Comprehensive Annual Financial Report

fiscal year ended June 30, 2003

Serving Kansas public servants . . .

one member at a time.

Kansas Public Employees Retirement System

A component unit of the State of Kansas

Comprehensive Annual Financial Report

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

Fiscal Year Ended June 30, 2003

Prepared by KPERS staff
611 S. Kansas Ave., Suite 100
Topeka, KS 66603-3803

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, 2002

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.

President

Executive Director

KANSAS

September 10, 2003

Board of Trustees and Members
Kansas Public Employees Retirement System

Dear Board of Trustees and Members:

I am pleased to present the Kansas Public Employees Retirement System's 2003 Annual Report. The annual report covers the operations of the Retirement System for the fiscal year that ended June 30, 2003, and was prepared through the combined efforts of Retirement System staff members. The System's fiscal year 2003 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, 2003. Also included in this section preceding the financial statements is the report referred to as the Management's Discussion and Analysis (MD&A). 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. After two years of negative returns, the System's investments provided a 4.0 percent return. Positive returns were recorded in five of the seven portfolios. This year's turnaround was mainly due to growth in Treasurery Inflation Protected Securities (TIPS) and other fixed income securities markets and a positive fourth quarter in the equity markets.

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, 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 Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Retirement System, for the comprehensive annual financial report for the fiscal year that ended June 30, 2002. 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.

The Kansas Legislature established the Retirement System in 1962 to provide retirement and related benefits to Kansas public servants. On December 31, 2002, System membership included 147,294 active members, 40,404 inactive members, and 57,597 retirees and beneficiaries. Several new public employers joined the Retirement System, and by the end of fiscal year 2003, public employers in the Retirement System totaled 1,442.

On December 31, 2002, assets available for retirement benefits were 77.6 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. As discussed in the Management's Discussion and Analysis and the actuarial section, the actuary has recommended several items to consider in addressing the System's funding shortfall.

Over the past two years, it has been a top priority of the Board of Trustees and staff to develop a consensus among the Legislature, the Governor and other interested parties on a comprehensive funding plan to ensure the System's financial health. As result, new legislation signed into law in 2003 increases state employer contribution rates beginning in fiscal year 2006 and authorizes the potential issuance of pension obligation bonds. Both are an important first step. In the coming year we are committed to building a long-term funding plan in conjunction with the Legislature and Governor that will stand the test of time and create financial stability for the System's future.

Over the last fiscal year, we have worked within the framework of our Strategic Business Plan, continuing to assess our challenges and accomplish our mission of providing retirement, disability and survivor benefits to our members and beneficiaries.

Our mission sounds simple and straightforward, but we are committed to much more. While what we do is important to us, so is how we do it. In this last fiscal year we have renewed our focus on excellent service. We recognize that our members are not just numbers and statistics. They are individuals. Often times when a member or beneficiary has business with the Retirement System, it is at a significant time in his or her life, like retirement, changing careers or at the death of a loved one. One member at a time we are striving to provide outstanding service with care and understanding.

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 has led us to again improve the timeliness of our annual statements, one of the most significant communications we have with active members each year. In an effort to gain a clearer picture of how members view our service, we surveyed InfoLine callers and recent retirees. The surveys showed most members are "satisfied" or "very satisfied" with the service they received, and it has given us an opportunity to see how we can continue to improve.

Other accomplishments during this past fiscal year included:
- Improving members' coverage and reducing their optional insurance premiums by 25 percent by selecting a new life insurance carrier.
- Redesigning the KPERS web site to make it easier for members and employers to get the information they need.
- Securing significant cost savings in custodial bank and securities lending services, life insurance administration, and alternative investment management fees.
- Realizing extensive progress on the digital imaging of all member records, making it faster to pinpoint their information when members call.

This year's accomplishments are important and add to the Retirement System's successful track record over the last 41 years of consistently 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.

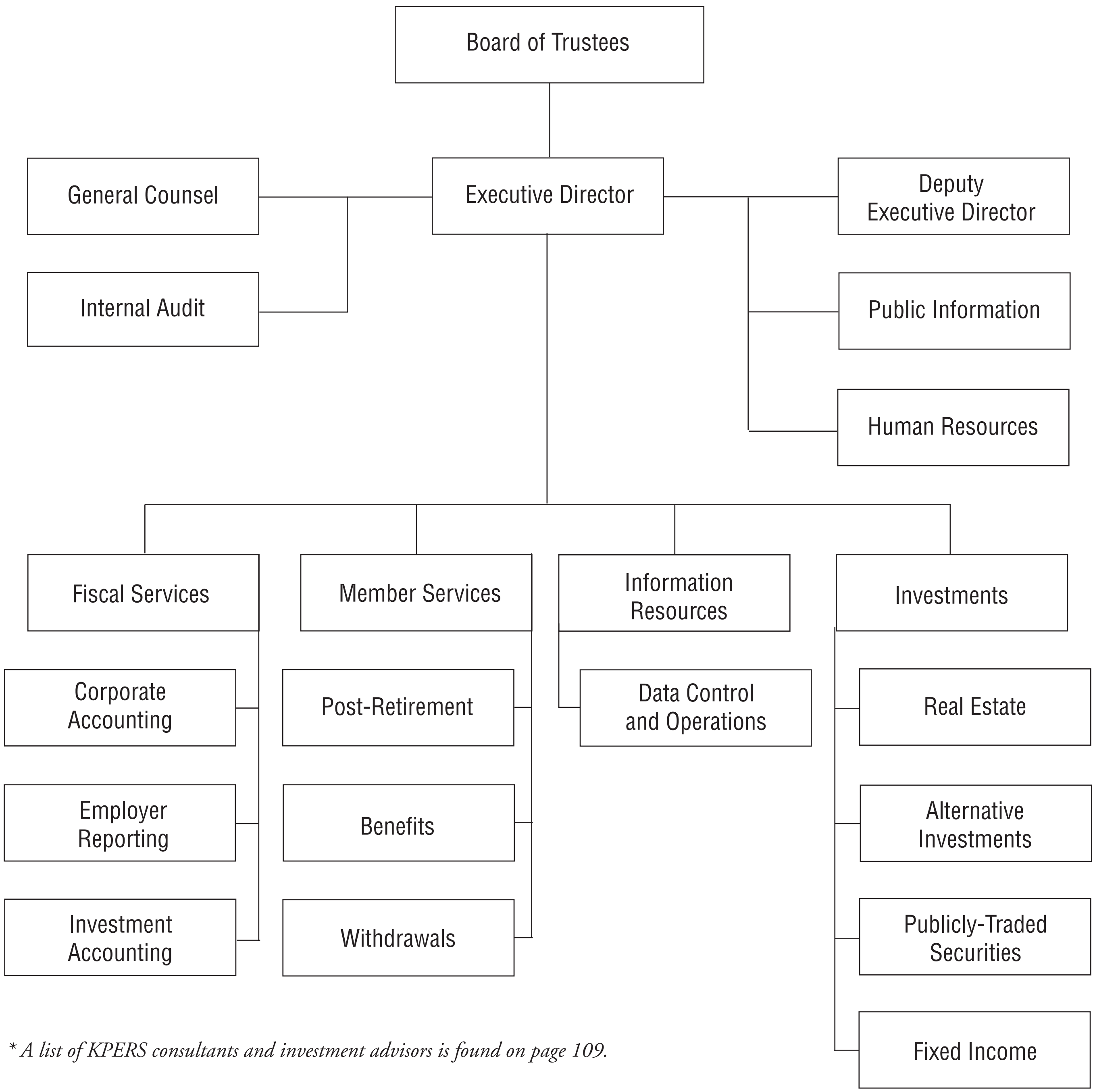
Sincerely,

Glenn Deck

Glenn Deck
Executive Director

Board of Trustees

Organization Chart



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

Values That Guide Us

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

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

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

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

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

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

Service Through
Responsiveness

Mailed personalized annual statements to 178,500 members, and on average, members received their statements four weeks earlier than the previous year.

Answered 14,800 e-mail requests, double the amount from the year before.

Answered 87,119 phone calls, helping members and employers with their benefit questions.

Cut in half the amount of time it takes to process a member's withdrawal.

Financial
Section

Financial

Berberich Trahan & Co., P.A.

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Kansas Public Employees Retirement System:

We have audited the accompanying statement of plan net assets of the Kansas Public Employees Retirement System (System) as of June 30, 2003, and the related statement of changes in plan net assets for the year then ended. These basic financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the plan net assets of the Kansas Public Employees Retirement System as of June 30, 2003, 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 9, 2003 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 *Government 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 17 through 21 and the Required Supplementary Information on pages 34 through 35 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Berberich Trahan & Co., P.A.

September 9, 2003

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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 that ended June 30, 2003. 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 increased by $28.2 million or 0.3 percent from $8,902,288,000 to $8,930,442,322.
- As of December 31, 2002, the date of the most recent actuarial valuation, the Retirement System's funded ratio was 77.6 percent.
- The unfunded actuarial liability increased from $1.780 billion at December 31, 2001, to $2.829 billion at December 31, 2002.
- On a market value basis, this year's investment return rate was positive 4.0 percent, compared with last year's negative return. The increase was primarily due to the growth in Treasury Inflation Protected Securities (TIPS) and other fixed income securities markets and a positive fourth quarter of the fiscal year in the equity markets.
- Monthly benefits paid to retirees and beneficiaries increased 3 percent from $627 million in fiscal year 2002 to $646 million in fiscal year 2003.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

(1) BASIC FINANCIAL STATEMENTS

A Statement of Plan Net Assets as of June 30, 2003, and a Statement of Changes in Plan Net Assets for the fiscal year ended June 30, 2003, 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 the method used to value investments, and additional information about cash, securities lending and derivatives.

In Section I 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, Group Insurance Reserve Fund, the Expense Reserve and the Retirant 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, an investment income summary, and a schedule of investment fees and expenses.

FINANCIAL ANALYSIS OF THE RETIREMENT SYSTEM

The System provides benefits to State of Kansas and other 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, 2003, amounted to $8,930,422,322, an increase of $28.2 million (0.3 percent) from $8,902,288,000 at June 30, 2002. Following are two summary schedules, Plan Net Assets and Changes in Plan Net Assets, comparing information from fiscal years 2002 and 2003.

Summary Comparative Statement of Plan Net Assets

	As of June 30, 2003	As of June 30, 2002	Percentage Change
Assets			
Cash and Deposits	$ 5,261,095	$ 6,715,665	(21.66)%
Receivables	1,538,278,206	1,485,832,660	3.53
Investments at Fair Value	9,388,170,382	9,300,425,561	0.94
Invested Securities Lending Collateral	1,860,279,374	1,544,443,171	20.45
Capital Assets and Supplies Inventory	2,421,701	2,804,738	(13.66)
Total Assets	**12,794,410,758**	**12,340,221,795**	**3.68**
Liabilities			
Administrative Costs	904,441	649,094	39.34
Benefits Payable	1,325,501	2,423,781	(45.31)
Securities Purchased	2,001,459,120	1,890,417,749	5.87
Securities Lending Collateral	1,860,279,374	1,544,443,171	20.45
Total Liabilities	**3,863,968,436**	**3,437,933,795**	**12.39**
Net Assets	**$ 8,930,442,322**	**$ 8,902,288,000**	**0.32%**

Summary Comparative Statement of Changes in Plan Net Assets

	Year Ended June 30, 2003	Year Ended June 30, 2002	Percentage Change
Additions			
Contributions	$ 456,210,770	$ 431,097,742	5.83%
Net Investment Income (loss)	322,252,818	(467,057,944)	169.00
Net Income from Securities Lending Activities	3,803,825	3,310,985	14.88
Total Net Investment Income (loss)	326,056,643	(463,746,959)	170.31
Other Miscellaneous Income	82,257	137,633	(40.23)
Total Additions	782,349,670	(32,511,584)	2506.37
Deductions			
Monthly Retirement Benefits	645,716,079	627,704,056	2.87
Refunds of Contributions	39,608,946	39,066,937	1.39
Death Benefits	7,826,064	8,694,809	(9.99)
Insurance Premiums and Benefits	53,829,235	47,625,764	13.03
Administrative Expenses	7,215,024	6,776,044	6.48
Total Deductions	754,195,348	729,867,610	3.33
Net Increase (decrease)	28,154,322	(762,379,194)	103.69
Net Assets Beginning of Year	**8,902,288,000**	**9,664,667,194**	**(7.89)**
Net Assets End of Year	**$ 8,930,442,322**	**$ 8,902,288,000**	**0.32%**

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 $431.1 million in fiscal year 2002 to $456.2 million in fiscal year 2003. The $25.1 million increase in contributions is attributed to increased active member salary base and higher employer contribution rates for state, school and local members (with the rate from the previous year limited by a statutory cap).

Following two consecutive years of negative investment performance, the System achieved a positive return for fiscal year 2003. The System recognized a net investment gain of $326 million for the 2003 fiscal year, compared with a net investment loss of $463 million for the 2002 fiscal year. Total return for the portfolio was positive 4.0 percent. System net investments amounted to $8.89 billion at June 30, 2003, which was $29.4 million (0.33 percent) more than the $8.86 billion in total System investments at June 30, 2002. The Retirement System's one-, three-, five- and ten-year investment performance against the assumed rate of investment return are shown in the chart below.

One Year	Latest 3 Years	Latest 5 Years	Latest 10 Years	Assumed Rate of Return
4.03%	(2.80)%	3.05%	8.31%	8.00%

At June 30, 2003, the System held $4.6 billion in U.S. equity and international equity securities, an increase of $364 million from the 2002 fiscal year. U.S. equity and international equity securities earned returns of approximately positive 0.9 percent and negative 7.6 percent, respectively, for the 2003 fiscal year. These compare with the Retirement System's benchmark returns of positive 0.8 percent and negative 8.2 percent, respectively.

The System held $3.3 billion in U.S. debt and international debt securities, a decrease of $241 million from the 2002 fiscal year. The TIPS portfolio return for 2003 was positive with a return of 19.4 percent versus the benchmark return of 19.4 percent. The performance of the System's other fixed income securities during fiscal year 2003 was 14.0 percent compared with the benchmark of 13.6 percent. Real estate investments decreased $66 million to $623.6 million at June 30, 2003. Real estate investments returned approximately 6.4 percent for the 2003 fiscal year, versus the benchmark real estate return of 4.8 percent. The System held $483.14 million in alternative investments, which was nearly unchanged from June 30, 2002 of $483.15 million. Alternative investments earned a negative return of approximately14.2 percent for the 2003 fiscal year, compared to the benchmark alternative investment return of a positive 5.6 percent. At June 30, 2003, the System held $379.8 million in short-term investments, which was an increase of $29.9 million from June 30, 2002.

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 2003, net securities lending income amounted to $3.8 million compared with $3.3 million in fiscal year 2002.

Deductions from net assets held in trust for benefits include retirement, death, and survivor benefits, and administrative expenses. For the 2003 fiscal year, retirement, death and insurance benefits amounted to $746.9 million, an increase of $23.8 million (3 percent) from the 2002 fiscal year. The increase in benefit payments was a result of an increase in the number of retirees. For the 2003 fiscal year, System administrative expenses amounted to $7.215 million compared with $6.776 million in fiscal year 2002. The ratio of System administrative expenses to the number of members (approximately $29 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 the date of the most recent actuarial valuation, December 31, 2002, the funded status decreased to 77.6 percent from 84.8 percent at December 31, 2001. The unfunded liability was $2.829 billion at December 31, 2002, compared with $1.780 billion at December 31, 2001. This decrease in funded status relates primarily to three consecutive years of investment returns that are below the assumed rate of return of 8 percent.

The System's consulting actuary has recommended that future employer contributions be increased to improve the long term funding of the KPERS State/School and Local groups. During the 2003 legislative session, legislation was passed that increased the statutory cap on employer contributions of the State/School school group to 0.4 percent in fiscal year 2006,with subsequent increases of 0.5 percent in fiscal year 2007 and 0.6 percent in fiscal year 2008 and beyond. In addition, up to $500 million in pension obligation bonds were authorized to be issued for the purpose of reducing a portion of the unfunded actuarial liability for the State/School group. The issuance of the bonds is contingent upon an extensive review and approval process outlined in the law. Absent any other changes in future contribution levels and using assumptions adopted by the Board of Trustees, the System's actuary projects the unfunded liability for the State /School group will exceed $6 billion with a resulting estimated funded ratio of around 55 percent by 2013. In addition to the overall financial deterioration, the System's cash flow needs and investment strategy would have 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.

During the past two years, it has been KPERS objective to develop a consensus among the Legislature, Governor and other interested parties on a comprehensive funding plan to ensure the System's financial health. The passage of the 2003 legislation providing increases in employer contribution rates and the potential issuance of pension obligation bonds was a significant initial step in this plan. During the 2003 interim, the Legislature's Joint Committee on Pensions, Investments, and Benefits is charged with developing a comprehensive long-term funding plan for the System. KPERS is working closely with the Joint Committee to analyze a range of funding alternatives and finalize the plan for consideration by the Governor and Legislature in 2004.

DEATH & DISABILITY PROGRAM

The Retirement System administers the group insurance reserve fund as described in note 2 of the notes to the basic financial statements. The actuary performs an actuarial valuation of this fund on an annual basis with the last valuation completed for June 30, 2002. At that time, the fund was 77.5 percent funded with assets of $121.9 million.

A moratorium on contributions was in place for the first 6 months of fiscal year 2003 and legislation passed by the 2003 Legislature placed another moratorium effective April 1, 2003. The three-quarter moratorium in fiscal year 2003 was the primary reason assets decreased to $72.3 million at June 30, 2003. The 2003 legislation also extended the moratorium on contributions to this fund for all of fiscal year 2004. The projected funded ratio of this reserve will drop to less than 25 percent by the end of FY 2004.

Preliminary budget plans are to resume the historical contributions (0.6 percent of payroll) to this fund beginning in fiscal year 2005. This level of funding will not be sufficient to return the program to full funding, and it is projected that the program will be on a pay-as- you- go basis in fiscal year 2006. As with the long-term retirement funding plan, the KPERS Board of Trustees is committed to work with the Legislature and Governor's office to develop a funding plan for the death and disability program to ensure adequate resources are available to pay death and disability benefits.

Statement of Plan Net Assets as of June 30, 2003

With Comparative Figures for 2002

	2003 Totals	2002 Totals
Assets		
Cash and Deposits		
Cash	$ 47,507	$ 147,584
Deposits with Insurance Carrier	5,213,588	6,568,081
Total Cash and Deposits	5,261,095	6,715,665
Receivables		
Contributions	35,120,391	35,412,055
Investment Income	40,963,683	47,479,206
Sale of Investment Securities	1,462,194,132	1,402,941,399
Total Receivables	1,538,278,206	1,485,832,660
Investments at Fair Value		
Domestic Equities	3,024,580,762	2,832,120,160
International Equities	1,621,533,252	1,449,504,908
Cash and Equivalents	379,764,010	349,882,452
Fixed Income	3,255,500,484	3,496,030,986
Alternative Investments	483,143,921	483,148,414
Real Estate	623,647,953	689,738,641
Total Investments at Fair Value	9,388,170,382	9,300,425,561
Invested Securities Lending Collateral	1,860,279,374	1,544,443,171
Capital Assets and Supplies Inventory	2,421,701	2,804,738
Total Assets	**12,794,410,758**	**12,340,221,795**
Liabilities		
Administrative Costs	904,441	649,094
Benefits Payable	1,325,501	2,423,781
Securities Purchased	2,001,459,120	1,890,417,749
Securities Lending Collateral	1,860,279,374	1,544,443,171
Total Liabilities	**3,863,968,436**	**3,437,933,795**
Net assets held in trust for pension benefits	**$8,930,442,322**	**$8,902,288,000**

A schedule of 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, 2003 (with Comparative Figures for 2002)

	2003 Totals	2002 Totals
Additions		
Contributions		
Member Contributions	$ 224,746,447	$ 209,624,015
Employer Contributions	231,464,323	221,473,727
Total Contributions	**456,210,770**	**431,097,742**
Investments		
Net Appreciation (Depreciation) in Fair Value of Investments	85,223,479	(676,384,745)
Interest	145,411,285	159,209,184
Dividends	76,508,361	24,416,401
Real Estate Income, Net of Operating Expenses	31,217,255	44,792,323
Other Investment Income	557,611	667,029
	338,927,991	(447,299,808)
Less Investment Expense	(16,675,173)	(19,758,136)
Net Investment Income (Loss)	**322,252,818**	**(467,057,944)**
From Securities Lending Activities		
Securities Lending Income	25,878,944	33,310,814
Securities Lending Expenses		
Borrower Rebates	(20,861,098)	(28,577,302)
Management Fees	(1,214,021)	(1,422,527)
Total Securities Lending Activities Expense	(22,075,119)	(29,999,829)
Net Income from Security Lending Activities	**3,803,825**	**3,310,985**
Total Net Investment Income (Loss)	**326,056,643**	**(463,746,959)**
Other Miscellaneous Income	**82,257**	**137,633**
Total Additions (Net Reductions)	**782,349,670**	**(32,511,584)**
Deductions		
Monthly Retirement Benefits Paid	(645,716,079)	(627,704,056)
Refunds of Contributions	(39,608,946)	(39,066,937)
Death Benefits	(7,826,064)	(8,694,809)
Insurance Premiums and Benefits	(53,829,235)	(47,625,764)
Administrative Expenses	(7,215,024)	(6,776,044)
Total Deductions	(754,195,348)	(729,867,610)
Net Increase (Decrease)	**28,154,322**	**(762,379,194)**
Net Assets Held in Trust for Pension Benefits		
Balance Beginning of Year	**8,902,288,000**	**9,664,667,194**
Balance End of Year	**$ 8,930,442,322**	**$ 8,902,288,000**

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

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

All three systems are part of a tax-exempt, defined benefit, contributory plan covering substantially all public employees in Kansas. The Kansas Retirement System for Judges is a single employer group, while the other two are multi-employer, cost-sharing groups. Participation by the State of Kansas is mandatory, whereas participation by local political subdivisions is optional but irrevocable once elected. Participating employers and retirement system membership are as follows:

Number of Participating Employers

	KPERS	KP&F	Judges
State of Kansas	1	1	1
Counties	105	22	—
Cities	356	47	—
Townships	53	—	—
School Districts	305	—	—
Libraries	116	—	—
Conservation Districts	82	—	—
Extension Councils	79	—	—
Community Colleges	44	—	—
Recreation Commissions	37	—	—
Hospitals	29	—	—
Cemetery Districts	14	—	—
Other	150	—	—
TOTAL	1,371	70	1

Membership by Retirement Systems

	KPERS	KP&F	Judges	Total
Retirees and beneficiaries currently receiving benefits	54,105	3,338	154	57,597
Inactive members entitled to benefits	7,914	109	12	8,035
Inactive members not entitled to benefits	31,514	852	3	32,369
Current active members	140,498	6,548	248	147,294
TOTAL	234,031	10,847	417	245,295

KPERS members' benefits vest with ten years of credited service. KP&F members' benefits vest with 20 years of credited service for Tier 1, and with 15 years of credited service for Tier II.

B. PLAN BENEFITS

Members (except KP&F members) with ten or more years of credited service, may retire as early as age 55 (KP&F members may be age 50 with 20 years of credited service), with an actuarially reduced monthly benefit. Normal retirement is at age 65, age 62 with ten years of credited service, or whenever a member's combined age and years of credited service equal 85 "points" (KP&F members' normal retirement ages are age 60 with 15 years of credited service, age 55 with 20 years, or age 50 with 25 years). Monthly retirement benefits are based on a statutory formula that includes final average salary and years of service. 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 1, 2001, at retirement a member may receive a lump-sum payment of up to 50 percent of the actuarial present value of the member's lifetime benefit. His or her monthly retirement benefit is then permanently reduced. 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 group life insurance. The life insurance benefit is 150 percent of the annual compensation rate at the time of an active member's death. Generally, in cases of death as a result of an on-the-job accident, for KPERS members there is a $50,000 lump-sum benefit and a monthly benefit payable to a spouse, minor children or dependent parents (in this order). Service-connected accidental death benefits are in addition to any life insurance benefit. There is a $4,000 death benefit payable to the beneficiary(ies) when a retired member dies under any of the systems.

Active members (except KP&F and Judges members) are also covered by the provisions of the disability income benefit 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 0.1 percent of payroll over the prior year. During the 1995 legislative session, the statutory limits were increased to 0.2 percent of payroll over the prior year for fiscal years beginning in 1996 for state and school employers. The statutory increase for local units of government was amended to limit increases to no more than 0.15 percent over the prior year for calendar years beginning in 1997. Annual increases in the employer contribution rates related to subsequent benefit enhancements are not subject to these limitations. Legislation passed in 2003 amended the annual increases in future years. The statutory cap for the State/School group will increase to 0.4 percent in fiscal year 2006, with subsequent increases of 0.5 percent in fiscal year 2007 and 0.6 percent in fiscal year 2008 and beyond.

The amortization period for the unfunded liability of all three systems is 40 years from July 1, 1993. Employer contributions for group life insurance and long-term disability income benefits are set by statute at 0.6 percent of covered payroll for KPERS and 0.4 percent for Judges.

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 and 2003 legislation placed additional moratoriums on contributions to this fund. Moratoriums were in effect for the period July 1, 2002 through December 31, 2002 and the period of April 1, 2003 through June 30, 2003. In addition, 2003 legislation extends the moratorium through June 30, 2004, making an overall total of 14 quarters of moratoriums on contributions.

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. 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. 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:

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

As of June 30, 2003, the cash deposits of $47,507 held by the State Treasurer were in credit risk category "1." The Retirement System's deposits with its insurance carrier were $5,213,588 at June 30, 2003, 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 1, 1993. The Retirement Act addresses the following areas:

- Establishes the structure of the Board of Trustees, defines the Trustees' responsibilities, imposing the prudent expert standard upon their actions with respect to managing the assets of the Retirement System.
- Requires that the assets be invested to preserve capital and solely to provide benefits to members and the members' beneficiaries.
- Limits the possible allocation of common stock to 60 percent of the total book value of the fund.
- 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, 2003, 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 14 investment management firms and a master global custodian. Presently, the Retirement System has investments in the financial futures market. Futures contracts are contracts for delayed delivery or receipt of securities in which the seller agrees to make delivery and the buyer agrees to take delivery at a specified future date, of a specified instrument, at a specified price. Market risk arises due to market price and interest rate fluctuations that may result in a decrease in the fair value of futures contracts. Futures contracts are traded on organized exchanges and require initial margin in the form of cash or marketable securities. Daily, the net change in the futures contract value is settled in cash with the exchanges. Holders of futures contracts look to the exchange for performance under the contract. Accordingly, the credit risk due to nonperformance of counterparties to futures contracts is minimal. At June 30, 2003, the Retirement System had futures contracts with a fair value of approximately $124,000,000. 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, 2003, the maturities of securities in this dedicated bond portfolio are as follows: 73 percent of the fair value of the securities mature within 30 days; 12 percent mature between 31 and 180 days; and 15 percent mature after 180 days.

The custodian provides for full indemnification to the Retirement System for any losses that might occur in the event of borrower default. Therefore, the Retirement System does not incur any credit risk as it relates to this activity. The securities on loan are marked to market daily to ensure the adequacy of the collateral. The fair value of securities on loan as of June 30, 2002, and June 30, 2003, were $1,525,751,916 and $1,827,580,110, respectively. Collateral held by the Retirement System for June 30, 2002, and June 30, 2003 was $1,568,498,413 and $1,881,337,715, respectively. Net income produced from securities lending activities for fiscal year 2002 was $3,310,985 and for fiscal year 2003 was $3,803,825.

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, 2003, the System had sold forward currency contracts with a fair value of $1,298,196,948 and had bought forward currency contracts with a fair value of $1,310,552,185. 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, 2003, the Retirement System had invested in TIPS with a fair value of approximately $887,560,000.

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.

Asset Classification

Investments:	1	2	3	Fair Value
Subject to Classification				
Domestic Equities	$ 2,947,882,010	$—	$ —	$ 2,947,882,010
International Equities	1,344,148,484	—	—	1,344,148,484
Fixed Income	1,841,092,111	—	313,271,046	2,154,363,157
Short Term Corporate Notes	128,733,438 (1)	—	1,280,744,486 (2)	1,409,477,924
Short Term Federal Agencies	199,429,056 (1)	—	—	199,429,056
Foreign Currency	16,349,386	—	—	16,349,386
Total Subject to Classification	$ 6,477,634,485	$—	$ 1,594,015,532	8,071,650,017
Not Subject to Classification:				
Alternative Investments (3)				483,143,921
Real Estate				616,124,300
Money Market Mutual Funds				270,498,590
Securities On Loan (4)				1,807,032,928
Total Not Subject to Classification:				3,176,799,739
Total Investments				**$11,248,449,756**

1) Fixed securities maturing within 90 days of purchase date.

2) Securities lending cash collateral invested with maturites 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. CAPITAL ASSETS AND SUPPLIES INVENTORY

Furniture, fixtures, and equipment are reported on the Statement of Plan Net Assets at historical cost, net of accumulated depreciation. These assets are depreciated on a straight-line basis over an average useful life of three to ten years with no salvage value. Accumulated depreciation on furniture, fixtures, and equipment as of June 30, 2003, was $2,047,493. Office supplies inventory in the amount of $11,288 is included, assuming the first-in, first-out method.

In fiscal year 1999, the Retirement System purchased an office building and garage in Topeka, Kansas. Fifty percent of the floor space of the office building is used as the System's administrative headquarters and the remaining 50 percent is a real estate investment. The administrative portion of the building and garage are reported on the Statement of Plan Net Assets as a capital asset and are being depreciated. Accumulated depreciation on the administrative portion of the building and garage as of June 30, 2003 was $1,521,083. The office building and garage are being depreciated over a period of 33 years on an accelerated method. At June 30, 2003, the carrying value of the System's administrative headquarters was $2,298,620.

H. COMPENSATED ACCRUED ABSENCES

Expenses for accumulated vacation and sick leave earned by Retirement System personnel are recorded when earned by the employee. 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 1, 1993. For those who first became members after June 30, 1993, interest on employee contributions is credited at the rate of 4 percent per year. The balance at June 30, 2003, was $3,640,595,475, 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, 2003, was $2,782,812,678. The unfunded liability was $2,828,736,438.

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, 2003, was $5,247,201,306, and was fully funded.

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

1) claims paid under the insurance contract
2) deposits made by the Retirement System to pay disability benefits to eligible participants. An actuarial valuation of this fund was last completed for June 30, 2002. At that time, the fund was 77.5 percent funded with assets of $121.9 million.

A moratorium on contributions was in place for the first six months and the last three months of fiscal year 2003. Calendar year 2003 legislation placed another moratorium on contributions to this fund for all of fiscal year 2004. The balance at June 30, 2003, was $73,072,511 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, 2003, was $14,430,048, and was fully funded.

The *Retirant Dividend Payment Reserve* balance at June 30, 2003, was $1,066,741. K.S.A. 74-49,110 was amended by 2003 legislation to credit this reserve by the amount required to pay an additional monthly benefit to all retirants who retired before July 2, 1987. This credit should occur prior to October 1 of each year.

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. Legislation was also provided to defray the reasonable expenses of administrating these funds. During fiscal year 2003, investments for the Senior Services Trust Fund were liquidated and transferred to the State of Kansas Department on Aging. Investments under management for the Treasurer's Unclaimed Property Fund were $91,459,105 at June 30, 2003.

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 1, 1993. The funding methods used by the Retirement System's actuary for the KP&F and the Judges systems were not changed. They were the aggregate cost method with supplemental liability and the frozen initial liability method, respectively.

B. LEGISLATION

In fiscal year 2003, the Kansas Legislature passed additional legislation impacting the funding of the Retirement System. Members of the TIAA group (who previously had a separate valuation and contribution rate) were made special members of KPERS. Most of the members were transferred to the State/School group but those employed by the KU Hospital Authority were transferred to the Local group. The legislation effecting this change also provided that bonds will be issued, in addition to a $2 million cash payment, to fully fund the existing unfunded actuarial liability for this group as of December 31, 2002.

Also, 2003 legislation made permanent the retirement dividend for members who retired prior to July 2, 1987. Previously, a dividend payment was contingent upon a formula using prior year's investment results. Legislation also provided for bonds to be issued to finance this benefit enhancement for eligible state retirees. The debt service payments on the bond issue will be paid from an increase in the state's employer contribution rate beginning in fiscal year 2005. The resulting increase in the unfunded actuarial liability for Local employers is to be paid off over a ten-year period beginning in 2005 by an increase in the employer contribution.

C. CHANGES IN UNFUNDED ACTUARIAL LIABILITY

The actuary has estimated the change in the unfunded actuarial liability between December 31, 2001, and December 31, 2002, can be attributed to the following (in millions):

Unfunded Actuarial Liability, December 31, 2001	$ 1,780
Effect of contribution cap/time lag	143
Expected increase due to amortization method	21
Loss from investment return	644
Liability experience	68
Change in benefit provisions (13th check)	37
13th check bond proceeds	(25)
TIAA bond proceeds	(16)
Re-establishment of UAL (KP&F/Judges)	177
Unfunded Actuarial Liability, December 31, 2002	$ 2,829

D. CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

KPERS. The actuarially determined contribution rates are computed as a level percentage of payroll by the Retirement System's actuary. For the State/School, Correctional and TIAA members, the results of June 30, 1999 and June 30, 2000 actuarial valuations provide the basis for Board certification of employer contribution rates for fiscal years 2002 and 2003, respectively. As explained in Note 1, legislation has limited the amounts that employers are required to contribute for State/School employees and Local employees, which has resulted in lower employer contribution rates as compared with the actuarially determined rates. The actuarially determined employer contribution rates (not including the 0.6 percent contribution rate for the Death and Disability Program) and the statutory contribution rates for fiscal years 2002 and 2003 are as follows:

	State/School		Correction Employees		TIAA	
Fiscal Year	Actuarial Rate	Statutory Rate	Actuarial Rate	Statutory Rate	Actuarial Rate	Statutory Rate
2002	5.40%	4.18%	6.67%/6.84%	4.99%/5.57%	1.43%	1.43%
2003	5.57%	4.38%	7.28%/7.92%	6.09%/6.73%	1.67%	1.67%

The results of June 30, 2000 and December 31, 2000 actuarial valuations provide the basis for Board certification of local employer contribution rates for fiscal years beginning in 2002 and 2003, respectively. The actuarially determined employer contribution rates and statutory contribution rates for fiscal years 2002 and 2003 are as follows:

	Local	
Fiscal Year	Actuarial Rate	Statutory Rate
2002	3.47%	2.92%
2003	4.13%	3.07%

KP&F. The uniform participating service rate for all KP&F employers was 6.79 percent for the fiscal year beginning in 2002 and 6.86 percent for the fiscal year beginning in 2003. 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 12.48 percent of payroll for the fiscal year ended 2002 and 12.26 percent of payroll for the fiscal year ended 2003.

The law specifies employee contributions as: Each participating employer, beginning with the first payroll for services performed after the entry date, shall deduct from the compensation of each member an amount equal to 4 percent for KPERS members, 7 percent for KP&F members, and 6 percent for Judges members as the member's employee contributions. All 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	$ 162,215	$ 143,754	8.2%
KPERS - Local	36,336	49,121	7.6
KP&F	30,317	22,458	20.0
Judges	2,595	1,110	18.2
Total	**$ 231,463**	**$ 216,443**	**8.7%**

An estimated $381 million of employer and employee contributions were made to cover normal cost, an estimated $50 million was made for the amortization of the unfunded actuarial accrued liability, and $8.6 million for insurance contributions.

1) Member contributions do not include Optional Group Life Insurance contributions of approximately $8.3 million.

E. 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, 2003, the Retirement System was committed to additional funding of $7,027,000 in the form of capital expenditures on separate account real estate holdings in the portfolio, $379,138,000 for commitments on venture capital investments and $33,629,000 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

Year Ended June 30	Annual Required Contribution	Percentage Contributed
1994	$ 117,581,812	100.0%
1995	129,083,585	100.2
1996 (1)	173,927,737	82.5
1997	199,521,423	74.7
1998	216,270,482	77.3
1999	256,813,541	79.0
2000	234,941,116	80.6
2001	277,096,692	77.6
2002	289,519,647	79.7
2003	311,365,296	78.9

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.

Schedule of Funding Progress

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
06/30/94 (1)	$ 5,041,703	$ 6,546,924	$1,505,221	77 %	$ 3,487,462	43%
06/30/95	5,510,957	6,991,029	1,480,072	79	3,766,917	39
06/30/96	6,158,755	7,603,111	1,444,356	81	3,945,207	37
06/30/97	6,875,918	8,251,986	1,376,068	83	4,108,320	33
06/30/98	7,749,203	9,340,685	1,591,482	83	4,273,627	37
06/30/99	8,601,876	9,999,246	1,397,370	86	4,480,717	31
06/30/00	9,568,275	10,801,397	1,233,122	89	4,684,768	26
12/31/00 (2)	9,835,182	11,140,014	1,304,832	88	4,876,555	27
12/31/01	9,962,918	11,743,052	1,780,134	85	5,116,384	35
12/31/02	9,784,918	12,613,599	2,828,736	78	4,865,903 (3)	58

1) Asset valuation method was changed from book value to a market-based method.
2) The actuarial valuation date was changed to a calendar year basis.
3) Beginning with the 12/31/02 actuarial valuation, the unfunded actuarial liability of the TIAA group was eliminated. Therefore, covered payroll no longer includes the salaries of non-KPERS unclassified employees of the Board of Regents institutions previously included.

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.

	KPERS System	KP&F System	Judges System
Valuation Date	12/31/02	12/31/02	12/31/02
Actuarial cost method	Projected Unit Credit	Aggregate Cost with Supplemental Liabilities (2)	Frozen Initial Liability
Amortization method	Level Percent closed	Level Percent closed	Level Dollar closed
Remaining amortization period	30 years	30 years	30 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 reestablished. The actuarial value of assets exceeds the actuarial liability so 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.

Schedule of Contributions
For the Fiscal Year Ended June 30, 2003

Kansas Public Employees Retirement System			
State / School Contributions			
Members	$143,753,593		
Employers	148,604,563		
Insurance *	5,239,088		
Total State / School Contributions		$297,597,244	
Local Contributions			
Members	49,121,161		
Employers	33,893,522		
Insurance *	2,443,277		
Total Local Contributions		85,457,910	
State Contributions - KPERS TIAA			
Employers	7,494,774		
Insurance *	876,797		
Total KPERS TIAA State Contributions		8,371,571	
Total Contributions - Kansas Public Employees Retirement System			**$391,426,725**
Kansas Police and Firemen's System			
State Contributions			
Members	2,177,666		
Employers	2,427,390		
Total State Contributions		4,605,056	
Local Contributions			
Members	20,280,476		
Employers	27,889,801		
Total Local Contributions		48,170,277	
Total Contributions - Kansas Police and Firemen's System			**52,775,333**
Kansas Retirement System for Judges			
State Contributions			
Members	1,110,297		
Employers	2,572,716		
Insurance *	22,446		
Total State Contributions		3,705,459	
Total Contributions - Kansas Retirement System for Judges			**3,705,459**
Optional Life Insurance			
Member Contributions			
State Employees	4,619,116		
Local Employees	3,684,137		
Total Contributions		8,303,253	
Total Contributions - Optional Life Insurance			**8,303,253**
GRAND TOTAL - ALL CONTRIBUTIONS			**$456,210,770**

* Per legislation, employers were not required to remit the Group Life and Disability portion of the actual employer contribution rate from July 1, 2002 through December 31, 2002 or from April 1, 2003 through June 30, 2003.

Schedule of Adminstrative Expenses

For the Fiscal Year Ended June 30, 2003

Salaries and Wages		$4,255,815
Professional Services		
Actuarial	$244,440	
Audit	42,500	
Data Processing	339,910	
Legal	46,060	
Other Professional Services	292,021	
Total Professional Services		964,931
Communication		
Advertising	18,618	
Postage	216,302	
Printing	93,672	
Telephone	85,112	
Total Communication		413,704
Building Administration		
Building Management	72,656	
Janitorial Service	47,607	
Office and Equipment Rent	21,906	
Real Estate Taxes	94,050	
Utilities	63,647	
Total Building Administration		299,866
Miscellaneous		
Call Center	75,200	
Dues and Subscriptions	20,370	
Repair and Service Agreements	138,198	
Supplies	173,116	
Temporary Services	130,712	
Travel	105,914	
Other Miscellaneous	21,712	
Depreciation	615,486	
Total Miscellaneous		1,280,708
Total Administrative Expenses		**$7,215,024**

Schedule of Investment Income by Asset Class

For the Fiscal Year Ended June 30, 2003

Asset Classification	Interest, Dividends and Other Transactions	Gains and (Losses)	Total
Marketable Equity Securities			
Domestic Equities	$32,669,209	$10,740,083	$43,409,292
International Equities	38,283,246	(150,785,547)	(112,502,301)
Subtotal Marketable Equities	70,952,455	(140,045,464)	(69,093,009)
Marketable Fixed Income Securities			
Domestic Fixed Income			
Government	60,634,286	213,513,756	274,148,042
Corporate	79,797,293	83,578,577	163,375,870
Subtotal Marketable Fixed	140,431,579	297,092,333	437,523,912
Temporary Investments	4,202,916	593,727	4,796,643
Total Marketable Securities	**215,586,950**	**157,640,596**	**373,227,546**
Real Estate	31,217,255	6,828,360	38,045,615
Alternative Investments	6,332,696	(79,235,477)	(72,902,781)
Total Real Estate and Alternative Investments	37,549,951	(72,407,117)	(34,857,166)
Other Investment Income			
Securities Lending	3,803,825	—	3,803,825
Recaptured Broker Commissions	371,927	—	371,927
Miscellaneous Income	185,684	—	185,684
Total Other Investment Income	4,361,436	—	4,361,436
Investment Income	**$257,498,337**	**$85,233,479**	**$342,731,816**
	Manager and Custodian Fees and Expenses		
	Investment Manager Fees		(15,080,751)
	Custodian Fees and Expenses		(798,753)
	Other Investment Expenses		(795,669)
	Total Investment Fees and Expenses		(16,675,173)
	Net Investment Income		**$326,056,643**

Schedule of Investment Fees and Expenses

For the Fiscal Year Ended June 30, 2003

Domestic Equity Managers		
Barclays Global Investors	$2,109,735	
Capital Guardian Trust Co.	404,028	
Wellington Management Co.	1,684,805	
Subtotal Domestic Equity Managers		**$4,198,568**
International Equity Managers		
Alliance Capital Management	774,027	
Lazard Freres Asset Management	1,272,499	
Morgan Stanley Asset Management	1,234,739	
Nomura Capital Management	502,703	
Subtotal International Equity Managers		**3,783,968**
Fixed Income Managers		
Loomis, Sayles & Co.	1,198,267	
Pacific Investment Management Co.	1,037,066	
Payden & Rygel Investment Counsel	774,769	
Western Asset Management Co.	744,074	
Subtotal Fixed Income Managers		**3,754,176**
Foreign Currency Overlay Manager		
Pareto Partners	1,073,334	
Subtotal Foreign Currency Overlay Manager		**1,073,334**
Real Estate and Alternative Investment Managers		
Lend Lease	1,511,568	
Portfolio Advisors	667,320	
Subtotal Real Estate and Alternative Managers		**2,178,888**
Cash Equivalent Manager		
Payden & Rygel Investment Counsel	91,817	
Subtotal Cash Management		**91,817**
Total Investment Management Fees		**15,080,751**
Other Fees and Expenses		
Mellon Trust - Custodian Fees and Expenses	798,753	
Consultant Fees	682,842	
Litigation Expenses	112,827	
Subtotal Other Fees and Expenses		**1,594,422**
Total		**$16,675,173**

Service Through

Excellence

Distributed more than 700,000 monthly retirement payments totaling approximately $598 million, with 99.9 percent on time.

Customer service satisfaction survey results for calls to the InfoLine show 93.4 percent of the respondents rated our service as “excellent” or “good” during their calls.

Investment Section

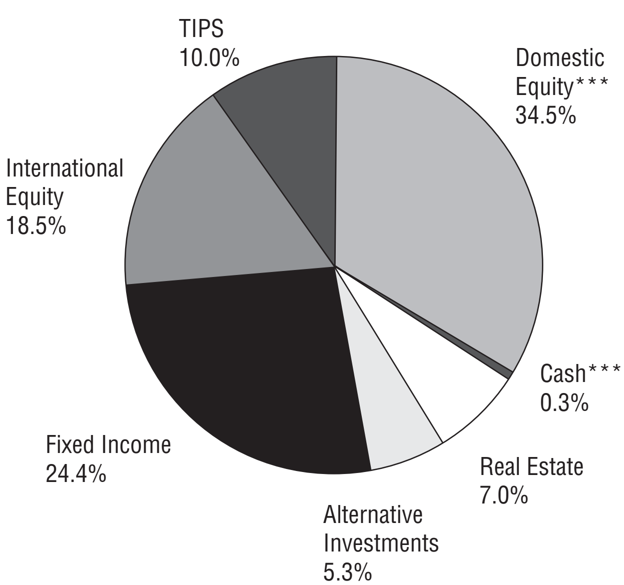
Investment

CHIEF INVESTMENT OFFICER'S REVIEW

- Robert Woodard

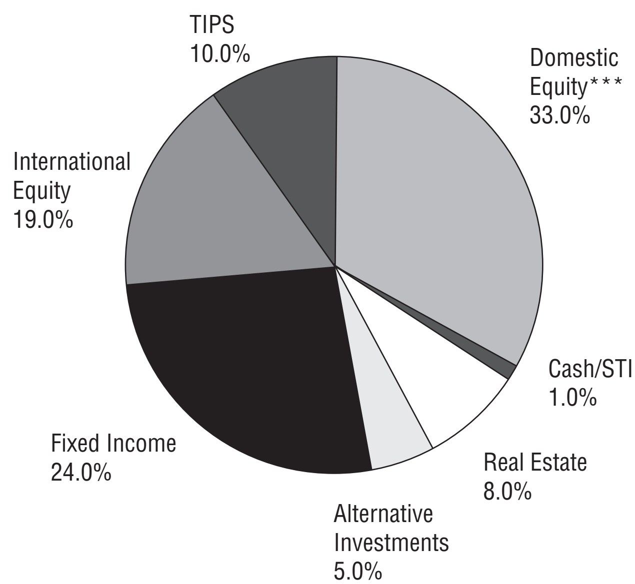
The investment portfolio of the Kansas Public Employees Retirement System represents all contributions to the plan, from both members and their employers, as well as all net earnings on these assets. These reserves are held in support of both current and future benefits to which members have earned entitlement. Total assets at the end of the fiscal 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 Position



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

Target Allocation**



** Target Allocation as of March 1, 2002.

Stock holdings are invested primarily in companies doing business in the United States, but also include a significant 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 11 portfolios that make up this portion of the portfolio. By utilizing several managers, the fund enjoys further diversification among manager styles and is less reliant on any one manager's performance.

The bond holdings in the portfolio are similarly diversified, as are the managers. As with the equity investments, the portfolio is primarily invested domestically with a small portion of international opportunities added for additional yield and diversification. 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 2003, over $740 million in benefits or refunds were distributed to members and their beneficiaries.

The System returned to positive return territory in Fiscal Year 2003, albeit below the actuarial assumption of 8 percent. Total return for the portfolio was an even 4.0 percent and reflected a significant range of returns by the various asset classes. A late rally in domestic and international equity markets in the last quarter of the fiscal year returned domestic equity returns to essentially zero (+0.9 percent), while international equity returns finished with an improved, yet dismal –7.6 percent. Although unacceptable absolute returns, the System's managers did manage to beat their respective benchmarks in what was a very volatile year. Conversely, the fixed income portion of the portfolio provided above expectation returns, with the Treasury Inflation Protected Securities (TIPS) portfolio generating over 19 percent on the year and the broad fixed income portfolio contributing 14 percent.

Investment Performance Report

For the Period Ending June 30, 2003

Time-Weighted Return (1)	Last Year	Latest 3 Years	Latest 5 Years
Total Portfolio	**4.0%**	**-2.8%**	**3.1%**
Policy Index	4.9%	-1.7%	3.2%
Consumer Price Index	2.1%	2.1%	2.4%
Domestic Equity Portfolio	**0.9%**	**-10.4%**	**0.2%**
KPERS Equity Benchmark	0.8%	-9.2%	-0.3%
International Equity Portfolio	**-7.6%**	**-12.4%**	**-2.0%**
KPERS Int'l Equity Benchmark	-8.2%	-14.7%	-4.1%
Fixed Income Portfolio	**14.0%**	**8.4%**	**6.4%**
KPERS Fixed Income Benchmark	13.6%	8.1%	5.6%
TIPS Portfolio	**19.4%**	**15.1%**	**NA**
KPERS TIPS Benchmark	19.4%	14.7%	NA
Real Estate Portfolio	**6.4%**	**9.8%**	**7.6%**
KPERS Real Estate Benchmark	4.8%	8.8%	10.8%
Alternative Investment Portfolio	**-14.2%**	**-10.2%**	**-2.5%**
KPERS Alternative Investment Bench Mark	5.6%	4.1%	10.0%
Cash Equivalents Portfolio	**1.9%**	**3.9%**	**4.7%**
Merrill Lynch 0-1 Yr. Treasury Index	1.8%	3.9%	4.4%

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

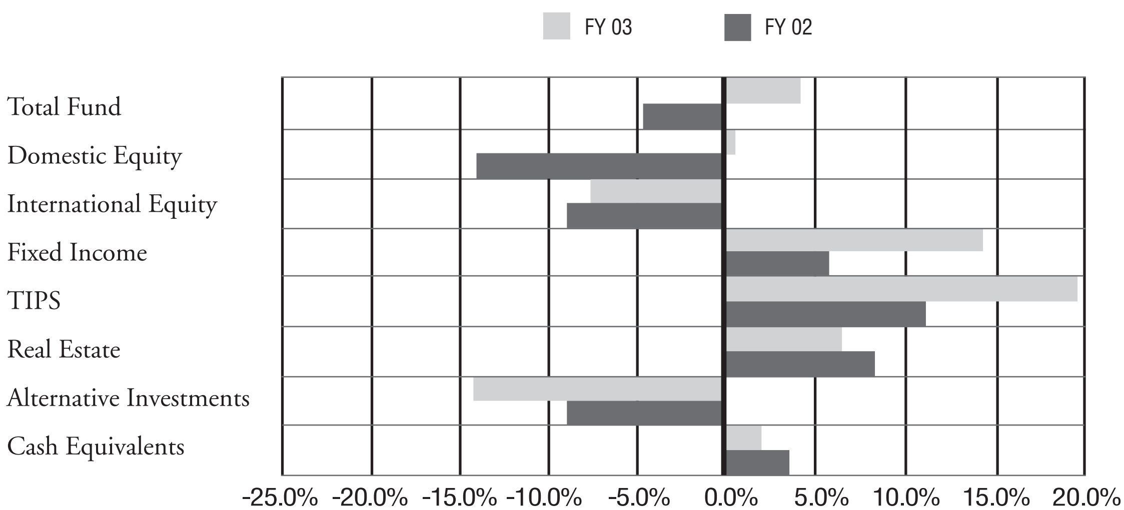
Capital markets were first captivated with the conflict with Iraq, and once this was largely resolved, turned their attention to the apparent unfolding conflict within the domestic economy. Whereas the geopolitical issues were relatively quickly and successfully resolved, the economy continues to stagger. Significant liquidity creation by the Federal Reserve Bank coupled with deficit spending by the federal government, are joined in a monetary and fiscal effort to rejuvenate the general economy. Equity markets have stabilized somewhat, as corporate profitability began to improve over the last half of the fiscal year, although less through an increase in revenue growth than through cost cutting and generally easier comparisons. Simultaneously the bond markets have rallied furiously as short and long-term interest rates declined. The inability of the recovery to gain much momentum, coupled with the lack of credible employment growth, has left many to wonder if the U.S. is entering into a prolonged period of sub-optimal growth. The high levels of corporate and private debt and lack of a clear and sustainable demand from either business or consumers may conspire with what are arguably full valuations to continue to make the domestic and international equity markets difficult for the immediate future. In the meantime, interest rates seem to have run out of room to decline further, causing future gains in fixed income to be less likely.

In periods of marginal markets and muted return expectations like these, it is important to keep in mind that 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.

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 position (currently vacant), 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.

Return Comparison by Asset Class

For Fiscal Years Ending June 2002 and June 2003



EQUITY REVIEW

- Scott Peppard, Deputy Chief Investment Officer

Equity returns for the 2003 fiscal year were mixed. Returns from domestic markets were slightly positive for the year while international equity markets continued to experience negative results. Equity returns began the fiscal year on a negative note as markets sold off during July in reaction to uncertainty associated with corporate earnings, corporate accounting scandals and numerous risks abroad. Equity markets were again negatively impacted during September as domestic and international indexes posted returns approaching negative 20 percent for the first quarter of the fiscal year. Over the next several months the markets traded erratically as economic uncertainties and possible military action in Iraq weighed heavily on the market.

Signs of economic strength combined with the realization that the United States would pursue military action against Iraq helped the equity markets stabilize. The investment outlook continued to improve as the success of Operation Iraqi Freedom and potential economic stimulus from a tax cut became realities. The equity markets responded by strengthening dramatically during the months of April, May and June. Over this period the domestic and international equity markets appreciated 16.2 percent and 19.6 percent, respectively.

Although volatile, overall equity returns for the fiscal year ended June 30, 2003, were significantly improved compared to the returns from the two previous fiscal years. Domestic equities, as measured by the Russell 3000 Index, appreciated by 0.8 percent. Although the return was low in absolute terms, it compares favorably with the negative double-digit returns experienced in each of the prior two fiscal years. The international markets suffered a loss of 6.1 percent, as measured by the Morgan Stanley Capital International Europe, Australia and Far East Index (unadjusted for currency). Again, this return is relatively good compared to fiscal years 2001 and 2002 when the returns were negative 23.3 percent and negative 9.2 percent, respectively.

Overall, the System's domestic equity portfolio returned 0.9 percent while the benchmark, the Russell 3000, returned 0.8 percent. Each of the five actively managed portfolios performed better than their assigned benchmark while the passively managed portfolio achieved its objective of matching its benchmark. The international portfolio also managed to outperform its benchmark although the return was negative. For the fiscal year the portfolio declined 7.6 percent compared to a negative 8.2 percent return for the customized index. The customized index is the Morgan Stanley Capital International Europe, Australia and Far East Index adjusted for currency hedging activities that occur on a portion of the portfolio.

While the System's external investment management team remained stable over the year the System continues to explore ways to improve the risk/return profile of each asset class and of the overall fund. During fiscal year 2004 an additional international equity mandate will be added to group. The new portfolio will be expected to add value relative to its benchmark while pursuing a risk controlled strategy. The goal of this change is to add incremental return to the international equity portfolio with only a slight change in the level of risk. Looking forward the System's equity portfolios are positioned with the long-term goal of outperforming their benchmarks while controlling and monitoring the associated risks.

FIXED INCOME

- Cheri Woolsey, Fixed Income Investment Officer

The System's fixed income portfolio posted one of its highest annual returns in a decade by earning 14.0 percent for fiscal year 2003. On a relative basis the portfolio out performed the KPERS Fixed Income Benchmark return of 13.6 percent. The 40 basis points return above the benchmark is attributed to the strong relative performance of the System's core and core-plus managers and an overweight to high yield. The Treasury Inflation Protected Securities (TIPS) portfolio performed extraordinarily well in both relative and absolute terms with a return of 19.38 percent versus the benchmark's return of 19.36 percent.

The overarching theme in the fixed income market was a continued trend of lower interest rates. Investments in corporate debt securities were active as well, however, as numerous corporations announced accounting improprieties during the summer. This caused credit spreads to increase as investors compensated for potential default risk. Hopes of a pending economic recovery faded with reports of increasing unemployment and decreasing pricing power within the business sector. During the third quarter investors continued to seek the safety of government securities and the highest quality corporate names. It wasn't until mid fiscal year that the credit markets began to strengthen. The Federal Reserve reduced short-term rates to 1.25 percent, the twelfth such rate cut in a series that began in 2001. At the same time, corporations began to repair balance sheets by reducing the heavy debt burdens through pay downs or refinancing causing credit spreads to narrow to more typical levels. Lower-rated credit securities rallied as investors in search of higher yields bid up prices.

The fiscal year ended with interest rates near 40-year lows. As the economy begins to recover, led by the monetary stimulus provided by both the Federal Reserve and the deficit spending from the federal government, we expect interest rates to rise. Absent a stronger than expected overall recovery, however, fixed income should continue to deliver reasonable absolute returns and good diversification. As inflation expectations increase the System's TIPS portfolio should help performance. TIPS provide a real return plus an inflation adjustment. The inflation component is adjusted monthly to reflect changes in inflation as they happen. We expect this adjustment to help mitigate price declines in the overall fixed income portion of the portfolio as interest rates rise.

Double-digit returns (and near 20 percent return in TIPS) for fixed income are not the norm. Given the recent volatility in the domestic and international equity markets, however, these returns have helped to stabilize the total portfolio's return. Although we do not expect fixed income returns to continue at this pace, we will continue to look to the fixed income sector as a source of income, diversification and stability.

REAL ESTATE

- Robert Schau, Real Estate Investment Officer

For fiscal year 2003, the System continued to target an 8 percent exposure to real estate assets, with actual investments approaching that level. This allocation is expected to provide a steady source of relatively high current income returns and enhance portfolio diversification by reducing overall return volatility.

The System's long-term investment strategy focuses on direct ownership of institutional quality office, industrial, retail and multifamily properties in major metropolitan areas. Additional activity includes investments in publicly traded real estate investment trusts (REITS), and participation in several non-core investment funds, consisting of pooled holdings of properties with higher risk and return expectations.

Commercial real estate performance historically has been highly correlated to overall economic growth. As noted in previous years, we did not believe that a correction of the magnitude experienced in the late 1980s will be repeated prior to a recovery. In fact, during this recession low interest rates and lack of competitive yield vehicles have driven real estate values up even as operating results have declined. The System has taken advantage of this market by realizing profits on several sales and adding mortgages to two properties at an average interest rate over the next seven years of 5.1 percent.

For the fiscal year ended June 30, 2003, the portfolio generated a total return (defined as value changes plus current income) of 6.4 percent. This was substantially above the 4.8 percent blended benchmark (consisting of policy-weighted components for private and public equity real estate). Current income is in excess of 6 percent. The majority of the excess performance was due to exposure to regional mall REITs, which generated a return of almost 20 percent, and to the more aggressive non-core strategies which generated a return of almost 8 percent. Over the past three years, the portfolio has generated an average return of 9.8 percent, a large portion being from current income. Over this period, real estate provided about two units of return per unit of risk, which is superior to most asset classes and in line with the System's long-term expectations.

ALTERNATIVE INVESTMENTS

- Don Deseck, Senior Investment Accountant

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 KPERS purchase alternative investments in an effort to improve their total portfolio returns and to diversify risk. The System has utilized the limited partnership structure in the current alternative investment program. As a limited partner, the System participates along with other institutional investors, in this illiquid, but historically rewarding, asset class.

The System continues to sustain investment relationships with 35 different investment managers diversified over 53 partnership funds. The portfolio is further diversified across several investment sectors including buyout, venture capital, mezzanine and distressed debt. The System began constructing the portfolio in 1997 with commitments made over the ensuing four years. Due primarily to the decline in the value of the overall investment portfolio, during fiscal year 2001 the System reached its target allocation of five percent. This allocation has hovered in the 5 to 6 percent range since that time, and as such, no new commitments have been made. Once the aggregate exposure declines to less than 5 percent, either by virtue of an increase in the value of the overall portfolio, a decline in the value of the alternative investment portfolio or a return of capital, the System will again consider new commitments.

Private equity performance, like its public sector counterpart, has suffered in the past three years. A decline in business spending and confidence, brought about by the sluggish economy, has reduced short-term expectations and realizations in private equity. In addition, the continued reevaluation of the long-term opportunities and value of entities associated with the Internet, telecommunications and technology continue to weigh heavily on many investments made nearer the peak of the bull market. KPERS' aggregate alternative investment performance exhibited the impact of these factors in its disappointing negative14.2 percent return for the recent fiscal year. Specifically, venture capital returns were the worst for the fiscal year, followed by buyout, mezzanine and distressed debt.

It appears there may be some improvement on the horizon. Recent rebounds in the public markets, coupled with a slight increase in investment activity by venture capital and buyout funds, may be signaling the end of two years of declining investment activity. Although a dramatic turnaround in private equity appears unlikely, this recent activity is cause for optimism. KPERS' portfolio is still quite young and the long-term expectations for this asset class remain positive, despite the recent pressures on 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 on the following two pages. Another schedule, summarizing changes in the fair value of investments, is on page 50. A listing of domestic broker commissions paid in fiscal year 2003 and the top ten 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

Shares	Description	Cost	As of June 30, 2003 Market Value
	Included in Alternative Investments Portfolios:		
9,843,750	Advanced Technology VI LP	$7,704,279	$4,715,648
12,975,000	Apax Europe IV LP	6,911,691	6,302,558
10,830,000	Apax Europe V LP	9,137,753	9,499,733
5,000,000	Battery Ventures V Lp	2,240,043	1,656,630
6,695,000	Battery Ventures VI LP	4,967,479	2,884,842
10,644,555	Beacon Group Energy Fund II	4,680,975	3,618,074
16,543,370	Behrman Capital II LP	11,603,075	9,710,925
17,827,837	Behrman Capital III LP	16,084,059	14,268,420
5,543,913	Candover 1997 US #1 Fund LP	2,998,942	5,761,555
14,255,164	Capital Resource Partners IV	11,465,776	10,636,291
5,558,385	Cinven Second Fund US LP	5,397,208	7,171,654
12,018,764	Clayton Dubilier & Rice VI LP	8,900,103	6,986,976
8,085,865	Cypress Merchant Banking IO	8,217,163	7,756,019
9,100,000	Dominion Fund V LP	5,825,904	2,899,287
4,750,000	El Dorado Ventures IV LP	1,583,722	960,070
7,500,000	El Dorado Ventures V LP	5,225,541	2,840,933
7,500,000	El Dorado Ventures VI LP	6,026,771	5,400,503
17,397,353	GTCR Capital Partners LP	14,734,513	13,977,573
25,152,662	GTCR Fund VII LP	21,721,301	20,709,495
3,075,000	GTCR Fund VII/A LP	1,997,880	2,661,077
13,600,000	Halpern Denny Fund III LP	12,042,019	11,380,113
17,525,680	Harvest Partners III LP	15,121,114	16,451,601
13,975,662	Kelso Investment Assoc VI	9,866,152	12,411,436
9,628,190	Littlejohn Fund II LP	7,679,302	4,765,762
16,999,811	Mccown De Leeuw & Co Iv LP	7,226,557	8,803,607
20,000,000	Md Sass Corp Resurgence	9,261,147	12,570,140
17,875,000	Md Sass Corp Resurgence II	9,358,832	13,105,700
12,397,456	Md Sass Corp Resurgence III	9,076,322	11,562,562

Shares	Description	Cost	As of June 30, 2003 Market Value
17,114,759	Oak Hill Capital Partners LP	$14,935,089	$14,041,103
13,000,000	OCM Opportunities Fund II LP	7,545,672	6,927,362
20,000,000	OCM Opportunities Fund III LP	10,776,719	12,214,340
8,000,000	OneLiberty Fund IV LP	4,735,692	3,166,864
13,500,000	OneLiberty Ventures 2000 LP	11,486,432	9,809,195
12,800,000	TA IX, L. P.	11,563,943	10,724,621
5,500,000	TA Subordinated Debt Fund LP	4,863,064	4,535,691
13,972,000	TCV IV LP	9,802,222	9,438,128
16,910,043	Thomas H Lee Equity Fund IV LP	14,350,425	13,180,837
8,870,393	Thomas H Lee Equity Fund V	9,082,887	9,232,137
4,328,438	Trinity Ventures VI LP	1,259,070	1,033,259
11,250,000	Trinity Ventures VII LP	7,548,658	3,468,443
6,360,000	Trinity Ventures VIII LP	4,668,772	2,745,116
19,146,253	Triumph Partners III LP	12,338,327	10,837,890
11,100,000	Vantagepoint Venture III	6,054,627	3,585,111
7,200,000	Vantagepoint Venture IV LP	4,243,934	3,502,454
9,116,987	Vestar Capital Partners IV LP	7,712,362	8,712,384
14,426,496	VS & A Communications III	13,323,401	10,281,836
20,000,000	Warburg Pincus Equity (8)	11,482,699	12,163,460
19,800,000	Welsh, Carson VIII LP	13,878,179	10,735,105
21,600,000	Welsh, Carson IX LP	16,888,491	18,309,283
19,954,755	Willis Stein & Partners II LP	10,209,184	7,292,385
19,635,420	Willis Stein & Partners III	17,843,010	13,876,685
12,381,864	Windjammer Fund II LP	10,717,905	11,957,946
13,821,420	Windward Capital Partners II	11,452,538	19,560,004
Total Post 1991 Investments		**$485,818,926**	**$462,800,820**

Schedule of Investment Summary

(In Thousands) (1) For the Fiscal Year Ended June 30, 2003

	June 30, 2002 Fair Value	Purchases and Other Increases	Sales and Other Decreases	June 30, 2003 Fair Value	Asset Mix Fair Value
Marketable Securities					
Domestic Equities	$2,832,120	$908,699	$(716,238)	$3,024,581	32.22%
International Equities	1,449,505	802,401	(630,373)	1,621,533	17.27
Total Fixed Income	3,496,031	9,251,890	(9,492,421)	3,255,500	34.68
Temporary Investments (2)	349,883	22,300,247	(22,270,366)	379,764	4.04
Total Marketable Securities	**8,127,539**	**33,263,237**	**(33,109,398)**	**8,281,378**	**88.21**
Real Estate and Alternative Investments					
Real Estate	689,739	70,183	(136,274)	623,648	6.64
Direct Placements and Limited Partnerships	483,148	214,758	(214,762)	483,144	5.15
Total Real Estate and Alternative Investments	**1,172,887**	**284,941**	**(351,036)**	**1,106,792**	**11.79**
Total	**$9,300,426**	**$33,548,178**	**($33,460,434)**	**$9,388,170**	**100.00%**

1) Amounts include changes in unrealized appreciation and exclude interest and dividend accruals. Amounts exclude security lending cash collateral of $1,544,443,171 for FY 2002 and FY 2003 cash collateral of $1,860,279,374.

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

U.S. Equity Commissions

For the Fiscal Year Ended June 30, 2003

Broker Name	Commissions Paid	Shares	Commission Per Share	Percent of Total Commissions
Morgan Stanley & Co Inc	$198,025	7,127,510	$0.03	9.4%
Citigroup Global Markets Inc, New York	191,434	6,862,364	0.03	9.0
Merrill Lynch Pierce Fenner Smith Inc, New York	178,758	6,258,450	0.03	8.4
Bear Stearns & Co Inc, New York	156,469	3,212,500	0.05	7.4
Goldman Sachs & Co, New York	126,352	2,810,611	0.04	6.0
Credit Suisse First Boston Corp, New York	120,891	2,464,000	0.05	5.7
Lehman Bros Inc, New York	99,521	2,035,223	0.05	4.7
Investment Technology Groups, New York	92,425	5,505,645	0.02	4.4
UBS Securities LLC, New York	72,348	1,934,299	0.04	3.4
Sg Cowen Secs Corp, New York	65,195	1,375,600	0.05	3.1
Jefferies & Co Inc, New York	56,871	1,343,300	0.04	2.7
Deutsche Banc Alex Brown Inc, New York	53,563	1,220,074	0.04	2.5
Banc Of America Secs LLC, Charlotte	46,896	977,066	0.05	2.2
Morgan J P Secs Inc, New York	44,697	1,206,499	0.04	2.1
Bernstein Sanford C & Co, New York	42,383	917,766	0.05	2.0
Russell Frank Secs Inc	37,976	893,000	0.04	1.8
Soundview Finl Group, Stanford	33,365	1,056,900	0.03	1.6
Lynch Jones & Ryan Inc, Houston	31,433	689,100	0.05	1.5
Dain Rauscher Inc, Minn	27,392	548,700	0.05	1.3
Oppenheimer & Co Inc, New York	27,271	965,100	0.03	1.3
B Trade Svcs LLC, New York	26,787	1,581,095	0.02	1.3
Weeden & Co, New York	26,354	640,200	0.04	1.2
Schwab Charles & Co Inc, San Francisco	24,288	853,640	0.03	1.1
Wachovia Securities LLC, New York	24,193	581,600	0.04	1.1
Heflin & Co LLC, New York	23,768	913,600	0.03	1.1
Other	288,298	8,842,257	0.03	13.6
Total Broker Commissions	**$2,116,953**	**62,816,099**	**$0.03**	**100.0%**

List of Largest Holdings (A)

as of June 30, 2003

Equities

Shares	Security	Fair Value ($)
1,841,574	Pfizer Inc Com Stk Usd0.05	$62,889,752
1,986,444	General Elec Co Com	56,971,214
2,139,962	Microsoft Corp Com	54,868,626
1,245,200	Citigroup Inc Com	53,294,560
25,689,100	Vodafone Group Plc Ord Usd0.10	50,233,179
1,374,424	Exxon Mobil Corp	49,355,566
247,320	Total Sa Eur10	37,375,706
4,994,422	Bp Plc Ord Usd.25	34,635,095
1,187,365	Royal Bank Of Scotland Grp Ord	33,308,616
685,823	Royal Dutch Pete Co Eur.56	31,833,371

Fixed Income

Par Value	Security	Description	Fair Value ($)
$579,470,873	US Treasury Inflation Index Bd	3.875% 04/15/2029	$738,010,510
184,600,000	Commit To Pur FNMA Sf Mtg	5.000% 07/01/2018	190,714,875
110,237,590	US Treasury Inflation Index Bd	3.625% 04/15/2028	134,197,047
133,000,000	Merrill Lynch Co Repo	1.220% 07/01/2003	133,000,000
64,100,000	Federal Natl Mtg Assn Disc Nts	MAT 08/06/2003	63,974,778
51,778,500	US Treasury Inflation Index Bd	3.375% 04/15/2032	62,700,657
53,500,000	Commit To Pur FNMA Sf Mtg	5.500% 07/01/2033	55,301,447
42,680,000	Commit To Pur GNMA Sf Mtg	6.500% 07/15/2033	44,814,000
40,010,000	US Treasury Notes	4.750% 11/15/2008	44,361,088
40,850,000	Federal Home Ln Bk Cons Disc	Mat 08/22/2003	40,734,561

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

Service Through

Accountability

Selected a new life insurance carrier to provide improved coverage and a 25 percent reduction in members' optional life insurance premiums.

Processed $9.5 million in member service credit purchases.

Actuarial

A MILLIMAN GLOBAL FIRM

Milliman USA
Consultants and Actuaries

September 10, 2003

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

Dear Members of Board:

At your request, we have conducted our annual actuarial valuation of the Kansas Public Employees Retirement System as of December 31, 2002. The major findings of the valuation are contained in this report. There was no change in actuarial assumptions and methods from the prior valuation. The report does reflect several legislative changes, which are outlined on page 1 of the report. All of the information and the supporting schedules found on page 58 through 74 of the Actuarial section has been provided by Milliman USA, Inc. We also provided the information used in the supporting schedules in the *Schedules of Funding Progress* in the Financial Section, as well as the employer contribution rates shown in the *Schedule of Employer Contributions* in the Financial Section.

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

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

We hereby further certify that all costs, liabilities, rates of interest and other factors for the System have been determined on the basis of actuarial assumptions and methods which are internally consistent, individually reasonable (taking into account the experience of the Plan and reasonable expectations of future experience); and which, in combination, offer our best estimate of anticipated experience under the Plan. Nevertheless, the emerging costs will vary from those presented in this report to the extent actual experience differs from that projected by the actuarial assumptions. The Board of Trustees has the final decision regarding the appropriateness of the assumptions and adopted 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. Any distribution of this report must be in its entirety including this cover letter, unless prior written consent from Milliman USA is obtained.

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

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

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

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

MILLIMAN USA, Inc.

Sincerely,

Patrice Beckham

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

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

OVERVIEW

The Kansas Public Employees Retirement System is an umbrella organization which administers the following three statewide pension 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, 2002 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 for KPERS. Although the cost method was not changed for KP&F and Judges, we are recommending that the Supplemental UAL and "frozen actuarial liability" for KP&F and Judges respectively be reset as of December 31, 2002. Additional discussion on this topic is included later in this Board Summary. The 2003 Legislature passed the 2003 KPERS Omnibus Bill (HB2014), which contained several provisions that are reflected in this report:

- Members of the TIAA group (who previously had a separate valuation and contribution rate) were made special members of KPERS. Most of the members were transferred to the State/School group but those employed by the KU Hospital Authority were transferred to the Local group. The legislation effecting this change also provided that bonds will be issued, in addition to a $2 million cash payment, to fully fund the existing unfunded actuarial liability for this group as of December 31, 2002. The report reflects the bond proceeds as a receivable.

- The 13th check for pre-July 2, 1987, retirees is now a permanent benefit. The legislation also provided for bonds to be issued to finance this benefit improvement for State employees (including State employees of KP&F and Judges). The debt service payments on the bond issue will be paid from an increase in the state's employer contribution rate beginning in FY2005. The resulting increase in the unfunded actuarial liability for Local employers is to be paid off over a ten year period beginning in 2005 by an increase in the employer contribution. The contribution rates developed in this valuation report reflect the bond proceeds as a receivable and determine the appropriate contribution rate for each group based on the applicable statutory provisions.

- The statutory cap for the State/School group will increase to 0.40 percent in FY2006, with subsequent increases of 0.50 percent in FY2007 and 0.60 percent in FY2008 and beyond.

- Up to $500 million in pension obligation bonds are authorized to be issued for the purpose of reducing a portion of the unfunded actuarial liability for the State/School group. The issuance of the bonds is dependent upon approval or recommendation by several entities during the process. Due to the contingent nature of the bond issue, the valuation report does not reflect a future bond issue for the State/School group.

The valuation results provide a "snapshot" view of the System's financial condition on December 31, 2002. The unfunded actuarial liability for the System as a whole increased by $1.049 billion, due to various factors, the most significant of which was the actuarial loss from investment return on the actuarial value of assets. A detailed analysis of the change in the unfunded actuarial liability from December 31, 2001 to December 31, 2002, is shown on page 64.

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. The statutory cap, which is currently 0.20 percent for State/School, will be increased to 0.40 percent in FY2006, 0.50 percent in FY2007 and 0.60 percent in FY 2008. The statutory cap for Local remains at 0.15 percent. Based on the results of the current valuation and assuming an 8 percent return on the market value of assets in 2003 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." Due to 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 exacerbate the long term funding concerns. While the 2003 Legislature increased future contribution rates by ultimately raising the statutory cap to 0.60 percent, the statutory and actuarial rates are still not projected to converge. Therefore, we recommend the System's funding policy continue to be studied in order to address this issue. In our opinion, additional areas of study should include:

- Actuarial cost method
- Asset smoothing method including use of a corridor and smoothing factor
- Reamortization of the UAL including reset date, amortization method and period
- Statutory caps (especially for Local employers since no change has been made)

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, 2002, valuation will set rates for fiscal year end 2006 for the State and 2005 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, 2002 Valuation		
System	Actuarial	Statutory	Difference
State/School	9.14%	5.27% [1]	3.87%
Local	5.44%	3.41% [1]	2.03%
Police & Fire-Uniform Rates [2]	11.63%	11.63%	0.00%
Judges	21.97%	21.97%	0.00%

	December 31, 2001 Valuation [3]		
System	Actuarial	Statutory	Difference
State/School	7.69%	4.78%	2.91%
Local	4.64%	3.22%	1.42%
TIAA	2.76%	2.76%	0.00%
Police & Fire-Uniform Rates	9.47%	9.47%	0.00%
Judges	18.67%	18.67%	0.00%

1 Rates, by statute, are allowed to increase by a maximum of 0.40 percent and 0.15 percent per year plus the cost of any benefit enhancements for State and Local employers respectively.

2 For KP&F, the statutory contribution rate is equal to the "Uniform" rate. The rate shown is for local employers. The rate for State employers is 11.93 percent which includes a payment of 0.90 percent for the debt service payment on the bonds issued for the 13th check. The uniform rate does not include the payment required to amortize the unfunded past service liability or any 15 percent excess benefit liability determined separately for each employer.

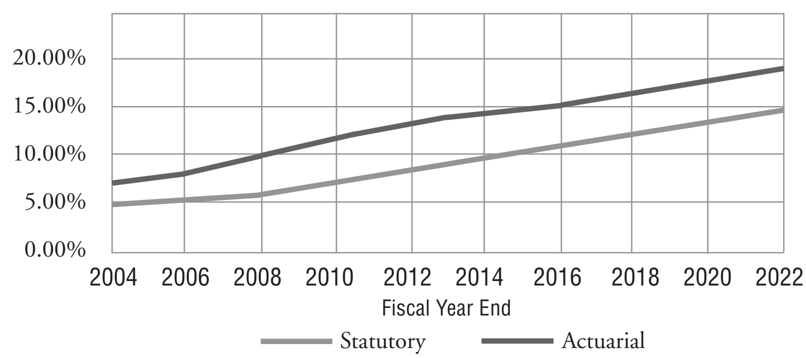
3 Does not reflect the change in contribution rates for the State for FY2005 due to the debt service payment on bonds expected to be issued in 2003.

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

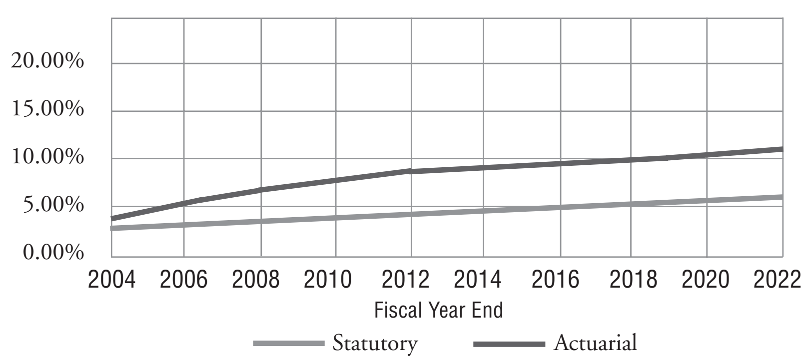
	Actuarial	Statutory
Retirement Age 55:	9.61%	5.74%
Retirement Age 60:	9.47%	5.60%

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 3.87 percent and 2.03 percent respectively for the State/School and Local groups. Assuming an 8 percent return on the market value of assets for 2003 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 & School
Projected Employer Contribution Rate



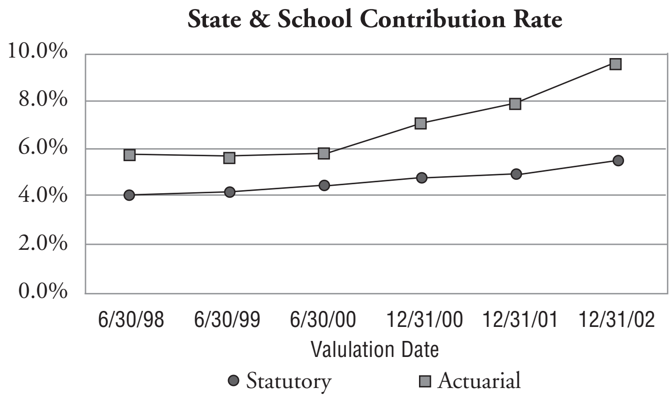
Local
Projected Employer Contribution Rate



Employer contribution rates for all groups increased in the 2002 valuation as compared to the 2001 valuation. The negative investment experience during calendar year 2002, coupled with the deferred investment losses from prior years, 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 continue to increase.

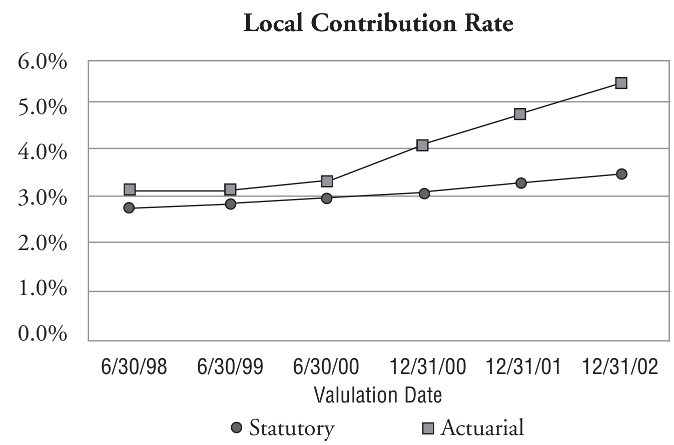
For the State/School and Local groups, the impact of negative experience is reflected in the unfunded actuarial liability (UAL). The result is the actuarial loss increases the payment on the UAL, but the normal cost rate is not impacted. However, actuarial gains/losses are reflected in the normal cost rate rather than the unfunded actuarial liability under the actuarial cost methods currently used for KP&F and Judges. This essentially funds the gain/loss over the average future working lifetime of actives members. For KP&F the average future working lifetime is about 13 years and for Judges it is around ten years. Funding actuarial losses over a relatively short period results in significant increases in the normal cost rate. Due to the significant investment losses in the past three years, we recommend the UAL for both KP&F and Judges be reset to the UAL under the traditional entry age normal method as of December 31, 2002. The impact of this change is to shift a portion of future costs from the normal cost to the UAL, where it is paid off over a longer period. The net result of this change is a lower actuarial contribution rate.

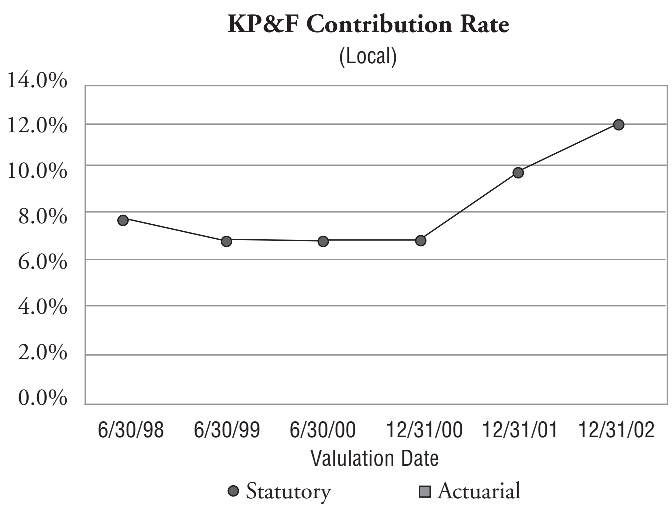
Historical contribution rates for each group are shown below:



Recent investment experience has resulted in an increase in the actuarial contribution rate. As the deferred investment loss is reflected in future valuation results, the gap between the statutory and actuarial rate is expected to increase.

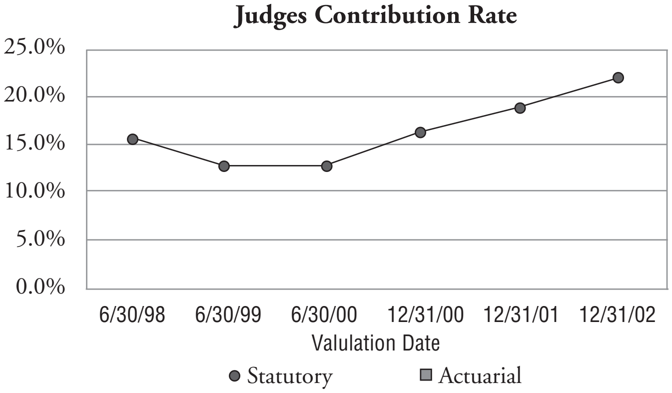
The Local contribution rate has also been impacted by recent investment performance. As a result, the difference between the statutory and actuarial contribution rate has increased.





The rate for KP&F is heavily impacted by investment experience. The low investment return on the actuarial value of assets in recent years has resulted in significant increases in the contribution rate. This can be expected to continue as investment losses from prior years are recognized in the actuarial value of assets.

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, 2001 - December 31, 2002

Several factors contributed to the change in the Systems' assets, liabilities and actuarial contribution rates between the December 31, 2001 and December 31, 2002, actuarial valuations. On the following pages each component is examined.

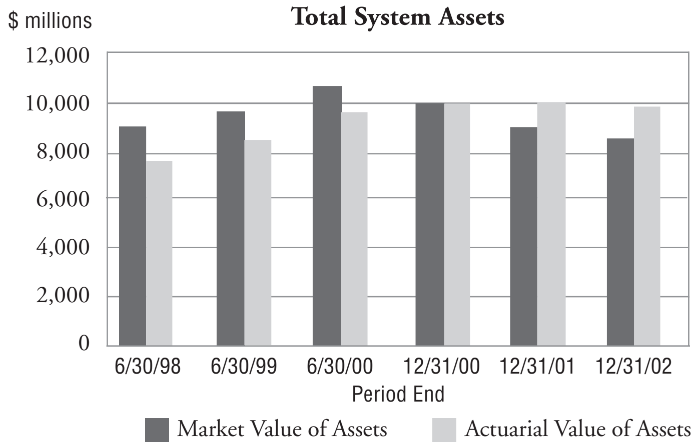
ASSETS

As of December 31, 2002, the System had total funds when measured on a market value basis, of $8.241 billion, excluding receivables and assets held for the Group Insurance and Optional Life reserves. This was a decrease of $0.905 billion from the December 31, 2001, figure of $9.146 billion. The components of the change in the market value of assets for the Retirement System (in millions) are set forth below:

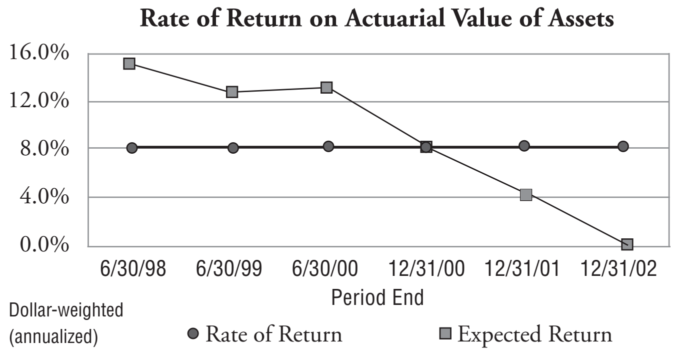
	Market Value $ (millions)
Assets, December 31, 2001	$9,146
· Employer and Member Contributions	418
· Benefit Payments and Expenses	(674)
· Investment Income	(649)
Assets, December 31, 2002	$8,241
· Receivables	42
Adjusted Assets, December 31, 2002	$8,283

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 Table 3 for the detailed development of the actuarial value of assets as of December 31, 2002, for each System. The actuarial value of assets as of December 31, 2002, including receivables, was $9.785 billion. The annualized dollar-weighted rate of return for 2002 measured on the actuarial value of assets was 0.8 percent and, measured on the market value of assets as reported by KPERS, was negative 6.9 percent.

Due to the asset smoothing method, there is $1.5 billion of deferred investment loss that has not yet been recognized. Absent investment returns significantly 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 on assets even if the 8 percent return occurs.



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 over the last three years reversed that trend. The actuarial value of assets now exceeds the market value by $1.5 billion.



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 the 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 ($millions) are:

	State/School	Local	KP&F	Judges
Actuarial Liability	$9,189	$1,859	$1,468	$97
Actuarial Value of Assets	$6,950	$1,519	$1,235	$80
Unfunded Actuarial Liability	$2,239	$340	$233*	$17

*Includes UAL for prior service being paid off by individual employers.

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 increase four percent each year, the same as the payroll growth assumption. In the early years of the period, the payment is less than the interest accruing on the UAL. As a result, the dollar amount of UAL is expected to increase for many years before it begins to decline. In addition, with the planned difference in the statutory and actuarial contribution rates prior to convergence, the unfunded actuarial liability is expected to increase by an additional amount each year.

Other factors influencing the UAL from year to year include actual experience versus that expected based on the actuarial assumptions (both asset and liability), changes in actuarial assumptions, procedures or methods and changes in benefit provisions. Both the State/School and Local groups had a small liability loss in addition to a large loss on asset experience. Retiree mortality, termination of employment experience and service purchases contributed to the actuarial loss.

Between December 31, 2001 and December 31, 2002, the change in the unfunded actuarial liabilities for the System as a whole was as follows (in millions):

	$ (millions)
Unfunded Actuarial Liability, December 31, 2001	$ 1,780
· effect of contribution cap/time lag	143
· expected increase due to amortization method	21
· loss from investment return	644
· liability experience	68*
· all other experience	0
· change in benefit provisions (13th check)	37
· change in actuarial assumptions	0
· transfer of TIAA members	0
· 13th check bond proceeds	(25)
· TIAA bond proceeds	(16)
· re-establishment of UAL (KP&F/Judges)	177
Unfunded Actuarial Liability, December 31, 2002	$ 2,829

*Liability loss is about 0.60 percent of total actuarial liability.

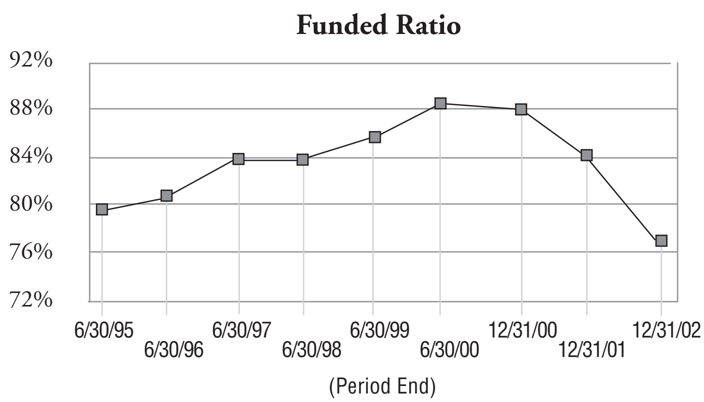
A detailed summary of the change in the unfunded actuarial liability by System is shown on page 66.

As mentioned earlier in this report, there is currently $1.5 billion 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. If the assumed rate of 8 percent is not met on the market value of assets it will result in an additional increase in the UAL and an additional amount of deferred investment loss to be recognized later.

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 is expected to continue to grow. This does not reflect the impact of any pension obligation bonds that may be issued in the future. Assuming an 8 percent return on the market value of assets for 2003 and all future years and assuming all other actuarial assumptions are met, the UAL for the State/School group is expected to exceed $6 billion with a resulting estimated funded ratio of around 55 percent by 2013. This dramatic deterioration in the System's financing supports our continuing concerns about the long term funding of the System and the need to continue to consider additional changes in the funding plan, as previously discussed.

An evaluation of the unfunded actuarial liability on a pure dollar basis may not provide a complete analysis since only the difference between the assets and liabilities (which are both very large numbers) is reflected. Another way to evaluate the unfunded actuarial liability and the progress made in its funding is to track the funded status, the ratio of the actuarial value of assets to the actuarial liability. 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	12/31/02
Funded Ratio	83.3%	83.0%	86.0%	88.6%	88.3%	84.8%	77.6%
Unfunded Actuarial Liability (UAL)	$1,376	$1,591	$1,397	$1,233	$1,305	$1,780	$2,829



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 significantly 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
- 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 that is used to finance the Death and Disability Program. Contributions for the Death and Disability Program are deposited in a separate trust fund, from which benefits are paid. A separate actuarial analysis and report is prepared for the Death and Disability Program 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. Under the cost methods for KP&F and Judges, actuarial losses are funded over the future working lifetime of active members. The significant losses on the actuarial value of assets in the past two years have resulted in a significant increase in the contribution rate each year. To address this issue in the short term, we recommend the UAL be reset as of December 31, 2002, for both KP&F and Judges. However, the innate weakness of an aggregate type cost method will continue to exist and will likely create additional challenges in future years (due to the deferred losses) if unchanged. Other acceptable cost methods are available which would reflect future actuarial gains/losses in the unfunded actuarial liability. Because the UAL is financed over a longer period, this should reduce the spike in the contribution rate due to plan asset experience. We recommend the Board study this issue further before the next actuarial valuation is completed.

The change in the actuarial contribution rate from December 31, 2001 to December 31, 2002, and the primary components thereof are shown in the table on page 67.

Summary of Changes in Unfunded Actuarial Liability

December 31, 2002 Valuation

$(millions)	State/School	Local	TIAA	KP&F*	Judges*	Total
UAL in 12/31/01 Valuation Report	$1,506.0	$185.3	$19.8	$58.8	$10.2	**$1,780.1**
· Effect of contribution cap/timing	121.3	18.5	3.4	0.0	0.0	143.2
· Expected increase due to method	29.6	3.4	(9.1)	(2.9)	(0.1)	20.9
· Actual vs Expected experience						
· Investment return	532.0	110.3	1.4	0.0	0.0	643.7
· Demographic experience	48.8	18.1	0.5	0.0	0.0	67.4
· All other experience	0.8	0.3	0.0	(0.8)	0.0	0.3
· Change in assumptions	0.0	0.0	0.0	0.0	0.0	0.0
· Change in benefit provisions (13th check)	22.7	4.1	0.4	9.6	0.2	37.0
· Expected bond proceeds (13th check)	(22.4)	0.0	(0.4)	(1.9)	(0.2)	(24.9)
· Transfer of TIAA members	15.6	0.4	(16.0)	0.0	0.0	0.0
· Expected TIAA bond proceeds	(15.6)	(0.4)	0.0	0.0	0.0	(16.0)
· Re-establishment of UAL	0.0	0.0	0.0	169.7	7.3	177.0
UAL in 12/31/02 Valuation Report	$2,238.0	$340.0	$0.0	$232.5	$17.4	**$2,828.7**

* The UAL for Judges and KP&F is frozen and as such reflects only changes due to assumption changes or changes in benefit provisions. The UAL was re-established as of December 31, 2002.

Summary of Changes in Actuarial Contribution Rate by System

as of December 31, 2002

Percentage of Payroll	State/School	Local	KP&F*	Judges
Actuarial Contribution Rate in 12/31/01 Valuation	7.69%	4.64%	9.47%	**18.67%**
Change Due to Amortization of UAL				
· Effect of contribution cap/time lag	0.20	0.09	0.00	0.00
· Amortization method	0.05	0.02	0.00	0.00
· Investment experience	0.89	0.56	0.00	0.00
· Liability experience	0.08	0.09	0.00	0.00
· All other experience	0.00	(0.06)	(0.03)	0.00
· Assumption change	0.00	0.00	0.00	0.00
· Changes in benefit provisions (13th check)	0.09	0.04	0.33	0.14
· Re-establishment of UAL			3.03	2.84
Change in Normal Cost Rate	0.14	0.06	(1.17)	0.32
Actuarial Contribution Rate in 12/31/02 Valuation	9.14%	5.44%	11.63%	21.97%

* Contribution rate for Local employers only.

Summary of Historical Changes in Total System UAL

as of December 31, 2002 Valuation

	As Reported on Valuation Date										
$(millions)	**6/30/94**	**6/30/95**	**6/30/96**	**6/30/97**	**6/30/98**	**6/30/99**	**6/30/00**	**12/30/00**	**12/31/01**	**12/31/02**	**Total**
Actuarial Experience vs Assumed											
· Investment	$(102)	$(143)	$(280)	$(323)	$(413)	$(360)	$(441)	$(23)	$350	$644	$(1,100)
· Other	320	72	136	157	104	46	99	84	(9)	68	1,077
Assumption Changes	0	(96)	0	0	350	0	0	(206)	0	0	48
Changes in Data/Procedures	244	0	0	0	0	21	71	145**	5	177**	663
Effect of Contribution Cap/Lag	*	95	70	63	54	78	66	60	115	143	744
Amortization Method	*	47	38	35	32	30	22	12	14	21	251
Change in Benefit Provisions	75	0	0	0	88	0	19	0	0	37	219
Bond Issue	0	0	0	0	0	0	0	0	0	(41)	(41)
Total	**$537**	**$(25)**	**$(36)**	**$(68)**	**$215**	**$(194)**	**$(164)**	**$72**	**$475**	**$1,048**	**$1,861**

*Not calculated for this year.

**Includes the impact of re-establishing the KP&F Supplemental Actuarial Liability. The additional unfunded actuarial liability as of December 31, 2000 for the State/School and Local groups not recognized in the prior valuation due to the phase-in of the change actuarial procedures is also included.

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

Unfunded actuarial liability 12/31/02: ($2,829) million

Development of Actuarial Value of Net Assets

	State/School	Local	TIAA	KP&F	Judges	Total
1. Actuarial Value of Assets as of December, 2001*:	$7,084,047,416	$1,519,102,089	$18,478,549	$1,259,442,200	$81,847,643	$9,962,917,897
2. Actual Receipts/Disbursements:						
a. Total Contributions	277,183,375	79,874,944	6,854,297	50,858,313	3,716,116	418,487,045
b. Receivable for 13th Check Bond Issue	22,422,735	0	438,793	1,867,119	171,353	24,900,000
c. Receivable for Affiliation Payoff	0	0	0	840,734	0	840,734
d. Benefit Payments	(496,972,541)	(91,964,349)	(3,540,381)	(76,751,521)	(5,194,517)	(644,423,309)
e. Net Change	(197,366,431)	(12,089,405)	3,752,709	(23,185,355)	(1,307,048)	(230,195,530)
3. Expected Actuarial Value of Assets as of December 31, 2002:	7,444,782,343	1,628,066,578	23,839,548	1,335,996,418	87,030,408	10,519,715,295
4. Market Value as of December 31, 2002:	5,848,743,938	1,297,026,328	19,757,883	1,034,446,737	67,137,447	8,267,112,333
5. Difference Between Market and Expected Values:	(1,596,038,405)	(331,040,250)	(4,081,665)	(301,549,681)	(19,892,961)	(2,252,602,962)
6. Actuarial Value of Assets as of December 31, 2002*: (Expected + Difference/3):	$6,912,769,541	$1,517,719,828	$22,478,993	$1,235,479,858	$80,399,421	$9,768,847,641
7. Receivable for Bond Issue for TIAA UAL:	15,609,379	405,168	0	0	0	16,014,547
8. Transfers	$21,919,456	$559,537	($22,478,993)	$0	$0	$0
9. Adjusted Actuarial Value of Assets:	$6,950,298,376	$1,518,684,533	$0	$1,235,479,858	$80,399,421	$9,784,862,188
10. Rate of Return on Actuarial Value of Assets**	0.37%	0.71%	1.22%	-0.06%	-0.17%	0.37%

*Note: Assets exclude insurance and administrative reserves.

** Annualized dollar-weighted rate of return shown

Summary of Principal Results
All Systems Combined

	12/31/02 Valuation	12/31/01 Valuation	%Change
1. Participant Data			
Number of:			
Active Members	147,294	145,910	0.9%
Retired Members and Beneficiaries	57,597	56,115	2.6
Inactive Members	40,404	38,056	6.2
Total Members	245,295	240,081	2.2
Projected Annual Salaries of Active Members	$4,865,902,928	$5,116,384,351	(4.9)
Annual Retirement Payments for Retired Members and Beneficiaries	$600,463,025	$558,772,421	7.5
2. Assets and Liabilities			
Total Actuarial Liability	$12,613,598,626	$11,743,051,755	7.4
Assets for Valuation Purposes	9,784,862,188	9,962,917,897	(1.8)
Unfunded Actuarial Liability	2,828,736,438	1,780,133,858	58.9

Summary of Principal Results
Kansas Public Employees Retirement System (State/School)

	12/31/02** Valuation	12/31/01 Valuation	%Change
1. Participant Data			
Number of:			
Active Members	105,263	105,252	0.0%
Retired Members and Beneficiaries	43,136	41,307	4.4
Inactive Members	30,590	28,899	5.9
Total Members	178,989	175,458	2.0
Projected Annual Salaries of Active Members	$3,373,166,160	$3,287,503,319	2.6
Annual Retirement Payments for Retired Members and Beneficiaries	$447,360,185	$413,415,607	8.2
2. Assets and Liabilities			
Total Actuarial Liability	$9,189,098,277	$8,590,033,174	7.0
Assets for Valuation Purposes	6,950,298,376	7,084,047,416	(1.9)
Unfunded Actuarial Liability	2,238,799,901	1,505,985,758	48.7
3. Employer Contribution Rates as a Percent of Payroll			
Normal Cost	5.17%	5.03%	
Amortization of Unfunded Actuarial and Supplemental Liability	3.97%	2.66%	
Actuarial Contribution Rate	9.14%	7.69%	
Statutory Employer Contribution Rate*	5.27%	4.78%	

* Statutory Employer Contribution Rate exceeds last year's rate by the statutory rate increase limit of 0.4 percent plus a payment of 0.09 percent for the debt service payment on the bonds issued for the 13th check liability. This rate does not include the 0.60 percent contribution rate for the Death and Disability Program.

** Reflects addition of TIAA members as special KPERS members.

Summary of Principal Results
Kansas Public Employees Retirement System (Local)

	12/31/02 Valuation	12/31/01 Valuation	%Change
1. Participant Data			
Number of:			
Active Members	35,235	33,757	4.4%
Retired Members and Beneficiaries	10,969	10,704	2.5
Inactive Members	8,838	8,161	8.3
Total Members	55,042	52,622	4.6
Projected Annual Salaries of Active Members	$1,153,168,204	$1,068,242,752	8.0
Annual Retirement Payments for Retired Members and Beneficiaries	$78,602,629	$73,591,887	6.8
2. Assets and Liabilities			
Total Actuarial Liability	$1,858,721,775	$1,704,422,253	9.1
Assets for Valuation Purposes	1,518,684,533	1,519,102,089	(0.0)
Unfunded Actuarial Liability	340,037,242	185,320,164	83.5
3. Employer Contribution Rates as a Percent of Payroll			
Normal Cost	3.67%	3.61%	
Amortization of Unfunded Actuarial and Supplemental Liability	1.77%	1.03%	
Actuarial Contribution Rate	5.44%	4.64%	
Statutory Employer Contribution Rate*	3.41%	3.22%	

* Statutory Employer Contribution Rate exceeds last year's rate by the statutory rate increase limit of 0.15 percent plus a contribution rate of 0.04 percent to fund the increase in the UAL resulting from the 13th check. This rate does not include the 0.60 percent contribution rate for the Death and Disability Program.

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

	12/31/02 Valuation	12/31/01 Valuation	%Change
1. Participant Data			
Number of:			
Active Members	6,548	6,405	2.2%
Retired Members and Beneficiaries	3,338	3,211	4.0
Inactive Members	961	855	12.4
Total Members	10,847	10,471	3.6
Projected Annual Salaries of Active Members	$317,784,548	$297,722,078	6.7
Annual Retirement Payments for Retired Members and Beneficiaries	$69,902,312	$64,295,036	8.7
2. Assets and Liabilities			
Total Actuarial Liability	$1,467,979,675	$1,318,343,709	11.4
Assets for Valuation Purposes	1,235,479,858	1,259,442,200	(1.9)
Unfunded Actuarial Liability	232,499,817*	58,901,509	294.7
3. Employer Contribution Rates as a Percent of Payroll			
Normal Cost	7.85%	9.02%	
Amortization of Unfunded Actuarial and Supplemental Liability	3.78%	0.45%	
Actuarial Contribution Rate (Local Employers)	11.63%	9.47%	
Statutory Employer Contribution Rate**	11.63%	9.47%	

* The Supplemental Unfunded Actuarial Liability was reset as of December 31, 2002. This figure includes $44,875,545 of UAL that will be paid by individual employers for prior service credit upon affiliation.

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

Summary of Principal Results
Kansas Retirement System for Judges

	12/31/02 Valuation	12/31/01 Valuation	%Change
1. Participant Data			
Number of:			
Active Members	248	252	(1.6)%
Retired Members and Beneficiaries	154	147	4.8
Inactive Members	15	18	(16.7)
Total Members	417	417	0.0
Projected Annual Salaries of Active Members	$21,784,017	$21,577,514	1.0
Annual Retirement Payments for Retired Members and Beneficiaries	$4,597,899	$4,256,204	8.0
2. Assets and Liabilities			
Total Actuarial Liability	$97,798,899	$92,017,634	6.3
Assets for Valuation Purposes	80,399,421	81,847,643	(1.8)
Unfunded Actuarial Liability	17,399,478*	10,169,991	71.1
3. Employer Contribution Rates as a Percent of Payroll			
Normal Cost	15.00%	14.68%	
Amortization of Unfunded Actuarial and Supplemental Liability	6.97%	3.99%	
Actuarial Contribution Rate	21.97%	18.67%	
Statutory Employer Contribution Rate**	21.97%	18.67%	

* The “frozen” Unfunded Actuarial Liability was reset as of December 31, 2002.

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

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.

RATES OF TERMINATION

School – Male Years of Service

Age	<2	2	3	4	5 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

Age	<2	2	3	4	5 or more
25	26.0%	20.7%	17.5%	11.3%	11.5%
30	23.5%	16.2%	14.4%	9.2%	8.0%
35	20.0%	13.5%	12.5%	8.0%	4.8%
40	16.5%	11.3%	9.0%	7.3%	3.0%
45	14.0%	10.2%	8.7%	7.1%	2.0%
50	13.4%	9.9%	8.5%	7.0%	2.0%

State - Male Years of Service

Age	<2	2	3	4	5 or more
25	18.0%	19.1%	16.3%	14.0%	10.0%
30	18.0%	15.3%	13.0%	11.1%	10.0%
35	15.0%	13.3%	11.4%	9.8%	5.9%
40	15.0%	12.0%	10.3%	8.8%	4.0%
45	13.0%	11.7%	10.0%	8.5%	3.0%
50	13.0%	11.4%	9.8%	8.4%	2.0%

State - Female Years of Service

Age	<2	2	3	4	5 or more
25	25.0%	23.0%	19.1%	15.0%	16.9%
30	20.5%	18.9%	15.7%	12.3%	10.8%
35	17.8%	16.4%	13.4%	10.7%	6.6%
40	16.3%	15.0%	11.4%	9.8%	4.7%
45	15.8%	14.5%	10.2%	9.5%	3.5%
50	15.5%	14.3%	10.2%	9.3%	3.5%

Local - Male Years of Service

Age	<2	2	3	4	5 or more
25	23.0%	19.5%	16.1%	15.0%	12.0%
30	18.0%	15.3%	12.6%	11.7%	9.5%
35	15.0%	12.0%	10.5%	9.8%	5.7%
40	12.5%	10.6%	8.8%	8.1%	4.1%
45	11.3%	10.0%	7.9%	7.3%	3.6%
50	11.0%	10.0%	7.7%	7.2%	3.2%

Local - Female Years of Service

Age	<2	2	3	4	5 or more
25	25.0%	22.5%	18.8%	15.8%	12.0%
30	20.0%	18.0%	15.0%	12.6%	8.8%
35	17.5%	15.8%	13.1%	11.0%	7.3%
40	15.8%	14.2%	11.9%	10.0%	5.5%
45	15.3%	13.8%	11.5%	9.6%	4.5%
50	15.0%	13.5%	11.3%	9.5%	4.0%

RETIREMENT RATES

Rule of 85 – School

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

Early Retirement Age	Early Retirement Rate	Normal Retirement Age	Normal Retirement Rate
55	3%	62	40%
56	3%	63	30%
57	3%	64	35%
58	5%	65	40%
59	10%	66	20%
60	10%	67	20%
61	20%	68	20%
69	20%		
70	100%		

Rule of 85 – State

Age	1st Year With 85 Points	After 1st Year With 85 Points
53	17%	15%
55	17%	15%
57	17%	15%
59	15%	15%
61	30%	25%

Early Retirement Age	Early Retirement Rate	Normal Retirement Age	Normal Retirement Rate
55	3%	62	40%
56	3%	63	25%
57	3%	64	30%
58	3%	65	45%
59	5%	66	30%
60	7%	67	25%
61	20%	68	25%
69	20%	70	100%

Rule of 85 – Local

Age	1st Year With 85 Points	After 1st Year With 85 Points
53	10%	5%
55	10%	10%
57	10%	10%
59	10%	15%
61	25%	25%

Early Retirement Age	Early Retirement Rate	Normal Retirement Age	Normal Retirement Rate
55	3%	62	35%
56	3%	63	25%
57	3%	64	25%
58	3%	65	40%
59	5%	66	20%
60	5%	67	20%
61	15%	68	20%
69	20%	70	100%

Inactive vested members – Age 62

- For correctional employees with an age 55 normal retirement date:

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

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

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

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

PROBABILITY OF VESTED MEMBERS LEAVING CONTRIBUTIONS WITH SYSTEM

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

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

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

Rate of Investment Return	8.0 percent
Implicit Inflation Assumption	3.5 percent
Rates of Mortality	1994 GAM Table* *70 percent of preretirement deaths assumed to be service related
Disabled Life Mortality	1994 GAM Table Set forward 12 years

Rates of Salary Increase

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

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

RATES OF TERMINATION

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

Tier II:

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

RETIREMENT RATES

Tier I:

Early Retirement		Normal Retirement	
Age	Rate	Age	Rate
50	5%	55	60%
50	5%	55	60%
51	5%	56	25%
52	10%	57	20%
53	20%	58	35%
54	30%	59	65%
		60	100%

Tier II:

Early Retirement Age	Rate	Normal Retirement Age	Rate
50	10%	50	45%
51	10%	53	30%
52	10%	55	30%
53	10%	58	20%
54	25%	60	100%

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

Rates of Disability

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

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

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

Kansas Retirement System for Judges (Judges)

Rate of Investment Return	8.0 percent
Implicit Inflation Assumption	3.5 percent
Rates of Mortality	1994 GAM Table
Rates of Salary Increase	5.5 percent
Rates of Termination	None assumed
Disabled Life Mortality	Same as Healthy Lives
Rates of Disability	None assumed
Retirement Age	Age 64 or current age, if greater

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

B. ACTUARIAL METHODS

KPERS Funding Method

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

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

For KPERS, the unfunded actuarial liability is amortized over a period originally set at 40 years beginning July 1, 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 ten years from July 1, 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 1, 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 and School)

EMPLOYEE MEMBERSHIP

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

RETIREMENT: AGE AND SERVICE REQUIREMENTS

Eligibility
• age 65
• age 62 with ten years of credited service
• any age when combined age and years of credited service equal 85 "points"

Age is determined by the member's last birthday and is not rounded up. Benefits — Benefits are based on the member's years of credited service, final average salary (FAS) and a statutory multiplier. Effective July 1, 2001, at retirement a member may receive a lump-sum payment of up to 50 percent of the actuarial present value of the member's lifetime benefit. His or her monthly retirement benefit is then permanently reduced.

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

For those who were hired before July 1, 1993, FAS is the greater of either:
• a four-year FAS including additional compensation, such as sick and annual leave; or
• a three-year FAS excluding additional compensation, such as sick and annual leave.

Prior Service Credit — Prior service credit is 0.75 percent to 1 percent of FAS per year [School employees receive 0.75 percent FAS for each year of prior service that is not credited under the former Kansas School Retirement System (KSRS)]. Participating Service Credit — Participating service credit is 1.75 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 ten years of credited service. Benefit — The retirement benefit is reduced 0.2 percent per month if the member is from age 60 to age 62, plus 0.6 percent per month if the member is from age 55 to age 60.

VESTING REQUIREMENTS

Eligibility — A member must have ten years of credited service. Should the vested member 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 Program provides disability income benefits, financed by employer contributions of 0.6 percent of a member's compensation. A member must be totally disabled for 180 continuous days. Benefits accrue from the later of the 181st day of continuous disability or from the first day when compensation from the employer ceases. The long-term disability benefit is two-thirds of the member's annual compensation on the date disability begins, reduced by Social Security benefits (members must apply), Workers' Compensation benefits and any other employment-related disability benefits. The minimum monthly benefit is $100. Members receiving disability benefits continue to receive service credit under KPERS, group life insurance coverage and waiver of optional group life insurance premiums if the member is under age 65 when first disabled. The waiver of optional group life insurance premiums ends January 1, 2004, for new disabled members. If a disabled member retires after receiving disability benefits for at least five years immediately before retirement, the member's FAS is adjusted by statute.

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

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

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

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

MEMBER CONTRIBUTIONS

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

EMPLOYER CONTRIBUTIONS

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

BOARD OF REGENTS PLAN MEMBERS (TIAA AND EQUIVALENTS)

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

CORRECTIONAL MEMBERS

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

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

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

RETIREMENT: AGE AND SERVICE REQUIREMENTS

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

Eligibility — TIER II **:
• age 50 and 25 years of service
• age 55 and 20 years of service
• age 60 and 15 years of service

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

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

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

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

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

EARLY RETIREMENT

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

VESTING REQUIREMENTS

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

Eligibility — TIER II **: The member must have 15 years of credited service to be considered vested. To draw a benefit before age 60, however, the member must have 20 years of credited service. If ending employment, the member must leave contributions with the Retirement System to be eligible for future benefits.

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 2.5 percent for each year, to a maximum of 80 percent of FAS. When a member receiving service-connected disability benefits dies, the spouse and dependent children receive service-connected death benefits if the member dies within two years of retirement or after two years from the same service-connected cause. If service-connected death benefits aren't payable, the spouse receives a lump-sum payment of 50 percent of the member's FAS. Also, either the spouse or the dependent children receive a pension of half of the member's benefit.

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

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 of 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 2.5 percent of FAS per year of service (to a maximum of 50 percent) is payable to the spouse. If there is no spouse, the monthly benefit is paid to the dependent children. If there is no surviving spouse or children the lump-sum payment less refundable contributions and interest is paid to the beneficiary.

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

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

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

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

MEMBER CONTRIBUTIONS

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

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

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 ten years of credited service
• any age when combined age and years of credited service equal 85 "points"

Age is determined by the member's last birthday and is not rounded up. Benefit — The benefit is based on the member's Final Average Salary (FAS), which is the average of the three highest years of service as a judge. Effective July 1, 2001, at retirement a member may receive a lump-sum payment of up to 50 percent of the actuarial present value of the member's lifetime benefit. His or her monthly retirement benefit is then permanently reduced.

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

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

EARLY RETIREMENT

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

VESTING REQUIREMENTS

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

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 150 percent of the active member's annual compensation on the date of the member's death is payable; plus a refund of the member's accumulated contributions. In lieu of receiving the member's accumulated contributions, the surviving spouse of a member who is eligible to retire at death, may elect to receive benefits under any survivor benefit option. The spouse must be the member's sole designated beneficiary to exercise this option. If the member had at least 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 Benefit After Retirement — The retiree's beneficiary receives a $4,000 lump sum. The beneficiary may assign this benefit to a funeral establishment. A retiree may also directly name a funeral establishment as beneficiary. If the member had selected an option with survivor benefits, benefits are paid to the joint annuitant or to the member's designated beneficiary. Under joint and survivor retirement options, if the joint annuitant dies before the retired member, the reduced benefit payment is increased to the amount the retired member would have received if no retirement option had been selected. Benefits payable to a joint annuitant stop when the joint annuitant dies. If the member did not select an option, the designated beneficiary receives the excess, if any, of the member's accumulated contributions, plus interest, over total benefits paid to date of death.

MEMBER CONTRIBUTIONS

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

EMPLOYER CONTRIBUTIONS

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

Short Term Solvency Test

Last Ten Fiscal Years

Valuation Date	Member Contributions (A)	Retirants and Beneficiaries (B)	Active Members Employer Financed Portion (C)	Assets Available for Benefits	Portions of Accrued Liabilities Covered by Assets (A)	(B)	(C)
06/30/94	1,801,791,938	2,388,662,221	2,356,469,874	5,041,702,745 (1)	100	100	36
06/30/95	1,958,992,138	2,678,609,811	2,353,427,051	5,510,957,394	100	100	37
06/30/96	2,159,113,770	3,037,892,830	2,406,103,997	6,158,754,752	100	100	40
06/30/97	2,337,511,704	3,232,733,926	2,681,740,618	6,875,918,348	100	100	49
06/30/98	2,522,614,846	3,841,556,459	2,976,514,154	7,749,203,022	100	100	47
06/30/99	2,725,881,233	4,125,714,368	3,147,650,125	8,601,875,670	100	100	56
06/30/00	2,929,469,325	4,454,897,319	3,417,030,430	9,568,274,828	100	100	64
12/31/00	3,007,338,917	4,576,452,175	3,556,222,919	9,835,181,839 (3)	100	100	63
12/31/01	3,330,859,571	4,903,096,418	3,509,095,766	9,962,917,897	100	100	49
12/31/02	3,353,870,165	5,247,201,306	4,012,527,155	9,784,862,188	100	100	30

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

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

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

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
06/30/94	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
12/31/02	147,294	1.1	1,442	0.5	4,866	32,984	2.8

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

2) Excludes TIAA salaries.

Schedule of Employer Contribution Rates

Last Ten Fiscal Years (1)

KPERS STATE/SCHOOL		
Fiscal Year	Actuarial Rate	Actual Rate
1994	3.10%	3.10%
1995	3.10	3.20
1996	4.11	3.30
1997	5.17	3.59
1998	5.23	3.79
1999	5.33	3.99
2000	5.27	4.19
2001	6.15	3.98 (2)
2002	6.00	4.78
2003	**6.17**	**4.98 (3)**

KPERS LOCAL		
Fiscal Year	Actuarial Rate	Actual Rate
1994	2.20%	2.20%
1995	3.05	2.30
1996	3.72	2.48
1997	3.73	2.63
1998	3.86	2.78
1999	3.86	2.93
2000	3.89	3.22
2001	3.88	2.77 (2)
2002	4.07	3.52
2003	**4.73**	**3.67 (3)**

TIAA		
Fiscal Year	Actuarial Rate	Actual Rate
1994	1.60%	1.60%
1995	1.70	1.70
1996	1.75	1.75
1997	1.89	1.89
1998	1.66	1.66
1999	1.93	1.93
2000	1.82	1.82
2001	1.21	1.21 (2)
2002	2.03	2.03
2003	**2.27**	**2.27 (3)**

KP&F (UNIFORM RATE)		
Fiscal Year	Actuarial Rate	Actual Rate
1994	6.80%	6.80%
1995	6.95	6.95
1996	9.65	9.65
1997	9.73	9.73
1998	9.45	9.45
1999	7.36	7.36
2000	7.35	7.35
2001	6.97	6.97
2002	6.79	6.79
2003	**6.86**	**6.86**

JUDGES		
Fiscal Year	Actuarial Rate	Actual Rate
1994	7.70%	7.70%
1995	8.00	8.00
1996	10.35	10.35
1997	16.00	16.00
1998	15.67	15.67
1999	15.67	15.67
2000	14.38	14.38
2001	16.14	15.74 (2)
2002	12.88	12.88
2003	**12.66**	**12.66 (3)**

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.

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

Retirants, Beneficiaries - Changes in Rolls - All Systems

Last Ten Fiscal Years

		Additions		Deletions				
Fiscal Year Ended June 30	Number at Beginning of Year	Number Added	Annual Allowances	Number Removed	Annual Allowances	Number at End of Year	% Change in Number of Retirants	% Change in Additions Allowances
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
2003	**56,069**	**3,585**	**48,718,476**	**2,116**	**10,942,002**	**57,538**	**2.60**	**6.70**

Membership Profile

Last Ten Years
As of December 31

Valuation Date	Active	Inactive	Retirees & Beneficiaries	Total Membership
1993	123,296	12,311	43,165	178,772
1994	131,387	16,091	44,285	191,763
1995	134,565	16,397	48,572	199,534
1996	136,285	21,443	47,940	205,668
1997	134,866	23,588	50,058	208,512
1998	138,292	25,463	51,639	215,394
1999	140,833	27,664	53,137	221,634
2000	143,591	35,482	54,396	233,469
2001	145,910	38,056	56,115	240,081
2002	147,294	40,404	57,597	245,295

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

Summary of Membership Data

Retiree and Beneficiary Member Valuation Data (1)	12/31/2002	12/31/2001
KPERS		
Number	54,105	52,757
Average Benefit	$9,721	$9,292
Average Age	73.08	73.26
Police & Fire		
Number	3.338	3,211
Average Benefit	$20,941	$20,023
Average Age	60.90	68.30
Judges		
Number	154	147
Average Benefit	$29,856	$28,954
Average Age	72.80	73.50
System Total		
Number	57,597	56,115
Average Benefit	$10,425	$9,958
Average Age	72.37	72.97

Active Member Valuation Data (1)	12/31/2002	12/31/2001
KPERS		
Number	140,498	139,253
Average Current Age	44.65	44.42
Average Service	10.36	10.20
Average Pay	$32,163	$31,279
Police & Fire		
Number	6,548	6,405
Average Current Age	38.40	38.30
Average Service	10.59	10.56
Average Pay	$48,532	$46,483
Judges		
Number	248	252
Average Current Age	44.39	44.17
Average Service	10.37	10.21
Average Pay	$87,839	$85,625
System Total		
Number	147,294	145,910
Average Current Age	44.39	44.17
Average Service	10.37	10.21
Average Pay	32,984	$32,041

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

Service Through

Innovation

Redesigned the KPERS web site to provide more information and easier navigation.

Implemented new electronic spreadsheet contribution reporting for 100 of the largest employers with very positive responses from these agencies.

Implemented new designated agent e-mail group and began sending DA Memos and other communications electronically.

Statistical Section

Statistical

Highlights of Operations – Ten-Year Summary

	2003	2002	2001	2000
Membership Composition				
Number of Retirants (a)	57,597	56,115	54,396	51,639
New Retirants During the Fiscal Year	3,585	3,689	3,112	3,360
Active and Inactive Members (a)	187,698	183,966	179,073	163,755
Participating Employers	1,442	1,435	1,423	1,415
Financial Results (Millions)				
Member Contributions	$225	$210	$204	$193
Employer Contributions	231	221	193	185
Retirement/Death Benefits	654	636	559	506
Investment Income (b)	326	(464)	(798)	1,315
Employer Contribution Rate (c)				
KPERS—State/School	4.98%	4.78%	3.98%	4.19%
KPERS—Local (d)	3.67	3.52	2.77	3.22
KP&F (Uniform Participating) (d)	6.86	6.79	6.97	7.35
Judges	12.66	12.88	15.74	14.38
TIAA	2.27	2.03	1.21	1.82
Unfunded Actuarial Liability (Millions)				
KPERS—State/School	$2,239	$1,506	$1,120	$860
KPERS—Local	340	185	90	36
KP&F	232	59	62	307
Judges	17	10	10	8
TIAA (e)	---	20	23	23
Funding Ratios (f)				
KPERS—State/School	75.64%	82.46%	86.23%	88.82%
KPERS—Local	81.71	89.12	94.29	97.56
KP&F	84.16	95.53	95.22	79.68
Judges	82.21	88.94	88.66	90.53
TIAA	---	48.32	41.18	39.72

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

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

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

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

e) Legislation provided for bonds to be issued in 2003 to fully fund the existing unfunded liability for the TIAA group.

Highlights of Operations – Ten-Year Summary

	1999	1998	1997	1996	1995	1994
Membership Composition						
Number of Retirants (a)	50,058	47,940	48,572	44,285	43,165	41,285
New Retirants During the Fiscal Year	3,328	3,228	3,456	3,119	3,463	3,576
Active and Inactive Members (a)	158,454	157,728	150,962	147,478	135,607	133,098
Participating Employers	1,407	1,397	1,371	1,344	1,309	1,287
Financial Results (Millions)						
Member Contributions	$185	$174	$171	$173	$159	$149
Employer Contributions	202	167	156	143	130	118
Retirement/Death Benefits	473	429	397	364	334	292
Investment Income (b)	954	1,247	974	1,095	906	115
Employer Contribution Rate (c)						
KPERS—State/School	3.99%	3.79%	3.59%	3.30%	3.20%	3.10%
KPERS—Local (d)	2.93	2.78	2.63	2.48	2.30	2.20
KP&F (Uniform Participating) (d)	7.36	9.45	9.73	9.65	6.95	6.80
Judges	15.67	15.67	16.00	10.35	8.00	7.70
TIAA	1.93	1.66	1.89	1.75	1.70	1.60
Unfunded Actuarial Liability (Millions)						
KPERS—State/School	$973	$1,142	$933	$1,014	$1,051	$1,059
KPERS—Local	76	104	131	121	123	142
KP&F	317	313	288	283	279	276
Judges	8	8	5	5	5	5
TIAA (e)	23	24	19	21	22	23
Funding Ratios (f)						
KPERS—State / School	86.36%	83.03%	84.19%	81.48%	79.19%	77.58%
KPERS—Local	94.41	91.47	88.34	87.99	86.51	84.44
KP&F	77.28	75.62	74.77	72.81	70.72	68.94
Judges	89.42	88.21	91.21	90.15	89.10	88.64
TIAA	34.16	28.83	31.26	25.38	22.62	20.39

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

Expenses by Type

Fiscal Year	Benefits	Withdrawals	Insurance	Administration	Total
1994	$292,375,535	$22,900,621	$33,129,180	$3,596,637	$352,001,973
1995	333,924,392	26,542,254	35,873,212	4,312,658	400,652,516
1996	364,102,629	30,687,458	34,108,251	4,493,293	433,391,631
1997	396,660,948	36,761,626	36,048,625	4,659,099	474,130,298
1998	428,997,161	41,510,908	37,639,743	4,702,566	512,850,378
1999	472,571,948	40,860,950	41,892,190	5,442,410	560,767,498
2000	505,941,764	43,631,850	42,199,878	5,689,571	597,463,063
2001	558,901,552	43,967,623	46,456,603	6,843,434	656,169,212
2002	636,398,865	39,066,937	47,625,764	6,776,044	729,867,610
2003	653,542,143	39,608,946	53,829,235	7,215,024	754,195,348

Revenues by Source

	Contributions					
Fiscal Year	Member	Employer	Employer Insurance	Misc.	Net Investment Income	Total
1994	$149,049,696	$95,622,052	$21,959,761	$525,570	$114,634,694	$381,791,773
1995	159,250,384	106,496,039	22,881,197	533,638	906,231,045	1,195,392,303
1996	173,247,638	119,319,684	24,084,601	97,505 (1)	1,095,001,676	1,411,751,104
1997	171,120,750	133,053,259	23,226,519	92,827	974,302,417	1,301,795,772
1998	173,954,587	142,931,373	24,173,870	173,035	1,247,347,928	1,588,580,793
1999	185,180,551	175,581,182	26,071,503	210,116	953,992,725	1,341,036,077
2000	192,776,305	168,100,637	17,164,419	245,354	1,314,770,498	1,693,057,213
2001	204,142,810	193,384,289	—— (2)	175,815	(798,126,783)	(400,423,871)
2002	209,624,015	207,611,045	13,862,682	137,633	(463,746,959)	(32,511,584)
2003	224,746,447	222,882,765	8,581,558	82,257	326,056,643	782,349,670

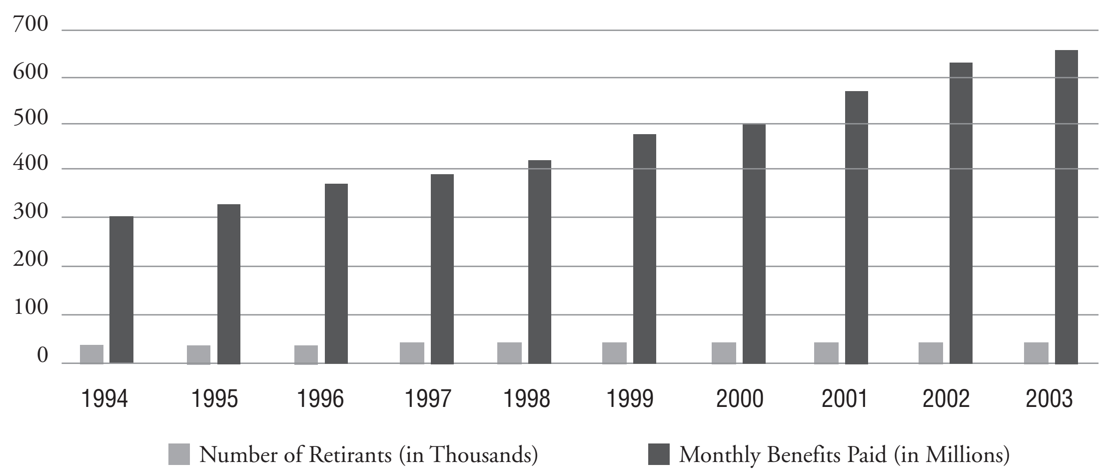
1) Beginning in Fiscal Year 1996, refund of current year benefit payments were accounted as a reduction to benefit expenses.

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 Type

Fiscal Year	Monthly Retirement Benefits	Retirement Dividend	Death Benefits	Refunds of Contributions	Disability Insurance Premiums & Benefits
1994	$273,821,219	$10,985,580	$ 7,345,897	$22,900,621	$33,352,019
1995	315,965,280	11,019,325	6,742,192	26,542,254	36,070,807
1996	346,390,529	10,701,234	7,010,866	30,687,458	34,108,251
1997	378,656,752	10,173,553	7,830,644	36,761,625	36,048,625
1998	411,626,428	9,673,950	7,682,253	41,510,908	37,639,743
1999	455,265,896	9,443,527	7,862,525	40,860,950	41,892,190
2000	489,058,357	8,811,628	8,071,779	43,631,850	42,199,878
2001	542,389,577	8,284,487	8,227,488	43,967,623	46,456,603
2002	619,959,068	7,744,988	8,694,809	39,066,937	47,625,764
2003	638,498,630	7,217,449	7,826,064	39,608,946	53,829,235

Comparison of Benefits Paid to Retired Members



Schedule of Retired Members and Survivors by Type of Benefit

June 30, 2003

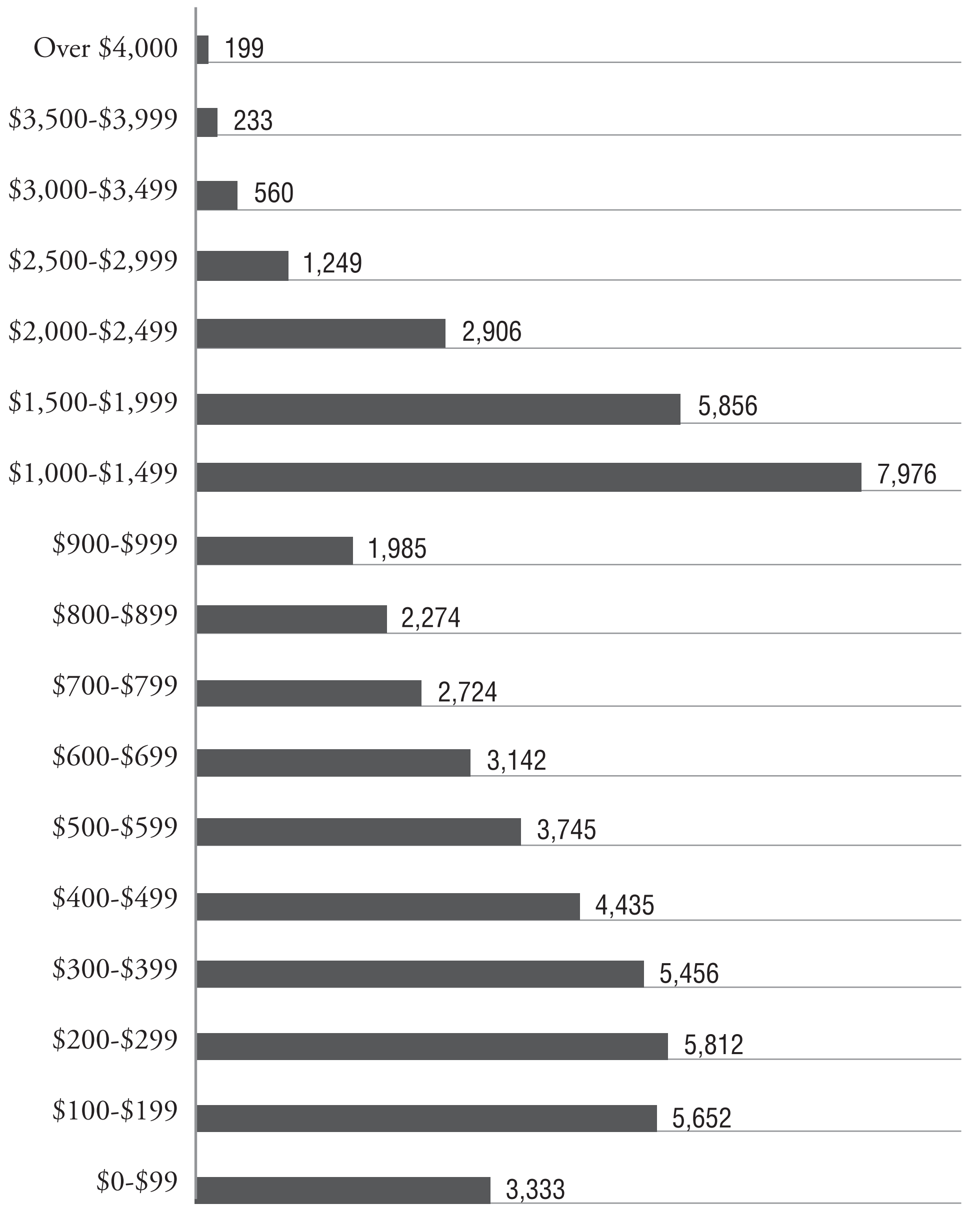
Amount of Monthly Benefits	Number of Retirants	Type of Retirement				Option Type Selected								
		1,3,5	2,4	6,8	7,9	1	2	3	4	5,8	6,7	9	0	Other
$ - 99	3,333	2,878	435	8	12	2,694	268	211	37	30	11	22	52	8
$100-199	5,652	3,457	2,106	70	19	4,103	712	513	95	70	59	31	43	26
$200-299	5,811	3,051	2,673	73	14	4,186	655	592	115	113	61	31	48	11
$300-399	5,456	2,998	2,386	48	24	3,827	603	652	116	136	37	28	55	2
$400-499	4,435	2,523	1,848	43	21	3,136	508	536	73	113	27	10	32	
$500-599	3,745	2,284	1,414	35	12	2,584	416	461	63	121	9	55	31	5
$600-699	3,142	1,891	1,201	35	15	2,155	354	430	57	91	11	19	23	2
$700-799	2,724	1,686	988	36	14	1,824	338	361	53	105	8	16	18	1
$800-899	2,274	1,473	725	56	20	1,492	279	312	39	111	14	9	18	
$900-999	1,985	1,412	498	58	17	1,269	274	281	33	96	10	6	15	1
$1,000-1,499	7,976	6,697	963	218	98	4,738	1,277	1,172	94	544	74	25	51	1
$1,500-1,999	5,856	5,506	136	134	80	3,361	1,006	787	55	545	50	22	30	
$2,000-2,499	2,906	2,804	28	50	24	1,604	576	325	28	340	10	17	6	
$2,500-2,999	1,249	1,212	23	9	5	590	288	132	17	210	2	4	6	
$3,000-3499	560	540	16	2	2	228	138	70	5	112	2	3	2	
$3,500-3,999	233	231	1	1		95	51	25	2	60				
$4,000 or More	199	194	5			80	49	16	2	51			1	
Totals	**57,536**	**40,837**	**15,446**	**876**	**377**	**37,966**	**7,792**	**6,876**	**884**	**2,848**	**385**	**298**	**431**	**57**

Average Monthly Benefit by Years of Service

New Retirees, Five-Year Summary

	Calendar Year				
Service Credit	**1998**	**1999**	**2000**	**2001**	**2002**
Less than 5 years	182	159	150	189	191
Average Benefit	$50.16	$76.38	$84.08	$123.00	$178.38
Average Years	2.63	2.46	2.30	2.47	2.33
5-9.9 Years	244	237	249	221	201
Average Benefit	$229.48	$253.02	$281.88	$222.53	$197.94
Average Years	6.74	7.01	7.01	7.08	7.16
10-14.99 Years	527	527	559	521	557
Average Benefit	$398.61	$387.82	$423.63	$379.37	$451.20
Average Years	11.81	11.75	11.91	11.87	12.04
15-19.99	486	490	466	502	496
Average Benefit	$605.01	$646.49	$640.33	$608.25	$684.88
Average Years	17.00	17.04	16.87	16.96	16.93
20-24.99	476	450	431	435	454
Average Benefit	$869.81	$913.36	$917.57	$935.92	$952.70
Average Years	21.90	21.84	21.94	21.90	22.04
25-29.99	496	510	527	557	523
Average Benefit	$1,443.16	$1,464.29	$1,574.01	$1,478.75	$1,466.67
Average Years	27.04	26.94	27.08	27.18	27.05
30-34.99	564	617	633	671	703
Average Benefit	$1,801.47	$1,861.44	$1,960.60	$1,842.36	$1,918.15
Average Years	31.91	31.80	31.83	32.01	31.89
35-39.99	260	268	234	233	211
Average Benefit	$1,991.97	$2,146.47	$2,119.73	$2,038.41	$2,137.57
Average Years	36.64	36.79	36.71	36.44	36.69
40-44.99	81	79	73	75	68
Average Benefit	$2,064.07	$2,177.81	$2,350.35	$2,296.74	$2,221.94
Average Years	41.32	41.65	41.49	41.65	41.38
45-49.99	8	13	11	9	14
Average Benefit	$2,067.15	$2,604.31	$2,338.06	$2,103.47	$2,346.95
Average Years	46.00	45.62	46.18	45.67	46.21
50 and Over	3	5	—	—	7
Average Benefit	$2,513.91	$3,421.89	$ —	$ —	$2,805.10
Average Years	52.00	52.00	—	—	54.43
TOTAL NUMBER	**3,327**	**3,355**	**3,333**	**3,413**	**3,425**
Average Benefit	**$1,029.24**	**$1,102.19**	**$1,133.32**	**$1,086.00**	**$1,129.21**
Average Years	**21.59**	**21.99**	**21.78**	**21.95**	**21.94**

Benefit Amount as of June 2003



Service Through

Education

Conducted approximately 60 eductional workshops across the state attended by 1,300 designated agents.

Averaged four one-on-one personal consultations a day in our office.

Acknowledgements

KPERS STAFF

Mel Abbott
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INVESTMENT CUSTODIAN

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LIFE INSURANCE AND LONG-TERM DISABILITY BENEFITS

Life — Security Benefit Group, Topeka, Kansas

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

2003 ANNUAL REPORT LAYOUT AND DESIGN

Kevin Friesen and Linda Lucero, Friesen Design, Inc., Topeka, Kansas

2003 Comprehensive Annual Financial Report

fiscal year ended June 30, 2003

Kansas Public Employees Retirement System

a component unit of the State of Kansas

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