Kansas Public Employees Retirement System

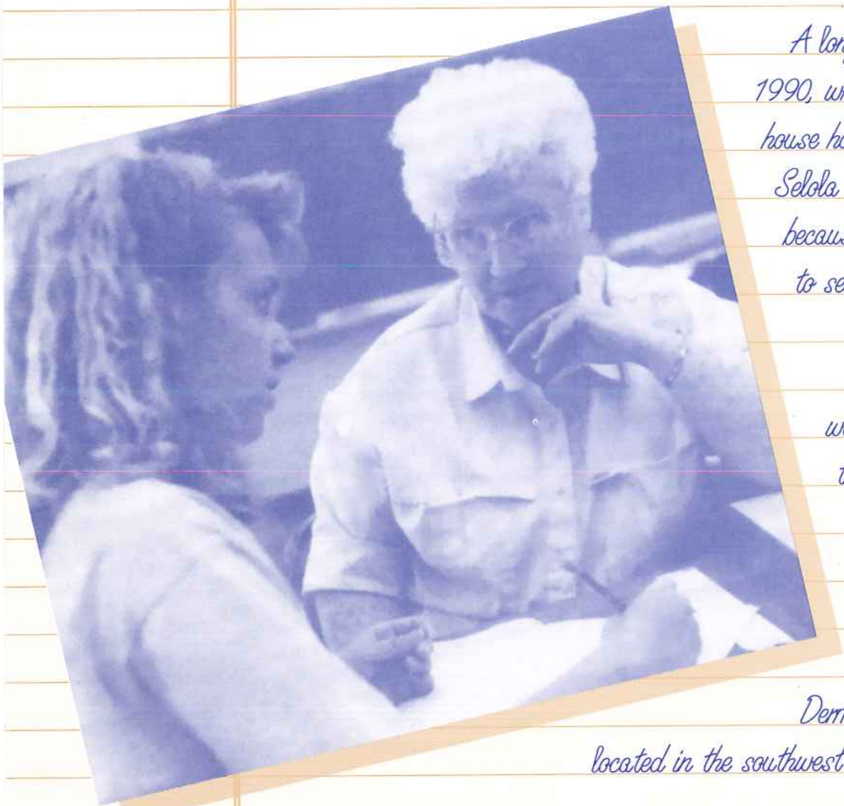
- a component unit of the State of Kansas

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 1998

- prepared by the Staff of the Retirement System

ONE-ROOM PUBLIC SCHOOLS LONG A KANSAS STAPLE; LAST ONE CLOSES IN 1990



A long tradition in Kansas education came to an end in May, 1990, when the state's last remaining one-room public schoolhouse had to close its doors due to declining enrollment. Teacher Selola "Sally" Lewis also made the decision to retire that year because six of her 11 students were graduating and moving on to seventh grade the following year.

"I might have taught another year if I thought there would be enough children to teach," she remembered, "but the summer before it just hit me that the time was going to be right. It just felt right to me at the time."

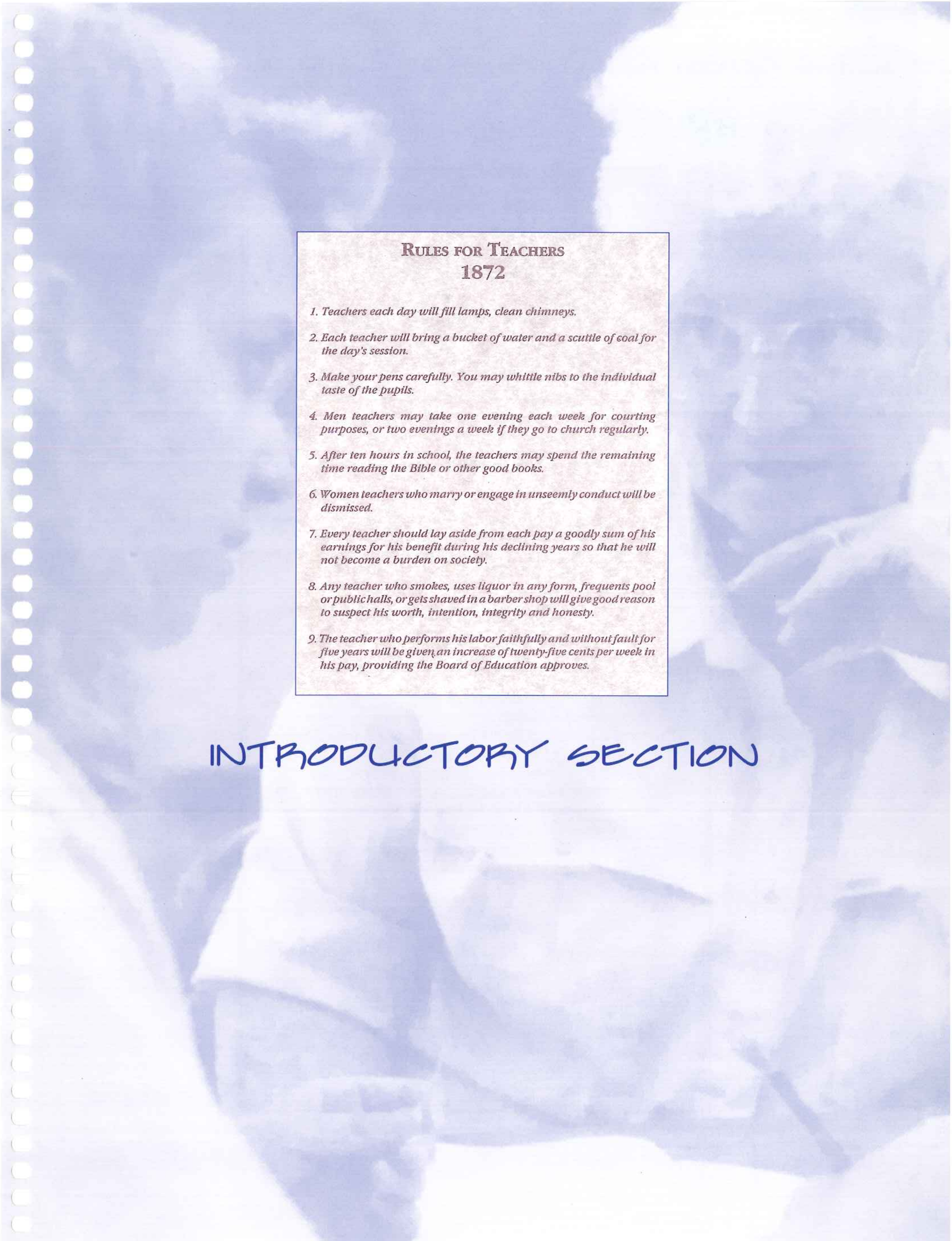
The right time had been long in coming for Mrs. Lewis. She taught in the one-room schoolhouse in Dermot for a total of 38 years, from 1952-1990. Dermot is located in the southwest corner of Kansas, in Morton County.

"If I had continued teaching just four more years, I would have been teaching my third generation of students," she recalled with a smile. "I even taught my own four children. I knew my retirement would take some getting used to, though. I was like an old racehorse. September would come, the bell would ring, and I would think it was time to teach, just like always before."

Before beginning to teach in Dermot, Mrs. Lewis had taught one term at another one-room school. "Today," she said, "that one-room school is an exhibit in the museum at Elkhart, Kansas."

Photo above: Selola "Sally" Lewis, shown working with her former student Andrea Milburn, taught 38 years in the state's last open public one-room schoolhouse. The school, in the southwest Kansas town of Dermot, had to close due to declining enrollment at the end of the school year in 1990. Lewis and her family lived in the "teacherage," a home located next door to the school. Among Lewis's many pupils were her own children.

Inset photo: A reprint of "The Teachers Rules of 1872," which set out the standards to which rural school teachers were to adhere, including one that details a teacher's expected retirement benefits: "#7. Every teacher should lay aside from each pay a goodly sum of his earnings for his benefit during his declining years so that he will not become a burden on society."



Rules for Teachers
1872

1. *Teachers each day will fill lamps, clean chimneys.*

2. *Each teacher will bring a bucket of water and a scuttle of coal for the day's session.*

3. *Make your pens carefully. You may whittle nibs to the individual taste of the pupils.*

4. *Men teachers may take one evening each week for courting purposes, or two evenings a week if they go to church regularly.*

5. *After ten hours in school, the teachers may spend the remaining time reading the Bible or other good books.*

6. *Women teachers who marry or engage in unseemly conduct will be dismissed.*

7. *Every teacher should lay aside from each pay a goodly sum of his earnings for his benefit during his declining years so that he will not become a burden on society.*

8. *Any teacher who smokes, uses liquor in any form, frequents pool or public halls, or gets shaved in a barber shop will give good reason to suspect his worth, intention, integrity and honesty.*

9. *The teacher who performs his labor faithfully and without fault for five years will be given an increase of twenty-five cents per week in his pay, providing the Board of Education approves.*

INTRODUCTORY SECTION

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, 1997

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

Douglas R Ellsworth
President

Jeffrey L. Esser
Executive Director

Public Pension Coordinating Council

Public Pension Principles

1998 Achievement Award

Presented to

Kansas Public Employees Retirement System

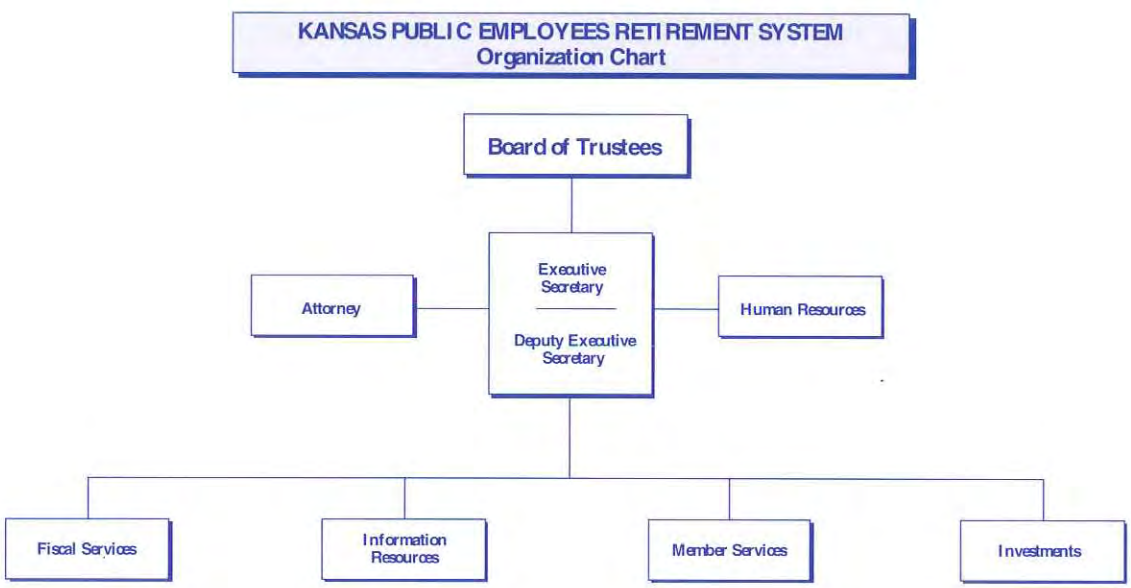
In recognition of instituting professional standards for public employee retirement systems as established by the Public Pension Principles.

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

Scott Engmann
Chairman

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

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



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

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GOING TO SCHOOL IN A SOD HOUSE OR A PRAIRIE DUGOUT

PIONEER children in Kansas attended school in some strange places until regular brick or wood schoolhouses could be built. Some schools were no more than dugouts – three sides of the schoolhouse would be dug into the side of a hill or the bank of a gully.

Naturally existing limestone caves became schools in some parts of the state. Many early schools were built of sod-bricks of earth cut out of the prairie.

How did they get to these schools? Teachers and students were expected to walk to school, rain or shine. To get there, children often took shortcuts across the prairie. On these prairie paths in spring and early summer, when the grasses were still relatively short, the way to school was easy to find. In the fall, dense stands of Big and Little Bluestem reached well over the children's heads and often grew in mounds, which made taking the shortcut an exhausting experience. Sometimes farmers might cut a swath through the prairie to make the path to school navigable. In very cold weather some students were driven to school in family farm wagons. Those who lived greater distances away might ride horses, or drive buggies, spring wagons or pony carts.

Some schools provided children transportation in special wagons – forerunners of today's school buses – that had two long benches down either side where the children would sit. There was no heater, no air conditioner and it was a pretty rough ride in these wagons, but it certainly beat walking.

A few teachers, like Anita Henry, were lucky enough to have their own horses to ride to and from school each day. Because horses were an important means of transportation before the advent of the automobile, schools might also have sheds or small barns built nearby to accommodate the animals in inclement weather.

Photo above: A teacher and his students gather outside a sod schoolhouse in Scott County, in western Kansas. This picture was taken in the 1890s.

Inset photo: Teacher Anita Henry traveled by horseback to Hoosier Valley School in Stanton County in 1921.

LETTER TO MEMBERS

Mission Statement of the Kansas Public Employees Retirement System

KPERS

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

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

KPERS

Kansas Public Employees Retirement System

November 5, 1998

Members
Kansas Public Employees Retirement System

Dear Members:

I am pleased to present the 1998 Annual Report of the Kansas Public Employees Retirement System. The annual report covers the operations of the Retirement System for the fiscal year ended June 30, 1998. The System's fiscal year 1998 operating results and financial position are presented in conformity with generally accepted accounting principles.

To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner to present fairly the financial position and results of operations of the Retirement System. Responsibility for both the accuracy of the data, as well as the completeness and fairness of the presentation, including all disclosures, rests with the management of the System. The 1998 Annual Report was prepared through the combined efforts of the Retirement System's staff members.

The 1998 Annual Report consists of several sections. The first section is the introductory section, which includes this letter; the second is the financial section, and includes the Statement of Plan Net Assets as of June 30, 1998. An annual audit of the Retirement System was conducted by the independent certified public accounting firm Berberich Trahan & Co., P.A. The firm's report on the Retirement System's financial statements is included in the financial section.

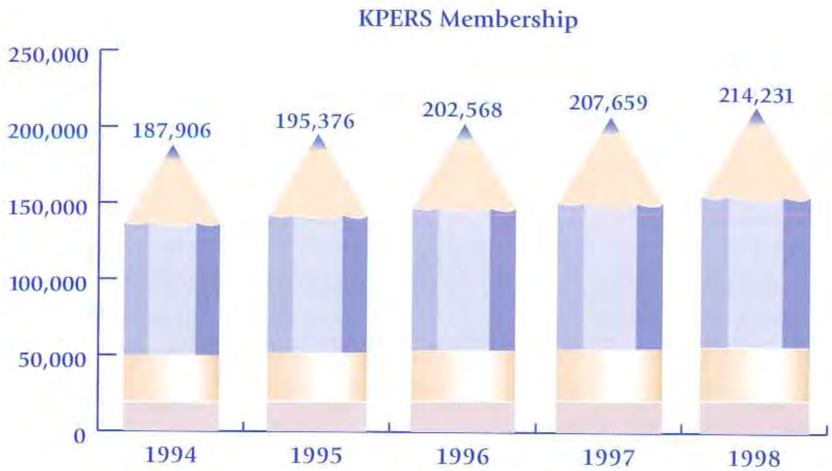
The third section of the annual report is the investment section, detailing the performance of the Retirement System's investment portfolio during fiscal year 1998. The fourth and fifth sections of the annual report are the actuarial section, which describes the funding basis, actuarial assumptions, contributions, and funded ratios of the Retirement System; and the statistical section, which provides tables and several graphics concerning membership, benefits, and other statistical data.

Each year, the Retirement System features a unique theme in its Annual Report. This year's Annual Report theme focuses on the evolution of schools in Kansas, from humble one-room schoolhouses made of sod or wood that dotted the prairies in the last century to this century's large, campus-like high schools. Some of the Retirement System's members are featured, as are teachers, students and a notable Kansas education leader of the early 20th century.

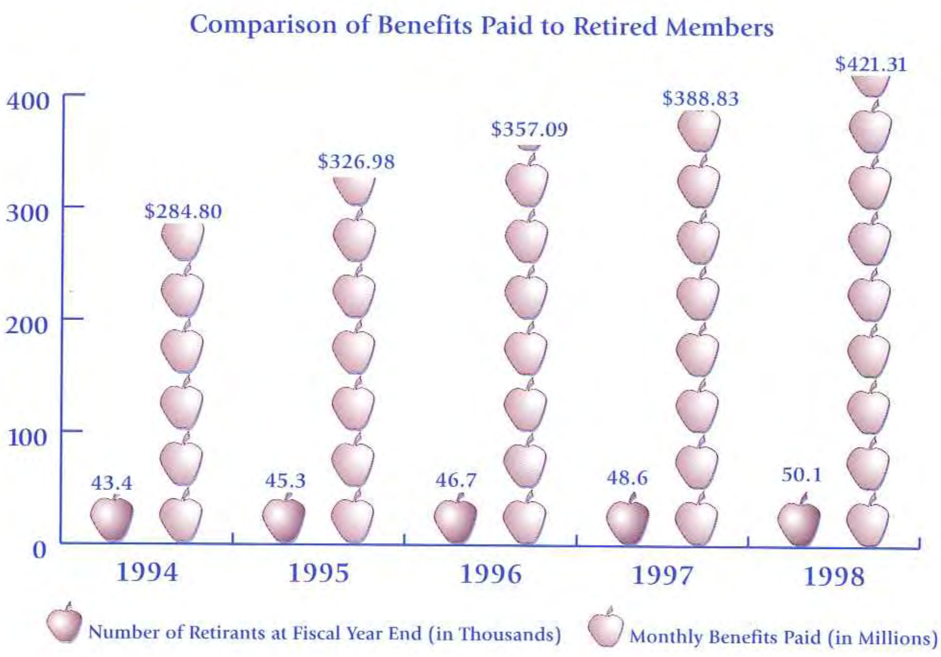
The Kansas Public Employees Retirement System, serving the needs of virtually all Kansas public servants, is an umbrella organization for three pension groups: the Kansas Public Employees Retirement System (KPERS), the Kansas Police & Firemen's Retirement System (KP&F), and the Kansas Retirement System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

611 S. Kansas Ave. Suite 100 ■ Suite 200 ■ Topeka, Kansas 66603-3803 ■ Phone (785) 296-6666
Facsimile: (785) 296-2422 ■ E-mail: kpers@kpers.com ■ Home Page: www.kpers.com
Toll Free 1-888-275-5737

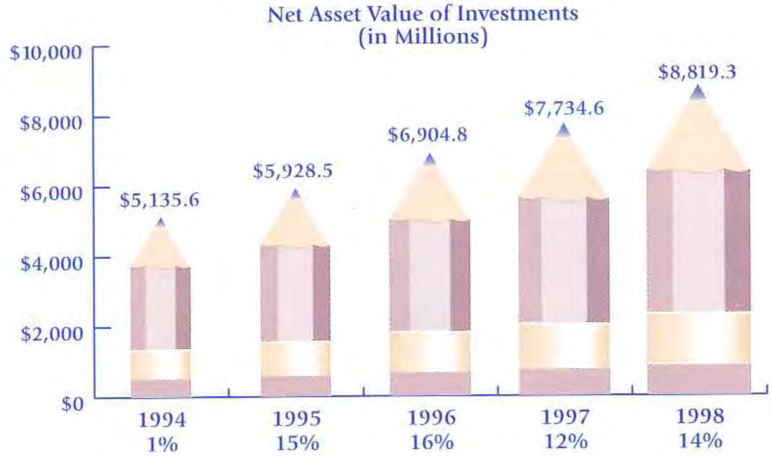
Over the last five years, the Retirement System has undergone significant growth, with notable increases in membership, amount and level of benefits paid (with a resulting impact on the Kansas economy), and member assets. The Retirement System's total membership has swelled in the last five years - to 214,231 as of June 30, 1998, from 187,906 as of June 30, 1994 - which is a 14 percent increase. Retired members grew in number from 43,371 to 50,071 over the same period, a 15.4 percent increase.



At June 30, 1998, the membership of the Retirement System included 143,080 active members, 21,080 former public servants, and 50,071 retired public servants and beneficiaries. Twenty-six new public employers joined the Retirement System, and by the end of fiscal year 1998 the number of public employers in the Retirement System totalled 1,397.



The total benefits paid to retired members rose to $421 million in fiscal year 1998 from $285 million in fiscal year 1994. The average annual retirement benefit increased by $1,847 over the same five-year period, or 28.1 percent. At June 30, 1998, the average annual benefit was $8,343. The purchasing power of retired KPERS members has a tremendous economic impact on the State of Kansas. Eighty-five percent of KPERS retired members continue to live in Kansas today. These members were paid more than $358 million in retirement benefits last year.



The table above shows the growth of the system's investments from June 30, 1998.

The net asset value of investments grew at an annualized rate of 11.6 percent in the past five years, increasing from over $5 billion to well over $8 billion. This substantial asset foundation, invested in a prudent, productive fashion, when coupled with the statutory funding mechanism of employer and employee contributions established by Kansas law, ensures the future financial integrity of your Retirement System and your retirement benefits.

During this fiscal year, the focus of the Retirement System has been on continued improvement in our ability to deliver services to members and their beneficiaries in a timely, accurate, and cost- effective manner, by enhancing communication and technology to connect with all our members and their beneficiaries in a variety of ways.

In 1998, several milestones were achieved by the Retirement System. We completed testing of all computer systems and, as a result, believe the Retirement System is fully Year 2000 compliant in all respects. The System is undertaking an exciting new technology project and will soon begin electronic imaging of the Retirement System's records. Additionally, legislation was passed into law to provide those who retired or were receiving KPERS long-term disability benefits prior to July 1, 1997, a three percent cost of living adjustment beginning July, 1998. Then, in June, 1998, the Retirement System moved its office to a newly-acquired building located at 611 South Kansas Avenue in Topeka. The new office provides better accessibility to all members, enabling the Retirement System Staff to serve you more efficiently.

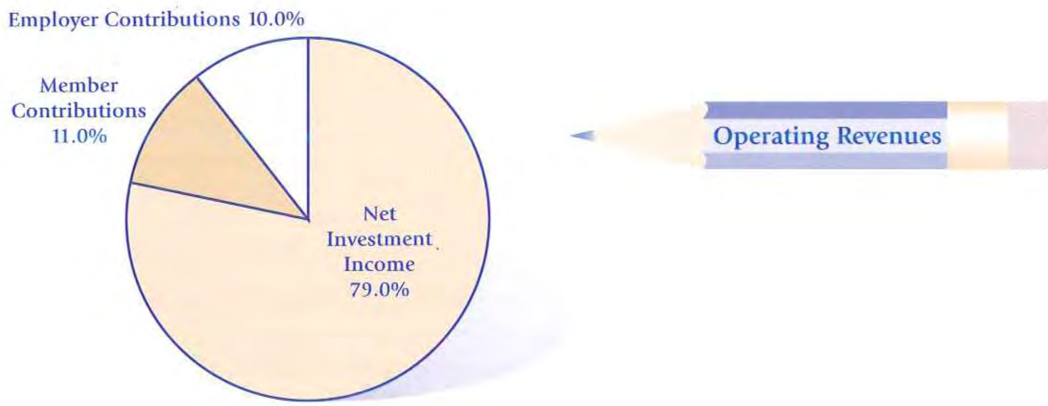
The financial operations of the Retirement System remain strong. The table below presents a synopsis of the System's financial operations for fiscal year 1998. The complete Statement of Changes in Plan Net Assets is on page 22. The Retirement System had net assets of $7.769 billion at June 30, 1997. During the year, active members contributed nearly $174 million to the Retirement System, while employers contributed $167 million. Investments generated over $1.27 billion in gross income during the fiscal year, including realized gains and losses on publicly traded securities. After subtracting management fees and expenses associated with the investments, fiscal year 1998 net investment income totalled $1.24 billion. Net investment income plus member and employer contributions resulted in total operating revenues of more than $1.58 billion.

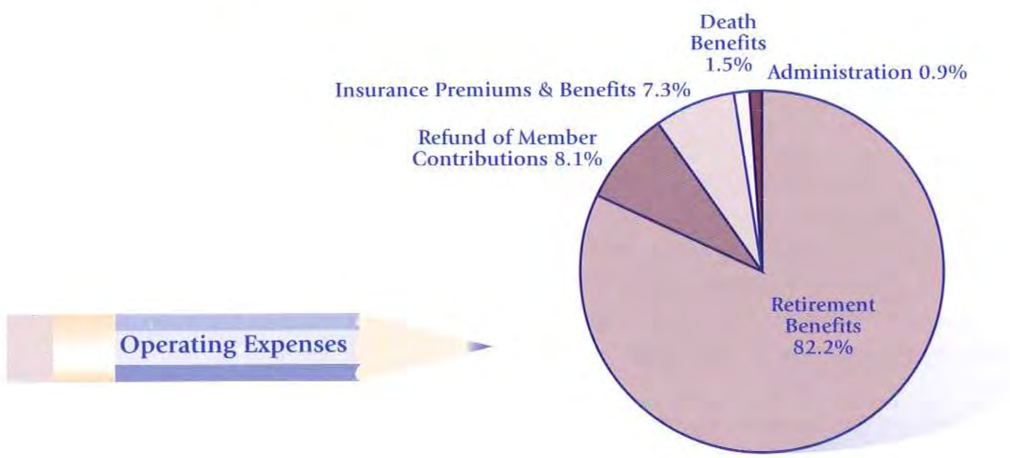
Fiscal Year 1998 Operating Results

Net Assets at July 1, 1997			$ 7,769,667,131
Additions:			
Contributions			
Member	$ 173,954,587		
Employer	167,105,243		
Total Contributions		$ 341,059,830	
Investment Income			
Gross Investment Income	$ 1,270,040,759		
Less Manager, Custodian Fees, Expenses	(22,692,831)		
Net Investment Income		1,247,347,928	
Other Miscellaneous Income		173,035	
Total Additions		1,588,580,793	
Deductions:			
Monthly Retirement Benefits Paid	421,314,908		
Refunds of Contributions	41,510,908		
Death Benefits	7,682,253		
Insurance Premiums and Benefits	37,639,743		
Administrative Expenses	4,702,566		
Total Deductions		512,850,378	
Net Increase			1,075,730,415
Net Assets at June 30, 1998			$ 8,845,397,546

The expenses of the Retirement System totalled nearly $513 million in fiscal year 1998. Included were $421 million in monthly benefits to retired members, $41.5 million paid to members who withdrew their contributions, more than $7 million in death benefits, and over $37 million in insurance premiums and benefits. The cost of maintaining the Retirement System's administrative operations totalled approximately $4.7 million.

Total revenues exceeded expenses by more than $1 billion during the year, thereby increasing the System's net reserves to over $8.8 billion at June 30, 1998. These reserves represent the funds available to pay for current and future members' benefits. The graphics below depict the operating expenses and revenues of the Retirement System.





The Retirement System's investment performance for fiscal year 1998 is shown in the table on the following page. The time-weighted rate of return, which includes income and changes in investment value, was 16.5 percent for the fiscal year ended June 30, 1998. The Retirement System maintains a diverse investment portfolio, as described in the Chief Investment Officer's Review, beginning on page 42.

Investment Performance
Past Five Years

Fiscal Year	Time-Weighted Rate of Return	Consumer Price Index
1998	16.5 %	1.7 %
1997	14.4 %	2.3 %
1996	18.8	2.7
1995	17.6	3.0
1994	2.3	2.5

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

The Retirement System remains financially secure. One indication of a pension fund's strength is the funding status of its actuarial liability. At June 30, 1998, assets available for retirement benefits were 83 percent of the total actuarial accrued liability, as computed by the System's actuary, Milliman & Robertson, Inc. Current Kansas law provides that this unfunded actuarial liability will be amortized over a forty-year period from July 1, 1993. Progress in reducing the unfunded actuarial liability will be accomplished over time by the System's investment performance and the receipt of adequate levels of contributions. This is in line with the legislation passed into law in 1995 that increased the cap on annual increases in employer contribution rates.

During the last fiscal year the Kansas economy also strengthened, with total job growth rising 2.7 percent. Employment growth in Kansas rose 7.6 percent over the past decade. Another important measure of a state's economic well-being is per capita income. In Kansas, per capita income grew by 5.4 percent in the last fiscal year, rising to $24,379. For the second year, Kansas ranked sixth in per capita income growth in the U.S. Kansas is well ahead of both the national rate for per capita income growth (4.8 percent) and the regional average growth rate (4.3 percent).

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

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Kansas Public Employees Retirement System, for the comprehensive annual financial report for the fiscal year ended June 30, 1997. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which must conform to program standards. The comprehensive annual financial report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The Kansas Public Employees Retirement System has received the Certificate of Achievement for each of the last four consecutive fiscal years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we will be submitting this annual report to the GFOA for its consideration.

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

Sincerely,

Meredith Williams
Executive Secretary

IN CHARGE AT AGE 16

ONE teacher was responsible for all students in grades one through eight in most country schools. In addition to teaching, he or she performed many other tasks, including starting the daily fire and cleaning the schoolroom at the end of the day.

The teacher in a rural school was the principal, custodian, cook, as well as the school nurse. Many young men and women began their jobs with these heavy demands at the tender age of 16, right after they themselves had graduated from school.

Teachers worked for extremely modest wages before this century began. Men and women teachers were paid different amounts, men earning more for the same job than did women. For example, in 1863, male teachers' monthly salaries ranged from $19 to $30, while female teachers were paid only between $8 and $20 per month.

Today the one-room country schoolhouse has been replaced with graded elementary schools that serve much larger geographic areas. Schools may have multiple classrooms for each grade. Teachers specialize in instruction in one grade or in one or two subject areas. Students no longer have to walk long distances or ride in horse-drawn wagons to school.

Instead, school buses deliver many children directly to the front doors of the school. Still, while schools today have much more sophisticated equipment, such as computers linked to the World Wide Web, the parents and grandparents who attended one-room rural schools reminisce proudly and fondly about the quality of the education they received in the humble little schoolhouses they attended.

Photo above: Settlers formed schools specifically for children of their own ethnic groups. These students are children of Bohemian and Czechoslovakian immigrants who settled near Wilson, in Ellsworth County.
Inset photo: A teacher and her pupils in the Sheridan County School, around the turn of the century.

FINANCIAL SECTION

Berberich Trahan & Co., P. A.

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Kansas Public Employees Retirement System

We have audited the accompanying statement of plan net assets of the Kansas Public Employees Retirement System as of June 30, 1998, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Kansas Public Employees Retirement System as of June 30, 1998, and the changes in plan net assets for the year then ended, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedules of employer contributions and funding progress, included on pages 34 and 35, are supplemental disclosures under Governmental Accounting Standards Board Statement No. 25, and are not a required part of the financial statements. The supplementary information included on pages 36 through 39 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information for the years ended June 30, 1992 through 1998, has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole. The supplementary information for each of the years ending June 30, 1989 through 1991 were subjected to auditing procedures by other auditors whose reports stated that such information was fairly stated in all material respects when considered in relation to the financial statements taken as a whole.

Berberich Trahan & Co., P.A.

October 29, 1998

Statement of Plan Net Assets as of June 30, 1998
With Comparative Figures for 1997

	1998 Totals	1997 Totals
Assets		
Cash and Deposits		
Cash	$ 1,034,595	$ 1,069,409
Deposits with Insurance Carrier	2,965,558	—
Total Cash and Deposits	4,000,153	1,069,409
Receivables		
Contributions	24,380,626	35,400,169
Investment Income	59,030,645	49,845,291
Sale of Investment Securities	2,083,083,518	1,699,651,896
Total Receivables	2,166,494,789	1,784,897,356
Investments at Fair Value		
Domestic Equities	3,653,194,585	3,263,903,398
Domestic Fixed Income	2,493,419,451	2,125,357,729
Cash and Equivalents	32,500,527	47,651,937
International Equities	1,329,489,541	1,154,706,226
International Fixed Income	807,090,277	699,451,758
Alternative Investments	177,052,769	67,564,509
Real Estate	538,333,090	445,534,498
Total Investments	9,031,080,240	7,804,170,055
Invested Securities Lending Collateral	568,245,311	731,854,626
Fixed Assets and Supplies Inventory	190,019	233,000
Total Assets	11,770,010,512	10,322,224,446
Liabilities		
Administrative Costs	501,808	478,379
Benefits Payable	2,017,039	1,173,302
Securities Purchased	2,353,848,808	1,819,051,008
Securities Lending Collateral	568,245,311	731,854,626
Total Liabilities	2,924,612,966	2,552,557,315
Net assets held in trust for pension benefits (A schedule of funding progress for the plan is presented on page 34.)	$ 8,845,397,546	$ 7,769,667,131

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

Statement of Changes in Plan Net Assets
for the Fiscal Year Ended June 30, 1998
with Comparative Figures for 1997

	1998 Totals	1997 Totals
Additions		
Contributions		
Member Contributions	$ 173,954,587	$ 171,120,750
Employer Contributions	167,105,243	156,279,778
Total Contributions	341,059,830	327,400,528
Investments		
Net Appreciation in Fair Value of Investments	981,923,854	707,311,840
Interest	178,369,148	192,130,388
Dividends	65,588,023	59,536,776
Real Estate Income, Net of Operating Expenses	35,536,987	26,607,468
Other Investment Income	5,353,416	5,663,700
	1,266,771,428	991,250,172
Less Investment Expense	(22,692,831)	(20,935,414)
Net Investment Income	1,244,078,597	970,314,758
From Securities Lending Activities		
Securities Lending Income	41,373,775	44,881,692
Securities Lending Expenses		
Borrower Rebates	(36,703,726)	(39,186,901)
Management Fees	(1,400,718)	(1,707,132)
Total Securities Lending Activities Expense	(38,104,444)	(40,894,033)
Net Income from Security Lending Activities	3,269,331	3,987,659
Total Net Investment Income	1,247,347,928	974,302,417
Other Miscellaneous Income	173,035	92,827
Total Additions	1,588,580,793	1,301,795,772
Deductions		
Monthly Retirement Benefits Paid	(421,314,908)	(388,830,304)
Refunds of Contributions	(41,510,908)	(36,761,626)
Death Benefits	(7,682,253)	(7,830,644)
Insurance Premiums and Benefits	(37,639,743)	(36,048,625)
Administrative Expenses	(4,702,566)	(4,659,099)
Total Deductions	(512,850,378)	(474,130,298)
Net Increase	1,075,730,415	827,665,474
Net Assets held in trust for Pension Benefits		
Balance Beginning of Year	7,769,667,131	6,942,001,657
Balance End of Year	$ 8,845,397,546	$ 7,769,667,131

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

NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR 1998

NOTE 1 - Plan Description

A. Plan Membership

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

Number of Participating Employers

	KPERS	KP&F	Judges
State of Kansas	1	1	1
Counties	105	17	—
Cities	347	39	—
Townships	52	—	—
School Districts	304	—	—
Libraries	110	—	—
Conservation Districts	81	—	—
Extension Councils	79	—	—
Community Colleges	46	—	—
Recreation Commissions	35	—	—
Hospitals	31	—	—
Cemetery Districts	13	—	—
Other	135	—	—
Total	1,339	57	1

Membership by Retirement Systems

	KPERS	KP&F	Judges	Total
Retirees and beneficiaries currently receiving benefits	47,189	2,744	138	50,071
Terminated employees entitled to benefits but not yet receiving them	7,656	85	10	7,751
Inactive members not entitled to benefits	13,023	300	6	13,329
Current employees	136,579	6,256	245	143,080
Total	204,447	9,385	399	214,231

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

B. Plan Benefits

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

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

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

C. Contributions

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

NOTE 2 - Summary of Significant Accounting Principles

A. Reporting Entity

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

B. Basis of Accounting

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

C. Method Used to Value Investments

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

D. Cash and Deposits

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

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

As of June 30, 1998, the cash deposits of $1,034,595 held by the State Treasurer were in credit risk category "1." The Retirement System's deposits with its insurance carrier were $2,965,558 at June 30, 1998, and were in credit risk category "3."

E. Investments

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

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

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

At June 30, 1998, the Retirement System did not have investments (other than those issued by the U.S. government) in any one organization representing five percent (5%) or more of the System's assets.

The Retirement System's permissible investment categories include equities, fixed income securities, cash equivalents, real estate, derivative products, and alternative investments. In fulfilling its responsibilities, the Board of Trustees has contracted with 21 investment management firms, and a master global custodian that is located in Medford, Massachusetts.

Presently the Retirement System has investments in the financial futures market. Futures contracts are contracts for delayed delivery or receipt of securities in which the seller agrees to make delivery or the buyer agrees to take delivery at a specified future date, of a specified instrument, at a specified price. Market risk arises due to market price and interest fluctuations that may result in a decrease in the market value of futures contracts. Futures contracts are traded on organized exchanges and require initial margin in the form of cash or marketable securities. Daily, the net change in the futures contract value is settled in cash with the exchanges. Holders of futures contracts look to the exchange for performance under the contract. Accordingly, the credit risk due to nonperformance of counterparties to futures contracts is minimal. At June 30, 1998, the Retirement System had purchased Treasury note and Treasury bond futures contracts with a market value of $116,298,156. Margin deposits in the form of U.S. Treasury Bills totalling $3,186,194 were held by the Retirement System as of June 30, 1998. Cash equivalents and short-term investments in amounts necessary to settle the futures contracts were held in the portfolio so that no leverage was employed, in accordance with the Statement of Investment Policy.

The Retirement System's Statement of Investment Policy authorizes participation in a securities lending program administered by the master global custodian, Mellon Trust. The System receives income from the loan of the securities, in addition to the income which accrues to the System as owner of the securities. The securities loans are open contracts and therefore could be terminated at any time by either party. The type of securities lent include U.S. Government securities, domestic and international equities, and domestic and international bonds. The borrower collateralizes the loan with either cash or government securities of 102 percent of market value on domestic securities, and 105 percent of market value on international securities loaned. Cash collateral is invested in the Retirement System's name in a dedicated short term investment fund consisting of investment grade debt securities. At June 30, 1998, the maturities of securities in this dedicated bond portfolio are as follows: 61 percent of the market value of the securities mature within 30 days; 22 percent mature between 31 and 180 days; and 17 percent mature after 180 days. The custodian provides for full indemnification to the Retirement System for any losses that might occur in the event of borrower default. Therefore, the Retirement System does not incur any credit risk as it relates to this activity. The securities on loan are marked to market daily to ensure the adequacy of the collateral. Net income produced from securities lending activities for fiscal year 1997 was $3,987,659 and for fiscal year 1998 was $3,269,331. The market value of securities on loan as of June 30, 1997 and June 30, 1998 were $774,892,394 and $579,158,015, respectively.

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

All forward foreign currency contracts are carried at market value by the Retirement System. As of June 30, 1998, the System had sold forward currency contracts with a market value of $2,029,466,069 and had bought forward currency contracts with a market value of $2,025,513,410. Purchases of forward currency contracts are liabilities reported as Securities Purchased, and sales of forward currency contracts are receivables reported as Sale of Investment Securities.

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

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

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

All Retirement System investments that can be categorized within these guidelines meet the criteria of category 1, with the exception of investments made with securities lending cash collateral, which meet the criteria of category 3. A security, for purposes of classification in the above categories, is a transferable financial instrument that evidences ownership or creditor status. "Securities" do not include investments made with another party, real estate or direct investments in mortgages. Investments in mutual funds, limited partnerships, real estate investment trusts, and commingled trust funds also are not considered securities for purposes of credit risk classification. Such investments are shown in the schedule on the following page as "not subject to classification." The schedule distributes by asset class the fair values of investments.

	Asset Classification			
Investments:	1	2	3	**Fair Value**
Subject to Classification				
Domestic Equities	$ 3,626,365,197	—	—	$ 3,626,365,197
Domestic Fixed Income	1,638,574,766	—	124,064,405	1,762,639,171
Cash Equivalents (1)	24,075,411	—	(2) 444,180,906	468,256,317
International Equities	1,119,797,599	—	—	1,119,797,599
International Fixed Income	690,162,007	—	—	690,162,007
Total Subject to Classification	$ 7,098,974,980	—	568,245,311	7,667,220,291
Not Subject to Classification				
Alternative Investments				177,052,769
Real Estate				531,263,040
Mutual Funds				
Cash Equivalents				8,425,116
Domestic Fixed				668,426,642
Securities on Loan (3)				546,937,693
Total Not Subject to Classification				1,932,105,260
Total Investments				$ 9,599,325,551

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

F. Fixed Assets and Supplies Inventory

Furniture, fixtures, and equipment are reported on the balance sheet at historical cost, net of accumulated depreciation. These assets are depreciated on a straight line basis over an average useful life of three to ten years with no salvage value. Accumulated depreciation on furniture, fixtures, and equipment as of June 30, 1998, was $2,236,240. Office supplies inventory in the amount of $23,064 are included, assuming the first-in, first-out method.

G. Compensated Accrued Absences

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

H. Reserves

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

The Members Accumulated Contribution Reserve represents the accumulation of member contributions plus interest credited to individual member accounts of non-retired members. At the date of retirement the individual member's account is transferred to the Retirement Benefit Payment Reserve. Upon termination of employment and application for withdrawal, refunds of employee contributions plus accumulated interest are charged to this reserve. Interest is credited to member accounts on June 30 each year, based on the balance in the account as of the previous December 31. The interest crediting rate, defined by statute as the actuarial interest assumption rate, was eight percent (8%) for fiscal years 1997 and 1998, for those who first began public service careers prior to June 30, 1993. For those who first begin public service careers after June 30, 1993, interest on employee contributions will be credited at the rate of four percent (4%) per year. The balance at June 30, 1998, was $2,522,614,846, and was fully funded.

The Retirement Benefit Accumulation Reserve represents the accumulation of employer contributions, net investment income not credited to any other reserve, and the actuarially computed prior service liability not yet funded. The balance at June 30, 1998, was $3,882,308,805. The unfunded liability was $1,591,482,437.

The Retirement Benefit Payment Reserve represents the actuarially computed present value of future benefits for retired members plus interest credited for the current fiscal year, based upon information as of the preceding January 1. The balance at June 30, 1998, was $3,831,990,246, and was fully funded.

The Group Insurance Reserve represents employer contributions, which pay 100 percent of the cost of group life insurance and long-term disability coverage. Insurance premiums and benefits consist of: (1) claims paid under the insurance contract; and (2) deposits made by the Retirement System to pay disability benefits to eligible participants. The balance at June 30, 1998, was $180,994,742, and was fully funded.

The Expense Reserve represents an amount of investment income which is sufficient to maintain a year end account balance at two times the most recent fiscal year's administrative expense amount. The System's administrative expenses are charged to this reserve. The balance at June 30, 1998, was $9,405,132, and was fully funded.

The Retirant Dividend Payment Reserve represents an amount which approximates the prior year's retirant dividend payment. Retirant dividend payments (the 13th check) are charged to this reserve. The balance at June 30, 1998, was $9,566,213, and was fully funded.

I. Budget

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

NOTE 3 - Funding Policy

A. Funding

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

Every three years the actuary makes a general investigation of the actuarial experience under the System including mortality, retirement, and employment turnover. The actuary recommends actuarial tables for use in valuations and in calculating actuarial equivalent values based on such investigation. An actuarial experience study was conducted for the three years ending December 31, 1997. As a result of this study, the Board of Trustees adopted new assumptions in regard to retirement rates, mortality, and withdrawal rates.

In fiscal year 1993, the Kansas Legislature passed into law legislation that amended the statutory funding method applicable to the Retirement System. For KPERS, the funding method was changed from the frozen initial liability method to the projected unit credit actuarial cost method, and provided that this method be used to determine KPERS employer contribution rates commencing with the 1993 actuarial valuation, except for Board of Regents plan members (TIAA and equivalents). Under the new method, the unfunded actuarial accrued liability is recalculated each year (rather than being essentially fixed in dollar amounts as under the previous method). Actuarial gains and losses resulting from differences between actual and assumed experience are reflected in KPERS' accrued actuarial liabilities, and affect the amount of annual amortization payments required to amortize the unfunded accrued liability over the statutory 40-year period from July 1, 1993. The funding methods used by the Retirement System's actuary for the KP&F and the Judges systems remained consistent and were the aggregate cost method with supplemental liability and the frozen initial liability method, respectively. The actuary has estimated the change in the unfunded actuarial liability between June 30, 1997 and June 30, 1998, can be attributed to the following (in millions):

Unfunded Actuarial Liability, June 30, 1997	$ 1,376
Investment gain	(413)
Liability loss from actual experience	104
Effect of contribution cap/time lag	54
Expected increase due to amortization method	32
Change in actuarial assumptions	350
1998 ad-hoc COLA	88
Unfunded Actuarial Liability, June 30, 1998	$ 1,591

B. Contributions Required and Contributions Made

The actuarially determined contribution rates are computed as a level percentage of salary by the Retirement System's actuary. The results of 1995 and 1996 actuarial valuations provide the basis for Board certification of employer contribution rates for fiscal years beginning in 1997 and 1998, respectively. The actuarially determined employer contribution rates derived from the actuarial valuations for fiscal years beginning in calendar years 1997 and 1998 are as follows:

KPERS Membership Groups	Calendar Year 1997	Calendar Year 1998
State/School Employees	5.23%	5.33%
Local Employees	3.73	3.86
Certain Correctional Employees	5.75/6.22	5.92/6.41
TIAA Employees	1.66	1.68

As explained in Note 1, legislation has limited the amounts that employers are required to contribute for State/School employees and Local employees, which has resulted in lower employer contribution rates as compared to the actuarial determined rates shown above. For fiscal years ended June 30, 1997 and June 30, 1998, the employer contribution rates for State/School employees were 3.59 percent and 3.79 percent, respectively, and the employer contribution rates for Local employees were 2.63 percent and 2.78 percent, respectively.

KP&F. The uniform participating service rate for all KP&F employers was 9.73 percent for the fiscal year beginning in 1997 and 9.45 percent for the fiscal year beginning in 1998. KP&F employers also make contributions to amortize the liability for past service costs, if any, which is determined separately for each participating employer.

Judges. For the fiscal year beginning in 1997, the total actuarially determined employer contribution rate was 16.00 percent of payroll, and for the fiscal year beginning in 1998, it is 15.67 percent of payroll.

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

	(Expressed in Thousands)		
	Employer and Insurance Contributions	Member Contributions (1)	Contributions as a Percent of Covered Payroll
KPERS- State/School/TIAA	$ 113,947	$ 116,807	7.1 %
KPERS - Local	20,967	33,576	7.0
KP&F	29,454	17,999	20.5
Judges	2,737	882	19.6
Total	$ 167,105	$ 169,264	7.9 %

An estimated $262 million of employer & employee contributions were made to cover normal cost, and an estimated $51 million was made for the amortization of the unfunded actuarial liability.

1) Member contributions do not include Optional Life Insurance contributions of approximately $4.7 million

C. Historical Trend Information

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

NOTE 4 - Commitments and Contingencies

As of June 30, 1998, the Retirement System was committed for additional funding of $9,555,000 in the form of capital expenditures on separate account real estate holdings in the portfolio and $222,364,000 for capital calls on venture capital 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.

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

Required Supplemental Information

Schedules of Employer Contributions

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

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

Schedules of Funding Progress

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
01/01/89	$ 3,026,692	$ 3,463,569	$ 436,877	87 %	$ 2,440,277	18 %
01/01/90	3,458,172	3,927,367	469,195	88	2,651,588	18
06/30/91	3,759,523	4,262,148	502,625	88	2,922,444	17
06/30/92	4,101,987	4,634,842	532,855	89	3,051,989	17
06/30/93 (1)	4,492,542	5,460,281	967,739	82	3,265,869	30
06/30/94 (2)	5,041,703	6,546,924	1,505,221	77	3,487,462	43
06/30/95	5,510,957	6,991,029	1,480,072	79	3,766,917	39
06/30/96	6,158,755	7,603,111	1,444,356	81	3,945,207	37
06/30/97	6,875,918	8,251,986	1,376,068	83	4,108,320	33
06/30/98	7,749,203	9,340,685	1,591,482	83	4,273,627	37

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

2) Asset valuation method was changed from book value to a market-based method.

Required Supplemental Information

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

	KPERS System	KP&F System	Judges System
Valuation Date	6/30/98	6/30/98	6/30/98
Actuarial cost method	Projected Unit Credit	Aggregate Cost with Supplemental Liabilities (2)	Frozen Initial Liability
Amortization method	Level Percent closed	Level Percent closed	Level Dollar closed
Remaining amortization period	35 years	35 years	35 years
Asset valuation method	Expected value plus 1/3 of difference between market and expected	Expected value plus 1/3 of difference between market and expected	Expected value plus 1/3 of difference between market and expected
Actuarial assumptions:			
Investment rate of return (1)	8%	8%	8%
Projected salary increases (1)	4.0% - 7.6%	5.2% - 7.6%	5.5%
Cost of Living Adjustment	none	none	none

1) Salary increases and investment rate of return include an inflation component of 3.5%.
2) The aggregate cost method does not identify or separately amortize unfunded actuarial liabilities; however, a supplemental liability consisting of the additional actuarial liability for benefits provided by 1993 legislation attributable to service rendered before July 1, 1993 is being amortized over a 40-year period beginning July 1, 1993.

Schedule of Contributions

For the Fiscal Year Ended June 30, 1998

Kansas Public Employees Retirement System			
State / School Contributions			
Members	$116,806,639		
Employers	91,055,406		
Insurance	16,906,561		
Total State / School Contributions		$224,768,606	
Local Contributions			
Members	33,575,893		
Employers	16,271,181		
Insurance	4,695,651		
Total Local Contributions		54,542,725	
State Contributions - KPERS TIAA			
Employers	3,483,139		
Insurance	2,501,658		
Total KPERS TIAA Contributions		5,984,797	
Total Contributions - Kansas Public Employees Retirement System			**$285,296,128**
Kansas Police and Firemen's System			
State Contributions			
Members	1,733,260		
Employers	2,849,540		
Total State Contributions		4,582,800	
Local Contributions			
Members	16,265,500		
Employers	26,604,420		
Total Local Contributions		42,869,920	
Total Contributions - Kansas Police and Firemen's System			**47,452,720**
Kansas Retirement System for Judges			
State Contributions			
Members	882,381		
Employers	2,667,687		
Insurance	70,001		
Total State Contributions		3,620,069	
Total Contributions - Kansas Retirement System for Judges			**3,620,069**
Optional Life Insurance			
Member Contributions			
State Employees	2,808,820		
Local Employees	1,882,093		
Total Contributions		4,690,913	
Total Contributions - Optional Life Insurance			**4,690,913**
GRAND TOTAL - ALL CONTRIBUTIONS			**$341,059,830**

Schedule of Administrative Expenses
For the Fiscal Year Ended June 30, 1998

Salaries and Wages		$ 3,179,180
Professional Services		
Actuarial	$ 163,000	
Audit	34,800	
Data Processing	23,991	
Legal	62,244	
Information Systems Consultant	96,783	
Other Professional Services	12,990	
Total Professional Services		393,808
Communication		
Printing	85,147	
Telephone	106,173	
Postage	200,059	
Advertising	5,662	
Total Communication		397,041
Building Administration		
Janitorial Service	17,374	
Building Management	36,838	
Real Estate Taxes	47,041	
Utilities	31,280	
Office and Equipment Rent	14,074	
Total Building Administration		146,607
Miscellaneous		
Travel	115,395	
Dues and Subscriptions	41,291	
Repair and Service Agreements	60,870	
Supplies	59,265	
Temporary Services	78,833	
Fees-Other Services	32,868	
Freight	6,056	
Recruitment	454	
Bonding	250	
Official Hospitality	431	
Educational Assistance	5,145	
Depreciation	185,072	
Total Miscellaneous		585,930
Total Administrative Expenses		$ 4,702,566

Schedule of Investment Income by Asset Class

For the Fiscal Year Ended June 30, 1998

Asset Classification	Interest, Dividends and Other Transactions	Gains and Losses	Total
Domestic Marketable Securities			
Equities	$ 40,624,586	$ 724,604,933	$ 765,229,519
Fixed Income			
Treasury and Agency	55,293,331	31,399,809	86,693,140
Corporate	67,522,786	82,560,377	150,083,163
Temporary Investments	3,600,311	280,768	3,881,079
International Marketable Securities			
Equities	22,721,531	116,053,698	138,775,229
Fixed Income	48,808,403	(19,989,398)	28,819,005
Total Marketable Securities	238,570,948	934,910,187	1,173,481,135
Real Estate	35,536,987	29,901,162	65,438,149
Alternative Investments	5,829,388	17,112,505	22,941,893
Total Real Estate and Alternative Investments	41,366,375	47,013,667	88,380,042
Other Investment Income			
Securities Lending	3,269,331	—	3,269,331
Recoveries from Litigation	4,433,857	—	4,433,857
Recaptured Broker Commissions	476,394	—	476,394
Total Other Investment Income	8,179,582	—	8,179,582
Investment Income	$ 288,116,905	$ 981,923,854	$ 1,270,040,759

Manager and Custodian Fees and Expenses	
Investment Manager Fees	(20,241,079)
Custodian Fees and Expenses	(963,229)
Other Investment Expenses	(1,488,523)
Total Investment Fees and Expenses	(22,692,831)
Net Investment Income	$ 1,247,347,928

Schedule of Investment Fees and Expenses

For the Fiscal Year Ended June 30, 1998

Domestic Equity Managers		
Brinson Partners, Inc.	$ 1,407,607	
Barclays Global Investors	1,253,021	
Capital Guardian Trust Co.	550,261	
Pilgrim, Baxter & Associates	2,278,007	
Provident Investment Counsel	2,000,198	
Subtotal Equity Managers		$ 7,489,094
Domestic Fixed Income Managers		
The Boston Company	424,349	
Barclays Global Investors	631,373	
Loomis, Sayles & Co.	1,017,975	
Pacific Investment Management Co.	1,686,928	
Payden & Rygel Investment Counsel (STBF)	3,684	
Subtotal Fixed Income Managers		3,764,309
International Equity Managers		
Alliance Capital Management	564,369	
Bankers Trust Company	203,908	
Lazard Freres Asset Management	711,463	
Morgan Stanley Asset Management	550,904	
Nomura Capital Management	568,781	
Subtotal International Equity Managers		2,599,425
International Fixed Income Managers		
Fiduciary Trust Company International	850,404	
Julius Baer Investment Management	677,238	
Subtotal International Fixed Managers		1,527,642
Foreign Currency Overlay Manager		
Pareto Partners	1,010,884	
Subtotal Foreign Currency Overlay Manager		1,010,884
Real Estate and Alternative Investment Managers		
ERE Yarmouth	1,313,380	
J.W. O'Connor & Company - RPT	54,600	
L & B Core Group Trust	620,615	
Pacholder Associates/Portfolio Advisors	1,559,192	
Subtotal Real Estate and Alternative Managers		3,547,787
Cash Equivalent Manager		
Payden & Rygel Investment Counsel (STIF)	301,938	
Subtotal Cash Management		301,938
Total Investment Management Fees		20,241,079
Other Fees and Expenses		
Mellon Trust - Custodian Fees and Expenses	963,229	
Consultant Fees	322,161	
Litigation Expenses	1,163,432	
Other Investment Expenses (1)	2,930	
Subtotal Other Fees and Expenses		2,451,752
Total		$ 22,692,831

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

ON THE OPEN PRAIRIES, PUPILS OFTEN PLAYED GROUP GAMES

PLAYGROUND equipment was not a feature of rural schools in the last century. Students had to be inventive and make up their own ways to have fun. As a result, group games were favorite lunch break and recess activities.

The games were examples of democracy in action. The older students made the rules. However, they also had to be nice to the younger children in order to have enough people to play.

Games they would play included Drop the Handkerchief, Annie Over, Fox and Geese, Marbles, and Crack the Whip. During bad weather, they enjoyed activities inside the schoolhouse, such as spelling games and acting charades. Here are the rules for one old-fashioned schoolhouse game:

Pom-Pom Pull Away – Two lines of students form on either side of one student who is "it." The one who is "it" calls any player by name, then adds, "Pom Pom Pull Away! Come away or I'll fetch you away!" The student whose name was called must run across the line fast enough not to be tagged by the one who is "it."

Later on, as schools grew larger, organized sports teams were enticing extracurricular activities for many young athletes. School sport teams not only provided great entertainment for the student population, they also helped foster feelings of school spirit and school pride within the larger community of many towns and cities in the state.

Photo above: Recess provides welcome relief from lessons for the students of Centennial School in Montgomery County, where group games offered them more relaxed ways to interact. Other students enjoyed just soaking up the sunshine during their free time.

Inset photo: This photo, taken in 1909, is of the Abilene High School baseball team. The athlete in the center of the front row was destined to become President of the United States. His name? – Dwight D. Eisenhower.

INVESTMENT SECTION

FISCAL YEAR 1998 INVESTMENT REPORT

Introduction

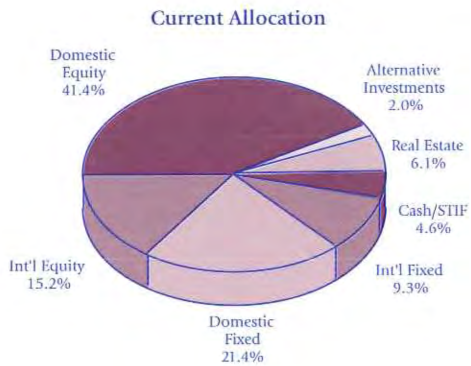
The Board of Trustees of the Kansas Public Employees Retirement System is charged with the responsibility for investing the assets of the System in a manner consistent with the fiduciary standard of a prudent expert. The standard of a prudent expert dictates that the Board exercise the judgment, care,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

This discussion regarding the investments of the Retirement System describes the objectives, guidelines and general policy governing the System's investment activity. In addition, it provides the return results, by asset category and in total, for the fiscal year ended on June 30, 1998. This report is presented in compliance with the reporting standards as set forth by the Association of Investment Management and Research (AIMR). The data has been gathered and compiled by the staff of the Retirement System using internal records as well as information provided by the System's custodian bank and the external investment managers. All the information presented has received the benefit of rigorous oversight and affirmation, custodial review and internal staff analysis. It represents an accurate snapshot of the System's investments as of June 30, 1998.

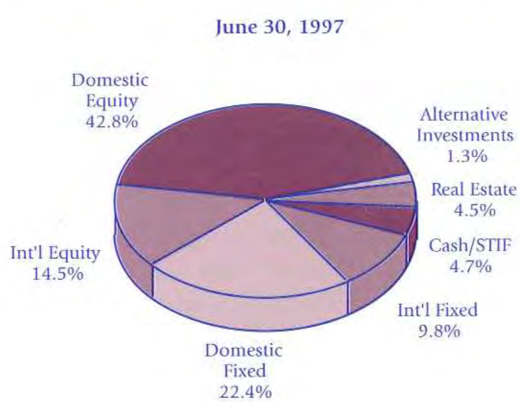
Kansas Public Employees Retirement System participants are provided a contractual promise of future and contingent benefits. These benefits are guaranteed, regardless of investment performance. Investment performance is critical nonetheless, as it has direct impact on future funding costs of the System.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

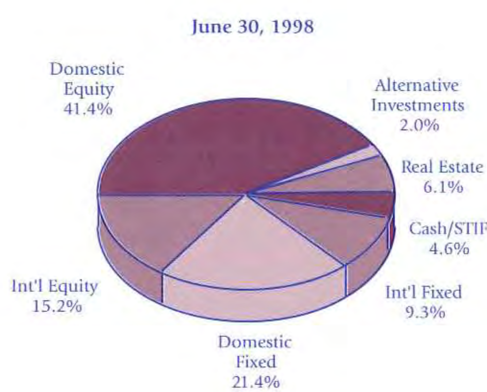
Chief Investment Officer's Review

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



Stock holdings are invested primarily in companies doing business in the United States, but also include an exposure to stocks of companies operating outside the U.S. By diversifying a portion of the total stock portfolio away from the U.S., we expect over time to realize additional returns while simultaneously reducing the risk of adverse total returns. Since global economies operate independently, an exposure to foreign markets provides a higher probability of realizing positive results, on average, without as much year to year variability as might exist in a U.S. only portfolio. The Board of Trustees have carefully selected several domestic and international managers to supervise a total of 12 portfolios that make up this portion of the portfolio. By utilizing several managers, the fund enjoys further diversification among manager styles and is less reliant on any one manager's performance.





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

Investments in real estate, alternative investments and cash round out the total portfolio. Real estate and alternative investments provide return opportunities as well as diversification to the portfolio. This helps to further smooth the variability of the annual returns of the System. Cash is held primarily to facilitate the settlement of purchases and sales of securities within the portfolio and also provides for the operational needs of the System. During fiscal year 1998, $421 million in retirement benefits were distributed to members and their families.

Thanks largely to the strong returns posted in the domestic and international stock markets the total portfolio returned 16.5 percent, growing over $1.2 billion net of fees for the year. While an extraordinary number, it is important to consider this return within the context of what the markets did generally. To do so, we create an index of the various components of the portfolio that represents what the average returns should have been, given our exposures. We are pleased to report that the total portfolio exceeded, by 2.3 percent, what the expected returns would have been had we been invested in the averages or the indexes of the various asset classes.

Investment Performance Report
For the Period Ending June 30, 1998

Time-Weighted Return (1)	Last Year	Latest 3 Years	Latest 5 Years
Total Portfolio	16.5%	16.6%	13.8%
Policy Index	14.2%	13.7%	11.8%
Consumer Price Index	1.7%	2.2%	2.5%
Domestic Equity Portfolio	24.7%	25.5%	20.5%
KPERS Equity Benchmark	29.4%	29.3%	22.5%
International Equity Portfolio	10.6%	16.7%	13.8%
KPERS Int'l Equity Benchmark	6.7%	11.7%	10.1%
Domestic Fixed Portfolio	11.5%	9.2%	8.2%
Lehman Brothers Aggregate Index	10.5%	7.9%	6.9%
International Fixed Portfolio	3.7%	4.2%	7.2%
Salomon Non-U.S. Gov't Bond Index	0.9%	0.4%	6.4%
Real Estate Portfolio	14.7%	10.6%	6.6%
NCREIF Real Estate Index	16.4%	12.2%	9.0%
Alternative Investment Portfolio	69.0%	30.1%	37.7%
S&P 500 Index + 4%	34.2%	34.2%	27.1%
Cash Equivalents Portfolio	6.1%	6.0%	5.7%
Merrill Lynch 1-3 Yr. Gov'ts. Index	6.8%	6.3%	5.6%

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

While out performing in total, the performance by asset class was mixed. Most disappointing was the domestic equity portfolio, which, at 41 percent of the total, represents the largest single asset class. As detailed later in this commentary, the largest part of this under performance can be traced to our domestic equity strategy, which provides for investments in large, medium and small companies. Whereas the largest companies in the U.S. typically provided the best performance, smaller companies trailed. By owning the broader spectrum, overall performance suffered. We recognize that this relative performance tends to move in cycles, however, and intend to maintain a disciplined exposure to both large and small companies.

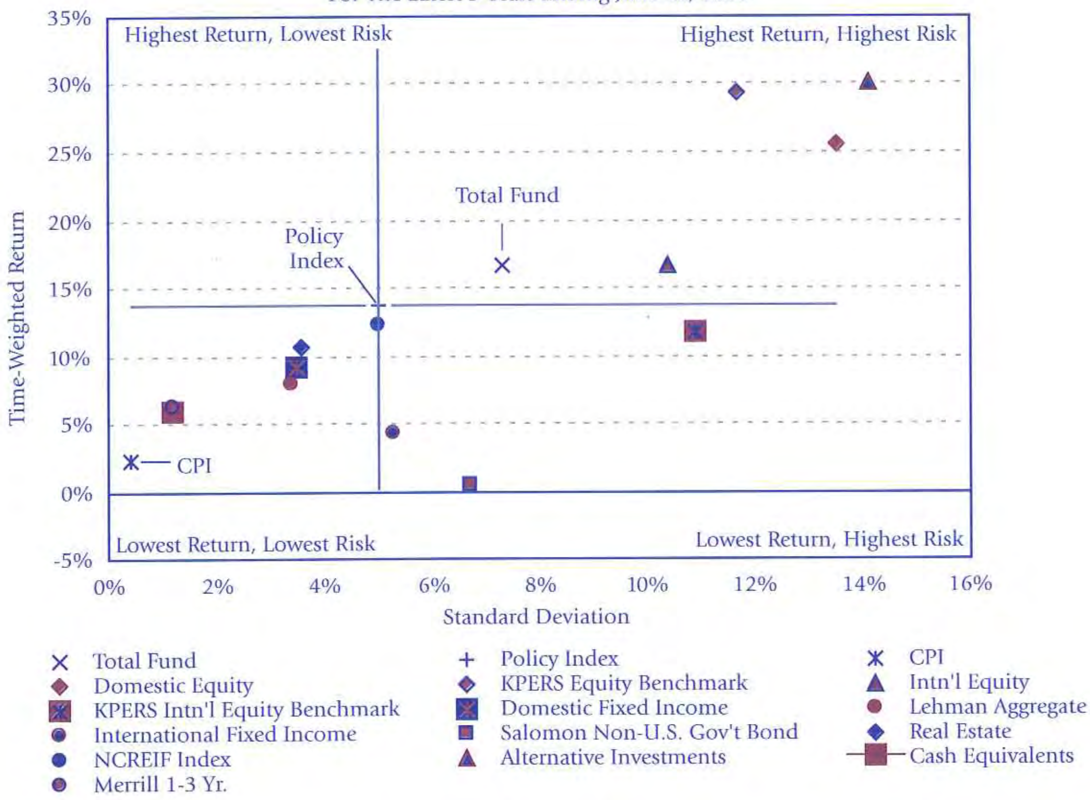
Overall, we are pleased with the performance of the portfolio relative to the market. While absolute returns are attractive, we also recognize that the sole objective in the management of these assets is to provide benefits for participants. To that end, the Board recently commissioned a study of the relationship between the assets and liabilities (benefits promised) of the System. By better understanding the relationship between changes in asset values and changes in benefit promises, we intend to continually refine and improve the management of the assets. This will be especially important during periods of marginal market returns, which, although largely absent over the trailing several years, will most undoubtedly resurface at some point.

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

In the chart below, titled "Asset Class, Risk Adjusted Return," a data point is plotted for the total fund, each asset class, and each relevant market benchmark. The vertical axis represents total return, while the horizontal axis is risk, as defined by standard deviation. All comparisons are calculated using the monthly returns for the latest three years ending June 30, 1998. By developing return/risk ratios it becomes apparent which asset categories possess the most variability, where the portfolio risk originates and whether the portfolio earned returns sufficient to justify this risk. As illustrated, on a total portfolio basis, excess risk assumed was amply rewarded through higher returns.

Asset Class, Risk Adjusted Return

For The Latest 3 Years Ending June 30, 1998



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

Publicly Traded Securities

- Scott Peppard, Assistant Investment Officer

Domestic Equities

Domestic equity securities experienced very positive returns for the fiscal year ended June 30, 1998. Large U.S. stocks, as represented by the Standard and Poor's 500 Index, traded within a range for the first half of the fiscal year before the price moved higher during the first calendar quarter of the year. For the fiscal year the return of larger capitalization companies performed better than the shares of medium and small capitalization companies. Capitalization refers to the relative size of a company, and can be determined by multiplying the number of shares outstanding by the share price. During fiscal year 1998 the S&P 500 Index, a predominately large capitalization benchmark, increased in value by 30.2 percent. The common stock of medium sized companies returned 27.2 percent, as measured by the Standard and Poor's Mid Cap Index. The shares of smaller companies continue to under perform companies with a greater market capitalization. For the fiscal year the Russell 2000 Index, a composite of smaller capitalization stocks, returned a respectable 16.5 percent.

The System's domestic equity portfolio consists of a diversified group of holdings across all capitalization ranges. The System employs five investment advisors to manage seven portfolios. Each portfolio is given a specific investment style mandate and a capitalization range in which to invest. During the fiscal year the domestic equity portfolio returned 24.7 percent, reflecting in part the System's mix of large, medium and small stock investments.

International Equities

The international equity markets, as measured by the Morgan Stanley Europe Australia and Far East (EAFE) Index, experienced a difficult year when compared to the domestic equity markets. Over this time period the EAFE Index returned 6.4 percent. The returns of various regions around the world varied tremendously. By example, the European market index appreciated by 37.5 percent for the fiscal year while the Pacific Basin market index suffered a negative 34.5 percent return.

The System invests a portion of its assets in overseas markets through five portfolios, each with a different mandate. The System also utilizes the services of a currency overlay manager to oversee a portion of the currency exposure involved with international investing. Collectively, the System's international equity portfolio returned a very favorable 10.6 percent, relative to the EAFE Index.

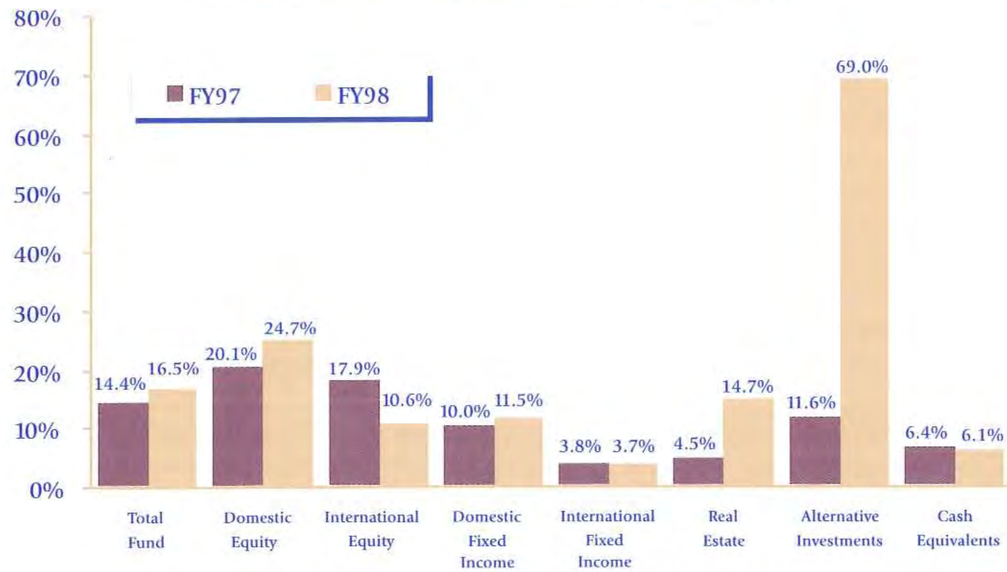
Domestic Fixed Income

Domestic interest rates moved lower throughout the fiscal year. The most dramatic change occurred for fixed income securities with a maturity of greater than five years. The yield on five-year U.S. Government securities declined by 91 basis points (.91 percent) to 5.47 percent, while 30-year Government Bonds declined 115 basis points to 5.63 percent. This decline in interest rates across all maturities resulted in very positive returns for the year. The Lehman Aggregate Bond Index ended the fiscal year with a return of 10.5 percent.

The System's domestic fixed income portfolio consists of four portfolios, each with a specific mandate. The four portfolios work in a complimentary fashion in an attempt to achieve a higher return than the stated benchmark. For the year the overall portfolio returned 11.5 percent, which compares favorably to the return of the Lehman Aggregate Index.

Return Comparison by Asset Class

For The Fiscal Years Ending June 30, 1997 and June 30, 1998



<u>International Fixed Income</u>

The international fixed income markets were also impacted by lower interest rates. The Salomon Non-U.S. Government Bond Index returned 11.9 percent in local terms (not considering the impact of exchange rate movements). Considering the impact of currency flucuations, the return of the index was just 0.9 percent. The System participates in the international fixed income markets by employing two advisors who manage portfolios to an unhedged benchmark. The term "unhedged" refers to the currency impact being fully reflected in the benchmark. For the year, the System's overall international fixed income portfolio returned 3.7 percent, well above the unhedged index return of 0.9 percent.

Real Estate

- Robert Schau, Real Estate Investment Officer

For the fiscal year ended June 30, 1998, the real estate portfolio generated a total return (defined as appreciation plus current income) of 14.7 percent. While it is a relatively high absolute number, this under performed the comparative NCREIF index which generated a return of 17.9 percent. The NCREIF index consists of a broad collection of private real estate and is intended to be representative of the domestic market on average. The System's internally managed and publicly traded real estate investment trust (REIT) portfolios earned an average of 7.0 percent, equal to the 7.0 percent return for the benchmark Morgan Stanley REIT index. Current income for the total portfolio was 8.5 percent, almost exactly equal to last year's 8.4 percent. Over the past three years, the portfolio has generated an average return of 10.6 percent, with volatility of 3.6 percent. This results in a return/risk ratio of 2.9, the highest ratio for any non-cash or cash equivalent asset class. It also provides evidence of the logic of holding real estate in an institutional portfolio like KPERS, as it has provided moderate returns for moderate to low risk. These returns are largely uncorrelated with returns elsewhere in the portfolio.

Subsequent to the fiscal year-end, the Board reduced its target allocation to real estate from ten percent to seven percent. This fine tuning was done as a result of the asset - liability analysis and the recognition of potentially higher risk characteristics demonstrated at this point in the real estate cycle. We continue to expect real estate to provide diversification benefits as well as reasonably steady returns. Real estate may not outperform some of the higher flying asset classes over an extended period, but it should be constant enough to dampen the intra-period swings in the values of those asset classes.

We have continued to explore and implement strategic dispositions as appropriate. The current holdings represent approximately six percent of the aggregate portfolio and are about evenly divided between public and private equity. The long-term target to public equity (predominately in the form of Real Estate Investment Trusts, or REITs) is substantially lower, but the System has been reinvesting the proceeds from recent property sales into REITs to avoid diluting the asset class's weighting. As market conditions allow, we will continue to implement the investment strategy, to ultimately reach the newly adopted seven percent target.

Fiscal year 1998 saw the start of an interesting divergence between the private and public sectors. The private equity market demonstrated very strong returns throughout the year. The public market was very strong through February, but declined substantially thereafter. The underlying fundamentals of the property market remain very good, with occupancy rates in most locations and property types exceeding 90 percent. However, public market investors appear concerned that over-development will occur as it did in the late 1980s. While recent above-average returns are not sustainable, we believe that current evidence does not bear out the fears of a 1980s style correction.

Alternative Investments

- Janet Kruzel, Alternative Investment Analyst

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

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

Plans were implemented this year to resume making alternative investments with a long term goal of reaching the target asset allocation of five percent. Due to the unique and illiquid nature of these investments, expanded policies and guidelines have been developed and implemented to ensure that statutory restrictions are satisfied. These extra efforts also ensure that special attention is paid to the disciplined monitoring and oversight necessary to produce the expected portfolio benefits and the prudent management of risk. The few remaining alternative investments made prior to this new program continue to be liquidated in an orderly fashion.

The Board of Trustees selected a professional gatekeeper to contribute to the development and refinement of the long term strategy. The gatekeeper provides consistent professional oversight in the selection process and assists with the thorough due diligence performed prior to any investment. Appropriate investments are identified and return expectations are determined prior to Board consideration. The gatekeeper also provides oversight and commentary on the timing and structure of this gradual and cautious construction of total holdings. This focus includes fund manager selection and diversification in the portfolio composition. The first investments of the new program were selected and presented in fiscal year 1998.

For fiscal year 1998, the total alternative investment portfolio returned 69 percent, including the maturity of a number of very long term investments. Since there is no obvious benchmark to compare to these investments, we use the domestic equity market (S&P 500) plus four percent to gauge our relative performance. We are pleased with the returns achieved within this category and the thoughtful initiation of the new alternative investment strategy.

Additional Investment Schedules

As required by K.S.A. 79-4904, a schedule of alternative investments initiated on or after July 1, 1991, is listed below. Another schedule, summarizing changes in the fair value of investments, is on page 50. A listing of domestic broker commissions paid in fiscal year 1998 and the top ten equities and fixed income holdings at fiscal year end are shown on page 51.

Alternative Investments Initiated on or after July 1, 1991

		As of June 30, 1998	
Shares/Par	Description	Cost	Market Value
	Included in Alternative Investments Portfolio:		
722,894	Beacon Group Energy Fund II	$ 722,894	$ 722,894
1,782,000	Behrman Capital II LP	1,782,000	1,782,000
739,140	Candover 1997 US #1 Fund LP	1,219,866	1,234,586
750,000	El Dorado Ventures IV LP	750,000	750,000
3,375,155	Harvest Partners III LP	3,375,155	3,375,155
6,200,000	McCown De Leeuw & Co IV LP	6,200,000	6,200,000
4,287,504	MD Sass Corp Resurgence	4,287,504	4,287,504
5,200,000	OCM Opportunities Fund II LP	5,200,000	5,200,000
1,400,000	OneLiberty Fund IV LP	1,400,000	1,400,000
6,000,000	Pacholder Value Opportunity	6,000,000	6,000,000
1,214,084	Thomas H Lee Equity Fund IV LP	1,483,512	1,483,512
3,433,105	Triumph Partners III LP	3,433,105	3,433,105
600,000	Warburg Pincus Equity	600,000	600,000
2,451,253	Winward Capital Partners II	2,451,253	2,451,253
	Subtotal	$ 38,905,289	$ 38,920,009
	Included in Fixed Income Portfolios:		
2,600,000	Caliar LLC/Calair Cap Corp 8.125% 04/01/2008	$ 2,574,572	$ 2,577,250
11,050,000	Calpine Corp Sr Notes 7.875% 04/01/2008	11,029,678	11,022,375
12,110,000	ESI Tractbel Acquisition 7.990% 12/30/2011	12,131,746	12,291,650
6,232,810	Haus 1998-1 CL A Floating Rate 05/01/2035	3,514,581	3,514,581
8,000,000	Intermedia Communications Sr Notes 8.600% 06/01/2008	8,026,250	8,060,000
4,050,000	Metronet Communications Sr Discount Notes 0.0% 06/15/2008	2,472,018	2,505,938
9,100,000	NextLink Communications Sr Discount Notes 9.450% 04/15/2008	5,694,775	5,562,375
11,550,000	NTL Inc Sr Deferred Coupon Notes 0.0% 04/01/2008	7,186,201	7,507,500
3,030,000	Philips Van Heusen Sr Subordinated Notes 9.500% 05/01/2008	3,026,361	3,026,213
1,750,000	R H Donnelly Sr Subordinated Notes 9.125% 06/01/2008	1,750,000	1,780,625
6,868,000	RCN Corp Sr Discount Notes 0.0% 02/15/2008	4,251,814	4,119,000
8,000,000	Teligent Inc Sr Discount Notes 0.0% 03/01/2008	4,558,240	4,420,000
5,000,000	Westpoint Steven Sr Notes 7.875% 06/15/2008	4,998,500	5,037,500
	Subtotal	$ 71,214,736	$ 71,425,007
	Total	$ 110,120,025	$ 110,345,016

Investment Summary
(In Thousands) (1)
For the Fiscal Year Ended June 30, 1998

	June 30, 1997 Fair Value	Purchases and Other Increases	Sales and Other Decreases	June 30, 1998 Fair Value	Asset Mix Fair Value
Marketable Securities					
Domestic Equities	$3,263,903	$2,005,647	$(1,616,355)	$3,653,195	40.45 %
Domestic Fixed Income	2,125,358	5,283,654	(4,915,592)	2,493,420	27.61
Temporary (2) Investments	47,652	10,935,925	(10,951,077)	32,500	0.36
International Equities	1,154,706	540,781	(365,998)	1,329,489	14.72
International Fixed Income	699,452	1,509,784	(1,402,146)	807,090	8.94
Total Marketable Securities	7,291,071	20,275,791	(19,251,168)	8,315,694	92.08
Real Estate and Alternative Investments					
Real Estate	445,534	202,219	(109,420)	538,333	5.96
Direct Placements and Limited Partnerships	67,565	145,199	(35,711)	177,053	1.96
Total Real Estate and Alternative Investments	513,099	347,418	(145,131)	715,386	7.92
Total	$7,804,170	$20,623,209	($19,396,299)	$9,031,080	100.00 %

1) Amounts include changes in unrealized appreciation and exclude interest and dividend accruals. Amounts do not include security lending cash collateral of $731,854,626 for FY 1997, or FY 1998 cash collateral of $568,245,311.

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

3) Alternative investments initiated prior to July 1, 1991 are reported with a cost basis of $45,541,372 and a fair value of $66,707,753.

Broker Commissions Paid - Domestic

For the Fiscal Year Ended June 30, 1998

Broker Name	Commissions Paid	Shares	Commission Per Share	Percent of Total Commissions
Legg Mason Wood Walker Inc	$ 305,492.35	6,067,847	$ 0.05	9.5 %
Lynch Jones & Ryan Inc	286,411.50	4,852,050	0.06	8.9
Investment Technology Groups	248,133.87	9,680,929	0.03	7.7
Frank Russell Securities Inc	229,539.00	3,855,500	0.06	7.2
Capital Institutional Investors	185,302.00	3,561,300	0.05	5.8
Donaldson Lufkin & Jenrette	148,738.66	3,276,649	0.05	4.6
Instinet Corporation	131,997.52	4,898,326	0.03	4.1
Lehman Bros Inc	121,609.69	2,292,241	0.05	3.8
Morgan Stanley & Co Inc	112,430.03	2,208,468	0.05	3.5
Goldman Sachs & Co	97,231.75	2,046,313	0.05	3.0
Credit Suisse First Boston Corp	96,969.87	1,952,295	0.05	3.0
Paine Webber Inc	79,772.00	1,432,200	0.06	2.5
Alex Brown & Sons Inc	79,215.00	1,464,900	0.05	2.5
Merrill Lynch Pierce Fenner Smith Inc	69,664.32	1,337,454	0.05	2.2
Smith Barney Inc	67,245.62	1,398,808	0.05	2.1
J P Morgan Securities Inc	64,464.54	1,272,990	0.05	2.0
Cantor Fitzgerald & Co Inc	56,325.65	1,256,539	0.04	1.8
Neuberger & Berman	56,215.02	1,068,298	0.05	1.8
Ernst & Co	52,041.37	1,204,389	0.04	1.6
Sanford C Bernstein & Co	47,739.00	843,200	0.06	1.5
Bear Stearns & Co Inc	43,213.58	952,382	0.05	1.3
Jefferies & Co Inc	41,285.80	900,316	0.05	1.3
Abn Amro Chicago Corp	40,339.46	803,081	0.05	1.3
Salomon Bros Inc	40,228.75	836,549	0.05	1.3
Prudential Securities Inc	39,438.00	695,900	0.06	1.2
Other	467,532.25	9,017,400	0.05	14.6
Total Broker Commissions	$ 3,208,576.60	69,176,324	0.05	100 %

List of Largest Holdings (1)

as of June 30, 1998

EQUITIES

Shares	Security	Market Value ($)
896,800	Microsoft Corporation	$ 97,190,700
709,760	General Electric	64,499,440
540,648	Pfizer Inc	58,761,680
579,836	Schering Plough Corp	53,127,474
311,432	American Intl Group Inc	45,469,072
617,298	Warner Lambert Co	42,825,049
418,945	Xerox Corp	42,575,286
496,970	Coca Cola Co	42,490,935
1,067,307	Philip Morris Inc	42,025,213
576,897	Exxon Corp	41,176,023

FIXED INCOME

Par Value(b)	Security	Description	Market Value ($)
$ 14,850,000	Commit to Purchase FHLMC	6.50% 07/15/2028	$ 148,081,230
70,000,000	Niagara Mohawk Power	6.50% 07/01/1999	69,784,400
50,000,000	U.S. Treasury Bonds	6.50% 11/15/2026	55,523,500
83,511,000	Germany Fed Republic Bonds	6.50% 07/04/2027	54,022,914
50,000,000	Heller Financial Mtn	6.41% 05/03/1999	50,205,500
45,478,000	Connecticut Light & Power Co	5.50% 02/01/1999	45,169,204
22,195,000	U.K. Treasury Stock	6.50% 12/07/2003	37,547,205
47,610,000	Government of Canada Notes	7.25% 06/01/2007	36,730,355
51,390,000	Germany Fed Republic Unity Bonds	8.50% 02/20/2001	31,520,529
49,389,000	Germany Fed Republic Bonds	6.25% 04/26/2006	30,076,915

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

1) A complete listing of the System's holdings is available at the Retirement System office.

FREE STATE BECKONS MANY FOLLOWING END OF CIVIL WAR

AMONG the thousands of immigrants who sought a new life by heading west and settling in Kansas were many former slaves who found themselves free men and women after the Civil War ended. Encouraged by a few enterprising leaders to come to Kansas where land was cheap, or often free, people from the South began arriving in droves. Benjamin "Pap" Singleton was one of those charismatic leaders.

To former slaves in Tennessee and Kentucky, he promoted Kansas as a kind of promised land. Singleton, who was born a slave in 1809 and escaped to freedom in 1846, returned to his native Tennessee to help his people. Believing they would prosper only if they left the old slave states, Singleton started colonies of African-Americans in several places in Kansas, such as Wyandotte, Shawnee, Lyon, Graham and Morris counties.

Nicodemus, in Graham County, was one place in Kansas where many African-Americans settled. The Nicodemus townsite was developed by two men, W. R. Hill, who was white, and W. H. Smith, an African-American businessman who later became president of the Nicodemus Town Company. Although Nicodemus was never totally an all African-American settlement, it was promoted heavily among colony organizers and was one of the most prosperous African-American colonies established in Kansas.

Many "Exodusters" as some former slaves were known, stayed on in the new colonies in Kansas rather than move even farther west. They settled farms, started businesses and built schools and churches in their communities. A large number of Exodusters settled in the city of Wyandotte, a major port on the Missouri River. Others came to the capital city, Topeka, where they named their community "Tennesseetown," recalling their former home state. An organization to aid those whose funds were depleted after their long journeys west, called The Kansas Freedmen's Relief Association, was founded. Such organizations helped many colonies establish firm footholds and begin to thrive, while providing immigrants with both the hope and the means to build successful new lives in the Free State of Kansas.

Photo above: *Those who settled in colonies established by Benjamin "Pap" Singleton after the Civil War were normally well-organized and had money to purchase land. In 1879, Singleton established Dunlap colony, in Morris County. This photo was taken around the turn of the century.*

Inset photo: *The Fairview School near Nicodemus, in Graham County, educated many children of the colonists who settled in the area. This photo was taken in 1915.*

ACTUARIAL SECTION

MILLIMAN & ROBERTSON, INC.
Actuaries & Consultants
Internationally WOODROW MILLIMAN

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Telephone: 402/393-9400
Fax: 402/393-1037

October 14, 1998

Board of Trustees
Kansas Public Employees Retirement System
611 S Kansas Avenue - Suite 100
Topeka, KS 66603-3803

Dear Members of the Board:

At your request, we have conducted our annual valuation of the Kansas Public Employees Retirement Systems as of June 30, 1998. The results of the valuation are contained in the following report.

The valuation results reflect the impact of the ad-hoc retiree COLA granted by the 1998 Legislature (effective July, 1998) and the changes in the actuarial assumptions, adopted by the Board in September, 1998. These factors impact the direct comparability of the 1998 results to those of the prior valuation.

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

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices that are consistent with the applicable Guides to Professional Conduct of the American Academy of Actuaries. The assumptions comply with the requirements of Statement 25 of the Government Accounting Standards Board.

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

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

Respectfully Submitted,
MILLIMAN & ROBERTSON, INC.

Patrice A. Beckham

Patrice A. Beckham, FSA
Principal

David P. Hayes

David P. Hayes, FSA
Principal

SECTION I

BOARD SUMMARY

OVERVIEW

This report presents the results of the June 30, 1998 actuarial valuations of the Kansas Public Employees Retirement System (KPERS), the Kansas Police and Firemen's Retirement System (KP&F) and the Kansas Retirement System for Judges (Judges). The primary purpose of performing valuations are to:

- determine the employer contribution rates required to fund each System on an actuarial basis,
- disclose asset and liability measures as of June 30, 1998, and
- analyze and report on trends in System contributions, assets, and liabilities over the past several years.

The triennial experience study covering calendar years 1995, 1996 and 1997 was completed in September 1998. Several changes in actuarial assumptions were recommended and adopted by the Board of Trustees as a result of the experience study. The most significant changes were:

- Increase in the retirement rates for "Rule of 85" retirement under KPERS;
- Reflect improvements in mortality by adopting the 1994 Group Annuity Mortality Table, with age adjustments for different groups to reflect actual experience;
- Use of Select and Ultimate withdrawal rates, based on service and age (KPERS).

For many assumptions, separate analysis was performed for the State, School, and Local groups. Where the experience analysis indicated significant differences, separate assumptions were developed for each group. The net effect of the change in actuarial assumptions on the unfunded actuarial liability was an increase of $350 million. It also increased the normal cost rates. The net impact of the change in assumptions on the combined contribution rate for the System was an increase of 0.71 percent of payroll.

The valuation results provide a "snapshot" view of each System's financial condition on June 30, 1998. The results reflect the changes in actuarial assumptions adopted by the Board in September, 1998 as a result of the triennial experience study, as discussed above. In addition, the increase in liabilities resulting from the three percent (3%) ad-hoc COLA granted to pre-July 1997 retirees by the 1998 Legislature is also reflected in this valuation, to the extent not funded by the State's lump sum payment of $20 million made in July, 1998. The unfunded actuarial liability increased by $215 million, despite investment return on the actuarial value of assets in excess of the eight percent (8%) assumed. A detailed analysis of the change in the unfunded actuarial liability from June 30, 1997 to June 30, 1998 is shown later in this report.

CONTRIBUTION RATES

Currently, the full actuarial contribution rate is not made by all employers. Kansas legislation with respect to KPERS provides that the employer rates of contribution for State and Local employers certified by the Board may not increase by more than 0.20 percent and 0.15 percent of payroll, respectively, over the prior year plus the cost of any benefit enhancements granted by the Legislature. The statutory limits do not apply to TIAA, KP&F and Judges. Based on the current valuation, there is a difference between the actuarial and statutory contribution rates of 1.57 percent and 0.67 percent, respectively, for the State/School and Local groups. This shortfall in contribution rates is reflected in an increase in the unfunded actuarial liability from year to year.

A summary of actuarial and recommended employer contribution rates follows:

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

1997 Valuation			
System	Actuarial	Recommended	Diff
State/School	5.27%	4.19%	1.08%
Local	3.86%	2.93%	0.93%
TIAA	1.59%	1.59%	0.00%
Police & Fire -Uniform Rates [2]	7.36%	7.36%	0.00%
Judges	14.38%	14.38%	0.00%
Weighted Average	4.83%	3.94%	0.89%

[1] Rates, by statute, are allowed to increase by a maximum of 0.2 percent and 0.15 percent per year plus the cost of any benefit enhancements for State and Local employers respectively.

[2] For KP&F, the recommended contribution rate is equal to the "Uniform" rate. The rate shown is for local employers. The rate for State employers is 7.03 percent. The uniform rate does not include the payment required to amortize the unfunded past service liability determined separately for each employer.

Contribution rates for Correctional Employees are:

Retirement Age 60 - 7.02%
Retirement Age 55 - 7.64%

The funding objective of the plan is to establish contribution rates which over time will remain relatively level, as a percentage of payroll, and to pay off the unfunded actuarial liability by the year 2033. There was a net increase of $215 million in the unfunded actuarial liability from the 1997 to the 1998 valuation. Under current projections, the actuarial and statutory rates are expected to converge in the year 2004, indicating the System's funding objective should be achieved.

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EXPERIENCE - ALL SYSTEMS COMBINED
July 1, 1997 - June 30, 1998

Several factors contributed to the change in the Systems' assets, liabilities, and recommended contribution rates between June 30, 1997 and June 30, 1998. On the following pages each component is examined.

ASSETS

As of June 30, 1998, the System had total funds, when measured on a market value basis, of $8.845 billion, including assets held for the Group Insurance and Optional Life reserves. This was an increase of $1.075 billion from the 1997 figure of $7.77 billion. The components of this change (in millions) are set forth below:

	Market Value
Assets, June 30, 1997	$7,770
• Employer and Member Contributions	341
• Benefit Payments and Expenses	(508)
• Investment Income (Expected)	615
• Investment Gain/(Loss)	627
Assets, June 30, 1998	$8,845

The market value of assets is not used directly in the calculation of contribution rates. An asset valuation method is used to smooth the effect of market fluctuations. The actuarial value of assets is equal to the expected asset value based on the assumed interest rate plus one-third the difference between the actual market value and the expected asset value. The dollar weighted rate of return, measured on the actuarial value of assets was 14.9 percent. This figure reflects the asset valuation methodology which recognizes only one-third of the investment gain above the eight percent (8%) assumed rate.

LIABILITIES

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

Between June 30, 1997 and June 30, 1998 the change in the unfunded actuarial liabilities for the System was as follows (in millions):

(Unfunded) Actuarial Liability, June 30, 1997	(1,376)
• effect of contribution cap/time lag	(54)
•expected increase due to amortization method	(32)
• investment gain	413
•change in actuarial assumptions	(350)
• 1998 ad-hoc COLA	(88)
• liability loss from actual experience	(104)
(Unfunded) Actuarial Liability, June 30, 1998	(1,591)

CONTRIBUTIONS

Generally, contributions to the System consist of:

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

The combined Systems' actuarial contribution rate (before statutory limits) increased by 0.62 percent of pay, to 5.45 percent on June 30, 1998, from 4.83 percent on June 30, 1997. The primary components of this change are as follows:

Actuarial Contribution Rate, June 30, 1997	4.83%
Change in amortization of UAL	
• effect of contribution cap/time lag	0.06
• amortization method	0.00
• 1998 ad-hoc COLA	0.18
• investment gain	(0.49)
• change in actuarial assumptions	0.42
• liability loss from actual experience	0.13
Change in normal cost rate	0.32
Actuarial Contribution Rate, June 30, 1998	5.45%

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APPENDIX C
ACTUARIAL ASSUMPTIONS AND METHODS

A. Actuarial Assumptions

KPERS

Rate of Investment Return	8.0%
Rates of Mortality	School (Male): 1994 GAM Male Table School (Female): 1994 GAM Female Table NonSchool (Male): 1994 GAM Male Table +2 NonSchool (Female): 1994 GAM Female Table +1
Disabled Life Mortality	1994 GAM Table Set forward 12 years

Rates of Salary Increase (1)

Age	Rate
25	7.6%
30	6.5%
35	5.9%
40	5.6%
45	5.3%
50	4.7%
55	4.2%
60	4.0%

Includes 3.5% increase attributable to the effects of inflation and a real growth component of 0.5% per year.

Rates of Termination (Service Based)

School - Male
Years of Service

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

School - Female
Years of Service

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

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State - Male
Years of Service

Age	1	2	3	4	5 or more
25	25.0%	20.5%	17.5%	15.0%	15.0%
30	20.0%	16.4%	14.0%	12.0%	9.0%
35	17.5%	14.4%	12.3%	10.5%	6.0%
40	15.8%	13.0%	11.1%	9.5%	4.8%
45	15.3%	12.5%	10.7%	9.2%	4.0%
50	15.0%	12.3%	10.5%	9.0%	3.0%

State - Female
Years of Service

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

Local - Male
Years of Service

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

Local - Female
Years of Service

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

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Retirement Ages

School

Rule of 85

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

Early and Normal Retirement

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

State

Rule of 85

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

Early and Normal Retirement

Age	Rate
55	3%
57	3%
59	3%
61	15%
63	30%
65	50%
67	30%
69	20%

Local

Rule of 85

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

Early and Normal Retirement

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

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

Rates of Disability:

Age	School	State	Local
22	.025%	.036%	.03%
27	.025%	.086%	.046%
32	.025%	.180%	.028%
37	.035%	.262%	.110%
42	.060%	.333%	.150%
47	.120%	.420%	.230%
52	.275%	.640%	.395%
57	.570%	1.164%	.790%

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

A. Actuarial Assumptions

KP&F

Rate of Investment Return — 8.0%

Rates of Mortality — 1994 GAM Male Table*

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

Disabled Life Mortality — 1994 GAM Table Set forward 12 years

Rates of Salary Increase

Age	Rate
25	7.6%
30	6.5%
35	6.4%
40	6.0%
45	5.7%
50	6.0%
55	7.0%
60	6.0%

Includes 3.5% increase attributable to the effects of inflation and a real growth component of 0.5% per year.

Rates of Termination

Age	Rate
25	9.6%
30	7.0%
35	5.0%
40	3.7%
45	2.5%
50	1.8%
55	1.5%
60	1.5%

Retirement Ages

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

(a) age 52 and 25 years of service,
(b) age 55 and 20 years of service, or
(c) age 60 and 15 years of service.

Rates of Disability

Age	Rate
22	.06%
27	.07%
32	.30%
37	.60%
42	.90%
47	1.10%
52	1.50%
57	1.94%

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

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

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A. Actuarial Assumptions

Judges

Rate of Investment Return	8.0%
Rates of Mortality	1994 GAM Table
Rates of Salary Increase	5.5%

Includes 3.5% increase attributable to the effects of inflation and a real growth component of 0.5% per year.

Rates of Termination

Age	Rate
22	5.4%
27	5.2%
32	4.9%
37	4.4%
42	2.8%
47	1.2%
52	1.0%
57	0.0%

Disabled Life Mortality	Same as Healthy Lives
Rates of Disability	None assumed

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

B. Actuarial Methods

1. Funding Method

KPERS

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

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

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

2. **Asset Valuation Method**

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

1998 SUMMARY of PLAN PROVISIONS

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

Plan Membership

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

Employee Membership

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

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
Summary of Provisions

Retirement: Age and Service Requirements

Eligibility - Eligibility is (a) Age 65, or (b) age 62 with ten years of credited service, or (c) any age when combined age and years of credited service equal 85 "points." Age is determined by the member's last birthday and is not rounded up. **Benefits** - Benefits are based on the member's years of credited service, Final Average Salary (FAS), and a statutory multiplier. For those who were hired prior to July 1, 1993, Final Average Salary equals the greater of either: a four-year Final Average Salary, including add-ons, such as sick and annual leave; or a three-year Final Average Salary, excluding add-ons, such as sick and annual leave. For those who are hired on or after July 1, 1993, Final Average Salary equals the average of the three highest years of service, excluding add-ons, such as sick and annual leave. **Prior Service Credit** - Prior service credit is 0.75 percent to one percent (1%) of Final Average Salary per year [School employees receive 0.75 percent Final Average Salary for each year of prior service that is not credited under the former Kansas School Retirement System (KSRS)]. **Participating Service Credit** - Participating service credit is 1.75 percent of Final Average Salary. **Working after Retirement** - Effective July 1, 1998, there is a 30-day waiting period in which a retiring member may not return to work in any capacity for any participating employer.

Early Retirement

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

Vesting Requirements

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

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
Summary of Provisions

Other Benefits

Withdrawal Benefit - Members who terminate employment may withdraw contributions, with interest, after the last day on the employer's payroll. Effective July 1, 1998, members must wait 30 days after their last day on the payroll before applying to withdraw contributions. Withdrawing contributions forfeits all membership rights and benefits, such as insurance coverage, which a member may have accrued prior to withdrawing contributions from the Retirement System. Former members, who return to covered employment within five years after terminating employment, will not have lost any membership rights or privileges, if they ***haven't*** withdrawn contributions. The Retirement Act does not allow members to borrow from contributions. The employer portion of a member's contributions remain with the System when a member terminates employment and withdraws contributions. The Retirement System will refund contributions only after all contributions have been reported by the member's former employer.

Disability Benefit - Disability income benefits are provided under the KPERS Death and Disability Benefits Program, which is financed by employer contributions of 0.6 percent of a member's compensation. A member must be totally disabled for 180 continuous days. Benefits accrue from the later of the 181st day of continuous disability or from the first day upon which compensation from the employer ceases. The long term disability benefit is two-thirds of the member's annual compensation on the date disability commences, reduced by Social Security benefits, one-half of Workers' Compensation benefits, and any other employment-related disability benefits, but in no event will the monthly benefit be less than $100 per month. Members receiving disability benefits continue to receive service credit under KPERS, group life insurance coverage, and waiver of optional group life insurance premiums if the member is under age 65 when first disabled. If a disabled member retires after receiving disability benefits for at least five years immediately preceding retirement, the member's Final Average Salary is statutorily adjusted.

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

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

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
Summary of Provisions

Insured Death Benefit - An insured death benefit is provided under the KPERS Death and Disability Program, equal to 150 percent of the member's annual compensation on the date of death. If a disabled member dies after receiving disability benefits for at least five years immediately preceding death, the member's current annual rate of compensation is statutorily adjusted.

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

Member Contributions

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

Employer Contributions

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

Board of Regents Plan Members (TIAA and equivalents)

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

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
Summary of Provisions

Correctional Members

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

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

KANSAS POLICE & FIREMEN'S RETIREMENT SYSTEM
Summary of Provisions

Retirement: Age and Service Requirements

TIER I * - age 55 and 20 years of service. **TIER II** ** - age 50 and 25 years of service, or age 55 and 20 years of service, or age 60 and 15 years of service. **Benefits** - Benefits are based on the member's Final Average Salary. For those who were hired prior to July 1, 1993, Final Average Salary equals the average of the highest three of the last five years of credited participating service, including add-ons, such as sick and annual leave. For those who are hired on or after July 1, 1993, Final Average Salary equals the average of the highest three of the last five years of participating service, excluding add-ons, such as sick and annual leave. Benefits are based on a member's years of service, and a multiplier of 2.5 percent of Final Average Salary for each year of service, to a maximum of 80 percent of Final Average Salary. **Local Plan** - For members covered by local plan provisions on the employer's entry date, normal retirement is at age 50 with 22 years of credited service. **Working after Retirement** - Effective July 1, 1998, there is a 30-day waiting period in which a retiring member may not return to work in any capacity for any participating employer.

Early Retirement

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

KANSAS POLICE & FIREMEN'S RETIREMENT SYSTEM
Summary of Provisions

Vesting Requirements

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

Other Benefits

Withdrawal Benefits - Members who terminate employment before retirement may withdraw contributions with interest after the last day on the employer's payroll. Effective July 1, 1998, members must wait 30 days after their last day on the payroll before applying to withdraw contributions. Withdrawal of contributions forfeits all membership rights and benefits, which a member may have accrued prior to withdrawing accumulated contributions from the Retirement System. Former members, who return to covered employment within five years after terminating employment, will not have lost any membership rights or privileges if they ***haven't*** withdrawn contributions. The Retirement Act does not allow members to borrow from contributions. The employer portion of a member's contributions remain with the System when a member terminates employment and withdraws contributions. The Retirement System will refund contributions only after all contributions have been reported by the member's former employer.

Disability Benefits

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

KANSAS POLICE & FIREMEN'S RETIREMENT SYSTEM
Summary of Provisions

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

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

Death Benefits

TIER I * and TIER II **: Service Connected Death - There is no age or service requirement, and a pension of 50 percent of Final Average Salary goes to the spouse, plus 10 percent of Final Average Salary goes to each dependent child under age 18 [or up to age 23 if full time student(s)], to a maximum of 75 percent of Final Average Salary. **Non-Service-connected Death** - A lump sum of 100 percent of Final Average Salary goes to the spouse; and a pension of 2.5 percent of Final Average Salary per year of service (to a maximum of 50 percent) is payable to the spouse. If there is no spouse, the monthly benefit is paid to the dependent children. **Inactive Member Death** - If a member had at least 20 years of credited service, but had not reached retirement age, the surviving spouse (if the spouse is the sole beneficiary) may elect a monthly benefit to begin on the date the member would have been eligible to retire, in lieu of a refund of the member's contributions. If an inactive member is eligible to retire when death occurs, and the inactive member's spouse is the sole beneficiary, the spouse may elect to receive benefits as a joint annuitant under any option in lieu of a refund of the member's accumulated contributions. **Post-Retirement Death** - A lump sum amount of $4,000, less any death benefit, is payable under local plan provisions. If the member has selected a retirement option, benefits are paid to the joint annuitant or the designated beneficiary. Under joint and survivor options, if the joint annuitant predeceases the retired member, the benefit is increased to the amount the retired member would have received if no option had been selected. Benefits payable to the joint annuitant cease when the joint annuitant dies. If no option is selected, the designated beneficiary receives the excess, if any, of the member's accumulated contributions over total benefits paid to the date of death. The surviving spouse of a transfer member (who was covered by a local plan on the employer's entry date, who dies after retirement, and who had not elected a retirement benefit option), receives a lump sum payment of 50 percent of Final Average Salary. Additionally, a pension benefit of three-fourths of the member's benefit is payable either to the spouse or to dependent children.

KANSAS POLICE & FIREMEN'S RETIREMENT SYSTEM
Summary of Provisions

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

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

Member Contributions

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

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

KANSAS RETIREMENT SYSTEM for JUDGES
Summary of Provisions

Employer Contributions

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

Retirement: Age and Service Requirements

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

KANSAS RETIREMENT SYSTEM for JUDGES

Summary of Provisions

Early Retirement

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

Vesting Requirements

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

Other Benefits

Disability Benefits - These benefits are payable if a member is defined as permanently physically or mentally disabled. The disability benefit, payable until age 65, is 3.5 percent of Final Average Salary for each year of service (minimum of 25 percent of Final Average Salary). Benefits are recalculated when the member reaches retirement age. If a judge is disabled for at least five years immediately preceding retirement, the judge's Final Average Salary is adjusted by the actuarial salary increase assumption rates in existence during the period of disability. **Withdrawal Benefit** - Members who terminate employment may withdraw contributions with interest. Effective July 1, 1998, members must wait 30 days after their last day on the payroll before applying to withdraw contributions. The employer portion of a member's contributions remain with the System when a member terminates employment and withdraws contributions. The Retirement Act does not allow members to borrow from contributions. A former member who resumes service as a judge may return the amount refunded without additional interest or penalty and regain credit for service previously credited under the Retirement System. **Pre-retirement Death** - A lump sum insured death benefit equal to 150 percent of the member's annual compensation on the date of the member's death is payable; plus a refund of the member's accumulated contributions. In lieu of receiving the member's accumulated contributions, the surviving spouse of a member who is eligible to retire at death, may elect to receive benefits under any survivor benefit option. The spouse must be the member's sole designated beneficiary to exercise this option. If the member had at least 15 years of credited service, but hadn't

KANSAS RETIREMENT SYSTEM for JUDGES

Summary of Provisions

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

Member Contributions

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

Employer Contributions

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

Short Term Solvency Test

Last Ten Fiscal Years

Valuation Date	Member Contributions (A)	Retirants and Beneficiaries (B)	Active Members Employer Financed Portion (C)	Assets Available for Benefits		Portions of Accrued Liabilities Covered by Assets (A)	(B)	(C)
01/01/89	943,712,100	1,177,842,700	1,342,014,200	3,026,692,200		100	100	67
01/01/90	975,736,900	1,304,280,600	1,647,349,500	3,458,172,000		100	100	72
06/30/91	1,208,273,400	1,374,757,300	1,679,117,300	3,759,523,000		100	100	70
06/30/92	1,489,301,000	1,530,763,300	1,614,777,700	4,101,987,000		100	100	67
06/30/93	1,651,701,100	1,864,877,500	1,943,701,800	4,492,541,700		100	100	50 (2)
06/30/94	1,801,791,938	2,388,662,221	2,356,469,874	5,041,702,745	(1)	100	100	36
06/30/95	1,958,992,138	2,678,609,811	2,353,427,051	5,510,957,394		100	100	37
06/30/96	2,159,113,770	3,037,892,830	2,406,103,997	6,158,754,752		100	100	40
06/30/97	2,337,511,704	3,232,733,926	2,681,740,618	6,875,918,348		100	100	49
06/30/98	2,522,614,846	3,841,556,459	2,976,514,154	7,749,203,022		100	100	47

(1) Actuarial valuation method was changed from book value to a market-based method.

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

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

Schedule of Active Member Valuation Data (1)

Valuation Date	Number of Active Members(2)	Percentage Change in Membership	Number of Participating Employers	Percentage Increase in Number of Participating Employers	Total Annual Payroll (Millions)(2)	Average Payroll	Percentage Increase in Average Payroll
01/01/89	108,528	10.7 %	1,150	2.1 %	$ 2,226	$ 20,511	-8.6
01/01/90	111,818	3.0	1,188	3.3	2,397	21,437	4.5
06/30/91	114,460	2.4	1,223	2.9	2,560	22,366	4.3
06/30/92	116,077	1.4	1,247	2.0	2,700	23,260	4.0
06/30/93	119,074	2.6	1,272	2.0	2,835	23,809	2.4
06/30/94	123,178	3.4	1,287	1.2	3,068	24,907	4.6
06/30/95	131,270	6.6	1,309	1.7	3,309	25,208	1.2
06/30/96	134,470	2.4	1,344	2.7	3,464	25,760	2.2
06/30/97	136,241	1.3	1,371	2.0	3,590	26,350	2.3
06/30/98	134,866	-1.0	1,397	1.9	3,765	27,915	5.9

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

2) Excludes TIAA salaries.

Schedule of Employer Contribution Rates

Last Eight Fiscal Years (1)

KPERS STATE/SCHOOL

Fiscal Years	Actuarial Determined Rate	Actual Rate
1991	3.20 %	3.20 %
1992	3.30	3.30
1993	3.30	3.30
1994	3.10	3.10
1995	3.10	3.20
1996	4.11	3.30
1997	5.17	3.59
1998	5.23	3.79

KPERS LOCAL

Fiscal Years	Actuarial Determined Rate	Actual Rate
1991	2.40 %	2.40 %
1992	1.80	1.80
1993	1.90	1.90
1994	2.20	2.20
1995	3.05	2.30
1996	3.72	2.48
1997	3.73	2.63
1998	3.86	2.78

TIAA

Fiscal Years	Actuarial Determined Rate	Actual Rate
1991	1.50 %	1.50 %
1992	1.70	1.70
1993	1.60	1.60
1994	1.60	1.60
1995	1.70	1.70
1996	1.75	1.75
1997	1.89	1.89
1998	1.66	1.66

KP&F (UNIFORM RATE)

Fiscal Years	Actuarial Determined Rate	Actual Rate
1991	7.80 %	7.80 %
1992	5.70	5.70
1993	6.50	6.50
1994	6.80	6.80
1995	6.95	6.95
1996	9.65	9.65
1997	9.73	9.73
1998	9.45	9.45

JUDGES

Fiscal Years	Actuarial Determined Rate	Actual Rate
1991	5.40 %	5.40 %
1992	7.30	7.30
1993	7.10	7.10
1994	7.70	7.70
1995	8.00	8.00
1996	10.35	10.35
1997	16.00	16.00
1998	15.67	15.67

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

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

		Additions		Deletions		
Fiscal Year Ended June 30	Number at Beginning of Year	Number Added	Annual Allowances	Number Removed	Annual Allowances	Number at End of Year
1989	36,171	2,323	16,483,070	1,244	3,011,565	37,250
1990	37,250	2,262	16,291,650	1,269	3,451,066	38,243
1991	38,243	2,431	17,912,703	1,412	3,996,293	39,262
1992	39,262	2,476	20,430,611	1,383	4,268,325	40,355
1993	40,355	2,492	22,391,028	1,459	4,632,807	41,388
1994	41,388	3,576	41,949,288	1,593	6,120,175	43,371
1995	43,371	3,463	41,898,882	1,530	6,690,418	45,304
1996	45,304	3,119	37,681,571	1,677	7,233,445	46,746
1997	46,746	3,456	42,581,075	1,643	7,829,006	48,559
1998	48,559	3,228	40,731,685	1,716	7,638,945	50,071

Membership Profile
Last Ten Fiscal Years

Fiscal Year	Active	Inactive	Retirees & Beneficiaries	Total Membership
1989	103,721	10,448	37,250	151,419
1990	109,654	8,388	38,243	156,285
1991	111,818	10,368	39,262	161,448
1992	116,891	8,798	39,552	165,241
1993	121,997	9,182	41,388	172,567
1994	131,684	12,851	43,371	187,906
1995	136,710	13,362	45,304	195,376
1996	140,573	15,249	46,746	202,568
1997	141,127	17,973	48,559	207,659
1998	143,080	21,080	50,071	214,231

Summary of Membership Data

Retiree and Beneficiary Member Valuation Data (1)

	1998	1997
KPERS		
Number	47,179	45,303
Average Benefit	$7,399	$7,277
Average Age	73.85	74.35
Police & Fire		
Number	2,741	2,508
Average Benefit	$17,508	$16,678
Average Age	64.10	60.50
Judges		
Number	138	129
Average Benefit	$26,137	$26,953
Average Age	74.70	74.60
System Total		
Number	50,058	47,940
Average Benefit	8,004	7,822
Average Age	73.32	73.63

Active Member Valuation Data (1)

	1998	1997
KPERS		
Number	128,889	130,285
Average Current Age	44.05	44.52
Average Service	10.35	9.88
Average Pay	$27,325	$25,775
Police & Fire		
Number	5,734	5,765
Average Current Age	38.50	38.10
Average Service	10.99	10.61
Average Pay	$39,241	$37,451
Judges		
Number	243	235
Average Current Age	53.00	52.00
Average Service	9.46	8.75
Average Pay	$73,923	$70,049
System Total		
Number	134,866	136,285
Average Current Age	43.83	43.31
Average Service	10.37	9.91
Average Pay	$27,915	$26,345

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

FIRST WOMAN TO LEAD STATE'S SCHOOLS IN 20TH CENTURY

AT the turn of the century, it was unheard of for a woman to hold elective office. However, not long after, that all began to change rapidly.

In 1919, Lorraine Elizabeth "Lizzie" Wooster became the first woman to hold a statewide office when she was elected the Kansas State Superintendent of Schools.

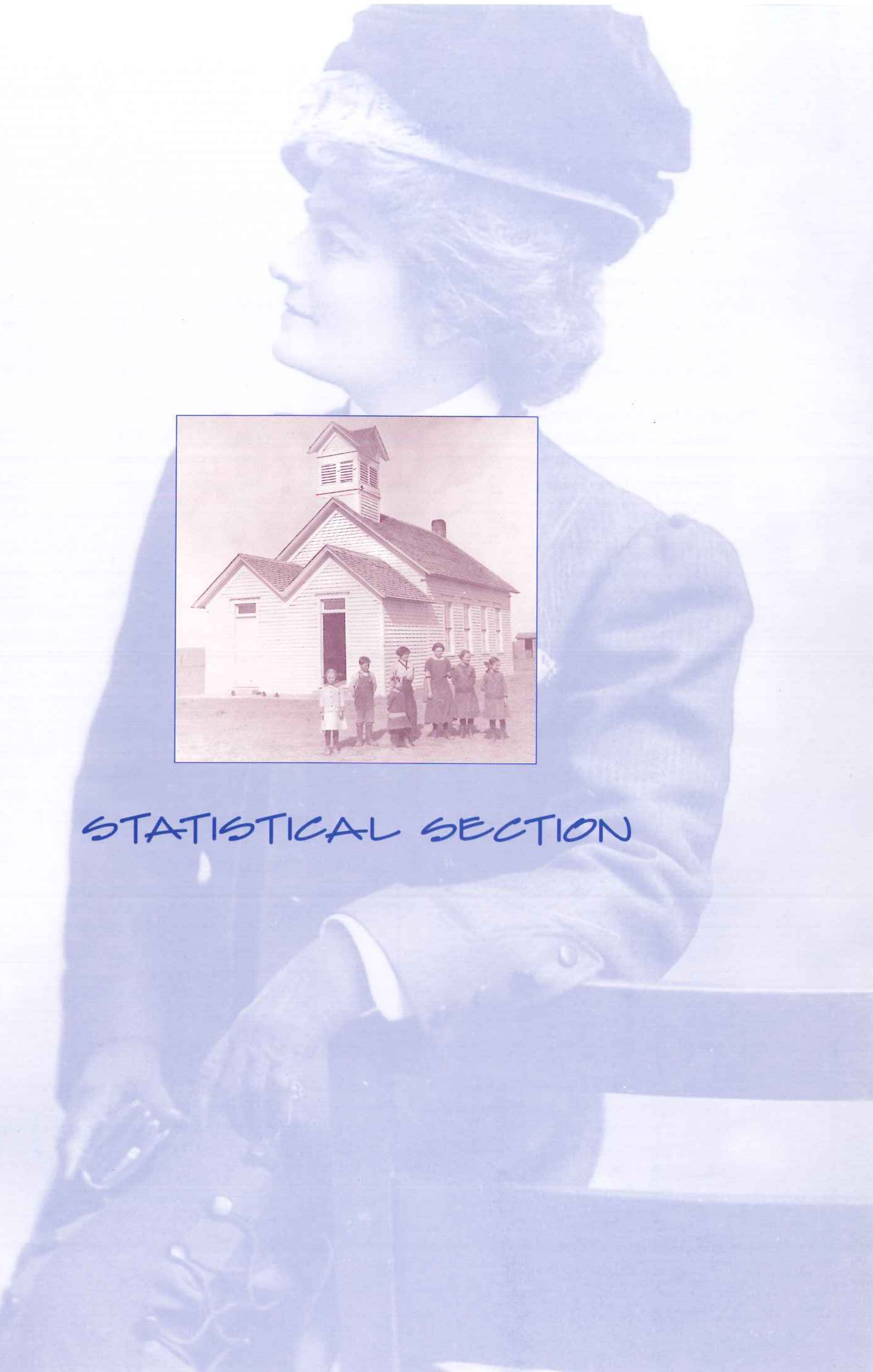
In 1884, at the age of 16, Lizzie Wooster began her career as a teacher in the rural schools of Saline County. It didn't take her long to invent reading and number charts to help her fellow teachers. Apparently Lizzie knew how to take action, because by 1919, she had written five textbooks and had earned a law degree.

Lizzie was widely known for her strong stand for good education for all Kansans. She also actively campaigned against alcohol and tobacco consumption.

In 1922 she wrote, "Tobacco and cigarettes are the greatest immoral agents among our young people today." Lizzie was ahead of her time in many ways, confronting issues that are still making headlines.

Photo above: A formal portrait of Lorraine Elizabeth "Lizzie" Wooster, first woman to be elected Kansas State Superintendent of Schools, in 1919.

Inset photo: Logan County Public School, District 1, its students and teacher. This photo was taken between 1915 and 1920, the same era that Lizzie Wooster was leading education efforts in Kansas as the first woman State Superintendent of Schools.



STATISTICAL SECTION

Highlights of Operations - 10 Year Summary

	1998	1997	1996	1995
Membership Composition				
Number of Retirants	50,071	48,559	46,746	45,304
New Retirants During the Year	3,228	3,456	3,119	3,463
Active and Inactive Members	164,160	159,100	155,822	150,072
Participating Employers	1,397	1,371	1,344	1,309
Financial Results (Millions)				
Member Contributions	$ 174	$ 171	$ 173	$ 159
Employer Contributions	167	156	143	130
Retirement / Death Benefits	429	397	364	334
Investment Income (a)	1,247	974	1,095	906
Employer Contribution Rate				
KPERS--State / School	3.79 %	3.59 %	3.30 %	3.20 %
KPERS--Local (b) (c)	2.78	2.63	2.48	2.30
KP&F (Uniform Participating) (b)	9.45	9.73	9.65	6.95
Judges	15.67	16	10.35	8.00
TIAA	1.66	1.89	1.75	1.70
Special Elected Officials (d)	—	—	—	—
Unfunded Actuarial Liability (Millions)				
KPERS--State / School	$1,142	$ 933	$1,014	$1,051
KPERS--Local	104	131	121	123
KP&F	313	288	283	279
Judges	8	5	5	5
TIAA	24	19	21	22
Special Elected Officials	—	—	—	—
Funding Ratios (e)				
KPERS--State / School	83.03 %	84.19 %	81.48 %	79.19 %
KPERS--Local	91.47	88.34	87.99	86.51
KP&F	75.62	74.77	72.81	70.72
Judges	88.21	91.21	90.15	89.10
TIAA	28.83	31.26	25.38	22.62
Special Elected Officials	—	—	—	—

a) Investment income for prior years has been adjusted to reflect changes in unrealized appreciation.
b) KPERS Local and KP&F contribution rates are reported on a calendar year basis.
c) KPERS was divided into sections: KPERS State/School and KPERS Local, commencing in fiscal year 1989.
d) Special Elected Officials coverage was applicable commencing in fiscal year 1989 through calendar year 1992.

1994	1993	1992	1991	1990	1989
43,371	41,388	39,552	39,262	38,243	37,250
3,576	2,492	2,476	2,431	2,262	2,323
144,535	131,179	128,689	122,186	118,042	114,169
1,287	1,272	1,247	1,223	1,188	1,150
$ 149	$ 134	$ 125	$ 124	$ 112	$ 97
118	117	112	106	101	91
292	231	206	187	168	152
115	665	486	48	393	352
3.10 %	3.30 %	3.30 %	3.20 %	3.10 %	3.00 %
2.20	1.90	1.80	2.40	2.60	2.00
6.80	6.50	5.70	7.80	7.40	7.30
7.70	7.10	7.30	5.40	5.90	6.55
1.60	1.60	1.70	1.50	1.50	1.60
—	7.90	8.30	7.90	7.80	7.70
$1,059	$ 573	$ 395	$ 373	$ 342	$ 316
142	94	47	40	34	30
276	272	67	66	69	70
5	5	4	4	4	3
23	24	20	20	19	19
—	—	—	—	2	—
77.58 %	85.10 %	88.30 %	88.00 %	88.00 %	87.30 %
84.44	87.30	92.70	93.10	93.60	93.90
68.94	66.70	88.10	87.30	85.90	84.10
88.64	87.90	89.80	89.10	89.10	88.90
20.39	20.00	22.60	21.10	24.20	21.60
—	—	—	—	78.50	—

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

Expenses by Type

Fiscal Year	Benefits	Withdrawals	Insurance	Administration	Total
1989	$151,532,348	$19,209,745	$19,809,732	$ 3,255,155	$ 193,806,980
1990	165,424,924	23,225,663	17,826,637	3,152,205	209,629,429
1991	184,121,534	24,568,119	23,956,850	3,309,277	235,955,780
1992	205,565,716	23,310,075	26,745,197	3,274,890	258,895,878
1993	230,677,812	20,812,351	28,353,401	3,715,294	283,558,858
1994	292,375,535	22,900,621	33,129,180	3,596,637	352,001,973
1995	333,924,392	26,542,254	35,873,212	4,312,658	400,652,516
1996	364,102,629	30,687,458	34,108,251	4,493,293	433,391,631
1997	396,660,948	36,761,626	36,048,625	4,659,099	474,130,298
1998	428,997,161	41,510,908	37,639,743	4,702,566	512,850,378

Revenues by Source

For the Fiscal Year Ended June 30, 1998

Fiscal Year	Contributions			Misc.	Net Investment Income	Total
	Member	Employer	Employer Insurance			
1989	$ 37,400,647	$ 76,503,223	$ 14,645,898	$ 95,688	$ 351,981,295	$ 480,626,751
1990	112,356,371	84,157,168	16,629,221	239,264	393,083,327	606,465,351
1991	123,608,209	86,633,756	18,657,509	385,469	48,172,791	277,457,734
1992	125,377,263	92,968,008	18,456,388	509,062	485,575,396	722,886,117
1993	133,506,738	96,292,433	20,115,114	533,403	664,759,162	915,206,850
1994	149,049,696	95,622,052	21,959,761	525,570	114,634,694	381,791,773
1995	159,250,384	106,496,039	22,881,197	533,638	906,231,045	1,195,392,303
1996	173,247,638	119,319,684	24,084,601	97,505 (1)	1,095,001,676	1,411,751,104
1997	171,120,750	133,053,259	23,226,519	92,827	974,302,417	1,301,795,772
1998	173,954,587	142,931,373	24,173,870	173,035	1,247,347,928	1,588,580,793

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

Schedule of Benefits by Type

Fiscal Year	Monthly Retirement Benefits	Retirement Dividend	Death Benefits	Refunds of Contributions	Disability, Insurance Premiums/ Benefits
1989	$ 135,123,026	$ 9,544,087	$ 6,357,986	$ 19,209,745	$ 20,316,981
1990	151,723,200	9,403,736	6,478,993	20,614,990	18,256,305
1991	169,915,990	9,755,374	6,561,432	22,086,947	24,326,760
1992	188,608,232	9,736,712	6,902,906	23,310,075	27,063,063
1993	213,080,377	9,834,057	7,499,557	20,812,351	28,617,222
1994	273,821,219	10,985,580	7,345,897	22,900,621	33,352,019
1995	315,965,280	11,019,325	6,742,192	26,542,254	36,070,807
1996	346,390,529	10,701,234	7,010,866	30,687,458	34,108,251
1997	378,656,752	10,173,553	7,830,644	36,761,625	36,048,625
1998	411,626,428	9,673,950	7,682,253	41,510,908	37,639,743

Schedule of Retired Members and Survivors by Type of Benefit
June 30, 1998

Amount of Monthly Benefits	Number of Retirants	Type of Retirement				Option Type Selected								
		1,3,5	2,4	6,8	7,9	1	2	3	4	5,8	6,7	9	0	Other
$ - 99	2,888	2,292	586		10	2,354	278	128	31	27	2	29	23	16
$100-199	6,673	3,815	2,731	114	13	4,892	832	520	137	58	81	50	32	71
$200-299	6,603	3,305	3,177	110	11	4,779	672	606	162	126	92	86	33	47
$300-399	5,730	3,039	2,594	71	26	4,009	647	597	142	131	53	110	33	8
$400-499	4,304	2,321	1,922	47	14	3,063	453	482	98	99	15	70	19	5
$500-599	3,489	1,946	1,502	28	13	2,436	404	403	84	94	4	43	17	4
$600-699	2,750	1,548	1,149	38	15	1,850	310	363	73	86	11	38	16	3
$700-799	2,290	1,295	938	40	17	1,545	271	297	56	81	12	15	13	
$800-899	1,830	1,105	655	54	16	1,186	244	249	36	88	10	6	11	
$900-999	1,568	1,040	455	55	18	982	232	216	32	74	16	3	12	1
$1,000-1,999	9,612	8,280	862	344	126	5,348	1,645	1,430	146	818	115	48	61	1
$2,000 or More	2,334	2,250	44	29	11	938	539	297	32	506	5	8	9	
Totals	50,071	32,236	16,615	930	290	33,382	6,527	5,588	1,029	2,188	416	506	279	156

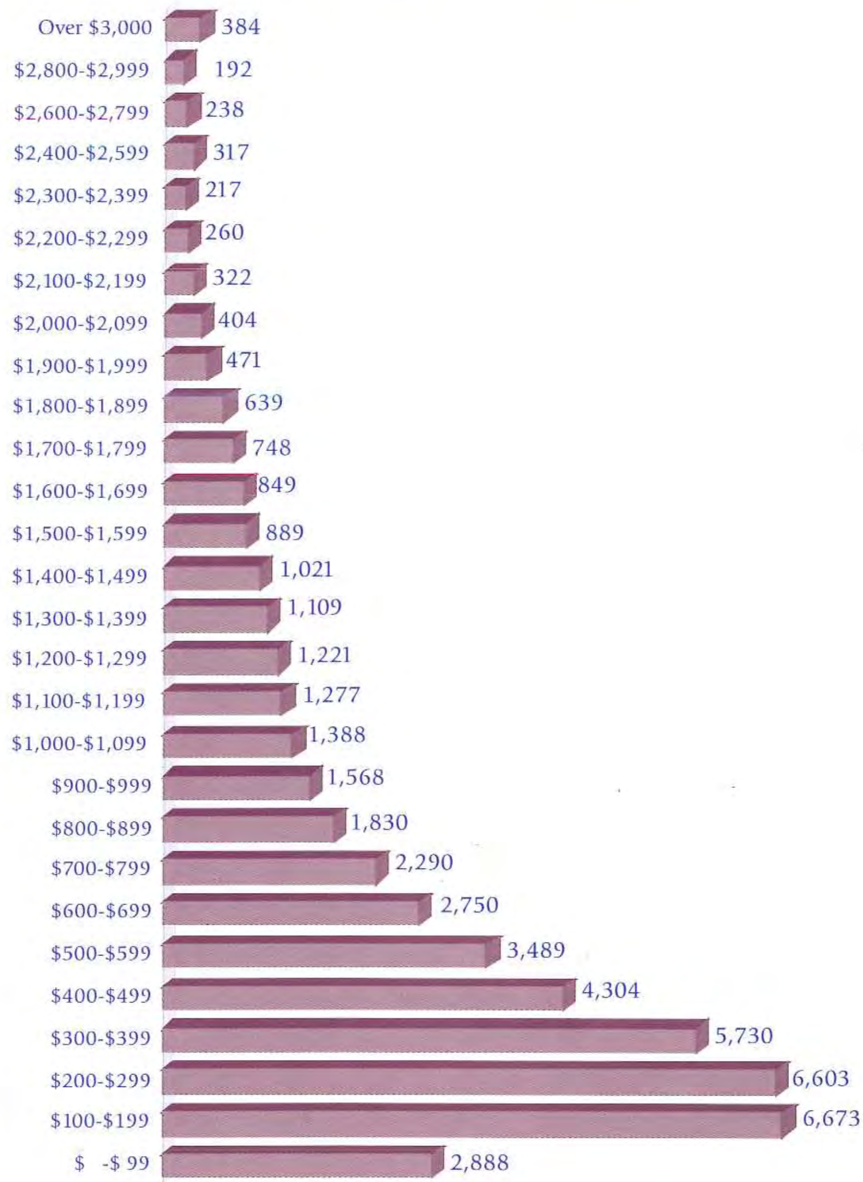
Type of Retirement
- 1 - Maximum, No Survivor Benefit
- 2 - Joint, 1/2 to Survivor
- 3 - Joint, Same to Survivor
- 4 - Life w/10 Yrs Certain
- 5, 8 - Joint, 3/4 to Survivor
- 6, 7 - Widowed, Children, Survivor
- 9 - Life w/ 5 Yrs Certain
- 0 - Life w/ 15 Yrs Certain

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

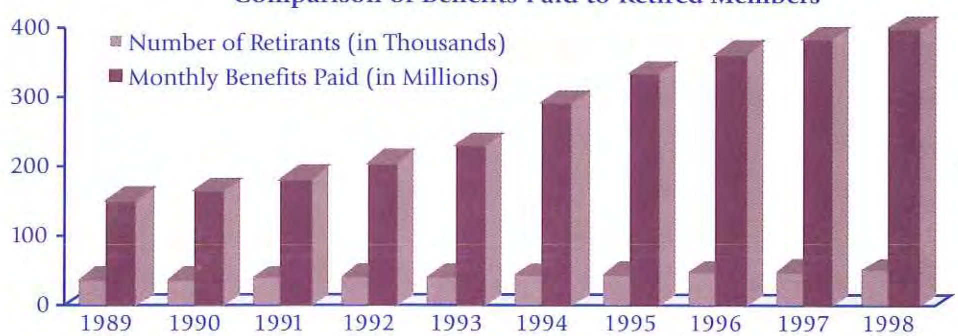
Average Benefit by Years of Service - Five Year Summary
New Retirees

Service Credit	Calendar Year 1993	1994	1995	1996	1997
Less Than 5	120	117	143	147	160
Average Benefit	$ 187.14	$ 107.34	$ 144.96	$ 100.65	$ 117.53
Average Years	2.72	2.46	2.52	2.49	2.88
5-9.99	165	187	208	196	215
Average Benefit	$ 241.56	$ 287.09	$ 298.27	$ 249.47	$ 246.81
Average Years	7.09	7.05	6.97	7.06	7.21
10-14.99	470	477	474	500	553
Average Benefit	$ 338.48	$ 352.24	$ 373.08	$ 359.97	$ 401.78
Average Years	12.10	11.86	11.79	11.85	11.80
15-19.99	473	442	476	494	515
Average Benefit	$ 559.42	$ 524.38	$ 562.36	$ 591.87	$ 617.75
Average Years	16.98	16.88	16.90	16.97	17.05
20-24.99	452	502	469	464	502
Average Benefit	$ 757.17	$ 795.51	$ 809.95	$ 851.83	$ 872.38
Average Years	22.00	21.81	21.87	21.96	21.95
25-29.99	443	490	500	510	500
Average Benefit	$ 1,143.23	$ 1,192.68	$ 1,331.94	$ 1,396.09	$ 1,471.01
Average Years	27.04	26.85	27.17	27.10	26.99
30-34.99	440	449	441	509	575
Average Benefit	$ 1,477.22	$ 1,589.41	$ 1,631.57	$ 1,729.45	$ 1,798.24
Average Years	31.95	31.99	31.86	31.85	31.91
35-39.99	410	390	334	268	273
Average Benefit	$ 1,682.77	$ 1,789.89	$ 1,878.19	$ 1,874.62	$ 1,946.01
Average Years	36.68	36.67	36.63	36.84	36.81
40-44.99	150	137	97	113	113
Average Benefit	$ 1,851.34	$ 1,873.86	$ 1,817.06	$ 1,925.92	$ 2,172.84
Average Years	41.41	41.47	41.52	41.54	41.37
45-49.99	16	11	26	14	13
Average Benefit	$ 1,748.42	$ 1,269.69	$ 2,088.80	$ 2,050.13	$ 2,111.18
Average Years	46.38	45.64	45.96	46.00	46.08
50 and Over	1	3	3	1	1
Average Benefit	$ 1,880.73	$ 1,744.47	$ 2,496.38	$ 1,921.82	$ 2,161.62
Average Years	52.00	51.33	51.33	54.00	50.00
Total Number	**3,140**	**3,205**	**3,171**	**3,216**	**3,420**
Average Benefit	**$ 949.74**	**$ 978.91**	**$ 995.91**	**$ 1,018.11**	**$ 1,060.24**
Average Years	**23.32**	**23.04**	**22.37**	**22.25**	**22.09**

Benefit Amount as of June 1998



Comparison of Benefits Paid to Retired Members



20TH CENTURY PROGRESS MEANS MORE HIGH SCHOOLS RESEMBLE COLLEGE CAMPUSES

SINCE its inception in 1886, Wyandotte High School has been an integral part of the Kansas City, Kansas community. First called the Riverview School, then the Palmer Academy, and later The Kansas City, Kansas High School, Wyandotte has experienced many cultural as well as structural changes during its 113-year history.

The present building at 25th and Minnesota Avenue, was built in 1937 and became one of the city's Art Deco style showpieces. However, the school takes its name from a more primary source, the Wyandots, a tribe of Native Americans who settled in the region more than 150 years ago. The edifice is listed on the National Register of Historic Sites, and reflects Indian and southwest cultures in its decorative friezes.

As an example of how urban schools have grown, Wyandotte High School was originally just two rooms which were first located in Riverview School. Construction of the present structure was completed in March, 1937. It represented an investment of over $2.5 million in tax dollars at the time.

The first graduating class, in 1937, numbered 492 students. Nearly 40,000 students in all have graduated from Wyandotte High. Among its well-known graduates are Ed Asner and Dee Wallace Stone, both of whom are professional television and film actors, and Marian Love, jazz vocalist.

Photo above: Wyandotte High School sits on 27 acres of ground at the corner of 25th and Minnesota Avenue in Kansas City, Kansas. By the 1930s urban high school populations had grown so large that housing the students required several buildings over a much larger area.
Inset photo: In sharp contrast with the large number of students who graduate from today's high schools, the size of high school graduating classes before the turn of the century was very small. There were fewer than 25 students in the first class to graduate from Dickinson County High School. Dickinson County High School was also the first county high school ever built in the United States. This picture was taken in 1892.

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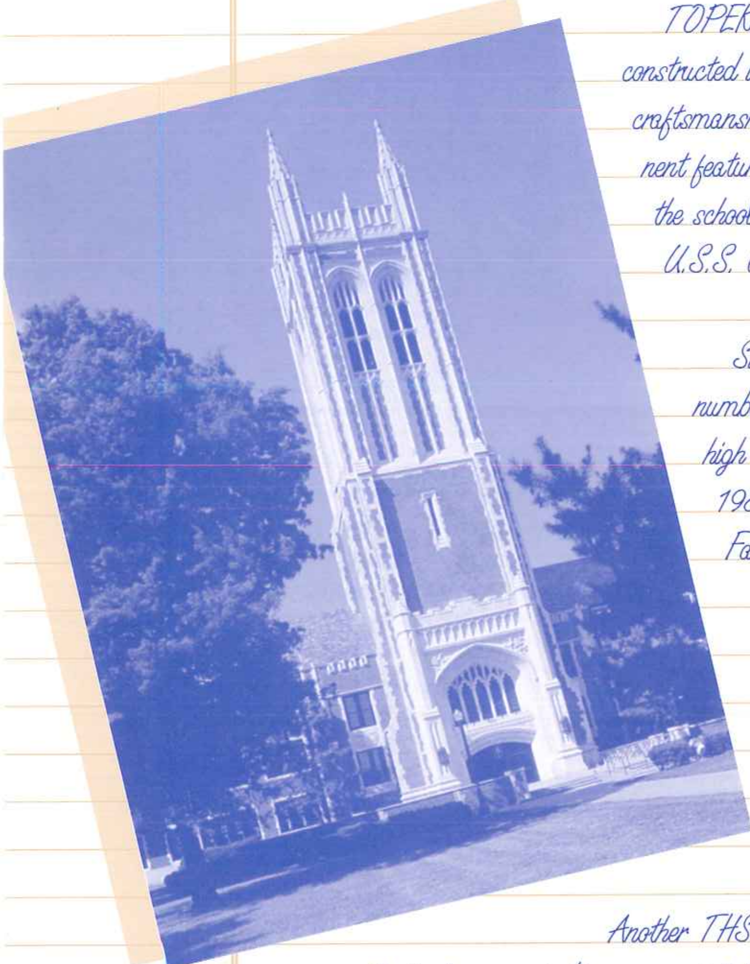
Photo above: At the end of fiscal year 1998, the Retirement System moved to a new location. The newly renovated office building is at 611 South Kansas Avenue in Topeka. The lobby and reception area are conveniently located on the first floor, and are easily accessible to all members. Parking is available outside the front door on Kansas Avenue, as well as in a covered parking garage directly below the office building.

SCHOOL REFLECTS CLASSIC STYLE, EDUCATION EXCELLENCE



TOPEKA High School (THS) was the first million-dollar high school constructed in Kansas. It was built in 1931 and is an example of top quality craftsmanship and Gothic architecture. The soaring ornate bell tower is a prominent feature of the downtown Topeka skyline. On the east side of the building is the school's flagpole, which is the lower foreyard of the U.S. Navy ship, the U.S.S. Constitution, known as "Old Ironsides."

Since students first moved into the building, the school has garnered a number of national awards, including "National Exemplary School," for the high standards achieved in the quality of the education students receive. In 1982, the students themselves created the "Topeka High School Hall of Fame," to honor graduates who achieved significant accomplishments.

Past years' inductees include Karl A. Menninger, M.D., who was one of the founders of the Menninger Clinic in Topeka; U.S. Olympic and NCAA championship basketball coach, Dean Smith, who retired from the University of North Carolina; and, former U.S. Senator Nancy Landon Kassebaum Baker.

Another THS Hall of Fame inductee is the Honorable Kay McFarland, who became the first woman in Kansas appointed to a district judgeship when, in 1973, she became judge of the then-newly-created Fifth Division in the District Court in Topeka. On September 19, 1977, Judge McFarland became the first-ever female Justice on the Kansas Supreme Court. Since 1995, she has served as the Chief Justice of the Kansas Supreme Court. Chief Justice McFarland is a Kansas Retirement System for Judges member.

While praising the excellent education she received at Topeka High School, Chief Justice McFarland did lament the career counseling she received was limited. She recalled, "I met with a counselor on only one occasion who told me that, as a female, I would need to choose among nursing, teaching, or secretarial careers. Those were the officially prescribed choices for women in the early 1950s. Those who bemoan the loss of the 'good old days' should admit some changes have been improvements. Women now are encouraged to pursue their dreams."

Photo above: Topeka High School was the first high school in Kansas that cost $1 million to build.
Inset photo: The Honorable Kay McFarland, Chief Justice of the Kansas Supreme Court.

ACKNOWLEGMENTS

The 1998 Annual Financial Report was prepared electronically by the Staff of the Retirement System, using a Power Macintosh 7500/100, with a Hewlett-Packard desktop scanner, Adobe PageMaker 6.0, Adobe Illustrator 6.0, Macromedia FreeHand 5.5, Microsoft Excel 5.0, and WordPerfect 3.0. Photographs were reproduced in the final Annual Report using traditional reproduction methods.

The Retirement System acknowledges the invaluable assistance of the Kansas State Historical Society. We recognize John Masson, graphic designer, the staff of Capital Graphics, Inc., and the staff of the Division of Printing, State of Kansas for their professional contributions. Most of all, we thank the members who graciously agreed to be featured in this Annual Report. All photographs are reprinted with permission of their owners.

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