

KENTUCKY RETIREMENT SYSTEMS

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 1998



Prepared by the executive staff of
Kentucky Retirement Systems
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Kentucky Retirement Systems is a pension trust fund
of the Commonwealth of Kentucky. The cost of printing this CAFR
is part of the administrative expense of the system.

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KENTUCKY RETIREMENT SYSTEMS

Introductory Section

Comprehensive Annual Financial Report
June 30, 1998



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

KENTUCKY RETIREMENT SYSTEMS

Perimeter Park West
1260 Louisville Road
Frankfort, Kentucky 40601



Pamala S. Johnson
General Manager
Phone 502-564-4646
FAX# 502-564-5656

November 19, 1998

The Board of Trustees
Kentucky Retirement Systems
Perimeter Park West
1260 Louisville Road
Frankfort, KY 40601-6124

I am pleased to present the comprehensive annual financial report (CAFR) of the Kentucky Employees Retirement System (KERS), County Employees Retirement System (CERS), State Police Retirement System (SPRS) and Insurance Fund for the fiscal year ended June 30, 1998.

The CAFR is divided into five sections:

- an Introductory Section, containing the administrative organization and letter of transmittal
- a Financial Section, containing the report of the independent Auditor, the financial statements of the three systems and insurance fund and certain required supplementary information
- an Investment Section, containing a report on investment activity, investment policies, investment results and various investment schedules
- an Actuarial Section, containing the Actuary's Certification Letter and the results of the annual actuarial valuation
- a Statistical Section, containing information about plan participants and recipients

The management of the systems is responsible for the accuracy of the data as well as the completeness and fairness of the presentation. We present this information to help you and the members of the retirement systems understand the systems' financial and actuarial status. This CAFR was prepared to conform with the principles of governmental accounting and reporting set forth by the Governmental Accounting Standard Board. Transactions of the system are reported on the accrual basis of accounting. Sufficient internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules.

History

KERS was created in 1956 by the Kentucky General Assembly in order to supplement the benefits provided by Social Security. When the first actuarial valuation was done June 30, 1957, there were 16,000 employees participating in KERS and assets of \$2.8 million. CERS and SPRS were established in 1958. The first actuarial valuation of SPRS was conducted June 30, 1959. No actuarial valuation of CERS was conducted until June 30, 1960 because the statutes prohibited retirements from the system prior to July 1, 1960. At June 30, 1960, there were 68 counties and 2,617 employees participating in CERS, and SPRS included 415 uniformed state troopers.

Today there are more than 210,000 active and retired members in the three systems and approximately \$11.1 billion in assets. A breakdown of membership by system is provided in the statistical section.

The staff of Kentucky Retirement Systems provides detailed benefit estimates to members upon request. Counselors are available at the Frankfort office for individual counseling. In addition, staff conducts individual counseling sessions at sites throughout the state and holds preretirement seminars to help members prepare for retirement.

Major Initiatives

The 1998 General Assembly approved changes in retirement benefits which affect both active and retired members of the systems. Most changes became effective July 15, 1998. The major changes enacted are:

- ◆ Death benefit for retired members increased from \$2,500 to \$5,000.
- ◆ Participating employees with 20 years of service may purchase five years of nonqualified service.
- ◆ Final compensation of hazardous members has been changed from the average of the five highest fiscal years of earnings to the average of the three highest fiscal years of earnings.
- ◆ For KERS nonhazardous members employed on or before January 1, 1998, who continue employment through January 1999, and who retire February 1, 1999 or later, the benefit factor increases to 2%. If the employee retires between February 1, 1999 and January 31, 2009 with at least 20 years service, the benefit factor increases to 2.2%.
- ◆ Purchase of inactive service in the National Guard or a Reserve component of the Armed Forces was permitted for members of KERS and SPRS.
- ◆ All service in the six state-administered retirement systems will be combined for determining member insurance benefits.

These changes resulted in an immediate increase in requests for retirement estimates and purchase costs.

As system amendment requests have been received, Data Processing staff has been making programs year 2000 compliant while the other maintenance was performed. A systematic effort to amend the remaining programs has been undertaken and will be completed by the end of calendar year 1998, allowing a full year to test and make any necessary corrections.

As of June 30, 1998, the document imaging staff had processed 1.6 million documents of the estimated 5 million documents, approximately one-third of the total project.

The Investment Division added a third internally managed stock index and a real estate securities index. Over 50% of the total portfolio is now internally managed. As a result of the systems investment policies, the Kentucky Retirement Systems provides its membership a high quality portfolio with superior performance in a very cost efficient manner.

Additions To Plan Net Assets

The collection of employer and employee contributions, as well as income from investments, provide the reserves needed to finance retirement benefits. Contributions and investment income for the fiscal year ending June 30, 1998 totaled nearly \$2.3 billion.

<i>dollar amounts expressed in thousand</i>	1998	1997	Increase (Decrease) Amount	Increase (Decrease) Percentage
Member Contributions	\$ 167,789	\$ 151,375	\$ 16,414	10.8%
Employer Contributions	\$ 287,619	273,073	14,546	5.3%
Net Investment Income	\$1,865,554	1,634,941	230,613	14.1%
Total	\$2,322,960	\$2,059,389	\$261,573	12.7%

The increases in both member and employer contributions can be attributed to increases in the covered payroll. The 14.1% increase in Net Investment Income is a result of the favorable financial markets as of June 30, 1998.

Deductions To Plan Net Assets

The Kentucky Retirement Systems administers the retirement programs established by the Kentucky General Assembly. The costs associated with those programs include the monthly retirement allowances of retired members under normal, early or disability retirement; payments to beneficiaries; member refunds and the administrative expenses of the system.

<i>dollar amounts expressed in thousand</i>	1998	1997	Increase (Decrease) Amount	Increase (Decrease) Percentage
Retirement Allowances	\$353,709	\$312,221	\$41,488	13.3%
Refunds	19,439	17,486	1,953	11.2%
Administrative Expense	12,093	11,315	778	6.9%
Total	\$381,850	\$341,022	\$38,830	11.4%

Retirement Allowances increases due to a 2.3% cost of living adjustment added to recipients' monthly benefits in July and the increase in the number of retired members. The total amount of Refunds increased largely because of increased applications by CERS members in the third and fourth quarters. Administrative expenses include fees paid to investment managers. Since Kentucky Retirement Systems bases external investment managers' fees on the market value of the managed assets, fees increase in proportion to the increase in the value of the managed assets.

The 6.9% increase in administrative expense reflects the increased investment management fees due to the excellent returns on managed assets.

Investments

The Board of Trustees of the Kentucky Retirement Systems have a statutory obligation to invest the systems' funds in accordance with the "prudent person rule." The prudent person rule states that fiduciaries shall discharge their investment duties with the same degree of diligence, care and skill which a prudent person would ordinarily exercise under similar circumstances in a like position.

The Board has managed the funds in recognition of the basic long term nature of the systems. The Board has interpreted this to mean that the assets of the three systems should 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. The Board has further recognized that proper diversification of assets must be maintained. The asset allocation can be found in the Investment Section of this CAFR.

The Board's policies have provided significant returns while holding down investment related expenses. For the fiscal year ending June 30, 1998, the systems pension funds had a total return of 20.8% and the insurance fund had a total return of 21.0%.

Funding

The Kentucky Retirement Systems' funding objective is to meet long-term benefit promises through contributions that remain fairly level as a percent of member payroll. Funding of the pension benefits for all systems as of June 30, 1998 is greater than 100% using the ratio of assets at actuarial value to the total actuarial accrued liability. The medical insurance benefit, created in 1978, is not at the same level of funding. Total insurance liabilities exceed assets in the Insurance Fund by \$2.6 billion.

While significant progress has been made in recent years in spite of double digit medical inflation, the medical insurance liability continues to be the primary funding concern of the Kentucky Retirement Systems.

A detailed discussion of the funding status of the systems can be found in the financial section of this report.

Professional Services

A listing of the Board's contracted consultants can be found in the organizational chart on page 8. A listing of the external investment managers can be found on page 74 in the Investment Section.

Acknowledgments

The compilation of this report reflects the combined efforts of the staff under the leadership of the Board of Trustees. It is intended to provide complete and reliable information to be used in making management decisions, determining compliance with statutory provisions and determining responsible stewardship of the funds.

The report is being mailed to all employers participating in the Kentucky Retirement Systems. They form the link between the systems and its membership. Their cooperation contributes significantly to the success of the Kentucky Retirement Systems. We hope the employers and their employees find this report informative.

On behalf of the Board of Trustees, I would like to take this opportunity to express my gratitude to the staff, the advisors and the many people who have worked so diligently to assure the successful operation of the Kentucky Retirement Systems.

A handwritten signature in black ink, appearing to read "Pamela S. Johnson", is written over a vertical line that extends from the top of the signature down to the printed name below.

Pamala S. Johnson
General Manager

BOARD OF TRUSTEES



John J. Balbach
Louisville
Appointed by Governor
Term Expires March 31, 2000



George B. Boehnlein
Louisville
Elected by CERS Members
Term Expires March 31, 2001
Active CERS



Larry C. Conner
Lexington
Appointed by Governor
Term Expires March 31, 1999



Jane C. Driskell
Louisville
Elected by CERS Members
Term Expires March 31, 2001
Active CERS



Bobby D. Henson
Frankfort
Elected by KERS Members
Term Expires March 31, 2002
Retired KERS



Susan Smith Horne
Lexington
Elected by KERS Members
Term Expires March 31, 2002
Retired/Active KERS



Randy J. Overstreet
Chair
Lawrenceburg
Elected by SPRS Members
Term Expires March 31, 1999
Active SPRS

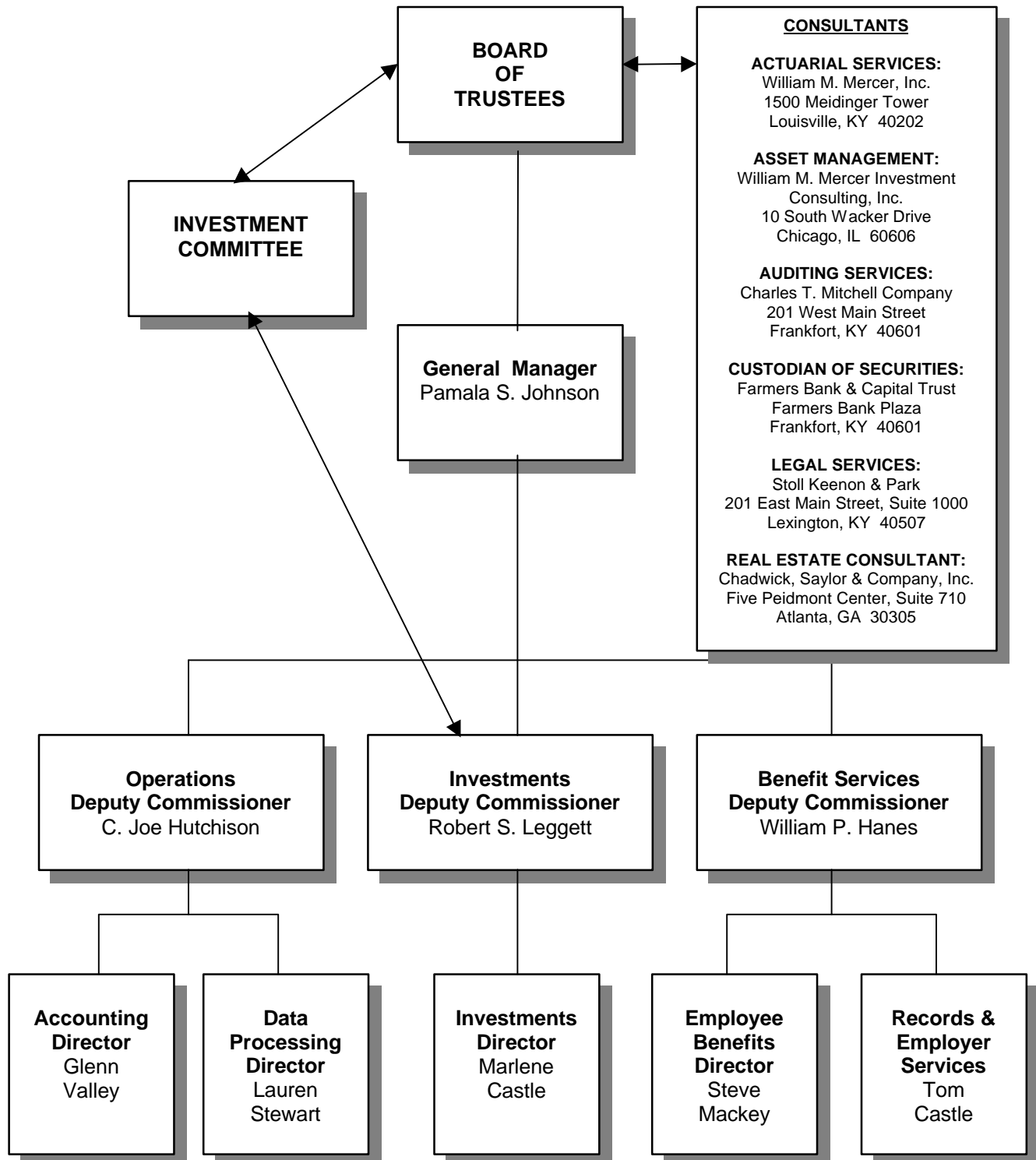


Walter J. Pagan
Crestview Hills
Appointed by Governor
Term Expires March 31, 2000



Carol M. Palmore
Secretary of Personnel
Cabinet
ExOfficio

Kentucky Retirement Systems Organizational Chart



Information on Investment Managers may be found on page 74 in the Investment Section.

KENTUCKY RETIREMENT SYSTEMS

Financial Section

Comprehensive Annual Financial Report
June 30, 1998

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Charles T. Mitchell Company, LLP

Certified Public Accountants

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|| C T M

DON C. GILES, C.P.A.
WILLIAM G. JOHNSON, JR., C.P.A.
LARRY T. WILLIAMS, C.P.A.
JAMES CLOUSE, C.P.A.
CHARLES F. WHELAN, C.P.A.

CHARLES T. MITCHELL, C.P.A.
CONSULTANT

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Kentucky Retirement Systems
Frankfort, Kentucky

We have audited the accompanying general purpose statements of plan net assets of the Kentucky Retirement Systems, a component unit of the Commonwealth of Kentucky, as of and for the years ended June 30, 1998 and 1997 and the related statements of changes in plan net assets for the years then ended. These component unit general purpose financial statements are the responsibility of the Kentucky Retirement System's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audits.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the plan net assets of the Kentucky Retirement Systems, a component unit of the Commonwealth of Kentucky, at June 30, 1998 and 1997 and the changes in its plan net assets for the years then ended, in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying supplemental schedules of funding progress and employer contributions, included on pages 19 through 34 and the notes thereto on page 35, are supplemental disclosures under Governmental Accounting Standards Board Statement No. 25. This supplementary information is presented for purposes of additional analysis. Such information has been subjected to the auditing procedures applied in our audits of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Charles F. Whelan

October 15, 1998

	<u>Pensions</u>	Post-Employment <u>Healthcare</u>	<u>1998</u> <u>Total</u>
ASSETS			
Cash and short-term investments (Note C)	\$ 628,526	\$ 52,472	\$ 680,998
Receivables			
Investments	128	13	141
Interest	35,069	2,248	37,317
Accounts	48,762	9,029	57,791
Alternate plan	<u>6,475</u>		<u>6,475</u>
Total receivables	90,434	11,290	101,724
Investments at fair value			
Corporate and government bonds	1,870,930	127,754	1,998,684
Corporate stocks	7,295,596	448,102	7,743,698
Mortgages	517,572	28,947	546,519
Real estate	<u>160,765</u>		<u>160,765</u>
Total investments at fair value	9,844,863	604,803	10,449,666
Securities lending collateral invested	<u>1,292,359</u>	<u>126,257</u>	<u>1,418,616</u>
Total assets	11,856,182	794,822	12,651,004
LIABILITIES			
Accounts payable	19,321	290	19,611
Securities lending collateral	<u>1,292,359</u>	<u>126,257</u>	<u>1,418,616</u>
Total liabilities	<u>1,311,680</u>	<u>126,547</u>	<u>1,438,227</u>
Plan net assets held in trust for pension benefits and post-employment benefits	<u>\$10,544,502</u>	<u>\$ 668,275</u>	<u>\$11,212,777</u>

(A schedule of funding progress for each plan is presented on pages 19 through 28.)

The accompanying notes are an integral part of these financial statements.

KENTUCKY RETIREMENT SYSTEMS
 COMBINED STATEMENTS OF PLAN NET ASSETS
 As of June 30, 1998 and 1997

Expressed In Thousands

<u>1997</u>	Post-Employment <u>Healthcare</u>	<u>Total</u>
<u>Pensions</u>		
\$ 423,764	\$ 33,058	\$ 456,822
120	11	131
32,123	1,989	34,112
56,723	8,895	65,618
<u>9,038</u>	<u> </u>	<u>9,038</u>
98,004	10,895	108,899
1,694,165	101,590	1,795,755
5,802,111	343,172	6,145,283
373,833	24,999	398,832
<u>339,455</u>	<u> </u>	<u>339,455</u>
8,209,564	469,761	8,679,325
<u>1,003,444</u>	<u>65,430</u>	<u>1,068,874</u>
9,734,776	579,144	10,313,920
33,135	262	33,397
<u>1,003,444</u>	<u>65,430</u>	<u>1,068,874</u>
<u>1,036,579</u>	<u>65,692</u>	<u>1,102,271</u>
<u>\$8,698,197</u>	<u>\$ 513,452</u>	<u>\$ 9,211,649</u>

	<u>Pensions</u>	Post-Employment <u>Healthcare</u>	<u>1998</u> <u>Total</u>
ADDITIONS			
Members' contributions	\$ 167,789	\$	\$ 167,789
Employers' contributions	<u>287,619</u>	<u>94,802</u>	<u>382,421</u>
Total contributions	455,408	94,802	550,210
Investment Income:			
From investing activities			
Net appreciation in fair value of investments	1,553,476	92,424	1,645,900
Interest	186,752	11,488	198,240
Dividends	106,315	6,365	112,680
Real estate operating income (Net)	<u>22,743</u>		<u>22,743</u>
Total investing activities income	1,869,286	110,277	1,979,563
Investment expense	<u>5,391</u>	<u>84</u>	<u>5,475</u>
Net income from investing activities	1,863,895	110,193	1,974,088
From securities lending activities			
Securities lending income	71,479	4,100	75,579
Securities lending expense			
Security borrower rebate	68,715	3,941	72,656
Security lending agent fee	<u>1,105</u>	<u>62</u>	<u>1,167</u>
Net income from securities lending activities	<u>1,659</u>	<u>97</u>	<u>1,756</u>
Total net investment income	<u>1,865,554</u>	<u>110,290</u>	<u>1,975,844</u>
Total additions	2,320,962	205,092	2,526,054
DEDUCTIONS			
Benefit payments	353,709		353,709
Refunds 19,439		19,439	
Administrative expenses	6,703		6,703
Healthcare premiums subsidies		50,270	50,270
Other deductions	<u>94,804</u>		<u>94,804</u>
Total deductions	<u>474,655</u>	<u>50,270</u>	<u>524,925</u>
Net increase	1,846,307	154,822	2,001,129
Plan net assets held in trust for pension benefits and post-employment benefits			
Beginning of year	<u>8,698,195</u>	<u>513,453</u>	<u>9,211,648</u>
End of year	<u>\$10,544,502</u>	<u>\$ 668,275</u>	<u>\$11,212,777</u>

The accompanying notes are an integral part of these financial statements.

KENTUCKY RETIREMENT SYSTEMS
 COMBINED STATEMENTS OF CHANGES IN PLAN NET ASSETS
 For The Years Ended June 30, 1998 and 1997

Expressed In Thousands

<u>1997</u>	Post-Employment Healthcare	<u>Total</u>
<u>Pensions</u>		
\$ 151,402	\$	\$ 151,402
<u>273,046</u>	<u>89,924</u>	<u>362,970</u>
424,448	89,924	514,372
1,347,238	68,206	1,415,444
152,781	11,523	164,304
117,196	5,209	122,405
<u>21,429</u>	<u> </u>	<u>21,429</u>
1,638,644	84,938	1,723,582
<u>4,654</u>	<u>61</u>	<u>4,715</u>
1,633,990	84,877	1,718,867
33,923	1,682	35,605
32,336	1,605	33,941
<u>635</u>	<u>31</u>	<u>666</u>
<u>952</u>	<u>46</u>	<u>998</u>
<u>1,634,942</u>	<u>84,923</u>	<u>1,719,865</u>
2,059,390	174,847	2,234,237
312,220		312,220
17,486		17,486
6,663		6,663
	43,924	43,924
<u>89,933</u>	<u> </u>	<u>89,933</u>
<u>426,302</u>	<u>43,924</u>	<u>470,226</u>
1,633,088	130,923	1,764,011
<u>7,065,109</u>	<u>382,529</u>	<u>7,447,638</u>
<u>\$8,698,197</u>	<u>\$ 513,452</u>	<u>\$ 9,211,649</u>

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Under the provisions of Kentucky Revised Statute Section 61.645, the Board of Trustees of Kentucky Retirement Systems (KRS) administers the Kentucky Employees Retirement System (KERS), County Employees Retirement System (CERS), and State Police Retirement System (SPRS). Although the assets of the plans are commingled for investment purposes, each plan's assets may be used only for the payment of benefits to the members of that plan, in accordance with the provisions of Kentucky Revised Statute Sections 16.555, 61.570, and 78.630.

Under the provisions of Kentucky Revised Statute Section 61.701, the Board of Trustees of Kentucky Retirement Systems (KRS) administers the Kentucky Retirement Systems Insurance Fund. The statutes provide for a single insurance fund to provide group hospital and medical benefits to retirees drawing a benefit from the three pension funds administered by Kentucky Retirement Systems: (1) Kentucky Employees Retirement System (KERS); (2) County Employees Retirement System (CERS); and (3) State Police Retirement System (SPRS). KRS maintains separate accounting records for five insurance funds which also includes hazardous duty members of the Kentucky Employees and County Employees Retirement Systems. The assets of the various insurance funds are commingled for investment purposes. Legal counsel has advised there is no statutory authority to use the assets of one insurance fund to pay the liabilities of another insurance fund. The following notes apply to the various funds administered by Kentucky Retirement Systems.

NOTE A. Summary of Significant Accounting Policies

Basis of Accounting - KRS's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the plan. Premium payments are recognized when due and payable in accordance with terms of the plan.

Method Used to Value Investments - Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price at current exchange rates. The fair value of real estate is based on appraisals. Investments that do not have an established market are reported at estimated fair value.

Component Unit - Kentucky Retirement Systems is a component unit of the Commonwealth of Kentucky. As such, the Commonwealth of Kentucky is the primary government in whose financial reporting entity The System is included.

The Kentucky Employees Retirement System was created by the Kentucky General Assembly pursuant to the provisions of KRS 61.515. The County Employees Retirement System was created by the Kentucky General Assembly pursuant to the provisions of KRS 78.520. The State Police Retirement System was created by the Kentucky General Assembly pursuant to the provisions of KRS 16.510. The Kentucky Retirement Systems Insurance Fund was created by the Kentucky General Assembly pursuant to the provisions of KRS 61.701. The Retirement Systems' and Insurance Fund's administrative budget is subject to approval by the Kentucky General Assembly. Employer contribution rates for KERS and SPRS are also subject to legislative approval. Employer contribution rates for CERS are determined by the Systems' Board of Trustees without further legislative review. The methods used to determine the employer rates for all Retirement Systems are specified in KRS 61.565. Employee contribution rates are set by statute and may be changed only by the Kentucky General Assembly.

Expense Allocation - Administrative and investment expenses of the 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.

KENTUCKY RETIREMENT SYSTEMS
NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended June 30, 1998 and 1997

NOTE B. Plan Descriptions and Contribution Information

Membership of each Retirement plan consisted of the following at June 30, 1998 and 1997, the date of the latest actuarial valuation:

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

	1998			1997		
	Non-Hazardous Position Employees	Hazardous Position Employees	Total	Non-Hazardous Position Employees	Hazardous Position Employees	Total
<u>Number of Members</u>						
Retirees and beneficiaries receiving benefits	20,955	671	21,626	20,540	585	21,125
Terminated plan members - vested	2,735	96	2,831	2,550	77	2,627
Terminated plan members - non-vested	10,294	443	10,737	9,522	375	9,897
Active plan members	<u>46,342</u>	<u>3,582</u>	<u>49,924</u>	<u>46,073</u>	<u>3,532</u>	<u>49,605</u>
Total	<u>80,326</u>	<u>4,792</u>	<u>85,118</u>	<u>78,685</u>	<u>4,569</u>	<u>83,254</u>
Number of participating employers			374			361

COUNTY EMPLOYEES RETIREMENT SYSTEM

	1998			1997		
	Non-Hazardous Position Employees	Hazardous Position Employees	Total	Non-Hazardous Position Employees	Hazardous Position Employees	Total
<u>Number of Members</u>						
Retirees and beneficiaries receiving benefits	18,986	2,392	21,378	17,797	2,217	20,014
Terminated plan members - vested	2,839	117	2,956	2,503	100	2,603
Terminated plan members - non-vested	17,243	280	17,523	15,223	257	15,480
Active plan members	<u>71,426</u>	<u>6,800</u>	<u>78,226</u>	<u>69,219</u>	<u>6,513</u>	<u>75,732</u>
Total	<u>110,484</u>	<u>9,589</u>	<u>120,073</u>	<u>104,742</u>	<u>9,087</u>	<u>113,829</u>
Number of participating employers			1,466			1,050

STATE POLICE RETIREMENT SYSTEM

	1998 Hazardous Position Employees	1997 Hazardous Position Employees
<u>Number of Members</u>		
Retirees and beneficiaries receiving benefits	739	669
Terminated plan members - vested	11	9
Terminated plan members - non-vested	69	77
Active plan members	<u>954</u>	<u>943</u>
Total	<u>1,773</u>	<u>1,698</u>
Number of participating employers	1	1

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

Hospital and medical contracts in force consisted of the following at June 30, 1998 and 1997, the date of the latest actuarial valuation:

	1998					1997				
	Single	Couple and Family	Parent +	Medicare Regular	Medicare High	Single	Couple and Family	Parent +	Medicare Regular	Medicare High
KERS Non-Hazardous	3,588	749	189	1,828	10,278	3,374	714	168	1,870	10,056
KERS Hazardous	169	155	22	27	283	143	141	21	26	242
CERS Non-Hazardous	2,854	696	142	1,918	7,131	2,598	618	129	1,879	6,646
CERS Hazardous	553	1,157	159	21	450	493	1,096	141	18	386
SPRS	<u>151</u>	<u>376</u>	<u>34</u>	<u>4</u>	<u>225</u>	<u>136</u>	<u>338</u>	<u>44</u>	<u>2</u>	<u>203</u>
Totals	7,315	3,133	546	3,798	18,367	6,744	2,907	503	3,795	17,533

NOTE B. Plan Descriptions and Contribution Information (Continued)

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

Non-Hazardous Employees Pension Plan

Plan Description - KERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous duty positions 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 to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed five percent in any plan year. The General Assembly reserves the right to suspend or reduce cost-of-living adjustments if in its judgement the welfare of the Commonwealth so demands.

Contributions - For the years ended June 30, 1998 and 1997, plan members were required to contribute 5% of their annual creditable compensation. The State was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget. For the years ended June 30, 1998 and 1997, the State contributed 8.89% of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 1998 and 1997 was 8.89% of creditable compensation. Administrative costs of Kentucky Retirement Systems are financed through employer contributions and investment earnings.

Hazardous Employees Pension Plan

Plan Description - KERS is a cost-sharing multiple-employer defined benefit pension plan that cover substantially all regular full-time members employed in hazardous duty positions 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 to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed five percent in any plan year. The General Assembly reserves the right to suspend or reduce cost-of-living adjustments if in its judgement the welfare of the Commonwealth so demands.

Contributions - For the years ended June 30, 1998 and 1997, plan members were required to contribute 7% of their annual creditable compensation. The State was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget. For the years ended June 30, 1998 and 1997, the State contributed 17.87% of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 1998 and 1997 was 17.87% of creditable compensation. Administrative costs of Kentucky Retirement Systems are financed through employer contributions and investment earnings.

NOTE B. Plan Descriptions and Contribution Information (Continued)

COUNTY EMPLOYEES RETIREMENT SYSTEM

Non-Hazardous Employees Pension Plan

Plan Description - CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of the State legislature.

Contributions - For the years ended June 30, 1998 and 1997, plan members were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the years ended June 30, 1998 and 1997, participating employers contributed 8.65% of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 1998 and 1997 was 8.65% of creditable compensation. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

Hazardous Employees Pension Plan

Plan Description - CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of the State legislature.

Contributions - For the years ended June 30, 1998 and 1997, plan members were required to contribute 7% of their annual creditable compensation. The State was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the years ended June 30, 1998 and 1997, participating employers contributed 18.69% of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 1998 and 1997 was 18.69% of creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

NOTE B. Plan Descriptions and Contribution Information (Continued)

STATE POLICE RETIREMENT SYSTEM

Plan Description - SPRS is a single-employer defined benefit pension plan that covers all full-time State Troopers employed in a hazardous duty position by the Kentucky State Police. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of the State legislature.

Contributions - For the years ended June 30, 1998 and 1997, plan members were required to contribute 7% of their annual creditable compensation. The State was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget. For the years ended June 30, 1998 and 1997, the State contributed 26.58% of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 1998 and 1997 was 26.58% of creditable compensation. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

Plan Description - The Kentucky Retirement Systems Insurance Fund (Fund) was established to provide hospital and medical insurance for members receiving benefits from the Kentucky Employees Retirement System, the County Employees Retirement System, and the State Police Retirement System (Systems). The Fund and members receiving benefits pay prescribed portions of the aggregate premiums paid by the Fund. For the year insurance premiums withheld from benefit payments to members of the Systems approximated \$12,841,073 and \$170,403 for KERS and KERS hazardous, respectively, \$11,408,057 and \$777,937 for CERS and CERS hazardous, respectively, and \$197,458 for SPRS. The Fund pays the same proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous members killed in the line of duty. As of June 30, 1998, the Fund had 35,308 retirees and beneficiaries for whom benefits were available.

The allocation of insurance premiums paid by the Fund and amounts withheld from members' benefits is based on 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 or More	100%	0%
15 - 19	75%	25%
10 - 14	50%	50%
4 - 9	25%	75%
Less Than 4	0%	100%

In prior years, the employers' required medical insurance contribution rate was being increased annually by a percentage that would result in advance-funding the medical liability on an actuarially determined basis using the entry age normal cost method within a 20-year period measured from 1987. In November 1992, the Board of Trustees adopted a fixed percentage contribution rate and suspended future increases under the current medical premium funding policy until the next experience study could be performed.

In May 1996, the Board of Trustees adopted a policy to increase the insurance contribution rate by the amount needed to achieve the target rate for full entry age normal funding within twenty years. The increases commenced with the 1997 valuation and adjustments will be made every other valuation year to coincide with the valuation used by the General Assembly to establish employer contribution rates for the biennium.

NOTE C. Cash and Short-Term Investments and Securities Lending Collateral

The provisions of Governmental Accounting Standards Board Statement No. 28, "Accounting and Financial Reporting for Securities Lending Transactions" require that cash received as collateral on securities lending transactions and investments made with that cash be reported as assets on the financial statements. In conjunction with the adoption of Governmental Accounting Standard No. 28, the System has reclassified certain other investments, not related to the securities lending program, as short-term. Cash and short-term investments consist of the following:

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

	<u>1998</u>	<u>1997</u>
Cash, uninsured, unregistered & uncollateralized	\$	\$ 127,358
Miscellaneous cash	26	57
Repurchase agreements purchased with cash collateral	637,398,014	470,571,139
Other repurchase agreements	<u>320,504,398</u>	<u>171,908,213</u>
Total	<u>\$957,902,438</u>	<u>\$642,606,766</u>

COUNTY EMPLOYEES RETIREMENT SYSTEM

	<u>1998</u>	<u>1997</u>
Cash, uninsured, unregistered & uncollateralized	\$	\$ 122,657
Repurchase agreements purchased with cash collateral	611,219,986	453,200,703
Other repurchase agreements	<u>290,361,870</u>	<u>237,237,533</u>
Total	<u>\$901,581,856</u>	<u>\$690,560,893</u>

STATE POLICE RETIREMENT SYSTEM

	<u>1998</u>	<u>1997</u>
Cash, uninsured, unregistered & uncollateralized	\$	\$ 8,186
Repurchase agreements purchased with cash collateral	43,741,189	30,245,859
Other repurchase agreements	<u>17,659,892</u>	<u>14,618,760</u>
Total	<u>\$ 61,401,081</u>	<u>\$ 44,872,805</u>

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

	<u>1998</u>	<u>1997</u>
Cash, uninsured, unregistered & uncollateralized	\$	\$ 16,481
Repurchase agreements purchased with cash collateral	126,256,825	60,894,747
Other repurchase agreements	<u>52,472,040</u>	<u>33,056,794</u>
Total	<u>\$178,728,865</u>	<u>\$ 93,968,022</u>

NOTE D. Investments

The Board of Trustees of the Retirement Systems and Insurance Fund give priority to the investment of funds in obligations considered to improve the industrial development and enhance the economic welfare of the Commonwealth. The Board enters into contracts with investment managers who use the following guidelines and restrictions in the selection and timing of transactions as long as the security is not prohibited by the Kentucky Revised Statutes.

Equity Investments - Investments may be made in common stocks, securities convertible into common stocks and in preferred stocks of publicly traded corporations.

Fixed Income Investments - Publicly traded bonds are to be selected and managed to assure an appropriate balance in quality and maturities consistent with the current market and economic conditions. Investment may be made in any debt instrument issues by the U.S. Government or an agency of the U.S. Government.

Mortgages - Investment may be made in real estate mortgages on a direct basis or in the form of mortgage pool instruments guaranteed by an agency of the U.S. Government or the Commonwealth of Kentucky.

Equity Real Estate - Investments may be made for the purpose of creating a diversified portfolio of income-producing properties with moderate to low levels of risk.

Mutual Fund Investments - Investments may be made in mutual funds which hold common stocks or fixed income securities.

Cash Equivalent Securities - The following short-term investment vehicles, excluding commercial paper which requires specific purchase approval by the Investment Committee of Kentucky Retirement Systems, are considered acceptable:

- Securities Purchased Under Agreement to Resell - Repurchase agreements which are collateralized by U.S. Government securities.
- U.S. Government Issues - All obligations of the U.S. Government and its agencies.

The Retirement Systems' and Insurance Fund's investments are categorized below to give an indication of the level of risk assumed by them at June 30, 1998 and 1997. Category 1 includes investments that are either insured or registered or for which the investments are held by The System or its agent in the System's name. Category 3 includes securities purchased by and held by the System's custodial agent. The agent loans securities owned by the Systems and Fund with the simultaneous receipt of cash collateral. The custodial agent purchases securities with the cash collateral in accordance with the Systems' and Fund's *Statement of Investment Policy*. All securities purchased with cash collateral are segregated by the custodial agent and held in the name of Kentucky Retirement Systems.

The 1997 investment categorizations have been restated to classify repurchase agreements purchased by Kentucky Retirement Systems as Category 1 investments instead of Category 2 investments based on a reevaluation of custodial contracts.

KENTUCKY RETIREMENT SYSTEMS
NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended June 30, 1998 and 1997

NOTE D. Investments (Continued)

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

	1998			Value
	Category 1	Category 2	Category 3	
Investments - Categorized				
U.S. Government Securities:				
Not on securities loan	\$ 85,912,514	\$	\$	\$ 85,912,514
Loaned for securities collateral	1,235,712			1,235,712
Corporate bonds	500,838,669			500,838,669
Loaned for securities collateral	5,869,561			5,869,561
Corporate stocks	3,383,570,871			3,383,570,871
Loaned for securities collateral	3,498,944			3,498,944
Mortgages	268,124,521			268,124,521
Repurchase agreements	<u>320,504,398</u>		<u>637,398,014</u>	<u>957,902,412</u>
Subtotal	<u>\$4,569,555,190</u>	<u>\$ 0</u>	<u>\$637,398,014</u>	5,206,953,204
Investments - Not Categorized				
Investments held by broker-dealers under securities loans				
U.S. Government Securities				305,163,807
Corporate bonds				12,024,325
Corporate stocks				283,935,621
Real Estate Investment				<u>90,677,806</u>
Total Investments				<u>\$5,898,754,763</u>

	1997			Value
	Category 1	Category 2	Category 3	
Investments - Categorized				
U.S. Government Securities:				
Not on securities loan	\$ 69,355,101	\$	\$ 13,909,706	\$ 83,264,807
Loaned for securities collateral	39,418,564			39,418,564
Corporate bonds	400,181,010		21,012,584	421,193,594
Corporate stocks	2,796,782,806			2,796,782,806
Mortgages	211,715,757			211,715,757
Repurchase agreements	<u>171,908,213</u>		<u>470,571,139</u>	<u>642,479,352</u>
Subtotal	<u>\$3,689,361,451</u>	<u>\$ 0</u>	<u>\$505,493,429</u>	4,194,854,880
Investments - Not Categorized				
Investments held by broker-dealers under securities loans				
U.S. Government Securities				360,472,930
Corporate bonds				14,071,955
Corporate stocks				124,534,388
Real Estate Investment				<u>176,715,941</u>
Total Investments				<u>\$4,870,650,094</u>

KENTUCKY RETIREMENT SYSTEMS
NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended June 30, 1998 and 1997

NOTE D. Investments (Continued)

COUNTY EMPLOYEES RETIREMENT SYSTEM

	1998			
	Category 1	Category 2	Category 3	Market Value
Investments - Categorized				
U.S. Government Securities:				
Not on securities loan	\$ 80,261,963	\$	\$ 80,261,963	
Loaned for securities collateral	1,508,416			1,508,416
Corporate bonds	422,639,389			422,639,389
Loaned for securities collateral	7,544,586			7,544,586
Corporate stocks	3,094,373,368			3,094,373,368
Loaned for securities collateral	3,251,052			3,251,052
Mortgages	232,492,567			232,492,567
Repurchase agreements	<u>290,361,870</u>		<u>611,219,986</u>	<u>901,581,856</u>
Subtotal	<u>\$4,132,433,211</u>	<u>\$ 0</u>	<u>\$611,219,986</u>	4,743,653,197
Investments - Not Categorized				
Investments held by broker-dealers under securities loans				
U.S. Government Securities				372,509,015
Corporate bonds				15,455,763
Corporate stocks				263,819,421
Real Estate Investment				<u>62,941,658</u>
Total Investments				<u>\$5,458,379,054</u>
	1997			
	Category 1	Category 2	Category 3	Market Value
Investments - Categorized				
U.S. Government Securities:				
Not on securities loan	\$ 55,736,984	\$	\$ 13,396,250	\$ 69,133,234
Loaned for securities collateral	39,704,544			39,704,544
Corporate bonds	291,385,668		20,236,935	311,622,603
Corporate stocks	2,554,019,056			2,554,019,056
Mortgages	147,728,799			147,728,799
Repurchase agreements	<u>237,237,533</u>		<u>453,200,702</u>	<u>690,438,235</u>
Subtotal	<u>\$3,325,812,584</u>	<u>\$ 0</u>	<u>\$486,833,887</u>	3,812,646,471
Investments - Not Categorized				
Investments held by broker-dealers under securities loans				
U.S. Government Securities				347,166,606
Corporate bonds				13,552,509
Corporate stocks				119,937,385
Real Estate Investment				<u>150,816,754</u>
Total Investments				<u>\$4,444,119,725</u>

KENTUCKY RETIREMENT SYSTEMS
 NOTES TO THE FINANCIAL STATEMENTS
 For The Years Ended June 30, 1998 and 1997

NOTE D. Investments (Continued)

STATE POLICE RETIREMENT SYSTEM

	1998			
	Category 1	Category 2	Market Category 3	Value
Investments - Categorized				
U.S. Government Securities:				
Not on securities loan	\$ 5,449,379	\$	\$	\$ 5,449,379
Loaned for securities collateral	65,541			65,541
Corporate bonds	34,063,625			34,063,625
Loaned for securities collateral	384,215			384,215
Corporate stocks	243,804,164			243,804,164
Loaned for securities collateral	235,444			235,444
Mortgages	16,848,219			16,848,219
Repurchase agreements	<u>17,659,892</u>		<u>43,741,189</u>	<u>61,401,081</u>
Subtotal	<u>\$ 318,510,479</u>	<u>\$ 0</u>	<u>\$ 43,741,189</u>	362,251,668
Investments - Not Categorized				
Investments held by broker-dealers under securities loans				
U.S. Government Securities				16,185,636
Corporate bonds				787,100
Corporate stocks				19,106,053
Real Estate Investment				<u>7,146,548</u>
Total Investments				<u>\$ 405,477,005</u>
	1997			
	Category 1	Category 2	Market Category 3	Value
Investments - Categorized				
U.S. Government Securities:				
Not on securities loan	\$ 4,575,492	\$	\$ 894,043	\$ 5,469,535
Loaned for securities collateral	2,468,892			2,468,892
Corporate bonds	28,407,189		1,350,579	29,757,768
Corporate stocks	198,833,262			198,833,262
Mortgages	14,157,420			14,157,420
Repurchase agreements	<u>14,618,760</u>		<u>30,245,859</u>	<u>44,864,619</u>
Subtotal	<u>\$ 263,061,015</u>	<u>\$ 0</u>	<u>\$ 32,490,481</u>	295,551,496
Investments - Not Categorized				
Investments held by broker-dealers under securities loans				
U.S. Government Securities				23,169,320
Corporate bonds				904,472
Corporate stocks				8,004,421
Real Estate Investment				<u>11,921,962</u>
Total Investments				<u>\$ 339,551,671</u>

KENTUCKY RETIREMENT SYSTEMS
NOTES TO THE FINANCIAL STATEMENTS
For The Years Ended June 30, 1998 and 1997

NOTE D. Investments (Continued)

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

	1998			
	Category 1	Category 2	Category 3	Market Value
Investments - Categorized				
U.S. Government Securities:				
Not on securities loan	\$ 109,636	\$	\$	\$ 109,636
Loaned for securities collateral	224,531			224,531
Corporate bonds	66,216,167			66,216,167
Loaned for securities collateral	1,828,322			1,828,322
Corporate stocks	400,901,688			400,901,688
Loaned for securities collateral	574,560			574,560
Mortgages	28,943,569			28,943,569
Repurchase agreements	52,472,040		126,256,826	178,728,866
Subtotal	\$ 551,270,513	\$ 0	\$126,256,826	677,527,339
Investments - Not Categorized				
Investments held by broker-dealers under securities loans				
U.S. Government Securities				55,448,732
Corporate bonds				3,745,482
Corporate stocks				46,624,939
Total Investments				\$ 783,346,492
	1997			
	Category 1	Category 2	Category 3	Market Value
Investments - Categorized				
U.S. Government Securities:				
Not on securities loan	\$ 4,467,875	\$	\$ 1,800,000	\$ 6,267,875
Loaned for securities collateral	5,208,000			5,208,000
Corporate bonds	43,263,903		2,719,155	45,983,058
Corporate stocks	327,055,682			327,055,682
Mortgages	24,999,265			24,999,265
Repurchase agreements	33,056,794		60,894,747	93,951,541
Subtotal	\$ 438,051,519	\$ 0	\$ 65,413,902	503,465,421
Investments - Not Categorized				
Investments held by broker-dealers under securities loans				
U.S. Government Securities				46,647,374
Corporate bonds				1,820,996
Corporate stocks				16,115,502
Total Investments				\$ 568,049,293

NOTE E. Securities Lending Transactions

Kentucky Revised Statutes Sections 61.650 and 386.020(2) permit the Systems to lend their securities to broker-dealers and other entities. The borrowers of the securities agree to return the same securities at a later date and, to transfer to the Systems' custodial bank either cash or other securities with a value equal to 102 percent of the value of the borrowed securities. Securities lent for cash collateral are presented as unclassified above in the schedule of custodial credit risk; securities lent for securities collateral are classified according to the category for the collateral. At year-end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System. The contract with the System's custodial bank requires it to indemnify the System as follows:

- If the bank fails to make a reasonable determination of the creditworthiness of any borrower to whom loans are made and such borrower fails to return loaned securities pursuant to the securities borrowing agreement, the bank shall within one business day credit the System's account with either (i) securities identical to the loaned securities, or (ii) cash, in an amount equal to the market value of the loaned securities on the business day such securities or cash is credited to the account, and shall credit the account with all monies and other distributions paid upon such loaned securities (or the cash equivalent thereof) which are not returned by such borrower.
- If the bank makes a reasonable determination of the creditworthiness of any borrower to whom loans are made but fails to properly perform its mark-to-market obligations and such borrower fails to return loaned securities pursuant to the securities borrowing agreement, the bank shall within one business day credit the System's account with securities identical to loaned securities or cash, in an amount equal to the sum of (i) the difference between the amount of the collateral the bank should have received pursuant to the securities borrowing agreement and the amount of collateral actually received, (ii) five percent of the market value of the loaned securities on the business day such securities or cash is credited to the account, and (iii) all monies and other distributions paid upon such loaned securities (or cash equivalent thereof) which are not returned by such borrower.
- If the bank makes a reasonable determination of the creditworthiness of any borrower to whom loans are made and properly performs its mark-to-market obligations hereunder and such borrower fails to return loaned securities pursuant to the securities borrowing agreement, the bank shall within one business day credit the System's account with securities identical to loaned securities or cash, in an amount equal to the sum of (i) five percent of the market value of the loaned securities on the business day such securities or cash is credited to the account, and (ii) all monies and other distributions paid upon such loaned securities (or the cash equivalent thereof) which are not returned by the borrower.

All securities loans can be terminated on demand by either the Systems or the borrower, although the average term of the loans is one day. Cash collateral is invested in securities which are permitted for investment by state statute and Board policy, which at year-end has a weighted-average maturity of three days for its regular account and two days for its index account. The System cannot pledge or sell collateral securities received unless the borrower defaults.

NOTE F. Risks of Loss

The Systems are exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Under the provisions of the Kentucky Revised Statutes, the Kentucky Board of Claims is vested with full power and authority to investigate, hear proof, and to compensate persons for damages sustained to either person or property as a result of negligence of the agency or any of its employees. Awards are limited to \$100,000 for a single claim and \$250,000 in aggregate per occurrence. Awards and a pro rata share of the operating cost of the Board of Claims are paid from the fund of the agency having a claim or claims before the Board.

Claims against the Board of Trustees of Kentucky Retirement Systems or any of its staff as result of actual or alleged breach of fiduciary duty are insured with a commercial insurance policy. Coverage provided is limited to \$5,000,000 with a deductible amount of \$25,000. Defense costs incurred in defending such claims will be paid by the insurance company. However, the total defense cost and claims paid shall not exceed the total aggregate coverage of the policy.

NOTE F. Risks of Loss (Continued)

Claims for job-related illnesses or injuries to employees are insured by the state's self-insured workers compensation program. Payments approved by the program are not subject to maximum limitations. A claimant may receive reimbursement for all medical expenses related to the illness or injury and up to sixty-six and two-thirds percent (66 $\frac{2}{3}$ %) of wages for temporary disability. Each agency pays premiums based on fund reserves and payroll.

Only claims pertaining to workers' compensation have been filed during the past three fiscal years. Settlements did not exceed insurance coverage in any of the past three fiscal years. There were no claims which were appealed to the Kentucky Workers Compensation Board.

NOTE G. Contingencies

In the normal course of business, the Retirement Systems and Insurance Fund are involved in various litigation concerning the right of participants or their beneficiaries to receive benefits. The System does not anticipate any material losses as a result of the contingent liabilities.

NOTE H. 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 income tax law.

NOTE I. Participation of Qualified Circuit Clerks and Deputy Clerks

KRS 78.534 as enacted by the 1996 General Assembly requires that on and after August 1, 1996, each circuit clerk and deputy clerk who was a member of the Kentucky Employees Retirement System on July 31, 1996, each former circuit clerk or former deputy clerk who is vested in the Kentucky Employees Retirement System for service as a circuit clerk or deputy clerk who has not yet begun to draw benefits, and each circuit clerk or deputy clerk thereafter taking office shall participate in the County Employees Retirement System by appropriate order authorizing participation pursuant to KRS 78.530. Upon participation, each member shall be bound by the terms and requirements of the County Employees Retirement System and shall receive the benefits.

During the year ended June 30, 1997, service credit for all circuit clerks and deputy clerks specified by KRS 78.534 was transferred from the Kentucky Employees Retirement System to the County Employees Retirement System. Member contributions and interest credited thereon in the amount of \$12,173,594 and employer contributions in the amount of \$34,368,575 were also transferred from the Kentucky Employees Retirement System to the County Employees Retirement System during the fiscal year ended June 30, 1997.

NOTE J. E.E.O.C. v. Kentucky State Police, et.al.

The U.S. Equal Employment Opportunity Commission filed suit against the Kentucky State Police charging mandatory retirement of state police officers at age 55 is not a bona fide occupational qualification and thus violates the U.S. Age Discrimination in Employment Act. The suit demanded that all former State Police officers involved be reinstated to their former positions and be made whole with full back-pay and benefits. Kentucky Retirement Systems entered the lawsuit as a third party demanding that if the officers were reinstated they would return retirement benefits paid them, return insurance premiums paid on their behalf, and pay retirement contributions that would have been due had they remained employed. Kentucky Retirement Systems also demanded that the Kentucky State Police pay employer contributions that would have been due had the officers remained employed. The officers were allowed to re-retire with increased retirement benefits calculated from the end of the reinstatement period to each individual officer's date of death or December 31, 1986. The U.S. Age Discrimination Act was amended to again make age a bona fide occupational qualification for hazardous duty jobs effective January 1, 1987.

As a result of final judgment being entered in the case on June 30, 1997, \$9,321,380 and \$307,706 was received respectively by the State Police Retirement System and the State Police Insurance Fund on June 30, 1997. Back pay resulting from increased retirement benefits in the amount of \$11,135,748 has been included in accounts payable as of June 30, 1997. Actual payments to plaintiffs in the case were made in the fiscal year ending June 30, 1998.

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)
<u>Non-Hazardous</u>			
June 30, 1993	2,508,761,584	2,619,150,115	110,388,531
June 30, 1994	2,637,660,362	2,809,545,625	171,885,263
June 30, 1995	2,872,020,193	3,112,989,384	240,969,191
June 30, 1996	3,237,983,129	3,295,362,361	57,379,232
June 30, 1997	3,683,995,005	3,463,047,650	(220,947,355)
June 30, 1998	4,356,072,625	3,800,014,746	(556,057,879)
 <u>Hazardous</u>			
June 30, 1993	76,447,953	84,620,961	8,173,008
June 30, 1994	91,388,625	102,504,650	11,116,025
June 30, 1995	111,793,345	127,862,904	16,069,559
June 30, 1996	137,312,448	120,042,122	(17,270,326)
June 30, 1997	166,717,238	140,918,460	(25,798,778)
June 30, 1998	212,214,618	171,735,076	(40,479,542)

KENTUCKY RETIREMENT SYSTEMS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS
 For The Year Ended June 30, 1998

Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a % of Covered Payroll <u>((b-a)/c)</u>
0.958	1,079,322,020	0.102
0.939	1,121,481,440	0.153
0.923	1,231,383,460	0.196
0.983	1,232,974,460	0.047
1.064	1,234,798,738	(0.179)
1.146	1,321,004,266	(0.421)
0.903	80,655,200	0.101
0.892	75,686,614	0.147
0.874	88,657,986	0.181
1.144	85,933,543	(0.201)
1.183	87,757,075	(0.294)
1.236	93,130,996	(0.435)

COUNTY EMPLOYEES RETIREMENT SYSTEM

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)
<u>Non-Hazardous</u>			
June 30, 1993	1,549,218,273	1,558,370,044	9,151,771
June 30, 1994	1,680,890,826	1,748,933,823	68,042,997
June 30, 1995	1,901,448,617	1,935,154,223	33,705,606
June 30, 1996	2,237,808,033	2,083,374,317	(154,433,716)
June 30, 1997	2,750,196,558	2,390,620,093	(359,576,465)
June 30, 1998	3,346,205,003	2,663,946,276	(682,258,727)
 <u>Hazardous</u>			
June 30, 1993	436,462,436	521,560,003	85,097,567
June 30, 1994	492,463,946	581,410,418	88,946,472
June 30, 1995	552,679,443	668,421,698	115,742,255
June 30, 1996	642,220,505	694,942,156	52,721,651
June 30, 1997	763,829,310	754,308,810	(9,520,500)
June 30, 1998	927,057,492	865,966,626	(61,090,866)

KENTUCKY RETIREMENT SYSTEMS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS
 For The Year Ended June 30, 1998

Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a % of Covered Payroll <u>((b-a)/c)</u>
0.994	1,107,476,940	0.008
0.961	1,050,987,720	0.065
0.983	1,167,668,400	0.029
1.074	1,137,192,560	(0.136)
1.150	1,297,116,204	(0.277)
1.256	1,437,594,574	(0.475)
0.837	170,391,529	0.499
0.847	183,410,686	0.485
0.827	205,738,571	0.563
0.924	211,638,457	0.249
1.013	225,094,837	(0.042)
1.071	236,180,023	(0.257)

KENTUCKY RETIREMENT SYSTEMS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS
 For The Year Ended June 30, 1998

STATE POLICE RETIREMENT SYSTEM

	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) Entry Age Normal <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a % of Covered Payroll <u>((b-a)/c)</u>
June 30, 1993	200,320,968	191,653,594	(8,667,374)	1.045	36,369,643	(0.238)
June 30, 1994	205,320,509	206,763,310	1,442,801	0.993	36,783,743	0.039
June 30, 1995	217,504,443	241,690,631	24,186,188	0.900	38,955,271	0.621
June 30, 1996	237,515,346	244,540,812	7,025,466	0.971	34,698,957	0.202
June 30, 1997	279,643,275	255,784,758	(23,858,517)	1.093	41,586,211	(0.574)
June 30, 1998	306,318,918	294,427,019	(11,891,899)	1.040	38,727,361	(0.307)

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KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Targeted Rate (b)	Unfunded AAL (UAAL) (b-a)
<u>KERS</u>			
<u>Non-Hazardous</u>			
June 30, 1993	63,686,402	1,100,308,587	1,036,622,185
June 30, 1994	80,315,367	1,341,024,064	1,260,708,697
June 30, 1995	102,238,501	1,348,616,865	1,246,378,364
June 30, 1996**	138,382,213	1,127,128,023	988,745,810
June 30, 1997	168,479,973	1,153,952,891	985,472,918
June 30, 1998	210,105,184	1,242,183,993	1,032,078,809
<u>KERS</u>			
<u>Hazardous</u>			
June 30, 1993	13,987,173	77,552,696	63,565,523
June 30, 1994	18,768,166	103,588,614	84,820,448
June 30, 1995	25,053,690	113,557,236	88,503,546
June 30, 1996**	34,263,992	95,266,115	61,002,123
June 30, 1997	42,684,374	120,511,351	77,826,977
June 30, 1998	54,606,786	137,394,162	82,787,376

** Asset valuation method was changed from book value to a five year average of market to book values. - June 30, 1996 valuation.

KENTUCKY RETIREMENT SYSTEMS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS
 For The Year Ended June 30, 1998

Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a % of Covered Payroll <u>((b-a)/c)</u>
0.058	1,079,322,020	0.960
0.060	1,121,481,440	1.124
0.076	1,231,383,460	1.012
0.123	1,232,974,460	0.802
0.146	1,234,798,738	0.798
0.169	1,321,004,266	0.781
0.180	80,655,200	0.788
0.181	75,686,614	1.121
0.221	88,657,986	0.998
0.360	85,933,543	0.710
0.354	87,757,075	0.887
0.397	93,130,996	0.889

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Targeted Rate (b)	Unfunded AAL (UAAL) (b-a)
<u>CERS</u>			
<u>Non-Hazardous</u>			
June 30, 1993	47,845,958	904,633,735	856,787,777
June 30, 1994	65,174,505	1,144,860,603	1,079,686,098
June 30, 1995	82,813,551	1,217,880,223	1,135,066,682
June 30, 1996**	110,203,861	1,011,215,398	901,011,537
June 30, 1997	134,688,096	1,091,055,849	956,367,753
June 30, 1998	168,531,296	1,213,339,747	1,044,808,451
<u>CERS</u>			
<u>Hazardous</u>			
June 30, 1993	26,407,914	339,624,307	313,216,393
June 30, 1994	34,340,390	406,278,197	371,937,807
June 30, 1995	42,640,389	462,012,992	419,372,603
June 30, 1996**	57,332,380	375,444,348	318,111,968
June 30, 1997	69,832,681	450,304,608	380,471,927
June 30, 1998	87,055,079	493,286,363	406,231,284

** Asset valuation method was changed from book value to a five year average of market to book values. - June 30, 1996 valuation.

KENTUCKY RETIREMENT SYSTEMS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS
 For The Year Ended June 30, 1998

Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a % of Covered Payroll <u>((b-a)/c)</u>
0.053	1,107,476,940	0.774
0.057	1,050,987,720	1.027
0.068	1,167,668,400	0.972
0.109	1,137,192,560	0.792
0.123	1,297,116,204	0.737
0.139	1,437,594,574	0.727
0.078	170,391,529	1.838
0.085	183,410,686	2.028
0.092	205,738,571	2.038
0.153	211,638,457	1.503
0.155	225,094,837	1.690
0.176	236,180,023	1.720

KENTUCKY RETIREMENT SYSTEMS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS
 For The Year Ended June 30, 1998

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

<u>SPRS</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) Targeted Rate <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a % of Covered Payroll <u>((b-a)/c)</u>
June 30, 1993	14,285,479	95,290,099	81,004,620	0.150	36,369,643	2.227
June 30, 1994	17,410,672	110,193,139	92,782,467	0.158	36,783,743	2.522
June 30, 1995	21,200,195	118,995,732	97,795,537	0.178	38,955,271	2.511
June 30, 1996**	27,809,267	101,132,886	73,323,619	0.275	34,698,957	2.113
June 30, 1997	33,876,483	117,361,754	83,485,271	0.289	41,586,211	2.008
June 30, 1998	41,410,500	124,501,076	83,090,576	0.333	38,727,361	2.146

** Asset valuation method was changed from book value to a five year average of market to book values. - June 30, 1996 valuation.

KENTUCKY RETIREMENT SYSTEMS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF EMPLOYER CONTRIBUTIONS
 For The Year Ended June 30, 1998

KENTUCKY EMPLOYEES RETIREMENT SYSTEM
 EMPLOYER CONTRIBUTIONS

NON-HAZARDOUS

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1993	93,469,287	80,122,545	0.857
June 30, 1994	97,120,293	80,936,678	0.833
June 30, 1995	105,406,424	93,882,993	0.891
June 30, 1996	107,885,265	99,296,569	0.920
June 30, 1997	109,773,608	102,967,907	0.935
June 30, 1998	117,437,279	112,082,480	0.954

HAZARDOUS

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1993	14,154,988	10,445,950	0.738
June 30, 1994	13,517,451	10,600,435	0.784
June 30, 1995	15,931,840	13,698,600	0.860
June 30, 1996	15,511,004	14,420,406	0.930
June 30, 1997	15,682,189	15,151,328	0.966
June 30, 1998	16,642,509	15,997,189	0.961

KENTUCKY RETIREMENT SYSTEMS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF EMPLOYER CONTRIBUTIONS
 For The Year Ended June 30, 1998

COUNTY EMPLOYEES RETIREMENT SYSTEM
 EMPLOYER CONTRIBUTIONS

NON-HAZARDOUS

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1993	97,679,466	86,394,130	0.885
June 30, 1994	92,697,117	83,583,039	0.902
June 30, 1995	102,404,519	88,922,215	0.868
June 30, 1996	101,665,015	95,660,478	0.941
June 30, 1997	112,200,552	105,773,743	0.942
June 30, 1998	124,351,931	107,490,256	0.864

HAZARDOUS

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1993	31,471,315	28,836,513	0.916
June 30, 1994	33,912,636	30,576,794	0.902
June 30, 1995	37,691,306	32,959,064	0.874
June 30, 1996	38,539,363	35,951,348	0.933
June 30, 1997	42,070,225	39,552,085	0.938
June 30, 1998	44,142,046	42,297,090	0.958

KENTUCKY RETIREMENT SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
For The Year Ended June 30, 1998

STATE POLICE RETIREMENT SYSTEM
EMPLOYER CONTRIBUTIONS

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1993	7,943,130	6,113,532	0.770
June 30, 1994	8,033,569	6,081,367	0.757
June 30, 1995	8,484,458	6,874,327	0.810
June 30, 1996	7,998,110	7,089,072	0.886
June 30, 1997	11,053,615	9,627,692	0.871
June 30, 1998	10,293,733	9,573,742	0.930

KENTUCKY RETIREMENT SYSTEMS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF EMPLOYER CONTRIBUTIONS
 For The Year Ended June 30, 1998

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND
 EMPLOYER CONTRIBUTIONS

KERS
NON-HAZARDOUS

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1993	33,674,847	18,101,290	0.538
June 30, 1994	35,102,369	27,082,676	0.772
June 30, 1995	38,788,579	34,378,689	0.886
June 30, 1996	38,838,695	36,690,182	0.940
June 30, 1997	38,896,160	37,709,736	0.970
June 30, 1998	54,029,074	39,503,545	0.731

KERS
HAZARDOUS

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1993	5,952,354	4,269,097	0.717
June 30, 1994	5,608,304	4,370,216	0.779
June 30, 1995	6,613,886	5,632,584	0.852
June 30, 1996	6,410,642	5,931,007	0.930
June 30, 1997	6,546,678	6,278,931	0.960
June 30, 1998	9,341,039	6,632,037	0.710

KENTUCKY RETIREMENT SYSTEMS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF EMPLOYER CONTRIBUTIONS
 For The Year Ended June 30, 1998

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND
 EMPLOYER CONTRIBUTIONS

CERS
NON-HAZARDOUS

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1993	26,136,456	13,802,160	0.528
June 30, 1994	24,803,310	22,277,276	0.898
June 30, 1995	27,556,974	23,773,207	0.863
June 30, 1996	26,837,744	25,234,550	0.940
June 30, 1997	30,611,942	27,504,331	0.898
June 30, 1998	48,303,178	29,271,074	0.606

CERS
HAZARDOUS

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1993	10,785,784	8,473,695	0.786
June 30, 1994	11,609,896	10,452,184	0.900
June 30, 1995	13,023,252	11,299,170	0.868
June 30, 1996	13,396,714	12,381,700	0.920
June 30, 1997	14,248,503	13,305,317	0.934
June 30, 1998	20,783,842	14,275,040	0.687

KENTUCKY RETIREMENT SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
For The Year Ended June 30, 1998

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND
EMPLOYER CONTRIBUTIONS

SPRS
HAZARDOUS

<u>Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1993	5,131,757	2,921,685	0.569
June 30, 1994	5,201,221	3,767,140	0.724
June 30, 1995	5,535,544	4,463,969	0.806
June 30, 1996	4,930,722	4,603,921	0.930
June 30, 1997	5,909,401	5,125,678	0.867
June 30, 1998	6,808,270	5,120,037	0.752

KENTUCKY RETIREMENT SYSTEMS
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 For The Year Ended June 30, 1998

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

PENSION FUNDS

	<u>Non-Hazardous</u>	<u>Hazardous</u>
Valuation Date	June 30, 1998	June 30, 1998
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Closed	Level Percent Closed
Amortization Period - Each Benefit Improvement	30 years - Commencing with 1990 Valuation	30 years - Commencing with 1990 Valuation
Asset Valuation Method -	Five-year Average of Market to Book Value	Five-year Average of Market to Book Value
Postretirement Benefit Increase	3.0%	3.0%
Actuarial Assumptions:		
Investment Return	8.25%	8.25%
Projected Salary Increases	6.50%	6.50%
Inflation Rate	3.50%	3.50%

POST-EMPLOYMENT HEALTHCARE

	<u>Non-Hazardous</u>	<u>Hazardous</u>
Valuation Date	June 30, 1998	June 30, 1998
Actuarial Cost Method	Targeted Rate	Targeted Rate
Asset Valuation Method - Started with 1996 Valuation	Five-year Average of Market to Book Value	Five-year Average of Market to Book Value
Actuarial Assumptions:		
Investment Return	8.25%	8.25%
Projected Salary Increases	6.50%	6.50%
Inflation Rate	3.50%	3.50%

ASSETS	<u>KERS HAZARDOUS</u>	<u>KERS NON-HAZARDOUS</u>
Cash and short-term investments		
Cash	\$ 0	\$ 0
Short-term investments	<u>29,529</u>	<u>290,976</u>
Total cash and short-term investments	29,529	290,976
Receivables		
Investments - accounts receivable	2	63
Interest receivable - year end	788	16,328
Accounts receivable - year end	4,375	15,373
Accounts receivable - alternate plan A/R - alternate plan - year end	<u> </u>	<u> </u>
Total receivables	5,165	31,764
Investments at fair value		
Corporate and government bonds	44,789	867,544
Corporate stocks	147,666	3,523,340
Mortgages	9,801	258,377
Real estate	<u>1,758</u>	<u>88,919</u>
Total investments at fair value	204,014	4,738,180
Securities lending collateral invested	<u>29,003</u>	<u>608,395</u>
Total assets	267,711	5,669,315
LIABILITIES		
Investment - accounts payable	0	0
Accounts payable	3,634	7,920
Securities lending collateral	<u>29,003</u>	<u>608,395</u>
Total liabilities	<u>32,637</u>	<u>616,315</u>
PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 235,074</u>	<u>\$ 5,053,000</u>

The accompanying notes are an integral part of these financial statements.

KENTUCKY RETIREMENT SYSTEMS
 SUPPLEMENTARY INFORMATION
 COMBINING STATEMENTS OF PLAN NET ASSETS
 PENSION FUNDS
 June 30, 1998 and 1997

Expressed In Thousands

<u>CERS HAZARDOUS</u>	<u>CERS NON-HAZARDOUS</u>	<u>STATE POLICE</u>	<u>1998 TOTAL</u>	<u>1997 TOTAL</u>
\$ 0	\$ 0	\$	\$	\$
<u>71,279</u>	<u>219,082</u>	<u>17,660</u>	<u>628,526</u>	<u>423,764</u>
71,279	219,082	17,660	628,526	423,764
12	47	4	128	120
3,539	13,250	1,164	35,069	32,123
6,540	21,604	870	48,762	56,723
3,489	2,574		6,063	8,452
<u>248</u>	<u>164</u>	<u> </u>	<u>412</u>	<u>586</u>
13,828	37,639	2,038	90,434	98,004
194,195	707,411	56,991	1,870,930	1,694,165
716,250	2,645,194	263,146	7,295,596	5,802,111
49,788	182,755	16,851	517,572	373,833
<u>12,953</u>	<u>49,988</u>	<u>7,147</u>	<u>160,765</u>	<u>339,455</u>
973,186	3,585,348	344,135	9,844,863	8,209,564
<u>130,779</u>	<u>480,441</u>	<u>43,741</u>	<u>1,292,359</u>	<u>1,003,444</u>
1,189,072	4,322,510	407,574	11,856,182	9,734,776
1,686	0	515	0	0
<u>130,779</u>	<u>5,566</u>	<u>43,741</u>	<u>19,321</u>	<u>33,135</u>
<u>132,465</u>	<u>480,441</u>	<u>44,256</u>	<u>1,292,359</u>	<u>1,003,444</u>
132,465	486,007	44,256	1,311,680	1,036,579
<u>\$1,056,606</u>	<u>\$ 3,836,503</u>	<u>\$363,318</u>	<u>\$10,544,502</u>	<u>\$ 8,698,197</u>

	<u>KERS HAZARDOUS</u>	<u>KERS NON-HAZARDOUS</u>
ADDITIONS		
Members' contributions	\$ 6,520	\$ 67,595
Employers' contributions	<u>16,033</u>	<u>112,188</u>
Total contributions	22,553	179,783
INVESTMENT INCOME		
From Investing Activities		
Net appreciation in fair value of investments	30,169	757,631
Interest	4,681	90,047
Dividends	2,172	51,089
Real estate operating income (Net)	<u>561</u>	<u>10,949</u>
Total investing activity income	37,583	909,716
Investment expense	<u>115</u>	<u>2,597</u>
Net income from investing activities	37,468	907,119
From securities lending activities		
Securities lending income	1,464	34,597
Securities lending expense		
Security borrower rebates	1,407	33,259
Security lending agent fees	<u>23</u>	<u>535</u>
Net income from securities lending activities	<u>34</u>	<u>803</u>
Total net investment income	<u>37,502</u>	<u>907,922</u>
TOTAL ADDITIONS	60,055	1,087,705
DEDUCTIONS		
Benefit payments	4,163	189,406
Refunds	1,041	8,155
Administrative expenses	188	2,440
Other deductions (Net)	<u>6,630</u>	<u>39,505</u>
Total deductions	<u>12,022</u>	<u>239,506</u>
Net increase	48,033	848,199
PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of year	<u>187,041</u>	<u>4,204,801</u>
End of year	<u>\$ 235,074</u>	<u>\$ 5,053,000</u>

The accompanying notes are an integral part of these financial statements

KENTUCKY RETIREMENT SYSTEMS
 SUPPLEMENTARY INFORMATION
 COMBINING STATEMENTS OF CHANGES IN PLAN NET ASSETS
 PENSION FUNDS
 June 30, 1998 and 1997

Expressed In Thousands

<u>CERS HAZARDOUS</u>	<u>CERS NON-HAZARDOUS</u>	<u>STATE POLICE</u>	<u>1998 TOTAL</u>	<u>1997 TOTAL</u>
\$ 16,581	\$ 74,382	\$ 2,711	\$ 167,789	\$ 151,402
<u>42,298</u>	<u>107,526</u>	<u>9,574</u>	<u>287,619</u>	<u>273,046</u>
58,879	181,908	12,285	455,408	424,448
149,615	559,935	56,126	1,553,476	1,347,238
19,096	66,631	6,297	186,752	152,781
10,665	38,581	3,808	106,315	117,196
<u>2,234</u>	<u>8,122</u>	<u>877</u>	<u>22,743</u>	<u>21,429</u>
181,610	673,269	67,108	1,869,286	1,638,644
<u>552</u>	<u>1,940</u>	<u>187</u>	<u>5,391</u>	<u>4,654</u>
181,058	671,329	66,921	1,863,895	1,633,990
7,050	25,961	2,407	71,479	33,923
6,778	24,957	2,314	68,715	32,336
<u>109</u>	<u>401</u>	<u>37</u>	<u>1,105</u>	<u>635</u>
<u>163</u>	<u>603</u>	<u>56</u>	<u>1,659</u>	<u>952</u>
<u>181,221</u>	<u>671,932</u>	<u>66,977</u>	<u>1,865,554</u>	<u>1,634,942</u>
240,100	853,840	79,262	2,320,962	2,059,390
38,052	104,353	17,735	353,709	312,220
939	9,234	70	19,439	17,486
350	3,680	47	6,703	6,663
<u>14,273</u>	<u>29,276</u>	<u>5,120</u>	<u>94,804</u>	<u>89,933</u>
<u>53,614</u>	<u>146,543</u>	<u>22,972</u>	<u>474,655</u>	<u>426,302</u>
186,486	707,297	56,290	1,846,307	1,633,088
<u>870,120</u>	<u>3,129,206</u>	<u>307,028</u>	<u>8,698,195</u>	<u>7,065,109</u>
<u>\$1,056,606</u>	<u>\$ 3,836,503</u>	<u>\$363,318</u>	<u>\$10,544,502</u>	<u>\$ 8,698,197</u>

	<u>KERS HAZARDOUS</u>	<u>KERS NON-HAZARDOUS</u>
Assets		
Cash And short-term investments		
Cash	\$ 0	\$ 0
Short-term investments	<u>5,408</u>	<u>18,799</u>
Total cash And short-term investments	5,408	18,799
Receivables		
Investments - accounts receivable	1	5
Bond/Mtge interest rec. - year end	217	851
Accounts receivable - year end	<u>590</u>	<u>3,523</u>
Total receivables	808	4,379
Investments, at fair value		
Corporate and government bonds	12,465	48,357
Corporate stocks	43,068	168,151
Mortgages	<u>2,747</u>	<u>10,824</u>
Total investments, at fair value	58,280	227,332
Security lending collateral invested	<u>12,419</u>	<u>47,308</u>
Total assets	76,915	297,818
LIABILITIES		
Security lending collateral	12,419	47,308
Accounts payable - year end	<u>26</u>	<u>112</u>
Total liabilities	<u>12,445</u>	<u>47,420</u>
PLAN NET ASSETS - POSTEMPLOYMENT HEALTHCARE BENEFITS	<u>\$ 64,470</u>	<u>\$ 250,398</u>

The accompanying notes are an integral part of these financial statements.

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND
 SUPPLEMENTARY INFORMATION
 COMBINING STATEMENTS OF PLAN NET ASSETS
 POSTEMPLOYMENT HEALTHCARE
 June 30, 1998 and 1997

Expressed In Thousands

<u>CERS HAZARDOUS</u>	<u>CERS NON-HAZARDOUS</u>	<u>STATE POLICE</u>	<u>1998 Total</u>	<u>1997 Total</u>
\$ 0	\$ 0	\$	\$ 0	\$ 0
<u>8,439</u>	<u>16,368</u>	<u>3,458</u>	<u>52,472</u>	<u>33,058</u>
8,439	16,368	3,458	52,472	33,058
2	4	1	13	11
347	664	169	2,248	1,989
<u>1,297</u>	<u>3,167</u>	<u>452</u>	<u>9,029</u>	<u>8,895</u>
1,646	3,835	622	11,290	10,895
19,542	37,674	9,716	127,754	101,590
69,349	133,972	33,562	448,102	343,172
<u>4,571</u>	<u>8,721</u>	<u>2,084</u>	<u>28,947</u>	<u>24,999</u>
93,462	180,367	45,362	604,803	469,761
<u>19,440</u>	<u>37,636</u>	<u>9,454</u>	<u>126,257</u>	<u>65,430</u>
122,987	238,206	58,896	794,822	579,144
19,440	37,636	9,454	126,257	65,430
<u>43</u>	<u>86</u>	<u>23</u>	<u>290</u>	<u>262</u>
<u>19,483</u>	<u>37,722</u>	<u>9,477</u>	<u>126,547</u>	<u>65,692</u>
<u>\$ 103,504</u>	<u>\$ 200,484</u>	<u>\$ 49,419</u>	<u>\$ 668,275</u>	<u>\$ 513,452</u>

	<u>KERS Hazardous</u>	<u>KERS Non-Hazardous</u>
ADDITIONS		
Employers' contributions	\$ 6,632	\$ 39,504
INVESTMENT INCOME		
From Investing Activities		
Net appreciation in fair value of investments	8,642	34,974
Interest	1,161	4,230
Dividends	<u>600</u>	<u>2,414</u>
Total income from investing activities	<u>10,403</u>	<u>41,618</u>
Investment activities expense		
Manager fees	<u>8</u>	<u>32</u>
Net income from investing activities	10,395	41,586
From securities lending activities		
Income - security lending	368	1,574
Securities lending expense:		
Security borrower rebates	353	1,513
Security lending agent fees	<u>6</u>	<u>24</u>
Total securities lending expenses	<u>359</u>	<u>1,537</u>
Net income from securities lending activities	<u>9</u>	<u>37</u>
Total net investment income	<u>10,404</u>	<u>41,623</u>
Total additions	17,036	81,127
DEDUCTIONS		
Healthcare premiums subsidies	<u>1,126</u>	<u>23,395</u>
Net increase	15,910	57,732
PLAN NET ASSETS HELD IN TRUST FOR POSTEMPLOYMENT HEALTHCARE BENEFITS		
Beginning of year	<u>48,560</u>	<u>192,666</u>
End of year	<u>\$ 64,470</u>	<u>\$ 250,398</u>

The accompanying notes are an integral part of these financial statements.

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND
 SUPPLEMENTARY INFORMATION
 COMBINING STATEMENTS OF CHANGES IN PLAN NET ASSETS
 POSTEMPLOYMENT HEALTHCARE
 June 30, 1998 and 1997

Expressed In Thousands

<u>CERS Hazardous</u>	<u>CERS Non-Hazardous</u>	<u>STATE Police</u>	<u>1998 Total</u>	<u>1997 Total</u>
\$ 14,275	\$ 29,271	\$ 5,120	\$ 94,802	\$ 89,924
14,306	27,525	6,977	92,424	68,206
1,786	3,450	861	11,488	11,523
<u>982</u>	<u>1,893</u>	<u>476</u>	<u>6,365</u>	<u>5,209</u>
<u>17,074</u>	<u>32,868</u>	<u>8,314</u>	<u>110,277</u>	<u>84,938</u>
<u>13</u>	<u>25</u>	<u>6</u>	<u>84</u>	<u>61</u>
17,061	32,843	8,308	110,193	84,877
614	1,256	288	4,100	1,682
591	1,207	277	3,941	1,605
<u>9</u>	<u>19</u>	<u>4</u>	<u>62</u>	<u>31</u>
<u>600</u>	<u>1,226</u>	<u>281</u>	<u>4,003</u>	<u>1,636</u>
<u>14</u>	<u>30</u>	<u>7</u>	<u>97</u>	<u>46</u>
<u>17,075</u>	<u>32,873</u>	<u>8,315</u>	<u>110,290</u>	<u>84,923</u>
31,350	62,144	13,435	205,092	174,847
<u>7,538</u>	<u>15,600</u>	<u>2,611</u>	<u>50,270</u>	<u>43,924</u>
23,812	46,544	10,824	154,822	130,923
<u>79,692</u>	<u>153,940</u>	<u>38,595</u>	<u>513,453</u>	<u>382,529</u>
<u>\$ 103,504</u>	<u>\$ 200,484</u>	<u>\$ 49,419</u>	<u>\$ 668,275</u>	<u>\$ 513,452</u>

Charles T. Mitchell Company, LLP

Certified Public Accountants

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CHARLES F. WHELAN, C.P.A.

CHARLES T. MITCHELL, C.P.A.
CONSULTANT

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Kentucky Retirement Systems
Frankfort, Kentucky

We have audited the general purpose financial statements of Kentucky Retirement Systems, a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 1998, and have issued our report thereon dated October 15, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Kentucky Retirement Systems' general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kentucky Retirement Systems' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Charles F. Whelan

October 15, 1998

Schedule of Administrative Expenses
Year Ended June 30, 1998

Personal Services:		
Salaries and Per Diem	\$ 3,735,303	
Fringe Benefits	1,043,358	
Tuition Assistance	23,605	
Total Personal Services	<hr/>	\$ 4,802,266
Contractual Services:		
Actuarial	\$ 56,100	
Audit	26,625	
Legal	78,222	
Medical	102,516	
Banking	565	
Total Contractual Services	<hr/>	343,001
Communication:		
Printing	\$ 106,519	
Telephone	60,406	
Postage	351,138	
Travel	44,959	
Total Communication	<hr/>	563,022
Rentals:		
Office Space	\$ 400,749	
Equipment	23,619	
Total Rentals	<hr/>	424,368
Miscellaneous:		
Utilities	\$ 67,396	
Supplies	84,778	
Insurance	43,620	
Maintenance	68,611	
Other	26,390	
Total Miscellaneous	<hr/>	290,795
Capital Outlay:		
Equipment Purchases	\$130,262	
Lease Purchases	148,692	
Total Capital Outlay	<hr/>	278,954
Investment-Related Fees		<hr/> 5,391,575
Total Administrative Expenses		<hr/> <hr/> \$12,093,981

Schedule of Investment Expenses
Year Ended June 30, 1998

Security Lending Fees:		
Broker Rebates	\$72,656,000	
Lending Agent Fees	1,167,000	
Total Security Lending		\$73,823,000
Retirement Funds:		
Investment Management		4,846,621
Security Custody		482,454
Investment Consultant		62,500
Total Retirement Funds		5,391,575
Insurance Funds:		
Investment Management		83,932
Total Investment Expenses		\$79,298,507

Schedule of Payments to Consultants
Year Ended June 30, 1998

Actuarial Services		\$ 56,100
Medical Review Services		102,516
Death Match Services		495
Total Security Lending		\$159,111

Information on fees paid to investment consultants can be found in the Investment Section of the Comprehensive Annual Financial Report.

KENTUCKY RETIREMENT SYSTEMS

Investment Section

Comprehensive Annual Financial Report
June 30, 1998

INVESTMENT SECTION PREFACE

The Board of Trustees is charged with the responsibility of investing the systems' assets to provide for the benefits of the members of the systems. To achieve that goal the Board follows a policy of preserving capital, while seeking means of enhancing revenues and protecting against undue losses in any particular investment area.

The Board invests the assets of the systems with the goal of paying benefits from investment income and decreasing unfunded liabilities. The Board recognizes its fiduciary duty not only to invest the funds in formal compliance with the Prudent Person Rule, but also to manage the funds in continued recognition of the basic long term nature of the systems. In order to maintain quality while maximizing the long range return, the Board diversifies the investment of the assets among classes of securities.

The assets are managed by the Investment Division staff and by external professional managers based on these investment policies.

Objectives

Long-Term: The total assets of the systems should achieve a return measured over two market cycles (estimated to be six to ten years) which exceeds the rate of inflation for the period, as measured by the National Consumer Price Index, by at least 4%.

Short-Term: The returns of the particular asset classes of the managed funds of the systems, measured on a year-to-year basis, should exceed the returns achieved by comparable unmanaged market indices.

In keeping with its responsibility as trustee and wherever consistent with its fiduciary responsibility, the Board encourages the investment of the systems' assets in securities of corporations which provide a positive contribution to the economy of the Commonwealth of Kentucky.

Investments Performance Review Procedures

At least once each quarter, the Investment Committee, on behalf of the Board of Trustees, reviews the performance of the portfolio for determination of compliance with the Statement of Investment Policy.

Each month the Investment Division performs tests to assure compliance with the restrictions imposed by the Investment Policy. The following restrictions are tested monthly:

The amount of stock in any single corporation shall not exceed 5% of the aggregate market value of the systems' assets.

The amount of stock held shall not exceed 3% of the outstanding shares of any single corporation.

The amount of stock in any one industry shall not exceed 10% of the aggregate market value of the systems' assets.

The amount invested in the debt of a single corporation shall not exceed 5% of the total market value of the systems' assets.

Nonconvertible bonds must have a credit rating of Single-A or better according to at least one recognized bond rating service or the equivalent according to a manager's internal credit rating. Securities downgraded to a rating of BBB/Baa may be retained only upon specific approval of the Investment Committee.

No more than 1% of the systems' assets shall be invested in equity real estate investments with a greater than moderate risk level as determined by the Investment Committee.

The systems shall not hold more than 10% of the outstanding shares of any single mutual fund.

No manager shall invest more than 5% of the market value of assets held in any single issue short term instrument, with the exception of U.S. Government issued, guaranteed or agency obligations.

No manager shall invest more than 7.5% of the market value of assets held in SEC Rule 144a securities.

Investment Consulting

The Board employs William M. Mercer Investment Consulting to review the asset allocation guidelines and the performance of both the internally managed and externally managed assets. A letter from that firm follows this introduction and discusses current allocations, performance and significant changes over the fiscal year.

October 1, 1998

Via Federal Express

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

Dear Trustees:

This is our annual review of the asset management of the Kentucky Retirement Systems. While our comments focus on the one year fiscal period ended June 30, 1998, we recognize that the Board of Trustees is charged with the responsibility of managing the Fund in a manner consistent with the basic long term nature of the participating systems. In maximizing long term return, the Board must maintain formal compliance with the Prudent Person Rule, and therefore, also seeks to maintain proper and appropriate diversification. Mercer is charged with the duty to advise the Board in its asset management activities.

Systems Highlights

The asset allocation targets of the Systems were modified at the end of fiscal year 1996 and implemented during fiscal year 1997. Generally, the revised target allocations increased the equity allocations and, in the case of the Retirement Fund, reduced the allocation to real estate. The impact of this decision was felt in fiscal year 1998, as the Funds once again enjoyed substantial asset growth and investment returns. The Retirement Fund increased from \$8.7 billion to \$10.4 billion and had a 20.8% return. The Insurance Fund increased from \$503 million to \$657 million and had a 21.0% return. These results were above the median of the Fund's respective comparative composite universes, but fell short of their Reference Indexes by slim margins, 1.2% for the Retirement Fund and 0.5% for the Insurance Fund. Both the comparative universes and the Reference Indexes are constructed according to the individual target asset allocations of the Funds. The composite universe is a comparison using active management in the same asset allocation and the Reference Index is a comparison using unmanaged market indexes also in the same asset allocation. These results reflect the fact that active managers had difficulty outperforming the market indexes during this period.

The asset allocation targets were closely monitored throughout fiscal year 1998. The asset allocations of the Retirement and Insurance Funds at year end, June 30, 1998, were within reasonable and allowable range of their individual targets.

The year-end asset allocation of the Retirement and Insurance Funds are compared in the table below to their individual asset allocation targets:

<u>Asset Classes</u>	Retirement Fund		Insurance Fund	
	Actual Allocation	Target Asset Allocation	Actual Allocation	Target Asset Allocation
	6/30/98		6/30/98	
Large Cap Equity	58.7%	55%	49.8%	50%
Small Cap Equity	9.2	10	18.9	20
Market Bonds	19.4	22	24.1	25
Short-Term Bonds	4.6	5	0	0
Real Estate	3.9	5	0	0
Cash	4.2	3	7.2	5

The internal management of the large capitalization, small capitalization and REIT portfolios of the Retirement and Insurance Funds continued to provide cost effective investment. The large capitalization portfolios, which have the longest record, have been the most successful with current year and longer term tracking errors that, in our opinion, are attractive. It should be recognized that the short histories of the REIT and small capitalization portfolios make evaluation difficult. Despite the short history and inefficiency of the market, the REIT portfolio has matched its index. Unfortunately, but understandably, the small capitalization portfolio did not fare as well.

The calculation methodology for the investment rates of return used by the Systems is known as the original Dietz method. This method is not strictly compliant with the standards of performance presentation established by the Association for Investment Management and Research (AIMR) for investment managers. Please note that it is not incumbent upon the Systems to use AIMR compliant calculation methodologies insofar as they are not an investment manager. As part of a “best practices” approach to fund management established by the Systems, Mercer monitors the differences in reported return results between the Systems and their investment managers. Discrepancies, when they occur, are researched and resolved.

Investment Manager Highlights

The Retirement Fund

On balance, the investment managers for the Retirement Fund produced competitive results during the fiscal year. If volatility or risk is also taken into consideration, we find that the investment managers have produced their results with comparable volatility or risk relative to their benchmark market index benchmarks in almost every case. The end result is a total return for the Fund that is not more volatile than the Reference Index.

On an individual basis, the growth managers, Northern Trust Quantitative Advisors (NTQA, formerly ANB Investment Management) and Alliance Capital Management, outperformed their market index benchmark and the peer group median. The active value manager, ICOM, had a difficult year underperforming the S&P 500 Index and their peer group median. These results had a negative impact on longer term comparisons. It should be noted that most value managers underperformed both the broad market index, the S&P 500, and the S&P 500 Value Index during this period. Near the end of the fiscal year, the ICOM portfolio was reduced by 50% to fund a passively managed Wilshire Quantum Large Value Index (which is similar to and highly correlated with the S&P 500 Value Index) portfolio, a strategy consistent with the management of the other asset categories in the Retirement Fund. ICOM also managed a smaller or mid-capitalization portfolio which also suffered relative to its benchmarks during the 1998 fiscal year, and felt the impact on longer term comparisons.

The fixed income managers' results were positive. NAMCO, the active manager, and Lincoln Capital, the index manager, were ahead of market index and peer group benchmarks. Weaver Barksdale invests in shorter maturity securities, and had results above their index benchmark, but fell just short of their peer group median.

In the real estate portfolio, Heitman returns continued to be below the benchmarks. Both the CB Richard Ellis (formerly TCW) and Lend Lease (formerly Yarmouth) investments had improved results. Lend Lease outperformed both the NCREIF index, and the peer group median.

The Insurance Fund

NAMCO is the Fund's only external investment manager. Their portfolio outperformed the market index benchmark and peer group median over the past fiscal year.

Summary

The Systems' assets have grown over \$1.8 billion during fiscal 1998 primarily due to investment. This is a direct result of the Board's decision to revise the asset allocation targets, and to implement the change largely through index or passive management.

Sincerely,

WILLIAM M. MERCER INVESTMENT CONSULTING, INC.



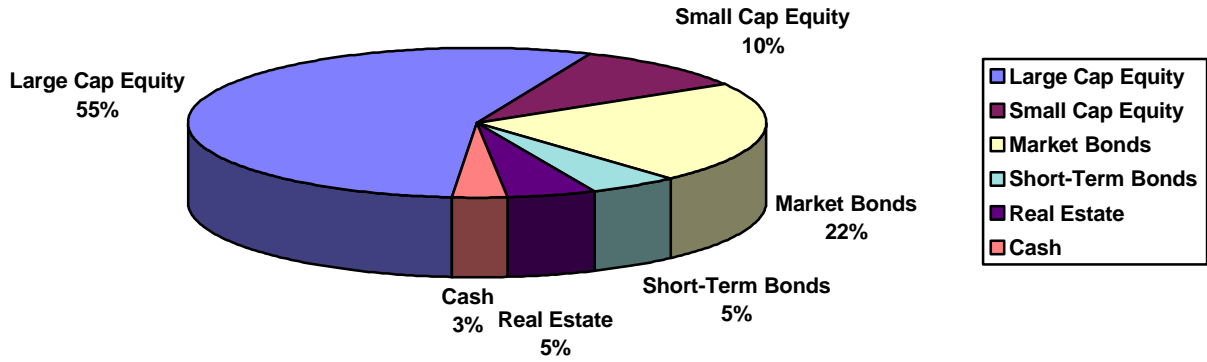
Kristine L. Ford, CFA

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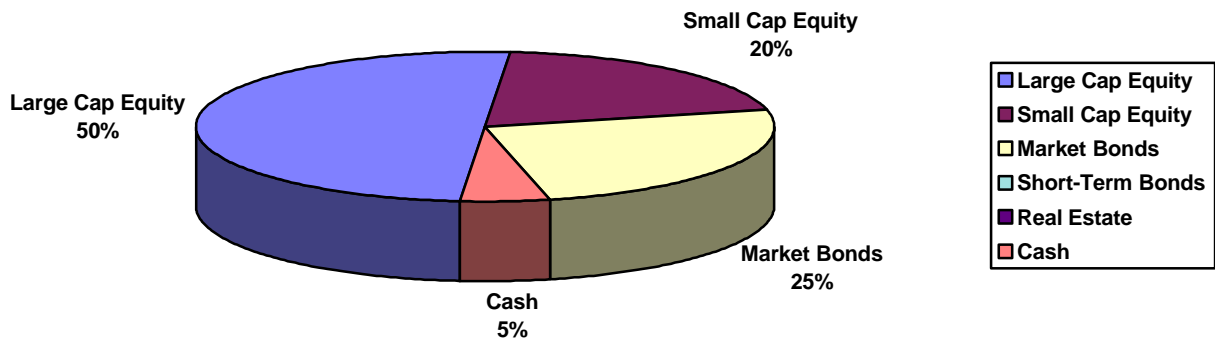
cc: P. Johnson, Kentucky Retirement System
R. Leggett, Kentucky Retirement System
S. Gagel, Mercer-Louisville
M. Olsen, Mercer-Chicago

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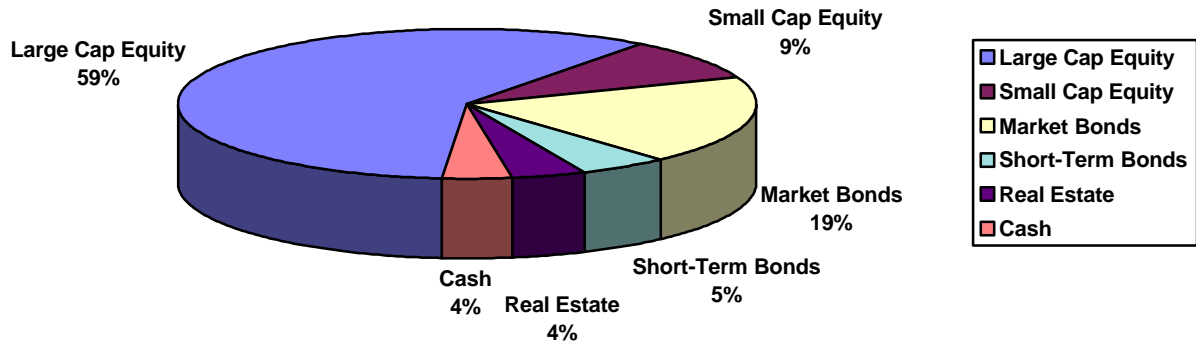
Pension Fund Target Allocation



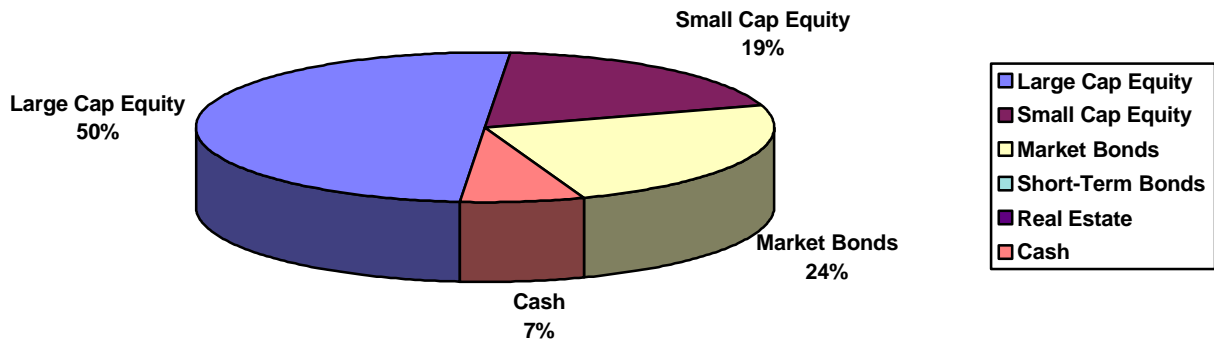
Insurance Fund Target Allocation



Pension Fund Actual Allocation 6/30/98



Insurance Fund Actual Allocation 6/30/98



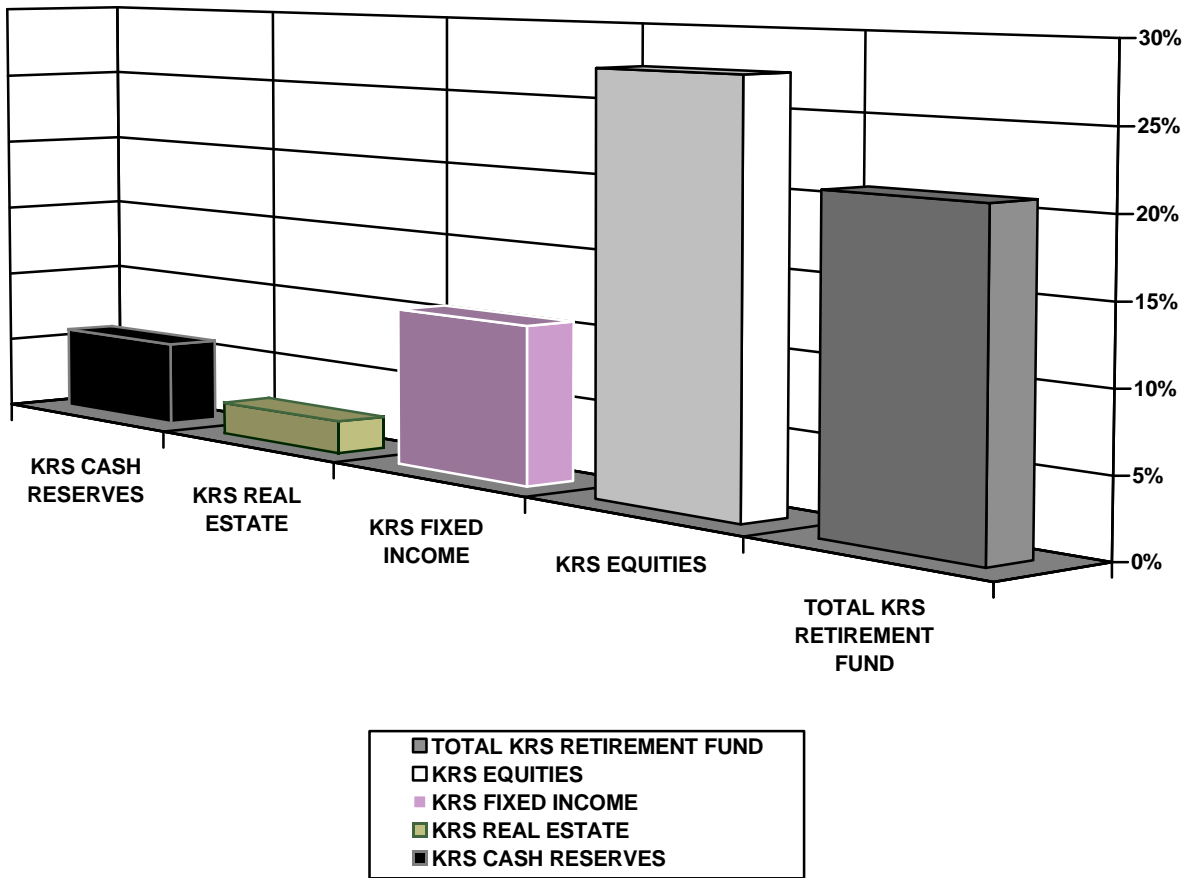
KENTUCKY RETIREMENT SYSTEMS PERFORMANCE EVALUATION

PENSION FUNDS	Fiscal Year	3-Year	5-Year
Total KRS Retirement Fund	20.8	20.8	16.2
Mercer Composite Universe median	18.6	17.3	14.4
CPI	1.7	2.2	2.5
KRS Equities	27.4	28.9	22.1
S&P 500	30.2	30.2	23.1
KRS Fixed Income	10.5	7.7	6.6
Lehman Bros. Govt./Corp.	11.3	7.9	6.9
KRS Real Estate	2.2	2.7	3.5
NCREIF	17.2	12.7	10.0
KRS Cash Reserves	5.8	5.7	5.3
Salomon Bros. 3 Month T-Bill	5.2	5.3	4.9

INSURANCE FUNDS	Fiscal Year	3-Year	5-Year
Total KRS Insurance Fund	21.0	17.5	13.4
Mercer Composite Universe median	17.5	12.2	10.4
CPI	1.7	2.2	2.5
Equities	26.8	27.3	21.4
S&P 500	30.2	30.2	23.1
Fixed Income	11.6	8.5	7.3
Lehman Bros. Govt./Corp. Bond Index	11.3	7.9	6.9
Cash Reserves	5.3	5.4	4.9
Salomon Bros. 3 Month T-Bill	5.2	5.3	4.9

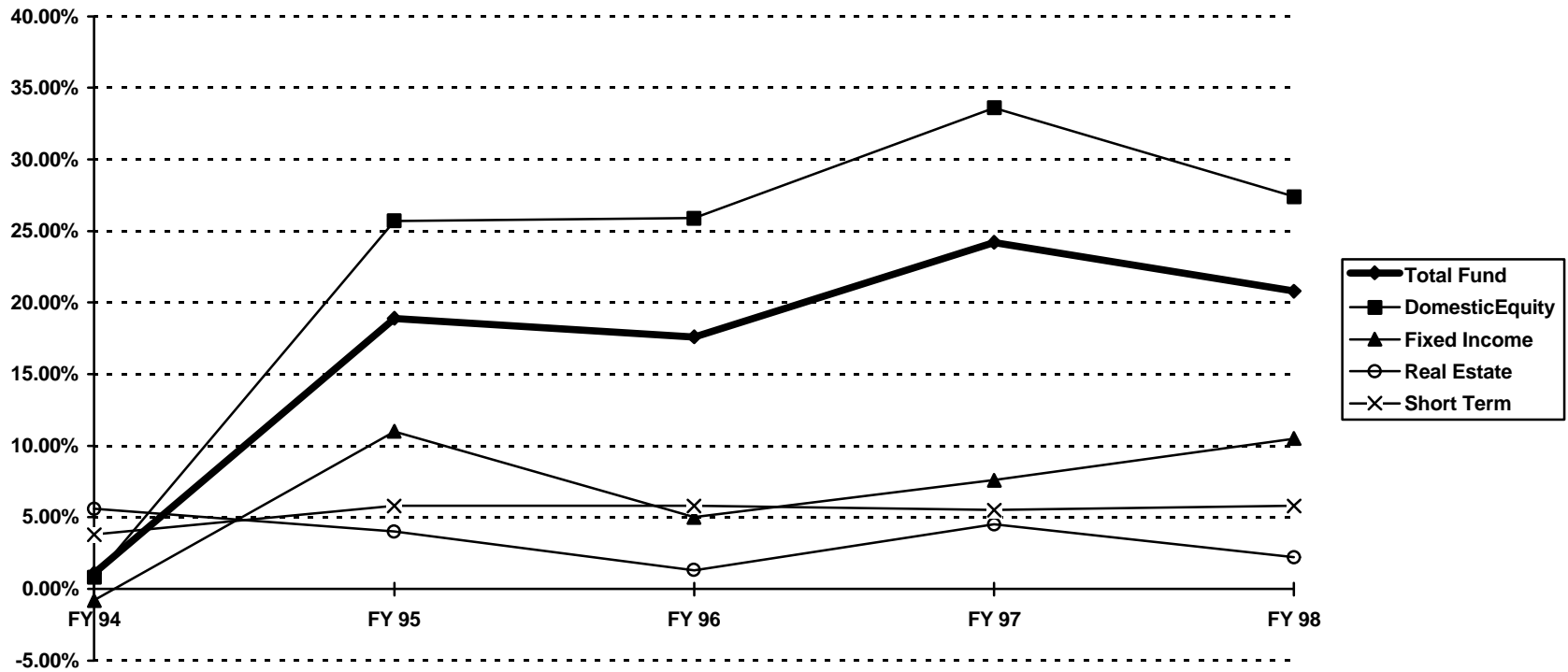
Performance figures were calculated using a time-weighted rate of return.

FISCAL YEAR PERFORMANCE



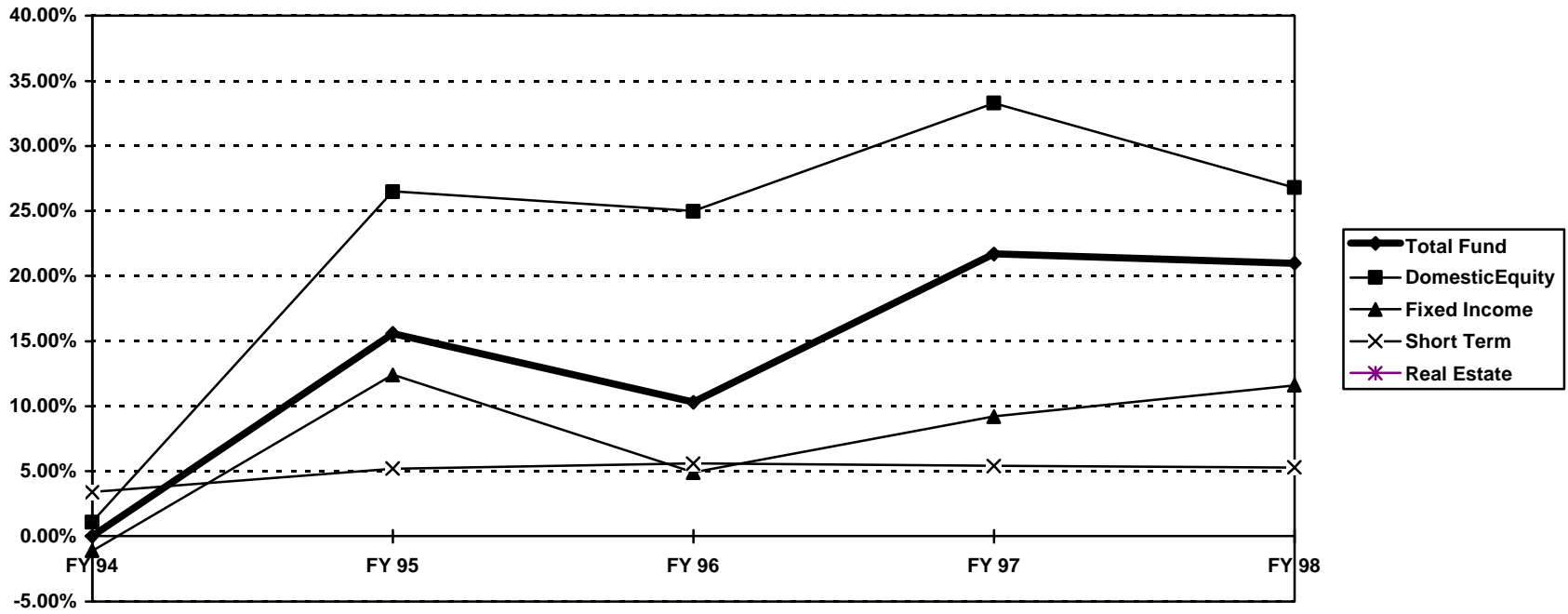
TIME WEIGHTED ANNUAL RETURNS BY ASSET CLASS

RETIREMENT FUNDS



TIME WEIGHTED ANNUAL RETURNS BY ASSET CLASS

INSURANCE FUNDS



**KENTUCKY RETIREMENT SYSTEMS
PORTFOLIO SUMMARIES
JUNE 30, 1998**

	KERS NONHAZARDOUS 6/30/1997		KERS NONHAZARDOUS 6/30/1998		% OF MKT VALUE 6/30/98
CLASS	BOOK VALUE	MARKET VALUE	BOOK VALUE	MARKET VALUE	
Corporates	\$ 396,490,361	\$ 398,684,077	\$ 480,959,489	\$ 493,541,518	10%
Governments	443,524,191	448,424,856	360,071,976	373,965,846	7%
Mortgages	199,646,421	206,286,390	250,622,788	258,402,931	5%
Short-Term	150,136,064	150,136,064	290,975,677	290,975,677	6%
Real Estate	197,671,169	169,345,616	98,721,661	88,919,415	2%
Reit Real Estate	19,615,189	20,158,825	110,672,038	108,022,529	2%
Common Stock	1,499,925,121	2,819,522,410	1,661,573,085	3,414,382,419	68%
Total Portfolio	\$2,907,008,516	\$4,212,558,238	\$3,253,596,714	\$5,028,210,335	100%

	KERS HAZARDOUS 6/30/1997		KERS HAZARDOUS 6/30/1998		% OF MKT VALUE 6/30/98
CLASS	BOOK VALUE	MARKET VALUE	BOOK VALUE	MARKET VALUE	
Corporates	\$ 15,484,154	\$ 15,568,888	\$ 24,914,475	\$ 25,397,271	11%
Governments	18,078,991	18,244,703	18,498,286	19,372,456	8%
Mortgages	5,776,999	5,898,958	9,611,844	9,800,070	4%
Short-Term	21,772,148	21,772,148	29,528,720	29,528,720	13%
Real Estate	7,803,075	7,370,326	1,946,099	1,758,391	1%
Reit Real Estate	2,426,040	2,690,741	7,531,966	7,555,320	3%
Common Stock	67,039,656	115,465,150	74,316,320	140,099,243	60%
Total Portfolio	\$138,381,063	\$187,010,914	\$166,347,710	\$233,511,471	100%

PORTFOLIO SUMMARIES
JUNE 30, 1998

	CERS NONHAZARDOUS 6/30/1997		CERS NONHAZARDOUS 6/30/1998		% OF MKT VALUE 6/30/98
CLASS	BOOK VALUE	MARKET VALUE	BOOK VALUE	MARKET VALUE	
Corporates	\$ 233,887,055	\$ 235,339,469	\$ 337,320,461	\$ 344,752,585	10%
Governments	347,700,321	350,878,736	349,096,060	361,970,274	7%
Mortgages	111,954,193	115,954,012	177,827,074	182,773,127	5%
Short-Term	179,743,112	179,743,112	219,082,494	219,082,494	6%
Real Estate	130,290,199	115,491,585	55,288,791	49,988,435	2%
Reit Real Estate	24,084,070	24,715,193	103,706,987	101,324,246	2%
Common Stock	1,155,675,878	2,099,046,536	1,273,521,412	2,543,352,945	68%
Total Portfolio	\$2,183,334,828	\$3,121,168,643	\$2,515,843,279	\$3,803,244,106	100%

	CERS HAZARDOUS 6/30/1997		CERS HAZARDOUS 6/30/1998		% OF MKT VALUE 6/30/98
CLASS	BOOK VALUE	MARKET VALUE	BOOK VALUE	MARKET VALUE	
Corporates	\$ 69,278,894	\$ 69,598,708	\$ 98,913,421	\$ 100,973,340	10%
Governments	89,406,886	90,272,876	89,614,929	93,073,198	9%
Mortgages	30,708,904	31,638,009	48,585,650	49,790,225	5%
Short-Term	57,494,420	57,494,420	71,279,376	71,279,376	7%
Real Estate	38,716,996	35,325,169	14,168,612	12,953,223	1%
Reit Real Estate	3,665,406	3,944,856	26,450,397	25,867,563	2%
Common Stock	319,434,458	576,020,259	349,963,622	690,140,259	66%
Total Portfolio	\$608,705,964	\$864,294,297	\$698,976,007	\$1,044,077,184	100%

PORTFOLIO SUMMARIES
JUNE 30, 1998

CLASS	SPRS 6/30/1997		SPRS 6/30/1998		% OF MKT VALUE 6/30/98
	BOOK VALUE	MARKET VALUE	BOOK VALUE	MARKET VALUE	
Corporates	\$ 29,165,343	\$ 29,311,660	\$ 34,374,542	\$ 35,250,331	10%
Governments	29,714,831	30,088,453	20,790,511	21,745,374	6%
Mortgages	13,759,967	14,185,680	16,336,840	16,852,835	5%
Short-Term	14,618,760	14,618,760	17,659,892	17,659,892	5%
Real Estate	14,351,605	11,921,962	7,955,583	7,146,548	2%
Reit Real Estate	2,456,816	2,721,160	8,135,642	8,166,171	2%
Common Stock	106,098,948	206,791,993	120,693,350	254,936,716	70%
Total Portfolio	\$210,166,270	\$309,639,668	\$225,946,360	\$361,757,867	100%

CLASS	INSURANCE FUND 6/30/1997		INSURANCE FUND 6/30/1998		% OF MKT VALUE 6/30/98
	BOOK VALUE	MARKET VALUE	BOOK VALUE	MARKET VALUE	
Corporates	\$ 44,889,634	\$ 45,084,899	\$ 69,273,699	\$ 71,789,972	11%
Governments	56,803,669	56,323,249	54,005,942	55,782,899	8%
Mortgages	25,404,708	24,999,265	28,621,752	28,943,569	4%
Short-Term	33,056,794	33,056,794	52,472,040	52,472,040	8%
Real Estate	0	0	0	0	0%
Reit Real Estate	0	0	0	0	0%
Common Stock	240,611,406	343,171,184	270,456,577	448,101,187	69%
Total Portfolio	\$400,766,211	\$502,635,391	\$474,830,010	\$657,089,668	100%

List of Largest Assets Held

**Pension Funds
Largest Stock Holdings
(Market Value)
June 30, 1998**

RANK	SHARES	STOCK	MARKET VALUE
1	1,417,200	General Electric Co.	\$128,788,050
2	1,028,800	Microsoft Corp.	111,496,200
3	1,070,900	Coca-Cola Co.	91,561,950
4	1,206,400	Exxon Corp.	86,106,800
5	528,900	Merck & Co. Inc.	70,740,375
6	609,800	Pfizer Inc.	66,277,638
7	987,200	Wal-Mart Stores Inc.	59,972,400
8	587,036	Proctor & Gamble Co.	53,456,966
9	706,400	Intel Corp.	52,361,900
10	445,600	IBM	51,160,450

**Pension Funds
Largest Bond Holdings
(Market Value)
June 30, 1998**

RANK	PAR	BOND	MARKET VALUE
1	94,330,000	US Treasury Bond 7.500 due 11/15/16 Rating AAA	\$113,225,242
2	100,000,000	US Treasury Note 7.750 due 12/31/99 Rating AAA	103,141,000
3	35,290,000	US Treasury Bond 12.75 due 11/15/10 Rating AAA	50,255,077
4	50,000,000	US Treasury Note 5.750 due 11/15/00 Rating AAA	50,234,500
5	47,000,000	US Treasury Note 6.500 due 05/15/05 Rating AAA	49,599,570
6	46,500,000	US Treasury Note 6.500 due 10/15/06 Rating AAA	49,355,565
7	37,645,000	US Treasury Bond 8.125 due 08/15/21 Rating AAA	49,044,282
8	46,000,000	US Treasury Note 6.125 due 07/31/00 Rating AAA	46,531,760
9	43,515,000	FNMA #251752 8.125 due 08/15/21 Rating AAA	43,272,657
10	42,065,000	US Treasury Note 6.250 due 02/28/02 Rating AAA	43,024,503

A complete list of portfolio holdings is available upon request.

List of Largest Assets Held

**Insurance Funds
Largest Stock Holdings
(Market Value)
June 30, 1998**

RANK	SHARES	STOCK	MARKET VALUE
1	124,800	General Electric Co.	\$11,341,200
2	94,800	Microsoft Corp.	10,273,950
3	92,700	Coca-Cola Co.	7,925,850
4	106,000	Exxon Corp.	7,565,750
5	47,600	Merck & Co. Inc.	6,366,500
6	89,500	Wal-Mart Stores Inc.	5,437,125
7	47,000	SPDR TR	5,325,688
8	47,000	Pfizer Inc.	5,108,313
9	50,800	Proctor & Gamble Co.	4,625,975
10	62,200	Intel Corp.	4,610,575

**Insurance Funds
Largest Bond Holdings
(Market Value)
June 30, 1998**

RANK	PAR	BOND	MARKET VALUE
1	10,475,000	US Treasury Bond 7.500 due 11/15/16 Rating AAA	\$12,573,247
2	5,410,000	US Treasury Bond 8.125 due 08/15/21 Rating AAA	7,048,202
3	6,470,000	FNMA #303670 6.500 due 12/01/25 Rating AAA	6,437,650
4	5,570,000	US Treasury Note 7.750 due 11/30/99 Rating AAA	5,735,373
5	5,300,000	US Treasury Note 6.375 due 03/31/01 Rating AAA	5,410,982
6	5,000,000	US Treasury Note 6.500 due 10/15/06 Rating AAA	5,307,050
7	3,585,000	FNMA #251752 6.500 due 06/01/28 Rating AAA	4,778,240
8	4,400,000	US Treasury Note 6.500 due 05/15/05 Rating AAA	4,643,364
9	3,800,000	US Treasury Note 6.125 due 07/31/00 Rating AAA	3,843,928
10	3,530,000	First Bank Corp. 6.400 due 02/15/03 Rating AAA	3,593,575

A complete list of portfolio holdings is available upon request.

Schedule of Fees and Commissions
Year Ended June 30, 1998

External Investment Manager Fees –	
– Equities and Fixed Income	
Pension Funds	\$4,846,621
Insurance Funds	83,932
Investment Consulting Fees	62,500
Security Lending Agent Fees	1,167,000
Brokerage Commissions — Equities	1,551,933
Total	<u>\$7,711,986</u>

INVESTMENT MANAGERS

Alliance Capital Management
1345 Avenue of the Americas
New York, NY 10105

Lincoln Capital Management Co.
200 South Wacker Drive, Suite 2100
Chicago, IL 60606

C. B. Richard Ellis
865 South Figueroa Street, Suite 3500
Los Angeles, CA 90017

National Asset Management Corp.
101 South Fifth Street
Louisville, KY 40202

Heitman Capital Management Corp.
180 North LaSalle Street, Suite 3600
Chicago, IL 60601

Northern Trust Quantitative
Advisors, Inc.
50 South LaSalle Street
Chicago, IL 60675

Investment Counselors of Maryland
803 Cathedral Street
Baltimore, MD 21201
Lend Lease
10 East 50th Street
New York, NY 10022

Weaver C. Barksdale & Associates, Inc.
30 Burton Hills Boulevard, Suite 550
Nashville, TN 37215

KENTUCKY RETIREMENT SYSTEMS

Actuarial Section

Comprehensive Annual Financial Report
June 30, 1998

November 12, 1998

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

Members of the Board:

The forty-second annual actuarial valuation of the Kentucky Employees Retirement System, the thirty-ninth annual actuarial valuation of the County Employees Retirement System, and the fortieth annual actuarial valuation of the State Police Retirement System have been completed and the reports prepared. The following comments are pertinent to the results of this valuation:

1. The funding objectives for the plan remain unchanged from the prior year's valuation. Relative to the retirement fund, a contribution rate has been established which consists of the normal cost and amortization payment on the unfunded actuarial accrued liability. The normal cost is expected to remain level as a percent of payroll in future years. The amortization of any unfunded actuarial accrued liability is made over 30 years from the establishment of the amortization base using a level percent of payroll amortization method. Each year any actuarial gains or losses, along with any other changes in the accrued liability (such as retiree COLA's, other benefit improvements, changes in actuarial assumptions, etc.) are established as a new amortization base to be amortized over the following 30 years. Overall, the total funding for the retirement fund is expected to remain stable as a percentage of payroll over future years in the absence of benefit improvements. In particular, the current valuation funding rate does not anticipate any future cost of living increases to benefit recipients. Should these cost of living increases occur in the future, the funding rate for the retirement fund will be expected to increase as a percentage of payroll in the absence of material aggregate experience gains.

Relative to the insurance fund, the ultimate target funding is to reach the full amount of the entry age funding level including 30 year level percent of payroll amortization of the unfunded actuarial accrued liability. However, current insurance funding levels are less than this ultimate target rate, and will be systematically increased over the next 20 years until the target funding rate is reached. As such, the insurance funding rate is expected to increase over the next 20 years.

Board of Trustees
November 12, 1998
Page 2

The administrative expenses are also included as part of the total funding amount. This portion of the funding is expected to remain stable as a percentage of payroll over future years.

To the extent that actual experience deviates from expected, an amortization base will be established and amortized over 30 years as a level percentage of payroll.

2. The progress towards achieving the intended funding objectives, both relative to the retirement and insurance funds, can be measured by the relationship of valuation assets of each fund to the accrued liabilities. The funded level for the retirement fund exceeds 100% in the 1998 valuation for all three systems (KERS, CERS, SPRS). This funded level will fluctuate over time with experience deviations, but should remain at or near the 100% funding level in the absence of material retirement benefit improvements. Since 1992, all three systems have had a funded level relative to the retirement fund of at least 90% in all valuations, with this funded level moving above 100% in recent years.

Relative to the insurance fund, the funded level is not anywhere near 100% at this time, and the funding objective is to increase this funded level consistently over future years. Since 1990, the funded level relative to the insurance fund has improved in each succeeding valuation for all three systems, which is the primary objective.

3. Valuations of each system are prepared annually, with the most recent such valuation being as of June 30, 1998.
4. In completing the valuation of these systems, we have relied on employee data as provided by Kentucky Retirement Systems, as well as financial data provided by the plan's auditor. We have reviewed this data for reasonableness, and made some general edit checks to impute certain information that may not have been provided with the original employee data. However, we have not audited this data, nor has there been any reconciliation of data used in the prior year's valuation with this current valuation data.
5. None of the supporting schedules included with this filing have been prepared by me. However, I have reviewed these schedules, and the information included on them is consistent with the information provided in our actuarial valuation report.

Board of Trustees
November 12, 1998
Page 3

6. Any schedules of trend data over the past ten years or less have been based on valuation reports fully prepared by William M. Mercer, with the undersigned having served as actuary in the preparation of each of these valuations.
7. The actuarial assumptions and methods used for the funding calculations of the valuation meet the parameters set for disclosure under GASB Statement No. 25.
8. The information presented in items 1 through 7 of this letter describes the pertinent issues relative to the valuation. There are no other specific issues which need to be raised beyond these items in order to fairly assess the funded position of the plan as presented in the current valuation.

The three Retirement Systems are actuarially sound. Adequate provision is being made for the funding of the Actuarial Accrued Liabilities of the Kentucky Employees Retirement System, the County Employees Retirement System, and the State Police Retirement System as required by the Kentucky Revised Statutes, as appropriate funding rates have been established by the Board for this purpose.

Respectfully Submitted,
WILLIAM M. MERCER, INCORPORATED



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

	<u>Years to Attain Age 65 or 27 Years Service</u>									
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>
% of Benefit	95%	90%	85%	80%	75%	71%	67%	63%	59%	55%

A general participant under age 55 may also choose early retirement if the member has at least 25 years of service. The benefits are calculated the same as for normal retirement and are reduced 5% for each year of service credit less than 27.

State Police or hazardous position members of the County Employee or Kentucky Employee Retirement Systems may retire before age 55 if the member is at least age 50 and has at least 15 years of service credit.

Under early retirement, the benefit is calculated the same as under normal retirement, except that the benefits are reduced depending on the member's age or years of service. The following chart shows reductions for age or service. The retirement office reduces benefits by the lesser of the number of years to reach age 55 or to attain 20 years service.

	<u>Years to Attain Age 55 or 20 Years Service</u>				
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
% of Benefit	94.5%	89.0%	83.5%	78.0%	72.5%

Voluntary Termination Before Immediate Benefit Eligibility

Participant may either (1) receive a refund of accumulated contributions and interest credited thereon, or (2) if vested, leave contributions on deposit and apply for a retirement annuity on or after the minimum retirement age based upon accrued service at the time of termination. Vesting requirements are included in each benefit described herein.

Disability Benefits

A general employee under age 65 may retire on account of disability. If the disability (1) did not exist before the employee was employed, (2) is expected to last at least 12 months or result in death, and (3) the objective medical evidence is sufficient to prove the disability prevents the employee from performing his job or a job of similar duties, the employee will be deemed disabled. The employee must have at least 60 months of service, 12 of which are current service and must apply within 12 months of the last day of paid employment in a regular full-time position. Preexisting conditions can be considered if the employee has credit for 16 years of employment with participating employers or if the condition has been substantially aggravated by an accident or injury arising out of his employment. Benefits are calculated the same as for normal retirement except that additional years of service may be added to the employees account, depending on the employee's age and years of service.

A hazardous duty employee under age 55 may retire on account of disability. If the disability: (1) did not exist before the employee was employed; (2) is expected to last at least 12 months or result in death; and (3) the objective medical evidence is sufficient to prove the

employee is totally incapable of working in a hazardous position, but may still be capable of performing other types of work, the employee will be deemed disabled. The employee must have at least 60 months of service, 12 of which are current service and must apply within 12 months of the last day of paid employment in a regular full-time position. Preexisting conditions can be considered if the employee has credit for 16 years of employment with participating employers or if the condition has been substantially aggravated by an accident or injury arising out of his employment. Benefits are calculated the same as for normal retirement except that additional years of service may be added to the employees account, depending on the employee's age and years of service.

If the disability is TOTAL and PERMANENT and results from an act IN LINE OF DUTY, the employee is eligible for a monthly benefit of no less than 25% of the employee's monthly Final Rate of Pay. In addition, each dependent child of such employee is eligible for a monthly benefit equal to 10% of the employee's monthly Final Rate of Pay. Aggregate dependent monthly payments cannot exceed 40 % of the employee's monthly Final Rate of Pay.

Death Before Retirement

If a general employee is employed with a participating agency at the time of death and has at least 60 months service credit 12 of which are current service, the beneficiary is eligible for monthly benefits. If the member is not working for a participating agency, but at the time of death has an account with at least 144 months service credit 12 of which are current service, the beneficiary is eligible for monthly benefits. The beneficiary of a member is also eligible if the member is 65 years old at the time of death and has 48 months service credit 12 of which are current service.

If the named beneficiary is an individual, the beneficiary will have the option of a lifetime monthly benefit. In addition, the beneficiary, as well as multiple beneficiaries, an estate, or trust will be offered: (1) a lump sum actuarial refund, (2) monthly benefit for five years, or (3) monthly benefit for ten years.

Death benefits for hazardous duty employees whose death is not in the line of duty is similar to that of general employees. However, hazardous employees of Kentucky Employees, County Employees, and State Police Retirement Systems are eligible for death in line of duty benefits beginning the first day of employment. If the employee dies in the line of duty and the beneficiary is the employee's spouse, the beneficiary may elect a lump sum payment of \$10,000 and a monthly benefit equal to 25% of the employee's Final Rate of Pay which will continue to remarriage or death. If the beneficiary is a dependent receiving at least 50% of his or her support from the employee, the beneficiary may elect a lump sum payment of \$10,000. The beneficiary may elect this option or may choose from the benefit options offered under death not in the line of duty. Each dependent child will receive a monthly benefit equal to 10% of the employee's Final Rate of Pay. Aggregate dependent payments cannot exceed 40 % of the employee's monthly Final Rate of Pay.

SUMMARY OF BENEFIT PROVISIONS

Normal Retirement Eligibility

The age a participant becomes eligible for an unreduced age or service annuity is:

<u>Age</u>	<u>General Classification</u> <u>Service</u>	<u>Age</u>	<u>Hazardous Classification</u> <u>Service</u>
65	1 Month (benefit based on account balance)	55	1 Month (benefit based on account balance)
	48 Months (benefit based on service & salary)		5 Years (benefit based on service & salary)
Any	27 Years	Any	20 Years

Normal Retirement Annuity

The annuity payable at Normal Retirement Age is based on Final Compensation (FC) and Creditable Service (CS) as follows:

<u>Formula</u>	<u>Group</u>
1.97% x FC x CS	Kentucky Employee Retirement General Participants
2.20% x FC x CS	County Employee Retirement General Participants
2.49% x FC x CS	Kentucky Employee Retirement Hazardous Duty Participants
2.50% x FC x CS	County Employee and State Police Hazardous Duty Participants

FC is the average of the highest five fiscal years (July 1 – June 30) of earnings. These years do not have to be consecutive.

Early Retirement

A general participant may elect early retirement if the participant is age 55 or older and has at least 60 months of service credit.

Under early retirement the benefit is calculated the same as under normal retirement, except that benefits are reduced depending on the participant's age or years of service.

The following chart shows reductions for age or service. The retirement office reduces benefits by the lesser of the number of years to reach age 65 or to attain 27 years service.

Post Retirement Adjustments

Annuities are increased July 1 each year by the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed five percent. The Kentucky General Assembly reserves the right to suspend or reduce benefit increases if in their judgement the welfare of the State so demands.

Death After Retirement

If the member is receiving a monthly payment based on at least 48 months service credit, the retirement system will pay a \$2,500 death benefit payment to the beneficiary named by the member specifically for this benefit.

Hospital and Medical Insurance Benefit

The retirement system provides group rates for medical insurance and, where available, health maintenance organization (HMO) and other managed care coverage for retirees. In addition, the member may pay the cost to obtain coverage for a spouse and dependents at group rates. Participation in the insurance program is optional.

Depending on the member's years of retirement service, the retirement system may pay a portion of the member's monthly premium for medical coverage. If coverage is for the member only, the system pays the same portion of the monthly contribution for both general and hazardous duty members. For hazardous duty members with a spouse the system will pay a portion of the monthly contribution for two-person coverage. For hazardous duty members with a spouse and dependent, the system will pay a portion of the monthly contribution for family coverage. Members may obtain enhanced coverage by paying an additional amount.

Percent of Monthly Contribution Paid by Retirement System

<u>Years of Service</u>	<u>Percent Paid</u>
Less than 4 years	0%
4 to 9 years	25%
10 to 14 years	50%
15 to 19 years	75%
20 or more years	100%

If a hazardous duty member becomes disabled in the line of duty, the retirement system will pay 100% of the monthly contribution for the member, spouse, and dependents. If a hazardous duty member dies in the line of duty, the retirement system will pay 100% of the monthly contribution for the beneficiary and dependent children.

Interest Credits

Member accounts have been credited with interest on July 1 each year at 3% compounded annually through June 30, 1980; 6% thereafter through June 30, 1986; and 4% thereafter.

Contribution Rates

Employer contribution rates are determined by the entry age normal cost funding method. Actuarial gains and losses reduce or increase the unfunded liability. For years beginning with the 1990 valuation, actuarial gains and losses have been amortized over a period of thirty years using the level percent of payroll method as required by state statute.

Statutory required participant contributions are 5% of creditable compensation for general employees and 7% of creditable compensation for hazardous duty employees.

A SUMMARY PLAN DESCRIPTION WHICH GIVES A MORE DETAILED DESCRIPTION OF PLAN PROVISIONS IS AVAILABLE UPON REQUEST.

THIS INFORMATION CAN ALSO BE FOUND IN KENTUCKY RETIREMENT SYSTEMS' HOME PAGE ON THE INTERNET AT <http://www.kyret.com>

Summary of Actuarial Assumptions and Methods

1. The investment return rate used in making the valuations was 8.25% per year, net of investment related expenses, compounded annually. Adopted 1995.
2. The actuarial value of assets is determined in the following manner for the Retirement Funds:
 - (a) Determine the ratio of the market value of Retirement Fund assets to book value as of the current valuation date and the four preceding valuation dates. All asset values include accrued investment income and member and employer contribution receivables, and exclude member refunds and investment expenses payable.
 - (b) Determine the average ratio of market to book value as of these valuation dates.
 - (c) Apply this average ratio to the book value (as adjusted for accrued investment income and member and employer contribution receivables, and member refunds and investment expenses payable) as of the current valuation date to derive valuation assets. Adopted 1992.

For the Insurance Funds, the revision in the asset valuation method was deferred until the June 30, 1996 valuation. Prior to that time, the actuarial value of assets continued to be determined based on the book value of assets in the respective funds as of the valuation date adjusted for any receivables and/or payables. Adopted 1996.

3. The percentage of participants assumed to retire at sample ages is shown in Schedule 1. Adopted 1995.
4. The mortality table used for active and retired lives was the 1983 Group Annuity Mortality Table, plus a pre-retirement duty death rate of .0005 per year for hazardous duty employees. Mortality assumptions for disabled lives are based on Social Security Administration Disability Mortality Rates – Actuarial Study No. 75 (current rates used by PBGC for disabled lives receiving Social Security). Sample annual rates of mortality are shown in Schedule 2. Adopted 1995.
5. Select rates of termination before retirement are shown in Schedule 3. Adopted 1995.
6. Annual pay per member is assumed to increase 6.50% per year, compounded annually, which is based on experience rather than the effects of inflation. Adopted 1995.
7. Kentucky Revised Statutes require use of the entry age normal cost funding method to determine the actuarial accrued liability. Actuarial gains and losses reduce or increase the unfunded liability. For years beginning with the 1990 valuation, actuarial gains and losses have been amortized over a period of thirty years using the level percent of payroll method as required by state statute.

8. With respect to cost-of-living adjustments, effective August 1, 1996, and on July 1 of each year thereafter, state statutes require retirement benefits to be increased by the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed five percent. The State Legislature reserved the right to suspend or reduce cost-of-living adjustments if in their judgement the welfare of the Commonwealth so demands.
9. The most recent actuarial experience analysis was performed for the period from July 1, 1989 through June 30, 1995. All assumptions used in the most recent actuarial valuation were based on the study performed in 1995.

Assumptions used in determining the actuarial accrued liability for postemployment healthcare benefits are shown in Schedule 4. Adopted 1995.

Schedule 1

Percentage of Participants Assumed to Retire at Sample Ages

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

At age 55-64 in lieu of age related rate, 20% are assumed to retire as soon as eligible for unreduced benefits with 27 years service credit.

For hazardous duty participants of the Kentucky Employees Retirement System it is assumed that 50% will retire as soon as eligible for unreduced benefits with 20 years service credit and the balance will continue to age 60.

For hazardous duty participants of the County Employees Retirement System it is assumed that 50% will retire as soon as eligible for unreduced benefits with 20 years service credit and the balance will continue to age 55.

For participants of the State Police Retirement System it is assumed that 60% will retire as soon as eligible for unreduced benefits with 20 years service credit and the balance will continue to age 55.

Schedule 2

Sample Annual Rates of Mortality

<u>Age</u>	<u>Active Mortality*</u>		<u>Disabled Mortality</u>	
	<u>Males</u>	<u>Females</u>	<u>Males</u>	<u>Females</u>
25	0.05%	0.03%	4.83%	2.63%
30	0.06%	0.03%	3.62%	2.37%
40	0.12%	0.07%	2.82%	2.09%
50	0.40%	0.16%	3.83%	2.57%
55	0.61%	0.25%	4.82%	2.95%
60	0.92%	0.42%	6.03%	3.31%

*Plus 0.05% duty death rate prior to retirement for hazardous duty participants.

Schedule 3

Select Rates of Termination Prior to Retirement

<u>Sample Ages</u>	<u>Years of Service</u>	<u>Termination</u>		<u>Disablement</u>	
		<u>General Employees</u>	<u>Hazardous Employees</u>	<u>General Employees</u>	<u>Hazardous Employees</u>
	1	25.00%	**	**	**
	2	8.00%	**	**	**
	3	5.00%	**	**	**
	4	4.00%	**	**	**
	5	3.50%	**	**	**
25	Over 5	2.40%	3.04%	0.033%	0.042%
30		2.40%	3.38%	0.039%	0.050%
40		2.00%	1.50%	0.105%	0.132%
50		1.60%	0.00%	0.423%	0.530%
55		1.20%	0.00%	0.794%	0.992%
60		0.20%	0.00%	1.395%	1.743%

**Same as age-based rates for over five years of service.

Schedule 4

Assumed Medical Premium Growth

<u>Years Increase</u>	<u>1996 – 2005</u>	<u>2006 – 2010</u>	<u>2011 – 2015</u>	<u>Thereafter</u>
	10%	9%	8%	7.5%

SUMMARY OF MEMBER VALUATION DATA

Kentucky Employees Retirement System

Schedule of Active Member Valuation Data

Valuation Date	Active Participants	Annual Payroll	Annual Average Pay	% Increase In Average Pay
6/30/1993	45,672	1,025,939,480	22,463	
6/30/1994	45,781	1,045,848,704	22,845	1.7%
6/30/1995	46,767	1,108,720,440	23,707	3.8%
6/30/1996	47,145	1,184,165,952	25,118	6.0%
6/30/1997	46,073	1,208,230,632	26,224	4.4%
6/30/1998	46,342	1,272,316,548	27,455	4.7%

Kentucky (Hazardous) Employees Retirement System

Schedule of Active Member Valuation Data

Valuation Date	Active Participants	Annual Payroll	Annual Average Pay	% Increase In Average Pay
6/30/1993	3,257	68,456,508	21,018	
6/30/1994	3,241	69,357,624	21,400	1.8%
6/30/1995	3,462	76,270,512	22,031	2.9%
6/30/1996	3,452	79,514,184	23,034	4.6%
6/30/1997	3,532	84,231,840	23,848	3.5%
6/30/1998	3,582	88,891,680	24,816	4.1%

County Employees Retirement System

Schedule of Active Member Valuation Data

Valuation Date	Active Participants	Annual Payroll	Annual Average Pay	% Increase In Average Pay
6/30/1993	58,435	918,378,192	15,716	
6/30/1994	62,660	991,583,616	15,825	0.7%
6/30/1995	64,655	1,058,609,652	16,373	3.5%
6/30/1996	66,273	1,126,719,480	17,001	3.8%
6/30/1997	69,219	1,281,975,348	18,521	8.9%
6/30/1998	71,426	1,341,570,672	18,783	1.4%

County (Hazardous) Employees Retirement System

Schedule of Active Member Valuation Data

Valuation Date	Active Participants	Annual Payroll	Annual Average Pay	% Increase In Average Pay
6/30/1993	5,595	155,677,812	27,824	
6/30/1994	5,664	164,550,832	29,052	4.4%
6/30/1995	5,970	179,958,564	30,144	3.8%
6/30/1996	6,281	197,337,300	31,418	4.2%
6/30/1997	6,513	210,180,588	32,271	2.7%
6/30/1998	6,800	227,851,248	33,508	3.8%

State Police Retirement System

Schedule of Active Member Valuation Data

Valuation Date	Active Participants	Annual Payroll	Annual Average Pay	% Increase In Average Pay
6/30/1993	957	30,600,684	31,976	
6/30/1994	967	30,908,976	31,964	(0.03)%
6/30/1995	986	31,442,040	31,888	(0.2)%
6/30/1996	1,002	32,570,292	32,505	1.9%
6/30/1997	943	34,948,092	37,061	14.0%
6/30/1998	954	35,865,072	37,594	1.4%

All Participants

Schedule of Active Member Valuation Data

Valuation Date	Participating Employers	Active Participants	Annual Payroll	Annual Average Pay	% Increase In Average Pay
6/30/1993	1,320	113,916	2,199,052,676	19,304	
6/30/1994	1,319	118,313	2,302,249,752	19,459	0.8%
6/30/1995	1,344	121,840	2,455,001,208	20,149	3.5%
6/30/1996	1,367	124,153	2,620,307,208	21,105	4.8%
6/30/1997	1,412	126,280	2,819,566,500	22,328	5.8%
6/30/1998	1,841	129,104	2,966,495,220	22,978	2.9%

SUMMARY OF ACCRUED AND UNFUNDED LIABILITIES

Kentucky Employees Retirement System

(Expressed in Thousands)

Valuation Date	Actuarial Liability	Unfunded Liability	Percent Unfunded	Actuarial Value of Assets	Increase In Assets
6/30/1993	2,703,771	118,562	4.4%	2,585,210	
6/30/1994	2,912,050	183,001	6.3%	2,729,049	143,839
6/30/1995	3,240,852	257,039	7.9%	2,983,814	244,765
6/30/1996	3,415,404	40,109	1.2%	3,375,296	391,482
6/30/1997	3,603,966	(246,746)	(6.9)%	3,850,712	475,416
6/30/1998	3,971,749	(596,537)	(15)%	4,568,287	717,575

Kentucky Employees Insurance Fund

(Expressed in Thousands)

Valuation Date	Actuarial Liability	Unfunded Liability	Percent Unfunded	Actuarial Value of Assets	Increase In Assets
6/30/1993	1,177,861	1,100,188	93.4%	77,674	
6/30/1994	1,444,613	1,345,529	93.1%	99,084	21,410
6/30/1995	1,462,174	1,334,882	91.3%	127,292	28,209
6/30/1996*	1,222,394	1,049,748	85.9%	172,646	45,354
6/30/1997	1,274,464	1,063,300	83.4%	211,164	38,518
6/30/1998	1,379,578	1,114,866	80.8%	264,711	53,547

*Change in asset valuation method. See Summary of Actuarial Assumptions and Methods.

County Employees Retirement System

(Expressed in Thousands)

Valuation Date	Actuarial Liability	Unfunded Liability	Percent Unfunded	Actuarial Value of Assets	Increase In Assets
6/30/1993	2,079,930	94,249	4.5%	1,985,681	
6/30/1994	2,330,344	156,989	6.7%	2,173,355	187,674
6/30/1995	2,603,576	149,448	5.7%	2,454,128	280,773
6/30/1996	2,778,316	(101,712)	(3.7)%	2,880,029	425,900
6/30/1997	3,144,929	(369,097)	(11.7)%	3,514,026	633,997
6/30/1998	3,529,912	(743,349)	(21.1)%	4,273,262	759,236

County Employees Insurance Fund

(Expressed in Thousands)

Valuation Date	Actuarial Liability	Unfunded Liability	Percent Unfunded	Actuarial Value of Assets	Increase In Assets
6/30/1993	1,244,258	1,170,004	94.0%	74,254	
6/30/1994	1,551,139	1,451,624	93.6%	99,515	25,261
6/30/1995	1,679,893	1,554,439	92.5%	125,454	25,939
6/30/1996*	1,386,660	1,219,124	87.9%	167,536	42,082
6/30/1997	1,541,360	1,336,840	86.7%	204,521	36,985
6/30/1998	1,706,626	1,451,039	85.0%	255,586	51,065

*Change in asset valuation method. See Summary of Actuarial Assumptions and Methods.

State Police Retirement System

(Expressed in Thousands)

Valuation Date	Actuarial Liability	Unfunded Liability	Percent Unfunded	Actuarial Value of Assets	Increase In Assets
6/30/1993	191,654	(8,667)	(4.5)%	200,321	
6/30/1994	206,763	1,443	0.7%	205,321	5,000
6/30/1995	241,690	24,186	10.0%	217,504	12,184
6/30/1996	244,541	7,025	2.9%	237,515	20,011
6/30/1997	255,785	(23,859)	(9.3)%	279,643	42,128
6/30/1998	294,427	(11,891)	(4.0)%	306,318	26,675

State Police Insurance Fund

(Expressed in Thousands)

Valuation Date	Actuarial Liability	Unfunded Liability	Percent Unfunded	Actuarial Value of Assets	Increase In Assets
6/30/1993	95,290	81,005	85.0%	14,285	
6/30/1994	110,193	92,782	84.2%	17,411	3,125
6/30/1995	118,996	97,796	82.2%	21,200	3,790
6/30/1996*	101,133	73,324	72.5%	27,809	6,609
6/30/1997	117,361	83,485	71.1%	33,876	6,100
6/30/1998	124,501	83,090	66.7%	41,410	7,534

*Change in asset valuation method. See Summary of Actuarial Assumptions and Methods.

SOLVENCY TEST

Kentucky Employees Retirement System

(Expressed in Thousands)

Valuation Date	Aggregate Accrued Liabilities For			Reported Assets	Portion of Accrued Liabilities Covered by Reported Assets		
	(1) Active Member Contributions	(2) Retirants And Beneficiaries	(3) Active Members (Employer Financed Portion)		(1)	(2)	(3)
6/30/1993	508,626	1,032,182	1,162,963	2,585,210	100%	100%	89.8
6/30/1994	556,889	1,139,878	1,215,283	2,729,049	100%	100%	84.9
6/30/1995	604,968	1,361,244	1,274,640	2,983,814	100%	100%	79.8
6/30/1996	654,343	1,425,519	1,335,543	3,375,296	100%	100%	97.0
6/30/1997	691,058	1,541,845	1,371,063	3,850,712	100%	100%	118.0
6/30/1998	752,816	1,711,602	1,507,332	4,568,287	100%	100%	139.6

County Employees Retirement System

(Expressed in Thousands)

Valuation Date	Aggregate Accrued Liabilities For			Reported Assets	Portion of Accrued Liabilities Covered by Reported Assets		
	(1) Active Member Contributions	(2) Retirants And Beneficiaries	(3) Active Members (Employer Financed Portion)		(1)	(2)	(3)
6/30/1993	395,244	675,211	1,009,475	1,985,681	100%	100%	90.7
6/30/1994	440,262	799,654	1,090,428	2,173,355	100%	100%	85.6
6/30/1995	493,331	971,302	1,138,943	2,454,128	100%	100%	86.9
6/30/1996	546,014	1,042,290	1,190,012	2,880,029	100%	100%	108.6
6/30/1997	617,592	1,170,196	1,357,141	3,514,026	100%	100%	127.2
6/30/1998	685,806	1,355,013	1,489,094	4,273,262	100%	100%	150.0

State Police Retirement System

(Expressed in Thousands)

Valuation Date	Aggregate Accrued Liabilities For			Reported Assets	Portion of Accrued Liabilities Covered by Reported Assets		
	(1) Active Member Contributions	(2) Retirants And Beneficiaries	(3) Active Members (Employer Financed Portion)		(1)	(2)	(3)
6/30/1993	27,265	95,801	68,588	200,321	100%	100%	112.6
6/30/1994	28,192	109,772	68,799	205,321	100%	100%	97.9
6/30/1995	27,845	148,398	65,448	217,504	100%	100%	63.0
6/30/1996	28,918	152,503	63,120	237,515	100%	100%	88.9
6/30/1997	29,910	153,693	72,182	279,643	100%	100%	133.1
6/30/1998	30,546	183,652	80,229	306,319	100%	100%	114.8

RETIRED LIVES SUMMARY

Kentucky Employees Retirement System

	<u>Nonhazardous Retirees</u>		<u>Hazardous Retirees</u>		<u>Total</u>	
	<u>Number</u>	<u>Monthly Benefits</u>	<u>Number</u>	<u>Monthly Benefits</u>	<u>Number</u>	<u>Monthly Benefits</u>
Basic Form	7,139	4,678,013	147	59,868	7,286	4,737,881
Joint and Survivor						
100 % to Beneficiary	2,014	1,354,506	72	38,292	2,086	1,392,798
66-2/3% to Beneficiary	700	856,671	20	13,992	720	870,663
50% to Beneficiary	1,160	1,177,752	42	29,188	1,202	1,206,940
Pop-Up Option	1,435	1,422,771	100	53,663	1,535	1,476,434
10 Years Certain	–	–	8	7,317	8	7,317
10 Years Certain and Life	2,337	1,472,171	55	23,402	2,392	1,495,573
15 Years Certain and Life	476	363,295	16	8,866	492	372,161
20 Years Certain and Life	283	243,221	14	9,841	297	253,062
Social Security Option						
Basic Form	1,032	1,348,974	32	12,000	1,064	1,360,974
Survivorship Option	1,004	1,318,014	62	58,378	1,066	1,376,392
Dependent Child	1	–	11	2,655	12	2,655
Total	17,581	14,235,388	579	317,462	18,160	14,552,850

County Employees Retirement System

	<u>Nonhazardous Retirees</u>		<u>Hazardous Retirees</u>		<u>Total</u>	
	<u>Number</u>	<u>Monthly Benefits</u>	<u>Number</u>	<u>Monthly Benefits</u>	<u>Number</u>	<u>Monthly Benefits</u>
Basic Form	7,660	3,064,990	287	392,981	7,947	3,457,971
Joint and Survivor						
100 % to Beneficiary	1,915	871,110	247	308,860	2,162	1,179,970
66-2/3% to Beneficiary	468	372,548	125	225,991	593	598,539
50% to Beneficiary	875	648,164	192	300,066	1,067	948,230
Pop-Up Option	1,338	780,839	601	921,268	1,939	1,702,107
10 Years Certain	3	711	55	126,296	58	127,007
10 Years Certain and Life	2,682	1,014,158	103	126,997	2,785	1,141,155
15 Years Certain and Life	550	278,354	31	42,023	581	320,377
20 Years Certain and Life	312	190,238	61	89,670	373	279,908
Social Security Option						
Basic Form	375	335,989	87	136,094	462	472,083
Survivorship Option	477	533,932	278	393,263	755	927,195
Dependent Child	–	–	137	35,165	137	35,165
Total	16,655	8,091,033	2,204	3,098,674	18,859	11,189,707

State Police Retirement System

	<u>Number</u>	<u>Monthly Benefits</u>
Basic Form	63	129,998
Joint and Survivor		
100 % to Beneficiary	103	204,978
66-2/3% to Beneficiary	51	133,271
50% to Beneficiary	57	135,350
Pop-Up Option	125	278,704
10 Years Certain	6	9,414
10 Years Certain and Life	22	52,383
15 Years Certain and Life	10	19,457
20 Years Certain and Life	23	44,964
Social Security Option		
Basic Form	35	74,632
Survivorship Option	168	354,986
Dependent Child	18	4,952
Total	681	1,443,089

BENEFICIARY SUMMARY

Kentucky Employees Retirement System

	<u>Nonhazardous Retirees</u>		<u>Hazardous Retirees</u>		<u>Total</u>	
	<u>Number</u>	<u>Monthly Benefits</u>	<u>Number</u>	<u>Monthly Benefits</u>	<u>Number</u>	<u>Monthly Benefits</u>
Basic Form	1	97	–	–	1	97
Joint and Survivor						
100 % to Beneficiary	1,815	864,718	43	24,906	1,858	889,624
66-2/3% to Beneficiary	245	110,976	5	2,573	250	113,549
50% to Beneficiary	508	176,238	4	707	512	176,945
Pop-Up Option	109	82,408	5	2,341	114	84,749
5 Years Certain	113	112,470	9	2,362	122	114,832
10 Years Certain	142	107,078	8	3,612	150	110,690
10 Years Certain and Life	147	110,334	8	1,844	155	112,178
15 Years Certain and Life	113	75,180	1	156	114	75,336
20 Years Certain and Life	59	48,538	3	509	62	49,047
Social Security Option						
Basic Form	1	352	–	–	1	352
Survivorship Option	103	109,690	6	4,686	109	114,376
Beneficiary Under 60	18	6,738	–	–	18	6,738
Dependent Child	–	–	–	–	–	–
Total	3,374	1,804,817	92	43,696	3,466	1,848,513

County Employees Retirement System

	<u>Nonhazardous Retirees</u>		<u>Hazardous Retirees</u>		<u>Total</u>	
	<u>Number</u>	<u>Monthly Benefits</u>	<u>Number</u>	<u>Monthly Benefits</u>	<u>Number</u>	<u>Monthly Benefits</u>
Basic Form	-	-	-	-	-	-
Joint and Survivor						
100 % to Beneficiary	1,155	372,217	68	67,344	1,223	439,561
66-2/3% to Beneficiary	124	37,355	12	11,513	136	48,868
50% to Beneficiary	234	59,140	15	9,014	249	68,154
Pop-Up Option	127	69,323	20	27,018	147	96,341
5 Years Certain	149	71,906	17	7,922	166	79,828
10 Years Certain	139	67,536	16	28,307	155	95,843
10 Years Certain and Life	191	82,136	3	2,732	194	84,868
15 Years Certain and Life	112	50,596	1	72	113	50,668
20 Years Certain and Life	48	24,246	3	4,086	51	28,332
Social Security Option						
Basic Form	-	-	-	-	-	-
Survivorship Option	37	36,308	29	38,591	66	74,899
Beneficiary Under 60	5	971	3	2,873	8	3,844
Dependent Child	-	-	1	280	1	280
Total	2,321	871,734	188	199,752	2,509	1,071,486

State Police Retirement System

	<u>Number</u>	<u>Monthly Benefits</u>
Basic Form	–	–
Joint and Survivor		
100 % to Beneficiary	42	72,875
66-2/3% to Beneficiary	1	1,125
50% to Beneficiary	4	3,978
Pop-Up Option	1	1,415
5 Years Certain	–	–
10 Years Certain	–	–
10 Years Certain and Life	–	–
15 Years Certain and Life	1	2,881
20 Years Certain and Life	2	7,002
Social Security Option		
Basic Form	–	–
Survivorship Option	4	7,719
Beneficiary Under 60	–	–
Dependent Child	3	829
Total	58	97,824

KENTUCKY RETIREMENT SYSTEMS

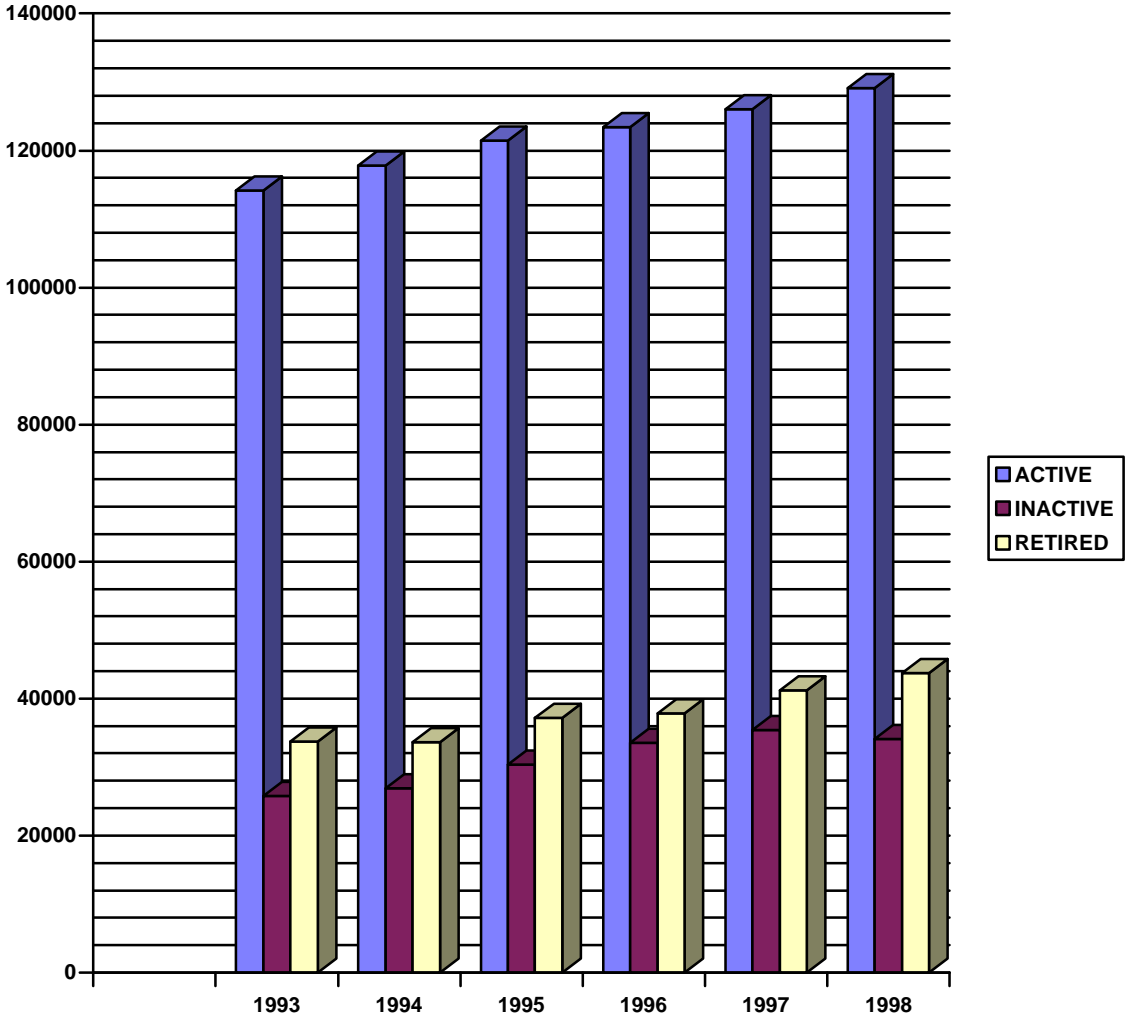
Statistical Section

Comprehensive Annual Financial Report
June 30, 1998

**MEMBERSHIP
AS OF JUNE 30, 1998**

SYSTEM	ACTIVE	INACTIVE	RETIRED	TOTAL
KERS	46,342	13,029	20,955	80,326
KERS Hazardous	3,582	539	671	4,792
CERS	71,426	20,082	18,976	110,484
CERS Hazardous	6,800	397	2,392	9,589
SPRS	954	80	739	1,773
TOTAL	129,104	34,127	43,733	206,964

SIX-YEAR MEMBERSHIP TREND



Schedule of Participating Employers

Kentucky Employees Retirement System

Agency Classification	Number of Agencies
Agencies Reporting through State Payroll	197
Other Agencies (universities, mental health boards, health departments)	105
Special Districts and Boards	1
Child Support Offices (county attorneys)	65
State-Administered Retirement Systems	3
TOTAL	371

County Employees Retirement System

Agency Classification	Number of Agencies
Area Development Districts	12
Boards of Education	176
Cities	205
County Attorneys	58
County Clerks	10
County Government Agencies	236
Fire Departments	23
Hospitals	2
Jailers	2
Libraries	78
Planning Commissions	7
Police Departments	39
Police & Fire Departments (combined)	37
Sanitation Districts	2
Sheriff Departments	27
Special Districts and Boards	91
Utility Boards	78
Urban County Government Agencies	3
TOTAL	1,086

SCHEDULE OF REVENUE BY SOURCE
(expressed in thousands)

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

Year Ending	Member Contributions	Employer Contributions	Investment Income	Total
June 30, 1993	\$59,612	\$ 90,568	\$187,118	\$337,298
June 30, 1994	\$61,372	\$ 91,537	\$146,502	\$299,411
June 30, 1995	\$67,775	\$107,582	\$186,275	\$361,632
June 30, 1996	\$68,933	\$113,717	\$285,100	\$467,750
June 30, 1997	\$69,075	\$118,119	\$364,477	\$551,671
June 30, 1998	\$74,115	\$128,221	\$434,032	\$636,368

COUNTY EMPLOYEES RETIREMENT SYSTEM

Year Ending	Member Contributions	Employer Contributions	Investment Income	Total
June 30, 1993	\$67,301	\$115,231	\$130,722	\$313,254
June 30, 1994	\$65,388	\$114,160	\$112,081	\$291,629
June 30, 1995	\$72,785	\$121,881	\$146,527	\$341,193
June 30, 1996	\$72,557	\$131,612	\$247,816	\$451,985
June 30, 1997	\$79,342	\$145,326	\$325,552	\$550,220
June 30, 1998	\$90,963	\$149,824	\$399,916	\$640,703

STATE POLICE RETIREMENT SYSTEM

Year Ending	Member Contributions	Employer Contributions	Investment Income	Total
June 30, 1993	\$2,546	\$6,114	\$14,810	\$23,470
June 30, 1994	\$2,575	\$6,081	\$11,171	\$19,827
June 30, 1995	\$2,727	\$6,874	\$14,235	\$23,836
June 30, 1996	\$2,457	\$7,089	\$20,627	\$30,173
June 30, 1997	\$2,958	\$9,628	\$27,393	\$39,979
June 30, 1998	\$2,711	\$9,574	\$29,001	\$41,286

SCHEDULE OF EXPENSES BY SOURCE

(expressed in thousands)

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

Year Ending	Benefit Payments	Administrative Expenses	Refunds	Amounts Transferred to Insurance Fund	Total
June 30, 1993	\$119,620	\$2,205	\$6,749	\$22,370	\$150,944
June 30, 1994	\$129,780	\$2,076	\$7,903	\$31,453	\$171,212
June 30, 1995	\$144,365	\$2,088	\$7,820	\$40,011	\$194,284
June 30, 1996	\$158,407	\$2,284	\$7,485	\$42,624	\$210,800
June 30, 1997	\$173,352	\$2,701	\$8,262	\$43,988	\$228,303
June 30, 1998	\$193,569	\$2,628	\$9,196	\$46,135	\$251,528

COUNTY EMPLOYEES RETIREMENT SYSTEM

Year Ending	Benefit Payments	Administrative Expenses	Refunds	Amounts Transferred to Insurance Fund	Total
June 30, 1993	\$ 72,607	\$2,679	\$ 5,373	\$22,546	\$103,205
June 30, 1994	\$ 82,691	\$2,782	\$ 8,170	\$32,729	\$126,372
June 30, 1995	\$ 96,419	\$2,930	\$ 8,873	\$35,002	\$143,224
June 30, 1996	\$109,081	\$3,217	\$ 8,944	\$37,622	\$158,864
June 30, 1997	\$124,187	\$3,909	\$ 9,167	\$40,816	\$178,079
June 30, 1998	\$142,405	\$4,030	\$10,173	\$43,549	\$200,157

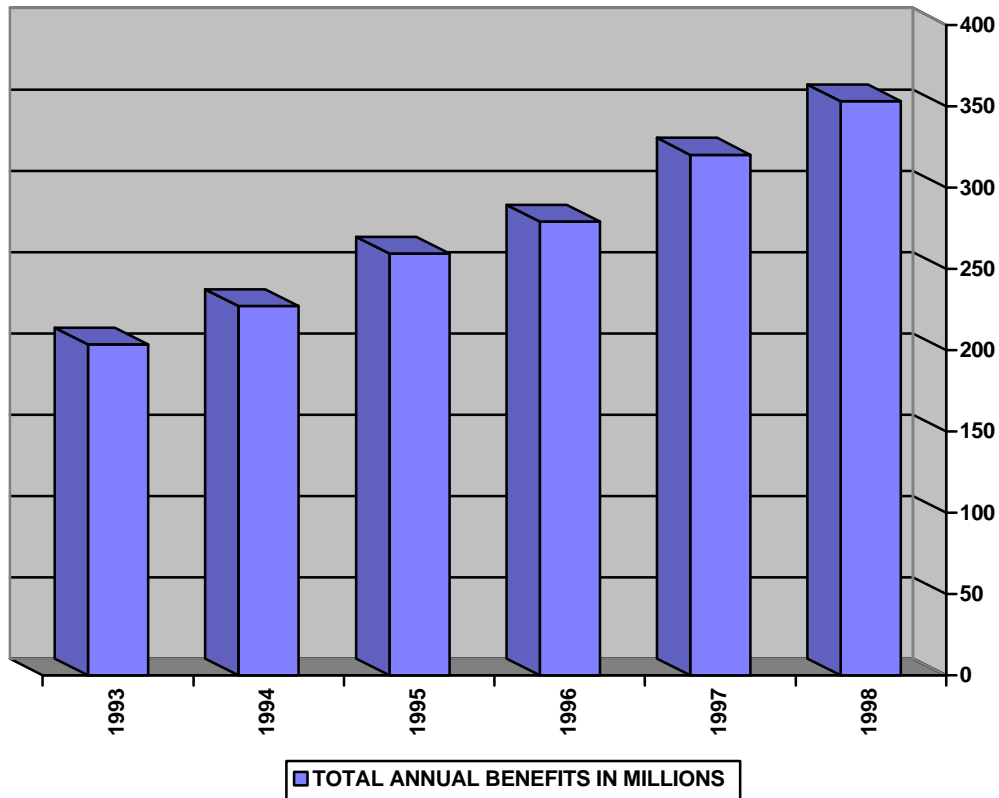
STATE POLICE RETIREMENT SYSTEM

Year Ending	Benefit Payments	Administrative Expenses	Refunds	Amounts Transferred to Insurance Fund	Total
June 30, 1993	\$10,220	\$56	\$40	\$2,922	\$13,238
June 30, 1994	\$11,147	\$33	\$44	\$3,767	\$14,991
June 30, 1995	\$12,526	\$40	\$19	\$4,464	\$16,377
June 30, 1996	\$13,711	\$44	\$31	\$4,606	\$18,392
June 30, 1997	\$14,682	\$52	\$57	\$5,126	\$19,917
June 30, 1998	\$17,735	\$47	\$70	\$5,120	\$22,972

ANALYSIS OF INITIAL RETIREMENT 1993-1998

	1993	1994	1995	1996	1997	1998
KERS Retirees	1,193	1,339	1,573	1,127	1,523	1,093
Average Monthly Benefit	\$892	\$858	\$914	\$967	\$1,117	\$1,000
CERS Retirees	1,209	1,837	1,906	1,344	1,962	1,626
Average Monthly Benefit	\$637	\$688	\$631	\$690	\$737	\$709
SPRS Retirees	56	54	77	39	47	46
Average Monthly Benefit	\$1,867	\$1,994	\$1,784	\$2,116	\$2,185	\$2,299

ANNUAL RETIREMENT PAYMENTS 1993-1998



SCHEDULE OF BENEFIT EXPENSES BY TYPE
KENTUCKY EMPLOYEES RETIREMENT SYSTEM

	NORMAL	EARLY	DISABILITY	DEATH	TOTAL
FY 1992-93					
Average Benefit	\$460	\$659	\$488	\$518	\$579
Retirees	4,206	9,158	1,217		14,581
Beneficiaries	765	720	532	704	2,721
Total Recipients	4,971	9,878	1,749	704	17,302
Monthly Benefits	\$2,288,082	\$6,511,669	\$853,848	\$364,612	\$10,018,211
FY 1993-94					
Average Benefit	\$484	\$686	\$514	\$534	\$606
Retirees	4,235	9,623	1,334		15,192
Beneficiaries	771	759	547	706	2,783
Total Recipients	5,006	10,382	1,881	706	17,975
Monthly Benefits	\$2,420,610	\$7,119,855	\$967,106	\$337,339	\$10,844,910
FY 1994-95					
Average Benefit	\$517	\$737	\$551	\$570	\$651
Retirees	4,311	10,241	1,452		16,004
Beneficiaries	798	792	570	722	2,882
Total Recipients	5,109	11,033	2,022	722	18,886
Monthly Benefits	\$2,643,397	\$8,128,080	\$1,113,901	\$411,780	\$12,297,158
FY 1995-96					
Average Benefit	\$530	\$758	\$567	\$566	\$670
Retirees	4,312	10,717	1,560		16,589
Beneficiaries	815	826	595	733	2,969
Total Recipients	5,127	11,543	2,155	733	19,558
Monthly Benefits	\$2,714,747	\$8,752,259	\$1,221,084	\$414,832	\$13,102,922
FY 1996-97					
Average Benefit	\$562	\$817	\$596	\$600	\$721
Retirees	4,322	11,513	1,694		17,529
Beneficiaries	819	853	622	754	3,048
Total Recipients	5,141	12,366	2,316	754	20,577
Monthly Benefits	\$2,890,662	\$10,108,484	\$1,380,195	\$452,335	\$14,831,676
FY 1997-98					
Average Benefit	\$589	\$859	\$629	\$647	\$760
Retirees	4,248	11,920	1,772		17,940
Beneficiaries	827	890	636	782	3,135
Total Recipients	5,075	12,810	2,408	782	21,075
Monthly Benefits	\$2,989,698	\$11,006,325	\$1,512,760	\$505,747	\$16,014,530

The information in the above tables includes only retirees and beneficiaries receiving a monthly benefit as of June 28 in the indicated fiscal year. Dependent children, alternate payees under qualified domestic relations orders, retired reemployed members and individuals deceased as of June are not included. As a result, the information for the current year will differ from that shown in the Retired Lives Summary in the Actuarial Section.

SCHEDULE OF BENEFIT EXPENSES BY TYPE

COUNTY EMPLOYEES RETIREMENT SYSTEM

	NORMAL	EARLY	DISABILITY	DEATH	TOTAL
FY 1992-93					
Average Benefit	\$330	\$496	\$448	\$374	\$432
Retirees	4,107	7,122	1,104		12,333
Beneficiaries	495	372	297	485	1,649
Total Recipients	4,602	7,494	1,401	485	13,982
Monthly Benefits	\$1,520,564	\$3,713,780	\$627,229	\$181,163	\$6,042,736
FY 1993-94					
Average Benefit	\$353	\$535	\$485	\$394	\$467
Retirees	4,311	7,848	1,283		13,442
Beneficiaries	505	383	326	528	1,742
Total Recipients	4,816	8,231	1,609	528	15,184
Monthly Benefits	\$1,700,589	\$4,403,993	\$780,642	\$208,204	\$7,093,428
FY 1994-95					
Average Benefit	\$369	\$567	\$513	\$413	\$495
Retirees	4,563	8,721	1,494		14,778
Beneficiaries	528	421	346	552	1,847
Total Recipients	5,091	9,142	1,840	552	16,625
Monthly Benefits	\$1,876,514	\$5,180,389	\$944,147	\$228,228	\$8,229,278
FY 1995-96					
Average Benefit	\$380	\$581	\$528	\$425	\$510
Retirees	4,684	9,384	1,660		15,728
Beneficiaries	549	457	380	562	1,948
Total Recipients	5,233	9,841	2,040	562	17,676
Monthly Benefits	\$1,988,732	\$5,714,564	\$1,076,787	\$238,803	\$9,018,886
FY 1996-97					
Average Benefit	\$405	\$620	\$560	\$446	\$547
Retirees	4,937	10,453	1,942		17,332
Beneficiaries	574	490	406	576	2,046
Total Recipients	5,511	10,943	2,348	576	19,378
Monthly Benefits	\$2,229,937	\$6,790,089	\$1,314,240	\$256,650	\$10,590,916
FY 1997-98					
Average Benefit	\$429	\$650	\$585	\$473	\$576
Retirees	5,095	11,238	2,165		18,498
Beneficiaries	594	544	416	614	2,168
Total Recipients	5,689	11,782	2,581	614	20,666
Monthly Benefits	\$2,438,180	\$7,660,693	\$1,511,141	\$290,517	\$11,900,531

The information in the above tables includes only retirees and beneficiaries receiving a monthly benefit as of June in the indicated fiscal year. Dependent children, alternate payees under qualified domestic relations orders, retired reemployed members and individuals deceased as of June 28 are not included. As a result, the information for the current year will differ from that shown in the Retired Lives Summary in the Actuarial Section.

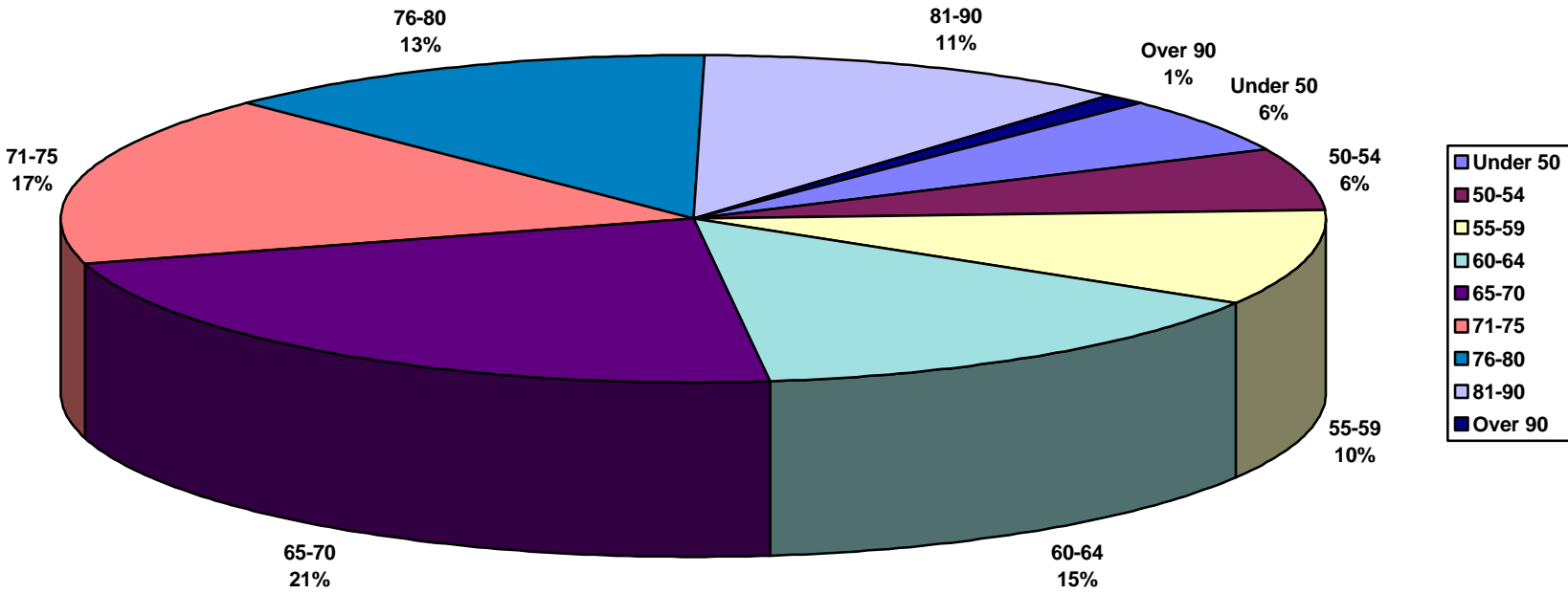
SCHEDULE OF BENEFIT EXPENSES BY TYPE

STATE POLICE RETIREMENT SYSTEM

	NORMAL	EARLY	DISABILITY	DEATH	TOTAL
FY 1992-93					
Average Benefit	\$1,749	\$2,016	\$1,320	\$1,255	\$1,893
Retirees	82	315	24		421
Beneficiaries	10	3	2	17	32
Total Recipients	92	318	26	17	453
Monthly Benefits	\$160,887	\$641,082	\$34,332	\$21,336	\$857,637
FY 1993-94					
Average Benefit	\$1,736	\$2,020	\$1,287	\$1,171	\$1,892
Retirees	82	356	28		466
Beneficiaries	12	2	2	18	34
Total Recipients	94	358	30	18	500
Monthly Benefits	\$163,201	\$722,989	\$38,615	\$21,083	\$945,888
FY 1994-95					
Average Benefit	\$1,775	\$2,018	\$1,263	\$1,207	\$1,907
Retirees	82	417	30		529
Beneficiaries	13	3	3	18	37
Total Recipients	95	420	33	18	566
Montly Benefits	\$168,663	\$847,649	\$41,677	\$21,741	\$1,079,730
FY 1995-96					
Average Benefit	\$1,749	\$2,020	\$1,241	\$1,034	\$1,901
Retirees	84	446	30		560
Beneficiaries	12	4	6	17	39
Total Recipients	96	450	36	17	599
Monthly Benefits	\$167,947	\$908,793	\$44,664	\$17,582	\$1,138,986
FY 1996-97					
Average Benefit	\$1,789	\$2,079	\$1,224	\$1,065	\$1,958
Retirees	86	484	31		601
Beneficiaries	12	4	8	16	40
Total Recipients	98	488	39	16	641
Monthly Benefits	\$175,303	\$1,014,787	\$47,733	\$17,050	\$1,254,873
FY 1997-98					
Average Benefit	\$2,472	\$2,131	\$1,319	\$1,309	\$2,120
Retirees	101	520	33		654
Beneficiaries	20	4	7	20	51
Total Recipients	121	524	40	20	705
Monthly Benefits	\$299,059	\$1,116,767	\$52,744	\$26,178	\$1,494,748

The information in the above tables includes only retirees and beneficiaries receiving a monthly benefit as of June in the indicated fiscal year. Dependent children, alternate payees under qualified domestic relations orders, retired reemployed members and individuals deceased as of June 28 are not included. As a result, the information for the current year will differ from that shown in the Retired Lives Summary in the Actuarial Section.

RECIPIENTS BY AGE



**COMPARISON OF AVERAGE MONTHLY BENEFITS
BY LENGTH OF SERVICE**

KERS

SERVICE	Under 2 Yrs.	2-5	6-10	11-15	16-20	21-25	26-30	31-35	Over 35
No. of Recipients	488	757	3,474	3,657	3,403	3,249	3,179	1,896	918
Average Pay	\$49	\$145	\$220	\$366	\$570	\$808	\$1,361	\$1,689	\$2,199

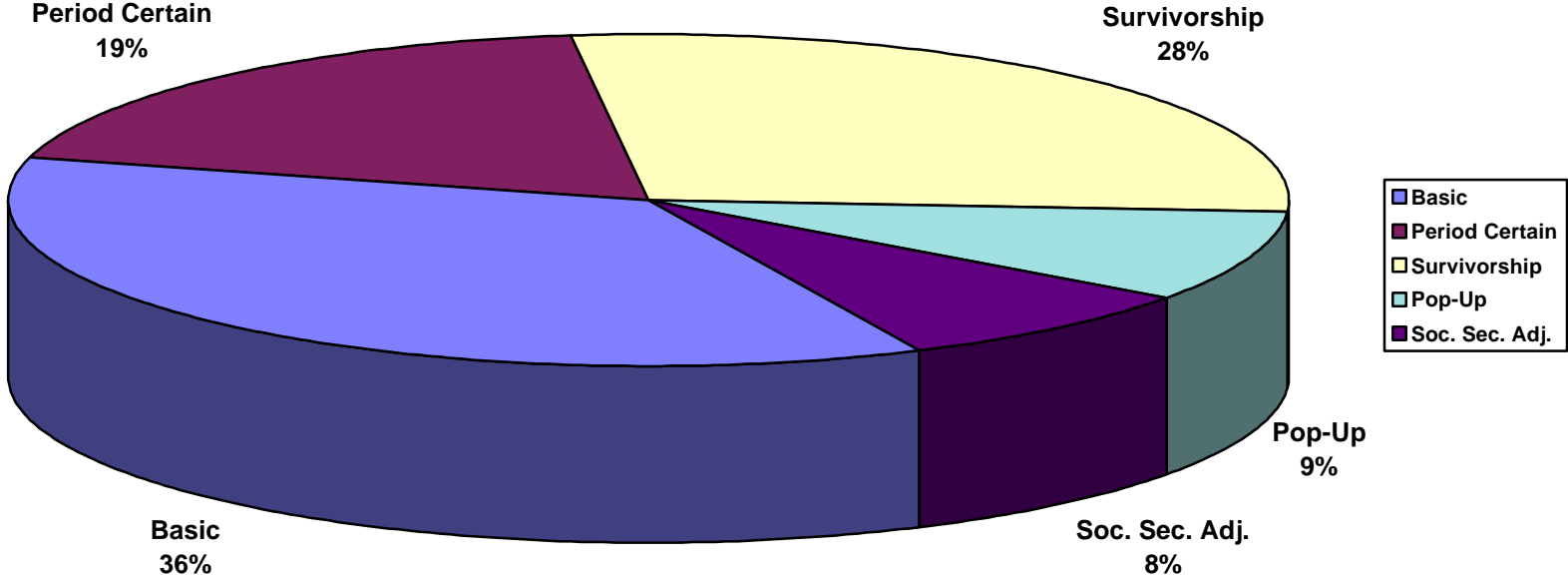
CERS

SERVICE	Under 2 Yrs.	2-5	6-10	11-15	16-20	21-25	26-30	31-35	Over 35
No. of Recipients	463	981	4,999	4,674	3,357	3,213	1,899	722	334
Average Pay	\$45	\$120	\$189	\$335	\$547	\$950	\$1,431	\$1,711	\$2,012

SPRS

SERVICE	Under 2 Yrs.	2-5	6-10	11-15	16-20	21-25	26-30	31-35	Over 35
No. of Recipients	6	15	23	25	55	210	232	98	40
Average Pay	\$83	\$277	\$597	\$930	\$1,352	\$1,859	\$2,452	\$3,091	\$3,668

PAYMENT OPTIONS BY TYPE



Basic=single life annuity. Period Certain=includes 10-year certain, as well as, life with 10, 15 and 20 years certain. Survivorship=includes 100%, 66 2/3% and 50% options. Pop-Up=benefit increases to Basic amount if beneficiary dies or divorces member. Soc. Sec. Adj.=provides an increased benefit until age 62 with a reduced benefit after age 62.

TOTAL FISCAL YEAR RETIREMENT PAYMENTS BY COUNTY

Jefferson	\$61,522,086	Clay	\$ 1,788,830	Pendleton	\$ 956,002
Franklin	\$41,545,846	Grayson	\$ 1,674,212	Rockcastle	\$ 945,411
Fayette	\$17,948,163	Clark	\$ 1,664,778	Spencer	\$ 944,868
Warren	\$ 9,036,255	Bourbon	\$ 1,659,771	Allen	\$ 935,700
Daviess	\$ 7,883,746	Johnson	\$ 1,626,174	Webster	\$ 817,522
Christian	\$ 7,079,412	Perry	\$ 1,595,393	Wolfe	\$ 812,087
Shelby	\$ 6,715,940	Logan	\$ 1,585,888	Lee	\$ 786,231
Kenton	\$ 6,539,772	Carter	\$ 1,565,923	Metcalfe	\$ 776,355
McCracken	\$ 6,022,969	Trigg	\$ 1,560,773	Livingston	\$ 773,885
Pulaski	\$ 5,999,855	Knott	\$ 1,526,728	Simpson	\$ 768,497
Hardin	\$ 5,117,110	Caldwell	\$ 1,506,246	Washington	\$ 756,046
Madison	\$ 5,012,543	Breathitt	\$ 1,421,507	McCreary	\$ 739,286
Anderson	\$ 4,735,432	Harrison	\$ 1,389,881	Lewis	\$ 708,719
Oldham	\$ 3,965,727	Montgomery	\$ 1,323,553	Powell	\$ 705,700
Hopkins	\$ 3,826,492	Marion	\$ 1,300,914	Jackson	\$ 683,935
Campbell	\$ 3,644,147	Lincoln	\$ 1,272,359	Green	\$ 663,472
Boyd	\$ 3,614,835	Taylor	\$ 1,243,041	Butler	\$ 654,998
Boone	\$ 3,565,219	Muhlenberg	\$ 1,232,830	Trimble	\$ 643,249
Boyle	\$ 3,535,253	Larue	\$ 1,229,594	Ballard	\$ 641,713
Bullitt	\$ 3,454,366	Russell	\$ 1,178,514	Magoffin	\$ 602,107
Pike	\$ 3,377,863	Adair	\$ 1,162,748	Lawrence	\$ 601,802
Henderson	\$ 3,361,665	Letcher	\$ 1,156,154	Leslie	\$ 584,700
Calloway	\$ 3,325,722	Bath	\$ 1,134,239	McLean	\$ 560,390
Barren	\$ 3,040,192	Knox	\$ 1,133,763	Owsley	\$ 533,367
Scott	\$ 2,898,289	Estill	\$ 1,118,809	Clinton	\$ 525,758
Laurel	\$ 2,866,716	Wayne	\$ 1,117,520	Fulton	\$ 525,344
Woodford	\$ 2,732,198	Ohio	\$ 1,107,208	Cumberland	\$ 511,317
Rowan	\$ 2,569,037	Lyon	\$ 1,086,670	Bracken	\$ 505,533
Mercer	\$ 2,528,014	Union	\$ 1,084,304	Menifee	\$ 498,131
Whitley	\$ 2,516,168	Garrard	\$ 1,060,371	Carlisle	\$ 485,265
Graves	\$ 2,427,115	Carroll	\$ 1,059,940	Hancock	\$ 475,207
Marshall	\$ 2,347,168	Greenup	\$ 1,057,094	Monroe	\$ 471,111
Owen	\$ 2,282,046	Morgan	\$ 1,008,548	Martin	\$ 440,686
Floyd	\$ 2,213,315	Fleming	\$ 1,003,407	Crittenden	\$ 416,866
Nelson	\$ 2,187,114	Mason	\$ 980,659	Nicholas	\$ 407,169
Henry	\$ 2,081,551	Casey	\$ 980,121	Gallatin	\$ 376,112
Jessamine	\$ 2,077,699	Breckinridge	\$ 977,335	Edmonson	\$ 375,599
Harlan	\$ 1,949,504	Todd	\$ 983,271	Elliott	\$ 380,354
Grant	\$ 1,843,310	Hart	\$ 973,327	Hickman	\$ 349,237
Bell	\$ 1,795,145	Meade	\$ 963,663	Robertson	\$ 160,54

Payments to Recipients Living in Other States
\$16,851,420

TOTAL PAYMENTS TO MEMBERS AND BENEFICIARIES FOR FY 1997-98
\$353,032,749