

Making the Pieces Fit

Comprehensive Annual Financial Report *for fiscal year ended June 30, 2006*



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
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Frankfort, Kentucky 40601



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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, 2006. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the management of the Kentucky Retirement Systems.

The CAFR is divided into five sections:

- An Introductory Section, containing KRS's administrative organization, Systems Highlights 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 members of Kentucky Employees Retirement System (KERS), County Employees Retirement System (CERS), and State Police Retirement System (SPRS) (collectively referred to as KRS) in understanding KRS' financial and actuarial status. This CAFR was prepared to conform with the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board. Transactions of the system are reported on the accrual basis of accounting. Additionally, sufficient internal accounting controls exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules. Please refer to Management's Discussion and Analysis on page 27 for more information.

History

KERS was created in 1956 by the Kentucky General Assembly in order to supplement the benefits provided by Social Security. When the first actuarial valuation was completed June 30, 1957, there were 16,000 employees participating in KERS and assets of \$2.8 million. SPRS and CERS were established in 1958. The first actuarial valuation of SPRS was conducted June 30, 1959. No actuarial valuation of CERS was conducted until June 30, 1960 because the statutes 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, 2006, there were more than 302,000 active, inactive and retired members in the combined systems and approximately \$15.0 billion in assets. A breakdown of membership by system is provided in the Statistical Section.

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

Major Initiatives

A major goal for KRS during the fiscal year was to raise awareness of the continued reductions to the KERS and SPRS employer contribution rates by the Kentucky General Assembly. These rates have been less than the amount recommended by the KRS Board of Trustees and its consulting actuary. Through educational initiatives with our membership and with policymakers, KRS received an increase in the employer contribution rate for the 2006-2007 and the 2007-2008 fiscal years. While this was the first increase in the KERS and SPRS employer rates since 2001, contributions remained far short of the actuarially recommended rates. Management believes that these efforts must continue as actuarial funding levels continue to falter.

In 2005, KRS embarked on a project of self-insuring the Medicare eligible retirees. Through these efforts, KRS was able to reduce retiree medical premiums by 6.34% during the 2006 plan year. KRS is continuing to examine the data to better understand the dynamics of our retiree population and has already completed the introductory steps towards implementing a health and wellness program for our retirees. If KRS is to rein in costs something must be done to improve the health of people who currently have chronic disease while in the longer term we must reduce the overall incidence of chronic disease. Developing an effective long term strategy is a priority for KRS and begins with identifying baseline information and formulating programs that bring disease and pharmacy management principles to bear on those with chronic disease.

KRS Administrative staff continued to move forward on other long term initiatives. KRS recently implemented two important technology projects to improve its financial operations. KRS successfully replaced its legacy financial system with the Great Plains integrated financial and accounting system from Microsoft. The Great Plains system includes functions for human resources and payroll processing which has allowed KRS to bring these activities in-house. Additionally, KRS recently completed successful implementation of the ProLaw Case Management system to assist the KRS legal staff in managing legal matters.

KRS is about to embark on a major project initiative to implement a new, state of the art pension administration solution. The project is called Strategic Technology Advancement for the Retirement of Tomorrow (START).

The primary objective of START is to implement a stable, proven, state-of-the-industry, fully integrated and browser based solution capable of supporting the KRS mission well into the 21st century. It will enable KRS staff to perform all of their duties using the workstations (PCs) on each desk tied together through a KRS-wide network via a browser-based system.



Additional objectives of the START initiative include:

- Improved service levels to members;
- Improved system workflow and increased work efficiency;
- Expanded and improved Web-based, self-service functions to members, retirees, and employers;
- Improved accuracy of all information collected, maintained, and provided by KRS;
- Improved timeliness and accuracy of responses to members' inquiries;
- Inclusion of any proven new technologies that can provide cost-effective benefits to KRS members;
- A secure environment for member and retiree data, and
- A secure environment for the receipt and transmittal of information related to members, retirees, and employers.

In addition to the pension application, the new solution will include best practice workflow management elements and business process and organizational changes, as well as the computer hardware and software necessary to support the new system.

As part of the continued commitment to protect our membership information, Kentucky Retirement Systems has identified the need to improve information technology security controls and practices as part of continual improvement processes. Over the past twelve months, KRS has initiated several activities to better protect member's information including:

- Established the position and hired an Information Security Officer.
- Initiated security awareness activities for KRS staff and management.
- Began review of business processes to determine potential security risks.
- Completed a 3rd party assessment of critical information technology infrastructure to identify and remedy weaknesses.

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, 2005. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports. This was the seventh 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 KRS' funds in accordance with the "prudent person rule." The prudent person rule states that fiduciaries shall discharge their investment duties with the same degree of diligence, care and skill that a prudent person would ordinarily exercise under similar circumstances in a comparable position.

The Board has managed the funds in recognition of the basic long-term nature of the Systems. The Board has interpreted this to mean that the assets of the systems should be actively managed — that is, investment decisions regarding the particular securities to be purchased or sold shall be the result of the conscious exercise of discretion. The Board has further recognized that proper diversification of assets must be maintained. It is through these policies that KRS has been able to provide significant returns over the long-term while minimizing investment related expenses. The Investment Section of this report, starting on page 73, contains detailed analysis of investments. This section includes asset allocations, rates of return, discussion of the current year market environment and historical trend schedules.

The pension and insurance investment trusts experienced significant growth during the 2005-2006 fiscal year. The pension portfolio posted a total return of 9.7% for the year, while the insurance portfolio earned 12.4%. Investment income, which includes the appreciation of asset values, dividends, and interest totaled \$1,154.8 and \$229.4 million, net of investment expenses, for the pension and insurance portfolios, respectively. The majority of this amount was due to the appreciation in value of investments, which totaled \$803.6 for the pension portfolio and \$188.2 million for the insurance fund. Interest and dividends accounted for \$370.0 for the pension portfolio and \$43.6 million on the insurance side.

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 as of June 30, 2006 are 59.97% for KERS Non-Hazardous, 84.14% for KERS Hazardous, 83.55% for CERS Non-Hazardous, 75.00% for CERS Hazardous and 66.61% for SPRS. These funding levels will fluctuate over time with experience deviations. Since 2001, all systems have experienced reductions in the funding levels for the pension funds due to investment returns less than the assumed rate resulting from market loss, higher than anticipated retirements, increasing payments for retiree cost of living adjustments, and adjustments in actuarial assumptions which were effective with the June 30, 2006 valuation.

The insurance funds, which were established in 1978 to provide funding for retiree medical benefits, has improved in recent years due to the Board's policy of incrementally increasing employer contributions to the funds in order to reach full entry age normal cost by 2016. However, the insurance funds are not at the same funding levels as the pension funds. The funding level for the insurance funds as of June 30, 2006 are 7.82% for KERS Non-Hazardous, 34.26% for KERS Hazardous, 16.88% for CERS Non-Hazardous, 21.92% for CERS Hazardous and 18.12% for SPRS. The insurance funds continue to be a primary concern of the Kentucky Retirement Systems. Total actuarial liabilities for the funds exceed assets by \$13.12 billion.

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

Professional Services

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

Other Information

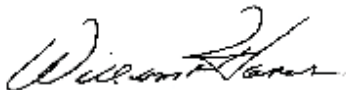
Kentucky Statutes require an annual audit by an independent certified public accountant or the Auditor of Public Accounts. Mountjoy & Bressler PSC performed the audit for the fiscal year ended June 30, 2006, and the results of that audit are contained in the Financial Section. The firm gave KRS an unqualified opinion and also indicated that the financial statements present fairly, in all material respects, the plan net assets of 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 KRS funds.

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

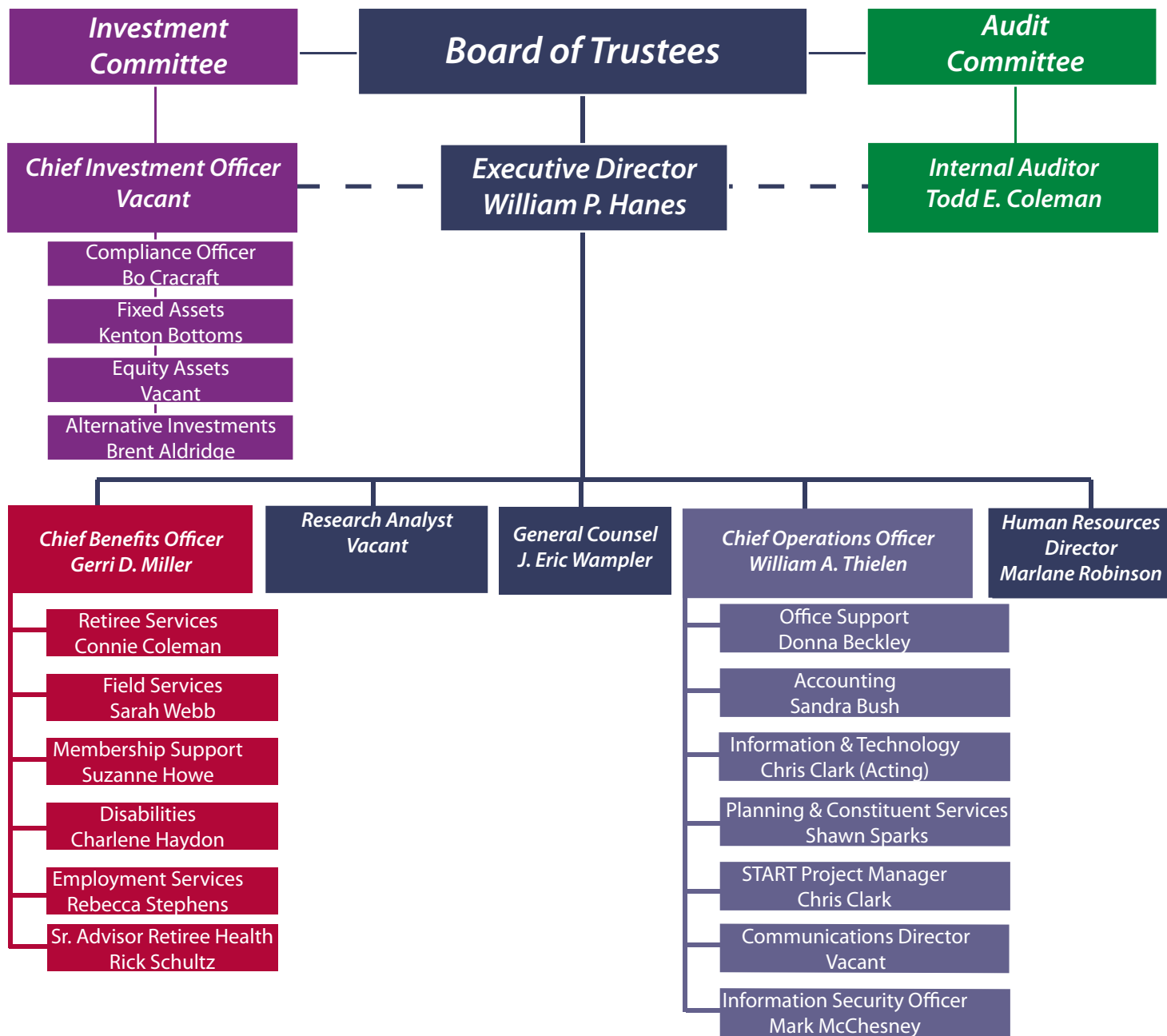
On behalf of the Board of Trustees, I would like to take this opportunity to express my gratitude to the staff, the advisors and the many people who have worked so diligently to assure the successful operation of the Kentucky Retirement Systems.

Respectfully submitted,



William P. Hanes, Esq.
Executive Director





Consultants

Actuarial Services

Cavanaugh Macdonald Consulting, LLC

Auditing Services

Mountjoy & Bressler, LLP

Legal Consultants

Klausner & Kaufman, PA

Legal Services

Stoll Kennon & Park, LLP

Fiduciary Review Consultants

Ice Miller, LLP

Asset Management

Strategic Investment Solutions



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, 2010



Susan Smith Horne
Lexington
Elected by KERS
Term Expires March 31, 2010



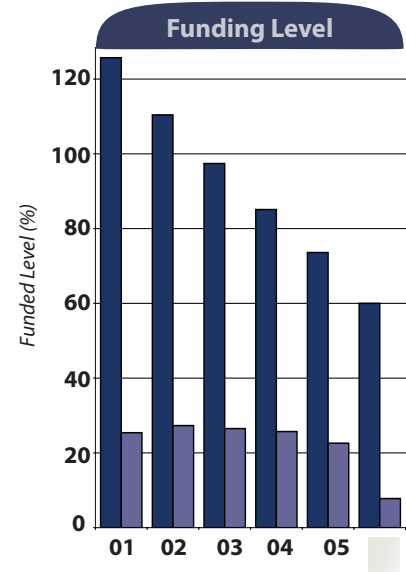
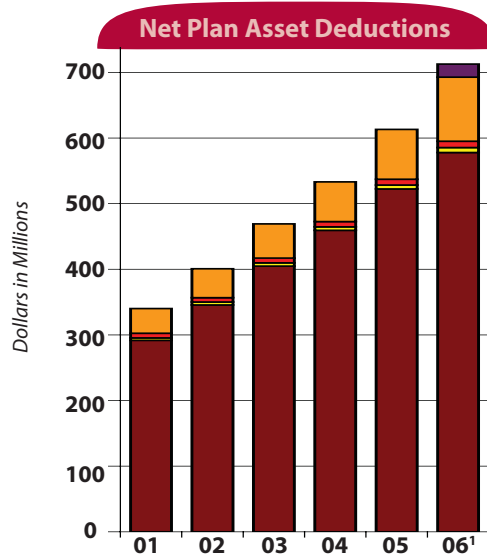
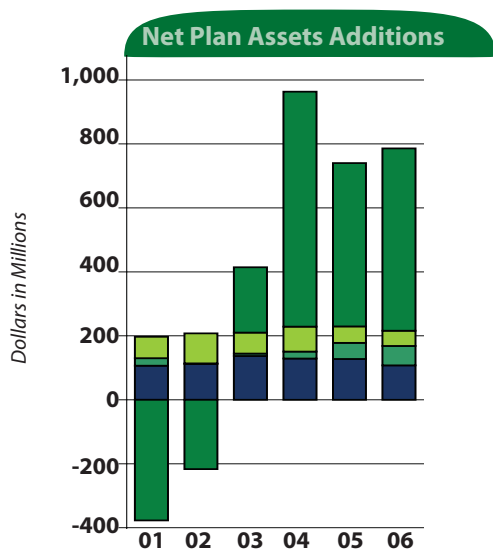
Larry C. Conner
Lexington
Appointed by Governor
Term Expires March 31, 2007



Brian J. Crall
Frankfort
Secretary, Personnel Cabinet
Term Expires Ex-Officio



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



¹ As of January 1, 2006 the Medical Insurance Exp. includes Self Funding Insurance expenses.

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 :	46,707
Inactive Members:	29,143
Retired Members and Beneficiaries:	32,140

Active Membership

	Average
Age:	43.0
Average Years of Service:	9.0
Average Annual Salary:	\$36,445

Retired Membership

	Average
Age:	66.2
Average Annual Benefit:	\$19,256
Number Added:	2,481
Number Removed:	1,111

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 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:	\$5,440,133,000
Insurance Fund:	\$ 612,585,000
Total:	\$6,052,718,000

Contributions

Employees:	5%
Employers:	Pension: 15.55%
	Insurance: 32.82%
	Total 48.37%
(Rate Effective July 1, 2007)	

KERS employer rates are subject to state budget approval.

	2001	2002	2003	2004	2005	2006
Net Plan Assets Additions						
(Dollars in Millions)						
Net Investment Income	376.9	216.8	204.2	734.6	510.5	570.1
Employer Cont. (Ins.)	66.9	93.9	65.3	78.0	51.4	47.6
Employer Cont. (Pen.)	23.5	1.8	7.6	21.7	50.3	60.7
Member Contribution	106.6	112.0	137.1	129.1	127.8	107.6
Premiums from Retirees						5.8
Net Plan Assets Deductions						
(Dollars in Millions)						
Medical Insurance Exp. ¹	37.6	44.1	52.0	60.5	76.0	97.5
Refunds	7.0	6.7	7.3	8.0	8.8	9.6
Administrative Exp.	3.8	4.4	5.0	5.3	5.9	7.6
Benefit Payments	291.7	345.7	404.9	459.4	522.4	577.9
Demutualization Refunds						20.0
Funding Level						
(% of Actuarial Assets to Actuarial Liabilities)						
Pension	125.7	110.4	97.4	85.1	73.6	60.0
Insurance	25.4	27.3	26.5	25.7	22.6	7.8

System Highlights

Members	
Active Members:	4,320
Inactive Members:	2,501
Retired Members and Beneficiaries:	1,980

Active Membership	
Average Age:	41.6
Average Years of Service:	7.0
Average Annual Salary:	\$32,117

Retired Membership	
Average Age:	61.1
Average Annual Benefit:	\$12,729
Number Added:	256
Number Removed:	28

Normal Retirement	
The KERS formula for normal retirement is:	
<i>Final Compensation</i>	<i>Benefit Factor</i>
x	x
	<i>Years of Service</i>

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:	\$ 437,030,000
Insurance Fund:	\$ 223,458,000
Total:	\$ 660,488,000

Contributions	
Employees:	8 %
Employers:	Pension: 10.20 %
	Insurance: 36.91 %
	Total: 47.11 %

(Rate Effective July 1,2007)

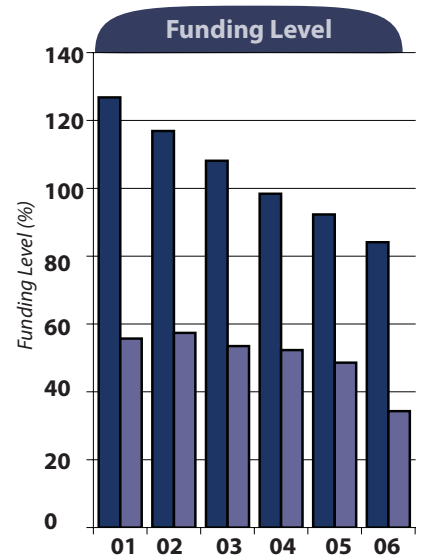
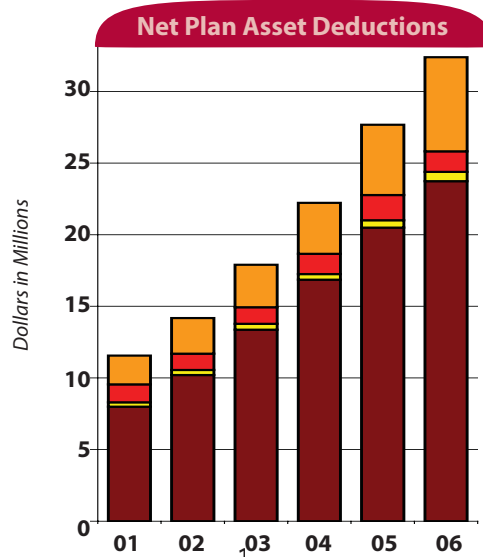
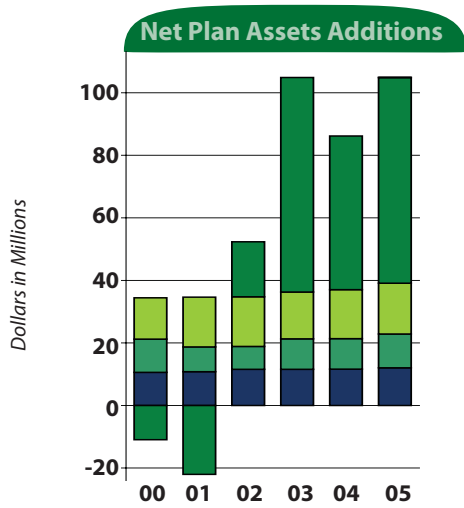
KERS employer rates are subject to state budget approval.

Kentucky Employees Retirement System Hazardous

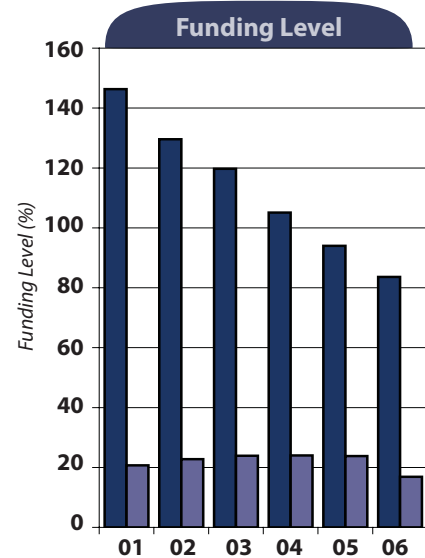
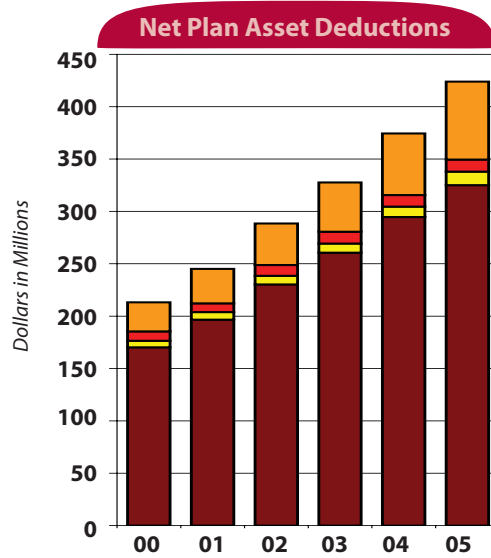
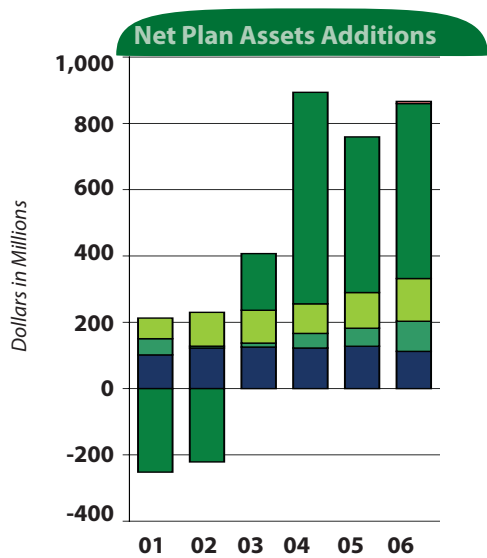
The Kentucky Employees Retirement System (KERS) was established July 1, 1956 by the state legislature. Employees who work in a regular full time position for a participating agency must be enrolled in the retirement system at the beginning of their employment. A regular full-time position is defined 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.



	2001	2002	2003	2004	2005	2006
Net Plan Assets Additions						
	(Dollars in Millions)					
● Net Investment Income	10.9	22.0	17.6	68.6	49.1	65.7
● Employer Cont. (Ins.)	13.2	15.9	15.9	15.0	15.7	17.0
● Employer Cont. (Pen.)	10.6	7.9	7.3	9.8	9.8	10.8
● Member Contribution	10.6	10.8	11.6	11.5	11.6	12.1
● Premiums from Retirees						.09
Net Plan Assets Deductions						
	(Dollars in Millions)					
● Medical Insurance Exp.*	2.0	2.5	3.0	3.6	4.9	6.6
● Refunds	1.3	1.1	1.2	1.4	1.8	1.4
● Administrative Exp.	.3	.4	.4	.4	.5	.6
● Benefit Payments	8.0	10.2	13.4	16.9	20.5	23.7
Funding Level						
● Pension	126.8	116.9	108.1	98.4	92.3	84.1
● Insurance	55.7	57.4	53.5	52.3	48.6	34.3



¹ As of January 1, 2006 the Medical Insurance Exp. includes Self Funding Insurance expenses.



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	83,694
Inactive Members	50,046
Retired Members and Beneficiaries	33,102

Active Membership

Active Membership	Average
Age	45.1
Average Years of Service	8.1
Average Annual Salary	\$23,687

Retired Membership

Retired Membership	Average
Age	68.1
Average Annual Benefit	\$9,711
Number Added	2,782
Number Removed	1,027

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:	\$5,191,377,000
Insurance Fund:	\$ 813,998,000
Total:	\$6,005,375,000

Contributions

Employees:	5%
Employers:	Pension: 6.98%
	Insurance: 20.51%
	Total 27.49%

(Rate Effective July 1, 2007)

Please see page 106 for a full explanation of the employer contribution rate phase-in.

Net Plan Assets Additions

	2001	2002	2003	2004	2005	2006
Net Investment Income	252.1	151.5	170.7	637.7	469.4	527.8
Employer Cont. (Ins.)	62.3	102.2	99.2	89.3	107.6	128.9
Employer Cont. (Pen.)	48.9	5.5	11.9	44.0	54.6	90.8
Member Contribution	101.6	122.4	125.3	122.5	127.6	112.4
Premiums from Retirees						6.4

(Dollars in Millions)

Net Plan Assets Deductions

	2001	2002	2003	2004	2005	2006
Medical Insurance Exp.*	27.8	33.0	39.7	47.0	58.7	74.5
Refunds	9.0	8.3	10.2	11.3	11.0	11.6
Administrative Exp.	6.2	7.2	8.2	8.7	10.0	12.8
Benefit Payments	170.3	196.7	230.3	260.6	294.6	325.1

(Dollars in Millions)

Funding Level

	2001	2002	2003	2004	2005	2006
Pension	146.3	129.6	119.7	105.1	94.0	83.6
Insurance	20.7	22.8	23.9	24.0	23.8	16.9

(% of Actuarial Assets to Actuarial Liabilities)

System Highlights

Members

Active Members	9,635
Inactive Members	1,955
Retired Members and Beneficiaries	4,712

Active Membership

Average Age	37.8
Average Years of Service	8.3
Average Annual Salary	\$44,310

Retired Membership

Average Age	58.4
Average Annual Benefit	\$23,530
Number Added	427
Number Removed	76

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:	\$1,528,845,000
Insurance Fund:	\$ 411,121,000
Total:	\$1,939,966,000

Contributions

Employees:	8 %
Employers:	Pension: 15.01 %
	Insurance: 39.52 %
Total:	54.53 %

(Rate Effective July 1, 2007)

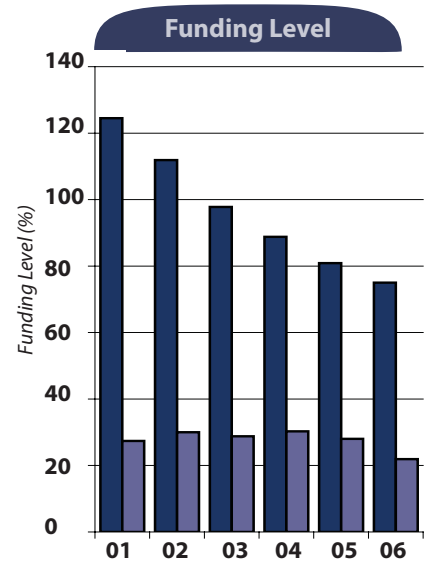
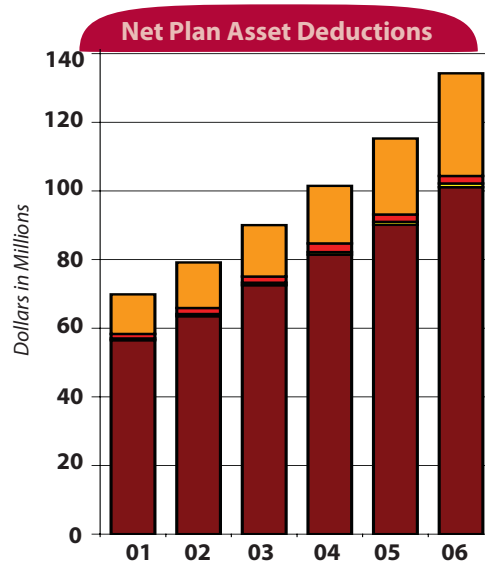
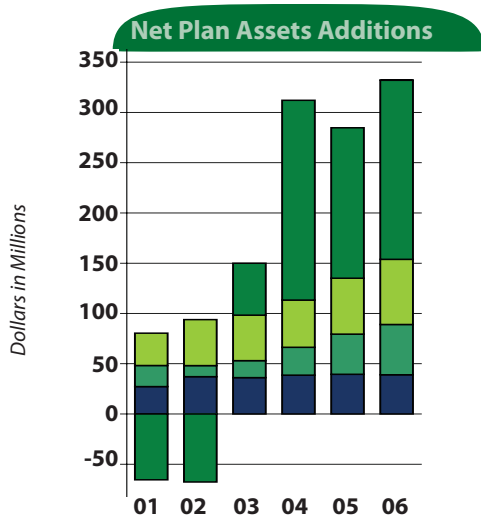


	2001	2002	2003	2004	2005	2006
Net Plan Assets Additions						
	(Dollars in Millions)					
● Net Investment Income	65.4	67.6	51.6	199.0	148.7	178.1
● Employer Cont. (Ins.)	32.1	45.7	45.2	47.0	55.6	64.9
● Employer Cont. (Pen.)	21.0	11.1	16.9	27.6	39.9	50.0
● Member Contribution	27.3	37.1	36.2	38.7	39.5	39.1
● Premiums from Retirees						1.0
Net Plan Assets Deductions						
	(Dollars in Millions)					
● Medical Insurance Exp.*	11.5	13.3	15.0	16.8	22.2	29.9
● Refunds	1.3	1.8	1.8	2.5	2.1	2.1
● Administrative Exp.	.5	.6	.7	.8	.9	1.1
● Benefit Payments	56.5	63.5	72.5	81.4	90.1	101.1
Funding Level						
	(% of Actuarial Assets to Actuarial Liabilities)					
● Pension	124.5	111.9	97.8	88.8	80.9	75.0
● Insurance	27.4	30.0	28.8	30.3	28.0	21.9

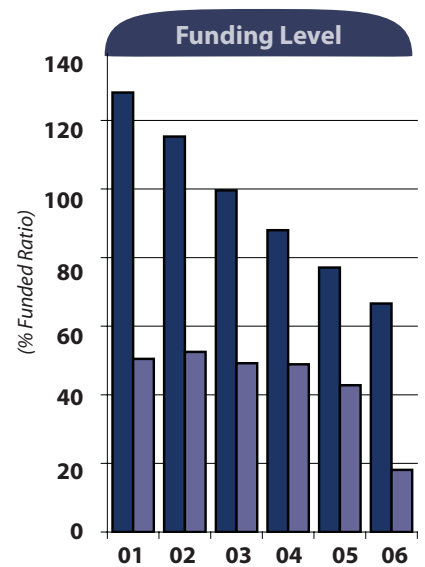
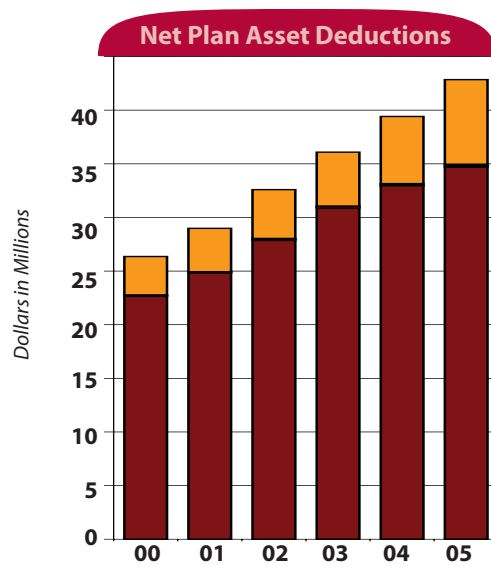
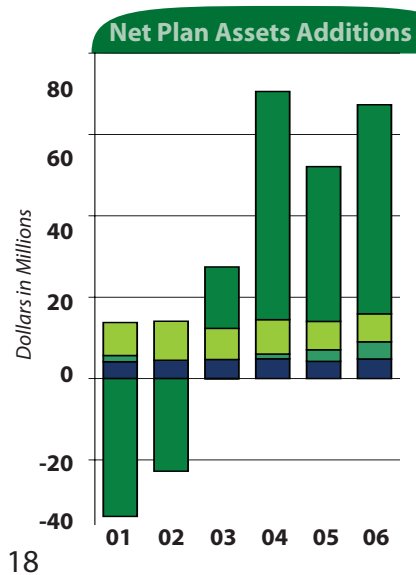


County Employees Retirement System Hazardous

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.



¹ As of January 1, 2006 the Medical Insurance Exp. includes Self Funding Insurance expenses.



¹ As of January 1, 2006 the Medical Insurance Exp. includes Self Funding Insurance expenses.

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	1,028
Inactive Members	266
Retired Members and Beneficiaries	1,067

Active Membership

Average Age	36.5
Average Years of Service	10.5
Average Annual Salary	\$44,443

Retired Membership

Average Age	59.8
Average Annual Benefit	\$34,497
Number Added	43
Number Removed	10

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:	\$ 352,841,000
Insurance Fund:	\$ 110,460,000
Total:	\$ 463,301,000

Contributions

Employees:	8%
Employers:	Pension: 28.95 %
	Insurance: 91.05 %
	Total: 120.00 %

(Rate Effective July 1, 2007)

SPRS employer rates are subject to state budget approval.

Net Plan Assets Additions

	2001	2002	2003	2004	2005	2006
Net Investment Income	33.9	22.8	15.1	56.1	38.0	51.4
Employer Cont. (Ins.)	8.1	9.6	7.7	8.5	7.0	6.9
Employer Cont. (Pen.)	1.5	0	0	1.2	2.9	4.2
Member Contribution	4.1	4.5	4.7	4.9	4.2	4.8

Net Plan Assets Deductions

	2001	2002	2003	2004	2005	2006
Medical Insurance Exp.*	3.6	4.0	4.5	5.0	6.3	7.9
Refunds	.1	0	.1	.2	.1	.1
Administrative Exp.	.1	.1	.1	.1	.1	.1
Benefit Payments	22.6	24.8	27.9	30.8	32.9	34.7

Funding Level

	2001	2002	2003	2004	2005	2006
Pension	128.1	115.3	99.6	88.0	77.1	66.6
Insurance	50.5	52.5	49.2	48.9	42.8	18.1

(% of Actuarial Assets to Actuarial Liabilities)

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, 2005

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



Carla E. Perry
President

Jeffrey L. Esser
Executive Director

Financial Section



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Mountjoy & Bressler, LLP

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Kentucky Retirement Systems
Frankfort, Kentucky

We have audited the financial statement of the Kentucky Retirement Systems, a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2006, as listed in the table of contents. This financial statement is the responsibility of the Kentucky Retirement Systems' management. Our responsibility is to express an opinion on this financial statement based on our audit.

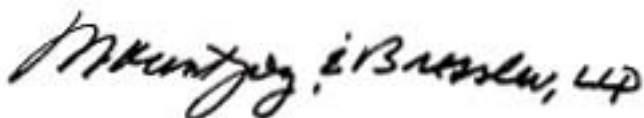
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, the financial statement referred to above presents 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, 2006 and the changes in plan net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 31, 2006 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 grant agreements and other matters. 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 25 through 29) and the supplementary information included in the schedule of funding progress and schedule of employer contributions (pages 54 through 64) are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The additional supporting schedules (pages 54 through 71) 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 statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.



August 31, 2006
Louisville, Kentucky



KENTUCKY RETIREMENT SYSTEMS MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended June 30, 2006

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, 2006. Please read it in conjunction with the financial statements, which begin on page 30.

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 \$545 million during the 2005-2006 fiscal year.
- Covered payroll for 2005-2006 was \$4,348 million compared to covered payroll for the 2004-2005 plan year of \$4,160.4 million, increasing approximately \$187.6 million. The corresponding employer contributions increased by \$79.7 million for a total employer contribution amount of \$469.9 million. Of the total employer contribution amount, \$216.5 million was posted to the pension funds while \$253.4 million was posted to the insurance funds. Contributions paid by employees were \$275.9 and \$310.8 million respectively for the years ended June 30, 2006 and June 30, 2005. This decrease in employee contribution is a result of a decrease in service purchased by KRS members.
- The net appreciation in the fair value of investments was \$803.6 million for the year ended June 30, 2006 compared to net appreciation of \$723.8 million for the prior fiscal year. Included in this net appreciation were realized gains on sales of investments of \$601.6 million. In comparison, the pension funds realized gains of \$474.9 million for the year ended June 30, 2005. The increase in realized gain experienced by the pension funds is due to a favorable change in market conditions.
- Interest, dividend and securities lending income net of their respective expenses was \$358.8 million compared to \$335.3 million net investment income in last fiscal year.
- Pension benefits paid to retirees and beneficiaries increased \$102.1 million bringing total benefit payments to \$1,062.6 million. Refund of contributions paid to former members upon termination of employment increased from \$23.9 million to \$24.9 million.
- Administrative expense increased \$4.8 million totaling \$22.2 million compared to \$17.4 million in the prior year.



Financial Section

KENTUCKY RETIREMENT SYSTEMS MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended June 30, 2006

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 \$272 million during the 2005-2006 fiscal year.
- Premiums received from retirees that participated in the self funded plan totaled \$12.3 million.
- Employer contributions of \$253.4 million were received. This is an increase of \$20.7 million over the prior fiscal year. This increase is due to the increase of covered payroll reported by participating employers.

The net appreciation in the fair value of investments was \$188.2 million compared to net appreciation of 122.1 million for the prior fiscal year. Included in this net appreciation were realized gains on sales of investments of \$77.9 million. In comparison, the insurance funds realized gains on investments of \$35.9 million in the prior fiscal year. This increase in realized gains is due to a favorable change in market conditions.

- Interest, dividend and securities lending income net of their respective expenses was approximately \$42 million compared to net investment income of approximately \$36 million in last fiscal year.
- Premiums paid by the fund for hospital and medical insurance coverage totaled \$177.5 million. Payments for the self-funded healthcare reimbursements totaled \$35.3 million. The total of insurance premiums paid plus self-funded reimbursements was \$212.8 million for the 2005-2006 plan year. Insurance premium paid for the prior plan year totaled \$166.9 million.

USING THIS FINANCIAL REPORT

This financial report consists of two financial statements and two required schedules of historical trend information. The Combining Statement of Plan Net Assets for the Pension Fund on page 30 and for the Insurance fund on page 31 provides a snapshot of the financial position of the each of the three systems at June 30, 2006. The Combining Statement of Changes in Plan Net Assets for the Pension Fund on page 32 and for the Insurance Fund on page 33 summarize the additions and deductions that occurred for each of the three systems during the period from July 1, 2005 through June 30, 2006.

The Schedule of Funding Progress on pages 54-59 includes historical trend information about the actuarially funded status of each plan from a long-term perspective and the progress made in accumulating sufficient assets to pay benefits and insurance premiums when due. The Schedule of Employer Contributions on pages 60-64 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, 2006 by approximately \$ 837 million from \$14,333.8 million to \$15,171.3 million. Plan net assets for the prior fiscal year increased by \$752.4 million. The increase in plan net assets for the plan year ended June 30, 2006 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 fund.

KENTUCKY RETIREMENT SYSTEMS MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended June 30, 2006



Table 1 Plan Net Assets
(in millions)

	Pension Funds			Insurance Funds			Total		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
Cash & Invest.	\$16,299.5	\$14,926.9	\$13,327.7	\$2,691.6	\$2,338.9	\$2,000.8	\$18,991.1	\$17,265.8	\$15,328.5
Receivables	123.4	123.4	123.3	35.7	23.5	21.4	159.1	146.9	144.7
Equip. net of dep.	1.3	0.8	0.9				1.3	0.8	0.9
Total Assets	\$16,424.2	\$15,051.1	\$13,451.9	\$2,727.3	\$2,362.4	\$2,022.2	\$19,152.5	\$17,413.5	\$15,474.1
Total Liabilities	(\$3,474.0)	(\$2,645.9)	(\$1,572.3)	(\$526.7)	(\$433.8)	(\$320.4)	(\$4,000.7)	(\$3,079.7)	(\$1,892.7)
Plan Net Assets	\$12,950.2	\$12,405.2	\$11,879.6	\$2,200.6	\$1,928.6	\$1,701.8	\$15,150.8	\$14,333.8	\$13,581.4

Table 2 Changes in Plan Net Assets
(in millions)

	Pension Funds			Insurance Funds			Total		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
Additions:									
Member Contribution	\$275.9	\$310.8	\$306.7				\$275.9	\$310.8	\$306.7
Employer Contribution	216.5	157.5	104.3	253.4	232.7	237.8	469.9	390.2	342.1
Premiums Received				12.3			12.3		
Insurance Appropriation				11.8	4.6		11.8	4.6	
Investment Income (net)	1,162.4	1,059.1	1,442.9	230.8	157.6	253.1	1,392.2	1,216.7	1,696.0
Total Additions	\$1,654.8	\$1,527.4	\$1,853.9	\$508.3	\$394.9	\$490.9	\$2,162.1	\$1,922.3	\$2,344.8
Deductions:									
Benefit Payments	\$1,062.6	\$960.5	\$849.2				\$1,062.6	\$960.5	\$849.2
Refunds	24.9	23.9	23.4				24.9	23.9	23.4
Administrative Expenses	22.3	17.4	15.2	3.6	1.2	1.0	25.9	18.6	16.2
Healthcare Costs				212.8	166.9	131.9	212.8	166.9	131.9
Demutualization Refund				20.0			20.0		
Total Deductions	\$1,109.8	\$1,001.8	\$887.8	\$236.4	\$168.1	\$132.9	\$1,326.2	\$1,169.9	\$1,020.7
Increase (Decrease) in Plan Net Assets									
	545.0	\$525.6	\$966.1	\$271.9	\$226.8	\$358.0	\$835.9	\$752.4	\$1,324.1

Plan net assets of the pension funds increased by \$545 million (\$12,950.2 million compared to \$12,405.2 million). All of these assets are restricted in use to provide monthly retirement allowances to members who contributed to the pension funds as employees and their beneficiaries. This plan net asset 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 approximately \$272 million (\$2,220.6 million compared to \$1,928.6 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.



Financial Section

KENTUCKY RETIREMENT SYSTEMS MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended June 30, 2006

Pension Fund Activities

Member contributions decreased by \$34.9 million. Retirement contributions are calculated by applying a percentage factor to salary and are remitted by each employer on behalf of the member. Members may also pay contributions to repurchase previously refunded service credit or to purchase various types of elective service credit. The decrease in member contributions is a result of a decrease in elective service purchases by KRS members.

Employer contributions increased by \$59 million due to the increase in covered payroll reported to KRS and the increase in the contribution rates applied to the pension funds.

Net investment income increased by \$103 million (net investment income of \$1,162 million compared to net investment income of \$1,059 million in the prior year). The pension funds experienced an increase in income primarily due to the increase in gains of sale of investments. This is illustrated in Table 3 as follows:

Table 3 Investment Income (Pension)	In Millions		
	2006	2005	2004
Appreciation in fair value of investments current year end	\$1,845	\$1,644	\$1,395
Appreciation in fair value of investments prior year end	1,644	1,395	478
Net appreciation in fair value of investments	\$201	\$249	\$917
Investment Income net of Investment Expense	359	335	298
Gain (loss) on sale of investments	602	475	228
Investment Income (net)	\$1,162	\$1,059	\$1,443

Pension fund deductions increased by \$108 million caused principally by an increase of \$102.1 million in benefit payments. Retirees received an increase of 2.7% in benefit payments as of July 1, 2005. Refunds of member contributions increased by \$1 million.

Insurance Fund Activities

Employer contributions paid into the insurance fund increased by \$20.7 million over the prior year. This increase is a result of the increase in covered payroll reported to KRS.

Net investment income increased by approximately \$73 million. This increase in net income is due primarily to the increase in the gains on sale of investments. This is illustrated in Table 4 as follows:

Table 4 Investment Income (Insurance)	In Millions		
	2006	2005	2004
Appreciation in fair value of investments current year end	\$415	\$304	\$218
Appreciation in fair value of investments prior year end	304	218	11
Net appreciation in fair value of investments	\$111	\$86	\$207
Investment Income net of Investment Expense	42	36	24
Gain (loss) on sale of investments	78	36	22
Investment Income (net)	\$231	\$158	\$253

Insurance fund deductions increased by \$68.3 million primarily due to the increase in healthcare costs.

KENTUCKY RETIREMENT SYSTEMS MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended June 30, 2006



Historical Trends

Accounting standards require that the statement of plan net assets state asset value at **fair value** and include only benefits and refunds due plan members and beneficiaries and accrued investment and administrative expense as of the reporting date. Information regarding the actuarial funding status of the pension funds and insurance fund is provided in the Schedule of Funding Progress on pages 54-59. The asset value stated in the Schedule of Funding Progress is the **actuarial value** of assets determined by calculating the difference between the expected valuation 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 accrued liability is calculated using the entry age normal cost funding method. The difference in value between the actuarial accrued liability and the actuarial value of assets is known as the unfunded actuarial accrued 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 accrued liability in the pension plans increased by \$2,567 million for a total unfunded amount of \$5,375.6 million for the year ended June 30, 2006 compared to an unfunded amount of \$2,808.6 for the year end June 30, 2005. In recent years, funding levels for the pension funds have fallen dramatically in response to investment returns less than the actuarially assumed rate, higher than anticipated retirement rates, the 2006 assumption changes, and increasing expenditures for retiree Cost of Living Adjustments. Within the KERS and SPRS plans, employer contribution rate reductions enacted by the state legislature have limited the plans ability to correct the declining funding levels.

The post-employment healthcare plans continue to have a large unfunded actuarial accrued liability increasing to \$13,424.7 million for the plan year ended June 30, 2006 from \$5,455.3 million for the plan year ended June 30, 2005. This is an increase in the unfunded amount of \$7,969.4 million. While the funding level relative to the insurance funds has improved steadily since 1990, medical inflation rates in excess of the assumed rates as well as recent employer contribution rate reductions under KERS and SPRS have significantly limited this improvement. The recent adoption of new actuarial assumptions and the application of GASB Statement 43 requirements have further reduced the measured funding level.

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 60-64. The difference in the annual required contributions and actual contributions made by employers in the KERS and SPRS funds is attributable to the fact that the statutory employer contribution rate set by the Kentucky General Assembly is less than the rate computed by the actuary.



Financial Section

Combining Statements of Plan Net Assets

Pension Funds					
As of June 30, 2006 (with comparative totals as of June 30, 2005)					2005
(Dollars in Thousands)	KERS	CERS	SPRS	TOTAL	TOTAL
Assets					
Cash and Short-Term Investments					
Cash	\$1,966	\$954	\$90	\$3,010	\$1,499
Short-Term Investments	120,777	108,000	12,110	240,887	353,055
Total Cash and Short-Term Investments	122,743	108,954	12,200	243,897	354,554
Receivables					
Contributions	24,891	38,715	1,290	64,896	66,599
Investment Income	25,842	31,070	1,572	58,484	56,760
Total Receivables	50,733	69,785	2,862	123,380	123,359
Investments, at Fair Value					
Corporate and Government Bonds	1,685,307	2,045,088	105,004	3,835,399	3,955,223
Corporate Stocks	3,686,132	4,011,783	211,565	7,909,480	7,329,933
Mortgages	334,067	490,536	20,933	845,536	641,949
Real Estate	4,289	4,775	481	9,545	9,693
Total Investments at Fair Value	5,709,795	6,552,182	337,983	12,599,960	11,936,798
Securities Lending Collateral Invested	1,254,181	2,093,411	108,101	3,455,693	2,635,518
Equipment (net of accumulated depreciation)	473	796	8	1,277	832
Total Assets	7,137,925	8,825,128	461,154	16,424,207	15,051,061
Liabilities					
Accounts Payable	6,581	11,495	212	18,288	10,352
Securities Lending Collateral Obligations	1,254,181	2,093,411	108,101	3,455,693	2,635,518
Total Liabilities	1,260,762	2,104,906	108,313	3,473,981	2,645,870
Plan Net Assets Held in Trust for Pension Benefits					
	\$5,877,163	\$6,720,222	\$352,841	\$12,950,226	\$12,405,191



Combining Statements of Plan Net Assets

Insurance Funds

As of June 30, 2006 (with comparative totals as of June 30, 2005)

2005

(Dollars in Thousands)

KERS

CERS

SPRS

TOTAL

TOTAL

Assets

Cash and Short-Term Investments

Cash	\$133	\$125	\$7	\$265	\$207
Short-Term Investments	120,317	104,467	9,066	233,850	210,072
Total Cash and Short-Term Investments	120,450	104,592	9,073	234,115	210,279

Receivables

Contributions	4,751	25,164	378	30,293	18,617
Investment Income	2,131	3,042	267	5,440	4,909
Total Receivables	6,882	28,206	645	35,733	23,526

Investments, at Fair Value

Corporate and Government Bonds	82,777	127,316	10,689	220,782	199,189
Corporate Stocks	647,671	997,385	90,208	1,735,264	1,497,841
Alternative Investment	30	98	7	135	
Total Investments at Fair Value	730,478	1,124,799	100,904	1,956,181	1,697,030
Securities Lending Collateral Invested	131,343	344,439	25,561	501,343	431,552
Total Assets	989,153	1,602,036	136,183	2,727,372	2,362,387

Liabilities

Accounts Payable	1,767	3,478	162	5,407	2,230
Demutualization Proceeds Payable	20,000			20,000	
Securities Lending Collateral Obligations	131,343	344,439	25,561	501,343	431,552
Total Liabilities	153,110	347,917	25,723	526,750	433,782

Plan Net Assets Held in Trust for Insurance Benefits

\$836,043 \$ 1,254,119 \$ 110,460 \$ 2,200,622 \$ 1,928,605

(A schedule of funding progress for each plan is presented on pages 54-59)

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



Financial Section

Combined Statements of Changes in Plan Net Assets

Pension Funds

For the Fiscal Year Ended June 30, 2006

2005

(with comparative totals for the fiscal year ended June 30, 2005)

<i>(Dollars in Thousands)</i>	KERS	CERS	SPRS	Total	Total
Additions					
Members' Contributions	\$ 119,663	\$151,427	\$4,814	\$275,904	\$310,806
Employers' Contributions	71,484	140,810	4,244	216,538	157,508
Total Contributions	191,147	292,237	9,058	492,442	468,314
Investment Income					
From Investing Activities:					
Net Appreciation in Fair Value of Investments	385,613	388,362	29,621	803,596	723,831
Interest/Dividends	166,041	193,992	9,976	370,009	344,929
Total Income From Investing Activities	551,654	582,354	39,597	1,173,605	1,068,760
Investment Expense	4,818	5,509	284	10,611	10,138
Commissions	3,728	4,262	222	8,212	5,818
Total Investing Activities Expense	8,546	9,771	506	18,823	15,956
Net Income from Investing Activities	543,108	572,583	39,091	1,154,782	1,052,804
From Securities Lending Activities:					
Securities Lending Income	49,082	81,454	4,234	134,770	55,872
Securities Lending Expense:					
Security Borrower Rebates	45,255	75,538	3,901	124,694	47,836
Security Lending Agent Fees	894	1,492	77	2,463	1,745
Net Income From Securities Lending Activities	2,933	4,424	256	7,613	6,291
Total Net Investment Income	546,041	577,007	39,347	1,162,395	1,059,095
Total Additions	737,188	869,244	48,405	1,654,837	1,527,409
Deductions					
Benefit Payments	601,683	426,222	34,703	1,062,608	960,521
Refunds	11,068	13,736	133	24,937	23,896
Administrative Fees	8,213	13,910	134	22,257	17,432
Total Deductions	620,964	453,868	34,970	1,109,802	1,001,849
Net Increase in Plan Assets	116,224	415,376	13,435	545,035	525,560

Plan Net Assets Held in Trust for Pension Benefits

Beginning of Year	5,760,939	6,304,846	339,406	12,405,191	11,879,631
End of Year	\$5,877,163	\$6,720,222	\$352,841	\$12,950,226	\$12,405,191

Combined Statements of Changes in Plan Net Assets



Insurance Funds

For the Fiscal Year Ended June 30, 2006

2005

(with comparative totals for the fiscal year ended June 30, 2005)

(Dollars in Thousands)	KERS	CERS	SPRS	Total	Total
Additions					
Employers' Contributions	\$ 59,992	\$ 187,415	\$ 5,990	\$ 253,397	\$232,681
Insurance Appropriation	4,655	6,307	890	11,852	4,562
Premiums Received From Retirees	5,858	6,463	5	12,326	
Total Contributions	70,505	200,185	6,885	277,575	237,243
Investment Income					
From Investing Activities:					
Net Appreciation in Fair Value of Investments	73,309	105,015	9,907	188,231	122,126
Interest/Dividends	17,019	24,360	2,204	43,583	36,400
Total Income from Investing Activities	90,328	129,375	12,111	231,814	158,526
Investment Activities Expense	655	1,133	101	1,889	1,428
Commissions	223	313	31	567	563
Total Investing Activities Expense	878	1,446	132	2,456	1,991
Net Income from Investing Activities	89,450	127,929	11,979	229,358	156,535
From Securities Lending Activities:					
Securities Lending Income	5,806	15,163	1,125	22,094	9,039
Securities Lending Expense:					
Security Borrower Rebates	5,316	13,943	1,035	20,294	7,669
Security Lending Agent Fees	96	252	18	366	262
Net Income From Securities Lending Activities	394	968	72	1,434	1,108
Total Net Investment Income	89,844	128,897	12,051	230,792	157,643
Total Additions	160,349	329,082	18,936	508,367	394,886

Deductions

Healthcare Premiums Subsidies	84,526	85,699	7,252	177,477	166,892
Administrative Fees	1,742	1,752	68	3,562	1,231
Self Funding Insurance Costs	17,810	16,937	564	35,311	
Demutualization Proceeds Refunded	20,000			20,000	
Total Deductions	124,078	104,388	7,884	236,350	168,123
Net Increase in Plan Assets	36,271	224,694	11,052	272,017	226,763

Plan Net Assets Held in Trust for Insurance Benefits

Beginning of Year	799,772	1,029,425	99,408	1,928,605	1,701,842
End of Year	\$ 836,043	\$ 1,254,119	\$ 110,460	\$ 2,200,622	\$ 1,928,605



Financial Section

KENTUCKY RETIREMENT SYSTEMS NOTES TO FINANCIAL STATEMENTS For the Fiscal Years Ended June 30, 2006 and 2005

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

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

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

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

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

Component Unit - Kentucky Retirement Systems is a component unit of the Commonwealth of Kentucky for financial reporting purposes. The Kentucky Employees Retirement System was created by the Kentucky General Assembly pursuant to the provisions of Kentucky Revised Statute 61.515. The County Employees Retirement System was created by the Kentucky General Assembly pursuant to the provisions of Kentucky Revised Statute 78.520. The State Police Retirement System was created by the Kentucky General Assembly pursuant to the provisions of Kentucky Revised Statute 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 Kentucky Revised Statute 61.701. KRS' administrative budget is subject to approval by the Kentucky General Assembly. Employer contribution rates for KERS and SPRS are also subject to legislative approval. Employer contribution rates for CERS are determined by the Systems' Board of Trustees without further legislative review. The methods used to determine the employer rates for all retirement systems are specified in Kentucky Revised Statute 61.565. Employee contribution rates are set by statute and may be changed only by the Kentucky General Assembly.



KENTUCKY RETIREMENT SYSTEMS
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2006 and 2005

NOTE B--PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION

Membership of each retirement system consisted of the following at June 30, 2006 and 2005:

<i>Kentucky Employees Retirement System</i>						
	2006			2005		
Number of Members	Non-Hazardous Position Employees	Hazardous Position Employees	Total	Non-Hazardous Position Employees	Hazardous Position Employees	Total
Retirees and Beneficiaries Receiving Benefits	32,140	1,980	34,120	30,770	1,752	32,522
Inactive Vested Retirements	4,998	265	5,263	5,240	307	5,547
Inactive Vested Memberships	24,145	2,236	26,381	23,105	1,997	25,102
Active Plan Members	46,707	4,320	51,027	47,118	4,274	51,392
Total	107,990	8,801	116,791	106,233	8,330	114,563
Number of Participating Employers			353			350

<i>County Employees Retirement System</i>						
	2006			2005		
Number of Members	Non-Hazardous Position Employees	Hazardous Position Employees	Total	Non-Hazardous Position Employees	Hazardous Position Employees	Total
Retirees and Beneficiaries Receiving Benefits	33,102	4,712	37,814	31,347	4,361	35,708
Inactive Vested Retirements	7,379	393	7,772	7,771	482	8,253
Inactive Vested Memberships	42,667	1,562	44,229	41,098	1,489	42,587
Active Plan Members	83,694	9,635	93,329	81,240	9,464	90,704
Total	166,842	16,302	183,144	161,456	15,796	177,252
Number of Participating Employers			1,391			1,400



Financial Section

KENTUCKY RETIREMENT SYSTEMS NOTES TO FINANCIAL STATEMENTS For the Fiscal Years Ended June 30, 2006 and 2005

State Police Retirement System

	2006	2005
Number of Members	Hazardous Position Employees	Hazardous Position Employees
Retirees and Beneficiaries Receiving Benefits	1,067	1,036
Inactive Vested Retirements	48	42
Inactive Vested Memberships	218	210
Active Plan Members	1,028	987
Total	2,361	2,275
Number of Participating Employers	1	1

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUNDS

Hospital and medical contracts in force consisted of the following at June 30, 2006 and 2005:

Kentucky Retirement Systems Insurance Fund

	2006					2005				
	Single	Couple/ Family	Parent +	Medicare Without Prescription	Medicare With Prescription	Single	Couple/ Family	Parent +	Medicare Without Prescription	Medicare With Prescription
KERS										
Non-Hazardous	8,393	1,826	490	1,672	12,000	7,928	1,679	461	1,915	11,764
Hazardous	656	378	58	74	603	570	319	65	61	567
CERS										
Non-Hazardous	6,298	1,058	249	2,502	11,803	6,014	1,022	255	2,853	11,005
Hazardous	1,275	1,739	198	52	1,105	1,220	1,579	195	55	1,004
SPRS										
	260	406	29	9	368	257	388	34	10	348
Total	16,882	5,407	1,024	4,309	25,879	15,989	4,987	1,010	4,894	24,688

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. KERS provides retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of 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.



KENTUCKY RETIREMENT SYSTEMS NOTES TO FINANCIAL STATEMENTS For the Fiscal Years Ended June 30, 2006 and 2005

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

Contributions - For the years ended June 30, 2006 and 2005, 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, 2006 and 2005, 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, 2006 and 2005 was 13.62% and 10.29%, respectively, of each employee's creditable compensation. Administrative costs of Kentucky Retirement Systems are financed through employer contributions and investment earnings.

Hazardous Employees Pension Plan

Plan Description - KERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in hazardous duty positions of any state department, board, or agency directed by Executive Order to participate in the System. KERS provides retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of 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, 2006 and 2005, 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, 2006 and 2005, 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, 2006 and 2005 was 21.59% and 19.47%, respectively, of each employee's creditable compensation. Administrative costs of Kentucky Retirement Systems are financed through employer contributions and investment earnings.



Financial Section

KENTUCKY RETIREMENT SYSTEMS NOTES TO FINANCIAL STATEMENTS For the Fiscal Years Ended June 30, 2006 and 2005

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

COUNTY EMPLOYEES RETIREMENT SYSTEM

Non-Hazardous Employees Pension Plan

Plan Description - CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the System. CERS provides retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of 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, 2006 and 2005, 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, 2006 and 2005, participating employers contributed 10.98% and 8.48%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 2006 and 2005 was 10.98% and 8.48%, respectively. Administrative costs of Kentucky Retirement Systems are financed through employer contributions and investment earnings.

Hazardous Employees Pension Plan

Plan Description - CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the System. CERS provides retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of 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, 2006 and 2005, 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, 2006 and 2005, participating employers contributed 28.21% and 22.08%, respectively, of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 2006 and 2005 was 25.01% and 22.08%, respectively, of each employee's creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

KENTUCKY RETIREMENT SYSTEMS NOTES TO FINANCIAL STATEMENTS For the Fiscal Years Ended June 30, 2006 and 2005



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

STATE POLICE RETIREMENT SYSTEM

Plan Description - SPRS is a single-employer defined benefit pension plan that covers all full-time state troopers employed in a hazardous duty position by the Kentucky State Police. SPRS provides retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of 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, 2006 and 2005 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, 2006 and 2005, the Commonwealth contributed 21.58% of each employee's creditable compensation. The actuarially determined rate set by the Board for the years ended June 30, 2006 and 2005 was 34.83% and 28.08%, 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 FUNDS

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. The Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. For fiscal 2006, insurance premiums withheld from benefit payments to members of KRS were \$23,925,504 and \$697,822 for KERS and KERS hazardous, respectively, \$23,353,491 and \$1,392,261 for CERS and CERS hazardous, respectively, and \$203,189 for SPRS. For fiscal year ending 2005, insurance premiums withheld from benefit payments to members of the KRS 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, 2006 the Fund had 73,001 retirees and beneficiaries for whom benefits were available.

The amount of contribution paid by the Funds is based on years of service. For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are 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%



Financial Section

KENTUCKY RETIREMENT SYSTEMS NOTES TO FINANCIAL STATEMENTS For the Fiscal Years Ended June 30, 2006 and 2005

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

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

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

The Kentucky Retirement Systems' plan is defined by statute. Kentucky Retirement Systems selected Walgreen's Health Initiatives and Fiserv Health (Wausau Benefits, Inc.) to administer the pharmaceutical and medical benefits for its retirees.

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



KENTUCKY RETIREMENT SYSTEMS
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2006 and 2005

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, KRS has reclassified certain other investments, not related to the securities lending program, as short-term. Cash and short-term investments consist of the following:

Kentucky Employees Retirement System

	2006		2005	
Cash	\$	1,965,448	\$	726,023
Short Term Investments		120,776,512		118,148,292
Securities Lending Collateral Invested		1,254,181,656		1,225,388,483
Total	\$	1,376,923,616	\$	1,344,262,798

County Employees Retirement System

	2006		2005	
Cash	\$	953,952	\$	\$665,927
Short Term Investments		108,000,545		240,737,425
Securities Lending Collateral Invested		2,093,410,581		1,337,960,409
Total	\$	2,202,365,078	\$	1,579,363,761

State Police Retirement System

	2006		2005	
Cash	\$	89,840	\$	106,821
Short Term Investments		12,110,352		(5,830,993)
Securities Lending Collateral Invested		108,100,996		72,168,911
Total	\$	120,301,188	\$	66,444,739

Kentucky Retirement Systems Insurance Fund

	2006		2005	
Cash	\$	265,217	\$	207,089
Short Term Investments		233,849,473		210,072,016
Securities Lending Collateral Invested		501,343,495		431,551,814
Total	\$	735,458,185	\$	641,830,919



Financial Section

KENTUCKY RETIREMENT SYSTEMS NOTES TO FINANCIAL STATEMENTS For the Fiscal Years Ended June 30, 2006 and 2005

NOTE D--INVESTMENTS

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

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

Fixed Income Investments - Publicly traded corporate bonds are to be selected and managed to assure an appropriate balance in quality and maturities consistent with the current market and economic conditions. Investment may also be made in any debt instrument issued or guaranteed in whole or in part by the 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 Pension Fund and Insurance Fund invest in collateralized mortgage obligations (CMOs) and other asset-backed securities to increase return and adjust duration of the portfolio. The Pension and the Insurance Funds invest in exchange-traded funds to convert cash held in index funds to short-term equity investments. This practice is intended to make the performance of the index funds more closely track the performance of the index that the funds are intended to replicate.

KENTUCKY RETIREMENT SYSTEMS NOTES TO FINANCIAL STATEMENTS For the Fiscal Years Ended June 30, 2006 and 2005



NOTE D--INVESTMENTS--CONTINUED

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, 2006 and 2005 was approximately \$225 million and \$82 million respectively; the fair value of asset-backed securities at June 30, 2006 and 2005 was approximately \$195 million and \$252 million respectively; and the fair value of exchange-traded funds at June 30, 2006 and 2005 was approximately \$328 million and \$318 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, 2006 and 2005, deposits for KRS pension funds were \$4,175,409 and \$1,498,771, respectively. None of these balances were exposed to custodial credit risk as they were either insured or collateralized at required levels.

At June 30, 2006 and 2005, deposits for KRS insurance funds were \$242,866 and \$207,089, respectively. None of these balances were exposed to custodial credit risk as they were either insured or collateralized at required levels.

Custodial Credit Risk for Investments - Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, KRS will not be able to recover the value of investments or collateral securities that are in the possession of an outside third party. Qualified Investment Managers, Custody Banks, Investment Consultants and other service providers are selected by the Investment Committee or Chief Investment Officer as required. The selection is based upon the demonstrated ability of the professional, or professionals, to provide the required expertise or assistance. 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	2006	2005
Foreign Currency Investments	\$4,747,304	\$3,059,869
Insurance Funds	2006	2005
Foreign Currency Investments	\$25,598	\$124,692

Investment Policies - The Kentucky Revised Statute 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 the 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. Additionally, the Committee establishes specific investment guidelines in the Investment Management Agreement for each investment management firm.



Financial Section

KENTUCKY RETIREMENT SYSTEMS NOTES TO FINANCIAL STATEMENTS For the Fiscal Years Ended June 30, 2006 and 2005

Investment Summary

The following tables present a summary of the investments by type as of June 30, 2006 and 2005.

Pension Funds		
For the Fiscal Years Ended June 30, 2006 and 2005		
Investment Summary	2006	2005
U.S. Gov't & Agency Fixed Income Securities	\$ 3,251,063,919	\$ 3,313,946,410
U.S. Corporate Fixed Income Securities	1,416,970,614	1,268,342,165
Municipal Debt Securities	12,901,977	14,883,806
Short Term Investments	240,887,409	353,054,725
Equity Securities	7,640,279,994	7,219,482,637
Private Equity Limited Partnerships	269,198,441	110,450,122
Real Estate	9,545,575	9,694,317
Total	\$ 12,840,847,929	\$ 12,289,854,182

Insurance Funds		
For the Fiscal Years Ended June 30, 2006 and 2005		
Investment Summary	2006	2005
U.S. Gov't & Agency Fixed Income Securities	\$ 220,781,808	\$ 189,294,988
Short Term Investments	233,849,474	219,965,717
Equity Securities	1,705,352,668	1,485,569,035
Private Equity Limited Partnerships	29,910,939	12,272,237
Alternative Investment	135,000	
Total	\$ 2,190,029,889	\$ 1,907,101,978

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.



KENTUCKY RETIREMENT SYSTEMS
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2006 and 2005

NOTE D--INVESTMENTS--CONTINUED

The following tables present the KRS pension fund debt ratings at June 30, 2006 and 2005.

Pension Funds Debt Securities Investments at Fair Value For the Fiscal Years Ended June 30, 2006 and 2005		
Quality Rating	2006	2005
AAA	\$1,677,053,070	\$1,481,814,394
AA+		1,439,266
AA	56,357,290	41,927,341
AA-	106,521,997	84,766,981
A+	117,467,811	196,920,079
A	129,605,231	153,635,654
A-	97,696,399	94,502,023
BBB+	93,215,626	138,345,630
BBB	68,755,102	47,195,847
BBB-	54,767,049	81,970,376
BB+	479,237	20,332,710
NR	104,104,572	26,838,395
Total Credit Risk Debt Securities	2,506,023,384	2,369,688,696
U.S. Government & Agencies Pooled Investments	2,174,913,125	2,172,535,022 54,948,663
Total Debt Securities	\$4,680,936,509	\$4,597,172,381

At June 30, 2006 and 2005, the weighted average quality rating of the pension fund debt securities portfolio was AA+ and AA+, respectively. KRS had no below investment grade rated debt securities in the pension portfolio at June 30, 2006 and 2005. The fair value of securities in the lowest investment grade rating category was \$-0- at both June 30, 2006 and 2005.



Financial Section

KENTUCKY RETIREMENT SYSTEMS NOTES TO FINANCIAL STATEMENTS For the Fiscal Years Ended June 30, 2006 and 2005

NOTE D--INVESTMENTS--CONTINUED

The insurance fund debt securities portfolio, by guidelines, is to be invested in US government securities. As shown below, as of June 30, 2006, the entire insurance fund was invested in Treasury Inflation Protected Securities (TIPS) which carry a US Government treasury rating. As of June 30, 2005, the entire insurance fund consisted of TIPS and US Governmental Short-Term Investment Funds (STIF's).

Insurance Funds Credit Risk of Debt Securities For the Fiscal Years Ended June 30, 2006 and 2005

	2006	2005
U.S. Government & Agencies	\$220,781,808	\$189,294,988
Pooled Investments		9,893,700
Total Credit Risk	\$220,781,808	\$199,188,688

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, 2006 or June 30, 2005, 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. KRS does not have a formal policy that constrains the duration of its fixed income portfolio.

The KRS pension fund debt securities portfolio benchmarks its debt securities portfolio to a 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, 2006 and 2005, the effective duration of the blended benchmark was 5.70 and 5.34, respectively. At the same points in time, the effective duration of the KRS pension fund debt securities portfolio was 4.45 and 4.44, respectively.



KENTUCKY RETIREMENT SYSTEMS
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2006 and 2005

NOTE D--INVESTMENTS--CONTINUED

KRS Pension Fund Interest Rate Risk				
	2006	Weighted Average Effective Duration	2005	Weighted Average Effective Duration
Asset Backed Securities	\$195,474,695	.80	\$252,331,426	1.12
Commercial Mortgage Backed Securities	270,294,818	3.50	109,238,989	3.33
Corporate Bonds	733,297,247	5.67	824,979,866	5.89
Government Agencies	457,938,065	3.58	479,638,805	3.30
Government Bonds	2,167,249,022	4.83	2,189,525,343	5.06
Government Mortgage Backed Securities	625,876,832	4.59	589,833,599	2.91
Municipal Bonds	12,901,977	11.78	14,883,806	12.64
Non-Government Backed Collateralized Mortgage Obligations	217,903,854	2.00	81,791,885	1.19
Pooled Investments			54,948,663	
Total	\$4,680,936,509	4.45	\$4,597,172,381	4.44

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, 2006 and 2005, the modified duration of the benchmark was 7.69 and 8.45 years, respectively. At the same points in time, the modified duration of the KRS insurance fund debt securities portfolio, excluding the pooled fund, was 8.09 and 8.62 years, respectively.

Insurance Funds				
Debt Securities Investments at Fair Value				
For the Fiscal Years Ended June 30, 2006 and 2005				
Investment	2006		2005	
	Fair Value	Weighted Duration	Fair Value	Weighted Duration
Index Linked Government Bonds	\$220,781,808	8.09	\$189,294,988	8.62
Pooled Debt Securities			9,893,700	NA
Total	\$220,781,808	8.09	\$199,188,688	8.62



Financial Section

KENTUCKY RETIREMENT SYSTEMS NOTES TO FINANCIAL STATEMENTS For the Fiscal Years Ended June 30, 2006 and 2005

NOTE D--INVESTMENTS--CONTINUED

Foreign Currency Risk - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. KRS does not have a formal policy to limit foreign currency risk. The following tables present KRS' exposure at June 30, 2006 and 2005.

Pension Funds Investments at Fair Value As of June 30, 2006 and 2005

Foreign Equities	2006	2005
Australian Dollar	\$ 69,810,185	\$ 52,122,988
British Pound Sterling	326,927,792	300,642,320
Danish Krone	5,555,604	6,807,087
Euro	534,096,705	492,597,015
Hong Kong Dollar	19,200,448	23,082,401
Japanese Yen	420,352,056	346,791,634
New Zealand Dollar		3,535,112
Norwegian Krone	13,999,004	8,805,025
Singapore Dollar	29,048,766	21,641,967
South African Rand	2,950,033	
South Korean Won		3,366,341
Swedish Krona	46,216,722	49,787,194
Swiss Franc	121,430,006	109,308,104
International Equity Mutual Fund (various currencies)	508,273,254	484,952,191
Total Securities Subject To:		
Foreign Currency Risk	2,097,860,575	1,903,439,380
USD (securities held by International Investment Managers)	45,147,664	78,764,548
Total International Investment Securities	\$ 2,143,008,239	\$ 1,982,203,928



KENTUCKY RETIREMENT SYSTEMS
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2006 and 2005

NOTE D--INVESTMENTS--CONTINUED

Insurance Funds
Investments at Fair Value
As of June 30, 2006 and 2005

Foreign Equities	2006	2005
Australian Dollar	\$ 25,007,521	\$ 21,058,561
British Pound Sterling	96,076,217	81,925,423
Danish Krone	2,834,941	3,540,224
Euro	135,800,378	125,362,499
Hong Kong Dollar	6,257,704	6,984,939
Japanese Yen	111,488,690	85,596,433
New Zealand Dollar		905,291
Norwegian Krone	7,061,386	4,558,628
Singapore Dollar	5,388,276	3,851,828
Swedish Krona	21,656,351	22,215,317
Swiss Franc	35,962,006	32,258,586
Total Securities Subject To:		
Foreign Currency Risk	447,533,470	388,257,729
USD (securities held by International Investment Managers)	3,676,958	3,610,171
Total International Investment Securities	\$ 451,210,428	\$ 391,867,900



Financial Section

KENTUCKY RETIREMENT SYSTEMS NOTES TO FINANCIAL STATEMENTS For the Fiscal Years Ended June 30, 2006 and 2005

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, 2006, 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 a 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.



KENTUCKY RETIREMENT SYSTEMS NOTES TO FINANCIAL STATEMENTS For the Fiscal Years Ended June 30, 2006 and 2005

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 approximate \$62 million 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.

Kentucky Retirement Systems was 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 was in Franklin Circuit Court. At issue was how to distribute the proceeds resulting from Anthem's demutualization. The plaintiffs sought 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.

On June 30, 2006, the parties in the case entered into a Settlement Agreement that was approved on a preliminary basis by the Circuit Court. The Agreement received final approval from the Circuit Court on September 28, 2006. In accordance with the Agreement, \$20 million was transferred to the "Northern Trust Institutional Funds Prime Obligations Portfolio" operated by the Northern Trust Company of Chicago, Illinois (which is the investment custodian for Kentucky Retirement Systems), with such account ("Settlement Fund Savings Account") to be held and controlled exclusively by Kentucky Retirement Systems. This account was created on July 11, 2006.



Financial Section

KENTUCKY RETIREMENT SYSTEMS NOTES TO FINANCIAL STATEMENTS For the Fiscal Years Ended June 30, 2006 and 2005

On, or about, the effective date of the Settlement Agreement (October 29, 2006), Kentucky Retirement Systems will cause all funds contained in the Settlement Fund Savings Account, including any interest earned, to be paid to the Plaintiffs' Counsel in trust for the full, complete and final satisfaction of all claims released pursuant to the Settlement Agreement. The Settlement Fund Savings Account shall be distributed by the Plaintiffs' Counsel as ordered by the Court.

One percent of the remaining balance of approximately \$42 million, plus earnings thereon, will, at a still to be determined date, be distributed to the Legislators Retirement Plan and the Judicial Retirement Plan. The remainder of the balance will be allocated among the following plans, in the percentages indicated, in the Insurance Fund of Kentucky Retirement Systems: Kentucky Employees Retirement System -Non Hazardous-51.24%; Kentucky Employees Retirement System - Hazardous - 1.4%; County Employees Retirement System - Non Hazardous - 44.51%; County Employees Retirement System - Hazardous - 1.89%; and, State Police Retirement System - .96%. The above percentages were calculated by The Segal Company, the former actuaries of Kentucky Retirement Systems.

NOTE J--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. Plan members contributed 5.0% of creditable compensation for the periods ending June 30, 2006, June 30, 2005, and June 30, 2004. KRS contributed 5.89% of covered payroll for the periods ending June 30, 2006, June 30, 2005, and June 30, 2004. The chart below includes the covered payroll and contribution amounts for KRS for the three periods included in this discussion.

	2006	2005	2004
Covered Payroll	\$10,960,000	\$9,891,000	\$9,035,000
Employer Contributions	\$ 641,200	\$ 572,400	\$532,000

NOTE K--EQUIPMENT

Equipment consists of the following:

	As of June 30, 2006	As of June 30, 2005
Equipment at Cost	\$ 4,039,537	\$ 3,408,106
Less Accumulated Depreciation	(2,763,017)	(2,576,490)
Total	\$ 1,276,520	\$ 831,615

Depreciation expense for the fiscal years ended June 30, 2006 and 2005 amounted to \$387,292 and \$318,840, respectively.



KENTUCKY RETIREMENT SYSTEMS
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2006 and 2005

NOTE L--Alternative Investment

On February 6, 2006, the Health Insurance Fund of Kentucky Retirement Systems loaned to Perimeter Park West, Inc., a related party, \$700,000 for the purchase of real property at 1300 Louisville Road, Frankfort, KY. The loan is not documented by a note, mortgage contract, or security interest in the property. Subsequent to the lending and purchase, the real property was valued by appraisal from \$135,000 to \$290,000. The range of appraisal values is based upon considerations of zoning classifications, site preparations and improvements, and other matters. Kentucky Retirement Systems is reflecting the Alternative Investment at the lowest appraisal value for the property. Because of the significant difference in the appraised value of the property and the loan amount, and also because the loan is not documented by a note, mortgage contract, or security interest in the property, the Kentucky Retirement Systems is uncertain whether it will be able to collect any principal (or interest) in excess of the minimum appraised property value. Therefore, KRS' management has elected to write-down the value of the Alternative Investment to an estimated collectible value of \$135,000. The difference of \$565,000 is included in the Combined Statements of Changes in Plan Net Assets-Insurance Funds as an unrealized loss in "Net Appreciation in Fair Value of Investments". By a letter dated September 26, 2006, Kentucky Retirement Systems filed a notice of claim with its fiduciary insurance carrier (The Federal Insurance Company) asserting monetary damages in excess of \$600,000 to the Health Insurance Fund as a result of the loan.



Financial Section

KENTUCKY RETIREMENT SYSTEMS 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, 2001	\$6,844,742,687	\$5,444,035,294	(\$1,400,707,393)	125.7%	\$1,505,299,220	(93.1%)
June 30, 2002*	6,654,084,196	6,026,094,764	(627,989,432)	110.4	1,595,809,458	(39.3)
June 30, 2003**	6,351,318,832	6,520,463,188	169,144,356	97.4	1,658,604,696	10.2
June 30, 2004**	6,000,513,743	7,049,613,171	1,049,099,428	85.1	1,645,412,496	63.8
June 30, 2005**	5,578,685,746	7,579,074,839	2,000,389,093	73.6	1,655,907,288	120.8
June 30, 2006**	5,394,086,323	8,994,826,247	3,600,739,924	60.0	1,702,230,777	211.5
Hazardous						
June 30, 2001	\$361,677,475	\$285,193,761	(\$76,483,714)	126.8%	\$122,857,992	(62.3%)
June 30, 2002*	376,384,302	322,069,164	(54,315,138)	116.9	125,275,925	(43.4)
June 30, 2003**	385,925,722	356,879,133	(29,046,589)	108.1	129,088,956	(22.5)
June 30, 2004**	397,212,763	403,578,036	6,365,273	98.4	126,664,812	5.0
June 30, 2005**	405,288,662	439,013,910	33,725,248	92.3	131,687,088	25.6
June 30, 2006**	427,984,192	508,655,903	80,671,711	84.1	138,747,320	58.1
Total						
June 30, 2001	\$7,206,420,162	\$5,729,229,055	\$1,477,191,107	125.8%	\$1,628,157,212	(90.7%)
June 30, 2002*	7,030,468,498	6,348,163,928	682,304,570	110.7	1,721,085,383	(39.6)
June 30, 2003**	6,737,244,554	6,877,342,321	140,097,767	98.0	1,787,693,652	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	8,018,088,749	2,034,114,341	74.6	1,787,594,376	113.8
June 30, 2006**	5,822,070,515	9,503,482,151	3,681,411,635	61.3	1,840,978,097	200.0

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

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

KENTUCKY RETIREMENT SYSTEMS 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, 2001	\$449,630,605	\$1,769,583,098	\$1,319,952,493	25.4%	\$1,505,299,220	87.7%
June 30, 2002*	521,250,455	1,907,683,881	1,386,433,426	27.3	1,595,809,458	86.9
June 30, 2003**	553,885,082	2,093,210,321	1,539,325,239	26.5	1,658,604,696	92.8
June 30, 2004**	600,586,961	2,335,905,365	1,735,318,404	25.7	1,645,412,496	105.5
June 30, 2005**	607,068,351	2,680,559,188	2,073,490,837	22.7	1,655,907,288	125.2
June 30, 2006**	611,350,765	7,815,480,774	7,204,130,009	7.8	1,702,230,777	423.2
Hazardous						
June 30, 2001	\$119,372,742	\$214,450,822	\$95,078,080	55.7%	\$122,857,992	77.4%
June 30, 2002*	135,874,582	236,819,050	100,944,468	57.4	125,275,925	80.6
June 30, 2003**	151,459,500	283,178,335	131,718,835	53.5	129,088,956	102.0
June 30, 2004**	169,158,879	323,503,563	154,344,684	52.3	126,664,812	121.9
June 30, 2005**	187,947,644	386,844,695	198,897,051	48.6	131,687,088	151.0
June 30, 2006**	212,833,818	621,237,856	408,404,538	34.3	138,747,320	294.4
Total						
June 30, 2001	569,003,347	\$1,984,033,920	\$1,415,030,573	28.7%	\$1,628,157,212	86.9%
June 30, 2002*	657,125,037	2,144,502,931	1,487,377,894	30.6	1,721,085,383	86.4
June 30, 2003**	705,344,582	2,376,388,656	1,671,044,074	29.7	1,787,693,652	93.5
June 30, 2004**	769,745,840	2,659,408,928	1,889,663,088	28.9	1,772,077,308	106.6
June 30, 2005**	795,015,995	3,067,403,883	2,272,387,888	25.9	1,787,594,376	127.1
June 30, 2006**	824,184,083	8,436,718,630	7,612,534,547	9.8	1,840,178,097	413.5

*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.



Financial Section

KENTUCKY RETIREMENT SYSTEMS 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, 2001	\$5,423,834,549	\$3,706,282,212	(\$1,717,552,337)	146.3%	\$1,544,973,296	(111.2%)
June 30, 2002*	5,397,787,158	4,165,355,149	(1,232,432,009)	129.6	1,663,183,629	(74.1)
June 30, 2003**	5,286,580,047	4,417,597,802	(868,982,245)	119.7	1,796,451,180	(48.4)
June 30, 2004**	5,187,851,530	4,936,459,488	(251,392,042)	105.1	1,826,870,880	(13.8)
June 30, 2005**	5,059,208,687	5,385,306,505	326,097,818	93.9	1,885,275,000	17.3
June 30, 2006**	5,162,894,136	6,179,569,267	1,016,675,131	83.5	1,982,437,473	51.3
Hazardous						
June 30, 2001	\$1,486,666,016	\$1,193,860,442	(\$292,805,574)	124.5%	\$316,700,304	(92.5%)
June 30, 2002*	1,485,511,793	1,327,291,273	(158,220,520)	111.9	345,849,277	(45.7)
June 30, 2003**	1,467,004,856	1,499,628,782	32,623,926	97.8	374,700,732	8.7
June 30, 2004**	1,457,612,042	1,640,830,120	183,218,078	88.8	392,562,624	46.7
June 30, 2005**	1,452,353,023	1,795,617,335	343,264,312	80.9	411,121,728	83.5
June 30, 2006**	1,515,075,017	2,020,142,770	505,067,753	75.0	426,927,550	118.3
Total						
June 30, 2001	\$6,910,500,565	\$4,900,142,654	(\$2,010,357,911)	141.0%	\$1,861,673,600	(108.0%)
June 30, 2002*	6,883,298,951	5,492,646,422	(1,390,652,529)	125.3	2,009,032,906	(69.2)
June 30, 2003**	6,753,584,903	5,917,226,584	(836,358,319)	114.1	2,171,151,912	(38.5)
June 30, 2004**	6,645,463,572	6,577,289,608	(68,173,964)	101.0	2,219,433,504	(3.1)
June 30, 2005**	6,511,561,710	7,180,923,840	669,362,130	90.7	2,296,396,728	29.2
June 30, 2006**	6,677,969,153	8,199,712,037	1,521,742,884	81.4	2,409,365,023	63.2

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

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



KENTUCKY RETIREMENT SYSTEMS REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF FUNDING PROGRESS

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, 2001	\$371,758,628	\$1,793,710,768	\$1,421,952,140	20.7%	\$1,544,973,296	92.0%
June 30, 2002*	450,497,307	1,977,577,038	1,527,079,731	22.8	1,663,183,629	91.8
June 30, 2003**	520,060,105	2,176,963,259	1,656,903,154	23.9	1,796,451,180	92.2
June 30, 2004**	585,399,072	2,438,734,696	1,853,335,624	24.0	1,826,870,880	101.5
June 30, 2005**	663,941,949	2,788,754,654	2,124,812,705	23.8	1,885,275,000	112.7
June 30, 2006**	777,726,590	4,607,223,639	3,829,497,049	16.9	1,982,437,473	193.2
Hazardous						
June 30, 2001	\$197,875,249	\$721,605,292	\$523,730,043	27.4%	\$316,700,304	165.4%
June 30, 2002*	234,683,878	781,184,974	546,501,096	30.1	345,849,279	158.0
June 30, 2003**	269,190,080	935,650,662	666,460,582	28.8	374,700,732	177.9
June 30, 2004**	310,578,162	1,025,684,477	715,106,315	30.3	392,562,624	182.2
June 30, 2005**	359,180,461	1,283,299,092	924,118,631	28.0	411,121,728	224.8
June 30, 2006**	422,785,042	1,928,481,371	1,505,696,329	21.9	426,927,550	352.7
Total						
June 30, 2001	\$569,633,877	\$2,515,316,060	\$1,945,682,183	22.6%	\$1,861,673,600	104.5%
June 30, 2002*	685,181,185	2,758,762,012	2,073,580,827	24.8	2,009,032,908	103.2
June 30, 2003**	789,250,185	3,112,613,921	2,323,363,736	25.4	2,171,151,912	107.0
June 30, 2004**	895,977,234	3,464,419,173	2,568,441,939	25.9	2,219,433,504	115.7
June 30, 2005**	1,023,122,410	4,072,053,746	3,048,931,336	25.1	2,296,396,728	132.8
June 30, 2006**	1,200,511,632	6,535,705,010	5,335,193,378	18.4	2,409,365,023	221.4

*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.



Financial Section

KENTUCKY RETIREMENT SYSTEMS REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF FUNDING PROGRESS

State Police Retirement Systems (SPRS) - 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]
June 30, 2001	\$456,160,709	\$356,211,860	(\$99,948,849)	128.1%	\$44,646,678	(223.7%)
June 30, 2002*	438,955,465	380,790,346	(58,165,119)	115.3	44,314,696	(131.2)
June 30, 2003**	413,063,576	414,881,459	1,817,883	99.6	43,760,832	4.2
June 30, 2004**	385,077,195	437,482,425	52,405,230	88.0	43,835,208	119.6
June 30, 2005**	353,511,622	458,593,576	105,081,954	77.1	43,720,092	240.4
June 30, 2006**	344,016,197	516,482,298	172,466,101	66.6	47,743,865	361.2

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

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



KENTUCKY RETIREMENT SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

State Police Retirement Systems (SPRS) - 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]
June 30, 2001	\$79,863,577	\$158,261,479	\$78,397,902	50.5%	\$44,646,678	175.6%
June 30, 2002*	86,867,391	165,445,412	78,578,021	52.5	44,314,696	177.3
June 30, 2003**	90,747,967	184,501,205	93,753,238	49.2	43,760,832	214.2
June 30, 2004**	96,622,908	197,604,301	100,981,393	48.9	43,835,208	230.4
June 30, 2005**	100,207,082	234,159,510	133,952,428	42.8	43,720,092	306.4
June 30, 2006**	105,580,269	582,580,867	477,000,598	18.1	47,743,865	999.1

**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.*



Financial Section

KENTUCKY RETIREMENT SYSTEMS REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF EMPLOYER CONTRIBUTIONS

Kentucky Employees Retirement System (KERS)

Fiscal Year Ended	Non-Hazardous					
	Pension			Insurance		
	Annual Required Contributions	Actual Contributions	Percentage Contributed	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 2001	\$21,787,253	\$23,482,080	107.8%	\$66,874,871	\$66,874,871	100.0%
June 30, 2002		1,760,328		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
June 30, 2006	137,330,718	60,680,607	44.2	100,942,451	43,748,669	43.3

Fiscal Year Ended	Hazardous					
	Pension			Insurance		
	Annual Required Contributions	Actual Contributions	Percentage Contributed	Annual Required Contributions	Actual Contributions	Percentage Contributed
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
June 30, 2006	12,128,538	10,803,206	89.1	18,605,633	16,243,103	87.3

Fiscal Year Ended	Total					
	Pension			Insurance		
	Annual Required Contributions	Actual Contributions	Percentage Contributed	Annual Required Contributions	Actual Contributions	Percentage Contributed
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	100.1
June 30, 2005	95,248,821	60,091,297	63.1	102,867,248	65,305,205	63.5
June 30, 2006	149,459,256	71,483,813	47.8	119,548,084	59,991,772	50.2



KENTUCKY RETIREMENT SYSTEMS REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF EMPLOYER CONTRIBUTIONS

Kentucky Employees Retirement System (KERS)

Fiscal Year Ended	Non-Hazardous		
	Total		
	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 2001	\$88,662,124	\$90,356,951	101.9%
June 30, 2002	93,993,177	95,672,345	101.8
June 30, 2003	96,957,960	72,932,669	75.2
June 30, 2004	125,690,620	99,713,280	79.3
June 30, 2005	172,773,214	100,241,978	58.0
June 30, 2006	238,273,169	104,429,276	43.8

	Hazardous		
	Total		
	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 2001	\$23,146,446	\$23,852,961	103.1%
June 30, 2002	23,601,984	23,821,216	100.9
June 30, 2003	24,350,617	23,205,870	95.3
June 30, 2004	24,543,070	24,729,197	100.8
June 30, 2005	25,342,855	25,154,524	99.3
June 30, 2006	30,734,171	27,046,309	88.0

	Total		
	Total		
	Annual Required Contributions	Actual Contributions	Percentage Contributed
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
June 30, 2006	269,007,340	131,475,585	48.9

KENTUCKY RETIREMENT SYSTEMS REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF EMPLOYER CONTRIBUTIONS

County Employees Retirement System (CERS)

Non-Hazardous

Fiscal Year Ended	Pension			Insurance		
	Annual Required Contributions	Actual Contributions	Percentage Contributed	Annual Required Contributions	Actual Contributions	Percentage Contributed
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	89,289,520	89,344,241	100.1
June 30, 2005	53,117,955	54,616,800	102.8	106,612,633	106,638,253	100.0
June 30, 2006	89,486,365	90,834,052	101.5	126,460,952	126,480,816	100.0

Hazardous

	Pension			Insurance		
	Annual Required Contributions	Actual Contributions	Percentage Contributed	Annual Required Contributions	Actual Contributions	Percentage Contributed
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
June 30, 2006	49,589,149	49,976,485	100.8	60,947,804	60,933,604	100.0

Total

	Pension			Insurance		
	Annual Required Contributions	Actual Contributions	Percentage Contributed	Annual Required Contributions	Actual Contributions	Percentage Contributed
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
June 30, 2006	139,075,514	140,810,537	101.2	187,408,756	187,414,420	100.0



KENTUCKY RETIREMENT SYSTEMS REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF EMPLOYER CONTRIBUTIONS

County Employees Retirement System (CERS)

Fiscal Year Ended	Non-Hazardous		
	Total		
	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 2001	\$97,951,307	\$111,206,820	113.5%
June 30, 2002	105,445,842	107,678,891	102.1
June 30, 2003	110,720,684	111,090,537	100.3
June 30, 2004	132,401,025	133,372,706	100.7
June 30, 2005	159,730,588	161,255,053	101.0
June 30, 2006	215,947,317	217,314,868	100.6

	Hazardous		
	Total		
	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 2001	\$51,558,809	\$53,132,792	103.1%
June 30, 2002	56,304,262	56,785,282	100.9
June 30, 2003	63,422,978	62,149,506	98.0
June 30, 2004	74,068,428	74,677,552	100.8
June 30, 2005	93,532,220	94,054,324	100.6
June 30, 2006	100,536,953	110,910,089	100.3

	Total		
	Total		
	Annual Required Contributions	Actual Contributions	Percentage Contributed
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
June 30, 2006	326,484,270	328,224,956	100.5



Financial Section

KENTUCKY RETIREMENT SYSTEMS REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF EMPLOYER CONTRIBUTIONS

State Police Retirement System (SPRS)

Fiscal Year Ended	Pension		
	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 2001	\$1,535,846	\$1,515,521	98.7%
June 30, 2002		(17,463)	
June 30, 2003		(20,061)	
June 30, 2004	1,175,711	1,152,752	98.0
June 30, 2005	3,730,805	2,851,461	76.4
June 30, 2006	6,888,805	4,244,445	61.6

	Insurance		
	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 2001	\$8,098,907	\$8,113,391	100.2%
June 30, 2002	9,563,111	9,579,899	100.1
June 30, 2003	9,443,588	7,654,313	81.1
June 30, 2004	8,434,834	8,455,498	100.2
June 30, 2005	8,608,536	6,631,031	77.0
June 30, 2006	9,669,999	5,990,265	61.9

	Total		
	Annual Required Contributions	Actual Contributions	Percentage Contributed
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
June 30, 2006	16,558,804	10,234,710	61.8



KENTUCKY RETIREMENT SYSTEMS NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The information presented in the required supplementary schedules as 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, 2006	June 30, 2006
Actuarial Cost Method	Entry Age	Entry Age
Amortization Method	Level Percent Closed	Level Percent Closed
Remaining Amortization Period	14-30 Years	14-30 Years
Asset Valuation Method	Five-Year Smoothed Market	Five-Year Smoothed Market
Actuarial Assumptions:		
Investment Return	7.75%	7.75%
Projected Salary Increases	4.0-13.5%	4.0-14.5%
Cost-of-Living Adjustment	None	None
Includes Inflation Rate at	3.50%	3.50%

Insurance Funds		
	Non-Hazardous	Hazardous
Valuation Date	June 30, 2006	June 30, 2006
Actuarial Cost Method	Entry Age	Entry Age
Asset Valuation Method	Five-Year Smoothed Market	Five-Year Smoothed Market
Remaining Amortization Period	30 Years	30 Years
Medical Trend Assumption	12.00-5.50%	12.00-5.50%
Year of Ultimate Trend	2027	2027
Actuarial Assumptions:		
Investment Return*	4.50%/7.75%	4.50%/7.75%
Includes Inflation Rate at *	3.5%	3.5%

*Note: Relative to the insurance funds, the investment return assumption for the KERS non-hazardous fund and the SPRS fund is 4.5% as required under GASB Statements No. 43 and 45 due to the lack of pre-funding in these respective funds. The remaining funds utilize a 7.75 % investment return assumption.



Financial Section

KENTUCKY RETIREMENT SYSTEMS Schedule of Administrative Expenses For the Fiscal Years Ended June 30, 2006 and 2005

	2006	2005
<i>(Dollars in Thousands)</i>		
Personal Services		
Salaries and Per Diem	\$ 13,041	\$ 10,139
Fringe Benefits	2,964	2,500
Tuition Assistance	91	66
Total Personal Services	16,096	12,705
Contractual Services		
Actuarial	161	157
Audit	23	41
Legal	522	397
Medical	288	224
Contractual	1,354	735
Total Contractual Services	2,348	1,554
Communication		
Printing	254	219
Telephone	172	136
Postage	637	549
Travel	218	157
Total Communication	1,281	1,061
Rentals		
Office Space	980	981
Equipment	57	58
Total Rentals	1,037	1,039
Miscellaneous		
Utilities	221	147
Supplies	165	137
Insurance	61	56
Maintenance	300	330
Other	361	84
Total Miscellaneous	1,108	754
Depreciation	387	319
Healthcare Administrative Expenses	3,562	1,231
Total Administrative Expenses	\$ 25,819	\$ 18,663

Financial Section



Kentucky Retirement Systems Schedule of Investment Expenses For the Fiscal Years Ended June 30, 2006 and 2005

	2006	2005
<i>(Dollars in Thousands)</i>		
Pension Funds		
Security Lending Fees		
Broker Rebates	\$ 124,694	\$ 47,836
Lending Agent Fees	2,463	1,745
Total Security Lending	127,157	49,581
Common Stock Commissions	8,212	5,818
Contractual Services		
Investment Management	10,156	9,026
Security Custody	288	749
Investment Consultant	111	313
Investment Related Travel	57	50
Total Contractual Services	10,611	10,138
Insurance Funds		
Security Lending Fees		
Broker Rebates	20,294	7,668
Lending Agent Fees	366	263
Total Security Lending	20,660	7,931
Common Stock Commissions	567	563
Investment Management	1,889	1,428
Total Investment Expenses	\$ 169,096	\$ 75,459

Schedule of Professional Consultant Fees For the Fiscal Years Ended June 30, 2006 and 2005

	2006	2005
<i>(Dollars in Thousands)</i>		
Actuarial Services	\$ 161	\$ 157
Medical Review Services	288	224
Audit Services	23	41
Legal Counsel	522	397
Compliance	136	79
Workflow	364	236
Healthcare	750	298
Banking	51	60
Miscellaneous	53	62
Total	\$ 2,348	\$ 1,554

Information on fees paid to investment professionals can be found in the investment section of the Comprehensive Annual Financial Report.



Financial Section

Kentucky Retirement Systems Combining Schedules of Plan Net Assets - Pension Funds

<i>Pension Funds</i>							
As of June 30, 2006 (with comparative totals as of June 30, 2005)							2005
<i>(Dollars in Thousands)</i>	KERS Hazardous	KERS Non- Hazardous	CERS Hazardous	CERS Non- Hazardous	SPRS	TOTAL	TOTAL
Assets							
<i>Cash and Short-Term Investments</i>							
Cash	\$76	\$1,890	\$231	\$723	\$90	\$3,010	\$1,499
Short-Term Investments	10,775	110,002	29,125	78,875	12,110	240,887	353,055
Total Cash and Short-Term Investments	10,851	111,892	29,356	79,598	12,200	243,897	354,554
<i>Receivables</i>							
Contributions	2,093	22,798	10,140	28,575	1,290	64,896	66,599
Investment Income	1,857	23,985	6,962	24,108	1,572	58,484	56,760
Total Receivables	3,950	46,783	17,102	52,683	2,862	123,380	123,359
<i>Investments at Fair Value</i>							
Corporate and Government Bonds	119,243	1,566,064	458,433	1,586,655	105,004	3,835,399	3,955,223
Corporate Stocks	273,168	3,412,964	913,987	3,097,796	211,565	7,909,480	7,329,933
Mortgages	28,399	305,668	109,687	380,849	20,933	845,536	641,949
Real Estate	1,943	2,346	2,415	2,360	481	9,545	9,693
Total Investments at Fair Value	422,753	5,287,042	1,484,522	5,067,660	337,983	12,599,960	11,936,798
Securities Lending Collateral Invested	159,497	1,094,684	603,606	1,489,805	108,101	3,455,693	2,635,518
Equipment (net of accumulated depreciation)	36	437	65	731	8	1,277	832
Total Assets	597,087	6,540,838	2,134,651	6,690,477	461,154	16,424,207	15,051,061
Liabilities							
Accounts Payable	560	6,021	2,200	9,295	212	18,288	10,352
Securities Lending Collateral	159,497	1,094,684	603,606	1,489,805	108,101	3,455,693	2,635,518
Total Liabilities	160,057	1,100,705	605,806	1,499,100	108,313	3,473,981	2,645,870
<i>Plan Net Assets Held in Trust for Pension Benefits</i>							
	\$437,030	\$5,440,133	\$1,528,845	\$5,191,377	\$352,841	\$12,950,226	\$12,405,191

Financial Section



Kentucky Retirement Systems Combining Schedules of Plan Net Assets - Insurance Funds

<i>Insurance Funds</i>							
As of June 30, 2006 (with comparative totals as of June 30, 2005)							2005
<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	\$35	\$98	\$51	\$74	\$7	\$265	\$207
Short-Term Investments	20,824	99,493	36,092	68,375	9,066	233,850	210,072
Total Cash and Short-Term Investments	20,859	99,591	36,143	68,449	9,073	234,115	210,279
Receivables							
Contributions	902	3,849	6,855	18,309	378	30,293	18,617
Investment Income	529	1,602	1,085	1,957	267	5,440	4,909
Total Receivables	1,431	5,451	7,940	20,266	645	35,733	23,526
Investments, at Fair Value							
Corporate and Government Bonds	20,994	61,783	46,358	80,958	10,689	220,782	199,189
Corporate Stocks	180,360	467,311	351,926	645,459	90,208	1,735,264	1,497,841
Alternative Investment	15	15	37	61	7	135	
Total Investments	201,369	529,109	398,321	726,478	100,904	1,956,181	1,697,030
Securities Lending Collateral Invested	58,213	73,130	128,623	215,816	25,561	501,343	431,552
Total Assets	281,872	707,281	571,027	1,031,009	136,183	2,727,372	2,362,387
Liabilities							
Accounts Payable	201	1,566	1,283	2,195	162	5,407	2,230
Demutualization Proceeds Payable		20,000				20,000	
Securities Lending Collateral	58,213	73,130	128,623	215,816	25,561	501,343	431,552
Total Liabilities	58,414	94,696	129,906	218,011	25,723	526,750	433,782
Plan Net Assets Held in Trust for Pension Benefits							
	\$223,458	\$612,585	\$441,121	\$812,998	\$110,460	\$2,200,622	\$1,928,605

Financial Section

KENTUCKY RETIREMENT SYSTEMS COMBINED SCHEDULES OF CHANGES IN PLAN NET ASSETS--PENSION FUNDS For the Fiscal Years Ended June 30, 2006 and 2005

<i>Pension Funds</i>							
	2006					2005	
<i>(Dollars in Thousands)</i>	KERS Hazardous	KERS Non- Hazardous	CERS Hazardous	CERS Non- Hazardous	SPRS	Total	Total
Additions							
Members' Contributions	\$12,056	\$107,607	\$39,055	\$112,372	\$4,814	\$275,904	\$310,806
Employers' Contributions	10,803	60,681	49,976	90,834	4,244	216,538	157,508
Total Contributions	22,859	168,288	89,031	203,206	9,058	492,442	468,314
Investment Income							
From Investing Activities:							
Net Appreciation in Fair Value of Investments	29,613	356,000	90,189	298,173	29,621	803,596	723,831
Interest/Dividends	12,393	153,648	43,671	150,321	9,976	370,009	344,929
Total Investing Activities Income	42,006	509,648	133,860	448,494	39,597	1,173,605	1,068,760
Investment Expense	352	4,466	1,257	4,252	284	10,611	10,138
Commissions	301	3,427	963	3,299	222	8,212	5,818
Total Investing Activities Expense	653	7,893	2,220	7,551	506	18,823	15,956
Net Income from Investing Activities	41,353	501,755	131,640	440,943	39,091	1,154,782	1,052,804
From Securities Lending Activities:							
Securities Lending Income	6,196	42,886	23,485	57,969	4,234	134,770	55,872
Securities Lending Expense:							
Security Borrower Rebates	5,755	39,500	21,780	53,758	3,901	124,694	47,836
Security Lending Agent Fees	114	780	430	1,062	77	2,463	1,745
Net Income From Securities Lending Activities	327	2,606	1,275	3,149	256	7,613	6,291
Total Net Investment Income	41,680	504,361	132,915	444,092	39,347	1,162,395	1,059,095
Total Additions	64,539	672,649	221,946	647,298	48,405	1,654,837	1,527,409
Deductions							
Benefit Payments	23,736	577,947	101,087	325,135	34,703	1,062,608	960,521
Refunds	1,436	9,632	2,147	11,589	133	24,937	23,896
Administrative Expenses	645	7,568	1,113	12,797	134	22,257	17,432
Total Deductions	25,817	595,147	104,347	349,521	34,970	1,109,802	1,001,849
Net Increase in Plan Assets	38,722	77,502	117,599	297,777	13,435	545,035	525,560
Plan Net Assets Held in Trust for Pension Benefits							
Beginning of Year	398,308	5,362,631	1,411,246	4,893,600	339,406	12,405,191	11,879,631
End of Year	\$437,030	5,440,133	\$1,528,845	\$5,191,377	\$352,841	\$12,950,226	\$12,405,191

Financial Section

KENTUCKY RETIREMENT SYSTEMS COMBINED SCHEDULES OF CHANGES IN PLAN NET ASSETS--INSURANCE FUNDS For the Fiscal Years Ended June 30, 2006 and 2005



Insurance Funds

	2006					2005	
(Dollars in Thousands)	KERS Hazardous	KERS Non- Hazardous	CERS Hazardous	CERS Non- Hazardous	SPRS	Total	Total
Additions							
Employer Contributions	\$16,243	\$43,749	\$60,934	\$126,481	\$5,990	\$253,397	\$232,681
Premiums Received from Retirees	88	5,770	98	6,365	5	12,326	
Insurance Appropriation	769	3,886	3,920	2,387	890	11,852	4,562
Total Contributions	17,100	53,405	64,952	135,233	6,885	277,575	237,243
Investment Income							
From Investing Activities:							
Net Appreciation in Fair Value of Investments	19,778	53,531	36,684	68,331	9,907	188,231	122,127
Interest/Dividends	4,393	12,626	8,619	15,741	2,204	43,583	36,400
Total Investing Activities Income	24,171	66,157	45,303	84,072	12,111	231,814	158,526
Investment Expense	212	443	392	741	101	1,889	1,428
Commissions	61	162	112	201	31	567	563
Total Investing Activities Expense	273	605	504	942	132	2,456	1,991
Net Income from Investing Activities	23,898	65,552	44,799	83,130	11,979	229,358	156,535
From Securities Lending Activities:							
Securities Lending Income	2,564	3,242	5,661	9,502	1,125	22,094	9,039
Securities Lending Expense:							
Security Borrower Rebates	2,356	2,960	5,207	8,736	1,035	20,294	7,669
Security Lending Agent Fees	43	53	94	158	18	366	262
Net Income From Securities Lending Activities	165	229	360	608	72	1,434	1,108
Total Net Investment Income	24,063	65,781	45,159	83,738	12,051	230,792	157,643
Total Additions	41,163	119,186	110,111	218,971	18,936	508,367	394,886
Deductions							
Healthcare Premium Subsidies	6,370	78,156	28,714	56,985	7,252	177,477	166,892
Administrative Expenses	63	1,679	213	1,539	68	3,562	1,231
Self-funding Insurance Premiums	143	17,667	1,003	15,934	564	35,311	
Demutualization Proceeds Refunded		20,000				20,000	
Total Deductions	6,576	117,502	29,930	74,458	7,884	236,350	168,123
Net Increase in Plan Assets	34,587	1,684	80,181	144,513	11,052	272,017	226,763
Plan Net Assets Held in Trust for Insurance Benefits							
Beginning of Year	188,871	610,901	360,940	668,485	99,408	1,928,605	1,701,842
End of Year	\$223,458	\$612,585	\$441,121	\$813,998	\$110,460	\$2,200,622	\$1,928,605



Financial Section

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Kentucky Retirement Systems
Frankfort, Kentucky

We have audited the financial statements of Kentucky Retirement Systems, a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2006, and have issued our report thereon dated August 31, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kentucky Retirement Systems' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted one matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect Kentucky Retirement Systems' ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Finding and Responses as Item 2006-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk that misstatements caused by error or fraud 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, we do not believe that the reportable condition described above is a material weakness.

Compliance And Other Matters

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

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

August 31, 2006
Louisville, Kentucky

Kentucky Retirement Systems Schedule of Finding and Response



Finding

ITEM 2006-1, Management Override of Internal Controls

During the fiscal year ended June 30, 2006, two officers of Kentucky Retirement Systems' (KRS) Executive Management, the Chief Investment Officer and Chief Operations Officer, circumvented internal control policies and procedures related to an Alternative Investment made by the KRS Insurance Fund.

The Chief Investment Officer and Chief Operations Officer also failed to perform adequate due diligence in violation of agency practice and industry best practice related to an Alternative Investment by the KRS Insurance Fund. In addition, the Chief Investment Officer and the Chief Operations Officer, acted outside the authority granted to them by the Investment Committee when completing the acquisition of the Alternative Investment.

In addition, there was a commingling of funds between the Pension and Insurance Funds to finance the acquisition of the Alternative Investment. This is in violation of the Plan Document and the Internal Revenue Code.

Response

ITEM 2006-1, Management Override of Internal Controls

The Chief Investment Officer and the Chief Operations Officer have resigned.

KRS has retained fiduciary counsel, Ice Miller, LLP, to review the internal controls in place and will issue an opinion regarding the internal controls at KRS and make recommendations, if necessary. Also, the Audit Committee of the Board of Trustees of KRS has directed Internal Audit to review internal controls and make recommendations, if necessary. In the interim it is the opinion of the Executive Management of KRS and Internal Audit that the internal controls are adequate.

Furthermore, Ice Miller, LLP, is in the process of preparing a memorandum with respect to the Alternative Investment and the commingling of funds to detail the self-correcting action taken by KRS.

Investment Section



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Investment Summary

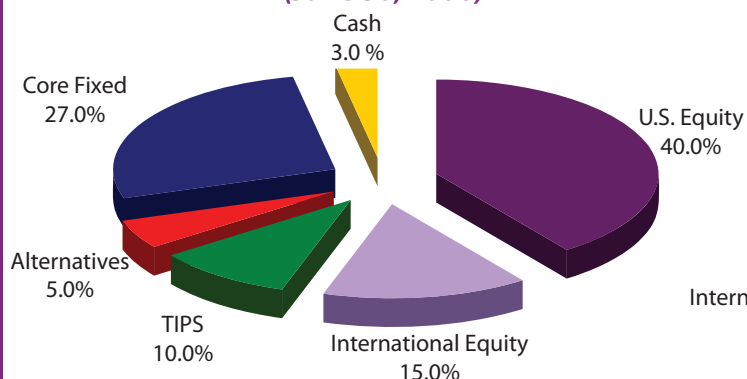
The Board of Trustees is charged with the responsibility of investing Kentucky Retirement Systems' assets to help provide for the benefits paid to KRS members. To achieve that goal the Board follows a policy of preserving capital, while seeking means of enhancing revenues and protecting against undue 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 KRS. In carrying out their fiduciary duties, the Trustees have set forth clearly defined investment policies, objectives and strategies for both the pension and insurance portfolios.

Investment Policy

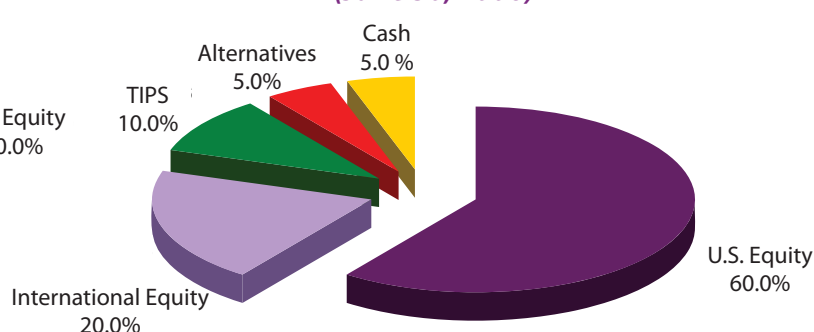
During the fiscal year, the KRS Board of Trustees did not alter its investment policy. As of June 30, 2006, the KRS pension fund's policy is to invest 40% of the assets in U.S. equities, 15% in international equities, 27% in fixed income, 10% in Treasury Inflation Protected Securities (TIPS), 5% in alternative assets, and 3% in cash or short-term securities. As of June 30, 2006, 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.

The following charts graphically depict the Board's investment policy.

Pension Fund Target Allocation
(June 30, 2006)



Insurance Fund Target Allocation
(June 30, 2006)



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

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

Investment Strategies

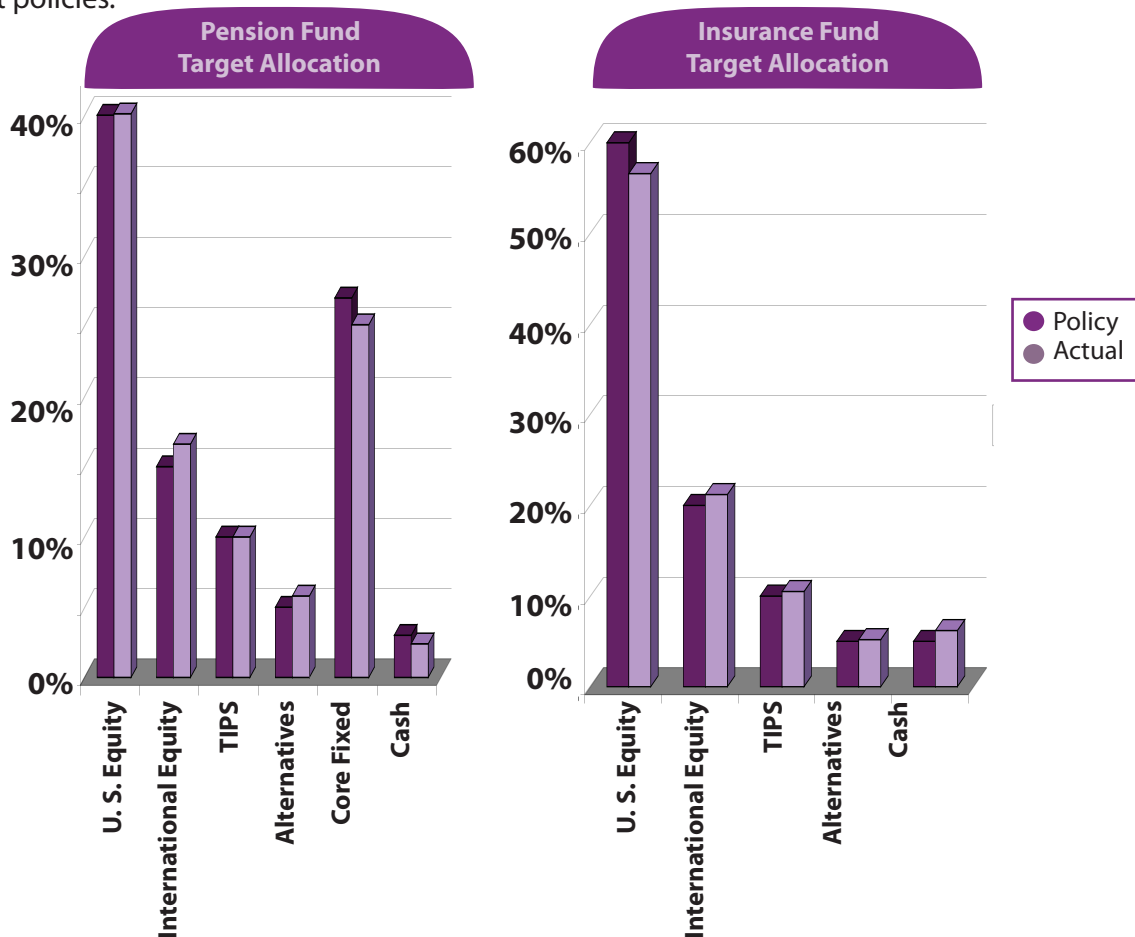
**Diversification**

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 its portfolio(s) within the parameters established by the Board of Trustees.

Rebalancing

Proper implementation of the investment policy requires that a periodic adjustment, or rebalancing, of assets be made to ensure conformance with 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.

**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 Strategic Investment Solutions, 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.



STRATEGIC INVESTMENT SOLUTIONS, INC.

October 25, 2006

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

Subject: Annual Fund Review

Dear Trustees:

Strategic Investment Solutions is charged with the duty to advise the Board in its asset management activities. This is our annual review of the asset management of the Kentucky Retirement Systems. Although we recognize that the Board of Trustees is charged with the responsibility of managing the Funds in a manner consistent with the basic long term nature of the participating systems, our comments focus on the fiscal year ended June 30, 2006. In managing the Funds, the Board must maintain formal compliance with the Prudent Person Rule. Therefore, it seeks to maintain proper and appropriate diversification for the Fund.

Market Highlights

Global equity markets continued their strong recent returns during FY 2006, though it was a tale of two very different six month periods. During the first six months, while concerns about the effects on inflation of high energy prices loomed, strong corporate earnings growth helped boost equity returns. Riskier equity segments such as US small cap and International emerging markets performed well as investors were accepting of market risk. This changed substantially during the second half of the fiscal year. Equities posted weak results due to tighter liquidity, concerns about uncertainty in Iraq and Afghanistan, high energy prices, and inflation fears from strong economic growth. In essence, the price of market risk increased dramatically. On the fixed income side, the Federal Reserve raised short-term interest rates throughout this period; June 29 saw the 17th straight short-term rate hike. As a result, most bond market sectors had flat to negative returns. Alternatives (private markets) did quite well during the fiscal year, particularly buyout opportunities.

The US dollar weakened during this period, boosting International Equity and Fixed Income returns. The S&P 500 Index gained 8.63% over the past year while the MSCI EAFE (International Equity) Index (Net) rose 26.56%. The fixed income markets, as represented by the Lehman Aggregate Bond Index, fell 0.81%.



Systems Highlights

According to the Fund Analytics statements from Northern Trust, the Retirement Fund's assets increased from \$12.3 billion on June 30, 2005, to \$12.9 billion on June 30, 2006. The Fund returned 9.7% during this period versus 7.5% for the Reference Index. The Insurance Fund's assets increased from \$1.8 billion on June 30, 2005 to \$2.1 billion on June 30, 2006. It also outperformed its benchmark, returning 12.4% versus 10.0% for the Reference Index. Please note the Reference Indices are constructed according to the individual target asset allocations of the Funds.

The Retirement Fund was overweight international equity and underweight fixed income at the end of FY 2006. The Insurance Fund was overweight international equity and cash equivalents and underweight domestic equity. Both Funds benefited from their overweight positions in international equity during FY 2006, as it was the best-performing major asset class during this period. They also benefited from an increase in Alternatives exposure, as this asset class also performed well.

The asset allocations for the Retirement and Insurance Funds as of June 30 are provided below relative to their allocation targets.

<u>Asset Class</u>	<u>Retirement Fund</u>		<u>Insurance Fund</u>	
	<u>6/30/2006 Allocation</u>	<u>Target Allocation</u>	<u>6/30/2006 Allocation</u>	<u>Target Allocation</u>
Domestic Equity	40.1%	40.0%	56.6%	60.0%
International Equity	16.6%	15.0%	21.2%	20.0%
Fixed Income	25.1%	27.0%	0.0%	0.0%
Alternatives *	5.8%	5.0%	5.2%	5.0%
TIPS	10.0%	10.0%	10.5%	10.0%
Cash **	2.4%	3.0%	6.5%	5.0%

* Includes Private Equity and Real Estate

** Includes equitization positions

All major asset classes are within their allowable ranges. SIS recommends rebalancing back to target on a periodic basis.



Investment Manager Highlights

Retirement Fund

Among domestic equity managers, the INVESCO structured core equity portfolio (return of 15.8% vs. 8.6% for the S&P 500 Index) and the S&P 1500 Index portfolio (9.8% vs. 7.3% for the S&P 1500 Price Only Index) strongly outperformed their respective benchmarks. The NTQA small cap portfolio performed in line with its benchmark, while the Weaver MVT portfolio was liquidated during the year due to poor performance.

On the international side, the Fidelity growth portfolio (27.6% return) and BGI International Alpha Tilts core portfolio (27.5%) both modestly outperformed the MSCI EAFE (Gross) Index (27.1%), while the Boston Company value portfolio trailed the benchmark (24.8%). The Boston Company's performance was disappointing as growth and value strategies were favored more or less equally during the period and their emerging markets exposure would have been expected to aid returns, as this asset class posted strong gains during the year.

Among the five fixed income portfolios, three modestly outperformed their benchmarks: Lincoln Capital (-0.7% vs. -0.8% for the Lehman Aggregate Index); and both TIPS portfolios (the Internal portfolio lost 1.4% vs. -1.6% for the benchmark, while the Barksdale portfolio lost 1.3%). The other two, INVESCO (-1.5%) and Weaver Barksdale Core (-1.4%), essentially matched the return of the Lehman Government/Credit Index. Over longer time periods, Lincoln Capital has exceeded its benchmark net of management fees while the other portfolios have trailed their benchmarks on a net basis.

The Alternatives portfolio continued its strong performance record since inception, with a 17.3% return vs. 6.3% for the Blended Index during the year.

Insurance Fund

The S&P 1500 Index portfolio (9.8% vs. 7.3% for the S&P 1500 Price Only Index) and Fidelity (27.5% vs. 27.1% for the MSCI EAFE Index) both outperformed their respective benchmarks.

Both TIPS portfolios did modestly well against the Lehman TIPS Index (-1.5% each vs. -1.6%).



Summary

During 2006 fiscal year the Retirement and Insurance Funds experienced strong returns and asset growth. Both Funds benefited from generally strong relative and absolute results by their domestic and international equity managers, and their overweight to international equity. Alternatives also helped to boost returns substantially. The fixed income portfolios generally performed in line with their benchmarks, though absolute returns were poor due to a weak fixed income investment environment.

Sincerely,

Peter A. Keliuotis, CFA
(630) 705-3099

cc: B. Cracraft, KRS
B. Aldridge, KRS



Investment Results

Fiscal Year 2006 Results:

For the fiscal year ended June 30, 2006, the KRS pension fund returned 9.7%, which exceeded the return of its benchmark by 2.2%. The 9.7% return also exceeded the actuarially assumed rate of return of 8.25% by more than one full percent. The above benchmark performance of the pension fund was due in large part to an above benchmark weighting to international equities and a below benchmark weighting to fixed income, the best and worst performing asset classes. The excess performance was further enhanced by above benchmark returns from the domestic equity and alternative asset portfolios.

Pension Total Fund Return ¹						
	Inception Date	Fiscal Year	3-Year	5-Year	10-Year	Inception
KRS Total Fund	Apr-84	9.7%	10.8%	6.3%	8.9%	10.9%
Performance Benchmark		7.5%	9.8%	5.6%	8.6%	10.8%
CPI + 4.0%		8.3%	7.4%	6.7%	6.6%	7.1%

¹ Current Policy Benchmark is comprised of 14% LB Aggregate, 13% LB Government/Credit, 10% LB U.S. TIPS, 15% MSCI EAFE, 5% Russell 2000, 31.4% S&P 1500 Composite (Price Only), 6.6% S&P 500, 3% 3-Month Treasury Bill, and 2% LB High Yield Corporate Index.

The KRS insurance fund also posted a strong return for the fiscal year ended June 30, 2006. The portfolio returned 12.4% compared to the benchmark and actuarially assumed rates of return of 10.0% 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 above benchmark performance from the domestic equity asset class.

Insurance Total Fund Return						
	Inception Date	Fiscal Year	3-Year	5-Year	10-Year	Inception
KRS Total Insurance Fund	Apr-84	12.4%	13.7%	6.3%	8.6%	9.0%
Performance Benchmark		10.0%	11.9%	4.2%	8.1%	8.8%
CPI + 4.0%		8.3%	7.4%	6.7%	6.6%	7.1%

¹ Current Policy Benchmark is comprised of 10% LB U.S. TIPS, 20% MSCI EAFE, 64% S&P 1500 Composite (Price Only), 5% 3-Month Treasury Bill, and 1% LB High Yield Corporate Index.

Long-Term Results:

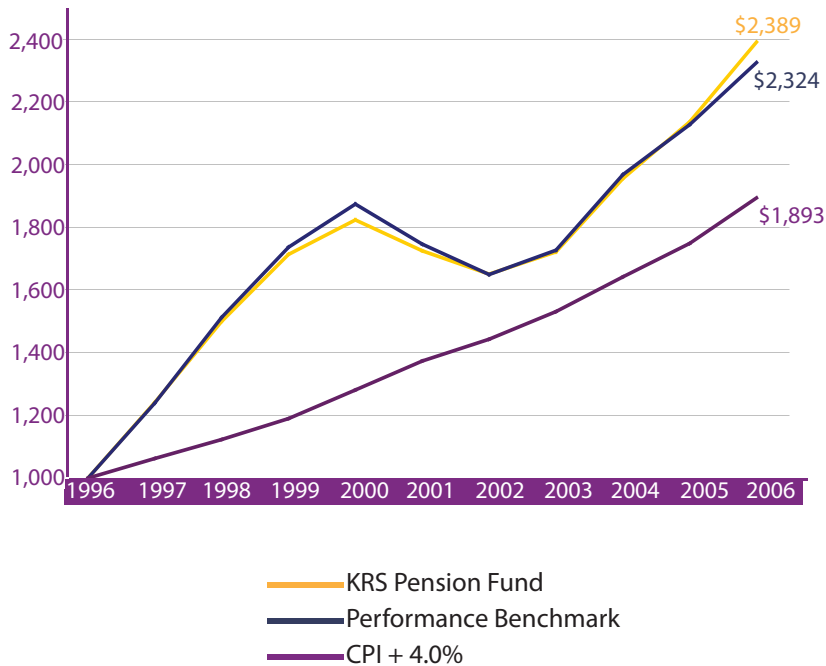
The 10-years ended June 30, 2006, provided returns that by historical measures were quite good. The KRS pension fund portfolio earned an annualized total return of 8.9 %. As shown in the investment results table, the KRS pension fund return remains ahead of or in line with its benchmark for each of the time periods presented. The consistent, above benchmark performance is illustrated in the following charts, which show 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.

¹ All return calculations are made by the custody bank and were prepared using a time-weighted rate of return.



Investment Results

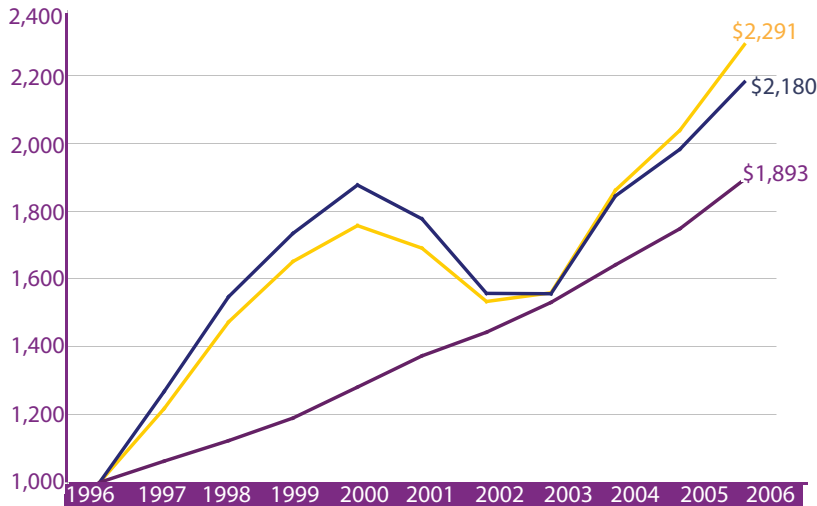
Total Pension Fund Growth of \$1,000



The ending points at June 30, 2006, indicate that the \$1,000 would have grown to \$2,389, while the same \$1,000 invested in the policy portfolio and actuarial objective would have grown to \$2,324 and \$1,893, respectively.

The KRS insurance fund also enjoyed a strong period of growth over the past 10 years, earning an 8.6% return for the 10-year period ending June 30, 2006. As shown in the accompanying insurance investment results table, the KRS insurance fund returns 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.

Total Insurance Fund Growth of \$1,000



The ending points at June 30, 2006, indicate that the \$1,000 would have grown to \$2,291, while the same \$1,000 invested in the policy portfolio and its actuarial objective would have grown to \$2,180 and \$1,893, respectively.



Investment Results

U.S. Equities

For the fiscal year ending June 30, 2006, the KRS pension fund U.S. equity portfolio posted a return of 11.9%, outperforming its performance benchmark by 2.6%. The KRS insurance U.S. equity portfolio also performed well, outperforming its performance benchmark by 2.5% during the recently completed fiscal year. As the accompanying table indicates, all segments of the U.S. equity markets posted positive results during the recently completed twelve month period.

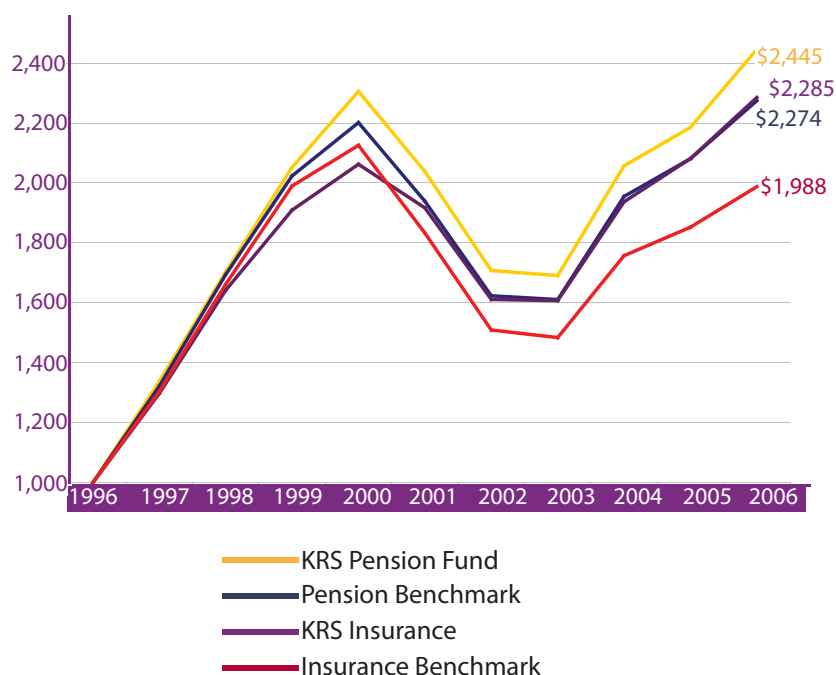
U.S. Equity						
	Inception Date	Fiscal Year	3-Year	5-Year	10-Year	Inception
KRS Pension	Apr-84	11.9%	13.1%	3.7%	9.4%	12.9%
Performance Benchmark		9.3%	12.2%	3.2%	8.6%	12.6%
KRS Insurance	Jul-92	9.8%	12.4%	3.6%	8.6%	10.8%
Performance Benchmark		7.3%	10.2%	1.6%	7.1%	9.6%
Market Indices						
Russell 1000 (Large Cap)		9.1%	12.0%	3.1%	8.6%	
Russell 2000 (Small Cap)		14.6%	18.7%	8.5%	9.0%	
Russell 3000 (Total Equity)		9.6%	12.6%	3.5%	8.5%	

¹ Current Blended Pension Benchmark consist of 12.5% Russell 2000, 71% S&P 1500 Composite (Price Only), and 16.5% S&P 500

² Insurance benchmark is S&P 1500 Composite (Price Only)

Over the past three years, U.S. equity investors have received acceptable returns from U.S. equity investments. The KRS pension fund portfolio has generated an annualized return of 13.1% over this period, exceeding its benchmark by 0.9%. Over the same time period, the insurance fund has produced an annualized return of 12.4%, easily outperforming its performance benchmarks return of 10.2%. Boasted by three years of positive performance, both the pension and insurance portfolios have produced positive, above benchmark returns on a five-year time period. The 10-year returns for each U.S. equity portfolio also indicate strong positive performance. The pension portfolio has generated a annualized average return of 9.4%, while the insurance portfolio has posted an average annual return of 8.6%.

U. S. Equity Portfolio Growth of \$1,000





Investment Results

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 KRS pension fund, the ending points at June 30, 2006, indicate that the \$1,000 would have grown to \$2,445, while the same \$1,000 invested in the benchmark portfolio would have grown to \$2,274. For the KRS insurance fund, the ending points at June 30, 2006, indicate that the \$1,000 would have grown to \$2,285, while the same \$1,000 invested in the benchmark portfolio would have grown to \$1,988.

Top 10 U.S. Equity Holdings

Pension Fund			Insurance Fund		
Company	Shares	Market Value	Company	Shares	Market Value
Exxon Mobil Corp	2,196,000	134,724,600	Exxon Mobil Corp	468,500	28,742,475
General Electric Co	3,035,400	100,046,784	General Electric Co	776,700	25,600,032
Citigroup, Inc	1,927,400	92,977,776	Microsoft Corp	791,200	18,434,960
Bank of America Corp	1,777,931	85,518,481	Citigroup, Inc	381,000	18,379,440
Microsoft Corp	3,082,000	71,810,600	Bank of America Corp	353,432	17,000,079
Pfizer, Inc	2,908,360	68,259,209	Wal-Mart Stores, Inc	306,300	14,754,471
Johnson & Johnson	1,065,934	63,870,765	Proctor & Gamble Corp	253,675	14,104,330
Altria Group Inc	760,700	55,858,201	Pfizer, Inc	563,100	13,215,957
IBM Corp	651,800	50,071,276	Johnson & Johnson	209,788	12,570,497
Wal-Mart Stores, Inc	1,022,600	49,258,642	Altria Group Inc	156,800	11,513,824
Total	18,428,125	772,396,335	Total	4,260,495	174,316,065

A complete list of holdings is available upon request.



Investment Section

Investment Results

International Equities

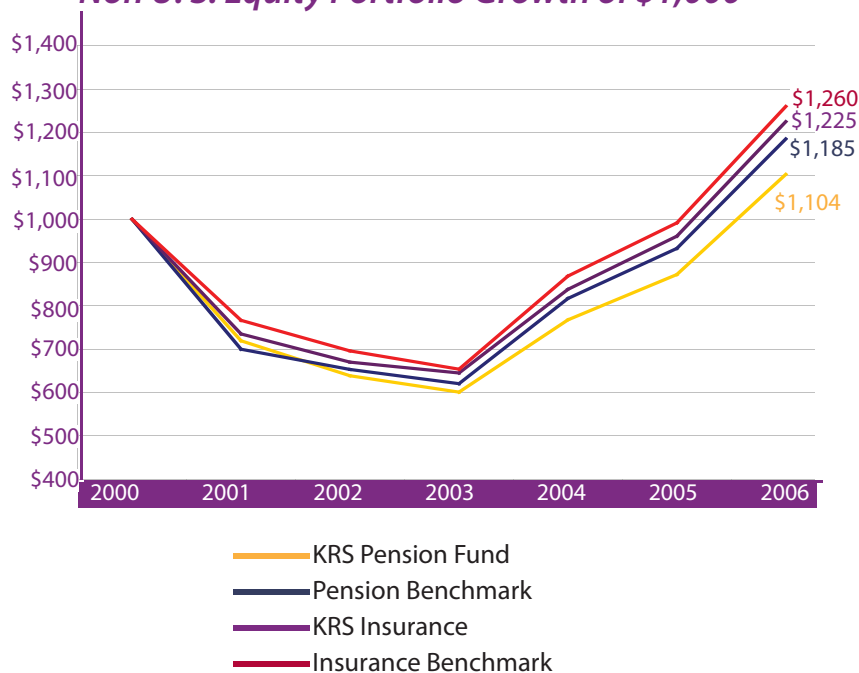
For the fiscal year ending June 30, 2006, the KRS pension fund international equity portfolio returned 26.5%, trailing its performance benchmark, the MSCI EAFE Index, by 0.6%. The KRS insurance international equity portfolio, however, outperformed the MSCI EAFE Index by 0.4% during the same twelve month period, posting a return of 27.5%. As the accompanying table indicates, both developed and emerging international equity markets posted strong positive results during the recently completed twelve month period.

International Equity					
	Inception Date	Fiscal Year	3-Year	5-Year	Inception
KRS Pension	Jul-00	26.5%	22.5%	8.9%	1.7%
Performance Benchmark		27.1%	24.1%	11.1%	2.9%
KRS Insurance	Jul-00	27.5%	23.8%	10.8%	3.4%
Performance Benchmark		27.1%	24.4%	10.4%	3.9%
Market Indices					
MSCI EAFE		27.1%	24.4%	10.4%	1.0%
MSCI Emerging Markets		35.9%	34.8%	21.5%	9.7%
MSCI ACWI Ex US		28.4%	25.8%	11.9%	2.0%

2 Pension and Insurance benchmark is the MSCI EAFE Index

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 22.5% over this three-year period, which has fallen short of the MSCI EAFE Index return of 24.1%, by 1.6%. The insurance fund has also trailed the annualized return of the index, generating an average return of 23.8%. The Systems began its international equity program five years ago in July 2000. Since inception, both portfolios have underperformed their benchmark.

Non U. S. Equity Portfolio Growth of \$1,000



Investment Results



The chart on the preceding page indicates the growth of \$1,000 invested in the KRS international equity portfolios and the MSCI EAFE Index since their inception six years ago. For the KRS pension fund, the ending points at June 30, 2006, indicate that the \$1,000 would have grown to \$1,104, while the same amount invested in the MSCI EAFE Index would have grown to \$1,185. For the KRS insurance fund, the ending points at June 30, 2006, indicate that the \$1,000 would have grown to \$1,225, while the same \$1,000 invested in the index would also have risen to \$1,260.

Top 10 International Equity Holdings

Pension Fund			Insurance Fund		
Company	Shares	Market Value	Company	Par	Market Value
Total SA	502,204	33,038,267	BP Plc	939,000	10,950,066
BP Plc	2,816,405	32,843,258	Total SA	145,264	9,556,417
GlaxoSmithKline Plc	1,103,450	30,837,784	Roche Holdings AG	55,127	9,094,830
Novartis AG	463,051	25,023,654	Ericsson LM	2,711,625	8,959,134
ENI S.P.A.	786,650	23,164,727	Altadis, S.A.	186,210	8,800,081
Sumitomo Mitsui Financial	1,998	21,148,406	GlaxoSmithKline Plc	304,285	8,503,761
E.ON AG	176,110	20,270,979	Novartis AG	153,984	8,321,421
BNP Paribas	200,326	19,172,592	Toyota Motor Corp	158,400	8,300,013
HSBC Holdings Plc	1,075,370	18,924,863	E.ON AG	70,800	8,149,369
Roche Holdings AG	107,838	17,791,069	ENI S.P.A.	249,750	7,354,466
Total	7,233,402	242,215,600	Total	4,974,445	87,989,558

A complete list of holdings is available upon request.



Investment Results

Fixed Income

For the fiscal year ending June 30, 2006, the KRS pension fund fixed income portfolio declined 1.2%, however the portfolio outperformed its custom index return by 0.1%. 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 negative returns for the most recent twelve month period, as the Federal Reserve continued to increase the short-term interest rate. The KRS insurance fixed income portfolio also posted a negative return of 1.5%, outperforming its benchmark, the Lehman Brothers U.S. TIPS Index, by 0.2%.

Fixed Income

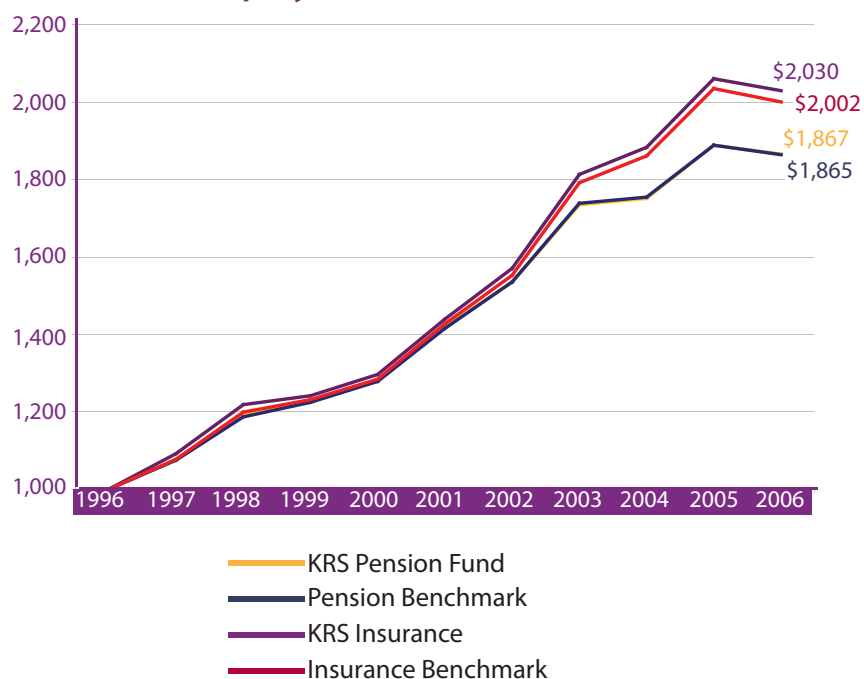
	Inception Date	Fiscal Year	3-Year	5-Year	10-Year	Inception
KRS Pension	Apr-84	-1.2%	2.5%	5.6%	6.4%	8.8%
Performance Benchmark		-1.3%	2.4%	5.7%	6.4%	8.5%
KRS Insurance	Jul-92	-1.5%	3.8%	7.1%	7.3%	7.2%
Performance Benchmark		-1.7%	3.8%	7.0%	7.2%	7.2%
Market Indices						
LB Aggregate		-0.8%	2.1%	5.0%	6.2%	
LB Government/Credit		-1.5%	1.6%	5.1%	6.2%	

¹ Current Blended Pension Benchmark consists of 38% LB Aggregate, 35% LB Government/Credit, and 27% LB U.S. TIPS

¹ Insurance Benchmark is the Lehman Brothers U.S. TIPS Index

Over the past three years ended June 30, 2006, the KRS pension fund portfolio has generated an annualized average return of 2.5% versus its custom performance benchmark return of 2.4%. The insurance fund portfolio posted a 3.8% return during the same period, matching its benchmark return. 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.

U. S. Equity Portfolio Growth of \$1,000





Investment Results

The chart on the preceding page 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 points at June 30, 2006, indicate that the \$1,000 would have grown to \$1,867, while the same \$1,000 invested in the benchmark portfolio would have grown to \$1,865. For the KRS insurance fund, the ending points at June 30, 2006, indicate that the \$1,000 would have grown to \$2,030 while the same \$1,000 invested in the benchmark portfolio would have grown to \$2,002.

Top 10 Fixed Income Holdings

Pension Fund			Insurance Fund		
Company	Par Value	Market Value	Company	Par Value	Market Value
US TSY BD INFL Index 3.625 Due 4/15/28	65,500,000	96,801,733	US TSY NT INFL Index 0.875 Due 4/15/10	18,550,000	18,606,771
US TSY BD INFL Index 3.875 Due 4/15/29	63,367,000	96,077,312	US TSY BD INFL Index 3.875 Due 4/15/29	11,700,000	17,739,589
US TSY NT INFL Index 2.000 Due 1/15/14	85,750,000	90,235,390	US TSY BD INFL Index 2.375 Due 1/15/25	16,850,000	17,526,122
US TSY NT INFL Index 3.000 Due 7/15/12	76,850,000	88,663,300	US TSY NT INFL Index 3.000 Due 7/15/12	13,450,000	15,517,520
US TSY NT INFL Index 1.875 Due 7/15/13	83,600,000	88,085,664	US TSY NT INFL Index 2.000 Due 1/15/14	13,500,000	14,206,155
US TSY NT INFL Index 0.875 Due 4/15/10	84,700,000	84,959,220	US TSY NT INFL Index 1.875 Due 7/15/13	13,300,000	14,013,628
US TSY NT INFL Index 2.149 Due 7/15/14	81,000,000	83,360,938	US TSY BD INFL Index 3.625 Due 4/15/28	9,315,000	13,766,537
US TSY NT INFL Index 1.625 Due 1/15/15	80,000,000	78,678,467	US TSY NT INFL Index 2.149 Due 7/15/14	12,625,000	12,992,986
US TSY NT INFL Index 3.625 Due 1/15/08	59,400,000	75,338,904	US TSY NT INFL Index 3.625 Due 1/15/08	9,950,000	12,619,901
US TSY BD INFL Index 2.375 Due 1/15/25	70,485,000	73,313,276	US TSY NT INFL Index 1.625 Due 1/15/15	12,500,000	12,293,510
Total	750,652,000	855,514,203	Total	131,740,000	149,282,718

A complete list of holdings is available upon request.



Investment Results

Alternative Investments

For the fiscal year ending June 30, 2006, the KRS pension fund alternative investments portfolio posted a return of 17.2%. 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 6.4% during this same period. The insurance alternative investment portfolio also fared well, generating a return of 9.5% versus a custom performance benchmark return of 6.8% during the fiscal year.

As the accompanying table indicates, the longer term results from the alternative investment portfolios have also been excellent. For the three years ended June 30, 2006, the pension fund portfolio has outperformed its custom performance benchmark by nearly 16% on an annualized basis. Since its inception in October, 0, the portfolio has exceeded its benchmark by nearly 3.5% each year. The insurance portfolio has also done very well exceeding its benchmark return over the three-year and since inception periods by 5.6% and 5.3%, respectively.

Alternative Equity

	Inception Date	Fiscal Year	3-Year	5-Year	10-Year	Inception
KRS Pension	Oct-90	17.2%	25.5%	18.5%	15.0%	13.5%
Performance Benchmark		6.4%	9.7%	4.6%	8.4%	10.2%
KRS Insurance	Jul-01	9.5%	15.6%	8.4%		8.4%
Performance Benchmark		6.8%	10.0%	3.1%		3.1%



Additional Schedules and Required Supplemental Information

Following are additional schedules which show the external investment advisors employed by KRS along with the total assets each of the firm manages for KRS, external investment-related expenses incurred, portfolio summaries for each of the five pension and insurance plans, and commissions paid by KRS as of or for the year ended June 30, 2006.

External Investment Advisors

External Investment Advisors	Assets Under Management (in thousands)
Barclays Global Investors, San Francisco, California	\$ 508,277
Blackstone Capital Partners V, New York, New York	13,578
Columbia Capital IV, Alexandria, Virginia	3,184
Duff, Ackerman & Goodrich Ventures II, Palo Alto, California	9,000
Fidelity Investments, Boston, Massachusetts	1,336,274
H.I.G. Venture Partners II, Miami, Florida	2,597
INVESCO, Louisville, Kentucky	1,704,559
Institutional Venture Partners XI, Menlo Park, California	5,621
JW Childs Equity III, Boston, Massachusetts	31,481
Lehman Brothers Asset Management, Chicago, Illinois	1,848,775
Leonard Green & Partners, L.P. IV, Los Angeles, California	36,102
Matlin Patterson Global Opportunities I & II, New York, New York	53,707
Merit Capital Partners IV, Chicago, Illinois	6,499
New Mountain Partners II, New York, New York	10,857
Northern Trust Quantitative Advisors, Chicago, Illinois	761,122
Oak Hill Partners II, New York, New York	23,317
Sun Capital Partners IV, Boca Raton, Florida	5,263
Technology Crossover Ventures VI, Palo Alto, California	1,542
The Boston Company, Boston, Massachusetts	754,000
Vantagepoint Venture IV, San Bruno, California	26,166
Warburg Pincus IX, New York, New York	28,154
Wayzata Investment Partners I, Wayzata, Minnesota	50,241
Weaver Barksdale & Associates, Brentwood, Tennessee	1,293,353
Total	\$ 8,513,667

Master Custodian & Performance Measurement

The Northern Trust Company, Chicago, Illinois

Investment Consultants

Strategic Investment Solutions, San Francisco, California



Investment Section

Pension Fund Summaries

Asset Class	<i>KERS</i> <i>Non Hazardous</i>		<i>KERS</i> <i>Hazardous</i>	
	Market Value	% Market Value	Market Value	% Market Value
Bonds	\$1,566,064,347	29.0	\$119,242,950	27.5
Mortgages	\$305,668,161	5.7	\$28,399,084	6.6
Short Term	\$110,001,924	2.0	\$10,774,588	2.5
Alternatives	\$289,802,075	5.4	\$35,532,171	8.2
Domestic Equities	\$2,237,296,761	41.4	\$170,058,472	39.2
International Equities	\$888,210,591	16.5	\$69,520,062	16.0
Total Portfolio	\$5,397,043,859	100	\$394,749,778	100

Asset Class	<i>CERS</i> <i>Non Hazardous</i>		<i>CERS</i> <i>Hazardous</i>	
	Market Value	% Market Value	Market Value	% Market Value
Bonds	\$1,586,654,690	30.8	\$458,433,360	30.3
Mortgages	\$380,849,187	7.4	\$109,687,104	7.2
Short Term	\$78,875,293	1.5	\$29,125,252	1.9
Alternatives	\$291,687,149	5.7	\$87,174,358	5.8
Domestic Equities	\$1,953,589,380	38.0	\$585,489,701	38.7
International Equities	\$854,879,325	16.6	\$243,738,172	16.1
Total Portfolio	\$5,146,535,024	100	\$1,513,647,947	100

Asset Class	<i>SPRS</i>	
	Market Value	% Market Value
Bonds	\$105,004,503	30.0
Mortgages	\$20,933,123	5.9
Short Term	\$12,110,352	3.5
Alternatives	\$16,318,795	4.7
Domestic Equities	\$141,213,385	40.3
International Equities	\$54,513,613	15.6
Total Portfolio	\$350,093,771	100



Insurance Fund Summaries

Asset Class	KERS Non Hazardous		KERS Hazardous	
	Market Value	% Market Value	Market Value	% Market Value
Bonds	\$61,782,964	9.8	\$20,993,841	9.4
Short Term	\$99,492,865	15.8	\$20,823,474	9.4
Alternatives	\$32,336,211	5.2	\$11,131,443	5.0
Domestic Equities	\$322,559,454	51.3	\$118,626,312	53.4
International Equities	\$112,488,354	17.9	\$50,682,057	22.8
Total Portfolio	\$628,659,848	100	\$222,257,127	100

Asset Class	CERS Non Hazardous		CERS Hazardous	
	Market Value	% Market Value	Market Value	% Market Value
Bonds	\$80,958,005	10.2	\$46,358,538	10.7
Short Term	\$68,375,249	8.6	\$35,090,880	9.9
Alternatives	\$39,254,576	4.9	\$16,505,552	4.6
Domestic Equities	\$439,904,632	55.3	\$191,608,685	53.8
International Equities	\$166,613,247	21.0	\$75,503,675	21.2
Total Portfolio	\$795,105,709	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



Investment Section

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	139,924,273	\$5,983,302	\$0.043
	Total Value of Trades	Commissions Paid	As a % of Trade
Non-U.S. Equity	\$2,173,987,871	\$2,795,960	0.13%
Total Commissions Paid		\$8,779,262	

Actuarial Section



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October 31, 2006

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 fiftieth annual actuarial valuation of the Kentucky Employees Retirement System, the forty-seventh annual actuarial valuation of the County Employees Retirement System, and the forty-eighth 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, 2006 actuarial valuation will be used by the Board of Trustees to certify the employer contribution rates for the fiscal year beginning July 1, 2007 and ending June 30, 2008.

Funding Objectives & Policies

For each retirement system, KRS administers both a pension and insurance fund to provide monthly retirement allowances and retiree insurance benefits respectively. The total employer contribution rate is comprised of a contribution to each fund.

Relative to the pension fund, a contribution rate has been established which consists of the normal cost and an amortization payment on the unfunded accrued liability (UAL). The normal cost is expected to remain level as a percent of payroll in future years. The amortization of any UAL is made over 30 years from the establishment of the amortization base using a level percent of payroll amortization method. 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 UAL over a 30 year period. Beginning with the June 30, 2006 valuation, the assumptions and methods used are to meet the requirements of GASB Statement No. 43. Going forward, new UAL bases will be established at each valuation date and will be amortized over the following 30 years.

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

In recent years, funding levels for the pension funds have fallen dramatically in response to investment returns less than the actuarially assumed rate, higher than anticipated retirement rates, the 2006 assumption changes, and



increasing expenditures for retiree Cost of Living Adjustments (COLA). Within the KERS and SPRS plans, employer contribution rate reductions enacted by the State Legislature have limited the plans ability to correct the declining funding levels. As of June 30, 2006 the funding levels for the pension funds are as follows:

System	Pension Funding Level
KERS Non-Hazardous Pension Fund	60.0%
KERS Hazardous Pension Fund	84.1%
CERS Non-Hazardous Pension Fund	83.5%
CERS Hazardous Pension Fund	75.0%
SPRS Pension Fund	66.6%

The funding level for the insurance funds is not anywhere near 100% at this time, and the Board's funding objective is to increase this funded level consistently over time. While the funding level relative to the insurance funds has improved steadily since 1990, medical inflation rates in excess of the assumed rates, as well as recent employer contribution rate reductions under KERS and SPRS, have significantly limited this improvement. The recent adoption of new actuarial assumptions and the application of GASB Statement 43 requirements have further reduced the measured funding level. As of June 30, 2006 the funding level for the insurance funds are as follows:

System	Insurance Funding Level
KERS Non-Hazardous Insurance Fund	7.8%
KERS Hazardous Insurance Fund	34.3%
CERS Non-Hazardous Insurance Fund	16.9%
CERS Hazardous Insurance Fund	21.9%
SPRS Insurance Fund	18.1%

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

Assumptions & Methods
The Board of Trustees, in consultation with the actuary, sets the actuarial assumptions and methods used in the valuation. Once every five years the actuary conducts a thorough review of plan experience for the preceding five years, and then makes recommendations to the Board. The actuarial assumptions and methods used for the funding calculations of the valuation, as adopted by the Board on January 19, 2006 based on the experience investigation report dated January 12, 2006, meet the parameters set for disclosure under GASB Statements No. 25 and 43. 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 2011 and any adjustments will be reflected in the June 30, 2011 actuarial valuation.

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

Based on the continuation of current funding policies adopted by the Board, adequate provision is being determined for the funding of the actuarial liabilities of the Kentucky Employees Retirement System, the County Employees Retirement System, and the State Police Retirement System as required by the Kentucky Revised Statutes. The funding rates established by the Board are appropriate for this purpose.

Sincerely,

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

Edward A. Macdonald ASA, FCA, MAAA
President

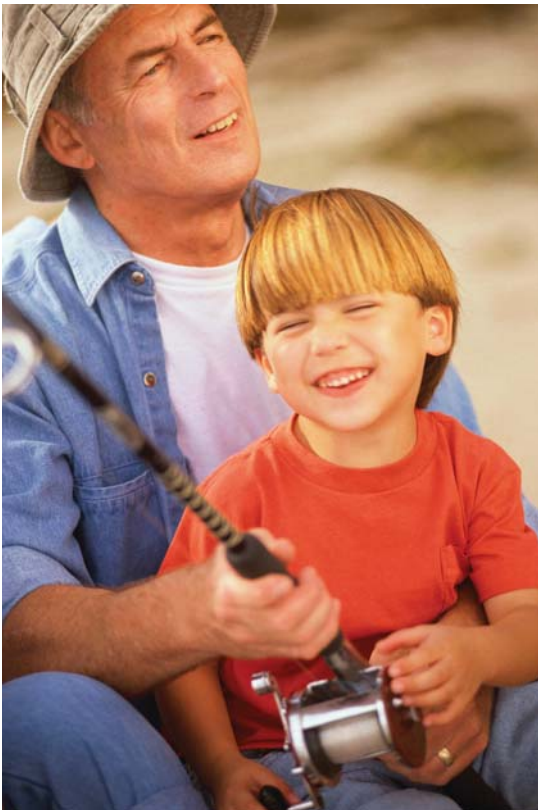
Summary of Actuarial Assumptions and Methods

(As of June 30, 2006)

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

1. **Actuarial Cost Method:** The actuarial valuation was prepared using the entry age normal cost (EANC) method as required by state statute. Under this method, the present value of future benefits is determined for each member and allocated equitably as a level percentage of payroll from the member's entry age into the plan to the assumed age of exit from the plan. The portion of the present value of future benefits allocated to the current valuation year is called the normal cost. The portion of the present value of future benefits allocated to prior years of service that has accrued to date is called the actuarial liability. The unfunded actuarial liability (UAL) represents the difference between the actuarial liability and the actuarial value of assets as of the valuation date. Relative to the pension fund and the insurance fund, an employer contribution rate has been established to be equal to the sum of the normal cost and the amount needed to amortize the unfunded actuarial liability (UAL) over no more than a 30-year period.
2. **UAL Amortization Method:** 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 3.5% per year.

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



4. **Retiree Insurance Funding Policy:** The assumptions, methods, and funding requirements used in the valuation are to meet the requirements of GASB Statement No. 43. Going forward, new UAL bases will be established at each valuation date and will be amortized over the following 30 years. This policy was adopted in 2006.

5. **Investment Return Assumption:** The future investments earnings of plan assets are assumed to accumulate at a rate of 7.75% per annum. This rate consists of a 3.5% inflationary component and a 4.25% real rate of return component. In accordance with GASB Statement 43, the investment return assumption has been reduced to a blended rate of 4.5% for KERS and SPRS insurance funds due to a lack of pre-funding benefits. This assumption was adopted in 2006.

6. **Salary Increase Assumption:** Active member salaries are assumed to increase at the rates provided in Table 1 on the following page. The rates include a 3.5% percent inflationary component and an additional increase due to promotion based upon plan experience. This assumption was adopted in 2006.

Summary of Actuarial Assumptions and Methods (As of June 30, 2006)



Table 1: Salary Increase Assumptions

Service	KERS & CERS Non-Hazardous	KERS & CERS Hazardous, SPRS
0-1	13.5%	14.5%
1-2	7.0%	7.5%
2-3	5.5%	7.0%
3-4	5.0%	6.5%
4-5	5.0%	6.0%
5-6	4.5%	5.5%
6-7	4.5%	5.0%
7-8	4.5%	5.0%
8-9	4.0%	4.5%
9-10	4.0%	4.5%
10+	4.0%	4.0%

7. **Payroll Growth Assumption:** Active member payroll is assumed to increase at a rate of 3.5% per annum. This assumption was adopted in 2006.
8. **Retiree Cost of Living Adjustments (COLA):** State statute requires retirement allowances to be increased by the percentage increase in the annual average of the consumer price index for all urban consumers (CPI-U) for the most recent calendar year, not to exceed five percent. Statute only allows 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 12% from 2006-2008, by 11% from 2009-2011, by 10% from 2012-2014, by 9% from 2015-2017, by 8% from 2018-2020, by 7% from 2021-2023, by 6% from 2024-2026, and by 5.5% thereafter. This assumption was adopted in 2006.
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 2. This assumption was adopted in 2006.

TABLE 2: RETIREMENT RATE ASSUMPTIONS

Non-Hazardous		Hazardous			
<u>Age</u>	<u>Probability</u>	<u>Service</u>	<u>KERS</u> <u>Probability</u>	<u>CERS</u> <u>Probability</u>	<u>SPRS</u> <u>Probability</u>
55	8.00%	20	20%	30%	20%
56	8.00%	21	15%	25%	9%
57	8.00%	22	15%	20%	9%
58	8.00%	23	15%	20%	9%
59	8.00%	24	15%	25%	20%
60	10.00%	25	20%	25%	20%
61	20.00%	26	35%	30%	20%
62	25.00%	27	35%	30%	20%
63	25.00%	28	35%	30%	30%
64	25.00%	29	35%	30%	45%
65	25.00%	30	35%	40%	45%
66	25.00%	31	35%	40%	45%
67	25.00%	32	35%	35%	45%
68	25.00%	33	35%	35%	45%
69	25.00%	34	35%	30%	70%
70	25.00%	35+	60%	30%	70%

If service credit is at least 27 years, the rate is 25%. Rates are doubled for KERS Non-hazardous members during the window period (set to expire January 1, 2009). 100% are anticipated to retire at age 75.

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

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

TABLE 3: 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>
Under 20	0.04%	0.03%	----	----
22	0.06%	0.03%	----	----
32	0.08%	0.04%	----	----
42	0.13%	0.08%	0.19%	0.11%
52	0.32%	0.17%	0.56%	0.29%
62	1.01%	0.58%	1.80%	1.08%
72	2.85%	1.65%	4.52%	2.84%

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

- 12. Withdrawal Rates:** The probability, or likelihood, of active members terminating employment prior to retirement is provided in Table 4 on the following page. The withdrawal rate is a function of both age and service. This type of structure is known as "select and ultimate rates". This structure reflects the fact that both service and age affect the likelihood of a member staying in active employment. The ultimate period for these systems covers a member's withdrawal rate after the first five years of service. These assumptions were adopted in 2006.



TABLE 4: SELECTED RATES OF TERMINATION PRIOR TO RETIREMENT

KERS & CERS Non-Hazardous				KERS Hazardous			
<u>Select Rates</u>		<u>Ultimate Rates</u>		<u>Select Rates</u>		<u>Ultimate Rates</u>	
<u>Service</u>	<u>Probability</u>	<u>Age</u>	<u>Probability</u>	<u>Service</u>	<u>Probability</u>	<u>Age</u>	<u>Probability</u>
1 st Yr. of Service:	15.00%	20	6.00%	1 st Yr. of Service:	15.00%	20	6.00%
2 nd Yr. of Service:	14.00%	25	5.40%	2 nd Yr. of Service:	14.00%	25	5.40%
3 rd Yr. of Service:	10.00%	30	4.80%	3 rd Yr. of Service:	10.00%	30	4.80%
4 th Yr. of Service:	8.00%	35	3.60%	4 th Yr. of Service:	8.00%	35	3.60%
5 th Yr. of Service:	6.00%	40	2.66%	5 th Yr. of Service:	6.00%	40	2.66%
		45	1.98%			45	1.98%
		50	1.92%			50	1.92%
		55	1.08%			55	1.08%
		60	0.75%			60	0.75%

CERS Hazardous				SPRS			
<u>Select Rates</u>		<u>Ultimate Rates</u>		<u>Select Rates</u>		<u>Ultimate Rates</u>	
<u>Service</u>	<u>Probability</u>	<u>Age</u>	<u>Probability</u>	<u>Service</u>	<u>Probability</u>	<u>Age</u>	<u>Probability</u>
1 st Yr. of Service:	10.00%	20	4.56%	1 st Yr. of Service:	10.00%	20	2.50%
2 nd Yr. of Service:	7.00%	25	3.04%	2 nd Yr. of Service:	7.00%	25	2.28%
3 rd Yr. of Service:	5.00%	30	3.01%	3 rd Yr. of Service:	5.00%	30	1.83%
4 th Yr. of Service:	4.00%	35	1.95%	4 th Yr. of Service:	4.00%	35	1.31%
5 th Yr. of Service:	3.50%	40	1.50%	5 th Yr. of Service:	3.50%	40	0.81%
		45	0.75%			45	0.41%
		50	0.50%			50	-
		55	-			55	-
		60	-			60	-

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

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

Summary of Actuarial Valuation Results (As of June 30, 2006)

	KERS Non- Hazardous	KERS Hazardous	CERS Non- Hazardous	CERS Hazardous	SPRS
Recommended Contribution Rate (Fiscal Year 2006-2007)					
Pension Fund Contribution	15.55%	10.20%	6.98%	15.01%	28.95%
Insurance Fund Contribution	32.82%	36.91%	20.51%	39.52%	91.05%
Recommended Employer Contribution	48.37%	47.11%	27.49%	54.53%	120.00%
Funded Status as of Valuation Date					
Pension Fund					
Actuarial Liability	\$8,994,826,247	\$508,655,903	\$6,179,569,267	\$2,020,142,770	\$516,482,298
Actuarial Value of Assets	\$5,394,086,323	\$427,984,192	\$5,162,894,136	\$1,515,075,017	\$344,016,197
Unfunded Liability on Actuarial Value of Assets	\$3,600,739,924	\$80,671,711	\$1,016,675,131	\$505,067,753	\$172,466,101
Funding Ratio on Actuarial Value of Assets	59.97%	84.14%	83.55%	75.00%	66.61%
Market Value of Assets	\$5,440,132,708	\$437,029,583	\$5,191,376,948	\$1,528,845,357	\$352,841,486
Unfunded Liability on Market Value of Assets	\$3,554,693,539	\$71,626,320	\$988,192,319	\$491,297,413	\$163,640,812
Funding Ratio on Market Value of Assets	60.48%	85.92%	84.01%	75.68%	68.32%
Insurance Fund					
Actuarially Accrued Liability	\$7,815,480,774	\$621,237,856	\$4,607,223,639	\$1,928,481,371	\$582,580,867
Actuarial Value of Assets	\$611,350,765	\$212,833,318	\$777,726,590	\$422,785,042	\$105,580,269
Unfunded Liability on Actuarial Value of Assets	\$7,204,130,009	\$408,404,538	\$3,829,497,049	\$1,505,696,329	\$477,000,598
Funding Ratio on Actuarial Value of Assets	7.82%	34.26%	16.88%	21.92%	18.12%
Market Value of Assets	\$632,642,846	\$223,523,081	\$813,250,744	\$441,278,796	\$110,491,075
Unfunded Liability on Market Value of Assets	\$7,182,837,928	\$397,714,775	\$3,793,972,895	\$1,487,202,575	\$472,089,792
Funding Ratio on Market Value of Assets	8.09%	35.98%	17.65%	22.88%	18.97%
Member Data					
Number of Active Members	46,707	4,320	83,694	9,635	1,028
Total Annual Payroll (Active Members) ¹	\$1,702,230,777	\$138,747,320	\$1,982,437,473	\$426,927,550	\$47,743,865
Average Annual Pay (Active Members)	\$36,445	\$32,117	\$23,687	\$44,310	\$46,443
Number of Retired Members & Beneficiaries	32,140	1,980	33,102	4,712	1,067
Average Annual Retirement Allowance	\$17,611	\$11,809	\$9,313	\$21,284	\$32,475
Number of Vested Inactive Members	4,998	265	7,379	393	48
Number of Inactive Members Due a Refund	24,145	2,236	42,667	1,562	218

Annual payroll included in the Summary of Actuarial Valuation Results is based upon the annualized monthly payroll for active members as of the valuation date. The annual payroll recorded in the financial section is based upon the sum of the monthly payroll for active members recorded for each month of fiscal year ending June 30, 2006.



Recommended Employer Contribution Rates (As of June 30, 2006)

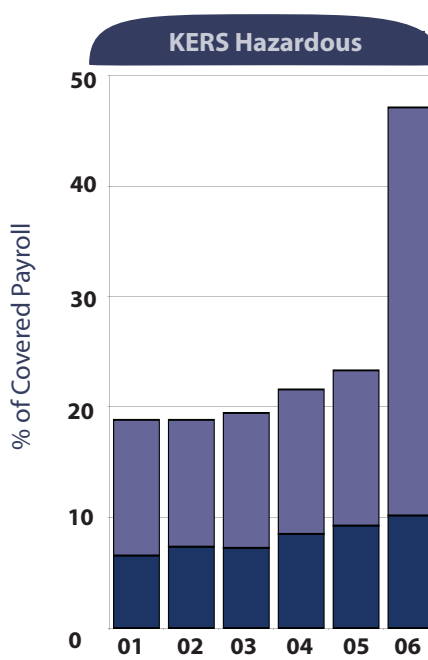
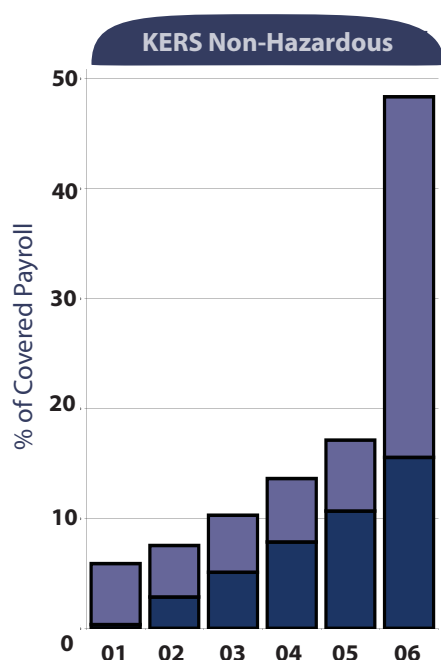
Kentucky Employees Retirement System (Non-Hazardous Employers)

Valuation Date	Applicable Fiscal Year	Pension Fund: Normal Cost	Pension Fund: Payment on Unfunded Liability	Pension Fund Contribution	Insurance Fund Contribution	Recommended Employer Contribution
6/30/01	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%
6/30/06	2007-2008	3.72%	11.83%	15.55%	32.82%	48.37%

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
6/30/01	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%
6/30/06	2007-2008	7.27%	2.93%	10.20%	36.91%	47.11%

KERS 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 and the insurance fund consist of the normal cost and an amortization payment on the unfunded actuarial liability (UAL).

- Pension
- Insurance

Actuarial Section

Recommended Employer Contribution Rates

(As of June 30, 2006)

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
6/30/2001	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%
6/30/2006	2007-2008	4.69%	2.29%	6.98%	20.51%	27.49%

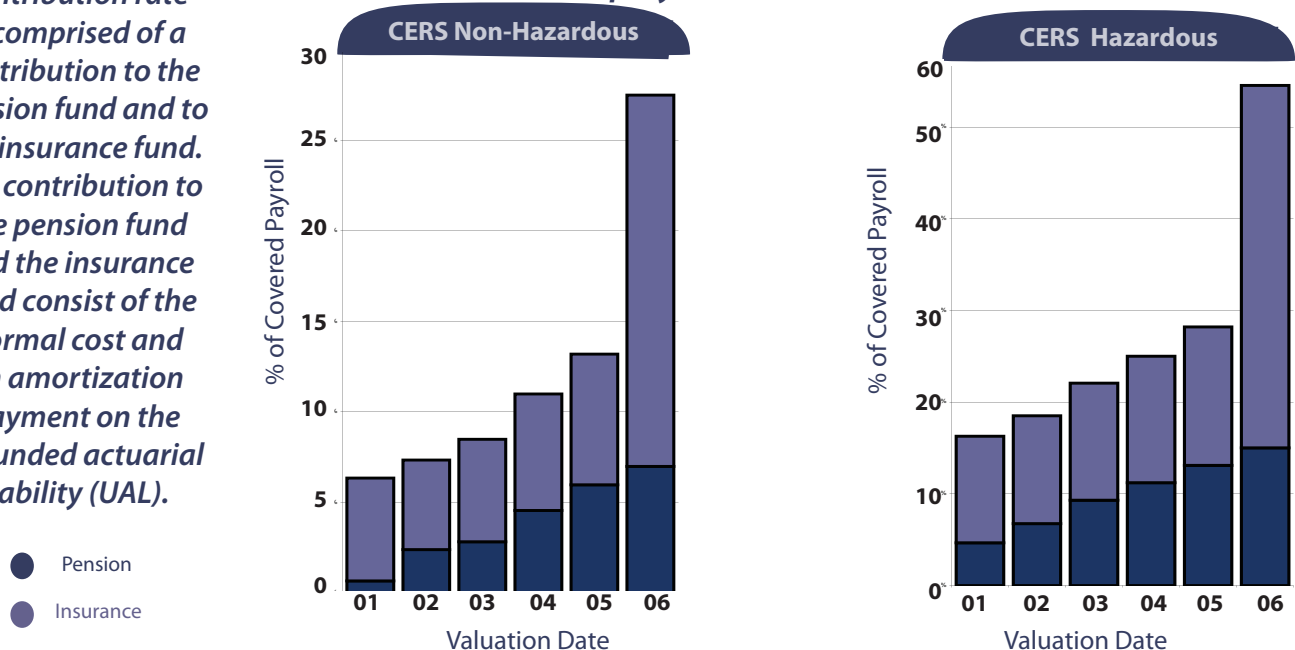
County Employees Retirement System (Hazardous Employers)

Valuation Date	Applicable Fiscal Year	Pension Fund Normal Cost	Pension Fund: Payment on Unfunded Liability	Pension Fund Contribution	Insurance Fund Contribution	Recommended Employer Contribution
6/30/2001	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%
6/30/2006	2007-2008	8.12%	6.89%	15.01%	39.52%	54.53%

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

CERS

Employer Contribution Rates



The insurance fund contribution rates and the employer contribution rates for CERS Non-Hazardous and CERS Hazardous shown in the above tables are the full funding rates presented by the actuary in the 2006 annual valuation. However, in the case of CERS Non-Hazardous and CERS Hazardous, the actuary recommended a five-year phase-in of the rate which requires the payment of the insurance benefit normal cost with a five-year phase-in of the unfunded accrued liability (UAL) associated with the insurance funds. As a result, the CERS Non-Hazardous insurance fund contribution rate actually recommended by the actuary and adopted by the Board for 2007-2008 is 9.19% and the employer contribution rate is 16.17%. The CERS Hazardous insurance fund contribution rate actually recommended by the actuary and adopted by the Board for 2007-2008 is 18.86% and the employer contribution rate is 33.87%.

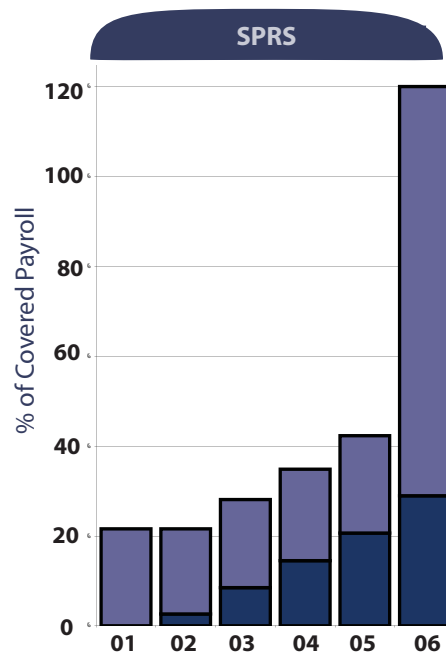


Recommended Employer Contribution Rates (As of June 30, 2006)

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
6/30/2001	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%
6/30/2006	2007-2008	9.20%	19.75%	28.95%	91.05%	120.00%

SPRS Employer Contribution Rate



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

- Pension
- Insurance

Summary of Actuarially Unfunded Liabilities (As of June 30, 2006)

Kentucky Employees Retirement System (Non-Hazardous Pension Fund)

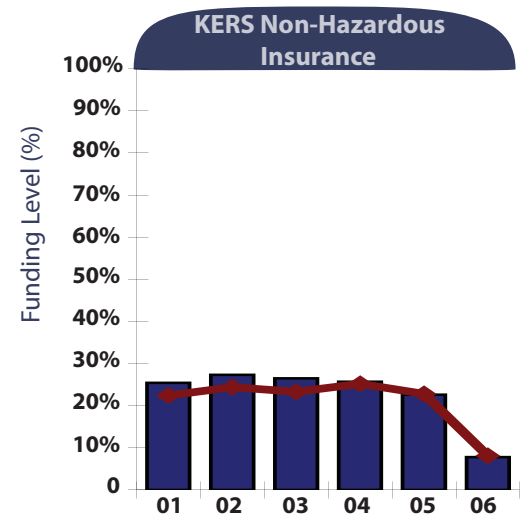
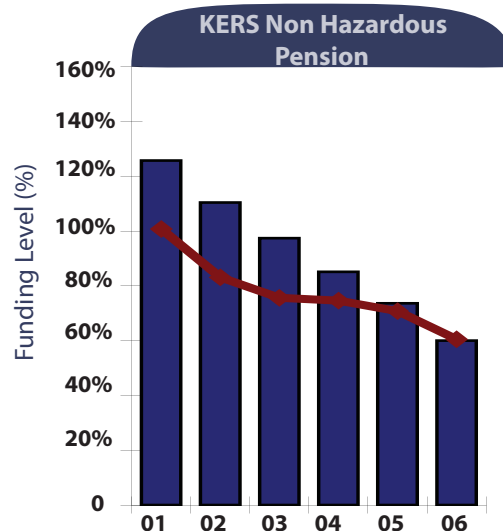
Valuation Date	Actuarial Liability	Value of Assets		Unfunded Actuarial Liabilities		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/01	\$5,444,035,294	\$6,844,742,687	\$5,484,563,749	(\$1,400,707,393)	(\$40,528,455)	125.7%	100.7%
6/30/02	\$6,026,094,764	\$6,654,084,196	\$5,005,190,948	(\$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%
6/30/06	\$8,994,826,247	\$5,394,086,323	\$5,440,132,708	\$3,600,739,924	\$3,554,693,539	60.0%	60.5%

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
6/30/01	\$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%
6/30/06	\$7,815,480,774	\$611,350,765	\$632,642,846	\$7,204,130,009	\$7,182,837,928	7.8%	8.1%

■ 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).





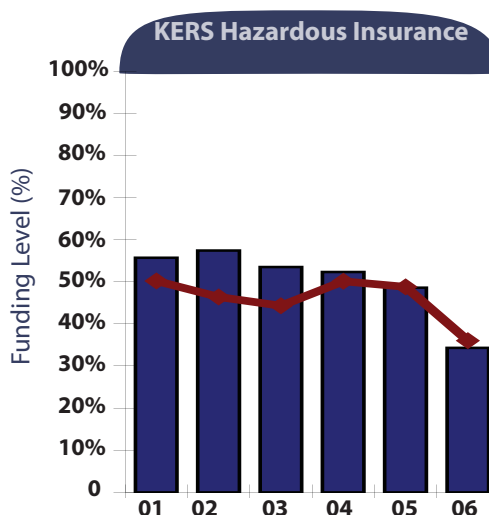
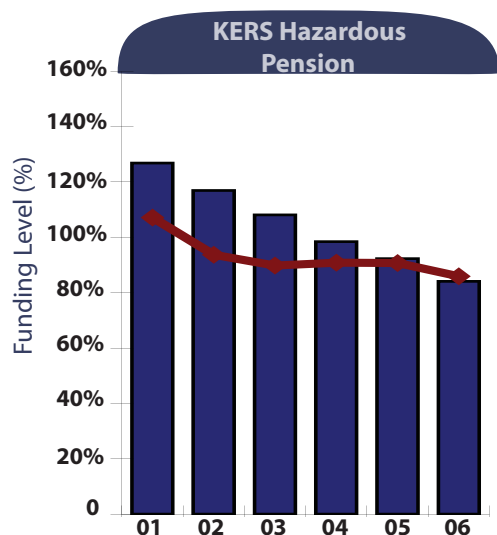
Summary of Actuarially Unfunded Liabilities (As of June 30, 2006)

Kentucky Employees Retirement System (Hazardous Pension Fund)

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Liability		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/01	\$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%
6/30/06	\$508,655,903	\$427,984,192	\$437,029,583	\$80,671,711	\$71,626,320	84.1%	85.9%

Kentucky Employees Retirement System (Hazardous Insurance Fund)

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Liability		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/01	\$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%
6/30/06	\$621,237,856	\$212,833,318	\$223,523,081	\$408,404,538	\$397,714,775	34.3%	36.0%



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).

Actuarial Section

Summary of Actuarially Unfunded Liabilities (As of June 30, 2006)

County Employees Retirement System (Non-Hazardous Pension Fund)

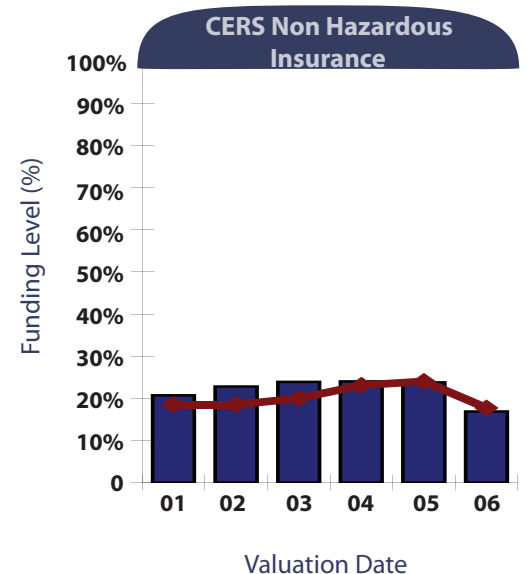
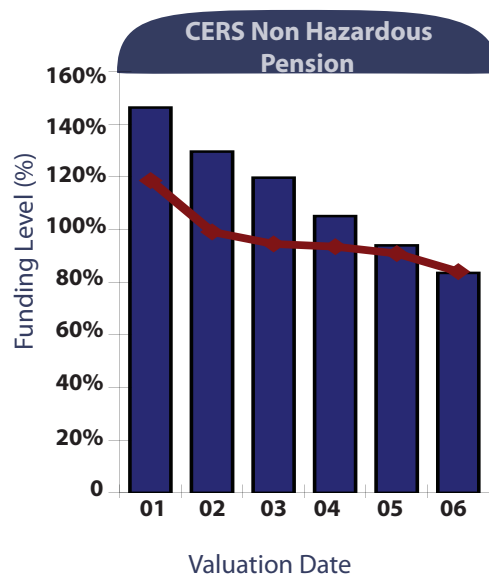
Valuation Date	Actuarial Liability	Value of Assets		Unfunded Liability		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/01	\$3,706,282,212	\$5,423,834,549	\$4,397,346,547	(\$1,717,552,337)	(\$691,064,335)	146.3%	118.6%
6/30/02	\$4,165,355,149	\$5,397,787,158	\$4,126,756,301	(\$1,232,432,009)	\$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%
6/30/06	\$6,179,569,267	\$5,162,894,136	\$5,191,376,948	\$1,016,675,131	\$988,192,319	83.6%	84.0%

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
6/30/01	\$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%
6/30/06	\$4,607,223,639	\$777,726,590	\$813,250,744	\$3,829,497,049	\$3,793,972,895	16.9%	17.7%

■ 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).



Actuarial Section



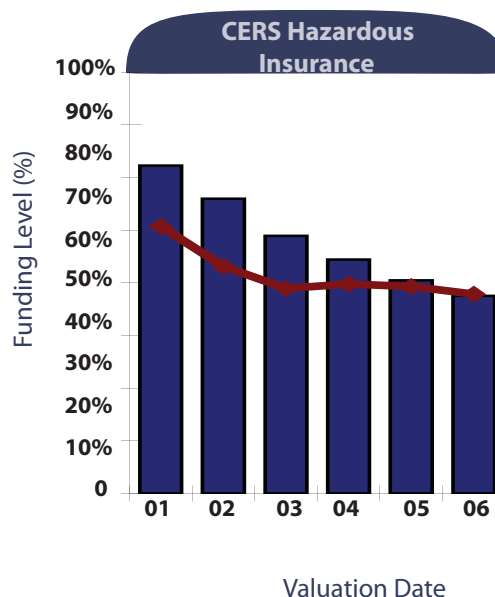
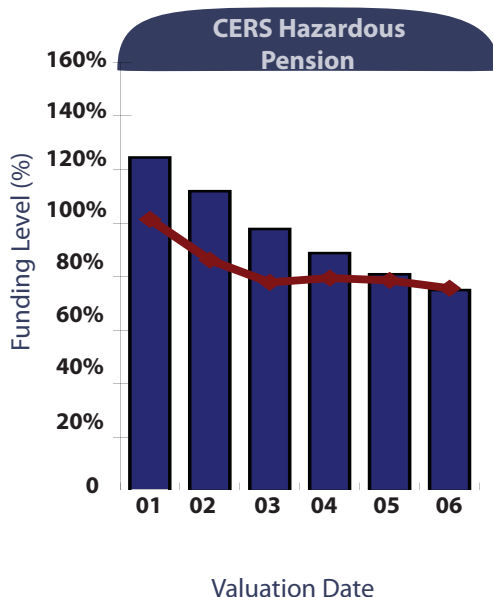
Summary of Actuarially Unfunded Liabilities (As of June 30, 2006)

County Employees Retirement System (Hazardous Pension Fund)

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Liability		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/01	\$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%
6/30/06	\$2,020,142,770	\$1,515,075,017	\$1,528,845,357	\$505,067,753	\$491,297,413	75.0%	75.7%

County Employees Retirement System (Hazardous Insurance Fund)

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Liability		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/01	\$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%
6/30/06	\$1,928,481,371	\$422,785,042	\$441,278,796	\$1,505,696,329	\$1,487,202,575	21.9%	22.9%



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).

Actuarial Section

Summary of Actuarially Unfunded Liabilities (As of June 30, 2006)

State Police Retirement System (Pension)

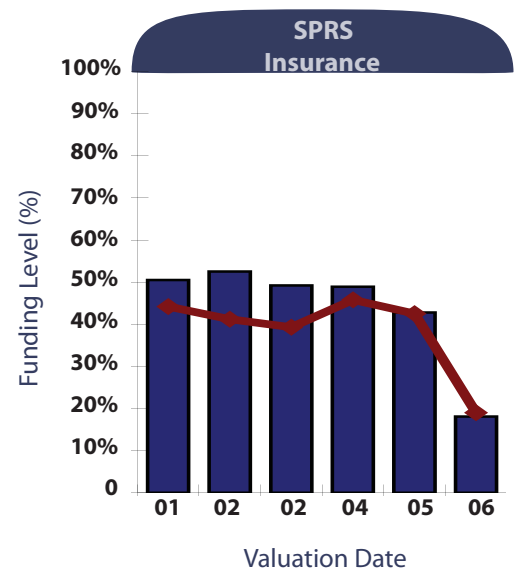
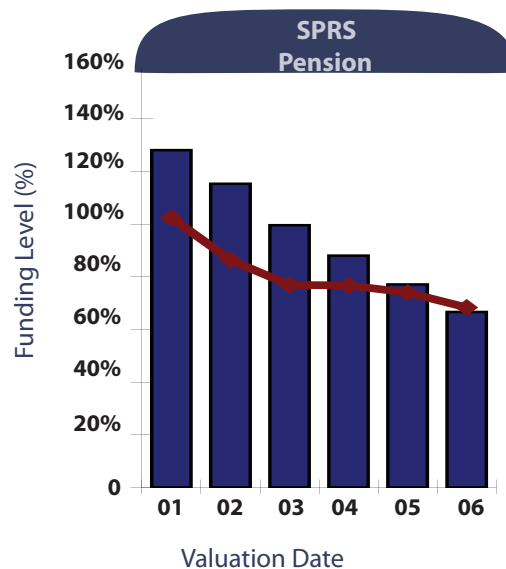
Valuation Date	Value of Assets			Unfunded Liability		Funding Level	
	Actuarial Liability	Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/01	\$356,211,860	\$456,160,709	\$364,591,852	(\$99,948,849)	(\$8,379,992)	128.1%	102.4%
6/30/02	\$380,790,346	\$438,955,465	\$328,744,331	(\$58,165,119)	\$52,046,015	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%
6/30/06	\$516,482,298	\$344,016,197	\$352,841,486	\$172,466,101	\$163,640,812	66.6%	68.3%

State Police Retirement System (Insurance)

Valuation Date	Value of Assets			Unfunded Liability		Funding Level	
	Actuarial Liability	Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/01	\$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%
6/30/06	\$582,580,867	\$105,580,269	\$110,491,075	\$477,000,598	\$472,089,792	18.1%	19.0%

■ 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).





Analysis of Financial Experience KERS Non-Hazardous (As of June 30, 2006)

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

Type of Activity	Retirement \$ Gain (or Loss) For Year Ending 6/30/2006	Insurance \$ Gain (or Loss) For Year Ending 6/30/2006
Age & Service Retirements. If members retire at older ages, there is a gain. If younger ages, a loss.	\$ (205.8)	(193.6)
Disability Retirements. If disability claims are less than assumed, there is a gain. If more claims, a loss.	(2.6)	(1.9)
Death-In Service Benefits. If survivor claims are less than assumed, there is a gain. If more claims, there is a loss.	0.2	0.2
Withdrawal From Employment. If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	16.8	15.8
Pay Increases. If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	15.3	0.0
New Members. Additional unfunded accrued liability will produce a loss.	(17.9)	(16.8)
Investment Income. If there is a greater investment income than assumed, there is a gain. If less income, a loss.	(186.1)	(0.2)
Death After Retirement. If retired members live longer than assumed, there is a loss. If not as long, a gain.	(1.2)	(1.1)
Other. Miscellaneous gains and losses resulting from changes in valuation software, data adjustments, timing of financial transactions, etc.	(197.7)	(97.7)
Gain (or Loss) During Year From Financial Experience	\$ (579.0)	(295.3)
Non-Recurring Items. Adjustments for plan amendments, assumption changes, method changes or contribution timing.	(961.4)	(4,617.5)
Composite Gain (or Loss) During Year	\$ (1,540.4)	(4,912.8)

Analysis of Financial Experience KERS Hazardous (As of June 30, 2006)

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

Type of Activity	Retirement \$ Gain (or Loss) For Year Ending 6/30/2006	Insurance \$ Gain (or Loss) For Year Ending 6/30/2006
Age & Service Retirements. If members retire at older ages, there is a gain. If younger ages, a loss.	\$ (7.9)	(6.4)
Disability Retirements. If disability claims are less than assumed, there is a gain. If more claims, a loss.	0.2	0.2
Death-In Service Benefits. If survivor claims are less than assumed, there is a gain. If more claims, there is a loss.	0.2	(0.2)
Withdrawal From Employment. If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	4.8	4.1
Pay Increases. If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	(2.3)	0.0
New Members. Additional unfunded accrued liability will produce a loss.	(3.5)	(2.9)
Investment Income. If there is a greater investment income than assumed, there is a gain. If less income, a loss.	(7.2)	(1.7)
Death After Retirement. If retired members live longer than assumed, there is a loss. If not as long, a gain.	(1.2)	(1.0)
Other. Miscellaneous gains and losses resulting from changes in valuation software, data adjustments, timing of financial transactions, etc.	(3.7)	(38.5)
Gain (or Loss) During Year From Financial Experience	\$ (20.6)	(46.4)
Non-Recurring Items. Adjustments for plan amendments, assumption changes, method changes or contribution shortfall	(24.9)	(143.7)
Composite Gain (or Loss) During Year	\$ (45.5)	(190.1)



Analysis of Financial Experience CERS Non-Hazardous (As of June 30, 2006)

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

Type of Activity	Retirement \$ Gain (or Loss) For Year Ending 6/30/2006	Insurance \$ Gain (or Loss) For Year Ending 6/30/2006
Age & Service Retirements. If members retire at older ages, there is a gain. If younger ages, a loss.	\$ (74.3)	(25.5)
Disability Retirements. If disability claims are less than assumed, there is a gain. If more claims, a loss.	(3.0)	(1.0)
Death-In Service Benefits. If survivor claims are less than assumed, there is a gain. If more claims, there is a loss.	(1.4)	(0.5)
Withdrawal From Employment. If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	24.6	8.4
Pay Increases. If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	32.1	0.0
New Members. Additional unfunded accrued liability will produce a loss.	(19.8)	(6.8)
Investment Income. If there is a greater investment income than assumed, there is a gain. If less income, a loss.	(150.4)	(4.6)
Death After Retirement. If retired members live longer than assumed, there is a loss. If not as long, a gain.	0.5	0.2
Other. Miscellaneous gains and losses resulting from changes in valuation software, data adjustments, timing of financial transactions, etc.	(71.0)	(603.4)
Gain (or Loss) During Year From Financial Experience	\$ (262.7)	(633.2)
Non-Recurring Items. Adjustments for plan amendments, assumption changes, method changes or contribution shortfall	(406.3)	(869.3)
Composite Gain (or Loss) During Year	\$ (669.0)	(1,502.5)

Analysis of Financial Experience CERS Hazardous (As of June 30, 2006)

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

Type of Activity	Retirement \$ Gain (or Loss) For Year Ending 6/30/2006	Insurance \$ Gain (or Loss) For Year Ending 6/30/2006
Age & Service Retirements. If members retire at older ages, there is a gain. If younger ages, a loss.	\$ (21.6)	(12.9)
Disability Retirements. If disability claims are less than assumed, there is a gain. If more claims, a loss.	(1.1)	(0.7)
Death-In Service Benefits. If survivor claims are less than assumed, there is a gain. If more claims, there is a loss.	0.0	0.0
Withdrawal From Employment. If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	0.5	0.3
Pay Increases. If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	18.9	0.0
New Members. Additional unfunded accrued liability will produce a loss.	(5.3)	(3.2)
Investment Income. If there is a greater investment income than assumed, there is a gain. If less income, a loss.	(38.4)	(2.6)
Death After Retirement. If retired members live longer than assumed, there is a loss. If not as long, a gain.	(3.9)	(2.3)
Other. Miscellaneous gains and losses resulting from changes in valuation software, data adjustments, timing of financial transactions, etc.	9.5	(127.6)
Gain (or Loss) During Year From Financial Experience	\$ (41.4)	(149.0)
Non-Recurring Items. Adjustments for plan amendments, assumption changes, method changes or contribution shortfall	(111.3)	(358.7)
Composite Gain (or Loss) During Year	\$ (152.7)	(507.7)



Analysis of Financial Experience SPRS (As of June 30, 2006)

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

Type of Activity	Retirement \$ Gain (or Loss) For Year Ending 6/30/2006	Insurance \$ Gain (or Loss) For Year Ending 6/30/2006
Age & Service Retirements. If members retire at older ages, there is a gain. If younger ages, a loss.	\$ (3.9)	(1.8)
Disability Retirements. If disability claims are less than assumed, there is a gain. If more claims, a loss.	(0.2)	(0.1)
Death-In Service Benefits. If survivor claims are less than assumed, there is a gain. If more claims, there is a loss.	0.0	(0.0)
Withdrawal From Employment. If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	0.6	0.3
Pay Increases. If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	(1.7)	0.0
New Members. Additional unfunded accrued liability will produce a loss.	(0.5)	(0.2)
Investment Income. If there is a greater investment income than assumed, there is a gain. If less income, a loss.	(10.7)	(1.8)
Death After Retirement. If retired members live longer than assumed, there is a loss. If not as long, a gain.	0.4	0.2
Other. Miscellaneous gains and losses resulting from changes in valuation software, data adjustments, timing of financial transactions, etc.	0.9	14.9
Gain (or Loss) During Year From Financial Experience	\$ (15.1)	11.5
Non-Recurring Items. Adjustments for plan amendments, assumption changes, method changes or contribution shortfall	(48.9)	(343.0)
Composite Gain (or Loss) During Year	\$ (64.0)	(331.5)

Solvency Test (As of June 30, 2006)

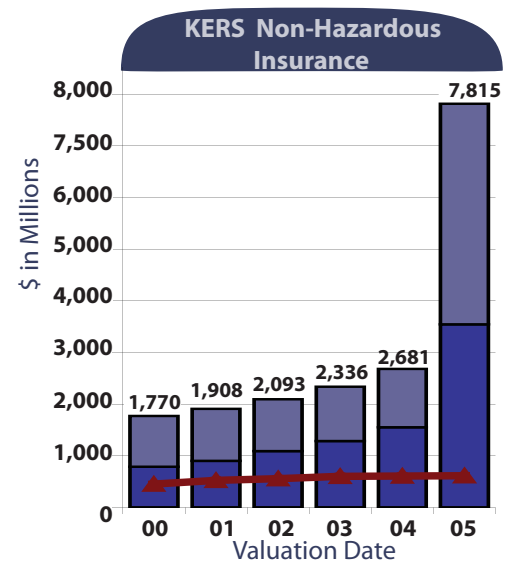
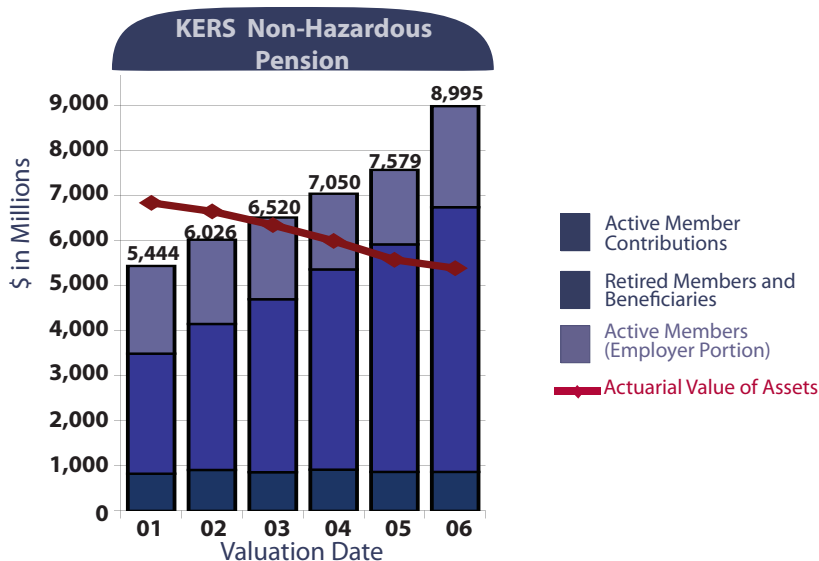
Kentucky Employees Retirement System (Non-Hazardous Pension Fund)

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)				
6/30/01	\$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%	--
6/30/06	\$866,050,799	\$5,881,990,853	\$2,246,784,595	\$5,394,086,323	100.0%	77.0%	--

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)				
6/30/01	\$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%	--
6/30/06	\$0	\$3,543,125,375	\$4,272,355,400	\$611,350,765	100.0%	17.3%	----

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.

Actuarial Section

Solvency Test (As of June 30, 2006)



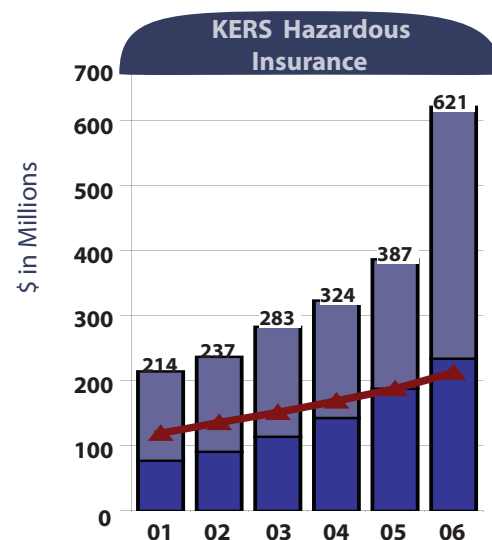
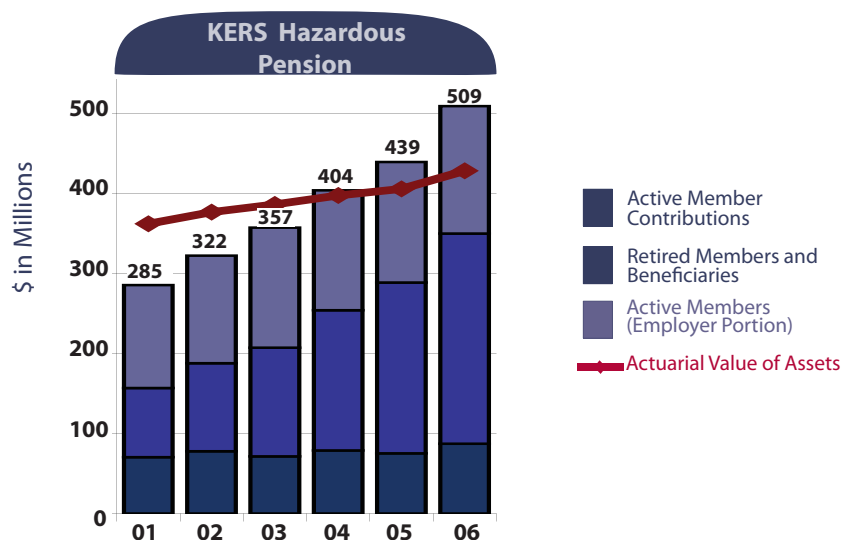
Kentucky Employees Retirement System (Hazardous Pension Fund)

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)				
6/30/01	\$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%
6/30/06	\$87,092,538	\$262,446,606	\$159,116,759	\$427,984,172	100.0%	100.0%	49.3%

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)				
6/30/01	\$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%	--
6/30/06	\$0	\$234,058,715	\$387,179,141	\$212,833,318	100.0%	90.9%	--

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.

Actuarial Section

Solvency Test (As of June 30, 2006)

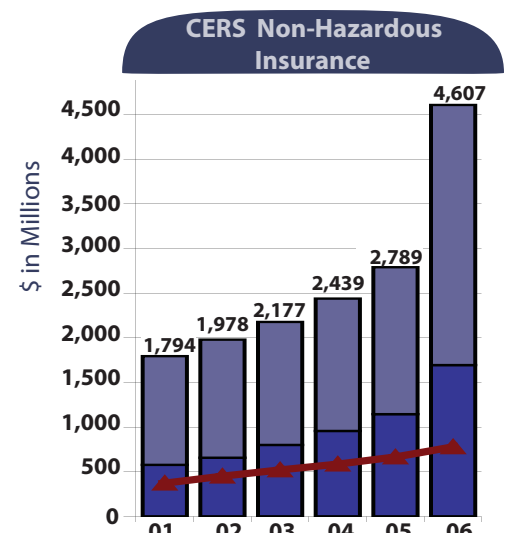
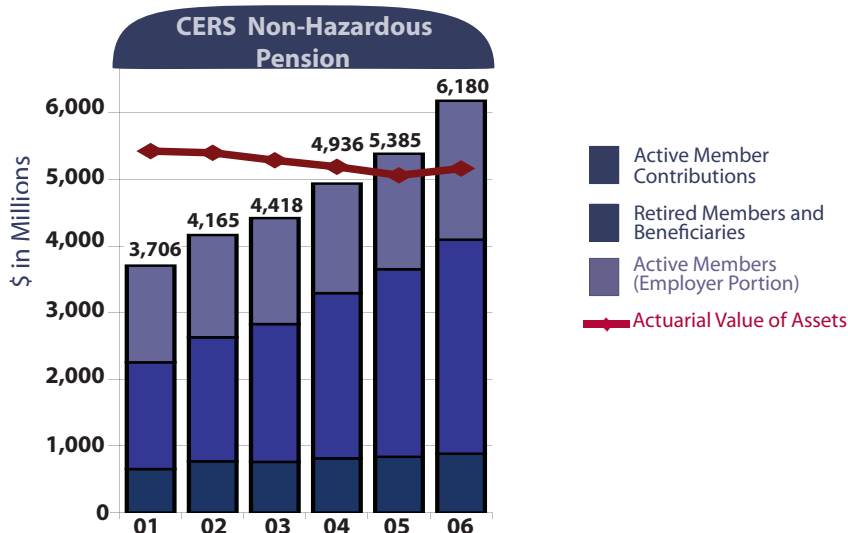
County Employees Retirement System (Non-Hazardous Pension Fund)

Valuation Date	Actuarial Liabilities			Actuarial Value of Assets	% of Actuarial Liabilities Covered by Actuarial Assets for		
	(1) Active Member Contributions	(2) Retired Members & Beneficiaries	(3) Active Members (Employer Portion)		(1)	(2)	(3)
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%
6/30/06	\$ 883,946,564	\$3,210,095,023	\$2,085,527,680	\$5,162,894,136	100.0%	100.0%	51.3%

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) Active Member Contributions	(2) Retired Members & Beneficiaries	(3) Active Members (Employer Portion)		(1)	(2)	(3)
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%	--
6/30/06	\$0	\$1,694,600,143	\$2,912,623,496	\$777,726,590	100.0%	45.9%	--

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.

Actuarial Section

Solvency Test (As of June 30, 2006)



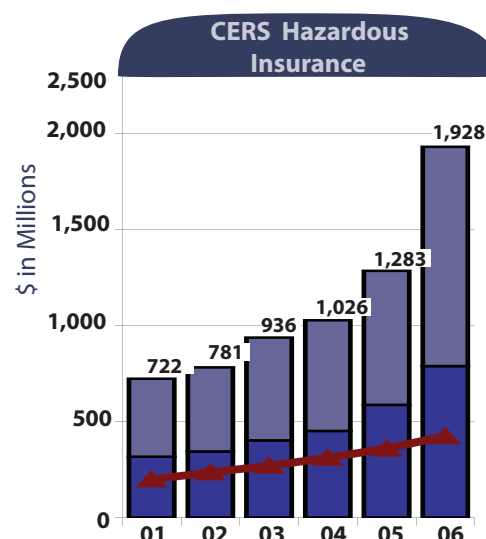
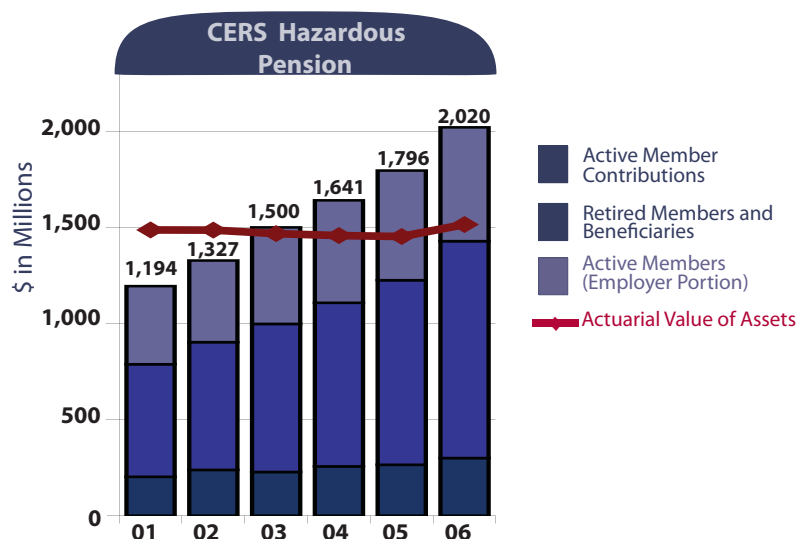
County Employees Retirement System (Hazardous Pension Fund)

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)				
6/30/01	\$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%
6/30/06	\$300,200,800	\$1,128,164,618	\$591,777,352	\$1,515,075,017	100.0%	100.0%	14.7%

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)				
6/30/01	\$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%	--
6/30/06	\$0	\$787,671,273	\$1,140,810,098	\$422,785,042	100.0%	53.7%	--

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.

Actuarial Section

Solvency Test (As of June 30, 2006)

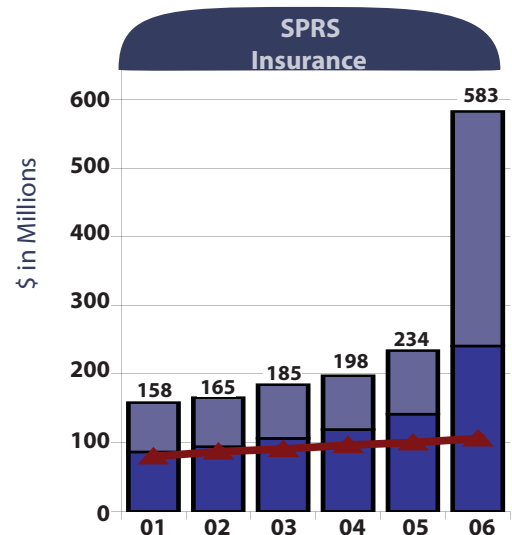
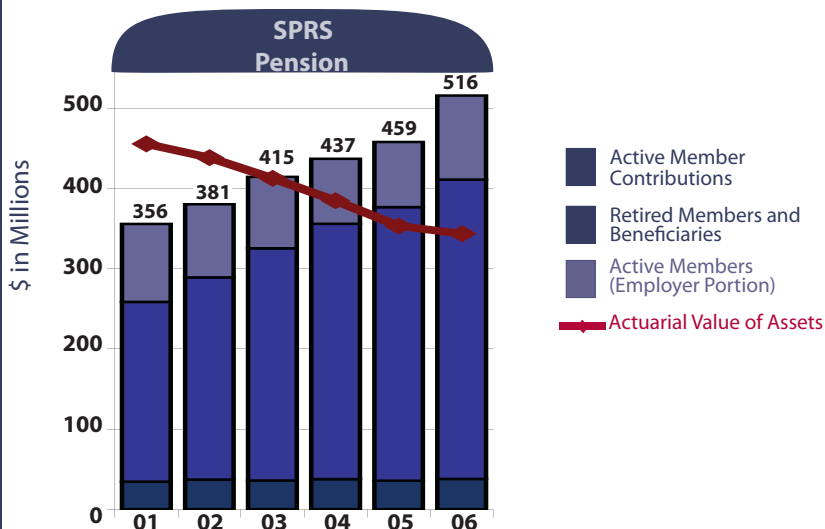
State Police Retirement System (Pension Fund)

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)				
6/30/01	\$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%	--
6/30/06	\$37,866,774	\$373,588,145	\$105,027,379	\$344,016,197	100.0%	81.9%	--

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)				
6/30/01	\$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%	--
6/30/06	\$0	\$240,913,868	\$341,666,999	\$105,580,269	100.0%	43.8%	--

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, 2006)

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
6/30/01	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
6/30/06	338	46,707	\$1,702,230,777	\$36,445	3.7%	43.0	9.7

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
6/30/01	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
6/30/06	15	4,320	\$138,747,320	\$32,117	4.2%	41.6	7.0

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
6/30/01	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
6/30/06	1,099	83,694	\$1,982,437,473	\$23,687	2.1%	45.1	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 valuation date. The annual payroll recorded in the financial section is based upon the sum of the monthly payroll for active members recorded for each month of fiscal year ending June 30, 2006.

Actuarial Section

Summary of Active Member Valuation Data (As of June 30, 2006)

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
6/30/01	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
6/30/06	292	9,635	\$426,927,550	\$44,310	2.0%	37.8	8.3

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
6/30/01	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
6/30/06	1	1,028	\$47,743,865	\$46,443	4.8%	36.5	10.5

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, 2006.

N/A Not Available



Summary of Retired Member Valuation Data (As of June 30, 2006)

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
6/30/01	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
6/30/06	2,481	1,111	32,140	\$566,167,003	11.31	\$17,611

Kentucky Employees Retirement System (Hazardous)

Valuation Date	Number Added	Number Removed	Total Retirees & Beneficiaries	Annualized Retirement Allowances	% Increase in Allowances	Average Annual Allowance
6/30/01	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
6/30/06	256	28	1,980	\$23,381,537	19.25	\$11,809

County Employees Retirement System (Non-Hazardous)

Valuation Date	Number Added	Number Removed	Total Retirees & Beneficiaries	Annualized Retirement Allowances	% Increase in Allowances	Average Annual Allowance
6/30/2001	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	12.59	\$8,498
6/30/2005	2,808	590	31,347	\$279,590,300	12.95	\$8,919
6/30/06	2,782	1,027	33,102	\$308,269,651	10.26	\$9,313

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, 2006)

County Employees Retirement System (Hazardous)

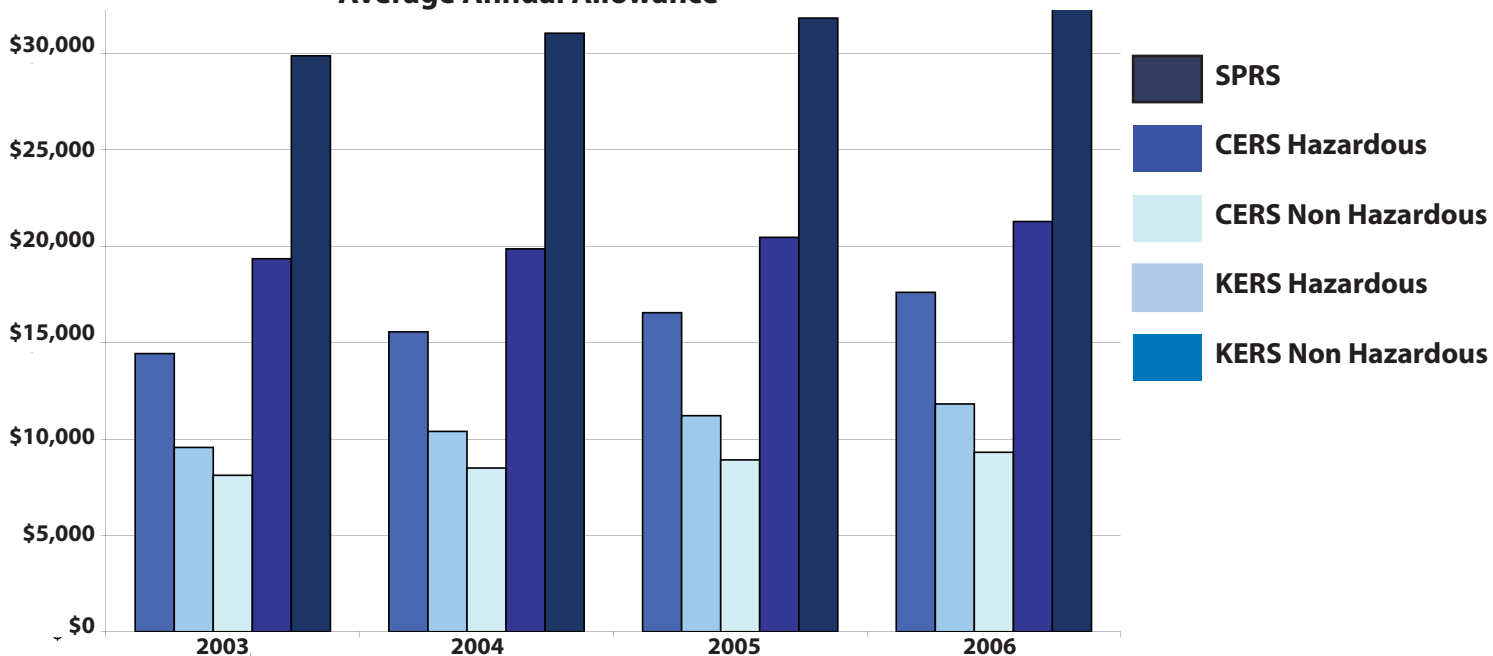
Valuation Date	Number Added	Number Removed	Total Retirees & Beneficiaries	Annualized Retirement Allowances	% Increase in Allowances	Average Annual Allowance
6/30/01	N/A	N/A	N/A	N/A	N/A	N/A
6/30/02	N/A	N/A	N/A	N/A	N/A	N/A
6/30/03	293	39	3,737	\$72,322,200	N/A	\$19,353
6/30/04	343	75	4,005	\$79,559,200	10.01	\$19,865
6/30/05	403	47	4,361	\$89,224,700	12.15	\$20,460
6/30/06	427	76	4,712	\$100,290,052	12.40	\$21,284

State Police Retirement System

Valuation Date	Number Added	Number Removed	Total Retirees & Beneficiaries	Annualized Retirement Allowances	% Increase in Allowances	Average Annual Allowance
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
6/30/06	43	10	1,067	\$34,651,251	5.06	\$32,475

\$35,000

Retired Member & Beneficiary Average Annual Allowance





Summary of Benefit Provisions KERS & CERS Non Hazardous Plans

Plan Funding

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

Membership Eligibility

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

Retirement Eligibility

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

<i>Final Compensation</i>	x	<i>Benefit Factor</i>	x	<i>Years of Service</i>
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:		Includes earned service, purchased service, prior service, and sick leave service (if the member's employer participates in an approved sick leave program).
		Member <u>does not have</u> 13 months credit from 1/98- 1/99.		
		KERS 2.00% if:		
		Member <u>has</u> 13 months credit from 1/98- 1/99.		
		20 or more years of service, and retires by 1/09.		
		KERS 2.20% if:		
		Member begins participating prior to 8/1/04.		
		CERS 2.20% if:		
		Member begins participating on or after 8/1/04.		

Summary of Benefit Provisions KERS & CERS Non Hazardous Plans

Post-Retirement Death Benefits

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

Disability Benefits

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

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

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

Pre-Retirement Death Benefits

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

Cost of Living Adjustment

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

Insurance Benefits

For members participating prior to July 1, 2003, KRS pays a percentage of the monthly premium for single coverage based upon the service credit accrued at retirement. Members participating on or after July 1, 2003 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.

Refunds

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

Interest on Accounts

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



Summary of Benefit Provisions KERS & CERS Hazardous Plans & SPRS

Plan Funding

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

Membership Eligibility

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

Retirement Eligibility

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

Benefit Formula

<i>Final Compensation</i>	<i>X</i>	<i>Benefit Factor</i>	<i>X</i>	<i>Years of Service</i>
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).

Disability Benefits

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

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

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

Summary of Benefit Provisions *KERS & CERS Hazardous Plans & SPRS*

Pre-Retirement Death Benefits

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

Post-Retirement Death Benefits

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

Cost of Living Adjustment

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

Insurance Benefits

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

Refunds

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

Interest on Accounts

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

Changes in Benefit Provisions

HB 380: 2006 Regular Session

KERS & SPRS Employer Rate Reductions

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

Statistical Section

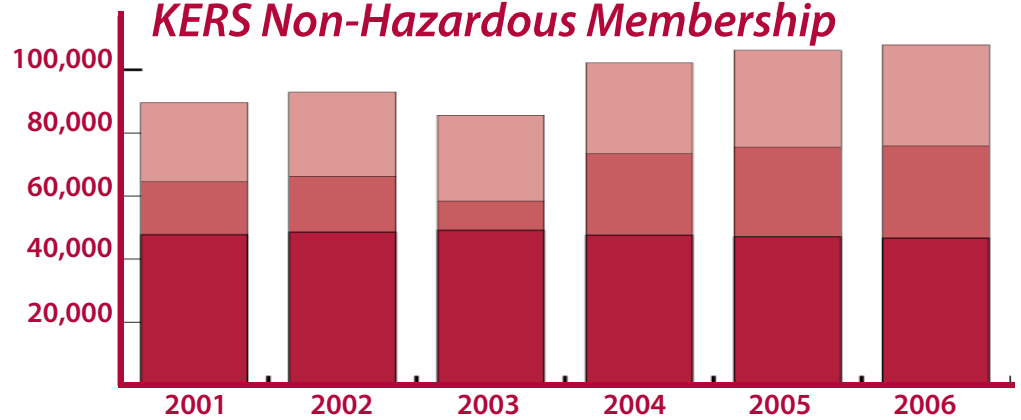


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Statistical Section

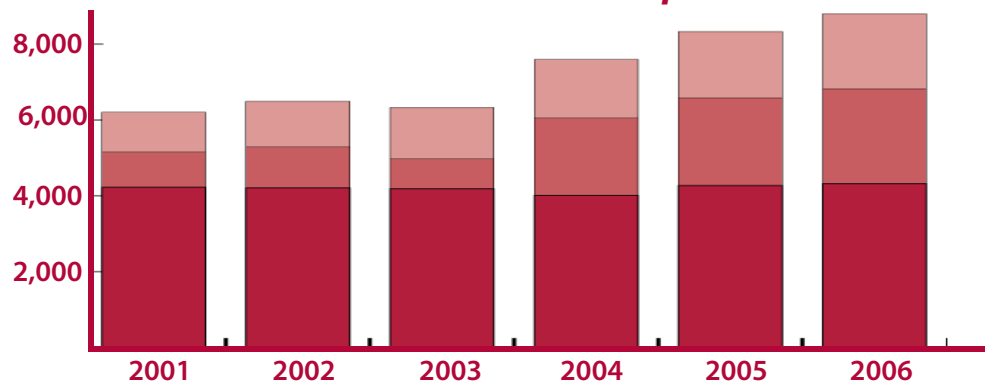
KERS Non-Hazardous Membership



	2001	2002	2003	2004	2005	2006
Retired	25,113	26,703	27,233	28,892	30,770	32,140
Inactive	16,741	17,714	9,241	25,775	28,345	29,143
Active	47,780	48,555	49,158	47,599	47,118	46,707
Total	89,634	92,972	85,632	102,266	106,233	107,990

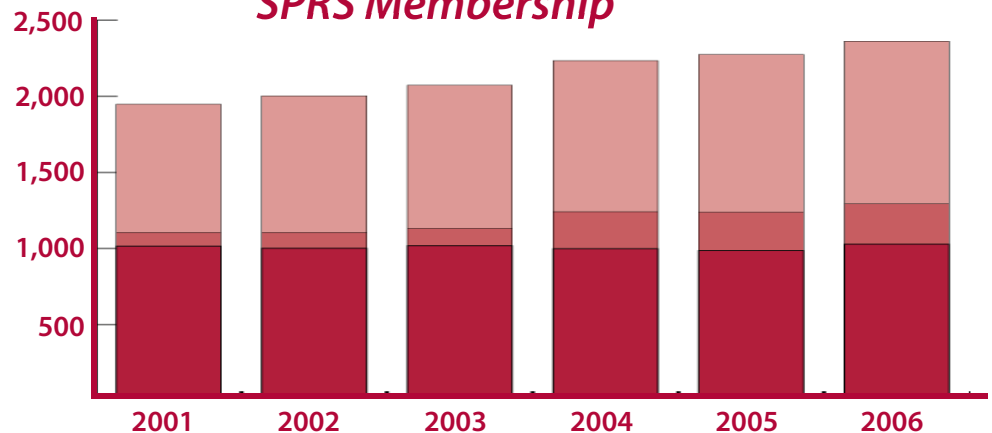
Active members are those members who are currently employed by a participating agency and contributing to the Systems as a condition of employment. Inactive members are those members who are no longer employed with a participating agency but have not yet retired or taken a refund of contributions. Retired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

KERS Hazardous Membership



	2001	2002	2003	2004	2005	2006
Retired	1,053	1,208	1,357	1,549	1,752	1,981
Inactive	922	1,073	782	2,032	2,304	2,501
Active	4,228	4,211	4,189	4,014	4,274	4,320
Total	6,203	6,492	6,328	7,595	8,330	8,802

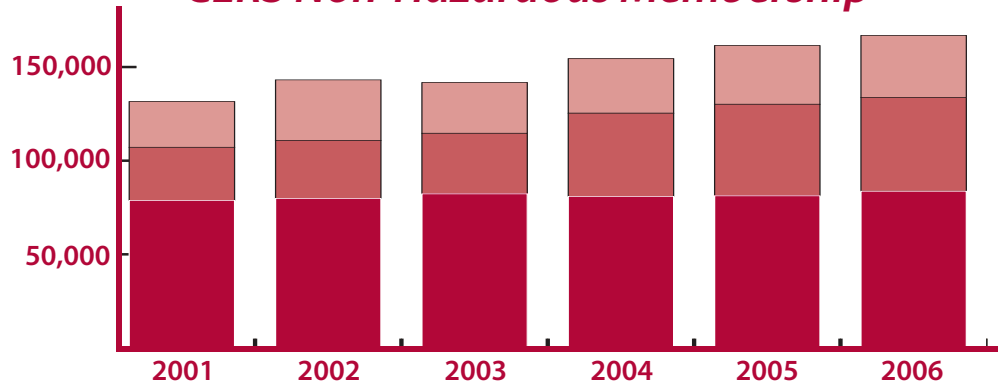
SPRS Membership



	2001	2002	2003	2004	2005	2006
Retired	842	897	941	992	1,036	1,067
Inactive	90	103	113	243	252	266
Active	1,016	1,002	1,019	999	987	1,028
Total	1,948	2,002	2,073	2,234	2,275	2,361



CERS Non-Hazardous Membership



Retired	24,415	32,326	27,092	29,129	31,347	33,102
Inactive	28,356	30,978	32,326	44,419	48,869	50,046
Active	78,773	79,850	82,288	80,922	81,240	83,694
Total	131,544	143,154	141,706	154,470	161,456	165,786

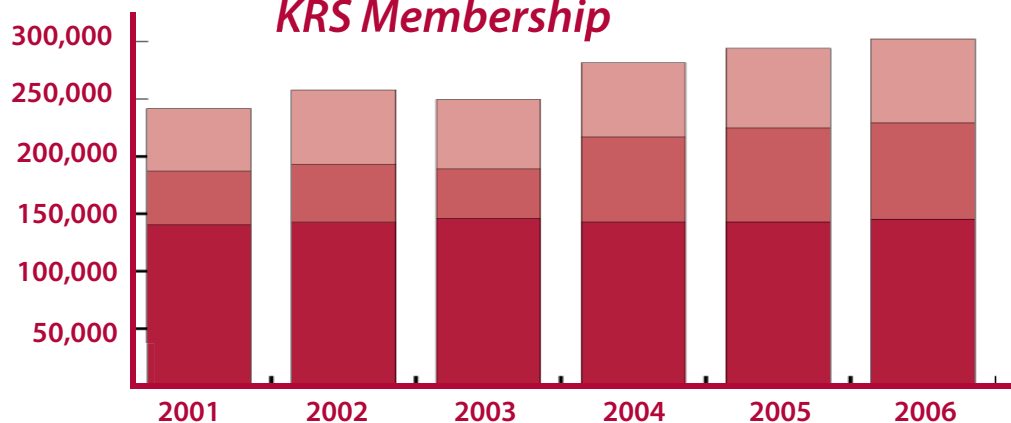
Active members are those members who are currently employed by a participating agency and contributing to the Systems as a condition of employment. Inactive members are those members who are no longer employed with a participating agency but have not yet retired or taken a refund of contributions. Retired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

CERS Hazardous Membership



Retired	3,221	3,483	3,737	4,005	4,361	4,712
Inactive	610	700	781	1,648	1,971	1,955
Active	8,586	8,949	9,286	9,349	9,464	9,635
Total	12,417	13,132	13,804	15,002	15,796	16,302

KRS Membership



Retired	54,644	64,617	60,360	64,567	69,266	73,002
Inactive	46,719	50,568	43,243	74,117	81,741	83,911
Active	140,383	142,567	145,940	142,883	143,083	145,384
Total	241,746	257,752	249,543	281,567	294,090	302,297



Statistical Section

Schedule of Participating Employers

Kentucky Employees Retirement System

Agency Classification	Number of Agencies	Number of Employees
Agencies Reporting Through State Payroll	144	35,569
Other Agencies (universities, mental health boards, health departments)	143	14,513
Special Districts and Boards	4	488
Child Support Offices (county attorneys)	59	173
Other State-Administered Retirement Systems	3	284
TOTAL	353	51,027

County Employees Retirement System

Agency Classification	Number of Agencies	Number of Employees
Area Development Districts	13	14,513
Boards of Education	176	48,135
Cities	214	6,309
County Attorneys	60	586
County Clerks	13	544
County Government Agencies	261	21,203
Fire Departments	64	816
Hospitals	3	329
Jailers	9	432
Libraries	83	959
Planning Commissions	10	169
Police Departments	95	714
Police & Fire Departments (combined)	60	3,311
Sanitation Districts	4	16
Sheriff Departments	53	1,068
Special Districts and Boards	167	1,068
Utility Boards	102	3,242
Urban County Government Agencies	4	1,748
TOTAL	1,391	93,329

State Police Retirement System

Agency Classification	Number of Agencies	Number of Employees
Kentucky State Police-Uniformed Officers	1	1,028



Principal Participating Employers

Kentucky Employees Retirement System

Participating Employer	Rank	Covered Employees	% of Total System
Health & Family Services Cabinet: Department for Community Based Services	1	4,511	8.84%
Transportation: Department of Highways	2	3,971	7.78%
Justice & Public Safety Cabinet: Department of Corrections	3	3,530	6.92%
Office of Human Resource Management	4	1,726	3.38%
Justice & Public Safety Cabinet: Department of Juvenile Justice	5	1,500	2.94%
Administrative Office of the Courts	6	1,323	2.59%
Bluegrass Regional Mental Health/Mental Retardation Board	7	1,260	2.47%
Seven County Services Inc.	8	1,117	2.19%
Kentucky Department of Parks	9	1,091	2.14%
Unified Prosecutorial System (Child Support Offices)	10	1,048	2.05%
All Others		29,950	58.69%
TOTAL		51,027	100.0%

County Employees Retirement System

Participating Employer	Rank	Covered Employees	% of Total System
Jefferson County Board of Education	1	6,525	6.99%
Louisville/Jefferson County Metro	2	3,298	3.53%
Circuit Clerks	3	2,517	2.70%
Louisville/Jefferson County Metro (Police, Fire, EMS)	4	2,294	2.46%
Fayette County Board of Education	5	1,781	1.91%
Lexington/Fayette Urban County Government	6	1,571	1.68%
Hardin County Board of Education	7	1,050	1.13%
Boone County Board of Education	8	964	1.03%
Pike County Board of Education	9	838	0.90%
Warren County Board of Education	10	824	0.88%
All Others		71,666	76.79%
TOTAL		93,329	100.0%



Net Plan Assets by System

Kentucky Employees Retirement System

(Dollars in Thousands)

	Non-Hazardous			Hazardous		
	Pension	Insurance	Total	Pension	Insurance	Total
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
June 30 2006	5,440,133	612,643	6,052,776	437,030	223,523	660,553

County Employees Retirement System

(Dollars in Thousands)

	Non-Hazardous			Hazardous		
	Pension	Insurance	Total	Pension	Insurance	Total
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
June 30 2006	5,191,377	813,251	6,004,628	1,528,845	441,279	1,970,124

State Police Retirement System

(Dollars in Thousands)

	Pension	Insurance	Total
June 30 2001	\$364,592	\$69,926	\$434,518
June 30 2002	328,744	68,074	396,818
June 30 2003	319,115	72,538	391,653
June 30 2004	335,721	90,420	426,141
June 30 2005	339,406	99,408	438,814
June 30 2006	352,841	110,491	463,332

Kentucky Retirement Systems Total

(Dollars in Thousands)

	Pension	Insurance	Total
June 30 2001	\$11,763,200	\$1,078,475	\$12,841,675
June 30 2002	10,906,841	1,196,375	12,103,216
June 30 2003	10,913,548	1,343,799	12,257,347
June 30 2004	11,879,631	1,701,842	13,581,473
June 30 2005	12,405,191	1,928,605	14,333,796
June 30 2006	12,950,226	2,201,187	15,151,413

Changes in Net Plan Assets by System



Kentucky Employees Retirement System Non-Hazardous Pension Fund

	Fiscal Year					
	2001	2002	2003	2004	2005	2006
Additions						
Member Contributions	\$106,648	\$111,992	\$137,124	\$129,077	\$127,801	\$107,607
Employer Contributions	\$23,482	\$1,760	\$7,597	\$21,697	\$50,333	\$60,681
Net Investment Income	-\$360,648	-\$236,405	\$196,106	\$651,532	\$462,638	\$504,361
Total Additions	-\$230,518	-\$122,653	\$340,827	\$802,306	\$640,772	\$672,649
Deductions						
Benefit Payments	\$291,704	\$345,666	\$404,896	\$459,367	\$522,396	\$577,947
Refunds	\$6,968	\$6,657	\$7,258	\$8,001	\$8,824	\$9,632
Administrative Expenses	\$3,826	\$4,399	\$4,959	\$5,262	\$5,916	\$7,568
Other Expenses	-\$125	-\$2	\$0	\$0	\$0	\$0
Total Deductions	\$302,373	\$356,720	\$417,113	\$472,630	\$537,136	\$595,147
Change in Net Assets	-\$532,892	-\$479,373	-\$76,286	\$329,676	\$103,636	\$77,502

Kentucky Employees Retirement System Non-Hazardous Insurance Fund

	Fiscal Year					
	2001	2002	2003	2004	2005	2006
Additions						
Employer Contributions	\$66,875	\$65,335	\$65,335	\$78,017	\$51,432	\$47,635
Net Investment Income	-\$16,293	\$19,582	\$8,050	\$83,064	\$47,823	\$65,839
Other Income	\$0	\$0	\$0	\$0	\$0	\$5,770
Total Additions	\$50,582	\$84,917	\$73,385	\$161,081	\$99,255	\$119,244
Deductions						
Benefit Payments	\$37,301	\$43,738	\$51,586	\$59,987	\$75,571	\$95,823
Administrative Expenses	\$308	\$345	\$393	\$484	\$464	\$1,679
Other Expenses	\$0	\$0	\$0	\$0	\$0	\$20,000
Total Deductions	\$37,609	\$44,083	\$51,979	\$60,471	\$76,035	\$117,502
Change in Net Assets	\$12,973	\$69,410	\$21,406	\$100,610	\$23,220	\$1,742



Statistical Section

Changes in Net Plan Assets by System

Kentucky Employees Retirement System Hazardous Pension Fund

	Fiscal Year					
	2001	2002	2003	2004	2005	2006
Additions						
Member Contributions	\$10,577	\$10,807	\$11,553	\$11,548	\$11,625	\$12,056
Employer Contributions	\$10,627	\$7,934	\$7,322	\$9,769	\$9,758	\$10,803
Net Investment Income	-\$8,059	-\$10,786	\$14,742	\$43,403	\$33,123	\$41,680
Total Additions	\$13,145	\$7,954	\$33,617	\$64,720	\$54,506	\$64,539
Deductions						
Benefit Payments	\$7,996	\$10,203	\$13,373	\$16,863	\$20,495	\$23,736
Refunds	\$1,253	\$1,141	\$1,160	\$1,410	\$1,760	\$1,436
Administrative Expenses	\$302	\$354	\$404	\$392	\$511	\$645
Other Expenses	-\$29	-\$1	\$0	\$0	\$0	\$0
Total Deductions	\$9,522	\$11,698	\$14,937	\$18,665	\$22,766	\$25,817
Change in Net Assets	\$3,623	-\$3,744	\$18,680	\$46,055	\$31,740	\$38,722

Kentucky Employees Retirement System Hazardous Insurance Fund

	Fiscal Year					
	2001	2002	2003	2004	2005	2006
Additions						
Employer Contributions	\$13,226	\$15,887	\$15,883	\$14,959	\$15,653	\$17,012
Net Investment Income	-\$2,886	-\$11,229	\$2,835	\$25,206	\$15,999	\$24,128
Other Income	\$0	\$0	\$0	\$0	\$0	\$88
Total Additions	\$10,340	\$4,658	\$18,718	\$ 40,165	\$31,652	\$41,228
Deductions						
Benefit Payments	\$1,984	\$2,453	\$2,938	\$3,539	\$4,853	\$6,513
Administrative Expenses	\$25	\$29	\$27	\$21	\$55	\$63
Other Expenses	\$0	\$0	\$0	\$0	\$0	\$0
Total Deductions	\$2,009	\$2,482	\$2,965	\$3,560	\$4,908	\$6,576
Change in Net Assets	\$8,331	\$2,177	\$15,753	\$36,605	\$26,744	\$34,652

Changes in Net Plan Assets by System



County Employees Retirement System Non-Hazardous Pension Fund

	Fiscal Year					
	2001	2002	2003	2004	2005	2006
Additions						
Member Contributions	\$101,597	\$122,428	\$125,301	\$122,484	\$127,637	\$112,372
Employer Contributions	\$48,914	\$5,528	\$11,856	\$44,028	\$54,617	\$90,834
Net Investment Income	-\$241,107	-\$186,375	\$160,110	\$551,669	\$413,672	\$444,092
Total Additions	-\$90,596	-\$58,419	\$297,267	\$718,181	\$595,926	\$647,298
Deductions						
Benefit Payments	\$170,256	\$196,659	\$230,317	\$260,643	\$294,590	\$325,135
Refunds	\$8,994	\$8,325	\$10,213	\$11,334	\$11,042	\$11,589
Administrative Expenses	\$6,174	\$7,187	\$8,244	\$8,694	\$10,029	\$12,797
Other Expenses	-\$213	\$0	\$0	\$0	\$0	\$0
Total Deductions	\$185,211	\$212,171	\$248,774	\$280,671	\$315,661	\$349,521
Change in Net Assets	-\$275,808	-\$270,590	\$48,493	\$437,510	\$280,265	\$297,777

County Employees Retirement System Non-Hazardous Insurance Fund

	Fiscal Year					
	2001	2002	2003	2004	2005	2006
Additions						
Employer Contributions	\$62,292	\$102,151	\$99,235	\$89,344	\$107,632	\$128,868
Net Investment Income	-\$10,988	-\$34,899	\$10,625	\$86,080	\$55,723	\$83,991
Other Income	\$0	\$0	\$0	\$0	\$0	\$6,365
Total Additions	\$51,304	\$67,252	\$109,860	\$175,424	\$163,355	\$219,224
Deductions						
Benefit Payments	\$27,539	\$32,726	\$39,387	\$46,654	\$58,262	\$72,919
Administrative Expenses	\$244	\$260	\$306	\$393	\$485	\$1,539
Other Expenses	\$0	\$0	\$0	\$0	\$0	\$0
Total Deductions	\$27,783	\$32,986	\$39,693	\$47,047	\$58,747	\$74,458
Change in Net Assets	\$23,521	\$34,265	\$70,167	\$128,377	\$104,608	\$144,766



Statistical Section

Changes in Net Plan Assets by System

County Employees Retirement System Hazardous Pension Fund

	Fiscal Year					
	2001	2002	2003	2004	2005	2006
Additions						
Member Contributions	\$27,279	\$37,096	\$36,203	\$38,668	\$39,515	\$39,055
Employer Contributions	\$20,983	\$11,055	\$16,906	\$27,641	\$39,948	\$49,976
Net Investment Income	-\$58,887	-\$49,057	\$46,212	\$154,628	\$119,901	\$132,915
Total Additions	-\$10,625	-\$906	\$99,321	\$220,937	\$199,364	\$221,946
Deductions						
Benefit Payments	\$56,520	\$63,494	\$72,532	\$81,422	\$90,119	\$101,087
Refunds	\$1,319	\$1,770	\$1,794	\$2,520	\$2,139	\$2,147
Administrative Expenses	\$512	\$635	\$737	\$759	\$872	\$1,113
Other Expenses	-\$194	\$0	\$0	\$0	\$0	\$0
Total Deductions	\$58,157	\$65,900	\$75,063	\$84,701	\$93,130	\$104,347
Change in Net Assets	-\$68,782	-\$66,806	\$24,258	\$136,236	\$106,234	\$117,599

County Employees Retirement System Hazardous Insurance Fund

	Fiscal Year					
	2001	2002	2003	2004	2005	2006
Additions						
Employer Contributions	\$32,149	\$45,730	\$45,244	\$47,037	\$55,552	\$64,854
Net Investment Income	-\$6,562	-\$18,551	\$5,361	\$44,337	\$29,819	\$98
Other Income	\$0	\$0	\$0	\$0	\$0	\$45,317
Total Additions	\$25,587	\$27,179	\$50,605	\$91,374	\$85,371	\$110,269
Deductions						
Benefit Payments	\$11,531	\$13,166	\$14,866	\$16,700	\$21,985	\$29,717
Administrative Expenses	\$109	\$115	\$105	\$105	\$183	\$213
Other Expenses	\$0	\$0	\$0	\$0	\$0	\$0
Total Deductions	\$11,640	\$13,281	\$14,971	\$16,805	\$22,168	\$29,930
Change in Net Assets	\$13,948	\$13,898	\$35,634	\$74,569	\$63,203	\$80,339



Changes in Net Plan Assets by System

State Police Retirement System Pension Fund

	Fiscal Year					
	2001	2002	2003	2004	2005	2006
Additions						
Member Contributions	\$4,138	\$4,499	\$4,674	\$4,875	\$4,228	\$4,814
Employer Contributions	\$1,516	-\$18	-\$20	\$1,153	\$2,852	\$4,244
Net Investment Income	-\$29,856	-\$15,388	\$13,755	\$41,642	\$29,761	\$39,347
Total Additions	-\$24,202	-\$10,906	\$18,409	\$47,670	\$36,841	\$48,405
Deductions						
Benefit Payments	\$22,644	\$24,839	\$27,862	\$30,877	\$32,921	\$34,703
Refunds	\$80	\$25	\$97	\$96	\$131	\$133
Administrative Expenses	\$64	\$76	\$86	\$91	\$104	\$134
Other Expenses	-\$52	\$1	\$0	\$0	\$0	\$0
Total Deductions	\$22,737	\$24,941	\$28,045	\$31,064	\$33,156	\$34,970
Change in Net Assets	-\$46,939	-\$35,848	-\$9,636	\$16,606	\$3,685	\$13,435

State Police Retirement System Insurance Fund

	Fiscal Year					
	2001	2002	2003	2004	2005	2006
Additions						
Employer Contributions	\$8,113	\$9,580	\$7,654	\$8,456	\$6,974	\$6,880
Net Investment Income	-\$4,029	-\$7,382	\$1,360	\$14,449	\$8,279	\$12,082
Other Income	\$0	\$0	\$0	\$0	\$0	\$5
Total Additions	\$4,084	\$2,198	\$9,014	\$22,905	\$15,253	\$18,967
Deductions						
Benefit Payments	\$3,547	\$4,020	\$4,519	\$4,992	\$6,221	\$7,816
Administrative Expenses	\$28	\$29	\$31	\$31	\$44	\$68
Other Expenses	\$0	\$0	\$0	\$0	\$0	\$0
Total Deductions	\$3,575	\$4,049	\$4,550	\$5,023	\$6,265	\$7,884
Change in Net Assets	\$509	-\$1,851	\$4,464	\$17,882	\$8,988	\$11,083



Statistical Section

Schedule of Benefit Expenses by Type

KERS Non-Hazardous

	Normal Retirement	Early Retirement	Disability Retirement	Beneficiary Payments	Total
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%
FY 2005-06					
Average Benefit	\$888	\$1,670	\$834	\$868	\$1,469
Number	4,616	24,056	2,628	849	32,149
Total Monthly Benefits	\$4,099,896	\$40,184,892	\$2,190,812	\$737,173	\$47,212,773
% of Total Monthly Benefits	8.7%	85.1%	4.6%	1.6%	100.0%

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.

Statistical Section

Schedule of Benefit Expenses by Type



KERS Hazardous

	Normal Retirement	Early Retirement	Disability Retirement	Beneficiary Payments	Total
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%
FY 2005-06					
Average Benefit	\$802	\$1,333	\$521	\$749	\$980
Number	1,002	760	163	67	1,992
Total Monthly Benefits	\$803,581	\$1,013,373	\$84,975	\$50,201	\$1,952,130
% of Total Monthly Benefits	41.1%	51.9%	4.4%	2.6%	100.0%

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.



Statistical Section

Schedule of Benefit Expenses by Type

CERS Non-Hazardous

	Normal Retirement	Early Retirement	Disability Retirement	Beneficiary Payments	Total
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%
FY 2005-06					
Average Monthly Benefit	\$484	\$889	\$715	\$534	\$774
Number	7,207	21,655	3,582	861	33,305
Total Monthly Benefits	\$3,487,493	\$19,256,550	\$2,560,722	\$460,095	\$25,764,859
% of Total Monthly Benefits	13.6%	74.7%	9.9%	1.8%	100.0%

Schedule of Benefit Expenses by Type



CERS Hazardous

	Normal Retirement	Early Retirement	Disability Retirement	Beneficiary Payments	Total
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%
FY 2005-06					
Average Monthly Benefit	\$1,369	\$2,059	\$899	\$974	\$1,743
Number	1,079	3,062	580	96	4,817
Total Monthly Benefits	\$1,477,504	\$6,304,523	\$521,285	\$93,535	\$8,396,847
% of Total Monthly Benefits	17.6%	75.1%	6.2%	1.1%	100.0%



Statistical Section

Schedule of Benefit Expenses by Type

SPRS

	Normal Retirement	Early Retirement	Disability Retirement	Beneficiary Payments	Total
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%
FY 2004-05					
Average Monthly Benefit	\$3,109	\$2,698	\$1,213	\$1,643	\$2,650
Number	145	864	56	28	1,093
Total Monthly Benefits	\$450,794	\$2,331,404	\$67,950	\$45,997	\$2,896,146
% of Total Monthly Benefits	15.5%	80.4%	2.2%	1.9%	100.0%



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	2,557	\$139.14	2,982	\$123.77
5 or more but less than 10	3,759	\$311.66	6,757	\$238.71
10 or more but less than 15	3,747	\$519.52	6,562	\$419.15
15 or more but less than 20	3,459	\$780.00	4,834	\$632.74
20 or more but less than 25	3,711	\$1,058.89	4,664	\$834.76
25 or more but less than 30	7,487	\$1,921.07	5,473	\$1,667.98
30 or more but less than 35	5,257	\$2,737.63	1,549	\$2,293.68
35 or more	2,172	\$3,837.45	484	\$2,889.61
Total	32,149	\$1,468.56	33,305	\$773.60

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.

Service Credit Range	KERS Hazardous		CERS Hazardous	
	Number	Average Monthly Benefit	Number	Average Monthly Benefit
Under 5 Years	95	\$201.61	375	\$380.59
5 or more but less than 10	218	\$403.42	262	\$535.87
10 or more but less than 15	275	\$545.08	310	\$973.08
15 or more but less than 20	260	\$795.37	326	\$1,041.46
20 or more but less than 25	465	\$1,116.65	1,818	\$1,690.81
25 or more but less than 30	427	\$1,219.75	1,153	\$2,246.66
30 or more but less than 35	200	\$1,649.99	470	\$3,097.06
35 or more	52	\$2,274.35	103	\$3,724.65
Total	1,992	\$979.99	4,817	\$1,743.17

Service Credit Range	SPRS	
	Number	Average Monthly Benefit
Under 5 Years	73	\$484.17
5 or more but less than 10	31	\$768.70
10 or more but less than 15	34	\$1,042.31
15 or more but less than 20	61	\$1,667.83
20 or more but less than 25	291	\$2,102.73
25 or more but less than 30	338	\$2,948.86
30 or more but less than 35	202	\$3,958.74
35 or more	63	\$4,627.29
Total	1,093	\$2,649.72



Statistical Section

Analysis of Initial Retirees

	KERS Non- Hazardous	KERS Hazardous	CERS Non- Hazardous	CERS Hazardous	SPRS
FY 2000-01					
Number	1,920	139	1,924	258	53
Average Service Credit (months)	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 (months)	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 (months)	277	264	206	274	313
Average Final Compensation	\$45,479	\$45,559	\$28,883	\$49,996	\$65,079
Average Monthly Benefit	\$1,873	\$1,144	\$859	\$1,780	\$3,208
FY 2003-04					
Number	2,473	227	2,805	343	53
Average Service Credit (months)	280	255	209	262	320
Average Final Compensation	\$47,872	\$43,778	\$29,172	\$48,607	\$68,533
Average Monthly Benefit	\$1,932	\$1,127	\$837	\$1,631	\$3,468
FY 2004-05					
Number	2,481	234	2,808	403	50
Average Service Credit (months)	276	257	210	248	290
Average Final Compensation	\$46,452	\$45,654	\$29,784	\$49,920	\$62,395
Average Monthly Benefit	\$1,897	\$1,216	\$902	\$1,765	\$3,022
FY 2005-06					
Number	2,295	236	2,543	377	39
Average Service Credit (months)	267	239	197	260	259
Average Final Compensation	\$46,746	\$43,845	\$29,794	\$54,358	\$62,049
Average Monthly Benefit	\$246	\$1,185	\$851	\$2,047	\$2,614
Average System Payment for Health Insurance	246	\$381	\$180	\$543	\$407

Statistical Section

Insurance Benefits Paid to All Retirees and Beneficiaries



Service Credit Range	KERS Non-Hazardous		CERS Non-Hazardous	
	Number	Average Monthly Benefit	Number	Average Monthly Benefit
Under 5 Years	177	\$162.23	259	\$124.53
5 or more but less than 10	1,208	\$291.60	2,054	\$237.76
10 or more but less than 15	2,064	\$505.81	3,5564	\$412.90
15 or more but less than 20	2,458	\$784.37	3,438	\$640.76
20 or more but less than 25	16,534	\$2,243.28	10,685	\$1,488.89
Total	22,441	\$1,802.21	20,000	\$1,005.20

Service Credit Range	KERS Hazardous		CERS Hazardous	
	Number	Average Monthly Benefit	Number	Average Monthly Benefit
Under 5 Years	19	\$374.25	35	\$421.48
5 or more but less than 10	63	\$534.49	99	\$724.76
10 or more but less than 15	184	\$747.74	191	\$1,074.35
15 or more but less than 20	177	\$1,108.72	261	\$1,308.36
20 or more but less than 25	1,066	\$2,234.81	3,282	\$2,338.50
Total	1,509	\$1,826.98	3,868	\$2,147.92

Service Credit Range	SPRS	
	Number	Average Monthly Benefit
Under 5 Years	3	\$266.16
5 or more but less than 10	11	\$910.61
10 or more but less than 15	20	\$1,086.76
15 or more but less than 20	49	\$1,637.36
20 or more but less than 25	833	\$3,039.57
Total	916	\$2,887.27

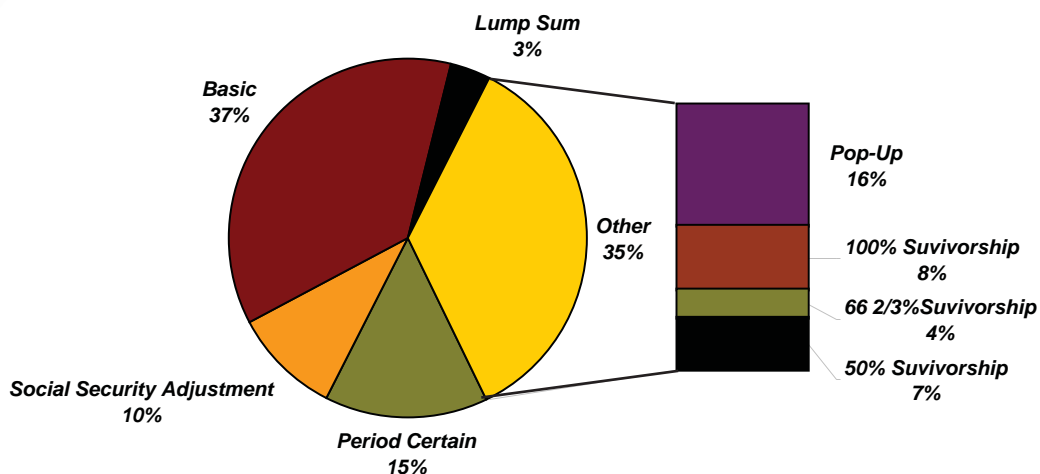
	KERS Non-Hazardous	KERS Hazardous	CERS Non-Hazardous	CERS Hazardous	SPRS
Number	22,441	1,509	20,000	3,868	916
Average Service Credit	298	269	238	282	317
Average Monthly System Payment for Health Insurance	\$341.32	\$493.96	\$291.57	\$641.91	\$651.79
Total Monthly Payments for Health Insurance	\$9,689,929.31	\$839,474.59	\$7,945,855.23	\$2,635,157.46	\$614,182.80



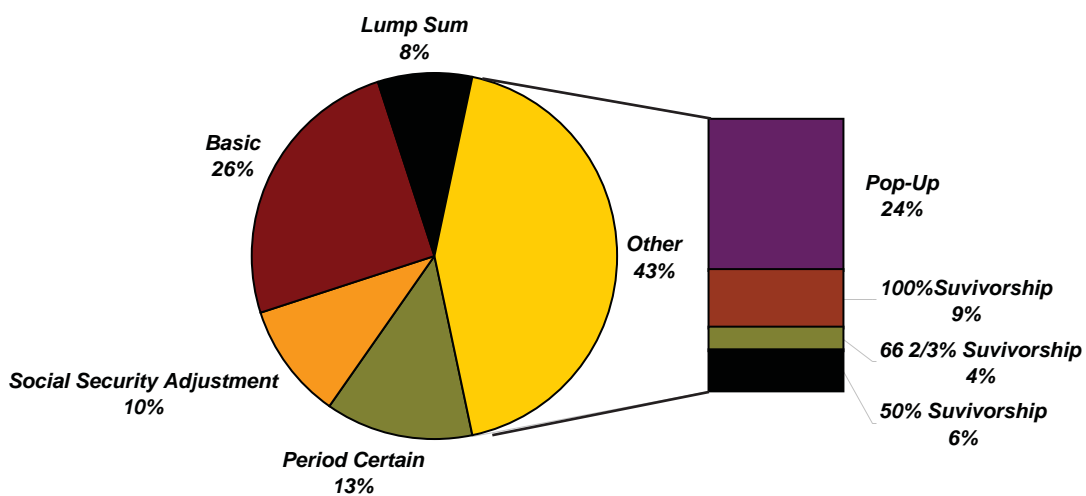
Statistical Section

Payment Options by Type

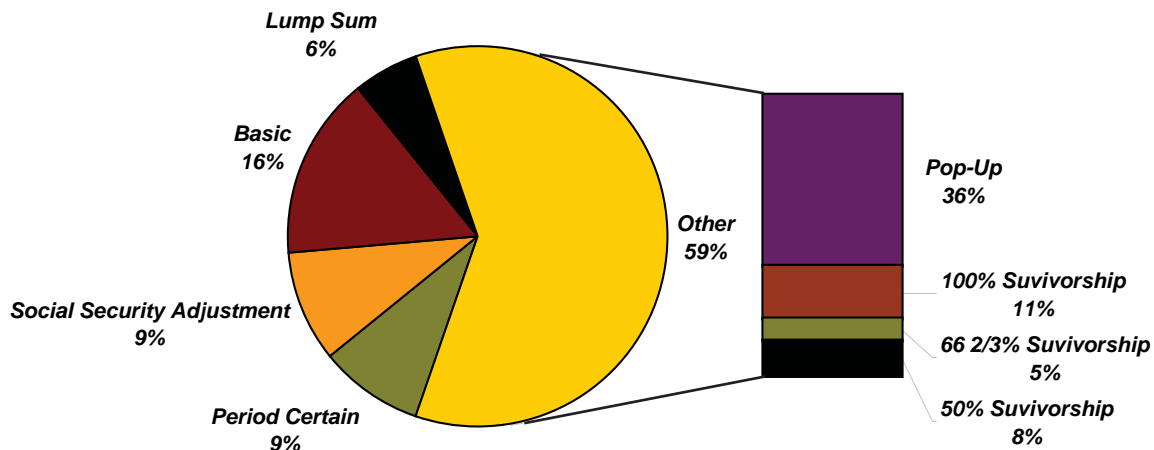
KERS Non-Hazardous



KERS Hazardous



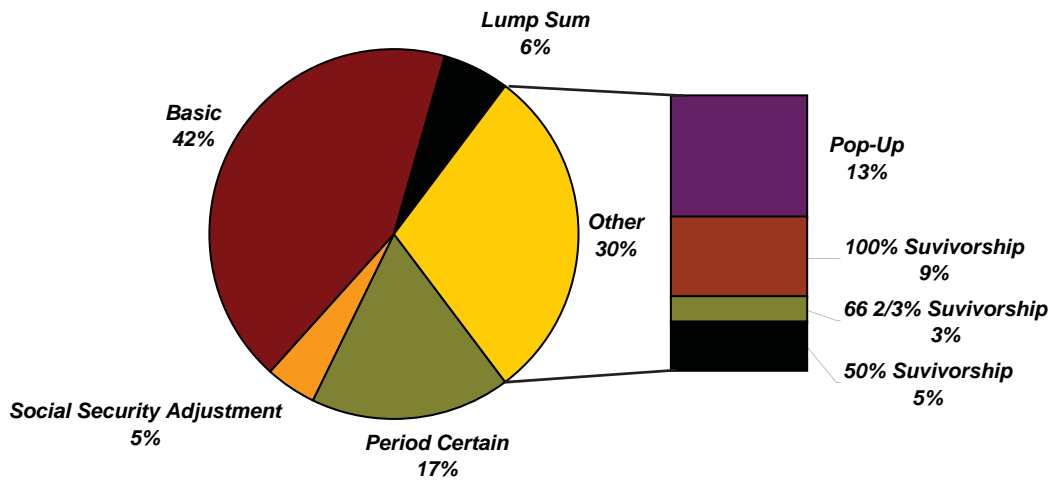
SPRS



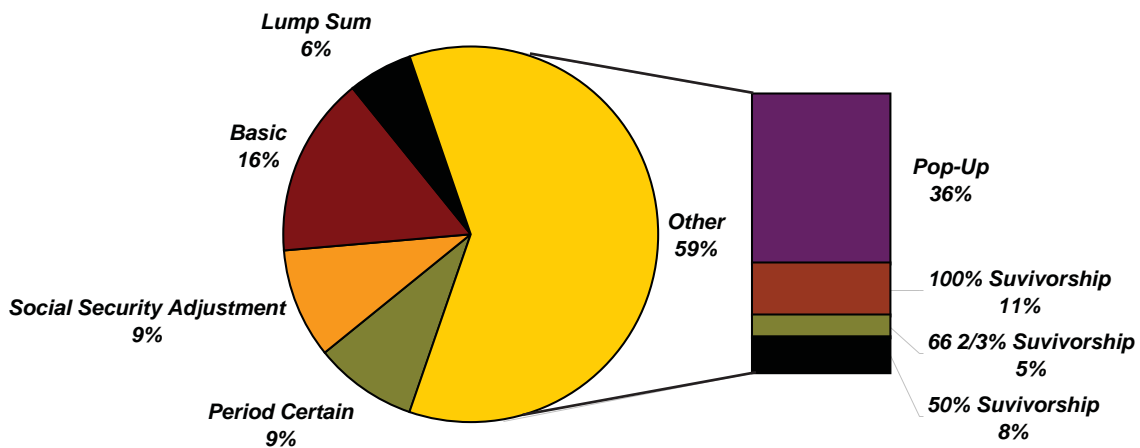


Payment Options by Type

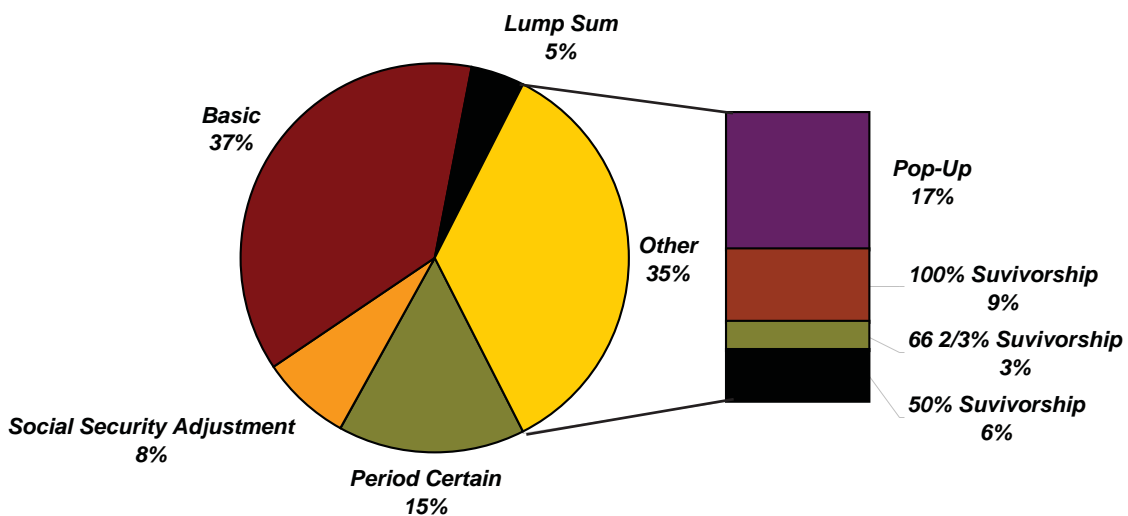
CERS Non-Hazardous



CERS Hazardous



Total





Statistical Section

Employer Contribution Rates by System

In KERS, CERS, and SPRS both the employee and the employer contribute a percent of creditable compensation to the Systems. The employee contribution rate is set by state statute. Non-hazardous employees contribute 5% while hazardous duty members contribute 8%. 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 and 61.752. 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>
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%
2006-2007	7.75%	17.13%	22.00%	23.32%

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>
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%
2006-2007	13.19%	28.21%	25.50%	42.30%



Retirement Windows

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, 2007 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)	
	1/2007	1/2009	1/2007	1/2009
Employees Eligible to Retire With An Unreduced or Reduced Benefit	8,905	12,237	16,245	23,045
Breakdown By Eligibility				
Employees with 27 or more Years of Service*	2,180	3,356	1,346	2,495
Employees with 25 But Not More Than 27 Years of Service**	1,176	1,207	1,149	1,298
Employees Age 55 or greater with 20 But Not More Than 25 Years of Service**	925	1,350	1,650	2,855
Employees Age 55-65 with 5 But Less than 20 Years of Service**	4,011	5,277	9,786	12,555
Employees Age 65 with 4 But Less Than 20 Years of Service**	613	1,047	2,314	3,842
Breakdown By Retirement Window				
Employees Eligible for 2.2% Benefit Factor Window Only***	4,281	5,913	N/A	N/A
Employees Eligible for Both 2.2% Benefit Factor & High-3 Final Compensation Window***	1,914	3,083	1,214	2,329

*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.

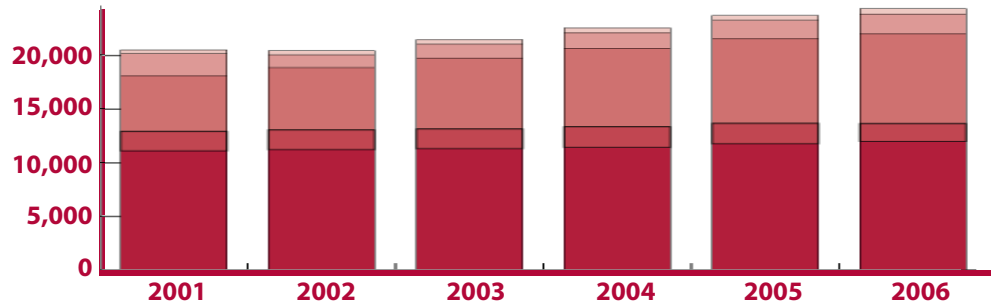


Statistical Section

Insurance Contracts by Type

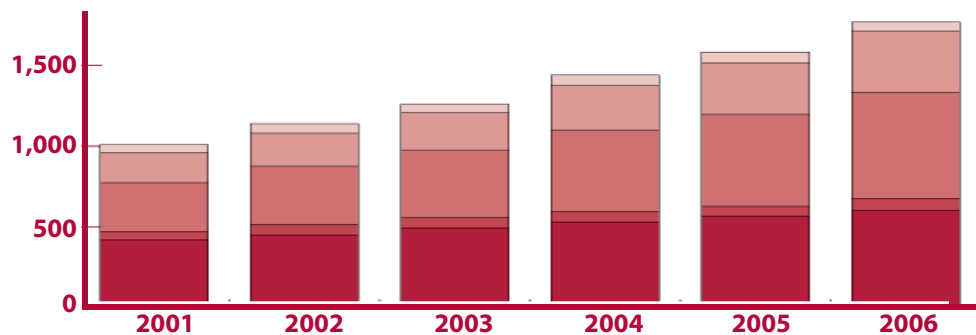
The Systems provides group rates on medical insurance and other managed care coverage for retired members. Participation in the insurance program is optional and requires the completion of the proper forms at the time of retirement in order to obtain the insurance coverage. The Systems provides access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

KERS Non-Hazardous



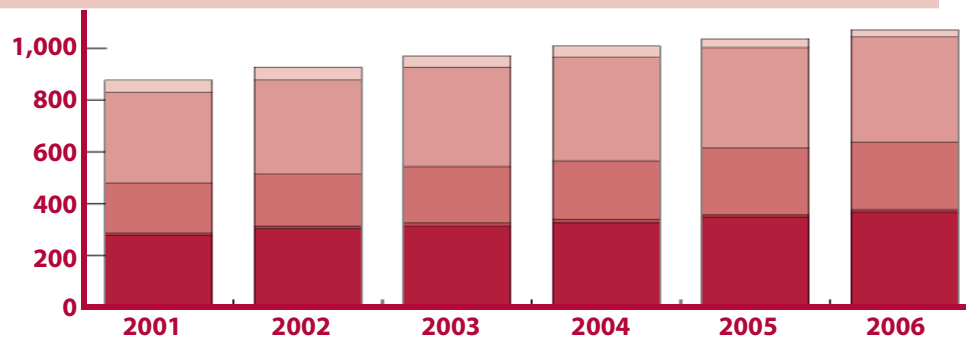
	2001	2002	2003	2004	2005	2006
Medicare With Prescription	11,107	11,229	11,311	11,437	11,764	12,000
Medicare Without Prescription	1,818	1,838	1,855	1,932	1,915	1,672
KEHP Single	5,199	5,822	6,602	7,313	7,928	8,393
KEHP Couple/Family	1,070	1,182	1,298	1,462	1,679	1,826
KEHP Parent Plus	346	396	428	443	461	490

KERS Hazardous



	2001	2002	2003	2004	2005	2006
Medicare With Prescription	420	451	494	531	567	603
Medicare Without Prescription	52	66	62	65	61	74
KEHP Single	302	359	417	502	570	656
KEHP Couple/Family	185	205	234	276	319	378
KEHP Parent Plus	51	57	53	65	65	58

SPRS

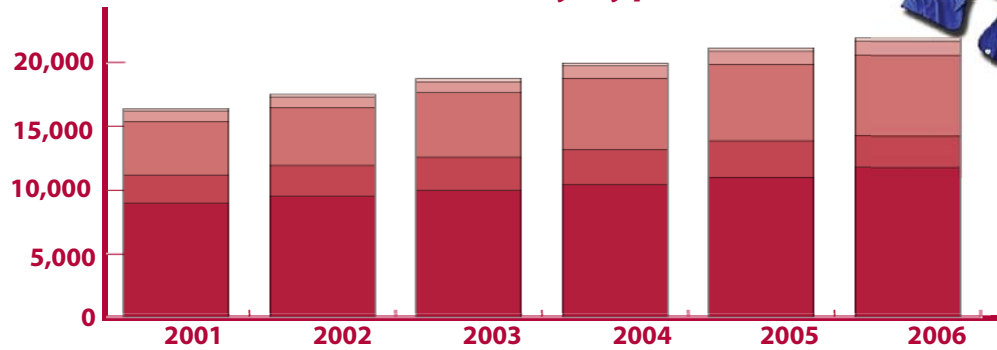


	2001	2002	2003	2004	2005	2006
Medicare With Prescription	278	303	312	326	348	368
Medicare Without Prescription	8	11	13	13	10	9
KEHP Single	194	199	218	226	257	260
KEHP Couple/Family	350	364	384	400	388	406
KEHP Parent Plus	47	50	44	45	34	29

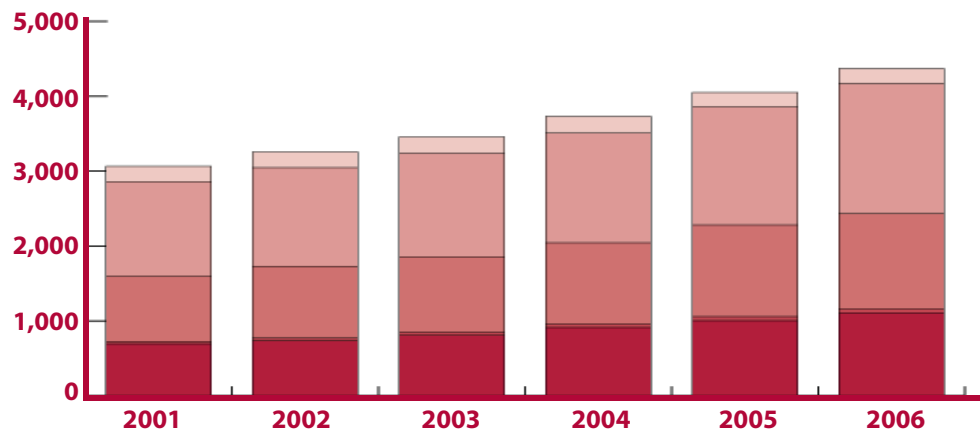


Insurance Contracts by Type

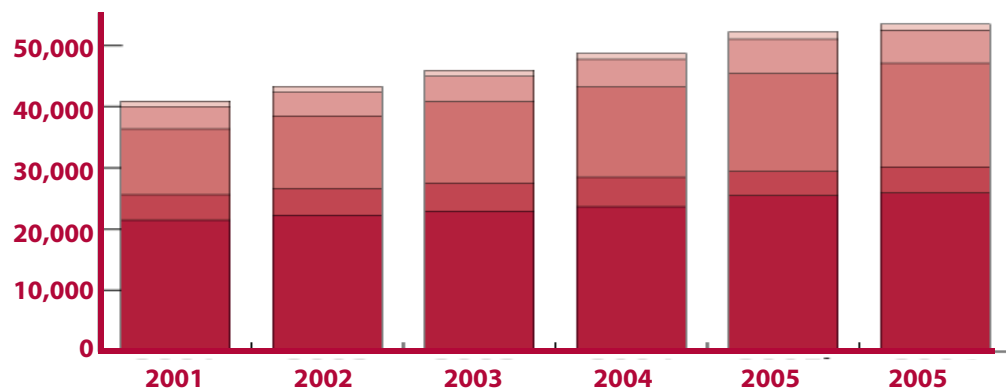
CERS Non-Hazardous



CERS Hazardous



Total





Statistical Section

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, 2006

Reemployed Retirees In KRS	KERS			CERS			SPRS
	Non-Hazardous	Hazardous	Total	Non-Hazardous	Hazardous	Total	Total
Total Active Employees	46,707	4,320	51,027	78,773	8,586	87,359	1,028
Total Retirees	32,140	1,981	34,121	33,102	4,712	37,814	1,067
Reemployed Retirees	586	55	641	1,184	673	1,857	1
% of Reemployed Retirees to Total Actives	1.25%	1.27%	1.26%	1.50%	7.84%	2.13%	0.10%
% of Reemployed Retirees to Total Retirees	1.82%	2.78%	1.89%	3.58%	14.28%	4.91%	0.09%
Reemployed Retiree Data*							
Average Age at Initial Retirement	52	50	52	56	48	53	41
Months of Service Credit at Initial Retirement	314	286	312	256	282	265	284
Final Compensation At Initial Retirement	\$51,192	\$48,897	\$50,995	\$32,616	48,623	38,417	65,817
Reemployed Retirees Avg. Annualized Salary Earned in Fiscal Year 2004-2005 (Second Retirement Account)	43,245	\$34,931	\$42,532	27,611	39,947	32,082	65,847
Retirees Returning to Work for the Same Employer	201	15	216	879	116	995	1
% Retirees Returning to Work For Same Employer	34.30%	27.27%	33.70%	74.24%	17.24%	53.58%	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.



Total Fiscal Year Retirement Payments By County

Adair	\$3,572,569	Grant	\$5,423,614	Mason	\$2,954,538
Allen	\$2,592,665	Graves	\$6,639,061	Meade	\$3,178,576
Anderson	\$16,916,390	Grayson	\$4,724,917	Menifee	\$1,473,249
Ballard	\$1,257,225	Green	\$2,148,956	Mercer	\$6,669,648
Barren	\$7,833,672	Greenup	\$3,882,048	Metcalfe	\$1,843,843
Bath	\$2,988,741	Hancock	\$1,252,522	Monroe	\$1,570,765
Bell	\$5,578,005	Hardin	\$15,733,354	Montgomery	\$4,258,926
Boone	\$13,432,604	Harlan	\$4,701,788	Morgan	\$3,722,441
Bourbon	\$4,607,676	Harrison	\$3,348,944	Muhlenberg	\$3,432,194
Boyd	\$8,799,284	Hart	\$2,704,440	Nelson	\$7,294,327
Boyle	\$8,017,242	Henderson	\$8,759,271	Nicholas	\$1,451,154
Bracken	\$1,503,991	Henry	\$10,915,407	Ohio	\$3,245,553
Breathitt	\$4,602,811	Hickman	\$533,290	Oldham	\$12,666,838
Breckinridge	\$3,464,003	Hopkins	\$8,541,548	Owen	\$6,585,792
Bullitt	\$10,933,441	Jackson	\$1,999,964	Owsley	\$1,600,504
Butler	\$2,199,445	Jefferson	\$182,281,409	Pendleton	\$2,979,504
Caldwell	\$4,145,011	Jessamine	\$8,432,539	Perry	\$4,256,518
Calloway	\$7,963,976	Johnson	\$4,916,571	Pike	\$8,905,155
Campbell	\$12,453,213	Kenton	\$21,048,526	Powell	\$2,493,819
Carlisle	\$1,039,894	Knott	\$4,753,961	Pulaski	\$19,520,900
Carroll	\$2,698,856	Knox	\$4,136,018	Robertson	\$633,613
Carter	\$5,426,589	Larue	\$2,758,019	Rockcastle	\$2,665,721
Casey	\$2,542,241	Laurel	\$9,971,647	Rowan	\$7,494,801
Christian	\$16,898,352	Lawrence	\$1,878,277	Russell	\$3,897,903
Clark	\$6,387,314	Lee	\$1,859,702	Scott	\$10,175,004
Clay	\$4,184,764	Leslie	\$1,874,621	Shelby	\$21,072,947
Clinton	\$1,511,737	Letcher	\$3,533,745	Simpson	\$1,369,373
Crittenden	\$1,714,599	Lewis	\$1,993,198	Spencer	\$4,204,189
Cumberland	\$1,671,412	Lincoln	\$3,616,666	Taylor	\$4,248,823
Daviess	\$21,865,501	Livingston	\$2,262,901	Todd	\$1,977,143
Edmonson	\$1,271,615	Logan	\$4,236,062	Trigg	\$4,062,703
Elliott	\$1,114,731	Lyon	\$3,183,278	Trimble	\$2,266,306
Estill	\$2,646,943	McCracken	\$16,024,586	Union	\$2,101,605
Fayette	\$59,932,856	McCreary	\$1,820,159	Warren	\$23,510,062
Fleming	\$3,712,023	McClean	\$1,972,996	Washington	\$2,588,977
Floyd	\$7,803,437	Madison	\$16,733,257	Wayne	\$3,782,410
Franklin	\$129,900,320	Magoffin	\$2,210,221	Webster	\$2,191,541
Fulton	\$1,480,600	Marion	\$3,222,463	Whitley	\$7,726,580
Gallatin	\$955,162	Marshall	\$6,553,469	Wolfe	\$2,593,658
Garrard	\$2,886,824	Martin	\$1,348,775	Woodford	\$11,393,366

Payments to Recipients Living in Kentucky

\$1,014,516,857

Payments to Recipients Living in Other States

\$48,091,366

Total Payments

\$1,062,608,224

