Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2010

Balance For Your Future

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)

The Divisions of Accounting, Communications, Information Technology and Investments are responsible for the preparation of this document.

Introductory Section

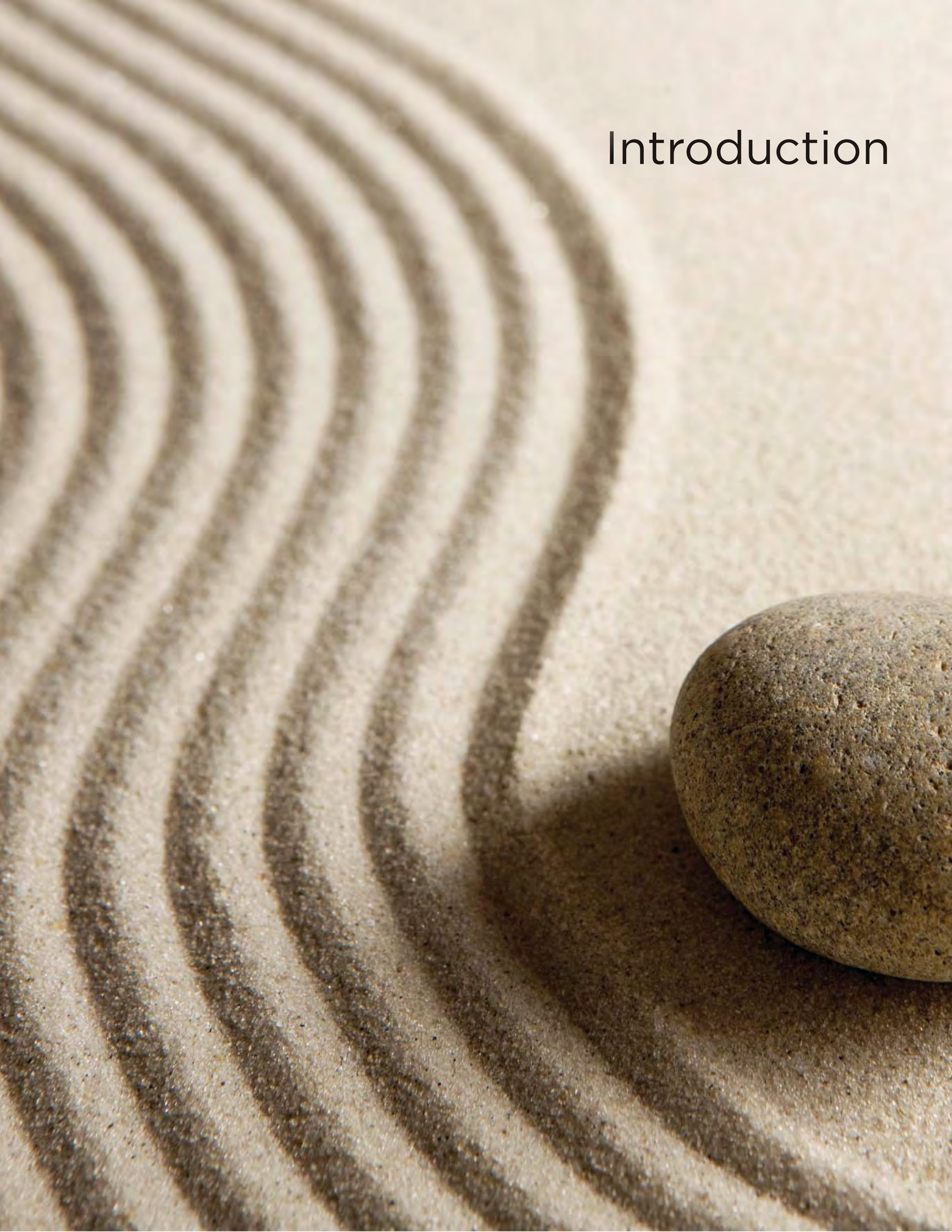
Financial Section

Investments Section

Actuarial Section

Statistical Section

Introduction



Dear Board of Trustees & Membership

November 18, 2010
Perimeter Park West
1260 Louisville Road
Frankfort, Kentucky

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, 2010. 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 KERS, CERS and SPRS (collectively referred to as KRS) in understanding KRS' financial and actuarial status. This CAFR conforms to the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board. KRS' financial transactions are reported on the accrual basis of accounting. Additionally, internal accounting controls 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.

Major Initiatives

KRS has continued an ongoing effort to raise awareness of the impact of reductions to the employer contribution rates for KERS and SPRS. For 12 out of the last 17 years, the State has appropriated less money than requested by the Board of Trustees to adequately fund the annual required contribution (ARC). This underfunding, coupled with increased benefits, unfunded annual cost of living allowances and two major economic recessions in the last decade, has resulted in funding ratios for the KERS non-hazardous and SPRS pension trusts that are dropping to alarmingly low levels. In 2008, the Kentucky General Assembly passed a pension reform bill that included a schedule to increase employer contributions over the next several years until reaching the full ARC in 2025 for KERS non-hazardous, 2019 for KERS hazardous and 2020 for the SPRS system. According to the pension reform bill, employer contributions were to start increasing in the fiscal year beginning July 1, 2010 and ending June 30, 2011. It was, therefore, critical to receive that first increment in the 2010-2012 Biennial Budget. Thanks to support in both the Governor's Recommended Budget and the final budget enacted by the General Assembly, KERS and SPRS employers met their obligation to reach the contribution levels called for in the 2008 legislation. This should have a favorable effect by slowing the growth rate of unfunded liability and therefore the employer contributions in future years. KRS will continue to monitor and ask for support in the years ahead, as the ARC will continue to increase until employers reach paying the full ARC.

In 2009, KRS entered into a contract with the Centers for Medicare and Medicaid Services (CMS) to establish an Employee Group Waiver Plan for pharmacy benefits for Medicare-eligible retirees. This contract allows KRS to apply the full amount of the drug subsidy received from CMS toward its unfunded liability for medical benefits. KRS has just completed its first full year under this program, which brought an immediate reduction of over $1.7 billion to the unfunded medical liability for the fiscal year ended June 30, 2009. The reduced unfunded liability had an immediate favorable impact on employer contributions by reducing the amount of their contribution toward retiree health care.

KRS implemented a major phase of a new technology system in September 2009 which allows retirees to access their account information and service their accounts online. In order to train members on how to access and use the system, KRS staff conducted 17 different training sessions across the state in the spring of 2010, meeting with an average of over 200 retirees at each location. The most recent release of the Strategic Technology Advancements for the Retirement of Tomorrow (START) program allows retirees to conduct online open enrollment for health insurance as well offering the ability to change addresses, tax withholding information and other account servicing without having to speak with a counselor or submit hard copies. Constituents can keep current on future changes to START and access their account information on the KRS website at http://kyret.ky.gov.

Investments

Our History

KERS was created in 1956 by the Kentucky General Assembly in order to supplement the benefits provided by Social Security.

SPRS and CERS were established in 1958. When the first actuarial valuation of KERS was completed as of June 30, 1957, there were 16,000 employees participating in KERS and and the plan had assets of $2.8 million. 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.

As of June 30, 2010, there were more than 318,000 active, inactive and retired members in the combined systems and approximately $12.9 billion in assets.

Investment performance for the year ending June 30, 2010 improved significantly over the previous fiscal year. In FY 2009, KRS investments lost 17.21% of the market value of the portfolio but still performed in the top quartile of all pension funds nationwide through diversification of its portfolio. In FY 2010, KRS gained 15.8% on the total portfolio, for an increase in market value of just over $1.0 billion. Because the funding ratios of the various trust funds managed by KRS are diverging, the Investment Committee felt it necessary to conduct individual asset liability studies for each fund to determine if they need to be managed separately and assigned individual asset allocations. Pursuant to the objective, R.V. Kuhns, the general investment consultant for KRS, began the effort of conducting the individual studies and presented the first of their results in May 2010. Based on the data for the KERS pension and insurance trusts, the Board voted to make slight changes to the asset allocation model, and KRS investment staff is currently in the process of rebalancing the portfolio to accommodate those changes. Studies for CERS and SPRS were completed and presented to the Board in November 2010.

Actuarial Funding

KRS administers both a pension fund and an insurance fund for each of the systems it manages. These trusts are used to fund monthly pension and health care payment to and on behalf of retirees. Non-hazardous employees are statutorily required to contribute 5% of the pre-tax salary to their pension benefit, while hazardous employees contribute 8% on a pre-tax basis. All employees hired with an initial participation date on or after September 1, 2008 must contribute an additional 1% of their pre-tax income toward their retiree health insurance benefits. These monies are deposited in a 401(h) account within the pension trust. Employer contributions are calculated annually by the Board of Trustees and include the normal cost of pension and insurance benefits plus an amortized contribution toward the unfunded liability of the pension and insurance trusts. Employer contributions also include an administrative fee that is used to pay annual operating expenses of KRS.

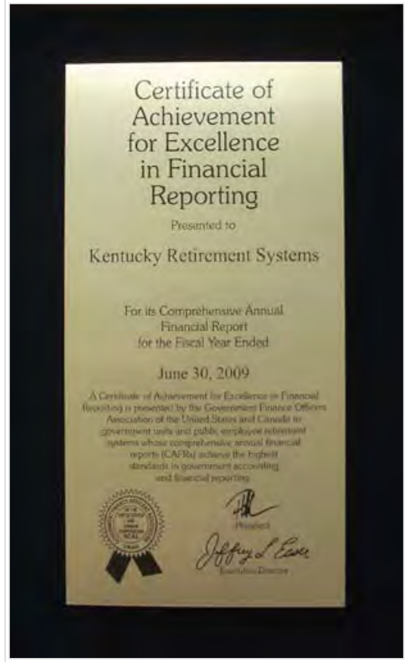
Funding ratios have fallen both steadily and significantly over the last decade as a result of unfavorable market conditions, higher than anticipated retirement rates, employer underfunding and increased expenses for annual Cost of Living Allowance adjustments that are not pre-funded by the employers. While improved market conditions in FY 2010 have slowed the growth of the unfunded liabilities of the various systems, KRS uses a five-year smoothing method and the full effects of the market losses in 2008 and 2009 will not be realized for another four years. The funding levels of all systems as of June 30, 2010 are listed on pages 128 and 129 of the Actuarial Section.

Professional Services

KRS continues to engage a number of professional consultants to assist trustees and staff in key business areas such as investments, taxes, auditing services and legal representation. A list of the Board's contract consultants can be found in the organizational chart on page 7. A list of external investment managers can be found in the Investment Section of this report.

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 Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2009. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports and is valid for a period of one year. This was the twelfth consecutive award earned by KRS. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized document. The report must satisfy both generally accepted accounting principles and applicable legal requirements. We believe our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA for their consideration.



Certificate of Achievement for Excellence in Financial Reporting

KRS was awarded the Government Finance Officers Association's Certificate of Achievement, our twelfth consecutive year.

Other Information

Kentucky statutes require an annual audit by either 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, 2010, and the results of that audit are contained in the Financial Section.

Respectfully,

Robert M. Burnside
Executive Director
Kentucky Retirement Systems

Board of Trustees

The Kentucky Retirement Systems (KRS) Board of Trustees is comprised of 9 members.

Two elected by KERS members, two elected by CERS members, one elected by SPRS members, three appointed by Governor Steve Beshear and the Secretary of the State Personnel Cabinet.

Jennifer Elliott
Governor Appointment

Bobby D. Henson
Elected by KERS

Nikki R. Jackson
Personnel Secretary

Vince Lang
Elected by CERS

Randy Overstreet
Elected by SPRS

W. Lewis Reynolds III
Governor Appointment

Susan Smith
Elected by KERS

Christopher Tobe
Governor Appointment

Robert Wilcher
Elected by CERS

Agency Structure

Board of Trustees

Audit Committee

Internal Auditor
Connie Davis

Compliance Officer
Ann Case

Investments Committee

Chief Investments Officer
Brent Aldridge (Interim)

Alternative Investments
Brent Aldridge

Equity Assets
Bo Cracraft

Fixed Income
David Peden

Executive Director
Robert M. Burnside

Chief Operations Officer
William A. Thielen

Accounting
Todd E. Coleman

Communications
Scarlett Consalvi

Employer Compliance & Education
Sarah Webb

Information Security
Mark McChesney

Information Technology
Chris Clark (Acting)

Procurement & Office Services
Joe Morris

Planning & Constituent Services
Shawn Sparks

START Project Manager
Chris Clark

Chief Benefits Officer
Charlene Haydon

Disabilities
Liza Welch

Member Services
Rebecca Stephens

Membership Support
Suzanne Howe

Retiree Services
Lela Hatter

Senior Advisor Retiree Health
Rick Schultz

General Counsel
Schuyler Olt

Human Resources Director
Marlane Robinson

Consultants

Actuarial Services
Cavanaugh Macdonald Consulting, LLC

Asset Management
Strategic Investment Solutions, Inc.

Auditing Services
Dean, Dorton, Ford PSC

Investment Consultant
R.V. Kuhns

Legal Consultant
Klausner & Kaufman, PA

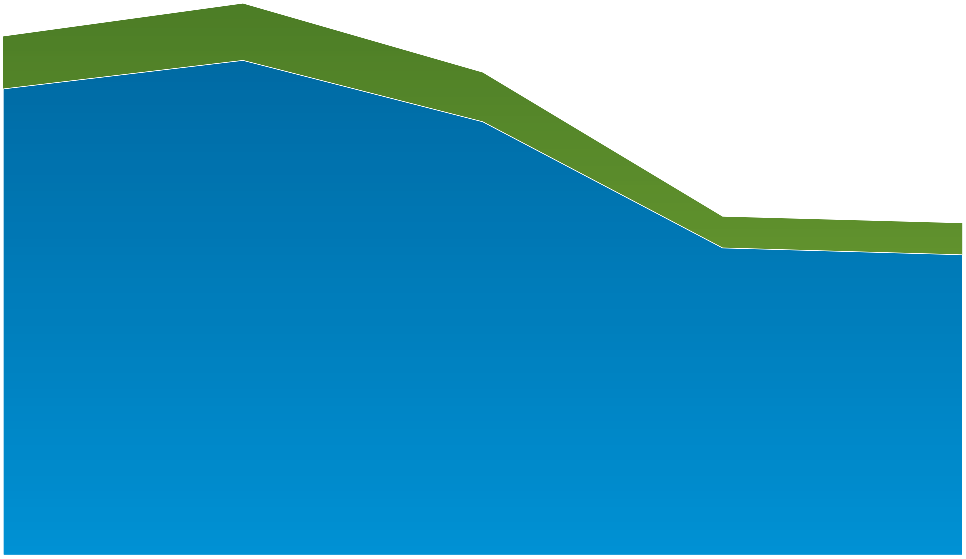
Legal Services
Stoll Keenon Ogden, PLLC

Fiduciary Review Consultants
Ice Miller, LLP

Real Estate Consultant
ORG

KERS
Non-Hazardous

Kentucky Employees Retirement System was established July 1, 1956 by the state legislature.



Net Assets Expressed in Thousands ($)

Fund	2006	2007	2008	2009	2010
Pension	$5,440,133	$5,773,157	$5,056,869	$3,584,601	$3,504,502
Insurance	612,585	663,558	574,479	365,367	368,798
					$3,873,300

Funding Level (% Pension)

38.26

Membership Totals

35,733	46,710	32,461
Retired	Active	Inactive

Funding Level (% Insurance)

10.55

Additions & Deductions in Millions ($)

Additions	2006	2007	2008	2009	2010
Income & Assets	$791.80	$1,154.90	$37.00	($706.50)	$928.42
Deductions					
Benefits, Refunds & Expenses	$712.60	$770.90	$842.30	$974.88	$1,005.09

Expanded data on pages 25-31 of the Financial Section.

Net Assets Expressed in Thousands ($)

Fund	2006	2007	2008	2009	2010
Pension	$437,030	$510,775	$484,438	$388,951	$443,606
Insurance	223,523	280,886	269,300	219,500	271,239
					$714,845

Membership Totals

1,900	4,049	2,285
Retired	Active	Inactive

Additions & Deductions in Millions ($)

Additions	2006	2007	2008	2009	2010
Income & Assets	$105.69	$168.70	$30.00	($95.29)	$159.87
Deductions					
Benefits, Refunds & Expenses	$32.30	$37.80	$42.20	$39.55	$53.48

Expanded data on pages 25-31 of the Financial Section.

KERS
Hazardous

Kentucky Employees Retirement System was established July 1, 1956 by the state legislature.

Funding Level (% Pension)

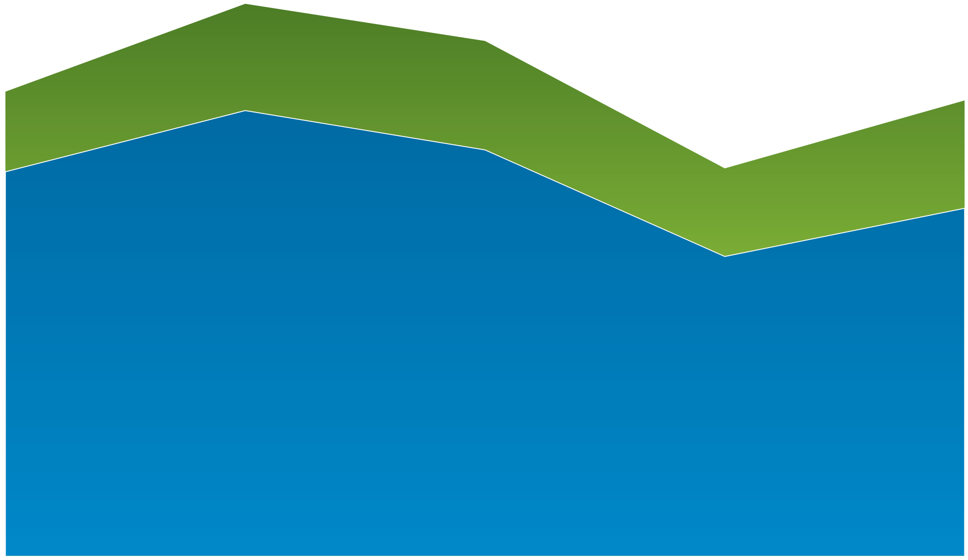
73.06

Funding Level (% Insurance)

63.74

CERS
Non-Hazardous

County Employees Retirement System was established July 1, 1958 by the state legislature.



Net Assets Expressed in Thousands ($)

Fund	2006	2007	2008	2009	2010
Pension	$5,191,377	$5,812,936	$5,413,735	$4,331,010	$4,820,488
Insurance	813,251	1,084,043	1,105,945	894,490	1,094,822
					$5,915,310

Funding Level (% Pension)

65.57

Membership Totals

38,261	84,010	55,423
Retired	Active	Inactive

Funding Level (% Insurance)

40.94

Additions & Deductions in Millions ($)

Additions	2006	2007	2008	2009	2010
Income & Assets	$866.30	$1,366.50	$265.10	($723.28)	$1,311.99
Deductions					
Benefits, Refunds & Expenses	$424.00	$468.40	$528.60	$588.90	$622.17

Expanded data on pages 25-31 of the Financial Section.

CERS
Hazardous

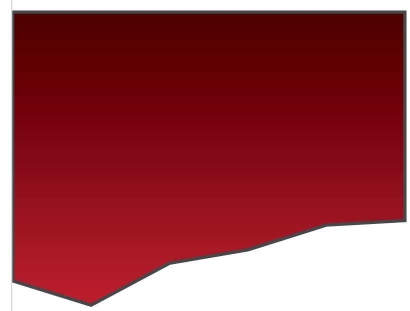
County Employees Retirement System was established July 1, 1958 by the state legislature.

Net Assets Expressed in Thousands ($)

Fund	2006	2007	2008	2009	2010
Pension	$1,528,845	1,754,935	$1,644,982	$1,320,560	$1,506,894
Insurance	441,279	570,156	576,414	483,233	586,617
					$2,093,511

Funding Level (% Pension)

65.47



Membership Totals

4,867 Retired

9,120 Active

2,009 Inactive

Funding Level (% Insurance)

41.37

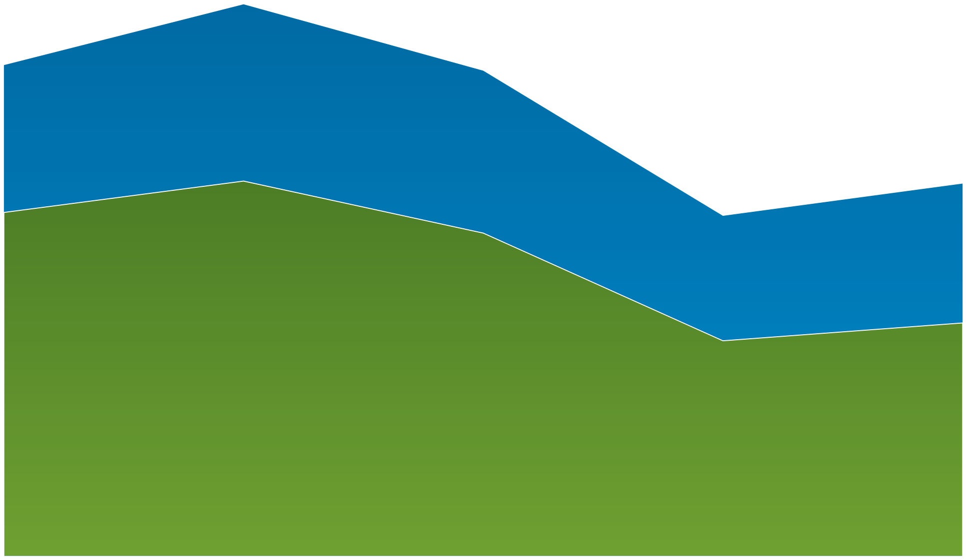
Additions & Deductions in Millions ($)

Additions	2006	2007	2008	2009	2010
Income & Assets	$333.10	$506.30	$109.80	($233.70)	$478.59
Deductions					
Benefits, Refunds & Expenses	$134.20	$151.20	$164.90	$183.91	$188.87

Expanded data on pages 25-31 of the Financial Section.

SPRS
Hazardous

State Police Retirement System was established July 1, 1960 by the state legislature.



Net Assets Expressed in Thousands ($)

Fund	2006	2007	2008	2009	2010
Pension	$352,841	376,381	$337,359	$256,575	$264,949
Insurance	110,491	132,574	121,782	93,682	104,511
					$369,460

Funding Level (% Pension)

49.73

Membership Totals

1,004	948	201
Retired	Active	Inactive

Funding Level (% Insurance)

27.86

Additions & Deductions in Millions ($)

Additions	2006	2007	2008	2009	2010
Income & Assets	$67.30	$89.60	$8.00	($58.55)	$75.97
Deductions					
Benefits, Refunds & Expenses	$42.80	$43.95	$46.48	$50.34	$56.77

Expanded data on pages 25-31 of the Financial Section.

Financial

Management's Responsibility for Financial Reporting

November 18, 2010

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 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 and Generally Accepted Government Auditing Standards, issued by the Comptroller General of the United States. This audit is described in their Independent Auditors' Report on page 16. 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.

Robert M. Burnside, MS
Executive Director

William A. Thielen, Esq.
Chief Operations Officer

Todd E. Coleman, CPA
Controller

DEAN | DORTON | FORD PSC

Independent Auditors' Report

FYI

The Financial Audit is one of many assurance or attestation functions provided by accounting firms, whereby the firm provides an independent opinion on published information. Financial Audits are performed by firms of practicing Certified Public Accountants due to the specialized financial reporting knowledge they require.

Board of Trustees
Kentucky Retirement Systems
Frankfort, Kentucky

We have audited the financial statements of the Kentucky Retirement Systems, a component unit of the Commonwealth of Kentucky, as of and for the fiscal years ended June 30, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the Kentucky Retirement Systems' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits 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 audits provide 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, 2010 and 2009, and the changes in plan net assets for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 18, 2010, 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 18 through 24) and the Schedule of Funding Progress and Schedule of Contributions from Employers and Other Contributing Entities (pages 72 through 81) 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 audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional supporting schedules (pages 82 through 85) 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 audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The *Introductory, Actuarial, Investment, and Statistical* sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. These sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on them.

Dean Dorton Ford PSC

November 18, 2010
Lexington, Kentucky

Financial Highlights-Pension Funds

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.

This discussion and analysis of Kentucky Retirement Systems' financial performance provides an overview of the pension and insurance fund financial activities for the fiscal year ended June 30, 2010. Please read it in conjunction with the financial statements, which begin on page 25.

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

The combined plan net assets of all pension funds administered by Kentucky Retirement Systems increased by $658,743,265 during fiscal 2010.

Member and Employer contributions reported for fiscal 2010, totaled $714,383,768 compared to $685,589,301 in fiscal 2009. This increase is due to an increase in the covered payroll reported (in the case of the CERS Non-Hazardous plan), an increase in the employer contribution rates, and the collection of additional health insurance contributions passed by House Bill 1 in September 2008. Member contributions decreased $41,066,387 due to a decrease in service purchases which have become more expensive as a result of the passage of House Bill 1.

The net appreciation in the fair value of investments was $1,283,982,686 for the fiscal year ended June 30, 2010 compared to net depreciation of $2,538,596,591 for the prior fiscal year. Included in this net appreciation were realized gains on sales of investments of $217,499,189. In comparison, the pension funds realized losses of $750,132,021 for the fiscal year ended June 30, 2009. The increase in realized gains experienced by the pension funds is due to more favorable market conditions.

Interest, dividend and net securities lending income was $266,361,224 compared to $327,290,507 in last fiscal year.

Pension benefits paid to retirees and beneficiaries totaled $1,516,062,239. Refund of contributions paid to former members upon termination of employment totaled $22,274,413.

Administrative expense totaled $24,848,036 compared to $23,970,064 in the prior fiscal year.

The member health insurance contribution, as a result of the passage of House Bill 1 (effective September 1, 2008) totaled $3,447,674, for the fiscal year ended June 30, 2010, compared to $898,946 in the prior fiscal year.

The impairment, incurred for unrealized losses associated with KRS' participation in the securities lending program at Northern Trust, totaled $0 as of June 30, 2010. Northern Trust reversed the remaining collateral deficiency payable in the Funds Collateral Pool. This reversal, effective March 15, 2010, in conjunction with the partial reversal processed on November 30, 2009, eliminated the payable amount originally posted to the various Common and Collective Funds using the Funds Collateral Pool in September 2008.

Financial Highlights-Insurance Fund

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 increased by $369,715,055 during fiscal 2010.

Premiums received from retirees who participated in the Medicare eligible self-funded plan totaled $29,130,888, compared to $27,121,929 in the prior fiscal year.

Employer contributions of $371,885,194 were received compared to $297,194,679 in fiscal 2009. This increase is due to an increase in the insurance contribution rate.

Retiree drug subsidies totaled $19,794,088 compared to $16,834,869 in fiscal 2009.

The net appreciation in the fair value of investments was $274,315,992 compared to net depreciation of $656,699,368 for the prior fiscal year. Included in this net appreciation were realized gains on sales of investments of $91,605,212. In comparison, the insurance fund realized losses on investments of $205,178,412 in the prior fiscal year. This increase in realized gains is due to more favorable market conditions.

Interest, dividend and net securities lending income was $42,321,860 per compared to income of $47,701,924 in fiscal 2009.

Premiums paid by the fund for hospital and medical insurance coverage (under age 65) totaled $223,352,760. Payments for the self-funded healthcare reimbursements (over age 65) totaled $130,142,423. The total of insurance premiums paid plus self-funded reimbursements was $353,495,183 for fiscal 2010. Insurance premiums paid plus self-funded healthcare reimbursements for the prior plan year totaled $312,827,500.

As part of the application process to the Centers for Medicare & Medicaid Services to enter into a contract to offer a Medicare Prescription Drug Plan, KRS was required to establish a segregated Insolvency Account in the amount of $100,000; this account must retain a minimum balance of $100,000. The account consists of cash and/or cash equivalents, and is invested on a daily basis. The balance as of June 30, 2010, totaled $100,446.

The reimbursement of retired-reemployed health insurance, as a result of the passage of House Bill 1 (effective September 1, 2008) totaled $2,032,659 for the fiscal year ended June 30, 2010, compared to $206,859 in the prior fiscal year.

The impairment, incurred for unrealized losses associated with KRS' participation in the securities lending program at Northern Trust, totaled $0 as of June 30, 2010. Northern Trust reversed the remaining collateral deficiency payable in the Funds Collateral Pool. This reversal, effective March 15, 2010, in conjunction with the partial reversal processed on November 30, 2009, eliminated the payable amount originally posted to the various Common and Collective Funds using the Funds Collateral Pool in September 2008.

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 Statement of Plan Net Assets for the Pension Funds, on page 25, and the Combined Statement of Plan Net Assets for the Insurance Fund, on page 28, provide a snapshot of the financial position of each of the three systems at June 30, 2010. The Combined Statement of Changes in Plan Net Assets for the Pension Funds, on pages 25-27, and the Combined Statement of Changes in Plan Net Assets for the Insurance Fund, on pages 30-31, summarize the additions and deductions that occurred for each of the three systems during fiscal 2010.

The Schedule of Funding Progress, on pages 72-76 , 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 77-81, 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 an understanding of the changes over time in the funded status of the plans.

Kentucky Retirement Systems As A Whole

Kentucky Retirement Systems' combined plan net assets increased, during the fiscal year ended June 30, 2010, by $1,028.5 million from $11,937.9 million to $12,966.4 million. Plan net assets for the prior fiscal year decreased by $3,665.4 million. The increase in plan net assets for the plan year ended June 30, 2010 is primarily attributable to more favorable market conditions. However, the net plan assets in the KERS Non-Hazardous Pension Plan decreased by $80,099,593. This is due to a decrease in investment returns with an increase in the amount of retiree benefit payments. 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.

Table 1: Plan Net Assets *($) in Millions*

	Pension			Insurance			Total		
	2010	2009	2008	2010	2009	2008	2010	2009	2008
Cash & Investments	$12,690.2	$11,645.5	$15,768.8	$2,961.3	$2,460.2	$3,379.9	$15,651.5	$14,105.7	$19,148.7
Receivables	108.6	113.9	122.4	33.6	38.7	45.5	142.2	152.6	167.9
Equip./Int. Assets Net of Dep./Amort.	9.3	8.1	8.5				9.3	8.1	8.5
Total Assets	12,808.1	11,767.5	15,899.7	2,994.9	2,498.9	3,425.4	15,803.0	14,266.4	19,325.1
Total Liabilities	(2,267.7)	(1,885.8)	(2,944.3)	(568.9)	(442.7)	(777.5)	(2,836.6)	(2,328.5)	(3,721.8)
Plan Net Assets	$10,540.4	$9,881.7	$12,955.4	$2,426.0	$2,056.2	$2,647.9	$12,966.4	$11,937.9	$15,603.3

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

	Pension			Insurance			Total		
	2010	2009	2008	2010	2009	2008	2010	2009	2008
Additions									
Member Cont.	$249.8	$290.8	$304.3	--	--	--	$249.8	$290.8	$304.3
Employer Cont.	461.2	393.8	350.4	371.9	297.2	372.3	833.1	691.0	722.7
Health Ins. Cont.	3.4	0.9	--	--	--	--	3.4	0.9	--
Premiums Rcvd	--	--	--	29.1	27.1	28.5	29.1	27.1	28.5
Ret. Reemp. Insurance	--	--	--	2.0	0.2	--	2.0	0.2	--
Medicare Subsidy	--	--	--	19.8	16.8	13.3	19.8	16.8	13.3
Invest. Inc. (net)	1,507.5	(2,232.9)	(579.9)	310.1	(611.3)	(220.6)	1,817.6	(2,844.2)	(800.5)
Total Additions	2,221.9	(1,547.4)	74.8	732.9	(270.0)	193.5	2,954.8	(1,817.4)	268.3
Deductions									
Ben. Payments	1,516.1	1,478.7	1,299.2	--	--	--	1,516.1	1,478.7	1,299.2
Refunds	22.3	23.6	25.5	--	--	--	22.3	23.6	25.5
Admin. Expenses	24.8	24.0	22.9	9.7	8.8	7.5	34.5	32.8	30.4
Healthcare Costs	--	--	--	353.4	312.9	269.3	353.4	312.9	269.3
Total Deductions	1,563.2	1,526.3	1,347.6	363.1	321.7	276.8	1,926.3	1,848.0	1,624.4
Increase (Decrease) in Plan Net Assets									
	$658.7	$(3,073.7)	$(1,272.8)	$369.8	$(591.7)	$(83.3)	$1,028.5	$(3,665.4)	$(1,356.1)

Kentucky Retirement Systems As A Whole, continued

Plan net assets of the pension funds increased by $658.7 million ($10,540.4 million compared to $9,881.7 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 assets increase is attributable primarily to more favorable market conditions.

Plan net assets of the insurance fund increased by $369.8 million ($2,426.0 million compared to $2,056.2 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 increase in net plan assets is primarily attributable to more favorable market conditions.

Pension Fund Activities

Member contributions decreased by $41 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 decrease in member contributions is a result of a decrease in service purchases by Kentucky Retirement Systems' members over the prior period.

Employer contributions increased by $67.4 million due to the increase in covered payroll reported to Kentucky Retirement Systems (in the case of the CERS Non-Hazardous plan) and the increase in the employer contribution rate applied to covered payroll.

Net investment income increased by $3,740.4 million (net investment gain of $1,507.5 million compared to net investment loss of $2,232.9 million in the prior year). The pension funds experienced an increase in income primarily due to the increase in gains on sale of investments. This can be illustrated in Table 3 as follows:

Pension fund deductions increased by $36.9 million caused principally by an increase of $37.4 million in benefit payments. Retirees received a Cost of Living Adjustment (COLA) increase of 1.5% in benefit payments as of July 1, 2009. Refunds of member contributions decreased by $1.3 million and administrative expenses increased by $.8 million.

Table 3: Investment Income (Loss) Pension

($) in Millions

Investment Income (Loss)	2010	2009	2008
Increase (Decrease) in fair value of investments	$1,066	$(1,788)	$(1,357)
Investment Income net of Investment Expense	224	305	417
Gain (Loss) on sale of investments	218	(750)	360
Net investment (loss) income	$1,508	$(2,233)	$(580)

Insurance Fund Activities

Employer contributions paid into the insurance fund increased by $74.7 million over the prior fiscal year. This increase is a result of the increase in the employer contribution rate applied to covered payroll.

Net investment income increased by $921.4 million. This increase in net income is due primarily to the increase in the gains on sale of investments. This can be illustrated in Table 4 as follows:

Insurance fund deductions increased by $41.7 million due to the increase in overall healthcare costs.

Table 4: Investment Income (Loss) Insurance

($) in Millions

Investment Income (Loss)	2010	2009	2008
Increase (Decrease) in fair value of investments	$183	$(451)	$(387)
Investment Income net of Investment Expense	35	45	62
Gain (Loss) on sale of investments	92	(205)	105
Net investment income (loss)	$310	$(611)	$(220)

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 68-76. The asset value stated in the Schedule of Funding Progress is the actuarial value of assets. 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 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 defined as the unfunded actuarial accrued liability.

The unfunded actuarial accrued liability in the pension plans increased by $1,725.4 million for a total unfunded amount of $11,122.7 million for the fiscal year ended June 30, 2010, compared to an unfunded amount of

$9,397.2 million for the fiscal year ended June 30, 2009. 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, and expenditures for unfunded 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, 2010, increased to $7,334.7 million from $7,199.3 million for the plan year ended June 30, 2009. This is an increase in the unfunded actuarial accrued liability of $135.4 million.

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 77-81. 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 fact that the statutory employer contribution rate set by the Kentucky General Assembly was less than the rate computed by the actuary.

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

As of June 30, 2010 (with comparative totals as of June 30, 2009)

	2010						2009
	KERS Hazardous	KERS Non-Hazardous	CERS Hazardous	CERS Non-Hazardous	SPRS	Total	Total
Assets							
Cash & Short Term Investments							
Cash	$104	$797	$235	$749	$150	$2,035	$852
Short Term Investments	78,398	114,677	141,692	246,699	19,635	601,101	1,017,433
Total Cash & Short Term Investments	78,502	115,474	141,927	247,448	19,785	603,136	1,018,285
Receivables							
Contributions	1,376	19,657	9,742	35,246	963	66,984	71,155
Investment Income	1,446	14,565	5,430	19,149	1,046	41,636	42,842
Total Receivables	2,822	34,222	15,172	54,395	2,009	108,620	113,997
Investments, at fair value							
Corporate and Gov't Bonds	85,356	860,776	325,073	1,164,624	66,743	2,502,572	2,329,660
Equity Contracts	12,802	128,881	48,213	174,100	10,331	374,327	567,521
Interest Rate Contracts	8,275	81,330	30,499	109,937	6,383	236,424	
Corporate Stocks	231,382	2,094,663	860,553	2,773,921	144,431	6,104,950	4,978,448
Mortgages	22,010	184,890	81,924	290,020	14,677	593,521	898,417
Real Estate	2,407	3,708	3,438	4,947	575	15,075	14,946
Total Invest., at fmv	362,232	3,354, 248	1,349, 700	4,517,549	243,140	9,826,869	8,788,992
Securities Lending Collateral Invested	95,378	751,949	323,200	1,032,658	56,956	2,260,141	1,838,177
Equipment (net of accumulated depreciation)	110	1,301	196	2,239	25	3,871	6,155
Int. Assets (net of accumulated. amort.)	161	1,859	273	3,161	30	5,484	1,913
Total Assets	539,205	4,259,053	1,830,468	5,857,450	321,945	12,808,122	11,767,519
Liabilities							
Accounts Payable	221	2,602	374	4,304	40	7,541	8,366
Securities Lending Collateral	95,378	751,949	323,200	1032,658	56,956	2,260,141	1,838,177
Impairment-Securities Lending							39,279
Total Liabilities	95,599	754,551	323,574	1,036,962	56,996	2,267,682	1,885,822
Plan Net Assets Held in Trust for Pension Benefits							
	$443,606	$3,504,502	$1,506,894	$4,820,488	$264,949	$10,540,440	$9,881,697

See accompanying notes to the Financial Statements.

Combined Statement of Changes in Plan Net Assets-Pension Funds *($) in Thousands*

For the Fiscal Year Ended June 30, 2010 (with comparative totals for the Fiscal Year Ended June 30, 2009)

	2010						2009
	KERS Hazardous	KERS Non-Hazardous	CERS Hazardous	CERS Non-Hazardous	SPRS	Total	Total
Additions							
Members' Contributions	$11,110	$90,780	$37,200	$106,558	$4,127	$249,775	$290,842
Employers' Contributions	17,658	144,051	82,887	207,076	9,489	461,161	393,849
Health Insurance Contributions (HB1)	118	1,799	174	1,345	12	3,448	899
Total Contributions	28,886	236,630	120,261	314,979	13,628	714,384	685,590
Investment Income							
From Investing Activities:							
Net Appreciation (Depreciation) in Fair Value of Investments	57,391	449,280	175,317	567,120	34,874	1,283,982	(2,538,597)
Interest/Dividends	9,719	90,808	35,057	118,487	6,602	260,673	310,240
Total Investing Activities Income (Loss)	67,110	540,088	210,374	685,607	41,476	1,544,655	(2,228,357)
Investment Expense	1,480	12,902	4,217	16,017	811	35,427	13,301
Commissions	285	2,843	905	3,135	206	7,374	8,342
Total Investing Activities Expense	1,765	15,745	5,122	19,152	1,017	42,801	21,643
Net Income (Loss) from Investing Activities	$63,345	$524,343	$205,252	$666,455	$40,459	$1,501,854	$(2,250,000)

Combined Statement of Changes in Plan Net Assets-Pension Funds *($) in Thousands*

For the Fiscal Year Ended June 30, 2010 (with comparative totals for the Fiscal Year Ended June 30, 2009)

	2010						2009
	KERS Hazardous	KERS Non-Hazardous	CERS Hazardous	CERS Non-Hazardous	SPRS	Total	Total
From Securities Lending Activities:							
Securities Lending Income	$378	$2,931	$1,279	$4,079	$223	$8,890	$40,231
Securities Lending Expense:							
Security Borrower Rebates	74	584	251	802	44	1,755	19,498
Security Lending Agent Fees	61	481	207	660	36	1,445	3,683
Net Income from Securities Lending Activities	243	1,866	821	2,617	143	5,690	17,050
Total Net Investment Income (Loss)	65,588	526,209	206,073	669,072	40,602	1,507,544	(2,232,950)
Total Additions (Loss)	94,474	762,839	326,334	984,051	54,230	2,221,928	(1,547,360)
Deductions							
Benefit Payments	37,796	825,627	136,810	470,249	45,582	1,516,064	1,478,730
Refunds	1,286	8,887	1,956	10,001	144	22,274	23,628
Administrative Exp.	737	8,424	1,234	14,323	130	24,848	23,968
Total Deductions	39,819	842,938	140,000	494,571	45,856	1,563,186	1,526,326
Net Increase (Decrease) in Plan Assets	54,655	(80,099)	186,334	489,478	8,374	658,742	(3,073,686)
Plan Net Assets Held in Trust for Pension Benefits							
Beginning of Year	388,951	3,584,601	1,320,560	4,331,010	256,575	9,881,697	12,955,383
End of Year	$443,606	$3,504,502	$1,506,894	$4,820,488	$264,949	$10,540,442	$9,881,697

See accompanying notes to the Financial Statements.

Combined Statement of Plan Net Assets-Insurance Funds *($) in Thousands*
As of June 30, 2010 (with comparative totals as of June 30, 2009)

	2010						2009
	KERS Hazardous	KERS Non-Hazardous	CERS Hazardous	CERS Non-Hazardous	SPRS	Total	Total
Assets							
Cash & Short Term Investments							
Cash	$58	$378	$31	$509	$52	$1,028	$180
Short Term Investments	61,539	39,019	153,167	268,927	12,985	535,637	495,122
Medicare Drug Deposit	11	20	23	42	4	100	100
Total Cash & Short Term Investments	61,608	39,417	153,221	269,478	13,041	536,767	495,402
Receivables							
Contributions	917	4,411	5,213	14,743	371	25,655	31,763
Investment Income	878	1,497	1,835	3,370	386	7,966	6,893
Loan Interest Receivable (Holly Hill)							119
Total Receivables	$1,795	$5,908	$7,048	$18,113	$757	$33,621	$38,775

Combined Statement of Plan Net Assets-Insurance Funds *($) in Thousands*

As of June 30, 2010 (with comparative totals as of June 30, 2009)

	2010						2009
	KERS Hazardous	KERS Non-Hazardous	CERS Hazardous	CERS Non-Hazardous	SPRS	Total	Total
Investments, at fair value							
Corporate and Gov't Bonds	$28,288	$43,244	$71,248	$121,051	$12,796	$276,627	$203,304
Equity Contracts	43,535	66,582	110,117	186,942	19,633	426,809	415,866
Corporate Stocks	136,021	215,243	245,027	500,856	58,298	1,155,445	916,095
Alternative Investment							135
Real Estate	67	102	146	272	28	614	600
Total Investments, at fair value	207,911	325,171	426,538	809,121	90,755	1,859,496	1,536,000
Securities Lending Collateral Invested	63,563	85,994	136,732	254,253	24,465	565,007	428,831
Total Assets	334,877	456,490	723,539	1,350,965	129,018	2,994,889	2,499,008
Liabilities							
Accounts Payable	75	1,698	190	1,891	43	3,897	4,921
Securities Lending Collateral Obligations	63,563	85,994	136,732	254,253	24,465	565,007	428,831
Impairment-Securities Lending							8,984
Total Liabilities	63,638	87,692	136,922	256,144	24,508	568,904	442,736
Plan Net Assets Held in Trust for Insurance Benefits							
	$271,239	$368,798	$586,617	$1,094,821	$104,510	$2,425,985	$2,056,272

See accompanying notes to the Financial Statements.

Combined Statement of Changes in Plan Net Assets-Insurance Funds *($) in Thousands*

For the Fiscal Year Ended June 30, 2010 (with comparative totals for the Fiscal Year Ended June 30, 2009)

	2010						2009
	KERS Hazardous	KERS Non-Hazardous	CERS Hazardous	CERS Non-Hazardous	SPRS	Total	Total
Additions							
Employers' Contributions	$21,835	$92,679	$82,970	$166,032	$8,369	$371,885	$297,195
Retiree Drug Subsidy	319	8,551	1,493	9,157	274	19,794	16,835
Premiums Received from Retirees	749	12,290	435	15,641	16	29,131	27,122
Retired Reemployed Healthcare (HB1)	86	1,298	73	575		2,032	207
Total Contributions	22,989	114,818	84,971	191,405	8,659	422,842	341,359
Investment Income							
From Investing Activities:							
Net Appreciation (Depreciation) in the Fair Value of Investments	38,367	44,706	58,828	121,101	11,314	274,316	(656,699)
Interest/Dividends	4,583	7,290	9,507	17,726	1,970	41,076	44,283
Interest Income (Holly Hill)							119
Total Investing Activities Income (Loss)	42,950	51,996	68,335	138,827	13,284	315,392	(612,297)
Investment Activities Expense	552	1,138	1,089	2,391	195	5,365	1,383
Commissions	133	277	261	471	58	1,200	929
Total Investing Activities Expense	685	1,415	1,350	2,862	253	6,565	2,312
Net Income (Loss) from Investing Activities	42,265	50,581	66,985	135,965	13,031	308,827	(614,609)
From Securities Lending Activities:							
Securities Lending Income	$183	$242	$394	$733	$70	$1,622	$7,945

Combined Statement of Changes in Plan Net Assets-Insurance Funds *($) in Thousands*

For the Fiscal Year Ended June 30, 2010 (with comparative totals for the Fiscal Year Ended June 30, 2009)

	2010						2009
	KERS Hazardous	KERS Non-Hazardous	CERS Hazardous	CERS Non-Hazardous	SPRS	Total	Total
Securities Lending Expense:							
Security Borrower Rebates	$8	$11	$17	$32	$3	$71	$3,951
Security Lending Agent Fees	34	47	74	138	13	306	695
Net Income from Securities Lending Activities	141	184	303	563	54	1,245	3,299
Total Net Investment Income (Loss)	42,406	50,765	67,288	136,528	13,085	310,072	(611,310)
Total Additions (Loss)	65,395	165,583	152,259	327,933	21,744	732,914	(269,951)
Deductions							
Healthcare Premiums Subsidies	11,220	96,943	43,033	63,089	9,071	223,356	198,273
Administrative Fees	200	4,333	554	4,469	147	9,703	8,869
Self Funding Insurance Costs	2,236	60,876	5,288	60,044	1,698	130,142	114,555
Total Deductions	13,656	162,152	48,875	127,602	10,916	363,201	321,697
Net Increase (Decrease) in Plan Assets	51,739	3,431	103,384	200,331	10,828	369,713	(591,648)
Plan Net Assets Held in Trust for Insurance Benefits							
Beginning of Year	219,500	365,367	483,233	894,490	93,682	2,056,272	2,647,920
End of Year	$271,239	$368,798	$586,617	$1,094,821	$104,510	$2,425,985	$2,056,272

See accompanying notes to the Financial Statements.

Notes to the Financial Statements

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.

General

Under the provisions of Kentucky Revised Statute Section 61.645, the Board of Trustees (the Board) 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 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 KRS: (1) KERS; (2) CERS; and (3) SPRS. The assets of the insurance fund are commingled for investment purposes. The following notes apply to the various funds administered by KRS:

Note A-Summary Of Significant Accounting Policies

Basis of Accounting 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. Administrative and Investment Expenses are recognized when incurred.

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. The capitalization threshold used in fiscal years ended 2010 and 2009 was $3,000 (see Note J for further information).

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 years ended 2010 and 2009 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.

KERS was created by the Kentucky General Assembly pursuant to the provisions of Kentucky Revised Statute 61.515. CERS was created by the Kentucky General Assembly pursuant to the provisions of Kentucky Revised Statute 78.520. 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 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.

Recent Accounting Pronouncements

In December 2009, the Governmental Accounting Standards Board (GASB) issued Statement No. 57, "OPEB Measurements by Agent Employer and Agent Multiple-Employer Plans". The objective of this statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple employer other postemployment benefit (OPEB) plans. KRS is currently evaluating the provisions of GASB No. 57.

In June 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 59, "Financial Instruments Omnibus". The objective of this statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified. KRS is currently evaluating the provisions of GASB No. 59.

Note B-Plan Descriptions And Contribution Information

Membership in each Retirement Plan consisted of the following at June 30, 2010 and 2009:

KERS Membership

	2010			2009		
	Non-Hazardous Employees	Hazardous Employees	Total	Non-Hazardous Employees	Hazardous Employees	Total
Retirees and Beneficiaries Receiving Benefits	37,945	2,835	40,780	37,883	2,648	40,531
Inactive Vested Members	37,681	3,155	40,836	34,515	3,056	37,571
Active Plan Members	47,090	4,291	51,381	46,060	4,334	50,394
Total	122,716	10,281	132,997	118,458	10,038	128,496
Number of Participating Employers			372			386

CERS Membership

	2010			2009		
	Non-Hazardous Employees	Hazardous Employees	Total	Non-Hazardous Employees	Hazardous Employees	Total
Retirees and Beneficiaries Receiving Benefits	41,038	6,086	47,106	39,756	5,808	45,564
Inactive Vested Members	64,004	2,631	66,635	60,275	2,522	62,797
Active Plan Members	84,681	9,562	94,243	83,724	9,757	93,481
Total	189,723	18,261	207,984	183,755	18,087	201,842
Number of Participating Employers			1,396			1,398

SPRS Membership

	2010	2009
	Hazardous Employees	Hazardous Employees
Retirees and Beneficiaries Receiving Benefits	1,223	1,184
Inactive Vested Members	345	332
Active Plan Members	961	946
Total	2,529	2,462
Number of Participating Employers	1	1

Hospital and Medical Contracts Issued *(As of June 30 2010, and 2009)*

	2010					2009				
	A	B	C	D	E	A	B	C	D	E
KERS Non-Hazardous	10,420	1,971	722	1,831	13,765	10,536	2,417	739	1,904	13,189
KERS Hazardous	599	453	66	63	525	866	690	95	93	832
CERS Non-Hazardous	7,692	1,369	342	3,106	14,477	7,503	1,364	326	3,099	13,607
CERS Hazardous	1,274	2,062	239	58	1,438	1,438	2,108	254	82	1,558
SPRS	264	462	47	12	467	221	311	20	9	419
Total	20,249	6,317	1,416	5,070	30,672	20,564	6,890	1,434	5,187	29,605

A= Single, B=Couple/Family, C=Parent Plus, D= Medicare Without Prescription, E=Medicare With Prescription

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. Prior to July 1, 2009, cost-of-living adjustments (COLA) were 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 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least twelve months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than twelve months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the twelve months preceding the effective date of the COLA. 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, 2010 and 2009, 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, 2010 and 2009, participating employers contributed 11.61% and 10.01%, respectively, of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended

June 30, 2010 and 2009, were 39.45% and 28.6%, respectively, of each employee's creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

In accordance with House Bill 1, signed by the Governor on June 27, 2008, plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while the 1% was deposited to an account created under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401 (h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 5% of their annual creditable compensation.

Kentucky Employees Retirement System Hazardous Employees Pension Plan

Plan Description

KERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in hazardous duty positions of any state department, board, or agency directed by Executive Order to participate in 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. Prior to July 1, 2009, cost-of-living adjustments (COLA) were 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 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least twelve months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than twelve months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the twelve months preceding the effective date of the COLA. 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, 2010 and 2009, 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, 2010 and 2009, participating employers contributed 24.69% and 24.35%, respectively, of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2010 and 2009, were 35.54% and 34.78%, respectively, of each employee's creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

In accordance with House Bill 1, signed by the Governor on June 27, 2008, plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 9% of their annual creditable compensation. Eight percent of the contribution was deposited to the member's account while the 1% was deposited to an account created under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 8% of their annual creditable compensation.

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. Prior to July 1, 2009, cost-of-living adjustments (COLA) were 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 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least twelve months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than twelve months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the twelve months preceding the effective date of the COLA. 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, 2010 and 2009, 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, 2010 and 2009, participating employers contributed 16.16% and 13.5%, respectively, of each employee’s creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2010 and 2009, were 20.91% and 15.58%, respectively. Administrative costs of KRS are financed through employer contributions and investment earnings.

In accordance with House Bill 1, signed by the Governor on June 27, 2008, plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while the 1% was deposited to an account created under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 5% of their annual creditable compensation.

County Employees Retirement System 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. Prior to July 1, 2009, cost-of-living adjustments (COLA) were 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 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least twelve months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than twelve months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the twelve months preceding the effective date of the COLA. 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, 2010 and 2009, 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, 2010 and 2009, participating employers contributed 32.97% and 29.5%, respectively, of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2010 and 2009, were 43.36% and 31.99%, respectively, of each employee's creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

In accordance with House Bill 1, signed by the Governor on June 27, 2008, plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 9% of their annual creditable compensation. Eight percent of the contribution was deposited to the member's account while the 1% was deposited to an account created under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 8% of their annual creditable compensation.

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. Prior to July 1, 2009, cost-of-living adjustments (COLA) were 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 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least twelve months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than twelve months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the twelve months preceding the effective date of the COLA. 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, 2010 and 2009, 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, 2010 and 2009, the Commonwealth contributed 33.08% and 30.07%, respectively, of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2010 and 2009 were 92.12% and 60.14%, respectively, of each employee's creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

In accordance with House Bill 1, signed by the Governor on June 27, 2008, plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 9% of their annual creditable compensation. Eight percent of the contribution was deposited to the member's account while the 1% was deposited to an account created under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 8% of their annual creditable compensation.

Kentucky Retirement Systems Insurance Fund

Plan Description

The Kentucky Retirement Systems Insurance Fund (Fund) was established to provide hospital and medical insurance for members receiving benefits from 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, 2010, insurance premiums withheld from benefit payments for members of the systems were $29,181,932 and $1,665,204 for KERS non-hazardous and hazardous, respectively; $29,667,911 and $1,804,656 for CERS non-hazardous and hazardous, respectively; and, $234,577 for SPRS. For fiscal 2009, insurance premiums withheld from benefit payments for members of KERS were $28,345,215 and $973,502 for KERS non-hazardous and KERS hazardous, respectively; $27,593,841 and $1,634,508 for CERS non-hazardous and CERS hazardous, respectively; and, $160,190 for SPRS. The Fund pays the same proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous members killed in the line of duty. As of June 30, 2010, the Fund had 89,101 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 shown at right.

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

Insurance Contribution By Years Of Service

For members participating prior to July 1, 2003

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

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 of its self-insured program directly from its insurance assets.

KRS selected Catalyst Rx and UMR to administer the pharmaceutical and medical benefits, respectively, for its retirees. The pharmaceutical contract with Walgreens Health Initiatives ended December 31, 2009.

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

	2010	2009
Cash	$901,440	$369,675
Short Term Investments	193,075,338	286,363,442
Securities Lending Collateral Invested	847,326,415	740,443,331
Total	$1,041,303,193	$1,027,176,448

County Employees Retirement System

	2010	2009
Cash	$984,279	$379,842
Short Term Investments	388,391,558	698,898,569
Securities Lending Collateral Invested	1,355,857,873	1,049,855,428
Total	$1,745,233,710	$1,749,133,839

State Police Retirement System

	2010	2009
Cash	$149,615	$102,694
Short Term Investments	19,635,485	32,170,928
Securities Lending Collateral Invested	56,955,523	47,878,450
Total	$76,740,623	$80,152,072

Kentucky Retirement Systems Insurance Funds

	2010	2009
Cash	$1,029,033	$179,764
Short Term Investments	535,639,023	495,121,909
Medicare Drug Deposit	100,446	100,000
Securities Lending Collateral Invested	565,007,164	428,831,036
Total	$1,101,775,666	$924,232,709

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.

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' portfolios.

The fair value of CMOs at June 30, 2010 and 2009, was approximately $95.9 million and $266 million, respectively; the fair value of asset-backed securities at June 30, 2010 and 2009, was approximately $81 million and $102 million, respectively; and, the fair value of exchange-traded funds at June 30, 2010 and 2009, was approximately $231 million and $196 million, respectively.

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 Investments/Equity Real Estate

Subject to the specific approval of the Investment Committee of the Board of Trustees, investments may be made for the purpose of creating a diversified portfolio of alternative investments. The Board may invest in real estate or alternative investments including, without limitation, venture capital, private equity and private placements which the Investment Committee believes have 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.

In conjunction with the adoption of Governmental Accounting Standards Board (GASB) Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", KRS provides this additional disclosure regarding its derivatives:

Background Information

As of June 30, 2010, KRS has the following derivative instruments outstanding:

Item	Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms	FMV
Pension							
A	Equity Contracts	Exchange for common stock once the security reaches maturity	$152,435	Various	Various	Exchange occurs once maturity date reached	$374,327,395
B	Interest Rate Contracts	Hedge against the risk that interest rates will move in an adverse direction	$235,597,600	Various	Various	Various	$236,424,275
Insurance							
C	Equity Contracts	Exchange for common stock once the security reaches maturity	-0-	Various	Various	Exchange occurs once maturity date reached	$426,808,950

It is the policy of KRS that investment managers may invest in derivative securities, or strategies which make use of derivative investments, only if such investments do not cause the portfolio to be in any way leveraged beyond a 100% invested position. Examples of such derivatives include, but are not limited to, foreign currency forward contracts, collateralized mortgage obligations, treasury inflation protected securities, futures, options and swaps.

Investments in derivative securities which are subject to large or unanticipated changes in duration or cash flows, such as interest only, principal only, inverse floater, or structured note securities are permitted only to the extent authorized in an alternative investment offering memorandum or agreement.

Investments in securities such as collateralized mortgage obligations and planned amortization class issues are allowed if, in the judgment of the investment manager, they are not expected to be subject to large or unanticipated changes in duration or cash flows. Investment managers may make use of derivative securities for defensive or hedging purposes. Any derivative security shall be sufficiently liquid that it can be expected to be sold at, or near, its most recently quoted market price.

Derivative Instruments A and C are exchanged for common stock with an investment that is recorded at fair value.

Derivative Instrument B hedges against the risk that interest rates will move in an adverse direction.

For accounting and financial reporting purposes, all derivative instruments are considered investment derivative instruments. The derivatives have been segregated on the Combined Statement of Plan Net Assets for both Pension and Insurance.

Risks:

Basis Risk: Derivative Instruments A and C expose KRS to basis risk in that the value of the common stock exchanged may decrease in fair value.

Interest Rate Risk: Derivative Instrument B exposes KRS to interest rate risk in that changes in interest rates will adversely affect the fair values of KRS' financial instruments.

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. On May 20, 2009, the temporary increase in FDIC deposit insurance coverage from $100,000 to $250,000 for each depositor was extended through December 31, 2013. In 2010, the US Congress passed the Financial Crisis Bill; the $250,000 insurance coverage became permanent. 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, 2010 and 2009, deposits for KRS pension funds were $5,481,332 and $3,568,343, respectively. None of these balances were exposed to custodial credit risk as they were either insured or collateralized at required levels.

At June 30, 2010 and 2009, deposits for KRS insurance fund were $1,023,289 and $289,006, 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, 2010 and 2009, 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.

Pension Fund	2010	2009
Foreign Currency Investments	$9,439,108	$5,064,552
Insurance Fund		
Foreign Currency Investments	$3,106,813	$2,550,222

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" (set forth in Kentucky Revised Statute 61.650) 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.

Investment Summary

The following tables present a summary of the investments by type as of June 30. 2010 and 2009:

Pension Funds

As of June 30, 2010 and 2009

Investment Summary	2010	2009
US Gov't &Agency Fixed Income Securities	$2,585,430,034	$2,301,499,200
US Corporate Fixed Income Securities	689,815,783	906,485,006
Municipal Debt Securities	57,330,669	20,093,413
Short-term Investments	601,104,211	1,017,432,938
Equity Securities	4,931,386,776	4,567,119,849
Private Equity Limited Partnerships	1,547,888,010	978,848,929
Real Estate	15,075,788	14,945,575
Other	(59,897)	
Impairment-Securities Lending*		(39,279,421)
	$10,427,971,374	$9.767.145.489

Insurance Funds

As of June 30, 2010 and 2009

Investment Summary	2010	2009
US Gov't & Agency Fixed Income Securities	$276,626,088	$203,303,796
Short-term Investments	535,739,469	495,221,921
Equity Securities	1,385,112,612	1,222,700,032
Private Equity Limited Partnerships	197,141,097	109,261,059
Alternative Investment		135,000
Real Estate	614,468	600,000
Impairment-Securities Lending*		(8,984,210)
	$2,395,233,734	$2,022,237,598

*See Note E for detailed information.

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 Barclays Capital Aggregate Index/KRS High Yield Index by more than 10%.
- The duration of the TIPS portfolio shall not deviate from the Barclays Capital 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.

Pension Funds Debt Securities Investments at Fair Value

As of June 30, 2010 and 2009

	2010	2009
AAA	$1,863,001,127	$443,511,715
AA+	48,288,094	16,824,633
AA	30,226,149	29,223,881
AA-	46,648,330	14,112,366
A+	59,293,411	64,261,249
A	156,019,707	156,858,363
A-	72,715,716	60,256,001
BBB+	59,200,990	81,424,712
BBB		107,077,314
BBB-	144,675,132	62,510,693
BB+	2,206,904	6,241,124
BB	10,978,677	13,693,541
BB-	2,475,945	2,212,888
B+	4,457,839	3,389,891
B		4,189,229
B-	15,903,098	923,953
CCC	2,836,252	7,319, 295
CC	1,843,910	278,130
NR	70,462,745	46,927,613
Total Credit Risk Debt Securities	2,591,234,026	1,121,236,591
Government Bonds	115,820,255	394,575,946
Government Mortgage-Backed Securities (GNMA)	575,727,459	736,182,469
Gov't Issued Commercial Mortgage Backed	4,631,391	
Government Agencies	6,265,527	
Indexed Linked Bonds	38,894,681	976,082,613
Total Debt Securities	$3,332,568,339	$3,228,077,619

At both June 30, 2010 and 2009, the weighted average quality rating of the pension fund debt securities portfolio was AA+. As of June 30, 2010 and 2009, the KRS pension portfolio had $40,702,625 and $38,248,051, respectively, in debt securities rated below BBB-. The fair value of securities in the BBB- rating category was $144,675,132 and $62,510,693, respectively, as of June 30, 2010 and 2009.

The insurance fund debt securities portfolio, by guidelines, is to be invested in US Government securities. As shown below, as of June 30, 2009, the entire insurance fund was invested in Treasury Inflation Protected Securities (TIPS) which carry a US Government Treasury rating. As of June 30, 2010, the insurance fund was invested in Fixed Income, Index Linked Government Bonds, and Treasury Inflation Protected Securities. All carry a US Government Treasury rating.

Insurance Fund Credit Risk of Debt Securities

As of June 30, 2010 and 2009

	2010	2009
Fixed Income	$1,336,930	
Index Linked Government Bonds	$266,877,756	
Treasury Inflation Protected Securities	$8,411,402	$203,303,796
Total Credit Risk	$276,626,088	$203,303,796

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, 2010, the Insurance Fund held 9.1% of its investments in Exchange Traded Funds (ETF's). The amount totaled $218.1 million as of June 30, 2010. 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, 2010, the Pension Fund held 3.3% of its investment in the Federal National Mortgage Association (Fannie Mae). The amount totaled $340,775,972 as of June 30, 2010. 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 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

KRS Pension Funds Interest Rate Risk

	2010	Weighted Average Effective Duration	2009	Weighted Average Effective Duration
Asset Backed Securities	$80,459,816	0.93	$101,699,907	0.36
Commercial Mortgage Backed Securities	78,536,394	4.68	106,131,129	4.40
Corporate Bonds	513,442,002	5.53	538,973,533	6.01
Government Agencies	68,876,742	4.85	131,949,021	3.70
Government Bonds	915,274,910	5.40	1,370,658,559	5.22
Government Mortgage Backed Securities	576,152,433	2.18	736,182,469	3.36
Gov't Issued Commercial Mortgage Backed Securities	4,631,391	3.31		
Guaranteed Fixed Income	45,610,184	2.01		
Indexed Linked Government Bonds	967,658,299	4.95		
Municipal Bonds	57,330,669	11.36	20,093,413	7.48
Non-Government Backed Collateralized Mortgage Obligations	17,369,425	1.45	162,234,869	1.38
Other Fixed Income	7,174,169	.38	60,154,719	2.45
Total	$3,332,568,339	4.57	$3,228,077,619	4.45

portfolio to a weighted average benchmark consisting of the Barclays Capital Aggregate Index and the Barclays Capital US TIPS Index. At June 30, 2010 and 2009, the effective duration of the benchmark was 5.35 and 4.20, respectively. At the same points in time, the effective duration of the KRS pension fund debt securities portfolio was 4.57 and 4.45, 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 Barclays Capital US TIPS Index. At June 30, 2010 and 2009, the modified duration of the benchmark was 5.26 and 4.21, respectively. At the same points in time, the modified duration of the KRS insurance fund debt securities portfolio, excluding the pooled fund, was 7.12 and 7.46, respectively.

Insurance Fund Debt Securities Investments at Fair Value

As of June 30, 2010 and 2009

	2010		2009	
Investment	Fair Value	Weighted Duration	Fair Value	Weighted Duration
Index Linked Government Bonds	$276,626,088	8.24	$203,303,796	7.46

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, 2010 and 2009:

Pension Funds Investments at Fair Value

As of June 30, 2010 and 2009

Foreign Equities	2010	2009
Australian Dollar	$25,036,391	$52,486,171
Brazilian Real	$2,694,860	
British Pound Sterling	16,602,057	224,888,843
Canadian Dollar	114,533,022	50,996,657
Czech Koruna	157,720	
Danish Krone	10,286,579	2,837,998
Euro	(30,181,148)	321,770,916
Hong Kong Dollar	37,363,932	30,196,000
Hungarian Forint	221,870	
Indonesian Rupiah	303,437	
Japanese Yen	277,826,132	247,828,407
Malaysian Ringgit	387,001	5,471,194
Mexican Peso	835,982	
New Taiwan Dollar	7,634,477	3,081,020
Norwegian Krone	8,531,898	6,671,898
Polish Zloty	1,761,559	
Singapore Dollar	22,180,537	22,514,427
South African Rand	3,216,614	3,065,838
South Korean Won	2,920,668	7,575,310
Swedish Krona	2,732,084	12,083,380
Swiss Franc	21,699,339	87,953,959
International Equity Mutual Fund (various currencies)	795,533,850	484,383,452
Total Securities Subject To Foreign Currency Risk	1,322,278,861	1,563,805,470
USD (securities held by International Investment Managers)	840,612,985	507,357,622
Total International Investment Securities	2,162,891,846	$2,071,163,092

Insurance Funds Investments at Fair Value

As of June 30, 2010 and 2009

Foreign Equities	2010	2009
Australian Dollar	$9,589,648	$21,131,446
Brazilian Real	1,003,876	360,704
British Pound Sterling	8,051,772	83,508,340
Canadian Dollar	43,845,544	28,155,840
Czech Koruna	67,148	
Danish Krone	4,042,009	1,352,355
Euro	(7,500,903)	123,126,478
Hong Kong Dollar	13,824,640	13,879,837
Hungarian Forint	75,604	
Indonesian Rupiah	105,386	
Japanese Yen	104,237,243	92,771,022
Malaysian Ringgit	29,102	1,576,196
Mexican Peso	278,282	58,868
New Taiwan Dollar	2,302,510	1,846,498
Norwegian Krone	3,174,376	3,071,113
Polish Zloty	684,280	
Singapore Dollar	8,164,651	7,427,113
South African Rand	1,145,561	1,104,155
South Korean Won	980,970	3,859,160
Swedish Krona	1,109,872	4,425,313
Swiss Franc	8,941,929	32,594,627
International Equity Mutual Fund (various currencies)	101,560,347	80,975,131
Total Securities Subject To Foreign Currency Risk	305,713,847	501,224,196
USD (securities held by International Investment Managers)	310,656,636	20,578,322
Total International Investment Securities	616,370,483	521,802,518

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. The types of securities lent include US Treasuries, US Agencies, US Corporate Bonds, US Equities, Global Fixed Income Securities, and Global Equities Securities. The *Statement of Investment Policy-Pension* and the *Statement of Investment Policy-Insurance* do not address any restrictions on the amount of loans that can be made. At June 30, 2010, 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.

In September 2008, the ongoing financial market crisis took an adverse turn. Securities issued by many financial institutions and other entities experienced significant financial distress as a result of the financial market turmoil. Several government sponsored entities were put under the conservatorship of the US Government, and other foreign and domestic financial institutions received capital infusions or other types of capital support from their respective governments' central banks. The US Federal Reserve and US Treasury initiated various actions to enhance liquidity to stabilize the financial markets.

Following the cumulative effect of these factors, Northern Trust (the custodial bank for KRS) determined that certain securities held within the collateral pools had experienced impairment in value. Accordingly, Northern Trust determined in September 2008 a "Collateral Deficiency" assessment (in broad terms, the shortfall between the market NAV and the $1 NAV) in its collateral pools under the terms of its Securities Lending Authorization Agreement.

Per the Agreement, each participant (including KRS) in the collateral pool was allocated their share of the Collateral Deficiency which comprised both unrealized (primarily) and realized losses. Northern Trust elected to book this obligation as a receivable to each collateral pool, avoiding any immediate cash outflows by participants. Northern Trust determined that the receivable could be removed or reduced through a variety of mechanisms such as potential future "reversal" of the unrealized Collateral Deficiency loss. In addition, the affected collateral pools were closed to new investors (ensuring that any "reversal" would not be shared with new investors which is disadvantageous to KRS). The ultimate value of these impaired assets will be driven by a variety of factors including market and regulatory forces, as well as the outcome of bankruptcy proceedings.

Subsequent to the Collateral Deficiency, Northern Trust made a direct cash contribution of approximately $5.7 million to KRS whose cash collateral was invested in the Core and Global Collateral Pools. Northern Trust also reduced its portion of the fee split relating to revenues generated in the affected collateral pools by 20% (effective October 1, 2008 and continuing for the next 12 months).
KRS maintains a conservative approach to investing the cash collateral with Northern Trust for its securities lending collateral pools, emphasizing capital preservation, liquidity, and credit quality.

As of June 30, 2010 and 2009, the impairment in the pension funds totaled $0 and $39,279,421, respectively, and the impairment in the insurance fund totaled $0 and $8,984,210 respectively, for a total impairment of $0 and $48,263,631, respectively. This was an unrealized loss. Northern Trust reversed the remaining collateral deficiency payable in the Funds Collateral Pool. This reversal, effective March 15, 2010, in conjunction with the partial reversal processed on November 30, 2009, eliminated the payable amount originally posted to the Various Common and Collective Funds using the Funds Collateral Pool in September 2008.

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 $200,000. 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, generally, not subject to tax. KRS continues to be subject to income tax on its unrelated business income.

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, 2010, 2009, and 2008. The Commonwealth contributed 11.61%, 10.01%, and 8.5% of covered payroll for the periods ended June 30, 2010, 2009, and 2008, respectively. The chart below includes the covered payroll and contribution amounts for KRS for the three periods included in this discussion.

	2010	2009	2008
Covered Payroll	$ 13,383,859	$12,864,700	$11,846,700
Required Employer Contributions	$1,553,865	$1,287,800	$1,007,000
Employer Percentage Contributed	100%	100%	100%

NOTE J-EQUIPMENT

Equipment consists of the following:

As of June 30, 2010 and 2009

	2010	2009
Equipment, at cost	$6,795,760	$8,870,569
Less Accumulated Depreciation	(2,924,895)	(2,715,603)
	$3,870,865	$6,154,966

Depreciation expense for the fiscal years ended June 30, 2010 and 2009 amounted to $215,200 and $299,578, respectively.

Equipment decreased $2.1 million due to the reclassification of certain assets to intangible assets as result of the implementation of GASB No. 51, noted in Note K.

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 as indicated below for the Strategic Technology Advancements for the Retirement of Tomorrow (START) project.

Software consists of the following:

As of June 30, 2010 and 2009

	2010	2009
Software, at cost	$6,478,561	$2,259,480
Less Accumulated Amortization	(993,788)	(345,931)
	$5,484,773	$1,913,549

Amortization expense for the fiscal years ended June 30, 2010 and 2009 amounted to $647,857 and $225,948, respectively.

In fiscal 2007, KRS initiated the START project. It is anticipated that START will be completed in its entirety in fiscal 2013. 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 INVESTMENTS

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. The transfer of funds involved a commingling with the pension fund which was in violation of Internal Revenue Code Sections 401 and 420. However, KRS voluntarily self-corrected the violation in accordance with Revenue Procedure 2006-27 of the Internal Revenue Bulletin 2006-22, page 945, "Employee Plans Compliance Resolution System (EPCRS)", and Section 1101 of the Pension Protection Act of 2006. The self-correction process involved a Letter of Direction sent to Northern Trust (the custodial bank of KRS) to reverse (and to correct the commingling of funds) the loan in the investment accounts.

Subsequent to the loan and purchase, the real property was valued by appraisal from $135,000 to $290,000. The range of appraisal values was based upon considerations of zoning classifications, site preparations and improvements, and other matters. KRS decided to reflect the alternative investment at the lowest appraisal value for the property in accordance with Governmental Accounting Standards Board (GASB) Statement No. 43 "Financial Reporting for Postemployment Benefit Plans other than Pension Plans", paragraphs 22 and 92 , and in accordance with the Principle of Conservatism of Generally Accepted Accounting Principles. 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 was uncertain whether it would 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, which was the investment's carrying value since the date of the loan. As a result, the unrealized loss amounted to $565,000 ($700,000 - $135,000), which was included in the Combined Statement of Changes in Plan Net Assets – Insurance Fund for the 2006 fiscal year.

On June 11, 2009, the property at 1300 Louisville Road, along with Building B (a part of the Perimeter Park Complex purchased in 1998) was sold for a combined sale price of $3,200,000 to the Commonwealth of Kentucky. The two properties were appraised individually on December 15, 2008, by the Forrestal Group, Inc., of Evansville, Indiana. The property at 1300 Louisville Road appraised for $295,000, and Building B appraised for $2,725,000.

On September 15, 2009, the management of KRS Perimeter Park West, Inc. repaid $700,000 out of the proceeds from the sale of these two properties to the health insurance fund of KRS to repay the aforementioned loan. In addition to the repayment of the principal, interest in the amount of $127,298 has been paid. The simple interest was computed at 5.04% and the period of 1,317 days outstanding (February 6, 2006, to September 15, 2009) was used for the calculation. Interest in the amount of $119,855 was accrued as a receivable as of June 30, 2009. In addition, KRS reimbursed KRS Perimeter Park West, Inc. for expenses it incurred as part of the purchase of the real property at 1300 Louisville Road; the amount reimbursed totaled $52,503.

The Kentucky Finance and Administration Cabinet, Office of Policy and Audit, completed a comprehensive audit of the 1300 Louisville Road property purchased and issued a report in July 2009. KRS has fully implemented the recommendations contained in the report.

NOTE M—ACTUARIAL VALUATION

The provisions of Governmental Accounting Standards Board (GASB) Statement 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 following information from the Notes to the Required Supplementary Information to the Notes to the Financial Statements:

Pension Funds

	Non-Hazardous	Hazardous
Valuation Date	June 30, 2010	June 30, 2010
Actuarial Cost Method	Entry Age	Entry Age
Amortization Method	Level Percent Closed	Level Percent Closed
Remaining Amortization Period	27 Years	27 Years
Asset Valuation Method	5-year Smoothed Market	5-year Smoothed Market
Actuarial Assumptions:		
Investment Return*	7.75%	7.75%
**Includes Price Inflation at*	3.5%	3.5%
Projected Salary Increases**	5.0% - 17.0%	5.0% - 21.0%
Cost of Living Adjustment	None	None
***Includes Wage Inflation at*	4.5%	4.5%

Insurance Funds***

	Non-Hazardous	Hazardous
Valuation Date	June 30, 2010	June 30, 2010
Actuarial Cost Method	Entry Age	Entry Age
Amortization Method	Level Percent Closed	Level Percent Closed
Remaining Amortization Period	27 Years	27 Years
Asset Valuation Method	5-year Smoothed Market	5-year Smoothed Market
Medical Trend Assumption (Pre-Medicare)	10.5% - 5.00%	10.5% - 5.00%
Medical Trend Assumption (Post-Medicare)	9.0%-5.0%	9.0%-5.0%
Year of Ultimate Trend	2018	2018
Actuarial Assumptions:		
Investment Rate of Return*	4.50%**	7.75%
**Includes Price Inflation at*	3.5%	3.5%

***The actuarial investment rate of return for developing insurance liabilities and contribution rates is 4.5% for KERS non-hazardous and SPRS. The lower rate is required under the parameters set by the Governmental Accounting Standards Board Statement No. 43 and No. 45 given the lack of pre-funding of insurance benefits.*

****The Actuarial Valuation for the Insurance Fund involves estimates of the value of reported amounts and assumptions about the probability of future events. Actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Calculations are based on the benefits provided under the terms of insurance plan in effect at the time of each valuation and on the pattern of varying costs between the employer and non members as of the valuation date. Actuarial calculation of the insurance plan reflect a long term perspective.*

KRS had the following Unfunded Actuarial Accrued Liabilities as of June 30. 2010 and 2009:

Pension Funds	2010	2009
Kentucky Employees Retirement System (Non-Hazardous)	$6,794,579,504	$5,863,938,167
Kentucky Employees Retirement System (Hazardous)	185,420,442	171,908,494
County Employees Retirement System (Non-Hazardous)	2,912,164,989	2,262,123,521
County Employees Retirement System (Hazardous)	922,687,519	826,957,060
State Police Retirement System	307,867,514	272,361,879
Total Pension Funds	$11,122,719,968	$9,397,289,121
Insurance Funds	**2010**	**2009**
Kentucky Employees Retirement System (Non-Hazardous)	$3,994,794,413	$3,973,152,991
Kentucky Employees Retirement System (Hazardous)	178,870,233	189,497,578
County Employees Retirement System (Non-Hazardous)	1,865,301,581	1,853,754,249
County Employees Retirement System (Hazardous)	981,933,446	942,417,481
State Police Retirement System	313,785,412	240,504,494
Total Insurance Funds	7,334,685,085	7,199,326,793
Total Unfunded Actuarial Accrued Liability	$18,457,405,053	$16,596,615,914

The following is the Schedule of Funding Progress for the fiscal year ended June 30, 2010:

Pension Funds:

	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age Normal	Percent Funded	Covered Payroll	Unfunded AAL as a % of Covered Payroll
Kentucky Employees Retirement System (Non-Hazardous)	$4,210,215,585	$11,004,795,089	38.3%	$1,815,146,388	374.3%
Kentucky Employees Retirement System (Hazardous)	502,729,009	688,149,451	73.1	143,557,944	129.2
County Employees Retirement System (Non-Hazardous)	5,546,857,291	8,459,022,280	65.6	2,236,855,380	130.2
County Employees Retirement System (Hazardous)	1,749,464,388	2,672,151,907	65.5	466,548,660	197.8
State Police Retirement System	304,577,292	612,444,806	49.7	51,506,712	597.7
Total Pension Funds	$12,313,843,565	$23,436.563.533	52.5%	$4,713,615,084	235.9%

Insurance Fund:

	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age Normal	Percent Funded	Covered Payroll	Unfunded AAL as a % of Covered Payroll
Kentucky Employees Retirement System (Non-Hazardous)	$471,341,628	$4,466,136,041	10.6%	1,815,146,388	220.1%
Kentucky Employees Retirement System (Hazardous)	314,427,296	493,297,529	63.7	143,557,944	124.6
County Employees Retirement System (Non-Hazardous)	1,293,038,593	3,158,340,174	40.9	2,236,855,380	83.4
County Employees Retirement System (Hazardous)	692,769,770	1,674,703,216	41.4	466,548,660	210.5
State Police Retirement System	121,175,083	434,960,495	27.9	51,506,712	609.2
Total Insurance Fund	$2,892,752,370	$10,227,437,455	28.3	$4,713,615,084	155.6
Totals	$15,206,595,935	$33,664,000,988	45.2%	$9,427,230,168	195.8%

The Schedule of Funding Progress for the Pension Funds is on pages 72 through 74. The Schedule of Funding Progress for the Insurance Funds is on pages 74 through 76.

NOTE N—HOUSE BILL 1 PENSION REFORM

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

Employee contributions for non-hazardous employees who began participating with KRS on, or after, September 1, 2008, contributed a total of 6% of all their creditable compensation to KRS. Five percent of this contribution was deposited to the individual employee's account, while the other 1% was 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 began participating with KRS on, or after, September 1, 2008, contributed 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 401(h) account. Interest paid each June on these members' accounts is set at a rate of 2.5%. If a member terminates his/her employment and applies to take a refund, the member is 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 is forfeited.

Employer contribution rates for KERS and SPRS for fiscal 2010 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 2010 were enacted by House Bill 1 in the 2008 Special Legislative Session. The Employer contribution rates were established as follows (effective July 1, 2009):

KERS-Non Hazardous	11.61%
KERS-Hazardous	24.69%
CERS-Non Hazardous	16.16%
CERS-Hazardous	32.97%
SPRS	33.08%

Although the majority of changes in this legislation only impacted new hires on, or after, September 1, 2008, there were some changes that affected 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. The General Assembly may also reduce or suspend the annual COLA.
- 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 Option was only available for those employees who retired 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, cannot 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 are used to reduce the unfunded actuarial liability.

NOTE O – MEDICARE PRESCRIPTION DRUG PLAN

In fiscal 2009, Kentucky Retirement Systems submitted an application to the Centers for Medicare & Medicaid Services, of the Department of Health & Human Services, to enter into a contract to offer a Medicare Prescription Drug Plan (PDP), as described in the Medicare Prescription Drug Benefit Final Rule published in the Federal Register on January 28, 2005 (70 Fed. Reg. 4194). As part of the application process, KRS was required to establish a segregated Insolvency Account in the amount of $100,000; this account must retain a minimum balance of $100,000. The account consists of cash and/or cash equivalents and is invested on a daily basis. On February 19, 2009, KRS established the KRS Insurance Prescription Drug Fund at its custodial bank (Northern Trust). As of June 30, 2010 and 2009, the Insolvency Account amounted to $100,446 and $100,000, respectively.

NOTE P – REIMBURSEMENT OF RETIRED – REEMPLOYED HEALTH INSURANCE

As a result of the passage of House Bill 1 on September 1, 2008, if a retiree is reemployed in a regular full time position and has chosen health insurance coverage through KRS, the 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. As of June 30, 2010 and 2009, the reimbursement totaled $2,032,659 and $206,859, respectively.

NOTE Q – LOUISVILLE/JEFFERSON COUNTY METRO FIREFIGHTERS

Firefighter employees of Louisville/Jefferson County Metro Government were awarded a total of $28,440,159 for back- pay. Of that total, $28,425,232, was determined to be the amount of creditable compensation. The total contributions owed to KRS were calculated by applying the contribution rate in effect for each fiscal year awarded (fiscal 1986 to fiscal 2009) while considering the appropriate participation status, hazardous or non-hazardous, of each employee. These calculations established that the total employer contribution owed is $5,113,511, and the total employee contribution owed is $2,083,310, for a total of $7,196,821. This amount was received on July 27, 2010.

KRS also calculated the impact of the increased final compensation caused by the retroactive benefits owed to those firefighters who have already initiated their retirement benefits. KRS will be required to pay retroactive benefit payments totaling $6,221,219, reflecting additional benefits due to the increase in final compensation. This liability was properly accounted for in fiscal 2011. The liability was paid on August 22, 2010, by issuance of benefit payments to the individual firefighter members. Kentucky Revised Statute 61.675(3)(b) requires that KRS collect interest on unmade or delinquent contributions. The interest owed by the Metro Government, as calculated by KRS' actuaries, amounted to $12,020,731. Therefore, the total amount due KRS is $19,415,669. As stated earlier, $7,196,821 has been received.

NOTE R – SUBSEQUENT EVENTS

Management has evaluated subsequent events for accounting and disclosure requirements through November 18, 2010, the date that the financial statements were available to be issued.

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, 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	9,485,939,277	4,089,156,818	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
June 30, 2009**	4,794,611,365	10,658,549,532	5,863,938,167	45.0	1,754,412,912	334.2
June 30, 2010**	4,210,215,585	11,004,795,089	6,794,579,504	38.3	1,815,146,388	374.3
Hazardous						
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	438,994,257	33,705,595	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	558,992,329	91,704,520	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
June 30, 2009**	502,503,287	674,411,781	171,908,494	74.5	146,043,576	117.7
June 30, 2010**	502,729,009	688,149,451	185,420,442	73.1	143,557,944	129.2
Total						
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	8,018,069,096	2,034,094,688	74.6	1,787,594,376	113.8
June 30, 2006**	5,822,070,515	9,503,482,150	3,681,411,635	61.3	1,840,978,097	200.0
June 30, 2007**	5,864,070,268	10,044,931,606	4,180,861,338	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
June 30, 2009**	5,297,114,652	11,332,961,313	6,035,846,661	46.7	1,900,456,488	317.6
June 30, 2010**	4,712,944,594	11,692,944,540	6,979,999,946	40.3	1,958. 704,332	356.4

***Covered payroll was actuarially computed.*

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, 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	5,385,156,690	325,948,003	94.0	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
June 30, 2009**	5,650,789,991	7,912,913,512	2,262,123,521	71.4	2,183,611,848	103.6
June 30, 2010**	5,546,857,291	8,459,022,280	2,912,164,9898	65.6	2,236,855,380	130.2
Hazardous						
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**	1,639,288,924	2,208,736,179	569,447,255	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
June 30, 2009**	1,751,487,540	2,578,444,600	826,957,060	67.9	469,315,464	176.2
June 30, 2010**	1,749, 464,388	2,672,151,907	922,687,519	65.5	466,548,660	197.8
Total						
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	7,180,774,025	669,212,315	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
June 30, 2009**	7,402,277,531	10,491,358,112	3,089,080,581	70.6	2,652,927,312	116.4
June 30, 2010**	7,296,321,679	11,131,174,187	3,834,852,508	65.5	2,703,404,040	141.9

***Covered payroll was actuarially computed.*

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, 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
June 30, 2009**	329,966,989	602,328,868	272,361,879	54.8	51,660,396	527.2
June 30, 2010**	304,577,292	612,444,806	307,867,514	49.7	51,506,712	597,7

***Covered payroll was actuarially computed.*

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, 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
June 30, 2009**	123,526,647	364,031,141	240,504,494	33.9	51,660,396	465.5
June 30, 2010**	121,175,083	434,960,495	313,785,412	27.9	51,506,712	609.2

***Covered payroll was actuarially computed.*

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, 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
June 30, 2009**	534,172,580	4,507,325,571	3,973,152,991	11.9	1,754,412,912	226.5
June 30, 2010**	471,341,628	4,466,136,041	3,994,794,413	10.6	1,815,146,388	220.1
Hazardous						
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**	212,833,318	621,237,856	408,404,538	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
June 30, 2009**	301,634,592	491,132,170	189,497,578	61.4	146,043,576	129.8
June 30, 2010**	314,427,296	493,297,529	178,870,233	63.7	143,557,944	124.6
Total						
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	1,840,978,097	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
June 30, 2009**	835,807,172	4,998,457,741	4,162,650,569	16.7	1,900,456,488	219.0
June 30, 2010**	785,768,924	4,959,433,570	4,173,664,646	15.8	1,958,704,332	213.1

***Covered payroll was actuarially computed.*

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, 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
June 30, 2009**	1,216,631,769	3,070,386,018	1,853,754,249	39.6	2,183,611,848	84.9
June 30, 2010*	1,293,038,593	3,158,340,174	1,865,301,581	40.9	2,236,855,380	83.4
Hazardous						
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
June 30, 2009**	651,130,782	1,593,548,263	942,417,481	40.9	469,315,464	200.8
June 30, 2010*	692,769,770	1,674,703,216	981,933,446	41.4	466,548,660	210.5
Total						
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
June 30, 2009**	1,867,762,551	4,663,934,281	2,796,171,730	40.0	2,652,927,312	105.4
June 30, 2010*	1,985,808,363	4,833,043,390	2,847,235,027	41.1	2,703,404,040	105.3

***Covered payroll was actuarially computed.*

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, 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
June 30, 2009	294,495,010	112,383,083	--	38.2
June 30, 2010	348,494,678	144,050,560		41.3
Insurance				
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	219,768,964	64,014,332	10,744,049	34.0
June 30, 2008	558,745,820	56,744,942	6,633,538	11.3
June 30, 2009	362,707,378	74,542,932	8,167,982	22.8
June 30, 2010	376,556,187	93,976,917	8,550,914	27.2
Total				
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	--	32.7
June 30, 2007	396,543,070	152,263,009	10,744,049	41.1
June 30, 2008	823,488,805	161,400,159	6,633,538	20.4
June 30, 2009	657,202,388	186,926,015	8,167,982	29.7
June 30, 2010	725,050,865	238,027,477	8,550,914	34.0

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, 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
June 30, 2009	15,708,254	15,843,289	--	100.9
June 30, 2010	17,814,630	17,658,058		99.1
Insurance				
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
June 30, 2009	34,670,467	20,807,204	186,081	60.6
June 30, 2010	35,045,278	21,921,535	319,059	63.5
Total				
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	75.5
June 30, 2008	65,362,270	37,254,420	73,891	57.1
June 30, 2009	50,378,721	36,650,493	186,081	73.1
June 30, 2010	52,859,908	39,579,593	319,059	75.5

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, 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
June 30, 2009	161,097,151	179,284,551	--	111.3
June 30, 2010	186,724,383	207,075,842		110.9
Insurance				
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
June 30, 2009	264,733,532	123,761,611	7,623,628	49.6
June 30, 2010	266,331,326	166,607,097	9,156,991	66.0
Total				
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
June 30, 2009	425,830,683	303,046,162	7,623,628	73.0
June 30, 2010	453,055,709	373,682,939	9,156,991	84.5

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, 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
June 30, 2009	69,056,365	78,151,677	--	113.2
June 30, 2010	76,390,669	82,887,128		108.5
Insurance				
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
June 30, 2009	126,757,348	70,785,241	627,938	56.3
June 30, 2010	129,227,449	83,042,875	1,493,440	65.4
Total				
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	77.9
June 30, 2008	232,805,702	162,267,934	419,774	70.0
June 30, 2009	195,813,713	148,936,918	627,938	76.4
June 30, 2010	205,618,118	165,930,003	1,493,440	81.4

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, 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
June 30, 2009	15,951,841	8,186,259	--	51.3
June 30, 2010	18,764,941	9,489,399		50.6
Insurance				
June 30, 2003	$9,443,588	$9,654,313	$ --	102.2%
June 30, 2004	8,434,834	8,455,498	--	100.2
June 30, 2005	8,608,536	6,631,031	--	77.0
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
June 30, 2009	29,324,666	7,413,552	229,240	26.1
June 30, 2010	30,302,151	8,643,112	273,684	29.4
Total				
June 30, 2003	$9,443,588	$7,634,252	$ --	102.0%
June 30, 2004	9,610,545	9,608,250	--	100.0
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	53.6
June 30, 2008	57,293,225	14,772,506	183,564	26.1
June 30, 2009	45,276,507	15,599,811	229,240	35.0
June 30, 2010	49,067,092	18,132,511	273,684	37.5

ADDITIONAL SUPPORTING SCHEDULES

Schedule of Administrative Expenses

For the Fiscal Years Ended June 30, 2010 and 2009

(Dollars in Thousands)	2010	2009
Personal Services		
Salaries and Per Diem	$13,678	$13,323
Fringe Benefits	4,407	3,964
Tuition Assistance	27	62
Total Personal Services	18,112	17,349
Contractual Services		
Actuarial	251	263
Audit	58	49
Legal	308	231
Medical	273	298
Contractual	719	755
Total Contractual Services	1,609	1,596
Communication		
Printing	302	433
Telephone	143	170
Postage	577	655
Travel	163	166
Total Communication	1,185	1,424
Rentals		
Office Space	1,106	1,057
Equipment	91	97
Total Rentals	1,197	1,154
Miscellaneous		
Utilities	195	191
Supplies	156	220
Insurance	80	80
Maintenance	4	11
Other	1,447	1,418
Total Miscellaneous	1,882	1,920
Depreciation/Amortization	863	525
Total Pension Fund Administrative Expense	24,848	23,968
Healthcare Administrative Expenses	9,703	8,869
Total Administrative Expenses	$34,551	$32,837

Schedule of Investment Expenses

For the Fiscal Years Ended June 30, 2010 and 2009

(Dollars in Thousands)	2010	2009
Pension Funds		
Security Lending Fees		
Broker Rebates	$1,755	$19,498
Lending Agent Fees	1,445	3,683
Total Security Lending	3,200	23,181
Common Stock Commissions	7,374	8,342
Contractual Services		
Investment Management	33,492	12,045
Security Custody	155	208
Investment Consultant	880	621
Investment Related Travel	29	32
Software	125	201
Miscellaneous	10	5
Legal Counsel	736	189
Total Contractual Services	35,427	13,301
Insurance Funds		
Security Lending Fees		
Broker Rebates	71	3,951
Lending Agent Fees	306	695
Total Security Lending	377	4,646
Common Stock Commissions	1,200	929
Contractual Services		
Investment Management	5,007	1,133
Security Custody	32	42
Investment Consultant	270	120
Investment Related Travel	6	7
Software	2	1
Miscellaneous	26	41
Legal Counsel	22	39
Total Contractual Services	5,365	1,383
Total Investment Expenses	$52,943	$51,782

Schedule of Professional Consultant Fees

For the Fiscal Years Ended June 30, 2010 and 2009

(Dollars in Thousands)	2010	2009
Actuarial Services	$251	$263
Medical Review Services	273	298
Audit Services	58	49
Legal Counsel	308	231
Compliance		105
Workflow	392	433
Healthcare	166	82
Banking	47	51
Human Resource		26
Miscellaneous	114	58
Total	$1,609	$1,596

DEAN | DORTON | FORD PSC

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, 2010, and have issued our report thereon dated November 18, 2010. 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 deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 and 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.

Dean Dorton Ford PSC

November 18, 2010
Lexington, Kentucky

KENTUCKY RETIREMENT SYSTEMS

Schedule of Finding and Response

CURRENT YEAR

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

Investments

INVESTMENT SUMMARY

A New Horizon

The prior fiscal year was marked by a global financial crisis that resulted in the largest credit contraction experienced since the Great Depression. Governments were forced to prop up financial markets, having to use the phrase "with the full faith and credit" many times, and print large sums of currency to fund economic stimulus programs in order to avoid a complete melt-down and ensure that credit was available.

This fiscal year has brought about a much needed reversal to that experienced just the year before. The equity markets that began their surge in late March 2009 continued their strength through much of the 2010 fiscal year, while bond markets also were solid.

Both domestic and international equity investors enjoyed markets that seemed poised for upward movement at every whisper of good, or in some cases, less bad than expected, economic data. However, despite the S&P 1500 and the MSCI ACWI Ex-US equity indices being up 15.58% and 10.87% for the fiscal year, respectively; a few bumps along the way were felt. Most notably was the sting of May that shed 8% off domestic equities and nearly 11% off international stocks, as concerns regarding the sovereign debt crisis in the Euro zone came to light. In addition, unemployment continued to remain stubbornly high despite improving GDP growth rates.

U.S. bond markets were good performers throughout the fiscal year with ten months of positive performance. Both investment grade corporate credit and high yield corporate credit performed well during the first half of the 2010 fiscal year. Due to a slowing U.S. economy, weakening job numbers, and issues arising in the Euro zone, U.S. Treasuries performed well in the latter half. The volatility still inherent in the equity markets, perhaps combined with the bad taste left in the mouths of investors from prior year, helped to contribute to a net inflow of capital into the bond market. The strong demand for bonds caused prices to rise spurring the Barclays Aggregate Index to return 9.5% for the period and yields to depress with the ten-year treasury now below 3%.

The economy which in early 2009 seemed to be in a spiral, collapsing at a 6% annual rate during the first quarter, has turned and is now experiencing slow to moderate growth. However, some are concerned as markets have trended sideways for some time, and confidence is beginning to erode. The Federal Reserve Bank recently described the economy to Congress as "unusually uncertain" but believed that a double-dip recession was not an imminent threat. However, the hope of the consumer stepping in to continue the turnaround is in question. As economic stimulus through transfer payments, direct government spending, and financial asset purchases slow, the country will begin to experience a gradual fiscal and monetary tightening, a great concern for a struggling economy.

Some argue that the experience of the last couple of years is reshaping America and creating a "new normal"; one of diminished expectations, where households, businesses, and governments must de-lever and shrink the debt on their respective balance sheets. Lower consumption rates will be born from the act of de-leveraging, and thus will result in slower economic growth, and higher structural unemployment. This appears to be taking shape as America has already shifted to be a nation of net savers. A new horizon may be emerging as the country goes back to the basics.

KRS Investment Summary

The Board of Trustees is charged with the responsibility of investing the Systems' assets to provide for the benefits that must be paid to members of the Systems. To achieve that goal the Board follows a policy of preserving capital, while seeking means of enhancing revenues and protecting against undue losses in any particular investment area. The Board recognizes its fiduciary duty not only to invest the funds in formal compliance with the Prudent Person Rule, but also to manage the funds in continued recognition of the basic long term nature of the Systems. In carrying out their fiduciary duties, the Trustees have set forth clearly defined investment policies, objectives and strategies for both the pension and insurance portfolios.

Target Allocations (%) for Pension & Insurance Funds

The Board approved a new target asset allocation, beginning July 1, 2007. The following tables depict the Board's investment policy as of June 30, 2010.

Pension Fund Allocations

Asset Class	Target	Actual
U.S. Equity	30.0%	30.3%
International Equity	20.0	20.2
Fixed Income	25.0	22.1
Opportunistic Fixed	0.0	1.6
TIPS	10.0	9.4
Alternatives	12.0	14.2
Absolute Return	0.0	0.7
Currency Overlay	0.0	0.6
Cash	3.0	0.9

Insurance Fund Allocations

Asset Class	Target	Actual
U.S. Equity	40.0%	41.4%
International Equity	30.0	24.8
TIPS	12.0	11.6
Alternatives	15.0	9.1
Absolute Return	0.0	1.2
Currency Overlay	0.0	1.0
Cash	3.0	10.9

What are Alternative investments?

Assets like Private Equity and Real Estate

What does TIPS stand for?

Treasury Inflation Protected Securities

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.

Diversifying Assets & Rebalancing Allocations

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

Proper implementation of the investment policy requires that a periodic adjustment of assets be made. Such rebalancing is necessary to reflect sizeable cash flows and performance imbalances among asset classes and investment advisors. KRS' rebalancing policies call for an immediate rebalancing to within its allocation ranges, if an asset class exceeds or falls below its target allocation by 10%. Both the Pension and Insurance (with the exception of cash) portfolios remained within this established range in fiscal 2010.

Performance Review Procedures

At least once each quarter the Investment Committee, on behalf of the Board of Trustees, reviews portfolio performance to ensure compliance with the Statement of Investment Policy. Additionally, the Audit Department performs periodic tests to assure compliance with the Investment Policy. This responsibility will remain that of the Compliance Officer; however, that position was reassigned to report to the Audit Department beginning in the Fall of 2009.

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. KRS' investment consultants are R.V. Kuhns & Associates, Strategic Investment Solutions and ORG Portfolio Management.

Statement of Investment Policies

View the Pension Fund policy by visiting www.kyret.ky.gov/investments/policies/pension_fund_investment_policy.pdf

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

Portfolios

Due to the downturn in the financial markets, the Insurance Fund's cash portfolio was held above policy range as a means of downside protection because the fund has no dedicated allocation to the core fixed income space. This action was approved by the Investment Committee.

RVKuhns
& ASSOCIATES, INC.

September 23, 2010

Board of Trustees
Kentucky Retirement System
c/o Robert M. Burnside, MS
Executive Director
Perimeter Park West
1260 Louisville Road
Frankfort, KY 40601

Dear Board Members:

Economic Review

The first ten months of the fiscal year ending June 30, 2010 experienced a global recovery as government economic stimulus programs and low interest rates provided comfort to investors in most regions and asset classes. The markets continued to climb from the March 9, 2009 bottom, but lost ground leading into June 30 as fears mounted over the Greek sovereign debt crisis, the cessation of the stimulus packages, and lowered economic growth prospects.

Domestic Economic Indicators As of June 30, 2010

Indicator	Measure	June 2010	June 2009	Yr/Yr
U.s. Real GDP YOY Change	Business Activity	2.98%	-4.11%	▲
Unemployment Rate	Business Activity	9.50%	9.50%	--
Breakeven Inflation	Inflation Expectation	1.84%	1.77%	▲
10 Year Treasury Note Yield	Interest Rates	2.97%	3.53%	▼
Leading Economic Index	Aggregate Indicator	109.78	101.10	▲
Coincident Economic Index	Aggregate Indicator	101.40	99.70	▲
Consumer Confidence Index	Confidence	52.90	49.30	▲

Economic Indicator Commentary

- *National Unemployment Rate fell slightly in June, ending at 9.50%.*
- *Breakeven Inflation decreased month-over-month and quarter-over-quarter but is still up since this time last year.*
- *The yield on the 10 year treasury note fell by 0.34% from the previous month and 0.56% from the previous year.*
- *Leading Economic Index has been rising since April 2009 after falling for twenty months since its peak in July 2007.*
- *Coincident Economic Index continues to show slow expansion of economic activity through June.*
- *Consumer Confidence Index has increased to 52.90 in June from 49.30 last year.*

U.S. Gross Domestic Product ("GDP") increased in every quarter of the fiscal year beginning July 1, 2009 as the country recovered from the recession experienced during the prior fiscal year. [1] In fact, the National Bureau of Economic Research recently issued a statement that the U.S. recession ended in June 2009. Despite the economic growth and end of the recession, the unemployment rate remained high but steady throughout the fiscal year. It climbed as high as 10.1% before settling back to 9.5% by the end of the fiscal year.[2] Inflation, as measured by the Consumer Price Index, returned 1.05% for the fiscal year, primarily from a 0.78% rise between January 2010 and March 2010. The U.S. Federal Reserve maintained its 0% to 0.25% policy with no indications of shifting its policy any time soon.

Capital Markets Review

The fiscal year began with most capital markets continuing their ascent from the low point of March 9, 2009. Most risk-oriented securities generated strong returns for the year ending June 30, 2010. Top performing broad asset classes included REITS (+55.5%), commercial mortgage-backed securities (+30.5%), U.S. high yield bonds (+26.8%), U.S. mid cap stocks (+25.1 %), and emerging market equities (+23.5%), The inflow of capital from global governments and in particular the stimulus packages in the U.S. through the Term Asset-Backed Loan Facility (TALF) and Public-Private Investment Program (PIPP), helped backstop and boost credit markets.

While the Fed maintained its low interest rate policy in tandem with the stimulus programs, investors felt as though impending inflation would lead the Fed to begin raising rates. Therefore, investors sold off longer-term bonds. The U.S. Treasury yield curve was the steepest it had ever been in history by March 31, 2010 with spread between 2-Year and 10-Year Treasury Notes reaching 282 basis points. However, the combination of ending the stimulus packages in early 2010, concerns about the Greek sovereign debt crisis, and a slowdown in growth in the U.S. and China in May 2010 sent investors back into Treasurys. Globally, stock markets gave back all the 2010 gains through April and ended the first six months of 2010 with losses. The table below shows the returns earned by the major markets.

One-Year Trailing Period Performance through June 30, 2010

Index	Description	Return
S&P 500	Large Cap U.S. Equity	14.4%
Russell Mid Cap	Mid Cap U.S. Equity	25.1%
Russell 2000	Small Cap U.S. Equity	21.5%
MSCI EAFE (Gross)	Large Cap Inti Equity	6.4%
MSCI EAFE SC (Gross)	Small Cap Inti Equity	12.6%
MSCI EM (Gross)	Emerging Mkt Equity	23 .5%
BC US Agg Bond	U.S. Invrnt Grade Bond	9.5%
BC US Treasury	U.S. Treasury Bonds	6.7%
BC US Corp High Yield	U.S. High Yield Bonds	26.8%
Wishire REIT	U.S. Real Estate Inv Trust	55.5%
BofA ML 3 Mo US T-Bill	U.S. Cash Equivalent	0.2%

[1] *Based on data provided by the U.S. Department of Commerce, Bureau of Economic Analysis*
[2] *Based on data provided by the U.S. Department of Labor*

Pension Plan Review

The market value of the Kentucky Retirement Systems (Systems) Pension Plan assets increased from $9.8 billion on June 30, 2009 to $10.5 billion on June 30, 2010. The Fund's investments collectively returned an impressive 15.8% return for the fiscal year compared to the 12.3% return earned by its target allocation benchmark. The Fund's three-year annualized return of -2.8% was in line with its target allocation benchmark of -2.8%. The Fund's five-year annualized return of 3.0% outperformed the target allocation benchmark's return of 2.7%. The current actuarial assumed rate of return is 7.75%, which represents the Fund's long-term return goal.

Kentucky Retirement Systems-Pension Plan

Asset Allocation vs. Target Allocation

Asset Class	Market Value ($)	Allocation (%)	Target (%)
Domestic Equity*	3,244,579,934	31.2	30.0
International Equity	2,105,669,867	20.2	20.0
Fixed Income	2,486,231,299	23.9	25.0
Real Return	979,195,798	9.4	10.0
Real Estate	58,060,488	0.6	5.0
Private Equity	1,428,739,442	13.7	7.0
Cash Equivalent	99,090,390	1.0	3.0
Total Fund Ex-Cash Overlay	10,401,567,218	100.0	100.0
Total	10,469,099,555	100.0	100.0

**The Absolute Return Composite is included in the Domestic Equity Allocation.*

The Systems' current pension plan investments are diversified across all segments of the U.S. and international equity markets (both developed and emerging). The fixed income portfolio primarily consists of U.S. investment grade investments with a small allocation to high yield securities. The Systems also invests in real return assets (currently U.S. Treasury Inflation Protection Securities or TIPS), real estate, and private equity. As of June 30, 2010, the portfolio's asset allocation was within an acceptable range compared to the target allocation. The Systems completed a small initial investment (0.7% of total assets) to an absolute return manager (hedge fund) during the fiscal year, which complied with a Board decision to allocate up to 5.0% of the plan to absolute return strategies. Absolute return strategies are currently included in the domestic equity allocation, but will be shown as a separate allocation pursuant to a newly approved target asset allocation.

As of June 30, 2010, the allocation to private equity was almost double its target allocation and real estate was below its target allocation. The current deviations to the target will be addressed by a new target asset allocation and brought closer to the new target allocations in a prudent manner over time.

Insurance Plan Review

The market value of the Kentucky Retirement Systems Insurance Plan assets increased from $2.0 billion on June 30, 2009 to $2.4 billion on June 30, 2010. The Fund's investments returned 15.5% during the same period compared to 13.5% for its target allocation benchmark. The Fund's three-year annualized return of -6.5% exceeded its target allocation benchmark of -6.9%. The Fund's five-year annualized return of 1.8% exceeded its target allocation benchmark of 1.4%. The current actuarial assumed rate of return is 7.75%, which represents the Fund's long-term return goal.

Kentucky Retirement Systems-Insurance Plan

Asset Allocation vs. Target Allocation

Asset Class	Market Value ($)	Allocation (%)	Target (%)
Domestic Equity*	1,023,698,280	43.3	40.0
International Equity	595,703,885	25.9	30.0
Fixed Income	279,105,028	10.0	12.0
Real Estate	5,234,220	0.1	5.0
Private Equity	212,527,609	7.2	10.0
Cash Equivalent	262,065,644	13.5	3.0
Total Fund Ex-Cash Overlay	2,378,334,666	100.0	100.0
Total	2,402,999,116	100.0	100.0

**The Absolute Return Composite is included in the Domestic Equity Allocation.*

The Systems' Insurance plan investments are diversified across global equity markets, U.S. fixed income, private equity, and a small initial allocation to real estate. As of June 30, 2010, the portfolio was overweight domestic equity and cash equivalents and underweight all other asset classes. In particular, the Plan's overweight to domestic equity included a small initial investment (1.2% of total assets) in an absolute return manager (hedge fund) during the fiscal year, which complied with a Board decision to allocate up to 5.0% of the plan to absolute return strategies. Absolute return strategies are currently included in the domestic equity allocation, but will be shown as a separate allocation pursuant to a newly approved target asset allocation. It is important to note that the Systems held an overweight position to cash equivalents compared to its target while maintaining an underweight position to non-U.S. equity, private equity and real estate. The current deviations to the target will be addressed by a new target asset allocation and brought closer to the new target allocations in a prudent manner over time.

Investment Manager Review

Pension Plan

INVESCO's Structured Core Equity portfolio posted a return of 10.4% for the fiscal year, which was strong on an absolute basis but fell below the S&P 500 Index's return of 14.4%. The Northern Trust Structured Small Cap portfolio posted the best return among the three domestic equity portfolios with a return of 24.1 %, which beat the Russell 2000 Index return of 21.5%. The internally managed S&P 1500 Index portfolio underperformed its benchmark with a return of 14.5% vs. the S&P 1500 Comp Index return of 15.6%.

The relative performance among the international equity managers was mixed, but collectively the total international equity portfolio outperformed the MSCI All Country World (ACW) ex US Investable Market Index (Gross) for the fiscal year (12.1% vs. 11.9%). The Boston Company Non-US Value Equity portfolio outperformed the MSCI World ex US Index (7.6% vs. 7.5%) as did the Pyramis International Growth portfolio (8.5% vs. 7.5%). Both managers expanded their investment universe to include Canadian companies. The core portfolio was expanded after the start of the fiscal year to include Artio Global Investors to complement the existing BlackRock Institutional Trust Company (BTC)3. Therefore, only BlackRock posted a full year's return to observe, which fell slightly below its new benchmark, the MSCI ACW ex US Index, for the year (10.5% vs. 10.9%). BTC's original mandate changed from developed non-US markets only to include emerging markets in June 2009. The international small capitalization equity fund managed by Northern Trust ended the fiscal year below its benchmark, the MSCI ACW ex US Small Cap Index, but earned a very strong absolute return (19.8% vs. 20.3%). The Plan's two emerging market equity portfolios managed by Aberdeen Asset Management and Wellington Management generated very different and mixed returns for the year. Aberdeen earned an impressive 33.7% relative to the MSCI Emerging Markets Index return of 23.5%, but Wellington only earned 18.6% over the same fiscal year period.

The Systems made some improvements to the fixed income portfolio during the fiscal year. The investment grade assets managed by Pyramis and RW Baird were transitioned to the PIMCO Core Fixed Income portfolio over several months. PIMCO has not earned a full fiscal year return but the return through June 30 was 4.1 % compared to 5.0% for the Barclays Capital US Aggregate Bond Index since the inception of the initial funding in November 2009. Both the internally managed TIPS portfolio (9.7%) and the Weaver Barksdale TIPS portfolio (9.6%) outperformed the 9.5% return for the Barclays Capital US TIPS Index for the fiscal year. The Systems' investment in Commerce Street Income Partners has outperformed its benchmark, the Barclays Capital US Corporate High Yield Index by a wide margin over the trailing 12-months (29.5% vs. 26.8%). The sector-specific manager Waterfall, funded during the second half of the fiscal year, has significantly outperformed the Barclays Capital ABS Floating Rate Aaa Index since its inception in February 2010 (7.5% vs. 1.5%).

The Plan's alternative investment portfolio consists of a developing absolute return strategies portfolio, longer term investments in real estate (still developing), and private equity (mature program). The Systems made an initial investment in Arrowhawk Durable Alpha Fund in January 2010 and posted a relative gain against the HFN Fund of Funds Multi-Strat Index, although both posted losses in the last quarter of the fiscal year (-2.5% vs. -2.7%). The fiscal year return for the real estate portfolio composite was -2.9% versus -1.5% for the NCREIF Property Index. Over the past five years ending June 30, the total private equity portfolio return of 3.9% underperformed the Venture Economics All Private Equity Index return of 8.6% and fell short of its public market equivalent benchmark, the MSCI Broad US Market Index + 5%, which posted a 4.8% return.

Insurance Plan

The Insurance Plan invests in the Systems' internally managed S&P 1500 Index portfolio, the international portfolios managed by The Boston Company, Artio, Pyramis, Aberdeen, and Wellington, the internally managed TIPS portfolio, and the alternative investment portfolios. Although the insurance plan returns slightly differ from the returns earned in the pension plan because of investment restrictions, the relative under/outperformance was similar for the fiscal year.

Board Initiatives

Toward the end of the fiscal year, the Board made an important decision to commission RVK to conduct asset-liability studies for the KERS, CERS, and SPRS pension and insurance plans. The studies, normally conducted every three to five years, were done because the severe market downturn in 2008 into early 2009 significantly lowered the funded ratio across all investment plans. It became evident to the Board that it was necessary to better align the asset allocation decisions of the plans with the future and growing corresponding liabilities. The studies were completed in stages, and RVK completed the KERS pension and insurance plans during the fiscal year. The asset-liability studies for CERS and SPRS were completed within the first quarter of the following fiscal year.

The studies revealed that several plans, particularly the KERS Non-Hazardous Pension Plan, face the possibility of converting to a pay-as-you-go model. Using 'what if' scenarios, analysis shows that under very weak investment market conditions coupled with the consistent underfunding of the pension contributions over the next 10 years, the pension fund could deplete its assets in an attempt to meet escalating benefit payments. The asset-liability study assisted the Board with deciding on the most effective asset allocation strategies for each pension and insurance plan under its purview in order to lower risk, control the level of illiquidity in the portfolios, and generate a return expected to exceed the actuarially assumed rate of return of 7.75%. All of the asset-liability studies were completed in the first quarter of fiscal year 2010-11 and the Board began transitioning to the new target allocations shortly thereafter in a prudent manner.

Oversight

The Systems' investment policies, goals, and objectives, as well as the performance of its assets are regularly monitored by KRS staff, the Board, and R.V. Kuhns & Associates, Inc. These evaluations include reviews of the investment management firms and the custodial bank that serve the Systems. The Systems' assets are held in custody at Northern Trust. Market values and investment performance returns referenced above are based upon financial statements prepared by Northern Trust. We rely on their data and have not independently audited it. However, their financial statements are, to the best of our knowledge, believed to be reliable.

Summary

An uncertain market environment demands careful attention and thoughtful treatment of the assets entrusted to the Board's care by the Systems' employee participants. We expect the Board's continued high standard of care for these assets and commitment to diversification to allow the Systems to meet its long-term goals and objectives.

Most sincerely,

Jim Voytko
President, Principal
Director of Research, Senior Consultant
R.V. Kuhns & Associates, Inc.

Strategic Investment Solutions, Inc.
333 Bush Street, Ste 2000, San Francisco, California 94104
TEL 415/362-3484 ◻ FAX 415/362-2752

Date: September 24, 2010
Subject: Annual Private Equity Review

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

Dear Trustees:

Strategic Investment Solutions is charged with the duty to advise the Kentucky Retirement Systems (KRS) Board of Trustees and Staff in its private equity investment activities. This is our annual review of the KRS private equity investment program. The private equity managers have all reported through June 30, 2010 with the exception of one manager. The market overview and performance data is as of June 30, 2010. The investment program is managed in accordance with the KRS Investment Policies and Procedures.

Market Highlights

Given the decline in stock market valuations through 2008, some portfolios faced significant mark-downs as private equity managers were forced to adopt mark-to-market valuation policies. As a result, many managers have been focusing their time and resources on maintaining value within their existing portfolios rather than actively pursuing new deal flow. With the additional strain of the restricted availability of debt to finance new transactions, there was a dearth of new deals during 2009. On the investor (or 'limited partner', LP) front, the industry faced significant issues in 2008 and 2009. Liquidity constraints caused by the 'denominator effect' led to forced selling from some investors as their private equity exposures overshot their target allocations. While this problem has abated for some investors to an extent as markets have rebounded, other LPs are expected to face liquidity challenges when deal flow picks up along with new capital calls.

While the media focus appears to be on large-cap buyout strategies, where there has been minimal deal activity and significant portfolio issues, it is possible to identify niche areas of private equity that are less reliant on leverage and can add genuine operational and strategic value to complete transactions and generate returns. Such strategies are relatively well positioned to take advantage of the lower pricing and increased inefficiency in global capital markets.

Portfolio company operating performance appears to be stabilizing (as the broader global economy stabilizes), pricing for new deals is becoming more compelling from a buyer's perspective (as sellers' expectations correct to the new reality of today's valuations) and financing packages are increasingly available for the right businesses. A flurry of deal activity announced in early 2010 is testament to the potential for transactions to be created for the right businesses if managers have the skill set and capacity to aggressively seek new deals. While target firms exist across the size and geographical spectrum, we are seeing increasing opportunities in the small- to mid-market buyout space and in emerging markets.

There are also niche opportunities that we find attractive from a thematic perspective, such as distressed-for-control and turnaround managers, which appear to have an increasing supply of opportunities given the economic situation. In addition, history suggests that periods of economic contraction are attractive years to invest in private equity (although we note that, in some markets, the weight of capital could mean history does not repeat itself).

The venture capital industry remains in turmoil, but there are some exciting investment opportunities for those that survive to exploit. We also expect the industry to become increasingly global with both China and India becoming more and more important.

Most of the opportunities would appear to be in industries in which venture capital funds are especially well entrenched, for example, IT, healthcare, and alternative energy, positioning them favorably to take advantage of some important trends. Another opportunity comes in the form of a globalization of venture capital. Entrepreneurship has begun to take solid roots in important economies like India and China. Given the trends previously outlined and the flux of the industry, we believe that having a fixed allocation to venture capital and building a diversified program across early stage to later stage investments is likely to lead to disappointment. Perhaps given the pace of change in the industry, a more opportunistic approach of backing only those groups with a real competitive advantage, including some non-US investment opportunities, is likely to be a winning strategy. Our current focus is on early stage venture capital investing where there would appear to be the most attractive capital to opportunity imbalance right now.

Many distressed funds raised in late 2008 and 2009 could be classified as passive. A strategy that is highly tactical and predominantly focused on purchasing performing or mildly stressed assets trading at a discount to general market sentiment. The key driver of returns in this strategy is market beta (that is due to market movement as opposed to skill). An 'active' strategy is when managers intend to take operational control of companies via a controlling position in the debt.

The required skill set to execute a distressed for control strategy includes:

- Deep fundamental credit skills
- Experience in bankruptcy proceedings and creditor negotiations, with a track record in leading companies through a financial restructuring
- Access to credit opportunities other than intermediated companies in order to build controlling positions in the debt of companies
- A track record of restructuring operations and growing earnings to allow the business to become a viable going concern.

The distressed story in 2009 was a beta driven credit rally with a strong recovery across credit markets particularly both secured and unsecured corporate credit. Going forward, we expect opportunities will be more idiosyncratic as highly levered companies struggle to refinance existing debt, opening the door for skilled active distressed managers to find opportunities in corporate credit and rescue finance to generate alpha dominated returns.

We believe it is a good time for clients to consider exposure to experienced distressed-for-control managers. However, investors must be cognizant that the opportunity set has already narrowed following the rebound in credit markets and with, defaults expected to fall further, the focus should be on funds that have strong sourcing capabilities away from well–intermediated restructuring opportunities.

As the recent market crisis unfolded, one area of the private equity landscape that commentators suggested would inadvertently benefit from market conditions was secondaries. The widely accepted expectation was that the supply-demand imbalance of opportunities would allow buyers to dictate prices amid a period of significant deal activity in the secondary market. However this expectation has not born out in reality. Actual deal activity between the fourth quarter of 2008 and the present was modest with various secondary intermediaries suggesting transaction volume in 2009 was down 50% to 60% compared to 2008.

We believe there were three main impediments to deal activity:

- Buyer-Seller dislocation
- LP liquidity crisis abated (temporarily?)
- Significant divergence between available assets from sellers and buyer preferences

Broadly speaking, some level of stability in the wider economy and therefore transparent on the operating performance of underlying portfolio companies has proven to be necessary for secondary deal activity to occur.

Despite the cautionary note above, experienced and long-term investors in the asset class are well positioned to opportunistically invest in secondary transactions as part of a broader private equity program.

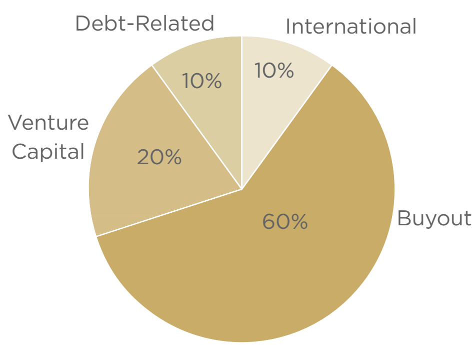
As PE fund managers scan the expanding range of sectors and geographies that now comprise the PE universe of promising places to invest, several areas that drew interest in 2009 continue to offer hot prospects in 2010. Energy and healthcare topped a recent poll of sectors where PE fund managers expect to see significant levels of investment over the coming year. Both had been among industries that increased their share of total PE deal making during the rising PE market of 2003 to 2007, and they look poised to continue their ascent. Additionally, the Asia-Pacific region has garnered increased attention, particularly among investors seeking returns akin to venture capital during the mid-late 1990s, though many believe this region is becoming attracting an excess of capital given existing opportunities to realize value.

Private Equity Performance and Asset Allocation Highlights

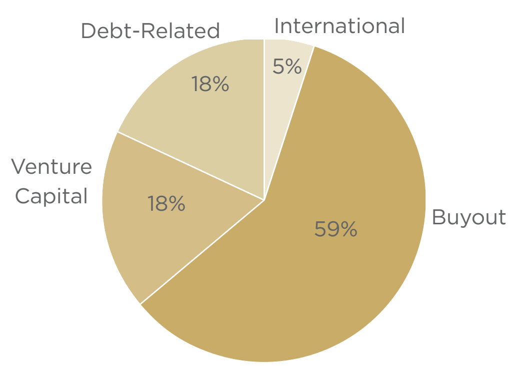
- Fiscal Year to Date ending June 30, 2010 was another year of significant contributions relative to distributions with capital draw-downs totaling $301.3mm and distributions, the return of capital (gains and losses), equating to $104.2mm. The capital draw-downs were below the FY 2009 outflows of $334 million and the return of capital was substantially more relative to FY 2009 distributions of $25mm. As global economies emerged from the 2007-2008 environment and earnings and revenue visibility has increased, M&A activity has picked up. As a result, companies have begun making strategic acquisitions, which is reflected in the increase in distributions from the KRS portfolio.

- Crestview II ($19.5mm), GTCR Fund IX ($25.2mm), DAG Ventures III ($26.5mm), Oak Hill Capital Partners III ($40mm) and Tortoise Capital Advisors ($25mm) led the investment pace in FY 2010 as these six partnerships accounted for a combined $136.2mm or 45% of the total capital called in FY 2010. Distributions increased substantially from the prior year and the top five leaders in distributions for the fiscal year were: Green Equity V ($6.7mm), Warburg Pincus Private Equity IX ($10.7mm), Oak Hill Capital Partners II ($10.1mm), and Wayzata Opportunities I and II ($12.2mm, $12.1mm). In aggregate, these partnerships comprised 50% of the total capital received in FY 2010. Of the 48 partnerships in the Program, 35 returned capital during FY 2010.

Approximate Allocation Targets



Subclass Allocations as of 06/30/10



- As of June 30, 2010, the KRS Private Equity portfolio had committed to 48 different partnerships with 35 managers. Relative to the prior year, the number of new relationships with managers increased by six. The new relationships introduced were Horsley Bridge International V (fund of funds focused in international buyouts and venture), Tortoise Capital Advisors (separate account focused on publicly traded energy infrastructure MLP's), The Camelot Group (direct secondaries), Keyhaven (European fund of funds), Arcano Capital (separate account with a regional focus primarily in Europe and Latin America) and Doll Capital (early stage venture capital). These commitments were to niche areas that were meant to complement the core portfolio and improve risk-adjusted returns.

- As of June 30, 2010 the KRS Private Equity Program had made total commitments of $2.6 billion to 48 different partnerships. The percent funded or invested of the committed amount at fiscal year-end was $1.7 billion or 63.9% of committed capital.

- As of June 30, 2010, Private Markets as a percentage of the total fund was 12.1% of the total KRS portfolio (this total includes the Insurance Fund) compared to the target level of 7%. This level compares with 8.7% as of 12/31/08. The dramatic increase in the private equity allocation is largely a function of the decrease in the Plan's value at $12.8B at fiscal year end of 2010 from $16B at fiscal year end 2009. In short, the "denominator effect" continues to create an over-allocation to private equity relative to its current target.

Summary

Mindful of the current over-allocation to private equity, we expect to continue our focus on smaller niche sectors and potential liquidity opportunities to free up additional private equity capital. As expected, international investments have become a larger portion of the KRS private equity program and are expected to grow over time.

Now that capital markets have stabilized relative to the 2008-2009 period, we are hopeful that the pace of realizations and distributions will continue to increase and return capital to KRS. As private equity typically performs well when exiting a recession, SIS believes commitments made during the 2008-2010 vintage years should provide superior long-term returns and contribute to the success of the KRS private equity investment program.

Peter A. Keliuotis, CFA
Managing Director

3733 park east drive ▯ cleveland, oh 44122-4334 ▯ tel: 216.468.0055 ▯ fax: 216.468.005

September 16, 2010

ORG Portfolio Management ("ORG") serves as the Real Estate Investment Consultant for Kentucky Retirement Systems ("KRS"). It is ORG's responsibility to present potential investment opportunities to the Investment Staff and Board and to make recommendations related to KRS' real estate portfolio. It is ORG' s commitment to assist KRS in building a successful long term real estate investment portfolio for the KRS pension fund members.

U.S. Market Overview

In the first quarter 2010, the conditions in the domestic commercial real estate transaction market began to improve. Despite a number of significant difficulties being experienced by property owners, such as lack of demand, leasing challenges, debt expirations and covenant defaults, properties are beginning to come to market. 2010 has shown an increase in volume and values of properties offered for sale that was not seen in the 4th quarter of 2009.

The office sector of the U.S. market is showing a slow trend in improvement as sales of office properties increased significantly to $7.8 billion in the 2nd quarter of 2010, as compared to $4.5 billion in prior quarter. Strong demand for the acquisition of office properties in prominent business locations such as Washington DC and New York City has pushed capitalization rates down slightly during the quarter. Tenants continue to take advantage of weak conditions to upgrade to quality and location as rents continue on a downward trend. The average vacancy rate for central business districts across the country is 13.1%, while suburban office markets ended the quarter with vacancy of 18.6%.

The retail market continues to struggle, as consumer confidence dropped in the second quarter of 2010. Real estate growth was significantly less than forecast; sales of retail properties declined to $2.9 billion in the 2nd quarter, down from $3.2 billion during the previous quarter. The number of properties on the market increased substantially and retailers returned another 1.9 million square feet of space to the market, increasing the national vacancy rate to 10.9%.

Although transaction levels are low in the industrial sector, sales of industrial properties increased 63.5% to $3.0 billion in the 2nd quarter of 2010 from $1.8 billion in the 1st quarter; capitalization rates declined by 34 basis points. National vacancies increased only 10 basis points to 14.1% as industrial tenants returned 5.5 million square feet to the market.

Sales of apartment properties rose slightly to $4.9 billion in the 2nd quarter of 2010 from $4.6 billion in the 1st quarter, possibly a reflection of the increased volume of product on the market. There has been some positive impact from the struggling economy on the apartment sector, as the market has shown a decline in homeownership and limited new development of single family homes. Apartment occupancy improved by 20 basis points during the 2nd quarter of 2010 to a national average of 92.2%.

ORG's View

ORG has noted reserved optimism among market participants that commercial real estate market conditions are near the bottom. In ORG's view, this optimism is the result of debt becoming widely available for "core" properties and growth in the number of lenders that are competing fiercely for the few transactions meeting their definition of "core." ORG has noticed many of the managers it tracks are beginning to refocus their efforts on property acquisition. While ORG is encouraged by signs of a warm up in the transaction market, it is important to recognize that the weak economy and job market will continue to have a negative effect on real estate in general. Investors should consider funds that capitalize on pending commercial mortgage maturities and on complementing existing funds with niche managers with favorable alignment of interests. Other opportunities in the current market will likely be found in the secondary markets, as well as in funds with global opportunistic and value added strategies that capitalize on market distress.

Kentucky Retirement Systems Real Estate Investments

Kentucky Retirement Systems invested in Walton Street Real Estate Fund VI in the 4th quarter 2008, and in Mesa West Real Estate Income Fund II and PRIMA Mortgage Investment Trust in 2009.

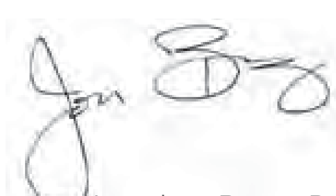
PRIMA Mortgage Investment Trust called Kentucky Retirement Systems' entire $40 million commitment by 3rd quarter 2009. As of September 15, 2010, PRIMA Mortgage Investment Trust has distributed $3.8 million to KRS.

In 2010, Mesa West Real Estate Income Fund II made three capital calls year to date, totaling $3.7 million, returning approximately $0.1 million in adjustments. Total commitment for Mesa West II is $40 million, with $36.3 in remaining capital to be called.

Walton Street Real Estate Fund VI capital calls total $13.6 million year to date. KRS' total commitment for Walton Fund VI is $40 million, with $26.4 million in remaining capital to be called.

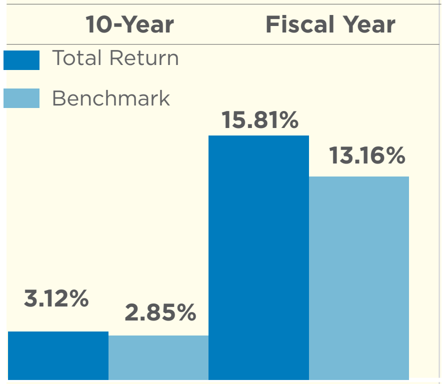
Sincerely,

Edward Schwartz, Principal

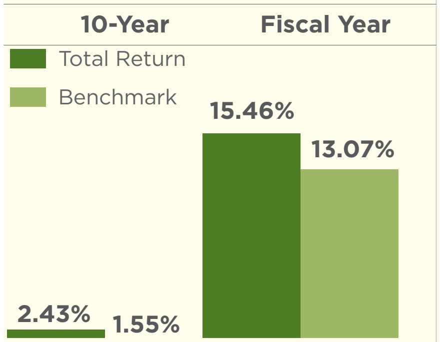


Jonathon Berns, Principal

Pension Fund & Benchmark Returns (%)



Insurance Fund & Benchmark Returns (%)



Investment Results as of June 30, 2010

The Pension Fund returned 15.81%, which outpaced the return of its benchmark by 2.65% and exceeded the actuarially required rate of return of 7.75%. The above benchmark performance of the pension fund was a direct result of the outperformance experienced in each of the four major asset classes; and an above benchmark weighting to alternative assets and domestic equities, the two best performing asset classes for the period as demonstrated by their respective benchmark returns of 20.15% and 16.18%.

The Insurance Fund also posted a strong positive return for the fiscal year ending June 30, 2010. The portfolio returned 15.46% compared to the benchmark's 13.07% return and the actuarially required rate of 7.75%. Like the pension fund, the insurance fund's outperformance over its benchmark was due to the solid performance of each individual asset class; combined with an overweight to U.S. Equities, one of the better performing asset classes for the period.

Benchmarks

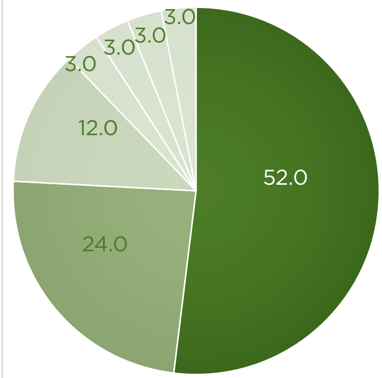
Benchmarks utilized to measure the Pension and Insurance Funds are a weighted average composite of the various asset class indicies existing within each KRS investment portfolio.

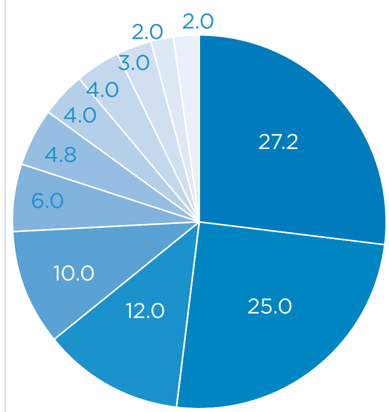
These benchmarks are intended to be objective, measurable, investable, replicable, and representative of the investment mandates. The benchmarks are developed from publicly available information, and accepted by the investment advisor and KRS as the neutral position consistent with the investment mandate and status. KRS' Investment Staff and Consultant recommend the indexes 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. Note: At the May 2010 Investment Committee meeting new benchmarks were adopted and subsequently ratified by the Board; however, the new benchmarks will not be placed into service until new mandates requiring those are funded.

Pension & Insurance Funds Benchmark Allocations (%)

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

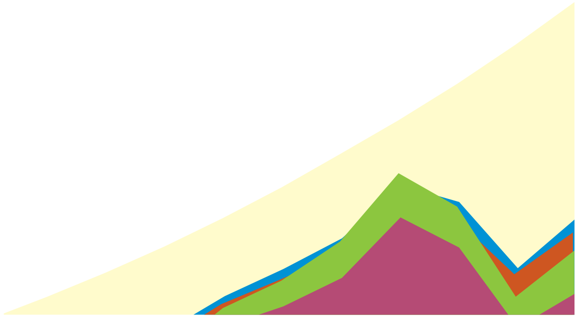
Index	Pension Fund	Insurance Fund
S&P 1500 Composite	27.2%	52.0%
S&P 500 Composite	6.0	-
Russell 2000 Index	4.0	-
MSCI World Ex-US	12.0	24.0
MSCI All World Country Index Ex-US	4.0	3.0
MSCI AWCI Ex-US Small Cap	2.0	-
MSCI Emerging Markets	2.0	3.0
Barclays Capital High Yield Corporate	4.8	3.0
Barclays Capital TIPS	10.0	12.0
Barclays Capital Aggregate	25.0	-
3-Month U.S. Treasury Bill	3.0	3.0





Long-Term Results

The 10-years ending June 30, 2010, the Pension Fund earned an annualized total return of 3.12% and has outpaced the benchmark in all measured time periods with the exception of the 3-year and inception mark. The Insurance Fund continued to outperform its benchmark, earning a 2.43% return for the same period. Insurance returns have been above the benchmark.



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.

Growth of A Dollar-Total Fund

Investment	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Pension Fund	$1,000	$946	$905	$944	$1,072	$1,172	$1,285	$1,481	$1,419	$1,175	$1,360
Pension Fund Benchmark	1,000	932	883	928	1,061	1,151	1,245	1,430	1,375	1,171	1,325
Insurance Fund	1,000	962	873	887	1,059	1,160	1,304	1,556	1,433	1,101	1,271
Insurance Fund Benchmark	1,000	947	830	829	983	1,056	1,161	1,384	1,273	978	1,106
Actuarial Assumed ROR	1,000	1,083	1,172	1,268	1,373	1,486	1,609	1,734	1,868	2,013	2,169

U.S. Equity

For the fiscal year, ending June 30, 2010, the Pension Fund's U.S. equity portfolio posted a return of 16.90%, which outperformed the return of its benchmark by 0.72%. The Insurance Fund's U.S. equity portfolio posted a return of 18.74%, which also outperformed its benchmark return of 15.58%. All segments of the U.S. equity markets posted strong positive results during the 12-month period.

U.S. Equity

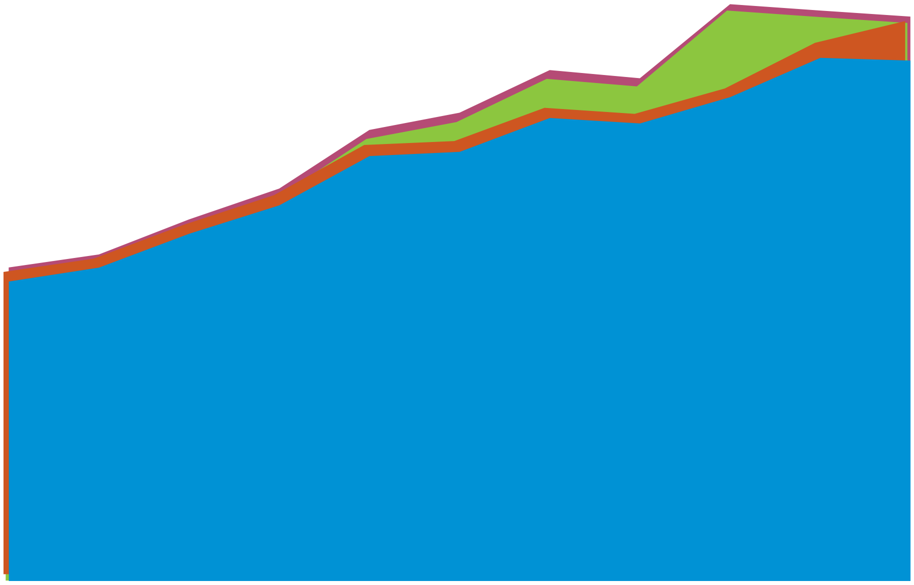
	Inception Date	Fiscal Year	3-Year	5-Year	10-Year	Inception
KRS Pension	Apr-84	16.90%	-9.42%	0.02%	-0.49%	10.64%
Performance Benchmark[1]		16.18%	-9.34%	-0.25%	-0.39%	10.60%
KRS Insurance	Jul-92	18.74%	-10.49%	-0.64%	-0.22%	8.24%
Performance Benchmark[2]		15.58%	-9.41%	-0.46%	-0.95%	7.58%
Market Indices						
Russell 1000 (Large Cap)		15.22%	-9.55%	-0.56%	-1.23%	
Russell 2000 (Small Cap)		21.48%	-8.60%	0.37%	3.00%	
Russell 3000 (Total Equity)		15.72%	-9.47%	-0.48%	-0.92%	

[1] *Pension Benchmark consist of 13% Russell 2000, 67% S&P 1500 Composite (Total), and 20% S&P 500*
[2] *Insurance benchmark is S&P 1500 Composite (Total)*

Despite the strong market performance during this fiscal year, the market volatility experienced over the prior two years has led U.S. equity investors to experience sharp negative returns over the past three years, and flat returns over the 5-year and 10-year periods. While both funds have experienced negative absolute returns over several of the periods noted above, the since inception performance still remains solid. The pension's equity portfolio has generated an annualized average return of 10.64% throughout its duration, while the insurance equity portfolio posted an average annual return of 8.24%.

Basis for Calculations

KRS uses the Modified Dietz Method as its basis for calculations. This method is used to determine the performance of an investment portfolio based on a time-weighted cash flow. In the absence of daily portfolio valuations, the Modified Dietz Method weights individual cash flows by the amount of time these cash flows are held (or absent) from the portfolio. The result is an approximation of a time-weighted return.



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

Growth of A Dollar-US Equity Fund

Investment	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Pension Fund	$1,000	$884	$741	$733	$892	$948	$1,060	$1,265	$1,103	$829	$969
Pension Fund Benchmark	1,000	881	738	732	888	945	1,033	1,238	1,074	794	922
Insurance Fund	1,000	929	781	779	939	1,009	1,108	1,327	1,154	864	1,026
Insurance Fund Benchmark	1,000	862	710	698	827	872	935	1,125	982	723	836

Top 10 U.S. Equity Holdings

Pension Fund			Insurance Fund		
Company	Shares	Market Value	Company	Shares	Market Value
EXXON MOBIL CORP	1,360,546	77,646,381	EXXON MOBIL CORP	304,167	17,358,836
PROCTER & GAMBLE CO	963,072	57,765,059	APPLE INC	49,600	12,400,429
JOHNSON & JOHNSON	905,534	53,480,838	PROCTER & GAMBLE CO	49,300	9,853,215
IBM CORP	424,300	52,392,564	MICROSOFT CORP	422,100	9,712,521
MICROSOFT CORP	2,269,400	52,218,894	IBM CORP	75,100	9,273,348
APPLE INC	190,950	48,029,654	JOHNSON & JOHNSON	154,988	9,153,591
AT&T INC	1,840,664	44,525,662	GENERAL ELECTRIC CO	602,600	8,689,492
CHEVRON CORP	593,559	40,278,914	JPMORGAN CHASE & CO	222,975	8,163,115
COCA COLA CO	593,559	39,309,116	BANK OF AMERICA CORP	560,774	8,058,322
PFIZER INC	2,732,709	38,968,430	AT&T INC	329,521	7,971,113
Total	12,065,034	504,615,512	Total	2,885,800	100,633,982

International Equity

For the fiscal year, ending June 30, 2010, the KRS pension fund's international equity portfolio returned 12.07%, substantially outperforming its benchmark by 1.10%. The KRS insurance international equity portfolio also greatly outperformed its benchmark, posting a return of 10.92% during the same twelve month period. As the accompanying table indicates, both developed and emerging international equity markets experienced strong positive returns during the trailing year period.

International Equity

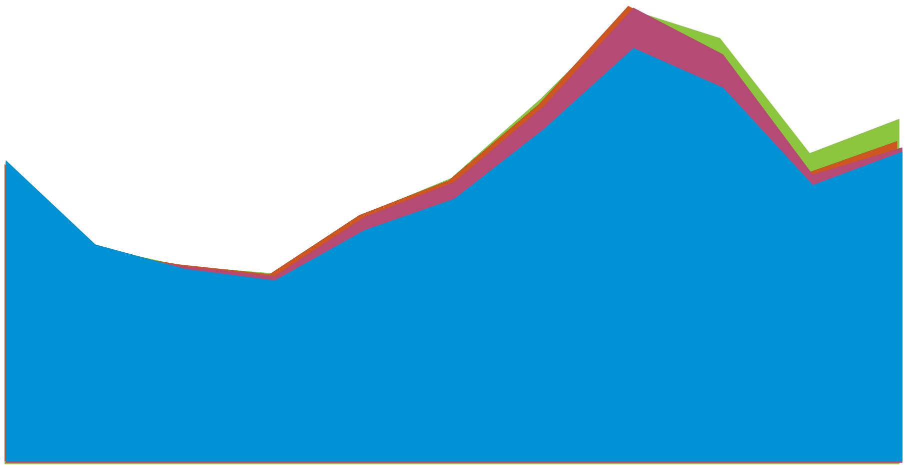
	Inception Date	Fiscal Year	3-Year	5-Year	10-Year	Inception
KRS Pension	Jul-00	12.07%	-9.18%	3.35%	0.28%	1.06%
Performance Benchmark[1]		10.97%	-11.07%	2.66%	0.62%	1.48%
KRS Insurance	Apr-00	10.92%	-8.68%	3.81%	1.48%	1.39%
Performance Benchmark[2]		9.37%	-11.49%	2.36%	0.47%	0.56%
Market Indices						
MSCI EAFE		6.36%	-12.95%	1.35%	0.59%	
MSCI Emerging Markets		23.47%	-2.22%	13.07%	10.34%	
MSCI ACWI Ex US		10.88%	-10.28%	4.04%	2.39%	

[1] *Pension Benchmarks consist of 60% MSCI World Ex-US, 20.0% MSCI AWCI Ex-US, 10.0% MSCI AWCI Ex-US SC, and 10% MSCI EM.*
[2] *Insurance Benchmarks consist of 80% MSCI World Ex-US, 10.0% MSCI AWCI Ex-US, and 10% MSCI EM Index.*

International equity investors have experienced a volatile period of returns over the past several years. After four consecutive years of favorable results, investors witnessed significant market losses over the prior two fiscal years, and experienced a welcomed reprieve this fiscal year. The KRS pension fund portfolio has generated an annualized return of -9.18% over the trailing three-year period, while the insurance fund saw returns fall by an average of -8.68% during the same period. Over the past five years, both funds have added value, while also exceeding the return of its performance benchmark. The KRS Pension and Insurance funds have posted annualized returns of 3.35% and 3.81% respectively. The Systems began their international equity program in 2000. Since inception, the pension international equity portfolio has underperformed the benchmark, while the insurance international equity portfolio has outperformed the benchmark.

Basis for Calculations

KRS uses the Modified Dietz Method as its basis for calculations. This method is used to determine the performance of an investment portfolio based on a time-weighted cash flow. In the absence of daily portfolio valuations, the Modified Dietz Method weights individual cash flows by the amount of time these cash flows are held (or absent) from the portfolio. The result is an approximation of a time-weighted return.



Growth of Dollars:

This chart compares the performance of $1,000 invested in the Pension and Insurance Funds with their respective policy benchmark portfolios.

Growth of A Dollar-International Equity Fund

Investment	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Pension Fund	$1,000	$720	$639	$601	$768	$872	$1,104	$1,373	$1,241	$918	$1,029
Pension Fund Benchmark	1,000	700	653	621	817	933	1,185	1,512	1,357	958	1,063
Insurance Fund	1,000	735	670	645	838	961	1,225	1,521	1,426	1,044	1,158
Insurance Fund Benchmark	1,000	700	653	621	817	933	1,185	1,512	1,357	958	1,048

Top 10 International Equity Holdings

Pension Fund			Insurance Fund		
Company	Shares	Market Value	Company	Shares	Market Value
NOVARTIS AG	432,238	21,083,803	NOVARTIS AG	160,325	7,820,369
HSBC HLDGS	2,125,207	19,560,421	HSBC HLDGS	795,918	7,325,635
SANOFI-AVENTIS	278,222	16,879,533	VODAFONE GROUP	3,123,646	6,502,879
VODAFONE GROUP	8,074,165	16,808,984	SANOFI-AVENTIS	103,534	6,281,335
GLAXOSMITHKLINE	926,164	15,837,797	ROCHE HLDGS	42,632	5,894,590
TOTAL	346,755	15,700,521	TOTAL	128,953	5,838,789
ROCHE HLDGS	113,054	15,631,614	GLAXOSMITHKLINE	341,093	5,832,835
ROYAL DUTCH SHELL	604,456	15,363,261	ROYAL DUTCH SHELL	208,563	5,300,978
MITSUBISHI UFJ FIN	2,792,700	12,781,597	MITSUBISHI UFJ FIN	1,041,100	4,764,894
BP	2,511,029	11,980,278	BP	950,980	4,537,186
Total	18,203,990	161,627,808	Total	6,896,744	60,099,489

Fixed Income

For the fiscal year, ending June 30, 2010, the KRS pension fund's fixed income portfolio returned 11.80%, outperforming its performance benchmark by 2.28%. As the accompanying table indicates, both of the broad market indices, the Barclays Aggregate Index and the Barclays Intermediate Government Credit Index, posted positive returns for the twelve month period ending June 30, 2010. The KRS insurance TIPS portfolio posted a 9.58% rate of return, which edged its benchmark, the Barclays U.S. TIPS Index by 0.06%.

Fixed Income

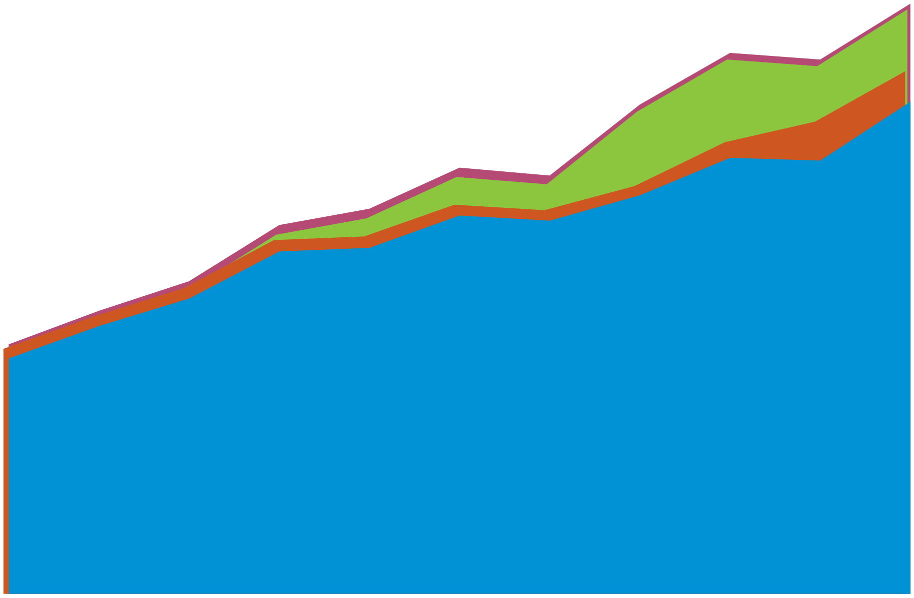
	Inception Date	Fiscal Year	3-Year	5-Year	10-Year	Inception
KRS Pension	Apr-84	11.80%	6.32%	4.66%	6.35%	8.36%
Performance Benchmark[1]		9.52%	7.63%	5.37%	6.73%	8.26%
KRS Insurance	Jul-92	9.58%	7.73%	5.06%	7.36%	7.06%
Performance Benchmark[2]		9.52%	7.62%	4.98%	7.29%	7.04%
Market Indices						
BC Aggregate		9.50%	7.55%	5.54%	6.47%	
BC Government/Credit		9.65%	7.37%	5.26%	6.48%	
BC U.S. TIPS		9.52%	7.62%	4.98%	7.45%	

[1] Pension Benchmark consists of 71.43% Barclays Aggregate, and 28.57% Barclays U.S. TIPS
[2] Insurance Benchmark is the Barclays U.S. TIPS Index

Over the past three years ending June 30, 2010, the KRS pension fund's fixed portfolio has generated an annualized average return of 6.32% versus its custom performance benchmark return of 7.63%. The insurance fund's fixed portfolio posted a 7.73% return during the same period, exceeding its benchmark return by 0.11%. Over the five year period, the pension fund has lagged the benchmark by 71 basis points, while the insurance fund outperformed its benchmark. Over the ten year period, the pension fund has lagged the benchmark by 0.38%, while the insurance fund has slightly outperformed the benchmark by 7 basis points.

Basis for Calculations

KRS uses the Modified Dietz Method as its basis for calculations. This method is used to determine the performance of an investment portfolio based on a time-weighted cash flow. In the absence of daily portfolio valuations, the Modified Dietz Method weights individual cash flows by the amount of time these cash flows are held (or absent) from the portfolio. The result is an approximation of a time-weighted return.



Growth of Dollars:

This chart compares the performance of $1,000 invested in the Pension and Insurance Funds with their respective policy benchmark portfolios.

Growth of A Dollar- Fixed Income

Investment	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Pension Fund	$1,000	$1,107	$1,198	$1,354	$1,366	$1,473	$1,456	$1,540	$1,664	$1,655	$1,850
Pension Fund Benchmark	1,000	1,107	1,201	1,360	1,372	1,477	1,459	1,539	1,684	1,752	1,919
Insurance Fund	1,000	1,110	1,212	1,399	1,453	1,590	1,566	1,806	1,979	1,957	2,145
Insurance Fund Benchmark	1,000	1,111	1,209	1,395	1,449	1,585	1,559	1,794	1,965	1,943	2,128

Top 10 Fixed Income Holding & Market Value ($)

Pension Fund			Insurance Fund		
Company	Par Value	Market Value	Company	Par Value	Market Value
US TSY NT 2.500 DUE 03/31/15	134,500,000	139,375,625	US TSY BD INFL Index 2.375 DUE 01/15/25	12,540,500	16,088,232
US TSY NT 1.000 DUE 04/30/12	94,400,000	95,108,000	US TSY BD INFL Index 3.875 DUE 04/15/29	8,840,000	15,731,878
US TSY NT 3.625 DUE 08/15/19	79,505,000	84,070,336	US TSY BD INFL Index 3.000 DUE 07/15/12	10,718,000	13,824,372
US TSY NT INFL Index 2.375 DUE 01/15/17	62,558,000	74,656,446	US TSY NT INFL Index 2.000 DUE 01/15/14	10,395,500	13,065,637
US TSY NT INFL Index 2.000 DUE 07/15/14	53,458,000	66,335,425	US TSY BD INFL Index 1.875 DUE 07/15/13	10,083,000	12,658,765
US TSY NT INFL Index 2.375 DUE 01/15/25	49,397,000	63,371,509	US TSY NT INFL Index 2.000 DUE 07/15/14	9,708,000	12,046,547
US TSY NT INFL Index 3.875 DUE 04/15/29	32,349,000	57,565,809	US TSY BD INFL Index 3.625 DUE 04/15/28	6,890,500	12,018,886
US TSY BD INFL Index 2.500 DUE 07/15/16	43,822,000	52,640,078	US TSY NT INFL Index 1.625 DUE 01/15/15	9,740,500	11,739,011
US TSY BD INFL Index 3.625 DUE 02/15/20	44,935,000	47,476,613	US TSY BD INFL Index 2.500 DUE 07/15/16	9,095,500	10,925,741
US TSY BD INFL Index 3.625 DUE 04/15/28	27,004,000	47,102,243	US TSY NT INFL Index 2.000 DUE 01/15/26	8,915,500	10,354,541
Total	621,928,000	727,702,085	Total	96,927,500	128,453,611

Alternative Investments

For the fiscal year, ending June 30, 2010, the KRS pension fund's alternative investments portfolio posted a return of 26.75%. The portfolio consists primarily of private equity limited partnerships, publicly traded real estate securities, operating companies, and focused real estate investments. The custom benchmark for the pension alternative investment portfolio returned 20.15% during this same period. The insurance alternative investment portfolio returned 26.01% versus its performance benchmark return of 17.88%.

Private equity returns saw their steepest declines in 2008 as the value of firms' investment portfolios tumbled in the wake of the credit crisis. As the accompanying table indicates, the market's volatility impacted longer term results in the alternative investment portfolios. For the three years ending June 30, 2010, the pension fund portfolio has generated an annualized average return of -3.68% versus its custom performance benchmark of -3.11%. Over this same time period, the insurance fund returned -2.97% on an annualized basis outperforming its custom benchmark by 3.32%. Both funds experienced strong returns over the short term, which has helped to bolster positive returns when viewed over a five-year, ten-year, and since inception time horizon. Since its inception in October 1990, the pension portfolio has outpaced its benchmark by 2.86% per year, while the insurance portfolio has outperformed its benchmark by 2.55% since its July 2001 inception.

Basis for Calculations

KRS uses the Modified Dietz Method as its basis for calculations. This method is used to determine the performance of an investment portfolio based on a time-weighted cash flow. In the absence of daily portfolio valuations, the Modified Dietz Method weights individual cash flows by the amount of time these cash flows are held (or absent) from the portfolio. The result is an approximation of a time-weighted return.

Alternative Equity

	Inception Date	Fiscal Year	3-Year	5-Year	10-Year	Inception
KRS Pension	Oct-90	26.75%	-3.68%	3.91%	10.75%	10.76%
Performance Benchmark[1]		20.15%	-3.11%	2.68%	5.76%	8.90%
KRS Insurance	Jul-01	26.01%	-2.97%	3.02%		5.40%
Performance Benchmark[2]		17.88%	-6.29%	1.12%		2.85%

[1] *Pension Benchmark consists of 60% S&P 1500 (Total), and 40% BC High Yield Corporate.*
[2] *Insurance Benchmark consists of 80% S&P 1500 (Total), and 20% BC High Yield Corporate.*

Cash

For the fiscal year, ending June 30, 2010, the KRS pension fund's cash portfolio returned 1.26%, outpacing its benchmark, the Citi Group 3-month Treasury by 1.16%. The KRS insurance cash portfolio also outperformed the index, posting a return of 0.26% during the same twelve month period.

As the accompanying table indicates, the longer term results from the cash portfolios have also been excellent with comparison to their benchmark. For the five years ending June 30, 2010, the pension fund portfolio has outperformed its custom benchmark by 0.86% on an annualized basis. Since its inception, the portfolio has exceeded its benchmark again by 0.86% per year. The insurance portfolio has also done very well, exceeding its benchmark return over the five-year period as well as since its inception by 0.58% and 0.30%, respectively.

Cash Returns

	Inception Date	Fiscal Year	3-Year	5-Year	10-Year	Inception
KRS Pension	Jan-88	1.26%	2.46%	3.49%	3.94%	5.03%
Performance Benchmark[1]		0.10%	1.40%	2.63%	2.56%	4.17%
KRS Insurance	Jul-92	0.26%	1.76%	3.21%	3.14%	3.80%
Performance Benchmark[1]		0.10%	1.40%	2.63%	2.56%	4.17%

[1] *Pension and Insurance benchmark is the Citi Group 3-month Treasury*

Additional Schedules & Required Supplemental Information

Following are additional schedules which identify the Investment Advisors employed along with the total assets each 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 as of or for the year ended June 30, 2010.

External Investment Advisors

	Assets Under Management (in thousands)
Aberdeen Asset Management, Aberdeen, Scotland	228,208
Arbor Investments II, Chicago, Illinois	14,969
Arcano Capital, New York, New York	2,000
Arrowhawk Capital Partners, Darien, Connecticut	97,874
Artio Global Investors, New York, New York	249,398
Avenue Capital V, New York, New York	89,853
Bay Hills Emerging Partners I, San Francisco, California	34,004
BlackRock Global Investors, San Francisco, California	236,541
Blackstone Capital Partners V, New York, New York	89,695
Columbia Capital IV, Alexandria, Virginia	26,189
Commerce Street Income Partners LP, Dallas, Texas	54,799
Crestview Partners II, New York, New York	21,097
Duff, Ackerman & Goodrich Ventures II, Palo Alto, California	94,769
Doll Capital Management, Menlo Park, California	1,875
Essex Woodland VIII, Palo Alto, California	11,699
GTCR Golder Rauner IX, Chicago, Illinois	40,433
H.I.G. Venture Partners II, Miami, Florida	11,630
Harvest Partners V, New York, New York	13,911
Hellman & Friedman VI, New York, New York	57,399
Horsley Bridge International V LLC, San Fransico, California	1,132
Institutional Venture Partners XI, Menlo Park, California	37,167
Invesco, Atlanta, Georgia	663,108

External Investment Advisors

	Assets Under Management (in thousands)
JW Childs Equity III, Boston, Massachusetts	29,535
Keyhaven Capital Partners, London, England	2,845
Leonard Green & Partners, L.P.,IV, Los Angeles, California	108,714
Matlin Patterson Global Opportunities I & II, New York, New York	56,618
Merit Capital Partners IV, Chicago, Illinois	23,078
Mesa West, Los Angeles, California	2,423
MHR Insitituional Advisors III, New York, New York	18,543
Mill Road Capital, Greenwich, Connecticut	17,102
New Mountain Partners II, New York, New York	66,021
NISA Investment Advisors, St. Louis, Missouri	1,177,868
Northern Trust Global Investors, Chicago, Illinois	1,269,853
Oak Hill Partners II, New York, New York	138,551
Oak Tree Opportunities VIIB, Los Angeles, California	94,691
PIMCO, New Port Beach, California	1,138,887
Prima Mortgage, New York, New York	43,775
Pyramis Global Advisors, Boston, Massachusetts	785,728
Record Currency Management, Windsor Berkshire, England	92,197
Sun Capital Partners IV, Boca Raton, Florida	22,981
Technology Crossover Ventures VI, Palo Alto, California	14,426
Tenaska Power Fund II, Omaha, Nebraska	13,986
The Boston Company, Boston, Massachusetts	768,716
The Camelot Group, New York, New York	0
Tortoise Capital, Leawodd, Kansas	34,073
Vantagepoint Venture IV, San Bruno, California	44,064
Vista Equity Partners III, San Francisco, California	50,355
Walton Street Real Estate Fund, Chicago, Illinois	6,145
Warburg Pincus IX, New York, New York	132,020
Wayzata Investment Partners I, Wayzata, Minnesota	167,454
Weaver Barksdale & Associates, Brentwood, Tennessee	464,257
Wellington Management Company, Boston, Massachusetts	174,568
Total	$9,036,890

Master Custodian & Performance Measurement

The Northern Trust Company
Chicago, Illinois

Investment Consultants

ORG Real Property
Cleveland, Ohio

R.V. Kuhns & Associates
Portland, Oregon

Strategic Investment Solutions
San Francisco, California

KERS – Pension

% of Market Value as of June 30, 2010

	Non Hazardous		Hazardous	
Asset Class	Market value	Allocation (%)	Market value	Allocation (%)
Bonds	1,045,705,427	30.1%	107,443,323	24.4%
Short-Term	195,968,138	5.6%	86,595,685	19.7%
Alternatives	537,480,865	15.5%	75,101,413	17.0%
Domestic Equities	894,154,614	25.8%	93,100,497	21.1%
International Equities	795,615,888	22.9%	78,389,242	17.8%
Total Portfolio	3,468,924,932	100.0%	440,630,160	100.0%

CERS – Pension

% of Market Value as of June 30, 2010

	Non Hazardous		Hazardous	
Asset Class	Market value	Allocation (%)	Market value	Allocation (%)
Bonds	1,454,652,678	30.5%	406,533,344	27.3%
Short-Term	356,627,678	7.5%	172,654,677	11.6%
Alternatives	687,542,965	14.4%	225,715,453	15.1%
Domestic Equities	1,367,792,850	28.7%	416,080,540	27.9%
International Equities	897,632,919	18.8%	270,407,925	18.1%
Total Portfolio	4,764,249,090	100.0%	1,491,391,938	100.0%

SPRS – Pension

% of Market Value as of June 30, 2010

Asset Class	Market value	Allocation (%)
Bonds	81,749,395	31.1%
Short-Term	25,688,625	9.8%
Alternatives	37,123,100	14.1%
Domestic Equities	63,554,165	24.2%
International Equities	54,659,968	20.8%
Total Portfolio	262,775,253	100.0%

KERS – Insurance

% of Market Value as of June 30, 2010

	Non Hazardous		Hazardous	
Asset Class	Market value	Allocation (%)	Market value	Allocation (%)
Bonds	43,243,670	11.9%	28,288,129	10.5%
Short-Term	39,039,344	10.7%	61,550,013	22.8%
Alternatives	41,650,368	11.4%	21,024,616	7.8%
Domestic Equities	104,102,614	28.6%	88,553,785	32.9%
International Equities	136,174,641	37.4%	70,044,396	26.0%
Total Portfolio	364,210,637	100.0%	269,460,938	100.0%

CERS – Insurance

% of Market Value as of June 30, 2010

	Non Hazardous		Hazardous	
Asset Class	Market value	Allocation (%)	Market value	Allocation (%)
Bonds	121,050,676	11.2%	71,247,658	12.3%
Short-Term	268,969,898	24.9%	153,190,116	26.4%
Alternatives	82,132,180	7.6%	43,679,502	7.5%
Domestic Equities	351,607,108	32.6%	174,565,289	30.1%
International Equities	254,330,347	23.6%	137,044,987	23.6%
Total Portfolio	1,078,090,209	100.0%	579,727,552	100.0%

SPRS – Insurance

% of Market Value as of June 30, 2010

Asset Class	Market value	Allocation (%)
Bonds	12,795,955	12.3%
Short-Term	12,990,110	12.5%
Alternatives	9,268,900	8.9%
Domestic Equities	37,483,085	36.1%
International Equities	31,206,348	30.1%
Total Portfolio	103,744,397	100.0%

External Investment Expenses

Expense	Fees Paid (in thousands)	Expense as a % of Assets
Equity & Fixed Income Portfolio		
Pension Funds	$33,490	0.3310%
Insurance Funds	5,007	0.2262%
Consulting Fees	1,150	0.0093%
Custody Fees	187	0.0015%
Other Investment-Related Fees	956	0.0078%
Total Expenses	40,790	0.3308%

Schedule of Commissions Paid

	Total Shares	Commissions Paid	$ per share
U.S. Equities	98,259,423	$3,979,566	$0.041

	Total Value of Trades	Commissions Paid	As a % of Trade
Non-U.S. Equities	$4,542,568,630	$4,590,567	0.101%

Total Commissions Paid		$8,570,133	

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

Actuarial

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

Cavanaugh Macdonald
CONSULTING, LLC.

November 19, 2010

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

Subject: Certification of Actuarial Results

Dear Members of the Board:

The fifty-fourth annual actuarial valuation of the Kentucky Employees Retirement System, the fifty-first annual actuarial valuation of the County Employees Retirement System, and the fifty-second 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, 2010 actuarial valuation will be used by the Board of Trustees to certify the employer contribution rates for the fiscal year beginning July 1, 2011 and ending June 30, 2012.

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.
The impact of HB1, which was enacted into law in 2008 will be to eventually reduce the contribution rates otherwise required as more active members are covered under the lower benefit structure effective for those hired after August 31, 2008.

Progress towards 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 and 2009 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. As of June 30, 2010 the funding levels for the pension funds are as follows:

System	Pension Funding Level
KERS Non-Hazardous Pension Fund	38.3%
KERS Hazardous Pension Fund	73.1%
CERS Non-Hazardous Pension Fund	65.6%
CERS Hazardous Pension Fund	65.5%
SPRS Pension Fund	49.7%

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 43 requirements have further reduced the measured funding level. As of June 30, 2010 the funding level for the insurance funds are as follows:

System	Insurance Funding Level
KERS Non-Hazardous Insurance Fund	10.6%
KERS Hazardous Insurance Fund	63.7%
CERS Non-Hazardous Insurance Fund	40.9%
CERS Hazardous Insurance Fund	41.4%
SPRS Insurance Fund	27.9%

Data

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, 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 August 20, 2009 based on the experience investigation report dated August 17, 2009, 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 adopted by the Board 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 schedule to be completed in

January 2014 and any adjustments will be reflected in the June 30, 2014 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 determined 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

Summary of Actuarial Assumptions and Methods

(As of June 30, 2010)

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 August 2009 and reviewed plan experience for the period from July 1, 2005 through June 30, 2008. All assumptions, with the exception of health care trend rates, used in the June 30, 2010 actuarial valuation were based on the study performed in 2009 and in accordance with the actuary's recommendations. The health care trend rates used in the June 30, 2010 valuation are those adopted by the Board on November 15, 2007. The next Experience Study is scheduled to be completed in January 2014.

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 Assumption: Active member salaries are assumed to increase at the rates provided in Table 1 on the following page. The rates include a 4.5% percent inflationary component and an additional increase due to promotion based upon plan experience. This assumption was adopted in 2009.

Table 1: Salary Increase Assumptions

Service	KERS Non-Hazardous	KERS Hazardous	CERS Non-Hazardous	CERS Hazardous	SPRS
0-1	17.00%	21.00%	13.00%	20.00%	17.00%
1-2	9.00%	9.00%	9.50%	10.50%	12.00%
2-3	6.50%	7.00%	6.00%	6.50%	10.00%
3-4	6.00%	6.50%	6.00%	5.75%	9.00%
4-5	6.00%	6.00%	5.50%	5.50%	8.00%
5-6	6.00%	5.50%	5.50%	5.00%	7.00%
6-7	5.50%	5.00%	5.25%	4.50%	6.00%
7-8	5.50%	5.00%	5.25%	4.50%	6.50%
8-9	5.50%	5.00%	5.00%	4.50%	5.50%
9-10	5.00%	5.00%	5.00%	4.50%	5.00%
10+	5.00%	5.00%	4.75%	4.50%	4.50%

7. Payroll Growth Assumption: Active member payroll is assumed to increase at a rate of 4.5% per annum. This assumption was adopted in 2009.
8. Retiree Cost of Living Adjustments (COLA): State statutes require 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. The statutes only allow the Cost of Living Adjustments (COLAs) awarded as of the valuation date to be recognized for funding purposes and for determining employer contribution rates. The Kentucky General Assembly has the authority to suspend or reduce cost of living adjustments.

Table 3: Age (Years) & Non-Hazardous Retirement Probability (%)

Age	KERS	CERS
55 - 59	8.0%	8.0%
60	10.0	10.0
61	20.0	10.0
62 - 70	22.5	22.0

If service credit is at least 27 years, the rate is 25%. 100% are anticipated to retire at age 75.

Hazardous Service (Years) & Retirement Probability (%)

Service	KERS	CERS	SPRS
20	22.0%	20.0%	9.0%
21	22.0	20.0	10.0
22 - 24	22.0	20.0	22.0
25	35.0	33.0	22.0
26 - 27	37.0	33.0	25.0
28	39.0	39.0	25.0
29	38.0	33.0	25.0
30 - 31	38.0	33.0	33.3
32	50.0	50.0	33.3
33 - 34	50.0	40.0	33.3
35+	60.0	40.0	33.3

For KERS, 100% are anticipated to retire at age 65.
For CERS, 100% are anticipated to retire at age 62.
For SPRS, 100% are anticipated to retire at age 55.

9. Medical Inflation Rate Assumption: The costs for retiree medical premiums are assumed to increase according to the assumptions provided in Table 2:

Table 2

Fiscal Year Ended	Trend	
	Under Age 65	Age 65 and Over
2011	10.5%	9.0%
2012	9.5%	8.5%
2013	8.5%	7.5%
2014	7.5%	7.0%
2014	6.5%	6.5%
2016	6.0%	6.0%
2017	5.5%	5.5%
2018 and beyond	5.0%	5.0%

10. Retirement Rate Assumption: The probability, or the likelihood, that a member will retire at a specified age or level of service is provided in the tables to the left. This assumption was adopted in 2009.

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
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

**For members retiring on or after July 1, 2006.*

12. Withdrawal Rates: The probability, or likelihood, of active members terminating employment prior to retirement is provided in the table on the following page. 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 2009.

Selected Rates of Termination Prior to Retirement

Select Rates		Ultimate Rates		Select Rates		Ultimate Rates	
Service	Probability	Age	Probability	Service	Probability	Age	Probability
KERS Non-Hazardous				**CERS Non-Hazardous**			
1st Year of Service	19.00%	20	6.00%	1st Year of Service	25.00%	20	5.75%
2nd Year of Service	13.00	25	5.08	2nd Year of Service	14.00	25	5.75%
3rd Year of Service	10.00	30	4.26	3rd Year of Service	10.00	30	5.30
4th Year of Service	9.00	35	3.21	4th Year of Service	8.00	35	4.40
5th Year of Service	6.50	40	3.0	5th Year of Service	6.50	40	3.70
		45	3.0			45	3.02
		50	3.0			50	2.70
		55	3.0			55	2.20
		60	3.0			60	0.75
KERS Hazardous				**CERS Hazardous**			
1st Year of Service	15.00%	20	4.0%	1st Year of Service	14.00%	20	3.0%
2nd Year of Service	14.00	25	4.0	2nd Year of Service	7.5	25	2.7
3rd Year of Service	10.00	30	3.5	3rd Year of Service	6.0	30	2.5
4th Year of Service	8.00	35	3.0	4th Year of Service	4.5	35	2.5
5th Year of Service	6.00	40	3.0	5th Year of Service	4.0	40	2.5
		45	3.0			45	2.5
		50	3.0			50	2.5
		55	3.0			55	2.5
		60	3.0			60	2.5
SPRS							
1st Year of Service	20.0%	20	2.5%				
2nd Year of Service	7.5	25	2.5%				
3rd Year of Service	3.0	30	2.5%				
4th Year of Service	3.0	35	2.5%				
5th Year of Service	3.0	40	2.5%				
		45	2.5%				
		50	2.5%				
		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 2009.

Probability of Becoming Disabled During Employment

Non-Hazardous			Hazardous	
Age	Probability		Age	Probability
20 - 24	0.0354%		20 - 24	0.0531%
25 - 29	0.0474%		25 - 29	0.0711%
30 - 34	0.0612%		30 - 34	0.0918%
35 - 39	0.0853%		35 - 39	0.1280%
40 - 44	0.1329%		40 - 44	0.1994%
45 - 49	0.2213%		45 - 49	0.3320%
50 - 54	0.3727%		50 - 54	0.5590%
55 - 59	0.6133%		55 - 59	0.9200%
60 - 64	0.9745%		60 - 64	1.4618%

Summary of Actuarial Valuation Results
(As of June 30, 2010)

	KERS Non-Hazardous	KERS Hazardous	CERS Non-Hazardous	CERS Hazardous	SPRS
Recommended Contribution Rate (Fiscal Year 2011-2012)					
Pension Fund Contribution	24.3%	14.11%	11.70%	17.91%	39.80%
Insurance Fund Contribution	16.41	19.73	9.59	23.74	54.83
Recommended Employer Contribution	40.71	33.84	21.29	41.65	94.63
Funded Status as of Valuation Date					
Pension Fund					
Actuarial Liability	$11,004,795,089	$688,149,451	$8,459,022,280	$2,672,151,907	$612,444,806
Actuarial Value of Assets	$4,210,215,585	$502,729,009	$5,546,857,291	$1,749,464,388	$304,577,292
Unfunded Liability on Actuarial Value of Assets	$6,794,579,504	$185,420,442	$2,912,164,989	$922,687,519	$307,867,514
Funding Ratio on Actuarial Value of Assets	38.26%	73.06%	65.57%	65.47%	49.73%
Market Value of Assets	$3,503,007,035	$443,511,663	$4,819,933,717	$1,506,787,429	$264,944,089
Unfunded Liability on Market Value of Assets	$7,501,788,054	$244,673,788	$3,639,088,563	$1,165,364,478	$347,500,717
Funding Ratio on Market Value of Assets	31.83%	64.45%	56.98%	56.39%	43.26%
Insurance Fund					
Actuarial Liability	$4,466,136,041	$493,297,529	$3,158,340,174	$1,674,703,216	$434,960,495
Actuarial Value of Assets	$471,341,628	$314,427,296	$1,293,038,593	$692,769,770	$121,175,083
Unfunded Liability on Actuarial Value of Assets	$3,994,794,413	$178,870,233	$1,865,301,581	$981,933,446	$313,785,412
Funding Ratio on Actuarial Value of Assets	10.55%	63.74%	40.94%	41.37%	27.86%
Market Value of Assets	$371,002,484	$271,395,843	$1,096,581,872	$586,826,965	$104,526,550
Unfunded Liability on Market Value of Assets	$4,095,133,557	$221,901,686	$2,061,758,302	$1,087,876,251	$330,433,945
Funding Ratio on Market Value of Assets	8.31%	55.02%	34.72%	35.04%	24.03%

Summary of Actuarial Valuation Results
(As of June 30, 2009)

	KERS Non-Hazardous	KERS Hazardous	CERS Non-Hazardous	CERS Hazardous	SPRS
Member Data					
Number of Active Members	47,090	4,291	84,681	9,562	961
Total Annual Payroll (Active Members)[1]	$1,815,146,388	$143,557,944	$2,236,855,380	$466,548,660	$51,506,712
Average Annual Pay (Active Members)	$38,546	$33,456	$26,415	$48,792	$53,597
Number of Retired Members & Beneficiaries	37,945	2,836	41,038	6,068	1,223
Average Annual Retirement Allowance	$21,133	$14,503	$11,029	$24,212	$37,217
Number of Vested Inactive Members	5,875	319	9,430	545	55
Number of Inactive Members Due a Refund	31,806	2,836	54,574	2,086	290

[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 fiscal year ending June 30, 2010.

Recommended Employer Contribution Rates

(As of June 30, 2010)

Kentucky 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
6/30/05	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%	39.45%
6/30/09	2010-2011	4.26%	17.51%	21.77%	16.81%	38.58%
6/30/10	2011-2012	4.23%	20.07%	24.30%	16.41%	40.71%

Kentucky Employees Retirement System

(Hazardous Employers)

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%
6/30/09	2010-2011	7.94%	6.17%	14.11%	20.26%	34.37%
6/30/10	2011-2012	7.19%	6.92%	14.11%	19.73%	33.84%

The contribution rates for KERS Non-Hazardous and KERS Hazardous shown in the above tables are the actuarially required contribution (ARC) rates presented by the actuary in the 2006 through 2010 annual valuations. However, the actual employer contribution rates have been less than those shown above. As a result of HB 1 passed in 2008 the applicable statute now calls for an employer contribution rate at an increasing percentage of the ARC rates until 100% is achieved in 2025 for KERS Non-Hazardous and 2019 for KERS Hazardous.

Recommended Employer Contribution Rates

(As of June 30, 2010)

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
6/30/05	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	20.91
6/30/09	2010-2011	4.60	5.43	10.03	9.78	19.81
6/30/10	2011-2012	4.72%	6.98%	11.70%	9.59%	21.29%

County Employees Retirement System
(Hazardous Employers)

6/3 0/05	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	43.36
6/30/09	2010-2011	7.56	9.23	16.79	23.27	40.06
6/30/10	2011-2012	7.31%	10.60%	17.91%	23.74%	41.65%

The insurance fund contribution rates and the employer contribution rates for CERS Non-Hazardous and CERS Hazardous shown in the above tables are the actuarially required contribution (ARC) rates presented by the actuary in the 2006 through 2010 annual valuations. However, in the case of CERS Non-Hazardous and CERS Hazardous, 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. In 2008 this was changed to a ten-year phase-in from the initial starting date due to legislation enacted by the Kentucky General Assembly. As a result, the CERS Non-Hazardous insurance fund contribution rate actually recommended by the actuary and adopted by the Board for 2011-2012 is 7.26% and the employer contribution rate is 18.96%. The CERS Hazardous insurance fund contribution rate actually recommended by the actuary and adopted by the Board for 2011-2012 is 17.85% and the employer contribution rate is 35.76%.

Recommended Employer Contribution Rates

(As of June 30, 2010)

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
6/30/05	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	92.12
6/30/09	2010-2011	8.12	27.62	35.74	49.89	85.63
6/30/10	2011-2012	7.75%	32.05%	39.80%	54.83%	94.63%

The contribution rates for SPRS shown in the above tables are the actuarially required contribution (ARC) rates presented by the actuary in the 2006 through 2010 annual valuations. However, the actual employer contribution rates have been less than those shown above. As a result of House Bill 1 passed in 2008 the applicable statute now calls for an employer contribution rate at an increasing percentage of the ARC rates until 100% is achieved in 2020 for SPRS.

Summary of Actuarial Unfunded Liabilities
(As of June 30, 2010)

Kentucky Employees Retirement System

(Non-Hazardous Pension Fund)

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Actuarial Liabilities		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
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%
6/30/09	$10,658,549,532	$4,794,611,365	$3,584,196,429	$5,863,938,167	$7,074,353,103	45.0%	33.6%
6/30/10	$11,004,795,089	$4,210,215,585	$3,503,007,035	$6,794,579,504	$7,501,788,054	38.3%	31.8%

Kentucky Employees Retirement System

(Non-Hazardous Insurance Fund)

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%
6/30/09	$4,507,325,571	$534,172,580	$365,771,088	$3,973,152,991	$4,141,554,483	11.9%	8.1%
6/30/10	$4,466,136,041	$471,341,628	$371,002,484	$3,994,794,413	$4,095,133,557	10.6%	8.3%

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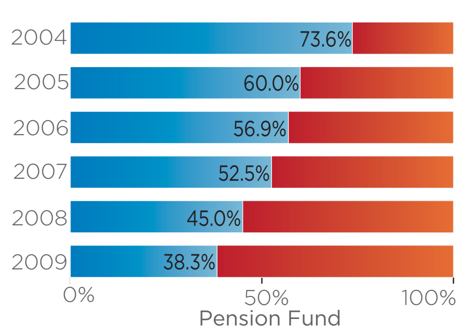
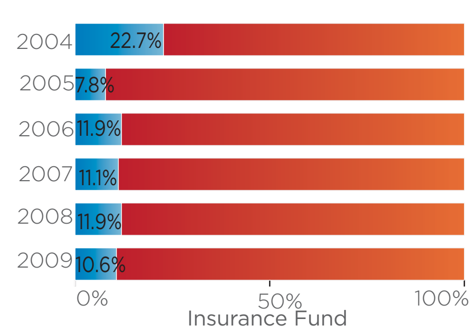




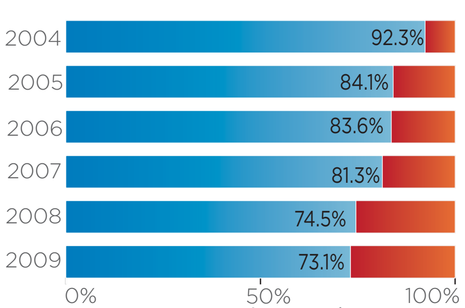
Summary of Actuarial Unfunded Liabilities
(As of June 30, 2010)

Kentucky Employees Retirement System
(Hazardous Pension Fund)

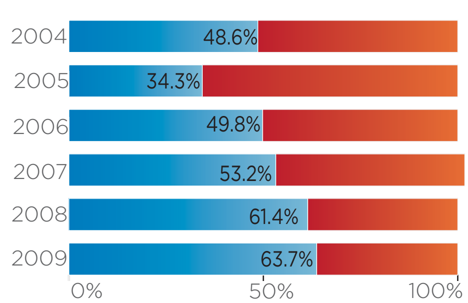
Valuation Date	Actuarial Liability	Value of Assets		Unfunded Actuarial Liabilities		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/05	$438,994,257	$405,288,662	$398,308,897	$33,705,595	$40,685,360	92.3%	90.7%
6/30/06	$508,655,903	$427,984,192	$437,029,583	$80,671,711	$71,626,320	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%
6/30/09	$674,411,781	$502,503,287	$388,913,374	$171,908,494	$285,498,406	74.5%	57.7%
6/30/10	$688,149,451	$502,729,009	$443,511,663	$185,420,442	$244,637,788	73.1%	64.5%

Kentucky Employees Retirement System
(Hazardous Insurance Fund)

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%
6/30/09	$491,132,170	$301,634,592	$219,537,255	$189,497,578	$271,594,915	61.4%	44.7%
6/30/10	$493,297,529	$314,427,296	$271,395,843	$178,870,233	$221,901,686	63.7%	55.0%



Pension Fund



Insurance Fund

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 Actuarial Unfunded Liabilities

(As of June 30, 2010)

County Employees Retirement System

(Non-Hazardous Pension Fund)

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Actuarial Liabilities		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
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%
6/30/09	$7,912,913,512	$5,650,789,991	$4,330,593,934	$2,262,123,521	$3,582,319,578	71.4%	54.7%
6/30/10	$8,459,022,280	$5,546,857,291	$4,819,933,717	$2,912,164,989	$3,639,088,563	65.6%	57.0%

County Employees Retirement System

(Non-Hazardous Insurance Fund)

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%
6/30/09	$3,070,386,018	$1,216,631,769	$894,905,841	$1,853,754,249	$2,175,480,177	39.6%	29.2%
6/30/10	$3,158,340,174	$1,293,038,593	$1,096,581,872	$1,865,301,581	$2,061,758,302	40.9%	34.7%

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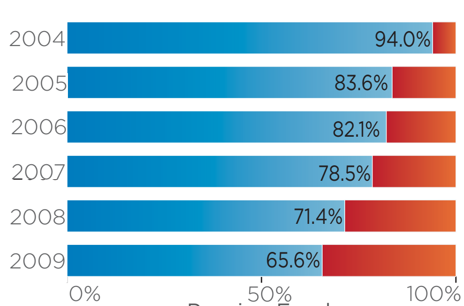
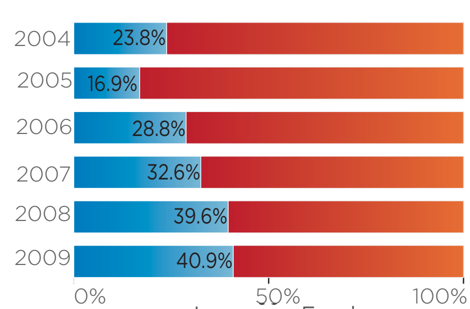


Pension Fund



Insurance Fund

Summary of Actuarial Unfunded Liabilities

(As of June 30, 2010)

County Employees Retirement System

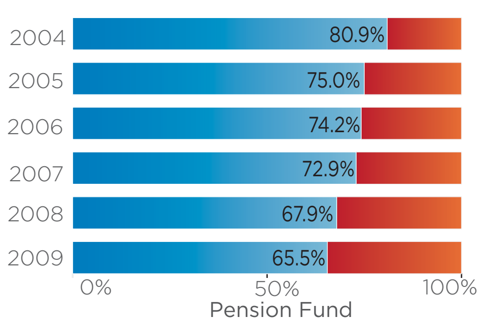
(Hazardous Pension Fund)

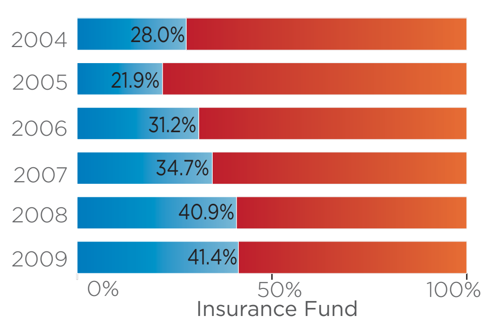
Valuation Date	Actuarial Liability	Value of Assets		Unfunded Actuarial Liabilities		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/05	$1,795,617,335	$1,452,353,023	$1,411,245,719	$343,264,312	$384,371,616	80.9%	78.6%
6/30/06	$2,020,142,770	$1,515,075,017	$1,528,845,357	$505,067,753	$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%
6/30/09	$2,578,444,600	$1,751,487,540	$1,320,522,868	$826,957,060	$1,257,921,732	67.9%	51.2%
6/30/10	$2,672,151,907	$1,749,464,388	$1,506,787,429	$922,687,519	$1,165,364,478	65.5%	56.4%

County Employees Retirement System

(Hazardous Insurance Fund)

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%
6/30/09	$1,593,548,263	$651,130,782	$483,269,862	$942,417,481	$1,110,278,401	40.9%	30.3%
6/30/10	$1,674,703,216	$692,769,770	$586,826,965	$981,933,446	$1,087,876,251	41.4%	35.0%





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 Actuarial Unfunded Liabilities
(As of June 30, 2010)

State Police Retirement System
(Pension Fund)

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Actuarial Liabilities		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
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%
6/30/09	$602,328,868	$329,966,989	$256,571,073	$272,361,879	$345,757,795	54.8%	42.6%
6/30/10	$612,444,806	$304,577,292	$264,944,089	$307,867,514	$347,500,717	49.7%	43.3%

State Police Retirement System
(Insurance Fund)

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%
6/30/09	$364,031,141	$123,526,647	$93,686,940	$240,504,494	$270,344,201	33.9%	25.7%
6/30/10	$434,960,495	$121,175,083	$104,526,550	$313,785,412	$330,433,945	27.9%	24.0%

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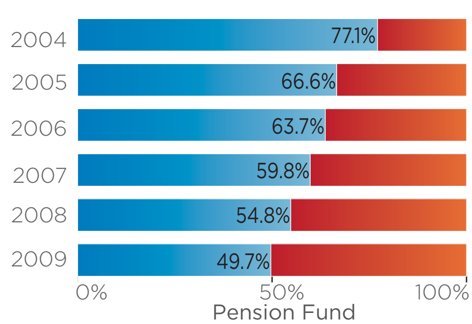

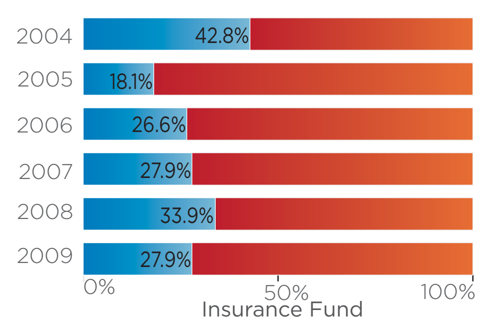

Analysis of Financial Experience

(As of June 30, 2010)

Kentucky Employees Retirement System Non-Hazardous
Gains & Losses in Accrued Liabilities Resulting from Difference Between
Assumed Experience & Actual Experience ($ Millions)

Type of Activity	Retirement $ Gain (or Loss)	Insurance $ Gain (or Loss)
Age & Service Retirements. If members retire at older ages, there is a gain. If younger ages, a loss.	(39.4)	(4.3)
Disability Retirements. If disability claims are less than assumed, there is a gain. If more claims, a loss.	(4.1)	2.9
Death-In Service Benefits. If survivor claims are less than assumed, there is a gain. If more claims, there is a loss.	(0.9)	(1.8)
Withdrawal From Employment. If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	6.9	10.9
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.	68.5	306.0
New Members. Additional unfunded accrued liability will produce a loss.	(8.4)	(8.5)
Investment Income. If there is a greater investment income than assumed, there is a gain. If less income, a loss.	(324.2)	(32.7)
Death After Retirement. If retired members live longer than assumed, there is a loss. If not as long, a gain.	14.2	58.5
Other. Miscellaneous gains and losses resulting from changes in valuation software, data adjustments, timing of financial transactions, etc.	(258.0)	(375.1)
Gain (or Loss) During Year From Financial Experience	(545.4)	(44.1)
Non-Recurring Items. Adjustments for plan amendments, assumption changes, method changes or contribution timing.	0.0	53.0
Composite Gain (or Loss) During Year	(545.4)	8.9

Analysis of Financial Experience

(As of June 30, 2010)

Kentucky Employees Retirement System Hazardous
Gains & Losses in Accrued Liabilities Resulting from Difference Between Assumed Experience & Actual Experience ($ Millions)

Type of Activity	Retirement $ Gain (or Loss)	Insurance $ Gain (or Loss)
Age & Service Retirements. If members retire at older ages, there is a gain. If younger ages, a loss.	(31.7)	(2.9)
Disability Retirements. If disability claims are less than assumed, there is a gain. If more claims, a loss.	0.4	0.8
Death-In Service Benefits. If survivor claims are less than assumed, there is a gain. If more claims, there is a loss.	0.1	(0.1)
Withdrawal From Employment. If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	15.9	9.3
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.	7.3	36.0
New Members. Additional unfunded accrued liability will produce a loss.	(1.4)	(0.8)
Investment Income. If there is a greater investment income than assumed, there is a gain. If less income, a loss.	(27.2)	(14.0)
Death After Retirement. If retired members live longer than assumed, there is a loss. If not as long, a gain.	5.1	9.9
Other. Miscellaneous gains and losses resulting from changes in valuation software, data adjustments, timing of financial transactions, etc.	25.4	(23.2)
Gain (or Loss) During Year From Financial Experience	(6.1)	15.0
Non-Recurring Items. Adjustments for plan amendments, assumption changes, method changes or contribution timing.	(4.3)	(0.4)
Composite Gain (or Loss) During Year	(6.1)	14.6

Analysis of Financial Experience

(As of June 30, 2010)

County Employees Retirement System Non-Hazardous
Gains & Losses in Accrued Liabilities Resulting from Difference Between Assumed Experience & Actual Experience ($ Millions)

Type of Activity	Retirement $ Gain (or Loss)	Insurance $ Gain (or Loss)
Age & Service Retirements. If members retire at older ages, there is a gain. If younger ages, a loss.	(91.3)	(13.1)
Disability Retirements. If disability claims are less than assumed, there is a gain. If more claims, a loss.	(14.3)	6.1
Death-In Service Benefits. If survivor claims are less than assumed, there is a gain. If more claims, there is a loss.	(1.5)	(2.5)
Withdrawal From Employment. If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	21.0	10.5
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.	77.6	209.8
New Members. Additional unfunded accrued liability will produce a loss.	(11.2)	(7.7)
Investment Income. If there is a greater investment income than assumed, there is a gain. If less income, a loss.	(353.8)	(60.6)
Death After Retirement. If retired members live longer than assumed, there is a loss. If not as long, a gain.	13.1	10.4
Other. Miscellaneous gains and losses resulting from changes in valuation software, data adjustments, timing of financial transactions, etc.	(221.3)	(153.6)
Gain (or Loss) During Year From Financial Experience	(581.7)	(0.7)
Non-Recurring Items. Adjustments for plan amendments, assumption changes, method changes or contribution timing.	0.0	28.2
Composite Gain (or Loss) During Year	(581.7)	27.5

Analysis of Financial Experience

(As of June 30, 2010)

County Employees Retirement System Hazardous
Gains & Losses in Accrued Liabilities Resulting from Difference Between Assumed Experience & Actual Experience ($ Millions)

Type of Activity	Retirement $ Gain (or Loss)	Insurance $ Gain (or Loss)
Age & Service Retirements. If members retire at older ages, there is a gain. If younger ages, a loss.	(46.2)	(8.4)
Disability Retirements. If disability claims are less than assumed, there is a gain. If more claims, a loss.	0.3	0.5
Death-In Service Benefits. If survivor claims are less than assumed, there is a gain. If more claims, there is a loss.	0.1	3.9
Withdrawal From Employment. If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	19.4	17.1
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.	29.8	123.9
New Members. Additional unfunded accrued liability will produce a loss.	(4.8)	(6.6)
Investment Income. If there is a greater investment income than assumed, there is a gain. If less income, a loss.	(117.1)	(33.5)
Death After Retirement. If retired members live longer than assumed, there is a loss. If not as long, a gain.	4.5	18.0
Other. Miscellaneous gains and losses resulting from changes in valuation software, data adjustments, timing of financial transactions, etc.	34.5	(114.5)
Gain (or Loss) During Year From Financial Experience	(79.5)	0.4
Non-Recurring Items. Adjustments for plan amendments, assumption changes, method changes or contribution timing.	0.0	(20.1)
Composite Gain (or Loss) During Year	(79.5)	(19.7)

Analysis of Financial Experience

(As of June 30, 2010)

State Police Retirement System

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

Type of Activity	Retirement $ Gain (or Loss)	Insurance $ Gain (or Loss)
Age & Service Retirements. If members retire at older ages, there is a gain. If younger ages, a loss.	(7.5)	(1.3)
Disability Retirements. If disability claims are less than assumed, there is a gain. If more claims, a loss.	(0.1)	(0.3)
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	2.2
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.	3.0	32.8
New Members. Additional unfunded accrued liability will produce a loss.	0.0	(0.2)
Investment Income. If there is a greater investment income than assumed, there is a gain. If less income, a loss.	(17.5)	(4.3)
Death After Retirement. If retired members live longer than assumed, there is a loss. If not as long, a gain.	(0.3)	4.7
Other. Miscellaneous gains and losses resulting from changes in valuation software, data adjustments, timing of financial transactions, etc.	2.0	(44.1)
Gain (or Loss) During Year From Financial Experience	(19.7)	(10.5)
Non-Recurring Items. Adjustments for plan amendments, assumption changes, method changes or contribution timing.	0.0	(61.0)
Composite Gain (or Loss) During Year	(19.7)	(71.5)

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.

Solvency Test

(As of June 30, 2010)

Kentucky Employees Retirement System
(Non-Hazardous Pension Fund)

	Actuarial Liabilities				% of Actuarial Liabilities Covered by Actuarial Assets for		
Valuation Date	(1) Active Member Contributions	(2) Retired Members & Beneficiaries	(3) Active Members (Employer Portion)	Actuarial Value of Assets	(1)	(2)	(3)
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	--
6/30/09	793,574,765	8,205,155,691	1,659,819,076	4,794,611,365	100.0	48.8	--
6/30/10	869,484,042	8,329,757,802	1,805,553,245	4,210,215,585	100.0%	40.1	--

Kentucky Employees Retirement System
(Non-Hazardous Insurance Fund)

	Actuarial Liabilities				% of Actuarial Liabilities Covered by Actuarial Assets for		
Valuation Date	(1) Active Member Contributions	(2) Retired Members & Beneficiaries	(3) Active Members (Employer Portion)	Actuarial Value of Assets	(1)	(2)	(3)
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	--
6/30/09	0	2,861,867,088	1,645,458,483	534,172,580	100.0	18.7	--
6/30/10	0	2,744,534,054	1,721,601,987	471,341,628	100.0	17.2	--

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.

Solvency Test

(As of June 30, 2010)

Kentucky Employees Retirement System
(Hazardous Pension Fund)

	Actuarial Liabilities				% of Actuarial Liabilities Covered by Actuarial Assets for		
Valuation Date	(1) Active Member Contributions	(2) Retired Members & Beneficiaries	(3) Active Members (Employer Portion)	Actuarial Value of Assets	(1)	(2)	(3)
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
6/30/09	87,779,938	413,972,356	172,659,487	502,503,288	100.0	100.0	0.4
6/30/10	88,511,283	441,657,241	157,980,927	502,729,009	100.0	93.8	--

Kentucky Employees Retirement System
(Hazardous Insurance Fund)

	Actuarial Liabilities				% of Actuarial Liabilities Covered by Actuarial Assets for		
Valuation Date	(1) Active Member Contributions	(2) Retired Members & Beneficiaries	(3) Active Members (Employer Portion)	Actuarial Value of Assets	(1)	(2)	(3)
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	90.9	--
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
6/30/09	0	242,123,365	249,008,805	301,634,592	100.0	100.0	23.9
6/30/10	0	268,510,709	224,786,820	314,427,296	100.0	100.0	20.4

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 should be covered by actuarial assets over time.

Solvency Test

(As of June 30, 2010)

County Employees Retirement System
(Non-Hazardous Pension Fund)

	Actuarial Liabilities				% of Actuarial Liabilities Covered by Actuarial Assets for		
Valuation Date	(1) Active Member Contributions	(2) Retired Members & Beneficiaries	(3) Active Members (Employer Portion)	Actuarial Value of Assets	(1)	(2)	(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
6/30/09	991,628,551	4,542,483,102	2,378,801,859	5,650,789,991	100.0	100.0	4.9
6/30/10	1,063,746,826	4,890,659,077	2,504,616,377	5,546,857,291	100.0	91.7	--

County Employees Retirement System
(Non-Hazardous Insurance Fund)

	Actuarial Liabilities				% of Actuarial Liabilities Covered by Actuarial Assets for		
Valuation Date	(1) Active Member Contributions	(2) Retired Members & Beneficiaries	(3) Active Members (Employer Portion)	Actuarial Value of Assets	(1)	(2)	(3)
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	--
6/30/09	0	1,478,782,753	1,591,603,265	1,216,631,769	100.0	82.3	--
6/30/10	0	1,526,533,372	1,631,806,802	1,293,038,593	100.0	84.7	--

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.

Solvency Test

(As of June 30, 2010)

County Employees Retirement System
(Hazardous Pension Fund)

	Actuarial Liabilities				% of Actuarial Liabilities Covered by Actuarial Assets for		
Valuation Date	(1) Active Member Contributions	(2) Retired Members & Beneficiaries	(3) Active Members (Employer Portion)	Actuarial Value of Assets	(1)	(2)	(3)
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
6/30/09	350,308,879	1,540,262,587	687,873,134	1,751,487,540	100.0	91.0	--
6/30/10	369,612,720	1,622,684,455	679,854,732	1,749,464,388	100.0	85.0	--

County Employees Retirement System
(Hazardous Insurance Fund)

	Actuarial Liabilities				% of Actuarial Liabilities Covered by Actuarial Assets for		
Valuation Date	(1) Active Member Contributions	(2) Retired Members & Beneficiaries	(3) Active Members (Employer Portion)	Actuarial Value of Assets	(1)	(2)	(3)
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	--
6/30/09	0	725,899,836	867,648,427	651,130,782	100.0	89.7	--
6/30/10	0	814,300,256	860,402,960	692,769,770	100.0	85.1	--

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.

Solvency Test

(As of June 30, 2010)

State Police Retirement System
(Pension Fund)

	Actuarial Liabilities				% of Actuarial Liabilities Covered by Actuarial Assets for		
Valuation Date	(1) Active Member Contributions	(2) Retired Members & Beneficiaries	(3) Active Members (Employer Portion)	Actuarial Value of Assets	(1)	(2)	(3)
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	--
6/30/09	41,664,469	459,585,353	101,079,046	329,966,989	100.0	62.7	--
6/30/10	42,011,523	475,892,659	94,540,624	304,577,292	100.0	55.2	--

State Police Retirement System
(Insurance Fund)

	Actuarial Liabilities				% of Actuarial Liabilities Covered by Actuarial Assets for		
Valuation Date	(1) Active Member Contributions	(2) Retired Members & Beneficiaries	(3) Active Members (Employer Portion)	Actuarial Value of Assets	(1)	(2)	(3)
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	--
6/30/09	0	167,091,453	196,939,688	123,526,647	100.0	73.9	--
6/30/10	0	253,580,827	181,379,668	121,175,083	100.0	47.8	

Summary of Active Member Valuation Data as of June 30, 2010

	Valuation Date	Number of Employers	Total Active Members	Annual Payroll[1]	Annual Avg. Pay	% Increase In Avg. Pay	Average Age	Avg. Yrs of Service Credit
Kentucky Employees Retirement System Non-Hazardous	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
	6/30/09	334	46,060	1,754,412,912	38,090	(0.3)	43.0	8.7
	6/30/10	334	47,090	$1,815,146,388	$38,546	1.2%	43.4	9.0
Kentucky Employees Retirement System Hazardous	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
	6/30/09	20	4,334	146,043,576	33,697	(0.5)	41.4	7.0
	6/30/10	18	4,291	$143,557,944	$33,456	(0.7)%	41.4	7.0
County Employees Retirement System Non-Hazardous	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
	6/30/09	1,108	83,724	2,183,611,848	26,081	2.6	46.2	8.6
	6/30/10	1,102	84,681	$2,236,855,380	$26,415	1.3%	46.6	8.8
County Employees Retirement System Hazardous	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
	6/30/09	290	9,757	469,315,464	48,100	3.2	38.4	8.8
	6/30/10	282	9,562	$466,548,660	$48,792	1.4%	38.8	9.2
State Police Retirement System	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
	6/30/09	1	946	$51,660,396	$54,609	1.8	37.3	11.0
	6/30/10	1	961	$51,506,712	$53,597	(1.9)%	37.2	10.6

[1] Annual payroll included in the Summary 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, 2010.

Schedule of Retirees & Beneficiaries Added to and Removed from Rolls as of June 30, 2010

	Valuation Date	Number Added	Number Removed	Total Retirees & Beneficiaries	Annualized Retirement Allowances[1]	% Increase in Allowances	Average Annual Allowance
Kentucky Employees Retirement System Non-Hazardous	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
	6/30/09	3,465	889	37,883	812,559,070	14.36	21,449
	6/30/10	1,162	1,100	37,945	$801,881,911	(1.31)	$21,133
Kentucky Employees Retirement System Hazardous	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
	6/30/09	339	95	2,648	38,695,501	15.20	14,613
	6/30/09	282	95	2,835	41,114,800	6.25	14,503
County Employees Retirement System Non-Hazardous	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
	6/30/09	3,060	883	39,756	440,061,418	11.76	11,069
	6/30/10	2,565	1,283	41,038	$452,613,550	2.85	11,029
County Employees Retirement System Hazardous	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
	6/30/09	650	264	5,808	139,886,751	9.73	24,085
	6/30/10	423	163	6,068	146,916,812	5.03	24,212
State Police Retirement System	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
	6/30/09	75	26	1,184	$44,273,937	7.22	$37,394
	6/30/10	54	15	1,223	$45,515,797	2.80	$37,217

[1] 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.

Summary of Benefit Provisions

KERS & CERS Non Hazardous Plans

Plan Funding

State statute requires active members to contribute 5% of creditable compensation. For members participating on or after September 1, 2008 an additional 1% of creditable compensation is required. This amount is credited to the Insurance Fund and is non-refundable to the member. Employers contribute at the rate determined by the Board to be necessary for the actuarial soundness of the systems, as required by Kentucky Revised Statute 61.565 and Kentucky Revised Statute 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
Members whose participation began before 9/1/2008

Age	Years of Service	Allowance Reduction
65	4	None
Any	27	None
55	5	5% per year for five years before age 65 or 27 years of service. 4% for each year thereafter.
Any	25	5% each year for five years before age 65 or 27 years of service.

Retirement Eligibility

Members whose participation began on or after 9/1/2008

Age	Years of Service	Allowance Reduction
65	5	None
57	Rule of 87	None
60	10	5% per year for five years before age 65 or Rule of 87 (age plus years of service). 4% for each year thereafter.

Benefit Formula

Final Compensation	X	Benefit Factor		X	Years of Service
Average of the five highest, or if participation began on or after 9/1/2008 average of the last five.		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 and before 9/1/08.		
		KERS and CERS increasing percent based on service at retirement *(see chart to left)* plus 2.00% for each year of service over 30 if:	Member begins participating on or after 9/1/08.		

Benefit Factors for members with a participation date on or after 9/1/08

Service	Benefit Factor
10 years or less	1.10%
10+ to 20 years	1.30%
20+ to 26 years	1.50%
26+ to 30 years	1.75%
Additional years over 30	2.00%

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 August 1, 2004 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 August 1, 2004 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 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 and before September 1, 2008 are required to earn at least 10 years of service credit in order to be eligible for insurance benefits at retirement. Members participating on or after September 1, 2008 are required to earn at least 15 years of service credit and be age 60 or meet the rule of 87 (age plus years of service) 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 1.5% from July 1, 2008.

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.

KERS & CERS Hazardous Plans & SPRS

Plan Funding

State statutes require active members to contribute 8% of creditable compensation. For members participating on or after September 1, 2008 an additional 1% of creditable compensation is required. This amount is credited to the Insurance Fund and is non-refundable to the member. Employers contribute at the rate determined by the Board to be necessary for the actuarial soundness of the systems, as required by Kentucky Revised Statute 61.565 and Kentucky Revised Statute 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

Members whose participation began before 9/1/2008

Age	Years of Service	Allowance Reduction
55	5	None
Any	20	None
50	15	6.5% per year for five years after 4.5% for remaining years before age 55 or 20 years of service.

Retirement Eligibility

Members whose participation began on or after 9/1/2008

Age	Years of Service	Allowance Reduction
60	5	None
Any	25	None
50	15	6.5% per year for five years and 4.5% for remaining 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, or if participation began on or after 9/1/2008 average of the last three.		KERS 2.49% CERS 2.50% SPRS 2.50%, if:	Member begins participating before 9/1/08.		Includes earned service, purchased service, prior service, and sick leave service (if the member's employer participates in an approved sick leave program).
		KERS, CERS and SPRS increasing percent based on service at retirement *(see chart to left)* if:	Member begins participating on or after 9/1/08.		

Benefit Factors for members with a participation date on or after 9/1/08

Service	Benefit Factor
10 years or less	1.30%
10+ to 20 years	1.50%
20+ to 25 years	2.25%
25+ Years	2.50%

Disability Benefits

Members hired before August 1, 2004 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 August 1, 2004 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 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 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 and before September 1, 2008 are required to earn at least 10 years of service credit in order to be eligible for insurance benefits at retirement. Members participating on or after September 1, 2008 are required to earn at least 15 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 1.5% after July 1, 2008.

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.

Statistical

Membership by System

	Fiscal Year	Active	Inactive	Retired	Total
Kentucky Employees Retirement System Non-Hazardous	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
	2009	46,060	34,515	37,883	118,458
	2010	46,710	32,461	35,733	114,904
Kentucky Employees Retirement System Hazardous	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
	2009	4,334	3,056	2,648	10,038
	2010	4,049	2,285	1,900	8,234
County Employees Retirement System Non-Hazardous	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
	2009	83,724	60,275	39,756	183,755
	2010	84,010	55,423	38,261	177,694

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.

The data for years 2005-2009 reflects the number of accounts in each system. A single member may have multiple accounts, which contribute to one pension. Note for 2010: Each person is only counted once in the Membership by System report. A member who has both a membership account and a retired account is included in retired count. Members who have multiple membership accounts are included under the system where they most recently contributed. Members who have more than one retirement account are included in the system with the greatest service credit. If the retired accounts have equal service credit, they are counted first in SPRS, CERS Hazardous, KERS Hazardous, CERS Non-hazardous, then KERS Non-hazardous.

Membership by System

	Fiscal Year	Active	Inactive	Retired	Total
County Employees Retirement System Hazardous	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
	2009	9,757	2,522	5,808	18,087
	2010	9,120	2,009	4,867	15,996
State Police Retirement System	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
	2009	946	332	1,184	2,462
	2010	948	201	1,004	2,153
Kentucky Retirement Systems Total	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
	2009	144,821	101,552	87,279	333,652
	2010	144,837	92,379	81,765	318,981

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.

The data for years 2005-2009 reflects the number of accounts in each system. A single member may have multiple accounts, which contribute to one pension. Note for 2010: Each person is only counted once in the Membership by System report. A member who has both a membership account and a retired account is included in retired count. Members who have multiple membership accounts are included under the system where they most recently contributed. Members who have more than one retirement account are included in the system with the greatest service credit. If the retired accounts have equal service credit, they are counted first in SPRS, CERS Hazardous, KERS Hazardous, CERS Non-hazardous, then KERS Non-hazardous.

Average Monthly Benefit by Length of Service

	KERS Non-Hazardous		KERS Hazardous	
Service Credit Range	Number of Accounts	Average Monthly Benefit	Number	Average Monthly Benefit
Under 5 Years	3,855	145.82	528	184.91
5 or more but less than 10	4,711	393.51	599	552.63
10 or more but less than 15	4,303	643.66	550	994.78
15 or more but less than 20	3,874	952.46	478	1,494.74
20 or more but less than 25	4,207	1,289.95	481	2,027.34
25 or more but less than 30	9,913	2,230.24	122	2,570.74
30 or more but less than 35	6,246	3,108.19	56	3,352.64
35 or more	2,623	4,346.68	10	4,484.65
Total	39,732	1,691.98	2,824	1,137.27
	CERS Non-Hazardous		CERS Hazardous	
Under 5 Years	4,671	138.70	539	206.95
5 or more but less than 10	8,356	307.73	707	619.94
10 or more but less than 15	7,785	499.03	513	1,149.58
15 or more but less than 20	6,026	741.73	514	1,653.87
20 or more but less than 25	5,966	958.28	2,145	2,224.99
25 or more but less than 30	7,582	1,855.65	1,015	3,174.27
30 or more but less than 35	1,998	2,626.28	383	3,929.08
35 or more	568	3,453.47	92	4,806.14
Total	42,952	897.96	5,908	2,019.49
	SPRS			
Under 5 Years	58	346.56		
5 or more but less than 10	36	831.07		
10 or more but less than 15	39	1,187.10		
15 or more but less than 20	71	1,893.47		
20 or more but less than 25	345	2,398.84		
25 or more but less than 30	394	3,371.11		
30 or more but less than 35	222	4,489.37		
35 or more	62	5,436.54		
Total	1,227	3,032.01		

The information in the tables on this page include only individuals receiving a monthly benefit as of June 30, 2010.

The information in the tables on this page represent accounts administered by KRS. A single member may have multiple accounts, which contribute to one pension.

Retired reemployed members and individuals deceased prior to June 2010 are not included; therefore, the numbers in this section may differ from the numbers in the Financial and Actuarial Sections.

Schedule of Participating Employers

Agency Classification	Number of Agencies	Number of Employees
Kentucky Employees Retirement System		
Agencies Reporting Through State Payroll	169	34,223
Other Agencies (universities, mental health boards, health departments)	144	17,121
Special Districts and Boards	4	351
Child Support Offices (county attorneys)	60	208
Other State-Administered Retirement Systems	3	292
Total	380	52,195
State Police Retirement System		
Kentucky State Police-Uniformed Officers	1	961
County Employees Retirement System		
Area Development Districts	13	719
Boards of Education	174	48,951
Cities	218	6,452
County Attorneys	67	598
County Clerks	15	2,383
County Government Agencies	260	20,378
Fire Departments	71	933
Hospitals	3	379
Jailers	9	395
Libraries	83	1,102
Planning Commissions	11	187
Police Departments	91	712
Police & Fire Departments (combined)	61	3,492
Sanitation Districts	6	65
Sheriff Departments	53	1,112
Special Districts and Boards	161	2,973
Utility boards	104	3,496
Urban County Government Agencies	4	1,971
Total	1,404	96,298

Principal Participating Employers- KERS and CERS

Participating Employer	Rank	Covered Employees	% of Total System
Kentucky Employees Retirement System			
Health & Family Services Cabinet: Dept. for Community Based Services	1	4,419	8.47%
Transportation: Department of Highways	2	4,110	7.87%
Justice and Public Safety: Dept of Corrections	3	3,601	6.90%
Bluegrass Reg Mental Health/Mental Retardation Board	4	2,257	4.32%
Dept of Juvenile Justice	5	1,408	2.70%
Administrative Office of the Court	6	1,401	2.68%
Seven Co Services	7	1,198	2.30%
Unified Prosecutorial System	8	1,066	2.04%
Eastern Kentucky University	9	1,038	1.99%
Department Workforce Investment	10	1,036	1.98%
All Others		30,661	58.74%
Total		52,195	100.00%
County Employees Retirement System			
Jefferson Co Board of Education	1	6,661	6.92%
Louisville/Jefferson County Metro	2	3,131	3.25%
Louisville/Jefferson County Metro	3	2,304	2.39%
Fayette Co Bd Educatoin	4	1,930	2.00%
Circuit Clerks	5	1,808	1.88%
Lex/Fayette Urban Co Govt	6	1,558	1.62%
Boone Co Bd of Ed	7	1,158	1.20%
Hardin Co Bd of Ed	8	1,123	1.17%
Warren County Bd of Ed	9	959	1.00%
Bullitt Co Bd of Ed	10	923	0.96%
All Others		74,743	77.62%
Total		96,298	100.00%

Plan Net Assets Dollars in Thousands ($)

		Non-Hazardous			Hazardous		
		Pension	Insurance	Total	Pension	Insurance	Total
Kentucky Employees Retirement System	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
	June 30 2009	3,584,601	365,367	3,949,968	388,951	219,500	608,451
	June 30 2010	3,504,501	368,799	3,873,300	443,606	271,240	714,846

		Non-Hazardous			Hazardous		
		Pension	Insurance	Total	Pension	Insurance	Total
County Employees Retirement System	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
	June 30 2009	4,331,010	894,490	5,225,500	1,320,560	483,233	1,803,793
	June 30 2010	4,820,490	1,094,821	5,915,311	1,506,894	586,614	2,093,508

		Pension	Insurance	Total
State Police Retirement System	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
	June 30 2009	256,575	93,682	350,257
	June 30 2010	264,949	104,511	369,460

		Pension	Insurance	Total
Kentucky Retirement Systems Total	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
	June 30 2009	9,881,697	2,056,272	11,937,969
	June 30 2010	10,540,440	2,425,987	12,966,427

Changes in Plan Net Assets Dollars in Thousands ($)

Kentucky Employees Retirement System Non-Hazardous Pension Fund

	2005	2006	2007	2008	2009	2010
Additions						
Member Contributions	$127,801	$107,607	$116,254	$116,487	$108,362	$90,780
Employer Contributions	50,333	60,681	88,249	104,655	112,383	144,051
Health Insurance Contribution (HB1)	0	0	0	0	404	1,799
Net Investment Income	462,638	504,361	784,652	(221,578)	(867,675)	526,209
Total Additions	640,772	672,649	989,155	(436)	(646,526)	762,839
Deductions						
Benefit Payments	522,396	577,947	640,201	699,052	808,513	825,627
Refunds	8,824	9,632	9,489	9,076	9,127	8,887
Administrative Expenses	5,916	7,568	7,070	7,724	8,102	8,424
Other Expenses	0	0	0	0	0	0
Total Deductions	537,136	595,147	656,773	715,852	825,742	842,938
Change in Plan Net Assets (Difference between Additions and Deductions)	**$103,636**	**$77,502**	**$332,382**	**(716,288)**	**(1,472,268)**	**(80,099)**

Kentucky Employees Retirement System Non-Hazardous Insurance Fund

	2005	2006	2007	2008	2009	2010
Additions						
Employer Contributions	$51,432	$47,635	$64,014	$56,745	$74,434	$$92,679
Net Investment Income	47,823	65,839	78,877	(38,965)	(154,894)	50,765
Member Drug Reimbursement	0	0	10,744	6,634	8,168	8,551
Insurance Appropriation	0	11,852	0	0	0	0
Premiums Rec'd from Retirees	0	5,770	12,196	12,940	12,320	13,588
Total Additions	99,255	131,096	165,831	37,354	(59,972)	165,583
Deductions						
Benefit Payments	75,571	95,823	111,659	122,946	145,036	157,819
Administrative Expenses	464	1,679	3,199	3,487	4,104	4,333
Insurance Appropriation	0	20,000	0	0	0	0
Total Deductions	76,035	117,502	114,858	126,433	149,140	162,152
Change in Plan Net Assets (Difference between Additions and Deductions)	**$23,220**	**$1,742**	**$50,973**	**(89,079)**	**(209,112)**	**3,431**

Changes in Plan Net Assets Dollars in Thousands ($)

Kentucky Employees Retirement System Hazardous Pension Fund

	2005	2006	2007	2008	2009	2010
Additions						
Member Contributions	$11,625	$12,056	$13,245	$13,091	$12,442	$11,110
Employer Contributions	9,758	10,803	13,237	15,257	15,843	17,658
Health Insurance Contribution (HB1)	0	0	0	0	38	118
Net Investment Income	33,123	41,680	77,996	(20,673)	(84,262)	65,588
Total Additions	54,506	64,539	104,478	7,675	(55,939)	94,474
Deductions						
Benefit Payments	20,495	23,736	28,514	31,606	37,556	37,796
Refunds	1,760	1,436	1,662	1,742	1,277	1,286
Administrative Expenses	511	645	611	664	715	737
Other Expenses	0	0	1	0	0	0
Total Deductions	22,766	25,817	38,788	34,012	39,548	39,819
Change in Plan Net Assets (Difference between Additions and Deductions)	**$31,740**	**$38,722**	**$73,690**	**(26,337)**	**(95,487)**	**54,655**

Kentucky Employees Retirement System Hazardous Insurance Fund

	2005	2006	2007	2008	2009	2010
Additions						
Employer Contributions	$15,653	$17,012	$19,535	$21,997	$20,803	$21,835
Net Investment Income	15,999	24,128	44,541	(25,740)	(60,641)	42,406
Member Drug Reimbursement	0	0	105	74	186	319
Insurance Appropriation	0	88	0	0	0	0
Premiums Rec'd from Retirees	0	0	204	247	300	835
Total Additions	31,652	41,228	64,385	(3,422)	(39,352)	65,395
Deductions						
Benefit Payments	4,853	6,513	6,874	8,069	10,304	13,456
Administrative Expenses	55	63	83	95	144	200
Total Deductions	4,908	6,576	6,957	8,164	10,448	13,656
Change in Plan Net Assets (Difference between Additions and Deductions)	**$26,744**	**$34,652**	**$57,428**	**(11,586)**	**(49,800)**	**51,739**

Changes in Plan Net Assets Dollars in Thousands ($)

County Employees Retirement System Non-Hazardous Pension Fund

	2005	2006	2007	2008	2009	2010
Additions						
Member Contributions	$127,637	$112,372	$121,979	$125,014	$122,518	$106,558
Employer Contributions	54,617	90,834	124,261	150,925	179,286	207,076
Health Insurance Contribution (HB1)	0	0	0	0	415	1,345
Net Investment Income	413,672	444,092	760,541	(228,020)	(927,090)	669,072
Total Additions	595,926	647,298	1,009,736	47,919	(624,871)	984,051
Deductions						
Benefit Payments	294,590	325,135	356,648	403,958	451,304	470,249
Refunds	11,042	11,589	11,396	11,924	10,719	10,001
Administrative Expenses	10,029	12,797	12,197	13,238	13,831	14,323
Other Expenses	0	0	22	0	0	0
Total Deductions	315,661	349,521	389,263	429,120	475,854	494,571
Change in Net Assets (Difference between Additions and Deductions)	**$280,265**	**$297,777**	**$620,473**	**(381,201)**	**(1,100,725)**	**489,478**

County Employees Retirement System Non-Hazardous Insurance Fund

	2005	2006	2007	2008	2009	2010
Additions						
Employer Contributions	$107,632	$128,868	$147,609	$196,110	$123,761	$166,032
Net Investment Income	55,723	83,991	188,055	(95,924)	(244,148)	136,528
Member Drug Reimbursement	0	0	9,623	6,003	7,624	9,157
Insurance Appropriation	0	6,365	0	0	0	0
Premiums Rec'd from Retirees	0	0	13,997	15,104	14,356	16,216
Total Additions	163,355	219,224	359,284	121,293	(98,407)	327,933
Deductions						
Benefit Payments	58,262	72,919	85,199	95,966	108,995	123,133
Administrative Expenses	485	1,539	3,040	3,425	4,053	4,469
Total Deductions	58,747	74,458	88,239	99,391	113,048	127,602
Change in Net Assets (Difference between Additions and Deductions)	**$104,608**	**$144,766**	**$271,045**	**$21,902**	**(211,455)**	**200,331**

Changes in Plan Net Assets Dollars in Thousands ($)

County Employees Retirement System Hazardous Pension Fund

	2005	2006	2007	2008	2009	2010
Additions						
Member Contributions	$39,515	$39,055	$43,650	$44,260	$42,582	$37,200
Employer Contributions	39,948	49,976	61,553	72,155	78,151	82,887
Health Insurance Contribution (HB1)	0	0	0	0	37	174
Net Investment Income	119,901	132,915	240,035	(97,393)	(302,748)	206,073
Total Additions	199,364	221,946	345,238	19,022	(181,978)	326,334
Deductions						
Benefit Payments	90,119	101,087	115,604	125,191	138,810	136,810
Refunds	2,139	2,147	2,563	2,641	2,436	1,956
Administrative Expenses	872	1,113	1,073	1,143	1,198	1,234
Other Expenses	0	0	2	0	0	0
Total Deductions	93,130	104,347	119,242	128,975	142,444	140,000
Change in Net Assets (Difference between Additions and Deductions)	**$106,234**	**$117,599**	**$225,996**	**(109,953)**	**(324,422)**	**186,334**

County Employees Retirement System Hazardous Insurance Fund

	2005	2006	2007	2008	2009	2010
Additions						
Employer Contributions	$55,552	$64,854	$70,073	$90,113	$70,783	$82,970
Net Investment Income	29,819	98	90,041	(48,529)	(123,461)	67,288
Member Drug Reimbursement	0	0	657	420	628	1,493
Insurance Appropriation	0	45,317	0	0	0	0
Premiums Rec'd from Retirees	0	0	191	222	330	508
Total Additions	85,371	110,269	160,962	42,226	(51,720)	152,259
Deductions						
Benefit Payments	21,985	29,717	31,607	35,604	41,017	48,321
Administrative Expenses	183	213	320	364	444	554
Total Deductions	22,168	29,930	31,927	35,968	41,461	48,875
Change in Net Assets (Difference between Additions and Deductions)	**$63,203**	**$80,339**	**$129,035**	**$6,258**	**$(93,181)**	**$103,384**

Changes in Plan Net Assets Dollars in Thousands ($)

State Police Retirement System Hazardous Pension Fund

	2005	2006	2007	2008	2009	2010
Additions						
Member Contributions	$4,228	$4,814	$5,152	$5,407	$4,938	$4,127
Employer Contributions	2,852	4,244	6,142	7,443	8,186	9,489
Health Insurance Contribution (HB1)	0	0	0	0	5	12
Net Investment Income	29,761	39,347	49,595	(12,283)	(51,175)	40,602
Total Additions	36,841	48,405	60,889	567	(38,046)	54,230
Deductions						
Benefit Payments	32,921	34,703	37,187	39,367	42,547	45,582
Refunds	131	133	47	85	69	144
Administrative Expenses	104	134	126	137	122	130
Other Expenses	0	0	0	0	0	0
Total Deductions	33,156	34,970	37,360	39,589	42,738	45,856
Change in Net Assets (Difference between Additions and Deductions)	**$3,685**	**$13,435**	**$23,529**	**(39,022)**	**(80,784)**	**8,374**

State Police Retirement System Hazardous Insurance Fund

	2005	2006	2007	2008	2009	2010
Additions						
Employer Contributions	$6,974	$6,880	$6,489	$7,329	$7,414	$8,369
Net Investment Income	8,279	12,082	21,876	(11,440)	(28,166)	13,085
Member Drug Reimbursement	0	0	361	184	229	274
Insurance Appropriation	0	5	0	0	0	0
Premiums Rec'd from Retirees	0	0	8	9	23	16
Total Additions	15,253	18,967	28,734	(3,918)	(20,500)	21,744
Deductions						
Benefit Payments	6,221	7,816	6,515	6,768	7,476	10,769
Administrative Expenses	44	68	105	106	124	147
Total Deductions	6,265	7,884	6,620	6,874	7,600	10,916
Change in Net Assets (Difference between Additions and Deductions)	**$8,988**	**$11,083**	**$22,114**	**(10,792)**	**28,100**	**10,828**

Schedule of Benefit Expenses by Type

Kentucky Employees Retirement System Non-Hazardous

	Normal Retirement	Early Retirement	Disability Retirement	Beneficiary Payments	Total
FY 2004-05					
Average Benefit	$910	$1,632	$850	$739	$1,379
Number of Accounts	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%
FY 2005-06					
Average Benefit	$888	$1,670	$834	$868	$1,469
Number of Accounts	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 of Accounts	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 of Accounts	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%
FY 2008-09					
Average Benefit	$ 1,036	$1,926	$927	$931	$1,717
Number of Accounts	5,041	29,386	2,566	861	37,854
Total Monthly Benefits	$5,223,184	$56,596,178	$2,377,856	$801,966	$64,999,184
% of Total Monthly Benefits	8.0%	87.1%	3.7%	1.2%	100.0%
FY 2009-10					
Average Benefit	1,009	1,912	936	963	1,692
Number of Accounts	5,991	30,303	2,625	813	39,732
Total Monthly Benefits	$6,046,047	$57,939,304	$2,457,461	$782,980	$67,225,791
% of Total Monthly Benefits	9.00%	86.20%	3.60%	1.20%	100.00%

Note:

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 2010 are not included; therefore, the numbers in this section may differ slightly from the numbers in the Financial and Actuarial Sections. Also, the information for the current year will differ from the benefit payment totals listed in the Deduction by Source.

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Schedule of Benefit Expenses by Type
Kentucky Employees Retirement System Hazardous

	Normal Retirement	Early Retirement	Disability Retirement	Beneficiary Payments	Total
FY 2004-05					
Average Benefit	$775	$1,292	$568	$600	$934
Number of Accounts	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%
FY 2005-06					
Average Benefit	$802	$1,333	$521	$749	$980
Number of Accounts	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 of Accounts	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 of Accounts	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%
FY 2008-09					
Average Benefit	$941	$1,517	$576	$778	$1,143
Number of Accounts	1,353	1,066	173	74	2,666
Total Monthly Benefits	$1,272,796	$1,617,453	$99,607	$57,607	$3,047,462
% of Total Monthly Benefits	41.8%	53.1%	3.3%	1.8%	100.0%
FY 2009-10					
Average Benefit	933	1,489	593	843	1,137
Number of Accounts	1,446	1,146	157	75	2,824
Total Monthly Benefits	$1,348,511	$1,706,876	$93,064	$63,194	$3,211,645
% of Total Monthly Benefits	42.00%	53.10%	2.90%	2.00%	100.00%

Note:

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Schedule of Benefit Expenses by Type
County Employees Retirement System Non-Hazardous

	Normal Retirement	Early Retirement	Disability Retirement	Beneficiary Payments	Total
FY 2004-05					
Average Benefit	$475	$873	$720	$512	$743
Number of Accounts	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%
FY 2005-06					
Average Benefit	$484	$889	$715	$534	$774
Number of Accounts	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 Benefit	$509	$938	$747	$540	$817
Number of Accounts	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 Benefit	$523	$978	$776	$582	$852
Number of Accounts	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%
FY 2008-09					
Average Benefit	547	1,021	804	613	890
Number of Accounts	8,471	26,720	3,728	917	39,836
Total Monthly Benefits	$4,634,447	$27,268,861	$2,998,565	$561,804	$35,463,676
% of Total Monthly Benefits	13.1%	76.9%	8.5%	1.5%	100.0%
FY 2009-10					
Average Benefit	570	1,022	835	623	898
Number of Accounts	9,418	28,747	3,951	836	42,952
Total Monthly Benefits	$5,372,501	$29,377,417	$3,298,478	$520,995	$38,569,391
% of Total Monthly Benefits	13.90%	76.20%	8.60%	1.30%	100.00%

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Schedule of Benefit Expenses by Type
County Employees Retirement System Hazardous

	Normal Retirement	Early Retirement	Disability Retirement	Beneficiary Payments	Total
FY 2004-05					
Average Benefit	$1,399	$2,031	$1,159	$910	$1,705
Number of Accounts	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%
FY 2005-06					
Average Benefit	$1,369	$2,059	$899	$974	$1,743
Number of Accounts	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 Benefit	$1,398	$2,147	$937	$944	$1,815
Number of Accounts	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 Benefit	$1,424	$2,228	$986	$1,021	$1,882
Number of Accounts	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%
FY 2008-09					
Average Benefit	$1,452	$2,299	$1,014	$1,020	$1,934
Number of Accounts	1,413	3,733	634	104	5,884
Total Monthly Benefits	$2,052,162	$8,581,241	$642,604	$106,103	$11,382,110
% of Total Monthly Benefits	18.0%	75.4%	5.7%	0.9%	100.0%
FY 2009-10					
Average Benefit	1,427	2,362	1,261	1,130	2,019
Number of Accounts	1,495	3,856	468	89	5,908
Total Monthly Benefits	$2,133,697	$9,106,888	$590,020	$100,562	1$1,931,167
% of Total Monthly Benefits	17.90%	76.30%	5.00%	0.80%	100.00%

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Schedule of Benefit Expenses by Type
State Police Retirement System

	Normal Retirement	Early Retirement	Disability Retirement	Beneficiary Payments	Total
FY 2004-05					
Average Benefit	$3,321	$2,741	$1,364	$1,862	$2,653
Number of Accounts	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%
FY 2005-06					
Average Benefit	$3,109	$2,698	$1,213	$1,643	$2,650
Number of Accounts	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 Benefit	$3,178	$2,797	$1,258	$1,761	$2,743
Number of Accounts	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 Benefit	$3,281	$2,892	$1,265	$1,970	$2,843
Number of Accounts	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%
FY 2008-09					
Average Benefit	$3,400	$2,985	$1,293	$2,025	$2,934
Number of Accounts	146	978	58	26	1,208
Total Monthly Benefits	$496,355	$2,919,782	$74,971	$52,649	$3,543,757
% of Total Monthly Benefits	14.0%	82.4%	2.1%	1.5%	100.0%
FY 2008-09					
Average Benefit	3,492	3,066	1,467	2,130	3,032
Number of Accounts	147	1,004	50	26	1,227
Total Monthly Benefits	$513,322	$3,078,221	$73,354	$55,379	$3,720,275
% of Total Monthly Benefits	13.80%	82.70%	2.00%	1.50%	100.00%

Note:
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Analysis of Initial Retirees

	KERS Non-Hazardous	KERS Hazardous	CERS Non-Hazardous	CERS Hazardous	SPRS
FY 2004-05					
Number of Accounts	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
FY 2005-06					
Number of Accounts	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 of Accounts	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

Note:
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Analysis of Initial Retirees

	KERS Non-Hazardous	KERS Hazardous	CERS Non-Hazardous	CERS Hazardous	SPRS
FY 2007-08					
Number of Accounts	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
FY 2008-09					
Number of Accounts	3,229	257	2,761	322	59
Average Service Credit (months)	277	241	205	242	269
Average Final Compensation	$51,617	$48,542	$34,940	$57,016	$69,388
Average Monthly Benefit	$2,105	$1,387	$1,029	$2,005	$3,146
Average System Payment for Health Insurance	$396	$520	$274	$715	$461
FY 2009-10					
Number of Accounts	1,007	212	2,252	329	54
Average Service Credit (months)	153	194	186	224	276
Average Final Compensation	$41,811	$45,499	$30,203	$56,408	$70,704
Average Monthly Benefit	$802	$1,494	$760	$2,127	$3,323
Average System Payment for Health Insurance	$202	$572	$239	$766	$894

Note:
The information in these tables represent accounts administered by KRS. A single member may have multiple accounts, which contribute to one pension.

Insurance Benefits Paid to Retirees and Beneficiaries Participating in a KRS Health Insurance Plan

	KERS Non-Hazardous	CERS Non-Hazardous	KERS Hazardous	CERS Hazardous	SPRS
Number	26,708	1,528	25,004	4,440	1,057
Average Service Credit	314	272	256	291	351
Avg Monthly System Payment for Health Insurance	$415	$672	$355	$898	$868
Avg Monthly Member Payment for Health Insurance	$92	$63	$96	$36	$19
Total Monthly Payment for Health Insurance	$13,543,838.00	$1,122,719.00	$11,275,453.00	$4,145,712.00	$938,081.00

Payment Options Selected by Retired Members

		Basic	Social Security Adjustment	Period Certain	Suvivorship	Pop Up	Lump Sum
Kentucky Employees Retirement System Non-Hazardous	Number of Accounts	12,664	3,309	5,210	9,071	7,323	2,311
	Monthly Benefits	$19,835,816	$5,991,600	$8,130,795	$15,214,410	$15,587,471	$2,571,544
Kentucky Employees Retirement System Hazardous	Number of Accounts	649	246	339	602	741	273
	Monthly Benefits	$666,466	$297,573	$341,949	$671,554	$979,065	$264,251
County Employees Retirement System Non-Hazardous	Number of Accounts	16,094	1,775	6,605	8,499	6,662	3,545
	Monthly Benefits	$12,149,142	$2,381,226	$5,371,697	$8,247,127	$8,259,188	$2,285,342
County Employees Retirement System Hazardous	Number of Accounts	920	471	564	1,408	2,278	489
	Monthly Benefits	$1,659,379	$720,615	$853,824	$2,728,742	$5,337,808	$749,358
State Police Retirement System	Number of Accounts	105	208	116	357	443	22
	Monthly Benefits	$320,160	$449,483	$279,641	$1,122,120	$1,520,033	$49,954
Kentucky Retirement System Total	Number of Accounts	30,432	6,009	12,834	19,937	17,447	6,640
	Monthly Benefits	$34,630,963	$9,840,497	$14,977,906	$27,983,953	$31,683,565	$5,920,449

Note:
The information in these tables represent accounts administered by KRS. A single member may have multiple accounts, which contribute to one pension.

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%. Employees hired on or after September 1, 2008 contribute an additional 1% to health insurance.

Under KRS 61.565, KERS and SPRS employer contribution rates are set by the KRS Board of Trustees based on an annual actuarial valuation. However, KERS and SPRS employer rates are subject to approval by the Kentucky General Assembly through the adoption of the biennial Executive Branch Budget. In recent years, the Kentucky General Assembly has routinely suspended KRS 61.565 in the budget in order to provide an employer contribution rate that is less than the amount set by the KRS Board and recommended by its' consulting actuary. The tables on the following page show the KERS and SPRS employer contribution rates that were actuarially recommended and set by the KRS Board and the rate specified by the Executive Branch budget bill for each fiscal year.

The CERS employer contribution rates are also set by the KRS Board under KRS 61.565 based on an annual actuarial valuation, unless altered by legislation enacted by the Kentucky General Assembly. The CERS employer contribution rates for fiscal year 2008-2009 were reduced from the actuarially recommended rate set by the KRS Board as a result of the passage of House Bill (HB) 1 during the 2008 Extraordinary Session of the Kentucky General Assembly. Also, during its 2009 Regular Session, the Kentucky General Assembly enacted HB 117, which mandated an extension of the phase-in of insurance contribution rates that had been previously approved by the KRS Board from five years to ten years to mitigate the impact of the application of Governmental Accounting Standards Board Statements 43 and 45 for CERS employer contribution rates for health insurance. For the 2009-2010 and 2010-2011 fiscal years, the "Recommended Rate" shown for CERS non-hazardous and hazardous plans are the actuarially recommended rates set by the KRS Board. The "Budgeted Rate" shown for the two plans is the rate by required by the ten year phase-in mandated in HB 117

Employer Contribution Rates

		2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
16entucky Employees Retirement System Non-Hazardous	Budgeted Rate	5.89	7.75	8.50	10.01	11.61	16.98
	Recommended Rate	13.62	17.13	48.37	28.60	31.29	38.58
Kentucky Employees Retirement System Hazardous	Budgeted Rate	18.84	22.00	24.25	24.35	24.69	26.12
	Recommended Rate	21.50	23.32	47.11	34.78	35.54	34.37
County Employees Retirement System Non-Hazardous	Budgeted Rate	10.98	13.19	16.17	13.50	16.16	16.93
	Recommended Rate	10.98	13.19	16.17	15.58	20.19	19.81
County Employees Retirement System Hazardous	Budgeted Rate	25.01	28.21	33.87	29.50	32.97	33.25
	Recommended Rate	25.01	28.21	33.87	31.91	61.87	40.06
State Police Retirement System	Budgeted Rate	21.58	25.50	28.00	30.07	33.08	45.54
	Recommended Rate	34.83	42.30	120.00	60.14	43.36	85.63

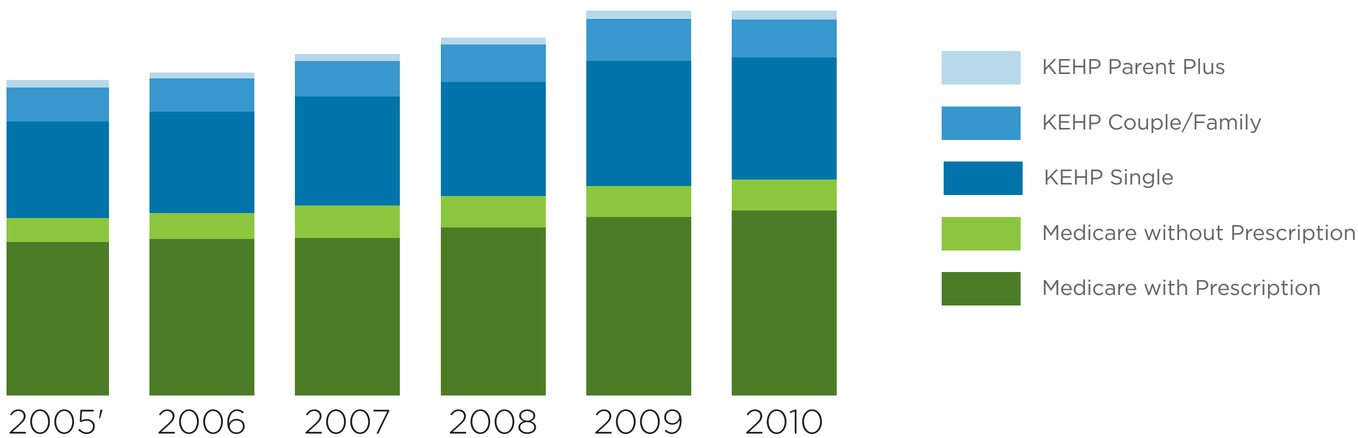
Insurance Contracts by Type

		2005	2006	2007	2008	2009	2010
Kentucky Employees Retirement System Non Hazardous	KEHP Parent Plus	461	490	525	568	762	722
	KEHP Couple/Family	1,679	1,826	2,131	2,187	2,621	1,971
	KEHP Single	7,928	8,393	8,996	9,383	10,635	10,420
	Medicare without Prescription	1,915	1,672	2,056	1,969	1,920	1,831
	Medicare with Prescription	11,764	12,000	12,007	12,636	13,231	13,765
Kentucky Employees Retirement System Hazardous	KEHP Parent Plus	65	58	70	69	74	66
	KEHP Couple/Family	319	378	398	443	502	453
	KEHP Single	570	656	686	741	823	599
	Medicare without Prescription	61	74	82	91	88	63
	Medicare with Prescription	567	603	606	687	763	525
County Employees Retirement System Non Hazardous	KEHP Parent Plus	255	249	284	292	335	342
	KEHP Couple/Family	1,022	1,058	1,274	1,320	1,456	1,369
	KEHP Single	6,014	6,298	6,767	7,126	7,609	7,692
	Medicare without Prescription	2,853	2,502	3,134	3,105	3,110	3,106
	Medicare with Prescription	11,005	11,803	11,908	12,684	13,583	14,477
County Employees Retirement System Hazardous	KEHP Parent Plus	195	198	210	226	245	239
	KEHP Couple/Family	1,579	1,739	1,836	1,947	2,041	2,062
	KEHP Single	1,220	1,275	1,363	1,394	1,404	1,274
	Medicare without Prescription	55	52	64	73	80	58
	Medicare with Prescription	1,004	1,105	1,197	1,367	1,518	1,438
State Police Retirement System Non Hazardous	KEHP Parent Plus	34	29	19	17	22	47
	KEHP Couple/Family	388	406	297	305	311	462
	KEHP Single	257	260	254	240	221	264
	Medicare without Prescription	10	9	9	7	9	12
	Medicare with Prescription	348	368	384	410	418	467

Insurance Contracts by Type

		2005	2006	2007	2008	2009	2010
Kentucky Retirement Systems Total	KEHP Parent Plus	1,010	1,024	1,108	1,172	1,438	1,416
	KEHP Couple/Family	4,987	5,407	5,936	6,202	6,931	6,317
	KEHP Single	15,989	16,882	18,066	18,884	20,692	20,249
	Medicare without Prescription	4,894	4,309	5,345	5,245	5,207	5,070
	Medicare with Prescription	24,688	25,879	26,102	27,784	29,513	30,672

Insurance Contracts by Type — KRS Total



Kentucky Retirement Systems Insurance Contracts

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.

Total Fiscal Year Retirement Payments by County

County	Number	Total Payments	County	Number	Total Payments	County	Number	Total Payments
Adair	346	5,465,262.95	Carroll	251	3,691,188.98	Grant	439	7,511,111.99
Allen	294	3,515,890.06	Carter	594	7,806,041.56	Graves	718	9,899,125.65
Anderson	1,072	25,822,341.96	Casey	298	3,800,330.88	Grayson	488	7,018,881.49
Ballard	164	1,844,027.19	Christian	1,340	21,717,570.85	Green	219	3,066,839.95
Barren	768	11,418,524.44	Clark	655	10,052,929.57	Greenup	481	5,897,625.06
Bath	302	4,418,852.38	Clay	459	6,291,272.57	Hancock	179	2,071,155.95
Bell	545	7,864,570.83	Clinton	201	2,462,871.15	Hardin	1,508	23,250,819.36
Boone	1,186	20,967,632.90	Crittenden	189	2,205,154.33	Harlan	505	7,271,694.02
Bourbon	406	6,154,054.16	Cumberland	152	2,121,214.79	Harrison	358	4,917,211.35
Boyd	852	12,783,281.53	Daviess	1,896	31,553,415.79	Hart	272	3,804,167.62
Boyle	730	12,086,221.69	Edmonson	156	2,024,048.27	Henderson	817	12,611,667.19
Bracken	186	2,292,892.18	Elliott	135	1,653,160.10	Henry	765	15,854,664.07
Breathitt	369	5,607,444.11	Estill	310	3,976,622.78	Hickman	91	1,292,604.77
Breckinridge	348	4,729,227.86	Fayette	4,255	87,847,708.86	Hopkins	951	12,611,924.16
Bullitt	1,001	16,325,481.62	Fleming	366	6,146,217.83	Jackson	226	2,866,825.99
Butler	249	3,093,980.79	Floyd	738	11,117,453.53	Jefferson	13,397	257,757,102.26
Caldwell	416	5,507,316.81	Franklin	5,977	178,950,169.72	Jessamine	741	11,890,808.71
Calloway	909	10,981,762.55	Fulton	171	1,845,251.85	Johnson	507	6,854,196.09
Campbell	1,168	18,765,932.77	Gallatin	88	1,407,435.27	Kenton	1,689	31,250,393.48
Carlisle	113	1,484,909.64	Garrard	362	4,726,256.87	Knott	320	4,981,753.75

Total Fiscal Year Retirement Payments by County

County	Number	Total Payments	County	Number	Total Payments	County	Number	Total Payments
Knox	444	6,247,301.30	Mclean	246	2,875,211.93	Robertson	62	821,302.15
Larue	287	3,995,500.31	Meade	325	4,358,515.06	Rockcastle	304	3,747,301.27
Laurel	925	14,956,922.19	Menifee	158	2,050,382.99	Rowan	687	11,171,687.00
Lawrence	228	2,816,128.15	Mercer	600	10,104,572.45	Russell	402	5,645,944.64
Lee	204	2,936,413.16	Metcalfe	250	2,632,025.39	Scott	849	16,711,135.48
Leslie	215	2,739,324.86	Monroe	183	2,011,199.97	Shelby	1,311	30,396,737.99
Letcher	458	5,640,464.24	Montgomery	457	6,518,363.30	Simpson	217	2,203,558.47
Lewis	242	2,756,048.76	Morgan	425	6,512,411.75	Spencer	368	6,648,776.73
Lincoln	497	5,585,807.37	Muhlenberg	509	5,126,297.05	Taylor	456	6,171,364.39
Livingston	204	3,189,787.76	Nelson	697	11,150,042.36	Todd	244	2,936,871.44
Logan	482	5,971,920.20	Nicholas	170	2,077,404.72	Trigg	425	5,966,544.55
Lyon	277	4,686,330.92	Ohio	454	4,759,869.76	Trimble	219	3,050,256.55
Madison	1,707	25,748,794.45	Oldham	977	18,731,144.11	Union	276	3,029,248.16
Magoffin	250	3,120,916.56	Owen	431	9,511,040.76	Warren	2,120	34,950,848.50
Marion	414	5,111,074.30	Owsley	156	2,108,429.89	Washington	260	3,837,007.28
Marshall	651	9,160,678.66	Pendleton	269	4,083,845.87	Wayne	426	5,653,856.55
Martin	199	2,059,752.72	Perry	602	8,087,274.19	Webster	280	3,401,269.62
Mason	312	4,746,799.31	Pike	964	12,916,943.83	Whitley	788	10,955,566.32
Mccracken	1,288	22,351,510.02	Powell	295	3,856,395.58	Wolfe	248	3,650,947.00
Mccreary	312	2,853,720.40	Pulaski	1,786	28,718,094.36	Woodford	702	17,496,827.41

Kentucky Total	84,882	$1,468,518,209.34
Out of State	5,289	$71,530,005.40
Grand Total	90,171	$1,540,048,214.74

Retired Reemployed

From August 1, 1998 through August 31, 2008, state law 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 was observed. The following table provides 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 and Are Contributing to a New Account

Reemployed Retirees In KRS	KERS			CERS			SPRS
	Non-Haz	Haz	Total	Non-Haz	Haz	Total	Total
Total Active Employees	46,710	4,049	50,759	84,010	9,120	93,130	948
Total Retirees	35,733	1,900	37,633	38,261	4,867	43,128	1,004
Reemployed Retirees	968	77	1,045	1172	713	1,885	168
% of Reemployed Retirees to Total Actives	2.07%	1.90%	2.06%	1.40%	7.82%	2.02%	17.72%
% of Reemployed Retirees to Total Retirees	2.71%	4.05%	2.78%	3.06%	14.65%	4.37%	16.73%
Average Age at Initial Retirement	50	48	49	53	46	50	47
Months of Service Credit at Initial Retirement	339	290	335	296	289	293	336
Final Compensation At Initial Retirement	$51,558.82	$43,511.63	$50,966	$36,070.82	$52,479.12	$42,277	$57,376.31
Reemployed Retirees Avg. Annualized Salary Earned in Fiscal Year 2008-2009 (Second Retirement Account)	$42,236.64	$34,540.68	$41,670	$47,550.96	$46,350.96	$47,097	$34,070.88
Retirees Returning to Work for the Same Employer	248	0	248	506	30	536	1
% Retirees Returning to Work For Same Employer	25.62%	0.00%	23.73%	43.17%	4.21%	28.44%	0.60%

Analysis of age at retirement, service credit, final compensation, etc. only includes those retirees who have returned to work with a participating agency. An additional 396 retirees have returned to work after the implementation of House Bill 1 in the 2008 Special Legislative Session. These retirees are not eligible to contribute to a new account.