

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2012



Kentucky Retirement Systems

A component unit of the Commonwealth of Kentucky

Kentucky Employees Retirement System (KERS)

County Employees Retirement System (CERS)

State Police Retirement System (SPRS)



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Management's Responsibility for Financial Reporting

*Management has prepared the basic financial statements of Kentucky Retirement Systems and is **responsible for the integrity and fairness** of the information presented.*

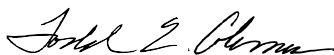
December 5, 2012 Some amounts included in the financial statements may be based on estimates and judgments. These estimates and judgments were made utilizing the best business practices available. The accounting policies followed in the preparation of these basic financial statements conform with US Generally Accepted Accounting Principles. Financial information presented throughout the annual report is consistent with the basic financial statements.

Responsibility Ultimate responsibility for the basic financial statements and annual report rests with the Board of Trustees. The Executive Director and KRS' staff assist the Board in its responsibilities. Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets safeguarded, and proper records maintained. These controls include standards in hiring and training of employees, the establishment of an organizational structure, and the communications of policies and guidelines throughout the organization. These internal controls are reviewed by internal audit programs. All internal audit reports are submitted to the Audit Committee and the Board of Trustees.

Kentucky Retirement Systems' external auditors, Dean Dorton Allen Ford, PLLC, have conducted an independent audit of the basic financial statements in accordance with US Generally Accepted Auditing Standards. This audit is described in their Independent Auditors' Report on page 17. Management has provided the external auditors with full and unrestricted access to KRS' staff to discuss their audit and related findings as to the integrity of the plan's financial reporting and the adequacy of internal controls for the preparation of financial statements.



William A. Thielen, Esq. // Executive Director
Chief Operations Officer



Todd E. Coleman, CPA // Controller

To the Trustees & Membership

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, 2012.

December 5, 2012 Responsibility for both the accuracy of the data and the completeness and fairness of the presentation rests with the management of the Kentucky Retirement Systems. We present this information to assist the Board, the members of KERS, CERS and SPRS (collectively referred to as KRS) and the general public in understanding KRS' financial and actuarial status. This CAFR conforms to the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board. KRS' financial transactions are reported on the accrual basis of accounting. Additionally, internal accounting controls provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules. Please refer to Management's Discussion and Analysis in the Financial Section.

MAJOR INITIATIVES



KERS
Kentucky Employees Retirement System

CERS
County Employees Retirement System

SPRS
State Police Retirement System

ARC
Annual Required Contribution

KRS continued during the 2012 fiscal year, whenever the opportunity presented itself, to educate its members, participating employers, legislators, executive branch officials and the general public about the funded status of its retirement plans, including the impact of reductions to the actuarially recommended employer contribution rates for the KERS and SPRS plans. This underfunding, along with past benefit increases, unfunded annual cost of living allowances (COLAs), and two major economic recessions in the last decade, has resulted in a decline of funding ratios (the ratio of assets to accrued liabilities) for the KERS nonhazardous and SPRS pension trusts to alarmingly low levels. As of June 30, 2012, the funded ratio of the KRS nonhazardous plan is 27.30% of the actuarial value of assets. The funded ratio of the SPRS plan is 40.11% of the actuarial value of assets. In 2008, the Kentucky General Assembly passed a pension reform bill (House Bill 1) that included a schedule to increase employer contributions over the next several years until reaching the full ARC in 2025 for KERS non-hazardous, 2019 for KERS hazardous and 2020 for the SPRS system. For the past three fiscal years, the Governor and the Kentucky General Assembly have met the increased funding schedule set forth in House Bill 1. During its 2012 Regular Session, the General Assembly passed House Concurrent Resolution 162, which created the Kentucky Public Pensions Task Force. The Task Force was charged with the responsibility of studying and developing recommendations concerning the benefits, investments, and funding of the State administered retirement systems. The Task Force will issue its final report and recommendations on or before December 7, 2012.



CMS
Centers for Medicare &
Medicaid Services

In 2012, KRS continued to contract with the Centers for Medicare and Medicaid Services (CMS) for an Employee Group Waiver Plan for medical and pharmacy insurance benefits for Medicare-eligible retirees. This contract allows KRS to apply the full amount of the drug subsidy received from CMS toward its unfunded liability for medical benefits. For the first two years of the EGWP contract approximately \$40 million dollars in reimbursement was received from CMS for provision of the drug benefit to retirees. KRS is in its third year under this program and the application of the subsidy to the unfunded liability for medical benefits resulted in a continued reduction of that

liability for the fiscal year ended June 30, 2012. The reduced unfunded liability has a favorable impact on employers by reducing the amount of their contribution toward retiree health care. The overall trend for the Medicare eligible population medical/pharmacy benefit has decreased with a trend of -13% while the under-65 retiree population has experienced a growth of around 12%. Both groups together comprise a population of slightly over 87,000 retirees.



START

Strategic Technology Advancements for the Retirement of Tomorrow

KRS implemented the final phase of its new technology system during the 2012 fiscal year, which provides employer online functionality, and allows active members, as well as retirees, to access their account information online. The most recent release of the Strategic Technology Advancements for the Retirement of Tomorrow (START) program allows employers to submit contributions and salary information for their employees online and adds active member functionality to the retiree self service functionality released in September 2009. Outreach training sessions were conducted to encourage members and retirees to utilize the service purchase cost and retirement estimate functionality. Employer refresher training sessions were held, and KRS' Employer Compliance and Education and Accounting staff continue to assist employers with the transition to the new system. The START project warranty period will complete in the 2012-2013 fiscal year with the exception of enhancements which KRS staff will continue to implement. Constituents can keep current on future changes to START and access their account information on the KRS website at <http://kyret.ky.gov>.

KRS continues to seek new ways to serve and educate our membership. In the spring of 2012, KRS launched a member education and outreach program, which included both on-site and online training opportunities for active members. Twelve Pre-Retirement Education Program (PREP) programs were conducted throughout the Commonwealth. These programs offer a general retirement education and planning curriculum as well as focused training on how to utilize the Active Member Self Service feature on the KRS website. Over 1,700 appointments were scheduled for the general retirement program and 900 appointments for the Active Member Self Service computer lab sessions. KRS staff also conducted a series of Active Member Self Service computer lab sessions at the KY Transportation Cabinet which served approximately 700 members. In partnership with the Kentucky Department of Libraries and Archives, we were able to offer a series of 10 webinars to our KERS members. These webinars focused on general benefit information and retirement planning. Our staff will continue to explore educational outreach opportunities and will expand upon these efforts in 2013.

INVESTMENTS

The theme last year was personal and corporate balance sheet rebuilding, along with an expansion of the Federal Reserve's balance sheet, to create a stable environment that would promote growth and result in reduced unemployment. Despite the improvement in the economy, and the strengthening of both personal and especially corporate balance sheets, too much uncertainty has held back the recovery and led to lackluster job growth.

To help address this uncertainty, the KRS Board of Trustees approved a new target asset allocation beginning July 1, 2011. As of June 30, 2012, the KRS Pension fund's policy allocation invests 20% of the assets in U.S. equities, 20% in broad market international equities, 4% in emerging market equities, 20% in fixed income, 10% in private equity, 10% in real return strategies, 10% in absolute return strategies, 5% in real estate, and 1% in cash or short-term securities. As of June 30, 2012, the KRS Insurance fund's policy allocation invests 21.1% of the assets in U.S. equities, 21.1% in broad market international equities, 3.4% in emerging market equities, 19.3% in fixed income, 8.2%

in private equity, 11.4% in real return strategies, 10.2% in absolute return strategies, 4.3% in real estate, and 1% in cash or short-term securities.

For the fiscal year ended June 30, 2012, the KRS pension fund returned 0.14%, which fell 0.76% short of the benchmark return of 0.90%. The KRS insurance fund lost -1.71% for the fiscal year ending June 30, 2012, compared to the benchmark's 0.58% return and the actuarially assumed rate of 7.75%. The underperformance of both the pension fund and the insurance fund is primarily attributable to weakness in the U.S. and Non-U.S. Equity portfolios, including the terminated dynamic currency hedging program.

For the 10-years ending June 30, 2012, the KRS pension fund portfolio earned an annualized total return of 5.99%, slightly underperforming the benchmark return of 6.18%. The KRS insurance fund underperformed its benchmark by an even closer margin for the 10-year period ending June 30, 2012, earning 5.86% versus 5.93%.

ACTUARIAL FUNDING

Kentucky Retirement Systems administers both a pension fund and an insurance fund for each of the systems it manages. These trusts are used to fund monthly pension and health care payments to and on behalf of retirees.

Non-hazardous employees are statutorily required to contribute 5% of pre-tax salary to their pension benefit, while hazardous employees contribute 8% on a pre-tax basis. All employees hired with an initial participation date on or after September 1, 2008 must contribute an additional 1% of their pre-tax compensation toward their retiree health insurance benefits. These monies are deposited in a 401(h) account within the pension trust. Employer contributions are calculated annually by the Board of Trustees and include the normal cost of pension and insurance benefits plus a contribution toward the unfunded liability of the pension and insurance trusts designed to amortize that liability over a period no longer than 30 years.. Employer contributions also include an administrative fee that is used to pay annual operating expenses of KRS. The administrative expense is shared among the plans based on the ration of a plan's membership to the total membership at the beginning of a fiscal year.

Funding ratios have fallen both steadily and significantly over the last decade as a result of unfavorable market conditions, higher than anticipated retirement rates, employer underfunding in the KERS nonhazardous and SPRS plans, and increased expenses for annual cost of living adjustments that are not pre-funded by the employers. While improved market conditions and the increased funding in the KERS and SPRS plans have slowed the growth of the unfunded liabilities of the various systems, KRS uses a five-year smoothing method and the full effects of the market losses in 2008 and 2009 will not be realized for another two years. The funding levels of all systems as of June 30, 2012 are listed on page 113 of the Actuarial Section.

PROFESSIONAL SERVICES

KRS continues to engage a number of professional consultants to assist trustees and staff in key business areas such as investments, taxes, auditing services and legal representation. A list of the Board's contract consultants can be found in the organizational chart on page 9. A list of external investment managers can be found in the investment section of this report.



The purpose of GFOA is to enhance and promote the professional management of governments for the public benefit by identifying best practices and promoting their use through education, training, facilitation of member networking, and leadership.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Kentucky Retirement Systems for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2011. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports and is valid for a period of one year. This was the fourteenth consecutive award earned by KRS. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized document. The report must satisfy both generally accepted accounting principles and applicable legal requirements. We believe our 2012 CAFR will continue to meet the Certificate of Achievement Program's requirements, and we will be submitting it to the GFOA for their consideration.

KRS also received a 2012 Recognition Award for Administration that was presented by the Public Pension Coordinating Council, a confederation of the National Association of State Retirement Administrators (NASRA), the National Conference on Public Employee Retirement Systems (NCPERS), and the National Council on Teacher Retirement (NCTR). The award is given in recognition of meeting professional standards for plan administrators set forth in the Public Pension Standards.



Other Information

Kentucky statutes require an annual audit by either an independent certified public accountant or the Auditor of Public Accounts. Dean, Dorton Allen Ford, PSC, Certified Public Accountants, performed the audit for the fiscal year ended June 30, 2012. The results of that audit are contained in the Financial Section.

William A. Thielen

William A. Thielen, Esq. // Executive Director

Board of Trustees

The Board of Trustees are comprised of nine members. Two elected by KERS members, two elected by CERS members, one elected by SPRS members, three appointed by Governor Steve Beshear and the Secretary of the State Personnel Cabinet.



Thomas Elliott, Chair
Governor Appointee
Term ends March 31, 2015



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



Jennifer Elliott
Governor Appointee
Term ends March 31, 2016



Vince Lang
Elected by CERS
Term ends March 31, 2013



Randy Overstreet
Elected by SPRS
Term ends March 31, 2015



Susan Smith
Elected by KERS
Term ends March 31, 2014



Vacant
Elected by CERS
Term ends March 31, 2012



Bobby Henson
Elected by KERS
Term ends March 31, 2014



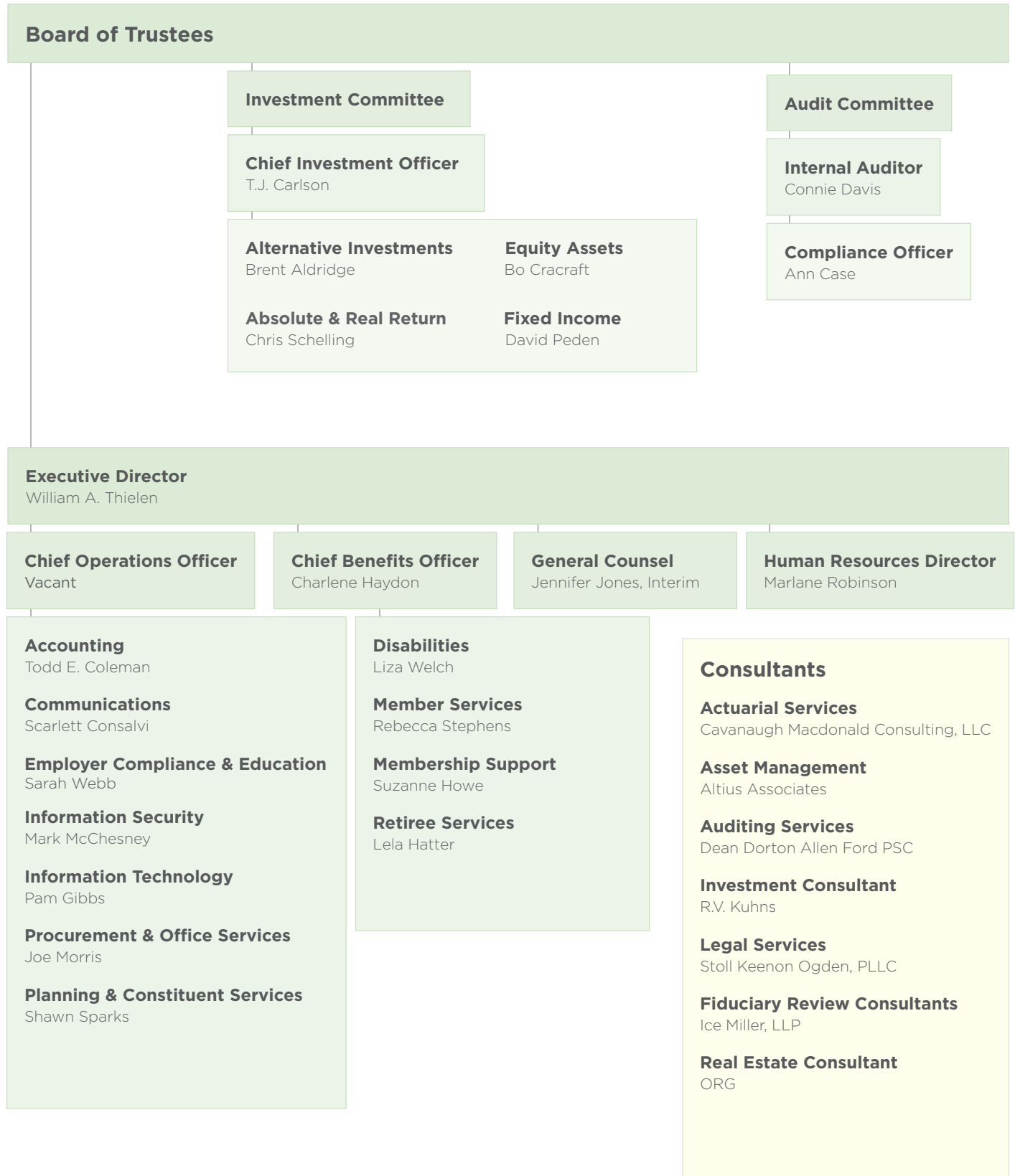
Tim Longmeyer
Personnel Secretary
Term ends Ex-Officio



Committee Meetings Online

Visit kyret.ky.gov/index.php/board to download materials from previous Board meetings. You may also browse a list of upcoming meetings. Click "Meet the Board" to email any Board member.

Agency Structure



KERS Non-Hazardous

RETIRED MEMBERS

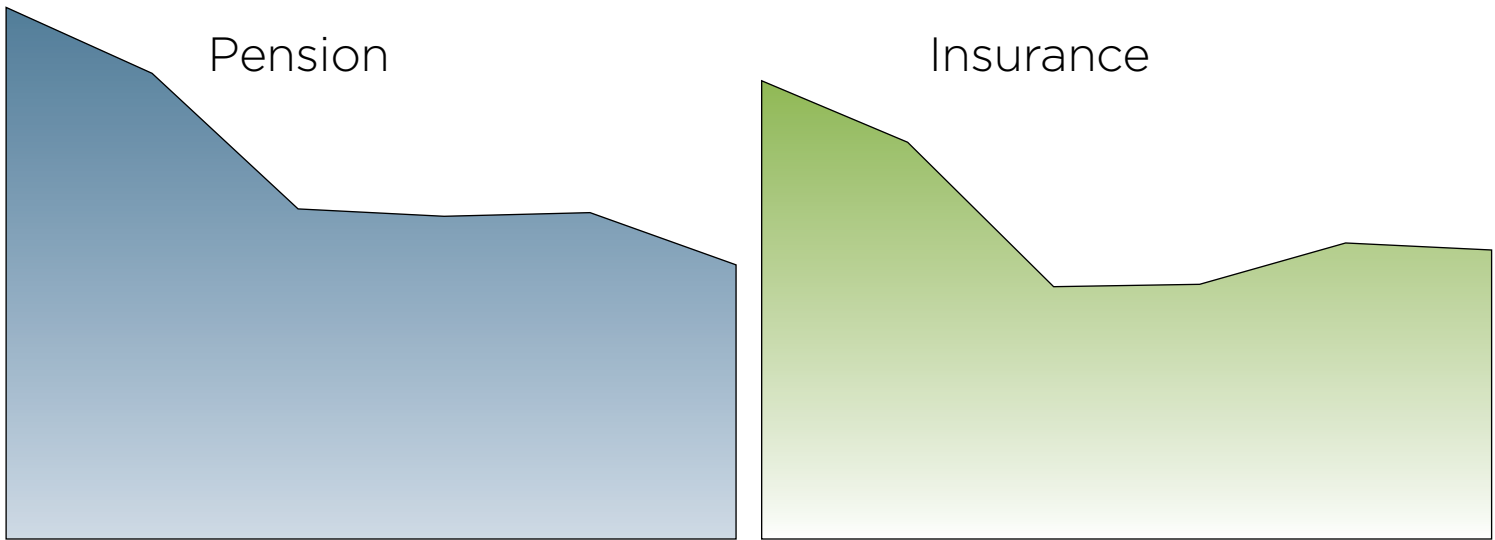
36,508

ACTIVE MEMBERS

41,743

INACTIVE MEMBERS

39,338



Plan Net Assets (in Thousands)

Fund	2007	2008	2009	2010	2011	2012
Pension	\$5,773,157	\$5,056,869	\$3,584,601	\$3,504,501	\$3,533,393	\$2,977,069
Insurance	\$663,558	\$574,479	\$365,367	\$368,799	\$421,972	\$418,490
Total	\$6,436,715	\$5,631,348	\$3,949,968	\$3,873,300	\$3,955,365	\$3,395,559

KERS HISTORY

*Kentucky Employees Retirement System (KERS) was established **July 1, 1956** by the state legislature.*

KERS Hazardous

RETIRED MEMBERS

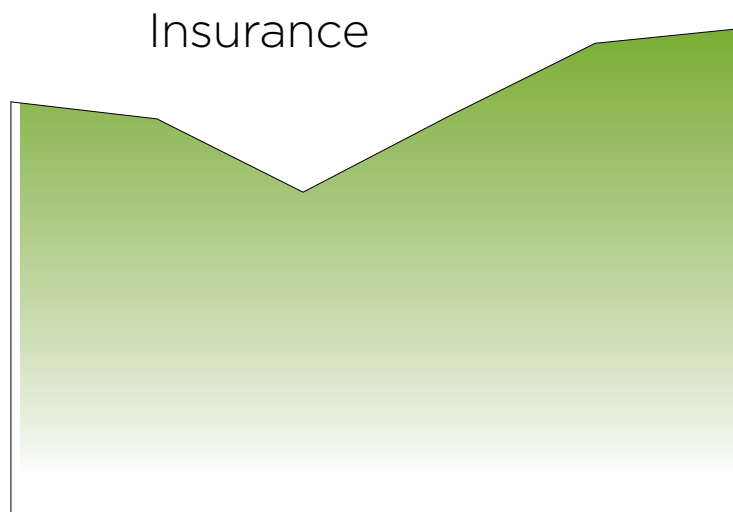
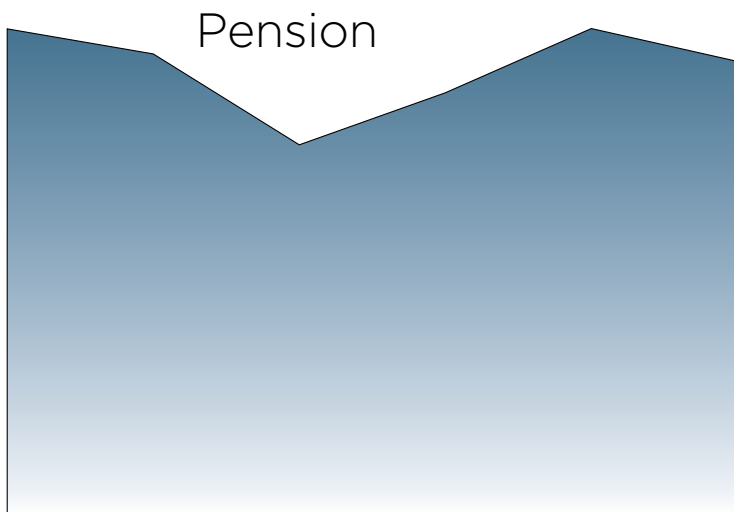
2,180

ACTIVE MEMBERS

4,007

INACTIVE MEMBERS

2,597



Plan Net Assets (in Thousands)

Fund	2007	2008	2009	2010	2011	2012
Pension	\$510,775	\$484,438	\$388,951	\$443,606	\$509,120	\$476,589
Insurance	\$280,886	\$269,300	\$219,500	\$271,239	\$319,736	\$330,730
Total	\$791,661	\$753,738	\$608,451	\$714,846	\$828,856	\$807,319

KERS HISTORY

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

CERS Non-Hazardous

RETIRED MEMBERS

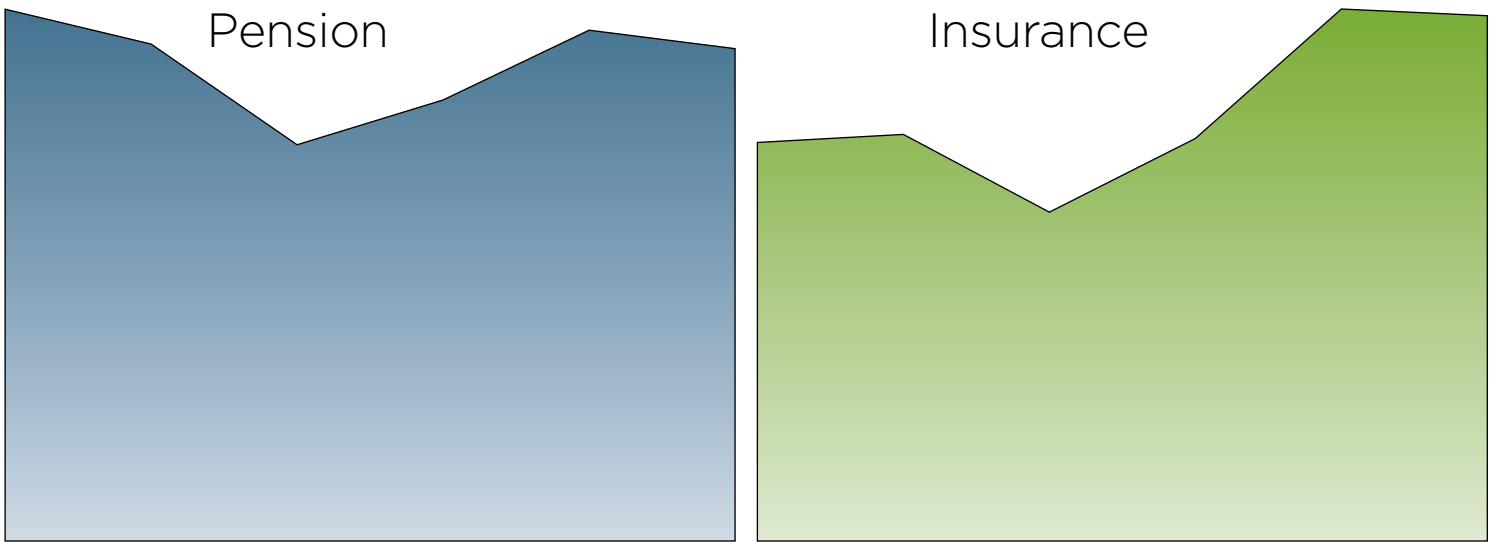
42,068

ACTIVE MEMBERS

83,658

INACTIVE MEMBERS

63,280



Plan Net Assets (in Thousands)

Fund	2007	2008	2009	2010	2011	2012
Pension	\$5,812,936	\$5,431,735	\$4,331,010	\$4,820,490	\$5,543,962	\$5,381,602
Insurance	\$1,084,043	\$1,105,945	\$894,490	\$1,094,821	\$1,418,818	\$1,428,821
Total	\$6,896,979	\$6,537,680	\$5,225,500	\$5,915,311	\$6,962,780	\$6,810,423

CERS HISTORY

*County Employees Retirement System (CERS) was established **July 1, 1958** by the state legislature.*

CERS Hazardous

RETIRED MEMBERS

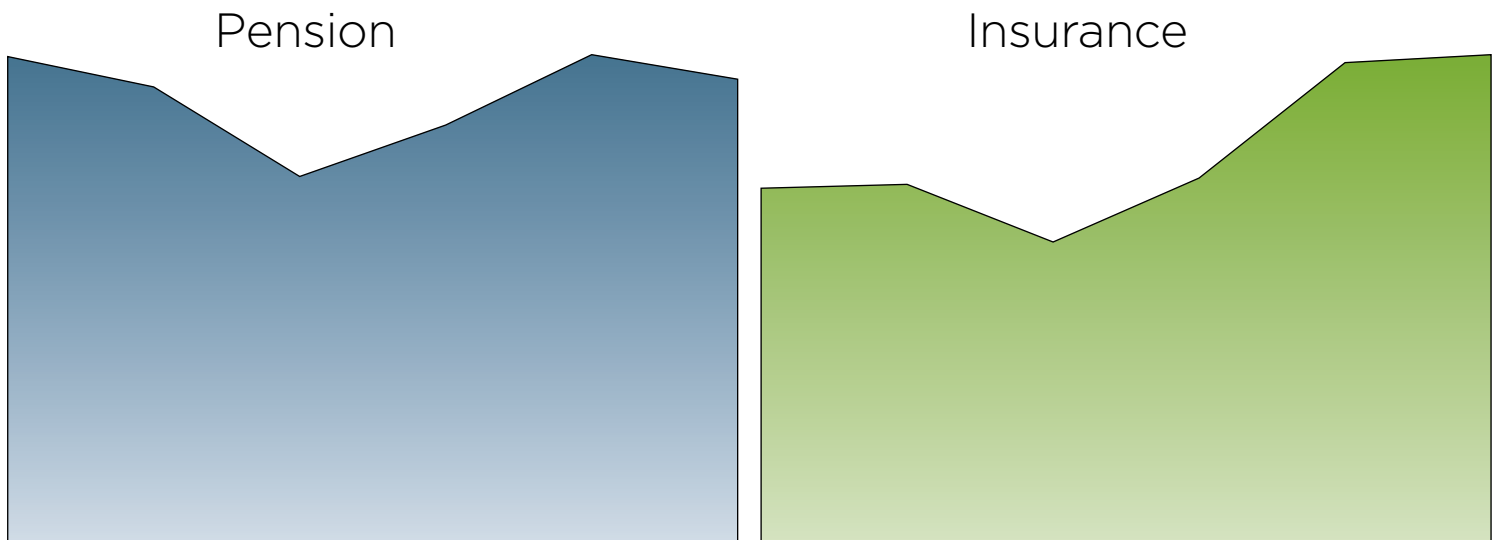
5,513

ACTIVE MEMBERS

9,040

INACTIVE MEMBERS

1,914



Plan Net Assets (in Thousands)

Fund	2007	2008	2009	2010	2011	2012
Pension	\$1,754,935	\$1,644,982	\$1,320,560	\$1,506,894	\$1,751,962	\$1,672,970
Insurance	\$570,156	\$576,414	\$483,233	\$586,614	\$761,075	\$785,874
Total	\$2,325,091	\$2,221,396	\$1,803,793	\$2,093,508	\$2,513,037	\$2,458,844

CERS HISTORY

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

SPRS

RETIRED MEMBERS

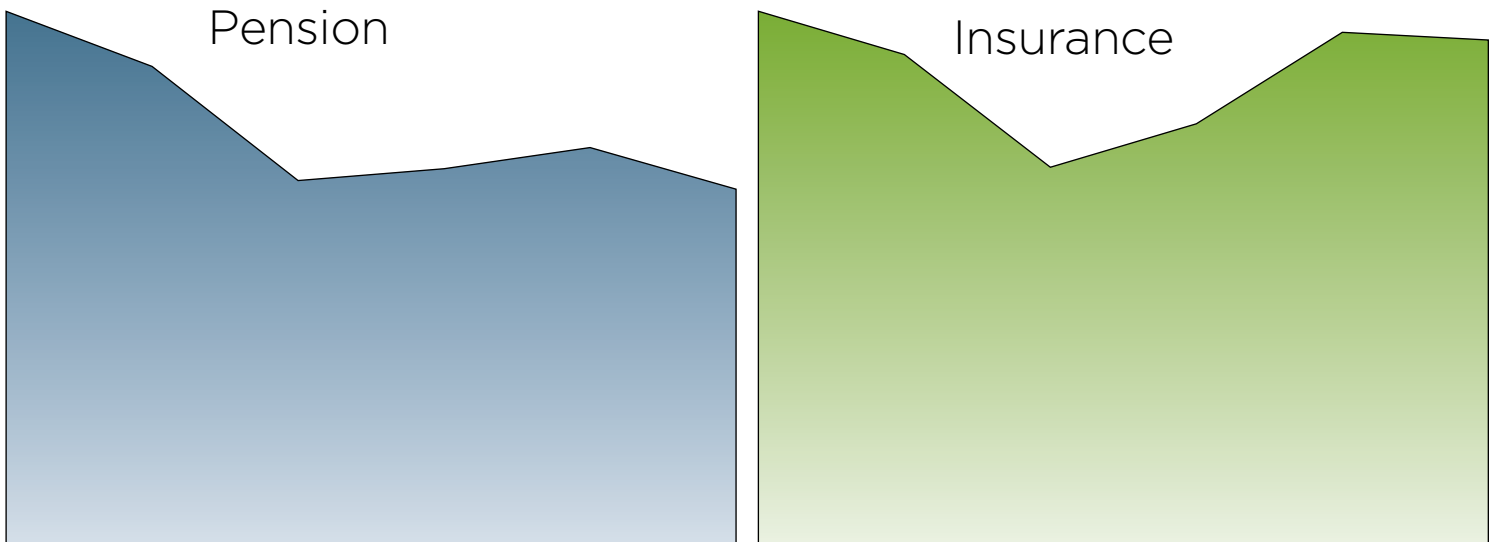
1,203

ACTIVE MEMBERS

904

INACTIVE MEMBERS

224



Plan Net Assets (in Thousands)

Fund	2007	2008	2009	2010	2011	2012
Pension	\$376,381	\$337,359	\$256,575	\$264,949	\$279,283	\$250,476
Insurance	\$132,574	\$121,782	\$93,682	\$104,511	\$126,737	\$125,398
Total	\$508,955	\$459,141	\$350,257	\$369,460	\$406,020	\$375,874

SPRS HISTORY

*State Police Retirement System (SPRS) was established **July 1, 1958** by the state legislature.*

Total System

RETIRED MEMBERS

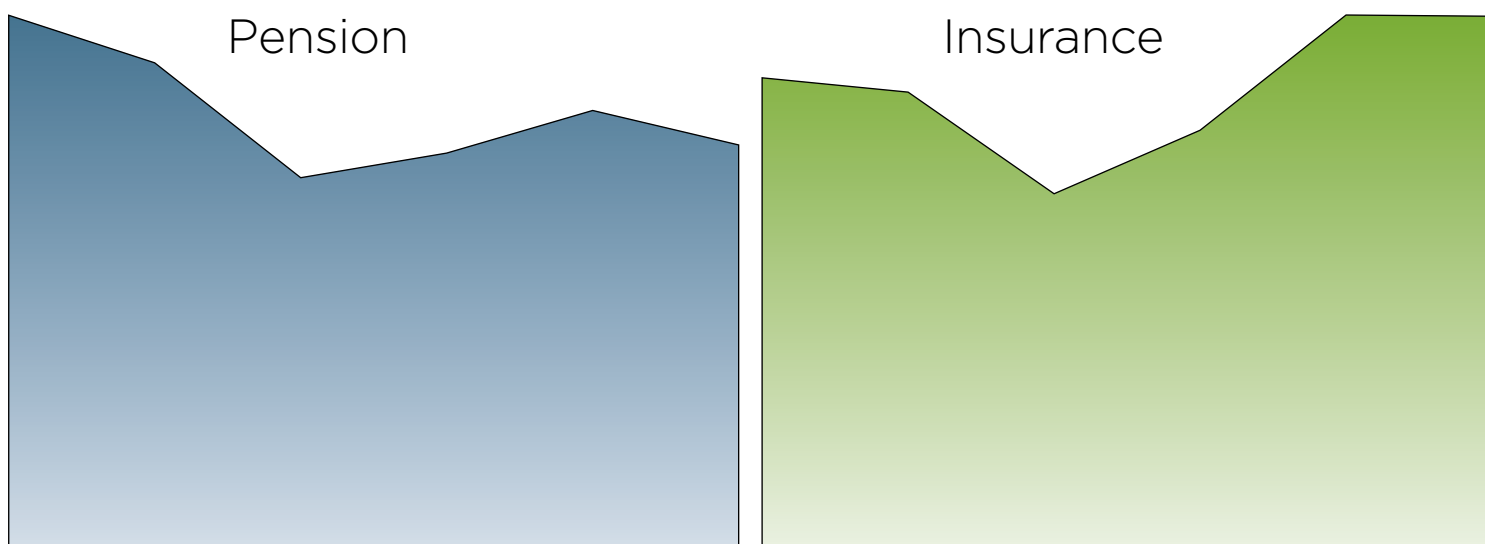
87,472

ACTIVE MEMBERS

139,352

INACTIVE MEMBERS

107,353



Plan Net Assets (in Thousands)

Fund	2007	2008	2009	2010	2011	2012
Pension	\$14,228,184	\$12,955,383	\$9,881,697	\$10,540,440	\$11,617,720	\$10,758,706
Insurance	\$2,731,217	\$2,647,920	\$2,056,272	\$2,425,987	\$3,048,338	\$3,089,313
Total	\$16,959,401	\$15,603,303	\$11,937,969	\$12,966,427	\$14,666,058	\$13,848,019

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Independent Auditors' Report

A financial statement audit is one of many attestation functions provided by certified public accounting firms, whereby the firm provides an independent opinion on published information. Financial audits are performed by CPAs due to the specialized financial reporting knowledge required.

Dean Dorton Allen Ford, PLLC

To the Board of Trustees, Kentucky Retirement Systems in Frankfort, Kentucky: We have audited the accompanying combining financial statements of the Kentucky Retirement Systems, a component unit of the Commonwealth of Kentucky, as of and for the fiscal years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the Kentucky Retirement Systems' management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Kentucky Retirement Systems' internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Kentucky Retirement Systems, a component unit of the Commonwealth of Kentucky, as of June 30, 2012 and 2011 and the changes in plan net assets for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 5, 2012, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

Accounting principles, generally accepted in the United States of America require that the Management's Discussion and Analysis (pages 18 through 27) and the Schedules of Funding Progress and Schedules of Contributions from Employers and Other Contributing Entities (pages 58 through 66) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the combining financial statements of the Kentucky Retirement Systems as a whole. The additional supporting schedules (page 67) are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory, Actuarial, Investments, and Statistical sections are presented for purposes of additional analysis and are not a required part of the financial statements. These sections have not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

As described in Note S to the combining financial statements, the 2011 financial statements have been restated to correct accrued pension and insurance contributions as of June 30, 2011.

Dean Dorton Allen Ford, PLLC

Dean Dorton Allen Ford, PLLC

December 5, 2012

Lexington, Kentucky

Management's Discussion & Analysis

This discussion and analysis of Kentucky Retirement Systems' financial performance provides an overview of the pension and insurance fund financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the financial statements, which begin on page 23.

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 decreased by \$859.1 million during fiscal 2012.
- Member and Employer contributions reported for fiscal 2012, totaled \$877.4 million compared to \$819.2 million (as restated) in fiscal 2011. This increase is due to an increase in the employer contribution rates and the collection of additional health insurance contributions passed by House Bill 1 in September 1, 2008.
- The Pension Funds' Net Assets as of June 30, 2011, and the increase in the Pension Funds for the fiscal year then ended, have been restated to correct accrued contributions as of June 30, 2011. The net effect of this correction for reporting purposes is a decrease of \$62.8 million in pension contributions for the fiscal year ended June 30, 2011, and a corresponding decrease in the Pension Funds' Net Assets as of June 30, 2011. The restatement resulted from the double posting of an accrual of contributions in fiscal 2011.
- The net depreciation in the fair value of investments was \$261.2 million for the fiscal year ended June 30, 2012 compared to net appreciation of \$1,658.5 million for the prior fiscal year. Included in this net depreciation in fiscal 2012 were realized losses on sales of investments of \$22.8 million.
- The plan allocations for the Pension Investment Accounts in which exposure to the Record Currency Management Dynamic Currency Hedging Program (RCM) were adjusted. This adjustment is a revision of previously estimated plan allocation percentages applied. Individual gains and losses were revised using updated estimates; however, there was no change to the net balance of the RCM Pension Account. An additional minor adjustment may be needed once final disposition of the RCM account is complete. In accordance with accounting principles generally accepted in the United States, this is deemed a change in estimate. A change in estimate is accounted for only in current and future years; prior years are not adjusted. The audited financial statements for fiscal 2012 include Footnote D regarding the nature and reasons for the change.

- Interest, dividend and net securities lending income was \$270.3 million compared to \$300.9 million in fiscal 2011.
- Pension benefits paid to retirees and beneficiaries totaled \$1,649.2 million compared to \$1,591.5 million in fiscal 2011. Refund of contributions paid to former members upon termination of employment totaled \$30.9 million compared to \$27.5 million in fiscal 2011.
- Administrative expense totaled \$27.8 million compared to \$24.9 million in the prior fiscal year. A supplemental appropriation of \$12.96 million was approved by the State Budget Office in fiscal 2012. This supplemental appropriation enabled KRS to implement the recommendations of the Kentucky Auditor of Public Accounts to include certain health and investment administrative expenses for the first time in the KRS administrative budget. Capital Project Expenses incurred, as a result of the START Project, totaled approximately \$17,000. Certain START Project costs were capitalized in fiscal 2012 between fixed assets and intangible assets, as appropriate.
- The Kentucky Auditor of Public Accounts recommended that KRS include expenses for the health care fees, investments, and internal audit as separate line items of the Administrative Expense budget. This has been implemented in fiscal 2012; see pages 67 and 68.
- The member health insurance contribution, as a result of the passage of House Bill 1 (effective September 1, 2008) totaled \$11.9 million, for the fiscal year ended June 30, 2012, compared to \$6.6 million (as restated) in the prior fiscal year.

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 \$41.1 million during fiscal 2012.
- Premiums received from retirees who participated in the Medicare eligible self-funded plan totaled \$28.4 million, compared to \$31 million in the prior fiscal year. The decrease is a result of CMS paying a portion of the retirees' premium. In addition, the decrease is attributable to changes in coverage chosen by retirees.
- Employer contributions of \$436.2 million were received compared to \$387.5 million (as restated) in fiscal 2011. This increase is due to an increase in the insurance contribution rate.
- The Insurance Funds' net assets as of June 30, 2011, and the increase in the insurance funds for the fiscal year then ended, have been restated to correct accrued contributions as of June 30, 2011. The net effect of this correction for reporting purposes is a decrease of \$48.5 million in insurance contributions

for the fiscal year ended June 30, 2011, and a corresponding decrease in the Insurance Funds' net assets as of June 30, 2011. The restatement resulted from the double posting of an accrual of contributions in fiscal 2011.

- ☛ The Employer Group Waiver Plan receipts from the Centers for Medicare & Medicaid Services (CMS) subsidies totaled \$17.8 million compared to \$22.1 million in fiscal 2011. Changes in receipts depend upon the fluctuation of membership in the Plan.
- ☛ The net depreciation in the fair value of investments was \$118.7 million compared to net appreciation of \$517.0 million for the prior fiscal year. Included in this net depreciation in fiscal 2012 were realized losses on sales of investments of \$97.7 million.
- ☛ The plan allocations for the Insurance Investment Accounts in which exposure to the Record Currency Management Dynamic Currency Hedging Program (RCM) were adjusted. This adjustment is a revision of previously estimated plan allocation percentages applied. Individual gains and losses were revised using updated estimates; however, there was no change to the net balance of the RCM Insurance Account. An additional minor adjustment may be needed once final disposition of the RCM account is complete. In accordance with accounting principles generally accepted in the United States, this is deemed a change in estimate. A change in estimate is accounted for only in current and future years; prior years are not adjusted. The audited financial statements for fiscal 2012 include Footnote D regarding the nature and reasons for the change.
- ☛ Interest, dividend and net securities lending income was \$71.4 million compared to \$53.1 million in fiscal 2011.
- ☛ Premiums paid by the fund for hospital and medical insurance coverage (under age 65) totaled \$248.3 million. Payments for the self-funded healthcare reimbursements (over age 65) totaled \$132.1 million. The total of insurance premiums paid plus self-funded reimbursements was \$380.4 million for fiscal 2012. Insurance premiums paid plus self-funded healthcare reimbursements for the prior plan year totaled \$373.1 million. On August 6, 2012, the Board of Trustees voted to cease self-funding of healthcare benefits for most KRS Medicare eligible retirees. The Board elected to contract with Humana Insurance Company to provide healthcare benefits to KRS' retirees through a fully insured Medicare Advantage Plan. The Humana Medicare Advantage Plan becomes effective January 1, 2013.
- ☛ As part of the application process to the Centers for Medicare & Medicaid Services to enter into a contract to offer a Medicare Prescription Drug Plan, Kentucky Retirement Systems was required to establish a segregated Insolvency Account in the amount of \$100,000; this account must retain a minimum balance of \$100,000. The account consists of cash and/or cash equivalents, and is invested on a daily basis. The balance as of June 30, 2012, totaled \$100,691.

- ☛ The reimbursement of retired-reemployed health insurance, as a result of the passage of House Bill 1 (effective September 1, 2008), totaled \$6.3 million for the fiscal year ended June 30, 2012, compared to \$4.0 million in the prior fiscal year.

Using This Financial Report

Because of the long-term nature of a defined benefit pension plan and post-employment healthcare benefit plan, the financial statements alone cannot provide sufficient information to properly reflect the plan's ongoing plan perspective. This financial report consists of two financial statements and two required schedules of historical trend information. The Combining Statement of Plan Net Assets for the Pension Funds, on page 23, and the Combining Statement of Plan Net Assets for the Insurance Fund, on page 25, provide a snapshot of the financial position of each of the three systems at June 30, 2012. The Combining Statement of Changes in Plan Net Assets for the Pension Funds, on page 24, and the Combining Statement of Changes in Plan Net Assets for the Insurance Fund, on page 26, summarize the additions and deductions that occurred for each of the three systems during fiscal 2012.

The Schedules of Funding Progress, on pages 58-61, includes historical trend information about the actuarially funded status of each plan from a long-term, ongoing plan perspective and the progress made in accumulating sufficient assets to pay benefits and insurance premiums when due. The Schedules of Contributions from Employers and Other Contributing Entities, on pages 62-66, presents historical trend information about the annual required contributions and the contributions made in relation to the requirement. These schedules provide information that contributes to understanding the changes over time in the funded status of the plans.

Funds as a Whole

Kentucky Retirement Systems' combined plan net assets decreased, during the fiscal year ended June 30, 2012, by \$818 million from \$14,666 million to \$13,848 million. Restated plan net assets for the prior fiscal year increased by \$1,699.6 million. The decrease in plan net assets for the plan year ended June 30, 2012 is primarily attributable to an increase in benefit payments, a decrease in member contributions, a net depreciation in the fair value of investments, and a decrease in securities lending income. The analysis below focuses on plan net assets (Table 1) and changes in plan net assets (Table 2) of Kentucky Retirement Systems' Pension and Insurance Funds.

Plan net assets of the pension funds decreased by \$859.4 million (\$10,758.7 million compared to \$11,617.7 million). All of these assets are restricted in use to provide monthly retirement allowances to members who contributed to the pension funds as employees and their beneficiaries.

Plan net assets of the insurance fund increased by \$41.4 million (\$3,089.7 million compared to \$3,048.3 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. The increase in net plan assets is primarily attributable to the increase in employer contribution rates for insurance.

Table 1. Plan Net Assets (in Millions)

Assets	Pension Funds			Insurance Fund			Total		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
Cash & Investments	\$11,922.7	\$13,217.3	\$12,690.2	\$3,243.5	\$3,458.4	\$2,961.3	\$15,166.2	\$16,675.7	\$15,651.5
Receivables	150.2	115.3	108.6	71.9	32.3	33.6	222.1	147.6	142.2
Equip/Int Assets, net of dep/amort.	13.8	9.7	9.3	-	-	-	13.8	9.7	9.3
Total Assets	12,086.7	13,342.3	12,808.1	3,315.4	3,490.7	2,994.9	15,402.1	16,833.0	15,803.0
Total Liabilities	(1,328.1)	(1,724.6)	(2,267.7)	(226.0)	(442.4)	(568.9)	(1,554.1)	(2,167.0)	(2,836.6)
Plan Net Assets	\$10,758.6	\$11,617.7	\$10,540.4	\$3,089.4	\$3,048.3	\$2,426.0	\$13,848.0	\$14,666.0	\$12,966.4

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

Additions	Pension Funds			Insurance Fund			Total		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
Member Cont.	\$274.1	\$306.0	\$249.8	-	-	-	\$274.1	\$306.0	\$249.8
Employer Cont.	591.4	506.6	461.2	436.2	387.5	371.9	1,027.6	894.1	833.1
Heath Ins. Cont.	11.9	6.6	3.4	-	-	-	11.9	6.6	3.4
Premiums Rec'd	-	-	-	28.4	31.0	29.1	28.4	31.0	29.1
Retired Remp Ins.	-	-	-	6.3	4.0	2.0	6.3	4.0	2.0
Medicare Subsidy	-	-	-	17.8	22.1	19.8	17.8	22.1	19.8
Invest. Inc. (net)	(28.5)	1,902.2	1,507.5	(55.3)	561.2	310.1	(83.8)	2,463.4	1,817.6
Total Additions	848.9	2,721.4	2,221.9	433.4	1,005.8	732.9	1,282.3	3,727.2	2,954.8
Deductions									
Benefit payments	1,649.2	1,591.5	1,516.1	-	-	-	1,649.2	1,591.5	1,516.1
Refunds	31.0	27.5	22.3	-	-	-	31.0	27.5	22.3
Administrative Ex.	27.8	24.9	24.8	11.9	10.4	9.7	39.7	35.3	34.5
Capital Projects Ex.	-	0.2	-	-	-	-	-	0.2	-
Healthcare Costs	-	-	-	380.4	373.1	353.4	380.4	373.1	353.4
Total Deductions	1,708.0	1,644.1	1,563.2	392.3	383.5	363.1	2,100.3	2,027.6	1,926.3
Increase (Decrease) in Plan Net Assets	\$(859.1)	\$1,077.3	\$658.7	\$41.1	\$622.3	\$369.8	\$(818.0)	\$1,699.6	\$1,028.5

FUND ACTIVITIES**In Thousands or Millions**

Much of the data presented in this report is abbreviated "in thousands" or "in millions". For example \$1,000 represented "in millions" is really \$1,000,000,000.

Pension Fund Activities

After the restatement of fiscal 2011 contributions, member contributions decreased by \$31.9 million. Retirement contributions are calculated by applying a percentage factor to salary and are remitted by each employer on behalf of the member. Non-hazardous members pay pension contributions of 5% of creditable compensation and hazardous members contribute 8% of creditable compensation. Members may also pay contributions to repurchase previously refunded service credit or to purchase various types of elective service credit.

After the restatement of fiscal 2011 contributions, employer contributions increased by \$84.8 million due to the increase in the employer contribution rate applied to covered payroll.

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

Asset	2012	2011	2010
(Decrease) Increase in fair value of investments	\$(238)	\$707	\$1,066
Investment income net of investment expense	232	244	224
(Loss) Gain on sale of investments	(23)	951	218
Net Investment (Loss) Income	\$(29)	\$1,902	\$1,508

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

Asset	2012	2011	2010
(Decrease) Increase in fair value of investments	\$(21)	\$169	\$183
Investment income net of investment expense	63	44	35
(Loss) Gain on sale of investments	(97)	348	92
Net Investment (Loss) Income	(55)	\$561	\$310

Insurance fund deductions increased by \$8.8 million due to the increase in overall healthcare costs.

Net investment income decreased by \$1,930.7 million (a \$28.5 million net investment loss in fiscal 2012 compared to \$1,902.2 million net investment income in fiscal 2011). The pension funds experienced a decrease in income primarily due to a decrease in investment income. This can be illustrated in Table 3.

Pension fund deductions increased by \$63.9 million caused principally by an increase of \$57.7 million in benefit payments. Retirees received a Cost of Living Adjustment (COLA) increase of 1.5% in benefit payments as of July 1, 2011. Refunds of member contributions increased by \$3.5 million and administrative expenses increased by \$2.9 million. Capital Project Expenses, incurred as a result of the START Project, totaled \$0.02 million. Certain START Project costs were capitalized in fiscal 2012 between fixed assets and intangible assets, as appropriate.

Insurance Fund Activities After the restatement of fiscal 2011 contributions, employer contributions paid into the insurance fund increased by \$48.7 million over the prior fiscal year. This increase is a result of the increase in the employer contribution rate applied to covered payroll.

Net investment income decreased \$616.5 million. This decrease in net investment income is due primarily to the loss on sale of investments. This is illustrated in Table 4 above.

Insurance fund deductions increased by \$8.8 million due to the increase in overall healthcare costs.



Haz
Hazardous (i.e. KERS Haz)

Non-Haz
Non-Hazardous (i.e. CERS Non-Haz)



KERS
Kentucky Employees Retirement System

CERS
County Employees Retirement System

SPRS
State Police Retirement System

Haz
Hazardous (i.e. KERS Haz)

Non-Haz
Non-Hazardous (i.e. CERS Non-Haz)

Accounting standards require that the Statement of Plan Net Assets state asset value at fair value and include only benefits and refunds due plan members and beneficiaries and accrued investment and administrative expense as of the reporting date. Information regarding the actuarial funding status of the Pension and Insurance Funds is provided in the Schedules of Funding Progress on pages 58-61. The asset value stated in the Schedules of Funding Progress is the actuarial value of assets. The actuarial value of assets recognizes a portion of the difference between the market value of assets and the expected market value of assets, based on the investment return assumption. The amount recognized each year is 20% of the difference between market value and expected market value. The actuarial accrued liability is calculated using the entry age normal cost funding method. This actuarial accrued liability is the measure of the cost of benefits that have been earned to date by Kentucky Retirement Systems' members, but not yet paid. The difference in value between the actuarial accrued liability and the actuarial value of assets is defined as the unfunded actuarial accrued liability.

The unfunded actuarial accrued liability in the pension plans increased by \$1,375.5 million for a total unfunded amount of \$13,758 million for the fiscal year ended June 30, 2012, compared to an unfunded amount of \$12,382.5 million for the fiscal year ended June 30, 2011. In recent years, funding levels for the pension funds have fallen dramatically due to investment returns less than the actuarially assumed rate, higher than anticipated retirement rates, and expenditures for unfunded retiree Cost of Living Adjustments. Within the KERS and SPRS plans, employer contribution rate reductions enacted by the Kentucky General Assembly have limited the plans' ability to correct the declining funding levels.

The insurance plan's unfunded actuarial accrued liability for the plan year ended June 30, 2012, decreased to \$4,321.5 million from \$6,837.7 million for the plan year ended June 30, 2011. This is a decrease in the unfunded actuarial accrued liability of \$2,516.2 million. This decrease is due to the change for the Medicare-eligible retirees from the self-insured health plans to fully insured Medicare Advantage plans administered by Humana.

Annual required contributions of the employers as actuarially determined and actual contributions made by employers and other contributing entities in relation to the required contributions are provided in the Schedules of Contributions from Employers and Other Contributing Entities on pages 62-66. The difference in the annual required contributions and actual contributions made by employers and other contributing entities in the KERS and SPRS funds is attributable to the fact that the employer contribution rate set by the Kentucky General Assembly is less than the rate recommended by the KRS Actuary and adopted by the KRS Board of Trustees.

Combining Statement of Plan Net Assets for Pension Funds (in Thousands)
as of June 30, 2012 with Comparative Totals as of June 30, 2011

Assets	2012					2011-Restated	
	KERS Haz	KERS Non-Haz	CERS Haz	CERS Non-Haz	SPRS	Total	Total
Cash & Short-Term Investments							
Cash	\$316	\$1,024	\$592	\$760	\$246	\$2,938	\$2,740
Short-Term Investments	18,546	101,548	59,946	183,733	11,566	375,339	1,309,337
Total Cash and Short-Term Investments	18,862	102,572	60,538	184,493	11,812	378,277	1,312,077
Receivables							
Contributions	4,664	40,290	14,188	51,375	2,205	112,722	75,965
Investment Income	1,641	10,273	5,872	18,895	842	37,523	39,310
Total Receivables	6,305	50,563	20,060	70,270	3,047	150,245	115,275
Investments at Fair Value							
Corporate and Government Bonds	159,055	972,045	573,583	1,850,724	83,980	3,639,387	2,882,891
Equity Contracts	2	14	8	25	1	50	868,796
Interest Rate Contracts	1,326	8,165	4,598	14,709	679	29,477	368,604
Foreign Exchange Contracts	2,798	17,225	9,701	31,030	1,430	62,184	
Swaps	70	430	242	774	36	1,552	
Options	39	242	136	436	20	873	
Corporate Stocks	274,644	1,757,066	957,644	3,061,343	144,779	6,195,476	5,280,654
Mortgages	11,677	69,786	43,460	142,047	5,671	272,641	751,453
Real Estate	4,516	12,891	10,036	25,160	1,444	54,047	32,252
Total Investments at Fair Value	454,127	2,837,864	1,599,408	5,126,248	238,040	10,255,687	10,184,650
Securities Lending Collateral Invested	33,456	731,422	120,548	385,278	18,109	1,288,813	1,720,595
Equipment (net of accumulated depreciation)	112	1,328	200	2,284	25	3,949	3,984
Intangible Assets (net of accumulated amortization)	290	3,335	483	5,671	53	9,832	5,744
Total Assets	513,152	3,727,084	1,801,237	5,774,244	271,086	12,086,803	13,342,325
Liabilities							
Accounts Payable	3,107	18,593	7,719	7,364	2,501	39,284	4,010
Securities Lending Collateral Obligations	33,456	731,422	120,548	385,278	18,109	1,288,813	1,720,595
Total Liabilities	36,563	750,015	128,267	392,642	20,610	1,328,097	1,724,605
Plan Net Assets Held in Trust for Pension Benefits	\$476,589	\$2,977,069	\$1,672,970	\$5,381,602	\$250,476	\$10,758,706	\$11,617,720

See accompanying notes to the combining financial statements.

Combining Statement of Changes in Plan Net Assets for Pension Funds (in Thousands)
as of June 30, 2012 with Comparative Totals as of June 30, 2011

Additions	2012					2011-Restated	
	KERS Haz	KERS Non-Haz	CERS Haz	CERS Non-Haz	SPRS	Total	Total
Members' Contributions	\$11,602	\$96,418	\$41,797	\$119,123	\$5,154	\$274,094	\$306,033
Employers' Contributions	17,367	211,071	77,311	270,664	15,040	591,453	506,592
Health Insurance Contributions (HBI)	629	5,337	811	5,101	46	11,924	6,586
Total Contributions	29,598	312,826	119,919	394,888	20,240	877,471	819,211
Investment Income							
From Investing Activities							
↘ Net Appreciation in FV	(20,338)	(57,548)	(60,565)	(117,311)	(5,418)	(261,180)	1,658,548
↘ Interest/Dividends	11,672	79,998	41,001	130,934	6,419	270,024	296,549
↘ Total Investing Activities Income	(8,666)	22,450	(19,564)	13,623	1,001	8,844	1,955,097
↘ Investment Expense	1,461	11,550	4,604	14,986	870	33,471	49,575
↘ Commissions	185	1,260	650	2,062	102	4,259	7,643
Total Investing Activities Expense	1,646	12,810	5,254	17,048	972	37,730	57,218
Net Income from Investing Activities	(10,312)	9,640	(24,818)	(3,425)	29	(28,886)	1,897,879
From Securities Lending Activities							
↘ Securities Lending Income	25	141	89	59	13	327	7,783
From Securities Lending Expense							
↘ Security Borrower Rebates	(11)	(71)	(41)	(132)	(6)	(261)	2,277
↘ Security Lending Agent Fees	10	63	36	115	5	229	1,162
Net Income from Securities Lending Activities	26	149	94	76	14	359	4,344
Total Net Investment Income	(10,286)	9,789	(24,724)	(3,349)	43	(28,527)	1,902,223
Total Additions	19,312	322,615	95,195	391,539	20,283	848,944	2,721,434
Deductions							
Benefit Payments	48,424	858,151	169,352	524,385	48,867	1,649,179	1,591,519
Refunds	2,543	12,004	3,516	12,765	149	30,977	27,521
Administrative Expenses	877	8,776	1,319	16,740	73	27,785	24,918
Capital Project Expenses		8		9		17	195
Total Deductions	51,844	878,939	174,187	553,899	49,089	1,707,958	1,644,153
Net Increase in Plan Assets	(32,532)	(556,324)	(79,992)	(162,360)	(28,806)	(859,014)	1,077,281
Plan Net Assets Held in Trust for Pension Benefits							
Beginning of Year	509,121	3,533,393	1,751,962	5,543,962	279,282	11,617,720	10,540,439
End of Year	\$476,589	\$2,977,069	\$1,672,970	\$5,381,602	\$250,476	\$10,758,706	\$11,617,720

See accompanying notes to the combining financial statements.

Combining Statement of Plan Net Assets for Insurance Funds (in Thousands)
as of June 30, 2012 with Comparative Totals as of June 30, 2011

Assets	2012					2011-Restated	
	KERS Haz	KERS Non-Haz	CERS Haz	CERS Non-Haz	SPRS	Total	Total
Cash and Short-Term Investments							
Cash	\$34	\$555	\$39	\$570	\$34	\$1,232	\$2,016
Short-Term Investments	24,366	33,748	39,452	80,072	7,748	185,386	758,893
Medicare Drug Deposit	11	20	23	42	5	101	101
Total Cash and Short-Term Investments	24,411	34,323	39,514	80,684	7,787	186,719	761,010
Receivables							
Contributions	5,544	15,908	16,169	20,705	2,996	61,322	23,276
Investment Income	1,133	1,302	2,732	5,024	425	10,616	9,066
Total Receivables	6,677	17,210	18,901	25,729	3,421	71,938	32,342
Investments at Fair Value							
Corporate and Government Bonds	122,004	123,864	282,365	515,716	41,542	1,085,491	593,589
Equity Contracts			1	1		2	527,274
Interest Rate Contracts	772	961	1,856	3,399	291	7,279	33,584
Swaps	30	38	74	135	12	289	328
Foreign Exchange Contracts	2,399	2,987	5,771	10,568	905	22,630	
Options	15	19	37	68	6	145	
Corporate Stocks	168,218	232,238	419,192	770,083	68,481	1,658,212	984,724
Mortgages	7,079	17,798	16,592	31,071	2,807	75,347	116,447
Real Estate	950	519	2,196	4,058	378	8,101	2,523
Total Investments at Fair Value	301,467	378,424	728,084	1,335,099	114,422	2,857,496	2,258,469
Securities Lending Collateral Invested	19,920	31,234	49,003	91,073	7,988	199,218	438,877
Total Assets	352,475	461,191	835,502	1,532,585	133,618	3,315,371	3,490,698
Liabilities							
Accounts Payable	1,825	11,467	625	12,691	232	26,840	3,483
Securities Lending Collateral Obligations	19,920	31,234	49,003	91,073	7,988	199,218	438,877
Total Liabilities	21,745	42,701	49,627	103,764	8,220	226,058	442,360
Plan Net Assets Held in Trust for Pension Benefits	\$330,730	\$418,490	\$785,874	\$1,428,821	\$125,398	\$3,089,313	\$3,048,338

See accompanying notes to the combining financial statements.

Combining Statement of Changes in Plan Net Assets for Insurance Funds (in Thousands)
as of June 30, 2012 with Comparative Totals as of June 30, 2011

Additions	2012					2011-Restated	
	KERS Haz	KERS Non-Haz	CERS Haz	CERS Non-Haz	SPRS	Total	Total
Employers' Contributions	\$23,984	\$146,844	\$90,204	\$164,297	\$10,808	\$436,137	\$387,525
Employer Group Waiver Plan	351	7,856	871	8,443	279	17,800	22,129
Premiums Received from Retirees	339	12,229	290	15,525	20	28,403	30,959
Retired Reemployed Healthcare (HBI)	537	3,437	405	1,968	2	6,349	4,042
Total Contributions	25,211	170,366	91,770	190,233	11,109	488,689	444,655
Investment Income							
From Investing Activities							
↘ Net Appreciation in FV	(6,675)	(12,575)	(32,299)	(63,013)	(4,139)	(118,701)	517,042
↘ Interest/Dividends	7,702	9,167	17,951	33,381	3,040	71,241	51,808
↘ Total Investing Activities Income	1,027	(3,408)	(14,348)	(29,632)	(1,099)	(47,460)	568,850
↘ Investment Expense	857	1,196	1,517	2,870	314	6,754	7,752
↘ Commissions	128	224	304	568	51	1,275	1,236
Total Investing Activities Expense	985	1,420	1,821	3,438	365	8,029	8,988
Net Income from Investing Activities	42	(4,828)	(16,169)	(33,070)	(1,464)	(55,489)	559,862
From Securities Lending Activities							
↘ Securities Lending Income	9	12	21	39	3	84	1,891
From Securities Lending Expense							
↘ Security Borrower Rebates	(16)	(23)	(38)	(70)	(6)	(153)	240
↘ Security Lending Agent Fees	7	10	17	31	3	68	325
Net Income from Securities Lending Activities	18	25	42	78	6	169	1,326
Total Net Investment Income	60	(4,803)	(16,127)	(32,992)	(1,458)	(55,320)	561,188
Total Additions	25,271	165,563	75,643	157,241	9,651	433,369	1,005,843
Deductions							
Healthcare Premiums Subsidies	11,047	104,900	44,225	79,378	8,728	248,278	242,818
Administrative Fees	335	5,203	688	5,545	201	11,972	10,412
Self Funding Insurance Costs	2,894	58,941	5,930	62,316	2,063	132,144	130,260
Total Deductions	14,276	169,044	50,843	147,239	10,992	392,394	383,490
Net Increase in Plan Assets	10,995	(3,481)	24,800	10,002	(1,341)	40,975	622,353
Plan Net Assets Held in Trust for Insurance Benefits							
Beginning of Year	319,735	421,971	761,074	1,418,819	126,739	3,048,338	2,425,985
End of Year	\$330,730	\$418,490	\$785,874	\$1,428,821	\$125,398	\$3,089,313	\$3,048,338

See accompanying notes to the combining financial statements.

*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**, and a pro-rata share of administrative costs in accordance with the provisions of KRS Sections 16.555, 61.570, and 78.630.*

Under the provisions of Kentucky Revised Statute Section 61.645, the Board of Trustees (the Board) of Kentucky Retirement Systems (KRS) administers the Kentucky Employees Retirement System (KERS), County Employees Retirement System (CERS), and State Police Retirement System (SPRS).

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

NOTE A.

Note A. Summary of Significant Accounting Policies



KERS
Kentucky Employees Retirement System

CERS
County Employees Retirement System

SPRS
State Police Retirement System

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

Methods Used to Value Investments Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Short-term investments are reported at cost, which approximates fair value. See Note D for further discussion of fair value measurements. Purchases and sales of securities are recorded on a trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Gain (loss) on investments includes KRS gains and losses on investments bought and sold as well as held during the fiscal year.

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

Equipment Equipment is valued at historical cost and depreciation is computed utilizing the straight-line method over the estimated useful lives of the assets ranging from three to ten years. Improvements, which increase the useful life of the equipment, are capitalized. Maintenance and repairs are charged to expense as incurred. The capitalization threshold used in fiscal years ended June 30, 2012 and 2011 was \$3,000 (see Note J for further information).

Intangible Assets Intangible assets, currently computer software, are valued at historical cost and amortization is computed utilizing the straight-line method over the estimated useful lives of the assets which is ten years. The capitalization threshold used in fiscal years ended June 30, 2012 and 2011 was \$3,000 (see Note K for further information).

Contributions Receivable Contributions receivable consists of amounts due from employers. The management of KRS considers contributions receivable to be fully collectable; accordingly, no allowance for doubtful accounts is considered necessary. If amounts become uncollectable, they will be charged to operations when that determination is made. If amounts previously written off are collected, they will be credited to income when received.

Payment of Benefits Benefits are recorded when paid.

Expense Allocation Administrative expenses of KRS are allocated in proportion to the number of active members participating in each plan and direct investment manager expenses are allocated in proportion to the percentage of investment assets held by each plan.

Component Unit KRS is a component unit of the Commonwealth of Kentucky for financial reporting purposes. KERS was created by the Kentucky General Assembly pursuant to the provisions of Kentucky Revised Statute 61.515. CERS was created by the Kentucky General Assembly pursuant to the provisions of Kentucky Revised Statute 78.520. SPRS was created by the Kentucky General Assembly pursuant to the provisions of Kentucky Revised Statute 16.510. The Kentucky Retirement Systems Insurance Fund was created by the Kentucky General Assembly pursuant to the provisions of Kentucky Revised Statute 61.701. KRS' administrative budget is subject to approval by the Kentucky General Assembly. Employer contribution rates for KERS and SPRS are also subject to legislative approval. Employer contribution rates for CERS are determined by the KRS Board of Trustees without further legislative review. The methods used to determine the employer rates for all Systems are specified in Kentucky Revised Statute 61.565. Employee contribution rates are set by statute and may be changed only by the Kentucky General Assembly.

Recent Accounting Pronouncements In December 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements". The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on, or before, November 30, 1989, which does not conflict with, or contradict, GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations; Accounting Principles Board Opinions; and, Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. KRS has noted this Statement and has implemented its requirements.

In June 2011, the GASB issued Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53". The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. KRS has noted this Statement and has implemented its requirements in an additional disclosure in Footnote D-Investments.

In June 2012, the GASB issued Statement No. 67, "Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25". The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement requires defined benefit pension plans to present two financial statements – a statement of fiduciary net position and a statement of changes in fiduciary net position. In addition, the Statement requires that notes to the financial statements include descriptive information, such as the types of benefits provided,

the classes of plan members covered, and the composition of the pension plan's board, among other detailed requirements. The Statement becomes effective for the fiscal year beginning July 1, 2013. KRS is currently reviewing the Statement's requirements.

In June 2012, the GASB issued Statement No. 68, "Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27". The objective of this Statement is to improve financial reporting by state and local governmental pension plans. In addition, it requires the liability of the employers and nonemployer contributing entities to employees for defined benefit pensions (net pension liability) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position. In addition, this Statement requires additional changes to the Required Supplementary Information, among other extensive changes. This Statement becomes effective for the fiscal year beginning July 1, 2014. KRS is currently reviewing the Statement's requirements.

NOTE B.



Haz or Non-Haz
Hazardous or Non-Hazardous
(i.e. KERS Haz or CERS Non-Haz)

Note B. Plan Descriptions & Contribution Information

Membership Information

KERS Employees

Members	2012			2011		
	Non-Haz	Haz	Total	Non-Haz	Haz	Total
Retirees and Beneficiaries Receiving Benefits	36,508	2,180	38,688	38,597	3,064	41,661
Inactive Vested Memberships	39,445	2,490	41,935	38,597	3,264	41,861
Active Plan Members	42,210	3,540	45,750	46,617	4,291	50,908
Total	118,163	8,210	126,373	123,811	10,619	134,430
Number of Participating Employers			385			372

CERS Employees

Members	2012			2011		
	Non-Haz	Haz	Total	Non-Haz	Haz	Total
Retirees and Beneficiaries Receiving Benefits	42,068	5,513	47,581	43,211	6,468	49,679
Inactive Vested Memberships	63,564	1,643	65,207	65,914	2,774	68,688
Active Plan Members	85,779	6,906	92,685	85,285	9,407	94,692
Total	191,411	14,062	205,473	194,410	18,649	213,059
Number of Participating Employers			1,129			1,396

SPRS Employees

Members	2012	2011
Retirees and Beneficiaries Receiving Benefits	1,203	1,263
Inactive Vested Memberships	224	357
Active Plan Members	904	965
Total	2,331	2,585
Number of Participating Employers	1	1

2012 Hospital & Medical Contracts
Insurance Fund

System	Single	Couple/ Family	Parent	Medicare Without Prescription	Medicare With Prescription
KERS Non-Haz	9,764	1,917	734	1,721	15,015
KERS Haz	645	517	93	67	751
CERS Non-Haz	7,972	1,317	383	3,119	16,355
CERS Haz	1,385	2,237	310	73	1,853
SPRS	291	444	62	15	581
Total	20,057	6,432	1,582	4,995	34,555

2011 Hospital & Medical Contracts
Insurance Fund

System	Single	Couple/ Family	Parent	Medicare Without Prescription	Medicare With Prescription
KERS Non-Haz	10,321	2,155	732	1,821	13,988
KERS Haz	615	21	75	60	570
CERS Non-Haz	8,013	1,552	351	3,167	15,100
CERS Haz	1,310	2,156	253	58	1,527
SPRS	278	474	52	14	499
Total	20,537	6,358	1,463	5,120	31,684

KERS NON-HAZ PENSION

For the fiscal years ended June 30, 2012 and 2011, participating employers contributed 19.82% and 16.98%, respectively, of each employee's creditable compensation. The actuarially determined rates as set forth in the annual actuarial valuation for the fiscal years ended June 30, 2012 and 2011, were 40.71% and 38.58%, respectively, of each employee's creditable compensation.



COLA
Cost of Living Adjustment

KAR
Kentucky Administrative Regulation

Plan Description KERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous duty positions of any state department, board, or agency directed by Executive Order to participate in KERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least twelve months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than twelve months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the twelve months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to

suspend or reduce cost-of-living adjustments if, in its judgment, the welfare of the Commonwealth so demands. On July 1, 2012, the COLA was not granted.

Contributions For the fiscal years ended June 30, 2012 and 2011, plan members who began participating prior to September 1, 2008 were required to contribute 5% of their annual creditable compensation. The Commonwealth was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget. For the fiscal years ended June 30, 2012 and 2011, participating employers contributed 19.82% and 16.98%, respectively, of each employee's creditable compensation. The actuarially determined rates set by

the Board for the fiscal years ended June 30, 2012 and 2011, were 40.71% and 38.58%, respectively, of each employee's creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

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

KERS HAZ PENSION

For the fiscal years ended June 30, 2012 and 2011, participating employers contributed 28.98% and 26.12%, respectively, of each employee's creditable compensation. The actuarially determined rates as set forth in the annual actuarial valuation for the fiscal years ended June 30, 2012 and 2011, were 33.84% and 34.37%, respectively, of each employee's creditable compensation.

Plan Description KERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in hazardous duty positions of any state department, board, or agency directed by Executive Order to participate in KERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least twelve months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than twelve months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the twelve months preceding the effective date of the COLA. The Kentucky General Assembly

reserves the right to suspend or reduce cost-of-living adjustments if, in its judgment, the welfare of the Commonwealth so demands. On July 1, 2012, the COLA was not granted.

Contributions For the fiscal years ended June 30, 2011 and 2010, plan members who began participating prior to September 1, 2008 were required to contribute 8% of their annual creditable compensation. The Commonwealth was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget. For the fiscal years ended June 30, 2012 and 2011, participating employers

contributed 28.98% and 26.12%, respectively, of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2012 and 2011, were 33.84% and 34.37%, respectively, of each employee's creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

House Bill 1 In accordance with HB 1, signed by the Governor on June 27, 2008, plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 9% of their annual creditable

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

CERS NON-HAZ PENSION

For the fiscal years ended June 30, 2012 and 2011, participating employers contributed 18.96% and 16.93%, respectively, of each employee's creditable compensation. The actuarially determined rates as set forth in the annual actuarial valuation for the fiscal years ended June 30, 2012 and 2011, were 18.96% and 16.93%, respectively.

Plan Description CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous duty positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least twelve months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than twelve months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the twelve months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if, in its judgment, the welfare of the Commonwealth so demands. On July 1, 2012, the COLA was not granted.

Contributions For the fiscal years ended June 30, 2012 and 2011, plan members who began participating prior to September 1, 2008 were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal

contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the fiscal years ended June 30, 2012 and 2011, participating employers contributed 18.96% and 16.93%, respectively, of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2012 and 2011, were 18.96% and 16.93%, respectively. Administrative costs of KRS are financed through employer contributions and investment earnings.

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

For the fiscal years ended June 30, 2012 and 2011, participating employers contributed 35.76% and 33.25%, respectively, of each employee's creditable compensation. The actuarially determined rates as set forth in the annual actuarial valuation for the fiscal years ended June 30, 2012 and 2011, were 35.76% and 33.25%, respectively, of each employee's creditable compensation.

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 participating county, city and school board, and any additional eligible local agencies electing to participate in CERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least twelve months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than twelve months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the twelve months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if, in its judgment, the welfare of the Commonwealth so demands. On July 1, 2012, the COLA was not granted.

Contributions For the fiscal years ended June 30, 2012 and 2011, plan members who began participating prior to September 1, 2008 were required to contribute 8% of their annual creditable compensation. The participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the fiscal years ended June 30, 2012 and 2011, participating employers contributed 35.76% and 33.25%, respectively, of each employee's creditable compensation. The actuarially

determined rates set by the Board for the fiscal years ended June 30, 2012 and 2011, were 35.76% and 33.25%, respectively, of each employee's creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

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

For the fiscal years ended June 30, 2012 and 2011, the Commonwealth contributed 52.13% and 45.54%, respectively, of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June 30, 2012 and 2011 were 94.63% and 85.63%, respectively, of each employee's creditable compensation.

Plan Description SPRS is a single-employer defined benefit pension plan that covers all full-time state troopers employed in a hazardous duty position by the Kentucky State Police. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Prior to July 1, 2009, cost-of-living adjustments (COLA) were provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 5% in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the COLA is limited to 1.5% provided the recipient has been receiving a benefit for at least twelve months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than twelve months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the twelve months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if, in its judgment, the welfare of the Commonwealth so demands. On July 1, 2012, the COLA was not granted.

Contributions For the fiscal years ended June 30, 2012 and 2011, plan members who began participating prior to September 1, 2008 were required to contribute 8% of their annual creditable compensation. The Commonwealth was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board.

However, formal commitment to provide the contributions by the employer is made through the biennial budget. For the fiscal years ended June 30, 2012 and 2011, the Commonwealth contributed 52.13% and 45.54%, respectively, of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal years ended June

30, 2012 and 2011 were 94.63% and 85.63%, respectively, of each employee's creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

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

For fiscal 2012, insurance premiums withheld from benefits for members of KERS were \$29,136,828 and \$1,235,155 for KERS non-haz and KERS haz, respectively; \$27,541,099 and \$1,982,303 for CERS non-haz and CERS haz, respectively; and, \$246,384 for SPRS.

Plan Description The Kentucky Retirement Systems Insurance Fund (Fund) was established to provide hospital and medical insurance for members receiving benefits from KERS, CERS, and SPRS. The Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. For the fiscal year ended June 30, 2012, insurance premiums withheld from benefit payments for members of the systems were \$29,136,828 and \$1,235,155 for KERS non-hazardous and hazardous, respectively; \$27,541,099 and \$1,982,303 for CERS non-hazardous and hazardous, respectively; and, \$246,384 for SPRS. For fiscal 2011, insurance premiums withheld from benefit payments for members of KERS were \$29,350,195 and \$1,225,236 for KERS non-hazardous and KERS hazardous, respectively; \$29,219,273 and \$2,017,208 for CERS non-hazardous and CERS hazardous, respectively; and, \$250,282 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, 2012, the Fund had 96,742 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.

Portion Paid by Insurance Fund

Years of Service	Paid by Insurance Fund (%)
20+ years	100%
15-19 years	75%
10-14 years	50%
4-9 years	25%
Less than 4 years	0%

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of ten years,

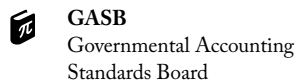
non-hazardous employees whose participation began on, or after, July 1, 2003 earn ten dollars (\$10) per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on, or after, July 1, 2003 earn fifteen dollars (\$15) per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon death of a hazardous employee, the employee's spouse receives ten dollars (\$10) per month for insurance benefits for each year of the deceased employee's earned hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment (COLA), which is updated annually due to changes in the Consumer Price Index for all urban consumers. This benefit is not protected under the inviolable contract provisions of Kentucky Revised Statute 16.652, 61.692 and 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands. In prior years, the employers' required medical insurance contribution rate was being increased annually by a percentage that would result in advance-funding the medical liability on an actuarially determined basis using the entry age normal cost method within a 20-year period measured from 1987. In November 1992, the Board of Trustees adopted a fixed percentage contribution rate and suspended future increases under the current medical premium funding policy until the next experience study could be performed. In May 1996, the Board of Trustees adopted a policy to increase the insurance contribution rate by the amount needed to achieve the target rate for full entry age normal funding within twenty years.

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

Administrators KRS contracts with Catalyst Rx and UMR to administer the pharmaceutical and medical benefits, respectively, for its retirees. Stop-loss insurance can be arranged to limit KRS' loss to a specified amount to ensure that catastrophic claims do not upset the financial integrity of the self-funded plan. The amount of stop-loss insurance is a function of KRS' size, nature of its business, financials, and tolerance for risk.

On August 6, 2012 the Board voted to cease self-funding of healthcare benefits for most KRS Medicare eligible retirees. The Board elected to contract with Humana Insurance Company to provide healthcare benefits to KRS' retirees through a fully insured Medicare Advantage Plan. The Humana Medicare Advantage Plan becomes effective January 1, 2013.

Note C. Cash, Short-Term Investments & Securities Lending Collateral



The provisions of GASB Statement No. 28, "Accounting and Financial Reporting for Securities Lending Transactions" require that cash received as collateral on securities lending transactions, and investments made with that cash, be reported as assets on the financial statements. In accordance with GASB No. 28, KRS classifies certain other investments, not related to the securities lending program, as short-term. Cash and short-term investments consist of the following:

Cash & Short-Term Investments KERS

Assets	2012	2011
Cash	\$1,340,506	\$1,197,306
Short-Term Investments	120,094,230	387,987,312
Securities Lending Collateral Invested	764,877,463	596,906,253
KERS Total	\$886,312,199	\$986,090,871

CERS

Assets	2012	2011
Cash	\$1,352,380	\$1,250,932
Short-Term Investments	243,678,862	892,898,087
Securities Lending Collateral Invested	505,826,461	1,082,381,468
CERS Total	\$750,857,703	\$1,976,530,487


SPRS

Assets	2012	2011
Cash	\$245,955	\$292,029
Short-Term Investments	11,565,956	28,452,304
Securities Lending Collateral Invested	18,109,078	41,306,830
SPRS Total	\$29,920,989	\$70,051,163

KRS Insurance Fund

Assets	2012	2011
Cash	\$1,230,685	\$2,015,579
Short-Term Investments	185,385,495	758,893,370
Medicare Drug Deposit	100,691	100,620
Securities Lending Collateral Invested	199,217,159	438,877,452
Insurance Fund Total	\$385,934,030	\$1,199,887,021

Note D. Investments

 **CMO**
Collateralized Mortgage
Obligation

STIF
Short Term Investment Fund

ETF
Exchange Traded Fund

IO
Interest Only

PO
Principal Only

The Board of Trustees of KRS recognizes its duty to invest funds in accordance with the "Prudent Person Rule" and manage those funds consistent with the long-term nature of KRS. For assets not managed internally by staff, 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 common stock, securities convertible into common stock, preferred stock of publicly traded companies on stock markets, asset class relevant ETF's or any other type of security contained in a manager's benchmark. Each individual equity account has a comprehensive set of investment guidelines prepared, which contains a listing of permissible investments, portfolio restrictions and standards of performance.

Fixed Income Investments The fixed income accounts may include, but are not limited to, the following fixed income securities: US Government and Agency bonds; investment grade US corporate credit; investment grade non-US corporate credit; non-investment grade US corporate credit including both bonds and bank loans; non-investment grade non-US corporate credit including bonds and bank loans; municipal bonds; non-US sovereign debt; mortgages, including residential mortgage backed securities; commercial mortgage backed securities, and whole loans; asset-backed securities and emerging market debt (EMD), including both sovereign EMD and corporate EMD; and, asset class relevant ETF's.

Mortgages Investment may be made in real estate mortgages on a direct basis or in the form of mortgage pool instruments.

Private Equity, Equity Real Estate, Real Return, Absolute Return Investments 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, but not limited to and without limitation, venture capital, private equity, private placements, real assets and absolute return investments 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, variable rate demand notes, government and agency bonds, mortgages, municipal bonds, 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 an investment grade rating at the time of purchase by at least one recognized bond rating service. In cases where the instrument has a split rating, the lower of the two ratings shall prevail. 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. Variable rate securities shall be deemed to have a maturity equal to the time left until the next interest rate reset occurs, but in no case will any security have a stated final maturity of more than three years.

KRS' fixed income managers, who utilize cash equivalent securities as an integral part of their investment strategy, are exempt from the permissible investments contained in the preceding paragraph. Permissible short-term investments for fixed income managers shall be included in the investment manager's investment guidelines.

Derivatives Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indices. Investments may be made in derivative securities, or strategies which make use of derivative instruments, only if such investments do not cause the portfolio to be in any way leveraged beyond a 100% invested position. Investments in derivative securities which are subject to large or unanticipated changes in duration or cash flow, such as interest only (IO), principal only (PO), inverse floater, or structured note securities are expressly prohibited, unless specifically allowed by a manager's contract. In accordance with GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", KRS provides this additional disclosure regarding its derivatives:

Background Info As of June 30, 2012, KRS has the following derivative instruments outstanding (see table below). All have various Effective Dates and Maturity Dates.

Item	Type	Objective	Terms	Cost	Notional Cost	Market Value	Notional Market Value
Pension-Assets							
A	Equity Contracts	Substitute for common stock	Various	\$445,4530	-	\$50,330	-
B	Foreign Exchange Contracts	Hedge against the decrease of non US dollar currencies	Various	-	-	\$29,412,924	-
C	Interest Rate Contracts/Swaps	Hedge against the risk that interest rates will move in an adverse direction	Various	\$11,233,015	-	18,535,034	-
D	Swaps	Hedge against sudden or dramatic shifts in interest rates	Various	\$804,115	-	\$744,053	-
E	Options	Hedge against the holding of an asset	Various	\$882,930	-	\$318,988	-
Pension-Liabilities							
F	Interest Rate Contracts/SWAPS	Hedge against the risk that interest rates will move in an adverse direction	Various	(\$5,268,395)	-	(\$10,941,944)	-
G	Foreign Exchange Contracts	Hedge against the decrease of non US dollar currencies	Various	(\$16,007)	-	(\$32,771,445)	-
H	Swaps	Hedge against sudden or dramatic shifts in interest rates	Various	(\$959,569)	-	(\$808,199)	-
I	Options	Hedge against the holding of an asset	Various	(\$1,090,105)	-	(\$553,615)	-
Insurance-Assets							
J	Equity Contracts	Substitute for common stock	Various	-	-	\$2,520	-
K	Foreign Exchange Contracts	Hedge against the decrease of non US dollar currencies	Various	-	-	\$10,852,566	-
L	Interest Rate Contracts/Swaps	Hedge against the risk that interest rates will move in an adverse direction	Various	\$2,505,989	-	\$4,528,506	-
M	Swaps	Hedge against sudden or dramatic shifts in interest rates	Various	\$96,114	-	\$100,127	-
N	Options	Hedge against the holding of an asset	Various	\$152,192	-	\$52,920	-
Insurance-Liabilities							
O	Interest Rate Contracts/Swaps	Hedge against the risk that interest rates will move in an adverse direction	Various	(\$1,719,335)	-	(\$2,750,159)	-
P	Foreign Exchange Contracts	Hedge against the decrease of non US dollar currencies	Various	(\$3,607)	-	(\$11,777,583)	-
Q	Swaps	Hedge against sudden or dramatic shifts in interest rates	Various	(\$226,846)	-	(\$189,210)	-
R	Options	Hedge against the holding of an asset	Various	(\$187,000)	-	(\$91,819)	-

Derivative Policy It is the policy of KRS that investment managers may invest in derivative securities, or strategies which make use of derivative investments, only if such investments do not cause the portfolio to be in any way leveraged beyond a 100% invested position. Examples of such derivatives include, but are not limited to, foreign currency forward contracts, collateralized mortgage obligations, treasury inflation protected securities, futures, options and swaps. Investments in derivative securities which are subject to large or unanticipated changes in duration or cash flows, such as interest only, principal only, inverse floater, or structured note securities are permitted only to the extent authorized in an alternative investment offering memorandum or agreement.

CMOs Investments in securities such as collateralized mortgage obligations and planned amortization class issues are allowed if, in the judgment of the investment manager, they are not expected to be subject to large or unanticipated changes in duration or cash flows. Investment managers may make use of derivative securities for defensive or hedging purposes. Any derivative security

shall be sufficiently liquid that it can be expected to be sold at, or near, its most recently quoted market price.

Derivative instruments A and J are substitutes for common stock with an investment that is recorded at fair value. Derivative instruments B, G, K, and P hedge against the decrease of non US dollar currencies. For accounting and financial reporting purposes, all derivative instruments are considered investment derivative instruments. The derivatives have been segregated on the Combined Statement of Plan Net Assets for both Pension and Insurance.

RISKS

Basis Risk Derivative instruments A and J expose KRS to basis risk in that the value of the underlying equity index future may decrease in fair value relative to the cash market. Derivative instruments B, G, K, and P expose KRS to basis risk in that the value of the foreign currency futures or forwards may decrease in fair value relative to the cash market.

Interest Rate Risk Derivative instruments C, D, E, F, H, I, L, M, N, O, Q, and R expose KRS to interest rate risk in that changes in interest rates will adversely affect the fair values of KRS' financial instruments.

In June 2011, the GASB issued Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions, an Amendment of GASB Statement No. 53". The objective of this Statement is to clarify whether an effective hedging relationship continues and hedge accounting should be continued to be applied. Upon the termination of a hedging derivative instrument, hedge accounting should cease and investment income should immediately recognize deferred outflows of resources or deferred inflows of resources. KRS maintains its derivative instruments as investment derivative instruments for all accounting and financial reporting purposes. Therefore, hedge accounting and the related effectiveness testing is not performed.

Custodial Credit Risk for Deposits Custodial credit risk for deposits is the risk that in the event of a financial institution failure, KRS' deposits may not be returned. All non-investment related bank balances are held by JP Morgan Chase, which became the depository bank of KRS on July 1, 2011. All non-investment related bank balances are held in KRS' name and each individual account is insured by the Federal Deposit Insurance Corporation (FDIC). In 2010, the US Congress passed the Financial Crisis Bill and permanently increased the FDIC deposit insurance coverage to \$250,000. These cash balances are invested daily by the local institution in overnight repurchase agreements which are required by Kentucky Administrative Regulations (200 KAR 14:081) to be collateralized at 102% of the principal amount.

As of June 30, 2012 and 2011, deposits for KRS pension funds were \$30,925,504 and \$4,795,307, respectively. None of these balances were exposed to custodial credit risk as they were either insured or collateralized at required levels. The increase from prior year is attributable to the implementation of the START project (see Note K for further information regarding START). Employer and member contributions are reported via START and the contributions in fiscal 2012 were being reconciled for qualification and investment purposes as of June 30, 2012. A receivable was recorded for these payrolls as of June 30, 2012. This accounts for the large balance on hand in current year as compared to prior year.

As of June 30, 2012 and 2011, deposits for KRS insurance fund were \$3,130,778 and \$2,020,499, respectively. None of these balances were exposed to custodial credit risk as they were either insured or collateralized at required levels.

Custodial Credit Risk for Investments Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, KRS will not be able to recover the value of investments or collateral securities that are in the possession of an outside third party. KRS does not have an explicit policy with regards to Custodial Credit Risk for investments. As of June 30, 2012 and 2011, the following currencies were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in KRS' name. These funds are cash held by KRS' Global Managers and consist of various currencies.

Custodial Credit Risk

Pension Fund	2012	2011
Foreign Currency	\$4,509,853	\$8,971,696
Insurance Fund		
Foreign Currency	\$1,736,160	\$3,703,274

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

The Statement of Investment Policy contains the specific guidelines for the investment of pension and insurance assets. Additionally, the Committee establishes specific investment guidelines in the Investment Management Agreement for each investment management firm.

Pension Fund Investments Summary
As of June 30, 2012 & 2011

Type	2012	2011
US Gov't & Agency Fixed Income Securities	\$1,789,467,703	\$2,474,974,219
US Corporate Fixed Income Securities	1,222,776,472	1,063,223,703
Municipal Debt Securities	79,109,093	78,975,354
Short-Term Investments	375,339,048	1,677,941,341
Equity Securities	4,504,816,279	5,994,749,969
Private Equity Limited Partnerships	1,797,263,220	1,392,099,971
Real Estate	54,047,344	32,251,271
Other*	808,209,209	(1,220,227,180)
Total	\$10,631,028,368	\$11,493,988,648

*This balance consists of the following

Type	2012	2011
Cash Collateral - US Dollars	\$21,644,777	\$2,570,028
Sukuk ¹	495,200	94,750
Real Estate		16,500,000
Derivative Offsets		
↳ US Dollars		(368,603,638)
↳ Equity Futures	(12,467,000)	(868,796,035)
↳ Hedge Funds	817,486,374	
Liabilities		
↳ Obligation to Return Cash Collateral - US Dollars	(18,950,142)	(1,992,285)
Total	\$808,209,209	\$(1,220,227,180)

¹ Sukuk is the Arabic name for financial certificates, but commonly refers to the Islamic equivalent of bonds.

Insurance Fund Investments Summary
As of June 30, 2012 & 2011

Type	2012	2011
US Gov't & Agency Fixed Income Securities	\$596,153,822	\$537,586,644
US Corporate Fixed Income Securities	322,100,002	154,320,004
Municipal Debt Securities	15,609,402	14,331,627
Short-Term Investments	185,486,186	792,578,190
Equity Securities	1,368,123,183	1,847,247,012
Private Equity Limited Partnerships	323,438,095	225,938,724
Real Estate	8,100,453	2,522,855
Other**	223,968,702	(557,062,260)
Total	\$3,042,979,845	\$3,017,462,796

**This balance consists of the following

Type	2012	2011
Cash Collateral - US Dollars	\$5,119,746	\$328,313
Real Estate		3,500,000
Derivative Offsets		
↳ US Dollars		(33,584,200)
↳ Equity Futures	(3,005,800)	(527,274,305)
↳ Hedge Funds	226,403,187	
Liabilities		
↳ Swaps - US Dollars	(2,858,431)	(32,068)
↳ Obligation to Return Cash Collateral - US Dollars	(1,690,000)	
Total	\$223,968,702	\$(557,062,260)

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

- 🌀 Bonds, notes or other obligations issued or guaranteed by the US Government, its agencies or instrumentalities are permissible investments and may be held without restrictions.
- 🌀 Fixed income investments will be similar in type to those securities found in the KRS fixed income benchmarks and the characteristics of the KRS fixed income portfolio will be similar to the KRS fixed income benchmarks. The fixed income accounts may include, but are not limited to the following fixed income securities: US Government and Agency bonds; investment grade US corporate credit; investment grade non-US corporate credit;

non-investment grade US corporate credit including bonds and bank loans; municipal bonds; non-US sovereign debt; mortgages, including residential mortgage backed securities, commercial mortgage backed securities, and whole loans, asset backed securities, and emerging market debt (EMD) including both sovereign EMD and corporate EMD; and, asset class relevant ETF's.

- 🌀 The duration of the total fixed income portfolio shall not deviate from the KRS Fixed Income by more than 25%.
- 🌀 The duration of the TIPS portfolio shall not deviate from the KRS Fixed Income Index by more than 25%.
- 🌀 The amount invested in the debt of a single corporation shall not exceed 5% of the total market value of KRS assets.
- 🌀 No public fixed income manager shall invest more than 5% of the market value of assets held in any single issue short term instrument, with the exception of US Government issued, guaranteed or agency obligations.
- 🌀 The amount invested in SEC Rule 144a securities shall not exceed 15% of the market value of the aggregate market value of KRS' fixed income investments.

Pension Fund Debt Securities at Fair Value
as of June 30, 2012 & 2011

Quality Rating	2012	2011
AAA	\$176,752,688	\$91,317,082
AA+	51,817,259	34,390,755
AA	19,865,864	39,864,586
AA-	40,184,012	50,219,759
A+	31,408,066	104,187,245
A	80,076,147	146,999,473
A-	108,297,775	152,567,548
BBB+	57,879,171	64,799,988
BBB	103,233,884	112,518,837
BBB-	81,350,025	56,358,144
BB+	56,241,281	7,166,376
BB	63,795,374	13,417,689
BB-	74,378,918	28,485,658
B+	69,386,148	27,997,068
B	70,846,202	21,129,569
B-	57,149,848	32,172,492
CCC+	27,020,113	6,138,146
CCC	20,493,357	8,838,429
CCC-	5,572,497	1,590,633
CC	720,167	-
D	6,361,973	3,394,737
NR	99,054,796	138,644,843
Total Credit Risk Debt Securities	1,301,885,565	1,142,199,057
Government Bonds	607,041,559	508,207,024
Government Mortgage-Backed Securities (GNMA)	248,950,785	725,318,403
Government Issued Commercial Mortgage Backed	10,311,861	6,325,040
Government Agencies	32,423,616	95,545,823
Indexed Linked Bonds	890,739,882	1,139,577,929
Total Debt Securities	\$3,091,353,268	\$3,617,173,276

Pension Fund Securities

At both June 30, 2012 and 2011, the weighted average quality rating of the pension fund debt securities portfolio was AA+. As of June 30, 2012 and 2011, the KRS pension portfolio had \$451,965,878 and \$150,330,797, respectively, in debt securities rated below BBB-. The fair value of securities in the BBB- rating category was \$81,350,025 and \$56,358,144, respectively, as of June 30, 2012 and 2011.

Insurance Fund Debt Securities at Fair Value
as of June 30, 2012 & 2011

Quality Rating	2012	2011
AAA	\$99,272,032	\$43,946,738
AA+	8,741,517	2,359,902
AA	6,899,008	7,044,017
AA-	7,739,207	7,138,193
A+	11,301,734	20,243,053
A	20,358,203	18,381,398
A-	24,992,822	21,875,607
BBB+	11,979,181	7,975,298
BBB	22,934,068	15,146,772
BBB-	15,084,027	7,256,147
BB+	11,563,376	202,742
BB	15,166,400	1,156,866
BB-	17,353,229	1,916,666
B+	14,268,206	3,169,797
B	16,588,386	2,226,250
B-	14,831,663	
CC	961,988	
CCC	5,522,254	
CCC+	5,323,130	259,375
CCC-	1,086,041	
D	2,118,411	
NR	3,624,521	8,352,810
Total Credit Risk Debt Securities	337,709,404	168,651,631
Government Bonds	164,367,747	94,082,811
Government Mortgage-Backed Securities (GNMA)	70,007,438	114,153,699
Government Issued Commercial Mortgage Backed	3,156,940	761,681
Government Agencies	7,506,492	13,394,544
Indexed Linked Bonds	351,115,205	315,193,909
Total Debt Securities	\$933,863,226	\$706,238,275

Insurance Fund Securities

As a result of the most recently approved Asset/Liability Modeling Study, the investment staff began to diversify the insurance fixed income allocation to mirror that of the pension funds. As part of this process, the TIPS allocation (previously the only fixed income exposure within the insurance portfolio) was moved to the newly created Real Return Asset Class.

As of June 30, 2012, the Pension Funds held \$8,003,335, or .01%, and the Insurance Fund held \$15,424,404, or 0.5%, of its investments in Exchange Traded Funds.

Concentration of Credit Risk Debt Securities Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's exposure in a single issuer. The total debt securities portfolio is managed using the following general guidelines adopted by the KRS Board of Trustees:

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

As of June 30, 2012, the Pension Funds held \$8,003,335, or 0.1%, and the Insurance Fund held \$15,424,404, or 0.5%, of its investments in Exchange Traded Funds (ETF's). ETF's are securities that represent ownership in a long term unit investment trust that holds a portfolio of common stocks designed to track the performance of a designated index. Similar to a stock, ETF's can be traded continuously throughout the trading day, or can be held for the long term.



ETF
Exchange Traded Fund

Fannie Mae
Federal National Mortgage
Association

As of June 30, 2012, the Pension Funds held \$165,626,504, or 1.6%, of its investment in the Federal National Mortgage Association (Fannie Mae). Historically, Fannie Mae has been a publicly owned government corporation, recently entering conservatorship by the US Government, to purchase mortgages from lenders and resell them to investors; shares of Fannie Mae are traded on the New York Stock Exchange. Fannie Mae's debt has been perceived to be nearly as safe as US Treasury debt, given the US Government's implicit guarantee which has allowed it to pay lower interest rates to its debt holders.

Interest Rate Risk Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration measures the sensitivity of the market prices of fixed income securities to changes in the yield curve. Duration is measured using two methodologies: effective and modified duration. Effective duration uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price and makes adjustments for any bond features that would retire the bonds 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 the securities will be called prior to maturity.

The KRS pension fund benchmarks its fixed income securities portfolio to the Barclays US Universal Index. Prior to June 30, 2011 the KRS pension fund benchmark for its fixed income securities was a combination of the Barclays Aggregate Index and the Barclays TIPS Index. As of June 30, 2012 and 2011, the modified duration of the KRS fixed income benchmark was 5.02 and 6.03, respectively. At the same points in time, the modified duration of the KRS pension fund fixed income securities portfolio was 5.61 and 5.85 respectively.

The KRS insurance fund benchmarks its fixed income securities portfolio to the Barclays US Universal Index. Prior to June 30, 2011 the KRS insurance fund benchmark for its fixed income securities was a combination of the Barclays Aggregate Index and the Barclays TIPS Index. As of June 30, 2012 and 2011, the modified duration of the KRS fixed income benchmark was 5.02 and 7.14, respectively. At the same points in time, the modified duration of the KRS insurance fund fixed income securities portfolio was 5.66 and 6.60 respectively.

Pension Fund Interest Rate Risk

Type	2012	Weighted Average Effective Duration	2011	Weighted Average Effective Duration
Asset Backed Securities	\$69,305,698	1.28	\$86,628,031	0.64
Bank Loans	91,076,272	0.14	41,962,680	0.35
Collateralized Bonds	14,259,490	0.07	6,325,040	(0.22)
Commercial Mortgage Backed Securities	59,670,935	2.90	88,520,168	4.68
Corporate Bonds	333,162,366	4.70	735,281,195	4.78
Corporate Convertible Bonds	16,819,919	4.10		
Government Agencies	32,423,616	5.20	93,545,823	3.97
Government Bonds	607,041,559	5.70	508,207,024	4.73
Government Mortgage Backed Securities	248,950,785	1.40	707,971,763	2.91
Government Issued Commercial Mortgage Backed Securities	10,311,861	3.30	5,211,936	3.22
Guaranteed Fixed Income	-	-	18,882,082	1.37
Hedge Funds	335,635,038	-	-	-
Hedge Multi Strategy	3,738,246	-	-	-
Indexed Linked Government Bonds	890,739,882	8.30	1,139,577,929	3.68
Municipal Bonds	79,109,093	10.70	78,975,354	10.54
Non-Government Backed CMOs	23,690,395	0.93	15,576,827	1.83
Other Fixed Income	227,154,341	-	-	-
Short Term Investments	39,719,110	-	-	-
Short Term Bills/Notes	8,049,462	0.34	90,412,674	0.38
Sukuk*	495,200	4.20	94,750	0.09
Total	\$3,091,353,268	5.85	\$3,617,173,276	3.83

* The Arabic name for financial certificates, but commonly refers to the Islamic equivalent of bonds; since fixed income interest bearing bonds are not permissible in Islam, Sukuk securities are structured to comply with Islamic Law and its investment principles, which prohibits the charging, or paying, of interest.

Interest Fund Interest Rate Risk

Investment	2012		2011	
	Fair Value	Weighted Duration	Fair Value	Weighted Duration
Asset Backed Securities	\$20,616,445	2.40	\$1,000,340	1.73
Bank Loans	19,461,761	3.90	5,808,008	3.58
Collateralized Bonds	5,256,039	0.80		
Commercial Mortgage Backed Securities	12,783,807	3.30	11,977,676	4.42
Corporate Bonds	71,656,715	5.80	69,145,598	5.78
Corporate Convertible Bonds	3,788,169	7.90		
Fixed Income	83,061,859			
Government Agencies	7,506,492	6.40	13,394,544	4.34
Government Bonds	164,367,747	5.80	94,082,811	4.79
Government Mortgage Backed Securities	70,007,438	3.10	114,153,699	4.19
Government Issued Commercial Mortgages	3,156,940	3.60	534,001	3.51
Guaranteed Fixed Income			4,439,819	1.85
Hedge Fund	85,762,072			
Hedge Multi Strategy	1,584,968			
Index Linked Government Bonds	351,115,205	8.30	315,193,909	7.78
Municipal/Provincial Bonds	15,609,402	10.00	14,331,627	10.74
Non-Government Backed CMOs	5,339,625	1.10	2,293,809	3.47
Short Term Investments	11,619,360			
Short Term Bills/Notes	1,169,182	.50	59,882,434	0.39
Total	\$933,863,226	6.60	\$706,238,275	5.83

Foreign currency risk is the risk that changes in exchange rates will adversely affect the value of a non-US dollar based investment or deposit with the KRS portfolio.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the value of a non-US dollar based investment or deposit with the KRS portfolio. KRS' currency risk exposure, or exchange rate risk, primarily resides with KRS' international equity holdings, but also affects other asset classes. KRS does not have a formal policy to limit foreign currency risk, however, during the fiscal year, KRS employed a third party vendor to dynamically hedge some major currency exposures.

All foreign currency transactions are classified as Short-Term Investments. All gains and losses associated with these transactions are recorded in the Net Appreciation (Depreciation) in the Fair Value of Investments on the financial statements.

KRS originally invested \$12,043,264 of the Pension Funds, and \$4,197,722 of the Insurance Fund, in the Record Currency Management Dynamic Currency Hedging Program (RCM), for a total of \$16,243,160. The RCM program began in September 2009. The RCM account experienced a tremendous amount of growth through May 2011 when it peaked with a market value of \$82,001,355 in the Pension Funds, and \$30,026,900 in the Insurance Fund, a total of \$112,028,255. It began to lose ground in June 2011, which led to a cumulative inception to date loss of \$6,752,497 in the Pension Funds, and \$3,516,224 in the Insurance Fund, for a total overall RCM loss of \$10,268,721 as of June 30, 2011. The dynamic currency hedging program previously run by RCM was terminated on November 3, 2011 and is expected to be completely unwound in November 2012. The tables on the following pages present KRS' exposure to foreign currency risk as of June 30, 2012 and 2011.



RCM
Record Currency
Management Dynamic
Currency Hedging
Program

Pension Fund Investments at Fair Value as of June 30, 2012 & 2011

Foreign Equities	2012	2011
Argentine Peso	\$592,995	\$1,196,140
Australian Dollar	58,388,163	94,694,698
Brazilian Real	23,932,101	4,278,639
British Pound Sterling	196,765,497	134,777,442
Canadian Dollar	103,163,185	134,071,078
Chilean Peso	2,675,122	-
Chinese Yuan	5,183,187	521,787
Columbian Peso	3,148,357	1,222,930
Czech Koruna	3,158,280	1,658,886
Danish Krone	8,606,995	16,152,506
Euro	312,248,180	433,029,933
Hong Kong Dollar	90,614,411	68,788,630
Hungarian Forint	1,251,857	-
Indian Rupee	3,536,235	-
Indonesian Rupiah	14,715,167	2,243,714
Israeli Shekel	1,703,453	-
Japanese Yen	232,665,797	265,405,175
Malaysian Ringgit	3,068,235	2,426,541
Mexican Peso	18,202,265	3,661,558
New Taiwan Dollar	25,479,684	5,254,844
New Zealand Dollar	1,013,380	1,338,143
Norwegian Krone	4,046,964	11,346,709
Peruvian Nuevo Sol	1,216,727	-
Philippine Peso	6,438,447	138,885
Polish Zloty	4,802,910	-
Russian Ruble	7,570,244	1,036,961
Singapore Dollar	22,349,886	22,053,536
South African Rand	23,545,955	2,758,884
South Korean Won	70,999,258	4,512,110
Swedish Krona	27,191,886	23,544,658
Swiss Franc	81,004,268	95,068,382
Thai Bhat	9,159,880	-
Turkish Lira	6,233,784	-
International Equity Mutual Fund (various currencies)	-	920,141,284
Total Securities Subject to Foreign Currency Risk	1,374,672,755	\$2,251,324,053
USD (securities held by International Investment Managers)	9,256,355,650	1,659,713,681
Total International Investment Securities	\$10,631,028,405	\$3,911,037,734

Insurance Fund Investments at Fair Value as of June 30, 2012 & 2011

Foreign Equities	2012	2011
Australian Dollar	\$20,374,499	\$37,342,712
Brazilian Real	6,775,870	607,112
British Pound Sterling	69,217,342	50,278,435
Canadian Dollar	35,948,462	53,058,136
Chilean Peso	786,711	-
Chinese Yuan	1,298,990	-
Columbian Peso	796,126	-
Czech Koruna	990,353	427,698
Danish Krone	2,959,795	5,937,869
Euro	105,768,977	167,585,939
Hong Kong Dollar	31,672,609	24,192,383
Hungarian Forint	315,114	71
Indian Rupee	882,340	-
Indonesian Rupiah	4,828,536	2,832
Israeli Shekel	429,103	-
Japanese Yen	79,821,116	104,116,859
Malaysian Ringgit	740,285	-
Mexican Peso	4,224,645	370,341
New Taiwan Dollar	8,671,587	1,351,967
New Zealand Dollar	296,011	556,742
Norwegian Krone	1,355,472	4,589,032
Peruvian Nuevo Sol	304,965	-
Philippine Peso	1,699,557	-
Polish Zloty	1,263,786	-
Russian Ruble	1,762,447	-
Singapore Dollar	7,014,550	8,739,442
South African Rand	7,916,313	307,167
South Korean Won	23,790,001	1,165,059
Swedish Krona	9,210,394	8,758,300
Swiss Franc	28,469,252	36,824,057
Thai Bhat	3,108,109	-
Turkish Lira	2,072,912	-
International Equity Mutual Fund (various currencies)	-	199,878,520
Total Securities Subject to Foreign Currency Risk	464,766,229	706,090,673
USD (securities held by International Investment Managers)	2,578,213,716	524,261,020
Total International Investment Securities	\$3,042,979,945	\$1,230,351,693

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 or 105 percent of the value of the borrowed securities. The borrowers of the securities simultaneously agree to return the borrowed securities in exchange for the collateral at a later date. Securities lent for cash collateral are presented as unclassified above in the schedule of custodial credit risk; securities lent for securities collateral are classified according to the category for the securities loaned. The types of securities lent include US Treasuries, US Agencies, US Corporate Bonds, US Equities, Global Fixed Income Securities, and Global Equities Securities. The Statement of Investment Policy does not address any restrictions on the amount of loans that can be made. At June 30, 2012, KRS had no credit risk exposure to borrowers because the collateral amounts received exceeded the amounts out on loan. The contracts with the custodial banks require them to indemnify KRS if the borrowers fail to return the securities and one or both of the custodial banks have failed to live up to their contractual responsibilities relating to the lending of securities.

All securities loans can be terminated on demand by either party to the transaction. Deutsche Bank invests cash collateral as permitted by state statute and Board policy. The agent of the Funds cannot pledge or sell collateral securities received unless the borrower defaults.

KRS maintains a conservative approach to investing the cash collateral with Deutsche Bank, emphasizing capital preservation, liquidity, and credit quality.

Note F. Risk 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 Board Claims against the Board of KRS, or any of its staff as a result of an actual or alleged breach of fiduciary duty, are insured with a commercial insurance policy. Coverage provided is limited to \$5,000,000 with a deductible amount of \$200,000. Defense costs incurred in defending such claims will be paid by the insurance company. However, the total defense cost and claims paid shall not exceed the total aggregate coverage of the policy.

Job-Related Illness 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-third percent (66 $\frac{2}{3}$ %) of wages for temporary disability. Each agency pays premiums based on fund reserves and payroll.

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

Note G. Contingencies

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

Note H. Income Tax Status

The Internal Revenue Service has ruled that KRS qualifies under Section 401(a) of the Internal Revenue Code and is, generally, not subject to tax. KRS is subject to income tax on any unrelated business income; however, KRS had no unrelated business income in 2012.

Note I. Defined Benefit Pension Plan



KERS
Kentucky Employees Retirement System

CERS
County Employees Retirement System

SPRS
State Police Retirement System

All eligible employees of KRS participate in KERS (non-hazardous), a cost-sharing, multiple-employer defined pension plan that covers substantially all regular full-time employees in non-hazardous positions of any Kentucky State Department, Board or Agency directed by Executive Order to participate in the system. The plan provides for retirement, disability and death benefits to plan members. Plan benefits are extended to beneficiaries of plan members under certain circumstances. Plan members who began participating prior to September 1, 2008, contributed 5% of creditable compensation for the periods ended June 30, 2012, 2011, and 2010. Plan members who began participating on or after September 1, 2008, contributed 6% of creditable compensation for the periods ended June 30, 2012, 2011, and 2010. KRS contributed 19.82%, 16.98%, and 11.61% of covered payroll for the periods ended June 30, 2012, 2011, and 2010, respectively. The chart below includes the covered payroll and contribution amounts for KRS for the three periods included in this discussion.

Payroll & Contributions

	2012	2011	2010
Covered Payroll	\$13,784,847	\$13,444,315	\$13,383,859
Required Employer Contributions	\$2,726,780	\$2,282,864	\$1,553,865
Employer Percentage Contributed	100%	100%	100%

Note J. Equipment

Equipment Expenses as of June 30

Expense	2012	2011
Equipment At-Cost	\$6,753,648	\$6,971,185
Less Accumulated Depreciation	(2,805,034)	(2,987,098)
Total	\$3,948,614	\$3,984,087

Depreciation expense for the fiscal years ended June 30, 2012 and 2011 amounted to \$68,471 and \$62,203, respectively. The decrease in equipment at cost is due to some assets being fully depreciated as of June 30, 2012.

Note K. Intangible Assets



GASB
Governmental Accounting
Standards Board

START
Strategic Technology Advancements for
the Retirement of Tomorrow

The provisions of GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets" require that intangible assets be recognized in the Statement of Plan Net Assets only if they are considered identifiable. In accordance with GASB No. 51, KRS has capitalized software costs as indicated below for the Strategic Technology Advancements for the Retirement of Tomorrow (START) project.

Software Expenses as of June 30

Expense	2012	2011
Software At-Cost	\$12,724,117	\$7,424,611
Less Accumulated Amortization	(2,893,011)	(1,682,261)
Total	\$9,831,106	\$5,742,350

Amortization expense for the fiscal years ended June 30, 2012 and 2011 amounted to \$1,210,750 and \$688,473, respectively.

START Project In fiscal 2007, KRS initiated the START project. It is anticipated that START will be completed in its entirety in fiscal 2013. The objectives of the project are to provide employees with a technology solution that will enable them to serve more customers more quickly while providing continued superior service; to enhance business services and improve operational efficiency; to improve the accuracy of the information collected, maintained, and provided; to improve the timeliness and accuracy of responses to members' inquiries; to provide internet based, self-service capabilities to members, retirees, and employers; and, to ensure that retirees receive monthly benefits without error or disruption.

Note L. Actuarial Valuation



Haz
Hazardous (i.e. KERS Haz)

Non-Haz
Non-Hazardous (i.e. CERS Non-Haz)

The provisions of GASB Statement No. 50, "Pension Disclosures, an Amendment of GASB No. 25 and No. 27", require that actuarial information included in the Notes to the Required Supplementary Information be moved to the Notes to the Financial Statements. In accordance with GASB No. 50, KRS has moved the following information from the Notes to the Required Supplementary Information to the Notes to the Financial Statements:

Pension Fund Valuation

	Non-Haz	Haz
Valuation Date	June 30, 2012	June 30, 2012
Actuarial Cost Method	Entry Age	Entry Age
Amortization Method	Level Percent Closed	Level Percent Closed
Remaining Amortization Period	25 Years	25 Years
Asset Valuation Method	Five-year Smoothed Market	Five-year Smoothed Market
Actuarial Assumptions		
Investment Rate of Return	7.75%	7.75%
↘ Includes Price Inflation at	3.5%	3.5%
Projected Salary Increases	4.75-17.0%	4.5-21.0%
↘ Includes Wage Inflation at	4.5%	4.5%
Cost of Living Adjustment	None	None

Insurance Fund Valuation¹

	Non-Haz	Haz
Valuation Date	June 30, 2012	June 30, 2012
Actuarial Cost Method	Entry Age	Entry Age
Amortization Method	Level Percent Closed	Level Percent Closed
Remaining Amortization Period	25 Years	25 Years
Asset Valuation Method	Five-year Smoothed Market	Five-year Smoothed Market
Medical Trend Assumption (Pre-Medicare)	9.5-5.0%	9.5-5.0%
Medical Trend Assumption (Post-Medicare)	7.5-5.0%	7.5-5.0%
Year of Ultimate Trend	2019	2019
Actuarial Assumptions		
Investment Rate of Return	4.5% and 7.75% ²	4.5% and 7.75%
↘ Includes Price Inflation at	3.5%	3.5%

¹The actuarial valuation for the Insurance Fund involves estimates of the value of reported amounts and assumptions about the probability of future events. Actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Calculations are based on the benefits provided under the terms of the insurance plan in effect at the time of each valuation and on the pattern of sharing costs between the employer and plan members as of the valuation date. Actuarial calculations of the insurance plan reflect a long-term perspective.

²The actuarial investment rate of return for developing insurance liabilities and contribution rates is 4.5% for the Kentucky Employees Retirement System (non-hazardous) and the State Police Retirement System. The lower rate is required under the parameters set by the Governmental Accounting Standards Board (GASB) Statements 43 and 45 given the lack of pre-funding of insurance benefits.

Unfunded Actuarial Accrued Liability KRS had the following Unfunded Actuarial Accrued Liabilities as of June 30 2012 and 2011:

Unfunded Actuarial Accrued Liabilities as of June 30
Pension Fund



Haz
Hazardous (i.e. KERS Haz)

Non-Haz
Non-Hazardous (i.e. CERS Non-Haz)

AAL
Actuarial Accrued Liability

System	2012	2011
KERS Non-Haz	\$8,259,731,398	\$7,455,155,945
KERS Haz	255,473,161	210,544,939
CERS Non-Haz	3,592,332,096	3,288,473,842
CERS Haz	1,262,612,750	1,079,495,659
SPRS	387,897,090	348,798,770
Total Pension Funds	\$13,758,046,495	\$12,382,469,155

Unfunded Actuarial Accrued Liabilities as of June 30
Insurance Fund

System	2012	2011
KERS Non-Haz	\$2,679,249,646	\$3,828,469,191
KERS Haz	39,018,458	177,097,152
CERS Non-Haz	857,917,437	1,640,522,412
CERS Haz	535,802,215	876,912,481
SPRS	209,531,710	314,740,474
Total Insurance Funds	\$4,321,519,466	\$6,837,741,710
Total Unfunded Actuarial Accrued Liability	\$18,079,565,961	\$19,220,210,865

The Schedule of Funding Progress for Pension Funds begins on page 58. The Schedule of Funding Progress for the Insurance Fund begins on page 60.

Pension Fund Schedule of Funding Progress

System	Actuarial Value of Assets	AAL Entry Age Normal	Funded	Covered Payroll	Unfunded as a % of Covered Payroll
KERS Non-Haz	\$3,101,316,738	\$11,361,048,136	27.3%	\$1,644,896,681	502.1%
KERS Haz	497,226,296	752,699,457	66.1%	131,976,754	193.6%
CERS Non-Haz	5,547,235,599	9,139,567,695	60.7%	2,236,546,345	160.6%
CERS Haz	1,747,379,297	3,009,992,047	58.1%	464,228,923	272.0%
SPRS	259,791,575	647,688,665	40.1%	48,372,506	801.9%
Total Pension Funds	\$11,152,949,505	\$24,910,996,000	44.8%	\$4,526,021,209	304.0%

Insurance Fund Schedule of Funding Progress

System	Actuarial Value of Assets	AAL Entry Age Normal	Funded	Covered Payroll	Unfunded as a % of Covered Payroll
KERS Non-Haz	\$446,080,511	\$3,125,330,157	14.3%	\$1,644,896,681	162.9%
KERS Haz	345,573,948	384,592,406	89.9%	131,976,754	29.6%
CERS Non-Haz	1,512,853,851	2,370,771,288	63.8%	2,236,546,345	38.4%
CERS Haz	829,040,842	1,364,843,057	60.7%	464,228,923	115.4%
SPRS	124,372,072	333,903,782	37.2%	48,372,506	433.2%
Total Pension Funds	\$3,257,921,224	\$7,579,440,690	42.9%	\$4,526,021,209	95.5%
Totals	\$14,410,870,729	\$32,490,436,690	44.4%	\$9,052,042,418	199.7%

NOTE M.

Note M. House Bill 1 Pension Reform

House Bill 1 was signed by the Governor of the Commonwealth on June 27, 2008. It contained a number of changes that KRS implemented effective September 1, 2008.

House Bill 1 also contained statutory changes to Kentucky Revised Statute 61.637, the law governing members who become reemployed following retirement.

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

Employer Rates Employer contribution rates for KERS and SPRS for fiscal 2012 were established in the 2010-2012 Executive Branch Budget (House Bill 1) during the 2010 Extraordinary Session of the Kentucky General Assembly. Employer contribution rates for CERS for fiscal 2012 were adopted by the KRS Board of Trustees based on the actuarially recommended rates. The Employer contribution rates were established as follows (effective July 1, 2011) for fiscal 2012:

Employer Contribution Rates Fiscal Year 2012

System	Rate
KERS Non-Haz	19.82%
KERS Haz	28.98%
CERS Non-Haz	18.96%
KERS Haz	35.76%
SPRS	52.13%

Although the majority of changes in this legislation only impacted new hires on, or after, September 1, 2008, there were some changes that affected all members and retirees of KRS:

Cost of Living Adjustment Beginning July 1, 2009, COLA for retirees are set by statute at 1.5% each July 1. The Kentucky General Assembly may increase this percentage at any time, but only if appropriate funding is allocated. The General Assembly may also reduce or suspend the annual COLA.



COLA
Cost of Living Adjustment

Service Purchase Costs The actuarial factors used to determine the cost to purchase a service must assume the earliest date a member can retire with an unreduced benefit, and must also assume a 1.5% COLA will be enacted. This change results in an increased service purchase cost for any purchase calculated on, or after, September 1, 2008. This change also affects the cost billed to employers for sick leave when an employee retires.

Payment Options The Partial Lump Sum Payment Option was made available only to those employees who retired on, or before, January 1, 2009.

Kentucky Revised Statute 61.637 was modified significantly by House Bill 1. Specifically, a retiree who is reemployed on, or after, September 1, 2008, cannot accrue additional service credit in KRS, even if employed in a position that would otherwise be required to participate in KRS. However, if a retiree is reemployed in a regular full time position, his/her employer is required to pay contributions on all creditable compensation earned during the period of reemployment. These contributions are used to reduce the unfunded actuarial liability.

NOTE N.

Note N. Medicare Prescription Drug Plan

In fiscal 2009, Kentucky Retirement Systems submitted an application to the Centers for Medicare & Medicaid Services, of the Department of Health & Human Services, to enter into a contract to offer a Medicare Prescription Drug Plan (PDP), as described in the Medicare Prescription Drug Benefit Final Rule published in the Federal Register on January 28, 2005 (70 Fed. Reg. 4194). As part of the application process, KRS was required to establish a segregated Insolvency Account in the amount of \$100,000; this account must retain a minimum balance of \$100,000. The account consists of cash and/or cash equivalents and is invested on a daily basis. On February 19, 2009, KRS established the KRS Insurance Prescription Drug Fund at Northern Trust. As of June 30, 2012 and 2011, the Insolvency Account amounted to \$100,691 and \$100,620, respectively.



PDP
Prescription Drug Plan

NOTE O.

Note O. House Bill 300 Pension Reform

House Bill 300 was signed by the Governor on April 11, 2012. The Bill makes changes/additions to information and definitions regarding placement agents, audits to be performed on KRS by the Kentucky Auditor of Public Accounts, terms of service of Trustees of the Board, terms of service of Board officers (Chair and Vice-Chair), among other changes.

Note P. Reimbursement Of Retired – Reemployed Health Insurance

As a result of the passage of House Bill 1 on September 1, 2008, if a retiree is reemployed in a regular full time position and has chosen health insurance coverage through KRS, the employer is required to reimburse KRS for the health insurance premium paid on the retiree's behalf, not to exceed the cost of the single premium rate. As of June 30, 2012 and 2011, the reimbursement totaled \$6,349,929 and \$4,041,974, respectively.

Note Q. Louisville/Jefferson County Metro Firefighters

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

KRS also calculated the impact on final compensation caused by the retroactive benefits paid to those firefighters who have already retired. KRS was required to pay retroactive benefit payments totaling \$6,221,219, reflecting additional benefits due to the increase in final compensation. The liability was paid on August 22, 2010, by issuance of benefit payments to the individual firefighter members.

Kentucky Revised Statute 61.675(3)(b) requires that KRS collect interest on unmade or delinquent contributions. The interest owed by the Louisville/Jefferson County Metro Government, as calculated by KRS' actuaries, amounted to \$12,020,731. Therefore, the total amount due KRS was \$19,217,552. As stated earlier, \$7,196,821 was received on July 27, 2010.

On July 2, 2012, KRS received an additional \$7,000,000, for interest owed, which by settlement extinguished the liability to KRS.

Note R. Reciprocity Agreement

KRS has a reciprocity agreement with Kentucky Teachers' Retirement System (KTRS) for the payment of insurance benefits for those members who have creditable service in both systems. As of June 30, 2012, KTRS has estimated a receivable due from KRS in the amount of \$3.8 million. However, KRS has chosen not to record a payable or receivable under the reciprocity agreement since, in KRS' view, it cannot be reasonably estimated as of June 30, 2012.

Note S. Restatement of Prior Year Financial Statements

The Pension and Insurance Funds' Net Assets as of June 30, 2011, and the increase in the Pension and Insurance Funds' Net Assets for the fiscal year then ended, have been restated to correct accrued contributions at June 30, 2011. The net effect of these corrections for reporting purposes were decreases of \$62,843,424 and \$48,449,690 in pension and insurance contributions, respectively, for the fiscal year ended June 30, 2011, and a corresponding decrease in the pension and insurance funds' net assets at June 30, 2011, respectively. The restatement resulted from the double posting of an accrual of contributions in fiscal 2011.

Restatement of Fiscal 2011 Financial Statements

	As Previously Reported	As Restated
Pension Funds:		
Contributions Receivable	\$138,808	\$75,695
Plan Net Assets held in Trust for Pension Benefits	11,680,563	11,617,720
Members' Contributions	326,842	306,033
Employers' Contributions	548,126	506,592
Health Insurance Contributions	7,086	6,586
Net Increase in Plan Assets	\$1,140,124	\$1,077,281
Insurance Fund:		
Contributions Receivable	\$71,726	23,276
Plan Net Assets held in Trust for Insurance Benefits	3,096,788	3,048,338
Employers' Contributions	435,975	387,525
Net Increase in Plan Assets	\$670,803	\$622,353

Note T. Subsequent Events

Management has evaluated the period from June 30, 2012, to December 5, 2012, (the date the financial statements were available to be issued) for items requiring recognition or disclosure in the financial statements except as disclosed in Notes B and Q, there were no events occurring during the evaluation period that require disclosure, and there were no events that require recognition in the financial statements.

Required Supplementary Information

Required Supplementary Information

Schedules of Funding Progress for KERS Pension Funds

Year Ended**	Actuarial Value of Assets (a)	AAL Entry Age Normal (b)	UAAL (b-a)	Funded (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll [(b-a)/c]
Non-Hazardous						
June 30, 2004	\$6,000,513,743	\$7,049,613,171	\$1,049,099,428	85.1%	\$1,645,412,496	63.8%
June 30, 2005	5,578,685,746	7,579,074,839	2,000,389,093	73.6	1,655,907,288	120.8
June 30, 2006	5,394,086,323	8,994,826,247	3,600,739,924	60.0	1,702,230,777	211.5
June 30, 2007	5,396,782,459	9,485,939,277	4,089,156,818	56.9	1,780,223,493	229.7
June 30, 2008	5,318,792,893	10,129,689,985	4,810,897,092	52.5	1,837,873,488	261.8
June 30, 2009	4,794,611,365	10,658,549,532	5,863,938,167	45.0	1,754,412,912	334.2
June 30, 2010	4,210,215,585	11,004,795,089	6,794,579,504	38.3	1,815,146,388	374.3
June 30, 2011	3,726,986,087	11,182,142,032	7,455,155,945	33.3	1,731,632,748	430.5
June 30, 2012	3,101,316,738	11,361,048,136	8,259,731,398	27.3	1,644,896,681	502.1
Hazardous						
June 30, 2004	\$397,212,763	\$403,578,036	\$6,365,273	98.4%	\$126,664,812	5.0%
June 30, 2005	405,288,662	438,994,257	33,705,595	92.3	131,687,088	25.6
June 30, 2006	427,984,192	508,655,903	80,671,711	84.1	138,747,320	58.1
June 30, 2007	467,287,809	558,992,329	91,704,520	83.6	144,838,020	63.3
June 30, 2008	502,132,214	618,010,827	115,878,613	81.2	148,710,060	77.9
June 30, 2009	502,503,287	674,411,781	171,908,494	74.5	146,043,576	117.7
June 30, 2010	502,729,009	688,149,451	185,420,442	73.1	143,557,944	129.2
June 30, 2011	510,748,505	721,293,444	210,544,239	70.8	133,053,792	158.2
June 30, 2012	497,226,296	752,699,457	255,473,161	66.1	131,976,754	193.6
Total						
June 30, 2004	\$6,397,726,506	\$7,453,191,207	\$1,055,464,701	85.8%	\$1,772,077,308	59.6%
June 30, 2005	5,983,974,408	8,018,069,096	2,034,094,688	74.6	1,787,594,376	113.8
June 30, 2006	5,822,070,515	9,503,482,150	3,681,411,635	61.3	1,840,978,097	200.0
June 30, 2007	5,864,070,268	10,044,931,606	4,180,861,338	58.4	1,925,061,513	217.2
June 30, 2008	5,820,925,107	10,747,700,812	4,926,775,705	54.2	1,986,583,548	248.0
June 30, 2009	5,297,114,652	11,332,961,313	6,035,846,661	46.7	1,900,456,488	317.6
June 30, 2010	4,712,944,594	11,692,944,540	6,979,999,946	40.3	1,958,704,332	356.4
June 30, 2011	4,237,734,592	11,903,435,476	7,665,700,884	35.6	1,864,686,540	411.1
June 30, 2012	3,598,543,034	12,113,747,593	8,515,204,559	29.7	1,776,873,435	479.2

** Covered payroll was actuarially computed

See Independent Auditors' Report.

Schedules of Funding Progress for CERS Pension Funds

Year Ended**	Actuarial Value of Assets (a)	AAL Entry Age Normal (b)	UAAL (b-a)	Funded (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll [(b-a)/c]
Non-Hazardous						
June 30, 2004	\$5,187,851,530	\$4,936,459,488	\$(251,392,042)	105.1%	\$1,826,870,880	(13.8)%
June 30, 2005	5,059,208,687	5,385,156,690	325,948,003	94.0	1,885,275,000	17.3
June 30, 2006	5,162,894,136	6,179,569,267	1,016,675,131	83.5	1,982,437,473	51.3
June 30, 2007	5,467,824,480	6,659,446,126	1,191,621,646	82.1	2,076,848,328	57.4
June 30, 2008	5,731,502,438	7,304,217,691	1,572,715,253	78.5	2,166,612,648	72.6
June 30, 2009	5,650,789,991	7,912,913,512	2,262,123,521	71.4	2,183,611,848	103.6
June 30, 2010	5,546,857,291	8,459,022,280	2,912,164,989	65.6	2,236,855,380	130.2
June 30, 2011	5,629,611,183	8,918,085,025	3,288,473,842	63.1	2,276,595,948	144.4
June 30, 2012	5,547,235,599	9,139,567,695	3,592,332,096	60.7	2,236,546,345	160.6
Hazardous						
June 30, 2004	\$1,457,612,042	\$1,640,830,120	\$183,218,078	88.8%	\$392,562,624	46.7%
June 30, 2005	1,452,353,023	1,795,617,335	343,264,312	80.9	411,121,728	83.5
June 30, 2006	1,515,075,017	2,020,142,770	505,067,753	75.0	426,927,550	118.3
June 30, 2007	1,639,288,924	2,208,736,179	569,447,255	74.2	458,998,956	124.1
June 30, 2008	1,750,867,373	2,403,122,095	652,254,722	72.9	474,241,332	137.5
June 30, 2009	1,751,487,540	2,578,444,600	826,957,060	67.9	469,315,464	176.2
June 30, 2010	1,749,464,388	2,672,151,907	922,687,519	65.5	466,548,660	197.8
June 30, 2011	1,779,545,393	2,859,041,052	1,079,495,659	62.2	466,963,860	231.2
June 30, 2012	1,747,379,297	3,009,992,047	1,262,612,750	58.1	464,228,923	272.0
Total						
June 30, 2004	\$6,645,463,572	\$6,577,289,608	\$(68,173,964)	101.0%	\$2,219,433,504	(3.1)%
June 30, 2005	6,511,561,710	7,180,774,025	669,212,315	90.7	2,296,396,728	29.2
June 30, 2006	6,677,969,153	8,199,712,037	1,521,742,884	81.4	2,409,365,023	63.2
June 30, 2007	7,107,113,404	8,868,182,305	1,761,068,901	80.1	2,535,847,284	69.4
June 30, 2008	7,482,369,811	9,707,339,786	2,224,969,975	77.1	2,640,853,980	84.3
June 30, 2009	7,402,277,531	10,491,358,112	3,089,080,581	70.6	2,652,927,312	116.4
June 30, 2010	7,296,321,679	11,131,174,187	3,834,852,508	65.5	2,703,404,040	141.9
June 30, 2011	7,409,156,576	11,777,126,077	4,367,969,501	62.9	2,743,559,808	159.2
June 30, 2012	7,294,614,896	12,149,559,743	4,854,944,847	60.0	2,700,775,268	179.8

Schedules of Funding Progress for SPRS Pension Funds

Year Ended**	Actuarial Value of Assets (a)	AAL Entry Age Normal (b)	UAAL (b-a)	Funded (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll [(b-a)/c]
June 30, 2004	\$385,077,195	\$437,482,425	\$52,405,230	88.0%	\$43,835,208	119.6%
June 30, 2005	353,511,622	458,593,576	105,081,954	77.1	43,720,092	240.4
June 30, 2006	344,016,197	516,482,298	172,466,101	66.6	47,743,865	361.2
June 30, 2007	348,806,508	547,955,286	199,148,778	63.7	49,247,580	404.4
June 30, 2008	350,891,451	587,129,257	236,237,806	59.8	53,269,080	443.5
June 30, 2009	329,966,989	602,328,868	272,361,879	54.8	51,660,396	527.2
June 30, 2010	304,577,292	612,444,806	307,867,514	49.7	51,506,712	597.7
June 30, 2011	285,580,631	634,379,401	348,798,770	45.0	48,692,616	716.3
June 30, 2012	259,791,575	647,688,665	387,897,090	40.1	48,372,506	801.9

** Covered payroll was actuarially computed

Schedules of Funding Progress for KERS Insurance Funds

Year Ended**	Actuarial Value of Assets (a)	AAL Entry Age Normal (b)	UAAL (b-a)	Funded (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll [(b-a)/c]
Non-Hazardous						
June 30, 2004	\$600,586,961	\$2,335,905,365	\$1,735,318,404	25.7%	\$1,645,412,496	105.5%
June 30, 2005	607,068,351	2,680,559,188	2,073,490,837	22.7	1,655,907,288	125.2
June 30, 2006	611,350,765	7,815,480,774	7,204,130,009	7.8	1,702,230,777	423.2
June 30, 2007	621,171,658	5,201,355,055	4,580,183,397	11.9	1,780,223,493	257.3
June 30, 2008	603,197,761	5,431,499,285	4,828,301,524	11.1	1,837,873,488	262.7
June 30, 2009	534,172,580	4,507,325,571	3,973,152,991	11.9	1,754,412,912	226.5
June 30, 2010	471,341,628	4,466,136,041	3,994,794,413	10.6	1,815,146,388	220.1
June 30, 2011	451,620,442	4,280,089,633	3,828,469,191	10.6	1,731,632,748	221.1
June 30, 2012	446,080,511	3,125,330,157	2,679,249,646	14.3	1,644,896,681	162.9
Hazardous						
June 30, 2004	\$169,158,879	\$323,503,563	\$154,344,684	52.3%	\$126,664,812	121.9%
June 30, 2005	187,947,644	386,844,695	198,897,051	48.6	131,687,088	151.0
June 30, 2006	212,833,318	621,237,856	408,404,538	34.3	138,747,320	294.4
June 30, 2007	251,536,756	504,842,981	253,306,225	49.8	144,838,020	174.9
June 30, 2008	288,161,759	541,657,214	253,495,455	53.2	148,710,060	170.5
June 30, 2009	301,634,592	491,132,170	189,497,578	61.4	146,043,576	129.8
June 30, 2010	314,427,296	493,297,529	178,870,233	63.7	143,557,944	124.6
June 30, 2011	329,961,615	507,058,767	177,097,152	65.1	133,053,792	133.1
June 30, 2012	345,573,948	384,592,406	39,018,458	89.9	131,976,754	29.6
Total						
June 30, 2004	\$769,745,840	\$2,659,408,928	\$1,889,663,088	28.9%	\$1,772,077,308	106.6%
June 30, 2005	795,015,995	3,067,403,883	2,272,387,888	25.9	1,787,594,376	127.1
June 30, 2006	824,184,083	8,436,718,630	7,612,534,547	9.8	1,840,978,097	413.5
June 30, 2007	872,708,414	5,706,198,036	4,833,489,622	15.3	1,925,061,513	251.1
June 30, 2008	891,359,520	5,973,156,499	5,081,796,979	14.9	1,986,583,548	255.8
June 30, 2009	835,807,172	4,998,457,741	4,162,650,569	16.7	1,900,456,488	219.0
June 30, 2010	785,768,924	4,959,433,570	4,173,664,646	15.8	1,958,704,332	213.1
June 30, 2011	781,582,057	4,787,148,400	4,005,566,343	16.3	1,864,686,540	214.8
June 30, 2012	791,654,459	3,509,922,563	2,718,268,104	22.6	1,776,873,435	153.0

** Covered payroll was actuarially computed

See Independent Auditors' Report.

Schedules of Funding Progress for CERS Insurance Funds

Year Ended**	Actuarial Value of Assets (a)	AAL Entry Age Normal (b)	UAAL (b-a)	Funded (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll [(b-a)/c]
Non-Hazardous						
June 30, 2004	\$585,399,072	\$2,438,734,696	\$1,853,335,624	24.0%	\$1,826,870,880	101.5%
June 30, 2005	663,941,949	2,788,754,654	2,124,812,705	23.8	1,885,275,000	112.7
June 30, 2006	777,726,590	4,607,223,639	3,829,497,049	16.9	1,982,437,473	193.2
June 30, 2007	960,285,900	3,333,966,070	2,373,680,170	28.8	2,076,848,328	114.3
June 30, 2008	1,168,883,170	3,583,193,466	2,414,310,296	32.6	2,166,612,648	111.4
June 30, 2009	1,216,631,769	3,070,386,018	1,853,754,249	39.6	2,183,611,848	84.9
June 30, 2010	1,293,038,593	3,158,340,174	1,865,301,581	40.9	2,236,855,380	83.4
June 30, 2011	1,433,450,793	3,073,973,205	1,640,522,412	46.6	2,276,595,948	72.1
June 30, 2012	1,512,853,851	2,370,771,288	857,917,437	63.8	2,236,546,345	38.4
Hazardous						
June 30, 2004	\$310,578,162	\$1,025,684,477	\$715,106,315	30.3%	\$392,562,624	182.2%
June 30, 2005	359,180,461	1,283,299,092	924,118,631	28.0	411,121,728	224.8
June 30, 2006	422,785,042	1,928,481,371	1,505,696,329	21.9	426,927,550	352.7
June 30, 2007	512,926,549	1,646,460,011	1,133,533,462	31.2	458,998,956	247.0
June 30, 2008	613,526,319	1,769,782,957	1,156,256,638	34.7	474,241,332	243.8
June 30, 2009	651,130,782	1,593,548,263	942,417,481	40.9	469,315,464	200.8
June 30, 2010	692,769,770	1,674,703,216	981,933,446	41.4	466,548,660	210.5
June 30, 2011	770,790,274	1,647,702,755	876,912,481	46.8	466,963,860	187.8
June 30, 2012	829,040,842	1,364,843,057	535,802,215	60.7	464,228,923	115.4
Total						
June 30, 2004	\$895,977,234	\$3,464,419,173	\$2,568,441,939	25.9%	\$2,219,433,504	115.7%
June 30, 2005	1,023,122,410	4,072,053,746	3,048,931,336	25.1	2,296,396,728	132.8
June 30, 2006	1,200,511,632	6,535,705,010	5,335,193,378	18.4	2,409,365,023	221.4
June 30, 2007	1,473,212,449	4,980,426,081	3,507,213,632	29.6	2,535,847,284	138.3
June 30, 2008	1,782,409,489	5,352,976,423	3,570,566,934	33.3	2,640,853,980	135.2
June 30, 2009	1,867,762,551	4,663,934,281	2,796,171,730	40.0	2,652,927,312	105.4
June 30, 2010	1,985,808,363	4,833,043,390	2,847,235,027	41.1	2,703,404,040	105.3
June 30, 2011	2,204,241,067	4,721,675,960	2,517,434,893	46.7	2,743,559,808	91.8
June 30, 2012	2,341,894,693	3,735,614,345	1,393,719,652	62.7	2,700,775,268	51.6

Schedules of Funding Progress for SPRS Insurance Funds

Year Ended**	Actuarial Value of Assets (a)	AAL Entry Age Normal (b)	UAAL (b-a)	Funded (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll [(b-a)/c]
June 30, 2004	\$96,622,908	\$197,604,301	\$100,981,393	48.9%	\$43,835,208	230.4%
June 30, 2005	100,207,082	234,159,510	133,952,428	42.8	43,720,092	306.4
June 30, 2006	105,580,269	582,580,867	477,000,598	18.1	47,743,865	999.1
June 30, 2007	115,215,912	432,763,229	317,547,317	26.6	49,247,580	644.8
June 30, 2008	123,961,197	445,107,468	321,146,271	27.8	53,269,080	602.9
June 30, 2009	123,526,647	364,031,141	240,504,494	33.9	51,660,396	465.5
June 30, 2010	121,175,083	434,960,495	313,785,412	27.9	51,506,712	609.2
June 30, 2011	123,687,289	438,427,763	314,740,474	28.2	48,692,616	646.4
June 30, 2012	124,372,072	333,903,782	209,531,710	37.2	48,372,506	433.2

** Covered payroll was actuarially computed

Schedules of Contributions from Employers & Other Contributing Entities
KERS Non-Hazardous

Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
Pension Funds				
June 30, 2004	\$47,739,067	\$21,696,543	-	45.4%
June 30, 2005	85,798,943	50,332,750	-	58.7
June 30, 2006	129,125,800	60,680,607	-	47.0
June 30, 2007	176,774,106	88,248,677	-	49.9
June 30, 2008	264,742,985	104,655,217	-	39.5
June 30, 2009	294,495,010	112,383,083	-	38.2
June 30, 2010	348,494,678	144,050,560	-	41.3
June 30, 2011	381,915,236	193,754,471	-	50.7
June 30, 2012	441,094,470	214,786,132	-	48.7
Insurance Funds				
June 30, 2004	\$77,951,553	\$78,016,737	-	100.1%
June 30, 2005	86,974,271	49,909,228	-	57.4
June 30, 2006	202,498,302	47,634,639	-	23.5
June 30, 2007	219,768,964	64,014,332	\$10,744,049	34.0
June 30, 2008	558,745,820	56,744,942	6,633,538	11.3
June 30, 2009	362,707,378	74,542,932	8,167,982	22.8
June 30, 2010	376,556,187	93,976,917	8,550,914	27.2
June 30, 2011	294,897,813	129,335,552	-	43.9
June 30, 2012	297,904,224	156,057,216	-	52.4
Total				
June 30, 2004	\$125,690,620	\$99,713,280	-	79.3%
June 30, 2005	172,773,214	100,241,978	-	58.0
June 30, 2006	331,624,102	108,315,246	-	32.7
June 30, 2007	396,543,070	152,263,009	\$10,744,049	41.1
June 30, 2008	823,488,805	161,400,159	6,633,538	20.4
June 30, 2009	657,202,388	186,926,015	8,167,982	29.7
June 30, 2010	725,050,865	238,027,477	8,550,914	34.0
June 30, 2011	676,813,049	323,090,023	-	47.7
June 30, 2012	738,998,694	370,843,348	-	50.2

See Independent Auditors' Report.

Schedules of Contributions from Employers & Other Contributing Entities
KERS Hazardous

Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
Pension Funds				
June 30, 2004	\$9,600,978	\$9,769,580	-	101.8%
June 30, 2005	9,449,878	9,758,547	-	103.3
June 30, 2006	10,787,472	10,803,206	-	100.1
June 30, 2007	12,219,689	13,237,321	-	108.3
June 30, 2008	14,147,341	15,257,079	-	107.8
June 30, 2009	15,708,254	15,843,289	-	100.9
June 30, 2010	17,814,630	17,658,058	-	99.1
June 30, 2011	20,605,070	19,140,508	-	92.9
June 30, 2012	20,264,754	20,808,540	-	102.7
Insurance Funds				
June 30, 2004	\$14,942,092	\$14,959,617	-	100.1%
June 30, 2005	15,892,977	15,395,977	-	96.9
June 30, 2006	28,517,563	17,011,745	-	59.7
June 30, 2007	31,304,778	19,534,819	\$104,669	62.7
June 30, 2008	51,214,929	21,997,341	73,891	43.1
June 30, 2009	34,670,467	20,807,204	186,081	60.6
June 30, 2010	35,045,278	21,921,535	319,059	63.5
June 30, 2011	29,585,257	19,952,580	-	67.4
June 30, 2012	28,326,206	24,538,087	-	86.6
Total				
June 30, 2004	\$24,543,070	\$24,729,197	-	100.8%
June 30, 2005	25,342,855	25,154,524	-	99.3
June 30, 2006	39,305,035	27,814,951	-	70.8
June 30, 2007	43,524,467	32,772,140	\$104,669	75.5
June 30, 2008	65,362,270	37,254,420	73,891	57.1
June 30, 2009	50,378,721	36,650,493	186,081	73.1
June 30, 2010	52,859,908	39,579,593	319,059	75.5
June 30, 2011	50,190,327	39,093,088	-	77.9
June 30, 2012	48,590,960	45,346,627	-	93.3

See Independent Auditors' Report.

Schedules of Contributions from Employers & Other Contributing Entities
CERS Non-Hazardous

Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
Pension Funds				
June 30, 2004	\$43,111,505	\$44,028,465	-	102.1%
June 30, 2005	53,117,955	54,616,800	-	102.8
June 30, 2006	83,123,669	90,834,052	-	109.3
June 30, 2007	112,508,305	124,260,850	-	110.4
June 30, 2008	138,311,398	150,925,334	-	109.1
June 30, 2009	161,097,151	179,284,551	-	111.3
June 30, 2010	186,724,383	207,075,842	-	110.9
June 30, 2011	218,984,628	248,518,574	-	113.5
June 30, 2012	261,764,019	275,736,191	-	105.3
Insurance Funds				
June 30, 2004	\$89,289,520	\$89,344,241	-	100.1%
June 30, 2005	106,612,633	106,638,253	-	100.0
June 30, 2006	272,942,757	128,867,817	-	47.2
June 30, 2007	285,600,490	147,608,801	\$9,623,431	55.1
June 30, 2008	406,541,729	196,110,111	6,003,181	49.7
June 30, 2009	264,733,532	123,852,611	7,623,628	49.6
June 30, 2010	266,331,326	166,607,097	9,156,991	66.0
June 30, 2011	213,429,424	186,885,576	-	87.6
June 30, 2012	214,421,008	171,924,836	-	80.2
Total				
June 30, 2004	\$132,401,025	\$133,372,706	-	100.7%
June 30, 2005	159,730,588	161,255,053	-	101.0
June 30, 2006	356,066,426	219,701,869	-	61.7
June 30, 2007	398,108,795	271,869,651	\$9,623,431	70.7
June 30, 2008	544,853,127	347,035,445	6,003,181	64.8
June 30, 2009	425,830,683	303,137,162	7,623,628	73.0
June 30, 2010	453,055,709	373,682,939	9,156,991	84.5
June 30, 2011	432,414,052	435,404,150	-	100.7
June 30, 2012	476,185,027	447,661,027	-	94.0

See Independent Auditors' Report.

Schedules of Contributions from Employers & Other Contributing Entities
CERS Hazardous

Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
Pension Funds				
June 30, 2004	\$27,050,382	\$27,640,775	-	102.2%
June 30, 2005	39,437,725	39,947,747	-	101.3
June 30, 2006	44,059,404	49,976,485	-	113.4
June 30, 2007	53,889,838	61,553,118	-	114.2
June 30, 2008	64,082,063	72,154,734	-	112.6
June 30, 2009	69,056,365	78,151,677	-	113.2
June 30, 2010	76,390,669	82,887,128	-	108.5
June 30, 2011	78,765,602	85,078,181	-	108.0
June 30, 2012	83,588,958	89,329,217	-	106.9
Insurance Funds				
June 30, 2004	\$47,018,046	\$47,036,777	-	100.0%
June 30, 2005	54,094,495	54,106,577	-	100.0
June 30, 2006	98,297,535	64,853,778	-	66.0
June 30, 2007	115,938,899	70,072,785	\$656,523	61.0
June 30, 2008	168,723,639	90,113,200	419,774	53.7
June 30, 2009	126,757,348	70,785,241	627,938	56.3
June 30, 2010	129,227,449	83,042,875	1,493,440	65.4
June 30, 2011	109,226,667	98,592,286	-	90.3
June 30, 2012	110,762,577	92,563,664	-	83.6
Total				
June 30, 2004	\$74,068,428	\$74,677,552	-	100.8%
June 30, 2005	93,532,220	94,054,324	-	100.6
June 30, 2006	142,356,939	114,830,263	-	80.7
June 30, 2007	169,828,737	131,625,903	\$656,523	77.9
June 30, 2008	232,805,702	162,267,934	419,774	70.0
June 30, 2009	195,813,713	148,936,918	627,938	76.4
June 30, 2010	205,618,118	165,930,003	1,493,440	81.4
June 30, 2011	187,992,269	183,670,467	-	97.7
June 30, 2012	194,351,535	181,892,881	-	93.6

See Independent Auditors' Report.

Schedules of Contributions from Employers & Other Contributing Entities
SPRS

Year Ended	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
Pension Funds				
June 30, 2004	\$1,175,711	\$1,152,752	-	98.0%
June 30, 2005	3,730,805	2,851,461	-	76.4
June 30, 2006	6,352,777	4,244,445	-	66.8
June 30, 2007	9,023,665	6,142,326	-	68.1
June 30, 2008	13,823,490	7,443,277	-	53.8
June 30, 2009	15,951,841	8,186,259	-	51.3
June 30, 2010	18,764,941	9,489,399	-	50.6
June 30, 2011	18,463,372	12,657,225	-	68.6
June 30, 2012	20,497,924	15,361,781	-	74.9
Insurance Funds				
June 30, 2004	\$8,434,834	\$8,455,498	-	100.2%
June 30, 2005	8,608,536	6,631,031	-	77.0
June 30, 2006	12,554,648	6,880,517	-	54.8
June 30, 2007	15,233,320	6,488,600	\$361,942	45.0
June 30, 2008	43,469,735	7,329,229	183,564	17.3
June 30, 2009	29,324,666	7,413,552	229,240	26.1
June 30, 2010	30,302,151	8,369,428	273,684	28.5
June 30, 2011	25,772,574	11,050,964	-	42.9
June 30, 2012	28,246,786	11,960,468	-	42.3
Total				
June 30, 2004	\$9,610,545	\$9,608,250	-	100.0%
June 30, 2005	12,339,341	9,482,492	-	76.8
June 30, 2006	18,907,425	11,124,962	-	58.8
June 30, 2007	24,256,985	12,630,926	\$361,942	53.6
June 30, 2008	57,293,225	14,772,506	183,564	26.1
June 30, 2009	45,276,507	15,599,811	229,240	35.0
June 30, 2010	49,067,092	17,858,827	273,684	37.0
June 30, 2011	44,235,946	23,708,189	-	53.6
June 30, 2012	48,744,710	27,322,249	-	56.0

See Independent Auditors' Report.

Additional Supporting Schedules

Schedule of Administrative Expenses (in Thousands)

Expense	2012	2011
Personnel Services		
Salaries and Per Diem	\$14,316	\$13,889
Fringe Benefits	5,561	5,179
Tuition Assistance	31	23
Total Personnel Services	\$19,908	\$19,091
Contractual Services		
Actuarial	\$297	\$270
Audit	30	111
Human Resources	40	
Legal	806	231
Medical	229	306
Contractual	1,008	1,353
Total Contractual Services	\$2,410	\$2,271
Communication		
Printing	\$299	\$286
Telephone	132	118
Postage	525	593
Travel	182	118
Total Communication	\$1,138	\$1,115
Internal Audit		
Travel/Conferences	\$1	
Dues/Subscriptions	2	
Miscellaneous	1	
Total Internal Audit	\$4	

Note: In fiscal 2012, Administrative Expenses include the Healthcare Fees and Investment Expenses which are paid through the Pension Funds and reimbursed by the Insurance Fund.

See Independent Auditors' Report.

Expense	2012	2011
Investments (Pension Fund)		
Travel/Conferences	\$41	
Dues/Subscriptions	26	
Computer	149	
Contractual	858	
Miscellaneous	15	
Legal	265	
Total Investments	\$1,354	
Rentals		
Office Space	\$1,144	\$1,125
Equipment	91	90
Total Rentals	\$1,235	\$1,215
Miscellaneous		
Utilities	\$201	\$217
Supplies	140	176
Insurance	76	78
Maintenance	40	5
Total Miscellaneous	\$457	\$476
Depreciation/Amortization	1,279	750
Total Pension Fund Administrative Expenses	\$27,785	\$24,918
Investment Expenses (Insurance Fund)		
Investment Consultant	\$246	
Investment Related Travel	9	
Dues & Subscriptions	7	
Conferences	3	
Miscellaneous	4	
Software	43	
Legal Counsel	76	
Subtotal	388	
Healthcare Fees	11,584	10,412
Total Insurance Fund Administrative Expenses	\$11,972	\$10,412
Total Administrative Expenses	\$39,757	\$35,330

Schedule of Direct Investment Expenses (in Thousands)

	2012	2011
Pension Funds		
Security Lending Fees		
↘ Broker Rebates	\$(261)	\$2,277
↘ Lending Agent Fees	229	1,162
Total Security Lending	(32)	3,439
Common Stock Commissions	4,259	7,643
Contractual Services		
↘ Investment Management	33,471	47,265
↘ Security Custody/Investment Consultant	858*	1,079
↘ Investment Related Travel	31*	27
↘ Software	149*	148
↘ Dues & Subscriptions	26*	
↘ Conferences	10*	
↘ Miscellaneous	15*	113
↘ Legal Counsel	265*	943
Total Contractual Services	34,825	49,575
Insurance Funds		
Security Lending Fees		
↘ Broker Rebates	(153)	240
↘ Lending Agent Fees	68	325
Total Security Lending	(85)	565
Common Stock Commissions	1,275	1,236
Contractual Services		
↘ Investment Management	6,754	7,323
↘ Security Custody/Investment Consultant	246*	340
↘ Investment Related Travel	9*	6
↘ Software	43*	26
↘ Dues & Subscriptions	7*	
↘ Conferences	3*	
↘ Miscellaneous	4*	34
↘ Legal Counsel	76*	23
Total Contractual Services	7,142	7,752
Total Investment Expenses	\$47,384	\$70,210

**In fiscal 2012, Investment travel, software, dues, etc., were funded through the Administrative Expense account, see page __.*

See Independent Auditors' Report.

Schedule of Professional Consultant Fees (in Thousands)

Fees	2012	2011
Actuarial Services	\$297	\$270
Medical Review Services	229	306
Audit Services	30	111
Legal Counsel	806	231
Compliance	98	771
Workflow	28	209
Healthcare	699	113
Banking	66	55
Human Resources	40	
Miscellaneous	117	205
Total	2,410	\$2,271

Report on Internal Control Over Financial Reporting, Compliance & Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Trustees, Kentucky Retirement Systems, Frankfort, Kentucky: We have audited the combining financial statements of KRS, a component unit of the Commonwealth of Kentucky, as of and for the fiscal year ended June 30, 2012, and have issued our report thereon dated December 5, 2012. 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 Management of Kentucky Retirement Systems is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered KRS' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the combining financial statements, but not for the purpose of expressing an opinion on the effectiveness of KRS' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of KRS' internal control over financial reporting. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a

reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance & Other Matters As part of obtaining reasonable assurance about whether KRS' combining financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. This report is intended solely for the information and use of the Board of Trustees, the audit committee, management, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Dean Dotson Allen Ford, PLLC

December 5, 2012
Lexington, Kentucky

SCHEDULE OF FINDING & RESPONSE

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

Investment Section

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A Two Track Recovery at Home

A Global Economic Focus – An Uncertain Future

The theme of last year's commentary was one of personal and corporate balance sheet rebuilding along with an expansion of the Federal Reserve's balance sheet to create a stable environment which would promote growth and create an environment in which unemployment would be reduced. Despite the economy improving to some degree and both personal and especially corporate balance sheets strengthening, too much uncertainty has held back the recovery and led to lackluster job growth.

One Year Later

These themes of healing appear to be continuing, albeit in a slightly modified way, as solutions to the Federal Reserve's dual mandate (promotion of economic stability and job creation) have thus far appeared to be inadequate as consistent, stable economic growth which leads to persistent job creation has been elusive. In the four years since the initial credit crisis, the amount of debt on consumers' balance sheets has been substantially reduced and thanks to several bond purchasing programs by the Federal Reserve the amount of people underwater on their mortgages in the United States has been reduced. The Federal Reserve as well as other central banks around the world have substantially reduced interest rates and have also taken other highly accommodative monetary policy stances to blunt the effects of the financial crisis on what appears to be an increasingly competitive global economy. Since September of 2009, the Federal Reserve's balance sheet for bond purchases and other accommodative monetary policy programs has ballooned from \$750 billion to just under \$3 trillion in assets.

While economic activity continues, it is growing at a sluggish pace in comparison to recoveries of the past, and most concernedly, as companies seem to have right sized their employee headcount necessary to reach production capacity, many companies seem to be doing more with less due to increased global competition. This is a concern of paramount proportions to the Federal Reserve because if companies are stagnant in hiring, the amount of money spent by all consumers is also stagnant which mutes economic expansion. While the unemployment rate has fallen in the last four years, evidence of this right sized economy can be seen by a labor participation rate that fell from about 67% to 63%. While this may seem like a small change in terms of percentage, the amount is astounding when you consider that the participation rate has not been this low in over 30 years.

As much as fiscal responsibility and competitiveness for both the workforce and businesses are necessary conditions for the overall health of the economy, growth is also necessary to promote lasting positive economic conditions. The problem is that growth typically requires increased spending, which runs counter to efforts on debt reduction. The Federal Reserve continues to hold short-term interest rates near zero and has signaled that this will not change until well after the economy shows strong signs of being on a sustainable mend. Low rates are supposed to increase borrowing and thus lead to economic expansion and investment. Low rates also encourage investors to take more risk in order to reach for yield, thus inflating asset prices, stabilizing housing prices and hopefully having a positive wealth effect pushing up personal spending and increased consumer confidence.

Consumer confidence figures have been inconsistent over the last year as well. In today's world of instant news feeds and ever more rapid responses from the markets, informational and economic flows from around the world have impacted consumers, private sector economic decision makers, and policy makers. While the Federal Reserve has maintained an accommodative policy response to blunt economic shocks (the European Debt crisis, unrest in the Middle East, natural disasters, lasting impacts from the financial crisis, etc), policymakers in Washington D.C. have been at a stalemate. Another factor compounding this uncertainty is the U.S. Election in November. Simply put, both the economic uncertainty brought from a globalized economy and an uncertain future regulatory environment has led to a frozen, wait and see, response from private sector economic decision makers.

Pension Funds Respond

Lower growth rates and higher unemployment at home, a massive European sovereign debt crisis, and rising inflation threatening to slow emerging economies make for volatile global markets. Questions surrounding how pension funds will meet their expected return targets and thus fund their liabilities are valid. Many funds are faced with the need to boost returns in this environment and have turned to alternative investment markets such as private equity, real estate, real return strategies, and absolute return strategies. This change has been accomplished most often at the expense of traditional public equities allocations. KRS has also moved in this direction. New target asset allocations were approved during this fiscal year for each plan, in response to recently completed asset liability modeling studies. These new asset allocation guidelines generally call for a decrease in U.S. public equity, a more diversified fixed income portfolio, and new allocations to the real return and absolute return buckets, so going forward, the portfolio is more diversified than ever.

INVESTMENT SUMMARY



Investment Policies

Visit kyret.ky.gov/index.php/investments to read our Statement of Investment policy. Other policies include Brokerage, Securities Trading, Placement Agents, Proxy Voting, and more.

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

Investment Policy

The KRS Board of Trustees approved a new target asset allocation beginning July 1, 2011. As of June 30, 2012, the fund's policy allocation invests the following.

Board Investment Policy for Fund Asset Allocation

Asset	Pension Fund	Insurance Fund
U.S. Equity	20.0%	21.1%
International Equity	20.0%	21.0%
Emerging Market Equity	4.0%	3.4%
Core Fixed	10.0%	14.1%
Global Fixed	5.0%	1.7%
High Yield	5.0%	3.5%
Private Equity	10.0%	8.3%
Real Estate	5.0%	4.3%
Absolute Return	10.0%	10.2%
Real Return	10.0%	11.4%
Cash	1.0%	1.0%

Investing for Kentucky

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

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

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

Longer-Term The total assets of the Systems should achieve a return measured over 30 to 40 years which exceeds the actuarially required rate of return of 7.75% while also exceeding the return achieved by its total fund benchmark.

INVESTMENT STRATEGIES

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

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

Asset Allocation
Board Policy vs. Actual (Rebalanced)

Asset	Policy's Pension Asset Allocation	Actual Pension Asset Allocation	Policy's Insurance Asset Allocation	Actual Insurance Asset Allocation
U.S. Equity	20.0%	19.1%	21.1%	22.1%
International Equity	20.0%	19.1%	21.0%	19.3%
Emerging Market Equity	4.0%	3.8%	3.4%	3.0%
Core Fixed	10.0%	10.4%	14.1%	11.0%
High Yield	5.0%	5.5%	3.5%	4.7%
Global Fixed	5.0%	5.3%	1.7%	4.5%
Private Equity	10.0%	12.3%	8.3%	6.7%
Real Estate	5.0%	2.0%	4.3%	1.1%
Absolute Return	10.0%	10.2%	10.2%	10.2%
Real Return	10.0%	10.8%	11.4%	13.8%
Cash	1.0%	1.6%	1.0%	3.7%

The objectives of the portfolios are to produce results that exceed the stated goals.

Performance Review Procedures

At least once each quarter, the Investment Committee, on behalf of the Board of Trustees, reviews the performance of the portfolio for determination of compliance with the Statement of Investment Policy. The Investment Committee also reviews a report created and presented by the KRS Compliance Officer who is part of the independent Internal Audit Department. The Compliance Officer performs tests daily, monthly, and quarterly to assure compliance with the restrictions imposed by the Investment Policy.

Consulting

The Board employs industry leading external consultants to assist in determining and reviewing the asset allocation guidelines and the performance of both the internally managed and externally managed assets. A letter from each consulting firm utilized follows this introduction and discusses current allocations, performance and significant changes during the fiscal year.

ECONOMIC REVIEW

By Rebecca A. Gratsinger
CEO, Principal
R.V. Kuhns & Associates

The start of the fiscal year ushered in a period filled with episodic market cycles coined as "risk on/risk off" phases. Throughout the past 12-months ending June 30, 2012, global macroeconomic events pushed investors from a "rush to risk" to a "flight to safety" mode numerous times.



GDP
Gross Domestic Product

Fed
Federal Reserve

The markets quickly reacted to growing and endless news about the mounting sovereign debt in many European countries and the fragility of the European Union. With many global businesses impacted by issues in Europe, the U.S. Treasury became the investment of choice, which drove down yields to historic lows.

The first half of the fiscal year began with several negative events that sparked a "risk off" mode in the global financial markets. In the U.S., political stalemate over raising the country's debt ceiling led credit rating agency Standard & Poor's to downgrade the U.S. debt from AAA to AA+, the first downgrade in U.S. history. However, the gravity of the historical event eluded investors as fear mounted over uncertainty with global capital markets and they continued to buy U.S. Treasuries. High unemployment in the U.S. at 9.1 % coupled with a possible double-dip recession led the Fed to launch "Operation Twist," a stimulus program designed to keep long-term rates low by selling short-term Treasuries and buying long-term Treasuries. In Europe, investors worried about Greece defaulting on its debt without a substantial restructuring plan and even more about the magnitude of possible bailouts for countries like Spain, Italy, and Ireland. The Japanese economy experienced a recovery from the devastating tsunami earlier in the calendar year.

Toward the end of the first half of the fiscal year, six Central Banks around the world (including the U.S.) offered European banks access to low interest rate loans to inject liquidity and confidence back into the global markets. The International Monetary Fund ("IMF") stepped in to establish the European Financial Stabilization Fund ("ESFS"), which provided additional liquidity to troubled countries unable to access the capital markets at reasonable borrowing rates. In the U.S., the Gross Domestic Product ("GDP") growth for the third quarter of 2011 was revised down to an annual growth rate of 1.8%. The significant injections of liquidity in the European markets coupled with improving economic data in the U.S. (signs of growth) helped motivate investors to sell out of U.S. Treasuries and buy riskier assets.

The second half of the fiscal year continued the strong market upswing in the U.S. supported by cleaner corporate balance sheets, positive earnings reports, and signs of improved growth. The final estimate for GDP growth for the fourth quarter was 3.0% annualized and both the manufacturing and services industries showed improvements. In Europe, the member countries created the Long-Term Refinance Operation, or the LTRO, which offered additional loans to banks, and Greece finally established a plan to significantly reduce the par value of its bonds. The new lending facility along with certainty about the Greek debt temporarily encouraged investors to begin buying non-U.S. Treasury securities. In Asia, the Bank of Japan announced a 1.0% inflation target to combat deflationary pressures. China, citing decreased exports resulting from slowed global growth, reduced their 2012 GDP growth target from 8.0% to 7.5%.

The positive sentiment faded toward the end of the fiscal year with a downward revision of GDP growth in the U.S. for the first quarter to 1.9%. European economic conditions sank to near-recessionary levels, posting a contraction in economic growth. Brazil and China, concerned over diminishing growth prospects at home and abroad, cut their primary interest rates in an effort to reinvigorate their economies. Finally, the Bank of Japan stepped up its bond buying programs in order to fight against ongoing deflationary pressures. The "risk off" mode of the capital markets pushed skittish investors back into long-term U.S. Treasuries and flattened the yield curve. By the end of the quarter, the yield on the 10-year Treasury had fallen from 3.2% on June 30, 2011 to a very low 1.6%.

Domestic Economic Indicators as of June 30, 2012

Indicator	June 2012	June 2011	Yr/Yr	20 Year	40 Year
Capacity Utilization	78.90	76.70	▲	79.20	80.20
↘ Unemployment Rate	8.20%	9.20%	▲	6.00%	6.40%
↘ PMI - Manufacturing	49.70	55.30	▼	52.20	52.30
↘ Baltic Dry Index - Shipping	1,004	1,413	▼	2,432	2,108
Real GDP Year-Over-Year	2.20%	1.60%	▲	2.60%	2.80%
Consumer Confidence	62.00	57.60	▲	92.97	92.13
Breakeven Inflation - 10 Year	2.10	2.38	▼	N/A	N/A
CPI Year-Over-Year (Headline)*	1.70%	3.60%	▼	2.50%	4.40%
CPI Year-Over-Year (Core)*	2.20%	1.60%	▲	2.30%	4.30%
PPI Year-Over-Year	0.70%	7.00%	▼	2.30%	4.00%
M2 Year-Over-Year	9.30%	6.00%	▲	5.60%	6.80%
Personal Savings	4.40%	5.50%	▼	4.20%	6.50%
Disposable Personal Income	0.40%	0.20%	▲	0.40%	0.60%
Personal Consumption Expenditures	1.50%	2.60%	▼	2.10%	3.90%
US Dollar Total Weighted Index	72.74	69.16	▲	87.92	95.64
WTI Crude Oil per Barrel	\$85	\$95.00	▼	\$42.00	\$37.00
Gold Spot per Oz**	\$1,597	\$1,500.00	▲	\$292.00	\$324.00

* CPI figures are cyclically adjusted.

** 20- and 40-year average Gold spot prices are adjusted for inflation (based on data courtesy of Bloomberg Professional Services)

CAPITAL MARKETS REVIEW

Global Equities

Global equities tumbled early in the fiscal year to post double-digit losses, but recovered some of those losses at the close of the first half of the fiscal year, more so in the U.S. than in international markets. By the end of the fiscal year, the major indices posted low to negative returns. U.S. large capitalization stocks produced single digit returns, with growth stocks edging out value stocks. U.S. mid and small capitalization stocks earned negative returns for the year. The developed non-U.S. equity markets generated negative returns in the teens for the fiscal year, led mostly by poor results in European countries. Emerging markets produced similar negative returns based on slowed demands.

Fixed Income

Within the fixed income markets, the rotating risk on/risk off market environments kept all capital markets unbalanced, which benefited the U.S. Treasury and U.S. TIPS markets the most, and led to a positive year for bonds in general. Longer-term U.S. Treasuries earned over 30% for the year, which contributed to the 9.0% return for the broad U.S. Treasury index, followed by an 11.7% return for U.S. Treasury Inflation Protection Securities ("TIPS"). As investor fear of inflation grew amid a slow-to-no growth economy, prices for TIPS soars and yields fell to negative territory. Investors showed a preference for preserving spending power at a slight cost.

**TIPS**

Treasury Inflation Protection Securities

One-Year Trailing Performance through June 30, 2012

Index	Description	Return
S&P 500	Large Cap U.S. Equity	5.5%
R Mid Cap	Mid Cap U.S. Equity	-1.7%
R 2000	Small Cap U.S. Equity	-2.1%
MSCI EAFE (Gross)	Large Cap International Equity	-13.4%
MSCI EAFE SC (Gross)	Small Cap International Equity	-14.8%
MSCI Emg Mkts (Gross)	Emerging Markets Equity	-15.7%
Barclays US Agg Bond	U.S. Investment Grade Bonds	7.5%
Barclays US Trsy	U.S. Treasury Bonds	9.0%
Barclays US Trsy: US TIPS	U.S. TIPS	11.7%
Barclays US Corp: Hi Yld	U.S. High Yield Bonds	7.3%
Wilshire US REIT	U.S. Real Estate Investment Trusts	13.2%
BofA ML 3 Mo US T-Bill	U.S. Cash Equivalents	0.1%

ASSET ALLOCATION REVIEW



RVK
R.V. Kuhns & Associates, Inc.

KERS
Kentucky Employees Retirement System

CERS
County Employees Retirement System

SPRS
State Police Retirement System

Towards the end of the 2010-11 fiscal year, the Board commissioned RVK to conduct asset liability studies for the KERS, CERS, and SPRS pension and insurance plans. The asset-liability studies assisted the Board with deciding on the most effective asset allocation strategies for each pension and insurance plan under its purview in order to lower risk, control the level of illiquidity in the portfolios, and generate a return expected to exceed the actuarially assumed rate of return of 7.75%.

All of the asset-liability studies were completed by the first quarter of fiscal year 2010-11. In May 2011, the statement of investment policy issued by the Board incorporated the new plan specific target asset allocations to be effective at the beginning of the 2011-12 fiscal year. Over the last year, the Board has been transitioning to the new plan specific target asset allocations in a prudent manner.

PENSION PLAN REVIEW



TIPS
Treasury Inflation Protection Securities

The market value of the Kentucky Retirement Systems ("Systems") Pension Plan assets ("The Fund") decreased from \$11.5 billion on June 30, 2011 to \$10.7 billion on June 30, 2012. The Fund's investments collectively returned 0.1% for the fiscal year and compared to the 0.9% return earned by its target allocation benchmark, the Fund underperformed by 0.8%. The Fund's three-year annualized return of 11.3% slightly outperformed its target allocation benchmark of 11.2%. The Fund's five-year annualized return of 1.8% trailed the target allocation benchmark's return of 2.4%. The current actuarial assumed rate of return is 7.75%, which represents the Fund's long-term return goal.

KERS & CERS Pension Plan Asset Allocation vs. Target Allocation

Asset	Market Value	Allocation	Current Target
U.S. Equity	\$1,991,870,055	19.1%	20.0%
Non U.S. Equity	\$1,983,942,841	19.0%	20.0%
Emerging Markets Equity	\$393,761,218	3.8%	4.0%
Fixed Income	\$2,215,015,354	21.3%	20.0%
Real Return	\$1,123,208,288	10.8%	10.0%
Real Estate	\$207,773,289	2.0%	5.0%
Absolute Return	\$1,062,503,647	10.2%	10.0%
Private Equity	\$1,281,276,645	12.3%	10.0%
Cash Equivalent	\$158,409,311	1.5%	1.0%
Total Fund (excluding SPRS)	\$10,417,760,647	100.0%	100.0%

SPRS Pension Plan Asset Allocation vs. Target Allocation

Asset	Market Value	Allocation	Current Target
U.S. Equity	\$47,071,900	18.8%	20.0%
Non U.S. Equity	\$46,009,277	18.4%	20.0%
Emerging Markets Equity	\$9,255,462	3.7%	4.0%
Fixed Income	\$49,559,159	19.8%	20.0%
Real Return	\$24,419,498	9.8%	10.0%
Real Estate	\$5,627,669	2.2%	5.0%
Absolute Return	\$30,840,326	12.3%	12.0%
Private Equity	\$30,659,594	12.2%	7.0%
Cash Equivalent	\$6,998,506	2.8%	2.0%
Total SPRS Fund	\$250,441,391	100.0%	100.0%

The Systems' current pension plan investments are diversified across all segments of the U.S. and international equity markets (both developed and emerging markets). The fixed income portfolio is diversified mix of U.S. investment grade, high yield, global fixed income, and emerging market debt securities. The Systems also invests in real return assets, real estate, absolute return strategies, and private equity.

As shown above, the current target asset allocation for KERS Non-Hazardous, KERS Hazardous, CERS Non-Hazardous, and CERS Hazardous plans are all the same. The current

target asset allocation for the SPRS plan, as shown above, is slightly different with a smaller allocation to private equity and a greater allocation to absolute return strategies and cash equivalents.

For each plan, the current deviations to the targets are being brought closer to the current target allocations in a prudent manner over time. For less liquid asset classes (private equity and real estate), it may take years before the current allocation is in line with the current target.

INSURANCE PLAN REVIEW



Haz
Hazardous (i.e. KERS Haz)

Non-Haz
Non-Hazardous (i.e. CERS Non-Haz)

The market value of the Kentucky Retirement Systems Insurance Plan assets increased from \$3.0 billion on June 30, 2011 to \$3.1 billion on June 30, 2012. The Fund's investments returned -1.7% for the fiscal year and compared to the target allocation benchmark of 0.60%, the Fund underperformed by -2.3%. The Fund's three-year annualized return went from 3.1% as of June 30, 2011, to 11.9% as of June 30, 2012; however, still slightly lagging its target allocation benchmark of 13.0%. The Fund's five-year annualized return of -0.2% also lagged its target allocation benchmark of 0.4%. The current actuarial assumed rate of return is 7.75%, which represents the Fund's long-term return goal.

CERS & SPRS Insurance Plan
Asset Allocation vs. Target Allocation

Asset	Market Value	Allocation	Current Target
U.S. Equity	\$538,205,313	23.3%	20.0%
Non U.S. Equity	\$428,717,127	18.5%	20.0%
Emerging Markets Equity	\$81,465,204	3.5%	4.0%
Fixed Income	\$484,456,455	20.9%	20.0%
Real Return	\$314,561,381	13.6%	10.0%
Real Estate	\$29,212,840	1.3%	5.0%
Absolute Return	\$231,495,422	10.0%	10.0%
Private Equity	\$139,961,284	6.1%	10.0%
Cash Equivalent	\$64,980,890	2.8%	1.0%
Total Fund (excluding KERS)	\$2,313,055,915	100.0%	100.0%

KERS Non-Haz Insurance Plan
Asset Allocation vs. Target Allocation

Asset	Market Value	Allocation	Current Target
U.S. Equity	\$72,543,138	17.5%	28.0%
Non U.S. Equity	\$100,320,559	24.3%	27.0%
Fixed Income	\$64,001,265	15.5%	15.0%
Real Return	\$61,344,946	14.8%	20.0%
Real Estate	\$1,211,693	0.3%	0.0%
Absolute Return	\$40,819,477	9.9%	10.0%
Private Equity	\$42,078,795	10.2%	0.0%
Cash Equivalent	\$31,153,395	7.5%	0.0%
Total KERS Non-Haz Fund	\$413,473,268	100.0%	100.0%

"We expect the Board's continued high standard of care for these assets and commitment to diversification to allow the Systems to meet its long-term goals and objectives."

*Rebecca A. Gratsinger
CEO, Principal
R.V. Kuhns & Associates*

The Systems' current insurance plan investments are diversified across all segments of the U.S. and international equity markets (both developed and emerging markets). The fixed income portfolio is a diversified mix of U.S. investment grade, high yield, global fixed income, and emerging market debt securities. The Systems also invests in real return, real estate, absolute return strategies, and private equity.

Asset Allocation As shown above, the current target asset allocation for CERS Non-Hazardous, CERS Hazardous, and SPRS plans are all the same. The target asset allocation for the KERS Hazardous Plan, as shown below, varies slightly from the majority of the other insurance plans with a smaller allocation to private equity and a greater allocation to absolute return strategies and cash equivalents.

Target Allocation The current target asset allocation for the KERS Non-Hazardous plan, as shown above, is the only plan that is significantly different than the other plans with no allocation to real estate, private equity, or cash equivalents and a greater allocation to real return (more specifically Treasury Inflation Protected Securities ("TIPS")).

For each plan, the current deviations to the targets are being brought closer to the current target allocations in a prudent manner over time. For less liquid asset classes (private equity), it may take years before the current allocation is in line with the current target.

KERS Haz Insurance Plan Asset Allocation vs. Target Allocation

Asset	Market Value	Allocation	Current Target
U.S. Equity	\$63,360,680	19.4%	20.0%
Non U.S. Equity	\$59,882,865	18.3%	20.0%
Emerging Markets Equity	\$11,424,244	3.5%	4.0%
Fixed Income	\$67,921,367	20.8%	20.0%
Real Return	\$ 43,986,371	13.5%	10.0%
Real Estate	\$4,181,561	1.3%	5.0%
Absolute Return	\$39,039,078	11.9%	12.0%
Private Equity	\$21,438,648	6.6%	7.0%
Cash Equivalent	\$15,730,038	4.8%	2.0%
Total KERS Haz Fund	\$326,964,851	100.0%	100.0%

MANAGER REVIEW

The Systems continued to make structural shifts within the domestic equity portfolio at the end of the fiscal year. Three new domestic mid-cap managers were added to the portfolio: Sasco Capital Mid Cap Value, Systematic Financial Management Mid Cap Value, and Geneva Capital Management Mid Cap Growth, while the internally managed Mid Cap portfolio was subsequently liquidated.



S&P
Standard & Poors

PIMCO
Pacific Investment
Management Company

TIPS
Treasury Inflation
Protection Securities

MSCI
Morgan Stanley Capital
International

In addition, the internally managed S&P 1500 Index portfolio was transitioned to an S&P 500 Index mandate at the start of the fiscal year. The INVESCO's Structured Core Equity portfolio posted a return of 4.2% for the fiscal year, trailing the S&P 500 Index's return of 5.5%. The River Road All Cap Value portfolio posted the best return among the domestic equity portfolios with a return of 6.8%, which exceeded the Russell 3000 Value Index return of 2.6%. Westwood All Cap Value struggled during its first year within the Fund, returning -4.5% vs. 2.6% for the Russell 3000 Value Index. In addition, Westfield All Cap Growth returned -2.0% for the fiscal year, which significantly trailed the Russell 3000 Growth Index's return of 5.1%. While a return of 0.4% for the Northern Trust Structured Small Cap portfolio may not be high in absolute terms, the portfolio exceeded its benchmark, the Russell 2000 Index, by 2.4%. In total, the U.S. equity portfolio underperformed its US Equity Custom Index (2.2% vs. 3.8%) for the fiscal year.

During the fiscal year, small structural shifts were made within the international equity portfolio. The Boston Company and Pyramis International Growth portfolios transitioned from World ex US mandates to All Country World ex US mandates (added emerging markets exposure) while Artio International Equity was terminated. The relative performance among the international equity managers was mixed, and collectively the total international equity portfolio underperformed the Non-U.S. Equity Custom Index for the fiscal year (-17.3% vs. -14.2%). The Boston Company Non-US Value Equity portfolio significantly underperformed The Boston Co Blended Index (-18.6% vs. -13.4%) whereas the Pyramis International

Growth portfolio posted similar returns to the Pyramis Blended Index (-13.5% vs. -13.4%). The passive BlackRock ACW Ex US Index portfolio was in line with its benchmark, the MSCI ACW Ex US Index, for the fiscal year (-14.3% vs. -14.6%). The Northern Trust Small Cap Equity Index fund ended the year slightly above its benchmark, the MSCI ACW Ex US Small Cap Index, (-16.2% vs. -16.4%). The Plan's two emerging market equity portfolios managed by Aberdeen Asset Management and Wellington Management generated very different and mixed returns for the fiscal year, similar to last year. Aberdeen earned an impressive -3.3% relative to the MSCI Emerging Markets Index return of -15.7%, while Wellington slightly underperformed the benchmark with a return of -15.9% over the same fiscal year period.

The Systems made some enhancements to the fixed income portfolio during the fiscal year with the addition of two high yield managers, Columbia Management and Loomis, Sayles & Company, and one global bond manager, Manulife Asset Management. Structural changes were also made as fixed income and real return assets were separated into two composites, with differing target allocations. Core fixed income managers, PIMCO (7.4%) and NISA (7.7%) both performed in line with the Barclays US Aggregate Bond Index return of 7.5% for the fiscal year. The Systems' investment in Commerce Street Income Partners underperformed the Opportunistic Fixed Income Custom Index (Barclays US Corporate High Yield Index and Barclays ABS US Floating Rate Index), over the trailing 12-months (-4.0% vs. 4.5%). The sector-specific manager, Waterfall, significantly outperformed the Opportunistic Fixed

Income Custom Index for the fiscal year (7.4% vs. 4.5%). The high yield/bank loans investment managed by Shenkman returned 5.4%, consistent with the US High Yield/Bank Loans Blended Index (5.4%). Stone Harbor, the Systems' emerging market debt manager produced a return of 8.7%, underperforming its benchmark, the JPMorgan Emerging Market Bond Global Diversified Index, by -1.1%. Overall, the total fixed income portfolio returned 8.1% for the fiscal year, outperforming the Fixed Income Custom Index by 0.8%.

The new real return composite consists primarily of the Systems' TIPS managers, with smaller allocations to a couple alternative real return portfolios, Tenaska Power Fund and Tortoise Capital MLPs. In addition, PIMCO All Asset fund was added during the fiscal year to diversify the real return portfolio. The internally managed TIPS portfolio slightly underperformed the Barclays US TIPS Index (11.3% vs. 11.7%) while the Weaver Barksdale TIPS portfolio (11.8%) performed in line with the benchmark over the fiscal year. In total, the real return portfolio returned 12.0%, exceeding the Consumer Price Index +3% by 7.3% for the fiscal year.

The Plan's alternative investment portfolio consists of an absolute return strategy portfolio, longer term investments in real estate, and private equity. The System continued to develop the absolute return strategy portfolio during the fiscal year with the addition of three multistrategy funds of hedge funds, Blackstone Alternative Asset Management ("BAAM"), Pacific Alternative Asset Management Company ("PAAMCO"), and Prisma Capital Partners. The real estate portfolio was further developed with the addition of H/2 Credit Partners and Harrison Street Core. The fiscal year return for the real estate portfolio was 7.5% vs. 12.4% for the Real Estate Blended Index. The Systems' only absolute return strategy manager with enough performance history, Arrowhawk Durable Alpha Fund, posted a relative gain against the one-quarter lagged HFN Fund of Funds Diversified Index for the fiscal year (-3.2% vs. -4.7%). Over the past five years ending June 30, 2012, the total private equity portfolio return of 2.7% underperformed the Alternatives Custom Index return of 4.9%.

Insurance Plan The Insurance Plan invests in all of the same portfolios as the Pension Plan with the exception of a few investments: INVESCO Structured Core Equity and Northern Trust International Small Cap Equity Index. In addition, the Insurance Plan has an allocation to

an Internal International Equity portfolio, which tracks the MSCI Emerging Markets Index. For the fiscal year, the portfolio return was in line with the index (-15.9% vs. -15.7%). Although the insurance plan returns slightly differ from the returns earned in the pension plan because of investment restrictions, the relative under/outperformance was similar for the fiscal year.

Board Initiatives The Board continues to review the effectiveness of the approved asset allocation to meet the assumed rates of returns for the pension and insurance plans. Research, selection, and implementation of investments within alternative investment and inflation-protection strategies continue as a means to protect the portfolios in the event of market shocks and potentially higher inflationary environment. Presently, there is no clear outlook on when inflation will become a significant threat to the purchasing power of earnings generated by the portfolios. However, the Board proactively seeks investment strategies expected to mitigate the effects while contributing to the growth of the portfolios.

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

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



Rebecca A. Gratsinger // CEO, Principal
R.V. Kuhns & Associates, Inc.

October 3, 2012



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

Subject: Annual Private Equity Review

Dear Trustees:

Kentucky Retirement Systems Private Equity Portfolio Review

Altius Associates was hired in December of 2011 to advise the Kentucky Retirement Systems ("KRS") Board of Trustees and Staff in its private equity investment activities. This is our first annual review of the KRS private equity investment program. Unless otherwise noted, all data is through June 30, 2012. The investment program is managed in accordance with the KRS Investment Policies and Procedures.

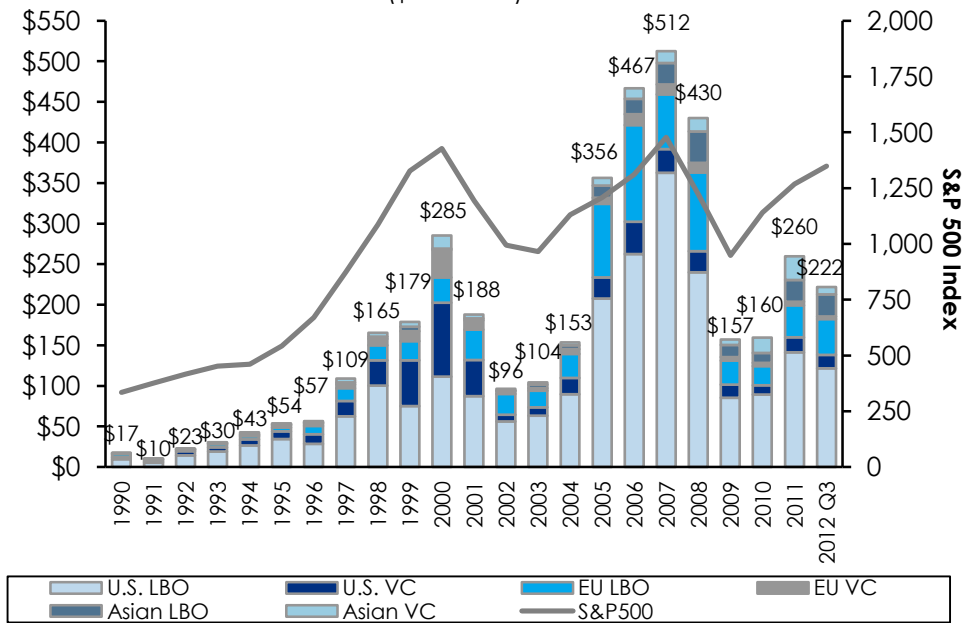
Private Equity Market Overview

Overall, the private equity market has continued to improve, as the pace of fundraising has increased and exit opportunities remain robust. While, as with the broader economy, expectations of the market in the medium term are mixed, regulatory and structural disruptions occurring in the macroeconomic background are largely outweighed by strategic buyers flush with cash, a persistently low interest rate environment, and LPs search for return and uncertainty in more traditional investments. Altius expects the pace of both investment and distribution to accelerate, which will mainly be driven by activity in the US and other world economies.

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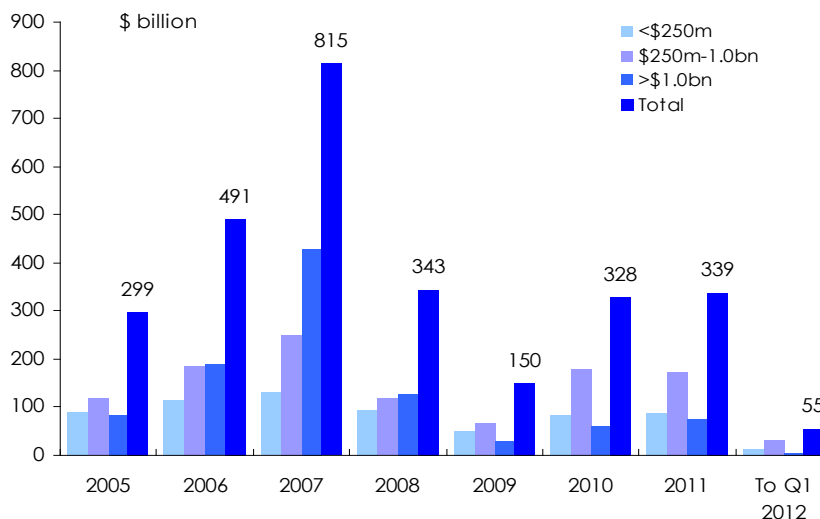
Global Fundraising from 1988 - 2012 Q3
(\$ in Billions)



Source: Thomson One

Global private equity fundraising has continued to improve since the industry trough in 2009, and while there was a temporary delay in fundraising activity in Q1 2012, global private equity fundraising has accelerated in Q2 2012 and Q3 2012. 2012 is now on track to being the best year for fundraising since 2008. The average time to close a fund has fallen to 13.1 months from a high of 19 months in 2009. It took on average 9.6 months to raise a fund at market peak.

Total US Buyout Investment by Transaction Size

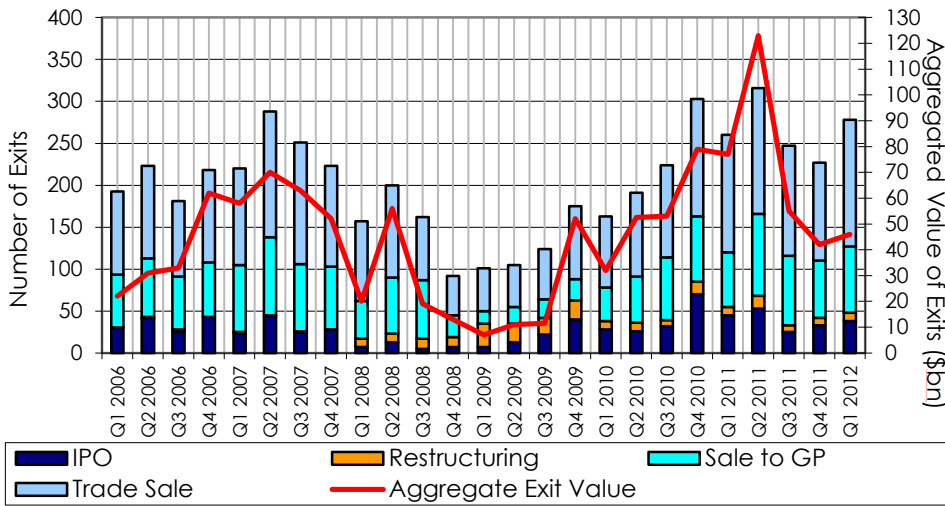


Source: PitchBook



Similar to fundraising, US LBO transaction volume remained tepid into Q1 2012, while still on target to being greater than volumes in 2009. Altius expects the pace of LBOs to increase throughout 2012.

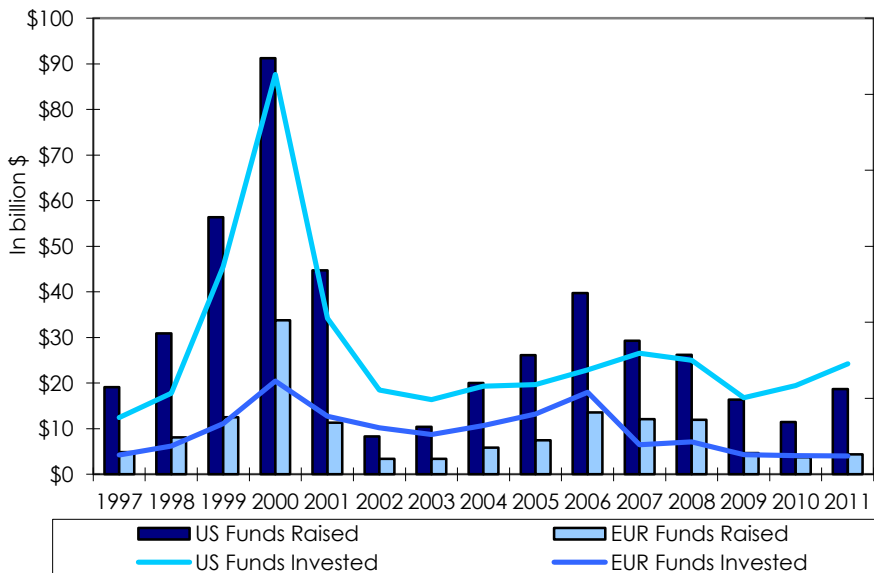
Private Equity Backed Exits by Type



Source: Preqin

In regards to private equity exit opportunities, the 15 months between 2011 and Q1 2012 was a great period for exits, even when compared to the peak market years. More strategic buyers are becoming active in the market, and the proportion of exits due to restructuring continues to decrease from its height in 2009.

US & Europe - VC & Growth Equity Fundraising Activity



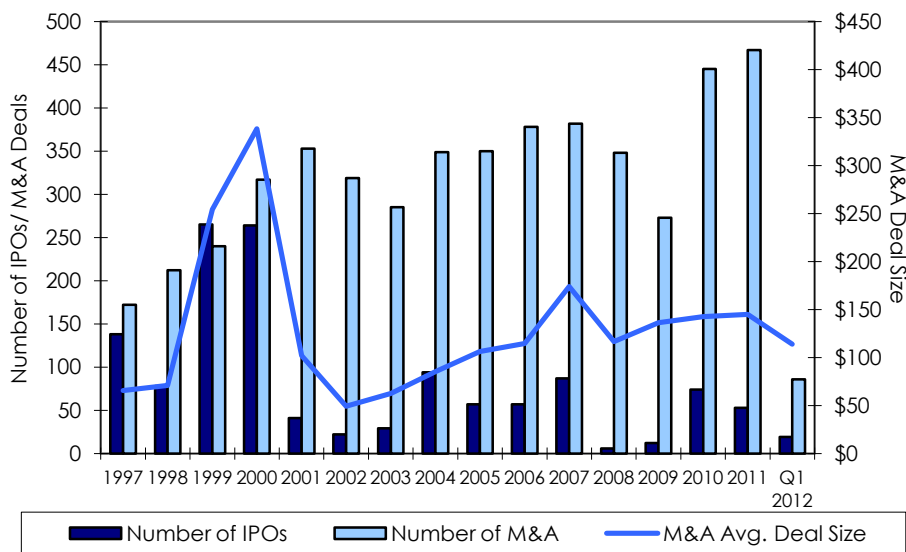
Source: Thomson One, NVCA, EVCA

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While US fundraising for VC and growth equity funds is finally showing signs of life, fundraising for European funds has failed to gain momentum. Fundraising for VC has never recovered to its previous high water mark set in 2000.

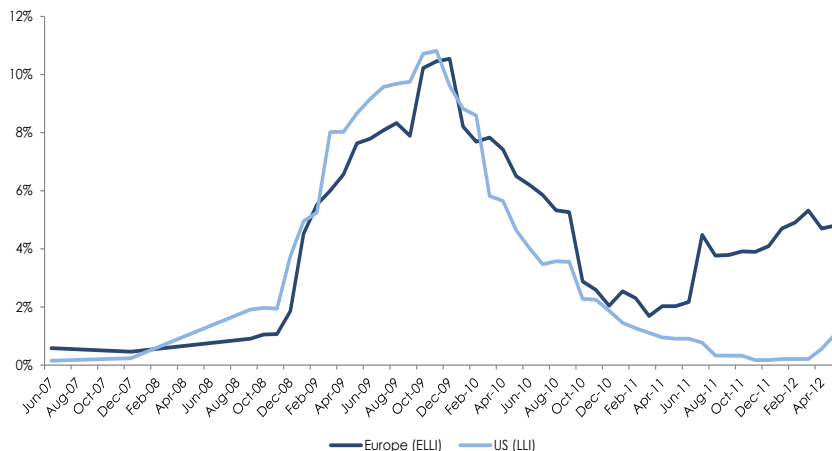
VC & Growth Equity US Exit Activity



Source: Thomson One, NVCA, EVCA

Exits of venture-backed companies by IPOs have been challenging for smaller companies, but there have been some exceptions for larger well-known companies such as Facebook and LinkedIn. US M&A activity in 2011 hit a peak of 467 exits of VC backed companies in 2011 – the highest single year since 1997. Altius finds it likely that the exit market for VC firms will remain healthy through 2012.

Leveraged Loan Default Rates



Source: Moody's, S&P LCD

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In past economic cycles, the distressed debt opportunity has been short-lived. With the recent spike in European leveraged loan default rates, Altius expects that European opportunistic and distressed strategies will continue to outperform. Furthermore, the “amend and extend” of loans by lenders is slowing down and default rates are increasing. The poor credit quality of 2006-08 vintage year loans has resulted in a wall of debt maturing over the next three years. Altius continues to view this sector as attractive.

Kentucky Retirement Systems Private Equity Program

At Altius' hiring in 2011, KRS had committed \$2.15 billion to 50 managers across the private markets spectrum including Buyout, Venture/Growth, and Credit-oriented Strategies. KRS also has exposure to a number of funds of funds as well as more opportunistic strategies. The portfolio is well diversified across strategies, in large, mid and small market buyout (60% by commitments); venture and growth capital (18%); and the remainder in credit and other strategies. On December 31, 2011 the capital invested was \$1.52 billion. In the six months through June 30th 2012, an additional \$45.9 million was drawn by underlying managers and \$83.9 million distributed. The NAV of the portfolio on June 30th was \$1.528 billion.

Looking forward, Altius identified the following areas of focus for further development of the portfolio:

- Pursue a global fund allocation and increase direct exposure to non-US general partners
- Smooth out investment pace and refrain from being too tactical with pacing
- Maintain smaller/mid-market buyout bias without increasing the number of managers
- Increase allocation per commitment and focus on maintaining a manageable number of manager relationships
- Opportunistically invest in secondary market
- Slowly reduce exposure to pure venture capital

KRS' exposure to non – US private equity is mainly drawn from two sources: diversified global private equity funds and funds of funds. These will naturally run off over time and KRS will look to replace this exposure with commitments directly to non-US based general partners. Altius has recommended that KRS first start with diversified European funds and move into Asia and other emerging markets as the plan develops. The vision is to eventually reach an allocation of about 60% US, 25% Europe and 15% rest of world.

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Moving forward, Altius has modeled out that KRS should commit on average \$300 million per year to maintain its current allocation to private equity. Taking into account existing managers with whom KRS would recommit, this implies making 5-6 commitments per year with an average size of \$50-60 million.

Altius advises to continue to bias buyout investments towards smaller and mid-market managers. In addition, Altius recommends increasing allocation per fund commitment in order to better maintain manager relationships.

KRS has a healthy allocation of 18% to venture capital and, like the fund of funds that are in the portfolio, we recommend that those allocations be allowed to run off or self-liquidate to bring the allocation in to line with recommended policy. This will be achieved by recommitting to only a select group of venture managers which will allow the allocation level to naturally decline.

KRS has used the secondary market effectively in the past to reduce exposure to the asset class. Going forward, Altius will recommend continued use of secondaries, mostly on the buy-side to aide in portfolio construction.

Overall, the KRS private equity is well diversified across venture, buyout and opportunistic strategies in the US. The program is now sufficiently mature to begin to make commitments internationally and Altius is well positioned to assist KRS with the continued development of the portfolio.

Sincerely,



P. Bradford Young
Partner and Executive Director

MARKET OVERVIEW

By Jonathan Berns
Principal
ORG Portfolio Management

The U.S. commercial real estate market continued to see improvement in 2012 although the second quarter saw declines. The GDP only expanded at an annualized rate of 1.5% (compared to 2.0% and 4.1% in the prior two quarters) resulting in softer labor conditions and continued unemployment hovering close to 8%. Overall U.S. employment growth remains sluggish, falling considerably below historical norms.

 **GDP**
Gross Domestic Product

Capitalization Rates	2nd Qtr. 2011	2nd Qtr. 2012	Basis Point Change
Total	5.79%	5.56%	-0.23
Apartments	5.27%	5.15%	-0.12
Retail	6.27%	5.88%	-0.39
Office	5.77%	5.46%	-0.31
Industrial/Warehouse	6.16%	6.04%	-0.12

Source: NCREIF - Current Value Weighted Capitalization Rates

Capitalization rates at the top tier of the market continue to decline with interest rates remain low. The 10 year Treasury yield fell below 1.4% in July and is currently approximately 1.6%. However, ongoing weakness in U.S. economic data and the problems in Europe leave capitalization rate spreads elevated, especially in tertiary markets and for non-stabilized assets.

Property Sector	10 Year Average	2nd Qtr. 2011	2nd Qtr. 2012	Change %	Forecast 2013	Change %
Apartments	6.2%	5.9%	4.7%	-1.2%	4.2%	-0.5%
Retail	7.2%	11.0%	10.8%	-0.2%	10.0%	-0.8%
Office	15.0%	16.2%	15.7%	-0.5%	14.8%	-0.9%
Industrial/Warehouse	11.9%	14.0%	13.2%	-0.8%	11.9%	-1.3%

Source: Torto Wheaton Research, REIS and L&B Research

The current apartment vacancy rate is 4.7% and reflects consistent year over year occupancy gains. New apartment supply is expected to come on line in 2013. Demand for apartments continue to look promising although home ownership has become less expensive than renting in many markets which has resulted in slower rent growth especially in suburban locations. While the outlook for apartments is still positive, the supply/demand equation will become more balanced.

Vacancy is down across the national office market. Office construction completions are currently at the lowest in nearly 20 years. While some projects are proposed, few are getting started because rents do not support the construction.

Retail fundamentals continue to tighten due to a combination of weak but positive absorption and complete shutdown of construction. Same store sales are rising for mall and lifestyle anchors but weakening for outdoor format big-box tenants (e.g., Best Buy). Regional and super-regional malls are reporting the strongest operating results in years. Neighborhood center operating results (typically anchored by grocery and convenience retail) have also been improving.

The vacancy rate for industrial properties has declined to 13.2%. Older and small to mid-sized properties are struggling to fill vacancies in most market while large distribution spaces are being leased by E-retailers and third-party logistics firms.

ORG'S VIEW

ORG has noted that commercial real estate market is continuing to improve over 2011 levels.

The NCREIF Property Index reports a 13.4% trailing 4 quarter return. During the second quarter of 2012, ORG recognizes that core properties located in gateway markets (e.g., Washington D.C., Manhattan, Boston, San Francisco and Los Angeles) have experienced a dramatic decline in capitalization rates. These low going in income returns will require substantial rental rate growth in order for the properties to generate the projected 8-9% rate of return expected for core. ORG is concerned that the strategies targeting gateway core markets will underperform expectations for core real estate.

As an alternative, ORG has recommended that investors focus on investment strategies where going in income returns are higher in certain overlooked strategies. The suggested focus includes secondary markets (e.g., Atlanta, Houston, Dallas and Seattle among numerous others), real estate debt and alternative core property types such as student housing, medical office, senior housing and self-storage.

ORG also recommends strategies in distressed opportunistic funds where investors can capitalize on the continual de-leveraging of real estate that continues as debt originated during 2005-2007 continues to mature over the next several years. These opportunities to recapitalize high quality properties that have often been neglected could generate attractive risk adjusted returns over the next several years.

REAL ESTATE INVESTMENTS

2008-2010 Investment Activity Kentucky Retirement Systems made \$40 million commitments each to Mesa West Real Estate Income Fund II, PRIMA Mortgage Investment Trust and Walton Street Real Estate Fund VI in December 2008.

- Year to Date through September 2012, Mesa West Real Estate Income Fund II made three capital calls totaling \$8.7 million and returned \$1.6 million in adjustments and preferred return distributions. Since inception, \$33.4 million has been funded with \$6.6 million remaining capital to be called.
- PRIMA Mortgage Investment Trust called Kentucky Retirement Systems' entire \$40 million commitment by the end of the 3rd quarter 2009 and the investment is fully funded. Year to Date through September 2012, PRIMA Mortgage Investment Trust distributed \$1.9 million to KRS. Since inception, PRIMA has returned \$9.2 million.
- Year to Date through September 2012, Walton Street Real Estate Fund VI made two capital calls totaling \$10 million. Since inception, \$28.4 million has been funded with \$11.6 million remaining capital to be called.

2011 Investment Activity

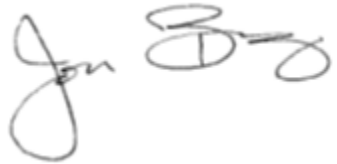
Kentucky Retirement Systems made a \$100 million commitment to H/2 Credit Partners in April 2011 and a \$101.9 million commitment to Harrison Street Core Property Fund in December 2011.

- ☛ H/2 Credit called Kentucky Retirement Systems' entire \$100 million commitment during 2011 and the investment is fully funded.
- ☛ Year to Date through September 2012, Harrison Street Core Property Fund II made five capital calls totaling \$66.6 million and returned \$0.4 million of income distributions. Since inception, \$66.6 million has been funded with \$35.3 million remaining capital to be called.

2012 Investment Activity

Kentucky Retirement Systems made a \$52.5 million investment in Walton Street Fund VII and has made no capital calls. In addition, an open end fund is under legal review:

- ☛ Mesa West Core Fund – a newly formed core open ended fund that will originate commercial mortgages utilizing existing commercial mortgage platform.



Jonathan Berns // Principal
ORG Portfolio Management, LLC
October 3, 2012

ORG Portfolio Management serves as the Real Estate Investment Consultant for KRS and makes recommendations related to the real estate portfolio.

Investment Results

Fiscal Year 2012 Results

The KRS pension fund returned 0.14%, which fell short of the return of its benchmark by 0.76%. The 0.14% return did not meet the actuarially required rate of return of 7.75%, for the period. This actuarially required rate is an annualized return that may not be met, or possibly greatly surpassed in any given year (this objective has been met over the long-term). The below benchmark performance of the pension fund can primarily be attributed to underperformance experienced in both the U.S. and Non-U.S. Equity asset classes; and the previously implemented dynamic currency hedging program, which magnified the shortfall experienced within the Non-U.S.

space. The dynamic currency hedging program was terminated in November 2012.

The KRS insurance fund lost -1.71% for the fiscal year ending June 30, 2012, compared to the benchmark's 0.58% return and the actuarially required rate of 7.75%. Like the pension fund, the insurance fund's underperformance can be primarily attributed to weakness from the U.S. and Non-U.S. Equity portfolios; performance was further hampered by the same terminated dynamic currency hedging program.

Pension Fund Total Return¹

Portfolio	Inception Date	Fiscal Year	3-Year	5-Year	10-Year	Inception
KRS Total Fund	April-84	0.14%	11.30%	1.80%	5.99%	9.36%
Performance Benchmark ²	-	0.90%	11.16%	2.38%	6.18%	9.48%

Insurance Fund Total Return¹

Portfolio	Inception Date	Fiscal Year	3-Year	5-Year	10-Year	Inception
KRS Total Insurance Fund	Apr-87	-1.71%	11.90%	-0.16%	5.86%	7.53%
Performance Benchmark ³	-	0.58%	13.01%	0.42%	5.93%	7.69%

¹The Performance Calculations presented above were prepared by the Systems' custodial bank using a time-weighted rate of return methodology based upon the market value of assets.

²Current Policy Benchmark is comprised of 20% Russell 3000, 20% MSCI ACWI ex-US GD, 4% MSCI EM GD, 20% BC Universal, 10% Russell 3000 Quarter Lagged + 400bps, 10% HFR FOF: Diversified Lagged, 10% CPI + 300bps, 5% NCREIF Open-End Diversified Core GR, and 1% CG 3-Month US Treasury Bill.

³Current Policy Benchmark is comprised of 21.1% Russell 3000, 21.1% MSCI ACWI ex-US GD, 3.4% MSCI EM GD, 19.3% BC Universal, 8.2% Russell 3000 Quarter Lagged + 400bps, 10.2% HFR FOF: Diversified Lagged, 11.4% CPI + 300bps, 4.3% NCREIF Open-End Diversified Core GR, and 1% CG 3-Month US Treasury Bill.

BENCHMARKS

Benchmarks utilized to measure the Kentucky Retirement Systems' Pension and Insurance Funds are a weighted average composite of the various asset class indexes consisting within each KRS' investment portfolio. The Total Fund Benchmarks are shown on page 95.

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

Total Fund Benchmarks

Index	Pension Fund	Insurance Fund
Russell 3000	20.0%	21.1%
MSCI ACWI ex US GD	20.0%	21.1%
MSCI Emerging Markets GD	4.0%	3.4%
Barclays Capital US Universal	20.0%	19.3%
Russell 3000 Quarter Lagged + 400 bps	10.0%	8.2%
HFR FOF: Diversified Lagged	10.0%	10.2%
CPI + 300 bps	10.0%	11.4%
NCREIF Open-End Diversified Core GR	5.0%	4.3%
CG 3-Mo U.S. Treasury Bill	1.0%	1.0%

LONG-TERM RESULTS

Pension Fund For the 10-years ending June 30, 2012, the KRS pension fund portfolio earned an annualized total return of 5.99%. As shown in the investment results table, the KRS pension fund return has trailed the benchmark in all measured time periods, except for the three-year return period, where the fund has added an additional 14 basis points annually over the benchmark. Performance is displayed below in a growth of dollars table. The table demonstrates the performance of \$1,000 invested in the KRS pension portfolio, its policy benchmark portfolio, and its actuarial objective over the past 10 years. As of June 30, 2012, \$1,000 would have grown to \$1,790, while the same \$1,000 invested in the benchmark or in the actuarial objective would have grown to \$1,822 and \$2,149, respectively.

Insurance Fund The KRS insurance fund has just underperformed its benchmark for the 10-year period ending June 30, 2012, earning 5.86% versus 5.93%. Performance is displayed below in a growth of dollars table. The table highlights the performance of \$1,000 invested in the KRS insurance portfolio (\$1,768), benchmark (\$1,779), and actuarial objective (\$2,149) over the past 10 years.

As the results show in the accompanying insurance charts and table above, the insurance fund has struggled during all measured standard return ranges.

Total Pension Fund Growth of \$1,000

Portfolio	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Pension Fund Growth	\$1,000	\$1,043	\$1,185	\$1,294	\$1,420	\$1,636	\$1,567	\$1,298	\$1,503	\$1,788	\$1,790
Performance Benchmark	\$1,000	\$1,051	\$1,202	\$1,304	\$1,410	\$1,620	\$1,558	\$1,326	\$1,501	\$1,806	\$1,822
Actuarial Assumed Rate of Return	\$1,000	\$1,083	\$1,172	\$1,268	\$1,373	\$1,480	\$1,594	\$1,718	\$1,851	\$1,994	\$2,149

Total Insurance Fund Growth of \$1,000

Portfolio	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Insurance Fund Growth	\$1,000	\$1,017	\$1,214	\$1,329	\$1,494	\$1,782	\$1,643	\$1,262	\$1,457	\$1,799	\$1,768
Performance Benchmark	\$1,000	\$1,011	\$1,210	\$1,315	\$1,463	\$1,743	\$1,604	\$1,232	\$1,393	\$1,769	\$1,779
Actuarial Assumed Rate of Return	\$1,000	\$1,083	\$1,172	\$1,268	\$1,373	\$1,480	\$1,594	\$1,718	\$1,851	\$1,994	\$2,149

U.S. Equity

For the fiscal year ending June 30, 2012, the KRS pension fund's U.S. equity portfolio posted a return of 2.16%, which underperformed the return of its benchmark by 1.68%. The KRS insurance U.S. equity portfolio posted a return of 2.04%, underperforming its benchmark return of 3.84%.

★ **Note:** KRS uses the Modified Dietz Method as its basis for calculations, which is used to determine the performance of an investment portfolio based on a time-weighted cash flow.

Since inception performance remains good; the pension's equity portfolio has generated an annualized average return of 2.16% throughout its duration, while the insurance equity portfolio posted an average annual return of 2.47% (both outpacing their respective benchmarks).

Return on U.S. Equity

Portfolio	Inception Date	Fiscal Year	3-Year	5-Year	10-Year	Inception
Pension Fund	Apr-84	2.16%	16.03%	0.48%	5.73%	10.80%
↘ Performance Benchmark ¹	-	3.84%	15.85%	-0.66%	4.83%	10.28%
Insurance Fund	Jul-92	2.04%	15.72%	0.18%	5.54%	8.45%
↘ Performance Benchmark ¹	-	3.84%	16.49%	0.33%	5.61%	--
Market Indices						
Russell 1000 (Large Cap)	-	4.37%	16.64%	0.39%	5.72%	-
Russell 2000 (Small Cap)	-	-2.08%	17.80%	0.54%	7.00%	-
Russell 3000 (Total Equity)	-	3.84%	16.73%	0.39%	5.81%	-

¹ Pension and Insurance benchmark is the Russell 3000; this became effective July 1, 2011.

Top 10 U.S. Equity Holdings Pension Fund

Company	Shares	Market Value
APPLE INC COM STK	98,049	57,260,616
EXXON MOBIL CORP COM	491,684	42,073,400
MICROSOFT CORP	937,060	28,664,665
GENERAL ELECTRIC CO	1,276,368	26,599,509
CHEVRON CORP COM	232,661	24,545,736
INTERNATIONAL BUSINESS MACHINES	120,754	23,617,067
JOHNSON & JOHNSON COM	322,691	21,801,004
JPMORGAN CHASE & CO	608,083	21,726,806
AT&T INC COM	601,493	21,449,240
PFIZER INC COM STK	907,280	20,867,440
Total	5,596,123	288,605,483

Top 10 U.S. Equity Holdings Insurance Fund

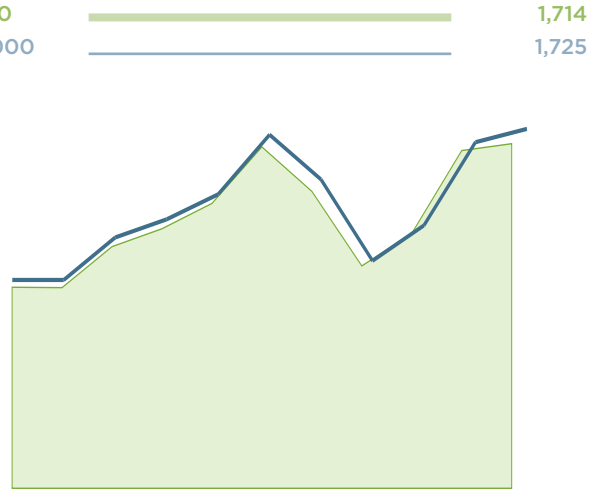
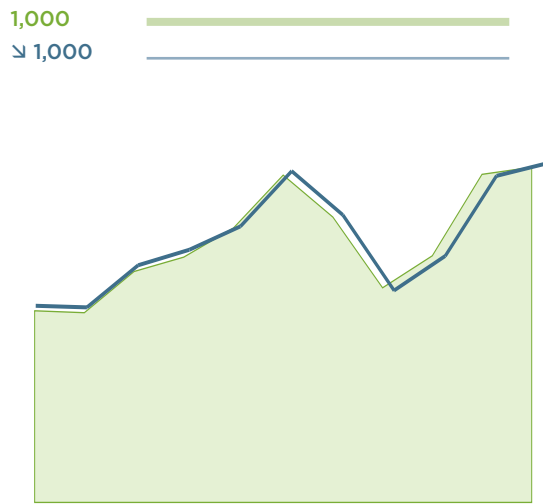
Company	Shares	Market Value
APPLE INC COM STK	34,406	20,093,104
EXXON MOBIL CORP COM	151,131	12,932,280
MICROSOFT CORP	268,915	8,226,110
GENERAL ELECTRIC CO	367,434	7,657,325
INTERNATIONAL BUSINESS MACHINES	37,280	7,291,222
CHEVRON CORP COM	65,652	6,926,286
JOHNSON & JOHNSON COM	100,536	6,792,212
AT&T INC COM	189,489	6,757,178
WELLS FARGO & CO	193,143	6,458,702
JPMORGAN CHASE & CO	163,899	5,856,111
Total	1,571,885	88,990,530

GROWTH OF \$1,000

For the 10-year period ending June 30, 2012, the pension fund's chart indicates that \$1,000 would have resulted in \$1,749 while the same \$1,000 invested in the benchmark would result in \$1,718. For the KRS insurance fund, ending June 30, 2012, a \$1,000 investment would be valued at \$1,714, compared to \$1,725 in the benchmark.

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

Portfolio	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Pension Fund Growth	\$1,000	\$990	\$1,205	\$1,280	\$1,432	\$1,708	\$1,489	\$1,120	\$1,287	\$1,712	\$1,749
↘ Performance Benchmark	\$1,000	\$992	\$1,204	\$1,282	\$1,400	\$1,678	\$1,457	\$1,077	\$1,251	\$1,654	\$1,718
Insurance Fund Growth	\$1,000	\$998	\$1,202	\$1,291	\$1,417	\$1,698	\$1,477	\$1,106	\$1,268	\$1,680	\$1,714
↘ Performance Benchmark	\$1,000	\$1,000	\$1,204	\$1,291	\$1,411	\$1,697	\$1,482	\$1,092	\$1,262	\$1,661	\$1,725



International Equity

For the fiscal year, ending June 30, 2012, the KRS pension fund's international equity portfolio lost -17.25%, underperforming its benchmark by 3.10%. The KRS insurance international equity portfolio also fell compared to its benchmark, posting a return of -17.66% versus -14.15% during the same twelve month period.



Note: KRS uses the Modified Dietz Method as its basis for calculations, which is used to determine the performance of an investment portfolio based on a time-weighted cash flow.

As the accompanying table indicates, both developed and emerging international equity markets experienced strong negative returns during the trailing year period. International equity investors have experienced a volatile period of returns over the past several years, resulting in a chart that resembles a roller coaster. The KRS pension funds non-US equity portfolio has generated an annualized return of 5.84% over the trailing three-year period, while the insurance funds non-US equity portfolio saw returns that averaged 5.00% during the same period. Over the past five years, both funds have provided downside protection over the performance benchmark, especially in the case of the insurance portfolio. The KRS Pension and Insurance funds have posted annualized returns for the period of -4.54% and -4.50% respectively, compared to respective benchmark returns of -4.58% and -5.23%. The Systems began their international equity program in 2000. Since inception, the pension international equity portfolio has underperformed the benchmark, while the insurance international equity portfolio has outperformed the benchmark.

Return on International Equity

Portfolio	Inception Date	Fiscal Year	3-Year	5-Year	10-Year	Inception
Pension Fund	Jul-00	-17.25%	5.84%	-4.54%	5.46%	0.67%
↘ Performance Benchmark ¹	-	-14.15%	7.66%	-4.58%	6.23%	1.50%
Insurance Fund	Apr-00	-17.66%	5.00%	-4.50%	6.02%	1.55%
↘ Performance Benchmark ¹	-	-14.15%	7.05%	-5.23%	5.86%	0.30%
Market Indices						
MSCI ACWI Ex US	-	-14.15%	7.43%	-4.18%	7.20%	-
MSCI Emerging Markets	-	-15.67%	10.10%	0.21%	14.42%	-

¹Pension and Insurance benchmark is the MSCI ACWI ex-US; this became effective July 1, 2011.

Top 10 International Equity Holdings Pension Fund

Company	Shares	Market Value
HSBC HLDGS ORD USD0.50(UK REG)	2,890,676	25,439,606
ROCHE HLDGS AG GENUSSCHEINE	107,074	18,507,455
VODAFONE GROUP ORD	5,901,327	16,591,267
NOVARTIS AG CHF0.50(REGD)	296,451	16,568,682
TOYOTA MOTOR CORP NPV	407,500	16,291,829
SANOFI	202,195	15,329,019
TOTAL EUR2.5	318,025	14,327,432
MITSUBISHI UFJ FIN NPV	2,942,500	13,939,905
ROYAL DUTCH SHELL 'A' SHS EURO.07	354,225	11,931,171
SUMITOMO MITSUI FINANCIAL CORP	351,800	11,516,501
Total	13,771,773	160,442,867

Top 10 International Equity Holdings Insurance Fund

Company	Shares	Market Value
HSBC HLDGS ORD USD0.50(UK REG)	1,015,893	8,940,441
ROCHE HLDGS AG GENUSSCHEINE	37,664	6,510,122
VODAFONE GROUP ORD	2,099,816	5,903,521
NOVARTIS AG CHF0.50(REGD)	102,565	5,732,370
TOYOTA MOTOR CORP NPV	141,400	5,653,165
SANOFI	70,722	5,361,650
TOTAL EUR2.5	109,773	4,945,414
MITSUBISHI UFJ FIN NPV	1,023,200	4,847,344
SUMITOMO MITSUI FINANCIAL CORP	124,100	4,062,529
UBS AG CHF0.10	331,220	3,866,858
Total	5,056,353	55,823,414

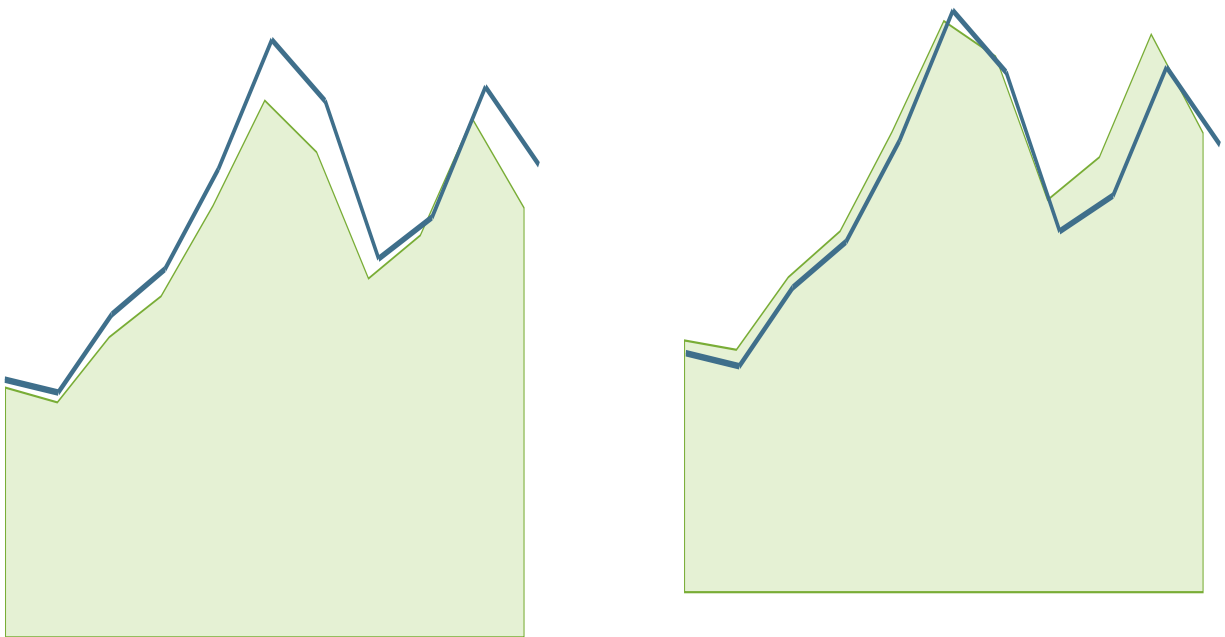
GROWTH OF \$1,000

The chart below depicts the growth of \$1,000 invested in the KRS international equity portfolios and the blended benchmarks since fiscal year 2002. For the KRS pension fund, ending June 30, 2012, \$1,000 would have resulted in \$1,720, while the same amount invested in the benchmark would have resulted in \$1,830. For the KRS insurance fund, ending June 30, 2012, \$1,000 would have grown to \$1,824, while an investment in the index would have been valued \$1,799.

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

Portfolio	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Pension Fund Growth	\$1,000	\$941	\$1,202	\$1,366	\$1,728	\$2,150	\$1,943	\$1,437	\$1,610	\$2,078	\$1,720
↘ Performance Benchmark	\$1,000	\$950	\$1,251	\$1,427	\$1,814	\$2,313	\$2,076	\$1,467	\$1,627	\$2,131	\$1,830
Insurance Fund Growth	\$1,000	\$963	\$1,251	\$1,434	\$1,828	\$2,269	\$2,128	\$1,558	\$1,728	\$2,216	\$1,824
↘ Performance Benchmark	\$1,000	\$950	\$1,251	\$1,427	\$1,814	\$2,313	\$2,076	\$1,467	\$1,604	\$2,096	\$1,799

The non U.S. equity portfolio included emerging market equity exposure from 03/31/08 through 06/30/11; a separate growth of a dollar chart for the emerging market equity asset class will be produced once the Systems have experienced a sufficient history within the space. In addition, the non U.S. equity portfolio growth chart includes the currency overlay for the 2012 fiscal year; in prior years the impact of the currency overlay program was rolled up into the aggregate return of the funds.



Fixed Income

For the fiscal year, ending June 30, 2012, the KRS pension fund's fixed income portfolio returned 8.12%, outperforming its performance benchmark by 0.76%.

Note: KRS uses the Modified Dietz Method as its basis for calculations, which is used to determine the performance of an investment portfolio based on a time-weighted cash flow.

Both of the broad market indices, the Barclays Aggregate Index and the Barclays US Universal Index, posted positive returns for the twelve month period ending June 30, 2012; in addition, the Barclays High Yield Index also performed well during the period. The KRS insurance fixed income portfolio posted a 8.14% rate of return, which outpaced the index by 78 basis points. Over the past three years ending June 30, 2012, the KRS pension fund's fixed portfolio has generated an annualized average return of 8.63% versus its custom performance benchmark return of 7.28%. The insurance fund's fixed portfolio posted an 8.15% return during the same period, outpacing its benchmark return by 0.09%. Over the five year period, the pension fund has lagged the benchmark by 41 basis points, while the insurance fund has added 17 basis points annually over its index. Over the ten year period, the pension fund has lagged the benchmark by 0.17%, while the insurance fund has outperformed its benchmark by 12 basis points, or 0.12%.

Return on Fixed Income

Portfolio	Inception Date	Fiscal Year	3-Year	5-Year	10-Year	Inception
Pension Fund	Apr-84	8.12%	8.63%	6.62%	5.88%	8.27%
↘ Performance Benchmark ¹	-	7.36%	7.28%	7.03%	6.05%	8.10%
Insurance Fund	Jul-92	8.14%	8.15%	7.68%	6.89%	7.19%
↘ Performance Benchmark ¹	-	7.36%	8.06%	7.51%	6.77%	7.09%
Market Indices						
BC Aggregate	-	7.47%	6.93%	6.79%	5.63%	-
BC Corporate High Yield	-	7.27%	16.29%	8.45%	10.16%	-
BC U.S. TIPS	-	7.36%	7.54%	6.73%	5.95%	-

¹Pension and Insurance benchmark is the Barclays US Universal; this became effective July 1, 2011.

Top 10 Fixed Income Holdings Pension Fund

Company	Par Value	Market Value
US TSY NTS TIPS DTD 00340 04-15-2016	\$91,000,000	\$94,794,718
US TSY NTS 1.125% TIPS 01-15-2021	\$72,000,000	\$76,854,298
US TSY INDEX LINKED 2.00% 01-15-2016	\$59,390,000	\$74,779,313
US TSY NTS DTD 00285 2.50% 03-31-2015	\$59,500,000	\$62,419,070
US TSY NTS 1.25% TIPS 07-15-2020	\$57,000,000	\$62,148,055
FNMA 30 YEAR PASS-THRU 5.50%	\$55,000,000	\$59,468,750
US TSY INDEX LINKED 2.375% 01-15-2017	\$43,558,000	\$55,405,002
US TSY LINKED 1.875% 07-15-2019	\$46,600,000	\$54,883,385
US TSY INFL IND BDS 2.375% 01-15-2025	\$39,397,000	\$54,016,810
US TSY NTS LINKED 2.125% 01-15-2019	\$40,600,000	\$48,314,243
Total	\$564,045,000	\$643,103,644

Top 10 Fixed Income Holdings Insurance Fund

Company	Par Value	Market Value
US TSY NTS 2.00% 02-15-2022	\$27,855,000	\$28,792,934
US TSY NTS LINKED 0.125% 01-15-2022	\$26,100,000	\$28,067,085
FNMA GTD MTG POOL #AH5849 4.5% 2-1-41	\$22,519,035	\$24,707,659
US TSY NTS TIPS DTD 00340 04-15-2016	\$16,500,000	\$17,898,408
US TSY NTS TIPS DTD 07-15-2021	\$14,500,000	\$16,482,859
US TSY NTS 1.125% TIPS 01-15-2021	\$13,200,000	\$15,973,977
US TSY INFL INDEX BONDS 2.375% 01-15-25	\$9,840,500	\$15,815,615
US TSY NTS 1.25% TIPS 07-15-2020	\$12,600,000	\$15,431,643
US TSY BDS INFLATION 3.875% 04-15-2029	\$6,340,500	\$14,335,837
US TSY NTS INDEX 2.3643% DUE 01-15-2014	\$9,395,500	\$12,144,893
Total	\$158,850,535	189,650,910

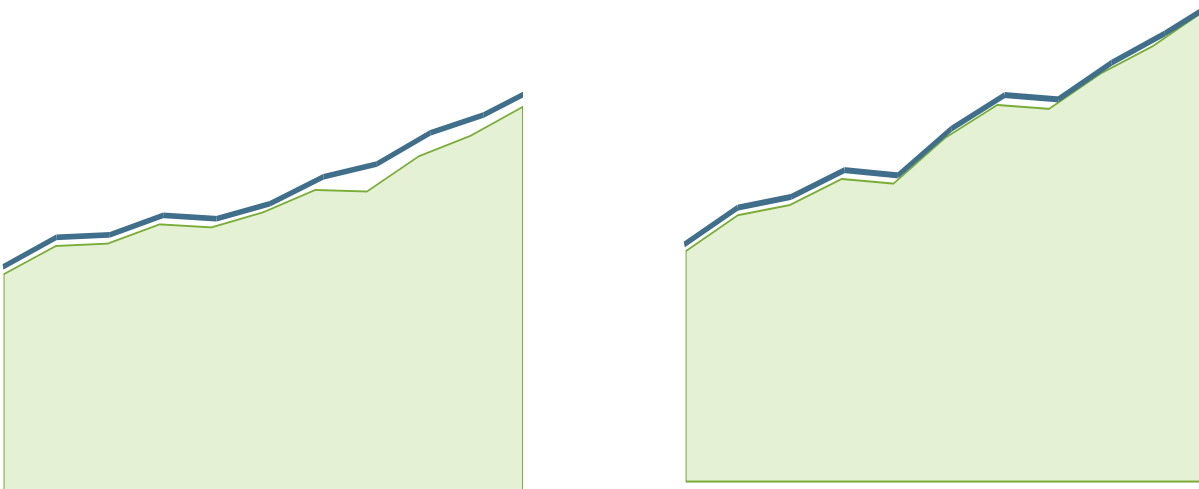
GROWTH OF \$1,000

The chart below shows the growth of \$1,000 invested in KRS fixed income portfolio over the past ten years. For the KRS pension fund, ending June 30, 2012, \$1,000 would have grown to \$1,773, while the same \$1,000 invested in the benchmark would have grown to \$1,801. For the KRS insurance fund, ending June 30, 2012, \$1,000 would have grown to \$2,042, which earned \$20 more than the benchmark's growth.

Fixed Income Portfolio
Growth of \$1,000

Portfolio	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Pension Fund Growth	\$1,000	\$1,130	\$1,141	\$1,230	\$1,216	\$1,286	\$1,389	\$1,382	\$1,545	\$1,640	\$1,773
↘ Performance Benchmark	\$1,000	\$1,132	\$1,143	\$1,230	\$1,215	\$1,282	\$1,402	\$1,459	\$1,598	\$1,678	\$1,801
Insurance Fund Growth	\$1,000	\$1,155	\$1,199	\$1,312	\$1,292	\$1,491	\$1,633	\$1,616	\$1,770	\$1,888	\$2,042
↘ Performance Benchmark	\$1,000	\$1,154	\$1,199	\$1,311	\$1,289	\$1,484	\$1,625	\$1,607	\$1,760	\$1,883	\$2,022

The fixed income portfolio included US TIPS exposure prior to the 2012 fiscal year; the exposure was moved to the real return asset class as part of the new asset allocation rebalance that took place effective 07/01/12. A separate growth of a dollar chart for the real return asset class will be produced once the Systems have experienced a sufficient history within the space.



Private Equity

For the fiscal year ending June 30, 2012, the KRS pension fund's private equity portfolio posted a return of 12.79%.

The portfolio consists primarily of investments within many private equity limited partnerships. The custom benchmark for the pension private equity portfolio returned 11.45% during this same period. The insurance private equity portfolio returned 10.88% versus its performance benchmark return of 11.45%.

and five-year time period, the insurance fund's private equity portfolio has outperformed its benchmark by 1.00% and 2.04%, respectively. Since its inception in October 1990, the pension portfolio has outpaced its benchmark by 1.53% per year, while the insurance portfolio has outperformed its benchmark by 3.49% since its July 2001 inception.

As the accompanying table indicates, the market's recent volatility (prior couple years) has impacted the intermediate results in the private equity portfolios, most notably within the pension fund. For the three and five years ending June 30, 2012, the pension fund's private equity portfolio trailed its benchmark by 0.42% and 1.12%, respectively. For the three

Return on Private Equity

Portfolio	Inception Date	Fiscal Year	3-Year	5-Year	10-Year	Inception
Pension Fund	Oct-90	12.79%	17.45%	2.70%	10.36%	11.01%
↘ Performance Benchmark ¹	-	11.45%	17.87%	3.82%	7.08%	9.48%
Insurance Fund	Jul-01	10.88%	18.81%	3.99%	7.61%	6.99%
↘ Performance Benchmark ¹	-	11.45%	17.81%	1.95%	5.83%	3.50%

¹Pension and Insurance benchmark is the Russell 3000 Quarter Lagged + 400bps.

Real Estate

For the fiscal year, ending June 30, 2012, the KRS pension fund's real estate portfolio gained 7.46%; however, it underperformed its benchmark which gained 12.42%.

The KRS insurance real estate portfolio also fell to its benchmark, losing 491 basis points to the index, returning 7.53% for the period. For the three year ending June 30, 2012, the pension fund portfolio outpaced its benchmark by 2.85%, and the insurance fund outperformed its benchmark by 3.70%.

Return on Real Estate¹

Portfolio	Inception Date	Fiscal Year	3-Year	5-Year	10-Year	Inception
Pension Fund	Jul-84	7.46%	8.50%	5.11%	4.50%	5.35%
↘ Performance Benchmark ¹		12.42%	5.65%	2.70%	8.08%	-
Insurance Fund	May-09	7.53%	9.35%	-	-	8.84%
↘ Performance Benchmark ¹		12.42%	5.65%	-	-	2.84%

¹Pension and Insurance benchmark is the NCREIF Open-End Diversified Core Gross Non Lagged.

Absolute Return

For the fiscal year, ending June 30, 2012, the KRS pension fund's absolute return portfolio gained 0.68% versus its benchmark which fell -4.58%.

The KRS insurance absolute return portfolio also bested the benchmark, out earning the index by 527 basis points, returning 0.59% for the period. Note: Though the allocation's inception date is April, 2010, the current book of managers, now

consisting of three funds of funds, were employed in September 2011.

Return on Absolute Return

Portfolio	Inception Date	Fiscal Year	3-Year	5-Year	10-Year	Inception
Pension Fund	Apr-10	0.68%	-	-	-	1.94%
↘ Performance Benchmark ¹		-4.58%	-	-	-	0.81%
Insurance Fund	Apr-10	0.59%	-	-	-	1.74%
↘ Performance Benchmark ¹		-4.58%	-	-	-	0.81%

¹Pension and Insurance benchmark is the HFR FOF: Diversified Lagged.

Real Return

For the fiscal year, ending June 30, 2012, the KRS pension fund's real return portfolio gained 12.02% versus its benchmark return of 4.71%.

The KRS insurance real return portfolio bested the index by 720 basis points, returning 11.91% for the period. Note: The real return allocation was formed effective July 1, 2011.

Return on Absolute Return

Portfolio	Inception Date	Fiscal Year	3-Year	5-Year	10-Year	Inception
Pension Fund	Jul-11	12.02%	-	-	-	12.02%
↘ Performance Benchmark ¹		4.71%	-	-	-	4.71%
Insurance Fund	Jul-11	11.91%	-	-	-	11.91%
↘ Performance Benchmark ¹		4.71%	-	-	-	4.71%

¹Pension and Insurance benchmark is CPI + 300bps

Cash

For the fiscal year, ending June 30, 2012, the KRS pension fund's cash portfolio returned 0.22%, outpacing its benchmark, the Citi Group 3-month Treasury by 0.18%.

★ **Note:** KRS uses the Modified Dietz Method as its basis for calculations, which is used to determine the performance of an investment portfolio based on a time-weighted cash flow.

The KRS insurance cash portfolio also outperformed the index, posting a return of 0.19% during the same twelve month period.

As the accompanying table indicates, the longer term results from the cash portfolios have also been excellent with comparison to their benchmark. For the five years ending June 30, 2012, the pension fund portfolio has outperformed its custom benchmark by 0.75% on an annualized basis. Since its inception, the portfolio has exceeded its benchmark by 0.81% per year. The insurance portfolio has also done very well, exceeding its benchmark return over the five-year period and since inception, both time frames by 0.27%.

Return on Cash

Portfolio	Inception Date	Fiscal Year	3-Year	5-Year	10-Year	Inception
Pension Fund	Jan-88	0.22%	0.66%	1.62%	2.70%	4.65%
↘ Performance Benchmark ¹	-	0.04%	0.10%	0.87%	1.77%	3.84%
Insurance Fund	Jul-92	0.19%	0.24%	1.14%	2.28%	3.44%
↘ Performance Benchmark ¹	-	0.04%	0.10%	0.87%	1.77%	3.17%

¹Pension and Insurance Cash benchmark is the Citi Group 3-month Treasury.

Following are additional schedules which indicated the Investment Advisors employed 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 the Systems as of or for the year ended June 30, 2012.

External Investment Advisors & Assets Under Management (in Thousands)

Advisor	Assets Under Management
Aberdeen Asset Management, Aberdeen, Scotland	\$325,031
Arbor Investments II, Chicago, Illinois	\$26,684
Arcano Capital, New York, New York	\$4,626
Arrowhawk Capital Partners, Darien, Connecticut	\$5,324
Artio Global Investors, New York, New York	\$248
Avenue Capital V, New York, New York	\$506
Bay Hills Emerging Partners I, San Francisco, California	\$71,967
BlackRock Global Investors, San Francisco, California	\$680,100
Blackstone Alternative Asset Management, New York, New York	\$467,475
Blackstone Capital Partners V & VI, New York, New York	\$63,962
Columbia Asset Management, Minneapolis, Minnesota	\$214,714
Columbia Capital IV, Alexandria, Virginia	\$36,845
Commerce Street Income Partners LP, Dallas, Texas	\$53,483
Crestview Partners II, New York, New York	\$55,014
Doll Capital Management, Menlo Park, California	\$5,694
Duff, Ackerman & Goodrich Ventures II & V, Palo Alto, California	\$165,268
Essex Woodland VIII, Palo Alto, California	\$15,284
Geneva Capital Management, Milwaukee, Wisconsin	\$249,748
GTCR Golder Rauner IX, Chicago, Illinois	\$66,335
H.I.G BIO Venture II, Miami, Florida	\$610
H.I.G. Venture Partners II, Miami, Florida	\$14,254
H/2 Credit Partners, Stamford, Connecticut	\$105,896
Harrison Street, Chicago, Illinois	\$25,100
Harvest Partners V, New York, New York	\$41,320
Hellman & Friedman VI, New York, New York	\$21,406
Horsley Bridge International V LLC, San Francisco, California	\$8,682
Institutional Venture Partners XI, Menlo Park, California	\$51,467
Invesco, Atlanta, Georgia	\$229,450
JW Childs Equity III, Boston, Massachusetts	\$32,118
Keyhaven Capital Partners, London, England	\$9,135
Leonard Green & Partners, L.P., IV & VI, Los Angeles, California	\$167,398
Loomis, Sayles & Company, Boston, Massachusetts	\$216,480
Manulife Financial, Boston, Massachusetts	\$141,552
Matlin Patterson Global Opportunities I & II, New York, New York	\$27,785

External Investment Advisors & Assets Under Management (in Thousands)

Advisor	Assets Under Management
Merit Capital Partners IV, Chicago, Illinois	\$14,450
Mesa West, Los Angeles, California	\$29,334
MHR Insituional Advisors III, New York, New York	\$3,272
Mill Road Capital, Greenwich, Connecticut	\$29,541
New Mountain Partners II, New York, New York	\$47,624
NISA Investment Advisors, St. Louis, Missouri	\$772,809
Northern Trust Global Investors, Chicago, Illinois	\$442,482
Oak Hill Partners II, New York, New York	\$99,068
Oak Tree Opportunities VIIB, Los Angeles, California	\$4,574
Pacific Alternative Asset Management Company, Irvine, California	\$465,198
PIMCO, New Port Beach, California	\$1,314,234
Prima Mortgage, New York, New York	\$48,898
Prisma Capital Partners, New York, New York	\$466,702
Pyramis Global Advisors, Boston, Massachusetts	\$912,162
Record Currency Management, Windsor Berkshire, England	-\$3,596
River Road Asset Management, Louisville, Kentucky	\$48,015
Sasco Capital, Fairfield, Connecticut	\$50,685
Shenkman Capital, Stamford, Connecticut	\$147,339
Stone Harbor Investments, New York, New York	\$147,827
Sun Capital Partners IV, Boca Raton, Florida	\$2,340
Systematic Financial Management, Teaneck, New Jersey	\$203,433
Technology Crossover Ventures VI, Palo Alto, California	\$1,016
Tenaska Power Fund II, Omaha, Nebraska	\$16,565
The Boston Company, Boston, Massachusetts	\$861,461
The Camelot Group, New York, New York	\$34,538
Tortoise Capital, Leawodd, Kansas	\$74,793
Vantagepoint Venture IV, San Bruno, California	\$37,676
Vista Equity Partners III & IV, San Francisco, California	\$91,444
Walton Street Real Estate Fund, Chicago, Illinois	\$28,988
Warburg Pincus IX, New York, New York	\$108,242
Waterfall Investment, New York, New York	\$148,106
Wayzata Investment Partners I & III, Wayzata, Minnesota	\$152,829
Weaver Barksdale & Associates, Brentwood, Tennessee	\$395,025
Wellington Management Company, Boston, Massachusetts	\$170,875
Westfield Capital, Boston, Massachusetts	\$157,522
Westwood Management, Dallas, Texas	\$143,067
Total	\$11,269,497

CONSULTANTS

Master Custodian is **Northern Trust Company**, from Chicago, Illinois. Investment consultants are **ORG Real Property** from Cleveland, Ohio; **R. V. Kuhns & Associates** from Portland, Oregon; and **Altius Associates** from Richmond, Virginia.

Schedule of Commissions Paid

Asset	Total Shares	Commissions Paid	Price per Share
U.S. Equities	92,841,788	\$1,366,785	\$0.015
	Total Value of Trades	Commissions Paid	As a % of Trade
Non-U.S. Equities	\$4,359,301,909	\$4,173,572	0.096%
Total Commissions Paid		\$5,540,357	

External Investment Expenses (in Thousands) Equity & Fixed Income Portfolio

Expense	Fees Paid	Share of Assets
Pension Funds	\$33,471	0.3137%
Insurance Funds	\$6,754	0.2212%
Consulting Fees	\$854	0.0062%
Custody Fees	\$250	0.0018%
Other Investment-Related Fees	\$6,054	0.0441%
Total Commissions Paid	\$47,383	0.3453%

PORTFOLIO SUMMARIES

KERS Non-Haz Pension Fund (as of June 30, 2012)

Asset	Market Value	Share of Market Value
Bonds	\$804,764,089	27.4%
Short-Term	\$107,711,879	3.7%
Alternatives	\$852,880,160	29.1%
Domestic Equities	\$490,937,467	16.7%
International Equities	\$678,162,374	23.1%
Total Portfolio	\$2,934,455,967	100.0%

KERS Haz Pension Fund (as of June 30, 2012)

Asset	Market Value	Share of Market Value
Bonds	\$133,670,475	28.3%
Short-Term	\$19,538,442	4.1%
Alternatives	\$123,001,629	26.1%
Domestic Equities	\$88,313,277	18.7%
International Equities	\$107,296,516	23.1%
Total Portfolio	\$471,820,339	100.0%

KERS Non-Haz Insurance Fund (as of June 30, 2012)

Asset	Market Value	Share of Market Value
Bonds	\$114,398,439	27.8%
Short-Term	\$33,768,161	8.2%
Alternatives	\$85,701,087	20.8%
Domestic Equities	\$71,843,210	17.4%
International Equities	\$106,480,801	25.8%
Total Portfolio	\$412,191,698	100.0%

KERS Haz Insurance Fund (as of June 30, 2012)

Asset	Market Value	Share of Market Value
Bonds	\$100,101,744	30.7%
Short-Term	\$25,006,132	7.7%
Alternatives	\$65,597,684	20.1%
Domestic Equities	\$63,427,002	19.5%
International Equities	\$71,709,953	22.0%
Total Portfolio	\$325,842,515	100.0%

CERS Non-Haz
Pension Fund (as of June 30, 2012)

Asset	Market Value	Share of Market Value
Bonds	\$1,578,573,610	29.8%
Short-Term	\$194,866,879	3.7%
Alternatives	\$1,235,805,122	23.3%
Domestic Equities	\$1,077,993,405	20.3%
International Equities	\$1,213,686,328	22.9%
Total Portfolio	\$5,300,925,344	100.0%

CERS Haz
Pension Fund (as of June 30, 2012)

Asset	Market Value	Share of Market Value
Bonds	\$486,830,481	29.4%
Short-Term	\$63,571,191	3.8%
Alternatives	\$391,397,254	23.6%
Domestic Equities	\$337,496,190	20.4%
International Equities	\$377,162,042	22.8%
Total Portfolio	\$1,656,457,159	100.0%

SPRS
Pension Fund (as of June 30, 2012)

Asset	Market Value	Share of Market Value
Bonds	\$66,437,690	26.7%
Short-Term	\$12,063,254	4.8%
Alternatives	\$68,345,840	27.4%
Domestic Equities	\$47,152,589	18.9%
International Equities	\$55,199,195	22.2%
Total Portfolio	\$249,198,568	100.0%

CERS Non-Haz
Insurance Fund (as of June 30, 2012)

Asset	Market Value	Share of Market Value
Bonds	\$439,238,657	31.0%
Short-Term	\$82,879,005	5.9%
Alternatives	\$248,202,862	17.5%
Domestic Equities	\$330,452,106	23.3%
International Equities	\$314,441,340	22.2%
Total Portfolio	\$1,415,213,971	100.0%

CERS Haz
Insurance Fund (as of June 30, 2012)

Asset	Market Value	Share of Market Value
Bonds	\$240,596,007	31.3%
Short-Term	\$40,951,003	5.3%
Alternatives	\$134,515,461	17.5%
Domestic Equities	\$179,539,758	23.4%
International Equities	\$171,955,812	22.4%
Total Portfolio	\$767,558,041	100.0%

SPRS
Insurance Fund (as of June 30, 2012)

Asset	Market Value	Share of Market Value
Bonds	\$34,979,948	28.6%
Short-Term	\$8,001,630	6.5%
Alternatives	\$23,924,642	19.6%
Domestic Equities	\$27,906,575	22.8%
International Equities	\$27,360,825	24.4%
Total Portfolio	\$122,173,621	100.0%

Actuarial Section

ACTUARIAL TABLE OF CONTENTS

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Certification of Actuarial Results

The fifty-sixth annual actuarial valuation of the Kentucky Employees Retirement System, the fifty-third annual actuarial valuation of the County Employees Retirement System, and the fifty-fourth 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, 2012 actuarial valuation will be used by the Board of Trustees to certify the employer contribution rates for the fiscal year beginning July 1, 2013 and ending June 30, 2014.

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

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



UAL
Unfunded Accrued Liability

GASB
Governmental Accounting
Standards Board

HB
House Bill

KERS
Kentucky Employees Retirement System

CERS
County Employees Retirement System

SPRS
State Police Retirement System

COLA
Cost of Living Adjustment

Overall, the total contribution for the pension fund is expected to remain stable as a percentage of payroll over future years in the absence of benefit improvements and material experience gains or losses. However, the current valuation contribution rate does not anticipate any future cost of living increases to benefit recipients as required by statute. Should these cost of living increases occur in the future, the contribution rate for the pension fund will be expected to increase as a percentage of payroll in the absence of material aggregate experience gains.

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

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

Progress Towards Realization of Funding Objectives

The progress towards achieving the intended funding objectives, both relative to the pension and insurance funds, can be measured by the relationship of actuarial assets of each fund to the actuarial accrued liabilities. This relationship is known as the funding level and in the absence of benefit improvements, should increase over time until it reaches 100%.

In recent years, funding levels for the pension funds have fallen dramatically in response to investment returns less than the actuarially assumed rate, higher than anticipated retirement rates, the 2006 (and for KERS Hazardous and CERS Non-Hazardous the 2009) assumption changes, and increasing expenditures for retiree Cost of Living Adjustments (COLA). Within the KERS and SPRS plans, employer contribution rate reductions enacted by the State Legislature have severely limited the plans' ability to correct the declining funding levels. As of June 30, 2012 the funding levels for the pension [and insurance] funds are as follows:

Funding Level of Pension Fund		Funding Level of Insurance Fund	
System	Funding Level	System	Funding Level
KERS Non-Hazardous	27.3%	KERS Non-Hazardous	14.3%
KERS Hazardous	66.1%	KERS Hazardous	89.9%
CERS Non-Hazardous	60.7%	CERS Non-Hazardous	63.8%
CERS Hazardous	58.1%	CERS Hazardous	60.7%
SPRS	40.1%	SPRS	37.3%

System Pension Funding Level

Except for the KERS Hazardous Insurance Fund, the funding levels for the insurance funds are not anywhere near 100% at this time, and the Board's funding objective is to increase this funded level consistently over time. Recent employer contribution rate reductions under KERS and SPRS have significantly limited this improvement.

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.

Data In completing the valuation of these systems, we have relied on data provided by Kentucky Retirement Systems, as well as financial data provided by the plan's external auditor. We have reviewed this data for reasonableness, and made some general edit checks to impute certain information that may not have been provided with the original employee data. However, we have not audited this data. Any schedules of trend data over the past ten years or less contained in the Actuarial Section, as well as the Schedule of Funding Progress and Schedule of Employer Contributions in the Financial Section, have been based on valuation reports fully prepared by the actuary for the plan at the time of each valuation.

Assumptions & Methods The Board of Trustees, in consultation with the actuary, sets the actuarial assumptions and methods used in the valuation. At least once every five years the actuary conducts a thorough review of plan experience for the preceding five years, and then makes recommendations to the Board. The actuarial assumptions and methods used for the funding calculations of the valuation, as adopted by the Board on August 20, 2009 based on the experience investigation report dated August 17, 2009, meet the parameters set for disclosure under GASB Statements No. 25 and 43. These assumptions have been adopted by the Board of Trustees of the Kentucky Retirement Systems in accordance with the recommendation of the actuary. The next experience study is scheduled to be completed in January, 2014 and any adjustments will be reflected in the June 30, 2014 actuarial valuation.

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

Based on the continuation of current funding policies adopted by the Board, adequate provision is being determined for the funding of the actuarial liabilities of the Kentucky Employees Retirement System, the County Employees Retirement System, and the State Police Retirement System as required by the Kentucky Revised Statutes. The funding rates established by the Board are appropriate for this purpose. However, it is up to the state legislature to follow through with the required funding. The contribution phase-in anticipated under statute, particularly for KERS Non-Hazardous and State Police, leave those funds with little or no ability to withstand any significant short term adverse financial and/or demographic experience.

Thomas J. Cavanaugh FSA, FCA, MAAA, EA // CEO
Cavanaugh Macdonald Consulting, LLC
December 5, 2012

Summary of Actuarial Assumptions

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 at least once every five years through the completion of the Actuarial Experience Study.

As of June 30, 2011 The most recent study was completed in August 2009 and reviewed plan experience for the period from July 1, 2005 through June 30, 2008. All assumptions, with the exception of health care trend rates, used in the June 30, 2011 actuarial valuation were based on the study performed in 2009 and in accordance with the actuary's recommendations. The next Experience Study is scheduled to be completed in January, 2014.

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.

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

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 in 2006.

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

Investment Return Assumption The future investment 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.

Salary Increase Assumptions Active member salaries are assumed to increase at the rates provided in Table 1. The rates include a 4.5% percent inflationary component and an additional increase due to promotion based upon plan experience. These assumptions were adopted in 2009.

Table 1. Salary Increase Assumptions

Service	KERS Non-Haz	KERS Haz	CERS Non-Haz	CERS Haz	SPRS
0-1	17.00%	21.00%	13.00%	20.00%	17.00%
0-2	9.00%	9.00%	9.50%	10.50%	12.00%
0-3	6.50%	7.00%	6.00%	6.50%	10.00%
0-4	6.00%	6.50%	6.00%	5.75%	9.00%
0-5	6.00%	6.00%	5.50%	5.50%	8.00%
0-6	6.00%	5.50%	5.50%	5.00%	7.00%
0-7	5.50%	5.00%	5.25%	4.50%	6.00%
0-8	5.50%	5.00%	5.25%	4.50%	6.50%
0-9	5.50%	5.00%	5.00%	4.50%	5.50%
0-10	5.00%	5.00%	5.00%	4.50%	5.00%
0-11	5.00%	5.00%	4.75%	4.50%	4.50%

Payroll Growth Assumption Active member payroll is assumed to increase at a rate of 4.5% per annum. This assumption was adopted in 2006.



COLA
Cost of Living Adjustment

Retiree COLAs State statute requires retirement allowances to be increased by 1.5 percent annually. State 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 Kentucky General Assembly has the authority to suspend or reduce cost of living adjustments.

Medical Inflation Assumption The costs for retiree medical premiums are assumed to increase each year according to the assumptions provided in Table 2 below.

Table 2. Cost of Retiree Medical Premiums

Fiscal Year Ended	Trend	
	Under Age 65	Age 65 and Over
2013	9.5%	7.5%
2014	8.5%	7.0%
2015	7.5%	6.5%
2016	6.5%	6.0%
2017	6.0%	5.5%
2018	5.5%	5.0%
2019 and beyond	5.0%	5.0%

Retirement Rate Assumptions The probability, or the likelihood, that a member will retire at a specified age or level of service is provided in Table 3 on page 117. These assumptions were adopted in 2009.

Table 3. Retirement Rate Assumptions

Age	Non-Hazardous			Service	Hazardous					
	KERS ¹	KERS ²	CERS ³		KERS ⁴	KERS ⁵	CERS ⁶	CERS ⁷	SPRS ⁸	SPRS ⁹
55	8.0%		8.0%	20	22.0%		20.0%		9.0%	
56	8.0%		8.0%	21	22.0%		20.0%		9.0%	
57	8.0%		8.0%	22	22.0%		20.0%		10.0%	
58	8.0%		8.0%	23	22.0%		20.0%		22.0%	
59	8.0%		8.0%	24	22.0%		30.0%		22.0%	
60	10.0%	10.0%	10.0%	25	35.0%	22.0%	33.0%	20.0%	22.0%	9.0%
61	20.0%	20.0%	20.0%	26	37.0%	22.0%	33.0%	20.0%	22.0%	9.0%
62	22.5%	22.5%	22.0%	27	37.0%	22.0%	33.0%	20.0%	25.0%	10.0%
63	22.5%	22.5%	22.0%	28	39.0%	22.0%	39.0%	20.0%	25.0%	22.0%
64	22.5%	22.5%	22.0%	29	38.0%	22.0%	33.0%	30.0%	25.0%	22.0%
65	22.5%	25.0%	22.0%	30	38.0%	35.0%	33.0%	33.0%	25.0%	22.0%
66	22.5%	25.0%	22.0%	31	38.0%	37.0%	33.0%	33.0%	33.3%	22.0%
67	22.5%	25.0%	22.0%	32	50.0%	37.0%	50.0%	33.0%	33.3%	25.0%
68	22.5%	25.0%	22.0%	33	50.0%	39.0%	40.0%	39.0%	33.3%	25.0%
69	22.5%	25.0%	22.0%	34	50.0%	38.0%	40.0%	33.0%	33.3%	25.0%
70	22.5%	25.0%	22.0%	35	60.0%	38.0%	40.0%	33.0%	33.3%	25.0%
71	22.5%	25.0%	22.0%	36	60.0%	38.0%	40.0%	33.0%	33.3%	33.3%
72	22.5%	25.0%	22.0%	37	60.0%	50.0%	40.0%	50.0%	33.3%	33.3%
73	22.5%	25.0%	22.0%	38	60.0%	50.0%	40.0%	40.0%	33.3%	33.3%
74	22.5%	25.0%	22.0%	39	60.0%	50.0%	40.0%	40.0%	33.3%	33.3%
75+	100.0%	100.0%	100.0%	40+	60.0%	60.0%	40.0%	40.0%	33.3%	33.3%

¹For members participating before 9/1/2008. If service is at least 27 years, the rate is 25%.

²For members participating on or after 9/1/2008. If age plus service is at least 87, the rate is 25%.

³If service is at least 27 years, the rate is 30% for members participating before 9/1/2008. If age plus service is at least 87, the rate is 30% for members participating on or after 9/1/2008.

⁴For members participating before 9/1/2008. The annual rate of service retirement is 100% at age 65.

⁵For members participating on or after 9/1/2008. The annual rate of service retirement is 100% at age 60.

⁶For members participating before 9/1/2008. The annual rate of service retirement is 100% at age 62.

⁷For members participating on or after 9/1/2008. The annual rate of service retirement is 100% at age 60.

⁸For members whose participation began before 9/1/2008. The annual rate of service retirement is 100% at age 55.

⁹For members whose participation began on or after 9/1/2008. The annual rate of service retirement is 100% at age 60.



GAM
Group Annuity Mortality

Mortality Assumptions

The mortality table used for active members is 50% of the 1994 Group Annuity Mortality (GAM) Table. For non-disabled members retiring on or after July 1, 2006, the mortality table was changed from the 1983 GAM table to the 1994 GAM table. For disabled members retiring on or after July 1, 2006, the mortality table was changed from the 1983 GAM table set forward five years to the 1994 GAM table set forward five years. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted. The pre-retirement mortality assumption was adopted in 2009 and the post-retirement mortality assumptions were adopted in 2006.

Table 4. Sample Annual Rates of Mortality

Age	Active Member Mortality		Retired Member Mortality*		Disabled Member Mortality*	
	Males	Females	Males	Females	Males	Females
Under 20	0.02%	0.01%	0.04%	0.03%	-	-
22	0.03%	0.01%	0.06%	0.03%	-	-
32	0.04%	0.02%	0.08%	0.04%	-	-
42	0.06%	0.04%	0.13%	0.08%	0.19%	0.11%
52	0.16%	0.09%	0.32%	0.17%	0.56%	0.29%
62	0.51%	0.29%	1.01%	0.58%	1.80%	1.08%
72	1.42%	0.83%	2.85%	1.65%	4.52%	2.84%

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

Withdrawal Rates The withdrawal rate is a function of both age and service. This type of structure is known as "select and ultimate rates". This structure reflects the fact that both service and age affect the likelihood of a member

staying in active employment. The ultimate period for these systems covers a member's withdrawal rate after the first five years of service. These assumptions were adopted in 2009.

Table 5. Selected Rates of Termination Prior to Retirement

KERS Non-Hazardous				KERS Hazardous			
Select Rates		Ultimate Rates		Select Rates		Ultimate Rates	
Years of Service	Probability	Age	Probability	Years of Service	Probability	Age	Probability
1	19.00%	20	6.00%	1	26.00%	20	4.00%
2	13.00%	25	5.08%	2	11.50%	25	4.00%
3	10.00%	30	4.26%	3	8.25%	30	3.50%
4	9.00%	35	3.21%	4	7.50%	35	3.00%
5	6.50%	40	3.00%	5	7.00%	40	3.00%
		45	3.00%			45	3.00%
		50	3.00%			50	3.00%
		55	3.00%			55	3.00%
		60	3.00%			60	3.00%

CERS Non-Hazardous				CERS Hazardous			
Select Rates		Ultimate Rates		Select Rates		Ultimate Rates	
Years of Service	Probability	Age	Probability	Years of Service	Probability	Age	Probability
1	25.00%	20	5.75%	1	14.00%	20	3.00%
2	14.00%	25	5.75%	2	7.50%	25	2.70%
3	10.00%	30	5.30%	3	6.00%	30	2.50%
4	8.00%	35	4.40%	4	4.50%	35	2.50%
5	6.50%	40	3.70%	5	4.00%	40	2.50%
		45	3.02%			45	2.50%
		50	2.70%			50	2.50%
		55	2.20%			55	-
		60	0.75%			60	-

Table 5 Continued. Selected Rates of Termination Prior to Retirement

SPRS Non-Hazardous				
Select Rates		Ultimate Rates		
Years of Service	Probability	Age	Probability	
1	20.00%	20	2.50%	
2	7.50%	25	2.50%	
3	3.00%	30	2.50%	
4	3.00%	35	2.50%	
5	3.00%	40	2.50%	
		45	2.50%	
		50	2.50%	
		55	-	
		60	-	

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 OASDI rates. These assumptions were adopted in 2009.



OASDI
Old-Age Survivors & Disability Insurance

This assumption provides the probability, or likelihood, that a member will become disabled during the course of employment for various age levels.

Rate of Disablement

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

Summary of Actuarial Valuation Results as of June 30, 2012

	KERS Non-Haz	KERS Haz	CERS Non-Haz	CERS Haz	SPRS
Recommended Rate Fiscal 2012-2013					
Pension Fund Contribution	32.57%	17.00%	13.74%	21.77%	53.35%
Insurance Fund Contribution	12.71%	11.84%	5.84%	16.02%	43.17%
Recommended Employer Contribution	45.28%	28.84%	19.58%	37.79%	96.52%
Funded Status as of Valuation Date					
Pension Fund					
↘ Actuarial Liability	\$11,361,048,136	\$752,699,457	\$9,139,567,695	\$3,009,992,047	\$647,688,665
↘ Actuarial Value of Assets	\$3,101,316,738	\$497,226,296	\$5,547,235,599	\$1,747,379,297	\$259,791,575
↘ Unfunded Liability on Actuarial Value of Assets	\$8,259,731,398	\$255,473,161	\$3,592,332,096	\$1,262,612,750	\$387,897,090
↘ Funding Ratio on Actuarial Value of Assets	27.30%	66.06%	60.69%	58.05%	40.11%
↘ Market Value of Assets	\$2,980,401,603	\$478,103,794	\$5,372,769,813	\$1,677,940,479	\$252,896,868
↘ Unfunded Liability on Market Value of Assets	\$8,380,646,533	\$274,595,663	\$3,766,797,882	\$1,332,051,568	\$394,791,797
↘ Funding Ratio on Market Value of Assets	26.23%	63.52%	58.79%	55.75%	39.05%
Insurance Fund					
↘ Actuarial Liability	\$3,125,330,157	\$384,592,406	\$2,370,771,288	\$1,364,843,057	\$333,903,782
↘ Actuarial Value of Assets	\$446,080,511	\$345,573,948	\$1,512,853,851	\$829,040,842	\$124,372,072
↘ Unfunded Liability on Actuarial Value of Assets	\$2,679,249,646	\$39,018,458	\$857,917,437	\$535,802,215	\$209,531,710
↘ Funding Ratio on Actuarial Value of Assets	14.27%	89.85%	63.81%	60.74%	37.25%
↘ Market Value of Assets	\$430,805,726	\$333,298,119	\$1,439,226,170	\$788,070,813	\$125,567,846
↘ Unfunded Liability on Market Value of Assets	\$2,694,524,431	\$51,294,287	\$931,545,118	\$576,772,244	\$208,335,936
↘ Funding Ratio on Market Value of Assets	13.78%	86.66%	60.71%	57.74%	37.61%
Member Data					
Number of Active Members	42,196	4,086	83,052	9,130	907
Total Annual Payroll (Active Members) ¹	\$1,644,896,681	\$131,976,754	\$2,236,546,345	\$464,228,923	\$48,372,506
Average Annual Pay (Active Members)	\$38,982	\$32,300	\$26,929	\$50,847	\$53,332
Number of Retired Members & Beneficiaries	39,226	3,253	45,304	6,878	1,299
Average Annual Retirement Allowance	\$21,539	\$15,134	\$11,368	\$25,185	\$38,404
Number of Vested Inactive Members	8,976	347	12,071	617	58
Number of Inactive Members Due a Refund	35,130	2,821	57,645	1,794	322

¹Annual 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, 2012.

Recommended Employer Contribution Rates as of June 30, 2012
KERS Non-Haz

Valuation Date	Fiscal Year	Pension Fund Normal Cost	Pension Fund Payment on Unfunded Liability	Pension Fund Contribution	Insurance Fund Contribution	Recommended Employer Rate
6/30/07	2008-2009	3.62%	12.92%	16.54%	20.38%	36.92%
6/30/08	2009-2010	3.97%	14.99%	18.96%	20.49%	39.45%
6/30/09	2010-2011	4.26%	17.51%	21.77%	16.81%	38.58%
6/30/10	2011-2012	4.23%	20.07%	24.30%	16.41%	40.71%
6/30/11	2012-2013	4.38%	23.65%	28.03%	16.52%	44.55%
6/30/12	2013-2014	4.26%	28.31%	32.57%	12.71%	45.28%

KERS Haz

Valuation Date	Fiscal Year	Pension Fund: Normal Cost	Pension Fund: Payment on Unfunded Liability	Pension Fund Contribution	Insurance Fund Contribution	Recommended Employer Rate
6/30/07	2008-2009	7.28%	3.56%	10.84%	23.94%	34.78%
6/30/08	2009-2010	7.52%	4.46%	11.98%	23.56%	35.54%
6/30/09	2010-2011	7.94%	6.17%	14.11%	20.26%	34.37%
6/30/10	2011-2012	7.19%	6.92%	14.11%	19.73%	33.84%
6/30/11	2012-2013	7.47%	8.69%	16.16%	19.73%	35.89%
6/30/12	2013-2014	6.09%	10.91%	17.00%	11.84%	28.84%

CERS Non-Haz

Valuation Date	Fiscal Year	Pension Fund: Normal Cost	Pension Fund: Payment on Unfunded Liability	Pension Fund Contribution	Insurance Fund Contribution	Recommended Employer Rate
6/30/07	2008-2009	4.53%	3.23%	7.76%	12.75%	20.51%
6/30/08	2009-2010	4.46%	4.16%	8.62%	12.29%	20.91%
6/30/09	2010-2011	4.60%	5.43%	10.03%	9.78%	19.81%
6/30/10	2011-2012	4.72%	6.98%	11.70%	9.59%	21.29%
6/30/11	2012-2013	4.68%	7.94%	12.62%	8.59%	21.21%
6/30/12	2013-2014	4.68%	9.06%	13.74%	5.84%	19.58%

CERS Haz

Valuation Date	Fiscal Year	Pension Fund: Normal Cost	Pension Fund: Payment on Unfunded Liability	Pension Fund Contribution	Insurance Fund Contribution	Recommended Employer Rate
6/30/07	2008-2009	8.06%	6.98%	15.04%	27.62%	42.66%
6/30/08	2009-2010	8.23%	7.88%	16.11%	27.25%	43.36%
6/30/09	2010-2011	7.56%	9.23%	16.79%	23.27%	40.06%
6/30/10	2011-2012	7.31%	10.60%	17.91%	23.74%	41.65%
6/30/11	2012-2013	7.40%	12.70%	20.10%	21.84%	41.94%
6/30/12	2013-2014	6.44%	15.33%	21.77%	16.02%	37.79%

Recommended Employer Contribution Rates as of June 30, 2012
SPRS

Valuation Date	Fiscal Year	Pension Fund Normal Cost	Pension Fund Payment on Unfunded Liability	Pension Fund Contribution	Insurance Fund Contribution	Recommended Employer Rate
6/30/07	2008-2009	9.64%	22.75%	32.39%	59.54%	91.93%
6/30/08	2009-2010	9.83%	25.40%	35.23%	56.89%	92.12%
6/30/09	2010-2011	8.12%	27.62%	35.74%	49.89%	85.63%
6/30/10	2011-2012	7.75%	32.05%	39.80%	54.83%	94.63%
6/30/11	2012-2013	8.12%	39.36%	47.48%	55.93%	103.41%
6/30/12	2013-2014	8.14%	45.21%	53.35%	43.17%	96.52%



KERS
Kentucky Employees Retirement System

CERS
County Employees Retirement System

SPRS
State Police Retirement System

UAL
Unfunded Accrued Liability

KERS Funds

The contribution rates for KERS Non-Hazardous and KERS Hazardous shown in the tables on page 121 are the full funding rates presented by the actuary in the 2007 through 2012 annual valuations. However, the actual employer contribution rates have been less than those shown above. As a result of HB 1 passed in 2008 the statute now calls for an employer contribution rate at an increasing percentage of the full funding rates until 100% is achieved in 2025 for KERS Non-Hazardous and 2019 for KERS Hazardous.

CERS Funds

The insurance fund contribution rates and the employer contribution rates for CERS Non-Hazardous and CERS Hazardous shown in the tables on page 121 are the full funding rates presented by the actuary in the 2007 through 2012 annual valuations. However, in the case of CERS Non-Hazardous and CERS Hazardous, in 2006 the actuary recommended a five-year phase-in of the rate which requires the payment of the insurance benefit normal cost with a five-year phase-in of the unfunded accrued liability (UAL) associated with the insurance funds. In 2008 this recommendation was changed to a ten-year phase-in from the initial starting date. As a result, the CERS Non-Hazardous insurance fund contribution rate actually recommended by the actuary and adopted by the Board for 2013-2014 is 5.15% and the employer contribution rate is 18.89%. The CERS Hazardous insurance fund contribution rate actually recommended by the actuary and adopted by the Board for 2013-2014 is 13.93% and the employer contribution rate is 35.70%.

SPRS Funds

The contribution rates for SPRS shown in the tables on page 121 are the full funding rates presented by the actuary in the 2007 through 2012 annual valuations. However, the actual employer contribution rates have been less than those shown above. As a result of HB 1 passed in 2008 the statute now calls for an employer contribution rate at an increasing percentage of the full funding rates until 100% is achieved in 2020 for SPRS.

Summary of Actuarially Unfunded Liabilities as of June 30, 2012
KERS Non-Haz Pension Fund

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Liability		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/07	\$9,485,939,277	\$5,396,782,459	\$5,773,156,838	\$4,089,156,818	\$3,712,782,439	56.9%	60.9%
6/30/08	\$10,129,689,985	\$5,318,792,893	\$5,056,867,294	\$4,810,897,092	\$5,072,822,691	52.5%	49.9%
6/30/09	\$10,658,549,532	\$4,794,611,365	\$3,584,196,429	\$5,863,938,167	\$7,074,353,103	45.0%	33.6%
6/30/10	\$11,004,795,089	\$4,210,215,585	\$3,503,007,035	\$6,794,579,504	\$7,501,788,054	38.3%	31.8%
6/30/11	\$11,182,142,032	\$3,276,986,087	\$3,538,878,093	\$7,455,155,945	\$7,643,263,939	33.3%	31.7%
6/30/12	\$11,361,048,136	\$3,101,316,738	\$2,980,401,603	\$8,259,731,398	\$8,380,646,533	27.3%	26.2%

KERS Non-Haz Insurance Fund

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Liability		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/07	\$5,201,355,055	\$621,171,658	\$663,558,360	\$4,580,183,397	\$4,537,796,695	11.9%	12.8%
6/30/08	\$5,431,499,285	\$603,197,761	\$574,480,809	\$4,828,301,524	\$4,857,018,476	11.1%	10.6%
6/30/09	\$4,507,325,571	\$534,172,580	\$365,771,088	\$3,973,152,991	\$4,141,554,483	11.9%	8.1%
6/30/10	\$4,466,136,041	\$471,341,628	\$371,002,484	\$3,994,794,413	\$4,095,133,557	10.6%	8.3%
6/30/11	\$4,280,089,633	\$451,620,442	\$433,305,243	\$3,828,469,191	\$3,846,784,390	10.6%	10.1%
6/30/12	\$3,125,330,157	\$446,080,511	\$430,805,726	\$2,679,249,646	\$2,694,524,431	14.3%	13.8%

KERS Haz Pension Fund

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Liability		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/07	\$558,992,329	\$467,287,809	\$510,775,499	\$91,704,520	\$48,216,830	83.6%	91.4%
6/30/08	\$618,010,827	\$502,132,214	\$484,440,015	\$115,878,613	\$133,570,812	81.3%	78.4%
6/30/09	\$674,411,781	\$502,503,287	\$388,913,374	\$171,908,494	\$285,498,406	74.5%	57.7%
6/30/10	\$688,149,451	\$502,729,009	\$443,511,663	\$185,420,442	\$244,637,788	73.1%	64.5%
6/30/11	\$721,293,444	\$510,748,505	\$510,628,492	\$210,544,939	\$210,664,952	70.8%	70.8%
6/30/12	\$752,699,457	\$497,226,296	\$478,103,794	\$255,473,161	\$274,595,663	66.1%	63.5%

KERS Haz Insurance Fund

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Liability		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/07	\$504,842,981	\$251,536,756	\$280,885,910	\$253,306,225	\$223,957,071	49.8%	55.6%
6/30/08	\$541,657,214	\$288,161,759	\$269,299,859	\$253,495,455	\$272,357,355	53.2%	49.7%
6/30/09	\$491,132,170	\$301,634,592	\$219,537,255	\$189,497,578	\$271,594,915	61.4%	44.7%
6/30/10	\$493,297,529	\$314,427,296	\$271,395,843	\$178,870,233	\$221,901,686	63.7%	55.0%
6/30/11	\$507,058,767	\$329,961,615	\$321,071,515	\$177,097,152	\$185,987,252	65.1%	63.3%
6/30/12	\$384,592,406	\$345,573,948	\$333,298,119	\$39,018,458	\$51,294,287	89.9%	86.7%

Continued. Summary of Actuarially Unfunded Liabilities as of June 30, 2012
CERS Non-Haz Pension Fund

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Liability		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/07	\$6,659,446,126	\$5,467,824,480	\$5,812,935,251	\$1,191,621,646	\$846,510,875	82.1%	87.3%
6/30/08	\$7,304,217,691	\$5,731,502,438	\$5,431,735,605	\$1,572,715,253	\$1,872,482,086	78.5%	74.4%
6/30/09	\$7,912,913,512	\$5,650,789,991	\$4,330,593,934	\$2,262,123,521	\$3,582,319,578	71.4%	54.7%
6/30/10	\$8,459,022,280	\$5,546,857,291	\$4,819,933,717	\$2,912,164,989	\$3,639,088,563	65.6%	57.0%
6/30/11	\$8,918,085,025	\$5,629,611,183	\$5,577,252,295	\$3,288,473,842	\$3,340,832,730	63.1%	62.5%
6/30/12	\$9,139,567,695	\$5,547,235,599	\$5,372,769,813	\$3,592,332,096	\$3,766,797,882	60.7%	58.8%

CERS Non-Haz Insurance Fund

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Liability		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/07	\$3,333,966,070	\$960,285,900	\$1,084,042,781	\$2,373,680,170	\$2,249,923,289	28.8%	32.5%
6/30/08	\$3,583,193,466	\$1,168,883,170	\$1,105,944,178	\$2,414,310,296	\$2,477,249,288	32.6%	30.9%
6/30/09	\$3,070,386,018	\$1,216,631,769	\$894,905,841	\$1,853,754,249	\$2,175,480,177	39.6%	29.2%
6/30/10	\$3,158,340,174	\$1,293,038,593	\$1,096,581,872	\$1,865,301,581	\$2,061,758,302	40.9%	34.7%
6/30/11	\$3,073,973,205	\$1,433,450,793	\$1,451,984,026	\$1,640,522,412	\$1,621,989,179	46.6%	47.2%
6/30/12	\$2,370,771,288	\$1,512,853,851	\$1,439,226,170	\$857,917,437	\$931,545,118	63.8%	60.7%

CERS Haz Pension Fund

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Liability		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/07	\$2,208,736,179	\$1,639,288,924	\$1,754,934,764	\$569,447,255	\$453,801,415	74.2%	79.5%
6/30/08	\$2,403,122,095	\$1,750,867,373	\$1,644,983,243	\$652,254,722	\$758,138,852	72.9%	68.5%
6/30/09	\$2,578,444,600	\$1,751,487,540	\$1,320,522,868	\$826,957,060	\$1,257,921,732	67.9%	51.2%
6/30/10	\$2,672,151,907	\$1,749,464,388	\$1,506,787,429	\$922,687,519	\$1,165,364,478	65.5%	56.4%
6/30/11	\$2,859,041,052	\$1,779,545,393	\$1,760,602,934	\$1,079,495,659	\$1,098,438,118	62.2%	61.6%
6/30/12	\$3,009,992,047	\$1,747,379,297	\$1,677,940,479	\$1,262,612,750	\$1,332,051,568	58.1%	55.8%

CERS Haz Insurance Fund

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Liability		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/07	\$1,646,460,011	\$512,926,549	\$570,155,702	\$1,133,533,462	\$1,076,304,309	31.2%	34.6%
6/30/08	\$1,769,782,957	\$613,526,319	\$576,414,457	\$1,156,256,638	\$1,193,368,500	34.7%	32.6%
6/30/09	\$1,593,548,263	\$651,130,782	\$483,269,862	\$942,417,481	\$1,110,278,401	40.9%	30.3%
6/30/10	\$1,674,703,216	\$692,769,770	\$586,826,965	\$981,933,446	\$1,087,876,251	41.4%	35.0%
6/30/11	\$1,647,702,755	\$770,790,274	\$774,509,101	\$876,912,481	\$873,193,654	46.8%	47.0%
6/30/12	\$1,364,843,057	\$829,040,842	\$788,070,813	\$535,802,215	\$576,772,244	60.7%	57.7%

Continued. Summary of Actuarially Unfunded Liabilities as of June 30, 2012
SPRS Pension Fund

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Liability		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/07	\$547,955,286	\$348,806,508	\$376,381,488	\$199,148,778	\$171,573,798	63.7%	68.7%
6/30/08	\$587,129,257	\$350,891,451	\$337,358,918	\$236,237,806	\$249,770,339	59.8%	57.5%
6/30/09	\$602,328,868	\$329,966,989	\$256,571,073	\$272,361,879	\$345,757,795	54.8%	42.6%
6/30/10	\$612,444,806	\$304,577,292	\$264,944,089	\$307,867,514	\$347,500,717	49.7%	43.3%
6/30/11	\$634,379,401	\$285,580,631	\$279,934,443	\$348,798,770	\$354,444,958	45.0%	44.1%
6/30/12	\$647,688,665	\$259,791,575	\$252,896,868	\$387,897,090	\$394,791,797	40.1%	39.1%

SPRS Insurance Fund

Valuation Date	Actuarial Liability	Value of Assets		Unfunded Liability		Funding Level	
		Actuarial	Market	Actuarial	Market	Actuarial	Market
6/30/07	\$432,763,229	\$115,215,912	\$132,573,898	\$317,547,317	\$300,189,331	26.6%	30.6%
6/30/08	\$445,107,468	\$123,961,197	\$121,781,967	\$321,146,271	\$323,325,501	27.9%	27.4%
6/30/09	\$364,031,141	\$123,526,647	\$93,686,940	\$240,504,494	\$270,344,201	33.9%	25.7%
6/30/10	\$434,960,495	\$121,175,083	\$104,526,550	\$313,785,412	\$330,433,945	27.9%	24.0%
6/30/11	\$438,427,763	\$123,687,289	\$127,367,947	\$314,740,474	\$311,059,816	28.2%	29.1%
6/30/12	\$333,903,782	\$124,372,072	\$125,567,846	\$209,531,710	\$208,3335,936	37.3%	37.6%

Analysis of Financial Experience

Gains or Losses in Accrued Liabilities Resulting from Difference Between Assumed Experience & Actual Experience (in Millions) as of June 30, 2012

Type of Activity	Retirement Gain	Insurance Gain
KERS Non-Hazardous		
Age & Service Retirements. If members retire at older ages, there is a gain. If younger, a loss.	(61.3)	20.2
Disability Retirements. If disability claims are less than assumed, there is a gain. If more claims, a loss.	(26.1)	1.4
Death-In Service Benefits. If survivor claims are less than assumed, there is a gain. If more claims, there is a loss.	(0.6)	(2.0)
Withdrawal From Employment. If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	141.0	(27.4)
Pay or Claims Increases. If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss. For insurance, smaller claims increases than assumed generates a gain; larger, a loss.	(7.1)	111.8
New Members. Additional unfunded accrued liability will produce a loss.	(7.8)	(3.4)
Investment Income. If there is a greater investment income than assumed, there is a gain. If less income, a loss.	(325.1)	(37.9)
Death After Retirement. If retired members live longer than assumed, there is a loss. If not as long, a gain.	15.0	33.5
Other. Miscellaneous gains and losses resulting from changes in valuation software, data adjustments, timing of financial transactions, etc.	(96.2)	(179.4)
Gain (or Loss) During Year From Financial Experience	(368.2)	(83.2)
Non-Recurring Items. Adjustments for plan amendments, assumption changes, method changes and data corrections.	0.0	1,251.0
Composite Gain (or Loss) During Year	(368.2)	1,167.8
KERS Hazardous		
Age & Service Retirements. If members retire at older ages, there is a gain. If younger, a loss.	(12.0)	2.4
Disability Retirements. If disability claims are less than assumed, there is a gain. If more claims, a loss.	(0.8)	0.4
Death-In Service Benefits. If survivor claims are less than assumed, there is a gain. If more claims, there is a loss.	0.1	(0.1)
Withdrawal From Employment. If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	20.1	10.9
Pay or Claims Increases. If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss. For insurance, smaller claims increases than assumed generates a gain; larger, a loss.	(3.8)	19.3
New Members. Additional unfunded accrued liability will produce a loss.	(2.7)	(2.3)
Investment Income. If there is a greater investment income than assumed, there is a gain. If less income, a loss.	(29.9)	(21.3)
Death After Retirement. If retired members live longer than assumed, there is a loss. If not as long, a gain.	3.9	7.1
Other. Miscellaneous gains and losses resulting from changes in valuation software, data adjustments, timing of financial transactions, etc.	(14.5)	19.2
Gain (or Loss) During Year From Financial Experience	(39.6)	35.6
Non-Recurring Items. Adjustments for plan amendments, assumption changes, method changes and data corrections.	0.0	105.8
Composite Gain (or Loss) During Year	(39.6)	141.4

Continued. Gains or Losses in Accrued Liabilities Resulting from Difference Between Assumed Experience & Actual Experience (in Millions) as of June 30, 2012

Type of Activity	Retirement Gain	Insurance Gain
CERS Non-Hazardous		
Age & Service Retirements. If members retire at older ages, there is a gain. If younger, a loss.	(41.7)	2.2
Disability Retirements. If disability claims are less than assumed, there is a gain. If more claims, a loss.	(36.1)	1.1
Death-In Service Benefits. If survivor claims are less than assumed, there is a gain. If more claims, there is a loss.	(1.3)	(2.6)
Withdrawal From Employment. If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	71.4	7.1
Pay or Claims Increases. If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss. For insurance, smaller claims increases than assumed generates a gain; larger, a loss.	70.8	90.0
New Members. Additional unfunded accrued liability will produce a loss.	(14.9)	(4.2)
Investment Income. If there is a greater investment income than assumed, there is a gain. If less income, a loss.	(341.0)	(89.2)
Death After Retirement. If retired members live longer than assumed, there is a loss. If not as long, a gain.	22.9	28.2
Other. Miscellaneous gains and losses resulting from changes in valuation software, data adjustments, timing of financial transactions, etc.	49.4	(53.8)
Gain (or Loss) During Year From Financial Experience	(220.6)	(21.2)
Non-Recurring Items. Adjustments for plan amendments, assumption changes, method changes and data corrections.	0.0	833.9
Composite Gain (or Loss) During Year	(220.6)	812.7
CERS Hazardous		
Age & Service Retirements. If members retire at older ages, there is a gain. If younger, a loss.	(19.3)	(2.9)
Disability Retirements. If disability claims are less than assumed, there is a gain. If more claims, a loss.	(5.2)	(1.4)
Death-In Service Benefits. If survivor claims are less than assumed, there is a gain. If more claims, there is a loss.	0.2	(0.6)
Withdrawal From Employment. If more liabilities are released by withdrawals than assumed, there is a gain. If smaller releases, a loss.	40.8	28.1
Pay or Claims Increases. If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss. For insurance, smaller claims increases than assumed generates a gain; larger, a loss.	7.0	71.0
New Members. Additional unfunded accrued liability will produce a loss.	(12.7)	(8.6)
Investment Income. If there is a greater investment income than assumed, there is a gain. If less income, a loss.	(112.2)	(47.2)
Death After Retirement. If retired members live longer than assumed, there is a loss. If not as long, a gain.	0.1	12.4
Other. Miscellaneous gains and losses resulting from changes in valuation software, data adjustments, timing of financial transactions, etc.	(53.6)	40.5
Gain (or Loss) During Year From Financial Experience	(154.9)	91.3
Non-Recurring Items. Adjustments for plan amendments, assumption changes, method changes and data corrections.	0.0	265.8
Composite Gain (or Loss) During Year	(154.9)	357.1

Continued. Gains or Losses in Accrued Liabilities Resulting from Difference Between Assumed Experience & Actual Experience (in Millions) as of June 30, 2012

Type of Activity	Retirement Gain	Insurance Gain
SPRS		
Age & Service Retirements. If members retire at older ages, there is a gain. If younger, a loss.	2.9	8.0
Disability Retirements. If disability claims are less than assumed, there is a gain. If more claims, a loss.	(0.3)	(0.6)
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.	1.9	4.2
Pay or Claims Increases. If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss. For insurance, smaller claims increases than assumed generates a gain; larger, a loss.	(1.8)	14.2
New Members. Additional unfunded accrued liability will produce a loss.	0.0	0.0
Investment Income. If there is a greater investment income than assumed, there is a gain. If less income, a loss.	(19.1)	(6.4)
Death After Retirement. If retired members live longer than assumed, there is a loss. If not as long, a gain.	0.5	2.4
Other. Miscellaneous gains and losses resulting from changes in valuation software, data adjustments, timing of financial transactions, etc.	(7.9)	(17.8)
Gain (or Loss) During Year From Financial Experience	(23.8)	4.0
Non-Recurring Items. Adjustments for plan amendments, assumption changes, method changes and data corrections.	0.0	102.7
Composite Gain (or Loss) During Year	(23.8)	106.7

SOLVENCY

Solvency Test

Solvency Test for KERS Non-Hazardous Pension Fund as of June 30, 2012

Valuation Date	Actuarial Liabilities			Actuarial Value of Assets	Liabilities Covered by Actuarial Assets		
	(1) Active Member Contributions	(2) Retirees & Beneficiaries	(3) Active Members Employer Portion		(1)	(2)	(3)
6/30/07	\$878,842,180	\$6,437,235,593	\$2,169,861,504	\$5,396,782,459	100.0%	70.2%	-
6/30/08	\$875,178,068	\$7,162,496,700	\$2,092,015,217	\$5,318,792,893	100.0%	62.0%	-
6/30/09	\$793,574,765	\$8,205,155,691	\$1,659,819,076	\$4,794,611,365	100.0%	48.8%	-
6/30/10	\$869,484,042	\$8,329,757,802	\$1,805,553,245	\$4,210,215,585	100.0%	40.1%	-
6/30/11	\$916,568,932	\$8,482,714,356	\$1,782,858,744	\$3,726,986,087	100.0%	33.1%	-
6/30/12	\$885,1387,183	\$8,708,536,338	\$1,767,374,615	\$3,101,316,738	100.0%	25.4%	--

Continued. Solvency Test for KERS Non-Hazardous Insurance Fund as of June 30, 2012

Valuation Date	Actuarial Liabilities			Actuarial Value of Assets	Liabilities Covered by Actuarial Assets		
	(1) Active Member Contributions	(2) Retirees & Beneficiaries	(3) Active Members Employer Portion		(1)	(2)	(3)
6/30/07	\$0	\$2,569,197,567	\$2,632,157,488	\$621,171,658	100.0%	24.2%	--
6/30/08	\$0	\$2,788,189,754	\$2,643,309,531	\$603,197,761	100.0%	21.6%	--
6/30/09	\$0	\$2,861,867,088	\$1,645,458,483	\$534,172,580	100.0%	18.7%	--
6/30/10	\$0	\$2,744,534,054	\$1,721,601,987	\$471,341,628	100.0%	17.2%	--
6/30/11	\$0	\$2,568,002,978	\$1,712,086,655	\$451,620,442	100.0%	17.6%	--
6/30/12	\$0	\$1,924,068,623	\$1,201,261,534	\$446,080,511	100.0%	23.2%	--

KERS Hazardous Pension Fund as of June 30, 2012

Valuation Date	Actuarial Liabilities			Actuarial Value of Assets	Liabilities Covered by Actuarial Assets		
	(1) Active Member Contributions	(2) Retirees & Beneficiaries	(3) Active Members Employer Portion		(1)	(2)	(3)
6/30/07	\$88,670,847	\$306,492,350	\$163,829,132	\$467,287,809	100.0%	100.0%	44.0%
6/30/08	\$89,590,638	\$355,771,877	\$172,648,312	\$502,132,214	100.0%	100.0%	32.9%
6/30/09	\$87,779,938	\$413,972,356	\$172,659,487	\$502,503,287	100.0%	100.0%	0.4%
6/30/10	\$88,511,283	\$441,657,241	\$157,980,927	\$502,729,009	100.0%	93.8%	--
6/30/11	\$86,614,205	\$490,395,078	\$144,284,161	\$510,748,505	100.0%	86.5%	--
6/30/12	\$82,100,877	\$521,688,803	\$148,909,777	\$497,226,296	100.0%	79.6%	--

KERS Hazardous Insurance Fund as of June 30, 2012

Valuation Date	Actuarial Liabilities			Actuarial Value of Assets	Liabilities Covered by Actuarial Assets		
	(1) Active Member Contributions	(2) Retirees & Beneficiaries	(3) Active Members Employer Portion		(1)	(2)	(3)
6/30/07	\$0	\$201,189,546	\$303,653,435	\$251,536,756	100.0%	100.0%	16.6%
6/30/08	\$0	\$228,834,940	\$312,822,274	\$288,161,759	100.0%	100.0%	19.0%
6/30/09	\$0	\$242,123,365	\$249,008,805	\$301,634,592	100.0%	100.0%	23.9%
6/30/10	\$0	\$268,510,709	\$224,786,820	\$314,427,296	100.0%	100.0%	20.4%
6/30/11	\$0	\$285,539,861	\$221,518,906	\$329,961,615	100.0%	100.0%	20.1%
6/30/12	\$0	\$196,578,935	\$188,013,471	\$345,573,948	100.0%	100.0%	79.2%

CERS Non-Hazardous Pension Fund as of June 30, 2012

Valuation Date	Actuarial Liabilities			Actuarial Value of Assets	Liabilities Covered by Actuarial Assets		
	(1) Active Member Contributions	(2) Retirees & Beneficiaries	(3) Active Members Employer Portion		(1)	(2)	(3)
6/30/07	\$920,126,096	\$3,589,512,063	\$2,149,807,967	\$5,467,824,480	100.0%	100.0%	44.6%
6/30/08	\$963,213,677	\$4,058,767,419	\$2,282,236,595	\$5,731,502,438	100.0%	100.0%	31.1%
6/30/09	\$991,628,551	\$4,542,483,102	\$2,378,801,859	\$5,650,789,991	100.0%	100.0%	4.9%
6/30/10	\$1,063,746,826	\$4,890,659,077	\$2,504,616,377	\$5,546,857,291	100.0%	91.7%	--
6/30/11	\$1,110,967,160	\$5,209,783,924	\$2,597,333,941	\$5,629,611,183	100.0%	86.7%	--
6/30/12	\$1,117,549,337	\$5,416,932,995	\$2,605,085,363	\$5,547,235,599	100.0%	81.8%	--

Continued. Solvency Test for CERS Non-Hazardous Insurance Fund as of June 30, 2012

Valuation Date	Actuarial Liabilities			Actuarial Value of Assets	Liabilities Covered by Actuarial Assets		
	(1) Active Member Contributions	(2) Retirees & Beneficiaries	(3) Active Members Employer Portion		(1)	(2)	(3)
6/30/07	\$0	\$1,372,128,406	\$1,961,837,664	\$960,285,900	100.0%	70.0%	--
6/30/08	\$0	\$1,521,450,274	\$2,061,743,192	\$1,168,883,170	100.0%	76.8%	--
6/30/09	\$0	\$1,478,782,753	\$1,591,603,265	\$1,216,631,769	100.0%	82.3%	--
6/30/10	\$0	\$1,526,533,372	\$1,631,806,802	\$1,293,038,593	100.0%	84.7%	--
6/30/11	\$0	\$1,460,808,255	\$1,613,164,950	\$1,433,450,793	100.0%	98.1%	--
6/30/12	\$0	\$1,146,907,750	\$1,223,863,538	\$1,512,853,851	100.0%	100.0%	29.9%

CERS Hazardous Pension Fund as of June 30, 2012

Valuation Date	Actuarial Liabilities			Actuarial Value of Assets	Liabilities Covered by Actuarial Assets		
	(1) Active Member Contributions	(2) Retirees & Beneficiaries	(3) Active Members Employer Portion		(1)	(2)	(3)
6/30/07	\$317,007,367	\$1,275,221,775	\$616,507,037	\$1,639,288,924	100.0%	100.0%	7.6%
6/30/08	\$338,324,362	\$1,406,982,409	\$657,815,324	\$1,750,867,373	100.0%	100.0%	0.8%
6/30/09	\$350,308,879	\$1,540,262,587	\$687,873,134	\$1,751,487,540	100.0%	91.0%	--
6/30/10	\$369,612,720	\$1,622,684,455	\$679,854,732	\$1,749,464,388	100.0%	85.0%	--
6/30/11	\$382,072,055	\$1,768,511,545	\$708,457,452	\$1,779,545,393	100.0%	79.0%	--
6/30/12	\$381,672,428	\$1,889,884,303	\$738,435,316	\$1,747,379,297	100.0%	72.3%	--

CERS Hazardous Insurance Fund as of June 30, 2012

Valuation Date	Actuarial Liabilities			Actuarial Value of Assets	Liabilities Covered by Actuarial Assets		
	(1) Active Member Contributions	(2) Retirees & Beneficiaries	(3) Active Members Employer Portion		(1)	(2)	(3)
6/30/07	\$0	\$659,752,978	\$986,707,033	\$512,926,549	100.0%	77.7%	--
6/30/08	\$0	\$722,435,184	\$1,047,347,773	\$613,526,319	100.0%	84.9%	--
6/30/09	\$0	\$725,899,836	\$867,648,427	\$651,130,782	100.0%	89.7%	--
6/30/10	\$0	\$814,300,256	\$860,402,960	\$692,769,770	100.0%	85.1%	--
6/30/11	\$0	\$771,631,287	\$876,071,468	\$770,790,274	100.0%	99.9%	--
6/30/12	\$0	\$575,099,089	\$789,743,968	\$829,040,842	100.0%	100.0%	32.2%

SPRS Pension Fund as of June 30, 2012

Valuation Date	Actuarial Liabilities			Actuarial Value of Assets	Liabilities Covered by Actuarial Assets		
	(1) Active Member Contributions	(2) Retirees & Beneficiaries	(3) Active Members Employer Portion		(1)	(2)	(3)
6/30/07	\$39,505,285	\$397,863,520	\$110,583,481	\$348,806,508	100.0%	77.7%	--
6/30/08	\$41,391,416	\$426,311,368	\$119,426,473	\$350,891,451	100.0%	72.6%	--
6/30/09	\$41,664,469	\$459,585,353	\$101,079,046	\$329,966,989	100.0%	62.7%	--
6/30/10	\$42,011,523	\$475,892,659	\$94,540,624	\$304,577,292	100.0%	55.2%	--
6/30/11	\$43,574,097	\$499,194,229	\$91,611,075	\$285,580,631	100.0%	48.5%	--
6/30/12	\$41,139,306	\$523,016,647	\$83,532,712	\$259,791,575	100.0%	41.8%	--

Continued. Solvency Test for SPRS Insurance Fund as of June 30, 2012

Valuation Date	Actuarial Liabilities			Actuarial Value of Assets	Liabilities Covered by Actuarial Assets		
	(1) Active Member Contributions	(2) Retirees & Beneficiaries	(3) Active Members Employer Portion		(1)	(2)	(3)
6/30/07	\$0	\$172,291,142	\$260,472,087	\$115,215,912	100.0%	66.9%	--
6/30/08	\$0	\$178,655,245	\$266,452,223	\$123,961,197	100.0%	69.4%	--
6/30/09	\$0	\$167,091,453	\$196,939,688	\$123,526,647	100.0%	73.9%	--
6/30/10	\$0	\$253,580,827	\$181,379,668	\$121,175,083	100.0%	47.8%	--
6/30/11	\$0	\$252,439,726	\$185,988,037	\$123,687,289	100.0%	49.0%	--
6/30/12	\$0	\$190,258,729	\$143,645,053	\$124,372,072	100.0%	65.4%	--

VALUATIONS

Active Member Valuation

Methodology 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 in 2006.

Summary of Active Member Valuation Data for KERS Non-Haz

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
6/30/07	317	47,913	\$1,780,223,493	\$37,155	1.9%	43.3	9.3
6/30/08	414	48,085	\$1,837,873,488	\$38,221	2.9%	43.2	9.1
6/30/09	334	46,060	\$1,754,412,912	\$38,090	(0.3)%	43.0	8.7
6/30/10	334	47,090	\$1,815,146,388	\$38,546	1.2%	43.4	9.0
6/30/11	427	46,617	\$1,731,632,748	\$37,146	(3.6)%	43.8	9.4
6/30/12	286	42,196	\$1,644,896,681	\$38,982	4.9%	44.3	9.8

KERS Haz

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
6/30/07	15	4,349	\$144,838,020	\$33,304	3.7%	41.7	7.0
6/30/08	16	4,393	\$148,710,060	\$33,852	1.6%	41.4	6.9
6/30/09	20	4,334	\$146,043,576	\$33,697	(0.5)%	41.4	7.0
6/30/10	18	4,291	\$143,557,944	\$33,456	(0.7)%	41.4	7.0
6/30/11	16	4,291	\$133,053,792	\$31,008	(7.3)%	41.3	6.9
6/30/12	14	4,086	\$131,976,754	\$32,300	4.2%	41.1	7.3

¹Annual payroll included in the Schedule of Active Member Valuation Data is based upon the annualized monthly payroll for active members as of the valuation date. The annual payroll recorded in the financial section is based upon the sum of the monthly payroll for active members recorded for each month of fiscal year ending June 30, 2012.

Summary of Active Member Valuation Data for CERS Non-Haz

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
6/30/07	1,112	84,920	\$2,076,848,328	\$24,457	3.3%	45.9	8.1
6/30/08	1,110	85,221	\$2,166,612,648	\$25,423	3.9%	45.9	8.3
6/30/09	1,108	83,724	\$2,183,611,848	\$26,081	2.6%	46.2	8.6
6/30/10	1,102	84,681	\$2,236,855,380	\$26,415	1.3%	46.6	8.8
6/30/11	1,102	85,285	\$2,276,595,948	\$26,694	1.1%	46.8	9.0
6/30/12	1,080	83,052	\$2,236,546,345	\$26,929	0.9%	47.5	9.1

CERS Haz

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
6/30/07	294	10,063	\$458,998,956	\$45,613	2.9%	38.6	8.1
6/30/08	299	10,173	\$474,241,332	\$46,618	2.2%	38.7	8.3
6/30/09	290	9,757	\$469,315,464	\$48,100	3.2%	38.4	8.8
6/30/10	282	9,562	\$466,548,660	\$48,792	1.4%	38.8	9.2
6/30/11	281	9,407	\$466,963,860	\$49,640	1.7%	39.1	9.5
6/30/12	254	9,130	\$464,228,923	\$50,847	2.4%	39.3	10.3

SPRS

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
6/30/07	1	957	\$49,247,580	\$51,460	10.8%	37.3	11.1
6/30/08	1	993	\$53,269,080	\$53,645	4.2%	36.9	10.8
6/30/09	1	946	\$51,660,396	\$54,609	1.8%	37.3	11.0
6/30/10	1	961	\$51,506,712	\$53,597	(1.9)%	37.2	10.6
6/30/11	1	965	\$48,692,616	\$50,459	(5.9)%	37.7	10.6
6/30/12	1	907	\$48,372,506	\$53,332	5.7%	37.3	10.4

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, 2012

Retired Member Valuation

Summary of Retired Member Valuation Data for KERS Non-Haz

Valuation Date	Number Added	Number Removed	Total Retirees & Beneficiaries	Annualized Retirement Allowances	% Increase in Allowances	Average Annual Allowance
6/30/07	2,440	731	33,849	\$625,435,416	10.47%	\$18,472
6/30/08	2,573	1,115	35,307	\$710,505,270	13.60%	\$20,124
6/30/09	3,465	889	37,883	\$ 812,559,070	14.36%	\$21,449
6/30/10	1,162	1,100	37,945	\$801,881,911	(1.31%)	\$21,133
6/30/11	1,592	940	38,597	\$821,197,278	2.41%	\$21,276
6/30/12	1,707	1,078	39,226	\$844,880,945	2.88%	\$21,539

KERS Haz

Valuation Date	Number of Employers	Total Active Members	Annual Average Pay	% Increase In Average Pay	Average Age	Average Years of Service Credit
6/30/07	241	19	2,202	\$27,528,837	17.94%	\$12,502
6/30/08	261	59	2,404	\$33,588,993	22.01%	\$13,972
6/30/09	339	95	2,648	\$38,695,501	15.20%	\$14,613
6/30/10	282	95	2,835	\$41,114,800	6.25%	\$14,503
6/30/11	288	59	3,064	\$45,609,229	10.93%	\$14,886
6/30/12	243	54	3,253	\$49,231,205	7.94%	\$15,134

CERS Non-Haz

Valuation Date	Number of Employers	Total Active Members	Annual Average Pay	% Increase In Average Pay	Average Age	Average Years of Service Credit
6/30/07	3,244	782	35,564	\$348,712,020	13.12%	\$9,805
6/30/08	3,366	1,351	37,759	\$393,757,510	12.92%	\$10,478
6/30/09	3,060	883	39,756	\$ 440,061,418	11.76%	\$11,069
6/30/10	2,565	1,283	41,038	\$452,613,550	2.85%	\$11,029
6/30/11	3,250	1,077	43,211	\$483,594,068	6.84%	\$11,191
6/30/12	3,300	1,207	45,304	\$515,008,362	6.50%	\$11,368

CERS Haz

Valuation Date	Number of Employers	Total Active Members	Annual Average Pay	% Increase In Average Pay	Average Age	Average Years of Service Credit
6/30/07	500	53	5,159	\$113,735,850	13.41%	\$22,046
6/30/08	469	206	5,422	\$127,477,109	12.08%	\$23,511
6/30/09	650	264	5,808	\$ 139,886,751	9.73%	\$24,085
6/30/10	423	163	6,068	\$146,916,812	5.03%	\$24,212
6/30/11	502	102	6,468	\$160,259,395	9.08%	\$24,777
6/30/12	483	73	6,878	\$173,221,483	8.09%	\$25,185

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

Summary of Retired Member Valuation Data for SPRS

Valuation Date	Number Added	Number Removed	Total Retirees & Beneficiaries	Annualized Retirement Allowances	% Increase in Allowances	Average Annual Allowance
6/30/07	49	11	1,105	\$37,208,377	7.38%	\$33,673
6/30/08	42	12	1,135	\$41,293,017	10.98%	\$36,382
6/30/09	75	26	1,184	\$44,273,937	7.22%	\$37,394
6/30/10	54	15	1,223	\$45,515,797	2.80%	\$37,217
6/30/11	52	12	1,263	\$47,467,404	4.29%	\$37,583
6/30/12	52	16	1,299	\$49,887,093	5.10%	\$38,404

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

Summary of Benefit Provisions KERS & CERS Non-Hazardous Plans



KERS
Kentucky Employees Retirement System

CERS
County Employees Retirement System

CPI
Consumer Price Index

Plan Funding

State statute requires active members to contribute 5% of creditable compensation. For members participating on or after September 1, 2008 an additional 1% of creditable compensation is required. This amount is credited to the Insurance Fund and is non-refundable to the member. Employers contribute at the rate determined by the Board to be necessary for the actuarial soundness of the systems, as required by Kentucky Revised Statutes 61.565 and Kentucky Revised Statutes 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 for Members Whose Participation Began Before 9/1/08

Age	Years of Service	Allowance Reduction
65	4	None
Any	27	None
55	5	6.5% per year for first five years, and 4.5% for next five years before age 65 or 27 years of service.
Any	25	6.5% per year for first five years, and 4.5% for next five years before age 65 or 27 years of service.

Retirement Eligibility for Members Whose Participation Began On or After 9/1/08

Age	Years of Service	Allowance Reduction
65	5	None
57	Rule of 87	None
60	10	6.5% per year for first five years, and 4.5% for next five years before age 65 or Rule of 87 (age plus years of service).

State statute requires active members to contribute 5% of creditable compensation. For members participating on or after September 1, 2008 an additional 1% of creditable compensation is required.

Benefit Formula

Final Compensation	Benefit Factor	Years of Service
Average of the five highest if participation began before 9/1/2008.	KERS 1.97% if:	Member does not have 13 months credit for 1/1/1998-1/1/1999.
	KERS 2.00% if:	Member has 13 months credit from 1/1/1998-1/1/1999.
	KERS 2.20% if:	Member has 20 or more years of service, including 13 months from 1/1/1998-1/1/1999 and retires by 1/1/2009.
	CERS 2.20% if:	Member begins participating prior to 8/1/2004.
	CERS 2.00% if:	Member begins participating on or after 8/1/2004 and before 9/1/2008.
Average of the last complete five if participation began on or after 9/1/2008.	KERS & CERS increasing percent based on service at retirement* plus 2.00% for each year of service over 30 if:	Member begins participating on or after 9/1/2008.

Includes earned service, purchased service, prior service, and sick leave service (if the member's employer participates in an approved sick leave program).

* **Service (and Benefit Factor): 10 years or less (1.10%); 10 - 20 years (1.30%); 20 - 26 years (1.50%); 26 - 30 years (1.75%)**

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 8/1/2004 may retire on account of disability provided the member has at least 60 months of service credit and is not eligible for an unreduced benefit. Additional service credit may be added for computation of benefits under the benefit formula. Members participating on or after 8/1/2004 may retire on account of disability provided the member has at least 60 months of service credit. Benefits are computed as the higher of 20% of 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 one and one-half percent (1.5%). The Kentucky General Assembly has the authority to suspend or reduce COLAs. HB 265 of 2012 eliminated the July 1, 2012 and July 1, 2013 COLAs for all retirees.



COLA
Cost of Living Adjustment

CPI
Consumer Price Index

Insurance Benefits For members participating prior to July 1, 2003, KRS pays a percentage of the monthly premium for single coverage based upon the service credit accrued at retirement. Members participating on or after July 1, 2003 and before September 1, 2008 are required to earn at least 10 years of service credit in order to be eligible for insurance benefits at retirement. Members participating on or after September 1, 2008 are required to earn at least 15 years of service credit 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 by the CPI prior to July 1, 2008, and by 1.5% annually from July 1, 2008.

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

Interest on Accounts Active member accounts have been credited with interest on July 1 of each year at 3% compounded annually through June 30, 1981; 6% thereafter through June 30, 1986; 4% thereafter through June 30, 2003, and 2.5% thereafter. For employees hired prior to September 1, 2008, the interest paid is set by the Board of Trustees and will not be less than 2.0%, for employees hired on or after September 1, 2008, interest will be credited at a rate of 2.5%.

Summary of Benefit Provisions

KERS Hazardous, CERS Hazardous & SPRS

KERS
Kentucky Employees Retirement System

CERS
County Employees Retirement System

SPRS
State Police Retirement System

Plan Funding State statute requires active members to contribute 8% of creditable compensation. For members participating on or after September 1, 2008 an additional 1% of creditable compensation is required. This amount is credited to the Insurance Fund and is non-refundable to the member. Employers contribute at the rate determined by the Board to be necessary for the actuarial soundness of the systems, as required by Kentucky Revised Statutes 61.565 and Kentucky Revised Statutes 61.752. KERS and 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 for Members Whose Participation Began Before 9/1/08

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

Retirement Eligibility for Members Whose Participation Began On or After 9/1/08

Age	Years of Service	Allowance Reduction
60	5	None
Any	25	None
50	15	6.5% per year for first five years, and 4.5% for next five years before age 60 or 25 years of service.

Disability Benefits Members hired before 8/1/2004 may retire on account of disability provided the member has at least 60 months of service credit and is not eligible for an unreduced benefit. Additional service credit may be added for computation of benefits under the formula noted on page 129.

Members hired on or after 8/1/2004 may retire on account of disability provided the member has at least 60 months of service credit. Benefits are computed as the higher of 25% of 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.

Benefit Formula

Final Compensation	X	Benefit Factor	Years of Service
Average of the three highest if participation began before 9/1/2008.		KERS 2.49%, CERS 2.50%, SPRS 2.50%, if:	Member begins participating before 9/1/2008.
Average of the three highest complete years if participation began on or after 9/1/2008.		KERS, CERS and SPRS increasing percent based on service at retirement* if:	Member begins participating on or after 9/1/2008.
<p>* Service (with Benefit Factor): 10 years or less (1.30%); 10 - 20 years (1.50%); 20 - 25 years (2.50%)</p>			

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 one and one-half percent (1.5%). The Kentucky General Assembly has the authority to suspend or reduce COLAs. HB 265 of 2012 eliminated the July 1, 2012 and July 1, 2013 COLAs for all retirees.

Insurance Benefits For members participating prior to July 1, 2003, KRS pays a percentage of the monthly premium for single coverage based upon the service credit accrued at retirement. Hazardous duty members are also eligible for an additional contribution for dependents based upon hazardous service only. Members participating on or after July 1, 2003 and before September 1, 2008 are required to earn at least 10 years of service credit in order to be eligible for insurance benefits at retirement. Members participating on or after September 1, 2008 are required to earn at least 15 years of service credit in order to be eligible for insurance benefits at retirement. The monthly health insurance contribution will be \$15 for each year of earned service increased by the CPI prior to July 1, 2008, and by 1.5% annually from July 1, 2008.

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

Interest on Accounts Active member accounts have been credited with interest on July 1 of each year at 3% compounded annually through June 30, 1981; 6% thereafter through June 30, 1986; 4% thereafter through June 30, 2003, and 2.5% thereafter. For employees hired prior to September 1, 2008, the interest paid is set by the Board of Trustees and will not be less than 2.0%, for employees hired on or after September 1, 2008, interest will be credited at a rate of 2.5%.



COLA
Cost of Living Adjustment

CPI
Consumer Price Index


Statistical Section

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Fund Statistics

Definitions 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**
Kentucky Employees Retirement System

CERS
County Employees Retirement System

SPRS
State Police Retirement System

Haz
Hazardous (i.e. KERS Haz)

Non-Haz
Non-Hazardous (i.e. CERS Non-Haz)

Member Breakdown The data for years 2006-2009 reflects the number of accounts in each system. A single member may have multiple accounts, which contribute to one pension. Beginning in 2010: Each person is only counted once in the Membership by System report. A member who has both a membership account and a retired account is included in retired count. Members who have multiple membership accounts are included under the system where they most recently contributed. Members who have more than one retirement account are included in the system with the greatest service credit. If the retired accounts have equal service credit, they are counted first in SPRS, CERS Hazardous, KERS Hazardous, CERS Non-hazardous, then KERS Non-hazardous.

KERS Non-Haz Membership

Fiscal Year	Active	Inactive	Retired	Total
2007	47,913	30,904	33,849	112,666
2008	48,202	32,717	35,286	116,205
2009	46,060	34,515	37,883	118,458
2010	46,710	32,461	35,733	114,904
2011	46,044	33,350	36,239	115,633
2012	41,743	39,338	36,508	117,589

KERS Haz Membership

2007	4,349	2,738	2,202	9,289
2008	4,397	3,534	2,402	10,333
2009	4,334	3,056	2,648	10,038
2010	4,049	2,285	1,900	8,234
2011	4,045	2,351	2,090	8,486
2012	4,007	2,597	2,180	8,784

CERS Non-Haz Membership

2007	84,920	53,901	35,564	174,385
2008	85,803	55,279	37,558	178,640
2009	83,724	60,275	39,756	183,755
2010	84,010	55,423	38,261	177,694
2011	84,837	57,073	40,174	182,084
2012	83,658	63,280	42,068	189,006

Continued. CERS Haz Membership

Fiscal Year	Active	Inactive	Retired	Total
2007	10,063	2,197	5,159	17,419
2008	10,185	4,815	5,314	20,314
2009	9,757	2,522	5,808	18,087
2010	9,120	2,009	4,867	15,996
2011	9,019	2,047	5,158	16,224
2012	9,040	1,914	5,513	16,467

SPRS

2007	957	286	1,105	2,348
2008	995	302	1,136	2,433
2009	946	332	1,184	2,462
2010	948	201	1,004	2,153
2011	949	204	1,019	2,172
2012	904	224	1,203	2,331

Kentucky Retirement Systems Membership Totals

2007	148,202	90,026	77,879	316,107
2008	149,582	96,647	81,696	327,925
2009	144,821	101,552	87,279	333,652
2010	144,837	92,379	81,765	318,981
2011	144,894	95,025	84,680	324,599
2012	139,352	107,353	87,472	334,177

Schedule of Participating Employers in CERS

Agency Classification	Number of Agencies	Number of Employees
Airport Boards	5	504
Ambulance Services	21	434
Area Development Districts	14	690
Boards of Education	174	49363
Cities	219	10146
Community Action Agencies	22	2816
Conservation Districts	45	61
County Attorneys	68	690
County Clerks	16	596
Development Authorities	6	10
Fire Departments	39	757
Fiscal Courts	117	10884
Health Departments	1	283
Housing Authorities	41	435
Jailers	2	33
Libraries	86	1159
Other Retirement Systems	2	3
P1 State Agencies	1	1696
Parks and Recreation	8	62
Planning Commissions	16	206
Police Departments	2	15
Riverport Authorities	5	67
Sanitation Districts	9	348
Sheriff Departments	12	980
Special Districts & Boards	54	1564
Tourist Commissions	22	177
Urban Government Agencies	2	6763
Utility Boards	119	3894
Total	1,128	94,636

Schedule of Participating Employers in KERS

Agency Classification	Number of Agencies	Number of Employees
County Attorneys	61	353
Health Departments	57	3,449
Master Commissioner	32	74
Non-P1 State Agencies	39	1381
Other Retirement Systems	2	288
P1 State Agencies	135	31751
Regional Mental Health Units	13	5823
Universities	7	3929
Total	346	47,048

Schedule of Participating Employers in SPRS

Kentucky State Police - Uniformed Officers	1	909
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Principal Participating Employers in KERS

Participating Employer	Rank	Covered Employees	% of Total System
Department For Community Based Services(53736)	1	4,289	7.49%
Department Of Highways(35625)	2	3,997	6.98%
Department Of Corrections(54527)	3	3,620	6.32%
Judicial Department Administrative Office Of The Courts(20025)	4	3,014	5.26%
Kentucky State Police(54520)	5	1,870	3.27%
Bluegrass Regional Mental Health Mental Retardation Board(8210)	6	1,766	3.08%
Department Of Juvenile Justice(54523)	7	1,365	2.38%
Seven County Services Inc(8024)	8	1,182	2.06%
Eastern Kentucky University(1430)	9	995	1.74%
Department Of Workforce Investment(51531)	10	992	1.73%
All Others		34,156	59.67%
Total		57,246	100.00%

Principal Participating Employers in CERS

Participating Employer	Rank	Covered Employees	% of Total System
Jefferson County Board Of Education(V156)	1	6,603	6.01%
Louisville Jefferson County Metro Government(C256)	2	5,169	4.70%
Department Of Corrections(54527)	3	3,620	3.29%
Judicial Department Administrative Office Of The Courts(20025)	4	3,014	2.74%
Fayette County Board Of Education(M034)	5	2,027	1.84%
Lexington Fayette Urban County Government(K034)	6	1,594	1.45%
Boone County Board Of Education(L008)	7	1,103	1.00%
Hardin County Board Of Education(K047)	8	1,070	0.97%
Bullitt County Board Of Education(J015)	9	1,037	0.94%
Pike County Board Of Education(J098)	10	994	0.90%
All Others		83,634	76.12%
Total		109,865	100.00%

Average Monthly Benefit by Length of Service in KERS

Service Credit Range	KERS Non-Hazardous		KERS Hazardous	
	Number of Accounts	Average Monthly Benefit	Number of Accounts	Average Monthly Benefit
Under 5 Years	4,325	\$150.49	587	\$181.70
5 or more but less than 10	5,008	\$408.60	655	\$553.84
10 or more but less than 15	4,459	\$688.30	592	\$1,033.04
15 or more but less than 20	3,919	\$1,016.26	522	\$1,527.56
20 or more but less than 25	4,337	\$1,341.63	669	\$1,997.37
25 or more but less than 30	10,352	\$2,287.02	137	\$2,749.64
30 or more but less than 35	6,189	\$3,201.35	57	\$3,561.63
35 or more	2,561	\$4,499.56	9	\$4,940.73
Total	41,150	\$1,715.17	3,228	\$1,189.22

Average Monthly Benefit by Length of Service in CERS

Service Credit Range	CERS Non-Hazardous		CERS Hazardous	
	Number of Accounts	Average Monthly Benefit	Number of Accounts	Average Monthly Benefit
Under 5 Years	5,438	\$146.08	587	\$212.74
5 or more but less than 10	9,097	\$321.79	834	\$652.07
10 or more but less than 15	8,473	\$512.17	624	\$1,350.38
15 or more but less than 20	6,621	\$771.76	591	\$1,701.22
20 or more but less than 25	6,742	\$989.68	2,464	\$2,347.43
25 or more but less than 30	8,374	\$1,902.72	1,109	\$3,316.15
30 or more but less than 35	2,130	\$2,673.77	388	\$4,099.91
35 or more	577	\$3,593.59	87	\$4,948.15
Total	47,452	\$917.68	6,684	\$2,094.51

Average Monthly Benefit by Length of Service in SPRS

Under 5 Years	62	\$327.46
5 or more but less than 10	41	\$883.14
10 or more but less than 15	41	\$1,286.64
15 or more but less than 20	76	\$1,980.92
20 or more but less than 25	374	\$2,501.30
25 or more but less than 30	408	\$3,506.64
30 or more but less than 35	229	\$4,658.86
35 or more	63	\$5,649.10
Total	1,294	\$3,128.89

Plan Net Assets Dollars (in Thousands) for KERS

Fiscal Year	Non-Hazardous			Hazardous		
	Pension	Insurance	Total	Pension	Insurance	Total
June 30 2007	5,773,157	663,558	6,436,715	510,775	280,886	791,661
June 30 2008	5,056,869	574,479	5,631,348	484,438	269,300	753,738
June 30 2009	3,584,601	365,367	3,949,968	388,951	219,500	608,451
June 30 2010	3,504,501	368,799	3,873,300	443,606	271,240	714,846
June 30, 2011	3,544,242	428,659	3,972,901	511,085	320,673	831,758
June 30, 2012	2,977,935	418,490	3,396,425	476,589	330,730	807,319

CERS

June 30 2007	5,812,936	1,084,043	6,896,979	1,754,935	570,156	2,325,091
June 30 2008	5,431,735	1,105,945	6,537,680	1,644,982	576,414	2,221,396
June 30 2009	4,331,010	894,490	5,225,500	1,320,560	483,233	1,803,793
June 30 2010	4,820,490	1,094,821	5,915,311	1,506,894	586,614	2,093,508
June 30, 2011	5,583,451	1,446,998	7,030,449	1,761,858	773,139	2,534,997
June 30, 2012	5,381,602	1,428,821	6,810,423	1,672,970	785,874	2,458,844

SPRS

June 30 2007	376,381	132,574	508,955
June 30 2008	337,359	121,782	459,141
June 30 2009	256,575	93,682	350,257
June 30 2010	264,949	104,511	369,460
June 30, 2011	279,927	127,319	407,246
June 30, 2012	250,476	125,398	375,874

Kentucky Retirement Systems Total

Fiscal Year	Pension	Insurance	Total
June 30 2007	14,228,184	2,731,217	16,959,401
June 30 2008	12,955,383	2,647,920	15,603,303
June 30 2009	9,881,697	2,056,272	11,937,969
June 30 2010	10,540,440	2,425,987	12,966,427
June 30, 2011	11,680,563	3,096,788	14,777,351
June 30, 2012	10,758,706	3,089,313	13,848,019

Changes in Plan Net Assets (in Thousands) for KERS Non-Haz Pension Fund

Additions	2007	2008	2009	2010	2011	2012
Members' Contributions	\$116,254	\$116,487	\$108,362	\$90,780	\$109,879	\$96,418
Employers' Contributions	88,249	104,655	112,383	144,051	185,558	211,070
Health Insurance Contributions (HB1)	-	-	404	1,799	2,441	5,337
Net Investment Income	784,652	(221,578)	(867,675)	526,209	599,790	9,788
Total Additions	989,155	(436)	(646,526)	762,839	\$897,668	322,615
Deductions						
Benefit Payments	640,201	699,052	808,513	825,627	838,372	858,151
Refunds	9,489	9,076	9,127	8,887	10,931	12,004
Administrative Expenses	7,070	7,724	8,102	8,424	8,558	8,776
Capital Project Expenses	-	-	-	-	67	8
Other Expenses	-	-	-	-	-	-
Total Deductions	656,773	715,852	825,742	842,938	857,928	878,939
Total Changes in Plan Net Assets	\$332,382	\$(716,288)	\$(1,472,268)	\$(80,099)	\$39,740	\$(556,324)

KERS Non-Haz Insurance Fund

Additions	2007	2008	2009	2010	2011	2012
Employers' Contributions	\$64,014	\$56,745	\$74,434	\$92,679	\$123,256	\$146,844
Net Investment Income	78,877	(38,965)	(154,894)	50,765	77,225	(4,803)
Member Drug Reimbursement	10,744	6,634	8,168	8,551	10,025	7,865
Insurance Appropriation	-	-	-	-	-	-
Premiums Rec'd from Retirees	12,196	12,940	12,320	13,588	15,826	15,666
Total Additions	165,831	37,354	(59,972)	165,583	\$226,332	\$165,563
Deductions						
Benefit Payments	111,659	122,946	145,036	157,819	161,804	163,841
Administrative Expenses	3,199	3,487	4,104	4,333	4,667	5,203
Insurance Appropriation	-	-	-	-	-	-
Total Deductions	114,858	126,433	149,140	162,152	166,471	169,044
Total Changes in Plan Net Assets	\$50,973	\$(89,079)	\$(209,112)	\$3,431	\$59,861	169,044

KERS Haz Pension Fund

Additions	2007	2008	2009	2010	2011	2012
Member Contributions	\$13,245	\$13,091	\$12,442	\$11,110	\$12,959	\$11,602
Employer Contributions	13,237	15,257	15,843	17,658	18,085	17,367
Health Insurance Contribution (HBI)	-	-	38	118	241	629
Net Investment Income	77,996	(20,673)	(84,262)	65,588	83,492	(10,286)
Total Additions	104,478	7,675	(55,939)	94,474	\$114,777	19,312
Deductions						
Benefit Payments	28,514	31,606	37,556	37,796	44,509	48,424
Refunds	1,662	1,742	1,277	1,286	2,062	2,543
Administrative Expenses	611	664	715	737	721	877
Other Expenses	1	-	-	-	-	-
Continued. Deductions	2007	2008	2009	2010	2011	2012
Capital Project Expenses	-	-	-	-	6	-
Total Deductions	38,788	34,012	39,548	39,819	47,298	51,844
Total Changes in Plan Net Assets	\$73,690	\$(26,337)	\$(95,487)	\$54,655	\$67,479	\$(32,532)

KERS Haz Insurance Fund

Additions	2007	2008	2009	2010	2011	2012
Employers' Contributions	\$19,535	\$21,997	\$20,803	\$21,835	\$18,826	\$23,984
Net Investment Income	44,541	(25,740)	(60,641)	42,406	45,205	60
Member Drug Reimbursement	105	74	186	319	365	351
Insurance Appropriation	-	-	-	-	-	-
Premiums Rec'd from Retirees	204	247	300	835	588	876
Total Additions	64,385	(3,422)	(39,352)	65,395	\$64,984	\$25,271
Deductions						
Benefit Payments	6,874	8,069	10,304	13,456	15,327	13,941
Administrative Expenses	83	95	144	200	223	335
Total Deductions	6,957	8,164	10,448	13,656	15,550	14,276
Total Changes in Plan Net Assets	\$57,428	\$(11,586)	\$(49,800)	\$51,739	\$49,434	\$10,995

CERS Non-Haz Pension Fund

Additions	2007	2008	2009	2010	2011	2012
Members' Contributions	\$121,979	\$125,014	\$122,518	\$106,558	\$144,861	\$119,123
Employers' Contributions	124,261	150,925	179,286	207,076	247,968	270,664
Health Insurance Contribution (HBI)	-	-	415	1,345	3,216	5,101
Net Investment Income	760,541	(228,020)	(927,090)	669,072	887,514	(3,349)
Total Additions	1,009,736	47,919	(624,871)	984,051	\$1,283,559	\$391,539
Deductions						
Benefit Payments	356,648	403,958	451,304	470,249	494,344	524,385
Refunds	11,396	11,924	10,719	10,001	11,816	12,765
Administrative Expenses	12,197	13,238	13,831	14,323	14,324	16,740
Capital Project Expenses	-	-	-	-	112	9
Other Expenses	22	-	-	-	-	-
Total Deductions	389,263	429,120	475,854	494,571	520,596	553,899
Total Changes in Plan Net Assets	\$620,473	\$(381,201)	\$(1,100,725)	\$489,478	\$762,963	\$(162,360)

CERS Non-Haz Insurance Fund

Additions	2007	2008	2009	2010	2011	2012
Employer Contributions	\$147,609	\$196,110	\$123,761	\$166,032	\$185,639	\$164,297
Net Investment Income	188,055	(95,924)	(244,148)	136,528	274,743	(32,992)
Member Drug Reimbursement	9,623	6,003	7,624	9,157	10,449	8,443
Insurance Appropriation	-	-	-	-	-	-
Premiums Rec'd from Retirees	13,997	15,104	14,356	16,216	18,053	17,493
Total Additions	359,284	121,293	(98,407)	327,933	\$488,884	\$157,241
Deductions	2007	2008	2009	2010	2011	2012
Benefit Payments	85,199	95,966	108,995	123,133	131,945	
Administrative Expenses	3,040	3,425	4,053	4,469	4,763	
Total Deductions	88,239	99,391	113,048	127,602	136,708	
Benefit Payments	85,199	95,966	108,995	123,133	131,945	
Administrative Expenses	3,040	3,425	4,053	4,469	4,763	
Total Deductions	88,239	99,391	113,048	127,602	136,708	
Total Changes in Plan Net Assets	\$271,045	\$21,902	\$(211,455)	\$200,331	\$352,176	

CERS Haz Pension Fund

Additions	2007	2008	2009	2010	2011	2012
Members' Contributions	\$43,650	\$44,260	\$42,582	\$37,200	\$53,918	\$41,797
Employers' Contributions	61,553	72,155	78,151	82,887	84,595	77,311
Health Insurance Contribution (HBI)	-	-	37	174	1,157	811
Net Investment Income	240,035	(97,393)	(302,748)	206,073	286,688	(24,724)
Total Additions	345,238	19,022	(181,978)	326,334	\$426,358	95,195
Deductions						
Benefit Payments	115,604	125,191	138,810	136,810	167,540	169,352
Refunds	2,563	2,641	2,436	1,956	2,654	3,516
Administrative Expenses	1,073	1,143	1,198	1,234	1,191	1,319
Capital Project Expenses	-	-	-	-	9	-
Other Expenses	2	-	-	-	-	-
Total Deductions	119,242	128,975	142,444	140,000	171,394	174,187
Total Changes in Plan Net Assets	\$225,996	\$(109,953)	\$(324,422)	\$186,334	\$254,964	\$(79,992)

CERS Haz Insurance Fund

Additions	2007	2008	2009	2010	2011	2012
Employers' Contributions	\$70,073	\$90,113	\$70,783	\$82,970	\$98,203	\$90,204
Net Investment Income	90,041	(48,529)	(123,461)	67,288	139,242	(16,127)
Member Drug Reimbursement	657	420	628	1,493	972	871
Insurance Appropriation	-	-	-	-	-	-
Premiums Rec'd from Retirees	191	222	330	508	516	695
Total Additions	160,962	42,226	(51,720)	152,259	\$238,933	\$75,643
Deductions						
Benefit Payments	31,607	35,604	41,017	48,321	51,831	50,155
Administrative Expenses	320	364	444	554	580	688
Total Deductions	31,927	35,968	41,461	48,875	52,411	50,843
Total Changes in Plan Net Assets	\$129,035	\$6,258	\$(93,181)	\$103,384	\$186,522	\$24,800

Changes in Plan Net Assets (in Thousands) for SPRS Pension Fund

Additions	2007	2008	2009	2010	2011	2012
Members' Contributions	\$5,152	\$5,407	\$4,938	\$4,127	\$5,225	\$5,154
Employers' Contributions	6,142	7,443	8,186	9,489	11,920	15,040
Health Insurance Contribution (HB1)	-	-	5	12	31	46
Net Investment Income	49,595	(12,283)	(51,175)	40,602	44,739	43
Total Additions	60,889	567	(38,046)	54,230	\$61,915	\$20,283
Deductions	2007	2008	2009	2010	2011	2012
Benefit Payments	37,187	39,367	42,547	45,582	46,754	48,867
Refunds	47	85	69	144	58	149
Administrative Expenses	126	137	122	130	124	73
Capital Project Expenses	-	-	-	-	1	-
Other Expenses	-	-	-	-	-	-
Total Deductions	37,360	39,589	42,738	45,856	46,937	49,089
Total Changes in Plan Net Assets	\$23,529	\$(39,022)	\$(80,784)	\$8,374	\$14,978	\$(28,806)

SPRS Insurance Fund

Additions	2007	2008	2009	2010	2011	2012
Employer Contributions	\$6,489	\$7,329	\$7,414	\$8,369	\$10,051	10,810
Net Investment Income	21,876	(11,440)	(28,166)	13,085	24,773	(1,458)
Member Drug Reimbursement	361	184	229	274	318	279
Insurance Appropriation	-	-	-	-	-	-
Premiums Rec'd from Retirees	8	9	23	16	18	20
Total Additions	28,734	(3,918)	(20,500)	21,744	\$35,160	\$9,651
Deductions	2007	2008	2009	2010	2011	2012
Benefit Payments	6,515	6,768	7,476	10,769	12,172	10,791
Administrative Expenses	105	106	124	147	179	201
Total Deductions	6,620	6,874	7,600	10,916	12,351	10,992
Total Changes in Plan Net Assets	\$22,114	\$(10,792)	\$28,100	\$10,828	\$22,809	\$(1,341)

Schedule of Benefit Expenses for KERS Non-Haz

	Normal Retirement	Early Retirement	Disability Retirement	Beneficiary Payments	Total
FY 2006-07					
Average Benefit	\$936	\$1,745	\$865	\$869	\$1,541
Number of Accounts	4,767	25,605	2,597	843	33,812
Total Monthly Benefits	\$4,463,823	\$44,672,320	\$2,245,823	\$732,470	\$52,114,436
% of Total Monthly Benefits	8.6%	85.7%	4.3%	1.4%	100.0%
FY 2007-08					
Average Benefit	\$980	\$1,831	\$897	\$906	\$1,624
Number of Accounts	4,845	27,080	2,579	839	35,343
Total Monthly Benefits	\$4,747,523	\$49,585,033	\$2,313,860	\$760,088	\$57,406,504
% of Total Monthly Benefits	8.3%	86.4%	4.0%	1.3%	100.0%
FY 2008-09					
Average Benefit	\$1,036	\$1,926	\$927	\$931	\$1,717
Number of Accounts	5,041	29,386	2,566	861	37,854
Total Monthly Benefits	\$5,223,184	\$56,596,178	\$2,377,856	\$801,966	\$64,999,184
% of Total Monthly Benefits	8.0%	87.1%	3.7%	1.2%	100.0%
FY 2009-10					
Average Benefit	\$1,009	\$1,912	\$936	\$963	\$1,692
Number of Accounts	5,991	30,303	2,625	813	39,732
Total Monthly Benefits	\$6,046,047	\$57,939,304	\$2,457,461	\$782,980	\$67,225,791
% of Total Monthly Benefits	9.00%	86.20%	3.60%	1.20%	100.00%
FY 2010-11					
Average Benefit	\$1,008	\$1,920	\$974	\$1,071	\$1,703
Number of Accounts	6,118	30,900	2,629	835	40,482
Total Monthly Benefits	\$6,166,372	\$59,318,561	\$2,561,377	\$894,077	\$68,940,387
% of Total Monthly Benefits	8.94%	86.04%	3.72%	1.30%	100.00%
FY 2011-12					
Average Benefit	\$1,008	\$1,927	\$1,029	\$925	\$1,709
Number of Accounts	6,218	31,580	2,626	959	41,383
Total Monthly Benefits	\$6,269,576	\$60,879,802	\$2,702,410	\$887,236	\$70,739,025
% of Total Monthly Benefits	8.86%	86.06%	3.82%	1.25%	100.00%

Schedule of Benefit Expenses for KERS Haz

	Normal Retirement	Early Retirement	Disability Retirement	Beneficiary Payments	Total
FY 2006-07					
Average Benefit	\$862	\$1,391	\$540	\$731	\$1,038
Number of Accounts	1,116	854	167	76	2,213
Total Monthly Benefits	\$962,085	\$1,188,289	\$90,109	\$55,536	\$2,296,019
% of Total Monthly Benefits	41.9%	51.8%	3.9%	2.4%	100.0%
FY 2007-08					
Average Benefit	\$912	\$1,455	\$549	\$751	\$1,094
Number of Accounts	1,231	952	173	78	2,434
Total Monthly Benefits	\$1,123,281	\$1,384,856	\$94,999	\$58,567	\$2,661,703
% of Total Monthly Benefits	42.2%	52.0%	3.6%	2.2%	100.0%
FY 2008-09					
Average Benefit	\$941	\$1,517	\$576	\$778	\$1,143
Number of Accounts	1,353	1,066	173	74	2,666
Total Monthly Benefits	\$1,272,796	\$1,617,453	\$99,607	\$57,607	\$3,047,462
% of Total Monthly Benefits	41.8%	53.1%	3.3%	1.8%	100.0%
FY 2009-10					
Average Benefit	\$933	\$1,489	\$593	843	\$1,137
Number of Accounts	1,446	1,146	157	75	2,824
Total Monthly Benefits	\$1,348,511	\$1,706,876	\$93,064	\$63,194	\$3,211,645
% of Total Monthly Benefits	42.00%	53.10%	2.90%	2.00%	100.00%
FY 2010-11					
Average Benefit	\$957	\$1,526	\$600	\$814	\$1,166
Number of Accounts	1,571	1,240	158	79	3,048
Total Monthly Benefits	\$1,503,160	\$1,892,300	\$94,766	\$64,299	\$3,554,525
% of Total Monthly Benefits	42.29%	53.24%	2.66%	1.81%	100.00%
FY 2011-12					
Average Benefit	\$976.67	\$1,541.49	\$581	\$721	\$1,179
Number of Accounts	1,657	1,339	180	92	3,268
Total Monthly Benefits	\$1,618,343	\$2,064,050	\$104,644	\$66,409	\$3,853,449
% of Total Monthly Benefits	42.00%	53.56%	2.72%	1.72%	100.00%

These tables (pages 153-154) include individuals receiving a monthly benefit as of June 30 in the indicated fiscal year. Retired reemployed members and individuals deceased prior to June 2012 are not included; therefore, the numbers in this section may differ slightly from the numbers in the Financial and Actuarial Sections. The information for the current year will differ from the benefit payment totals listed in the Deduction by Source. A single member may have multiple accounts, which contribute to one pension.

Schedule of Benefit Expenses for CERS Non-Haz

	Normal Retirement	Early Retirement	Disability Retirement	Beneficiary Payments	Total
FY 2006-07					
Average Benefit	\$509	\$938	\$747	\$540	\$817
Number of Accounts	7,694	23,460	3,612	864	35,630
Total Monthly Benefits	\$3,919,356	\$21,999,359	\$2,696,721	\$484,037	\$29,099,472
% of Total Monthly Benefits	13.5%	75.6%	9.2%	1.7%	100.0%
FY 2007-08					
Average Benefit	\$523	\$978	\$776	\$582	\$852
Number of Accounts	8,109	25,070	3,679	876	37,734
Total Monthly Benefits	\$4,241,906	\$24,530,372	\$2,856,173	\$510,523	\$32,138,704
% of Total Monthly Benefits	13.2%	76.3%	8.9%	1.6%	100.0%
FY 2008-09					
Average Benefit	\$547	\$1,021	\$804	\$613	\$890
Number of Accounts	8,471	26,720	3,728	917	39,836
Total Monthly Benefits	\$4,634,447	\$27,268,861	\$2,998,565	\$561,804	\$35,463,676
% of Total Monthly Benefits	13.1%	76.9%	8.5%	1.5%	100.0%
FY 2009-10					
Average Benefit	\$570	\$1,022	\$835	\$623	\$898
Number of Accounts	9,418	28,747	3,951	836	42,952
Total Monthly Benefits	\$5,372,501	\$29,377,417	\$3,298,478	\$520,995	\$38,569,391
% of Total Monthly Benefits	13.90%	76.20%	8.60%	1.30%	100.00%
FY 2010-11					
Average Benefit	\$577	\$1,031	\$847	\$651	\$906
Number of Accounts	10,054	30,224	4,095	873	45,246
Total Monthly Benefits	\$5,802,568	\$31,149,398	\$3,469,974	\$568,188	\$40,990,128
% of Total Monthly Benefits	14.16%	75.99%	8.47%	1.38%	100.00%
FY 2011-12					
Average Benefit	\$587	\$1,039	\$870	\$636	\$914
Number of Accounts	10,620	31,797	4,280	1,052	47,749
Total Monthly Benefits	\$6,237,369	\$33,041,035	\$3,724,859	\$669,377	\$43,672,642
% of Total Monthly Benefits	14.28%	75.66%	8.53%	1.53%	100.00%

Continued. Schedule of Benefit Expenses for CERS Haz

	Normal Retirement	Early Retirement	Disability Retirement	Beneficiary Payments	Total
FY 2006-07					
Average Benefit	\$1,398	\$2,147	\$937	\$944	\$1,815
Number of Accounts	1,212	3,329	592	95	5,228
Total Monthly Benefits	\$1,693,771	\$7,148,184	\$554,911	\$89,712	\$7,486,579
% of Total Monthly Benefits	17.8%	75.3%	5.9%	1.0%	100.0%
FY 2007-08					
Average Benefit	\$1,424	\$2,228	\$986	\$1,021	\$1,882
Number of Accounts	1,307	3,555	610	101	5,573
Total Monthly Benefits	\$1,861,441	7,922,072	601,207	103,077	10,487,797
% of Total Monthly Benefits	17.8%	75.5%	5.7%	1.0%	100.0%
FY 2008-09					
Average Benefit	\$1,452	\$2,299	\$1,014	\$1,020	\$1,934
Number of Accounts	1,413	3,733	634	104	5,884
Total Monthly Benefits	\$2,052,162	\$8,581,241	\$642,604	\$106,103	\$11,382,110
% of Total Monthly Benefits	18.0%	75.4%	5.7%	0.9%	100.0%
FY 2009-10					
Average Benefit	\$1,427	\$2,362	\$1,261	\$1,130	\$2,019
Number of Accounts	1,495	3,856	468	89	5,908
Total Monthly Benefits	\$2,133,697	\$9,106,888	\$590,020	\$100,562	\$11,931,167
% of Total Monthly Benefits	17.90%	76.30%	5.00%	0.80%	100.00%
FY 2010-11					
Average Benefit	\$1,432	\$2,410	\$1,362	\$1,153	\$2,056
Number of Accounts	1,643	4,082	487	90	6,302
Total Monthly Benefits	\$2,352,710	\$9,838,311	\$663,455	\$103,808	\$12,958,284
% of Total Monthly Benefits	18.16%	75.92%	5.12%	0.80%	100.00%
FY 2011-12					
Average Benefit	\$1,430	\$2,422	\$1,300	\$1,046	\$2,041
Number of Accounts	1,766	4,407	662	110	6,945
Total Monthly Benefits	\$2,526,722	\$10,673,928	\$861,223	\$115,107	\$14,176,981
% of Total Monthly Benefits	17.82%	75.29%	6.07%	0.81%	100.00%

These tables (pages 155-156) include individuals receiving a monthly benefit as of June 30 in the indicated fiscal year. Retired reemployed members and individuals deceased prior to June 2012 are not included; therefore, the numbers in this section may differ slightly from the numbers in the Financial and Actuarial Sections. The information for the current year will differ from the benefit payment totals listed in the Deduction by Source. A single member may have multiple accounts, which contribute to one pension.

Schedule of Benefit Expenses for SPRS

	Normal Retirement	Early Retirement	Disability Retirement	Beneficiary Payments	Total
FY 2006-07					
Average Benefit	\$3,178	\$2,797	\$1,258	\$1,761	\$2,743
Number of Accounts	146	900	57	27	1,130
Total Monthly Benefits	\$464,053	\$2,517,382	\$71,724	\$47,540	\$3,100,699
% of Total Monthly Benefits	15.0%	81.2%	2.3%	1.5%	100.0%
FY 2007-08					
Average Benefit	\$3,281	\$2,892	\$1,265	\$1,970	\$2,843
Number of Accounts	150	931	56	26	1,163
Total Monthly Benefits	\$492,198	\$2,692,030	\$70,822	\$51,215	\$3,306,265
% of Total Monthly Benefits	14.9%	81.4%	2.1%	1.6%	100.0%
FY 2008-09					
Average Benefit	\$3,400	\$2,985	\$1,293	\$2,025	\$2,934
Number of Accounts	146	978	58	26	1,208
Total Monthly Benefits	\$496,355	\$2,919,782	\$74,971	\$52,649	\$3,543,757
% of Total Monthly Benefits	14.0%	82.4%	2.1%	1.5%	100.0%
FY 2009-10					
Average Benefit	\$3,492	\$3,066	\$1,467	\$2,130	\$3,032
Number of Accounts	147	1,004	50	26	1,227
Total Monthly Benefits	\$513,322	\$3,078,221	\$73,354	\$55,379	\$3,720,275
% of Total Monthly Benefits	13.80%	82.70%	2.00%	1.50%	100.00%
FY 2010-11					
Average Benefit	\$3,529	\$3,112	\$1,494	\$2,162	\$3,070
Number of Accounts	146	1,037	55	26	1,264
Total Monthly Benefits	\$515,270	\$3,226,744	\$82,184	\$56,210	\$3,880,408
% of Total Monthly Benefits	13.28%	83.15%	2.12%	1.45%	100.00%
FY 2011-12					
Average Benefit	\$3,560	\$3,135	\$1,372	\$2,136	\$3,077
Number of Accounts	150	1,083	66	25	1,324
Total Monthly Benefits	\$534,132	\$3,396,203	\$90,562	\$53,404	\$4,074,303
% of Total Monthly Benefits	13.11%	83.36%	2.22%	1.31%	100.00%

This table includes individuals receiving a monthly benefit as of June 30 in the indicated fiscal year. Retired reemployed members and individuals deceased prior to June 2012 are not included; therefore, the numbers in this section may differ slightly from the numbers in the Financial and Actuarial Sections. The information for the current year will differ from the benefit payment totals listed in the Deduction by Source. A single member may have multiple accounts, which contribute to one pension.

Analysis of Initial Retirees

	KERS Non-Haz	KERS Haz	CERS Non-Haz	CERS Haz	SPRS
FY 2006-07					
Number of Accounts	2,284	228	2,902	433	48
Average Service Credit (months)	246	238	206	255	274
Average Final Compensation	\$46,800	\$45,142	\$32,183	\$55,038	\$65,826
Average Monthly Benefit	\$1,713	\$1,289	\$962	\$1,987	\$2,962
Average System Payment for Health Insurance	\$225	\$342	\$194	\$599	\$497
FY 2007-08					
Number of Accounts	2,219	243	2,736	355	40
Average Service Credit (months)	261	233	204	240	275
Average Final Compensation	\$49,414	\$44,992	\$31,447	\$54,223	\$67,775
Average Monthly Benefit	\$1,929	\$1,289	\$917	\$2,014	\$3,239
Average System Payment for Health Insurance	\$221	\$381	\$181	\$625	\$501
FY 2008-09					
Number of Accounts	3,229	257	2,761	322	59
Average Service Credit (months)	277	241	205	242	269
Average Final Compensation	\$51,617	\$48,542	\$34,940	\$57,016	\$69,388
Average Monthly Benefit	\$2,105	\$1,387	\$1,029	\$2,005	\$3,146
Average System Payment for Health Insurance	\$396	\$520	\$274	\$715	\$461
FY 2009-10					
Number of Accounts	1,007	212	2,252	329	54
Average Service Credit (months)	153	194	186	224	276
Average Final Compensation	\$41,811	\$45,499	\$30,203	\$56,408	\$70,704
Average Monthly Benefit	\$802	\$1,494	\$760	\$2,127	\$3,323
Average System Payment for Health Insurance	\$202	\$572	\$239	\$766	\$894
FY 2010-11					
Number of Accounts	1,486	247	3,045	415	46
Average Service Credit (months)	174	184	182	204	260
Average Final Compensation	\$44,341	\$44,821	\$32,359	\$58,814	\$71,501
Average Monthly Benefit	\$1,047	\$1,379	\$824	\$2,114	\$3,296
Average System Payment for Health Insurance	\$264	\$516	\$284	\$777	\$874
FY 2010-11					
Number of Accounts	1,641	206	3,160	410	47
Average Service Credit (months)	190	169	185	210	276
Average Final Compensation	\$45,528	\$45,815	\$32,709	\$57,756	\$71,298
Average Monthly Benefit	\$1,162	\$1,312	\$872	\$2,149	\$3,556
Average System Payment for Health Insurance	\$291	\$496	\$271	\$826	\$981

The information in this table represents accounts administered by KRS. A single member may have multiple accounts, which contribute to one pension.

Payment Options Selected by Retired Members

	Basic	Social Security Adjustment	Period Certain	Suvivorship	Pop Up	Lump Sum
KERS Non-Haz						
Number of Accounts	12,831	2,851	4,563	6,103	6,698	2008
Monthly Benefits	\$20,718,634	\$6,526,262	\$7,644,396	\$13,091,706	15,353,282	\$2,435,522
KERS Haz						
Number of Accounts	775	241	321	514	833	253
Monthly Benefits	\$853,881	\$533,808	\$355,153	\$671,605	\$1,187,480	\$256,567
CERS Non-Haz						
Number of Accounts	17,886	1,594	6,076	6,434	6,136	3,093
Monthly Benefits	\$13,916,692	\$2,881,364	\$5,219,770	\$7,603,784	\$8,260,122	\$2,097,204
CERS Haz						
Number of Accounts	1,026	416	494	1,276	2,472	441
Monthly Benefits	\$1,923,957	\$919,148	\$921,989	\$2,784,824	6,215,232	\$741,705
SPRS						
Number of Accounts	117	170	86	289	462	22
Monthly Benefits	\$375,229	\$445,378	\$268,136	\$1,016,814	\$1,652,002	\$51,463
KRS Total						
Number of Accounts	32,635	5,272	11,540	14,616	16,601	5,817
Monthly Benefits	\$37,788,393	\$11,305,960	\$14,409,444	\$25,168,733	\$32,668,118	\$5,582,461

The information in this table represents accounts administered by KRS. A single member may have multiple accounts, which contribute to one pension.

Employer Contribution Rates

In KERS, CERS, and SPRS both the employee and the employer contribute a percent of creditable compensation to the Systems.

The employee contribution rate is set by state statute. Non-hazardous employees contribute 5% while hazardous duty members contribute 8%. Employees hired on or after September 1, 2008 contribute an additional 1% to health insurance.

Under Kentucky Revised Statutes 61.565, KERS and SPRS employer contribution rates are set by the KRS Board of Trustees based on an annual actuarial valuation. However, KERS and SPRS employer rates are subject to approval by the Kentucky General Assembly through the adoption of the biennial Executive Branch Budget. In recent years, the Kentucky General Assembly has routinely suspended Kentucky Revised Statutes 61.565 in the budget in order to provide an employer contribution rate that is less than the amount recommended by the Board's consulting actuary. The table on page 147 shows the KERS and SPRS employer contribution rates that were actuarially recommended in the annual valuation without any adjustments and the rate specified by the Executive Branch budget bill for each fiscal year.

The CERS employer contribution rates are also set by the Systems' Board under Kentucky Revised Statutes 61.565 based on an annual actuarial valuation, unless altered by legislation enacted by the Kentucky General Assembly. The CERS employer contribution rates for fiscal year 2008-2009 were reduced from the actuarially recommended rate as a result of the passage of House Bill (HB) 1 during the 2008 Extraordinary Session of the Kentucky General Assembly. Also, during its 2009 Regular Session, the Kentucky General Assembly enacted HB 117, which mandated an extension of the phase-in of insurance contribution rates that had been previously approved by the KRS Board in 2006 from five years to ten years to further mitigate the impact of the application of Governmental Accounting Standards Board Statements 43 and 45 on CERS employer contribution rates for health insurance. The "Recommended Rate" shown for CERS non-hazardous and hazardous plans are the actuarially recommended rates as set forth in the annual valuation. The "Budgeted Rate" shown for the two plans is the rate required by the ten year phase-in mandated in KRS 61.565(6).

Employer Contribution Rates

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
KERS Non-Haz						
Budgeted Rate	8.50	10.01	11.61	16.98	19.82	23.61
Recommended Rate	48.37	36.92	39.45	38.58	40.71	44.55
KERS Haz						
Budgeted Rate	24.25	24.35	24.69	26.12	28.98	29.79
Recommended Rate	47.11	34.78	35.54	34.37	33.84	35.89
CERS Non-Haz						
Budgeted Rate	16.17	13.50	16.16	16.93	18.96	19.55
Recommended Rate	27.49	20.51	20.91	19.81	21.29	21.21
CERS Haz						
Budgeted Rate	33.87	29.50	32.97	33.25	35.76	37.60
Recommended Rate	54.53	42.66	43.36	40.06	41.65	41.94
SPRS						
Budgeted Rate	28.00	30.07	33.08	45.54	52.13	63.67
Recommended Rate	120.00	91.93	92.12	85.63	94.63	103.41



KERS
Kentucky Employees
Retirement System

CERS
County Employees
Retirement System

SPRS
State Police Retirement
System

HB
House Bill

Retired Reemployed

From August 1, 1998 through August 31, 2008, state law allowed retired members to return to work in the same system from which they retired and contribute to a new account provided the appropriate separation of service was observed.

The following table provides information on the number of retired members currently drawing a monthly benefit who have subsequently returned to work and are contributing to a new account in the same retirement system.

Reemployed Retirees in Full-Time Positions Covered by Same System & Contributing to a New Account

Reemployed Retirees in KRS	KERS			CERS			SPRS
	Non-Haz	Haz	Total	Non-Haz	Haz	Total	Total
Total Active Employees	41,743	4,007	45750	83,658	9,040	92698	904
Total Retirees	36,508	2,180	38688	42,068	5,513	47581	1,203
Reemployed Retirees	719	59	778	900	603	1503	132.00
% of Reemployed Retirees to Total Actives	1.72%	1.47%	1.70%	1.08%	6.67%	1.62%	14.60%
% of Reemployed Retirees to Total Retirees	1.97%	2.71%	2.01%	2.14%	10.94%	3.16%	10.97%
Average Age at Initial Retirement	50	48	49.89	53	46	52	47.00
Months of Service Credit at Initial Retirement	345	295	342.18	304	288	302	336
Final Compensation At Initial Retirement	52,013	43,801	51550.27	37,297	53,920	39223	59,175
Reemployed Retirees Avg. Annualized Salary Earned in Fiscal Year 2011-2012 (Second Retirement Account)	40,982	35,888		36,805	46,999		47,002
Retirees Returning to Work for the Same Employer	245	8	253.00	621	93		0.00
% Retirees Returning to Work For Same Employer	34.08%	13.56%	32.52%	69.00%	15.42%	0.00%	0.00%

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

Insurance Contracts

The Systems provides group rates on medical insurance and other managed care coverage for retired members.

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



KEHP
Kentucky Employees Group Health Plan

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

	KERS Non-Haz	KERS Haz	CERS Non-Haz	CERS Haz	SPRS
Number	27,123	1,809	27,089	5,033	1,129
Average Service Credit (Months)	311	266	255	282	330
Avg Monthly System Payment for Health Insurance	\$469	\$776	\$398	\$998	\$958
Avg Monthly Member Payment for Health Insurance	\$91	\$59	\$99	\$34	\$18
Total Monthly Payment for Health Insurance	\$15,234,731	\$1,512,125	\$13,490,165	\$5,197,599	\$1,102,974

Insurance Contracts by Type for KERS Non-Haz

	2007	2008	2009	2010	2011	2012
KEHP Parent Plus	525	568	762	722	732	734
KEHP Couple/Family	2,131	2,187	2,621	1,971	2,155	1,917
KEHP Single	8,996	9,383	10,635	10,420	10,321	9,764
Medicare without Prescription	2,056	1,969	1,920	1,831	1,821	1,721
Medicare with Prescription	12,007	12,636	13,231	13,765	13,988	15,015

KERS Haz

KEHP Parent Plus	70	69	74	66	75	93
KEHP Couple/Family	398	443	502	453	521	517
KEHP Single	686	741	823	599	615	645
Medicare without Prescription	82	91	88	63	60	67
Medicare with Prescription	606	687	763	525	570	751

Continued. Insurance Contracts by Type for CERS Non-Haz

KEHP Parent Plus	284	292	335	342	351	383
KEHP Couple/Family	1,274	1,320	1,456	1,369	1,552	1317
KEHP Single	6,767	7,126	7,609	7,692	8,013	7972
Medicare without Prescription	3,134	3,105	3,110	3,106	3,167	3119
Medicare with Prescription	11,908	12,684	13,583	14,477	15,100	16355

CERS Haz

KEHP Parent Plus	210	226	245	239	253	310
KEHP Couple/Family	1,836	1,947	2,041	2,062	2,156	2,237
KEHP Single	1,363	1,394	1,404	1,274	1,310	1,385
Medicare without Prescription	64	73	80	58	58	73
Medicare with Prescription	1,197	1,367	1,518	1,438	1,527	1,853

SPRS

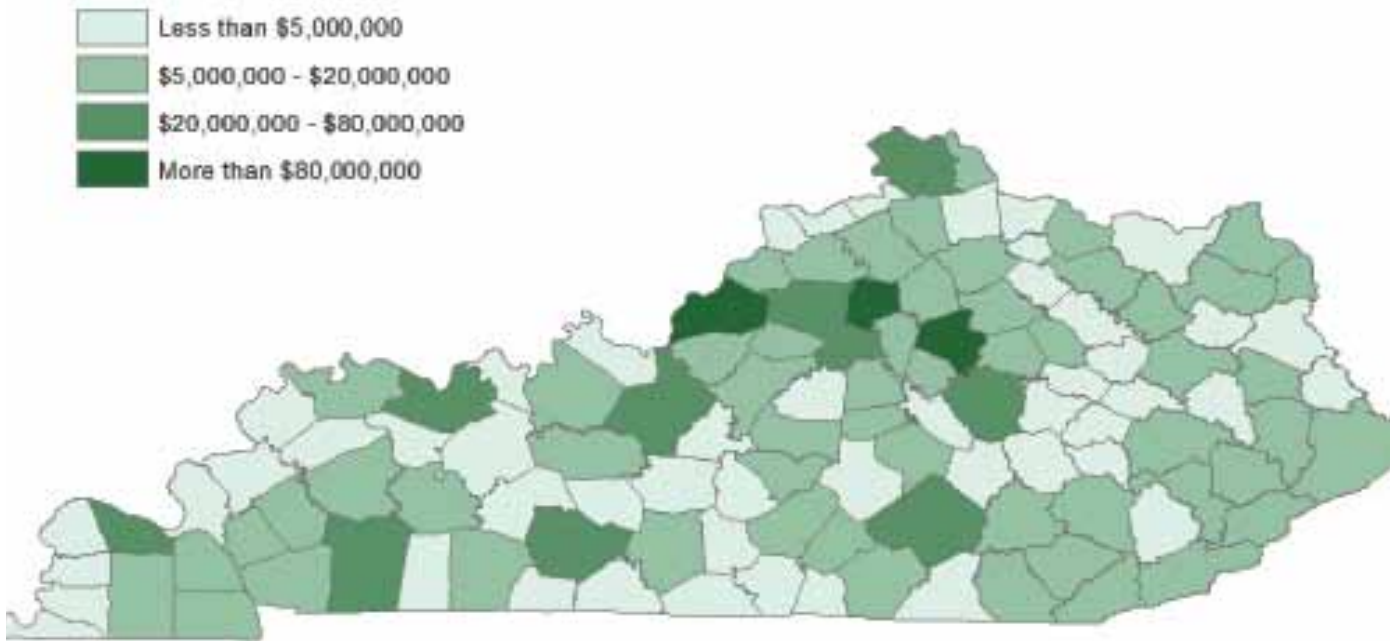
KEHP Parent Plus	19	17	22	47	52	62
KEHP Couple/Family	297	305	311	462	474	444
KEHP Single	254	240	221	264	278	291
Medicare without Prescription	9	7	9	12	14	15
Medicare with Prescription	384	410	418	467	499	581

KRS Total

KEHP Parent Plus	1,108	1,172	1,438	1,416	1,463	1,582
KEHP Couple/Family	5,936	6,202	6,931	6,317	6,858	6,432
KEHP Single	18,066	18,884	20,692	20,249	20,537	20,057
Medicare without Prescription	5,345	5,245	5,207	5,070	5,120	4,995
Medicare with Prescription	26,102	27,784	29,513	30,672	31,684	34,555

Total Fiscal Year Retirement Payments by County

County	Payees	Total	County	Payees	Total	County	Payees	Total
Adair	391	\$5,946,296.58	Grant	474	\$7,788,890.54	Mclean	257	\$3,109,929.94
Allen	325	\$3,745,449.95	Graves	720	\$10,002,315.35	Meade	330	\$4,261,143.02
Anderson	1,176	\$26,834,406.49	Grayson	566	\$7,556,392.03	Menifee	182	\$2,232,422.45
Ballard	170	\$2,045,242.21	Green	235	\$3,292,988.19	Mercer	622	\$10,502,942.17
Barren	829	\$12,113,256.28	Greenup	524	\$6,407,209.62	Metcalfe	270	\$2,759,242.86
Bath	310	\$4,365,917.84	Hancock	191	\$2,190,416.26	Monroe	206	\$2,295,418.43
Bell	591	\$8,396,524.45	Hardin	1,645	\$24,321,041.65	Montgomery	517	\$7,106,038.04
Boone	1,274	\$22,696,252.42	Harlan	519	\$7,069,069.60	Morgan	477	\$7,157,667.18
Bourbon	448	\$6,387,656.20	Harrison	404	\$5,157,618.36	Muhlenberg	518	\$5,407,993.74
Boyd	852	\$13,083,407.43	Hart	278	\$3,830,648.34	Nelson	764	\$12,010,699.78
Boyle	756	\$12,495,205.35	Henderson	872	\$13,547,099.29	Nicholas	172	\$2,104,756.20
Bracken	193	\$2,214,126.22	Henry	844	\$16,625,869.36	Ohio	483	\$5,002,395.58
Breathitt	390	\$5,745,784.31	Hickman	106	\$1,461,532.75	Oldham	1,103	\$20,172,780.34
Breckinridge	368	\$4,859,596.51	Hopkins	994	\$13,432,014.68	Owen	477	\$9,847,765.72
Bullitt	1,091	\$17,518,815.49	Jackson	243	\$3,128,037.33	Owsley	173	\$2,219,684.66
Butler	283	\$3,493,197.79	Jefferson	14,148	\$268,912,487.55	Pendleton	295	\$4,443,680.52
Caldwell	447	\$5,943,784.57	Jessamine	745	\$12,075,395.55	Perry	619	\$8,676,171.17
Calloway	933	\$11,332,649.41	Johnson	525	\$7,287,077.04	Pike	1,007	\$13,609,885.47
Campbell	1,212	\$20,116,086.45	Kenton	1,829	\$34,331,549.28	Powell	319	\$4,017,744.71
Carlisle	121	\$1,419,485.86	Knott	344	\$4,997,258.81	Pulaski	1,897	\$29,578,968.38
Carroll	275	\$3,884,727.89	Knox	460	\$6,572,162.36	Robertson	70	\$858,009.44
Carter	642	\$7,697,536.99	Larue	308	\$4,164,058.37	Rockcastle	315	\$4,041,331.81
Casey	293	\$3,693,609.69	Laurel	993	\$15,437,438.30	Rowan	781	\$11,928,528.24
Christian	1,397	\$22,360,980.95	Lawrence	269	\$3,142,188.03	Russell	452	\$6,016,947.69
Clark	715	\$10,994,989.25	Lee	236	\$3,337,566.38	Scott	943	\$18,067,228.52
Clay	473	\$6,107,196.36	Leslie	217	\$2,858,752.16	Shelby	1,462	\$32,040,779.37
Clinton	215	\$2,443,593.78	Letcher	479	\$5,884,132.32	Simpson	222	\$2,339,288.13
Crittenden	191	\$2,286,692.05	Lewis	261	\$2,868,458.07	Spencer	397	\$7,171,601.98
Cumberland	166	\$2,311,094.29	Lincoln	517	\$5,894,855.13	Taylor	527	\$6,661,245.36
Daviess	2,033	\$33,215,311.41	Livingston	218	\$3,297,177.15	Todd	239	\$2,802,710.29
Edmonson	195	\$2,409,851.93	Logan	498	\$6,144,461.77	Trigg	461	\$6,293,999.11
Elliott	167	\$1,901,458.89	Lyon	315	\$5,196,332.36	Trimble	230	\$3,090,875.32
Estill	313	\$3,876,351.02	Madison	1,896	\$27,656,189.28	Union	299	\$3,344,094.25
Fayette	4,501	\$91,497,287.32	Magoffin	281	\$3,476,535.13	Warren	2,265	\$36,025,832.09
Fleming	392	\$6,323,286.32	Marion	440	\$5,474,703.35	Washington	291	\$4,108,602.40
Floyd	737	\$11,210,046.57	Marshall	704	\$9,399,193.07	Wayne	432	\$5,770,162.99
Franklin	6,521	\$180,981,080.95	Martin	186	\$1,904,187.94	Webster	293	\$3,594,533.61
Fulton	164	\$1,747,331.78	Mason	337	\$5,050,602.05	Whitley	816	\$11,333,752.44
Gallatin	96	\$1,449,587.08	Mccracken	1,341	\$22,795,818.68	Wolfe	280	\$4,081,744.81
Garrard	344	\$4,719,246.00	Mccreary	310	\$2,892,481.37	Woodford	790	\$18,520,503.53



Benefits paid to retirees and beneficiaries of Kentucky Retirement Systems have a wide ranging impact on the state's economic health. In fiscal year 2012, KRS paid more than \$1.6 billion dollars to its recipients. More than 95 percent of these recipients live in Kentucky. Not only do these dollars impact those receiving a benefit, but according to the National Institute of Retirement Security (NIRS), each dollar paid out in pension benefits supported 1.24 dollars in total economic activity in Kentucky. As you can see in the chart, each county in the Commonwealth is impacted by pension benefits, and in an unsteady economy, the consistent addition of the pension funds into the economy is a stabilizing element.

Total Fiscal Year Retirement Payments

	Payees	Payments
Kentucky Total	88,041	\$1,539,646,980.09
Out of State	5,381	\$76,054,005.71
Grand Total	93,422	\$1,615,700,985.80

