

Approved: _____

Date

1/17/95

MINUTES OF THE HOUSE COMMITTEE ON APPROPRIATIONS.

The meeting was called to order by Chairperson Robin Jennison at 1:30 p. m. on January 12, 1995 in Room 514-S of the Capitol.

All members were present except:

Representative Gross, excused

Committee staff present: Julian Eford, Legislative Research Department
Mike Corrigan, Revisor of Statutes
Gordon Self, Revisor of Statutes
Lenore Olson, Committee Secretary

Conferees appearing before the committee:

Meredith Williams, Executive Director, Kansas Public Employees Retirement System (KPERS)
Elizabeth Miller, First Investment Officer, KPERS

Others attending: See attached list

Meredith Williams, Executive Director, KPERS, presented a briefing and overview of the Kansas Public Employees Retirement System and focused on some of the major issues confronting KPERS. Mr. Williams briefly covered the System's mission statement, monthly membership table, and a listing of the Board of Trustees. He explained in detail the KPERS formula for retirement benefits and said almost 1300 local units of government participate in the system. KPERS' monthly operations summary for December 1994 shows 1181 new members enrolled of which some were replacements. He said the disability programs are fairly complex, particularly for the Kansas Police and Firemen's Retirement System and invited the Committee members to call whenever they have questions on this part of the system. KPERS is committed to producing a number of monthly reports for anyone interested and they produce far more information than any other public pension fund in the country, according to Mr. Williams. He noted that at one time, the investment consultant was a very powerful position in the retirement system business; currently, the Board with the assistance of the legislature, has equipped itself with the ability to make some independent assessments. Investment consultants are now being used very much by KPERS on a project-by-project basis. Mr. Williams said the value of non-traditional investments by KPERS is not what it once was. Of these non-traditional investments, the original cost of \$525,680,296 has incurred a loss of \$76 million (14.5%). He explained the retirement system is a long-term investor and rather than picking and choosing between asset classes year-by-year, long-term decisions are made for investments.

The Committee discussed with Mr. Williams the issue of derivatives. Mr. Williams said KPERS does do derivatives, but, he assured the Committee, they do not do them as has been done by Orange County, California. He believes derivatives can be done in an intelligent fashion to further the interests of a portfolio. He also said Orange County used leverage, guessed wrongly, and got burned.

Elizabeth Miller, First Investment Officer, KPERS, explained that a derivative is an investment that obtains its value from an underlying investment. In KPERS' portfolio, there are currently two types of derivatives being used, forward contracts and Treasury Bond and Treasury Note futures.

Meredith Williams added KPERS has a great number of checks and balances built into their system to ensure that they don't have an Orange County situation. In covering the area of KPERS litigation, he said the January 4, 1994, status report shows ten cases filed to date, the Board has authorized three additional cases, the litigation in all of these cases is very complex and involves losses of \$265 million. A letter to Chairperson Jennison from Jarold Boettcher, Chairman, Board of Trustees was reviewed, outlining the difficulty the Board has recently encountered in terms of the actuarial valuation of the retirement system. (Attachment 1).

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON APPROPRIATIONS, Room 514-S Statehouse, at 1:30 p.m. on January 12, 1995.

Chairperson Jennison announced there would be a change in handling the fee agency splits and all these agencies will be included in one bill which would first be sent to House Appropriations, then to Senate Ways and Means.

The minutes of January 11, 1995, were approved. as read.

The meeting adjourned at 3:15 p.m.
The next meeting is scheduled for January 17, 1995.

HOUSE APPROPRIATIONS COMMITTEE

January 12, 1995

- Tab A Mission Statement
- Tab B Monthly Membership Table
- Tab C Board Roster and Qualifications
- Tab D Plan Summaries - KPERS, KP&F, Judges & Correctional
- Tab E Monthly Operations Summary
- Tab F Monthly Disability Report
- Tab G Monthly Financial Report
- Tab H Monthly Investment Performance Report
- Tab I Monthly Derivatives Report
- Tab J Monthly Brokerage Commission Recapture Report
- Tab K Monthly Litigation Status Report
- Tab L 1995 Legislative Package
- Tab M December 28, 1994 letter to Representative Robin Jennison
- Tab N Board Summary - 1994 Actuarial Valuation

1/12/95
House Appropriations Cmte
Attachment 1



MISSION STATEMENT
of the
KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

The Kansas Public Employees Retirement System is a plan of retirement, disability and survivor benefits provided by law for Kansas public servants and their beneficiaries.

The Board of Trustees and the Staff of the Retirement System strive at all times to safeguard the System's assets by adhering to the highest standards of fiduciary and professional care, to comply strictly and fairly with the law, and to conduct business in a courteous, timely and effective manner.

May 13, 1994

KPERS MEMBERSHIP

January 1, 1995

	<u>Active</u>	<u>Inactive</u>	<u>Retired</u>	<u>Total</u>
KPERS				
School	74,534	6,088	22,152	102,774
Non-School	58,314	3,167	20,362	81,843
Total	<u>132,848</u>	<u>9,255</u>	<u>42,514</u>	<u>184,617</u>
KP&F				
Tier I	1,346	66	2,102	3,514
Tier II	4,239	84	147	4,470
Total	<u>5,585</u>	<u>150</u>	<u>2,249</u>	<u>7,984</u>
Judges	<u>235</u>	<u>13</u>	<u>110</u>	<u>358</u>
System Total	138,668	9,418	44,873	192,959

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KPERS

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**KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES**

JAROLD BOETTCHER, Chairperson

Box 160
Beloit, KS 67420
(913) 738-5781
(913) 738-6513 FAX

KATHY STOVER

3017 Sowers Court
Topeka, KS 66604
(816) 435-6941
(816) 435-3372 FAX

K. PAT MARSO, Vice Chairperson

3406 West First Street
Coffeyville, KS 67337
(316) 251-5500
(316) 251-6252 FAX

SALLY THOMPSON

State Treasurer
Landon Office Building, 201-N
Topeka, KS 66612
(913) 296-3171
(913) 296-7950 FAX

JODY BOEDING

Assistant City Attorney
City Hall
1 McDowell Plaza
Kansas City, KS 66101
(913) 573-5060
(913) 573-5243 FAX

MARJORIE LEE WEBB

10207 Edelweiss
Shawnee Mission, KS 66203
(913) 262-5785 (Home)
(913) 962-3100 (School)

VERN R. CHESBRO

34 Rockwood Drive
Ottawa, KS 66067
(913) 242-8255
(913) 242-7919 FAX

MICHAEL L. JOHNSTON

Kansas Turnpike Authority
9401 East Kellogg
Wichita, KS 67207-1804
(316) 682-4537 Ext. 2242
(316) 682-1201 FAX

LES MEREDITH

13841 Goodman
Overland Park, KS 66223
(816) 854-7685
(816) 854-7006 FAX

KPERS BOARD OF TRUSTEES
EFFECTIVE JULY 1, 1993

- K.S.A. 74-4905(a), as amended, provides for a nine-member Board:
 - four appointed by the Governor;
 - one appointed by the President of the Senate;
 - one appointed by the Speaker of the House;
 - two elected by the members; and
 - the State Treasurer.

- All serve four-year terms, except the initial July 1, 1993, appointments, where two of the Governor's appointees and the Speaker's appointee will serve two-year terms, as provided by K.S.A. 74-4905(b), as amended.

- The six appointed members "...shall have demonstrated experience in the financial affairs of a public or private organization or entity which employs 100 or more employees or had at least five years' experience in the field of investment management or analysis, actuarial analysis or administration of an employee benefit plan." K.S.A. 74-4905(e), as amended.

- Individuals are unable to serve on the Board if the member or member's spouse has a substantial interest in any nonpublicly traded investment held by the Retirement System. K.S.A. 74-4905(f)

- All members are subject to an investigation by the KBI. K.S.A. 74-4905(h)

- K.S.A. 74-4906, as amended, provides that the Board will meet at least quarterly and that members will receive compensation, subsistence allowance and mileage for Board meetings in the amount provided legislators by K.S.A. 75-3212.

- Over the past two years, the Board has met each month, usually for a full day. However, it is anticipated that the Board's schedule will occasionally include a two-day meeting. Additionally, the Board's activities are anticipated to include various orientation or training sessions, including a two-day session every other year.

- Board responsibilities are generally specified throughout Chapter 74 of the statutes and include (1) Overseeing the prudent investment of the System's assets, (2) Overseeing the administrative operation, and (3) Administering the insured death and disability program. More specifically, the Board is responsible for:
 - reviewing and adopting actuarial assumptions and establishing employer contribution rates;
 - determining an appropriate asset allocation mix;
 - establishing and following Investment Policies and Guidelines;
 - hiring and monitoring the performance of investment managers;
 - hiring and monitoring the performance of various other service providers, including actuaries, consultants, advisors, and custodians; and
 - hiring and monitoring the performance of the Executive Secretary.

- The Board is organized into five subcommittees:
 - Direct Placement
 - Publicly Traded Securities
 - Real Estate
 - Personnel
 - Long Range Planning

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KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
Summary of Benefit Provisions - Regular KPERS System
Effective July 1, 1994

MISSION STATEMENT: The Kansas Public Employees Retirement System is a plan of retirement, disability and survivor benefits provided by law for Kansas public servants and their beneficiaries.

The Board of Trustees and the Staff of the Retirement System strive at all times to safeguard the System's assets by adhering to the highest standards of fiduciary and professional care, to comply strictly and fairly with the law, and to conduct business in a courteous, timely and effective manner.

MEMBERSHIP AND CONTRIBUTIONS

Mandatory for State agencies and school districts but optional for other public entities which are covered by Social Security. The member contributes four percent of gross earnings. The employer rate fluctuates:

FY 94	3.2% — State Agencies and School Districts 2.2% — Local Employers
FY 95	3.3% — State Agencies and School Districts 2.3% — Local Employers

RETIREMENT BENEFIT CALCULATION

Annual Benefit at Normal Retirement Age = Final Average Salary x Percentage x Years of Service

1.75% for participating service

.75% to 1% for prior service

For those who are hired on or after July 1, 1993, Final Average Salary = average of three highest years, excluding additional compensation, such as sick and annual leave

For those who were hired prior to July 1, 1993, Final Average Salary = the greater of either:
a four-year Final Average Salary including additional compensation, such as sick and annual leave
or

a three-year Final Average Salary excluding additional compensation, such as sick and annual leave

RETIREMENT AGES

Age 65; age 62 with 10 years of service; any age when combined age and years of service equal 85. **Reduced benefits** are available at age 55 with 10 years of service if member does not have the 85 points. Reduction is 0.6% for each month between ages 55 and 60 and 0.2% for each month between ages 60 and 62.

DISABILITY

Annual benefit equal to two-thirds of member's annual salary less Social Security, one-half of Worker's Compensation, and any other employer provided disability benefits. Minimum monthly benefit is \$100.00. Benefits are payable after member is totally disabled 180 consecutive days. Member receives service credit for period of approved disability. Final Average Salary recalculated if member disabled at least five years.

DEATH

Any Death: Return of actual contributions and interest and 150 percent of member's salary at the time of death to the named beneficiary. If the member had reached age 55 with 10 years of credited service, and the spouse is the sole beneficiary, then the spouse may select a lifetime benefit under any option. If a member with 15 or more years of service dies and was not of retirement age and the spouse is the sole beneficiary, then the spouse can elect one of the survivor options at the time the member would have been of retirement age; or

Job Related: Spouse receives monthly benefit based on 50 percent of member's Final Average Salary less Worker's Compensation and receives a \$50,000 lump sum payment.

(over)

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Summary of Benefit Provisions - Regular KPERS System
Effective July 1, 1994
(continued)

BENEFITS AFTER RETIREMENT

- Six different survivor options available at retirement, with "pop-up option" to the maximum amount allowed when survivor predeceases the retired member.
- If no survivor option was selected at retirement, return of any contributions and interest remaining in the member's account.
- \$4,000 lump sum death benefit to member's named beneficiary.
- Employment after retirement: A retired member who returns to work for the same employer for whom the member worked during the last two years of KPERS participation may continue to receive retirement benefits and continue to work until earnings equal \$11,160 in a calendar year. At that point, the retired member must:
 - A) Forfeit KPERS retirement benefits for the remainder of the calendar year; or
 - B) Stop working for the remainder of the calendar year.

OPTIONAL GROUP LIFE INSURANCE

Employer must be affiliated for members to have this coverage. Member may elect within 14 days of hire date or coverage may be selected during open enrollment. Minimum \$5,000 - Maximum \$200,000. Amounts applied for by members from \$5,000 - \$15,000 will be approved, regardless of the member's health. Amounts over \$15,000 applied for by members must be underwritten by the insurance carrier. **A member must be actively at work on the effective date to have the additional coverage.** Otherwise, the additional coverage is not effective until the first day the member physically returns to work.

In the interest of simplicity, certain generalizations have been made. The text of the law and the rules adopted by the Board of Trustees will control specific situations.

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KANSAS POLICE AND FIREMEN'S RETIREMENT SYSTEM
Summary of Benefit Provisions
Effective July 1, 1994

MISSION STATEMENT: The Kansas Public Employees Retirement System is a plan of retirement, disability and survivor benefits provided by law for Kansas public servants and their beneficiaries.

The Board of Trustees and the Staff of the Retirement System strive at all times to safeguard the System's assets by adhering to the highest standards of fiduciary and professional care, to comply strictly and fairly with the law, and to conduct business in a courteous, timely and effective manner.

MEMBERSHIP AND CONTRIBUTIONS

Optional for local public employers. Mandatory for Kansas Bureau of Investigation and Kansas Highway Patrol.

REGULAR - 7%

Member
BRAZELTON - 7%, less Social Security Rate

Employer

Employer rates fluctuate and are determined separately for each employer:

FY 95	Varies	—	Local Employers	9.7%	—	Highway Patrol
	8.4%	—	KBI	6.8%	—	Regents

VESTING

TIER I
20 YEARS

TIER II
15 YEARS

PURCHASE OF SERVICE / RETIREMENT BENEFIT CALCULATION

Annual Benefit at Normal Retirement Age = Final Average Salary x Percentage x Years of Service
2.5% for each year of service, maximum of 80%

For those who were hired before July 1, 1993, Final Average Salary = average of three highest years of last five, including additional compensation such as sick and annual leave

For those who are hired on or after July 1, 1993, Final Average Salary = average of three highest of last five years, with no additional compensation included

Members may purchase up to six years of military service by paying the full actuarial cost in a lump sum.

RETIREMENT AGES

Tier I:

Age 55 with 20 years of service.

Tier II:

Age 50 with 25 years of service

Age 55 with 20 years of service

Age 60 with 15 years of service

Transfer Members - Age 50 with 25 years.

Reduced benefits are available at age 50 with 20 years of service.

DISABILITY

Tier I: Job related: 50 percent Final Average Salary plus 10 percent for each eligible dependent with a maximum benefit of 75 percent of Final Average Salary. If no dependents, higher of 50 percent of Final Average Salary or 2.5% for each year of service credit, with a maximum of 80%.

Other: 2.5 percent of Final Average Salary per year of service. Minimum benefit 25 percent.

Tier II: 50 percent of Final Average Salary. Service credit to normal retirement. Benefit offset \$1.00 for every \$2.00 of earnings over \$10,000.

(over)

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Summary of Benefit Provisions - Kansas Police & Fire Retirement System
Effective July 1, 1994
(continued)

DEATH

Job related: Spouse receives 50 percent Final Average Salary until death. Each child until age 18 or 23 if a full-time student receives 10 percent Final Average Salary. Total not to exceed 75 percent of Final Average Salary. If no spouse or children, the beneficiary receives return of member's contributions and interest. **OTHER:** Spouse receives lump sum of 100% Final Average Salary plus monthly benefit of 2.5% per year of service. Maximum 50% of Final Average Salary.

BENEFITS AFTER RETIREMENT

- Possible survivor benefits - Transfer Members
- Six different survivor options available at retirement, with "pop-up option" to the maximum amount allowed when survivor predeceases the retired member.
- If no survivor benefits are payable, return of any contributions and interest remaining in the member's account.
- \$4,000 lump sum death benefit to member's named beneficiary.
- Employment after Retirement: A retired member, who returns to work for the same employer for whom the member worked during the last two years of KP&F participation may continue to receive retirement benefits and continue to work until earnings equal \$11,160 in a calendar year. At that point, the retired member must :
 - A) Forfeit retirement benefits for the remainder of the calendar year; or
 - B) Stop working for the remainder of the calendar year.

OPTIONAL GROUP LIFE INSURANCE

Employer must be affiliated for members to have this coverage. Member may elect within 14 days of hire date or coverage may be selected during open enrollment. Minimum \$5,000 - Maximum \$200,000. Amounts applied for by members from \$5,000 - \$15,000 will be approved, regardless of the member's health. Amounts applied for by members over \$15,000 must be underwritten by the insurance carrier. **A member must be actively at work on the effective date to have the additional coverage.** Otherwise, the additional coverage is not effective until the first day the member physically returns to work.

SPECIAL MEMBERS

- Members who elected to stay under provisions of local plan
- Contribution rate: Three percent - Four percent
- Retirement benefit - 55 percent final monthly salary (most plans-see your Designated Agent for details)
- Retirement Age - 50 with 22 years
- \$4,000 lump sum death benefit to member's named beneficiary
- Possible survivor benefits after retirement.

NOTE: Special Member benefits may vary. See your Designated Agent for details.

In the interest of simplicity, certain generalizations have been made. The text of the law and the rules adopted by the Board of Trustees will control specific situations.

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RETIREMENT SYSTEM FOR JUDGES
Summary of Benefit Provisions
Effective July 1, 1994

MISSION STATEMENT: The Kansas Public Employees Retirement System is a plan of retirement, disability and survivor benefits provided by law for Kansas public servants and their beneficiaries.

The Board of Trustees and the Staff of the Retirement System strive at all times to safeguard the System's assets by adhering to the highest standards of fiduciary and professional care, to comply strictly and fairly with the law, and to conduct business in a courteous, timely and efficient manner.

MEMBERSHIP AND CONTRIBUTIONS

Mandatory for the Kansas Judicial System. Member contributes six percent of gross compensation. Employer rate fluctuates:

FY 95	8.1%
FY 96	10.3%

RETIREMENT BENEFIT CALCULATION

Annual Benefit at Normal Retirement Age = Final Average Salary x Percentage x Years

Hired prior to July 1, 1987: 5% for each year up to ten and 3.5% for each additional year, maximum of 70%

Hired after July 1, 1987: 3.5% for each year, with maximum of 70% of Final Average Salary

Final Average Salary = average of three highest years

RETIREMENT AGES

Age 65; age 62 with 10 years of service; any age when combined age and years of service equal 85 "points." Mandatory retirement at end of term in which age 70 attained. **Reduced benefits** are available at age 55 with 10 years of service if member does not have the 85 "points."

DISABILITY

Benefit = 3.5% per year of service with 25 percent minimum. Benefits recalculated upon attainment of retirement age.

DEATH

Return of actual contributions and interest and 150 percent of member's salary at the time of death to named beneficiary. If age 55, 10 years of credited service, and spouse is sole beneficiary; spouse may select payment under any option. If a judge with 15 or more years of service dies and was not of retirement age and spouse is sole beneficiary, the spouse can elect a survivor option at the time the member would have been of retirement age.

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Summary of Benefit Provisions - Judges Retirement System
Effective July 1, 1994
(continued)

BENEFITS AFTER RETIREMENT

- Six different survivor options available at retirement; with "pop-up option" to the maximum amount allowed when "survivor" predeceases the retired member.
- If no survivor option was selected at retirement, return of any contributions and interest remaining in the member's account.
- \$4,000 lump sum to member's named beneficiary.

OPTIONAL GROUP LIFE INSURANCE

Employer must be affiliated for members to have this coverage. Member may elect within 14 days of hire date or coverage may be selected during an open enrollment period, which is during September and October in odd numbered years. Minimum \$5,000 - Maximum \$200,000. Amounts applied for by members from \$5,000 - \$15,000 will be approved, regardless of the member's health. Amounts over \$15,000 applied for by members must be underwritten by the insurance carrier. **A member must be actively at work on the effective date to have the additional coverage.** Otherwise, the additional coverage is not effective until the first day the member physically returns to work.

In the interest of simplicity, certain generalizations have been made. The text of the law and the rules adopted by the Board of Trustees will control specific situations.

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July 1, 1994

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KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
Correctional Officers
Summary of Benefit Provisions
Effective July 1, 1994

MISSION STATEMENT: The Kansas Public Employees Retirement System is a plan of retirement, disability and survivor benefits provided by law for Kansas public servants and their beneficiaries.

The Board of Trustees and the Staff of the Retirement System strive at all times to safeguard the System's assets by adhering to the highest standards of fiduciary and professional care, to comply strictly and fairly with the law, and to conduct business in a courteous, timely and effective manner.

MEMBERSHIP AND CONTRIBUTIONS

Mandatory for State agencies. The member contributes four percent of gross earnings. The employer rate fluctuates:

FY 95:	Group A	4.8%	FY 96:	Group A	4.4%
	Group B	4.1%		Group B	3.6%
	Group C	3.2%		Group C	3.3%

RETIREMENT BENEFIT CALCULATION

Annual Benefit at Normal Retirement Age = Final Average Salary x Percentage x Years of Service

1.75% for participating service
 1% for prior service

For those who are hired on or after July 1, 1993, Final Average Salary = average of three highest years, excluding additional compensation, such as sick and annual leave

For those who were hired prior to July 1, 1993, Final Average Salary = the greater of either:
 a four-year Final Average Salary including additional compensation, such as sick and annual leave
 or
 a three-year Final Average Salary excluding additional compensation, such as sick and annual leave

RETIREMENT AGES

Group A Normal Retirement is at age 55; Early Retirement is at age 50 with 10 years of service. Reduction factor is 0.2 percent for each month under age 55.

Group B Normal Retirement is at age 60; Early Retirement is at age 55 with 10 years of service. Reduction factor is 0.2 percent for each month under age 60. Members must have been employed in a Group A or Group B position for three years immediately prior to retirement.

Group C Normal Retirement is age 65; age 62 with 10 years of service credit, or at any age when the member's age and years of service combined equal 85 "points." * There is no minimum service requirement for retirement at age 65. Group C members may retire with reduced benefits as early as age 55 if they have at least 10 years of service credit. A reduction factor of 0.2 percent for each month between ages 60 and 62, and 0.6 percent for each month between ages 55 and 60, will be applied.

* **NOTE:** Applies only to Group C members.

TOTAL & PERMANENT DISABILITY

Job-Related: Special statutory provisions relating to disability benefits apply to correctional employees. The group disability plan covers all correctional employees in their year of service prior to membership. Coverage under the group disability plan ceases when employees attain membership. Group A, B, and C correctional officers who become totally and permanently disabled due to service-connected causes as defined in the Retirement Act may receive an annual retirement benefit equal to 50 percent of final average salary (average of three highest years), plus an additional 10 percent for each unmarried child under age 18, or up to age 23 if a full-time student. Benefits are reduced by primary Social Security or Workers Compensation received and replace age and service retirement benefits. Minimum benefit is \$100 p/month.

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Correctional Officers
Summary of Benefit Provisions
Effective July 1, 1994
(continued)

TOTAL & PERMANENT DISABILITY

Not Job-Related: Groups A, B, and C correctional officers who become totally and permanently disabled from causes that aren't job-related and whose disability continues for at least 180 days, are eligible to receive an annual benefit of two percent of final average salary multiplied by the number of years of credited service with a minimum benefit of 25 percent of final average salary. This benefit cannot exceed 50 percent of final average salary and is subject to reduction for primary Social Security and/or Worker's Compensation. This benefit replaces age and service retirement benefits. Minimum benefit is \$100 per month.

DEATH

Any Death: Return of actual contributions and interest and 150 percent of member's salary at the time of death to the named beneficiary. If a member met the age and service requirements to retire at the time of death and the spouse is the sole named beneficiary, then the spouse may elect to receive monthly benefits under any survivor option in lieu of receiving a return of the contributions plus interest in a lump sum. If a member with 15 or more years of service dies and was not of retirement age and the spouse is the sole beneficiary, then the spouse can elect one of the survivor options at the time the member would have been of retirement age; or

Job Related: To the spouse and children under age 18 or up to age 23 if full-time students, or dependent parents, in this order of preference, benefits are a \$50,000 lump sum payment and a monthly amount based on 50 percent of final average salary subject to reduction for any benefits received under Worker's Compensation. Benefits are in addition to the insured death benefit and the return of contributions plus interest. Minimum benefit of \$100 per month.

BENEFITS AFTER RETIREMENT

- Six different survivor options available at retirement, with "pop-up option" to the maximum amount allowed when survivor predeceases the retired member.
- If no survivor option was selected at retirement, return of any contributions and interest remaining in the member's account.
- \$4,000 lump sum death benefit to member's named beneficiary.
- Employment after retirement: A retired member who returns to work for the same employer for whom the member worked during the last two years of KPERS participation may continue to receive retirement benefits and continue to work until earnings equal \$11,160 in a calendar year. At that point, the retired member must:
 - A) Forfeit KPERS retirement benefits for the remainder of the calendar year; or
 - B) Stop working for the remainder of the calendar year.

OPTIONAL GROUP LIFE INSURANCE

Member may elect within 14 days of hire date or coverage may be selected during open enrollment. Minimum \$5,000 - Maximum \$200,000. Amounts applied for by members from \$5,000 - \$15,000 will be approved, regardless of the member's health. Amounts over \$15,000 applied for by members must be underwritten by the insurance carrier. **A member must be actively at work on the effective date to have the additional coverage.** Otherwise, the additional coverage is not effective until the first day the member physically returns to work.

In the interest of simplicity, certain generalizations have been made. The text of the law and the rules adopted by the Board of Trustees will control specific situations.

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KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
December, 1994

ACTIVE MEMBERS

- 1,181 enrollment applications received and new records created
- 2,264 beneficiary designations received and records updated
- 846 member records updated for benefit payments
- 351 applications for service purchases processed
- \$ 256,634.09 in lump sum purchases received
- 108 benefit estimates

BENEFIT PAYMENTS & EXPENSES

- 182 new retirants
- Monthly Retirement benefits totalling \$26M to 44,873 recipients *on 1/1*
- Withdrawals totalling to 664 recipients totalling \$2M
- Insurance premiums totalling \$2M

LIFE, DISABILITY & DEATH BENEFITS

- 15 life insurance claims paid totalling \$471,576
- 6 Optional insurance claims paid totalling \$138,000
- 39 disability claims approved
- 126 lump sum death benefit claims paid totalling \$504,000
- 26 active deaths

OPTIONAL INSURANCE

- 319 applications received from new employees

EMPLOYER MONTHLY REMITTANCES

- \$19M employer and employee contributions received and deposited

RECORD CENTER

- 1,500 forms and documents sorted and filed
- 1,361 new member files
- 20,958 documents microfilmed and/or jacketed
- 2,500 staff file requests
- 3,191 (800) calls received from November 6, 1994 through December 7, 1994

January 6, 1995



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**KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
DISABILITY SUMMARY**

Paid by SBL	KPERS Disability Income Plan
Disabled Members	2,243
Total Monthly Payments	\$1,446,454
Average Monthly Payment	\$645

Paid by KPERS	KPERS Service Connected
Disabled Members	6
Total Monthly Payments	\$2,172
Average Monthly Payment	\$362

KPERS Correctional

Disabled Members	81
Total Monthly Payments	\$56,266
Average Monthly Payment	\$695

KP&F

Disabled Members	691
Total Monthly Payments	\$670,838
Average Monthly Payment	\$971

System Total

Disabled Members	3,021
Total Monthly Payments	\$2,175,730
Average Monthly Payment	\$720

Note: KPERS Disability Income Plan paid by SBL in November of 1994. KPERS Disability Income Plan paid by KPERS in December of 1994.

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FINANCIAL REPORTS

MONTH ENDED DECEMBER 31, 1994

KPER

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

Statement of Revenues and Expenses

Month Ended December 31, 1994

(In Thousands)

	Fiscal Year 1995					
	Actual		Estimated for Duration of Fiscal Yr	Estimated / Actual	Budgeted	Variance Favorable (Unfavorable)
	Current Month	Year- To-Date				
Operating Revenues						
Contributions	\$ 17,777	\$ 129,683	\$ 131,876	\$ 261,559	\$ 254,631	\$ 6,928
Employer Insurance	1,224	12,929	8,716	21,645	21,645	0
1 Investment Income	37,679	156,156	2 198,050	354,206	396,100	(41,894)
Other	15	81	164	245	245	0
Total Operating Revenues	56,695	298,849	338,806	637,655	672,621	(34,966)
Benefit Expenses						
Retirement Benefits	26,215	167,251	157,290	324,541	320,583	(3,958)
Insurance	2,018	17,458	12,108	29,566	31,569	2,003
Refunds	2,006	16,500	12,036	28,536	22,004	(6,532)
Death Benefits	504	2,728	2,856	5,584	5,584	0
Subtotal of Benefit Expenses	30,743	203,937	184,290	388,227	379,740	(8,487)
1 Investment Related Expenses						
Publicly Traded Securities	862	5,009	5,290	10,299	11,092	793
Direct Placement Fees	207	1,242	1,138	2,380	2,480	100
Direct Placement Expenses	10	90	510	600	600	0
Real Estate	90	512	588	1,100	1,513	413
Custodial Bank	63	416	384	800	775	(25)
Investment Consultant	10	76	73	149	117	(32)
Litigation	207	681	369	1,050	1,050	0
Subtotal of Investment Related Expenses	1,449	8,026	8,352	16,378	17,627	1,249
Administrative Expenses						
Salaries and Wages	241	1,460	1,413	2,873	2,799	(74)
Contractual Services	87	462	748	1,210	1,255	45
Commodities	7	32	31	63	64	1
Capital Outlay	4	34	4	38	39	1
Subtotal of Administrative Expenses	339	1,988	2,196	4,184	4,157	(27)
Total Operating Expenses	32,531	213,951	194,838	408,789	401,524	(7,265)
Revenues in Excess of Expenses	\$ 24,164	\$ 84,898	\$ 143,968	\$ 228,866	\$ 271,097	\$ (42,231)

1 Estimated, actual amounts are not available at time of report.

2 Estimated investment income for duration of fiscal year is projected to be at a monthly rate of the original 8% assumed actuarial rate.



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KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
Schedule of Actual and Projected Administrative Expenses
Month Ended December 31, 1994

	Salaries and Wages	Contractual Services	Commodities	Capital Outlay	Total
Approved Budget	<u>\$ 2,799,659</u>	<u>\$ 1,255,197</u>	<u>\$ 64,008</u>	<u>\$ 38,500</u>	<u>\$ 4,157,364</u>
Actual Expenses					
July	\$ 245,100	\$ 24,366	\$ 645	\$ -	\$ 270,111
August	243,936	46,127	6,178	1,157	297,398
September	242,797	118,515	2,366	15,031	378,709
October	245,594	106,536	8,937	9,737	370,804
November	241,442	80,332	6,671	4,344	332,789
December	<u>241,436</u>	<u>86,728</u>	<u>6,109</u>	<u>4,350</u>	<u>338,623</u>
Total Actual Expenses	1,460,305	462,604	30,906	34,619	1,988,435
Projected Expenses					
January	235,553	124,538	5,372	647	366,110
February	235,553	124,538	5,372	647	366,110
March	235,553	124,538	5,373	647	366,111
April	235,553	124,538	5,373	647	366,111
May	235,553	124,538	5,373	647	366,111
June	<u>235,553</u>	<u>124,539</u>	<u>5,373</u>	<u>646</u>	<u>366,111</u>
Total Projected Expenses	1,413,318	747,229	32,236	3,881	2,196,664
Total Actual & Projected	2,873,623	1,209,833	63,142	38,500	4,185,099
Favorable (Unfavorable) Variance	<u>\$ (73,964)</u>	<u>\$ 45,364</u>	<u>\$ 866</u>	<u>\$ 0</u>	<u>\$ (27,735)</u>



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KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
 Legal Expenses
 Month Ended December 31, 1994

	Fiscal Year 1995					
	Estimated		Estimated for Duration of Fiscal Year	Estimated / Actual	Variance	
	Current Month	Year- To-Date			Approved Budget	Favorable (Unfavorable)
EXPENSES ASSOCIATED WITH						
KPERS LITIGATION						
GENERAL COUNSEL						
Barber, Emerson, Springer, Zinn & Murray, L.C.	\$ 616	\$ 16,321	\$ 33,680	\$ 50,000	\$ 50,000	\$ 0
EXPENSES FOR RECOVERY OF						
INVESTMENT LOSSES						
Kansas Litigation Group	2a3 247,096	460,844	289,156	750,000	750,000	0
Document Depository	15,000	72,856	77,144	150,000	150,000	0
EXPENSES FOR KPERS DEFENSE LITIGATION						
Graydon Head & Ritchey (Mycro-Tek litigation)	2,000	11,394	38,606	50,000	50,000	0
Shafer, Davis (Hydrogen Energy litigation)	3,112	34,196	15,804	50,000	50,000	0
SUBTOTAL	<u>267,824</u>	<u>595,610</u>	<u>454,390</u>	<u>1,050,000</u>	<u>1,050,000</u>	<u>0</u>
LEGAL FEES FOR DIRECT PLACEMENT						
PORTFOLIO						
Pacholder/Morris Anderson	9,636	85,415	514,585	600,000	600,000	0
SUBTOTAL	<u>9,636</u>	<u>85,415</u>	<u>514,585</u>	<u>600,000</u>	<u>600,000</u>	<u>0</u>
TOTAL *	<u>1 \$ 277,460</u>	<u>\$ 681,025</u>	<u>\$ 968,975</u>	<u>\$ 1,650,000</u>	<u>\$ 1,650,000</u>	<u>\$ 0</u>

* The real estate portfolio legal expenses are budgeted and paid at the property level and are netted against the income distributed to the Retirement System

1 Estimated, actual amounts are not available at time of report.

2 Class I expenses for Thomas Gibbs-KLG include fixed costs and overhead expenses for professional services of attorneys, clerical support, insurance, rent, and other office expenditures for the period through September 30, 1994.

3 Class II reimbursable expenses of the Kansas Litigation group includes: airfare, lodging, meals, ground transportation, telephone, office supplies, postage, delivery, professional services, and miscellaneous.

KPERC

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
 Schedule of William Mercer Projects
 Fiscal Year 1995

	Approved Amount
Approved Per Original Agreement:	
International Fixed Income Manager	\$ 15,000
Approved Annual Retainer Services:	\$ 74,000
Review of Asset Allocation	
Review of State of Investment Policy	
Attendance at each of the monthly meetings of the Board of Trustees	
Act in a general investment advisory capacity to review and comment on issues	
Approved Education Session on Emerging Markets	
Equity	\$ 5,000
Debt	\$ 3,000
Education Sesssion on Derivatives	\$ 6,000
<hr/>	
Rate Schedule of Periodic Services to be provided by Mercer as approved by Board of Trustees:	
Comprehensive Review of Investment Manager	
Domestic Managers	\$ 6,000
International Managers	\$ 8,500
Asset Allocation and Liability Study	\$ 55,000
Manager Searches	
Domestic Manager	\$ 15,000
International Manager	\$ 18,000
Education Session on Derivatives	\$ 6,000
Education Session on Emerging Markets	
Equity	\$ 5,000
Debt	\$ 3,000
Evaluation of KPERS' exposure to each region and country	\$ 4,000
 Total Approved and Authorized Mercer Projects	 <u>\$ 103,000</u>



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KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
 Schedule of Allowance For Losses on Alternative Investments
 As of November 30, 1994

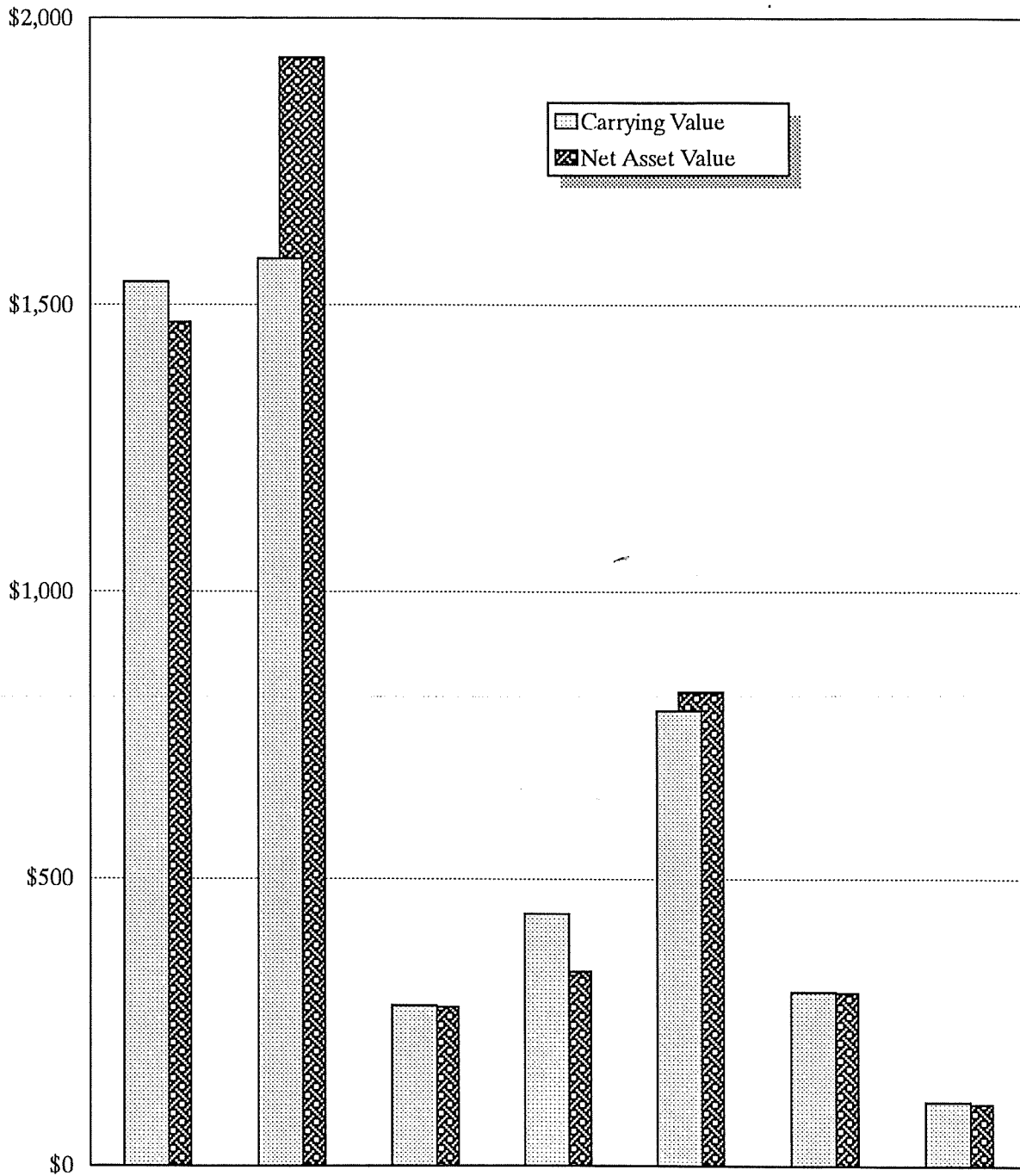
	<u>Original Cost of Investments</u>	<u>Allowance For Losses</u>	<u>Allowance As Percentage of Cost</u>
Equitable and O'Connor-Retail Property Trust	\$ 351,860,291	\$ 26,982,629	7.7%
Capitol Tower	13,997,464	5,500,000	39.3%
Internal Venture Capital	25,054,016	2,483,039	9.9%
Pacholder and Morris-Anderson	112,013,371	39,950,568	35.7%
Pacific Investment Management Co.	22,755,154	1,343,948	5.9%
Totals	<u>\$ 525,680,296</u>	<u>\$ 76,260,184</u>	<u>14.5%</u>



KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

Distribution of Investments By Class

November 30, 1994 (In Millions)



	<u>Domestic Fixed</u>	<u>Domestic Equity</u>	<u>Cash/STIF</u>	<u>Real Estate</u>	<u>Int'l Equity</u>	<u>Int'l Fixed</u>	<u>Direct Placemt</u>	<u>Total</u>
Carrying Value	\$ 1,539.3	\$ 1,579.8	\$ 278.9	\$ 438.7	\$ 792.1	\$ 302.8	\$ 111.4	\$ 5,043.0
Net Asset Value	\$ 1,469.2	\$ 1,930.7	\$ 276.1	\$ 338.2	\$ 824.2	\$ 300.7	\$ 107.3	\$ 5,246.4

Notes: Net Asset Value is the market value of investments plus accrued receivables less accrued payables. Carrying Value is the original cost less the applicable allowance for losses plus accrued receivables less accrued payables.

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

INVESTMENT PERFORMANCE REPORT

For The Period Ending October 31, 1994

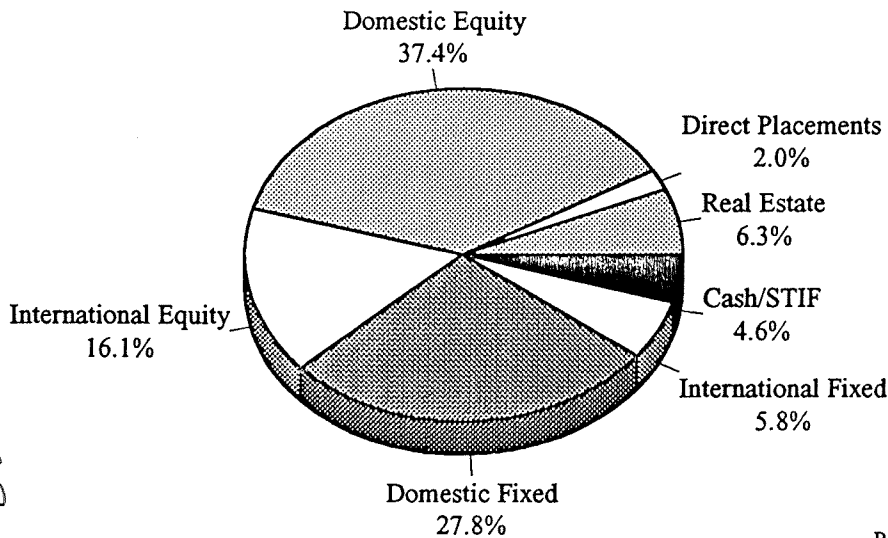
Time-Weighted Return	Latest Quarter*	Fiscal Year To Date* (4 Months)	Latest 12 Months	Latest 3 Years	Latest 5 Years
Total Portfolio	3.0%	5.2%	1.6%	8.8%	8.1%
Domestic Equity Portfolio	7.4%	10.5%	2.1%	10.6%	11.3%
Int'l Equity Portfolio	2.7%	5.1%	10.3%	8.5%	5.6%
Domestic Fixed Portfolio	(0.8%)	1.1%	(3.7%)	8.1%	9.3%
Int'l Fixed Portfolio	4.4%	5.2%	5.1%	12.5%	12.3%
Real Estate Portfolio	1.9%	2.4%	4.8%	(2.2%)	(0.4%)
Alternative Investment Portfolio	4.1%	6.3%	15.2%	20.1%	3.2%
Cash Equivalents Portfolio	0.3%	1.2%	2.2%	5.3%	6.8%

* Not Annualized

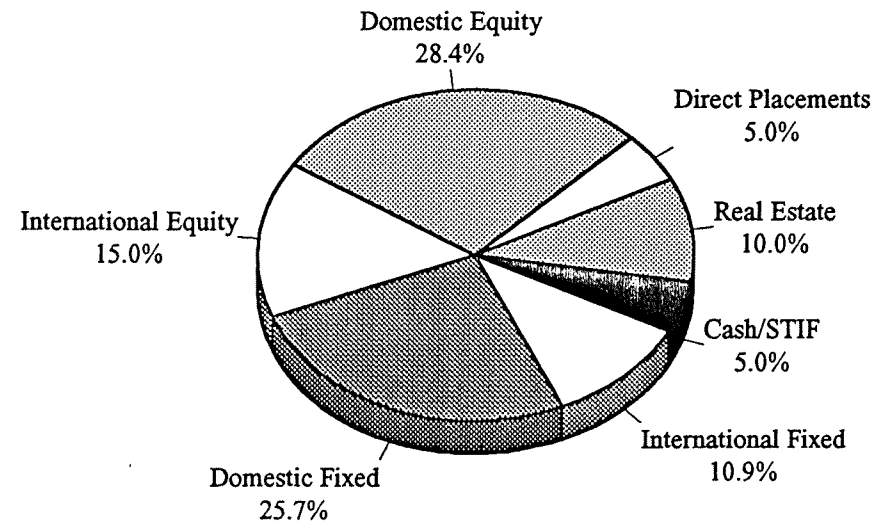
ASSET ALLOCATION

Total Portfolio Net Asset Value \$5,384.5 Million as of 10/31/94

Current Allocation



Target Allocation**



** Target Allocation As Of January 28, 1994

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KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
ASSET CLASS, RELATIVE RETURN COMPARISON
 December, 1994

	<u>10/31/94 Net Asset Value</u> (millions) (2)	<u>Time Weighted Total Return (1)</u>				
		<u>Latest Quarter</u>	<u>Fiscal YTD</u>	<u>Latest 12 Months</u>	<u>Latest 3 Years</u>	<u>Latest 5 Years</u>
TOTAL FUND	\$5,384.5 (4)	3.0%	5.2%	1.6%	8.8%	8.1%
Policy Index (3)		2.0%	3.8%	3.3%	7.9%	8.2%
Consumer Price Index		0.7%	1.0%	2.6%	2.9%	3.5%
Total Domestic Equity Portfolio	2,010.0	7.4%	10.5%	2.1%	10.6%	11.3%
KPERS Equity Benchmark (5)		4.3%	7.8%	3.5%	10.1%	NA
Total International Equity Portfolio	867.0	2.7%	5.1%	10.3%	8.5%	5.6%
KPERS International Equity Benchmark (6)		3.1%	4.5%	8.9%	7.5%	1.0%
Total Domestic Fixed Income Portfolio	1,527.2	-0.8%	1.1%	-3.7%	8.1%	9.3%
Lehman Brothers Aggregate Index		-1.4%	0.5%	-3.7%	5.8%	7.8%
Total International Fixed Income Portfolio	329.7	4.4%	5.2%	5.1%	12.5%	12.3%
Salomon Non-U.S. Government Bond Index		4.0%	4.3%	8.8%	12.5%	12.5%
Total Real Estate Portfolio	331.8	1.9%	2.4%	4.8%	-2.2%	-0.4%
NCREIF Real Estate Index (7)		1.6%	NA	4.1%	-2.2%	-0.5%
Total Alternative Investments Portfolio	93.9	4.1%	6.3%	15.2%	20.1%	3.2%
S&P 500 Index + 8%		NA	NA	11.8%	17.5%	18.1%
Total Cash Equivalents Portfolio (8)	224.3	0.3%	1.2%	2.2%	5.3%	6.8%
Merrill Lynch 1-3 Yr. Gov'ts. Index		0.3%	1.2%	1.2%	5.0%	7.0%

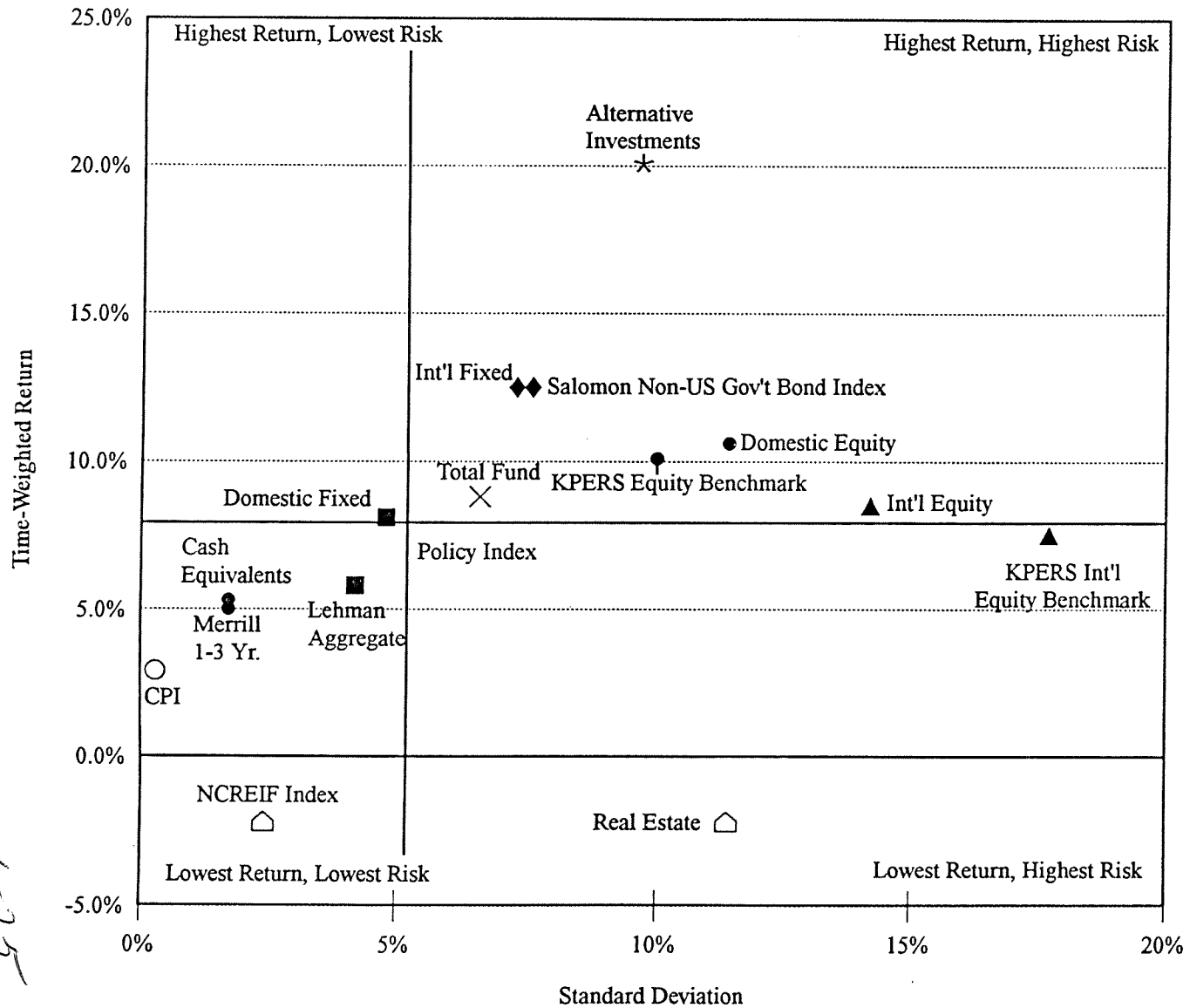
NOTES:

- (1) Time weighted total return includes income and changes in market value. The latest quarter/fiscal year to date results are not annualized.
- (2) Net Asset Value is the market value of investments plus accrued receivables less accrued payables. The cash portion of the portfolio is managed by Payden & Rygel.
- (3) The Policy Index reflects the asset allocation policies that have been in place since June 30, 1986. The current allocation is the allocation approved on January 28, 1994. This asset allocation mix is: 28.4% KPERS Equity Benchmark, 15% KPERS International Equity Benchmark, 25.7% Lehman Aggregate Bond Index, 10.9% Salomon Non-U.S. World Government Bond Index, 10% NCREIF Real Estate Index, and 10% U.S. Treasury Bills. The prior allocations and the associated indices are available upon request.
- (4) The total net asset value of the fund also includes miscellaneous assets of \$.6 million.
- (5) The KPERS Equity Benchmark is defined as the S&P 500 Index, less the stocks of companies classified as banking institutions, savings and loan associations, or credit unions. Prior to January 1, 1994, the stocks of companies engaged in business in South Africa were also excluded.
- (6) The KPERS International Equity Benchmark is defined as the Morgan Stanley EAFE Index, less the stocks of companies classified as banking institutions, savings and loan associations, or credit unions. Prior to January 1, 1994, the Benchmark only excluded the stocks of companies engaged in business in South Africa.
- (7) The NCREIF Real Estate Index lags one quarter and is updated quarterly. The returns shown are for the period ending 6/30/94.
- (8) The Total Cash Equivalents return includes the real estate and direct placement funding accounts.

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

Asset Class, Risk Adjusted Return

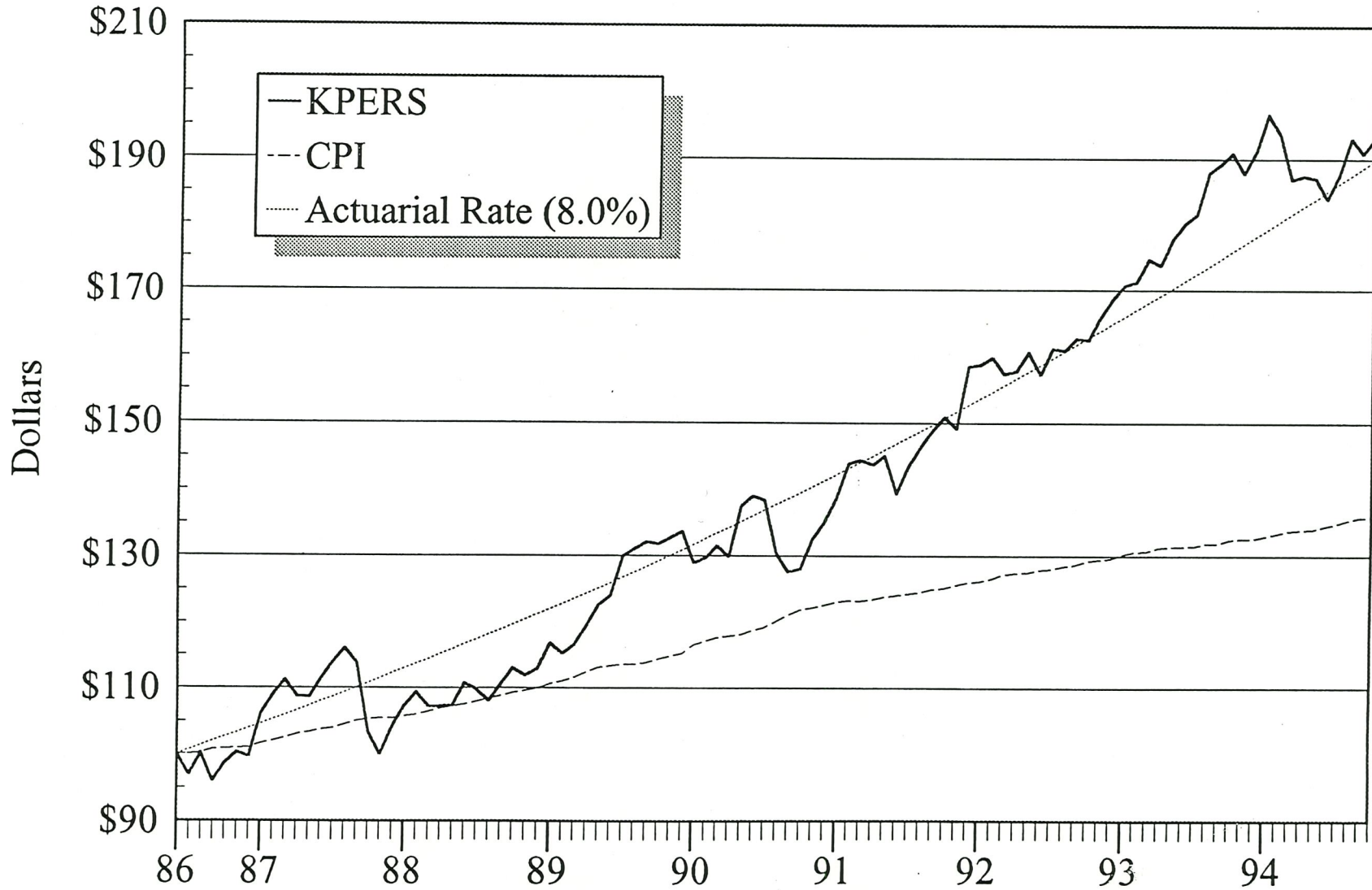
For The Latest 3 Years Ending October 31, 1994



	Return	Standard Deviation	Return/Risk Ratio
Total Fund	8.8%	6.6%	1.3
Policy Index	7.9%	5.2%	1.5
CPI	2.9%	0.3%	8.4
Domestic Equity	10.6%	11.4%	0.9
KPERs Equity Benchmark	10.1%	10.0%	1
International Equity	8.5%	14.2%	0.6
KPERs International Equity Benchmark	7.5%	17.7%	0.4
Domestic Fixed Income	8.1%	4.8%	1.7
Lehman Aggregate	5.8%	4.2%	1.4
International Fixed Income	12.5%	7.3%	1.7
Saloman Non-US Government Bond	12.5%	7.6%	1.6
Real Estate	(2.2%)	11.4%	NA
NCREIF Index	(2.2%)	2.4%	NA
Alternative Investments	20.1%	9.7%	2.1
Cash Equivalents	5.3%	1.7%	3.1
Merrill 1-3 Yr.	5.0%	1.7%	2.9

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

Total Fund
Growth of \$100



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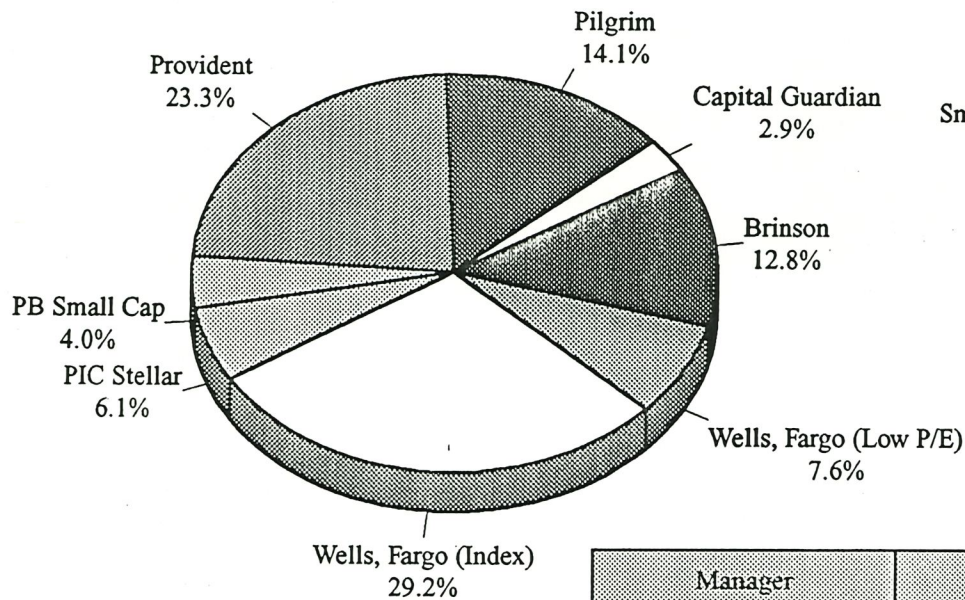
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KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

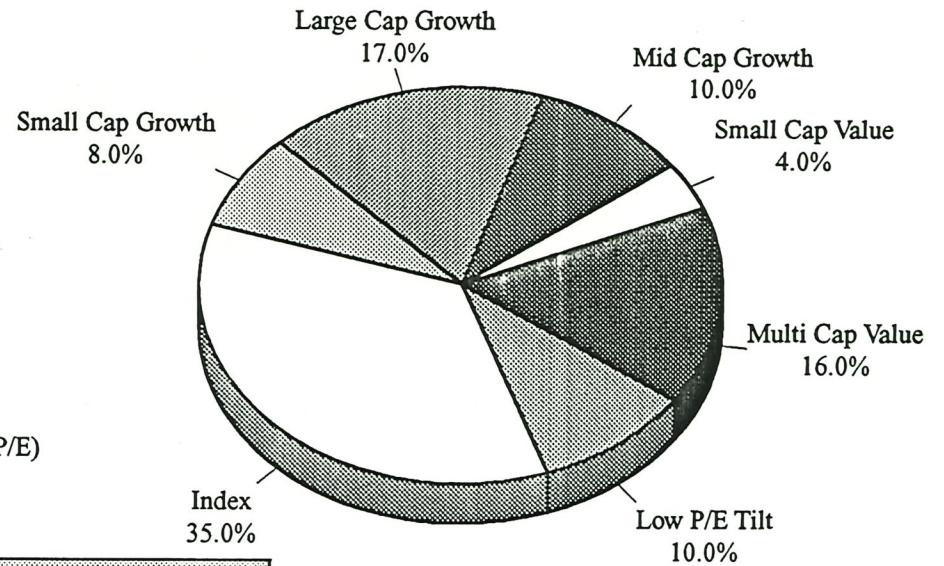
Domestic Equity Diversification By Manager/Style

Total Net Asset Value \$2,010.0 Million as of 10/31/94

Current Allocation



Target Allocation



Manager	Style
Brinson	Multi Cap Value
Capital Guardian	Small Cap Value
Pilgrim	Mid Cap Growth
Provident	Large Cap Growth
PB Small Cap	Small Cap Growth
PIC Stellar	Small Cap Growth
Wells, Fargo (Index)	Index
Wells, Fargo (Low P/E)	Low P/E Tilt

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KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
DOMESTIC EQUITY PERFORMANCE REPORT
 December, 1994

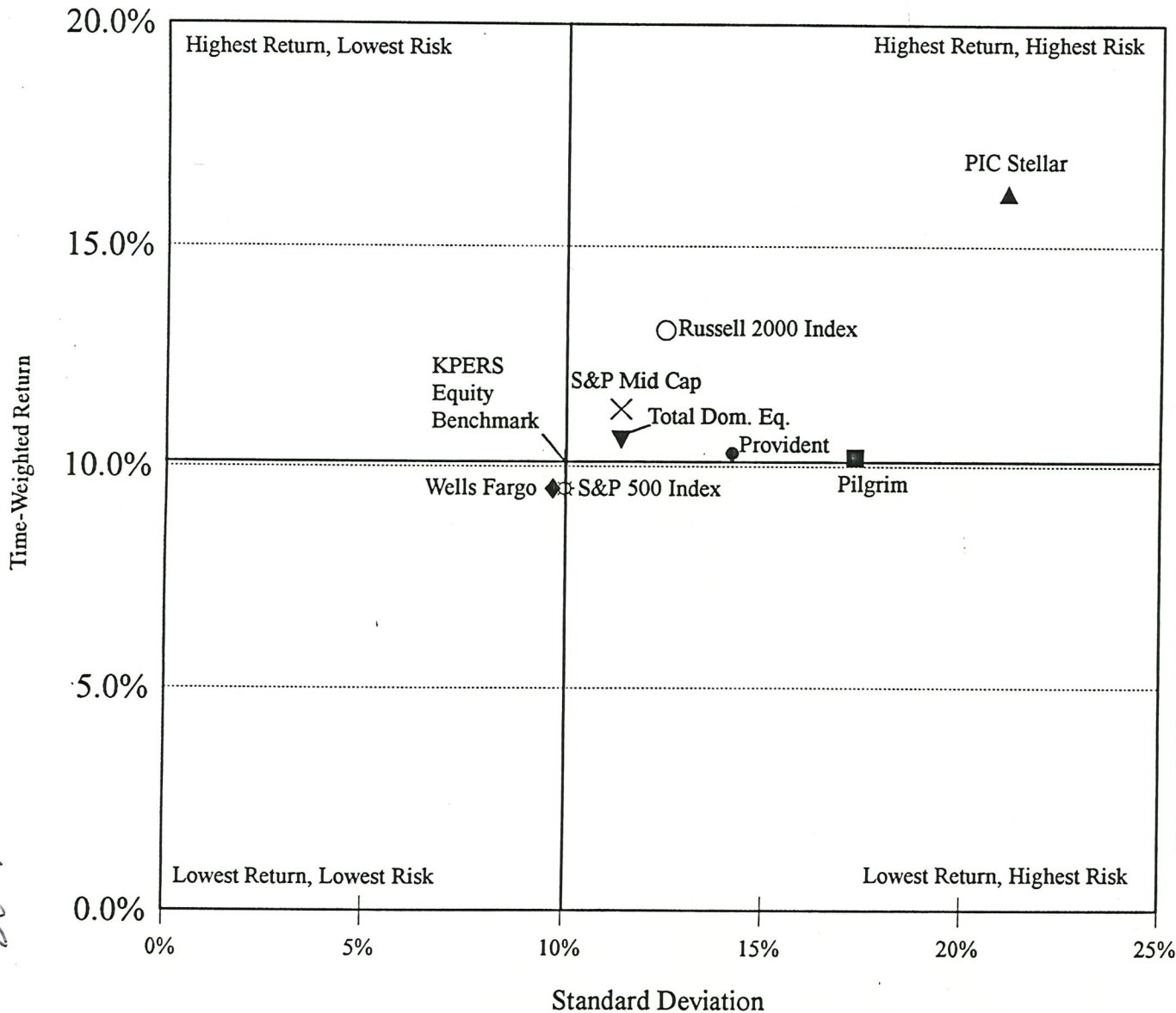
<u>Investment Advisor/Style</u>	<u>10/31/94 Net</u>	<u>Cash</u>	<u>% of</u>	<u>% of</u>	<u>Time Weighted Total Return (1)</u>				
	<u>Asset Value</u>	<u>(STIF)</u>	<u>Asset</u>	<u>Total</u>	<u>Latest</u>	<u>Fiscal</u>	<u>Latest</u>	<u>Latest</u>	<u>Latest</u>
	(millions) (2)	(millions)	<u>Class</u>	<u>NAV</u>	<u>Quarter</u>	<u>YTD</u>	<u>12 Months</u>	<u>3 Years</u>	<u>5 Years</u>
Brinson Partners (Multi Cap Value)	\$258.1	\$4.3	12.8%	4.8%	2.2%	4.7%	3.9%	NA	NA
Provident Investment Counsel (Large Cap Growth)	467.9	18.5	23.3%	8.7%	7.7%	11.9%	3.4%	10.3%	15.8%
Wells Fargo Nikko Investment Advisors (Index)	586.3	0.2	29.2%	10.9%	4.3%	7.9%	3.7%	9.5%	NA
Wells Fargo Nikko Investment Advisors (Low P/E Tilt)	153.5	0.2	7.6%	2.9%	3.6%	6.8%	4.1%	NA	NA
KPERS Equity Benchmark (3)					4.3%	7.8%	3.5%	10.1%	NA
S&P 500 Index					3.8%	7.3%	3.8%	9.5%	10.1%
Pilgrim, Baxter & Associates (Mid-Cap Growth) (4)	283.2	23.5	14.1%	5.3%	15.3%	16.4%	-1.2%	10.2%	13.2%
Standard & Poor's Mid Cap Index					4.4%	7.9%	2.3%	11.3%	14.0%
PB Small Cap (Small Cap Growth)	81.1	10.5	4.0%	1.5%	20.5%	22.9%	8.3%	NA	NA
PIC Stellar Fund (Small Cap Growth)	122.4	0.0	6.1%	2.3%	12.7%	15.4%	-0.1%	16.2%	18.5%
Capital Guardian Trust Company (Small Cap Value)	57.5	2.6	2.9%	1.1%	4.5%	6.5%	-6.5%	NA	NA
Russell 2000 Index					4.8%	6.5%	-0.3%	13.1%	10.8%
Total Domestic Equity Portfolio	\$2,010.0	\$59.8	100.0%	37.3%	7.4%	10.5%	2.1%	10.6%	11.3%

NOTES:

- (1) Time weighted total return includes income and changes in market value. The latest quarter/fiscal year to date results are not annualized.
- (2) Net Asset Value is the market value of investments plus accrued receivables less accrued payables. The cash portion of the portfolio is managed by Payden & Rygel.
- (3) The KPERS Equity Benchmark is defined as the S&P 500 Index, less the stocks of companies classified as banking institutions, savings and loan associations, or credit unions. Prior to January 1, 1994, the stocks of companies engaged in business in South Africa were also excluded.
- (4) The Pilgrim, Baxter Mid Cap returns reflects both the Mid-Cap and the Small-Cap portfolios prior to 7/1/92, and only the return for the Mid-Cap portfolio after this date.

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

Domestic Equity Managers, Risk Adjusted Return For The Latest 3 Years Ending October 31, 1994



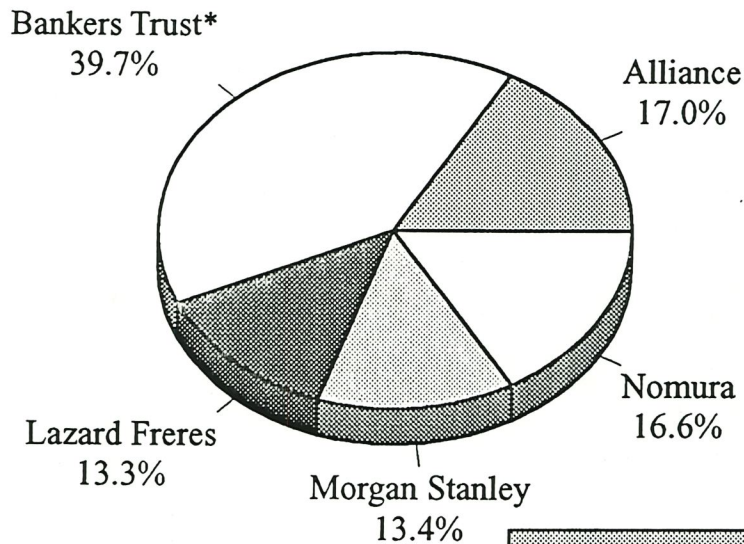
	Return	Standard Deviation	Return/ Risk Ratio
Total Domestic Equity	10.6%	11.4%	0.9
Provident	10.3%	14.2%	0.7
Wells Fargo (Index)	9.5%	9.7%	1
KPERS Equity Benchmark	10.1%	10.0%	1
S&P 500	9.5%	10.0%	0.9
Pilgrim	10.2%	17.3%	0.6
S&P Mid Cap	11.3%	11.4%	1
PIC Stellar	16.2%	21.1%	0.8
Russell 2000	13.1%	12.5%	1.1

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

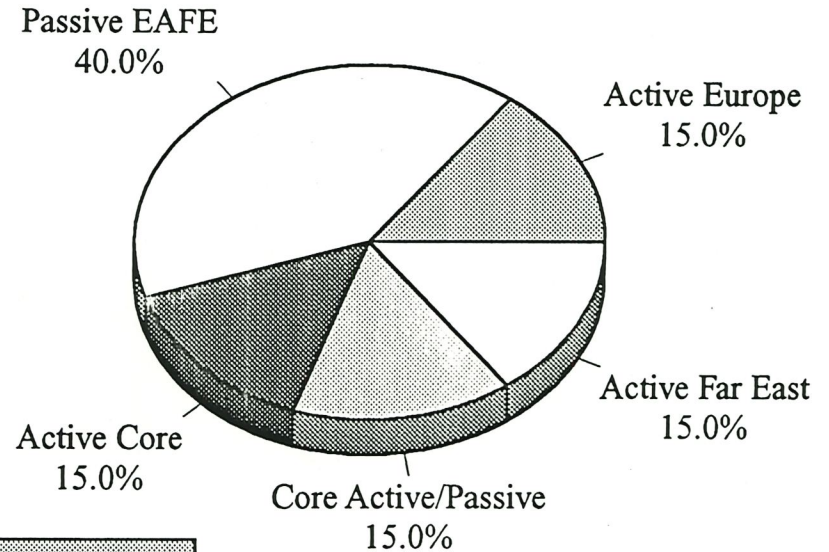
International Equity Diversification By Manager/Style

Total Net Asset Value \$867.0 Million as of 10/31/94

Current Allocation



Target Allocation



Manager	Style
Alliance	Active European
Bankers Trust	Passive EAFE
Lazard Freres	Active Core
Morgan Stanley	Active/Passive Core
Nomura	Active Far East

* The percentage includes the activity of the currency overlay manager.

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KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

INTERNATIONAL EQUITY PERFORMANCE REPORT

December, 1994

<u>Investment Advisor/Style</u>	<u>10/31/94 Net</u> <u>Asset Value</u> (millions) (2)	<u>Cash</u> <u>(STIF)</u> (millions)	<u>% of</u> <u>Asset</u> <u>Class</u>	<u>% of</u> <u>Total</u> <u>NAV</u>	<u>Time Weighted Total Return (1)</u>				
					<u>Latest</u> <u>Quarter</u>	<u>Fiscal</u> <u>YTD</u>	<u>Latest</u> <u>12 Months</u>	<u>Latest</u> <u>3 Years</u>	<u>Latest</u> <u>5 Years</u>
Lazard Freres Asset Management (Active Core)	\$115.7	\$4.4	13.3%	2.1%	-0.2%	5.2%	NA	NA	NA
Morgan Stanley Asset Management (Active/Passive Core)	115.8	0.0	13.4%	2.2%	1.9%	4.9%	NA	NA	NA
Bankers Trust Company (Passive EAFE)	348.5	0.7	40.2%	6.5%	3.0%	4.3%	NA	NA	NA
KPERS International Equity Benchmark (3)					3.1%	4.5%	8.9%	7.5%	1.0%
Nomura Capital Management, Inc. (Active Far East) (4)	144.1	0.5	16.6%	2.7%	1.6%	1.1%	12.0%	9.0%	6.1%
Pacific Ex-Banking Custom Benchmark (5)					2.6%	0.8%	10.1%	7.9%	1.2%
MSCI - Pacific Index					1.7%	-0.5%	9.1%	8.2%	0.1%
Alliance Capital Management Corp. (Active European) (4)	147.5	7.9	17.0%	2.7%	6.2%	11.4%	12.7%	9.3%	5.9%
Europe Ex-Banking Custom Benchmark (6)					3.6%	9.1%	7.7%	7.1%	0.8%
MSCI - Europe Index					3.4%	8.8%	11.2%	11.1%	10.6%
Total International Equity Portfolio (7)	\$867.0	\$13.5	100.5%	16.1%	2.7%	5.1%	10.3%	8.5%	5.6%

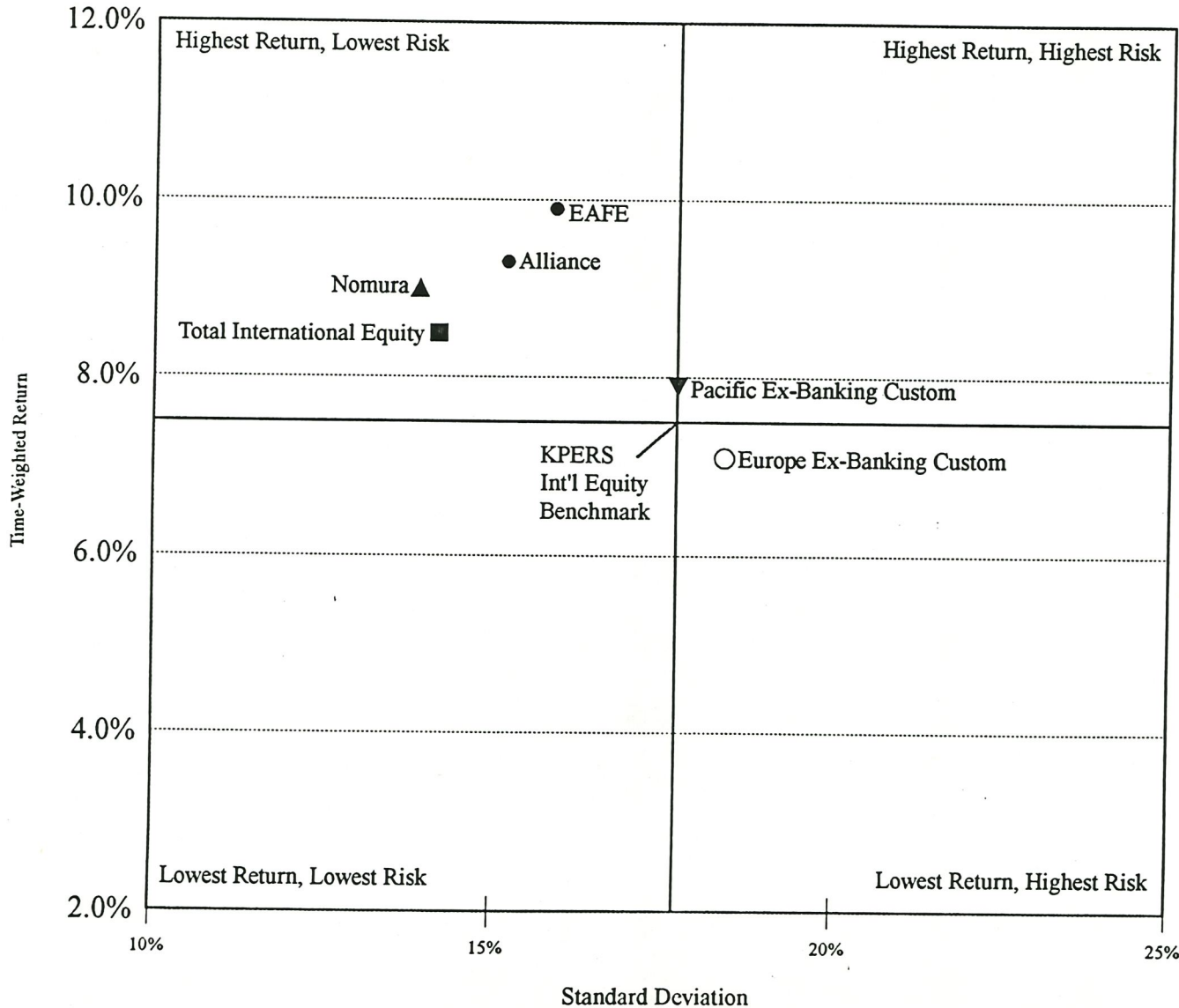
NOTES:

- (1) Time weighted total return includes income and changes in market value. The latest quarter/fiscal year to date results are not annualized.
- (2) Net Asset Value is the market value of investments plus accrued receivables less accrued payables. The cash portion of the portfolio is managed by Payden & Rygel.
- (3) The KPERS International Equity Benchmark is defined as the Morgan Stanley EAFE Index, less the stocks of companies classified as banking institutions, savings and loan associations, or credit unions. Prior to January 1, 1994, the Benchmark only excluded the stocks of companies engaged in business in South Africa.
- (4) The manager's mandate was recently changed from an active EAFE mandate to a regional mandate.
- (5) The Pacific Ex-Banking Custom Benchmark is defined as the KPERS International Equity Benchmark prior to April 1, 1994, and the Morgan Stanley Pacific Ex-Banking Index after April 1, 1994.
- (6) The Europe Ex-Banking Custom Benchmark is defined as the KPERS International Equity Benchmark prior to April 1, 1994, and the Morgan Stanley Europe Ex-Banking Index after April 1, 1994.
- (7) The total international equity net asset value includes the currency overlay activities of Pareto Partners.

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

International Equity Managers, Risk Adjusted Return

For The Latest 3 Years Ending October 31, 1994



	Return	Standard Deviation	Return/ Risk Ratio
Total International Equity	8.5%	14.2%	0.6
Alliance	9.3%	15.2%	0.6
Europe Ex-Banking Custom	7.1%	18.4%	0.4
Nomura	9.0%	13.9%	0.6
Pacific Ex-Banking Custom	7.9%	17.7%	0.4
KPERS International Benchmark	7.5%	17.7%	0.4
EAFE	9.9%	15.9%	0.6

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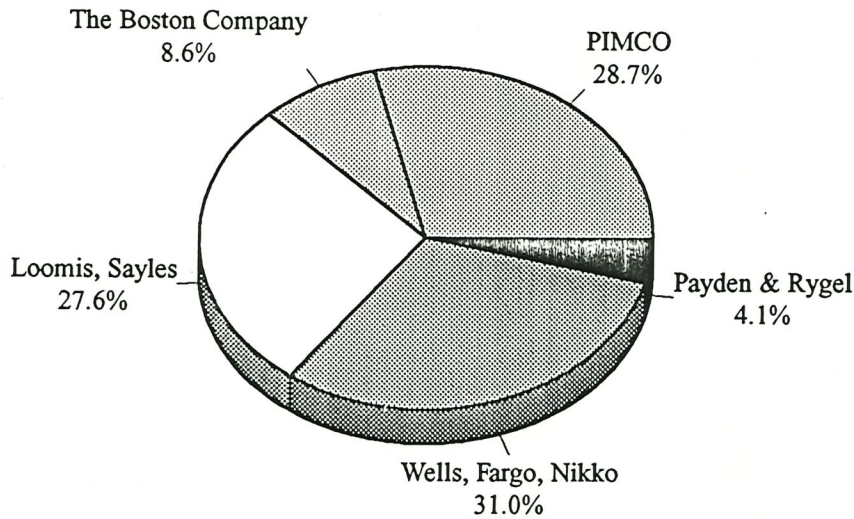
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KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

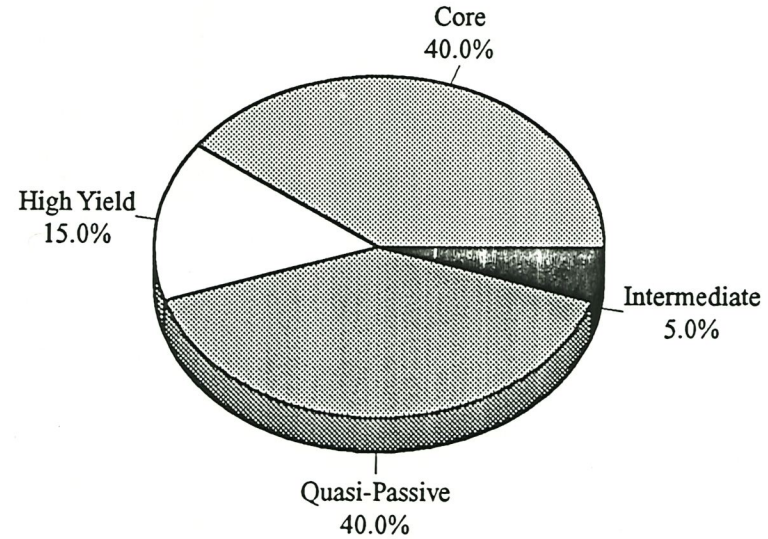
Domestic Fixed Income Diversification By Manager/Style

Total Net Asset Value \$1,527.2 Million as of 10/31/94

Current Allocation



Target Allocation



Manager	Style
PIMCO	Core
The Boston Company	Core
Loomis, Sayles	High Yield
Wells, Fargo, Nikko	Quasi-Passive
Payden & Rygel	Intermediate

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KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

DOMESTIC FIXED INCOME PERFORMANCE REPORT

December, 1994

<u>Investment Advisor/Style</u>	<u>10/31/94 Net Asset Value</u> (millions) (2)	<u>Cash (STIF)</u> (millions)	<u>% of Asset Class</u>	<u>% of Total NAV</u>	<u>Time Weighted Total Return (1)</u>				
					<u>Latest Quarter</u>	<u>Fiscal YTD</u>	<u>Latest 12 Months</u>	<u>Latest 3 Years</u>	<u>Latest 5 Years</u>
Pacific Investment Management Co. (Core)	\$437.9	\$58.0	28.7%	8.1%	-0.5%	1.8%	-2.3%	8.2%	9.6%
The Boston Company (Core)	131.9	9.2	8.6%	2.4%	-0.7%	0.7%	NA	NA	NA
Wells Fargo Nikko Investment Advisors (Quasi-Passive)	472.8	0.1	31.0%	8.8%	-1.8%	0.3%	-6.4%	9.0%	NA
Lehman Brothers Aggregate Index					-1.4%	0.5%	-3.7%	5.8%	7.8%
Loomis, Sayles & Company, Inc. (High Yield)	421.9	5.6	27.6%	7.8%	0.0%	1.3%	-3.0%	8.3%	10.1%
Merrill High Yield Bond Index					0.9%	1.6%	1.9%	12.5%	12.4%
Payden & Rygel Investment Counsel (STBF)	62.7	0.6	4.1%	1.2%	-0.5%	0.8%	-3.2%	NA	NA
Lehman Brothers Inter. Gov't/Corp. Index					-0.6%	0.8%	-1.9%	5.9%	7.7%
Total Domestic Fixed Income Portfolio	\$1,527.2	\$73.5	100.0%	28.4%	-0.8%	1.1%	-3.7%	8.1%	9.3%

NOTES:

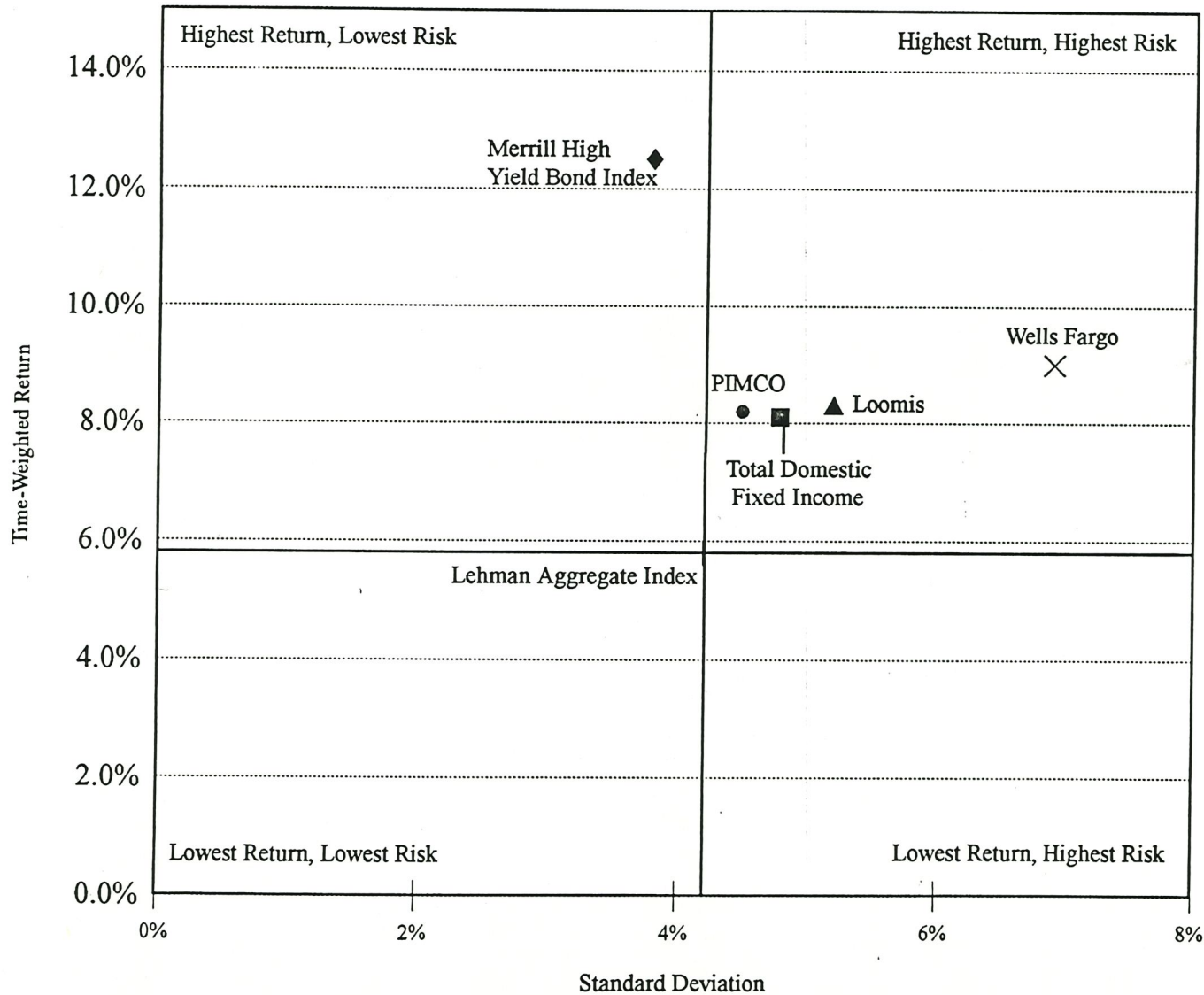
- (1) Time weighted total return includes income and changes in market value. The latest quarter/fiscal year to date results are not annualized.
 (2) Net Asset Value is the market value of investments plus accrued receivables less accrued payables. The cash portion of the portfolio is managed by Payden & Rygel.

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KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

Domestic Fixed Income Managers, Risk Adjusted Return For The Latest 3 Years Ending October 31, 1994



	Return	Standard Deviation	Return/ Risk Ratio
Total Domestic Fixed Income	8.1%	4.8%	1.7
PIMCO	8.2%	4.5%	1.8
Wells Fargo	9.0%	6.9%	1.3
Lehman Aggregate	5.8%	4.2%	1.4
Loomis, Sayles	8.3%	5.2%	1.6
Merrill High Yield Bond	12.5%	3.8%	3.3

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KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
INTERNATIONAL FIXED INCOME PERFORMANCE REPORT
 December, 1994

<u>Investment Advisor/Style</u>	<u>10/31/94 Net Asset Value</u> (millions) (2)	<u>Cash (STIF)</u> (millions)	<u>% of Asset Class</u>	<u>% of Total NAV</u>	<u>Time Weighted Total Return (1)</u>				
					<u>Latest Quarter</u>	<u>Fiscal YTD</u>	<u>Latest 12 Months</u>	<u>Latest 3 Years</u>	<u>Latest 5 Years</u>
Julius Baer Investment Management, Inc. (Core)	\$329.7	\$0.0	100.0%	6.1%	4.4%	5.2%	5.1%	12.5%	12.3%
Salomon Non-U.S. Government Bond Index					4.0%	4.3%	8.8%	12.5%	12.5%
Total International Fixed Income Portfolio	\$329.7	\$0.0	100.0%	6.1%	4.4%	5.2%	5.1%	12.5%	12.3%

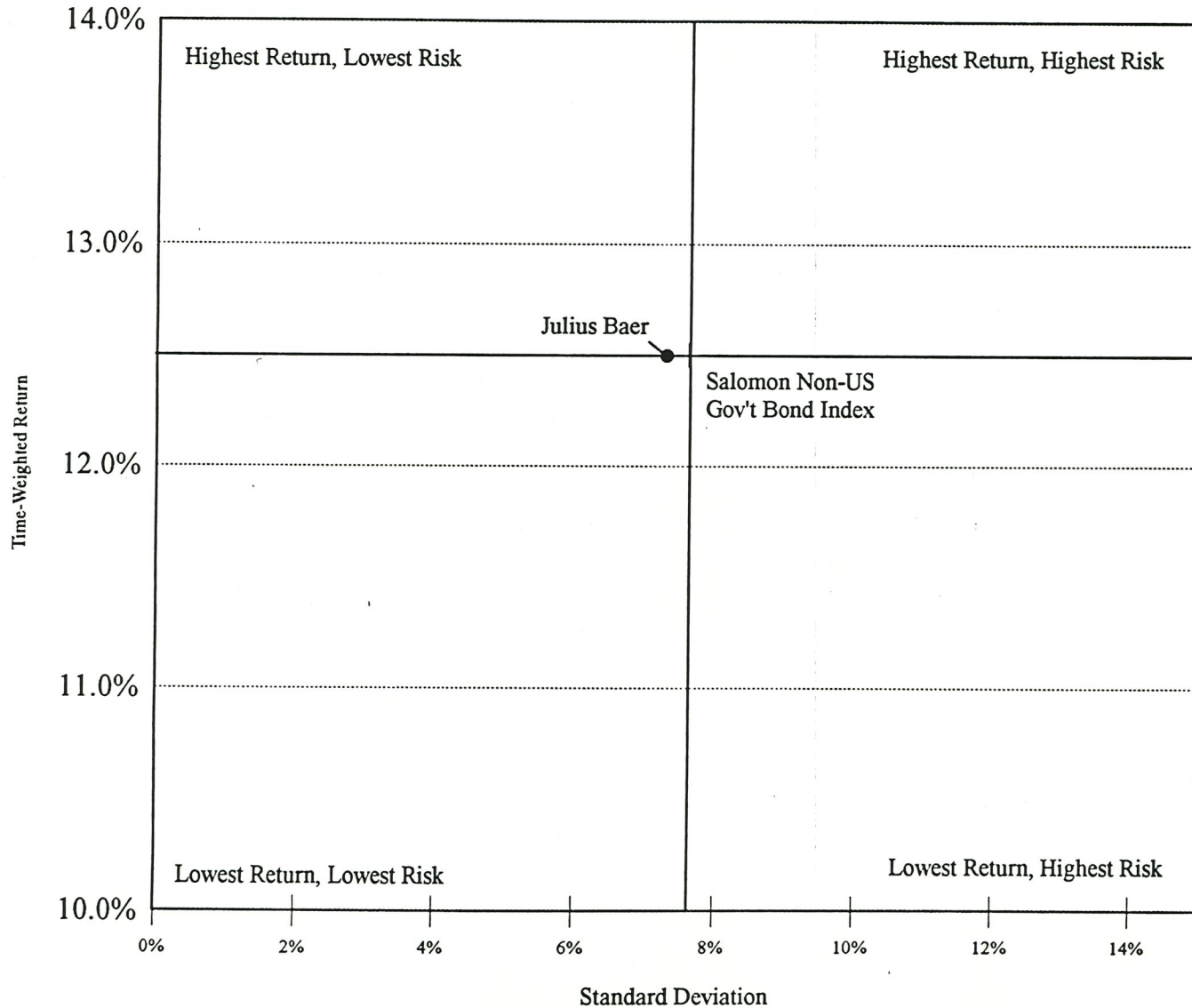
1-36

NOTES:

- (1) Time weighted total return includes income and changes in market value. The latest quarter/fiscal year to date results are not annualized.
- (2) Net Asset Value is the market value of investments plus accrued receivables less accrued payables. The cash portion of the portfolio is managed by Payden & Rygel.

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KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
 International Fixed Income Manager, Risk Adjusted Return
 For The Latest 3 Years Ending October 31, 1994



	Return	Standard Deviation	Return/ Risk Ratio
Julius Baer	12.5%	7.3%	1.7
Salomon Non-U.S. Government Bond	12.5%	7.6%	1.6

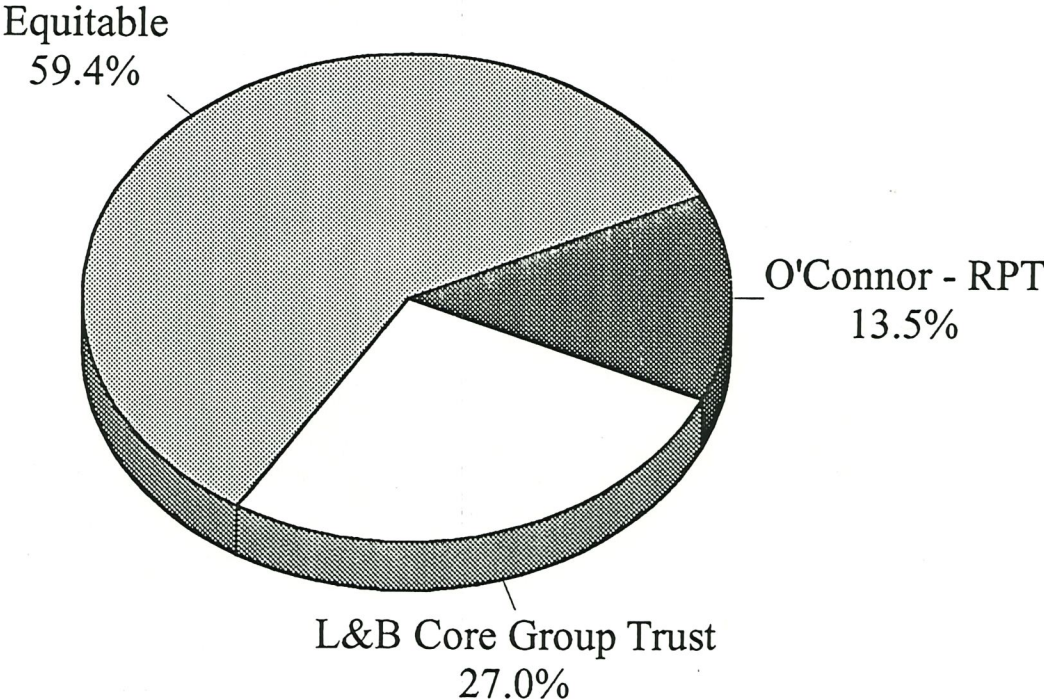
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KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
Real Estate Diversification By Manager

Total Net Asset Value \$331.8 Million as of 10/31/94

Current Allocation



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KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
REAL ESTATE PERFORMANCE REPORT
 December, 1994

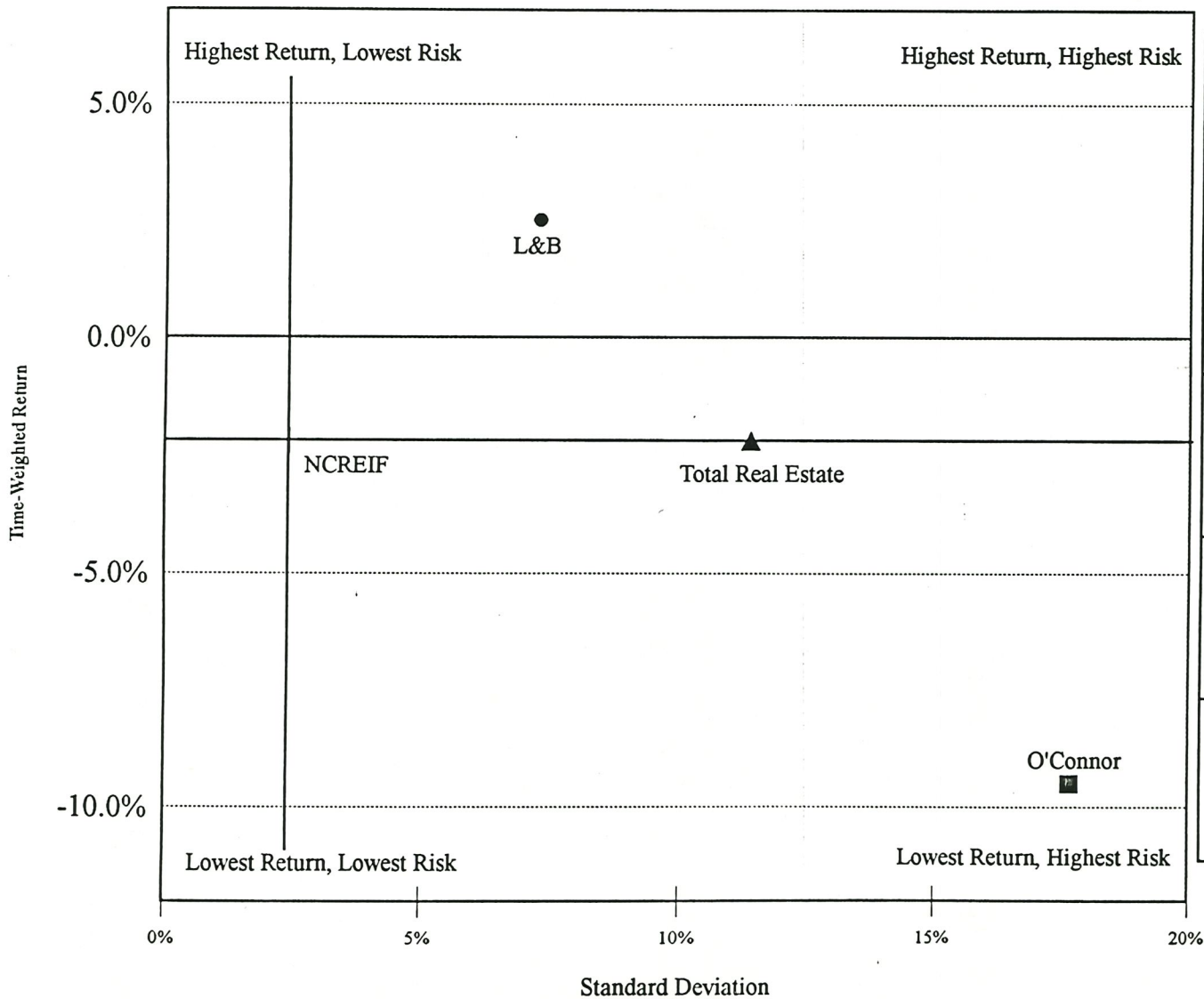
<u>Investment Advisor/Style</u>	<u>10/31/94 Net</u> <u>Asset Value</u> (millions) (2)	<u>Cash</u> <u>(STIF)</u> (millions)	<u>% of</u> <u>Asset</u> <u>Class</u>	<u>% of</u> <u>Total</u> <u>NAV</u>	<u>Time Weighted Total Return (1)</u>				
					<u>Latest</u> <u>Quarter</u>	<u>Fiscal</u> <u>YTD</u>	<u>Latest</u> <u>12 Months</u>	<u>Latest</u> <u>3 Years</u>	<u>Latest</u> <u>5 Years</u>
Equitable Real Estate Investment Management	\$197.2	\$0.0	59.4%	3.7%	2.7%	3.2%	3.7%	NA	NA
L & B Core Group Trust	89.7	0.0	27.0%	1.7%	1.5%	2.2%	9.3%	2.5%	4.3%
J.W. O'Connor & Company (3)	44.9	0.0	13.5%	0.8%	-0.5%	-0.5%	0.2%	-9.5%	-5.6%
NCREIF Real Estate Index (4)					1.6%	NA	4.1%	-2.2%	-0.5%
Total Real Estate Portfolio	\$331.8	\$0.0	100.0%	6.2%	1.9%	2.4%	4.8%	-2.2%	-0.4%

1-39

NOTES:

- (1) Time weighted total return includes income and changes in market value. The latest quarter/fiscal year to date results are not annualized.
- (2) Net Asset Value is the market value of investments plus accrued receivables less accrued payables. The cash portion of the portfolio is managed by Payden & Rygel.
- (3) The J.W. O'Connor returns reflects the entire portfolio prior to the manager change, \$228.6 million as of 12/31/92, and only the return for the Retail Property Trust after the manager change on 1/1/93.
- (4) The NCREIF Real Estate Index lags one quarter and is updated quarterly. The returns shown are for the period ending 6/30/94.

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
Real Estate Managers, Risk Adjusted Return
For The Latest 3 Years Ending October 31, 1994



	Return	Standard Deviation	Return/ Risk Ratio
Total Real Estate	(2.2%)	11.4%	NA
L&B Core Group	2.5%	7.3%	0.3
O'Connor	(9.5%)	17.7%	NA
NCREIF Index	(2.2%)	2.4%	NA

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KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
ALTERNATIVE INVESTMENTS AND CASH EQUIVALENTS PERFORMANCE REPORT
 December, 1994

<u>Investment Advisor/Style</u>	<u>10/31/94 Net Asset Value</u> (millions) (2)	<u>Cash (STIF)</u> (millions)	<u>% of Asset Class</u>	<u>% of Total NAV</u>	<u>Time Weighted Total Return (1)</u>					
					<u>Latest Quarter</u>	<u>Fiscal YTD</u>	<u>Latest 12 Months</u>	<u>Latest 3 Years</u>	<u>Latest 5 Years</u>	
Alternative Investments (3)										
Pacholder/Morris-Anderson	\$72.5	\$0.0	77.2%	1.3%	5.4%	8.7%	18.1%	21.3%	3.8%	
Venture Capital Portfolio	21.4	0.0	22.8%	0.4%	-0.6%	-2.6%	3.7%	NA	NA	
S&P 500 Index + 8%					NA	NA	11.8%	17.5%	18.1%	
Total Alternative Investment Portfolio	93.9	0.0	100.0%	1.7%	4.1%	6.3%	15.2%	20.1%	3.2%	
Cash Equivalents										
Payden & Rygel Investment Counsel (STIF) (4)	224.3	0.0	100.0%	4.2%	0.3%	1.2%	2.1%	5.4%	6.8%	
Merrill Lynch 1-3 Yr. Gov'ts. Index					0.3%	1.2%	1.2%	5.0%	7.0%	
Total Cash Equivalents Portfolio (5)	\$224.3	\$17.1	100.0%	4.2%	0.3%	1.2%	2.2%	5.3%	6.8%	

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NOTES:

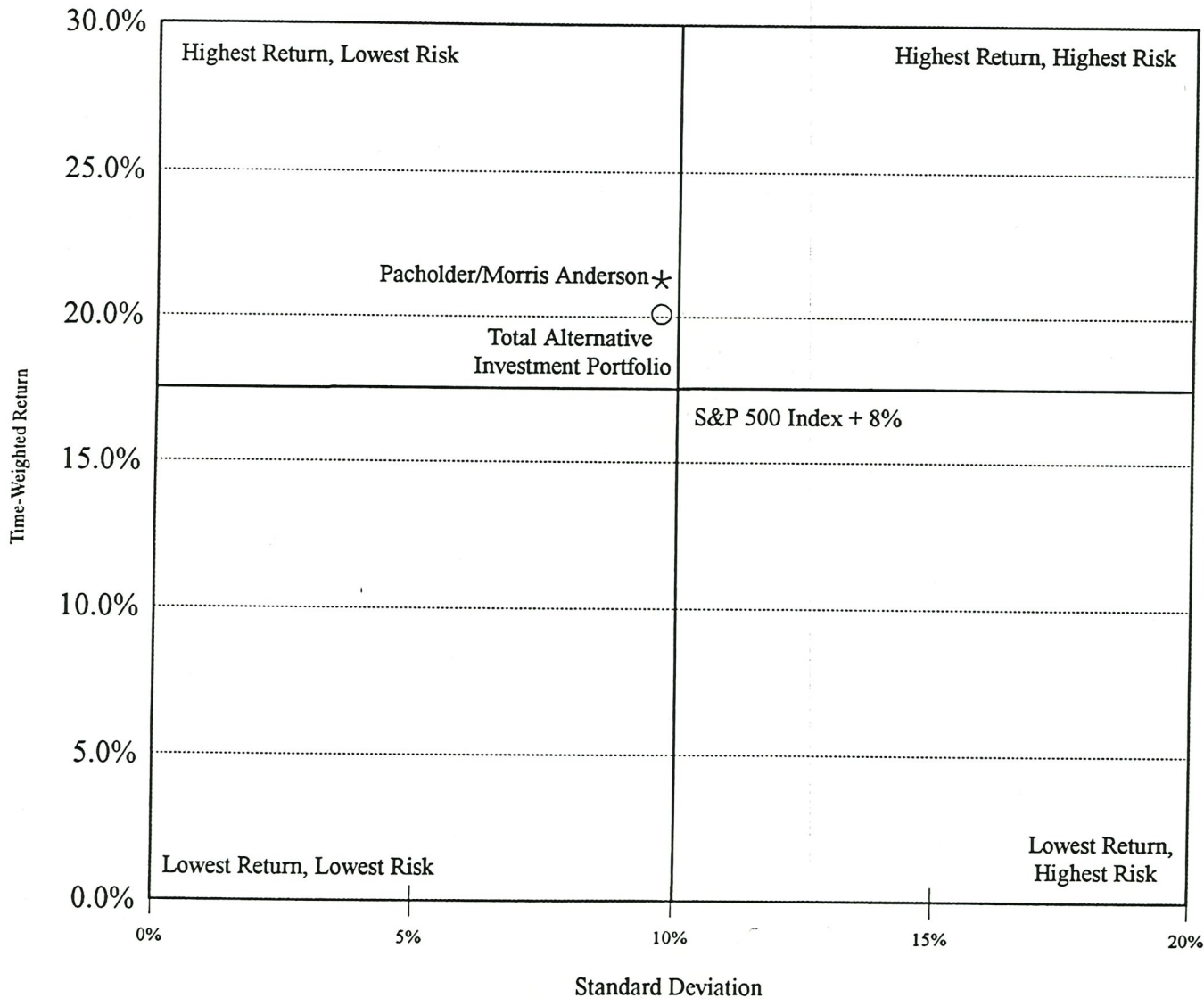
- (1) Time weighted total return includes income and changes in market value. The latest quarter/fiscal year to date results are not annualized.
- (2) Net Asset Value is the market value of investments plus accrued receivables less accrued payables. The cash portion of the portfolio is managed by Payden & Rygel.
- (3) Alternative investment assets are priced at adjusted cost or market value. The values for assets priced at adjusted cost will be updated annually as of June 30. Therefore, total return reflects cash returns on adjusted cost basis, including, gains realized on the sale of assets. Assets priced at cost recognize realized gains or losses resulting from sales totally in the month of the sale transaction.
- (4) The Payden & Rygel returns reflects both the STIF and STBF portfolios prior to 4/1/93, and only the return for the STIF after this date.
- (5) The Total Cash Equivalents return includes the assets in the real estate and direct placement funding accounts.

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KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

Alternative Investments Managers, Risk Adjusted Return

For The Latest 3 Years Ending October 31, 1994



	Return	Standard Deviation	Return/ Risk Ratio
Pacholder/ Morris Anderson	21.3%	9.7%	2.2
Total Alternative Investment Portfolio	20.1%	9.7%	2.1
S&P 500 + 8%	17.5%	10.0%	1.8

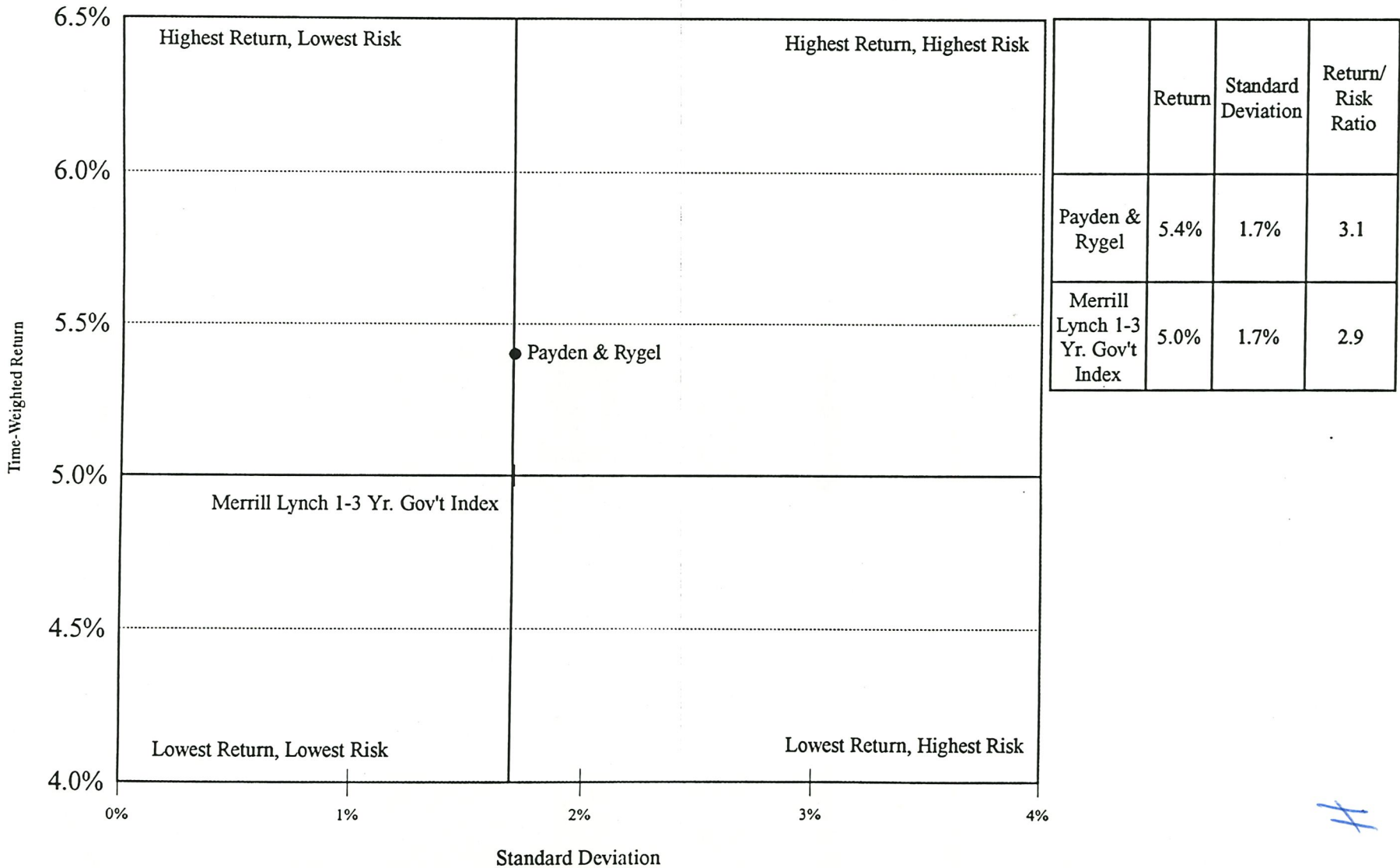
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KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

Cash Equivalents Manager, Risk Adjusted Return

For The Latest 3 Years Ending October 31, 1994



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Kansas Public Employees Retirement System

MEMORANDUM

TO: Members, Board of Trustees

FROM: Scott Peppard, Investment Analyst

DATE: December 2, 1994

RE: Derivative Use in the KPER Portfolio

EXECUTIVE SUMMARY:

During October, the portfolio's currency exposure decreased slightly, as 80.1% of the System's total assets were either denominated in U.S. dollars or were hedged back into the U.S. dollar. Most of the international managers experienced some change in the currency hedges that were in place at the end of September. The most significant event was the inception of the currency overlay program for the System's passive international equity portfolio.

The System's exposure to futures was increased by \$14.3 million, as PIMCO added to their Treasury note futures positions. At October 31st, the System's exposure to futures had increased to 2.1% of the total assets, up from 1.8% at the end of September. There was no option activity during the month, or outstanding option exposure at the end of October. There were no changes in the System's investments in non-traditional derivative securities during the month.

On pages four through six you will find the regular monthly reports which summarize the October activity for the System's foreign currency, futures, and option contracts.

The first report shows the currency exposure in the international portfolios as of October 31, 1994, and the changes that took place during the month. Two of the managers, Alliance and Nomura, had no outstanding contracts at either month end. Lazard maintained their hedges on three European currencies (the French franc, German mark, and Swedish krona). Their Spanish peseta exposure, which was previously nearly 47% hedged, was removed. At month end, Lazard had reduced their currency exposure hedge to 9% of the portfolio from 12%. The next manager, Morgan Stanley, maintained their 34% French franc hedge and their 80% Japanese yen hedge. Also, Morgan Stanley reduced their overhedged

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Spanish peseta position back to a 96% hedged position. At October 31st, nearly 39% of their portfolio was hedged, down from nearly 41% at September 30th. During October Julius Baer experienced a relatively small amount of currency activity given their active style of currency management. For the month Julius Baer closed their 85% Australian dollar/U.S. Dollar hedge, and opened a 74% Australian dollar/Japanese yen cross hedge, leaving them overexposed to the yen. At month end, Julius Baer had no exposure to the U.S. dollar, this is down from a dollar exposure position of 7% at the end of September.

October was the first month that Pareto Partners provided currency overlay services for the passive international equity portfolio managed by Bankers Trust. To begin the program Pareto went to a 50% hedged position on all of the currency exposures in the portfolio. This was done to bring the portfolio's exposure in line with the benchmark's exposure (50% hedged/50% unhedged). Pareto's methodology involves the creation of a "currency exposure basket" which replicates the exposure of the twenty foreign currencies in the portfolio by using six major foreign currencies. For this portfolio, the "gross exposure" on the Forward Contract Summary report (found on page four) refers to the exposure of the underlying assets to these major currencies. These approximately reflect the trading basket exposure. Once at this point, Pareto began their hedging strategy. At month end the currency exposure of the underlying assets were hedged as follows: Australian dollar, 44%; French franc, 14%; German mark, 40%; Japanese yen, 24%, Swiss franc, 17%; and the British pound 7%. Overall, about 20% of the currency exposure in the passive portfolio was hedged.

At the total international portfolio level, the System's overall net currency exposure was 10.5% hedged at month end, up from 7.0% hedged at September 30th. This increase is directly attributable to Pareto's activity.

The second report deals with the System's exposure to futures contracts. PIMCO continues to maintain their strategy of holding cash equivalents while gaining exposure to U.S. Treasury Bonds and Notes through their futures positions. During the month PIMCO opened 150 December 1994 T-note contracts. This increased their futures position as a percent of their portfolio by about 2.9%. At month end, PIMCO held 140 long U.S. T-Bond contracts and 978 long U.S. T-Note contracts. As of October 31st, futures positions comprised approximately 22.6% of their total portfolio, and 2.1% of the System's total assets.

At month end PIMCO's futures exposure totaled \$112,209,938. Their cash equivalents, as defined by the Statement of Investment Policy, Objectives, and Guidelines, totaled \$130,242,035, which covers the futures contract exposure by 116%.

The third report shows that there was no option activity during the month, and that there were no option contracts open at month end.

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Two of the managers continue to hold non-traditional types of derivatives. PIMCO continues to hold one "interest only" mortgage security that makes up .16% of their portfolio. Also, The Boston Company continues to hold two inverse floating rate mortgage securities, which make up 2.4% of their portfolio. These two types of derivatives are explained in further detail in the derivative reports provided by the managers.

In addition to the derivative summary reports, you will find the October forward exchange and futures reports provided by Mellon Trust. Please note that a Currency Exposure Summary for the Bankers Trust/Pareto Partners portfolio has been added. The reports that include Pareto have been manually corrected to adjust for a duplicate forward contract that was booked by Mellon Trust. Also, you will find the reports from the investment managers that currently employ derivative strategies in the management of the System's assets. An item that you may find of particular interest is the market review section of the Pareto report, which summarizes the events that had an impact on the currency markets during the month.

The October derivative activity resulted in an increase in the System's use of derivatives. The increase was the result of the implementation of the currency overlay program and PIMCO's increased use of futures contracts. Please let me know if you have any questions regarding the Pareto reports. And as always, your suggestions on how this material can better meet your needs are welcomed.

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

PREVIOUS MONTH: SEPT. 30, 1994

CURRENT MONTH: OCT. 31, 1994

DOLLAR CHANGE		PERC
GROSS EXPOSURE	DOLLAR HEDGE	HEDGE CHANGE

FORWARD CONTRACTS

ALLIANCE

NO OPEN FORWARD CONTRACTS

BANKERS TRUST WITH PARETO PARTNERS*

	GROSS EXPOSURE	HEDGE	PERCENT HEDGE
AUSTRALIAN DOLLAR	9,288,804	0	0.0%
FRENCH FRANC	20,422,192	0	0.0%
GERMAN MARK	20,989,083	0	0.0%
JAPANESE YEN	145,428,600	0	0.0%
SWISS FRANC	14,045,726	0	0.0%
UK POUND	<u>56,369,622</u>	<u>0</u>	<u>0.0%</u>
TOTAL PORTFOLIO	337,641,098	0	0.0%

	GROSS EXPOSURE	HEDGE	PERCENT HEDGE
AUSTRALIAN DOLLAR	10,475,411	(4,614,323)	44.0%
FRENCH FRANC	27,934,430	(3,884,901)	13.9%
GERMAN MARK	52,377,057	(20,930,792)	40.0%
JAPANESE YEN	143,163,956	(34,249,074)	23.9%
SWISS FRANC	13,967,215	(2,407,907)	17.2%
UK POUND	<u>73,327,880</u>	<u>(4,976,041)</u>	<u>6.8%</u>
TOTAL PORTFOLIO	349,180,380	(71,063,038)	20.4%

1,186,607	(4,614,323)	44.0%
7,512,238	(3,884,901)	13.9%
31,387,974	(20,930,792)	40.0%
(2,264,644)	(34,249,074)	23.9%
(78,511)	(2,407,907)	17.2%
16,958,258	(4,976,041)	<u>6.8%</u>
		20.4%

LAZARD

FRENCH FRANC	7,731,883	(5,522,826)	71.4%
GERMAN MARK	9,249,652	(5,719,418)	61.8%
SPANISH PESETA	2,775,451	(1,301,208)	46.9%
SWEDISH KRONA	<u>3,935,006</u>	<u>(1,348,628)</u>	<u>34.3%</u>
TOTAL PORTFOLIO	117,815,348	(13,892,080)	11.8%

7,843,181	(4,919,576)	62.7%
8,559,571	(4,936,409)	57.7%
2,892,273	0	0.0%
<u>4,404,481</u>	<u>(1,246,305)</u>	<u>28.3%</u>
120,514,648	(11,102,290)	9.2%

111,298	603,250	-8.7%
(690,081)	783,010	-4.2%
116,822	1,301,208	-46.9%
469,476	102,323	<u>-6.0%</u>
		-2.6%

MORGAN STANLEY

FRENCH FRANC	12,398,304	(4,249,293)	34.3%
JAPANESE YEN	40,224,135	(32,586,594)	81.0%
SPANISH PESETA	<u>8,060,354</u>	<u>(9,796,600)</u>	<u>121.5%</u>
TOTAL PORTFOLIO	115,116,868	(46,632,487)	40.5%

12,836,970	(4,372,817)	34.1%
41,633,684	(33,212,848)	79.8%
<u>8,287,988</u>	<u>(7,962,210)</u>	<u>96.1%</u>
117,637,796	(45,547,875)	38.7%

438,665	(123,524)	-0.2%
1,409,550	(626,254)	-1.2%
227,633	1,834,390	<u>-25.5%</u>
		-1.8%

NOMURA

NO OPEN FORWARD CONTRACTS

JULIUS BAER

AUSTRALIAN DOLLAR	26,194,805	(22,377,902)	85.4%
JAPANESE YEN	<u>47,249,462</u>	<u>0</u>	<u>0.0%</u>
TOTAL PORTFOLIO	320,262,638	(22,377,902)	7.0%

30,379,658	(22,436,897)	73.9%
<u>47,743,799</u>	<u>22,276,686</u>	<u>-46.7%</u>
329,886,699	(160,211)	0.0%

4,184,854	(58,994)	-11.6%
494,337	22,276,686	<u>-46.7%</u>
		-6.9%

CONSOLIDATION

AUSTRALIAN DOLLAR	64,038,820	(22,377,902)	34.9%
FRENCH FRANC	73,716,933	(9,772,119)	13.3%
GERMAN MARK	104,028,465	(5,719,418)	5.5%
JAPANESE YEN	349,634,431	(32,586,594)	9.3%
SPANISH PESETA	26,367,724	(11,097,808)	42.1%
SWEDISH KRONA	25,011,492	(1,348,628)	5.4%
SWISS FRANC	28,709,783	0	0.0%
UK POUND	<u>190,791,687</u>	<u>0</u>	<u>0.0%</u>
TOTAL PORTFOLIO	1,181,806,357	(82,902,469)	7.0%

69,242,746	(27,051,220)	39.1%
81,853,938	(13,177,294)	16.1%
104,574,073	(25,867,201)	24.7%
357,779,210	(45,185,236)	12.6%
40,565,042	(7,962,210)	19.6%
21,723,638	(1,246,305)	5.7%
31,613,147	(2,407,907)	7.6%
<u>200,442,351</u>	<u>(4,976,041)</u>	<u>2.5%</u>
1,217,237,136	(127,873,413)	10.5%

5,203,926	(4,673,317)	4.1%
8,137,005	(3,405,175)	2.8%
8,137,005	(3,405,175)	19.2%
545,608	(20,147,782)	3.3%
8,144,780	(12,598,642)	-22.5%
14,197,318	3,135,598	0.3%
(3,287,854)	102,323	7.6%
9,650,664	(4,976,041)	2.5%
		3.5%

*The gross exposure represents the portfolio's underlying exposure to these major currencies.

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

Long/Short Contracts Exposure Action

FUTURES CONTRACTS

PIMCO

CONTRACTS OPEN AT SEPTEMBER 30, 1994

U.S T-NOTE (10 YR) FUTURES	DEC 94	LONG	828	84,016,125	
U.S T-BOND FUTURES	DEC 94	LONG	140	<u>13,851,250</u>	
TOTAL EXPOSURE					97,867,375

CONTRACTS CLOSED DURING OCTOBER 1994

CONTRACTS OPENED DURING OCTOBER 1994

U.S T-NOTE (10 YR) FUTURES	DEC 94	LONG	150		OPENING PURCHASE
----------------------------	--------	------	-----	--	------------------

CONTRACTS OPEN AT OCTOBER 31, 1994

U.S T-NOTE (10 YR) FUTURES	DEC 94	LONG	978	98,441,813	
U.S T-BOND FUTURES	DEC 94	LONG	140	<u>13,768,125</u>	
TOTAL EXPOSURE					112,209,938

CHANGE IN EXPOSURE	<u>\$14,342,563</u>
--------------------	---------------------

CHANGE AS A PERCENT OF PIMCO'S PORTFOLIO	2.9%
CHANGE AS A PERCENT OF THE TOTAL PORTFOLIO	0.3%

CASH AND CASH EQUIVALENTS HELD BY THE MANAGER	130,242,035
CASH/CASH EQUIVALENTS COVERAGE RATIO	116.1%

ACCRUED INTEREST AT PERIOD END	6,418,348
NET SECURITIES SOLD/PURCHASED	106,936
	121.9%

87-1

H

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

OPTIONS CONTRACTS

Strike

Contracts

Cost

Market Value

Action

PIMCO

NO CONTRACTS WERE OPEN AT SEPTEMBER 30, 1994

NO CONTRACTS WERE CLOSED DURING OCTOBER 1994

NO CONTRACTS WERE OPENED DURING OCTOBER 1994

NO CONTRACTS WERE OPEN AT OCTOBER 31, 1994

644-1

H



Kansas Public Employees Retirement System

J

MEMORANDUM

TO: Members, Board of Trustees

FROM: Scott Peppard, Investment Analyst

DATE: December 2, 1994

RE: Brokerage Commission Recapture Program

During the first four months of the 1995 fiscal year, the Brokerage Commission Recapture Program has earned \$75,645.10 for the System. During October, the participating investment managers incurred 46% of the total commissions paid, unchanged from September. For the month, both the participating and the non-participating managers experienced a decrease in their commission expenses. The commissions of the participating managers declined by 15%, while the commissions of the non-participating managers dropped 17%. During the month of October, the participating managers experienced a combined recapture rate of 34.2%.

Below, you will find an activity summary for the month of October.

<u>Investment Manager</u>	<u>Lynch, Jones & Ryan</u>		<u>Capital Institutional Services</u>	
	<u>October</u>	<u>Fiscal Year To Date</u>	<u>October</u>	<u>Fiscal Year To Date</u>
Brinson Partners	\$13,560.00	\$52,720.00	\$375.00	\$755.00
Pilgrim, Baxter & Associates	13,470.00	51,312.00	0.00	0.00
Provident Investment Counsel	6,000.00	6,000.00	0.00	5,700.00
Capital Guardian Trust Company	0.00	0.00	0.00	0.00
Total Directed Commissions	\$33,030.00	\$110,032.00	\$375.00	\$6,455.00
Total Amount Recaptured	\$21,448.05	\$71,449.35	\$243.75	\$4,195.75

During the first four months of the 1995 fiscal year, Pilgrim, Baxter has incurred 38% of the commissions paid by the participating managers, of which 30.5%, was directed for recapture. Trades executed by Provident made up 30% of this group's commission expense, while 8.7% was recaptured. Brinson accounted for 28% of the total commissions eligible for recapture. Of this amount, 42.7% was directed to a designated broker for recapture. Capital Guardian's trades provided 4% of the total, with no trades being directed for recapture. The participating managers' recapture rate continues to improve. The recapture rate for the first four months of the 1995 fiscal year is 26.2%, which is moving towards the System's 35% target.

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KPERS LITIGATION GROUP

PROGRESS REPORT

AS OF JANUARY 4, 1995

1-51

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I. Home Savings, Case No. 92-0922-CV-W-2, Western District of Missouri

A. **Date Filed:** June 5, 1991

B. **Current Petition:** Fifth Amended Complaint

C. **Current Defendants:** Reimer & Koger Associates, Inc.; Kenneth H. Koger; Ronald Reimer; Clifford W. Shinski; Brent Messick; Robert Crew; Thomas S. Morgan and Marilyn J. Feingold, as co-executors of the estate of Frank Morgan, deceased; Sherman Dreiseszun; Leland Gerhart; I.I. Ozar; Raymond Gifford; Harry S. Jonas; Isabel A. Keine, as executrix of the estate of Ralph E. Keine, deceased; Randall M. Nay; Frank Sebree; Tony Salazar; Phillip M. Pistilli; Michael K. Russell; Gage & Tucker; KPMG Peat Marwick; and Robert Spence

D. **Status:** All defendants except Russell have answered the Fifth Amended Complaint. Testimonial discovery has commenced. Hearings to discuss any matter a party wants taken up are set for January 20, March 3, and March 29, 1995. The hearing on the Gage & Tucker settlement is set for the March 3 hearing. Trial is set for January 22, 1996.

E. **Recent Developments:** On December 5, 1994, KPERS served supplemental answers to Peat Marwick's first set of interrogatories and requests for production of documents. Marshall Crowther's deposition was taken on December 6, 7, 8, 14 and 15 and is set to resume on January 31, 1995.

On December 12, Peat Marwick answered KPERS' second requests for production of documents and Leland Gerhart responded to KPERS' requests for admissions. R&K responded to KPERS' requests for admissions on December 14. The same day, the Morgan Defendants filed a hearing memorandum regarding the KPERS' motion to disqualify Lewis, Rice & Fingersh. KPERS filed hearing briefs in support of its motions to disqualify Lewis, Rice & Fingersh and Bryan Cave on December 15.

On December 12, Boatmen's filed a civil action against KPERS in the Western District of Missouri seeking a declaratory judgment that it is not liable to KPERS and a motion for temporary restraining order and preliminary injunction. In the main case, Boatmen's filed a motion for stay of proceedings on its motion to intervene. On December 28, KPERS filed a response to the motion for stay.

On December 16, the Court conducted a hearing where it denied the motion to disqualify Lewis, Rice & Fingersh, and motion for protective order and to bar misuse of confidential information, denied KPERS' motion for protective order regarding the deposition of Randy Tongier and denied the Morgan Defendants' motion to quash regarding the production of OTS documents.

1-52

K

The same day, in a hearing before Judge Whipple, the Court denied KPERS' motion to disqualify Bryan Cave and granted Boatmen's motion for preliminary injunction, enjoining KPERS from filing an action against Boatmen's in any other forum.

On December 29, Judge Whipple entered an order granting the petition to intervene filed by Shook Hardy, denying the petition to intervene filed by Blackwell Sanders and staying the motion to intervene filed by Boatmen's. Because Shook Hardy was allowed to intervene, the Court further ordered that KPERS file a Sixth Amended Complaint adding claims against Shook Hardy within 12 days.

On December 30, the R&K Defendants, the Morgan Defendants and Boatmen's each filed objections to the motion to approve the Gage & Tucker settlement.

K

II. Christopher Steel, Case No. 92 CV 433, Shawnee County

A. **Date Filed:** March 30, 1992

B. **Current Petition:** Second Amended Petition

C. **Current Defendants:** Peters, Gamm & West, Inc.; Donald S. Peters; Gary L. Gamm; Richard L. West; Ivan West; John Jaedicke; Jay Swanson; Bank IV Wichita, National Association; Chuck Henry and Associates, Inc.; Chuck Henry; Triplett, Woolf & Garretson; and Depew and Gillen

D. **Status:** All defendants except Jaedicke and Swanson have answered the Second Amended petition. Testimonial discovery has commenced. The Court has set a status conference for January 6, 1995, at which time KPERS is required to file a revised pretrial questionnaire which identifies various information regarding KPERS' expected expert testimony. No trial dates or other significant deadlines have been set.

E. **Recent Developments:** On December 1, 1994, KPERS served a notice of deposition to obtain the documents of Foulston & Seifkin, and served a subpoena regarding the same on December 6. On December 12, KPERS filed motions for order authorizing out-of-state depositions and issuance of a commissions for Glass & Associates and George Vorhees, consultants who had reviewed Christopher Steel. On December 13, KPERS served a notice of deposition to obtain the documents of Glass & Associates in Ohio, and a notice of deposition to take the deposition of Vorhees on January 18, 1995, in Kentucky. On December 27, KPERS filed a motion to compel production against Triplett Woolf. On January 3, 1995, KPERS filed its third preliminary pretrial questionnaire.

K

III. Affinity, Case No. 92 CV 433A, Shawnee County

A. **Date Filed:** March 30, 1992

B. **Current Petition:** Petition

C. **Current Defendants:** Robert D. Ward; White Eagle Investments; Carol Ward; Soft-Tek International, Inc.; Peters, Gamm & West, Inc.; Donald S. Peters; Gary L. Gamm; Richard L. West; and Ivan West

D. **Status:** All defendants have answered and written discovery has commenced. The Court has set various deadlines, as follows:

1. Deposition of all fact witnesses shall be completed by December 1, 1994;

2. KPERS shall disclose all expert witnesses which it intends to call at trial and provide defendants with their reports or opinions by January 6, 1995;

3. Defendants shall complete their depositions of KPERS' experts by February 6, 1995;

4. Defendants shall disclose all expert witnesses which they intend to call at trial and provide KPERS with their reports or opinions by February 6, 1995;

5. KPERS shall complete its depositions of defendants' experts by April 6, 1995; and

6. The Court will set a final pretrial conference during May, 1995. On or before the date set the parties shall prepare, serve and file an updated Pretrial Questionnaire.

No trial dates or other significant deadlines have been set.

E. **Recent Developments:** No activity.

1-55

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IV. Sharoff Food Service, Case No. 92 CV 805, Shawnee County

A. **Date Filed:** June 16, 1992

B. **Current Petition:** Petition

C. **Current Defendants:** Cohen, Brame & Smith, P. C.; Roger C. Cohen; Reimer & Koger Associates, Inc.; Kenneth H. Koger; Edward B. Hart; Brent A. Messick; and Gage & Tucker

D. **Status:** All defendants have answered the petition and testimonial discovery has commenced. The Court has set a status conference for January 6, 1995. A hearing on the settlement with Gage & Tucker is set for February 9, 1995. No trial dates or other significant deadlines have been set.

E. **Recent Developments:** No activity.

K

V. KPERS v. Fox, Adversary No. 92-2117 CEM, District of Colorado

A. **Date Filed:** September 4, 1992

B. **Current Petition:** Complaint

C. **Current Defendant:** Garry J. Fox

D. **Status:** This case is an adversary proceeding in bankruptcy court. Fox has answered the Complaint and we have served our first set of written discovery on him. This case has been ordered stayed and administratively closed pending resolution of Kansas Sharoff case, Case No. 92 CV 805.

E. **Recent Developments:** No activity.

K

VI. Hydrogen Energy, Case No. 92 CV 923, Shawnee County

A. **Date Filed:** July 9, 1992

B. **Current Petition:** Second Amended Petition

C. **Current Defendants:** Richard Byrd; Donald Clark; Larry Cory; S. Wayne Floyd; Jean Noel, Jr.; Douglas Westerhaus; Reimer & Koger Associates, Inc.; Kenneth H. Koger; Brent A. Messick; Lewis Rice & Fingersh Defendants; Shook, Hardy & Bacon Defendants; and Watson, Ess, Marshall & Enggas Defendants

D. **Status:** None of the defendants have answered the second amended petition because it was only recently filed. Testimonial discovery has commenced. The Court has set a status conference for January 6, 1995, at which time the parties are to file pretrial questionnaires which include a list of remaining depositions and proposed deadlines for naming experts. No trial dates or other significant deadlines have been set.

E. **Recent Developments:** On December 9, 1994, KPERS filed a response Byrd, Clark, Cory and Floyd's motion for reconsideration or extension of time to comply with the Court's discovery order regarding their production of documents. On December 15, the Court granted KPERS' motion for leave to file the Second Amended Petition. That petition was filed on December 22.

1-58

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VII. CTP-IV, Case No. 93 CV 375, Shawnee County

A. **Date Filed:** April 2, 1993

B. **Current Petition:** Petition

C. **Current Defendants:** Callan Associates, Inc.; Ronald D. Peyton; Reimer & Koger Associates, Inc.; and Kenneth Koger

D. **Status:** All defendants have answered the petition and written discovery has commenced. The Court has set deadlines, as follows:

1. Status conference on January 6, 1995;
2. Written discovery cutoff of January 6, 1995;
3. Additional parties to be added by January 6, 1995; and
4. Proposed scheduling order to be filed on or before January 6, 1995, indicating the date for completion of discovery and filing of dispositive motions.

No trial dates or other significant deadlines have been set.

E. **Recent Developments:** On December 23, 1994, KPERS served its second set of interrogatories and requests for production of documents on the Callan Defendants. Also on that date, KPERS filed a motion to extend the deadline date to add additional parties until March 31, 1995.

1-59

VIII. Emblem Graphics, Case No. 93 CV 389, Shawnee County

A. **Date Filed:** April 7, 1993

B. **Current Petition:** Petition

C. **Current Defendants:** Michael K. Russell; Frank L. Victor; George K. Baum & Company; George Kenneth Baum; William D. Thomas; Linde, Thomson, Langworthy, Kohn and Van Dyke, P.C.; Thomas W. Van Dyke; Blackwell, Sanders, Matheny, Weary & Lombardi; Reimer & Koger Associates, Inc.; and Kenneth H. Koger

D. **Status:** All defendants have answered the petition and written discovery has commenced. The Court has set deadlines, as follows:

1. Status conference on January 6, 1995;
2. Written discovery cutoff of January 6, 1995; and
3. Proposed scheduling order to be filed on or before January 6, 1995, indicating the date for completion of discovery and filing of dispositive motions.

No trial dates or other significant deadlines have been set.

E. **Recent Developments:** On December 9, 1994, KPERS served its supplemental answers to Blackwell Sander's first set of interrogatories. On December 20, KPERS issued a notice to take deposition duces tecum and filed an application for the issuance of a subpoena in Missouri to obtain the documents of Jerry Haney, a former director of Emblem; issued a notice to take deposition duces tecum and filed an application for the issuance of a subpoena in Missouri to obtain the documents of Merchant's Bank from Boatmen's; and issued a notice to take deposition duces tecum to obtain the documents of Tom Olofson, a former director of Emblem. On December 22, KPERS filed praecipes for business records subpoenas to obtain the documents of Shugart, Thomson & Kilroy, Ernst & Young and Peat Marwick. On December 30, KPERS filed a motion for entry of proposed scheduling order.

IX. Tallgrass, Case No. 93 CV 588, Shawnee County

A. **Date Filed:** May 20, 1993

B. **Current Petition:** Petition

C. **Current Defendants:** Reimer & Koger Associates, Inc.; Kenneth H. Koger; Brent A. Messick

D. **Status:** All defendants have answered the petition and written discovery has commenced. A hearing on the settlement with Gage & Tucker is set for February 9, 1995. The Court has set deadlines, as follows:

1. Status conference on January 6, 1995;
2. Written discovery cutoff of January 6, 1995; and
3. Proposed scheduling order to be filed on or before January 6, 1995, indicating the date for completion of discovery and filing of dispositive motions.

No trial dates or other significant deadlines have been set.

E. **Recent Developments:** On December 2, 1994, KPERS filed a reply to R&K's memorandum in opposition to KPERS' motion for a protective order. On December 5, KPERS served supplemental answers to R&K's first set of interrogatories and requests for production of documents. On December 30, R&K filed a motion for leave to assert cross-claim against Gage & Tucker. Also that day, the R&K Defendants filed an objection to the motion to approve the Gage & Tucker settlement.

K

X. Mobile Traveler, Case No. 93 CV 787, Shawnee County

A. **Date Filed:** July 7, 1993

B. **Current Petition:** Petition

C. **Current Defendants:** Norman Allen; Reimer & Koger Associates, Inc.; Christopher Diebel; Kenneth H. Koger; Linde, Thomson, Langworthy, Kohn and Van Dyke, P.C.

D. **Status:** Except for Norman Allen, who has not been served, all defendants have answered the petition. Written discovery has commenced. The Court has set deadlines, as follows:

1. Status conference on January 6, 1995;
2. Written discovery cutoff of January 6, 1995;
3. Additional parties to be added by January 6, 1995; and
4. Proposed scheduling order to be filed on or before January 6, 1995, indicating the date for completion of discovery and filing of dispositive motions.

No trial dates or other significant deadlines have been set.

E. **Recent Developments:** On December 30, 1994, KPERS filed a motion requesting additional time to add additional defendants until April 7, 1995.

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XI. Other investments

In addition to the foregoing filed cases, the KPERS Board of Trustees has approved litigation, which has not yet been filed, in connection with the following KPERS investments:

- A. Emporia Motor Freight
- B. Sheplers
- C. Merchandise Mart

1995 LEGISLATIVE ISSUES

INVESTMENT RELATED

- **Bank-free investing mandate.** Remove restrictions on investing in publicly traded equity in any "banking institution, savings and loan association or credit union which positions the system as a shareholder or owner of such banking institution, savings and loan association or credit union." See K.S.A. 74-4921(5)(d). See also Kansas Constitution, Article 13, sec 2: "State not to be stockholder. The state shall not be a stockholder in any banking institution." *History: Originally adopted by convention as [section] 5, July 29, 1859; ratified by electors, Oct. 4, 1859; L. 1861, p. 64; renumbered by revision as [section] 2, L. 1980, ch. 356; Nov. 4, 1980.* (Changing the statute would first require passage of constitutional amendment by two-thirds majority of both houses of the Legislature and ratification by simple majority of voters.)
- **Real estate.** Provide that for separate-account interests in real property held on July 1, 1992, the Board may make additional investments as it deems prudent and necessary to preserve or optimize the value of such interests.

BENEFIT RELATED

- **Correctional employees' disabilities - Tier II.** For correctional employees, provide that for any new disability occurring on or after July 1, 1995, such disability is covered by Tier II benefits. (This change was inadvertently omitted when similar changes made for KP&F; it generally is intended that correctional employees in KPERs be treated similarly to KP&F members.)
- **Correctional employees' disabilities - Social Security offset.** Provide that the Social Security offset applicable to correctional employees' disability benefits is calculated one time only; thereafter, subsequent increases in Social Security will not result in further decreases in disability benefit. Provide that all Social Security offsets in force on effective date be recalculated to the initial award level. (Conforms treatment of correctional employees to that of other similarly situated members.)
- **Spousal consent for vested member withdrawals.** Provide for spousal consent in situation where vested member applies for withdrawal of contributions.
- **Federal compensation limits.** Incorporate by reference the Internal Revenue Code § 401(a)(17) limits on pensionable compensation. Such a change will grandfather in, for current employees, the compensation limits that were in effect under KPERs on July 1, 1993. That is, current employees will not have a limit on pensionable compensation. Failing to do this would mean that current

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employees as well as new hires after July 1, 1996 will be under the § 401(a)(17) compensation limit of \$150,000 (indexed).

- **Service credit at actuarial cost.** Provide that KPERS service credit purchases by double and triple deduction are based on actuarial calculation rather than current salary. Thus, for example, double withholding to purchase one year of service credit may last significantly longer than one year. This conforms KPERS with Study Commission's recommendation for KP&F service purchases. Make applicable to all future buys after effective date.
- **Retirement from two systems.** Provide that dual-system members must retire from both systems if the credit from both systems is needed to establish eligibility for retirement.

TECHNICAL CORRECTIONS

- **Definitions section.** Expand reference to statutory sections covered by definitions in K.S.A. 74-4902 to include all sections of retirement act. Current law implies that a number of later-added sections to the retirement act are not covered by the definitions section; leads to confusion and ambiguity.
- **Retirant death benefit payable to beneficiary.** Provide that the \$4,000 retirant death benefit is payable to the member's beneficiary. (Current law at K.S.A. 74-4989 is silent as to who receives benefit; Attorney General opined that it must go to retirant's estate.)
- **Retirant death benefit payable to beneficiary, who may assign it to funeral home.** Correct K.S.A. 74-4923(b) where mistake was created by misprint in 1994 session laws. Section now provides that the retirant death benefit is "payable to a *retirant*" and can be assigned to a funeral home "30 days after the death of a *retirant's beneficiary*." It was intended that this section provide that the death benefit, payable to a retirant's beneficiary, can be assigned to a funeral home 30 days after the death of retirant.
- **KP&F membership protection period.** Make KP&F membership protection period after termination of covered employment equal to the five-year protection period for KPERS members. Currently, it is two years. Under the membership protection provisions, KPERS continues to pay interest on sums in a member's accumulated contributions account for the stated period after termination of covered employment if member does not withdraw. Administratively, this equal treatment between KPERS and KP&F members is already being practiced; failure to get the statutory change enacted previously was an oversight.
- **Spousal consent at retirement, clarification.** Correct 1994 spousal consent legislation, which currently provides: "If a member selects or will receive a retirement benefit or annuity which would provide for a life-time payment to a joint annuitant which is less than the payment that the joint annuitant would receive under the joint and 1/2 to joint annuitant survivor option . . . etc." Instead, to accomplish the legislative purpose in enacting it, this provision should provide: "If a member

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who is married at the time of retirement selects or will receive a retirement benefit or annuity which would provide to his or her spouse upon the member's death no monthly payments or a monthly payment which is less than the payment that the spouse would receive as a joint annuitant under the joint and 1/2 to joint annuitant survivor option . . . etc."

- **Emergency Medical Technician - definition.** Current KP&F law at K.S.A. 74-4954a defines Emergency Medical Technicians (and makes persons so defined members of KP&F) by incorporating the definition of this type of employee as codified at K.S.A. 65-4314, which section has since been repealed. Change reference in KP&F statute so that it refers to the statute where the definition of EMT is currently codified.

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Kansas Public Employees Retirement System

M

December 28, 1994

Representative Robin Jennison, Chairperson
House Appropriations Committee
Route 1 Box 132
Healy KS 67850

Dear Representative Jennison:

The KPERS Board of Trustees has received, reviewed, and accepted the June 30, 1994 Actuarial Valuation Report for the Kansas Public Employees Retirement System. The valuation establishes actuarial employer contribution rates and recommended employer contribution rates for the several groups of covered employers as summarized in the table below. All employer contribution rates are expressed as a percentage of payroll and are applicable to State fiscal year 1997 and local fiscal years beginning in 1996.

<u>Employer Contribution Rates</u> Fiscal Year 1997			
<u>System</u>	<u>Actuarial</u>	<u>Recommended</u>	<u>Diff.</u>
State/School	5.17%	3.49% ^{1/2/}	1.68%
Local	3.72	2.48 ^{1/2/}	1.24
Correctional Employees-NRA 60	5.47	3.79 ^{1/2/}	1.68
Correctional Employees-NRA 55	6.27	4.59 ^{1/2/}	1.68
TIAA	1.89	1.89	0.00
Police & Fire-Uniform Rate ^{3/}	9.65	9.65	0.00
Judges	16.00	16.00	0.00
Weighted Average	5.15	3.57	1.58

^{1/} Rates, by statute, are allowed to increase by a maximum of 0.1% per year.
^{2/} The KPERS recommended rates have also been increased for the cost of the July 1, 1994 COLA (0.09% for State/School and 0.08% for Local).
^{3/} For KP&F, the recommended contribution rate is equal to the "Uniform" rate plus the payment required to amortize the unfunded past service liability determined separately for each employer.

On a weighted average basis, the actuarial employer contribution rates increase just over 25 percent from current levels, with significantly larger increases in the actuarial employer contribution rates for Police & Fire members and Judges. The recommended employer contribution rates, again on a weighted average basis, increase 11 percent. The recommended "Uniform Rate" employer contribution for Police and Fire members increases 39 percent and the recommended Judges employer contribution rate increases 55 percent.

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The large increases in the actuarial and recommended employer contribution rates reflect an unexpectedly large increase in the Retirement System's unfunded actuarial liability. The current valuation establishes the unfunded actuarial liability at \$1.505 billion, an increase of \$537 million or 56 percent over the level of the previous year's unfunded actuarial liability.

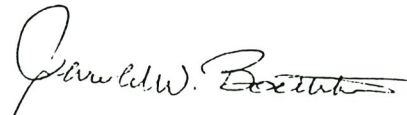
Some increase in the Retirement System's unfunded actuarial liability was expected. Specifically those costs associated with the cost-of-living adjustment provided all retired members on July 1, 1994 were correctly anticipated. Additionally and as anticipated, the gradual, capped escalation in KPERS employer contribution rates, as provided in 1993 House Bill No. 2211, also resulted in a shortfall between the actuarial and recommended levels of these rates. The largest portion of the remaining increase consists of previously understated liabilities for (1) the 1993 cost-of-living adjustment; (2) the 4,000 members who left covered employment, withdrew their contributions, and subsequently returned to covered employment; and (3) the 43 percent increase in the number of members retiring in fiscal year 1994.

The Board of Trustees is concerned that the Retirement System's unfunded liability not be allowed to grow out of control. Current Kansas law provides that the unfunded actuarial liability will be amortized over the next 38 1/2 years. Unfortunately, this sound public policy may now be subverted by one of the funding provisions of 1993 House Bill No. 2211: the capped, incremental increase in KPERS' employer contribution rates. As originally envisioned, the 1993 benefit enhancements were to be funded by increases in employer contribution rates until those rates, rising at no more than one tenth of one percent of covered payroll per year, reached the level necessary to fully amortize the unfunded liability within the designated timeframe.

Given the large increase in unfunded actuarial liabilities, the recommended KPERS employer contribution rates for fiscal years beginning in 1996 will trail the actuarial rates by 1.58 percent of covered payroll, almost twice the differential in the same rates for the previous fiscal year. In order to implement the intent of the 1993 legislation and to ensure the fiscal health and actuarial soundness of the Retirement System, it is absolutely essential that this differential narrow over time. Under the current cap, the unfunded liability will increase each year with the rise only partly offset in periods experiencing favorable investment returns. Furthermore, there have been and will be years when the total return on the fund(s) is less than the actuarial rate of eight percent. In those periods, the unfunded liability will increase. Given the information that was available at the time, the 1993 cap on employer contribution rate increases was fiscally responsible. Today's new information on the Retirement System's unfunded actuarial liability suggests that the cap issue be revisited.

On behalf of the Board of Trustees, I appreciate your careful attention to this very important matter. The Board, its staff, and the Retirement System's actuary will be available to assist you in your consideration.

Yours truly,



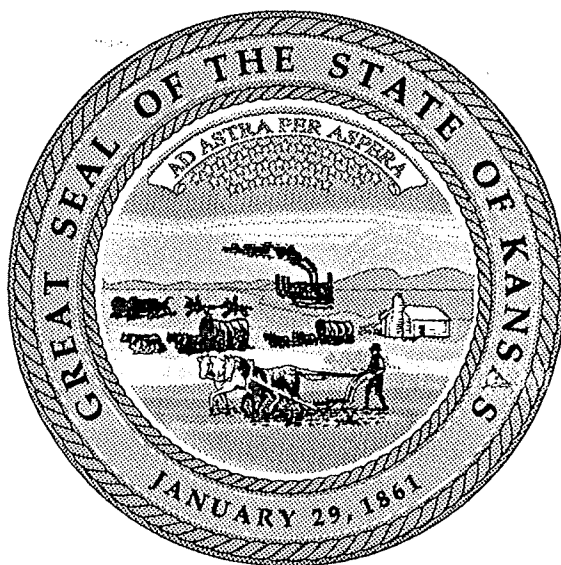
Harold W. Boettcher, Chairperson
Board of Trustees

cc: Alan Conroy, Legislative Research Department
Julian Efirid, Legislative Research Department

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*Kansas Public Employees
Retirement System*



Valuation as of June 30, 1994



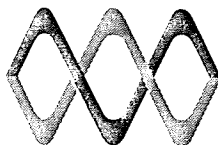
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**Kansas Public Employees Retirement Systems
Actuarial Valuation Report**

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MILLIMAN & ROBERTSON, INC.

Actuaries and Consultants

Suite 400
2445 M Street N.W.
Washington, D.C. 20037-1435
Telephone: 202/429-9760
Fax: 202/331-3387

December 14, 1994

Board of Trustees
Kansas Public Employees Retirement Systems
Capitol Tower - Suite 200
400 S.W. 8th Avenue
Topeka, KS 66063-3925

Dear Members of the Board:

At your request, we have conducted our annual valuation of the Kansas Public Employees Retirement Systems as of June 30, 1994. The results of the valuation are contained in the following report.

This valuation represents Milliman & Robertson's first valuation of the Kansas Public Employees Retirement Systems. The results of this valuation were significantly different than the prior year. The unfunded actuarial liability increased from \$968 million as of June 30, 1993 to \$1,505 million as of June 30, 1994.

The valuation report reflects the change in the asset valuation method adopted by the Board. To implement the new method, the actuarial value of assets has been set to the market value of assets as of June 30, 1994. In future years, the actuarial value of assets will be equal to the expected asset value based on the assumed interest rate plus $\frac{1}{3}$ of the difference between the actual market value and the expected asset value.

There has been only one change in plan features since the prior valuation. An ad hoc cost of living increase was granted to retirees and beneficiaries in July, 1994. This benefit increase is reflected in the results of our valuation.

In preparing our report, we relied, without audit, on the employee census data and financial statements provided by the System. The census data and financial statements provided to us have been reviewed for reasonableness and consistency.

Albany • Atlanta • Boston • Chicago • Cincinnati • Dallas • Denver • Hartford • Houston
Indianapolis • Irvine • Los Angeles • Milwaukee • Minneapolis • New York • Omaha • Philadelphia • Phoenix
Portland • St. Louis • Salt Lake City • San Diego • San Francisco • Seattle • Tokyo • Washington, D.C.

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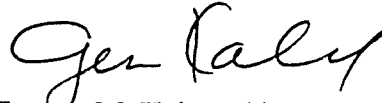
Board of Trustees
December 14, 1994
Page Two

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices that are consistent with the applicable Guides to Professional Conduct of the American Academy of Actuaries.

We hereby further certify that all costs, liabilities, rates of interest and other factors under the Plan have been determined on the basis of actuarial assumptions and methods which are in the aggregate reasonable (taking into account the experience of the Plan and reasonable expectations) and which, in combination, offer our best estimate of anticipated experience under the Plan. Nevertheless, the emerging costs will vary from those presented in this report to the extent actual experience differs from that projected by the actuarial assumptions.

Respectfully submitted,

MILLIMAN & ROBERTSON, INC.



Eugene M. Kalwarski, F.S.A.
Principal

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SECTION I
BOARD SUMMARY

OVERVIEW

This report presents the results of the June 30, 1994 actuarial valuations of the Kansas Public Employees' Retirement System (KPERs), the Kansas Police and Firemen's Retirement System (KP&F) and the Kansas Retirement System for Judges (Judges). The primary purposes of performing the valuations are to:

- determine the employer contribution rates required to fund each System on an actuarial basis,
- disclose asset and liability measures as of June 30, 1994, and
- analyze and report on trends in System contributions, assets, and liabilities over the past several years.

The valuation results provide a "snapshot" view of each System's financial condition on June 30, 1994. The results include the benefit increase to retirees (COLA) in July, 1994 and the change in the determination of the actuarial value of assets which was effective June 30, 1994. All other benefit provisions and assumptions were unchanged from the 1993 valuation.

This valuation represents Milliman & Robertson's first valuation of the Kansas Public Employees Retirement Systems. As such, we normally encounter differences that require reconciliation between our work and that of our predecessors. In this valuation, the differences were significant. A significant amount of time and effort was spent reconciling results. Most substantive differences were resolved. We have deferred to our predecessor for valuation techniques in all areas except those where we were convinced that our approach is preferable. It is important to note that the final result will not affect the near term funding of KPERs due to statutory limitations on increases in employer contribution rates. However, there are no such limitations on increases in contribution rates for KP&F and Judges.

Please also note that all of the information in this report with respect to fiscal years before 1994 has been taken from the System's 1993 Annual Report or from previous actuarial valuations.



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CONTRIBUTION RATES

Kansas legislation with respect to KPERS provides that, for fiscal years beginning in 1995, the rates of contribution for State/School and Local certified by the Board may not increase by more than 0.1% of payroll over the prior year. Any additional cost resulting from correctional employees is added to the employer contribution rate for the Department of Corrections. This year's recommended rates for State/School and Local were also increased by the cost of the July 1, 1994 COLA. The statutory limits do not apply to TIAA, KP&F and Judges.

A summary of actuarial and recommended rates follows:

System	1993 Valuation		Diff.
	Actuarial	Recom- mended	
State / School	4.11%	3.30% ^{1/}	0.81%
Local	3.05	2.30 ^{1/}	0.75
Correctional Employees - NRA 60	4.41	3.60 ^{1/}	0.81
Correctional Employees - NRA 55	5.21	4.40 ^{1/}	0.81
TIAA	1.75	1.75	0.00
Police & Fire - Uniform Rate ^{3/}	6.95	6.95	0.00
Judges	10.35	10.35	0.00
Weighted Average	4.11	3.21	0.90

System	1994 Valuation		Diff.
	Actuarial	Recom- mended	
State / School	5.17%	3.49% ^{1/,2/}	1.68%
Local	3.72	2.48 ^{1/,2/}	1.24
Correctional Employees - NRA 60	5.47	3.79 ^{1/,2/}	1.68
Correctional Employees - NRA 55	6.27	4.59 ^{1/,2/}	1.68
TIAA	1.89	1.89	0.00
Police & Fire - Uniform Rate ^{3/}	9.65	9.65	0.00
Judges	16.00	16.00	0.00
Weighted Average	5.15	3.57	1.58

^{1/} Rates, by statute, are allowed to increase by a maximum of 0.1% per year.

^{2/} The KPERS recommended rates have also been increased for the cost of the July 1, 1994 COLA (0.09% for State/School and 0.08% for Local).

^{3/} For KP&F, the recommended contribution rate is equal to the "Uniform" rate plus the payment required to amortize the unfunded past service liability determined separately for each employer.



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EXPERIENCE – ALL SYSTEMS COMBINED

July 1, 1993 – June 30, 1994

Several factors contributed to the change in the Systems' assets, liabilities, and recommended contribution rates between June 30, 1993 and June 30, 1994. Below each component is examined.

ASSETS

As of June 30, 1994, the System had total funds, when measured on a market value basis, of \$5.16 billion, including assets held for the Group Insurance and Optional Life reserves. This was an increase of \$32 million from the 1993 figure of \$5.13 billion. The components of this change (in millions) are set forth below and compared to book values:

	Book → Book	Market → Market
Assets, June 30, 1993	\$ 4,617	\$ 5,131
● Employer and Member Contributions	+ 267	+ 267
● Benefit Payments and Expenses	- 352	- 352
● Investment Income – Expected	+ 366	+ 407
● Investment Gain/(Loss)	+ 102	- 290
Assets, June 30, 1994	\$ 5,000	\$ 5,163

The Board of Trustees has elected to change the method used to value assets for actuarial valuation purposes to a method which recognizes market values but smooths year to year fluctuations. In the past, assets have been carried at book values. At the end of any year the actuarial value of assets is equal to the expected asset value based on the assumed interest rate plus 1/3 of the difference between the actual market value and the expected asset value. In the first year of implementation of the new methodology, the 1994 valuation, the actuarial value of assets is set equal to the market value as of June 30, 1994. This asset valuation method is in keeping with long term trends at other State systems.



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LIABILITIES

The actuarial liability is that portion of the present value of projected benefits that will not be paid by future employer normal costs or member contributions. The difference between this liability and asset values at the same date is referred to as the unfunded actuarial liability. The unfunded actuarial liability will be reduced if the employer's contributions exceed the employer's normal cost for the year, after allowing for interest earned on the previous balance of the unfunded actuarial liability. Benefit improvements, actuarial gains and losses, and changes in actuarial procedures will also have an effect on the total actuarial liability and on the portion of it that is unfunded.

Between June 30, 1993 and June 30, 1994 we estimate the change in the unfunded actuarial liabilities for the System as follows (in millions):

Unfunded Actuarial Liability, June 30, 1993	\$968
● investment gain at book values	(102)
● change in asset valuation method	(134)
● revised liabilities for 1993 COLA, return of employee contributions, deferred vested employees, and pre-retirement spouse benefits	228
● data and salary adjustments	150
● actual mortality, disability, retirement, turnover and salary experience	320
● actual 1994 COLA	75
Unfunded Actuarial Liability, June 30, 1994	\$1,505



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CONTRIBUTIONS

Generally, contributions to the System consist of:

- a "normal cost" for the portion of projected liabilities attributable to service of members during the year following the valuation date, (except TIAA)
- an "unfunded actuarial liability contribution" for the excess of the portion of projected liabilities allocated to service to date over assets on hand,
- a "group insurance" contribution which is statutory (except KP&F).

The combined Systems' contribution rate (before statutory limits) increased by 1.04% of pay, to 5.15% on June 30, 1994, from 4.11% on June 30, 1993. The primary components of this change are as follows:

Actuarial Contribution Rate, June 30, 1993	4.11 %
• investment gain	(0.23)
• change in asset valuation method	(0.37)
• liability changes	<u>1.64</u>
Actuarial Contribution Rate, June 30, 1994	5.15 %



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SUMMARY OF PRINCIPAL RESULTS

ALL SYSTEMS COMBINED

	<u>1994</u> <u>Valuation</u>	<u>1993</u> <u>Valuation</u>	<u>% Change</u>
1. PARTICIPANT DATA			
Number of:			
Active Members	123,296	119,275	3.4 %
Retired Members and Beneficiaries	43,165	41,285	4.6
Inactive Members	<u>12,311</u>	<u>13,823</u>	(10.9)
Total Members	<u>178,772</u>	<u>174,383</u>	2.5
Projected Annual Salaries of Active Members	\$ 3,487,462,430	\$ 3,265,869,100	6.8
Annual Retirement Payments for Retired Members and Beneficiaries	\$ 281,712,669	\$ 226,301,796	24.5
2. ASSETS AND LIABILITIES			
Total Actuarial Liability	\$ 6,546,924,033	\$ 5,460,280,400	19.9
Assets for Valuation Purposes	5,041,702,745	4,492,541,700	12.2
Unfunded Actuarial Liability	1,505,221,288	967,738,700	55.5
3. EMPLOYER CONTRIBUTION RATES AS A PERCENT OF PAYROLL			
Normal Cost	2.33%	1.95%	
Amortization of Unfunded Actuarial and Supplemental Liability	<u>2.25%</u>	<u>1.59%</u>	
Actuarial Rate	4.58%	3.54%	
Group Insurance	<u>0.57%</u>	<u>0.57%</u>	
Total Actuarial Rate Including Group Insurance	<u>5.15%</u>	<u>4.11%</u>	
Total Adjusted Recommended Employer Rate*	<u>3.57%</u>	<u>3.21%</u>	

* Increases in recommended rates for KPERS are limited by statute. Employer contribution rates for KP&F consist of a "Uniform" rate plus a payment to amortize any unfunded past service liability.



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SUMMARY OF PRINCIPAL RESULTS
KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
(STATE / SCHOOL)

	<u>1994</u> <u>Valuation</u>	<u>1993</u> <u>Valuation</u>	<u>% Change</u>
1. PARTICIPANT DATA			
Number of:			
Active Members	93,494	89,428	4.6 %
Retired Members and Beneficiaries	31,728	30,629	3.6
Inactive Members	<u>9,625</u>	<u>11,115</u>	(13.4)
Total Members	<u>134,847</u>	<u>131,172</u>	2.8
Projected Annual Salaries of Active Members	\$ 2,438,369,340	\$ 2,248,088,300	8.5
Annual Retirement Payments for Retired Members and Beneficiaries	\$ 203,884,428	\$ 161,909,639	25.9
2. ASSETS AND LIABILITIES			
Total Actuarial Liability	\$ 4,721,211,257	\$ 3,835,066,000	23.1
Assets for Valuation Purposes	3,662,609,159	3,261,995,500	12.3
Unfunded Actuarial Liability	1,058,602,098	573,070,500	84.7
3. EMPLOYER CONTRIBUTION RATES AS A PERCENT OF PAYROLL			
Normal Cost	2.48%	2.30%	
Amortization of Unfunded Actuarial and Supplemental Liability	<u>2.09%</u>	<u>1.21%</u>	
Actuarial Rate	4.57%	3.51%	
Group Insurance	<u>0.60%</u>	<u>0.60%</u>	
Total Actuarial Rate Including Group Insurance	<u>5.17%</u>	<u>4.11%</u>	
Total Adjusted Recommended Employer Rate*	<u>3.49%</u>	<u>3.30%</u>	

* 1994 Total Adjusted Recommended Employer Rate exceeds last year's rate by the statutory rate increase limit of 0.1% plus the cost of the July 1, 1994 COLA of 0.09%.



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SUMMARY OF PRINCIPAL RESULTS
KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
(LOCAL)

	<u>1994</u> <u>Valuation</u>	<u>1993</u> <u>Valuation</u>	<u>% Change</u>
1. PARTICIPANT DATA			
Number of:			
Active Members	24,322	24,140	0.8 %
Retired Members and Beneficiaries	8,304	7,807	6.4
Inactive Members	<u>2,332</u>	<u>2,559</u>	(8.9)
Total Members	<u>34,958</u>	<u>34,506</u>	1.3
Projected Annual Salaries of Active Members	\$ 580,214,714	\$ 545,629,100	6.3
Annual Retirement Payments for Retired Members and Beneficiaries	\$ 39,266,864	\$ 31,840,561	23.3
2. ASSETS AND LIABILITIES			
Total Actuarial Liability	\$ 864,877,957	\$ 739,622,200	16.9
Assets for Valuation Purposes	722,501,361	645,268,100	12.0
Unfunded Actuarial Liability	142,376,596	94,354,100	50.9
3. EMPLOYER CONTRIBUTION RATES AS A PERCENT OF PAYROLL			
Normal Cost	1.94%	1.63%	
Amortization of Unfunded Actuarial and Supplemental Liability	<u>1.18%</u>	<u>0.82%</u>	
Actuarial Rate	3.12%	2.45%	
Group Insurance	<u>0.60%</u>	<u>0.60%</u>	
Total Actuarial Rate Including Group Insurance	<u>3.72%</u>	<u>3.05%</u>	
Total Adjusted Recommended Employer Rate*	<u>2.48%</u>	<u>2.30%</u>	

* 1994 Total Adjusted Recommended Employer Rate exceeds last year's rate by the statutory rate increase limit of 0.1% plus the cost of the July 1, 1994 COLA of 0.08%.



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SUMMARY OF PRINCIPAL RESULTS
KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
(TIAA)

	<u>1994</u> <u>Valuation</u>	<u>1993</u> <u>Valuation</u>	<u>% Change</u>
1. PARTICIPANT DATA			
Number of:			
Active Members	118	201	(41.3)%
Retired Members and Beneficiaries	835	817	2.2
Inactive Members	<u>92</u>	<u>134</u>	(31.3)
Total Members	<u>1,045</u>	<u>1,152</u>	(9.3)
Projected Annual Salaries of Active Members	\$ 270,598,270	\$ 287,239,700	(5.8)
Annual Retirement Payments for Retired Members and Beneficiaries	\$ 3,564,653	\$ 2,883,001	23.6
2. ASSETS AND LIABILITIES			
Total Actuarial Liability	\$ 29,489,916	\$ 29,787,700	(1.0)
Assets for Valuation Purposes	6,012,243	5,951,300	1.0
Unfunded Actuarial Liability	23,477,673	23,836,400	(1.5)
3. EMPLOYER CONTRIBUTION RATES AS A PERCENT OF PAYROLL			
Normal Cost	0.00%	0.00%	
Amortization of Unfunded Actuarial and Supplemental Liability	<u>1.29%</u>	<u>1.15%</u>	
Actuarial Rate	1.29%	1.15%	
Group Insurance	<u>0.60%</u>	<u>0.60%</u>	
Total Actuarial Rate Including Group Insurance	<u>1.89%</u>	<u>1.75%</u>	
Total Adjusted Recommended Employer Rate*	<u>1.89%</u>	<u>1.75%</u>	

* The 1994 Total Adjusted Recommended Employer Rate is assumed to be equal to the Total Actuarial Rate including Group Insurance.



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SUMMARY OF PRINCIPAL RESULTS
KANSAS POLICE AND FIREMEN'S RETIREMENT SYSTEM

	<u>1994</u> <u>Valuation</u>	<u>1993</u> <u>Valuation</u>	<u>% Change</u>
1. PARTICIPANT DATA			
Number of:			
Active Members	5,138	5,353	(4.0) %
Retired Members and Beneficiaries	2,193	1,944	12.8
Inactive Members	<u>250</u>	<u>8</u>	3,025.0
Total Members	<u>7,581</u>	<u>7,305</u>	3.8
Projected Annual Salaries of Active Members	\$ 184,188,486	\$ 174,089,500	5.8
Annual Retirement Payments for Retired Members and Beneficiaries	\$ 32,216,543	\$ 27,356,156	17.8
2. ASSETS AND LIABILITIES			
Total Actuarial Liability	\$ 887,150,887	\$ 815,572,800	8.8
Assets for Valuation Purposes	611,574,631	543,981,600	12.4
Unfunded Actuarial Liability	275,576,256	271,591,200	1.5
3. EMPLOYER CONTRIBUTION RATES AS A PERCENT OF PAYROLL			
Normal Cost	4.17%	1.37%	
Amortization of Unfunded Actuarial and Supplemental Liability	<u>5.48%</u>	<u>5.58%</u>	
Actuarial Rate	9.65%	6.95%	
Group Insurance	<u>0.00%</u>	<u>0.00%</u>	
Total Actuarial Rate Including Group Insurance	<u>9.65%</u>	<u>6.95%</u>	
Total Adjusted Recommended Employer Rate*	<u>9.65%</u>	<u>6.95%</u>	

* The Total Adjusted Recommended Employer Rate is assumed to be equal to the Total Actuarial Rate including Group Insurance. This is referred to as the "Uniform" rate. The total contribution is equal to the "Uniform" rate plus the payment required to amortize the unfunded past service liability, determined separately for each employer.



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SUMMARY OF PRINCIPAL RESULTS
KANSAS RETIREMENT SYSTEM FOR JUDGES

	<u>1994</u> <u>Valuation</u>	<u>1993</u> <u>Valuation</u>	<u>% Change</u>
1. PARTICIPANT DATA			
Number of:			
Active Members	224	153	46.4 %
Retired Members and Beneficiaries	105	88	19.3
Inactive Members	<u>12</u>	<u>7</u>	71.4
Total Members	<u>341</u>	<u>248</u>	37.5
Projected Annual Salaries of Active Members	\$ 14,091,620	\$ 10,822,500	30.2
Annual Retirement Payments for Retired Members and Beneficiaries	\$ 2,780,180	\$ 2,312,439	20.2
2. ASSETS AND LIABILITIES			
Total Actuarial Liability	\$ 44,194,016	\$ 40,231,700	9.8
Assets for Valuation Purposes	39,005,351	35,345,200	10.4
Unfunded Actuarial Liability	5,188,665	4,886,500	6.2
3. EMPLOYER CONTRIBUTION RATES AS A PERCENT OF PAYROLL			
Normal Cost	12.73%	6.44%	
Amortization of Unfunded Actuarial and Supplemental Liability	<u>2.87%</u>	<u>3.51%</u>	
Actuarial Rate	15.60%	9.95%	
Group Insurance	<u>0.40%</u>	<u>0.40%</u>	
Total Actuarial Rate Including Group Insurance	<u>16.00%</u>	<u>10.35%</u>	
Total Adjusted Recommended Employer Rate*	<u>16.00%</u>	<u>10.35%</u>	

* The 1994 Total Adjusted Recommended Employer Rate is assumed to be equal to the Total Actuarial Rate including Group Insurance.

