calculations. Indexing for 2006 and later uses a rate of 2.0%, which is equivalent to a 3% annual assumed increase in the consumer price index, less 1.0% as specified by the plan. |
| Projected Future Claim Cost as % of Payroll (used in cashflow projections): | 0.09% in 2012-2013, which increases in future due to aging. |
| IBNR: | 12.5% of expected claim cost for year |

# KPERS DEATH AND DISABILITY VALUATION

Experience Exhibits as of 6/30/2012

**Death Claims by Death Benefit Paid**

| | 2010-2011 | | 2011-2012 | |
|---|---|---|---|---|
| Death Benefit Paid | Count | % of Claims | Count | % of Claims |
| 0 – 9,999 | 0 | 0% | 1 | 1% |
| 10,000 – 19,999 | 8 | 8% | 6 | 6% |
| 20,000 – 29,999 | 9 | 9% | 5 | 5% |
| 30,000 – 39,999 | 17 | 17% | 26 | 25% |
| 40,000 – 49,999 | 26 | 25% | 24 | 23% |
| 50,000 – 59,999 | 9 | 9% | 19 | 18% |
| 60,000 – 69,999 | 15 | 15% | 9 | 9% |
| 70,000 – 79,999 | 7 | 7% | 7 | 7% |
| 80,000 – 89,999 | 6 | 6% | 1 | 1% |
| 90,000 – 99,999 | 2 | 2% | 1 | 1% |
| 100,000+ | 4 | 4% | 4 | 4% |
| Total | 103 | 100% | 103 | 100% |

**Death Claims by Age at Death**

| | 2010-2011 | | 2011-2012 | |
|---|---|---|---|---|
| Age at Death | Count | % of Claims | Count | % of Claims |
| 20 – 29 | 0 | 0% | 0 | 0% |
| 30 – 39 | 1 | 1% | 5 | 5% |
| 40 – 49 | 11 | 11% | 17 | 17% |
| 50 – 59 | 47 | 46% | 46 | 45% |
| 60 – 64 | 36 | 35% | 30 | 29% |
| 65+ | 8 | 8% | 5 | 5% |
| Total | 103 | 100% | 103 | 100% |

**Active LTD Claims by Age at Disability**

| | 2010-2011 | | 2011-2012 | |
|---|---|---|---|---|
| Age at Disability | Count | % of Claims | Count | % of Claims |
| <20 | 1 | 0% | 1 | 0% |
| 20 – 29 | 88 | 3% | 89 | 3% |
| 30-39 | 485 | 17% | 471 | 17% |
| 40-49 | 1079 | 38% | 1057 | 38% |
| 50-59 | 1036 | 37% | 1004 | 36% |
| 60-64 | 127 | 4% | 139 | 5% |
| 65+ | 17 | 1% | 20 | 1% |
| Total | 2833 | 100% | 2781 | 100% |

**Active LTD Claims by Attained Age**

| | 2010-2011 | | 2011-2012 | |
|---|---|---|---|---|
| Attained Age | Count | % of Claims | Count | % of Claims |
| <20 | 0 | 0% | 0 | 0% |
| 20-29 | 9 | 0% | 12 | 0% |
| 30-39 | 90 | 3% | 88 | 3% |
| 40-49 | 480 | 17% | 429 | 15% |
| 50-59 | 1434 | 51% | 1425 | 51% |
| 60-64 | 762 | 27% | 757 | 27% |
| 65+ | 58 | 2% | 70 | 3% |
| Total | 2833 | 100% | 2781 | 100% |

**Active LTD Claims by Net Benefit Amount**

| | 2010-2011 | | 2011-2012 | |
|---|---|---|---|---|
| Net Monthly Benefit | Count | % of Claims | Count | % of Claims |
| 0-499 | 1218 | 43% | 1207 | 43% |
| 500-999 | 917 | 32% | 915 | 33% |
| 1,000-1,499 | 416 | 15% | 388 | 14% |
| 1,500-1,999 | 185 | 7% | 174 | 6% |
| 2,000-2,499 | 59 | 2% | 60 | 2% |
| 2,500-2,999 | 25 | 1% | 24 | 1% |
| 3,000-3,499 | 8 | 0% | 10 | 0% |
| 3,500-3,999 | 2 | 0% | 2 | 0% |
| 4,000-4,499 | 0 | 0% | 1 | 0% |
| 4,500-4,999 | 0 | 0% | 0 | 0% |
| 5,000+ | 3 | 0% | 0 | 0% |
| Total | 2833 | 100% | 2781 | 100% |

**Active LTD Claims by Diagnosis**

| | 2010-2011 | | 2011-2012 | |
|---|---|---|---|---|
| Diagnosis | Count | % of Claims | Count | % of Claims |
| Back/Neck | 469 | 17% | 469 | 17% |
| Cardiovascular | 321 | 11% | 304 | 11% |
| Musculoskeletal | 519 | 18% | 509 | 18% |
| Neurological | 373 | 13% | 376 | 14% |
| Gastrointestinal | 50 | 2% | 52 | 2% |
| Genitourinary | 44 | 2% | 36 | 1% |
| Glandular | 98 | 3% | 96 | 3% |
| Respiratory | 98 | 3% | 98 | 4% |
| Aids | 13 | 0% | 9 | 0% |
| Cancer | 117 | 4% | 126 | 5% |
| Eyes, Ears and Nose | 63 | 2% | 55 | 2% |
| Complications of Pregnancy | 5 | 0% | 5 | 0% |
| Mental/Nervous | 384 | 14% | 373 | 13% |
| Substance Abuse/Addiction | 1 | 0% | 1 | 0% |
| Misc/Other | 278 | 10% | 272 | 10% |
| Total | 2833 | 100% | 2781 | 100% |

**New LTD Claims by Age at Disability**

| | 2010-2011 | | 2011-2012 | |
|---|---|---|---|---|
| Age at Disability | Count | % of Claims | Count | % of Claims |
| <20 | 0 | 0% | 0 | 0% |
| 20-29 | 6 | 2% | 8 | 3% |
| 30-39 | 29 | 9% | 15 | 5% |
| 40-49 | 71 | 23% | 64 | 21% |
| 50-59 | 157 | 50% | 161 | 53% |
| 60-64 | 46 | 15% | 50 | 16% |
| 65+ | 4 | 1% | 6 | 2% |
| Total | 313 | 100% | 304 | 100% |

**New LTD Claims by Attained Age**

| | 2010-2011 | | 2011-2012 | |
|---|---|---|---|---|
| Attained Age | Count | % of Claims | Count | % of Claims |
| <20 | 0 | 0% | 0 | 0% |
| 20-29 | 4 | 1% | 6 | 2% |
| 30-39 | 25 | 8% | 10 | 3% |
| 40-49 | 63 | 20% | 59 | 19% |
| 50-59 | 157 | 50% | 149 | 49% |
| 60-64 | 55 | 18% | 69 | 23% |
| 65+ | 9 | 3% | 11 | 4% |
| Total | 313 | 100% | 304 | 100% |

New LTD Claims by Net Benefit Amount

| | 2010-2011 | | 2011-2012 | |
|---|---|---|---|---|
| Net Benefit | Count | % of Claims | Count | % of Claims |
| 0-499 | 121 | 39% | 119 | 39% |
| 500-999 | 77 | 25% | 73 | 24% |
| 1,000-1,499 | 53 | 17% | 52 | 17% |
| 1,500-1,999 | 34 | 11% | 36 | 12% |
| 2,000-2,499 | 16 | 5% | 13 | 4% |
| 2,500-2,999 | 9 | 3% | 6 | 2% |
| 3,000-3,499 | 3 | 1% | 4 | 1% |
| 3,500-3,999 | 0 | 0% | 0 | 0% |
| 4,000-4,499 | 0 | 0% | 1 | 0% |
| 4,500-4,999 | 0 | 0% | 0 | 0% |
| 5,000+ | 0 | 0% | 0 | 0% |
| Total | 313 | 100% | 304 | 100% |

**New LTD Claims by Diagnosis**

| | 2010-2011 | | 2011-2012 | |
|---|---|---|---|---|
| Diagnosis | Count | % of Claims | Count | % of Claims |
| Back/Neck | 51 | 16% | 50 | 16% |
| Cardiovascular | 32 | 10% | 35 | 12% |
| Musculoskeletal | 53 | 17% | 51 | 17% |
| Neurological | 35 | 11% | 37 | 12% |
| Gastrointestinal | 4 | 1% | 7 | 2% |
| Genitourinary | 6 | 2% | 1 | 0% |
| Glandular | 10 | 3% | 9 | 3% |
| Respiratory | 10 | 3% | 11 | 4% |
| Aids | 0 | 0% | 0 | 0% |
| Cancer | 36 | 12% | 40 | 13% |
| Eyes, Ears and Nose | 4 | 1% | 3 | 1% |
| Complications of Pregnancy | 2 | 1% | 0 | 0% |
| Mental/Nervous | 32 | 10% | 27 | 9% |
| Substance Abuse/Addiction | 1 | 0% | 0 | 0% |
| Misc/Other | 37 | 12% | 33 | 11% |
| Total | 313 | 100% | 304 | 100% |

**Terminated LTD Claims by Term Reason**

| | 2010-2011 | | 2011-2012 | |
|---|---|---|---|---|
| Term Reason | Count | % of Claims | Count | % of Claims |
| Death | 112 | 25% | 146 | 31% |
| Recovery | 57 | 13% | 43 | 9% |
| Retirement | 248 | 56% | 250 | 53% |
| Expiry | 25 | 6% | 36 | 8% |
| Total | 442 | 100% | 475 | 100% |

# statistical section

# STATISTICAL HIGHLIGHTS OF THE SYSTEM'S FINANCIAL TRENDS

The Statistical Section presents several schedules that provide financial trend analysis of the Retirement System's overall financial health and additional analytical information on employers' membership data, retirement benefits and other post employment benefits (OPEB). The schedules beginning on this page through page 128 provide revenues, expenses and funding status information for the past ten fiscal years for KPERS and Death and Disability (OPEB) plans. On page 127 a schedule is presented that allocates the total benefits and type of refunds that were paid. On pages 129 through 132 various schedules are presented to depict the level of monthly benefits by number of retirees, retirement type and options, and years of service. On pages 133 through 137, information is provided showing the top ten participating employers determined by number of covered active employees. The source of the information in these schedules is derived from the comprehensive annual financial reports, unless otherwise noted.

## REVENUES BY SOURCE

*Last Ten Fiscal Years*

| | Contributions | | | | | | |
|---|---|---|---|---|---|---|---|
| Fiscal Year | Member | Employer | Employer Insurance (OPEB) | Misc | Net Investment Income (KPERS) | Net Investment Income (OPEB) | Total |
| 2005 | $233,226,034 | $261,961,687 | $31,990,734 | $178,105 | $1,222,707,749 | $388,372 | $1,750,452,681 |
| 2006 | 246,203,381 | 298,711,909 | 53,319,639 | 175,539 | 1,354,021,324 | 386,439 | 1,952,818,231 |
| 2007 | 256,995,275 | 339,509,022 | 59,308,991 | 228,986 | 2,161,413,409 | 668,063 | 2,818,123,746 |
| 2008 | 269,603,155 | 395,752,214 | 62,400,369 | 225,736 | (650,071,204) | 968,222 | 78,878,492 |
| 2009 | 278,619,872 | 449,235,653 | 36,334,585 (1) | 154,113 | (2,592,555,321) | 345,732 | (1,827,865,367) |
| 2010 | 289,616,027 | 492,005,566 | 29,549,494 (2) | 101,899 | 1,485,935,124 | 32,381 | 2,297,240,491 |
| 2011 | 294,314,002 | 525,726,734 | 48,911,197 (2) | 190,770 | 2,499,472,278 | 18,333 | 3,368,633,314 |
| 2012 | 298,105,053 | 568,015,364 | 49,620,870 (3) | 129,622 | 89,045,782 | 10,852 | 1,004,927,543 |
| 2013 | 306,631,621 | 617,925,370 | 48,891,432 (4) | 537,741 | 1,747,230,627 | 20,823 | 2,721,237,614 |
| 2014 | 338,498,638 | 701,818,160 | 57,754,895 | 241,743 | 2,553,842,632 | 13,992 | 3,652,170,060 |

*1) Per 2009 legislation, employers were not required to remit the Group Life and Disability Insurance portion of required employer contributions*

*2) Per 2010 legislation, employers were not required to remit the Group Life and Disability Insurance portion of required employer contributions from April 1, 2010 through June 30, 2010 and April 1, 2011 through June 30, 2011.*

*3) Per 2012 legislation, employers were not required to remit the Group Life and Disability Insurance portion of required employer contributions from April 1, 2012 through June 30, 2012.*

*4) Per 2013 legislation, employers were not required to remit the Group Life and Disability Insurance portion of required employer contributions from April 1, 2013 through June 30, 2013.*

## BENEFITS BY TYPE

*Last Ten Fiscal Years*

| Fiscal Year | Monthly Retirement Benefits | Retirement Dividend | Death Benefits | Refund of Contributions Separations | Refund of Contributions Deaths | Insurance Premiums (KPERS) | Disability Insurance Premiums (OPEB) |
|---|---|---|---|---|---|---|---|
| 2005 | $ 731,389,840 | $ 6,173,436 | $7,849,884 | $40,395,640 | $6,378,293 | $ 5,997,113 | $ 47,705,996 |
| 2006 | 800,256,846 | 5,721,885 | 8,810,923 | 40,628,580 | 6,197,596 | 5,973,688 | 48,984,269 |
| 2007 | 862,894,416 | 5,284,613 | 9,153,582 | 40,632,701 | 5,496,510 | 6,382,962 | 49,202,924 |
| 2008 | 940,870,530 | 4,834,127 | 8,388,935 | 43,197,593 | 5,275,097 | 6,824,361 | 49,893,770 |
| 2009 | 995,530,221 | 4,409,393 | 9,237,740 | 38,156,001 | 5,773,422 | 6,946,461 | 47,356,797 |
| 2010 | 1,056,190,915 | 4,014,903 | 8,959,388 | 37,214,954 | 6,147,736 | 7,035,185 | 43,746,954 |
| 2011 | 1,143,594,256 | 3,615,016 | 9,614,688 | 43,579,892 | 5,984,123 | 6,752,185 | 46,753,126 |
| 2012 | 1,234,350,781 | 3,209,118 | 9,414,234 | 49,665,542 | 6,231,284 | 6,128,984 | 49,040,446 |
| 2013 | 1,286,133,859 | 2,852,658 | 9,458,321 | 48,265,870 | 5,633,961 | 6,058,253 | 42,499,559 |
| 2014 | 1,363,636,798 | 2,536,984 | 9,702,485 | 49,947,483 | 7,023,286 | 6,224,235 | 42,641,395 |

## EXPENSES BY TYPE

*Last Ten Fiscal Years*

| Fiscal Year | Benefits | Refund of Contributions Separations | Refund of Contributions Death | Insurance Premiums (KPERS) | Administration (Retirement) | Disability Insurance Premiums (OPEB) | Administration (OPEB)* | Total |
|---|---|---|---|---|---|---|---|---|
| 2005 | $ 745,413,160 | $40,395,640 | $6,378,293 | $5,997,113 | $ 7,340,147 | $47,705,996 | $ — | $ 853,230,349 |
| 2006 | 814,789,655 | 40,628,580 | 6,197,596 | 5,973,688 | 7,718,879 | 48,984,269 | $ — | 924,292,667 |
| 2007 | 877,332,611 | 40,632,701 | 5,496,510 | 6,382,962 | 8,552,925 | 49,202,924 | 340,619 | 987,941,252 |
| 2008 | 954,093,592 | 43,197,593 | 5,275,097 | 6,824,361 | 9,253,050 | 49,893,770 | 350,076 | 1,068,887,539 |
| 2009 | 1,009,177,354 | 38,156,001 | 5,773,422 | 6,946,461 | 11,085,498 | 47,356,797 | 361,887 | 1,118,857,420 |
| 2010 | 1,069,165,206 | 37,214,954 | 6,147,736 | 7,035,185 | 10,158,398 | 43,746,954 | 375,792 | 1,173,844,225 |
| 2011 | 1,156,823,960 | 43,579,892 | 5,984,123 | 6,752,185 | 9,261,260 | 46,753,126 | $363,357 | 1,269,517,903 |
| 2012 | 1,246,974,132 | 49,665,542 | 6,231,284 | 6,128,984 | 9,620,933 | 49,040,446 | 307,177 | 1,367,968,498 |
| 2013 | 1,298,444,838 | 48,265,870 | 5,633,961 | 6,058,253 | $10,426,813 | 42,499,559 | 431,084 | 1,411,760,378 |
| 2014 | 1,375,876,267 | 49,947,483 | 7,023,286 | 6,224,235 | 9,703,808 | 42,641,395 | 381,764 | 1,491,798,238 |

** Administration expenses for the Group Death and Disability Plan prior to fiscal year 2007 are included in the administrative expenses of the Retirement System.*

## CHANGES IN NET POSITION

*Last Eight Fiscal Years[1]*

| | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|---|---|---|
| **Additions** | | | | | | | | |
| Contributions | | | | | | | | |
| Member Contributions | $ 338,498,638 | $306,631,621 | $298,105,053 | $294,314,002 | $289,616,027 | $278,619,872 | $269,603,155 | $256,995,275 |
| Employer Contributions | 701,818,160 | 617,925,370 | 568,015,364 | 525,726,734 | 492,005,566 | 449,235,653 | 395,752,213 | 339,509,022 |
| Total Contributions | 1,040,316,798 | 924,556,991 | 866,120,417 | 820,040,736 | 781,621,593 | 727,855,525 | 665,355,368 | 596,504,297 |
| **Investments** | | | | | | | | |
| Net Appreciation in Fair Value of Investments | 2,267,287,461 | 1,490,141,704 | (132,729,256) | 2,211,302,374 | 1,221,425,633 | (2,824,249,931) | (1,012,601,549) | 1,816,702,680 |
| Interest | 104,382,643 | 100,530,311 | 103,584,321 | 158,120,734 | 160,050,212 | 152,897,354 | 211,727,774 | 195,092,153 |
| Dividends | 165,226,153 | 153,201,135 | 110,902,858 | 123,098,602 | 105,808,081 | 91,464,527 | 137,983,566 | 136,434,906 |
| Real Estate Income, Net of Operating Expenses | 62,989,928 | 39,973,754 | 44,259,544 | 48,997,734 | 37,551,411 | 31,062,438 | 40,288,418 | 39,114,763 |
| Other Investment Income | 0 | 0 | 436,311 | 388,174 | 216,499 | 264,000 | 264,000 | 261,734 |
| | 2,599,886,185 | 1,783,846,904 | 126,453,778 | 2,541,907,618 | 1,525,051,836 | (2,548,561,612) | (622,337,791) | 2,187,606,236 |
| Less Investment Expense | (51,653,134) | (42,584,786) | (42,225,663) | (47,586,288) | (43,748,173) | (23,376,342) | (31,029,901) | 30,249,368 |
| **Net Investment Income** | 2,548,233,051 | 1,741,262,118 | 84,228,115 | 2,494,321,330 | 1,481,303,663 | (2,571,937,954) | (653,367,692) | 2,157,356,868 |
| From Securities Lending Activities | | | | | | | | |
| Securities Lending Income | 5,255,071 | 4,827,054 | 4,353,102 | 5,431,118 | 5,372,538 | (8,838,220) | 95,645,344 | 125,998,402 |
| Securities Lending Expenses | | | | | | | | |
| Borrower Rebates | (1,501,910) | (2,450,894) | (1,769,773) | 739,912 | (48,804) | (10,469,638) | (89,471,546) | (120,938,041) |
| Management Fees | 1,147,400 | 1,309,439 | 1,305,208 | (1,020,082) | (692,273) | (1,309,509) | (2,870,760) | (1,003,820) |
| Total Securities Rebate Income Net of Expense | 354,510 | 1,141,455 | 464,565 | (280,170) | (741,077) | (11,779,147) | (92,342,306) | (121,941,861) |
| **Net Income from Security Lending Activities** | 5,609,581 | 5,968,509 | 4,817,667 | 5,150,948 | 4,631,461 | 20,617,367 | 3,303,038 | 4,056,541 |
| **Total Net Investment Income** | 2,553,842,632 | 1,747,230,627 | 89,045,782 | 2,499,472,278 | 1,485,935,124 | (2,592,555,321) | (650,064,654) | 2,161,413,409 |
| **Other Miscellaneous Income** | 241,743 | 534,268 | 127,708 | 174,430 | 74,088 | 110,178 | 136,955 | 132,874 |
| **Total Additions (Net Reductions) to Plan Net Position** | 3,594,401,173 | 2,672,321,886 | 955,293,907 | 3,319,687,444 | 2,267,630,805 | (1,864,589,618) | 15,427,669 | 2,758,050,580 |
| **Deductions** | | | | | | | | |
| Monthly Retirement Benefits | (1,366,173,782) | (1,288,986,517) | (1,237,559,898) | (1,147,209,272) | (1,060,205,818) | (999,939,614) | (945,704,657) | (868,179,029) |
| Refunds of Contributions | (56,970,769) | (53,899,831) | (55,896,826) | (49,564,015) | (43,362,690) | (43,929,423) | (48,472,690) | (46,129,211) |
| Death Benefits | (9,702,485) | (9,458,321) | (9,414,234) | (9,614,688) | (8,959,388) | (9,237,740) | (8,388,935) | (9,153,582) |
| Insurance Premiums and Disability Benefits | (6,224,235) | (6,058,253) | (6,128,984) | (6,752,185) | (7,035,185) | (6,946,461) | (6,824,361) | (6,382,962) |
| Administrative Expenses | (9,703,808) | (10,426,813) | (9,620,933) | (9,261,260) | (10,158,398) | (11,085,498) | (9,253,050) | (8,552,925) |
| **Total Deductions to Plan Net Position** | (1,448,775,079) | (1,368,829,735) | (1,318,620,875) | (1,222,401,420) | (1,129,721,480) | (1,071,138,736) | (1,018,643,693) | (938,397,709) |
| **Change in Net Position** | $2,145,626,094 | $1,303,492,151 | $(363,326,968) | $2,097,286,024 | $1,137,909,325 | $(2,935,728,354) | $(1,003,216,024) | $1,819,652,871 |

*1) Information available for current and prior seven fiscal years.*

## CHANGES IN NET POSITION-DEATH AND DISABILITY PLAN

*Last Eight Fiscal Years[1]*

| | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|---|---|---|
| **Additions** | | | | | | | | |
| Contributions | | | | | | | | |
| Employer Contributions | $57,754,895 | $48,891,432 | $49,620,870 | $48,911,197 | $29,549,494 | $36,334,585 | $62,400,370 | $59,308,991 |
| Total Contributions | 57,754,895 | 48,891,432 | 49,620,870 | 48,911,197 | 29,549,494 | 36,334,585 | 62,400,370 | 59,308,991 |
| **Investments** | | | | | | | | |
| Interest | 11,276 | 20,823 | 10,852 | 18,333 | 36,229 | 351,362 | 968,222 | 668,063 |
| Less Investment Expense | 0 | 0 | 0 | (114) | (3,848) | (5,630) | (6,550) | (6,239) |
| **Net Investment Income** | 11,276 | 20,823 | 10,852 | 18,219 | 32,381 | 345,732 | 961,672 | (6,239) |
| **Total Net Investment Income** | 11,276 | 20,823 | 10,852 | 18,219 | 32,381 | 345,732 | 961,672 | (6,239) |
| **Other Miscellaneous Income** | 2,716 | 3,473 | 1,914 | 16,340 | 27,811 | 43,935 | 88,781 | 96,112 |
| **Net Position** | 57,768,887 | 48,915,728 | 49,633,636 | 48,945,756 | 29,609,686 | 36,724,252 | 63,450,823 | 59,398,864 |
| **Deductions** | | | | | | | | |
| Insurance Premiums and Disability Benefits (OPEB) | (42,641,395) | (42,499,559) | (49,040,446) | (46,753,126) | (43,746,954) | (47,356,797) | (49,893,770) | (49,202,924) |
| Administrative Expenses | (381,764) | (431,084) | (307,177) | (363,243) | (375,792) | (361,887) | (350,076) | (334,380) |
| **Total Deductions to Plan Net Position** | (43,023,159) | (42,930,643) | (49,347,623) | (47,116,369) | (44,122,746) | (47,718,684) | (50,243,846) | (49,537,304) |
| **Change in Net Position** | $14,745,728 | $ 5,985,085 | $ 286,013 | $ 1,829,387 | $(14,513,060) | $(10,994,432) | $ 13,206,977 | $ 9,861,560 |

*1) Information available for current and prior seven fiscal years.*

## BENEFIT AND REFUND DEDUCTIONS FROM NET POSITION BY TYPE

*For the Fiscal Year Ended June 30, 2014*

*With Comparative Figures for 2013 through 2006**

| | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|---|---|---|---|
| **Type of Benefit** | | | | | | | | | |
| Age and service benefits: | | | | | | | | | |
| Retirees | $1,302,838,465 | $1,228,537,001 | $1,180,214,270 | $1,092,518,456 | $1,008,271,726 | $950,746,107 | $898,910,097 | $823,994,836 | $763,960,585 |
| Survivors | 63,335,317 | 60,449,516 | 57,345,628 | 54,690,816 | 51,934,092 | 49,193,507 | 46,794,560 | 44,184,193 | 42,018,147 |
| Death in service benefits | 9,702,485 | 9,458,321 | 9,414,234 | 9,614,688 | 8,959,388 | 9,237,740 | 8,388,935 | 9,153,582 | 8,810,923 |
| Insurance Premiums | 6,224,235 | 6,058,253 | 6,128,984 | 6,752,185 | 7,035,185 | 6,946,461 | 6,824,361 | 6,383,962 | 5,973,688 |
| Insurance Premiums and Disabiltiy benefits (OPEB) | 42,641,395 | 42,499,559 | 49,040,446 | 46,753,126 | 43,746,954 | 47,356,797 | 49,893,770 | 49,202,924 | 48,984,269 |
| **Total Benefits** | $1,424,741,897 | $1,347,002,650 | $1,302,143,562 | $1,210,329,271 | $1,119,947,345 | $1,063,480,612 | $1,010,811,723 | $932,919,497 | $869,747,612 |
| **Type of Refund** | | | | | | | | | |
| Death | $7,023,286 | $5,633,961 | $6,231,284 | $5,984,123 | $6,147,736 | $5,773,422 | $5,275,097 | $5,496,510 | $6,197,596 |
| Separation | 49,947,483 | 48,265,870 | 49,665,542 | 43,579,892 | 37,214,954 | 38,156,001 | 43,197,593 | 40,632,701 | 40,628,580 |
| **Total Refunds** | $ 56,970,769 | $ 53,899,831 | $ 55,896,826 | $ 49,564,015 | $ 43,362,690 | $ 43,929,423 | $ 48,472,690 | $ 46,129,211 | $ 46,826,176 |

**Information only available for current year and prior eight years.*

# HIGHLIGHT OF OPERATIONS

*10 Year Summary*

| | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|
| Membership Composition | | | | | | | | | | |
| Number of Retirants | 80,900 | 77,727 | 74,665 | 70,349 | 67,219 | 64,803 | 61,489 | 60,166 | 57,954 | 61,125 |
| Number of Survivors[b] | 6,770 | 6,591 | 6,360 | 6,149 | 5,945 | 5,764 | 5,613 | 5,599 | 5,394 | — |
| New Retirants During the Fiscal Year | 6,022 | 6,071 | 6,941 | 6,245 | 5,188 | 4,893 | 4,780 | 4,423 | 4,452 | 4,141 |
| Active and Inactive Members[a] | 202,930 | 202,022 | 200,732 | 202,150 | 204,155 | 197,822 | 195,187 | 192,307 | 190,305 | 189,020 |
| Participating Employers | 1,508 | 1,506 | 1,504 | 1,511 | 1,499 | 1,492 | 1,482 | 1,474 | 1,474 | 1,461 |
| Financial Results (in millions) | | | | | | | | | | |
| Member Contributions | $338 | $307 | $298 | $294 | $290 | $279 | $270 | $257 | $246 | $233 |
| Employer Contributions | 760 | 667 | 618 | 575 | 522 | 486 | 458 | 399 | 352 | 294 |
| Retirement/Death Benefits | 1,376 | 1,298 | 1,247 | 1,157 | 1,069 | 1,009 | 954 | 877 | 815 | 745 |
| Investment Income[c] | 2,554 | 1,747 | 89 | 2,499 | 1,486 | (2,592) | (649) | 2,162 | 1,354 | 1,223 |
| Employer Contribution Rate[d] | | | | | | | | | | |
| KPERS—State/School | 11.12% | 10.37% | 9.77% | 9.17% | 8.57% | 7.97% | 7.37% | 6.77% | 6.07% | 5.47% |
| KPERS—Local[e] | 9.69 | 8.94 | 8.34 | 7.74 | 7.14 | 6.54 | 5.93 | 5.31 | 4.61 | 4.01 |
| KP&F (Uniform Participating)[e] | 19.92 | 17.26 | 16.54 | 14.57 | 12.86 | 13.51 | 13.88 | 13.32 | 12.39 | 11.69 |
| Judges | 24.02 | 24.15 | 21.68 | 19.89 | 20.90 | 22.08 | 22.38 | 19.11 | 21.97 | 19.22 |
| TIAA | — | — | — | — | — | — | — | — | — | 0.60 |
| Unfunded Actuarial Liability (in millions) | | | | | | | | | | |
| KPERS—State/School | $7,351 | $7,658 | $6,920 | $6,244 | $5,805 | $6,240 | $4,312 | $4,135 | $3,926 | $3,584 |
| KPERS—Local | 1,590 | 1,699 | 1,542 | 1,395 | 1,315 | 1,385 | 941 | 893 | 869 | 824 |
| KP&F | 803 | 866 | 739 | 598 | 530 | 619 | 284 | 322 | 341 | 313 |
| Judges | 21 | 29 | 27 | 27 | 26 | 36 | 15 | 15 | 17 | 22 |
| TIAA[f] | — | — | — | — | — | — | — | — | — | — |
| Funding Ratios[g] | | | | | | | | | | |
| KPERS—State/School | 57.00% | 53.90% | 56.80% | 59.90% | 61.60% | 56.90% | 68.60% | 67.50% | 67.21% | 68.60% |
| KPERS—Local | 63.70 | 59.50 | 61.20 | 63.20 | 63.70 | 59.00 | 70.10 | 68.80 | 67.38 | 67.30 |
| KP&F | 70.30 | 66.50 | 69.80 | 74.20 | 76.20 | 70.50 | 85.50 | 82.40 | 80.46 | 81.10 |
| Judges | 86.90 | 81.40 | 82.50 | 82.50 | 82.30 | 74.60 | 88.70 | 87.40 | 85.02 | 80.10 |
| TIAA | — | — | — | — | — | — | — | — | — | — |

*a) Membership information taken from System's actuarial valuation.*
*b) This is the number of joint annuiants as of December 31st, per the System's records, starting December 31, 2005.*
*c) Investment income for prior years has been adjusted to reflect changes in unrealized appreciation.*
*d) 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. Per 2009 legislation, employers were not required to remit the Group Life and Disability portion of the Actual Rate from March 1, 2009 through November 30, 2009. Per 2010 legislation, employers were not required to remit the Group Life and Disability portion of the Actual Rate from April 1, 2010 through June 30, 2010 and from April 1, 2011 through June 30, 2011. Per 2012 legislation, employers were not required to remit the Group Life and Disability portion of the Actual Rate from April 1, 2012 through June 30, 2012 and from April 1, 2013 through June 30, 2013.*
*e) KPERS Local and KP&F contribution rates are reported on a calendar year basis.*
*f) Legislation provided for bonds to be issued December 31, 2002 to fully fund the existing unfunded liability for the TIAA group.*
*g) The funding percentage indicates the actuarial soundess of the System. Generally, the greater the percentage, the stronger the System.*

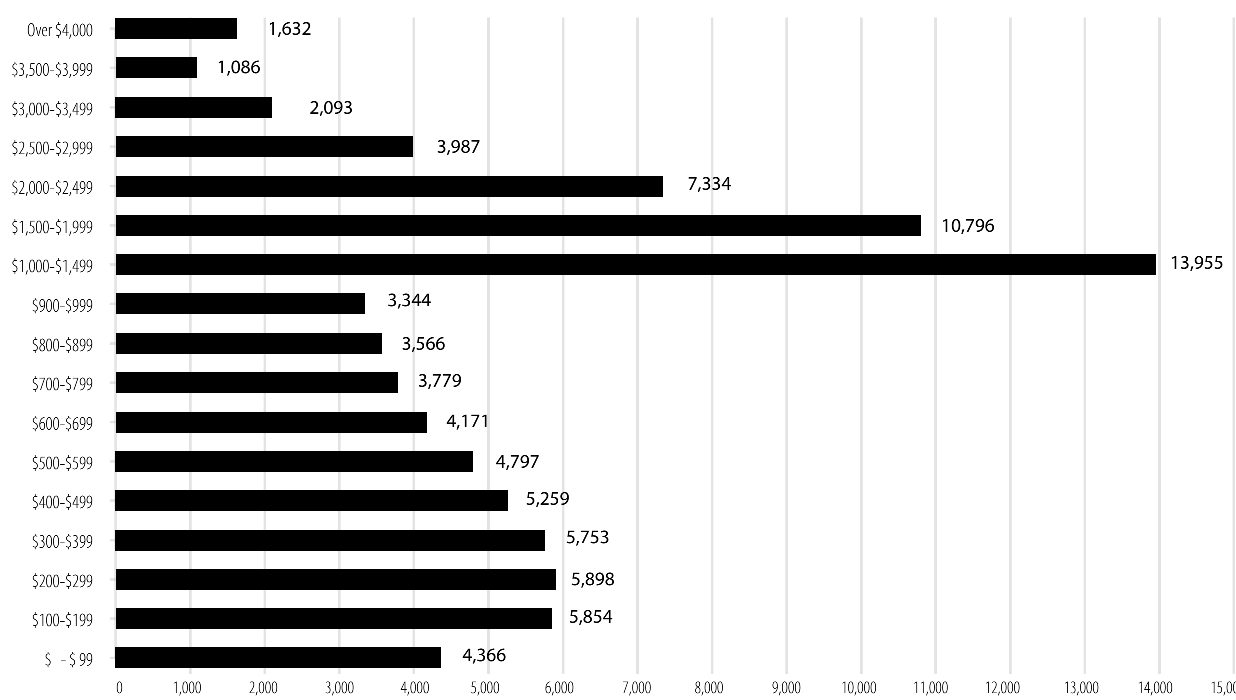
## NUMBER OF RETIRED MEMBERS AND SURVIVORS BY TYPE OF BENEFIT

*As of December 31, 2013*

| Monthly Benefit | Number of Retirees | Normal Retirement | Early Retirement | Service-Connected Death or Disability | Nonservice-Connected Death or Disability |
|---|---|---|---|---|---|
| $ - 99 | 4,366 | 3,990 | 369 | 3 | 4 |
| $100-199 | 5,854 | 3,935 | 1,875 | 33 | 11 |
| $200-299 | 5,898 | 3,492 | 2,372 | 27 | 7 |
| $300-399 | 5,753 | 3,406 | 2,293 | 37 | 17 |
| $400-499 | 5,259 | 3,215 | 1,992 | 37 | 15 |
| $500-599 | 4,797 | 3,056 | 1,701 | 28 | 12 |
| $600-699 | 4,171 | 2,739 | 1,393 | 25 | 14 |
| $700-799 | 3,779 | 2,544 | 1,194 | 33 | 8 |
| $800-899 | 3,566 | 2,523 | 988 | 48 | 7 |
| $900-999 | 3,344 | 2,523 | 766 | 39 | 16 |
| $1,000-1,499 | 13,955 | 11,855 | 1,828 | 197 | 74 |
| $1,500-1,999 | 10,796 | 10,122 | 446 | 128 | 97 |
| $2,000-2,499 | 7,334 | 7,095 | 134 | 50 | 49 |
| $2,500-2,999 | 3,987 | 3,867 | 60 | 19 | 37 |
| $3,000-3,499 | 2,093 | 2,024 | 37 | 17 | 15 |
| $3,500-3,999 | 1,086 | 1,059 | 13 | 11 | 3 |
| $4,000 or More | 1,632 | 1,596 | 29 | 6 | 0 |
| Totals | 87,670 | 69,041 | 17,490 | 738 | 386 |

## NUMBER OF RETIRED MEMBERS AND SURVIVORS BY MONTHLY BENEFIT AMOUNT

*As of December 31, 2013*



## NUMBER OF RETIRED MEMBERS AND SURVIVORS BY TYPE OF PAYMENT OPTION

*As of December 31, 2013*

| Monthly Benefit | Maximum No Survivor | Joint 1/2 to Survivor | Joint Same to Survivor | Life Certain w/10 Yrs | Joint 3/4 to Survivor | Widowed Children Survivor | Life Certain w/5 Yrs | Life Certain w/15 Yrs |
|---|---|---|---|---|---|---|---|---|
| $ - 99 | 3,438 | 266 | 449 | 58 | 39 | 4 | 29 | 83 |
| $100-199 | 4,161 | 584 | 732 | 110 | 110 | 29 | 25 | 103 |
| $200-299 | 4,163 | 629 | 781 | 87 | 132 | 14 | 26 | 66 |
| $300-399 | 3,944 | 635 | 791 | 76 | 154 | 42 | 29 | 82 |
| $400-499 | 3,621 | 599 | 704 | 88 | 140 | 42 | 15 | 50 |
| $500-599 | 3,286 | 561 | 647 | 52 | 146 | 30 | 24 | 51 |
| $600-699 | 2,828 | 473 | 578 | 59 | 139 | 34 | 17 | 43 |
| $700-799 | 2,524 | 468 | 505 | 47 | 145 | 33 | 18 | 39 |
| $800-899 | 2,312 | 525 | 466 | 43 | 142 | 39 | 12 | 27 |
| $900-999 | 2,159 | 525 | 424 | 37 | 142 | 29 | 11 | 17 |
| $1,000-1,499 | 8,652 | 2,239 | 1,808 | 154 | 782 | 179 | 42 | 99 |
| $1,500-1,999 | 6,856 | 1,813 | 1,199 | 65 | 654 | 127 | 29 | 53 |
| $2,000-2,499 | 4,766 | 1,262 | 705 | 55 | 446 | 62 | 20 | 18 |
| $2,500-2,999 | 2,560 | 722 | 361 | 31 | 270 | 25 | 8 | 10 |
| $3,000-3,499 | 1,327 | 377 | 206 | 13 | 148 | 11 | 3 | 8 |
| $3,500-3,999 | 658 | 198 | 120 | 6 | 91 | 9 | 1 | 3 |
| $4,000 or More | 843 | 392 | 229 | 8 | 155 | 0 | 1 | 4 |
| Totals | 58,098 | 12,268 | 10,705 | 989 | 3,835 | 709 | 310 | 756 |

## AVERAGE BENEFIT BY YEARS OF SERVICE - FIVE YEAR SUMMARY

*New Retirees by Calendar Year*

| Service Credit | | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|
| Less Than 5 | Retired Members | 262 | 263 | 305 | 259 | 185 |
| | Average FAS* | $21,194.51 | $23,919.51 | $24,025.35 | $27,378.64 | $29,524.62 |
| | Average Benefit | $110.58 | $93.25 | $104.10 | $138.07 | $171.29 |
| | Average Years | 2.56 | 2.65 | 2.82 | 2.80 | 2.92 |
| 5-9.99 | Retired Members | 347 | 435 | 460 | 459 | 517 |
| | Average FAS* | $27,718.33 | $28,869.68 | $30,982.85 | $32,228.24 | $32,086.25 |
| | Average Benefit | $300.13 | $292.23 | $312.36 | $325.52 | $313.09 |
| | Average Years | 7.66 | 7.75 | 7.76 | 7.61 | 7.56 |
| 10-14.99 | Retired Members | 713 | 877 | 1,036 | 975 | 946 |
| | Average FAS* | $32,669.13 | $33,333.42 | $35,236.86 | $33,774.49 | $34,608.84 |
| | Average Benefit | $484.31 | $478.88 | $507.92 | $484.07 | $506.31 |
| | Average Years | 12.18 | 12.14 | 12.23 | 12.22 | 12.32 |
| 15-19.99 | Retired Members | 706 | 822 | 972 | 770 | 803 |
| | Average FAS* | $37,154.28 | $39,884.61 | $39,410.16 | $39,659.90 | $40,507.90 |
| | Average Benefit | $800.55 | $830.36 | $837.31 | $860.25 | $901.19 |
| | Average Years | 17.39 | 17.30 | 17.30 | 17.38 | 17.37 |
| 20-24.99 | Retired Members | 685 | 819 | 988 | 911 | 892 |
| | Average FAS* | $43,734.53 | $44,677.45 | $45,174.03 | $45,799.95 | $47,140.00 |
| | Average Benefit | $1,284.91 | $1,238.44 | $1,236.79 | $1,308.97 | $1,327.01 |
| | Average Years | 22.45 | 22.23 | 22.37 | 22.42 | 22.39 |
| 25-29.99 | Retired Members | 763 | 852 | 1,026 | 870 | 967 |
| | Average FAS* | $48,788.05 | $50,662.87 | $52,267.39 | $53,691.38 | $53,522.25 |
| | Average Benefit | $1,726.15 | $1,775.08 | $1,839.53 | $1,944.89 | $1,936.22 |
| | Average Years | 27.42 | 27.35 | 27.30 | 27.25 | 27.25 |
| 30-34.99 | Retired Members | 771 | 926 | 1,056 | 799 | 807 |
| | Average FAS* | $55,828.21 | $57,899.34 | $57,115.11 | $57,857.40 | $58,014.33 |
| | Average Benefit | $2,337.01 | $2,418.71 | $2,373.81 | $2,475.40 | $2,426.52 |
| | Average Years | 31.94 | 32.03 | 32.14 | 32.10 | 32.11 |
| 35-39.99 | Retired Members | 316 | 401 | 468 | 311 | 372 |
| | Average FAS* | $60,485.97 | $60,225.79 | $58,272.80 | $61,819.37 | $62,230.61 |
| | Average Benefit | $2,763.31 | $2,710.63 | $2,650.18 | $2,915.96 | $2,856.00 |
| | Average Years | 37.06 | 36.92 | 37.07 | 36.95 | 36.90 |
| 40-44.99 | Retired Members | 63 | 143 | 144 | 108 | 122 |
| | Average FAS* | $58,960.07 | $61,221.12 | $59,078.25 | $65,700.90 | $65,508.74 |
| | Average Benefit | $3,235.13 | $2,964.44 | $3,080.72 | $3,230.99 | $3,287.98 |
| | Average Years | 41.63 | 41.72 | 41.78 | 41.52 | 41.77 |
| 45-49.99 | Retired Members | 7 | 8 | 15 | 11 | 24 |
| | Average FAS* | $53,159.68 | $59,155.97 | $59,128.20 | $56,584.64 | $60,619.03 |
| | Average Benefit | $2,647.02 | $2,926.19 | $2,936.16 | $2,842.29 | $4,126.28 |
| | Average Years | 45.82 | 46.31 | 46.47 | 47.34 | 46.90 |
| 50 and Over | Retired Members | 9 | 4 | 3 | 1 | 5 |
| | Average FAS* | $47,291.16 | $71,532.67 | $82,670.19 | $79,425.94 | $72,383.16 |
| | Average Benefit | $2,662.89 | $4,209.75 | $4,305.29 | $4,676.20 | $3,876.26 |
| | Average Years | 54.06 | 56.06 | 52.08 | 50.25 | 53.05 |
| Total Number | Retired Members | 4,642 | 5,550 | 6,473 | 5,474 | 5,640 |
| | Average FAS* | $42,772.08 | $44,667.14 | $45,091.55 | $45,129.48 | $46,258.78 |
| | Average Benefit | $1,327.48 | $1,364.27 | $1,370.68 | $1,365.30 | $1,417.09 |
| | Average Years | 21.62 | 21.89 | 21.97 | 21.16 | 21.72 |

**Average Final Average Salary*

*Source: Data provided by KPERS Information Resources and Member Services divisions.*

## AVERAGE DISABILITY BENEFIT BY YEARS OF SERVICE

*New Disabilitants by Calendar Year – Five Year Summary*

| Service Credit | | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|
| Less than 5 Years | Disabled Members | 67 | 81 | 72 | 56 | 40 |
| | Average Salary | $28,907.40 | $29,526.92 | $28,597.98 | $31,748.72 | $30,462.92 |
| | Average Benefit | $1,116.84 | $1,045.77 | $1,319.23 | $1,325.58 | $1,405.71 |
| | Average Years of Service | 2.27 | 2.66 | 2.84 | 3.01 | 2.98 |
| 5-9.99 | Disabled Members | 61 | 69 | 68 | 61 | 51 |
| | Average Salary | $32,232.17 | $32,223.67 | $32,943.15 | $30,020.24 | $33,560.38 |
| | Average Benefit | $824.40 | $1,130.36 | $1,028.63 | $1,101.85 | $938.59 |
| | Average Years of Service | 7.36 | 7.60 | 7.44 | 7.25 | 7.28 |
| 10-14.99 | Disabled Members | 47 | 52 | 51 | 55 | 48 |
| | Average Salary | $37,879.03 | $32,113.93 | $32,661.68 | $36,117.04 | $33,243.75 |
| | Average Benefit | $791.95 | $747.65 | $847.87 | $1,224.19 | $845.76 |
| | Average Years of Service | 12.44 | 12.36 | 12.58 | 12.38 | 12.53 |
| 15-19.99 | Disabled Members | 40 | 35 | 42 | 32 | 39 |
| | Average Salary | $38,387.94 | $37,625.23 | $35,329.36 | $41,292.37 | $43,104.81 |
| | Average Benefit | $897.76 | $938.26 | $1,220.56 | $1,546.76 | $1,222.40 |
| | Average Years of Service | 17.11 | 17.35 | 17.17 | 17.18 | 17.31 |
| 20-24.99 | Disabled Members | 20 | 28 | 25 | 30 | 28 |
| | Average Salary | $39,374.11 | $37,481.11 | $43,402.06 | $44,493.04 | $42,805.89 |
| | Average Benefit | $1,211.80 | $805.98 | $800.35 | $1,551.89 | $1,258.11 |
| | Average Years of Service | 22.48 | 21.97 | 22.41 | 22.03 | 22.24 |
| 25-29.99 | Disabled Members | 9 | 18 | 14 | 17 | 14 |
| | Average Salary | $41,661.08 | $41,753.35 | $52,830.15 | $44,310.61 | $39,334.26 |
| | Average Benefit | $1,522.01 | $1,246.54 | $1,153.77 | $1,174.05 | $1,547.35 |
| | Average Years of Service | 27.25 | 27.68 | 27.56 | 26.74 | 26.72 |
| 30-34.99 | Disabled Members | 5 | 4 | 9 | 8 | 4 |
| | Average Salary | $50,958.36 | $78,098.37 | $44,017.96 | $51,962.72 | $59,937.27 |
| | Average Benefit | $667.22 | $5,645.17 | $1,189.04 | $576.82 | $431.96 |
| | Average Years of Service | 32.92 | 31.41 | 31.41 | 31.73 | 32.58 |
| 35-39.99 | Disabled Members | 1 | 1 | 2 | 1 | 2 |
| | Average Salary | $27,772.20 | $52,011.00 | $54,747.96 | $61,550.64 | $89,426.88 |
| | Average Benefit | $134.64 | $271.07 | $447.58 | $3,176.28 | $1487.65 |
| | Average Years of Service | 35.01 | 38.92 | 37.21 | 36.11 | 38.44 |
| Total Number | Disabled Members | 250 | 288 | 283 | 260 | 226 |
| | Average Salary | $34,655.14 | $33,914.43 | $34,555.12 | $36,470.31 | $37,056.33 |
| | Average Benefit | $958.61 | $1,049.57 | $1,085.49 | $1,279.15 | $1,123.71 |
| | Average Years of Service | 11.06 | 11.34 | 11.93 | 12.49 | 13.15 |

# PRINCIPAL PARTICIPATING EMPLOYERS

*Last Nine Fiscal Years[1]*

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| Participating Government | Covered Employees | Rank | % of Total System | Covered Employees | Rank | % of Total System |
| State of Kansas | 24,631 | 1 | 15.78% | 25,293 | 1 | 16.21% |
| USD 259, Wichita | 6,861 | 2 | 4.40% | 6,709 | 2 | 4.30% |
| USD 233, Olathe | 4,293 | 3 | 2.75% | 4,274 | 3 | 2.74% |
| USD 512, Shawnee Mission | 3,621 | 4 | 2.32% | 3,678 | 4 | 2.36% |
| USD 500, Kansas City | 3,392 | 5 | 2.17% | 3,287 | 5 | 2.11% |
| USD 229, Blue Valley | 3,130 | 6 | 2.01% | 3,088 | 6 | 1.98% |
| Johnson County | 3,099 | 7 | 1.99% | 3,065 | 7 | 1.96% |
| Sedgwick County | 2,535 | 8 | 1.62% | 2,549 | 8 | 1.63% |
| USD 501, Topeka Public Schools | 2,387 | 9 | 1.53% | 2,339 | 9 | 1.50% |
| USD 497, Lawrence | 1,733 | 10 | 1.11% | 1,697 | 10 | 1.09% |
| All Other[2] | 100,375 | | 64.32% | 100,074 | | 64.13% |
| Total (1,506 employers) | 155,446 | | 100.00% | 156,053 | | 100.00% |

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| Participating Government | Covered Employees | Rank | % of Total System | Covered Employees | Rank | % of Total System |
| State of Kansas | 25,382 | 1 | 16.37% | 27,066 | 1 | 17.05% |
| USD 259, Wichita | 6,542 | 2 | 4.22% | 6,749 | 2 | 4.25% |
| USD 233, Olathe | 4,185 | 3 | 2.70% | 4,082 | 3 | 2.57% |
| USD 512, Shawnee Mission | 3,705 | 4 | 2.39% | 3,837 | 4 | 2.42% |
| USD 500, Kansas City | 3,191 | 5 | 2.06% | 3,165 | 5 | 1.99% |
| USD 229, Blue Valley | 3,098 | 6 | 2.00% | 2,633 | 7 | 1.66% |
| Johnson County | 3,014 | 7 | 1.94% | 2,977 | 6 | 1.88% |
| Sedgwick County | 2,336 | 8 | 1.51% | 2,341 | 8 | 1.48% |
| USD 501, Topeka Public Schools | 2,605 | 9 | 1.68% | 2,256 | 9 | 1.42% |
| USD 497, Lawrence | 1,627 | 10 | 1.05% | 1,595 | 10 | 1.01% |
| All Other[2] | 99,369 | | 64.09% | 102,004 | | 64.27% |
| Total (1,506 employers) | 155,054 | | 100.00% | 158,705 | | 100.00% |

*1) Information only available for current and prior eight years.*
*2) In 2014, "All Other" consisted of:*

| *Type* | *Number* | *Covered Employees* |
|---|---|---|
| *School districts* | *279* | *48,915* |
| *Cities and Counties* | *542* | *27,675* |
| *Post-Secondary Education[3]* | *48* | *11,449* |
| *Other* | *627* | *12,336* |
| | *1,496* | *100,375* |

*3) Not including State Board of Regents institutions.*
*Source: Data provided by KPERS Information Technology and Benefit and Member Services divisions.*

## PRINCIPAL PARTICIPATING EMPLOYERS

*Last Nine Fiscal Years(1)*

| Participating Government | 2010 Covered Employees | 2010 Rank | 2010 % of Total System | 2009 Covered Employees | 2009 Rank | 2009 % of Total System |
|---|---|---|---|---|---|---|
| State of Kansas | 26,735 | 1 | 16.55% | 25,775 | 1 | 16.41% |
| USD 259, Wichita | 6,861 | 2 | 4.25% | 6,850 | 2 | 4.36% |
| USD 233, Olathe | 4,339 | 3 | 2.69% | 4,625 | 3 | 2.94% |
| USD 512, Shawnee Mission | 4,005 | 4 | 2.48% | 4,167 | 4 | 2.65% |
| USD 500, Kansas City | 3,178 | 5 | 1.97% | 3,324 | 5 | 2.12% |
| USD 229, Blue Valley | 2,706 | 7 | 1.68% | 2,476 | 8 | 1.58% |
| Johnson County | 2,957 | 6 | 1.83% | 2,983 | 6 | 1.90% |
| Sedgwick County | 2,466 | 8 | 1.53% | 2,529 | 7 | 1.61% |
| USD 501, Topeka Public Schools | 2,298 | 9 | 1.42% | 1,847 | 9 | 1.18% |
| USD 497, Lawrence | 1,715 | 10 | 1.06% | 1,766 | 10 | 1.12% |
| All Other(2) | 104,291 | | 64.56% | 100,723 | | 64.13% |
| Total (1,506 employers) | 161,551 | | 100.00% | 157,065 | | 100.00% |

| Participating Government | 2008 Covered Employees | 2008 Rank | 2008 % of Total System | 2007 Covered Employees | 2007 Rank | 2007 % of Total System |
|---|---|---|---|---|---|---|
| State of Kansas | 25,299 | 1 | 16.35% | 25,069 | 1 | 16.55% |
| USD 259, Wichita | 6,748 | 2 | 4.36% | 6,590 | 2 | 4.35% |
| USD 233, Olathe | 4,307 | 3 | 2.78% | 4,277 | 3 | 2.82% |
| USD 512, Shawnee Mission | 4,128 | 4 | 2.67% | 4,007 | 4 | 2.65% |
| USD 500, Kansas City | 3,337 | 5 | 2.16% | 3,334 | 5 | 2.20% |
| USD 229, Blue Valley | 3,137 | 6 | 2.03% | 3,002 | 6 | 1.98% |
| Johnson County | 2,930 | 7 | 1.89% | 2,809 | 7 | 1.85% |
| Sedgwick County | 2,548 | 8 | 1.65% | 2,469 | 8 | 1.63% |
| USD 501, Topeka Public Schools | 2,313 | 9 | 1.50% | 2,309 | 9 | 1.52% |
| USD 497, Lawrence | 1,712 | 10 | 1.11% | 1,692 | 10 | 1.12% |
| All Other(2) | 98,231 | | 63.50% | 95,891 | | 63.33% |
| Total (1,506 employers) | 154,690 | | 100.00% | 151,449 | | 100.00% |

*(1) Information only available for current and prior eight years.*

*(2) In 2014, "All Other" consisted of:*

| *Type* | *Number* | *Covered Employees* |
|---|---|---|
| *School districts* | *279* | *48,915* |
| *Cities and Counties* | *542* | *27,675* |
| *Post-Secondary Education(3)* | *48* | *11,449* |
| *Other* | *627* | *12,336* |
| | *1,496* | *100,375* |

*(3) Not including State Board of Regents institutions.*

*Source: Data provided by KPERS Information Technology and Benefit and Member Services divisions.*

# PRINCIPAL PARTICIPATING EMPLOYERS

*Last Nine Fiscal Years(1)*

| | 2006 | | |
|---|---|---|---|
| Participating Government | Covered Employees | Rank | % of Total System |
| State of Kansas | 25,134 | 1 | 16.86% |
| USD 259, Wichita | 6,546 | 2 | 4.39% |
| USD 233, Olathe | 4,155 | 3 | 2.79% |
| USD 512, Shawnee Mission | 3,968 | 4 | 2.66% |
| USD 500, Kansas City | 3,436 | 5 | 2.30% |
| USD 229, Blue Valley | 2,770 | 7 | 1.86% |
| Johnson County | 3,229 | 6 | 2.17% |
| Sedgwick County | 2,434 | 9 | 1.63% |
| USD 501, Topeka Public Schools | 2,544 | 8 | 1.71% |
| USD 497, Lawrence | 1,736 | 10 | 1.16% |
| All Other(2) | 93,121 | | 62.47% |
| Total (1,506 employers) | 149,073 | | 100.00% |

*(1) Information only available for current and prior eight years.*

*(2) In 2014, "All Other" consisted of:*

| *Type* | *Number* | *Covered Employees* |
|---|---|---|
| *School districts* | *279* | *48,915* |
| *Cities and Counties* | *542* | *27,675* |
| *Post-Secondary Education(3)* | *48* | *11,449* |
| *Other* | *627* | *12,336* |
| | *1,496* | *100,375* |

*(3) Not including State Board of Regents institutions.*

*Source: Data provided by KPERS Information Technology and Benefit and Member Services divisions.*

## PRINCIPAL PARTICIPATING EMPLOYERS-DEATH AND DISABILITY PLAN

*Last Eight Fiscal Years(1)*

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| Participating Government | Covered Employees | Rank | % of Total System | Covered Employees | Rank | % of Total System |
| State of Kansas | 34,343 | 1 | 21.76% | 29,553 | 1 | 19.35% |
| USD 259, Wichita | 6,861 | 2 | 4.35% | 6,709 | 2 | 4.39% |
| USD 233, Olathe | 4,293 | 3 | 2.72% | 4,274 | 3 | 2.80% |
| USD 512, Shawnee Mission | 3,621 | 4 | 2.29% | 3,678 | 4 | 2.41% |
| USD 500, Kansas City | 3,392 | 5 | 2.15% | 3,287 | 5 | 2.15% |
| USD 229, Blue Valley | 3,130 | 6 | 1.98% | 3,088 | 6 | 2.02% |
| Johnson County | 2,481 | 7 | 1.57% | 2,447 | 7 | 1.60% |
| USD 501, Topeka Public Schools | 2,387 | 8 | 1.51% | 2,339 | 8 | 1.53% |
| Sedgwick County | 2,022 | 9 | 1.28% | 2,030 | 9 | 1.33% |
| USD 497, Lawrence | 1,733 | 10 | 1.10% | 1,697 | 10 | 1.11% |
| All Other(2) | 93,531 | | 59.27% | 93,590 | | 61.29% |
| Total (1,415 employers) | 157,794 | | 100.00% | 152,692 | | 100.00% |

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| Participating Government | Covered Employees | Rank | % of Total System | Covered Employees | Rank | % of Total System |
| State of Kansas | 32,085 | 1 | 20.66% | 37,904 | 1 | 24.01% |
| USD 259, Wichita | 6,542 | 2 | 4.21% | 6,749 | 2 | 4.28% |
| USD 233, Olathe | 4,185 | 3 | 2.69% | 4,082 | 3 | 2.59% |
| USD 512, Shawnee Mission | 3,705 | 4 | 2.39% | 3,837 | 4 | 2.43% |
| USD 500, Kansas City | 3,191 | 5 | 2.05% | 3,165 | 5 | 2.00% |
| USD 229, Blue Valley | 3,014 | 6 | 1.94% | 2,977 | 6 | 1.89% |
| Johnson County | 2,488 | 7 | 1.60% | 2,633 | 7 | 1.67% |
| USD 501, Topeka Public Schools | 2,336 | 8 | 1.50% | 2,341 | 8 | 1.48% |
| Sedgwick County | 2,082 | 9 | 1.34% | 2,256 | 9 | 1.43% |
| USD 497, Lawrence | 1,627 | 10 | 1.05% | 1,595 | 10 | 1.01% |
| All Other(2) | 94,058 | | 60.56% | 90,319 | | 57.22% |
| Total (1,415 employers) | 155,313 | | 100.00% | 157,858 | | 100.00% |

*(1)Information only available for current and prior seven years. State of Kansas includes the Board of Regents.*
*(2)In 2014, "All Other" consisted of:*

| *Type* | *Number* | *Covered Employees* |
|---|---|---|
| *School districts* | *279* | *48,915* |
| *Cities and Counties* | *458* | *21,284* |
| *Post-Secondary Education(3)* | *48* | *11,449* |
| *Other* | *620* | *11,883* |
| | *1,405* | *93,531* |

*(3) Post-Secondary Education does not include State Board of Regents institutions.*
*Source: Data provided by KPERS Information Technology and Benefit and Member Services divisions.*

## PRINCIPAL PARTICIPATING EMPLOYERS-DEATH AND DISABILITY PLAN

*Last Eight Fiscal Years(1)*

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| Participating Government | Covered Employees | Rank | % of Total System | Covered Employees | Rank | % of Total System |
| State of Kansas | 37,756 | 1 | 22.79% | 38,230 | 1 | 23.38% |
| USD 259, Wichita | 6,861 | 2 | 4.14% | 6,850 | 2 | 4.19% |
| USD 233, Olathe | 4,339 | 3 | 2.62% | 4,625 | 3 | 2.83% |
| USD 512, Shawnee Mission | 4,005 | 4 | 2.42% | 4,167 | 4 | 2.55% |
| USD 500, Kansas City | 3,178 | 5 | 1.92% | 3,324 | 5 | 2.03% |
| USD 229, Blue Valley | 2,957 | 6 | 1.78% | 2,983 | 7 | 1.82% |
| Johnson County | 2,706 | 7 | 1.63% | 2,476 | 6 | 1.51% |
| USD 501, Topeka Public Schools | 2,466 | 8 | 1.49% | 2,529 | 8 | 1.55% |
| Sedgwick County | 2,298 | 9 | 1.39% | 1,847 | 9 | 1.13% |
| USD 497, Lawrence | 1,715 | 10 | 1.04% | 1,766 | 10 | 1.08% |
| All Other(2) | 97,393 | | 58.79% | 94,685 | | 57.92% |
| Total (1,415 employers) | 165,674 | | 100.00% | 163,482 | | 100.00% |

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| Participating Government | Covered Employees | Rank | % of Total System | Covered Employees | Rank | % of Total System |
| State of Kansas | 40,431 | 1 | 24.67% | 37,871 | 1 | 16.55% |
| USD 259, Wichita | 6,748 | 2 | 4.12% | 6,590 | 2 | 4.35% |
| USD 233, Olathe | 4,307 | 3 | 2.63% | 4,277 | 3 | 2.82% |
| USD 512, Shawnee Mission | 4,128 | 4 | 2.52% | 4,007 | 4 | 2.65% |
| USD 500, Kansas City | 3,337 | 5 | 2.04% | 3,334 | 5 | 2.20% |
| USD 229, Blue Valley | 2,930 | 7 | 1.79% | 2,809 | 7 | 1.98% |
| Johnson County | 3,137 | 6 | 1.91% | 3,002 | 6 | 1.85% |
| USD 501, Topeka Public Schools | 2,548 | 8 | 1.55% | 2,469 | 8 | 1.52% |
| Sedgwick County | 2,313 | 9 | 1.41% | 2,309 | 9 | 1.63% |
| USD 497, Lawrence | 1,712 | 10 | 1.04% | 1,692 | 10 | 1.12% |
| All Other(2) | 92,321 | | 56.32% | 90,826 | | 63.33% |
| Total (1,415 employers) | 163,912 | | 100.00% | 159,186 | | 100.00% |

*(1)Information only available for current and prior seven years. State of Kansas includes the Board of Regents.*
*(2)In 2014, "All Other" consisted of:*

| *Type* | *Number* | *Covered Employees* |
|---|---|---|
| *School districts* | *279* | *48,915* |
| *Cities and Counties* | *458* | *21,284* |
| *Post-Secondary Education(3)* | *48* | *11,449* |
| *Other* | *620* | *11,883* |
| | *1,405* | *93,531* |

*(3) Post-Secondary Education does not include State Board of Regents institutions.*
*Source: Data provided by KPERS Information Technology and Benefit and Member Services divisions.*

**THE FIDUCIARY STANDARD IS OUR DRIVING FORCE.**

That means we put the interest of our members first.

It is the highest standard of care and accountability.

A fiduciary relationship is highlighted by good faith, loyalty and trust.

KPERS serves members as a fiduciary by holding assets in trust for them, growing those assets and delivering promised benefits when the time comes.

KPERS