

KENTUCKY RETIREMENT SYSTEMS

KENTUCKY EMPLOYES RETIREMENT SYSTEM
COUNTY EMPLOYES RETIREMENT SYSTEM
STATE POLICE RETIREMENT SYSTEM



ANNUAL REPORT

JUNE 30, 1981

TABLE OF CONTENTS

	<u>Page</u>
Letter of Transmittal.....	1
Board of Trustees.....	2
Financial Section	
Introduction.....	3
Auditor's Certification.....	4
KERS Financial Statements.....	5
CERS Financial Statements.....	14
SPRS Financial Statements.....	23
KRS Insurance Fund Financial Statements.....	32
Actuarial Section	
Introduction.....	37
Actuary's Certification.....	38
KERS Actuarial Evaluation.....	39
CERS Actuarial Evaluation.....	44
SPRS Actuarial Evaluation.....	49
Investment Section	
Introduction.....	53
Portfolio Summary by System.....	57
Portfolio Detail - Stocks.....	61
Portfolio Detail - Fixed Income.....	62
Portfolio Detail - Insurance Fund.....	65
Statistical Section	
Introduction.....	66
Benefit Payments Analysis.....	69
Membership by System.....	74
Historical Statistics by System.....	75
Source & Use of Funds History.....	78
Administrative Expense Review.....	79



KENTUCKY RETIREMENT SYSTEMS
226 West Second Street
Frankfort, Kentucky 40601



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

Charles L. Bratton
General Manager
Phone 502-564-4646

MEMORANDUM

TO: Members of the Board of Trustees
Billy Joe Hall, Chairman
Vernon C. McGinty, Vice Chairman
Mrs. Iris R. Barrett
Frank W. Burke
Robert L. Doris, Jr.
John E. King
Mrs. Dee Maynard
Mrs. Nancy L. Ray
John D. Robey

FROM: Charles L. Bratton

DATE: November 20, 1981

SUBJECT: Annual Report as of June 30, 1981

As directed by KRS 61.645, I am pleased to present the Annual Report for the fiscal year ended June 30, 1981. The four sections of the report provide financial information, actuarial information, investment information and other statistical information. Appropriate certifications from and independent accounting firm and from an independent actuarial firm are included.

Copies of this report will be made available to retirement system members by sending copies to each participating employer in the Kentucky Employees Retirement System, County Employees Retirement System and State Police Retirement System. Copies will also be distributed to appropriate legislative personnel as well as to other interested parties that may request such information.

Attributes of a sound retirement program are apparent throughout this report and reflect in a positive manner on the diligence of the Board of Trustees and the support provided to the Kentucky Retirement Systems by the executive and legislative branches of state government.

Charles L. Bratton

Charles L. Bratton
General Manager

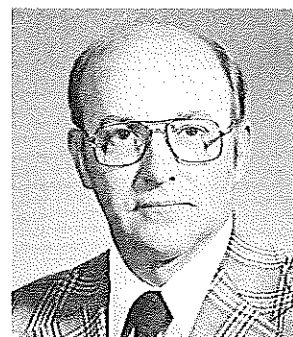
BOARD OF TRUSTEES



Iris R. Barrett
Frankfort
Elected by KERS Members
Term Expires 3/31/82



Frank W. Burke
Louisville
Elected by CERS Members
Term Expires 3/31/85



Robert L. Doris, Jr.
Frankfort
Appointed by the Governor
Term Expires 3/31/84



Billy Joe Hall, Chairman
Mt. Sterling
Elected by KERS Members
Term Expires 3/31/82



John E. King
Lexington
Elected by CERS Members
Term Expires 3/31/85



Dee Maynard
Simpsonville
Ex Officio
Commissioner of Personnel*



Vernon C. McGinty, Vice Chairman
Louisville
Appointed by the Governor
Term Expires 3/31/83



Nancy L. Ray
Crestwood
Appointed by the Governor
Term Expires 3/31/84



John D. Robey
Lawrenceburg
Elected by SPRS Members
Term Expires 3/31/83

*Appointment was effective July 20, 1981.

FINANCIAL SECTION
INTRODUCTION

The retirement systems' assets are held in trust for the purpose of paying retirement benefits many years in the future. It is important to the financial security of the members of the system, as well as those receiving retirement benefits that the assets and liabilities of the systems are subject to proper accounting and balancing procedures.

The Board of Trustees contracts for an annual audit by a Certified Public Accounting Firm for the purpose of an independent audit of the assets and liabilities of the systems. The firm of Ernst & Whinney was selected to perform the audit for the fiscal year ended June 30, 1981. The Accounting Firm presents to the Board of Trustees their "audit opinion" which is found on the following page. The audited financial statements of the three retirement systems and the related "Notes to Financial Statements" follow the audit opinion.

Financial Accounting Standards Board Statement No. 35, "Accounting and Reporting By Defined Benefit Pension Plans" is considered applicable to public retirement systems and is scheduled for implementation during the 1981-82 fiscal year. In summary, this statement requires that financial statements be presented on an "accrual basis" and further that the statements be presented in a manner that will provide the member an opportunity to fully compare the fair value of the assets of the retirement system to the actuarially computed value of the systems accumulated plan benefits. The notes to the financial statements as presented in this report are designed to facilitate the transition to the changes in reporting requirements that are scheduled to become effective next year.

In addition to the annual audit by a Certified Public Accounting Firm, proper financial controls are established to be sure the funds are safeguarded. For example, each year the CPA firm conducts a surprise audit of the securities held in each fund and there is a surprise audit by the internal auditor of the securities' custodian. Also, adequate bonding arrangements are in force for individuals who have access to securities and the General Manager of the retirement systems is under a special Fidelity bond.

The retirement systems have excellent financial strength as illustrated by the following statements. Adequate systems of control are in force to assure that these trust funds are safe and the accounts properly reported to the fund participants.

There were no party-in-interest transactions, no loans or leases in default and no "reportable" transactions during the fiscal year.

Ernst & Whinney

1400 Commonwealth Building
Louisville, Kentucky 40202

502/583-0251

Board of Trustees
Kentucky Retirement Systems
Frankfort, Kentucky

We have examined the balance sheets of the Kentucky Employes Retirement System, County Employes Retirement System, State Police Retirement System and Kentucky Retirement Systems Insurance Fund as of June 30, 1981, and the related statements of revenues, expenses, and changes in members' contribution account and retirement allowance account and changes in financial position of the Kentucky Employes Retirement System, County Employes Retirement System, and the State Police Retirement System and the statements of revenues, expenses, and changes in fund balance and changes in financial position of the Kentucky Retirement Systems Insurance Fund for the year then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Kentucky Retirement Systems have kept their records and have prepared their financial statements for previous years on a modified accrual basis of accounting, wherein certain investment income was not accrued. As of July 1, 1980, the Systems changed their accounting policy and began accruing such income.

In our opinion, the financial statements referred to above present fairly the financial position of the Kentucky Employes Retirement System, County Employes Retirement System, State Police Retirement System and the Kentucky Retirement Systems Insurance Fund at June 30, 1981, and the results of their operations, the changes in members' contribution account and retirement allowance account of the Kentucky Employes Retirement System, County Employes Retirement System, and State Police Retirement System, the changes in fund balance of the Kentucky Retirement Systems Insurance Fund, and the changes in their financial position for the year then ended, in conformity with generally accepted accounting principles.

Ernst & Whinney

Louisville, Kentucky
September 18, 1981

KENTUCKY EMPLOYES RETIREMENT SYSTEM

BALANCE SHEET

KENTUCKY EMPLOYES RETIREMENT SYSTEM

June 30, 1981

ASSETS

Investments--Notes A and D:

United States Government securities	\$184,206,564
Government National Mortgage Association certificates	35,141,904
Corporate bonds and notes	100,960,819
Common stocks	143,115,978
First mortgage real estate loans	8,571,335
Securities purchased under agreement to resell	<u>47,527,729</u>
	519,524,329
Member and employer contributions receivable	2,274,655
Accrued investment income	7,940,140
Receivable from sale of securities	<u>57,934</u>
	<u>\$529,797,058</u>

LIABILITIES AND FUND BALANCE

Amount due State Treasurer	\$ 79,900
Member benefits payable	<u>634,855</u>
	714,755
Fund balance--Note A:	
Members' contribution account	125,526,817
Retirement allowance account	<u>403,555,486</u>
	529,082,303
	<u>\$529,797,058</u>

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN MEMBERS' CONTRIBUTION ACCOUNT

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

Year Ended June 30, 1981

Revenues:		
Member contributions		\$ 21,392,237
Interest credited to members' balances transferred from Retirement Allowance Account		<u>3,091,308</u>
	TOTAL REVENUES	<u>24,483,545</u>
Expenses:		
Refunds to former members Retired members' balances transferred to Retirement Allowance Account		5,945,209
		<u>7,272,758</u>
	TOTAL EXPENSES	<u>13,217,967</u>
	EXCESS OF REVENUES OVER EXPENSES	11,265,578
Members' contribution account at beginning of year		114,687,134
Transfer of assets to the Legislative Retirement Plan-- Note G		<u>(425,895)</u>
	MEMBERS' CONTRIBUTION ACCOUNT AT END OF YEAR	<u><u>\$125,526,817</u></u>

See notes to financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN RETIREMENT ALLOWANCE ACCOUNT

KENTUCKY EMPLOYES RETIREMENT SYSTEM

Year Ended June 30, 1981

Revenues:	
Employer contributions	\$ 38,487,956
Investment income	39,594,168
Net realized gain on sale of investments	4,096,875
Retired members' balances transferred from Members' Contribution Account	<u>7,272,758</u>
TOTAL REVENUES	89,451,757
Expenses:	
Retirement benefits for members	21,824,083
Contributions transferred to the Kentucky Retirement Systems Insurance Fund	1,111,135
Interest credited to members' balances transferred to Members' Contribution Account	3,091,308
Administrative expenses	480,495
Investment expenses	<u>79,655</u>
TOTAL EXPENSES	26,586,676
EXCESS OF REVENUES OVER EXPENSES	<u>62,865,081</u>
Retirement allowance account at beginning of year--as previously reported	340,653,626
Adjustment for the effect of change in the method of accounting for investment income--Note H	<u>964,740</u>
Retirement allowance account at beginning of year, as restated	341,618,366
Transfer of assets to the Legislative Retirement Plan--Note G	<u>(927,961)</u>
RETIREMENT ALLOWANCE ACCOUNT AT END OF YEAR	<u><u>\$403,555,486</u></u>

See notes to financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION

KENTUCKY EMPLOYES RETIREMENT SYSTEM

Year Ended June 30, 1981

SOURCE OF FUNDS

Excess of revenues over expenses	\$ 74,130,659
Deduct amortization of investment discount and premium, net, not providing funds	<u>432,968</u>

FUNDS PROVIDED FROM OPERATIONS 73,697,691

Proceeds from sale or maturity of investments, less gain of \$4,096,875 included above	34,892,696
Decrease in member and employer contributions receivable	247,611
Increase in member benefits payable	<u>396,761</u>

TOTAL FUNDS PROVIDED 109,234,759

APPLICATION OF FUNDS

Investments purchased	106,373,676
Transfer of assets to the Legislative Retirement Plan	1,353,856
Increase in accrued investment income	1,748,196
Increase in receivable from sale of securities	<u>57,934</u>

TOTAL FUNDS USED 109,533,662

DECREASE IN CASH 298,903

Cash on deposit with State Treasurer at beginning of year

219,003

AMOUNT DUE STATE TREASURER AT END OF YEAR

\$ 79,900

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

June 30, 1981

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Kentucky Employees Retirement System (the System) are prepared on the accrual basis, and generally conform to the provisions of the National Committee on Governmental Accounting's Statement 1. This Statement first became effective for the System's fiscal year ending June 30, 1981, and thus only single year financial statements are presented.

As explained in Note H, effective July 1, 1980, the System changed its policy of accounting for certain investment income.

Investments in bonds and first mortgage real estate loans are stated at amortized cost. Common stocks and securities purchased under agreement to resell are carried at cost.

Discount and premium are amortized using the straight-line method over the period from acquisition to stated or expected maturity.

Net realized gain or loss on investments represents the difference between the proceeds from sale or maturity and the average cost of investments sold or redeemed.

Members' Contribution and Retirement Allowance Accounts are funded by contributions and investment income. The Members' Contribution Account represents the accumulation of active members' contributions plus interest credited to members' accounts. The Retirement Allowance Account is comprised of retired members' contribution balances including interest credited thereon and accumulated employer contributions plus the cumulative excess of revenues over expenses less interest credited to members' contribution accounts.

The System, County Employees Retirement System, and State Police Retirement System are collectively administered by Kentucky Retirement Systems. Administrative and investment expenses of Kentucky Retirement System are allocated in proportion to the number of members participating in each plan.

NOTE B--DESCRIPTION OF THE PLAN

The Kentucky Employees Retirement System is a defined benefit plan which covers substantially all regular full-time employees of any state department, board, or agency directed by Executive Order to participate in the System. The Plan provides for retirement and disability benefits.

Participating employees generally contribute 4% of creditable compensation to the System. Members occupying hazardous positions, as defined by statute, contribute at the rate of 7% of creditable compensation. Participating employers contribute such additional amounts as are necessary to provide assets sufficient to meet the benefits to be paid to plan members. Employer contribution rates, intended to fund the System's normal cost on a current basis

NOTES TO FINANCIAL STATEMENTS--CONTINUED

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

NOTE B--DESCRIPTION OF THE PLAN--CONTINUED

and one percent (1%) of unfunded past service costs per annum plus interest at the actuarial assumed rate, are determined by the Board of Trustees of Kentucky Retirement System each biennium. For the year ending June 30, 1981, participating employers contributed at 7-1/4% and 19-1/4% of members' non-hazardous and hazardous compensation, respectively.

Vesting in a retirement benefit begins immediately upon entry into the System. The participant has a fully vested interest after the completion of sixty months of service, twelve of which are current service. At a minimum, terminated employees are refunded their contributions with credited interest at 3% compounded annually.

Further information regarding the plan agreement and the vesting and benefit provisions, is contained in the pamphlet Plan Description. Copies of this pamphlet are available from the office of Kentucky Retirement Systems.

Legislation enacted by the 1980 Kentucky General Assembly provided for a 6% increase in benefits for all retirees, effective July 1, 1980. Benefits will be further increased by 6% on July 1, 1981. In addition, an amendment was adopted, effective July 15, 1980, that provides for a \$2,000 death benefit to be paid to estates of most retirees. Benefits paid under this provision for the year ended June 30, 1981 aggregated approximately \$634,000.

NOTE C--ACCUMULATED BENEFITS

Accumulated plan benefits are those future periodic payments, including lump-sum distributions, that are attributable under the Plan's provisions to services rendered by the employees to the valuation date. Accumulated plan benefits include benefits expected to be paid to (a) retired or terminated employees or their beneficiaries, (b) beneficiaries of employees who are deceased, and (c) present employees or their beneficiaries. Benefits under the Plan are based on employees' average compensation during their five highest paid years. Accumulated plan benefits for active employees are based on their current compensation as of June 30, 1981 (valuation date). Benefits payable under all circumstances--retirement, death, and termination of employment--are included, to the extent they are deemed attributable to employee service rendered to the valuation date.

The System's consulting actuaries, Tillinghast, Nelson & Warren, Inc., estimate the actuarial present value of accumulated plan benefits, which is the amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, withdrawal, or retirement) between the valuation date and the expected date of payment.

NOTES TO FINANCIAL STATEMENTS--CONTINUED

KENTUCKY EMPLOYES RETIREMENT SYSTEM

NOTE C--ACCUMULATED BENEFITS--CONTINUED

Accumulated plan benefit information at June 30, 1981 is as follows:

Vested benefits:	
Participants currently receiving payments	\$203,295,925
Other participants	<u>243,317,481</u>
	<u>\$446,613,406</u>

The more significant assumptions underlying the actuarial computations are as follows:

Actuarial cost method	Entry age normal
Assumed rate of return on investments	7-1/2% per annum
Mortality basis	1971 Group Annuity Tables
Employee turnover	Declining from 35% through five years of service. Annual rates, varying by age, thereafter.
Retirement age	Based upon experience, with 25% weight, at age 55-64, to the earliest age at which an employee could retire with 100% of the accrued benefits.

NOTE D--INVESTMENTS

The market value of investments at June 30, 1981 follows:

United States Government securities	\$147,718,953
Government National Mortgage Association certificates	32,053,884
Corporate bonds and notes	75,239,652
Common stocks	161,810,885
First mortgage real estate loans	4,924,232
Securities purchased under agreement to resell	<u>47,527,729</u>
	<u>\$469,275,335</u>

NOTES TO FINANCIAL STATEMENTS--CONTINUED

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

NOTE E--INCOME TAX STATUS

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

NOTE F--TRANSFERS TO INSURANCE FUND

By action of the 1978 General Assembly, the Kentucky Retirement Systems Insurance Fund was established to provide a group hospital and medical insurance plan for recipients of a retirement allowance from the Kentucky Employees Retirement System. The insurance fund is funded by the transfer of a portion of employer contributions to the retirement system. The percentage of creditable compensation transferred to the Insurance Fund by the Kentucky Employees Retirement System was 0.21% for non-hazardous and 0.34% for hazardous positions for the year ended June 30, 1981.

NOTE G--TRANSFER TO LEGISLATIVE RETIREMENT SYSTEM

Effective July 1, 1980, the assets and actuarial liabilities of electing General Assembly members were transferred to a separate Legislative Retirement System. The resulting deductions to the Member's Contribution and Retirement Allowance accounts included accumulated interest of \$29,410 and \$211,171, respectively.

NOTE H--CHANGE IN ACCOUNTING POLICY

The System previously recorded dividend income on the cash basis. Effective July 1, 1980, the System changed its accounting policy and began recording dividend income when the System is entitled to such income (record date), and also changed the method of determining accrued interest income. The effect of such changes was to increase the Retirement Allowance Account at July 1, 1980, by approximately \$964,700 and the excess of revenues over expenses for the year ended June 30, 1981, by approximately \$696,000.

COUNTY EMPLOYES RETIREMENT SYSTEM

BALANCE SHEET

COUNTY EMPLOYEES RETIREMENT SYSTEM

June 30, 1981

ASSETS

Cash on deposit with State Treasurer	\$ 27,393
Investments--Notes A and D:	
United States Government securities	69,717,638
Government National Mortgage Association certificates	17,432,233
Corporate bonds and notes	36,181,243
Common stocks	53,163,118
First mortgage real estate loans	937,105
Securities purchased under agreement to resell	<u>47,609,891</u>
	225,041,228
Member and employer contributions receivable	2,869,717
Past service credit contribution receivable--Note A	3,669,875
Accrued investment income	3,238,334
Receivable from sale of securities	<u>18,767</u>
	<u>\$234,865,314</u>

LIABILITIES AND FUND BALANCE

Member benefits payable	\$ 565,850
Fund balance--Note A:	
Members' Contribution Account	57,880,422
Retirement Allowance Account	<u>176,419,042</u>
	234,299,464
	<u>\$234,865,314</u>

See notes to financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN MEMBERS' CONTRIBUTION ACCOUNT

COUNTY EMPLOYES RETIREMENT SYSTEM

Year Ended June 30, 1981

Revenues:

Member contributions	\$13,060,180
Interest credited to members' balances transferred from Retirement Allowance Account	<u>1,344,716</u>

TOTAL REVENUES	14,404,896
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Expenses:

Refunds to former members	3,291,673
Retired members' balances transferred to Retirement Allowance Account	<u>2,066,603</u>

TOTAL EXPENSES	<u>5,358,276</u>
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EXCESS OF REVENUES OVER EXPENSES	9,046,620
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Members' contribution account
at beginning of year

48,833,802

MEMBERS' CONTRIBUTION
ACCOUNT AT END OF YEAR

\$57,880,422

See notes to financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN RETIREMENT ALLOWANCE ACCOUNT

COUNTY EMPLOYES RETIREMENT SYSTEM

Year Ended June 30, 1981

Revenues:	
Employer contributions	\$ 23,664,308
Investment income	18,394,849
Net realized gain on sale of investments	1,575,215
Retired members' balances transferred from Members' Contribution Account	<u>2,066,603</u>
TOTAL REVENUES	45,700,975
Expenses:	
Retirement benefits for members	7,797,643
Contributions transferred to the Kentucky Retirement Systems Insurance Fund	464,964
Interest credited to members' balances transferred to Members' Contribution Account	1,344,716
Administrative expenses	339,660
Investment expenses	<u>33,366</u>
TOTAL EXPENSES	9,980,349
EXCESS OF REVENUES OVER EXPENSES	<u>35,720,626</u>
Retirement allowance account at beginning of year--as previously reported	140,362,428
Adjustment for the effect of change in the method of accounting for investment income--Note G	<u>335,988</u>
Retirement allowance account at beginning of year, as restated	<u>140,698,416</u>
RETIREMENT ALLOWANCE ACCOUNT AT END OF YEAR	<u><u>\$176,419,042</u></u>

See notes to financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION

COUNTY EMPLOYEES RETIREMENT SYSTEM

Year Ended June 30, 1981

SOURCE OF FUNDS

Excess of revenues over expenses	\$44,767,246
Deduct amortization of investment discount and premium, net, not providing funds	<u>146,811</u>

FUNDS PROVIDED FROM OPERATIONS 44,620,435

Proceeds from sale or maturity of investments, less gain of \$1,575,215 included above	6,960,866
Decrease in past service credit contribution receivable	200,865
Increase in member benefits payable	<u>75,989</u>

TOTAL FUNDS PROVIDED 51,858,155

APPLICATION OF FUNDS

Investments purchased	50,714,762
Increase in member and employer contributions receivable	322,573
Increase in accrued investment income	857,607
Increase in receivable from sale of securities	<u>18,767</u>

TOTAL FUNDS USED 51,913,709

DECREASE IN CASH 55,554

Cash on deposit with State Treasurer at beginning of year	<u>82,947</u>
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CASH ON DEPOSIT WITH STATE
TREASURER AT END OF YEAR \$ 27,393

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

COUNTY EMPLOYEES RETIREMENT SYSTEM

June 30, 1981

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

The financial statements of County Employees Retirement System (the System) are prepared on the accrual basis, and generally conform to the provisions of the National Committee on Governmental Accounting's Statement 1. This Statement first became effective for the System's fiscal year ending June 30, 1981, and thus only single year financial statements are presented.

As explained in Note G, effective July 1, 1980, the System changed its policy of accounting for certain investment income.

Investments in bonds and first mortgage real estate loans are stated at amortized cost. Common stocks and securities purchased under agreement to resell are carried at cost.

Discount and premium are amortized using the straight-line method over the period from acquisition to stated or expected maturity.

Net realized gain or loss on investments represents the difference between the proceeds from sale or maturity and the average cost of investments sold or redeemed.

Members' Contribution and Retirement Allowance Accounts are funded by contributions and investment income. The Members' Contribution Account represents the accumulation of active members' contributions plus interest credited to members' accounts. The Retirement Allowance Account is comprised of retired members' contribution balances including interest credited thereon and accumulated employer contributions plus the cumulative excess of revenues over expenses less interest credited to members' contribution accounts.

Employees are permitted to purchase credits for member service from the date of plan adoption to the participation date of the employer. Receivables for past service credits are amortized in amounts sufficient to fund the related cost plus interest thereon over a period not to exceed thirty years.

The System, Kentucky Employees Retirement System, and State Police Retirement System are collectively administered by Kentucky Retirement Systems. Administrative and investment expenses of Kentucky Retirement System are allocated in proportion to the number of members participating in each plan.

NOTE B--DESCRIPTION OF THE PLAN

The County Employees Retirement System is a defined benefit plan which covers substantially all regular full-time employees of each county and school board, and any additional local agencies electing to participate in the System. The Plan provides for retirement and disability benefits.

NOTES TO FINANCIAL STATEMENTS--CONTINUED

COUNTY EMPLOYEES RETIREMENT SYSTEM

NOTE B--DESCRIPTION OF THE PLAN--CONTINUED

Participating employees generally contribute 4% of creditable compensation to the System. Members occupying hazardous positions, as defined by statute, contribute at the rate of 7% of creditable compensation. Participating employers contribute such additional amounts as are necessary to provide assets sufficient to meet the benefits to be paid to plan members. Employer contribution rates, intended to fund the System's normal cost on a current basis and one percent (1%) of unfunded past service costs per annum plus interest at the actuarial assumed rate, are determined by the Board of Trustees of Kentucky Retirement System each biennium. For the year ending June 30, 1981, participating employers contributed at 7-1/4% and 16% of members' non-hazardous and hazardous compensation, respectively.

Vesting in a retirement benefit begins immediately upon entry into the System. The participant has a fully vested interest after the completion of sixty months of service, twelve of which are current service. At a minimum, terminated employees are refunded their contributions with credited interest at 3% compounded annually. Further information regarding the plan agreement and the vesting and benefit provisions, is contained in the pamphlet Plan Description. Copies of this pamphlet are available from the office of Kentucky Retirement Systems.

Legislation enacted by the 1980 Kentucky General Assembly provided for a 6% increase in benefits for all retirees, effective July 1, 1980. Benefits will be further increased by 6% on July 1, 1981. In addition, an amendment was adopted, effective July 15, 1980, that provides for a \$2,000 death benefit to be paid to estates of most retirees. Benefits paid under this provision for the year ended June 30, 1981 aggregated approximately \$250,000.

NOTE C--ACCUMULATED BENEFITS

Accumulated plan benefits are those future periodic payments, including lump-sum distributions, that are attributable under the Plan's provisions to services rendered by the employees to the valuation date. Accumulated plan benefits include benefits expected to be paid to (a) retired or terminated employees or their beneficiaries, (b) beneficiaries of employees who are deceased, and (c) present employees or their beneficiaries. Benefits under the Plan are based on employees' average compensation during their five highest paid years. Accumulated plan benefits for active employees are based on their current compensation as of June 30, 1981 (valuation date). Benefits payable under all circumstances--retirement, death, and termination of employment--are included, to the extent they are deemed attributable to employee service rendered to the valuation date.

NOTES TO FINANCIAL STATEMENTS--CONTINUED

COUNTY EMPLOYES RETIREMENT SYSTEM

NOTE C--ACCUMULATED BENEFITS--CONTINUED

The System's consulting actuaries, Tillinghast, Nelson & Warren, Inc., estimate the actuarial present value of accumulated plan benefits, which is the amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, withdrawal, or retirement) between the valuation date and the expected date of payment.

Accumulated plan benefit information at June 30, 1981 is as follows:

Vested benefits:	
Participants currently receiving payments	\$ 68,546,856
Other participants	<u>105,714,440</u>
	<u>\$174,261,296</u>

The more significant assumptions underlying the actuarial computations are as follows:

Actuarial cost method	Entry age normal
Assumed rate of return on investments	7-1/2% per annum
Mortality basis	1979 Group Annuity Tables
Employee turnover	Declining from 35% through five years of service. Annual rates, varying by age, thereafter.
Retirement age	Based upon experience with 25% weight, at age 55-64, to the earliest age at which an employee could retire with 100% of the accrued benefits.

NOTES TO FINANCIAL STATEMENTS--CONTINUED

COUNTY EMPLOYEES RETIREMENT SYSTEM

NOTE D--INVESTMENTS

The market value of investments at June 30, 1981 follows:

United States Government securities	\$ 55,793,374
Government National Mortgage Association certificates	16,118,373
Corporate bonds and notes	26,830,370
Common stocks	59,882,326
First mortgage real estate loans	538,367
Securities purchased under agreement to resell	<u>47,609,891</u>
	<u>\$206,772,701</u>

NOTE E--INCOME TAX STATUS

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

NOTE F--TRANSFERS TO INSURANCE FUND

By action of the 1978 General Assembly, the Kentucky Retirement Systems Insurance Fund was established to provide a group hospital and medical insurance plan for recipients of a retirement allowance from the County Employees Retirement System. The insurance plan is funded by the transfer of a portion of employer contributions to the retirement system. The percentage of creditable compensation transferred to the Insurance Fund by the County Employees Retirement System was 0.21% for non-hazardous and 0.34% for hazardous positions for the year ended June 30, 1981.

NOTE G--CHANGE IN ACCOUNTING POLICY

The system previously recorded dividend income on the cash basis. Effective July 1, 1980, the System changed its accounting policy and began recording dividend income when the System is entitled to such income (record date), and also changed the method of determining accrued interest income. The effect of such changes was to increase the Retirement Allowance Account at July 1, 1980, by approximately \$336,000 and the excess of revenues over expenses for the year ended June 30, 1981, by approximately \$251,000.

STATE POLICE RETIREMENT SYSTEM

BALANCE SHEET

STATE POLICE RETIREMENT SYSTEM

June 30, 1981

ASSETS

Investments--Notes A and D:	
United States Government securities	\$14,718,473
Government National Mortgage Association certificates	1,858,512
Corporate bonds and notes	8,188,783
Common stocks	10,374,824
First mortgage real estate loans	521,611
Securities purchased under agreement to resell	<u>11,552,380</u>
	47,214,583
Member and employer contributions receivable	482,711
Accrued investment income	709,803
Receivable from sale of securities	<u>4,896</u>
	<u>\$48,411,993</u>

LIABILITIES AND FUND BALANCE

Amount due State Treasurer	\$ 23,166
Members' benefits payable	<u>33,348</u>
	56,514
Fund balance--Note A:	
Members' Contribution Account	11,157,224
Retirement Allowance Account	<u>37,198,255</u>
	48,355,479
	<u>\$48,411,993</u>

See notes to financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN MEMBERS' CONTRIBUTION ACCOUNT

STATE POLICE RETIREMENT SYSTEM

Year Ended June 30, 1981

Revenues:		
Member contributions		\$ 1,508,222
Interest credited to members' balances transferred from Retirement Allowance Account		<u>284,451</u>
	TOTAL REVENUES	<u>1,792,673</u>
Expenses:		
Refunds to former members		139,305
Retired members' balances transferred to Retirement Allowance Account		<u>658,958</u>
	TOTAL EXPENSES	<u>798,263</u>
	EXCESS OF REVENUES OVER EXPENSES	994,410
Members' contribution account at beginning of year		<u>10,162,814</u>
	MEMBERS' CONTRIBUTION ACCOUNT AT END OF YEAR	<u><u>\$11,157,224</u></u>

See notes to financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN RETIREMENT ALLOWANCE ACCOUNT

STATE POLICE RETIREMENT SYSTEM

Year Ended June 30, 1981

Revenues:

Employer contributions	\$ 3,653,649
Investment income	3,925,112
Net realized gain on sale of investments	285,245
Retired members' balances transferred from Members' Contribution Account	<u>658,958</u>

TOTAL REVENUES 8,522,964

Expenses:

Retirement benefits for members	1,428,170
Contributions transferred to the Kentucky Retirement Systems Insurance Fund	<u>25,373</u>
Interest credited to members' balances transferred to Members' Contribution Account	284,451
Administrative expenses	8,284
Investment expenses	<u>7,214</u>

TOTAL EXPENSES 1,753,492

EXCESS OF REVENUES OVER EXPENSES 6,769,472

Retirement allowance account at beginning of year	30,354,306
Adjustment for the effect of change in the method of accounting for investment income--Note G	<u>74,477</u>
Retirement allowance account at beginning of year, as restated	<u>30,428,783</u>

RETIREMENT ALLOWANCE
ACCOUNT AT END OF YEAR \$37,198,255

See notes to financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION

STATE POLICE RETIREMENT SYSTEM

Year Ended June 30, 1981

SOURCE OF FUNDS

Excess of revenues over expenses	\$7,763,882
Deduct amortization of investment discount and premium, net, not providing funds	<u>28,071</u>

FUNDS PROVIDED FROM OPERATIONS 7,735,811

Proceeds from sale or maturity of investments, less gain of \$285,245 included above	1,317,795
Increase in members' benefits payable	<u>31,711</u>

TOTAL FUNDS PROVIDED 9,085,317

APPLICATION OF FUNDS

Investments purchased	8,658,352
Increase in member and employer contributions receivable	271,962
Increase in accrued investment income	187,835
Increase in receivable from sale of securities	<u>4,896</u>

TOTAL FUNDS USED 9,123,045

DECREASE IN CASH 37,728

Cash on deposit with State Treasurer at beginning of year

14,562

AMOUNT DUE STATE TREASURER
AT END OF YEAR

\$ 23,166

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

STATE POLICE RETIREMENT SYSTEM

June 30, 1981

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

The financial statements of State Police Retirement System (the system) are prepared on the accrual basis, and generally conform to the provisions of the National Committee on Governmental Accounting's Statement 1. This Statement first became effective for the System's fiscal year ending June 30, 1981, and thus only single year financial statements are presented.

As explained in Note G, effective July 1, 1980, the System changed its policy of accounting for certain investment income.

Investments in bonds and first mortgage real estate loans are stated at amortized cost. Common stocks and securities purchased under agreement to resell are carried at cost.

Discount and premium are amortized using the straight-line method over the period from acquisition to stated or expected maturity.

Net realized gain or loss on investments represents the difference between the proceeds from sale or maturity and the average cost of investments sold or redeemed.

Members' Contribution and Retirement Allowance Accounts are funded by contributions and investment income. The Members' Contribution Account represents the accumulation of active members' contributions plus interest credited to member accounts. The Retirement Allowance Account is comprised of retired members' contribution balances including interest credited thereon and accumulated employer contributions plus the cumulative excess of revenues over expenses less interest credited to members' contribution accounts.

The System, Kentucky Employes Retirement System, and County Employes Retirement System are collectively administered by Kentucky Retirement Systems. Administrative and investment expenses of Kentucky Retirement Systems are allocated in proportion to the number of members participating in each plan.

NOTE B--DESCRIPTION OF THE PLAN

The State Police Retirement System is a defined benefit plan which covers substantially all regular full-time officers of the Kentucky State Police. The Plan provides for retirement and disability benefits. Employer contribution rates, intended to fund the System's normal

NOTES TO FINANCIAL STATEMENTS--CONTINUED

STATE POLICE RETIREMENT SYSTEM

NOTE B--DESCRIPTION OF THE PLAN--CONTINUED

cost on a current basis and one percent (1%) of unfunded past service costs per annum plus interest at the actuarial assumed rate, are determined by the Board of Trustees of Kentucky Retirement Systems each biennium. For the year ending June 30, 1981, the employer contributed at 17-1/4% of members' compensation.

Vesting in a retirement benefit begins immediately upon entry into the System. The participant has a fully vested interest after the completion of sixty months of service, twelve of which are current service. At a minimum, terminated employees are refunded their contributions with credited interest at 3% compounded annually. Further information regarding the plan agreement and the vesting and benefit provisions, is contained in the pamphlet Plan Description. Copies of this pamphlet are available from the office of Kentucky Retirement Systems.

Legislation enacted by the 1980 Kentucky General Assembly provided for a 6% increase in benefits for all retirees, effective July 1, 1980. Benefits will be further increased by 6% on July 1, 1981. In addition, an amendment was adopted, effective July 15, 1980, that provides for a \$2,000 death benefit to be paid to estates of most retirees. Benefits paid under this provision for the year ended June 30, 1981 aggregated approximately \$4,000.

NOTE C--ACCUMULATED BENEFITS

Accumulated plan benefits are those future periodic payments, including lump-sum distributions, that are attributable under the Plan's provisions to services rendered by the employees to the valuation date. Accumulated plan benefits include benefits expected to be paid to (a) retired or terminated employees or their beneficiaries, (b) beneficiaries of employees who are deceased, and (c) present employees or their beneficiaries. Benefits under the Plan are based on employees' average compensation during their five highest paid years. Accumulated plan benefits for active employees are based on their current compensation as of June 30, 1981 (valuation date). Benefits payable under all circumstances--retirement, death, and termination of employment--are included, to the extent they are deemed attributable to employee service rendered to the valuation date.

The System's consulting actuaries, Tillinghast, Nelson & Warren, Inc. estimate the actuarial present value of accumulated plan benefits, which is the amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, withdrawal, or retirement) between the valuation date and the expected date of payment.

NOTES TO FINANCIAL STATEMENTS--CONTINUED

STATE POLICE RETIREMENT SYSTEM

NOTE C--ACCUMULATED BENEFITS--CONTINUED

Accumulated plan benefit information at June 30, 1981 is as follows:

Vested benefits:	
Participants currently receiving payments	\$13,149,973
Other participants	<u>28,453,862</u>
	<u>\$41,603,835</u>

The more significant assumptions underlying the actuarial computations are as follows:

Actuarial cost method	Entry age normal
Assumed rate of return on investments	7-1/2% per annum
Mortality basis	1971 Group Annuity Tables
Employee turnover	Average rates varying by age, based upon experience.
Retirement age	50% retire upon completion of 25 years of service; all others retire upon completion of 25 years of service and attainment of age 50, or upon attainment of age 55.

NOTE D--INVESTMENTS

The market value of investments at June 30, 1981 follows:

United States Government securities	\$11,692,052
Federal National Mortgage Association certificates	1,621,253
Corporate bonds and notes	6,131,553
Common stocks	11,711,712
First mortgage real estate loans	299,666
Securities purchased under agreement to resell	<u>11,552,380</u>
	<u>\$43,008,616</u>

NOTES TO FINANCIAL STATEMENTS--CONTINUED

STATE POLICE RETIREMENT SYSTEM

NOTE E--INCOME TAX STATUS

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

NOTE F--TRANSFERS TO INSURANCE FUND

By action of the 1978 General Assembly, the Kentucky Retirement Systems Insurance Fund was established to provide a group hospital and medical insurance plan for recipients of a retirement allowance from the State Police Retirement System. The insurance plan is funded by the transfer of a portion of employer contributions to the retirement system. The percentage of creditable compensation transferred to the Insurance Fund by the State Police Retirement System was .12% for the year ended June 30, 1981.

NOTE G--CHANGE IN ACCOUNTING POLICY

The System previously recorded dividend income on the cash basis. Effective July 1, 1980, the System changed its accounting policy and began recording dividend income when the System is entitled to such income (record date), and also changed the method of determining accrued interest income. The effect of such changes was to increase the Retirement Allowance Account at July 1, 1980, by approximately \$74,500 and the excess of revenues over expenses for the year ended June 30, 1981, by approximately \$50,700.

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

BALANCE SHEET

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

June 30, 1981

ASSETS

Cash on deposit with State Treasurer	\$ 87,229
Securities purchased under agreement to resell--at cost	4,442,000
Employer contributions receivable	<u>184,647</u>
	<u>\$4,713,876</u>

FUND BALANCE ALLOCATED TO

Kentucky Employes Retirement System	\$2,966,564
County Employes Retirement System	1,677,376
State Police Retirement System	<u>69,936</u>
	<u>\$4,713,876</u>

See note to financial statements.

STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN FUND BALANCE

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND

Year Ended June 30, 1981

ALLOCATED TO KENTUCKY EMPLOYES RETIREMENT SYSTEM

Revenues:

Employer contributions transferred from Kentucky Employes Retirement System	\$1,111,135
Investment income	<u>337,353</u>

TOTAL REVENUES	1,448,488
----------------	-----------

Expenses:

Insurance premium payments	<u>846,998</u>
----------------------------	----------------

EXCESS OF REVENUES OVER EXPENSES	601,490
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Fund balance at beginning of year	<u>2,365,074</u>
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FUND BALANCE AT END OF YEAR	<u><u>\$2,966,564</u></u>
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ALLOCATED TO COUNTY EMPLOYES RETIREMENT SYSTEM

Revenues:

Employer contributions transferred from County Employes Retirement System	\$ 464,964
Investment income	<u>189,018</u>

TOTAL REVENUES	653,982
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Expenses:

Insurance premium payments	<u>285,876</u>
----------------------------	----------------

EXCESS OF REVENUES OVER EXPENSES	368,106
----------------------------------	---------

Fund balance at beginning of year	<u>1,309,270</u>
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FUND BALANCE AT END OF YEAR	<u><u>\$1,677,376</u></u>
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ALLOCATED TO STATE POLICE RETIREMENT SYSTEM

Revenues:

Employer contributions transferred from State Police Retirement System	\$ 25,373
Investment income	<u>8,109</u>

TOTAL REVENUES	33,482
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Expenses:

Insurance premium payments	<u>22,036</u>
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EXCESS OF REVENUES OVER EXPENSES	11,446
----------------------------------	--------

Fund balance at beginning of year	<u>58,490</u>
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FUND BALANCE AT END OF YEAR	<u><u>\$ 69,936</u></u>
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See note to financial statements.

STATEMENT OF CHANGES IN FINANCIAL POSITION
 KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND
 Year Ended June 30, 1981

SOURCE OF FUNDS		
Excess of revenues over expenses		\$981,042
		<hr/>
	TOTAL FUNDS PROVIDED	981,042
APPLICATION OF FUNDS		
Increase in securities purchased under agreement to resell		889,000
Increase in employer contributions receivable		<u>5,546</u>
	TOTAL FUNDS USED	<u>894,546</u>
	INCREASE IN CASH	86,496
Cash on deposit with State Treasurer at beginning of year		<u>733</u>
	CASH ON DEPOSIT WITH STATE TREASURER AT END OF YEAR	<u><u>\$ 87,229</u></u>

See note to financial statements.

NOTE TO FINANCIAL STATEMENTS

KENTUCKY EMPLOYEES RETIREMENT INSURANCE FUND

June 30, 1981

NOTE A--SIGNIFICANT ACCOUNTING POLICY AND DESCRIPTION OF PLAN

The financial statements of the Fund are prepared on the accrual basis.

The Fund was established in 1978 to provide accident and health insurance for members receiving benefits from the Kentucky Employes Retirement System, County Employes Retirement System, and State Police Retirement System (Systems). The Fund and members receiving benefits pay prescribed portions of the aggregate premiums paid to an insurance company for coverage. Insurance premium payments included in the accompanying financial statements represent that portion of premiums paid by the Fund. Insurance premiums withheld from benefit payments to members of the Systems approximated \$1,071,000 for the Kentucky Employes Retirement System, \$749,000 for the County Employes Retirement System, and \$349,000 for the State Police Retirement System. The allocation of the insurance premiums paid by the Fund and amounts withheld from members' benefits is based on the years of service with the Systems, as follows:

<u>Years of Service</u>	<u>Percent Paid by Insurance Fund</u>	<u>Percent Paid by Member through Payroll Deduction</u>
20	100%	0%
15	75%	25%
10	50%	50%
4	25%	75%

The percentage of employer contributions to the Systems which are in turn transferred to the Fund are as follows:

Non-hazardous

Kentucky Employes Retirement System	0.21%
County Employes Retirement System	0.15%

Hazardous

Kentucky Employes Retirement System	0.34%
County Employes Retirement System	0.13%
State Police Retirement System	0.12%

ACTUARIAL SECTION
INTRODUCTION

Annually an actuarial valuation is prepared for each of the three retirement systems. An actuarial valuation is the mathematical means by which contingent liabilities and contribution rates of a retirement system are determined. It is a means of keeping a check on the fund to assure the members that adequate funds will be on hand in the future to meet the obligations of the retirement systems.

The actuarial valuation is prepared for the purpose of determining the present value of the liability or cost of all future benefit payments. This represents the true liability of a retirement system, and this liability is used to determine how much should be paid into the fund each year in order to have sufficient funds available in the future to meet retirement benefit payments.

A reproduction of the certification made by the consulting actuarial firm, Tillinghast, Nelson & Warren, Inc., for each of the three retirement systems is found on the next page. The results of the 1981 actuarial valuations as prepared by Tillinghast, Nelson & Warren, Inc., follow. The last item in each section is the Actuarial Assumptions used for preparation of the valuations. Several of the "Assumptions" have changed since the last Annual Report as discussed in the following paragraph.

The actuarial firm also completed an actuarial experience study of the Kentucky Retirement Systems within the past year. The experience study covered a five year period ending June 30, 1980 and its primary purpose was to determine the direction and magnitude of various demographic and economic trends which affect the current and future liabilities of the retirement system. Several assumptions were modified to recognize changing trends and to accommodate a more accurate determination of the systems' liabilities and the resulting cost factors. The more significant assumption changes included increasing the interest assumption to 7.5%; increasing the rate of salary increase assumption to 7.5% annually and adopting the 1971 Group Annuity Mortality Table. A complete copy of the Experience Study is available for examination at the Retirement System office.

These reports indicate that every dollar of future liabilities is backed by \$.65 or more in assets. The remaining unfunded liabilities are being funded annually in accordance with the statutory requirement of 1% of the outstanding principal and payment of all accrued interest. The Kentucky Retirement Systems are actuarially sound and existing law assures the continuance of an actuarially sound system.

Tillinghast, Nelson & Warren, Inc.
CONSULTANTS • ACTUARIES

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St. Louis, Missouri 63105
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September 28, 1981

Board of Trustees
Kentucky Retirement Systems
226 West Second Street
Frankfort, Kentucky 40601

Gentlemen:

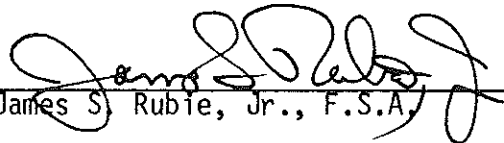
The twenty-fifth annual actuarial valuation of the Kentucky Employes Retirement System, the twenty-second annual actuarial valuation of the County Employes Retirement System, and the twenty-third annual actuarial valuation of the State Police Retirement System have been completed and the reports prepared. The valuations were made on the basis of data provided by the Retirement System as of June 30, 1981.

On the basis of the assumptions as stated in each report and the data furnished us by the Administration of the Retirement Systems, it is certified that the valuations have been made by the use of generally accepted actuarial principles and that, if the recommendations of the reports are followed, adequate provision will be made for the funding of future benefits.

The three Retirement Systems are actuarially sound. The Accrued Liabilities of the Kentucky Employes Retirement System, the County Employes Retirement System and the State Police Retirement System are being funded as required by the Kentucky Revised Statutes.

TILLINGHAST, NELSON & WARREN, INC.

By


James S. Rubie, Jr., F.S.A.

JSR:sc

KENTUCKY EMPLOYES RETIREMENT SYSTEM
RESULTS OF THE 1981 ACTUARIAL VALUATION

Actuarial Balance Sheet

Table I, which follows, is the actuarial balance sheet of the Kentucky Employees Retirement System as of June 30, 1981. The total Accrued Liabilities are classified according to type of benefit. On the asset side appear the existing assets constituting the Members Contribution and Retirement Allowance accounts, and the balancing item, the Unfunded Accrued Liability. This latter item is an account receivable item and represents the present value of future payments by the State to fully fund the Accrued Liability. A breakdown of the Accrued Liability between Hazardous and Non-Hazardous position employees appears in Table III.

Determination of Contribution Rate

The rate of contribution by the State required to provide 8 $\frac{1}{2}$ % of the Unfunded Accrued Liability, the employer share of the Normal Cost, medical insurance and the expenses of administration, is shown in Table II. The required contribution is expressed both in dollars and as a percentage of the estimated annual State payroll as of June 30, 1981.

The actuarial methods applied to determine the Normal Cost for the year commencing July 1, 1981 are described above. These costs are classified by type of benefit. The Normal Cost contribution rate of the State is determined by reducing the total Normal Cost by the expected employe contributions. A breakdown of costs as between Hazardous and Non-Hazardous position employees appears in Table III.

KENTUCKY EMPLOYES RETIREMENT SYSTEM
ACTUARIAL BALANCE SHEET JUNE 30, 1981

ASSETS

Members Contribution Account	\$125,526,815	
Retirement Allowance Account	<u>401,898,451</u>	
Total Assets in Trust Fund at Book Value		\$527,425,266*
Unfunded Accrued Liability		<u>\$164,735,129</u>

Total Assets \$692,160,395

ACCRUED LIABILITY

Inactive Members

Retired Members		\$203,295,925
Vested Retirement		10,952,573
Vested Membership		1,983,434
Reciprocities		<u>628,378</u>
Total - Inactive		\$216,860,310

Active Members

Normal Retirement Benefits		\$401,380,169
Disability Benefits		24,469,734
Withdrawal Benefits (Vested and Refund of Contributions)		28,577,666
Survivor Benefits		<u>20,872,516</u>
Total Active		\$475,300,085

Total Accrued Liability \$692,160,395

VESTED ACCRUED BENEFIT LIABILITY \$446,613,406

* Assets are net of accounts payable and dividends receivable.

The Market Value of assets as of June 30, 1981 is \$469,275,335.

KENTUCKY EMPLOYEES RETIREMENT SYSTEM
DETERMINATION OF CONTRIBUTION RATE JUNE 30, 1981

<u>UNFUNDED ACCRUED LIABILITY</u>		<u>PERCENT*</u>
Total Accrued Liability	\$692,160,395	130.16%
Less: Assets at Book Value	<u>527,425,266</u>	<u>99.18%</u>
Unfunded Accrued Liability	\$164,735,129	30.98%
Contribution - 8½% of Unfunded Accrued Liability	\$ 14,002,486	2.63%
 <u>NORMAL COST</u>		
Normal Retirement Benefits	\$ 27,970,685	5.26%
Disability Benefits	2,632,878	0.49%
Withdrawal Benefits (Vested and Refund of Contributions)	7,850,274	1.48%
Survivor Benefits	<u>1,676,411</u>	<u>0.31%</u>
Total Normal Cost	\$ 40,130,248	7.54%
Less: Employee Contributions	<u>21,342,992</u>	<u>4.01%</u>
Normal Cost - State	\$ 18,787,256	3.53%
 <u>TOTAL ANNUAL EMPLOYER COST</u>		
<u>Non-Hazardous Duty Cost</u>		
Normal Cost	\$ 18,606,059	3.51%**
8½% of Unfunded Accrued Liability	13,869,683	2.62%**
Administrative Expenses	475,070	0.09%**
Group Hospital and Medical Insurance Premium	<u>1,111,759</u>	<u>0.21%**</u>
Total Annual Cost	\$ 34,062,571	6.43%**
 <u>Hazardous Duty Cost</u>		
Normal Cost	\$ 181,197	7.61%***
8½% of Unfunded Accrued Liability	132,803	5.58%***
Administrative Expense	5,656	0.24%***
Group Hospital and Medical Insurance Premium	<u>8,093</u>	<u>0.34%***</u>
Total Annual Cost	\$ 327,749	13.77%***

* Based on estimated annual salaries of \$531,789,552.

** Based on estimated annual salaries of \$529,409,208 for Non-Hazardous Position Employees.

*** Based on estimated annual salaries of \$2,380,344 for Hazardous Position Employees.

KENTUCKY EMPLOYES RETIREMENT SYSTEM

CLASSIFICATION OF ACTUARIAL LIABILITIES AND COSTS JUNE 30, 1981

	<u>Non- Hazardous Position Employees</u>	<u>Hazardous Position Employees</u>	<u>Totals</u>
<u>ACCRUED LIABILITY</u>			
<u>Active Members</u>			
Normal Retirement Benefits	\$396,192,555	\$ 5,187,614	\$401,380,169
Disability Benefits	24,249,973	219,761	24,469,734
Withdrawal Benefits (Vested and Refund of Contributions)	28,596,773	(19,107)	28,577,666
Survivor Benefits	<u>20,686,671</u>	<u>185,845</u>	<u>20,872,516</u>
Accrued Liability (Actives)	\$469,725,972	\$ 5,574,113	\$475,300,085
<u>Inactive Members</u>			
Retired Members	\$201,140,165	\$ 2,155,760	\$203,295,925
Vested Retirement	10,921,796	30,777	10,952,573
Vested Membership	1,976,780	6,654	1,983,434
Reciprocities	<u>628,378</u>	<u>0</u>	<u>628,378</u>
Accrued Liability (Inactives)	\$214,667,119	\$ 2,193,191	\$216,860,310
Total Accrued Liability	\$684,393,091	\$ 7,767,304	\$692,160,395
<u>UNFUNDED ACCRUED LIABILITY</u>			
Total Accrued Liability	\$684,393,091	\$ 7,767,304	\$692,160,395
Less Assets	<u>521,220,348</u>	<u>6,204,918</u>	<u>527,425,266</u>
Unfunded Accrued Liability	\$163,172,743	\$ 1,562,386	\$164,735,129
<u>NORMAL COSTS</u>			
Normal Retirement Benefits	\$ 27,690,219	\$ 280,466	\$ 27,970,685
Disability Benefits	2,606,542	26,336	2,632,878
Withdrawal Benefits (Vested and Refund of Contributions)	7,831,312	18,962	7,850,274
Survivor Benefits	<u>1,654,354</u>	<u>22,057</u>	<u>1,676,411</u>
Total Normal Costs	\$ 39,782,427	\$ 347,821	\$ 40,130,248
Less Employee Contributions	<u>21,176,368</u>	<u>166,624</u>	<u>21,342,992</u>
Total Normal Cost - State	\$ 18,606,059	\$ 181,197	\$ 18,787,256
<u>VESTED ACCRUED BENEFIT LIABILITY</u>	\$440,104,404	\$ 6,509,002	\$446,613,406

KENTUCKY EMPLOYEES RETIREMENT SYSTEM
ACTUARIAL ASSUMPTIONS

Interest - 7½%.

Valuation of Assets - Book value.

Mortality - Pre-retirement - 1971 Group Annuity Mortality Table, plus a duty death rate of 5 deaths per 10,000 per year for hazardous duty employes.

Post-retirement - Same as pre-retirement. Mortality for members receiving disability allowances - Social Security Administration Disability Mortality Rates - Actuarial Study No. 75.

Turnover - First 5 years:

	<u>Turnover Rate</u>
0 to 1 Year of Service - All Ages	.350
1 to 2 Years of Service - All Ages	.100
2 to 3 Years of Service - All Ages	.080
3 to 4 Years of Service - All Ages	.065
4 to 5 Years of Service - All Ages	.050

Thereafter, annual turnover rates varying by age, as illustrated below.

Disability - Annual rates varying by age, as illustrated below.

Retirement Rates - Early Retirement:

Non-Hazardous

<u>Age</u>	<u>Retirement Rate</u>
55-61	.05
62	.25
63-64	.20
65	.70
66-67	.35
68	.45
69	.60
70 & over	1.00

At age 55-64 in lieu of the age related rate, 25% are assumed to retire as soon as eligible for unreduced benefits.

Hazardous

Assumed that 50% will retire as soon as eligible for unreduced benefits and balance will continue to age 55.

Normal Retirement: As soon as eligible.

Salary Increase - 7½% annually.

Illustration of Annual Turnover and Disability Rates Assumed

<u>Age</u>	<u>Turnover Rate</u>		<u>Disability Rate</u>	<u>Age</u>	<u>Turnover Rate</u>		<u>Disability Rate</u>
	<u>Non-Hazardous</u>	<u>Hazardous</u>			<u>Non-Hazardous</u>	<u>Hazardous</u>	
27	.060	.042	.00030	52	.036	.000	.00445
32	.060	.040	.00035	57	.020	.000	.00805
37	.056	.028	.00055	62	.000	.000	.01400
42	.048	.016	.00110	65	.000	.000	.00000
47	.043	.006	.00215				

COUNTY EMPLOYES RETIREMENT SYSTEM
RESULTS OF THE 1981 ACTUARIAL VALUATION

Actuarial Balance Sheet

Table I, which follows, is the actuarial balance sheet of the County Employees Retirement System as of June 30, 1981. The total Accrued Liabilities are classified according to type of benefit. On the asset side appear the existing assets constituting the Members Contribution and Retirement Allowance accounts, and the balancing item, the Unfunded Accrued Liability. This latter item is an account receivable item and represents the present value of future payments by the participating Agencies to fully fund the Accrued Liability. A breakdown of the Accrued Liability between Hazardous and Non-Hazardous position employees appears in Table III.

Determination of Contribution Rate

The contribution rate of the participating Agencies required to provide 8½% of the Unfunded Accrued Liability, the employer share of the annual Normal Cost, medical insurance, and the administrative costs of the System is shown in Table II. The required contribution is expressed both in dollars and as a percentage of the estimated payroll of the participating Agencies as of June 30, 1981.

The actuarial methods applied to determine the Normal Cost for the year commencing July 1, 1981 are described above. These costs are classified by type of benefit. The Normal Cost contribution rate of the participating Agencies is determined by reducing the total Normal Cost by the expected employee contributions. A breakdown of costs as between Hazardous and Non-Hazardous position employees appears in Table III.

COUNTY EMPLOYES RETIREMENT SYSTEM
ACTUARIAL BALANCE SHEET JUNE 30, 1980

ASSETS

Members Contribution Account	\$ 57,880,422	
Retirement Allowance Account	<u>175,889,823</u>	
Total Assets in Trust Fund at Book Value		\$233,770,245*
Unfunded Accrued Liability		<u>\$ 27,101,917</u>
 Total Assets		 \$260,872,162

ACCRUED LIABILITY

Inactive Members		
Retired Members		\$ 68,546,856
Vested Retirement		6,961,669
Vested Membership		1,919,348
Reciprocities		<u>125,535</u>
Total - Inactive		\$ 77,553,408
Active Members		
Normal Retirement Benefits		\$157,593,401
Disability Benefits		9,711,888
Withdrawal Benefits (Vested and Refund of Contributions)		8,572,241
Survivor Benefits		<u>7,441,224</u>
Total - Active		\$183,318,754
 Total Accrued Liability		 \$260,872,162
 <u>VESTED ACCRUED BENEFIT LIABILITY</u>		 \$174,261,296

* Assets are net of accounts payable and dividends receivable.

The Market Value of assets as of June 30, 1981 is \$206,772,701.

COUNTY EMPLOYES RETIREMENT SYSTEM
DETERMINATION OF CONTRIBUTION RATE JUNE 30, 1981

<u>UNFUNDED ACCRUED LIABILITY</u>		<u>PERCENT*</u>
Total Accrued Liability	\$260,872,162	81.21%
Less: Assets at Book Value	233,770,245	72.77%
Unfunded Accrued Liability	<u>\$ 27,101,917</u>	<u>8.44%</u>
Contribution - 8½% of Unfunded Accrued Liability	\$ 2,303,663	0.72%
 <u>NORMAL COST</u>		
Normal Retirement Benefits	\$ 19,448,952	6.06%
Disability Benefits	1,737,501	0.54%
Withdrawal Benefits (Vested and Refund of Contributions)	4,252,284	1.32%
Survivor Benefits	1,084,234	0.34%
Total Normal Cost	<u>\$ 26,522,971</u>	<u>8.26%</u>
Less: Employee Contributions	<u>13,199,827</u>	<u>4.11%</u>
Normal Cost - County	\$ 13,323,144	4.15%
 <u>TOTAL ANNUAL EMPLOYER COST</u>		
<u>Non-Hazardous Duty Cost</u>		
Normal Cost	\$ 12,234,804	3.95%**
8½% of Unfunded Accrued Liability	2,200,325	0.71%**
Administrative Expense	303,381	0.10%**
Group Hospital and Medical Insurance Premium	464,343	0.15%**
Total Annual Cost	<u>\$ 15,202,853</u>	<u>4.91%**</u>
 <u>Hazardous Duty Cost</u>		
Normal Cost	\$ 1,088,340	9.32%***
8½% of Unfunded Accrued Liability	103,338	0.89%***
Administrative Expense	36,442	0.31%***
Group Hospital and Medical Insurance Premiums	15,179	0.13%***
Total Annual Cost	<u>\$ 1,243,299</u>	<u>10.65%***</u>

* Based on estimated annual salaries of \$321,238,452.

** Based on estimated annual salaries of \$309,562,152 for Non-Hazardous Position Employees.

*** Based on estimated annual salaries of \$11,676,300 for Hazardous Position Employees.

COUNTY EMPLOYES RETIREMENT SYSTEM

CLASSIFICATION OF ACTUARIAL LIABILITIES AND COSTS JUNE 30, 1981

	<u>Non- Hazardous Position Employees</u>	<u>Hazardous Position Employees</u>	<u>Total</u>
<u>ACCRUED LIABILITY</u>			
<u>Active Members</u>			
Normal Retirement Benefits	\$136,786,674	\$ 20,806,727	\$157,593,401
Disability Benefits	9,124,934	586,954	9,711,888
Withdrawal Benefits (Vested and Refund of Contributions)	8,370,024	202,217	8,572,241
Survivor Benefits	<u>7,010,768</u>	<u>430,456</u>	<u>7,441,224</u>
Accrued Liability (Actives)	\$161,292,400	\$ 22,026,354	\$183,318,754
<u>Inactive Members</u>			
Retired Members	\$ 64,338,290	\$ 4,208,566	\$ 68,546,856
Vested Retirement	6,918,225	43,444	\$ 6,961,669
Vested Membership	1,913,007	6,341	1,919,348
Reciprocities	<u>125,535</u>	<u>0</u>	<u>125,535</u>
Accrued Liability (Inactives)	\$ 73,295,057	\$ 4,258,351	\$ 77,553,408
Total Accrued Liability	\$234,587,457	\$ 26,284,705	\$260,872,162
<u>UNFUNDED ACCRUED LIABILITY</u>			
Total Accrued Liability	\$234,587,457	\$ 26,284,705	\$260,872,162
Less Assets	<u>208,701,281</u>	<u>25,068,964</u>	<u>233,770,245</u>
Unfunded Accrued Liability	\$ 25,886,176	\$ 1,215,741	\$ 27,101,917
<u>NORMAL COSTS</u>			
Normal Retirement Benefits	\$ 17,834,550	\$ 1,614,402	\$ 19,448,952
Disability Benefits	1,651,808	85,693	1,737,501
Withdrawal Benefits (Vested and Refund of Contributions)	4,119,766	132,518	4,252,284
Survivor Benefits	<u>1,011,166</u>	<u>73,068</u>	<u>1,084,234</u>
Total Normal Cost	\$ 24,617,290	\$ 1,905,681	\$ 26,522,971
Less Employee Contributions	<u>12,382,486</u>	<u>817,341</u>	<u>13,199,827</u>
Total Normal Cost - County	\$ 12,234,804	\$ 1,088,340	\$ 13,323,144
<u>VESTED ACCRUED BENEFIT LIABILITY</u>	\$159,149,911	\$ 15,111,385	\$174,261,296

COUNTY EMPLOYEES RETIREMENT SYSTEM
ACTUARIAL ASSUMPTIONS

Interest - 7½%.

Valuation of Assets - Book Value.

Mortality - Pre-retirement - 1971 Group Annuity Mortality Table, plus a duty death rate of 5 deaths per 10,000 per year for hazardous duty employes.

Post-retirement - Same as pre-retirement. Mortality for members receiving disability allowances - Social Security Administration Disability Mortality Rates - Actuarial Study No. 75.

Turnover - First 5 Years:

	<u>Turnover Rate</u>
0 to 1 Year of Service - All Ages	.350
1 to 2 Years of Service - All Ages	.100
2 to 3 Years of Service - All Ages	.080
3 to 4 Years of Service - All Ages	.065
4 to 5 Years of Service - All Ages	.050

Thereafter, annual turnover rates varying by age, as illustrated below.

Disability - Annual rates varying by age, as illustrated below.

Retirement Rates - Early Retirement:

Non-Hazardous

<u>Age</u>	<u>Retirement Rate</u>
55-61	.05
62	.25
63-64	.20
65	.70
66-67	.35
68	.45
69	.60
70 & over	1.00

At age 55-64 in lieu of the age related rate, 25% are assumed to retire as soon as eligible for unreduced benefits.

Hazardous

Assumed that 50% will retire as soon as eligible for unreduced benefits and balance will continue to age 55.

Normal Retirement: As soon as eligible.

Salary Increase - 7½% annually.

Illustration of Annual Turnover and Disability Rates Assumed

<u>Age</u>	<u>Turnover Rate</u>		<u>Disability Rate</u>	<u>Age</u>	<u>Turnover Rate</u>		<u>Disability Rate</u>
	<u>Non-Hazardous</u>	<u>Hazardous</u>			<u>Non-Hazardous</u>	<u>Hazardous</u>	
27	.060	.042	.00030	52	.036	.000	.00445
32	.060	.040	.00035	57	.020	.000	.00805
37	.056	.028	.00055	62	.000	.000	.01400
42	.048	.016	.00110	65	.000	.000	.00000
47	.043	.006	.00215				

STATE POLICE RETIREMENT SYSTEM
RESULTS OF THE 1981 ACTUARIAL VALUATION

Actuarial Balance Sheet

Table I, which follows, is the actuarial balance sheet of the State Police Retirement System as of June 30, 1981. The total Accrued Liabilities are classified according to type of benefit. On the asset side appear the existing assets constituting the Members Contribution and Retirement Allowance Accounts, and the balancing item, the Unfunded Accrued Liability. This latter item is an account receivable item and represents the present value of future payments by the State to fully fund the Accrued Liability.

Determination of Contribution Rate

The rate of contribution by the State required to provide 8½% of the unfunded Accrued Liability, the employer share of the Normal Cost, medical insurance, and the expenses of administration, is shown in Table II. The required contribution is expressed both in dollars and as a percentage of the estimated annual covered payroll as of June 30, 1981.

The actuarial methods applied to determine the Normal Cost for the year commencing July 1, 1981, are described above. These costs are classified by type of benefit. The Normal Cost contribution rate of the State is determined by reducing the total Normal Cost by the expected employe contributions.

STATE POLICE RETIREMENT SYSTEM
ACTUARIAL BALANCE SHEET JUNE 30, 1981

ASSETS

Members Contribution Account	\$ 11,157,223	
Retirement Allowance Account	<u>37,073,080</u>	
Total Assets in Fund: at Book Value		\$ 48,230,303*
Unfunded Accrued Liability		<u>\$ 23,296,425</u>

Total Assets \$ 71,526,728

ACCRUED LIABILITIES

Inactive Members

Retired and Disabled		\$ 13,149,973
Vested Retirements		385,208
Vested Membership		11,905
Reciprocities		<u>284,076</u>
Total Inactive		\$ 13,831,162

Active Members

Normal Retirement Benefits		\$ 55,871,280
Disability Benefits		853,871
Withdrawal Benefits (Vested and Refund of Contributions)		643,905
Survivor Benefits		<u>326,510</u>
Total Active		\$ 57,695,566

Total Accrued Liability \$ 71,526,728

VESTED ACCRUED BENEFIT LIABILITY \$ 41,603,835

* Assets are net of accounts payable and dividends receivable.

The Market Value of assets as of June 30, 1981 is \$43,008,616.

STATE POLICE RETIREMENT SYSTEM
DETERMINATION OF CONTRIBUTION RATE JUNE 30, 1981

<u>UNFUNDED ACCRUED LIABILITY</u>		<u>PERCENT*</u>
Total Accrued Liabilities	\$ 71,526,728	307.02%
Less: Assets at Book Value	48,230,303	207.02%
Unfunded Accrued Liability	<u>\$ 23,296,425</u>	<u>100.00%</u>
 Contribution - 8½% of Unfunded Accrued Liability	 \$ 1,980,196	 8.50%
 <u>NORMAL COST</u>		
Normal Retirement Benefits	\$ 3,151,429	13.53%
Disability Benefits	118,025	0.51%
Withdrawal Benefits (Vested and Refund of Contributions)	296,914	1.27%
Survivors Benefits	84,722	0.36%
Total - Normal Cost	<u>\$ 3,651,090</u>	<u>15.67%</u>
Less: Employee Contributions	1,630,810	7.00%
Normal Cost - State	<u>\$ 2,020,280</u>	<u>8.67%</u>
 <u>TOTAL ANNUAL COST - STATE</u>		
Normal Cost	\$ 2,020,280	8.67%
8½% of Unfunded Accrued Liability	1,980,196	8.50%
Administrative Expense Allowance	8,288	0.04%
Group Hospital and Medical Insurance Premiums	27,957	.12%
Total Annual Cost - State	<u>\$ 4,036,721</u>	<u>17.33%</u>

* Based on estimated annual salaries of \$23,297,280.

STATE POLICE RETIREMENT SYSTEM

ACTUARIAL ASSUMPTIONS

- Interest - 7½%.
- Valuation of Investments - Book value.
- Mortality - Pre-retirement - 1971 Group Annuity Mortality Table, plus a duty death rate of 5 deaths per 10,000 employes per year.
 Post-retirement - 1971 Group Annuity Mortality Table. Mortality of members receiving disability allowances - Social Security Administration Mortality Rates - Actuarial Study No. 75.
- Turnover - Annual rates varying by age, as illustrated below.
- Disability - Annual rates varying by age, as illustrated below.
- Retirement Rates - 50% retire upon completion of 25 years of service; all others retire upon completion of 25 years of service and attainment of age 50, or upon attainment of age 55.
- Salary Increases - 7½% annually.

Illustration of Annual Turnover and Disability Rates Assumed

<u>Age</u>	<u>Turnover Rate</u>	<u>Disability Rate</u>	
		<u>Non-Duty</u>	<u>Duty</u>
22	.0405	.00025	.00025
27	.0423	.00030	.00030
32	.0400	.00035	.00035
37	.0275	.00055	.00055
42	.0160	.00110	.00110
47	.0060	.00215	.00215
52	.0000	.00445	.00445

INVESTMENT SECTION
INTRODUCTION

The Kentucky Revised Statutes provide that the Board of Trustees shall be the trustee and shall have the fiduciary responsibility for the several funds administered by the Kentucky Retirement Systems. Consistent with this provision and because the management of the several funds demands current attention, the Board annually adopts a resolution directing its Chairman to appoint an Investment Committee with full power to act for the Board in the management of investment activities. The Investment Committee consists of three members of the Board of Trustees and regularly reports its activities to the full Board for its review and approval.

In conjunction with the Investment Committee concept, the Board also adopts an "Investment Policy" which defines objectives and guidelines for the operation of the Investment Committee. This policy is reviewed and updated on a periodic basis. At June 30, 1981, the stated investment objective was as follows:

"To maximize long-range return commensurate with the goal of maintaining a high standard of quality in the investment portfolio. Diversification of assets among and within the different classes of securities will be sought in order to achieve a proper balance in investment opportunities."

An external investment counseling firm is employed on a contractual basis to provide specific investment advice to the Investment Committee. Since late 1979, this service has been provided by Capital Supervisors, Inc., of Chicago, Illinois. A letter from this firm is included in the following pages which summarize fiscal year 1981 investment activity.

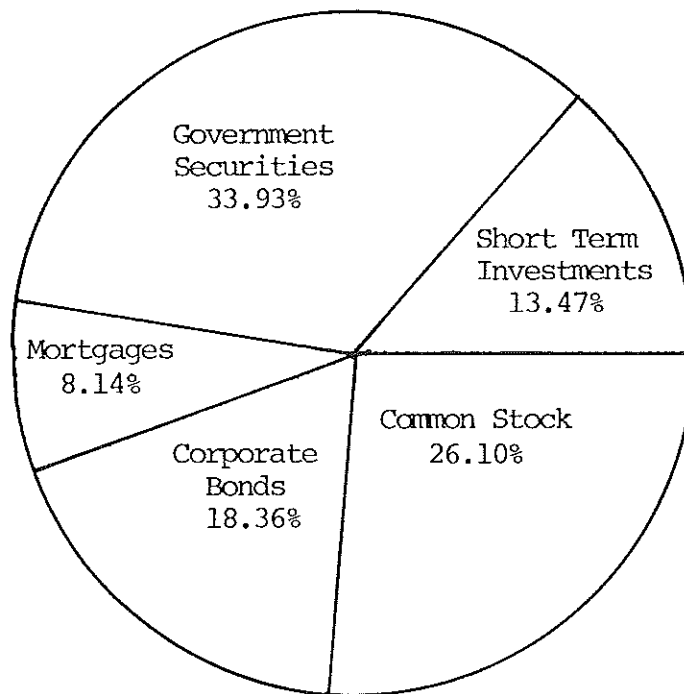
The bar graphs on page 56 reveal the substantial growth in portfolio and investment income that has been enjoyed by the separate retirement systems since 1965. The total book value of the three portfolios (KERS, CERS, SPRS) at June 30, 1981 was \$791.8 million, an increase from \$669.3 million one year ago. Investment income from the three systems combined totaled \$58.3 million for the year, an increase of more than \$7.9 million or 15.6% over the previous year.

A separate portfolio summary is provided on pages 57, 58, and 59 for each retirement system and a total portfolio summary of the three systems combined is found on page 60. Following these summaries is a detail listing of the common stock portfolio held by the combined systems (page 61) as of June 30, 1981 and then a detail listing of the bond portfolio held by the combined systems (pages 62-64) at June 30, 1981. The final Table in this section is a detail report of the securities held in the Insurance Fund at June 30, 1981.

At June 30, 1981, the indicated yield for the bond portfolio was 10.5% based on book value. This represents an increase of more than two percentage points from one year ago when the indicated yield was 8.2%. The "total rate of return" (which is comprised of income earned plus realized and unrealized capital appreciation or loss) for the total portfolio for the year ended June 30, 1981 was 3.1%. This measure is largely a function of how the various securities markets performed during the period of time in question. During 1980-81, interest rates increased dramatically which caused a decline in the market value of bonds. This decline in market value resulted in a "total return" considerably lower than the current yield that was actually realized in terms of income received as a percentage of dollars invested. Since bonds are normally held to maturity, fluctuations in their market value have little impact on the financial soundness of the retirement systems. During this same year, the total rate of return for common stocks was a positive 22.8%. Portfolio performance is measured and analyzed on a quarterly basis by a major independent investment banking company.

The Citizens Fidelity Bank in Louisville, Kentucky is employed on a contractual basis to serve as the Custodian of Securities for the retirement systems. All eligible securities are retained at the Depository Trust Company which facilitates the settlement of securities transactions and expedites the collection of investment income. Single family FHA and VA mortgages remain in the custody of the State Treasurer.

At June 30, 1981, the investments of the combined retirement systems were distributed as indicated below.





Capital Supervisors, Inc. / 20 North Clark Street, Suite 700, Chicago, Illinois 60602 / Phone (312) 236-8271

A. Lee Thurow
President

July 22, 1981

Board of Trustees
Kentucky Retirement System
226 West Second Street
Frankfort, Kentucky 40601

As investment advisors to the Board we submit the following summary of activities for the past fiscal year.

During the period we purchased \$39.2 million dollars in stocks and sold \$6.8 million. Stocks were the best performing asset for the system during the period rising over 20% in value. This compared quite favorably with the major market indexes such as the Dow Jones Industrial Average which rose 12.6% and the Standard & Poor's 500 Index which rose 14.6%.

During the fiscal year, we purchased \$105 million face value Bonds at a cost of approximately \$97 million to yield almost 13 1/2%. \$8 million bonds having coupons of about 8 3/4% matured during the year. Emphasis was on quality with most of the purchases being governments or government agencies. The issues have an average life of nine years, giving you considerable protection while still sharing in much of the upside.

As of June 30th Cash Equivalentents represented 15% of assets at market value, Stocks 33% and Bonds 52%, overall yield was 9.7%.

Patience and caution continue to be the watchwords for now. Patience should be shown in regard to bonds which do not yet reflect the disinflationary environment which we believe is unfolding.

Caution should be shown in regard to stocks in that the shift to disinflation is causing some economic problems which may manifest themselves in lower stock prices. Long term the current developments could lead to a better environment for both stocks and bonds.

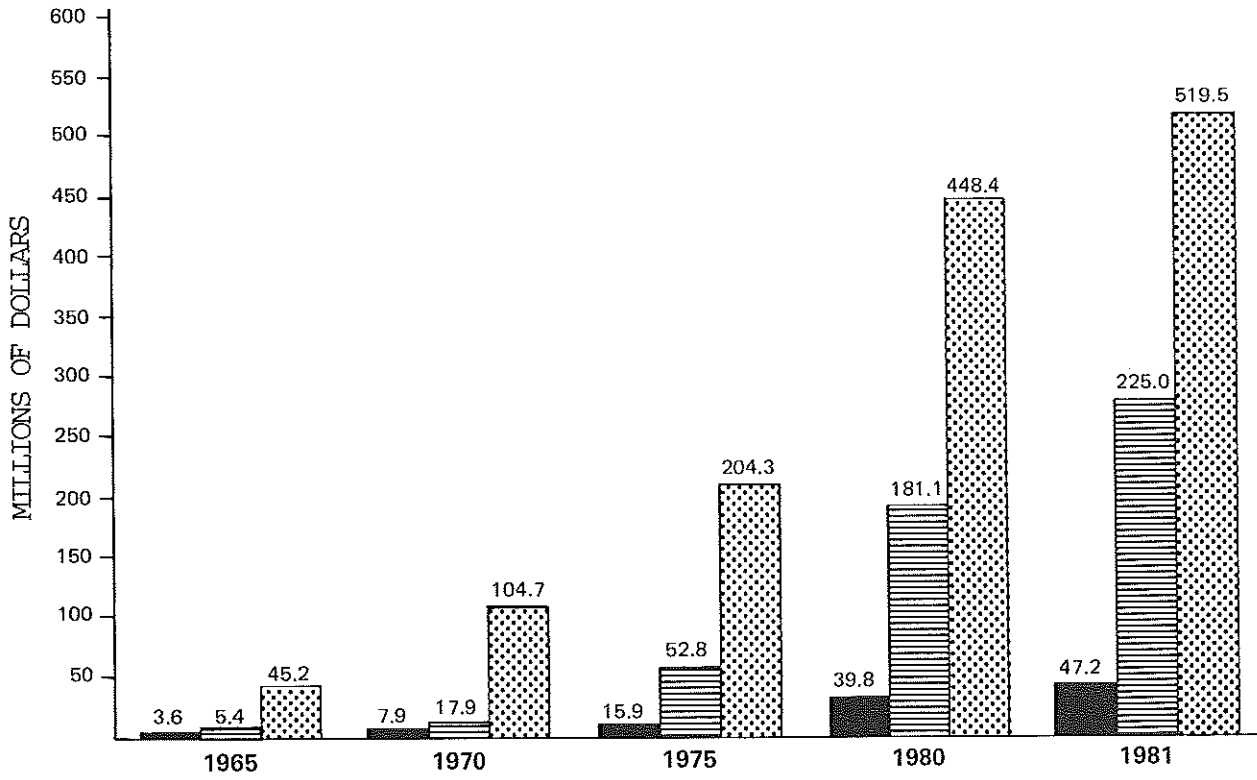
Respectfully Submitted,

CAPITAL SUPERVISORS, INC.

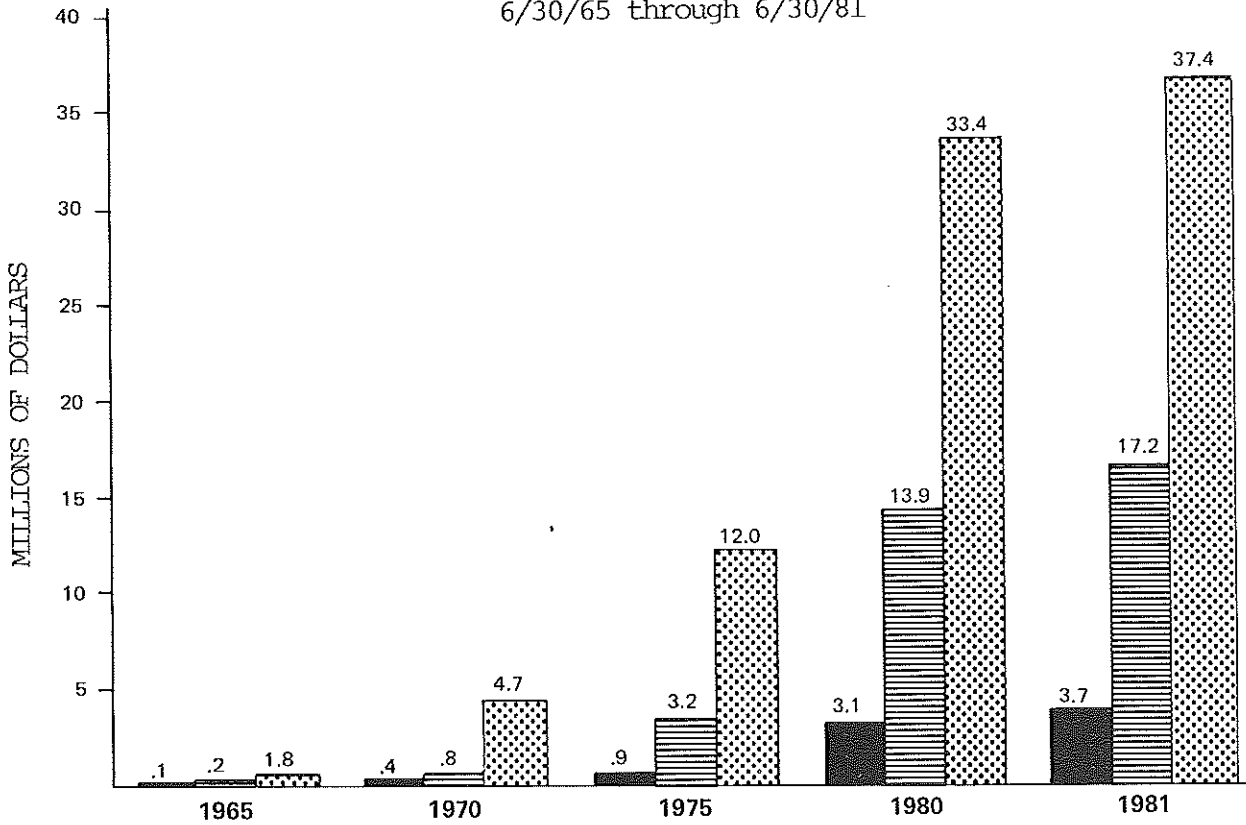
By: *A. Lee Thurow*
Lee Thurow
President

Theodore R. Tonneman
Theodore R. Tonneman
Executive Vice President

PORTFOLIO GROWTH
(at book value)
6/30/65 through 6/30/81



PORTFOLIO INCOME GROWTH
(Interest and Dividends)
6/30/65 through 6/30/81



KENTUCKY RETIREMENT SYSTEMS
 PORTFOLIO SUMMARY: 06/30/81

STATE EMPLOYEES (KERS)

***** FIXED INCOME *****

DESCRIPTION	CORPORATES	GOVERNMENTS	MORTGAGES	SHORT TERM	TOTAL
PAR VALUE	101,669,834.30	186,651,484.17	47,826,098.91	47,527,729.00	383,675,146.38
% OF TOTAL PAR VALUE	26%	49%	12%	12%	100%
BOOK VALUE	100,960,819.74	184,206,564.16	43,713,238.57	47,527,729.00	376,408,350.47
% OF TOTAL BOOK VALUE	27%	49%	12%	13%	100%
MARKET VALUE	75,239,652.37	147,718,953.34	36,978,116.06	47,527,729.00	307,464,450.77
% OF TOTAL MARKET VALUE	24%	48%	12%	15%	100%
POTENTIAL GAIN (OR LOSS)	-25,721,166.37	-36,487,610.82	-6,735,122.51	.00	-68,943,899.70
INDICATED ANNUAL INCOME	9,142,472.44	15,378,531.35	5,032,034.34	8,066,845.63	37,619,883.76
CURRENT YIELD - BOOK VALUE	9.06	8.35	11.51	16.97	9.99
- MARKET VALUE	12.15	10.41	13.61	16.97	12.24
YIELD TO MATURITY - MKT VALUE	14.88	13.88	13.97	16.97	14.54
AVERAGE COUPON	8.99	8.24	10.52	16.97	9.81
AVERAGE MATURITY (YEARS)	11.82	7.17	23.71	.09	9.59

***** COMMON STOCK *****

NO. OF SHARES	BOOK VALUE/COST	POTENTIAL GAIN (OR LOSS)	INDICATED DIVIDEND INCOME	CURRENT YIELD ON MARKET
3,956,024	143,115,978.20	18,694,906.59	8,247,953.74	5.10

***** TOTAL PORTFOLIO *****

TYPE	BOOK VALUE	PCTAGE OF PORTFOLIO	MARKET VALUE	PCTAGE OF PORTFOLIO	INDICATED INCOME	INDICATED YIELD ON MARKET
CORPORATES	100,960,819.74	19%	75,239,652.37	16%	9,142,472.44	12.15
GOVERNMENTS	184,206,564.16	35%	147,718,953.34	31%	15,378,531.35	10.41
MORTGAGES	43,713,238.57	8%	36,978,116.06	8%	5,032,034.34	13.61
SHORT TERM	47,527,729.00	9%	47,527,729.00	10%	8,066,845.63	16.97
COMMON STOCK	143,115,978.20	28%	161,810,884.79	34%	8,247,953.74	5.10
TOTAL PORTFOLIO	519,524,328.67	100%	469,275,335.56	100%	45,867,837.50	9.77

KENTUCKY RETIREMENT SYSTEMS
 PORTFOLIO SUMMARY: 06/30/81

COUNTY EMPLOYEES (CERS)

***** FIXED INCOME *****

DESCRIPTION	CORPORATES	GOVERNMENTS	MORTGAGES	SHORT TERM	TOTAL
PAR VALUE	36,497,192.50	70,672,311.63	20,267,543.87	47,609,891.00	175,045,939.00
% OF TOTAL PAR VALUE	21%	40%	12%	27%	100%
BOOK VALUE	36,181,252.68	69,717,637.58	18,369,338.30	47,609,891.00	171,878,119.56
% OF TOTAL BOOK VALUE	21%	41%	11%	28%	100%
MARKET VALUE	26,830,370.39	55,793,374.34	16,656,739.57	47,609,891.00	146,890,375.30
% OF TOTAL MARKET VALUE	18%	38%	11%	32%	100%
POTENTIAL GAIN (OR LOSS)	-9,350,882.29	-13,924,263.24	-1,717,598.73	.00	-24,987,744.26
INDICATED ANNUAL INCOME	3,337,872.67	5,830,777.66	2,360,787.53	8,089,428.76	19,618,866.62
CURRENT YIELD - BOOK VALUE	9.23	9.36	12.85	16.99	11.41
- MARKET VALUE	12.44	10.45	14.17	16.99	13.36
YIELD TO MATURITY - MKT VALUE	14.82	13.92	13.90	16.99	14.94
AVERAGE COUPON	9.15	8.25	11.65	16.99	11.21
AVERAGE MATURITY (YEARS)	12.52	7.46	25.22	.09	8.57

***** COMMON STOCK *****

NO. OF SHARES	BOOK VALUE/COST	POTENTIAL GAIN (OR LOSS)	INDICATED DIVIDEND INCOME	-----CURRENT YIELD----- ON COST	ON MARKET
1,471,151	53,163,107.49	6,719,218.43	3,015,941.02	5.67	5.04

***** TOTAL PORTFOLIO *****

TYPE	BOOK VALUE	PCTAGE OF PORTFOLIO	MARKET VALUE	PCTAGE OF PORTFOLIO	INDICATED INCOME	-----INDICATED YIELD----- ON BOOK	ON MARKET
CORPORATES	36,181,252.68	16%	26,830,370.39	13%	3,337,872.67	9.23	12.44
GOVERNMENTS	69,717,637.58	31%	55,793,374.34	27%	5,830,777.66	8.36	10.45
MORTGAGES	18,369,338.30	8%	16,656,739.57	8%	2,360,787.53	12.85	14.17
SHORT TERM	47,609,891.00	21%	47,609,891.00	23%	8,089,428.76	16.99	16.99
COMMON STOCK	53,163,107.49	24%	59,882,325.92	29%	3,015,941.02	5.67	5.04
TOTAL PORTFOLIO	225,041,227.05	100%	206,772,701.22	100%	22,634,807.64	10.06	10.95

KENTUCKY RETIREMENT SYSTEMS
 PORTFOLIO SUMMARY: 06/30/81

STATE POLICE (SPRS)

***** FIXED INCOME *****

DESCRIPTION	CORPORATES	GOVERNMENTS	MORTGAGES	SHORT TERM	TOTAL
PAR VALUE	8,247,639.12	14,859,004.20	2,623,379.05	11,552,380.00	37,282,402.37
% OF TOTAL PAR VALUE	22%	40%	7%	31%	100%
BOOK VALUE	8,188,783.55	14,718,472.63	2,380,122.93	11,552,380.00	36,839,759.11
% OF TOTAL BOOK VALUE	22%	40%	6%	31%	100%
MARKET VALUE	6,131,552.93	11,692,052.38	1,920,918.77	11,552,380.00	31,296,904.08
% OF TOTAL MARKET VALUE	20%	37%	6%	37%	100%
POTENTIAL GAIN (OR LOSS)	-2,057,230.62	-3,026,420.25	-459,204.16	.00	-5,542,855.03
INDICATED ANNUAL INCOME	735,907.14	1,207,773.99	254,606.77	1,988,708.57	4,186,996.47
CURRENT YIELD - BOOK VALUE	8.99	8.21	10.70	17.21	11.37
- MARKET VALUE	12.00	10.33	13.25	17.21	13.38
YIELD TO MATURITY - MKT VALUE	14.82	13.92	13.63	17.21	15.12
AVERAGE COUPON	8.92	8.13	9.71	17.21	11.23
AVERAGE MATURITY (YEARS)	11.25	7.46	24.16	.08	7.19

***** COMMON STOCK *****

NO. OF SHARES	BOOK VALUE/COST	POTENTIAL GAIN (OR LOSS)	INDICATED DIVIDEND INCOME	-----CURRENT YIELD----- ON COST	ON MARKET
284,707	10,374,823.54	1,336,888.48	604,228.56	5.82	5.16

***** TOTAL PORTFOLIO *****

TYPE	BOOK VALUE	PCTAGE OF PORTFOLIO	MARKET VALUE	PCTAGE OF PORTFOLIO	INDICATED INCOME	-----INDICATED YIELD----- ON BOOK	ON MARKET
CORPORATES	8,188,783.55	17%	6,131,552.93	14%	735,907.14	8.99	12.00
GOVERNMENTS	14,718,472.63	31%	11,692,052.38	27%	1,207,773.99	8.21	10.33
MORTGAGES	2,380,122.93	5%	1,920,918.77	4%	254,606.77	10.70	13.25
SHORT TERM	11,552,380.00	24%	11,552,380.00	27%	1,988,708.57	17.21	17.21
COMMON STOCK	10,374,823.54	22%	11,711,712.02	27%	604,228.56	5.82	5.16
TOTAL PORTFOLIO	47,214,582.65	100%	43,008,616.10	100%	4,791,225.03	10.15	11.14

KENTUCKY RETIREMENT SYSTEMS
 PORTFOLIO SUMMARY: 06/30/81

ALL SYSTEMS COMBINED

***** FIXED INCOME *****

DESCRIPTION	CORPORATES	GOVERNMENTS	MORTGAGES	SHORT TERM	TOTAL
PAR VALUE	146,414,665.92	272,182,800.00	70,717,021.83	106,690,000.00	596,004,487.75
% OF TOTAL PAR VALUE	25%	46%	12%	18%	100%
BOOK VALUE	145,330,854.97	268,642,674.37	64,462,699.80	106,690,000.00	585,126,229.14
% OF TOTAL BOOK VALUE	25%	46%	11%	18%	100%
MARKET VALUE	108,201,575.69	215,204,380.06	55,555,774.40	106,690,000.00	485,651,730.15
% OF TOTAL MARKET VALUE	22%	44%	11%	22%	100%
POTENTIAL GAIN (OR LOSS)	-37,129,279.28	-53,438,294.31	-8,906,925.40	.00	-99,474,498.99
INDICATED ANNUAL INCOME	13,216,252.25	22,447,083.00	7,647,428.64	18,144,982.96	61,425,746.85
CURRENT YIELD - BOOK VALUE	9.09	8.34	11.86	17.01	10.50
- MARKET VALUE	12.21	10.42	13.77	17.01	12.65
YIELD TO MATURITY - MKT VALUE	14.87	13.89	13.94	17.01	14.69
AVERAGE COUPON	9.03	8.24	10.81	17.01	10.31
AVERAGE MATURITY (YEARS)	11.96	7.26	24.16	.09	9.14

***** COMMON STOCK *****

NO. OF SHARES	BOOK VALUE/COST	MARKET VALUE	POTENTIAL GAIN (OR LOSS)	INDICATED DIVIDEND INCOME	ON COST	CURRENT YIELD ON MARKET
5,711,882	206,653,909.23	233,404,922.73	26,751,013.50	11,868,123.32	5.74	5.08

***** TOTAL PORTFOLIO *****

TYPE	BOOK VALUE	PCTAGE OF PORTFOLIO	MARKET VALUE	PCTAGE OF PORTFOLIO	INDICATED INCOME	ON BOOK	INDICATED YIELD ON MARKET
CORPORATES	145,330,854.97	18%	108,201,575.69	15%	13,216,252.25	9.09	12.21
GOVERNMENTS	268,642,674.37	34%	215,204,380.06	30%	22,447,083.00	8.34	10.42
MORTGAGES	64,462,699.80	8%	55,555,774.40	8%	7,647,428.64	11.86	13.77
SHORT TERM	106,690,000.00	13%	106,690,000.00	15%	18,144,982.96	17.01	17.01
COMMON STOCK	206,653,909.23	26%	233,404,922.73	32%	11,868,123.32	5.74	5.08
TOTAL PORTFOLIO	791,780,138.37	100%	719,056,652.88	100%	73,293,870.17	9.26	10.19

KENTUCKY RETIREMENT SYSTEMS
COMMON STOCK PORTFOLIO FOR THE PERIOD ENDED 6/30/81

NAME OF SECURITY	SHARES	COST	6/30/81 MARKET	TOTAL MARKET VALUE	POTENTIAL GAIN OR LOSS	EARNINGS PER SHARE		P/E RATIO	YIELD
						1979	1980		
ACF Industries	100,000	38	45	\$ 4,450,000	\$ 680,475	\$ 5.44	\$ 5.02	8	6.2%
Allied Corporation	101,889	39	54	\$ 5,489,268	\$ 1,465,973	\$ 5.25	\$ 8.15	6	3.7%
American Express	70,000	36	48	\$ 3,386,249	\$ 861,075	\$ 4.83	\$ 5.27	9	4.1%
American Tel & Tel	224,540	57	56	\$ 12,630,374	\$ 110,762	\$ 8.04	\$ 8.19	6	9.6%
Atlantic Richfield	20,000	42	48	\$ 950,000	\$ 109,137	\$ 4.74	\$ 6.64	7	4.6%
Baxter Travenol Lab	100,000	41	54	\$ 5,437,499	\$ 1,358,253	\$ 3.29	\$ 3.72	14	1.4%
Beatrice Foods	132,600	27	22	\$ 2,884,049	\$ 739,936	\$ 2.81	\$ 2.94	7	6.4%
Bristol Meyers	100,000	34	50	\$ 4,987,500	\$ 1,555,175	\$ 3.50	\$ 4.08	12	3.7%
Capital Holding	100,000	17	23	\$ 2,300,000	\$ 581,250	\$ 2.96	\$ 3.20	7	5.2%
Coca-Cola Company	100,000	52	35	\$ 3,474,999	\$ 1,749,653	\$ 3.40	\$ 3.42	10	6.7%
Conoco	154,500	33	66	\$ 10,119,749	\$ 5,068,813	\$ 7.58	\$ 9.52	6	4.0%
CSX Corporation	132,400	43	55	\$ 7,298,550	\$ 2,023,550	\$ 6.05	\$ 7.13	7	4.6%
Dart & Kraft Inc.	23,600	40	51	\$ 1,209,500	\$ 199,802	\$ 6.71	\$ 7.03	6	6.6%
Deere & Co.	65,000	37	39	\$ 2,551,249	\$ 131,408	\$ 5.12	\$ 3.72	10	5.1%
Disney Products	50,000	35	63	\$ 3,168,749	\$ 1,329,569	\$ 3.51	\$ 4.15	15	1.6%
Dow Chemical	150,000	35	33	\$ 4,968,750	\$ 257,700	\$ 4.33	\$ 4.42	7	5.4%
Eastman Kodak	75,000	86	75	\$ 5,606,249	\$ 813,937	\$ 6.20	\$ 7.15	10	4.0%
Eli Lilly	100,000	46	61	\$ 6,100,000	\$ 1,518,372	\$ 4.43	\$ 4.52	13	3.8%
Exxon	280,000	24	34	\$ 9,590,000	\$ 2,881,745	\$ 4.87	\$ 6.51	5	4.8%
FMC Corporation	100,000	26	33	\$ 3,325,000	\$ 757,062	\$ 4.55	\$ 4.26	7	4.8%
Gannett	110,850	26	40	\$ 4,475,567	\$ 1,632,298	\$ 2.50	\$ 2.81	14	3.8%
General Electric	100,000	52	62	\$ 6,187,498	\$ 1,029,684	\$ 6.20	\$ 6.65	9	5.2%
General Mills	133,700	33	38	\$ 5,063,887	\$ 717,079	\$ 2.92	\$ 3.37	11	3.9%
General Signal	100,000	33	46	\$ 4,587,500	\$ 1,246,050	\$ 3.52	\$ 4.01	11	3.2%
Great Northern Nekossa	100,000	34	44	\$ 4,350,000	\$ 976,662	\$ 3.65	\$ 4.25	7	4.1%
Haliburton	90,400	31	60	\$ 5,401,399	\$ 2,631,685	\$ 3.21	\$ 4.65	14	1.7%
Harris Corporation	65,000	34	45	\$ 2,916,874	\$ 701,600	\$ 2.31	\$ 2.63	17	1.8%
IC Industries	88,900	27	37	\$ 3,255,961	\$ 878,903	\$ 5.24	\$ 6.10	6	6.0%
Interntl Bus Machines	200,000	63	58	\$ 11,575,000	\$ 1,121,085	\$ 5.16	\$ 6.02	9	5.9%
Interntl Minerals	100,000	40	43	\$ 4,250,000	\$ 222,787	\$ 4.48	\$ 5.38	7	6.1%
K-Mart	136,200	33	21	\$ 2,911,274	\$ 1,522,911	\$ 2.84	\$ 2.07	10	4.5%
Marsh & McLennan	100,000	32	39	\$ 3,912,499	\$ 736,165	\$ 2.95	\$ 2.92	13	5.1%
Medtronic	100,000	35	35	\$ 3,500,000	\$ 44,425	\$ 1.55	\$ 2.52	13	1.4%
Merck & Company	50,000	74	93	\$ 4,625,000	\$ 908,000	\$ 5.06	\$ 5.54	16	2.5%
Minnesota Min'g Mfg	50,000	57	30	\$ 2,875,000	\$ 30,125	\$ 5.59	\$ 5.78	9	5.2%
Mobil Oil	72,000	31	38	\$ 2,160,000	\$ 60,744	\$ 4.73	\$ 6.64	4	6.7%
Morrison-Knudsen	70,000	40	31	\$ 2,170,000	\$ 662,637	\$ 3.02	\$ 3.50	8	3.5%
N L Industries	100,000	32	35	\$ 3,475,000	\$ 746,975	\$ 1.63	\$ 2.45	14	2.3%
Newmont Mining	50,000	51	66	\$ 3,287,500	\$ 746,975	\$ 7.05	\$ 7.64	7	2.3%
Perkin-Elmer	100,600	27	27	\$ 2,687,500	\$ 265,487	\$ 1.28	\$ 1.67	16	1.6%
Phillip Morris	70,000	85	50	\$ 5,004,849	\$ 2,273,128	\$ 4.08	\$ 4.63	8	4.0%
Procter & Gamble	300,000	13	15	\$ 5,302,499	\$ 643,773	\$ 6.99	\$ 7.78	9	5.0%
Public Service Colo	127,269	26	21	\$ 4,350,000	\$ 371,400	\$ 1.35	\$ 1.92	7	11.6%
Public Service Ind	100,000	37	34	\$ 2,704,465	\$ 580,210	\$ 3.79	\$ 3.21	6	12.2%
Schering-Plough	127,800	38	19	\$ 3,425,000	\$ 308,500	\$ 4.12	\$ 4.45	7	4.9%
Cears	1,400	41	61	\$ 2,460,149	\$ 377,662	\$ 2.54	\$ 1.92	10	7.1%
So Natl Resources	100,000	28	33	\$ 84,700	\$ 27,202	\$ 5.43	\$ 6.85	8	3.1%
Square D	126,400	18	19	\$ 3,312,498	\$ 504,962	\$ 3.04	\$ 3.41	9	5.1%
Stanley Works	92,200	25	55	\$ 2,338,400	\$ 80,544	\$ 1.91	\$ 1.94	9	3.7%
Std Oil Indiana	50,000	51	39	\$ 5,059,473	\$ 2,715,560	\$ 5.12	\$ 6.54	8	4.7%
Tenneco	21,100	80	97	\$ 1,931,249	\$ 613,612	\$ 5.30	\$ 5.95	6	6.7%
Texas Instruments	169,234	20	20	\$ 2,046,700	\$ 356,590	\$ 7.58	\$ 9.22	10	2.1%
Texas Utilities	129,300	29	23	\$ 3,448,142	\$ 116,264	\$ 2.45	\$ 3.18	6	9.2%
Warner Lambert	100,000	57	54	\$ 2,941,574	\$ 853,980	\$ 1.55	\$ 2.41	9	5.8%
Xerox	100,000	41	54	\$ 5,400,000	\$ 343,837	\$ 6.69	\$ 7.33	7	5.6%

Shares	Total Cost	Total Market Value	Potential G/L	Dividend Income	P/E 1980	P/E 1981	Yield
5,711,882	\$206,653,909	\$26,751,014	\$11,868,123	8	8	8	5.1%

KENTUCKY RETIREMENT SYSTEMS
 BOND PORTFOLIO FOR THE PERIOD ENDED 6/30/81

Security Name	Coupon	Maturity	Par Value (In \$000's)		Yield	Price	S&P	Moody	Market	Gain-Loss	Annual Inc		
			KEERS	SPRS								TOTAL	
Allied Chemical Cor	8.375%	04/83	1996	857	146	3000	15.200	\$ 89.750	A	A	2,692,500	305,623-	251,250
American Comm Lines	8.000%	08/02	3214	1055	330	4600	13.850	\$ 60.250	AAA	AAA	2,771,500	1,828,500-	368,000
Banks of Cooperativ	7.750%	01/86	3727	992	280	5000	14.310	\$ 78.750	AAA	AAA	3,937,500	1,103,178-	387,500
Bell Steamship Titl	8.350%	04/01	4366	1093	323	5784	14.400	\$ 60.625	AAA	AAA	3,506,550	2,339,822-	482,964
Borden Inc	8.500%	04/04	745	199	56	1000	14.020	\$ 62.375	AAA	AAA	623,750	403,431-	85,000
Brooklyn Union Gas	4.375%	05/88	198	33	33	264	13.750	\$ 59.000	AA	A	155,760	108,240-	11,550
Bulk Food Carriers	7.800%	06/92	1376	694	133	2204	14.850	\$ 62.375	AAA	AAA	1,375,053	829,440-	171,950
Chrysler Corp	10.350%	06/90	7000	2600	400	10000	14.100	\$ 81.250	AAA	AAA	8,125,000	1,875,000-	1,035,000
Chrysler Corp	11.400%	07/90	9500	4300	1200	15000	14.500	\$ 84.625	AAA	AAA	12,693,750	2,095,716-	1,710,000
CIT Financial Corp	7.625%	12/81	1550	333	117	2000	18.000	\$ 96.125	AA	AA	1,922,500	77,812-	152,500
Continental Oil	8.875%	06/01	2157	671	171	3000	14.000	\$ 65.750	AAA	AAA	1,972,500	1,167,634-	266,250
Dresser Industries	8.650%	05/85	2242	495	263	3000	14.700	\$ 82.625	A	A	2,478,750	522,658-	259,500
Fed Farm Credit Con	8.050%	03/83	4464	2304	432	7200	14.930	\$ 90.125	AAA	AAA	6,489,000	723,600-	579,600
Fed Home Loan Bank	7.850%	08/84	5736	1800	462	8000	14.570	\$ 83.500	AAA	AAA	6,680,000	1,377,688-	628,000
Fed Inter Cr Bk	6.950%	01/87	7546	2784	668	11000	13.810	\$ 74.375	AAA	AAA	8,181,250	2,690,415-	764,500
Federal Home Loan	7.950%	02/82	5590	3800	610	10000	15.670	\$ 95.750	AAA	AAA	9,575,000	425,000-	795,000
Federal Home Loan	7.650%	05/87	10323	4741	935	16000	13.950	\$ 75.250	AAA	AAA	12,040,000	3,960,000-	1,224,000
Federal Home Loan	7.875%	02/97	5624	1864	510	8000	13.350	\$ 64.375	AAA	AAA	5,150,000	2,945,538-	630,000
Federal Home Loan	7.375%	02/85	3422	1210	367	5000	15.020	\$ 79.000	AAA	AAA	3,950,000	1,048,125-	368,750
Federal Land Bank	7.200%	01/83	4900	1750	350	7000	15.010	\$ 89.500	AAA	AAA	6,265,000	742,989-	504,000
Federal Land Bank	7.300%	10/83	1760	577	161	2500	15.060	\$ 85.250	AAA	AAA	2,131,250	359,139-	182,500
Federal Land Bank	8.100%	07/85	4368	1293	338	6000	14.730	\$ 80.250	AAA	AAA	4,815,000	1,180,997-	486,000
Federal Land Bank	7.950%	10/85	6445	2000	554	9000	14.370	\$ 79.875	AAA	AAA	7,188,750	1,896,718-	715,500
Federal Land Bank	7.600%	04/87	2980	1920	100	5000	13.840	\$ 75.625	AAA	AAA	3,781,250	1,218,750-	380,000
Federal Land Bank	7.250%	07/87	2559	2139	301	5000	13.890	\$ 73.375	AAA	AAA	3,668,750	1,331,250-	362,500
Federal Land Bank	7.850%	01/88	10859	4306	833	16000	13.830	\$ 74.750	AAA	AAA	11,960,000	4,140,141-	1,256,000
FHA Mortgages	4.869%	07/90			291	291	16.000	\$ 57.375	NR	NR	167,507	125,475-	14,215
FHA Mortgages	4.984%	07/90			432	432	16.000	\$ 57.375	NR	NR	248,054	185,309-	21,548
FHA Mortgages	5.016%	07/90	4262			4262	16.000	\$ 57.375	NR	NR	2,445,649	1,839,740-	213,810
Ford Motor Credit	8.625%	06/86	3612	1133	254	5000	16.750	\$ 73.500	AAA	AAA	3,675,000	1,325,000-	431,250
Ford Motor Credits	8.700%	04/99	1490	398	112	2000	16.000	\$ 57.500	AAA	AAA	1,150,000	894,000-	174,000
General Elec Credit	8.650%	01/84	2130	551	319	3000	14.750	\$ 87.500	AA	A	2,625,000	375,000-	259,500
General Elec Credit	4.625%	10/82	862	56	82	1000	14.000	\$ 89.000	A	NR	890,000	73,061-	46,250
General Elec Credit	4.500%	03/84	563	81	6	650	13.800	\$ 79.375	A	NR	515,938	87,671-	29,250
General Electric	5.750%	11/91	2768	720	190	3679	13.600	\$ 57.125	AAA	AAA	2,101,914	1,277,472-	211,571
GNAC	4.625%	06/86	1806	534	159	2500	14.000	\$ 67.375	AAA	AAA	1,684,375	531,522-	115,625
GNAC	8.125%	06/86	1644	1152	202	3000	14.500	\$ 78.000	AAA	AAA	2,340,000	656,249-	243,750
GNMA 14171	7.500%	01/07	455	206	49	711	12.410	\$ 62.125	AAA	AAA	441,711	199,649-	53,325
GNMA 15576	7.500%	05/07	437	198	47	683	12.410	\$ 62.125	AAA	AAA	424,790	198,906-	51,283
GNMA 15775	7.500%	05/07	431	298	54	784	12.410	\$ 62.125	AAA	AAA	487,383	221,343-	58,839
GNMA 15952	7.500%	05/07	801	553	102	1457	12.410	\$ 62.125	AAA	AAA	905,541	411,271-	109,321
GNMA 16188	7.500%	04/07	557	205	57	820	12.410	\$ 62.125	AAA	AAA	509,511	227,434-	61,510
GNMA 39313	11.500%	03/10	682	253	39	975	12.940	\$ 79.250	AAA	AAA	772,882	51,898-	112,153
GNMA 39478	11.500%	03/10	704	261	40	1006	12.940	\$ 79.250	AAA	AAA	797,712	53,116-	115,756
GNMA 40093	13.500%	05/10	575	406	9	992	15.240	\$ 92.375	AAA	AAA	916,418	94,062-	133,928
GNMA 40366	11.500%	10/10	698	259	39	997	12.940	\$ 79.250	AAA	AAA	790,599	58,929-	114,724
GNMA 40645	11.500%	10/10	628	309	59	997	12.940	\$ 79.250	AAA	AAA	790,427	58,929-	114,699
GNMA 41401	11.500%	08/10	1241	610	118	1970	12.940	\$ 79.250	AAA	AAA	1,561,693	116,456-	226,618
GNMA 42195	11.500%	10/10	1396	518	79	1995	12.940	\$ 79.250	AAA	AAA	1,581,149	190,531-	229,441
GNMA 42199	11.500%	10/10	1396	518	79	1994	12.940	\$ 79.250	AAA	AAA	1,580,915	190,488-	229,407
GNMA 42711	11.500%	10/10	1396	518	79	1995	12.940	\$ 79.250	AAA	AAA	1,581,156	233,545-	229,442

Security Name	Coupon		Maturity	Par Value (In \$000's)			Yield	Price	S&P	Moody	Market	Gain-Loss	Annual Inc
	KEPS	CERS		SPRS	TOTAL								
GNMA 42797	11.500%		10/10	697	258	39	995	\$ 79.250	AAA	AAA	789,232	93,887-	114,526
GNMA 42994	11.500%		10/10	1394	518	79	1992	\$ 79.250	AAA	AAA	1,579,016	105,964-	229,132
GNMA 43250	11.500%		10/10	710	263	40	1014	\$ 79.250	AAA	AAA	803,833	118,728-	116,645
GNMA 43596	11.500%		10/10	4884	1814	279	6977	\$ 79.250	AAA	AAA	5,529,882	655,809-	802,443
GNMA 43599	11.500%		11/10	1391	516	79	1988	\$ 79.250	AAA	AAA	1,575,813	187,421-	228,667
GNMA 43761	11.500%		10/10	693	257	39	990	\$ 79.250	AAA	AAA	784,827	93,597-	113,887
GNMA 43826	11.500%		10/10	628	309	59	997	\$ 79.250	AAA	AAA	790,708	58,939-	114,740
GNMA 44106	11.500%		10/10	1043	387	59	1490	\$ 79.250	AAA	AAA	1,181,066	91,980-	171,385
GNMA 44255	11.500%		10/10	628	309	59	997	\$ 79.250	AAA	AAA	790,584	58,944-	114,722
GNMA 44305	13.000%		05/11	579	409	9	999	\$ 89.250	AAA	AAA	892,309	129,972	
GNMA 44423	11.500%		10/10	349	129	19	498	\$ 79.250	AAA	AAA	395,216	30,783-	57,350
GNMA 44880	11.500%		10/10	695	258	39	998	\$ 79.250	AAA	AAA	787,734	61,329-	114,308
GNMA 44993 (Mob Hom)	13.750%		05/96	291	206	5	502	\$ 97.000	AAA	AAA	487,438	314	69,096
GNMA 45350	11.500%		10/10	1398	519	79	1998	\$ 79.250	AAA	AAA	1,583,752	123,296-	229,819
GNMA 45499 (Mob Hom)	13.750%		05/96	405	286	6	699	\$ 92.625	AAA	AAA	647,494	96,119	96,119
GNMA 45636	13.500%		06/11	569	402	9	981	\$ 92.375	AAA	AAA	906,378	132,461	132,461
GNMA 45825	11.500%		10/10	698	259	39	998	\$ 79.250	AAA	AAA	791,047	114,789	114,789
GNMA 45943	13.000%		04/11	364	257	6	627	\$ 89.250	AAA	AAA	560,181	81,595	81,595
GNMA 46119	13.000%		03/11	217	153	3	374	\$ 89.250	AAA	AAA	334,465	48,718	48,718
GNMA 46120	13.500%		05/11	31	22	54	1500	\$ 92.375	AAA	AAA	50,796	7,423	7,423
GNMA 46332 (Mob Hom)	13.750%		06/96	870	615	15	1500	\$ 89.250	AAA	AAA	44,605	6,497	6,497
GNMA 46387	13.000%		04/11	28	20	6	696	\$ 89.250	AAA	AAA	644,726	95,708	95,708
GNMA 46435 (Mob Hom)	13.750%		03/96	403	285	6	696	\$ 92.625	AAA	AAA	644,726	114,736	114,736
GNMA 46438	11.500%		10/10	698	259	39	997	\$ 79.250	AAA	AAA	790,684	140,020	140,020
GNMA 46473 (Mob Hom)	13.750%		06/96	590	407	10	1018	\$ 97.000	AAA	AAA	987,779	94,970-	94,970-
GNMA 46517	13.500%		05/11	290	205	5	500	\$ 92.375	AAA	AAA	461,875	636	636
GNMA 46727	13.000%		04/11	556	393	9	960	\$ 89.250	AAA	AAA	857,049	124,836	124,836
GNMA 46866	13.000%		04/11	289	204	4	499	\$ 89.250	AAA	AAA	445,974	64,960	64,960
GNMA 47004	13.500%		05/11	586	414	10	1010	\$ 92.375	AAA	AAA	933,560	136,434	136,434
GNMA 47110	13.000%		03/11	590	417	10	1017	\$ 89.250	AAA	AAA	908,394	132,315	132,315
GNMA 47200	13.000%		02/11	298	210	5	514	\$ 89.250	AAA	AAA	458,871	66,838	66,838
GNMA 47625 (Mob Hom)	13.750%		06/96	587	415	10	1013	\$ 97.000	AAA	AAA	982,896	139,328	139,328
GNMA 47626 (Mob Hom)	13.750%		06/96	591	417	10	1019	\$ 97.000	AAA	AAA	988,736	140,156	140,156
GNMA 47775 (Mob Hom)	13.750%		06/96	293	207	5	505	\$ 97.000	AAA	AAA	490,767	637	637
GNMA 47919	13.500%		05/11	538	380	9	928	\$ 92.375	AAA	AAA	857,696	316	316
GNMA 48144	13.500%		05/11	290	205	5	500	\$ 92.375	AAA	AAA	461,875	125,347	125,347
GNMA 48205 (Mob Hom)	13.750%		06/96	575	407	9	992	\$ 92.625	AAA	AAA	461,875	67,500	67,500
GNMA 48208 (Mob Hom)	13.750%		04/96	318	224	5	548	\$ 92.625	AAA	AAA	919,759	136,536	136,536
GNMA 48409 (Mob Hom)	13.750%		06/96	584	413	10	1008	\$ 97.000	AAA	AAA	507,974	75,408	75,408
GNMA 49511 (Mob Hom)	13.750%		06/96	295	209	5	510	\$ 92.625	AAA	AAA	472,428	138,684	138,684
GNMA 7395	7.250%		06/05	949	349	97	1396	\$ 60.625	AAA	AAA	846,414	70,131	70,131
I P Petroleum	8.500%		02/82	330	69	28	428	\$ 95.750	AA	AA	410,308	396,383-	101,221
Intl Develop Corp	11.980%		06/10	811	404	34	1250	\$ 76.250	AAA	AAA	953,125	18,044-	36,424
K.I.D.F.A. Notes	5.000%		07/87	218	24	12	254	\$100.000	NR	NR	254,800	296,875-	149,750
Mellon Natl Corp	7.800%		03/82	3051	740	209	4000	\$ 94.750	NR	NR	3,790,000	205,937-	312,000
Pacific Telephone	11.350%		07/90	7000	2600	400	10000	\$ 80.250	AAA	AAA	8,025,000	1,975,000-	1,135,000
Pembroke Capital Co	11.500%		08/05	7000	2600	400	10000	\$ 73.625	AAA	AAA	7,362,500	2,637,500-	1,150,000
Philip Morris	8.850%		06/82	1449	439	112	2000	\$ 93.750	A	A	1,875,000	125,000-	177,000
Philip Morris	8.500%		03/85	729	243	27	1000	\$ 82.750	A	A	827,500	171,499-	85,000
Philip Morris	5.150%		11/89	841	138	90	1070	\$ 59.000	AAA	AAA	631,595	292,887-	55,131
Pullman Trans Leasn	10.000%		06/85	325	42	16	385	\$ 86.000	A	A	331,100	53,900-	38,500
Repurchase	16.875%		07/81	6400	6562		12962	\$100.000	AAA	AAA	12,962,000	2,187,338	2,187,338
Repurchase	17.000%		07/81	28	236	1	267	\$100.000	AAA	AAA	267,000	45,390	45,390

Security Name	Coupon	Maturity	Par Value (In \$000's)		Yield	Price	S&P	Moody	Market	Gain-Loss	Annual Inc
			KERS	CERS							
Repurchase	17.900%	07/81	156	247	4	407	17.900	\$100.000	AAA	407,000	72,853
Repurchase	18.010%	07/81	4146	2006	3439	9592	18.010	\$100.000	AAA	9,592,000	1,727,519
Repurchase	18.125%	07/81	1022	678	71	1772	18.125	\$100.000	AAA	1,772,000	321,175
Repurchase	17.020%	07/81	2000	750	250	3000	17.020	\$100.000	AAA	3,000,000	510,600
Repurchase	16.750%	07/81	295	9417	285	9999	16.750	\$100.000	AAA	9,999,000	1,674,833
Repurchase	16.875%	07/81	4286	3232	393	7913	16.875	\$100.000	AAA	7,913,000	1,335,319
Repurchase	16.900%	07/81	584	240	4	829	16.900	\$100.000	AAA	829,000	140,101
Repurchase	17.010%	07/81	5117	5117	78	1142	17.010	\$100.000	AAA	5,117,000	870,402
Repurchase	17.050%	07/81	656	407	78	1142	17.050	\$100.000	AAA	1,142,000	194,711
Repurchase	17.020%	07/81	2000	750	250	3000	17.020	\$100.000	AAA	3,000,000	510,600
Repurchase	16.500%	07/81	259	70	220	550	16.500	\$100.000	AAA	550,000	90,750
Repurchase	16.625%	07/81	2660	2660	2660	2660	16.625	\$100.000	AAA	2,660,000	442,225
Repurchase	16.910%	07/81	3690	1145	5643	20479	16.910	\$100.000	AAA	20,479,000	3,462,999
Repurchase	17.010%	07/81	11	156	169	169	17.010	\$100.000	AAA	169,000	28,747
Repurchase	17.375%	07/81	150	61	212	212	17.375	\$100.000	AAA	212,000	36,835
Repurchase	17.875%	07/81	369	549	11	930	17.875	\$100.000	AAA	930,000	166,238
Repurchase	16.500%	07/81	15910	3932	847	20690	16.500	\$100.000	AAA	20,690,000	3,413,850
Repurchase	18.250%	08/81	2900	2050	50	5000	18.250	\$100.000	AAA	5,000,000	912,500
Repurchase	7.750%	03/85	2227	570	203	3000	14.400	\$ 81.625	AAA	2,448,750	232,500
Sears Roebuck & Co	8.250%	12/04	676	559	65	1300	14.200	\$ 59.750	AAA	776,750	107,250
South Central Bell	8.250%	03/17	780	645	75	1500	14.100	\$ 59.000	AAA	881,250	123,750
South Central Bell	4.625%	06/88	493	98	49	640	14.100	\$ 59.000	A	377,600	29,600
Southern Railway Co	8.200%	01/82	1140	384	74	1600	17.000	\$ 95.750	AAA	1,532,000	131,200
Standard Oil of Ind	8.375%	06/05	2235	597	168	3000	13.800	\$ 62.250	AAA	1,867,500	251,250
Trailer Train Co	11.875%	07/96	3460	1285	197	4943	15.000	\$ 79.000	AAA	3,905,618	587,079
Treasury Bonds	9.125%	05/09	3250	1450	300	5000	12.790	\$ 72.250	AAA	3,612,500	456,250
U S Gov Gty Title X	8.100%	02/02	5847	3003	577	9428	13.850	\$ 61.000	AAA	5,751,080	763,668
U S Government	6.375%	02/82	3919	748	333	5000	14.650	\$ 95.250	AAA	4,762,500	318,750
U S Government	7.875%	11/82	3734	989	277	5000	14.200	\$ 92.250	AAA	4,612,500	393,750
U S Government	8.000%	08/86	20558	5989	1653	28200	13.450	\$ 80.250	AAA	22,630,500	2,256,000
U S Government	8.750%	11/88	3500	1300	200	5000	13.460	\$ 78.375	AAA	3,918,750	437,500
U S Treasury	8.750%	11/08	1650	1110	240	3000	12.730	\$ 69.750	AAA	2,092,500	262,500
U S Treasury	7.625%	11/87	17872	5717	1409	25000	13.360	\$ 75.875	AAA	18,968,750	1,906,250
U S Treasury	10.750%	11/89	17500	6500	1000	25000	13.620	\$ 85.875	AAA	21,468,750	2,687,500
U S Treasury	7.875%	02/93	7000	2600	400	10000	13.260	\$ 68.500	AAA	6,850,000	747,500
U S Treasury	9.000%	02/94	4080	1500	420	6000	13.400	\$ 73.500	AAA	4,410,000	540,000
Union Mechling Corp	8.000%	01/02	3499	1651	249	5401	14.400	\$ 58.125	AAA	3,139,604	432,118
Union Oil Co of Cal	8.375%	12/82	1472	402	126	2000	16.750	\$ 90.000	AAA	1,800,000	167,500
US Gov Gty Moran XI	8.000%	01/98	3230	1650	311	5192	14.500	\$ 70.625	AAA	3,666,980	415,375
US Gov Gty Ship Ror	8.125%	06/95	6826	1840	566	9234	14.500	\$ 62.250	AAA	5,748,165	750,263
US Gov Gty Ship Zap	7.700%	09/94	1762	1061	175	3000	14.500	\$ 60.500	AAA	1,815,000	231,000
US Gov Ship Bonds	7.950%	09/97	3849	1374	274	5498	14.600	\$ 59.500	AAA	3,271,743	437,149
US Government	11.750%	11/85	7000	2600	400	10000	13.990	\$ 92.875	AAA	9,287,500	1,175,000
US Government	7.875%	05/86	7000	2600	400	10000	13.610	\$ 80.000	AAA	8,000,000	787,500
VA Mortgages	4.869%	07/90		227	227	227	16.000	\$ 57.375	NR	130,590	11,082
VA Mortgages	4.984%	07/90		501	501	501	16.000	\$ 57.375	NR	287,505	24,975
VA Mortgages	5.016%	07/90		4257	4257	4257	16.000	\$ 57.375	NR	2,443,019	213,581
Weyerhaeuser	8.900%	11/04	745	199	56	1000	14.050	\$ 64.750	AAA	647,500	89,000
Xerox Corporation	5.375%	04/91	1723	997	167	2888	14.000	\$ 55.000	AA	1,588,649	155,254

Weighted Rating	Weighted Coupon	Weighted Maturity	Weighted Price	Weighted Yield	Par Value	Book Value	Market Value	Gain or Loss	Annual Income
2.90	10.306	9.139	81.485	14.695	\$596,004,488	\$585,126,229	\$485,651,730	\$99,474,499-	\$61,425,747

KENTUCKY RETIREMENT SYSTEMS
INSURANCE FUND PORTFOLIO FOR THE PERIOD ENDED 6/30/81

Kentucky Employes Retirement System

<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Rating</u>	<u>Yield</u>
Repurchase Agreement	16.75%	07/09/81	\$2,779,000	\$2,779,000	AAA	16.75

County Employes Retirement System

<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Rating</u>	<u>Yield</u>
Repurchase Agreement	16.75%	07/09/81	\$1,598,000	\$1,598,000	AAA	16.75

State Police Retirement System

<u>Security Name</u>	<u>Coupon</u>	<u>Maturity</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Rating</u>	<u>Yield</u>
Repurchase Agreement	16.75%	07/09/81	\$ 65,000	\$ 65,000	AAA	16.75
TOTAL INSURANCE FUND			\$4,442,000	\$4,442,000		16.75

STATISTICAL SECTION
INTRODUCTION

Several statistical tables are presented in this section of the report to accommodate the reader that has more than a cursory interest in the operations of the retirement systems. All tables present a data analysis as of June 30, 1981 and in most cases, several years of historical data are available for comparison purposes.

Retirement Payments

The benefit payments as of July 1, 1981, by the three retirement systems are shown statistically in Tables 1 through 4. Legislation enacted in 1974 combined retirement accounts of the Kentucky Employes Retirement System, County Employes Retirement System, State Police Retirement System and Kentucky Teachers' Retirement System for purposes of determining eligibility and amount of benefits. For example, an employee with an account in the Kentucky Employes Retirement System and the County Employes Retirement System will have these accounts consolidated to determine the five high years of earnings and the total combined service, yet each system pays a separate benefit amount based on the period of service under each system and the benefit formula under each system.

This consolidation arrangement results in small payments being disbursed from one or more systems in situations where a worker has only a few months of service in a system. These small benefit allowances are important to total income of a retiree, however, they somewhat distort the statistical data presented in Tables 1 through 4. The payments illustrated by these tables represent the monthly payments from each retirement system and a recipient receiving a monthly payment from more than one system will be counted in each system from which a payment is disbursed.

Table 1 provides a graphic display of the number of recipients by system that receive a monthly benefit within specified amount ranges in \$100 increments.

Tables 2 through 4 reveal the retirement benefits by payment option selected. The data is further broken down for period certain and survivorship plans to reveal whether the recipient is the former worker or his beneficiary. If "(Memb)" is shown, the retired member is receiving the monthly payment as of June 30, 1981. If "(Bene)" is shown, the beneficiary is receiving the monthly payment as a result of the death of the retired member.

The several options available upon retirement enables the retiring public employee to select a plan which best suits his needs and those of his family after his retirement. Tables, 2, 3 and 4 reveal that about 54% of payment options selected are period certain or survivorship options with the remaining options payable in full during the member's lifetime.

The 1980 General Assembly enacted legislation which provided all recipients a 6% benefit increase effective July 1, 1980. A second 6% increase was also approved to be effective July 1, 1981.

Table 5 provides a geographic distribution by county of the retirement payments that were made during the 1980-81 fiscal year.

Membership Statistics

Table 6 provides a graphic presentation of the membership in the three separate systems. Statistics are presented from 1965 to June 30, 1981 and each membership classification (active; inactive; and retired) is separately identified.

Financial and Actuarial Statistics

Statistical data for the last seven fiscal years is presented in Tables 7 through 9 to indicate the financial and actuarial progress attained by the three retirement systems.

The "Portfolio Time Weighted Rate of Return" is comprised of investment income earned plus realized and unrealized changes in the market value of the portfolio. The fluctuations of this measure are largely the result of constantly changing securities values as determined by the various securities markets. In fact, the actual cash income generated by the portfolio continues to increase annually as indicated by the "Portfolio Yield Rate" which is a measure of investment income.

A review of the actuarial data presented in these tables clearly demonstrate that the separate retirement systems remain financially sound. The adoption of more realistic actuarial assumptions, as discussed in the "Actuarial Section" of this report, prior to the June 30, 1981 valuation had a significantly favorable impact on the funding ratios and the contribution rate structure. The net result will permit modest benefit improvements as deemed appropriate by the state legislature without increasing contribution rates.

Source and Use of Funds Since Inception

The statement (Table 10) indicates the value of a funded retirement system. Observe that since inception the employer contributions have provided about 50% of the funds with most of the remainder provided by member contributions and investment income.

Investment income has been sufficient to pay retirement payments in all three funds. These reports indicate that assets are being accumulated on behalf of members now earning service credit in order to finance their future benefits without deferring the cost to future generations. This policy of funding benefits provides financial security to members contributing to the system, as well as to retired recipients.

Administrative Expense

An itemized report on administrative expenses for the past seven years is shown in Table 11.

A review of 1980-81 expenses indicates that the increasing cost of doing business as a result of double digit inflation has begun to impact the retirement system.

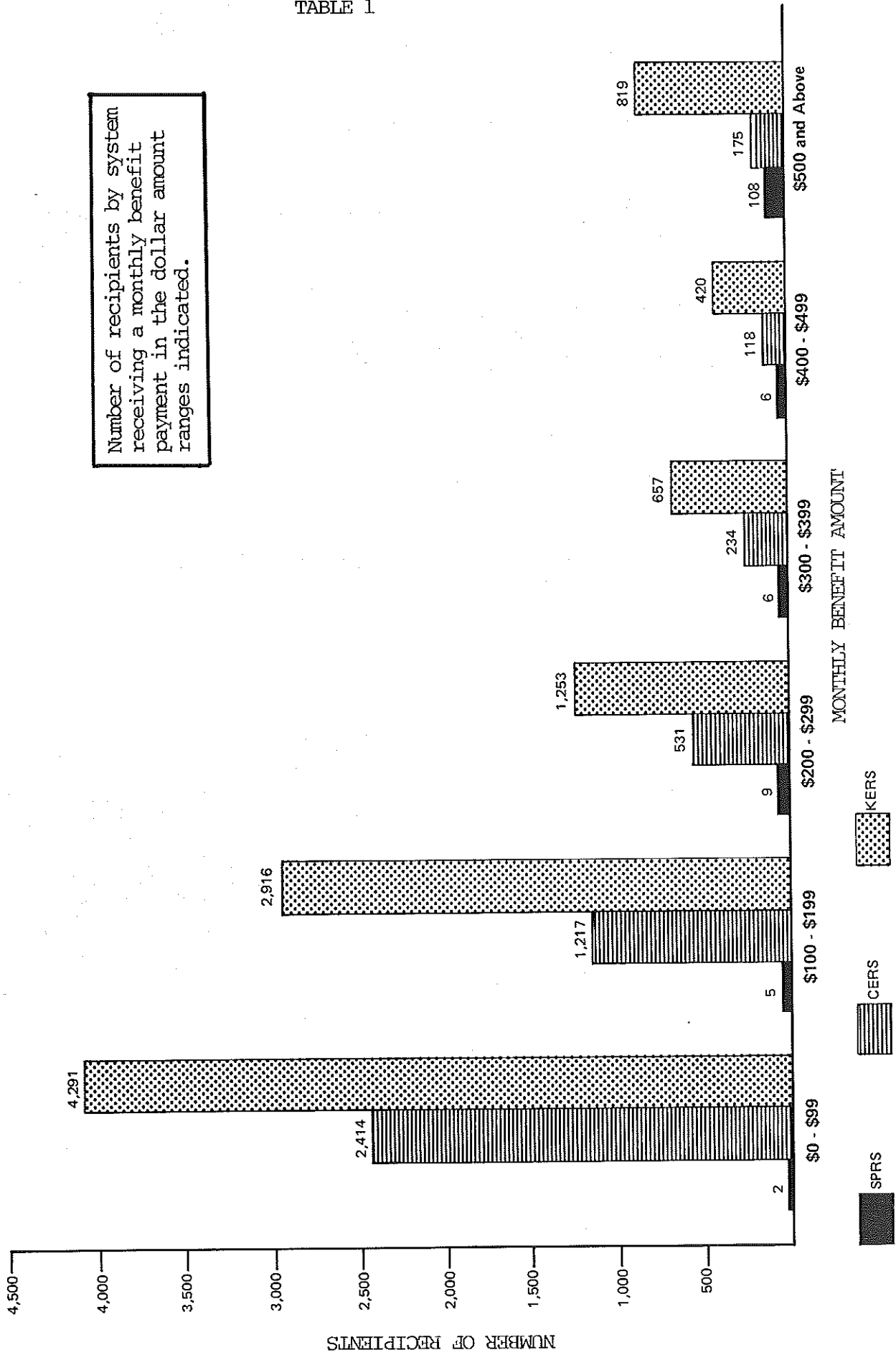
Also, a reduction in the number of employees throughout government has resulted in a dramatic slowdown in the annual increase in the number of accounts maintained by the retirement system. These factors in combination have caused a modest increase in the "Administrative Expense Per Account". When considering that the average account has a value of more than \$6,700, the administrative expense in fact is only slightly more than one-tenth of one percent of account value.

Contractual Arrangements

As provided in KRS 61.645, the Kentucky Retirement Systems had contracts in place during 1980-81 with the following firms or individuals to provide the services indicated.

Actuarial Services	- Tillinghast, Nelson & Warren, Inc. 222 South Central Avenue St. Louis, Missouri 63105
Legal Services	- Ms. Phyllis Sower P.O. Box 405 Frankfort, Kentucky 40601
Auditing Services	- Ernst & Whinney 1400 Commonwealth Building Louisville, Kentucky 40202
Investment Counseling Services	- Capital Supervisors, Inc. 20 North Clark Street Suite 700 Chicago, Illinois 60602
Custodian of Securities	- Citizens Fidelity Bank & Trust Company Citizens Plaza P.O. Box 1140 Louisville, Kentucky 40201
Medical Examiner Services	- Provided by a private physician

ANALYSIS OF
MONTHLY RETIREMENT BENEFITS
as of June 30, 1981



Number of recipients by system receiving a monthly benefit payment in the dollar amount ranges indicated.

TABLE 1

TABLE 2

KENTUCKY EMPLOYEES RETIREMENT SYSTEM
RETIREMENT BENEFITS BY PLAN
JUNE 30, 1981

	Number Of Cases	Total	Monthly Benefits		
			Average	Low	High
NORMAL					
Basic.....	2,409	\$ 411,523.09	\$ 170.82	\$ 1.56	\$1,803.74
Life-10 Years Certain (Memb).....	483	92,084.03	190.65	2.14	1,594.69
Life-10 Years Certain (Bene).....	33	5,162.03	156.42	18.97	1,516.37
10 Years Certain (Memb).....	10	10,119.65	1,011.96	503.51	1,593.47
10 Years Certain (Bene).....	2	1,432.45	716.22	67.11	1,365.34
Straight Life Annuity.....	23	2,963.03	128.82	61.61	435.51
Survivorship 100% (Memb).....	640	90,447.72	141.32	.48	1,104.11
Survivorship 100% (Bene).....	214	29,187.74	136.39	13.64	935.15
Survivorship 66 2/3% (Memb).....	89	27,640.02	310.56	3.85	1,156.46
Survivorship 66 2/3% (Bene).....	6	907.02	151.17	25.61	359.70
Survivorship 50% (Memb).....	336	101,778.07	302.91	5.51	1,237.71
Survivorship 50% (Bene).....	100	14,479.78	144.79	10.17	531.20
Totals and Averages.....	4,345	\$ 787,724.63	\$ 181.29	\$.48	\$1,803.74
EARLY					
Basic.....	2,125	\$ 378,844.39	\$ 178.27	\$.64	\$1,287.35
Life-10 Years Certain (Memb).....	597	116,625.20	195.35	9.03	1,499.36
Life-10 Years Certain (Bene).....	30	3,651.47	121.71	32.93	518.66
10 Years Certain (Memb).....	1	390.72	390.72	390.72	390.72
Straight Life Annuity.....	1	66.86	66.86	66.86	66.86
Survivorship 100% (Memb).....	761	117,825.69	154.83	2.42	1,425.13
Survivorship 100% (Bene).....	142	19,193.31	135.16	12.11	977.44
Survivorship 66 2/3% (Memb).....	144	53,243.41	369.74	7.11	1,489.06
Survivorship 66 2/3% (Bene).....	10	1,214.72	121.47	40.63	301.33
Survivorship 50% (Memb).....	326	105,155.79	322.56	11.28	1,229.14
Survivorship 50% (Bene).....	63	6,631.07	105.25	11.26	395.77
Soc Sec - Basic (Under 62).....	49	35,046.59	715.23	39.30	1,564.74
Soc Sec - Basic (Over 62).....	21	5,403.91	257.32	20.62	821.73
Soc Sec - Surv (Under 62).....	81	53,966.66	666.25	26.72	1,807.18
Soc Sec - Surv (Over 62).....	16	3,090.11	193.13	8.63	603.66
Soc Sec - Basic (Over 65).....	1	92.05	92.05	92.05	92.05
Totals and Averages.....	4,368	\$ 900,441.95	\$ 206.14	\$.64	\$1,807.18
DISABILITY					
Basic.....	329	\$ 69,316.73	\$ 210.68	\$ 12.55	\$ 691.37
Life-10 Years Certain (Memb).....	160	30,854.35	192.83	23.67	914.20
Life-10 Years Certain (Bene).....	53	11,072.38	208.91	50.48	590.96
10 Years Certain (Memb).....	2	2,102.20	1,051.10	603.61	1,498.59
Survivorship 100% (Memb).....	187	31,102.36	166.32	6.22	742.78
Survivorship 100% (Bene).....	160	23,074.08	144.21	37.24	780.31
Survivorship 66 2/3% (Memb).....	27	5,542.33	205.27	43.81	909.47
Survivorship 66 2/3% (Bene).....	4	564.24	141.06	63.42	286.62
Survivorship 50% (Memb).....	87	19,140.73	220.00	44.93	987.41
Survivorship 50% (Bene).....	30	3,235.34	107.84	37.56	227.69
Soc Sec - Basic (Under 62).....	2	1,468.28	734.14	634.39	833.89
Soc Sec - Basic (Over 62).....	3	442.80	147.60	41.36	349.98
Soc Sec - Surv (Under 62).....	1	265.01	265.01	265.01	265.01
Soc Sec - Surv (Over 62).....	1	247.43	247.43	247.43	247.43
Totals and Averages.....	1,046	\$ 198,428.26	\$ 199.70	\$ 6.22	\$1,498.59
DEATH BEFORE RETIREMENT					
10 Years Certain (Bene).....	306	\$ 70,871.94	\$ 231.61	\$ 2.66	\$1,791.09
Survivorship 100% (Bene).....	289	53,205.58	197.79	15.22	1,056.34
Survivorship 50% (Bene).....	1	154.30	154.30	154.30	154.30
Soc Sec - Basic (Under 62).....	2	320.09	160.04	132.27	187.82
Dependent Child.....	1	136.92	136.92	136.92	136.92
Soc Sec - Surv (Under 60).....	14	6,301.80	450.12	37.11	920.45
Soc Sec - Surv (Over 60).....	4	596.54	149.13	19.45	294.83
Totals and Averages.....	597	\$ 131,587.17	\$ 220.41	\$ 2.66	\$1,791.09
GRAND TOTALS AND AVERAGES.....					
	10,356	\$2,018,182.01	\$ 194.88	\$.48	\$1,807.18

TABLE 3

COUNTY EMPLOYEES RETIREMENT SYSTEM
RETIREMENT BENEFITS BY PLAN
JUNE 30, 1981

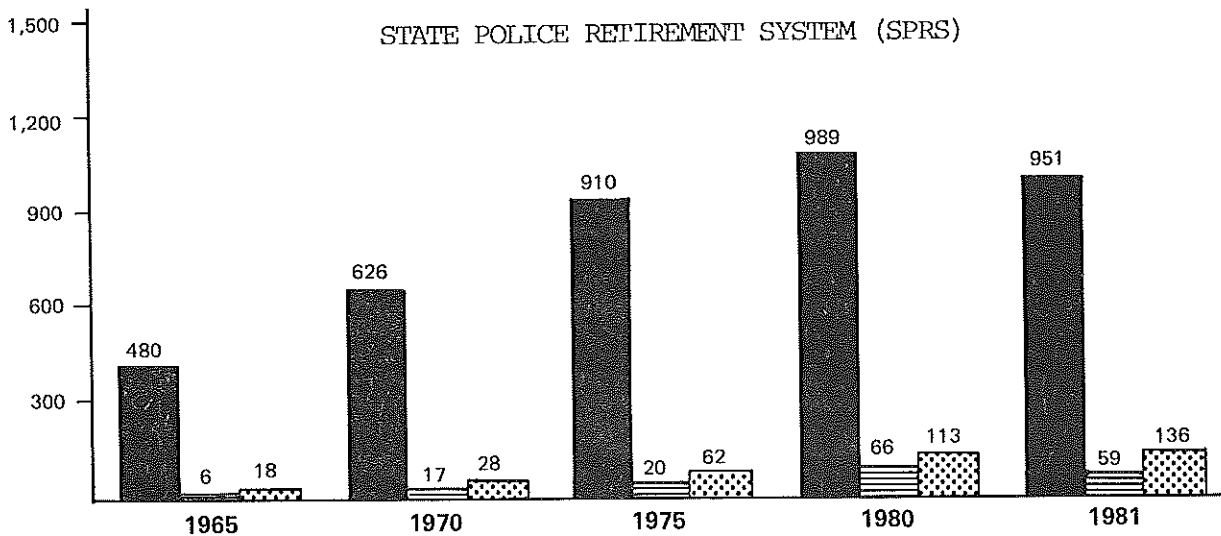
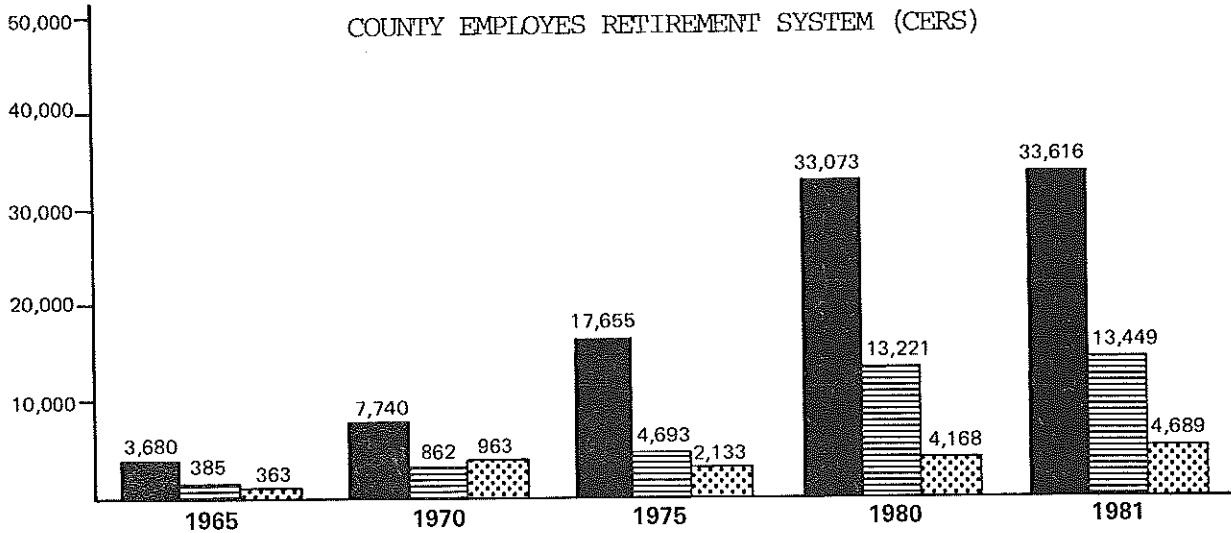
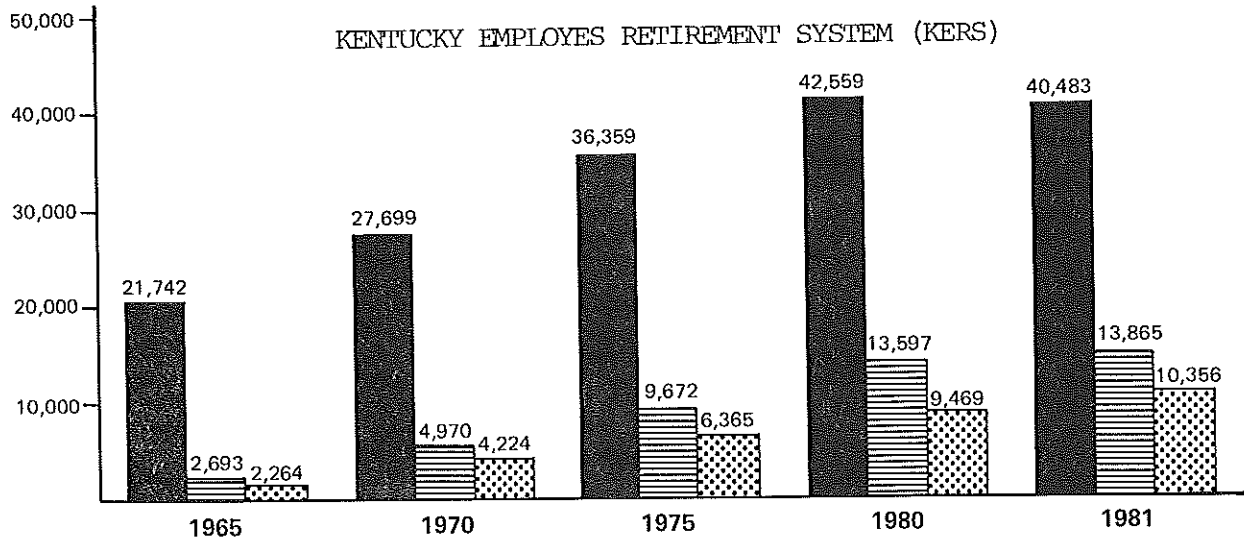
Number of Cases	Total	Monthly Benefits		High
		Average	Low	
NORMAL				
1,125	\$150,999.22	\$ 134.22	\$.84	\$1,136.20
273	33,378.39	122.26	7.63	883.54
38	4,312.91	113.49	11.46	508.32
15	10,949.68	729.97	51.39	1,446.55
5	628.65	125.73	77.39	189.54
379	38,834.00	102.46	.75	588.16
129	12,875.03	99.80	7.08	505.26
42	8,646.77	205.87	26.13	1,135.06
3	336.93	112.31	57.67	150.90
4	29,384.20	202.64	1.25	973.14
145	3,794.89	84.33	.31	271.18
45	641.12	641.12	641.12	641.12
1	3,642.26	910.56	685.18	1,007.72
4	1,957.34	391.46	334.20	467.72
5				
2,209	\$300,381.39	\$ 135.98	\$.31	\$1,446.55
Totals and Averages				
EARLY				
851	\$116,446.53	\$ 136.83	\$ 1.62	\$ 832.93
316	45,284.17	143.30	9.93	891.70
15	1,322.29	88.15	2.63	283.56
1	4,020.50	4,020.50	4,020.50	4,020.50
344	41,072.84	119.39	2.06	1,128.47
60	7,904.97	131.74	15.80	543.06
44	8,361.53	190.03	13.12	765.90
1	57.09	57.09	57.09	57.09
105	26,263.24	250.12	5.12	941.75
12	977.48	81.45	1.70	158.47
9	5,725.29	636.14	94.21	1,234.04
2	93.33	46.66	32.13	61.20
17	9,197.75	541.04	51.07	1,370.81
5	754.56	150.91	28.86	314.78
3	213.73	71.24	50.03	96.27
1,785	\$267,695.30	\$ 149.96	\$ 1.62	\$4,020.50
Totals and Averages				
DISABILITY				
127	\$ 25,553.85	\$ 201.21	\$ 21.15	\$1,240.61
80	15,573.60	194.67	3.04	661.02
20	3,067.17	153.35	35.09	610.72
2	960.10	480.05	364.21	595.89
74	11,440.91	154.60	16.57	749.71
46	6,363.72	138.34	16.72	360.53
9	1,814.07	201.56	2.85	539.48
1	80.02	80.02	80.02	80.02
37	8,215.91	222.05	48.15	636.25
14	1,218.43	87.03	22.14	159.35
2	974.13	487.06	444.99	529.14
412	\$ 75,261.91	\$ 182.67	\$ 2.85	\$1,240.61
Totals and Averages				
DEATH BEFORE RETIREMENT				
164	\$ 27,839.79	\$ 169.75	\$ 5.40	\$ 850.67
115	15,882.23	138.10	3.43	796.22
2	1,068.10	534.05	252.92	815.18
2	690.34	345.17	166.40	523.94
283	\$ 45,480.46	\$ 160.70	\$ 3.43	\$ 850.67
Totals and Averages				
GRAND TOTALS AND AVERAGES				
4,689	\$688,819.06	\$ 146.90	\$.31	\$4,020.50

TABLE 4

STATE POLICE RETIREMENT SYSTEM
RETIREMENT BENEFITS BY PLAN
JUNE 30, 1981

	Number Of Cases	Monthly Benefits			High
		Total	Average	Low	
NORMAL					
Basic.....	12	\$ 6,750.91	\$ 562.57	\$ 46.18	\$1,985.79
Life-10 Years Certain (Memb).....	6	7,602.13	1,267.02	441.35	1,761.50
10 Years Certain (Memb).....	34	51,572.35	1,516.83	287.22	3,244.85
10 Years Certain (Bene).....	3	3,514.87	1,171.62	736.27	1,447.02
Survivorship 100% (Memb).....	10	5,121.29	512.12	140.69	866.24
Survivorship 100% (Bene).....	1	393.12	393.12	393.12	393.12
Survivorship 66 2/3% (Memb).....	4	5,474.51	1,368.62	843.46	1,621.23
Survivorship 50% (Memb).....	9	9,279.73	1,031.08	639.36	1,668.50
Soc Sec - Surv (Under 62).....	6	8,091.26	1,348.54	1,077.57	1,438.01
Totals and Averages.....	85	\$ 97,800.17	\$1,150.59	\$ 46.18	\$3,244.85
EARLY					
Basic.....	1	1,322.31	\$1,322.31	\$1,322.31	\$1,322.31
Life-10 Years Certain (Memb).....	1	1,911.55	1,911.55	1,911.55	1,911.55
10 Years Certain (Memb).....	8	12,937.44	1,617.18	532.34	2,939.77
Survivorship 100% (Memb).....	7	7,005.22	1,000.74	256.39	1,409.93
Survivorship 66 2/3% (Memb).....	1	1,713.67	1,713.67	1,713.67	1,713.67
Survivorship 50% (Memb).....	2	2,314.82	1,157.41	1,076.86	1,237.96
Soc Sec - Surv (Under 62).....	3	4,438.99	1,479.66	1,113.71	1,928.12
Totals and Averages.....	23	\$ 31,644.00	\$1,375.82	\$ 256.39	\$2,939.77
DISABILITY					
Life-10 Years Certain (Memb).....	1	629.39	\$ 629.39	\$ 629.39	\$ 629.39
10 Years Certain (Memb).....	1	717.94	717.94	717.94	717.94
10 Years Certain (Bene).....	2	1,741.43	870.71	791.31	950.12
Survivorship 100% (Memb).....	1	1,079.78	1,079.78	1,079.78	1,079.78
Survivorship 100% (Bene).....	1	531.64	531.64	531.64	531.64
Dependent Child.....	5	961.36	192.27	134.30	247.80
Totals and Averages.....	11	\$ 5,661.54	\$ 514.68	\$ 134.30	\$1,079.78
DEATH BEFORE RETIREMENT					
10 Years Certain (Bene).....	4	2,698.10	\$ 674.52	\$ 301.85	\$1,076.61
Survivorship 100% (Bene).....	6	5,156.52	859.42	358.97	1,691.42
Dependent Child.....	4	1,088.82	272.20	76.32	694.38
Totals and Averages.....	14	\$ 8,943.44	\$ 638.81	\$ 76.32	\$1,691.42
DEFERRED					
10 Years Certain (Memb).....	2	2,971.22	\$1,485.61	\$1,277.73	\$1,693.49
Survivorship 50% (Memb).....	1	1,570.69	1,570.69	1,570.69	1,570.69
Totals and Averages.....	3	\$ 4,541.91	\$1,513.97	\$1,277.73	\$1,693.49
GRAND TOTALS AND AVERAGES.....	136	\$148,591.06	\$1,092.58	\$ 46.18	\$3,244.85

TABLE 6
MEMBERSHIP GROWTH
6/30/65 through 6/30/81



ACTIVE INACTIVE RETIRED -74-

TABLE 7

KENTUCKY EMPLOYEES RETIREMENT SYSTEM
FINANCIAL AND ACTUARIAL STATISTICS

	6/30/75	6/30/76	6/30/77	6/30/78	6/30/79	6/30/80	6/30/81
<u>Financial Statistics:</u>							
Total Assets	\$213,904,924	\$251,372,505	\$291,739,621	\$333,822,714	\$389,418,451	\$460,355,868	\$529,797,058
Investment Income	\$ 12,032,559	\$ 13,941,411	\$ 16,239,109	\$ 19,307,538	\$ 25,415,903	\$ 33,356,149	\$ 39,594,168
Total Retirement Payments	\$ 8,595,309	\$ 9,506,210	\$ 12,115,318	\$ 13,829,823	\$ 15,205,181	\$ 17,501,338	\$ 21,824,083
Average Retirement Payment	\$ 115.41	\$ 130.55*	\$ 137.45**	\$ 140.39	\$ 151.22***	\$ 169.84****	\$ 194.88*****
Total Refund Payments	\$ 2,316,984	\$ 2,884,355	\$ 3,385,233	\$ 3,893,254	\$ 4,055,068	\$ 4,996,158	\$ 5,945,209
Portfolio Time-Weighted							
Rate of Return	7.31%	10.10%	4.95%	-1.51%	7.90%	8.34%	2.61%
Portfolio Yield Rate	6.63%	5.94%	5.99%	7.28%	8.17%	8.36%	8.83%
<u>Actuarial Statistics:</u>							
Total Accrued Liabilities	\$296,343,758	\$387,214,910	\$446,255,236	\$507,324,915	\$592,095,113	\$710,126,703	\$692,160,395
Unfunded Past Service Liabilities	\$ 77,434,549	\$130,838,120	\$149,511,331	\$168,497,917	\$202,676,662	\$249,770,835	\$164,735,129
Percent Unfunded	26.1%	33.8%	33.5%	33.2%	34.2%	35.2%	23.8%
Vested Accrued Benefit Liability	n/a	n/a	n/a	n/a	\$385,849,203	\$470,642,643	\$446,613,406
Estimated Annual Salaries Contribution for Unfunded Past Service Liability	\$ 283,670,722	\$320,222,352	\$343,683,684	\$393,236,856	\$463,439,488	\$504,835,968	\$531,789,552
	\$ 5,420,418	\$ 9,158,668	\$ 10,465,793	\$ 11,794,854	\$ 14,187,366	\$ 17,483,958	\$ 14,002,486
<u>Actuarial Costs:</u>							
Normal	8.61%	7.43%	7.39%	7.40%	7.36%	7.27%	7.54%
Past Service	1.91%	2.86%	3.04%	3.00%	3.06%	3.46%	2.63%
Administrative	.12%	.11%	.12%	.11%	.10%	.08%	.09%
Group Hospital and Medical Insurance	n/a	n/a	n/a	n/a	.21%	.21%	.21%
Total Cost	10.64%	10.40%+	10.55%	10.51%	10.73%	11.02%	10.47%+
<u>Contribution Rates:</u>							
Member	4.02%	4.02%	4.02%	4.02%	4.01%	4.01%	4.01%
Employer	7.29%	7.30%	7.22%	7.30%	7.31%	7.30%	7.30%
Total Rates	11.31%	11.32%	11.24%	11.32%	11.32%	11.31%	11.31%
<u>Rate Margin:</u>							
	.67%	.92%	.69%	.81%	.59%	.29%	.84%

*Benefits to retirees increased 7/1/76 by 2% for each year retired but not more than 20%, excluding early retirees not yet age 60.
 **Benefits to retirees increased 7/1/77 by 1/12 of 2% for each month retired but not more than 2%, excluding early retirees not yet age 60.
 ***Benefits to retirees increased 7/1/79 by 2% for each year retired but not more than 5%, excluding early retirees not yet age 60.
 ****Benefits to retirees increased 7/1/80 by 6%.
 *****Benefits to retirees increased 7/1/81 by 6%.
 †Actuarial Assumptions Revised.

TABLE 10

KENTUCKY RETIREMENT SYSTEMS
 STATEMENT OF SOURCE AND USE OF FUNDS
 BY SYSTEM SINCE INCEPTION THROUGH JUNE 30, 1981

Breakdown Per Dollar		Source of Funds			Total Amounts		
		Accounts	KERS	CERS	SPRS		
KERS	28.3¢	Member Contributions	\$215,657,121	\$ 90,118,671	\$14,746,545		
	43.7¢	Employer Contributions	333,851,029	147,405,293	25,178,341		
	27.7¢	Investment Income	211,629,418	68,326,343	18,023,724		
	.3¢	Special Appropriation	1,894,897	515,204	506,100		
	-	Alternate & Term. Participation	8,595	1,997,016	-		
	-	Other Receipts	377,097	412,554	200,993		
	\$1.00	Total Sources	\$763,418,157	\$308,775,081	\$58,655,703		
Breakdown Per Dollar		Use of Funds			Total Amounts		
		Accounts	KERS	CERS	SPRS		
	69.1¢	Invested Assets	\$527,425,267	\$233,770,245	\$48,230,304		
	19.1¢	Retirement Payments	145,829,277	43,710,413	6,022,330		
	6.7¢	Refunds	50,825,759	19,526,137	1,316,106		
	3.0¢	Interest to Members	23,220,481	6,985,407	2,026,075		
	.8¢	Admin. & Prof. Services	6,514,178	2,636,296	365,628		
	1.3¢	Other Disbursements	9,603,195	2,146,583	695,260		
	\$1.00	Total Uses	\$763,418,157	\$308,775,081	\$58,655,703		

TABLE 11

KENTUCKY RETIREMENT SYSTEMS
ADMINISTRATIVE EXPENSE
BY FISCAL YEAR

	74-75	75-76	76-77	77-78	78-79	79-80	80-81
Personnel Cost:							
Personal Service	\$297,782.81	\$301,306.73	\$336,658.01	\$327,779.92	\$380,501.41	\$440,961.26	\$472,328.40
Contractual Service							
Auditor	9,800.00	9,300.00	9,000.00	11,275.00	11,500.00	13,800.00	13,800.00
Actuary	11,550.00	9,000.00	16,975.00	14,250.00	14,200.00	14,200.00	16,000.00
Data Processing	3,453.99	1,344.33	1,584.16	4,172.83	.00	.00	.00
Janitorial	.00	.00	229.80	2,775.83	3,817.70	5,052.40	6,631.62
Legal	.00	11.40	.00	.00	1,109.43	281.39	179.61
Medical	2,791.10	2,421.00	4,308.92	2,851.40	3,602.00	3,627.20	5,628.50
Miscellaneous	404.76	1,344.18	898.21	300.00	1,162.38	4,885.17	1,779.03
TOTAL	\$325,782.66	\$324,727.64	\$369,654.10	\$363,404.98	\$415,892.92	\$482,807.42	\$516,347.16
Operating Expenses:							
Postage & Freight	\$ 32,135.20	\$ 55,297.45	\$ 72,186.88	\$ 65,106.02	\$ 40,122.50	\$ 582.31	\$ 98,466.96
Utilities	3,397.83	4,133.92	3,972.72	4,286.03	4,526.52	5,299.55	8,930.67
Telephone	6,704.49	7,546.73	7,934.66	8,535.96	9,912.47	16,164.40	15,959.03
Travel	11,664.41	11,227.56	8,662.80	8,995.89	9,612.15	7,222.31	6,371.49
Printing & Duplicating	12,909.02	18,389.80	21,646.69	13,447.60	21,003.95	40,629.09	22,144.38
Maintenance - Equipment	2,532.57	2,990.12	2,841.60	3,850.81	5,177.48	7,155.95	7,807.16
Maintenance - Bldg. & Grds.	333.16	179.42	385.63	1,920.50	536.97	441.39	557.99
Laundry	281.50	343.17	324.52	284.94	257.00	298.02	692.80
Assessed Car Rental	.00	.00	1,520.82	1,689.73	1,900.50	1,951.71	2,672.44
Supplies - Office	7,010.24	5,600.80	7,903.37	9,563.19	7,533.02	6,057.00	10,426.60
Supplies - Data Processing	2,729.64	5,528.46	5,621.03	10,335.17	6,017.43	4,260.55	4,149.87
Supplies - Janitorial	592.14	489.12	460.11	322.13	249.57	261.57	308.40
Motor Fuels	175.70	193.74	.00	.00	.00	.00	.00
Rental - Building	10,516.24	13,266.24	13,266.24	13,266.24	13,266.24	20,515.78	26,650.01
Rental - Data Processing	54,641.69	53,874.89	58,386.20	29,189.29	59,392.82	46,893.00	60,453.42
Rental - Office Equipment	2,435.40	1,500.00	1,879.51	24,207.16	23,326.47	31,479.37	33,529.22
Insurance	1,223.52	1,371.50	1,397.26	1,323.65	2,315.44	3,360.97	2,684.36
Bonds	1,575.00	1,575.00	1,575.00	1,575.00	2,851.00	.00	1,750.00
Dues	35.00	35.00	35.00	255.00	140.00	140.00	140.00
Subscriptions	802.90	819.50	827.15	940.21	1,005.06	818.97	1,029.05
Employee Training Expense	863.50	658.00	490.00	956.90	434.50	1,201.95	1,113.90
Miscellaneous	.00	.00	330.60	133.91	141.26	.00	113.61
Photo Supplies	.00	.00	.00	56.90	15.90	2.25	.00
Furniture Office Equipment	.00	2,640.28	660.90	1,317.17	1,408.09	462.04	1,005.99
TOTAL	\$152,559.15	\$187,660.70	\$212,308.69	\$201,559.40	\$211,146.34	\$195,198.18	\$306,957.35
Capital Outlay	\$ 13,853.78	\$ 12,258.39	\$ 3,514.81	\$ 44,589.66	\$ 3,203.86	\$ 484.53	\$ 5,532.60
TOTAL ADMINISTRATIVE EXPENSE	\$492,195.59	\$524,646.73	\$585,477.60	\$609,554.04	\$630,243.12	\$678,490.13	\$828,837.11

DISTRIBUTION OF COST BY RETIREMENT SYSTEM

Kentucky Employees Ret. System	\$344,536.91	\$367,252.71	\$409,834.32	\$426,687.83	\$441,170.18	\$393,524.28	\$480,725.52
County Employees Ret. System	127,970.85	136,408.15	152,224.18	158,484.05	163,863.21	278,180.95	339,823.22
State Police Ret. System	19,687.83	20,985.87	23,419.10	24,382.16	25,209.73	6,784.90	8,288.37
Total Adm. Expense	\$492,195.59	\$524,646.73	\$585,477.60	\$609,554.04	\$630,243.12	\$678,490.13	\$828,837.11
Number of Accounts	77,892	84,398	93,204	103,860	112,143	117,255	117,604
Adm. Expense Per Account	\$ 6.32	\$ 6.22	\$ 6.28	\$ 5.87	\$ 5.62	\$ 5.79	\$ 7.05



