

KENTUCKY RETIREMENT SYSTEMS

ANNUAL REPORT

JUNE 30, 1986



**KENTUCKY EMPLOYES RETIREMENT SYSTEM
COUNTY EMPLOYES RETIREMENT SYSTEM
STATE POLICE RETIREMENT SYSTEM**

TABLE OF CONTENTS

	<u>PAGE</u>
Letter of Transmittal.....	1
Board of Trustees.....	2
Organizational Chart.....	3
General Manager's Message.....	4
Financial Section:	
Introduction.....	6
Auditor's Certification.....	7
KERS Financial Statements.....	8
CERS Financial Statements.....	17
SPRS Financial Statements.....	26
KRS Insurance Fund Financial Statements.....	35
Actuarial Section:	
Introduction.....	40
Actuary's Certification.....	41
KERS Actuarial Evaluation.....	42
CERS Actuarial Evaluation.....	50
SPRS Actuarial Evaluation.....	58
Investment Section:	
Introduction.....	65
Portfolio Summary by System.....	71
Portfolio Detail -- Stocks.....	75
Portfolio Detail -- Bonds.....	77
Portfolio Detail -- Insurance Fund.....	82
Statistical Section:	
Introduction.....	83
Benefit Payments Analysis.....	86
Membership by System.....	91
Historical Statistics by System.....	92
Source and Use of Funds.....	97
Administrative Expense Review.....	98



KENTUCKY RETIREMENT SYSTEMS
Perimeter Park West
1260 Louisville Road
Frankfort, Kentucky 40601



Kentucky Employees Retirement System
County Employees Retirement System
State Police Retirement System

Bobby J. McKee
General Manager
Phone 502-564-4646

M E M O R A N D U M

TO: Members of the Board of Trustees
John D. Robey, Chairman
Vernon C. McGinty, Vice Chairman
Mrs. Iris R. Barrett
Frank W. Burke
Thomas C. Greenwell
John E. King
Ms. Lynda G. Lobb
Ms. Cattie Lou Miller
Mrs. Nancy L. Ray

FROM: Bobby J. McKee, General Manager

DATE: November 20, 1986

SUBJECT: Annual Report as of June 30, 1986

As directed by KRS 61.645, I am pleased to present the Annual Report for the fiscal year ended June 30, 1986. The four sections of the report provide financial information, actuarial information, investment information and other statistical information. Appropriate certifications from an independent accounting firm and from an independent actuarial firm are included.

Copies of this report will be made available to retirement system members by sending copies to each participating employer in the Kentucky Employees Retirement System, County Employees Retirement System and State Police Retirement System. Copies will also be distributed to appropriate legislative personnel, the state library and other interested parties who may request such information.

Fiscal year 1986 saw continued growth of the systems' assets and major changes by the 1986 General Assembly. All retirees and vested members had benefits increased. The retirement office also embarked on a new program of preretirement conferences designed to help our membership prepare for retirement. In addition, seventeen agencies joined the retirement systems, including the City of Louisville Police.

I want to thank the Board for their leadership, especially through the legislative session, and for their innovative ideas for improving benefits and services to the members of the three retirement systems.



Bobby J. McKee
General Manager

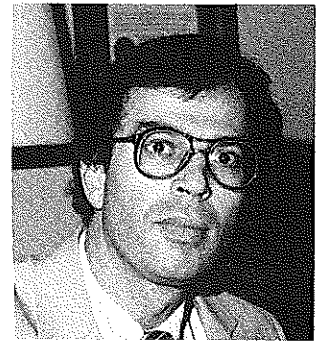
BOARD OF TRUSTEES



Iris R. Barrett
Frankfort
Elected by KERS Members
Term Expires 3/31/90



Frank W. Burke
Louisville
Elected by CERS Members
Term Expires 3/31/89



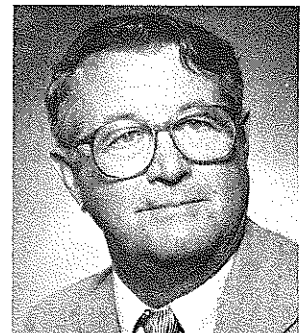
Thomas C. Greenwell
Frankfort
Ex Officio
Commissioner of Personnel



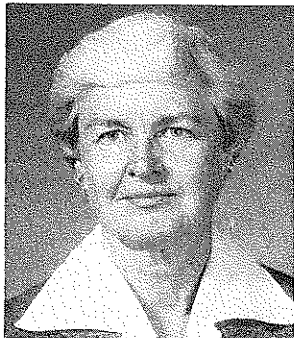
John E. King
Lexington
Elected by CERS Members
Term Expires 3/31/89



Lynda G. Lobb
Greensburg
Appointed by the Governor
Term Expires 3/31/88



Vernon C. McGinty, Vice Chairman
Louisville
Appointed by the Governor
Term Expires 3/31/87



Cattle Lou Miller
Frankfort
Elected by KERS Members
Term Expires 3/31/90



Nancy L. Ray
Crestwood
Appointed by the Governor
Term Expires 3/31/88



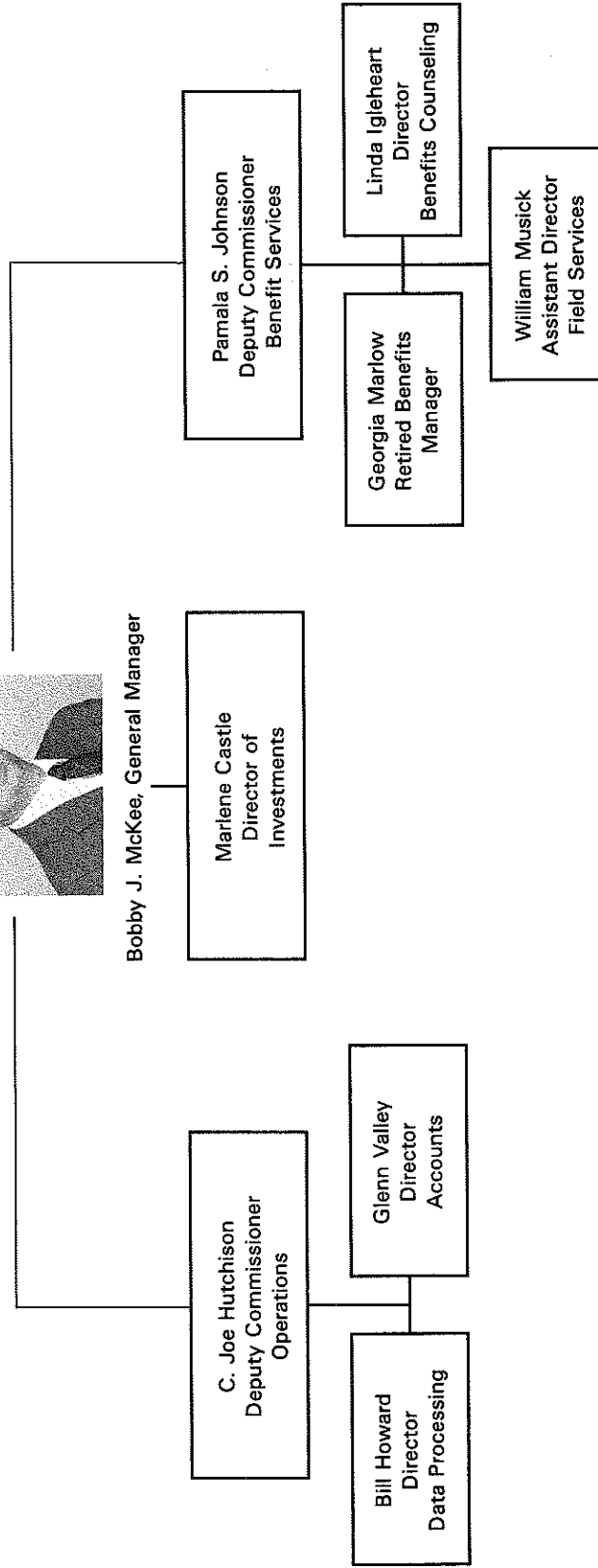
John D. Robey, Chairman
Lawrenceburg
Elected by SPRS Members
Term Expires 3/31/87

KENTUCKY RETIREMENT SYSTEMS ORGANIZATIONAL CHART

BOARD OF TRUSTEES



Bobby J. McKee, General Manager



CONTRACTUAL ARRANGEMENTS

ACTUARIAL SERVICES:
William M. Mercer-Meidinger, Inc.
2600 Meidinger Tower
Louisville, Kentucky 40202

AUDITING SERVICES:
Eskew & Gresham, P.S.C.
700 Centre Building
10100 Linn Station Road
Louisville, Kentucky 40223

LEGAL SERVICES:
Johnson & Judy, Stoll
Kennon & Park
236 West Main Street
Frankfort, Kentucky 40601

CUSTODIAN OF SECURITIES:
Farmers Bank & Capital Trust
Farmers Bank Plaza
Frankfort, Kentucky 40601

ASSET MANAGEMENT CONSULTANT:
William M. Mercer-Meidinger, Inc.
2600 Meidinger Tower
Louisville, Kentucky 40202

INVESTMENT COUNSELORS:

Capital Supervisors, Inc.
20 North Clark Street
Suite 700
Chicago, Illinois 60602

Heitman Advisory Corp.
1800 North LaSalle Street
Suite 3600
Chicago, Illinois 60601

GENERAL MANAGER'S MESSAGE

The 1985-86 Fiscal Year was a busy and successful year for the Retirement Systems. We have accomplished changes in our organization, our programs and our legislation that will provide better service for our members and increased benefits for both active members and retirees.

RETIREMENT OFFICE

We accomplished two major changes in the Retirement Office to improve our service to you, the employer or member. First, we reorganized our internal structure, as shown in the organizational chart at the front of this report. This new structure is aimed at providing more efficient service and will meet our needs as we grow in size and membership.

Second, we moved to new offices in Perimeter Park West on Louisville Road in Frankfort. These offices have more parking and better access and provide a cleaner, quieter environment for our office visitors. Those of you familiar with the parking problems and the noise at our old offices will notice the difference readily.

LEGISLATIVE PROGRAM

The Retirement Systems had great success in the 1986 General Assembly. We were able to increase benefits for both retired and active members. Retirees have received a 4% increase as of July 1, 1986, and another 4% increase will be added to their checks on July 1, 1987.

The benefit formula factors were increased in all three systems and for both hazardous and nonhazardous members. Nonhazardous position members in both CERS and KERS had their factor increased to 1.85%. Much of the credit for the passage of this legislation goes to the state employees who were willing to increase their contribution rate to fund this benefit improvement. State Police officers and KERS hazardous members had their benefit factor increased to 2.40%. CERS hazardous members saw their factor increase to 2.45%.

In addition to these increases, the Retirement System made changes to laws governing service credit that have apparently met with approval by the members, considering the response we have had. Military service credit can now be purchased at any time after the member (under age 65) earns 5 years of service. This allows the member to purchase the service earlier and at lower cost. In addition, many members have taken advantage of the new law that permits purchase of seasonal, emergency, part-time and temporary service. For some of our members, this has filled gaps in their service that otherwise would have been uncovered.

Another change was made in the area of beneficiary designations. Previously, an employed member could only name a single individual. We were successful in changing the law to allow employed members to name several persons so that a member can now name all children, or an estate or trust.

We also added a payment option, called a "Pop-Up." This option pays a benefit to the retiree, and if the retiree dies, to the beneficiary. However, if the retiree's beneficiary dies first, the retiree's payment increases to the Basic Option amount, which is the highest monthly lifetime payment amount.

PRERETIREMENT PROGRAM

Last May, we began a new and continuing program of preretirement conferences around the state. Our purpose was to help those nearing retirement and those who want to begin planning at an early date to gather information on the subjects that would be of most interest. Our programs have included representatives from our office as well as from health insurance companies, Social Security Administration, Deferred Compensation, a retiree organization and a noted University of Louisville law professor who provides information on estate planning, financial planning, wills and trusts.

We will continue to offer this program around the state each year so that each member will have the chance to make retirement plans based on current expertise.

INVESTMENTS

Our investments had an excellent year. The Retirement System portfolio had an overall rate of return of 23.3%. Our portfolio showed a gain of \$383 million, which pushed us up over the \$2 billion mark.

Our stock portfolio showed a rate of return of 37.2% compared to the S & P 500 index (our yardstick), which had a rate of return of 35.9%.

SUMMARY

Our membership, especially in CERS, is growing, and we are going to be growing with you to provide the efficient, courteous service you expect and to develop new programs that will help you understand and take advantage of your retirement system benefits. At the same time we will continue to manage the investments in a manner calculated to assure the strength of the systems and to provide for future benefit increases.

FINANCIAL SECTION INTRODUCTION

The retirement systems' assets are held in trust for the purpose of paying retirement benefits many years in the future. It is important to the financial security of the members of the system, as well as those receiving retirement benefits, that the assets and liabilities of the systems are subject to proper accounting and balancing procedures.

The Board of Trustees contracts for an annual audit by a Certified Public Accounting firm for the purpose of an independent audit of the assets and liabilities of the systems. The firm of Eskew & Gresham, PSC, was selected to perform the audit for the fiscal year ended June 30, 1986. The accounting firm presents to the Board of Trustees their "audit opinion" which is found on the following page. The audited financial statements of the three retirement systems and the related "Notes to Financial Statements" follow the audit opinion.

The audit and financial statement formats were completed in accordance with the requirements set forth in the National Council on Government Accounting Statement 1 as adopted in "Statement No. 1 of the Governmental Accounting Standards Board." In summary, this statement requires that financial statements be presented on an "accrual basis" and also stipulates that certain disclosures must be included in the "Notes to Financial Statements" sections of the audit report. You will note that two years of financial data are included in the financial statements to provide the reader the opportunity to compare current year financial activity with the previous year.

In addition to the annual audit by a Certified Public Accounting firm, other procedures are employed to insure the safety of the systems' assets. For example, each year the CPA firm conducts a surprise audit of the securities held in each fund. An audit is also conducted by the internal auditor of the securities' custodian. Adequate bonding arrangements are in force for those individuals who have access to securities, and the General Manager of the retirement systems is under a special Fidelity Bond.

The retirement systems have excellent financial strength, as illustrated by the following statements. The combined assets of the Kentucky Retirement Systems totalled nearly \$1.8 billion at June 30, 1986, an increase of nearly 19% over the previous year. Adequate systems of control are in force to assure that these trust funds are safe and the accounts properly reported to the fund participants.

There were no party-in-interest transactions, no loans or leases in default and no "reportable" transactions during the fiscal year.

Eskew & Gresham, PSC

Certified Public Accountants
700 Centre Building
10100 Linn Station Road
Louisville, Kentucky 40223
502-426-3700
Telex: Eskham Lex 213495

Board of Trustees
Kentucky Retirement Systems
Frankfort, Kentucky

We have examined the balance sheets of the Kentucky Employees Retirement System, County Employees Retirement System, State Police Retirement System and Kentucky Retirement Systems Insurance Fund as of June 30, 1986, and the related statements of revenues, expenses and changes in members' contribution account and retirement allowance account and changes in financial position of the Kentucky Employees Retirement System, County Employees Retirement System, and the State Police Retirement System and the statements of revenues, expenses, and changes in fund balance and changes in financial position of the Kentucky Retirement Systems Insurance Fund for the year then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of the Kentucky Employees Retirement System, County Employees Retirement System, State Police Retirement System and Kentucky Retirement System Insurance Fund for the year ended June 30, 1985 were examined by other auditors whose report, dated September 26, 1985, expressed an unqualified opinion on those statements.

In our opinion, the financial statements referred to above present fairly the financial position of the Kentucky Employees Retirement System, County Employees Retirement System, State Police Retirement System and Kentucky Retirement Systems Insurance Fund at June 30, 1986, and the results of their operations, the changes in members' contribution account and retirement allowance account of the Kentucky Employees Retirement System, County Employees Retirement System and State Police Retirement System, the changes in fund balance of the Kentucky Retirement Systems Insurance Fund, and the changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

September 16, 1986

Eskew & Gresham PSC

KENTUCKY EMPLOYES RETIREMENT SYSTEM

KENTUCKY EMPLOYES RETIREMENT SYSTEM
BALANCE SHEETS
JUNE 30, 1986 AND 1985

	1986	1985
ASSETS		
Investments (Notes 1 and 4):		
United States Government securities	\$ 153,251,606	\$203,211,779
Government National Mortgage Association and similar securities	178,119,038	130,029,989
Corporate bonds and notes	162,270,633	108,208,912
Convertible bonds	1,227,057	1,120,000
Common stocks	316,269,846	290,607,042
First mortgage real estate loans	5,299,914	6,059,274
Real estate investment trust	46,465,875	24,030,000
Securities purchased under agreement to resell	195,813,002	155,384,164
	<u>\$1,058,716,971</u>	<u>\$918,651,160</u>
Cash on deposit with State Treasurer	16,120	59,557
Member and employer contributions receivable	3,825,660	3,139,136
Accrued investment income	13,444,779	13,545,570
Prepaid retirement benefits	4,352,509	
Other assets	<u>31,332</u>	<u>50,130</u>
	\$1,080,387,371	\$935,445,553
LIABILITIES AND FUND BALANCE		
Member refunds, insurance fund transfers and investment expenses payable	\$ 1,033,950	\$ 686,540
Payable to County Employees Retirement System		278,240
	<u>\$ 1,033,950</u>	<u>\$ 964,780</u>
Fund balance (Note 1):		
Members' Contribution Account	\$ 241,706,858	\$215,066,552
Retirement Allowance Account	837,646,563	719,414,221
	<u>\$1,079,353,421</u>	<u>\$934,480,773</u>
	\$1,080,387,371	\$935,445,553

See notes to financial statements.

KENTUCKY EMPLOYES RETIREMENT SYSTEM
STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN MEMBERS' CONTRIBUTION ACCOUNT
FOR THE YEARS ENDED JUNE 30, 1986 AND 1985

	1986	1985
Revenues:		
Member contributions	\$ 29,228,638	\$ 27,760,271
Interest credited to members' balances transferred from Retirement Allowance Account	<u>12,114,381</u>	<u>10,716,762</u>
Total revenues	\$ 41,343,019	\$ 38,477,033
Expenses:		
Refunds to former members	\$ 5,105,361	\$ 5,171,940
Retired members' balances transferred to Retirement Allowance Account	<u>9,597,352</u>	<u>7,659,694</u>
Total expenses	\$ 14,702,713	\$ 12,831,634
Excess of revenues over expenses	\$ 26,640,306	\$ 25,645,399
Members' Contribution Account at beginning of year	<u>215,066,552</u>	<u>189,421,153</u>
Members' Contribution Account at end of year	\$241,706,858	\$215,066,552

See notes to financial statements.

KENTUCKY EMPLOYES RETIREMENT SYSTEM
STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN RETIREMENT ALLOWANCE ACCOUNT
FOR THE YEARS ENDED JUNE 30, 1986 AND 1985

	1986	1985
Revenues:		
Employer contributions	\$ 52,686,054	\$ 49,189,066
Investment income	84,346,598	78,509,704
Net realized gain on disposal of investments	32,275,130	12,959,165
Retirement members' balances transferred from Members' Contribution Account	<u>9,597,352</u>	<u>7,659,694</u>
Total revenues	\$178,905,134	\$148,317,629
Expenses:		
Retirement benefits for members	\$ 43,962,495	\$ 39,225,080
Contributions transferred to the Kentucky Retirement Systems Insurance Fund	3,477,505	3,122,176
Interest credited to members' balances transferred to Members' Contribution Account	12,114,381	10,716,762
Administrative expenses	838,804	722,085
Investment expenses	<u>279,607</u>	<u>249,975</u>
Total expenses	\$ 60,672,792	\$ 54,036,078
Excess of revenues over expenses	\$118,232,342	\$ 94,281,551
Retirement Allowance Account at beginning of year	<u>719,414,221</u>	<u>625,132,670</u>
Retirement Allowance Account at end of year	\$837,646,563	\$719,414,221

See notes to financial statements.

KENTUCKY EMPLOYEES RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED JUNE 30, 1986 AND 1985

	1986	1985
Source of funds:		
Excess of revenues over expenses	\$144,872,648	\$119,926,950
Deduct amortization of investment discount and premium, net, not providing funds	<u>4,422,426</u>	<u>6,230,305</u>
Funds provided from operations	\$140,450,222	\$113,696,645
Proceeds from sale, maturity or exchange of investments, less net gain of \$32,275,130 in 1986 and \$12,959,165 in 1985, included above	382,006,715	273,964,089
Decrease in member and employer contributions receivable		163,926
Decrease in accrued investment income	100,791	
Decrease in other assets	18,798	
Increase in member refunds, insurance fund transfers and investment expenses payable	347,410	
Increase in payable to County Employees Retirement System		<u>278,240</u>
Total funds provided	\$522,923,936	\$388,102,900
Application of funds:		
Investments purchased or exchanged	\$517,650,100	\$386,079,716
Increase in member and employer contributions receivable	686,524	
Increase in accrued investment income		1,532,541
Increase in prepaid retirement benefits	4,352,509	
Decrease in member refunds, insurance fund transfers and investment expenses payable		413,686
Decrease in payable to County Employees Retirement System	278,240	
Increase in other assets		<u>50,130</u>
Total funds applied	\$522,967,373	\$388,076,073
Increase (decrease) in cash	\$ (43,437)	\$ 26,827
Cash on deposit with State Treasurer at beginning of year	<u>59,557</u>	<u>32,730</u>
Cash on deposit with State Treasurer at end of year	\$ 16,120	\$ 59,557

See notes to financial statements.

KENTUCKY EMPLOYES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 1986 AND 1985

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation - The financial statements of Kentucky Employees Retirement System (the System) are prepared on the accrual basis, and generally conform to the provisions of the National Council on Governmental Accounting's Statement 1.

B. Investment Securities - Investments in bonds and first mortgage real estate loans are stated at amortized cost. Discount and premium are amortized using the straight-line method from the date of acquisition to stated or expected maturity. Common stocks, securities purchased under agreement to resell and investment in real estate investment trust are carried at cost.

Net realized gain or loss on investments represents the difference between the proceeds from sale or maturity and the average cost of investments sold or redeemed. Realized gains or losses are also recorded for exchanges of investments, based upon the difference at the time of the exchange between the carrying value and the market value of the investment exchanged.

C. Members' Contribution and Retirement Allowance Accounts - These accounts are funded by contributions and investment income. The Members' Contribution Account represents the accumulation of active members' contributions plus interest credited to members' accounts. The Retirement Allowance Account is comprised of retired members' contribution balances including interest credited thereon and accumulated employer contributions plus cumulative excess of revenues over expenses less interest credited to members' contribution accounts.

D. Expenses Allocation - The System, County Employees Retirement System, and State Police Retirement System are collectively administered by Kentucky Retirement Systems. Administrative and investment expenses of Kentucky Retirement Systems are allocated in proportion to the number of active members participating in each plan and the carrying value of plan investments, respectively.

NOTE 2 - DESCRIPTION OF THE PLAN

The Kentucky Employees Retirement System is a defined benefit plan which covers substantially all regular full-time employees of any state department, board, or agency directed by Executive Order to participate in the System. The Plan provides for retirement, disability and death benefits.

Participating employees generally contribute 4% of the creditable compensation to the System. Members occupying hazardous positions, as defined by statute, contribute at the rate of 7% of creditable compensation. Employer contribution rates are intended to fund the System's normal cost on a current basis plus one percent (1%) of unfunded past service costs per annum plus interest at the actuarial assumed rate. Such contribution rates are determined by the Board of Trustees of Kentucky Retirement Systems each biennium. Participating employers contributed at 7 1/4% and 14%, respectively, of members' non-hazardous and hazardous compensation for the year ended June 30, 1986 and 7 1/4% and 17%, respectively, for the year ended June 30, 1985.

KENTUCKY EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 1986 AND 1985
(CONTINUED)

NOTE 2 - DESCRIPTION OF THE PLAN (CONTINUED)

Vesting in a retirement benefit begins immediately upon entry into the System. The participant has a fully vested interest after the completion of sixty months of service, twelve of which are current service. At a minimum, terminated employees are refunded their contributions with credited interest at 3% compounded annually through June 30, 1981 and 6% thereafter.

Further information regarding the plan agreement and the vesting and benefit provisions is contained in the pamphlet Summary Plan Description. Copies of this pamphlet are available from the office of Kentucky Retirement Systems.

NOTE 3 - ACCUMULATED BENEFITS

Accumulated plan benefits are those future periodic payments, including lump-sum distributions, that are attributable under the Plan's provisions to services rendered by the employees to the valuation date. Accumulated plan benefits include benefits expected to be paid to (a) retired or terminated employees or their beneficiaries, (b) beneficiaries of employees who are deceased, and (c) present employees or their beneficiaries. Benefits under the Plan are based on employees' average compensation during their five highest paid years. Accumulated plan benefits for active employees are based on their compensation as of the valuation date. Benefits payable under all circumstances - retirement, death, and termination of employment - are included to the extent they are deemed attributable to employee service rendered to the valuation date.

The System's consulting actuary, William M. Mercer - Meidinger, Inc., estimates the actuarial present value of accumulated plan benefits, which is the amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (taking into account mortality) between the valuation date and the expected date of payment.

Accumulated plan benefit information follows:

	June 30	
	1986	1985
Vested benefits:		
Participants currently receiving payments	\$380,935,479	\$336,301,833
Other participants	<u>320,394,075</u>	<u>302,045,226</u>
	\$701,329,554	\$638,347,059
Non-vested benefits	<u>76,893,813</u>	<u>73,969,065</u>
Total accumulated plan benefits	\$778,223,367	\$712,316,124

KENTUCKY EMPLOYES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 1986 AND 1985
(CONTINUED)

NOTE 3 - ACCUMULATED BENEFITS (CONTINUED)

The more significant assumptions underlying the actuarial computations, including those which enter only into the determination of funding levels (cost method, turnover, retirement age, and salary increase), are as follows:

Actuarial cost method	- Entry age normal cost method
Assumed rate of return on investments	- 8% per annum
Mortality basis	- 1971 Group Annuity Mortality Table, plus a pre-retirement duty death rate of .0005 per year for hazardous duty employees
Employee turnover	- Graduated select and ultimate rates based on 1985 experience study
Retirement age	- Based upon experience, with 20% weight, at age 55-64, to the earliest age at which an employee could retire with 100% of the accrued benefits
Salary increase	- 7 1/2% per annum

NOTE 4 - INVESTMENTS

The approximate market value of investments follows:

	June 30 1986	1985
United States Government securities	\$ 168,389,000	\$ 208,536,000
Government National Mortgage Association and similar securities	191,981,000	142,248,000
Corporate bonds and notes	171,335,000	110,417,000
Convertible bonds	1,753,000	1,237,000
Common stocks	520,496,000	384,470,000
First mortgage real estate loans	5,694,000	5,288,000
Real estate investment trust	48,983,000	25,202,000
Securities purchased under agreement to resell	<u>195,813,000</u>	<u>155,384,000</u>
	\$1,304,444,000	\$1,032,782,000

Investments at June 30, 1986, includes securities loaned under various lending programs.

NOTE 5 - INCOME TAX STATUS

The Internal Revenue Service has ruled that the Plan qualifies under Section 401(a) of the Internal Revenue Code and is, therefore, not subject to tax under present income tax law.

KENTUCKY EMPLOYES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 1986 AND 1985
(CONTINUED)

NOTE 6 - TRANSFERS TO INSURANCE FUND

By action of the 1978 General Assembly, the Kentucky Retirement Systems Insurance Fund was established to provide a group hospital and medical insurance plan for recipients of a retirement allowance from the Kentucky Employees Retirement System. The Insurance Fund is funded by the transfer of a portion of employer contributions to the retirement system. The percentage of creditable compensation transferred to the Insurance Fund by the Kentucky Employees Retirement System was 0.48% and 0.46% for non-hazardous and 1.09% and 1.04% for hazardous positions for the years ended June 30, 1986 and 1985, respectively.

COUNTY EMPLOYES RETIREMENT SYSTEM

COUNTY EMPLOYES RETIREMENT SYSTEM
BALANCE SHEETS
JUNE 30, 1986 AND 1985

	1986	1985
ASSETS		
Investments (Notes 1 and 4):		
United States Government securities	\$ 80,648,212	\$100,430,101
Government National Mortgage Association and similar securities	97,802,390	73,019,746
Corporate bonds and notes	81,205,782	53,971,292
Convertible bonds	904,745	829,500
Common stocks	156,940,783	140,299,338
First mortgage real estate loans	578,932	638,870
Real estate investment trust	27,201,669	14,310,000
Securities purchased under agreement to resell	99,157,098	80,594,516
	<u>\$544,439,611</u>	<u>\$464,093,363</u>
Cash on deposit with State Treasurer	14,570	53,830
Receivable from Kentucky Employees Retirement System and State Police Retirement System		659,766
Member and employer contributions receivable	16,018,192	3,638,760
Past service credit contribution receivable (Note 1)	35,614,930	3,225,959
Accrued investment income	6,985,046	6,884,837
Prepaid retirement benefits	1,534,528	
Other assets	15,417	24,668
	<u>\$604,622,294</u>	<u>\$478,581,183</u>
LIABILITIES AND FUND BALANCE		
Member refunds, insurance fund transfers and investment expenses payable	\$ 806,494	\$ 537,962
Fund balance (Note 1):		
Members' Contribution Account	\$133,493,649	\$109,929,946
Retirement Allowance Account	470,322,151	368,113,275
	<u>\$603,815,800</u>	<u>\$478,043,221</u>
	\$604,622,294	\$478,581,183

See notes to financial statements.

COUNTY EMPLOYES RETIREMENT SYSTEM
STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN MEMBERS' CONTRIBUTION ACCOUNT
FOR THE YEARS ENDED JUNE 30, 1986 AND 1985

	1986	1985
Revenues:		
Member contributions	\$ 28,187,039	\$ 17,487,421
Interest credited to members' balances transferred from Retirement Allowance Account	<u>6,560,168</u>	<u>5,298,791</u>
Total revenues	\$ 34,747,207	\$ 22,786,212
Expenses:		
Refunds to former members	\$ 4,974,503	\$ 3,570,707
Retired members' balances transferred to Retirement Allowance Account	<u>6,209,001</u>	<u>3,855,046</u>
Total expenses	\$ 11,183,504	\$ 7,425,753
Excess of revenues over expenses	\$ 23,563,703	\$ 15,360,459
Members' Contribution Account at beginning of year	<u>109,929,946</u>	<u>94,569,487</u>
Members' Contribution Account at end of year	\$133,493,649	\$109,929,946

See notes to financial statements.

COUNTY EMPLOYES RETIREMENT SYSTEM
STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN RETIREMENT ALLOWANCE ACCOUNT
FOR THE YEARS ENDED JUNE 30, 1986 AND 1985

	1986	1985
Revenues:		
Employer contributions	\$ 61,400,912	\$ 27,131,182
Investment income	44,216,104	40,147,552
Net realized gain on disposal of investments	16,705,957	7,576,022
Retirement members' balances transferred from Members' Contribution Account	<u>6,209,001</u>	<u>3,855,046</u>
Total revenues	\$128,531,974	\$ 78,709,802
Expenses:		
Retirement benefits for members	\$ 17,329,099	\$ 14,843,697
Contributions transferred to the Kentucky Retirement Systems Insurance Fund	1,541,564	1,297,765
Interest credited to members' balances transferred to Members' Contribution Account	6,560,168	5,298,791
Administrative expenses	750,409	650,073
Investment expenses	<u>141,858</u>	<u>124,145</u>
Total expenses	\$ 26,323,098	\$ 22,214,471
Excess of revenues over expenses	\$102,208,876	\$ 56,495,331
Retirement Allowance Account at beginning of year	<u>368,113,275</u>	<u>311,617,944</u>
Retirement Allowance Account at end of year	\$470,322,151	\$368,113,275

See notes to financial statements.

COUNTY EMPLOYEES RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED JUNE 30, 1986 AND 1985

	1986	1985
Source of funds:		
Excess of revenues over expenses	\$125,772,579	\$ 71,855,790
Deduct amortization of investment discount and premium, net, not providing funds	<u>2,108,183</u>	<u>3,200,352</u>
Funds provided from operations	\$123,664,396	\$ 68,655,438
Proceeds from sale, maturity or exchange of investments, less net gain of \$16,705,957 in 1986 and \$7,576,022 in 1985, included above	188,724,888	131,738,640
Decrease in receivable from Kentucky Retirement Employees Retirement System and State Police Retirement System	659,766	
Decrease in past service credit contribution receivable		277,755
Decrease in other assets	9,251	
Increase in member refunds, insurance fund transfers and investment expenses payable	<u>268,532</u>	<u>52,116</u>
Total funds provided	\$313,326,833	\$200,723,949
Application of funds:		
Investments purchased or exchanged	\$266,962,953	\$199,035,952
Increase in receivable from Kentucky Retirement Employees Retirement System and State Police Retirement System		659,766
Increase in member and employer contributions receivable	12,379,432	95,565
Increase in past service credit contribution receivable	32,388,971	
Increase in accrued investment income	100,209	883,734
Increase in prepaid retirement benefits	1,534,528	
Increase in other assets		<u>24,668</u>
Total funds applied	\$313,366,093	\$200,699,685
Increase (decrease) in cash	\$ (39,260)	\$ 24,264
Cash on deposit with State Treasurer at beginning of year	<u>53,830</u>	<u>29,566</u>
Cash on deposit with State Treasurer at end of year	\$ 14,570	\$ 53,830

See notes to financial statements.

COUNTY EMPLOYES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 1986 AND 1985

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation - The financial statements of County Employees Retirement System (the System) are prepared on the accrual basis, and generally conform to the provisions of the National Council on Governmental Accounting's Statement 1.

B. Investment Securities - Investments in bonds and first mortgage real estate loans are stated at amortized cost. Discount and premium are amortized using the straight-line method from the date of acquisition to stated or expected maturity. Common stocks, securities purchased under agreement to resell and investment in real estate investment trust are carried at cost.

Net realized gain or loss on investments represents the difference between the proceeds from sale or maturity and the average cost of investments sold or redeemed. Realized gains or losses are also recorded for exchanges of investments, based upon the difference at the time of the exchange between the carrying value and the market value of the investment exchanged.

C. Members' Contribution and Retirement Allowance Accounts - These accounts are funded by contributions and investment income. The Members' Contribution Account represents the accumulation of active members' contributions plus interest credited to members' accounts. The Retirement Allowance Account is comprised of retired members' contribution balances including interest credited thereon and accumulated employer contributions plus cumulative excess of revenues over expenses less interest credited to members' contribution accounts.

Employees are permitted to purchase credits for member service from the date of plan adoption to the participation date of the employer. Receivables for past service credits are amortized in amounts sufficient to fund the related cost plus interest thereon over a period not to exceed thirty years.

D. Expense Allocation - The System, Kentucky Employees Retirement System, and State Police Retirement System are collectively administered by Kentucky Retirement Systems. Administrative and investment expenses of Kentucky Retirement Systems are allocated in proportion to the number of active members participating in each plan and the carrying value of plan investments, respectively.

NOTE 2 - DESCRIPTION OF THE PLAN

The County Employees Retirement System is a defined benefit plan which covers substantially all regular full-time employees of each county and school board, and any additional local agencies electing to participate in the System. The Plan provides for retirement, disability and death benefits.

Participating employees generally contribute 4% of the creditable compensation to the System. Members occupying hazardous positions, as defined by statute, contribute at the rate of 7% of creditable compensation. Employer contribution rates are intended to fund the System's normal cost on a current basis plus one percent (1%) of unfunded past service costs per annum plus

COUNTY EMPLOYEES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 1986 AND 1985
(CONTINUED)

NOTE 2 - DESCRIPTION OF THE PLAN (CONTINUED)

interest at the actuarial assumed rate. Such contribution rates are determined by the Board of Trustees of Kentucky Retirement Systems each biennium. Participating employers contributed at 5 1/4% and 6 1/4% of members' non-hazardous compensation, for the years ended June 30, 1986 and 1985, respectively. For both years, participating employers contributed at 14% of members hazardous compensation.

Vesting in a retirement benefit begins immediately upon entry into the System. The participant has a fully vested interest after the completion of sixty months of service, twelve of which are current service. At a minimum, terminated employees are refunded their contributions with credited interest at 3% compounded annually through June 30, 1981 and 6% thereafter.

Further information regarding the plan agreement and the vesting and benefit provisions is contained in the pamphlet Summary Plan Description. Copies of this pamphlet are available from the office of Kentucky Retirement Systems.

NOTE 3 - ACCUMULATED BENEFITS

Accumulated plan benefits are those future periodic payments, including lump-sum distributions, that are attributable under the Plan's provisions to services rendered by the employees to the valuation date. Accumulated plan benefits include benefits expected to be paid to (a) retired or terminated employees or their beneficiaries, (b) beneficiaries of employees who are deceased, and (c) present employees or their beneficiaries. Benefits under the Plan are based on employees' average compensation during their five highest paid years. Accumulated plan benefits for active employees are based on their compensation as of the valuation date. Benefits payable under all circumstances - retirement, death, and termination of employment - are included to the extent they are deemed attributable to employee service rendered to the valuation date.

The System's consulting actuary, William M. Mercer - Meidinger, Inc., estimates the actuarial present value of accumulated plan benefits, which is the amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (taking into account mortality) between the valuation date and the expected date of payment.

Accumulated plan benefit information follows:

	June 30 1986	1985
Vested benefits:		
Participants currently receiving payments	\$148,805,965	\$128,160,944
Other participants	<u>145,866,048</u>	<u>131,463,276</u>
	\$294,672,013	\$259,624,220
Non-vested benefits	<u>43,257,549</u>	<u>41,791,878</u>
Total accumulated plan benefits	\$337,929,562	\$301,416,098

COUNTY EMPLOYES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 1986 AND 1985
(CONTINUED)

NOTE 3 - ACCUMULATED BENEFITS (CONTINUED)

The more significant assumptions underlying the actuarial computations, including those which enter only into the determination of funding levels (cost method, turnover, retirement age, and salary increase), are as follows:

Actuarial cost method	- Entry age normal cost method
Assumed rate of return on investments	- 8% per annum
Mortality basis	- 1971 Group Annuity Mortality Table, plus a pre-retirement duty death rate of .0005 per year for hazardous duty employees
Employee turnover	- Graduated select and ultimate rates based on 1985 experience study
Retirement age	- Based upon experience, with 20% weight, at age 55-64, to the earliest age at which an employee could retire with 100% of the accrued benefits
Salary increase	- 7 1/2% per annum

NOTE 4 - INVESTMENTS

The approximate market value of investments follows:

	June 30 1986	1985
United States Government securities	\$ 89,581,000	\$104,368,000
Government National Mortgage Association and similar securities	106,740,000	80,545,000
Corporate bonds and notes	85,766,000	55,700,000
Convertible bonds	1,367,000	942,000
Common stocks	251,269,000	182,794,000
First mortgage real estate loans	632,000	560,000
Real estate investment trust	28,692,000	15,008,000
Securities purchased under agreement to resell	<u>99,157,000</u>	<u>80,594,000</u>
	\$663,204,000	\$520,511,000

Investments at June 30, 1986, includes securities loaned under various lending programs.

NOTE 5 - INCOME TAX STATUS

The Internal Revenue Service has ruled that the Plan qualifies under Section 401(a) of the Internal Revenue Code and is, therefore, not subject to tax under present income tax law.

COUNTY EMPLOYES RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 1986 AND 1985
(CONTINUED)

NOTE 6 - TRANSFERS TO INSURANCE FUND

By action of the 1978 General Assembly, the Kentucky Retirement Systems Insurance Fund was established to provide a group hospital and medical insurance plan for recipients of a retirement allowance from the County Employees Retirement System. The Insurance Fund is funded by the transfer of a portion of employer contributions to the retirement system. The percentage of creditable compensation transferred to the Insurance Fund by the County Employees Retirement System was 0.31% and 0.29% for non-hazardous and 0.99% and 0.91% for hazardous positions for the years ended June 30, 1986 and 1985, respectively.

STATE POLICE RETIREMENT SYSTEM

STATE POLICE RETIREMENT SYSTEM
BALANCE SHEETS
JUNE 30, 1986 AND 1985

	1986	1985
ASSETS		
Investments (Notes 1 and 4):		
United States Government securities	\$13,562,226	\$17,081,279
Government National Mortgage Association and similar securities	15,273,662	11,140,993
Corporate bonds and notes	15,298,405	10,984,936
Convertible bonds	60,095	50,500
Common stocks	29,100,159	27,139,074
First mortgage real estate loans	318,146	347,779
Real estate investment trust	3,879,081	2,160,000
Securities purchased under agreement to resell	17,344,788	15,106,269
	<u>\$94,836,562</u>	<u>\$84,010,830</u>
Cash on deposit with State Treasurer	310	1,145
Member and employer contributions receivable	261,675	213,740
Accrued investment income	1,193,684	1,216,921
Prepaid retirement benefits	419,005	
Other assets	2,984	4,774
	<u>\$96,714,220</u>	<u>\$85,447,410</u>
LIABILITIES AND FUND BALANCE		
Member refunds, insurance fund transfers and investment expenses payable	\$ 46,521	\$ 49,642
Payable to County Employees Retirement System		381,526
	<u>\$ 46,521</u>	<u>\$ 431,168</u>
Fund balance (Note 1):		
Members' Contribution Account	\$17,987,582	\$16,753,621
Retirement Allowance Account	78,680,117	68,262,621
	<u>\$96,667,699</u>	<u>\$85,016,242</u>
	\$96,714,220	\$85,447,410

See notes to financial statements.

STATE POLICE RETIREMENT SYSTEM
STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN MEMBERS' CONTRIBUTION ACCOUNT
FOR THE YEARS ENDED JUNE 30, 1986 AND 1985

	1986	1985
Revenues:		
Member contributions	\$ 1,944,859	\$ 1,861,882
Interest credited to members' balances transferred from Retirement Allowance Account	<u>923,107</u>	<u>858,169</u>
Total revenues	\$ 2,867,966	\$ 2,720,051
Expenses:		
Refunds to former members	\$ 73,447	\$ 180,746
Retired members' balances transferred to Retirement Allowance Account	<u>1,560,558</u>	<u>1,688,060</u>
Total expenses	\$ 1,634,005	\$ 1,868,806
Excess of revenues over expenses	\$ 1,233,961	\$ 851,245
Members' Contribution Account at beginning of year	<u>16,753,621</u>	<u>15,902,376</u>
Members' Contribution Account at end of year	\$17,987,582	\$16,753,621

See notes to financial statements.

STATE POLICE RETIREMENT SYSTEM
STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN RETIREMENT ALLOWANCE ACCOUNT
FOR THE YEARS ENDED JUNE 30, 1986 AND 1985

	1986	1985
Revenues:		
Employer contributions	\$ 4,380,911	\$ 4,483,240
Investment income	7,453,314	6,993,220
Net realized gain on disposal of investments	2,698,426	652,568
Retirement members' balances transferred from Members' Contribution Account	<u>1,560,558</u>	<u>1,688,060</u>
Total revenues	\$16,093,209	\$13,817,088
Expenses:		
Retirement benefits for members	\$ 4,356,837	\$ 3,496,109
Contributions transferred to the Kentucky Retirement Systems Insurance Fund	352,493	240,087
Interest credited to members' balances transferred to Members' Contribution Account	923,107	858,169
Administrative expenses	17,560	14,363
Investment expenses	<u>25,716</u>	<u>23,880</u>
Total expenses	\$ 5,675,713	\$ 4,632,608
Excess of revenues over expenses	\$10,417,496	\$ 9,184,480
Retirement Allowance Account at beginning of year	<u>68,262,621</u>	<u>59,078,141</u>
Retirement Allowance Account at end of year	\$78,680,117	\$68,262,621

See notes to financial statements.

STATE POLICE RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED JUNE 30, 1986 AND 1985

	1986	1985
Source of funds:		
Excess of revenues over expenses	\$11,651,457	\$10,035,725
Deduct amortization of investment discount and premium, net, not providing funds	<u>481,830</u>	<u>653,880</u>
Funds provided from operations	\$11,169,627	\$ 9,381,845
Proceeds from sale, maturity or exchange of investments, less net gain of \$2,698,426 in 1986 and \$652,568 in 1985, included above	31,559,069	23,140,950
Decrease in member and employer contributions receivable		16,971
Decrease in accrued investment income	23,237	4,146
Decrease in other assets	1,790	
Increase in due to County Employees Retirement System		<u>381,526</u>
Total funds provided	\$42,753,723	\$32,925,438
Application of funds:		
Investments purchased or exchanged	\$41,902,971	\$32,916,975
Increase in member and employer contributions receivable	47,935	
Increase in prepaid retirement benefits	419,005	
Increase in other assets		4,774
Decrease in member refunds, insurance fund transfers and investment expenses payable	3,121	3,484
Decrease in due to County Employees Retirement System	<u>381,526</u>	
Total funds applied	\$42,754,558	\$32,925,233
Increase (decrease), in cash	\$ (835)	\$ 205
Cash on deposit with State Treasurer at beginning of year	<u>1,145</u>	<u>940</u>
Cash on deposit with State Treasurer at end of year	\$ 310	\$ 1,145

See notes to financial statements.

STATE POLICE RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 1986 AND 1985

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation - The financial statements of State Police Retirement System (the System) are prepared on the accrual basis, and generally conform to the provisions of the National Council on Governmental Accounting's Statement 1.

B. Investment Securities - Investments in bonds and first mortgage real estate loans are stated at amortized cost. Discount and premium are amortized using the straight-line method from the date of acquisition to stated or expected maturity. Common stocks, securities purchased under agreement to resell and investment in real estate investment trust are carried at cost.

Net realized gain or loss on investments represents the difference between the proceeds from sale or maturity and the average cost of investments sold or redeemed. Realized gains or losses are also recorded for exchanges of investments, based upon the difference at the time of the exchange between the carrying value and the market value of the investment exchanged.

C. Members' Contribution and Retirement Allowance Accounts - These accounts are funded by contributions and investment income. The Members' Contribution Account represents the accumulation of active members' contributions plus interest credited to members' accounts. The Retirement Allowance Account is comprised of retired members' contribution balances including interest credited thereon and accumulated employer contributions plus cumulative excess of revenues over expenses less interest credited to members' contribution accounts.

D. Expense Allocation - The System, Kentucky Employees Retirement System, and County Employees Retirement System are collectively administered by Kentucky Retirement Systems. Administrative and investment expenses of Kentucky Retirement Systems are allocated in proportion to the number of active members participating in each plan and the carrying value of plan investments, respectively.

NOTE 2 - DESCRIPTION OF THE PLAN

The State Police Retirement System is a defined benefit plan which covers substantially all regular full-time officers of the Kentucky State Police. The Plan provides for retirement, disability and death benefits.

Participating employees generally contribute 7% of creditable compensation to the System. Employer contribution rates are intended to fund the System's normal cost on a current basis and one percent (1%) of unfunded past service costs per annum plus interest at the actuarial assumed rate. Such contribution rates are determined by the Board of Trustees of Kentucky Retirement Systems each biennium. For the years ended June 30, 1986 and 1985, the employer contributed at 17 1/2% and 18 1/2%, respectively, of members' compensation.

STATE POLICE RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 1986 AND 1985
(CONTINUED)

NOTE 2 - DESCRIPTION OF THE PLAN (CONTINUED)

Vesting in a retirement benefit begins immediately upon entry into the System. The participant has a fully vested interest after the completion of sixty months of service, twelve of which are current service. At a minimum, terminated employees are refunded their contributions with credited interest at 3% compounded annually through June 30, 1981 and 6% thereafter.

Further information regarding the plan agreement and the vesting and benefit provisions is contained in the pamphlet Summary Plan Description. Copies of this pamphlet are available from the office of Kentucky Retirement Systems.

NOTE 3 - ACCUMULATED BENEFITS

Accumulated plan benefits are those future periodic payments, including lump-sum distributions, that are attributable under the Plan's provisions to services rendered by the employees to the valuation date. Accumulated plan benefits include benefits expected to be paid to (a) retired or terminated employees or their beneficiaries, (b) beneficiaries of employees who are deceased, and (c) present employees or their beneficiaries. Benefits under the Plan are based on employees' average compensation during their five highest paid years. Accumulated plan benefits for active employees are based on their compensation as of the valuation date. Benefits payable under all circumstances - retirement, death, and termination of employment - are included to the extent they are deemed attributable to employee service rendered to the valuation date.

The System's consulting actuary, William M. Mercer - Meidinger, Inc., estimates the actuarial present value of accumulated plan benefits, which is the amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (taking into account mortality) between the valuation date and the expected date of payment.

Accumulated plan benefit information follows:

	June 30 1986	1985
Vested benefits:		
Participants currently receiving payments	\$41,571,401	\$33,802,841
Other participants	<u>24,570,989</u>	<u>25,770,310</u>
Non-vested benefits	\$66,142,390	\$59,573,151
	<u>7,533,638</u>	<u>7,986,930</u>
Total accumulated plan benefits	\$73,676,028	\$67,560,081

STATE POLICE RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 1986 AND 1985
(CONTINUED)

NOTE 3 - ACCUMULATED BENEFITS (CONTINUED)

The more significant assumptions underlying the actuarial computations, including those which enter only into the determination of funding levels (cost method, turnover, retirement age, and salary increase), are as follows:

Actuarial cost method	- Entry age normal cost method
Assumed rate of return on investments	- 8% per annum
Mortality basis	- 1971 Group Annuity Mortality Table, plus a pre-retirement duty death rate of .0005 per year
Employee turnover	- Graduated rates based on 1985 experience study
Retirement age	- 40% will retire as soon as eligible for unreduced benefits and balance will continue to age 55
Salary increase	- 7 1/2% per annum

NOTE 4 - INVESTMENTS

The approximate market value of investments follows:

	June 30 1986	1985
United States Government securities	\$ 14,818,000	\$17,256,000
Government National Mortgage Association and similar securities	16,257,000	11,890,000
Corporate bonds and notes	16,180,000	11,189,000
Convertible bonds	72,000	51,000
Common stocks	47,146,000	34,870,000
First mortgage real estate loans	338,000	305,000
Real estate investment trust	4,098,000	2,265,000
Securities purchased under agreement to resell	<u>17,345,000</u>	<u>15,106,000</u>
	\$116,254,000	\$92,932,000

Investments at June 30, 1986, includes securities loaned under various lending programs.

NOTE 5 - INCOME TAX STATUS

The Internal Revenue Service has ruled that the Plan qualifies under Section 401(a) of the Internal Revenue Code and is, therefore, not subject to tax under present income tax law.

STATE POLICE RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 1986 AND 1985
(CONTINUED)

NOTE 6 - TRANSFERS TO INSURANCE FUND

By action of the 1978 General Assembly, the Kentucky Retirement Systems Insurance Fund was established to provide a group hospital and medical insurance plan for recipients of a retirement allowance from the State Police Retirement System. The Insurance Fund is funded by the transfer of a portion of employer contributions to the retirement system. The percentage of creditable compensation transferred to the Insurance Fund by the State Police Retirement System was 1.41% for the year ended June 30, 1986 and 0.99% for the year ended June 30, 1985.

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND
BALANCE SHEETS
JUNE 30, 1986 AND 1985

	1986	1985
ASSETS		
Securities purchased under agreement to resell, at cost	\$5,097,512	\$4,537,952
Cash on deposit with State Treasurer	83	99
Employer contributions receivable	470,685	809,848
Other assets	<u>451,123</u>	<u></u>
	\$6,019,403	\$5,347,899
 FUND BALANCE ALLOCATED TO		
Kentucky Employees Retirement System	\$3,312,251	\$2,990,283
County Employees Retirement System	2,482,583	2,182,470
State Police Retirement System	<u>224,569</u>	<u>175,146</u>
	\$6,019,403	\$5,347,899

See notes to financial statements.

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND
STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN FUND BALANCE
FOR THE YEARS ENDED JUNE 30, 1986 AND 1985

	1986	1985
ALLOCATED TO KENTUCKY EMPLOYES RETIREMENT SYSTEM		
Revenues:		
Employer contributions transferred from Kentucky Employes Retirement System	\$3,477,505	\$3,122,176
Investment income	<u>205,984</u>	<u>198,009</u>
Total revenues	\$3,683,489	\$3,320,185
Expenses:		
Insurance premium payments	<u>3,361,521</u>	<u>2,890,426</u>
Excess (deficiency) of revenues over expenses	\$ 321,968	\$ 429,759
Fund balance at beginning of year	<u>2,990,283</u>	<u>2,560,524</u>
Fund balance at end of year	\$3,312,251	\$2,990,283
ALLOCATED TO COUNTY EMPLOYES RETIREMENT SYSTEM		
Revenues:		
Employer contributions transferred from County Employes Retirement System	\$1,541,564	\$1,297,765
Investment income	<u>161,727</u>	<u>171,933</u>
Total revenues	\$1,703,291	\$1,469,698
Expenses:		
Insurance premium payments	<u>1,403,178</u>	<u>1,167,423</u>
Excess (deficiency) of revenues over expenses	\$ 300,113	\$ 302,275
Fund balance at beginning of year	<u>2,182,470</u>	<u>1,880,195</u>
Fund balance at end of year	\$2,482,583	\$2,182,470
ALLOCATED TO STATE POLICE RETIREMENT SYSTEMS		
Revenues:		
Employer contributions transferred from State Police Retirement System	\$ 352,493	\$ 240,087
Investment income	<u>11,729</u>	<u>11,873</u>
Total revenues	\$ 364,222	\$ 251,960
Expenses:		
Insurance premium payments	<u>314,799</u>	<u>239,299</u>
Excess of revenues over expenses	\$ 49,423	\$ 12,661
Fund balance at beginning of year	<u>175,146</u>	<u>162,485</u>
Fund balance at end of year	\$ 224,569	\$ 175,146

See note to financial statements.

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND
STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED JUNE 30, 1986 AND 1985

	1986	1985
Source of funds:		
Excess of revenues over expenses	\$ 671,504	\$744,695
Decrease in employer contributions receivable	<u>339,163</u>	<u>156,726</u>
Total funds provided	\$1,010,667	\$901,421
Application of funds:		
Increase in securities purchased under agreement to resell	559,560	901,325
Increase in other assets	<u>451,123</u>	<u></u>
Total funds applied	\$1,010,683	\$901,325
Increase (decrease) in cash	\$ (16)	\$ 96
Cash on deposit with State Treasurer at beginning of year	<u>99</u>	<u>3</u>
Cash on deposit with State Treasurer at end of year	\$ 83	\$ 99

See note to financial statements.

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND
NOTE TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 1986 AND 1985

NOTE - SIGNIFICANT ACCOUNTING POLICY AND DESCRIPTION OF PLAN

The financial statements of the Fund are prepared on the accrual basis.

The Fund was established in 1978 to provide accident and health insurance for members receiving benefits from the Kentucky Employees Retirement System, County Employees Retirement System, and State Police Retirement System (Systems). The Fund and members receiving benefits pay prescribed portions of the aggregate premiums paid to an insurance company for coverage. Insurance premium payments included in the accompanying financial statements represent that portion of premiums paid by the Fund. Insurance premiums withheld from benefit payments to members of the Systems approximated \$3,053,000 and \$2,663,000 for the Kentucky Employees Retirement System, \$1,617,000 and \$1,340,000 for the County Employees Retirement System, and \$4,000 and \$3,000 for the State Police Retirement System in 1986 and 1985, respectively. Effective August 1, 1982, the Retirement System began paying the same proportion of medical insurance premiums for the spouse or beneficiary and dependents of retired hazardous members or hazardous employees killed in the line of duty. The allocation of the insurance premiums paid by the Fund and amounts withheld from members' benefits is based on the years of service with the Systems, as follows:

<u>Years of Service</u>	<u>Percent Paid by Insurance Fund</u>	<u>Percent Paid by Member through Payroll Deduction</u>
20	100%	0%
15	75%	25%
10	50%	50%
4	25%	75%

The percentages of employer contributions to the Systems which are in turn transferred to the Fund are as follows:

	<u>June 30</u>	
	1986	1985
<u>Non-Hazardous</u>		
Kentucky Employees Retirement System	0.48%	0.46%
County Employees Retirement System	0.31%	0.29%
<u>Hazardous</u>		
Kentucky Employees Retirement System	1.09%	1.04%
County Employees Retirement	0.99%	0.91%
State Police Retirement System	1.41%	0.99%

ACTUARIAL SECTION INTRODUCTION

Annually an actuarial valuation is prepared for each of the three retirement systems. An actuarial valuation is the mathematical means by which contingent liabilities and contribution rates of a retirement system are determined. It is a means of keeping a check on the financial status of the fund to assure the members that adequate monies will be on hand in the future to meet the obligations of the retirement system.

The actuarial valuation is prepared for the purpose of determining the present value of the liability, or cost, of all future benefit payments. This represents the true liability of a retirement system, and this liability is used to determine how much should be paid into the fund each year in order to have sufficient funds available in the future to meet retirement benefit payments.

The Board of Trustees elected to continue the services of the actuarial firm of William M. Mercer-Meidinger, Inc., who has performed the two previous actuarial valuations. A reproduction of the certification made by the firm for each of the three retirement systems for the fiscal year 1985-86 is found on the next page. The results of the 1986 actuarial valuations as prepared by the firm follow. The last item in each section is the Actuarial Assumptions used for preparation of the valuations. Actuarial assumptions are modified on a periodic basis to reflect more accurately the actual experience of the separate systems and to recognize changing economic trends. The assumptions used for the 1985-86 actuarial valuation were adopted in May of 1986 following a comprehensive five-year experience study.

These reports indicate that every dollar of future liabilities is backed by \$.94 or more of assets. The remaining unfunded liabilities are being funded annually in accordance with the statutory requirement of 1% of the outstanding principal and payment of all accrued interest. The Kentucky Retirement Systems are actuarially sound and existing law assures the continuance of a sound system.

November 11, 1986

Board of Trustees
Kentucky Retirement Systems
Perimeter Park West
1260 Louisville Road
Frankfort, Kentucky 40601

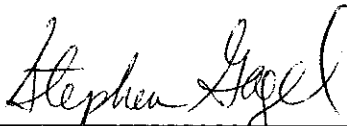
Members of the Board:

The thirtieth annual actuarial valuation of the Kentucky Employees Retirement System, the twenty-seventh annual actuarial valuation of the County Employees Retirement System, and the twenty-eighth annual actuarial valuation of the State Police Retirement System have been completed and the reports prepared. The valuations were made on the basis of data provided by the Retirement System as of June 30, 1986.

On the basis of the assumptions as stated in each report and the data furnished us by the Administration of the Retirement Systems, it is certified that the valuations have been made by the use of generally accepted actuarial principles and that, if the recommendations of the reports are followed, adequate provision will be made for the funding of future benefits.

The three Retirement Systems are actuarially sound. The Actuarial Accrued Liabilities of the Kentucky Employees Retirement System, the County Employees Retirement System, and the State Police Retirement System are being funded as required by the Kentucky Revised Status.

Respectfully Submitted,
WILLIAM M. MERCER-MEIDINGER, INC.

By 
Stephen A. Gagel, F.S.A.
Actuary

SAG/sk

THIRTIETH ANNUAL ACTUARIAL VALUATION

JUNE 30, 1986

KENTUCKY EMPLOYES RETIREMENT SYSTEM

FRANKFORT, KENTUCKY

KENTUCKY EMPLOYES RETIREMENT SYSTEM
RESULTS OF THE 1986 ACTUARIAL VALUATION

Actuarial Balance Sheet

Table I, which follows, is the actuarial balance sheet of the Kentucky Employees Retirement System as of June 30, 1986. The "actuarial balance sheet" of the retirement system displays the fundamental relationship between actual assets, future contributions, and future benefits. The asset side of the balance sheet is comprised of actual fund assets plus the actuarial present value of future contributions on behalf of current members. The actuarial present values of all projected benefit payments to present active and inactive members make up the balance sheet liabilities.

Determination of Contribution Rate

The rate of contribution by the State required to provide 9% of the Unfunded Actuarial Accrued Liability, the employer share of the Normal Cost, medical insurance and the expenses of administration, is shown in Table II. The required contribution is expressed both in dollars and as a percentage of the estimated annual State payroll as of June 30, 1986.

The actuarial methods applied to determine the Normal Cost for the year commencing July 1, 1986 are described on page K-2. These costs are classified by type of benefit. The Normal Cost contribution rate of the State is determined by reducing the total Normal Cost by the expected employee contributions. A breakdown of costs between Hazardous and Non-Hazardous position employees appears in Table III.

Accountant's Information

Table IV contains a calculation of the accumulated value of plan benefits as specified under FASB Statement No. 35. Under this calculation, the present value of future benefits payable and attributable to the employee's present accrued benefit is computed. The probabilities of termination, disability, mortality and retirement are the same for this calculation as those used in the regular valuation calculations. However, future increases in earnings and additional benefit accruals are not projected beyond the current valuation date.

TABLE I
KENTUCKY EMPLOYES RETIREMENT SYSTEM
ACTUARIAL BALANCE SHEET-JUNE 30, 1986

ACTUARIAL ASSETS

Fund Assets at Book Value*		\$1,080,387,371
Actuarial Present Value of Future Member Contributions		452,617,712
Actuarial Present Value of Future Employer Contributions		
For Normal Costs	\$ 261,729,159	
For Unfunded Actuarial Accrued Liability	165,729,722***	
Total		<u>\$ 427,458,881</u>
Total Actuarial Assets		\$1,960,463,964

ACTUARIAL LIABILITIES

Actuarial Present Value of Future Benefits		
Inactive Members:		
Retired Members and Beneficiaries	\$ 380,935,479	
Vested Retirement	14,962,079	
Vested Membership	2,887,991	
Total - Inactive		<u>\$ 398,785,549</u>
Active Members:		
Retirement Benefits	\$1,226,669,505	
Disability Benefits	77,313,923	
Withdrawal Benefits (Vested and		
Refund of Contributions)	148,635,885	
Survivor Benefits	108,025,152	
Total - Active		<u>\$1,500,644,465</u>
Refunds and Expenses Payable		<u>\$ 1,033,950</u>
Total Actuarial Liabilities		\$1,960,463,964

ACCRUED BENEFIT LIABILITY **

Vested Benefits	\$ 684,178,499
Non-Vested Benefits	\$ 35,517,471

* The market value of assets as of June 30, 1986 is \$1,304,444,000.
The actuarial value of assets as of June 30, 1986 is \$1,079,353,421
(book value of assets less refunds and expenses payable).

The Members' Contribution Account as of June 30, 1986 is \$241,706,858.

** Present value of accrued benefit deferred to normal retirement date.

*** Reflects excess of assets over actuarial accrued liability for hazardous position employees

TABLE II

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

DETERMINATION OF CONTRIBUTION RATE-JUNE 30, 1986

<u>UNFUNDED ACTUARIAL ACCRUED LIABILITY</u>		<u>PERCENT*</u>
Total Actuarial Accrued Liability	\$1,245,083,143	174.41%
Assets at Actuarial Value	1,079,353,421	151.20%
Unfunded Actuarial Accrued Liability	\$ 166,635,243****	23.34%
Contribution - 9% of Unfunded Actuarial Accrued Liability	\$ 14,997,172	2.10%
<u>NORMAL COST</u>		
Retirement Benefits	\$ 42,901,742	6.01%
Disability Benefits	3,369,441	0.47%
Withdrawal Benefits (Vested and Refund of Contributions)	7,811,369	1.09%
Survivor Benefits	3,890,337	0.55%
Total Normal Cost	\$ 57,972,889	8.12%
Less: Employee Contributions	35,748,463	5.01%
Normal Cost - State	\$ 22,224,426	3.11%
<u>TOTAL ANNUAL EMPLOYER COST</u>		
<u>Non-Hazardous Duty Cost</u>		
Normal Cost	\$ 21,410,950	3.04%**
9% of Unfunded Actuarial Accrued Liability	14,997,172	2.13%**
Administrative Expenses	810,371	0.12%**
Group Hospital and Medical Insurance Premiums	8,644,930	1.23%**
Total Annual Cost	\$ 45,863,423	6.52%**
<u>Hazardous Duty Cost</u>		
Normal Cost	\$ 813,476	8.68%***
9% of Unfunded Actuarial Accrued Liability	0	0.00%***
Administrative Expenses	9,634	0.10%***
Group Hospital and Medical Insurance Premiums	459,426	4.90%***
Total Annual Cost	\$ 1,282,536	13.68%***

*Based on estimated annual salaries of \$713,878,356.

**Based on estimated annual salaries of \$704,509,380 for Non-Hazardous Position Employees.

***Based on estimated annual salaries of \$9,368,976 for Hazardous Position Employees.

****Adjusted by \$905,521 to reflect excess of assets over actuarial accrued liability for hazardous position employees

TABLE III
KENTUCKY EMPLOYES RETIREMENT SYSTEM
CLASSIFICATION OF ACTUARIAL LIABILITIES AND COSTS-JUNE 30, 1986

	<u>Non-Hazardous Position Employees</u>	<u>Hazardous Position Employees</u>	<u>Total</u>
<u>ACTUARIAL ACCRUED LIABILITY</u>			
<u>Active Members</u>			
Retirement Benefits	\$ 695,051,500	\$ 7,653,944	\$ 702,705,444
Disability Benefits	35,231,976	618,184	35,850,160
Withdrawal Benefits (Vested and Refund of Contributions)	47,009,147	21,608	47,030,755
Survivor Benefits	<u>60,229,171</u>	<u>482,064</u>	<u>60,711,235</u>
Actuarial Accrued Liability - Actives	\$ 837,521,794	\$ 8,775,800	\$ 846,297,594
<u>Inactive Members</u>			
Retired Members and Beneficiaries	\$ 375,205,582	\$ 5,729,897	\$ 380,935,479
Vested Retirement	14,903,642	58,437	14,962,079
Vested Membership	<u>2,823,658</u>	<u>64,333</u>	<u>2,887,991</u>
Actuarial Accrued Liability - Inactives	\$ 392,932,882	\$ 5,852,667	\$ 398,785,549
Total Actuarial Accrued Liability	\$1,230,454,676	\$14,628,467	\$1,245,083,143
<u>UNFUNDED ACTUARIAL ACCRUED LIABILITY</u>			
Total Actuarial Accrued Liability	\$1,230,454,676	\$14,628,467	\$1,245,083,143
Less Actuarial Value of Assets	<u>1,063,819,433</u>	<u>15,533,988</u>	<u>1,079,353,421</u>
Unfunded Actuarial Accrued Liability	\$ 166,635,243	\$ 0	\$ 166,635,243
<u>NORMAL COST</u>			
Retirement Benefits	\$ 41,731,001	\$ 1,170,741	\$ 42,901,742
Disability Benefits	3,249,833	119,608	3,369,441
Withdrawal Benefits (Vested and Refund of Contributions)	7,756,988	54,381	7,811,369
Survivor Benefits	<u>3,793,160</u>	<u>97,177</u>	<u>3,890,337</u>
Total Normal Cost	\$ 56,530,982	\$ 1,441,907	\$ 57,972,889
Less Employee Contributions	<u>35,120,032</u>	<u>628,431</u>	<u>35,748,463</u>
Total Normal Cost - State	\$ 21,410,950	\$ 813,476	\$ 22,224,426
<u>ACCRUED BENEFIT LIABILITY*</u>			
Vested Benefits	\$ 674,287,147	\$ 9,891,352	\$ 684,178,499
Non-Vested Benefits	30,352,804	5,164,667	35,517,471

*Present value of accrued benefit deferred to normal retirement date.

TABLE IV
KENTUCKY EMPLOYES RETIREMENT SYSTEM
ACCOUNTANT'S INFORMATION - JUNE 30, 1986

	<u>Non-Hazardous Position Employees</u>	<u>Hazardous Position Employees</u>	<u>Total</u>
<u>ACTUARIAL PRESENT VALUE OF VESTED ACCUMULATED BENEFITS</u>			
<u>Active Members</u>			
Retirement Benefits	\$250,146,257	\$ 2,485,470	\$252,631,727
Disability Benefits	6,607,542	217,137	6,824,679
Withdrawal Benefits (Vested and Refund of Contributions)	42,863,195	224,404	43,087,599
Survivor Benefits	<u>0</u>	<u>0</u>	<u>0</u>
Total Active Members	\$299,616,994	\$ 2,927,011	\$302,544,005
<u>Inactive Members</u>			
Retired Members and Beneficiaries	\$375,205,582	\$ 5,729,897	\$380,935,479
Vested Retirement	14,903,642	58,437	14,962,079
Vested Membership	<u>2,823,658</u>	<u>64,333</u>	<u>2,887,991</u>
Total-Inactive Members	\$392,932,882	\$ 5,852,667	\$398,785,549
Total Actuarial Present Value of Vested Accumulated Benefits	\$692,549,876	\$ 8,779,678	\$701,329,554
<u>ACTUARIAL PRESENT VALUE OF NON-VESTED ACCUMULATED BENEFITS</u>			
<u>Active Members</u>			
Retirement Benefits	\$ 25,841,733	\$ 920,729	\$ 26,762,462
Disability Benefits	18,890,348	415,515	19,305,863
Withdrawal Benefits (Vested and Refund of Contributions)	3,131,364	71,295	3,202,659
Survivor Benefits	<u>27,246,242</u>	<u>376,587</u>	<u>27,622,829</u>
Total - Active Members	\$ 75,109,687	\$ 1,784,126	\$ 76,893,813
<u>Inactive Members</u>	\$ 0	\$ 0	\$ 0
Total Actuarial Present Value of Non-Vested Accumulated Benefits	\$ 75,109,687	\$ 1,784,126	\$ 76,893,813

NOTE: All calculations in this Table IV have been developed as specified under FASB Statement No. 35.

KENTUCKY EMPLOYES RETIREMENT SYSTEM

ACTUARIAL ASSUMPTIONS

A. STATEMENT OF ACTUARIAL ASSUMPTIONS

(1) Mortality:

- (a) Active & retired lives - 1971 Group Annuity Mortality Table, plus a pre-retirement duty death rate of .0005 per year for hazardous duty employees.
- (b) Disabled lives - Social Security Administration Disability Mortality Rates - Actuarial Study No. 75 (current rates used by PBGC for disabled lives receiving Social Security).

(2) Disablement

- Graduated rates based on 1985 experience study.

(3) Termination of employment

- Graduated select (non-hazardous only) and ultimate rates based on 1985 experience study.

(4) Retirement

- Non-Hazardous:

<u>Age</u>	<u>Retirement Rate</u>
55-57	.03
58-59	.04
60-61	.05
62	.25
63-64	.10
65	.50
66-67	.20
68	.25
69	.40
70 & Over	1.00

At age 55-64 in lieu of the age related rate, 20% are assumed to retire as soon as eligible for unreduced benefits.

Hazardous: Assumed that 40% will retire as soon as eligible for unreduced benefits and balance will continue to age 60.

- (5) Marital status
 - (a) Percentage married - 100%.
 - (b) Age difference - Males are assumed to be 3 years older than their spouses.
- (6) Dependent children - For hazardous position employees under duty related death benefits, it is assumed that the employee is survived by 2 dependent children, each age 6.
- (7) Investment return - 8.00% per year, net of investment related expenses, compounded annually.
- (8) Compensation progression - 7.50% per year, compounded annually.
- (9) Retiree Medical Insurance - It was assumed that future retirees would select medical coverage in the same proportion that current retirees have selected coverage. Monthly premium rates were assumed to be as follows:

Plan Type	7/1/86 Rate	Rate Increase	
		Date	Rate
Single	\$ 60.22*	11/1/86	\$ 69.79*
Family	144.16*	11/1/86	166.79*
Medicare	29.55*	1/1/87	33.10**
High Option	48.75*	1/1/87	57.96**

*Actual rates

**Assumed rates

For non-hazardous position employees, it was assumed over the next year that there would be an 8% growth in number of retirees receiving medical insurance and that premiums would grow at a rate of 12%. For hazardous position employees, the assumed rates were 15% and 12%. Future growth rates beyond the next year were assumed to be at the same combined rate.

Reserves in the Insurance Fund were used to offset the liability for premiums over the sixteen year projection period.

TWENTY-SEVENTH ANNUAL ACTUARIAL VALUATION

JUNE 30, 1986

COUNTY EMPLOYEES RETIREMENT SYSTEM

FRANKFORT, KENTUCKY

COUNTY EMPLOYEES RETIREMENT SYSTEM
RESULTS OF THE 1986 ACTUARIAL VALUATION

Actuarial Balance Sheet

Table I, which follows, is the actuarial balance sheet of the County Employees Retirement System as of June 30, 1986. The "actuarial balance sheet" of the retirement system displays the fundamental relationship between actual assets, future contributions, and future benefits. The asset side of the balance sheet is comprised of actual fund assets plus the actuarial present value of future contributions on behalf of current members. The actuarial present values of all projected benefit payments to present active and inactive members make up the balance sheet liabilities.

Determination of Contribution Rate

The rate of contribution by the participating Agencies required to provide 9% of the Unfunded Actuarial Accrued Liability, the employer share of the annual Normal Cost, medical insurance and the administrative costs of the System is shown in Table II. The required contribution is expressed both in dollars and as a percentage of the estimated payroll of the participating Agencies as of June 30, 1986.

The actuarial methods applied to determine the Normal Cost for the year commencing July 1, 1986 are described on page C-2. These costs are classified by type of benefit. The Normal Cost contribution rate of the participating Agencies is determined by reducing the total Normal Cost by the expected employee contributions. A breakdown of costs between Hazardous and Non-Hazardous position employees appears in Table III.

Accountant's Information

Table IV contains a calculation of the accumulated value of plan benefits as specified under FASB Statement No. 35. Under this calculation, the present value of future benefits payable and attributable to the employee's present accrued benefit is computed. The probabilities of termination, disability, mortality and retirement are the same for this calculation as those used in the regular valuation calculations. However, future increases in earnings and additional benefit accruals are not projected beyond the current valuation date.

TABLE I
COUNTY EMPLOYES RETIREMENT SYSTEM
ACTUARIAL BALANCE SHEET-JUNE 30, 1986

ACTUARIAL ASSETS

Fund Assets at Book Value*		\$ 604,622,294
Actuarial Present Value of Future Member Contributions		262,198,096
Actuarial Present Value of Future Employer Contributions		
For Normal Costs	\$256,898,634	
For Unfunded Actuarial Accrued Liability	(67,867,706)	
Total		<u>\$ 189,030,928</u>
Total Actuarial Assets		\$1,055,851,318

ACTUARIAL LIABILITIES

Actuarial Present Value of Future Benefits		
Inactive Members:		
Retired Members and Beneficiaries	\$148,805,965	
Vested Retirement	7,903,783	
Vested Membership	3,624,695	
Total - Inactive		<u>\$ 160,334,443</u>
Active Members:		
Retirement Benefits	\$710,804,051	
Disability Benefits	47,039,421	
Withdrawal Benefits (Vested and Refund of Contributions)	80,825,935	
Survivor Benefits	56,040,974	
Total - Active		<u>\$ 894,710,381</u>
Refunds and Expenses Payable		<u>\$ 806,494</u>
Total Actuarial Liabilities		\$1,055,851,318

ACCRUED BENEFIT LIABILITY **

Vested Benefits	\$ 291,490,454
Non-Vested Benefits	\$ 43,973,521

- * The market value of assets as of June 30, 1986 is \$663,204,000.
The actuarial value of assets as of June 30, 1986 is \$603,815,800 (book value of assets less refunds and expenses payable).
The Members' Contribution Account as of June 30, 1986 is \$133,493,649
- ** Present value of accrued benefit deferred to normal retirement date.

TABLE II

COUNTY EMPLOYEES RETIREMENT SYSTEM

DETERMINATION OF CONTRIBUTION RATE-JUNE 30, 1986

<u>UNFUNDED ACTUARIAL ACCRUED LIABILITY</u>		<u>PERCENT*</u>
Total Actuarial Accrued Liability	\$ 535,948,094	110.55%
Assets at Actuarial Value	603,815,800	124.55%
Unfunded Actuarial Accrued Liability	\$ 0	0.00%
Contribution - 9% of Unfunded Actuarial Accrued Liability	\$ 0	0.00%
<u>NORMAL COST</u>		
Retirement Benefits	\$ 33,971,153	7.01%
Disability Benefits	2,475,716	0.51%
Withdrawal Benefits (Vested and Refund of Contributions)	4,782,986	0.99%
Survivor Benefits	2,679,965	0.55%
Total Normal Cost	\$ 43,909,820	9.06%
Less: Employee Contributions	21,266,109	4.39%
Normal Cost - State	\$ 22,643,711	4.67%
<u>TOTAL ANNUAL EMPLOYER COST</u>		
<u>Non-Hazardous Duty Cost</u>		
Normal Cost	\$ 19,171,194	4.23%**
9% of Unfunded Actuarial Accrued Liability	0	0.00%**
Administrative Expenses	667,450	0.15%**
Group Hospital and Medical Insurance Premiums	4,186,426	0.92%**
Total Annual Cost	\$ 24,025,070	5.30%**
<u>Hazardous Duty Cost</u>		
Normal Cost	\$ 3,472,517	11.15%***
9% of Unfunded Actuarial Accrued Liability	0	0.00%***
Administrative Expenses	73,708	0.24%***
Group Hospital and Medical Insurance Premiums	736,614	2.36%***
Total Annual Cost	\$ 4,282,839	13.75%***

*Based on estimated annual salaries of \$484,796,988.

**Based on estimated annual salaries of \$453,639,876 for Non-Hazardous Position Employees.

***Based on estimated annual salaries of \$31,157,112 for Hazardous Position Employees.

TABLE III
COUNTY EMPLOYEES RETIREMENT SYSTEM
CLASSIFICATION OF ACTUARIAL LIABILITIES AND COSTS-JUNE 30, 1986

	<u>Non-Hazardous Position Employees</u>	<u>Hazardous Position Employees</u>	<u>Total</u>
<u>ACTUARIAL ACCRUED LIABILITY</u>			
<u>Active Members</u>			
Retirement Benefits	\$280,491,691	\$36,677,966	\$ 317,169,657
Disability Benefits	15,572,623	1,280,445	16,853,068
Withdrawal Benefits (Vested and Refund of Contributions)	17,831,500	326,335	18,157,835
Survivor Benefits	<u>22,314,477</u>	<u>1,118,614</u>	<u>23,433,091</u>
Actuarial Accrued Liability - Actives	\$336,210,291	\$39,403,360	\$ 375,613,651
<u>Inactive Members</u>			
Retired Members and Beneficiaries	\$136,214,742	\$12,591,223	\$ 148,805,965
Vested Retirement	6,784,893	1,118,890	7,903,783
Vested Membership	<u>3,438,236</u>	<u>186,459</u>	<u>3,624,695</u>
Actuarial Accrued Liability - Inactives	\$146,437,871	\$13,896,572	\$ 160,334,443
Total Actuarial Accrued Liability	\$482,648,162	\$53,299,932	\$ 535,948,094
<u>UNFUNDED ACTUARIAL ACCRUED LIABILITY</u>			
Total Actuarial Accrued Liability	\$482,648,162	\$53,299,932	\$ 535,948,094
Less Actuarial Value of Assets	<u>544,896,921</u>	<u>58,918,879</u>	<u>603,815,800</u>
Unfunded Actuarial Accrued Liability	\$ 0	\$ 0	\$ 0
<u>NORMAL COST</u>			
Retirement Benefits	\$ 29,124,949	\$ 4,846,204	\$ 33,971,153
Disability Benefits	2,233,311	242,405	2,475,716
Withdrawal Benefits (Vested and Refund of Contributions)	4,524,384	258,602	4,782,986
Survivor Benefits	<u>2,476,146</u>	<u>203,819</u>	<u>2,679,965</u>
Total Normal Cost	\$ 38,358,790	\$ 5,551,030	\$ 43,909,820
Less Employee Contributions	<u>19,187,596</u>	<u>2,078,513</u>	<u>21,266,109</u>
Total Normal Cost - State	\$ 19,171,194	\$ 3,472,517	\$ 22,643,711
<u>ACCRUED BENEFIT LIABILITY*</u>			
Vested Benefits	\$261,084,790	\$30,405,664	\$ 291,490,454
Non-Vested Benefits	22,305,670	21,667,851	43,973,521

*Present value of accrued benefit deferred to normal retirement date.

TABLE IV
COUNTY EMPLOYEES RETIREMENT SYSTEM
ACCOUNTANT'S INFORMATION - JUNE 30, 1986

	<u>Non-Hazardous Position Employees</u>	<u>Hazardous Position Employees</u>	<u>Total</u>
<u>ACTUARIAL PRESENT VALUE OF VESTED ACCUMULATED BENEFITS</u>			
<u>Active Members</u>			
Retirement Benefits	\$ 97,732,802	\$14,926,945	\$112,659,747
Disability Benefits	2,700,258	508,908	3,209,166
Withdrawal Benefits (Vested and Refund of Contributions)	16,860,393	1,608,264	18,468,657
Survivor Benefits	<u>0</u>	<u>0</u>	<u>0</u>
Total Active Members	\$117,293,453	\$17,044,117	\$134,337,570
<u>Inactive Members</u>			
Retired Members and Beneficiaries	\$136,214,742	\$12,591,223	\$148,805,965
Vested Retirement	6,784,893	1,118,890	7,903,783
Vested Membership	<u>3,438,236</u>	<u>186,459</u>	<u>3,624,695</u>
Total-Inactive Members	\$146,437,871	\$13,896,572	\$160,334,443
Total Actuarial Present Value of Vested Accumulated Benefits	\$263,731,324	\$30,940,689	\$294,672,013
<u>ACTUARIAL PRESENT VALUE OF NON-VESTED ACCUMULATED BENEFITS</u>			
<u>Active Members</u>			
Retirement Benefits	\$ 14,325,331	\$ 3,699,230	\$ 18,024,561
Disability Benefits	9,951,154	961,069	10,912,223
Withdrawal Benefits (Vested and Refund of Contributions)	3,713,108	44,763	3,757,871
Survivor Benefits	<u>9,528,650</u>	<u>1,034,244</u>	<u>10,562,894</u>
Total - Active Members	\$ 37,518,243	\$ 5,739,306	\$ 43,257,549
<u>Inactive Members</u>	\$ 0	\$ 0	\$ 0
Total Actuarial Present Value of Non-Vested Accumulated Benefits	\$ 37,518,243	\$ 5,739,306	\$ 43,257,549

NOTE: All calculations in this Table IV have been developed as specified under FASB Statement No. 35.

COUNTY EMPLOYES RETIREMENT SYSTEM

ACTUARIAL ASSUMPTIONS

A. STATEMENT OF ACTUARIAL ASSUMPTIONS

(1) Mortality:

- (a) Active & retired lives - 1971 Group Annuity Mortality Table, plus a pre-retirement duty death rate of .0005 per year for hazardous duty employees.
- (b) Disabled lives - Social Security Administration Disability Mortality Rates - Actuarial Study No. 75 (current rates used by PBGC for disabled lives receiving Social Security).

(2) Disablement

- Graduated rates based on 1985 experience study.

(3) Termination of employment

- Graduated select (non-hazardous only) and ultimate rates based on 1985 experience study.

(4) Retirement

- Non-Hazardous:

<u>Age</u>	<u>Retirement Rate</u>
55-57	.03
58-59	.04
60-61	.05
62	.25
63-64	.10
65	.50
66-67	.20
68	.25
69	.40
70 and Over	1.00

At age 55-64 in lieu of the age related rate, 20% are assumed to retire as soon as eligible for unreduced benefits.

Hazardous: Assumed that 50% will retire as soon as eligible for unreduced benefits and balance will continue to age 55.

- (5) Marital status
 - (a) Percentage married - 100%.
 - (b) Age difference - Males are assumed to be 3 years older than their spouses.
- (6) Dependent children - For hazardous position employees under duty related death benefits, it is assumed that the employee is survived by 2 dependent children each age 6.
- (7) Investment return - 8.00% per year, net of investment related expenses, compounded annually.
- (8) Compensation progression - 7.50% per year, compounded annually.
- (9) Retiree Medical Insurance - It was assumed that future retirees would select medical coverage in the same proportion that current retirees have selected coverage. Monthly premium rates were assumed to be as follows:

Plan Type	7/1/86 Rate	Rate Increase	
		Date	Rate
Single	\$ 60.22*	11/1/86	\$ 69.79*
Family	144.16*	11/1/86	166.79*
Medicare	29.55*	1/1/87	33.10**
High Option	48.75*	1/1/87	57.96**

*Actual rates

**Assumed rates

For non-hazardous position employees, it was assumed over the next year that there would be an 10% growth in number of retirees receiving medical insurance and that premiums would grow at a rate of 12%. For hazardous position employees, the assumed rates were 13.5% and 12%. Future growth rates beyond the next year were assumed to be at the same combined rate.

Reserves in the Insurance Fund were used to offset the liability for premiums over the sixteen year projection period.

TWENTY-EIGHTH ANNUAL ACTUARIAL VALUATION

JUNE 30, 1986

STATE POLICE RETIREMENT SYSTEM

FRANKFORT, KENTUCKY

STATE POLICE RETIREMENT SYSTEM
RESULTS OF THE 1986 ACTUARIAL VALUATION

Actuarial Balance Sheet

Table I, which follows, is the actuarial balance sheet of the State Police Retirement System as of June 30, 1986. The "actuarial balance sheet" of the retirement system displays the fundamental relationship between actual assets, future contributions, and future benefits. The asset side of the balance sheet is comprised of actual fund assets plus the actuarial present value of future contributions on behalf of current members. The actuarial present values of all projected benefit payments to present active and inactive members make up the balance sheet liabilities.

Determination of Contribution Rate

The rate of contribution by the State required to provide 9% of the Unfunded Actuarial Accrued Liability, the employer share of the Normal Cost, medical insurance and the administrative costs of the System is shown in Table II. The required contribution is expressed both in dollars and as a percentage of the estimated annual covered payroll as of June 30, 1986.

The actuarial methods applied to determine the Normal Cost for the year commencing July 1, 1986 are described on page S-2. These costs are classified by type of benefit. The Normal Cost contribution rate of the State is determined by reducing the total Normal Cost by the expected employee contributions.

Accountant's Information

Table III contains a calculation of the accumulated value of plan benefits as specified under FASB Statement No. 35. Under this calculation, the present value of future benefits payable and attributable to the employee's present accrued benefit is computed. The probabilities of termination, disability, mortality and retirement are the same for this calculation as those used in the regular valuation calculations. However, future increases in earnings and additional benefit accruals are not projected beyond the current valuation date.

TABLE I
STATE POLICE RETIREMENT SYSTEM
ACTUARIAL BALANCE SHEET-JUNE 30, 1986

ACTUARIAL ASSETS

Fund Assets at Book Value*		\$ 96,714,220
Actuarial Present Value of Future Member Contributions		20,518,757
Actuarial Present Value of Future Employer Contributions		
For Normal Costs	\$24,414,125	
For Unfunded Actuarial Accrued Liability	8,892,252	
Total	<u>33,306,377</u>	\$ 33,306,377
Total Actuarial Assets		\$ 150,539,354

ACTUARIAL LIABILITIES

Actuarial Present Value of Future Benefits		
Inactive Members:		
Retired Members and Beneficiaries	\$ 41,571,401	
Vested Retirement	877,579	
Vested Membership	93,141	
Total - Inactive	<u>42,542,121</u>	\$ 42,542,121
Active Members:		
Retirement Benefits	\$ 95,431,818	
Disability Benefits	4,449,776	
Withdrawal Benefits (Vested and Refund of Contributions)	3,564,386	
Survivor Benefits	4,504,732	
Total - Active	<u>107,950,712</u>	\$ 107,950,712
Refunds and Expenses Payable and Payables to other Systems		\$ 46,521
Total Actuarial Liabilities		\$ 150,539,354

ACCRUED BENEFIT LIABILITY **

Vested Benefits	\$ 66,697,215
Non-Vested Benefits	\$ 17,798,653

- * The market value of assets as of June 30, 1986 is \$116,254,000.
The actuarial value of assets as of June 30, 1986 is \$96,667,699 (book value of assets less refunds and expenses payable).
The Members' Contribution Account as of June 30, 1986 is \$17,987,582
- ** Present value of accrued benefit deferred to normal retirement date.

TABLE II

STATE POLICE RETIREMENT SYSTEM

DETERMINATION OF CONTRIBUTION RATE-JUNE 30, 1986

<u>ACTUARIAL ACCRUED LIABILITY</u>		<u>PERCENT*</u>
<u>Active Members</u>		
Retirement Benefits	\$ 58,017,097	236.57%
Disability Benefits	2,287,093	9.32%
Withdrawal Benefits (Vested and Refund of Contributions)	539,453	2.20%
Survivor Benefits	<u>2,174,187</u>	<u>8.86%</u>
Actuarial Accrued Liability - Active	\$ 63,017,830	256.95%
<u>Inactive Members</u>		
Retired Members and Beneficiaries	\$ 41,571,401	169.51%
Vested Retirement	877,579	3.58%
Vested Membership	<u>93,141</u>	<u>0.38%</u>
Actuarial Accrued Liability - Inactives	\$ 42,542,121	173.47%
Total Actuarial Accrued Liability	105,559,951	430.42%
<u>UNFUNDED ACTUARIAL ACCRUED LIABILITY</u>		
Total Actuarial Accrued Liability	\$105,559,951	430.42%
Assets at Actuarial Value	96,667,699	394.17%
Unfunded Actuarial Accrued Liability	<u>\$ 8,892,252</u>	<u>36.25%</u>
Contribution - 9% of Unfunded Actuarial Accrued Liability	\$ 800,303	3.26%
<u>NORMAL COST</u>		
Retirement Benefits	\$ 3,121,715	12.73%
Disability Benefits	180,163	0.74%
Withdrawal Benefits (Vested and Refund of Contributions)	255,944	1.04%
Survivor Benefits	194,429	0.79%
Total Normal Cost	<u>\$ 3,752,251</u>	<u>15.30%</u>
Less: Employee Contributions	<u>1,708,210</u>	<u>6.97%</u>
Normal Cost - State Police	\$ 2,044,041	8.33%

TABLE III
STATE POLICE RETIREMENT SYSTEM
ACCOUNTANT'S INFORMATION - JUNE 30, 1986

ACTUARIAL PRESENT VALUE OF
VESTED ACCUMULATED BENEFITS

Active Members

Retirement Benefits	\$21,156,614
Disability Benefits	771,458
Withdrawal Benefits (Vested and Refund of Contributions)	1,672,197
Survivor Benefits	<u>0</u>
Total Active Members	\$23,600,269

Inactive Members

Retired Members and Beneficiaries	\$41,571,401
Vested Retirement	877,579
Vested Membership	<u>93,141</u>
Total-Inactive Members	\$42,542,121

Total Actuarial Present Value of Vested Accumulated Benefits	\$66,142,390
---	--------------

ACTUARIAL PRESENT VALUE OF
NON-VESTED ACCUMULATED BENEFITS

Active Members

Retirement Benefits	\$ 4,901,384
Disability Benefits	1,103,434
Withdrawal Benefits (Vested and Refund of Contributions)	(5,434)
Survivor Benefits	<u>1,534,254</u>
Total - Active Members	\$ 7,533,638

Inactive Members

\$ 0

Total Actuarial Present Value of Non-Vested Accumulated Benefits	\$ 7,533,638
---	--------------

NOTE: All calculations in this Table III have been developed as specified under FASB Statement No. 35.

STATE POLICE RETIREMENT SYSTEM

ACTUARIAL ASSUMPTIONS

A. STATEMENT OF ACTUARIAL ASSUMPTIONS

(1) Mortality:

- (a) Active & retired lives - 1971 Group Annuity Mortality Table, plus a pre-retirement duty death rate of .0005 per year.
- (b) Disabled lives - Social Security Administration Disability Mortality Rates - Actuarial Study No. 75 (current rates used by PBGC for disabled lives receiving Social Security).

- (2) Disablement - Graduated rates based on 1985 experience study.

- (3) Termination of employment - Graduated rates based on 1985 experience study.

- (4) Retirement - 40% will retire as soon as eligible for unreduced benefits and balance will continue to age 55.

(5) Marital status

- (a) Percentage married - 100%.
- (b) Age difference - Males are assumed to be 3 years older than their spouses.

- (6) Dependent children - For duty related death benefits, it is assumed that the employee is survived by 2 dependent children, each age 6.

- (7) Investment return - 8.00% per year, net of investment related expenses, compounded annually.

- (8) Compensation progression - 7.50% per year, compounded annually.

(9) Retiree Medical Insurance

- It was assumed that future retirees would select medical coverage in the same proportion that current retirees have selected coverage. Monthly premium rates were assumed to be as follows:

Plan Type	7/1/86 Rate	Rate Increase	
		Date	Rate
Single	\$ 60.22*	11/1/86	\$ 69.79*
Family	144.16*	11/1/86	166.79*
Medicare	29.55*	1/1/87	33.10**
High Option	48.75*	1/1/87	57.96**

*Actual rates

**Assumed rates

It was assumed that over the next year there would be a 13% growth in number of retirees receiving medical insurance and that premiums would grow at a rate of 12%. Future growth rates beyond the next year were assumed to be at the same combined rate.

Reserves in the Insurance Fund were used to offset the liability for premiums over the four year projection period.

B. SAMPLE RATES

(1) Annual Rates of Mortality:

Age	Active Mortality*		Disabled Mortality	
	Males	Females	Males	Females
25	0.06%	0.03%	4.83%	2.63%
30	0.08	0.05	3.62	2.37
40	0.16	0.09	2.82	2.09
50	0.53	0.22	3.83	2.57
55	0.85	0.33	4.82	2.95
60	1.31	0.55	6.03	3.31

*Plus 0.05% duty death rate prior to retirement.

INVESTMENT SECTION INTRODUCTION

The Kentucky Revised Statutes provide that the Board of Trustees shall be the trustee and shall have the fiduciary responsibility for the several funds administered by the Kentucky Retirement Systems. Consistent with this provision and because the management of the several funds demands current attention, the Board annually adopts a resolution directing its Chairperson to appoint an Investment Committee with full power to act for the Board in management of investment activities. The Investment Committee consists of three members of the Board of Trustees and regularly reports its activities to the full Board for review and approval.

In conjunction with the Investment Committee concept, the Board also adopts an "Investment Policy" which defines objectives and guidelines for the operation of the Investment Committee. This policy is reviewed and updated on a periodic basis. At June 30, 1986, the investment philosophy as stated in the "Investment Policy" read as follows:

"The Board of Trustees of the Kentucky Retirement Systems recognizes its fiduciary duty not only to invest the systems' funds in formal compliance with the Prudent Man Rule but also to manage those funds in continued recognition of the basic long-term nature of those systems. The Board of Trustees interprets this to mean, in addition to the specific guidelines and restrictions set forth in this document, that the assets of the three Systems shall be actively managed -- that is, investment decisions regarding the particular securities to be purchased or sold shall be the result of the conscious exercise of discretion. Further, the Board of Trustees recognizes that, commensurate with its overall objective of maximizing long-range return while maintaining a high standard of portfolio quality and consistency of return, it is necessary that proper diversification of assets be maintained both among and within the classes of securities held. Within this context of active management and the necessity for adherence to proper diversification, the Board of Trustees relies upon appropriate professional advice."

Following are letters from Capital Supervisors, Inc.; Loomis, Sayles & Co.; and Heitman Advisory Corp. relating to their performance in managing the Retirement Systems' assets.

In addition, the Retirement Systems has an in-house, passively managed Index Equity Fund. The purpose of this fund is to provide a core investment in selected common stocks and to perform as well as or better than the S & P 500 common stock index. As of June 30, 1986, this fund had a book value of \$157,725,515 and a market value of \$238,267,209. The fund showed a gain of \$80,539,694 with a total rate of return of 34.9%, as compared to the S & P 500 index, which had a rate of return of 35.9%.

The total rate of return (income plus realized and unrealized capital appreciation or depreciation) for the Systems' entire portfolio for the year was a positive 23.3%. This compares with the Dow Jones Industrial Average of 47.6% for the year; the S & P 500 Stock Index, which had a rate of return of 35.9% for the year; and the Shearson-Lehman index, which had a rate of return of 20.6% for the year.



Capital Supervisors, Inc. / 20 North Clark Street, Suite 700, Chicago, Illinois 60602 / Phone (312) 236-8271

July 24, 1986

Board of Trustees
Kentucky Employees Retirement
Systems
1260 Louisville Road
Perimeter Park West
Frankfort, Kentucky 40601

The year just ended, 6/30/86, was another good year for the Kentucky Retirement Systems' Pension Plan. Our segment of your portfolio increased 23.3%. Possibly more important those assets have had average annual increases of over 19% for the last five years. The stocks increased 38.2% compared to 35.9% for the S & P 500 while bonds advanced 18.5% compared to 20.6% for the Shearson Lehman Bond Index.

The fixed income side of the portfolio remained very active with \$134 million in new issues being purchased during the fiscal year with an average yield of 9.5%. These issues will produce good income for many years to come. In addition, \$80 million face value of issues were involved in bond swaps.

Activity in common stocks must be looked at in two time frames. From July until March we purchased \$76,644,000 in common stocks while selling \$51,700,000. In April, we turned cautious on the stock market, stepping up our selling. In the last quarter we sold \$81,430,000 while purchasing \$47,898,000. Net for the fiscal year, we purchased \$124,542,000 and sold \$133,130,000. Capital gains for the year were \$24,191,000.

It will be difficult to improve on recent annual returns that have been at least double the historical averages. However, we expect to continue the policies that preserve principal as well as participate in strong markets.

Respectfully submitted,

Lee Thurow

Theodore R. Tonneman

LT:bj

LOOMIS - SAYLES - & COMPANY

INCORPORATED
INVESTMENT COUNSEL

BOSTON
CHICAGO
DETROIT
LOS ANGELES
MEMPHIS
MILWAUKEE
NEW YORK
PHILADELPHIA
SAN FRANCISCO
WASHINGTON

400 RENAISSANCE CENTER
SUITE 2770
DETROIT, MICHIGAN 48243
AREA CODE 313 567-3700

July 21, 1986

Board of Trustees
Kentucky Retirement System
Perimeter Park West
1260 Louisville Road
Frankfort, Kentucky 40601

Dear Trustees:

During fiscal 1986, the bond market provided an excellent total return. The Kentucky Retirement System portfolio appreciated by 18.67% for the year. The market value of the portfolio increased by \$52,881,284 from \$268,308,107 to \$321,189,391 as of June 30, 1986. This return compares to a 20.6% return for the Shearson/Lehman Bond Index. Corporate and mortgage spreads widened during the year causing the portfolio return to lag the index return. As volatility subsides and yield spreads narrow, corporate and mortgage sector returns should improve substantially.

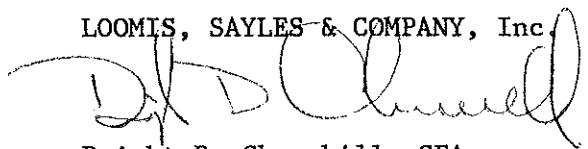
The decline in interest rates can be attributed to a number of very positive developments. Most importantly, plummeting oil prices and action by Congress to reduce future deficits acted to reduce inflation expectations. Further, the Federal Reserve maintained an accommodative stance in response to the sluggish economy. As a result of these events, interest rates were able to fall to the lowest levels in years.

During the year, we adjusted portfolio characteristics to take advantage of market opportunities. The portfolio changes included increasing the duration (average maturity), increasing the exposure to the telephone and financial sectors, and reducing the exposure to the government/agency sector.

As fiscal 1986 unfolds, the positive forces that brought interest rates down remain in effect. Our outlook is that interest rates should remain low until the economy shows substantially more strength than presently exhibited.

Sincerely,

LOOMIS, SAYLES & COMPANY, Inc.



Dwight D. Churchill, CFA
Vice President

DDC/dsf

Heitman Financial

Norman Perlmutter
Chairman of the Board

August 19, 1986

Mr. Robert McKee
Kentucky Retirement Systems
226 West Second Street
Frankfort, Kentucky 40601

Dear Mr. McKee:

We are pleased to summarize the Kentucky Retirement Systems' investment in real estate through Heitman Advisory Corporation.

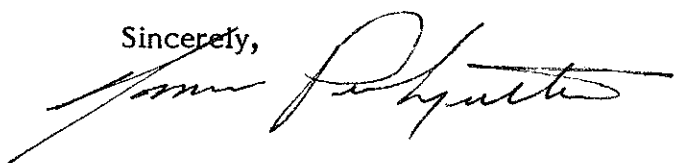
On September 11, 1985, the Kentucky Retirement Systems completed the funding of its \$45,000,000 commitment to the Heitman Real Estate Fund I. In 1985, the overall yield of the Fund, net of fees, was 16.23% as compared to 13.4% for 1984. By year end 1986, the Fund will have investments in three shopping centers, three industrial parks, two office buildings and one mixed-use facility. One of the investments is the 241,000 square foot Towne Mall regional shopping center located in Elizabethtown, Kentucky.

On November 20, 1985 the Kentucky Retirement Systems began funding its \$20,500,000 commitment in the Heitman Real Estate Fund II with an initial disbursement of \$10,250,000. The second and final disbursement of a similar amount was made on June 25, 1986. At August 1, 1985, Fund II had either invested in or committed to acquire two shopping centers, three office buildings and one industrial park.

Two properties were acquired by the Kentucky Retirement Systems for the separate account based upon the recommendations of Heitman Advisory Corporation. On December 20, 1985, the \$8,490,000 acquisition of the newly expanded and renovated, 188,000 square foot Danville Manor Shopping Center, Danville, Kentucky, was completed. Subsequently, on July 31, 1986, a first mortgage was placed on the property and \$4,900,000 of financing proceeds were returned to the Kentucky Retirement Systems. Through this use of favorable leverage the original projected internal rate of return of 15.42% increased to 21.32%. On June 26, 1986, the Kentucky Retirement Systems acquired a 47,500 square foot office building in the Perimeter West Office Park for \$3,375,000. Initially, 23,750 square feet, or 50% of the building, has been leased by the Kentucky Retirement Systems as its new headquarters and operations facility. The remainder will be leased to other tenants but will be available for the Kentucky Retirement Systems' future expansion needs.

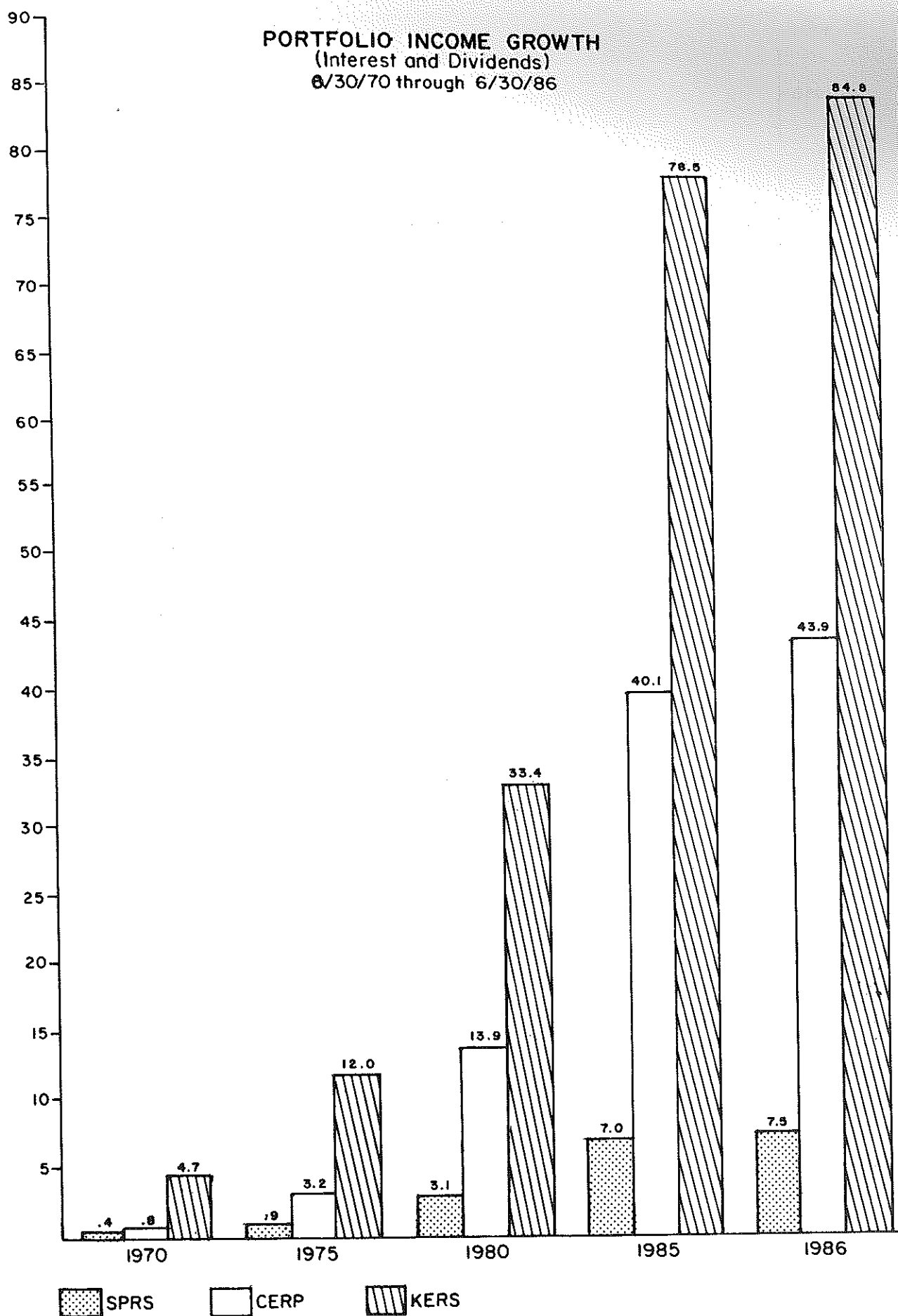
We welcome and appreciate our position as the real estate investment counselor for the Kentucky Retirement Systems and firmly believe the relationship will continue to be mutually beneficial.

Sincerely,



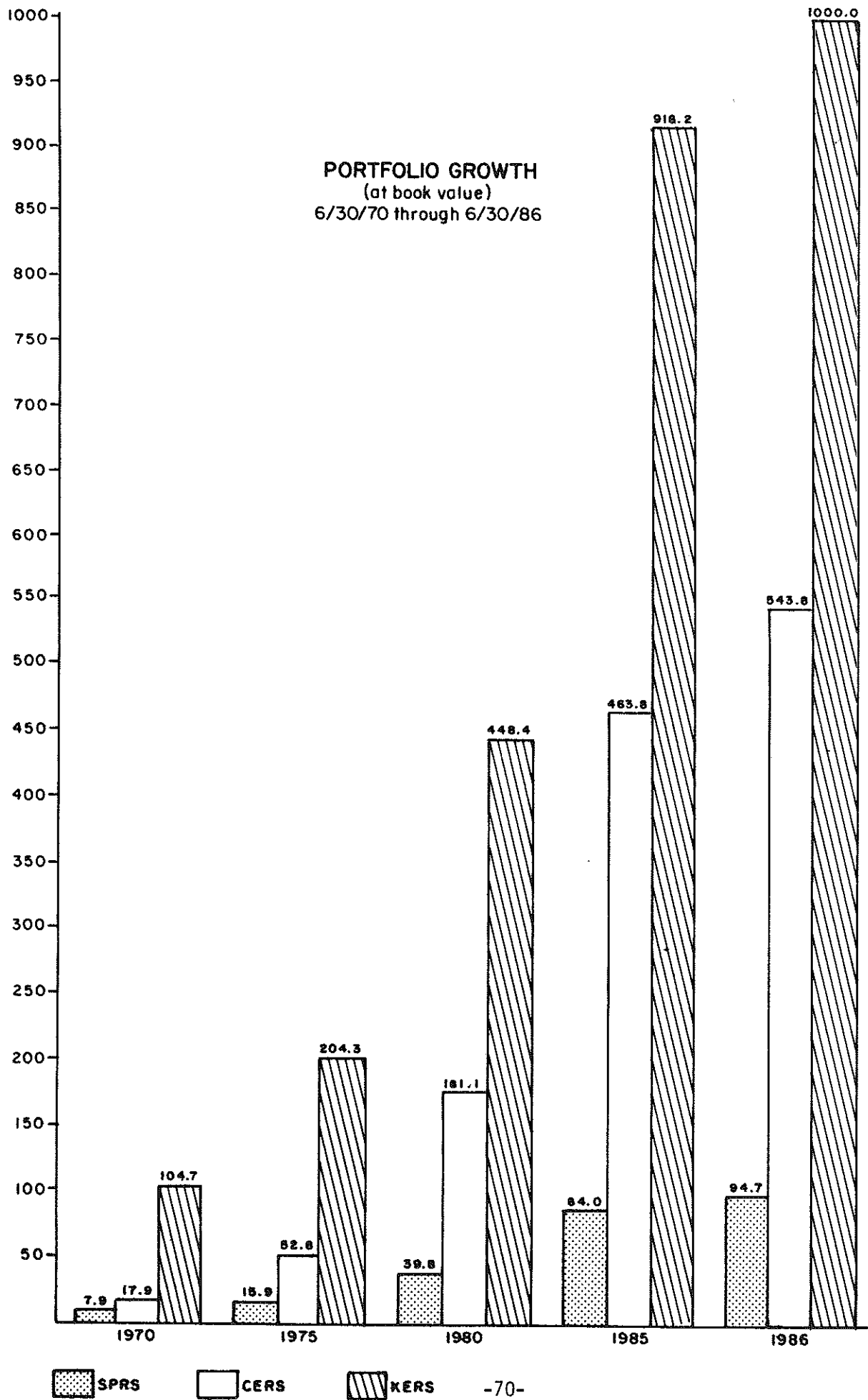
PORTFOLIO INCOME GROWTH
(Interest and Dividends)
6/30/70 through 6/30/86

MILLIONS OF DOLLARS



MILLIONS OF DOLLARS

PORTFOLIO GROWTH
(at book value)
6/30/70 through 6/30/86



KENTUCKY RETIREMENT SYSTEMS
PORTFOLIO SUMMARY: 6/30/86

STATE EMPLOYEES (KERS)

***** FIXED INCOME *****

DESCRIPTION	CORPORATES	GOVERNMENTS	MORTGAGES	SHORT TERM	TOTAL
Par Value % of Total Par Value	\$161,876,156.46 23%	\$168,629,660.35 23%	\$193,122,517.16 27%	\$195,813,002.29 27%	\$719,441,336.26 100%
Book Value % of Total Book Value	\$163,217,231.65 24%	\$153,283,906.25 22%	\$183,966,856.27 26%	\$195,813,002.29 28%	\$696,280,996.46 100%
Market Value % of Total Market Value	\$172,379,965.86 23%	\$168,420,933.33 23%	\$197,642,808.15 27%	\$195,813,002.29 27%	\$734,256,709.63 100%
Potential Gain (Or Loss)	\$ 9,162,734.21	\$ 15,137,027.08	\$ 13,675,951.88	\$.00	\$ 37,975,713.17
Indicated Annual Income	\$ 16,408,879.00	\$ 16,631,818.54	\$ 19,706,290.73	\$ 13,600,370.04	\$ 66,347,358.31
Current Yield - Book Value - Market Value	10.05 9.52	10.85 9.88	10.71 9.97	6.95 6.95	9.53 9.04
Yield to Maturity - Market Value	9.02	7.51	9.73	6.95	8.29
Average Coupon	10.14	9.86	10.20	6.95	9.22
Average Maturity (Years)	12.19	5.67	19.26	.08	9.26

***** REAL ESTATE *****

BOOK VALUE/COST	POTENTIAL GAIN (OR LOSS)	INDICATED INCOME	ON COST	CURRENT YIELD ON MARKET
\$46,465,875.00	\$2,517,745.80	\$3,852,356.89	8.29	7.86

***** COMMON STOCK *****

NO. OF SHARES	BOOK VALUE/COST	POTENTIAL GAIN (OR LOSS)	INDICATED DIVIDEND INCOME	ON COST	CURRENT YIELD ON MARKET
10,357,261	\$315,280,589.22	\$518,894,803.66	\$203,614,214.44	4.63	2.81

***** TOTAL PORTFOLIO *****

TYPE	BOOK VALUE	PCTAGE OF PORTFOLIO	MARKET VALUE	PCTAGE OF PORTFOLIO	INDICATED INCOME	ON BOOK	INDICATED YIELD ON MARKET
CORPORATES	\$ 163,217,231.65	15%	\$ 172,379,965.86	13%	\$16,408,879.00	10.05	9.52
GOVERNMENTS	\$ 153,283,906.25	14%	\$ 168,420,933.33	13%	\$16,631,818.54	10.85	9.88
MORTGAGES	\$ 183,966,856.27	17%	\$ 197,642,808.15	15%	\$19,706,290.73	10.71	9.97
SHORT TERM	\$ 195,813,002.29	19%	\$ 195,813,002.29	15%	\$13,600,370.04	6.95	6.95
REAL ESTATE	\$ 46,465,875.00	4%	\$ 48,983,620.80	4%	\$ 3,852,356.89	8.29	7.86
COMMON STOCK	\$ 315,280,589.22	31%	\$ 518,894,803.66	40%	\$14,587,669.18	4.63	2.81
TOTAL PORTFOLIO	\$1,058,027,460.68	100%	\$1,302,135,134.09	100%	\$84,787,384.38	8.01	6.51

KENTUCKY RETIREMENT SYSTEMS
PORTFOLIO SUMMARY: 6/30/86

COUNTY EMPLOYEES (CERS)

***** FIXED INCOME *****

DESCRIPTION	CORPORATES	GOVERNMENTS	MORTGAGES	SHORT TERM	TOTAL
Par Value % of Total Par Value	\$81,211,842.49 22%	\$87,398,773.55 23%	\$105,326,827.41 28%	\$99,157,098.09 27%	\$373,094,541.54 100%
Book Value % of Total Book Value	\$81,913,801.97 23%	\$80,652,211.50 22%	\$ 98,418,669.78 27%	\$99,157,098.09 28%	\$360,141,781.34 100%
Market Value % of Total Market Value	\$86,701,193.24 23%	\$89,585,132.22 23%	\$107,367,541.01 28%	\$99,157,098.09 26%	\$382,810,964.56 100%
Potential Gain (Or Loss)	\$ 4,787,391.27	\$ 8,932,920.72	\$ 8,948,871.23	\$.00	\$ 22,669,183.22
Indicated Annual Income	\$ 8,225,973.83	\$ 8,889,611.81	\$ 10,750,033.03	\$ 6,889,469.47	\$ 34,755,088.14
Current Yield - Book Value - Market Value	10.04 9.49	11.02 9.92	10.92 10.01	6.95 6.95	9.65 9.08
Yield to Maturity - Market Value	8.96	7.50	9.76	6.95	8.31
Average Coupon	10.13	10.17	10.21	6.95	9.32
Average Maturity (Years)	11.98	5.55	20.09	.08	9.60

***** REAL ESTATE *****

BOOK VALUE/COST	POTENTIAL GAIN (OR LOSS)	INDICATED INCOME	-----CURRENT YIELD----- ON COST ON MARKET
\$27,201,668.75	\$1,490,332.20	\$2,252,989.44	8.28 7.85

***** COMMON STOCK *****

NO. OF SHARES	BOOK VALUE/COST	POTENTIAL GAIN (OR LOSS)	INDICATED DIVIDEND INCOME	-----CURRENT YIELD----- ON COST ON MARKET
5,075,961	\$156,463,073.45	\$93,829,163.48	\$6,937,236.02	4.43 2.77

***** TOTAL PORTFOLIO *****

TYPE	BOOK VALUE	PCTAGE OF PORTFOLIO	MARKET VALUE	PCTAGE OF PORTFOLIO	INDICATED INCOME	-----INDICATED YIELD----- ON BOOK ON MARKET
CORPORATES	\$ 81,913,801.97	15%	\$ 86,701,193.24	13%	\$ 8,225,973.83	10.04 9.49
GOVERNMENTS	\$ 80,652,211.50	15%	\$ 89,585,132.22	14%	\$ 8,889,611.81	11.02 9.92
MORTGAGES	\$ 98,418,669.78	18%	\$107,367,541.01	16%	\$10,750,033.03	10.92 10.01
SHORT TERM	\$ 99,157,098.09	18%	\$ 99,157,098.09	15%	\$ 6,889,469.47	6.95 6.95
REAL ESTATE	\$ 27,201,668.75	5%	\$ 28,692,000.95	4%	\$ 2,252,989.44	8.28 7.85
COMMON STOCK	\$156,463,073.45	29%	\$250,292,236.93	38%	\$ 6,937,236.02	4.43 2.77
TOTAL PORTFOLIO	\$543,806,523.54	100%	\$661,795,202.44	100%	\$43,945,313.60	8.08 6.64

KENTUCKY RETIREMENT SYSTEMS
PORTFOLIO SUMMARY: 6/30/86

STATE POLICE (SPRS)

***** FIXED INCOME *****

DESCRIPTION	CORPORATES	GOVERNMENTS	MORTGAGES	SHORT TERM	TOTAL
Par Value					
% of Total Par Value	\$15,293,966.06 23%	\$16,007,828.60 25%	\$16,242,123.15 25%	\$17,344,787.60 27%	\$64,888,705.41 100%
Book Value					
% of Total Book Value	\$15,337,965.64 25%	\$13,564,225.92 22%	\$15,596,955.41 25%	\$17,344,787.60 28%	\$61,843,934.57 100%
Market Value					
% of Total Market Value	\$16,191,764.08 25%	\$14,819,699.94 23%	\$16,593,733.16 25%	\$17,344,787.60 27%	\$64,949,984.78 100%
Potential Gain (Or Loss)	\$ 853,798.44	\$ 1,255,474.02	\$ 996,777.75	\$.00	\$ 3,106,050.21
Indicated Annual Income	\$ 1,554,831.45	\$ 1,439,640.33	\$ 1,644,958.05	\$ 1,204,512.28	\$ 5,843,942.11
Current Yield - Book Value	10.14	10.61	10.55	6.94	9.45
- Market Value	9.60	9.71	9.91	6.94	9.00
Yield to Maturity - Market Value	9.15	7.48	9.68	6.94	8.28
Average Coupon	10.17	8.99	10.13	6.94	9.01
Average Maturity (Years)	13.04	5.57	18.45	.08	9.09

***** REAL ESTATE *****

BOOK VALUE/COST	POTENTIAL GAIN (OR LOSS)	INDICATED INCOME	ON COST	CURRENT YIELD ON MARKET
\$3,879,081.25	\$218,815.62	\$322,158.33	8.31	7.86

***** COMMON STOCK *****

BOOK VALUE/COST	POTENTIAL GAIN (OR LOSS)	INDICATED DIVIDEND INCOME	ON COST	CURRENT YIELD ON MARKET
\$29,010,097.92	\$17,999,857.10	\$1,309,110.17	4.51	2.78

***** TOTAL PORTFOLIO *****

TYPE	BOOK VALUE	PCTAGE OF PORTFOLIO	MARKET VALUE	PCTAGE OF PORTFOLIO	INDICATED INCOME	ON BOOK	INDICATED YIELD ON MARKET
CORPORATES	\$15,337,965.64	16%	\$16,191,764.08	14%	\$1,554,831.45	10.14	9.60
GOVERNMENTS	\$13,564,225.92	14%	\$14,819,699.94	13%	\$1,439,640.33	10.61	9.71
MORTGAGES	\$15,596,955.41	16%	\$16,593,733.16	14%	\$1,644,958.05	10.55	9.91
SHORT TERM	\$17,344,787.60	18%	\$17,344,787.60	15%	\$1,204,512.28	6.94	6.94
REAL ESTATE	\$3,879,081.25	4%	\$4,097,896.87	4%	\$322,158.33	8.31	7.86
COMMON STOCK	\$29,010,097.92	32%	\$47,009,955.02	40%	\$1,309,110.17	4.51	2.78
TOTAL PORTFOLIO	\$94,733,113.74	100%	\$116,057,836.67	100%	\$7,475,210.61	7.89	6.44

KENTUCKY RETIREMENT SYSTEMS
PORTFOLIO SUMMARY: 6/30/86

ALL SYSTEMS COMBINED

***** FIXED INCOME *****

DESCRIPTION	CORPORATES	GOVERNMENTS	MORTGAGES	SHORT TERM	TOTAL
Par Value % of Total Par Value	\$258,381,965.01 22%	\$272,036,262.50 24%	\$314,691,467.72 27%	\$312,314,887.98 27%	\$1,157,424,583.21 100%
Book Value % of Total Book Value	\$260,468,999.26 23%	\$247,500,343.67 22%	\$297,982,481.46 27%	\$312,314,887.98 28%	\$1,118,266,712.37 100%
Market Value % of Total Market Value	\$275,272,923.18 23%	\$272,825,765.49 23%	\$321,604,082.32 27%	\$312,314,887.98 27%	\$1,182,017,658.97 100%
Potential Gain (Or Loss)	\$ 14,803,923.92	\$ 25,325,421.82	\$ 23,621,600.86	\$.00	\$ 63,750,946.60
Indicated Annual Income	\$ 26,189,684.28	\$ 26,961,070.68	\$ 32,101,281.81	\$ 21,694,351.79	\$ 106,946,388.56
Current Yield - Book Value - Market Value	10.05 9.51	10.89 9.88	10.77 9.98	6.95 6.95	9.56 9.05
Yield to Maturity - Market Value	9.01	7.50	9.74	6.95	8.30
Average Coupon	10.14	9.91	10.20	6.95	9.24
Average Maturity (Years)	12.17	5.63	19.50	.08	9.36

***** REAL ESTATE *****

BOOK VALUE/COST	MARKET VALUE	POTENTIAL GAIN (OR LOSS)	INDICATED INCOME	-----CURRENT YIELD----- ON COST	ON MARKET
\$77,546,625.00	\$81,773,518.62	\$4,226,893.62	\$6,427,504.66	8.29	7.86

***** COMMON STOCK *****

BOOK VALUE/COST	MARKET VALUE	POTENTIAL GAIN (OR LOSS)	INDICATED DIVIDEND INCOME	-----CURRENT YIELD----- ON COST	ON MARKET
\$500,753,760.59	\$816,196,995.61	\$315,443,235.02	\$22,834,015.37	4.56	2.80

***** TOTAL PORTFOLIO *****

TYPE	BOOK VALUE	PCTAGE OF PORTFOLIO	MARKET VALUE	PCTAGE OF PORTFOLIO	INDICATED INCOME	-----INDICATED YIELD----- ON BOOK	ON MARKET
CORPORATES	\$ 260,468,999.26	15%	\$ 275,272,923.18	13%	\$ 26,189,684.28	10.05	9.51
GOVERNMENTS	\$ 247,500,343.67	15%	\$ 272,825,765.49	13%	\$ 26,961,070.68	10.89	9.88
MORTGAGES	\$ 297,982,481.46	18%	\$ 321,604,082.32	15%	\$ 32,101,281.81	10.77	9.98
SHORT TERM	\$ 312,314,887.98	18%	\$ 312,314,887.98	15%	\$ 21,694,351.79	6.95	6.95
REAL ESTATE	\$ 77,546,625.00	5%	\$ 81,773,518.62	4%	\$ 6,427,504.66	8.29	7.86
COMMON STOCK	\$ 500,753,760.59	29%	\$ 816,196,995.61	40%	\$ 22,834,015.37	4.56	2.80
TOTAL PORTFOLIO	\$1,696,567,097.96	100%	\$2,079,988,173.20	100%	\$136,207,908.59	8.03	6.55

KENTUCKY RETIREMENT SYSTEMS
COMMON STOCK PORTFOLIO FOR THE PERIOD ENDED 6/30/86

NAME OF SECURITY	SHARES	COST	6/30/86 MARKET	TOTAL MARKET VALUE	POTENTIAL GAIN OR LOSS	EARNINGS PER SHARE			P/E RATIO	YIELD
						1984	1985	1986	85	86
Index Fund (Summary*)	4,919,900	32	48	\$236,155,200	\$78,427,685	\$3.08	\$3.32	\$3.00E	14	16
Acorn Fund	609,027	30	43	\$26,035,903	\$7,841,364	\$.00	\$.00	\$.00E	14	16
Alexander & Baldwin	137,500	35	38	\$5,156,250	\$293,125	\$2.38	\$2.99	\$3.30E	12	11
American Express	100,000	26	63	\$6,250,000	\$3,607,531	\$2.27	\$2.92	\$4.28E	21	14
American Intl Group	67,300	67	129	\$8,673,287	\$4,137,267	\$5.67	\$3.88	\$5.37E	33	24
Ameritech Corp	19,542	59	137	\$2,669,924	\$1,508,703	\$9.47	\$10.31	\$11.15E	13	12
Amoco Corp	61,200	25	60	\$3,687,299	\$2,131,467	\$7.06	\$7.43	\$6.94E	8	8
AMR Corp	100,000	55	55	\$5,512,499	\$57,262	\$6.80	\$4.36	\$4.86E	12	11
Automatic Data Proc	200,000	30	35	\$7,074,999	\$975,125	\$1.03	\$1.18	\$1.40E	30	25
Baxter Travenol Lab	280,100	10	19	\$5,286,886	\$2,430,400	\$1.45	\$.24	\$.74E	78	25
Becton Dickinson	100,000	34	55	\$5,512,499	\$2,068,525	\$1.51	\$2.10	\$2.85E	26	19
Bergen Brunswig Cor	207,500	30	24	\$5,031,873	\$1,111,315-	\$1.45	\$1.91	\$1.40E	12	17
Block (H&R) Inc.	100,000	36	40	\$3,987,500	\$432,500	\$1.94	\$2.26	\$2.55E	17	15
Boeing Company	100,000	26	63	\$6,300,000	\$3,733,607	\$2.36	\$2.89	\$3.95E	21	15
Borg-Warner	400,000	17	35	\$14,049,998	\$7,146,582	\$2.18	\$2.23	\$2.07E	15	17
Bristol-Myers	100,000	26	86	\$8,600,000	\$6,036,896	\$3.13	\$3.55	\$4.01E	24	21
Capital Holding	200,000	9	38	\$7,549,999	\$5,831,250	\$2.30	\$2.55	\$2.80E	14	13
Coca-Cola Co	100,000	51	126	\$12,549,999	\$7,489,354	\$1.41	\$1.61	\$1.89E	78	66
Colt Industries	75,000	59	70	\$5,240,624	\$840,575	\$5.99	\$6.47	\$7.00E	10	10
Combined Intl	75,000	48	61	\$4,537,500	\$915,762	\$4.05	\$4.70	\$5.50E	12	11
Corning Glass Works	100,000	60	73	\$7,287,500	\$1,289,575	\$2.32	\$2.06	\$2.95E	35	24
CSX Corporation	211,523	15	33	\$6,927,377	\$3,832,018	\$2.59	\$2.97	\$.00E	11	24
Dart & Kraft Inc	100,000	60	63	\$6,337,500	\$362,610	\$2.70	\$3.04	\$3.55E	20	17
Deluxe Check Print	75,000	51	73	\$5,437,500	\$1,577,649	\$2.01	\$2.43	\$2.80E	29	25
Donnelley (RR) & So	100,000	58	78	\$7,787,498	\$2,008,030	\$3.08	\$3.57	\$3.91E	21	19
Dow Chemical	100,000	32	57	\$5,737,499	\$2,498,206	\$1.84	\$2.77	\$.65E	20	88
Dreyfus Corp	50,000	104	101	\$5,050,000	\$136,962-	\$3.31	\$4.51	\$6.00E	22	16
Exxon	280,000	24	61	\$17,044,999	\$10,336,745	\$6.31	\$6.73	\$7.10E	9	8
General Electric	151,800	26	81	\$12,295,800	\$8,381,042	\$4.59	\$5.08	\$5.19E	15	15
General Re Corp	100,000	32	63	\$6,250,000	\$3,097,750	\$1.73	\$1.69	\$3.25E	37	19
Genuine Parts	100,000	33	46	\$4,587,499	\$1,269,050	\$2.02	\$2.22	\$2.34E	20	19
Greyhound Corp	150,000	29	35	\$5,287,499	\$881,637	\$2.49	\$2.90	\$3.50E	12	10
Houston Ind	100,000	22	32	\$3,150,000	\$971,000	\$3.85	\$4.22	\$4.40E	7	7
I C Industries	300,000	14	49	\$14,700,000	\$10,624,500	\$1.41	\$1.36	\$1.63E	36	30
IBM	275,000	69	147	\$40,287,499	\$21,250,682	\$9.39	\$10.41	\$10.71E	14	13
Ingersoll Rand	100,000	52	57	\$5,724,999	\$554,462	\$.00	\$3.06	\$3.86E	18	14
J C Penney Co	92,100	54	85	\$7,851,524	\$2,899,998	\$6.39	\$5.56	\$5.80E	15	14
Lou Gas & Elec	50,000	20	39	\$1,937,500	\$914,375	\$3.79	\$3.80	\$3.90E	10	9
Marriott Corp	250,000	21	37	\$9,312,500	\$3,954,350	\$.86	\$1.08	\$1.28E	34	29
McDonalds Corp	245,275	38	73	\$17,935,733	\$8,643,338	\$2.63	\$3.00	\$3.41E	24	21
Melville Corp	126,200	50	71	\$8,960,200	\$2,693,754	\$3.31	\$3.39	\$4.21E	20	16
Merck & Co Inc	100,000	50	105	\$10,450,000	\$5,481,475	\$3.13	\$3.42	\$3.99E	30	26
Millipore Corp	150,000	31	34	\$5,118,749	\$431,250	\$1.10	\$1.15	\$1.40E	29	24
Morrison-Knudsen Co	100,000	38	47	\$4,674,999	\$902,137	\$4.13	\$3.85	\$4.50E	12	10
NCR Corp	150,000	27	51	\$7,706,250	\$3,611,597	\$2.76	\$3.30	\$3.23E	15	15
Nucor Corp	150,000	32	38	\$5,700,000	\$919,862	\$2.10	\$2.73	\$2.95E	13	12
Odgen Corp	150,000	31	40	\$6,018,749	\$1,367,299	\$2.05	\$1.85	\$2.10E	21	19
Pacific Gas & Elec	168,100	14	23	\$3,845,285	\$1,481,381	\$2.31	\$2.59	\$2.69E	8	8
Pfizer Inc	100,000	41	72	\$7,150,000	\$3,086,800	\$2.82	\$3.20	\$3.56E	22	20
Philip Morris	200,000	21	75	\$14,925,000	\$10,818,845	\$3.68	\$3.84	\$5.49E	19	13
PPG Ind	100,000	43	68	\$6,812,500	\$2,481,500	\$3.94	\$4.42	\$4.56E	15	14

* Index Fund (Summary) -- This item is a summary of 341 common stock issues which represent a core investment in stocks. The Index Fund is structured to match or exceed the performance of the S & P 500 Stock Index.

NAME OF SECURITY	SHARES	COST	6/30/86 MARKET	TOTAL MARKET VALUE	POTENTIAL GAIN OR LOSS	EARNINGS PER SHARE		P/E RATIO		YIELD
						1984	1985	1985	1986	
Proctor & Gamble Co	182,300	42	80	\$ 14,606,786	\$ 6,910,982	\$5.34	\$4.21	19	23	3.4%
Rohr Industries	100,000	24	32	\$ 3,200,000	\$ 821,161	\$2.25	\$2.90	11	9	0.0%
Schering-Plough	94,300	37	84	\$ 7,956,561	\$ 4,435,872	\$3.42	\$3.52	24	21	2.1%
Scott Paper	100,000	57	59	\$ 5,900,000	\$ 193,700	\$3.83	\$4.52	13	11	2.1%
Sears Roebuck & Co	200,000	26	49	\$ 9,700,000	\$ 4,461,200	\$3.95	\$4.01	12	14	3.6%
Sherwin Williams	100,000	30	27	\$ 2,662,499	\$ 316,824-	\$1.40	\$1.60	16	14	1.9%
Singer Co	100,000	33	56	\$ 5,587,499	\$ 2,244,712	\$2.57	\$4.00	14	10	0.7%
Solomon Inc	100,000	34	49	\$ 4,862,499	\$ 1,428,591	\$3.35	\$1.60	30	11	1.3%
Southern Co	419,751	19	24	\$ 9,969,085	\$ 1,913,070	\$2.89	\$3.06	7	7	8.6%
Southwestern Bell C	140,716	67	110	\$ 15,408,401	\$ 5,937,346	\$8.93	\$9.58	11	11	5.8%
State St Boston Cor	100,000	19	57	\$ 5,675,000	\$ 3,800,000	\$2.43	\$2.90	19	16	1.1%
Super Valu Stores	150,000	19	27	\$ 4,050,000	\$ 1,251,865	\$1.04	\$1.45	18	22	1.4%
Textron	100,000	49	57	\$ 5,700,000	\$ 751,406	\$2.52	\$3.74	15	9	3.2%
Transamerica Corp	100,000	22	36	\$ 3,550,000	\$ 1,387,150	\$2.75	\$2.04	17	17	4.7%
U S West Inc	66,744	30	55	\$ 3,679,263	\$ 1,682,701	\$4.48	\$4.59	12	11	5.5%
V F Corp	300,000	22	32	\$ 9,562,499	\$ 2,857,687	\$1.88	\$1.92	16	14	2.0%
Warner Lambert	175,000	34	62	\$ 10,828,124	\$ 4,892,241	\$2.61	\$2.89	21	14	2.5%
Wells Fargo	75,000	56	106	\$ 7,968,749	\$ 3,768,200	\$6.85	\$8.30	12	11	2.6%
Woolworth (FW) Co	100,000	33	48	\$ 4,800,000	\$ 1,527,975	\$1.90	\$2.26	21	16	2.3%
20th Century Growth	1,313,179	12	20	\$ 26,263,580	\$10,102,553	\$.00	\$.00	21	16	0.8%
TOTAL COST		TOTAL MARKET VALUE		POTENTIAL G/L	DIVIDEND INCOME	P/E 1985		P/E 1986	YIELD	
16,394,057		\$816,196,995.61		\$315,443,235.02	\$22,834,015.37	17		16	2.7%	

KENTUCKY RETIREMENT SYSTEMS
BOND PORTFOLIO FOR THE PERIOD ENDED 6/30/86

SECURITY NAME	COUPON	MATURITY	PAR VALUE (IN \$000's)			YIELD	PRICE	S&P	MOODY	MARKET	GAIN-LOSS	ANNUAL INC.
			KERS	CERS	SPRS	TOTAL						
Allied Stores Corp	8.750%	07/09	500	499		1000	3.74	\$176.750	A	1,767,500	767,500	87,500
Amer Southwest CMO	12.500%	04/99	2440	1360	200	4000	10.47	\$114.000	AAA	4,560,000	219,484	500,000
Amer Southwest CMO	9.200%	01/04	3100	1650	250	5000	9.43	\$ 99.625	AAA	4,981,250	60,938	460,000
American Express	8.450%	02/96	6200	3300	500	10000	8.16	\$101.875	AA	10,187,500	346,200	845,000
American Hosp Supp	13.125%	09/92	1410	796	68	2275	10.19	\$113.125	AA	2,573,594	194,577	298,593
American Southwest	12.250%	02/02	3250	1600	150	5000	10.65	\$112.000	NR	5,600,000	618,044	612,500
Anadarko Productio	14.750%	12/91	2910	1649	291	4850	11.39	\$113.250	A	5,492,625	301,998	715,375
Associates Corp	11.500%	05/89	4695	2430	375	7500	7.90	\$109.000	A	8,175,000	461,254	862,500
Associates Corp Na	7.625%	04/98	3150	1600	250	5000	7.92	\$ 97.750	A	4,887,500	112,500	381,250
Associates Corp Na	8.375%	03/93	3000	1700	300	5000	9.00	\$ 97.000	AA	4,850,000	212,500	418,750
Atlantic Richfield	8.750%	12/01	3437	1555	378	5371	8.55	\$101.625	AAA	5,459,057	945,906	470,029
Atlantic Richfield	9.700%	10/88	3000	1750	250	5000	7.30	\$105.000	AA	5,250,000	216,427	485,000
Beneficial Corp	12.500%	12/93	3600	1800	600	6000	8.65	\$120.875	A	7,252,500	978,286	750,000
Brooklyn Union Gas	4.375%	05/88	168	28	224	224	8.80	\$ 92.375	A	206,920	17,080	9,800
Burroughs Corp	9.250%	07/95	3100	1650	250	5000	7.18	\$102.000	A	5,100,000	97,031	462,500
Centex CMO E2	11.750%	03/94	1550	800	150	2500	10.76	\$105.000	AAA	2,625,000	137,138	293,750
Centex CMO J3	12.000%	01/01	3100	1550	350	5000	11.02	\$107.000	AAA	5,350,000	359,188	600,000
Closed End Fund	8.200%	12/95	26730	15885	2385	45000	16.23	\$108.125	NR	48,656,250	3,656,250	3,690,000
Closed End Fund II	7.720%	12/95	12423	7185	891	20500	13.38	\$102.625	NR	21,035,125	538,125	1,582,600
Col Mtg Trust One-	9.050%	07/04	3100	1600	300	5000	8.93	\$101.000	AAA	5,050,000	62,500	452,500
Collat Mtg Cert CM	9.000%	08/05	6200	3200	600	10000	9.60	\$ 94.750	AAA	9,475,000	515,625	900,000
Con Rail Corp GE G	11.000%	01/99	5467	2688	806	8962	8.50	\$119.000	AAA	10,665,310	1,702,865	985,868
Continental Oil	8.875%	06/01	715	572	13	1300	9.18	\$ 97.500	AA	1,267,500	305,349	115,375
Danville Property	10.010%	12/95	108	63	9	181	15.42	\$100.375	NR	182,306	681	18,180
Danville Property	10.010%	12/95	5178	2886	424	8490	15.42	\$100.375	NR	8,521,838	31,838	849,849
DCS Capital	12.375%	10/96	6036	3109	655	9800	10.64	\$110.625	AA	10,841,250	977,380	1,212,750
Fed Home Ln	7.875%	02/97	4960	2523	516	8000	8.13	\$ 98.125	AAA	7,850,000	1,013,825	630,000
Fed Home Ln GMC	10.000%	09/09	3983	1960	379	6323	9.83	\$101.500	AAA	6,418,048	269,368	632,320
Fed Home Ln GMC	12.450%	09/09	1493	735	142	2371	11.39	\$108.500	AAA	2,572,752	86,798	295,214
Fed Home Ln 256082	9.000%	04/10	1335	616	102	2054	9.46	\$ 95.625	AAA	1,964,282	66,599	184,873
Fed Home Loan CMO	10.000%	05/94	5342	2676	582	8600	9.42	\$103.125	AAA	8,868,750	288,423	860,000
Fed Home Loan CMO	11.250%	12/95	3693	1816	544	6055	11.11	\$100.750	AAA	6,100,711	75,169	681,220
Fed Home Loan GMC	9.000%	09/08	806	372	62	1241	9.15	\$ 98.500	AAA	1,222,582	143,204	111,708
Fed Home Loan GMC	9.875%	03/09	3432	1943	273	5649	9.60	\$102.500	AAA	5,790,840	853,716	557,898
Fed Home Loan GMC	10.250%	03/09	3773	2948	83	6805	9.96	\$102.500	AAA	6,975,330	1,415,862	697,533
Fed Home Loan GMC	10.000%	09/09	10711	8171	318	19201	9.83	\$101.500	AAA	19,489,421	2,951,162	1,920,140
Fed Home Loan GMC	11.250%	04/11	2807	1404	468	4680	10.90	\$102.875	AAA	4,815,325	607,734	526,584
Fed Home Loan GMC	8.200%	09/07	3592	2183	1267	7043	8.94	\$ 93.000	AAA	6,550,176	509,441	577,542
Fed Home Loan 2538	9.500%	08/10	2240	2331	60	4572	9.74	\$ 97.750	AAA	4,469,396	249,831	434,365
Federal Home Ln GM	8.500%	09/07	1345	631	60	2037	9.22	\$ 93.250	AAA	1,900,354	164,361	173,222
Federal Home Loan	7.650%	05/87	3823	1741	435	6000	6.82	\$100.625	AAA	6,037,500	37,500	459,000
FHA Mortgages	4.869%	07/90		266	183	266	6.71	\$ 93.625	NR	171,367	13,953	8,912
FHA Mortgages	4.984%	07/90		266	266	266	6.71	\$ 93.625	NR	249,195	20,067	13,265
FHA Mortgages	5.016%	07/90	2522	2554	218	2522	6.71	\$ 93.625	NR	2,361,502	210,405	126,518
FHA Northwest/Banco	7.430%	12/20	4524	2082	201	7297	8.50	\$ 90.250	AAA	6,586,187	24,494	542,220
FHL GMC	12.450%	09/09	14	7	22	3359	11.39	\$108.500	AAA	3,644,732	187,178	418,220
FHLMC #1700129	11.500%	06/15		14	22	22	11.14	\$103.000	AAA	22,925	309	2,559
FHLMC #220003	8.750%	02/01	3098	1749	149	4997	9.25	\$ 96.000	AAA	4,797,326	185,993	437,256
FHLMC PC 256081	8.500%	10/08	1102	614	90	1807	9.21	\$ 93.250	AAA	1,685,648	19,233	153,651
FHLMC 170164	9.080%	05/16	6726	3990	684	11401	9.43	\$ 95.625	AAA	10,902,266	313,527	1,026,090
FHLMPC #17-0116	12.000%	03/15	3227	1198	184	4610	11.60	\$103.250	AAA	4,759,843	55,719	553,202
FHLMPC #17-0140	12.000%	08/15	1314	488	75	1877	11.60	\$103.250	AAA	1,938,351	22,612	225,280
FHLMPC #170014	12.000%	02/15	1926	715	110	2752	11.60	\$103.250	AAA	2,841,918	33,253	330,295

SECURITY NAME	COUPON	MATURITY	PAR VALUE (IN \$1000's)		YIELD	PRICE	S&P	MOODY	MARKET	GAIN-LOSS	ANNUAL INC.
			KERS	CERS	SPRS	TOTAL					
FHLMPC #184063	12.000%	0 /13	561	208	32	802	\$103.250	AAA	828,234	9,612-	96,259
FHLMPC #185153	12.000%	08/13	118	44	6	169	\$103.250	AAA	174,904	2,035-	20,327
FHLMPC #187235	12.000%	09/13	578	215	33	827	\$103.250	AAA	853,962	10,060-	99,249
FHLMPC #255678	12.000%	01/06	614	228	35	877	\$103.250	AAA	905,803	10,482-	105,274
FHLMPC #260058A	12.000%	07/15	494	183	28	706	\$103.250	AAA	729,711	8,631-	84,809
FHLMPC #260058B	12.000%	07/15	495	183	28	707	\$103.250	AAA	730,541	8,638-	84,905
FHLMPC #17-000000-	12.000%	01/15	3674	1364	209	5248	\$103.250	AAA	5,419,156	65,607-	629,829
FHLMPC #257295	12.000%	03/15	61	22	3	88	\$103.250	AAA	90,896	1,065-	10,564
FNMA	12.500%	03/91	6400	3100	500	10000	\$116.625	AAA	11,662,500	1,666,964	1,250,000
FNMA	11.500%	02/95	7180	3150	670	11000	\$119.750	AAA	13,172,500	1,755,658	1,265,000
FNMA #22430	8.000%	09/07	863	431	53	1348	\$101.875	AAA	1,374,018	138,477	107,898
FNMA #4370	7.500%	02/99	1443	766	45	2255	\$100.000	AAA	2,255,832	171,703	169,187
Ford Motor Credit	10.375%	04/00	3100	1600	300	5000	\$103.625	A	5,181,250	150,554	518,750
Ford Motor Credit	9.875%	12/95	6200	3100	700	10000	\$106.750	A	10,675,000	732,000	987,500
Ford Motor Credit	9.375%	02/96	620	320	60	1000	\$103.250	A	1,032,500	33,750	93,750
Ford Motor Credit	8.125%	05/93	6500	2900	600	10000	\$99.875	A	9,987,500	12,500-	812,500
Ford Motor Credit	9.875%	12/95	3250	1450	300	5000	\$106.750	A	5,337,500	325,625	493,750
GE Credit Ext	8.000%	03/11	3150	1650	200	5000	\$99.000	AAA	4,950,000	87,500-	400,000
GE Credit Extenda	8.000%	03/11	1475	875	150	2500	\$99.000	AAA	2,475,000	33,275-	200,000
General Electric C	6.875%	04/89	6100	3300	600	10000	\$98.875	AAA	9,887,500	112,500-	687,500
General Home Fin C	11.000%	09/03	4270	2310	420	7000	\$104.125	AAA	7,288,750	301,677	770,000
GMAC	8.375%	06/91	3100	1700	200	5000	\$100.000	AA	5,000,000	418,750	418,750
GMAC	9.250%	02/93	3100	1650	250	5000	\$101.125	AA	5,056,250	186,350-	462,500
GMAC Series 1985A	8.450%	12/90	127	72	12	211	\$97.500	AAA	206,550	4,715-	17,900
GMAC 1986B	7.100%	04/91	4814	2562	388	7765	\$93.000	A	7,221,454	505,396-	551,315
GNMA #148774	9.500%	05/16	639	340	51	1031	\$99.250	AAA	1,023,458	30,229-	97,963
GNMA #149129	9.500%	05/16	620	330	50	1000	\$99.250	AAA	992,500	29,375-	95,000
GNMA #149184	9.500%	04/16	619	329	49	999	\$99.250	AAA	992,055	29,302-	94,957
GNMA #150711	9.500%	05/16	635	338	51	1025	\$99.250	AAA	1,017,822	30,061-	97,423
GNMA #151349	9.500%	03/16	295	166	14	477	\$99.250	AAA	473,556	9,510-	45,327
GNMA #151583	9.500%	05/16	619	329	49	999	\$99.250	AAA	992,004	29,300-	94,952
GNMA #153152	9.500%	04/16	643	342	51	1037	\$99.250	AAA	1,029,978	30,420-	98,587
GNMA #155628	9.500%	03/16	1238	699	59	1998	\$99.250	AAA	1,983,175	39,892-	189,825
GNMA #157834	9.500%	04/16	650	346	52	1048	\$99.250	AAA	1,040,634	30,736-	99,607
GNMA #158373	9.500%	04/16	637	339	51	1028	\$99.250	AAA	1,020,623	30,221-	97,691
GNMA #160462	9.500%	05/16	619	329	49	999	\$99.250	AAA	991,943	29,371-	94,946
GNMA #163512	9.500%	05/16	619	329	49	999	\$99.250	AAA	992,464	29,392-	94,996
GNMA #34648	9.500%	10/09	634	337	51	1023	\$99.250	AAA	1,015,439	29,993-	97,195
GNMA 100103(Mob Hom)	10.750%	08/98	239	140	33	413	\$103.000	AAA	425,666	42,197	44,426
GNMA 100109(Mob Hom)	10.750%	08/98	191	112	26	330	\$103.000	AAA	340,083	33,679	35,494
GNMA 100111(Mob Hom)	10.750%	08/98	199	117	27	344	\$103.000	AAA	354,690	35,112	37,018
GNMA 100127(Mob Hom)	10.750%	08/98	256	150	35	441	\$103.000	AAA	454,955	45,111	47,483
GNMA 14171	7.500%	01/07	348	158	38	545	\$91.500	AAA	498,776	3,569-	40,863
GNMA 15576	7.500%	05/07	324	146	35	506	\$91.500	AAA	453,330	7,169-	37,977
GNMA 15775	7.500%	05/07	337	233	42	614	\$91.500	AAA	562,010	4,368-	46,066
GNMA 15952	7.500%	05/07	571	395	72	1039	\$91.500	AAA	951,418	7,393-	77,985
GNMA 16188	7.500%	04/07	474	174	48	697	\$91.500	AAA	638,409	2,230-	52,328
GNMA 40093	13.500%	05/10	252	178	4	435	\$106.750	AAA	464,382	56,736	58,727
GNMA 44305	13.000%	05/11	286	202	4	494	\$106.375	AAA	526,197	75,752	64,306
GNMA 45636	13.500%	06/11	244	172	4	421	\$106.750	AAA	450,362	55,230	56,954
GNMA 46120	13.500%	05/11	12	8	21	21	\$106.750	AAA	22,533	2,761	2,849
GNMA 46332(Mob Hom)	13.750%	06/96	177	125	3	306	\$106.750	AAA	327,457	35,761	42,178
GNMA 46332(Mob Hom)	13.750%	06/96	103	73	1	178	\$106.750	AAA	190,098	20,744	24,485
GNMA 46332(Mob Hom)	13.750%	06/96	153	108	2	263	\$106.750	AAA	281,613	30,793	36,273
GNMA 46332(Mob Hom)	13.750%	06/96	99	70	1	171	\$106.750	AAA	183,203	19,896	23,597

SECURITY NAME	COUPON	MATURITY	PAR VALUE (IN \$1000's)	YIELD	PRICE	S&P	MOODY	MARKET	GAIN-LOSS	ANNUAL INC.
			KERS	CERS	SPRS	TOTAL				
GNMA 46473(Mob Hom)	13.750%	06/96	344	243	5	594	AAA	634,596	52,226	81,739
GNMA 46517	13.500%	05/11	194	137	3	335	AAA	357,695	43,875	45,235
GNMA 47004	13.500%	05/11	231	163	3	399	AAA	426,618	52,289	53,951
GNMA 47625(Mob Hom)	13.750%	06/96	293	207	5	506	AAA	541,098	44,516	69,696
GNMA 47626(Mob Hom)	13.750%	06/96	303	214	5	523	AAA	558,350	45,946	71,918
GNMA 47775(Mob Hom)	13.750%	06/96	151	106	2	260	AAA	278,266	22,900	35,842
GNMA 47919	13.500%	05/11	339	239	5	584	AAA	624,405	76,579	78,964
GNMA 48144	13.500%	05/11	139	98	2	241	AAA	257,458	31,586	32,559
GNMA 48205(Mob Hom)	13.750%	06/96	295	208	5	509	AAA	543,438	59,278	69,997
GNMA 48409(Mob Hom)	13.750%	06/96	93	65	1	160	AAA	171,198	14,045	22,051
GNMA 49511(Mob Hom)	13.750%	06/96	158	112	2	273	AAA	291,674	31,827	37,569
GNMA 50376(Mob Hom)	13.750%	10/96	1705	1371	29	3106	AAA	3,316,156	288,366	427,139
GNMA 58123(Mob Hom)	10.750%	01/98	171	75	21	268	AAA	276,235	9,107	28,830
GNMA 58562(Mob Hom)	10.750%	01/98	204	89	25	319	AAA	329,373	10,859	34,376
GNMA 63703(Mob Hom)	10.750%	08/98	245	144	33	423	AAA	436,427	43,243	45,549
GNMA 64144(Mob Hom)	10.750%	08/98	712	417	98	1228	AAA	1,264,978	125,365	132,024
GNMA 66691(Mob Hom)	10.750%	08/98	242	142	33	418	AAA	431,234	42,739	45,007
GNMA 66706(Mob Hom)	10.750%	08/98	252	148	34	435	AAA	448,363	44,347	46,795
GNMA 66706(Mob Hom)	10.750%	08/98	169	75	15	261	AAA	269,006	21,662	28,075
GNMA 68076	11.500%	07/13	15	8	1	25	AAA	27,077	1,548	2,951
GNMA 68689(Mob Hom)	10.750%	08/98	225	131	31	388	AAA	399,747	39,608	41,721
GNMA 70018(Mob Hom)	10.750%	08/98	243	142	33	419	AAA	431,590	42,765	45,044
GNMA 70070(Mob Hom)	10.750%	08/98	249	146	34	430	AAA	443,151	43,926	46,251
GNMA 70137(Mob Hom)	10.750%	08/98	230	135	31	397	AAA	409,493	40,590	42,738
GNMA 71480(Mob Hom)	10.750%	08/98	481	282	66	830	AAA	854,960	84,738	89,231
GNMA 7395	7.250%	06/05	719	264	74	1058	AAA	965,507	642-	76,711
Guaranteed Mortgage	12.125%	08/02	6500	2900	600	10000	AAA	11,300,000	1,339,745	1,212,500
Guaranteed Mtg Cor	11.875%	07/96	2790	1395	465	4650	AAA	5,184,750	618,089	552,187
Intl Develop Corp	11.980%	06/10	1498	954	46	2500	AAA	2,556,250	56,250	299,500
K.I.D.F.A. Notes	5.000%	07/87	32	4	2	38	NR	38,300	0	1,915
Kaufman & Broad In	11.875%	09/96	2205	1085	210	3500	AAA	3,920,000	574,082	415,625
Kentucky Utilities	9.625%	08/09	940	320	740	2000	AA	2,040,000	345,979	192,500
Ky Mtg FHA Proj #1	7.500%	11/23	937	468	156	1562	AAA	1,385,189	233,332	117,223
Ky Mtg FHA Proj #1	7.500%	02/23	203	98	26	328	AAA	291,487	69,437	24,667
Ky Mtg FHA Proj #1	7.500%	06/23	221	107	28	358	AAA	317,314	75,112	26,853
Ky Mtg FHA Proj #3	7.500%	04/24	1725	849	164	2739	AAA	2,427,504	792,599	205,430
Ky Mtg FHA Proj #4	7.500%	03/22	244	195	4	443	AAA	393,228	136,439	33,277
Ky Mtg FHA Proj #5	7.500%	02/22	832	666	15	1514	AAA	1,341,785	459,810	113,550
Ky Mtg FHA Proj #6	7.500%	08/21	1094	875	19	1990	AAA	1,764,156	603,279	149,293
Ky Mtg FHA Proj #7	7.500%	07/22	1680	1344	30	3056	AAA	2,708,594	888,272	229,218
Ky Mtg FHA Proj #8	7.500%	03/22	901	721	16	1639	AAA	1,453,279	460,171	122,985
Ky Mtg FHA Proj #8	7.500%	06/22	333	267	6	607	AAA	538,019	175,942	45,530
Ky Mtg FHA Proj #9	7.000%	09/18	1725	1041	488	3255	AAA	2,885,207	683,035	227,886
Ky Mtgs FHA Proj #	7.500%	09/20	3592	2873	65	6531	AAA	5,788,424	2,260,557	489,852
Ky Mtgs FHA Proj #	7.500%	06/22	1027	821	18	1867	AAA	1,654,911	546,212	140,048
Ky Utilities	7.625%	09/01	780	360	60	1200	AA	1,074,000	9,660	91,500
Leader Fed Svgs &	10.875%	01/92	2440	1400	160	4000	AAA	4,345,000	386,486	435,000
Lyons		02/06	3200	1550	250	5000	AAA	931,250	204,495-	89,723
Mellon Bank Mtg No	12.500%	12/08	3748	1301	156	5205	AAA	6,468,138	1,262,393	650,718
Metropolitan Feder	10.375%	06/90	1899	1096	3	3000	AAA	3,236,250	243,450	311,250
Morgan (JP) & Co	7.550%	05/89	4550	2030	420	7000	AAA	6,903,750	96,250-	528,500
Mountain State Tel	9.000%	04/26	2600	1240	160	4000	AA	3,960,000	88,000-	360,000
National Fuel Gas	9.875%	08/99	4139	2111	399	6650	A	6,733,125	58,625	656,687
Natural Gas Pipeli	15.375%	06/92	2600	1200	200	4000	A	4,505,000	172,792	615,000
New England Teleph	9.000%	03/26	3600	2040	360	6000	AA	5,940,000	150,000-	540,000

SECURITY NAME	COUPON	MATURITY	PAR VALUE (IN \$1000's)			YIELD	PRICE	S&P	MOODY	MARKET	GAIN-LOSS	ANNUAL INC.
			KERS	CERS	SPRS	TOTAL						
New York Telephone	8.750%	04/23	620	320	60	1000	9.09	\$ 96.375	AA	963,750	15,000-	87,500
Norwest Mtg CMO	12.125%	01/96	4340	2240	420	7000	10.12	\$112.000	AAA	7,840,000	813,750	848,750
Norwest Mtg Ins	12.250%	10/96	2750	2200	50	5000	10.17	\$113.000	AAA	5,650,000	650,000	612,500
Pacific Bell	9.250%	03/26	1200	680	120	2000	9.30	\$ 99.375	AA	1,987,500	42,500-	185,000
Panhandle Eastern	15.250%	08/97	285	140	27	453	13.25	\$109.375	BAA	495,469	7,928-	69,082
Panhandle Eastern	15.250%	08/97	1950	810	240	3000	13.58	\$109.375	BAA	3,281,250	12,917	457,500
Pembroke Capital C	11.500%	08/05	9220	3110	670	13000	9.75	\$115.000	AAA	14,950,000	2,074,722	1,495,000
Perimeter Park West	8.000%	07/00	2025	1181	168	3375	9.54	\$100.000	NR	3,375,000	00	286,875
PSFS	12.000%	11/94	1525	875	100	2500	8.90	\$118.000	AAA	2,950,000	391,957	300,000
Pulte GMC S-3	11.000%	12/02	3150	1600	250	5000	10.35	\$105.000	AAA	5,250,000	332,993-	550,000
Pulte Guaranteed Mt.	12.500%	11/95	3050	1650	300	5000	10.45	\$112.000	AAA	5,600,000	655,201	625,000
Repurchase Agreement	6.980%	07/86	12522	6824	1598	20945	6.98	\$100.000	AAA	20,945,700	00	1,462,009
Repurchase Agreement	7.020%	07/86	34678	16616	2389	53685	7.02	\$100.000	AAA	53,685,600	00	3,768,729
Repurchase Agreement	6.850%	07/86	5407	2867	349	8625	6.85	\$100.000	AAA	8,625,282	00	590,831
Repurchase Agreement	6.880%	07/86	17614	7795	1378	26789	6.88	\$100.000	AAA	26,789,100	00	1,843,090
Repurchase Agreement	6.890%	07/86	19014	11034	1770	31819	6.89	\$100.000	AAA	31,819,300	00	2,192,349
Repurchase Agreement	6.960%	07/86	47097	23819	4246	75163	6.96	\$100.000	AAA	75,163,200	00	5,231,358
Repurchase Agreement	6.890%	07/86	4090	1122	480	5692	6.89	\$100.000	AAA	5,692,589	00	392,219
Repurchase Agreement	6.920%	07/86	36576	17305	3265	57147	6.92	\$100.000	AAA	57,147,600	00	3,954,613
Repurchase Agreement	6.860%	07/86	5281	2908	353	8543	6.86	\$100.000	AAA	8,543,313	00	586,071
Repurchase Agreement	7.160%	07/86	152	80	11	244	7.16	\$100.000	AAA	244,725	00	17,522
Repurchase Agreement	6.860%	07/86	3241	1811	280	5333	6.86	\$100.000	AAA	5,333,487	00	365,877
Repurchase Agreement	7.160%	07/86	5168	3893	581	9642	7.16	\$100.000	AAA	9,642,612	00	690,411
Repurchase Agreement	6.890%	07/86	644	830	43	1517	6.89	\$100.000	AAA	1,517,911	00	104,584
Repurchase Agreement	6.850%	07/86	79	42	4	127	6.85	\$100.000	AAA	127,859	00	8,758
Repurchase Agreement	6.850%	07/86	79	42	4	127	6.85	\$100.000	AAA	127,859	00	8,758
Repurchase Agreement	7.160%	07/86	1162	660	85	1908	7.16	\$100.000	AAA	1,908,751	00	136,666
Repurchase Agreement	11.200%	08/97	5490	2880	630	9000	10.03	\$107.625	A	9,686,250	22,500-	1,008,000
Ryland Accept 4-6A	9.950%	11/96	6300	3100	600	10000	9.76	\$101.125	AAA	10,112,500	121,565	995,000
Sears Savings Bank	10.800%	05/90	1800	1110	90	3000	8.60	\$107.000	AAA	3,210,000	210,000	324,000
Sohio Pipe Line Co	8.750%	05/01	1320	540	140	2000	9.23	\$ 96.125	A	1,922,500	274,600	175,000
Southern Bell	16.000%	11/21	2145	865	490	3500	13.99	\$114.125	AAA	3,994,375	6,712-	560,000
Southwestern Bell	8.250%	09/05	310	160	30	500	9.10	\$ 92.250	A	461,250	107,262	41,250
Southwestern Bell	8.250%	04/17	510	310	180	1000	9.25	\$ 89.875	A	898,750	181,344	82,500
Trailer Train Co	11.875%	07/96	2879	1069	164	4113	10.90	\$105.875	A	4,354,807	241,648	488,437
Tri-party Overnight	6.810%	00/00	3000	1500	500	5000	6.81	\$100.000	AAA	5,000,000	00	340,500
US Tsy Bond	7.875%	02/93	3050	1650	300	5000	7.46	\$102.125	AAA	5,106,250	103,125-	393,750
US Tsy Bond	10.750%	08/05	4410	2240	350	7000	7.93	\$127.500	AAA	8,925,000	13,125	752,500
US Tsy Bond	10.375%	11/12	1732	880	137	2750	8.08	\$124.750	AAA	3,430,625	255,892	285,312
US Tsy Cats Ser P		11/87	4060	2590	350	7000	7.05	\$ 91.000	AAA	6,370,000	372,496	641,732
US Tsy Coupons		10/88	2041	893	255	3190	7.35	\$ 84.750	AAA	2,703,790	139,621	279,494
US Tsy Coupons		11/91	1438	641	132	2212	7.50	\$ 67.250	AAA	1,487,906	152,401	157,589
US Tsy Coupons		02/91	2299	1079	660	4039	7.45	\$ 71.250	AAA	2,877,854	311,113	274,641
US Tsy Coupons		08/91	2299	1079	660	4039	7.45	\$ 68.750	AAA	2,776,877	340,872	260,652
US Tsy Coupons		02/93	2736	995	411	4146	7.60	\$ 61.000	AAA	2,529,212	379,587	236,458
US Tsy Coupons		02/94	3411	673	403	4488	7.65	\$ 56.375	AAA	2,530,533	387,910	231,403
US Tsy Coupons		08/94	4137	2135	400	6673	8.15	\$ 52.250	AAA	3,487,084	474,700	322,325
US Tsy Note	12.375%	08/86	5985	3040	475	9500	6.20	\$101.000	AAA	9,595,000	38,594-	1,175,625
US Tsy Note	10.000%	12/86	3150	1500	350	5000	6.30	\$101.750	AAA	5,087,500	54,010	500,000
US Tsy Note	9.000%	02/87	1200	700	100	2000	6.59	\$101.375	AAA	2,027,500	37,500	180,000
US Tsy Note	15.375%	10/88	1961	858	245	3065	7.03	\$117.250	AAA	3,593,712	265,582	471,243
US Tsy Note	10.750%	11/89	4880	2640	480	8000	7.41	\$109.750	AAA	8,780,000	494,849	860,000
US Tsy Note	10.500%	01/90	2360	970	169	3500	7.44	\$109.250	AAA	3,823,750	411,872	367,500
US Tsy Note	9.625%	11/90	6200	3300	500	10000	7.50	\$107.750	AAA	10,775,000	278,934	962,500
US Tsy Note	12.375%	04/91	8720	4465	815	14000	7.57	\$119.000	AAA	16,660,000	2,559,102	1,732,500

SECURITY NAME	COUPON	MATURITY	PAR VALUE (IN \$000's)			YIELD	PRICE	S&P	MOODY	MARKET	GAIN-LOSS	ANNUAL INC.
			KERS	CERS	SPRS	TOTAL						
US Tsy Note	14.875%	08/91	5500	4400	100	10000	7.64	\$130.125	AAA	13,012,500	3,035,467	1,487,500
US Tsy Note	12.250%	10/91	3200	1500	300	5000	7.61	\$119.875	AAA	5,993,750	827,650	612,500
US Tsy Note	13.750%	05/92	8250	6600	150	15000	7.66	\$128.375	AAA	19,256,250	4,400,479	2,062,500
US Tsy Note	11.875%	08/93	7974	4286	740	13000	7.64	\$122.875	AAA	15,973,750	2,606,385	1,543,750
US Tsy Note	10.625%	12/88	5530	3020	450	9000	7.17	\$107.750	AAA	9,697,500	788,257	956,250
US Tsy Note	9.625%	06/89	6720	3360	420	10500	7.22	\$106.375	AAA	11,169,375	363,999	1,010,625
US Tsy Note	10.750%	11/89	5250	1950	300	7500	7.41	\$109.750	AAA	8,231,250	789,260	806,250
US Tsy Note	12.250%	10/91	6400	3200	400	10000	7.61	\$119.875	AAA	11,987,500	100,000	1,225,000
US Tsy Note	11.875%	08/93	3300	1500	200	5000	7.64	\$122.875	AAA	6,143,750	1,143,750	593,750
US Tsy Note	11.250%	05/95	5940	3631	367	10000	7.68	\$122.625	AAA	12,262,500	1,286,895	1,125,000
US Tsy Receipt		05/89	2908	1431	277	4616	7.55	\$ 80.750	AAA	3,728,126	405,813	421,933
US Tsy Strip		10/88	4950	3960	90	9000	7.35	\$ 84.250	AAA	7,582,500	483,262	738,320
US Tsy Strip Cats		11/88	12400	6400	1200	20000	7.30	\$ 84.250	AAA	16,850,000	1,252,675	1,778,095
US Tsy Tigr		02/92	5360	2400	240	8000	8.00	\$ 62.250	AAA	4,980,000	459,040	542,515
US Tsy Tigr		05/91	3643	494	2038	6176	7.45	\$ 70.000	AAA	4,323,370	368,811	423,137
Union Pacific Corp	6.000%	03/92	1260	620	120	2000	8.25	\$ 90.000	AA	1,800,000	333,609	120,000
Union Tank Car Cer	15.875%	12/96	2750	2200	50	5000	9.15	\$144.625	A	7,231,250	2,231,250	793,750
US Gtd-American Co	8.000%	08/02	3214	1055	330	4600	9.00	\$ 91.500	AAA	4,209,000	391,000	368,000
USAT CMO	8.950%	12/05	3100	1600	300	5000	8.97	\$ 99.750	AAA	4,987,500	2,752	447,500
V. A. Mortgages	4.869%	07/90		129		129	6.71	\$ 93.625	NR	121,556	11,270	6,321
V. A. Mortgages	4.984%	07/90		303		303	6.71	\$ 93.625	NR	283,984	25,687	15,117
V. A. Mortgages	5.016%	07/90	2657	340		2657	6.71	\$ 93.625	NR	2,488,539	239,466	133,324
Machovia Corp CHV	8.750%	12/09	610	1920	50	1000	5.50	\$142.500	AA	1,425,000	233,103	87,500
Wal-Mart Stores	10.875%	08/00	3780	1920	300	6000	9.26	\$112.500	AA	6,750,000	218,220	652,500
Westinghouse	8.375%	03/96	6500	2900	600	10000	8.13	\$101.625	A	10,162,500	48,000	837,500

WEIGHTED RATING	WEIGHTED COUPON	WEIGHTED MATURITY	WEIGHTED PRICE	WEIGHTED YIELD	PAR VALUE	BOOK VALUE	MARKET VALUE	GAIN OR LOSS	ANNUAL INCOME
2.54	9.180	9.345	102.334	8.723	\$1,234,971,208	\$1,195,813,337	\$1,263,791,178	\$67,977,840	\$113,373,893

KENTUCKY RETIREMENT SYSTEMS
INSURANCE FUND PORTFOLIO FOR THE PERIOD ENDED 6/30/86

<u>Kentucky Employees Retirement System</u>						
<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Rating</u>	<u>Yield</u>
Repurchase Agreement	7.16	07/03/86	\$2,722,801	\$2,722,801	AAA	7.16
<u>County Employees Retirement System</u>						
<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Rating</u>	<u>Yield</u>
Repurchase Agreement	7.16	07/03/86	\$2,207,223	\$2,207,223	AAA	7.16
<u>State Police Retirement System</u>						
<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Rating</u>	<u>Yield</u>
Repurchase Agreement	7.16	07/03/86	\$ 167,488	\$ 167,488	AAA	7.16
<u>TOTAL INSURANCE FUND</u>			<u>\$5,097,512</u>	<u>\$5,097,512</u>		<u>7.16</u>

STATISTICAL SECTION INTRODUCTION

Several statistical tables are presented in this section of the report to accommodate the reader who has more than a cursory interest in the operations of the retirement systems. All tables present data analysis as of June 30, 1986, and in most cases, several years of historical data are available for comparison purposes.

RETIREMENT PAYMENTS

The benefit payments as of July 1, 1986, by the three retirement systems are shown statistically in Tables 1 through 4. Legislation enacted in 1974 combined retirement accounts of the Kentucky Employees Retirement System, County Employees Retirement System, State Police Retirement System and Kentucky Teachers' Retirement System for purposes of determining eligibility and amount of benefits. For example, an employee with an account in the Kentucky Employees Retirement System and the County Employees Retirement System will have these accounts combined to determine the five high years of earnings and the total combined service, yet each system pays a separate benefit amount based on the period of service under each system and the benefit formula under each system.

This consolidation arrangement results in small payments being disbursed from one or more systems in situations where a worker has only a few months' service in a system. These small benefit allowances are important to the total income of a retiree; however, they somewhat distort the statistical data presented in Tables 1 through 4. The payments illustrated by these tables represent the monthly payments from each retirement system, and a recipient receiving a monthly payment from more than one system will be counted in each system from which a payment is disbursed.

Table 1 provides a graphic display of the average monthly retirement benefits received from each system based on the years of service for those receiving benefits as of June 30, 1986.

Tables 2 through 4 reveal the retirement payments by payment option selected. The data is further broken down for period certain and survivorship plans to reveal whether the recipient is the former worker or the beneficiary. If "Member" is shown, the former worker is receiving the monthly payments. If "Beneficiary" is shown, the beneficiary is receiving the monthly payment as a result of the death of the member.

The numerous options available upon retirement enable the retiring public employee to select a plan that best suits his needs and those of his family after his retirement. Tables 2, 3 and 4 reveal that 58% of the recipients selected period certain or survivorship options with the remaining options payable in full during the recipient's lifetime.

The 1986 General Assembly enacted legislation which provided an increase of 4% to retirees whose retirement date was on or before July 1, 1986. An additional 4% will be added for those retired on or before July 1, 1987.

Table 5 provides a geographic distribution by county of the retirement payments that were made during the 1985-86 fiscal year.

MEMBERSHIP STATISTICS

Table 6 provides a graphic presentation of the membership in the three retirement systems. Statistics are presented from 1970 to June 30, 1986, and each membership classification (active, inactive and retired) is separately identified.

FINANCIAL AND ACTUARIAL STATISTICS

Statistical data for the last seven fiscal years is presented in Tables 7 through 9 to indicate the financial and actuarial progress attained by the three retirement systems.

A review of the actuarial data presented in these tables clearly demonstrates that the separate retirement systems remain financially sound. Funding levels are in accordance with the statutory provisions and all three systems have a positive rate margin.

SOURCE AND USE OF FUNDS

This statement (Table 10) indicates the value of a funded retirement system. Observe that since inception, employer contributions account for 36% of revenues, and investment income accounts for 34% of revenues.

Investment income has been sufficient to pay retirement payments in all three funds. These reports indicate that assets are being accumulated on behalf of members now earning service credit in order to finance future benefits without deferring the cost to future generations. This policy of funding benefits provides financial security to members contributing to the system, as well as to retired recipients.

ADMINISTRATIVE EXPENSE

An itemized report on administrative expenses for the past seven fiscal years is shown in Table 11. The lower portion of this table indicates how administrative expenses were allocated to the three separate systems. The administrative expense per account in 1986 was \$11.53. When considering that the administrative cost per account averages only 96¢ per month, it is clear that the programs and services of the retirement systems are being managed in an efficient manner.

STATISTICAL TABLES

TABLE 1
Monthly Benefits

TABLE 2
Benefits by Plan -- KERS

TABLE 3
Benefits by Plan -- CERS

TABLE 4
Benefits by Plan -- SPRS

TABLE 5
Payments by County

TABLE 6
Membership Growth

TABLE 7
Financial and Actuarial Statistics -- KERS

TABLE 8
Financial and Actuarial Statistics -- CERS

TABLE 9
Financial and Actuarial Statistics -- SPRS

TABLE 10
Source and Use of Funds

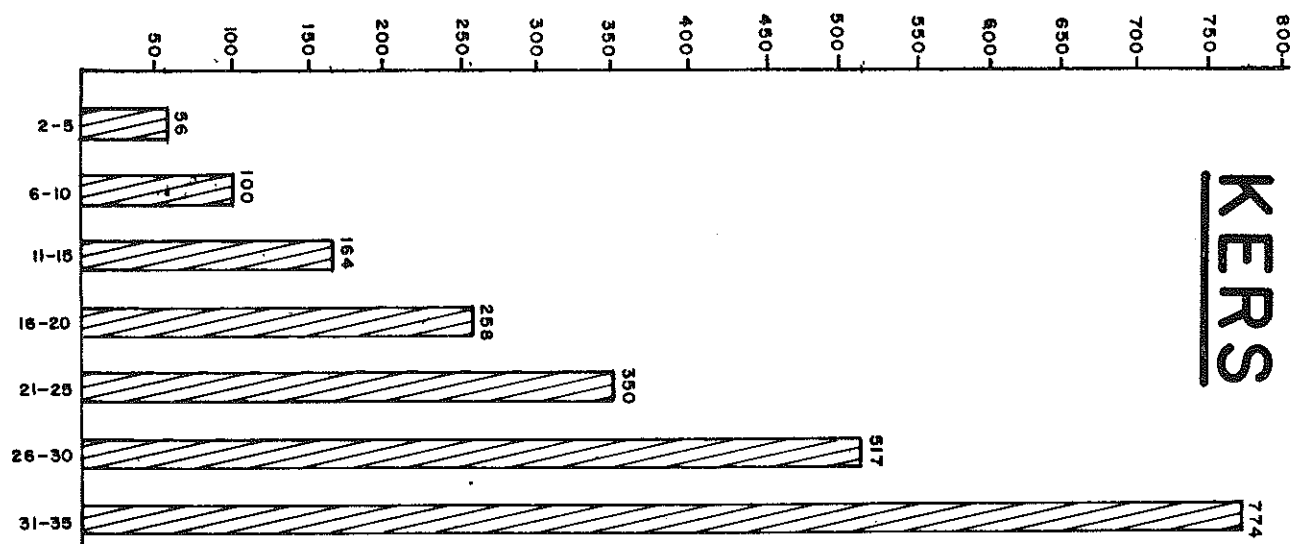
TABLE 11
Administrative Expense

ANALYSIS OF
MONTHLY RETIREMENT BENEFITS
as of June 30, 1986

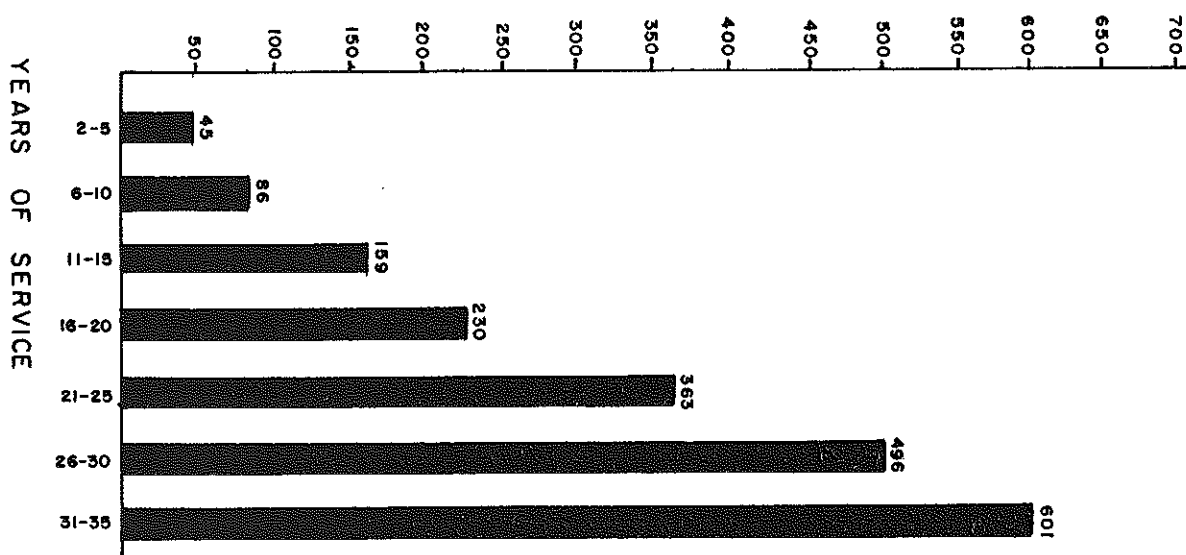
TABLE 1

AVERAGE MONTHLY RETIREMENT CHECK

KERS



CERS



SPRS

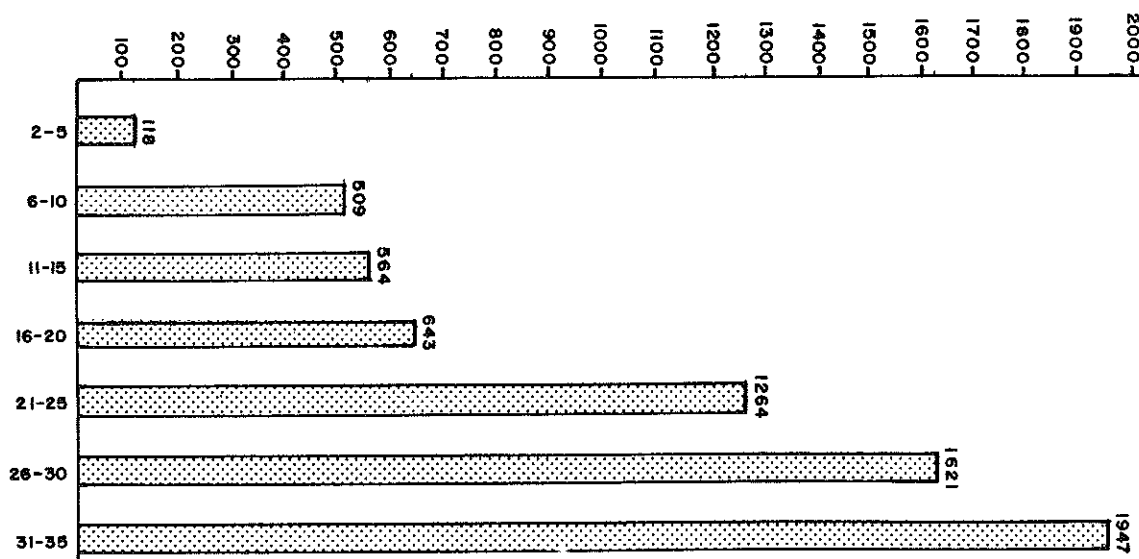


TABLE 2

KENTUCKY EMPLOYES RETIREMENT SYSTEM
RETIREMENT BENEFITS BY PLAN
JUNE 30, 1986

	Number Of Cases	Total	Average	Low	High
NORMAL					
Basic.....	2,345	\$ 568,836.73	\$ 242.57	\$ 1.01	\$1,928.95
Life-10 Years Certain (Member).....	631	157,080.00	248.93	2.97	1,694.98
Life-10 Years Certain (Beneficiary).....	86	17,311.07	201.29	3.29	773.09
10 Years Certain (Member).....	9	10,901.02	1,211.22	578.38	1,733.64
10 Years Certain (Beneficiary).....	4	3,623.68	905.92	77.50	1,538.70
Straight Life Annuity.....	5	1,190.47	238.09	89.60	584.42
Survivorship 100% (Member).....	677	145,272.81	214.58	1.54	1,849.08
Survivorship 100% (Beneficiary).....	324	54,002.87	166.67	14.50	1,093.78
Survivorship 66 2/3% (Member).....	150	51,393.44	342.62	5.25	1,312.55
Survivorship 66 2/3% (Beneficiary).....	21	3,627.21	172.72	37.59	520.00
Survivorship 50% (Member).....	372	149,807.68	402.70	2.52	1,944.83
Survivorship 50% (Beneficiary).....	144	29,037.24	201.64	16.66	702.00
Life-15 Years Certain (Member).....	26	9,638.86	370.72	65.72	1,077.09
Life-15 Years Certain (Beneficiary).....	1	374.17	374.17	374.17	374.17
Social Security-Survivorship (Under 62).....	1	1,265.98	1,265.98	1,265.98	1,265.98
Social Security-Survivorship (Over 62).....	1	867.28	867.28	867.28	867.28
Totals and Averages.....	4,797	\$1,204,230.51	\$ 251.03	\$ 1.01	\$1,944.83
EARLY					
Basic.....	2,769	\$ 712,469.48	\$ 257.30	\$ 1.74	\$2,176.34
Life-10 Years Certain (Member).....	908	228,636.86	251.80	3.97	1,707.49
Life-10 Years Certain (Beneficiary).....	75	16,688.89	222.51	17.73	1,372.33
10 Years Certain (Member).....	2	2,998.02	1,499.01	1,320.74	1,677.28
Survivorship 100% (Member).....	1,039	241,742.28	232.66	2.06	1,738.00
Survivorship 100% (Beneficiary).....	225	44,670.36	198.53	15.64	1,267.73
Survivorship 66 2/3% (Member).....	254	130,419.09	513.46	8.68	1,914.33
Survivorship 66 2/3% (Beneficiary).....	26	4,751.19	182.73	8.41	673.15
Survivorship 50% (Member).....	448	193,489.98	431.89	9.85	2,045.16
Survivorship 50% (Beneficiary).....	100	17,099.76	170.99	17.20	664.93
Life-15 Years Certain (Member).....	42	15,891.89	378.37	28.66	1,875.56
Life-15 Years Certain (Beneficiary).....	1	160.75	160.75	160.75	160.75
Life-20 Years Certain (Member).....	26	6,545.16	251.73	15.24	1,189.94
Social Security-Basic (Under 62).....	90	80,825.07	898.05	8.87	2,187.13
Social Security-Basic (Over 62).....	114	56,120.39	492.28	11.54	1,655.97
Social Security-Survivorship (Under 62).....	132	122,902.63	931.08	23.89	1,959.08
Social Security-Survivorship (Over 62).....	77	27,296.55	354.50	10.91	1,354.45
Social Security-Basic (Over 65).....	1	145.92	145.92	145.92	145.92
Totals and Averages.....	6,329	\$1,902,854.27	\$ 300.65	\$ 1.74	\$2,187.13
DISABILITY					
Basic.....	357	\$ 100,110.50	\$ 280.42	\$ 2.07	\$1,261.55
Life-10 Years Certain (Member).....	173	43,448.80	251.14	9.26	897.76
Life-10 Years Certain (Beneficiary).....	93	27,244.44	292.95	27.24	1,005.54
10 Years Certain (Member).....	2	2,274.81	1,137.40	584.87	1,689.94
10 Years Certain (Beneficiary).....	1	184.57	184.57	184.57	184.57
Survivorship 100% (Member).....	200	48,155.09	240.77	8.01	1,048.71
Survivorship 100% (Beneficiary).....	235	49,972.90	212.65	44.70	884.96
Survivorship 66 2/3% (Member).....	38	12,844.24	338.00	5.63	1,215.91
Survivorship 66 2/3% (Beneficiary).....	23	4,650.39	202.19	39.89	661.71
Survivorship 50% (Member).....	87	24,824.84	285.34	57.45	1,070.45
Survivorship 50% (Beneficiary).....	53	7,796.97	147.11	32.31	536.60
Life-15 Years Certain (Member).....	7	3,546.20	506.60	185.99	941.01
Life-20 Years Certain (Member).....	5	2,289.21	457.84	183.24	707.85
Life-20 Years Certain (Beneficiary).....	2	1,186.03	593.01	521.91	664.12
Social Security-Basic (Under 62).....	3	2,241.38	747.12	557.70	881.33
Social Security-Basic (Over 62).....	5	1,162.98	232.59	67.08	453.22
Social Security-Survivorship (Under 62).....	3	1,589.15	529.71	396.85	631.61
Social Security-Survivorship (Over 62).....	3	1,315.87	438.62	298.41	707.51
Dependent Child.....	1	128.83	128.83	128.83	128.83
Totals and Averages.....	1,291	\$ 334,967.20	\$ 259.46	\$ 2.07	\$1,689.94
DEATH BEFORE RETIREMENT					
Basic.....	2	\$ 281.93	\$ 140.96	\$ 1.76	\$ 280.17
10 Years Certain (Beneficiary).....	294	88,217.34	300.05	3.94	1,914.72
Survivorship 100% (Beneficiary).....	380	103,731.24	272.97	24.72	1,352.29
Survivorship 50% (Beneficiary).....	1	183.29	183.29	183.29	183.29
Social Security-Basic (Under 62).....	1	213.32	213.32	213.32	213.32
Social Security-Basic (Over 62).....	2	1,154.89	577.44	146.96	1,007.93
Dependent Child.....	2	174.40	87.20	85.19	89.21
Social Security-Survivorship (Under 60).....	9	3,964.64	440.51	45.55	918.90
Social Security-Survivorship (Over 60).....	10	2,039.38	203.93	25.66	643.13
5 Years Certain.....	52	26,961.30	518.48	51.06	2,010.21
Totals and Averages.....	753	\$ 226,921.73	\$ 301.35	\$ 1.76	\$2,010.21
GRAND TOTALS AND AVERAGES.....	13,170	\$3,668,973.71	\$ 278.58	\$ 1.01	\$2,187.13

TABLE 3

COUNTY EMPLOYEES RETIREMENT SYSTEM
RETIREMENT BENEFITS BY PLAN
JUNE 30, 1986

	Number Of Cases	Monthly Benefits			
		Total	Average	Low	High
NORMAL					
Basic.....	1,472	\$ 231,890.37	\$ 157.53	\$ 1.87	\$2,277.96
Life-10 Years Certain (Member).....	516	78,256.55	151.65	6.80	1,256.30
Life-10 Years Certain (Beneficiary).....	68	9,714.26	142.85	17.42	943.53
10 Years Certain (Member).....	13	12,846.23	988.17	67.71	2,253.04
10 Years Certain (Beneficiary).....	5	4,978.64	995.72	435.81	1,628.88
Straight Life Annuity.....	1	115.01	115.01	115.01	115.01
Survivorship 100% (Member).....	554	85,240.24	153.86	3.71	1,727.21
Survivorship 100% (Beneficiary).....	170	20,898.46	122.93	12.91	640.59
Survivorship 66 2/3% (Member).....	76	18,265.97	240.34	27.91	1,291.72
Survivorship 66 2/3% (Beneficiary).....	11	1,898.57	172.59	40.68	583.40
Survivorship 50% (Member).....	163	40,292.35	247.19	2.43	1,177.03
Survivorship 50% (Beneficiary).....	61	8,365.61	137.14	1.36	423.64
Life-15 Years Certain (Member).....	18	3,595.16	199.73	22.80	906.49
Life-15 Years Certain (Beneficiary).....	1	623.40	623.40	623.40	623.40
Social Security-Survivorship (Under 62).....	7	8,953.83	1,279.11	1,041.45	1,637.42
Social Security-Survivorship (Over 62).....	9	5,678.24	630.91	429.07	1,264.12
Totals and Averages.....	3,145	\$ 531,612.89	\$ 169.03	\$ 1.36	\$2,277.96
EARLY					
Basic.....	1,486	\$ 253,752.44	\$ 170.76	\$ 1.98	\$2,415.94
Life-10 Years Certain (Member).....	644	100,632.81	156.26	2.96	1,540.27
Life-10 Years Certain (Beneficiary).....	49	8,350.51	170.41	3.85	859.24
10 Years Certain (Member).....	4	8,791.53	2,197.88	888.27	4,450.42
10 Years Certain (Beneficiary).....	1	463.01	463.01	463.01	463.01
Survivorship 100% (Member).....	588	93,128.20	158.38	4.63	1,225.57
Survivorship 100% (Beneficiary).....	100	15,618.32	156.18	5.21	721.96
Survivorship 66 2/3% (Member).....	101	32,346.12	320.25	15.58	1,114.62
Survivorship 66 2/3% (Beneficiary).....	8	819.48	102.43	26.03	272.88
Survivorship 50% (Member).....	175	58,993.04	337.10	6.88	2,045.99
Survivorship 50% (Beneficiary).....	27	3,944.61	146.09	2.85	481.37
Life-15 Years Certain (Member).....	34	6,060.58	178.25	24.88	730.68
Life-15 Years Certain (Beneficiary).....	2	269.08	134.54	110.21	158.87
Life-20 Years Certain (Member).....	19	3,069.80	161.56	21.84	1,121.97
Social Security-Basic (Under 62).....	16	10,643.68	665.23	8.68	1,531.43
Social Security-Basic (Over 62).....	23	7,565.82	328.94	20.71	1,044.18
Social Security-Survivorship (Under 62).....	44	40,243.92	914.63	44.12	1,772.45
Social Security-Survivorship (Over 62).....	24	6,401.79	266.74	14.16	1,278.55
Social Security-Basic (Over 65).....	1	104.91	104.91	104.91	104.91
Totals and Averages.....	3,346	\$ 651,199.65	\$ 194.62	\$ 1.98	\$4,450.42
DISABILITY					
Basic.....	209	\$ 54,696.71	\$ 261.70	\$ 3.92	\$1,644.77
Life-10 Years Certain (Member).....	96	21,876.68	227.88	4.15	745.74
Life-10 Years Certain (Beneficiary).....	52	11,058.87	212.67	4.87	745.93
10 Years Certain (Member).....	2	1,565.45	782.72	390.64	1,174.81
Survivorship 100% (Member).....	102	21,210.77	207.94	19.15	819.52
Survivorship 100% (Beneficiary).....	83	14,173.55	170.76	23.08	584.29
Survivorship 66 2/3% (Member).....	15	3,589.88	239.32	4.09	612.86
Survivorship 66 2/3% (Beneficiary).....	6	649.96	108.32	68.81	162.48
Survivorship 50% (Member).....	40	10,202.34	255.05	60.49	934.73
Survivorship 50% (Beneficiary).....	20	2,638.73	131.93	31.67	301.80
Life-15 Years Certain (Member).....	9	2,525.34	280.59	96.25	614.92
Life-15 Years Certain (Beneficiary).....	2	190.00	95.00	52.61	137.39
Life-20 Years Certain (Member).....	7	966.46	138.06	25.13	188.58
Social Security-Survivorship (Under 62).....	2	970.03	485.01	224.84	745.19
Dependent Child.....	2	1,121.21	560.60	541.65	579.56
Totals and Averages.....	647	\$ 147,435.98	\$ 227.87	\$ 3.92	\$1,644.77
DEATH BEFORE RETIREMENT					
Basic.....	1	\$ 191.81	\$ 191.81	\$ 191.81	\$ 191.81
Life-10 Years Certain (Member).....	1	46.45	46.45	46.45	46.45
10 Years Certain (Member).....	3	229.54	76.51	59.15	85.73
10 Years Certain (Beneficiary).....	206	39,293.69	190.74	2.28	1,441.76
Survivorship 100% (Beneficiary).....	174	27,448.96	157.75	4.66	943.06
Social Security-Basic (Under 62).....	1	867.36	867.36	867.36	867.36
Social Security-Basic (Over 62).....	3	463.86	154.62	10.16	242.12
Dependent Child.....	6	849.12	141.52	139.58	144.41
Social Security-Survivorship (Under 60).....	2	451.75	225.87	69.63	382.12
Social Security-Survivorship (Over 60).....	1	191.55	191.55	191.55	191.55
5 Years Certain.....	49	10,009.88	204.28	23.29	1,019.07
Totals and Averages.....	447	\$ 80,043.97	\$ 179.06	\$ 2.28	\$1,441.76
GRAND TOTALS AND AVERAGES.....	7,585	\$1,410,292.49	\$ 185.93	\$ 1.36	\$4,450.42

TABLE 4

STATE POLICE RETIREMENT SYSTEM
RETIREMENT BENEFITS BY PLAN
JUNE 30, 1986

	Number Of Cases	Monthly Benefits			
		Total	Average	Low	High
NORMAL					
Basic.....	11	\$ 7,595.81	\$ 690.52	\$ 53.07	\$2,089.89
Life-10 Years Certain (Member).....	8	13,152.28	1,644.03	844.69	3,166.63
Life-10 Years Certain (Beneficiary).....	1	478.68	478.68	478.68	478.68
10 Years Certain (Member).....	26	51,430.27	1,978.08	172.03	3,492.30
10 Years Certain (Beneficiary).....	6	11,702.96	1,950.49	1,497.39	2,923.42
Survivorship 100% (Member).....	18	21,211.11	1,178.39	117.95	2,334.20
Survivorship 100% (Beneficiary).....	3	2,883.10	961.03	484.00	1,880.06
Survivorship 66 2/3% (Member).....	7	10,940.14	1,562.87	925.13	1,915.40
Survivorship 50% (Member).....	15	19,828.53	1,321.90	757.23	2,087.05
Survivorship 50% (Beneficiary).....	1	392.48	392.48	392.48	392.48
Life-20 Years Certain (Member).....	1	1,959.81	1,959.81	1,959.81	1,959.81
Social Security-Survivorship (Under 62).....	9	17,322.70	1,924.74	1,435.73	2,537.64
Social Security-Survivorship (Over 62).....	4	4,127.19	1,031.79	795.43	1,168.14
Totals and Averages.....	110	\$ 163,025.06	\$ 1,482.04	\$ 53.07	\$3,492.30
EARLY					
Basic.....	5	\$ 8,063.99	\$ 1,612.79	\$ 1,314.44	\$1,964.26
Life-10 Years Certain (Member).....	8	13,102.47	1,637.80	1,286.45	2,036.82
10 Years Certain (Member).....	19	45,330.00	2,385.78	1,584.01	3,119.52
10 Years Certain (Beneficiary).....	1	1,404.85	1,404.85	1,404.85	1,404.85
Survivorship 100% (Member).....	20	25,983.21	1,299.16	341.46	2,319.85
Survivorship 66 2/3% (Member).....	9	13,039.94	1,448.88	1,135.33	1,805.16
Survivorship 50% (Member).....	12	18,390.64	1,532.55	1,141.88	2,408.42
Life-15 Years Certain (Member).....	2	2,728.45	1,364.22	1,035.06	1,693.39
Life-20 Years Certain (Member).....	3	4,252.80	1,417.60	570.66	2,061.60
Social Security-Basic (Under 62).....	4	7,477.02	1,869.25	1,779.24	1,923.10
Social Security-Survivorship (Under 62).....	28	44,885.80	1,603.06	362.65	2,167.42
Totals and Averages.....	111	\$ 184,659.17	\$ 1,663.59	\$ 341.46	\$3,119.52
DISABILITY					
Basic.....	2	\$ 1,416.91	\$ 708.45	\$ 637.54	\$ 779.37
Life-10 Years Certain (Member).....	1	999.35	999.35	999.35	999.35
10 Years Certain (Member).....	4	5,976.63	1,494.15	955.54	2,409.49
10 Years Certain (Beneficiary).....	2	1,295.03	647.51	220.15	1,074.88
Survivorship 100% (Member).....	4	4,284.53	1,071.13	598.70	1,666.12
Survivorship 100% (Beneficiary).....	1	623.66	623.66	623.66	623.66
Survivorship 50% (Member).....	1	1,254.06	1,254.06	1,254.06	1,254.06
Life-15 Years Certain (Member).....	1	1,056.99	1,056.99	1,056.99	1,056.99
Life-20 Years Certain (Member).....	1	963.48	963.48	963.48	963.48
Social Security-Survivorship (Under 62).....	1	1,593.34	1,593.34	1,593.34	1,593.34
Dependent Child.....	5	871.13	174.22	125.95	227.50
Totals and Averages.....	23	\$ 20,335.11	\$ 884.13	\$ 125.95	\$2,409.49
DEATH BEFORE RETIREMENT					
10 Years Certain (Beneficiary).....	3	\$ 5,123.09	\$ 1,707.69	\$ 943.31	\$3,031.23
Survivorship 100% (Beneficiary).....	15	8,517.46	567.83	175.63	1,460.55
Dependent Child.....	3	1,187.53	395.84	125.50	787.29
Totals and Averages.....	21	\$ 14,828.08	\$ 706.09	\$ 125.50	\$3,031.23
DEFERRED					
Survivorship 50% (Beneficiary).....	1	\$ 860.09	\$ 860.09	\$ 860.09	\$ 860.09
GRAND TOTALS AND AVERAGES.....	266	\$ 383,707.51	\$ 1,442.50	\$ 53.07	\$3,492.30

TABLE 5

RETIREMENT PAYMENTS BY COUNTY

Adair.....\$	278,450	Grant.....\$	423,865	Mason.....\$	270,590
Allen.....\$	215,208	Graves.....\$	664,459	Meade.....\$	231,211
Anderson.....\$	779,688	Grayson.....\$	273,298	Menifee.....\$	83,625
Ballard.....\$	150,231	Green.....\$	168,419	Mercer.....\$	654,737
Barren.....\$	573,282	Greenup.....\$	196,269	Metcalfe.....\$	173,852
Bath.....\$	193,367	Hancock.....\$	103,357	Monroe.....\$	92,921
Bell.....\$	293,615	Hardin.....\$	626,335	Montgomery...\$	203,144
Boone.....\$	369,479	Harlan.....\$	313,559	Morgan.....\$	145,873
Bourbon.....\$	498,768	Harrison.....\$	376,439	Muhlenberg...\$	321,204
Boyd.....\$	538,372	Hart.....\$	187,881	Nelson.....\$	510,025
Boyle.....\$	889,525	Henderson....\$	494,844	Nicholas.....\$	142,031
Bracken.....\$	104,054	Henry.....\$	464,541	Ohio.....\$	302,403
Breathitt....\$	227,400	Hickman.....\$	121,638	Oldham.....\$	582,283
Breckinridge.\$	172,456	Hopkins.....\$	839,917	Owen.....\$	501,388
Bullitt.....\$	234,799	Jackson.....\$	120,189	Owsley.....\$	110,802
Butler.....\$	179,506	Jefferson....\$	10,913,226	Pendleton....\$	178,056
Caldwell.....\$	378,452	Jessamine....\$	207,010	Perry.....\$	280,674
Calloway.....\$	807,309	Johnson.....\$	227,097	Pike.....\$	613,983
Campbell.....\$	707,241	Kenton.....\$	948,820	Powell.....\$	126,306
Carlisle.....\$	86,061	Knott.....\$	193,812	Pulaski.....\$	910,290
Carroll.....\$	187,579	Knox.....\$	334,049	Robertson....\$	55,714
Carter.....\$	257,435	Larue.....\$	253,366	Rockcastle...\$	236,699
Casey.....\$	167,611	Laurel.....\$	638,296	Rowan.....\$	589,438
Christian....\$	1,376,975	Lawrence....\$	182,481	Russell.....\$	232,249
Clark.....\$	271,385	Lee.....\$	123,190	Scott.....\$	527,794
Clay.....\$	190,775	Leslie.....\$	106,892	Shelby.....\$	862,893
Clinton.....\$	128,406	Letcher.....\$	226,971	Simpson.....\$	224,981
Crittenden...\$	137,866	Lewis.....\$	107,957	Spencer.....\$	163,991
Cumberland...\$	110,682	Lincoln.....\$	321,722	Taylor.....\$	184,149
Daviess.....\$	805,548	Livingston...\$	244,568	Todd.....\$	312,206
Edmonson.....\$	77,072	Logan.....\$	448,037	Trigg.....\$	308,701
Elliott.....\$	76,803	Lyon.....\$	273,007	Trimble.....\$	190,920
Estill.....\$	160,356	McCracken....\$	1,289,196	Union.....\$	311,675
Fayette.....\$	3,523,301	McCreary.....\$	144,240	Warren.....\$	1,401,893
Fleming.....\$	344,826	McLean.....\$	211,945	Washington...\$	198,670
Floyd.....\$	442,256	Madison.....\$	716,716	Wayne.....\$	189,601
Franklin.....\$	8,226,546	Magoffin.....\$	134,748	Webster.....\$	182,628
Fulton.....\$	142,459	Marion.....\$	209,238	Whitley.....\$	422,448
Gallatin.....\$	73,000	Marshall.....\$	518,092	Wolfe.....\$	121,876
Garrard.....\$	206,654	Martin.....\$	79,728	Woodford.....\$	647,820

PAYMENTS TO RETIREES IN OTHER STATES

\$2,739,722

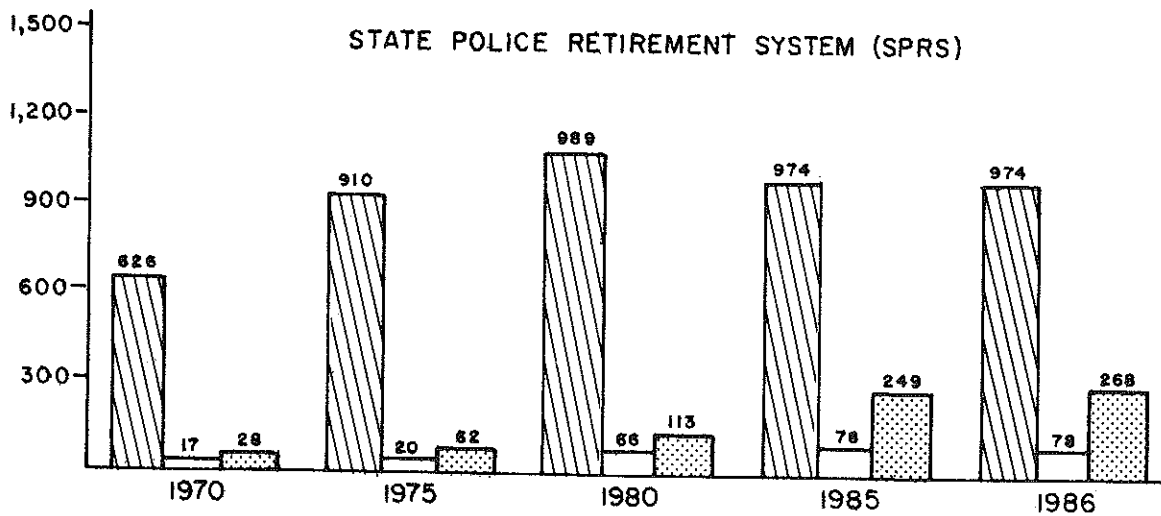
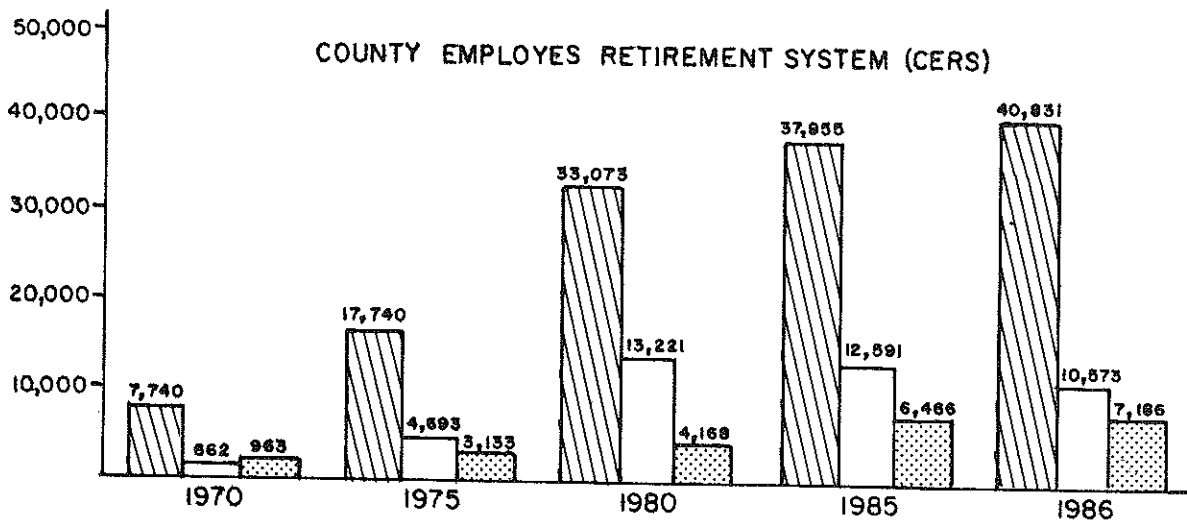
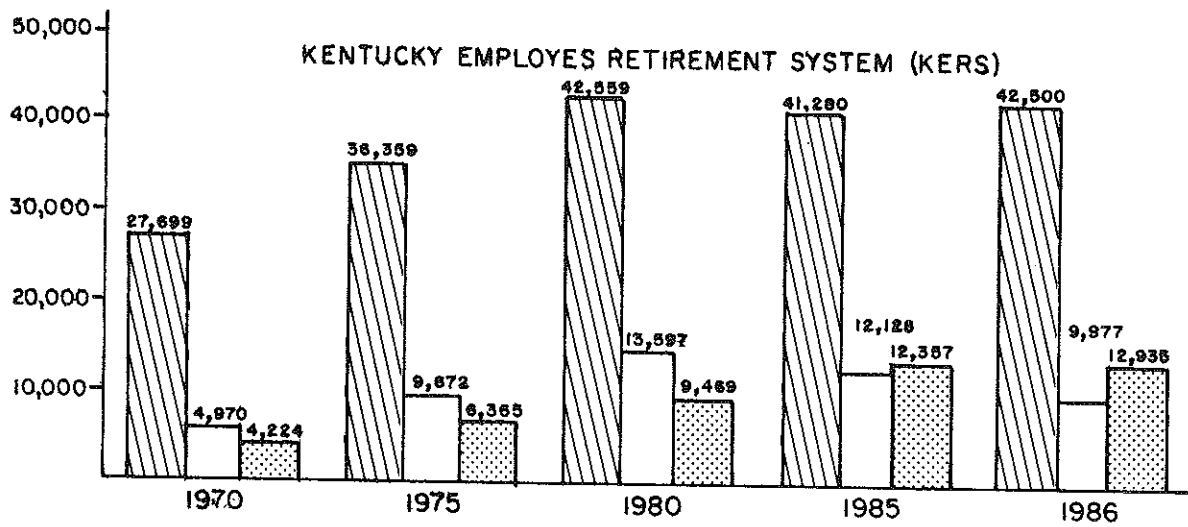
TOTAL PAYMENTS AS OF JUNE 30, 1986

\$65,555,768

TABLE 6

MEMBERSHIP GROWTH

6/30/70 through 6/30/86



 ACTIVE
  INACTIVE
  RETIRED

TABLE 7

KENTUCKY EMPLOYEES RETIREMENT SYSTEM
FINANCIAL AND ACTUARIAL STATISTICS

	<u>6/30/80</u>	<u>6/30/81</u>	<u>6/30/82</u>	<u>6/30/83</u>	<u>6/30/84</u>	<u>6/30/85</u>	<u>6/30/86</u>
<u>Financial Statistics:</u>							
Total Assets	\$460,355,868	\$529,797,058	\$614,446,898	\$710,477,505	\$815,654,049	\$935,445,553	\$1,080,387,371
Investment Income	\$33,356,149	\$39,594,168	\$51,929,947	\$57,799,616	\$68,498,499	\$78,509,704	\$84,346,598
Total Retirement Payments	\$17,501,338	\$21,824,083	\$26,564,678	\$31,396,362	\$35,467,174	\$39,225,080	\$43,962,495
Average Retirement Payment	\$169.84(a)	\$194.88(b)	\$214.60(c)	\$222.63(d)	\$238.03	\$266.07(e)	\$278.58(f)
Total Refund Payments	\$4,996,158	\$5,945,209	\$6,074,280	\$3,996,820	\$4,686,153	\$5,171,940	\$5,105,361
Indicated Current Yield:							
Fixed Income	8.51	9.99	10.56	10.07	11.03	10.29	9.53
Common Stocks	5.34	5.76	5.99	6.27	5.33	5.43	4.63
<u>Actuarial Statistics:</u>							
Total Accrued Liabilities	\$710,126,703	\$692,160,395	\$810,250,589	\$862,291,959	\$1,016,088,830	\$1,104,429,988	\$1,245,083,143
Unfunded Past Service Liabilities	\$249,770,835	\$164,735,129	\$195,803,691	\$152,196,081	\$201,535,007	\$169,949,215	\$166,635,243
Percent Unfunded	35.2%	23.8%	24.2%	17.7%	19.8%	15.4%	13.4%
Vested Accrued Benefit Liability	\$470,642,643	\$446,613,406	\$520,781,017	\$550,006,161	\$618,806,590	\$639,003,667	\$719,695,970
Estimated Annual Salaries	\$504,835,968	\$531,789,552	\$556,855,896	\$581,492,676	\$627,726,168	\$676,557,336	\$713,878,356
Contribution for Unfunded Past Service Liability	\$17,483,958	\$14,002,486	\$16,643,313	\$12,936,667	\$17,130,476	\$14,445,683	\$14,997,172
<u>Actuarial Cost-Nonhazardous:</u>							
Normal	3.24%	3.51%	3.65%	3.65%	3.36%	3.35%	3.04%
Past Service	3.44%	2.62%	2.97%	2.22%	2.75%	2.15%	2.13%
Administrative	.08%	.09%	.09%	.09%	.12%	.12%	.12%
Hospital/Medical Insurance	.21%	.21%	.21%	.29%	.46%	.48%	1.23%
Employee Contributions	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
TOTAL COST	10.97%	10.43%	10.92%	10.25%	10.69%	10.10%	10.52%
<u>Contribution Rates-Nonhazardous:</u>							
Member	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Employer	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%
TOTAL RATES	11.25%	11.25%	11.25%	11.25%	11.25%	11.25%	11.25%
Rate Margin:	.28%	.82%	.33%	1.00%	.56%	1.15%	.73%*
<u>Actuarial Cost-Hazardous:</u>							
Normal	7.73%	7.61%	7.92%	8.40%	9.66%	9.73%	8.68%
Past Service	8.07%	5.58%	6.69%	4.00%	1.29%	.88%	.00%
Administrative	.21%	.24%	.22%	.22%	.12%	.13%	.10%
Hospital/Medical Insurance	.34%	.34%	.59%	.78%	1.04%	1.09%	4.90%
Employee Contributions	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
TOTAL COST	23.35%	20.77%	22.42%	20.40%	19.11%	18.83%	20.68%

Contribution Rates-Hazardous:

Member	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
Employer	17.25%	17.25%	17.25%	18.25%	18.25%	17.00%
TOTAL RATES	24.25%	24.25%	24.25%	25.25%	25.25%	24.00%
Rate Margin:	.90%	3.48%	1.83%	4.85%	6.14%	5.17%
						.32%

Notes to statistical information:

- (a) Benefits to retirees increased 7/1/80 by 6%.
- (b) Benefits to retirees increased 7/1/81 by 6%.
- (c) Benefits to retirees increased 7/1/82 from 1% to 15%, depending on how long the recipient had received benefits.
- (d) Benefits to retirees increased 7/1/83 from 1/2% to 9 1/2%, depending on how long the recipient had received benefits.
- (e) Benefits to retirees increased 1/1/85 by \$1 per month for each year of service credit at the time of retirement for those retired before 8/1/84.
- (f) Benefits to retirees increased 7/1/86 by 4%.

*As a result of an increase in the employer contribution rate to 7.45% and an increase in the employee contribution rate to 5.00% to offset benefit increases effective August 1, 1986, the margin as of November 20, 1986, was .93% for KERS nonhazardous.

TABLE 8

COUNTY EMPLOYEES RETIREMENT SYSTEM
FINANCIAL AND ACTUARIAL STATISTICS

	<u>6/30/80</u>	<u>6/30/81</u>	<u>6/30/82</u>	<u>6/30/83</u>	<u>6/30/84</u>	<u>6/30/85</u>	<u>6/30/86</u>
<u>Financial Statistics:</u>							
Total Assets	\$190,230,941	\$234,865,314	\$285,534,889	\$343,566,575	\$406,673,277	\$478,581,183	\$604,622,294
Investment Income	\$13,948,084	\$18,394,849	\$25,127,300	\$28,254,250	\$35,005,604	\$40,147,552	\$44,216,104
Total Retirement Payments	\$6,401,655	\$7,797,643	\$9,689,924	\$11,522,297	\$13,066,260	\$14,843,697	\$17,329,099
Average Retirement Payment	\$136.74(a)	\$146.90(b)	\$159.92(c)	\$159.32(d)	\$166.37	\$182.64(e)	\$185.93(f)
Total Refund Payments	\$3,032,440	\$3,291,673	\$4,238,411	\$2,791,345	\$3,331,153	\$3,570,707	\$4,974,503
Indicated Current Yield:							
Fixed Income	8.53	11.41	11.27	10.53	11.37	10.49	9.65
Common Stocks	5.27	5.67	5.75	6.08	5.23	5.32	4.43
<u>Actuarial Statistics:</u>							
Total Accrued Liabilities	\$266,018,621	\$260,872,162	\$306,087,531	\$340,705,763	\$421,336,269	\$463,618,532	\$535,948,094
Unfunded Past Service Liabilities	\$75,787,680	\$27,101,917	\$20,552,642	\$-	\$15,148,838	\$-	\$-
Percent Unfunded	28.5%	10.4%	6.7%	0%	3.6%	0%	0%
Vested Accrued Benefit Liability	\$178,669,194	\$174,261,296	\$206,969,299	\$225,665,745	\$257,218,014	\$283,267,091	\$335,463,975
Estimated Annual Salaries	\$295,607,664	\$321,238,452	\$340,962,180	\$380,431,560	\$403,461,792	\$433,135,800	\$484,796,988
Contribution for Unfunded Past Service Liability	\$5,305,138	\$2,303,663	\$1,746,975	\$-	\$1,287,651	\$-	\$-
<u>Actuarial Cost-Nonhazardous:</u>							
Normal	3.93%	3.95%	3.95%	3.93%	3.80%	3.75%	4.23%
Past Service	1.69%	.71%	.49%	.00%	.30%	.00%	.00%
Administrative	.09%	.10%	.10%	.12%	.15%	.15%	.15%
Hospital/Medical Insurance	.15%	.15%	.15%	.15%	.29%	.31%	.92%
Employee Contributions	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
TOTAL COST	9.86%	8.91%	8.69%	8.20%	8.54%	8.21%	9.30%
<u>Contribution Rates-Nonhazardous:</u>							
Member	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Employer	7.25%	7.25%	7.25%	6.25%	6.25%	6.25%	5.25%
TOTAL RATES	11.25%	11.25%	11.25%	10.25%	10.25%	10.25%	9.25%
Rate Margin:	1.39%	2.34%	2.56%	2.05%	1.71%	2.04%	-.05*
<u>Actuarial Cost-Hazardous:</u>							
Normal	9.74%	9.32%	9.21%	9.50%	9.45%	9.65%	11.15%
Past Service	4.28%	.89%	1.18%	.00%	.93%	.00%	.00%
Administrative	.27%	.31%	.31%	.37%	.47%	.41%	.24%
Hospital/Medical Insurance	.13%	.13%	.54%	.78%	.91%	.99%	2.36%
Employee Contributions	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
TOTAL COST	21.42%	17.65%	18.24%	17.65%	18.77%	18.05%	20.75%

Contribution Rates-Hazardous:

Member	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
Employer	16.00%	16.00%	16.00%	16.00%	15.00%	14.00%	14.00%
TOTAL RATES	23.00%	23.00%	23.00%	23.00%	22.00%	21.00%	21.00%
Rate Margin:	1.58%	5.35%	4.76%	4.35%	2.23%	2.95%	.25%

Notes to statistical information:

- (a) Benefits to retirees increased 7/1/80 by 6%.
- (b) Benefits to retirees increased 7/1/81 by 6%.
- (c) Benefits to retirees increased 7/1/82 from 1% to 15%, depending on how long the recipient had received benefits.
- (d) Benefits to retirees increased 7/1/83 from 1/2% to 9 1/2%, depending on how long the recipient had received benefits.
- (e) Benefits to retirees increased 1/1/85 by \$1 per month for each year of service credit at the time of retirement for those retired before 8/1/84.
- (f) Benefits to retirees increased 7/1/86 by 4%.

*As a result of an increase in the employer contribution rate to 5.75% and an increase in the employee contribution rate to 4.25% to offset benefit increases effective August 1, 1986, the margin as of November 20, 1986, was .45% for CERS nonhazardous.

TABLE 9

STATE POLICE RETIREMENT SYSTEM
FINANCIAL AND ACTUARIAL STATISTICS

	6/30/80	6/30/81	6/30/82	6/30/83	6/30/84	6/30/85	6/30/86
<u>Financial Statistics:</u>							
Total Assets	\$40,917,165	\$48,411,993	\$57,330,130	\$65,782,369	\$75,033,643	\$85,447,410	\$96,714,220
Investment Income	\$3,060,037	\$3,952,112	\$5,347,761	\$5,438,066	\$6,260,996	\$6,993,220	\$7,453,314
Total Retirement Payments	\$1,030,786	\$1,428,170	\$1,953,405	\$2,642,581	\$2,890,091	\$3,496,109	\$4,356,837
Average Retirement Payment	\$904.01(a)	\$1,092.58(b)	\$1,229.73(c)	\$1,212.76(d)	\$1,270.24	\$1,396.42(e)	\$1,442.50(f)
Total Refund Payments	\$68,111	\$139,305	\$245,402	\$56,809	\$117,414	\$180,746	\$73,447
Indicated Current Yield:							
Fixed Income	8.43	11.37	11.13	9.85	11.00	10.11	9.45
Common Stocks	5.40	5.82	6.23	6.05	4.96	5.25	4.51
<u>Actuarial Statistics:</u>							
Total Accrued Liabilities	\$67,580,562	\$71,526,728	\$78,713,172	\$81,944,546	\$91,180,668	\$99,269,825	\$105,559,951
Unfunded Past Service Liabilities	\$26,663,397	\$23,296,425	\$21,383,042	\$16,187,460	\$16,200,151	\$14,253,583	\$8,892,252
Percent Unfunded	39.5%	32.6%	27.2%	19.7%	17.8%	14.4%	8.4%
Vested Accrued Benefit Liability	\$43,887,675	\$41,603,835	\$48,853,928	\$51,505,988	\$67,913,641	\$76,632,066	\$84,495,868
Estimated Annual Salaries	\$20,180,148	\$23,297,280	\$22,757,640	\$22,231,152	\$23,718,048	\$23,393,016	\$24,524,652
Contribution for Unfunded Past Service Liability	\$1,866,438	\$1,980,196	\$1,817,559	\$1,375,934	\$1,377,013	\$1,211,555	\$800,303
<u>Actuarial Cost:</u>							
Normal	9.04%	8.67%	8.65%	8.88%	9.42%	9.72%	8.33%
Past Service	9.25%	8.50%	7.99%	6.19%	5.81%	5.18%	3.26%
Administrative	.03%	.04%	.04%	.05%	.06%	.07%	.06%
Hospital/Medical Insurance	.12%	.12%	.82%	.97%	.99%	1.41%	6.38%
Employee Contributions	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
TOTAL COST	25.44%	24.33%	24.50%	23.09%	23.28%	23.38%	25.03%
<u>Contribution Rates:</u>							
Member	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
Employer	17.25%	17.25%	18.50%	18.50%	18.50%	18.50%	17.50%
TOTAL RATES	24.25%	24.25%	25.50%	25.50%	25.50%	25.50%	24.50%
Rate Margin:	-1.19%	-.08%	1.00%	2.41%	2.22%	2.12%	-.53%*

Notes to statistical information:

- (a) Benefits to retirees increased 7/1/80 by 6%.
 (b) Benefits to retirees increased 7/1/81 by 6%.
 (c) Benefits to retirees increased 7/1/82 from 1% to 15%, depending on how long the recipient had received benefits.
 (d) Benefits to retirees increased 7/1/83 from 1/2% to 9 1/2%, depending on how long the recipient had received benefits.
 (e) Benefits to retirees increased 1/1/85 by \$1 per month for each year of service credit at the time of retirement for those retired before 8/1/84.
 (f) Benefits to retirees increased 7/1/86 by 4%.

*As a result of an increase in the employer contribution rate to 18.25% to offset benefit increases effective August 1, 1986, the margin as of November 20, 1986, was .22% for SPRS.

KENTUCKY RETIREMENT SYSTEMS
STATEMENT OF SOURCE AND USE OF FUNDS
BY SYSTEM SINCE INCEPTION THROUGH JUNE 30, 1986

<u>Source of Funds</u>				<u>Total Amounts</u>	
<u>Breakdown Per Dollar</u>		<u>Accounts</u>			
<u>KERS</u>	<u>CERS</u>	<u>SPRS</u>	<u>KERS</u>	<u>CERS</u>	<u>SPRS</u>
\$.25	\$.26	\$.21	Member Contributions	\$203,760,558	\$ 27,286,615
.35	.39	.36	Employer Contributions	305,335,306	45,682,927
.35	.30	.39	Investment Income	240,600,761	49,733,920
.00	.00	.00	Special Appropriation	227,263	506,100
.00	.00	.00	Alternate & Term. Participation	3,658,789	-0-
.05	.05	.04	Other Receipts	35,951,770	4,669,292
\$1.00	\$1.00	\$1.00		\$789,534,447	\$127,878,854

<u>Use of Funds</u>				<u>Total Amounts</u>	
<u>Breakdown Per Dollar</u>		<u>Accounts</u>			
<u>KERS</u>	<u>CERS</u>	<u>SPRS</u>	<u>KERS</u>	<u>CERS</u>	<u>SPRS</u>
\$.68	\$.76	\$.75	Invested Assets	\$601,949,112	\$ 96,200,449
.21	.14	.17	Retirement Payments	111,711,253	21,880,908
.05	.05	.02	Refunds	38,428,544	1,989,408
.04	.04	.05	Interest to Members	30,205,057	5,931,220
.01	.01	.00	Adm. of Prof. Services	5,625,667	512,858
.01	.00	.01	Other Disbursements	1,614,814	1,364,011
\$1.00	\$1.00	\$1.00	Total Uses	\$789,534,447	\$127,878,854

TABLE 11

KENTUCKY RETIREMENT SYSTEMS
ADMINISTRATIVE EXPENSE
BY FISCAL YEAR

	79-80	80-81	81-82	82-83	83-84	84-85	85-86
PERSONNEL COST:							
Salaries & Fringe Benefits	\$440,961.26	\$472,328.40	\$547,882.35	\$ 636,311.03	\$ 724,949.55	\$ 839,267.19	\$1,010,272.87
Contractual Services:							
Auditor	13,800.00	13,800.00	10,000.00	13,750.00	15,300.00	14,800.00	20,193.00
Actuary	14,200.00	16,000.00	26,500.00	25,500.00	25,350.00	22,000.00	42,028.33
Janitorial	5,052.40	6,631.62	5,539.10	4,195.90	3,976.94	3,293.88	3,508.94
Legal	281.39	179.61	220.00	628.00	.00	6,900.20	11,799.63
Medical	3,627.17	5,628.50	4,712.00	13,255.75	15,509.58	20,532.65	21,377.37
Miscellaneous	4,885.10	1,779.03	556.26	574.60	574.85	5,466.36	2,043.63
TOTAL	\$482,807.42	\$516,347.16	\$595,409.71	\$ 694,215.28	\$ 785,660.92	\$ 912,260.28	\$1,111,223.77
OPERATING EXPENSES:							
Postage & Freight	\$ 582.31	\$ 98,466.96	\$ 43,558.59	\$ 88,570.84	\$ 114,265.23	\$ 111,980.93	\$ 136,194.68
Utilities	5,299.55	8,930.67	8,689.70	11,352.64	10,973.40	10,735.85	11,484.54
Telephone	16,164.40	15,959.03	5,247.38	21,777.05	22,056.25	26,120.83	25,813.26
Travel	7,222.31	6,371.49	7,442.26	7,262.84	4,892.23	8,517.41	9,457.76
Printing & Duplicating	40,629.09	22,144.38	34,581.14	34,584.84	35,811.48	50,105.61	47,547.03
Maintenance-Equipment	7,155.95	7,807.16	15,693.96	14,979.45	16,838.06	26,202.58	30,721.20
Maintenance-Bldg. & Grnds.	441.39	557.99	412.18	1,166.82	5,738.60	1,032.15	3,360.63
Laundry	298.02	692.80	279.10	400.86	688.84	411.38	506.02
Assessed Car Rental	1,951.71	2,672.44	1,856.19	2,992.07	2,230.47	1,887.86	2,244.08
Supplies - Office	6,057.00	10,426.60	27,525.82	7,249.69	8,213.67	10,879.36	15,574.84
Supplies - Data Processing	4,260.55	4,149.87	6,479.99	6,302.51	12,817.56	19,265.09	14,889.23
Supplies - Janitorial	261.57	308.40	311.02	243.74	91.94	27.26	27.26
Rental - Building	20,515.78	26,650.01	26,650.00	26,650.00	26,650.00	26,650.00	26,650.00
Rental - Data Processing	46,893.00	50,453.42	49,357.67	56,844.98	57,000.00	45,692.54	23,836.40
Rental - Office Equipment	31,479.37	33,529.22	22,193.57	17,404.01	24,591.84	24,101.20	11,584.89
Insurance	3,360.97	2,684.36	2,934.63	4,056.61	2,327.00	3,004.00	2,906.90
Bonds	.00	1,750.00	1,750.00	5.00	1,776.25	1,776.25	677.01
Dues	140.00	140.00	140.00	140.00	140.00	690.00	690.00
Subscriptions	818.97	1,029.05	928.56	1,216.62	2,150.60	2,555.24	2,506.68
Employee Training Expense	1,201.95	1,113.90	696.85	726.78	1,964.05	1,501.40	1,694.80
Miscellaneous	.00	113.61	434.19	393.32	16.07	2,525.99	707.44
Photo Supplies	2.25	.00	219.66	.00	17.50	.00	.00
Furniture Office Equipment	462.04	1,005.99	1,188.27	1,837.18	2,425.14	2,749.82	2,672.17
Lease Purchase Office Equip.	.00	.00	12,738.73	14,355.48	14,093.52	28,263.00	43,649.80
Conference Expenses	.00	.00	.00	300.00	520.00	675.00	1,189.00
TOTAL	\$195,198.18	\$306,957.35	\$271,309.46	\$ 320,813.33	\$ 368,289.70	\$ 407,350.75	\$ 416,585.62
Capital Outlay	\$ 484.53	\$ 5,532.60	\$ 3,857.66	\$ 794.92	\$ 42,943.46	\$ 56,962.68	\$ 49,122.50
TOTAL ADMINISTRATIVE EXPENSE	\$678,490.13	\$828,837.11	\$870,576.83	\$1,015,823.53	\$1,196,894.08	\$1,376,573.71	\$1,576,931.89
DISTRIBUTION OF COST BY RETIREMENT SYSTEMS							
Kentucky Employees Retirement Syst.	\$393,524.28	\$480,725.52	\$478,817.25	\$ 558,702.94	\$ 623,177.92	\$ 757,115.54	\$ 804,235.26
County Employees Retirement Syst.	278,180.95	339,823.22	383,053.81	446,962.35	561,747.22	605,692.43	756,927.31
State Police Retirement Syst.	6,784.90	8,288.37	8,705.77	10,158.24	11,968.94	13,765.74	15,769.32
	\$678,490.13	\$828,837.11	\$870,576.83	\$1,015,823.53	\$1,196,894.08	\$1,376,573.71	\$1,576,931.89
No. of Accounts/\$ Per Account	117,255/\$5.79	117,604/\$7.05	116,534/\$7.47	118,347/\$8.58	120,176/\$9.96	129,546/\$10.63	136,728/\$11.53

