



Working **together** for the financial
future of Kansas public servants

2002 Annual Report
Kansas Public Employees Retirement System
a component unit of the State of Kansas

Celebrating 75 years

Comprehensive Annual Financial Report

Kansas Public Employees Retirement System

A component unit of the state of Kansas

Fiscal Year Ended June 30, 2002

Prepared by KPERS staff

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Topeka, KS 66606

Glenn Deck, Executive Director

Leland Breedlove, Chief Fiscal Officer

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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, 2001

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.



William Patrick Pate
President

Jeffrey L. Esall
Executive Director



October DD

Board of Trustees and Members
Kansas Public Employees Retirement System

Dear Board of Trustees and Members:

I am pleased to present the 2002 Annual Report of the Kansas Public Employees Retirement System. The annual report covers the operations of the Retirement System for the fiscal year that ended June 30, 2002 and was prepared through the combined efforts of the Retirement System's staff members. The System's fiscal year 2002 operating results and financial position are presented in conformity with accounting principles generally accepted in the United States of America.

This 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, 2002. The System implemented GASB 34, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments*. As part of adopting this new pronouncement, a report referred to as the Management's Discussion and Analysis precedes the financial statements. The independent certified public accounting firm Berberich Trahan & Co., P.A., conducted an annual audit of the Retirement System. The firm's report on the Retirement System's financial statements is included in the financial section.

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

The Retirement System's management maintains a system of adequate internal accounting controls designed to protect assets and provide reasonable assurance regarding the reliability of financial records. 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 our financial position and operating results. Responsibility for both the data accuracy as well as the completeness and fairness of the presentation, including all disclosures, rests with the System's management.

The Kansas Legislature established the Retirement System in 1962 to provide retirement and related benefits to Kansas public servants. On June 30, 2002, System membership included 153,557 active members, 31,201 inactive members and 56,069 retirees and beneficiaries. Twelve new public employers joined the Retirement System, and by the end of fiscal year 2002, public employers in the Retirement System totaled 135.

For the second consecutive year, the Retirement System incurred losses in its investment portfolio. On December 31, 2002, assets available for retirement benefits were 84.8 percent of the total accrued actuarial liability as computed by the System's actuary, Milliman USA. Current Kansas law provides that this unfunded actuarial liability will be amortized over a 40-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. As discussed in the Management's Discussion and Analysis and the actuarial section, the actuary has recommended that the level of future contributions be increased. Developing a viable long-term funding plan is a top priority for the Board of Trustees and staff. We are committed to working with the Governor, members of the Legislature and the Division of the Budget in addressing this issue.

During this fiscal year we critically examined the state of the Retirement System and the challenges we will face in the coming years. As a result, we developed a new Strategic Business Plan which outlines our organizational mission, values, goals and strategic initiatives. Our mission is to deliver retirement, disability and survivor benefits to our members and beneficiaries. Six core values guide us in all we do: service, integrity, respect, accountability, innovation and teamwork. These core values help determine how we treat our members, how we treat our employees, and how we do business. We are striving to fulfill our mission by accomplishing three major goals:

- Investing and safeguarding the funds in our care for the sole purpose of providing benefits for our members and their beneficiaries.
- Providing the best service possible to our members and participating employers.
- Creating better awareness of our benefits and programs by communicating clearly and often with members, employers, public officials and others.

Our renewed focus on excellent service and communications has already started to show results. During the year we improved the format and timeliness of our annual statements to members; our answer rate on our toll-free InfoLine increased by over 10 percent; and the quality of our *KPERS Papers* newsletter, brochures and other publications was dramatically improved.

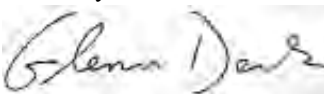
Other successful project accomplishments include:

- implementing the new partial lump-sum option
- completing an asset/liability study and new asset allocation
- continued progress on the digital imaging of all member records
- significant improvements to the employer reporting process

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Retirement System, for the comprehensive annual financial report for the fiscal year ended June 30, 2001. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports. To be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which must conform to program standards. The comprehensive annual financial report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The System has received the Certificate of Achievement for each of the last eight consecutive fiscal years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we will submit this annual report to the GFOA for its consideration.

For the last 40 years, the Retirement System's Board and staff have a successful track record of providing retirement, disability and survivor benefits to Kansas public servants and public employers. We are committed to continuously improving our services. Your comments and suggestions are essential and always welcome. We appreciate the opportunity to serve you.

Sincerely,



Glenn Deck
Executive Director

Board of Trustees

BRUCE BURDITT, Chairperson

Auburn, Financial Reporting and Investments Manager for the Kansas Department of Transportation

Elected by nonschool members

MICHAEL BRAUDE, Vice-Chairperson

Mission Woods, Past President and CEO of the Kansas City Board of Trade

Appointed by the Governor

JAROLD W. BOETTCHER

Beloit, President and CEO of Boettcher Enterprises, Inc., and Doettcher Supply Inc.

Appointed by the Governor

VERN R. CHESBRO

Ottawa, President of Vern R. Chesbro Consulting, Inc.

Appointed by the Governor

IZELLER

Lawrence, Senior Vice President of UMB Bank

Appointed by the Governor

LON PISHNY

Garden City, Pishny Financial Services

Appointed by the Speaker of the House

TIM SHALLENBURGER

Topeka, Kansas State Treasurer

Statutory member

DON STEFFES

McPherson, retired banker

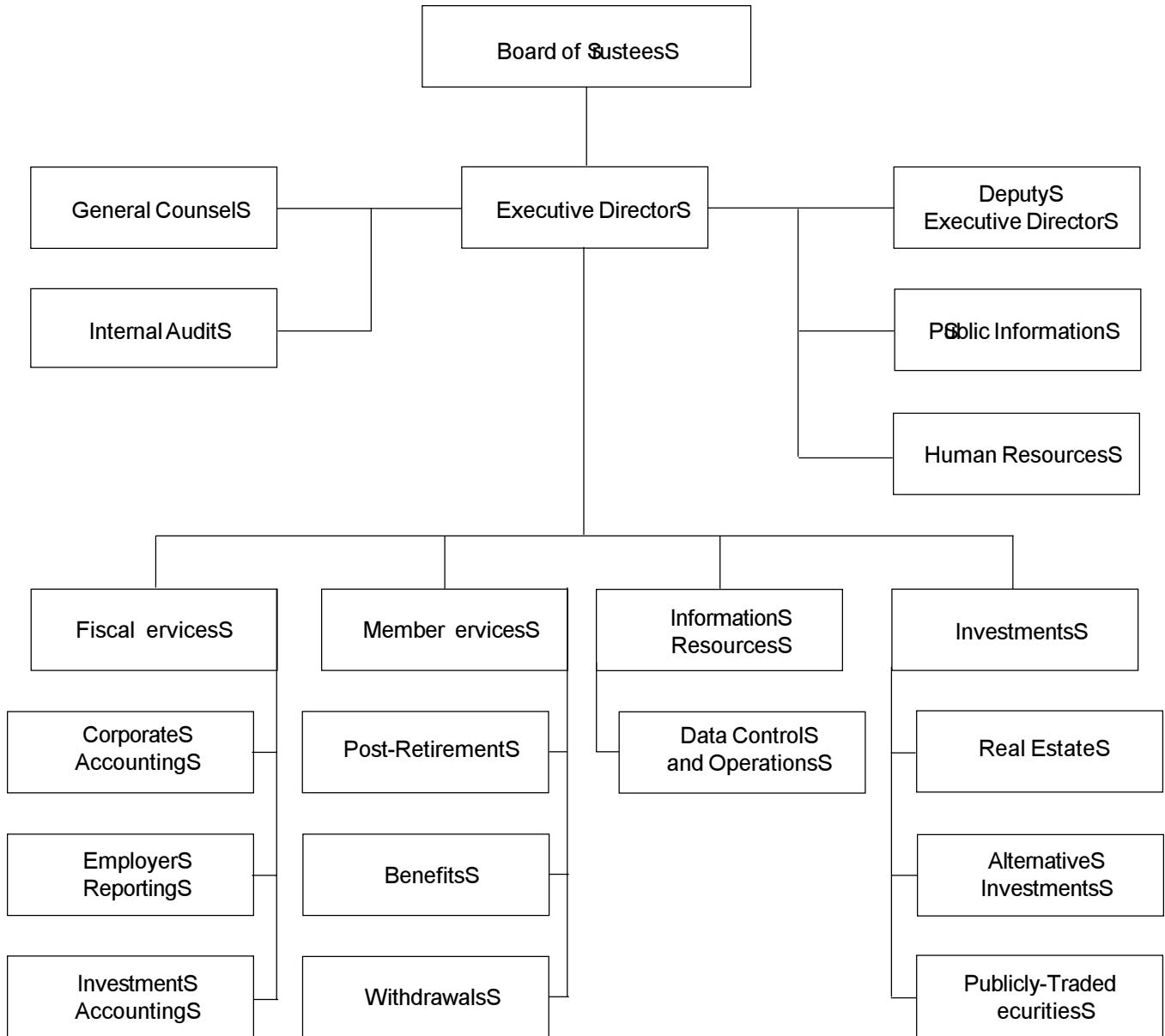
Appointed by the President of the Senate

RJORIE LEE WEBB

Shawnee Mission, retired teacher - currently teaching part-time in Shawnee Mission

Elected by school members

Organization Charts



* A list of KPERC consultants and investment advisors is found on page 109.E

Values That Guide KPS

SERVICE

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

INTEGRITY

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

RESPECT

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

ACCOUNTABILITY

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

INNOVATION

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

TEAMWORK

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

Financial Sections

2002 Comprehensive Annual Financial Report
Kansas Public Employees Retirement System



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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 (System) as of June 30, 2002, 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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.

As described in Note D the System has implemented a new financial reporting model, as required by the provisions of GASBD Statement No. 34, *Basic Financial Statement – and Management's Discussion and Analysis – for State and Local Governments*, as of June 30, 2002.

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, 2002, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 6, 2002 on our consideration of the System's internal control over financial reporting and our tests on its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with *Governments Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis included on pages D7 through 33 and the Required Supplementary Information on pages 34 through 36 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The accompanying introductory, investment, actuarial and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory, investment, actuarial and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

September 6, 2002

Berberich Trahan & Co., P.A.



MANAGEMENT'S DISCUSSION & ANALYSIS

This section presents management's discussion and analysis of the Kansas Public Employees Retirement System (KPERs) financial performance during the fiscal year ended June 30, 2002. It is presented as a narrative overview and analysis in conjunction with the Executive Director's Letter of Transmittal.

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

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

All three systems are part of a governmental, defined benefit, contributory plan covering substantially all 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 and Kansas school districts is mandatory, whereas participation by local political subdivisions is optional but irrevocable once elected.

FINANCIAL HIGHLIGHTS

- The System's net assets decreased by \$762.4 million or 7.9 percent. The decrease was primarily due to the decline of the domestic and international equity markets.
- As of December 31, 2001, the date of the most recent actuarial valuation, the Retirement System's funded ratio was 84.8 percent, compared with the December 31, 2000, funded ratio of 88.3 percent.
- The unfunded actuarial liability increased from \$1.305 billion at December 31, 2000, to \$1.780 billion at December 31, 2001.
- On a market value basis, this year's investment return rate was negative 4.7 percent, compared with last year's negative 7.3 percent rate of return.
- Monthly benefits paid to retirees and beneficiaries increased 14 percent from \$542.4 million in fiscal year 2001 to \$620 million in fiscal year 2002, primarily due to implementing the partial lump sum option offered to new retirees effective July 1, 2002.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- 1) General purpose financial statements
- 2) Notes to the financial statements
- 3) Required supplementary information
- 4) Other supplementary schedules

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

(1) General Purpose Financial Statements

A Statement of Plan Net Assets as of June 30, 2002, and a Statement of Changes in Plan Net Assets for the fiscal year ended June 30, 2002, are presented with the previous year's comparative information. These financial statements reflect the

resources available to pay benefits to retirees and other beneficiaries as of year-end, as well as the changes in those resources during the year.

(2) Notes to the Basic Financial Statements

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

- Note 1 provides a general description of the Retirement System, as well as a description of the plan benefits and overview of the contributions that are paid by employers and members. Information regarding a breakdown of the number of participating employers and members is also provided.
- Note 2 provides a summary of significant accounting policies, including the basis of accounting, investments, including investing authority, investment risk categorizations, and method used to value investments, and additional information about cash, securities lending and derivatives.

In Section H of note 2 is information regarding the Retirement System's required reserves. The various reserves include the Members Accumulated Contribution Reserve, Retirement Benefit Accumulation Reserve, Retirement Benefit Payment Reserve, Optional Term Life Insurance Reserve, Group Insurance Reserve Fund, the Expense Reserve and the Retiree Dividend Payment Reserve.

- Note 3 provides information about System funding policies and employer contributions made to the System by the three different funding groups.
- Note 4 describes System capital expenditure commitments to real estate and alternative investments. This section also generally describes potential System contingencies.

(3) Required Supplementary Information

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

(4) Other Supplementary Schedules

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

FINANCIAL ANALYSIS OF THE RETIREMENT SYSTEM

The System provides benefits to State of Kansas and other Kansas local and school employees. Benefits are funded by member and employer contributions and by investment earnings. Net assets held in trust for benefits at June 30, 2002, amounted to \$8.9 billion, a decrease of \$762 million (7.89 percent) from \$9.665 billion at June 30, 2001. Following are two summary schedules, Plan Net Assets and Changes in Plan Net Assets, comparing information from fiscal years 2001 and 2002.

Summary Comparative Statement of Plan Net Assets

	As of June 30, 2002	As of June 30, 2001	Percentage Change
Assets			
Cash and Deposits	\$ 6,715,665	\$ 3,773,970	77.95%
Receivables	1,485,832,660	1,702,352,062	(12.72)
Investments	9,300,425,561	9,859,321,920	(5.67)
Invested Securities Lending Collateral	1,544,443,171	1,189,370,279	29.85
Fixed Assets and Supplies Inventory	<u>2,804,738</u>	<u>3,149,286</u>	<u>(10.94)</u>
Total Assets	<u>12,340,221,795</u>	<u>12,757,967,517</u>	<u>(3.27)</u>
Liabilities			
Administrative	649,094	673,425	(3.61)
Benefits Payable	2,423,781	930,558	160.47
Investments Purchased	1,890,417,749	1,902,326,061	(0.63)
Securities Lending Collateral	<u>1,544,443,171</u>	<u>1,189,370,279</u>	<u>29.85</u>
Total Liabilities	<u>3,437,933,795</u>	<u>3,093,300,323</u>	<u>11.14</u>
NET ASSETS	<u>\$8,902,288,0</u>	<u>\$9,664,667,194</u>	<u>(7.89)%</u>

Summary Comparative Statement of Changes in Plan Net Assets

	Year Ended June 30, 2002	Year Ended June 30, 2001	Percentage Change
Additions			
Contributions	\$ 431,097,742	\$ 397,527,099	8.44%
Net Investment Income (Loss)	(467,057,944)	(802,850,006)	(41.83)
Net Income from Securities Lending Activity			
Securities Lending Activity	<u>3,310,985</u>	<u>4,723,223</u>	<u>(29.90)</u>
Total Net Investment Income	<u>(463,746,959)</u>	<u>798,126,783</u>	<u>(41.90)</u>
Other Miscellaneous Income	<u>137,633</u>	<u>175,815</u>	<u>(21.72)</u>
Total Additions	<u>(32,511,584)</u>	<u>(400,423,869)</u>	<u>(91.88)</u>
Deductions			
Monthly Retirement Benefits	627,704,056	550,674,064	13.99
Refunds	39,066,937	43,967,623	(11.15)
Death Benefits	8,694,809	8,227,488	5.68
Insurance Premiums and Benefits	47,625,764	46,456,603	2.52
Administrative	<u>6,776,044</u>	<u>6,843,434</u>	<u>(0.98)</u>
Total Deductions	<u>729,867,610</u>	<u>656,169,212</u>	<u>11.23</u>
NET INCREASE (decrease)	<u>(762,379,194)</u>	<u>(1,056,593,081)</u>	<u>(27.85)</u>
Net Assets Beginning of Year	<u>9,664,667,194</u>	<u>10,721,260,275</u>	<u>(9.86)</u>
Net Assets End of Year	<u>\$8,902,288,000</u>	<u>\$9,664,667,194</u>	<u>(7.89)%</u>

Additions to the System’s net assets held in trust for benefits include employer and member contributions, as well as investment income. Total contributions to the System increased from \$397.5 million in fiscal year 2001 to \$431.1 million in fiscal year 2002. The \$33.6 million increase in contributions is attributed to:

- 1) Increased active member salary base
- 2) Higher employer contribution rates for state, school and local members (with the rate from the previous year limited to a statutory cap)
- 3) Death and disability contributions resumed to the group insurance reserve fund. The moratorium on death and disability contributions that was in effect for all of fiscal year 2001 expired December 31, 2001. Beginning January 2002, these employer contributions resumed, and a total of \$14 million was accrued for fiscal year 2002.

The System suffered its second consecutive year of negative investment performance in fiscal year 2002. The System recognized a net investment loss of \$463 million for the 2002 fiscal year compared with a net investment loss of \$798.1 million for the 2001 fiscal year. Total return for the portfolio was negative 4.7 percent. System net investments amounted to \$8.8604 billion at June 30, 2002, which was \$772.1 million (8 percent) less than the \$9.6325 billion in total System investments at June 30, 2001. The Retirement System’s one-, three-, five- and 10-year investment performance against the assumed rate of investment return are shown in the chart below.

One Year	Latest 3 Years	Latest 5 Years	Latest 10 Years	Assumed Rate of Return
(4.70)%	0.10%	5.40%	9.42%	8.00%

At June 30, 2002, the System held \$4.3 billion in U.S. equity and international equity securities, a decrease of \$853 million from the 2001 fiscal year. U.S. equity and international equity securities earned returns of approximately negative 4.6 percent and negative 9.0 percent, respectively for the 2002 fiscal year. These compare with the Retirement System’s benchmark returns of negative 4.1 percent and negative 9.2 percent, respectively. The Board conducted the triennial asset-liability analysis during the 2002 fiscal year resulting in a rebalancing of the portfolio. One major change in the rebalancing was a shift from an allocation of 25 percent large capitalization stocks and 15 percent small capitalization stocks to an overall 33 percent allocation to the broad U.S. equity market.

The System held \$3.5 billion in U.S. debt and international debt securities, an increase of \$235 million from the 2001 fiscal year. In fiscal year 2002, the System began reporting a separate component of this group of assets, the Treasury Inflation Protected Securities (TIPS). The TIPS portfolio return was positive in both relative and absolute terms with a return of 1.1 percent versus the benchmark return of 1.0 percent. The performance of the System’s other fixed income securities during fiscal year 2002 was 5.2 percent compared with the benchmark of 5.9 percent. Real estate investments increased \$17 million to \$689.7 million at June 30, 2002. Real estate investments returned approximately 7.7 percent for the 2002 fiscal year versus the benchmark real estate return of 7.9 percent. The System held \$483.15 million in alternative investments, which was nearly unchanged from June 30, 2001 of \$482.3 million. Alternative investments earned a negative return of approximately 8.2 percent for the 2002 fiscal year which was less than the benchmark alternative investment return of a positive 16 percent. At June 30, 2002, the System held \$349.9 million in short-term investments, which was an increase of \$41.6 million from June 30, 2001.

The System earns additional investment income by lending investment securities to brokers. The brokers provide collateral to the System and generally use the borrowed securities to cover short sales and failed trades. The Retirement System invests cash collateral received from the brokers in order to earn interest. For the fiscal year 2002, net securities lending income amounted to \$3.31 million compared with \$4.72 million in fiscal year 2001.

Deductions from net assets held in trust for benefits include retirement, death, and survivor benefits, and administrative expenses. For the 2002 fiscal year retirement, death and insurance benefits amounted to \$723.1 million, an increase of \$73.8 million (11 percent) from the 2001 fiscal year. The increase in benefit payments was a result of at least two factors:

an increase in the number of retirees and the utilization of the partial lump sum option made available July 2001, by legislation passed in calendar year 2001. A total of \$61.8 million was paid to retirees electing this option.

For the 2002 fiscal year, System administrative expenses amounted to \$6.776 million compared with \$6.843 million in fiscal year 2001. The ratio of System administrative expenses to the number of members (approximately \$28 per member) continues to be very cost-efficient for a statewide retirement plan.

FUNDING STATUS

An actuarial valuation of the Retirement System's assets and benefit obligations is performed annually. At December 31, 2001, the most recent actuarial valuation, the funded status decreased to 84.8 percent from 88.3 percent at December 31, 2000. The unfunded actuarial liability was \$1.780 billion at December 31, 2001, compared with \$1.305 billion at December 31, 2000. This decrease in funded status relates primarily to two consecutive years of negative investment returns that are well below the assumed rate of return of 8.0 percent. Negative investment performance continued from January 2002 through June 30, 2002. The portfolio earned a negative 7 percent during this period. Subsequent to the fiscal year end June 30, 2002, the System's assets earned a negative 8.2 percent for the period July 2002, through September 30, 2002. The continued difficult financial market will have a negative impact on the System's funding status when the next valuation is performed December 31, 2002.

The System's consulting actuary has strongly recommended that future employer contributions be increased to improve the long-term funding of the KPERS State/School and Local groups. Under existing State law, increases in employer contributions for state, school and local members are capped. It is projected that the current allowable increases in contribution rates will not be sufficient to stop the unfunded actuarial liability from growing.

Absent changes in future contribution levels and using an 8 percent return assumption for 2000 and future years, the System's actuary projects the unfunded actuarial liability for the State/School group will grow to approximately \$4 billion and the funded ratio will decline to 72 percent by 2011. The actuarial employer rates will continue to increase, reaching double digits in about 2009. In addition to the overall financial deterioration, the System's cash flow needs and investment strategy would need to change to provide the liquidity needed to pay benefits. It is important to note that this is a long-term funding problem rather than an immediate crisis. The Retirement System will continue to make all benefit payments to members, and benefit payments are not in jeopardy. Many alternatives exist for increasing contributions to the Retirement System and improving the long-term funding outlook. The Retirement System's Board of Trustees and staff are committed to working with the Governor, members of the Legislature, the Division of Budget and local governments to develop a viable funding plan.

DEATH & DISABILITY PROGRAM

The Retirement System also administers the group insurance reserve fund as described in note 10 to the financial statements. The actuary performs an annual actuarial valuation of this fund, with the last valuation completed for June 30, 2001. At that time, the fund was 92.5 percent funded with assets of \$140.1 million. A moratorium on contributions was in place for the first six months of fiscal year 2002. The moratorium and negative investment performance caused assets to decrease to \$108.8 million at June 30, 2002. Calendar year 2002 legislation placed another moratorium on contributions to this fund for the first six months of fiscal year 2003. It is projected the funded ratio of this reserve will drop to less than 60 percent by the end of fiscal year 2003.

If contributions to this program were stopped entirely, the reserves would be depleted and the program would become pay-as-you-go (with considerably higher annual outlays) sometime in the next three years. A return to historical contributions (0.6 percent of payroll for all four quarters) will reduce the erosion of the reserves, but will not return the program to full funding. Eventually, the contribution rate will need to be increased to restore the funding to the 100 percent level. Staff have provided periodic funding updates on the program to the Legislature and Budget Division and will continue to work with these parties to develop a funding plan to restore the reserves of this program.

Statement of Plan Net Assets as of June 30, 2002r

With Comparative Figures for 2001d

	<u>2002 Totals0</u>	<u>2001 Totals0</u>
Assets0		
Cash and Depositsd		
Cashd	\$ 147,584d	\$ 39,596d
Deposits with Insurance Carrierd	<u>6,568,081d</u>	<u>3,734,374d</u>
Total Cash and Depositsd	<u>6,715,665d</u>	<u>3,773,970d</u>
Receivablesd		
Contributionsd	35,412,055d	26,810,833d
Investment Incomed	47,479,206d	52,953,550d
Sale of Investment Securitiesd	<u>1,402,941,399d</u>	<u>1,622,587,679d</u>
Total Receivablesd	<u>1,485,832,660d</u>	<u>1,702,352,062d</u>
Investments at Fair Valued		
Domestic Large Cap Equitiesd	2,362,695,304d	2,382,973,100d
Domestic Small Cap Equitiesd	469,424,856d	1,498,400,502d
International Equitiesd	1,449,504,908d	1,253,158,792d
Cash and Equivalentsd	349,882,452d	308,238,418d
Fixed Incomed	3,496,030,986d	3,261,550,326d
Alternative Investmentsd	483,148,414d	482,326,039d
Real Eated	<u>689,738,641d</u>	<u>672,674,743d</u>
Total Investmentsd	<u>9,300,425,561d</u>	<u>9,859,321,920d</u>
Invested Securities Lending Collaterald	<u>1,544,443,171d</u>	<u>1,189,370,279d</u>
Fixed Assets and Supplies Inventoryd	<u>2,804,738d</u>	<u>3,149,286d</u>
Total Asset0	<u>12,340,221,795d</u>	<u>12,757,967,517d</u>
Liabilities0		
Administrative Costsd	649,094d	673,425d
Benefits Payabled	2,423,781d	930,558d
Securities Purchased	1,890,417,749d	1,902,326,061d
Securities Lending Collaterald	<u>1,544,443,171d</u>	<u>1,189,370,279d</u>
Total Liabilities0	<u>3,437,933,795d</u>	<u>3,093,300,323d</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$8,902,288,000d</u>	<u>\$9,664,667,194d</u>

A schedule funding progress for the plan is presented on page 34.

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, 2002 with Comparative Figures for 2001

	<u>2002 Total</u>	<u>2001 Total</u>
Additions		
Contributions		
Member Contributions	\$209,624,015	\$204,142,810
Employer Contributions	<u>221,473,727</u>	<u>193,384,289</u>
Total Contributions	<u>431,097,742</u>	<u>397,527,099</u>
Investments		
Net Appreciation in Fair Value of Investments	(676,384,745)	(1,061,275,002)
Interest	159,209,184	201,483,091
Dividends	24,416,401	37,639,689
Real Estate Income, Net of Operating Expenses	44,792,323	41,997,152
Other Investment Income	<u>667,029</u>	<u>556,969</u>
(447,299,808)	(779,598,101)	
Less Investment Expenses	<u>(19,758,136)</u>	<u>(23,251,905)</u>
Net Investment Loss	<u>(467,057,944)</u>	<u>(802,850,006)</u>
From Securities Lending Activities		
Securities Lending Income	<u>33,310,814</u>	<u>62,950,106</u>
Securities Lending Expenses		
Borrower Rebates	(28,577,302)	(56,202,763)
Management Fees	<u>(1,422,527)</u>	<u>(2,024,120)</u>
Total Securities Lending Activities Expensed	<u>(29,999,829)</u>	<u>(58,226,883)</u>
Net Income from Security Lending Activities	<u>3,310,985</u>	<u>4,723,223</u>
Total Net Investment Loss	<u>(463,746,959)</u>	<u>(798,126,783)</u>
Other Miscellaneous Income	<u>137,633</u>	<u>175,815</u>
Total Additions (Net Reductions)	<u>(32,511,584)</u>	<u>(400,423,869)</u>
Deductions		
Monthly Retirement Benefits	(627,704,056)	(550,674,064)
Refunds of Contributions	(39,066,937)	(43,967,623)
Death Benefits	(8,694,809)	(8,227,488)
Insurance Premiums and Benefits	(47,625,764)	(46,456,603)
Administrative Expenses	<u>(6,776,044)</u>	<u>(6,843,434)</u>
Total Deductions	<u>(729,867,044)</u>	<u>(656,169,212)</u>
NET INCREASE (decrease)	(762,379,194)	(1,056,593,081)
Net Asset Held in Trust for Pension Benefit		
Balance Beginning of Year	<u>9,664,667,194</u>	<u>10,721,260,275</u>
Balance End of Year	<u>\$8,902,288,000</u>	<u>\$9,664,667,194</u>

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

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 state-wide pension groups under one plan, as provided by K.S.A. 74, article 49:

- Kansas Public Employees Retirement System (KPERS)
- Kansas Police and Firemen’s Retirement System (KP&F)
- Kansas Retirement System for Judges (Judges)

All three systems are part of a tax-exempt, defined benefit, contributory plan covering substantially all public employees in Kansas. The Kansas Retirement System for Judges is a single employer group, while the other two are multi-employer cost-sharing groups. 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

	<u>KPERS</u>	<u>KP&F</u>	<u>Judges</u>
State of Kansas	1	1	1
Counties	105	19	—
Cities	354	45	—
Townships	53	—	—
School Districts	304	—	—
Libraries	115	—	—
Conservation Districts	82	—	—
Extension Councils	79	—	—
Community Colleges	45	—	—
Recreation Commissions	37	—	—
Hospitals	30	—	—
Cemetery Districts	14	—	—
Other	150	—	—
TOTAL	<u>1,369</u>	<u>650</u>	<u>10</u>

Membership by Retirement Systems

	<u>KPERS</u>	<u>KP&F</u>	<u>Judges</u>	<u>Total</u>
Retirees and beneficiaries currently receiving benefits	52,747	3,175	147	56,069
Terminated employees entitled to benefits	7,068	91	16	7,175
Inactive members not entitled to benefits	23,373	652	1	24,026
Current employees	146,435	6,872	250	153,557
TOTAL	<u>229,623</u>	<u>10,790</u>	<u>4140</u>	<u>240,827</u>

KPERS members' benefits vest with 10 years of credited service. KP&F members' benefits vest with 10 years of credited service for Tier I, and with 15 years of credited service for Tier II. Normally 10 years of credited service is required for Retirement System for Judges members to become vested.

B. PLAN BENEFITS

Members (except KP&F members) with 10 or more years of credited service, may retire as early as age 55 (KP&F members may be age 50 with 10 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 10 years, or age 50 with 10 years). Monthly retirement benefits are based on a statutory formula that includes final average salary and years of service. When ending 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 lose all rights and privileges of membership.

Members choose one of seven options to receive their monthly retirement benefits. Effective July 2001, at retirement a member may receive a lump-sum payment of up to 50 percent of the actuarial present value of the member's lifetime benefit. His or her monthly retirement benefit is then permanently reduced. 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.

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

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

C. CONTRIBUTIONS

Member contributions (from 4 percent to 7 percent of gross compensation), employer contributions and net investment income fund Retirement System reserves. Member contribution rates are established by state law and are paid by the 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, Kansas legislation placed statutory limitations on annual increases in the contribution rates for KPERS employers of 1 percent of payroll over the prior year. During the 1995 legislative session, the statutory limits were increased to 2 percent of payroll over the prior year for fiscal years beginning in 1996 for state and school employers. The statutory increase for local units of government was amended to limit increases to no more than 1.5 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 1993. Employer contributions for group life insurance and long-term disability income benefits are set by statute at 6 percent of covered payroll for KPERS and 4 percent for Judges.

However, legislation passed in 2000 and 2001 placed a moratorium on contributions related to the group life insurance and disability benefits effective for the period April 1, 2000 through December 31, 2001. Calendar year 2002 legislation placed another moratorium on contributions to this fund for the first six months of fiscal year 2003.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

B. BASIS OF ACCOUNTING

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

C. NEW ACCOUNTING STANDARDS

In June 1999, the Governmental Accounting Standards Board issued GASB No. 34 "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" (GASB No. 34). GASB No. 34 establishes accounting and financial reporting standards for general purpose external financial reporting by state and local governments. GASB No. 34 establishes specific standards for basic financial statements, management's discussion and analysis and certain required supplementary information.

The adoption of GASB 34 required the Retirement System to present Management's Discussion and Analysis. The Management's Discussion and Analysis is considered to be required supplementary information and precedes the financial statements. The adoption of GASB 34 did not have an impact on the net assets of KPERS' funds.

C. USE OF ESTIMATES

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

D. 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.

E. CASH AND DEPOSITS

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

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

.DCollateralized with securities held by the pledging financial institution's trust department or custodian in the name of the State of Kansas; and,D

3.DUncollateralized.D

As of June 30, 2002, the cash deposits of \$147,584 held by the State Treasurer were in credit risk category "1." The Retirement System's deposits with its insurance carrier were \$6,568,081 at June 30, 2002, and were in credit risk category "3."

F. INVESTMENTS

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

Statutory authority for the Retirement System's investment program is provided in K.S.A. 74-4901, et seq., effective July 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.
- Limits the allocation of private placements and other alternative (non-publicly traded) investments to 5 percent of the total investment assets of the fund, but if market forces increase allocation above the 5 percent limitation, it 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 to invest and reinvest fund assets.
- Authorizes the Board to hire qualified professionals/firms to assist in investing the fund and requires that such professionals/firms obtain errors and omissions insurance coverage and fidelity bond insurance coverage.
- Authorizes the Board to pay for the services of retained professionals/firms at the rates fixed by the Board, excluding any reimbursement for expenses and subject to the provisions of the appropriations acts.
- Provides for an annual audit and requires that the Board annually examine the investment program, specific investments, and its policies and practices.

At June 30, 2002, the Retirement System did not have investments (other than those issued by the U.S. government) in any one organization representing 5 percent or more of the System's assets.

The Retirement System's permissible investment categories include:

- 1) Equities
- 2) Fixed income securities
- 3) Cash equivalents
- 4) Real estate

- 5) Derivative products
- 6) Alternative investments

In fulfilling its responsibilities, the Board of Trustees has contracted with investment management firms and a master global custodian. Presently the Retirement System has investments in the financial futures market. Futures contracts are contracts for delayed delivery or receipt of securities in which the seller agrees to make delivery and the buyer agrees to take delivery at a specified future date, of a specified instrument, at a specified price. Market risk arises due to market price and interest fluctuations that may result in a decrease in the fair value of futures contracts. Futures contracts are traded on organized exchanges and require initial margin in the form of cash or marketable securities. Daily the net change in the futures contract value is settled in cash with the exchanges. Holders of futures contracts look to the exchange for performance under the contract. Accordingly the credit risk due to nonperformance of counterparties to futures contracts is minimal. At June 30, the Retirement System had futures contracts with a fair value of approximately \$123,000,000. Cash equivalents and short-term investments in amounts necessary to settle the futures contracts were held in the portfolio so that no leverage was employed, in accordance with the Statement of Investment Policy.

The Retirement System's Statement of Investment Policy authorizes participation in a securities lending program administered by the master global custodian, Mellon Trust. The System receives income from the loan of the securities, in addition to the income which accrues to the System as owner of the securities. The securities loans are open contracts and therefore could be terminated at any time by either party. The type of securities lent include U.S. Government securities, domestic and international equities, and domestic and international bonds.

The borrower collateralizes the loan with either cash or government securities of 102 percent of fair value on domestic securities and 105 percent of fair value on international securities loaned. Cash collateral is invested in the Retirement System's name in a dedicated short-term investment fund consisting of investment grade debt securities. The System does not have the ability to pledge or sell collateral securities without a borrower default. At June 30, 2002, the maturities of securities in this dedicated bond portfolio are as follows: 60 percent of the fair value of the securities mature within 30 days; 28 percent mature between 31 and 80 days; and 12 percent mature after 80 days.

The custodian provides for full indemnification to the Retirement System for any losses that might occur in the event of borrower default. Therefore, the Retirement System does not incur any credit risk as it relates to this activity. The securities on loan are marked to market daily to ensure the adequacy of the collateral. The fair value of securities on loan as of June 30, 2001, and June 30, 2002, were \$1,171,292,774 and \$1,525,751,916, respectively. Collateral held by the Retirement System for June 30, 2001, and June 30, 2002 was \$1,204,341,568 and \$1,568,498,413, respectively. Net income produced from securities lending activities for fiscal year 2001 was \$4,723,223 and for fiscal year 2002 was \$3,310,985.

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

All forward foreign currency contracts are carried at fair value by the Retirement System. As of June 30, 2002, the System had sold forward currency contracts with a fair value of \$1,141,220,714 and had bought forward currency contracts with a fair value of \$1,161,303,748. Purchases of forward currency contracts are liabilities reported as Securities Purchased, and sales of forward currency contracts are receivables reported as Sale of Investment Securities.

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

The Retirement System internally manages a Treasury Inflation Protected Securities (TIPS) portfolio. TIPS are fixed income securities issued by the U.S. Treasury that pay a fixed coupon rate plus an adjustment for subsequent inflation. At June 30, 2002, the Retirement System had invested in TIPS with a fair value of approximately \$829,400,000.

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 page below as "not subject to classification." The schedule distributes by asset class the fair values of investments.

Investments:	Asset Classification			Fair Value
	1	2	3	
Subject to Classification				
Domestic Large Cap Equities	\$2,348,557,783	—	\$ —	\$ 2,348,557,783
Domestic Small Cap Equities	464,944,340	—	—	464,944,340
International Equities	1,233,495,989	—	—	1,233,495,989
Fixed Income	2,270,139,631	—	324,361,072	2,594,500,703
Cash Equivalents				
Corporate Notes	114,918,035 (1)	—	1,112,647,000 (2)	1,227,565,035
Federal Agency	179,517,926 (1)	—	—	179,517,926
Foreign Currency	10,565,757	—	—	10,565,757
Total Subject to Classification	\$6,622,139,461	—	\$1,437,008,072	8,059,147,533
Not Subject to Classification:				
Alternative Investments (3)				483,148,414
Real Estate				689,738,506
Mutual Funds				
Cash Equivalents				110,664,967
Securities On Loan (4)				1,502,169,312
Total Not Subject to Classification:				2,785,721,199
TOTAL INVESTMENTS				\$10,844,868,732

1) 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) Alternative investments include direct placements and investments in limited partnerships.

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

G. FIXED ASSETS AND SUPPLIES INVENTORY

Furniture, fixtures and equipment are reported on the Statement of Plan Net Assets at historical cost, net of accumulated depreciation. These assets are depreciated on a straight-line basis over an average useful life of three to ten years with no salvage value. Accumulated depreciation on furniture, fixtures, and equipment as of June 30, 2002, was \$3,239,893. Office supplies inventory in the amount of \$10,150 is included, assuming the first-in, first-out method.

In fiscal year 1999, the Retirement System purchased an office building and garage in Topeka, Kansas. Fifty percent of the floor space of the office building is used as the System's administrative headquarters and the remaining 50 percent is a real estate investment. The administrative portion of the building and garage are reported on the Statement of Plan Net Assets as a fixed asset and are being depreciated. At June 30, 2002, the carrying value of the System's administrative headquarters was \$2,602,837.

H. COMPENSATED AND ACCRUED BENEFITS

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

- 1) Accumulation of 800 hours
- 2) Minimum of eight years of credited service
- 3) Termination with the State of Kansas on or after attainment of retirement age. If all conditions are met, the employee will be compensated in accordance with applicable personnel regulations. The minimum amount of sick leave to be compensated is 30 days; the maximum amount is 60 days.

I. RESERVES

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

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

Various Reserves

The *Members Accumulated Contribution Reserve* represents the accumulation of member contributions plus interest credited to individual member accounts of non-retired members. At the date of retirement the individual member's account is transferred to the Retirement Benefit Payment Reserve. After ending employment and applying for withdrawal, employee contributions plus accumulated interest are charged to this reserve. Interest is credited to active member accounts on June 30 each year based on the balance in the account as of the previous December 31. The interest crediting rate, defined by statute as the actuarial interest assumption rate, is 8 percent for those who became members prior to July 1993. For those who first became members after June 30, 1993, interest on employee contributions is credited at the rate of 4 percent per year. The balance at June 30, 2002, was \$3,396,757,582, 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, 2002, was \$2,260,161,412. The unfunded liability was \$1,780,133,858.

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, 2002, was \$4,895,350,373, and was fully funded.

The *Optional Term Life Insurance Reserve* accumulates employee contributions to pay premiums for optional life insurance coverage and is charged annually with the cost of administering the program. The balance at June 30, 2002, was \$34,922, and was fully funded.

The *Group Insurance Reserve Fund* represents employer contributions, which pay 100 percent of the cost of group life insurance and long-term disability coverage. Insurance premiums and benefits consist of:

-) Claims paid under the insurance contract

-) Deposits made by the Retirement System to pay disability benefits to eligible participants. An actuarial valuation of this fund was last completed for June 30, 2001. At that time, the fund was 92.5 percent funded with assets of \$140.1 million. A moratorium on contributions was in place for the first six months of fiscal year 2002. Calendar year 2002 legislation placed another moratorium on contributions to this fund for the first six months of fiscal year 2003. The balance at June 30, 2002, was \$108,817,414 and remains less than fully funded.

The *Expense Reserve* represents investment income which is sufficient to maintain a year end account balance at two times the most recent fiscal year's administrative expense amount. The System's administrative expenses are financed from this reserve. The balance at June 30, 2002, was \$13,555,167, and was fully funded.

The *Retirant Dividend Payment Reserve* approximates the prior year's retirant dividend payment. K.S.A. 74-49,100 establishes a formula, using the previous year's investment results and the prior and current year's maximum level of benefits to determine the amount to be credited to this reserve. Retirant dividend payments (commonly referred to as the 13th check) are charged to this reserve. The balance at June 30, 2002, was \$7,744,988, and was fully funded.

J. BUDGET

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

K. NON-RETIREMENT FUNDS

The 2000 legislative session assigned to the Retirement System the investment responsibilities of two funds with non-retirement money. K.S.A. 75-5321(a) established the Senior Services Trust Fund and this fund exists solely to provide income to the nursing facility service payment program, the home and community based nursing facility program, and the income eligible (home care) program. The Treasurer's Unclaimed Property Fund was established to provide investment earnings available for periodic transfer to the State Treasury for the credit of the State General Fund. During the 2000 legislative session, management of the investments in this fund was transferred to the Retirement System. Legislation was also provided to defray the reasonable expenses of administering these funds. At June 30, 2002, investments under management were \$43,488,953 for the Senior Services Trust Fund and \$83,167,476 for the Treasurer's Unclaimed Property Fund.

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 determine the contribution required to discharge the System's liabilities. The actuary then recommends to the System's Board of Trustees the employer contribution rates required to maintain the Retirement System on the actuarial reserve basis. Every three years, the actuary makes a general investigation of the actuarial experience under the System including mortality, retirement and employment turnover. The actuary recommends actuarial tables for use in valuations and in calculating actuarial equivalent values based on such investigation. An actuarial experience study was conducted for the three

years ending December 31, 2000. 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 legislation that amended the Retirement System's statutory funding method. It was changed from the frozen initial liability method to the projected unit credit actuarial cost method. The law also provided that this method be used to determine KPERS employer contribution rates beginning 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 1993. The funding methods used by the Retirement System's actuary for the KP&F and the Judges systems were not changed. They were the aggregate cost method with supplemental liability and the frozen initial liability method, respectively. The actuary has estimated the change in the unfunded actuarial liability between December 31, 2000, and December 31, 2001, can be attributed to the following (in millions):

Unfunded Actuarial Liability, December 31, 2001	\$1,305
Effect of contribution cap/time lag	115
Expected decrease due to amortization method	14
Loss from investment return	350
Liability experienced	18
All other experienced	(27)
Change in benefit provisions	0
Change in actuarial assumptions	0
Changes arising from audit	5
Unfunded Actuarial Liability, December 31, 2000	<u>\$1,780</u>

B.r CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS RECEIVED

KPERS. The actuarially determined contribution rates are computed as a level percentage of payroll by the Retirement System's actuary. For the State/School, Correctional and TIAA members, the results of 1998 and 1999 actuarial valuations provide the basis for Board certification of employer contribution rates for fiscal years 2001 and 2002, respectively. As explained in Note D, 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 with the actuarially determined rates. The actuarially determined employer contribution rates (not including the 60 percent contribution rate for the Death and Disability Program) and the statutory contribution rates for fiscal years 2001 and 2002 are as follows:

Fiscal Year	State/School		Corrections		TIAA	
	Actuarial Rate	Statutory Rate	Actuarial Rate	Statutory Rate	Actuarial Rate	Statutory Rate
2001	5.55%	3.98%	6.88/7.09%	6.88/7.09%	1.21%	1.21%
2002	5.40%	4.18%	6.67/6.84%	6.67/6.84%	1.43%	1.43%

The results of 1999 and 2000 actuarial valuations provide the basis for Board certification of local employer contribution rates for fiscal years beginning in 2001 and 2002, respectively. The actuarially determined employer contribution rates and statutory contribution rates for fiscal years 2001 and 2002 are as follows:

Fiscal Year	Local	
	Actuarial Rate	Statutory Rate
2001	3.28%	2.77%
2002	3.47%	2.92%

KP&F. The uniform participating service rate for all KP&F employers was 6.97 percent for the fiscal year beginning in 2001 and 6.79 percent for the fiscal year beginning in 2002. KP&F employers also make contributions to amortize the liability for past service costs, if any, which are determined separately for each participating employer.

Judges. The total actuarially determined employer contribution rate was 15.74 percent of payroll for the fiscal year ended 2001 and 12.88 percent of payroll for the fiscal year ended 2002.

The law specifies employee contributions as: Each participating employer beginning with the first payroll for services performed after the entry date, shall deduct from the compensation of each member an amount equal to 4 percent for KPERSD members, 7 percent for KP&F members, and 6 percent 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	\$156,888	\$135,219	8.8%
KPERS - Local	33,683	44,364	8.8
KP&F	28,245	21,045	19.8
Judges	2,658	1,052	19.7
TOTAL	\$221,474	\$201,680	9.4%

An estimated \$348 million of employer & employee contributions were made above normal cost, and an estimated \$62 million were made for the amortization of the unfunded actuarial accrued liability, and \$14 million for insurance contributions.

1) Member contributions do not include Optional Life Insurance contributions of approximately \$7.9 million.

C. HISTORICAL TREND INFORMATION

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

NOTE 4 - COMMITMENTS AND CONTINGENCIES

As of June 30, 2002, the Retirement System was committed to additional funding of \$8,392,000 in the form of capital expenditures on separate account real estate holdings in the portfolio, \$489,039,000 for commitments on venture capital investments and \$44,974,000 for capital calls on real estate property trusts investments.

The Retirement System is a defendant in legal proceedings and claims arising out of the ordinary course of business. The Retirement System believes it has adequate legal defenses and that the ultimate outcome of these actions will not have a material adverse effect on the Retirement System's financial position.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Employer Contributions

<u>Year Ended</u> <u>June 30</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
1993d	\$116,407,549d	100.0%d
1994d	117,581,812d	100.0d
1995d	129,083,585d	100.2d
1996 (1)d	173,927,737d	82.5d
1997d	199,521,423d	74.7d
1998d	216,270,482d	77.3d
1999d	256,813,541d	79.0d
2000d	234,941,116d	80.6d
2001d	277,096,692d	77.6d
2002d	289,519,647d	79.7d

1) For fiscal years ending after June 30, 1996, the actual contributions for KPERS employers were substantially lower than the actuarially required amount, due to statutory limitations on annual increases as discussed in Note 1C.3

Schedule of Funding Progress

(Dollar amounts in thousands)

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u> <u>(a)</u>	<u>Actuarial Accrued</u> <u>Liability (AAL)</u> <u>(b)</u>	<u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u> <u>(b - a)</u>	<u>Funding</u> <u>Ratio</u> <u>(a/b)</u>	<u>Covered</u> <u>Payroll</u> <u>(c)</u>	<u>UAAL as a</u> <u>Percentage of</u> <u>Covered Payroll</u> <u>((b - a)/c)</u>
06/30/93 (1)d	\$4,492,542d	\$ 5,460,281d	\$ 967,739d	82%d	\$3,265,869d	30%d
06/30/94 (2)d	5,041,703d	6,546,924d	1,505,221d	77d	3,487,462d	43d
06/30/95d	5,510,957d	6,991,029d	1,480,072d	79d	3,766,917d	39d
06/30/96d	6,158,755d	7,603,111d	1,444,356d	81d	3,945,207d	37d
06/30/97d	6,875,918d	8,251,986d	1,376,068d	83d	4,108,320d	33d
06/30/98d	7,749,203d	9,340,685d	1,591,482d	83d	4,273,627d	37d
06/30/99d	8,601,876d	9,999,246d	1,397,370d	86d	4,480,717d	31d
06/30/00d	9,568,275d	10,801,397d	1,233,122d	89d	4,684,768d	26d
12/31/00 (3)d	9,835,182d	11,140,014d	1,304,832d	88d	4,876,555d	27d
12/31/01d	9,962,918d	11,743,052d	1,780,134d	85d	5,116,384d	35d

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.

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

REQUIRED SUPPLEMENTARY 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.

	<u>KPERS System</u>	<u>KP&F System</u>	<u>Judges System</u>
Valuation Dated	12/31/01	12/31/01	12/31/01
Actuarial cost method	Projected Unit Cred	Aggregate Cost with Supplemental Liabilities (2)	Frozen Initial Liability
Amortization method	Level Percent closed	Level Percent closed	Level Dollar closed
Remaining amortization period	31 years	31 years	31 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)	8.0%	8.0%	8.0%
Projected salary increases (1)	4.0%–9.8%	4.0%–12.5%	5.5%
Cost of Living Adjustment	none	none	none

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

2) The aggregate cost method used for KP&F does not directly calculate an unfunded actuarial liability each year. A supplemental liability consisting of the additional actuarial liability for benefits provided by 1993 legislation was established in 1993 and was "frozen." Changes to the unfunded actuarial liability after 1993 reflected only scheduled amortization payments, changes in benefit provisions and assumption changes.

As the result of favorable experience from 1993 to 2000 and a change in the actuarial assumptions resulting from the 2001 Experience Study, the supplemental liability was established. The actuarial value of assets exceeds the actuarial liability to the supplemental liability was set to zero. The remaining unfunded actuarial liability amortization bases were established as a result of the 1998 COLA and are being amortized over a 15-year period, beginning in 2000.

SUPPLEMENTARY INFORMATION

Schedule of Contributions For the Fiscal Year Ended June 30, 2002

Kansas Public Employees Retirement System

State / School Contributions		
Members	\$135,219,400	
Employers	140,135,347	
Insurance *d	<u>8,928,564</u>	
Total State / School Contributions		\$284,283,311
Local Contributions		
Members	44,364,360	
Employers	30,405,597	
Insurance *d	<u>3,277,830</u>	
Total Local Contributions		78,047,787
State Contributions - KPERS TIAA		
Employers	6,209,333	
Insurance *d	<u>1,614,288</u>	
Total KPERS TIAA State Contributions		<u>7,823,621</u>

Total Contributions - Kansas Public Employees Retirement System \$370,154,7190

Kansas Police and Firemen's System

State Contributions		
Members	2,122,348	
Employers	<u>2,591,320</u>	
Total State Contributions		4,713,668
Local Contributions		
Members	18,922,184	
Employers	<u>25,653,305</u>	
Total Local Contributions		<u>44,575,489</u>

Total Contributions - Kansas Police and Firemen's System 49,289,1570

Kansas Retirement System for Judges

State Contributions		
Members	1,051,781	
Employers	2,616,142	
Insurance *d	<u>42,000</u>	
Total State Contributions		<u>3,709,923</u>

Total Contributions - Kansas Retirement System for Judges 3,709,9230

Optional Life Insurance

Member Contributions		
State Employees	4,250,525	
Local Employees	<u>3,693,418</u>	
Total Contributions		<u>7,943,943</u>

Total Contributions - Optional Life Insurance 7,943,9430

TOTAL - ALL CONTRIBUTIONS \$431,097,7420

*3 Per 2001 legislation, employers were not required to remit the Group Life and Disability portion of the actual employer contribution rate from July 1, 2001 through December 31, 2001.3

Schedule of Administrative Expenses For the Fiscal Year Ended June 30, 2002r

Salaries and Wages		\$4,332,294d
Professional Services		
Actuarial	\$210,000d	
Legal	13,638d	
Data Processing	302,811d	
Ad	32,500d	
Other Professional Services	<u>70,000d</u>	
Total Professional Services		628,949d
Communication		
Postage	231,420d	
Telephone	91,013d	
Printing	103,922d	
Advertising	<u>7,376d</u>	
Total Communication		433,731d
Building Administration		
Real Estate Taxes	85,175d	
Building Management	65,800d	
Utilities	57,641d	
Janitorial Services	43,115d	
Office and Equipment Rent	<u>24,128d</u>	
Total Building Administration		275,859d
Miscellaneous		
Travel and Training	185,516d	
Temporary Services	111,151d	
Supplies	153,395d	
Repair and Service Agreements	80,997d	
Dues and Subscriptions	29,685d	
Fees-Other Services	23,561d	
Depreciation	<u>520,906d</u>	
Total Miscellaneous		<u>1,105,211d</u>
TOTAL ADMINISTRATIVE EXPENSES		<u>\$6,776,044</u>

Schedule of Investment Income by Asset Class

For the Fiscal Year Ended June 30, 2002d

Asset Classification	Interest, Dividends and Other Transactions	Gains and (Losses)	Total
Marketable Equity Securities			
Domestic Large Capitalization	\$23,784,610d	\$(502,570,591)d	\$(478,785,981)d
Domestic Small Capitalization	2,569,004d	(68,282,145)d	(65,713,141)d
International Equities	<u>25,371,045d</u>	<u>(152,495,264)d</u>	<u>(127,124,219)d</u>
Subtotal Marketable Equity	<u>51,724,659d</u>	<u>(723,348,000)d</u>	<u>(671,623,341)d</u>
Marketable Fixed Income Securities			
Domestic Fixed Income			
Government	73,565,879d	96,634,176d	170,200,055d
Corporated	<u>76,407,183d</u>	<u>(42,399,612)d</u>	<u>34,007,571d</u>
Subtotal Marketable Fixed	<u>149,973,062d</u>	<u>54,234,564d</u>	<u>204,207,626d</u>
Temporary Investments	<u>7,777,409d</u>	<u>1,710,423d</u>	<u>9,487,832d</u>
Total Marketable Securities	<u>209,475,130d</u>	<u>(667,403,013)d</u>	<u>(457,927,883)d</u>
Real Estate	44,792,323d	6,353,478d	51,145,801d
Alternative Investments	<u>(25,849,545)d</u>	<u>(15,335,210)d</u>	<u>(41,184,755)d</u>
Total Real Estate and Alternative Investments	<u>18,942,778d</u>	<u>(8,981,732)d</u>	<u>9,961,046d</u>
Other Investment Income			
Securities Lending	3,310,985d	—d	3,310,985d
Recoveries from Litigation	1,984d	—d	1,984d
Recaptured Broker Commission	328,877d	—d	328,877d
Miscellaneous Income	<u>336,168d</u>	<u>—d</u>	<u>336,168d</u>
Total Other Investment Income	<u>3,978,014d</u>	<u>—d</u>	<u>3,978,014d</u>
Investment Income	<u>\$232,395,922d</u>	<u>\$(676,384,745)d</u>	<u>(443,988,823)d</u>
Manager and Custodian Fees and Expenses			
Investment Manager Fees			(17,952,527)d
Custodian Fees and Expenses			(1,014,758)d
Other Investment Expenses			<u>(790,851)d</u>
Total Investment Fees and Expenses			<u>(19,758,136)d</u>
NET INVESTMENT INCOME			<u>\$(463,746,959)0</u>

Schedule of Investment Fees and Expenses

For the Fiscal Year Ended June 30, 2002d

Domestic Equity Large Capitalization Managers0		
Barclays Global Investorsd	\$1,453,743d	
Provident Investment Counseld	271,668d	
Wellington Management Co.d	<u>1,477,819d</u>	
Subtotal Equity Large Capitalization Managers0		\$3,203,230
Domestic Equity Small Capitalization Managers0		
Barclays Global Investorsd	2,206,780d	
Capital Guardian Trust Co.d	776,990d	
Pilgrim, Baxter & Associatesd	<u>210,853d</u>	
Subtotal Equity Small Capitalization Managers0		3,194,6230
International Equity Managers0		
Alliance Capital Managementd	580,768d	
Lazard Freres Asset Managementd	1,276,194d	
Morgan Stanley Asset Managementd	1,008,611d	
Nomura Capital Managementd	<u>533,843d</u>	
Subtotal International Equity Manager0		3,399,4160
Fixed Income Managers0		
The Boston Companyd	267,356d	
Julius Baer Investment Managementd	439,943d	
Loomis, Sayles & Co.d	1,245,475d	
Pacific Investment Management Co.d	1,183,750d	
Payden & Rygel Investment Counseld	832,514d	
Western Asset Management Co.d	<u>203,207d</u>	
Subtotal Fixed Income Managers0		4,172,2450
Foreign Currency Overlay Manager0		
Pareto Partnersd	<u>1,017,560d</u>	
Subtotal Foreign Currency Overlay Manager0		1,017,560
Real Estate and Alternative Investment Managers0		
Lend Leased	1,733,500d	
L & B Core Group Trustd	73,888d	
Portfolio Advisorsd	<u>1,016,848d</u>	
Subtotal Real Estate and Alternative Managers0		2,824,2360
Cash Equivalent Manager0		
Payden & Rygel Investment Counseld	<u>141,217d</u>	
Subtotal Cash Management0		141,2170
Total Investment Management Fees0		17,952,5270
Other Fees and Expenses0		
Mellon Trust - Custodian Fees and Expensesd	1,014,758d	
Consultant Feesd	538,644d	
Litigation Expensesd	<u>252,207d</u>	
Subtotal Other Fees and Expenses0		1,805,6090
TOTAL0		<u>\$19,758,1360</u>

Investment Sections

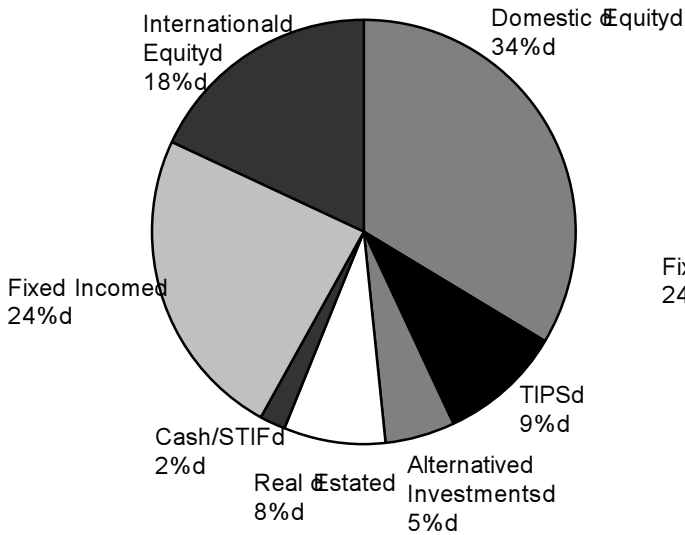
2002 Comprehensive Annual Financial Report
Kansas Public Employees Retirement System

CHIEF INVESTMENT OFFICER'S REVIEW

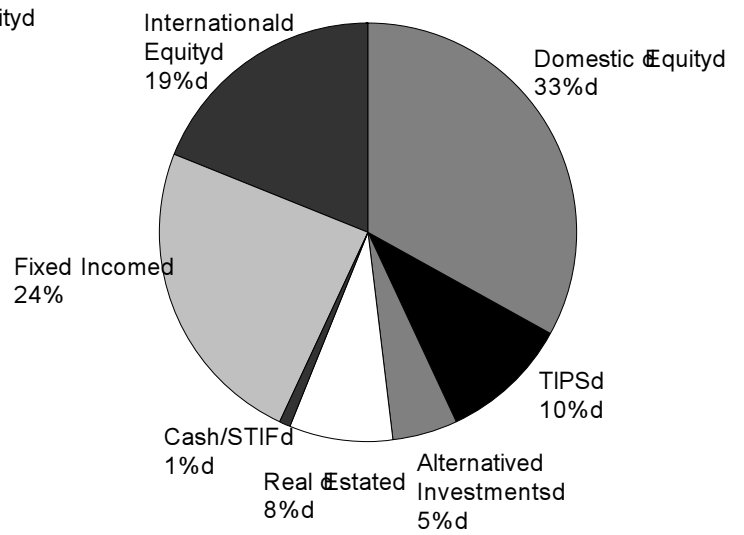
Robert Woodard

The investment portfolio of the Kansas Public Employees Retirement System represents all contributions to the plan, from both members and their employers, as well as all net earnings on these assets. These reserves are held in support of both current and future benefits to which members have earned entitlement. Total assets at the end of the year were slightly over \$8.8 billion. This money receives the benefit of a diversified, carefully monitored investment portfolio that includes stocks, bonds, real estate, alternative investments and cash.

Current Allocation



Target Allocation



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 generally operate independently, an exposure to foreign markets provides a higher probability of realizing positive results, on average, without as much year to year variability as might exist in a U.S. only portfolio. The Board of Trustees has carefully selected several domestic and international managers to supervise a total of 12 portfolios that make up this portion of the portfolio. By using several managers, the fund enjoys further diversification among manager styles and is less reliant on any one manager's performance.

The bond holdings in the portfolio are similarly diversified, as are the managers. As with the equity investments, the portfolio is diversified across both domestic and international opportunities. The Board has chosen four managers to supervise these pools.

Additional investments in real estate, alternative investments and cash complete the 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 2002, over \$550 million in benefits were distributed to members and their families.

The System suffered its second consecutive down year in fiscal year 2002. Total return for the portfolio was negative 4.7 percent and reflected significant losses in the equity investments held by the System. The System's total domestic equity investments declined by 14.6 percent, relative to the broad market comparison (Russell 3000) of negative 5.6 percent. Investments in international equities declined by 9 percent.

Investment Performance Report
For the Period Ending June 30, 2002

Time-Weighted Return (1)	<u>Last Year</u>	<u>Last 3 Years</u>	<u>Last 5 Years</u>
Total Portfolio	-4.7%	0.1%	5.4%
Policy Index	-3.6%	0.4%	5.0%
Consumer Price Index	1.0%	2.6%	2.3%
Domestic Equity Portfolio	-14.6%	-5.6%	4.5%
KPERS Equity Benchmark	-14.1%	-5.5%	4.8%
International Equity Portfolio	-9.0%	-4.0%	1.6%
KPERS Int'l Equity Benchmark	-9.2%	-6.8%	-1.2%
Fixed Income Portfolio	5.2%	4.9%	5.4%
KPERS Fixed Income Benchmark	5.9%	5.1%	5.0%
TIPS Portfolio	11.1%	NA	NA
KPERS TIPS Benchmark	11.0%	NA	NA
Real Estate Portfolio	7.7%	9.1%	9.2%
KPERS Real Estate Benchmark	7.9%	11.2%	13.2%
Alternative Investment Portfolio	-8.2%	1.6%	11.7%
KPERS Alternative Investment Benchmark	0.6%	6.1%	15.6%
Cash Equivalents Portfolio	2.8%	5.3%	5.6%
Merrill Lynch 0-1 Yr. Treasury Index	3.4%	5.0%	5.2%

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

Volatility in the overall marketplace was prevalent throughout the fiscal year. The year began with a continued slowing of corporate earnings. The events of September 11 compounded the effects of the sluggish economy as companies in the New Economy (industries such as technology and telecom) struggled to meet earnings projections. Even the more traditional companies such as consumer products and financial institutions felt the impact of the drop in consumer spending. The hope of a mid-year economic recovery was cut short by the uncovering of corporate malfeasance and heightened uncertainty in corporate governance and related financial reporting practices. Through the remainder of the fiscal year several well-known companies came under SEC scrutiny for accounting practices. The markets sank or soared accordingly as news releases identified another corporate scandal or further weakness in the economy.

Positive returns were provided to the portfolio in the areas of fixed income and real estate. Total fixed income returned over 5 percent while real estate added nearly 8 percent to the portfolio. Throughout much of the 1990s, equities provided exceptionally strong returns to investors. The combination of accelerating earnings and rising price to earnings ratios propelled both domestic and international markets to new heights. While the System enjoyed the benefits of this remarkable performance, it

sustained a disciplined and diversified approach to investing. Periodic rebalancing removed appreciated assets from the equity areas and used it to sustain investments in fixed income and to expand investments in real estate. Conversely following the recent strength in the fixed income areas of the portfolio, combined with the weakness of the equity markets, rebalancing procedures have dictated the sale of appreciated assets and the purchase of those markets recently out of favor.



The long-term health and stability of the System is not predicated on any single year or single decade of performance, be it exceptionally good or exceptionally disappointing. Like the benefits that the assets are held to eventually pay the investment strategy will continue to focus on the long-term. This includes the application of prudent diversification and moderation in expectations for returns.

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

The Retirement System employs a staff of eight professionals to provide oversight and management of the System’s assets and the System’s external asset managers. Under the oversight of the Chief Investment Officer responsibility for the portfolio is divided by asset class. The Deputy Chief Investment Officer is assigned to equity securities, the Fixed Income Investment Officer to fixed income securities, the Real Estate Investment Officer to real estate and the Alternative Investment Officer 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.

EQUITY REVIEW**Scott Peppard, Deputy Chief Investment Officer**

During fiscal year 2002 equity markets in the United States and around the world suffered through a period of negative returns. After getting off to a weak start, the tragic events of September 11 caused the world's equity markets to decline sharply. During September the domestic equity markets dropped nearly 9 percent, with international markets declining over 10 percent as well. Over the next three months the markets managed to recover a portion of the losses as several factors worked together to stimulate the economy. These factors included the Federal Reserve aggressively lowering the benchmark Fed Funds rate, an income tax rebate from the Federal government and low or no interest financing offers on some consumer purchases.

As the fiscal year progressed, domestic markets continued to decline while the international markets recovered from the lows reached in September. The international markets were aided by a weak United States dollar which had a positive impact on returns for U.S. based investors. If the currency impact were excluded the international markets would have performed worse than the domestic markets. For the fiscal year the domestic equity market, as measured by the Russell 3000 Index, returned a disappointing negative 7.2 percent. The international markets suffered losses of 9.2 percent, as measured by the Morgan Stanley Capital International Europe, Asia and Far East Index.

The fiscal year performance of the System's equity portfolios was disappointing in absolute terms. The domestic equity portfolio returned negative 4.6 percent while the customized benchmark was down 4.1 percent. The customized benchmark considers the policy allocation of large and small stocks. The System's allocation to small cap stocks resulted in the overall portfolio outperforming the Russell 3000 Index fiscal year return of negative 7.2 percent. The international portfolio managed to slightly outperform its benchmark, returning negative 9.0 percent for the fiscal year compared with a negative 9.2 percent return for the Morgan Stanley Capital International Europe, Asia and Far East Index.

The Board conducted the triennial asset-liability analysis during the fiscal year affording an opportunity to formally revisit the asset allocation mix. This analysis provides an in-depth review of the System's liabilities and their probable interaction with the System's assets. Following the conclusion of this study the Board of Trustees adopted a revised allocation mix. Domestic equities shifted from an allocation of 25 percent large capitalization stocks and 15 percent small capitalization stocks to an overall 33 percent allocation to the broad US market. The System's allocation to international stocks was increased from 15 to 19 percent to take advantage of the potential to further diversify the portfolio. These changes, in addition to modest increases in the real estate and TIPS portion of the portfolio, should serve to improve the System's overall risk profile.

The combined impact of the changes resulted in several portfolio mandates either being altered or eliminated over the course of the fiscal year. From a risk containment perspective, these changes should help position the overall domestic equity portfolio to add incremental return more consistently for the chosen level of risk.

Following two difficult years within the equity market, the natural inclination may be to give up on the asset class and reduce the System's exposure. As a long-term investor however the System intends to sustain its disciplined and diversified exposure with the expectation that within efficient capital markets, equity investments have historically provided solid returns.

FIXED INCOME**Cheri Woolsey, Fixed Income Investment Officer**

The performance of the System's fixed income portfolio during fiscal year 2002 was 5.2 percent. The portfolio modestly underperformed the KPERs Fixed Income Benchmark return of 5.9 percent due primarily to the impact of the poor relative perfor-

mance of corporate (particularly high-yield) bonds. The Treasury Inflation Protected Securities (TIPS) portfolio return was positive in both relative and absolute terms with a return of 1.1 percent versus the benchmark's return of 1.0 percent.

As the market became increasingly sensitive and reactionary to global events, risk adverse investors began to shift money into the safe-haven of government securities and other investment grade securities. This "flight to quality" was characterized by a strong demand for treasury securities. This pushed yields lower and prices higher leading to gains in the investments. Interest rates dropped to a 40-year low while the Fed continued its accommodative stance that began in 2001 by lowering the federal funds rate eleven times during 2002 from 6.5 percent to .75 percent. Conversely investors demanded greater returns on their corporate investments to offset the increased risk, particularly in the lower tier credits. The yield differential between corporate bonds and comparable-maturity risk-free treasury bonds widened to levels not seen since the 1991 recession. As such, only the highest quality investment names added profits.

The System implemented several strategic changes within the fixed income portfolio during fiscal year 2002. The Board of Trustees approved an increased allocation of the System's assets to fixed income. The total allocation was increased from 32 percent to 34 percent of the fund. Of this allocation, 24 percent is externally managed in traditional fixed income investments and 10 percent is internally managed in the TIPS portfolio. The externally managed portfolio includes a target allocation of 60 percent of fixed assets into a core-plus bond strategy. Core plus allows core managers to opportunistically add value by investing in bonds of the emerging markets, nondollar and high yield sectors.

The System will continue to look to the fixed income sector as a source of diversification. The inherent defensive nature of fixed income investments and the relatively consistent source of income should provide a source of continuing positive returns in the future.

REAL ESTATE

Robert Schau, Real Estate Investment Officer

For fiscal year 2002, the Board of Trustees increased the target for real estate investments to 8 percent of total assets. Through a broad exposure to real estate, the System expects to enhance the diversification of the total portfolio by providing a relatively steady source of return and a reduction in overall return variability.

The System's long-term investment strategy is to target a diverse range of institutional quality investments, with a focus on direct ownership of office, industrial, retail and apartment properties. Diversification of the portfolio continues to improve both in terms of property type and location. Increased investments in the non-core portfolio are further enhancing diversification in terms of providing exposure to differing stages of property life cycles and investment size.

The terrible tragedies of September 11 put unique pressures on real estate. Hotel occupancies dropped immediately. Leasing activity particularly for urban office space, virtually ceased for several months. A record 11 Federal Reserve interest rate cuts has allowed housing affordability to reach an all-time high, with negative implications for near-term apartment occupancy. Insurance and security costs have risen dramatically especially for "trophy" assets. The effects are likely to continue for years, but the industry so far has successfully faced these challenges. Most indicators suggest that the positive characteristics of the asset class remain intact, and may even improve if the economy is in fact entering an era of sustained lower absolute returns from the fixed income and equity sectors.

As noted last year we expected the asset class to perform substantially better than during the last market downturn approximately ten years ago and that it would continue to generate positive returns through the balance of the cycle. For the fiscal year ended June 30, 2002, the portfolio generated a total return (defined as value changes plus current income) of 7.7 percent. The three and five year returns are 9.1 and 9.2 percent, respectively. Thus the program is achieving the primary objective of delivering positive returns with low volatility even as other sectors of the capital markets struggle.

This year's performance exceeded both the primary benchmark, comprised of the NCREIF index (private equity real estate) which generated a return of 5.6 percent, and the policy benchmark (inclusive of public and non-core real estate components)

which generated a return of 7.6 percent. The public sector investments in particular (REITS), where the System has maintained an overweight position for several years, have generated stellar performance. For the fiscal year the REITS generated a return of 15.9 percent, exceeding the S&P 500 performance by a total of 34 percent (and over 73 percent during the past three years).

Over the next year the System will continue to consider opportunities to enhance returns and reduce volatility. These efforts will likely include timely acquisitions and dispositions, strategic use of leverage and an ongoing focus to improve diversification.

ALTERNATIVE INVESTMENTS

Janet M. Kruzel, Alternative Investment Officer

Alternative investments are traditionally those investments that do not trade publicly on an organized exchange. These investments are frequently made in some pooled format, usually as a limited partnership or limited liability corporation. Typically large institutional investors like the Retirement System purchase alternative investments in an effort to improve their total portfolio returns and to diversify risk. The Retirement System has used the limited partnership structure in the current alternative investment program. As a limited partner the System participates along with other institutional investors, high net worth individuals and other investment entities.

The System's current alternative investment program was launched in fiscal year 1997. The Board of Trustees selected a professional, non-discretionary consultant to assist with the development and execution of a long-term strategy of alternative investments. Expanded policies and guidelines were developed to help ensure that special attention is paid to the disciplined monitoring and oversight necessary to realize the portfolio's objectives. A rigorous due diligence process resulted in the selection and recommendation of 54 partnership funds to the Retirement System's Board over the past five years. The Board reviewed each opportunity and recommendation prior to committing the System as a partner. The portfolio is diversified among 36 different managers and several styles of investment. The Retirement System's portfolio includes strategies focused on investments in various stages of venture capital, buyout, mezzanine, distressed securities and natural resources.

Due primarily to the diminution of value in the aggregate investment portfolio, during fiscal year 2001 the System reached its target allocation of 5 percent. As such, no new commitments to invest in future partnerships have been made since that time. As the alternative portfolio matures and value is returned to the System through successful investment exits, or as public market recovery allows the total portfolio to return to net investment growth, additional partnerships will be considered for the portfolio.

Private equity performance has suffered in the past two years, impacted by several factors including: the sluggish economy; the significant decline in internet, communications and technology investments; the virtual shut down of public offerings as an exit mechanism; and the tightening of credit standards for business growth and expansion. The System's alternative investment performance exhibited the impact of these factors in its disappointing negative 8.8 percent return for the recent fiscal year. However, U.S. private equity funds in general performed much worse, generating negative 18.5 percent returns for the prior calendar year. Specifically, venture capital returns were the worst for 2001 at negative 27.8 percent, in contrast to their 37.6 percent returns for 2000.

Private equity funds have been investing at a slower pace and have experienced longer holding period for their underlying investments. Longer holding periods in turn resulted in slower return of value this past year to the Retirement System and other institutional investors, further impacting alternative investment performance.

Diversification was designed into the System's alternative investment portfolio to decrease the impact of market volatility on long term performance. The alternative investment strategy invested over time rather than in a single year and selected disciplined managers who apply different strategies to the diverse segments of private equity. The Retirement System's portfolio is still quite young and the long term expectations for this asset class remain positive, despite the recent high degree of pressure on certain market sectors in the private equity environment.

As required by K.S.A. 74-4904, a schedule of alternative investments initiated on or after July 1, 1991, is listed below and on the following page. Another schedule, summarizing changes in the fair value of investments, is on page 44. A listing of domestic broker commissions paid in fiscal year 2002 and the top 10 equities and fixed income holdings at fiscal year end are shown on pages 51 and 52.

Alternative Investments Initiated On or After July 1, 1991

<u>Shares</u>	<u>Description</u>	<u>Cost</u>	<u>Market Value</u>
	Included in Alternative Investments Portfolios:		
8,750,000	Advanced Technology VI LPd	\$8,068,761	\$6,720,166
12,375,000	Apax Europe IV LPd	8,616,084	7,083,452
5,430,000	Apax Europe V LPd	4,342,553	4,264,077
5,000,000	Battery Ventures V LPd	3,831,335	3,337,820
5,395,000	Battery Ventures VI LPd	4,396,515	3,679,261
10,128,644	Beacon Group Energy Fund IId	4,920,417	4,872,891
15,498,689	Behrman Capital II LPd	10,784,355	12,071,154
9,149,294	Behrman Capital III LPd	7,956,158	8,093,530
12,075,067	Capital Resource Partners IVd	10,317,109	10,483,899
5,530,501	Candover 1997 US #1 Fund LPd	5,291,929	5,775,659
8,833,647	Clayton Dubilier & Rice VI LPd	8,164,669	5,922,386
7,035,990	Cypress Merchant Banking IId	7,172,287	6,324,088
8,100,000	Dominion Fund V LPd	6,004,388	4,322,201
4,500,000	El Dorado Ventures IV LPd	1,519,746	2,800,112
7,000,000	El Dorado Ventures V LPd	5,296,893	4,354,560
3,750,000	El Dorado Ventures VI LPd	2,927,470	2,737,253
17,316,667	GTCR Capital Partners LPd	13,321,175	11,429,052
19,677,662	GTCR Fund VII LPd	16,977,979	15,699,764
3,075,000	GTCR Fund VII/A LPd	2,060,134	2,350,570
11,200,000	Halpern Denny Fund III LPd	10,363,159	10,183,690
17,525,680	Harvest Partners III LPd	15,520,569	12,132,515
9,908,577	Kelso Investment Assoc VIId	5,708,880	9,525,690
6,729,935	Littlejohn Fund II LPd	5,676,998	5,684,931
16,599,811	McCown De Leeuw & Co IV LPd	7,014,793	9,295,778
20,000,000	MD Sass Corp Resurgenced	9,903,009	12,843,840
13,660,205	MD Sass Corp Resurgence IId	8,392,798	10,518,672
6,445,181	MD Sass Corp Resurgence IIIId	4,155,607	6,400,219

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

<u>Shares</u>	<u>Description</u>	<u>As of June 30, 2002</u>	
		<u>Cost</u>	<u>Market Value</u>
	Included in Alternative Investments Portfolios:		
20,000,000	OCM Opportunities Fund III LPd	16,594,153	19,771,020
8,000,000	OneLiberty Fund IV LPd	5,550,537	5,365,920
9,000,000	OneLiberty Ventures 2000 LPd	8,208,736	7,543,539
7,000,000	Pacholder Value Opportunityd	470,026	708,701
9,400,000	TAIX L.P.d	8,505,745	8,550,193
3,100,000	TA Subordinated Debt Fund LPd	2,791,864	2,486,349
10,722,000	TCV IV LPd	8,188,395	8,936,401
5,462,652	The Second Cinven Fund US LPd	6,153,853	7,574,602
16,657,093	Thomas H Lee Equity Fund IV LPd	14,109,992	19,464,180
4,608,546	Thomas H Lee Equity Fund V LPd	4,896,856	4,638,815
4,233,438	Trinity Ventures VI LPd	1,912,692	1,431,533
10,350,000	Trinity Ventures VII LPd	7,802,566	4,806,178
4,800,000	Trinity Ventures VIII LPd	3,924,742	3,924,744
18,196,243	Triumph Partners III LPd	12,140,086	11,390,903
9,750,000	Vantagepoint Venture III LPd	6,068,380	4,910,831
4,800,000	Vantagepoint Venture IV LPd	2,533,903	2,336,304
6,340,569	Vesdar Capital Partners IV LPd	5,039,473	5,587,766
11,287,597	VS & A Communications III d	10,422,250	7,250,080
19,600,000	Warburg Pincus Equityd	13,583,933	16,495,595
19,400,000	Welsh Carson VIII LPd	15,341,032	14,471,178
12,400,000	Welsh Carson IX LPd	9,303,068	9,567,964
19,869,041	Willis Stein & Partners II LPd	17,682,402	9,413,276
18,524,086	Willis Stein & Partners III LPd	17,475,677	15,827,442
9,231,430	Windjammer Fund II LPd	7,949,955	8,247,424
11,954,191	Windward Capital Partners II d	10,645,736	17,938,292
TOTAL POST 1991 INVESTMENTS		<u>\$437,640,208</u>	<u>\$450,731,367</u>

Investment Summary

(In thousands) (1)

For the Fiscal Year Ended June 30, 2002

	June 30, 2001 Fair Value	Purchases and Other Increases	Sales and Other Decreases	June 30, 2002 Fair Value	Asset Mix Fair Value
Marketable Securities					
Domestic Equities					
Large Capitalization	\$2,382,973	\$1,013,939	\$(1,034,217)	\$2,362,695	25.40%
Small Capitalization	1,498,401	357,598	(1,386,574)	469,425	5.05
International Equities	1,253,159	774,269	(577,923)	1,449,505	15.59
Total Fixed Income	3,261,550	9,563,235	(9,328,754)	3,496,031	37.59
Temporary Investments (2)	308,238	25,753,898	(25,712,253)	349,883	3.76
Total Marketable Securities	8,704,321	37,462,939	(38,039,721)	8,127,539	87.39
Real Estate and Alternative Investments					
Real Estate	672,675	95,756	(78,692)	689,739	7.42
Direct Placements and Limited Partnerships	482,326	191,579	(190,757)	483,148	5.19
Total Real Estate and Alternative Investments	1,155,010	287,335	(269,449)	1,172,887	12.61
TOTAL	9,859,322	37,750,274	(38,309,170)	9,304,260	10.0%

1) Amounts include changes in unrealized appreciation and exclude interest and dividend accruals. Amounts exclude security lending cash collateral of \$1,189,370,279 for fiscal year 2001, and fiscal year 2002 cash collateral of \$1,544,443,171.3

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

U.S. Equity Commissions
For the Fiscal Year Ending June 30, 2002d

<u>Br0ker Name0</u>	<u>Commissions0 Paid0</u>	<u>Shares0</u>	<u>Commission0 Per Share0</u>	<u>Percent0 of Total0 Commissions0</u>
Merrill Lynch Pierce Fenner Smith Inc.d	\$690,168d	d4,607,071d	\$0.05d	27.3%d
Investment Technology Groupsd	202,431d	d2,478,617d	0.02d	8.0d
Morgan Stanley & Co Incd	142,644d	2,967,590d	0.05d	5.6d
Smid Barney Incd	135,585d	4,037,958d	0.03d	5.4d
Lynch Jones & Ryan Inc.d	127,956d	2,541,435d	0.05d	5.1d
Goldman Sachs & Co	121,548d	2,808,535d	0.04d	4.8d
Bear Stearns & Co, Inc.d	114,518d	2,306,161d	0.05d	4.5d
Russell Frank Secs Incd	102,413d	2,256,000d	0.05d	4.0d
Credit Suisse First Boston Corp	96,254d	1,967,276d	0.05d	3.8d
Lehman Bros Inc.d	94,798d	1,975,400d	0.05d	3.7d
Deutsche Banc Alex Brown, Inc.d	76,366d	1,768,800d	0.04d	3.0d
Warburg Dillon Read LLCd	59,822d	1,411,540d	0.04d	2.4d
Jefferies & Co Incd	51,995d	1,283,914d	0.04d	2.1d
SG Cowen Securities Corp	47,959d	966,285d	0.05d	1.9d
B Trade Svcs LLCd	45,421d	2,639,860d	0.02d	1.8d
Instinet Corp	32,726d	1,367,429d	0.02d	1.3d
Bancboston Robertson Stephensd	32,434d	705,660d	0.05d	1.3d
Morgan J P Securities Inc.d	29,073d	581,450d	0.05d	1.1d
Montgomery Securitiesd	22,008d	431,065d	0.05d	0.9d
Prudential Sec Incd	20,953d	464,500d	0.05d	0.8d
Jones & Assoc Westlake Vllaged	20,771d	440,290d	0.05d	0.8d
Cantor Fitzgerald & Co Incd	19,876d	1,001,300d	0.02d	0.8d
Baird, Robert W & Co., Incd	15,833d	289,300d	0.05d	0.6d
Soundview Financial Groupd	15,363d	390,900d	0.04d	0.6d
Oppenheimer & Co., Inc.d	15,240d	304,800d	0.05d	0.6d
Otherd	196,063d	5,394,460d	0.04d	7.8d
TOTAL BROKER COMMISSIONS0	<u>\$2,530,2180</u>	<u>67,387,5960</u>	\$0.040	<u>1.0%0</u>

List of largest holdings ^(a)
as of June 30, 2002d

Equities

<u>Shares</u>	<u>Security</u>	<u>Fair Value (\$)</u>
1,179,424	Exxon Mobil Corp	\$48,262,030
843,031	Microsoft Corp	46,113,796
1,513,744	General Elec Cod	43,974,263
1,120,400	Citigroup Inc	43,415,500
1,029,049	Pfizer Inc	36,016,715
779,173	Novartis	34,265,184
4,018,903	British Petroleum	33,754,336
1,429,932	Glaxo Smith Kline	30,907,371
429,816	American Intl Group Inc	29,326,346
175,537	Total Fin	28,500,440

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

Fixed Income

<u>Par Value</u> ^(b)	<u>Security</u>	<u>Description</u>	<u>Fair Value (\$)</u>
613,464,720	US Treasury Inflation Indexed 30-Yrs. Bond	3.875% 04/15/2029	\$691,491,298
126,825,000	Commit To Purchase GNMA	6.50% 07/15/2032	129,460,582
107,810,650	US Treasury Inflation Indexed 30-Yrs. Bond	3.625% 04/15/2028	116,435,502
90,500,000	Merrill Lynch Co. Repod	1.970% 07/01/2002	90,500,000
76,945,000	U S Treasury Notes	2.750% 09/30/2003	77,425,906
61,490,000	Commit To Purchase FNMA	7.00% 07/01/2032	63,567,209
55,540,000	U S Treasury Notes	4.875% 02/15/2012	55,748,275
50,638,500	US Treasury Inflation Indexed 30-Yrs. Bond	3.375% 04/15/2032	53,518,818
52,000,000	Commit To Purchase FNMA SF Mortgaged	6.00% 07/01/2017	53,064,375
52,080,000	Federal Home Loan MTG Corp	Matures 07/11/2002	51,835,137

b) In local currency.

Actuarial Sections

2002 Comprehensive Annual Financial Report
Kansas Public Employees Retirement System



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September D D

Board of TrusteesD
Kansas Public Employees Retirement SystemD
6DI S. Kansas Ave., Suite D
Topeka, KS 66603

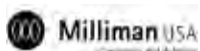
Dear Members of Board:D

At your request, we have conducted our annual actuarial valuation of the Kansas Public Employees Retirement System as of December 31, 2001. The results of the valuation are contained in the following section which includes schedules prepared by Milliman USA that summarize contribution rates, changes in the System's assets, and unfunded actuarial liabilities. We also provided the information for the years 1994 through 2001 that was used in the Schedule of Funding Progress located in the financial section. There was no change in plan provisions, actuarial assumptions, and methods from the prior valuation.

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

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

We hereby further certify that all costs, liabilities, rates of interest and other factors for the System have been determined on the basis of actuarial assumptions and methods which are internally consistent, individually reasonable (taking into account the experience of the Plan and reasonable expectations of future experience) and which, in combination, offer our best estimate of anticipated experience under the Plan. Nevertheless, the emerging costs will vary from those presented in this report to the extent actual experience differs from that projected by the actuarial assumptions. The Board of Trustees has the final decision regarding the appropriateness of the assumptions and adopted the set of assumptions used in this valuation. The assumptions comply with the requirements of Statement 25 of the Government Accounting Standards Board. Actuarial computations



presented in this report are for purposes of determining the actuarial contribution rates for funding the System. Determinations for purposes other than this may be significantly different from the results contained in this report. Accordingly, additional determinations may be needed for other purposes.

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

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

We herewith submit the following report and look forward to discussing it with you.

Respectfully Submitted,

MILLIMAN USA, Inc.



Patrice A. Deckham, F.S.A.
Principal and Consulting Actuary

OVERVIEW

The Kansas Public Employees Retirement System is an umbrella organization which administers the following three statewide pensions groups under one plan: the Kansas Public Employees Retirement System (KPERs), the Kansas Police and Firemen's Retirement System (KP&F) and the Kansas Retirement System for Judges (Judges). This report presents the results of the December 31, 2001, actuarial valuations for each of the Systems. The primary purposes of performing valuations are to:

- determine the employer contribution rates required to fund each System on an actuarial basis,
- determine the statutory employer contribution rates for each System,
- disclose asset and liability measures as of the valuation date,
- determine the experience of the System since the last valuation date, and
- analyze and report on trends in System contributions, assets, and liabilities over the past several years.

There were no changes in the actuarial assumptions, methods or procedures from the last valuation. There also were no changes in benefit provisions since the last valuation.

The valuation results provide a "snapshot" view of the System's financial condition on December 31, 2001. The unfunded actuarial liability increased by \$475 million, due to various factors the most significant of which was the loss from investment return. A detailed analysis of the change in the unfunded actuarial liability from December 31, 2000, to December 31, 2001, is shown on page 65.

In KPERs, State/School and Local employers do not contribute the full actuarial contribution rate. Based on legislation passed in 1993, the employer contribution rates certified by the Board may not increase by more than the statutory cap. Currently the statutory cap is 20 percent for State/School and 15 percent for Local. Based on the results of the current valuation, and assuming an 8 percent return on the market value of assets in 2002 and beyond, and that all other assumptions are met in the future, the statutory and actuarial contribution rates will not converge before 2033, the end of the amortization period. As a result, the unfunded actuarial liability will grow steadily and the actuarial contribution rate will increase significantly.

The valuation shows that the current assets plus the present value of future contributions are not equal to the present value of future benefits and thus the System is not in "actuarial balance." This situation creates a long term funding concern.

As the System's actuary we strongly recommend action is taken to increase future contributions to a level which will restore the System to actuarial balance. Due to recent negative investment experience and the delayed reflection of market experience in the actuarial value of assets, it is expected that additional actuarial losses will be reflected in the unfunded actuarial liability over the next few years, which will in turn exacerbate the long term funding concerns. It is in the System's best financial interest for additional contributions to begin as soon as possible. There is a special study in progress that is considering various alternatives to address the long term funding of the System.

CONTRIBUTION RATES

The funding objective of the System is to establish contribution rates that over time will remain relatively level, as a percentage of payroll, and to pay off the unfunded actuarial liability by 2033. Actuarial contribution rates consist of a normal cost rate and an amortization payment. The contribution rates in the December 31, 2001, valuation will set rates for fiscal year end 2005 for the State and 2004 for Local employers.

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

December 31, 2001 Valuation			
<u>System</u>	<u>Actuarial</u>	<u>Statutory</u>	<u>Difference</u>
State/School	7.69%	4.78% ¹	2.91%
Local	4.64%	3.22% ¹	1.42%
TIAA	2.76%	2.76%	0.00%
Police & Fire -Uniform Rates ²	9.47%	9.47%	0.00%
Judges	18.67%	18.67%	0.00%

December 31, 2000 Valuation			
<u>System</u>	<u>Actuarial</u>	<u>Statutory</u>	<u>Difference</u>
State/School	7.05%	4.58% ¹	2.47%
Local	4.13%	3.07% ¹	1.06%
TIAA	2.20%	2.20%	0.00%
Police & Fire -Uniform Rates ²	6.86%	6.86%	0.00%
Judges	16.67%	16.67%	0.00%

1) Rates, by statute, are allowed to increase by a maximum of 0.20 percent and 0.15 percent per year plus the cost of any benefit enhancement for State and Local Employers respectively.

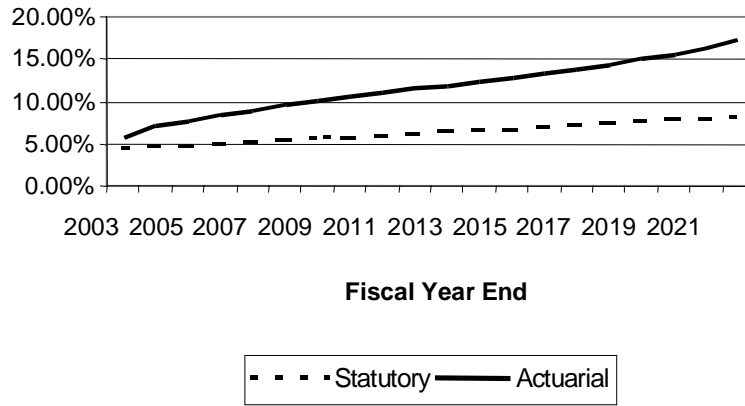
2) For KP&F, the statutory contribution rate is equal to the "Uniform" rate. The rate shown is for local employers. The rate for State employers is 9.16 percent. The uniform rate does not include the payment required to amortize the unfunded past service liability or any 15 percent excess benefit liability determined separately for each employer.

Employer Contribution Rates for Correctional Employee Groups are:

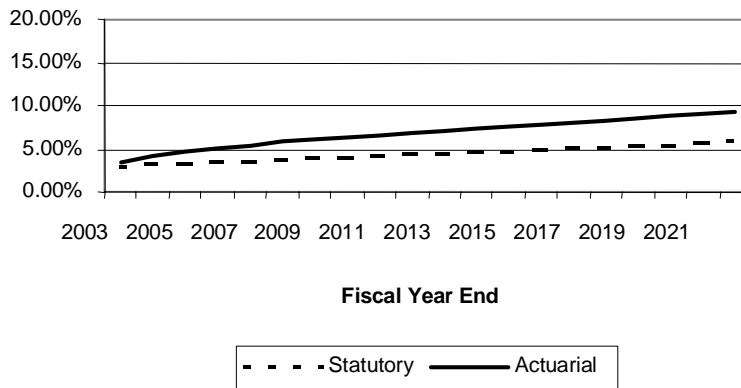
Retirement Age 60:	7.82 percent
Retirement Age 55:	8.23 percent

As mentioned earlier, State/School and Local employers do not contribute the full actuarial contribution rate. Based on the current valuation, there is a difference (shortfall) between the actuarial and statutory contribution rates of 2.91 percent and 1.42 percent respectively for the State/School and Local groups. Assuming an 8 percent return on the market value of assets for 2002 and beyond and that all other actuarial assumptions are met in the future the statutory and actuarial contribution rates will not converge before the end of the current amortization period.

**State & Schoolr
Projected Employer Contribution Rater**

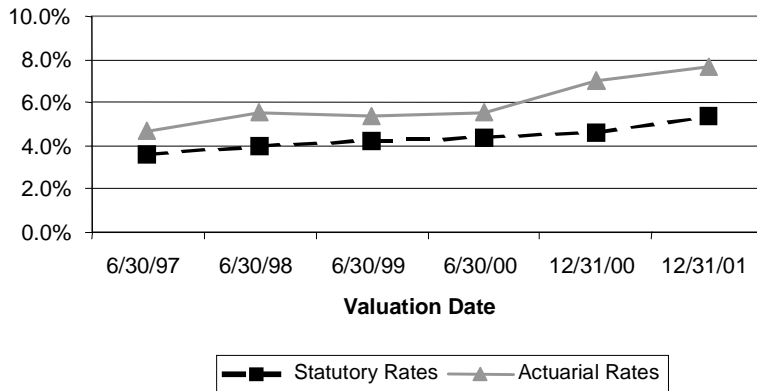


**ocalr
Projected Employer Contribution Rater**



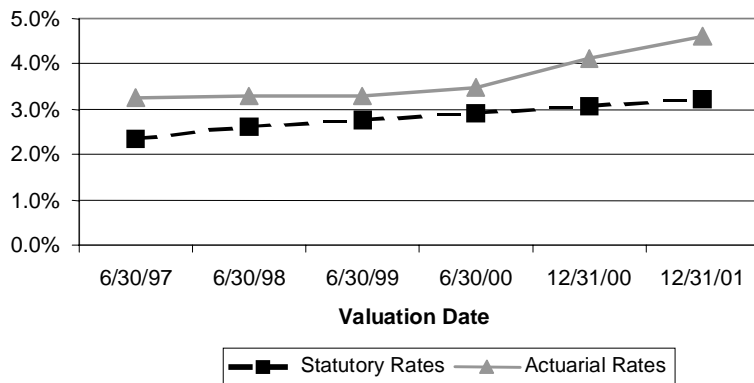
Employer contribution rates for all groups increased in the 2001 valuation as compared with the 2000 valuation. The negative investment experience during calendar year 2001 was the most significant factor contributing to the increase in contribution rates. As the remainder of the deferred investment loss is recognized in the actuarial value of assets in future years, contribution rates can be expected to increase. Historical contribution rates for each group follow:

State & Schoolr Employer Contribution Rater



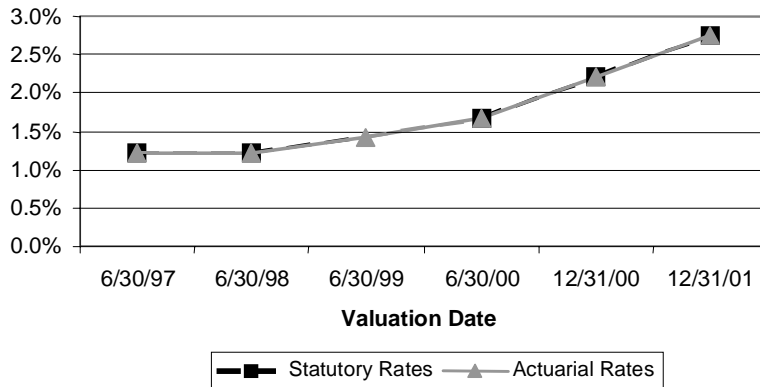
The difference between the actuarial and statutory rates has fluctuated over the past few years as the actuarial rate has decreased, at times, more than the statutory rate.

Local Employer Contribution Rater



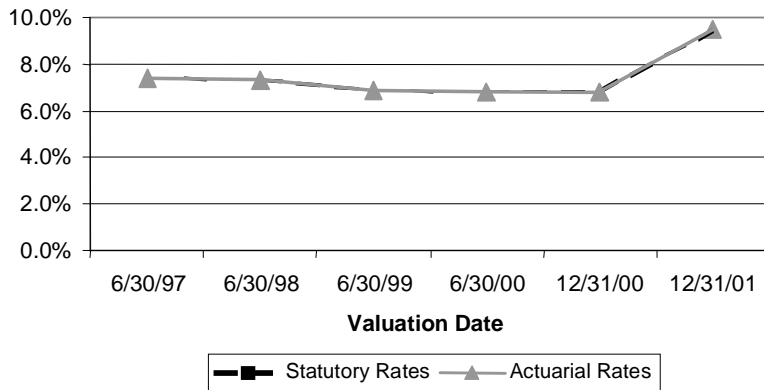
In recent years, the shortfall between the actuarial and statutory contribution rates has increased.

TIAA Contribution Rates



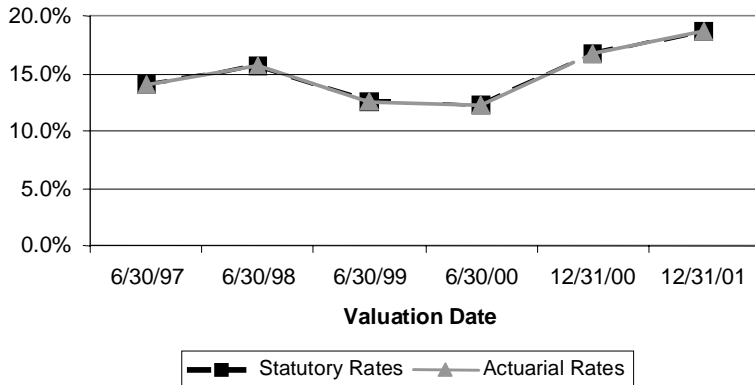
This group is very small and the amortization period is short, which makes the contribution rate subject to a great deal of volatility.

KP&F Contribution Rates (Local)



The rate for KP&F is heavily impacted by investment experience. The low investment return for 2001 on the actuarial value of assets resulted in a significant increase in the 12/31/01 rate. This can be expected to continue as investment losses from prior years are recognized in the actuarial value of assets.

Judges Contribution Rates



The Judges System has a small membership and therefore is subject to greater volatility. Significant changes in the actuarial assumptions in the December 31, 2000, valuation and investment experience in recent years have resulted in an increase in costs.

EXPERIENCE - ALL SYSTEMS COMBINED

December 31, 2000 – December 31, 2001

Several factors contributed to the change in the Systems’ assets, liabilities, and actuarial contribution rates between the December 31, 2000, and December 31, 2001, actuarial valuations. On the following pages each component is examined.

ASSETS

As of December 31, 2001, the System had total funds, when measured on a market value basis, of \$9.146 billion, excluding assets held for the Group Insurance and Optional Life reserves. This was a decrease of \$0.728 billion from the December 31, 2000, figure of \$9.874 billion. The components of the change in the market value of assets for the Retirement System (in millions) are set forth below:

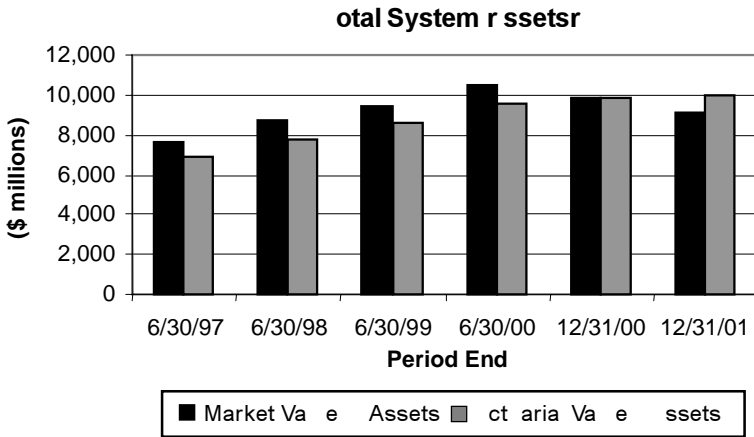
	<u>Market Value \$ (millions)</u>
Assets, December 31, 2000	\$9,874
• Employer and Member Contributions	405
• Benefit Payments and Expenses	(647)
• Investment Income	(486)
Assets, December 31, 2001	\$9,146



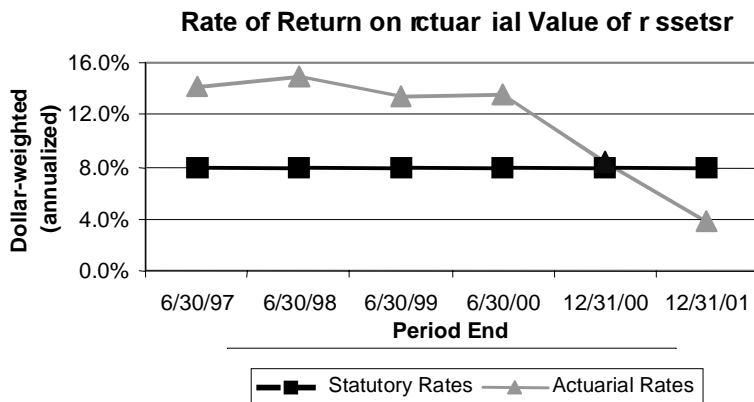
The market value of assets is not used directly in the calculation of contribution rates. An asset valuation method is used to smooth the effect of market fluctuations. The actuarial value of assets is equal to the expected asset value based on the assumed interest rate plus 1/3 of the difference between the actual market value and the expected asset value. See the table on page 69 for the detailed development of the actuarial value of assets as of December 31, 2001, for each System.

Due to the asset smoothing method, there is \$817 million of deferred investment loss that has not yet been recognized. Absent investment returns well in excess of 8 percent in the next few years to offset this deferred investment loss it will gradually be reflected in the actuarial value of assets. As this occurs through the smoothing method, the valuation results will show an actuarial loss.

The annualized dollar-weighted rate of return for 2001 measured on the actuarial value of assets was 3.8 percent and, measured on the market value of assets, was (5.0) percent. The actuarial value of assets as of December 31, 2001 was \$9.963 billion.



Due to rates of return in the 1990s in excess of the actuarial assumption, the market value generally exceeded the actuarial value of assets. The market experience in 2000 and 2001 reversed that trend. The actuarial value of assets now exceeds the market value by \$817 million.



The rate of return on the actuarial (smoothed) value of assets exceeded the assumed rate of 8 percent until 2001. Rates are expected to remain well below 8 percent for the short term as deferred investment losses are reflected in the actuarial value of assets.



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, experience gains and losses, and changes in actuarial assumptions and procedures will also impact the total actuarial liability and the unfunded portion thereof.

The Actuarial Liability and the Unfunded Actuarial Liability for all Systems combined are:

	(\$Millions)
Actuarial Liability	\$11,743
Actuarial Value of Assets	\$ 9,963
Unfunded Actuarial Liability	\$ 1,780

Between December 31, 2000, and December 31, 2001, the change in the unfunded actuarial liabilities for the System as a whole was as follows (in millions):

	\$(millions)
(Unfunded) Actuarial Liability, December 31, 2000	\$ (1,305)
• effect of contribution cap/time lag	(115)
• expected decrease due to amortization method	(14)
• loss from investment return	(350)
• liability experienced	(18)
• all other experienced	27
• change in benefit provisions	0
• change in actuarial assumptions	0
• changes arising from audit	(5)
(Unfunded) Actuarial Liability, December 31, 2001	\$ (1,780)

A detailed summary of the change in the unfunded actuarial liability by System is shown on page 68.

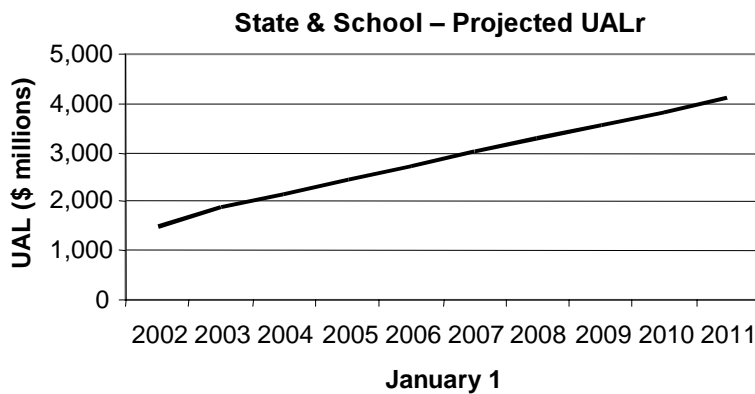
As mentioned earlier in this report, there is currently \$817 million of deferred investment loss which will eventually be recognized in the actuarial value of assets in the next few years. As the prior investment losses are recognized, the UAL will increase by that amount. In addition, market returns for the first half of calendar year 2002 have been very low. It appears very likely that investment experience for 2002 will be well below the 8 percent assumption which will result in an additional increase in the UAL next year and an additional amount of deferred investment loss to be recognized later.

When the actuarial cost method was changed by the Legislature in 1993, the payment methodology for the unfunded actuarial liability (UAL) for most of the groups was set in statute as a level percentage of payroll over a 40 year closed period. Payments on the UAL are assumed to increase 4 percent each year. In the early years of the period, the payment is less than



the interest accruing on the UAL. As a result, the dollar amount of UAL is expected to increase for many years before it begins to decline. In addition, with the planned difference in the statutory and actuarial contribution rates prior to convergence, the unfunded actuarial liability is expected to increase by an additional amount each year.

Given the current funded status of the System (including the deferred investment loss) and the scheduled increases in employer contribution rates the unfunded actuarial liability will continue to grow. Even assuming an 8 percent return on assets for 2002 and all future years and assuming all other assumptions are met, the UAL for the State/School group will exceed \$4 billion with a resulting funded ratio of around 67 percent by 2012. This dramatic deterioration in the System's financing supports our concerns about the long term funding of the System and the need for a change in the funding plan.



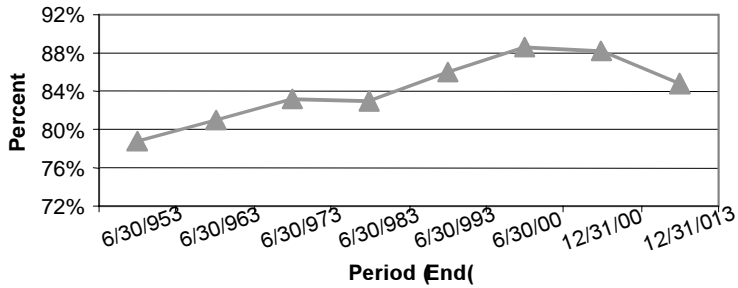
Absent a change in future contribution levels, the unfunded actuarial liability is projected to increase steadily over the next 10 years to over \$4 billion.

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

	6/30/97	6/30/98	6/30/99	6/30/00	12/31/00	12/31/01
Funded Ratio	83.3%	83.0%	86.0%	88.6%	88.3%	84.8%
Unfunded Actuarial Liability (UAL)	1,376	1,591	1,397	1,233	1,305	1,780



Funded Ratio



Although the funded status of the System generally improved in the last half of the 1990s, recent changes in actuarial valuation procedures coupled with low investment returns have reduced the funded ratio.

CONTRIBUTIONS

Generally, contributions to the System consist of:

- a “normal cost” for the portion of projected liabilities allocated to service of members during the year following the valuation date, by the actuarial cost method, (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

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

Different actuarial cost methods are used for KPERS, KP&F and Judges. The change in the actuarial contribution rate from December 31, 2000, to December 31, 2001, and the primary components thereof are shown in the table on the next page.



Summary of Changes in Unfunded Actuarial Liability

December 31, 2001, Valuation

\$(millions)	State/School	Local	TIAA	KP&F*	Judges	Total
UAL in 12/31/00 Valuation Report	\$1,119.4	\$90.4	\$22.7	\$62.1	\$10.2	\$1,304.80
• Effect of contr cap/timing	97.3	14.2	3.4	(0.1)	0.0	114.8
• Expected decrease due to method	22.5	1.5	(6.7)	(3.6)	(0.0)	13.7
• Investment return experienced	287.2	61.9	0.7	0.0	0.0	349.8
• Liability experienced	(1.6)	19.9	(0.1)	0.0	0.0	18.2
• All other experienced	(22.1)	(4.2)	(0.6)	0.4	0.0	(26.5)
• Adjustments from audit	3.3	1.6	0.4	0.0	0.0	5.3
• Change in assumptions	0.0	0.0	0.0	0.0	0.0	0.0
UAL in 12/31/01 Valuation Report	\$1,506.0	\$185.3	\$19.8	\$58.8	\$10.2	\$1,780.10

* The UAL for Judges and KP&F is frozen and as such reflects only changes due to assumption changes or changes in benefit provisions.

Summary of Changes in Actuarial Contribution Rate by System

as of December 31, 2001

(Percentage of Payroll)	State/School	Local	TIAA	KP&F	Judges
Actuarial Contribution Rate in 12/31/00 Valuation	7.05%	4.13%	2.20%	6.86%	16.67%
Change due to Amortization of UAL					
• effect of contribution cap/time lag	0.15	0.07	0.43	0.00	0.00
• amortization method	0.04	0.01	(0.01)	0.00	0.00
• investment experienced	0.46	0.32	0.09	0.00	0.00
• liability experienced	0.00	0.10	(0.01)	0.00	0.00
• all other experienced	(0.04)	(0.02)	0.06	0.00	0.00
• assumption changed	0.00	0.00	0.00	0.00	0.00
• changes in benefit provisions	0.00	0.00	0.00	0.00	0.00
Change in Normal Cost Rate	0.03	0.03	0.00	2.61	2.00
Actuarial Contribution Rate in 12/31/01 Valuation	7.69%	4.64%	2.76%	9.47%	18.67%



Summary of Historical Changes in Total System Unfunded Actuarial Liability
as of December 31, 2001, Valuation

\$(millions)	<u>4</u>	<u>4-95</u>	<u>5-96</u>	<u>6-97</u>	<u>7-98</u>	<u>8-99</u>	<u>00</u>	<u>6/00-12/00</u>	<u>00-01</u>	<u>Total</u>
Actuarial Difference, vs Assumed,										
• Investment,	\$102,	\$143,	\$280,	\$323,	\$413,	\$369,	\$441,	\$23,	\$(350),	\$1,744,
• Other,	(320),	(72),	(136),	(157),	(104),	(46),	(99),	(84),	9,	(1,009),
Assumption Changes,	0,	96,	0,	0,	(350),	0,	0,	206,	0,	(48),
Changes in Data/Procedures,	(244),	0,	0,	0,	0,	(21),	(71),	(145)**,	(5),	(486),
Effect of Contribution Cap/Lag,	*	(95),	(70),	(63),	(54),	(78),	(66),	(60),	(115),	(601),
Amortization Method,	*	(47),	(38),	(35),	(32),	(30),	(22),	(12),	(14),	(230),
Change in Benefit Provisions,	(75),	0,	0,	0,	(88),	0,	(19),	0,	0,	(182),
Total	\$(537),	\$25,	\$36,	\$68,	\$(215),	\$194,	\$164,	\$(72),	\$(475),	\$(812)

*3 Not calculated for this year.

**3 Includes the impact of establishing the KP&F Supplemental Actuarial Liability and the additional unfunded actuarial liability for the State School and Local groups not recognized in the prior valuation due to the phase-in of the change actuarial procedures.

Unfunded actuarial liability 6/30/93: (\$968) million

Unfunded actuarial liability 12/31/01: (\$1,780) million

Development of Actuarial Value of Net Assets

	<u>State / School</u>	<u>Local</u>	<u>TIAA</u>	<u>KP&F</u>	<u>Judges</u>	<u>Total KPERS</u>
1. Actuarial Value of Assets as of December, 2000*	\$7,009,521,512b	\$1,491,671,811b	\$15,882,806b	\$1,237,983,902b	\$80,121,808b	\$9,835,181,839b
2. Actual Receipts/Disbursements:						
a. Total Contributions	275,771,684b	71,859,932b	5,597,767b	48,285,229b	3,957,838b	405,472,450b
b. Benefit Payments	(467,253,626)b	(100,750,022)b	(3,608,008)b	(70,152,742)b	(4,977,863)b	(646,742,261)b
c. Net Change	(191,481,942)b	(28,890,090)b	1,989,759b	(21,867,513)b	(1,020,025)b	(241,269,811)b
3. Expected Actuarial Value of Assets						
as of December 31, 2001:	7,371,289,362b	1,580,982,094b	19,221,249b	1,314,297,228b	85,471,512b	10,371,261,445b
4. Market Value as of December 31, 2001:	6,509,563,524b	1,395,342,080b	16,993,150b	1,149,732,145b	74,599,904b	9,146,230,803b
5. Difference Between Market and Expected Values:	(861,725,838)b	(185,640,014)b	(2,228,099)b	(164,565,083)b	(10,871,608)b	(1,225,030,642)b
6. Actuarial Value of Assets as of December 31, 2001*:						
(Expected + Difference):	\$7,084,047,416b	\$1,519,102,089b	\$18,478,549b	\$1,259,442,200b	\$81,847,643b	\$9,962,917,897b
7. Rate of Return on Actuarial Value of Assets**:	3.85%	3.81%	3.59%	3.53%	3.45%	3.80%

*3 Not: Asset exclude insurance and administrative reserves.

**3 Annualized Dollar-weighted Rate of Return shown.



Summary of Principal Results—All Systems Combined

	12/31/01 <u>Valuation</u>	12/31/00 <u>Valuation</u>	<u>% Changed</u>
1.0 Participant Data			
Number of:			
Active Members	145,910	143,591	1.6%
Retired Members and Beneficiaries	56,115	54,396	3.2
Inactive Members	<u>38,056</u>	<u>35,482</u>	7.3
Total Members	<u><u>240,081</u></u>	<u><u>233,469</u></u>	2.8
Projected Annual Salaries of Active Members	\$5,116,384,351	\$4,876,555,038	4.9
Annual Retirement Payments for Retired Members and Beneficiaries	\$558,772,421	\$523,960,824	6.6
2.0 Assets and Liabilities			
Total Actuarial Liability	\$11,743,051,755	\$11,140,014,011	5.4
Assets for Valuation Purposes	9,962,917,897	9,835,181,839	1.3
Unfunded Actuarial Liability	1,780,133,858	1,304,832,172	36.4
3.0 Employer Contribution Rates as a Percent of Payroll			
Normal Cost	4.57%	4.39%	
Amortization of Unfunded Actuarial and Supplemental Liability	<u>2.20%</u>	<u>1.67%</u>	
Actuarial Contribution Rate	6.77%	6.06%	
Statutory Employer Contribution Rate*	<u>4.60%</u>	<u>4.25%</u>	

*3 Increases in recommended rates for KPERS are limited by statute. Employer rates exclude the contribution for the Death and Disability Program. Employer contribution rates for KP&F consist of a "Uniform" rate plus a payment to amortize any unfunded past service liability.

Summary of Principal Results—KPERs (State/School)

	12/31/01d Valuationd	12/31/00d Valuationd	%Changed
1.0 Participant Data0			
Number of:d			
Active Membersd	105,252d	103,647d	1.5%d
Retired Members and Beneficiariesd	41,307d	40,116d	3.0d
Inactive Membersd	<u>28,899d</u>	<u>27,077d</u>	6.7d
Total Membersd	<u><u>175,458d</u></u>	<u><u>170,840d</u></u>	2.7d
Projected Annual Salariesd of Active Membersd	\$3,287,503,319d	\$3,151,774,537d	4.3d
Annual Retirement Payments for Retired Members and Beneficiariesd	\$413,415,607d	\$387,581,062d	6.7d
2.0 Assets and Liabilities0			
Total Actuarial Liabilityd	\$8,590,033,174d	\$8,128,956,346d	5.7d
Assets for Valuation Purposed	7,084,047,416d	7,009,521,512d	1.1d
Unfunded Actuarial Liabilityd	1,505,985,758d	1,119,434,834d	34.5d
3.0 Employer Contribution Rates as a Percent of Payroll0			
Normal Costd	5.03%d	5.00%d	
Amortization of Unfunded Actuariald and Supplemental Liabilityd	<u>2.66%d</u>	<u>2.05%d</u>	
Actuarial Contribution Rated	7.69%d	7.05%d	
Statutory Employer Contribution Rate*d	<u>4.78%d</u>	<u>4.58%d</u>	

*3 Statutory Employer Contribution Rate exceeds last year's rate by the statutory rate increase limit of 0.2 percent. This rate does not include the 0.60 percent contribution rate for the Death and Disability Program.

Summary of Principal Results—KPERS (Local)

	12/31/01 <u>Valuation</u>	12/31/00 <u>Valuation</u>	<u>% Changed</u>
1.0 Participant Data			
Number of:			
Active Members	33,757	33,185	1.7%
Retired Members and Beneficiaries	10,704	10,315	3.8
Inactive Members	<u>8,161</u>	<u>7,493</u>	8.9
Total Members	<u><u>52,622</u></u>	<u><u>50,993</u></u>	3.2
Projected Annual Salaries of Active Members	\$1,068,242,752	\$1,002,943,107	6.5
Annual Retirement Payments of Retired Members and Beneficiaries	\$73,591,887	\$68,600,599	7.3
2.0 Assets and Liabilities			
Total Actuarial Liability	\$1,704,422,253	\$1,582,030,950	7.7
Assets for Valuation Purposes	1,519,102,089	1,491,671,811	1.8
Unfunded Actuarial Liability	185,320,164	90,359,139	105.1
3.0 Employer Contribution Rates as a Percent of Payroll			
Normal Cost	3.61%	3.589%	
Amortization of Unfunded Actuarial and Supplemental Liability	<u>1.03%</u>	<u>0.55%</u>	
Actuarial Contribution Rate	4.64%	4.13%	
Statutory Employer Contribution Rate*	<u>3.22%</u>	<u>3.07%</u>	

*3 Statutory Employer Contribution Rate exceeds last year's rate by the statutory rate increase limit of 0.15 percent. This rate does not include the 0.60 percent contribution rate for the Death and Disability Program.

Summary of Principal Results—KPERS (TIAA)r

	12/31/01d <u>Valuationd</u>	12/31/00d <u>Valuationd</u>	<u>% Changed</u>
1.0 Participant Data0			
Number of:d			
Active Membersd	244d	254d	(3.9)%d
Retired Members and Beneficiariesd	746d	784d	(4.8)d
Inactive Membersd	<u>123d</u>	<u>104d</u>	18.3d
Total Membersd	<u><u>1,113d</u></u>	<u><u>1,142d</u></u>	(2.5)d
Projected Annual Salariesd of Active Membersd	\$441,338,688d	\$422,346,523d	4.5d
Annual Retirement Payments ord Retired Members and Beneficiariesd	\$3,213,687d	\$3,397,862d	(5.4)d
2.0 Assets and Liabilities0			
Total Actuarial Liabilityd	\$38,234,985d	\$38,565,852d	(0.9)d
Assets for Valuation Purposed	18,478,549d	15,882,806d	16.3d
Unfunded Actuarial Liabilityd	19,756,436d	22,683,046d	(12.9)d
3.0 Employer Contribution Rates as a Percent of Payroll0			
Normal Costd	0.00%d	0.00%d	
Amortization of Unfunded Actuariald and Supplemental Liabilityd	<u>2.65%</u> d	<u>2.20%</u> d	
Actuarial Contribution Rated	2.65%d	2.20%d	
Statutory Employer Contribution Rate*d	<u>2.65%</u> d	<u>2.20%</u> d	

*3 Statutory Employer Contribution Rate is assumed to be equal to the Actuarial Rate excluding the contribution for the Death and Disability Program.

Summary of Principal Results—Kansas Police and Firemen’s Retirement System

	12/31/01d <u>Valuationd</u>	12/31/00d <u>Valuationd</u>	<u>% Changed</u>
1.0 Participant Data0			
Number of:d			
Active Membersd	6,405d	6,258d	2.3%d
Retired Members and Beneficiariesd	3,211d	3,031d	5.9d
Inactive Membersd	<u>855d</u>	<u>794d</u>	7.7d
Total Membersd	<u>10,471d</u>	<u>10,083d</u>	3.8d
Projected Annual Salariesd of Active Membersd	\$297,722,078d	\$278,546,723d	6.9d
Annual Retirement Payments ord Retired Members and Beneficiariesd	\$64,295,036d	\$60,260,172d	6.7d
2.0 Assets and Liabilities0			
Total Actuarial Liabilityd	\$1,318,343,709d	\$1,300,093,439d	1.4d
Assets for Valuation Purposed	1,259,442,200d	1,237,983,902d	1.7d
Unfunded Actuarial Liabilityd	58,901,509d	62,109,537d	(5.2)d
3.0 Employer Contribution Rates as a Percentage of Payroll0			
Normal Costd	9.02%d	6.40%d	
Amortization of Unfunded Actuariald and Supplemental Liabilityd	<u>0.45%d</u>	<u>0.46%d</u>	
Actuarial Contribution Rate (local employers)d	9.47%d	6.86%d	
Statutory Employer Contribution Rate*d	<u>9.47%d</u>	<u>6.86%d</u>	

*3 The Statutory Employer Contribution Rate is assumed to be equal to the Actuarial Rate. This is referred to as the “Uniform” rate, and varies for State and Local employers. The total contribution is equal to the appropriate uniform rate plus the payment required to amortize the unfunded past service liability, determined separately for each employer.



Summary of Principal Results—Kansas Retirement System for Judges

	12/31/01d <u>Valuationd</u>	12/31/00d <u>Valuationd</u>	<u>% Changed</u>
1.0 Participant Data⁰			
Number of:			
Active Membersd	252d	247d	2.0%d
Retired Members and Beneficiariesd	147d	150d	(2.0)d
Inactive Membersd	<u>18d</u>	<u>14d</u>	28.6d
Total Membersd	<u>417d</u>	<u>411d</u>	1.5d
Projected Annual Salariesd of Active Membersd	\$21,577,514d	\$20,944,148d	3.0d
Annual Retirement Payments dord Retired Members and Beneficiariesd	\$4,256,204d	\$4,121,129d	3.3d
2.0 Assets and Liabilities⁰			
Total Actuarial Liabilityd	\$92,017,634d	\$90,367,424d	1.8d
Assets for Valuation Purposesd	81,847,643d	80,121,808d	2.2d
Unfunded Actuarial Liabilityd	10,169,991d	10,245,616d	(0.7)d
3.0 Employer Contribution Rates as a Percent of Payroll⁰			
Normal Costd	14.68%d	12.56%d	
Amortization of Unfunded Actuariald and Supplemental Liabilityd	<u>3.99%d</u>	<u>4.11%d</u>	
Actuarial Contribution Rated	18.67%d	16.67%d	
Statutory Employer Contribution Rate*d	<u>18.67%d</u>	<u>16.67%d</u>	

*3 Statutory Employer Contribution Rate is assumed to be equal to the Actuarial Rate excluding the contribution for the Death and Disability Program.³

ACTUARIAL ASSUMPTIONS AND METHODS

Every three years the actuary makes a general investigation of the actuarial experience under the System including mortality, retirement, and employment turnover. The actuary recommends actuarial tables for use in valuation and in calculating actuarial equivalent values based on such investigation. An actuarial experience study was conducted for the three years ending December 31, 2000. As a result of this study, the Board of Trustees adopted the assumptions to be used for the valuations effective December 31, 2000.

A. Actuarial Assumptions (As of December 31, 2000)

Kansas Public Employees Retirement System (KPERs)

Rate of Investment Return	8.0 percent		
Implicit Inflation Rate	3.5 percent		
Rates of Mortality	School (male): 1994 GAM Male Table School (female): 1994 GAM Female Table -1 Nonschool (male): 1994 GAM Male Table +2 Nonschool (female): 1994 GAM Female Table +1		
Disabled Life Mortality	1994 GAM Table Set forward 12 years		
Rates of Salary Increase	Years of Service	Rate of Increase*	
		State	School Local
	1	7.8%	9.8% 7.8%
	5	5.6%	6.7% 6.2%
	10	4.9%	5.1% 5.2%
	15	4.4%	4.6% 4.8%
	20	4.1%	4.1% 4.6%
	25	4.0%	4.0% 4.1%
	30	4.0%	4.0% 4.0%

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

RESOURCES

Age	School – Male Years of Service				
	≤20	20	30	40	50 or more
25	23.0%	19.0%	13.0%	10.0%	10.0%
30	20.5%	17.2%	12.5%	10.0%	6.0%
35	19.7%	16.0%	12.0%	10.0%	4.3%
40	19.3%	15.6%	12.0%	10.0%	3.2%
45	18.8%	15.3%	12.0%	10.0%	2.6%
50	18.4%	14.9%	12.0%	10.0%	2.1%

School - Female Years of Service

<u>Age</u>	<u><20</u>	<u>20</u>	<u>30</u>	<u>40</u>	<u>50 or more</u>
25d	26.0% ^d	20.7% ^d	17.5% ^d	11.3% ^d	11.5% ^d
30d	23.5% ^d	16.2% ^d	14.4% ^d	9.2% ^d	8.0% ^d
35d	20.0% ^d	13.5% ^d	12.5% ^d	8.0% ^d	4.8% ^d
40d	16.5% ^d	11.3% ^d	9.0% ^d	7.3% ^d	3.0% ^d
45d	14.0% ^d	10.2% ^d	8.7% ^d	7.1% ^d	2.0% ^d
50d	13.4% ^d	9.9% ^d	8.5% ^d	7.0% ^d	2.0% ^d

State - Male Years of Service

<u>Age</u>	<u><20</u>	<u>20</u>	<u>30</u>	<u>40</u>	<u>50 or more</u>
25d	18.0% ^d	19.1% ^d	16.3% ^d	14.0% ^d	10.0% ^d
30d	18.0% ^d	15.3% ^d	13.0% ^d	11.1% ^d	10.0% ^d
35d	15.0% ^d	13.3% ^d	11.4% ^d	9.8% ^d	5.9% ^d
40d	15.0% ^d	12.0% ^d	10.3% ^d	8.8% ^d	4.0% ^d
45d	13.0% ^d	11.7% ^d	10.0% ^d	8.5% ^d	3.0% ^d
50d	13.0% ^d	11.4% ^d	9.8% ^d	8.4% ^d	2.0% ^d

State - Female Years of Service

<u>Age</u>	<u><20</u>	<u>20</u>	<u>30</u>	<u>40</u>	<u>50 or more</u>
25d	25.0% ^d	23.0% ^d	19.1% ^d	15.0% ^d	16.9% ^d
30d	20.5% ^d	18.9% ^d	15.7% ^d	12.3% ^d	10.8% ^d
35d	17.8% ^d	16.4% ^d	13.4% ^d	10.7% ^d	6.6% ^d
40d	16.3% ^d	15.0% ^d	11.4% ^d	9.8% ^d	4.7% ^d
45d	15.8% ^d	14.5% ^d	10.2% ^d	9.5% ^d	3.5% ^d
50d	15.5% ^d	14.3% ^d	10.2% ^d	9.3% ^d	3.5% ^d

Local - Male Years of Service

<u>Age</u>	<u><20</u>	<u>20</u>	<u>30</u>	<u>40</u>	<u>50 or more</u>
25d	23.0% ^d	19.5% ^d	16.1% ^d	15.0% ^d	12.0% ^d
30d	18.0% ^d	15.3% ^d	12.6% ^d	11.7% ^d	9.5% ^d
35d	15.0% ^d	12.0% ^d	10.5% ^d	9.8% ^d	5.7% ^d
40d	12.5% ^d	10.6% ^d	8.8% ^d	8.1% ^d	4.1% ^d
45d	11.3% ^d	10.0% ^d	7.9% ^d	7.3% ^d	3.6% ^d
50d	11.0% ^d	10.0% ^d	7.7% ^d	7.2% ^d	3.2% ^d

Local - Female Years of Service

<u>Age</u>	<u><20</u>	<u>20</u>	<u>30</u>	<u>40</u>	<u>50 or more</u>
25d	25.0% ^d	22.5% ^d	18.8% ^d	15.8% ^d	12.0% ^d
30d	20.0% ^d	18.0% ^d	15.0% ^d	12.6% ^d	8.8% ^d
35d	17.5% ^d	15.8% ^d	13.1% ^d	11.0% ^d	7.3% ^d
40d	15.8% ^d	14.2% ^d	11.9% ^d	10.0% ^d	5.5% ^d
45d	15.3% ^d	13.8% ^d	11.5% ^d	9.6% ^d	4.5% ^d
50d	15.0% ^d	13.5% ^d	11.3% ^d	9.5% ^d	4.0% ^d

RETIREMENT RAR ESr

Rule of 85 – Schoolr

Aged	1st Year	After 1st Year	Early Retirement		Normal Retirement	
	With 85 Points	With 85 Points	Aged	Rated	Aged	Rated
53d	20% ^d	10% ^d	55d	3% ^d	62d	40% ^d
55d	20% ^d	15% ^d	56d	3% ^d	63d	30% ^d
57d	25% ^d	15% ^d	57d	3% ^d	64d	35% ^d
59d	25% ^d	25% ^d	58d	5% ^d	65d	40% ^d
61d	35% ^d	35% ^d	59d	10% ^d	66d	20% ^d
			60d	10% ^d	67d	20% ^d
			61d	20% ^d	68d	20% ^d
			69d	20% ^d		
			70d	100% ^d		

Rule of 85 – Stater

Aged	1st Year	After 1st Year	Early Retirement		Normal Retirement	
	With 85 Points	With 85 Points	Aged	Rated	Aged	Rated
53d	17% ^d	15% ^d	55d	3% ^d	62d	40% ^d
55d	17% ^d	15% ^d	56d	3% ^d	63d	25% ^d
57d	17% ^d	15% ^d	57d	3% ^d	64d	30% ^d
59d	15% ^d	15% ^d	58d	3% ^d	65d	45% ^d
61d	30% ^d	25% ^d	59d	5% ^d	66d	30% ^d
			60d	7% ^d	67d	25% ^d
			61d	20% ^d	68d	25% ^d
			69d	20% ^d	70d	100% ^d

Rule of 85 – rocalr

Aged	1st Year	After 1st Year	Early Retirement		Normal Retirement	
	With 85 Points	With 85 Points	Aged	Rated	Aged	Rated
53d	10% ^d	5% ^d	55d	3% ^d	62d	35% ^d
55d	10% ^d	10% ^d	56d	3% ^d	63d	25% ^d
57d	10% ^d	10% ^d	57d	3% ^d	64d	25% ^d
59d	10% ^d	15% ^d	58d	3% ^d	65d	40% ^d
61d	25% ^d	25% ^d	59d	5% ^d	66d	20% ^d
			60d	5% ^d	67d	20% ^d
			61d	15% ^d	68d	20% ^d
			69d	20% ^d	70d	100% ^d

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

<u>Aged</u>	<u>Rated</u>
55d	10%d
58d	15%d
60d	15%d
62d	35%d
65d	100%d

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

Rates of Disabilityr

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

Indexation of Final Average Salary for Disabled Members: 25 percent per yearD

PROBABILITY OF VESTED MEMBERS r EAVING CONTRIBUTIONS WITH SYSTEMr

<u>Aged</u>	<u>Schoold</u>	<u>Statd</u>	<u>Locald</u>
25d	60%d	51%d	35%d
30d	60%d	51%d	40%d
35d	65%d	53%d	47%d
40d	74%d	63%d	61%d
45d	83%d	69%d	71%d
50d	88%d	83%d	82%d
55d	100%d	100%d	100%d

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

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

Rate of Investment ReturnD	8.0 percentD
Implicit Inflation AssumptionD	3.5 percentD
Rates of MortalityD	1994 GAM Table*D *70 percent of preretirement deaths assumed to be service related
Disabled Life MortalityD	1994 GAM Table Set forward 12 yearsD

Rates of Salary IncreaseD	<u>Years of Service</u>	<u>Rate of Increase*</u>
	1d	12.5%d
	5d	7.0%d
	10d	4.9%d
	15d	4.3%d
	20d	4.0%d
	25d	4.0%d
	*Includes a general wage increase assumption of 4.0 percent (composed of 3.5 percent inflation and 0.50 percent productivity)	

Rate of Termination

Tier I: 3 percent for ages less than 41; 0 percent thereafter

Tier II:	<u>Years of Service</u>	<u>Rate</u>
	1d	13.0%d
	5d	6.0%d
	10d	2.5%d
	15d	1.0%d
	20d	1.0%d
	25d	0.0%d

RETIREMENT RATES

Tier I:	<u>Early Retirement</u>		<u>Normal Retirement</u>	
	<u>Age</u>	<u>Rate</u>	<u>Age</u>	<u>Rate</u>
	50d	5%d	55d	60%d
	50d	5%d	55d	60%d
	51d	5%d	56d	25%d
	52d	10%d	57d	20%d
	53d	20%d	58d	35%d
	54d	30%d	59d	65%d
			60d	100%d

Tier II:0	<u>Early Retirement</u>		<u>Normal Retirement</u>	
	<u>Age</u>	<u>Rate</u>	<u>Age</u>	<u>Rate</u>
	50d	10%d	50d	45%d
	51d	10%d	53d	30%d
	52d	10%d	55d	30%d
	53d	10%d	58d	20%d
	54d	25%d	60d	100%d

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

<u>Rates of Disability</u>	<u>Age</u>	<u>Rate</u>
	22d	.06%d
	27d	.07%d
	32d	.15%d
	37d	.35%d
	42d	.60%d
	47d	1.00%d
	52d	1.60%d
	57d	2.55%d

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

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

Kansas Retirement System for Judges (Judges)L

Rate of Investment ReturnD	8.0 percentD
Implicit Inflation AssumptionD	3.5 percentD
Rates of MortalityD	1994 GAM TableD
Rates of Salary IncreaseD	5.5 percentD
Rates of TerminationD	None assumed
Disabled Life MortalityD	Same as Healthy LivesD
Rates of DisabilityD	None assumedD
Retirement AgeD	Age 64 or current age, if greaterD
Marriage Assumption: 70 percent of all members are assumed married with male spouse assumed three years older than female.D	

B. Actuarial Methodsf

KPERS Funding Methodf

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

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

For KPERS, the unfunded actuarial liability is amortized over a period originally set at 40 years beginning July 1993. The annual amortization payments will increase 4 percent for each year remaining in the 40-year amortization period. As a result, if total payroll grows 4 percent per year as assumed, the amortization payment will remain level as a percentage of total current payroll. The increase in the unfunded actuarial liability resulting from the 1998 COLA is amortized as a level percent of payroll over 15 years.

For the closed group of KPERS-TIAA members, the unfunded actuarial liability is amortized by annual level dollar payments over a period of 10 years from July 1993. This period was extended by one year effective with the 1998 actuarial valuation.

KP&F Funding Method

The Aggregate Actuarial Cost Method with Supplemental Unfunded Actuarial Liability (UAL) is used for KP&F. This method develops a normal cost rate on a group, or aggregate, basis. The Supplemental Unfunded Liability was initially established in 1993 to reflect the increase in the actuarial liability (using the Projected Unit Credit cost method) due to the benefit enhancement package passed in that year. The Supplemental UAL is amortized over 40 years measured from July 1993, with payments increasing 4 percent per year. A separate amortization base was established for the ad hoc COLA granted in 1998. This UAL is amortized over 15 years with the payment increasing 4 percent per year. As of December 31, 2000, the Supplemental UAL was reestablished with the resulting UAL set to zero. The COLA UAL amortization base/payments remain unchanged.

Judges Funding Method

The Frozen Entry Age Cost Method is used. The frozen unfunded actuarial liability (UAL) was established in 1993 with payments over 40 years as a level dollar amount. The UAL is frozen and reflects changes only due to a change in plan provisions or actuarial assumptions. Actuarial gains/losses are reflected in the calculation of the normal cost rate.

2. Asset Valuation Method

For actuarial purposes, assets are valued at expected value (based on the actuarial assumed rate of return) at the valuation date (based on the actuarial assumption) plus one-third of the difference between the market value and expected value.

PLAN PROVISIONS

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

PLAN MEMBERSHIP

The Kansas Public Employees Retirement System (the Retirement System, or the System) is a body corporate and an instrumentality of the State of Kansas. The Retirement System is an umbrella organization administering three statewide retirement systems:

- Kansas Public Employees Retirement System (KPERS)
- Kansas Police and Firemen's Retirement System (KP&F)
- Kansas Retirement System for Judges (Judges)

All three systems are defined benefit, contributory plans that cover substantially all public employees in Kansas. The Kansas Retirement System for Judges is a single employer plan, while the other two are cost-sharing, multi-employer plans. The State of Kansas is required to participate, but local political subdivisions participation is optional but irrevocable once elected. Certain legislative employees also receive benefit payments.

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

EMPLOYEE MEMBERSHIP

Membership is mandatory for all employees in covered positions, except elected officials. A covered position for non-school employees is one that is covered by Social Security, is not seasonal or temporary, and requires at least 1,000 hours of work per year. School employees become KPERS members on their employment date. School employees who work at least 630 hours per year or 3.5 hours per day for 180 days are eligible for membership. Non-school employees become KPERS members after one year of continuous employment. State employees and non-school employees of local employers have first-day coverage for death and disability benefits if their employer elects the coverage. KPERS retirees may not become contributing members again.

RETIREMENT AGE AND SERVICE REQUIREMENTS

Eligibility

- age 65
- age 62 with 10 years of credited service
- any age when combined age and years of credited service equal 85 "points"

Age is determined by the member's last birthday and is not rounded up. **Benefits** — Benefits are based on the member's years of credited service, final average salary (FAS) and a statutory multiplier. Effective July 2001, at retirement a member may receive a lump-sum payment of up to 50 percent of the actuarial present value of the member's lifetime benefit. His or her monthly retirement benefit is then permanently reduced.

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

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

- a four-year FAS including additional compensation, such as sick and annual leave; or
- a three-year FAS excluding additional compensation, such as sick and annual leave.

Prior Service Credit — Prior service credit is 75 percent to 100 percent of FAS per year [School employees receive 75 percent FAS 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 75 percent of FAS. **Working after Retirement** — A member must wait 30 days after his or her retirement date before working for any employer who participates in KPERS. If a retired member then goes to work for an employer he or she worked for during his or her last two years of KPERS participation, the member has a \$15,000-per-year earnings limit.

EARLY RETIREMENT

Eligibility — Eligibility is age 55 and 10 years of credited service. **Benefit** — The retirement benefit is reduced 2 percent per month if the member is from age 60 to age 62, plus 6 percent per month if the member is from age 55 to age 60.

VESTING REQUIREMENTS

Eligibility — A member must have 10 years of credited service. Should the vested member end employment, the member must leave accumulated contributions on deposit with the Retirement System to be eligible for future benefits. If a vested member ends employment and withdraws accumulated contributions, the member loses all rights and privileges under the Retirement System. If a vested member who is married ends employment and wants to withdraw accumulated contributions, the member's spouse must provide consent for the contribution withdrawal, since any benefits to which the spouse may have been entitled in the future would be lost as well. **Benefit** — Retirement benefits are payable when the vested member reaches normal retirement age, or reduced benefits are payable when the vested member reaches a specified early retirement age.

OTHER BENEFITS

Withdrawal Benefit — If members leave employment they can withdraw their contributions, plus interest, after 30 days. Members lose any rights and benefits when they withdraw from KPERS, such as insurance coverage. Former members who return to covered employment within five years will not have lost any membership rights or privileges, if they *haven't* withdrawn contributions. The Retirement Act does not allow members to borrow from contributions. The employer portion of contributions remains with the System when a member ends employment and withdraws contributions. The Retirement System will refund contributions only after all contributions have been reported by the member's former employer.

Disability Benefit — KPERS Death and Disability Benefits Program provides disability income benefits, financed by employer contributions of 6 percent of a member's compensation. A member must be totally disabled for 80 continuous days. Benefits accrue from the later of the 1st day of continuous disability or from the first day when compensation from the employer ceases. The long-term disability benefit is two-thirds of the member's annual compensation on the date disability begins, reduced by Social Security benefits (members must apply), Workers' Compensation benefits and any other employment-related disability benefits. The minimum monthly benefit is \$100. Members receiving disability benefits continue to receive service credit under KPERS, group life insurance coverage and waiver of optional group life insurance premiums if the member is under age 65 when first disabled. If a disabled member retires after receiving disability benefits for at least five years immediately before retirement, the member's FAS is adjusted by statute.

Non-Service Connected Death Benefit — The active member's designated beneficiary receives the member's accumulated contributions plus interest in a lump sum. If the member had reached age 55 with 10 years of credited service, and the spouse is the sole beneficiary when the spouse may choose a lifetime benefit instead of receiving the returned contributions. If a member with 15 or more years of service dies and was not of retirement age and the spouse is the sole beneficiary when the spouse can elect one of the survivor options at the time the member would have first been of retirement age.

Service-Connected Accidental Death Benefit — The active member's accumulated contributions plus interest, a \$50,000 lump sum, and an annual benefit based on 50 percent of FAS (reduced by Workers' Compensation benefits and subject to a minimum benefit of \$100 a month), are payable to a spouse, minor children or dependent parents for life, or until the youngest

child reaches age 18 (or up to age 23 if a full-time student), in this order of preference. The monthly accidental death benefit is paid in lieu of any joint/survivor benefit.

Insured Death Benefit — KPERS Death and Disability Program provides an insured death benefit equal to 50 percent of the active member's annual compensation on the date of death. If a disabled member dies after receiving disability benefits for at least five years immediately before death, the member's current annual rate of compensation is adjusted by statute.

Death Benefit After Retirement — The retiree's beneficiary receives a \$4,000 lump sum. The beneficiary may 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. A retiree may name a funeral establishment as beneficiary. If the member has selected a retirement option, benefits are paid to the joint annuitant or the designated beneficiary. Under joint and survivor retirement options, if the joint annuitant dies before the retired member, the reduced benefit payment is increased to the amount the retired member would have received if no retirement option had been selected. Benefits payable to a joint annuitant stop at the joint annuitant's death. If a member does not select an option, the designated beneficiary receives the excess, if any, of the member's accumulated contributions, plus interest, over total benefits paid to date of death.

MEMBER CONTRIBUTIONS

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

EMPLOYER CONTRIBUTIONS

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

BOARD OF REGENTS PLAN MEMBERS (TIAA AND EQUIVALENTS)

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

CORRECTIONAL EMPLOYEES

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

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

For groups (a) and (b) with at least three consecutive years of credited service, in such positions immediately before retirement, normal retirement age is 55 and early retirement requirements are age 50 with 10 years of credited service. For groups (c), (d), (e) and (f) with at least three consecutive years of service in such positions immediately before retirement, normal retirement age is 60 and early retirement requirements are age 55 with 10 years of credited service. Both groups are also eligible for full benefits when age and service equal 85 "points."

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

RETIREMENT AGE AND SERVICE REQUIREMENTS

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

Eligibility — TIER II **:f

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

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

For those who were hired *before* July 1993, FAS is 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 1993, FAS is the average of the highest three of the last five years of participating service, *excluding* add-ons, such as sick and annual leave.

Annual benefits at normal retirement age equal $FAS \times 2.5 \text{ percent} \times \text{years of service (up to 32 years)}$.

Local f n — For members covered by local plan provisions on the employer's entry date, normal retirement is at age 50 with 22 years of credited service. **Working after Retirement —** A member must wait 30 days after his or her retirement date before working for any employer who participates in KP&F. If a retired member then goes to work for an employer he or she worked for during his or her last two years of KP&F participation, the member has a \$15,000-per-year earnings limit.

EARLY RETIREMENT

Eligibility — Members must be at least age 50 and have 20 years of credited service. **Benefit —** Normal retirement benefits are reduced 4 percent per month under age 55.

VESTING REQUIREMENTS

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

Eligibility — TIER II **:f The member must have 25 years of credited service to be considered vested. To draw a benefit before age 60, however, the member must have 20 years of credited service. If ending employment, the member must leave contributions with the Retirement System to be eligible for future benefits.

OTHER BENEFITS

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

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

System when a member ends employment and withdraws. The Retirement System will refund contributions only after all contributions have been reported by the member's former employer.

DISABILITY BENEFITS

TIER I*: Service-Connected Disability — There is no age or service requirement to be eligible for this benefit. A member receives a pension of 50 percent of FAS, plus 10 percent of FAS for each dependent child under age 18 (or up to age 23 for full-time students), to a maximum of 75 percent of FAS. If dependent benefits aren't payable, the benefit is 25 percent for each year to a maximum of 80 percent of FAS. When a member receiving service-connected disability benefits dies, the spouse and dependent children receive service-connected death benefits if the member dies within two years of retirement or after two years from the same service-connected cause. If service-connected death benefits aren't payable, the spouse receives a lump-sum payment of 50 percent of the member's Final Average Salary. Also, either the spouse or the dependent children receive a pension of half of the member's benefit.

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

TIER II:** There is no distinction between service-connected and non-service-connected disability benefits. Benefit is 50 percent of FAS. Service credit is granted during the disability period. Disability benefits convert to age and service retirement as soon as the member is eligible for full retirement benefits. If the member is disabled for at least five years immediately before retirement, the member's FAS is adjusted by statute. Disability benefits are offset \$1 for each \$2 earned after the first \$10,000 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 FAS goes to the spouse, plus 10 percent of FAS goes to each dependent child under age 18 [or up to age 23 if full-time student(s)], to a maximum of 75 percent of FAS.

Non-Service-Connected Death — A lump sum of 100 percent of FAS goes to the spouse; and a pension of 25 percent of FAS per year of service (to a maximum of 50 percent) is payable to the spouse. If there is no spouse, the monthly benefit is paid to the dependent children. If there is no surviving spouse or children the lump-sum payment less refundable contributions and interest is paid to the beneficiary.

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

Death After Retirement — The retiree's beneficiary may 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. A retiree may name a funeral establishment as beneficiary. If the member has selected a retirement option, benefits are paid to the joint annuitant or the designated beneficiary. Under joint and survivor retirement options, if the joint annuitant dies before the retired member, the reduced benefit payment is increased to the amount the retired member would have received if no retirement option had been selected. Benefits payable to a joint annuitant stops at the joint annuitant's death. If a member does not select an option, the designated beneficiary receives the excess, if any, of the member's accumulated contributions, plus interest, over total benefits paid to date of death.

The surviving spouse of a transfer member (who was covered by a local plan on the employer's entry date, who dies after retirement, and who had not elected a retirement benefit option), receives a lump-sum payment of 50 percent of FAS. Also, 75 percent of the member's benefit is payable either to the spouse or to dependent children.

* **TIER I** — Members have Tier I coverage if they were employed before July 1989, and if they did not elect coverage under Tier II.

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

MEMBER CONTRIBUTIONS

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

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

Kansas Retirement System for Judges (Judges)

EMPLOYER CONTRIBUTIONS

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

RETIREMENT AGE AND SERVICE REQUIREMENTS

Eligibility

- age 65
- age 62 with 10 years of credited service
- any age when combined age and years of credited service equal 85 "points"

Age is determined by the member's last birthday and is not rounded up. **Benefit** — The benefit is based on the member's Final Average Salary (FAS), which is the average of the three highest years of service as a judge. Effective July 2001, at retirement a member may receive a lump-sum payment of up to 50 percent of the actuarial present value of the member's lifetime benefit. His or her monthly retirement benefit is then permanently reduced.

The basic formula for those who were members before July 1987, is 5 percent of FAS for each year of service up to 10 years, plus 3.5 percent for each year to a maximum of 70 percent of FAS. For those who became members on or after July 1987, the formula is 3.5 percent for each year to a maximum benefit of 70 percent of FAS.

Employment after Retirement: Retired judges may enter into an agreement to work for up to 180 days at 25 percent of the current salary of a judge. The agreement is for two years and may be renewed for up to 12 years. Retirement benefits will be suspended in any case where a retired judge is elected or appointed to a judgeship. The judge in that case resumes active participation and will accrue additional service credit. When the judge retires again, the retirement benefit is recalculated.

EARLY RETIREMENT

Eligibility — A member must be age 55 and have 10 years of credited service to take early retirement. **Benefit** — The retiree-

ment benefit is reduced 2 percent per month if the member is from age 60 to age 62, plus 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 ending employment, the member must leave contributions on deposit with the Retirement System in order to be eligible for future benefits. Eligible judges who have service credited under KPERS have vested benefits under both KPERS and the Retirement System for Judges when the combined total credited service equals 10 years. **Benefit** — Normal benefit accrued at termination is payable at age 62 or in a reduced amount at age 55, provided the member has 10 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 FAS for each year of service. The minimum benefit is 50 percent of FAS. Benefits are recalculated when the member reaches retirement age. If a judge is disabled for at least five years immediately before retirement, the judge's FAS is adjusted by statute.

Withdrawal Benefit — If members leave employment they can withdraw their contributions, plus interest, after 30 days. When members withdraw from KPERS they lose any rights and benefits, such as insurance coverage. Former members who return to covered employment within five years will not have lost any membership rights or privileges, if they haven't withdrawn contributions. The Retirement Act does not allow members to borrow from contributions. The employer portion of contributions remains with the System when a member ends employment and withdraws contributions. KPERS will refund contributions only after all contributions have been reported by the member's former employer.

Death Benefit Before Retirement — A lump sum insured death benefit equal to 50 percent of the active member's annual compensation on the date of the member's death is payable; plus a refund of the member's accumulated contributions. In lieu of receiving the member's accumulated contributions, the surviving spouse of a member who is eligible to retire at death, may elect to receive benefits under any survivor benefit option. The spouse must be the member's sole designated beneficiary to exercise this option. If the member had at least 15 years of credited service, but hadn't reached retirement age at the time of death, the spouse may elect a monthly benefit to begin on the date the member first would have been eligible to retire.

Death After Retirement — The retiree's beneficiary receives a \$4,000 lump sum. The beneficiary may assign this benefit to a funeral home. A retiree may also directly name a funeral establishment as beneficiary. If the member had selected an option with survivor benefits, benefits are paid to the joint annuitant or to the member's designated beneficiary. Under joint and survivor retirement options, if the joint annuitant dies before the retired member, the reduced benefit payment is increased to the amount the retired member would have received if no retirement option had been selected. Benefits payable to a joint annuitant stop when the joint annuitant dies. If the member did not select an option, the designated beneficiary receives the excess, if any, of the member's accumulated contributions, plus interest, over total benefits paid to date of death.

MEMBER CONTRIBUTIONS

Judges contribute 6 percent of gross earnings. When an active member reaches the maximum retirement benefit level of 70 percent of final average salary, the contribution rate is reduced to 5 percent.

EMPLOYER CONTRIBUTIONS

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

Short term Solvency restr
Last Sen Fiscal YSarS

Valuation) Date)	M(ember) Contributions) (I)	Retirants) and) Beneficiaries) (B)	A)tive)embers) Employer Financed) Portion) (C)	Assets) A)ailable) for Benefits)	Portions of Accrued Liabilities) Covered by) ets)		
					(A)	(B)	(C)
06/30/93d	\$1,651,701,100d	\$1,864,877,500d	\$1,943,701,800d	\$4,492,541,700d	100%d	100%d	50% (2)d
06/30/94d	1,801,791,938d	2,388,662,221d	2,356,469,874d	5,041,702,745 (1)d	100d	100d	36d
06/30/95d	1,958,992,138d	2,678,609,811d	2,353,427,051d	5,510,957,394d	100d	100d	37d
06/30/96d	2,159,113,770d	3,037,892,830d	2,406,103,997d	6,158,754,752d	100d	100d	40d
06/30/97d	2,337,511,704d	3,232,733,926d	2,681,740,618d	6,875,918,348d	100d	100d	49d
06/30/98d	2,522,614,846d	3,841,556,459d	2,976,514,154d	7,749,203,022d	100d	100d	47d
06/30/99d	2,725,881,233d	4,125,714,368d	3,147,650,125d	8,601,875,670d	100d	100d	56d
06/30/00d	2,929,469,325d	4,454,897,319d	3,417,030,430d	9,568,274,828d	100d	100d	64d
12/31/00d	3,007,338,917d	4,576,452,175d	3,556,222,919d	9,835,181,839 (3)d	100d	100d	63d
12/31/01d	3,330,859,571d	4,903,096,418d	3,509,095,766d	9,962,917,897d	100d	100d	49d

1)3 Actuarial valuation method was 3changed from book value to a market-based method.3

2)3 1993 legislation passed 3substantial benefit enhancements and 3changed 3the actuarial method of the KPERS 3system from the frozen initial3 liability method to the projected 3unit 3cost method. The amortization period was also adjusted to a 40 year period beginning July 1, 1993.

3)3 Actuarial valuation date was 3changed to a 3calendar year.3

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

Schedule of Active Member Valuation Data (1)

Valuation Date	Number of Active Members (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
06/30/93	119,074	2.6%	1,272	2.0%	\$2,835	\$23,260	2.4%
06/30/94	123,178	3.4	1,287	1.2	3,068	24,907	4.6
06/30/95	131,270	6.6	1,309	1.7	3,309	25,208	1.2
06/30/96	134,470	2.4	1,344	2.7	3,464	25,760	2.2
06/30/97	136,241	1.3	1,371	2.0	3,590	26,350	2.3
06/30/98	134,866	-1.0	1,397	1.9	3,765	27,915	5.9
06/30/99	137,969	2.3	1,407	0.7	4,088	28,529	2.2
06/30/00	140,559	1.9	1,416	0.6	4,290	30,471	6.8
12/31/00	143,337	2.0	1,423	0.5	4,455	30,412	-0.2
12/31/01	145,666	1.6	1,435	0.8	4,675	32,094	5.5

1) Data provided to actuary reflects active membership information as of January 1, 2002.

2) Excludes TIAA Salaries.

Schedule of Employer Contribution Rates
Last Ten Fiscal Years (1)

KPERS STATE/SCHOOL			KPERS LOCAL		
Fiscal Year	Actuarial Rated	Actual Rated	Fiscal Year	Actuarial Rated	Actual Rated
1993	3.30%	3.30%	1993	1.90%	1.90%
1994	3.10	3.10	1994	2.20	2.20
1995	3.10	3.20	1995	3.05	2.30
1996	4.11	3.30	1996	3.72	2.48
1997	5.17	3.59	1997	3.73	2.63
1998	5.23	3.79	1998	3.86	2.78
1999	5.33	3.99	1999	3.86	2.93
2000	5.27	4.19	2000	3.89	3.22
2001	6.15	3.98 (2)	2001	3.88	2.77 (2)
20 20	6.0	4.780	2 020	4.070	3.520

TIAA			KP&F (UNIFORM RATE)			JUDGES		
Fiscal Year	Actuarial Rated	Actual Rated	Fiscal Year	Actuarial Rated	Actual Rated	Fiscal Year	Actuarial Rated	Actual Rated
1993	1.60%	1.60%	1993	6.50%	6.50%	1993	7.10%	7.10%
1994	1.60	1.60	1994	6.80	6.80	1994	7.70	7.70
1995	1.70	1.70	1995	6.95	6.95	1995	8.00	8.00
1996	1.75	1.75	1996	9.65	9.65	1996	10.35	10.35
1997	1.89	1.89	1997	9.73	9.73	1997	16.00	16.00
1998	1.66	1.66	1998	9.45	9.45	1998	15.67	15.67
1999	1.93	1.93	1999	7.36	7.36	1999	15.67	15.67
2000	1.82	1.82	2000	7.35	7.35	2000	14.38	14.38
2001	1.21	1.21 (2)	2001	6.97	6.97	2001	16.14	15.74 (2)
2 020	2.030	2.030	20020	6.790	6.790	2 020	12.88	12.880

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

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

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

Fiscal Year (Ended June 30)	Number (Beginning of Year)	Additions		Deletions		Number (End of Year)	% Change (Number of Retirants)	% Change (in Additions/Allowances)
		Number (Added)	Annual (Allowances)	(Number) (Removed)	Annual (Allowances)			
1993	40,355	2,492	\$22,391,028	1,459	\$4,632,807	41,388	2.60%	9.60%
1994	41,388	3,576	41,949,288	1,593	6,120,175	43,371	4.80	87.30
1995	43,371	3,463	41,898,882	1,530	6,690,418	45,304	4.50	(1.00)
1996	45,304	3,119	37,681,571	1,677	7,233,445	46,746	3.20	(10.10)
1997	46,746	3,456	42,581,075	1,643	7,829,006	48,559	3.90	13.00
1998	48,559	3,228	40,731,685	1,716	7,638,945	50,071	3.10	(4.30)
1999	50,071	3,328	41,833,222	1,756	9,151,705	51,643	3.10	2.70
2000	51,643	3,360	44,028,303	1,862	9,563,949	53,141	2.90	5.20
2001	53,141	3,112	44,919,587	1,951	10,020,387	54,302	2.20	2.00
2002	54,302	3,689	45,669,820	1,922	9,552,087	56,069	3.30	1.70

Membership Profiler
Last Ten Fiscal Years

Fiscal Year	Active	Inactive	Retirees & Beneficiaries	Total Membership
1993	121,997	9,182	41,388	172,567
1994	131,684	12,851	43,371	187,906
1995	136,710	13,362	45,304	195,376
1996	140,573	15,249	46,746	202,568
1997	141,127	17,973	48,559	207,659
1998	143,080	21,080	50,071	214,231
1999	147,985	22,000	51,643	221,628
2000	149,681	25,053	53,141	227,875
2001	151,593	28,892	54,302	234,787
2002	153,557	31,201	56,069	240,827

Summary of Membership Data

Retiree and Beneficiary Member Valuation Data (1)0	<u>12/31/010</u>	<u>12/31/0</u>
KPERS0		
Numberd	52,757d	51,215d
Average Benefitd	\$9,292d	\$8,974d
Average Aged	73.26d	73.43d
Police & Fire0		
Numberd	3,211d	3,031d
Average Benefitd	\$20,023d	\$19,881d
Average Aged	68.30d	67.30d
Judges0		
Numberd	147d	150d
Average Benefitd	\$28,954d	\$27,474d
Average Aged	73.50d	74.10d
System Total0		
Numberd	56,115d	54,396d
Average Benefitd	\$9,958d	\$9,632d
Average Aged	72.97d	73.09d
Active Member Valuation Data (1)0	<u>12/31/010</u>	<u>12/31/0</u>
KPERS0		
Numberd	139,253d	137,086d
Average Current Aged	44.42d	44.19d
Average Serviced	10.20d	10.13d
Average Payd	\$31,279d	\$30,307d
Police & Fire0		
Numberd	6,405d	6,258d
Average Current Aged	38.30d	38.10d
Average Serviced	10.56d	10.40d
Average Payd	\$46,483d	\$44,511d
Judges0		
Numberd	252d	247d
Average Current Aged	44.17d	54.22d
Average Serviced	10.21d	10.75d
Average Payd	\$85,625d	\$84,794d
System Total0		
Numberd	145,910d	143,591d
Average Current Aged	44.17d	43.94d
Average Serviced	10.21d	10.14d
Average Payd	\$32,041d	\$31,020d

1) Data provided by actuary reflects active membership information as of January 1, 2002

Statistical Section

2002 Comprehensive Annual Financial Report
Kansas Public Employees Retirement System

Highlights of Operations – 10 Year Summary

	<u>2002r</u>	<u>2001r</u>	<u>2000r</u>	<u>1999r</u>	<u>1998r</u>
Membership Composition					
Number of Retirees	56,069d	54,302d	53,141d	51,643d	50,071d
New Retirees During the Year	3,689d	3,112d	3,360d	3,328d	3,228d
Active and Inactive Members	184,758d	180,485d	174,734d	169,985d	164,160d
Participating Employers	1,435d	1,423d	1,415d	1,407d	1,397d
Financial Results (Millions)					
Member Contributions	\$210d	\$204d	\$193d	\$185d	\$174d
Employer Contributions	221d	193d	185d	202d	167d
Retirement/Death Benefits	636d	559d	506d	473d	429d
Investment Income (a)	(464)d	(798)d	1,315d	954d	1,247d
Employer Contribution Rate (b)					
KPERS—State/School	4.78%d	3.98%d	4.19%d	3.99%d	3.79%d
KPERS—Local (c)	3.52d	2.77d	3.22d	2.93d	2.78d
KP&F (Uniform Participating) (c)	6.79d	6.97d	7.35d	7.36d	9.45d
Judges	12.88d	15.74d	14.38d	15.67d	15.67d
TIAA	2.03d	1.21d	1.82d	1.93d	1.66d
Special Elected Officials (d)	—d	—d	—d	—d	—d
Unfunded Actuarial Liability (Millions)					
KPERS—State/School	\$1,506d	\$1,120d	\$860d	\$973d	\$1,142d
KPERS—Local	185d	90d	36d	76d	104d
KP&F	59d	62d	307d	317d	313d
Judges	10d	10d	8d	8	8d
TIAA	20d	23d	23d	23d	24d
Funding Ratios (e)					
KPERS—State/School	82.46%d	86.23%d	88.82%d	86.36%d	83.03%d
KPERS—Local	89.12d	94.29d	97.56d	94.41d	91.47d
KP&F	95.53d	95.22d	79.68d	77.28d	75.62d
Judges	88.94d	88.66d	90.53d	89.42d	88.21d
TIAA	48.32d	41.18d	39.72d	34.16d	28.83d

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

b) Per 2000 and 2001 legislation, employers were not required to remit the Group Life and Disability portion of the Actual Rate from April 1, 2000, through December 31, 2001. The fiscal year 2001 rates reflect the adjustment to the Actual Rate.

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

d) Special Elected Officials coverage was applicable commencing in fiscal year 1989 through calendar year 1992.

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

Highlights of Operations – 10 Year Summary

	<u>19970</u>	<u>19960</u>	<u>19950</u>	<u>19940</u>	<u>19930</u>
Membership Composition					
Number of Retirees	48,559d	46,746d	45,304d	43,371d	41,388d
New Retirees During the Year	3,456d	3,119d	3,463d	3,576d	2,492d
Active and Inactive Members	159,100d	155,822d	150,072d	144,535d	131,179d
Participating Employers	1,371d	1,344d	1,309d	1,287d	1,272d
Financial Results (Millions)					
Member Contributions	\$171d	\$173d	\$159d	\$149d	\$134d
Employer Contributions	156d	143d	130d	118d	117d
Retirement/Death Benefits	397d	364d	334d	292d	231d
Investment Income (a)	974d	1,095d	906d	115d	665d
Employer Contribution Rate (b)					
KPERS—State/School	3.59%d	3.30%d	3.20%d	3.10%d	3.30%d
KPERS—Local (c)	2.63d	2.48d	2.30d	2.20d	1.90d
KP&F (Uniform Participating) (c)	9.73d	9.65d	6.95d	6.80d	6.50d
Judges	16.00d	10.35d	8.00d	7.70d	7.10d
TIAA	1.89d	1.75d	1.70d	1.60d	1.60d
Special Elected Officials (d)	—d	—d	—d	—d	7.90d
Unfunded Actuarial Liability (Millions)					
KPERS—State/School	\$933d	\$1,014d	\$1,051d	\$1,059d	\$573d
KPERS—Local	131d	121d	123d	142d	94d
KP&F	288d	283d	279d	276d	272d
Judges	5d	5d	5d	5d	5d
TIAA	19d	21d	22d	23d	24d
Funding Ratios (e)					
KPERS—State / School	84.19%d	81.48%d	79.19%d	77.58%d	85.10%d
KPERS—Local	88.34d	87.99d	86.51d	84.44d	87.30d
KP&F	74.77d	72.81d	70.72d	68.94d	66.70d
Judges	91.21d	90.15d	89.10d	88.64d	87.90d
TIAA	31.26d	25.38d	22.62d	20.39d	20.00d

See previous page for footnotes: a, b, c, d and e.3

Expenses by ryper

<u>Fiscal Year</u>	<u>Benefits</u>	<u>Withdrawals</u>	<u>Insurance</u>	<u>Administration</u>	<u>Total</u>
1993d	\$230,677,812d	\$20,812,351d	\$28,353,401d	\$2,715,294	\$283,558,858
1994d	292,375,535d	22,900,621d	33,129,180d	3,596,637d	352,001,973d
1995d	333,924,392d	26,542,254d	35,873,212d	4,312,658d	400,652,516d
1996d	364,102,629d	30,687,458d	34,108,251d	4,493,293d	433,391,631d
1997d	396,660,948d	36,761,626d	36,048,625d	4,659,099d	474,130,298d
1998d	428,997,161d	41,510,908d	37,639,743d	4,702,566d	512,850,378d
1999d	472,571,948d	40,860,950d	41,892,190d	5,442,410d	560,767,498d
2000d	505,941,764d	43,631,850d	42,199,878d	5,689,571d	597,463,063d
2001d	558,901,552d	43,967,623d	46,456,603d	6,843,434d	656,169,212d
2002d	636,398,865d	39,066,937d	47,625,764d	6,776,044d	729,867,610d

Revenues by Sourcer

<u>Fiscal Year</u>	<u>Contributions</u>				<u>Net Investment Income</u>	<u>Total</u>
	<u>Member</u>	<u>Employer</u>	<u>Employer Insurance</u>	<u>Misc.</u>		
1993d	\$133,506,738d	\$6,292,433	\$20,115,114d	\$533,403d	\$664,759,162d	\$ 915,206,850d
1994d	149,049,696d	95,622,052d	21,959,761d	525,570d	114,634,694d	381,791,773d
1995d	159,250,384d	106,496,039d	22,881,197d	533,638d	906,231,045d	1,195,392,303d
1996d	173,247,638d	119,319,684d	24,084,601d	97,505 (1)d	1,095,001,676d	1,411,751,104d
1997d	171,120,750d	133,053,259d	23,226,519d	92,827d	974,302,417d	1,301,795,772d
1998d	173,954,587d	142,931,373d	24,173,870d	173,035d	1,247,347,928d	1,588,580,793d
1999d	185,180,551d	175,581,182d	26,071,503d	210,116d	953,992,725d	1,341,036,077d
2000d	192,776,305d	168,100,637d	17,164,419d	245,354d	1,314,770,498d	1,693,057,213d
2001d	204,142,810d	193,384,289d	— (2)d	175,815d	(798,126,783)d	(400,423,871)d
2002d	209,624,015d	207,611,045d	13,862,682d	105,433d	(463,714,759)d	(32,511,584)d

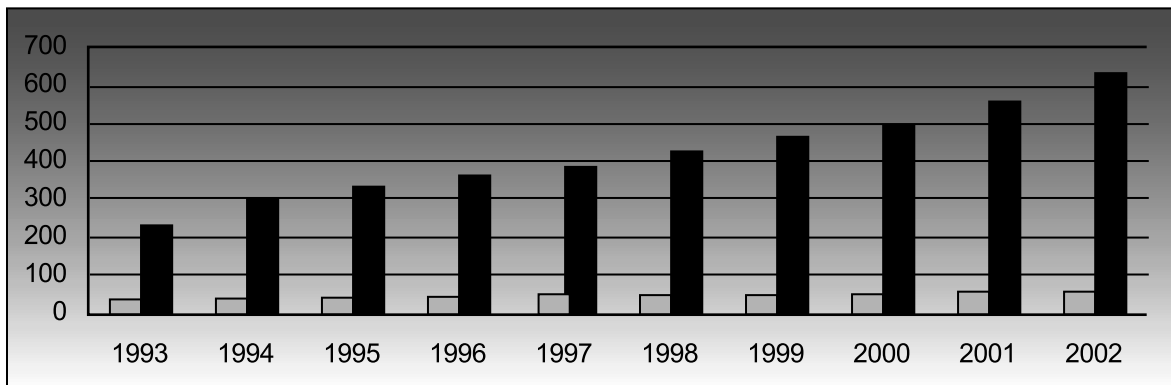
1) Beginning in Fiscal Year 1996, refund of current year benefit payments were accounted as a reduction to benefit expenses.

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

Schedule of Benefits by r yper

<u>fiscal</u> <u>Year</u>	<u>Monthly</u> <u>Retirement</u> <u>Benefits</u>	<u>Retirement</u> <u>Dividend</u>	<u>Death</u> <u>Benefits</u>	<u>Refunds</u> <u>&</u> <u>Contributions</u>	<u>Disability</u> <u>Insurance</u> <u>Premiums</u> <u>& Benefits</u>
1993d	\$213,080,377d	\$ 9,834,057d	\$7,499,557d	\$20,812,351d	\$28,617,222d
1994d	273,821,219d	d0,985,580d	7,345,897d	22,900,621d	33,352,019d
1995d	315,965,280d	d1,019,325d	6,742,192d	26,542,254d	36,070,807d
1996d	346,390,529d	d0,701,234d	7,010,866d	30,687,458d	34,108,251d
1997d	378,656,752d	d0,173,553d	7,830,644d	36,761,625d	36,048,625d
1998d	411,626,428d	9,673,950d	7,682,253d	41,510,908d	37,639,743d
1999d	455,265,896d	9,443,527d	7,862,525d	40,860,950d	41,892,190d
2000d	489,058,357d	8,811,628d	8,071,779d	43,631,850d	42,199,878d
2001d	542,389,577d	8,284,487d	8,227,488d	43,967,623d	46,456,603d
2002d	619,959,068d	7,744,988d	8,694,809d	39,066,937d	47,625,764d

Comparison of Benefits Paid to Retired Members



Number of Retirees (in thousands)
 Monthly Benefits Paid (in millions)

Schedule of Retired Members and Survivors by r ype of Benefit
June 30, 2002d

Amount of2 Monthly2 Benefits2	2 um2 of2 Retirants2	Type of Retirement2				Option Type Selected2								
		1,3,52	2,42	6,82	7,92	12	2	32	42	5,82	6,72	92	02	Oth2
\$ 2 992	3,222	2,751	453	8	1	2,611	27	1	37	2	1	18	47	1
\$100-1992	5,804	3,500	2,204	81	1	4,210	740	509	105	73	7	31	38	31
\$200-2992	5,932	3,079	2,753	8	14	4,280	53	596	122	113	7	31	44	17
\$300-3992	5,527	3,014	2,429	57	27	3,890	588	56	125	134	45	3	5	3
\$400-4992	4,416	2,475	1,877	44	2	3,129	510	532	7	104	2	1	2	
\$500-5992	3,720	2,244	1,431	32	13	2,564	415	446	4	120	8		2	5
\$600-6992	3,111	1,863	1,197	38	13	2,123	354	424	1	4	1	2	23	2
\$700-7992	2,685	1,637	4	38	1	1,811	327	34	53	1 3		18	17	1
\$800-8992	2,189	1,391	721	58	1	1,442	279	292	41	7	14	7	17	
\$900-9992	1,888	1,322	488		18	1,204	262	271	2	8	11		15	1
\$1,000-1,4992	7,553	321	17	223	2	4,444	1,231	1,106	101	522	73	27	48	1
\$1,500-1,9992	5,453	5,143	121	133	5	3,086	50	746	55	518	48	21	2	
\$2,000-2,4992	2,593	2,498	2	48	21	1,393	528	298	25	317	1	1		
\$2,500-2,9992	1,112	1,076	22		5	506	261	118	1	197	2	5	7	
\$3,000-3,4992	500	481	1	1	2	200	125	1	5	103	1	3	2	
\$3,500-3,9992	196	195	1			73	43	21	2	57				
\$4,000 or more2	168	163	5				3	15	2	45			1	
TOTALS2	<u>56,069</u>	<u>39,153</u>	<u>15,655</u>	<u>1</u>	<u>345</u>	<u>37,032</u>	<u>7,575</u>	<u>627</u>	<u>1</u>	<u>2,715</u>	<u>41</u>	<u>312</u>	<u>4 8</u>	<u>71</u>

Type of Retirement0

- 1, 3, 5 Normald
- 2, 4 Earlyd
- 6, 8 Service-Connected Death and Disabilityd
- 7, 9 Non-Service Connected Death and Disabilityd

Option Type Selected0

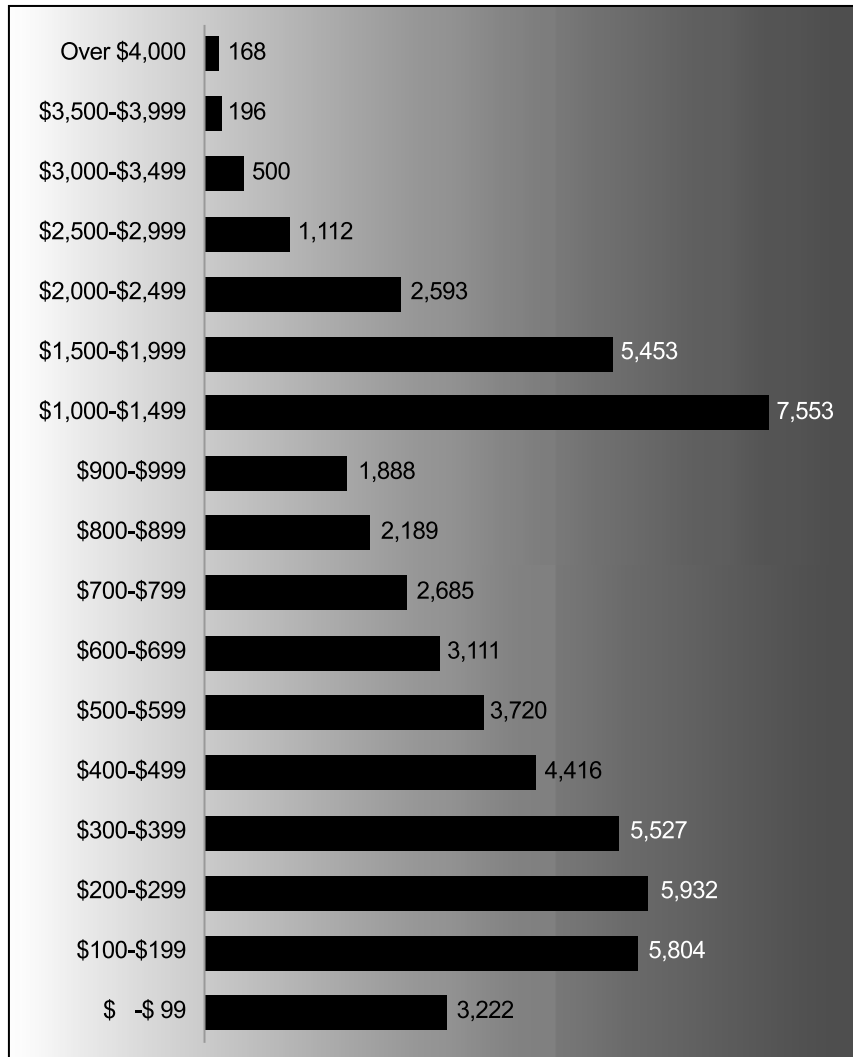
- 1 Maximum, no survivor benefitd
- 2 Joint, 1/2 to survivor
- 3 Joint, same to survivor
- 4 Life w/10 years certain
- 5, 8 Joint w/3/4 to survivor
- 6, 7 Widowed, children, survivor
- 9 Life w/5 years certain
- 0 Life w/15 years certain

Average Monthly Benefit by Years of Service

New Retirees, Five-Year Summary

Service Credit	Calendar Year				
	1997	1998	1999	2000	2001
Less than 5 years	160d	182d	159d	150d	189d
Average Benefit	\$117.53d	\$50.16d	\$76.38d	\$84.08d	\$123.00d
Average Years	2.88d	2.63d	2.46d	2.30d	2.47d
5-9.9 Years	215d	244d	237d	249d	221d
Average Benefit	\$246.81d	\$229.48d	\$253.02d	\$281.88d	\$222.53d
Average Years	7.21d	6.74d	7.01d	7.01d	7.08d
10-14.99 Years	553d	527d	527d	559d	521d
Average Benefit	\$401.78d	\$398.61d	\$387.82d	\$423.63d	\$379.37d
Average Years	11.80d	11.81d	11.75d	11.91d	11.87d
15-19.99d	515d	486d	490d	466d	502d
Average Benefit	\$617.75d	\$605.01d	\$646.49d	\$640.33d	\$608.25d
Average Years	17.05d	17.00d	17.04d	16.87d	16.96d
20-24.99d	502d	476d	450d	431d	435d
Average Benefit	\$872.38d	\$869.81d	\$913.36d	\$917.57d	\$935.92d
Average Years	21.95d	21.90d	21.84d	21.94d	21.90d
25-29.99d	500d	496d	510d	527d	557d
Average Benefit	\$1,471.01d	\$1,443.16d	\$1,464.29d	\$1,574.01d	\$1,478.75d
Average Years	26.99d	27.04d	26.94d	27.08d	27.18d
30-34.99d	575d	564d	617d	633d	671d
Average Benefit	\$1,798.24d	\$1,801.47d	\$1,861.44d	\$1,960.60d	\$1,842.36d
Average Years	31.91d	31.91d	31.90d	31.83d	32.01d
35-39.99d	273d	260d	268d	234d	233d
Average Benefit	\$1,946.01d	\$1,991.97d	\$2,146.47d	\$2,119.73d	\$2,038.41d
Average Years	36.81d	36.64d	36.79d	36.71d	36.44d
40-44.99d	113d	81d	79d	73d	75d
Average Benefit	\$2,172.84d	\$2,064.07d	\$2,177.81d	\$2,350.35d	\$2,296.74d
Average Years	41.37d	41.32d	41.65d	41.49d	41.65d
45-49.99d	13d	8d	13d	11d	9d
Average Benefit	\$2,111.18d	\$2,067.15d	\$2,604.31d	\$2,338.06d	\$2,103.47d
Average Years	46.08d	46.00d	45.63d	46.18d	45.67d
50 and Over	1d	3d	5d	—d	—d
Average Benefit	\$2,161.62d	\$2,513.91d	\$3,221.89d	\$ —d	\$ —d
Average Years	50.00d	52.00d	52.00d	—d	—d
TOTAL NUMBER	3,420	3,3270	3,3550	3,3330	3,4130
Average Benefit	\$1,060.240	\$1,029.240	\$1,102.190	\$1,133.320	\$1,086.0
Average Years	22.090	21.590	21.990	21.780	21.950

Benefit Amount as of June 2002



cknowledgments

2002 Comprehensive Annual Financial Report
Kansas Public Employees Retirement System

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Joan Hancock	Jerry Quick	

CONSULTANTS

Actuary—Milliman USA, Omaha, Nebraska

Auditors—Berberich Trahan & Co., P.A., Topeka, Kansas

Investment consultant—Pension Consulting Alliance, Inc., Encino, California

INVESTMENT MANAGERS

Alliance Capital Management Corp., New York, New York

Julius Baer Investment Management, Inc., New York, New York

Barclays Global Investors, San Francisco, California

The Boston Company Boston, Massachusetts

Capital Guardian Trust Company, Los Angeles, California

L & B Real Estate Counsel, Dallas, Texas

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Provident Investment Counsel, Inc., Pasadena, California

Western Asset Management Company, Pasadena, California

Wellington Management Company, LLP, Boston Massachusetts

INVESTMENT CUSTODIAN

Mellon Trust, Everett, Massachusetts

LIFE INSURANCE AND LONG-TERM DISABILITY BENEFITS

Life—Security Benefit Group, Topeka, Kansas


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

2002 ANNUAL REPORT AND YOUR AND DESIGN

Kristen Basso, Public Information Officer, KPERS

Working **together** for the financial
future of Kansas public servants

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