

FOCUSED *On* Your FUTURE



Comprehensive Annual Financial Report ***for fiscal year ended June 30, 2005***

KENTUCKY RETIREMENT SYSTEMS

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



A COMPONENT UNIT OF THE COMMONWEALTH OF KENTUCKY

Kentucky Retirement Systems

*A Component Unit of the
Commonwealth of Kentucky.*

Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2005

*Prepared by the executive staff of
Kentucky Retirement Systems*

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The cost of printing this CAFR is part of the administrative expense of the systems.

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Introductory Section



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Kentucky Employees Retirement Systems
County Employees Retirement Systems
State Police Retirement Systems

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



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November 18, 2005

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

Dear Board of Trustees and Members:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the Kentucky Employees Retirement System (KERS), County Employees Retirement System (CERS), and State Police Retirement System (SPRS) for the fiscal year ended June 30, 2005. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the management of the Systems.

The CAFR is divided into five sections:

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

We present this information to assist the Board and the members of the retirement systems in understanding the systems' financial and actuarial status. This CAFR was prepared to conform with the principles of governmental accounting and reporting set forth by the Governmental Accounting Standard Board. Transactions of the system are reported on the accrual basis of accounting. Additionally, sufficient internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and

supporting schedules. Please refer to Management's Discussion and Analysis on page 27 for more information.

History

KERS was created in 1956 by the Kentucky State Legislature in order to supplement the benefits provided by Social Security. When the first actuarial valuation was completed June 30, 1957, there were 16,000 employees participating in KERS and assets of \$2.8 million. SPRS and CERS were established in 1958. The first actuarial valuation of SPRS was conducted June 30, 1959. No actuarial valuation of CERS was conducted until June 30, 1960 because the statutes did not authorize retirements from the system prior to July 1, 1960. On June 30, 1960, there were 68 counties and 2,617 employees participating in CERS, and SPRS included 415 uniformed state troopers.

As of June 30, 2005, there were more than 290,000 active, inactive and retired members in the combined systems and approximately \$14.3 billion in assets. A breakdown of membership by system is provided in the Statistical Section.

The staff of Kentucky Retirement Systems provides detailed benefit estimates to members upon request. Counselors are available at the Frankfort office for individual counseling, both in office by appointment and by telephone during normal business hours. In addition, staff conducts individual counseling sessions at sites throughout the state and holds preretirement seminars to help members prepare for retirement. Information including an online benefit calculator is available online at <http://www.kyret.com>.

Major Initiatives

In February 2005, The Board of Trustees received an Organizational and Operational Review completed by L.R. Wechsler, Ltd. The purpose of the review was to focus on business processes and the technology needed to provide services to members in the future. Several initiatives were immediately undertaken including the installation of a new phone system more capable of handling the million plus calls KRS receives each year.

KRS Administrative staff worked to move forward on other initiatives recommended by the Wechsler Review including the Line of Business Project, which has begun with the hiring of a project manager and will continue to move forward in the next fiscal year.

KRS embarked on a project of self-insuring the Medicare eligible retirees during this fiscal year. The Systems have teamed up with Wausau Benefits and Walgreen's to offer three levels of gap coverage to the membership. Additional work is expected over the course of the next several years in the medical benefits area, including drug benefits.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a certificate of Achievement for Excellence in Financial Reporting to the Kentucky Retirement Systems for its CAFR for the fiscal year ended June 30, 2004. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports. This was the sixth consecutive year that KRS has achieved this award.

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

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

Investments

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

The Board has managed the funds in recognition of the basic long-term nature of the systems. The Board has interpreted this to mean that the assets of the systems should be actively managed — that is, investment decisions regarding the particular securities to be purchased or sold shall be the result of the conscious exercise of discretion. The Board has further recognized that proper diversification of assets must be maintained. The asset allocation can be found in the Investment Section of this CAFR.

The Board's policies have provided significant returns over the long term while minimizing investment related expenses. Despite continued reductions in employer contributions and increasing negative cash flow, the systems' pension and insurance funds increased \$526 and \$227 million, respectively.

Actuarial Funding

The Kentucky Retirement Systems' funding objective is to meet long-term benefit promises through contributions that remain fairly level as a percent of active member payroll. The progress towards achieving the intended funding objectives for both the pension and insurance funds can be measured by the funding level of the actuarial assets of each fund to the actuarial liabilities. The

funding level for the pension funds are 73.6% for KERS Non-Hazardous, 92.3% for KERS Hazardous, 93.9% for CERS Non-Hazardous, 80.9% for CERS Hazardous and 77.1% for SPRS. These funding levels will fluctuate over time with experience deviations. Since 2001, all systems have experienced reductions in the funding levels relative to the pension due to investment returns less than the assumed rate, higher than anticipated retirements and increasing payments for retiree cost of living adjustments.

The medical insurance benefit, created in 1978, is not at the same level of funding. Total actuarial liabilities for the Insurance Fund exceed assets by+ \$5.5 billion. The Insurance Funds continue to be a primary concern of the Kentucky Retirement Systems.

Detailed information of the actuarial soundness of the systems can be found in the Actuarial Section of this report.

Professional Services

A listing of the Board's contracted consultants can be found in the organizational chart on page 10. A listing of the external investment managers can be found on page 97 in the Investment Section.

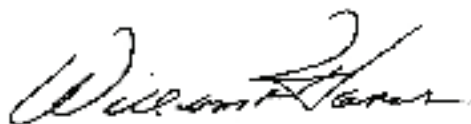
Other Information

Kentucky statutes require an annual audit by an independent certified public accountant or the Auditor of Public Accounts. Carpenter, Mountjoy & Bressler PSC performed the audit for the fiscal year ended June 30, 2005, and the results of that audit are contained in the Financial Section. The firm gave the Systems an unqualified opinion and also indicated that the financial statements present fairly, in all material respects, the plan net assets of Kentucky Retirement Systems.

The compilation of this report reflects the combined efforts of the KRS administrative staff under the leadership of the Board of Trustees. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with statutory provisions, and as a means of determining responsible stewardship of the Systems' funds.

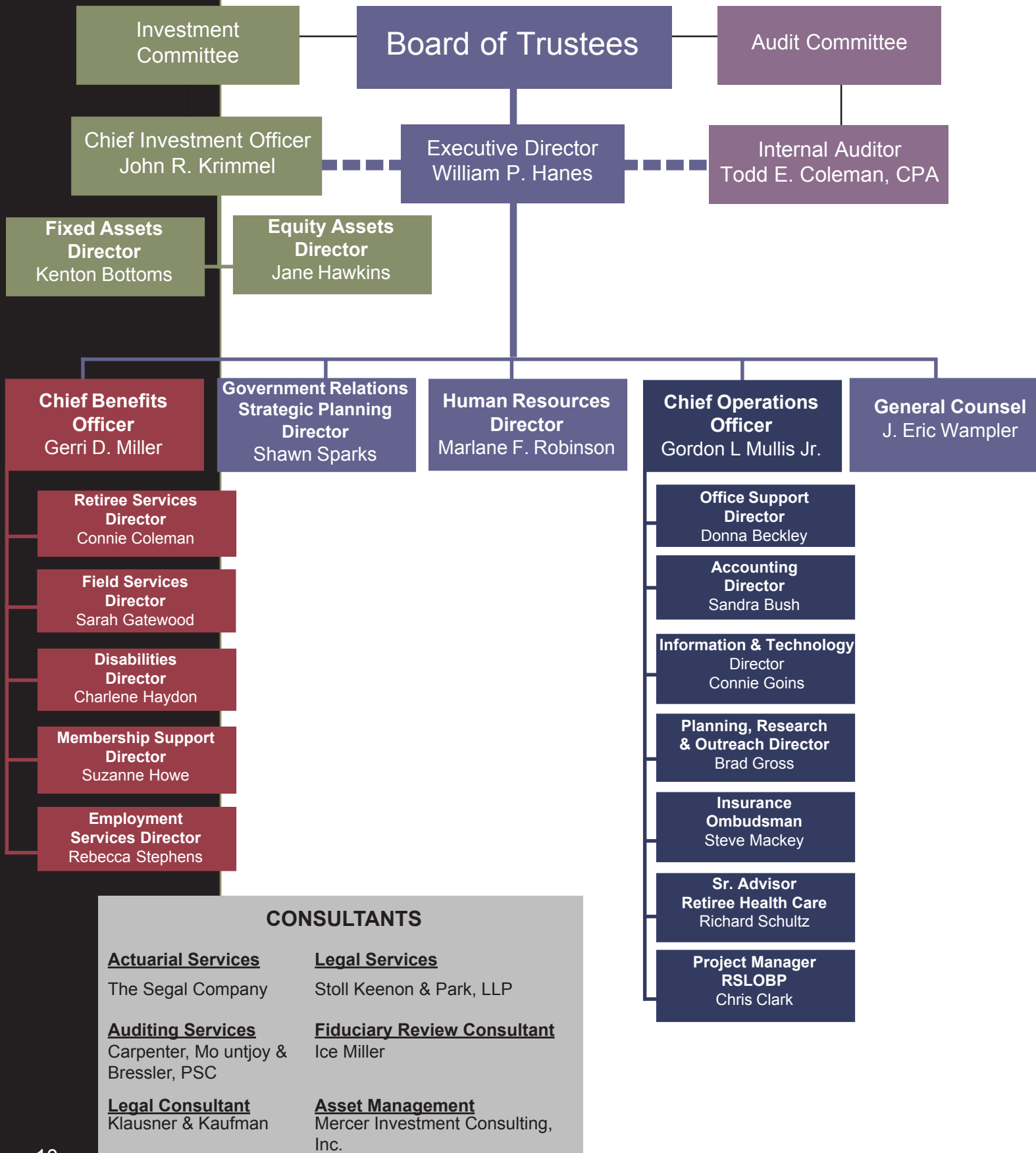
The report is available to all employers participating in the Kentucky Retirement Systems. They form the link between the systems and its membership, and their cooperation contributes significantly to the success of the Kentucky Retirement Systems. We hope the employers and their employees find this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

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



William P. Hanes, Esq.
Executive Director

Kentucky Retirement Systems Organizational Chart



CONSULTANTS

Actuarial Services

The Segal Company

Legal Services

Stoll Keenon & Park, LLP

Auditing Services

Carpenter, McIntjoy & Bressler, PSC

Fiduciary Review Consultant

Ice Miller

Legal Consultant

Klausner & Kaufman

Asset Management

Mercer Investment Consulting, Inc.

2005 KRS Board of Trustees

A nine-member Board of Trustees administers the Systems: two trustees elected by KERS members; two trustees elected by CERS members; one trustee elected by SPRS members; three trustees appointed by the Governor; and the Secretary of the State Personnel Cabinet. One of the trustees appointed by the Governor must be knowledgeable about the impact of pensions on local governments.

Elected trustees may serve no more than five terms consecutively.



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



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



Vince Lang
Frankfort
Elected by CERS
Term Expires March 31, 2009



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



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



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



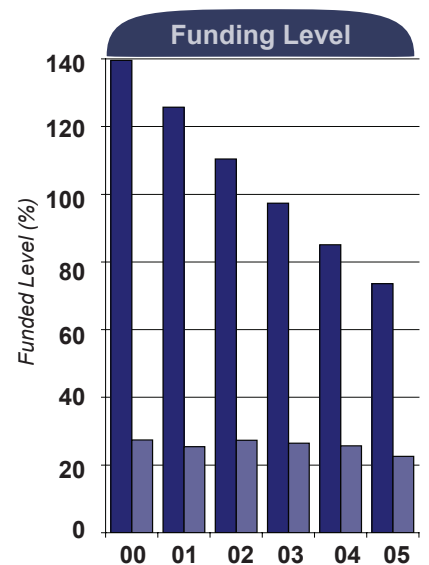
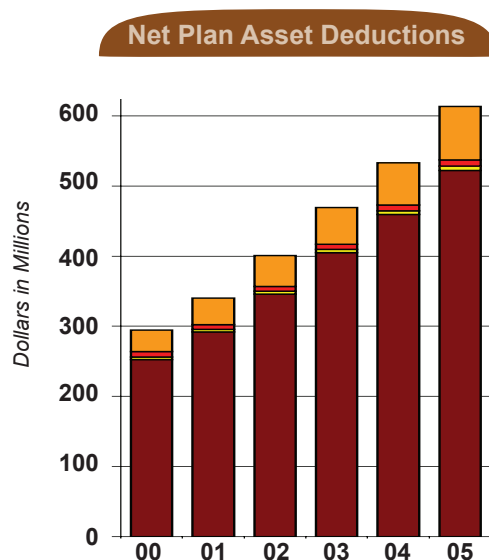
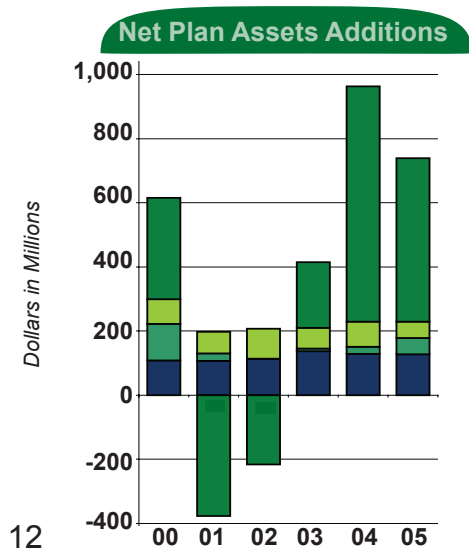
Larry C. Conner
Lexington
Appointed by Governor
Term Expires March 31, 2007



Erwin Roberts
Louisville
Secretary, Personnel Cabinet
Term Expires Ex-Officio



Patricia Ballenger
Lexington
Elected by CERS
Term Expires March 31, 2009



Kentucky Employees Retirement System

Non-Hazardous

The Kentucky Employees Retirement System (KERS) was established July 1, 1956 by the state legislature. Employees who work in a regular full time position for a participating agency must be enrolled in the retirement system at the beginning of their employment. A regular full-time position is defined by state statute as a position that averages 100 hours of work per month over a fiscal or calendar year, excluding the classifications of temporary, seasonal, and interim.

System Highlights

Members

Active Members:	47,118
Inactive Members:	28,345
Retired Members and Beneficiaries:	30,770

Active Membership

Average Age:	42.9
Average Years of Service:	9.8
Average Annual Salary:	\$35,144

Retired Membership

Average Age:	66.1
Average Annual Benefit:	\$16,553
Number Added:	2,481
Number Removed:	603

Normal Retirement

The KERS formula for normal retirement is:

$$\frac{\text{Final Compensation}}{\text{Benefit Factor}} \times \text{Years of Service}$$

Insurance Benefits

The cost of insurance for the retired member may be partially, or fully paid by KRS depending upon the member's years of service, the insurance carrier selected and the level of coverage chosen.

Retirement Eligibility

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

Cost of Living Adjustment

Monthly retirement allowances are increased July 1 each year by the percentage increase in the annual average consumer price index (CPI-U) for all urban consumers for the most recent calendar year not to exceed 5%. The State Legislature may reduce, suspend or eliminate COLAs in the future.

Net Plan Assets

Pension Fund:	\$5,362,631,000
Insurance Fund:	\$ 610,901,000
Total:	\$5,973,532,000

Contributions

Employees:	5%
Employers:	Pension: 10.68%
	Insurance: 6.45%
	Total 17.13%
(Rate Effective July 1, 2006)	

KERS employer rates are subject to state budget approval.

Net Plan Assets Additions

	2000	2001	2002	2003	2004	2005
	(Dollars in Millions)					
Net Investment Income	315.1	376.9	216.8	204.2	734.6	510.5
Employer Cont. (Ins.)	76.3	66.9	93.9	65.3	78.0	51.4
Employer Cont. (Pen.)	115.1	23.5	1.8	7.6	21.7	50.3
Member Contribution	107.8	106.6	112.0	137.1	129.1	127.8

Net Plan Assets Deductions

	2000	2001	2002	2003	2004	2005
	(Dollars in Millions)					
Medical Insurance Exp.	30.5	37.6	44.1	52.0	60.5	76.0
Refunds	7.9	7.0	6.7	7.3	8.0	8.8
Administrative Exp.	3.3	3.8	4.4	5.0	5.3	5.9
Benefit Payments	252.8	291.7	345.7	404.9	459.4	522.4

Funding Level

	2000	2001	2002	2003	2004	2005
	(% of Actuarial Assets to Actuarial Liabilities)					
Pension	139.6	125.7	110.4	97.4	85.1	73.6
Insurance	27.4	25.4	27.3	26.5	25.7	22.6

System Highlights

Members

Active Members:	4,274
Inactive Members:	2,304
Retired Members and Beneficiaries:	1,752

Active Membership

Average Age:	41.9
Average Years of Service:	7.1
Average Annual Salary:	\$30,811

Retired Membership

Average Age:	60.5
Average Annual Benefit:	\$11,210
Number Added:	234
Number Removed:	31

Normal Retirement

The KERS formula for normal retirement is:

$$\text{Final Compensation} \times \text{Benefit Factor} \times \text{Years of Service}$$

Insurance Benefits

The cost of insurance for the retired member and eligible dependents may be partially, or fully paid by KRS depending upon the member's type and years of service, the insurance carrier selected and the level of coverage chosen.

Retirement Eligibility

Age	Years of Service	Allowance Reduction
55	5	None
Any	20	None
50	15	5.5% per year for 5 years before age 55 or 20 years of service.

Cost of Living Adjustment

Monthly retirement allowances are increased July 1 each year by the percentage increase in the annual average consumer price index (CPI-U) for all urban consumers for the most recent calendar year not to exceed 5%. The State Legislature may reduce, suspend or eliminate COLAs in the future.

Net Plan Assets

Pension Fund:	\$ 398,308,000
Insurance Fund:	\$ 188,871,000
Total:	\$ 587,179,000

Contributions

Employees:	8 %
Employers:	Pension: 9.28 %
	Insurance: 14.04 %
	Total: 23.32 %

(Rate Effective July 1, 2006)

KERS employer rates are subject to state budget approval.

Kentucky Employees Retirement System Hazardous

The Kentucky Employees Retirement System (KERS) was established July 1, 1956 by the state legislature. Employees who work in a regular full time position for a participating agency must be enrolled in the retirement system at the beginning of their employment. A regular full-time position is defined by state statute as a position that average 100 hours of work per month over a fiscal or calendar year, excluding the classifications of temporary, seasonal, and interim.



Net Plan Assets Additions

● Net Investment Income	17.9	10.9	22.0	17.6	68.6	49.1
● Employer Cont. (Ins.)	12.0	13.2	15.9	15.9	15.0	15.7
● Employer Cont. (Pen.)	21.6	10.6	7.9	7.3	9.8	9.8
● Member Contribution	9.4	10.6	10.8	11.6	11.5	11.6

Net Plan Assets Deductions

● Medical Insurance Exp.	1.6	2.0	2.5	3.0	3.6	4.9
● Refunds	1.1	1.3	1.1	1.2	1.4	1.8
● Administrative Exp.	.3	.3	.4	.4	.4	.5
● Benefit Payments	6.2	8.0	10.2	13.4	16.9	20.5

Funding Level

● Pension	138.1	126.8	116.9	108.1	98.4	92.3
● Insurance	58.4	55.7	57.4	53.5	52.3	48.6

2000 2001 2002 2003 2004 2005

(Dollars in Millions)

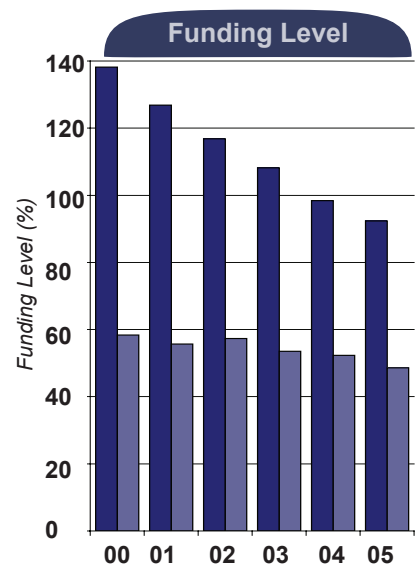
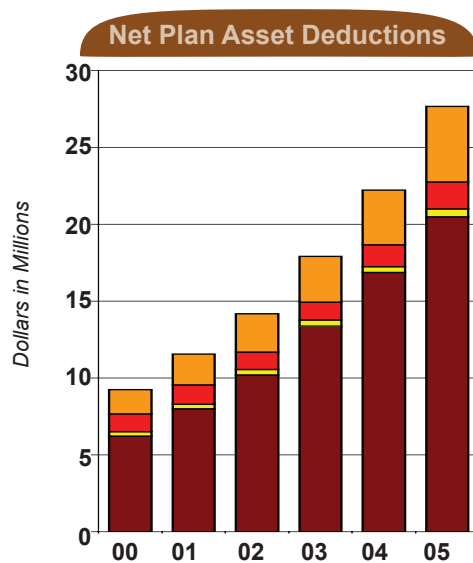
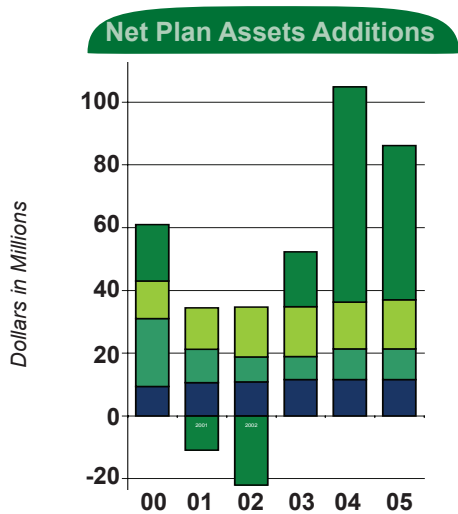
2000	2001	2002	2003	2004	2005
17.9	10.9	22.0	17.6	68.6	49.1
12.0	13.2	15.9	15.9	15.0	15.7
21.6	10.6	7.9	7.3	9.8	9.8
9.4	10.6	10.8	11.6	11.5	11.6

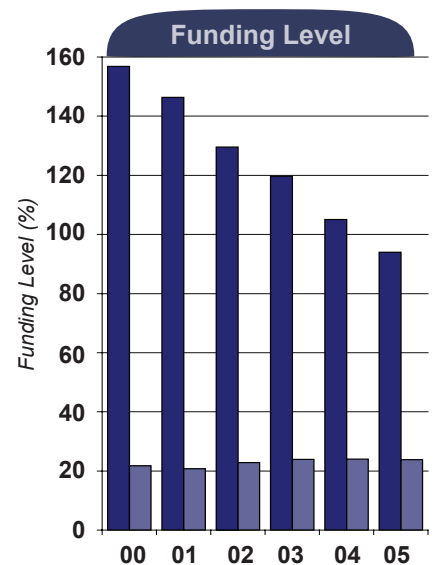
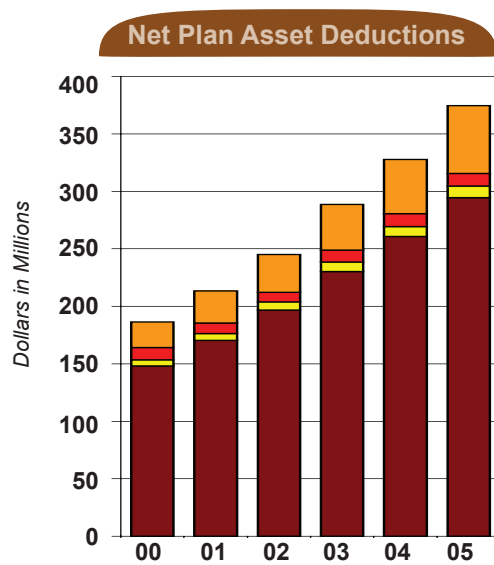
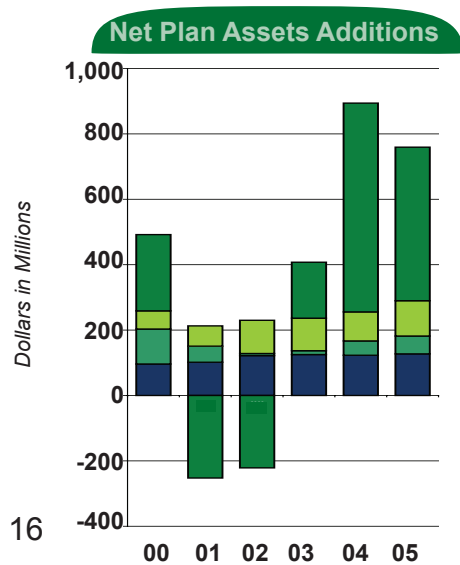
(Dollars in Millions)

1.6	2.0	2.5	3.0	3.6	4.9
1.1	1.3	1.1	1.2	1.4	1.8
.3	.3	.4	.4	.4	.5
6.2	8.0	10.2	13.4	16.9	20.5

(% of Actuarial Assets to Actuarial Liabilities)

138.1	126.8	116.9	108.1	98.4	92.3
58.4	55.7	57.4	53.5	52.3	48.6





County Employees Retirement System Non-Hazardous

The County Employees Retirement System (CERS) was established July 1, 1958 by the state legislature. Employees who work in a regular full time position for a participating agency must be enrolled in the retirement system at the beginning of their employment. A regular full-time position is defined by state statute as a position that average 100 hours of work per month over a fiscal or calendar year, excluding the classifications of temporary, seasonal, and interim. For school board employees participating in the CERS non-hazardous plan, a regular full-time position is defined as a position that requires the employee to average 80 hours of work per month over the actual days worked during the school year.

System Highlights

Members

Active Members	81,240
Inactive Members	48,869
Retired Members and Beneficiaries	31,347

Active Membership

Average Age	45.0
Average Years of Service	8.1
Average Annual Salary	\$23,206

Retired Membership

Average Age	67.4
Average Annual Benefit	\$8,919
Number Added	2,808
Number Removed	590

Normal Retirement

The CERS formula for normal retirement is:

$$\text{Final Compensation} \times \text{Benefit Factor} \times \text{Years of Service}$$

Insurance Benefits

The cost of insurance for the retired member may be partially, or fully paid by KRS depending upon the member's years of service, the insurance carrier selected and the level of coverage chosen.

Retirement Eligibility

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

Cost of Living Adjustment

Monthly retirement allowances are increased July 1 each year by the percentage increase in the average consumer price index (CPI-U) for all urban consumers for the most recent calendar year not to exceed 5%. The State Legislature may reduce, suspend or eliminate COLAs in the future.

Net Plan Assets

Pension Fund:	\$4,893,600,000
Insurance Fund:	\$ 668,485,000
Total:	\$5,562,085,000

Contributions

Employees:	5%
Employers:	Pension: 5.97%
	Insurance: 7.22%
	Total 13.19%
	(Rate Effective July 1, 2006)

	2000	2001	2002	2003	2004	2005
Net Plan Assets Additions	(Dollars in Millions)					
● Net Investment Income	233.1	252.1	151.5	170.7	637.7	469.4
● Employer Cont. (Ins.)	55.2	62.3	102.2	99.2	89.3	107.6
● Employer Cont. (Pen.)	106.6	48.9	5.5	11.9	44.0	54.6
● Member Contribution	96.7	101.6	122.4	125.3	122.5	127.6
Net Plan Assets Deductions	(Dollars in Millions)					
● Medical Insurance Exp.	22.1	27.8	33.0	39.7	47.0	58.7
● Refunds	10.8	9.0	8.3	10.2	11.3	11.0
● Administrative Exp.	5.5	6.2	7.2	8.2	8.7	10.0
● Benefit Payments	148.0	170.3	196.7	230.3	260.6	294.6
Funding Level	(% of Actuarial Assets to Actuarial Liabilities)					
● Pension	156.9	146.3	129.6	119.7	105.1	94.0
● Insurance	21.8	20.7	22.8	23.9	24.00	23.8

System Highlights

Members

Active Members	9,464
Inactive Members	1,971
Retired Members and Beneficiaries	4,361

Active Membership

Average Age	38.0
Average Years of Service	8.2
Average Annual Salary	\$43,441

Retired Membership

Average Age	57.6
Average Annual Benefit	\$20,460
Number Added	403
Number Removed	47

Normal Retirement

The KERS formula for normal retirement is:

$$\text{Final Compensation} \times \text{Benefit Factor} \times \text{Years of Service}$$

Insurance Benefits

The cost of insurance for the retired member and eligible dependents may be partially, or fully paid by KRS depending upon the member's type and years of service, the insurance carrier selected and the level of coverage chosen.

Retirement Eligibility

Age	Years of Service	Allowance Reduction
55	5	None
Any	20	None
50	15	5.5% per year for 5 years before age 55 or 20 years of service.

Cost of Living Adjustment

Monthly retirement allowances are increased July 1 each year by the percentage increase in the annual average consumer price index (CPI-U) for all urban consumers for the most recent calendar year not to exceed 5%. The State Legislature may reduce, suspend or eliminate COLAs in the future.

Net Plan Assets

Pension Fund:	\$1,411,246,000
Insurance Fund:	\$ 360,940,000
Total:	<u>\$1,772,186,000</u>

Contributions

Employees:	8 %
Employers:	Pension: 13.11 %
	Insurance: 15.10 %
	Total: 28.21 %

(Rate Effective July 1, 2006)

County Employees Retirement System Hazardous

The County Employees Retirement System (CERS) was established July 1, 1958 by the state legislature. Employees who work in a regular full time position for a participating agency must be enrolled in the retirement system at the beginning of their employment. A regular full-time position is defined by state statute as a position that average 100 hours of work per month over a fiscal or calendar year, excluding the classifications of temporary, seasonal, and interim.



Net Plan Assets Additions

- Net Investment Income
- Employer Cont. (Ins.)
- Employer Cont. (Pen.)
- Member Contribution

2000	2001	2002	2003	2004	2005
(Dollars in Millions)					
62.5	65.4	67.6	51.6	199.0	148.7
28.3	32.1	45.7	45.2	47.0	55.6
51.7	21.0	11.1	16.9	27.6	39.9
28.5	27.3	37.1	36.2	38.7	39.5

Net Plan Assets Deductions

- Medical Insurance Exp.
- Refunds
- Administrative Exp.
- Benefit Payments

2000	2001	2002	2003	2004	2005
(Dollars in Millions)					
9.6	11.5	13.3	15.0	16.8	22.2
1.5	1.3	1.8	1.8	2.5	2.1
.6	.5	.6	.7	.8	.9
49.6	56.5	63.5	72.5	81.4	90.1

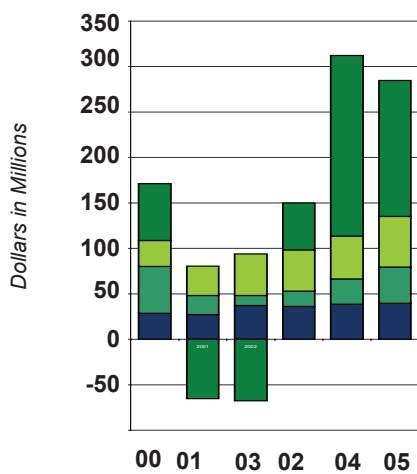
Funding Level

- Pension
- Insurance

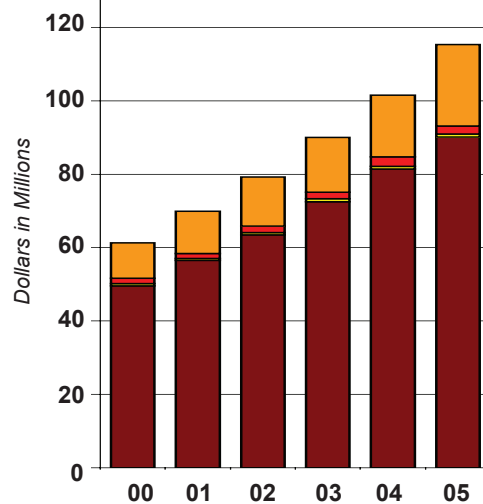
2000	2001	2002	2003	2004	2005
(% of Actuarial Assets to Actuarial Liabilities)					
133.3	124.5	111.9	97.8	88.8	80.9
28.1	27.4	30.0	28.8	30.3	28.0



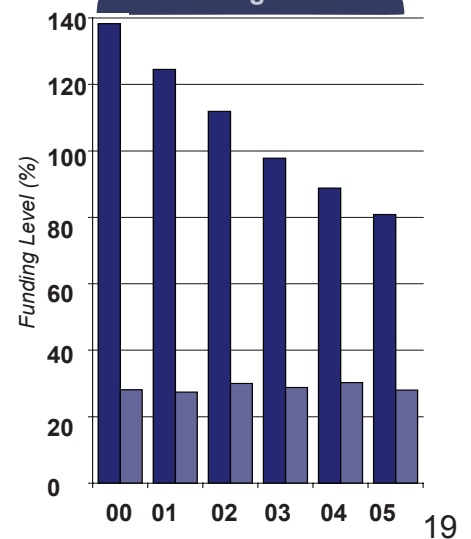
Net Plan Assets Additions



Net Plan Asset Deductions

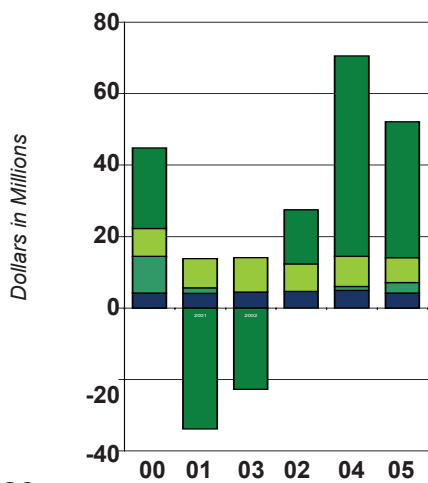


Funding Level

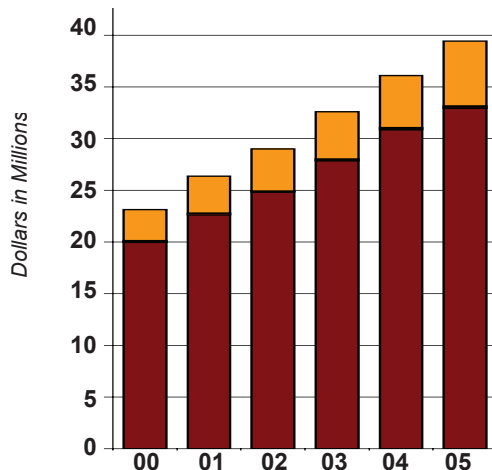




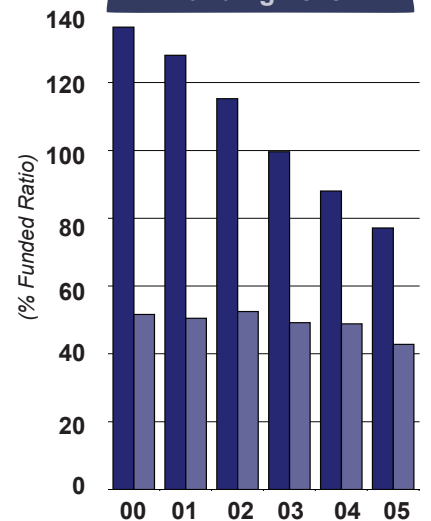
Net Plan Assets Additions



Net Plan Asset Deductions



Funding Level



State Police Retirement System

The State Police Retirement System (SPRS) was established July 1, 1960 by the state legislature. Employees who work in a regular full time position for a participating agency must be enrolled in the retirement system at the beginning of their employment. A regular full-time position is defined by state statute as a position that average 100 hours of work per month over a fiscal or calendar year, excluding the classifications of temporary, seasonal, and interim.



System Highlights

Members

Active Members	987
Inactive Members	252
Retired Members and Beneficiaries	1,036

Active Membership

Average Age	36.5
Average Years of Service	10.6
Average Annual Salary	\$44,296

Retired Membership

Average Age	59.2
Average Annual Benefit	\$31,838
Number Added	50
Number Removed	6

Normal Retirement

The SPRS formula for normal retirement is:

$$\text{Final Compensation} \times \text{Benefit Factor} \times \text{Years of Service}$$

Insurance Benefits

The cost of insurance for the retired member and eligible dependents may be partially, or fully paid by KRS depending upon the member's type and years of service, the insurance carrier selected and the level of coverage chosen.

Retirement Eligibility

Age	Years of Service	Allowance Reduction
55	5	None
Any	20	None
Any	15	5.5% each year for five years before 55 or 20 years of service.

Cost of Living Adjustment

Monthly retirement allowances are increased July 1 each year by the percentage increase in the average consumer price index for all urban consumers for the most recent calendar year not to exceed 5%. The General Assembly may reduce, suspend or eliminate COLAs in the future.

Net Plan Assets

Pension Fund:	\$ 339,406,000
Insurance Fund:	\$ 99,408,000
Total:	\$ 438,814,000

Contributions

Employees:	8%
Employers:	Pension: 20.64 %
	Insurance: 21.66 %
	Total: 42.30 %

(Rate Effective July 1, 2006)

SPRS employer rates are subject to state budget approval.

Net Plan Assets Additions

	2000	2001	2002	2003	2004	2005
	(Dollars in Millions)					
Net Investment Income	22.6	33.9	22.8	15.1	56.1	38.0
Employer Cont. (Ins.)	7.8	8.1	9.6	7.7	8.5	7.0
Employer Cont. (Pen.)	10.2	1.5	0	0	1.2	2.9
Member Contribution	4.2	4.1	4.5	4.7	4.9	4.2

Net Plan Assets Deductions

	2000	2001	2002	2003	2004	2005
	(Dollars in Millions)					
Medical Insurance Exp.	3.0	3.6	4.0	4.5	5.0	6.3
Refunds	.1	.1	0	.1	.2	.1
Administrative Exp.	.1	.1	.1	.1	.1	.1
Benefit Payments	20.0	22.6	24.8	27.9	30.8	32.9

Funding Level

	2000	2001	2002	2003	2004	2005
	(% of Actuarial Assets to Actuarial Liabilities)					
Pension	136.4	128.1	115.3	99.6	88.0	77.1
Insurance	51.6	50.5	52.5	49.2	48.9	42.8

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to:
Kentucky Retirement Systems
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

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



Marvin G. Finkbeiner
President

Jeffrey L. Evers
Executive Director

Financial Section



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Board of Trustees
Kentucky Retirement Systems
Frankfort, Kentucky

We have audited the financial statements of the Kentucky Retirement Systems, a component unit of the Commonwealth of Kentucky, as of and for the years ended June 30, 2005 and 2004, 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 audits.

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 provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Kentucky Retirement Systems, a component unit of the Commonwealth of Kentucky, as of June 30, 2005 and

2004 and the changes in plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

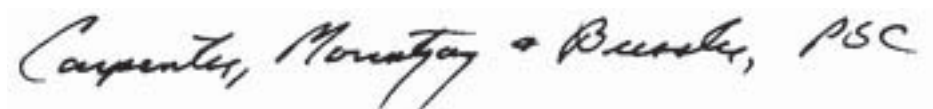
In accordance with Government Auditing Standards, we have also issued our report dated August 24, 2005 on our consideration of the Kentucky Retirement Systems' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report



is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis (pages 26 through 31) and the supplementary information included in the schedule of funding progress and schedule of employer contributions (pages 60 through 69) are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The additional supporting schedules (pages 72 through 77) are presented for the purpose of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

A handwritten signature in black ink that reads "Carpenter, Montoya & Bruesler, PSC". The signature is written in a cursive, flowing style.

August 24, 2005
Louisville, Kentucky

Management's Discussion and Analysis

June 30, 2005 and 2004

This discussion and analysis of Kentucky Retirement System's financial performance provides an overview of the pension and insurance fund financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the financial statements, which begin on page 32.

Financial Highlights-Pension Fund

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

- The combined plan net assets of all pension funds administered by Kentucky Retirement Systems increased by \$525.6 million during the 2004-2005 fiscal year.
- Covered payroll for 2004-2005 was \$4,160.4 million compared to covered payroll for the 2003-2004 plan year of \$4,048 million, increasing approximately \$112 million. The corresponding employer contributions increased by \$48.1 million for a total employer contribution amount of \$390.2 million. Of the total employer contribution amount, \$157.5 million was posted to the pension fund while \$232.7 million was posted to the insurance fund. Contributions paid by employees were \$310.8 and \$306.7 million respectively for the years ended June 30, 2005 and June 30, 2004. This increase in employee contributions is attributable to the increase of contributions reported on covered payroll.
- The net appreciation in the fair value of investments was \$723.8 million for the year ended June 30, 2005 compared to net appreciation of \$1,144.7 million for the prior fiscal year. Included in this net appreciation were realized gains on sales of investments of \$474.9 million. In comparison, the pension funds realized gains of \$227.6 million for the year ended June 30, 2004. The increase in realized gain experienced by the pension funds is due to a favorable change in market conditions and investment strategies.
- Investment income net of investment expense from all sources including securities lending was \$335.3 million compared to \$298.2 million net investment income in last fiscal year.
- Pension benefits paid to retirees and beneficiaries increased \$111.3 million bringing total benefit payments to \$960.5 million. Refund of contributions paid to former members upon termination of employment increased from \$23.4 million to \$23.9 million.
- Administrative expense increased \$2.2 million totaling \$17.4 million compared to \$15.2 million in the prior year.

Financial Highlights-Insurance Fund

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

- The combined plan net assets of the insurance fund administered by Kentucky Retirement Systems increased by \$226.8 million during the 2004-2005 fiscal year.
- Employer contributions of \$232.7 million were received. This is a decrease of \$5.1 million over the prior fiscal year. This decrease is due to the difference in the distribution of the employer rate between pension and insurance funds this year and last fiscal year.
- The net appreciation in the fair value of investments was \$122.1 million compared to net appreciation of 228.6 million for the prior fiscal year. Included in this net appreciation were realized gains on sales of investments of \$35.9 million. In comparison, the insurance funds realized gains on investments of \$22 million. This increase in realized gains is due to a favorable change in market conditions and investment strategies.
- Investment income net of investment expense from all sources including securities lending was \$35.5 million compared to net investment income of \$24.6 million in last fiscal year.
- Premiums paid by the fund for hospital and medical insurance coverage increased \$35 million to total \$166.9 million for the year.



Management's Discussion and Analysis

June 30, 2005 and 2004

Using This Financial Report

Because of the long-term nature of a defined benefit pension plan and insurance benefit plan, financial statements alone cannot provide sufficient information to properly reflect the plan's ongoing plan perspective. This financial report consists of two financial statements and two required schedules of historical trend information. The Combined Statement of Plan Net Assets for the Pension Fund on page 32 and for the Insurance Fund on page 34 provides a snapshot of the financial position of the each of the three systems at June 30, 2005. The Combined Statement of Changes in Plan Net Assets for the Pension Fund on page 33 and for the Insurance Fund on page 35 summarize the additions and deductions that occurred for each of the three systems during the period from July 1, 2004 through June 30, 2005.

The Schedule of Funding Progress on pages 60-64 includes historical trend information about the actuarially funded status of each plan from a long-term, ongoing plan perspective and the progress made in accumulating sufficient assets to pay benefits and insurance premiums when due. The Schedule of Employer Contributions on pages 65-69 presents historical trend information about the annual required contributions of employers and the contributions made by employers in relation to the requirement. These schedules provide information that contributes to understanding the changes over time in the funded status of the plans.

Kentucky Retirement Systems As A Whole

Kentucky Retirement Systems' combined plan net assets increased during the year ended June 30, 2005 by \$ 752.4 million from \$13,581.4 million to \$14,333.8 million. Plan net assets for the prior fiscal year increased by \$1,324.1 million. The increase in plan net assets for the plan year ended June 30, 2005 is primarily attributable to the gains on investment due to favorable market conditions. The analysis below focuses on plan net assets (Table 1) and changes in plan net assets (Table 2) of Kentucky Retirement Systems' pension funds and insurance funds.

Table 1 Plan Net Assets
(in millions)

	Pension Funds			Insurance Funds			Total		
	2005	2004	2003	2005	2004	2003	2005	2004	2003
Cash & Invest.	\$14,926.9	\$13,327.7	\$14,240.2	\$2,338.9	\$2,000.8	\$1,664.2	\$17,265.8	\$15,328.5	\$15,904.4
Receivables	123.4	123.3	124.9	23.5	21.4	25.2	146.9	144.7	150.1
Equip. net of dep.	0.8	0.9	1.0	0.0	0.0	0.0	0.8	0.9	1.0
Total Assets	\$15,051.1	\$13,451.9	\$14,366.1	\$2,362.4	\$2,022.2	1,689.4	\$17,413.5	\$15,474.1	\$16,055.5
Total Liabilities	(\$2,645.9)	(\$1,572.3)	(\$3,452.2)	(\$433.8)	(\$320.4)	(\$345.7)	(\$3,079.7)	(\$1,892.7)	(\$3,798.2)
Plan Net Assets	\$12,405.2	\$11,879.6	\$10,913.6	\$1,928.6	\$1,701.8	\$1,343.7	\$14,333.8	\$13,581.4	\$12,257.3

Management's Discussion and Analysis

June 30, 2005 and 2004

Table 2 Changes in Plan Net Assets
(in millions)

	Pension Funds			Insurance Funds			Total		
	2005	2004	2003	2005	2004	2003	2005	2004	2003
Additions:									
Member Contribution	\$310.8	\$306.7	\$314.8	\$0.0	\$0.0	\$0.0	\$310.8	\$306.7	\$314.8
Employer Contribution	157.5	104.3	43.7	232.7	237.8	233.4	390.2	342.1	277.1
Insurance Appropriation	0.0	0.0	0.0	4.6	0.0	0.0	4.6	0.0	0.0
Investment Income (net)	1,059.1	1,442.9	430.9	157.6	253.1	28.2	1,216.7	1,696.0	459.1
Total Additions	\$1,527.4	\$1,853.9	\$789.4	\$394.9	\$490.9	\$261.6	\$1,922.3	\$2,344.8	\$1,051.0
Deductions:									
Benefit Payments	\$960.5	\$849.2	\$749.0	\$0.0	\$0.0	\$0.0	\$960.5	\$849.2	\$749.0
Refunds	23.9	23.4	20.5	0.0	0.0	0.0	23.9	23.4	20.5
Administrative Expenses	17.4	15.2	14.4	1.2	1.0	0.9	18.6	16.2	15.3
Healthcare Premiums	0.0	0.0	0.0	166.9	131.9	113.3	166.9	131.9	113.3
Total Deductions	\$1,001.8	\$887.8	\$783.9	\$168.1	\$132.9	\$114.2	\$1,169.9	\$1,020.7	\$898.1
Increase (Decrease) in Plan Net Assets									
	\$525.6	\$966.1	\$5.5	\$226.8	\$358.0	\$147.4	\$752.4	\$1,324.1	\$152.9

Plan net assets of the pension funds increased by \$525.6 million (\$12,405.2 million compared to \$11,879.6 million). All of these assets are restricted in use to provide monthly retirement allowances to members who contributed to the pension funds as employees and their beneficiaries. This plan net asset increase is attributable primarily to the net appreciation in the fair value of investments due to the change in market conditions in general.

Plan net assets of the insurance fund increased by \$226.8 million (\$1,928.6 million compared to \$1,701.8 million). All of these assets are restricted in use to provide hospital and medical insurance benefits to members of the pension funds who receive a monthly retirement allowance. This increase in net plan assets is primarily attributable to the net appreciation in the fair value of investments which is due to the change in market conditions in general.

Pension Fund Activities

Member contributions increased by \$4.1 million. Retirement contributions are calculated by applying a percentage factor to salary and are remitted by each employer on behalf of the member. Members may also pay contributions to repurchase previously refunded service credit or to purchase various types of elective service credit. During the year there was an increase in monthly contributions over the previous year due to the increase in salaries reported to Kentucky Retirement Systems.

Employer contributions increased (\$53.2 million) due to the increase in covered payroll and the increase in the contribution rates applied to the pension funds.

Management's Discussion and Analysis

June 30, 2005 and 2004

Net investment income decreased by \$383.8 million (income of \$1,059.1 million compared to net investment income of \$1,442.9 million in the prior year). The pension funds experienced a decrease in income primarily due to the decrease in the net appreciation in the fair value of investments. This can be illustrated in Table 3 as follows:

Table 3 Investment Income (Pension)	In Millions		
	2005	2004	2003
Appreciation in fair value of investments current year end	\$1,643.7	\$1,394.8	\$477.7
Appreciation in fair value of investments prior year end	1,394.8	477.7	212.5
Net appreciation in fair value of investments	248.9	917.1	265.2
Investment Income net of Investment Expense	335.3	298.2	321.0
Gain (loss) on sale of investments	474.9	227.6	(155.2)
Investment Income (net)	\$1,059.1	\$1,442.9	\$431.0

Pension fund deductions increased by approximately \$114 million caused principally by an increase of \$111.3 million in benefit payments. Retirees received an increase of 2.3% in benefit payments as of July 1, 2004. Refunds of member contributions increased by \$.5 million.

Insurance Fund Activities

Employer contributions paid into the insurance fund decreased by \$5.1 million over the prior year. This decrease is a result of the change in the employer rate applied to the insurance fund.

Net investment income decreased by \$95.5 million. This decrease in net income is due primarily to the decrease in the net appreciation in the fair value of assets. This can be illustrated in Table 4 as follows:

Table 4 Investment Income (Insurance)	In Millions		
	2005	2004	2003
Appreciation in fair value of investments current year end	\$304.0	\$217.7	\$11.2
Appreciation in fair value of investments prior year end	217.7	11.2	(19.8)
Net appreciation in fair value of investments	86.3	206.5	31.0
Investment Income net of Investment Expense	35.5	24.6	22.0
Gain (loss) on sale of investments	35.9	22.0	(24.8)
Investment Income (net)	\$157.7	\$253.1	\$28.2

Insurance fund deductions increased by \$35.2 million primarily due to the increase of \$35 million in health insurance premiums paid.

Historical Trends

Accounting standards require that the statement of plan net assets state asset value at fair value and include only benefits and refunds due plan members and beneficiaries and accrued investment and administrative expense as of the reporting date. Information regarding the actuarial funding status of the pension funds and insurance funds is provided in the Schedule of Funding Progress on pages 60-64. The asset value stated in the Schedule of Funding Progress is the actuarial value of assets determined by calculating the difference between the expected value of assets and the actual market value of assets adjusted for any unrecognized gains or losses and amortized over a five year period. The actuarial liability is calculated using the entry age normal cost funding method.

The difference in value between the actuarial liability and the actuarial value of assets is known as the unfunded actuarial liability. This unfunded actuarial accrued liability is the measure of the cost of benefits that have been earned to date by KRS members, but not yet paid for.

The unfunded actuarial liability in the pension plans increased by \$1,768.9 million for a total unfunded amount of \$2,808.6 million for the year ended June 30, 2005 compared to an unfunded amount of \$1,039.7 for the year end June 30, 2004.

The insurance funds continue to have a large unfunded actuarial accrued liability increasing to \$5,455.3 million for the plan year ended June 30, 2005 from \$4,559.1 million for the plan year ended June 30, 2004. This is an increase in the unfunded amount of \$896.2 million.

Annual required contributions of the employers as actuarially determined and actual contributions made by the employers in relation to the required contributions are provided in the Schedule of Employer Contributions on pages 65-69. The difference in the annual required contributions and actual contributions made by employers in the KERS and SPRS funds is attributable to the statutory employer contribution rate set by the Kentucky General Assembly being less than the rate computed by the actuary.

Combined Statements of Plan Net Assets

June 30, 2005 and 2004

Pension Funds

	2005				2004
(Dollars in Thousands)	KERS	CERS	SPRS	TOTAL	TOTAL
Assets					
Cash and Short-Term Investments					
Cash	\$726	\$666	\$107	\$1,499	\$1,955
Short-Term Investments	118,148	240,738	(5,831)	353,055	266,019
Total Cash and Short-Term Investments	118,874	241,404	(5,724)	354,554	267,974
Receivables					
Contributions	28,608	36,979	1,012	66,599	63,447
Investment Income	26,267	28,908	1,585	56,760	59,857
Total Receivables	54,875	65,887	2,597	123,359	123,304
Investments, at Fair Value					
Corporate and Government Bonds	1,819,200	2,024,701	111,322	3,955,223	3,668,204
Corporate Stocks	3,488,198	3,627,596	214,139	7,329,933	7,213,299
Mortgages	280,166	345,083	16,700	641,949	605,692
Real Estate	4,385	4,820	488	9,693	9,898
Total Investments at Fair Value	5,591,949	6,002,200	342,649	11,936,798	11,497,093
Securities Lending Collateral Invested	1,225,389	1,337,960	72,169	2,635,518	1,562,675
Equipment (net of accumulated depreciation)	309	518	5	832	929
Total Assets	\$6,991,396	\$7,647,969	\$411,696	15,051,061	13,451,975
Liabilities					
Accounts Payable	5,068	5,163	121	10,352	9,669
Securities Lending Collateral Obligations	1,225,389	1,337,960	72,169	2,635,518	1,562,675
Total Liabilities	1,230,457	1,343,123	72,290	2,645,870	1,572,344
Plan Net Assets Held in Trust for Pension Benefits					
	5,760,939	6,304,846	339,406	12,405,191	11,879,631

(A schedule of funding progress for each plan is presented on pages 60-64)
See accompanying independent auditor's report and notes to financial statements

Combined Statements of Changes in Plan Net Assets

June 30, 2005 and 2004

Pension Funds

	2005			2004	
(Dollars in Thousands)	KERS	CERS	SPRS	Total	Total
Additions					
Members' Contributions	139,426	167,152	4,228	310,806	306,652
Employers' Contributions	60,091	94,565	2,852	157,508	104,288
Total Contributions	199,517	261,717	7,080	468,314	410,940
Investment Income					
From Investing Activities					
Net Appreciation in Fair Value of Investments	340,385	363,002	20,444	723,831	1,144,662
Interest/Dividends	160,144	175,242	9,543	344,929	306,289
Total Investing Activities Income	500,529	538,244	29,987	1,068,760	1,450,951
Investment Expense	4,709	5,149	280	10,138	8,184
Commissions	2,828	2,885	105	5,818	5,237
Total Investing Activities Expense	7,537	8,034	385	15,956	13,421
Net Income from Investing Activities	492,992	530,210	29,602	1,052,804	1,437,530
From Securities Lending Activities					
Securities Lending Income	25,821	28,534	1,517	55,872	24,772
Securities Lending Expense:					
Security Borrower Rebates	22,241	24,285	1,310	47,836	17,869
Security Lending Agent Fees	811	886	48	1,745	1,559
Net Income From Securities Lending Activities	2,769	3,363	159	6,291	5,344
Total Net Investment Income	495,761	533,573	29,761	1,059,095	1,442,874
Total Additions	695,278	795,290	36,841	1,527,409	1,853,814
Deductions					
Benefit Payments	542,891	384,709	32,921	960,521	849,172
Refunds	10,584	13,181	131	23,896	23,361
Administrative Expenses	6,427	10,901	104	17,432	15,198
Total Deductions	559,902	408,791	33,156	1,001,849	887,731
Net Increase in Plan Assets	135,376	386,499	3,685	525,560	966,083
Plan Net Assets Held in Trust for Pension Benefits					
Beginning of Year	5,625,563	5,918,347	335,721	11,879,631	10,913,548
End of Year	\$5,760,939	6,304,846	339,406	12,405,191	11,879,631

Combined Statements of Plan Net Assets

June 30, 2005 and 2004

Insurance Funds

	2005				2004
(Dollars in Thousands)	KERS	CERS	SPRS	TOTAL	TOTAL
Assets					
Cash and Short-Term Investments					
Cash	\$109	\$78	\$20	\$207	\$80
Short-Term Investments	101,120	100,563	8,389	210,072	207,750
Total Cash and Short-Term Investments	101,229	100,641	8,409	210,279	207,830
Receivables					
Contributions	3,603	14,736	278	18,617	17,133
Investment Income	2,078	2,568	263	4,909	4,278
Total Receivables	5,681	17,304	541	23,526	21,411
Investments, at Fair Value					
Corporate and Government Bonds	85,619	102,272	11,298	199,189	164,867
Corporate Stocks	608,282	810,311	79,248	1,497,841	1,309,322
Total Investments at Fair Value	693,901	912,583	90,546	1,697,030	1,474,189
Securities Lending Collateral Invested	179,860	229,300	22,392	431,552	318,814
Total Assets	\$980,671	\$1,259,828	\$121,888	2,362,387	2,022,244
Liabilities					
Accounts Payable	1,039	1,103	88	2,230	1,588
Securities Lending Collateral Obligations	179,860	229,300	22,392	431,552	318,814
Total Liabilities	180,899	230,403	22,480	433,782	320,402
Plan Net Assets Held in Trust for Pension Benefits					
	799,772	1,029,425	99,408	1,928,605	1,701,842

(A schedule of funding progress for each plan is presented on pages 60-64)
See accompanying independent auditor's report and notes to financial statements

Combined Statements of Changes in Plan Net Assets

June 30, 2005 and 2004

Insurance Funds

(Dollars in Thousands)	2005			2004	
	KERS	CERS	SPRS	Total	Total
Additions					
Employers' Contributions	\$65,305	\$160,745	\$6,631	\$232,681	\$237,813
Insurance Subsidy Appropriation	1,780	2,439	343	4,562	
Total Contributions	67,085	163,184	6,974	237,243	237,813
Investment Income					
From Investing Activities					
Net Appreciation in Fair Value of Investments	48,958	66,795	6,374	122,127	228,584
Interest/Dividends	15,224	19,235	1,940	36,400	25,243
Total Investing Activities Income	64,182	86,030	8,314	158,526	253,827
Investment Activities Expense	565	798	65	1,428	927
Commissions	230	302	31	563	586
Total Investing Activities Expense	795	1,100	96	1,991	1,513
Net Income from Investing Activities	63,387	84,930	8,218	156,535	252,314
From Securities Lending Activities					
Securities Lending Income	3,740	4,827	472	9,039	3,480
Securities Lending Expense:					
Security Borrower Rebates	3,196	4,075	398	7,669	2,463
Security Lending Agent Fees	109	140	13	262	195
Net Income From Securities Lending Activities	435	612	61	1,108	822
Total Net Investment Income	63,822	85,542	8,279	157,643	253,136
Total Additions	130,907	248,726	15,253	394,886	490,949
Deductions					
Healthcare Premiums Subsidies	80,424	80,247	6,221	166,892	131,872
Administrative Expenses	519	668	44	1,231	1,034
Total Deductions	80,943	80,915	6,265	168,123	132,906
Net Increase in Plan Assets	49,964	167,811	8,988	226,763	358,043
Plan Net Assets Held in Trust for Pension Benefits					
Beginning of Year	749,808	861,614	90,420	1,701,842	
End of Year	799,772	1,029,425	99,408	1,928,605	

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

Under the provisions of Kentucky Revised Statute Section 61.701, the Board of Trustees of Kentucky Retirement Systems (KRS) administers the Kentucky Retirement Systems Insurance Fund. The statutes provide for a single insurance fund to provide group hospital and medical benefits to retirees drawing a benefit from the three pension funds administered by Kentucky Retirement Systems: (1) Kentucky Employees Retirement System (KERS); (2) County Employees Retirement System (CERS); and (3) State Police Retirement System (SPRS). The assets of the various insurance funds are commingled for investment purposes. The following notes apply to the various funds administered by Kentucky Retirement Systems.

Note A - Summary Of Significant Accounting Policies

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

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

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

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

Expense Allocation - Administrative and investment expenses of the Kentucky Retirement Systems are allocated in proportion to the number of active members participating in each plan and the carrying value of plan investments, respectively.

Notes to Financial Statements

June 30, 2005 and 2004

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

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

Note B - Plan Descriptions And Contribution Information

Membership of each Retirement plan consisted of the following at June 30, 2005 and 2004:

Kentucky Employees Retirement System

	2005			2004		
Number of Members	Non-Hazardous Position Employees	Hazardous Position Employees	Total	Non-Hazardous Position Employees	Hazardous Position Employees	Total
Retirees and Beneficiaries Receiving Benefits	30,770	1,752	32,522	28,892	1,549	30,441
Inactive Vested Retirements	5,240	307	5,547	4,833	260	5,093
Inactive Vested Memberships	23,105	1,997	25,102	20,951	1,772	22,723
Active Plan Members	47,118	4,274	51,392	47,599	4,014	51,613
Total	106,233	8,330	114,563	102,275	7,595	109,870
Number of Participating Employers			350			411

Notes to Financial Statements
June 30, 2005 and 2004

County Employees Retirement System

Number of Members	2005			2004		
	Non-Hazardous Position Employees	Hazardous Position Employees	Total	Non-Hazardous Position Employees	Hazardous Position Employees	Total
Retirees and Beneficiaries Receiving Benefits	31,347	4,361	35,708	29,129	4,005	33,134
Inactive Vested Retirements	7,771	482	8,253	6,927	361	7,288
Inactive Vested Memberships	41,098	1,489	42,587	37,509	1,287	38,796
Active Plan Members	81,240	9,464	90,704	80,922	9,349	90,271
Total	161,456	15,796	177,252	154,487	15,002	169,489
Number of Participating Employers			1,400			1,389

State Police Retirement System

Number of Members	2005	2004
	Hazardous Position Employees	Hazardous Position Employees
Retirees and Beneficiaries Receiving Benefits	1,036	992
Inactive Vested Retirements	42	46
Inactive Vested Memberships	210	201
Active Plan Members	987	999
Total	2275	2,238
Number of Participating Employers	1	1

Notes to Financial Statements

June 30, 2005 and 2004

Kentucky Retirement Systems Insurance Fund

Hospital and medical contracts in force consisted of the following at June 30, 2005 and 2004:

Kentucky Retirement Systems Insurance Fund										
	2005					2004				
	Single	Couple/ Family	Parent +	Medicare Regular	Medicare High	Single	Couple/ Family	Parent +	Medicare Regular	Medicare High
KERS										
Non-Hazardous	7,928	1,679	461	1,915	11,764	7,313	1,462	443	1,932	11,437
Hazardous	570	319	65	61	567	502	276	65	65	531
CERS										
Non-Hazardous	6,014	1,022	255	2,853	11,005	5,598	946	246	2,756	10,424
Hazardous	1,220	1,579	195	55	1,004	1,087	1,463	223	45	913
SPRS										
	257	388	34	10	348	226	400	45	13	326
Total	15,989	4,987	1,010	4,894	24,688	14,726	4,547	1,022	4,811	26,631

Kentucky Employees Retirement System
Non-Hazardous Employees
Pension Plan

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

Contributions - For the years ended June 30, 2005 and 2004, plan members were required to contribute 5% of their annual creditable compensation. The State was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget. For the years ended June 30, 2005 and 2004, participating employers contributed 5.89% of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 2005 and 2004 was 10.29% and 7.53%, respectively, of each employee's creditable compensation. Administrative costs of Kentucky Retirement Systems are financed through employer contributions and investment earnings.

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 the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed five percent in any plan year. The General

Assembly reserves the right to suspend or reduce cost-of-living adjustments if in its judgment the welfare of the Commonwealth so demands.

Contributions - For the years ended June 30, 2005 and 2004, plan members were required to contribute 8% of their annual creditable compensation. The State was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget. For the years ended June 30, 2005 and 2004, participating employers contributed 18.84% of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 2005 and 2004 was 19.47% and 18.84%, respectively, of each employee's creditable compensation. Administrative costs of Kentucky Retirement Systems are financed through employer contributions and investment earnings.

County Employees Retirement System Non-Hazardous Employees Pension Plan

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

Contributions - For the years ended June 30, 2005 and 2004, plan members were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding



the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the years ended June 30, 2005 and 2004, participating employers contributed 8.48% and 7.34%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 2005 and 2004 was 8.48% and 7.34%, respectively. Administrative costs of Kentucky Retirement Systems are financed through employer contributions and investment earnings.

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 any additional eligible local agencies electing to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living (COLA) adjustments are provided at the discretion of the State legislature.

Contributions - For the years ended June 30, 2005 and 2004, plan members were required to contribute 8% of their annual creditable compensation. The participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The

Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the years ended June 30, 2005 and 2004, participating employers contributed 22.08% and 18.51%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 2005 and 2004 was 22.08% and 18.51%, respectively, of each employee's creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

State Police Retirement System Pension Plan

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



Contributions - For the years ended June 30, 2005 and 2004 plan members were required to contribute 8% of their annual creditable compensation. The State was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service

contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget. For the years ended June 30, 2005 and 2004, the State contributed 21.58% of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 2005 and 2004 was 28.08% and 21.58%, respectively, of each employee's creditable compensation. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

Kentucky Retirement Systems Insurance Fund

Plan Description - The Kentucky Retirement Systems Insurance Fund (Fund) was established to provide hospital and medical insurance for members receiving benefits from the Kentucky Employees Retirement System, the County Employees Retirement System, and the State Police Retirement System (Systems). The Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. For fiscal 2005, insurance premiums withheld from benefit payments to members of the Systems were \$25,491,575 and \$781,396 for KERS and KERS hazardous, respectively, \$23,110,726 and \$1,983,786 for CERS and CERS hazardous, respectively, and \$494,223 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, 2005 the Fund had 69,266 retirees and beneficiaries for whom benefits were available.

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

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



As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participating on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003 earn ten dollars (\$10) per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on or after July 1, 2003 earn fifteen dollars (\$15) per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon death of a hazardous employee, such employee's spouse receives ten dollars (\$10) per

month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment (COLA), which is updated annually due to changes in the Consumer Price Index for all urban consumers. This benefit is not protected under the inviolable contract provisions of Kentucky Revised Statute 16.652, 61.692 and 78.852. The General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

In prior years, the employers' required medical insurance contribution rate was being increased annually by a percentage that would result in advance-funding the medical liability on an actuarially determined basis using the entry age normal cost method within a 20-year period measured from 1987. In November 1992, the Board of Trustees adopted a fixed percentage contribution rate and suspended future increases under the current medical premium funding policy until the next experience study could be performed. In May 1996, the Board of Trustees adopted a policy to increase the insurance contribution rate by the amount needed to achieve the target rate for full entry age normal funding within twenty years.

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

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

Kentucky Employees Retirement System

	2005	2004
Miscellaneous Cash	\$726,023	\$827,932
Short Term Investment Pool	1,225,388,483	740,416,197
Repurchase Agreements	118,148,292	109,455,167
Total	\$1,344,262,798	\$850,699,296

County Employees Retirement System

	2005	2004
Miscellaneous Cash	\$665,927	\$1,041,182
Short Term Investment Pool	1,337,960,409	778,007,759
Repurchase Agreements	240,737,425	152,957,527
Total	\$1,579,363,761	\$932,006,468

State Police Retirement System

	2005	2004
Miscellaneous Cash	\$106,821	\$85,664
Short Term Investment Pool	72,168,911	44,251,527
Repurchase Agreements	(5,830,993)	3,606,746
Total	\$66,444,739	\$47,943,937

Kentucky Retirement Systems Insurance Fund

	2005	2004
Miscellaneous Cash	\$207,089	\$79,960
Short Term Investment Pool	431,551,814	318,814,039
Repurchase Agreements	210,072,016	207,750,238
Total	\$253,430,919	\$526,644,237

Note D - Investments

The Board of Trustees of the Retirement Systems and Insurance Fund recognize their duty to invest funds in accordance with the Prudent Person Rule and manage those funds consistent with the long-term nature of the Systems. The Board enters into contracts with investment managers who use the following guidelines and restrictions in the selection and timing of transactions as long as the security is not prohibited by the Kentucky Revised Statutes.

Equity Investments

Investments may be made in domestic and international common stock, securities convertible into common stock and in preferred stock of publicly traded corporations.

Fixed Income Investments

Publicly traded corporate bonds are to be selected and managed to assure an appropriate balance in quality and maturities consistent with the current market and economic conditions. Investment may also be made in any debt instrument issued or guaranteed in whole or in part by the U.S. Government or any agency or instrumentality of the U.S. Government.

Mortgages

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

Alternative Investments/Equity Real Estate

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

Cash Equivalent Securities

The following short-term investment vehicles are considered acceptable:

Publicly traded investment grade corporate bonds, government and agency bonds, mortgages, and collective STIF's, money market funds or instruments (including, but not limited to, certificates of deposit, bank notes, deposit notes, bankers' acceptances and commercial paper) and repurchase agreements relating to the



above instruments. Instruments may be selected from among those having a BBB or better rating by at least one recognized bond rating service. All instruments shall have a maturity at the time of purchase that does not exceed two years. Repurchase agreements shall be deemed to have a maturity equal to the period remaining until the date on which the repurchase of the underlying securities is scheduled to occur.

Derivatives

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

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

Collateralized mortgage obligations, asset-backed securities, and exchange-traded funds pose no greater risk than other similar investment grade holdings in the Systems' and the Fund's portfolios. The fair value of CMOs at June 30, 2005 and 2004 was approximately \$82 million and \$67 million respectively; the fair value of asset-backed securities at June 30, 2005 and 2004 was approximately \$252 million and \$277 million respectively; and the fair value of exchange-traded funds at June 30, 2005 and 2004 was approximately \$318 million and \$299 million, respectively.

Custodial Credit Risk for Deposits

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, the System's deposits may not be returned. All non-investment related bank balances are held locally by Farmers Bank & Capital Trust Company. All non-investment related bank balances are held in KRS' name and each individual account is insured up to \$100,000. These cash balances are invested daily by the local institution in overnight repurchase agreements which are required by Kentucky Administrative Regulation (200 KAR 14:081) to be collateralized at 102% of the principal amount.

At June 30, 2005 and 2004, deposits for KRS pension funds were \$1,498,771 and \$1,954,779, respectively. None of these balances were exposed to custodial credit risk as they were either insured or collateralized at required levels.

At June 30, 2005 and 2004, deposits for KRS insurance funds were \$207,089 and \$79,960, respectively. None of these balances were exposed to custodial credit risk as they were either insured or collateralized at required levels.

Notes to Financial Statements

June 30, 2005 and 2004

Investment Policies

The Kentucky Revised Statutes (KRS 61.650) grant the responsibility for the investment of plan assets to the Board of Trustees of the Kentucky Retirement Systems. The Board of Trustees has established an Investment Committee which is specifically charged with the oversight and investment of plan assets. The Investment Committee recognizes their duty to invest the funds in accordance with the Prudent Person Rule and manage those funds consistent with the long-term nature of the Systems. The Committee has adopted a Statement of Investment Policy that contains guidelines and restrictions for deposits and investments. By statute, all investments are to be registered and held in the name of the Kentucky Retirement Systems. 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.

Investment Summary

The following tables present a summary of the investments by type as of June 30, 2005 and June 30, 2004.

Pension Funds *Years Ended June 30, 2005 and 2004*

Investment Summary	2005	2004
U.S. Gov't & Agency Fixed Income Securities	\$3,313,946,410	\$2,954,464,596
U.S. Corporate Fixed Income Securities	1,268,342,165	1,306,976,137
Municipal Debt Securities	14,883,806	12,936,421
Short Term Investments	353,054,725	266,019,440
Equity Securities	7,219,482,637	7,127,553,444
Private Equity Limited Partnerships	110,450,122	85,264,271
Real Estate	9,694,317	9,898,468
Total	\$12,289,854,182	\$11,763,112,777

Insurance Funds *Years Ended June 30, 2005 and 2004*

	2005	2004
U.S. Gov't & Agency Fixed Income Securities	\$189,294,988	\$164,867,042
Short Term Investments	219,965,717	207,750,247
Equity Securities	1,485,569,035	1,299,848,563
Private Equity Limited Partnerships	12,272,237	9,473,806
Total	\$1,907,101,977	\$1,681,939,659

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. At June 30, the following investments were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the System's name.

Pension Funds	<u>2005</u>	<u>2004</u>
Foreign Currency Investments	\$3,059,869	\$152,709
Insurance Funds	<u>2005</u>	<u>2004</u>
Foreign Currency Investments	\$ 124,692	\$ 1

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 U.S. government, its agencies or instrumentalities are permissible investments and may be held without restrictions.
- The average credit quality of the total portfolio must be A or better.
- Debt obligations must have an investment grade rating at the time of purchase.
- Debt obligations that have been downgraded to below investment grade may be held in the portfolio up to a maximum of 1.5 percent of the total portfolio at market value.
- Debt obligations in the lowest investment grade rating category may not exceed 15 percent of the total portfolio at market value.

Notes to Financial Statements

June 30, 2005 and 2004

The following tables present the KRS pension fund debt ratings at June 30, 2005 and 2004.

Pension Funds Debt Securities Investments at Fair Value For Years Ended June 30, 2005 and 2004		
Quality Rating	2005	2004
AAA	\$1,481,814,394	\$1,297,085,238
AA+	1,439,266	4,087,950
AA	41,927,341	45,731,606
AA-	84,766,981	104,426,635
A+	196,920,079	192,973,774
A	153,635,654	156,294,715
A-	94,502,023	93,046,599
BBB+	138,345,630	123,085,471
BBB	47,195,847	90,952,068
BBB-	81,970,376	43,458,260
BB+	20,332,710	64,791,545
BB	0	49,345,339
NR	26,838,395	13,169,106
	2,369,688,696	2,278,448,307
U.S. Government & Agencies Pooled Investments	2,172,535,022 54,948,663	1,995,447,827 0
Total Debt Securities	\$4,597,172,381	\$4,273,896,134

At June 30, 2005 and 2004, the weighted average quality rating of the pension fund debt securities portfolio was AA+ and AA+, respectively. The Systems had no below investment grade rated debt securities in the pension portfolio at June 30, 2005 and 2004. The fair value of securities in the lowest investment grade rating category was \$0 and \$49,345,339 or 0.0% and 1.15% of the debt securities portfolio at June 30, 2005 and 2004, respectively.

The insurance fund debt securities portfolio, by guidelines, is to be invested in US government securities.

Notes to Financial Statements

June 30, 2005 and 2004

The following tables present the KRS insurance fund debt ratings at June 30, 2005 and 2004.

Insurance Funds Credit Risk of Debt Securities For Years Ended June 30, 2005 and 2004		
	2005	2004
U.S. Government & Agencies	\$189,294,988	\$164,867,042
Pooled Investments	9,893,700	0.00
Total Credit Risk	\$199,188,688	\$164,867,042

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 U.S. government, its agencies or instrumentalities are permissible investments and may be held without restrictions.
- Debt obligations of any single U.S. corporation shall be limited to a maximum of 5 percent of the total portfolio at market value.

Except for US government debt securities, there were no individual investments held in either the KRS pension or insurance portfolios at June 30, 2005 or June 30, 2004, that exceeded the maximum issuer 5% limit.

Interest Rate Risk

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. The Systems do not have a formal policy that constrains the duration of its fixed income portfolio.

The KRS pension fund debt securities portfolio benchmarks its debt securities portfolio to a blended benchmark consisting of the Lehman Brothers Government Credit Index, the Lehman Brothers Aggregate Index and the Lehman Brothers U.S. TIPS index. At June 30, 2005 and 2004, the effective duration of the blended benchmark was 5.34 and 4.83, respectively. At the same points in time, the effective duration of the KRS pension fund debt securities portfolio was 4.44 and 3.90, respectively.

Notes to Financial Statements

June 30, 2005 and 2004

KRS Pension Fund Interest Rate Risk

	2005	Weighted Average Effective Duration	2004	Weighted Average Effective Duration
Asset Backed Securities	\$252,331,426	1.12	\$276,625,217.19	0.92
Commercial Mortgage Backed Securities	109,238,989	3.33	25,980,951.05	2.03
Corporate Bonds	824,979,866	5.89	936,913,084.74	5.07
Government Agencies	479,638,805	3.30	458,514,019.37	2.46
Government Bonds	2,189,525,343	5.06	1,956,394,812.82	4.38
Government Mortgage Backed Securities	589,833,599	2.91	539,555,764.34	3.05
Municipal Bonds	14,883,806	12.64	12,936,420.75	12.64
Non-Government Backed Collateralized Mortgage Obligations	81,791,885	1.19	66,975,864.02	1.68
Pooled Investments	54,948,663		0	
Total	\$4,597,172,381	4.44	\$4,273,896,134	3.90

The KRS insurance fund long-term debt securities portfolio consists entirely of US government issued bonds which are not callable (redeemable) prior to maturity. The modified duration, similar to effective duration, measures the sensitivity of the market prices to changes in the yield curve but does not assume that securities will be called prior to maturity. Since the modified duration measure most accurately reflects the interest rate sensitivity of the insurance fund portfolio, this measure is used for comparative purposes. The KRS insurance fund debt securities portfolio benchmarks its debt securities portfolio to the Lehman Brothers U.S. TIPS Index. At June 30, 2005 and 2004, the modified duration of the benchmark was 8.45 and 8.75 years, respectively. At the same points in time, the modified duration of the KRS insurance fund debt securities portfolio, excluding the pooled fund, was 8.64 and 8.62 years, respectively.

Insurance Funds Debt Securities Investments at Fair Value For Years Ended June 30, 2005 and 2004

Investment	2005		2004	
	Fair Value	Weighted Duration	Fair Value	Weighted Duration
Index Linked Government Bonds	\$189,294,988	8.62	\$164,867,042	8.64
Pooled Debt Securities	\$9,893,700	NA	\$0	
	\$199,188,688	8.62	\$164,867,042	8.64

Notes to Financial Statements

June 30, 2005 and 2004

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The Systems do not have a formal policy to limit foreign currency risk. The following tables present the Systems exposure at June 30, 2005 and 2004.

Pension Funds Investments at Fair Value June 30, 2005 and 2004

Foreign Equities	2005	2004
Australian Dollar	\$52,122,988	\$59,299,679
British Pound Sterling	300,642,320	313,285,570
Canadian Dollar	0.00	2,077,749
Danish Krone	6,807,087	18,391,775
Euro	492,597,015	466,888,412
Hong Kong Dollar	23,082,401	34,539,384
Japanese Yen	346,791,634	347,332,087
New Zealand Dollar	3,535,112	1,030,244
Norwegian Krone	8,805,025	14,357,141
Singapore Dollar	21,641,967	10,663,676
South Korean Won	3,366,341	20,569,874
Swedish Krona	49,787,194	42,220,254
Swiss Franc	109,308,105	146,715,237
International Equity Mutual Fund (various currencies)	484,952,191	-
Total Securities subject to Foreign Currency Risk	1,903,439,380	1,477,371,082
USD (securities held by Int'l Investment Managers)	78,764,548	26,620,320
Total Int'l Investment Securities	\$1,982,203,928	\$1,503,991,402

Notes to Financial Statements

June 30, 2005 and 2004

Foreign Equities	2005	2004
Australian Dollar	\$21,058,561	\$13,664,773
British Pound Sterling	81,925,423	55,426,507
Danish Krone	3,540,224	5,219,450
Euro	125,362,499	86,212,060
Hong Kong Dollar	6,984,939	4,718,849
Japanese Yen	85,596,433	73,534,460
New Zealand Dollar	905,291	289,725
Norwegian Krone	4,558,628	4,037,545
Singapore Dollar	3,851,828	2,153,301
Swedish Krona	22,215,317	11,880,888
Swiss Franc	32,258,586	24,457,395
Total Securities subject to Foreign Currency Risk	388,257,729	281,594,953
USD (securities held by International Investment Managers)	3,610,171	5,499,427
Total International Investment Securities	\$391,867,900	\$287,094,380

Insurance Funds Investments at Fair Value
June 30, 2005 and 2004

Note E - Securities Lending Transactions

Kentucky Revised Statutes Sections 61.650 and 386.020(2) permit the Pension and Insurance Funds to lend their securities to broker-dealers and other entities. The borrowers of the securities agree to transfer to the Funds' custodial banks either cash collateral or other securities with a fair value of 102 percent of the value of the borrowed securities. The borrowers of the securities simultaneously agree to return the borrowed securities in exchange for the collateral at a later date. Securities lent for cash collateral are presented as unclassified above in the schedule of custodial credit risk; securities lent for securities collateral are classified according to the category for the securities loaned. At June 30, 2005, the Funds have no credit risk exposure to borrowers because the amounts the Funds owe to borrowers exceed the amounts the borrowers owe the Funds. The contracts with the custodial banks require them to indemnify the Funds if the borrowers fail

to return the securities and one or both of the custodial banks have failed to live up to their contractual responsibilities relating to the lending of securities.

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



Note F - Risks Of Loss

KRS is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Under the provisions of the Kentucky Revised Statutes, the Kentucky Board of Claims is vested with full power and authority to investigate, hear proof, and to compensate persons for damages sustained to either person or property as a result of negligence of the agency or any of its employees. Awards are limited

to \$200,000 for a single claim and \$350,000 in aggregate per occurrence. Awards and a pro rata share of the operating cost of the Board of Claims are paid from the fund of the agency having a claim or claims before the Board.

Claims against the Board of Trustees of Kentucky Retirement Systems or any of its staff as result of actual or alleged breach of fiduciary duty are insured with a commercial insurance policy. Coverage provided is limited to \$5,000,000 with a deductible amount of \$100,000. Defense costs incurred in defending such claims will be paid by the insurance company. However, the total defense cost and claims paid shall not exceed the total aggregate coverage of the policy.

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

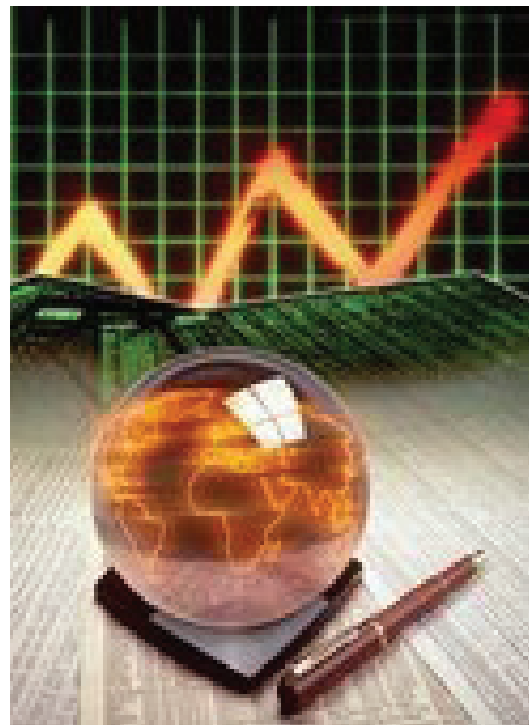
Only claims pertaining to workers' compensation have been filed during the past three fiscal years. Settlements did not exceed insurance coverage in any of the past three fiscal years. There were no claims which were appealed to the Kentucky Workers' Compensation Board.

Note G - Contingencies

In the normal course of business, KRS is involved in various litigation concerning the right of participants or their beneficiaries to receive benefits. KRS does not anticipate any material losses as a result of the contingent liabilities.

Note H - Income Tax Status

The Internal Revenue Service has ruled that KRS qualifies under Section 401(a) of the Internal Revenue Code and is, therefore, not subject to tax under income tax law.



Note I - Anthem Demutualization

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

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

Note J - Contingent Liability--Anthem Demutualization

In relation to the above noted Anthem demutualization, Kentucky Retirement System is a defendant in a case entitled Jean C. Love, David E. Wiseman and Belvia Campbell v. Board of Trustees of the Kentucky Retirement Systems, which is in Franklin Circuit Court. At issue is how to distribute the proceeds resulting from Anthem’s demutualization, which resulted in Kentucky Retirement System receiving approximately \$61 million dollars in proceeds. The plaintiffs seek to recover the full amount of the proceeds or, alternatively, the pro rata amount of proceeds attributable to insurance premiums that the employees and/or their beneficiaries paid directly to Anthem. Kentucky



Retirement System believes that the claims are without merit and intends to vigorously defend its position. The ultimate outcome of this litigation cannot presently be determined. However, in management's opinion, there is a reasonable possibility that an adverse outcome will occur, but an estimate of such amount cannot be determined. Accordingly, no amounts that might result from this outcome have been reflected in the financial statements.

Note K - Defined Benefit Pension Plan

All eligible employees of Kentucky Retirement Systems (KRS) participate in the Kentucky Employees Retirement System (non-hazardous), a cost-sharing, multiple-employer defined pension plan that covers substantially all regular full-time employees in non-hazardous positions of any Kentucky State Department, Board or Agency directed by Executive Order to participate in the system. The Plan provides for retirement, disability and death benefits to plan members. Plan benefits are extended to beneficiaries of plan members under certain circumstances. KRS contributed 5.89% of covered payroll for the period July 1, 2004 – June 30, 2005 and July 1, 2003 – June 30, 2004, respectively. KRS contributed 3.76% of covered payroll for the period July 1, 2002 – December 15, 2002 and 5.89% for the period December 16, 2002 – June 30, 2003. Plan members were required to contribute 5% of creditable compensation for the plan years ended June 30, 2005 and the periods ending June 30, 2004 and June 30, 2003, respectively. Covered payroll was approximately \$9,891,000, \$9,035,000 and \$8,265,000 for 2005, 2004 and 2003, respectively. KRS contributed approximately \$572,400, \$532,000 and \$408,000 for 2005, 2004, and 2003, respectively.

Note L - Equipment

Equipment consists of the following:

	June 30, 2005	June 30 , 2004
Equipment at Cost	\$3,408,106	\$3,337,099
Less Accumulated Depreciation	(2,576,490)	(2,407,794)
Total	\$831,615	\$929,305

Depreciation expense for the years ended June 30, 2005 and 2004 amounted to \$318,840 and \$303,562, respectively.

Note M - Collateralization Of Deposits

At June 30, 2005, KRS had cash deposits at a financial institution, which totaled approximately \$1,706,000. The balance is insured by the Federal Deposit Insurance Corporation up to \$100,000. The remaining balance of approximately \$1,606,000 was collateralized by securities recorded in KRS's name and held by the financial institution.

Required Supplementary Information
Schedule of Funding Progress

Kentucky Employees Retirement Systems (KERS) - Pension Funds

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal (b)	Unfunded AAL (UAAL) (b-a)	Percent Funded (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
Non-Hazardous						
June 30, 2000	\$6,806,675,460	\$4,876,825,772	\$(1,929,849,688)	139.6	\$1,409,504,668	(136.9)
June 30, 2001	6,844,742,687	5,444,035,294	(1,400,707,393)	125.7	1,505,299,220	(93.1)
June 30, 2002*	6,654,084,196	6,026,094,764	(627,989,432)	110.4	1,595,809,458	(39.3)
June 30, 2003**	6,351,318,832	6,520,463,188	169,144,356	97.4	1,658,604,696	10.2
June 30, 2004**	6,000,513,743	7,049,613,171	1,049,099,428	85.1	1,645,413,496	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
Hazardous						
June 30, 2000	\$336,213,464	\$243,365,557	\$(92,847,907)	138.2	\$115,639,439	(80.3)
June 30, 2001	361,677,475	285,193,761	(76,483,714)	126.8	122,857,992	(62.3)
June 30, 2002*	376,384,302	322,069,164	(54,315,138)	116.9	125,275,925	(43.4)
June 30, 2003**	385,925,722	356,879,133	(29,046,589)	108.1	129,088,956	(22.5)
June 30, 2004**	397,212,763	403,578,036	6,365,273	98.4	126,664,812	5.0
June 30, 2005**	405,288,662	438,994,257	33,705,595	92.3	131,687,088	25.6
Total						
June 30, 2000	\$7,142,888,924	\$5,120,191,329	\$2,022,697,595	135.5	\$1,525,144,107	(132.6)
June 30, 2001	7,206,420,162	5,729,229,055	1,477,191,107	125.8	1,628,157,212	(90.7)
June 30, 2002*	7,030,468,498	6,348,163,928	682,304,570	110.7	1,721,085,383	(39.6)
June 30, 2003**	6,737,244,554	6,877,342,321	198,190,945	98.0	1,787,693,652	11.1
June 30, 2004**	6,397,726,506	7,453,191,207	1,055,464,701	85.8	1,772,077,308	59.6
June 30, 2005**	5,983,974,408	8,018,069,096	2,034,094,688	74.6	1,787,594,376	113.8

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

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

Required Supplementary Information

Schedule of Funding Progress

Kentucky Employees Retirement Systems (KERS) - Insurance Funds

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal (b)	Unfunded AAL (UAAL) (b-a)	Percent Funded (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
Non-Hazardous						
June 30, 2000	\$399,560,252	\$1,457,475,358	\$1,057,915,106	27.4	\$1,409,504,668	75.1
June 30, 2001	449,630,605	1,769,583,098	1,319,952,493	25.4	1,505,299,220	87.7
June 30, 2002*	521,250,455	1,907,683,881	1,386,433,426	27.3	1,595,809,458	86.9
June 30, 2003**	553,885,082	2,093,210,321	1,539,325,239	26.5	1,658,604,696	92.8
June 30, 2004**	600,586,961	2,335,905,365	1,735,318,404	25.7	1,645,412,496	105.5
June 30, 2005**	607,068,351	2,680,559,188	2,073,490,837	22.7	1,655,907,288	125.2
Hazardous						
June 30, 2000	\$102,212,237	\$175,167,613	\$72,955,376	58.4	\$115,639,439	63.1
June 30, 2001	119,372,742	214,450,822	95,078,080	55.7	122,857,992	77.4
June 30, 2002*	135,874,582	236,819,050	100,944,468	57.4	125,275,925	80.6
June 30, 2003**	151,459,500	283,178,335	131,718,835	53.5	129,088,956	102.0
June 30, 2004**	169,158,879	323,503,563	154,344,684	52.3	126,664,812	121.9
June 30, 2005**	187,947,644	386,844,695	198,897,051	48.6	131,687,088	151.0
Total						
June 30, 2000	\$501,772,489	\$1,632,642,971	\$1,130,870,482	30.7	\$1,525,144,107	74.1
June 30, 2001	569,003,347	1,984,033,920	1,415,030,573	28.7	1,628,157,212	86.9
June 30, 2002*	657,125,037	2,144,502,931	1,487,377,894	30.6	1,721,085,383	86.4
June 30, 2003**	705,344,582	2,376,388,656	1,671,044,074	29.7	1,787,693,652	93.5
June 30, 2004**	769,745,840	2,659,408,928	1,889,663,088	28.9	1,772,077,308	106.6
June 30, 2005**	795,015,995	3,067,403,883	2,272,387,888	25.9	1,787,594,376	127.1

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

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

Required Supplementary Information
Schedule of Funding Progress

County Employees Retirement Systems (CERS) - Pension Funds

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal (b)	Unfunded AAL (UAAL) (b-a)	Percent Funded (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
Non-Hazardous						
June 30, 2000	\$5,284,033,534	\$3,368,601,134	\$(1,915,432,400)	156.9%	\$1,452,058,248	(131.9)%
June 30, 2001	5,423,834,549	3,706,282,212	(1,717,552,337)	146.3	1,544,973,296	(111.2)
June 30, 2002*	5,397,787,158	4,165,355,149	(1,232,432,009)	129.6	1,663,183,629	(74.1)
June 30, 2003**	5,286,580,047	4,417,597,802	(868,982,245)	119.7	1,796,451,180	(48.4)
June 30, 2004**	5,187,851,530	4,936,459,488	(251,392,042)	105.1	1,826,870,880	(13.8)
June 30, 2005**	5,059,208,687	5,385,156,690	325,948,003	94.0	1,885,275,000	17.3
Hazardous						
June 30, 2000	\$1,445,542,794	\$1,084,553,697	\$(360,989,097)	133.3%	\$288,575,870	(125.1)%
June 30, 2001	1,486,666,016	1,193,860,442	(292,805,574)	124.5	316,700,304	(92.5)
June 30, 2002*	1,485,511,793	1,327,291,273	(158,220,520)	111.9	345,849,277	(45.7)
June 30, 2003**	1,467,004,856	1,499,628,782	32,623,926	97.8	374,700,732	8.7
June 30, 2004**	1,457,612,042	1,640,830,120	183,218,078	88.8	392,562,624	46.7
June 30, 2005***	1,452,353,023	1,795,617,335	343,264,312	80.9	411,121,728	83.5
Total						
June 30, 2000	\$6,729,576,328	\$4,453,154,831	\$(2,276,421,497)	151.1%	\$1,740,634,118	(130.8)%
June 30, 2001	6,910,500,565	4,900,142,654	(2,010,357,911)	141.0	1,861,673,600	(108.0)
June 30, 2002*	6,883,298,951	5,492,646,422	(1,390,652,529)	125.3	2,009,032,906	(69.2)
June 30, 2003**	6,753,584,903	5,917,226,584	(836,358,319)	114.1	2,171,151,912	(38.5)
June 30, 2004**	6,645,463,572	6,577,289,608	(68,173,964)	101.0	2,219,433,504	(3.1)
June 30, 2005**	6,511,561,710	7,180,774,025	669,212,315	90.7	2,296,396,728	29.2

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

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

Required Supplementary Information

Schedule of Funding Progress

County Employees Retirement Systems (CERS) - Insurance Funds

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal (b)	Unfunded AAL (UAAL) (b-a)	Percent Funded (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
Non-Hazardous						
June 30, 2000	\$319,642,694	\$1,466,716,928	\$1,147,074,234	21.8%	\$1,452,058,248	79.0%
June 30, 2001	371,758,628	1,793,710,768	1,421,952,140	20.7	1,544,973,296	92.0
June 30, 2002*	450,497,307	1,977,577,038	1,527,079,731	22.8	1,663,183,629	91.8
June 30, 2003**	520,060,105	2,176,963,259	1,656,903,154	23.9	1,796,451,180	92.2
June 30, 2004**	585,399,072	2,438,734,696	1,853,335,624	24.0	1,826,870,880	101.5
June 30, 2005**	663,941,949	2,788,754,654	2,124,812,705	23.8	1,885,275,000	112.7
Hazardous						
June 30, 2000	\$168,657,912	\$599,936,029	\$431,278,117	28.1%	\$288,575,870	149.5%
June 30, 2001	197,875,249	721,605,292	523,730,043	27.4	316,700,304	165.4
June 30, 2002*	234,683,878	781,184,974	546,501,096	30.1	345,849,279	158.0
June 30, 2003**	269,190,080	935,650,662	666,460,582	28.8	374,700,732	177.9
June 30, 2004**	310,578,162	1,025,684,477	715,106,315	30.3	392,562,624	182.2
June 30, 2005**	359,180,461	1,283,299,092	924,118,631	28.0	411,121,728	224.8
Total						
June 30, 2000	\$488,300,606	\$2,066,652,957	\$1,578,352,351	23.6%	\$1,740,634,118	90.7%
June 30, 2001	569,633,877	2,515,316,060	1,945,682,183	22.6	1,861,673,600	104.5
June 30, 2002*	685,181,185	2,758,762,012	2,073,580,827	24.8	2,009,032,908	103.2
June 30, 2003**	789,250,185	3,112,613,921	2,323,363,736	25.4	2,171,151,912	107.0
June 30, 2004**	895,977,234	3,464,419,173	2,568,441,939	25.9	2,219,433,504	115.7
June 30, 2005**	1,023,122,410	4,072,053,746	3,048,931,336	25.1	2,296,396,728	132.8

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

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

Required Supplementary Information
Schedule of Funding Progress

State Police Retirement Systems (SPRS) - Pension Funds

Year Ended	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, 2000	\$459,168,574	\$336,579,763	\$(122,588,811)	136.4	\$43,619,383	(281.0)
June 30, 2001	456,160,709	356,211,860	(99,948,849)	128.1	44,646,678	(223.7)
June 30, 2002*	438,955,465	380,790,346	(58,165,119)	115.3	44,314,696	(131.2)
June 30, 2003**	413,063,576	414,881,459	1,817,883	99.6	43,760,832	4.2
June 30, 2004**	385,077,195	437,482,425	52,405,230	88.0	43,835,208	119.6
June 30, 2005**	353,511,622	458,593,576	105,081,954	77.1	43,720,092	240.4

State Police Retirement Systems (SPRS) - Insurance Funds

Year Ended	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, 2000	\$71,711,712	\$138,867,085	\$67,155,373	51.6	\$43,619,383	154.0
June 30, 2001	79,863,577	158,261,479	78,397,902	50.5	44,646,678	175.6
June 30, 2002*	86,867,391	165,445,412	78,578,021	52.5	44,314,696	177.3
June 30, 2003**	90,747,967	184,501,205	93,753,238	49.2	43,760,832	214.2
June 30, 2004**	96,622,908	197,604,301	100,981,393	48.9	43,835,208	230.4
June 30, 2005**	100,207,082	234,159,510	133,952,428	42.8	43,720,092	306.4

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

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

Required Supplementary Information

Schedule of Employer Contributions

State Police Retirement System

Pension			
Year Ended	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 2000	\$2,973,719	\$2,964,037	99.1%
June 30, 2001	1,826,883	1,811,299	99.0
June 30, 2002	1,464,204	1,448,864	99.0
June 30, 2003	0	(20,061)	0
June 30, 2004	1,175,711	1,152,752	98.0
June 30, 2005	3,730,805	2,851,461	76.4

Insurance			
	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 2000	\$7,237,579	\$7,251,787	100.2%
June 30, 2001	7,807,870	7,817,613	100.1
June 30, 2002	8,098,907	8,113,391	100.2
June 30, 2003	9,443,588	9,654,313	81.1
June 30, 2004	8,434,834	8,455,498	100.2
June 30, 2005	8,608,536	6,631,031	77.0

Total			
	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 2000	\$10,211,298	\$10,215,824	100.0%
June 30, 2001	9,634,753	9,628,912	99.9
June 30, 2002	9,563,111	9,562,256	100.0
June 30, 2003	9,443,588	7,634,252	80.8
June 30, 2004	9,610,545	9,608,250	100.0
June 30, 2005	12,339,341	9,482,492	76.8

Required Supplementary Information
Schedule of Employer Contributions

Kentucky Employees Retirement System (KERS)

Non-Hazardous

Year Ended	Pension			Insurance		
	Annual Required Contributions	Actual Contributions	Percentage Contributed	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 2000	\$36,365,221	\$38,129,156	104.9	\$76,818,004	\$76,926,320	100.1
June 30, 2001	21,787,253	23,482,080	107.8	66,874,871	66,874,871	100.0
June 30, 2002	0	1,760,328	0	93,993,177	93,912,017	99.9
June 30, 2003	4,905,399	7,597,450	134.9	92,052,561	65,335,219	71.0
June 30, 2004	47,739,067	21,696,543	45.4	77,951,553	78,016,737	100.1
June 30, 2005	85,798,943	50,332,750	58.7	86,974,271	49,909,228	57.4

Hazardous

	Pension			Insurance		
	Annual Required Contributions	Actual Contributions	Percentage Contributed	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 2000	\$9,551,817	\$9,586,177	100.4	\$12,026,502	\$12,047,095	100.2
June 30, 2001	9,920,148	10,626,663	107.1	13,226,298	13,226,298	100.0
June 30, 2002	7,742,052	17,933,817	102.5	15,859,932	15,887,399	100.2
June 30, 2003	8,511,402	7,322,607	86.0	15,839,215	15,883,263	100.3
June 30, 2004	9,600,978	9,769,580	101.8	14,942,092	14,959,617	100.1
June 30, 2005	9,449,878	9,758,547	103.3	15,892,977	15,395,977	96.9

Total

	Pension			Insurance		
	Annual Required Contributions	Actual Contributions	Percentage Contributed	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 2000	\$45,917,038	\$47,715,333	103.9	\$88,844,506	\$88,973,415	100.1
June 30, 2001	31,707,401	34,108,743	107.6	80,101,169	80,101,169	100.0
June 30, 2002	7,742,052	9,694,145	125.2	109,853,109	109,799,416	100.0
June 30, 2003	13,416,801	14,920,057	111.2	107,891,776	81,218,482	75.3
June 30, 2004	57,340,045	31,466,123	54.9	92,893,645	92,976,354	100
June 30, 2005	95,248,821	60,091,297	63.1	102,867,248	65,305,205	63.5

Required Supplementary Information

Schedule of Employer Contributions

Kentucky Employees Retirement System (KERS)

Year Ended	Non-Hazardous		
	Total		
	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 2000	\$113,183,225	\$115,055,476	100.7
June 30, 2001	88,662,124	90,356,951	101.9
June 30, 2002	93,993,177	95,672,345	101.8
June 30, 2003	96,957,960	72,932,669	75.2
June 30, 2004	125,690,620	99,713,280	79.3
June 30, 2005	172,773,214	100,241,978	58.0

	Hazardous		
	Total		
	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 2000	\$21,578,319	\$21,633,272	100.3
June 30, 2001	23,146,446	23,852,961	103.1
June 30, 2002	23,601,984	23,821,216	100.9
June 30, 2003	24,350,617	23,205,870	95.3
June 30, 2004	24,543,070	24,729,197	100.8
June 30, 2005	25,342,855	25,154,524	99.3

	Total		
	Total		
	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 2000	\$134,761,544	\$136,688,748	101.4
June 30, 2001	111,808,570	114,209,912	102.1
June 30, 2002	117,595,161	119,493,561	101.6
June 30, 2003	121,308,577	96,138,539	79.3
June 30, 2004	150,233,690	124,442,477	82.8
June 30, 2005	198,116,069	125,396,502	63.3

Required Supplementary Information
Schedule of Employer Contributions

County Employees Retirement System (CERS)

Non-Hazardous						
Year Ended	Pension			Insurance		
	Annual Required Contributions	Actual Contributions	Percentage Contributed	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 2000	\$50,676,832	\$51,373,244	101.4	\$55,033,008	\$55,213,973	100.3
June 30, 2001	35,658,922	48,914,435	137.2	62,292,385	62,292,385	100.0
June 30, 2002	3,326,367	5,528,348	166.2	102,119,475	102,150,543	100.0
June 30, 2003	8,682,257	11,855,694	136.6	102,038,427	99,234,843	97.3
June 30, 2004	43,111,505	44,028,465	102.1	189,289,520	89,344,241	100.1
June 30, 2005	53,117,955	54,616,800	102.8	106,612,633	106,638,253	100.0
Hazardous						
	Pension			Insurance		
	Annual Required Contributions	Actual Contributions	Percentage Contributed	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 2000	\$22,653,206	\$23,393,895	103.3	\$27,991,859	\$28,345,377	101.3
June 30, 2001	19,409,377	20,983,360	108.1	32,149,432	32,149,432	100.0
June 30, 2002	10,582,988	11,054,949	104.5	45,721,274	45,730,333	100.0
June 30, 2003	19,920,223	16,905,556	84.9	43,502,755	45,243,950	104.0
June 30, 2004	27,050,382	27,640,775	102.2	47,018,046	47,036,777	100.0
June 30, 2005	39,437,725	39,947,747	101.3	54,094,495	54,106,577	100.0
Total						
	Pension			Insurance		
	Annual Required Contributions	Actual Contributions	Percentage Contributed	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 2000	\$73,330,038	\$74,767,139	102.0	\$83,024,867	\$83,559,350	100.6
June 30, 2001	55,068,299	69,897,795	126.9	94,441,817	94,441,817	100.0
June 30, 2002	13,909,355	16,583,297	119.2	147,840,749	147,880,876	100.0
June 30, 2003	28,602,480	28,761,250	100.6	145,541,182	144,478,793	99.3
June 30, 2004	70,161,887	71,669,240	102.1	136,307,566	136,381,018	100.1
June 30, 2005	92,555,680	94,564,547	102.2	160,707,128	160,744,830	100.0

Required Supplementary Information

Schedule of Employer Contributions

County Employees Retirement System (CERS)

Non-Hazardous			
Total			
Year Ended	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 2000	\$105,709,840	\$106,587,217	100.8
June 30, 2001	97,951,307	111,206,820	113.5
June 30, 2002	105,445,842	107,678,891	102.1
June 30, 2003	110,720,684	111,090,537	100.3
June 30, 2004	132,401,025	133,372,706	100.7
June 30, 2005	159,730,588	161,255,053	101.0

Hazardous			
Total			
	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 2000	\$50,645,065	\$51,739,272	102.2
June 30, 2001	51,558,809	53,132,792	103.1
June 30, 2002	56,304,262	56,785,282	100.9
June 30, 2003	63,422,978	62,149,506	98.0
June 30, 2004	74,068,428	74,677,552	100.8
June 30, 2005	93,532,220	94,054,324	100.6

Total			
Total			
	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 2000	\$156,354,905	\$158,326,489	101.3
June 30, 2001	149,510,116	164,339,612	109.9
June 30, 2002	161,750,104	164,464,173	101.7
June 30, 2003	174,143,662	173,240,043	99.5
June 30, 2004	206,469,453	208,050,258	100.8
June 30, 2005	253,262,808	255,309,377	100.8

Notes to Required Supplementary Information
June 30, 2005 and 2004

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

Pension Funds

	Non-Hazardous	Hazardous
Valuation Date	June 30, 2005	June 30, 2005
Actuarial Cost Method	Entry Age	Entry Age
Amortization Method	Level Percent Closed	Level Percent Closed
Amortization Period (Each Benefit Improvement)	30 Years - Commencing with 1990 Valuation	30 Years - Commencing with 1990 Valuation
Asset Valuation Method	Five-Year Smoothing of Investment Gains and Losses	Five-Year Smoothing of Investment Gains and Losses
Post-Retirement Benefit Increase	2.3%	2.3%
Actuarial Assumptions		
Investment Return	8.25%	8.25%
Projected Salary Increases	6.50%	6.50%
Inflation Rate	5.00%	5.00%

Notes to Required Supplementary Information

June 30, 2005 and 2004

Insurance Funds

	Non-Hazardous	Hazardous
Valuation Date	June 30, 2005	June 30, 2005
Actuarial Cost Method	Targeted Rate	Targeted Rate
Asset Valuation Method- Started With 1996 Valuation	Five-Year Smoothing of Investment Gains and Losses	Five-Year Smoothing of Investment Gains and Losses
Actuarial Assumptions		
Investment Return	8.25%	8.25%
Projected Salary Increases	6.50%	6.50%
Inflation Rate	5.00%	5.00%

Additional Supporting Schedules

Schedule of Administrative Expenses

	2005	2004
<i>(Dollars in Thousands)</i>		
Personal Services		
Salaries and Per Diem	\$ 10,139	\$ 9,268
Fringe Benefits	2,500	1,930
Tuition Assistance	66	50
Total Personal Services	12,705	11,248
Contractual Services		
Actuarial	157	141
Audit	41	40
Legal	397	288
Medical	224	326
Contractual	735	100
Total Contractual Services	1,554	895
Communication		
Printing	219	139
Telephone	136	150
Postage	549	571
Travel	157	152
Total Communication	1,061	1,012
Rentals		
Office Space	981	982
Equipment	58	50
Total Rentals	1,039	1,032
Miscellaneous		
Utilities	147	120
Supplies	137	113
Insurance	56	51
Maintenance	330	170
Other	84	253
Total Miscellaneous	754	707
Depreciation	319	304
Healthcare Administrative Expenses	1,231	1,034
Total Administrative Expenses	\$ 18,663	\$ 16,232

Additional Supporting Schedules

Schedule of Investment Expenses

2005

2004

(Dollars in Thousands)

Pension Funds

Security Lending Fees

Broker Rebates	\$	47,836	\$	17,869
Lending Agent Fees		1,745		1,559
Total Security Lending		49,581		19,428

Common Stock Commissions

5,818 5,237

Contractual Services

Investment Management	9,026	7,253
Security Custody	749	727
Investment Consultant	313	184
Investment Related Travel	50	20
Total Contractual Services	10,138	8,184

Insurance Funds

Security Lending Fees

Broker Rebates	7,668	2,463
Lending Agent Fees	263	195
Total Security Lending	7,931	2,658

Common Stock Commissions

563 586

Investment Management

1,428 927

Total Investment Expenses

\$ 75,459 \$ 37,020

Schedule of Professional Consultant Fees

2005

2004

(Dollars in Thousands)

Actuarial Services	\$	157	\$	141
Medical Review Services		224		326
Audit Services		41		40
Legal Counsel		397		288
Compliance		79		74
Workflow		236		0
Healthcare		298		0
Banking		60		42
Miscellaneous		62		(16)
Total	\$	1,554	\$	895

Combining Schedules of Plan Net Assets

Pension Funds							
	2005					2004	
<i>Dollars in Thousands)</i>	KERS Hazardous	KERS Non- Hazardous	CERS Hazardous	CERS Non- Hazardous	SPRS	TOTAL	TOTAL
Assets							
Cash and Short-Term Investments							
Cash	\$106	\$620	\$97	\$569	\$107	\$1,499	\$1,955
Short-Term Investments	16,899	101,249	61,360	179,378	(5,831)	353,055	266,019
Total Cash and Short-Term Investments	17,005	101,869	61,457	179,947	(5,724)	354,554	267,974
Receivables							
Contributions	2,106	26,502	10,134	26,845	1,012	66,599	63,447
Investment Income	1,694	24,573	6,228	22,680	1,585	56,760	59,857
Total Receivables	3,800	51,075	16,362	49,525	2,597	123,359	123,304
Investments, at Fair Value							
Corporate and Government Bonds	116,546	1,702,655	434,812	1,589,889	111,322	3,955,223	3,668,204
Corporate Stocks	241,107	3,247,090	822,879	2,804,717	214,139	7,329,933	7,213,299
Mortgages	18,255	261,911	74,211	270,872	16,700	641,949	605,692
Real Estate	1,942	2,443	2,424	2,396	488	9,693	9,898
Total Investments at Fair Value	377,850	5,214,099	1,334,326	4,667,874	342,649	11,936,798	11,497,093
Securities Lending Collateral Invested	84,478	1,140,910	299,059	1,038,902	72,169	2,635,518	1,562,675
Equipment (net of accumulated depreciation)	23	286	43	475	5	832	929
Total Assets	483,156	6,508,239	1,711,247	5,936,723	411,696	15,051,061	13,451,975
Liabilities							
Accounts Payable	370	4,698	942	4,221	121	10,352	9,669
Securities Lending Collateral	84,478	1,140,910	299,059	1,038,902	72,169	2,635,518	1,562,675
Total Liabilities	84,848	1,145,608	300,001	1,043,123	72,290	2,645,870	1,572,344
Plan Net Assets Held in Trust for Pension Benefits							
	398,308	5,362,631	1,411,246	4,893,600	339,406	12,405,191	11,879,631

Combining Schedules of Changes in Plan Net Assets

Pension Funds						2004	
2005						2004	
<i>Dollars in Thousands</i>	KERS Hazardous	KERS Non- Hazardous	CERS Hazardous	CERS Non- Hazardous	SPRS	Total	Total
Additions							
Members' Contributions	\$11,625	\$127,801	\$39,515	\$127,637	\$4,228	\$310,806	\$306,652
Employers' Contributions	9,758	50,333	39,948	54,617	2,852	157,508	104,288
Total Contributions	21,383	178,134	79,463	182,254	7,080	468,314	410,940
Investment Income							
From Investing Activities							
Net Appreciation in Fair Value of Investments	22,621	317,764	82,516	280,486	20,444	723,831	1,144,662
Interest/Dividends	10,733	149,411	38,354	136,888	9,543	344,929	306,289
Total Investing Activities Income	33,354	467,175	120,870	417,374	29,987	1,068,760	1,450,951
Investment Expense	335	4,374	1,172	3,977	280	10,138	8,184
Commissions	125	2,703	574	2,311	105	5,818	5,237
Total Investing Activities Expense	460	7,077	1,746	6,288	385	15,956	13,421
Net Income from Investing Activities	32,894	460,098	119,124	411,086	29,602	1,052,804	1,437,530
From Securities Lending Activities							
Securities Lending Income	1,818	24,033	6,403	22,131	1,517	55,872	24,772
Securities Lending Expense:							
Security Borrower Rebates	1,533	20,708	5,428	18,857	1,310	47,836	17,869
Security Lending Agent Fees	56	755	198	688	48	1,745	1,559
Net Income From Securities Lending Activities	229	2,540	777	2,586	159	6,291	5,344
Total Net Investment Income	33,123	462,638	119,901	413,672	29,761	1,059,095	1,442,874
Total Additions	54,506	640,772	199,364	595,926	36,841	1,527,409	1,853,814
Deductions							
Benefit Payments	20,495	522,396	90,119	294,590	32,921	960,521	849,172
Refunds	1,760	8,824	2,139	11,042	131	23,896	23,361
Administrative Expenses	511	5,916	872	10,029	104	17,432	15,198
Total Deductions	22,766	537,136	93,130	315,661	33,156	1,001,849	887,731
Net Increase in Plan Assets	31,740	103,636	106,234	280,265	3,685	525,560	966,083
Plan Net Assets Held in Trust for Pension Benefits							
Beginning of Year	366,568	5,258,995	1,305,012	4,613,335	335,721	11,879,631	10,913,548
End of Year	398,308	5,362,631	1,411,246	4,893,600	339,406	12,405,191	11,879,631

Combining Schedules of Plan Net Assets

Insurance Funds

	2005					2004	
(Dollars in Thousands)	KERS Hazardous	KERS Non- Hazardous	CERS Hazardous	CERS Non- Hazardous	SPRS	TOTAL	TOTAL
Assets							
Cash and Short-Term Investments							
Cash	\$41	\$68	\$28	\$50	\$20	\$207	\$80
Short-Term Investments	16,910	84,210	35,091	65,472	8,389	210,072	207,750
Total Cash and Short-Term Investments	16,951	84,278	35,119	65,522	8,409	210,279	207,830
Receivables							
Contributions	721	2,882	4,209	10,527	278	18,617	17,133
Investment Income	488	1,590	917	1,651	263	4,909	4,278
Total Receivables	1,209	4,472	5,126	12,178	541	23,526	21,411
Investments, at Fair Value							
Corporate and Government Bonds	20,078	65,541	37,421	64,851	11,298	199,189	164,867
Corporate Stocks	150,796	457,486	283,618	526,693	79,248	1,497,841	1,309,322
Total Investments	170,874	523,027	321,039	591,544	90,546	1,697,030	1,474,189
Securities Lending Collateral Invested	42,499	137,361	80,601	148,699	22,392	431,552	318,814
Total Assets	231,533	749,138	441,885	817,943	121,888	2,362,387	2,022,244
Liabilities							
Accounts Payable	163	876	344	759	88	2,230	1,588
Securities Lending Collateral	42,499	137,361	80,601	148,699	22,392	431,552	318,814
Total Liabilities	42,662	138,237	80,945	149,458	22,480	433,782	320,402
Plan Net Assets Held in Trust for Pension Benefits							
	188,871	610,901	360,940	668,485	99,408	1,928,605	1,701,842

Combining Schedules of Changes in Plan Net Assets

Insurance Funds							
2005						2004	
(Dollars in Thousands)	KERS Hazardous	KERS Non- Hazardous	CERS Hazardous	CERS Non- Hazardous	SPRS	Total	Total
Additions							
Employer Contributions	\$15,396	\$49,909	\$54,107	\$106,638	\$6,631	\$232,681	\$237,813
Insurance Subsidy Appropriation	257	1,523	1,445	994	343	4,562	0
Total Contributions	15,653	51,432	55,552	107,632	6,974	237,243	237,813
Investment Income							
From Investing Activities							
Net Appreciation in Fair Value of Investments	12,473	36,485	23,209	43,586	6,374	122,127	228,584
Interest/Dividends	3,603	11,621	6,753	12,482	1,940	36,400	25,243
Total Investing Activities Income	16,076	48,106	29,962	56,068	8,314	158,526	253,827
Investment Expense	129	436	253	545	65	1,428	927
Commissions	59	170	108	195	31	563	586
Total Investing Activities Expense	188	606	361	740	96	1,991	1,513
Net Income from Investing Activities	15,888	47,500	29,601	55,328	8,218	156,535	252,314
From Securities Lending Activities							
Securities Lending Income	892	2,848	1,699	3,128	472	9,039	3,480
Securities Lending Expense:							
Security Borrower Rebates	755	2,441	1,432	2,642	398	7,669	2,463
Security Lending Agent Fees	26	84	49	91	13	262	195
Net Income From Securities Lending Activities	111	323	218	395	61	1,108	822
Total Net Investment Income	15,999	47,823	29,819	55,723	8,279	157,643	253,136
Total Additions	31,652	99,255	85,371	163,355	15,253	394,886	490,949
Deductions							
Healthcare Premium Subsidies	4,853	75,571	21,985	58,262	6,221	166,892	131,872
Administrative Expenses	55	464	183	485	44	1,231	1,034
Total Deductions	4,908	76,035	22,168	58,747	6,265	168,123	132,906
Net Increase in Plan Assets	26,744	23,220	63,203	104,608	8,988	226,763	358,043
Plan Net Assets Held in Trust for Insurance Benefits							
Beginning of Year	162,127	587,681	297,737	563,877	90,420	1,701,842	1,343,799
End of Year	188,871	610,901	360,940	668,485	99,408	1,928,605	1,701,842

**Report on compliance and on internal control over financial
Reporting based on an audit of financial statements performed
In accordance with government auditing standards**

Board of Trustees
Kentucky Retirement Systems
Frankfort, Kentucky

We have audited the financial statements of Kentucky Retirement Systems, a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2005, and have issued our report thereon dated August 24, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

This report is intended for the information of the audit committee, management, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Carpenter, Montoya & Bruns, PSC

August 24, 2005
Louisville, Kentucky

Investment Section



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Investment Summary

Kentucky Retirement Systems' Board of Trustees is charged with the responsibility of investing the Systems' assets to provide for the benefits of the members. 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 objectives, policies, and strategies for both the pension and insurance portfolios.

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.

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

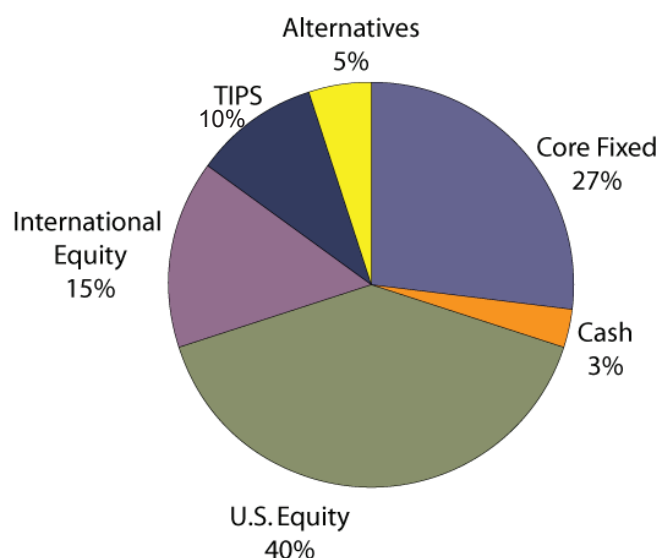
Long-Term: The Systems' total assets should achieve a return measured over two market cycles (estimated to be six to ten years) which exceeds the rate of inflation for the period, as measured by the Consumer Price Index for All Urban Consumers, by at least 4%.

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

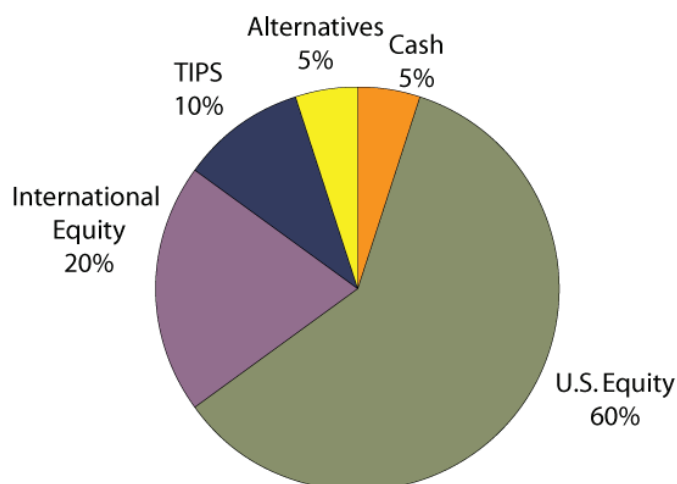
Investment Policy

During the fiscal year, the KRS Board of Trustees did not alter its investment policy. As of June 30, 2005, the KRS Pension fund's policy is to invest 40% of the assets in U.S. equities, 15% in international equities, 27% in fixed income, 10% in Treasury Inflation Protected Securities (TIPS), 5% in alternative assets, and 3% in cash or short-term securities. As of June 30, 2005, the KRS Insurance fund's policy is to invest 60% of the assets in U.S. equities, 20% in international equities, 10% in TIPS, 5% in alternative assets, and 5% in cash or short-term securities

Pension Fund Target Allocation (June 30, 2005)



Insurance Fund Target Allocation (June 30, 2005)



Investment Strategies

Diversification

The KRS portfolio is 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 professional managers. Finally, portfolios within each of the asset classes are diversified through the selection of individual securities. Each portfolio manager is afforded discretion to diversify their portfolio(s) within the parameters established by the Board of Trustees.

Investments Performance Review Procedures

At least once each quarter, the Investment Committee, on behalf of the Board of Trustees, reviews the performance of the portfolio for determination of compliance with the Statement of Investment Policy. Each month the Investment Division performs tests to assure compliance with the restrictions imposed by the Investment Policy.

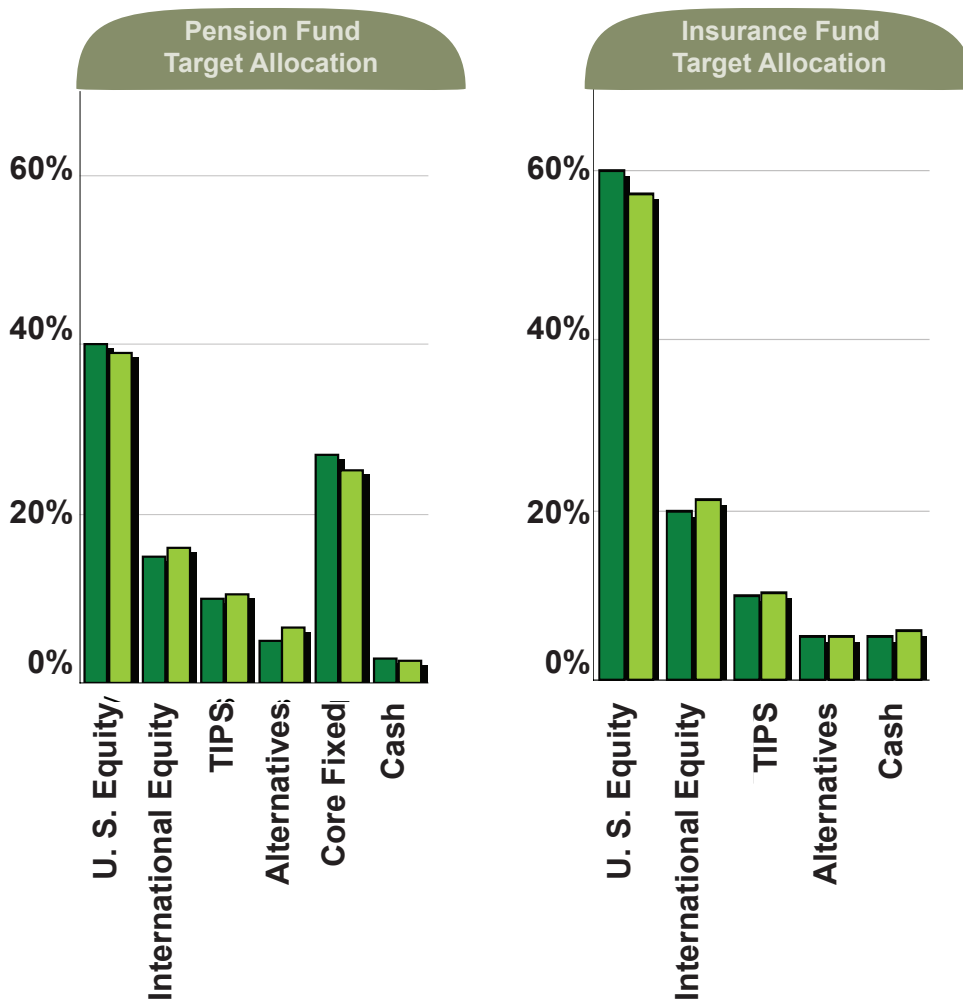
Investment Consulting

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



Rebalancing

Proper implementation of the investment policy requires that a periodic adjustment, or rebalancing, of assets be made to ensure conformance with investment policy target levels. Such rebalancing is necessary to reflect sizeable cash flows and performance imbalances among asset classes and investment managers. KRS' rebalancing policies call for an immediate rebalancing if an asset class exceeds or falls below its target allocation by 10%. As the following charts depict, the Pension and Insurance portfolios were operating within the ranges established by the investment policies.



	U.S. Equity	International Equity	TIPS	Alternatives	Core Fixed	Cash
Insurance Policy	60.0%	20.0%	10.0%	5.0%		5.0%
Insurance Actual	57.2%	21.3%	10.4%	5.3%		5.8%
Pension Policy	40.0%	15.0%	10.0%	5.0%	27.0%	3.0%
Pension Actual	39.1%	16.1%	10.5%	6.6%	25.1%	2.6%

MERCER

Investment Consulting

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

August 15, 2005

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

Subject: Annual Fund Review

Dear Trustees:

Mercer is charged with the duty to advise the Board in its asset management activities. This is our annual review of the asset management of the Kentucky Retirement Systems. Although we recognize that the Board of Trustees is charged with the responsibility of managing the Funds in a manner consistent with the basic long term nature of the participating systems, our comments focus on the year ended June, 2005. In managing the Funds, the Board must maintain formal compliance with the Prudent Person Rule. Therefore, it seeks to maintain proper and appropriate diversification for the Fund.

Market Highlights

The year ending June 2005 was characterized by positive returns across all major asset classes. Improving economic indicators such as encouraging employment numbers and increased capital spending allowed the markets to advance despite concerns over high oil prices, unstable eopolitical factors and the uncertainty that comes with a major election. In the domestic equity market, small cap issues outpaced their larger cap counterparts as the S&P 500 Index gained 6.3% and the Russell 2000 Index returned 9.5%. International equity markets (as measured by the MSCI EAFE Index) advanced 14.1% over the trailing year, outpacing the domestic equity market as a declining dollar in the second half of 2004 bolstered results. The fixed income market was characterized by a flattening yield curve over the one year period as longer duration issues outpaced their shorter duration counterparts. The Lehman Brothers Aggregate Bond Index gained 6.8% for the period.

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Investment Consulting

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August 15, 2005

The Board of Trustees of the Kentucky Retirement Systems

Systems Highlights

According to the Fund Analytics statements from Northern Trust, The Retirement Fund was valued at \$12.3 billion on June 30, 2005, an increase of \$0.5 billion since June 2004. The Retirement Fund gained 9.3% over the one year period as compared to the Reference Index return of 8.1% over the same period. The Insurance Fund was valued at \$1.8 billion at the end of the fiscal year, a \$0.2 billion increase since June 2004. The Fund advanced 9.5% during the one year period, outpacing the Reference Index return by 2.0%. The Reference Indices are constructed according to the individual target asset allocations of the Funds.

The Retirement Fund's allocation was overweight international equity, cash, TIPS and alternatives at the expense of domestic equity and fixed income as of June 30. The Insurance Fund was overweight cash and international equity at the expense of domestic equity.

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

Asset Classes	Retirement Fund		Insurance Fund	
	Actual Allocation 6/30/05	Target Asset Allocation	Actual Allocation 6/30/05	Target Asset Allocation
Domestic Equity	38.1	40.0	55.3	60.0
International Equity	16.1	15.0	21.3	20.0
Fixed Income	25.1	27.0	0.0	0.0
Alternatives	6.5	5.0	5.3	5.0
TIPS*	10.5	10.0	10.4	10.0
Cash**	3.7	3.0	7.7	5.0

* Includes Real Estate and Private Equity.

** Includes equitization positions.

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August 15, 2005

The Board of Trustees of the Kentucky Retirement Systems

Investment Manager Highlights

The Retirement Fund

Within domestic equity, INVESCO underperformed the S&P 500 Index over the one year period ending June 30, gaining 1.0% vs. the Index return of 6.3%. The Weaver MVT portfolio gained 7.2% over the trailing year period, underperforming the Russell 2500 Growth Index by 30 basis points.

Within international equity, Fidelity advanced 15.0% over the trailing year period, leading the MSCI EAFE Index return of 14.1%. The new international equity managers in the Retirement Fund, Barclays Global Investors (BGI) and The Boston Company Asset Management, were unded during the second quarter of 2005 (upon the termination of Bank of Ireland Asset Management).

The Total Equity Composite gained 8.3% over the one year period, trailing the Equity Blended Index by 30 basis points.

Within fixed income, the Weaver Barksdale Core portfolio and NAMCO both gained 7.4% over the one year period, leading the Lehman Brothers G/C Index by 10 basis points. Lincoln Capital advanced 7.0% over the trailing year, leading the LB Aggregate Bond Index return of 6.8%. The Weaver Barksdale TIPS portfolio returned 9.6% over the one year period, exceeding the LB TIPS Index return of 9.3%. The Total Fixed Income composite gained 7.9% over the trailing year, leading the Index by 20 basis points.

The Insurance Fund

The NAMCO TIPS portfolio performed in-line with the LB TIPS Index over the trailing year period, gaining 9.3%. Within international equity, Fidelity outperformed over the one year period, advancing 14.7% compared to the MSCI EAFE Index return of 14.1%.

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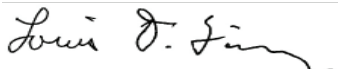
August 15, 2005

The Board of Trustees of the Kentucky Retirement Systems


Summary

The Fund's domestic equity managers underperformed over the one year period. Within international equity, Fidelity outperformed while two new portfolios, BGI Alpha Tilts and The Boston Company, were funded within the Retirement Plan. The fixed income portfolios generally outperformed their respective benchmarks as well. On a Total Fund level, both plans outperformed their respective benchmarks over the trailing year.

Sincerely,



Louis D. Finney, Ph.D.
312.902.7802



Douglas J. Kryscio, CFA
312.902.7147

Copy:

B. Aldridge, Kentucky Retirement Systems

J. Krimmel, Kentucky Retirement Systems

Investment Results

Fiscal Year 2005 Results

For the fiscal year ended June 30, 2005, KRS pension fund returned 9.3%, which exceeded the return of its benchmark by 1.2%. The 9.3% return also exceeded the actuarially required rate of return of 8.25% by more than one full per cent. The positive performance of the pension fund was due, in large part, to marginally higher than benchmark weighting in the international equity and alternatives portfolios (two of the highest returning asset classes). Other factors include above benchmark returns by the fixed income, alternative assets, and cash portfolios.

Pension Total Fund Return¹

	Inception Date	Fiscal Year 2005	3-Year	5-Year	10-Year	Inception
KRS Total Fund	April 1984	9.3%	9.0%	3.2%	9.7%	10.9%
Performance Benchmark		8.1%	8.9%	2.6%	9.5%	11.0%
CPI + 4.0%		6.5%	6.6%	6.4%	6.4%	7.0%

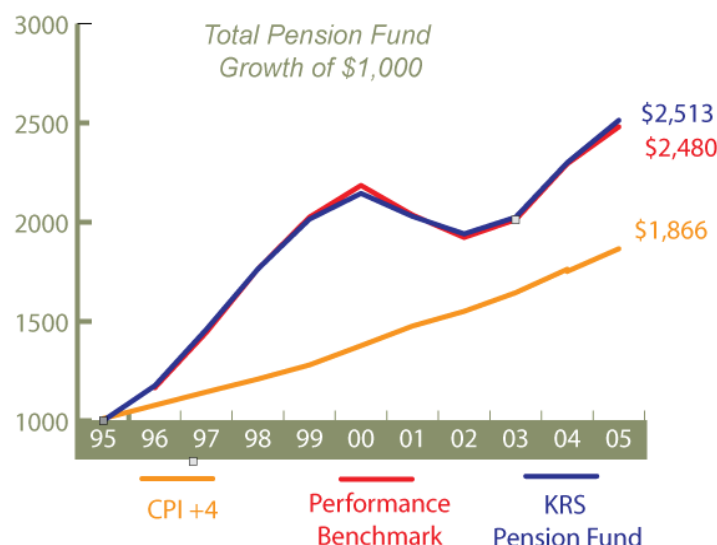
All return calculations are made by the custody bank and were prepared using a time-weighted rate of return in accordance with the Performance Presentation Standards of the Association for Investment Management and Research (AIMR).

The KRS insurance fund also posted a strong return for the fiscal year ended June 30, 2005. The portfolio returned 9.5% compared to the benchmark and actuarially required rates of return of 7.5% and 8.25%, respectively. The above benchmark performance of the insurance fund was also due in large part to higher than benchmark allocations to international equities and alternatives, which was further enhanced by above benchmark returns from all of the asset class portfolios.

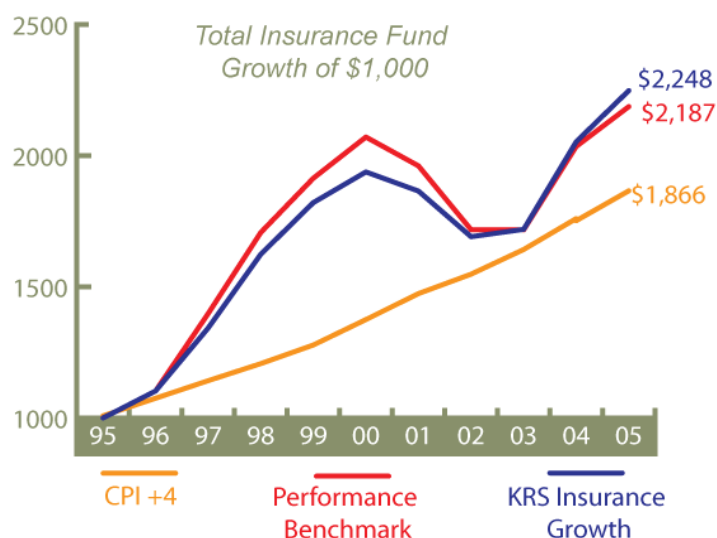
Insurance Total Fund

	Inception Date	Fiscal Year 2005	3-Year	5-Year	10-Year	Inception
KRS Total Fund	April 1987	9.5%	10.0%	3.0%	8.4%	8.9%
Performance Benchmark		7.5%	8.4%	1.1%	8.1%	8.7%
CPI + 4.0%		6.5%	6.6%	6.4%	6.4%	7.0%

Long-Term Results:



The 10-years ended June 30, 2005, provided returns that by historical measures were quite good. The KRS pension fund portfolio earned an annualized total return of 9.7%. As shown in the investment results table, the KRS pension fund return remains ahead of or in line with its benchmark for each of the time periods presented. The consistent, above benchmark performance is best illustrated by the growth of \$1,000 invested in the KRS pension portfolio, its policy portfolio, and its actuarial objective (CPI + 4%) over the past 10 years.



The ending point at June 30, 2005, indicates that the \$1,000 invested in the pension fund The KRS Insurance Fund also enjoyed a strong period of growth over the past 10 years, earning an annualized 8.4% return for the 10-year period ending June 30, 2005. As shown in the accompanying insurance investment result table, the KRS Insurance Fund return is above benchmark for each of the time periods presented. The consistent, above benchmark performance is best illustrated by the growth of \$1,000 invested in the KRS Insurance Portfolio, its Policy Portfolio, and its actuarial objective (CPI + 4%) over the past 10 years.

The ending point at June 30, 2005, indicates that the \$1,000 would have grown to \$2,248, while the same \$1,000 invested in the policy portfolio and its actuarial objective would have grown to \$2,187 and \$1,866, respectively.

Investment Results

U. S. Equity

U.S. Equity						
	Inception Date	Fiscal Year 2005	3-Year	5-Year	10-Year	Inception
KRS Pension	April 1984	6.3%	8.6%	-1.1%	10.7%	13.0%
Performance Benchmark		6.4%	8.6%	-1.1%	10.1%	12.7%
KRS Insurance	July 1992	7.4%	8.9%	0.2%	10.4%	10.8%
Performance Benchmark		5.4%	7.1%	-2.7%	8.3%	9.594%
Market Indices						
Russell 1000 (Large Cap)		8.0%	9.7%	-0.7%	11.0%	
Russell 2000 (Small Cap)		10.4%	13.9%	7.6%	11.5%	
Russell 3000 (Large Cap)		8.2%	10.0%	-0.1%	10.9%	

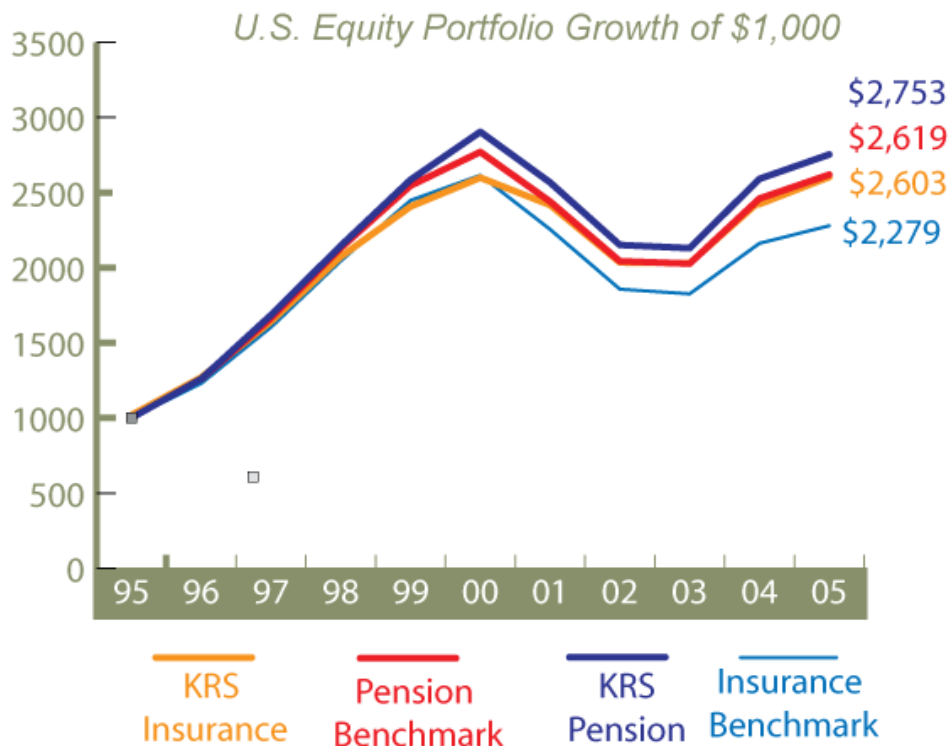
For the fiscal year ending June 30, 2005, the KRS Pension Fund U.S. Equity Portfolio returned 6.3%, slightly trailing its performance benchmark by 0.1%. The KRS insurance U.S. equity portfolio, however, handily outperformed its performance benchmark by 2.0% during FY 2005. As the accompanying table indicates, all segments of the U.S. equity markets posted positive results during the recently completed fiscal year.

Top 10 U.S. Equity Holdings

Pension Fund			Insurance Fund		
Company	Shares	Market Value	Company	Shares	Market Value
General Electric Co	3,106,320	\$107,633,988	General Electric Co	726,900	\$25,187,085
Exxon Mobil Corp	1,741,920	\$100,108,142	Exxon Mobil Corp	431,200	\$24,781,064
Citigroup	1,652,586	\$76,399,051	Microsoft Corp	748,100	\$18,582,804
Microsoft Corp	3,008,910	\$74,741,324	Citigroup	356,800	\$16,494,864
Pfizer, Inc	2,630,880	\$72,559,670	Pfizer, Inc	510,700	\$14,085,106
Wal-Mart Stores, Inc	1,376,870	\$66,365,134	Bank of America	283,300	\$13,655,060
Intel Corp	2,144,648	\$55,889,527	Wal-Mart Stores, Inc	277,750	\$12,668,178
Bank of America	1,212,962	\$55,323,197	Johnson & Johnson	192,088	\$12,485,720
Johnson & Johnson	846,084	\$54,995,460	Intel Corp	413,800	\$10,783,628
Proctor & Gamble	879,274	\$46,381,704	American Intl Group, Inc	168,784	\$9,086,350
Total	18,600,454	\$710,397,197	Total	4,109,422	\$158,529,859

U. S. Equity

Over the past three years, U.S. equity investors have received respectable returns from U.S. equity investments. The KRS pension fund portfolio, which matched its performance benchmark during this period, generated an annualized return of 8.6%. During this same time frame the insurance fund had returns of 8.9%. The positive results earned this fiscal year were not enough to bring the five year returns back into positive territory for the pension fund. The 10-year returns for each of the U.S. equity portfolios, once again, show the Systems generating positive, above benchmark returns.



The consistent, above benchmark, performance is best illustrated by the growth of \$1,000 invested in the KRS U.S. equity portfolio and its benchmark portfolio over the past 10 years. For the fiscal year ending June 30, 2005, \$1,000 invested in the KRS pension fund would have grown to \$2,753, while the same \$1,000 invested in the benchmark portfolio would have grown to \$2,619. For the KRS insurance fund, the ending point at June 30, 2005, indicates that the \$1,000 would have grown to \$2,603, while the same \$1,000 invested in the benchmark portfolio would have grown to \$2,279.



Investment Results

International Equity

International Equity					
	Inception Date	Fiscal Year 2005	3-Year	5-Year	Inception
KRS Pension	July 2000	13.6%	10.9%	-2.7%	-2.7%
Performance Benchmark		14.1%	12.6%	-1.4%	-1.4%
KRS Insurance	July 2000	14.6%	12.8%	-0.8%	-0.8%
Performance Benchmark		14.1%	12.5%	-0.2%	-0.2%
Market Indices					
MSCI EAFE		13.9%	13.0%	1.0%	1.0%
MSCI Emerging Markets		31.5%	23.7%	9.7%	9.7%
MSCI ACWI Ex US		16.4%	14.4%	2.0%	2.0%

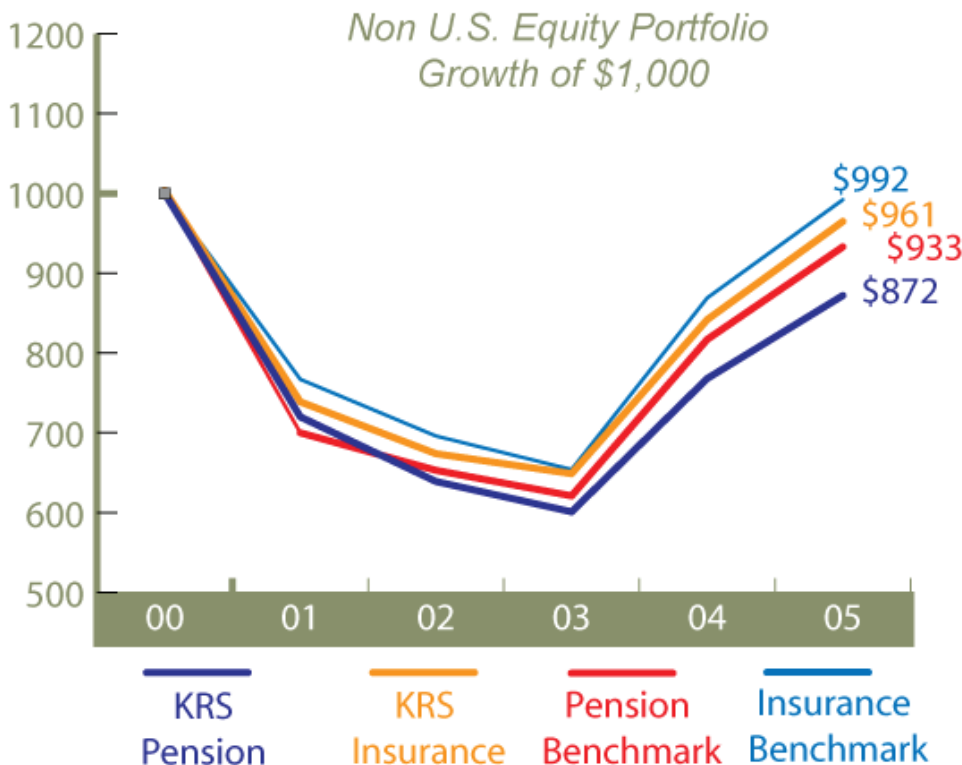
For the fiscal year ending June 30, 2005, the KRS pension fund international equity portfolio returned 13.6%, trailing its performance benchmark, the MSCI EAFE Index, by 0.5%. The KRS insurance international equity portfolio, however, outperformed the MSCI EAFE Index by 0.5% during the same period. As the accompanying table indicates, international equity markets posted strong returns during the recently completed twelve month period.

Top 10 International Equity Holdings

Pension Fund			Insurance Fund		
Company	Shares	Market Value	Company	Shares	Market Value
Total SA	128,751	\$30,286,006	BP Plc	949,100	\$9,884,055
BP Plc	2,720,980	28,336,653	Shell Transport & Trading	1,002,278	9,750,684
GlaxoSmithKline Plc	1,084,181	26,254,527	Total SA	40,324	9,485,386
Novartis AG	505,255	24,077,603	Ericsson LM	2,837,425	9,120,223
ENI S.P.A.	846,550	21,840,101	Altadis, S.A.	175,510	7,366,722
Vodafone Group Plc	8,425,483	20,539,070	Novartis AG	149,938	7,145,199
Nestle S.A.	76,511	19,589,109	ENI S.P.A.	259,850	6,703,857
Shell Transport & Trading	1,931,882	18,794,358	Toyota Motor Corp	186,200	6,671,004
Toyota Motor Corp	510,400	18,286,147	GlaxoSmithKline Plc	270,385	6,547,643
Sumitomo Mitsui Financial	2,682	18,152,694	Vivendi Universal S.A.	192,297	6,066,881
Total	16,232,675	226,156,269	Total	6,063,307	78,741,656

International Equity

Over the past three years, international equity investors have received very good returns from the asset class. The KRS pension fund portfolio has generated an annualized average return of 10.9% over this three-year period, which fell short of the MSCI EAFE Index return of 12.5%, by 1.6%. The insurance fund generated a 12.8% return for the same time period, outperforming the MSCI EAFE Index by 0.3%. The disparity in returns between the two portfolios is due to a difference in the underlying investment managers and cash flows. Changes were made during the fiscal year, which should correct the under performance of the international equity portfolio in the pension fund. The Systems began its international equity program five years ago in July 2000. Since inception, both portfolios have under performed their benchmark.



The accompanying chart indicates the growth of \$1,000 invested in the KRS international equity portfolios and the MSCI EAFE Index since their inception five years ago. For the KRS pension fund, the ending point at June 30, 2005, indicates that the \$1,000 would have declined to \$872, while the same \$1,000 invested in the MSCI EAFE Index would have fallen to \$933. For the KRS insurance fund, the ending point at June 30, 2005, indicates that the \$1,000 would have declined to \$961, while the same \$1,000 invested in the index would also have fallen to \$992.



Investment Results

Fixed Income

International Equity						
	Inception Date	Fiscal Year 2005	3-Year	5-Year	10-Year	Inception
KRS Pension	April 1984	7.8%	7.2%	8.1%	7.1%	9.1%
Performance Benchmark		7.6%	7.1%	8.1%	7.1%	8.9%
KRS Insurance	July 1992	9.4%	9.5%	9.7%	8.0%	7.9%
Performance Benchmark		9.3%	9.4%	9.6%	7.9%	7.9%
Market Indices						
LB Aggregate		6.6%	5.7%	7.2%	6.7%	
LB Government Credit		7.1%	6.4%	7.6%	6.8%	

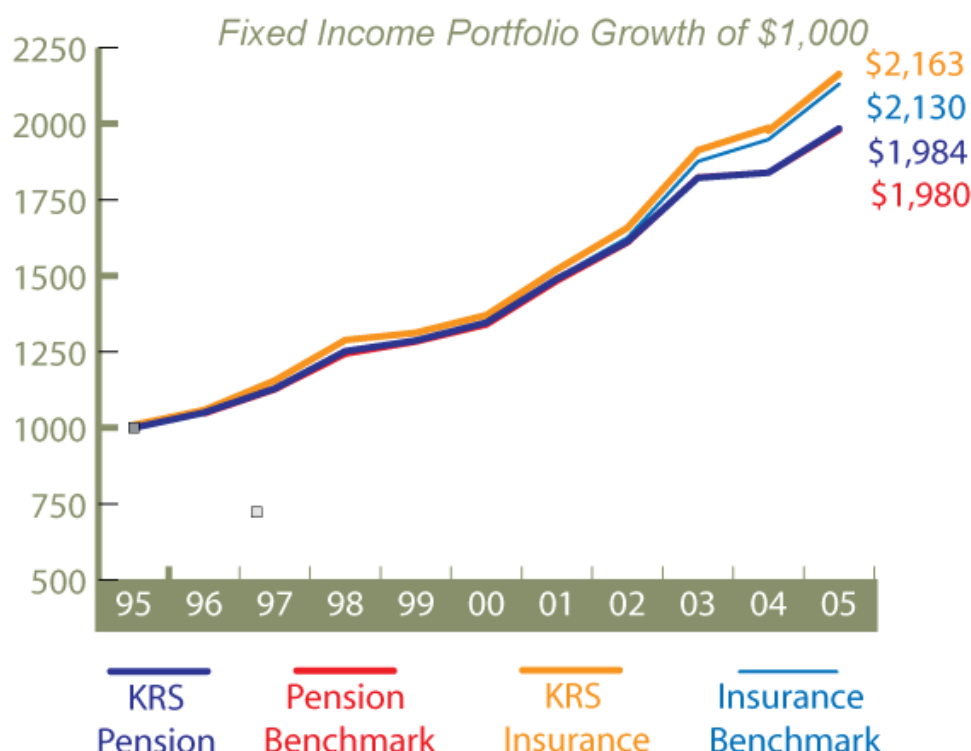
For the fiscal year ending June 30, 2005, the KRS pension fund fixed income portfolio returned 7.8%, exceeding its custom performance benchmark by 0.2%. As the accompanying table indicates both of the broad market indices, the Lehman Brothers Aggregate Index and the Lehman Brothers Intermediate Government Credit Index, posted above historical long-term average returns, which is fairly remarkable during a period when the Federal Reserve has continued to increase short-term interest rates. The KRS insurance fixed income portfolio also posted a strong positive return of 9.4% and outperformed its benchmark, the Lehman Brothers U.S. TIPS Index, by 0.1%.

Top 10 Fixed Income Holdings

Pension Fund			Insurance Fund		
Company	Par Value	Market Value	Company	Par Value	Market Value
US TSY BD INFL Index 3.875 Due 4/15/29	88,500,000	\$147,205,984	US TSY BD INFL Index 3.875 Due 4/15/29	71,482,000	\$118,899,188
US TSY BD INFL Index 3.625 Due 4/15/28	83,500,000	\$134,957,388	US TSY BD INFL Index 3.625 Due 4/15/28	62,427,000	\$100,898,022
US TSY NT INFL Index 3.000 Due 7/15/12	93,350,000	\$110,946,598	US TSY NT INFL Index 3.000 Due 7/15/12	75,481,000	\$89,709,268
US TSY NT INFL Index 3.875 Due 1/15/09	69,000,000	\$89,066,450	US TSY NT INFL Index 1.654 Due 1/15/15	72,500,000	\$73,602,602
US TSY NT INFL Index 1.654 Due 1/15/15	86,000,000	\$87,307,914	US TSY BD INFL Index 5.250 Due 2/15/29	63,235,000	\$73,322,565
US TSY NT INFL Index 1.875 Due 7/15/13	78,500,000	\$84,931,824	US TSY NT INFL Index 1.875 Due 7/15/13	66,250,000	\$71,678,131
US TSY NT INFL Index 2.000 Due 1/15/14	76,150,000	\$82,589,954	US TSY NT INFL Index 3.875 Due 1/15/09	54,613,000	\$70,495,449
US TSY NT INFL Index 3.375 Due 1/05/07	64,200,000	\$81,340,662	US TSY NT INFL Index 2.000 Due 1/15/14	63,650,000	\$69,032,838
US TSY NT INFL Index 3.500 Due 1/15/11	64,000,000	\$79,291,873	US TSY NT INFL Index 3.375 Due 1/05/07	51,474,000	\$65,216,967
US TSY NT INFL Index 3.625 Due 1/15/08	60,500,000	\$77,096,712	US TSY NT INFL Index 2.000 Due 1/15/14	57,750,000	\$61,420,493
Total		\$974,735,358	Total		\$793,275,523

Fixed Income

Over the past three years ended June 30, 2005, the KRS pension fund portfolio has generated an annualized average return of 7.2% versus its custom performance benchmark return of 7.1%. The insurance fund portfolio posted a 9.5% return during the same period, also exceeding its benchmark by 0.1%. Over longer time horizons (i.e. five and ten year periods) both the pension and insurance fund fixed income portfolios have performed in line with their benchmarks.



The preceding chart shows the growth of \$1,000 invested in the KRS fixed income portfolios and their benchmarks over the past ten years. For the KRS pension fund, the ending point at June 30, 2005 indicates that the \$1,000 would have grown to \$1,984 while the same \$1,000 invested in the benchmark portfolio would have grown to \$1,980. For the KRS insurance fund, the ending point at June 30, 2005 indicates that the \$1,000 would have grown to \$2,163 while the same \$1,000 invested in the benchmark portfolio would have grown to \$2,130.



Investment Results

Alternative Investments

Alternative Investments						
	Inception Date	Fiscal Year 2005	3-Year	5-Year	10-Year	Inception
KRS Pension	October 1990	32.2%	20.1%	18.0%	14.2%	13.2%
Performance Benchmark		7.6%	10.2%	8.1%	9.3%	10.4%
KRS Insurance	July 2001	12.6%	10.5%			8.2%
Performance Benchmark		6.5%	8.6%			2.2%

For the fiscal year ending June 30, 2005, the KRS pension fund alternative investments portfolio was the best performing asset class returning 32.2%. The portfolio consists primarily of real estate investment trusts (REITs), or publicly traded real estate securities focused investments and operating companies, and private equity limited partnerships. The custom performance benchmark for the pension alternative investment portfolio returned 7.6% during this same period. The insurance alternative investment portfolio also fared well, generating a return of 12.6% versus a custom performance benchmark return of 6.5% during the fiscal year.

As the accompanying table indicates, the longer term results from the alternative investment portfolios have also been very good. For the three years ended June 30, 2005, the pension fund portfolio has outperformed its custom performance benchmark by nearly 10% on an annualized basis. Since its inception in October, 2000, the portfolio has exceeded its benchmark by nearly 5% each year. The insurance portfolio has also done very well exceeding its benchmark return over the three-year and since inception periods by 1.9% and 6.0%, respectively.

Additional Schedules & Required Supplemental Information

Following are additional schedules which indicate the Investment Advisors employed along with the total assets each of the firm manages for the Systems, external investment-related expenses incurred, portfolio summaries for each of the five pension and insurance plans, and commissions paid by the Systems as of or for the year ended June 30, 2005.

External Investment Advisors, Master Custodian and Consultants	
External Investment Advisors	Assets Under Management (in thousands)
Barclays Global Investors, San Francisco, California	\$484,952
C.B. Richard Ellis, New York, New York	\$200
Fidelity Investments, Boston, Massachusetts	\$1,149,934
H.I.G. Venture Partners, Miami, Florida	\$1,599
Heitman Capital Management Corp., Chicago, Illinois	\$39
INVESCO-National Asset Management Corp, Louisville, Kentucky	\$1,937,899
Institutional Venture Partners, Menlo Park, California	\$2,894
JW Childs Equity, Boston, Massachusetts	\$18,580
Lehman Brothers Asset Management, Chicago, Illinois	\$1,616,204
Leonard Green & Partners, L.P., Los Angeles, California	\$15,485
Matlin Patterson Global Opportunities, New York, New York	\$45,510
Merit Capital Partners, Chicago, Illinois	\$1,183
New Mountain Partners, New York, New York	\$9,133
Northern Trust Quantitative Advisors, Chicago, Illinois	\$661,663
Oak Hill Partners, New York, New York	\$8,688
Sun Capital Partners, Boca Raton, Florida	\$600
The Boston Company, Boston, Massachusetts	\$722,696
Vantagepoint Venture, San Bruno, California	\$19,052
Weaver Barksdale & Associates, Brentwood, Tennessee	\$2,055,463
Total	\$8,751,774

Master Custodian & Performance Measurement

The Northern Trust Company, Chicago, Illinois

Investment Consultants

Mercer Investment Consulting, Inc, Chicago, Illinois

Strategic Investment Solutions, San Francisco, California

Pension Fund Summaries

Asset Class	KERS Non Hazardous		KERS Hazardous	
	Market Value	% Market Value	Market Value	% Market Value
Bonds	\$1,702,654,601	32.0	\$116,546,077	29.5
Mortgages	\$261,910,512	4.9	\$18,255,371	4.7
Short Term	\$101,249,248	1.9	\$16,899,044	4.2
Alternatives	\$350,819,798	6.7	\$32,406,135	8.2
Domestic Equities	\$2,069,645,883	38.9	\$147,135,895	37.3
International Equities	\$829,067,598	15.6	\$63,507,256	16.1
Total Portfolio	\$5,315,347,640	100	\$394,749,778	100

Asset Class	CERS Non Hazardous		CERS Hazardous	
	Market Value	% Market Value	Market Value	% Market Value
Bonds	\$1,589,888,984	32.7	\$434,811,956	31.2
Mortgages	\$270,871,946	5.6	\$74,211,579	5.3
Short Term	\$179,377,744	3.8	\$61,359,681	4.4
Alternatives	\$300,938,030	6.2	\$88,700,429	6.4
Domestic Equities	\$1,752,683,421	36.2	\$514,463,369	36.7
International Equities	\$753,491,469	15.5	\$222,139,481	16.0
Total Portfolio	\$4,847,251,594	100	\$1,395,686,495	100

Asset Class	SPRS	
	Market Value	% Market Value
Bonds	\$111,321,623	33.0
Mortgages	\$16,699,734	4.9
Short Term	-\$5,830,992	-1.7
Alternatives	\$24,463,163	7.3
Domestic Equities	\$133,933,198	39.8
International Equities	\$56,231,950	16.7
Total Portfolio	\$336,818,676	100

Insurance Fund Summaries

Asset Class	KERS Non Hazardous		KERS Hazardous	
	Market Value	% Market Value	Market Value	% Market Value
Bonds	\$65,541,188	10.8	\$20,078,066	10.7
Short Term	\$84,209,872	13.9	\$16,910,390	9.0
Alternatives	\$35,275,911	5.8	\$9,792,269	5.2
Domestic Equities	\$306,742,108	50.5	\$98,859,900	52.7
International Equities	\$115,467,957	19.0	\$42,143,792	22.4
Total Portfolio	\$607,237,036	100	\$187,784,417	100

Asset Class	CERS Non Hazardous		CERS Hazardous	
	Market Value	% Market Value	Market Value	% Market Value
Bonds	\$64,851,134	9.9	\$37,420,651	10.5
Short Term	\$65,472,182	10.0	\$35,090,880	9.9
Alternatives	\$30,564,424	4.7	\$16,505,552	4.6
Domestic Equities	\$361,978,299	55.0	\$191,608,685	53.8
International Equities	\$134,150,192	20.4	\$75,503,675	21.2
Total Portfolio	\$657,016,231	100	\$356,129,443	100

Asset Class	SPRS	
	Market Value	% Market Value
Bonds	\$11,297,649	11.4
Short Term	\$8,388,693	8.5
Alternatives	\$5,296,789	5.4
Domestic Equities	\$52,686,088	53.3
International Equities	\$21,265,630	21.4
Total Portfolio	\$98,934,849	100

External Investment Expenses		
Expense	Fees Paid (in thousands)	Expense as a % of Assets
Equity & Fixed Income Portfolio		
Pension Funds	\$9,026	0.0750%
Insurance Funds	\$1,428	0.0796%
Consulting Fees	\$313	0.0023%
Custody Fees	\$749	0.0054%
Other Investment-Related Fees	\$50	0.0004%
Total Expenses	\$11,566	0.0837%

Schedule of Commissions Paid			
	Total Shares	Commissions Paid	\$ per share
U.S. Equity	74,579,501	\$1,998,191	\$0.027
	Total Value of Trades	Commissions Paid	As a % of Trade
Non-U.S. Equity	\$4,209,154,513	\$4,382,054	0.10%
Total Commissions Paid		\$6,380,245	

Actuarial Section



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November 11, 2005

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 forty-ninth annual actuarial valuation of the Kentucky Employees Retirement System, the forty-sixth annual actuarial valuation of the County Employees Retirement System, and the forty-seventh 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 determined 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, 2005 actuarial valuation will be used by the Board of Trustees to certify the employer contribution rates for the fiscal year beginning July 1, 2006 and ending June 30, 2007.

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 actuarial liability (UAL). The normal cost is expected to remain level as a percent of payroll in future years. The amortization of any unfunded actuarial liability (UAL) is made over 30 years from the establishment of the amortization base using a level percent of payroll amortization method. Each year any actuarial gains or losses, along with any other changes in the actuarial liability (such as the retiree COLA or other benefit improvements) are established as a new amortization base to be amortized over the following 30 years.

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 unfunded actuarial liability (UAL) over a 30 year period. However, current insurance fund contributions are less than this amount and will be systematically increased in accordance with Board policy over the 20-year period beginning with 1997 until the funding objective is reached. As such, the insurance fund contribution is expected to increase each year for the remainder of the 20-year period.

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.

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 liabilities. This relationship is known as the funded 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, 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, 2005 the funding levels for the pension funds are as follows:

System	Pension Funding Level
KERS Non-Hazardous Pension Fund	73.6%
KERS Hazardous Pension Fund	92.3%
CERS Non-Hazardous Pension Fund	93.9%
CERS Hazardous Pension Fund	80.9%
SPRS Pension Fund	77.1%

The funding level for the insurance fund is not anywhere near 100% at this time, and the Board's funding objective is to increase this funded level consistently over time. Since 1990, the funded level relative to the insurance fund has improved steadily. This increasing trend in the funded level is the primary objective of the Board's current funding policy. As of June 30, 2005 the funding level for the insurance funds are as follows:

System	Insurance Funding Level
KERS Non-Hazardous Insurance Fund	22.7%
KERS Hazardous Insurance Fund	48.6%
CERS Non-Hazardous Insurance Fund	23.8%
CERS Hazardous Insurance Fund	28.0%
SPRS Insurance Fund	42.8%

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, nor has there been any reconciliation of data used in the prior year's valuation with this current valuation data. Any schedules of trend data over the past ten years or less have been based on valuation reports fully prepared by the plan's actuary.

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 meet the parameters set for disclosure under GASB Statement No. 25. These assumptions have been adopted by the Board of Trustees of the Kentucky Retirement Systems in accordance with the recommendation of the actuary. The next experience study is schedule to be completed in January 2006 and any adjustments will be reflected in the June 30, 2006 actuarial valuation.

Closing

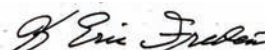
The information presented in this letter describes the pertinent issues relative to the valuation. There are no other specific issues that need to be raised beyond these items in order to fairly assess the funded position of the plan as presented in the current valuation.

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,



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



K. Eric Fredén, FSA, MAAA
Associate Actuary

Summary of Actuarial Assumptions and Methods

(As of June 30, 2005)

The results of the actuarial valuation are based upon the assumptions and funding policies adopted by the Board and statutory funding requirements. Assumptions and funding policies are reviewed against actual plan experience once every five years through the completion of the Actuarial Experience Study. The most recent study was completed in January 2001 and reviewed plan experience for the period from July 1, 1995 through June 30, 2000. All assumptions used in the June 30, 2005 actuarial valuation were based on the study performed in 2001 and in accordance with the actuary's recommendations. The next Experience Study is scheduled to be completed in January 2006.

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, 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 a 30-year period.

Relative to the insurance fund, the employer contribution rate necessary to fund the sum of the normal cost and the amount needed to amortize the unfunded actuarial liability (UAL) over a 30-year period has been calculated. However, in accordance with the Retiree Funding Policy adopted by the Board, the employer contribution rate to the insurance fund is set at the amount necessary to incrementally increase the rate to the full EANC amount by 2016.

2. UAL Amortization Method: Unfunded actuarial liabilities (UAL) resulting from any new actuarial gains and losses are recognized in each valuation and amortized over a 30 year period using the level percent of payroll method as required by state statute. Under this method, amortization payments are designed to remain level as a percent of payroll, and payroll is assumed to increase at 5% per year.

3. Asset Valuation Method: The actuarial value of assets in the current year's valuation is determined in the following manner for both the Pension Fund and Insurance Fund:

- a. Develop expected assets by projecting the actuarial assets from the prior year valuation using the 8.25% investment return assumption and actual cash flows from the fiscal year ended.
- b. The current year investment gain/loss shall be determined as the difference between actual market value as of the valuation date and expected assets as computed in (a), further adjusted for any amount of investment gain/loss from prior years not yet recognized as of the current valuation date.
- c. The amount of investment gain/loss for the current year shall be reflected equally over the current year and the following 4 years.
- d. The actuarial value of assets will be equal to expected assets from (a) plus/minus the amount of investment gain/loss from the current and prior 4 years to be recognized in the current valuation.

The Asset Valuation Method was adopted by the Board in 2001. Only investment gains/losses occurring after June 30, 2000 are recognized and amortized under this method.



Summary of Actuarial Assumptions and Methods

(As of June 30, 2005)

4. **Retiree Insurance Funding Policy:** Beginning with the 1997 valuation, the contribution to the insurance fund has been incrementally increasing in order to reach the target rate within 20 years from 1997 (2016 valuation). The target rate is the actuarially determined contribution under the entry age normal cost funding method, and is recomputed in each annual valuation to reflect current actuarial assets and liabilities. This policy was adopted in 2001.
5. **Investment Return Assumption:** The future investments earnings of plan assets are assumed to accumulate at a rate of 8.25% per annum. This rate consists of a 5% inflationary component and a 3.25% real rate of return component. This assumption was adopted in 2001.
6. **Salary Increase Assumption:** Active member salaries are assumed to increase at a rate of 12% in the first year of employment, 10% in the second year of employment, 8% in the third year of employment and 6.50% per year thereafter, compounded annually. The rates include a 5% percent inflationary component and an additional increase due to promotion based upon plan experience. This assumption was adopted in 2001.
7. **Payroll Growth Assumption:** Active member payroll is assumed to increase at a rate of 5% per annum.
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. Statute only allows 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 State Legislature has the authority to suspend or reduce cost-of-living adjustments.
9. **Medical Inflation Rate Assumption:** The costs for retiree medical premiums are assumed to increase each year by 10% from 2003-2005, by 9% from 2005-2010, by 8% from 2011-2015, by 7.5% from 2016-2020, and by 7% thereafter.
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 Table 1 on the following page. This assumption was adopted in 2001.



Summary of Actuarial Assumptions and Methods

(As of June 30, 2005)

Table 1: Retirement Rate Assumptions

Non-Hazardous		Hazardous
<u>Age</u>	<u>Probability</u>	
55-57	4%	<ul style="list-style-type: none">For hazardous duty members of the Kentucky Employees Retirement System it is assumed that 50% will retire as soon as eligible for unreduced benefits with 20 years of creditable service and the balance will continue to age 60.
58-59	5%	
60-61	6%	
62	25%	
63-64	10%	
65	50%	<ul style="list-style-type: none">For hazardous duty members of the County Employees Retirement System it is assumed that 60% will retire as soon as eligible for unreduced benefits with 20 years of creditable service and the balance will continue to age 55.
66-67	20%	
68	25%	
69	40%	
70+	100%	<ul style="list-style-type: none">For members of the State Police Retirement System it is assumed that 60% will retire as soon as eligible for unreduced benefits with 20 years of creditable service and the balance will continue to age 55.
At age 55-64 in lieu of age related rate, 25% are assumed to retire as soon as eligible for unreduced benefits with 27 years of creditable service.		

11. Mortality Assumptions: The mortality table used for active and retired members is the 1983 Group Annuity Mortality Table, plus a pre-retirement duty death rate of .0005 per year for hazardous duty employees. Mortality assumptions for disabled lives are based on Social Security Administration Disability Mortality Rates – Actuarial Study No. 75. Sample annual rates of mortality are shown in Table 2. These assumptions were adopted in 2001.

Table 2: Sample Annual Rates of Mortality

<u>Age</u>	<u>Active & Retired Member Mortality*</u>		<u>Disabled Member Mortality</u>	
	<u>Males</u>	<u>Females</u>	<u>Males</u>	<u>Females</u>
25	0.05%	0.03%	4.83%	2.63%
30	0.06%	0.03%	3.62%	2.37%
40	0.12%	0.07%	2.82%	2.09%
50	0.39%	0.16%	3.83%	2.57%
55	0.61%	0.25%	4.82%	2.95%
60	0.92%	0.42%	6.03%	3.31%

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

12. Withdrawal Rates: The probability, or likelihood, of active members terminating employment prior to retirement is provided in Table 3 on the following page. For non-hazardous employees and KERS hazardous duty employees, 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. For CERS hazardous duty employees and SPRS employees, the withdrawal rate is a function of age only. These assumptions were adopted in 2001.

Summary of Actuarial Assumptions and Methods

(As of June 30, 2005)

Table 3: Selected Rates of Termination Prior to Retirement

KERS & CERS Non-Hazardous				KERS Hazardous			
Select Rates		Ultimate Rates		Select Rates		Ultimate Rates	
Service	Probability	Age	Probability	Service	Probability	Age	Probability
1 st Yr. of Service:	35.0%	20	2.4%	1 st Yr. of Service:	30.0%	20	3.04%
2 nd Yr. of Service:	10.0%	25	2.4%	2 nd Yr. of Service:	8.0%	25	3.04%
3 rd Yr. of Service:	7.0%	30	2.4%	3 rd Yr. of Service:	4.0%	30	3.38%
4 th Yr. of Service:	5.0%	35	2.4%	4 th Yr. of Service:	4.0%	35	2.44%
5 th Yr. of Service:	4.0%	40	2.0%	5 th Yr. of Service:	4.0%	40	1.50%
		45	1.8%			45	0.75%
		50	1.6%			50	0.00%
		55	1.2%			55	0.00%
		60	0.2%			60	0.00%
CERS Hazardous				SPRS			
Ultimate Rates				Ultimate Rates			
		Age	Probability			Age	Probability
		20	3.04%			20	1.82%
		25	3.04%			25	1.82%
		30	3.38%			30	2.03%
		35	2.44%			35	1.46%
		40	1.50%			40	0.90%
		45	0.75%			45	0.45%
		50	0.00%			50	0.00%
		55	0.00%			55	0.00%
		60	0.00%			60	0.00%

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. These assumptions were adopted in 2001.

Non-Hazardous		Hazardous	
Age	Probability	Age	Probability
20-29	0.033%	20-29	0.042%
30-34	0.039%	30-34	0.050%
35-39	0.057%	35-39	0.070%
40-44	0.105%	40-44	0.132%
45-49	0.207%	45-49	0.260%
50-54	0.423%	50-54	0.530%
55-59	0.794%	55-59	0.992%
60-64	1.395%	60-64	1.743%
65+	0.000%	65+	0.000%

Summary of Actuarial Valuation Results

(As of June 30, 2005)

	KERS Non-Hazardous	KERS Hazardous	CERS Non-Hazardous	CERS Hazardous	SPRS
Recommended Contribution Rate (Fiscal Year 2006-2007)					
Pension Fund Contribution		9.28%	5.97%	13.11%	20.64%
Insurance Fund Contribution	<u>6.45%</u>	<u>14.04%</u>	<u>7.22%</u>	<u>15.10%</u>	<u>21.66%</u>
Recommended Employer Contribution	17.13%	23.32%	13.19%	28.21%	42.30%
<u>Funded Status as of Valuation Date</u>					
Pension Fund					
Actuarial Liability	\$7,579,074,839	\$438,994,257	\$5,385,156,690	\$1,795,617,335	\$458,593,576
Actuarial Value of Assets	\$5,578,685,746	\$405,288,662	\$5,059,208,687	\$1,452,353,023	\$353,511,622
Unfunded Actuarial Liability on Actuarial Value of Assets	\$2,000,389,093	\$33,705,595	\$325,948,003	\$343,264,312	\$105,081,954
Funding Level as a % of Actuarial Value of Assets	73.6%	92.3%	94.0%	80.9%	77.1%
Market Value of Assets	\$5,362,630,697	\$398,308,897	\$4,893,599,997	\$1,411,245,719	\$339,405,873
Unfunded Actuarial Liability on Market Value of Assets	\$2,216,444,142	\$40,685,360	\$491,556,693	\$384,371,693	\$119,187,703
Funding Level on Market Value of Assets	70.8%	90.7%	90.9%	78.6%	74.0%
Insurance Fund					
Actuarially Accrued Liability	\$2,680,559,188	\$386,844,695	\$2,788,754,654	\$1,283,299,092	\$234,159,510
Actuarial Value of Assets	\$607,068,351	\$187,947,644	\$663,941,949	\$359,180,461	\$100,207,082
Unfunded Actuarial Liability as a % of Actuarial Value of Assets	\$2,073,490,837	\$198,897,051	\$2,124,812,705	\$924,118,631	\$133,952,428
Funding Level as a % of Actuarial Value of Assets	22.7%	48.6%	23.8%	28.0%	42.8%
Market Value of Assets	\$610,901,623	\$188,871,226	\$668,485,367	\$360,938,669	\$99,408,106
Unfunded Actuarial Liability as a % of Market Value of Assets	\$2,069,657,565	\$197,973,469	\$2,120,269,287	\$922,360,423	\$134,751,404
Funding Level on Market Value of Assets	22.8%	48.8%	24.0%	28.1%	42.5%
Member Data					
Number of Active Members	47,118	4,274	81,240	9,464	987
Total Annual Payroll (Active Members) ¹	\$1,655,907,288	\$131,687,088	\$1,885,275,000	\$411,121,728	\$43,720,092
Average Annual Pay (Active Members)	\$35,144	\$30,811	\$23,206	\$43,441	\$44,296
Number of Retired Members & Beneficiaries	30,770	1,752	31,347	4,361	1,036
Average Annual Retirement Allowance	\$16,553	\$11,210	\$8,919	\$20,460	\$31,838
Number of Vested Inactive Members	5,240	307	7,771	482	42
Number of Inactive Members Due a Refund	23,105	1,997	41,098	1,489	210

Annual payroll included in the Summary of Actuarial Valuation Results is based upon the annualized monthly payroll for active members as of the valuate 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, 2005.

Recommended Employer Contribution Rates

(As of June 30, 2005)

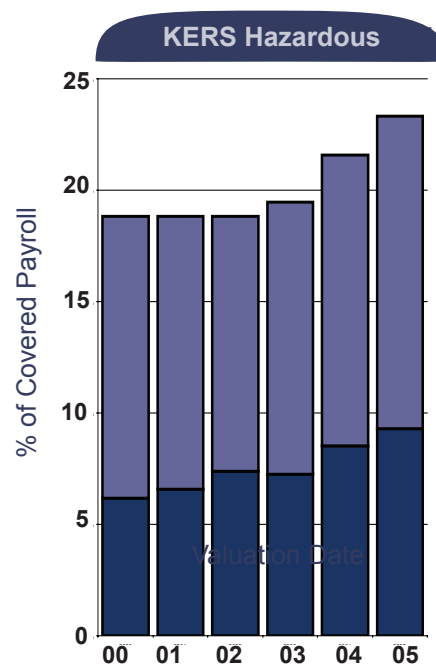
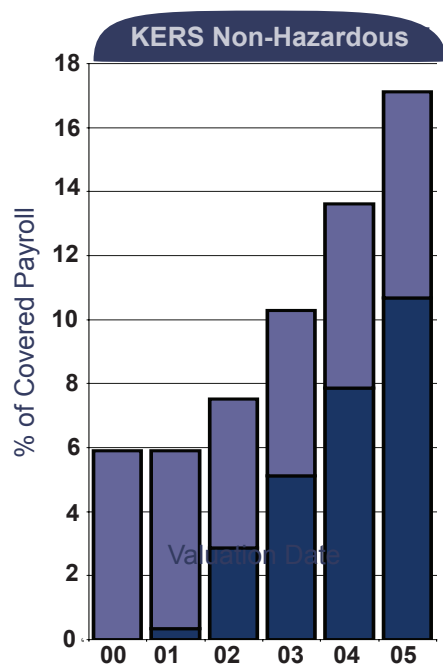
Kentucky Employees Retirement System (Non-Hazardous Employers)

Valuation Date	Applicable Fiscal Year	Pension Fund: Normal Cost	Pension Fund: Payment on Unfunded Liability	Pension Fund Contribution	Insurance Fund Contribution	Recommended Employer Contribution
6/30/00	2001-2002	5.08%	(6.69%)	0.00%	5.89%	5.89%
6/30/01	2002-2003	5.01%	(4.67%)	0.34%	5.55%	5.89%
6/30/02	2003-2004	5.00%	(2.14%)	2.86%	4.67%	7.53%
6/30/03	2004-2005	4.82%	0.29%	5.11%	5.18%	10.29%
6/30/04	2005-2006	4.89%	2.96%	7.85%	5.77%	13.62%
6/30/05	2006-2007	4.81%	5.87%	10.68%	6.45%	17.13%

Kentucky Employees Retirement System (Hazardous Employers)

Valuation Date	Applicable Fiscal Year	Pension Fund: Normal Cost	Pension Fund: Payment on Unfunded Liability	Pension Fund Contribution	Insurance Fund Contribution	Recommended Employer Contribution
6/30/00	2001-2002	10.29%	(4.11%)	6.18%	12.66%	18.84%
6/30/01	2002-2003	9.82%	(3.25%)	6.57%	12.27%	18.84%
6/30/02	2003-2004	9.77%	(2.40%)	7.37%	11.47%	18.84%
6/30/03	2004-2005	8.68%	(1.42%)	7.26%	12.21%	19.47%
6/30/04	2005-2006	8.62%	(0.10%)	8.52%	13.07%	21.59%
6/30/05	2006-2007	8.37%	0.91%	9.28%	14.04%	23.32%

KERS Employer Contribution Rates



- Pension
- Insurance

The total employer contribution rate is comprised of a contribution to the pension fund and to the insurance fund. The contribution to the pension fund consists of the normal cost and an amortization payment on the unfunded actuarial liability (UAL). The contribution rate to the insurance fund is set according to the Insurance Funding Policy adopted by the Board (See Summary of Actuarial Assumptions & Methods).

Recommended Employer Contribution Rates

(As of June 30, 2005)

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
6/30/2000	2001-2002	6.40%	(6.20%)	0.20%	6.14%	6.34%
6/30/2001	2002-2003	6.30%	(5.64%)	0.66%	5.68%	6.34%
6/30/2002	2003-2004	6.42%	(4.03%)	2.39%	4.95%	7.34%
6/30/2003	2004-2005	5.71%	(2.89%)	2.82%	5.66%	8.48%
6/30/2004	2005-2006	5.80%	(1.25%)	4.55%	6.43%	10.98%
6/30/2005	2006-2007	5.72%	0.25%	5.97%	7.22%	13.19%

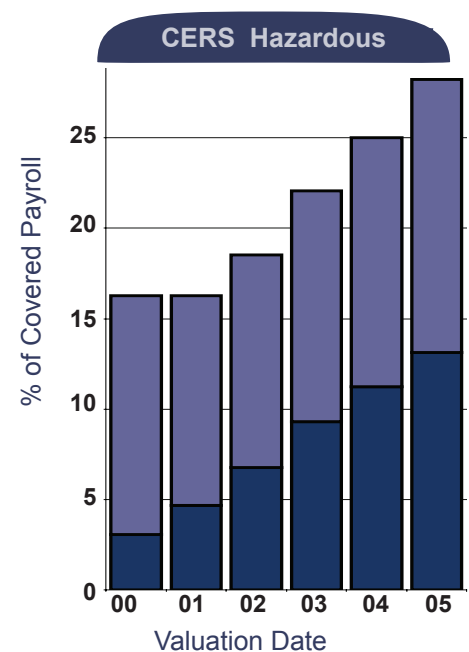
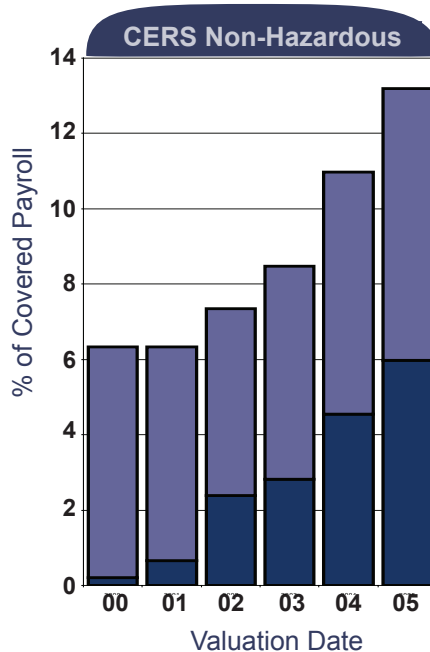
County Employees Retirement System (Hazardous Employers)

Valuation Date	Applicable Fiscal Year	Pension Fund Normal Cost	Pension Fund: Payment on Unfunded Liability	Pension Fund Contribution	Insurance Fund Contribution	Recommended Employer Contribution
6/30/2000	2001-2002	8.59%	(5.89%)	3.06%	13.22%	16.28%
6/30/2001	2002-2003	9.01%	(4.34%)	4.67%	11.61%	16.28%
6/30/2002	2003-2004	8.93%	(2.17%)	6.76%	11.75%	18.51%
6/30/2003	2004-2005	8.80%	0.51%	9.31%	12.77%	22.08%
6/30/2004	2005-2006	8.80%	2.42%	11.22%	13.79%	25.01%
6/30/2005	2006-2007	8.79%	4.32%	13.11%	15.10%	28.21%

- Pension
- Insurance

CERS Employer Contribution Rates

The total employer contribution rate is comprised of a contribution to the pension fund and to the insurance fund. The contribution to the pension fund consists of the normal cost and an amortization payment on the unfunded actuarial liability (UAL). The contribution rate to the insurance fund is set according to the Insurance Funding Policy adopted by the Board (See Summary of Actuarial Assumptions & 110 Methods).



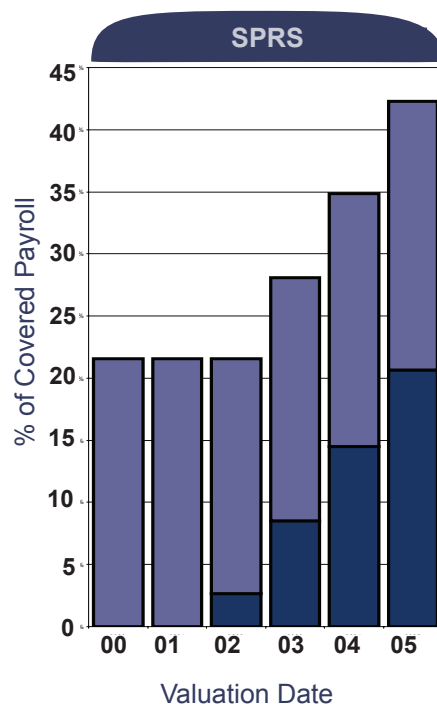
Recommended Employer Contribution Rates

(As of June 30, 2005)

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
6/30/2000	2001-2002	8.78%	(14.09%)	0.0%	21.58%	21.58%
6/30/2001	2002-2003	9.94%	(11.63%)	0.0%	21.58%	21.58%
6/30/2002	2003-2004	9.85%	(7.21%)	2.64%	18.94%	21.58%
6/30/2003	2004-2005	9.07%	(0.58%)	8.49%	19.59%	28.08%
6/30/2004	2005-2006	9.37%	5.12%	14.49%	20.34%	34.83%
6/30/2005	2006-2007	9.43%	11.21%	20.64%	21.66%	42.30%

SPRS Employer Contribution Rate



- Pension
- Insurance

The total employer contribution rate is comprised of a contribution to the pension fund and to the insurance fund. The contribution to the pension fund consists of the normal cost and an amortization payment on the unfunded actuarial liability (UAL). The contribution rate to the insurance fund is set according to the Insurance Funding Policy adopted by the Board (See Summary of Actuarial Assumptions & Methods).111

Summary of Actuarially Unfunded Liabilities

(As of June 30, 2005)

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
6/30/00	\$4,876,825,772	\$6,806,675,460	\$6,017,455,841	(\$1,929,849,688)	(\$1,140,630,069)	139.6%	123.4%
6/30/01 ¹	\$5,444,035,294	\$6,844,742,687	\$5,484,563,749	(\$1,400,707,393)	(\$40,528,455)	125.7%	100.7%
6/30/02	\$6,026,094,764	\$6,654,084,196	\$5,005,190,948	(\$627,989,432)	\$1,020,903,816	110.4%	83.1%
6/30/03	\$6,520,463,188	\$6,351,318,832	\$4,929,443,185	\$169,144,356	\$1,591,020,003	97.4%	75.6%
6/30/04	\$7,049,613,171	\$6,000,513,743	\$5,258,994,145	\$1,049,099,428	\$1,790,619,026	85.1%	74.6%
6/30/05	\$7,579,074,839	\$5,578,685,746	\$5,362,630,697	\$2,000,389,093	\$2,216,444,142	73.6%	70.8%

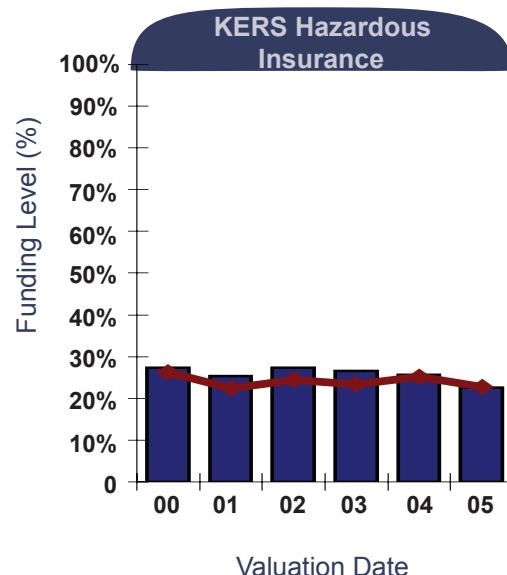
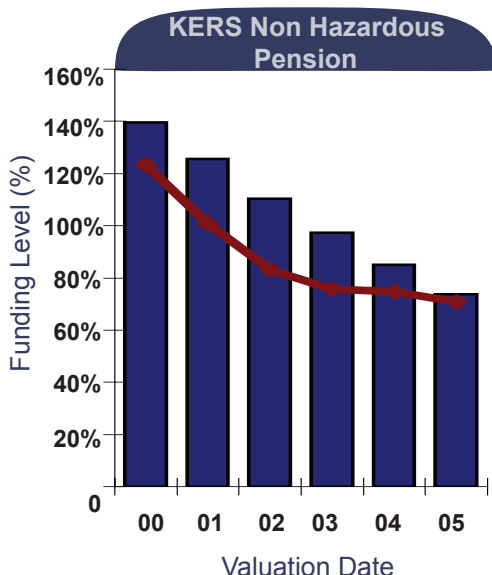
Kentucky Employees Retirement System (Non-Hazardous Insurance Fund)

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Actuarial Liabilities		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/00	\$1,457,475,358	\$399,560,252	\$383,281,220	\$1,057,915,106	\$1,074,194,138	27.4%	26.3%
6/30/01 ¹	\$1,769,583,098	\$449,630,605	\$396,254,063	\$1,319,952,493	\$1,373,329,035	25.4%	22.4%
6/30/02	\$1,907,683,881	\$521,250,455	\$465,664,515	\$1,386,433,426	\$1,442,019,366	27.3%	24.4%
6/30/03	\$2,093,210,321	\$553,885,082	\$487,274,973	\$1,539,325,239	\$1,605,935,348	26.5%	23.3%
6/30/04	\$2,335,905,365	\$600,586,961	\$587,680,647	\$1,735,318,404	\$1,748,224,718	25.7%	25.2%
6/30/05	\$2,680,559,188	\$607,068,351	\$610,901,623	\$2,073,490,837	\$2,069,657,565	22.7%	22.8%

■ Actuarial

— Market

The funding level is the % of actuarial liabilities, or benefits earned to date, covered by 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).



¹ Change in asset valuation method effective in this valuation to 5-year smoothing of investment gains/(losses).

Summary of Actuarially Unfunded Liabilities

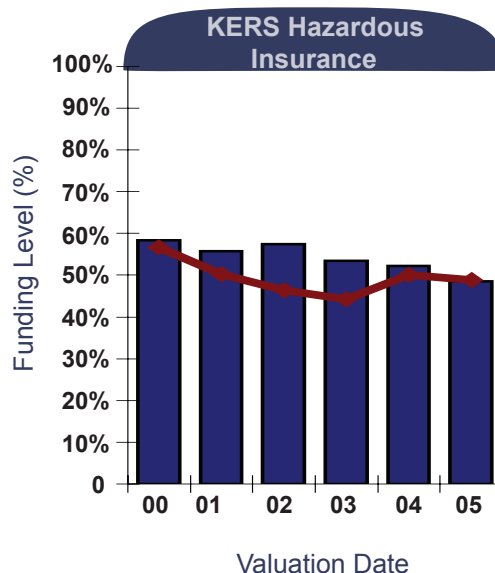
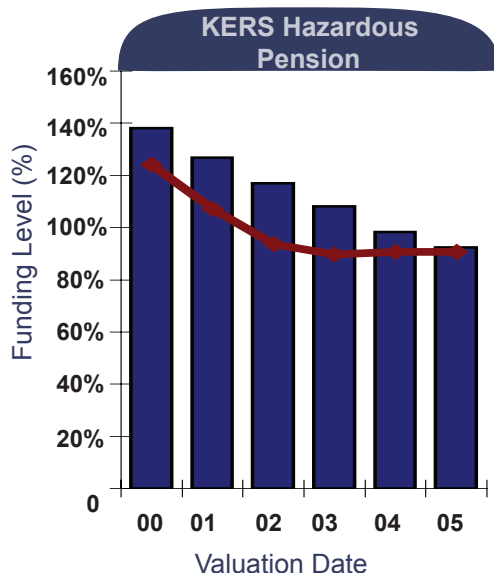
(As of June 30, 2005)

Kentucky Employees Retirement System (Hazardous Pension Fund)

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Liability		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/00	\$243,365,557	\$336,213,464	\$301,920,446	(\$92,847,907)	(\$58,554,889)	138.2%	124.1%
6/30/01 ¹	\$285,193,761	\$361,677,475	\$305,543,701	(\$76,483,714)	(\$20,349,940)	126.8%	107.1%
6/30/02	\$322,069,164	\$376,384,302	\$301,799,829	(\$54,315,138)	\$20,269,335	116.9%	93.7%
6/30/03	\$356,879,133	\$385,925,722	\$320,524,691	(\$29,046,589)	\$36,354,442	108.1%	89.8%
6/30/04	\$403,578,036	\$397,212,763	\$366,569,507	\$6,365,273	\$37,008,529	98.4%	90.8%
6/30/05	\$438,994,257	\$405,288,662	\$398,308,897	\$33,705,595	\$40,685,360	92.3%	90.7%

Kentucky Employees Retirement System (Hazardous Insurance Fund)

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Liability		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/00	\$175,167,613	\$102,212,237	\$99,259,857	\$72,955,376	\$75,907,756	58.4%	56.7%
6/30/01 ¹	\$214,450,822	\$119,372,742	\$107,592,284	\$95,078,080	\$106,858,538	55.7%	50.2%
6/30/02	\$236,819,050	\$135,874,582	\$109,769,410	\$100,944,468	\$127,049,640	57.4%	46.4%
6/30/03	\$283,178,335	\$151,459,500	\$125,533,413	\$131,718,835	\$157,644,922	53.5%	44.3%
6/30/04	\$323,503,563	\$169,158,879	\$162,127,373	\$154,344,684	\$161,376,190	52.3%	50.1%
6/30/05	\$386,844,695	\$187,947,644	\$188,871,226	\$198,897,051	\$197,973,469	48.6%	48.8%



The funding level is the % of actuarial liabilities, or benefits earned to date, covered by 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).

¹ Change in asset valuation method effective in this valuation to 5-year smoothing of investment gains/(losses).

Summary of Actuarially Unfunded Liabilities

(As of June 30, 2005)

County Employees Retirement System (Non-Hazardous Pension Fund)

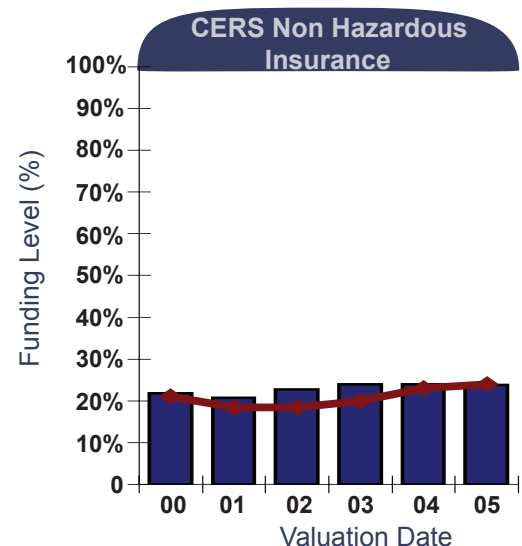
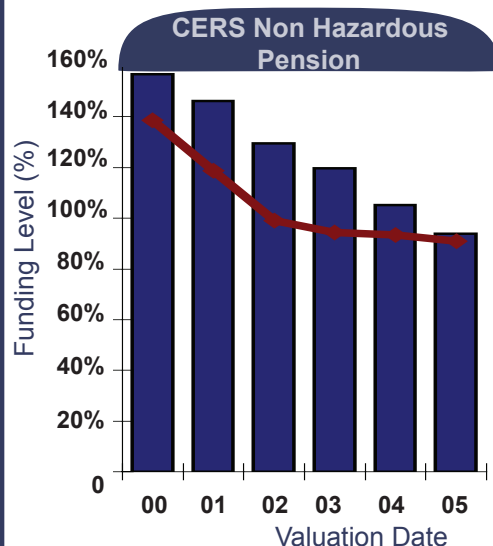
Valuation Date	Actuarial Liability	Value of Assets		Unfunded Liability		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/00	\$3,368,601,134	\$5,284,033,534	\$4,673,154,191	(\$1,915,432,400)	(\$1,304,553,057)	156.9%	138.7%
6/30/01 ¹	\$3,706,282,212	\$5,423,834,549	\$4,397,346,547	(\$1,717,552,337)	(\$691,064,335)	146.3%	118.6%
6/30/02	\$4,165,355,149	\$5,397,787,158	\$4,126,756,301	(\$1,232,432,009)	\$38,598,848	129.6%	99.1%
6/30/03	\$4,417,597,802	\$5,286,580,047	\$4,174,881,117	(\$868,982,245)	\$242,716,685	119.7%	94.5%
6/30/04	\$4,936,459,488	\$5,187,851,530	\$4,613,335,957	(\$251,392,042)	\$323,123,531	105.1%	93.5%
6/30/05	\$5,385,156,690	\$5,059,208,687	\$4,893,599,997	\$325,948,003	\$491,556,693	94.0%	90.9%

County Employees Retirement System (Non-Hazardous Insurance Fund)

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Liability		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/00	\$1,466,716,928	\$319,642,694	\$307,545,328	\$1,147,074,234	\$1,159,171,600	21.8%	21.0%
6/30/01 ¹	\$1,793,710,768	\$371,758,628	\$331,066,746	\$1,421,952,140	\$1,462,644,022	20.7%	18.5%
6/30/02	\$1,977,577,038	\$450,497,307	\$365,332,585	\$1,527,079,731	\$1,612,244,453	22.8%	18.5%
6/30/03	\$2,176,963,259	\$520,060,105	\$435,667,125	\$1,656,903,154	\$1,741,296,134	23.9%	20.0%
6/30/04	\$2,438,734,696	\$585,399,072	\$563,877,594	\$1,853,335,624	\$1,874,857,102	24.0%	23.1%
6/30/05	\$2,788,754,654	\$663,941,949	\$668,485,367	\$2,124,812,705	\$2,120,269,287	23.8%	24.0%

■ Actuarial
— Market

The funding level is the % of actuarial liabilities, or benefits earned to date, covered by 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).



¹ Change in asset valuation method effective in this valuation to 5-year smoothing of investment gains/(losses).

Summary of Actuarially Unfunded Liabilities

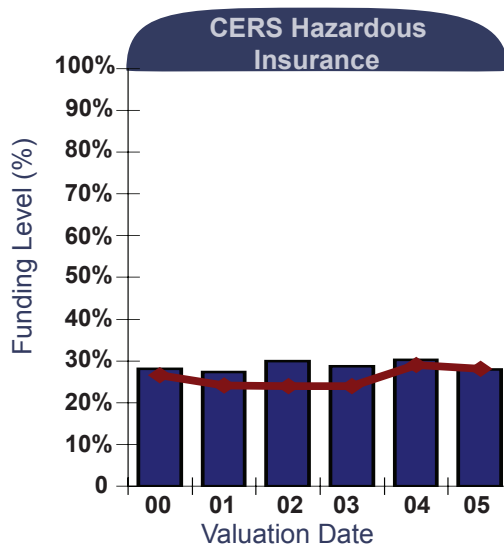
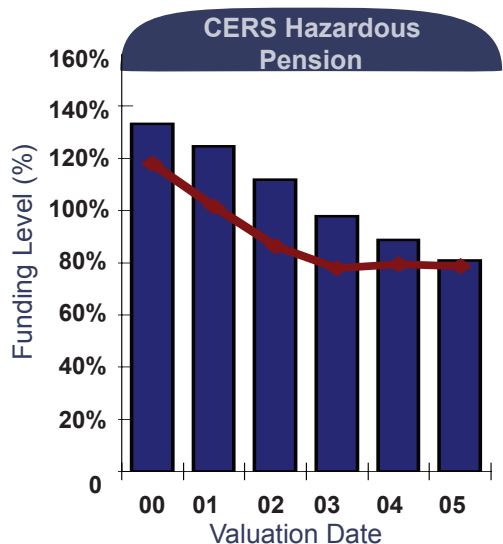
(As of June 30, 2005)

County Employees Retirement System (Hazardous Pension Fund)

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Liability		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/00	\$1,084,553,697	\$1,445,542,794	\$1,279,936,150	(\$360,989,097)	(\$195,382,453)	133.3%	118.0%
6/30/01 ¹	\$1,193,860,442	\$1,486,666,016	\$1,211,154,618	(\$292,805,574)	(\$17,294,176)	124.5%	101.4%
6/30/02	\$1,327,291,273	\$1,485,511,793	\$1,144,349,093	(\$158,220,520)	\$182,942,180	111.9%	86.2%
6/30/03	\$1,499,628,782	\$1,467,004,856	\$1,168,794,472	\$32,623,926	\$330,834,310	97.8%	77.9%
6/30/04	\$1,640,830,120	\$1,457,612,042	\$1,305,011,472	\$183,218,078	\$335,818,648	88.8%	79.5%
6/30/05	\$1,795,617,335	\$1,452,353,023	\$1,411,245,719	\$343,264,312	\$384,371,616	80.9%	78.6%

County Employees Retirement System (Hazardous Insurance Fund)

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Liability		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/00	\$599,936,029	\$168,657,912	\$159,688,154	\$431,278,117	\$440,247,875	28.1%	26.6%
6/30/01 ¹	\$721,605,292	\$197,875,249	\$173,636,191	\$523,730,043	\$547,969,101	27.4%	24.1%
6/30/02	\$781,184,974	\$234,683,878	\$187,533,847	\$546,501,096	\$593,651,127	30.0%	24.0%
6/30/03	\$935,650,662	\$269,190,080	\$223,212,339	\$666,460,582	\$712,438,323	28.8%	23.9%
6/30/04	\$1,025,684,477	\$310,578,162	\$297,734,286	\$715,106,315	\$727,950,191	30.3%	29.0%
6/30/05	\$1,283,299,092	\$359,180,461	\$360,938,669	\$924,118,631	\$922,360,423	28.0%	28.1%



The funding level is the % of actuarial liabilities, or benefits earned to date, covered by 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).

¹ Change in asset valuation method effective in this valuation to 5-year smoothing of investment gains/losses).

Summary of Actuarially Unfunded Liabilities

(As of June 30, 2005)

State Police Retirement System (Pension)

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Liability		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/00	\$336,579,763	\$459,168,574	\$411,531,207	(\$122,588,811)	(\$74,951,444)	136.4%	122.3%
6/30/01 ¹	\$356,211,860	\$456,160,709	\$364,591,852	(\$99,948,849)	(\$8,379,992)	128.1%	102.4%
6/30/02	\$380,790,346	\$438,955,465	\$328,744,331	(\$58,165,119)	\$52,046,015	115.3%	86.3%
6/30/03	\$414,881,459	\$413,063,576	\$319,116,232	\$1,817,883	\$95,765,227	99.6%	76.9%
6/30/04	\$437,482,425	\$385,077,195	\$335,720,408	\$52,405,230	\$101,762,017	88.0%	76.7%
6/30/05	\$458,593,576	\$353,511,622	\$339,405,873	\$105,081,954	\$119,187,703	77.1%	74.0%

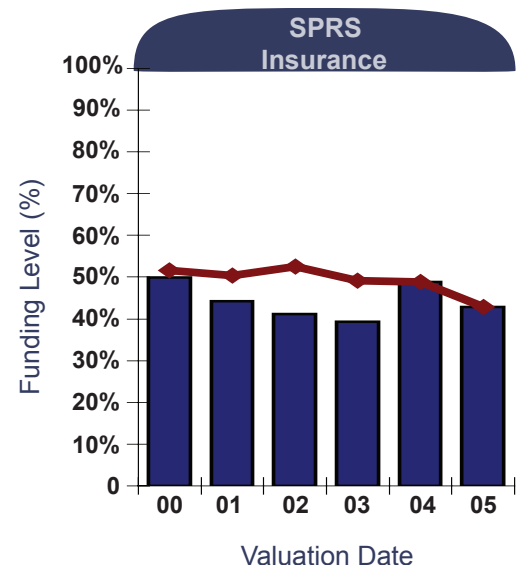
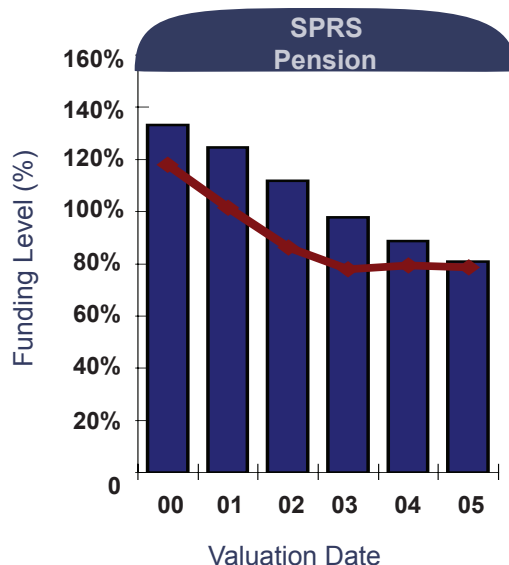
State Police Retirement System (Insurance)

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Liability		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/00	\$138,867,085	\$71,711,712	\$69,416,345	\$67,155,373	\$69,450,740	51.6%	50.0%
6/30/01 ¹	\$158,261,479	\$79,863,577	\$69,925,891	\$78,397,902	\$88,335,588	50.5%	44.2%
6/30/02	\$165,445,412	\$86,867,391	\$68,074,444	\$78,578,021	\$97,370,968	52.5%	41.2%
6/30/03	\$184,501,205	\$90,747,967	\$72,533,617	\$93,753,238	\$111,967,588	49.2%	39.3%
6/30/04	\$197,604,301	\$96,622,908	\$90,422,080	\$100,981,393	\$107,182,221	48.9%	45.8%
6/30/05	\$234,159,510	\$100,207,082	\$99,408,106	\$133,952,428	\$134,751,404	42.8%	42.5%

¹ Change in asset valuation method effective in this valuation to 5-year smoothing of investment gains/(losses).

■ Actuarial
— Market

The funding level is the % of actuarial liabilities, or benefits earned to date, covered by 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).



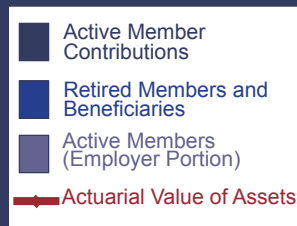
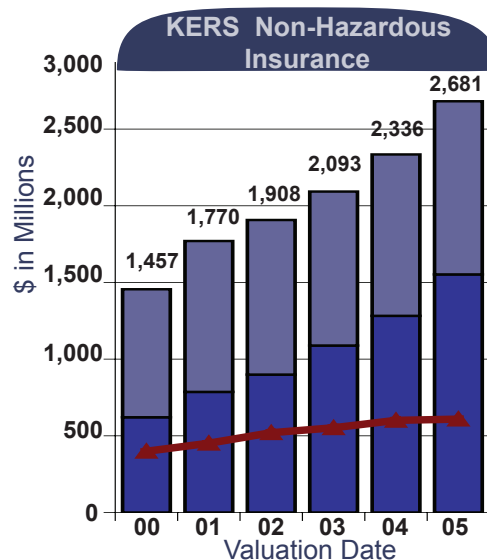
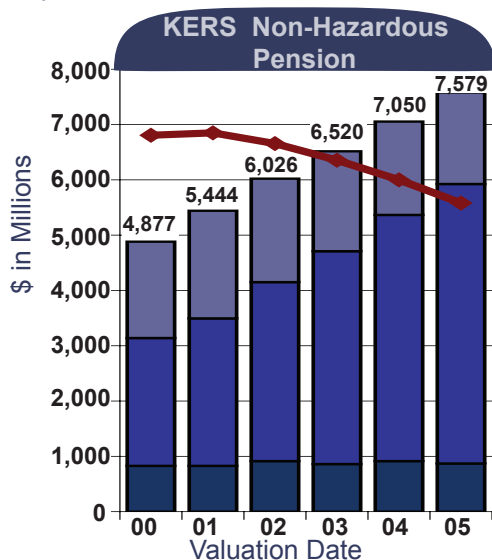
Kentucky Employees Retirement System (Non-Hazardous Pension Fund)

Valuation Date	Actuarial Liabilities			Actuarial Value of Assets	% of Actuarial Liabilities Covered by Actuarial Assets for		
	(1)	(2)	(3)		(1)	(2)	(3)
	Active Member Contributions	Retired Members & Beneficiaries	Active Members (Employer Portion)				
6/30/00	\$830,039,984	\$2,311,674,797	\$1,735,110,991	\$6,806,675,460	100.0%	100.0%	211.2%
6/30/01	\$825,433,562	\$2,669,755,096	\$1,948,846,636	\$6,844,742,687	100.0%	100.0%	171.9%
6/30/02	\$910,956,664	\$3,242,343,193	\$1,872,794,907	\$6,654,084,196	100.0%	100.0%	133.5%
6/30/03	\$859,895,312	\$3,844,696,149	\$1,815,871,727	\$6,351,318,832	100.0%	100.0%	90.7%
6/30/04	\$915,105,103	\$4,452,864,748	\$1,681,643,320	\$6,000,513,743	100.0%	100.0%	37.6%
6/30/05	\$866,044,474	\$5,056,247,608	\$1,656,782,757	\$5,578,685,746	100.0%	93.2%	--

Kentucky Employees Retirement System (Non-Hazardous Insurance Fund)¹

Valuation Date	Actuarial Liabilities			Actuarial Value of Assets	% of Actuarial Liabilities Covered by Actuarial Assets for		
	(1)	(2)	(3)		(1)	(2)	(3)
	Active Member Contributions	Retired Members & Beneficiaries	Active Members (Employer Portion)				
6/30/00	\$0	\$622,714,954	\$834,760,404	\$399,560,252	100.0%	64.2%	--
6/30/01	\$0	\$784,547,826	\$985,035,272	\$449,630,605	100.0%	57.3%	--
6/30/02	\$0	\$900,313,022	\$1,007,370,859	\$521,250,455	100.0%	57.9%	--
6/30/03	\$0	\$1,089,606,122	\$1,003,604,199	\$553,885,082	100.0%	50.8%	--
6/30/04	\$0	\$1,282,214,660	\$1,053,690,705	\$600,586,961	100.0%	46.8%	--
6/30/05	\$0	\$1,550,619,458	\$1,129,939,730	\$607,068,351	100.0%	39.2%	--

¹ Retiree insurance benefits are funded exclusively by employer contributions and any subsequent return on investments.



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

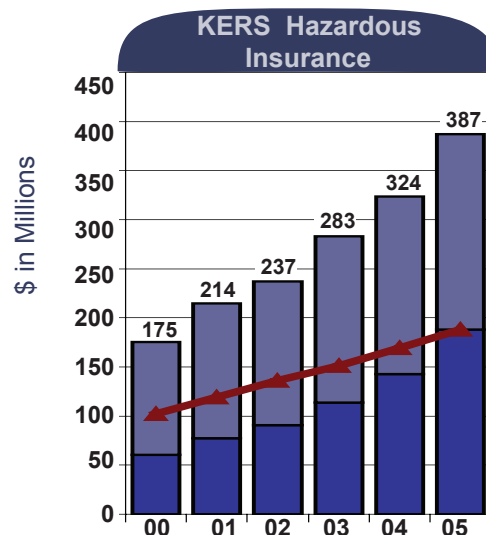
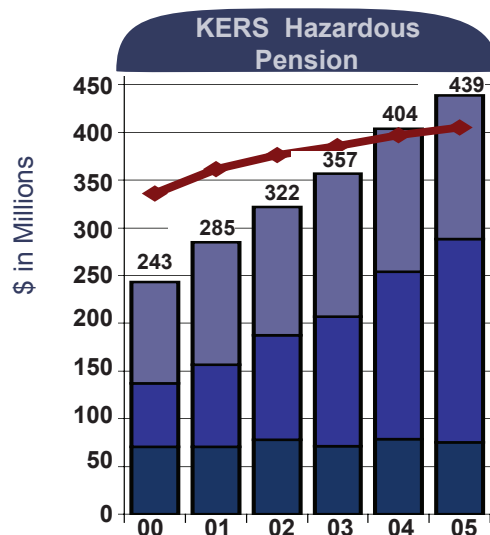
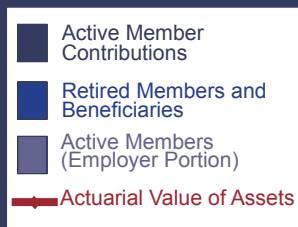
Kentucky Employees Retirement System (Hazardous Pension Fund)

Valuation Date	Actuarial Liabilities			Actuarial Value of Assets	% of Actuarial Liabilities Covered by Actuarial Assets for		
	(1)	(2)	(3)		(1)	(2)	(3)
	Active Member Contributions	Retired Members & Beneficiaries	Active Members (Employer Portion)				
6/30/00	\$70,798,823	\$66,561,470	\$106,005,264	\$336,213,464	100.0%	100.0%	187.6%
6/30/01	\$70,405,915	\$86,372,269	\$128,415,577	\$361,677,475	100.0%	100.0%	159.6%
6/30/02	\$77,700,666	\$110,048,474	\$134,320,024	\$376,384,302	100.0%	100.0%	140.4%
6/30/03	\$71,414,721	\$135,622,333	\$149,842,079	\$385,925,722	100.0%	100.0%	119.4%
6/30/04	\$78,817,575	\$175,102,848	\$149,657,613	\$397,212,763	100.0%	100.0%	95.7%
6/30/05	\$75,098,321	\$213,310,550	\$150,585,386	\$405,288,662	100.0%	100.0%	77.6%

Kentucky Employees Retirement System (Hazardous Insurance Fund)¹

Valuation Date	Actuarial Liabilities			Actuarial Value of Assets	% of Actuarial Liabilities Covered by Actuarial Assets for		
	(1)	(2)	(3)		(1)	(2)	(3)
	Active Member Contributions	Retired Members & Beneficiaries	Active Members (Employer Portion)				
6/30/00	\$0	\$60,407,752	\$114,759,861	\$102,212,237	100.0%	100.0%	36.4%
6/30/01	\$0	\$77,157,196	\$137,293,626	\$119,372,742	100.0%	100.0%	30.7%
6/30/02	\$0	\$90,978,506	\$145,840,544	\$135,874,582	100.0%	100.0%	30.8%
6/30/03	\$0	\$113,979,451	\$169,198,884	\$151,459,500	100.0%	100.0%	22.2%
6/30/04	\$0	\$142,872,557	\$180,631,006	\$169,158,879	100.0%	100.0%	14.6%
6/30/05	\$0	\$187,883,650	\$198,961,045	\$187,947,644	100.0%	100.0%	--

¹ Retiree insurance benefits are funded exclusively by employer contributions and any subsequent return on investments.



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

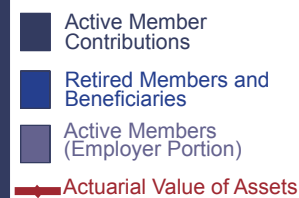
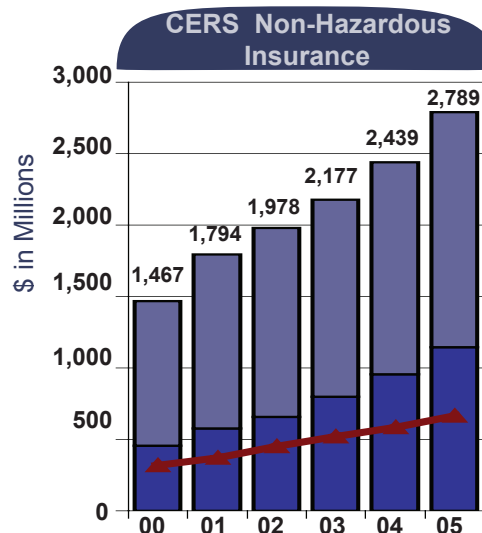
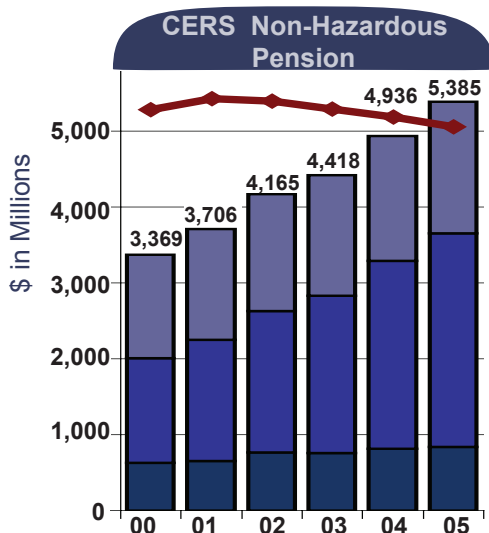
County Employees Retirement System (Non-Hazardous Pension Fund)

Valuation Date	Actuarial Liabilities			Actuarial Value of Assets	% of Actuarial Liabilities Covered by Actuarial Assets for		
	(1)	(2)	(3)		(1)	(2)	(3)
	Active Member Contributions	Retired Members & Beneficiaries	Active Members (Employer Portion)				
6/30/00	\$627,148,660	\$1,383,188,069	\$1,358,264,405	\$5,284,033,534	100.0%	100.0%	241.0%
6/30/01	\$653,242,370	\$1,600,436,700	\$1,452,603,142	\$5,423,834,549	100.0%	100.0%	218.2%
6/30/02	\$768,656,315	\$1,861,419,517	\$1,535,279,317	\$5,397,787,158	100.0%	100.0%	180.3%
6/30/03	\$759,938,261	\$2,068,481,586	\$1,589,177,955	\$5,286,580,047	100.0%	100.0%	154.7%
6/30/04	\$814,908,627	\$2,478,195,080	\$1,643,355,781	\$5,187,851,530	100.0%	100.0%	115.3%
6/30/05	\$837,513,907	\$2,814,210,355	\$1,733,432,428	\$5,059,208,687	100.0%	100.0%	81.2%

County Employees Retirement System (Non-Hazardous Insurance Fund)¹

Valuation Date	Actuarial Liabilities			Actuarial Value of Assets	% of Actuarial Liabilities Covered by Actuarial Assets for		
	(1)	(2)	(3)		(1)	(2)	(3)
	Active Member Contributions	Retired Members & Beneficiaries	Active Members (Employer Portion)				
6/30/00	\$0	\$457,179,668	\$1,009,537,260	\$319,642,694	100.0%	69.9%	--
6/30/01	\$0	\$575,836,839	\$1,217,873,929	\$371,758,628	100.0%	64.6%	--
6/30/02	\$0	\$656,812,900	\$1,320,764,138	\$450,497,307	100.0%	68.6%	--
6/30/03	\$0	\$799,777,264	\$1,377,185,995	\$520,060,105	100.0%	65.0%	--
6/30/04	\$0	\$955,930,091	\$1,482,804,605	\$585,399,072	100.0%	61.2%	--
6/30/05	\$0	\$1,144,219,107	\$1,644,535,547	\$663,941,949	100.0%	58.0%	--

¹ Retiree insurance benefits are funded exclusively by employer contributions and any subsequent return on investments.



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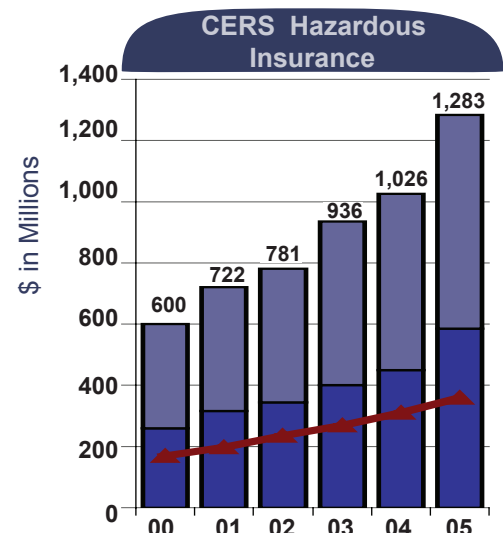
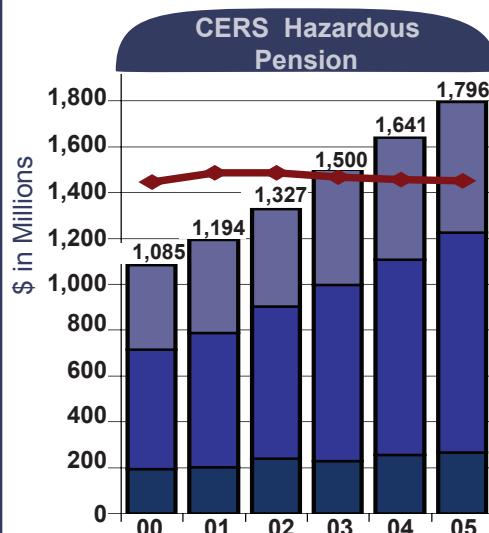
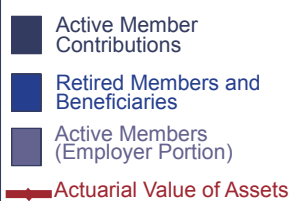
County Employees Retirement System (Hazardous Pension Fund)

Valuation Date	Actuarial Liabilities			Actuarial Value of Assets	% of Actuarial Liabilities Covered by Actuarial Assets for		
	(1)	(2)	(3)		(1)	(2)	(3)
	Active Member Contributions	Retired Members & Beneficiaries	Active Members (Employer Portion)				
6/30/00	\$194,481,003	\$520,994,277	\$369,078,417	\$1,445,542,794	100.0%	100.0%	197.8%
6/30/01	\$202,572,754	\$584,940,978	\$406,346,710	\$1,486,666,016	100.0%	100.0%	172.1%
6/30/02	\$238,363,024	\$664,188,862	\$424,739,387	\$1,485,511,793	100.0%	100.0%	137.3%
6/30/03	\$227,629,402	\$769,804,746	\$502,194,634	\$1,467,004,856	100.0%	100.0%	93.5%
6/30/04	\$256,366,204	\$851,354,443	\$533,109,473	\$1,457,612,042	100.0%	100.0%	65.6%
6/30/05	\$264,913,465	\$960,052,305	\$570,651,565	\$1,452,353,023	100.0%	100.0%	39.8%

County Employees Retirement System (Hazardous Insurance Fund)¹

Valuation Date	Actuarial Liabilities			Actuarial Value of Assets	% of Actuarial Liabilities Covered by Actuarial Assets for		
	(1)	(2)	(3)		(1)	(2)	(3)
	Active Member Contributions	Retired Members & Beneficiaries	Active Members (Employer Portion)				
6/30/00	\$0	\$259,728,407	\$340,207,622	\$168,657,912	100.0%	64.9%	--
6/30/01	\$0	\$316,638,166	\$404,967,126	\$197,875,249	100.0%	62.5%	--
6/30/02	\$0	\$343,821,677	\$437,363,297	\$234,683,878	100.0%	68.3%	--
6/30/03	\$0	\$401,276,347	\$534,374,315	\$269,190,080	100.0%	67.1%	--
6/30/04	\$0	\$450,288,687	\$575,395,790	\$310,578,162	100.0%	69.0%	--
6/30/05	\$0	\$586,104,126	\$697,194,966	\$359,180,461	100.0%	61.3%	--

¹ Retiree insurance benefits are funded exclusively by employer contributions and any subsequent return on investments.



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

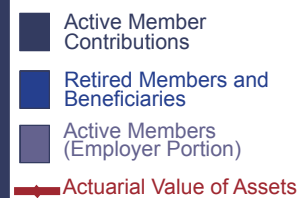
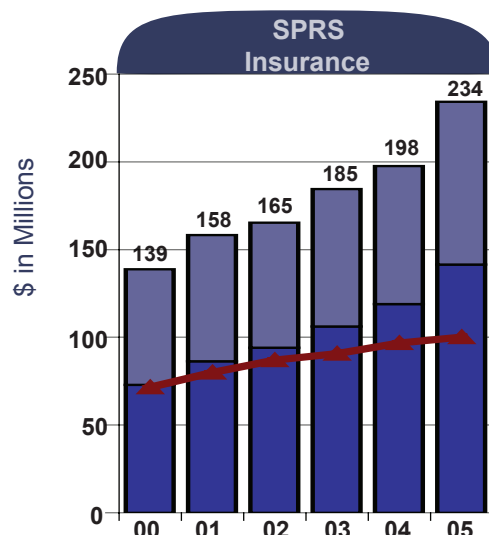
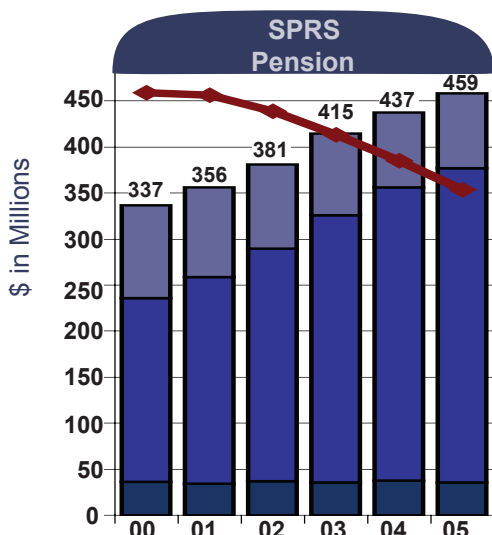
State Police Retirement System (Pension Fund)

Valuation Date	Actuarial Liabilities			Actuarial Value of Assets	% of Actuarial Liabilities Covered by Actuarial Assets for		
	(1)	(2)	(3)		(1)	(2)	(3)
	Active Member Contributions	Retired Members & Beneficiaries	Active Members (Employer Portion)				
6/30/00	\$36,110,595	\$199,748,741	\$100,720,427	\$459,168,574	100.0%	100.0%	221.7%
6/30/01	\$34,338,478	\$224,432,772	\$97,440,610	\$456,160,709	100.0%	100.0%	202.6%
6/30/02	\$36,886,477	\$252,498,613	\$91,405,256	\$438,955,613	100.0%	100.0%	163.6%
6/30/03	\$35,832,095	\$290,012,792	\$89,036,572	\$413,063,576	100.0%	100.0%	98.0%
6/30/04	\$37,658,106	\$318,664,694	\$81,159,625	\$385,077,195	100.0%	100.0%	35.4%
6/30/05	\$35,670,717	\$341,398,363	\$81,524,496	\$353,511,622	100.0%	93.1%	--

State Police Retirement System (Insurance Fund)

Valuation Date	Actuarial Liabilities			Actuarial Value of Assets	% of Actuarial Liabilities Covered by Actuarial Assets for		
	(1)	(2)	(3)		(1)	(2)	(3)
	Active Member Contributions	Retired Members & Beneficiaries	Active Members (Employer Portion)				
6/30/00	\$0	\$72,939,818	\$65,927,267	\$71,711,712	100.0%	98.3%	--
6/30/01	\$0	\$86,469,110	\$71,792,369	\$79,863,577	100.0%	92.4%	--
6/30/02	\$0	\$94,205,237	\$71,240,175	\$86,867,391	100.0%	92.2%	--
6/30/03	\$0	\$106,317,750	\$78,183,455	\$90,747,967	100.0%	85.4%	--
6/30/04	\$0	\$119,104,851	\$78,499,450	\$96,622,908	100.0%	81.1%	--
6/30/05	\$0	\$141,585,694	\$92,573,816	\$100,207,082	100.0%	70.8%	--

1 Retiree insurance benefits are funded exclusively by employer contributions and any subsequent return on investments.



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

Summary of Active Member Valuation Data

(As of June 30, 2005)

Kentucky Employees Retirement System (Non-Hazardous)

Schedule of Active Member Valuation Data

Valuation Date	Number of Employers	Total Active Members	Annual Payroll ¹	Annual Average Pay	% Increase In Average Pay	Average Age	Average Years of Service Credit
6/30/00	N/A	46,897	\$1,432,410,156	\$30,544	5.2%	42.4	10.6
6/30/01	N/A	47,780	\$1,525,188,532	\$31,921	4.5%	42.5	10.4
6/30/02	N/A	48,555	\$1,597,447,963	\$32,900	3.1%	41.5	10.1
6/30/03	N/A	49,158	\$1,658,604,696	\$33,740	2.6%	42.5	10.0
6/30/04	N/A	47,599	\$1,645,412,496	\$34,568	2.5%	42.9	10.0
6/30/05	324	47,118	\$1,655,907,288	\$35,144	1.7%	42.9	9.8

Kentucky Employees Retirement System (Hazardous)

Schedule of Active Member Valuation Data

Valuation Date	Number of Employers	Total Active Members	Annual Payroll ¹	Annual Average Pay	% Increase In Average Pay	Average Age	Average Years of Service Credit
6/30/00	N/A	4,007	\$115,135,008	\$28,733	7.5%	41.8	6.6
6/30/01	N/A	4,228	\$123,647,407	\$29,245	1.8%	41.6	6.6
6/30/02	N/A	4,211	\$125,371,604	\$29,772	1.8%	41.8	6.9
6/30/03	N/A	4,189	\$129,088,956	\$30,816	3.5%	41.6	7.2
6/30/04	N/A	4,014	\$126,664,812	\$31,556	2.4%	42.7	7.6
6/30/05	26	4,274	\$131,687,088	\$30,811	(2.4%)	41.9	7.1

County Employees Retirement System (Non-Hazardous)

Schedule of Active Member Valuation Data

Valuation Date	Number of Employers	Total Active Members	Annual Payroll ²	Annual Average Pay	% Increase In Average Pay	Average Age	Average Years of Service Credit
6/30/00	N/A	77,419	\$1,575,632,580	\$20,352	4.1%	42.9	7.1
6/30/01	N/A	78,773	\$1,597,653,320	\$20,282	(0.3%)	43.4	7.3
6/30/02	N/A	79,850	\$1,688,460,789	\$21,145	4.3%	43.0	7.6
6/30/03	N/A	82,288	\$1,796,451,180	\$21,831	3.2%	43.8	7.6
6/30/04	N/A	80,922	\$1,826,870,880	\$22,576	3.4%	44.8	7.9
6/30/05	1,116	81,240	\$1,885,275,000	\$23,206	2.8%	45.0	8.1

¹Annual payroll included in the Schedule of Active Member Valuation Data is based upon the annualized monthly payroll for active members as of the valuate 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, 2005.

N/A Not Available

Summary of Active Member Valuation Data

(As of June 30, 2005)

County Employees Retirement System (Hazardous)

Schedule of Active Member Valuation Data

Valuation Date	Number of Employers	Total Active Members	Annual Payroll ¹	Annual Average Pay	% Increase In Average Pay	Average Age	Average Years of Service Credit
6/30/00	N/A	7,951	\$291,062,928	\$36,607	5.3%	37.2	7.8
6/30/01	N/A	8,586	\$322,819,064	\$37,598	2.7%	37.2	7.6
6/30/02	N/A	8,949	\$346,319,146	\$38,699	2.9%	36.3	7.8
6/30/03	N/A	9,286	\$374,700,732	\$40,351	4.3%	37.3	7.8
6/30/04	N/A	9,349	\$392,562,624	\$41,990	4.1%	38.1	8.1
6/30/05	284	9,464	\$411,121,728	\$43,441	3.5%	38.0	8.2

State Police Retirement System

Schedule of Active Member Valuation Data

Valuation Date	Number of Employers	Total Active Members	Annual Payroll ¹	Annual Average Pay	% Increase In Average Pay	Average Age	Average Years of Service Credit
6/30/00	1	1,023	\$43,596,396	\$42,616	3.5%	36.7	12.1
6/30/01	1	1,016	\$44,209,944	\$43,514	2.1%	36.9	11.8
6/30/02	1	1,002	\$43,961,844	\$43,874	0.8%	35.7	11.4
6/30/03	1	1,019	\$43,760,832	\$42,945	(2.1%)	35.9	10.9
6/30/04	1	999	\$43,835,208	\$43,879	2.2%	36.4	10.7
6/30/05	1	987	\$43,720,092	\$44,296	1.0%	36.5	10.6

Summary of Retired Member Valuation Data

(As of June 30, 2005)

Kentucky Employees Retirement System (Non-Hazardous)

Valuation Date	Number Added	Number Removed	Total Retirees & Beneficiaries	Annualized Retirement Allowances ¹	% Increase in Allowances	Average Annual Allowance
6/30/00	N/A	N/A	N/A	N/A	N/A	N/A
6/30/01	N/A	N/A	N/A	N/A	N/A	N/A
6/30/02	N/A	N/A	N/A	N/A	N/A	N/A
6/30/03	2,148	1,618	27,233	\$393,048,800	N/A	\$14,433
6/30/04	2,473	814	28,892	\$449,410,400	14.34%	\$15,555
6/30/05	2,481	603	30,770	\$509,347,800	13.34%	\$16,553

Kentucky Employees Retirement System (Hazardous)

Valuation Date	Number Added	Number Removed	Total Retirees & Beneficiaries	Annualized Retirement Allowances	% Increase in Allowances	Average Annual Allowance
6/30/00	N/A	N/A	N/A	N/A	N/A	N/A
6/30/01	N/A	N/A	N/A	N/A	N/A	N/A
6/30/02	N/A	N/A	N/A	N/A	N/A	N/A
6/30/03	170	21	1,357	\$12,974,700	N/A	\$9,561
6/30/04	227	35	1,549	\$16,099,000	24.08%	\$10,393
6/30/05	234	31	1,752	\$19,640,700	22.00%	\$11,210

County Employees Retirement System (Non-Hazardous)

Valuation Date	Number Added	Number Removed	Total Retirees & Beneficiaries	Annualized Retirement Allowances	% Increase in Allowances	Average Annual Allowance
6/30/2000	N/A	N/A	N/A	N/A	N/A	N/A
6/30/2001	N/A	N/A	N/A	N/A	N/A	N/A
6/30/2002	N/A	N/A	N/A	N/A	N/A	N/A
6/30/2003	2,411	1,466	27,092	\$219,848,200	N/A	\$8,115
6/30/2004	2,805	768	29,129	\$247,534,300	12.6%	\$8,498
6/30/2005	2,808	590	31,347	\$279,590,300	13.0%	\$8,919

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

N/A Not Available

Summary of Retired Member Valuation Data

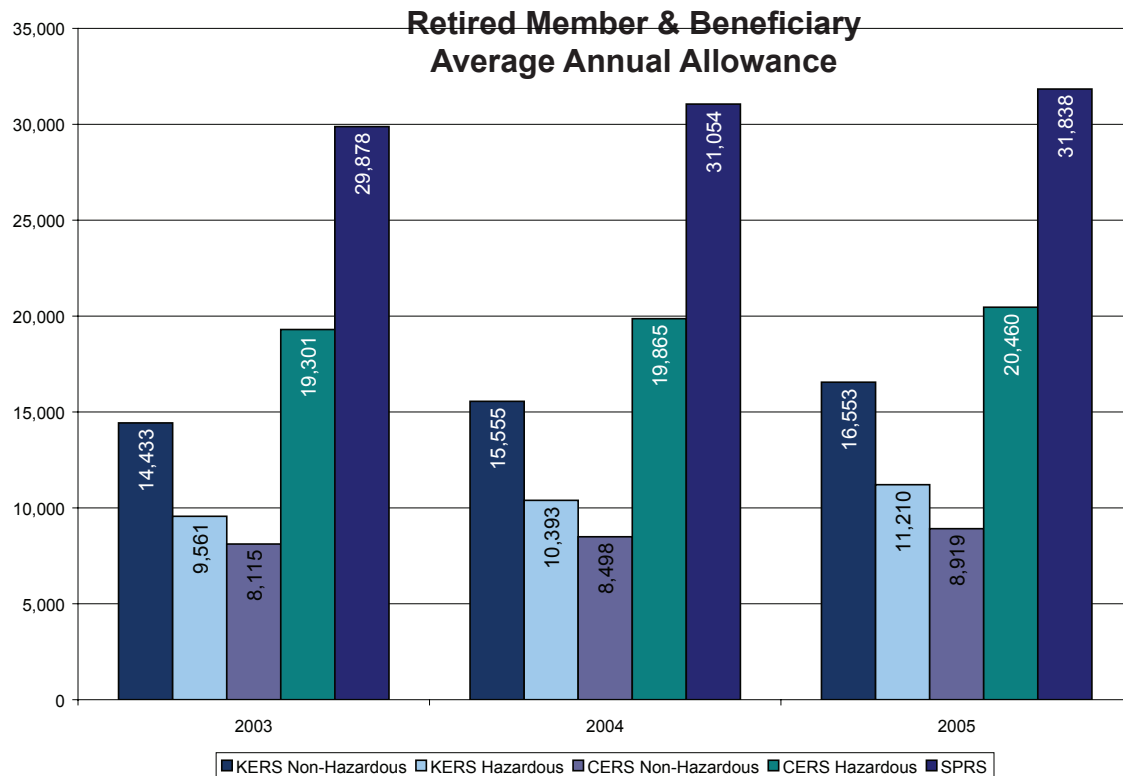
(As of June 30, 2005)

County Employees Retirement System (Hazardous)

Valuation Date	Number Added	Number Removed	Total Retirees & Beneficiaries	Annualized Retirement Allowances	% Increase in Allowances	Average Annual Allowance
6/30/00	N/A	N/A	N/A	N/A	N/A	N/A
6/30/01	N/A	N/A	N/A	N/A	N/A	N/A
6/30/02	N/A	N/A	N/A	N/A	N/A	N/A
6/30/03	293	39	3,737	\$72,322,200	N/A	\$19,353
6/30/04	343	75	4,005	\$79,559,200	10.0%	\$19,865
6/30/05	403	47	4,361	\$89,224,700	12.2%	\$20,460

State Police Retirement System

Valuation Date	Number Added	Number Removed	Total Retirees & Beneficiaries	Annualized Retirement Allowances	% Increase in Allowances	Average Annual Allowance
6/30/00	N/A	N/A	N/A	N/A	N/A	N/A
6/30/01	N/A	N/A	N/A	N/A	N/A	N/A
6/30/02	N/A	N/A	N/A	N/A	N/A	N/A
6/30/03	53	9	941	\$28,115,500	N/A	\$29,878
6/30/04	62	11	992	\$30,805,600	9.57%	\$31,054
6/30/05	50	6	1,036	\$32,983,900	7.07%	\$31,838



Summary of Benefit Provisions

KERS & CERS Non-Hazardous Plans

Plan Funding

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

Membership Eligibility

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

Retirement Eligibility

Age	Years of Service	Allowance Reduction
65	4	None
Any	27	None
55	5	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.

Benefit Formula

Final Compensation	x	Benefit Factor	x	Years of Service
Average of the five highest, or if eligible, three highest fiscal year earnings. To be eligible for three-high final compensation, member must have 27 years of service, age and service of 75 years, and retire prior to 1/09.		KERS 1.97% if: Member <u>does not have</u> 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 <u>has</u> months credit from 1/98- 1/99.		
		KERS 2.20% if: Member <u>has</u> months credit from 1/98- 1/99, 20 or more years of service, and retires by 1/09.		
		CERS 2.20% if: Member begins participating prior to 8/1/04.		
		CERS 2.00% if: Member begins participating on or after 8/1/04.		

Post-Retirement Death Benefits

A retired member 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.

Summary of Benefit Provisions

KERS & CERS Non-Hazardous Plans

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

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

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.

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



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 or after are required to earn at least 10 years of service credit in order to be eligible for insurance benefits at retirement. The monthly health insurance contribution will be \$10 for each year of earned service increased annually by the CPI-U.

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

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.

Disability Benefits

Pre-Retirement Death Benefits

Cost of Living Adjustment

Insurance Benefits

Refunds

Interest on Accounts

Summary of Benefit Provisions

KERS & CERS Non-Hazardous Plans

Plan Funding

Membership Eligibility

Retirement Eligibility

Benefit Formula

Disability Benefits

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

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.


Age	Years of Service	Allowance Reduction
55	5	None
Any	20	None
50	15	5.5% per year for five years before age 55 or 20 years of service.

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

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

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

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





Summary of Benefit Provisions KERS & CERS Hazardous Plans & SPRS

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.

A retired member 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.

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

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 or after are required to earn at least 10 years of service credit in order to be eligible for insurance benefits at retirement. The monthly health insurance contribution will be \$10 for each year of earned service increased annually by the CPI-U.



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

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.

Pre-Retirement Death Benefits

Post-Retirement Death Benefits

Cost of Living Adjustment

Insurance Benefits

Refunds

Interest on Accounts

Changes in Benefit Provisions

(As of June 30, 2005)

The following retirement-related bills were passed by the 2004 Regular Session and 2005 Regular Session of the State Legislature and were first reflected in the June 30, 2005 valuation. The bills created a new structure of benefits for members who began participating after specified dates and effectively reduced the employer contribution rates for KERS and SPRS.

HB 290: 2004 Regular Session New Structure of Benefits

CERS Benefit Factor: Members who begin participating in the County Employees Retirement System (CERS) in a non-hazardous position **on August 1, 2004 or after** will be eligible for a 2.0% benefit factor at retirement.

Insurance Benefits: Members who began participating in the retirement systems **on or after July 1, 2003** will be eligible for insurance benefits at retirement based upon a new formula. Non-hazardous members whose participation begins on or after July 1, 2003 will earn a contribution for insurance of \$10 per month for each year of earned service. Members working in a hazardous duty position whose participation begins **on or after July 1, 2003** will earn a contribution for insurance of \$15 per month for each year of earned hazardous duty service. Upon their death, the spouse of a hazardous duty member will receive a monthly insurance contribution of \$10 per month for each year of hazardous duty service provided the spouse is designated as beneficiary and remains eligible for monthly benefits upon the retired member's death. In order to be eligible for these insurance benefits at retirement, members who begin participation **on or after July 1, 2003** will be required to earn 10 years of actual service credit. The monthly contribution will also be increased annually by the change in the Consumer Price Index for all urban consumers (CPI-U).

Service Purchases: Members who begin participating in the retirement systems **on or after August 1, 2004** will not be eligible to use service purchases for determining eligibility for death benefits, disability retirement, normal retirement, or early retirement. Service purchases made by current and future members on or after **August 1, 2004** will not be used to determine insurance benefits at retirement. These provisions will apply to all service purchases made by the member or employer with the exception of omitted service and recontribution of refunded service.

Disability Benefits: Members who begin participating in the retirement systems **on or after August 1, 2004** will be eligible for disability benefits based upon a new formula. The new formula for non-hazardous members will provide a disability benefit that is the higher of 20% of Final Rate of Pay or an unreduced benefit based upon actual service credit. The new formula for hazardous duty members will provide a disability benefit that is the higher of 25% of Final Rate of Pay or an unreduced benefit based upon actual service credit. Members hired **on or after August 1, 2004** will also be eligible to apply for disability benefits without regard to eligibility for an unreduced benefit.

KERS & SPRS Employer Rate Reductions

Employer Contribution Rates: HB 267, the Executive Branch Budget Bill, effectively reduced the employer contribution rate recommended by the actuary and adopted by the Board for KERS and SPRS for fiscal year 2004-2005 and 2005-2006. The recommended rate and the rate budgeted by HB 267 are provided in the statistical section. The reduction is \$213 million less than actuarially required rates.

HB 519: 2004 Regular Session New Structure of Benefits

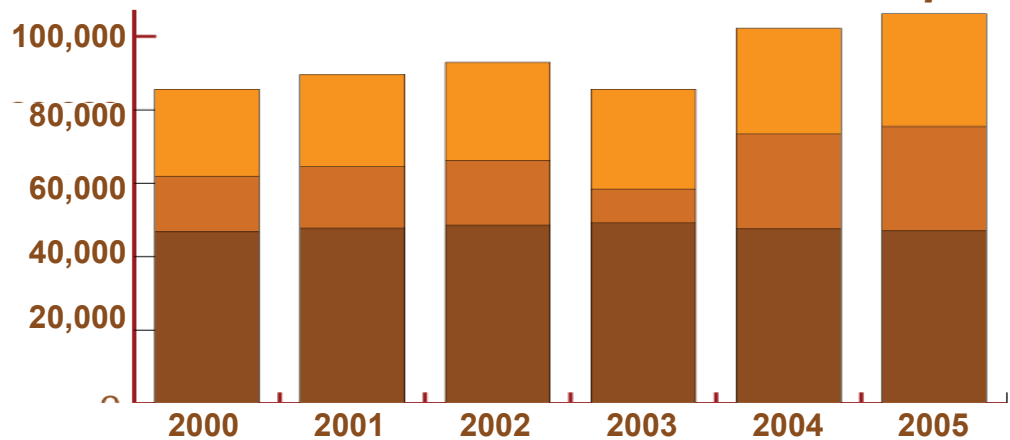
HB 290: 2004 Regular Session New Structure of Benefits

Statistical Section



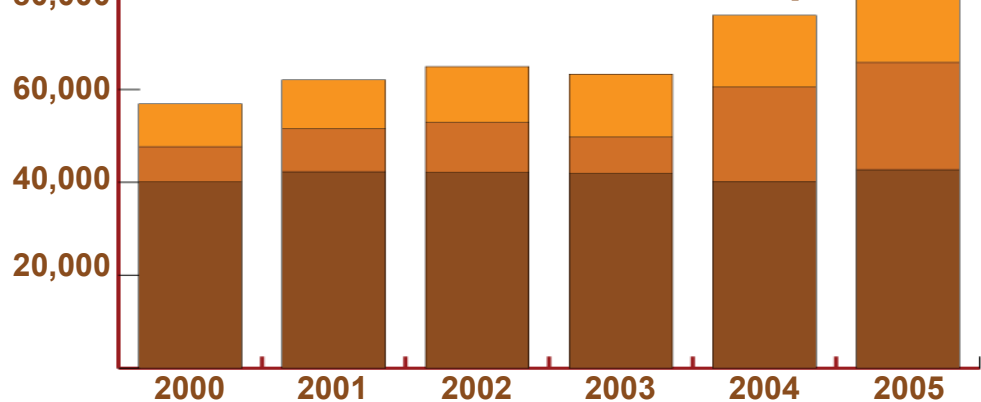
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KERS Non-Hazardous Membership



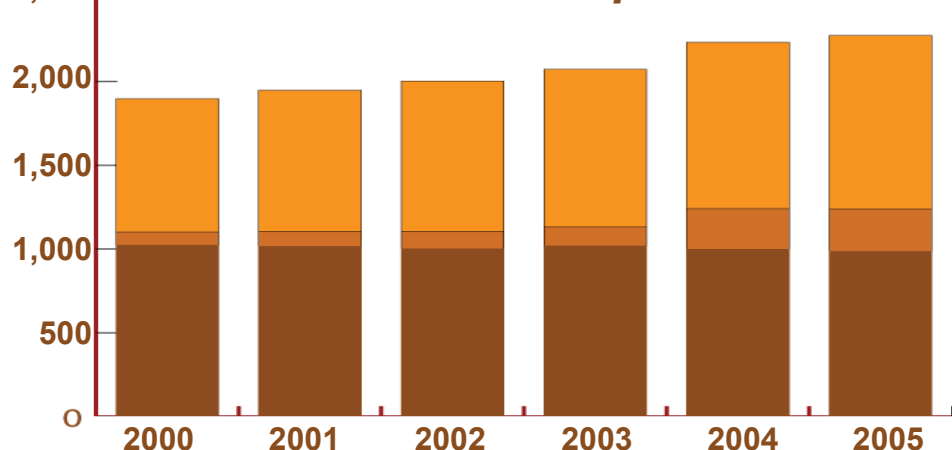
Active	46,897	47,780	48,555	49,158	47,599	47,118
Inactive	14,959	16,741	17,714	9,241	25,775	28,345
Retired	23,760	25,113	26,703	27,233	28,892	30,770
Total	85,616	89,634	92,972	85,632	102,266	106,233

KERS Hazardous Membership



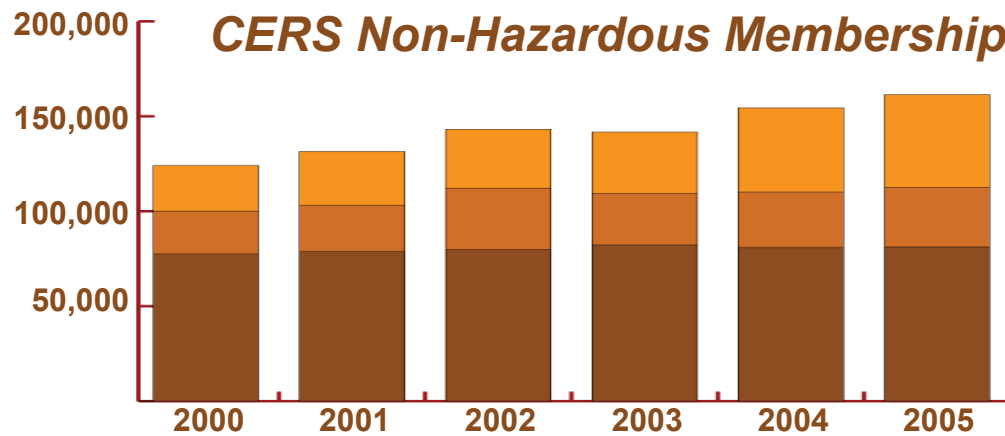
Active	4,007	4,228	4,211	4,189	4,014	4,274
Inactive	759	922	1,073	782	2,032	2,304
Retired	924	1,053	1,208	1,357	1,549	1,752
Total	5,690	6,203	6,492	6,328	7,595	8,330

SPRS Membership



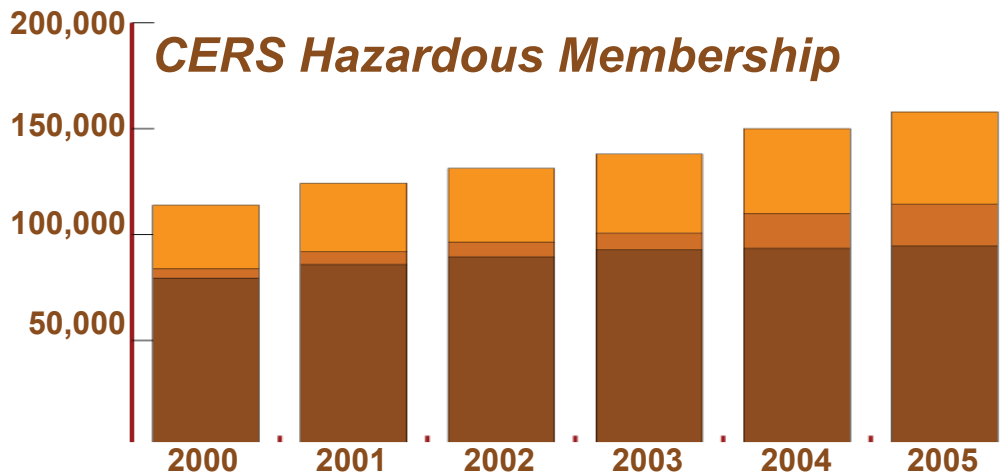
Active	1,023	1,016	1,002	1,019	999	987
Inactive	78	90	103	113	243	252
Retired	797	842	897	941	992	1,036
Total	1,898	1,948	2,002	2,073	2,234	2,275

CERS Non-Hazardous Membership



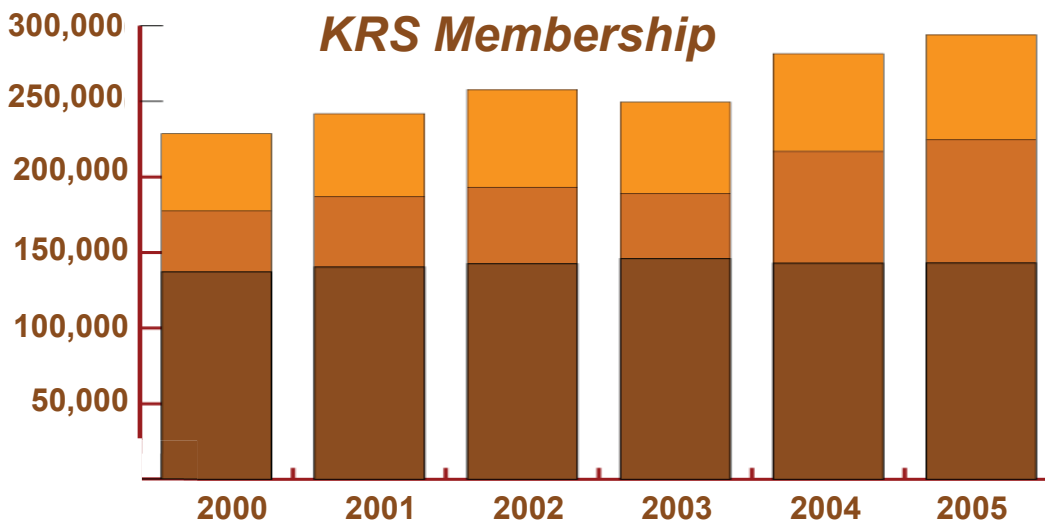
Active	77,419	78,773	79,850	82,288	80,922	81,240
Inactive	24,012	28,356	30,978	32,326	44,419	48,869
Retired	22,708	24,415	32,326	27,092	29,129	31,347
Total	124,139	131,544	143,154	141,706	154,470	161,456

CERS Hazardous Membership



Active	7,951	8,586	8,949	9,286	9,349	9,464
Inactive	451	610	700	781	1,648	1,971
Retired	2,984	3,221	3,483	3,737	4,005	4,361
Total	11,386	12,417	13,132	13,804	15,002	15,796

KRS Membership



Active	137,297	140,383	142,567	145,940	142,883	143,083
Inactive	40,259	46,719	50,568	43,243	74,117	81,741
Retired	51,173	54,644	64,617	60,360	64,567	69,266
Total	228,729	241,746	257,752	249,543	281,567	294,090

Schedule of *Participating Employers*

Kentucky Employees Retirement System

Agency Classification	Number of Agencies
Agencies Reporting Through State Payroll	137
Other Agencies (universities, mental health boards, health departments)	141
Special Districts and Boards	4
Child Support Offices (county attorneys)	65
Other State-Administered Retirement Systems	3
TOTAL	350

County Employees Retirement System

Agency Classification	Number of Agencies
Area Development Districts	14
Boards of Education	176
Cities	259
County Attorneys	60
County Clerks	13
County Government Agencies	2
Fire Departments	61
Hospitals	3
Jailers	8
Libraries	83
Planning Commissions	9
Police Departments	71
Police & Fire Departments (combined)	44
Sanitation Districts	4
Sheriff Departments	48
Special Districts and Boards	179
Utility Boards	104
Urban County Government Agencies	4
TOTAL	1400

State Police Retirement System

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

Net Plan Assets by System

Kentucky Employees Retirement System

(Dollars in Thousands)

	Non-Hazardous			Hazardous		
	Pension	Insurance	Total	Pension	Insurance	Total
June 30 2000	\$6,017,456	\$383,281	\$6,400,737	\$301,920	\$99,260	\$401,180
June 30 2001	5,484,564	396,254	5,880,818	305,544	107,592	413,136
June 30 2002	5,005,191	465,665	5,470,856	301,800	109,769	411,569
June 30 2003	4,929,319	487,071	5,416,390	320,513	125,522	446,035
June 30 2004	5,258,995	587,681	5,846,676	366,568	162,127	528,695
June 30 2005	5,362,631	610,901	5,973,532	398,308	188,871	587,179

County Employees Retirement System

(Dollars in Thousands)

	Non-Hazardous			Hazardous		
	Pension	Insurance	Total	Pension	Insurance	Total
June 30 2000	\$4,673,154	\$307,545	\$4,980,699	\$1,279,936	\$159,688	\$1,439,624
June 30 2001	4,397,347	331,067	4,728,414	1,211,155	173,636	1,384,791
June 30 2002	4,126,756	365,333	4,492,089	1,144,349	187,534	1,331,883
June 30 2003	4,175,825	435,500	4,611,325	1,168,776	223,168	1,391,944
June 30 2004	4,613,335	563,877	5,177,212	1,305,012	297,737	1,602,749
June 30 2005	4,893,600	668,485	5,562,085	1,411,246	360,940	1,772,186

State Police Retirement System

Kentucky Retirement Systems Total

(Dollars in Thousands)

	Pension	Insurance	Total	Pension	Insurance	Total
June 30 2000	\$411,531	\$69,416	\$480,947	\$12,683,998	\$1,019,191	\$13,703,189
June 30 2001	364,592	69,926	434,518	11,763,200	1,078,475	12,841,675
June 30 2002	328,744	68,074	396,818	10,906,841	1,196,375	12,103,216
June 30 2003	319,115	72,538	391,653	10,913,548	1,343,799	12,257,347
June 30 2004	335,721	90,420	426,141	11,879,631	1,701,842	13,581,473
June 30 2005	339,406	99,408	438,814	12,405,191	1,928,605	14,333,796

Additions by Source

KERS Non-Hazardous

(Dollars in Thousands)

	Member Contributions	Employer Contributions Pension	Employer Contributions Insurance	Investment Income	Total
2000	\$107,834	\$115,055	\$76,926	\$315,127	\$614,942
2001	106,648	23,482	66,875	(376,941)	(179,936)
2002	111,992	1,760	93,912	(216,823)	(9,159)
2003	137,124	7,597	65,335	204,156	414,212
2004	129,077	21,697	78,017	734,596	963,387
2005	127,801	50,333	51,432	510,461	740,027

KERS Hazardous

(Dollars in Thousands)

	Member Contributions	Employer Contributions Pension	Employer Contributions Insurance	Investment Income	Total
2000	\$9,375	\$21,633	\$12,047	\$17,879	\$60,934
2001	10,577	10,627	13,226	(10,945)	23,485
2002	10,807	7,934	15,887	(22,015)	12,613
2003	11,553	7,322	15,883	17,577	52,335
2004	11,548	9,769	14,959	68,609	104,885
2005	11,625	9,758	15,653	49,122	86,158

SPRS

(Dollars in Thousands)

	Member Contributions	Employer Contributions Pension	Employer Contributions Insurance	Investment Income	Total
2000	\$4,202	\$10,216	\$7,818	\$22,601	\$44,837
2001	4,138	1,516	8,113	(33,885)	(20,118)
2002	4,499	0	9,580	(22,770)	(8,709)
2003	4,674	0	7,654	15,115	27,423
2004	4,875	1,153	8,456	56,091	70,575
2005	4,228	2,852	6,974	38,040	52,094

Additions by Source

CERS Non-Hazardous

(Dollars in Thousands)

Total	Member Contributions	Employer Contributions Pension	Employer Contributions Insurance	Investment Income	
\$491,536	\$96,676	\$106,587	\$55,214	\$233,059	2000
(-39,292)	101,597	48,914	62,292	(252,095)	2001
8,833	122,428	5,528	102,151	(221,274)	2002
407,127	125,301	11,856	99,235	170,735	2003
893,605	122,484	44,028	89,344	637,749	2004
759,281	127,637	54,617	107,632	469,395	2005

CERS Hazardous

(Dollars in Thousands)

Total	Member Contributions	Employer Contributions Pension	Employer Contributions Insurance	Investment Income	
\$171,080	28,476	\$ 51,739	\$ 28,345	\$62,520	2000
14,962	27,279	20,983	32,149	(65,449)	2001
26,273	37,096	11,055	45,730	(67,608)	2002
149,926	36,203	16,906	45,244	51,573	2003
312,041	38,668	27,641	47,037	198,695	2004
284,735	39,515	39,948	55,552	149,720	2005

Kentucky Retirement Systems

(Dollars in Thousands)

Total	Member Contributions	Employer Contributions Pension	Employer Contributions Insurance	Investment Income	
\$1,383,329	\$246,563	305,230	180,350	651,186	2000
(200,899)	250,239	105,522	182,655	(739,315)	2001
29,851	286,822	26,259	267,260	(550,490)	2002
1,051,023	314,855	43,661	233,351	459,156	2003
2,344,493	306,652	104,288	237,813	1,695,740	2004
1,922,295	310,806	157,508	237,243	1,216,738	2005

Deductions by Source

KERS Non-Hazardous

(Dollars in Thousands)

	Benefit Payments	Administrative Expenses	Refunds	Medical Insurance Expenses	Total
2000	\$252,775	\$3,346	\$7,901	\$30,504	\$294,526
2001	291,704	3,826	6,968	37,609	340,107
2002	345,666	4,399	6,657	44,083	400,805
2003	404,896	4,959	7,258	51,979	469,092
2004	459,367	5,262	8,001	60,471	533,101
2005	522,396	5,916	8,824	76,035	613,171

KERS Hazardous

(Dollars in Thousands)

	Benefit Payments	Administrative Expenses	Refunds	Medical Insurance Expenses	Total
2000	\$6,224	\$295	\$1,140	\$1,581	\$9,240
2001	7,996	302	1,253	2,009	11,560
2002	10,203	354	1,141	2,482	14,180
2003	13,373	404	1,160	2,965	17,902
2004	16,863	392	1,410	3,560	22,225
2005	20,495	511	1,760	4,908	27,674

SPRS

(Dollars in Thousands)

	Benefit Payments	Administrative Expenses	Refunds	Medical Insurance Expenses	Total
2000	\$19,974	\$68	\$80	\$3,028	\$23,150
2001	22,644	64	80	3,575	26,363
2002	24,839	76	25	4,049	28,989
2003	27,862	86	97	4,550	32,595
2004	30,877	91	96	5,023	36,087
2005	32,921	104	131	6,265	39,421

Deductions by Source**CERS Non-Hazardous***(Dollars in Thousands)*

Total	Benefit Payments	Administrative Expenses	Refunds	Medical Insurance Expenses	
\$186,341	\$148,015	\$5,501	\$10,769	\$22,056	2000
213,207	170,256	6,174	8,994	27,783	2001
245,157	196,659	7,187	8,325	32,986	2002
288,467	230,317	8,244	10,213	39,693	2003
327,718	260,643	8,694	11,334	47,047	2004
374,408	294,590	10,029	11,042	58,747	2005

CERS Hazardous*(Dollars in Thousands)*

Total	Benefit Payments	Administrative Expenses	Refunds	Medical Insurance Expenses	
\$61,311	\$49,622	4561	\$1,479	\$9,649	2000
69,882	56,520	512	1,319	11,531	2001
79,180	63,494	635	1,770	13,281	2002
90,034	72,532	737	1,794	14,971	2003
101,506	81,422	759	2,520	16,805	2004
115,298	90,119	872	2,139	22,168	2005

Kentucky Retirement Systems*(Dollars in Thousands)*

Total	Benefit Payments	Administrative Expenses	Refunds	Medical Insurance Expenses	
\$574,568	\$476,610	\$9,771	\$21,369	\$66,818	2000
661,119	549,120	10,878	18,614	82,507	2001
768,311	640,861	12,651	17,918	96,881	2002
898,090	748,980	14,430	20,522	114,158	2003
1,020,637	849,172	15,198	23,361	132,906	2004
1,169,972	960,521	17,432	23,896	168,123	2005

Schedule of Benefit Expenses by Type

KERS Non-Hazardous

	Normal Retirement	Early Retirement	Disability Retirement	Beneficiary Payments	Total
FY 1999-00					
Average Benefit	\$681	\$1,069	\$720	\$573	\$901
Number	3,881	13,881	1,818	3,512	23,092
Total Monthly Benefits	\$2,643,388	\$14,839,808	\$1,309,392	\$2,012,926	\$20,805,514
% of Total Monthly Benefits	12.7%	71.3%	6.3%	9.7%	100.0%
FY 2000-01					
Average Benefit	\$727	\$1,163	\$750	\$601	\$980
Number	3,779	15,101	1,902	3,595	24,377
Total Monthly Benefits	\$2,746,184	\$17,561,789	\$1,426,821	\$2,162,372	\$23,897,166
% of Total Monthly Benefits	11.5%	73.5%	6.0%	9.0%	100.0%
FY 2001-02					
Average Benefit	\$784	\$1,314	\$783	\$650	\$1,104
Number	3,714	16,561	1,913	3,659	25,847
Total Monthly Benefits	\$2,912,068	\$21,755,957	\$1,498,690	\$2,377,149	\$28,543,863
% of Total Monthly Benefits	10.2%	76.2%	5.3%	8.3%	100.0%
FY 2002-03					
Average Benefit	\$822	\$1,430	\$809	\$688	\$1,203
Number	3,706	17,917	1,922	3,708	27,253
Total Monthly Benefits	\$3,045,409	\$25,626,447	\$1,555,628	\$2,551,366	\$32,778,849
% of Total Monthly Benefits	9.3%	78.2%	4.7%	7.8%	100.0%
FY 2003-04					
Average Benefit	\$859	\$1,537	\$825	\$721	\$1,296
Number	3,768	19,477	1,925	3,740	28,910
Total Monthly Benefits	3,237,300	29,941,376	1,587,565	2,697,409	37,463,650
% of Total Monthly Benefits	8.6%	79.9%	4.2%	7.2%	100.0%
FY 2004-05					
Average Benefit	\$910	\$1,632	\$850	\$739	\$1,379
Number	3,866	21,092	1,910	3,902	30,770
Total Monthly Benefits	\$3,516,148	\$34,423,089	1,623,500	2,882,916	42,445,653
% of Total Monthly Benefits	8.3%	81.1%	3.8%	6.8%	100.0%

The information in the above table includes only individuals receiving a monthly benefit as of June 30 in the indicated fiscal year. Retired reemployed members and individuals deceased prior to June are not included. As a result, the information for the current year will differ from the benefit payment totals listed in the Deductions by Source.

Schedule of Benefit Expenses by Type

KERS Hazardous

	Normal Retirement	Early Retirement	Disability Retirement	Beneficiary Payments	Total
FY 1999-00					
Average Benefit	\$473	\$932	\$351	\$470	\$590
Number	435	264	104	123	926
Total Monthly Benefits	\$205,667	\$246,083	\$36,486	\$57,778	\$546,014
% of Total Monthly Benefits	37.7%	45.1%	6.7%	10.6%	100.0%
FY 2000-01					
Average Benefit	\$517	\$1,016	\$374	\$473	\$647
Number	502	318	112	124	1,056
Total Monthly Benefits	\$259,552	\$323,101	\$41,933	\$58,596	\$683,182
% of Total Monthly Benefits	38.0%	47.3%	6.1%	8.6%	100.0%
FY 2001-02					
Average Benefit	\$574	\$1,110	\$407	\$520	\$726
Number	559	394	116	143	1,212
Total Monthly Benefits	\$321,056	\$437,318	\$47,180	\$74,411	\$879,965
% of Total Monthly Benefits	36.5%	49.7%	5.4%	8.5%	100.0%
FY 2002-03					
Average Benefit	\$645	\$1,173	\$435	\$576	\$799
Number	626	464	115	157	1,362
Total Monthly Benefits	\$403,467	\$544,066	\$50,058	\$90,368	\$1,087,959
% of Total Monthly Benefits	37.1%	50.0%	4.6%	8.3%	100.0%
FY 2003-04					
Average Benefit	\$711	\$1,221	\$481	\$613	\$864
Number	718	554	129	157	1,558
Total Monthly Benefits	\$510,827	\$676,463	\$62,112	\$96,194	\$1,345,596
% of Total Monthly Benefits	38.0%	50.3%	4.6%	7.1%	100.0%
FY 2004-05					
Average Benefit	\$775	\$1,292	\$568	\$600	\$934
Number	808	647	117	180	1,752
Total Monthly Benefits	\$626,082	\$836,193	\$66,456	\$107,998	\$1,636,729
% of Total Monthly Benefits	38.3%	51.1%	4.1%	6.6%	100.0%

The information in the above table includes only individuals receiving a monthly benefit as of June 30 in the indicated fiscal year. Retired reemployed members and individuals deceased prior to June are not included. As a result, the information for the current year will differ from the benefit payment totals listed in the Deductions by Source.

Schedule of Benefit Expenses by Type

CERS Non-Hazardous

	Normal Retirement	Early Retirement	Disability Retirement	Beneficiary Payments	Total
FY 1999-00					
Average Monthly Benefit	\$391	\$633	\$605	\$395	\$548
Number	5,000	12,225	2,329	2,538	22,092
Total Monthly Benefits	\$1,952,617	\$7,740,542	\$1,409,139	\$1,001,342	\$12,103,640
% of Total Monthly Benefits	16.1%	64.0%	11.6%	8.3%	100.0%
FY 2000-01					
Average Monthly Benefit	\$410	\$682	\$628	\$412	\$587
Number	5,160	13,367	2,531	2,657	23,715
Total Monthly Benefits	\$2,113,743	\$9,122,653	\$1,589,371	\$1,095,839	\$13,921,607
% of Total Monthly Benefits	15.2%	65.5%	11.4%	7.9%	100.0%
FY 2001-02					
Average Monthly Benefit	\$430	\$743	\$657	\$438	\$635
Number	5,280	14,669	2,634	2,793	25,376
Total Monthly Benefits	\$2,269,733	\$10,897,474	\$1,731,392	\$1,222,866	\$16,121,465
% of Total Monthly Benefits	14.1%	67.6%	10.7%	7.6%	100.0%
FY 2002-03					
Average Monthly Benefit	\$456	\$792	\$681	\$461	\$676
Number	5,583	15,902	2,711	2,923	27,119
Total Monthly Benefits	\$2,544,101	\$12,598,502	\$1,845,513	\$1,347,107	\$18,335,223
% of Total Monthly Benefits	13.9%	68.7%	10.1%	7.3%	100.0%
FY 2003-04					
Average Monthly Benefit	\$463	\$829	\$697	\$491	\$708
Number	5,848	17,463	2,814	3,025	29,150
Total Monthly Benefits	\$2,708,649	\$14,483,996	\$1,961,590	\$1,486,749	\$20,640,984
% of Total Monthly Benefits	13.1%	70.2%	9.5%	7.2%	100.0%
FY 2004-05					
Average Monthly Benefit	\$475	\$873	\$720	\$512	\$743
Number	6,131	19,075	2,854	3,287	31,347
Total Monthly Benefits	\$2,915,109	\$16,644,747	\$2,054,880	1,684,459	\$23,299,195
% of Total Monthly Benefits	12.5%	71.4%	8.8%	7.2%	100.0%

The information in the above table includes only individuals receiving a monthly benefit as of June 30 in the indicated fiscal year. Retired reemployed members and individuals deceased prior to June are not included. As a result, the information for the current year will differ from the benefit payment totals listed in the Deductions by Source.

Schedule of Benefit Expenses by Type

CERS Hazardous

	Normal Retirement	Early Retirement	Disability Retirement	Beneficiary Payments	Total
FY 1999-00					
Average Monthly Benefit	\$1,280	\$1,681	\$712	\$1,074	\$1,431
Number	538	1,821	410	218	2,987
Total Monthly Benefits	\$688,634	\$3,061,231	\$291,819	\$234,201	\$4,275,886
% of Total Monthly Benefits	16.1%	71.6%	6.8%	5.5%	100.0%
FY 2000-01					
Average Monthly Benefit	\$1,314	\$1,728	\$746	\$1,100	\$1,479
Number	574	1,994	433	224	3,225
Total Monthly Benefits	\$753,998	\$3,446,219	\$323,149	\$246,459	\$4,769,825
% of Total Monthly Benefits	15.8%	72.3%	6.8%	5.2%	100.0%
FY 2001-02					
Average Monthly Benefit	\$1,360	\$1,817	\$782	\$1,126	\$1,552
Number	642	2,154	447	245	3,488
Total Monthly Benefits	\$873,325	\$3,913,768	\$349,511	\$275,876	\$5,412,480
% of Total Monthly Benefits	16.1%	72.3%	6.5%	5.1%	100.0%
FY 2002-03					
Average Monthly Benefit	\$1,371	\$1,905	\$814	\$1,142	\$1,615
Number	705	2,307	457	273	3,742
Total Monthly Benefits	\$966,828	\$4,394,088	\$371,773	\$311,827	\$6,044,517
% of Total Monthly Benefits	16.0%	72.7%	6.2%	5.2%	100.0%
FY 2003-04					
Average Monthly Benefit	\$1,371	\$1,942	\$824	\$1,177	\$1,643
Number	785	2,489	481	299	4,054
Total Monthly Benefits	\$1,076,329	\$4,834,845	\$396,302	\$351,804	\$6,659,280
% of Total Monthly Benefits	16.2%	72.6%	6.0%	5.3%	100.0%
FY 2004-05					
Average Monthly Benefit	\$1,399	\$2,031	\$1,159	\$910	\$1,705
Number	865	2,642	332	522	4,361
Total Monthly Benefits	\$1,209,803	\$5,365,822	\$384,788	\$474,975	\$7,435,388
% of Total Monthly Benefits	16.3%	72.2%	5.2%	6.4%	100.0%

The information in the above table includes only individuals receiving a monthly benefit as of June 30 in the indicated fiscal year. Retired reemployed members and individuals deceased prior to June are not included. As a result, the information for the current year will differ from the benefit payment totals listed in the Deductions by Source.

Schedule of Benefit Expenses by Type

SPRS

	Normal Retirement	Early Retirement	Disability Retirement	Beneficiary Payments	Total
FY 1999-00					
Average Monthly Benefit	\$2,583	\$2,188	\$987	\$1,866	\$2,126
Number	97	576	54	70	797
Total Monthly Benefits	\$250,561	\$1,260,151	\$53,315	\$130,586	\$1,694,613
% of Total Monthly Benefits	14.8%	74.4%	3.1%	7.7%	100.0%
FY 2000-01					
Average Monthly Benefit	\$2,796	\$2,306	\$1,013	\$1,932	\$2,256
Number	98	620	48	76	842
Total Monthly Benefits	\$274,013	\$1,429,852	\$48,647	\$146,867	\$1,899,379
% of Total Monthly Benefits	14.4%	75.3%	2.6%	7.7%	100.0%
FY 2001-02					
Average Monthly Benefit	\$3,008	\$2,430	\$984	\$2,006	\$2,383
Number	103	668	47	79	897
Total Monthly Benefits	\$309,836	\$1,623,011	\$46,243	\$158,466	\$2,137,556
% of Total Monthly Benefits	14.5%	75.9%	2.2%	7.4%	100.0%
FY 2002-03					
Average Monthly Benefit	\$3,117	\$2,543	\$1,056	\$2,064	\$2,492
Number	110	699	48	84	941
Total Monthly Benefits	\$342,894	\$1,777,880	\$50,705	\$173,412	\$2,344,891
% of Total Monthly Benefits	14.6%	75.8%	2.2%	7.4%	100.0%
FY 2003-04					
Average Monthly Benefit	\$3,199	\$2,637	\$1,067	\$2,108	\$2,576
Number	112	748	49	88	997
Total Monthly Benefits	\$358,290	\$1,972,675	\$52,259	\$185,517	\$2,568,741
% of Total Monthly Benefits	13.9%	76.8%	2.0%	7.2%	100.0%
FY 2004-05					
Average Monthly Benefit	\$3,321	\$2,741	\$1,364	\$1,862	\$2,653
Number	107	775	35	119	1,036
Total Monthly Benefits	\$355,361	\$2,123,941	\$47,740	\$221,615	\$2,748,657
% of Total Monthly Benefits	12.9%	77.3%	1.7%	8.1%	100.0%

The information in the above table includes only individuals receiving a monthly benefit as of June 30 in the indicated fiscal year. Retired reemployed members and individuals deceased prior to June are not included. As a result, the information for the current year will differ from the benefit payment totals listed in the Deductions by Source.

Average Monthly Benefit by Length of Service

Service Credit Range	KERS Non-Hazardous		CERS Non-Hazardous	
	Number	Average Monthly Benefit	Number	Average Monthly Benefit
Under 5 Years	2,394	\$134	2,712	\$122
5 or more but less than 10	3,727	\$298	6,467	\$231
10 or more but less than 15	3,802	\$498	6,258	\$404
15 or more but less than 20	3,446	\$746	4,603	\$614
20 or more but less than 25	3,698	\$1,017	4,425	\$810
25 or more but less than 30	6,957	\$1,850	4,990	\$1,627
30 or more but less than 35	4,721	\$2,635	1,431	\$2,200
35 or more	2,025	\$3,692	461	\$2,758
Total	30,770	\$1,379	31,347	\$743

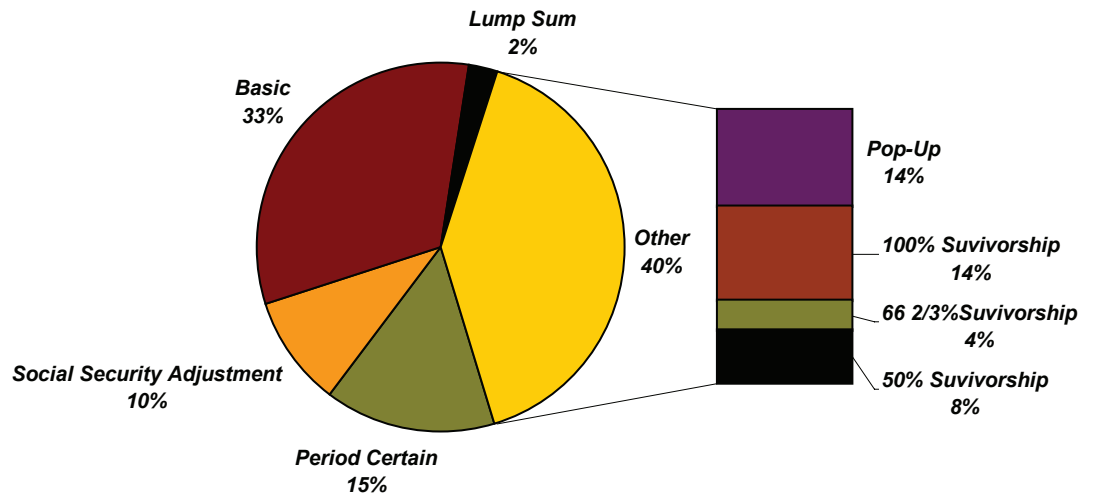
Service Credit Range	KERS Hazardous		CERS Hazardous	
	Number	Average Monthly Benefit	Number	Average Monthly Benefit
Under 5 Years	86	\$200	358	\$383
5 or more but less than 10	200	\$372	227	\$533
10 or more but less than 15	210	\$511	288	\$864
15 or more but less than 20	224	\$726	288	\$1,010
20 or more but less than 25	410	\$1,041	1,653	\$1,664
25 or more but less than 30	391	\$1,154	1,032	\$2,204
30 or more but less than 35	180	\$1,588	424	\$3,018
35 or more	51	\$2,189	91	\$3,660
Total	1,752	\$934	4,361	\$1,705

Service Credit Range	SPRS	
	Number	Average Monthly Benefit
Under 5 Years	67	\$489
5 or more but less than 10	27	\$734
10 or more but less than 15	31	\$1,060
15 or more but less than 20	57	\$1,641
20 or more but less than 25	277	\$2,092
25 or more but less than 30	322	\$2,944
30 or more but less than 35	194	\$3,938
35 or more	61	\$4,564
Total	1,036	\$2,653

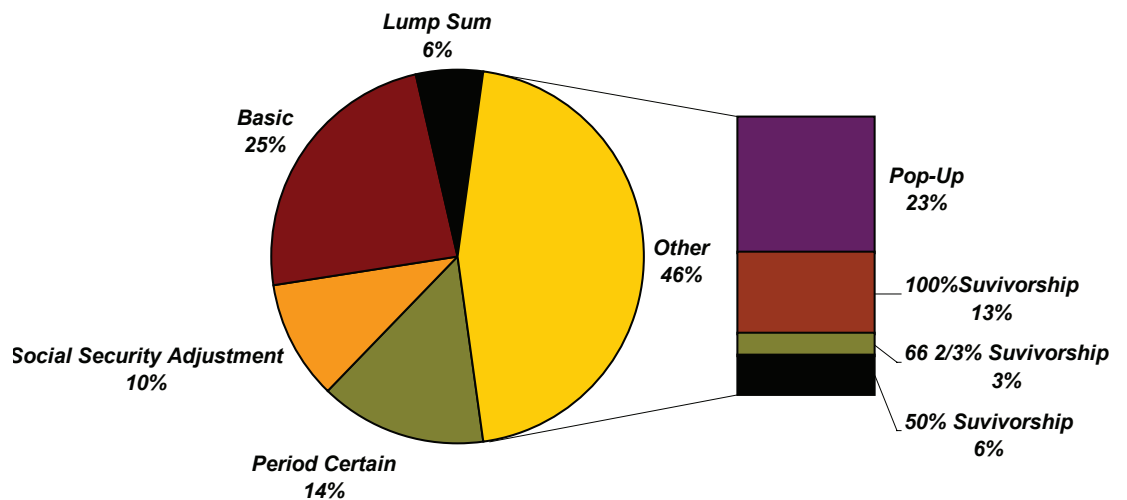
The information in the table includes only individuals receiving a monthly benefit as of June 30 in the indicated fiscal year. Retired reemployed members and individuals deceased prior to June are not included.

Payment Options by Type

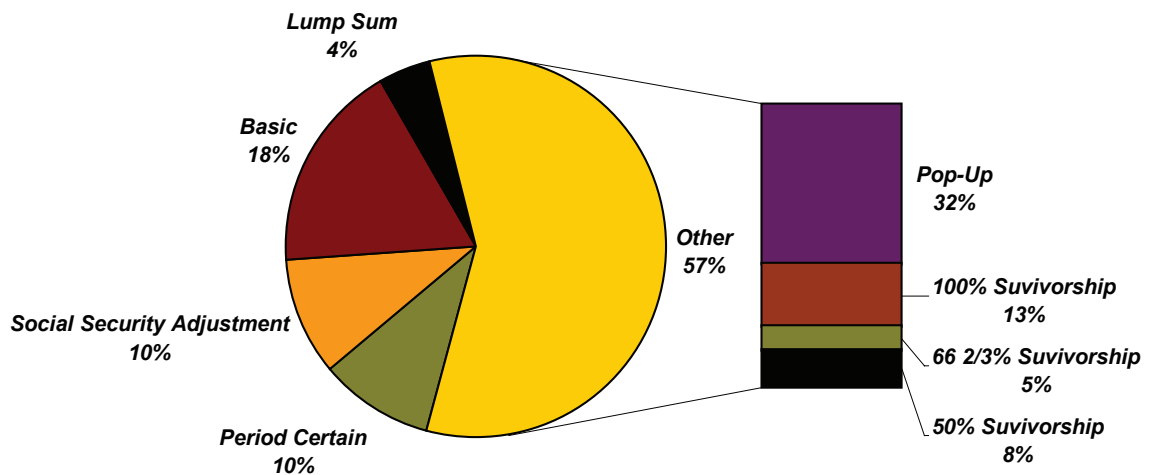
KERS Non-Hazardous



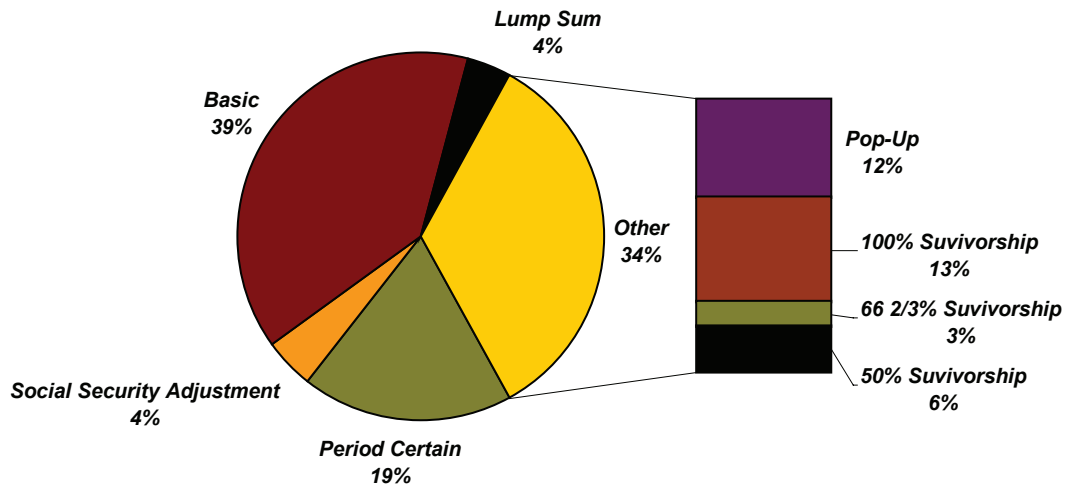
KERS Hazardous



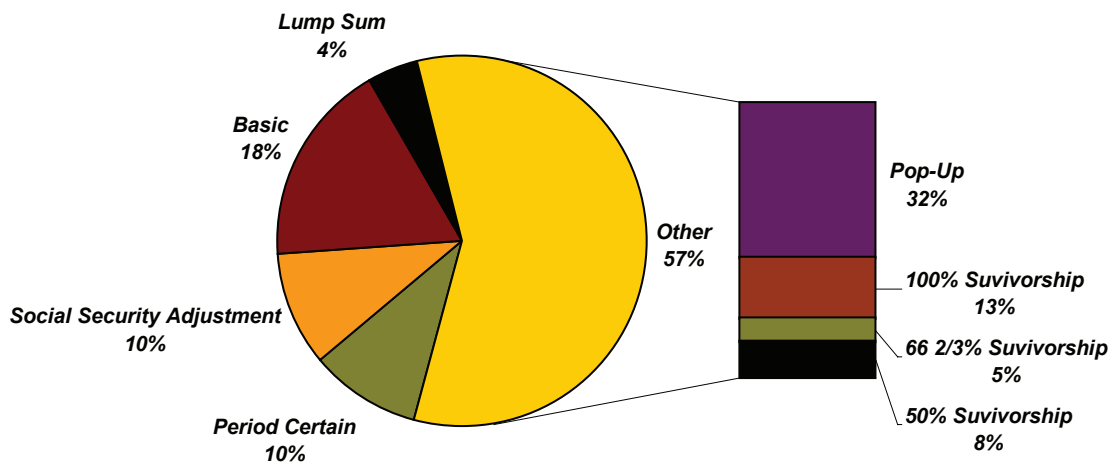
SPRS



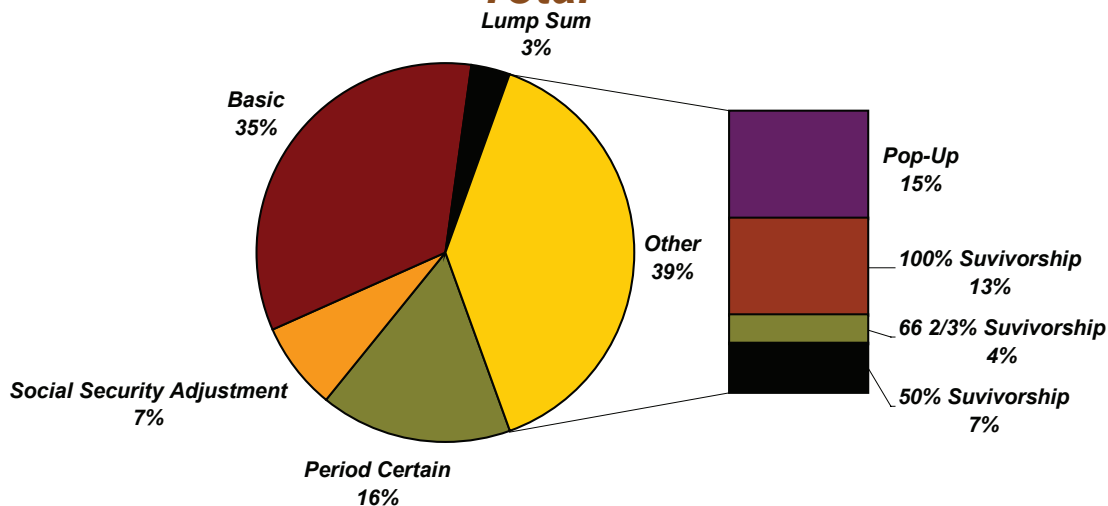
CERS Non-Hazardous



CERS Hazardous



Total



Total Fiscal Year Retirement Payments By County

Adair	\$3,375,303	Grant	\$4,832,943	Mason	\$2,462,887
Allen	\$2,299,639	Graves	\$5,892,652	Meade	\$2,923,634
Anderson	\$14,247,229	Grayson	\$4,092,790	Menifee	\$1,338,068
Ballard	\$1,183,653	Green	\$1,812,950	Mercer	\$5,920,013
Barren	\$7,293,276	Greenup	\$3,310,820	Metcalf	\$1,994,106
Bath	\$2,537,544	Hancock	\$1,141,774	Monroe	\$1,414,903
Bell	\$5,199,166	Hardin	\$14,458,565	Montgomery	\$3,859,227
Boone	\$12,182,556	Harlan	\$4,659,322	Morgan	\$3,411,572
Bourbon	\$4,525,267	Harrison	\$2,950,738	Muhlenberg	\$3,158,557
Boyd	\$8,010,572	Hart	\$2,340,025	Nelson	\$6,500,284
Boyle	\$7,524,236	Henderson	\$7,797,601	Nicholas	\$1,391,780
Bracken	\$1,250,905	Henry	\$9,566,291	Ohio	\$2,784,900
Breathitt	\$4,466,287	Hickman	\$555,145	Oldham	\$11,338,760
Breckinridge	\$3,191,125	Hopkins	\$7,840,252	Owen	\$6,060,527
Bullitt	\$9,526,144	Jackson	\$1,830,705	Owsley	\$1,718,674
Butler	\$1,859,294	Jefferson	\$165,383,958	Pendleton	\$2,664,100
Caldwell	\$3,736,034	Jessamine	\$7,131,705	Perry	\$3,790,055
Calloway	\$7,526,844	Johnson	\$4,334,492	Pike	\$8,143,723
Campbell	\$11,195,634	Kenton	\$18,687,374	Powell	\$2,335,200
Carlisle	\$1,179,309	Knott	\$4,242,475	Pulaski	\$17,526,847
Carroll	\$2,623,876	Knox	\$3,820,391	Robertson	\$734,344
Carter	\$5,000,637	Larue	\$2,505,624	Rockcastle	\$2,383,078
Casey	\$2,369,054	Laurel	\$8,835,929	Rowan	\$6,320,751
Christian	\$15,309,362	Lawrence	\$1,710,634	Russell	\$3,369,037
Clark	\$5,673,742	Lee	\$1,756,755	Scott	\$9,004,368
Clay	\$6,854,058	Leslie	\$1,682,283	Shelby	\$19,421,121
Clinton	\$1,432,343	Letcher	\$3,179,001	Simpson	\$1,339,832
Crittenden	\$1,311,459	Lewis	\$1,823,176	Spencer	\$3,780,959
Cumberland	\$1,589,395	Lincoln	\$3,269,384	Taylor	\$3,824,861
Daviess	\$19,501,203	Livingston	\$1,938,776	Todd	\$1,736,983
Edmonson	\$1,137,800	Logan	\$4,041,338	Trigg	\$3,869,534
Elliott	\$982,033	Lyon	\$2,813,209	Trimble	\$1,887,950
Estill	\$2,282,356	McCracken	\$14,031,498	Union	\$1,837,273
Fayette	\$54,702,182	McCreary	\$1,689,115	Warren	\$21,,334,929
Fleming	\$3,911,874	McClellan	\$1,857,755	Washington	\$2,440,981
Floyd	\$7,019,198	Madison	\$15,258,268	Wayne	\$3,316,846
Franklin	\$118,105,285	Magoffin	\$1,862,288	Webster	\$2,029,276
Fulton	\$1,453,189	Marion	\$3,061,600	Whitley	\$6,806,098
Gallatin	\$791,039	Marshall	\$5,890,082	Wolfe	\$2,290,207
Garrard	\$2,544,474	Martin	\$1,062,525	Woodford	\$10,150,496

Payments to Recipients Living in Kentucky \$917,981,713.35

Payments to Recipients Living in Other States \$43,175,721.49

Total Payments \$961,157,434.84

	KERS Non- Hazardous	KERS Hazardous	CERS Non- Hazardous	CERS Hazardous	SPRS
FY 1999-00					
Number	2,232	141	2,171	306	42
Average Service Credit	289	233	216	249	283
Average Final Compensation	\$35,859	\$33,996	\$30,240	\$38,717	\$53,569
Average Monthly Benefit	\$1,609	\$739	\$880	\$1,599	\$2,634
FY 2000-01					
Number	1,920	139	1,924	258	53
Average Service Credit	272	245	213	260	341
Average Final Compensation	\$38,135	\$37,722	\$27,601	\$41,196	\$62,445
Average Monthly Benefit	\$1,582	\$954	\$868	\$1,685	\$3,453
FY 2001-02					
Number	2,137	162	2,090	281	59
Average Service Credit	289	271	214	267	313
Average Final Compensation	\$44,565	\$42,196	\$28,799	\$45,076	\$62,779
Average Monthly Benefit	\$2,018	\$1,104	\$913	\$1,801	\$3,279
FY 2002-03					
Number	2,148	170	2,411	293	62
Average Service Credit	277	264	206	274	313
Average Final Compensation	\$45,479	\$45,559	\$28,883	\$49,996	\$65,079
Average Monthly Benefit	\$1,873	\$1,144	\$859	\$1,780	\$3,208
FY 2003-04					
Number	2,473	227	2,805	343	53
Average Service Credit	280	255	209	262	320
Average Final Compensation	\$47,872	\$43,778	\$29,172	\$48,607	\$68,533
Average Monthly Benefit	\$1,932	\$1,127	\$837	\$1,631	\$3,468
FY 2004-05					
Number	2,481	234	2,808	403	50
Average Service Credit	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

Employer Contribution Rates by System

Employers contribute at the rate determined by the Board of Trustees to be necessary for the actuarial soundness of the systems, as required by Kentucky Revised Statute 61.565. KERS and SPRS employer rates are subject to approval by the State Legislature through the adoption of the biennial Executive Branch Budget. In recent years, the State Legislature has routinely suspended KRS 61.565 in the budget in order to provide an employer contribution rate that is less than the amount recommended by the KRS Board of Trustees and its' consulting actuary. The following tables provide the employer contribution rate recommended by the Board and its' consulting actuary and the rate specified by the Executive Branch budget if applicable.

KERS Non-Hazardous			KERS Hazardous	
<i>Fiscal Year</i>	<i>Budgeted Rate</i>	<i>Recommended Rate</i>	<i>Budgeted Rate</i>	<i>Recommended Rate</i>
2000-2001	5.89%	5.89%	18.84%	18.84%
2001-2002	5.89%	5.89%	18.84%	18.84%
2002-2003	3.76%	5.89%	17.60%	18.84%
2003-2004	5.89%	7.53%	18.84%	18.84%
2004-2005	5.89%	10.29%	18.84%	19.47%
2005-2006	5.89%	13.62%	18.84%	21.59%

CERS Non-Hazardous		CERS Hazardous	SPRS	
<i>Fiscal Year</i>	<i>Recommended Rate</i>	<i>Recommended Rate</i>	<i>Budgeted Rate</i>	<i>Recommended Rate</i>
2000-2001	7.17%	16.78%	21.58%	21.58%
2001-2002	6.41%	16.28%	21.58%	21.58%
2002-2003	6.34%	16.28%	17.37%	21.58%
2003-2004	7.34%	18.51%	21.58%	21.58%
2004-2005	8.48%	22.08%	21.58%	28.08%
2005-2006	10.98%	25.01%	21.58%	34.83%

Two separate “retirement windows” have been established in past legislative sessions for non-hazardous employees participating in the Kentucky Employees Retirement System (KERS) and the County Employees Retirement System (CERS). The first window, established by SB 142 during the 1998 regular session of the General Assembly, provides for an increased benefit factor for non-hazardous KERS employees (up to 2.2%) if certain service requirements are met and if the employee retires on or before January 1, 2009. The second window, established by HB 278 during the 2001 regular session of the General Assembly, provides for a final compensation based upon a non-hazardous employee’s highest three years (3-High) of salary rather than the employee’s highest five years (5-high) of salary. In order to qualify for 3-high final compensation a non-hazardous KERS or CERS employee must meet certain age and service requirements and again, retire on or before January 1, 2009.

Each of these two windows influences how retirement benefits are determined for non-hazardous employees participating in KERS and CERS. Consequently, employees who are eligible for one or both of the windows have a strong financial incentive to retire before the windows sunset in 2009. The following information describes the number of employees eligible to retire with and without increased benefits as of January 1, 2006 and three years later when the window expires on January 1, 2009.

Kentucky Retirement Systems (KRS) KERS & CERS Non-Hazardous Employees Eligible To Retire

Summary	KERS (state government, regional universities, health departments)		CERS (City, county, and classified school board employees)	
	1/2006	1/2009	1/2006	1/2009
Employees Eligible to Retire With An Unreduced or Reduced Benefit	8,850	14,118	15,183	25,559
Breakdown By Eligibility				
Employees with 27 or more Years of Service*	2,359	4,271	1,307	3,064
Employees with 25 But Not More Than 27 Years of Service**	1,263	1,279	1,104	1,400
Employees Age 55 or greater with 20 But Not More Than 25 Years of Service**	880	1,540	1,583	3,181
Employees Age 55 with 5 But Less than 20 Years of Service**	3,738	5,713	9,099	13,361
Employees Age 65 with 4 But Less Than 20 Years of Service**	610	1,315	2,090	4,553
Breakdown By Retirement Window				
Employees Eligible for 2.2% Benefit Factor Window Only***	4,502	7,090	N/A	N/A
Employees Eligible for Both 2.2% Benefit Factor & High-3 Final Compensation Window***	2,130	4,054	1,214	2,974

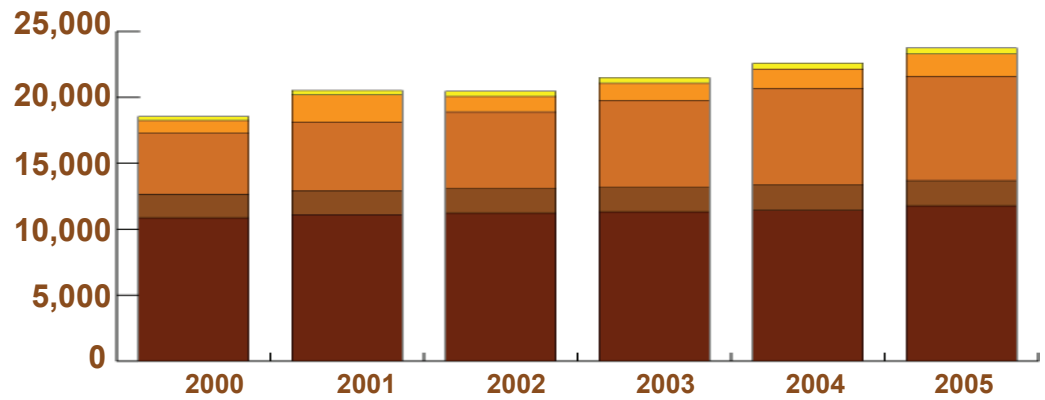
*Employee is eligible for an unreduced benefit upon earning 27 years of service or upon reaching age 65.

**Employees are eligible for a reduced benefit upon reaching 25 years of service or having a combined age of 55 with 5 years of service.

***KERS Employees are eligible for a 2.2% benefit factor if the employee has 13 months credit from 1/1/1998 to 1/1/1999, 20 years of service credit at retirement, and retires between 2/1/1999 and 1/1/2009. KERS and CERS employees are eligible for High-3 Final Compensation if the Employee has 27 or more years of service, their age and service equals at least 75 years, and they retire between 8/1/2001 and January 1, 2009.

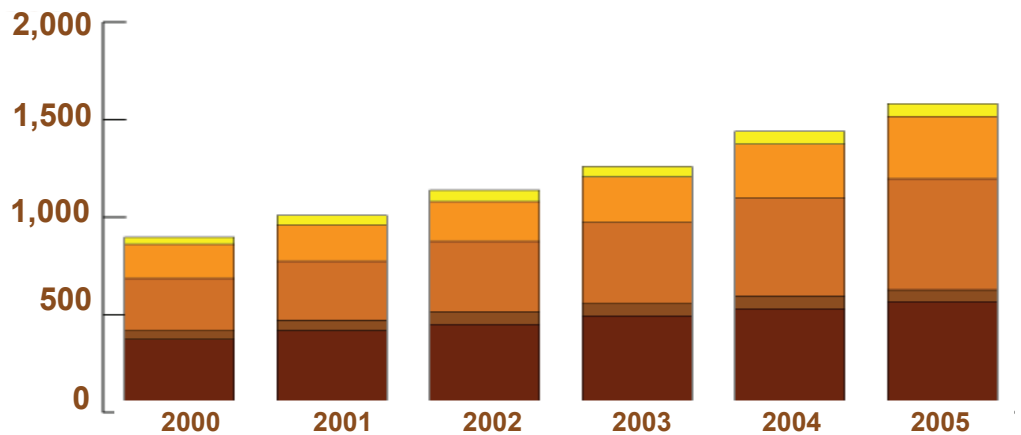
Insurance Contracts by Type

KERS Non-Hazardous



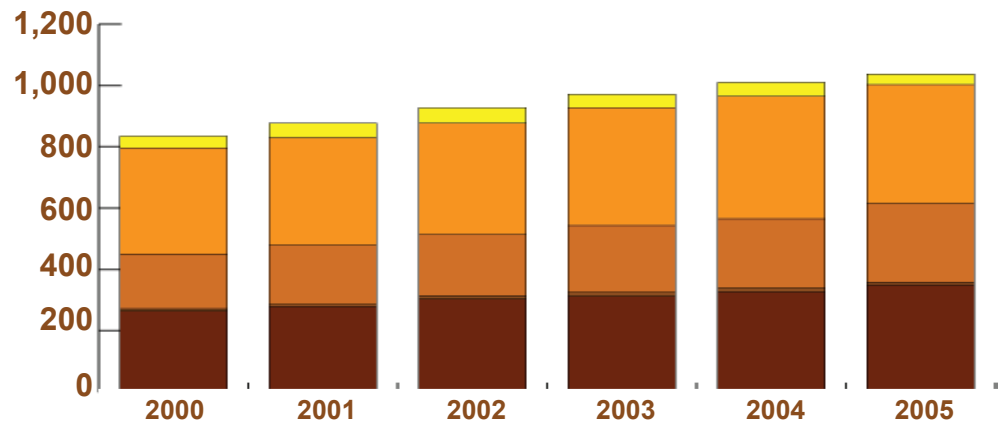
Medicare High	10,869	11,107	11,229	11,311	11,437	11,764
Medicare Regular	1,802	1,818	1,838	1,855	1,932	1,915
Single	4,619	5,199	5,822	6,602	7,313	7,928
Couple/Family	955	1,070	1,182	1,298	1,462	1,679
Parent Plus	295	346	396	428	443	461

KERS Hazardous



Medicare High	375	420	451	494	531	567
Medicare Regular	43	52	66	62	65	61
Single	268	302	359	417	502	570
Couple/Family	175	185	205	234	276	319
Parent Plus	37	51	57	53	65	65

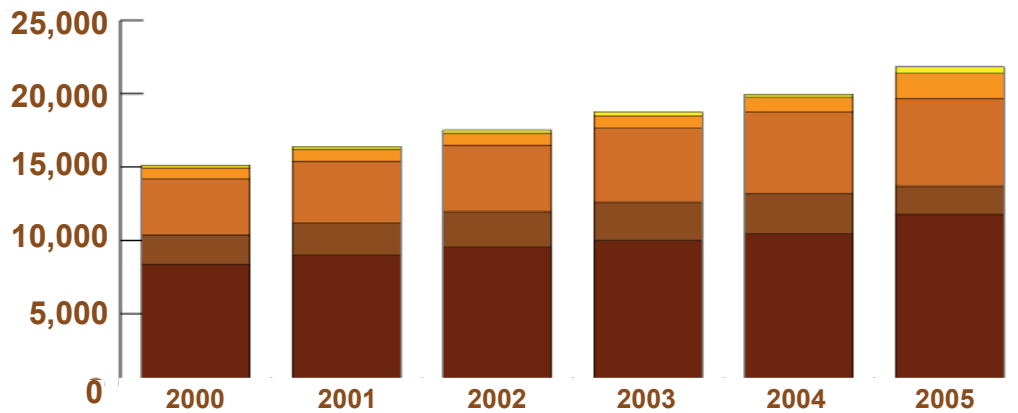
SPRS



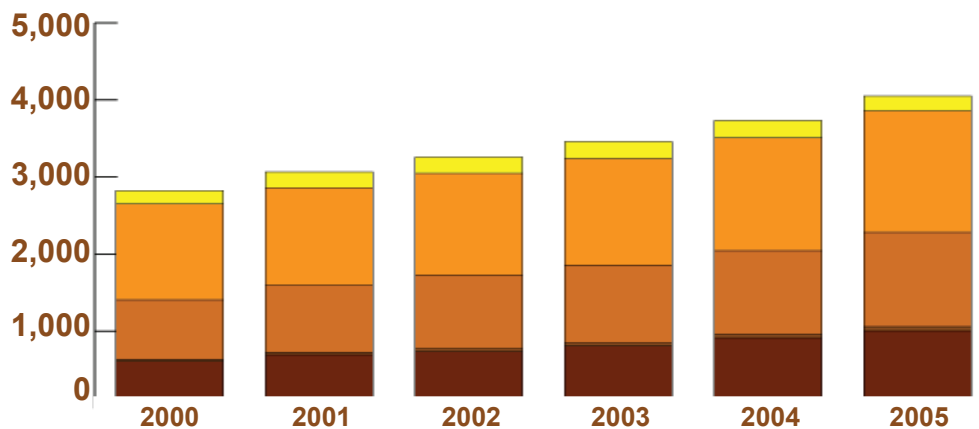
Medicare High	264	278	303	312	326	348
Medicare Regular	8	8	11	13	13	10
Single	178	194	199	218	226	257
Couple/Family	347	350	364	384	400	388
Parent Plus	38	47	50	44	45	34

Insurance Contracts by Type

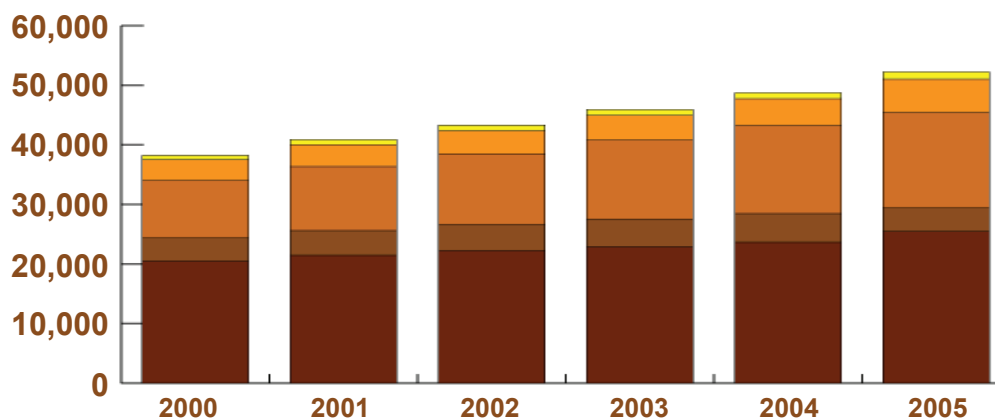
**CERS
Non-Hazardous**



**CERS
Hazardous**



Total



Retired Reemployed

Since August 1, 1998, state law has allowed retired members to return to work in the same system from which they retired and contribute to a new account provided the appropriate separation of service is observed. The following 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

Data as of June 30, 2005

Reemployed Retirees In KRS	KERS			CERS			SPRS
	Non-Hazardous	Hazardous	Total	Non-Hazardous	Hazardous	Total	Total
Total Active Employees	47,118	4,274	51,392	81,240	9,464	90,704	987
Total Retirees	30,770	1,752	32,522	31,347	4,361	35,708	1036
Reemployed Retirees	606	60	666	1,458	608	2,066	3
% of Reemployed Retirees to Total Actives	1.29%	1.40%	1.30%	1.79%	6.42%	2.28%	0.30%
% of Reemployed Retirees to Total Retirees	1.97%	3.42%	2.05%	4.65%	13.94%	5.79%	0.29%
Reemployed Retiree Data*							
Average Age at Initial Retirement	52	50	52	58	48	55	44
Months of Service Credit at Initial Retirement	312	282	309	250	281	259	321
Final Compensation At Initial Retirement	\$49,185	\$47,767	\$49,057	\$29,291	\$47,050	\$36,007	\$41,847
Reemployed Retirees Avg. Annualized Salary Earned in Fiscal Year 2004-2005 (Second Retirement Account)	\$40,119	\$32,238	\$39,409	\$26,913	\$37,502	\$30,918	\$64,184
Retirees Returning to Work for the Same Employer	245	22	267	1208	106	1314	3
% Retirees Returning to Work For Same Employer	40.43%	36.67%	40.09%	82.85%	17.43%	63.60%	100.00%

N/A: Not Applicable

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

Note: An additional 995 retirees have been reemployed in full-time positions covered by a different retirement system. Of this total, 497 KERS retirees have returned to work with an agency participating in CERS, 275 CERS retirees have returned to work with an agency participating in KERS, 94 SPRS retirees have returned to work with an agency participating in KERS, and 129 SPRS retirees have returned to work with an agency participating in CERS.

