



SUMMARY ANNUAL FINANCIAL REPORT

2015

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)

Certificate of Achievement

The Government Finance Officers Association (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, 2014. 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 sixteenth 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 2015 CAFR will continue to meet the Certificate of Achievement Program's requirements, and we will be submitting it to the GFOA for their consideration.



To the Trustees & Membership

The Kentucky Retirement Systems (KRS) is pleased to present our second Summary Annual Financial Report for the fiscal year (FY) ended June 30, 2015. This report is intended to summarize key statistical, financial, investment, and actuarial data from our Comprehensive Annual Financial Report (CAFR) and contains additional information about KRS, such as a schedule of KRS Board of Trustee and committee meetings for the next calendar year. The much more detailed CAFR, prepared in accordance with standards established by the Government Finance Officers Association (GFOA), can be viewed and downloaded at www.kyret.ky.gov.

KRS administers three retirement systems: the Kentucky Employees Retirement System (KERS) for the employees of the Commonwealth, its agencies and instrumentalities; the State Police Retirement System (SPRS) for uniformed state police personnel; and the County Employees Retirement System (CERS) for the employees of counties, cities and other local government entities. Both the KERS and CERS systems have a nonhazardous and hazardous pension plan. All employees participating in SPRS are hazardous duty. In addition, each system has an insurance plan. In total, KRS administers five (5) pension plans and five (5) insurance plans.

Some of the many highlights from the 2015 fiscal year include:

- In early April 2015, KRS began the process of working through complex issues and drafting regulations to implement House Bill 62, which created an avenue for certain types of participating employers to exit the KERS or CERS systems. This process is continuing during the current 2016 fiscal year.
- The severe underfunding in the KERS nonhazardous pension plan continued as a very significant issue for KRS. The funding dropped from 21.1% to 19.0% based on the 2015 Actuarial Valuation Results. It is of critical importance that the General Assembly continue its commitment to fully fund the actuarially required contributions (ARC) and we encouraged the General Assembly to find additional funds over and above the ARC when and if feasible.
- Through its internal and external legal counsel, KRS dealt with various lawsuits, including the appeal of a federal bankruptcy ruling in the Seven Counties Services, Inc. case. This appeal was ongoing throughout FY 2015. If Seven Counties Services were ultimately successful in obtaining a legal ruling that allows it to withdraw from KERS without paying its proportionate share of the unfunded liability of the system, then all other participating employers would be adversely affected through the payment of higher employer contribution rates.
- Capital market performance for the fiscal year made it difficult for most public pension plans across the country to reach their expected returns. Allocations in private equity, real estate, and U.S. public equities (particularly large cap growth equity) drove performance. The KRS Pension Fund returned 2.01% trailing the benchmark return of 3.13% and the KRS Insurance fund returned 1.89% versus its benchmark of 3.79%. These returns, while positive, contrasted with strong fiscal year 2014 investment returns of 15.5% for Pension and Insurance of 14.89%. Additionally, although there was no impact on net investment performance, KRS began reporting private equity fees as a component of investment expense to enhance performance transparency.



Our History

The Kentucky Employees Retirement System (KERS) was created in 1956 by the Kentucky General Assembly in order to supplement the benefits provided by Social Security. When the first actuarial valuation was completed June 30, 1957, there were 16,000 employees participating in KERS and assets of \$2.8 million. The State Police Retirement System (SPRS) and County Employees Retirement System (CERS) were established in 1958. The first actuarial valuation of SPRS was conducted June 30, 1959. No actuarial valuation of CERS was conducted until June 30, 1960 because the statutes did not authorize retirements from the system prior to July 1, 1960. On June 30, 1960, there were 68 counties and 2,617 employees participating in CERS, and SPRS included 415 uniformed state troopers. Currently, KRS serves 355,552 active, inactive and retired members in the combined systems, and manages approximately \$16.0 billion in assets. There are 1,491 participating employers.

- As required by the passage of Senate Bill 2 (2013 legislative session), a new Tier 3 Hybrid Cash Balance Plan was established. Pension members who began participating in January 2014, received interest on contribution payments for the first time at the conclusion of the 2015 fiscal year. Members in this tier are guaranteed a 4% interest credit on their balance and the account is credited with 75% of the amount of returns exceeding 4% based on five-year geometric investments returns.
- During the year, GASB 68, Accounting and Financial Reporting for Pensions, was implemented. This affected the financial statements of our employers requiring that employers recognize and report a proportionate share of their plan's net pension liability as part of their financial statements. KRS' actuary and our accounting division provided this information to each employer.
- KRS staff continued to provide benefit services to our members. In FY 2015, KRS administered approximately 75,000 health insurance contracts for non-Medicare eligible and Medicare eligible benefit recipients, processed 7,100 retirement applications, and answered 253,700 inbound calls. More than 11,000 members were counseled on-site and we hosted 11 pre-retirements seminars across the Commonwealth.
- KRS continued to expand our website (<http://www.kyret.ky.gov>) to meet member information needs. We added video offerings, increased the use of webinars, social media (www.facebook.com/kyretirement), digital newsletters, KRS YouTube, and added video teleconferencing capability.

Conclusion

I would like to thank the KRS Board of Trustees, the dedicated KRS staff, and our external advisors and service providers for making the 2015 fiscal year a very successful year for KRS. We look forward to continuing success and providing our members with the high quality service they deserve.

William A. Thielen, Esq. // Executive Director

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2016 KRS MEETING SCHEDULE

BOARD OF TRUSTEES

Quarterly
February 18
May 19
September 8
December 1

Annual
April 21

COMMITTEE MEETINGS

AUDIT
February 4
May 5
August 25
November 3

INVESTMENT
February 2
May 3
August 23
November 2

RETIREE HEALTH PLAN
February 9
May 10
September 1
November 8

HUMAN RESOURCES
February 18
May 19
September 8
December 1

DISABILITY & APPEALS
Check website for dates
and times.

BUDGET & LEGISLATION
Scheduled as needed.

**Dates subject to change.
Please visit our website for
updates.*

Phone (800) 928-4646
(502) 696-8800
Mail Perimeter Park West
1260 Louisville Road
Frankfort KY 40601
Fax (502) 696-8822

Board of Trustees as of December 1, 2015

The Board of Trustees is comprised of thirteen members: two elected by KERS members, three elected by CERS members, one elected by SPRS members, the Secretary of the State Personnel Cabinet serves ex officio, and six were appointed by Governor Steve Beshear. Three of the six appointees are selected from lists of nominees provided by the Kentucky Association of Counties, the Kentucky League of Cities, and the Kentucky School Board Association, so that each organization has a representative.



Thomas Elliott
Chair
Governor Appointee
Term ends March 31, 2019



Dr. Daniel Bauer
Vice Chair
Governor Appointee
Term ends March 31, 2016



Mike Cherry
Governor Appointee
Term ends March 31, 2016



Edwin Davis
Elected by CERS
Term ends March 31, 2017



Keith Peercy
Elected by SPRS
Term ends March 31, 2019



J.T. Fulkerson
Governor Appointee
Term ends July 1, 2017



William Summers
Elected by CERS
Term ends March 31, 2017



Dinah T. Bevington
Interim Personnel Secretary
Term ends Ex-Officio



Vince Lang
Elected by KERS
Term ends March 31, 2017



Joseph Hardesty
Governor Appointee
Term ends July 1, 2017



David Rich
Elected by CERS
Term ends October 31, 2017



Mary Helen Peter
Elected by KERS
Term ends March 31, 2017

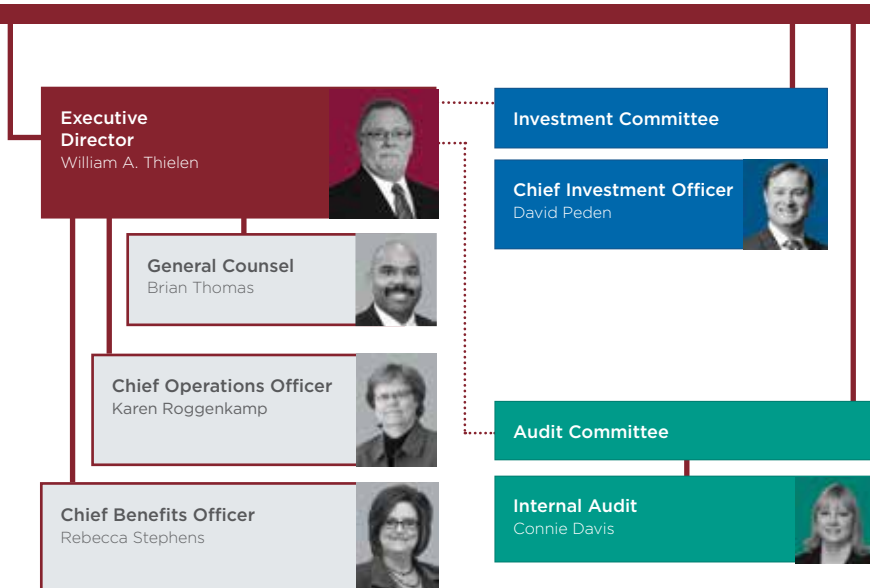


Randy Stevens
Governor Appointee
Term ends July 1, 2017



2015

Agency Structure as of December 1, 2015



KRS DIVISIONS

Accounting Todd E. Coleman	Legal Brian Thomas
Communications Scarlett Consalvi	Member Services Shauna Miller
Disability & Death Liza Welch	Membership Support Kevin Gaines
Employer Reporting, Compliance & Education Sarah Webb	Planning & Constituent Services Shawn Sparks
Enterprise & Technology Services Mark McChesney	Procurement & Office Services Joe C. Gilbert
Human Resources Marlane Robinson	Retiree Health Care Connie Pettyjohn
Internal Audit Connie Davis	Retiree Payroll David Nix
Investments David Peden	

Total KRS Employees -258

OUR MEMBERS ARE VERY IMPORTANT KENTUCKIANS.

These men and women are those that build and protect our way of life in our state. They consist of law enforcement, emergency services, fire and rescue, city and state government, health departments, military affairs, court personnel, utilities, school board, and more. *These employees are the core of everyday life for the citizens of Kentucky.*

FINDING OUR COMPREHENSIVE ANNUAL REPORT ON OUR WEBSITE

To view the Comprehensive Annual Financial Report (CAFR) in its entirety, please visit us online.

1. Go to KYRET.KY.GOV
2. Click on **ABOUT** tab
3. Select **PUBLICATIONS**
4. Select **COMPREHENSIVE ANNUAL FINANCIAL REPORTS**
5. Click on 2015 CAFR



CONSULTANTS

Actuarial Services

- Cavanaugh Macdonald Consulting, LLC

Auditing Services

- Dean Dorton Allen Ford, PLLC

Legal Services

- Ice Miller, LLP
- Polsinelli
- Reinhart Boerner Van Deuren
- Stoll Keenon Ogden, PLLC

Investment Consultants

- R.V. Kuhns
- ORG Real Property
- Albourne
- PCA Associates

Master Custodian - Bank of New York, Mellon

Who We Are

SYSTEMS

KERS - (Kentucky Employees Retirement System)

This system consists of two plans - **Nonhazardous and Hazardous**. Each plan is a cost-sharing multiple-employer defined benefit pension plan that covers all regular full-time members employed by any state department, board, or agency directed by Executive Order of the Governor to participate in KERS.

CERS - (County Employees Retirement System)

This system consists of two plans - **Nonhazardous and Hazardous**. Each plan is a cost-sharing multiple-employer defined benefit pension plan that covers all regular full-time members employed by each participating county, city, and school board, and any additional eligible local agencies participating in CERS.

SPRS - (State Police Retirement System)

This system is a single-employer defined benefit pension plan that covers all full-time state troopers employed by the Kentucky State Police.

HOW WE DIFFER FROM OTHER PUBLIC RETIREMENT SYSTEMS

Many other retirement systems have only one pension plan and do not provide insurance plans. KRS administers both Pension and Insurance plans for our members. We manage three Systems, two are further split into Hazardous and Nonhazardous plans.

We maintain three different pension benefit tiers within our defined benefit plans. Each tier resulted from legislation enacted by the Kentucky General Assembly.

Medical Insurance coverage is provided based on the member's initial participation date and length of service. Members receive either a percentage or dollar amount for insurance coverage.



SYSTEM Statistics

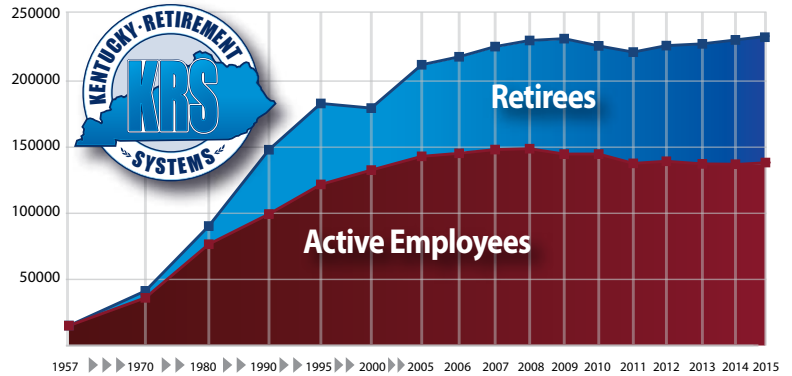
Kentucky Retirement Systems Membership Totals

Fiscal Year	Active	Inactive	Retired	Total
2010	144,837	92,379	81,765	318,981
2011	144,894	95,025	84,680	324,599
2012	139,352	107,353	87,472	334,177
2013	137,368	112,462	90,796	340,626
2014	137,138	117,039	93,946	348,123
2015	136,318	121,604	97,630	355,552



Membership Statistics - by Tiers

	Active	Inactive	Retired	Total
KERS Nonhazardous				
Tier 1	25,560	33,700	38,821	98,081
Tier 2	9,525	7,831	6	17,362
Tier 3	4,204	948	0	5,152
Total	39,289	42,479	38,827	120,595
KERS Hazardous				
Tier 1	2,019	1,977	2,573	6,569
Tier 2	1,175	1,299	2	2,476
Tier 3	738	485	0	1,223
Total	3,932	3,761	2,575	10,268
CERS Nonhazardous				
Tier 1	48,985	54,921	48,503	152,409
Tier 2	22,844	16,151	12	39,007
Tier 3	11,140	1,893	0	13,033
Total	82,969	72,965	48,515	204,449
CERS Hazardous				
Tier 1	6,280	1,601	6,388	14,269
Tier 2	2,167	485	1	2,653
Tier 3	741	56	0	797
Total	9,188	2,142	6,389	17,719
SPRS				
Tier 1	658	180	1,323	2,161
Tier 2	180	55	1	236
Tier 3	102	22	0	124
Total	940	257	1,324	2,521
KRS TOTALS				
Tier 1	83,502	92,379	97,608	273,489
Tier 2	35,891	25,821	22	61,734
Tier 3	16,925	3,404	0	20,329
Total	136,318	121,604	97,630	355,552



Membership Statistics

	ACTIVE MEMBERSHIP		RETIRED MEMBERSHIP	
	Average Age	Average Salary	Average Age	Average Annual Benefit Payment
KERS Nonhazardous	45	\$39,539	68	\$22,215
KERS Hazardous	40.7	\$33,114	63.5	\$15,943
CERS Nonhazardous	48	\$28,406	69.7	\$11,611
CERS Hazardous	39.1	\$52,730	61.2	\$27,259
SPRS	36.8	\$48,842	61.9	\$40,121

KRS Fiscal Year 2015 FAST FACTS

74,697
Retiree Healthcare
Plan Holders

11,381
Member Office Visits

7,137
New Retirements

15,245
Benefit Estimates

7,324
Service Purchase
Estimates

704
Disability Applications

Call Center
253,759 Inbound Calls

8,646
YouTube Views

Over 3,000
Facebook Followers

KRS Website
1,268,454 Views

Field Visits
6,750

EVOLUTION of Benefits

Legislative changes - how they have impacted the plans

Twenty years ago, KRS managed simplistic single-tiered pension and insurance plans for each system. Today, we administer complex multi-tiered pension and insurance plans. During this same period, our membership has nearly doubled.

TIER 1

Members participating before September 1, 2008

Tier 1 is a defined benefit plan because it uses a specific formula to determine benefits and the assets of the plan remain in a single investment pool.

TIER 2

Members participating on or after September 1, 2008 through December 31, 2013

In 2008, House Bill 1 was passed modifying the benefits for those hired on or after September 1, 2008. It still remained a Defined Benefit Plan but some restrictions were added.

Requirements for Retirement

Nonhazardous

- Age 65 or older with 1+ month of service credit.
- Any age with 27+ years of service credit.

The requirements for a Reduced Benefit are:

- Prior to age 65 with at least 25 but less than 27 years of service credit.
- Age 55 with at least 5 years of service credit.

Hazardous

- Age 55 or older with 1+ month of service credit.
- Any age with 20+ years of service credit.

- Age 50 with 15, but less than 20, years of service credit.

Nonhazardous

- Age 65 or older with 5+ years of service credit.
- Rule of 87
Age 57+ if age plus service credit equals 87 years.

The requirements for a Reduced Benefit are:

- Age 60+ with at least 10 years of service credit.

Hazardous

- Age 60 or older with 5+ years of service credit.
- Any age with 25+ years of service credit.

- Age 50 with 15 years of service credit.

Calculating Benefits

Benefits for Tier 1 and 2 are calculated using a formula.



FINAL Compensation



Benefit FACTOR



Years of SERVICE

Medical Insurance Coverage - Non Medicare and Medicare plans

Participation prior to 7/01/2003

House Bill 290 -
Participation 7/01/2003 - 8/31/2008

BENEFIT TIERS

KRS currently administers three different pension benefit tiers within our defined benefit plans. The Hybrid Cash Balance plan was established as a part of Senate Bill 2, enacted by the Kentucky General Assembly during 2013 Regular Session.

A member's tier depends on their initial participation date with KRS. Participation date is when the member began paying contributions and earning service credit with KRS. Please note this date may be different from when the member was hired. Participation date can change the level of pension and health insurance benefits to which the member is entitled, health insurance eligibility, and eligibility to purchase service.



Members participating on or after January 1, 2014

In 2013, Senate Bill 2 was passed and the plans were redesigned to operate as a Cash Balance Plan for members participating on or after January 1, 2014. This plan is a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan.

Nonhazardous

- Age 65 or older with 5+ years of service credit.
- Rule of 87
Age 57+ if age plus service credit equals 87 years.

Hazardous

- Any age with 25+ years of service credit.
- Age 60 with 5+ years of service credit.

No reduced benefit options

Tier 3 uses an Annuity Option with Upside Sharing

House Bill 1 - Participation on or after 9/01/2008

Upside Sharing Interest

Upside sharing interest is credited to both the member contribution balance and Employer Pay Credit balance. Upside sharing interest is an additional interest credit. Member accounts automatically earn 4% interest annually. The GANIR is calculated on an individual system basis. It is possible that one system may get an upside sharing percentage, and another system would not.

The chart below shows the interest calculated on the members' balances as of June 30, 2014, and credited to each member account on June 30, 2015.

2015 Upside Sharing- (A-B) X 75% = C then C+B=D

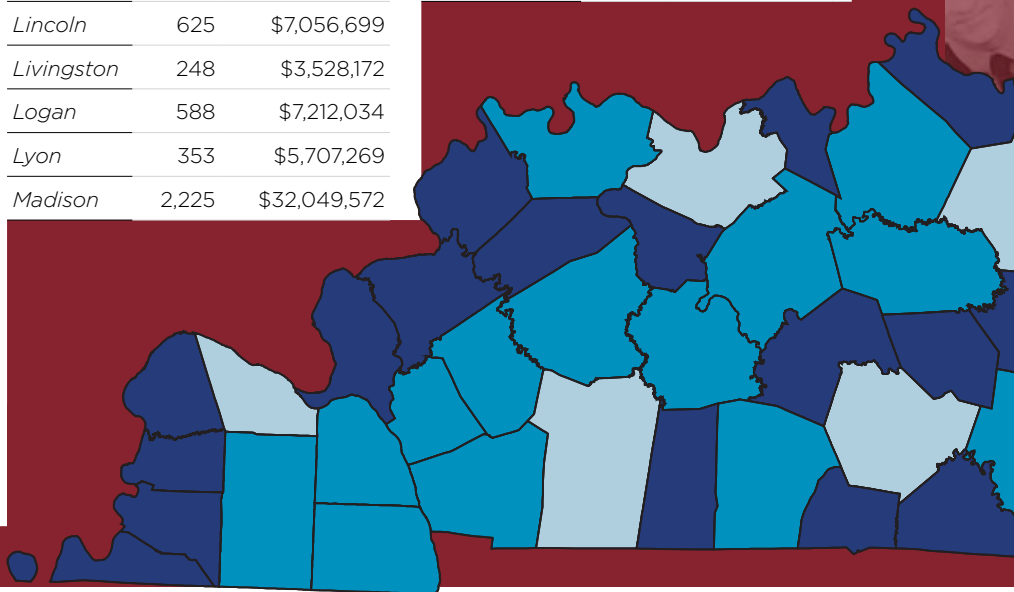
System	A 5 Year Geometric Average Return (GANIR)	B Guarantee Rate	C Upside Sharing Interest	D Interest Rate Earned	Total Interest Credited To Members' Accounts
KERS Nonhazardous	9.04%	4.00%	3.78%	7.78%	\$60,343
KERS Hazardous	9.10%	4.00%	3.83%	7.83%	19,655
CERS Nonhazardous	9.03%	4.00%	3.77%	7.77%	101,587
CERS Hazardous	9.12%	4.00%	3.84%	7.84%	19,870
SPRS	9.12%	4.00%	3.84%	7.84%	*

* No members in the SPRS received interest as of June 30, 2015 due to the timing of Tier 3 members participation dates.

GANIR - A 5 year average geometric investment return, if exceeds 4% then member's account will be credited with 75% of the amount of the returns over 4% on the account balance as of June 30 of the previous year.

2015 Total Fiscal Year KRS Pension Benefits Paid by County

County	Payees	Total	County	Payees	Total	County	Payees	Total
Adair	453	\$6,818,083	Grant	585	\$9,529,135	Magoffin	338	\$4,260,996
Allen	376	\$4,233,210	Graves	815	\$11,286,977	Marion	527	\$6,440,781
Anderson	1,341	\$28,904,473	Grayson	668	\$8,741,993	Marshall	819	\$10,583,945
Ballard	218	\$2,733,932	Green	258	\$3,419,585	Martin	247	\$2,366,236
Barren	978	\$13,715,527	Greenup	578	\$7,101,949	Mason	382	\$5,700,535
Bath	358	\$4,709,768	Hancock	217	\$2,563,065	Mccracken	1,498	\$24,636,317
Bell	678	\$9,275,416	Hardin	1,924	\$28,048,716	Mccreary	372	\$3,575,215
Boone	1,548	\$27,442,725	Harlan	577	\$8,206,856	Mclean	296	\$3,649,843
Bourbon	525	\$7,455,532	Harrison	442	\$5,694,874	Meade	395	\$4,936,187
Boyd	954	\$14,462,362	Hart	308	\$4,020,863	Menifee	223	\$2,730,494
Boyle	864	\$13,729,020	Henderson	981	\$14,898,060	Mercer	720	\$11,482,694
Bracken	209	\$2,390,361	Henry	923	\$17,746,278	Metcalfe	308	\$3,260,128
Breathitt	456	\$6,200,032	Hickman	117	\$1,676,036	Monroe	234	\$2,447,822
Breckinridge	417	\$5,387,553	Hopkins	1,141	\$15,452,670	Montgomery	598	\$8,108,931
Bullitt	1,301	\$20,514,875	Jackson	292	\$3,554,513	Morgan	579	\$8,622,037
Butler	324	\$3,784,399	Jefferson	16,022	\$301,842,155	Muhlenberg	649	\$6,921,478
Caldwell	527	\$6,856,190	Jessamine	930	\$14,618,467	Nelson	919	\$14,124,267
Calloway	1,030	\$12,554,359	Johnson	587	\$8,283,949	Nicholas	204	\$2,381,781
Campbell	1,382	\$23,327,970	Kenton	2,117	\$38,921,692	Ohio	597	\$5,723,139
Carlisle	120	\$1,447,274	Knott	406	\$5,573,354	Oldham	1,270	\$22,808,005
Carroll	326	\$4,366,567	Knox	548	\$7,643,196	Owen	758	\$10,905,196
Carter	768	\$8,671,213	Larue	338	\$4,668,322	Owsley	214	\$2,731,635
Casey	350	\$4,037,577	Laurel	1,177	\$17,307,170	Pendleton	325	\$4,856,724
Christian	1,552	\$23,745,309	Lawrence	311	\$3,498,761	Perry	720	\$9,675,774
Clark	772	\$11,617,466	Lee	235	\$3,005,469	Pike	1,157	\$15,706,890
Clay	556	\$6,906,647	Leslie	232	\$2,999,267	Powell	363	\$4,180,458
Clinton	244	\$2,638,704	Letcher	565	\$6,819,724	Pulaski	2,102	\$32,376,756
Crittenden	215	\$2,445,240	Lewis	308	\$3,262,626	Robertson	146	\$967,683
Cumberland	184	\$2,357,988	Lincoln	625	\$7,056,699			
Daviess	2,389	\$37,641,584	Livingston	248	\$3,528,172			
Edmonson	208	\$2,641,356	Logan	588	\$7,212,034			
Elliott	179	\$2,075,741	Lyon	353	\$5,707,269			
Estill	369	\$4,529,742	Madison	2,225	\$32,049,572			
Fayette	5,253	\$102,784,270						
Fleming	438	\$6,917,015						
Floyd	840	\$12,129,904						
Franklin	6,901	\$184,449,385						
Fulton	170	\$1,690,280						
Gallatin	117	\$1,856,356						
Garrard	416	\$5,648,687						



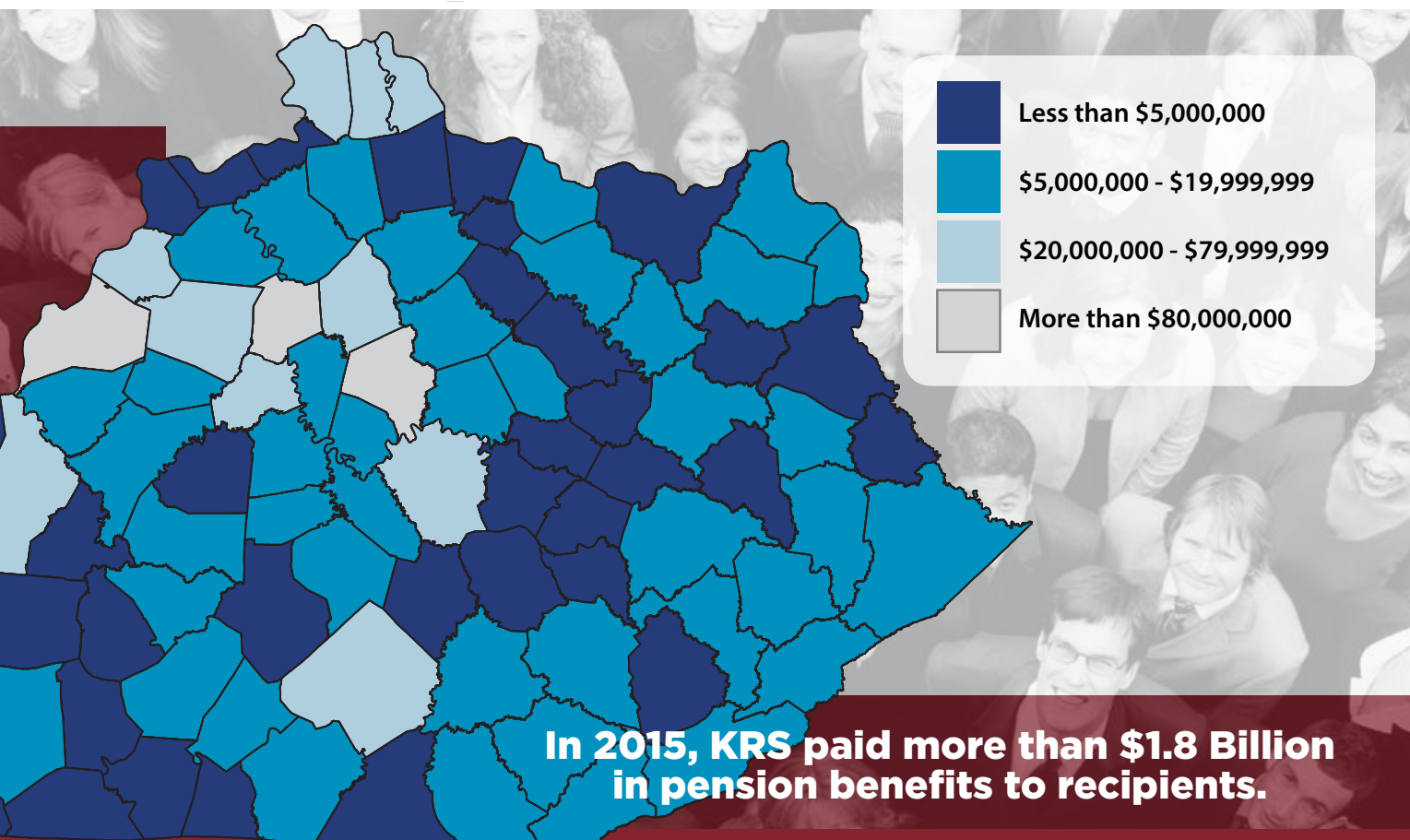
County	Payees	Total
Rockcastle	366	\$4,492,577
Rowan	889	\$13,049,379
Russell	549	\$6,680,470
Scott	1,122	\$20,117,069
Shelby	1,619	\$34,358,575
Simpson	297	\$2,662,275
Spencer	445	\$7,991,484
Taylor	600	\$7,692,621
Todd	261	\$3,082,913
Trigg	508	\$7,140,935
Trimble	269	\$3,404,528
Union	332	\$3,416,218
Warren	2,635	\$40,914,197
Washington	365	\$4,498,264
Wayne	503	\$6,342,507
Webster	330	\$3,737,181
Whitley	965	\$12,825,801
Wolfe	340	\$4,493,958
Woodford	947	\$20,631,450

Pension Benefits paid to retirees and beneficiaries of Kentucky Retirement Systems have a wide ranging impact on the state's economic health. In fiscal year 2015, KRS paid **more than \$1.8 billion** to its recipients. More than 94 percent of these recipients live in Kentucky. Not only do these dollars impact those receiving a benefit, but according to the National Institute of Retirement Security (NIRS), **each \$1.00 paid out in pension benefits supported \$1.67 in total economic activity in Kentucky**. As you can see in the chart, each county in the Commonwealth is impacted by pension benefits, and in an unsteady economy, the consistent addition of pension funds into the economy is a stabilizing element.

2015 Total Fiscal Year Retirement Pension Payments

	Payees	%	Payments
Kentucky Total	104,249	94.25%	\$1,704,727,909
Out of State	7,035	5.75%	\$104,309,612
Grand Total	111,284	100.00%	\$1,809,037,521

* This table represents all payees receiving a monthly payment during the fiscal year.



Who Participates

Principal Participating Employers in KERS

Participating Employer	Rank	Covered Employees	% of Total System
Department For Community Based Services	1	4,427	10.01%
Department Of Highways	2	3,965	8.96%
Department Of Corrections	3	3,787	8.56%
Judicial Department Administrative Office Of The Courts	4	1,371	3.10%
Department Of Juvenile Justice	5	1,308	2.96%
Bluegrass ORG	6	1,044	2.36%
Department for Behavioral Health Developmental Intellectual Disabilities	7	950	2.15%
Eastern Kentucky University	8	938	2.12%
Kentucky State Police	9	938	2.12%
Department Of Revenue	10	903	2.04%
All Others		24,601	55.62%
Total		44,232	100%

Schedule of Participating Employers in KERS

Agency Classification	Number of Agencies	Number of Employees
County Attorneys	62	329
Health Departments	60	2,727
Master Commissioner	33	78
Non-PI State Agencies	39	1,356
Other Retirement Systems	2	290
PI State Agencies	139	31,972
Regional Mental Health Units	12	3,087
Universities	7	4,393
Total	354	44,232

Schedule of Participating Employers in CERS

Agency Classification	Number of Agencies	Number of Employees
Airport Boards	5	526
Ambulance Services	20	416
Area Development Districts	14	723
Boards of Education	173	48,385
Cities	220	10,072
Community Action Agencies	21	2,675
Conservation Districts	47	58
County Attorneys	75	626
County Clerks	16	596
Development Authorities	6	11
Fire Departments	38	783
Fiscal Courts	118	11,049
Health Departments	1	318
Housing Authorities	42	434
Jailers	2	31
Libraries	86	1,230
Other Retirement Systems	2	3
P1 State Agencies	4	1,637
Parks and Recreation	7	66
Planning Commissions	16	222
Police Departments	2	16
Riverport Authorities	5	73
Sanitation Districts	9	351
Sheriff Departments	12	778
Special Districts & Boards	50	1,424
Tourist Commissions	23	171
Urban Government Agencies	2	6,799
Utility Boards	120	3,886
Total	1,136	93,378



HOW MEMBERS' BENEFITS ARE FUNDED

Benefits are funded by three sources.

01

EMPLOYEE CONTRIBUTION

The contribution rate is set by State statute.

02

EMPLOYER CONTRIBUTION

An amount paid by the employer participating in KRS (state and local government agencies). All employer rates are set each year by the KRS Board of Trustees based on actuarial valuations and recommendations; however, the KERS and SPRS employer rates are subject to final adoption by the Kentucky General Assembly in the biennial state budget legislation.

03

INVESTMENT RETURNS

This represents the largest portion of every benefit dollar paid. Each System has its own asset base from which each system's benefits are drawn. KRS follows a policy of thoughtfully growing our asset base while protecting against undue risk and losses in any particular investment area.

Top 10 Participating Employers in CERS

Participating Employer	Rank	Covered Employees	% of Total System
Jefferson County Board Of Education	1	6,614	7.08%
Louisville Jefferson County Metro Government	2	5,217	5.59%
Fayette County Board Of Education	3	1,916	2.05%
Judicial Department Administrative Office Of The Courts	4	1,637	1.75%
Lexington Fayette Urban County Government	5	1,582	1.69%
Pike County Board Of Education	6	1,144	1.23%
Boone County Board Of Education	7	1,134	1.21%
Hardin County Board Of Education	8	1,022	1.09%
Bullitt County Board Of Education	9	981	1.05%
Warren County Board Of Education	10	896	0.96%
All Others		71,235	76.29%
Total		93,378	100%

Schedule of Participating Employers in SPRS

Kentucky State Police - Uniformed Officers	1	948
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TOTAL PARTICIPATING EMPLOYERS 1,491

Employer Contribution Rates

	PENSION		INSURANCE	
	FY2015	FY2014	FY2015	FY2014
KERS Non Haz	30.84%	17.29%	7.93%	9.50%
KERS Haz	16.37%	14.89%	9.97%	17.32%
CERS Non Haz	12.75%	13.74%	4.92%*	5.15%*
CERS Haz	20.73%	21.77%	13.58%*	13.93%*
SPRS	53.90%	39.50%	21.86%	31.65%

* Final rate as a result of the 10 year phase-in of increases to the insurance rate.

FINANCIAL HIGHLIGHTS

Management's Discussion & Analysis

Additional information and footnotes are included in the Comprehensive Annual Financial Report (CAFR) which can be viewed online at KYRET.KY.GOV

Pension Funds

» The combined net position of all pension funds administered by Kentucky Retirement Systems (KRS) decreased by \$369.4 million during fiscal 2015. While all systems ended with a net decrease in net position, the Kentucky Employees Retirement System (KERS) Nonhazardous plan had the largest decline of \$250.5 million. Although net investment returns were 2.38% for KERS Nonhazardous, they only partially offset the net benefits outflow of \$291.3 million.

» Total contributions reported for fiscal 2015, totaled \$1,322.9 million compared to \$1,055.7 million in fiscal 2014. This increase is due to a rise in the employer contribution rates, the collection of additional health insurance contributions, and the proceeds of Bank of America settlement of \$23.0 million. The member health insurance contribution totaled \$12.6 million, for the fiscal year ended June 30, 2015, compared to \$12.4 million in the prior fiscal year.

» The net depreciation in the fair value of investments was \$14.8 million for the fiscal year ended June 30, 2015 compared to net appreciation of \$1,361.9 million for the prior fiscal year. This \$1.4 billion decrease was due to unfavorable market conditions. Unrealized losses were the primary cause of the decrease, as KRS moved from an unrealized gain in fiscal 2014 of \$489 million to an unrealized loss in fiscal 2015 of \$557 million. Realized gains decreased to \$542 million, slightly below prior year's realized gains of \$873 million.

» Interest, dividend and net securities lending income for fiscal 2015 was \$300.7 million compared to \$327.5 million in fiscal 2014. The decrease was related to less private equity dividend capitalization and a reduced asset base.

» Pension benefits paid to retirees and beneficiaries for fiscal 2015 totaled \$1,832.8 million compared to \$1,769.8 million in fiscal 2014. Refund of contributions paid to former members upon termination of employment for fiscal 2015 totaled \$32.9 million compared to \$33.6 million in fiscal 2014.

» 2015 administrative expense totaled \$33.2 million (Pension \$31.0 million; Insurance \$2.2 million) compared to \$34.2 million (Pension \$32.6 million; Insurance \$1.6 million) for the prior year.

Insurance Fund

» The combined net position of the insurance fund administered by KRS increased by \$92.5 million during fiscal 2015. Total combined net position for the fiscal year was \$4.25 billion. All but one system ended with a net increase in net position. SPRS ended the fiscal year with a net decrease of \$244,000.

» Employer contributions of \$343.6 million were received in fiscal 2015 compared to \$397.4 million in fiscal 2014. Total contributions declined 12.9% primarily due to a decrease in employer contribution rates across all systems. A decrease in insurance premiums and the Medicare drug reimbursement added to the decline as well, which is a result of less retirees covered under the self-insured program.

» The reimbursement of retired-reemployed health insurance for fiscal 2015 totaled \$8.8 million compared to \$5.6 million in the prior fiscal year. This is due to an upward trend of retirees returning to the workforce.

» Interest, dividend and net securities lending income for fiscal 2015 was \$100.5 million compared to \$97.1 million in fiscal 2014.

» The net appreciation in the fair value of investments for fiscal 2015 was \$3.9 million compared to net appreciation of \$445.7 million for the prior fiscal year, due to unfavorable market conditions. Overall investment income decreased by \$450.7 million. Unrealized losses were the primary cause of the decrease as KRS moved from an unrealized gain in the prior fiscal year of \$288 million to an unrealized loss in fiscal 2015 of \$126 million. Realized gains decreased to \$130 million, slightly below prior fiscal year's realized gains of \$158 million.

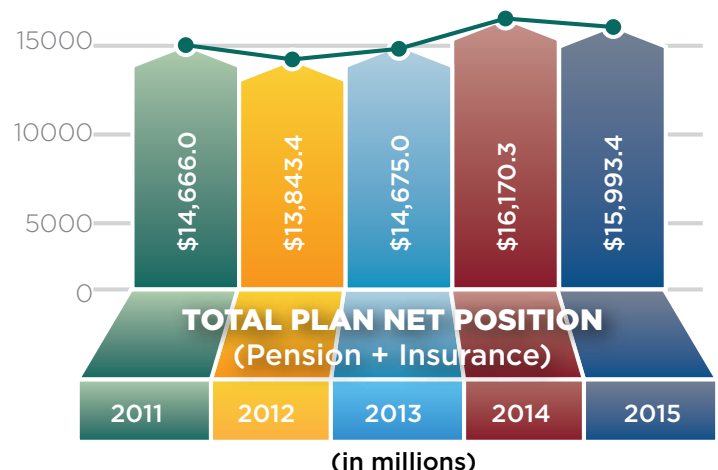


Table 1. Plan Net Position (in Millions)

Pension Funds				Insurance Fund			Total		
Assets	2015	2014	2013	2015	2014	2013	2015	2014	2013
Cash & Investments	\$12,217.5	\$12,758.2	\$12,431.7	\$4,451.2	\$4,392.4	\$3,992.1	\$16,668.7	\$17,150.6	\$16,423.8
Receivables	459.2	750.2	136.1	148.1	289.3	49.1	607.3	1,039.5	185.2
Equip/Int Assets, net of dep/amort.	9.9	10.5	16.1	-	-	-	9.9	10.5	16.1
Total Assets	12,686.6	13,518.9	12,583.9	4,599.3	4,681.7	4,041.2	17,285.9	18,200.6	16,625.1
Total Liabilities	(1,040.1)	(1,503.0)	(1,430.8)	(352.4)	(527.3)	(519.3)	(1,392.5)	(2,030.3)	(1,950.1)
Plan Net Position	\$11,646.5	\$12,015.9	\$11,153.1	\$4,246.9	\$4,154.4	\$3,521.9	\$15,893.4	\$16,170.3	\$14,675.0

Table 2. Changes in Plan Net Position (in Millions)

Pension Funds				Insurance Fund			Total		
Additions	2015	2014	2013	2015	2014	2013	2015	2014	2013
Member Cont.	\$298.5	\$275.0	\$276.3	-	-	-	\$298.5	\$275.0	\$276.3
Employer Cont.	985.9	768.3	741.8	\$343.6	\$397.4	\$447.3	1,329.5	1,165.7	1,189.1
Health Ins. Cont.	12.6	12.4	9.1	-	-	-	12.6	12.4	9.1
Pension Spiking Cont.	2.9	-	-	-	-	-	2.9	-	-
BOA Settlement	23.0	-	-	-	-	-	23.0	-	-
Premiums Rec'd	-	-	-	0.9	2.4	26.3	0.9	2.4	26.3
Retired Remp Ins.	-	-	-	8.8	5.6	5.8	8.8	5.6	5.8
Medicare Subsidy	-	-	-	-	-	11.2	-	-	11.2
Invest. Inc. (net)	204.4	1,643.0	1,140.8	76.4	527.1	313.6	280.8	2,170.1	1,454.4
Total Additions	1,527.3	2,698.7	2,168.0	429.7	932.5	804.2	1,957.0	3,631.2	2,972.2
Deductions									
Benefit Payments	1,832.8	1,769.7	1,706.2	-	-	-	1,832.8	1,769.7	1,706.2
Refunds	32.9	33.6	32.2	-	-	-	32.9	33.6	32.2
Administrative Ex.	31.0	32.6	30.5	2.2	1.6	9.8	33.2	34.2	40.3
Healthcare Costs	-	-	-	335.0	298.4	361.9	335.0	298.4	361.9
Total Deductions	1,896.7	1,835.9	1,768.9	337.2	300	371.7	2,233.9	2,135.9	2,140.6
Increase (Decrease) in Plan Net Position	(\$369.4)	\$862.8	\$399.1	\$92.5	\$632.5	\$432.5	(\$276.9)	\$1,495.3	\$831.6

Table 3. Investment Income (Loss) for Pension Funds (in Millions)

Asset	2015	2014	2013
Increase (Decrease) in fair value of investments	(\$557)	\$489	\$426
Investment income net of investment expense	219	281	250
Gain on sale of investments	542	873	465
Net Investment Income	\$204	\$1,643	\$1,141

Table 4. Investment Income (Loss) for Insurance Fund (in Millions)

Asset	2015	2014	2013
Increase (Decrease) in fair value of investments	(\$126)	\$288	\$125
Investment income net of investment expense	72	81	81
Gain on sale of investments	130	158	108
Net Investment Income	\$76	\$527	\$314

Schedule of Administrative Expenses (in Thousands)

	2015	2014	2013
Total Pension Fund Administrative Expenses	31,020	32,593	30,581
Total Insurance Fund Administrative Expenses	2,180	1,614	9,758
Total Administrative Expenses	\$33,200	\$34,207	\$40,339

INVESTMENT HIGHLIGHTS

Additional information and footnotes are included in the Comprehensive Annual Financial Report (CAFR) which can be viewed online at KYRET.KY.GOV



U.S Economy Strong ... *will it be dragged down by economic weakness worldwide?*

In a world starved for economic growth, the United States continues to be one of the few bright spots. As such, investors continue to look favorably upon U.S. private and public equity markets as well as real estate. The U.S. stock market provided a solid return for the fiscal year, evidenced by the Russell 3000 Index return of 7.25%; however, this was a drop off from the prior two fiscal years.

During the fiscal year, several geopolitical and macro events occurred pointing to a struggling global economy. One of the few bright spots outside of the U.S. was found in the European economy which is no longer shrinking, but experiencing modest growth (2.0%). Greece continued to affect the world stock markets as it worked through its debt problems and fears of contagion persisted. In an attempt to fight its way out of a twenty-five year deflationary environment, Japan's central bank pumped an unprecedented amount of liquidity into its economy. Some debate exists as to whether China is experiencing a property bubble, and if so, to what extent and affects, if any, it may have on the overall economy. Additionally, as it relates to property values in China; there is some speculation that their banking system, specifically those like the U.S. community and regional banks, may be under stress associated with overbuilding.

As China's economy transitions from one of an infrastructure build-out to one more consumer driven, its consumption (ie. demand) for commodities of all types has slowed, and as a major consumer of such has led to a significant decline in commodity values. This decline combined with an already strengthening U.S. Dollar has really stressed emerging market economies; as a result, emerging market equities were the worst performing asset class for the fiscal year. Because many emerging economies are so dependent on the commodity and agricultural markets continued headwinds are forecasted until global demand recovers.

Global Fixed Income was not a meaningful contributor to performance this year. The fiscal year started poorly for credit sensitive fixed income due to the sell-off in oil, which led to a decrease in the price of bonds issued by any energy related company. Energy companies made up approximately 20% of high yield indices, heavily influencing their performance for the year. Credit sensitive fixed income recovered in the second half of the fiscal year, but not enough so to push the sector into positive territory for the year.

To sum up, the U.S. has been in recovery for some time now. Europe continues to struggle to get a foothold witnessed by modest growth, while emerging countries are left wanting. A global economy starved for growth is turning to the U.S. as its safe haven to pull the rest of the world along. It remains to be seen who will influence whom.

Investment Policies

Visit <https://kyret.ky.gov/investments>

to read our Statement of Investment policy. Other policies include Brokerage, Securities Trading, Placement Agents, Proxy Voting and more.

INVESTMENT OBJECTIVES

The investment objectives of the portfolios are to produce results that exceed the stated goals over both short-term and long-term periods.

Shorter-Term (*5 years and less*): The returns of the particular asset classes of the managed funds of the Systems, measured on a year-to-year basis, should exceed the returns achieved by a policy benchmark portfolio composed of comparable unmanaged market indices.

Medium-Term (*5 to 30 years*): The returns of the particular asset classes of the managed funds of the Systems, measured on a rolling year basis, should exceed the returns achieved by a policy benchmark portfolio composed of comparable unmanaged market indices and perform above median in an appropriate peer universe, if there is one.

Longer-Term: The total assets of the Systems should achieve a return measured over 30 to 40 years which exceeds the actuarially required rate of return of 7.75% while also exceeding the return achieved by its total fund benchmark. (Note: The actuarially required rate of return was lowered to 7.5% effective July 1, 2015.)

In keeping with the Board of Trustees' fiduciary responsibility, where all else equal, the Board encourages the investment of the Systems' assets in securities of corporations that provide a positive contribution to the economy of the Commonwealth of Kentucky.

INVESTMENT STRATEGIES

Diversification

KRS portfolios are diversified on several levels. Portfolios are diversified through the use of multiple asset classes. Asset allocations are revisited on a periodic basis and represent an efficient allocation to achieve overall return and risk characteristics. The individual asset classes are diversified through the use of multiple portfolios that are managed both by the Investment Division Staff and by external investment advisors. Finally, portfolios within each of the asset classes are diversified through both investment styles and the selection of individual securities. Each portfolio advisor is afforded discretion to diversify its portfolio(s) within the parameters established by the Board of Trustees.

Rebalancing

Proper implementation of the investment policy requires that a periodic adjustment, or rebalancing, of assets be made to ensure conformance with KRS' Statement of Investment Policy target levels. Such rebalancing is necessary to reflect sizeable cash flows and performance imbalances among asset classes and investment advisors.

Investments Performance Review Procedures

At least once each quarter, the Investment Committee, on behalf of the Board of Trustees, reviews the performance of the portfolio for determination of compliance with the Statement of Investment Policy. The investment Committee also reviews a report created and presented by the KRS Compliance Officer who is part of the independent internal Audit Department.

Investment Consulting

The Board employs industry leading external consultants to assist in determining and reviewing the asset allocation guidelines and the performance of both the internally managed and externally managed assets.

ASSET ALLOCATION BY SYSTEM

KRS creates a specific investment strategy for each of the ten (10) managed portfolios. An asset liability study is conducted every five (5) years to determine the optimal asset allocation required to meet each systems' long-term goals. Asset allocation is the single most influential factor to an investment strategy's performance. Therefore, individual plans' performance may vary as a result of different asset allocations and cash flow needs to fund benefit payments.

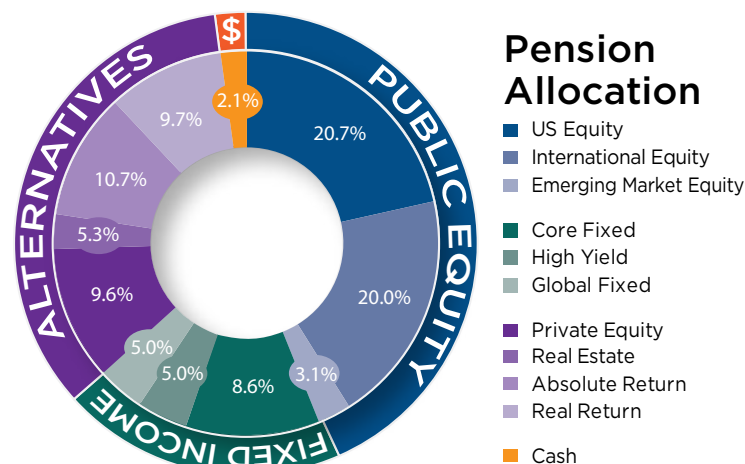
LONG-TERM RESULTS:

For the 10-years ended June 30, 2015, the KRS pension fund portfolio earned an annualized total net return of 6.05% versus the benchmark annualized return of 6.30%.

Pension Investment Performance

For the fiscal year ended June 30, 2015, the KRS pension fund produced a net return of 2.01%, underperforming its benchmark return of 3.13%, as well as the actuarially required rate of return of 7.75%. It should be noted that the actuarially required rate is an annualized return that may not be met, or possibly greatly surpassed in any given year; this objective has been met over the long-term.

The underperformance of the pension fund can primarily be attributed to relative weak performance in the U.S. and Emerging Market spaces, combined with relative underperformance within several asset classes. Both the overweight to credit versus interest rate sensitive securities within the Fixed Income portfolio and overweight to debt within the Real Estate portfolio hampered performance. The solid absolute returns provided by the Private Equity allocation, combined with the downside protection offered by the Non-US Equity portfolio bolstered returns for the period.



Net Returns By Allocation - Pension Funds

Structure	Inception	Market Value	% of	1 Year		3 Years		5 Years		10 Years		Inception To Date	
		(Millions)	Total	KRS	Index	KRS	Index	KRS	Index	KRS	Index	KRS	Index
Total Fund	4/1/1984	\$ 11,488.01	100%	2.01	3.13	9.32	9.64	9.18	9.85	6.05	6.30	9.35	9.49
Total Public Equity	4/1/1984	5,033.56	43.82	0.68	0.64	13.33	13.13	11.67	12.31	6.40	6.17	10.79	10.64
US Equity	4/1/1984	2,376.88	20.69	6.04	7.29	17.15	17.73	16.90	17.52	8.18	8.27	11.39	11.37
International	7/1/2000	2,296.21	19.99	-3.99	-4.85	10.62	9.92	6.85	8.35	5.35	5.46	2.56	3.13
EQ Emerging Markets	7/1/2011	360.47	3.14	-6.66	-4.77	3.58	4.08	-	-	-	-	0.37	-1.26
Fixed Income	4/1/1984	2,145.36	18.67	1.44	1.61	3.70	2.33	5.02	3.85	4.88	4.60	7.82	7.54
Real Return	7/1/2011	1,110.47	9.67	-3.98	-2.86	1.29	2.32	-	-	-	-	3.86	2.91
Absolute Return	4/1/2010	1,231.94	10.72	5.49	6.08	8.71	6.43	6.59	4.15	-	-	5.75	3.97
Real Estate	7/1/1984	620.82	5.34	7.85	12.40	9.30	11.60	11.42	13.44	6.03	6.00	5.73	6.21
Private Equity	7/1/2002	1,104.58	9.62	9.61	9.61	14.33	14.33	13.83	13.83	8.74	10.73	11.25	10.87
Cash Account	1/1/1988	241.28	2.10	0.16	0.02	0.36	0.05	0.35	0.06	1.91	1.34	3.87	3.42

Note: Market values are adjusted for accruals and expenses

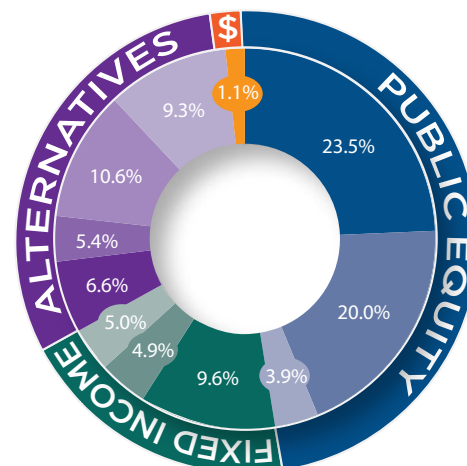
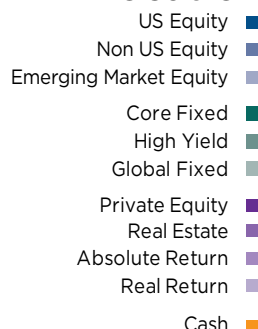
Net Returns By System - Pension Fund

Plan	Market Value	% of Total	1 Year		3 Years		5 Years		GANIR	10 Years		Inception To Date	
	(Millions)		KRS	Index	KRS	Index	KRS	Index		KRS	Index	KRS	Index
KERS	\$2,256.12	19.6%	2.38	2.73	9.43	9.52	9.25	9.78	9.04	6.09	6.26	9.36	9.48
KERS HAZ	548.75	4.8%	1.87	2.38	9.3	9.52	9.17	9.78	9.10	6.05	6.26	9.34	9.48
CERS	6,382.18	55.6%	1.92	2.3	9.28	9.5	9.16	9.77	9.03	6.04	6.26	9.34	9.48
CERS HAZ	2,063.51	18.0%	1.96	2.32	9.28	9.51	9.16	9.77	9.12	6.04	6.26	9.34	9.48
SPRS	237.44	2.1%	1.87	2.35	9.29	9.49	9.17	9.77	9.12	6.05	6.25	9.34	9.48
Total	\$11,488.00	100.0%	2.01	3.13	9.32	9.64	9.18	9.85		6.05	6.3	9.35	9.49

Insurance Investment Performance

The KRS insurance fund gained 1.86% net of expenses for the fiscal year ended June 30, 2015, compared to the benchmark's 3.79% return and the actuarially required rate of 7.75%. The insurance fund suffered from the same root causes of underperformance as the pension fund. The slight relative underperformance of the insurance fund versus the pension fund was due primarily to a greater allocation to emerging market equities, a weaker performing asset class, and a lower allocation to private equity, one of the better performing asset classes during the period.

Insurance Allocation



Net Returns By Allocation- Insurance Fund

Structure	Inception	Market Value (Millions)	% of Total	1 Year		3 Years		5 Years		10 Years		Inception To Date	
				KRS	Index	KRS	Index	KRS	Index	KRS	Index	KRS	Index
Total Fund	4/1/1987	\$4,213.51	100%	1.86	3.79	8.82	9.86	9.33	11.09	5.52	6.02	7.47	7.91
Total Public Equity	7/1/1992	1,997.66	47.41	0.93	0.70	13.22	12.98	11.34	12.18	6.08	5.88	8.76	8.58
US Equity	7/1/1992	991.84	23.54	6.28	7.29	17.07	17.73	16.72	17.42	7.84	8.11	9.53	9.36
International	7/1/2000	841.61	19.97	-4.17	-4.85	10.38	9.92	6.32	8.29	5.40	5.10	2.57	2.12
EQ Emerging Markets	7/1/2011	164.20	3.90	-6.74	-4.77	3.59	4.08	-	-	-	-	0.39	-1.26
Fixed Income	7/1/1992	824.48	19.57	0.16	1.61	3.01	2.33	4.65	4.30	4.91	4.64	6.62	6.46
Real Return	7/1/2011	393.47	9.34	-3.90	-2.77	0.85	2.35	-	-	-	-	3.51	2.93
Absolute Return	4/1/2010	227.44	5.40	5.55	6.08	8.67	6.43	6.59	4.15	-	-	5.64	3.97
Real Estate	5/1/2009	447.18	10.61	7.79	12.40	8.42	11.60	11.76	13.44	-	-	8.64	4.53
Private Equity	7/1/2002	276.55	6.56	14.56	14.56	15.85	15.85	15.66	15.66	9.14	10.17	9.44	10.16
Cash Account	7/1/1992	46.74	1.11	0.21	0.02	0.31	0.05	0.28	0.06	1.74	1.34	2.88	2.75

Note: Market values are adjusted for accruals and expenses

Net Returns By System - Insurance Fund

Plan	Market Value (Millions)	% of Total	1 Year		3 Years		5 Years		10 Years		Inception To Date	
			KRS	Index	KRS	Index	KRS	Index	KRS	Index	KRS	Index
KERS	\$653.93	15.5%	1.44	2.39	8.5	9.48	9.13	10.87	5.42	5.91	7.44	7.87
KERS HAZ	437.83	10.4%	1.82	2.56	8.88	9.55	9.37	10.91	5.53	5.93	7.48	7.88
CERS	1,906.85	45.3%	1.96	2.68	8.89	9.59	9.37	10.93	5.54	5.94	7.48	7.89
CERS HAZ	1,051.04	24.9%	1.96	2.7	8.89	9.6	9.37	10.94	5.54	5.94	7.48	7.89
SPRS	163.86	3.9%	1.9	2.75	8.88	9.61	9.36	10.95	5.53	5.94	7.48	7.89
Total	\$4,213.51	100.0%	1.86	3.79	8.82	9.86	9.33	11.09	5.52	6.02	7.47	7.91

Total Portfolio - Actual vs Benchmarks

		Pension Funds			Insurance Fund		
Asset	Index	Actual	Benchmark	Difference	Actual	Benchmark	Difference
US Equity	Russell 3000	20.69%	20.50%	↑.19%	23.54%	20.00%	↑3.54%
International	MSCI ACWI ex US GD	19.99%	20.0%	↓.01%	19.97%	20.00%	↓.03%
EQ Emerging Markets	MSCI Emerging Markets GD	3.14%	2.90%	↑.24%	3.90%	4.00%	↓.10%
Fixed Income	Barclays Capital US Universal	18.67%	19.30%	↓.66%	19.57%	20.00%	↓.63%
Real Return	CPI + 300 bps	9.67%	10.00%	↓.33%	9.34%	10.00%	↓.66%
Absolute Return	HFR FOF: Diversified Lagged (1 month)	10.72%	10.00%	↑.78%	5.40%	10.00%	↓.60%
Real Estate	NCREIF Open-End Diversified Core GR	5.34%	4.50%	↑.84%	10.61%	5.00%	↑5.61%
Private Equity	Russell 3000 Quarter Lagged + 400 bps	9.62%	10.00%	↓.38%	6.56%	10.00%	↓4.44%
Cash Account	CG 3-Mo U.S. Treasury Bill	2.10%	2.80%	↓.70%	1.11%	1.00%	↑.11%

Note: The above table demonstrates the long-term benchmark allocations of the Funds.

Investment Expenses

KRS incurs various fees and expenses to manage Investment portfolios. These include Commissions Paid and external Investment fees/expenses (ex: advisory fees, stock loan fees, managerial fees, custodial expense, taxes, insurance). The expense charts summarize the Commissions Paid and External Investment Expense by Asset Class. Regarding Private Equity expenses, our 2015 financial statements also provide additional reporting transparency details (see the 2015 CAFR Note W – Investment Fees).

External Investment Expense - Asset Class

	Pension	Insurance	Total
U.S. Public	\$2,662,459	\$796,367	\$3,458,826
International	5,902,552	1,884,151	7,786,703
Emerging Market	2,147,466	949,049	3,096,515
Fixed Income	8,428,907	2,767,263	11,196,170
Real Return	5,112,008	2,047,470	7,159,478
Absolute Return	5,581,543	1,944,631	7,526,174
Real Estate	6,839,124	2,851,000	9,690,124
Private Equity	42,708,431	13,511,406	56,219,837
Cash	2,030,000	1,000,000	3,030,000
Accruals	92,706	232,922	325,628
Total	\$81,505,195	\$27,984,259	\$109,489,454
Fund Market Value	\$11,488,006,228	\$4,213,508,928	\$15,701,515,156
Percent of Investment Assets	0.709%	0.664%	0.697%

Schedule of Commissions Paid

	Total Shares	Commissions Paid	\$ Per Share
U.S. Equities	61,537,088	\$1,725,089	0.028
	Total Value of Trades	Commissions Paid	As a % of Trade
International Equities	\$1,631,272,032	\$1,692,477	0.104
Total		\$3,417,566	

The Governmental Accounting Standards Board recognizes that it may not be possible or cost-beneficial to separate certain investments expenses from either the related investment income or the general administrative expenses of the plan. KRS has displayed all investment related fees and expenses identifiable and captured by our custodial bank BNY Mellon and KRS staff.

ACTUARIAL HIGHLIGHTS

Additional information and footnotes are included in the Comprehensive Annual Financial Report (CAFR) which can be viewed online at KYRET.KY.GOV

Annual Actuarial Valuation

What is an Actuarial Valuation?

An actuarial valuation is an analysis conducted by a certified actuary that requires demographic and economic assumptions to be made in order to determine how much money a pension plan needs to pay future liabilities.

What is its Purpose?

According to the Government Finance Officers Association: "The purpose of an actuarial valuation is 1) to determine the amount of actuarially determined contributions (i.e. an amount that if contributed consistently and combined with investment earnings would be sufficient to pay promised benefits in full over the long term) and 2) to measure the plan's funding progress."

Actuarial Assumptions

Actuaries must make assumptions since the future is unknown. Two types of assumptions are used in valuations – demographic and economic. Demographic assumptions concern the characteristics of the plan membership and include such things as rates of retirement, terminations before retirement, disability, and mortality. The two key economic assumptions are rate of return on investments and payroll growth rates. Actuarial assumptions are based on past experience, statistical studies and judgment about expected future experience.

Employer Contribution Rates

Under Kentucky law, the KRS Board must approve employer contribution rates for each fiscal year based upon an actuarial valuation. Employer contribution rates become effective one year after the valuation date, which is always the last day of a fiscal year.

For each retirement system, KRS administers both a pension and insurance fund. The total employer contribution rate is comprised of a contribution to each fund. Rates consist of the normal cost (the cost

of benefits earned in the year of the valuation) and an amortization payment on the unfunded accrued liability (UAL), which is the difference between the current assets held by the plans and the accrued liability for benefits already earned in past years. The administrative expenses of the plans are also included as a part of the total employer pension fund contribution.

Funding Levels

The "funded status" or "funding level" is the ratio of current assets to the liabilities owed for benefits already earned. Ideally, pension and insurance plans will have 100% of the assets on hand needed to pay its future liabilities. Each year, the funding levels of the KRS pension and insurance plans are determined by the annual actuarial valuation.

2015 Actuarial Valuation Results

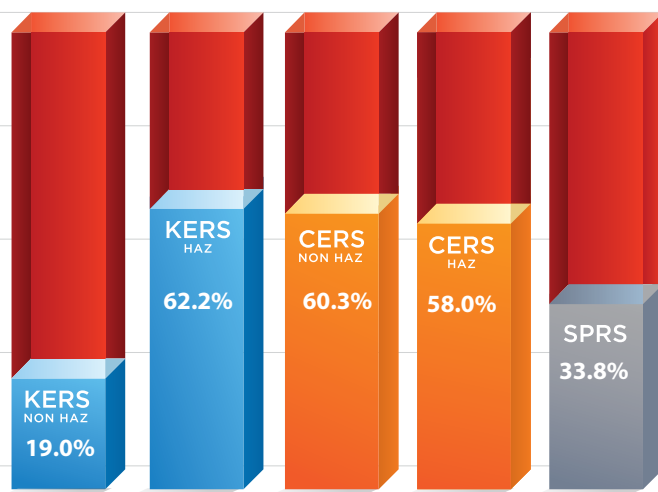
Unfunded Actuarial Accrued Liability KRS Pension and Insurance Funds had the following Unfunded Actuarial Accrued Liabilities:

	Pension Fund <i>Unfunded Accrued Liabilities (UAL) as of June 30</i>		Insurance Fund <i>Unfunded Accrued Liabilities (UAL) as of June 30</i>	
System	2015 UAL	Funded Ratio	2015 UAL	Funded Ratio
KERS Non Haz	\$10,008,682,909	19.0%	\$1,718,686,990	28.8%
KERS Haz	338,745,630	62.2%	(76,609,957)	120.4%
CERS Non Haz	4,265,476,908	60.3%	910,370,977	68.7%
CERS Haz	1,516,524,591	58.0%	416,308,115	72.3%
SPRS	485,768,500	33.8%	87,063,770	65.8%
Total	\$16,615,198,538		\$3,055,819,895	
Total Unfunded Actuarial Accrued Liability			\$19,671,018,433	

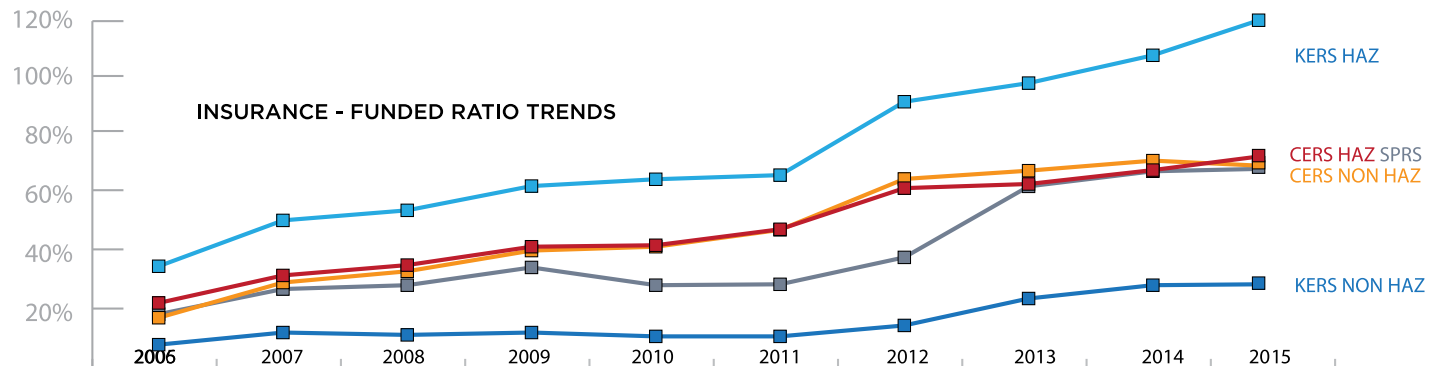
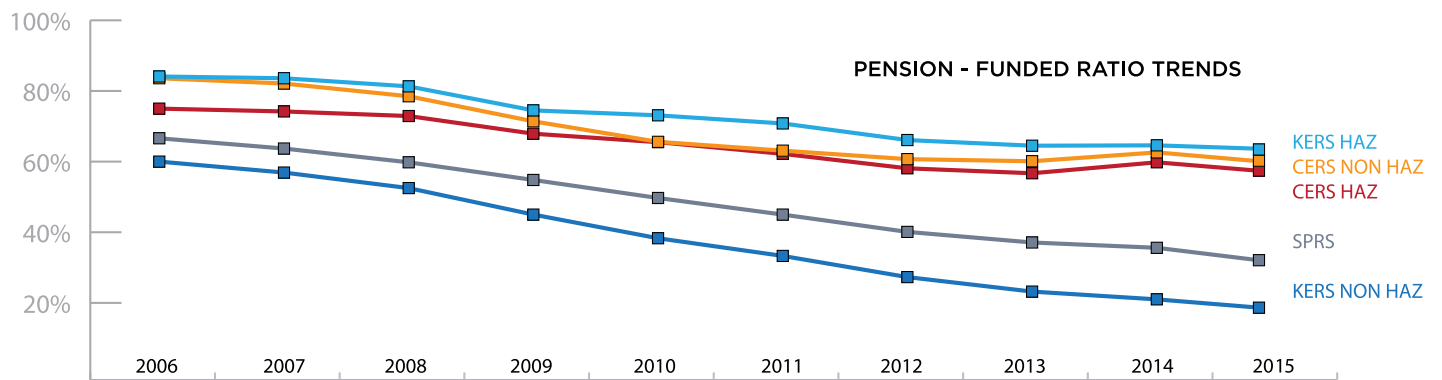
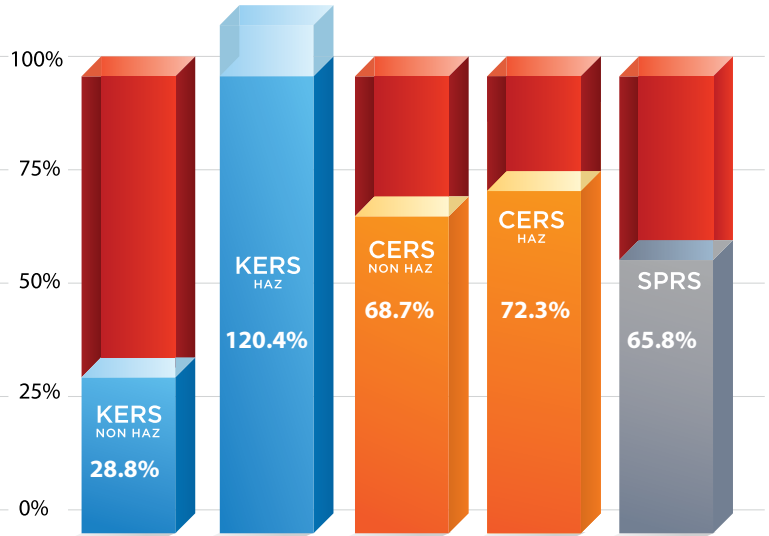
Funding Status and Trends

2015

PENSION - FUNDED / UNFUNDED LIABILITY



INSURANCE - FUNDED / UNFUNDED LIABILITY



Why are funding levels changing?

Pension Funds: In recent years, funding levels for the pension funds have fallen dramatically due to a number of factors, including: higher than expected retirement rates; unfunded Cost of Living Adjustments (COLAs); investment losses including significant market declines in 2000-2002 and again in 2008-2009; and the shortfall in contributions to the KERS and SPRS plans in 15 out of 22 years prior to the 2015 fiscal year.

Insurance Funds: Funding levels for the insurance funds over the last 10 years have risen due to a number of factors, including: increased employee contributions and legislative changes.

Summary of Actuarial Valuation Results

	KERS Non-Haz	KERS Haz	CERS Non-Haz	CERS Haz	SPRS
Recommended Rate Fiscal 2015-2016					
Pension Fund Contribution	38.93%	21.08%	13.95%	21.71%	66.47%
Insurance Fund Contribution	8.35%	2.74%	4.93%	9.79%	18.87%
Recommended Employer Contribution	47.28%	23.82%	18.88%	31.50%	85.34%
Funded Status as of Valuation Date					
PENSION FUND					
Actuarial Liability	\$12,359,672,849	\$895,433,387	\$10,740,325,421	\$3,613,307,547	\$734,156,446
Actuarial Value of Assets	\$2,350,989,940	\$556,687,757	\$6,474,848,513	\$2,096,782,956	\$248,387,946
Unfunded Liability on Actuarial Value of Assets	\$10,008,682,909	\$338,745,630	\$4,265,476,908	\$1,516,524,591	\$485,768,500
Funding Ratio on Actuarial Value of Assets	19.02%	62.17%	60.29%	58.03%	33.83%
Market Value of Assets	\$2,307,858,072	\$550,120,310	\$6,416,853,506	\$2,073,397,045	\$246,968,144
Unfunded Liability on Market Value of Assets	\$10,051,814,777	\$345,313,077	\$4,323,471,915	\$1,539,910,502	\$487,188,302
Funding Ratio on Market Value of Assets	18.67%	61.44%	59.75%	57.38%	33.64%
INSURANCE FUND					
Actuarial Liability	\$2,413,705,252	\$374,904,234	\$2,907,827,440	\$1,504,015,233	\$254,838,710
Actuarial Value of Assets	\$695,018,262	\$451,514,191	\$1,997,456,463	\$1,087,707,118	\$167,774,940
Unfunded Liability on Actuarial Value of Assets	\$1,718,686,990	(\$76,609,957)	\$910,370,977	\$416,308,115	\$87,063,770
Funding Ratio on Actuarial Value of Assets	28.79%	120.43%	68.69%	72.32%	65.84%
Market Value of Assets	\$687,684,080	\$441,626,285	\$1,948,454,097	\$1,061,560,788	\$165,018,209
Unfunded Liability on Market Value of Assets	\$1,726,021,172	(\$66,722,051)	\$959,373,343	\$442,454,445	\$89,820,501
Funding Ratio on Market Value of Assets	28.49%	117.80%	67.01%	70.58%	64.75%
MEMBER DATA					
Number of Active Members	30,056	3,886	80,852	9,172	937
Total Annual Payroll (Active Members) ¹	\$1,544,234,409	\$128,680,130	\$2,296,715,957	\$483,640,601	\$45,764,515
Average Annual Pay (Active Members)	\$39,539	\$33,114	\$28,406	\$52,730	\$48,842
Number of Retired Members & Beneficiaries	42,269	3,758	52,651	8,034	1,460
Average Annual Retirement Allowance	\$20,904	\$15,016	\$11,306	\$25,162	\$37,624
Number of Vested Inactive Members	9,806	460	13,649	708	63
Number of Inactive Members Due a Refund	38,454	4,094	66,530	1,948	362

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, 2015.

Our Mission

The mission of Kentucky Retirement Systems (KRS) is to build the strength of the trust funds to ensure that adequate resources are available to meet all obligations, while helping members and beneficiaries achieve financial security in retirement. KRS is committed to efficiently and effectively administering the benefit programs established by the General Assembly. Members are current and former government employees or retirees, who either contribute money into our trust funds, or who are receiving pension benefits, or who will receive benefits or a refund of contributions in the future.



Kentucky Retirement Systems

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Website: <https://kyret.ky.gov>

Facebook: [kyretirement](https://www.facebook.com/kyretirement)

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[Twitter.com/Kyretire](https://twitter.com/Kyretire)

MyRetirement Portal - <https://myretirement.ky.gov>

Hours of Operation:

8:00 AM - 4:30PM (EST) Monday-Friday