

KENTUCKY RETIREMENT SYSTEMS



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

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2004

*A Component Unit of the
Commonwealth of Kentucky*

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KENTUCKY RETIREMENT SYSTEMS

*A Component Unit of the
Commonwealth of Kentucky*

Comprehensive Annual Financial Report *For the Fiscal Year Ended June 30, 2004*



KRS Office in Frankfort, Kentucky

Prepared by the executive staff of
Kentucky Retirement Systems

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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, 2004



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

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



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November 18, 2004

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

Dear Board of Trustees and Members:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the Kentucky Employees Retirement System (KERS), County Employees Retirement System (CERS), and State Police Retirement System (SPRS) for the fiscal year ended June 30, 2004. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the management of the Systems.

The CAFR is divided into six 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 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.
- A Compliance Section, containing a report on compliance and internal control.

We present this information to assist the Board and the members of the retirement systems in understanding 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. Additionally, sufficient internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules. Please refer to Management's Discussion and Analysis on page 12 for more information.

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 completed June 30, 1957, there were 16,000 employees participating in KERS and assets of \$2.8 million. SPRS and CERS 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. On June 30, 1960, there were 68 counties and 2,617 employees participating in CERS, and SPRS included 415 uniformed state troopers.

As of June 30, 2004, there were more than 284,000 active and retired members in the three systems and approximately \$13.4 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, both in office by appointment and by telephone during normal business hours. In addition, staff conducts individual counseling sessions at sites throughout the state and holds preretirement seminars to help members prepare for retirement.

Major Initiatives

During fiscal year 2004, The Board of Trustees issued a Request for Proposal for an Organizational and Operational Review. The purpose of the review was to focus on business processes and the technology needed to provide services to members in the future. The firm of L.R. Wechsler, Ltd. was selected and a report is expected in late fiscal year 2005. In addition, the Board also issued an RFP for a Pharmacy Consultant to assist it in understanding the utilization and management of the drug benefit it provides under its contract with retirees. Additional work is expected over the course of the next several years in the medical benefits area, including drug benefits.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a certificate of Achievement for Excellence in Financial Reporting to the Kentucky Retirement Systems for its CAFR for the fiscal year ended June 30, 2003. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports. This was the fifth consecutive year that KRS has achieved this award.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

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 and insurance benefits.

<i>(Dollar amounts expressed in thousands)</i>	2004	2003	Increase (Decrease) Amount	Increase (Decrease) Percentage
Member Contributions	\$306,652	\$314,855	(\$8,203)	(2.7%)
Employer Contributions	\$342,101	\$277,012	\$65,089	23.5%
Net Investment Income	\$1,696,010	\$459,156	\$1,236,854	269.4%
Total	\$2,344,763	\$1,051,023	\$1,293,740	123.1%

Member contributions decreased by \$8.1 million over the fiscal year. Employer contributions increased by \$60.6 million due to the increase in covered payroll and the increase in the contribution rates applied to the pension funds. The increase in Net Investment Income is primarily due to the more favorable financial market conditions of the past fiscal year.

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; monthly insurance benefits; member refunds and the administrative expenses of the system.

<i>(Dollar amounts expressed in thousands)</i>	2004	2003	Increase (Decrease) Amount	Increase (Decrease) Percentage
Retirement Allowances	\$849,172	\$748,980	\$100,192	13.4%
Refunds	\$23,361	\$20,522	\$2,839	13.8%
Administrative Expense	\$16,232	\$15,292	\$940	6.1%
Medical Insurance Expense	\$131,872	\$113,296	\$18,576	16.4%
Total	\$1,020,637	\$898,090	\$122,547	13.6%

Retirement allowances increased due to a 1.6% cost of living adjustment added to recipients' monthly benefits effective July 1, 2003, as well as an increase in the number of retired members over the past fiscal year.

Investments

The Board of Trustees of the Kentucky Retirement Systems has 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 that a prudent person would ordinarily exercise under similar circumstances in a comparable 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 over the long term while minimizing investment related expenses. Due to favorable market conditions for the fiscal year ending June 30, 2004, the systems' pension funds increased \$1.44 billion and the insurance fund increased \$253.1 million.

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. The progress towards achieving the intended funding objectives for both the pension 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 funds are 85.8% for KERS, 101.0% for CERS and 88.0% for SPRS. These funded levels will fluctuate over time with experience deviations. Since 1992, all three systems have had a funded level relative to the retirement fund of at least 85% in all valuations.

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 \$4.09 billion. 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 9. A listing of the external investment managers can be found on page 75 in the Investment Section.

Other Information

Kentucky statutes require an annual audit by an independent certified public accountant or the Auditor of Public Accounts. Carpenter, Mountjoy & Bressler PSC performed the audit for the fiscal year ended June 30, 2004, and the results of that audit are contained in the Financial Section. The firm gave the Systems an unqualified opinion and also indicated that the financial statements present fairly, in all material respects, the plan net assets of Kentucky Retirement Systems.

The compilation of this report reflects the combined efforts of Don Mullis, Bob Leggett, Brad Gross and Shawn Sparks under the leadership of the Board of Trustees. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with statutory provisions, and as a means of determining responsible stewardship of the Systems' funds.

The report is available to all employers participating in the Kentucky Retirement Systems. They form the link between the systems and its membership, and their cooperation contributes significantly to the success of the Kentucky Retirement Systems. We hope the employers and their employees find this report informative. This and past CAFRs can be found on the Systems' web site, **www.kyret.com**.

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.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "William P. Hanes", is written in black ink. To the right of the signature is a vertical line.

William P. Hanes, Esq.
Executive Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Kentucky Retirement Systems

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

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



A handwritten signature in black ink, appearing to read "Edward Haney".

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emmer".

Executive Director

Kentucky Retirement Systems Board of Trustees



Larry C. Conner
Lexington
Appointed by Governor
Term Expires March 31, 2007



Edwin A. Davis
Louisville
Elected by CERS
Term Expires March 31, 2005



John W. Freeman
Louisville
Elected by CERS
Term Expires March 31, 2005



Lynn T. Harpring
Louisville
Appointed by Governor
Term Expires March 31, 2008



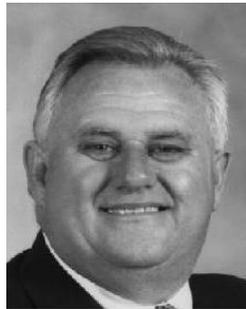
Bobby D. Henson
Frankfort
Elected by KERS
Term Expires March 31, 2006



Susan Smith Horne
Lexington
Elected by KERS
Term Expires March 31, 2006



Randy J. Overstreet, Chair
Elizabethtown
Elected by SPRS
Term Expires March 31, 2007

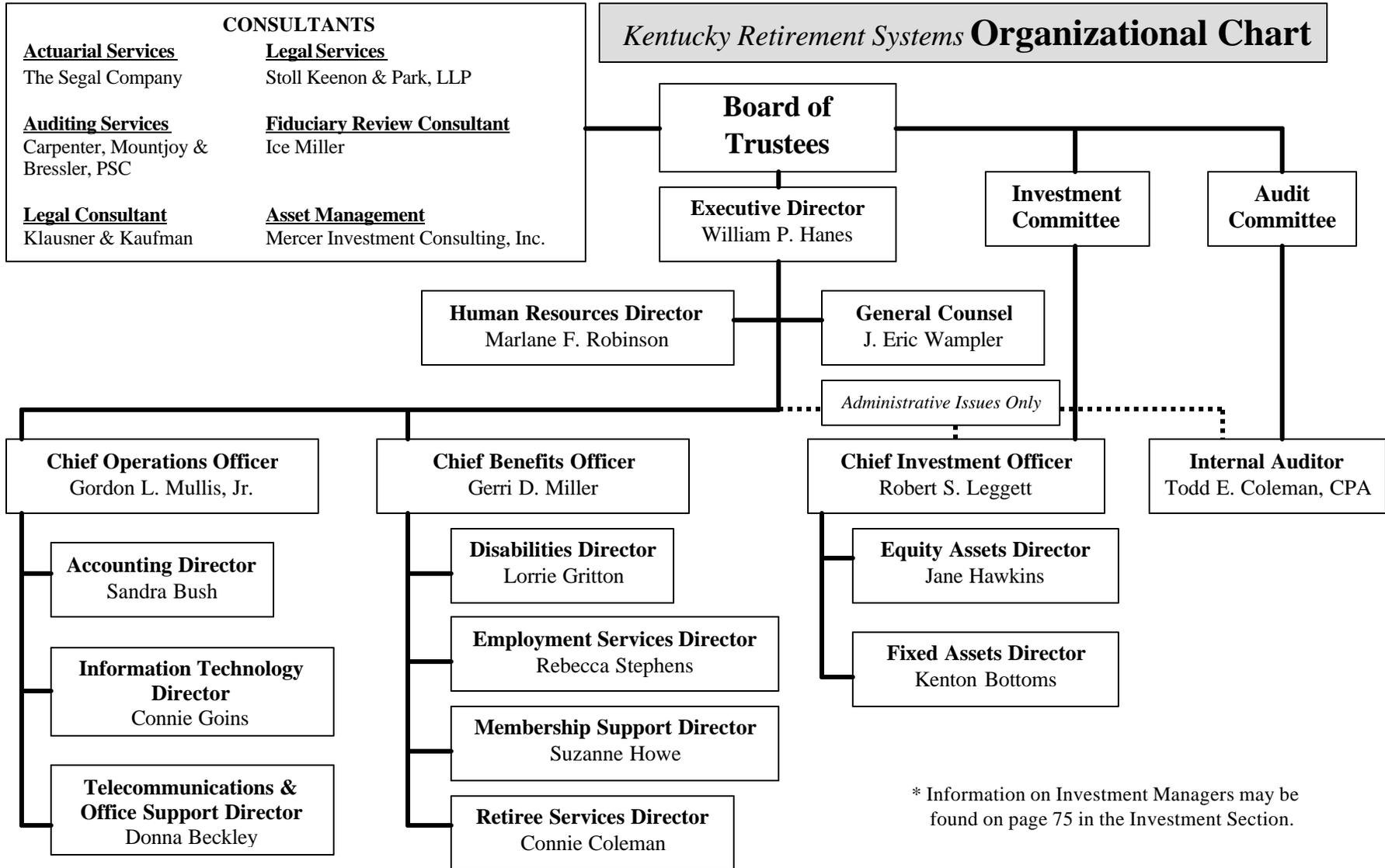


Walter J. Pagan, Vice Chair
Wilder
Appointed by Governor
Term Expires March 31, 2008



Robert Ramsey, Sr.
Georgetown
**Commissioner, Department
of Personnel**
Term Expires: Ex-Officio

Kentucky Retirement Systems **Organizational Chart**



* Information on Investment Managers may be found on page 75 in the Investment Section.

KENTUCKY RETIREMENT SYSTEMS



Financial Section

Comprehensive Annual Financial Report
June 30, 2004

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Kentucky Retirement Systems
Frankfort, Kentucky

We have audited the financial statements of the Kentucky Retirement Systems, a component unit of the Commonwealth of Kentucky, as of and for the years ended June 30, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of the Kentucky Retirement Systems' management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Kentucky Retirement Systems, a component unit of the Commonwealth of Kentucky, as of June 30, 2004 and 2003 and the changes in plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 16, 2004 on our consideration of the Kentucky Retirement Systems' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis (pages 12 through 16) and the supplementary information included in the schedule of funding progress and schedule of employer contributions (pages 40 through 48) are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The additional supporting schedules (pages 51 through 53) are presented for the purpose of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

September 16, 2004
Louisville, Kentucky

KENTUCKY RETIREMENT SYSTEMS

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2004 and 2003

This discussion and analysis of Kentucky Retirement System's financial performance provides an overview of the pension fund's and insurance fund's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the Pension Fund's financial statements and Insurance Fund's financial statements, which begin on page 17.

FINANCIAL HIGHLIGHTS--PENSION FUND

The following highlights are explained in more detail later in this discussion:

- The combined plan net assets of all pension funds administered by Kentucky Retirement Systems increased by \$966.1 million during the 2003-2004 fiscal year.
- Covered payroll for 2003-2004 was \$4.048 billion compared to covered payroll for the 2002-2003 plan year of \$3.955 billion, increasing approximately \$93 million. The corresponding employer contributions increased by \$65.1 million for a total employer contribution amount of \$342.1 million. Of the total employer contribution amount, \$104.3 million was posted to the pension fund while \$237.8 million was posted to the insurance fund. Contributions paid by employees were \$306.7 and \$314.8 million respectively for the years ended June 30, 2004 and June 30, 2003. This decrease in employee contributions is a reflection of a decrease in voluntary service purchases.
- The net appreciation in the fair value of investments was \$1.14 billion for the year ended June 30, 2004 compared to net appreciation of \$110 million for the prior fiscal year. Included in this net appreciation were realized gains on sales of investments of \$227.6 million. In comparison, the pension funds realized losses of \$155.2 million for the year ended June 30, 2003. The net realized gain experienced by the pension funds is due to a favorable change in market conditions.
- Investment income net of investment expense from all sources including securities lending was \$298.2 million compared to \$321 million net investment income in last fiscal year.
- Pension benefits paid to retirees and beneficiaries increased \$100.2 million bringing total benefit payments to \$849.2 million. Refund of contributions paid to former members upon termination of employment increased from \$20.5 million to \$23.4 million.
- Administrative expense increased \$.8 million totaling \$15.2 million compared to \$14.4 million in the prior year.

FINANCIAL HIGHLIGHTS--INSURANCE FUND

The following highlights are explained in more detail later in this discussion:

- The combined plan net assets of the post-employment healthcare (insurance) fund administered by Kentucky Retirement Systems increased by \$358 million during the 2003-2004 fiscal year.
- Employer contributions of \$237.8 million were received. This is an increase of \$4.5 million over the prior fiscal year. This increase is due to an increase in covered payroll reported during the 2003-2004 plan year.
- The net appreciation in the fair value of investments was \$228.6 million compared to net appreciation of 6.3 million for the prior fiscal year. Included in this net appreciation were realized gains on sales of investments of \$22 million.
- Investment income net of investment expense from all sources including securities lending was \$24.6 million compared to net investment income of \$22 million in last fiscal year.
- Premiums paid by the fund for hospital and medical insurance coverage increased \$18.6 million to total \$131.9 million for the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS--CONTINUED
June 30, 2004 and 2003

USING THIS FINANCIAL REPORT

Because of the long-term nature of a defined benefit pension plan and post-employment healthcare benefit plan, financial statements alone cannot provide sufficient information to properly reflect the plan's ongoing plan perspective. This financial report consists of two financial statements and two required schedules of historical trend information. The Combined Statement of Plan Net Assets for the Pension Fund on page 17 and for the Postemployment Healthcare fund on page 20 provides a snapshot of the financial position of each of the three systems at June 30, 2004. The Combined Statement of Changes in Plan Net Assets for the Pension Fund on page 18 and for the Postemployment Healthcare Fund on page 21 summarize the additions and deductions that occurred for each of the three systems during the period from July 1, 2003 through June 30, 2004.

The Schedule of Funding Progress on pages 40-45 includes historical trend information about the actuarially funded status of each plan from a long-term, ongoing plan perspective and the progress made in accumulating sufficient assets to pay benefits and insurance premiums when due. The Schedule of Employer Contributions on pages 46-48 presents historical trend information about the annual required contributions of employers and the contributions made by employers in relation to the requirement. These schedules provide information that contributes to understanding the changes over time in the funded status of the plans.

KENTUCKY RETIREMENT SYSTEMS AS A WHOLE

Kentucky Retirement Systems' combined plan net assets increased during the year ended June 30, 2004 by \$1,324.1 million from \$12,257.3 million to \$13,581.4 million. Plan net assets for the prior fiscal year increased by \$152.9 million. The increase in plan net assets for the plan year ended June 30, 2004 is attributable to the change in market conditions. The analysis below focuses on plan net assets (Table 1) and changes in plan net assets (Table 2) of Kentucky Retirement Systems' pension funds and insurance fund.

Table 1
Plan Net Assets
(In Millions)

	Pension Funds			Insurance Fund			Total		
	2004	2003	2002	2004	2003	2002	2004	2003	2002
Cash & Investments	\$13,327.7	\$14,240.2	\$13,492.8	\$2,000.8	\$1,664.2	\$1,372.5	\$15,328.5	\$15,904.4	\$14,865.3
Receivables	123.3	124.9	132.0	21.4	25.2	29.6	144.7	150.1	161.6
Equipment, net of depreciation	0.9	1.0	1.2	0.0	0.0	0.0	0.9	1.0	1.2
Total Assets	<u>\$13,451.9</u>	<u>\$14,366.1</u>	<u>\$13,626.0</u>	<u>\$2,022.2</u>	<u>\$1,689.4</u>	<u>\$1,402.1</u>	<u>\$15,474.1</u>	<u>\$16,055.5</u>	<u>\$15,028.1</u>
Total Liabilities	<u>\$(1,572.3)</u>	<u>\$(3,452.5)</u>	<u>\$(2,718.0)</u>	<u>\$(320.4)</u>	<u>\$(345.7)</u>	<u>\$(205.7)</u>	<u>\$(1,892.7)</u>	<u>\$(3,798.2)</u>	<u>\$(2,923.7)</u>
Plan Net Assets	<u>\$11,879.6</u>	<u>\$10,913.6</u>	<u>\$10,908.0</u>	<u>\$1,701.8</u>	<u>\$1,343.7</u>	<u>\$1,196.4</u>	<u>\$13,581.4</u>	<u>\$12,257.3</u>	<u>\$12,104.4</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS--CONTINUED
June 30, 2004 and 2003

Table 2
Changes in Plan Net Assets
(In Millions)

	Pension Funds			Insurance Fund			Total		
	2004	2003	2002	2004	2003	2002	2004	2003	2002
Additions:									
Member Cont.	\$ 306.7	\$ 314.8	\$ 286.8	\$ 0.0	\$ 0.0	\$ 0.0	\$ 306.7	\$ 314.8	\$ 286.8
Employer Cont.	104.3	43.7	26.3	237.8	233.4	267.3	342.1	277.1	293.6
Invest. Inc. (net)	<u>1,442.9</u>	<u>430.9</u>	<u>(498.0)</u>	<u>253.1</u>	<u>28.2</u>	<u>(52.5)</u>	<u>1,696</u>	<u>459.1</u>	<u>(550.5)</u>
Total additions	<u>\$1,853.9</u>	<u>\$ 789.4</u>	<u>\$(184.9)</u>	<u>\$490.9</u>	<u>\$261.6</u>	<u>\$214.8</u>	<u>\$2,344.8</u>	<u>\$1,051.0</u>	<u>\$ 29.9</u>
Deductions:									
Benefit payments	\$ 849.2	\$ 749.0	\$ 640.9	\$ 0.0	\$ 0.0	\$ 0.0	\$ 849.2	\$ 749.0	\$ 640.9
Refunds	23.4	20.5	17.9	0.0	0.0	0.0	23.4	20.5	17.9
Administrative Expense	15.2	14.4	12.6	1.0	0.9	0.8	16.2	15.3	13.4
Healthcare Premiums	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>131.9</u>	<u>113.3</u>	<u>96.1</u>	<u>131.9</u>	<u>113.3</u>	<u>96.1</u>
Total deductions	<u>\$ 887.8</u>	<u>\$ 783.9</u>	<u>\$ 671.4</u>	<u>\$132.9</u>	<u>\$114.2</u>	<u>\$ 96.9</u>	<u>\$1,020.7</u>	<u>\$ 898.1</u>	<u>\$ 768.3</u>
Increase (decrease) in plan net assets	<u>\$ 966.1</u>	<u>\$ 5.5</u>	<u>\$(856.3)</u>	<u>\$358.0</u>	<u>\$147.4</u>	<u>\$117.9</u>	<u>\$1,324.1</u>	<u>\$ 152.9</u>	<u>\$(738.4)</u>

Plan net assets of the pension funds increased by \$966.1 million (\$11,879.6 million compared to \$10,913.5 million). All of these assets are restricted in use to provide monthly retirement allowances to members who contributed to the pension funds as employees and their beneficiaries. This plan net asset increase is attributable primarily to the net appreciation in the fair value of investments due to the change in market conditions in general.

Plan net assets of the insurance fund increased by \$358 million (\$1,701.8 million compared to \$1,343.8 million). All of these assets are restricted in use to provide hospital and medical insurance benefits to members of the pension funds who receive a monthly retirement allowance. This increase in net plan assets is primarily attributable to the net appreciation in the fair value of investments, which is due to the change in market conditions in general.

PENSION FUND ACTIVITIES

Member contributions decreased by \$8.1 million. Retirement contributions are calculated by applying a percentage factor to salary and are remitted by each employer on behalf of the member. Members may also pay contributions to repurchase previously refunded service credit or to purchase various types of elective service credit. During the year there was an increase in monthly contributions over the previous year due to the increase in salaries reported to Kentucky Retirement Systems. The amount of elective service purchases decreased this fiscal year.

Employer contributions increased (\$60.6 million) due to the increase in covered payroll and the increase in the contribution rates applied to the pension funds.

MANAGEMENT'S DISCUSSION AND ANALYSIS--CONTINUED
June 30, 2004 and 2003

Net investment income increased by \$1,012 million (income of \$1,442.9 million compared to net investment income of \$430.9 million in the prior year). The pension funds experienced an increase in income primarily due to the appreciation in the fair value of investments. This can be illustrated as follows:

	<u>In Millions</u>
Appreciation in fair value of investments-June 30, 2004	\$ 1,394.8
Appreciation in fair value of investments-June 30, 2003	477.7
Net appreciation in fair value of investments	917.1
Investment income (net of investment expense)	298.2
Net gain on sale of investments	227.6
Investment income (net)-June 30, 2004	\$ 1,442.9

Pension fund deductions increased by \$103.8 million caused principally by an increase of \$100.2 million in benefit payments. Retirees received an increase of 1.6% in benefits as of July 1, 2003. Refunds of member contributions increased by \$2.8 million.

INSURANCE FUND ACTIVITIES

Employer contributions paid into the insurance fund increased by \$4.5 million over the prior year. This increase is a result of the increase (\$93 million) in covered payroll reported.

Net investment income increased by \$224.9 million. This increase in net income is due primarily to the increase in net appreciation in the fair value of assets. This can be illustrated as follows:

	<u>In Millions</u>
Appreciation in fair value of investments-June 30, 2004	\$ 217.7
Appreciation in fair value of investments-June 30, 2003	11.2
Net appreciation in fair value of investments	206.5
Investment income (net of investment expense)	24.6
Net gain on sale of investments	22.0
Investment Income (net)-June 30, 2004	\$ 253.1

Pension fund deductions increased by \$18.7 million primarily due to the increase of \$18.6 million in health insurance premiums paid.

MANAGEMENT'S DISCUSSION AND ANALYSIS--CONTINUED
June 30, 2004 and 2003

HISTORICAL TRENDS

Accounting standards require that the statement of plan net assets state asset value at fair value and include only benefits and refunds due plan members and beneficiaries and accrued investment and administrative expense as of the reporting date. Information regarding the actuarial funding status of the pension funds and insurance fund is provided in the Schedule of Funding Progress on pages 40-45. The asset value stated in the Schedule of Funding Progress is the actuarial value of assets determined by calculating the difference between the expected valuation assets and the actual market value of assets adjusted for any unrecognized gains or losses and amortized over a five-year period. The actuarial accrued liability is calculated using the entry age normal cost funding method.

The funding position of the pension funds continues to provide more than adequate assets to meet pension obligations. The insurance fund continues to have a large unfunded liability of all participating employees groups.

Annual required contributions of the employers and contributions made by the employers in relation to the required contributions are provided in the Schedule of Employer Contributions on pages 46-48. The difference in the annual required contributions made by employers in the KERS and SPRS funds is attributable to the statutory employer contribution rate set by the Kentucky General Assembly being less than the rate computed by the actuary.

KENTUCKY RETIREMENT SYSTEMS
COMBINED STATEMENTS OF PLAN NET ASSETS--PENSION FUNDS
June 30, 2004 and 2003
(Dollars in Thousands)

	2004			2003	
	KERS	CERS	State Police	Total	Total
ASSETS					
Cash and short-term investments					
Cash	\$ 828	\$ 1,041	\$ 86	\$ 1,955	\$ 1,493
Short-term investments	<u>109,455</u>	<u>152,957</u>	<u>3,607</u>	<u>266,019</u>	<u>485,752</u>
Total cash and short-term investments	110,283	153,998	3,693	267,974	487,245
Receivables					
Contributions	26,806	35,675	966	63,447	65,296
Investment income	<u>28,121</u>	<u>30,009</u>	<u>1,727</u>	<u>59,857</u>	<u>59,582</u>
Total receivables	54,927	65,684	2,693	123,304	124,878
Investments, at fair value					
Corporate and government bonds	1,722,643	1,838,555	107,006	3,668,204	3,845,290
Corporate stocks	3,464,583	3,543,644	205,072	7,213,299	5,886,202
Mortgages	272,632	316,200	16,860	605,692	560,005
Real estate	<u>4,493</u>	<u>4,912</u>	<u>493</u>	<u>9,898</u>	<u>17,256</u>
Total investments at fair value	5,464,351	5,703,311	329,431	11,497,093	10,308,753
Securities lending collateral invested	740,416	778,008	44,251	1,562,675	3,444,164
Equipment (net of accumulated depreciation)	<u>344</u>	<u>579</u>	<u>6</u>	<u>929</u>	<u>1,012</u>
Total Assets	<u>6,370,321</u>	<u>6,701,580</u>	<u>380,074</u>	<u>13,451,975</u>	<u>14,366,052</u>
LIABILITIES					
Accounts payable	4,342	5,225	102	9,669	8,340
Securities lending collateral	<u>740,416</u>	<u>778,008</u>	<u>44,251</u>	<u>1,562,675</u>	<u>3,444,164</u>
Total Liabilities	<u>744,758</u>	<u>783,233</u>	<u>44,353</u>	<u>1,572,344</u>	<u>3,452,504</u>
Plan Net Assets Held in Trust for Pension Benefits	<u>\$ 5,625,563</u>	<u>\$ 5,918,347</u>	<u>\$ 335,721</u>	<u>\$ 11,879,631</u>	<u>\$ 10,913,548</u>

(A schedule of funding progress for each plan is presented on pages 40-45)

See accompanying independent auditor's report and notes to financial statements

KENTUCKY RETIREMENT SYSTEMS
COMBINED STATEMENTS OF CHANGES IN PLAN NET ASSETS--PENSION FUNDS
Years Ended June 30, 2004 and 2003
(Dollars in Thousands)

	2004				2003
	KERS	CERS	State Police	Total	Total
ADDITIONS					
Members' contributions	\$ 140,625	\$ 161,152	\$ 4,875	\$ 306,652	\$ 314,855
Employers' contributions	<u>31,466</u>	<u>71,669</u>	<u>1,153</u>	<u>104,288</u>	<u>43,661</u>
Total contributions	172,091	232,821	6,028	410,940	358,516
INVESTMENT INCOME					
From investing activities					
Net appreciation in fair value of investments	554,217	557,392	33,053	1,144,662	109,972
Interest/Dividends	<u>144,522</u>	<u>152,961</u>	<u>8,806</u>	<u>306,289</u>	<u>326,259</u>
Total investing activities income	698,739	710,353	41,859	1,450,951	436,231
Investment expense	3,856	4,105	223	8,184	7,385
Commissions	<u>2,476</u>	<u>2,616</u>	<u>145</u>	<u>5,237</u>	<u>3,101</u>
Total investing activities expense	<u>6,332</u>	<u>6,721</u>	<u>368</u>	<u>13,421</u>	<u>10,486</u>
Net income from investing activities	<u>692,407</u>	<u>703,632</u>	<u>41,491</u>	<u>1,437,530</u>	<u>425,745</u>
From Securities Lending Activities					
Securities lending income	11,734	12,337	701	24,772	35,925
Securities lending expense:					
Security borrower rebates	8,467	8,896	506	17,869	29,191
Security lending agent fees	<u>739</u>	<u>776</u>	<u>44</u>	<u>1,559</u>	<u>1,554</u>
Net income from securities lending activities	<u>2,528</u>	<u>2,665</u>	<u>151</u>	<u>5,344</u>	<u>5,180</u>
Total net investment income	<u>694,935</u>	<u>706,297</u>	<u>41,642</u>	<u>1,442,874</u>	<u>430,925</u>
Total Additions	867,026	939,118	47,670	1,853,814	789,441

	2004			2003	
	KERS	CERS	State Police	Total	Total
DEDUCTIONS					
Benefit payments	\$ 476,230	\$ 342,065	\$ 30,877	\$ 849,172	\$ 748,980
Refunds	9,411	13,854	96	23,361	20,522
Administrative expenses	<u>5,654</u>	<u>9,453</u>	<u>91</u>	<u>15,198</u>	<u>14,430</u>
Total deductions	<u>491,295</u>	<u>365,372</u>	<u>31,064</u>	<u>887,731</u>	<u>783,932</u>
Net increase in plan assets	375,731	573,746	16,606	966,083	5,509
Plan net assets held in trust for Pension Benefits					
Beginning of Year	<u>5,249,832</u>	<u>5,344,601</u>	<u>319,115</u>	<u>10,913,548</u>	<u>10,908,039</u>
End of Year	<u>\$ 5,625,563</u>	<u>\$ 5,918,347</u>	<u>\$ 335,721</u>	<u>\$ 11,879,631</u>	<u>\$ 10,913,548</u>

See accompanying independent auditor's report and notes to financial statements

KENTUCKY RETIREMENT SYSTEMS
COMBINED STATEMENTS OF PLAN NET ASSETS--POST-EMPLOYMENT HEALTHCARE
 June 30, 2004 and 2003
 (Dollars in Thousands)

	2004			2003	
	KERS	CERS	State Police	Total	Total
ASSETS					
Cash and short-term investments					
Cash	\$ 38	\$ 37	\$ 5	\$ 80	\$ 216
Short-term investments	118,411	82,813	6,526	207,750	147,010
Total cash and short-term investments	118,449	82,850	6,531	207,830	147,226
Receivables					
Contributions	4,607	12,175	351	17,133	21,790
Investment income	1,870	2,166	242	4,278	3,434
Total receivables	6,477	14,341	593	21,411	25,224
Investments, at fair value					
Corporate and government bonds	73,244	82,178	9,445	164,867	133,241
Corporate stocks	552,048	683,348	73,926	1,309,322	1,039,366
Total investments	625,292	765,526	83,371	1,474,189	1,172,607
Security lending collateral invested	140,967	160,804	17,043	318,814	344,416
Total Assets	891,185	1,023,521	107,538	2,022,244	1,689,473
LIABILITIES					
Accounts payable	410	1,103	75	1,588	1,258
Securities lending collateral obligations	140,967	160,804	17,043	318,814	344,416
Total Liabilities	141,377	161,907	17,118	320,402	345,674
Plan Net Assets Held in Trust for Post-Employment Healthcare Benefits	\$ 749,808	\$ 861,614	\$ 90,420	\$ 1,701,842	\$ 1,343,799

(A schedule of funding progress for each plan is presented on pages 40-45)

See accompanying independent auditor's report and notes to financial statements

KENTUCKY RETIREMENT SYSTEMS
COMBINED STATEMENTS OF CHANGES IN PLAN NET ASSETS--POST-EMPLOYMENT HEALTHCARE
Years Ended June 30, 2004 and 2003
(Dollars in Thousands)

	2004				2003
	KERS	CERS	State Police	Total	Total
ADDITIONS					
Employers' contributions	\$ 92,976	\$ 136,381	\$ 8,456	\$ 237,813	\$ 233,351
Total contributions	92,976	136,381	8,456	237,813	233,351
INVESTMENT INCOME					
From investing activities:					
Net appreciation in fair value of investments	97,913	117,623	13,048	228,584	6,272
Interest/Dividends	<u>10,645</u>	<u>13,147</u>	<u>1,451</u>	<u>25,243</u>	<u>22,305</u>
Total income from investing activities	108,558	130,770	14,499	253,827	28,577
Investment activities expense	399	471	57	927	522
Commissions	<u>252</u>	<u>298</u>	<u>36</u>	<u>586</u>	<u>378</u>
Total investing activities expense	<u>651</u>	<u>769</u>	<u>93</u>	<u>1,513</u>	<u>900</u>
Net income from investing activities	<u>107,907</u>	<u>130,001</u>	<u>14,406</u>	<u>252,314</u>	<u>27,677</u>
From Securities Lending Activities					
Securities lending income	1,538	1,757	185	3,480	2,980
Securities lending expense:					
Security borrower rebates	1,089	1,242	132	2,463	2,286
Security lending agent fees	<u>86</u>	<u>99</u>	<u>10</u>	<u>195</u>	<u>140</u>
Net income from securities lending activities	<u>363</u>	<u>416</u>	<u>43</u>	<u>822</u>	<u>554</u>
Total net investment income	<u>108,270</u>	<u>130,417</u>	<u>14,449</u>	<u>253,136</u>	<u>28,231</u>
Total Additions	201,246	266,798	22,905	490,949	261,582

	2004				2003
	KERS	CERS	State Police	Total	Total
DEDUCTIONS					
Healthcare premiums subsidies	\$ 63,526	\$ 63,354	\$ 4,992	\$ 131,872	\$ 113,296
Administrative fees	<u>505</u>	<u>498</u>	<u>31</u>	<u>1,034</u>	<u>862</u>
Total deductions	<u>64,031</u>	<u>63,852</u>	<u>5,023</u>	<u>132,906</u>	<u>114,158</u>
Net increase in plan assets	137,215	202,946	17,882	358,043	147,424
Plan net assets held in trust for post-employment healthcare benefit					
Beginning of Year	<u>612,593</u>	<u>658,668</u>	<u>72,538</u>	<u>1,343,799</u>	<u>1,196,375</u>
End of Year	<u>\$ 749,808</u>	<u>\$ 861,614</u>	<u>\$ 90,420</u>	<u>\$ 1,701,842</u>	<u>\$ 1,343,799</u>

See accompanying independent auditor's report and notes to financial statements

KENTUCKY RETIREMENT SYSTEMS

NOTES TO FINANCIAL STATEMENTS

June 30, 2004 and 2003

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). The assets of the various insurance funds are commingled for investment purposes. 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.

Estimates - The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Equipment - Equipment is valued at historical cost and depreciation is computed utilizing the straight-line method over the estimated useful lives of the assets ranging from three to ten years.

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.

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.

KENTUCKY RETIREMENT SYSTEMS
NOTES TO FINANCIAL STATEMENTS--CONTINUED
June 30, 2004 and 2003

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--CONTINUED

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 consisting of the Kentucky employees Insurance Fund, Kentucky Employee Hazardous Insurance Fund, County Employees Insurance Fund, County Employees Hazardous Insurance Fund and State Police 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.

NOTE B--PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION

Membership of each Retirement plan consisted of the following at June 30, 2004 and 2003:

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

	2004			2003		
	Non-Hazardous Position <u>Employees</u>	Hazardous Position <u>Employees</u>	<u>Total</u>	Non-Hazardous Position <u>Employees</u>	Hazardous Position <u>Employees</u>	<u>Total</u>
<u>Number of Members</u>						
Retirees and beneficiaries						
receiving benefits	28,892	1,549	30,441	27,182	1,365	28,547
Inactive Vested Retirements	4,833	260	5,093	3,892	169	4,061
Inactive Vested Memberships	20,951	1,772	22,723	17,320	1,233	18,553
Active plan members	<u>47,599</u>	<u>4,014</u>	<u>51,613</u>	<u>49,586</u>	<u>4,203</u>	<u>53,789</u>
Total	<u>102,275</u>	<u>7,595</u>	<u>109,870</u>	<u>97,980</u>	<u>6,970</u>	<u>104,950</u>
Number of participating employers			<u>411</u>			<u>410</u>

COUNTY EMPLOYEES RETIREMENT SYSTEM

	2004			2003		
	Non-Hazardous Position <u>Employees</u>	Hazardous Position <u>Employees</u>	<u>Total</u>	Non-Hazardous Position <u>Employees</u>	Hazardous Position <u>Employees</u>	<u>Total</u>
<u>Number of Members</u>						
Retirees and beneficiaries						
receiving benefits	29,129	4,005	33,134	27,057	3,787	30,844
Inactive Vested Retirements	6,927	361	7,288	5,147	193	5,340
Inactive Vested Memberships	37,509	1,287	38,796	30,573	873	31,446
Active plan members	<u>80,922</u>	<u>9,349</u>	<u>90,271</u>	<u>83,142</u>	<u>9,587</u>	<u>92,729</u>
Total	<u>154,487</u>	<u>15,002</u>	<u>169,489</u>	<u>145,919</u>	<u>14,440</u>	<u>160,359</u>
Number of participating employers			<u>1,389</u>			<u>1,367</u>

KENTUCKY RETIREMENT SYSTEMS
NOTES TO FINANCIAL STATEMENTS--CONTINUED
June 30, 2004 and 2003

NOTE B--PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION--CONTINUED

STATE POLICE RETIREMENT SYSTEM

	<u>2004</u>	<u>2003</u>
<u>Number of Members</u>	<u>Hazardous</u>	<u>Hazardous</u>
	<u>Position</u>	<u>Position</u>
	<u>Employees</u>	<u>Employees</u>
Retirees and beneficiaries receiving benefits	992	966
Inactive Vested Retirements	46	43
Inactive Vested Memberships	201	186
Active plan members	999	1,022
Total	2,238	2,217
Number of participating employers	1	1

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

Hospital and medical contracts in force consisted of the following at June 30, 2004 and 2003:

	2004					2003				
	<u>Single</u>	<u>Couple/ Family</u>	<u>Parent +</u>	<u>Medicare Regular</u>	<u>Medicare High</u>	<u>Single</u>	<u>Couple/ Family</u>	<u>Parent +</u>	<u>Medicare Regular</u>	<u>Medicare High</u>
KERS Non-Hazardous	7,313	1,462	443	1,932	11,437	6,602	1,298	428	1,855	11,311
KERS Hazardous	502	276	65	65	531	417	234	53	62	494
CERS Non-Hazardous	5,598	946	246	2,756	10,424	5,054	855	244	2,630	9,958
CERS Hazardous	1,087	1,463	223	45	913	1,010	1,379	223	40	808
SPRS	226	400	45	13	326	218	384	44	13	312
Totals	14,726	4,547	1,022	4,811	26,631	13,301	4,150	992	4,600	22,883

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 judgment the welfare of the Commonwealth so demands.

NOTE B--PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION--CONTINUED

Contributions - For the years ended June 30, 2004 and 2003, 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 year ended June 30, 2004, participating employers contributed 5.89% of each employee's creditable compensation. For the year ended June 30, 2003, the contribution rate for some employers participating in KERS was 3.76% of creditable compensation and 5.89% of creditable compensation for some employers pursuant to legislation enacted by the 2003 General Assembly [HB269, FCCRI, Part III, General Provisions, Paragraph 18 (2003)]. The actuarially determined rate set by the Board for the years ended June 30, 2004 and 2003 was 7.53% and 5.89%, respectively, of each employee's 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 covers 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 judgment the welfare of the Commonwealth so demands.

Contributions - For the years ended June 30, 2004 and 2003, plan members were required to contribute 8% 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 year ended June 30, 2004, participating employers contributed 18.84% of each employee's creditable compensation. For the year ended June 30, 2003, the contribution rate for some employers participating in KERS was 17.60% of creditable compensation and 18.84% of creditable compensation for some employers pursuant to legislation enacted by the 2003 General Assembly [HB269, FCCRI, Part III, General Provisions, Paragraph 18 (2003)]. The actuarially determined rate set by the Board for the years ended June 30, 2004 and 2003 was 18.84% 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 certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of the State legislature.

Contributions - For the years ended June 30, 2004 and 2003, 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, 2004 and 2003, participating employers contributed 7.34% and 6.34%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 2004 and 2003 was 7.34% and 6.34%, respectively. Administrative costs of Kentucky Retirement Systems 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, 2004 and 2003, plan members were required to contribute 8% of their annual creditable compensation. The 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, 2004 and 2003, participating employers contributed 18.51% and 16.28%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 2004 and 2003 was 18.51% and 16.28%, respectively, of each employee's 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, 2004 and 2003 plan members were required to contribute 8% 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, 2004 and 2003, the State contributed 21.58% and 17.37%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 2004 and 2003 was 21.58% 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 pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. For fiscal 2004, insurance premiums withheld from benefit payments to members of the Systems were \$25,004,536 and \$793,183 for KERS and KERS hazardous, respectively, \$22,201,996 and \$2,517,308 for CERS and CERS hazardous, respectively, and \$664,487 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, 2004 the Fund had 64,567 retirees and beneficiaries for whom benefits were available.

The amount of contribution paid by the Fund is based on years of service with the Systems. For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<u>Years of Service</u>	<u>% Paid by Insurance Fund</u>
20 or More	100%
15 - 19	75%
10 - 14	50%
4 - 9	25%
Less Than 4	0%

KENTUCKY RETIREMENT SYSTEMS
NOTES TO FINANCIAL STATEMENTS--CONTINUED
June 30, 2004 and 2003

NOTE B--PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION--CONTINUED

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participating on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003 earn ten dollars (\$10) per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on or after July 1, 2003 earn fifteen dollars (\$15) per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon death of a hazardous employee, such employee's spouse receives ten dollars (\$10) per month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment (COLA), which is updated annually due to changes in the Consumer Price Index for all urban consumers. This benefit is not protected under the inviolable contract provisions of Kentucky Revised Statute 16.652, 61.692 and 78.852. The General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

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.

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:

	2004	2003
Miscellaneous cash	\$ 827,932	\$ 525,299
Short-Term Investment Pool	740,416,197	1,656,597,564
Repurchase agreements	109,455,167	170,917,610
Total	\$ 850,699,296	\$ 1,828,040,473

KENTUCKY RETIREMENT SYSTEMS
 NOTES TO FINANCIAL STATEMENTS--CONTINUED
 June 30, 2004 and 2003

**NOTE G-CASH AND SHORT-TERM INVESTMENTS AND SECURITIES LENDING COLLATERAL--
 CONTINUED**

COUNTY EMPLOYEES RETIREMENT SYSTEM

	2004	2003
Miscellaneous Cash	\$ 1,041,182	\$ 832,473
Short-Term Investment Pool	778,007,759	1,686,604,839
Repurchase agreements	152,957,527	306,549,501
Total	\$ 932,006,468	\$ 1,993,986,813

STATE POLICE RETIREMENT SYSTEM

	2004	2003
Miscellaneous Cash	\$ 85,664	\$ 134,759
Short-Term Investment Pool	44,251,527	100,961,178
Repurchase agreements	3,606,746	8,285,357
Total	\$ 47,943,937	\$ 109,381,294

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

	2004	2003
Miscellaneous Cash	\$ 79,960	\$ 215,516
Short-Term Investment Pool	318,814,039	344,416,324
Repurchase agreements	207,750,238	147,009,999
Total	\$ 526,644,237	\$ 491,641,839

NOTE D--INVESTMENTS

The Board of Trustees of the Retirement Systems and Insurance Fund recognize their duty to invest funds in accordance with the Prudent Person Rule and manage those funds consistent with the long-term nature of the Systems. 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 domestic and international common stock, securities convertible into common stock and in preferred stock of publicly traded corporations.

Fixed Income Investments - Publicly traded corporate 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 also be made in any debt instrument issued or guaranteed in whole or in part by the U.S. Government or any agency or instrumentality 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.

NOTE D--INVESTMENTS--CONTINUED

Alternative Investments/Equity Real Estate - Subject to the specific approval of the investment committee of the Board of Trustees, investments may be made for the purpose of creating a diversified portfolio of alternative investments. The board may invest in real estate or alternative investments including, without limitation, venture capital, private equity and private placements which the investment committee believes has excellent potential to generate income and which may have a higher degree of risk.

Continued

Cash Equivalent Securities - The following short-term investment vehicles are considered acceptable:

Publicly traded investment grade corporate bonds, government and agency bonds, mortgages, and collective STIF's, money market funds or instruments (including, but not limited to, certificates of deposit, bank notes, deposit notes, bankers' acceptances and commercial paper) and repurchase agreements relating to the above instruments. Instruments may be selected from among those having a BBB or better rating by at least one recognized bond rating service. All instruments shall have a maturity at the time of purchase that does not exceed two years. Repurchase agreements shall be deemed to have a maturity equal to the period remaining until the date on which the repurchase of the underlying securities is scheduled to occur.

Derivatives - Investments may be made in derivative securities, or strategies which make use of derivative instruments, only if such investments do not cause the portfolio to be in any way leveraged beyond a 100% invested position. Investments in derivative securities which are subject to large or unanticipated changes in duration or cash flow, such as interest only (IO), principal only (PO), inverse floater, or structured note securities are expressly prohibited.

The Retirement Systems and Insurance Fund invest in collateral mortgage obligations (CMOs) and other asset-backed securities to increase return and adjust duration of the portfolio. The Systems and the Fund invest in exchange-traded funds to convert cash held in index funds to short-term equity investments. This practice is intended to make the performance of the index funds more closely track the performance of the index that the funds are intended to replicate.

Collateral mortgage obligations, asset-backed securities, and exchange-traded funds pose no greater risk than other similar investment grade holdings in the Systems' and the Fund's portfolios. The fair value of CMOs at June 30, 2004 and 2003 was approximately \$67 million and \$80 million respectively; the fair value of asset-backed securities at June 30, 2004 and 2003 was approximately \$277 million and \$310 million respectively; and the fair value of exchange-traded funds at June 30, 2004 and 2003 was approximately \$299 million and \$188 million, respectively.

The Retirement Systems' and Insurance Fund's investments are categorized on pages 20 through 23 to give an indication of the level of risk assumed by them at June 30, 2004 and 2003. Category 1 includes investments that are either insured or registered or for which the securities are held by the System or its agent in the Systems' name. Category 2 includes uninsured and unregistered investments for which the securities are held by the Systems' custodial agent in the Systems' name. Category 3 includes securities held by the Systems' 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. At June 30, 2004, the Systems had a second agent who also loans securities owned by the Systems with the simultaneous receipt of cash collateral. The second custodial agent invests cash collateral in a short-term investment pool that holds only U.S. dollar cash and U.S. securities.

KENTUCKY RETIREMENT SYSTEMS
NOTES TO FINANCIAL STATEMENTS--CONTINUED
June 30, 2004 and 2003

NOTE D--INVESTMENTS--CONTINUED

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

Investments - Categorized	2004			Fair Value
	Category 1	Category 2	Category 3	
U.S. Government Securities	\$ 209,189,878	\$ -	\$ 2,999,767	\$ 212,189,645
Loaned for securities collateral	378,306,710	-	-	378,306,710
Corporate bonds	526,500,959	-	-	526,500,959
Loaned for securities collateral	92,446	-	-	92,446
Corporate stocks	2,993,621,987	-	-	2,993,621,987
Loaned for securities collateral	59,523,647	-	-	59,523,647
Repurchase agreements	<u>42,637,457</u>	<u>-</u>	<u>66,817,710</u>	<u>109,455,167</u>
Subtotal	4,209,873,084	-	69,817,477	4,279,690,561
Investments - Not Categorized				
Short-term Investment Pool	-	-	-	740,416,197
Investments held by broker-dealers under securities loans:				
U.S. Government Securities	-	-	-	549,619,775
Corporate bonds	-	-	-	55,933,080
Corporate stocks	-	-	-	411,437,414
Mortgages	-	-	-	272,632,186
Real Estate Investment	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,493,473</u>
Total Investments	<u>\$4,209,873,084</u>	<u>\$ -</u>	<u>\$ 69,817,477</u>	<u>\$6,314,222,686</u>
2003				
Investments - Categorized	Category 1	Category 2	Category 3	Fair Value
U.S. Government Securities	\$ 669,755,421	\$ -	\$ 3,809,832	\$ 673,565,253
Loaned for securities collateral	48,609,045	-	-	48,609,045
Corporate bonds	588,972,872	-	-	588,972,872
Corporate stocks	2,299,125,931	-	130	2,299,126,062
Loaned for securities collateral	1,719,201	-	-	1,719,201
Repurchase agreements	<u>167,987,935</u>	<u>-</u>	<u>2,929,676</u>	<u>170,917,610</u>
Subtotal	3,776,170,405	-	6,739,638	3,782,910,043
Investments - Not Categorized				
Short-term Investment Pool	-	-	-	1,656,597,564
Investments held by broker-dealers under securities loans:				
U.S. Government Securities	-	-	-	504,017,197
Corporate bonds	-	-	-	61,722,729
Corporate stocks	-	-	-	561,512,794
Mortgages	-	-	-	273,115,545
Real Estate Investment	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,635,101</u>
Total Investments	<u>\$3,776,170,405</u>	<u>\$ -</u>	<u>\$ 6,739,638</u>	<u>\$6,848,510,973</u>

KENTUCKY RETIREMENT SYSTEMS
NOTES TO FINANCIAL STATEMENTS--CONTINUED
June 30, 2004 and 2003

NOTE D--INVESTMENTS--CONTINUED

STATE POLICE RETIREMENT SYSTEM

Investments - Categorized	2004			Fair Value
	Category 1	Category 2	Category 3	
U.S. Government Securities	\$ 11,052,618	\$ -	\$ 179,283	\$ 11,231,901
Loaned for securities collateral	28,943,901	-	-	28,943,901
Corporate bonds	32,048,956	-	-	32,048,956
Loaned for securities collateral	302,153	-	-	302,153
Corporate stocks	170,029,412	-	-	170,029,412
Loaned for securities collateral	821,581	-	-	821,581
Repurchase agreements	-	-	3,606,746	3,606,746
Subtotal	243,198,531	-	3,786,029	246,984,650
Investments - Not Categorized				
Short-Term Investment Pool	-	-	-	44,251,527
Investments held by broker-dealers under securities loans:				
U.S. Government Securities	-	-	-	30,717,279
Corporate bonds	-	-	-	3,761,686
Corporate stocks	-	-	-	34,221,343
Mortgages	-	-	-	16,860,141
Real Estate Investment	-	-	-	493,000
Total Investments	<u>\$ 243,198,531</u>	<u>\$ -</u>	<u>\$ 3,786,029</u>	<u>\$ 377,289,626</u>
2003				
Investments - Categorized	Category 1	Category 2	Category 3	Fair Value
U.S. Government Securities	\$ 16,405,761	\$ -	\$ 232,170	\$ 16,637,931
Loaned for securities collateral	28,943,901	-	-	28,943,901
Corporate bonds	36,425,347	-	-	36,425,347
Loaned for securities collateral	302,153	-	-	302,153
Corporate stocks	138,380,614	-	8	138,380,622
Loaned for securities collateral	821,581	-	-	821,581
Repurchase agreements	8,106,824	-	178,533	8,285,357
Subtotal	229,386,181	-	410,711	229,796,892
Investments - Not Categorized				
Short-Term Investment Pool	-	-	-	100,961,178
Investments held by broker-dealers under securities loans:				
U.S. Government Securities	-	-	-	30,717,279
Corporate bonds	-	-	-	3,761,686
Corporate stocks	-	-	-	34,221,343
Mortgages	-	-	-	16,969,831
Real Estate Investment	-	-	-	823,918
Total Investments	<u>\$ 229,386,181</u>	<u>\$ -</u>	<u>\$ 410,711</u>	<u>\$ 417,252,127</u>

KENTUCKY RETIREMENT SYSTEMS
NOTES TO FINANCIAL STATEMENTS--CONTINUED
June 30, 2004 and 2003

NOTE D--INVESTMENTS--CONTINUED

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

Investments - Categorized	2004			Fair Value
	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	
U.S. Government Securities	\$ 2,003,959	\$ -	\$ -	\$ 2,003,959
Loaned for securities collateral	69,032,483	-	-	69,032,483
Corporate stocks	1,024,278,961	-	-	1,024,278,961
Loaned for securities collateral	19,365,667	-	-	19,365,667
Repurchase agreements	<u>171,042,829</u>	<u>-</u>	<u>36,707,409</u>	<u>207,750,238</u>
Subtotal	1,285,723,899	-	36,707,409	1,322,431,308
Investments - Not Categorized				
Short-term investment pool	-	-	-	318,814,039
Investments held by broker-dealers under securities loans:	-	-	-	-
U.S. Government Securities	-	-	-	93,830,603
Corporate stocks	<u>-</u>	<u>-</u>	<u>-</u>	<u>265,677,741</u>
Total Investments	<u>\$1,285,723,899</u>	<u>\$ -</u>	<u>\$ 36,707,409</u>	<u>\$2,000,753,691</u>
2003				
Investments - Categorized	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	Fair Value
U.S. Government Securities	\$ -	\$ -	\$ -	\$ -
Loaned for securities collateral	104,484,853	-	-	104,484,853
Corporate stocks	827,298,990	-	-	827,298,990
Loaned for securities collateral	16,750,685	-	-	16,750,685
Repurchase agreements	<u>145,186,891</u>	<u>-</u>	<u>1,823,108</u>	<u>147,009,999</u>
Subtotal	1,093,721,419	-	1,823,108	1,095,544,527
Investments - Not Categorized				
Short-term investment pool	-	-	-	344,416,324
Investments held by broker-dealers under securities loans:	-	-	-	28,755,858
U.S. Government Securities	-	-	-	195,316,898
Corporate stocks	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Investments	<u>\$1,093,721,419</u>	<u>\$ -</u>	<u>\$ 1,823,108</u>	<u>\$1,664,033,607</u>

NOTE E--SECURITIES LENDING TRANSACTIONS

Kentucky Revised Statutes Sections 61.650 and 386.020(2) permit the Pension and Insurance Funds to lend their securities to broker-dealers and other entities. The borrowers of the securities agree to transfer to the Funds' custodial banks either cash collateral or other securities with a fair value of 102 percent of the value of the borrowed securities. The borrowers of the securities simultaneously agree to return the borrowed securities in exchange for the collateral at a later date. 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 securities loaned. At June 30, 2004, the Funds have no credit risk exposure to borrowers because the amounts the Funds owe to borrowers exceed the amounts the borrowers owe the Funds. The contracts with the custodial banks require them to indemnify the Funds if the borrowers fail to return the securities and one or both of the custodial banks have failed to live up to their contractual responsibilities relating to the lending of securities.

All securities loans can be terminated on demand by either party to the transaction, although the average term of the loans was 6 days, 10 days, and 24 days for the three investment portfolios subject to security lending agreements. One custodial bank invests cash collateral in securities that are permitted for investment by state statute and board policy, which at year-end has a weighted-average maturity of 3 days for the Funds. The other custodial bank invests cash collateral in the agent's short-term investment pool as permitted by state statute and Board policy, which at year-end has a weighted-average maturity of 24 days for the Pension Fund only. Neither of the Funds can pledge or sell collateral securities received unless the borrower defaults.

NOTE F--RISKS OF LOSS

KRS is 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 \$200,000 for a single claim and \$350,000 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 \$100,000. 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.

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 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, KRS is involved in various litigation concerning the right of participants or their beneficiaries to receive benefits. KRS 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 KRS qualifies under Section 401(a) of the Internal Revenue Code and is, therefore, not subject to tax under income tax law.

NOTE I--ANTHEM DEMUTUALIZATION

In 2002, Anthem Insurance Companies, Inc., an Indiana corporation, underwent a demutualization, as authorized by the Indiana statutes. The demutualization provided, among other things, that "eligible statutory members," as defined by Indiana statutory provision, would receive cash or stock in consideration for giving up their membership interest in Anthem. In some instances application of the statute led to the determination by Anthem that individual members of the retirement plans administered by Kentucky Retirement Systems were the "statutory members" and in other instances the Kentucky Retirement Systems was identified by Anthem as the eligible statutory member to receive cash or stock under the Anthem demutualization plan. According to Anthem, this determination was based upon which of Anthem's subsidiaries was the original provider. The determination was confirmed by the Indiana Department of Insurance.

The \$61,603,207 distribution which Kentucky Retirement Systems received on January 4, 2002 under the Anthem demutualization was deposited in the Kentucky Employees Retirement Systems Insurance Fund. The retirement systems included within the Kentucky Retirement Systems for purposes of the Anthem demutualization are the Kentucky Employees Retirement System, (hazardous and non-hazardous), the County Employees Retirement System (hazardous and non-hazardous), the State Police Retirement System, the Legislators' Retirement Plan, and the Judicial Retirement Plan. Anthem has not yet provided the Kentucky Retirement System with the information necessary to divide the distribution among these retirement funds. Accordingly, the distribution will remain in the Kentucky Employees Retirement Systems Insurance Fund until the interests of the various retirement funds are determined.

NOTE J--CONTINGENT LIABILITY--ANTHEM DEMUTUALIZATION

In relation to the above noted Anthem demutualization, Kentucky Retirement System is a defendant in a case entitled Jean C. Love, David E. Wiseman and Belvia Campbell v. Board of Trustees of the Kentucky Retirement Systems, which is in Franklin Circuit Court. At issue is how to distribute the proceeds resulting from Anthem's demutualization, which resulted in Kentucky Retirement System receiving approximately \$61 million dollars in proceeds. The plaintiffs seek to recover the full amount of the proceeds or, alternatively, the pro rata amount of proceeds attributable to insurance premiums that the employees and/or their beneficiaries paid directly to Anthem. Kentucky Retirement System believes that the claims are without merit and intends to vigorously defend its position. The ultimate outcome of this litigation cannot presently be determined. However, in management's opinion, there is a reasonable possibility that an adverse outcome will occur, but an estimate of such amount cannot be determined. Accordingly, no amounts that might result from this outcome have been reflected in the financial statements.

KENTUCKY RETIREMENT SYSTEMS
NOTES TO FINANCIAL STATEMENTS--CONTINUED
June 30, 2004 and 2003

NOTE K--DEFINED BENEFIT PENSION PLAN

All eligible employees of Kentucky Retirement Systems (KRS) participate in the Kentucky Employees Retirement System (non-hazardous), a cost-sharing, multiple-employer defined pension plan that covers substantially all regular full-time employees in non-hazardous positions of any Kentucky 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. Plan benefits are extended to beneficiaries of plan members under certain circumstances. KRS contributed 5.89% of covered payroll for the period July 1, 2003 – June 30, 2004. KRS contributed 3.76% of covered payroll for the period July 1, 2002 – December 15, 2002 and 5.89% for the period December 16, 2002 – June 30, 2003. Plan members were required to contribute 5% of creditable compensation for the plan years ended June 30, 2004 and 2003. Covered payroll was approximately \$9,035,000 and \$8,265,000 for 2004 and 2003, respectively. KRS contributed approximately \$532,000 and \$408,000 for 2004 and 2003, respectively.

NOTE L--EQUIPMENT

Equipment consists of the following:

	June 30	
	2004	2003
Equipment, at cost	\$ 3,337,099	\$ 3,343,869
Less accumulated depreciation	<u>(2,407,794)</u>	<u>(2,332,240)</u>
	<u>\$ 929,305</u>	<u>\$ 1,011,629</u>

Depreciation expense for the years ended June 30, 2004 and 2003 amounted to \$303,562 and \$352,054, respectively.

NOTE M--COLLATERALIZATION OF DEPOSITS

At June 30, 2004, KRS had cash deposits at a financial institution, which totaled approximately \$2,035,000. The balance is insured by the Federal Deposit Insurance Corporation up to \$100,000. The remaining balance of approximately \$1,935,000 was collateralized by securities recorded in KRS's name and held by the financial institution.

Kentucky Retirement Systems
June 30, 2004 Comprehensive Annual Financial Report

REQUIRED SUPPLEMENTARY INFORMATION

KENTUCKY RETIREMENT SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

KENTUCKY EMPLOYEES RETIREMENT SYSTEM (KERS)--PENSION FUNDS

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal (b)	Unfunded AAL (UAAL) (b-a)	Percent Funded (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
<u>Non-Hazardous</u>						
June 30, 1999	\$ 5,264,340,397	\$ 4,327,622,821	\$ (936,717,576)	121.6%	\$ 1,330,766,100	(70.4)%
June 30, 2000	6,806,675,460	4,876,825,772	(1,929,849,688)	139.6	1,409,504,668	(136.9)
June 30, 2001	6,844,742,687	5,444,035,294	(1,400,707,393)	125.7	1,505,299,220	(93.1)
June 30, 2002*	6,654,084,196	6,026,094,764	(627,989,432)	110.4	1,595,809,458	(39.3)
June 30, 2003**	6,351,318,832	6,520,463,188	169,144,356	97.4	1,658,604,696	10.2
June 30, 2004**	6,000,513,743	7,049,613,171	1,049,099,428	85.1	1,645,412,496	63.8
<u>Hazardous</u>						
June 30, 1999	\$ 259,839,319	\$ 204,282,788	\$ (55,556,531)	127.2%	\$ 103,464,123	(53.7)%
June 30, 2000	336,213,464	243,365,557	(92,847,907)	138.2	115,639,439	(80.3)
June 30, 2001	361,677,475	285,193,761	(76,483,714)	126.8	122,857,992	(62.3)
June 30, 2002*	376,384,302	322,069,164	(54,315,138)	116.9	125,275,925	(43.4)
June 30, 2003**	385,925,722	356,879,133	(29,046,589)	108.1	129,088,956	(22.5)
June 30, 2004**	397,212,763	403,578,036	6,365,273	98.4	126,664,812	5.0
<u>Total</u>						
June 30, 1999	\$ 5,524,179,716	\$ 4,531,905,609	\$ (992,274,107)	121.9%	\$ 1,434,230,223	(69.2)%
June 30, 2000	7,142,888,924	5,120,191,329	2,022,697,595	139.5	1,525,144,107	132.6
June 30, 2001	7,206,420,162	5,729,229,055	1,477,191,107	125.8	1,628,157,212	90.7
June 30, 2002*	7,030,468,498	6,348,163,928	682,304,570	110.7	1,721,085,383	39.6
June 30, 2003**	6,737,244,554	6,877,342,321	198,190,945	98.0	1,787,693,652	11.1
June 30, 2004**	6,397,726,506	7,453,191,207	1,055,464,701	85.8	1,772,077,308	59.6

*Asset valuation method was changed to reflect the amount of investment gain/loss for the current year equally over the current year and the following four years.

**Covered payroll was actuarially computed as opposed to estimated in prior years.

KENTUCKY RETIREMENT SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS--CONTINUED

COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS)-PENSION FUNDS

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal (b)	Unfunded AAL (UAAL) (b-a)	Percent Funded (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
<u>Non-Hazardous</u>						
June 30, 1999	\$ 4,072,227,435	\$ 2,991,420,884	\$ (1,080,806,551)	136.1%	\$ 1,346,601,939	(80.3)%
June 30, 2000	5,284,033,534	3,368,601,134	(1,915,432,400)	156.9	1,452,058,248	(131.9)
June 30, 2001	5,423,834,549	3,706,282,212	(1,717,552,337)	146.3	1,544,973,296	(111.2)
June 30, 2002*	5,397,787,158	4,165,355,149	(1,232,432,009)	129.6	1,663,183,629	(74.1)
June 30, 2003**	5,286,580,047	4,417,597,802	(868,982,245)	119.7	1,796,451,180	(48.4)
June 30, 2004**	5,187,851,530	4,936,459,488	(251,392,042)	105.1	1,826,870,880	(13.8)
<u>Hazardous</u>						
June 30, 1999	\$ 1,124,651,486	\$ 963,711,775	\$ (160,939,711)	116.7%	\$ 256,201,726	(62.8)%
June 30, 2000	1,445,542,794	1,084,553,697	(360,989,097)	133.3	288,575,870	(125.1)
June 30, 2001	1,486,666,016	1,193,860,442	(292,805,574)	124.5	316,700,304	(92.5)
June 30, 2002*	1,485,511,793	1,327,291,273	(158,220,520)	111.9	345,849,277	(45.7)
June 30, 2003**	1,467,004,856	1,499,628,782	32,623,926	97.8	374,700,732	8.7
June 30, 2004**	1,457,612,042	1,640,830,120	183,218,078	88.8	392,562,624	46.7
<u>Total</u>						
June 30, 1999	\$ 5,196,878,921	\$ 3,955,132,659	\$ (1,241,746,262)	131.4%	\$ 1,602,803,665	(77.5)%
June 30, 2000	6,729,576,328	4,453,154,831	(2,276,421,497)	151.1	1,740,634,118	(130.8)
June 30, 2001	6,910,500,565	4,900,142,654	(2,010,357,911)	141.0	1,861,673,600	(108.0)
June 30, 2002*	6,883,298,951	5,492,646,422	(1,390,652,529)	125.3	2,009,032,906	(69.2)
June 30, 2003**	6,753,584,903	5,917,226,584	(836,358,319)	114.1	2,171,151,912	(38.5)
June 30, 2004**	6,645,463,572	6,577,289,608	(68,173,964)	101.0	2,219,433,504	(3.1)

*Asset valuation method was changed to reflect the amount of investment gain/loss for the current year equally over the current year and the following four years.

**Covered payroll was actuarially computed as opposed to estimated in prior years.

KENTUCKY RETIREMENT SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS--CONTINUED

STATE POLICE RETIREMENT SYSTEM (SPRS)--PENSION FUNDS

<u>Year Ended</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) Entry Age Normal <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Percent Funded <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a % of Covered Payroll <u>[(b-a)/c]</u>
June 30, 1998	\$ 306,318,918	\$ 294,427,019	\$ (11,891,899)	104.0%	\$ 38,727,361	(30.7)%
June 30, 1999	357,623,196	314,021,673	(43,601,523)	113.9	40,433,405	(107.8)
June 30, 2000	459,168,574	336,579,763	(122,588,811)	136.4	43,619,383	(281.0)
June 30, 2001	456,160,709	356,211,860	(99,948,849)	128.1	44,646,678	(223.7)
June 30, 2002*	438,955,465	380,790,346	(58,165,119)	115.3	44,314,696	(131.2)
June 30, 2003**	413,063,576	414,881,459	1,817,883	99.6	43,760,832	4.2
June 30, 2004**	385,077,195	437,482,425	52,405,230	88.0	43,835,208	119.6

*Asset valuation method was changed to reflect the amount of investment gain/loss for the current year equally over the current year and the following four years.

**Covered payroll was actuarially computed as opposed to estimated in prior years.

KENTUCKY RETIREMENT SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS--CONTINUED

KENTUCKY EMPLOYEES RETIREMENT SYSTEMS (KERS)--POST-EMPLOYMENT HEALTHCARE

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal (b)	Unfunded AAL (UAAL) (b-a)	Percent Funded (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
<u>Non-Hazardous</u>						
June 30, 1999	\$ 283,704,887	\$ 1,273,364,800	\$ 989,659,913	22.3%	\$ 1,330,766,100	74.3%
June 30, 2000	399,560,252	1,457,475,358	1,057,915,106	27.4	1,409,504,668	75.1
June 30, 2001	449,630,605	1,769,583,098	1,319,952,493	25.4	1,505,299,220	87.7
June 30, 2002*	521,250,455	1,907,683,881	1,386,433,426	27.3	1,595,809,458	86.9
June 30, 2003**	553,885,082	2,093,210,321	1,539,325,239	26.5	1,658,604,696	92.8
June 30, 2004**	600,586,961	2,335,905,365	1,735,318,404	25.7	1,645,412,496	105.5
<u>Hazardous</u>						
June 30, 1999	\$ 74,579,649	\$ 149,158,586	\$ 74,578,937	50.0%	\$ 103,464,123	72.1%
June 30, 2000	102,212,237	175,167,613	72,955,376	58.4	115,639,439	63.1
June 30, 2001	119,372,742	214,450,822	95,078,080	55.7	122,857,992	77.4
June 30, 2002*	135,874,582	236,819,050	100,944,468	57.4	125,275,925	80.6
June 30, 2003**	151,459,500	283,178,335	131,718,835	53.5	129,088,956	102.0
June 30, 2004**	169,158,879	323,503,563	154,344,684	52.3	126,664,812	121.9
<u>Total</u>						
June 30, 1999	\$ 358,284,536	\$ 1,422,523,386	\$ 1,064,238,850	25.2%	\$ 1,434,230,223	74.2%
June 30, 2000	501,772,489	1,632,642,971	1,130,870,482	30.7	1,525,144,107	74.1
June 30, 2001	569,003,347	1,984,033,920	1,415,030,573	28.7	1,628,157,212	86.9
June 30, 2002*	657,125,037	2,144,502,931	1,487,377,894	30.6	1,721,085,383	86.4
June 30, 2003**	705,344,582	2,376,388,656	1,671,044,074	29.7	1,787,693,652	93.5
June 30, 2004**	769,745,840	2,659,408,928	1,889,663,088	28.9	1,772,077,308	106.6

*Asset valuation method was changed to reflect the amount of investment gain/loss for the current year equally over the current year and the following four years.

**Covered payroll was actuarially computed as opposed to estimated in prior years.

KENTUCKY RETIREMENT SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS--CONTINUED

COUNTY EMPLOYEES RETIREMENT SYSTEMS (CERS)--POST-EMPLOYMENT HEALTHCARE

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Targeted Rate (b)	Unfunded AAL (UAAL) (b-a)	Percent Funded (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
<u>Non-Hazardous</u>						
June 30, 1999	\$ 231,937,169	\$ 1,282,874,286	\$ 1,050,937,117	18.0%	\$ 1,346,601,939	78.0%
June 30, 2000	319,642,694	1,466,716,928	1,147,074,234	21.8	1,452,058,248	79.0
June 30, 2001	371,758,628	1,793,710,768	1,421,952,140	20.7	1,544,973,296	92.0
June 30, 2002*	450,497,307	1,977,577,038	1,527,079,731	22.8	1,663,183,629	91.8
June 30, 2003**	520,060,105	2,176,963,259	1,656,903,154	23.9	1,796,451,180	92.2
June 30, 2004**	585,399,072	2,438,734,696	1,853,335,624	24.0	1,826,870,880	101.5
<u>Hazardous</u>						
June 30, 1999	\$ 114,590,223	\$ 518,280,115	\$ 403,689,892	22.1%	\$ 256,201,726	157.6%
June 30, 2000	168,657,912	599,936,029	431,278,117	28.1	288,575,870	149.5
June 30, 2001	197,875,249	721,605,292	523,730,043	27.4	316,700,304	165.4
June 30, 2002*	234,683,878	781,184,974	546,501,096	30.1	345,849,279	158.0
June 30, 2003**	269,190,080	935,650,662	666,460,582	28.8	374,700,732	177.9
June 30, 2004**	310,578,162	1,025,684,477	715,106,315	30.3	392,562,624	182.2
<u>Total</u>						
June 30, 1999	\$ 346,527,392	\$ 1,801,154,401	\$ 1,454,627,009	19.2%	\$ 1,602,803,665	90.8%
June 30, 2000	488,300,606	2,066,652,957	1,578,352,351	23.6	1,740,634,118	90.7
June 30, 2001	569,633,877	2,515,316,060	1,945,682,183	22.6	1,861,673,600	104.5
June 30, 2002*	685,181,185	2,758,762,012	2,073,580,827	24.8	2,009,032,908	103.2
June 30, 2003**	789,250,185	3,112,613,921	2,323,363,736	25.4	2,171,151,912	107.0
June 30, 2004**	895,977,234	3,464,419,173	2,568,441,939	25.9	2,219,433,504	115.7

*Asset valuation method was changed to reflect the amount of investment gain/loss for the current year equally over the current year and the following four years.

**Covered payroll was actuarially computed as opposed to estimated in prior years.

KENTUCKY RETIREMENT SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS--CONTINUED

STATE POLICE RETIREMENT SYSTEMS (SPRS)--POST-EMPLOYMENT HEALTHCARE

	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) Targeted Rate <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Percent Funded <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a % of Covered Payroll <u>[(b-a)/c]</u>
June 30, 1999	\$ 53,929,859	\$ 125,797,150	\$ 71,867,291	42.9%	\$ 40,433,405	177.7%
June 30, 2000	71,711,712	138,867,085	67,155,373	51.6	43,619,383	154.0
June 30, 2001	79,863,577	158,261,479	78,397,902	50.5	44,646,678	175.6
June 30, 2002*	86,867,391	165,445,412	78,578,021	52.5	44,314,696	177.3
June 30, 2003**	90,747,967	184,501,205	93,753,238	49.2	43,760,832	214.2
June 30, 2004**	96,622,908	197,604,301	100,981,393	48.9	43,835,208	230.4

*Asset valuation method was changed to reflect the amount of investment gain/loss for the current year equally over the current year and the following four years.

**Covered payroll was actuarially computed as opposed to estimated in prior years.

KENTUCKY RETIREMENT SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS

KENTUCKY EMPLOYEES RETIREMENT SYSTEM (KERS)

NON-HAZARDOUS

<u>Year Ended</u>	<u>Pension</u>			<u>Insurance</u>			<u>Total</u>		
	<u>Annual Required</u>	<u>Actual</u>	<u>Percentage</u>	<u>Annual Required</u>	<u>Actual</u>	<u>Percentage</u>	<u>Annual Required</u>	<u>Actual</u>	<u>Percentage</u>
	<u>Contributions</u>	<u>Contributions</u>	<u>Contributed</u>	<u>Contributions</u>	<u>Contributions</u>	<u>Contributed</u>	<u>Contributions</u>	<u>Contributions</u>	<u>Contributed</u>
June 30, 1999	\$ 50,169,882	\$ 50,745,239	101.1%	\$ 56,690,636	\$ 56,769,539	100.1%	\$ 106,860,518	\$ 107,514,778	100.6%
June 30, 2000	36,365,221	38,129,156	104.9	76,818,004	76,926,320	100.1	113,183,225	115,055,476	100.7
June 30, 2001	21,787,253	23,482,080	107.8	66,874,871	66,874,871	100.0	88,662,124	90,356,951	101.9
June 30, 2002	-	1,760,328	-	93,993,177	93,912,017	99.9	93,993,177	95,672,345	101.8
June 30, 2003	4,905,399	7,597,450	134.9	92,052,561	65,335,219	71.0	96,957,960	72,932,669	75.2
June 30, 2004	47,739,067	21,696,543	45.4	77,951,553	78,016,737	100.1	125,690,620	99,713,280	79.3

HAZARDOUS

<u>Year Ended</u>	<u>Pension</u>			<u>Insurance</u>			<u>Total</u>		
	<u>Annual Required</u>	<u>Actual</u>	<u>Percentage</u>	<u>Annual Required</u>	<u>Actual</u>	<u>Percentage</u>	<u>Annual Required</u>	<u>Actual</u>	<u>Percentage</u>
	<u>Contributions</u>	<u>Contributions</u>	<u>Contributed</u>	<u>Contributions</u>	<u>Contributions</u>	<u>Contributed</u>	<u>Contributions</u>	<u>Contributions</u>	<u>Contributed</u>
June 30, 1999	\$ 8,546,136	\$ 8,669,902	101.4%	\$ 10,760,269	\$ 10,773,916	100.1%	\$ 19,306,405	\$ 19,443,818	100.7%
June 30, 2000	9,551,817	9,586,177	100.4	12,026,502	12,047,095	100.2	21,578,319	21,633,272	100.3
June 30, 2001	9,920,148	10,626,663	107.1	13,226,298	13,226,298	100.0	23,146,446	23,852,961	103.1
June 30, 2002	7,742,052	7,933,817	102.5	15,859,932	15,887,399	100.2	23,601,984	23,821,216	100.9
June 30, 2003	8,511,402	7,322,607	86.0	15,839,215	15,883,263	100.3	24,350,617	23,205,870	95.3
June 30, 2004	9,600,978	9,769,580	101.8	14,942,092	14,959,617	100.1	24,543,070	24,729,197	100.8

TOTAL

<u>Year Ended</u>	<u>Pension</u>			<u>Insurance</u>			<u>Total</u>		
	<u>Annual Required</u>	<u>Actual</u>	<u>Percentage</u>	<u>Annual Required</u>	<u>Actual</u>	<u>Percentage</u>	<u>Annual Required</u>	<u>Actual</u>	<u>Percentage</u>
	<u>Contributions</u>	<u>Contributions</u>	<u>Contributed</u>	<u>Contributions</u>	<u>Contributions</u>	<u>Contributed</u>	<u>Contributions</u>	<u>Contributions</u>	<u>Contributed</u>
June 30, 1999	\$ 58,716,018	\$ 59,415,141	101.2%	\$ 67,450,905	\$ 67,543,455	100.1%	\$ 126,166,923	\$ 126,958,596	100.6%
June 30, 2000	45,917,038	47,715,333	103.9	88,844,506	88,973,415	100.1	134,761,544	136,688,748	101.4
June 30, 2001	31,707,401	34,108,743	107.6	80,101,169	80,101,169	100.0	111,808,570	114,209,912	102.1
June 30, 2002	7,742,052	9,694,145	125.2	109,853,109	109,799,416	100.0	117,595,161	119,493,561	101.6
June 30, 2003	13,416,801	14,920,057	111.2	107,891,776	81,218,482	75.3	121,308,577	96,138,539	79.3
June 30, 2004	57,340,045	31,466,123	54.9	92,893,645	92,976,354	100.1	150,233,690	124,442,477	82.8

KENTUCKY RETIREMENT SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS--CONTINUED

COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS)

NON-HAZARDOUS

<u>Year Ended</u>	<u>Pension</u>			<u>Insurance</u>			<u>Total</u>		
	<u>Annual Required</u>	<u>Actual</u>	<u>Percentage</u>	<u>Annual Required</u>	<u>Actual</u>	<u>Percentage</u>	<u>Annual Required</u>	<u>Actual</u>	<u>Percentage</u>
	<u>Contributions</u>	<u>Contributions</u>	<u>Contributed</u>	<u>Contributions</u>	<u>Contributions</u>	<u>Contributed</u>	<u>Contributions</u>	<u>Contributions</u>	<u>Contributed</u>
June 30, 1999	\$ 61,135,728	\$ 62,689,179	102.5%	\$ 47,939,029	\$ 47,901,837	99.9%	\$ 109,074,757	\$ 110,591,016	101.4%
June 30, 2000	50,676,832	51,373,244	101.4	55,033,008	55,213,973	100.3	105,709,840	106,587,217	100.8
June 30, 2001	35,658,922	48,914,435	137.2	62,292,385	62,292,385	100.0	97,951,307	111,206,820	113.5
June 30, 2002	3,326,367	5,528,348	166.2	102,119,475	102,150,543	100.0	105,445,842	107,678,891	102.1
June 30, 2003	8,682,257	11,855,694	136.6	102,038,427	99,234,843	97.3	110,720,684	111,090,537	100.3
June 30, 2004	43,111,505	44,028,465	102.1	89,289,520	89,344,241	100.1	132,401,025	133,372,706	100.7

HAZARDOUS

<u>Year Ended</u>	<u>Pension</u>			<u>Insurance</u>			<u>Total</u>		
	<u>Annual Required</u>	<u>Actual</u>	<u>Percentage</u>	<u>Annual Required</u>	<u>Actual</u>	<u>Percentage</u>	<u>Annual Required</u>	<u>Actual</u>	<u>Percentage</u>
	<u>Contributions</u>	<u>Contributions</u>	<u>Contributed</u>	<u>Contributions</u>	<u>Contributions</u>	<u>Contributed</u>	<u>Contributions</u>	<u>Contributions</u>	<u>Contributed</u>
June 30, 1999	\$ 22,878,814	\$ 24,907,660	108.9%	\$ 23,647,419	\$ 23,382,957	98.9%	\$ 46,526,233	\$ 48,290,617	103.8%
June 30, 2000	22,653,206	23,393,895	103.3	27,991,859	28,345,377	101.3	50,645,065	51,739,272	102.2
June 30, 2001	19,409,377	20,983,360	108.1	32,149,432	32,149,432	100.0	51,558,809	53,132,792	103.1
June 30, 2002	10,582,988	11,054,949	104.5	45,721,274	45,730,333	100.0	56,304,262	56,785,282	100.9
June 30, 2003	19,920,223	16,905,556	84.9	43,502,755	45,243,950	104.0	63,422,978	62,149,506	98.0
June 30, 2004	27,050,382	27,640,775	102.2	47,018,046	47,036,777	100.0	74,068,428	74,677,552	100.8

TOTAL

<u>Year Ended</u>	<u>Pension</u>			<u>Insurance</u>			<u>Total</u>		
	<u>Annual Required</u>	<u>Actual</u>	<u>Percentage</u>	<u>Annual Required</u>	<u>Actual</u>	<u>Percentage</u>	<u>Annual Required</u>	<u>Actual</u>	<u>Percentage</u>
	<u>Contributions</u>	<u>Contributions</u>	<u>Contributed</u>	<u>Contributions</u>	<u>Contributions</u>	<u>Contributed</u>	<u>Contributions</u>	<u>Contributions</u>	<u>Contributed</u>
June 30, 1999	\$ 84,014,542	\$ 87,596,839	104.3%	\$ 71,586,448	\$ 71,284,794	99.6%	\$ 155,600,990	\$ 158,881,633	102.1%
June 30, 2000	73,330,038	74,767,139	102.0	83,024,867	83,559,350	100.6	156,354,905	158,326,489	101.3
June 30, 2001	55,068,299	69,897,795	126.9	94,441,817	94,441,817	100.0	149,510,116	164,339,612	109.9
June 30, 2002	13,909,355	16,583,297	119.2	147,840,749	147,880,876	100.0	161,750,104	164,464,173	101.7
June 30, 2003	28,602,480	28,761,250	100.6	145,541,182	144,478,793	99.3	174,143,662	173,240,043	99.5
June 30, 2004	70,161,887	71,669,240	102.1	136,307,566	136,381,018	100.1	206,469,453	208,050,258	100.8

KENTUCKY RETIREMENT SYSTEMS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF EMPLOYER CONTRIBUTIONS--CONTINUED

STATE POLICE RETIREMENT SYSTEM (SPRS)

<u>Year Ended</u>	<u>Pension</u>			<u>Insurance</u>			<u>Total</u>		
	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 1999	\$ 2,657,190	\$ 4,343,151	163.4%	\$ 6,808,270	\$ 5,120,037	75.2%	\$ 9,465,460	\$ 9,463,188	100.0%
June 30, 2000	2,973,719	2,964,037	99.7	7,237,579	7,251,787	100.2	10,211,298	10,215,824	100.0
June 30, 2001	1,826,883	1,811,299	99.1	7,807,870	7,817,613	100.1	9,634,753	9,628,912	99.9
June 30, 2002	1,464,204	1,448,865	99.0	8,098,907	8,113,391	100.2	9,563,111	9,562,256	100.0
June 30, 2003	-	(20,061)	-	9,443,588	7,654,313	81.1	9,443,588	7,634,252	80.8
June 30, 2004	1,175,711	1,152,752	98.0	8,434,834	8,455,498	100.2	9,610,545	9,608,250	100.0

KENTUCKY RETIREMENT SYSTEMS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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

PENSION FUNDS

	<u>Non-Hazardous</u>	<u>Hazardous</u>
Valuation Date	June 30, 2004	June 30, 2004
Actuarial Cost Method	Entry Age	Entry Age
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 Smoothing of Investment Gains and Losses	Five-year Smoothing of Investment Gains and Losses
Post-retirement Benefit Increase	2.85%	2.85%
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, 2004	June 30, 2004
Actuarial Cost Method	Targeted Rate	Targeted Rate
Asset Valuation Method - Started with 1996 Valuation	Five-year Smoothing of Investment Gains and Losses	Five-year Smoothing of Investment Gains and Losses
Actuarial Assumptions:		
Investment Return	8.25%	8.25%
Projected Salary Increases	6.50%	6.50%
Inflation Rate	3.50%	3.50%

Kentucky Retirement Systems
June 30, 2004 Comprehensive Annual Financial Report

ADDITIONAL SUPPORTING SCHEDULES

KENTUCKY RETIREMENT SYSTEMS
SCHEDULE OF ADMINISTRATIVE EXPENSES
Years ended June 30, 2004 and 2003
(Dollars in thousands)

	<u>2004</u>	<u>2003</u>
Personal Services		
Salaries and per diem	\$ 9,268	\$ 8,681
Fringe benefits	1,930	1,679
Tuition assistance	<u>50</u>	<u>45</u>
Total personal services	11,248	10,405
Contractual Services		
Actuarial	141	66
Audit	40	59
Legal	288	575
Medical	326	211
Contractual	<u>100</u>	<u>452</u>
Total contractual services	895	1,363
Communication		
Printing	139	142
Telephone	150	134
Postage	571	337
Travel	<u>152</u>	<u>168</u>
Total communication	1,012	781
Rentals		
Office space	982	814
Equipment	<u>50</u>	<u>52</u>
Total rentals	1,032	866
Miscellaneous		
Utilities	120	101
Supplies	113	123
Insurance	51	48
Maintenance	170	225
Other	<u>253</u>	<u>166</u>
Total miscellaneous	707	663
Depreciation	304	352
Healthcare Administrative Fees	<u>1,034</u>	<u>862</u>
Total Administrative Expenses	<u>\$ 16,232</u>	<u>\$ 15,292</u>

KENTUCKY RETIREMENT SYSTEMS
SCHEDULE OF INVESTMENT EXPENSES
Years Ended June 30, 2004 and 2003
(Dollars in thousands)

	<u>2004</u>	<u>2003</u>
RETIREMENT FUNDS		
Security Lending Fees		
Broker rebates	\$ 17,869	\$ 29,191
Lending agent fees	<u>1,559</u>	<u>1,554</u>
Total security lending	19,428	30,745
Common Stock Commissions	5,237	3,101
Contractual Services		
Investment management	7,253	6,609
Security custody	727	591
Investment consultant	184	185
Investment related travel	<u>20</u>	<u>-</u>
Total contractual services	8,184	7,385
INSURANCE FUNDS		
Security Lending Fees		
Broker rebates	2,463	2,286
Lending agent fees	<u>195</u>	<u>140</u>
Total security lending	2,658	2,426
Common Stock Commissions	586	378
Investment Management	<u>927</u>	<u>522</u>
Total investment expenses	<u>\$ 37,020</u>	<u>\$ 44,557</u>

Information on fees paid to investment professionals can be found in the investment section.

KENTUCKY RETIREMENT SYSTEMS
SCHEDULE OF PROFESSIONAL CONSULTANT FEES
 Years ended June 30, 2004 and 2003
 (Dollars in thousands)

	<u>2004</u>	<u>2003</u>
Actuarial Services	\$ 141	\$ 66
Medical Review Services	326	211
Audit Services	40	59
Legal Counsel	<u>288</u>	<u>575</u>
Total	<u>\$ 795</u>	<u>\$ 911</u>

KENTUCKY RETIREMENT SYSTEMS
COMBINING SCHEDULES OF PLAN NET ASSETS--PENSION FUNDS
June 30, 2004 and 2003
(Dollars in Thousands)

	2004					2003	
	KERS Hazardous	KERS Non-Hazardous	CERS Hazardous	CERS Non-Hazardous	State Police	Total	Total
ASSETS							
Cash and short-term investments							
Cash	\$ 67	\$ 761	\$ 228	\$ 813	\$ 86	\$ 1,955	\$ 1,493
Short-term investments	<u>11,330</u>	<u>98,125</u>	<u>34,290</u>	<u>118,667</u>	<u>3,607</u>	<u>266,019</u>	<u>485,752</u>
Total cash and short-term investments	11,397	98,886	34,518	119,480	3,693	267,974	487,245
Receivables							
Contributions	2,047	24,759	10,061	25,614	966	63,447	65,296
Investment income	<u>1,747</u>	<u>26,374</u>	<u>6,481</u>	<u>23,528</u>	<u>1,727</u>	<u>59,857</u>	<u>59,582</u>
Total receivables	3,794	51,133	16,542	49,142	2,693	123,304	124,878
Investments, at fair value							
Corporate and government bonds	105,309	1,617,334	394,924	1,443,631	107,006	3,668,204	3,845,290
Corporate stocks	227,386	3,237,197	788,758	2,754,886	205,072	7,213,299	5,886,202
Mortgages	17,062	255,570	69,113	247,087	16,860	605,692	560,005
Real estate	<u>1,913</u>	<u>2,580</u>	<u>2,416</u>	<u>2,496</u>	<u>493</u>	<u>9,898</u>	<u>17,256</u>
Total investments at fair value	351,670	5,112,681	1,255,211	4,448,100	329,431	11,497,093	10,308,753
Securities lending collateral invested	48,210	692,206	171,294	606,714	44,251	1,562,675	3,444,164
Equipment (net of accumulated depreciation)	<u>25</u>	<u>319</u>	<u>48</u>	<u>531</u>	<u>6</u>	<u>929</u>	<u>1,012</u>
Total Assets	<u>415,096</u>	<u>5,955,225</u>	<u>1,477,613</u>	<u>5,223,967</u>	<u>380,074</u>	<u>13,451,975</u>	<u>14,366,052</u>
LIABILITIES							
Accounts payable	318	4,024	1,307	3,918	102	9,669	8,340
Securities lending collateral	<u>48,210</u>	<u>692,206</u>	<u>171,294</u>	<u>606,714</u>	<u>44,251</u>	<u>1,562,675</u>	<u>3,444,164</u>
Total Liabilities	<u>48,528</u>	<u>696,230</u>	<u>172,601</u>	<u>610,632</u>	<u>44,353</u>	<u>1,572,344</u>	<u>3,452,504</u>
Plan Net Assets Held in Trust for Pension Benefits	<u>\$ 366,568</u>	<u>\$ 5,258,995</u>	<u>\$ 1,305,012</u>	<u>\$ 4,613,335</u>	<u>\$ 335,721</u>	<u>\$ 11,879,631</u>	<u>\$ 10,913,548</u>

KENTUCKY RETIREMENT SYSTEMS
COMBINING SCHEDULES OF CHANGES IN PLAN NET ASSETS--PENSION FUNDS
Years Ended June 30, 2004 and 2003
(Dollars in Thousands)

	2004					2003	
	KERS Hazardous	KERS Non-Hazardous	CERS Hazardous	CERS Non-Hazardous	State Police	Total	Total
ADDITIONS							
Members' contributions	\$ 11,548	\$ 129,077	\$ 38,668	\$ 122,484	\$ 4,875	\$ 306,652	\$ 314,855
Employers' contributions	9,769	21,697	27,641	44,028	1,153	104,288	43,661
Total contributions	21,317	150,774	66,309	166,512	6,028	410,940	358,516
INVESTMENT INCOME							
From investing activities							
Net appreciation in fair value of investments	34,350	519,867	122,104	435,288	33,053	1,144,662	109,972
Interest/Dividends	9,295	135,227	33,400	119,560	8,806	306,289	326,259
Total investing activities income	43,645	655,094	155,505	554,848	41,859	1,450,951	436,231
Investment expense	246	3,610	886	3,219	223	8,184	7,385
Commissions	160	2,316	578	2,038	145	5,237	3,101
Total investing activities expense	406	5,926	1,464	5,257	368	13,421	10,486
Net income from investing activities	43,239	649,168	154,041	549,591	41,491	1,437,530	425,745
From Securities Lending Activities							
Securities lending income	764	10,970	2,716	9,621	701	24,772	35,925
Securities lending expense:							
Security borrower rebates	552	7,915	1,958	6,938	506	17,869	29,191
Security lending agent fees	48	691	171	605	44	1,559	1,554
Net income from securities lending activities	164	2,364	587	2,078	151	5,344	5,180
Total net investment income	43,403	651,532	154,628	551,669	41,642	1,442,874	430,925
Total Additions	64,720	802,306	220,937	718,181	47,670	1,853,814	789,441

	2004					2003	
	<u>KERS Hazardous</u>	<u>KERS Non-Hazardous</u>	<u>CERS Hazardous</u>	<u>CERS Non-Hazardous</u>	<u>State Police</u>	<u>Total</u>	<u>Total</u>
DEDUCTIONS							
Benefit payments	\$ 16,863	\$ 459,367	\$ 81,422	\$ 260,643	\$ 30,877	\$ 849,172	\$ 748,980
Refunds	1,410	8,001	2,520	11,334	96	23,361	20,522
Administrative expenses	<u>392</u>	<u>5,262</u>	<u>759</u>	<u>8,694</u>	<u>91</u>	<u>15,198</u>	<u>14,430</u>
Total deductions	<u>18,665</u>	<u>472,630</u>	<u>84,701</u>	<u>280,671</u>	<u>31,064</u>	<u>887,731</u>	<u>783,932</u>
Net increase in plan assets	46,055	329,676	136,236	437,510	16,606	966,083	5,509
Plan net assets held in trust for Pension Benefits							
Beginning of Year	<u>320,513</u>	<u>4,929,319</u>	<u>1,168,776</u>	<u>4,175,825</u>	<u>319,115</u>	<u>10,913,548</u>	<u>10,908,039</u>
End of Year	<u>\$ 366,568</u>	<u>\$ 5,258,995</u>	<u>\$ 1,305,012</u>	<u>\$ 4,613,335</u>	<u>\$ 335,721</u>	<u>\$ 11,879,631</u>	<u>\$ 10,913,548</u>

KENTUCKY RETIREMENT SYSTEMS
COMBINING SCHEDULES OF PLAN NET ASSETS--POST-EMPLOYMENT HEALTHCARE
June 30, 2004 and 2003
(Dollars in Thousands)

ASSETS	2004					2003	
	KERS Hazardous	KERS Non-Hazardous	CERS Hazardous	CERS Non-Hazardous	State Police	Total	Total
Cash and short-term investments							
Cash	\$ 5	\$ 33	\$ 7	\$ 30	\$ 5	\$ 80	\$ 216
Short-term investments	<u>15,050</u>	<u>103,361</u>	<u>30,510</u>	<u>52,303</u>	<u>6,526</u>	<u>207,750</u>	<u>147,010</u>
Total cash and short-term investments	15,055	103,394	30,517	52,333	6,531	207,830	147,226
Receivables							
Contributions	617	3,990	3,811	8,364	351	17,133	21,790
Investment income	<u>424</u>	<u>1,446</u>	<u>765</u>	<u>1,401</u>	<u>242</u>	<u>4,278</u>	<u>3,434</u>
Total receivables	1,041	5,436	4,576	9,765	593	21,411	25,224
Investments, at fair value							
Corporate and government bonds	16,491	56,753	30,331	51,847	9,445	164,867	133,241
Corporate stocks	<u>129,646</u>	<u>422,402</u>	<u>232,519</u>	<u>450,829</u>	<u>73,926</u>	<u>1,309,322</u>	<u>1,039,366</u>
Total investments	146,137	479,155	262,850	502,676	83,371	1,474,189	1,172,607
Security lending collateral invested	<u>30,556</u>	<u>110,411</u>	<u>55,608</u>	<u>105,196</u>	<u>17,043</u>	<u>318,814</u>	<u>344,416</u>
Total Assets	<u>192,789</u>	<u>698,396</u>	<u>353,551</u>	<u>669,970</u>	<u>107,538</u>	<u>2,022,244</u>	<u>1,689,473</u>
LIABILITIES							
Accounts payable	106	304	206	897	67	1,588	1,258
Securities lending collateral obligations	<u>30,556</u>	<u>110,411</u>	<u>55,608</u>	<u>105,196</u>	<u>17,043</u>	<u>318,814</u>	<u>344,416</u>
Total Liabilities	<u>30,662</u>	<u>110,715</u>	<u>55,814</u>	<u>106,093</u>	<u>17,110</u>	<u>320,402</u>	<u>345,674</u>
Plan Net Assets Held in Trust for Post-Employment Healthcare Benefits	<u>\$ 162,127</u>	<u>\$ 587,681</u>	<u>\$ 297,737</u>	<u>\$ 563,877</u>	<u>\$ 90,420</u>	<u>\$ 1,701,842</u>	<u>\$ 1,343,799</u>

KENTUCKY RETIREMENT SYSTEMS
COMBINING SCHEDULES OF CHANGES IN PLAN NET ASSETS--POST-EMPLOYMENT HEALTHCARE
Years Ended June 30, 2004 and 2003
(Dollars in Thousands)

	2004					2003	
	KERS Hazardous	KERS Non-Hazardous	CERS Hazardous	CERS Non-Hazardous	State Police	Total	Total
ADDITIONS							
Employers' contributions	\$ 14,959	\$ 78,017	\$ 47,037	\$ 89,344	\$ 8,456	\$ 237,813	\$ 233,351
Total contributions	14,959	78,017	47,037	89,344	8,456	237,813	233,351
INVESTMENT INCOME							
From investing activities							
Net appreciation in fair value of investments	23,300	74,613	39,950	77,673	13,048	228,584	6,272
Interest/Dividends	1,980	8,665	4,499	8,648	1,451	25,243	22,305
Total income from investing activities	25,280	83,278	44,449	86,321	14,499	253,827	28,577
Investment expense	95	304	156	315	57	927	522
Commissions	59	193	100	198	36	586	378
Total investing activities expense	154	497	256	513	93	1,513	900
Net income from investing activities	25,126	82,781	44,193	85,808	14,406	252,314	27,677
From Securities Lending Activities							
Securities lending income	334	1,204	608	1,149	185	3,480	2,980
Securities lending expense:							
Security borrower rebates	236	853	429	813	132	2,463	2,286
Security lending agent fees	18	68	35	64	10	195	140
Net income from securities lending activities	80	283	144	272	43	822	554
Total net investment income	25,206	83,064	44,337	86,080	14,449	253,136	28,231
Total Additions	40,165	161,081	91,374	175,424	22,905	490,949	261,582

	2004					2003	
	<u>KERS Hazardous</u>	<u>KERS Non-Hazardous</u>	<u>CERS Hazardous</u>	<u>CERS Non-Hazardous</u>	<u>State Police</u>	<u>Total</u>	<u>Total</u>
DEDUCTIONS							
Healthcare premiums subsidies	\$ 3,539	\$ 59,987	\$ 16,700	\$ 46,654	\$ 4,992	\$ 131,872	\$ 113,296
Administrative fees	<u>21</u>	<u>484</u>	<u>105</u>	<u>393</u>	<u>31</u>	<u>1,034</u>	<u>862</u>
Total deductions	<u>3,560</u>	<u>60,471</u>	<u>16,805</u>	<u>47,047</u>	<u>5,023</u>	<u>132,906</u>	<u>114,158</u>
Net increase in plan assets	36,605	100,610	74,569	128,377	17,882	358,043	147,424
Plan net assets held in trust for post-employment healthcare benefit							
Beginning of Year	<u>125,522</u>	<u>487,071</u>	<u>223,168</u>	<u>435,500</u>	<u>72,538</u>	<u>1,343,799</u>	<u>1,196,375</u>
End of Year	<u>\$ 162,127</u>	<u>\$ 587,681</u>	<u>\$ 297,737</u>	<u>\$ 563,877</u>	<u>\$ 90,420</u>	<u>\$ 1,701,842</u>	<u>\$ 1,343,799</u>

KENTUCKY RETIREMENT SYSTEMS



Investment Section

Comprehensive Annual Financial Report
June 30, 2004

INVESTMENT SECTION PREFACE

June 30, 2004 Comprehensive Annual Financial Report

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 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 Consumer Price Index for All Urban Consumers, 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 that 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.

Investment Consulting

The Board employs Mercer Investment Consulting, Inc. 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.

MERCER

Investment Consulting

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Chicago, IL 60606-7500
312 902 7500 Fax 312 902 7626
www.mercerIc.com

August 30, 2004

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

Subject: **Annual Fund Review**

Dear Trustees:

Mercer is charged with the duty to advise the Board in its asset management activities. This is our annual review of the asset management of the Kentucky Retirement Systems. Although we recognize that the Board of Trustees is charged with the responsibility of managing the Funds in a manner consistent with the basic long term nature of the participating systems, our comments focus on the year ended June, 2004. In managing the Funds, the Board must maintain formal compliance with the Prudent Person Rule. Therefore, it seeks to maintain proper and appropriate diversification for the Fund.

Market Highlights

The year ending June 2004 was characterized by a global equity market recovery. Improved economic indicators and strong monetary and fiscal stimulus coupled with the wind down of the war in Iraq, led to favorable conditions for a rebound in the domestic equity market. International equity markets outpaced their domestic counterparts due primarily to a declining dollar in the second half of 2003. The S&P 500 Index gained 19.1 % over the trailing year while the international markets (as measure by the MSCI EAFE) returned 32.9%. The market rebound has had an adverse effect on fixed income as the Lehman Brothers Aggregate Index gaining 0.3% for the year ending June 30th.

Systems Highlights

According to the Fund Analytics statements from Northern Trust, The Retirement Fund's assets increased from \$10.9 billion (on June 30, 2003) to \$11.8 billion at the end of June 2004 due to a return of 13.6% during the one year period. Performance trailed the Reference Index return of



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Investment Consulting

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 August 30, 2004
 The Board of Trustees of the Kentucky Retirement Systems

14.0%. The Insurance Fund was valued at \$1.6 billion, a \$0.4 billion increase since June 2003 due to investment appreciation and contributions during the period. The Fund posted a 19.4% gain over the one year period, outpacing its Reference Index return of 18.5%. The Reference Indices are constructed according to the individual target asset allocations of the Funds.

The Retirement Fund's allocation was overweight domestic equity and underweight fixed income as of June 30. The Insurance Fund was overweight cash and underweight domestic equity at the end of June, 2004.

Asset allocation as of June 30th for the Retirement and Insurance Funds are compared in the table below to their individual asset allocation targets:

Asset Classes	Retirement Fund		Insurance Fund	
	Actual Allocation	Target Asset Allocation	Actual Allocation	Target Asset Allocation
	6/30/04		6/30/04	
Domestic Equity	42.2	40.0	56.9	60.0
International Equity	14.4	15.0	19.8	20.0
Fixed Income	24.5	27.0	0.0	0.0
Alternatives *	5.4	5.0	5.4	5.0
TIPS	10.2	10.0	10.3	10.0
Cash **	3.3	3.0	7.6	5.0

* Includes Real Estate and Private Equity.

** Includes equitization positions.

All major asset classes are within their allowable ranges. As previously discussed, Mercer recommends rebalancing back to target with on-going cash flows.

MERCER

Investment Consulting

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The Board of Trustees of the Kentucky Retirement Systems

Investment Manager Highlights

The Retirement Fund

NAMCO underperformed the S&P 500 Index over the one year period ending June 30, returning 18.2% vs. the Index return of 19.1 %. The strong relative performance over the second half of 2003 was not enough to reverse the relative losses during the first half of 2004.

The Weaver MVT portfolio returned 26.6% over the trailing one year, underperforming the Russell 2500 Growth Index return of 30.1 %. Both active international managers trailed the International Equity Blended Index return of 31.7% during the past year with Bank of Ireland returning 25.2% and Fidelity gaining 31.5%.

The Weaver Barksdale Core portfolio (-0.7%) and NAMCO (-0.9%) trailed the Fixed Income Blended Index return of 0.9%. The Weaver Barksdale TIPS strategy (3.8%) slightly lagged the LB TIPS Index by 4 basis points. Lincoln Capital returned 0.6%, outpacing the LB Aggregate return of 0.3%. The Fixed Income composite gained 1.0% over the trailing year, performing relatively in line with its Index.

The Insurance Fund

The NAMCO TIPS gained 3.7% during the trailing year, underperforming its index return of 3.9%. Fidelity failed to meet the MSCI EAFE Index return of 32.9%, gaining 31.4% over the trailing one year period.

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Summary

Over the trailing one year period all of the domestic equity and international equity managers lagged their comparative measures. In addition, Lincoln was the only fixed manager able to lead its benchmark over the same period. This was somewhat in line with expectations given the market environment experienced for the twelve months ending June 2004. Both plans experienced a growth in assets due to positive investment performance.

Sincerely,



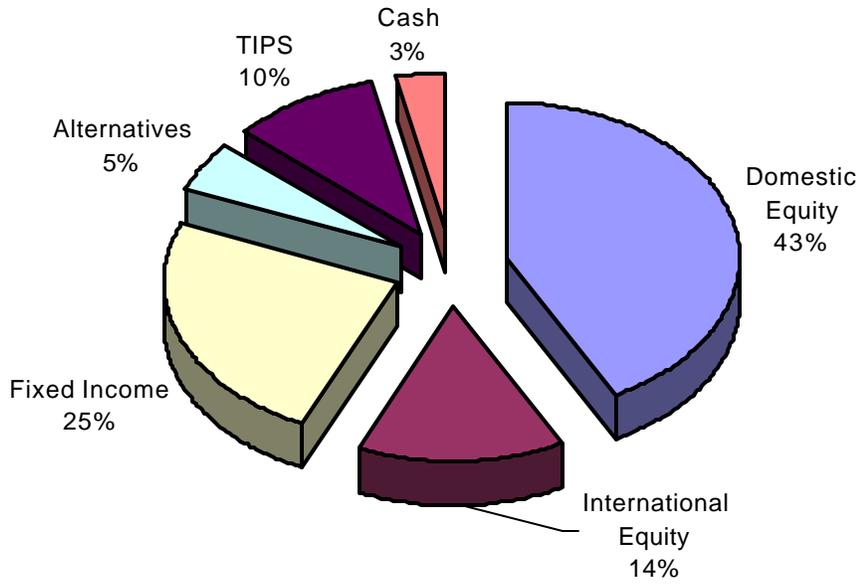
Louis D. Finney, Ph.D.
312.902.7802



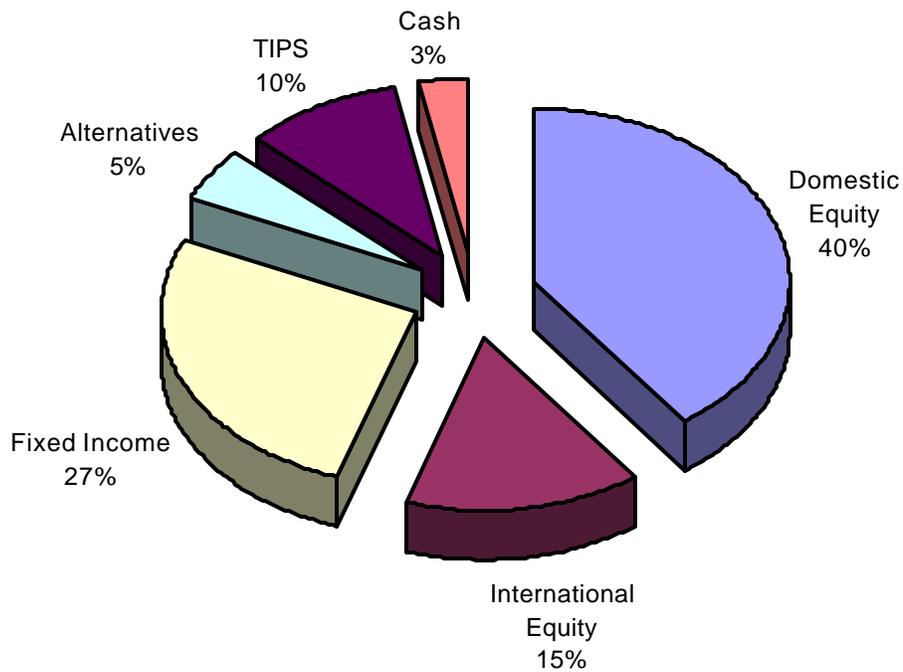
Douglas J. Kryscio, CFA
312.902.7147

Copy:
B. Aldridge, Kentucky Retirement Systems
R. Leggett, Kentucky Retirement Systems

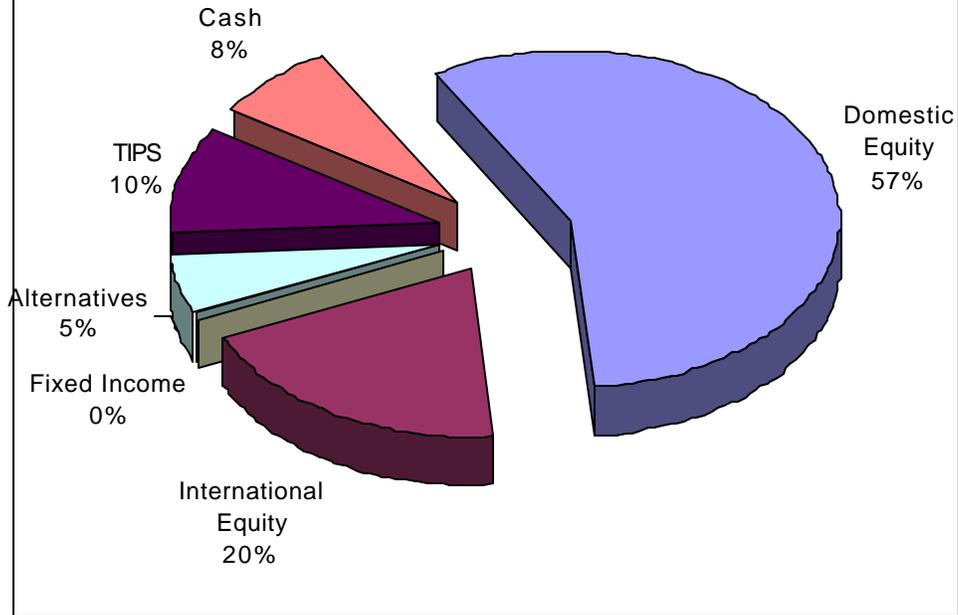
Pension Fund Actual Allocation (June 30, 2004)



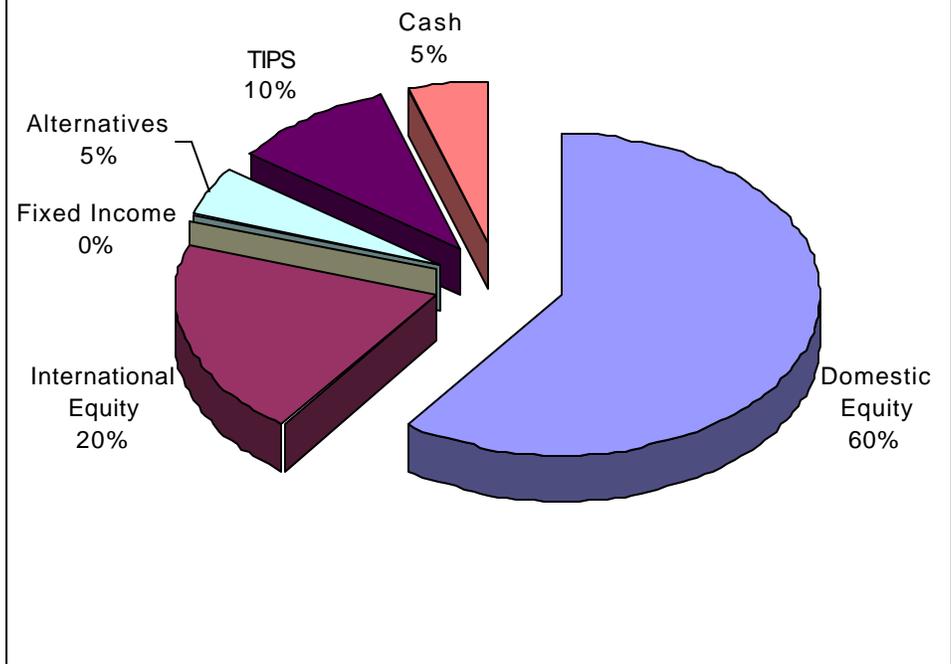
Pension Fund Target Allocation



Insurance Fund Actual Allocation (June 30, 2004)



Insurance Fund Target Allocation



KENTUCKY RETIREMENT SYSTEMS PERFORMANCE EVALUATION

PENSION FUNDS

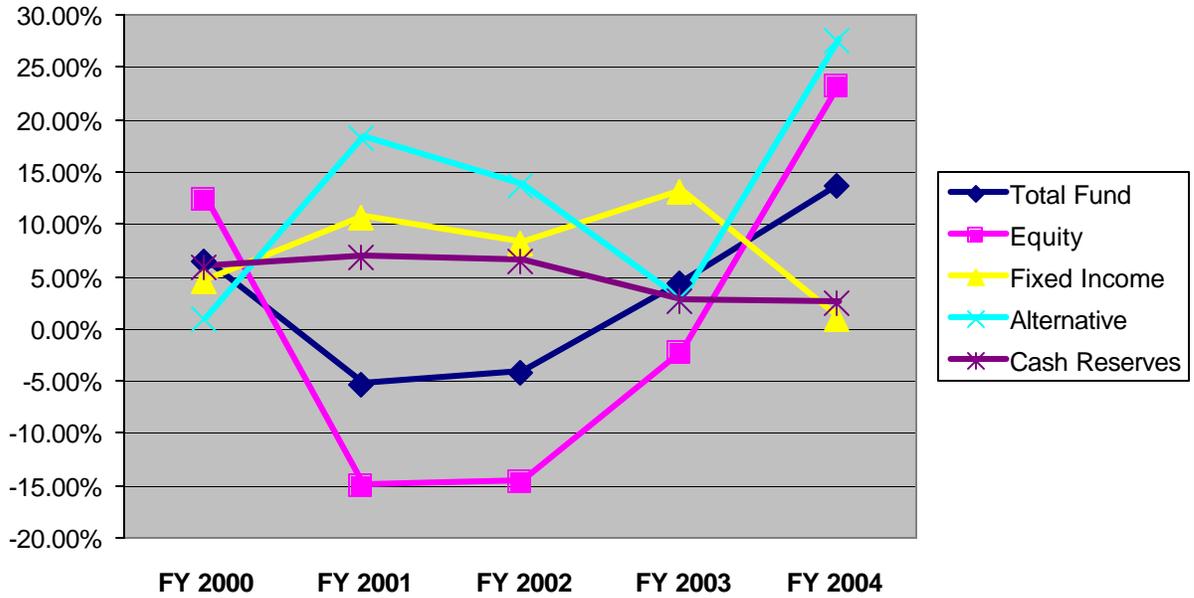
	Fiscal Year	3-Year	5-Year
Total KRS Retirement Fund	13.59%	4.27%	2.67%
KRS Blended Index	13.95%	4.06%	2.53%
CPI	3.21%	2.13%	2.67%
KRS Equities	23.08%	0.84%	(0.44%)
KRS Blended Index	24.04%	1.34%	(1.08%)
S&P 1500	18.42%	(1.39%)	(2.45%)
KRS Fixed Income	0.95%	7.28%	7.40%
KRS Blended Index	0.92%	7.42%	7.46%
Lehman Bros. Govt./Credit Bond Index	(0.72%)	6.73%	7.10%
KRS Alternate Investments	27.44%	14.60%	13.82%
KRS Blended Index	15.20%	2.97%	N/A
KRS Cash Reserves	2.36%	3.79%	4.77%
Salomon Bros. 3 Month T-Bill	0.96%	1.61%	3.14%

INSURANCE FUNDS

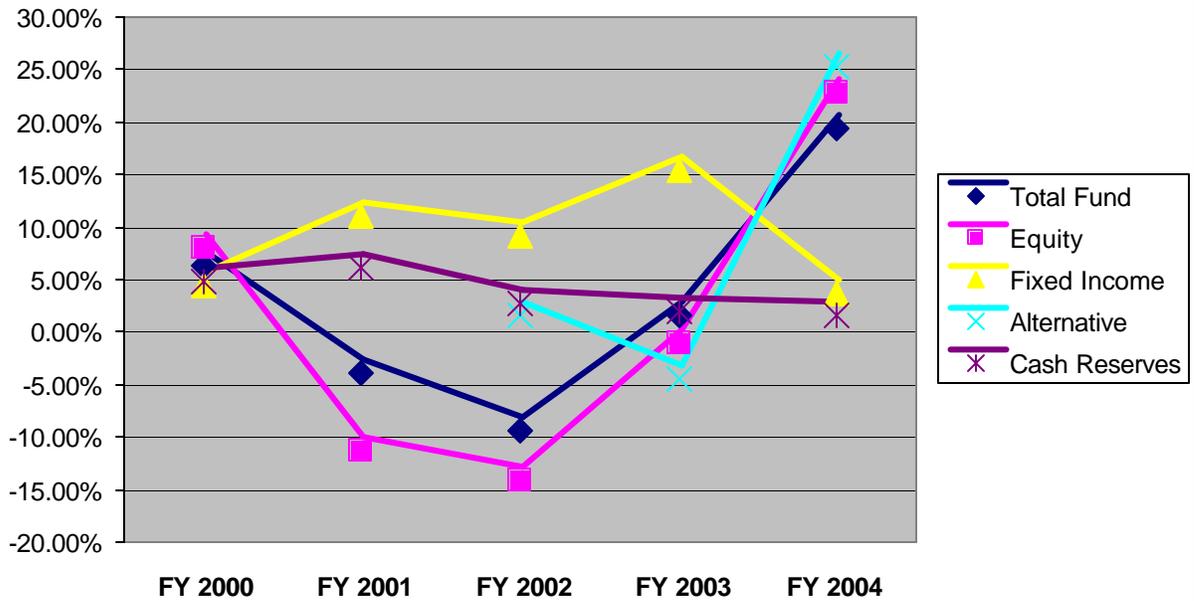
	Fiscal Year	3-Year	5-Year
Total KRS Insurance Fund	19.41%	3.26%	2.42%
KRS Blended Index	18.53%	1.25%	1.24%
CPI	0.88%	2.01%	1.18%
KRS Insurance Fund Equities	22.81%	1.42%	0.01%
KRS Blended Index	21.71%	0.02%	(0.52%)
S&P 1500	18.42%	(1.39%)	(2.45%)
KRS Insurance Fund Fixed Income	3.69%	9.32%	N/A
KRS Blended Index	3.86%	9.25%	9.58%
KRS Alternate Investments	25.22%	6.71%	N/A
KRS Blended Index	15.20%	2.97%	N/A
KRS Insurance Fund Cash Reserves	1.64%	2.11%	3.44%
Salomon Bros. 3 Month T-Bill	0.96%	1.61%	3.14%

The calculations made by the custody bank in the Performance Evaluation were prepared using a time-weighted rate of return based on the market rate of return in accordance with AIMR's performance presentation standards.

**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, 2004

CLASS	KERS NON HAZARDOUS June 30, 2003		KERS NON HAZARDOUS June 30, 2004		% OF MKT VALUE June 30, 2004
	BOOK VALUE	MARKET VALUE	BOOK VALUE	MARKET VALUE	
Bonds	\$1,629,793,345	\$1,772,036,808	1,549,839,905	1,617,334,320	31%
Mortgages	255,486,658	257,880,947	254,167,742	255,569,903	5%
Short-term	152,592,087	153,247,067	97,652,698	98,885,232	2%
Alternative	189,254,761	208,630,080	210,777,411	280,255,903	5%
Domestic Equities	1,769,418,597	1,905,665,342	1,795,218,655	2,222,981,861	43%
International Equities	664,134,948	578,899,308	676,478,619	736,539,713	14%
Total Portfolio	4,660,680,396	4,876,359,552	4,584,135,031	5,211,566,932	100%

CLASS	KERS HAZARDOUS June 30, 2003		KERS HAZARDOUS June 30, 2004		% OF MKT VALUE June 30, 2004
	BOOK VALUE	MARKET VALUE	BOOK VALUE	MARKET VALUE	
Bonds	\$96,359,797	\$104,852,057	101,222,308	105,308,294	29%
Mortgages	15,092,421	15,234,599	16,967,183	17,062,283	5%
Short-term	18,127,073	18,195,842	11,263,977	11,397,867	3%
Alternative	15,038,791	16,881,363	20,817,815	25,570,934	7%
Domestic Equities	114,803,820	123,778,198	125,568,278	155,806,045	43%
International Equities	42,369,173	37,138,867	43,854,254	47,922,065	13%
Total Portfolio	301,791,075	316,080,926	319,693,815	363,067,488	100%

For these portfolio summaries, market value is equivalent to fair value. A summary of acceptable types of investments by class is contained in Note D to the financial statements in the Financial Section.

KENTUCKY RETIREMENT SYSTEMS
PORTFOLIO SUMMARIES
JUNE 30, 2004

CLASS	CERS NON HAZARDOUS June 30, 2003		CERS NON HAZARDOUS June 30, 2004		% OF MKT VALUE June 30, 2004
	BOOK VALUE	MARKET VALUE	BOOK VALUE	MARKET VALUE	
Bonds	\$1,336,817,229	\$1,452,706,088	1,389,837,560	1,443,631,252	32%
Mortgages	209,533,366	211,499,185	245,725,160	247,087,021	5%
Short-term	237,857,390	238,769,081	117,932,893	119,480,587	3%
Alternative	156,137,460	174,249,104	178,096,484	236,382,515	5%
Domestic Equities	1,425,109,433	1,540,452,440	1,500,325,361	1,858,416,880	41%
International Equities	587,804,057	516,056,612	606,302,643	662,582,579	14%
Total Portfolio	3,953,258,935	4,133,732,510	4,038,220,101	4,567,580,833	100%

CLASS	CERS HAZARDOUS June 30, 2003		CERS HAZARDOUS June 30, 2004		% OF MKT VALUE June 30, 2004
	BOOK VALUE	MARKET VALUE	BOOK VALUE	MARKET VALUE	
Bonds	\$367,125,344	\$398,906,715	380,334,463	394,924,326	31%
Mortgages	57,877,613	58,421,019	68,732,367	69,112,719	5%
Short-term	68,352,052	68,612,892	34,075,598	34,518,122	3%
Alternative	45,925,862	51,356,064	52,334,574	68,947,645	5%
Domestic Equities	401,723,792	435,940,054	436,384,782	542,735,131	42%
International Equities	160,151,494	140,162,485	164,370,747	179,490,598	14%
Total Portfolio	1,101,156,157	1,153,399,229	1,136,232,531	1,289,728,540	100%

For these portfolio summaries, market value is equivalent to fair value. A summary of acceptable types of investments by class is contained in Note D to the financial statements in the Financial Section.

KENTUCKY RETIREMENT SYSTEMS

PORTFOLIO SUMMARIES

JUNE 30, 2004

CLASS	STATE POLICE RETIREMENT SYSTEM June 30, 2003		STATE POLICE RETIREMENT SYSTEM June 30, 2004		% OF MKT VALUE June 30, 2004
	BOOK VALUE	MARKET VALUE	BOOK VALUE	MARKET VALUE	
Bonds	\$107,345,666	\$116,788,407	102,415,352	107,005,876	32%
Mortgages	16,812,317	16,969,831	16,767,554	16,860,141	5%
Short-term	8,382,400	8,420,116	3,639,558	3,692,410	1%
Alternative	13,614,664	14,895,530	14,718,002	19,549,332	6%
Domestic Equities	114,041,105	123,749,125	115,480,302	143,866,046	43%
International Equities	41,228,892	35,602,808	39,002,089	42,149,957	13%
Total Portfolio	301,425,044	316,425,817	292,022,858	333,123,762	100%

CLASS	INSURANCE FUND June 30, 2003		INSURANCE FUND June 30, 2004		% OF MKT VALUE June 30, 2004
	BOOK VALUE	MARKET VALUE	BOOK VALUE	MARKET VALUE	
Bonds	\$116,320,111	\$133,240,710	149,691,010	164,867,042	10%
Mortgages	0	0	0	0	0%
Short-term	146,217,293	147,225,515	206,196,686	207,830,198	12%
Alternative	65,505,381	63,811,861	78,746,785	87,469,879	5%
Domestic Equities	727,982,011	731,807,786	760,758,317	907,929,067	54%
International Equities	252,580,159	243,746,926	268,888,546	313,923,423	19%
Total Portfolio	1,308,604,955	1,319,832,798	1,464,281,344	1,682,019,609	100%

For these portfolio summaries, market value is equivalent to fair value. A summary of acceptable types of investments by class is contained in Note D to the financial statements in the Financial Section.

List of Largest Assets Held

Pension Fund

Largest Stock Holdings

(By Market Value)

June 30, 2004

<u>Rank</u>	<u>Shares</u>	<u>Stock</u>	<u>Market Value</u>
1	3,457,750	MICROSOFT CORP	98,753,340.00
2	2,873,870	PFIZER INC	98,516,263.00
3	2,890,935	GENERAL ELECTRIC CO	93,666,294.00
4	1,453,604	JOHNSON & JOHNSON	80,965,742.80
5	1,664,756	CITIGROUP INC	77,411,154.00
6	3,082,620	CISCO SYS INC	73,058,094.00
7	2,336,688	INTEL CORP COM	64,492,036.80
8	1,219,800	EXXON MOBIL CORP	54,171,318.00
9	1,007,170	WAL MART	53,138,289.20
10	702,754	FNMA COM STK	<u>50,148,525.44</u>
TOTAL			744,321,057.24

Largest Bond Holdings

(By Market Value)

June 30, 2004

<u>Rank</u>	<u>Par</u>	<u>Bonds</u>	<u>Market Value</u>
1	114,500,000.00	US TSY BDS INFL INDEX 3.875 DUE 4/15/29	165,267,010.00
2	106,000,000.00	US TSY BDS INFL INDEX 3.625 DUE 4/15/28	150,743,617.60
3	116,000,000.00	US TSY NTS INFL INDEX 3.625 DUE 1/15/08	147,513,720.00
4	99,000,000.00	US TSY BDS INFL INDEX 3.875 DUE 1/15/09	126,387,360.00
5	99,000,000.00	US TSY NTS INFL INDEX 3.375 DUE 1/15/07	125,846,820.00
6	103,850,000.00	US TSY NTS INFL INDEX 3.000 DUE 7/15/12	116,952,754.50
7	73,000,000.00	US TSY NTS INFL INDEX 4.250 DUE 1/15/10	93,169,170.00
8	73,000,000.00	US TSY NTS INFL INDEX 3.500 DUE 1/15/11	87,226,240.00
9	62,850,000.00	FHLMC DEB DTD 07/16/01 5.500 DUE 7/15/06	65,771,330.84
10	56,820,000.00	US TSY NTS 7.000 DUE 07/15/06 Rating AAA	<u>61,563,163.14</u>
TOTAL			1,140,441,186.08

A complete list of portfolio holdings is available upon request.

List of Largest Assets Held

Insurance Fund

Largest Stock Holdings

(By Market Value)
June 30, 2004

<u>Rank</u>	<u>Shares</u>	<u>Stock</u>	<u>Market Value</u>
1	649,016	GENERAL ELECTRIC CO	21,028,118.40
2	694,600	MICROSOFT CORP	19,837,776.00
3	431,200	EXXON CORP	19,149,592.00
4	510,700	PFIZER INC	17,506,796.00
5	333,000	CITIGROUP INC	15,484,500.00
6	283,300	WAL MART STORES INC	14,946,908.00
7	168,784	AMER INTL GROUP	12,030,923.52
8	413,800	INTEL CORP COM	11,420,880.00
9	126,775	BK AMER CORP	10,727,700.50
10	192,088	JOHNSON & JOHNSON	10,699,301.60
TOTAL			152,832,496.02

Largest Bond Holdings

(By Market Value)
June 30, 2004

<u>Rank</u>	<u>Par</u>	<u>Bonds</u>	<u>Market Value</u>
1	15,125,000.00	U S TSY INFLATION INDEX 3.875 DUE 04/15/29	21,831,122.50
2	17,400,000.00	U S TSY INFLATION INDEX 3.000 DUE 07/15/12	19,595,358.00
3	11,850,000.00	U S TSY INFLATION INDEX 3.625 DUE 04/15/28	16,851,998.76
4	16,350,000.00	U S TSY INFLATION INDEX 1.875 DUE 07/15/13	16,569,497.44
5	12,450,000.00	U S TSY INFLATION INDEX 3.625 DUE 01/15/08	15,832,291.50
6	11,950,000.00	U S TSY INFLATION INDEX 3.875 DUE 01/15/09	15,255,848.00
7	11,900,000.00	U S TSY INFLATION INDEX 3.375 DUE 01/15/07	15,127,042.00
8	14,050,000.00	U S TSY INFLATION INDEX 2.000 DUE 01/15/14	14,240,165.90
9	8,950,000.00	U S TSY INFLATION INDEX 4.250 DUE 01/15/10	11,422,795.50
10	6,900,000.00	U S TSY INFLATION INDEX 3.500 DUE 01/15/11	8,244,672.00
TOTAL			154,970,791.60

A complete list of portfolio holdings is available upon request.

Schedule of Fees and Commissions

Year Ended June 30, 2004

External Investment Manager Fees	
Equities and Fixed Income	
Pension Funds	\$7,969,426
Insurance Funds	927,488
Investment Consulting Fees	184,096
Security Lending Agent Fees*	22,086,376
Brokerage Commissions — Equities	<u>5,822,599</u>
TOTAL	\$36,989,985

*Total fees and commissions represent .111% of the fair value of the combined Pension and Insurance Fund portfolios (excluding securities lending broker rebates).

INVESTMENT MANAGERS

C. B. Richard Ellis	Invesco-National Asset Management Corp.
Heitman Capital Management Corp.	Northern Trust Quantitative Advisors, Inc.
Weaver C. Barksdale & Associates, Inc.	Bank of Ireland Asset Management
Lend Lease	Fidelity Management Trust Company
Matlin Patterson Global Opportunities Partners L.P.	Leonard Green & Partners L.P.
J.W. Childs Associates L.P.	Vantage Point Venture Partners L.P.
Lincoln Capital Management Company	

KENTUCKY RETIREMENT SYSTEMS



Actuarial Section

Comprehensive Annual Financial Report
June 30, 2004



THE SEGAL COMPANY

2018 Powers Ferry Road, Suite 850 Atlanta, GA 30339

T 678.306.3100 F 678.306.3190 www.segalco.com

November 11, 2004

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

Dear Members of the Board:

The forty-eighth annual actuarial valuation of the Kentucky Employees Retirement System, the forty-fifth annual actuarial valuation of the County Employees Retirement System, and the forty-sixth 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. Due to the recent downturn in the capital markets, there remains significant investment losses which will be recognized in accordance with the actuarial methods used to value the plan.

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 and material experience gains or losses. 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. In addition, rates are expected to increase as the prior mentioned investment losses are recognized.

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 20-year period beginning with 1997 until the target funding rate is reached. As such, the insurance funding rate is expected to increase each year for the remainder of the 20-year period.

Benefits, Compensation and HR Consulting ATLANTA BOSTON CALGARY CHICAGO CLEVELAND DENVER HARTFORD HOUSTON LOS ANGELES
MINNEAPOLIS NEW ORLEANS NEW YORK PHILADELPHIA PHOENIX SAN FRANCISCO SEATTLE TORONTO WASHINGTON, D.C.



Multinational Group of Actuaries and Consultants AMSTERDAM BARCELONA GENEVA HAMBURG JOHANNESBURG LONDON MELBOURNE
MEXICO CITY OSLO PARIS

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 funds are 85.8% for KERS, 101.0% for CERS and 88.0% for SPRS. These funded levels will fluctuate over time with experience deviations. Since 1992, all three systems have had a funded level relative to the retirement fund of at least 85% in all valuations.

The funded level for the insurance fund 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 steadily. This increasing trend in the funded level is the primary objective of the current funding policy.

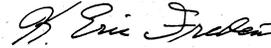
3. Valuations of each system are prepared annually, with the most recent such valuation being as of June 30, 2004.
4. In completing the valuation of these systems, we have relied on employee data as provided by Kentucky Retirement Systems, as well as financial data provided by the plan's auditor. We 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. We have prepared none of the supporting schedules included with this filing. However, based on a brief review of these schedules, the information included on them appears consistent with the information provided in our actuarial valuation report.
6. Any schedules of trend data over the past ten years or less have been based on valuation reports fully prepared by the plan's actuary.
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. These assumptions have been adopted by the Board of Trustees of the Kentucky Retirement Systems in accordance with the recommendation of the actuary.
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 that 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 based on the continuation of current funding policies adopted by the Board. 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.

Sincerely,



Leon F. (Rocky) Joyner, Jr., ASA, MAA
Vice President



K. Eric Fredén, FSA, MAAA
Associate Actuary

Kentucky Retirement Systems

Summary of Benefit Provisions

(As of June 30, 2004)

NORMAL RETIREMENT ELIGIBILITY

Members become eligible for an unreduced age or service annuity based upon the following requirements:

Non-Hazardous Members		Hazardous Duty Members	
<u>Age</u>	<u>Creditable Service</u>	<u>Age</u>	<u>Creditable Service</u>
65	1 Month (benefit based on account balance)	55	1 Month (benefit based on account balance)
65	4 Years (benefit based on service & salary)	55	5 Years (benefit based on service & salary)
Any	27 Years	Any	20 Years

NORMAL RETIREMENT ANNUITY

The annuity payable to a member under Normal Retirement provisions is based on *Final Compensation (FC)* and *Creditable Service (CS)* as follows:

Non-Hazardous Members	Formula
▪ Kentucky Employees Retirement System	$1.97\% \times FC \times CS$
▪ Kentucky Employees Retirement System <i>Members who were employed January 1998 through January 1999.</i>	$2.00\% \times FC \times CS$
▪ Kentucky Employees Retirement System <i>Members who were employed January 1998 through January 1999 and who retire between February 1999 and January 2009 with 20 or more years of service.</i>	$2.20\% \times FC \times CS$
▪ County Employees Retirement System	$2.20\% \times FC \times CS$

Hazardous Duty Members	Formula
▪ Kentucky Employees Retirement System	$2.49\% \times FC \times CS$
▪ County Employees Retirement System	$2.50\% \times FC \times CS$
▪ State Police Retirement System	$2.50\% \times FC \times CS$

Final Compensation (FC) for non-hazardous members is the average of the highest five fiscal years (July to June) of earnings. The years do not have to be consecutive but must contain a minimum of 48 months.

Exception: For a non-hazardous member whose effective retirement date is between August 1, 2001 and January 1, 2009, and whose creditable service is at least 27 years, and whose age and years of creditable service total at least 75, final compensation is based on the average of the three highest fiscal years of earnings. The years do not have to be consecutive but must contain a minimum of 24 months.

Final Compensation (FC) for Hazardous Duty members is the average of the highest three fiscal years (July to June) of earnings. The years do not have to be consecutive but must contain a minimum of 24 months.

EARLY RETIREMENT

Members become eligible for a reduced age or service annuity based upon the requirements:

Non-Hazardous Members		Hazardous Duty Members	
<u>Age</u>	<u>Creditable Service</u>	<u>Age</u>	<u>Creditable Service</u>
55	5 Years (benefit based on service & salary)	50	15 Years (benefit based on service & salary)
Any	25 Years (benefit based on service & salary)		

Early Retirement benefits are calculated the same as Normal Retirement benefits, except that a reduction is applied depending on the member's age or years of creditable service at retirement.

For non-hazardous members, the amount of the reduction under early retirement provisions is based upon the lesser of the number of years required for the member to reach age 65 or 27 years of creditable service (see table below).

Years to Attain Age 65 or 27 Years of Creditable Service				
<div style="border: 1px solid black; padding: 5px; display: inline-block;"> 5% per year for the first five years </div>	1 Year:	95%	6 Years:	71%
	2 Years:	90%	7 Years:	67%
	3 Years:	85%	8 Years:	63%
	4 Years:	80%	9 Years:	59%
	5 Years:	75%	10 Years:	55%
				<div style="border: 1px solid black; padding: 5px; display: inline-block;"> 4% per year for the next five years. </div>

For hazardous duty members, the amount of the reduction under early retirement provisions is based upon the lesser of the number of years required for the member to reach age 55 or 20 years of creditable service (see table below).

Years to Attain Age 55 or 20 Years of Creditable Service				
<div style="border: 1px solid black; padding: 5px; display: inline-block;"> 5.5% for each year. </div>	1 Year:	94.5%	4 Years:	78.0%
	2 Years:	89.0%	5 Years:	72.5%
	3 Years:	83.5%		

VOLUNTARY TERMINATION BEFORE IMMEDIATE BENEFIT ELIGIBILITY

Upon voluntary termination a member 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 creditable service at the time of termination. Vesting requirements are included in each benefit described herein.

DISABILITY BENEFITS

A non-hazardous member may retire due to disability if:

- The member has at least five (5) years of creditable service, one (1) of which is credited as current service.
- The member is not eligible for an unreduced benefit from the retirement systems.
- The member applies within 24 months of the last day of paid employment in a regular full-time position.
- The medical review physicians employed by the retirement office determine the condition or disease prohibits the member from performing their job, or a job of similar duties.

A hazardous member may retire due to disability if:

- The member has at least five (5) years of creditable service, one (1) of which is credited as current service.
- The member is not eligible for an unreduced benefit from the retirement systems.

- The member applies within 24 months of the last day of paid employment in a regular full-time position.
- The medical review physicians employed by the retirement office determine the condition or disease is total and permanent or will render the individual totally incapable of working in a hazardous position, but may still be capable of performing other types of work.

A condition or disease which existed before a non-hazardous or hazardous member was actively contributing to the retirement system cannot be considered unless the condition was substantially aggravated by accident or injury during the course of employment or if the member has 16 years of service with a participating employer.

Disability benefits are calculated the same as for normal retirement benefits except that additional years of service may be added to the member's account, depending on the member's age and years of service.

Disability In the Line of Duty Benefits

A contributing **member in a non-hazardous position** who is disabled in the line of duty is entitled to a retirement benefit of not less than 25% of final monthly rate of pay. Monthly benefits shall be also be paid for each dependent child equal to 10% of the member's final monthly rate of pay, but not greater than 40% of the member's final monthly rate of pay.

A member in a **hazardous position** who is disabled in the line of duty is entitled to a retirement benefit of not less than 25% of the member's final monthly rate of pay. Monthly benefits shall be also be paid for each dependent child equal to 10% of the member's final monthly rate of pay, but not greater than 40% of the member's final monthly rate of pay.

DEATH BEFORE RETIREMENT

If a member dies before retirement, the beneficiary will be eligible for a monthly benefit based on the member's age, years of service and final compensation at the date of death if:

1. The member was eligible for normal or early retirement benefits at the date of death.
2. If the member had earned 5 years of creditable service, 1 of which is current service, and was contributing at the date of death.
3. If the member had earned 12 years of creditable service, 1 of which is current service, and was not contributing at the date of death.

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

Death In the Line of Duty Benefits

If a **member in a non-hazardous position** dies in the line of duty and has a spouse as beneficiary, the spouse may choose: (1) a \$10,000 lump sum payment and monthly payment of 25% of the member's final monthly rate of pay or (2) benefits based upon the members age, years of service and final compensation at the date of death. Monthly benefits shall also be paid for each dependent child equal to 10% of the member's final monthly rate of pay, but not greater than 40% of the member's final monthly rate of pay.

If a **member in a hazardous position** dies in the line of duty and has a spouse as beneficiary, the spouse may choose: (1) a \$10,000 lump sum payment and a monthly payment of 25% of the member's final monthly rate of pay or (2) benefits based upon the member's age, years of service and final compensation at the date of death. If the member in a hazardous position dies in the line of duty and has a dependent as beneficiary other than his spouse, the non-spouse may choose: (1) a \$10,000 lump sum payment or (2) benefits based upon the member's age, years of service and final compensation at the date of death. Monthly benefits shall be also be paid for each dependent child equal to 10% of the member's final monthly rate of pay, but not greater than 40% of the member's final monthly rate of pay.

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 (5%). The Kentucky General Assembly reserves the right to suspend or reduce benefit increases if in their judgment the welfare of the State so demands.

DEATH AFTER RETIREMENT

If the member is receiving a monthly benefit based on at least four (4) years of creditable service, the retirement system will pay a \$5,000 death benefit payment to the beneficiary named by the member specifically for this benefit.

HOSPITAL AND MEDICAL INSURANCE BENEFIT

Kentucky Retirement Systems provides group rates on medical insurance and, where available, health maintenance organization (HMO) and other managed care coverage for retired members. Participation in the insurance/HMO program is optional and requires the completion of the proper forms at the time of retirement in order to obtain the insurance coverage.

The cost of insurance for the retired member may be partially, or fully, paid by the Systems depending upon the member's years of service, the insurance carrier selected, and the level of coverage chosen. If coverage is for the member only, the system pays the same percentage of the single monthly contribution rate for both non-hazardous and hazardous duty members. The percentage of the single monthly contribution paid by KRS based upon a member's years of creditable service is provided in the table below.

Percent of the Monthly Insurance Contribution Paid Based Upon Service Credit at Retirement

<u>Years of Creditable Service</u>	<u>% Paid</u>
At least 4 years but less than 10 years	25%
At least 10 years but less than 15 years	50%
At least 15 years but less than 20 years	75%
20 or more years	100%

If a hazardous duty member has a spouse and/or dependent children, KRS may also pay a portion of the monthly contribution towards a couple, parent plus, or family coverage plan. The portion paid toward couple, parent plus, or family coverage is based solely on the amount of creditable service the member has in an approved hazardous position (see table below).

Percent of the Monthly Insurance Contribution Paid By KRS For Spouse & Dependent Coverage

<u>Years of Creditable Hazardous Duty Service Credit</u>	<u>% Paid</u>
At least 4 years but less than 10 years	25%
At least 10 years but less than 15 years	50%
At least 15 years but less than 20 years	75%
20 or more years	100%

Under the provisions of House Bill 430, passed during the 2003 General Assembly, employees hired July 1, 2003 or after will be required to earn at least ten (10) years of creditable service before they will be eligible for insurance benefits at retirement. Retired members or employees who have creditable service in a KERS, CERS, or SPRS account as of July 1, 2003, will not be affected by this legislation.

If a contributing member is disabled in the line of duty, the retirement system will pay 100% of the cost for the member. If a contributing member is killed in the line of duty, the retirement system will pay 100% of the cost for the beneficiary as long as they remain eligible for a monthly benefit payment.

INTEREST CREDITS

Member accounts have been credited with interest on July 1 of each year at 3% compounded annually through June 30, 1980; 6% thereafter through June 30, 1986; 4% thereafter through June 30, 2003, and 2.5% thereafter.

CONTRIBUTION RATES

Member Contributions

State statute requires participating non-hazardous members to contribute 5% of creditable compensation. Participating hazardous duty members are required to contribute 8% of creditable compensation.

Employer Contributions

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.

NOTE: A SUMMARY PLAN DESCRIPTION WHICH GIVES A MORE DETAILED DESCRIPTION OF PLAN PROVISIONS IS AVAILABLE UPON REQUEST OR CAN BE DOWNLOADED FROM THE KENTUCKY RETIREMENT SYSTEMS' WEB PAGE AT WWW.KYRET.COM.

Summary of Actuarial Assumptions and Methods

(As of June 30, 2004)

1. The investment return rate used in making the valuations was 8.25% per year, net of investment related expenses, compounded annually. Adopted 2001.
2. The actuarial value of assets is determined in the following manner for both the Retirement Fund and Insurance Fund:
 - a. Develop expected assets by projecting valuation assets from the prior valuation using the assumed valuation interest rate from the prior valuation and actual cash flows for the 12 months ending on the current valuation date.
 - b. The current year investment gain/loss shall be determined as the difference between actual market value as of the current valuation date and expected assets as computed in (1), further adjusted for any amount of investment gain/loss from prior years not yet recognized as of the current valuation date.
 - c. The amount of investment gain/loss for the current year shall be reflected equally over the current year and the following 4 years.
 - d. Valuation assets will be equal to expected assets from (1) plus/minus the amount of investment gain/loss from the current and prior 4 years to be recognized in the current year.
 - e. The starting point for this method shall be the actuarial value of assets as computed in the 2000 valuation under the prior asset valuation method then in effect. Only investment gains/losses occurring after June 30, 2000 shall be recognized and amortized under this method.
3. The percentage of members assumed to retire at sample ages is shown in Schedule 1. Adopted 2001.
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 2001.
5. Select rates of termination before retirement are shown in Schedule 3. Adopted 2001.
6. Annual pay per member is assumed to increase 12% in the first year, 10% in the second year, 8% in the third year and 6.50% per year thereafter, compounded annually, which is based on experience rather than the effects of inflation. Adopted 2001.
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 judgment the welfare of the Commonwealth so demands.
9. The most recent actuarial experience analysis was performed for the period from July 1, 1995 through June 30, 2000. All assumptions used in the most recent actuarial valuation were based on the study performed in 2001.

Assumptions used in determining the actuarial accrued liability for postemployment healthcare benefits are shown in Schedule 4. Adopted 2001.

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	4%	5%	6%	25%	10%	50%	20%	25%	40%	100%

At age 55-64 in lieu of age related rate, 25% are assumed to retire as soon as eligible for unreduced benefits with 27 years of creditable service.

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 of creditable service and the balance will continue to age 60.

For hazardous duty participants of the County Employees Retirement System it is assumed that 60% will retire as soon as eligible for unreduced benefits with 20 years of creditable service 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 of creditable service and the balance will continue to age 55.

SCHEDULE 2: SAMPLE ANNUAL RATES OF MORTALITY

Age	<i>Active Mortality*</i>		<i>Disabled Mortality</i>	
	<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

Kentucky Employees Retirement System

Sample Ages	Years of Service	<i>Termination</i>		<i>Disablement</i>	
		<u>Non-Hazardous Employees</u>	<u>Hazardous Employees</u>	<u>Non-Hazardous Employees</u>	<u>Hazardous Employees</u>
	1	35.00%	30.00%	**	**
	2	10.00%	8.00%	**	**
	3	7.00%	4.00%	**	**
	4	5.00%	4.00%	**	**
	5	4.00%	4.00%	**	**
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.

County Employees Retirement System

Sample Ages	Years of Service	Termination		Disablement	
		Non-Hazardous Employees	Hazardous Employees	Non-Hazardous Employees	Hazardous Employees
	1	35.00%	30.00%	**	**
	2	10.00%	8.00%	**	**
	3	7.00%	4.00%	**	**
	4	5.00%	4.00%	**	**
	5	4.00%	4.00%	**	**
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.

State Police Retirement System

Sample Ages	Years of Service	Termination	Disablement
		Hazardous Employees	Hazardous Employees
	1	**	**
	2	**	**
	3	**	**
	4	**	**
	5	**	**
25	Over 5	1.82%	0.042%
30		2.03%	0.050%
40		0.90%	0.132%
50		0.00%	0.530%
55		0.00%	0.992%
60		0.00%	1.743%

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

SCHEDULE 4: ASSUMED MEDICAL PREMIUM GROWTH

Years	2003 – 2005	2006 – 2010	2011 -- 2015	2016 -- 2020	Thereafter
Increase Per Year	10%	9%	8%	7.5%	7%

Kentucky Retirement Systems**Summary of Member Valuation Data***(As of June 30, 2004)***KENTUCKY EMPLOYEES RETIREMENT SYSTEM (NON-HAZARDOUS)****Schedule of Active Member Valuation Data**

Valuation Date	Active Participants	Annual Payroll	Annual Average Pay	% Increase In Average Pay
6/30/1999	45,824	\$1,330,937,460	\$29,046	5.8%
6/30/2000	46,897	\$1,432,316,220	\$30,542	5.2%
6/30/2001	47,780	\$1,525,188,532	\$31,921	4.5%
6/30/2002	48,555	\$1,597,447,963	\$32,900	3.1%
6/30/2003	49,158	\$1,658,604,696	\$33,740	2.6%
6/30/2004	47,599	\$1,645,412,496	\$34,568	2.5%

KENTUCKY EMPLOYEES RETIREMENT SYSTEM (HAZARDOUS)**Schedule of Active Member Valuation Data**

Valuation Date	Active Participants	Annual Payroll	Annual Average Pay	% Increase In Average Pay
6/30/1999	3,889	\$103,970,148	\$26,734	7.7%
6/30/2000	4,007	\$115,135,008	\$28,733	7.5%
6/30/2001	4,228	\$123,647,407	\$29,245	1.8%
6/30/2002	4,211	\$125,371,604	\$29,772	1.8%
6/30/2003	4,189	\$129,088,956	\$30,816	3.5%
6/30/2004	4,014	\$126,664,812	\$31,556	2.4%

COUNTY EMPLOYEES RETIREMENT SYSTEM (NON-HAZARDOUS)**Schedule of Active Member Valuation Data**

Valuation Date	Active Participants	Annual Payroll	Annual Average Pay	% Increase In Average Pay
6/30/1999	74,151	\$1,449,817,548	\$19,552	4.1%
6/30/2000	77,419	\$1,575,632,580	\$20,352	4.1%
6/30/2001	78,773	\$1,597,653,320	\$20,282	(0.3%)
6/30/2002	79,850	\$1,688,460,789	\$21,145	4.3%
6/30/2003	82,288	\$1,796,451,180	\$21,831	3.2%
6/30/2004	80,922	\$1,826,870,880	\$22,576	3.4%

COUNTY EMPLOYEES RETIREMENT SYSTEM (HAZARDOUS)**Schedule of Active Member Valuation Data**

Valuation Date	Active Participants	Annual Payroll	Annual Average Pay	% Increase In Average Pay
6/30/1999	7,488	\$260,279,940	\$34,760	3.7%
6/30/2000	7,951	\$291,062,928	\$36,607	5.3%
6/30/2001	8,586	\$322,819,064	\$37,598	2.7%
6/30/2002	8,949	\$346,319,146	\$38,699	2.9%
6/30/2003	9,286	\$374,700,732	\$40,351	4.3%
6/30/2004	9,349	\$392,562,624	\$41,990	4.1%

STATE POLICE RETIREMENT SYSTEM**Schedule of Active Member Valuation Data**

Valuation Date	Active Participants	Annual Payroll	Annual Average Pay	% Increase In Average Pay
6/30/1999	985	\$40,548,636	\$41,166	9.5%
6/30/2000	1,023	\$43,596,396	\$42,616	3.5%
6/30/2001	1,016	\$44,209,944	\$43,514	2.1%
6/30/2002	1,002	\$43,961,844	\$43,874	0.8%
6/30/2003	1,019	\$43,760,832	\$42,945	(2.1%)
6/30/2004	999	\$43,835,208	\$43,879	2.2%

ALL SYSTEMS**Schedule of Active Member Valuation Data**

Valuation Date	Participating Employers	Active Participants	Annual Payroll	Annual Average Pay	% Increase In Average Pay
6/30/1999	1,531	132,337	\$3,185,553,732	\$24,072	4.8%
6/30/2000	1,610	137,297	\$3,457,743,132	\$25,184	4.6%
6/30/2001	1,706	140,383	\$3,613,518,267	\$25,740	2.2%
6/30/2002	1,727	142,567	\$3,801,561,346	\$26,665	3.6%
6/30/2003	1,778	145,940	\$4,002,606,396	\$27,426	2.9%
6/30/2004	1,801	142,883	\$4,035,346,020	\$28,242	2.9%

Kentucky Retirement Systems**Summary of Accrued & Unfunded Liabilities***(As of June 30, 2004)***KENTUCKY EMPLOYEES RETIREMENT SYSTEM : PENSION FUND***(Expressed in Thousands)*

Valuation Date	Actuarial Liability	Unfunded Liability	Percent Unfunded	Actuarial Value of Assets	Increase In Assets
6/30/1999	\$4,531,905	(\$ 992,274)	(21.90%)	\$5,524,179	\$955,892
6/30/2000	\$5,120,191	(\$2,022,698)	(39.50%)	\$7,142,889	\$1,618,710
6/30/2001*	\$5,729,229	(\$1,477,191)	(25.80%)	\$7,206,420	\$63,531
6/30/2002	\$6,348,164	(\$ 682,305)	(10.70%)	\$7,030,468	(\$175,952)
6/30/2003	\$6,877,342	\$ 140,098	2.04%	\$6,737,245	(\$293,223)
6/30/2004	\$7,453,191	\$1,055,465	14.16%	\$6,397,727	(\$339,518)

*Change in asset valuation method effective in this valuation to 5-year smoothing of investment gains/(losses).

KENTUCKY EMPLOYEES RETIREMENT SYSTEM : INSURANCE FUND*(Expressed in Thousands)*

Valuation Date	Actuarial Liability	Unfunded Liability	Percent Unfunded	Actuarial Value of Assets	Increase In Assets
6/30/1999	\$1,422,523	\$1,064,238	74.80%	\$358,284	\$93,572
6/30/2000	\$1,632,643	\$1,130,871	69.30%	\$501,772	\$143,488
6/30/2001*	\$1,984,034	\$1,415,031	71.30%	\$569,003	\$67,231
6/30/2002	\$2,144,503	\$1,487,378	69.40%	\$657,125	\$88,122
6/30/2003	\$2,376,389	\$1,671,044	70.32%	\$705,345	\$48,220
6/30/2004	\$2,659,409	\$1,889,663	71.06%	\$769,746	\$64,401

*Change in asset valuation method effective in this valuation to 5-year smoothing of investment gains/(losses).

COUNTY EMPLOYEES RETIREMENT SYSTEM : PENSION FUND*(Expressed in Thousands)*

Valuation Date	Actuarial Liability	Unfunded Liability	Percent Unfunded	Actuarial Value of Assets	Increase In Assets
6/30/1999	\$3,955,132	(\$1,241,746)	(31.40%)	\$5,196,878	\$923,616
6/30/2000	\$4,453,155	(\$2,276,421)	(51.10%)	\$6,729,576	\$1,532,698
6/30/2001*	\$4,900,143	(\$2,010,358)	(41.00%)	\$6,910,500	\$180,924
6/30/2002	\$5,492,646	(\$1,390,653)	(25.30%)	\$6,883,299	(\$27,202)
6/30/2003	\$5,917,227	(\$836,358)	(14.13%)	\$6,753,585	(\$129,714)
6/30/2004	\$6,577,290	(\$68,174)	(1.04%)	\$6,645,464	(\$108,121)

*Change in asset valuation method effective in this valuation to 5-year smoothing of investment gains/(losses).

COUNTY EMPLOYEES RETIREMENT SYSTEM : INSURANCE FUND*(Expressed in Thousands)*

Valuation Date	Actuarial Liability	Unfunded Liability	Percent Unfunded	Actuarial Value of Assets	Increase In Assets
6/30/1999	\$1,801,154	\$1,454,627	80.80%	\$346,527	\$90,941
6/30/2000	\$2,066,653	\$1,578,352	76.40%	\$488,301	\$141,774
6/30/2001*	\$2,515,316	\$1,954,682	77.40%	\$569,634	\$81,333
6/30/2002	\$2,758,762	\$2,073,581	75.20%	\$685,181	\$115,547
6/30/2003	\$3,112,614	\$2,323,364	74.64%	\$789,250	\$104,069
6/30/2004	\$3,464,419	\$2,568,442	74.14%	\$895,977	\$106,727

*Change in asset valuation method effective in this valuation to 5-year smoothing of investment gains/(losses).

STATE POLICE RETIREMENT SYSTEM : PENSION FUND*(Expressed in Thousands)*

Valuation Date	Actuarial Liability	Unfunded Liability	Percent Unfunded	Actuarial Value of Assets	Increase In Assets
6/30/1999	\$314,021	(\$43,601)	(13.90%)	\$357,623	\$51,304
6/30/2000	\$336,580	(\$122,589)	(36.40%)	\$459,169	\$101,546
6/30/2001*	\$356,212	(\$99,949)	(28.10%)	\$456,161	(\$3,008)
6/30/2002	\$380,790	(\$58,165)	(15.30%)	\$438,955	(\$17,205)
6/30/2003	\$414,881	\$1,818	0.44%	\$413,064	(\$25,891)
6/30/2004	\$437,482	\$52,405	11.98%	\$385,077	(\$27,987)

*Change in asset valuation method effective in this valuation to 5-year smoothing of investment gains/(losses).

STATE POLICE RETIREMENT SYSTEM : INSURANCE FUND*(Expressed in Thousands)*

Valuation Date	Actuarial Liability	Unfunded Liability	Percent Unfunded	Actuarial Value of Assets	Increase In Assets
6/30/1999	\$125,797	\$71,867	57.10%	\$53,929	\$12,519
6/30/2000	\$138,867	\$67,155	48.40%	\$71,712	\$17,783
6/30/2001*	\$158,261	\$78,398	49.50%	\$79,864	\$8,152
6/30/2002	\$165,445	\$78,578	47.50%	\$86,867	\$7,004
6/30/2003	\$184,501	\$93,753	50.81%	\$90,748	\$3,881
6/30/2004	\$197,604	\$100,981	51.10%	\$96,623	\$5,875

*Change in asset valuation method effective in this valuation to 5-year smoothing of investment gains/(losses).

Kentucky Retirement Systems**Solvency Test**
*(As of June 30, 2004)***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)
6/30/1999	\$862,558	\$1,935,471	\$1,733,877	\$5,524,180	100%	100%	157.2%
6/30/2000	\$900,839	\$2,378,236	\$1,841,116	\$7,142,889	100%	100%	209.9%
6/30/2001	\$895,839	\$2,756,127	\$2,077,262	\$7,206,420	100%	100%	171.1%
6/30/2002	\$988,657	\$3,352,392	\$2,007,115	\$7,030,468	100%	100%	134.0%
6/30/2003	\$931,310	\$3,980,318	\$1,965,714	\$6,737,248	100%	100%	92.9%
6/30/2004	\$993,923	\$4,627,968	\$1,831,301	\$6,397,727	100%	100%	42.4%

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)
6/30/1999	\$759,922	\$1,600,392	\$1,594,819	\$5,196,879	100%	100%	177.90%
6/30/2000	\$821,630	\$1,904,182	\$1,727,343	\$6,729,576	100%	100%	231.80%
6/30/2001	\$855,815	\$2,185,378	\$1,858,950	\$6,910,501	100%	100%	208.10%
6/30/2002	\$1,007,019	\$2,525,608	\$1,960,019	\$6,883,299	100%	100%	171.00%
6/30/2003	\$987,568	\$2,838,286	\$2,091,373	\$6,753,585	100%	100%	140.0%
6/30/2004	\$1,071,275	\$3,329,550	\$2,176,465	\$6,645,464	100%	100%	103.1%

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)
6/30/1999	\$33,633	\$187,163	\$93,226	\$357,623	100%	100%	146.80%
6/30/2000	\$36,111	\$199,749	\$100,720	\$459,169	100%	100%	221.70%
6/30/2001	\$34,338	\$224,433	\$97,441	\$456,161	100%	100%	202.60%
6/30/2002	\$36,886	\$252,499	\$91,405	\$438,955	100%	100%	163.60%
6/30/2003	\$35,832	\$290,013	\$89,037	\$413,064	100%	100%	98.0%
6/30/2004	\$37,658	\$318,665	\$81,160	\$385,077	100%	100%	35.4%

Kentucky Retirement Systems

KERS Retired Lives Summary

(As of June 30, 2004)

KENTUCKY EMPLOYEES RETIREMENT SYSTEM (KERS)

	<u>Non-Hazardous Retirees</u>		<u>Hazardous Retirees</u>		<u>Total</u>	
	Number	Monthly Benefits	Number	Monthly Benefits	Number	Monthly Benefits
Basic Form	9,502	\$11,053,223	361	\$262,644	9,863	\$11,315,867
Joint & Survivor						
100% to Beneficiary	2,264	\$2,680,027	137	\$121,962	2,401	\$2,801,989
66 2/3% to Beneficiary	974	\$1,923,195	50	\$44,796	1,024	\$1,967,991
50% to Beneficiary	1,706	\$3,075,938	87	\$99,499	1,793	\$3,175,437
Pop-Up Option	3,600	\$6,493,531	314	\$323,529	3,914	\$6,817,060
10 Years Certain	---	---	23	\$26,912	23	\$26,912
10 Years Certain & Life	2,629	\$2,854,766	111	\$77,596	2,740	\$2,932,362
15 Years Certain & Life	741	\$937,335	40	\$35,613	781	\$972,948
20 Years Certain & Life	626	\$992,860	37	\$35,802	663	\$1,028,662
Social Security Option						
Basic Form	1,321	\$2,125,023	57	\$46,613	1,378	\$2,171,636
Survivorship Option	1,329	\$2,224,462	98	\$109,603	1,427	\$2,334,065
Partial Lump Sum Option						
PLSO 12 Month Basic	84	\$92,025	8	\$7,111	92	\$99,136
PLSO 24 Month Basic	47	\$41,526	8	\$8,016	55	\$49,542
PLSO 36 Month Basic	111	\$58,763	22	\$17,780	133	\$76,543
PLSO 12 Month Survivor	43	\$59,999	6	\$6,590	49	\$66,589
PLSO 24 Month Survivor	46	\$68,658	9	\$10,821	55	\$79,479
PLSO 36 Month Survivor	91	\$20,764	14	\$9,059	105	\$29,823
5 Years Only	0	\$0		\$0	0	\$0
Dependent Child	0	\$0		\$0	0	\$0
TOTAL	25,114	\$34,702,095	1,382	\$1,243,946	26,496	\$35,946,041

Kentucky Retirement Systems

CERS Retired Lives Summary
(As of June 30, 2004)

COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS)

	<u>Non-Hazardous Retirees</u>		<u>Hazardous Retirees</u>		<u>Total</u>	
	Number	Monthly Benefits	Number	Monthly Benefits	Number	Monthly Benefits
Basic Form	11,542	\$6,735,969	560	\$929,772	12,102	\$7,665,741
Joint & Survivor						
100% to Beneficiary	2,405	\$1,700,279	427	\$674,827	2,832	\$2,375,106
66 2/3% to Beneficiary	725	\$913,506	183	\$401,439	908	\$1,314,945
50% to Beneficiary	1,325	\$1,373,459	286	\$543,020	1,611	\$1,916,479
Pop-Up Option	3,190	\$3,357,122	1,216	\$2,405,041	4,406	\$5,762,163
10 Years Certain	1	\$101	34	\$57,920	35	\$58,021
10 Years Certain & Life	3,424	\$1,989,162	162	\$257,872	3,586	\$2,247,034
15 Years Certain & Life	877	\$596,623	50	\$72,153	927	\$668,776
20 Years Certain & Life	619	\$542,094	96	\$153,715	715	\$695,809
Social Security Option						
Basic Form	584	\$654,309	97	\$144,922	681	\$799,231
Survivorship Option	658	\$889,952	294	\$418,023	952	\$1,307,975
Partial Lump Sum Option						
PLSO 12 Month Basic	128	\$83,762	14	\$15,737	142	\$99,499
PLSO 24 Month Basic	62	\$32,857	12	\$20,411	74	\$53,268
PLSO 36 Month Basic	239	\$90,159	17	\$13,504	256	\$103,663
PLSO 12 Month Survivor	78	\$68,659	16	\$31,732	94	\$100,391
PLSO 24 Month Survivor	44	\$26,413	16	\$21,500	60	\$47,913
PLSO 36 Month Survivor	173	\$66,715	34	\$41,154	207	\$107,869
5 Years Only	1	\$284	0	\$0	1	\$284
Dependent Child	0	\$0	0	\$0	0	\$0
TOTAL	26,075	\$19,121,425	3,514	\$6,202,742	29,589	\$25,324,167

SPRS Retired Lives Summary
(As of June 30, 2004)

STATE POLICE RETIREMENT SYSTEM (SPRS)		
	Number	Monthly Benefits
Basic Form	87	\$231,758
Joint & Survivor		
100% to Beneficiary	114	\$281,995
66 2/3% to Beneficiary	69	\$214,125
50% to Beneficiary	69	\$207,437
Pop-Up Option	266	\$794,136
10 Years Certain	5	\$19,505
10 Years Certain & Life	25	\$68,402
15 Years Certain & Life	10	\$24,861
20 Years Certain & Life	30	\$76,113
Social Security Option		
Basic Form	35	\$76,564
Survivorship Option	162	\$344,339
Partial Lump Sum Option		
PLSO 12 Month Basic	---	---
PLSO 24 Month Basic	---	---
PLSO 36 Month Basic	---	---
PLSO 12 Month Survivor	2	\$8,391
PLSO 24 Month Survivor	1	\$6,096
PLSO 36 Month Survivor	3	\$7,523
5 Years Only	0	\$0
Dependent Child	0	\$0
TOTAL	878	\$2,361,245

KERS Beneficiary Summary

(As of June 30, 2004)

KENTUCKY EMPLOYEES RETIREMENT SYSTEM (KERS)

	<u>Non-Hazardous Retirees</u>		<u>Hazardous Retirees</u>		<u>Total</u>	
	Number	Monthly Benefits	Number	Monthly Benefits	Number	Monthly Benefits
Joint & Survivor						
100% to Beneficiary	1,884	\$1,263,997	76	\$46,134	1,960	\$1,310,131
66 2/3% to Beneficiary	287	\$175,561	4	\$1,490	291	\$177,051
50% to Beneficiary	549	\$230,534	13	\$4,237	562	\$234,771
Pop-Up Option	275	\$266,703	16	\$8,450	291	\$275,153
5 Years Certain	91	\$92,704	7	\$8,638	98	\$101,342
10 Years Certain	123	\$119,471	8	\$4,967	131	\$124,438
10 Years Certain & Life	132	\$1,123,345	11	\$7,351	133	\$1,130,696
15 Years Certain & Life	102	\$94,977	2	\$700	104	\$95,677
20 Years Certain & Life	103	\$101,298	4	\$982	107	\$102,280
Social Security Option						
Survivorship Option	184	\$226,723	10	\$10,023	194	\$236,746
Beneficiary Under 60	15	\$5,744	0	\$0	15	\$5,744
Dependent Child	4	\$1,211	13	\$3,367	17	\$4,578
Partial Lump Sum Option						
PLSO 12 Month Basic	0	\$0	---	---	---	---
PLSO 24 Month Basic	1	\$504	---	---	1	\$504
PLSO 36 Month Basic	1	\$162	---	---	1	\$162
PLSO 12 Month Survivor	0	\$0	1	\$1,036	1	\$1,036
PLSO 24 Month Survivor	1	\$338	---	---	1	\$338
PLSO 36 Month Survivor	2	\$1,581	---	---	2	\$1,581
TOTAL	3,754	\$3,704,853	165	\$97,375	3,909	\$3,802,228

Kentucky Retirement Systems

CERS Beneficiary Summary

(As of June 30, 2004)

COUNTY EMPLOYEES RETIREMENT SYSTEM (CERS)

	<u>Non-Hazardous Retirees</u>		<u>Hazardous Retirees</u>		<u>Total</u>	
	Number	Monthly Benefits	Number	Monthly Benefits	Number	Monthly Benefits
Joint & Survivor						
100% to Beneficiary	1,438	\$600,841	99	\$100,804	1,537	\$701,645
66 2/3% to Beneficiary	165	\$73,055	24	\$26,667	189	\$99,722
50% to Beneficiary	299	\$96,655	27	\$17,027	326	\$113,682
Pop-Up Option	268	\$159,904	70	\$89,274	338	\$249,178
5 Years Certain						
10 Years Certain	193	\$132,635	8	\$4,375	201	\$137,010
167	\$99,700	22	\$29,504	189	\$129,204	
10 Years Certain & Life						
15 Years Certain & Life	202	\$105,212	8	\$6,184	210	\$111,396
20 Years Certain & Life	112	\$72,828	5	\$5,008	117	\$77,836
96	\$68,115	21	\$24,417	117	\$92,532	
Social Security Option						
Survivorship Option	69	\$72,785	47	\$61,297	116	\$134,082
Beneficiary Under 60	4	\$665	3	\$2,303	7	\$2,968
Dependent Child						
4	\$954	133	\$41,222	137	\$42,176	
Partial Lump Sum Option						
PLSO 12 Month Basic	---	---	---	---	---	---
PLSO 24 Month Basic	---	---	---	---	---	---
PLSO 36 Month Basic	3	\$809	1	\$863	4	\$1,672
PLSO 12 Month Survivor						
PLSO 24 Month Survivor	4	\$6,164	---	---	4	\$6,164
PLSO 36 Month Survivor	2	\$634	1	\$142	3	\$776
3	\$1,083	---	---	3	\$1,083	
TOTAL	3,029	\$1,492,039	469	\$409,087	3,498	\$1,901,126

SPRS Beneficiary Summary
*(As of June 30, 2004)***STATE POLICE RETIREMENT SYSTEM (SPRS)**

	Number	Monthly Benefits
Basic Form	4	\$2,529
Joint & Survivor		
100% to Beneficiary	56	\$122,609
66 2/3% to Beneficiary	1	\$1,262
50% to Beneficiary	12	\$15,996
Pop-Up Option	8	\$17,526
10 Years Certain	1	\$2,440
10 Years Certain & Life	0	\$0
15 Years Certain & Life	0	\$0
20 Years Certain & Life	6	\$11,467
Social Security Option		
Basic Form	1	\$1,824
Survivorship Option	17	\$25,037
Partial Lump Sum Option		
PLSO 12 Month Basic	---	---
PLSO 24 Month Basic	---	---
PLSO 36 Month Basic	---	---
PLSO 12 Month Survivor	---	---
PLSO 24 Month Survivor	---	---
PLSO 36 Month Survivor	---	---
Dependent Child	7	\$1,927
TOTAL	113	\$202,617

KENTUCKY RETIREMENT SYSTEMS



Statistical Section

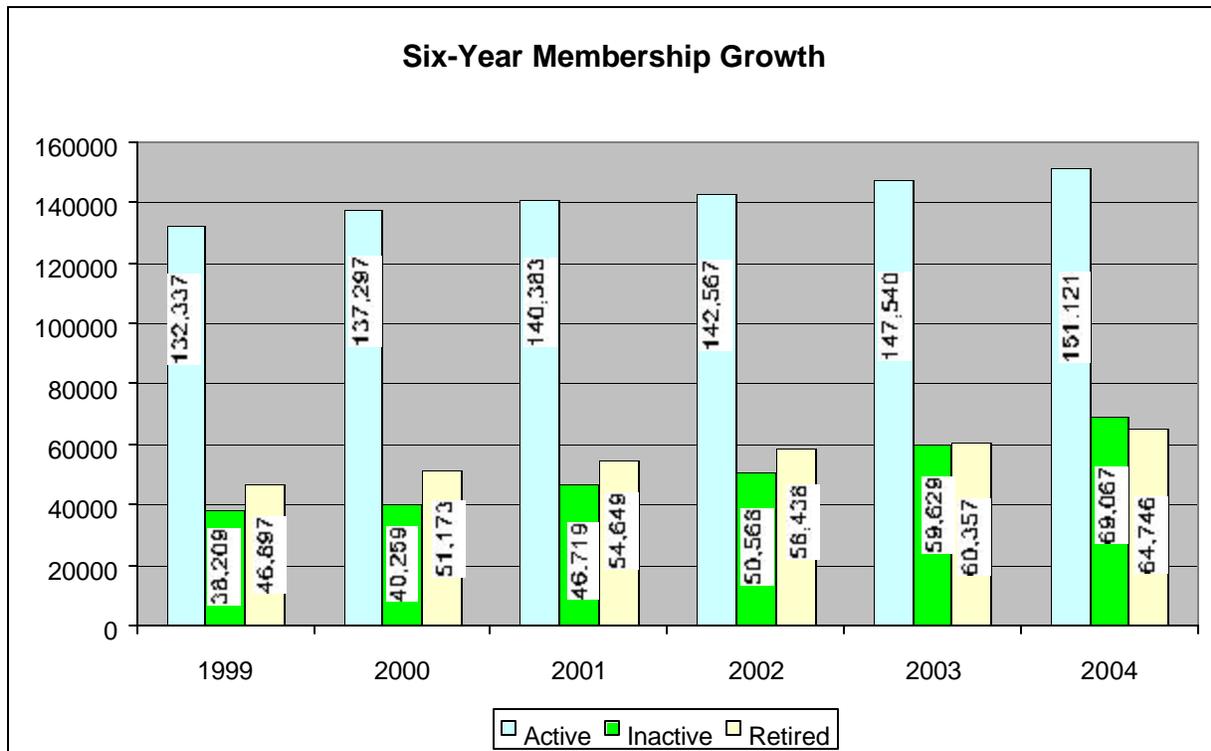
Comprehensive Annual Financial Report
June 30, 2004

Kentucky Retirement Systems

Membership by System

(As of June 30, 2004)

SYSTEM	ACTIVE	INACTIVE	RETIRED & BENEFICIARIES RECEIVING BENEFITS	TOTAL
KERS	51,207	24,366	28,910	104,483
KERS Hazardous	3,963	1,609	1,566	7,138
TOTAL KERS	55,170	25,975	30,476	111,621
CERS	85,317	41,497	29,150	155,964
CERS Hazardous	9,616	1,346	4,098	15,060
TOTAL CERS	94,933	42,843	33,248	171,024
SPRS	1,018	249	1,022	2,289
GRAND TOTAL	151,121	69,067	64,746	284,934



Kentucky Retirement Systems**Schedule of Participating Employers**

KENTUCKY EMPLOYEES RETIREMENT SYSTEM	
Agency Classification	Number of Agencies
Agencies Reporting Through State Payroll	194
Other Agencies (universities, mental health boards, health departments)	141
Special Districts and Boards	4
Child Support Offices (county attorneys)	66
Other State-Administered Retirement Systems	3
TOTAL	408

COUNTY EMPLOYEES RETIREMENT SYSTEM	
Agency Classification	Number of Agencies
Area Development Districts	14
Boards of Education	176
Cities	259
County Attorneys	60
County Clerks	13
County Government Agencies	257
Fire Departments	63
Hospitals	3
Jailers	8
Libraries	83
Planning Commissions	9
Police Departments	65
Police & Fire Departments (combined)	42
Sanitation Districts	4
Sheriff Departments	45
Special Districts and Boards	175
Utility Boards	103
Urban County Government Agencies	4
TOTAL	1,383

STATE POLICE RETIREMENT SYSTEM	
Agency Classification	Number of Agencies
Kentucky State Police-Uniformed Officers	1

Kentucky Retirement Systems**SCHEDULE OF REVENUE BY SOURCE***(Expressed in thousands)*

KENTUCKY EMPLOYEES RETIREMENT SYSTEM				
Year Ending	Member Contributions	Employer Contributions	Investment Income	Total
June 30, 1999	\$149,722	\$126,959	\$ 889,768	\$1,166,449
June 30, 2000	\$117,209	\$136,688	\$ 333,006	\$ 586,903
June 30, 2001	\$117,225	\$114,210	(\$ 387,886)	(\$ 156,451)
June 30, 2002	\$122,799	\$119,494	(\$ 238,838)	\$ 3,455
June 30, 2003	\$148,677	\$96,137	\$219,325	\$464,139
June 30, 2004	\$140,625	\$124,442	\$692,407	\$957,474

COUNTY EMPLOYEES RETIREMENT SYSTEM				
Year Ending	Member Contributions	Employer Contributions	Investment Income	Total
June 30, 1999	\$121,484	\$158,882	\$ 818,969	\$1,099,335
June 30, 2000	\$125,152	\$158,326	\$ 295,579	\$ 579,057
June 30, 2001	\$128,876	\$164,338	(\$ 317,544)	(\$ 24,330)
June 30, 2002	\$159,524	\$164,464	(\$ 288,882)	\$ 35,106
June 30, 2003	\$161,504	\$173,241	\$219,150	\$553,895
June 30, 2004	\$161,152	\$208,050	\$703,632	\$1,072,834

STATE POLICE RETIREMENT SYSTEM				
Year Ending	Member Contributions	Employer Contributions	Investment Income	Total
June 30, 1999	\$3,658	\$ 9,463	\$76,389	\$ 89,510
June 30, 2000	\$4,202	\$10,216	\$22,601	\$ 37,019
June 30, 2001	\$4,138	\$ 9,629	(\$33,885)	(\$ 20,118)
June 30, 2002	\$4,499	\$ 9,562	(\$22,770)	(\$ 8,709)
June 30, 2003	\$4,674	\$ 7,634	\$14,947	\$27,255
June 30, 2004	\$4,875	\$ 9,608	\$41,491	\$55,974

Kentucky Retirement Systems**SCHEDULE OF EXPENSES BY TYPE***(Expressed in thousands)*

KENTUCKY EMPLOYEES RETIREMENT SYSTEM					
Year Ending	Benefit Payments	Administrative Expenses	Refunds	Medical Insurance Expenses	Total
June 30, 1999	\$209,339	\$3,448	\$9,168	\$25,829	\$247,784
June 30, 2000	\$258,999	\$3,792	\$9,041	\$32,085	\$303,917
June 30, 2001	\$299,700	\$4,461	\$8,221	\$39,618	\$352,000
June 30, 2002	\$355,869	\$5,127	\$7,798	\$46,565	\$415,359
June 30, 2003	\$418,269	\$5,363	\$8,418	\$54,944	\$486,994
June 30, 2004	\$476,230	\$6,159	\$9,411	\$64,031	\$555,831

COUNTY EMPLOYEES RETIREMENT SYSTEM					
Year Ending	Benefit Payments	Administrative Expenses	Refunds	Medical Insurance Expenses	Total
June 30, 1999	\$165,107	\$5,385	\$10,924	\$25,841	\$207,257
June 30, 2000	\$197,637	\$6,228	\$12,248	\$31,705	\$247,818
June 30, 2001	\$226,776	\$7,039	\$10,313	\$39,423	\$283,551
June 30, 2002	\$260,153	\$8,197	\$10,095	\$46,267	\$324,712
June 30, 2003	\$302,849	\$8,981	\$12,007	\$54,664	\$378,501
June 30, 2004	\$342,065	\$9,951	\$13,854	\$63,852	\$429,722

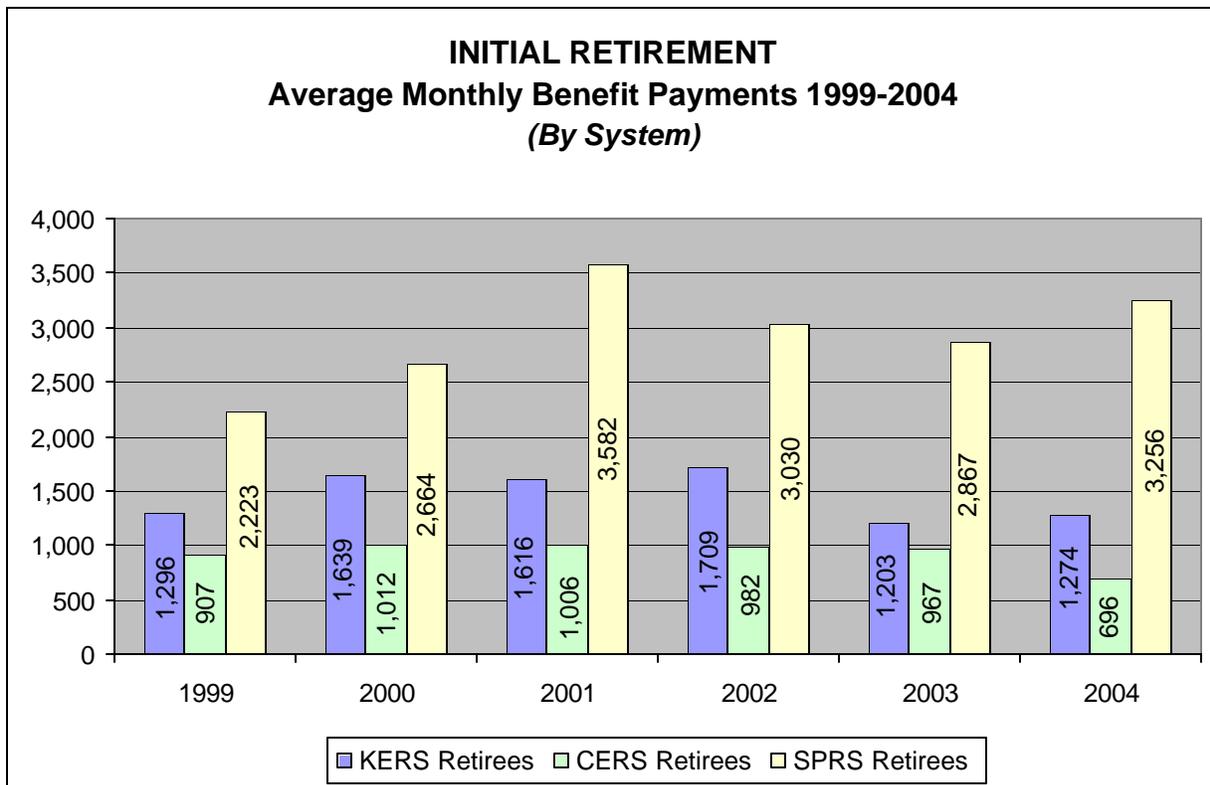
STATE POLICE RETIREMENT SYSTEM					
Year Ending	Benefit Payments	Administrative Expenses	Refunds	Medical Insurance Expenses	Total
June 30, 1999	\$19,136	\$68	\$44	\$2,754	\$22,002
June 30, 2000	\$19,974	\$82	\$80	\$3,028	\$23,164
June 30, 2001	\$22,644	\$92	\$80	\$3,575	\$26,391
June 30, 2002	\$24,839	\$105	\$25	\$4,049	\$29,018
June 30, 2003	\$27,862	\$86	\$97	\$4,550	\$32,595
June 30, 2004	\$30,877	\$122	\$96	\$5,023	\$36,118

Kentucky Retirement Systems

ANALYSIS OF INITIAL RETIREMENT

1999-2004

	1999	2000	2001	2002	2003	2004
KERS Retirees	1,648	2,323	2,083	2,457	2,565	2,653
Average Monthly Benefit	\$1,296	\$1,639	\$1,616	\$1,709	\$1,203	\$1,274
CERS Retirees	2,349	2,485	2,265	2,733	3,115	3,237
Average Monthly Benefit	\$907	\$1,012	\$1,006	\$982	\$967	\$696
SPRS Retirees	23	42	53	58	53	64
Average Monthly Benefit	\$2,223	\$2,664	\$3,582	\$3,030	\$2,867	\$3,256



Schedule of Benefit Expenses by Type

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

	NORMAL	EARLY	DISABILITY	TOTAL
FY 1998-99				
Average Benefit	\$630	\$944	\$662	\$830
Retirees	4,267	12,755	1,848	18,870
Beneficiaries	807	936	670	2,413
Total Recipients	5,074	13,691	2,518	21,283
Monthly Benefits	\$3,194,856	\$12,927,270	\$1,665,838	\$17,787,964
% of Total Monthly Benefits	18%	73%	9%	100%
FY 1999-00				
Average Benefit	\$663	\$1,042	\$675	\$907
Retirees	4,360	14,323	1,977	20,660
Beneficiaries	804	978	689	2,471
Total Recipients	5,164	15,301	2,666	23,131
Monthly Benefits	\$3,425,223	\$15,949,488	\$1,799,238	\$21,173,949
% of Total Monthly Benefits	16%	75%	9%	100%
FY 2000-01				
Average Benefit	\$706	\$1,135	\$702	\$987
Retirees	4,348	15,624	2,068	22,040
Beneficiaries	795	1,015	702	2,512
Total Recipients	5,143	16,639	2,770	24,552
Monthly Benefits	\$3,631,318	\$18,878,492	\$1,944,415	\$24,454,225
% of Total Monthly Benefits	15%	77%	8%	100%
FY 2001-02				
Average Benefit	\$763	\$1,283	\$737	\$1,111
Retirees	4,341	17,193	2,104	23,638
Beneficiaries	796	1,039	696	2,531
Total Recipients	5,137	18,232	2,800	26,169
Monthly Benefits	\$3,921,539	\$23,392,161	\$2,063,497	\$29,377,197
% of Total Monthly Benefits	13%	80%	7%	100%
FY 2002-03				
Average Benefit	\$1,054	\$452	\$931	\$1,297
Retirees	370	1,882	87	2,339
Beneficiaries	19	59	2	80
Total Recipients	389	1,941	89	2,419
Monthly Benefits	\$1,750,796	\$6,225,808	\$424,089	\$8,400,693
% of Total Monthly Benefits	21%	74%	5%	100%
FY 2003-04				
Average Benefit	\$1,131	\$247	\$848	\$120
Retirees	482	2,116	93	2,691
Beneficiaries	51	80	1	132
Total Recipients	533	2,196	94	2,823
Monthly Benefits	\$2,429,816	\$5,406,360	\$759,477	\$8,595,653
% of Total Monthly Benefits	28%	63%	9%	100%

The information in the above tables includes only individuals receiving a monthly benefit as of June 30 in the indicated fiscal year. Retired reemployed members and individuals deceased prior to 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. See the Retired Lives Summary and Beneficiary Summary in the Actuarial Section for a further delineation of retirement options by system.

Schedule of Benefit Expenses by Type

COUNTY EMPLOYEES RETIREMENT SYSTEM

	NORMAL	EARLY	DISABILITY	TOTAL
FY 1998-99				
Average Benefit	\$466	\$718	\$604	\$630
Retirees	5,365	12,609	2,350	20,324
Beneficiaries	603	578	636	1,817
Total Recipients	5,968	13,187	2,986	22,141
Monthly Benefits	\$2,783,194	\$9,472,665	\$1,802,978	\$14,058,837
% of Total Monthly Benefits	20%	67%	13%	100%
FY 1999-00				
Average Benefit	\$478	\$766	\$612	\$666
Retirees	5,628	14,179	2,633	22,440
Beneficiaries	620	609	639	1,868
Total Recipients	6,248	14,788	3,272	24,308
Monthly Benefits	\$2,985,474	\$11,328,818	\$2,003,432	\$16,317,724
% of Total Monthly Benefits	18%	70%	12%	100%
FY 2000-01				
Average Benefit	\$499	\$816	\$638	\$708
Retirees	5,840	15,516	2,846	24,202
Beneficiaries	632	649	673	1,954
Total Recipients	6,472	16,165	3,519	26,156
Monthly Benefits	\$3,231,715	\$13,192,315	\$2,243,451	\$18,667,481
% of Total Monthly Benefits	17%	71%	12%	100%
FY 2001-02				
Average Benefit	\$532	\$880	\$667	\$762
Retirees	6,025	16,999	3,132	26,156
Beneficiaries	664	695	531	1,890
Total Recipients	6,689	17,694	3,663	28,046
Monthly Benefits	\$3,555,481	\$15,563,130	\$2,441,911	\$21,560,522
% of Total Monthly Benefits	17%	72%	11%	100%
FY 2002-03				
Average Benefit	\$659	\$1,156	\$765	\$1,514
Retirees	766	1,849	157	2,772
Beneficiaries	15	44	5	64
Total Recipients	781	1,893	162	2,836
Monthly Benefits	\$2,433,274	\$5,035,337	\$607,839	\$8,076,450
% of Total Monthly Benefits	30%	62%	8%	100%
FY 2003-04				
Average Benefit	\$570	\$169	\$838	\$469
Retirees	875	2,190	186	3,251
Beneficiaries	82	107	3	192
Total Recipients	957	2,297	189	3,443
Monthly Benefits	\$1,750,461	\$6,732,785	\$1,371,392	\$9,854,638
% of Total Monthly Benefits	18%	68%	14%	100%

The information in the above tables includes only individuals receiving a monthly benefit as of June 30 in the indicated fiscal year. Retired reemployed members and individuals deceased prior to 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. See the Retired Lives Summary and Beneficiary Summary in the Actuarial Section for a further delineation of retirement options by system.

Schedule of Benefit Expenses by Type

STATE POLICE RETIREMENT SYSTEM

	NORMAL	EARLY	DISABILITY	TOTAL
FY 1998-99				
Average Benefit	\$2,495	\$2,175	\$1,024	\$2,102
Retirees	98	550	38	686
Beneficiaries	23	5	23	51
Total Recipients	121	555	61	737
Monthly Benefits	\$301,845	\$1,206,862	\$62,478	\$1,571,185
% of Total Monthly Benefits	19%	77%	4%	100%
FY 1999-00				
Average Benefit	\$2,522	\$2,185	\$1,062	\$2,126
Retirees	98	585	40	723
Beneficiaries	25	5	21	51
Total Recipients	123	590	61	774
Monthly Benefits	\$310,242	\$1,289,260	\$64,788	\$1,664,290
% of Total Monthly Benefits	19%	77%	4%	100%
FY 2000-01				
Average Benefit	\$2,677	\$2,305	\$1,107	\$2,258
Retirees	99	632	36	767
Beneficiaries	27	6	18	51
Total Recipients	126	638	54	818
Monthly Benefits	\$337,279	\$1,470,596	\$59,799	\$1,867,674
% of Total Monthly Benefits	18%	79%	3%	100%
FY 2001-02				
Average Benefit	\$2,851	\$2,424	\$1,133	\$2,385
Retirees	105	682	26	813
Beneficiaries	26	7	28	61
Total Recipients	131	689	54	874
Monthly Benefits	\$373,474	\$1,670,425	\$61,170	\$2,105,069
% of Total Monthly Benefits	18%	79%	3%	100%
FY 2002-03				
Average Benefit	\$3,116	\$3,509	\$1,705	\$3,358
Retirees	10	38	2	50
Beneficiaries	0	0	0	0
Total Recipients	10	38	2	50
Monthly Benefits	\$31,160	\$133,351	\$3,411	\$167,922
% of Total Monthly Benefits	19%	79%	2%	100%
FY 2003-04				
Average Benefit	\$3,796	\$3,514	\$639	\$3,413
Retirees	5	51	1	57
Beneficiaries	0	4	0	4
Total Recipients	5	55	1	61
Monthly Benefits	\$252,964	\$520,575	\$40,857	\$814,396
% of Total Monthly Benefits	31%	64%	5%	100%

The information in the above tables includes only individuals receiving a monthly benefit as of June 30 in the indicated fiscal year. Retired reemployed members and individuals deceased prior to 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. See the Retired Lives Summary and Beneficiary Summary in the Actuarial Section for a further delineation of retirement options by system.

Kentucky Retirement Systems

SCHEDULE OF RETIREES BY BENEFIT TYPE

(Cumulative Totals)

KENTUCKY EMPLOYEES RETIREMENT SYSTEM				
Year Ending	Normal	Early	Disability	Total
June 30, 1999	N/A	N/A	N/A	N/A
June 30, 2000	N/A	N/A	N/A	N/A
June 30, 2001	N/A	N/A	N/A	N/A
June 30, 2002	5,231	19,019	2,808	27,058
June 30, 2003	5,301	20,499	2,812	28,612
June 30, 2004	5,465	22,168	2,826	30,452

COUNTY EMPLOYEES RETIREMENT SYSTEM				
Year Ending	Normal	Early	Disability	Total
June 30, 1999	N/A	N/A	N/A	N/A
June 30, 2000	N/A	N/A	N/A	N/A
June 30, 2001	N/A	N/A	N/A	N/A
June 30, 2002	6,876	18,332	3,683	28,819
June 30, 2003	7,270	19,814	3,806	30,890
June 30, 2004	7,644	21,626	3,959	33,229

STATE POLICE RETIREMENT SYSTEM				
Year Ending	Normal	Early	Disability	Total
June 30, 1999	N/A	N/A	N/A	N/A
June 30, 2000	N/A	N/A	N/A	N/A
June 30, 2001	N/A	N/A	N/A	N/A
June 30, 2002	138	720	59	917
June 30, 2003	147	754	59	960
June 30, 2004	149	806	60	1,015

Kentucky Retirement Systems**COMPARISON OF AVERAGE MONTHLY BENEFITS
BY LENGTH OF SERVICE****KENTUCKY EMPLOYEES RETIREMENT SYSTEM**

Service in Years	Under 2	2-5	6-10	11-15	16-20	21-25	26-30	31-35	Over 35
Number of Recipients	1,165	1,174	3,809	3,935	3,655	3,906	6,623	4,353	1,848
Average Monthly Pay	\$88	185	296	492	740	1,032	299	257	3,524

COUNTY EMPLOYEES RETIREMENT SYSTEM

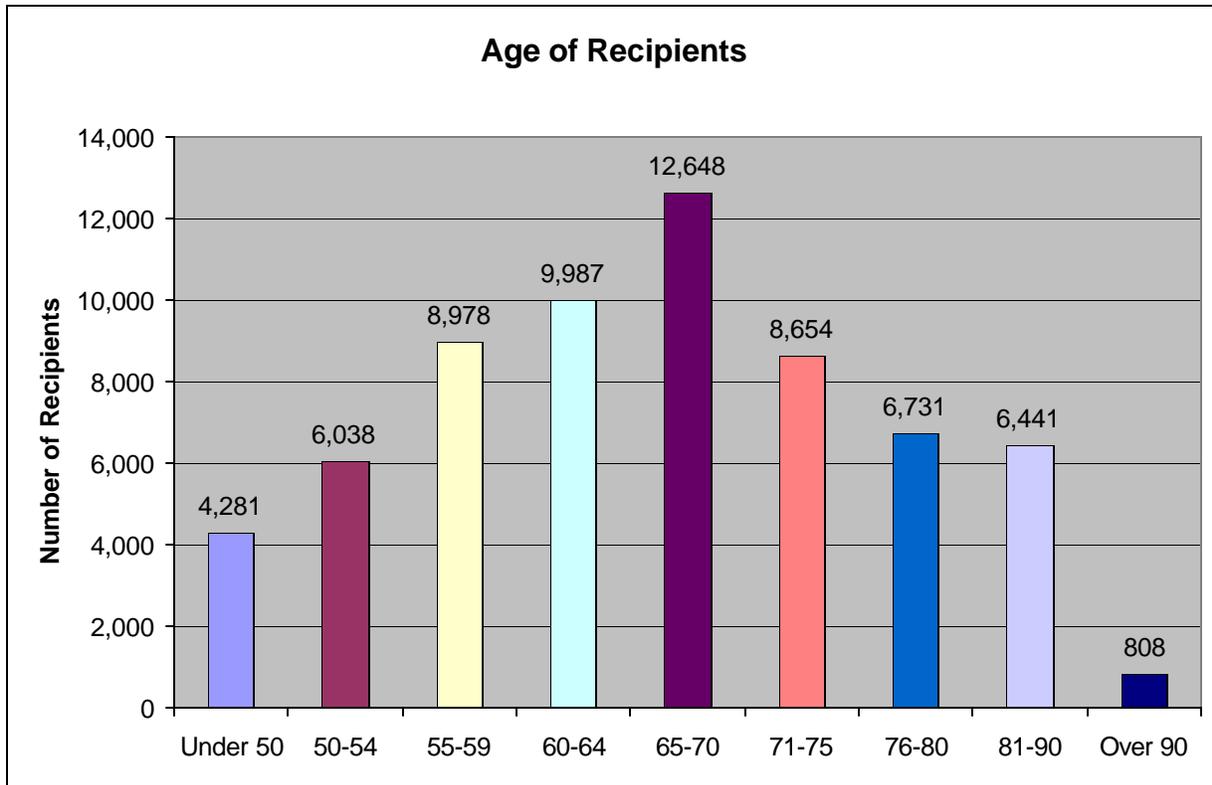
Service in Years	Under 2	2-5	6-10	11-15	16-20	21-25	26-30	31-35	Over 35
Number of Recipients	1,382	1,618	6,415	6,271	4,869	5,337	5,207	1,592	510
Average Monthly Pay	\$145	160	239	428	663	1,067	1,758	2,394	2,799

STATE POLICE RETIREMENT SYSTEM

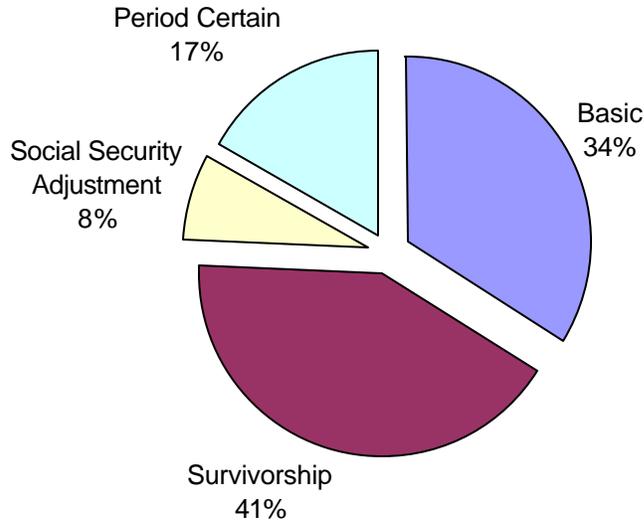
Service in Years	Under 2	2-5	6-10	11-15	16-20	21-25	26-30	31-35	Over 35
Number of Recipients	41	28	28	29	69	247	320	179	56
Average Monthly Pay	\$561	351	713	1,017	1,586	2,052	2,894	3,859	4,523

AGE OF RECIPIENTS

(All Systems Combined)

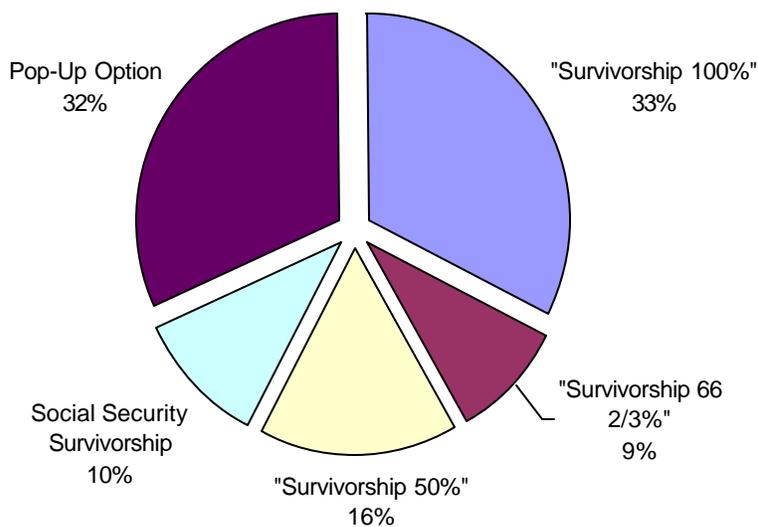


Payment Options By Type (All Systems)



The Basic option is a single life annuity. Survivorship options include 100%, 66 2/3%, 50% and Pop-Up, which is a 100% survivorship option that increases to the Basic amount if the beneficiary dies or divorces the member prior to the member's death. Social Security Adjustment options provide enhanced benefits prior to age 62 and a reduced benefit after age 62. There are two Social Security Adjustment options: one with 100% survivorship and one with no survivor benefit.

Survivorship Options By Type (All Systems)



Kentucky Retirement Systems**TOTAL FISCAL YEAR RETIREMENT PAYMENTS
BY COUNTY**

Jefferson	\$145,841,705	Grant	\$ 4,377,712	Carroll	\$ 2,086,679
Franklin	107,979,459	Harlan	4,328,863	Wolfe	2,073,940
Fayette	47,166,889	Knott	3,839,454	Pendleton	2,064,257
Warren	19,114,260	Bourbon	3,835,602	Allen	2,050,097
Daviess	17,864,181	Johnson	3,819,763	Powell	1,936,068
Shelby	17,256,628	Grayson	3,633,086	Butler	1,769,955
Kenton	16,242,408	Clay	3,546,396	Trimble	1,720,644
Pulaski	15,350,575	Logan	3,509,495	Livingston	1,719,539
Christian	13,613,063	Breathitt	3,475,360	Union	1,693,088
Madison	13,489,001	Knox	3,417,915	Jackson	1,633,209
McCracken	12,492,731	Montgomery	3,387,855	Webster	1,628,940
Anderson	12,477,220	Perry	3,325,945	Lee	1,620,355
Hardin	12,320,399	Trigg	3,285,554	Leslie	1,573,288
Boone	10,161,650	Caldwell	3,179,746	Magoffin	1,571,665
Campbell	9,726,603	Spencer	3,157,663	Lewis	1,571,263
Oldham	9,537,122	Taylor	3,069,199	Mclean	1,548,216
Henry	8,539,120	Wayne	3,053,914	Metcalfe	1,545,191
Woodford	8,432,409	Adair	3,037,305	Lawrence	1,530,057
Bullitt	8,117,590	Morgan	3,007,811	Todd	1,519,518
Scott	7,784,918	Russell	2,984,284	Green	1,494,141
Laurel	7,444,611	Lincoln	2,952,841	Mccreary	1,425,040
Boyd	7,275,515	Fleming	2,908,101	Cumberland	1,278,569
Pike	6,996,032	Greenup	2,876,967	Owsley	1,260,829
Boyle	6,877,187	Letcher	2,828,156	Clinton	1,214,961
Hopkins	6,786,559	Muhlenberg	2,691,521	Nicholas	1,195,891
Henderson	6,669,827	Marion	2,676,824	Menifee	1,169,428
Calloway	6,581,452	Breckinridge	2,629,115	Simpson	1,164,151
Barren	6,419,478	Harrison	2,615,399	Monroe	1,137,770
Floyd	6,233,946	Lyon	2,399,858	Ballard	1,101,303
Jessamine	6,171,710	Garrard	2,377,449	Bracken	1,079,018
Whitley	6,076,492	Ohio	2,376,733	Hancock	1,041,292
Nelson	5,670,963	Larue	2,343,745	Fulton	1,006,563
Rowan	5,567,050	Bath	2,303,532	Edmonson	991,697
Graves	5,470,041	Meade	2,285,619	Crittenden	982,637
Owen	5,322,763	Hart	2,194,464	Carlisle	929,520
Marshall	5,157,322	Casey	2,165,069	Martin	885,693
Mercer	5,023,704	Rockcastle	2,154,589	Elliott	846,174
Clark	4,794,083	Mason	2,152,433	Gallatin	658,888
Bell	4,644,250	Washington	2,126,734	Hickman	487,170
Carter	4,403,388	Estill	2,096,269	Robertson	356,715

Payments to Recipients Living in Other States
\$37,396,638

TOTAL PAYMENTS TO MEMBERS AND BENEFICIARIES FOR FY 2003-04
\$843,482,699

KENTUCKY RETIREMENT SYSTEMS



Compliance Section

Comprehensive Annual Financial Report
June 30, 2004

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 financial statements of Kentucky Retirement Systems, a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 16, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Kentucky Retirement Systems' 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 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 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 the 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 the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

September 16, 2004
Louisville, Kentucky