



Kentucky Retirement Systems
A component unit of the Commonwealth of Kentucky

Kentucky Employees Retirement System (KERS)
County Employees Retirement System (CERS)
State Police Retirement System (SPRS)

Comprehensive Annual Financial Report
FISCAL YEAR ENDED JUNE 30, 2008

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November 20, 2008

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

Dear Board of Trustees & 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, 2008. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the management of the Kentucky Retirement Systems.

We present this information to assist the Board and members of Kentucky Employees Retirement System (KERS), County Employees Retirement System (CERS), and State Police Retirement System (SPRS) (collectively referred to as KRS) in understanding KRS' financial and actuarial status.

This CAFR was prepared to conform to the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards 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 in the Financial Section.

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 did not authorize 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, 2008, there were more than 230,000 active, inactive and retired members in the combined systems and approximately \$19.3 billion in assets. A breakdown of membership by system is provided in the Statistical Section.

KRS staff 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 Commonwealth and holds pre-retirement seminars to help members prepare for retirement. Information including an online benefit calculator and a service purchase calculator is available online at <http://www.kyret.com>.

Major Initiatives

A major goal for KRS was to raise awareness of the continued reductions to the KERS and SPRS employer contribution rates by the Kentucky General Assembly. These rates have been less than the amount recommended by the KRS Board of Trustees and its consulting actuary. Through educational initiatives with our membership and with policymakers, KRS received an increase in the employer contribution rate for fiscals 2007 and 2008. While this was the first increase in the KERS and SPRS employer rates since fiscal 2001, contributions remained far short of the actuarially recommended rates.

Management believes that these efforts must continue as actuarial funding levels continue to falter. In fiscal 2006 KRS offered five new health plans to its Medicare Eligible Retirees. Three of those offerings were self-insured products and two were Anthem Medicare Advantage plans. Beginning in January 2007, the Anthem Medicare Advantage plans were no longer offered to retirees, but KRS continued to provide the three self-funded plans. There was a 5% increase in generic drug utilization and an overall medical claims trend in single digits in 2006.

KRS has supported the Centers for Medicare and Medicaid Services (CMS) preventive screening initiatives for Medicare Eligible Retirees and participated in the Retiree Drug Subsidy (RDS) program also offered by CMS. The RDS program realized a \$13.5 million reimbursement for KRS from CMS. If KRS is to decrease costs, something must be done to improve the health of people who currently have chronic

disease, while reducing the overall incidence of chronic disease in the long term. Developing an effective long term strategy is a priority for KRS and begins with identifying baseline information and formulating programs that bring disease and pharmacy management principles to bear on those with chronic disease. To enhance the quality and efficiency of services to our retirees, KRS is undertaking a significant technology improvement project. This project is called START, meaning Strategic Technology Advancements for the Retirement of Tomorrow. START will change the way that KRS conducts business by replacing the technology tools that have been in use for almost thirty years. Although existing computer systems have served staff and our customers well, it is time for KRS to modernize its technologies and its business practices. START will allow KRS to better assist customers by:

- ☞ Providing workers with modern, intelligent technology
- ☞ Enhancing business services and improving operational efficiency
- ☞ Offering Internet-based self-service functions to members, retirees, and employers
- ☞ Improving the accuracy of information collected, maintained, and provided by KRS
- ☞ Improving the timeliness and accuracy of responses to member inquiries

KRS has completed the initial planning and design phases of START, and will be implementing the imaging, workflow, and payroll functions of the system by Fiscal 2009. Final system completion is expected by Fiscal 2011. Constituents can keep current on information regarding START via the KRS newsletter and on our website at <http://www.kyret.com>.

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 Consolidated Annual Financial Report for the fiscal year ended June 30, 2007. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports. This was the ninth 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. 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.

Investments

The Board of Trustees of the Kentucky Retirement Systems has a statutory obligation to invest KRS' 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 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. It is through these policies that KRS has been able to provide significant return/risk ratio over the long-term while minimizing investment related expenses. The Investment Section of this report contains detailed analysis of investments. This section includes asset allocations, rates of return, discussion of the fiscal year market environment and historical trend schedules.

The pension and insurance investment trusts experienced negative returns during fiscal 2008. The pension portfolio posted a total negative return of 4.21% for the fiscal year, while the insurance portfolio posted a total negative return of 7.85%. Investment income (loss), which includes the appreciation of asset values, dividends, and interest,

totaled (\$578.6) million and (\$221.5) million for the pension and insurance portfolios, respectively. The majority of this loss was due to the depreciation in the value of investments which totaled (\$997.4) million for the pension portfolio and (\$282.4) million for the insurance fund. Interest and dividends accounted for \$418.8 million for the pension portfolio and \$60.9 million for the insurance portfolio, consistent with the prior fiscal year.

Actuarial Funding

KRS' funding objective is to meet long-term benefit obligations through employer contributions that remain fairly level as a percent of active member payroll. The progress towards achieving the intended funding objectives for both the pension and insurance funds can be measured by the relationship of the actuarial assets of each fund to the actuarial liabilities. This relationship is known as the "funding level" and, over time, it should increase until it reaches 100%. The funding level for the pension funds as of June 30, 2008 are 52.5% for KERS Non-Hazardous, 81.3% for KERS Hazardous, 78.5% for CERS Non-Hazardous, 72.9% for CERS Hazardous and 59.8% for SPRS. These funding levels will fluctuate over time with experience deviations. Since 2001, all systems have experienced reductions in the funding levels for the pension funds due to investment returns less than the assumed rate resulting from market loss, higher than anticipated retirements, increasing payments for retiree cost of living adjustments, and adjustments in actuarial

assumptions. Total actuarial liabilities for the pension funds exceed the actuarial value of assets by \$7.39 billion.

The insurance funds, which were established in 1978 to provide funding for retiree medical benefits, have improved in recent years; however, the insurance funds are not at the same funding levels as the pension funds. The funding level for the insurance funds as of June 30, 2008 are 11.1% for KERS Non-Hazardous, 53.2% for KERS Hazardous, 32.6% for CERS Non-Hazardous, 34.7% for CERS Hazardous and 27.9% for SPRS. The funding level of the insurance funds continues to be a primary concern of the Kentucky Retirement Systems. Total actuarial liabilities for the insurance funds exceed the actuarial value of assets by \$8.97 billion. Detailed information of the actuarial soundness of KRS can be found in the Actuarial Section of this report.

Professional Services

A listing of the Board's contract consultants can be found in the organizational chart on page 10. A listing of the external investment managers can be found in the Investment Section.

Other Information

Kentucky Statutes require an annual audit by an independent certified public accountant or the Auditor of Public Accounts. Dean, Dorton & Ford, PSC, Certified Public Accountants, performed the audit for the fiscal year ended June 30, 2008, and

the results of that audit are contained in the Financial Section. The firm gave KRS an unqualified opinion and also indicated that the financial statements present fairly, in all material respects, the plan net assets of KRS.

The compilation of this report reflects the combined efforts of the KRS administrative staff 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 KRS funds. The report is available to all employers participating in the Kentucky Retirement Systems. They form the link between KRS 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 by visiting <http://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 KRS.

Respectfully,



Robert M. Burnside, MS
Executive Director



Board of Trustees

Randy Overstreet, Chair

Elected by SPRS to serve through March 2011

Bobby D. Henson

Elected by KERS to serve through March 2010

W. Lewis Reynolds III

Appointed by the Governor to serve through March 2011

Susan S. Horne, Vice Chair

Elected by KERS to serve through March 2010

Nikki R. Jackson

Secretary of Personnel Cabinet, appointed by the Governor

Christopher B. Tobe

Appointed by the Governor to serve through March 2012

Patricia Ballenger

Elected by CERS to serve through March 2009

Vince Lang

Elected by CERS to serve through March 2009

Henry Clay Owen

Appointed by the Governor to serve through March 2012

The Board of Trustees is comprised of nine representatives: two elected by KERS members; two elected by CERS members; one elected by SPRS members; three appointed by Governor Steve Beshear, one of which must be knowledgeable about the impact of pensions on local governments; and Secretary of the State Personnel Cabinet. Elected trustees may serve up to five consecutive terms.

Audit Committee**Internal Auditor**

Connie Davis

Investments Committee**Chief Investments Officer**

Adam Tosh

Compliance Officer

Joseph Gilbert

Fixed Income

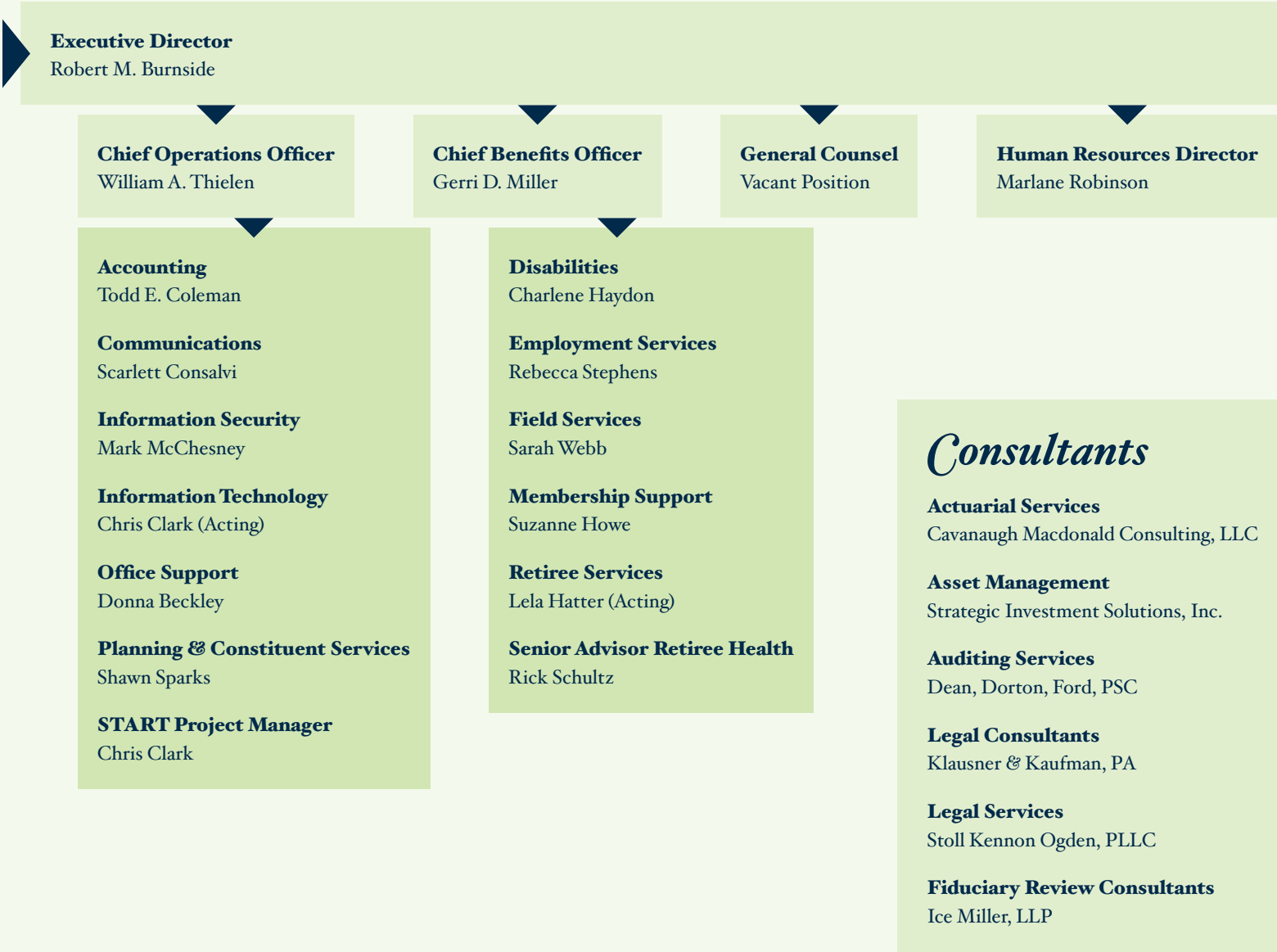
Vacant Position

Equity Assets

Bo Cracraft

Alternative Investments

Brent Aldridge



35,307

Retired/Beneficiary

48,083

Active Members

33,202

Inactive Members

KERS Non-Hazardous System Highlights

Kentucky Employees Retirement System (KERS) was established July 1, 1956 by the state legislature. The State Legislature determined that Cost of Living Adjustment (COLA) retirement allowances are increased by 1.5% every July.

Net Plan Assets Expressed in Thousands (\$)

Fund	2003	2004	2005	2006	2007	2008
■ Pension	\$4,929,319	\$5,258,995	\$5,362,631	\$5,440,133	\$5,773,157	\$5,056,869
■ Insurance	487,071	587,681	610,901	612,585	663,558	574,479
						\$5,631,348



Eligible to Retire (Age & Service in Years)

Hired Before September 1, 2008		
Age	Service	Allowance Reduction
65	4	None
Any	27	None
55	5	6.5% yearly for 5 years before age 65 or 27 years of service, then 4% yearly
Any	25	6.5% yearly for 5 years before age 65 or 27 years of service
Hired On/After September 1, 2008		
65	5	None
57	Age plus Service must be 87	None
60	10	Depends on age, service

Contribution Rate (%) as of July 1, 2009

Group	Pension	Insurance	Total
Employers ¹	18.96%	20.49%	39.49%
Employees	-	-	5.00

¹ Employer rates subject to state budget approval.

Member Averages (Age & Service in Years)

Type	Age	Service	Annual Income
Active	43.2	9.1	\$38, 221
Retired	66.1	-	21,851

Net Plan Assets Additions & Deductions in Millions (\$)

Additions	2003	2004	2005	2006	2007	2008
Net Investment Income	\$204.2	\$734.6	\$510.5	\$570.1	\$863.5	-\$260.5
Employer Contributions (Insurance)	65.3	78.0	51.4	47.6	64.0	56.7
Employer Contributions (Pension)	7.6	21.7	50.3	60.7	88.2	104.7
Member Contributions	137.1	129.1	127.8	107.6	116.3	116.5
Other Income	-	-	-	5.8	22.9	19.6
Deductions						
Medical Insurance Expenses [‡]	\$52.0	\$60.5	\$76.0	\$97.5	\$114.1	\$126.4
Refunds	7.3	8.0	8.8	9.6	9.5	9.1
Administrative Expenses	5.0	5.3	5.9	7.6	7.1	7.7
Benefit Payments	404.9	459.4	522.4	577.9	640.2	699.1
Demutualization Refunds	-	-	-	20.0	-	-

[‡] As of 2006, the Medical Insurance Expenses include Self Funding Insurance Expenses.

Funding Levels (%) of Actuarial Assets to Liabilities

Fund	2003	2004	2005	2006	2007	2008
Pension Fund	97.4%	85.1%	73.6%	60.0%	56.9%	52.5%
Insurance Fund	26.5	25.7	22.6	7.8	11.9	11.1

2,404

Retired/Beneficiary

4,393

Active Members

2,927

Inactive Members

KERS Hazardous System Highlights

Kentucky Employees Retirement System (KERS) was established July 1, 1956 by the state legislature. The State Legislature determined that Cost of Living Adjustment (COLA) retirement allowances are increased by 1.5% every July.

Net Plan Assets Expressed in Thousands (\$)

Fund	2003	2004	2005	2006	2007	2008
■ Pension	\$320,513	\$366,568	\$398,308	\$437,030	\$510,775	\$484,438
■ Insurance	125,522	162,127	188,871	223,523	280,886	269,300
						\$753,738



Eligible to Retire (Age & Service in Years)

Hired Before September 1, 2008		
Age	Service	Allowance Reduction
55	5	None
Any	20	None
50	15	6.5% yearly for 5 years before age 55 or 20 years of service
Hired On/After September 1, 2008		
Any	25	None
60	5	None
60	10, 15	Depends on age, service

Contribution Rate (%) as of July 1, 2009

Group	Pension	Insurance	Total
Employers ¹	11.98%	23.56%	35.54%
Employees	-	-	8.00

¹ Employer rates subject to state budget approval.

Member Averages (Age & Service in Years)

Type	Age	Service	Annual Income
Active	41.4	6.9	\$33,852
Retired	61.5	-	15,023

Net Plan Assets Additions & Deductions in Millions (\$)

Additions	2003	2004	2005	2006	2007	2008
Net Investment Income	\$17.6	\$68.6	\$49.1	\$65.7	\$122.5	-\$20.7
Employer Contributions (Insurance)	15.9	15.0	15.7	17.0	19.5	22.0
Employer Contributions (Pension)	7.3	9.8	9.8	10.8	13.2	15.3
Member Contributions	11.6	11.5	11.6	12.1	13.2	13.1
Other Income	-	-	-	0.09	0.3	0.3
Deductions						
Medical Insurance Expenses [‡]	\$3.0	\$3.6	\$4.9	\$6.6	\$7.0	\$8.2
Refunds	1.2	1.4	1.8	1.4	1.7	1.7
Administrative Expenses	0.4	0.4	0.5	0.6	0.6	0.7
Benefit Payments	13.4	16.9	20.5	23.7	28.5	31.6

[‡] As of 2006, the Medical Insurance Expenses include Self Funding Insurance Expenses.

Funding Levels (%) of Actuarial Assets to Liabilities

Fund	2003	2004	2005	2006	2007	2008
Pension Fund	108.1%	98.4%	92.3%	84.1%	83.6%	81.3%
Insurance Fund	53.5	52.3	48.6	34.3	49.8	53.2

37,579

Retired/Beneficiary

85,221

Active Members

57,775

Inactive Members

CERS Non-Hazardous System Highlights

County Employees Retirement System (CERS) was established July 1, 1958 by the state legislature. The State Legislature determined that Cost of Living Adjustment (COLA) retirement allowances are increased by 1.5% every July.

Net Plan Assets Expressed in Thousands (\$)

Fund	2003	2004	2005	2006	2007	2008
■ Pension	\$4,175,825	\$4,613,335	\$4,893,600	\$5,191,377	\$5,812,936	\$5,413,735
■ Insurance	435,500	563,877	668,485	813,251	1,084,043	1,105,945

\$6,519,680



Eligible to Retire (Age & Service in Years)

Hired Before September 1, 2008		
Age	Service	Allowance Reduction
65	4	None
Any	27	None
55	5	6.5% yearly for 5 years before age 65 or 27 years of service, then 4% yearly
Any	25	6.5% yearly for 5 years before age 65 or 27 years of service

Hired On/After September 1, 2008		
65	5	None
57	Age plus Service must be 87	None
60	10	Depends on age, service

Contribution Rate (%) as of July 1, 2009

Group	Pension	Insurance	Total
Employers ¹	8.62%	12.29%	20.19%
Employees	-	-	5.00

¹ More about the contribution rate on page xxx.

Member Averages (Age & Service in Years)

Type	Age	Service	Annual Income
Active	45.9	8.3	\$25,423
Retired	68.1	-	10,913

Net Plan Assets Additions & Deductions in Millions (\$)

Additions	2003	2004	2005	2006	2007	2008
Net Investment Income	\$170.7	\$637.7	\$469.4	\$527.8	\$949.0	-\$228.0
Employer Contributions (Insurance)	99.2	89.3	107.6	128.9	147.6	196.1
Employer Contributions (Pension)	11.9	44.0	54.6	90.8	124.3	150.9
Member Contributions	125.3	122.5	127.6	112.4	122.0	125.0
Other Income	-	-	-	6.4	23.6	21.1
Deductions						
Medical Insurance Expenses [‡]	\$39.7	\$47.0	\$58.7	\$74.5	\$88.2	\$99.4
Refunds	10.2	11.3	11.0	11.6	11.4	12.0
Administrative Expenses	8.2	8.7	10.0	12.8	12.2	13.2
Benefit Payments	230.3	260.6	294.6	325.1	356.6	404.0

[‡] As of 2006, the Medical Insurance Expenses include Self Funding Insurance Expenses.

Funding Levels (%) of Actuarial Assets to Liabilities

Fund	2003	2004	2005	2006	2007	2008
Pension Fund	119.7%	105.1%	94.0%	83.6%	82.1%	78.5%
Insurance Fund	23.9	24.0	23.8	16.9	28.8	32.6

5,422

Retired/Beneficiary

10,173

Active Members

2,376

Inactive Members

CERS Hazardous System Highlights

County Employees Retirement System (CERS) was established July 1, 1958 by the state legislature. The State Legislature determined that Cost of Living Adjustment (COLA) retirement allowances are increased by 1.5% every July.

Net Plan Assets Expressed in Thousands (\$)

Fund	2003	2004	2005	2006	2007	2008
■ Pension	\$1,168,776	\$1,305,012	\$1,411,246	\$1,528,845	\$1,754,935	\$1,644,982
■ Insurance	223,168	297,737	360,940	441,279	570,156	576,414
						\$2,221,396



Eligible to Retire (Age & Service in Years)

Hired Before September 1, 2008		
Age	Service	Allowance Reduction
55	5	None
Any	20	None
50	15	6.5% yearly for 5 years before age 55 or 20 years of service
Hired On/After September 1, 2008		
Any	25	None
60	5	None
60	15	Depends on age, service

Contribution Rate (%) as of July 1, 2009

Group	Pension	Insurance	Total
Employers ¹	16.11%	27.25%	43.36%
Employees	-	-	8.00

¹ More about the contribution rate on page xxx.

Member Averages (Age & Service in Years)

Type	Age	Service	Annual Income
Active	38.7	8.3	\$46,618
Retired	57.9	-	23,511

Net Plan Assets Additions & Deductions in Millions (\$)

Additions	2003	2004	2005	2006	2007	2008
Net Investment Income	\$51.6	\$199.0	\$148.7	\$178.1	\$330.1	-\$97.4
Employer Contributions (Insurance)	45.2	47.0	55.6	64.9	70.1	90.1
Employer Contributions (Pension)	16.9	27.6	39.9	50.0	61.6	72.2
Member Contributions	36.2	38.7	39.5	39.1	43.7	44.3
Other Income	-	-	-	1.0	0.8	0.6
Deductions						
Medical Insurance Expenses [‡]	\$15.0	\$16.8	\$22.2	\$29.9	\$31.9	\$36.0
Refunds	1.8	2.5	2.1	2.1	2.6	2.6
Administrative Expenses	0.7	0.8	0.9	1.1	1.1	1.1
Benefit Payments	72.5	81.4	90.1	101.1	115.6	125.2

[‡] As of 2006, the Medical Insurance Expenses include Self Funding Insurance Expenses.

Funding Levels (%) of Actuarial Assets to Liabilities

Fund	2003	2004	2005	2006	2007	2008
Pension Fund	97.8%	88.8%	80.9%	75.0%	74.2%	72.9%
Insurance Fund	28.8	30.3	28.0	21.9	31.2	34.7

1,135

Retired/Beneficiary

993

Active Members

301

Inactive Members

SPRS System Highlights

State Police Retirement System (SPRS) was established July 1, 1960 by the state legislature. The State Legislature determined that Cost of Living Adjustment (COLA) retirement allowances are increased by 1.5% every July.

Net Plan Assets Expressed in Thousands (\$)

Fund	2003	2004	2005	2006	2007	2008
■ Pension	\$319,115	\$335,721	\$339,406	\$352,841	\$376,381	\$337,359
■ Insurance	72,538	90,420	99,408	110,491	132,574	121,782
						\$459,141



Eligible to Retire (Age & Service in Years)

Hired Before September 1, 2008		
Age	Service	Allowance Reduction
55	5	None
Any	20	None
50	15	6.5% yearly for 5 years before age 55 or 20 years of service
Hired On/After September 1, 2008		
Any	25	None
60	5	None
60	15	Depends on age, service

Contribution Rate (%) as of July 1, 2009

Group	Pension	Insurance	Total
Employers ¹	35.23%	56.89%	92.12%
Employees	-	-	8.00

¹ Employer rates subject to state budget approval.

Member Averages (Age & Service in Years)

Type	Age	Service	Annual Income
Active	36.9	10.8	\$53,645
Retired	60.7	-	36,382

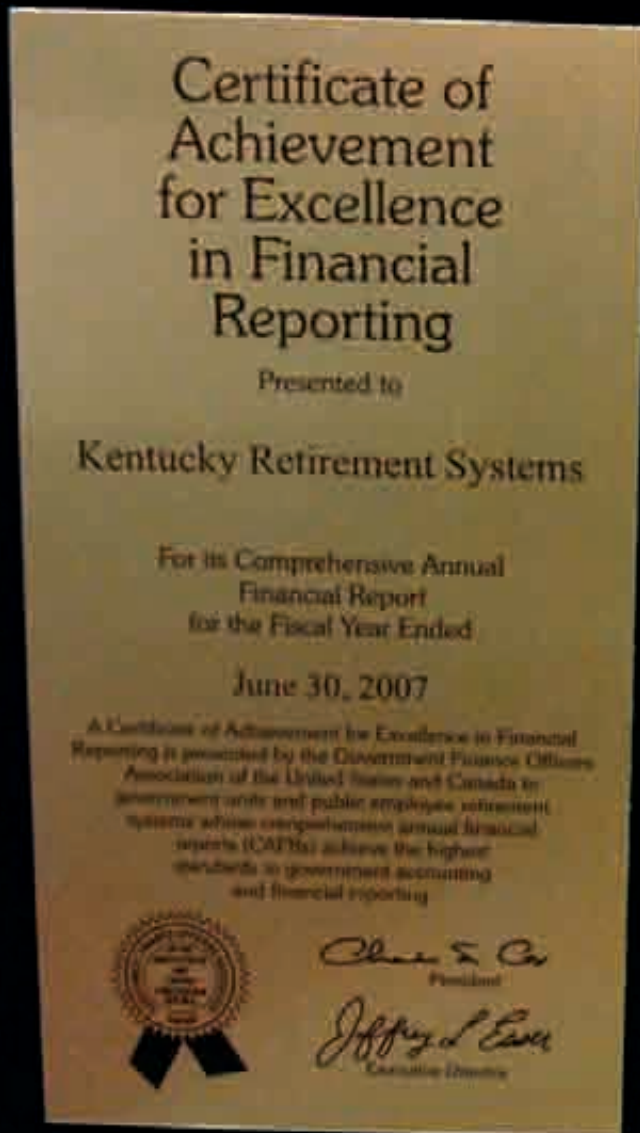
Net Plan Assets Additions & Deductions in Millions (\$)

Additions	2003	2004	2005	2006	2007	2008
Net Investment Income	\$15.1	\$56.1	\$38.0	\$51.4	\$71.5	-\$12.3
Employer Contributions (Insurance)	7.7	8.5	7.0	6.9	6.4	7.3
Employer Contributions (Pension)	-	1.2	2.9	4.2	6.1	7.4
Member Contributions	4.7	4.9	4.2	4.8	5.2	5.4
Other Income	-	-	-	-	0.4	0.2
Deductions						
Medical Insurance Expenses [‡]	\$4.5	\$5.0	\$6.3	\$7.9	\$6.6	\$6.9
Refunds	0.1	0.2	0.1	0.1	.05	.08
Administrative Expenses	0.1	0.1	0.1	0.1	0.1	0.1
Benefit Payments	27.9	30.8	32.9	34.7	37.2	39.4

[‡] As of 2006, the Medical Insurance Expenses include Self Funding Insurance Expenses.

Funding Levels (%) of Actuarial Assets to Liabilities

Fund	2003	2004	2005	2006	2007	2008
Pension Fund	99.6%	88.0%	77.1%	66.6%	63.7%	59.8%
Insurance Fund	49.2	48.9	42.8	18.1	26.6	27.9



Certificate of Achievement for Excellence in Financial Reporting

Kentucky Retirement Systems was again awarded the Government Finance Officers Association's Certificate of Achievement, our ninth consecutive year.

Financial Section

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Kentucky Retirement Systems
A component unit of the Commonwealth of Kentucky

Kentucky Employees Retirement System (KERS)
County Employees Retirement System (CERS)
State Police Retirement System (SPRS)



Management's Responsibility for Financial Reporting

November 17, 2008

Management has prepared the basic financial statements of Kentucky Retirement Systems (KRS) and is responsible for the integrity and fairness of the information presented. Some amounts included in the financial statements may be based on estimates and judgments. These estimates and judgments were made utilizing the best business practices available. The accounting policies followed in the preparation of these basic financial statements conform with US Generally Accepted Accounting Principles. Financial information presented throughout the annual report is consistent with the basic financial statements.

Ultimate responsibility for the basic financial statements and annual report rests with the Board of Trustees. The Executive Director and the rest of KRS' staff assist the Board in its responsibilities. Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets safeguarded, and proper records maintained. These controls include standards in hiring and training of employees, the establishment of an

organizational structure, and the communication of policies and guidelines throughout the organization. These internal controls are reviewed by internal audit programs. All internal audit reports are submitted to the Audit Committee and the Board of Trustees.

Kentucky Retirement Systems' external auditors, Dean, Dorton & Ford, PSC, Certified Public Accountants, have conducted an independent audit of the basic financial statements in accordance with US Generally Accepted Auditing Standards. This audit is described in their Independent Auditors' Report on page 25. Management has provided the external auditors with full and unrestricted access to KRS' staff to discuss their audit and related findings as to the integrity of the plan's financial reporting and the adequacy of internal controls for the preparation of financial statements.

A handwritten signature in black ink, appearing to read "Robert M. Burnside".

Robert M. Burnside, MS
Executive Director

A handwritten signature in black ink, appearing to read "William A. Thielen".

William A. Thielen, Esq.
Chief Operations Officer

A handwritten signature in black ink, appearing to read "Todd E. Coleman".

Todd E. Coleman, CPA
Controller

Independent Auditors' Report

Board of Trustees of the 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 fiscal year ended June 30, 2008, 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. The financial statements of Kentucky Retirement Systems as of and for the fiscal year ended June 30, 2007, were audited by other auditors whose report dated November 15, 2007, expressed an unqualified opinion on those statements.

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, 2008, and the changes in plan net assets for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2008, on our consideration of the Kentucky Retirement Systems' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis (pages 27 through 34) and the Schedule of Funding Progress and Schedule of Contributions from Employers and Other Contributing Entities (pages 74 through 93) are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional supporting schedules (pages 94 through 98) are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



November 17, 2008
Lexington, Kentucky

Management's Discussion & Analysis

Financial Highlights: Pension Funds

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 decreased by \$1,272.8 million during fiscal 2008.
- ☞ Actual covered payroll reported for fiscal 2008 was \$4,716.1 million compared to covered payroll for fiscal 2007 of \$4,484.4 million, increasing approximately \$231.7 million. The corresponding employer contributions increased by \$121.6 million for a total employer contribution amount of \$722.7 million. Of the total employer contribution amount, \$350.4 million was posted to the pension funds while \$372.3 million was posted to the insurance funds. Contributions paid by employees were \$304.3 million and \$300.3 million, respectively, for the fiscal years ended June 30, 2008 and June 30, 2007. This increase in employee contribution is a result of an increase in covered payroll and an increase in service purchased by employees.
- ☞ The net depreciation in the fair value of investments was (\$997.4) million for the fiscal year ended June 30, 2008 compared to net appreciation of \$1,507.8 million for the prior fiscal year. Included in this net depreciation were realized gains on sales of investments of \$360.1 million. In comparison, the pension funds realized gains of \$870.7 million for

the fiscal year ended June 30, 2007. The decrease in realized gain experienced by the pension funds is due to an unfavorable change in market conditions.

- ☞ Net interest, dividend and securities lending income was \$417.4 million compared to \$407.9 million in last fiscal year.
- ☞ Pension benefits paid to retirees and beneficiaries increased \$112 million bringing total benefit payments to \$1,299.2 million. Refund of contributions paid to former members upon termination of employment increased from \$25.2 million to \$25.5 million.
- ☞ Administrative expense increased \$1.8 million, totaling \$22.9 million, compared to \$21.1 million in the prior fiscal year.

Financial Highlights: Insurance Funds

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

- ☞ The combined plan net assets of the insurance fund administered by Kentucky Retirement Systems decreased by \$83.3 million during fiscal 2008.
- ☞ Premiums received from retirees who participated in the Medicare eligible self-funded plan totaled \$28.5 million.

- ☞ Employer contributions of \$372.3 million were received. This is an increase of \$64.6 million over the prior fiscal year. This increase is due to the increase of covered payroll reported by participating employers and the employers' increased percentage of covered payroll contributed.
- ☞ Retiree drug subsidies received were \$13.3 million.
- ☞ The net depreciation in the fair value of investments was (\$282.4) million compared to net appreciation of \$366.8 million for the prior fiscal year. Included in this net depreciation were realized gains on sales of investments of \$104.9 million. In comparison, the insurance funds realized gains on investments of \$129.5 million in the prior fiscal year. This decrease in realized gains is due to an unfavorable change in market conditions.
- ☞ Net interest, dividend and securities lending income was \$61.8 million compared to income of approximately \$56.6 million in last fiscal year.
- ☞ Premiums paid by the fund for hospital and medical insurance coverage totaled \$167.8 million. Payments for the self-funded healthcare reimbursements totaled \$101.6 million. The total of insurance premiums paid plus self-funded reimbursements was \$269.4 million for fiscal 2008. Insurance premiums paid plus self-funded healthcare reimbursements for the prior plan year totaled \$241.1 million.

Using This Financial Report

Because of the long-term nature of a defined benefit pension plan and post-employment healthcare benefit plan, the 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 Statements of Plan Net Assets for the Pension Funds, on pages 36 through 37, and the Combined Statement of Plan Net Assets for the Insurance Funds, on pages 40 through 41, provides a snapshot of the financial position of each of the three systems at June 30, 2008. The Combined Statement of Changes in Plan Net Assets for the Pension Funds, on pages 38 through 39, and the Combined Statement of Changes in Plan Net Assets for the Insurance Funds, on pages 42 through 43, summarize the additions and deductions that occurred for each of the three systems during fiscal 2008.

The Schedule of Funding Progress, on pages 74 through 83, 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 Contributions from Employers and Other Contributing Entities, on pages 84 through 93, presents historical trend information about the annual required contributions and the contributions made 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 decreased, during the fiscal year ended June 30, 2008, by \$1,356 million from \$16,959.4 million to \$15,603.3 million. Plan net assets for the prior fiscal year increased by \$1,806.7 million. The decrease in plan net assets for the plan year ended June 30, 2008 is primarily attributable to overall losses in the stock market. The analysis below focuses on plan net assets (Table 1) and changes in plan net assets (Table 2) of Kentucky Retirement Systems' Pension and Insurance Funds.

Plan net assets of the pension funds decreased by \$1,272.8 million (\$12,955.4 million compared to \$14,228.2 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 decrease is attributable primarily to the overall losses in the fair value of investments due to the change in market conditions in general.

Plan net assets of the insurance fund decreased by approximately \$83.3 million (\$2,647.9 million compared to \$2,731.2 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 decrease in net plan assets is primarily attributable to the overall losses in the fair value of investments, which is due to the change in market conditions in general.

FYI: The Securities and Exchange Commission adopted requirements for Management Discussion and Analysis in 1974 to have management provide a narrative explanation of the financial statements. The idea was to allow the user to see the entity's financial position and operating results through management's eyes.

Table 1: Plan Net Assets Dollars in Millions (\$)

	Pension Fund			Insurance Fund			Total		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
Cash & Invest.	\$ 15,768.8	\$ 17,245.3	\$16,299.5	\$ 3,379.9	\$ 3,441.6	\$2,691.6	\$ 19,148.7	\$ 20,686.9	\$18,991.1
Receivables	122.4	125.2	123.4	45.5	41.4	35.7	167.9	166.6	159.1
Equipment net of depreciation	8.5	1.9	1.3	-	-	-	8.5	1.9	1.3
Total Assets	15,899.7	17,372.4	16,424.2	3,425.4	3,483.0	\$2,727.3	19,325.1	20,855.4	19,151.5
Total Liabilities	(2,944.3)	(3,144.2)	(3,472.1)	(777.5)	(751.8)	(526.7)	(3,721.8)	(3,896.0)	(3,998.8)
Plan Net Assets	\$12,955.4	\$14,228.2	\$12,952.1	\$2,647.9	\$2,731.2	\$2,200.6	\$15,603.3	\$ 16,959.4	\$15,152.7

Table 2: Changes in Plan Net Assets Dollars in Millions (\$)

Additions	Pension Fund			Insurance Fund			Total		
	2008	2007	2006	2008	2007	2006	2008	2007	2006
Member Contribution	\$ 304.3	\$ 300.3	\$275.9	-	-	-	\$ 304.3	\$ 300.3	\$275.9
Employer Contribution	350.4	293.4	216.5	\$372.3	\$ 307.7	\$253.4	722.7	601.1	469.9
Premiums Received	-	-	-	28.5	26.6	12.3	28.5	26.6	12.3
Insurance Appropriation	-	-	-	-	-	11.9	-	-	11.9
Retiree Drug Subsidy	-	-	-	13.3	21.5	-	13.3	21.5	-
Investment Income (net)	(579.9)	1,915.8	1,162.4	(220.6)	423.4	230.8	(800.5)	2,339.2	1,393.2
Total Additions	74.8	2,509.5	1,654.8	193.5	779.2	508.4	268.3	3,288.7	2,163.2
Deductions									
Benefit Payments	1,299.2	1,187.1	1,062.6	-	-	-	1,299.2	\$ 1,187.1	1,062.6
Refunds	25.5	25.2	24.9	-	-	-	25.5	25.2	24.9
Administrative Expenses	22.9	21.1	20.4	7.5	6.7	3.6	30.4	27.8	24.0
Healthcare Costs	-	-	-	269.3	241.1	212.8	269.3	241.1	212.8
Demutualization Refund	-	-	-	-	0.8	20.0	-	0.8	20.0
Total Deductions	1,347.6	1,233.4	1,107.9	276.8	248.6	236.4	1,624.4	1,482.0	1,344.3
Increase (Decrease) in Plan Net Assets									
	\$(1,272.8)	\$1,276.1	\$546.9	\$(83.3)	\$530.6	\$272.0	\$(1,356.1)	\$1,806.7	\$818.9

Pension Fund Activities

Member contributions increased by \$4 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. The increase in member contributions is a result of an increase in elective service purchases by Kentucky Retirement Systems' members over the prior period. Employer contributions increased by \$57 million due to the increase in covered payroll reported to Kentucky Retirement Systems and the increase in the employer contribution rate applied to covered payroll.

Net investment income decreased by \$2,495.7 million (net investment loss of \$579.9 million compared to net investment income of \$1,915.8 million in the prior year). The pension funds experienced a decrease in income primarily due to the decrease in gains on sale of investments. This can be illustrated in Table 3.

Pension fund deductions increased by \$114 million caused principally by an increase of \$112 million in benefit payments. Retirees received a Cost of Living Adjustment (COLA) increase of 3.2% in benefit payments as of July 1, 2007. Refunds of member contributions increased by \$.3 million and administrative expenses increased by \$1.8 million.

Table 3: Pension Investment (Loss) Income-Pension

Dollars in Millions (\$)

Investment Income	2008	2007	2006
(Decrease) Increase in fair value of investments	\$(1,357)	\$638	\$201
Investment Income net of Investment Expense	417	408	359
Gain on sale of investments	360	870	602
Net investment (loss) income	\$(580)	\$1,916	\$1,162

Insurance Fund Activities

Employer contributions paid into the insurance fund increased by \$64.5 million over the prior fiscal year. This increase is a result of the increase in covered payroll reported to Kentucky Retirement Systems and the increase in the employer contribution rate applied to covered payroll.

Net investment income decreased by \$643 million. This decrease in net income is due primarily to the decrease in the gains on sale of investments. This can be illustrated in Table 4.

Insurance fund deductions increased by \$28 million due to the increase in overall healthcare costs.

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 and Insurance Funds is provided in the Schedule of Funding Progress on pages 74 through 83. 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. This actuarial accrued liability is the measure of the cost of benefits that have been earned to date by Kentucky Retirement Systems' members, but not yet paid. The difference in value between the actuarial accrued liability and the actuarial value of assets is known as the unfunded actuarial accrued liability. The unfunded actuarial accrued liability in the pension plans increased by

Table 4: Insurance Investment (Loss) Income
Dollars in Millions (\$)

Investment Income	2008	2007	2006
(Decrease) Increase in fair value of investments	\$(387)	\$237	\$111
Investment Income net of Investment Expense	62	56	42
Gain on sale of investments	105	130	78
Net investment (loss) income	\$(220)	\$423	\$231

\$1,246.9 million for a total unfunded amount of \$7,387.9 million for the fiscal year ended June 30, 2008, compared to an unfunded amount of \$6,141.1 for the fiscal year ended June 30, 2007. In recent years, funding levels for the pension funds have fallen dramatically in response to investment returns less than the actuarially assumed rate, higher than anticipated retirement rates, the 2008 assumption changes, and increasing expenditures for retiree Cost of Living Adjustments. Within the KERS and SPRS plans, employer contribution rate reductions enacted by the Kentucky General Assembly have limited the plans ability to correct the declining funding levels.

The insurance plan's unfunded actuarial accrued liability for the plan year ended June 30, 2008, increased to \$8,973.5 million from \$8,658.3 million for the plan year ended June 30, 2007. This is an increase in the unfunded actuarial accrued liability of \$315.2 million. Medical inflation rates in excess of the assumed rates as well as recent employer contribution rate reductions under KERS and SPRS have significantly caused this increase. The recent adoption of new actuarial assumptions and the application of Governmental Accounting Standards Board Statement No. 43 "Financial Reporting for Postemployment Benefit Plans other than Pension Plans" have further reduced the measured funding level.

Annual required contributions of the employers as actuarially determined and actual contributions made by employers and other contributing entities in relation to the required contributions are provided in the Schedule of Contributions from Employers and Other Contributing Entities on pages 84 through 93. The difference in the annual required contributions and actual contributions made by employers and other contributing entities 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.



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Combined Statement of Plan Net Assets - Pension Funds Dollars in Thousands(\$)

As of June 30, 2008 (with comparative totals as of June 30, 2007)

	KERS Hazardous	KERS Non- Hazardous	CERS Hazardous	CERS Non- Hazardous	SPRS	2008 TOTAL	2007 TOTAL
Assets							
Cash and Short-Term Investments							
Cash	\$118	\$203	\$238	\$323	\$87	\$969	\$1,181
Short-Term Investments	15,682	68,261	46,799	67,450	1,601	199,793	342,328
Total Cash and Short-Term Investments	15,800	68,464	47,037	67,773	1,688	200,762	343,509
Receivables							
Contributions	1,642	21,955	11,386	32,028	1,149	68,160	67,754
Investment Income	2,054	21,058	6,857	22,799	1,481	54,249	57,442
Total Receivables	3,696	43,013	18,243	54,827	2,630	122,409	125,196
Investments at Fair Value							
Corporate and Government Bonds	135,247	1,236,656	425,700	1,393,037	93,619	3,284,259	3,420,592
Corporate Stocks	281,760	3,208,116	984,533	3,319,682	201,825	7,995,916	8,868,909

	KERS Hazardous	KERS Non- Hazardous	CERS Hazardous	CERS Non- Hazardous	SPRS	2008 TOTAL	2007 TOTAL
Mortgages	46,158	499,605	167,578	593,436	37,183	1,343,960	1,470,223
Real Estate	1,943	2,346	2,415	2,360	481	9,545	9,546
Total Investments at Fair Value	465,108	4,946,723	1,580,226	5,308,515	333,108	12,633,680	13,769,270
Securities Lending Collateral Invested	109,935	1,146,607	372,005	1,229,252	76,544	2,934,343	3,132,538
Equipment (net of accumulated depreciation)	215	2,518	375	4,305	45	7,458	1,894
Intangible Assets (net of accumulated amortization)	31	364	54	624	6	1,079	
Total Assets	594,785	6,207,689	2,017,940	6,665,296	414,021	15,899,731	17,372,407
Liabilities							
Accounts Payable	412	4213	953	4,309	118	10,005	11,685
Securities Lending Collateral	109,935	1,146,607	372,005	1,229,252	76,544	2,934,343	3,132,538
Total Liabilities	110,347	1,150,820	372,958	1,233,561	76,662	2,944,348	3,144,223
Plan Net Assets Held in Trust for Pension Benefits							
	\$484,438	\$5,056,869	\$1,644,982	\$5,431,735	\$337,359	\$12,955,383	\$14,228,184

(A Schedule of Funding Progress for each Plan is presented beginning on page 74). See accompanying Independent Auditors' Report and Notes to the Financial Statements

Combined Statement of Changes in Plan Net Assets — Pension Funds Dollars in Thousands(\$)

For the Fiscal Year Ended June 30, 2008 (with comparative totals for the Fiscal Year ended June 30, 2007)

	KERS Hazardous	KERS Non- Hazardous	CERS Hazardous	CERS Non- Hazardous	SPRS	2008 TOTAL	2007 TOTAL
Additions							
Members' Contributions	\$ 13,091	\$ 116,487	\$ 44,260	\$ 125,014	\$ 5,407	\$ 304,259	\$ 300,280
Employers' Contributions	15,257	104,655	72,155	150,925	7,443	350,435	293,442
Total Contributions	28,348	221,142	116,415	275,939	12,850	654,694	593,722
Investment Income							
From Investing Activities							
Net (Depreciation) Appreciation in Fair Value of Investments	(36,278)	(386,227)	(150,666)	(401,080)	(23,118)	(997,369)	1,507,855
Interest/Dividends	15,631	165,355	53,352	173,562	10,902	418,802	420,727
Total Investing Activities (Loss) Income	(20,647)	(220,872)	(97,314)	(227,518)	(12,216)	(578,567)	1,928,582
Investment Expense	460	5,200	1,604	5,136	350	12,750	11,991
Commissions	300	3,130	951	3,308	226	7,915	7,386
Total Investing Activities Expense	760	8,330	2,555	8,444	576	20,665	19,377
Net (Loss) Income from Investing Activities	(21,407)	(229,202)	(99,869)	(235,962)	(12,792)	(599,232)	1,909,205

	KERS Hazardous	KERS Non- Hazardous	CERS Hazardous	CERS Non- Hazardous	SPRS	2008 TOTAL	2007 TOTAL
From Securities Lending Activities							
Securities Lending Income	5,263	54,870	17,805	58,594	3,663	140,195	186,075
Securities Lending Expense:							
Security Borrower Rebates	4,344	45,312	14,701	48,578	3,025	115,960	177,377
Security Lending Agent Fees	185	1,934	628	2,074	129	4,950	2,129
Net Income From Securities Lending Activities	734	7,624	2,476	7,942	509	19,285	6,569
Total Net Investment (Loss) Income	(20,673)	(221,578)	(97,393)	(228,020)	(12,283)	(579,947)	1,915,774
Total Additions (Loss)	7,675	(436)	19,022	47,919	567	74,747	2,509,496
Deductions							
Benefit Payments	31,606	699,052	125,191	403,958	39,367	1,299,174	1,187,154
Refunds	1,742	9,076	2,641	11,924	85	25,468	25,157
Administrative Expenses	664	7,724	1,143	13,238	137	22,906	21,077
Capital Project Expenses							38
Total Deductions	34,012	715,852	128,975	429,120	39,589	1,347,548	1,233,426
Net (Decrease) Increase in Plan Assets	(26,337)	(716,288)	(109,953)	(381,201)	(39,022)	(1,272,801)	1,276,070
Plan Net Assets Held in Trust for Pension Benefits							
Beginning of Year	510,775	5,773,157	1,754,935	5,812,936	376,381	14,228,184	12,952,114
End of Year	\$ 484,438	\$ 5,056,869	\$ 1,644,982	\$ 5,431,735	\$ 337,359	\$12,955,383	\$14,228,184

(A Schedule of Funding Progress for each Plan is presented beginning on page 74). See accompanying Independent Auditors' Report and Notes to the Financial Statements

Combined Statement of Plan Net Assets — Insurance Funds Dollars in Thousands(\$)

As of June 30, 2008 (with comparative totals as of June 30, 2007)

	KERS Hazardous	KERS Non-Hazardous	CERS Hazardous	CERS Non-Hazardous	SPRS	2008 TOTAL	2007 TOTAL
Assets							
Cash and Short-Term Investments							
Cash	\$24	\$88	\$7	\$70	\$32	\$221	\$54
Short-Term Investments	30,925	41,445	77,803	147,657	9,015	306,845	224,585
Total Cash and Short-Term Investments	30,949	41,533	77,810	147,727	9,047	307,066	224,639
Receivables							
Contributions	1,000	7,021	6,716	22,124	402	37,263	33,816
Investment Income	818	1,948	1,779	3,307	400	8,252	7,580
Total Receivables	1,818	8,969	8,495	25,431	802	45,515	41,396
Investments at Fair Value							
Corporate and Government Bonds	26,480	76,539	72,754	140,228	14,534	330,535	289,343
Corporate Stocks	210,122	449,054	417,555	794,147	97,452	1,968,330	2,178,676
Alternative Investment	15	15	37	61	7	135	135

	KERS Hazardous	KERS Non-Hazardous	CERS Hazardous	CERS Non-Hazardous	SPRS	2008 TOTAL	2007 TOTAL
Total Investments at Fair Value	236,617	525,608	490,346	934,436	111,993	2,299,000	2,468,154
Securities Lending Collateral Invested	79,439	168,431	168,708	321,321	35,938	773,837	748,802
Total Assets	348,823	744,541	745,359	1,428,915	157,780	3,425,418	3,482,991
Liabilities							
Accounts Payable	84	1,631	237	1,649	60	3,661	2,972
Securities Lending Collateral	79,439	168,431	168,708	321,321	35,938	773,837	748,802
Total Liabilities	79,523	170,062	168,945	322,970	35,998	777,498	751,774
Plan Net Assets Held in Trust for Insurance Benefits							
	\$269,300	\$574,479	\$576,414	\$1,105,945	\$121,782	\$2,647,920	\$2,731,217

(A Schedule of Funding Progress for each Plan is presented beginning on page 74). See accompanying Independent Auditors' Report and Notes to the Financial Statements

Combined Statement of Changes in Plan Net Assets — Insurance Funds Dollars in Thousands(\$)

For the Fiscal Year Ended June 30, 2008 (with comparative totals for the Fiscal Year Ended June 30, 2007)

	KERS Hazardous	KERS Non-Hazardous	CERS Hazardous	CERS Non-Hazardous	SPRS	2008 TOTAL	2007 TOTAL
Additions							
Employers' Contributions	\$ 21,997	\$ 56,745	\$ 90,113	\$ 196,110	\$ 7,329	\$ 372,294	\$ 307,720
Premiums Received from Retirees	247	12,940	222	15,104	9	28,522	26,596
Retiree Drug Subsidy	74	6,634	420	6,003	184	13,315	21,490
Total Contributions	22,318	76,319	90,755	217,217	7,522	414,131	355,806
Investment Income							
From Investing Activities							
Net Appreciation (Depreciation) in Fair Value of Investments	(32,147)	(52,716)	(61,936)	(121,282)	(14,304)	(282,385)	366,809
Interest/Dividends	6,322	13,596	13,188	25,028	2,828	60,962	57,444
Total (Loss) Income from Investing Activities	(25,825)	(39,120)	(48,748)	(96,254)	(11,476)	(221,423)	424,253
Investment Activities Expense	187	391	389	744	85	1,796	1,763
Commissions	133	309	257	488	62	1,249	743
Total Investing Activities Expense	320	700	646	1,232	147	3,045	2,506
Net (Loss) Income from Investing Activities	(26,145)	(39,820)	(49,394)	(97,486)	(11,623)	(224,468)	421,747

	KERS Hazardous	KERS Non-Hazardous	CERS Hazardous	CERS Non-Hazardous	SPRS	2008 TOTAL	2007 TOTAL
From Securities Lending Activities:							
Securities Lending Income	3,329	7,054	7,075	13,390	1,506	32,354	36,776
Securities Lending Expense							
Security Borrower Rebates	2,821	5,980	5,990	11,409	1,276	27,476	34,796
Security Lending Agent Fees	103	219	220	419	47	1,008	337
Net Income from Securities Lending Activities	405	855	865	1,562	183	3,870	1,643
Total Net Investment (Loss) Income	(25,740)	(38,965)	(48,529)	(95,924)	(11,440)	(220,598)	(423,390)
Total Additions (Loss)	(3,422)	37,354	42,226	121,293	(3,918)	193,533	779,196
Deductions							
Healthcare Premiums Subsidies	7,598	73,160	32,644	48,789	5,557	167,748	151,482
Administrative Fees	95	3,487	364	3,425	106	7,477	6,747
Self Funding Insurance Costs	471	49,786	2,960	47,177	1,211	101,605	89,567
Demutualization Proceeds Refunded							805
Total Deductions	8,164	126,433	35,968	99,391	6,874	276,830	248,601
Net Increase (Decrease) in Plan Assets	(11,586)	(89,079)	6,258	21,902	(10,792)	(83,297)	530,595
Plan Net Assets Held in Trust for Insurance Benefits							
Beginning of Year	280,886	663,558	570,156	1,084,043	132,574	2,731,217	2,200,622
End of Year	\$269,300	\$574,479	\$576,414	\$1,105,945	\$121,782	\$2,647,920	\$2,731,217

(A Schedule of Funding Progress for each Plan is presented beginning on page 74). See accompanying Independent Auditors' Report and Notes to the Financial Statements

Notes to the Financial Statements

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 insurance fund 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

KRS 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.

Improvements, which increase the useful life of the equipment, are capitalized. Maintenance and repairs are charged to expense as incurred. KRS increased its capitalization threshold to \$3,000 in fiscal 2008. The capitalization threshold used in fiscal 2007 was \$750.

Intangible Assets

Intangible assets, currently computer software, are valued at historical cost and amortization is computed utilizing the straight-line method over the estimated useful lives of the assets which is ten years. The capitalization threshold used in fiscal 2008 was \$3,000 (see Note K for further information).

Expense Allocation

Administrative and investment expenses of KRS are allocated in proportion to the number of active members participating in each plan and the carrying value of plan investments, respectively.

Component Unit

KRS is a component unit of the Commonwealth of Kentucky for financial reporting purposes.

The Kentucky Employees Retirement System (KERS) was created by the Kentucky General Assembly pursuant to the provisions of Kentucky Revised Statute 61.515. The County

Employees Retirement System (CERS) was created by the Kentucky General Assembly pursuant to the provisions of Kentucky Revised Statute 78.520. The State Police Retirement System (SPRS) was created by the Kentucky General Assembly pursuant to the provisions of Kentucky Revised Statute 16.510. The Kentucky Retirement Systems Insurance Fund was created by the Kentucky General Assembly pursuant to the provisions of Kentucky Revised Statute 61.701. KRS' 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 KRS Board of Trustees without further legislative review. The methods used to determine the employer rates for all Retirement Systems are specified in Kentucky Revised Statute 61.565. Employee contribution rates are set by statute and may be changed only by the Kentucky General Assembly.

FYI — Notes to the Financial Statements are designed to provide the reader with specific information about estimates, accounting, and other material information found in the financial statements.

Note B--Plan Descriptions and Contribution Information

Membership of each retirement system consisted of the following at June 30, 2008 and 2007:

Kentucky Employees Retirement System Membership Totals

Number of Members	2008			2007		
	Non-Hazardous Employees	Hazardous Employees	Total	Non-Hazardous Employees	Hazardous Employees	Total
Retirees and Beneficiaries Receiving Benefits	35,307	2,404	37,711	33,900	2,206	36,106
Inactive Vested Memberships	33,202	2,927	36,129	30,993	2,740	33,733
Active Plan Members	48,085	4,393	52,478	48,033	4,352	52,385
Total	116,594	9,724	126,318	112,926	9,298	122,224
Number of Participating Employers			317			359

County Employees Retirement System Membership Totals

Number of Members	2008			2007		
	Non-Hazardous Employees	Hazardous Employees	Total	Non-Hazardous Employees	Hazardous Employees	Total
Retirees and Beneficiaries Receiving Benefits	37,579	5,422	43,001	35,564	5,159	40,723
Inactive Vested Memberships	57,755	2,376	60,131	51,528	4,662	56,190
Active Plan Members	85,221	10,173	95,394	85,367	10,097	95,464
Total	180,555	17,971	198,526	172,459	19,918	192,377
Number of Participating Employers			1,468			1,400

State Police Retirement System Membership Totals

Number of Members	2008	2007
	Hazardous Position Employees	Hazardous Position Employees
Retirees and Beneficiaries Receiving Benefits	1,135	1,105
Inactive Vested Memberships	301	275
Active Plan Members	993	970
Total	2,429	2,350
Number of Participating Employers	1	1

Kentucky Retirement Systems Insurance Fund

Hospital and medical contracts in force consisted of the following at June 30, 2008 and 2007:

	2008					2007				
	Single	Couple/ Family	Parent Plus	Medicare Without Prescription	Medicare With Prescription	Single	Couple/ Family	Parent Plus	Medicare Without Prescription	Medicare With Prescription
KERS										
Non-Hazardous	9,631	2,099	584	1,960	12,653	9,144	2,023	538	941	13,144
Hazardous	795	618	93	96	749	738	571	82	85	658
CERS										
Non-Hazardous	7,306	1,278	291	3,112	12,829	6,919	915	280	1,412	13,734
Hazardous	1,411	2,017	232	77	1,396	1,379	2,199	219	69	1,230
SPRS										
	241	302	17	7	407	252	296	19	15	380
Totals	19,384	6,314	1,217	5,252	28,034	18,432	6,004	1,138	2,522	29,146

Note B -- Plan Descriptions and Contribution Information, continued
Kentucky Employees Retirement System

Non-Hazardous Employees Pension Plan

Plan Description - KERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous duty positions of any state department, board, or agency directed by Executive Order to participate in KERS. 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 adjustments (COLA) 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 Kentucky 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 fiscal years ended June 30, 2008 and 2007, plan members were required to contribute 5% of their annual creditable compensation. The Commonwealth 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 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 fiscal years ended June 30, 2008 and 2007, participating employers contributed 8.5% and 7.75%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the fiscal years ended June 30, 2008 and 2007 was 48.37% and 17.13%, respectively, of each employee's creditable compensation. Administrative costs of KRS 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 by Executive Order to participate in KERS. 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 adjustments (COLA) 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 Kentucky 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 fiscal years ended June 30, 2008 and 2007, plan members were required to contribute 8% of their annual creditable compensation. The Commonwealth 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 fiscal years ended June 30, 2008 and 2007, participating employers contributed 24.25% and 22%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the fiscal years ended June 30, 2008 and 2007 was 47.11% and 23.32%, respectively, of each employee's creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

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 participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS. 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 adjustments (COLA) 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 Kentucky 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 fiscal years ended June 30, 2008 and 2007, 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 fiscal years ended June 30, 2008 and 2007, participating employers contributed 16.17% and 13.19%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the fiscal years ended June 30, 2008 and 2007 was 16.17% and 13.19%, respectively. Administrative costs

of KRS 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 CERS. 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 adjustments (COLA) 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 Kentucky 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 fiscal years ended June 30, 2008 and 2007, 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 fiscal years ended June 30, 2008 and 2007, participating employers contributed 33.87% and 28.21%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the fiscal years ended June 30, 2008 and 2007 was 33.87% and 28.21%, respectively, of each employee's creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

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 adjustments (COLA) 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 Kentucky 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 fiscal years ended June 30, 2008 and 2007 plan members were required to contribute 8% of their annual creditable compensation. The Commonwealth

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 fiscal years ended June 30, 2008 and 2007, the Commonwealth contributed 28% and 25.50%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the fiscal years ended June 30, 2008 and 2007 was 120% and 42.30%, respectively, of each employee's creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

KRS Insurance Fund

Plan Description - The Kentucky Retirement Systems Insurance Fund (Fund) was established to provide hospital and medical insurance for members receiving benefits from KERS, CERS, and SPRS. The Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. For the fiscal year ended June 30, 2008, insurance premiums withheld from benefit payments for members of the systems were \$25,897,389 and \$861,730 for KERS non-hazardous and hazardous, respectively; \$25,809,726 and \$1,571,639 for CERS non-hazardous and hazardous, respectively; and, \$167,965 for SPRS. For fiscal 2007, insurance premiums withheld from benefit payments for members of KRS were \$24,604,832 and \$761,803 for KERS non-hazardous and KERS hazardous, respectively; \$23,940,964 and \$1,437,509 for CERS non-hazardous and CERS hazardous, respectively; and, \$163,211 for SPRS. The Fund pays the same proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous

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

members killed in the line of duty. As of June 30, 2008, the Fund had 76,131 retirees and beneficiaries for whom benefits were available. The amount of contribution paid by the Funds is based on years of service. For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are listed on the previous page.

As a result of House Bill 290 (2004 Kentucky 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, the 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 Kentucky 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.

KRS commenced self-funding of healthcare benefits for its Medicare eligible retirees on January 1, 2006. A self-funded plan is one in which KRS assumes the financial risk for providing healthcare benefits to its retirees. The self-funded plan pays for claims out-of-pocket as they are presented instead of paying a pre-determined premium to an insurance carrier for a fully-insured plan. KRS funds the risk directly from its assets. KRS becomes directly responsible for administering benefits under the plan.

KRS' plan is defined by statute. KRS selected Walgreens Health Initiatives and Fiserv Health (Wausau Benefits, Inc.) to administer the pharmaceutical and medical benefits for its retirees.

Stop-loss insurance can be arranged to limit KRS' loss to a specified amount to ensure that catastrophic claims do not upset the financial integrity of the self-funded plan. The amount of stop-loss insurance is a function of KRS' size, nature of its business, financials, and tolerance for risk. KRS continues to evaluate the use of stop-loss insurance.

Note C - Cash And Short-Term Investments And Securities Lending Collateral

The provisions of Governmental Accounting Standards Board (GASB) 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 GASB No. 28, KRS has reclassified certain other investments, not related to the securities lending program, as short-term. Cash and short-term investments consist of the following:

Kentucky Employees Retirement System

	2008	2007
Cash	\$ 321,001	\$ 410,633
Short Term Investments	83,942,355	205,934,152
Securities Lending Collateral Invested	1,256,541,062	1,256,147,832
Total	\$1,340,804,418	\$1,462,492,617

County Employees Retirement System

	2008	2007
Cash	\$ 561,437	\$ 713,861
Short Term Investments	114,249,050	130,256,739
Securities Lending Collateral Invested	1,601,257,307	1,736,052,690
Total	\$1,716,067,794	\$1,867,023,290

State Police Retirement System

	2008	2007
Cash	\$ 86,526	\$ 56,384
Short Term Investments	1,601,088	6,136,950
Securities Lending Collateral Invested	76,543,782	140,337,713
Total	\$78,231,396	\$146,531,047

KRS Insurance Funds

	2008	2007
Cash	\$ 220,702	\$ 53,838
Short Term Investments	306,845,068	224,584,472
Securities Lending Collateral Invested	773,837,984	748,802,051
Total	\$1,080,903,754	\$ 973,440,361

Note D-Investments

The Board of Trustees of KRS recognizes its duty to invest funds in accordance with the Prudent Person Rule and manage those funds consistent with the long-term nature of KRS. 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 US Government or any agency or instrumentality of the US 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 US Government or the Commonwealth of Kentucky.

Alternative Investment/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.

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 Short Term Investment Funds (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 an investment grade 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 - Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indices. 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 Pension and Insurance Funds invest in collateralized mortgage obligations (CMOs) and other asset-backed securities to increase return and adjust duration of the portfolio. The Pension and Insurance Funds 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.

Collateralized mortgage obligations, asset-backed securities, and exchange-traded funds pose no greater risk than other similar investment grade holdings in KRS' and the Fund's portfolios. The fair value of CMOs at June 30, 2008 and 2007, was approximately \$282 million and \$356 million, respectively; the fair value of asset-backed securities at June 30, 2008 and 2007, was approximately \$219 million and \$225 million, respectively; and, the fair value of exchange-traded funds at June 30, 2008 and 2007, was approximately \$451 million and \$427 million, respectively.

Custodial Credit Risk for Deposits - Custodial credit risk for deposits is the risk that in the event of a financial institution failure, KRS' deposits may not be returned. All non-investment related bank balances are held locally by Farmer's Bank & Capital Trust Company. All non-investment related bank balances are held in KRS' name and each individual account is insured by the Federal Deposit Insurance Corporation (FDIC). Effective October 3, 2008, FDIC deposit insurance temporarily increased from \$100,000 to \$250,000 for each individual account through December 31, 2009. These cash balances are invested daily by the local institution in overnight repurchase agreements which

are required by Kentucky Administrative Regulations (200 KAR 14:081) to be collateralized at 102% of the principal amount.

At June 30, 2008 and 2007, deposits for KRS pension funds were \$7,685,550 and \$3,217,697, respectively. None of these balances were exposed to custodial credit risk as they were either insured or collateralized at required levels.

At June 30, 2008 and 2007, deposits for KRS insurance fund were \$204,343 and \$146,289, respectively. None of these balances were exposed to custodial credit risk as they were either insured or collateralized at required levels.

Custodial Credit Risk for Investments - Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, KRS will not be able to recover the value of investments or collateral securities that are in the possession of an outside third party. KRS does not have an explicit policy with regards to Custodial Credit Risk for investments. At June 30 2008 and 2007, the following investments were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in KRS' name.

	2008	2007
Pension Funds		
Foreign Currency Investments	\$3,486,140	\$3,838,653
Insurance Funds		
Foreign Currency Investments	\$1,103,211	\$37,588

Investment Summary

The following tables present a summary of the investments by type as of June 30, 2008 and 2007:

Pension Funds as of June 30, 2008 and 2007

Investment Summary	2008	2007
US Gov't & Agency Fixed Income Securities	\$3,167,327,985	\$1,621,746,405
US Corporate Fixed Income Securities	1,457,701,305	3,267,332,169
Municipal Debt Securities	3,189,898	1,736,261
Short-term Investments	199,792,495	342,327,842
Equity Securities	7,093,291,910	8,339,372,635
Private Equity Limited Partnerships	902,624,336	529,536,766
Real Estate	9,545,575	9,545,575
	\$12,833,473,504	\$14,111,597,653

Insurance Funds as of June 30, 2008 and 2007

Investment Summary	2008	2007
US Gov't & Agency Fixed Income Securities	\$330,535,852	\$289,343,163
Short-term Investments	306,845,080	224,584,472
Equity Securities	1,868,037,394	2,119,830,709
Private Equity Limited Partnerships	100,291,617	58,845,081
Alternative Investment	135,000	135,000
	\$2,605,844,943	\$2,692,738,425

Investment Policies - Kentucky Revised Statute 61.650 grants the responsibility for the investment of plan assets to the Board of Trustees of KRS. The Board of Trustees has established an Investment Committee which is specifically charged with the oversight and investment of plan assets. The Investment Committee recognizes their duty to invest the funds in accordance with the Prudent Person Rule and manage those funds consistent with the long-term nature of the Systems. The Committee has adopted a *Statement of Investment Policy* that contains guidelines and restrictions for deposits and investments. By statute, all investments are to be registered and held in the name of KRS. *The Statement of Investment Policy – Pension* contains the specific guidelines for the investment of pension assets. *The Statement of Investment Policy – Insurance* contains the specific guidelines for the investment of insurance assets. Additionally, the Committee establishes specific investment guidelines in the Investment Management Agreement for each investment management firm.

Credit Risk of Debt Securities - Credit risk

is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The debt security portfolios are managed by the Investment Division staff and by external professional investment management firms. All portfolio managers are required by the *Statement of Investment Policy* to maintain diversified portfolios. Each portfolio is also required to be in compliance with risk management guidelines that are assigned to them based upon the portfolio's specific mandate. In total, the pension fund debt securities portfolio is managed using the following guidelines adopted by the KRS Board of Trustees:

- ☞ Bonds, notes or other obligations issued or guaranteed by the US Government, its agencies or instrumentalities are permissible investments and may be held without restrictions.
- ☞ The duration of the total fixed income portfolio shall not deviate from the blended Lehman Brothers Aggregate Index/KRS High Yield Index by more than 10%.
- ☞ The duration of the TIPS portfolio shall not deviate from the Lehman Brothers TIPS Index by more than 10%.
- ☞ The amount invested in the debt of a single corporation shall not exceed 5% of the total market value of KRS' assets.
- ☞ No public fixed income manager shall invest more than 5% of the market value of assets held in any single issue short term instrument, with the exception of US Government issued, guaranteed or agency obligations.
- ☞ The amount invested in SEC Rule 144a securities shall not exceed 7.5% of the market value of the aggregate market value of KRS' fixed income investments.

The following tables present the KRS pension fund debt ratings at June 30, 2008 and 2007:

Pension Funds Debt Securities Investments at Fair Value as of June 30, 2008 and 2007

	2008	2007
AAA	\$1,852,092,028	\$3,697,018,926
AA+	3,146,943	4,019,782
AA	55,711,654	53,385,523
AA-	69,155,369	98,556,277
A+	64,663,074	40,611,902
A	94,408,564	117,081,402
A-	74,151,200	77,178,845
BBB+	107,130,804	100,891,605
BBB	106,177,690	119,298,748
BBB-	74,797,060	73,693,095
BB+	2,156,766	5,470,138
BB	8,702,285	2,227,931
BB-	-	705,765
B-	3,403,560	-
NR	166,287,656	-
Total Credit Risk Debt Securities	2,681,984,653	4,390,139,939
Government Bonds	267,456,013	480,795,784
Government Mortgage-Backed Securities (GNMA)	48,454,865	19,879,112
Indexed Linked Bonds	1,630,323,657	-
Total Debt Securities	\$4,628,219,188	\$4,890,814,835

At both June 30, 2008 and 2007, the weighted average quality rating of the pension fund debt securities portfolio was AA+ and AA+. As of June 30, 2008 and 2007, the KRS pension portfolio had \$14,262,611 and \$8,403,834, respectively, in debt securities rated below BBB-. The fair value of securities in the BBB- rating category was \$74,797,060 and \$73,693,095, respectively, as of June 30, 2008 and 2007.

The insurance fund debt securities portfolio, by guidelines, is to be invested in US Government securities. As shown below, as of June 30, 2008 and 2007, the entire insurance fund was invested in Treasury Inflation Protected Securities (TIPS) which carry a US Government treasury rating.

Insurance Fund Credit Risk of Debt Securities

As of June 30,	2008	2007
Treasury Inflation Protected Securities	\$330,535,852	\$289,343,163

Concentration of Credit Risk Debt Securities - Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's exposure in a single issuer.

The total debt securities portfolio is managed using the following general guidelines adopted by the KRS Board of Trustees:

- ☞ Bonds, notes or other obligations issued or guaranteed by the US Government, its agencies or instrumentalities are permissible investments and may be held without restrictions.
- ☞ Debt obligations of any single US Corporation shall be limited to a maximum of 5 percent of the total portfolio at market value.

As of June 30, 2008, the Insurance Fund held 8% of its investments in Exchange Traded Funds (ETF's). The amount totaled \$209,263,681 as of June 30, 2008. ETF's are securities that represent ownership in a long term unit investment trust that holds a portfolio of common stocks designed to track the performance of a designated index. Similar to a stock, ETF's can be traded continuously throughout the trading day, or can be held for the long term.

As of June 30, 2008, the Pension Fund held 5.49% of its investment in the Federal National Mortgage Association (Fannie Mae). The amount totaled \$708,164,873 as of June 30, 2008. Historically, Fannie Mae has been a publicly owned government corporation, recently entering conservatorship by the US Government, to purchase mortgages from lenders and resell them to investors; shares of Fannie Mae are traded on the New York Stock Exchange. Fannie Mae's debt has been perceived to be nearly as safe as US Treasury debt, given the US Government's implicit guarantee which has allowed it to pay lower interest rates to its debt holders.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The risk is managed by using the effective duration or option adjusted methodology. It is widely used in the management of fixed income portfolios by quantifying the risk of inherent rate changes. Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. The effective duration measures the sensitivity of the market price to changes in the yield curve. Effective duration is the most accurate duration measure when a significant portion of the securities are callable (redeemable) prior to maturity. The pension fund portfolio contains a number of securities that are callable and therefore interest rate risk is most appropriately measured by effective duration. KRS does not have a formal policy that constrains the duration of its fixed income portfolio.

The KRS pension fund debt securities portfolio benchmarks its debt securities portfolio to a weighted average benchmark consisting of the Lehman Brothers Aggregate Index and the Lehman Brothers US TIPS Index. At June 30, 2008 and 2007, the effective duration of the benchmark was 5.34 and 4.77, respectively. At the same points in time, the effective duration of the KRS pension fund debt securities portfolio was 5.25 and 4.92, respectively.

The KRS insurance fund long-term debt securities portfolio consists entirely of US Government issued bonds which are not callable (redeemable) prior to maturity. The

modified duration, similar to effective duration, measures the sensitivity of the market prices to changes in the yield curve but does not assume that securities will be called prior to maturity. Since the modified duration measure most accurately reflects the interest rate sensitivity of the insurance fund portfolio, this measure is used for comparative purposes. The KRS insurance fund debt securities portfolio benchmarks its debt securities portfolio to the Lehman Brothers US TIPS Index. At June 30, 2008 and 2007, the modified duration of the benchmark was 7.00 and 6.37, respectively. At the same points in time, the modified duration of the KRS insurance fund debt securities portfolio, excluding the pooled fund, was 7.8 and 7.85, respectively.

Foreign Currency Risk - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. KRS' currency risk exposure, or exchange rate risk, primarily resides within KRS' international equity holdings. KRS does not have a formal policy to limit foreign currency risk. The following tables present KRS' exposure to foreign currency risk at June 30, 2008 and 2007:

Pension Fund Investments at Fair Value as of June 30, 2008 and 2007

Foreign Equities	2008	2007
Australian Dollar	\$108,703,282	\$99,886,855
British Pound Sterling	347,502,090	440,922,544
Danish Krone	10,215,805	1,678
Euro	602,712,262	666,152,958
Hong Kong Dollar	42,788,359	36,321,861
Japanese Yen	360,039,117	423,200,251
Malaysian Ringgit	4,822,484	4,940,420
Norwegian Krone	8,462,661	18,449,939
Singapore Dollar	33,380,301	27,463,397
South African Rand	2,724,924	4,212,526
South Korean Won	8,878,461	10,265,258
Swedish Krona	22,736,416	21,968,065
Swiss Franc	132,737,018	158,519,487
International Equity Mutual Fund (various currencies)	3,375,984	629,475,754
Total Securities Subject To:		
Foreign Currency Risk	1,689,079,164	2,541,780,993
USD (securities held by International Investment Managers)	899,009,887	61,178,192
Total International Investment Securities	\$2,588,089,051	\$2,602,959,185

Insurance Fund Investments at Fair Value as of June 30, 2008 and 2007

Foreign Equities	2008	2007
Australian Dollar	\$35,134,773	\$34,120,308
British Pound Sterling	109,029,509	120,674,789
Danish Krone	3,306,933	-
Euro	189,066,281	195,444,217
Hong Kong Dollar	13,504,229	9,666,934
Japanese Yen	112,165,271	108,817,816
Malaysian Ringgit	1,373,536	-
New Taiwan Dollar	1,278,371	-
Norwegian Krone	2,758,439	9,480,847
Singapore Dollar	10,752,813	8,952,357
South African Rand	825,396	-
South Korean Won	2,678,342	-
Swedish Krona	7,113,693	7,170,720
Swiss Franc	41,108,670	49,914,778
Total Securities Subject To:		
Foreign Currency Risk	530,096,256	544,242,766
USD (securities held by International Investment Managers)	161,203,986	3,783,791
Total International Investment Securities	\$691,300,242	\$548,026,557

KRS Pension Funds Interest Rate Risk

	2008	Weighted Average Effective Duration	2007	Weighted Average Effective Duration
Asset Backed Securities	\$219,570,012	0.65	\$255,198,379	0.85
Commercial Mortgage Backed Securities	284,582,636	4.69	359,777,307	3.97
Corporate Bonds	676,082,460	6.36	654,647,912	5.94
Government Agencies	156,429,791	3.75	165,620,722	4.36
Government Bonds	1,938,543,143	6.84	1,983,611,183	6.61
Government Mortgage Backed Securities	1,063,447,866	3.92	1,114,227,990	3.72
Municipal Bonds	3,189,898	8.20	1,736,261	14.93
Non-Government Backed Collateralized Mortgage Obligations	280,513,429	1.66	355,995,081	1.43
Other Fixed Income	5,859,953	-	-	-
Total	\$4,628,219,188	5.25	\$4,890,814,835	4.92

Insurance Fund

Debt Securities Investments at Fair Value

As of June 30, 2008 and 2007

Investment	2008		2007	
	Fair Value	Weighted Duration	Fair Value	Weighted Duration
Index Linked Government Bonds	\$330,535,852	7.80	\$289,343,163	7.85

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, 2008, KRS had no credit risk exposure to borrowers because the collateral amounts received exceeded the amounts out on loan. The contracts with the custodial banks require them to indemnify KRS 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 KRS. 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 KRS, or any of its staff as a result of an 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 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.

Note I-Defined Benefit Pension Plan

All eligible employees of KRS participate in KERS (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. Plan members contributed 5% of creditable compensation for the periods ended June 30, 2008, 2007, and 2006. The Commonwealth contributed 8.5%, 7.75%, and 5.89% of covered payroll for the periods ended June 30, 2008, 2007, and 2006, respectively. The chart below includes the covered payroll and contribution amounts for KRS for the three periods included in this discussion.

	2008	2007	2006
Covered Payroll	\$11,846,700	\$11,269,800	\$10,960,000
Employer Contributions	\$1,007,000	\$873,400	\$641,200

Note J-Equipment

Equipment consists of the following:

Equipment as of June 30, 2008 and 2007

	2008	2007
Equipment, at cost	\$10,211,395	\$4,886,710
Less Accumulated Depreciation	(2,753,294)	(2,992,574)
	\$7,458,101	\$1,894,136

Depreciation expense for the fiscal years ended June 30, 2008 and 2007 amounted to \$378,887 and \$438,278, respectively.

Note K-Intangible Assets

The provisions of Governmental Accounting Standards Board (GASB) Statement No. 51, "Accounting and Financial Reporting for Intangible Assets" require that intangible assets be recognized in the Statement of Plan Net Assets only if they are considered identifiable. In conjunction with the adoption of GASB No. 51, KRS has capitalized software costs in the amount of \$1,199,829 in fiscal 2008. This capitalization was due to the software costs incurred to date for the Strategic Technology Advancements for the Retirement of Tomorrow (START) project.

Software as of June 30, 2008 and 2007

	2008	2007
Software, at cost	\$1,199,829	\$0
Less Accumulated Amortization	(119,983)	(0)
	\$1,079,846	0

Amortization expense for the fiscal year ended June 30, 2008 amounted to \$119,983. The financial statements for fiscal 2007 require no adjustment since the software purchases were made in fiscal 2008.

In fiscal 2007, KRS initiated the START project. It is anticipated that START will be completed in its entirety in fiscal 2011. The objectives of the project are to provide employees with a technology solution that will enable them to serve more customers more quickly while providing continued superior service; to enhance business services and improve operational efficiency; to improve the accuracy of the information collected, maintained, and provided; to improve the timeliness and accuracy of responses to members' inquiries; to provide internet based, self-service capabilities to members, retirees, and employers; and, to ensure that retirees receive monthly benefits without error or disruption.

Note L-Alternative Investment

On February 6, 2006, the health insurance fund of KRS loaned to KRS Perimeter Park West, Inc., a related party, \$700,000 for the purchase of real property at 1300 Louisville Road, Frankfort, Kentucky. The loan was not documented by a note, mortgage contract, or security interest in the property. Subsequent to the lending and purchase, the real property was valued by appraisal from \$135,000 to \$290,000. The range of appraisal values is based upon considerations of zoning classifications, site preparations and improvements, and other matters. KRS is reflecting the alternative investment at the lowest appraisal value for the property. Because of the significant difference in the appraised value of the property and the loan amount, and also because the loan was not documented by a note, mortgage contract, or security interest in the property, KRS is uncertain whether it will be able to collect any principal (or interest) in excess of the minimum appraised property value. Therefore, as of June 30, 2006, KRS management elected to write-down the value of the Alternative Investment to an estimated collectible value of \$135,000.

Note M-Actuarial Valuation

The provisions of Governmental Accounting Standards Board (GASB) No. 50, "Pension Disclosures, an Amendment of GASB No. 25 and No. 27", require that actuarial information included in the Notes to the Required Supplementary Information be moved to the Notes to the Financial Statements. In conjunction with the adoption of GASB No. 50, KRS has moved the information on the following page from the Notes to the Required Supplementary Information to the Notes to the Financial Statements:

Pension Funds

	Non-Hazardous	Hazardous
Valuation Date	6/30/2008	6/30/2008
Actuarial Cost Method	Entry Age	Entry Age
Amortization Method	Level Percent Closed	Level Percent Closed
Remaining Amortization Period	30 Years	30 Years
Asset Valuation Method	5-year Smoothed Market	5-year Smoothed Market
Actuarial Assumptions:		
Investment Return	7.75%	7.75%
Projected Salary Increases	4.0-13.5%	4.0-14.5%
Cost-of-Living Adjustment	None	None
Includes Inflation Rate	3.50%	3.50%

Insurance Funds

	Non-Hazardous	Hazardous
Valuation Date	6/30/2008	6/30/2008
Actuarial Cost Method	Entry Age	Entry Age
Amortization Method	Level Percent Closed	Level Percent Closed
Remaining Amortization Period	30 Years	30 Years
Asset Valuation Method	5-year Smoothed Market	5-year Smoothed Market
Medical Trend Assumption	12.00-5.00%	12.00-5.00%
Year of Ultimate Trend	2015	2015
Actuarial Assumptions:		
Investment Return	4.50%	7.75%
Includes Inflation Rate	3.50%	3.50%

As of June 30, 2008, the most recent actuarial valuation date, KRS had the following Unfunded Actuarial Accrued Liabilities:

Pension Funds	
Kentucky Employees Retirement System (Hazardous and Non-Hazardous)	\$4,926,775,705
County Employees Retirement System (Hazardous and Non-Hazardous)	2,224,969,975
State Police Retirement System	236,237,806
Total Pension Funds	7,387,983,486
Insurance Funds	
Kentucky Employees Retirement System (Hazardous and Non-Hazardous)	5,081,796,979
County Employees Retirement System (Hazardous and Non-Hazardous)	3,570,566,934
State Police Retirement System	321,146,271
Total Insurance Funds	8,973,510,184
Total Unfunded Liability as of June 30, 2008	\$16,361,493,670

The Schedule of Funding Progress for the Pension Funds is on pages 76 through 78. The Schedule of Funding Progress for the Insurance Funds is on pages 79 through 83.

Note N – House Bill 1 Pension Reform

House Bill 1 was signed by the Governor of the Commonwealth on June 27, 2008. It contains a list of changes that KRS must implement by September 1, 2008. House Bill 1 also contains statutory changes to Kentucky Revised Statute 61.637, the law governing members who become reemployed following retirement.

Employee contributions for non-hazardous employees who begin participating with KRS on, or after, September 1, 2008, will contribute a total of 6% of all their creditable compensation to KRS. Five percent of this contribution will be deposited to the individual employee’s account, while the other 1% will be deposited to an account created under 26 USC Section 401(h) in the KRS Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). Hazardous employees who begin participating with KRS on, or after, September 1, 2008, will contribute a total of 9% of all their creditable compensation, with 8% credited to the member’s account, and 1% deposited to the KRS Pension Fund. Interest paid each June on these members’ accounts will now be set at a rate of 2.5%. If a member terminates his/her employment and applies to take a refund, the member will be entitled to a full refund of contributions and interest in his/her account; however, the 1% contributed to the 401(h) account in the KRS Pension Fund is non-refundable and will be forfeited.

Employer contribution rates for KERS and SPRS for fiscal 2009 were established in the 2008-2010 Executive Branch Budget (House Bill 460) during the 2008 session of the

Kentucky General Assembly. Employer contribution rates for CERS for fiscal 2009 were enacted by House Bill 1 in the 2008 Special Legislative Session. The Employer contribution rates are established as follows (effective July 1, 2008):

KERS -Non Hazardous	10.01%
KERS - Hazardous	24.35%
CERS -Non Hazardous	13.50%
CERS - Hazardous	29.50%
SPRS	30.07%

These rates are less than the rates established by the Board of Trustees of KRS.

Although the majority of changes in this legislation will only impact new hires on, or after, September 1, 2008, there are some changes that will affect all members and retirees of KRS:

- ☞ Cost of Living Adjustment (COLA): Beginning July 1, 2009, COLA for retirees will now be set at 1.5% each July 1. The Kentucky General Assembly may increase this percentage at any time, but only if appropriate funding is allocated.
- ☞ Service Purchase Costs: The actuarial factors used to determine the cost to purchase a service will now assume the earliest date a member can retire with an

unreduced benefit, and will also include a COLA. This change will result in an increased service purchase cost for any purchase calculated on, or after, September 1, 2008. This change will also affect the cost billed to employers for sick leave when an employee retires.

- ☞ **Payment Options:** The Partial Lump Sum Payment Options will only be available for those employees who retire on, or before, January 1, 2009.
- ☞ **Kentucky Revised Statute 61.637** was modified significantly by House Bill 1. Specifically, a retiree reemployed on, or after, September 1, 2008, may not accrue additional service credit in KRS, even if employed in a position that would otherwise be required to participate in KRS. However, if a retiree is reemployed in a regular full time position, his/her employer is required to pay contributions on all creditable compensation earned during the period of reemployment. These contributions will be used to reduce the unfunded actuarial liability.

Additionally, if the retiree is reemployed in a regular full time position and has chosen health insurance coverage through KRS, his/her employer is required to reimburse KRS for the health insurance premium paid on the retiree's behalf, not to exceed the cost of the single premium rate.

Note O — Market Risk

Subsequent to June 30, 2008, the United States financial markets have experienced significant volatility. The investments of KRS are subject to potential loss arising from adverse changes in quoted market prices on equity securities and interest rates on fixed income securities. For the period from June 30, 2008 to October 31, 2008, it is estimated that KRS' investments have declined in market value approximately \$2,645 million. KRS will continue to monitor its investments as it has done in the past, but mitigates this risk through a diverse investment portfolio.

Schedule of Funding Progress

Kentucky Employees Retirement System (KERS) - Pension Fund

	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]
Non-Hazardous						
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
June 30, 2005**	5,578,685,746	7,579,074,839	2,000,389,093	73.6	1,655,907,288	120.8
June 30, 2006**	5,394,086,323	8,994,826,247	3,600,739,924	60.0	1,702,230,777	211.5
June 30, 2007**	5,396,782,459	9,485,939,278	4,089,156,819	56.9	1,780,223,493	229.7
June 30, 2008**	5,318,792,893	10,129,689,985	4,810,897,092	52.5	1,837,873,488	261.8

Hazardous						
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
June 30, 2005**	405,288,662	439,013,910	33,725,248	92.3	131,687,088	25.6
June 30, 2006**	427,984,192	508,655,903	80,671,711	84.1	138,747,320	58.1
June 30, 2007**	467,287,809	558,992,327	91,704,518	83.6	144,838,020	63.3
June 30, 2008**	502,132,214	618,010,827	115,878,613	81.2	148,710,060	77.9
Total						
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	140,097,767	98.0	1,787,693,652	7.8
June 30, 2004**	6,397,726,506	7,453,191,207	1,055,464,701	85.8	1,772,077,308	59.6
June 30, 2005**	5,983,974,408	8,018,088,749	2,034,114,341	74.6	1,787,594,376	113.8
June 30, 2006**	5,822,070,515	9,503,482,151	3,681,411,634	61.3	1,840,978,097	200.0
June 30, 2007**	5,864,070,268	10,044,931,605	4,180,861,337	58.4	1,925,061,513	217.2
June 30, 2008**	5,820,925,107	10,747,700,812	4,926,775,705	54.2	1,986,583,548	248.0

*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.

Schedule of Funding Progress

County Employees Retirement System (CERS) - Pension Fund

	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]
Non-Hazardous						
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)
June 30, 2005**	5,059,208,687	5,385,306,505	326,097,818	93.9	1,885,275,000	17.3
June 30, 2006**	5,162,894,136	6,179,569,267	1,016,675,131	83.5	1,982,437,473	51.3
June 30, 2007**	5,467,824,480	6,659,446,126	1,191,621,646	82.1	2,076,848,328	57.4
June 30, 2008**	5,731,502,438	7,304,217,691	1,572,715,253	78.5	2,166,612,648	72.6

Hazardous						
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
June 30, 2005**	1,452,353,023	1,795,617,335	343,264,312	80.9	411,121,728	83.5
June 30, 2006**	1,515,075,017	2,020,142,770	505,067,753	75.0	426,927,550	118.3
June 30, 2007**	1,639,288,294	2,208,736,179	569,447,885	74.2	458,998,956	124.1
June 30, 2008**	1,750,867,373	2,403,122,095	652,254,722	72.9	474,241,332	137.5
Total						
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)
June 30, 2005**	6,511,561,710	7,180,923,840	669,362,130	90.7	2,296,396,728	29.2
June 30, 2006**	6,677,969,153	8,199,712,037	1,521,742,884	81.4	2,409,365,023	63.2
June 30, 2007**	7,107,113,404	8,868,182,305	1,761,068,901	80.1	2,535,847,284	69.4
June 30, 2008**	7,482,369,811	9,707,339,786	2,224,969,975	77.1	2,640,853,980	84.3

*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.

Schedule of Funding Progress

State Police Retirement System (SPRS) - Pension Fund

	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]
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
June 30, 2005**	353,511,622	458,593,576	105,081,954	77.1	43,720,092	240.4
June 30, 2006**	344,016,197	516,482,298	172,466,101	66.6	47,743,865	361.2
June 30, 2007**	348,806,508	547,955,286	199,148,778	63.7	49,247,580	404.4
June 30, 2008**	350,891,451	587,129,257	236,237,806	59.8	53,269,080	443.5

*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.

Schedule of Funding Progress

State Police Retirement System (SPRS) - Insurance Fund

	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]
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
June 30, 2005**	100,207,082	234,159,510	133,952,428	42.8	43,720,092	306.4
June 30, 2006**	105,580,269	582,580,867	477,000,598	18.1	47,743,865	999.1
June 30, 2007**	115,215,912	432,763,229	317,547,317	26.6	49,247,580	644.8
June 30, 2008**	123,961,197	445,107,468	321,146,271	27.8	53,269,080	602.9

*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.

Schedule of Funding Progress

Kentucky Employees Retirement System (KERS) - Insurance Fund

	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]
Non-Hazardous						
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
June 30, 2005**	607,068,351	2,680,559,188	2,073,490,837	22.7	1,655,907,288	125.2
June 30, 2006**	611,350,765	7,815,480,774	7,204,130,009	7.8	1,702,230,777	423.2
June 30, 2007**	621,171,658	5,201,355,055	4,580,183,397	11.9	1,780,223,493	257.3
June 30, 2008**	603,197,761	5,431,499,285	4,828,301,524	11.1	1,837,873,488	262.7

Hazardous						
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
June 30, 2005**	187,947,644	386,844,695	198,897,051	48.6	131,687,088	151.0
June 30, 2006**	212,833,818	621,237,856	408,404,038	34.3	138,747,320	294.4
June 30, 2007**	251,536,756	504,842,981	253,306,225	49.8	144,838,020	174.9
June 30, 2008**	288,161,759	541,657,214	253,495,455	53.2	148,710,060	170.5
Total						
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
June 30, 2005**	795,015,995	3,067,403,883	2,272,387,888	25.9	1,787,594,376	127.1
June 30, 2006**	824,184,083	8,436,718,630	7,612,534,547	9.8	1,840,178,097	413.5
June 30, 2007**	872,708,414	5,706,198,036	4,833,489,622	15.3	1,925,061,513	251.1
June 30, 2008**	891,359,520	5,973,156,499	5,081,796,979	14.9	1,986,583,548	255.8

*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.

Schedule of Funding Progress

County Employees Retirement System (CERS) - Insurance Fund

	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]
Non-Hazardous						
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
June 30, 2005**	663,941,949	2,788,754,654	2,124,812,705	23.8	1,885,275,000	112.7
June 30, 2006**	777,726,590	4,607,223,639	3,829,497,049	16.9	1,982,437,473	193.2
June 30, 2007**	960,285,900	3,333,966,070	2,373,680,170	28.8	2,076,848,328	114.3
June 30, 2008**	1,168,883,170	3,583,193,466	2,414,310,296	32.6	2,166,612,648	111.4

Hazardous						
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
June 30, 2005**	359,180,461	1,283,299,092	924,118,631	28.0	411,121,728	224.8
June 30, 2006**	422,785,042	1,928,481,371	1,505,696,329	21.9	426,927,550	352.7
June 30, 2007**	512,926,549	1,646,460,011	1,133,533,462	31.2	458,998,956	247.0
June 30, 2008**	613,526,319	1,769,782,957	1,156,256,638	34.7	474,241,332	243.8
Total						
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
June 30, 2005**	1,023,122,410	4,072,053,746	3,048,931,336	25.1	2,296,396,728	132.8
June 30, 2006**	1,200,511,632	6,535,705,010	5,335,193,378	18.4	2,409,365,023	221.4
June 30, 2007**	1,473,212,449	4,980,426,081	3,507,213,632	29.6	2,535,847,284	138.3
June 30, 2008**	1,782,409,489	5,352,976,423	3,570,566,934	33.3	2,640,853,980	135.2

*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.

Schedule of Contributions From Employers and Other Contributing Entities

Kentucky Employees Retirement System (KERS) Non-Hazardous

Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
Pension				
June 30, 2001	\$21,787,253	\$23,482,080		107.8
June 30, 2002		\$1,760,328		
June 30, 2003	\$4,905,399	\$7,597,450		154.9
June 30, 2004	\$47,739,067	\$21,696,543		45.4
June 30, 2005	\$85,798,943	\$50,332,750		58.7
June 30, 2006	\$129,125,800	\$60,680,607		47.0
June 30, 2007	\$176,774,106	\$88,248,677		49.9
June 30, 2008	\$264,742,985	\$104,655,217		39.5

	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
Insurance				
June 30, 2001	\$66,874,871	\$66,874,871		100
June 30, 2002	\$93,993,177	\$93,912,017		99.9
June 30, 2003	\$92,052,561	\$65,335,219		71.0
June 30, 2004	\$77,951,553	\$78,016,737		100.1
June 30, 2005	\$86,974,271	\$49,909,228		57.4
June 30, 2006	\$202,498,302	\$47,634,639		23.5
June 30, 2007	\$219,268,964	\$64,014,332	\$10,744,049	34.0
June 30, 2008	\$558,745,820	\$56,744,942	\$6,633,538	11.3
Total				
June 30, 2001	\$88,662,124	\$90,356,951		101.9
June 30, 2002	\$93,993,177	\$95,672,345		101.8
June 30, 2003	\$96,957,960	\$72,932,669		75.2
June 30, 2004	\$125,690,620	\$99,713,280		79.3
June 30, 2005	\$172,773,214	\$100,241,978		58.0
June 30, 2006	\$331,624,102	\$108,315,246		43.8
June 30, 2007	\$396,543,070	\$152,263,009	\$10,744,049	39.8
June 30, 2008	\$823,488,805	\$161,400,159	\$6,633,538	20.4

Schedule of Contributions From Employers and Other Contributing Entities

Kentucky Employees Retirement System (KERS) Hazardous

Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
Pension				
June 30, 2001	\$9,920,148	\$10,626,663		107.1
June 30, 2002	\$7,742,052	\$7,933,817		102.5
June 30, 2003	\$8,511,402	\$7,322,607		86.0
June 30, 2004	\$9,600,978	\$9,769,580		101.8
June 30, 2005	\$9,449,878	\$9,758,547		103.3
June 30, 2006	\$10,787,472	\$10,803,206		100.1
June 30, 2007	\$12,219,689	\$13,237,321		108.3
June 30, 2008	\$14,147,341	\$15,257,079		107.8

	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
Insurance				
June 30, 2001	\$13,226,298	\$13,226,298		100
June 30, 2002	\$15,859,932	\$15,887,399		100.2
June 30, 2003	\$15,839,215	\$15,883,263		100.3
June 30, 2004	\$14,942,092	\$14,959,617		100.1
June 30, 2005	\$15,892,977	\$15,395,977		96.9
June 30, 2006	\$28,517,563	\$17,011,745		59.7
June 30, 2007	\$31,304,778	\$19,534,819	\$104,669	62.7
June 30, 2008	\$51,214,929	\$21,997,341	\$73,891	43.1
Total				
June 30, 2001	\$23,146,446	\$23,852,961		103.1
June 30, 2002	\$23,601,984	\$23,821,216		100.9
June 30, 2003	\$24,350,617	\$23,205,870		95.3
June 30, 2004	\$24,543,070	\$24,729,197		100.8
June 30, 2005	\$25,342,855	\$25,154,524		99.3
June 30, 2006	\$39,305,035	\$27,814,951		70.8
June 30, 2007	\$43,524,467	\$32,772,140	\$104,669	75.3
June 30, 2008	\$65,362,270	\$37,254,420	\$73,891	57.1

Schedule of Contributions From Employers and Other Contributing Entities

County Employees Retirement System (CERS) Non-Hazardous

Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
Pension				
June 30, 2001	\$35,658,922	\$48,914,435		137.2
June 30, 2002	\$3,326,367	\$5,528,348		166.2
June 30, 2003	\$8,682,257	\$11,855,694		136.6
June 30, 2004	\$43,111,505	\$44,028,465		102.1
June 30, 2005	\$53,117,955	\$54,616,800		102.8
June 30, 2006	\$83,123,669	\$90,834,052		109.3
June 30, 2007	\$112,508,305	\$124,260,850		110.4
June 30, 2008	\$138,311,398	\$150,925,334		109.1

	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
Insurance				
June 30, 2001	\$62,292,385	\$62,292,385		100.0
June 30, 2002	\$102,119,475	\$102,150,543		100.0
June 30, 2003	\$102,038,427	\$99,234,843		97.3
June 30, 2004	\$89,289,520	\$89,344,241		100.1
June 30, 2005	\$106,612,633	\$106,638,253		100.0
June 30, 2006	\$272,942,757	\$128,867,817		47.2
June 30, 2007	\$285,600,490	\$147,608,801	\$9,623,431	55.1
June 30, 2008	\$406,541,729	\$196,110,111	\$6,003,181	49.7
Total				
June 30, 2001	\$97,951,307	\$111,206,820		113.5
June 30, 2002	\$105,445,842	\$107,678,891		102.1
June 30, 2003	\$110,720,684	\$111,090,537		100.3
June 30, 2004	\$132,401,025	\$133,372,706		100.7
June 30, 2005	\$159,730,588	\$161,255,053		101.0
June 30, 2006	\$356,066,426	\$219,701,869		61.7
June 30, 2007	\$398,108,795	\$271,869,651	\$9,623,431	70.7
June 30, 2008	\$544,853,127	\$347,035,445	\$6,003,181	64.8

Schedule of Contributions From Employers and Other Contributing Entities

County Employees Retirement System (CERS) Hazardous

Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
Pension				
June 30, 2001	\$19,409,377	\$20,983,360		108.1
June 30, 2002	\$10,582,988	\$11,054,949		104.5
June 30, 2003	\$19,920,223	\$16,905,556		84.9
June 30, 2004	\$27,050,382	\$27,640,775		102.2
June 30, 2005	\$39,437,725	\$39,947,747		101.3
June 30, 2006	\$44,059,404	\$49,976,485		113.4
June 30, 2007	\$53,889,838	\$61,553,118		114.2
June 30, 2008	\$64,082,063	\$72,154,734		112.6

	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
Insurance				
June 30, 2001	\$32,149,432	\$32,149,432		100.0
June 30, 2002	\$45,721,274	\$45,730,333		100.0
June 30, 2003	\$43,502,755	\$45,243,950		104.0
June 30, 2004	\$47,018,046	\$47,036,777		100.0
June 30, 2005	\$54,094,495	\$54,106,577		100.0
June 30, 2006	\$98,297,535	\$64,853,778		66.0
June 30, 2007	\$115,938,899	\$70,072,785	\$656,523	61.0
June 30, 2008	\$168,723,639	\$90,113,200	\$419,774	53.7
Total				
June 30, 2001	\$51,558,809	\$53,132,792		103.1
June 30, 2002	\$56,304,262	\$56,785,282		100.9
June 30, 2003	\$63,422,978	\$62,149,506		98.0
June 30, 2004	\$74,068,428	\$74,677,552		100.8
June 30, 2005	\$93,532,220	\$94,054,324		100.6
June 30, 2006	\$142,356,939	\$114,830,263		80.7
June 30, 2007	\$169,828,737	\$131,625,903	\$656,523	101.6
June 30, 2008	\$232,805,702	\$162,267,934	\$419,774	70.0

Schedule of Contributions From Employers and Other Contributing Entities

State Police Retirement System (SPRS)

Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
Pension				
June 30, 2001	\$1,535,846	\$1,515,521		98.7
June 30, 2002		\$(17,643)		
June 30, 2003		\$(20,061)		
June 30, 2004	\$1,175,711	\$1,152,752		98.0
June 30, 2005	\$3,730,805	\$2,851,461		76.4
June 30, 2006	\$6,352,777	\$4,244,445		66.8
June 30, 2007	\$9,023,665	\$6,142,326		68.1
June 30, 2008	\$13,823,490	\$7,443,277		53.8

	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
Insurance				
June 30, 2001	\$8,098,907	\$8,113,391		100.2
June 30, 2002	\$9,563,111	\$9,579,899		100.1
June 30, 2003	\$9,443,588	\$7,654,313		81.1
June 30, 2004	\$8,434,834	\$8,455,498		100.2
June 30, 2005	\$8,608,536	\$6,631,031		77
June 30, 2006	\$12,554,648	\$6,880,517		54.8
June 30, 2007	\$15,233,320	\$6,488,600	\$361,942	45.0
June 30, 2008	\$43,469,735	\$7,329,229	\$183,564	17.3
Total				
June 30, 2001	\$9,634,753	\$9,628,912		99.9
June 30, 2002	\$9,563,111	\$9,562,256		100
June 30, 2003	\$9,443,588	\$7,634,252		80.8
June 30, 2004	\$9,610,545	\$9,608,250		100
June 30, 2005	\$12,339,341	\$9,482,492		76.8
June 30, 2006	\$18,907,425	\$11,124,962		58.8
June 30, 2007	\$24,256,985	\$12,630,926	\$361,942	54.0
June 30, 2008	\$57,293,225	\$14,772,506	\$183,564	26.0

Schedule of Administrative Expenses Dollars in Thousands (\$)

For the Fiscal Year Ended June 30,	2008	2007
Personal Services		
Salaries and Per Diem	\$12,339	\$ 11,429
Fringe Benefits	3,445	3,230
Tuition Assistance	56	53
Total Personal Services	15,840	14,712
Contractual Services		
Actuarial	474	470
Audit	49	42
Legal	843	395
Medical	222	255
Contractual	774	637
Total Contractual Services	2,362	1,799
Communication		
Printing	325	331
Telephone	138	147
Postage	634	633
Travel	205	236
Total Communication	1,302	1,347

	2008	2007
Rentals		
Office Space	1,056	979
Equipment	86	67
Total Rentals	1,142	1,046
Miscellaneous		
Utilities	258	274
Supplies	230	268
Insurance	64	64
Maintenance	642	441
Other	569	687
Total Miscellaneous	1,763	1,734
Depreciation/Amortization	498	439
Total Pension Fund Administrative Expense	22,907	21,077
Healthcare Administrative Expenses	7,477	6,748
Total Administrative Expenses	\$30,384	\$27,825

Schedule of Investment Expenses Dollars in Thousands (\$)

For the Fiscal Year Ended June 30,	2008	2007
Pension Funds		
Security Lending Fees		
Broker Rebates	\$115,960	\$177,377
Lending Agent Fees	4,950	2,129
Total Security Lending	120,910	179,506
Common Stock Commissions	7,915	7,386
Contractual Services		
Investment Management	12,273	10,573
Security Custody	209	381
Investment Consultant	231	377
Investment Related Travel	37	25
Total Contractual Services	12,750	11,356
Insurance Funds		
Security Lending Fees		
Broker Rebates	27,476	34,796
Lending Agent Fees	1,008	338

	2008	2007
Total Security Lending	28,484	35,134
Common Stock Commissions	1,249	744
Contractual Services		
Investment Management	1,702	1,297
Security Custody	41	69
Investment Consultant	46	68
Investment Related Travel	7	4
Total Contractual Services	1,796	1,438
Total Administrative Expenses	\$173,104	\$235,564

**Schedule of Professional Consultant Fees
For the Fiscal Years Ended June 30, 2008 and 2007**

	2008	2007
(Dollars in Thousands)		
Actuarial Services	\$474	\$470
Medical Review Services	221	255
Audit Services	49	42
Legal Counsel	843	395
Compliance	120	180
Workflow	424	245
Healthcare	17	133
Banking	48	53
Human Resource	104	
Miscellaneous	62	26
Total	\$2,362	\$1,799

Report On Internal Control Over Financial Reporting and On Compliance and Other Matters 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 fiscal year ended June 30, 2008, and have issued our report thereon dated November 17, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kentucky Retirement Systems' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Kentucky Retirement Systems' internal control over

financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Kentucky Retirement Systems' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

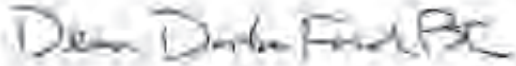
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance & Other Matters

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 grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely 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.



November 17, 2008
Lexington, Kentucky

Current Year

Our audit disclosed no findings which are required to be reported in accordance with *Government Auditing Standards*.

Investments Section

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Kentucky Retirement Systems
A component unit of the Commonwealth of Kentucky

Kentucky Employees Retirement System (KERS)
County Employees Retirement System (CERS)
State Police Retirement System (SPRS)

Investment Oversight

The Board of Trustees is responsible for overseeing the investment decisions of the Kentucky Retirement Systems. While enhancing revenues is a vital component of maintaining member benefits, the Board also takes great care to preserve capital and protect funds against undue losses.

The Board recognizes their fiduciary duty not only to formally invest in compliance with the Prudent Person Rule, but also to manage in recognition of the long-term nature of the Systems.

Short Term & Long Term

Short-term investment objectives stipulate that annual returns of managed funds should exceed returns achieved by a policy benchmark portfolio, composed of comparable unmanaged market indices (Ex. S&P 500, Russell 1000, MSCI EAFE, etcetera).

Long-term investment objectives stipulate that returns measured over two market cycles (estimated as six to ten years) should exceed the 7.75% Actuarially Required Rate of Return, as well as surpass returns achieved by the fund benchmark.

Additionally, the Board encourages investment in securities of corporations that provide a positive economic contribution to the Commonwealth of Kentucky.

◀ What is the Prudent Person Rule?

A legal maxim restricting the discretion in a client's account to investments that a prudent person seeking reasonable income and preservation of capital might buy for their own portfolio.

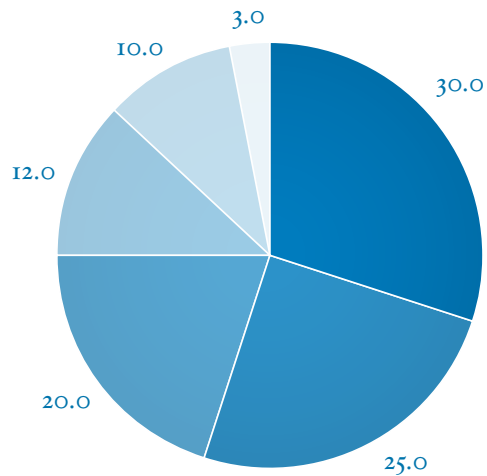
◀ Contributing to Kentucky's Economy

KRS invests in many companies that impact our economy, several include Yum! Brands, Coca-Cola, and Toyota.

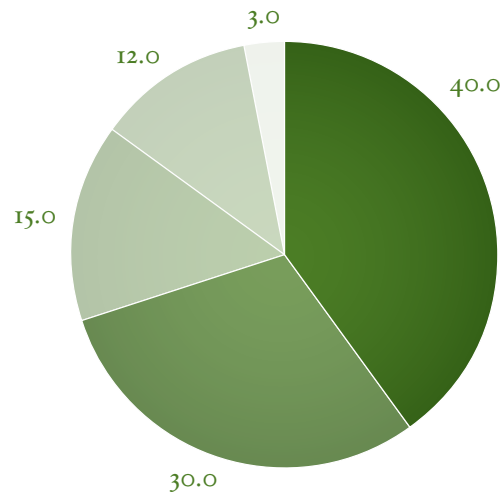
Target Allocations (%) for Pension & Insurance Funds

The Board approved a new target asset allocation, beginning July 1, 2007. The following graphs depict the Board's investment policy as of June 30, 2008.

Asset Class	Pension
U.S. Equity	30.0%
Fixed Income	25.0
International Equity	20.0
Alternatives	12.0
TIPS	10.0
Cash	3.0



Asset Class	Insurance
U.S. Equity	40.0%
International Equity	30.0
Alternatives	15.0
TIPS	12.0
Cash	3.0



◀ **What are Alternative investments?**
Assets like Private Equity and Real Estate

◀ **What does TIPS stand for?**
Treasury Inflation Protected Securities

Diversifying Assets & Rebalancing Allocations

Portfolios are diversified through the use of multiple asset classes. Within each asset class portfolios are diversified through the selection of individual securities. Each asset class is diversified through the use of multiple portfolios that are managed by KRS staff, professional consultants, external money managers and advisors. Advisors are afforded discretion to diversify within the guideline parameters established by the Board. Both the Pension and Insurance portfolios remained within this established range in fiscal 2008.

Proper implementation of the investment policy requires that a periodic adjustment of assets be made. Such rebalancing is necessary to ensure conformance with the Statement of Investment Policy target levels, which also calls for an immediate rebalancing to allocation ranges if an asset class exceeds or falls below its target by 10%.

Performance Review Procedures

At least once each quarter the Investment Committee, on behalf of the Board of Directors, reviews portfolio performances to ensure compliance with the Statement of Investment Policy. Additionally, the KRS Investment Division performs daily tests to assure compliance with the investment policy.

Investment Consulting

The Board employs industry-leading consultants to independently assist in reviewing asset allocation guidelines, as well as the performance of internally managed and externally managed assets.

◀ Statement of Investment Policies

View the Pension Fund policy by visiting www.kyret.com/investments/psaip.pdf

View the Insurance Fund policy by visiting www.kyret.com/investments/isoip.pdf

◀ Consultant Perspective

A review from Strategic Investment Solutions, Inc., is available in the following section. Get their perspective on our allocations and performance.

STRATEGIC INVESTMENT SOLUTIONS, INC.

333 BUSH STREET, STE 2000, SAN FRANCISCO, CALIFORNIA 94104
TEL 415/362-3484 ■ FAX 415/362-2752

The following is a review of KRS funds
by Strategic Investment Solutions, Inc.,
a professional investment consultant.

STRATEGIC INVESTMENT SOLUTIONS, INC.

333 BUSH STREET, STE 2000, SAN FRANCISCO, CALIFORNIA 94104
TEL 415/362-3484 ■ FAX 415/362-2752

DATE: SEPTEMBER 19, 2008
SUBJECT: ANNUAL FUND REVIEW

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

Dear Trustees:

Strategic Investment Solutions 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 fiscal year ended June 30, 2008. 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

Global equity markets experienced a sharp drop during FY 2008. In the US, the follow-on effects of the sub-prime meltdown and the de-leveraging of financial positions have led to massive write-downs of asset values by major financial services firms. The forced sale of Bear Stearns to JP Morgan

on March 14 was a precursor to several other massive write-down and bankruptcy announcements later in 2008. Inflation became a serious concern during the latter part of the year as energy, food, and raw materials prices increased dramatically. This presented the Federal Reserve with a dilemma: provide the markets with greater liquidity to help avert more severe economic pain or tighten monetary policy to help stem accelerating inflation. Uncertainty led to much higher market volatility during FY 2008. Growth stocks outperformed value stocks but this seemed like a Pyrrhic victory as both were negative over the year. Most of this decline occurred in just the month of June as financial turmoil battered the market. Non-US stocks were no safe haven, especially in June, though emerging market stocks held up relatively well over the year due to their benefiting from higher commodities prices.

On the fixed income side, interest rates fell as the Fed began easing aggressively, also leading to a steepening yield curve, while high yield bonds were hurt by credit concerns and illiquidity. Alternative investments continued to do well relative to public markets.

The US dollar weakened against the Euro and Japanese Yen during this period, boosting International Equity and Fixed Income returns. The S&P 1500 Index fell 12.7% over the

past year while the MSCI EAFE (International Equity) Index (Gross) fell 10.1%. The fixed income markets, as represented by the Lehman Aggregate Bond Index, rose 7.1%.

Systems Highlights

According to the Fund Analytics statements from Northern Trust, the Pension Fund's assets decreased from \$14.2 billion on June 30, 2007 to \$12.9 billion on June 30, 2008. The Fund returned -4.2% during this period versus -3.8% for the Reference Index. The Insurance Fund's assets decreased from \$2.7 billion on June 30, 2007 to \$2.6 billion on June 30, 2008. It also modestly outperformed its benchmark, returning -7.8% versus -7.9% for the Reference Index. Please note the Reference Indices are constructed according to the individual target asset allocations of the Funds.

The Pension Fund was overweight domestic equity, at target for international equity and fixed income, and underweight alternative investments at the end of FY 2008. The Insurance Fund was overweight domestic equity and cash equivalents and underweight international equity, fixed income, and alternative investments. KRS continues to be in the process of implementing significant changes to the allocation targets of both Funds. The Funds benefited from strong relative performance in public equities and Alternative Investments.

The asset allocations for the Pension and Insurance Funds as of June 30 are provided (at right) relative to their allocation targets.

Pension Allocations (%) as of June 30, 2008

Asset Class	Target	Actual
U.S. Equity	30.0%	33.2%
International Equity	20.0	20.2
Fixed Income	25.0	22.1
Alternatives ¹	12.0	9.5
TIPS	10.0	12.8
Cash ²	3.0	2.2

Insurance Allocations (%) as of June 30, 2008

Asset Class	Target	Actual
U.S. Equity	40.0%	43.3%
International Equity	30.0	26.7
Alternatives ¹	15.0	7.0
TIPS	12.0	12.8
Cash ²	3.0	10.2

¹ Includes Private Equity and Real Estate

² Includes equitization positions

All major asset classes are within their allowable ranges. Differences between actual and target allocations are generally the result of KRS working towards implementing recent asset allocation changes.

Investment Manager Highlights

PENSION FUND

Among domestic equity managers, the INVESCO structured equity portfolio (-10.1%) beat the benchmark return (-13.1%) while the S&P 1500 Index portfolio (-12.7%) matched its benchmark. The NTQA small cap portfolio lagged (-17.1% vs. -16.2% for the Russell 2000 Index).

On the international side, the BGI International Alpha Tilts core and Boston Company value portfolios trailed their benchmarks (-11.5% and -14.3%, respectively, vs. -10.1% for the MSCI EAFE (Gross) Index). The Fidelity growth portfolio (-4.7%) well exceeded the Index. KRS funded two new emerging market equity portfolios in March, Aberdeen and Wellington.

All three core fixed income portfolios trailed their benchmark during the entire fiscal year: Lincoln Capital (4.54% vs. 7.12% for the Lehman Aggregate Index), Baird (3.75%), and Pyramis (6.09%). Fortunately, both TIPS portfolios beat the Lehman US TIPS Index (15.4% for the Internal portfolio and 15.2% for the Barksdale portfolio vs. 15.1% for the Index). Over longer periods the managers have met or trailed the benchmark net of management fees due to the recent credit crisis, as most active managers have underweighted Treasuries.

The Alternatives portfolio continued its strong performance record relative to public equities since inception, with a 4.9% return, beating the 3.3% return of the Blended Index. Over the past three years, the portfolio gained 5.0% vs. 4.1% for the Index on an annualized basis.

INSURANCE FUND

The S&P 1500 Index portfolio met the index return (-13.0% vs. -12.7% for the S&P 1500 Total Return Index) while Fidelity (-4.5% vs. -10.1% for the MSCI EAFE Index) did quite well. The Internal TIPS portfolio exceeded the Lehman TIPS Index return (15.3% vs. 15.1%).

Summary

During the 2008 fiscal year the Pension and Insurance Funds were hurt by the credit crisis and deteriorating economy, though improved diversification helped to protect the Funds' assets. The System continues to implement the Funds' long-term asset allocation changes.

Sincerely,



Peter A. Keliuotis, CFA
Managing Director

cc: A. Tosh, B. Cracraft, B. Aldridge (KRS)

Investment Results as of June 30, 2008

The Pension Fund returned -4.21%, which trailed the return of its benchmark by 0.39% and also fell short of the actuarially required rate of return of 7.75%. The below benchmark performance of the Pension Fund was due, in large part, to an above benchmark weighting to domestic equities (the worst performing asset class for the period) and below benchmark performance from the fixed income asset class.

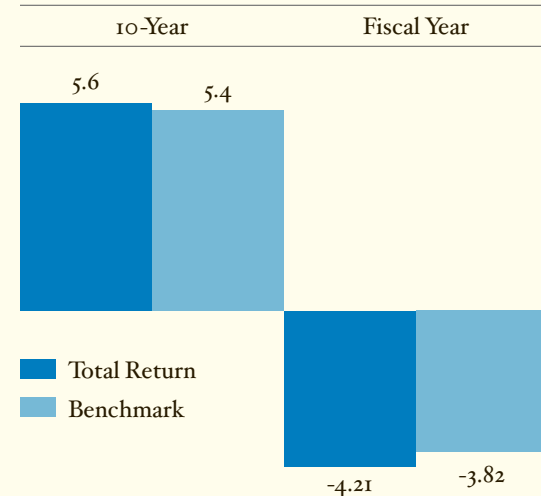
The Insurance Fund also posted a negative return of -7.85% compared to the benchmark's -7.95% and the actuarially required rate of 7.75%. The fund outpaced its benchmark in large part due to above benchmark performance from the international equity portfolio, and a below benchmark allocation to the alternative asset portfolio, which was one of the worst performing asset classes as reflected by its respective benchmark's return.

Benchmarks

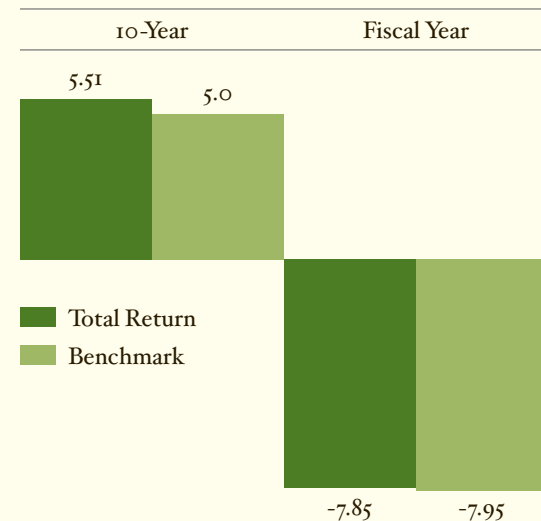
Benchmarks utilized to measure the Pension and Insurance Funds are a weighted average composite of the various asset class indices consisting within each KRS investment portfolio.

These benchmarks are intended to be objective, measurable, investable/replicable, and representative of the investment mandates. They are developed from publicly available information, and accepted by the investment advisor and KRS as the neutral position consistent with the investment mandate. KRS' Investment Division and consultant recommend the indices and benchmarks, which are reviewed and approved by the Investment Committee and ratified by the Board of Trustees. It is anticipated that as KRS continues to diversify through other markets and asset classes, both the Pension and Insurance Fund Total Benchmarks will evolve to reflect these exposures.

Pension Fund & Benchmark Returns (%)



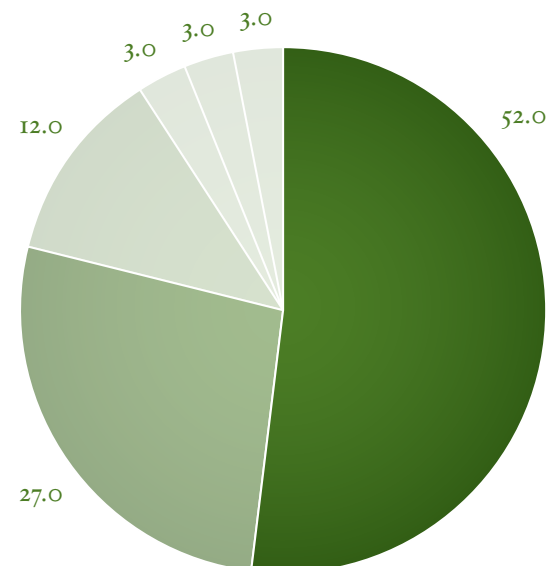
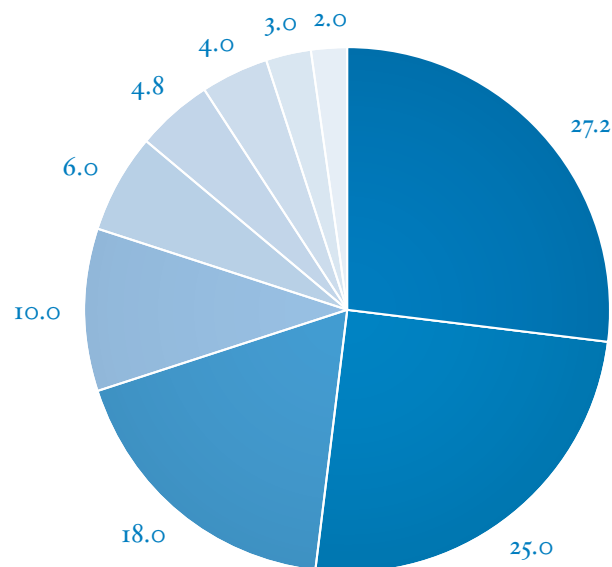
Insurance Fund & Benchmark Returns (%)



Pension & Insurance Funds Benchmark Allocations (%)

Benchmarks are a weighted average composite of the various asset class indices consisting within each KRS investment portfolio. Following is the Pension and Insurance Total Fund Benchmark composition.

Index	Pension Fund	Insurance Fund
S&P 1500 Composite	27.2%	52.0%
Lehman Brothers Aggregate	25.0	-
MSCI Europe, Australia and Far East	18.0	27.0
Lehman Brothers TIPS	10.0	12.0
S&P 500 Composite	6.0	-
Lehman Brothers High Yield Corporate	4.8	3.0
Russell 2000 Index	4.0	-
3-Month U.S. Treasury Bill	3.0	3.0
MSCI Emerging Markets	2.0	3.0



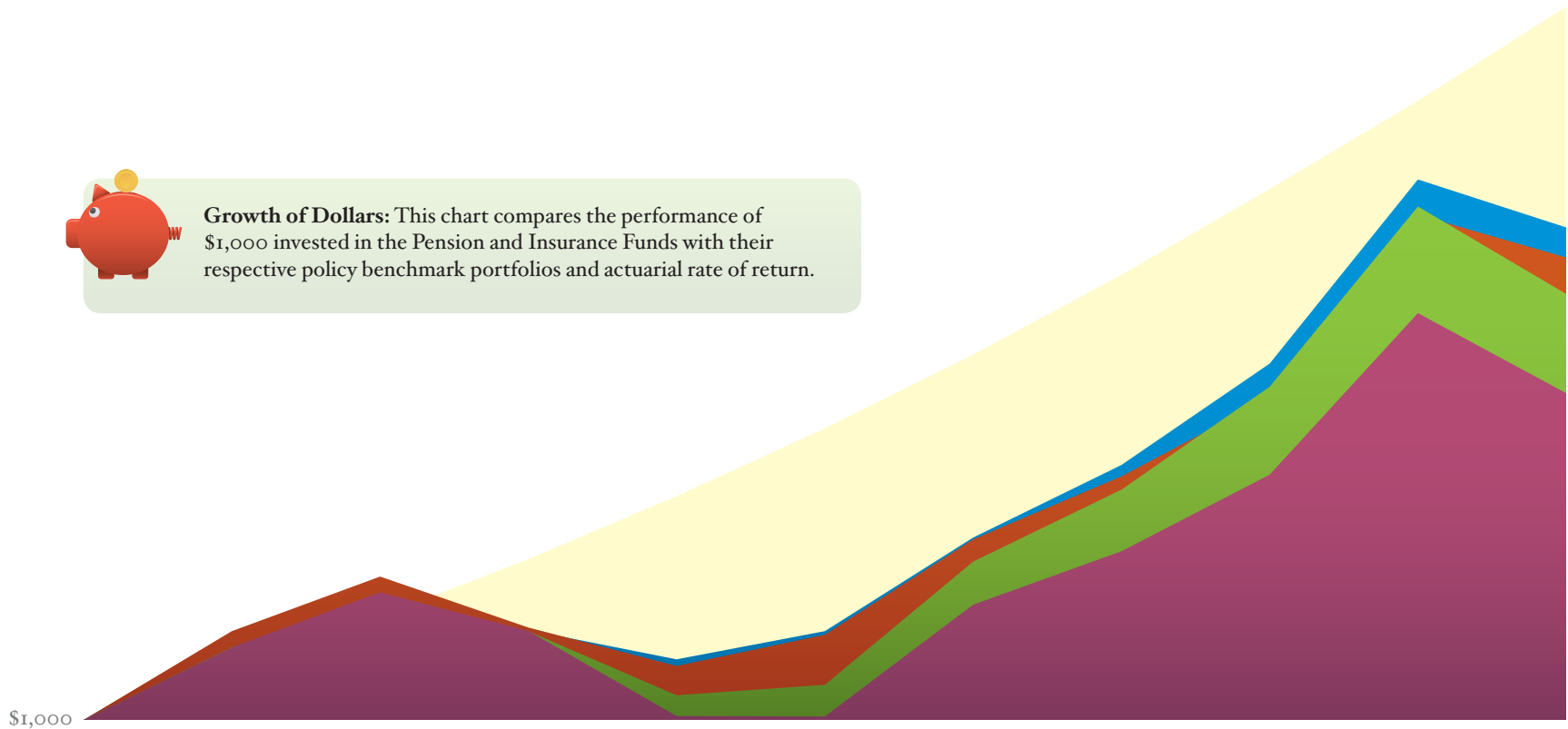
Long-Term Results

The 10-years ending June 30, 2008, the Pension Fund earned an annualized total return of 5.60% and remains ahead of, or in line with, its benchmark for each of the time periods except the current fiscal year. The Insurance Fund continued to outperform its benchmark, earning a 5.51% return for the same period. Returns have been above, or in line with, the benchmark for each.

Investment	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Pension Fund	\$1,000	\$1,143	\$1,216	\$1,150	\$1,101	\$1,148	\$1,304	\$1,425	\$1,594	\$1,901	\$1,821
Pension Fund Benchmark	1,000	1,148	1,239	1,154	1,090	1,142	1,301	1,406	1,537	1,842	1,771
Insurance Fund	1,000	1,121	1,193	1,148	1,041	1,059	1,264	1,384	1,555	1,856	1,710
Insurance Fund Benchmark	1,000	1,121	1,213	1,148	1,006	1,006	1,192	1,281	1,409	1,678	1,545
Actuarial Assumed ROR	1,000	1,083	1,172	1,268	1,373	1,486	1,609	1,742	1,885	2,032	2,189



Growth of Dollars: This chart compares the performance of \$1,000 invested in the Pension and Insurance Funds with their respective policy benchmark portfolios and actuarial rate of return.



U.S. Equity

For the fiscal year, ending June 30, 2008, the Pension Fund's U.S. equity portfolio posted a return of -12.85%, which outperformed the return of its benchmark by 0.47%. The Insurance Fund's U.S. equity portfolio posted a return of -13.04%, falling short of the return of its benchmark by 0.37%. All segments of the U.S. equity markets posted sharply negative results during the 12-month period.

Despite the market's extreme volatility, U.S. equity investors have received favorable returns from U.S. equity investments over the past three years. The KRS Pension Fund has generated an annualized return of 5.17% over this period, outgaining its benchmark by 0.39%. Over the same time period, the Insurance Fund has produced an annualized return of 4.58%, underperforming its benchmark return of 4.70%. Both the pension and insurance portfolios have produced positive returns when viewed over a five-year time horizon.

The 10-year returns for each U.S. equity portfolio also point to solid positive performance. The pension's equity portfolio has generated an annualized average return of 4.09%, while the insurance equity portfolio posted an average annual return of 3.78%. Both portfolios exceeded their benchmarks for the 10-year period.

U.S. Equity Returns (%) of Pension Fund, Insurance Fund vs. Benchmarks, Indices

Fund, Benchmark or Index	Fiscal Year	3-Year	5-Year	10-Year	Inception
Pension Fund	-12.85%	5.17%	8.50%	4.09%	11.95% ³
Pension Fund Performance Benchmark ¹	-13.22	4.78	8.60	3.82	11.83
Insurance Fund	-13.04	4.58	8.17	3.78	9.64 ⁴
Insurance Fund Performance Benchmark ²	-12.67	4.70	8.18	3.01	9.25
S&P 500 (Large Cap)	-13.12	4.41	7.58	2.88	-
S&P 1500 (Total Equity)	-12.67	4.70	8.18	3.54	-
Russell 1000 (Large Cap)	-12.36	4.81	8.22	3.38	-
Russell 2000 (Small Cap)	-16.19	3.79	10.29	5.53	-
Russell 3000 (Total Equity)	-12.69	4.73	8.37	3.51	-

¹ Pension Fund Performance Benchmark consists of 67% S&P 1500 Composite (Total), 20% S&P 500 and 13% Russell 2000

² Insurance Fund Performance Benchmark is S&P 1500 Composite

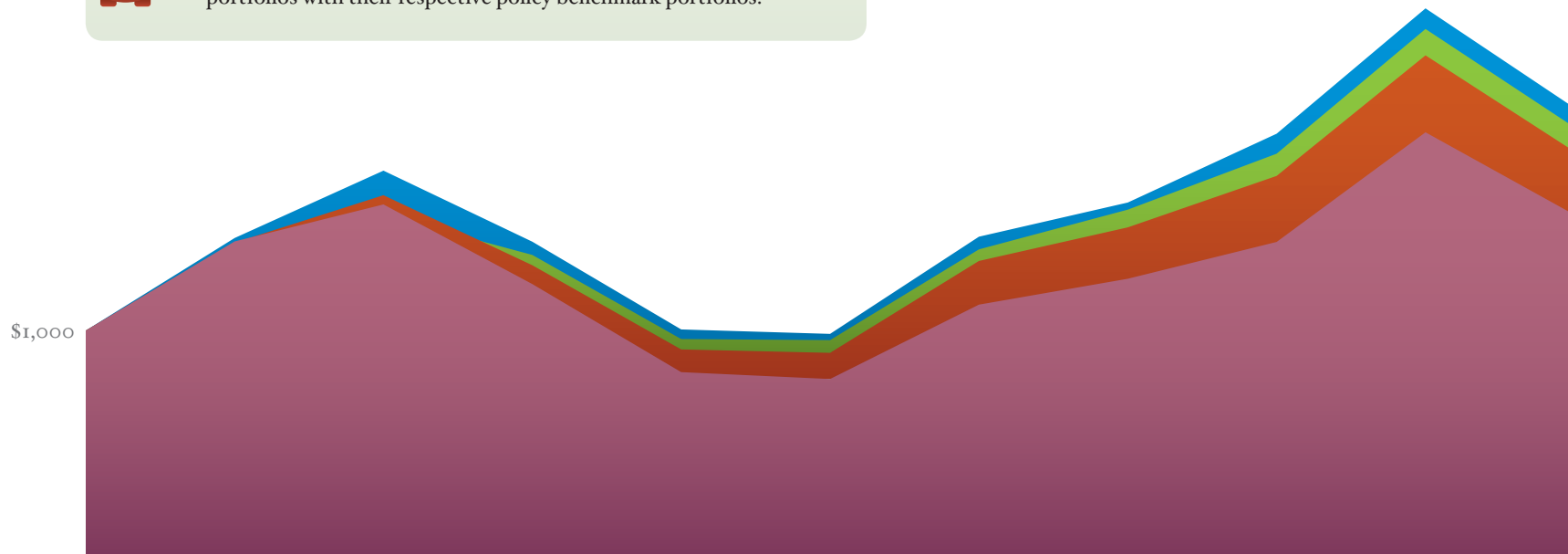
³ Inception Date of Pension Fund is April 1984

⁴ Inception Date of Insurance Fund is July 1992

Investment	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Pension Fund	\$1,000	\$1,205	\$1,354	\$1,197	\$1,003	\$993	\$1,208	\$1,283	\$1,435	\$1,712	\$1,492
Pension Fund Benchmark	1,000	1,194	1,299	1,144	958	951	1,154	1,228	1,342	1,609	1,396
Insurance Fund	1,000	1,163	1,256	1,167	981	979	1,180	1,267	1,391	1,667	1,450
Insurance Fund Benchmark	1,000	1,197	1,279	1,103	908	893	1,057	1,115	1,196	1,438	1,256



Growth of Dollars: This chart compares the performance of \$1,000 invested in the Pension and Insurance Funds' U.S. Equity portfolios with their respective policy benchmark portfolios.



Top 10 U.S. Equity Holdings & Market Value (\$)

Pension Fund			Insurance Fund		
Company	Shares	Market Value	Company	Shares	Market Value
Exxon Mobil Corp.	1,728,800	\$152,359,144	Exxon Mobil Corp.	366,500	\$32,299,645
Microsoft Corp.	3,058,100	84,128,331	General Electric	677,900	18,093,151
Chevron Corp.	766,759	76,008,820	Microsoft Corp.	628,900	17,301,039
General Electric	2,594,200	69,239,198	Wal-Mart Stores Inc.	269,400	15,140,280
Wal-Mart Stores Inc.	1,053,300	59,195,460	Chevron Corp.	139,716	13,850,047
Conoco Phillips	589,808	55,671,977	AT&T Inc.	409,121	13,783,286
IBM Corp.	449,000	53,219,970	Johnson & Johnson	209,788	13,497,760
Apple Inc.	302,750	50,692,460	Proctor & Gamble	209,375	12,732,094
Coca Cola Co.	966,000	50,212,680	Google Inc.	22,200	11,686,524
AT&T Inc.	1,407,064	47,403,986	Apple Inc.	66,400	11,118,016

A complete list of holdings is available upon request.

International Equity

For the fiscal year, ending June 30, 2008, the Pension Fund's international equity portfolio returned -9.62%, outperforming its benchmark by 0.64%. The Insurance Fund's international equity portfolio substantially outperformed its benchmark, posting a return of -6.25% during the same 12-month period. Developed international equity markets experienced strong negative returns, while emerging international equity markets posted positive results during the 12-month period.

Over the past three years, international equity investors have received very favorable returns from the Non-U.S. Equity asset class. The KRS Pension Fund portfolio has generated an annualized average return of 12.47% over this three-year period, which has fallen short relative to the benchmark's return of 13.30%. The Insurance Fund, in contrast, has outpaced the annualized return of the benchmark, generating an average return of 14.07%. The Systems began their international equity program in July of 2000. Since inception, the pension international equity portfolio has underperformed the benchmark, while the insurance international equity portfolio has outperformed the benchmark.

International Equity Returns (%) of Pension Fund, Insurance Fund vs. Benchmarks, Indices

Fund, Benchmark or Index	Fiscal Year	3-Year	5-Year	Inception
Pension Fund	-9.62%	12.47%	15.60%	2.74% ²
Pension Fund Performance Benchmark ¹	-10.26	13.30	16.93	3.89
Insurance Fund	-6.25	14.07	17.19	4.54 ³
Insurance Fund Performance Benchmark ¹	-10.26	13.30	16.93	3.89
MSCI EAFE	-10.15	13.34	17.16	-
MSCI EM	4.89	27.52	30.15	-
MSCI ACWI Ex US	-6.20	16.16	19.42	-

¹ Pension & Insurance Fund Performance Benchmarks consists of 90% MSCI EAFE and 10% MSCI EM

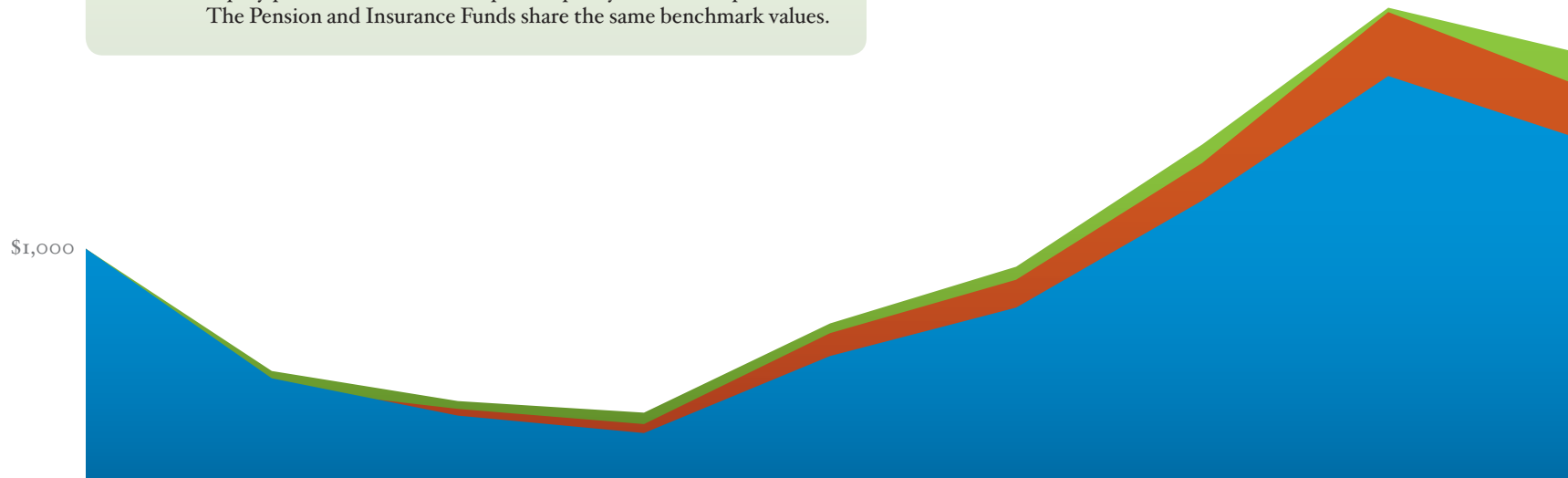
² Inception Date of Pension Fund is July 2000

³ Inception Date of Insurance Fund is July 2000

Investment	2000	2001	2002	2003	2004	2005	2006	2007	2008
Pension Fund	\$1,000	\$720	\$639	\$601	\$768	\$872	\$1,104	\$1,373	\$1,241
Pension Fund Benchmark	1,000	700	653	621	817	933	1,185	1,512	1,357
Insurance Fund	1,000	735	670	645	838	961	1,225	1,521	1,426
Insurance Fund Benchmark	1,000	700	653	621	817	933	1,185	1,512	1,357



Growth of Dollars: This chart compares the performance of \$1,000 invested in the Pension and Insurance Funds' International Equity portfolios with their respective policy benchmark portfolios. The Pension and Insurance Funds share the same benchmark values.



Top 10 International Equity Holdings & Market Value (\$)

Pension Fund			Insurance Fund		
Company	Shares	Market Value	Company	Shares	Market Value
HSBC Holdings Ord.	2,586,619	\$39,933,746	HSBC Holdings Ord	811,195	\$12,523,706
BP Ord.	3,317,845	38,512,050	BP Ord	1,023,690	11,882,532
Nestle SA	686,720	31,120,160	Nestle SA	213,770	9,687,437
Total SA	356,894	30,476,895	Total SA	109,314	9,334,848
Vodafone Group Ord.	9,866,938	29,288,117	Vodafone Group Ord	3,077,787	9,135,822
Novartis AG	523,377	28,902,372	Novartis AG	158,026	8,726,647
Royal Dutch Shell	596,893	23,995,713	Royal Dutch Shell	192,987	7,758,276
GlaxoSmithKline PLC	981,128	21,732,347	GlaxoSmithKline PLC	301,945	6,688,193
E.ON AG	105,160	21,232,512	Siemens AG NPV	59,700	6,633,135
Siemens AG NPV	190,110	21,122,701	E.ON AG	32,200	6,501,397

A complete list of holdings is available upon request. All Open Records Requests should be addressed to the KRS General Counsel.

Fixed Income

For the fiscal year, ending June 30, 2008, the Pension Fund's fixed income portfolio returned 8.06%, underperforming its performance benchmark by 1.34%. Both of the broad market indices, the Lehman Brothers Aggregate Index and the Lehman Brothers Intermediate Government Credit Index, posted positive returns for the most recent 12-month period. The KRS insurance TIPS portfolio posted a 15.33% rate of return, which outperformed its benchmark, the Lehman Brothers U.S. TIPS Index, by 0.24%.

Over the past three years, ending June 30, 2008, the pension portfolio has generated an annualized average return of 4.13% versus its custom performance benchmark return of 4.46%. The insurance portfolio posted a 5.69% return during the same period, exceeding its benchmark return by 0.10%. Over the five-year period both the pension and insurance funds' fixed income portfolios have performed in line with their benchmarks. Over the 10-year period, the Pension Fund has lagged the benchmark, while the Insurance Fund has performed in line.

Fixed Income Returns (%) of Pension Fund, Insurance Fund vs. Benchmarks, Indices

Fund, Benchmark or Index	Fiscal Year	3-Year	5-Year	10-Year	Inception
Pension Fund	8.06%	4.13%	4.21%	5.99%	8.60% ³
Pension Fund Performance Benchmark ¹	9.40	4.46	4.36	6.41	8.38
Insurance Fund	15.33	5.69	6.05	7.16	7.48 ⁴
Insurance Fund Performance Benchmark ²	15.09	5.59	5.98	7.17	7.44
Lehman Brothers Aggregate	7.13	4.08	3.86	5.68	-
Lehman Brothers U.S. TIPS	15.09	5.59	5.98	7.79	-
Lehman Brothers Government Credit Index	7.24	3.84	3.58	5.68	-

¹ Pension Fund Performance Benchmark consists of 71.43% Lehman Brothers Aggregate and 28.57% Lehman Brothers U.S. TIPS

² Insurance Fund Performance Benchmark is Lehman Brothers U.S. TIPS

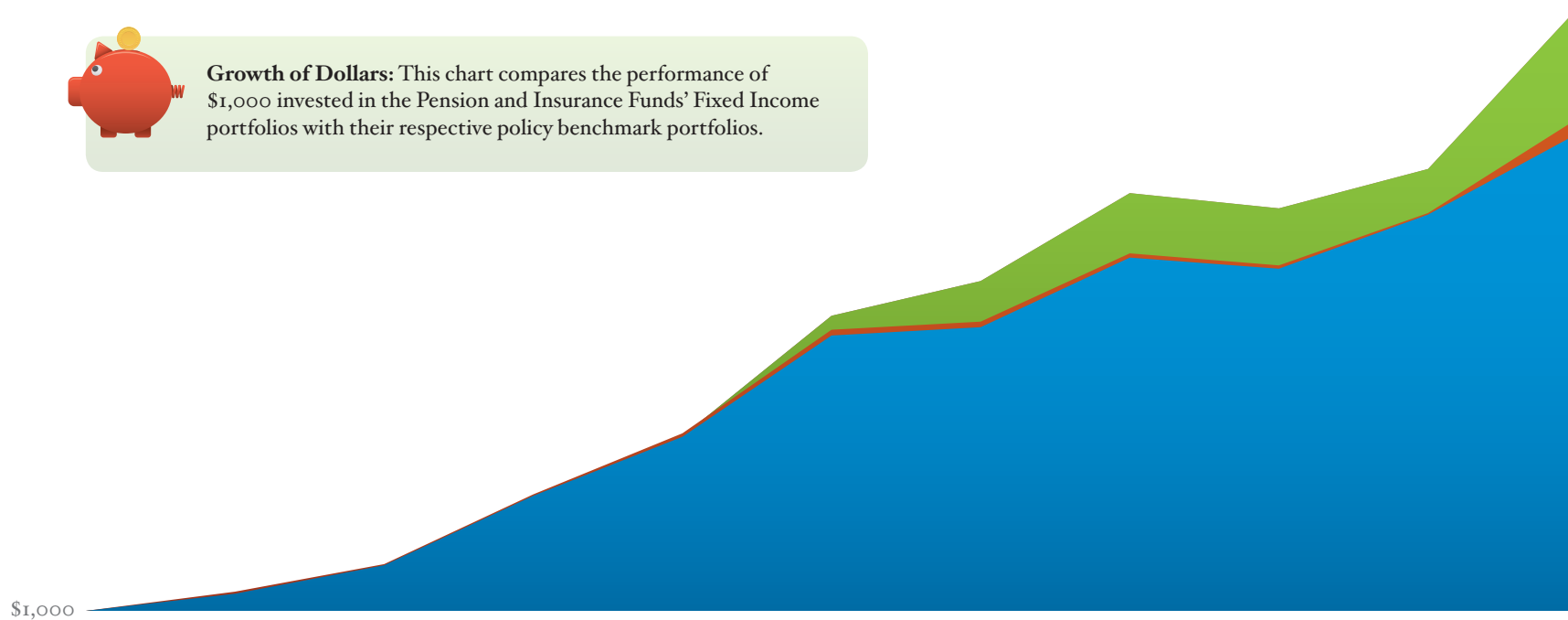
³ Inception Date of Pension Fund is April 1984

⁴ Inception Date of Insurance Fund is July 1992

Investment	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
■ Pension Fund	\$1,000	\$1,028	\$1,075	\$1,190	\$1,288	\$1,456	\$1,469	\$1,585	\$1,566	\$1,656	\$1,789
■ Pension Fund Benchmark	1,000	1,032	1,077	1,193	1,294	1,465	1,479	1,592	1,572	1,658	1,814
■ Insurance Fund	1,000	1,019	1,064	1,181	1,289	1,488	1,546	1,691	1,666	1,731	1,997
■ Insurance Fund Benchmark	1,000	1,027	1,071	1,190	1,295	1,495	1,552	1,697	1,669	1,736	1,998



Growth of Dollars: This chart compares the performance of \$1,000 invested in the Pension and Insurance Funds' Fixed Income portfolios with their respective policy benchmark portfolios.



Top 10 Fixed Income Holdings & Market Value (\$)

Pension Fund			Insurance Fund		
Company (Due)	Par Value	Market Value	Company (Due)	Par Value	Market Value
US TSY NT INFL Index 0.875 (04/15/10)	\$110,450,000	\$127,411,836	US TSY NT INFL Index 0.875 (04/15/10)	\$23,590,512	\$20,450,000
US TSY BD INFL Index 3.875 (04/15/29)	67,567,000	114,517,823	US TSY BD INFL Index 2.375 (01/15/25)	21,922,004	18,360,000
US TSY NT INFL Index 2.375 (01/15/17)	96,035,000	110,759,300	US TSY BD INFL Index 3.875 (04/15/29)	21,228,347	12,525,000
US TSY BD INFL Index 3.000 (07/15/12)	79,350,000	104,110,750	US TSY BD INFL Index 3.000 (07/15/12)	20,448,217	15,585,000
US TSY NT INFL Index 2.000 (01/15/14)	81,950,000	101,174,231	US TSY BD INFL Index 1.875 (07/15/13)	19,103,440	15,450,000
US TSY BD INFL Index 1.625 (01/15/15)	84,900,000	98,668,011	US TSY NT INFL Index 2.000 (01/15/14)	18,617,540	15,080,000
US TSY NT INFL Index 2.000 (07/15/14)	76,200,000	92,245,138	US TSY BD INFL Index 3.625 (04/15/28)	18,323,792	11,075,000
US TSY BD INFL Index 1.875 (07/15/13)	74,200,000	91,745,973	US TSY NT INFL Index 2.000 (07/15/14)	17,644,001	14,575,000
US TSY BD INFL Index 3.625 (04/15/28)	54,400,000	90,005,803	US TSY BD INFL Index 1.625 (01/15/15)	16,764,265	14,425,000
US TSY BD INFL Index 2.000 (01/15/26)	83,200,000	89,168,910	US TSY NT INFL Index 2.375 (04/15/11)	15,624,635	13,625,000

A complete list of holdings is available upon request. All Open Records Requests should be addressed to the KRS General Counsel.

Alternative Investments

For the fiscal year, ending June 30, 2008, the Pension Fund's alternative investments portfolio generated a return of 0.04%. The portfolio consists primarily of private equity limited partnerships and real estate investment trusts (REIT), publicly traded real estate securities, operating companies, and focused real estate investments. The custom benchmark for the pension alternative investment portfolio returned -8.58% during this same period. The insurance alternative investment portfolio posted a return of -1.94% versus its performance benchmark return of -10.64%. The longer term results from the alternative investment portfolios have been excellent. For the three years ending June 30, 2008, the Pension Fund has outperformed its custom benchmark by nearly 6% on an annualized basis. Since its inception in October 1990, the portfolio has exceeded its benchmark by 4.49% per year. The Insurance Fund has also done very well, exceeding its benchmark return over the three-year period since its inception by 2.89% and 3.89%, respectively.

Alternative Investment Returns (%) of Pension Fund, Insurance Fund vs. Benchmarks

Fund or Benchmark	Fiscal Year	3-Year	5-Year	10-Year	Inception
Pension Fund	0.04%	10.68%	17.97%	14.92%	12.80% ³
Pension Fund Performance Benchmark ¹	-8.58	4.69	7.74	5.56	8.31
Insurance Fund	-1.94	7.60	11.93	-	7.92 ⁴
Insurance Fund Performance Benchmark ²	-10.64	4.71	7.97	-	4.03

¹ Pension Fund Performance Benchmark consists of 60% S&P 1500 (Total) and 40% Lehman Brothers High Yield Corporate

² Insurance Fund Performance Benchmark consists of 80% S&P 1500 (Total) and 20% Lehman Brothers High Yield Corporate

³ Inception Date of Pension Fund is October 1990 ⁴ Inception Date of Insurance Fund is July 2001

Cash

For the fiscal year, ending June 30, 2008, the KRS Pension Fund's cash portfolio returned 4.91%, outpacing its benchmark, the Citi Group 3-month Treasury by 1.58%. The KRS Insurance Fund's cash portfolio also outperformed the index, posting a return of 4.26% during the same 12-month period.

The longer term results from the cash portfolios have been excellent with comparison to their benchmark. For the five years ending June 30, 2008, the Pension Fund portfolio has outperformed its custom benchmark by 1.17% on an annualized basis. Since its inception, the portfolio has exceeded its benchmark by 0.87% per year. The Insurance Fund portfolio has also done very well, exceeding its benchmark return over the five-year period since its inception by 0.84% and 0.32%, respectively.

Cash Returns (%) of Pension Fund, Insurance Fund vs. Benchmarks

Fund or Benchmark	Fiscal Year	3-Year	5-Year	10-Year	Inception
Pension Fund	4.91%	5.01%	4.23%	4.79%	5.42% ²
Pension Fund Performance Benchmark ¹	3.33	4.11	3.06	3.48	4.55
Insurance Fund	4.26	5.05	3.90	3.97	4.22 ³
Insurance Fund Performance Benchmark ¹	3.33	4.11	3.06	3.48	3.90

¹ Pension and Insurance Fund Performance Benchmarks is the Citi Group 3-month Treasury

² Inception Date of Pension Fund is January 1988

³ Inception Date of Insurance Fund is July 1992

Additional Schedules & Supplemental Information

Following are additional schedules which indicated the Investment Advisors employed along with the total assets each of the firm manages for the Systems, external investment-related expenses incurred, portfolio summaries for each of the five pension and insurance plans, and commissions paid by the Systems for the year ended June 30, 2008.

Kentucky Employees Retirement System (KERS) Pension Fund as of June 30, 2008

Asset Class	Non-Hazardous		Hazardous	
	Market Value (\$)	Allocation (%)	Market Value (\$)	Allocation (%)
Bonds	\$1,236,655,507	24.7%	\$135,246,638	28.1%
Mortgages	499,604,688	10.0	46,158,485	9.6
Short-term	68,260,583	1.4	15,681,772	3.3
Alternatives	367,775,959	7.3	41,335,692	8.6
U.S. Equity	1,776,480,823	35.4	156,982,586	32.7
International Equity	1,066,204,600	21.3	85,384,907	17.8
Total Portfolio	\$5,014,982,160	100.0%	\$480,790,080	100.0%

Kentucky Employees Retirement System (KERS) Insurance Fund as of June 30, 2008

Asset Class	Non-Hazardous		Hazardous	
	Market Value (\$)	Allocation (%)	Market Value (\$)	Allocation (%)
Bonds	\$76,538,936	13.5%	\$26,479,906	9.9%
Short-term	41,445,179	7.3	30,925,336	11.6
Alternatives	25,590,515	4.5	10,857,206	4.1
U.S. Equity	238,780,788	42.1	117,390,781	43.9
International Equity	184,697,969	32.6	81,888,642	30.6
Total Portfolio	\$567,053,387	100.0%	\$267,541,871	100.0%

County Employees Retirement System (CERS) Pension Fund as of June 30, 2008

Asset Class	Non-Hazardous		Hazardous	
	Market Value (\$)	Allocation (%)	Market Value (\$)	Allocation (%)
Bonds	\$1,393,036,579	25.9%	\$425,700,173	26.2%
Mortgages	593,436,385	11.0	167,578,379	10.3
Short-term	67,449,964	1.3	46,799,086	2.9
Alternatives	365,521,511	6.8	113,635,369	7.0
U.S. Equity	1,919,754,723	35.7	576,627,695	35.4
International Equity	1,036,766,225	19.3	296,685,410	18.2
Total Portfolio	\$5,375,965,387	100.0%	\$1,627,026,111	100.0%

County Employees Retirement System (CERS) Insurance Fund as of June 30, 2008

Asset Class	Non-Hazardous		Hazardous	
	Market Value (\$)	Allocation (%)	Market Value (\$)	Allocation (%)
Bonds	\$140,228,289	13.0%	\$72,754,406	12.8%
Short-term	147,656,566	13.6	77,802,927	13.7
Alternatives	38,409,559	3.5	20,515,943	3.6
U.S. Equity	458,472,096	42.4	239,502,575	42.2
International Equity	297,326,305	27.5	157,572,991	27.7
Total Portfolio	\$1,082,092,816	100.0%	\$568,148,842	100.0%

State Police Retirement System (SPRS) Funds as of June 30, 2008

Asset Class	Pension Fund		Insurance Fund	
	Market Value (\$)	Allocation (%)	Market Value (\$)	Allocation (%)
Bonds	\$93,618,662	28.0%	\$14,534,328	12.0%
Mortgages	37,183,358	11.1	-	-
Short-term	1,601,088	0.5	9,015,060	7.4
Alternatives	23,901,381	7.1	5,053,393	4.2
U.S. Equity	112,416,908	33.6	54,745,812	45.2
International Equity	65,988,033	19.7	37,659,435	31.1
Total Portfolio	\$334,709,431	100.0%	\$121,008,027	100.0%

External Investment Advisors & Assets (\$) Under Management — 1 of 3

Advising Company	Location	Assets
Aberdeen Asset Management	Aberdeen, Scotland	\$200,732
Arbor Investments II	Chicago, Illinois	4,363
Avenue Capital V	New York, New York	31,426
Barclays Global Investors	San Francisco, California	537,855
Blackstone Capital Partners V	New York, New York	84,833
Bay Hills Emerging Partners I	San Francisco, California	6,641
Columbia Capital IV	Alexandria, Virginia	24,409
Duff, Ackerman & Goodrich Ventures II	Palo Alto, California	47,645
GTCR Golder Rauner IX	Chicago, Illinois	13,870
H.I.G. Venture Partners II	Miami, Florida	9,308
Harvest Partners V	New York, New York	3,731
Hellman & Friedman VI	New York, New York	38,734
Institutional Venture Partners XI	Menlo Park, California	\$19,185

External Investment Advisors & Assets (\$) Under Management — 2 of 3

Advising Company	Location	Assets
Invesco	Atlanta, Georgia	825,795
JW Childs Equity III	Boston, Massachusetts	30,383
Lehman Brothers Asset Management	Chicago, Illinois	1,600,619
Leonard Green & Partners, L.P.,IV	Los Angeles, California	79,177
Matlin Patterson Global Opportunities I & II	New York, New York	78,322
Merit Capital Partners IV	Chicago, Illinois	19,632
MHR Institutional Advisors III	New York, New York	19,722
Mill Road Capital	Greenwich, Connecticut	2,876
New Mountain Partners II	New York, New York	51,806
Northern Trust Quantitative Advisors	Chicago, Illinois	582,559
Oak Hill Partners II	New York, New York	98,394
Oak Tree Opportunities VIIB	Los Angeles, California	5,625

External Investment Advisors & Assets (\$) Under Management — 3 of 3

Advising Company	Location	Assets
Pyramis Global Advisors	Boston, Massachusetts	1,962,490
Robert W. Baird & Co.	Milwaukee, Wisconsin	615,677
Sun Capital Partners IV	Boca Raton, Florida	14,487
Technology Crossover Ventures VI	Palo Alto, California	25,004
The Boston Company	Boston, Massachusetts	982,575
Vantagepoint Venture IV	San Bruno, California	39,355
Vista Equity Partners III	San Francisco, California	19,932
Warburg Pincus IX	New York, New York	119,999
Wayzata Investment Partners I	Wayzata, Minnesota	115,287
Weaver Barksdale & Associates	Brentwood, Tennessee	713,628
Wellington Management Company	Boston, Massachusetts	205,597
Total		\$9,332,552

External Expenses Represented in Thousands (\$)

Expenses	Fees (\$)	Assets Used (%)
Pension Funds	\$12,002	0.0891%
Insurance Funds	1,662	0.0627
Consulting Fees	277	0.0017
Custody Fees	250	0.0016
Other Investment-Related Fees	358	0.0022
Total	\$14,549	0.0902%

Schedule of Commissions Paid

Asset Class	Total Shares	Commissions	\$ per share
U.S. Equities	58,922,601	\$5,138,302	\$0.087
Asset Class	Total Value of Trades	Commissions	% of Trade
Non-U.S. Equities	\$3,811,664,662	\$4,025,320	0.106%
Total	-	\$9,163,622	-

Performance Calculations were prepared by the System's custodial bank using a time-weighted rate of return methodology based upon the market value of assets.

Master Custodian & Performance Manager

The Northern Trust Company
Chicago, Illinois

Investment Consultant

Strategic Investment Solutions
San Francisco, California

Actuarial Section

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Kentucky Retirement Systems
A component unit of the Commonwealth of Kentucky

Kentucky Employees Retirement System (KERS)
County Employees Retirement System (CERS)
State Police Retirement System (SPRS)



Cavanaugh Macdonald
CONSULTING, LLC.

The following is a certification
of actuarial results by Cavanaugh
Macdonald Consulting, LLC.

DATE: NOVEMBER 20, 2008

SUBJECT: CERTIFICATION OF ACTUARIAL RESULTS

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

Dear Trustees:

The fifty-second annual actuarial valuation of the Kentucky Employees Retirement System, the forty-ninth annual actuarial valuation of the County Employees Retirement System, and the fiftieth annual actuarial valuation of the State Police Retirement System have been completed and the reports prepared. These reports describe the current actuarial condition of the Kentucky Retirement Systems (KRS), determine the calculated employer contribution rates, and analyze fluctuations in these contribution rates. Under state statute, the Board of Trustees must approve the employer contribution rate for the upcoming fiscal year based upon the results of the most recent annual valuation. These rates are actuarially based upon current membership data, plan provisions, and the assumptions and funding policies adopted by the KRS Board. Employer contribution rates become effective one year after the valuation date. The recently completed June 30, 2008 actuarial valuation will be used by the Board of Trustees to certify the employer contribution rates for the fiscal year beginning July 1, 2009 and ending June 30, 2010.

Funding Objectives & Policies

For each retirement system, KRS administers both a pension and insurance fund to provide for monthly retirement allowances and retiree insurance benefits respectively. The total employer contribution rate is comprised of a contribution to each respective fund. Relative to the pension fund, a contribution rate has been established which consists of the normal cost and an amortization payment on the unfunded accrued liability (UAL). The normal cost is expected to remain level as a percent of payroll in future years. The amortization of any UAL is made over 30 years from the establishment of the amortization base using a level percent of payroll amortization method. Prior to the June 30, 2007 actuarial valuation, each year any actuarial gains or losses, along with any other changes in the actuarial liability (such as the retiree COLA or other benefit improvements) were established as a new amortization base to be amortized over the following 30 years. Effective with the June 30, 2007 actuarial valuation, all amortization bases have been combined and amortized over a single 30-year period beginning June 30, 2007. The amortization period will decrease by one each year going forward (i.e. 29-year amortization June 30, 2008, 28-year amortization June 30, 2009, and so on). Overall, the total contribution for the pension 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. However, the current valuation contribution rate does not anticipate any future cost of living increases to benefit recipients as required by statute. Should these cost of living increases occur in the future, the contribution rate for the pension fund will be expected to increase as a percentage of payroll in the absence of material aggregate experience gains.

Relative to the insurance fund, the Board's funding objective is to establish a contribution rate which consists of the normal cost and an amortization payment on the UAL over a 30 year period. Beginning with the June 30, 2006 valuation, the assumptions and methods used are to meet the requirements of GASB Statement No. 43. As with the pension fund, going forward, the combined UAL bases will be amortized over a 30 year period beginning June 30, 2007. The amortization period will decrease by one each year in the future. Administrative expenses of the plans are also included as part of the total pension fund contribution. This portion of the funding is expected to remain stable as a percentage of payroll over future years.

Realization of Funding Objectives

The progress towards achieving the intended funding objectives, both relative to the pension and insurance funds, can be measured by the relationship of actuarial assets of each fund to the actuarial accrued liabilities. This relationship

is known as the funding level and in the absence of benefit improvements, should increase over time until it reaches 100%.

In recent years, funding levels for the pension funds have fallen dramatically in response to investment returns less than the actuarially assumed rate, higher than anticipated retirement rates, the 2006 assumption changes, and increasing expenditures for retiree Cost of Living Adjustments (COLA). Within the KERS and SPRS plans, employer contribution rate reductions enacted by the State Legislature have limited the plans ability to correct the declining funding levels.

The funding level for the insurance funds is not anywhere near 100% at this time, and the Board's funding objective is to increase this funded level consistently over time. Medical inflation rates in excess of the assumed rates, as well as recent employer contribution rate reductions under KERS and SPRS, have significantly limited this improvement. The recent adoption of new actuarial assumptions and the application of GASB Statement No. 43 requirements have further reduced the measured funding level. As of June 30, 2008 the funding levels for the pension and insurance funds are as follows on page 137.

In completing the valuation of these systems, we have relied on data provided by Kentucky Retirement Systems, as well as financial data provided by the plan's external 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. Any schedules of trend data over the past ten years or less contained in the Actuarial Section,

Funding Levels (%) for Retirement Systems

Retirement System	Pension Fund	Insurance Fund
KERS Non-Hazardous	52.5%	11.1%
KERS Hazardous	81.3	53.2
CERS Non-Hazardous	78.5	32.6
CERS Hazardous	72.9	34.7
SPRS	59.8	27.9

as well as the Schedule of Funding Progress and Schedule of Employer Contributions in the Financial Section, have been based on valuation reports fully prepared by the actuary for the plan at the time of each valuation.

Assumptions & Methods

The Board of Trustees, in consultation with the actuary, sets the actuarial assumptions and methods used in the valuation. Once every five years the actuary conducts a thorough review of plan experience for the preceding five years, and then makes recommendations to the Board. The actuarial assumptions and methods used for the funding calculations of the valuation, as adopted by the Board on January 19, 2006 based on the experience investigation report dated January 12, 2006, meet the parameters set for disclosure under GASB Statements No.

25 and 43. The health care cost trend assumptions were updated for the June 30, 2007 valuation by a Board decision adopted on November 15, 2007. These assumptions have been adopted by the Board of Trustees of the Kentucky Retirement Systems in accordance with the recommendation of the actuary. The next experience study is scheduled to be completed in January 2011 and any adjustments will be reflected in the June 30, 2011 actuarial valuation.

Closing

The information presented in 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.

Based on the continuation of current funding policies adopted by the Board, adequate provision is being made for the funding of the actuarial 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. The funding rates established by the Board are appropriate for this purpose.

Sincerely,
 Thomas J. Cavanaugh FSA, FCA, MAAA, EA
 Chief Executive Officer

Actuarial Assumptions & Methods as of June 30, 2008

The results of the actuarial valuation are based upon the assumptions and funding policies adopted by the Board and statutory funding requirements. Assumptions and funding policies are reviewed against actual plan experience once every five years through the completion of the Actuarial Experience Study. The most recent study was completed in January 2006 and reviewed plan experience for the period from July 1, 2000 through June 30, 2005. All assumptions, with the exception of health care trend rates, used in the June 30, 2008 actuarial valuation were based on the study performed in 2006 and in accordance with the actuary's recommendations. The health care trend rates used in the June 30, 2008 valuation are those adopted by the Board on November 15, 2007. The next Experience Study is scheduled to be completed in January 2011.

1. Actuarial Cost Method

The actuarial valuation was prepared using the entry age normal cost (EANC) method as required by state statute. Under this method, the present value of future benefits is determined for each member and allocated equitably as a level percentage of payroll from the member's entry age into the plan to the assumed age of exit from the plan. The portion of the present value of future benefits allocated to the current valuation year is called the normal cost. The portion of the present value of future benefits allocated to prior years of service that has accrued to date is called the actuarial liability. The unfunded actuarial liability (UAL) represents the

difference between the actuarial liability and the actuarial value of assets as of the valuation date. Relative to the pension fund and the insurance fund, an employer contribution rate has been established to be equal to the sum of the normal cost and the amount needed to amortize the unfunded actuarial liability (UAL) over no more than a 30-year period.

2. UAL Amortization Method

The amortization of any UAL is made over 30 years from the establishment of the amortization base using a level percent of payroll amortization method. Prior to the June 30, 2007 actuarial valuation, each year any actuarial gains or losses, along with any other changes in the actuarial liability (such as the retiree COLA or other benefit improvements) were established as a new amortization base to be amortized over the following 30 years. Effective with the June 30, 2007 actuarial valuation, all amortization bases have been combined and amortized over a single 30-year period beginning June 30, 2007. The amortization period will decrease by one each year going forward (i.e. 29-year amortization June 30, 2008, 28-year amortization June 30, 2009, and so on).

3. Asset Valuation Method

The actuarial value of assets recognizes a portion of the difference between the market value of assets and the expected market value of assets, based on the investment return assumption. The amount recognized each year is 20% of the difference between market value and expected market value. The Asset Valuation Method was adopted by the Board in 2006.

4. Retiree Insurance Funding Policy

The assumptions, methods, and funding requirements used in the valuation are to meet the requirements of GASB Statement No. 43. As with the pension Fund, going forward, the combined UAL bases will be amortized over a 30-year period beginning June 30, 2007. The amortization period will decrease by one each year in the future.

5. Investment Return Assumption

The future investments earnings of plan assets are assumed to accumulate at a rate of 7.75% per annum. This rate consists of a 3.5% inflationary component and a 4.25% real rate of return component. In accordance with GASB Statement No. 43 the investment return assumption has been reduced to a blended rate of 4.5% for KERS and SPRS insurance funds due to a lack of pre-funding benefits. This assumption was adopted in 2006.

6. Salary Increase Assumptions

Active member salaries are assumed to increase at the rates provided below. The rates include a 3.5% inflationary component and an additional increase due to promotion based upon plan experience. This assumption was adopted in 2006.

Service (Years) & Salary Increase Assumptions

Service	KERS/CERS Non-Hazardous	KERS/CERS Hazardous, SPRS
0 - 1	13.5%	14.5%
1 - 2	7.0	7.5
2 - 3	5.5	7.0
3 - 4	5.0	6.5
4 - 5	5.0	6.0
5 - 6	4.5	5.5
6 - 8	4.5	5.0
8 - 10	4.0	4.5
10+	4.0	4.0

7. Payroll Growth Assumption

Active member payroll is assumed to increase at a rate of 3.5% per annum. This assumption was adopted in 2006.

8. Retiree Cost of Living Adjustments (COLA)

State statute requires retirement allowances to be increased by the percentage increase in the annual average of the consumer price index for all urban consumers (CPI-U) for the most recent calendar year, not to exceed five percent. Statute only allows COLAs awarded as of the valuation date to be recognized for funding purposes and for determining employer contribution rates. The Legislature has the authority to suspend or reduce COLA rates.

9. Medical Inflation Rate Assumption

The costs for retiree medical premiums are assumed to increase each year by 11% for 2009, by 10% for 2010, by 9% for 2011, by 8% for 2012, by 7% for 2013, by 6% for 2014, and by 5% thereafter. This assumption was adopted in 2007.

10. Retirement Rate Assumption

The tables to the right display the probability that a member will retire at a specified age or level of service. This assumption was adopted in 2006. Rates are doubled for KERS Non-Hazardous members during the window period, which expires January 1, 2009. 100% are anticipated to retire by age 75. For KERS Hazardous members, 100% are anticipated to retire by age 65; for CERS Hazardous, 100% are anticipated to retire by age 62; for SPRS, 100% are anticipated to retire by age 55.

Age (Years) & Non-Hazardous Retirement Probability (%)

55 - 59	8.0%
60	10.0
61	20.0
62 - 70	25.0

Hazardous Service (Years) & Retirement Probability (%)

Service	KERS	CERS	SPRS
20	20.0%	30.0%	20.0%
21	15.0	25.0	9.0
22 - 23	15.0	20.0	9.0
24	15.0	25.0	20.0
25	20.0	25.0	20.0
26 - 28	35.0	30.0	20.0
29	35.0	30.0	45.0
30 - 31	35.0	40.0	45.0
32 - 33	35.0	35.0	45.0
34	35.0	30.0	70.0
35+	60.0	30.0	70.0

11. Mortality Assumptions

The mortality table used for active members is the 1994 Group Annuity Mortality (GAM) Table. For members retiring on or after July 1, 2006, the mortality table was changed from the 1983 GAM table to the 1994 GAM table. Mortality assumptions for disabled lives are set using the 1994 GAM table set forward five years. These assumptions were adopted in 2006.

Sample Annual Rates of Mortality: Active & Retired Members*

Age (Years)	Males	Females
< 20	0.04%	0.03%
22	0.06	0.03
32	0.08	0.04
42	0.13	0.08
52	0.32	0.17
62	1.01	0.58
72	2.85	1.65

*Members retiring on/after July 1, 2006

Sample Annual Rates of Mortality: Disabled Member Mortality

< 20, 22, 32	-	-
42	0.19%	0.11%
52	0.56	0.29
62	1.80	1.08
72	4.52	2.84

12. Withdrawal Rates

The probability, or likelihood, of active members terminating employment prior to retirement is provided below. The withdrawal rate is a function of both age and service. This type of structure is known as “select and ultimate rates”. This structure reflects the fact that both service and age affect the likelihood of a member staying in active employment. The ultimate period for these systems covers a member’s withdrawal rate after the first five years of service. These assumptions were adopted in 2006.

Selected Rates of Termination Prior to Retirement

KERS & CERS Non-Hazardous

Select Rates		Ultimate Rates	
Service	Probability	Age	Probability
1st Yr. of Service	15.00%	20	6.00%
2nd Yr. of Service	14.00	25	5.40
3rd Yr. of Service	10.00	30	4.80
4th Yr. of Service	8.00	35	3.60
5th Yr. of Service	6.00	40	2.66
		45	1.98
		50	1.92
		55	1.08
		60	0.75

Selected Rates of Termination Prior to Retirement

KERS Hazardous				CERS Hazardous			
Select Rates		Ultimate Rates		Select Rates		Ultimate Rates	
Service	Probability	Age	Probability	Service	Probability	Age	Probability
1st Year of Service	15.00%	20	6.00%	1st Year of Service	15.00%	20	4.56%
2nd Year of Service	14.00	25	5.40	2nd Year of Service	14.00	25	3.04
3rd Year of Service	10.00	30	4.80	3rd Year of Service	10.00	30	3.01
4th Year of Service	8.00	35	3.60	4th Year of Service	8.00	35	1.95
5th Year of Service	6.00	40	2.66	5th Year of Service	6.00	40	1.50
		45	1.98			45	0.75
		50	1.92			50	0.50
		55	1.08			55	-
		60	0.75			60	-
SPRS							
1st Year of Service	10.00%	20	2.50%				
2nd Year of Service	7.00	25	2.28				
3rd Year of Service	5.00	30	1.83				
4th Year of Service	4.00	35	1.31				
5th Year of Service	3.00	40	0.81				
		45	0.41				
		50	-				
		55	-				
		60	-				

13. Rates of Disablement

KRS provides disability benefits for those individuals meeting specific qualifications established by state law. This assumption provides the probability, or likelihood, that a member will become disabled during the course of employment for various age levels. For non-hazardous members, the assumptions are set using three quarters of the Old-Age Survivors and Disability Insurance (OASDI) rates. For hazardous members, the assumptions are set using one times the Old-Age Survivors and Disability Insurance (OASDI) rates. These assumptions were adopted in 2006.

Probability of Becoming Disabled During Employment

Age	Non-Hazardous	Hazardous
20 - 24	0.0531%	0.0708%
25 - 29	0.0711	0.0948
30 - 34	0.0918	0.1224
35 - 39	0.1280	0.1707
40 - 44	0.1994	0.2658
45 - 49	0.3320	0.4426
50 - 54	0.5590	0.7453
55 - 59	0.9200	1.2267
60 - 64	1.4618	1.9490



Summary of Results

The 2008 Actuarial Valuation of Kentucky Retirement Systems describes the current actuarial condition of the KRS, determines the calculated employer contribution rates, and analyzes fluctuations in these contribution rates. Under state statute, the Board of Trustees must approve the employer contribution rates for the upcoming fiscal year based upon

the results of the most recent annual valuation. These rates are actuarially based upon current membership data, plan provisions, and the assumptions and funding policies adopted by the KRS Board. The information on the following pages is a summary of the valuation findings.

Summary of Actuarial Valuation Results as of June 30, 2008 — 1 of 2

	KERS Non Hazardous	KERS Hazardous	CERS Non Hazardous	CERS Hazardous	SPRS
Recommended Contribution Rate (Fiscal Year 2006-2007)					
Pension Fund Contribution	18.96%	11.98%	8.62%	16.11%	35.23%
Insurance Fund Contribution	20.49	23.56	12.29	27.25	56.89
Recommended Employer Contribution	39.45	35.54	20.91	43.36	92.12
Funded Status as of Valuation Date					
Pension Fund					
Actuarial Liability	\$10,129,689,985	\$618,010,827	\$7,304,217,691	\$2,403,122,095	\$587,129,257
Actuarial Value of Assets	5,318,792,893	502,132,214	5,731,502,438	1,750,867,373	350,891,451
Unfunded Liability on Actuarial Value of Assets	4,810,897,092	115,878,613	1,572,715,253	652,254,722	236,237,806
Funding Ratio on Actuarial Value of Assets	52.5%	81.3%	78.5%	72.9%	59.8%
Market Value of Assets	5,056,867,294	484,440,015	5,431,735,605	1,644,983,243	337,358,918
Unfunded Liability on Market Value of Assets	5,072,822,691	133,570,812	1,872,482,086	758,138,852	249,770,339
Funding Ratio on Market Value of Assets	49.9%	78.4%	74.4%	68.5%	57.5%

Summary of Actuarial Valuation Results as of June 30, 2008 — 2 of 2

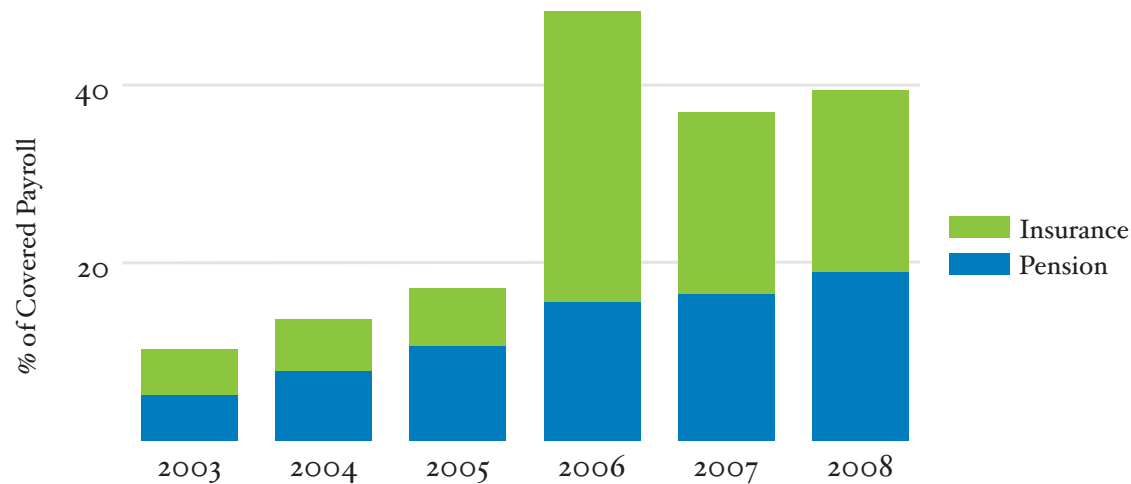
Insurance Fund	KERS Non Hazardous	KERS Hazardous	CERS Non Hazardous	CERS Hazardous	SPRS
Actuarial Liability	\$5,431,499,285	\$541,657,214	\$3,583,193,466	\$1,769,782,957	\$445,107,468
Actuarial Value of Assets	603,197,761	288,161,759	1,168,883,170	613,526,319	123,961,197
Unfunded Liability on Actuarial Value of Assets	4,828,301,524	253,495,455	2,414,310,296	1,156,256,638	321,146,271
Funding Ratio on Actuarial Value of Assets	11.1%	53.2%	32.6%	34.7%	27.9%
Market Value of Assets	574,480,809	269,299,859	1,105,944,178	576,414,457	121,781,967
Unfunded Liability on Market Value of Assets	4,857,018,476	272,357,355	2,477,249,288	1,193,368,500	323,325,501
Funding Ratio on Market Value of Assets	10.6%	49.7%	30.9%	32.6%	27.4%
Member Data					
Number of Active Members	48,085	4,393	85,221	10,173	993
Total Annual Payroll (Active Members) ¹	\$1,837,873,488	\$148,710,060	\$2,166,612,648	\$474,241,332	\$53,269,080
Average Annual Pay (Active Members)	38,221	33,852	25,423	46,618	53,645
Number of Retired Members & Beneficiaries	35,307	2,404	37,579	5,422	1,135
Average Annual Retirement Allowance	20,124	13,972	10,478	23,511	36,382
Number of Vested Inactive Members	5,605	287	8,693	487	55
Number of Inactive Members Due a Refund	27,597	2,640	49,062	1,889	246

¹ Annual payroll included in the Summary of Actuarial Valuation Results is based upon the annualized monthly payroll for active members as of the valuation date. The annual payroll recorded in the financial section is based upon the sum of the monthly payroll for active members recorded for each month of the fiscal year ending June 30, 2008.

Recommended Employer Contribution Rates as of June 30, 2008

Kentucky Employees Retirement System Non-Hazardous Employers

Valuation Date	Applicable Fiscal Year	Pension Fund: Normal Cost	Payment on Unfunded Liability	Pension Fund Contribution	Insurance Fund Contribution	Recommended Employer Contribution
6/30/03	2004-2005	4.82%	0.29%	5.11%	5.18%	10.29%
6/30/04	2005-2006	4.89	2.96	7.85	5.77	13.62
6/30/05	2006-2007	4.81	5.87	10.68	6.45	17.13
6/30/06	2007-2008	3.72	11.83	15.55	32.82	48.37
6/30/07	2008-2009	3.62	12.92	16.54	20.38	36.92
6/30/08	2009-2010	3.97	14.99	18.96	20.49 ¹	39.45 ¹

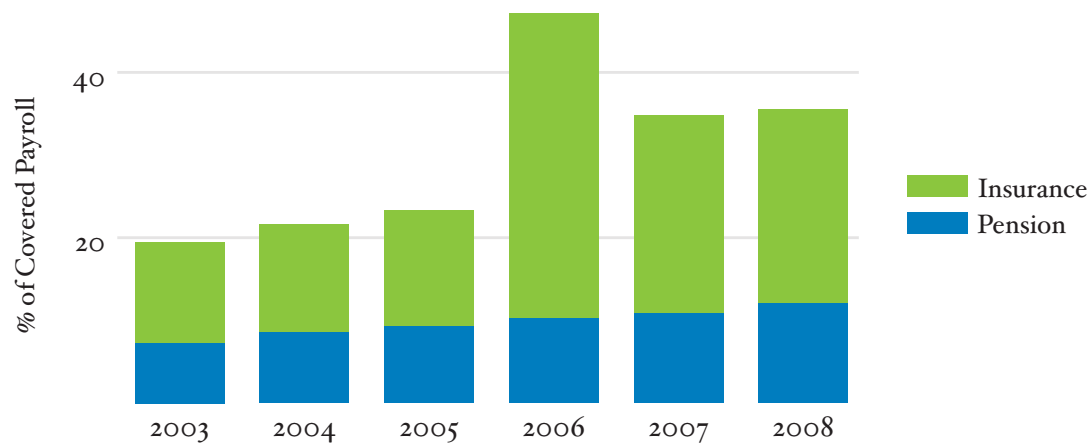


¹The “Insurance Fund Contribution” rates and the “Recommended Employer Contribution” rates shown above are the GASB 45 compliant rates as shown in the 2008 annual valuation, which are based on a blended, assumed rate of return on investments of 4.5%. However in the case of KERS Non-Hazardous, the actuary recommended a full funding rate, which is based on the KRS actual assumed rate of return on investments of 7.75%. As a result, the KERS Non-Hazardous insurance fund contribution rate actually recommended and adopted by the Board of Trustees for 2009-2010 is 12.33% and the employer contribution rate is 31.29%.

Recommended Employer Contribution Rates as of June 30, 2008

Kentucky Employees Retirement System Hazardous Employers

Valuation Date	Applicable Fiscal Year	Pension Fund: Normal Cost	Payment on Unfunded Liability	Pension Fund Contribution	Insurance Fund Contribution	Recommended Employer Contribution
6/30/03	2004-2005	8.68%	(1.42%)	7.26%	12.21%	19.47%
6/30/04	2005-2006	8.62	(0.10)	8.52	13.07	21.59
6/30/05	2006-2007	8.37	0.91	9.28	14.04	23.32
6/30/06	2007-2008	7.27	2.93	10.20	36.91	47.11
6/30/07	2008-2009	7.28	3.56	10.84	23.94	34.78
6/30/08	2009-2010	7.52	4.46	11.98	23.56	35.54

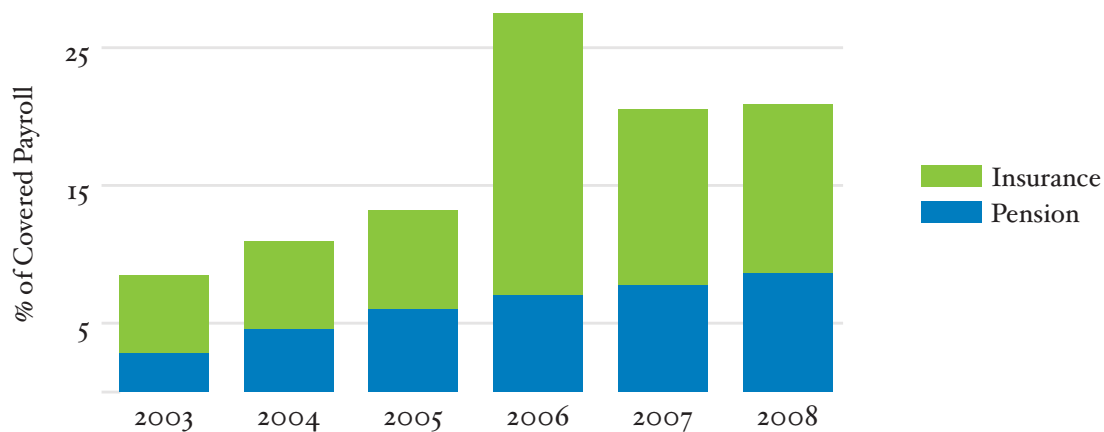


The total employer contribution rate is comprised of a contribution to the pension fund and to the insurance fund. The contribution to the pension fund and the insurance fund consist of the normal cost and an amortization payment on the unfunded actuarial liability (UAL).

Recommended Employer Contribution Rates as of June 30, 2008

County Employees Retirement System Non-Hazardous Employers

Valuation Date	Applicable Fiscal Year	Pension Fund: Normal Cost	Pension Fund: Payment on Unfunded Liability	Pension Fund Contribution	Insurance Fund Contribution	Recommended Employer Contribution
6/30/03	2004-2005	5.71%	(2.89%)	2.82%	5.66%	8.48%
6/30/04	2005-2006	5.80	(1.25)	4.55	6.43	10.98
6/30/05	2006-2007	5.72	0.25	5.97	7.22	13.19
6/30/06	2007-2008	4.69	2.29	6.98	20.51	27.49
6/30/07	2008-2009	4.53	3.23	7.76	12.75	20.51
6/30/08	2009-2010	4.46	4.16	8.62	12.29 ¹	20.91 ¹

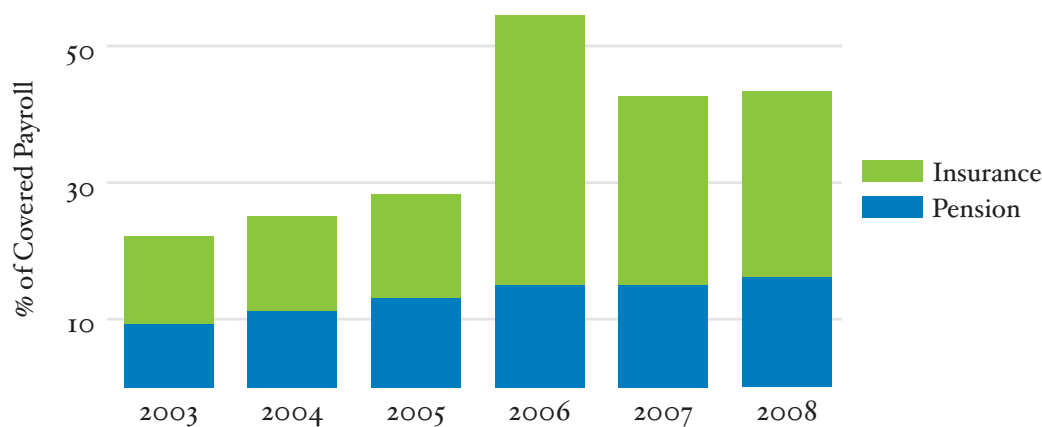


¹The insurance fund and employer contribution rates for CERS systems shown above are the full funding rates presented by the actuary in the 2008 annual valuation. However, in 2006 the actuary recommended a five-year phase-in of the rate which requires the payment of the insurance benefit normal cost with a five-year phase-in of the unfunded accrued liability (UAL) associated with the insurance funds. As a result, the CERS Non-Hazardous insurance fund contribution rate actually recommended by the actuary and adopted by the Board for 2009-2010 is 8.75% and the employer contribution rate is 17.37%.

Recommended Employer Contribution Rates as of June 30, 2008

County Employees Retirement System Hazardous Employers

Valuation Date	Applicable Fiscal Year	Pension Fund: Normal Cost	Pension Fund: Payment on Unfunded Liability	Pension Fund Contribution	Insurance Fund Contribution	Recommended Employer Contribution
6/30/03	2004-2005	8.80%	0.51%	9.31%	12.77%	22.08%
6/30/04	2005-2006	8.80	2.42	11.22	13.79	25.01
6/30/05	2006-2007	8.79	4.32	13.11	15.10	28.21
6/30/06	2007-2008	8.12	6.89	15.01	39.52	54.53
6/30/07	2008-2009	8.06	6.98	15.04	27.62	42.66
6/30/08	2009-2010	8.23	7.88	16.11	27.25 ¹	43.36 ¹

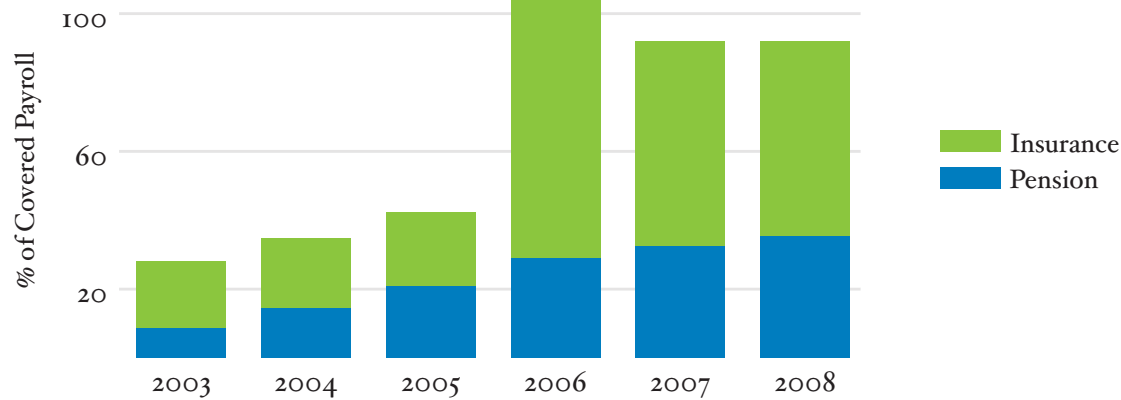


¹The insurance fund and employer contribution rates for CERS systems shown above are the full funding rates presented by the actuary in the 2008 annual valuation. However, in 2006 the actuary recommended a five-year phase-in of the rate which requires the payment of the insurance benefit normal cost with a five-year phase-in of the unfunded accrued liability (UAL) associated with the insurance funds. As a result, the CERS Hazardous insurance fund contribution rate actually recommended by the actuary and adopted by the Board for 2009-2010 the insurance fund contribution rate is 19.50% and the employer contribution rate is 35.61%.

Recommended Employer Contribution Rates as of June 30, 2008

State Police Retirement System

Valuation Date	Applicable Fiscal Year	Pension Fund: Normal Cost	Pension Fund: Payment on Unfunded Liability	Pension Fund Contribution	Insurance Fund Contribution	Recommended Employer Contribution
6/30/03	2004-2005	9.07%	(0.58%)	8.49%	19.59%	28.08%
6/30/04	2005-2006	9.37	5.12	14.49	20.34	34.83
6/30/05	2006-2007	9.43	11.21	20.64	21.66	42.30
6/30/06	2007-2008	9.20	19.75	28.95	91.05	120.00
6/30/07	2008-2009	9.64	22.75	32.39	59.54	91.93
6/30/08	2009-2010	9.83	25.40	35.23	56.89 ¹	92.12 ¹



¹The “Insurance Fund Contribution” rates and the “Recommended Employer Contribution” rates shown above are the GASB 45 compliant rates as shown in the 2008 annual valuation, which are based on a blended, assumed rate of return on investments of 4.5%. However in the case of SPRS, the actuary recommended a full funding rate, which is based on the KRS actual assumed rate of return on investments of 7.75%. As a result, the SPRS insurance fund contribution rate actually recommended and adopted by the Board of Trustees for 2009-2010 is 26.64% and the employer contribution rate is 61.87%.

Analysis of Financial Experience KERS Non-Hazardous as of June 30, 2008

Gains & Losses in Accrued Liabilities Resulting from Difference Between Assumed Experience & Actual Experience (\$ Millions)

Type of Activity	Retirement	Insurance
Age & Service Retirements. If members retire at older ages, there is a gain. If younger ages, a loss.	\$ (265.6)	\$ (89.0)
Disability Retirements. If disability claims are less than assumed, there is a gain. If more claims, a loss.	0.9	6.0
Death-In Service Benefits. If survivor claims are less than assumed, there is a gain. If more claims, there is a loss.	1.9	(3.1)
Withdrawal From Employment. If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	71.1	34.3
Pay or Claims Increases. If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss. For insurance, smaller claims increases than assumed generates a gain; larger, a loss.	(21.3)	202.2
New Members. Additional unfunded accrued liability will produce a loss.	(14.1)	(28.8)
Investment Income. If there is a greater investment income than assumed, there is a gain. If less income, a loss.	(11.5)	3.4
Death After Retirement. If retired members live longer than assumed, there is a loss. If not as long, a gain.	99.5	114.7
Other. Miscellaneous gains and losses resulting from changes in valuation software, data adjustments, timing of financial transactions, etc.	(513.6)	(464.5)
Gain (or Loss) During Year From Financial Experience	(652.7)	(224.8)
Non-Recurring Items. Adjustments for plan amendments, assumption changes, method changes or contribution timing.	0.0	0.0
Composite Gain (or Loss) During Year	(652.7)	(224.8)

Analysis of Financial Experience KERS Hazardous as of June 30, 2008

Gains & Losses in Accrued Liabilities Resulting from Difference Between Assumed Experience & Actual Experience (\$ Millions)

Type of Activity	Retirement	Insurance
Age & Service Retirements. If members retire at older ages, there is a gain. If younger ages, a loss.	\$(21.0)	\$(13.4)
Disability Retirements. If disability claims are less than assumed, there is a gain. If more claims, a loss.	0.6	1.3
Death-In Service Benefits. If survivor claims are less than assumed, there is a gain. If more claims, there is a loss.	0.5	0.4
Withdrawal From Employment. If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	11.5	12.8
Pay or Claims Increases. If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss. For insurance, smaller claims increases than assumed generates a gain; larger, a loss.	(0.1)	21.2
New Members. Additional unfunded accrued liability will produce a loss.	(2.5)	(4.4)
Investment Income. If there is a greater investment income than assumed, there is a gain. If less income, a loss.	1.1	0.2
Death After Retirement. If retired members live longer than assumed, there is a loss. If not as long, a gain.	2.0	8.5
Other. Miscellaneous gains and losses resulting from changes in valuation software, data adjustments, timing of financial transactions, etc.	(14.8)	(22.6)
Gain (or Loss) During Year From Financial Experience	(22.7)	4.0
Non-Recurring Items. Adjustments for plan amendments, assumption changes, method changes or contribution timing.	0.0	0.0
Composite Gain (or Loss) During Year	(22.7)	4.0

Analysis of Financial Experience CERS Non-Hazardous as of June 30, 2008

Gains & Losses in Accrued Liabilities Resulting from Difference Between Assumed Experience & Actual Experience (\$ Millions)

Type of Activity	Retirement	Insurance
Age & Service Retirements. If members retire at older ages, there is a gain. If younger ages, a loss.	\$(169.9)	\$(82.9)
Disability Retirements. If disability claims are less than assumed, there is a gain. If more claims, a loss.	(4.6)	8.6
Death-In Service Benefits. If survivor claims are less than assumed, there is a gain. If more claims, there is a loss.	(0.2)	(4.2)
Withdrawal From Employment. If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	58.3	30.8
Pay or Claims Increases. If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss. For insurance, smaller claims increases than assumed generates a gain; larger, a loss.	(29.9)	127.6
New Members. Additional unfunded accrued liability will produce a loss.	(13.1)	(21.8)
Investment Income. If there is a greater investment income than assumed, there is a gain. If less income, a loss.	(27.7)	2.2
Death After Retirement. If retired members live longer than assumed, there is a loss. If not as long, a gain.	76.5	96.9
Other. Miscellaneous gains and losses resulting from changes in valuation software, data adjustments, timing of financial transactions, etc.	(250.4)	(157.8)
Gain (or Loss) During Year From Financial Experience	(361.0)	(0.6)
Non-Recurring Items. Adjustments for plan amendments, assumption changes, method changes or contribution timing.	0.0	0.0
Composite Gain (or Loss) During Year	(361.0)	(0.6)

Analysis of Financial Experience CERS Hazardous as of June 30, 2008

Gains & Losses in Accrued Liabilities Resulting from Difference Between Assumed Experience & Actual Experience (\$ Millions)

Type of Activity	Retirement	Insurance
Age & Service Retirements. If members retire at older ages, there is a gain. If younger ages, a loss.	\$(58.2)	\$(89.7)
Disability Retirements. If disability claims are less than assumed, there is a gain. If more claims, a loss.	(0.7)	0.9
Death-In Service Benefits. If survivor claims are less than assumed, there is a gain. If more claims, there is a loss.	1.1	0.5
Withdrawal From Employment. If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	21.9	23.9
Pay or Claims Increases. If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss. For insurance, smaller claims increases than assumed generates a gain; larger, a loss.	5.8	75.7
New Members. Additional unfunded accrued liability will produce a loss.	(5.4)	(20.5)
Investment Income. If there is a greater investment income than assumed, there is a gain. If less income, a loss.	(11.4)	(0.5)
Death After Retirement. If retired members live longer than assumed, there is a loss. If not as long, a gain.	27.3	91.6
Other. Miscellaneous gains and losses resulting from changes in valuation software, data adjustments, timing of financial transactions, etc.	(53.7)	(85.6)
Gain (or Loss) During Year From Financial Experience	(73.3)	(3.7)
Non-Recurring Items. Adjustments for plan amendments, assumption changes, method changes or contribution timing.	0.0	0.0
Composite Gain (or Loss) During Year	(73.3)	(3.7)

Analysis of Financial Experience SPRS as of June 30, 2008

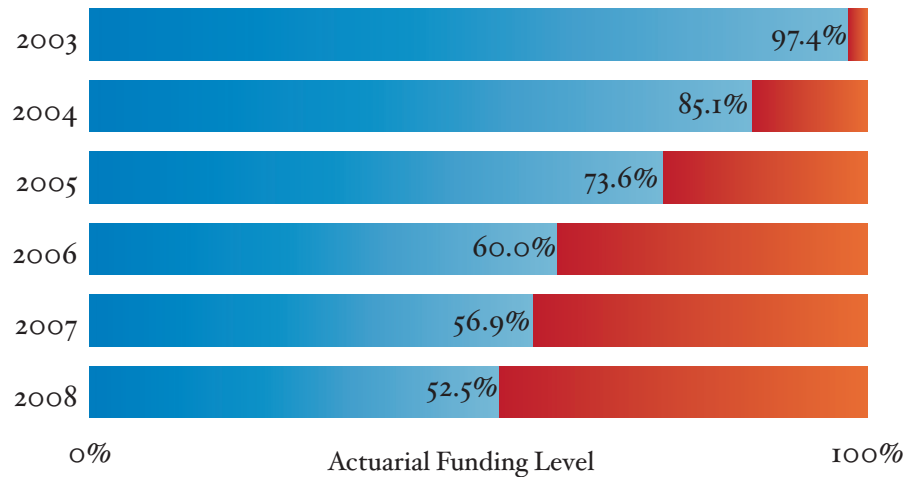
Gains & Losses in Accrued Liabilities Resulting from Difference Between Assumed Experience & Actual Experience (\$ Millions)

Type of Activity	Retirement	Insurance
Age & Service Retirements. If members retire at older ages, there is a gain. If younger ages, a loss.	\$(3.3)	\$3.2
Disability Retirements. If disability claims are less than assumed, there is a gain. If more claims, a loss.	0.3	0.4
Death-In Service Benefits. If survivor claims are less than assumed, there is a gain. If more claims, there is a loss.	0.0	0.0
Withdrawal From Employment. If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	0.7	2.5
Pay or Claims Increases. If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss. For insurance, smaller claims increases than assumed generates a gain; larger, a loss.	(5.4)	19.8
New Members. Additional unfunded accrued liability will produce a loss.	(0.4)	(0.9)
Investment Income. If there is a greater investment income than assumed, there is a gain. If less income, a loss.	0.7	2.1
Death After Retirement. If retired members live longer than assumed, there is a loss. If not as long, a gain.	(0.7)	2.8
Other. Miscellaneous gains and losses resulting from changes in valuation software, data adjustments, timing of financial transactions, etc.	(26.1)	(31.9)
Gain (or Loss) During Year From Financial Experience	(34.2)	(2.0)
Non-Recurring Items. Adjustments for plan amendments, assumption changes, method changes or contribution timing.	0.0	0.0
Composite Gain (or Loss) During Year	(34.2)	(2.0)

Summary of Actuarially Unfunded Liabilities as of June 30, 2008

Kentucky Employees Retirement System Non-Hazardous Pension Fund

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Liability		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/03	\$6,520,463,188	\$6,351,318,832	\$4,929,443,185	\$169,144,356	\$1,591,020,003	97.4%	75.6%
6/30/04	7,049,613,171	6,000,513,743	5,258,994,145	1,049,099,428	1,790,619,026	85.1	74.6
6/30/05	7,579,074,839	5,578,685,746	5,362,630,697	2,000,389,093	2,216,444,142	73.6	70.8
6/30/06	8,994,826,247	5,394,086,323	5,440,132,708	3,600,739,924	3,554,693,539	60.0	60.5
6/30/07	9,485,939,277	5,396,782,459	5,773,156,838	4,089,156,818	3,712,782,439	56.9	60.9
6/30/08	10,129,689,985	5,318,792,893	5,056,867,294	4,810,897,092	5,072,822,691	52.5	49.9

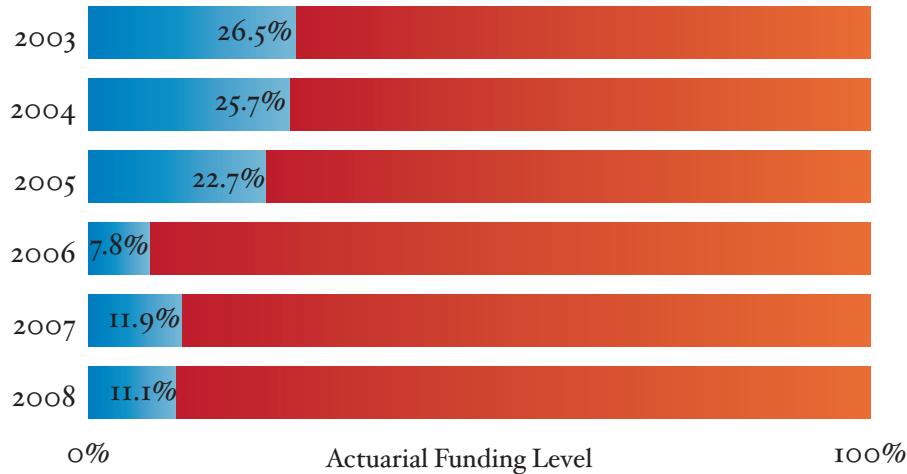


The funding level is the percentage of actuarial liabilities, or benefits earned to date, covered by the current assets. The value provides a measure of the plan's financial soundness. An increasing (decreasing) trend in the funding level indicates the system is becoming financially stronger (weaker).

Summary of Actuarially Unfunded Liabilities as of June 30, 2008

Kentucky Employees Retirement System Non-Hazardous Insurance Fund

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Liability		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/03	\$2,093,210,321	\$553,885,082	\$487,274,973	\$1,539,325,239	\$1,605,935,348	26.5%	23.3%
6/30/04	2,335,905,365	600,586,961	587,680,647	1,735,318,404	1,748,224,718	25.7	25.2
6/30/05	2,680,559,188	607,068,351	610,901,623	2,073,490,837	2,069,657,565	22.7	22.8
6/30/06	7,815,480,774	611,350,765	632,642,846	7,204,130,009	7,182,837,928	7.8	8.1
6/30/07	5,201,355,055	621,171,658	663,558,360	4,580,183,397	4,537,796,695	11.9	12.8
6/30/08	5,431,499,285	603,197,761	574,480,809	4,828,301,524	4,857,018,476	11.1	10.6

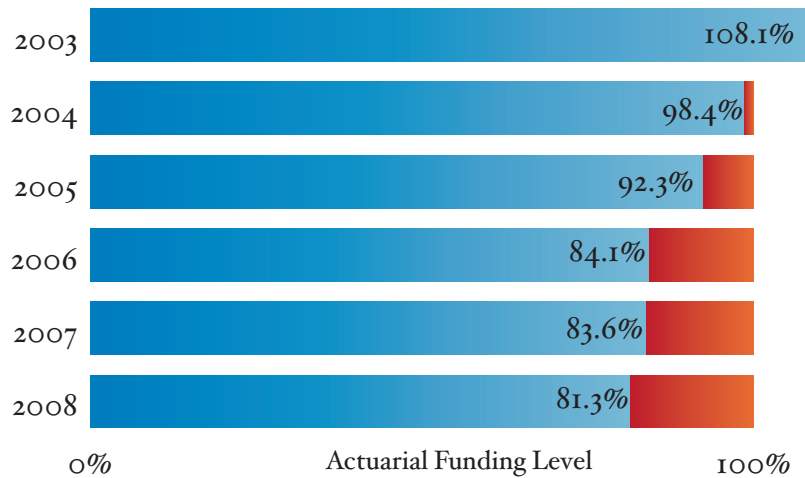


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Summary of Actuarially Unfunded Liabilities as of June 30, 2008

Kentucky Employees Retirement System Hazardous Pension Fund

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Liability		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/03	\$356,879,133	\$385,925,722	\$320,524,691	(\$29,046,589)	\$36,354,442	108.1%	89.8%
6/30/04	403,578,036	397,212,763	366,569,507	6,365,273	37,008,529	98.4	90.8
6/30/05	438,994,257	405,288,662	398,308,897	33,705,595	40,685,360	92.3	90.7
6/30/06	508,655,903	427,984,192	437,029,583	80,671,711	71,626,320	84.1	85.9
6/30/07	558,992,329	467,287,809	510,775,499	91,704,520	48,216,830	83.6	91.4
6/30/08	618,010,827	502,132,214	484,440,015	115,878,613	133,570,812	81.3	78.4

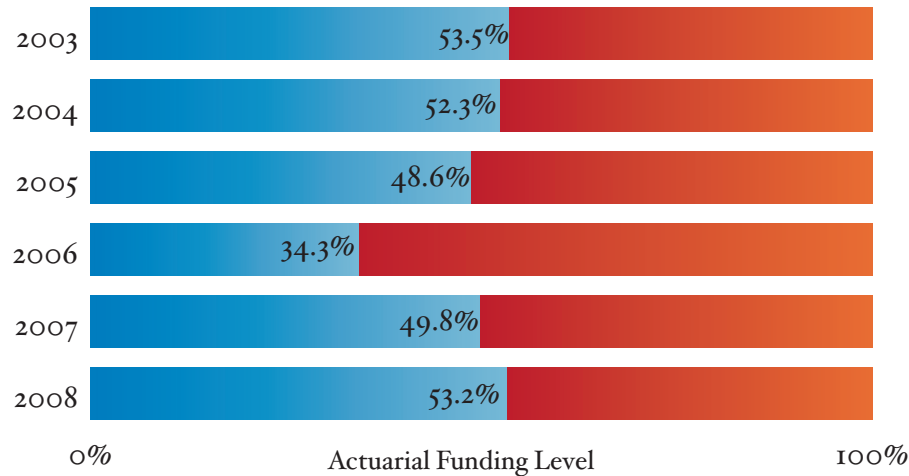


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Summary of Actuarially Unfunded Liabilities as of June 30, 2008

Kentucky Employees Retirement System Hazardous Insurance Fund

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Liability		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/03	\$283,178,335	\$151,459,500	\$125,533,413	\$131,718,835	\$157,644,922	53.5%	44.3%
6/30/04	323,503,563	169,158,879	162,127,373	154,344,684	161,376,190	52.3	50.1
6/30/05	386,844,695	187,947,644	188,871,226	198,897,051	197,973,469	48.6	48.8
6/30/06	621,237,856	212,833,318	223,523,081	408,404,538	397,714,775	34.3	36.0
6/30/07	504,842,981	251,536,756	280,885,910	253,306,225	223,957,071	49.8	55.6
6/30/08	541,657,214	288,161,759	269,299,859	253,495,455	272,357,355	53.2	49.7

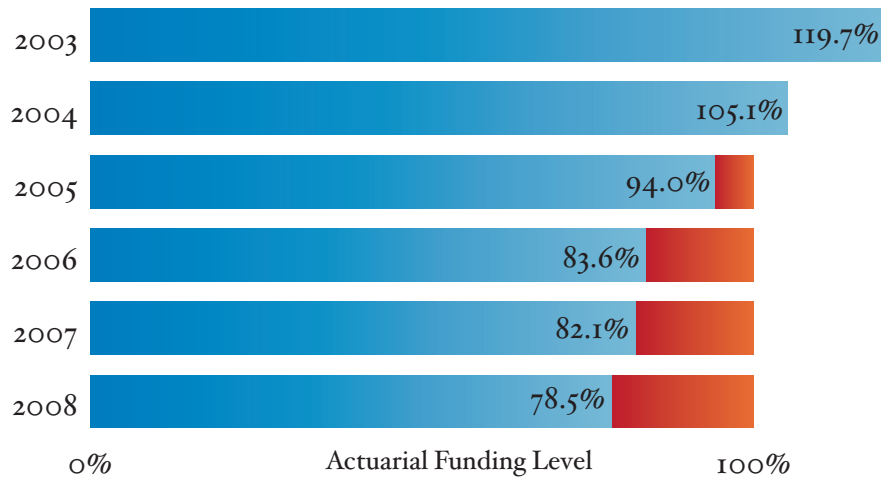


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Summary of Actuarially Unfunded Liabilities as of June 30, 2008

County Employees Retirement System Non-Hazardous Pension Fund

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Liability		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/03	\$4,417,597,802	\$5,286,580,047	\$4,174,881,117	(\$868,982,245)	\$242,716,685	119.7%	94.5%
6/30/04	4,936,459,488	5,187,851,530	4,613,335,957	(251,392,042)	323,123,531	105.1	93.5
6/30/05	5,385,156,690	5,059,208,687	4,893,599,997	325,948,003	491,556,693	94.0	90.9
6/30/06	6,179,569,267	5,162,894,136	5,191,376,948	1,016,675,131	988,192,319	83.6	84.0
6/30/07	6,659,446,126	5,467,824,480	5,812,935,251	1,191,621,646	846,510,875	82.1	87.3
6/30/08	7,304,217,691	5,731,502,438	5,431,735,605	1,572,715,253	1,872,482,086	78.5	74.4

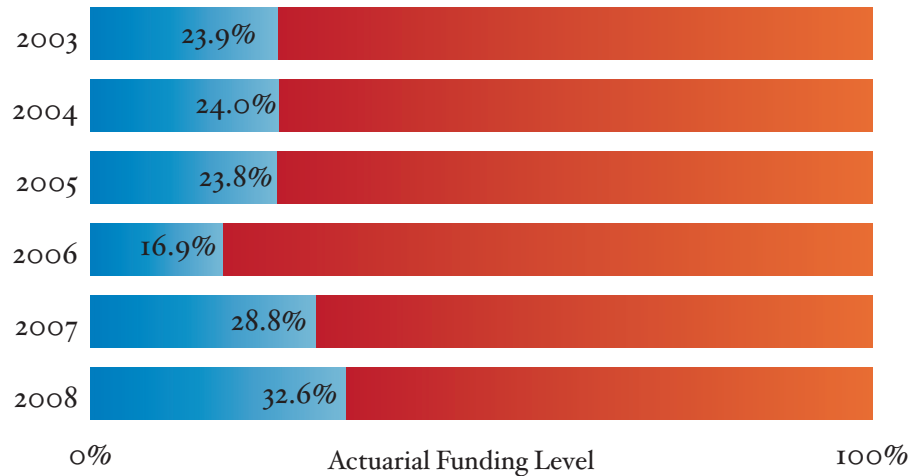


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Summary of Actuarially Unfunded Liabilities as of June 30, 2008

County Employees Retirement System Non-Hazardous Insurance Fund

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Liability		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/03	\$2,176,963,259	\$520,060,105	\$435,667,125	\$1,656,903,154	\$1,741,296,134	23.9%	20.0%
6/30/04	2,438,734,696	585,399,072	563,877,594	1,853,335,624	1,874,857,102	24.0	23.1
6/30/05	2,788,754,654	663,941,949	668,485,367	2,124,812,705	2,120,269,287	23.8	24.0
6/30/06	4,607,223,639	777,726,590	813,250,744	3,829,497,049	3,793,972,895	16.9	17.7
6/30/07	3,333,966,070	960,285,900	1,084,042,781	2,373,680,170	2,249,923,289	28.8	32.5
6/30/08	3,583,193,466	1,168,883,170	1,105,944,178	2,414,310,296	2,477,249,288	32.6	30.9

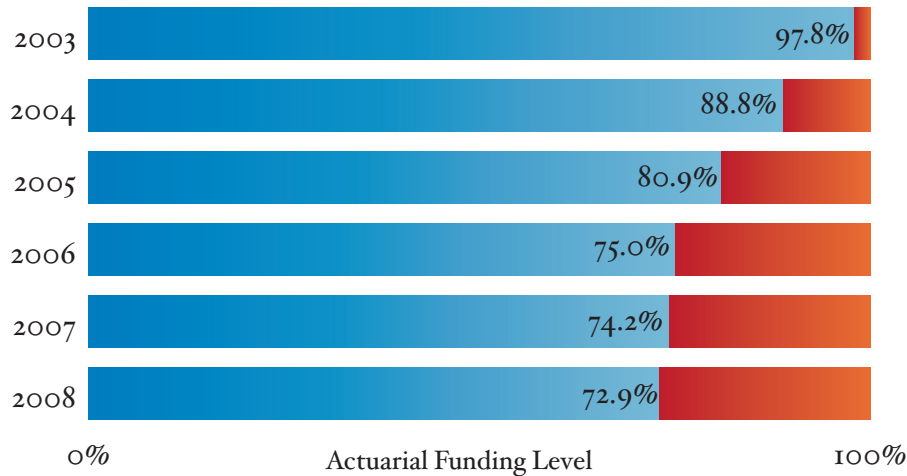


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Summary of Actuarially Unfunded Liabilities as of June 30, 2008

County Employees Retirement System Hazardous Pension Fund

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Liability		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/03	\$1,499,628,782	\$1,467,004,856	\$1,168,794,472	\$32,623,926	\$330,834,310	97.8%	77.9%
6/30/04	1,640,830,120	1,457,612,042	1,305,011,472	183,218,078	335,818,648	88.8	79.5
6/30/05	1,795,617,335	1,452,353,023	1,411,245,719	343,264,312	384,371,616	80.9	78.6
6/30/06	2,020,142,770	1,515,075,017	1,528,845,357	505,067,753	491,297,413	75.0	75.7
6/30/07	2,208,736,179	1,639,288,924	1,754,934,764	569,447,255	453,801,415	74.2	79.5
6/30/08	2,403,122,095	1,750,867,373	1,644,983,243	652,254,722	758,138,852	72.9	68.5

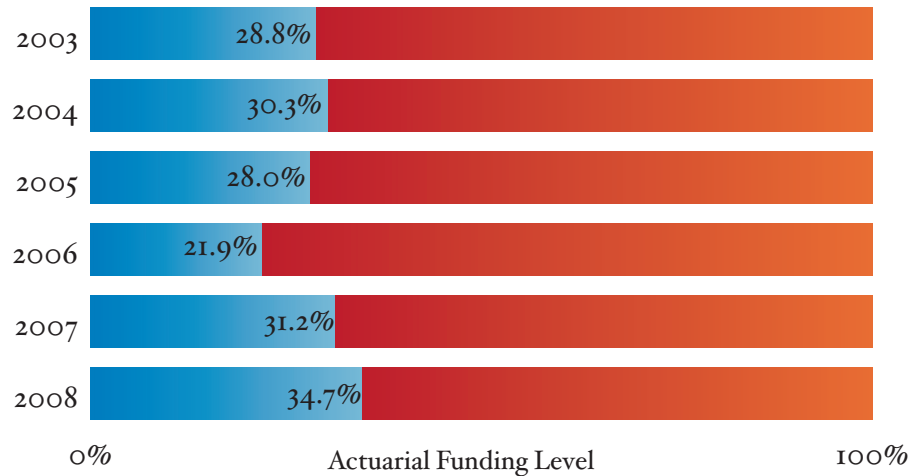


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Summary of Actuarially Unfunded Liabilities as of June 30, 2008

County Employees Retirement System Hazardous Insurance Fund

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Liability		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/03	\$935,650,662	\$269,190,080	\$223,212,339	\$666,460,582	\$712,438,323	28.8%	23.9%
6/30/04	1,025,684,477	310,578,162	297,734,286	715,106,315	727,950,191	30.3	29.0
6/30/05	1,283,299,092	359,180,461	360,938,669	924,118,631	922,360,423	28.0	28.1
6/30/06	1,928,481,371	422,785,042	441,278,796	1,505,696,329	1,487,202,575	21.9	22.9
6/30/07	1,646,460,011	512,926,549	570,155,702	1,133,533,462	1,076,304,309	31.2	34.6
6/30/08	1,769,782,957	613,526,319	576,414,457	1,156,256,638	1,193,368,500	34.7	32.6

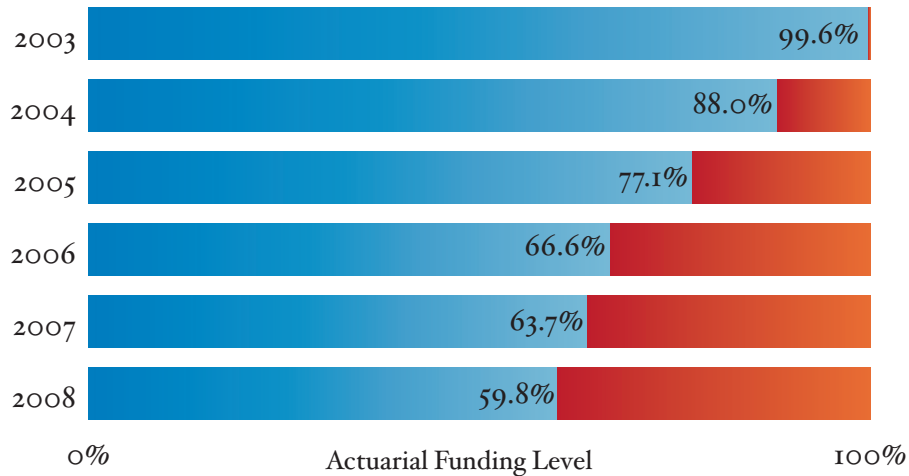


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Summary of Actuarially Unfunded Liabilities as of June 30, 2008

State Police Retirement System Pension

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Liability		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/03	\$414,881,459	\$413,063,576	\$319,116,232	\$1,817,883	\$95,765,227	99.6%	76.9%
6/30/04	437,482,425	385,077,195	335,720,408	52,405,230	101,762,017	88.0	76.7
6/30/05	458,593,576	353,511,622	339,405,873	105,081,954	119,187,703	77.1	74.0
6/30/06	516,482,298	344,016,197	352,841,486	172,466,101	163,640,812	66.6	68.3
6/30/07	547,955,286	348,806,508	376,381,488	199,148,778	171,573,798	63.7	68.7
6/30/08	587,129,257	350,891,451	337,358,918	236,237,806	249,770,339	59.8	57.5

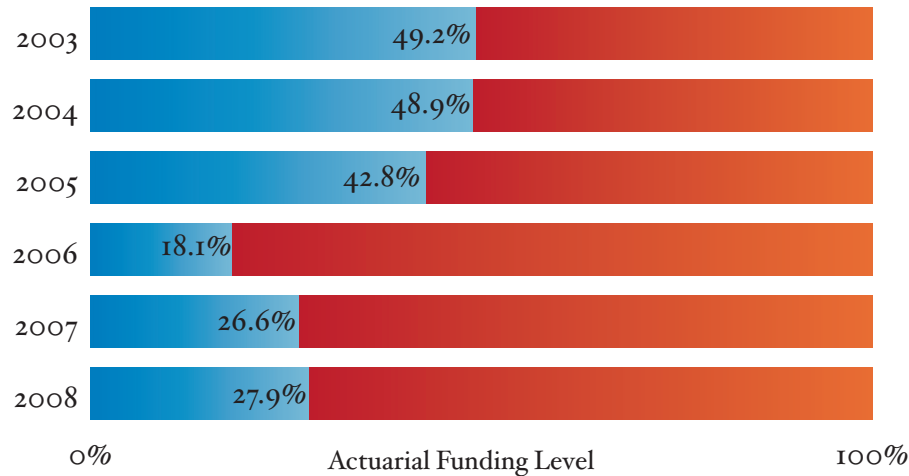


The funding level is the percentage of actuarial liabilities, or benefits earned to date, covered by the current assets. The value provides a measure of the plan's financial soundness. An increasing (decreasing) trend in the funding level indicates the system is becoming financially stronger (weaker).

Summary of Actuarially Unfunded Liabilities as of June 30, 2008

State Police Retirement System Insurance

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Liability		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/03	\$184,501,205	\$90,747,967	\$72,533,617	\$93,753,238	\$111,967,588	49.2%	39.3%
6/30/04	197,604,301	96,622,908	90,422,080	100,981,393	107,182,221	48.9	45.8
6/30/05	234,159,510	100,207,082	99,408,106	133,952,428	134,751,404	42.8	42.5
6/30/06	582,580,867	105,580,269	110,491,075	477,000,598	472,089,792	18.1	19.0
6/30/07	432,763,229	115,215,912	132,573,898	317,547,317	300,189,331	26.6	30.6
6/30/08	445,107,468	123,961,197	121,781,967	321,146,271	323,325,501	27.9	27.4



The funding level is the percentage of actuarial liabilities, or benefits earned to date, covered by the current assets. The value provides a measure of the plan's financial soundness. An increasing (decreasing) trend in the funding level indicates the system is becoming financially stronger (weaker).

Solvency Test as of June 30, 2008

Kentucky Employees Retirement System Non-Hazardous Pension Fund

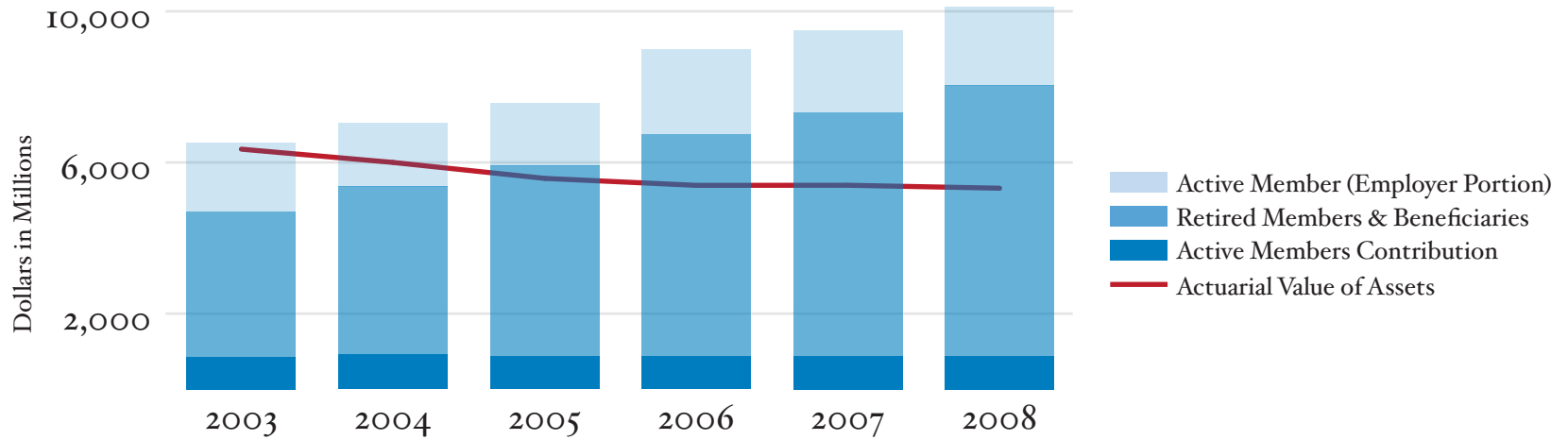
Valuation Date	Actuarial Liabilities				% of Actuarial Liabilities Covered by Actuarial Assets		
	(1) Active Member Contributions	(2) Retired Members & Beneficiaries	(3) Active Members (Employer Portion)	Actuarial Value of Assets	(1)	(2)	(3)
6/30/03	\$859,895,312	\$3,844,696,149	\$1,815,871,727	\$6,351,318,832	100.0%	100.0%	90.7%
6/30/04	915,105,103	4,452,864,748	1,681,643,320	6,000,513,743	100.0	100.0	37.6
6/30/05	866,044,474	5,056,247,608	1,656,782,757	5,578,685,746	100.0	93.2	-
6/30/06	866,050,799	5,881,990,853	2,246,784,595	5,394,086,323	100.0	77.0	-
6/30/07	878,842,180	6,437,235,593	2,169,861,504	5,396,782,459	100.0	70.2	-
6/30/08	875,178,069	7,162,496,700	2,092,015,217	5,318,792,893	100.0	62.0	-

Kentucky Employees Retirement System Non-Hazardous Insurance Fund

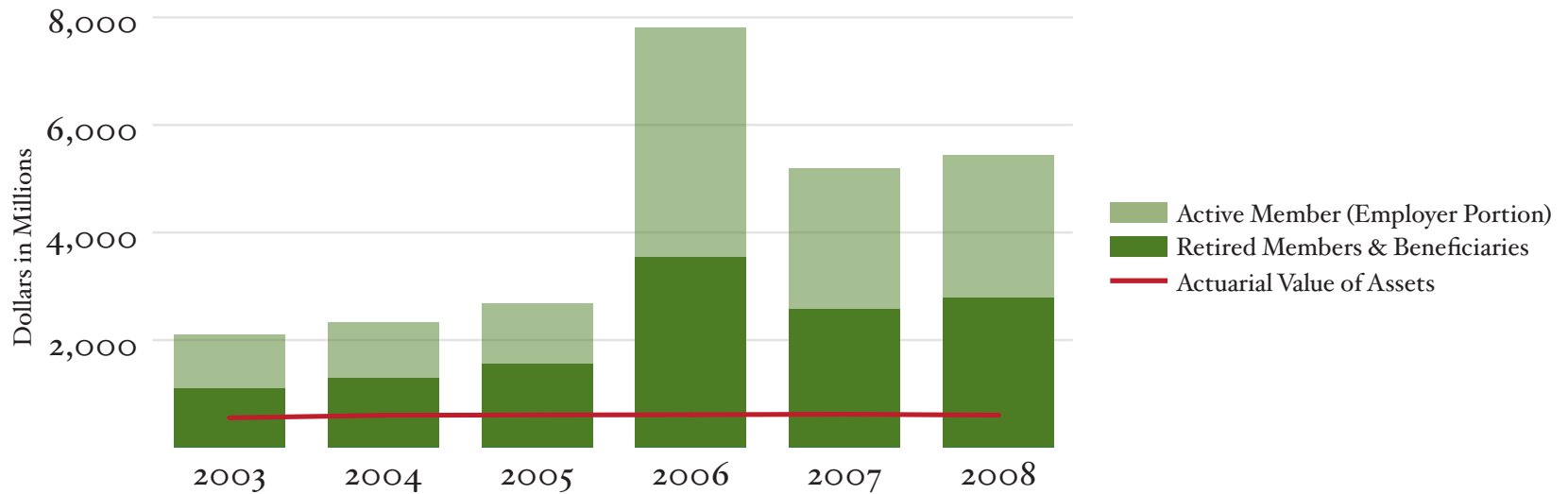
6/30/03	\$0	\$1,089,606,122	\$1,003,604,199	\$553,885,082	100.0%	50.8%	-
6/30/04	0	1,282,214,660	1,053,690,705	600,586,961	100.0	46.8	-
6/30/05	0	1,550,619,458	1,129,939,730	607,068,351	100.0	39.2	-
6/30/06	0	3,543,125,375	4,272,355,400	611,350,765	100.0	17.3	-
6/30/07	0	2,569,197,567	2,632,157,488	621,171,658	100.0	24.2	-
6/30/08	0	2,788,189,754	2,643,309,531	603,197,761	100.0	21.6	-

A solvency test provides measures of the plan's ability to pay all promised benefits (actuarial liabilities) when due. Column 1 represents the value of active member contributions. Column 2 represents the amount necessary to pay retired member and beneficiary benefits. Column 3 represents the employer's portion of active member benefits accrued to date that will be paid in the future. In a system receiving the actuarially recommended employer contribution, the total actuarial liabilities in Column 1 and 2 should be fully covered by actuarial assets, and the portion of the actuarial liabilities in Column 3 should be covered by actuarial assets over time.

KERS Non-Hazardous Pension



KERS Non-Hazardous Insurance



Solvency Test as of June 30, 2008

Kentucky Employees Retirement System Hazardous Pension Fund

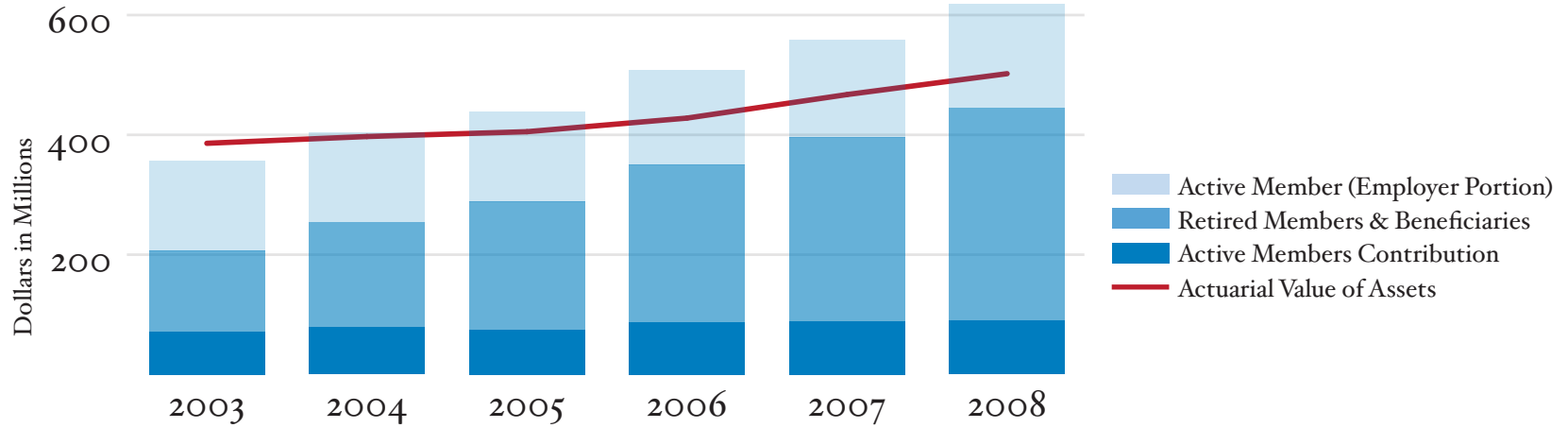
Valuation Date	Actuarial Liabilities				% of Actuarial Liabilities Covered by Actuarial Assets		
	(1) Active Member Contributions	(2) Retired Members & Beneficiaries	(3) Active Members (Employer Portion)	Actuarial Value of Assets	(1)	(2)	(3)
6/30/03	\$71,414,721	\$135,622,333	\$149,842,079	\$385,925,722	100.0%	100.0%	119.4%
6/30/04	78,817,575	175,102,848	149,657,613	397,212,763	100.0	100.0	95.7
6/30/05	75,098,321	213,310,550	150,585,386	405,288,662	100.0	100.0	77.6
6/30/06	87,092,538	262,446,606	159,116,759	427,984,192	100.0	100.0	49.3
6/30/07	88,670,847	306,492,350	163,829,132	467,287,809	100.0	100.0	44.0
6/30/08	89,590,638	355,771,877	172,648,312	502,132,214	100.0	100.0	32.9

Kentucky Employees Retirement System Hazardous Insurance Fund

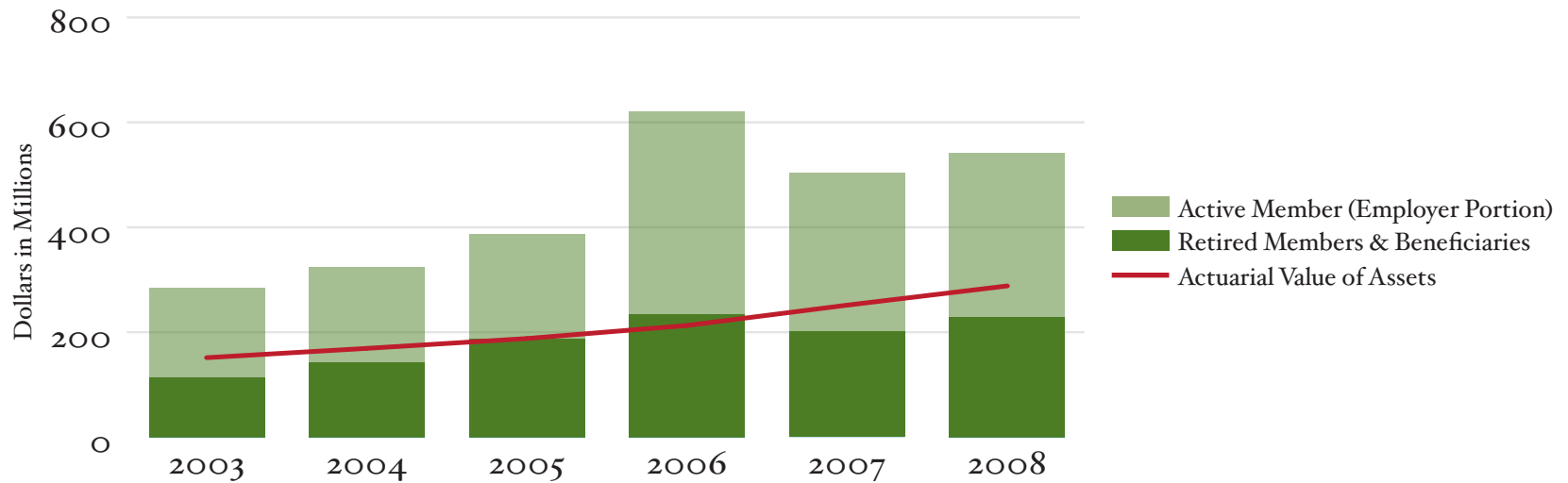
6/30/03	\$0	\$113,979,451	\$169,198,884	\$151,459,500	100.0%	100.0%	22.2%
6/30/04	0	142,872,557	180,631,006	169,158,879	100.0	100.0	14.6
6/30/05	0	187,883,650	198,961,045	187,947,644	100.0	100.0	-
6/30/06	0	234,058,715	387,179,141	212,833,318	100.0	100.0	-
6/30/07	0	201,189,546	303,653,435	251,536,756	100.0	100.0	16.6
6/30/08	0	228,834,940	312,822,274	288,161,759	100.0	100.0	19.0

A solvency test provides measures of the plan's ability to pay all promised benefits (actuarial liabilities) when due. Column 1 represents the value of active member contributions. Column 2 represents the amount necessary to pay retired member and beneficiary benefits. Column 3 represents the employer's portion of active member benefits accrued to date that will be paid in the future. In a system receiving the actuarially recommended employer contribution, the total actuarial liabilities in Column 1 and 2 should be fully covered by actuarial assets, and the portion of the actuarial liabilities in Column 3 should be covered by actuarial assets over time.

KERS Hazardous Pension



KERS Hazardous Insurance



Solvency Test as of June 30, 2008

County Employees Retirement System Non-Hazardous Pension Fund

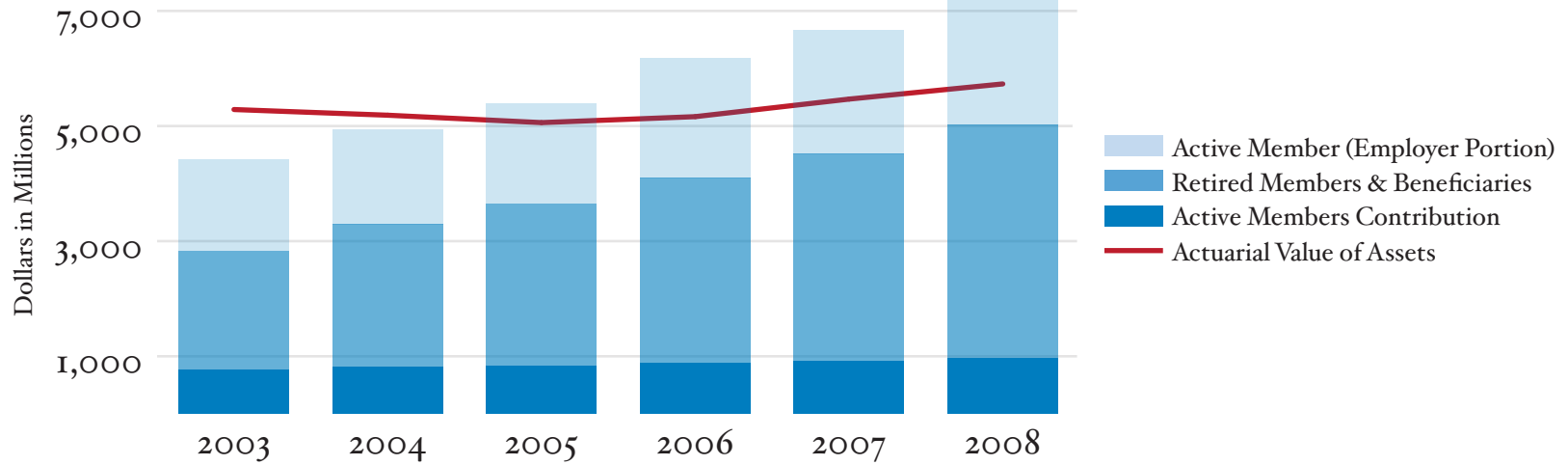
Valuation Date	Actuarial Liabilities				% of Actuarial Liabilities Covered by Actuarial Assets		
	(1) Active Member Contributions	(2) Retired Members & Beneficiaries	(3) Active Members (Employer Portion)	Actuarial Value of Assets	(1)	(2)	(3)
6/30/03	\$759,938,261	\$2,068,481,586	\$1,589,177,955	\$5,286,580,047	100.0%	100.0%	154.7%
6/30/04	814,908,627	2,478,195,080	1,643,355,781	5,187,851,530	100.0	100.0	115.3
6/30/05	837,513,907	2,814,210,355	1,733,432,428	5,059,208,687	100.0	100.0	81.2
6/30/06	883,946,564	3,210,095,023	2,085,527,680	5,162,894,136	100.0	100.0	51.3
6/30/07	920,126,096	3,589,512,063	2,149,807,967	5,467,824,480	100.0	100.0	44.6
6/30/08	963,213,677	4,058,767,419	2,282,236,595	5,731,502,438	100.0	100.0	31.1

County Employees Retirement System Non-Hazardous Insurance Fund

6/30/03	\$0	\$799,777,264	\$1,377,185,995	\$520,060,105	100.0%	65.0%	-
6/30/04	0	955,930,091	1,482,804,605	585,399,072	100.0	61.2	-
6/30/05	0	1,144,219,107	1,644,535,547	663,941,949	100.0	58.0	-
6/30/06	0	1,694,600,143	2,912,623,496	777,726,590	100.0	45.9	-
6/30/07	0	1,372,128,406	1,961,837,664	960,285,900	100.0	70.0	-
6/30/08	0	1,521,450,274	2,061,743,192	1,168,883,170	100.0	76.8	-

A solvency test provides measures of the plan's ability to pay all promised benefits (actuarial liabilities) when due. Column 1 represents the value of active member contributions. Column 2 represents the amount necessary to pay retired member and beneficiary benefits. Column 3 represents the employer's portion of active member benefits accrued to date that will be paid in the future. In a system receiving the actuarially recommended employer contribution, the total actuarial liabilities in Column 1 and 2 should be fully covered by actuarial assets, and the portion of the actuarial liabilities in Column 3 should be covered by actuarial assets over time.

CERS Non-Hazardous Pension



CERS Non-Hazardous Insurance



Solvency Test as of June 30, 2008

County Employees Retirement System Hazardous Pension Fund

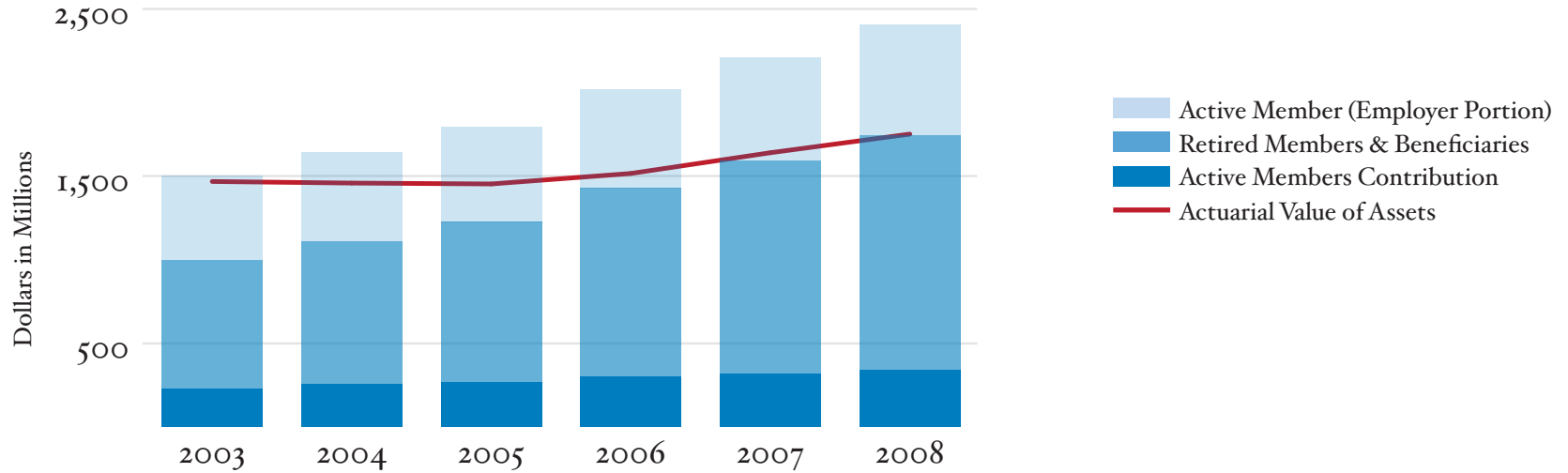
Valuation Date	Actuarial Liabilities				% of Actuarial Liabilities Covered by Actuarial Assets		
	(1) Active Member Contributions	(2) Retired Members & Beneficiaries	(3) Active Members (Employer Portion)	Actuarial Value of Assets	(1)	(2)	(3)
6/30/03	\$227,629,402	\$769,804,746	\$502,194,634	\$1,467,004,856	100.0%	100.0%	93.5%
6/30/04	256,366,204	851,354,443	533,109,473	1,457,612,042	100.0	100.0	65.6
6/30/05	264,913,465	960,052,305	570,651,565	1,452,353,023	100.0	100.0	39.8
6/30/06	300,200,800	1,128,164,618	591,777,352	1,515,075,017	100.0	100.0	14.7
6/30/07	317,007,367	1,275,221,775	616,507,037	1,639,288,924	100.0	100.0	7.6
6/30/08	338,324,362	1,406,982,409	657,815,324	1,750,867,373	100.0	100.0	0.8

County Employees Retirement System Hazardous Insurance Fund

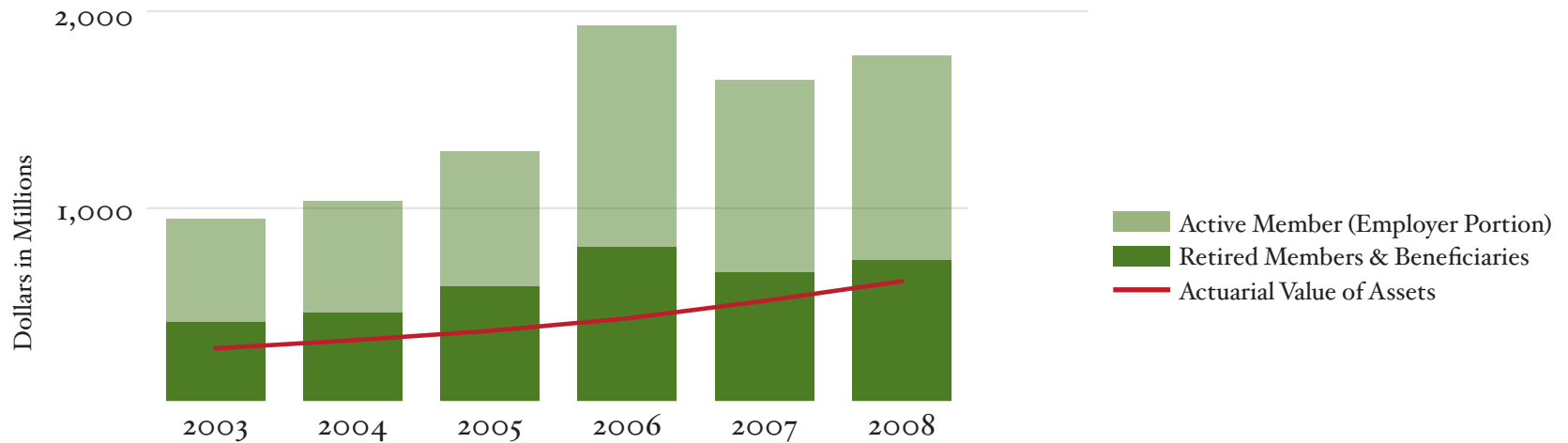
6/30/03	\$0	\$401,276,347	\$534,374,315	\$269,190,080	100.0%	67.1%	-
6/30/04	0	450,288,687	575,395,790	310,578,162	100.0	69.0	-
6/30/05	0	586,104,126	697,194,966	359,180,461	100.0	61.3	-
6/30/06	0	787,671,273	1,140,810,098	422,785,042	100.0	53.7	-
6/30/07	0	659,752,978	986,707,033	512,926,549	100.0	77.7	-
6/30/08	0	722,435,184	1,047,347,773	613,526,319	100.0	84.9	-

A solvency test provides measures of the plan's ability to pay all promised benefits (actuarial liabilities) when due. Column 1 represents the value of active member contributions. Column 2 represents the amount necessary to pay retired member and beneficiary benefits. Column 3 represents the employer's portion of active member benefits accrued to date that will be paid in the future. In a system receiving the actuarially recommended employer contribution, the total actuarial liabilities in Column 1 and 2 should be fully covered by actuarial assets, and the portion of the actuarial liabilities in Column 3 should be covered by actuarial assets over time.

CERS Hazardous Pension



CERS Hazardous Insurance



Solvency Test as of June 30, 2008

State Police Retirement System Pension Fund

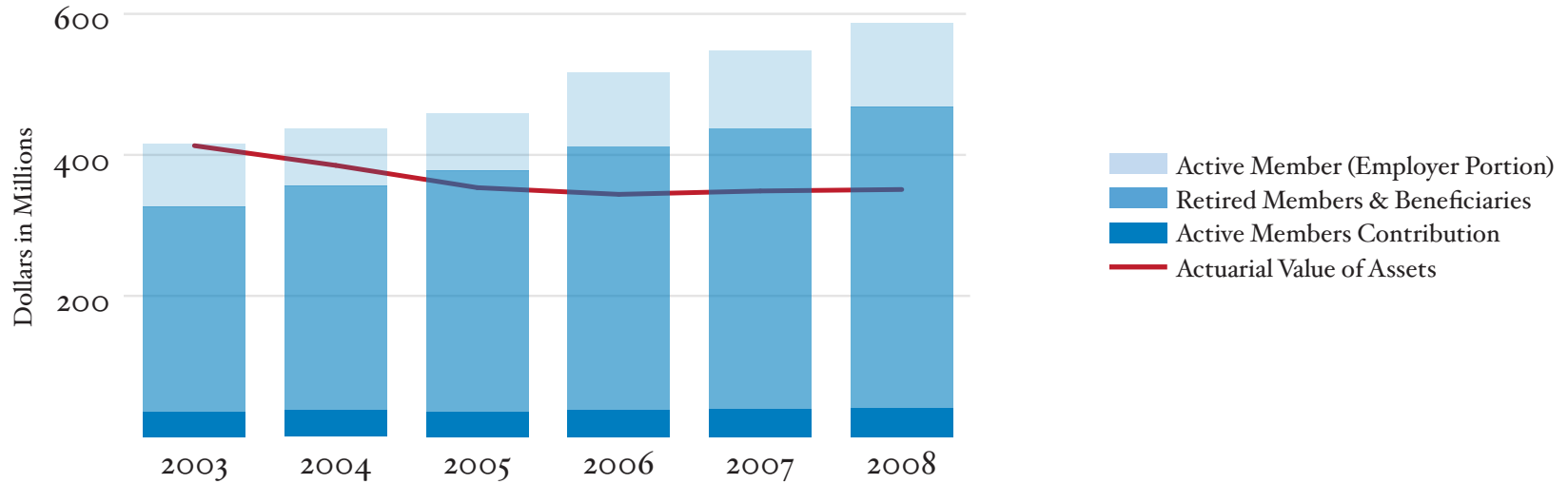
Valuation Date	Actuarial Liabilities				% of Actuarial Liabilities Covered by Actuarial Assets		
	(1) Active Member Contributions	(2) Retired Members & Beneficiaries	(3) Active Members (Employer Portion)	Actuarial Value of Assets	(1)	(2)	(3)
6/30/03	\$35,832,095	\$290,012,792	\$89,036,572	\$413,063,576	100.0%	100.0%	98.0%
6/30/04	37,658,106	318,664,694	81,159,625	385,077,195	100.0	100.0	35.4
6/30/05	35,670,717	341,398,363	81,524,496	353,511,622	100.0	93.1	-
6/30/06	37,866,774	373,588,145	105,027,379	344,016,197	100.0	81.9	-
6/30/07	39,505,285	397,863,520	110,586,481	348,806,508	100.0	77.7	-
6/30/08	41,391,416	426,311,368	119,426,473	350,891,451	100.0	72.6	-

State Police Retirement System Insurance Fund

6/30/03	\$0	\$106,317,750	\$78,183,455	\$90,747,967	100.0%	85.4%	-
6/30/04	0	119,104,851	78,499,450	96,622,908	100.0	81.1	-
6/30/05	0	141,585,694	92,573,816	100,207,082	100.0	70.8	-
6/30/06	0	240,913,868	341,666,999	105,580,269	100.0	43.8	-
6/30/07	0	172,291,142	260,472,087	115,215,912	100.0	66.9	-
6/30/08	0	178,655,245	266,452,223	123,961,197	100.0	69.4	-

A solvency test provides measures of the plan's ability to pay all promised benefits (actuarial liabilities) when due. Column 1 represents the value of active member contributions. Column 2 represents the amount necessary to pay retired member and beneficiary benefits. Column 3 represents the employer's portion of active member benefits accrued to date that will be paid in the future. In a system receiving the actuarially recommended employer contribution, the total actuarial liabilities in Column 1 and 2 should be fully covered by actuarial assets, and the portion of the actuarial liabilities in Column 3 covered by actuarial assets over time.

SPRS Pension



SPRS Insurance



Summary of Active Member Valuation Data as of June 30, 2008

Kentucky Employees Retirement System Non-Hazardous

Valuation Date	Number of Employers	Total Active Members	Annual Payroll ¹	Annual Average Pay	% Increase In Average Pay	Average Age	Average Years of Service Credit
6/30/03	N/A	49,158	\$1,658,604,696	\$33,740	2.6%	42.5	10.0
6/30/04	N/A	47,599	1,645,412,496	34,568	2.5	42.9	10.0
6/30/05	324	47,118	1,655,907,288	35,144	1.7	42.9	9.8
6/30/06	338	46,707	1,702,230,777	36,445	3.7	43.0	9.7
6/30/07	317	47,913	1,780,223,493	37,155	1.9	43.3	9.3
6/30/08	414	48,085	1,837,873,488	38,221	2.9	43.2	9.1

Kentucky Employees Retirement System Hazardous

6/30/03	N/A	4,189	\$129,088,956	\$30,816	3.5%	41.6	7.2
6/30/04	N/A	4,014	126,664,812	31,556	2.4	42.7	7.6
6/30/05	26	4,274	131,687,088	30,811	(2.4)	41.9	7.1
6/30/06	15	4,320	138,747,320	32,117	4.2	41.6	7.0
6/30/07	15	4,349	144,838,020	33,304	3.7	41.7	7.0
6/30/08	16	4,393	148,710,060	33,852	1.6	41.4	6.9

¹Annual payroll included in the Schedule of Active Member Valuation Data is based upon the annualized monthly payroll for active members as of the valuation date. The annual payroll recorded in the Financial Section is based upon the sum of the monthly payroll for active members recorded for each month of the fiscal year ending June 30, 2008.

N/A= Not Available

Summary of Active Member Valuation Data as of June 30, 2008

County Employees Retirement System Non-Hazardous

Valuation Date	Number of Employer	Total Active Members	Annual Payroll ¹	Annual Average Pay	% Increase In Average Pay	Average Age	Average Years of Service Credit
6/30/03	N/A	82,288	\$1,796,451,180	\$21,831	3.2%	43.8	7.6
6/30/04	N/A	80,922	1,826,870,880	22,576	3.4	44.8	7.9
6/30/05	1,116	81,240	1,885,275,000	23,206	2.8	45.0	8.1
6/30/06	1,099	83,694	1,982,437,473	23,687	2.1	45.1	8.1
6/30/07	1,112	84,920	2,076,848,328	24,457	3.3	45.9	8.1
6/30/08	1,110	85,221	2,166,612,648	25,423	3.9	45.9	8.3

County Employees Retirement System Hazardous

6/30/03	N/A	9,286	\$374,700,732	\$40,351	4.3%	37.3	7.8
6/30/04	N/A	9,349	392,562,624	41,990	4.1	38.1	8.1
6/30/05	284	9,464	411,121,728	43,441	3.5	38.0	8.2
6/30/06	292	9,635	426,927,550	44,310	2.0	37.8	8.3
6/30/07	294	10,063	458,998,956	45,613	2.9	38.6	8.1
6/30/08	299	10,173	474,241,332	46,618	2.2	38.7	8.3

¹Annual payroll included in the Schedule of Active Member Valuation Data is based upon the annualized monthly payroll for active members as of the valuation date. The annual payroll recorded in the Financial Section is based upon the sum of the monthly payroll for active members recorded for each month of the fiscal year ending June 30, 2008.

N/A=Not Available

Summary of Active Member Valuation Data as of June 30, 2008

State Police Retirement System

Valuation Date	Number of Employers	Total Active Members	Annual Payroll ¹	Annual Average Pay	% Increase In Average Pay	Average Age	Average Years of Service Credit
6/30/03	1	1,019	\$43,760,832	\$42,945	(2.1%)	35.9	10.9
6/30/04	1	999	43,835,208	43,879	2.2	36.4	10.7
6/30/05	1	987	43,720,092	44,296	1.0	36.5	10.6
6/30/06	1	1,028	47,743,865	46,443	4.8	36.5	10.5
6/30/07	1	957	49,247,580	51,460	10.8	37.3	11.1
6/30/08	1	993	53,269,080	53,645	4.2	36.9	10.8

Annual payroll included in the Schedule of Active Member Valuation Data is based upon the annualized monthly payroll for active members as of the valuation date. The annual payroll recorded in the financial section is based upon the sum of the monthly payroll for active members recorded for each month of fiscal year ending June 30, 2008.

Summary of Retired Member Valuation Data as of June 30, 2008

Kentucky Employees Retirement System Non-Hazardous

Valuation Date	Number Added	Number Removed	Total Retirees & Beneficiaries	Annualized Retirement Allowances	% Increase in Allowances	Average Annual Allowance
6/30/03	2,148	1,618	27,233	\$393,048,800	N/A	\$14,433
6/30/04	2,473	814	28,892	449,410,400	14.34	15,555
6/30/05	2,481	603	30,770	509,347,800	13.34	16,553
6/30/06	2,481	1,111	32,140	566,167,003	11.31	17,611
6/30/07	2,440	731	33,849	625,435,416	10.47	18,477
6/30/08	2,573	1,115	35,307	710,505,270	13.60	20,124

Kentucky Employees Retirement System Hazardous

6/30/03	170	21	1,357	\$12,974,700	N/A	\$9,561
6/30/04	227	35	1,549	16,099,000	24.08	10,393
6/30/05	234	31	1,752	19,640,700	22.00	11,210
6/30/06	256	28	1,980	23,381,537	19.25	11,809
6/30/07	241	19	2,202	27,528,789	17.74	12,502
6/30/08	261	59	2,404	33,588,993	22.01	13,972

The Annualized Retirement Allowance is the annualized value of the monthly retirement allowance for retired members and beneficiaries as of the valuation date. Consequently, the values will not match the fiscal year total benefit payments recorded in the financial section.

N/A = Not Available

Summary of Retired Member Valuation Data as of June 30, 2008

County Employees Retirement System Non-Hazardous

Valuation Date	Number Added	Number Removed	Total Retirees & Beneficiaries	Annualized Retirement Allowances	% Increase in Allowances	Average Annual Allowance
6/30/03	2,411	1,466	27,092	\$219,848,200	N/A	\$8,115
6/30/04	2,805	768	29,129	247,534,300	12.59	8,498
6/30/05	2,808	590	31,347	279,590,300	12.95	8,919
6/30/06	2,782	1,027	33,102	308,269,651	10.26	9,313
6/30/07	3,244	782	35,564	348,712,020	13.12	9,805
6/30/08	3,366	1,351	37,759	393,757,510	12.92	10,478

County Employees Retirement System Hazardous

6/30/03	293	39	3,737	\$72,322,200	N/A	\$19,353
6/30/04	343	75	4,005	79,559,200	10.01	\$19,865
6/30/05	403	47	4,361	89,224,700	12.15	\$20,460
6/30/06	427	76	4,712	100,290,052	12.40	\$21,284
6/30/07	500	53	5,159	113,735,850	13.41	\$22,046
6/30/08	469	206	5,422	127,477,109	12.08	\$23,511

N/A = Not Available

Summary of Active Member Valuation Data as of June 30, 2008

State Police Retirement System

Valuation Date	Number Added	Number Removed	Total Retirees & Beneficiaries	Annualized Retirement Allowances	% Increase in Allowances	Average Annual Allowance
6/30/03	53	9	941	\$28,115,500	N/A	\$29,878
6/30/04	62	11	992	30,805,600	9.57	31,054
6/30/05	50	6	1,036	32,983,900	7.07	31,838
6/30/06	43	10	1,067	34,651,251	5.06	32,475
6/30/07	49	11	1,105	37,208,377	7.38	33,673
6/30/08	42	12	1,135	41,293,016	10.98	36,382

N/A = Not Available

Summary of Benefit Provisions KERS & CERS Non- Hazardous Plans

Plan Funding

State statute requires active members to contribute 5% of creditable compensation. Employers contribute at the rate determined by the Board to be necessary for the actuarial soundness of the systems, as required by KRS 61.565 and KRS 61.752. KERS rates are subject to state budget approval.

Membership Eligibility

For non-school board employers, all regular full-time positions that average 100 or more hours of work per month over a fiscal or calendar year. For school board employers, all regular full-time positions that average 80 hours of work per month over the actual days worked during the school year.

Retirement Eligibility

Age	Years of Service	Allowance Reduction
65	4	None
Any	27	None
55	5	6.5% yearly for 5 years before age 65 or 27 years of service, then 4% yearly
Any	25	6.5% yearly for 5 years before age 65 or 27 years of service

Benefit Formula

Final Compensation	x Benefit Factor	x Years of Service
Average of the five highest, or if eligible, three highest fiscal years earnings. To be eligible for three-high final compensation, member must have 27 years of service, age and service of 75 years and retire prior to 1/09.	KERS 1.97% if: Member does not have 13 months credit from 1/98- 1/99.	Includes earned service, purchased service, prior service, and sick leave service (if the member's employer participates in an approved sick leave program).
	KERS 2.00% if: Member has 13 months credit from 1/98- 1/99.	
	KERS 2.20% if: 20 or more years of service, and retires by 1/09.	
	CERS 2.20% if: Member begins participating prior to 8/1/04.	
	CERS 2.00% if: Member begins participating on or after 8/1/04.	

Post-Retirement Death Benefits

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.

Disability Benefits

Members participating before 8/1/04 may retire on account of disability provided the member has at least 60 months of service credit and is not eligible for an unreduced benefit. Additional service credit may be added for computation of benefits under the benefit formula.

Members participating on or after 8/1/04 may retire on account of disability provided the member has at least 60 months of service credit. Benefits are computed as the higher of 20% Final Rate of Pay or the amount calculated under the Benefit Formula based upon actual service.

Members disabled as a result of a single duty-related injury or act of violence related to their job may be eligible for special benefits.

Pre-Retirement Death Benefits

The beneficiary of a deceased active member will be eligible for a monthly benefit if the member was: (1) eligible for retirement at the time of death or, (2) under the age of 55 with at least 60 months of service credit and currently working for a participating agency at the time of death or (3) no longer working for a participating agency but at the time of death had at least 144 months of service credit. If the beneficiary of a deceased active member is not eligible for a monthly benefit, the beneficiary will receive a lump sum payment of the member's contributions and any accumulated interest.

Cost of Living Adjustment

Monthly retirement allowances are increased July 1 each year by the percentage increase in the annual average of the CPI-U for the most recent calendar year, not to exceed five percent (5%). The Kentucky General Assembly has the authority to suspend or reduce Cost of Living Adjustments.

Insurance Benefits

For members participating prior to July 1, 2003, KRS pays a percentage of the monthly premium for single coverage based upon the service credit accrued at retirement. Members participating on or after July 1, 2003 are required to earn at least 10 years of service credit in order to be eligible for insurance benefits at retirement. The monthly health insurance contribution will be \$10 for each year of earned service increased annually by the CPI-U.

Refunds

Upon termination of employment, a refund of member contributions and accumulated interest is available to the member.

Interest on Accounts

Active 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.

Summary of Benefit Provisions KERS & CERS Hazardous Plans & SPRS

Plan Funding

State statute requires active members to contribute 8% of creditable compensation. Employers contribute at the rate determined by the Board to be necessary for the actuarial soundness of the systems, as required by KRS 61.565 and KRS 61.752. KERS & SPRS rates are subject to state budget approval.

Membership Eligibility

All regular full-time hazardous duty positions approved by the Board that average 100 or more hours of work per month over a fiscal or calendar year.

Retirement Eligibility

Age	Years of Service	Allowance Reduction
55	5	None
Any	20	None
50	15	6.5% yearly for 5 years before age 55 or 20 years of service

Benefit Formula

Final Compensation	x	Benefit Factor	x	Years of Service
Average of the three highest fiscal years earnings.		KERS 2.49%		Includes earned service, purchased service, prior service, and sick leave service (if the member's employer participates in an approved sick leave program).
		CERS 2.50%		
		SPRS 2.50%		

Disability Benefits

Members hired before 8/1/04 may retire on account of disability provided the member has at least 60 months of service credit and is not eligible for an unreduced benefit. Additional service credit may be added for computation of benefits under the formula noted above.

Members hired on or after 8/1/04 may retire on account of disability provided the member has at least 60 months of service credit. Benefits are computed as the higher of 25% Final Rate of Pay or the amount calculated under the Benefit

Formula noted above based upon actual service.

Members disabled as a result of a single duty-related injury or act of violence related to their job may be eligible for special benefits.

Pre-Retirement Death Benefits

The beneficiary of a deceased active member will be eligible for a monthly benefit if the member was: (1) eligible for retirement at the time of death or, (2) under the age of 55 with at least 60 months of service credit and currently working for a participating agency at the time of death or (3) no longer working for a participating agency but at the time of death had at least 144 months of service credit. If the beneficiary of a deceased active member is not eligible for a monthly benefit, the beneficiary will receive a lump sum payment of the member's contributions and any accumulated interest.

Post-Retirement Death Benefits

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.

Cost of Living Adjustment

Monthly retirement allowances 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 has the authority to suspend or reduce Cost of Living Adjustments.

Insurance Benefits

For members participating prior to July 1, 2003, KRS pays a percentage of the monthly premium for single coverage based upon the service credit accrued at retirement. Hazardous duty members are also eligible for an additional contribution for dependents based upon hazardous service only. Members participating on or after July 1, 2003 are required to earn at least 10 years of service credit in order to be eligible for insurance benefits at retirement. The monthly health insurance contribution will be \$15 for each year of earned service increased annually by the CPI-U.

Refunds

Upon termination of employment, a refund of member contributions and accumulated interest is available to the member.

Interest on Accounts

Active 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.

Changes in Benefit Provisions

HB 380: 2006 Regular Session KERS & SPRS Employer Rate Reductions

Employer Contribution Rates: HB 380, the Executive Branch Budget Bill, effectively reduced the employer contribution rate recommended by the actuary and adopted by the Board for KERS and SPRS for fiscal year 2006-2007 and 2007-2008. The recommended rate and the rate budgeted by HB 380 are provided in the statistical section.

House Bill 1, Pension Reform legislation, was enacted by the 2008 Special Session of the Kentucky General Assembly. This law is a comprehensive pension reform that significantly impacts retirement benefits for employees who begin participating with KRS on or after September 1, 2008. The law also has provisions that will affect current employees and retirees. Provisions of this legislation became effective in Fiscal Year 2008-09 and will be detailed in the 2009 report.

Statistical Section

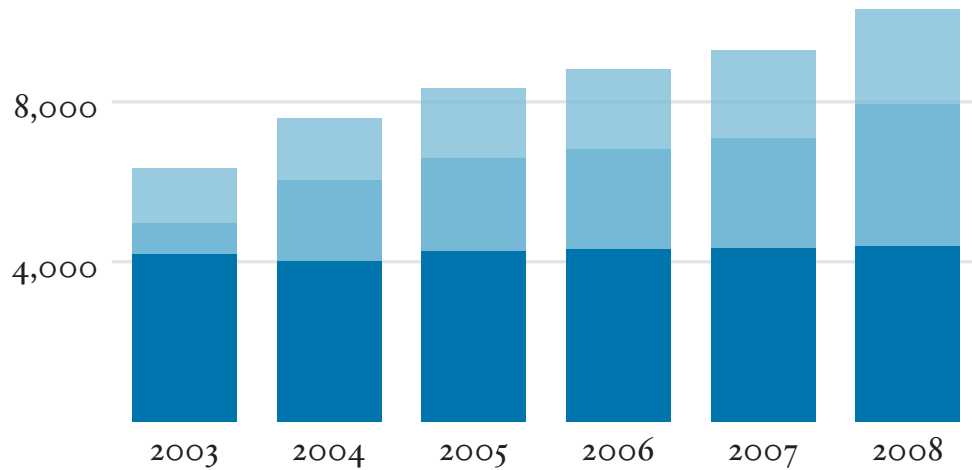
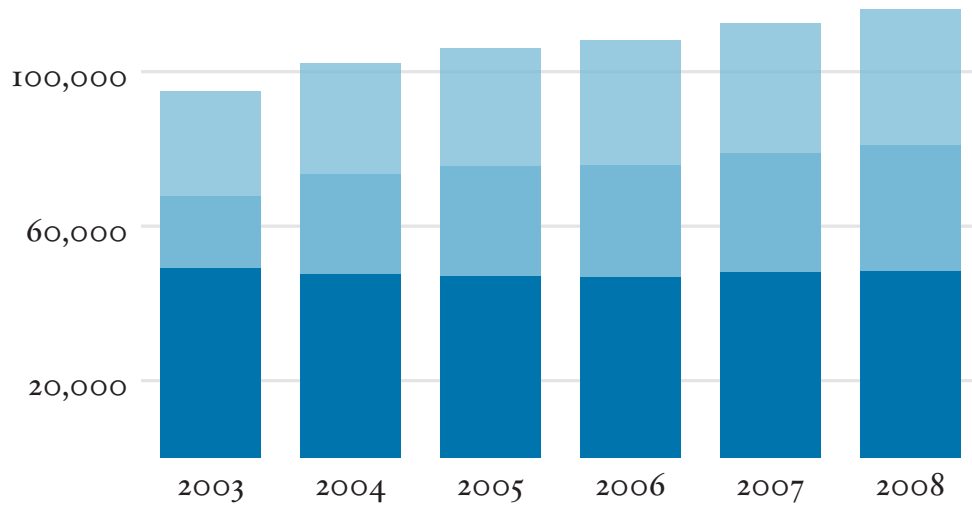
190	Membership by System
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Kentucky Retirement Systems
A component unit of the Commonwealth of Kentucky

Kentucky Employees Retirement System (KERS)
County Employees Retirement System (CERS)
State Police Retirement System (SPRS)

Membership by System



KERS Non-Hazardous Membership

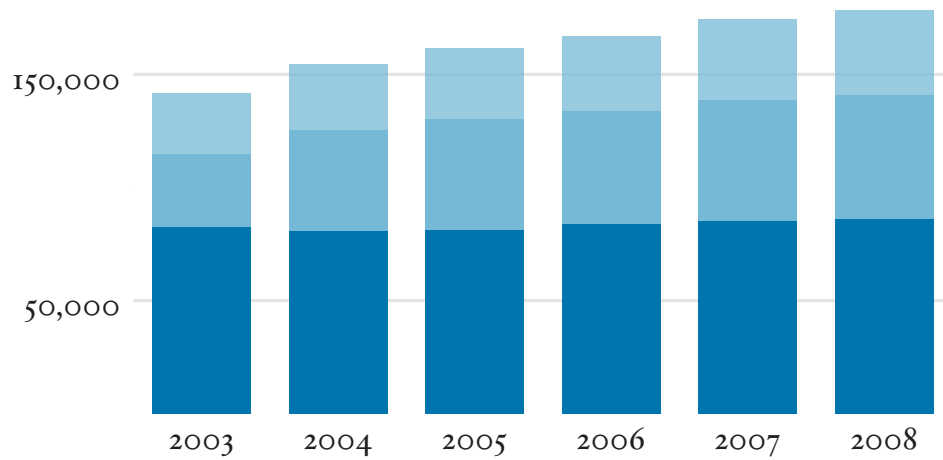
	Active	Inactive	Retired	Total
2003	49,158	18,522	27,233	94,913
2004	47,599	25,775	28,892	102,266
2005	47,118	28,345	30,770	106,233
2006	46,707	29,143	32,140	107,990
2007	47,913	30,904	33,849	112,666
2008	48,202	32,717	35,286	116,205

KERS Hazardous Membership

	Active	Inactive	Retired	Total
2003	4,189	782	1,357	6,328
2004	4,014	2,032	1,549	7,595
2005	4,274	2,304	1,752	8,330
2006	4,320	2,501	1,981	8,802
2007	4,349	2,738	2,202	9,289
2008	4,397	3,534	2,402	10,333

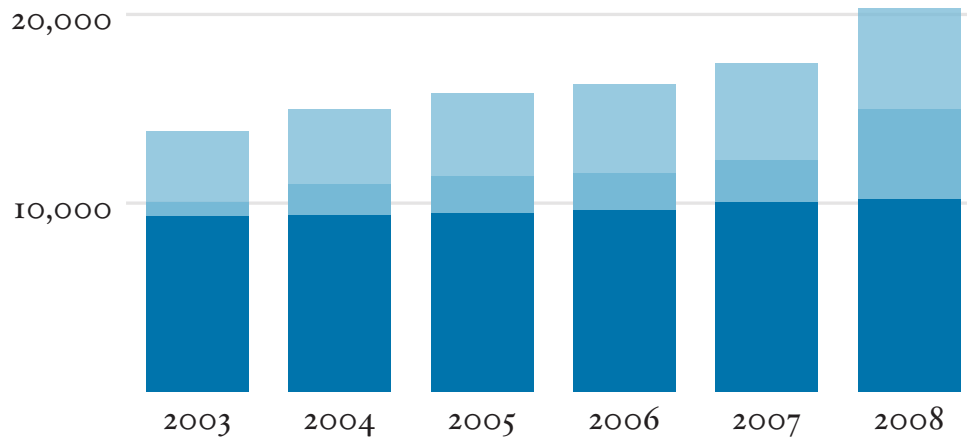
Active members are those members who are currently employed by a participating agency and contributing to the Systems as a condition of employment. Inactive members are those members who are no longer employed with a participating agency but have not yet retired or taken a refund of contributions. Retired members include both members and beneficiaries who are receiving a monthly benefit from the Systems.

Membership by System



CERS Non-Hazardous Membership

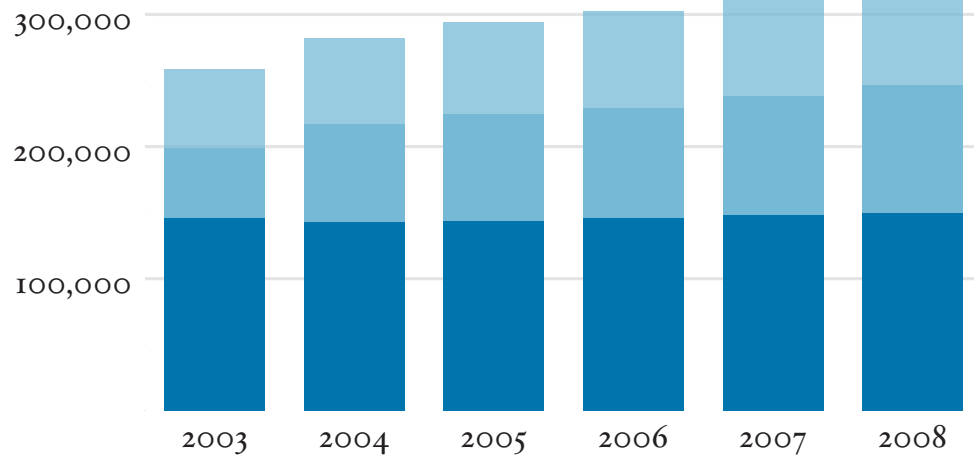
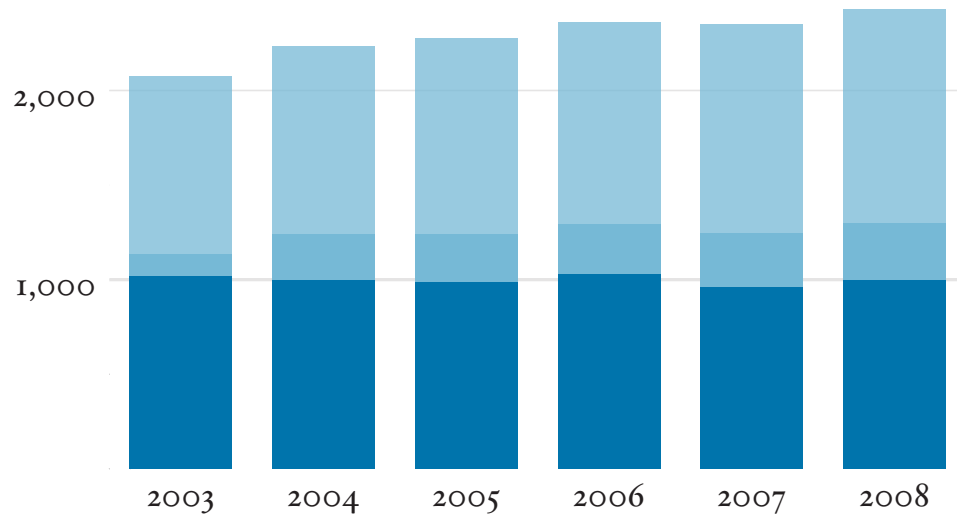
	Active	Inactive	Retired	Total
2003	82,288	32,326	27,092	141,706
2004	80,922	44,419	29,129	154,470
2005	81,240	48,869	31,347	161,456
2006	83,694	50,046	33,102	166,842
2007	84,920	53,901	35,564	174,385
2008	85,803	55,279	37,558	178,640



CERS Hazardous Membership

	Active	Inactive	Retired	Total
2003	9,286	781	3,737	13,804
2004	9,349	1,648	4,005	15,002
2005	9,464	1,971	4,361	15,796
2006	9,635	1,955	4,712	16,302
2007	10,063	2,197	5,159	17,419
2008	10,185	4,815	5,314	20,314

Membership by System



SPRS Membership

	Active	Inactive	Retired	Total
2003	1,019	113	941	2,073
2004	999	243	992	2,234
2005	987	252	1,036	2,275
2006	1,028	266	1,067	2,361
2007	957	286	1,105	2,348
2008	995	302	1,136	2,433

KRS Total Membership

	Active	Inactive	Retired	Total
2003	145,940	52,524	60,360	258,824
2004	142,883	74,117	64,567	281,567
2005	143,083	81,741	69,266	294,090
2006	145,384	83,911	73,002	302,297
2007	148,202	90,026	77,879	316,107
2008	149,582	96,647	81,696	327,925

Average Monthly Benefit by Length of Service

Service Credit Range	KERS Non-Hazardous		CERS Non-Hazardous		KERS Hazardous		CERS Hazardous		SPRS	
	Number	Average Monthly Benefit	Number	Average Monthly Benefit	Number	Average Monthly Benefit	Number	Average Monthly Benefit	Number	Average Monthly Benefit
Under 5 Years	3,017	\$147.51	3,565	\$131.04	126	\$206.57	407	\$386.85	78	\$478.43
5 or more but less than 10	4,037	345.67	7,341	259.14	275	423.64	346	552.00	34	827.02
10 or more but less than 15	3,855	570.27	7,128	448.76	306	611.23	339	943.59	36	1,097.84
15 or more but less than 20	3,601	862.82	5,383	674.53	314	895.41	399	1,128.45	66	1,816.22
20 or more but less than 25	3,869	1,171.41	5,262	899.39	590	1,274.77	2,097	1,833.10	310	2,244.76
25 or more but less than 30	8,682	2,100.79	6,685	1,779.29	527	1,364.03	1,352	2,444.51	365	3,204.87
30 or more but less than 35	5,860	2,969.50	1,835	2,495.47	232	1,804.74	515	3,353.97	210	4,260.28
35 or more	2,422	4,165.19	535	3,239.35	64	2,520.61	118	4,177.45	64	5,017.61
Total	35,343	1,624.27	37,734	851.72	2,434	1,093.55	5,573	1,881.89	1,163	2,842.88

The information in the above table 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.

Schedule of Participating Employers — 1 of 2

Kentucky Employees Retirement System

Agency Classification	Number of Agencies	Number of Employees
Agencies Reporting Through State Payroll	177	36,060
Other Agencies (universities, mental health boards, health departments)	141	16,820
Special Districts and Boards	4	458
Child Support Offices (county attorneys)	60	211
Other State-Administered Retirement Systems	3	291
Total	385	53,840

State Police Retirement System

Agency Classification	Number of Agencies	Number of Employees
Kentucky State Police-Uniformed Officers	1	996

Schedule of Participating Employers — 2 of 2

County Employees Retirement System

Agency Classification	Number of Agencies	Number of Employees
Area Development Districts	13	634
Boards of Education	174	48,731
Cities	216	6,482
County Attorneys	61	604
County Clerks	13	583
County Government Agencies	260	19,738
Fire Departments	67	869
Hospitals	3	335
Jailers	9	439
Libraries	83	1,046
Planning Commissions	11	200
Police Departments	96	740
Police & Fire Departments (combined)	61	3,459
Sanitation Districts	5	65
Sheriff Departments	53	1,174
Special Districts and Boards	166	3,011
Utility Boards	105	3,417
Urban County Government Agencies	4	2,049
Total	1,400	93,576

Principal Participating Employers — 1 of 2

Kentucky Employees Retirement System

Participating Employer	Rank	Covered Employees	% of Total System
Health & Family Services Cabinet: Department for Community Based Services	1	4,333	8.05
Transportation: Department of Highways	2	3,915	7.27
Justice & Public Safety Cabinet: Department of Corrections	3	3,632	6.75
Bluegrass Regional Mental Health/Mental Retardation Board	4	2,560	4.75
Administrative Office of the Courts	5	1,538	2.86
Justice & Public Safety Cabinet: Department of Juvenile Justice	6	1,490	2.77
Seven County Services Inc.	7	1,144	2.12
Unified Prosecutorial System (Child Support Offices)	8	1,079	2.00
Kentucky Department of Parks	9	1,049	1.95
Eastern Kentucky University	10	1,048	1.95
All Others		32,052	59.53
Total		53,840	100.00

Principal Participating Employers — 2 of 2

County Employees Retirement System

Participating Employer	Rank	Covered Employees	% of Total System
Jefferson County Board of Education	1	6,702	7.16%
Louisville/Jefferson County Metro	2	3,198	3.42
Louisville/Jefferson County Metro (Police, Fire, EMS)	3	2,290	2.45
Fayette County Board of Education	4	1,885	2.01
Circuit Clerks	5	1,857	1.98
Lexington/Fayette Urban County Government	6	1,619	1.73
Hardin County Board of Education	7	1,113	1.19
Boone County Board of Education	8	1,058	1.13
Warren County Board of Education	9	892	0.95
Bullitt County Board of Education	10	871	0.93
All Others		72,091	77.04
Total		93,576	100.00

Plan Net Assets

Kentucky Employees Retirement System (KERS)

Dollars in Thousands (\$)	Non-Hazardous			Hazardous		
	Pension	Insurance	Total	Pension	Insurance	Total
June 30 2003	\$4,929,319	\$487,071	\$5,416,390	\$320,513	\$125,522	\$446,035
June 30 2004	5,258,995	587,681	5,846,676	366,568	162,127	528,695
June 30 2005	5,362,631	610,901	5,973,532	398,308	188,871	587,179
June 30 2006	5,440,133	612,643	6,052,776	437,030	223,523	660,553
June 30 2007	5,773,157	663,558	6,436,715	510,775	280,886	791,661
June 30 2008	5,056,869	574,479	5,631,348	484,438	269,300	753,738

County Employees Retirement System (CERS)

Dollars in Thousands (\$)	Non-Hazardous			Hazardous		
	Pension	Insurance	Total	Pension	Insurance	Total
June 30 2003	\$4,175,825	\$435,500	\$4,611,325	\$1,168,776	\$223,168	\$1,391,944
June 30 2004	4,613,335	563,877	5,177,212	1,305,012	297,737	1,602,749
June 30 2005	4,893,600	668,485	5,562,085	1,411,246	360,940	1,772,186
June 30 2006	5,191,377	813,251	6,004,628	1,528,845	441,279	1,970,124
June 30 2007	5,812,936	1,084,043	6,896,979	1,754,935	570,156	2,325,091
June 30 2008	5,431,735	1,105,945	6,537,680	1,644,982	576,414	2,221,396

Plan Net Assets

State Police Retirement System (SPRS)

Dollars in Thousands(\$)	Pension	Insurance	Total
June 30 2003	\$319,115	\$72,538	\$391,653
June 30 2004	335,721	90,420	426,141
June 30 2005	339,406	99,408	438,814
June 30 2006	352,841	110,491	463,332
June 30 2007	376,381	132,574	508,955
June 30 2008	337,359	121,782	459,141

Kentucky Retirement Systems Total

Dollars in Thousands(\$)	Pension	Insurance	Total
June 30 2003	\$10,913,548	\$1,343,799	\$12,257,347
June 30 2004	11,879,631	1,701,842	13,581,473
June 30 2005	12,405,191	1,928,605	14,333,796
June 30 2006	12,950,226	2,201,187	15,151,413
June 30 2007	14,228,184	2,731,217	16,959,401
June 30 2008	12,955,383	2,647,920	15,603,303

Changes in Plan Net Assets Dollars in Thousands (\$)

Kentucky Employees Retirement System (KERS) Non-Hazardous Pension Fund

Fiscal Year	2003	2004	2005	2006	2007	2008
Additions						
Member Contributions	\$137,124	\$129,077	\$127,801	\$107,607	\$116,254	\$116,487
Employer Contributions	7,597	21,697	50,333	60,681	88,249	104,655
Net Investment Income	196,106	651,532	462,638	504,361	784,652	(221,578)
Total Additions	340,827	802,306	640,772	672,649	989,155	(436)
Deductions						
Benefit Payments	404,896	459,367	522,396	577,947	640,201	699,052
Refunds	7,258	8,001	8,824	9,632	9,489	9,076
Administrative Expenses	4,959	5,262	5,916	7,568	7,070	7,724
Other Expenses	0	0	0	0	13	0
Total Deductions	417,113	472,630	537,136	595,147	656,773	715,852
Change in Net Assets	(76,286)	\$329,676	\$103,636	\$77,502	\$332,382	(716,288)

Changes in Plan Net Assets Dollars in Thousands (\$)

Kentucky Employees Retirement System (KERS) Non-Hazardous Insurance Fund

Fiscal Year	2003	2004	2005	2006	2007	2008
Additions						
Employer Contributions	\$65,335	\$78,017	\$51,432	\$47,635	\$64,014	\$56,745
Net Investment Income	8,050	83,064	47,823	65,839	78,877	(38,965)
Member Drug Reimbursement	0	0	0	0	10,744	6,634
Insurance Appropriation	0	0	0	11,852	0	0
Other Income	0	0	0	5,770	12,196	12,940
Total Additions	73,385	161,081	99,255	131,096	165,831	37,354
Deductions						
Benefit Payments	51,586	59,987	75,571	95,823	111,659	122,946
Administrative Expenses	393	484	464	1,679	3,199	3,487
Insurance Appropriation	0	0	0	20,000	0	0
Total Deductions	51,979	60,471	76,035	117,502	114,858	126,433
Change in Net Assets	\$21,406	\$100,610	\$23,220	\$1,742	\$50,973	(89,079)

Changes in Plan Net Assets Dollars in Thousands (\$)

Kentucky Employees Retirement System (KERS) Hazardous Pension Fund						
Fiscal Year	2003	2004	2005	2006	2007	2008
Additions						
Member Contributions	\$11,553	\$11,548	\$11,625	\$12,056	\$13,245	\$13,091
Employer Contributions	7,322	9,769	9,758	10,803	13,237	15,257
Net Investment Income	14,742	43,403	33,123	41,680	77,996	(20,673)
Total Additions	33,617	64,720	54,506	64,539	104,478	7,675
Deductions						
Benefit Payments	13,373	16,863	20,495	23,736	28,514	31,606
Refunds	1,160	1,410	1,760	1,436	1,662	1,742
Administrative Expenses	404	392	511	645	611	664
Other Expenses	0	0	0	0	1	0
Total Deductions	14,937	18,665	22,766	25,817	38,788	34,012
Change in Net Assets	\$18,680	\$46,055	\$31,740	\$38,722	\$73,690	(26,337)

Changes in Plan Net Assets Dollars in Thousands (\$)

Kentucky Employees Retirement System (KERS) Hazardous Insurance Fund

Fiscal Year	2003	2004	2005	2006	2007	2008
Additions						
Employer Contributions	\$15,883	\$14,959	\$15,653	\$17,012	\$19,535	\$21,997
Net Investment Income	2,835	25,206	15,999	24,128	44,541	(25,740)
Member Drug Reimbursement	0	0	0	0	105	74
Insurance Appropriation	0	0	0	88	0	0
Other Income	0	0	0	0	204	247
Total Additions	18,718	40,165	31,652	41,228	64,385	(3,422)
Deductions						
Benefit Payments	2,938	3,539	4,853	6,513	6,874	8,069
Administrative Expenses	27	21	55	63	83	95
Total Deductions	2,965	3,560	4,908	6,576	6,957	8,164
Change in Net Assets	\$15,753	\$36,605	\$26,744	\$34,652	\$57,428	(11,586)

Changes in Plan Net Assets Dollars in Thousands (\$)

County Employees Retirement System (CERS) Non-Hazardous Pension Fund

Fiscal Year	2003	2004	2005	2006	2007	2008
Additions						
Member Contributions	\$125,301	\$122,484	\$127,637	\$112,372	\$121,979	\$125,014
Employer Contributions	11,856	44,028	54,617	90,834	124,261	150,925
Net Investment Income	160,110	551,669	413,672	444,092	760,541	(228,020)
Total Additions	297,267	718,181	595,926	647,298	1,009,736	47,919
Deductions						
Benefit Payments	230,317	260,643	294,590	325,135	356,648	403,958
Refunds	10,213	11,334	11,042	11,589	11,396	11,924
Administrative Expenses	8,244	8,694	10,029	12,797	12,197	13,238
Other Expenses	0	0	0	0	22	0
Total Deductions	248,774	280,671	315,661	349,521	389,263	429,120
Change in Net Assets	\$48,493	\$437,510	\$280,265	\$297,777	\$620,473	(381,201)

Changes in Plan Net Assets Dollars in Thousands (\$)

County Employees Retirement System (CERS) Non-Hazardous Insurance Fund

Fiscal Year	2003	2004	2005	2006	2007	2008
Additions						
Employer Contributions	\$99,235	\$89,344	\$107,632	\$128,868	\$147,609	\$196,110
Net Investment Income	10,625	86,080	55,723	83,991	188,055	(95,924)
Member Drug Reimbursement	0	0	0	0	9,623	6,003
Insurance Appropriation	0	0	0	6,365	0	0
Other Income	0	0	0	0	13,997	15,104
Total Additions	109,860	175,424	163,355	219,224	359,284	121,293
Deductions						
Benefit Payments	39,387	46,654	58,262	72,919	85,199	95,966
Administrative Expenses	306	393	485	1,539	3,040	3,425
Total Deductions	39,693	47,047	58,747	74,458	88,239	99,391
Change in Net Assets	\$70,167	\$128,377	\$104,608	\$144,766	\$271,045	\$21,902

Changes in Plan Net Assets Dollars in Thousands (\$)

County Employees Retirement System (CERS) Hazardous Pension Fund

Fiscal Year	2003	2004	2005	2006	2007	2008
Additions						
Member Contributions	\$36,203	\$38,668	\$39,515	\$39,055	\$43,650	\$44,260
Employer Contributions	16,906	27,641	39,948	49,976	61,553	72,155
Net Investment Income	46,212	154,628	119,901	132,915	240,035	(97,393)
Total Additions	99,321	220,937	199,364	221,946	345,238	19,022
Deductions						
Benefit Payments	72,532	81,422	90,119	101,087	115,604	125,191
Refunds	1,794	2,520	2,139	2,147	2,563	2,641
Administrative Expenses	737	759	872	1,113	1,073	1,143
Other Expenses	0	0	0	0	2	0
Total Deductions	75,063	84,701	93,130	104,347	119,242	128,975
Change in Net Assets	\$24,258	\$136,236	\$106,234	\$117,599	\$225,996	(109,953)

Changes in Plan Net Assets Dollars in Thousands (\$)

County Employees Retirement System (CERS) Hazardous Insurance Fund

Fiscal Year	2003	2004	2005	2006	2007	2008
Additions						
Employer Contributions	\$45,244	\$47,037	\$55,552	\$64,854	\$70,073	\$90,113
Net Investment Income	5,361	44,337	29,819	98	90,041	(48,529)
Member Drug Reimbursement	0	0	0	0	657	420
Insurance Appropriation	0	0	0	45,317	0	0
Other Income	0	0	0	0	191	222
Total Additions	50,605	91,374	85,371	110,269	160,962	42,226
Deductions						
Benefit Payments	14,866	16,700	21,985	29,717	31,607	35,604
Administrative Expenses	105	105	183	213	320	364
Total Deductions	14,971	16,805	22,168	29,930	31,927	35,968
Change in Net Assets	\$35,634	\$74,569	\$63,203	\$80,339	\$129,035	\$6,258

Changes in Plan Net Assets Dollars in Thousands (\$)

State Police Retirement System (SPRS) Pension Fund

Fiscal Year	2003	2004	2005	2006	2007	2008
Additions						
Member Contributions	\$4,674	\$4,875	\$4,228	\$4,814	\$5,152	\$5,407
Employer Contributions	-20	1,153	2,852	4,244	6,142	7,443
Net Investment Income	13,755	41,642	29,761	39,347	49,595	(12,283)
Total Additions	18,409	47,670	36,841	48,405	60,889	567
Deductions						
Benefit Payments	27,862	30,877	32,921	34,703	37,187	39,367
Refunds	97	96	131	133	47	85
Administrative Expenses	86	91	104	134	126	137
Other Expenses	0	0	0	0	0	0
Total Deductions	28,045	31,064	33,156	34,970	37,360	39,589
Change in Net Assets	(9,636)	\$16,606	\$3,685	\$13,435	\$23,529	(39,022)

Changes in Plan Net Assets Dollars in Thousands (\$)

State Police Retirement System (SPRS) Insurance Fund

Fiscal Year	2003	2004	2005	2006	2007	2008
Additions						
Employer Contributions	\$7,654	\$8,456	\$6,974	\$6,880	\$6,489	\$7,329
Net Investment Income	1,360	14,449	8,279	12,082	21,876	(11,440)
Member Drug Reimbursement	0	0	0	0	361	184
Insurance Appropriation	0	0	0	5	0	0
Other Income	0	0	0	0	8	9
Total Additions	9,014	22,905	15,253	18,967	28,734	(3,918)
Deductions						
Benefit Payments	4,519	4,992	6,221	7,816	6,515	6,768
Administrative Expenses	31	31	44	68	105	106
Total Deductions	4,550	5,023	6,265	7,884	6,620	6,874
Change in Net Assets	\$4,464	\$17,882	\$8,988	\$11,083	\$22,114	(10,792)

KERS Non-Hazardous Schedule of Benefit Expenses by Type — 1 of 2

	Normal Retirement	Early Retirement	Disability Retirement	Beneficiary Payments	Total
FY 2002-03					
Average Benefit	\$822	\$1,430	\$809	\$688	\$1,203
Number	3,706	17,917	1,922	3,708	27,253
Total Monthly Benefits	\$3,045,409	\$25,626,447	\$1,555,628	\$2,551,366	\$32,778,849
% of Total Monthly Benefits	9.3%	78.2%	4.7%	7.8%	100.0%
FY 2003-04					
Average Benefit	\$859	\$1,537	\$825	\$721	\$1,296
Number	3,768	19,477	1,925	3,740	28,910
Total Monthly Benefits	\$3,237,300	\$29,941,376	\$1,587,565	\$2,697,409	\$37,463,650
% of Total Monthly Benefits	8.6%	79.9%	4.2%	7.2%	100.0%
FY 2004-05					
Average Benefit	\$910	\$1,632	\$850	\$739	\$1,379
Number	3,866	21,092	1,910	3,902	30,770
Total Monthly Benefits	\$3,516,148	\$34,423,089	\$1,623,500	\$2,882,916	\$42,445,653
% of Total Monthly Benefits	8.3%	81.1%	3.8%	6.8%	100.0%

KERS Non-Hazardous Schedule of Benefit Expenses by Type — 2 of 2

	Normal Retirement	Early Retirement	Disability Retirement	Beneficiary Payments	Total
FY 2005-06					
Average Benefit	\$888	\$1,670	\$834	\$868	\$1,469
Number	4,616	24,056	2,628	849	32,149
Total Monthly Benefits	\$4,099,896	\$40,184,892	\$2,190,812	\$737,173	\$47,212,773
% of Total Monthly Benefits	8.7%	85.1%	4.6%	1.6%	100.0%
FY 2006-07					
Average Benefit	\$936	\$1,745	\$865	\$869	\$1,541
Number	4,767	25,605	2,597	843	33,812
Total Monthly Benefits	\$4,463,823	\$44,672,320	\$2,245,823	\$732,470	\$52,114,436
% of Total Monthly Benefits	8.6%	85.7%	4.3%	1.4%	100.0%
FY 2007-08					
Average Benefit	\$980	\$1,831	\$897	\$906	\$1,624
Number	4,845	27,080	2,579	839	35,343
Total Monthly Benefits	\$4,747,523	\$49,585,033	\$2,313,860	\$760,088	\$57,406,504
% of Total Monthly Benefits	8.3%	86.4%	4.0%	1.3%	100.0%

The information in these tables include 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 the benefit payment totals listed in the Deduction by Source.

KERS Hazardous Schedule of Benefit Expenses by Type — 1 of 2

	Normal Retirement	Early Retirement	Disability Retirement	Beneficiary Payments	Total
FY 2002-03					
Average Benefit	\$645	\$1,173	\$435	\$576	\$799
Number	626	464	115	157	1,362
Total Monthly Benefits	\$403,467	\$544,066	\$50,058	\$90,368	\$1,087,959
% of Total Monthly Benefits	37.1%	50.0%	4.6%	8.3%	100.0%
FY 2003-04					
Average Benefit	\$711	\$1,221	\$481	\$613	\$864
Number	718	554	129	157	1,558
Total Monthly Benefits	\$510,827	\$676,463	\$62,112	\$96,194	\$1,345,596
% of Total Monthly Benefits	38.0%	50.3%	4.6%	7.1%	100.0%
FY 2004-05					
Average Benefit	\$775	\$1,292	\$568	\$600	\$934
Number	808	647	117	180	1,752
Total Monthly Benefits	\$626,082	\$836,193	\$66,456	\$107,998	\$1,636,729
% of Total Monthly Benefits	38.3%	51.1%	4.1%	6.6%	100.0%

KERS Hazardous Schedule of Benefit Expenses by Type — 2 of 2

	Normal Retirement	Early Retirement	Disability Retirement	Beneficiary Payments	Total
FY 2005-06					
Average Benefit	\$802	\$1,333	\$521	\$749	\$980
Number	1,002	760	163	67	1,992
Total Monthly Benefits	\$803,581	\$1,013,373	\$84,975	\$50,201	\$1,952,130
% of Total Monthly Benefits	41.1%	51.9%	4.4%	2.6%	100.0%
FY 2006-07					
Average Benefit	\$862	\$1,391	\$540	\$731	\$1,038
Number	1,116	854	167	76	2,213
Total Monthly Benefits	\$962,085	\$1,188,289	\$90,109	\$55,536	\$2,296,019
% of Total Monthly Benefits	41.9%	51.8%	3.9%	2.4%	100.0%
FY 2007-08					
Average Benefit	\$912	\$1,455	\$549	\$751	\$1,094
Number	1,231	952	173	78	2,434
Total Monthly Benefits	\$1,123,281	\$1,384,856	\$94,999	\$58,567	\$2,661,703
% of Total Monthly Benefits	42.2%	52.0%	3.6%	2.2%	100.0%

The information in these tables include 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 the benefit payment totals listed in the Deduction by Source.

CERS Non-Hazardous Schedule of Benefit Expenses by Type — 1 of 2

	Normal Retirement	Early Retirement	Disability Retirement	Beneficiary Payments	Total
FY 2002-03					
Average Monthly Benefit	\$456	\$792	\$681	\$461	\$676
Number	5,583	15,902	2,711	2,923	27,119
Total Monthly Benefits	\$2,544,101	\$12,598,502	\$1,845,513	\$1,347,107	\$18,335,223
% of Total Monthly Benefits	13.9%	68.7%	10.1%	7.3%	100.0%
FY 2003-04					
Average Monthly Benefit	\$463	\$829	\$697	\$491	\$708
Number	5,848	17,463	2,814	3,025	29,150
Total Monthly Benefits	\$2,708,649	\$14,483,996	\$1,961,590	\$1,486,749	\$20,640,984
% of Total Monthly Benefits	13.1%	70.2%	9.5%	7.2%	100.0%
FY 2004-05					
Average Monthly Benefit	\$475	\$873	\$720	\$512	\$743
Number	6,131	19,075	2,854	3,287	31,347
Total Monthly Benefits	\$2,915,109	\$16,644,747	\$2,054,880	1,684,459	\$23,299,195
% of Total Monthly Benefits	12.5%	71.4%	8.8%	7.2%	100.0%

CERS Non-Hazardous Schedule of Benefit Expenses by Type — 2 of 2

	Normal Retirement	Early Retirement	Disability Retirement	Beneficiary Payments	Total
FY 2005-06					
Average Monthly Benefit	\$484	\$889	\$715	\$534	\$774
Number	7,207	21,655	3,582	861	33,305
Total Monthly Benefits	\$3,487,493	\$19,256,550	\$2,560,722	\$460,095	\$25,764,859
% of Total Monthly Benefits	13.6%	74.7%	9.9%	1.8%	100.0%
FY 2006-07					
Average Monthly Benefit	\$509	\$938	\$747	\$540	\$817
Number	7,694	23,460	3,612	864	35,630
Total Monthly Benefits	\$3,919,356	\$21,999,359	\$2,696,721	\$484,037	\$29,099,472
% of Total Monthly Benefits	13.5%	75.6%	9.2%	1.7%	100.0%
FY 2007-08					
Average Monthly Benefit	\$523	\$978	\$776	\$582	\$852
Number	8,109	25,070	3,679	876	37,734
Total Monthly Benefits	\$4,241,906	24,530,372	2,856,173	510,523	32,138,704
% of Total Monthly Benefits	13.2%	76.3%	8.9%	1.6%	100.0%

The information in these tables include 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 the benefit payment totals listed in the Deduction by Source.

CERS Hazardous Schedule of Benefit Expenses by Type — 1 of 2

	Normal Retirement	Early Retirement	Disability Retirement	Beneficiary Payments	Total
FY 2002-03					
Average Monthly Benefit	\$1,371	\$1,905	\$814	\$1,142	\$1,615
Number	705	2,307	457	273	3,742
Total Monthly Benefits	\$966,828	\$4,394,088	\$371,773	\$311,827	\$6,044,517
% of Total Monthly Benefits	16.0%	72.7%	6.2%	5.2%	100.0%
FY 2003-04					
Average Monthly Benefit	\$1,371	\$1,942	\$824	\$1,177	\$1,643
Number	785	2,489	481	299	4,054
Total Monthly Benefits	\$1,076,329	\$4,834,845	\$396,302	\$351,804	\$6,659,280
% of Total Monthly Benefits	16.2%	72.6%	6.0%	5.3%	100.0%
FY 2004-05					
Average Monthly Benefit	\$1,399	\$2,031	\$1,159	\$910	\$1,705
Number	865	2,642	332	522	4,361
Total Monthly Benefits	\$1,209,803	\$5,365,822	\$384,788	\$474,975	\$7,435,388
% of Total Monthly Benefits	16.3%	72.2%	5.2%	6.4%	100.0%

CERS Hazardous Schedule of Benefit Expenses by Type — 2 of 2

	Normal Retirement	Early Retirement	Disability Retirement	Beneficiary Payments	Total
FY 2005-06					
Average Monthly Benefit	\$1,369	\$2,059	\$899	\$974	\$1,743
Number	1,079	3,062	580	96	4,817
Total Monthly Benefits	\$1,477,504	\$6,304,523	\$521,285	\$93,535	\$8,396,847
% of Total Monthly Benefits	17.6%	75.1%	6.2%	1.1%	100.0%
FY 2006-07					
Average Monthly Benefit	\$1,398	\$2,147	\$937	\$944	\$1,815
Number	1,212	3,329	592	95	5,228
Total Monthly Benefits	\$1,693,771	\$7,148,184	\$554,911	\$89,712	\$7,486,579
% of Total Monthly Benefits	17.8%	75.3%	5.9%	1.0%	100.0%
FY 2007-08					
Average Monthly Benefit	\$1,424	\$2,228	\$986	\$1,021	\$1,882
Number	1,307	3,555	610	101	5,573
Total Monthly Benefits	\$1,861,441	7,922,072	601,207	103,077	10,487,797
% of Total Monthly Benefits	17.8%	75.5%	5.7%	1.0%	100.0%

The information in these tables include 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 the benefit payment totals listed in the Deduction by Source.

SPRS Schedule of Benefit Expenses by Type — 1 of 2

	Normal Retirement	Early Retirement	Disability Retirement	Beneficiary Payments	Total
FY 2002-03					
Average Monthly Benefit	\$3,117	\$2,543	\$1,056	\$2,064	\$2,492
Number	110	699	48	84	941
Total Monthly Benefits	\$342,894	\$1,777,880	\$50,705	\$173,412	\$2,344,891
% of Total Monthly Benefits	14.6%	75.8%	2.2%	7.4%	100.0%
FY 2003-04					
Average Monthly Benefit	\$3,199	\$2,637	\$1,067	\$2,108	\$2,576
Number	112	748	49	88	997
Total Monthly Benefits	\$358,290	\$1,972,675	\$52,259	\$185,517	\$2,568,741
% of Total Monthly Benefits	13.9%	76.8%	2.0%	7.2%	100.0%
FY 2004-05					
Average Monthly Benefit	\$3,321	\$2,741	\$1,364	\$1,862	\$2,653
Number	107	775	35	119	1,036
Total Monthly Benefits	\$355,361	\$2,123,941	\$47,740	\$221,615	\$2,748,657
% of Total Monthly Benefits	12.9%	77.3%	1.7%	8.1%	100.0%

SPRS Schedule of Benefit Expenses by Type — 2 of 2

	Normal Retirement	Early Retirement	Disability Retirement	Beneficiary Payments	Total
FY 2005-06					
Average Monthly Benefit	\$3,109	\$2,698	\$1,213	\$1,643	\$2,650
Number	145	864	56	28	1,093
Total Monthly Benefits	\$450,794	\$2,331,404	\$67,950	\$45,997	\$2,896,146
% of Total Monthly Benefits	15.5%	80.4%	2.2%	1.9%	100.0%
FY 2006-07					
Average Monthly Benefit	\$3,178	\$2,797	\$1,258	\$1,761	\$2,743
Number	146	900	57	27	1,130
Total Monthly Benefits	\$464,053	\$2,517,382	\$71,724	\$47,540	\$3,100,699
% of Total Monthly Benefits	15.0%	81.2%	2.3%	1.5%	100.0%
FY 2007-08					
Average Monthly Benefit	\$3,281	\$2,892	\$1,265	\$1,970	\$2,843
Number	150	931	56	26	1,163
Total Monthly Benefits	\$492,198	\$2,692,030	\$70,822	\$51,215	\$3,306,265
% of Total Monthly Benefits	14.9%	81.4%	2.1%	1.6%	100.0%

The information in these tables include 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 the benefit payment totals listed in the Deduction by Source.

Analysis of Initial Retirees — 1 of 2

	KERS Non- Hazardous	KERS Hazardous	CERS Non- Hazardous	CERS Hazardous	SPRS
FY 2002-03					
Number	2,148	170	2,411	293	62
Average Service Credit (months)	277	264	206	274	313
Average Final Compensation	\$45,479	\$45,559	\$28,883	\$49,996	\$65,079
Average Monthly Benefit	\$1,873	\$1,144	\$859	\$1,780	\$3,208
FY 2003-04					
Number	2,473	227	2,805	343	53
Average Service Credit (months)	280	255	209	262	320
Average Final Compensation	\$47,872	\$43,778	\$29,172	\$48,607	\$68,533
Average Monthly Benefit	\$1,932	\$1,127	\$837	\$1,631	\$3,468
FY 2004-05					
Number	2,481	234	2,808	403	50
Average Service Credit (months)	276	257	210	248	290
Average Final Compensation	\$46,452	\$45,654	\$29,784	\$49,920	\$62,395
Average Monthly Benefit	\$1,897	\$1,216	\$902	\$1,765	\$3,022

Analysis of Initial Retirees — 2 of 2

	KERS Non- Hazardous	KERS Hazardous	CERS Non- Hazardous	CERS Hazardous	SPRS
FY 2005-06					
Number	2,295	236	2,543	377	39
Average Service Credit (months)	267	239	197	260	259
Average Final Compensation	\$46,746	\$43,845	\$29,794	\$54,358	\$62,049
Average Monthly Benefit	\$1,885	\$1,185	\$851	\$2,047	\$2,614
Average System Payment for Health Insurance	\$246	\$381	\$180	\$543	\$407
FY 2006-07					
Number	2,284	228	2,902	433	48
Average Service Credit (months)	246	238	206	255	274
Average Final Compensation	\$46,800	\$45,142	\$32,183	\$55,038	\$65,826
Average Monthly Benefit	\$1,713	\$1,289	\$962	\$1,987	\$2,962
Average System Payment for Health Insurance	\$225	\$342	\$194	\$599	\$ 497
FY 2007-08					
Number	2,219	243	2,736	355	40
Average Service Credit (months)	261	233	204	240	275
Average Final Compensation	\$49,414	\$44,992	\$31,447	\$54,223	\$67,775
Average Monthly Benefit	\$1,929	\$1,289	\$917	\$2,014	\$3,239
Average System Payment for Health Insurance	\$221	\$381	\$181	\$625	\$501

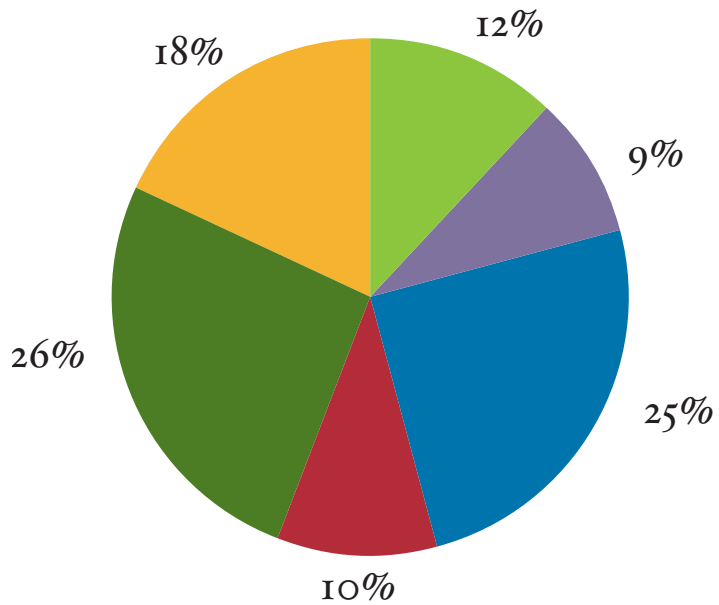
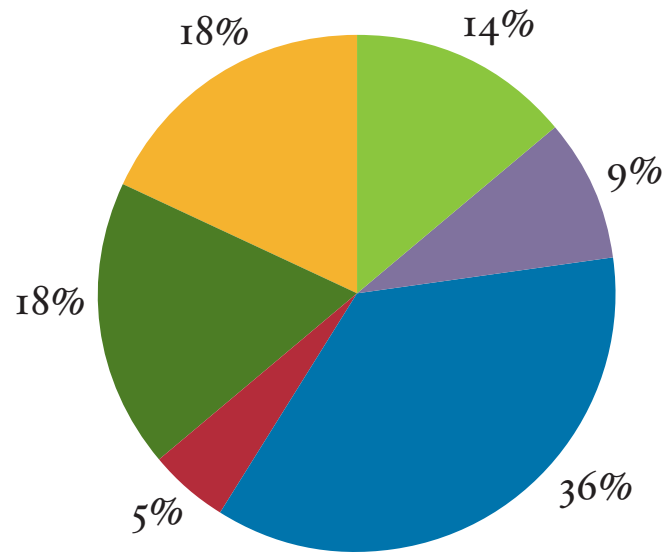
Benefits Paid to All Retirees and Beneficiaries Fiscal Year 2007-2008

Pension Benefit

Service Credit Range	KERS Non-Hazardous		CERS Non-Hazardous		KERS Hazardous		CERS Hazardous		SPRS	
	Number	Average Monthly Benefit	Number	Average Monthly Benefit	Number	Average Monthly Benefit	Number	Average Monthly Benefit	Number	Average Monthly Benefit
Under 5 Years	308	\$165.78	304	\$137.63	23	\$399.64	43	\$438.76	3	\$284.01
5 or more but less than 10	1,261	348.40	2,094	257.58	68	568.43	113	768.18	9	1,033.05
10 or more but less than 15	2,092	563.56	3,777	445.40	188	811.96	195	1,137.81	16	1,190.86
15 or more but less than 20	2,554	863.34	3,819	684.14	219	1,196.53	300	1,381.19	30	1,708.41
20 or more	18,517	2,457.57	12,586	1,626.26	1,298	2,378.92	3,763	2,539.75	759	3,285.88
Total	24,732	1,996.65	22,580	1,122.42	1,796	1,976.82	4,414	2,333.26	817	3,151.09

Insurance Benefit	KERS Non-Hazardous	CERS Non-Hazardous	KERS Hazardous	CERS Hazardous	SPRS
Number	24,732	22,580	1,796	4,414	817
Average Service Credit	300	242	271	282	323
Average Monthly System Payment for Health Insurance	\$358.74	\$308.64	\$533.26	\$747.82	\$744.82
Total Monthly Payments for Health Insurance	\$11,110,345.96	\$9,346,037.61	\$1,068,301.60	\$3,475,748.18	\$622,428.54

Payment Options By Type



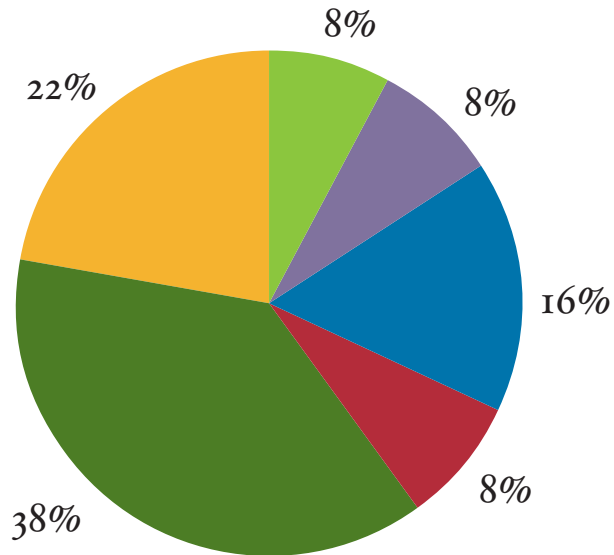
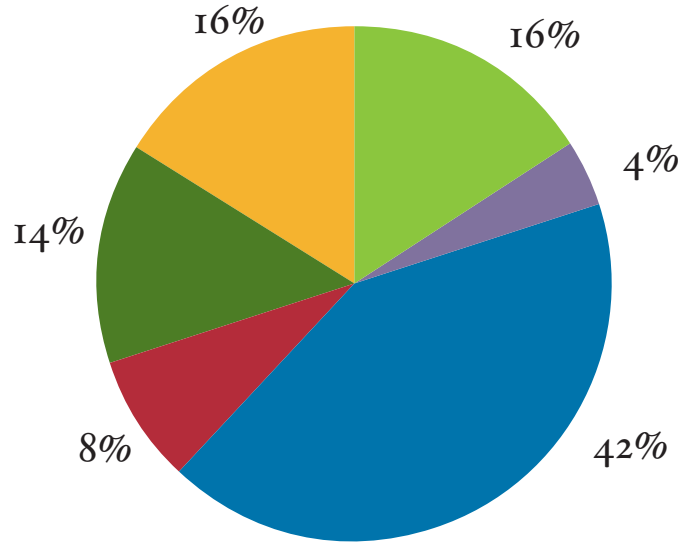
KERS Non-Hazardous

Payment Option	Total
Basic	11,365
Social Security Adjustment	2,855
Period Certain	4,332
Survivorship	5,733
Pop-Up	5,593
Lump Sum	1,646

KERS Hazardous

Payment Option	Total
Basic	541
Social Security Adjustment	200
Period Certain	256
Survivorship	397
Pop-Up	562
Lump Sum	221

Payment Options By Type



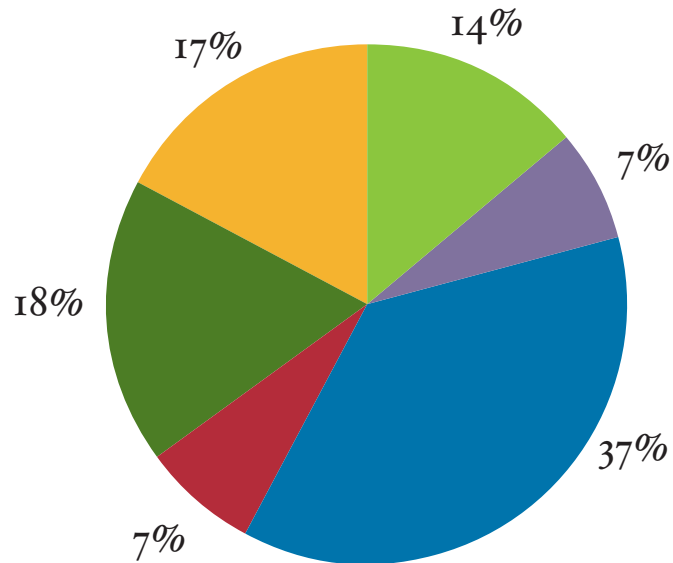
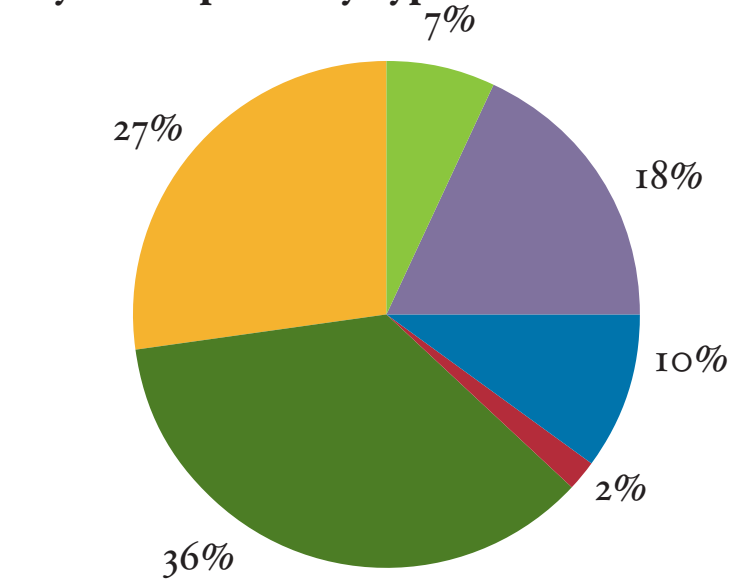
CERS Non-Hazardous

Payment Option	Total
Basic	14,365
Social Security Adjustment	1,468
Period Certain	5,365
Survivorship	5,343
Pop-Up	4,854
Lump Sum	2,761

CERS Hazardous

Payment Option	Total
Basic	773
Social Security Adjustment	391
Period Certain	401
Survivorship	1,060
Pop-Up	1,855
Lump Sum	386

Payment Options By Type



SPRS

Payment Option	Total
Basic	96
Social Security Adjustment	187
Period Certain	73
Survivorship	271
Pop-Up	362
Lump Sum	16

KRS Total

Payment Option	Total
Basic	27,140
Social Security Adjustment	5,101
Period Certain	10,427
Survivorship	12,804
Pop-Up	13,226
Lump Sum	5,030

Employer Contribution Rates

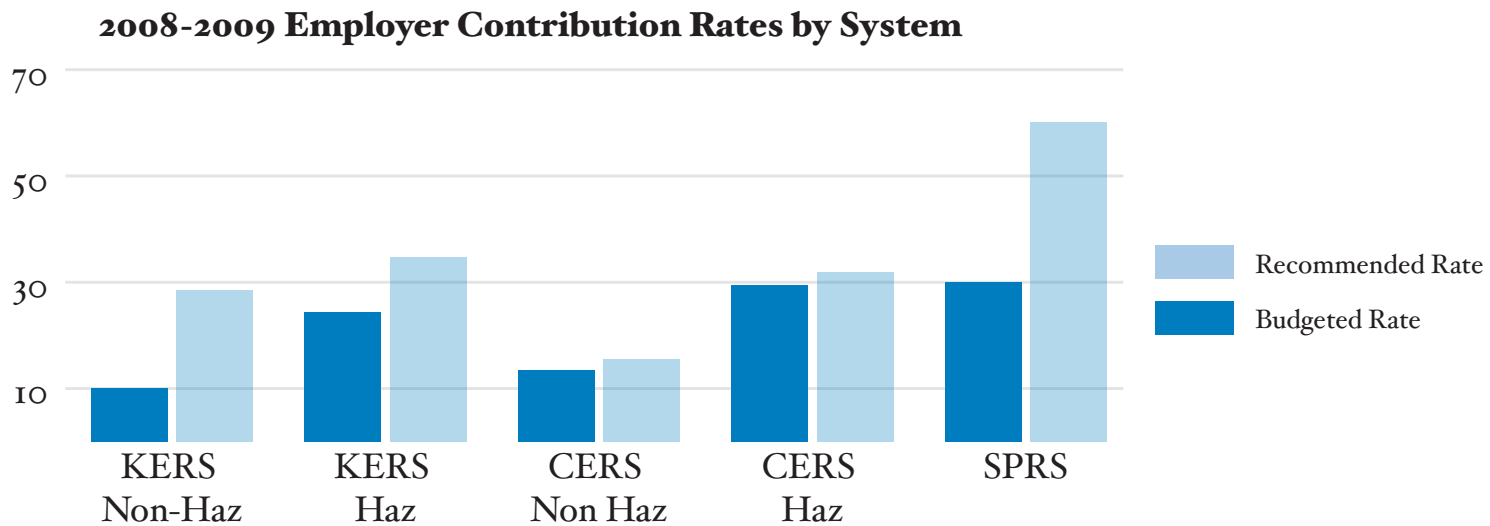
In KERS, CERS, and SPRS both the employee and the employer contribute a percent of creditable compensation to the Systems. The employee contribution rate is set by state statute. Non-hazardous employees contribute 5% while hazardous duty members contribute 8%. KERS and SPRS employer rates are subject to approval by the State Legislature through the adoption of the biennial Executive Branch Budget. In recent years, the State Legislature has routinely suspended KRS 61.565 in the budget in order to provide an employer contribution rate that is less than the amount recommended by the KRS Board of Trustees and its' consulting actuary. CERS employer rates for fiscal year 2008-2009 were enacted by House Bill 1 in the 2008 Special Legislative Session and were reduced from the rate recommended by the KRS Board of Trustees and its' consulting actuary. The following tables provide the employer contribution rate recommended by the Board and its' consulting actuary and the rate specified by the Executive Branch budget.

Employer Contribution Rates by System — 1 of 2

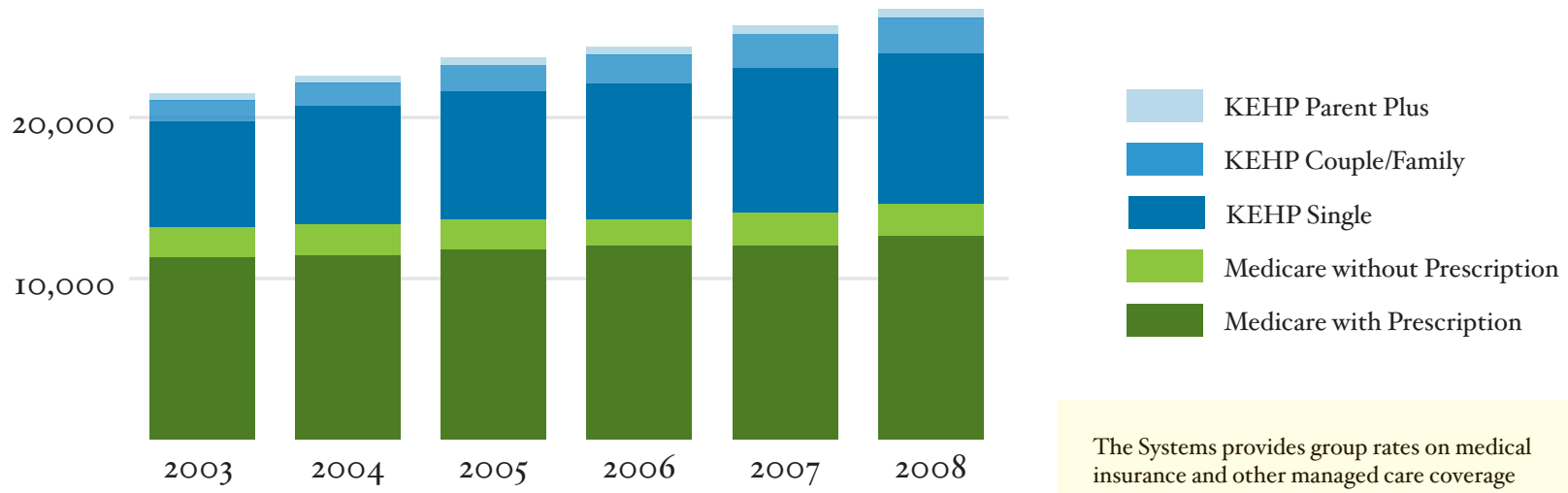
Fiscal Year	KERS Non-Hazardous		KERS Hazardous	
	Budgeted Rate	Recommended Rate	Budgeted Rate	Recommended Rate
2003-2004	5.89%	7.53%	18.84%	18.84%
2004-2005	5.89	10.29	18.84	19.47
2005-2006	5.89	13.62	18.84	21.59
2006-2007	7.75	17.13	22.00	23.32
2007-2008	8.50	48.37	24.25	47.11
2008-2009	10.01	28.60	24.35	34.78

Employer Contribution Rates by System — 2 of 2

Fiscal Year	CERS Non-Hazardous		CERS Hazardous		SPRS	
	Budgeted Rate	Recommended Rate	Budgeted Rate	Recommended Rate	Budgeted Rate	Recommended Rate
2003-2004	7.34%	7.34%	18.51%	18.51%	21.58%	21.58%
2004-2005	8.48	8.48	22.08	22.08	21.58	28.08
2005-2006	10.98	10.98	25.01	25.01	21.58	34.83
2006-2007	13.19	13.19	28.21	28.21	25.50	42.30
2007-2008	16.17	16.17	33.87	33.87	28.00	120.00
2008-2009	13.50	15.58	29.50	31.99	30.07	60.14



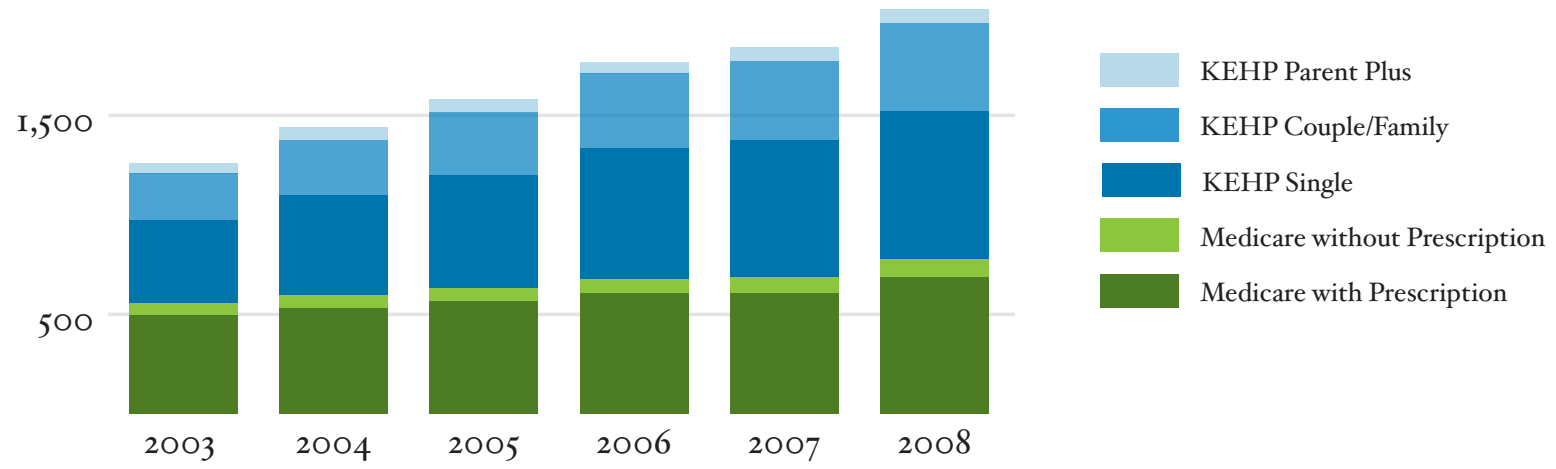
Insurance Contracts by Type — KERS Non Hazardous



	2003	2004	2005	2006	2007	2008
KEHP Parent Plus	428	443	461	490	525	568
KEHP Couple/ Family	1,298	1,462	1,679	1,826	2,131	2,187
KEHP Single	6,602	7,313	7,928	8,393	8,996	9,383
Medicare without Prescription	1,855	1,932	1,915	1,672	2,056	1,969
Medicare with Prescription	11,311	11,437	11,764	12,000	12,007	12,636

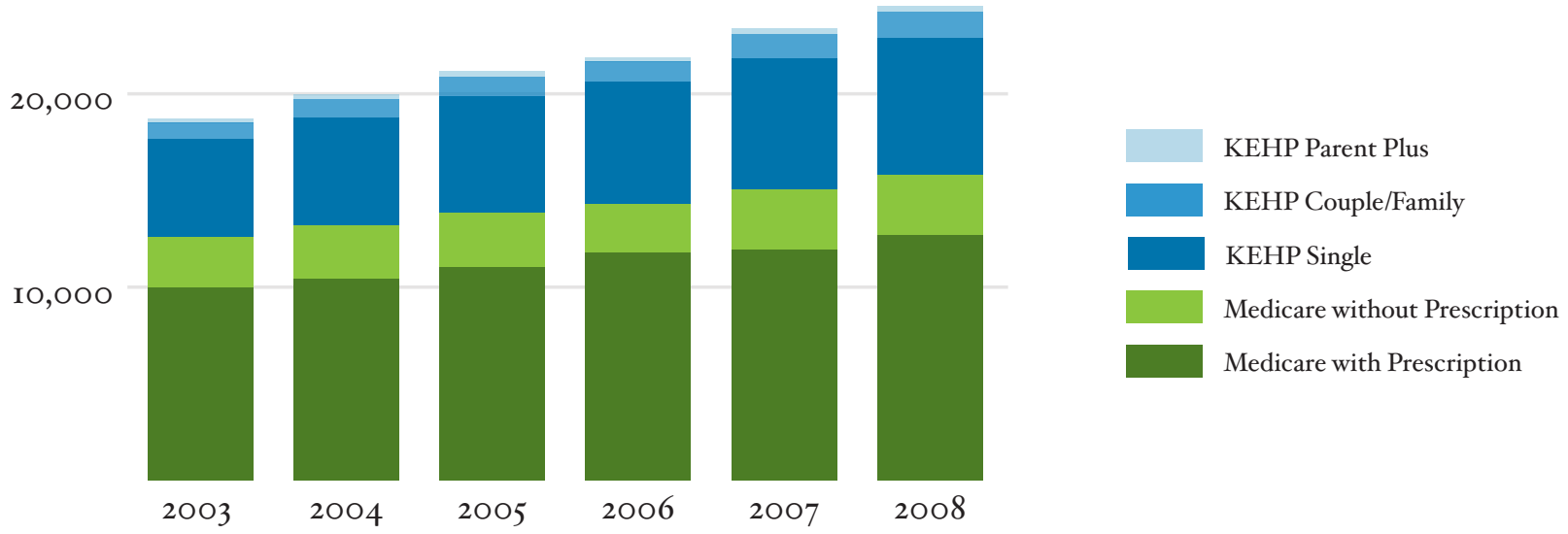
The Systems provides group rates on medical insurance and other managed care coverage for retired members. Participation in the insurance program is optional and requires the completion of the proper forms at the time of retirement in order to obtain the insurance coverage. The Systems provides access to health insurance coverage through the Kentucky Employees Group Health Plan (KEHP) for recipients until they reach age 65 and/or become Medicare eligible. After a retired member becomes eligible for Medicare, coverage is available through a Medicare eligible plan offered by the Systems. A retired member's spouse and/or dependents may also be covered on health insurance through the Systems. This page and the following pages provide the contracts for the KEHP plan and the KRS Medicare Plans.

Insurance Contracts by Type – KERS Hazardous



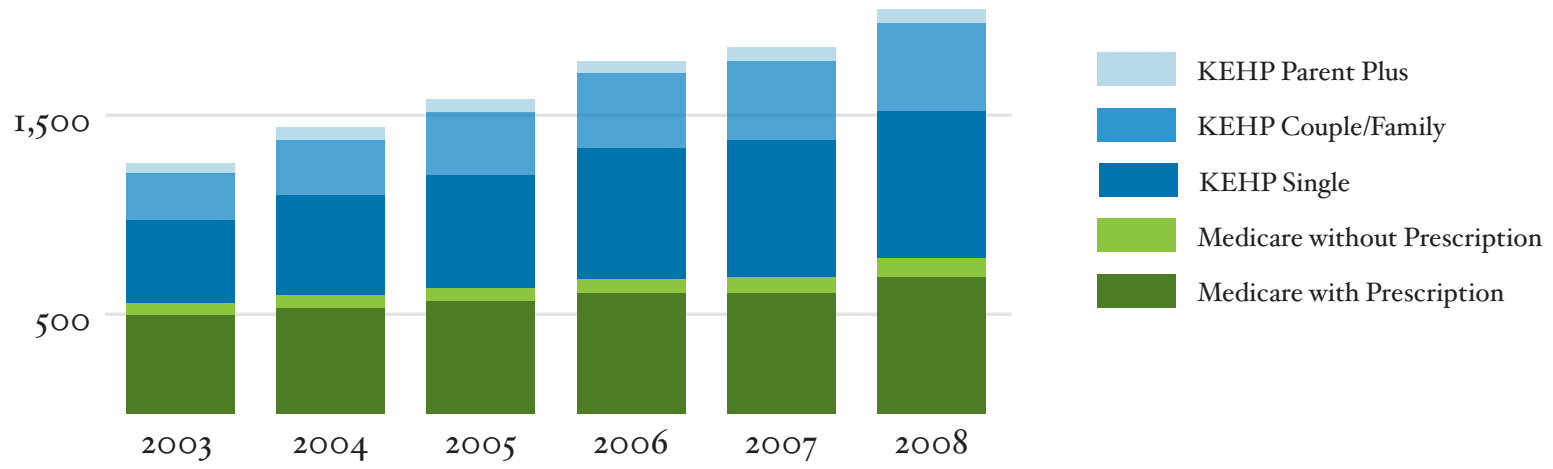
	2003	2004	2005	2006	2007	2008
KEHP Parent Plus	53	65	65	58	70	69
KEHP Couple/ Family	234	276	319	378	398	443
KEHP Single	417	502	570	656	686	741
Medicare without Prescription	62	65	61	74	82	91
Medicare with Prescription	494	531	567	603	606	687

Insurance Contracts by Type – CERS Non Hazardous



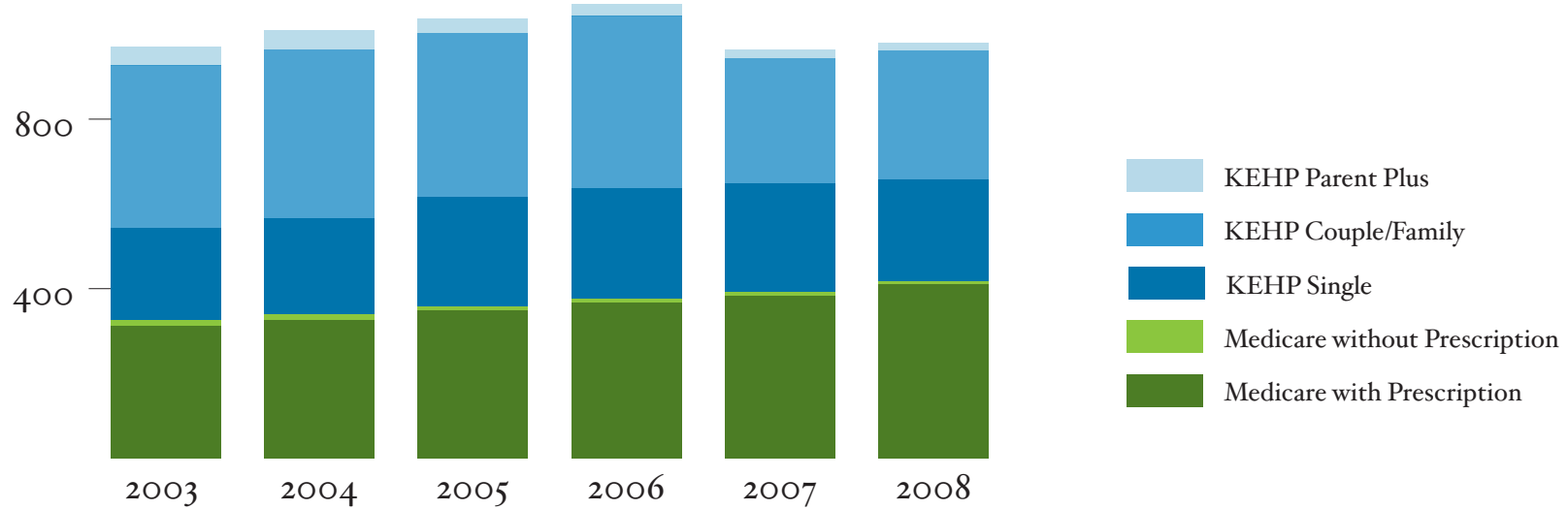
	2003	2004	2005	2006	2007	2008
KEHP Parent Plus	244	246	255	249	284	292
KEHP Couple/ Family	855	946	1,022	1,058	1,274	1,320
KEHP Single	5,054	5,598	6,014	6,298	6,767	7,126
Medicare without Prescription	2,630	2,756	2,853	2,502	3,134	3,105
Medicare with Prescription	9,958	10,424	11,005	11,803	11,908	12,684

Insurance Contracts by Type – CERS Hazardous



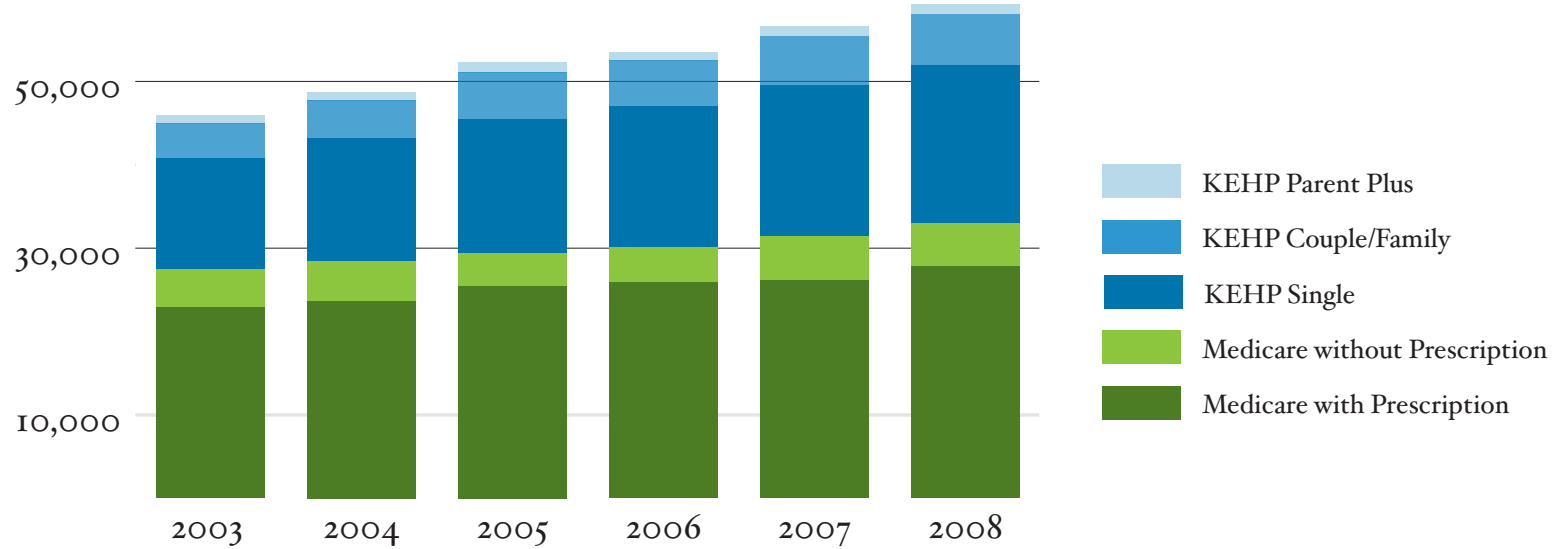
	2003	2004	2005	2006	2007	2008
KEHP Parent Plus	223	223	195	198	210	226
KEHP Couple/Family	1,379	1,463	1,579	1,739	1,836	1,947
KEHP Single	1,010	1,087	1,220	1,275	1,363	1,394
Medicare without Prescription	40	45	55	52	64	73
Medicare with Prescription	808	913	1,004	1,105	1,197	1,367

Insurance Contracts by Type – SPRS



	2003	2004	2005	2006	2007	2008
KEHP Parent Plus	44	45	34	29	19	17
KEHP Couple/ Family	384	400	388	406	297	305
KEHP Single	218	226	257	260	254	240
Medicare without Prescription	13	13	10	9	9	7
Medicare with Prescription	312	326	348	368	384	410

Insurance Contracts by Type – KRS Total



	2003	2004	2005	2006	2007	2008
KEHP Parent Plus	992	1,022	1,010	1,024	1,108	1,172
KEHP Couple/ Family	4,150	4,547	4,987	5,407	5,936	6,202
KEHP Single	13,301	14,726	15,989	16,882	18,066	18,884
Medicare without Prescription	4,600	4,811	4,894	4,309	5,345	5,245
Medicare with Prescription	22,883	23,631	24,688	25,879	26,102	27,784

Retired Reemployed

Since August 1, 1998, state law has allowed retired members to return to work in the same system from which they retired and contribute to a new account provided the appropriate separation of service is observed. The following tables provide information on the number of retired members currently drawing a monthly benefit who have subsequently returned to work and are contributing to a new account in the same retirement system.

Retirees Who Have Been Reemployed In Full-time Positions Covered By The Same Retirement System — 1 of 2

Reemployed Retirees In KRS	KERS			CERS			SPRS
	Non-Hazardous	Hazardous	Total	Non-Hazardous	Hazardous	Total	Total
Total Active Employees	48,202	4,397	52,599	85,803	10,185	95,988	995
Total Retirees	35,286	2,402	37,688	37,558	5,314	42,872	1,136
Reemployed Retirees	932	81	1,013	1,972	843	2,815	0
% of Reemployed Retirees to Total Actives	1.93%	1.84%	1.93%	2.30%	8.28%	2.93%	0%
% of Reemployed Retirees to Total Retirees	2.64%	3.37%	2.69%	5.25%	15.86%	6.57%	0%

Retirees Who Have Been Reemployed In Full-time Positions Covered By The Same Retirement System — 2 of 2

Reemployed Retiree Data ¹	KERS			CERS			SPRS
	Non-Hazardous	Hazardous	Total	Non-Hazardous	Hazardous	Total	Total
Average Age at Initial Retirement	52	51	52	57	48	54	0
Months of Service Credit at Initial Retirement	315	264	311	259	281	266	0
Final Compensation At Initial Retirement	\$53,279	\$49,691	\$52,992	\$31,865	\$52,306	\$37,986	\$0
Reemployed Retirees Avg. Annualized Salary Earned in Fiscal Year 2007-2008 (Second Retirement Account)	\$42,601	\$36,801	\$42,137	\$29,645	\$42,402	\$33,465	\$0
Retirees Returning to Work for the Same Employer	437	33	470	1,645	202	1,847	0
% Retirees Returning to Work For Same Employer	47%	41%	46%	83%	24%	66%	0%

¹Analysis of age at retirement, service credit, final compensation, etc. only includes those retirees who have returned to work with a participating agency.

An additional 1,281 retirees have been reemployed in full-time positions covered by a different retirement system. Of this total, 690 KERS retirees have returned to work with an agency participating in CERS, 358 CERS retirees have returned to work with an agency participating in KERS, 101 SPRS retirees have returned to work with an agency participating in KERS, and 132 SPRS retirees have returned to work with an agency participating in CERS.

Total Fiscal Year Retirement Payments By County — 1 of 2

Adair	\$4,442,764	Christian	19,563,090	Hardin	19,681,840
Allen	3,159,929	Clark	8,248,127	Harlan	6,102,936
Anderson	21,567,534	Clay	5,104,584	Harrison	4,187,396
Ballard	1,565,228	Clinton	1,920,042	Hart	3,134,951
Barren	9,656,018	Crittenden	1,886,051	Henderson	10,635,227
Bath	3,961,667	Cumberland	1,829,729	Henry	13,249,236
Bell	6,451,788	Daviess	26,369,477	Hickman	1,027,833
Boone	17,174,796	Edmonson	1,740,624	Hopkins	10,621,915
Bourbon	5,369,775	Elliott	1,344,132	Jackson	2,456,722
Boyd	10,915,500	Estill	3,102,885	Jefferson	221,478,341
Boyle	10,313,923	Fayette	72,674,576	Jessamine	10,163,872
Bracken	1,849,058	Fleming	4,940,611	Johnson	5,708,420
Breathitt	5,293,238	Floyd	9,384,991	Kenton	26,678,982
Breckinridge	4,167,475	Franklin	156,216,787	Knott	4,157,706
Bullitt	13,399,973	Fulton	1,685,760	Knox	5,164,741
Butler	2,588,448	Gallatin	1,087,561	Larue	3,355,218
Caldwell	4,915,091	Garrard	3,557,488	Laurel	12,253,734
Calloway	9,192,830	Grant	6,389,372	Lawrence	2,287,919
Campbell	15,310,794	Graves	8,134,649	Lee	2,313,499
Carlisle	1,225,978	Grayson	6,100,087	Leslie	2,208,204
Carroll	3,088,349	Green	2,555,334	Letcher	4,738,725
Carter	6,687,808	Greenup	4,832,965	Lewis	2,377,544
Casey	3,195,959	Hancock	1,686,451	Lincoln	4,545,409

Total Fiscal Year Retirement Payments By County — 2 of 2

Livingston	2,670,666	Montgomery	5,462,745	Russell	4,898,623
Logan	5,256,931	Morgan	4,854,421	Scott	13,494,147
Lyon	3,907,868	Muhlenberg	4,344,070	Shelby	25,611,309
McCracken	18,858,631	Nelson	9,121,069	Simpson	1,623,558
McCreary	2,252,656	Nicholas	2,000,083	Spencer	5,522,077
McLean	2,354,558	Ohio	3,830,524	Taylor	5,372,077
Madison	20,328,222	Oldham	15,978,148	Todd	2,336,300
Magoffin	2,860,229	Owen	8,026,668	Trigg	5,149,575
Marion	3,995,717	Owsley	1,810,574	Trimble	2,596,510
Marshall	8,116,622	Pendleton	3,803,228	Union	2,503,894
Martin	1,460,017	Perry	6,238,286	Warren	29,685,134
Mason	3,982,254	Pike	10,987,037	Washington	3,082,284
Meade	3,531,130	Powell	3,104,085	Wayne	4,554,544
Menifee	1,778,877	Pulaski	23,901,575	Webster	2,930,327
Mercer	8,440,635	Robertson	613,734	Whitley	9,181,153
Metcalf	2,399,861	Rockcastle	3,032,096	Wolfe	3,195,997
Monroe	1,830,096	Rowan	9,207,480	Woodford	13,668,373
Payments to Recipients Living in Kentucky				\$1,240,126,337	95.4%
Payments to Recipients Living in Other States				59,428,236	4.6%
Total Payments				1,299,554,573	100.0%



Kentucky Retirement Systems

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